

The Note - Thursday business

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NEWS AND COMMENT

Sports retailers plunge on sales dive

Shares in Sports Direct, floated less than six months ago, dropped even further below their 280p float price to 226p on a warning that sales growth was slowing. JD Sports owner the John David Group released a similar sales warning.

Comment: Today's sales warning by two of Britain's biggest sportswear retailers provide a perfect example of how to have your cake, eat it and then choke on the crumbs. Sports Direct surpassed itself by publishing a statement so opaque you'd need x-ray specs to decipher it, although it did say UK sales were slowing – just not where and why. Unsurprisingly its shares dived even further below the float price. Meanwhile, John David Group, owner of JD Sports, blamed a forecast decline in second half sales on everything from warm weather to the World Cup. The recently floated Sports Direct is flummoxed by its frosty relationship with the City, but today's clear-as-mud information is a perfect example of why investors are losing patience with the group. Both companies have good businesses – being clear about them would endear them to a lot more people.

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Dearbail Jordan

Shell feels the price of Russian business

Royal Dutch Shell has agreed to pay an annual dividend to the Russian government to keep its stake in the lucrative Sakhalin II offshore project, it emerged today. The payment could be up to \$275 million (£138 million).

Comment: The production sharing agreement for Sakhalin II in 1994 was the first one signed by the Russian government. The agreement that will see Shell pay the Kremlin an annual dividend to maintain its already diluted stake in the field shows how far the balance of power has shifted since. Faced with pressure to find new oil and gas reserves from a smaller number of prospects, Western majors are having to go down on their knees in Russia and pray for the best. While the 'priority dividend' may be embarrassing for a group of Shell's heritage, they will point to BP's role in the recent Yukos auction to show that no other company is being treated differently. For Shell, what is important is being on the playing field at all. Investors may cringe at its treatment, but they will ultimately benefit from that as well.

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Steve Hawkes

House price rise is distorting the truth

A further rise in interest rates became more likely today as house price inflation in April continued in double digits, valuing the average home at £180,314. Annual house price inflation in April rose to 10.2 per cent, just below a two-year peak in December.

Comment: A year-on-year rise of 10.2 per cent in house prices certainly sounds like a continuing boom. Even though Nationwide is careful to stress that a more telling figure might be the 2 per cent rise in the three months to April, the smallest three month increase since August, showing that recent hikes in interest rates are starting to calm the frenzy. Other figures, such as those from mortgage lenders, also show signs of some cooling in demand. The question is, how quickly will the housing market slow? April figures seem to reinforce the view that bank and City staff, many coming to live in London and the south east from abroad, have not been worried by rate rises so far, making another hike in May a near certainty and raising the chances of yet another rise after that.

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Robert Lindsay

Flat L&G announces Phipps' departure

Legal & General reported mixed first-quarter sales, with lower unit trust sales offset by strong underlying life and pensions sales, as the head of its UK business, Robin Phipps announced his departure.

Comment: What is it with UK insurance executives? At the beginning of the week, Aviva parts company with Patrick Snowball, the head of its UK business. Today, Legal & General waves goodbye to Robin Phipps, who retires at 56 after 11 years in the job. Both men were candidates for the chief executive's job at their respective firms. While Aviva impressed yesterday with its first-quarter numbers, L&G looked decidedly lacklustre. Aviva's 2 per cent share price rise was followed by a flat L&G this morning. The difficulty for L&G is that it lacks the diversity to bulk up internationally. Distribution agreements with Nationwide and Intelligent Finance are all very well but international momentum would prove useful.

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Miles Costello

LONDON MARKETS
BRYCE ELDER

Earnings news and Dow hit FTSE

[Amvescap, Reckitt beat forecasts](#)
[Peer's numbers boost Compass](#)
[Gossip lifts Standard Chartered](#)

The Dow Jones Industrial Average's record-breaking close above 13,000 last night bolstered the mood in London, pulling the FTSE 100 index back to within a whisker of its six-year high.

Mining stocks moved higher in tandem with metals prices, which were squeezed by threats of strike action in Chile. **Antofagasta**, the Chilean copper miner, led the pack with a 2 per cent gain, followed closely by **Anglo American**, **Kazakhmys**, and **Rio Tinto**. Better than expected results boosted the fund manager **Amvescap**, which led the blue-chip leaderboard after posting first-quarter operating profit up 27 per cent. Quarterly figures from **Reckitt Benckiser**, maker of Dettol and Cillit Bang, also topped forecasts and raised its net income target.

Solid results from Sodexho Alliance, the French caterer, helped spark demand for its larger rival **Compass**. On a more speculative tack, Standard Chartered climbed on renewed rumours that the Asia-focused bank could be a takeover target. Dealers said the lender may be attractive to a mainland Chinese rival.

Short covering pushed **Arm Holdings**, the microchip designer, to the top of the mid-cap risers. While the shares had been weak this month on rumours of a profit warning, the company pledged to step up share buybacks and double its 2007 dividend to show confidence in long-term growth prospects.

That lifted peer **CSR**, also boosted by results yesterday from one of its main contractors, Taiwan's Advanced Semiconductor Engineering.

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