



Wednesday 23rd April 2008

**DAILY COMPANY NOTE — Royal Bank of Scotland** See page 2 for full details

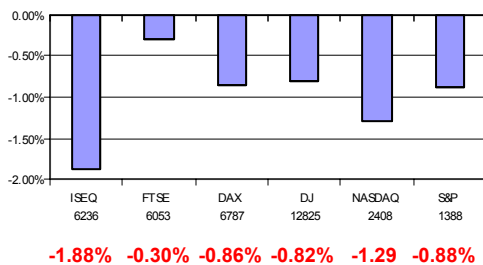
**Daily Market Comment**

**Yesterday's Summary :** The ISEQ finished in negative territory yesterday, closing down 1.88% at 6,118.37, as hawkish interest comments from a European Central Bank council member, Kleis Liebscher, weighed heavily on investors. Despite reaffirming guidance for low single digit earnings growth in their AGM, AIB lost 0.9% to €13.03. Anglo reversed some of its recent gains, closing down 5.4% at €7.92. Bank of Ireland and Irish Life & Permanent fell 2.2% to €8.90 and 2.1% to €11.81 respectively. With soaring fuel prices continuing to erode airline's earnings potential, Ryanair shed 4.7% to €2.63 and AerLingus fell 5.5% to €1.89.

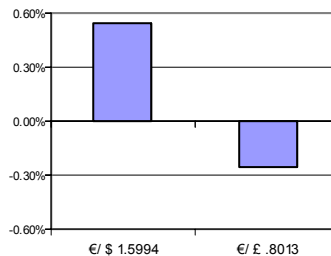
**Overnight News :** In Japan, the Nikkei 225 Stock Average finished up 0.2% at 13,579.16 as investors opted for caution ahead of the release of earnings by major companies starting Thursday. In China, the benchmark Shanghai Composite Index closed up 4.2% at 3,278.33, with investor confidence recovering due to hopes the government will announce more market-boosting policies. In Australia, the S&P/ASX 200 closed 1.6% higher at 5,652.9, on gains in the resource and financial sectors.

**Breaking News :** In its AGM, AIB has said that it has no need to raise extra capital from shareholders and that it intends to maintain a progressive dividend policy, whereby it pays around 40% of the profit attributable to shareholders in dividends. BHP Billiton has announced that third quarter iron ore output rose 22% and steelmaking raw material increased to 28 million metric tons from 23 million tons a year earlier. These strong third quarter results are set to bolster its hostile \$170bn bid for Rio Tinto group, who claimed their iron ore strategy is better than BHP's. Ryanair has bought back 5.35 million of its own shares at €2.65 each, while CRH has bought back 100,00 of its shares at prices between €23.42 and €24.29.

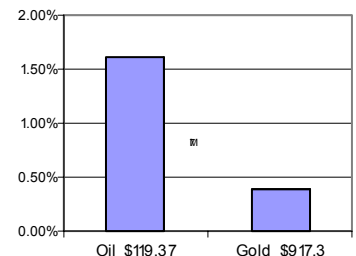
**Equity Indices change on day**



**Currency daily % change**



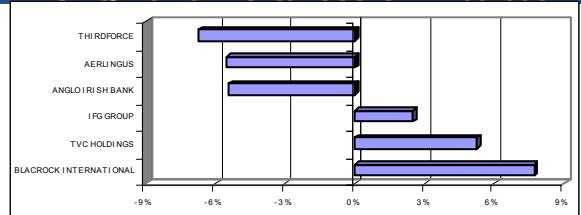
**Oil/Gold daily % change**



**News**

- "AIB targets low earnings growth despite volatility"-AIB-(The Irish Times)
- "ECB talks tough on euro zone inflation"-(The Irish Times)
- "Bank of Scotland in €15bn rights issue"-(Irish Examiner)
- "Libor hits U.S. borrowers"-(The Wall Street Journal)
- "Ryanair victorious as report paves way for Stansted reform"-Ryanair-(I.I)

**ISEQ Performers/Losers 22/04/08**



**Market Themes and Movers**

**Bank of England Minutes :** The minutes of the Bank of England's April meeting were released this morning and they show that the nine member Monetary Policy Committee voted 7 - 2 to cut interest rates by 25 basis points to 5.00%. The committee acknowledged that it is facing a difficult balancing act as it tries to gauge the risk to growth from surging credit costs, while inflation accelerates. One member of the committee, David Blanchflower, voted for a half-point interest rate cut, as he felt the risk to long term growth continues to be strongly on the downside, while inflation difficulties will only persist in the short term.

**European Services Growth :** Growth in European service industries has unexpectedly accelerated in April as the Eurozone Purchasing Managers Index for the regions services companies, ranging from banks and airlines to cafes, rose to 51.8 in April, compared with 51.6 for March and ahead of expectations for a decline to 51.4. Conversely, manufacturing activity declined to a near three year low, falling from 52.0 in March to 50.8 for April, its lowest since August 2005. The index has approached the all important 50 mark which divides growth from contraction.



