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| EQUITIES | Close | Change | % +/-  | P/E '07 | YTD    |
|----------|-------|--------|--------|---------|--------|
| ISEQ     | 8830  | ↓ -185 | -2.05% | 14.1    | -6.15% |
| FTSE 100 | 6499  | ↓ -126 | -1.90% | 13.2    | 4.47%  |
| DAX 30   | 7807  | ↓ -137 | -1.73% | 14.2    | 18.34% |
| DOW      | 13717 | ↓ -226 | -1.62% | 15.2    | 10.06% |
| NASDAQ   | 2640  | ↓ -51  | -1.89% | 26.1    | 9.30%  |
| S&P      | 1511  | ↓ -31  | -1.98% | 15.9    | 6.54%  |

| CURRENCIES & RATES | Euro    | Dollar | Stg    | Yen      |
|--------------------|---------|--------|--------|----------|
| Euro               | 1.0000  | 1.3744 | 0.6694 | 165.2800 |
| Dollar             | 1.3744  | 1.0000 | 2.0525 | 120.2200 |
| Sterling           | 0.6694  | 2.0525 | 1.0000 | 246.7700 |
| Interest Rates (%) | 4.0000  | 5.2500 | 5.7500 | 0.5000   |
| Oil (Nymex)        | 73.5600 |        |        |          |

This Week's Research  
 Royal Bank of Scotland

Today's Research  
 BP

Today's Recommendation

**GSK (£12.46)** Q2 results announced **Stuart Draper**  
 Target : £14.50 (25/07/07; previously £16, issued 26/04/07)

- Results announced : Today, GlaxoSmithKline (GSK) announced its results for the 3 months ended 30/06/07. Eps of 24p was slightly ahead of the consensus forecast of 23p, and was a year on year increase of 3%, as earnings growth was held back by lower sales of the group's Type-2 diabetes drug, Avandia. However, despite its Avandia problems, GSK re-iterated its previous earnings guidance for 2007 eps growth of between 8% and 10%. In May, an article published in the New England Journal of Medicine suggested that patients receiving Avandia had a 43% increase in the risk of having a heart attack compared with those not receiving the drug.
- Upcoming catalyst : However, the FDA has stated that other data provides contradictory evidence concerning the risks of Avandia, and as a result the clinical significance of the reported increased risk has not yet been confirmed. In this regard, a crucial meeting of the FDA will take place next Monday to discuss Avandia's safety, which could act as a positive catalyst for the GSK share price. GSK has stated that the methodology used by Mr. Nissen (meta-analysis) has significant limitations and that the most rigorous way to examine the safety of a medicine is to conduct large scale, long-term clinical trials in patients with the disease. According to GSK, its own meta-analysis (pooled) showed a cardiovascular risk of c.30%, but its long-term trials did not show "evidence of a risk at all."
- Sales impact : Avandia is forecast to contribute c.8% of GSK group sales in 2007, increasing to c.9% in 2008 and 2009. Therefore, under a worst case scenario where it is necessary to reduce the consensus 2008 eps of £1.08 by 10% to 97.2p, there would still appear to be upside potential for the GSK share price from current levels. Given that the EU pharma sector average is currently trading at c.17x 2008 earnings, a 12 month price target for GSK of £14.50 (16% upside), based on 15x forward earnings appears reasonable to account for GSK's slightly lower than sector average earnings growth.
- Buyback support : GSK also announced an increase in its share buyback programme of £7.7 bn, now expecting to complete a £12 bn share buyback over the next 2 years. This should limit the further downside risk from current levels, and if markets remain volatile during Q3 2007, GSK's defensive growth characteristics will help its share price to outperform. The shares also pay a current year dividend yield of c.4.1% : **BUY**.

## Breaking News

### Northern Rock raises share of the UK mortgage market

Northern Rock announced a sharp rise in H1 profits and 30% jump in its interim dividend today, but repeated that interest rate rises would restrain 2007 profit growth. Underlying pretax profit for the six months to the end of June came in at £346.6m, including gains on disposals, up 27% from a year ago. The bank said it expects underlying profit growth to slow to about 15% for the full-year as it repeated a warning from last month that a rise in funding costs following five UK interest rate rises in less than a year would have an impact. The bank said its share of net mortgage lending was 18.9% in the first half, above its traditional share of 8%, which might lift it above HBOS as Britain's biggest new lender during the period.

### Sterling Energy issue positive trading statement

Sterling Energy announced at its AGM statement yesterday that it estimates a 5% increase in first half net sales, adding that its US production is currently 10% higher than the end-March level. Net sales are estimated at 4,900 barrels of oil equivalents per day, which include the acquired Whittier Energy Corp for three months only, and the US accounted for an average of 3,200 boepd in the first half. The US is currently producing about 4,700 boepd, with the company saying that its US operations have had a success rate of 17 out of 20 wells drilled in 2007.

### Fyffes receives charge sheet in cartel case

Fyffes Plc and US company Chiquita reported yesterday they had received charge sheets from the European Commission relating to an ongoing probe into a suspected cartel supplying bananas in Europe. In June 2005 EU antitrust authorities raided banana and pineapple distributors suspected of fixing prices in Europe after it was informed of such activity by Chiquita. Chiquita found then that some employees had shared price and volume information in Europe. At the time, Fyffes and US companies Dole Food and Del Monte said they were raided at their operations in Germany's port of Hamburg.

## Business Press

- BP chief denies Shell rumours (FT)
- Vodafone sees off rebel ECS (FT)
- AIB mulls investment in Georgia (IE)
- Tullow jumps on rumours of takeover (II)

## Investment Press

- US earnings: There's precious little room for patriotism in a globalised world. A rash of quarterly results from big US companies has demonstrated the benefits of moving overseas

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