



February 16, 2005

Contact Details:

Email : [research@dbb.ie](mailto:research@dbb.ie)  
[info@dbb.ie](mailto:info@dbb.ie)

Tel : +353 1 633 3800  
Fax : +353 1 677 4708

EQUITIES	Close	Change	% +/-	P/E '05	YTD
ISEQ	6783 ↑	27	0.41%	11.0	9.44%
FTSE 100	5059 ↑	17	0.34%	13.5	5.09%
DAX 30	4402 ↑	16	0.36%	15.0	3.43%
DOW	10837 ↑	46	0.43%	19.5	0.50%
NASDAQ	2089 ↑	6	0.30%	15.6	0.01%
S&P	1210 ↑	4	0.33%	21.0	-0.16%

CURRENCIES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.3023	0.6879	136.7600
Dollar	1.3023	1.0000	1.8929	105.0000
Sterling	0.6879	1.8929	1.0000	198.1900
Yen	136.7600	105.0000	198.1900	1.0000

## This Week's Research

CRH  
RSA

## Today's Research

RBOS

## Today's Recommendations

RBOS (£18.23)

Results tomorrow week

Stuart Draper

- Results preview : Tomorrow week, 24th February, Royal Bank of Scotland will report results for the year ended 31/12/04. We are forecasting profit before tax and eps of £7.95 bn and £1.70 respectively, year on year increases of 11% and 7%.
- Loan growth : The lower earnings per share growth rate is as a result of the greater number of shares in issue now following last year's Charter One acquisition. Continued strong profit growth will be driven by strong loan growth, stable margins, robust credit quality and a stable cost/income ratio.
- Cost savings : One area of potential positive surprise could be an increased level of cost savings targeted from the integration of the \$10.5 bn acquisition of US regional bank, Charter One Financial (CF), last summer.
- Overhang resolved : Spanish bank, SCH, recently announced that its remaining 2.6% RBOS shareholding has been placed at £17.20 per share. The fact that the placing was twice oversubscribed indicates that there remains strong institutional demand for the shares. Last September, SCH stated that it would end its commercial cooperation with RBOS following its acquisition of Abbey National. As a result, the disposal of the Spanish bank's remaining RBOS shareholding was widely expected, and the fact that this overhang has now been resolved augers well for the RBOS share price over the rest of 2005.
- Merger synergies : However, it is RBOS' \$10.5 bn CF acquisition last summer, which is likely to provide the strongest earnings growth platform for the UK bank in 2005. This merger is likely to generate at least \$185m of cost savings, c.22% of CF's cost base, and is likely to boost its 2003 profit before tax of \$924m by \$407m within 3 years. Given that we estimated a \$120m boost from the effect of RBOS' lower group funding cost alone, such a target appears very achievable.
- Strategic benefits : In addition to the significant organic growth prospects generated by the CF deal, the highly fragmented nature of the Mid West banking market provides numerous fill-in acquisition opportunities for a UK bank with a proven track record of successful acquisition integration.
- Further upside : This gives RBOS strong US growth prospects, as well as a dominant UK market position. As a result, its shares warrant a premium to the UK bank sector average and our current 12 month price target of £20 (10% further upside) is based on 10.5x consensus 2005 eps of £1.89. RBOS' share price has risen by 21% since our BUY note of 04/08/04 : BUY.

## Breaking News

### Reuters FY profits top forecasts

Reuters Group PLC, the financial news and data provider, reported slightly better-than-expected full-year profits and said its underlying performance will continue to show 'gradual' improvement in 2005. For the 12 months to the end of 2004, Reuters reported pretax profits of 438 million pounds, up from 56 million the previous year, fuelled by an increase in demand for its news services and a return to profits at Instinet, the US electronic broker in which it holds a 62 percent stake. Markets had been expecting 400 million pounds. Over 2004 Reuters' recurring revenues fell 5.4 percent, compared to the 9.3 percent decline the group reported for 2003. Reuters reiterated its previous forecast for an underlying recurring revenues decline of 1.5 percent on the first quarter, with the second quarter likely to see a further rise in sales. 'With net sales off to a good start in January, the company expects further gradual improvement in recurring revenues in the second quarter,' said the group in a statement.

### BHP Billiton reports record H1 profits

BHP Billiton, the world's largest mining group, this morning reported a record first half net profit of 2.757 billion dollars, beating market expectations. The first-half result was boosted by continued strong demand out of China and higher prices for all commodities. The Anglo-Australian miner expects that China will remain a large and sustainable consumer of raw materials and resources as the government remains committed to sustainable long-term development. The group also increased its interim dividend to 0.135 cents a share from 0.08 last year.

### ComReg warns Eircom over Local Loop unbundling

The communications regulator ComReg has threatened Eircom with legal action unless it complies with a direction in relation to local loop unbundling (LLU). The announcement came after Eircom made an appeal to the Electronics Communications Appeal Panel in relation to the issue. ComReg has given Eircom until Friday morning to respond to requests from its competitors for developments to local loop products and processes.

## Business Press

- BG Group heads reserves league (FT)
- South Wharf shares drop almost 12% after court ruling (IT)
- Flavin had insider information, expert witness tells court (IT)
- Greencore and IFA will talk (IE)
- Major digital contract for Vislink (IE)

## Investment Press— Lex

- Eurozone Economy: Nul points for the Germans, Italians, Dutch and Greeks, who all saw their economies shrink in the final three months of 2004. Europe's off-key quartet should do a little better this year.



Disclaimer: The information in this document has been obtained from sources, which we believe to be reliable. We cannot guarantee its accuracy or completeness. It does not constitute a solicitation for the purchase or sale of any investment. Any person acting on the information contained in this document does so at their own risk. Recommendations in this document may not be suitable for all investors. Individual circumstances should be considered before a decision to invest is taken. Investors should note the following: Past experience is not necessarily a guide to future performance. The value of investments may fall or rise against investors' interests. Income levels from investments may fluctuate. Changes in exchange rates may have an adverse effect on the value of, or income from, investments denominated in foreign currencies.

Dolmen Stockbrokers is a Member of the Irish Stock Exchange, the London Stock Exchange, and is authorised by the IFSRA. Dolmen Stockbrokers is regulated by the IFSRA as a Mortgage Intermediary.