



January 7, 2005

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EQUITIES	Close	Change	% +/-	P/E '04	YTD
ISEQ	6313 ↑	36	0.00%	11.0	n/a
FTSE 100	4824 ↑	18	0.00%	13.5	n/a
DAX 30	4301 ↑	43	0.75%	15.0	n/a
DOW	10623 ↑	25	0.24%	19.5	n/a
NASDAQ	2090 ↓	-1	-0.06%	15.6	n/a
S&P	1188 ↑	4	0.35%	21.0	n/a

CURRENCIES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.3199	0.7028	137.9800
Dollar	1.3199	1.0000	1.8774	104.5400
Sterling	0.7028	1.8774	1.0000	196.2300
Yen	137.9800	104.5400	196.2300	1.0000

This Week's Research
IL&P
CRH
Abbey

Today's Research
ABN AMRO

Today's Recommendations

ABN (€20.48) Takeover rumours Stuart Draper

- **Takeover rumours** : Some speculation has resurfaced with regard to ABN AMRO's potential as a takeover target. Even though the latest speculation with regard to RBOS may have little substance, there is certainly a strong rationale for some banking group making an approach to ABN this year.
- **RBOS unlikely** : An acquisition of ABN by RBOS would need to be equity financed and outside of the US, it is difficult to see how sufficient synergies between the two groups could be generated with ABN's Dutch and South American retail operations to justify such equity issuance. Also, as recently as last August, RBOS chief executive, Fred Goodwin, is on record as stating that large acquisitions are off the radar screen while RBOS absorbs last year's \$10.5 bn Charter One acquisition.
- **Merger potential** : However, following the major mergers in the US banking sector within the past 2 years between Bank of America and Fleet Boston, and between JP Morgan Chase and Bank One, ABN created some merger potential for itself in the US in 2004 by confirming the cancellation of its Dutch preference shares. These preference shares were viewed as a mechanism to prevent a hostile takeover bid for ABN.
- **ABN comments** : Also, in early 2004, a statement from ABN CEO, Rijkman Groenink, that "If it is necessary to improve value for our shareholders, then a merger is of course not out of the question," has also served to fuel this merger potential.
- **Refinancing slowdown** : Faced with a significant slowdown in mortgage refinancing activity in 2004, US retail banks have started to explore merger options as a means of generating stronger future earnings growth potential.
- **Q3 results** : ABN reported a net profit of €838m for the 3 months ended 30/09/04, and maintained its forecast for a 10% rise in full year net profit. The main features of the results were robust credit quality more than offsetting slightly lower US retail banking earnings as a result of the interest rate increases there in 2004. More stable equity markets and a lower cost base are also helping ABN's profitability currently.
- **Stand-alone value** : Even on a stand-alone basis, ABN has further upside potential. Our current 12 month price target of €22.50 (10% further upside), is based on 11x consensus 2005 earnings per share of €2.05. With a current year dividend yield of c.4.9%, investors will also get paid for waiting for this valuation gap to close. ABN's share price has now risen by 46% since our BUY note of 17/02/03 : **BUY**.

Breaking News

Christmas brings little cheer to M&S

The group has warned that despite increasing its promotional activity, including two big 20% discount days in the run-up to Christmas, it still carried "significantly more stock into the end of season Sale compared with last year." M&S said it has managed to clear most of the stock overhang but added that the impact of the Sale means markdown costs for the second half will now come in some £40m higher than last year. The food business traded disappointingly throughout October and November, said M&S, although trading showed some improvement over the crucial Christmas period. Marks warned that it now expects pre-tax profit before exceptionals to come in between £600m and £625m. Analysts had expected around the £700m mark. For the 6 weeks to January 1, on a comparable basis, clothing sales fell 4.9% against last year while home sales plunged 23.3%. Food managed to rise 1.7%, though accounting for the 13 weeks to January 1 Food would have fallen 2.9%. The figures bring even more disappointment to the Stuart Rose-led management team, and will once again bring into question whether shareholders should have accepted Philip Green's takeover offer back in July.

Fund Manager increases Ryanair shareholding

Wellington Management Company, a US based fund manager has confirmed that it has increased its shareholding in Ryanair from 6% to 7.22%. In separate news, it has been confirmed that the Aer Lingus trio of Willie Walsh, Seamus Kearney and Brian Dunne are to set up their own low cost airline serving the Irish, European and transatlantic markets.

Competition Authority clears Grafton deal

The Competition Authority has approved the proposed acquisition of Heiton Holdings by Grafton Group. There are few conditions in the ruling, with Grafton having announced that thus far 92% of Heiton shareholders have accepted its offer.

Elan appoints new Chairman

Elan have announced that Kyran McLoughlin will officially assume his role as Elan chairman immediately after Garo Armen stepped down. Mr McLoughlin, who has been a non executive director since 1998, is also deputy chairman of Davy Stockbrokers and a non executive director at Ryanair.

Business Press

- Citigroup picks CRH as top stock (IT)
- ICON predicts income fall (IT)
- Abbey profit slips as UK house market dips (II)
- Europe approves cement takeover (IE)
- Steel price rises ease as supply jumps (FT)

Investment Press— Lex

The UK housebuilding sector trades a single mid digit price/earnings ratio fearing a repeat of the early 1990's profits collapse. The sector has changed since 1989. The number of housebuilders has more than halved. Bigger companies with lower gearing control a larger proportion of the market. Unemployment is low, interest rates may have peaked and tight planning laws have left the market supply constrained.

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