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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	9401 ↑	60	0.65%	11.0	-0.08%
FTSE 100	6366 ↑	51	0.80%	12.4	2.34%
DAX 30	7046 ↑	108	1.56%	15.0	6.80%
DOW	12510 ↑	128	1.03%	19.5	0.38%
NASDAQ	2450 ↑	28	1.16%	15.6	1.45%
S&P	1438 ↑	13	0.93%	21.0	1.37%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.3332	0.6755	158.3600
Dollar	1.3332	1.0000	1.9735	118.9500
Sterling	0.6755	1.9735	1.0000	234.4100
Interest Rates (%)	3.7500	5.2500	5.2500	0.4800
Oil (Nymex)	64.6400			

This Week's Research
Vodafone
AIB

Today's Research
RBS

Today's Recommendation

RBS (£19.80) Sub-prime read across overdone Stuart Draper
Target : £22.50 (20/12/06; previously £20.50, issued 23/11/06)

- **US exposure :** The RBS share price has been under pressure in recent weeks as a result of the bank's US mortgage exposure through its Citizens/Charter One loan book. However, its US mortgage exposure is 100% prime and 99% secured, and according to RBS, the associated credit risk is "miniscule". This is supported by the statement of HSBC in February, at the time of its sub-prime profit warning, that there was zero read-across to HSBC's US prime business, which is positioned very similarly to Citizens/Charter One in the US mortgage market.
- **High yield :** With RBS' Tier 1 ratio ending 2006 at 7.5%, there is sufficient capital available to fund the bank's current 45% payout ratio. Based on a 2007 eps of £2.15, this would translate into a 2007 dividend per share of 96.75p, representing a yield of c.4.9% on the current share price. In 2006, RBS confirmed that all of its growth targets could be achieved organically from its UK, Irish, US and Chinese operations, and that its return of capital to shareholders would continue.
- **Limited downside :** A 2007 eps of £2.15, representing year on year growth of 8%, means that the bank is currently trading at **9.2x** current year earnings. Such a valuation, combined with a current year dividend yield of 4.9%, implies limited downside risk for investors from current levels.
- **Attractive upside :** Our current 12 month target of £22.50 (14% upside) is based on a sector average multiple of 10.5x 2007 eps of £2.15. Given RBS' continued operational out-performance versus peers and its attractive strategic platforms for organic growth in the UK, Ireland, the US and China, such a sector average rating is conservative.
- **Dividend increase :** The main surprise in RBS' full year 2006 results release last month was that the full year dividend per share was increased by 25% to 90.6p, increasing the bank's payout ratio to 45%. This followed the bank's shareholders expressing a preference for capital to be returned to them by way of increased dividends rather than by share buybacks.
- **Credit quality :** Crucially the rate of growth in UK retail bad debts, primarily unsecured, slowed to 11% in H2 2006, from 18% in H1 2006, helped by RBS' lower than sector average exposure to UK unsecured personal lending of c.7% of global loan book. The group's full year net interest margin of 2.47% also showed some improvement on the H1 2006 comparative of 2.45% : **BUY**.

Breaking News

United Drug announce upbeat trading statement

United Drug announced today that it has achieved continued strong revenue growth in each of its four divisions in the first half of 2007 and that operating profit and earnings for the period are expected to show double digit growth over the same period last year. The new agreement on drug prices in Ireland that took effect from 1st March resulted in a decline in volume growth in the run up to the price reduction but has returned to more normal levels in March. The company also said that MASTA, a leading service provider in the travel health field specialising in the sale and distribution of vaccines in the UK market is performing well ahead of the company's expectations.

IFG announce pre tax profit of €12.28m

IFG Group announced that its full year pretax profit rose sharply helped by significant results in each of its divisions and the restructuring of the group finances leading to reduced costs. The company reported a pretax profit of €12.28m for the year ended December 31, 2006 compared with €2.97m a year earlier on a rise in turnover to €107.22m from €92.67m. However the company's prime business experienced a softening of the property market in the second half of 2006 and this has continued into the first quarter of 2007. IFG hiked its total dividend 10% to 3.3c after declaring a final dividend of 2.25c.

Tullow Oil sell 20% stake in Kudu gas field

Tullow Oil said it will sell a 20% interest in the Namibia Production Licence 001, which contains the Kudu gas field, to Itochu Corporation. To earn the interest, Itochu will pay 40% of the cost of two appraisal wells at Kudu and further financial payments depending on the volume of reserves developed. Tullow said the two appraisal wells will be drilled to establish commercially productive flow rates from the Kudu East reservoir, and if this is achieved, it will show multi-trillion cubic feet of gas upside potential. Kudu has 1.3 trillion cubic feet of proven gas reserves, which will be used to fire a \$1.1bn power station at Oranjemund producing up to 800 megawatts of electricity.

Business Press

- Bol's new media arm in the US to lend €100m-plus (II)
- Oil falls 2% on hope of UK-Iran diplomacy (IT)
- Losses at oil exploration firm rise to \$1m (IT)
- ICI at seven-year peak on talk of a bid from rival chemical groups (FT)

Investment Press

- **Eon after Endesa:** Wulf Bernotat, chief executive of Eon, has decided to call it a day just over a year after making his initial foray into a hostile Spanish environment with a bid for Endesa.

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