



January 28, 2005

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EQUITIES	Close	Change	% +/-	P/E '05	YTD
ISEQ	6509 ↑	31	0.48%	11.0	5.01%
FTSE 100	4853 ↑	6	0.13%	13.5	0.82%
DAX 30	4216 ↑	2	0.05%	15.0	-0.93%
DOW	10467 ↓	-31	-0.30%	19.5	-2.93%
NASDAQ	2047 ↑	1	0.05%	15.6	-2.00%
S&P	1175	0	0.04%	21.0	-3.09%

CURRENCIES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.3036	0.6904	134.3900
Dollar	1.3036	1.0000	1.8881	103.0600
Sterling	0.6904	1.8881	1.0000	194.6200
Yen	134.3900	103.0600	194.6200	1.0000

This Week's Research

Elan Prudential
Aviva
Lloyds TSB

Today's Research

RBOS

Today's Recommendations

RBOS (£17.56) SCH overhang resolved Stuart Draper

- Institutional demand : Spanish bank, SCH, has announced that its remaining 2.6% RBOS shareholding has been placed at £17.20 per share. The fact that the placing was twice oversubscribed at only a modest discount to the current market price indicates that there remains strong institutional demand for the shares at current levels. Last September, SCH stated that it would end its commercial cooperation with RBOS following its acquisition of Abbey National in the UK market.
- Overhang resolved : As a result, the disposal of the Spanish bank's remaining RBOS shareholding was widely expected at some stage in 2005. The fact that this overhang has now been resolved augers well for the direction of the share price over the rest of the year.
- Acquisition growth : Helped by its First Active and Churchill insurance acquisitions, Royal Bank's H1 2004 income grew by 20% year on year, whereas costs only grew by 14%. As a result, the bank's cost/income ratio further improved to 40.5% from 43%. At the H1 stage, Ulster Bank also claimed to have won 55,000 new customers, in addition to the 431,000 new customers acquired as a result of the First Active acquisition.
- Merger synergies : However, it is RBOS' \$10.5 bn acquisition of US regional bank, Charter One Financial (CF) last summer, which is likely to provide the strongest earnings growth platform for the UK bank in 2005. The merger is likely to generate at least \$185m of cost savings, c.22% of CF's cost base, and is likely to boost its 2003 profit before tax of \$924m by \$407m within 3 years. Given that we estimated a \$120m boost from the effect of RBOS' lower group funding cost alone, such a target appears very achievable.
- Strategic benefits : In addition to the significant organic growth prospects generated by the CF deal, the highly fragmented nature of the Mid West banking market provides numerous fill-in acquisition opportunities for a UK bank with a proven track record of successful acquisition integration.
- Further upside : This gives RBOS some exciting US growth prospects, as well as an increasing Euro-zone market share and a dominant UK market position. As a result, its shares warrant a premium to the UK bank sector average and not a discount. Our current 12 month price target of £19 is based on 10x consensus 2005 eps of £1.89. RBOS' share price has risen by 16% since our BUY note of 04/08/04 : BUY.

Breaking News

Michael O'Leary says overall outlook for 2005 "awful"

Speaking at an analyst conference in New York yesterday, Michael O'Leary said on Thursday that while second-half 2004 yields declined slightly less than expected, the overall outlook for 2005 was "awful." The Ryanair Chief Executive said Monday's Q3 results will reflect a fractional improvement on the airline's original guidance on yields as the company is "not finding the yield competition to be as bad as we originally thought it was." But he went on to reiterate that fares would get lower and lower and that the outlook for 2005 was 'awful'. O'Leary also said Ryanair's experiment in offering in-flight entertainment has so far been "a bit disappointing." The laptop-sized devices allowing passengers to watch movies and other entertainment initially only offered English-language programming, which limited their popularity. They now offer five different languages, but the system's future is still "up in the air," he said, reiterating that he ultimately hopes to offer passengers in-flight gambling.

Eircom outsources Dublin call centre to Capita Group

Capita Group PLC announced yesterday that it has signed a major contract with eircom, worth approximately 20 million euros over three years. Capita will provide a managed services solution for eircom's outbound customer call centre located in Dublin. This centre focuses on campaigns to grow eircom's broadband and added value telephone services. Under this agreement, Capita said it will take over responsibility for 200 call centre staff in the existing telesales centre, located in Dublin.

Former NTR director sells off 4.1% stake in NTR

It was revealed yesterday that former NTR director John Gallagher sold 988,356 ordinary shares in the company. The sale represented 4.1% of the issued share capital of National Toll Roads. It is understood that the shares were sold to NTR chairman Tom Roche, whose total holding in the company now stands at 43.2%. Mr Roche recently acquired 1,505,448 additional ordinary shares which increased his stake by 6.28%. NTR shares closed at €24 yesterday.

Business Press

- EU drug chief urges shake-up (FT)
- Nokia wins back market share to bolster top spot (FT)
- Deutsche Borse defends LSE proposal (WSJE)
- High court told Fyffes notes say Flavin initiated share disposal (IT)
- SBC in talks to buy AT&T for \$15bn (IE)

Investment Press— Lex

- Nokia: Sun-deprived Finns enthusiastically welcome any faint glimmers of sunshine during the winter. That might help explain why Nokia's shares rose 6 per cent. It has done rather well this Christmas season. But further gains could prove costly.



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