



DAILY COMPANY NOTE - British Airways See page 2 for full details

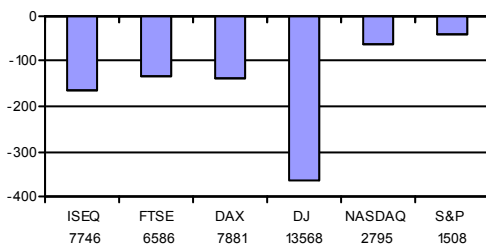
Daily Market Comment

Yesterday's Summary : The ISEQ was down 2.1% yesterday, although for once it wasn't alone, with declines seen across Europe and the US. There was little local news to drive sentiment and the impetus came from overseas as several brokers downgraded Citigroup citing significant writedowns relating to the problems in the credit markets. As a result, banks around the globe were hit badly, with the Irish financials no exception. Investors were unswayed when the Fed pumped \$41bn into the US financial system, one of its largest cash infusions since the credit crisis began in the summer.

Overnight News : Asian markets fell sharply Friday, hurt by a sell-off on Wall Street. Banking stocks such as Mitsubishi UFJ Financial Group in Tokyo and miners such as Rio Tinto and BHP Billiton on their Sydney listings led the decline.

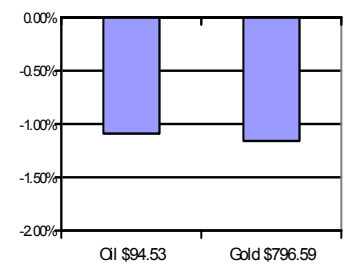
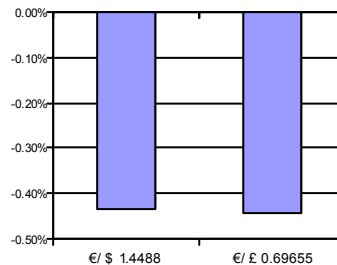
Breaking News : BSKyB announced Q1 pretax profit that fell to £121m from £166m for the same period last year. Revenue rose to £1.2bn from £1.1bn, while operating profit fell to £143m from £180m, knocked by £51m broadband and telephony losses.

Equity Index's change on day



-165 -136 -138 -362 -64 -41

Currency daily % change Oil/Gold daily % change



Paper Headlines

- House prices down 3.6% since January, index shows - (Irish Times)
- M&S aims for 50% growth by increasing stores to 27 in Republic - **M&S** - (Irish Independent)
- New fears over subprime fallout - (Financial Times)
- Kingfisher chief to step down - **Kingfisher** - (Financial Times)

Market Themes and Movers

Is the US facing recession? A report from the Commerce Department indicated consumers scaled back their spending in September as worries mounted about a worsening housing market and further credit market turmoil. And a trade group reported that manufacturing in the US grew in October at the weakest pace since March.

Will it won't it, Oil for \$100 a barrel?: Oil prices rose this morning after the previous session's decline prompted fresh buying amid expectations that crude futures will continue to test new records because of tight supplies. December Nymex rose 45c to \$93.94 a barrel, while December Brent crude rose 98c to \$90.70. Many investors believe tight supplies will drive crude prices to \$100 a barrel, or higher.

Gold keeps glittering for investors : Investors looking to when gold's powerful rally will come to an end may have to wait a while. Since the start of this year, spot prices have risen almost 25%, hitting a high of \$793.64 an ounce on Monday and inching ever closer towards the precious metal's all-time high of \$850, achieved on 21 January 1981. Gold's dazzling rally this year leaves the ISEQ's & FTSE performance in the shade.

Dolmen Squawk Box

- This day 10 years ago Alan Greenspan testimony before the Joint Economic Committee was enough to reassure most traders that Monday's 7.2% collapse in the Dow Jones was not the beginning of a stock market crash. The fear of a contagion of collapsing currencies and stock markets was sweeping round the world. What had seemed only a week earlier to be a purely Asian affair had suddenly become everyone's nightmare. American and European markets were stumbling.



