

The Note - Tuesday business

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NEWS AND COMMENT

M&S Rose warns of high street thorns

Marks & Spencer today cast a shadow over achieving a 28.5 per cent rise in annual pre-tax profits to £965.2 million by cautioning that the retail environment would become "more challenging". Shares dropped almost 3 per cent in early trading to 716.5p.

Comment: A few churlish souls may point out that M&S still falls short of its former greatness. Pre-tax profits, up 28.5 per cent to £965.2 million, are still not quite back to pre-1998 decline levels. The fact is that chief executive Stuart Rose and his team have pulled off the most significant turnaround on the British high street in recent years. Even more important is the recovery after fending off a bid to take it private. Admittedly, M&S has not shown the consistency and breadth of growth as Tesco. But what is impressive about these figures is the success across the board. Mr Rose has also got religion on the environment. But the really interesting addition to M&S today is that Martha Lane Fox, one of the co-founders of Lastminute.com, is joining the board. As well as weighing into the green debate, M&S may finally join the dotcom revolution.

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James Harding

BA sets Iberia bid on cruise control

British Airways has joined the private equity consortium circling Iberia, with a potential €3.4 billion (£2.3 billion) takeover bid. BA said it was partnering the group led by the US giant Texas Pacific Group and including three Spanish funds.

Comment: For a business that may have to pay £350 million in fines over its role in the fuel surcharge scandal, taking a ticket to ride with the TPG-led consortium is the perfect choice for British Airways. In the rapidly consolidating airline sector, BA cannot afford to lose its hold on Spain's Iberia. By choosing to partner with TPG, it does not have to inject any fresh capital, but just sit back, hold on to its 10 per cent stake and near 27 per cent additional options and wait for the deal to be thrashed out. BA had wanted TPG to join forces with the rival bidding consortium led by Apax, to ensure it could not lose. But by throwing its weight behind TPG, it almost ensures the US group will win anyway, providing Iberia agrees.

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Steve Hawkes

Fearless British Land bets on new cycle

British Land has followed rival Land Securities into warning the blistering commercial property market in the UK is facing a slowdown. Headline annual pre-tax profits slid to £1.27 billion as British Land said it would realign its commercial portfolio.

Comment: In pressing the go button on the build of the 47-storey tall Leadenhall building, Stephen Hester of British Land is laying down a £286 million bet that the City office rental market still has four more years to run. That is the cost of building the skyscraper, a speculative build which will not complete until the first quarter of 2011. But today's sale of the company's EBRD building is also his call that capital values on City offices is close to a peak. Bought for £206 million in 1998, the Broadgate site has nearly doubled in value in seven years. Mr Hester is right when he says the market will not give his or any other property company a free ride any more as yields on smart office blocks or retail test lower than 4.5 per cent. Investors should be happy Mr Hester has sold in a rising market, their hope is that he is right about the next peak.

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James Rossiter

Blinkx signal echoes of dot-com boom

Blinkx, the internet search engine company, has made a strong stock market debut, its shares surging nearly 40 per cent, underlining the current appetite for online assets.

Comment: The 40 per cent premium on the float of Blinkx, the search engine for whizzy video clips, underlines the prices dotcom assets can now command. Blinkx's brain actually belongs to Autonomy, which has granted it rights to the software for five years – but this excludes China, a key territory. Investors in Blinkx (not expected to turn a profit next year) do get a piece of an exciting brand – but one that in two years has failed to set the web on fire, an eternity online. Google recently integrated video into its search results and dwarves Blinkx. These are heady days for online M&A, and Autonomy did well to demerge its consumer arm. But Blinkx buyers may ask what they get for their money.

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Rhys Blakely

LONDON MARKETS BRYCE ELDER

A&L returns as takeover target

**GSK weighs down FTSE
LogicaCMG warns on demand
Hull bails out of Kingston**

Alliance & Leicester led the blue-chip leaderboard after UBS started coverage of the bank with a "buy" rating based on bid hopes. The broker argued that an acquirer could improve a cost-to-income ratio that is the worst in the UK sector. "We believe the company's strong brand, extensive distribution network, young customer base and 3.5 per cent UK market share make it an attractive asset," the broker told clients. It saw National Australia Bank as the most likely bidder for A&L, followed by Northern Rock, Credit Agricole, Bank of Ireland and Santander.

The wider market was held back by **GlaxoSmithKline** as brokers cut forecasts in reaction to a study released yesterday claiming that its second-biggest seller, the Avandia diabetes treatment, increased the risk of heart attacks. ABN Amro cut the shares from its "buy" list and halved its 2011 sales forecast.

The mood was further darkened by a profit warning from **LogicaCMG**, which registered its biggest fall in nearly four years. The IT services group blamed weakness in the UK commercial sector and costs of moving its operations offshore. Among the smaller caps, **Kingston Communications** drifted lower as Hull City Council chose to sell its 30 per cent stake in the telecoms group. The placing through Deutsche Bank and JPMorgan Cazenove was well supported, according to dealers, who saw the sale as removing the poison pill from a bid emerging. It looked bad timing for Hull council, however, as the stock has lost 95 per cent of its value since the dot-com boom.

FTSE 100 latest
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