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EQUITIES	Close	Change	% +/-	P/E '06	YTD
ISEQ	7862	↑ 69	0.89%	11.0	6.76%
FTSE 100	5872	↑ 15	0.25%	13.5	4.51%
DAX 30	5862	↑ 61	1.05%	15.0	8.39%
DOW	11137	↑ 68	0.62%	19.5	3.28%
NASDAQ	2283	↑ 20	0.89%	15.6	3.53%
S&P	1293	↑ 10	0.75%	21.0	3.83%

CURRENCIES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.1906	0.6820	139.9800
Dollar	1.1906	1.0000	1.7447	117.5600
Sterling	0.6820	1.7447	1.0000	206.9100
Yen	139.9800	117.5600	206.9100	1.0000
Oil (Nymex)	61.0100			

This Week's Research

Paddy Power Smart Telecom
Barclays
AIB

Today's Research

Lloyds TSB

Today's Recommendation

Lloyds TSB (£5.41) 2005 results announced Stuart Draper

- Results announced : This morning, Lloyds TSB announced results for the year ended 31/12/05. Profit before tax of £3.47 bn and eps of 44.6p were ahead of consensus forecasts of £3.315 bn and 42p, and were year on year increases of 4% and 8% respectively. The results showed modest retail banking growth and good cost control being less offset by higher bad debts than had been expected.
- SW outlook : The results also indicated that there has been no further deterioration in retail unsecured credit quality since the bank's trading statement in December, and that the outlook for Scottish Widows is continuing to improve. This business and Lloyds' Insurance and Investments division in general is benefiting from a strengthening UK life and pensions market, as well as increasing bancassurance volumes.
- Wholesale quality : It is also worth noting that even though the 2005 bad debts charge as % of average loans was higher in retail banking, it was lower at the group's corporate lending operations as credit quality at the bank's Wholesale & International business remained strong.
- Takeover potential : In January 2005, we downgraded our Lloyds TSB recommendation from BUY to NEUTRAL, as our view was that the takeover speculation at the time represented an opportunity for some profit-taking. However, this year, with the bank's management significantly less "new to the job", having joined after June 2003, we see greater potential for an approach being made.
- International executives : This is because Lloyds now has several non-British executives in many key positions who may be more open to considering an international approach. BSCH's 2004 takeover of Abbey National showed that the UK is an attractive banking market, with high returns on equity and a shareholder-friendly culture.
- Clean UK : Following the sale of its National Bank of New Zealand and Brazilian businesses in 2003, Lloyds is almost totally a UK focused business now. As a result, it would be a cleaner takeover target than either Barclays or RBS.
- Recommendation upgrade : Therefore, with an above average probability of a 2006 takeover approach, an attractive dividend yield of 6.3%, 4.3% (23.5p) of which goes ex on 8th March, and a stand-alone ex-dividend fair value per share of £5.70, based on 12x 2006 eps of 47.5p, we now upgrade our recommendation from NEUTRAL to BUY.

Breaking News

Babcock & Brown ups Eircom stake to 21%

Australian finance house Babcock & Brown has increased its stake in Eircom to 21% after spending around €70m on eircom shares in the last few days. On Tuesday eircom received a preliminary takeover approach from Babcock & Brown. The bid is thought to be worth around €2.4 billion. Eircom shares have been rising recently in anticipation of a takeover approach.

Fyffes - Banana prices continue recovery

Banana prices continued their normal seasonal recovery in Europe this week and are now at a similar level to last year. If they continue their current momentum, prices could start to edge ahead of 2005 (prices last year remained fairly stable between February and May). This would be positive news for Fyffes.

Spanish Sale lands €200m FBD bonus

FBD insurance group is selling the bulk of its development land interests in Spain for up to €200m and making a special payment to its 4,000 shareholders of over €3.15 per share. Shares in the highly-valued insurer jumped 6% to a new high of €40.50 after the announcement of the deal.

AIB workers to vote on pay rise

The Irish Bank Officials' Association has welcomed details of a new pay structure for AIB announced by Independent tribunal chairman Kevin Foley. Under the deal there will be a 2.5% increase across the board in staff salaries. Salary scales for junior staff will rise by up to 15%, while scales for managerial grades go up to 7.5%

Business Press

- Hilton to pay out £4.2bn through special dividend (FT)
- Reuters shares hit despite growth (FT)
- Comreg powerless to veto Eircom takeover (IT)
- L'Oreal thinks Body Shop is worth it—and is ready to pay £645m (II)

Investment Press

Reuters: Shares in Reuters, the financial information provider, fell more than 11 per cent in spite of news that its three-year cost-cutting programme had produced the first revenue growth in four years.



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