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ONE TO WATCH

Tullet Prebon

447p	-14p
Scotsman says	BUY

VOLATILITY can be a good thing. Not for private investors though, whose nerves have been frayed by the violent convulsions in the market over the past few months. And not for the vanity of fund managers - many of us have a few more grey hairs than we did a year ago. But for inter-dealer brokers like Tullet Prebon, the turbulence that has bedevilled markets since last August represents the perfect environment in which to do business.

Inter-dealer brokers are, in essence, exchanges for over-the-counter financial products. When market volatility rises, so do trading levels. Helped by a sharp rise in volatility as the credit crunch bit, Tullet Prebon's operating profits rose by 14.8 per cent last year.

But while volatility is good for business, there are other motors driving Tullet Prebon's growth. Early last year, it acquired Chapdelaine, a US broker specialising in corporate bonds and credit derivatives. Since then - with corporate bond spreads widening and credit default swaps becoming a matter of wider concern - trading in both instruments has thrived.

Despite this growth, however, Tullet Prebon trades at around a 30 per cent discount to other inter-dealer brokers. If we assume analysts' earnings forecasts for the stock are broadly correct, then it trades on a price/earnings ratio of just 11 times 2008 earnings. That's far too cheap, making Tullet a potential teakover target.

Even in the absence of a deal, we still like this highly cash-generative business. It has the scope to beat analysts' profit forecasts and the discount to its peers at which it trades will be eroded as it moves into electronic trading.

● The value of your investment could fall and you may get back less than you invested. You should take professional advice if you have any doubts about the suitability of this company for your portfolio.