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EQUITIES	Close	Change	% +/-	P/E '06	YTD
ISEQ	8045	↑ 69	0.86%	11.0	9.24%
FTSE 100	6036	↑ 46	0.77%	13.5	7.43%
DAX 30	5973	↑ 26	0.44%	15.0	10.44%
DOW	11280	↑ 10	0.09%	19.5	4.61%
NASDAQ	2313	↑ 13	0.55%	15.6	4.87%
S&P	1303	↑ 1	0.10%	21.0	4.65%

CURRENCIES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.2036	0.6893	140.4100
Dollar	1.2036	1.0000	1.7459	116.6400
Sterling	0.6893	1.7459	1.0000	203.6400
Yen	140.4100	116.6400	203.6400	1.0000
Oil (Nymex)	64.2600			

## This Week's Research

## Today's Research Rank Group

## Today's Recommendation

### Rank Group (£2.33) 4.4% yield may attract interest Stuart Draper

- Yield attraction : Rank Group is a UK leisure and entertainment company which operates bingo halls and casinos in the UK, bingo halls in Spain, as well as the Hard Rock café franchise globally. The 10.3p per share final dividend, expected to go ex on Wednesday fortnight, 12th April, may attract some investor interest over the next 2 weeks, as it represents a 4.4% yield on the current share price.
- Budget catalyst : Last week's UK Budget, as expected, increased the tax on slot machines from £250 per annum to £1,965 per annum. Given that Rank Group has c.6,000 slot machines, this will increase the group's tax bill by an extra c. £2.5m per annum over what would have been previously expected, or c.2% of group operating profits.
- Takeover potential : However, given that a slot machine Budget tax increase was expected, it would be rational for a potential private equity bidder to wait until after the Budget, and perhaps after the shares go ex on 12th April, before making its approach. It would also be beneficial for the private equity bidder to move before the current capital return is completed.
- Share buyback : Following the recent sale of the group's Deluxe Film business for £420m, Rank is currently undertaking a £200m share buyback programme which should continue to provide support for the share price at current levels.
- CEO resignation : Earlier this month, 6th March, Mike Smith resigned as Rank CEO, and there has been some speculation that he could lead a private equity approach for Rank. Peer business Gala has proven very successful under such ownership. William Hill and Hilton have also both been mentioned in equity research reports as being potential acquirers of Rank.
- Casino growth : Casino attendances are continuing to grow and are expected to deliver 30% growth over the next 3 years. As a result, group revenue and eps should grow to £830m and 14p respectively in 2006 from £810m and 10p for 2005. Further double digit eps growth to 15.5p would appear achievable in 2007, which given the current gaming sector average rating of 15x 2007 eps would justify a fair value per share of £2.33.
- Growth potential : Therefore, with the share price underpinned at current levels by some attractive earnings growth potential, the further downside risk would now appear limited. With an above average probability of a bid approach in the coming months, we are this morning initiating coverage of the company with a **Speculative BUY** recommendation.

## Breaking News

### Aviva pulls out of £17 bln insurance takeover

Aviva surprised the market yesterday by walking away from its £17 billion merger offer for Prudential, claiming it would not be in the interests of its shareholders to pursue a deal. The Norwich Union-owner said the Pru's refusal to discuss a deal made it impossible to go on with the battle, despite a series of meetings with its shareholders. The group added that the prospects of a deal in future were "very low". An approach from outside the UK remains a possibility, but the Pru's shares slumped 5%, or 34.5p, to 681p - reflecting a degree of scepticism that a bid will be forthcoming. Aviva's shares rose 1.1%, or 9.5p, to 831.5p on the withdrawal, as investors welcomed a refusal to over-pay. Aviva chief executive Richard Harvey said: "A deal is impossible without constructive engagement and the Prudential have made it very clear that they are fundamentally opposed to that." The firm reserved the right to return to the table if circumstances change. Bruno Paulson, an analyst at Sanford Bernstein, said Aviva had made the right decision not to raise its planned offer. "The discipline of not doing something value-destructive to them is a good thing," he said. "Ultimately the merger created some value, but not a lot, which meant they didn't have a lot to give away." Prudential said that it was confident of its prospects as an independent company - based on its fast-growing divisions in Asia and the US.

### Tesco eyes property potential

Tesco shares recorded strong gains Friday as speculation mounted that the supermarket giant planned to place its £12 billion freehold property estate into a REIT (Real Estate Investment Trust) following the UK Budget changes last Wednesday. This would allow Tesco to place its property into a separate quoted vehicle and use the money raised from selling shares in the REIT to buy back its shares. Shares are trading at 345p this morning.

### February New Home Sales Slump

Sales of new homes plunged 10.5% in February, the biggest drop in nearly 9 years while prices fell and the number of new homes on the market hit a record high. The data sent the dollar lower as traders speculated that the Fed's campaign of interest rate hikes was near its end. The Fed's policy setting committee meets this week and is expected to raise rates by a further 0.25%, the 15th since June 2004

## Business Press

- Denis O'Brien may increase IN&M stake beyond 3% level (IT)
- Competitive foreign labour will drive economy forward (II)
- BAA shareholders want 900p a share (IE)
- Drugs firm Amarin appoints director (IE)
- Bayer on the verge of Schering buyout (IE)

## Investment Press

Microsoft is starting to look at home in the range. Since mid 2003, its shares have bounced between \$24 and \$30, failing to break out because of growth concerns. For now it is easy to focus on Microsoft's problems. Window's Vista its new operating system has been delayed repeatedly whilst rival Google has innovated rapidly online



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