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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	8532 ↑	26	0.31%	11.0	15.86%
FTSE 100	6150 ↑	42	0.68%	12.4	9.46%
DAX 30	6183 ↑	68	1.11%	15.0	14.32%
DOW	11993 ↑	43	0.36%	19.5	11.22%
NASDAQ	2337 ↓	-8	-0.33%	15.6	5.98%
S&P	1366 ↑	2	0.14%	21.0	9.72%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.2536	0.6706	149.0000
Dollar	1.2536	1.0000	1.8687	118.8000
Sterling	0.6706	1.8687	1.0000	222.0200
Interest Rates (%)	3.2500	5.2500	4.7500	0.4800
Oil (Nymex)	57.6500			

**This Week's Research**  
Kingspan  
Deutsche Bank  
British Land

**Today's Research**  
British Airways

**Today's Recommendation**

British Airways (447p) Risks and re-rating Owen Turner

- Recent re-rating : Shares in British Airways are up by c.25% since June. The rise has come despite mixed news for the airline. On the upside there has been the dramatic fall in oil prices, while on the downside there have been high profile management departures in the wake of price-fixing allegations and some uncertainty surrounding the ongoing negotiations with unions regarding the company's pensions issues.
- Pension deficit : The key issue for British Airways is the outcome (expected in mid-November) of the pension negotiations with unions and staff. British Airways said last week that it was prepared to increase a proposed cash injection into its pension scheme. BA said it expected a £500m injection proposed earlier this year to increase but only if staff agree a package of measures, including raising their retirement age, to fix the pensions problem. BA said on 29th September that its pension deficit had more than doubled to £2.1 bn.
- Price-fixing : Recently Martin George, commercial director, and Iain Burns, BA head of communications, resigned after admitting that "inappropriate conversations" had taken place over the setting of fuel surcharges on long-haul air fares. Both men had been on leave of absence since mid-June, when news broke that BA was the subject of a criminal and civil investigation by UK and US competition authorities into alleged price fixing by airlines over the fuel surcharges levied for the last two years on long-haul flights to and from the UK. BA faces fines of up to £300m, or 10% of turnover, on transatlantic routes if found guilty of price-fixing. If the probe involved the airline's total operations that could increase to £900m.
- Revenue guidance: At the beginning of October, British Airways cut its forecasts for revenue growth, saying that restrictions on hand luggage introduced after the UK airports terror scare in August meant that full-year growth would be between 5% and 6%, rather than its previous forecast of between 6% and 7%. However, the airline said that recent falls in fuel prices would cut the increase in its fuel bill this year to £450m, against its earlier estimate of between £550m and £600m.
- Fairly valued : At current levels BA is trading at 5.4x 06 EV/ EBITDAR, in line with the European network airline sector average of 5.5x. We feel that an 'in-line' rating for BA is warranted given the potential risks ahead and that the shares may struggle to maintain their recent momentum. BA will report its Q2 results on 3rd November : **NEUTRAL**.

## Breaking News

### Apple Q4 results beat expectations

Apple has allayed market concerns of slowing growth as Q4 profits rose 27%, comfortably ahead of consensus expectations, on the back of strong sales of its iPod and Macintosh computers. For the quarter, Apple said Wednesday it shipped 8.7 million iPods, up 35% from the year-ago period. A good back-to-school season also helped Apple ship a record 1.6 million computers, up 30% from a year earlier, breaking its previous record of 1.38 million units in the Q1 of 2000. Apple said it earned \$546m in the quarter ended Sept. 30, or 62c per share. That compared with net income of \$430m, 50c per share, in the same period last year. Revenue for the quarter totaled \$4.84bn, a 32% jump from \$3.68bn last year. Markets had been expecting eps of 51c on sales of \$4.66bn.

### Prudential announce 9 month sales

Prudential this morning reported strong overall nine-month sales, but said revenues fell in the UK, and revealed that troubled online banking unit Egg is on course for a loss in the second half. Prudential announced total group sales for the nine months to Sept 30 came in at £1.803bn on an APE basis, up 11% on the same period last year, and in line with the consensus analyst forecast of £1.8bn. The increase reflected continued strong growth in Asia, where sales rose 29% to £673m, and in the US, where they climbed 15% to £467m. That was in contrast to the UK, where sales were down 4% on the year at £664m. Prudential also said it expects Egg to make an operating loss in the second half following a bigger than expected increase in bad debts.

### Ryanair announces 2 new routes from Dublin

Ryanair announced yesterday two new routes from Dublin next year to Warsaw and Stockholm. The low-fare carrier also said it was launching a new online check-in and priority boarding scheme from November 1. This service improvement will extend the option of priority boarding to all passengers and not just those travelling without checked-in bags as was previously the case. Passengers travelling with checked-in luggage will, from November 1, get priority boarding at departure gates for £2/€3 per flight.

## Business Press

- RBS linked with ABN Amro takeover. (FT)
- Action group formed to represent Smart creditors. (IT)
- BOI officials may defer ballot on industrial action. (IT)

## Investment Press

- Man Group/hedge fund M&A: However large Man Group grows, one thing never changes - the vulnerability of its share price to sentiment. At least this year, the mood around the world's largest listed hedge fund manager has been overwhelmingly positive.



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