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EQUITIES	Close	Change	% +/-	P/E '06	YTD
ISEQ	7486 ↑	17	0.22%	11.0	1.66%
FTSE 100	5732 ↑	41	0.71%	13.5	2.01%
DAX 30	5536 ↑	20	0.36%	15.0	2.37%
DOW	10959 ↑	77	0.71%	19.5	1.64%
NASDAQ	2306 ↑	29	1.26%	15.6	4.55%
S&P	1285 ↑	12	0.94%	21.0	3.25%

CURRENCIES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.2111	0.6842	138.2700
Dollar	1.2111	1.0000	1.7699	114.1500
Sterling	0.6842	1.7699	1.0000	201.9700
Yen	138.2700	114.1500	201.9700	1.0000
Oil (Nymex)	64.2100			

This Week's Research

Today's Research Aviva

Breaking News

EasyJet passenger numbers for December

easyJet announced this morning that it carried 2.37 million passengers in December, up 11.1 percent from a year earlier. Its load factor for the period came in at 80.5 percent, down 0.2 percentage points. "December passenger numbers were in line with our expectations. Unit revenue for the month -- the total revenue per seat flown -- showed a year on year improvement, supported by strong ancillary contributions," the company said in a statement.

Tesco rule out US acquisitions

In an interview with the Observer newspaper Sir Terry Leahy, chief executive of Tesco, has ruled out making a significant acquisition in the US, but plans to expand in China. In the interview, Leahy said: 'People have talked about businesses in the US that could be bought, but I don't think they are right for us. We have had researchers in America, but I can tell you that we have no current plans to make an acquisition there.' 'We will have to scale up in China, it's such a big place that you either have to ease out or commit quite a bit,' he said, adding that this would take many years to achieve. Last year, Tesco announced a £140m investment by taking a 50 percent stake in China's Hymall chain. In partnership with Hymall, Tesco already has 50 Chinese hypermarkets, with its biggest presence in Shanghai. The plan is to extend into the south and in Beijing.

Business Press

- Government 'working towards' flotation of Aer Lingus (IT)
- SSIA funds 'more likely to be invested in property' (IT)
- Commuters are showing strong support for Herald AM (II)
- Funds in Dublin stand at \$1 trillion (II)

Aviva (730p)

Management re-shuffle

Owen Turner

- **Management changes:** Last week Aviva named Patrick Snowball, who had previously led the group's general insurance business, as head of its UK operations. Mr Snowball will become executive director of Aviva UK, and will be responsible for the group's UK businesses - Norwich Union Life, Norwich Union Insurance and RAC. This is a positive move for Aviva as Snowball has a good reputation from his previous role as head of the group's general insurance unit.
- **Bancassurance distribution:** One of the main reasons for our view that Aviva will continue to generate strong sales growth in 2006 is the continued rollout of bancassurance distribution agreements such as the joint venture (JV) recently announced with AIB. The JV will be 75% owned by Aviva and 25% owned by AIB, with AIB receiving cash of €205m in addition to its 25%, and Aviva receiving all of the Ark Life policyholder fund management fees. The combined entity will have an initial market share of 18% (Aviva's 11% plus AIB's 7%), but given that AIB's market share was 15% as recently as 2001, there must be the potential now that the new JV will help AIB win back some of this lost market share. With Aviva's pension products having first access to AIB's SSIA funds as they start to mature in 2006, the JV's market share gains should get off to a strong start.
- **EV boost:** Once the revenue and cost synergies of the transaction are considered, the AIB JV has the potential to boost Aviva's embedded value per share by c.5p to £4.48. Given that Aviva's 2006 return on embedded value of 16.8% is 21% stronger than the UK sector average of 13.9%, our view is that its price to embedded value should trade at a similar premium to the UK sector.
- **Attractive return:** Therefore, our current 12 month price target for Aviva of **£7.60** is based on 1.7x embedded value per share of £4.48. Aviva will also pay a 2006 dividend yield of c.4% for waiting for this upside to be achieved.
- **IL&P risk:** AIB is estimated to have a c.25% share of the €17 bn of SSIA maturities over the next 2 years. Given Bank of Ireland's stronger investment management performance and larger share of the SSIA market, our view is that its 24% share of the life market in Ireland will prove more resilient than Irish Life & Permanent's 27% to this increased competition from the AIB JV.
- **Switching opportunity:** Therefore, we re-iterate our current NEUTRAL recommendation for Irish Life & Permanent (€16.80) and recommend a SWITCH into Aviva as providing more value at current levels amongst the European bancassurers.

Investment Press— Lex

- **US media:** The logic goes something like this: as technology creates new ways for users to access media products, companies focused on distribution suffer from the fragmentation, while content creators benefit from new ways to sell products. If only life were so simple.



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