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Contact Details:

Email : research@dsl.ie
info@dsl.ie

Tel : +353 1 633 3800
Fax : +353 1 677 4708

EQUITIES	Close	Change	% +/-	P/E '06	YTD
ISEQ	7616 ↑	20	0.26%	11.0	3.42%
FTSE 100	5794 ↑	29	0.51%	13.5	3.11%
DAX 30	5756 ↑	55	0.96%	15.0	6.44%
DOW	10892 ↓	-27	-0.24%	19.5	1.01%
NASDAQ	2240 ↓	-22	-0.98%	15.6	1.56%
S&P	1263 ↓	-4	-0.33%	21.0	1.43%

CURRENCIES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.1912	0.6833	139.6400
Dollar	1.1912	1.0000	1.7429	117.2200
Sterling	0.6833	1.7429	1.0000	204.2300
Yen	139.6400	117.2200	204.2300	1.0000
Oil (Nymex)	61.2400			

This Week's Research
NBG

Today's Research
BAA

Today's Recommendation

BAA (£7.80) Further upside potential **Stuart Draper**

- **Takeover target** : The takeover approach of Spanish infrastructure company, Grupo Ferrovial, to the UK airports operator, BAA, has permanently changed previous market perceptions that BAA could not be a possible bid target. Last Wednesday, Ferrovial announced that it was considering making a cash takeover offer for the entire issued share capital of BAA as part of a consortium.
- **Scarcity premium** : As the UK government does not hold a "Golden Share" in BAA, there is also little by way of a direct mechanism to prevent a bid taking place. BAA is the largest airport operator in the world and the only one which can be bought outright. Such scarcity value is likely to result in a full price having to be paid for any takeover bid to be successful.
- **Ferrovial synergies** : There would also appear to be some significant synergies which the deal could deliver for Ferrovial which would enable it to pay such a full price. Leveraging up BAA's net debt to 10x EBITDA would enable a bidder to create value upside by significantly reducing BAA's cost of capital. Being an infrastructure company would also mean that Ferrovial could become the main contractor for BAA's capex programme.
- **Goodwill provisions** : If Ferrovial acquires 100% of BAA's share capital, it will also be able to take advantage of provisions within Spanish tax law to set goodwill payments off against tax. This tax shield could be worth c.60p per share to Ferrovial.
- **Downside limited** : While there is likely to be some downside risk in the event of a bid not being made, we believe this to be limited to the group's forward regulatory asset base of £7.34 per share (6% downside), as there may be potential for other bidders to step forward if Ferrovial does not proceed.
- **Upside attractive** : In the event of a takeover bid being made, we believe that a full price of at least £8.70 per share (12% further upside) would be necessary for a deal to be successful, and given the synergies noted above, Ferrovial should be able to justify offering such a full price. This price is based on the last acquisition of a UK airport company, Albertis' acquisition of TBI, which took place at a trailing EV/ EBITDA multiple of 14.6x. Our view is also that given the asset's scarcity value, there is quite a high probability (c.70%) of a takeover bid being made in the coming weeks : **BUY**.

Breaking News

British Land Q3 results

British Land today reported an 11% rise in third-quarter net asset value, marked by good performances in out-of-town retail space and prime London rental offices. The company also expressed hopes that its discussions with the Treasury will produce a "commercially viable" real estate investment trust market in the U.K. Net asset value rose to 1390 pence a share in the third quarter ended December 31 from 1256 pence at September 30, 2005. British Land also reported a portfolio valuation increase of 4.6% in the quarter and a 9.7% rise for the nine months to £14.5 billion, excluding the residential portfolio that it plans to sell. EPS was 11.5 pence in the quarter and 26.9 pence for the nine months.

Smart Telecom—3G licence withdrawn by ComReg

Smart Telecom said today that it has been notified by ComReg that it believes that the company has failed to meet certain conditions of its original offer in November 2005, and that ComReg no longer intends to award an Irish 3G mobile licence to Smart. Smart strongly refutes the grounds on which ComReg purports to take this action and it has received legal advice throughout the process which supports this view. As such the Company is initiating legal proceedings to enforce the award of the Licence.

Glencar signs agreement with Gold Fields

Glencar Mining announced yesterday that it has signed an agreement with Gold Fields on the Sankarani Project, Mali. Gold Fields must spend up to \$12 million in exploration expenditures in order for it to earn a 65% interest in three of the five exploration licences in Glencar's Sankarani Project. The Agreement is subject to certain conditions precedent, such as Mali Government approval of the transfer of the three concessions to a new Malian corporate entity to be owned jointly by Glencar and Gold Fields, following the completion of the Phase 1 Earn-in Period.

Business Press

- S&P downgrades Ardagh Glass credit rating (IT)
- Gartmore upbeat on Irish equities (II)
- Providence looking at Spanish Point move (II)
- Major future for mortgage lenders (II)

Investment Press

- **Gold**: Analysing gold used to be easy - assuming you knew which way the dollar was going to move. The breakdown in the strong inverse relationship between the dollar's weakness against the euro and gold has made life more difficult, but there is no shortage of justifications for gold's strength.



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