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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	8368	↓ -76	-0.90%	14.1	-11.06%
FTSE 100	6535	↓ -6	-0.09%	13.2	5.05%
DAX 30	7959	↓ -15	-0.19%	14.2	20.65%
DOW	13968	↓ -76	-0.54%	15.2	12.07%
NASDAQ	2729	↓ -58	-2.08%	26.1	13.01%
S&P	1540	↓ -13	-0.84%	15.9	8.55%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.4042	0.6902	164.7000
Dollar	1.4042	1.0000	2.0342	117.2900
Sterling	0.6902	2.0342	1.0000	238.5800
Interest Rates (%)	4.0000	5.2500	5.7500	0.5000
Oil (Nymex)	79.0200			

This Week's Research  
 Royal Bank of Scotland

Today's Research  
 BHP Billiton

## Breaking News

**BHP (£17.11) Downgrading from BUY to NEUTRAL** Stuart Draper  
 Target : £18 (09/10/07; previously £11.50, issued 25/01/07)

- Recent re-rating : Within the past 2 months, the share price of BHP Billiton has risen by c.45%. Following this re-rating, the shares are now trading at 13.2x consensus 2007 earnings per share (eps) of £1.30, quite a fair rating for a company expected to generate current year eps growth of 13% to £1.30, on the £1.15 per share reported for the year ended 30/06/07.
- Slower growth : In addition to this current year earnings growth of 13% representing a significant slowing on the 39% earnings growth reported for the year ended 30/07/07, group eps growth is expected to further slow to c.7% to £1.39 for the year ending 30/06/09. Much of the very strong earnings growth reported over the last 12 months was generated by major commodity price increases which will not recur in future years.
- Commodity prices : The average prices of copper, aluminium and nickel are all expected to show year increases of 6%, 5% and 52% respectively for the year ending 30/06/08, whereas for the year ending 30/06/09, the average prices of aluminium, nickel and zinc are forecast to show year on year decreases of 4%, 21% and 7%. As a result, future earnings growth will be more in line with the group's rate of production growth, which is expected to average c.8% per annum over the next 3 years, helped by the group's \$14.4 bn sector leading project pipeline coming on stream. Base metals contribute c.25% of group sales, with aluminium contributing a further 13%.
- Succession risk : BHP's CEO, Chip Goodyear, is retiring this month after 9 years with the group and 5 years as CEO, with Marius Kloppers replacing him. As markets viewed Goodyear as a steady pair of hands, there is a risk that the new leadership results in increased deal risk for equity holders through increased group focus on M&A opportunities.
- Recommendation downgrade : Over the past 6 years, BHP has traded in a range of between 10x and 19x current year eps. As a result, our view remains that 13x current year eps is a fair multiple, particularly given the group's slowing earnings growth prospects explained above. This provides the basis for our new 12 month share price target of £18 (5% further upside), which is based on 13x consensus forward eps of £1.39. With the shares only paying a current year dividend yield of c.1.4%, there is an insufficient further total return from current levels to justify re-iterating our current BUY recommendation. As a result, we now downgrade our recommendation from BUY to NEUTRAL.

## Breaking News

### Tullow Oil to abandon Kudu-8 appraisal well

Tullow Oil reported today that the Kudu-8 appraisal well has been drilled to a total dept of 4,355m and, following the results of logging operations, will not now be flow tested. The company said the well was designed to test the potential for additional reserves within the Greater Kudu field area, thereby broadening the range of development and commercialisation opportunities available. The well encountered the targeted gas bearing reservoir sands at 4,299m, consistent with the results from the nearby Kudu-5 well drilled in 1998. However, the reservoir permeability was lower at this location. The joint venture has therefore decided not to flow test the well, which has now been plugged and abandoned.

### Aer Lingus in dispute with pilots

Aer Lingus said on Monday it would suspend pilots who failed to help the Irish airline recruit and train new staff at its planned new Belfast base. This follows on from the dispute in August when Aer Lingus said it would transfer valuable London Heathrow slots from Shannon to a new Belfast base in Northern Ireland. The move triggered strike threats by Aer Lingus pilots who fear staff in Belfast will be employed on lower pay than those in the Republic of Ireland. Yesterday, CEO Dermot Mannion called on relevant staff to assist in the screening, assessment and training of new captains and co-pilots in Belfast, with a Tuesday deadline set for agreement.

### Sainsbury family wants pension deal

The Financial Times reported that the Sainsbury family may try to derail a £10.6bn offer for the J Sainsbury Group if bidder Delta Two does not agree to a deal with pension trustees. The newspaper pointed out that the Qatari investment fund Delta Two had put forward a cash proposal of c.£1bn for the pension fund of J Sainsbury, however trustees are asking for £1.75bn. The Sainsbury family own c.18% of the UK retailer and were instrumental in blocking a 582p per share bid for the company from private equity firm CVC Capital Partners earlier this year. They have consistently said one of the key areas of focus regarding a sale includes ensuring the pension scheme is 'properly looked after'.

## Business Press

- Trinity Biotech set for exchange delist (II)
- Vodafone buys Sweden's Tele2 in €778m deal (II)
- Software giant SAP offers €4.8bn to acquire French rival (IT)
- Investors secure gains ahead of reporting season (FT)

## Investment Press

- Glaxo's change at the top: After an orderly but agonisingly long selection process, GlaxoSmithKline has named Andrew Witty to replace Jean-Pierre Garnier when he retires in May.

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