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EQUITIES	Close	Change	% +/-	P/E '06	YTD
ISEQ	7889	↓ -33	-0.42%	11.0	7.13%
FTSE 100	6060	↓ -44	-0.73%	13.5	7.85%
DAX 30	6068	↓ -39	-0.64%	15.0	12.19%
DOW	11383	↑ 28	0.25%	19.5	5.56%
NASDAQ	2345	↑ 11	0.49%	15.6	6.33%
S&P	1310	↑ 4	0.33%	21.0	5.20%

CURRENCIES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.2534	0.6953	143.0300
Dollar	1.2534	1.0000	1.8026	114.1700
Sterling	0.6953	1.8026	1.0000	205.7700
Yen	143.0300	114.1700	205.7700	1.0000
Oil (Nymex)	70.9700			

This Week's Research

Sterling Energy Aviva
GSK
Rank Group

Today's Research

GSK

Today's Recommendation

GSK (1,540p) Q1 results beat forecasts Owen Turner

- Q1 Results: GlaxoSmithKline has reported better than expected results for the three months ended March 31st 2006, driven by strong sales of its key drugs and vaccines. Turnover and EPS of £5,813m and 26.5p were year on year increases (on a constant exchange rate basis) of 10% and 17% respectively, and were ahead of consensus forecasts of £5,625m and 23p.
- Growth drivers: The key drivers of the results were strong performances of GSK's big name medicines. Sales of its Avandia/diabetes (+24% to £384m vs £320m exp.), Coreg/heart disease (+53% to £225m vs £170m exp.) and Vaccine (+44% to £366m vs £312m exp.) products beat expectations, while Advair/asthma (+12% to £816m vs £860m) was slightly behind.
- Pipeline progression: GSK also reported 'significant progress' in its near-term drug development pipeline, with its cervical cancer vaccine Cervarix filed with EU regulators and 13 other markets in March and strong Phase III data on Tykerb, a new oral medicine for breast cancer. This should support an earlier than expected filing with European and US regulators in the second half of this year. GSK is expected to present important Phase III data for Tykerb at a high-profile cancer conference in the first week of June and we believe that this will be the next major catalyst for GSK's share price.
- FY guidance: The company reiterated its current guidance that it expects to achieve earnings growth of around 10 percent in 2006, but following these results it is more than likely that this figure will be revised upwards in the coming quarter. The company also reaffirmed its commitment to the progression of its current share buyback programme and expects to repurchase up to £1bn worth of shares in 2006. In Q1 it bought back £219m worth of shares.
- Product launches: GSK possesses one of the most exciting R&D outlooks in the sector. The next 12 months will see a host of key updates hitting the market, including 8 new products expected to enter Phase III development, 7 regulatory filings and 7 important product launches. These updates will keep sales forecasts ticking upwards over the course of 2006.
- Further upside: Given that the sector is currently trading at 19x 07 EPS we believe that no more than a 10% discount for GSK is appropriate to reflect its slightly slower than average earnings growth and therefore, our 12-month price target price of 1,650p is based on 17x 07 EPS of 97p. The strength of GSK's pipeline remains the key driver of our investment case, and we expect to receive further evidence of its positive impact on earnings over the coming months. **BUY**

Breaking News

Microsoft results disappoint

Microsoft announced overnight that its quarterly profit rose 16% on stronger demand for its software used to run corporate servers and PCs. However, the company issued a profit forecast for the current fiscal quarter and coming year that was below Wall Street expectations. Microsoft said net income for the fiscal third quarter ended March 31 rose to \$2.98 billion, or 29 cents a share, from \$2.56 billion, or 23 cents, a year earlier. The results fell short of the consensus forecasts of 33 cents. Sales rose 13% to \$10.9 billion as Microsoft saw a sharp rise in demand for other software targeted at corporate users.

Friends Provident Q1 sales up 26%

Friends Provident has reported a better than expected 26 percent increase in first-quarter sales, helped by a strong performance in its overseas division. Friends said group life and pensions new business for the first three months of 2006 came in at £1.331bn, up from £1.053bn in the same period last year, and ahead of the £1.223bn consensus forecast. The improvement was driven by Friends' international operation, where total new business surged 34 percent to £475m, well ahead of the expected £414m. In the UK, sales were up a more moderate 23 percent at £856m.

Morgan Stanley initiates coverage of Irish banks

Morgan Stanley on Thursday initiated coverage of Bank of Ireland with an "overweight" rating and a price target of €18.60, saying it offered the best risk-reward profile among Irish banks. The investment bank also initiated coverage of Anglo Irish Bank on "overweight" and AIB on "equal-weight." Morgan Stanley, in a research note, said Irish banks had underperformed the European banks over 12 months, and this had opened an about 12 percent discount on the investment bank's 2007 earnings estimates for them. Reduced asset management profitability drag and growing UK momentum point to further earnings strength. MS, which has a price target of €15.10 on Anglo, said the earnings momentum that has been evident at Anglo in recent years would continue in the medium term. As for AIB, Morgan Stanley said it estimated that all its divisions would post double-digit pre-tax growth over the coming two years. Its price target for AIB is €22.10. MS, however, said it saw less opportunity for upwards earnings momentum for AIB compared with the other two Irish banks.

Business Press

- House prices rise 3.5% in first quarter (IT)
- Anglo Irish Bank appoints director (IT)
- Lundin Mining records profits of \$21.5m (IT)
- Newcourt to buy management firm (IT)

Investment Press

- UK drug stocks: Viewed as a shambles 18 months ago, Astra-Zeneca has shown remarkable financial momentum. Earnings per share in 2005 of \$2.91 were a fifth higher than forecast at the start of that year. At Thursday's first-quarter results Astra raised its 2006 eps range by 7 per cent to a mid point of \$3.75.



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