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EQUITIES	Close	Change	% +/-	P/E '05	YTD
ISEQ	6334 ↑	40	0.64%	11.0	2.19%
FTSE 100	5025 ↑	45	0.90%	13.5	4.39%
DAX 30	4566 ↑	69	1.53%	15.0	7.28%
DOW	10483 ↑	16	0.15%	19.5	-2.78%
NASDAQ	2067 ↓	-9	-0.41%	15.6	-1.05%
S&P	1197	0	-0.02%	21.0	-1.22%

CURRENCIES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.2316	0.6709	131.6700
Dollar	1.2316	1.0000	1.8357	106.9200
Sterling	0.6709	1.8357	1.0000	195.1400
Yen	131.6700	106.9200	195.1400	1.0000

This Week's Research Fyffes

Today's Research RBS

Today's Recommendations

RBS (£16.18) Trading statement released Stuart Draper

- **Trading statement** : This morning, Royal Bank of Scotland released a trading statement prior to going into its H1 close period. Similar to HBOS last week, the statement provided some important reassurance about the UK bank's credit quality. It was stated that the H1 underlying growth in profit before tax will be broadly consistent with the 12% growth of H1 2004.
- **Credit quality** : Similar to HBOS last week, the trading statement confirmed that there has been no further deterioration in the credit quality of RBS' retail loan book over the previous guidance issued. It was stated that even though UK retail provisions for bad debts have increased, these are 'within normal parameters' and remain stable, as the increase in provisions remains below the increase in loans.
- **Corporate lending** : This would indicate that the credit quality deterioration recently indicated by Barclays in its H1 trading statement is largely as a result of specific problems at its Barclaycard division. Similar to Barclays and HBOS, RBS also confirmed that the credit quality of its corporate loan book is continuing to improve.
- **China speculation** : Our view is that even though RBS has not ruled out any deals in China, this doesn't mean that the bank is going to do a major rights issue at current levels to acquire a 20% stake in Bank of China. This is because joint venture deals, such as its arrangement with Tesco Personal Finance, are a much more rational way forward in China for RBS.
- **Contradicts strategy** : A major acquisition in China would also contradict the bank's existing strategy of building on its UK and US platforms where it can add scale economies, with plenty more scope for further deals in the US. Current rules also prevent foreign entities owning more than 20% of Chinese banks, so RBS would have limited control over any acquisition.
- **Wrong time** : Following last year's \$10.5 bn Charter One deal in the US, RBOS' core capital (shareholders funds less goodwill) was 4.4% at 31/12/04. With management more comfortable at 5.5%, a level which won't be reached until H2 2006, now would not be an appropriate time for another major acquisition.
- **Major upside** : Given RBS' strong US growth prospects, as well as its dominant UK market position, the shares at least warrant a UK sector average rating of 10x 2005 earnings and a fair value per share of £19 (17% upside), based on 10x 2005 earnings per share of £1.90. RBOS will also pay a dividend yield of c.4.1% this year : **BUY**.

Breaking News

Ryanair chief sells off 6m shares

Yesterday it was announced that Ryanair Chief Executive Michael O'Leary had reduced his holding in the company, selling 6 million shares at 6.5 euros each and netted 39 million euros in the process. The sale cut his stake in the company by 0.8 percent to 4.5 percent.

Gartmore increases holding in Iona

In an announcement to the Irish Stock Exchange yesterday it was revealed that institutional investment group, Gartmore, had increased their reportable interest in Iona by purchasing 356,190 shares on 26 May 2005 and 114,700 shares on 1 June 2005 and that they have a reportable interest in Iona of 2,708,527 shares. This constitutes 7.78% of Iona's issued share capital.

Horizon names new CEO

Horizon Technology Group PLC has named Gary Coburn as chief executive officer with immediate effect. Coburn was appointed Chief Operating Officer in early 2002 and co-opted to the board in September 2002. Samir Naji is to revert to the role of executive chairman following his stint as interim CEO and chairman.

Business Press

- Director buys Datalex shares (IT)
- Grafton aims for €265m in debt refinancing plan (IT)
- Viridian arm wins €7.5m Irish and UK contracts (II)
- Decision on Gresham owner's bid for Jurys expected by next week (IE)

Investment Press— Lex

- **UK retailers**: It is a harsh world out there. Or so retailers would have us believe, as more and more blame deteriorating demand for poor sales. Woolworths on Tuesday added its voice to the chorus of gloom.



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