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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	9479	↑ 97	1.03%	14.1	0.75%
FTSE 100	6568	↑ 62	0.96%	13.2	5.57%
DAX 30	7706	↑ 116	1.52%	14.2	16.81%
DOW	13425	↑ 1	0.00%	15.2	7.71%
NASDAQ	2572	↓ -1	-0.05%	26.1	6.49%
S&P	1509	↑ 1	0.10%	15.9	6.40%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.3342	0.6764	162.4300
Dollar	1.3342	1.0000	1.9725	121.7500
Sterling	0.6764	1.9725	1.0000	240.1500
Interest Rates (%)	3.7500	5.2500	5.5000	0.4800
Oil (Nymex)	65.9700			

## This Week's Research AIB

## Today's Research British Airways

## Today's Recommendation

**British Airways (£4.33) Now valued at 8.2x earnings Stuart Draper  
Target : £6 (12/06/07; previously £6.20, issued 15/05/07)**

- **Entry level :** Following the 25% fall in the British Airways' (BA) share price since its high of £5.77 on 14/02/07, the shares are now trading at 8.2x consensus current year eps of 53p for the year ending 31/03/08. Such an eps would represent year on year earnings growth of 69%, primarily driven by the non-repetition of last summer's security delays, last Christmas' fog delays, and the industrial action of early 2007. As a result, our view is that the current BA share price represents an attractive entry level for medium term investors.
- **Major upside :** Given the volatility of network airline profits and their different capital structures, EV/EBITDAR is viewed as the most useful valuation metric. Given that the network airlines have historically traded in the 5x to 6x forward EV/EBITDAR range, we consider 5x as a fair multiple for BA. Based on 2007 EBITDAR of £1.8 bn and current net debt of c.£2.1 bn, this gives our current 12 month price target of £6 (39% upside) for each of the 1,151m shares in issue. The shares will also pay a dividend yield of 2.3% for waiting for this upside to be achieved.
- **Premium growth :** The expected 3% fall in BA's average fare from April 2008 as a result of the increased competition at Heathrow implied by Open Skies has been more than discounted by the 25% fall in the share price from its high of £5.77 on 14/02/07. Given that the major driver of BA's current year earnings growth is expected to be premium and long-haul passenger growth, the airline is somewhat protected from the substantial amount of new short-haul capacity and routes which Ryanair has launched in recent months. The latest £5 increase in BA's long haul fuel surcharge in response to the recent oil price rise, effective tomorrow, should also help support the airline's long haul average fare this year.
- **Iberia catalyst :** Another potential near term catalyst for the share price could be the announcement by BA, in conjunction with a private equity consortium, of a takeover bid for Iberia. 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. BA already owns 10% of Iberia which is valued in its accounts at c.£200m less than current market value : **BUY**.

## Breaking News

### HBOS warns that share of new mortgages has declined

HBOS issued a trading statement wherein it said it is on course to meet analyst expectations for a 10% rise in underlying eps to 110.8p in the first half of this year. HBOS however warned that its net share of new mortgages is likely to fall below 10% in the six months to the end of June, half of its traditional share and below its target of 15-20%. HBOS commented that it was confident that net mortgage lending will return to its normal 15-20% range in the second half of the year. HBOS pointed out that it continues to enjoy excellent growth in savings and banking products, although it maintains its relative caution in unsecured lending. The bank also said that its international divisions, (Australia, Ireland and Europe & North America) continue to drive additional profit growth from a focused and primarily organic strategy.

### Kingspan co-founder Brendan Murtagh sells 2.4m shares

Kingspan co-founder Brendan Murtagh has sold 2.4m shares or 1.41% of the company for €48.1m or €20.05 per share. As a result of the sale, Murtagh now holds 5.1m shares in Kingspan, equivalent to 3.02% of the total shares outstanding. Kingspan also announced that it is to issue a trading statement in relation to the period ending 30<sup>th</sup> June 2007 on the 29<sup>th</sup> of June.

### Circle Oil completes \$30m funding

Circle Oil has announced the signing of an unsecured convertible loan agreement worth \$30m with Kuwait-based, KGL Petroleum. The agreement forms part of Circle Oil's three-year funding strategy to cover its work programme including the development costs of commercial discoveries. The company expects to drill a minimum of 9 wells on its Moroccan and Tunisian Licences up to the middle of 2009 together with all ancillary seismic and technical studies. The convertible loan is for a period of 5 years and is convertible into ordinary shares of the company at an exercise price of 25p per share and carries a 6% coupon. The loan also has an attached option whereby KGL Petroleum can subscribe for an additional 15m shares in Circle Oil at a price of 50p per share exercisable during the first 3 years of the loan.

## Business Press

- Central Bank predicts soft landing for housing (II)
- IL&P site could sell for €100m (IE)
- One51 set to bid for ICG within days (IE)
- Ford plans to sell Jaguar and Land Rover (FT)

## Investment Press

- Japanese Yen: Japan, facing upper house elections and grumbles from the US about the weak yen, said economic growth trumped preliminary numbers.

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