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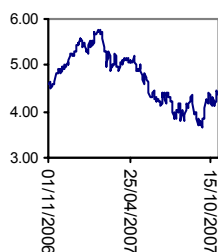
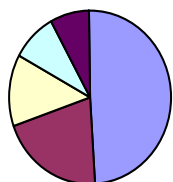
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British Airways

Stephen Taylor
BUY
Target : (12/06/07) £6.00
Previous : (15/05/07) £6.20
Current : £4.30
FTSE
Airlines
Company Profile

British Airways provides international and domestic passenger and cargo airline services. The airline's two main operating bases are London's two main airports, Heathrow and Gatwick with 147 destinations in 75 countries. The Group currently operates an extensive international scheduled airline route networks, comprising 148 destinations in 75 countries.

Statistics
Price Performance

Revenue by Region


- UK 49%
- Americas 20%
- Europe 14%
- Far East / Australia 9%
- Middle East / Africa 8%

Results : This morning, British Airways (BA) reported first half EBIT that rose by 26% to £556m and slightly above the £550m consensus. Revenue was broadly in line with last year at £4.46bn, while the airline's operating margin rose to 12.5% from 9.8% last year. With regard to its outlook for the rest of the year, BA has lowered its revenue growth target to 3%-3.5% from 4% previously due to the continued weakness in the US dollar, however the company did reiterate its operating margin target of 10%.

Cost discipline : One of the main highlights from BA's earnings report was its strong cost performance. Total costs fell by £150 with unit costs falling by 2.6%. Employee costs declined by 7.1% to £1.1bn due to reduced pension costs and lower severance costs. BA pointed out that for the full-year it expects its fuel bill to top £2bn, an increase of £100m, however this is below the group's previous estimate of £120m as the weakness in the dollar had insulated it somewhat from the recent spike in oil prices. BA confirmed that it has hedged 90% of its fuel requirements to the end of March at an equivalent crude oil price of \$68-\$70 a barrel.

Premium traffic : Another highlight of BA's results today was the performance of its premium business. The group's premium traffic showed a 2.5% increase in the first half of the year. CEO, Willie Walsh also commented that premium traffic 'continues to be strong' supporting the group's earlier decision to make more premium traffic available. The strong performance in premium traffic should protect it from the substantial amount of new short-haul capacity and routes which Ryanair has launched in recent weeks.

Iberia bid : BA said that it was still a committed member of the TPG-led consortium that is currently in the process of bidding for Iberia. The company pointed out that while recent financial market difficulties had slowed progress on a bid for Iberia it expects the consortium to make an offer in the 'next few weeks' with a price of €3.60 per share or €3.4bn being about the right level. As BA has ruled out a full bid on its own and has ruled out investing any further capital into Iberia, such an announcement poses no threat for BA shareholders, and offers earnings upgrade potential from the increased synergies of expanded operational co-operation between BA and the Spanish airline.

Upside potential : Given the volatility of network airline profits and their different capital structures, EV/EBITDAR is viewed as the most useful valuation metric. Network airlines have historically traded in the 5x to 6x forward EV/EBITDAR range and we consider 5x as a fair multiple for BA. Based on current year EBITDAR of £1.8bn and current net debt of c. £2.1bn, this gives our current 12-month price target of £6 per share. BA also reiterated that if its margin targets are reached it will resume dividend payments, which should provide further support to its share price.

Major Shareholders	%
Invesco	10.1
Standard Life	9.1
Barclays	6.9
Axa	5.0
Shares Outstanding	1153m

Share Data	
Current Price (£)	4.30
Mkt Cap (£m)	4,958
Reuters	BAY.L
Bloomberg	BAY LN
Sector	Airlines
CEO	Willie Walsh
CFO	Keith Williams
Website	www.bashares.com

Peer Group Multiples			
Company name	P/E 08	P/E 09	EPS Growth 08-09
British Airways	8.1	7.7	5.01%
Air France	7.4	6.8	9.65%
Lufthansa	6.5	8.9	-26.55%
Ryanair	19.1	15.9	20.00%

Financial Data	2007a	2008e	2009e
Revenue (£m)	8,492	8,848	9,046
PBT (£m)	611	847	897
EPS (£)	0.38	0.54	0.57
P/E(x)	11.3	8.1	7.7
DPS(£)	0.00	0.10	0.11
Yield	0.00%	2.23%	2.63%



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