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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	8528 ↑	67	0.79%	11.0	15.80%
FTSE 100	6172 ↑	15	0.25%	12.4	9.85%
DAX 30	6187 ↑	13	0.21%	15.0	14.39%
DOW	11981 ↑	20	0.17%	19.5	11.11%
NASDAQ	2364 ↑	7	0.28%	15.6	7.19%
S&P	1369 ↑	3	0.25%	21.0	9.96%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.2535	0.6728	149.1400
Dollar	1.2535	1.0000	1.8632	118.9400
Sterling	0.6728	1.8632	1.0000	221.6200
Interest Rates (%)	3.0000	5.2500	4.7500	0.4800
Oil (Nymex)	59.9400			

This Week's Research
Kingspan

Today's Research
Deutsche Bank

Today's Recommendation

Deutsche Bank (€98.19) Capital markets exposure Stuart Draper
Target : €110 (17/10/06; previously €91, issued 09/08/06)

- Q3 catalyst : Tomorrow fortnight, 1st November, Deutsche Bank (DB) will announce its results for the 3 months ended 30/09/06. We are forecasting net profit of €1.1 bn, a year on year increase of 11%. Given that the bank's proprietary equity trading operations reported a loss of €100m in Q2 2006, the Q3 2006 result should show a significant recovery. The stronger equity market conditions toward the end of the quarter may have created the potential for a positive earnings surprise.
- Potential upgrades : The bank's recent investor days on 5th/6th October resulted in consensus forecasts for 2006 and 2007 both being increased by c.5%. The continued strength of investment banking and M&A activity could result in some further forecast upgrades and share price upside in the aftermath of the Q3 results' announcement. C.75% of DB's 2007 eps is forecast to be generated from the group's investment banking operations.
- Markets strong : 82% of Deutsche Bank's H1 2006 profit before tax was generated by the bank's capital markets division, which includes activities such as equity and debt sales and trading, as well as FX and money markets. While the volatility of such earnings streams may limit the scope for multiple expansion, the longer market conditions remain buoyant, the greater the potential for further earnings upgrades and share price upside.
- Valuation upside : Our current expectation is that DB achieves 25% eps growth this year to €9.25, and our current 12 month price target of €110 (12% upside) is based on 11x 2007 eps of €9.95. The US investment banks are already trading at a sector average of 11.3x consensus 2007 eps, with Morgan Stanley and JP Morgan trading at c.12x 2007 eps. Credit Suisse and UBS are currently rated at 12x and 14.5x 2007 eps respectively.
- Europe's premier : DB's current price to book ratio of 1.6x 2006 book value per share also places it at a c.30% discount to the US investment banks. Such a discount would appear excessive for an investment banking franchise ranked second globally (Europe's premier broker dealer), and for a 2006 return on equity of 17%. DB will also pay a dividend yield of c.3.4% for waiting for this upside to be achieved.
- Buyback support : The bank's share price, eps and return on equity will also continue to be supported by a share buyback, with €1.25 bn per annum expected to be spent in 2007 and 2008 buying back its own shares for cancellation : **BUY**.

Breaking News

CRH announces further Chinese expansion

CRH has announced that it has signed a letter of intent to acquire a 26% stake in Yatai Cement, the cement business division of China's Jilin Yatai Group, subject to Chinese government approval. CRH said the deal provides for an option to acquire further stake up to a maximum of 49% in Yatai Cement after three years. Yatai Cement runs four integrated cement plants and a grinding station with a total cement capacity of about 9m tonnes per year in Jilin and Heilongjiang provinces of northeast China. This deal would appear to be much bigger than the one announced last week, which was for a company with a total cement capacity of 650,000 tonnes per year.

BOI Life and Insurance/Pension sales up 29% in first nine months

Bank of Ireland said yesterday that new sales in its life insurance and pensions operations for the first nine months grew 29% on year. New business sales were €295.7m at the end of Sep. compared with €229.8m a year ago; this includes new policies and/or top-ups on existing policies. Bank of Ireland said it expects a "surge" by the end of the year in pension sales -which are subject to tax relief -due to a self-assessment tax deadline at the end of October. The bank also said that 50% of maturing equity SSIA holders are continuing to keep their lump sum invested in their products.

BP: Prudhoe Bay update & share buyback

BP has said that production at Alaska's Prudhoe Bay oilfield has risen to more than 350,000 barrels of crude a day and should be back at full production within the next few days, as the company ramps up output after a pipeline leak in August. Production will probably climb to about 400,000 barrels a day in the next few days. BP has revealed that yesterday, it purchased for cancellation 8,000,000 ordinary shares at prices between 595.0 pence and 602.5 pence per share.

Business Press

- Ryanair faces industrial action on two fronts (I)
- Riverdeep in advanced talks to form €5bn merger with American rival (II)
- PartyGaming revenue alert (FT)

Investment Press

- British Energy: British Energy added to the nuclear lobby's woes with a surprise announcement on Monday that cracked tubes could leave two of its eight reactors offline for months. The news will raise concerns about nuclear power's safety.



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