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EQUITIES	Close	Change	% +/-	P/E '05	YTD
ISEQ	6486 ↑	35	0.54%	11.0	4.64%
FTSE 100	4843 ↑	31	0.64%	13.5	0.61%
DAX 30	4234 ↑	32	0.76%	15.0	-0.52%
DOW	10462 ↑	93	0.90%	19.5	-2.98%
NASDAQ	2020 ↑	11	0.56%	15.6	-3.31%
S&P	1168 ↑	5	0.40%	21.0	-3.60%

CURRENCIES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.2971	0.6942	134.3800
Dollar	1.2971	1.0000	1.8677	103.5900
Sterling	0.6942	1.8677	1.0000	193.4700
Yen	134.3800	103.5900	193.4700	1.0000

This Week's Research
Elan
Aviva

Today's Research
Lloyds

Today's Recommendations

Breaking News

Vodafone maintains FY guidance after in-line KPIs

Vodafone maintained its expectations for the full year after it added over 5.4 million customers in the quarter to December 2004. This beat consensus estimates of a rise of 4.4-4.6 million customers in the three months to Dec 31 2004. In a trading update of its key performance indicators for the period, Vodafone said this was its strongest quarter of net additions since December 2000. Strong customer growth in markets such as Germany, Italy, Spain and Britain offset another poor performance in its Japanese business, which added only 36,000 net new subscribers, about 40 percent less than in the previous quarter.

Prudential says 2004 sales well ahead of expectations

Prudential PLC has reported this morning that it recorded full-year sales ahead of market expectations, helped by a strong performance in the UK and Europe. The company said group insurance sales for the 2004 calendar year came in at 1.85 billion pounds on an annual premium equivalent basis (APE), a 26 percent increase on the previous year, and above the consensus forecast of 1.706 billion pounds. Prudential chief executive Jonathan Bloomer said the company's main businesses were showing 'strong momentum,' and predicted further progress in the current financial year.

Northern Rock FY profits in line with market expectations

Northern Rock today announced a 13 percent increase in full-year profit for 2004, in line with market forecasts and meeting its own goal of 10-20 percent annual growth. The mortgage lender reported pretax profits of 431.2 million pounds for the year to December, up from 386.6 million in 2003 and compared with market forecasts of 420-435 million pounds. The group said its lending volume remained strong in the second half of the year even though the housing market slowed. Northern Rock's share of the UK net mortgage rose to 11.2 percent in 2004 from 7.8 in 2003. Northern Rock said it expects new residential lending to contract in 2005, but it still expects gross lending to be supported by sustained levels of remortgaging.

Lloyds TSB (£4.86) Profit-taking opportunity Stuart Draper

- Takeover speculation : Some speculation has resurfaced this week with regard to the potential of Lloyds TSB as a takeover target. Spanish bank, BBVA, has been mentioned as the potential acquirer, with the rumour gaining some credence as a result of Banco Santander's 2004 acquisition of Abbey National.
- Cross-border difficulties : Even though such a deal cannot be ruled out, the probability of major further share price upside as a result of its announcement is quite low. The legal, cultural and language barriers for a Spanish acquirer of Lloyds to overcome would also be quite substantial.
- Recommendation downgrade : Therefore, with the shares now trading at 10.9x consensus 2005 earnings per share of 44.7p, we now downgrade our recommendation from BUY to NEUTRAL, and recommend a SWITCH into Royal Bank of Scotland (RBS) (£17.63) as providing more value at current levels in the UK bank sector. RBS is currently trading at only 9.3x consensus 2005 eps of £1.89.
- Low growth : With bad debts as a % of the loan book staying constant at 0.7%, Lloyds' credit quality continues to remain robust. However, core earnings growth remains sluggish and last year's business disposals in New Zealand and South America will mean that 2004 earnings per share of 42p will show no growth on last year's 41.5p. The £2.7 bn received from the bank's 2003 disposals contributed over £100m to H1 2004 net interest income.
- Danske portfolio : In an effort to improve this earnings growth outlook, it was recently announced that Lloyds had entered into exclusive talks to buy Danske Bank's £5 bn UK wholesale corporate loan portfolio. Danske is getting out of the business of lending to UK corporates, and the portfolio of assets, which includes a range of syndicated loans and bilateral loans, are all performing loans.
- Switching opportunity : Therefore, even though a takeover approach from a major US bank can also not be ruled out currently, on a stand alone basis, there is now better value elsewhere in the UK sector and the current share price strength as a result of the takeover speculation may represent an opportunity for some profit-taking. Lloyds' share price has risen by 14% since our last BUY note of 13/12/04 : **NEUTRAL**.

Business Press

- China growth hits 9.5% (FT)
- Alltracel upbeat on m-doc trials (IT)
- Profit warning hits Donegal shares (II)
- Report sees economy growing by 5.5% (IE)
- US consumer confidence rises (IE)

Investment Press— Lex

- Cable & Wireless: In November, C&W broke City convention by presenting a "discursive" valuation of itself. This implied its shares were undervalued by at least a third. On Tuesday the UK telephone company let its operating performance do the talking. Despite a positive market reaction, the tale was mixed.



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