



Thursday 25th September 2008

DAILY COMPANY NOTE — BP See page 2 & 3 for full details

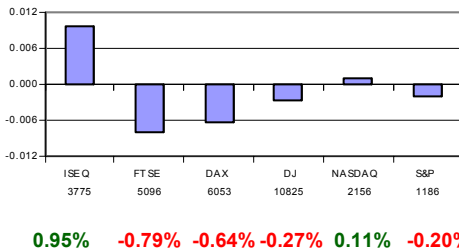
Daily Market Comment

Yesterday's Summary : The majority of European and UK equity markets posted their third successive loss, as further uncertainty over the \$700bn US bailout dominated market sentiment. Contrary to the trend, the ISEQ closed up a marginal 0.98% at 3775, after giving up a strong early morning rally. Irish Life & Permanent was hit the hardest dropping 6.8% to €5.65, as it played catch up with general decline of the other Irish banks. The ISEQ's construction sector had a positive session, led by CRH jumping 4.8% to €16.24.

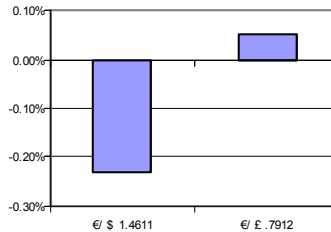
Overnight News : Last night the US had a choppy session closing marginally lower, as optimism over Warren Buffett's investment of \$5bn in Goldman Sachs was offset by nervousness over the proposed US bailout. Goldman Sachs' share price rose 6.4% to \$133, Berkshire Hathaway's Class A stock climbed 3.4% to close \$133,300. The Dow closed at 10825, marginally down 29 points; while the S&P 500 dropped 2.35 points ending the session at 1186.

Breaking News : **Bradford & Bingley** has struck a deal with **Barclays** to act as its counterparty in its covered bond programme. **B&B** have been forced to find a new interest rate swap provider following its ratings downgrade in July. **UK banks** have placed close to €6bn on deposit in the **Bank of England** instead of lending it to each other. The move clearly portrays the fears among UK banks in the current money market conditions. **Washington Mutual's** credit rating was cut once again to CCC from BB by S&P. This was its second downgrade in the past 10 days. According to the Financial Times, management is considering various proposals on how to sell parts or all of its operations. Recent market declines have driven down valuations, making share buy-backs a more attractive use of capital.

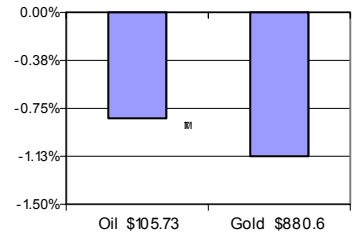
Equity Indices change on day



Currency daily % change



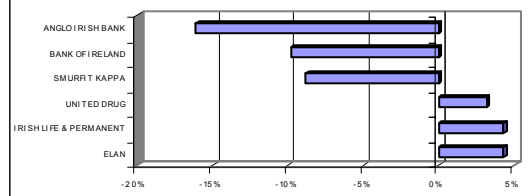
Oil/Gold daily % change



News

- “ECB in \$40bn single-day loan to banks after collapse of Lehman”-(I.I)
- “Buffet’s \$5bn infusion seen as boom for financial system”-(The Irish Times)
- “Job numbers plummeting by the week, says ISME”-(The Irish Times)
- “British Energy in £12.5bn deal”-(The Irish times)
- “Bailout fears hit credit markets”-(Financial Times)

ISEQ Performers/Losers 24/09/08



Market Themes & Movers

US durable goods, weekly jobless claims and new home sales : The US Commerce Department is scheduled to release its latest durable goods report today and expectations are for a decline of 1.60%, (forecasts range from 5.9% drop to a 0.6% rise) after a 1.3% rise in July. Excluding the volatile transportation sector, orders likely fell 0.5%, after rising 0.7% the previous month. This result would be the fourth drop in eight months for durable goods and the largest since January. In addition to durable goods, US weekly jobless claims and US new home sales data will also be reported today and expectations are for a decline in both to 450,00 from 445,000 and to 0.510m from 0.515m respectively. The current tighter credit conditions, slowing consumer demand and squeezed profit margins, mean businesses have been trimming payrolls and inventories. Today's economic releases are set to highlight Federal Reserve Chairman, Ben Bernanke's comments that financial instability poses a “grave threat” to economic growth, as the collapse in lending levels dampen companies investment in new equipment and makes mortgages harder to obtain.

