



September 15, 2006

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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	8023 ↑	25	0.31%	11.0	8.95%
FTSE 100	5877 ↓	-15	-0.25%	12.4	4.60%
DAX 30	5907 ↑	1	0.02%	15.0	9.23%
DOW	11527 ↓	-16	-0.14%	19.5	6.90%
NASDAQ	2229 ↑	1	0.05%	15.6	1.06%
S&P	1316 ↑	-2	-0.14%	21.0	5.73%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.2721	0.6740	149.5900
Dollar	1.2721	1.0000	1.8874	117.5500
Sterling	0.6740	1.8874	1.0000	221.8700
Interest Rates (%)	3.0000	5.2500	4.7500	0.4800
Oil (Nymex)	63.9700			

**This Week's Research**  
Apple  
BHP Billiton  
Grafton Group

**Today's Research**  
ABN AMRO

### Today's Recommendation

**ABN (€22.39) Rumours and restructuring Stuart Draper**

- **Takeover rumours** : The latest name to be mentioned as a potential acquirer of Dutch Bank, ABN AMRO, is Bank of America. According to a market rumour reported on Reuters yesterday, shares in ABN rose on "market talk of bid interest from Bank of America". Last month, shares in Lloyds TSB moved higher following a rumour that BOA may approach the UK bank.
- **Wholesale restructuring** : The rumour highlights the potential upside for investors from the restructuring of ABN's underperforming wholesale lending business and from the disposal of some of its non-core assets. While a BOA deal may have some potential as a result of the 20% of ABN's earnings generated in the US, this restructuring upside means that investors do not have to rely on such an external approach.
- **Non-core assets** : The major restructuring opportunity for ABN is the bank's wholesale lending business which has generated an average return on equity of only 9% in recent years, versus 17% for the group as a whole, despite utilising c.20% of group capital. The disposal of additional non-core assets could generate a further €2.5 bn in surplus capital.
- **Merger potential** : Following the major mergers in the US banking sector within the past 3 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 2 years ago 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. Faced with a significant slowdown in mortgage refinancing activity, US retail banks have in recent years started to explore merger options as a means of generating stronger earnings growth potential.
- **Stand-alone value** : However, even on a stand-alone basis, ABN would appear to have further upside potential, from its current rating of 9.6x consensus 2006 eps of €2.34. Our current 12 month price target of €25 (12% further upside), is based on 11x 2006 earnings per share of €2.30. With a current year dividend yield of c.4.9%, investors will also get paid for waiting for this restructuring upside to be generated.
- **Antonveneta growth** : Despite ABN's c.20% discount rating to the current European bank sector average of 12x 2006 eps, c.16% earnings growth should be generated this year from the integration of the Antonveneta acquisition, with further synergies expected from the deal in 2007 : **BUY**.

### Breaking News

#### Aviva cuts 4,00 jobs at Norwich Union

It has been reported that Aviva will cut 4,000 jobs at its UK Norwich Union business and deliver annual cost savings of £250 million in 2008. The Company said its headcount in the UK of 36,000 will fall by 4,000 by 2008, with up to 1,000 roles being moved to India and 500 roles outsourced to third party IT suppliers. The Company said it would seek to minimise the number of compulsory redundancies through natural staff turnover and voluntary measures.

#### BOI confirms Tier 1 issue details

News of yesterday's Tier 1 issue is a positive indication for Bank of Ireland ahead of next Tuesday's pre-close trading statement. BOI confirmed details of a £500m perpetual fixed/floating issue. The securities have been priced with a coupon of 6.4295% until 2017 and represents a margin of 185 basis points over the UK Treasury 4.75% September 2015 bond. The size of the issue indicates that there remains a very strong demand for capital and would point towards stronger loan growth than had been previously expected.

#### US retail sales stronger than expected

US consumers spent at a stronger-than-expected pace in August, according to US government reports on Thursday that hinted the economy may not be slowing quickly enough to curb inflation pressures. Retail sales rose 0.2 percent as lower petrol prices spurred spending in areas like automobiles and school-related purchases. The data come less than a week before the Federal Reserve's next policy-setting meeting. The latest data has kept alive questions about whether it might eventually have to resume raising rates. Analysts had expected retail sales to drop by 0.1 percent in August after a 1.4 percent rise in July.

### Business Press

- Smart plans to cut 100 jobs as part of rescue plan (IT)
- Minco changes strategy following dry spell (IT)
- BP shareholders seek assurances (IT)

### Investment Press

- UK DIY: After UK DIY sales fell 4 per cent in 2005, recent announcements from Travis Perkins, B&Q and Homebase show it remains extremely weak.



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