

**24 October 2006 | Your weekly industry news update**
**In this issue**
[Comment from Datamonitor](#)

- > [Automotive](#)
- > [Consumer](#)
- > [Energy](#)
- > [Financial Services](#)
- > [Healthcare](#)
- > [Technology](#)

[Good week / Bad week](#)
[Analyst's View](#)
**Editorial**

Last week critics were questioning whether internet giant Google could produce a meaningful return on its hefty investment in YouTube. However, the company's latest quarterly results would suggest that it has become a shrewd alchemist of profits. In its third quarter Google increased revenues by a whopping 70%, which facilitated an almost doubling of profits in the three month term. Net income increased by 92% to \$733.4 million, stimulating an impressive 7.5% boost to the company's share price.

Computer chip maker AMD has also enjoyed a strong third quarter as it attempts to reel in market leader Intel. Currently placing second in its sector, AMD looks to be taking advantage of Intel's

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**Comment from Datamonitor**
**Automotive**

The Chinese joint ventures of US based Ford Motor Company and South Korea's Hyundai have [between them recalled over 150,000 cars due to faults](#). Changan Ford Mazda Company, a joint venture between Ford, Mazda, and China's state-owned Changan Automobile Group, has recalled nearly 53,000 Focus sedans. While Beijing Hyundai Motor Company, is to recall over 98,000 Elantra and Sonata cars to fix ignition system problems. Automobile sales in China, however, appear to be on the rise, with [Honda Motor Company reporting a 28% increase in Chinese sales](#) for September compared to the same period last year. Meanwhile, after finding itself unable to pay back its \$115 million debt, Sea Containers, the beleaguered marine transportation and railroad group, has [filed for Chapter 11 protection](#) under the US Bankruptcy Code. However, the company remains optimistic that it will be able to reorganize itself into a more sustainable proposition.

**Consumer**

After beating off competition from a host of domestic rivals, US retail giant [Wal-Mart is set to seal a \\$1 billion purchase of Trust-Mart](#), the Taiwanese owned chain of Chinese supermarkets. The gradual acquisition of the 100 Trust-Mart stores, located in 20 of China's 23 provinces, will greatly increase Wall-Mart's presence in the country. Meanwhile, Irish food maker [IAWS Group is to acquire US specialty baked goods maker Otis Spunkmeyer Holdings](#) in a \$561 million deal. According to IAWS the acquisition is likely to increase the company's sales in the US by 200%. Lastly, the world's leading alcoholic drinks group [Diageo confirmed it is on track to achieve at least a 7% growth](#) in organic operating profit for the fiscal year ending June 2007.

regulatory problems as it achieved an impressive 77% boost to profits in Q3, while Intel's fell by 35%.

Switching to energy issues, the European Commission appears to have finally lost patience with the Spanish government. The Brussels authority has now formally issued a request for Madrid to explain why it has not followed instructions and removed the unacceptable conditions placed on E.ON's proposed takeover of Endesa. The written request in effect forms the initial stage of a legal proceeding against Spain.

## Energy

This week saw the latest installment of the saga that is E.ON's attempts to take over Spanish electricity company Endesa. [The European Commission formally requested an explanation](#) for why the conditions imposed on the deal by Spanish energy regulator CNE, which were considered to be against European law, have not been withdrawn as requested. Meanwhile, the merger of French energy heavyweights Gaz de France and Suez [is poised to receive the EU green light](#) after the two companies agreed to abide by more stringent conditions set by Brussels. Lastly, in the UK, [revelations about leaks and cracks at several plants](#) owned by the UK nuclear power producer British Energy have wiped a quarter of the company's share price. It was believed that the UK government was looking to sell off a large portion of its stake in the company, but the revelations would seem to make this unlikely.

[Back to top](#)

## Financial Services

Credit cards and loans company [Capital One has seen its share price rise](#) after it released analyst estimate-beating Q3 2006 earnings of \$587.8 million, up from \$491.1 million for the same period in 2005. Elsewhere, Banca Popolare Italiana, the bank at the center of the recent Italian banking scandal, [has agreed to be taken over by](#) Banco Popolare di Verona e Novara to create the country's biggest mutual bank which is already being referred to as 'Superpopolare'. Finally, a survey has found that an alarming number of people in the UK are [leaving themselves open to identity thieves](#) by throwing away documents that contain personal and financial information such as signatures and credit card numbers.

## Healthcare

UK-based pharmaceutical company [AstraZeneca has filed for approval](#) of a new sustained release formula of its schizophrenia drug Seroquel in the EU and Canada. The new formulation has patent protection to 2017 which is important as the original formulation is currently facing generic competition from Teva Pharmaceuticals. Good news as well for Merck & Co which [received FDA approval from the FDA for Januvia](#), the first drug in a new class of diabetes treatments. The approval gives Merck a first-mover advantage over Swiss company Novartis which is currently waiting on approval for Galvus, a similar product. Finally, [Eli Lilly has inked a deal to acquire](#) Washington-based biotech company Icos Corporation for a total of approximately \$2.1 billion. The move was motivated by Lilly's desire to secure the erectile dysfunction treatment Cialis which Lilly and Icos have been co-developing and selling since 1998.

## Technology

Hewlett-Packard is once again king of the worldwide PC market. According to two separate reports [HP has sneaked ahead of](#)

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[rival Dell](#) to regain the position it lost in 2003 as the globes leading PC provider. HP shipped 9.831 million PCs globally compared to 9.803 million shipped by Dell, according to IDC. Finnish mobile phone maker Nokia [has seen its Q3 net profits slip](#) despite a healthy growth in revenues. Net income for the third quarter was down 4%, at E845 million, on revenue that was up 20% at E10.1 billion. Finally, global chip maker AMD [has closed the gap on its major rival](#) Intel. For its third quarter AMD reported a profit of \$134.5 million, or 27 cents a share, compared with \$76 million, or 18 cents, a year ago, representing growth of 77%.

