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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	8575 ↑	35	0.41%	11.0	16.45%
FTSE 100	6185 ↓	-30	-0.48%	12.4	10.07%
DAX 30	6284 ↑	19	0.31%	15.0	16.20%
DOW	12164 ↑	29	0.24%	19.5	12.80%
NASDAQ	2379 ↑	23	0.96%	15.6	7.88%
S&P	1389 ↑	7	0.50%	21.0	11.57%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.2683	0.6710	150.1700
Dollar	1.2683	1.0000	1.8902	118.4100
Sterling	0.6710	1.8902	1.0000	223.8100
Interest Rates (%)	3.2500	5.2500	4.7500	0.4800
Oil (Nymex)	60.3600			

This Week's Research
BG Group
BP
Elan

INWS

Today's Research
GSK

Today's Recommendation

GSK (£14.51) Positive pipeline news overlooked Stuart Draper

- Q3 results : GlaxoSmithKline (GSK) has announced its results for the 3 months ended 30/09/06. Profit before tax and earnings per share of £2.022 bn and 24.7p respectively were 10% and 11% ahead of consensus forecasts of £1.836 bn and 22.2p, and were year on year increases of 16% and 15%. The better than expected earnings growth was largely driven by a stronger than expected operating margin of 35.9%.
- Growth upgraded : As a result, GSK upgraded its 2006 earnings growth guidance from 12% to "mid-teens". However, yesterday the share price gave up two thirds of the 6% gain it had made since the start of October as a result of negative pipeline news. While some of the pipeline news is negative for sentiment, it largely has a negligible effect on earnings forecasts, as shown by the fact that GSK has upgraded its earnings growth guidance.
- Earnings impact : The main negative pipeline news was that the US filing for Cervarix (cervical cancer vaccine) has been delayed to April 2007 from the previously guided year end timeframe, and that Redona (DPP-IV inhibitor, diabetes) may be discontinued following pre-clinical toxicity concerns, and that '773 (sepsis) is definitely being discontinued. However, both of these products have only a minor impact on earnings forecasts (likely to be offset by the c.0.5% eps accretion from the additional £1 bn per annum share buyback), and the sales prospects from Cervarix still remain in tact for 2007 as the company is guiding that approval will still be achieved before the back to school season next autumn, when the new vaccination campaign starts.
- Positives overlooked : There was also some positive pipeline news released, such as the fact that GSK's potentially major cancer vaccine (MAGE-3) has moved into phase III, that Promacta (thrombocytopenia) remains on track for a 2007 filing and that Pazopanib (renal cancer) is showing promise.
- Buyback increased : Therefore, we see no reason to downgrade our current 12 month price target of £16.50 (14% upside), which values GSK at 16.6x consensus 2007 eps of 99.5p, which is a 13% discount to the current European pharma sector average of 19x, to reflect the group's slightly slower than average earnings growth. GSK has also increased its share buyback programme from £1 bn per annum over the next 3 years to £2 bn per annum, yesterday buying back 600,000 of its own shares at £14.59. This, combined with the c.3.2% yield, provides some protection from further major share price downside : **BUY**.

Breaking News

Anglo acquires two Manhattan hotels for \$151m

Yesterday Anglo Irish Bank announced it has spent \$151m on two US hotels on behalf of Irish investors. The hotels are located in Manhattan and geared to bank clients interested in getting involved in commercial real estate. In a statement the bank said it bought the Beekman Tower Hotel and Eastgate Tower Hotel on behalf of the Peninsula Real Estate Fund, an equity fund created by Anglo Irish Bank Private Banking and Timothy Haskin. The acquisition is financed on a debt to equity ratio of 2:1. The hotels were purchased from the Denihan Hospitality Group.

IAWS plan to set up new operating firm

IAWS plans to establish a new operating company, Origin Enterprises to concentrate on its original agribusiness and non-lifestyle food activities. The wholly owned subsidiary will have two divisions: Origin Agribusiness, which will comprise IAWS's feed ingredients, fertiliser blending and agricultural supplies businesses; and Origin Food, which will include the business of Shamrock Foods and IAWS's 50 per cent interest in Odlum Group Milling. IAWS said setting up Origin as a discrete business would give it the focus to develop the original activities of the group. The subsidiary will have the benefit of a substantial operating asset base, including a number of properties with development potential.

Regulator blocks Kingspan's purchase of Xtratherm

Kingspan is considering a High Court appeal to the Competition Authority's decision to block its €87m purchase of Navan-based Leanort Group, trading as Xtratherm. The deal is only the second to be blocked by the Authority since merger control legislation was introduced in 2003. The authority's decision was described as disappointing by Kingspan, Europe's largest maker of flooring and insulation panels. Xtratherm has one plant in Ireland and one in the UK. The Competition Authority blocked the deal on the grounds that such a transaction would substantially lessen competition in the manufacture and provision of insulation materials in the State.

Business Press

- Providence surveys Blackrock prospect (II)
- Trinity Biotech's revenue rises 25% (IT)
- Cadbury to miss targets (FT)

Investment Press

- UK's water future: Chief executives of the UK's water companies can only gulp as they see the tidal wave of liquidity engulfing them



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