DOLMEN DAILY

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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	9574 ↓	-11	-0.11%	14.1	1.76%
FTSE 100	6556 ↓	-10	-0.16%	13.2	5.38%
DAX 30	7460 ↓	-20	-0.26%	14.2	13.08%
DOW	13347 ↑	21	0.15%	15.2	7.09%
NASDAQ	2546 ↓	-16	-0.62%	26.1	5.43%
S&P	1503 ↓	-3	-0.18%	15.9	5.98%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.3552	0.6839	162.9400
Dollar	1.3552	1.0000	1.9819	120.1700
Sterling	0.6839	1.9819	1.0000	238.2300
Interest Rates (%)	3.7500	5.2500	5.5000	0.4800
Oil (Nymex)	62.4600			

This Week's Research
Metro Baltic Horizons

Today's Research
British Airways

Breaking News

Ryanair willing to sell Aer Lingus slots

Ryanair would be willing to sell Aer Lingus landing slots at London's Heathrow Airport in a bid to win European Commission approval to take over the Irish flag carrier, two sources familiar with the situation said. The European Union competition regulator has rejected previous proposed solutions as insufficient to overcome competitive problems with the deal. The slots would be sold to British Airways and to Air France's Cityjet, which flies from Dublin. The new offer also includes the disposal of some other slots on the 37 routes over which Ryanair and Aer Lingus compete. Ryanair has also promised not to swamp new rivals with frequent flights should they try to compete on particular routes.

Hanson agrees €8bn offer from HeidelbergCement

HeidelbergCement confirmed it is bidding £11.00 per share to buy UK building materials company Hanson, valuing the company at about £8.0bn. The board of Hanson will 'unanimously recommend that Hanson shareholders vote in favour' of the offer as a merger of the two companies is 'strategically compelling, creating a strong, market leading, global building materials group,' Hanson said in a statement. The £11.00 pence offer price represents a 50% premium to the average closing mid-market price of £7.34 per Hanson share for the 12 months to May 2.

Grafton comment on buoyant UK market

A buoyant British market and good weather have seen Grafton record a strong start to 2007, shareholders heard at the companies AGM on Friday. CEO Michael Chadwick said the Irish DIY business was continuing to grow on the back of gains it made in the second half of 2006, suggesting that the downturn in new housebuilding was being offset by growth in the repair, maintenance and improvement sector. Mr Chadwick was particularly positive about Grafton's UK business. Through a combination of acquisition and opening its own stores, Grafton has added nine new builders' merchants in Britain since the start of the year, with UK builders' supplies business now been responsible for €1.7bn of Grafton's total turnover of €2.9bn.

Today's Recommendation

British Airways (£4.91) Results and Iberia catalysts Stuart Draper

- Results preview : This Friday, British Airways (BA) will announce its results for the year ended 31/03/07. The consensus forecast is for underlying earnings per share of 43p, representing year on year growth of 9%. There will be a difference between the headline and underlying results because of a write-down on the sale of BA connect. The year on year earnings growth will have been held back by the August security delays, the December fog disruption and the January BASSA strike threat.
- Earnings upgrades : As a result, the airline's earnings growth over the 12 months ending 31/03/08 should be significantly stronger, with the current consensus forecast expecting further 28% eps growth to 55p. With this consensus forecast based on an operating margin of 10% and an oil price of $66/barrel, there is the potential for some positive earnings upgrades following Friday's full year results' announcement.
- 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.
- Attractive 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 £1.85 bn and current net debt of c.£2.1 bn, this gives a value of £6.20 (26% upside) for each of the 1,151m shares in issue.
- Entry level : Such a 12 month price target would value the shares at 11.3x consensus current year eps of 55p. Therefore, BA's current sub £5 share price represents an attractive entry level for medium term investors ahead of Friday's results. Our view is that 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 discounted by the 15% fall in the share price from its high of £5.77 on 14/02/07 : **BUY**.

Business Press

- DCC to spend €1bn on acquisitions (IE)
- C&C sells soft drinks division in €250m deal (IE)
- Chrysler sells 80pc of ailing firm for $7.4bn (II)
- Profits at industrial group DCC rise 16% to nearly €162m (IT)

Investment Press

- Barclays/RBS tactics: In the 18-month run-up to the US presidential elections, there is always a danger of peaking too early. The same is true of the two candidates vying to take control of Dutch bank ABN Amro.

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