[Back to top](#)

## Good week / Bad week

### Good Week

While many have debated the merits of Google's recent acquisition of YouTube, not to mention the price tag, this week the company revealed it has plenty of money to burn. Once again Google [has amazed analysts with its earning power](#), almost doubling quarterly profits on revenues that sky rocketed by 70%. The firm saw net income for the quarter to September up 92% at \$733.4m, on revenue of \$2.69bn. Meanwhile, earnings per share of \$2.36 was 20 cents better than analysts had been collectively predicting.

Fellow US company Coca-Cola [has also reported a strong third quarter](#). While the company will be concerned about the current focus on healthy eating and drinking in the US and UK, volumes growth in emerging markets underpinned the profits increase. Net income for the world's largest soft drinks firm rose by 14% to \$1.46 billion in the three months ending September 29, while revenues rose 7% to \$6.45 billion from \$6.04 billion a year before.

[Back to top](#)

### Bad Week

The recent rollercoaster of emotion experienced by the workers of Blackpool car maker TVR looks set to end on a downer. Since speculation broke that the company was to be relocated a number of false dawns suggesting a reprieve for the firm's future in Blackpool have come and gone. And this time hope appears to have faded for good as owner Nikolai Smolensky [has confirmed that production will be moved abroad](#). The revelation dash hopes that TVR would remain in its current location for 18 months before relocating to a site at the Blackpool Business Park.

Christmas 2006 looks set to be a washout for thousands of UK families [because of the bankruptcy](#) of hamper club company Farepak. The development means that the thousands of customers who had been saving throughout the year to receive a Christmas hamper from the company will now not receive their

goods or a full refund. The company has also upset customers because it has been suggested that it continued to take money from scheme members just two days before the bankruptcy announcement.

[Back to top](#)

## Analyst's view

### **Expansion of the UK Open Market Homebuy scheme would offer significant opportunities**

**The new UK Open Market HomeBuy scheme is currently limited by its small scale. However, if expanded upon, it would offer a helping hand to a significant number of first time buyers and key workers, who have been pushed out of the housing market by rising property prices in recent years.**

Over the last few years, first time buyers, key workers and those on low incomes have been pushed out of the UK property market by rising property prices and therefore find it particularly difficult to get onto the property ladder. Indeed, according to the Council of Mortgage Lenders, in Q2 2000, first time buyers accounted for 44% of total loans for house purchase, yet by Q2 2006 this figure was down to 36% (in actual fact having risen somewhat from its low in Q2 2004).

Yet, throughout the years, the UK government has initiated a large number of schemes to increase homeownership, particularly among those with low incomes. Indeed, shared ownership has helped a number of first time buyers and key workers since its establishment during the 1980s. In contrast however, the new Open Market HomeBuy scheme could end up helping a much greater number.

*While shared ownership schemes have seen demand, the market remains small*

While the shared ownership mortgage market has grown over the last years, it remains small. According to Datamonitor estimates, shared ownership mortgages remain a very small part of the UK mortgage market; at only 0.1% of all residential mortgage advances in 2005, during which new business amounted to GBP517.4 million. While the market has grown at a compounded average rate of 33.4% per year since 2001, much of this growth can be attributed to its small size.

In fact, there is significant demand for shared ownership schemes. However, the number of properties available under shared ownership remains limited, in addition to the types of people that can apply for the scheme. Moreover, lenders have not actively pursued growth of the market, as these mortgages remain administratively cumbersome and costly to provide, and do not give lenders a competitive profit margin in comparison to other niche mortgages.

*The Open Market HomeBuy scheme remains limited in scope*

The government has now introduced its new Open Market HomeBuy scheme, part of its low-cost home-ownership program, intended to expand the number of shared equity mortgages available. The government has said it hopes that the new HomeBuy will help around 100,000 people to own their own home by 2010 and that 20,000 of these will be helped by the new Open Market HomeBuy scheme. The Open Market HomeBuy scheme is intended for first time buyers, key workers and tenants of council houses and housing associations.

There has been criticism that the number being helped by the new Open Market HomeBuy is too small to significantly help the plight of many first time buyers. Indeed, 20,000 are just a fraction of those who continue to be locked out of the housing market. Moreover, although the majority of the industry has welcomed the new shared equity scheme, the number of lenders currently offering such mortgages is low, with currently just four lenders in the market (Halifax, Nationwide, Yorkshire Building Society, and Advantage) piloting the scheme to March 2008.

#### *Scope for enlargement of Open Market HomeBuy*

Nevertheless, there is scope for enlargement of the Open Market HomeBuy scheme if it proves successful. The scheme will go through a couple of years of trials to assess its strengths and opportunities for improvement.

Indeed, the government's shared equity taskforce intends to look at expanding shared equity even more. The aim is to increase the number of people able to benefit from shared equity schemes and help the growing number of 'intermediate' households, which number over one million UK households and which have incomes too high to qualify for housing benefit but too low to buy a home of their own.

The government believes that there is significant potential for shared equity schemes to bridge the divide between social renting and full homeownership. If the Open Market HomeBuy can be considerably expanded, then a sizeable number of first time buyers and key workers would see the scheme work for their benefit.

[Back to top](#)

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