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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	9338	↓ -95	-1.00%	11.0	-0.74%
FTSE 100	6194	↓ -26	-0.42%	12.4	-0.43%
DAX 30	6608	↑ 15	0.22%	15.0	0.16%
DOW	12423	↑ 25	0.21%	19.5	-0.32%
NASDAQ	2438	↑ 4	0.16%	15.6	0.95%
S&P	1413	↑ 3	0.22%	21.0	-0.38%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.3031	0.6708	155.3000
Dollar	1.3031	1.0000	1.9422	119.1800
Sterling	0.6708	1.9422	1.0000	231.4000
Interest Rates (%)	3.2500	5.2500	4.7500	0.4800
Oil (Nymex)	56.0900			

This Week's Research
Tullow Oil

Today's Research
BP

Breaking News

M&S underlines recovery with Q3 sales rise

Marks & Spencer announced today strong Christmas sales contributed to a 5.6% gain in underlying sales in the 13 weeks ending December 30, a further mark of the recovery of the British retailing giant. Like for like sales rose 7.1% for general merchandise and 3.6% for food as better product, more competitive pricing and a strong advertising campaign helped them to gain market share. Gross sales rose 9.2%. Marks & Spencer did not report earning figures for the period, which is the company's Q3. Marks & Spencer's online business, which has lagged some its high street rivals, also gained with sales up over 70% with 9m customers visiting the site over the period. International sales also performed strongly, rising 18.2%.

Bovis results to be in line with expectations

Bovis Homes announced that it anticipates annual results will be in line with its expectations as average sales price rose by 4.7%. Bovis, which specialises in mid-market and commuter-belt housing, said it had improved its forward sales position significantly, and more than 25% of the projected 2007 legal completions were reserved, with profit margins in line with its expectations. Legal completions rose by more than 15% in 2006, with operating margin of 23% and average sales price of £183,700. British house prices fell for the first time in six months in December from a month earlier, according to Halifax data on Friday, in the first sign that two interest-rate rises last year may be taking their toll on the market.

Oil price rises as Russian oil to Europe is halted

Oil prices climbed to over \$57 a barrel yesterday as Russian oil exports to Europe via neighbouring Belarus were halted as a bitter trade dispute between Moscow and Minsk spilled over into several European countries including Germany and Poland. EU energy chief Andris Piebalgs said the situation posed "no immediate risk" to energy supplies in the European Union. The impact of a short-term stoppage is likely to be minimal, as refineries in the EU maintain strategic oil stocks. News that Saudia Arabia plans to cut production also helped to drive crude prices higher.

Business Press

- Anglo Irish Bank burdened by Little Chef chain (IT)
- Property investment hits €11bn during 2006 (IE)
- Gates promises device that 'does it all' (IT)

Breaking News

BP (£5.42) Q4 production announced Stuart Draper

- **Q4 production** : This morning, BP released its trading statement for the 3 months ended 31/12/06. At the time of the Q3 results' announcement, the group guided full year production of 3.95 mboepd. This implied a Q4 2006 production rate of 4.02 mboe per day, and the consensus forecast was 3.95 mboepd. As a result, this morning's result of 3.82 mboepd is c.3% lower than the consensus forecast.
- **Mild weather** : The group's Q4 refining margin indicator of \$6.30 / barrel was also below the consensus forecast of \$6.90 / barrel. The two main reasons for the lower production and margins appear to have been the unusually mild northern hemisphere winter and OPEC members limiting output to support the oil price.
- **Upcoming catalyst** : However, the Q4 tax rate of 25% was better than the 33% of Q4 2005, and the group's 2006 full year results' announcement on 6th February could now act as a catalyst to trigger some share price recovery, as a major presentation with regard to future group strategy is expected at that stage.
- **2007 growth** : Our view remains that what is not yet discounted by the BP share price is the potential for its production growth to resume in 2007. BP has a large number of new start-ups coming on stream over the next 12 months, which should result in overall production growth of c.5% being achieved for 2007, on the 3.92 boepd achieved for 2006.
- **New start-ups** : The major new projects which should start to come on stream for BP over the next 12 months are ACG and Shah Deniz in Azerbaijan, as well as Dalia, Rosa, and Greater Plutonia in Angola. These new start-ups in both countries should increase production by 400,000 barrels per day.
- **Attractive upside** : We still expect BP will generate an underlying eps of 55p for 2006, increasing by 9% in 2007 to 60p. However, given the extent of BP's operations and the spread of its geographic risk, it is reasonable that it should be rated at a 10% premium to the energy sector average 2007 pe of 10x. As a result, our current 12 month price target for BP of £6.60 (22% upside) is based on 11x 2007 eps of 60p.
- **Limited downside** : BP will also pay a dividend yield of c.3.5% for waiting for this upside to be achieved. BP's ongoing share buyback programme should help to support the share price at current levels, and should also support the group's eps and dividend per share growth : **BUY**.

Investment Press

- **BA as a takeover target**: The \$8.7bn proposed takeover of Qantas by private equity encourages more blue-sky thinking. Could British Airways be the next on the block?

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