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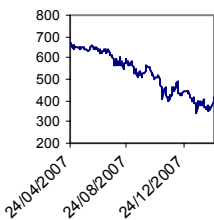
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# Royal Bank of Scotland

<b>Current</b>	<b>£3.58</b>
<b>Target</b>	<b>£4.00</b>
<b>Previous (28/02/08)</b>	<b>£5.75</b>

**FTSE**
**Banks**
**Company Profile**

The Group's principal activity is providing a range of banking, insurance and other financial services. The Group's operation focuses on such areas as Global Banking & Markets, Corporate Banking, Retail, Wealth Management, Ulster Bank and Citizens. Global Banking & Markets provides a range of debt financing, risk management and investment services to its customers.

**Statistics**
**Price Performance**

**Profit by Region**


- United Kingdom 78%
- Europe 12%
- United States 7%
- Rest of the World 3%

**Fundamental view :** In conjunction with its Interim Management Statement covering trading performance and capital, Royal Bank of Scotland (RBS) has announced further asset write-downs of £5.9 bn pre-tax and £4.3 bn post tax, spread quite evenly across CDO's, monoline exposures, US mortgages and leveraged loans. Such additional write-downs required the bank to announce a £12 bn rights issue to strengthen its Tier 1 ratio to over 8% and its core Tier 1 ratio to over 6%. The fully underwritten rights issue will involve 11 new RBS shares being offered at £2 per share for every 18 existing shares, implying a theoretical ex-rights price of £3.07. A further £4 bn of Tier 1 capital is planned to be raised through the disposal of non-core assets such as RBS Insurance. Even though the group's Global Banking & Markets division had a difficult March, the consensus current year eps guidance of 64p was maintained, implying an eps of 40p post the rights issue. Post the sale of RBS Insurance and further equity issuance from the bank's H1 dividend being paid in shares, 10% eps growth to 44p now appears achievable in 2009. The nil paid trading period is expected to commence in mid May and dealings in the new shares are expected to commence in June.

**Next catalyst :** The latest £5.9 bn of write-downs taken by RBS for 2008 should mean that this issue is now largely addressed and resolved, with the risk of further major write-downs significantly lower than sector average. The fully underwritten rights issue of £12 bn also means that RBS' capital risk is now significantly lower than sector average. With management indicating that a payout ratio of at least 45% on underlying earnings will be maintained, the risk of 2008 and 2009 dividend per shares of 18p (5% yield) and 20p (5.6% yield) respectively being cut is also lower than sector average. Our view is that RBS' underlying bad debts charge will not deteriorate to the same level as that reached at the end of the last major UK recession in 1992. RBS' bad debts charge as a % of customer loans deteriorated from 0.57% in 1989 to 2% in 1992, but we currently forecast this charge to be 0.8% in 2008, before recovering to 0.7% in 2009. The group's 2007 bad debts charge reduced to 0.4% of loans from 0.46% for 2006. As a result, our new post rights issue 12 month share price target of £4 (12% upside) is based on 9x 2009 eps of 44p, with the shares also paying a dividend yield of 5% for waiting for this upside to be achieved. In addition to the upcoming rights issue timetable in May and June, any progress achieved over the coming months in relation to the sale of non-core assets could act as a positive catalyst for the RBS share price.

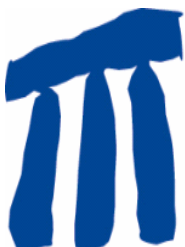
**Chart view: RBS**

Support Primary: 331.25  
 Support Secondary: 298.75  
 Resistance Primary: 395.00  
 Resistance Secondary: 427.50

Long-term trend remains negative and problems do not appear to be over. Stock needs to consolidate in this area and form a solid support base. However, weekly momentum indicators are improving and there is no major upside obstacle until trend resistance in the 395 area.

Major Shareholders		Peer Group Multiples			
	%	Company name	P/E 08	P/E 09	EPS Growth 08-09
Legal & General Invnt. Mgt.	5.04%	<b>RBS</b>	5.2	4.7	10.35%
Standard Life Investments	3.06%	Bardlays	7.1	6.2	9.85%
Barclays Global Investors	2.58%	Lloyds	8.4	7.8	6.53%
M&G Invnt. Mgt.	1.96%				
Barclays Global Investors	1.56%				
Shares Outstanding		10,019.38m			

Share Data		Financial Data		
		2007	2008e	2009e
Current Price (p)	358	PBT (£m)	10,300	10,488
Mkt Cap (£m)	37,222	EPS (p)	78.7	68.6
Reuters	RBS.L	P/E(x)	4.55	5.22
Bloomberg	RBS LN	DPS (p)	36	35
Sector	Banks	Dividend Yield	10.06%	9.78%
Chairman	Sir Tom McKillop			
CEO	Sir Fred Goodwin			
Website	www.rbs.com			





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