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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	9612 ↑	22	0.23%	11.0	2.17%
FTSE 100	6346 ↓	-23	-0.36%	12.4	2.02%
DAX 30	6877 ↓	-39	-0.56%	15.0	4.24%
DOW	12638 ↓	-29	-0.23%	19.5	1.40%
NASDAQ	2489 ↓	-2	-0.07%	15.6	3.04%
S&P	1448 ↓	-2	-0.12%	21.0	2.12%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.3006	0.6666	157.6400
Dollar	1.3006	1.0000	1.9495	121.2900
Sterling	0.6666	1.9495	1.0000	236.2300
Interest Rates (%)	3.5000	5.2500	5.2500	0.4800
Oil (Nymex)	59.7100			

## This Week's Research

Ryanair GSK  
BP  
BHP

## Today's Research

RBS

## Today's Recommendation

**RBS (£20.74) BUY ahead of results Stuart Draper**  
Target : £22.50 (20/12/06; previously £20.50, issued 23/11/06)

- Results preview : On Thursday fortnight, 1st March, Royal Bank of Scotland will announce its results for the year ended 31/12/06. The consensus forecast is for profit before tax of £9.2 bn, a year on year increases of 12%, helped by a particularly strong performance from the group's Global Banking and Markets division. The 2006 full year dividend per share is expected to be increased by 13% to 82p, and with further 12% dividend growth to 92p expected for 2007, the shares will pay a 2007 dividend yield of c.4.4%.
- Credit quality : At the time of the group's trading statement in December, major reassurance was provided in relation to credit quality, with the bank stating that the overall group bad debts charge would represent a lower percentage of group loans than it did in 2005. This was helped by the rate of growth in bad debts on UK unsecured loans "moderating" in H2 2006. Such bad debts rose 19% in H1 2006, but the bank's latest guidance is that this rate of growth will slow to 14% for full year 2006, helped by RBS' lower than sector average exposure to UK unsecured personal lending of c.7% of global loan book.
- Further upside : Following the December trading statement the consensus forecast for 2007 eps was raised to c.£2.05, representing further 12% growth on the expected 2006 result of £1.83. Our current 12 month target of £22.50 (8.5% further upside), is based on a European sector average 11x 2007 eps of £2.05. Given RBS' continued operational outperformance versus peers and its attractive strategic platforms for organic growth in the UK, Ireland, the US and China, the bank deserves at least a sector average rating. When combined with a 2007 yield of c.4.4%, this provides a sufficient total return from current levels to justify re-iterating our current BUY recommendation.
- Buyback support : Earlier this year, RBS confirmed that all of its growth targets could be achieved organically from its UK, Irish, US and Chinese operations, and that its share buyback programme would continue. This means that the risk of a major acquisition in the near term is very low. With RBS' Tier 1 ratio expected to end 2006 at c.7.5%, there is also the potential to announce an extension of the current £1 bn share buyback programme in conjunction with the 2006 results. RBS' share price has risen by 21% since our BUY note of 04/08/06 : **BUY**.

## Breaking News

### Aer Lingus announces January passenger numbers

Today Aer Lingus announced traffic figures for the month of January 2007. The company said the total number of passengers was up 2.4% at 605,000. Short-haul passengers were 537,000 up 3.7% on year and long-haul passengers were 68,000 down 6.8%. The passenger load factor was down 3.7% on year. In related news The National Implementation Body, has called for intensive talks between unions and Aer Lingus to resolve a row over cost cutting. Two weeks ago, management announced that they were planning to introduce reduced terms and conditions of employment for new staff from 1 February, and for existing staff from 1 March. Talks at the Labour Relations Commission two weeks ago failed to break the deadlock.

### HSBC's bad debt to be 20% higher than analysts forecasts

Banking giant HSBC warned that its bad debt charges are set to rocket by around \$1.76bn as the slowing US housing market has left customers unable to pay their mortgages. HSBC said bad debt charges for the group as a whole will be 20% higher than the average analyst forecast of \$8.8bn, taking the total charge for the year to around \$10.56bn. The warning from the world's third-largest bank comes ahead of the group's annual results due to be published in early March and follows a December trading update that was already bearish on U.S. mortgage debt. The problem is with the bank's portfolio of sub-prime mortgages, which it snapped up in 2005 and 2006, before the U.S. housing slowdown began to bite.

### O'Brien increases stake in IN&M to just over 5%

Denis O'Brien has spent in the region of €50m increasing his stake in Independent News & Media. Mr O'Brien now holds 38.6m shares in the media group, which increases his holding from 3% to 5%. The announcement follows several days of speculation in the market after IN&M shares were particularly heavily traded on a number of occasions over the past three weeks. The €50 million value is based on the average share price from the first day of particularly heavy trading this year - January 16th - through to February 6th, the date referred to in Mr O'Brien's declaration to the stock exchange.

## Business Press

- ACC Bank to rebrand as Rabobank in revamp. (II)
- Anglo Irish to open Jersey branch (IE)
- Upbeat BT halts decline in fixed-line customer numbers (FT)

## Investment Press

- Imperial expansion: Not so long ago, tobacco companies were happy to have little exposure to the US. Imperial Tobacco now sees its \$1.9bn purchase of Commonwealth Brands as a potential growth engine.



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