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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	8428 ↑	79	0.95%	11.0	14.45%
FTSE 100	6073 ↑	42	0.69%	12.4	8.08%
DAX 30	6118 ↑	33	0.55%	15.0	13.12%
DOW	11867 ↑	9	0.08%	19.5	10.05%
NASDAQ	2315 ↑	4	0.16%	15.6	4.99%
S&P	1353 ↑	3	0.20%	21.0	8.71%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.2529	0.6762	149.9900
Dollar	1.2529	1.0000	1.8683	119.7000
Sterling	0.6762	1.8683	1.0000	222.3800
Interest Rates (%)	3.0000	5.2500	4.7500	0.4800
Oil (Nymex)	58.5200			

This Week's Research
BP
British Land

Today's Research
HBOS

Today's Recommendation

HBOS (£10.83) Mortgage & Savings exposures Stuart Draper
Target : £11.50 (11/10/06; previously £10.50, issued 22/06/06)

- **Mortgage exposure :** The UK segment of the UK banking market which has surprised to the upside most in recent months is mortgages, where both loan growth and margins have proved more resilient than consensus forecasts. As the UK housing market continues to recover in the months ahead, the bank with the largest share of this market, HBOS, at 23%, should also continue to move higher.
- **Savings buoyant :** The H1 2006 results for both the UK life assurers and banks showed that the UK savings market is very buoyant currently, following the interest rate increases of recent years. HBOS is also the number one UK savings bank, with a retail deposit market share of 16%, and so the buoyancy of this market should help drive an acceleration of the bank's insurance and investment profit growth from 7% for 2005 to 9% for 2006 and to 11% for 2007.
- **Unsecured exposure :** HBOS has a greater than average exposure to UK investment product sales as a result of its ability to distribute to high net worth customers through its St James Place subsidiary, and as a result of its strong position in the UK group pensions market. HBOS also has only a minor exposure (c.5% of its loan book) to unsecured consumer credit, the segment of the UK banking market which has caused the most disappointment this year.
- **H1 results :** The bank's H1 results showed profit before tax and eps of £2.61 bn and 47p respectively, year on year increases of 13% and 15%. The strong earnings growth was driven by an increased share of net mortgage lending of 21%, from the 11% of H2 2005, combined with strong investment product sales.
- **Low risk :** Credit quality at each of HBOS' lending businesses remained robust, with broadly stable margins and cost management. HBOS remains comfortable with the consensus 2006 eps of 94.9p, representing year on year growth of 12%.
- **Further upside :** Downside risk for the share price is also limited by the bank's £1 bn share buyback programme, with c. £0.6m spent so far this year buying back shares for cancellation. Our new 12 month price target of £11.50 (6% further upside) is based on 11x 2007 eps of £1.05, and investors will also be paid a dividend yield of c.4% for waiting for this upside to be achieved : **BUY**.

Breaking News

Australian Govt agrees to changes in media ownership laws

Revised new media ownership laws in Australia could result in increased levels of M&A activity and foreign investment in the country's media industry. The media reform bill will remove ownership restriction, but the new laws are likely to ban media groups from owning all three media - newspapers, television and radio stations - in any one market. The new media rules, which could become law as early as this week, will also remove restrictions on foreign ownership. As mentioned in yesterday's note we feel that this change is a positive for Independent News & Media and its Australian operations as increased M&A activity in the sector will boost the value of APN.

Hiestand acquires Fricopan

Swiss bakery products company Hiestand, in which IAWS has a 32 per cent stake, said on Tuesday it had acquired German bakery products company Fricopan, and said the deal would increase its earnings per share. It is estimated that the deal will boost IAWS' FY eps by 0.6c. Hiestand did not say exactly how much it paid for family owned Fricopan. But it said the purchase price was roughly equivalent to Fricopan sales in the 2006 fiscal year (€100m). Hiestand said it would pay cash and would not need an increase in share capital. Hiestand said the purchase would enable it to generate sales of more than CHF 500m by the end of 2006, putting the company on course to achieve a sales target of CHF 1bn by 2010.

CRH announces China deal

CRH announced yesterday that it has acquired the a cement plant in Heilongjiang province, northeast China. The plant, which will operate as Harbin Sanling Cement Company is located in Xiaoling Township, approximately 45km southeast of Heilongjiang's largest city, Harbin (population: 9 million). Harbin Sanling is a modern plant with two clinker production lines and total cement capacity of 650,000 tonnes per annum. The acquisition is expected to close in the coming months subject to government approval, and further information will be provided in due course.

Business Press

- Warnings for Smart users blocked by Eircom (IT)
- Tullow stops work at Ugandan well (IT)
- Anglo raises savings rates (II)

Investment Press

- **Bank expansion:** Citigroup is on a mission. Its chief executive Chuck Prince said this week that he was seeking overseas acquisitions to help the bank reach its target of generating 60 per cent of its earnings outside the US more rapidly.



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