Dollar declines as the chances of a Fed rate cut increase : The dollar fell against the euro, ending a two day gain, as President Bush warned the US may face a “painful” recession and traders bet on a Federal Reserve interest rate cut next month. The dollar fell to \$1.4750 per euro this morning in London, from \$1.4621 late in New York yesterday. Market future contracts today indicate that the chances of the Fed lowering its 2% benchmark rate by a quarter percentage point at its October 29th policy meeting are now 80%, compared with 58% on September 23rd.



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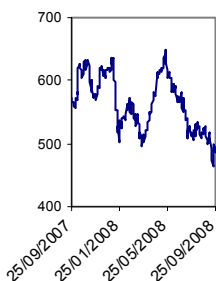
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BP

FTSE
Oil & Gas
Company Profile

The Group's principal activities are carried out through its Refining and Marketing, Gas, Power and Renewables, Exploration and Production, and Other Businesses and Corporate divisions. Refining and Marketing focuses on oil supply and trading as well as refining and petrochemicals manufacturing and marketing.

Statistics
Price Performance

Revenue by Region


- Exploration & Production 89%
- Refining & Marketing 9%
- Other 2%

Fundamental view

- We continue to have a long term positive view on the Oil & Gas sector. While oil prices have pulled back significantly from the July high of \$148.47, energy prices are likely to remain at elevated levels for the foreseeable future. Within the sector, BP is our preferred pick of the diversified oil & gas companies.
- BP's restructuring efforts have shown significant operational improvements, as well as resolving issues at the Texas City and Whiting refineries and the Thunder Horse drilling platform. However the market continues to take a negative view on the company as a result of the dispute over control of the TNK-BP joint Russian investment. BP and its Russian partner AAR have been locked in a boardroom battle for control of the subsidiary. On the 5th of September, BP announced the signing of a Memorandum of Understanding (MoU) with AAR over the future of TNK-BP. Although the deal is not yet finalised, and several key points have yet to be resolved, including future dividend payments, this is a major step forward towards a resolution of the deadlock.
- The MoU represents a compromise that a reshuffled board will consist of 4 directors for both BP and AAR, with 3 new independent directors. The replacement for the BP sponsored CEO Bob Dudley must be a Russian speaker, though not necessarily a Russian national, must not be from BP, and must have considerable experience doing business in Russia. In addition the agreement includes an option for an IPO of up to 20% of TNK-BP. While BP have had to make more concessions than they would have hoped, its certainly less than the market was pricing in.

Valuation

- Our current price target on BP of £7 is very undemanding considering BP's market position. Currently trading at 5.9x 2008 earnings, and yielding 6.1%, BP is a strong buy. The current market price gives little to no value to BP's stake in TNK-BP. Given the nature of the industry and TNK-BP's operations in Russia, our investment case does contain an element of risk.

Next Catalyst

- The next catalyst for the company is the third quarter results expected on the 28th October. Moves in commodity prices will also impact BP, as will any further developments in Russia.

Key Support: 463.90
 Primary Resistance: 499.48
 Secondary Resistance: 534.92

Stock still remains dominated by its medium term downtrend, as the recent test of trendline resistance failed. With key support lying close at 463.90 this downtrend could be attempting to bottom out for the near term. However, with weekly momentum remaining bearish, the risks are very much to the downside, and a break of this support level would imply that next key support lies at 395.25.

Major Shareholders	%	Peer Group Multiples			
		Company name	P/E 07	P/E 08	EPS Growth 07-08
M&G	3.3	BP	8.9	5.9	33.73%
Barclays Global	2.1	Royal Dutch Shell	6.8	6.6	2.72%
Standard Life	2.0	Total SA	7.5	6.7	10.20%
Kuwait Investment	1.8				
Shares Outstanding	18,727m				

Share Data	Financial Data	2007	2008e	2009e	
Current Price (£)	4.87	Revenue (£m)	148,180	209,445	210,822
Mkt Cap (£m)	90,778	PBT (£m)	16,210	24,789	24,560
Reuters	BP.L	EPS (£)	0.55	0.83	0.82
Bloomberg	BP/ LN	P/E(x)	8.9	5.9	6.0
Sector	Oil & Gas	DPS (£)	0.21	0.30	0.32
CEO	Tony Hayward	Yield	4.3%	6.1%	6.6%
CFO	Byron Grote				
Website	www.bp.com				





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