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Contact Details:

Email : research@dbb.ie
info@dbb.ie

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

| EQUITIES | Close | Change | % +/- | P/E '05 | YTD |
|----------|-------|--------|--------|---------|--------|
| ISEQ | 6010 | ↑ 2 | 0.03% | 11.0 | -3.04% |
| FTSE 100 | 4822 | ↓ -34 | -0.69% | 13.5 | 0.17% |
| DAX 30 | 4179 | ↓ -26 | -0.62% | 15.0 | -1.82% |
| DOW | 10012 | ↓ -115 | -1.14% | 19.5 | -7.15% |
| NASDAQ | 1914 | ↓ -19 | -0.96% | 15.6 | -8.39% |
| S&P | 1138 | ↓ -15 | -1.33% | 21.0 | -6.15% |

| CURRENCIES | Euro | Dollar | Stg | Yen |
|------------|----------|----------|----------|----------|
| Euro | 1.0000 | 1.3105 | 0.6825 | 139.9100 |
| Dollar | 1.3105 | 1.0000 | 1.9193 | 106.7300 |
| Sterling | 0.6825 | 1.9193 | 1.0000 | 204.8600 |
| Yen | 139.9100 | 106.7300 | 204.8600 | 1.0000 |

This Week's Research
Citigroup
Ryanair
AIB

Today's Research
RBOS

Today's Recommendations

RBOS (£16.06) **AGM update** **Stuart Draper**

- **AGM update** : Royal Bank of Scotland (RBOS) made some brief comments at its AGM yesterday with regard to current trading, even if they were very light on detail. The bank noted that its UK corporate and US businesses are performing well, and that its integration of Charter One is fully on track.
- **UK consumer** : However, RBOS did sound a cautionary note with regard to the UK consumer, stating that "many indicators suggest that we are facing a period of increased consumer caution in the UK." This is the most rational explanation for the recent share price weakness.
- **China speculation** : However, even though RBOS wouldn't rule out any deals in China, this doesn't mean that the bank is going to do a major rights issue at current levels to acquire a 20% stake in Bank of China. This is because joint venture deals, such as its arrangement with Tesco Personal Finance, are a much more rational way forward in China for RBOS.
- **Contradicts strategy** : The reason why RBOS is not planning a share buy-back in the near term is because it doesn't have any major surplus capital currently. A major acquisition in China would also contradict the bank's existing strategy of building on its UK and US platforms where it can add scale economies, with plenty more scope for further deals in the US.
- **Wrong time** : Current rules also prevent foreign entities owning more than 20% of Chinese banks, so RBOS would have limited control over any acquisition in China. Following last year's \$10.5 bn Charter One deal in the US, RBOS' core capital (shareholders funds less goodwill) was 4.4% at 31/12/04. With management more comfortable at 5.5%, a level which won't be reached until H2 2006, now would not be an appropriate time for another major acquisition.
- **Investment horizon** : Therefore, even though it is not unusual for a global top ten bank such as RBOS to have a look at a large scale deal such as Bank of China, our view is that on any reasonable investment time horizon, the current share price of £16.06 will have represented an attractive entry level.
- **Compelling valuation** : The obvious valuation argument is that given the bank's strong US growth prospects, as well as its dominant UK market position, the shares at least warrant a UK sector average rating of 10x 2005 earnings and a fair value per share of £19 (18% upside), based on 10x consensus 2005 earnings per share of £1.90. RBOS will also pay a dividend yield of c.4.1% this year : **BUY**.

Breaking News

Persimmon upbeat on UK property market

Persimmon, Britain's biggest housebuilding stock, said today it was confident of meeting forecasts for its half-year results. "We have continued to sell at good levels across the UK, albeit at slightly lower volumes than the strong comparative period in 2004," Persimmon said in a statement. "However, the current total sales revenue for 2005 is at a similar level to the same date in 2004, at around 1.4 billion pounds. We therefore remain confident of achieving our half-year expectations," it added. Persimmon is the latest housebuilder to express confidence in the UK property market after, last week, rival builder George Wimpey said its outlook was encouraging despite uncertainty caused by the forthcoming UK general election and possible interest rate rises. The company also announced that Chairman Duncan Davidson, who founded the company in 1972, is to retire next year and will be replaced by current Chief Executive John White .

Pernod Ricard to buy Allied Domecq for £7.4bn

Pernod Ricard has announced that it has launched a 10.7 billion euro takeover of rival Allied Domecq, in a cash and equity deal that would make the French drinks group the sector's No. 2 player by sales in the world. Pernod Ricard has offered 6.70 pounds per share for Allied Domecq, 5.45 pounds of which is to be paid in cash. Pernod Ricard will issue 17.5 million new shares, or 20% of the enlarged share capital, to complete the financing. Pernod Ricard expects the deal, which has been recommended by Allied Domecq's board, to be completed by late summer. It expects it to generate 300 million euros in annual cost synergies as of the third year. In addition, Pernod Ricard expects the deal to boost its earnings per share in the first year.

Ryanair welcomes ENAC decision on Rome-Alghero flights

Ryanair said on Wednesday it welcomed a decision by Italy's civil aviation authority ENAC which clears the way to start Rome Ciampino-Alghero (Sardinia) flights on the 28th of April as scheduled. The airline has previously threatened legal action if ENAC denied it permission to start the services

Business Press

- M&S board divided over future of Myners (FT)
- Earnings data ease fears (FT)
- Morgan Stanley team bolts to Deutsche Bank (WSJE)
- JP Morgan posts 17% rise in profit (WSJE)
- Andean dips as oil well fails to deliver (IE)

Investment Press— Lex

- **Prudential**: Consistency is what investors have demanded from Prudential and the UK insurer is delivering. After last year's good results, Wednesday's first quarter figures showed further decent growth.



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