



Wednesday 12th November 2008

DAILY COMPANY NOTE — Aer Lingus & C&C See page 2 & 3 for full details

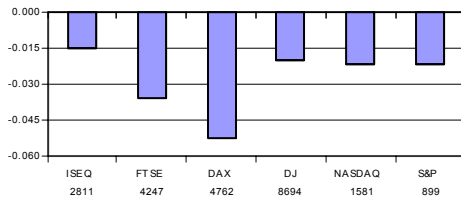
Daily Market Comment

Yesterday's Summary : The ISEQ witnessed another poor session yesterday as negative sentiment continued to weigh on financials. The index closed down 43 points at 2,811. Despite issuing a statement in which it forecasted a decline in full-year pre-tax profits by a mid to low teen percentage, CRH's share price ended the day in positive territory closing up 3.5% at €17.19. Irish Life and Permanent was among the worst performers shedding 20% of its share price to close at €2.07, as rumours circulated that it was going to be removed from the MSCI World Index benchmark.

Overnight News : US indices continued its losing streak yesterday, as fears that the global slowdown was further eroding into the broader economy weighed heavily. General Motors continued its recent slump shedding another 13% from its share price which closed at \$2.92. Due to a drop in demand for raw aluminium, Alcoa also performed poorly yesterday. Its shares dropped 7% to close at \$10.94. Dow Jones: -2% at 8,694, S&P 500: -2.2% at 899, NASDAQ: -2.2% at 1,581.

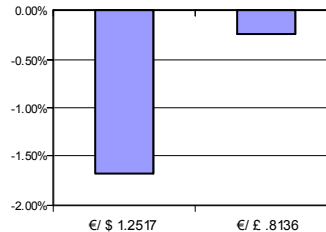
Breaking News : **Hypo Real Estate** announced a third quarter €3.1bn pre-tax loss. The majority of the loss was due to goodwill writedowns for Depfa Bank. The loss exceeded the estimate of €2.39bn according to a Bloomberg survey. **Holcim** announced third quarter operating profits of CHF1.12 million, which was behind analyst expectations. The company also announced third quarter sales of CHF 2.78million. **Tullow Oil** announced in its interim management statement that its 2008 production estimate is now lower than previously forecast. Despite this Tullow is maintaining 100% exploration success record in Uganda. **Smurfit Kappa** announced a drop of third quarter profits of 56% this morning. The company said it failed to push through a planned price increase as inventories rose among customers. Net income declined to 16.6 cent a share, while sales dropped 4.2%.

Equity Indices change on day

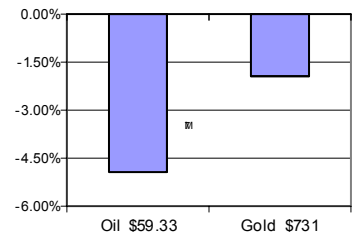


-1.50% -3.57% -5.25% -1.99% -2.22% -2.20%

Currency daily % change



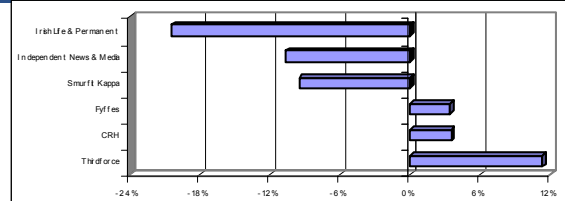
Oil/Gold daily % change



News

- "Aer Lingus says it faces losses of €20m this year"-(The Irish Times)
- "Market responds positively despite CRH profit warning"-(The Irish Times)
- "Vodafone to slash costs as customers cut usage"-(Irish Independent)
- "New managers bring cheer to C&C"-(Irish Independent)
- "Barclays Mideast deal hit by dissenters"-(Financial Times)

ISEQ Performers/Losers 11/11/08



Market Themes & Movers

UK unemployment rises to 5.8% : The UK Office for National Statistics released its latest unemployment data this morning and it indicated that UK's claimant jobless figure rose at its fastest rate for nearly 16 years. The claimant rate rose 36,500 last month, just below economist expectations of 40,000, marking its ninth consecutive monthly gain and the highest month on month figure since 1992. Last week the Bank of England cut its benchmark interest rate by 1.5% to 3% , the lowest level in more than half a century, as Britain's economy contracted by 0.5% in the third quarter. A prolonged period of rising unemployment will apply further pressure on the already stretched UK public finances as welfare spending increases and income tax fall. Economists expect the Bank of England to signal more monetary policy easing when it publishes its revised growth and inflation forecasts today. At the time of its last forecasting round in August, the central bank predicted UK's economic growth would be flat over the coming year. The International Monetary Fund predicts the UK economy will shrink by 1.3% in 2009, the most in the group of seven industrial nations. Investors are now betting British interest rates will be cut to 2% by the middle of next year. British interest rates have never fallen below 2% since the Bank of England records began in 1694.



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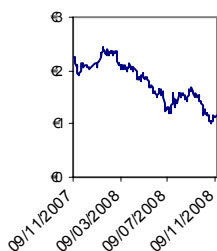
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Aer Lingus

ISEQ
Airline
Company Profile

The Group's principal activity is providing passenger transportation services. The Group operates a single economy class service on its short-haul network and it also provides cargo transportation services on its passenger aircraft, primarily on its long-haul routes, as well as a range of ancillary services to its passengers

- Aer Lingus released its interim management statement yesterday and some detailed insight into recent trading was provided. With the number of passengers flown increasing by 9.7% yoy, revenue for the first nine months rose by 8.5%. Average revenue per passenger fell 1.1% as a 6.1% fall in short haul average fares was largely offset by an impressive 28% increase in ancillary spend per passenger and a 2.9% increase in long haul passenger yields. Management is maintaining its guidance for a 6 - 7% decline in FY08 short haul fares and a marginal increase in full year long haul fares. As a result, due to the benefits from the reduction in the price of fuel, it has slightly improved its full year outlook from a loss of between €20m - €30m to a loss closer to the €20m mark.
- Despite the price of oil dramatically falling from its record high, operating costs remain a huge concern for the airline. With short haul cost per passenger standing at c.€80, more than 80% that of Ryanair's, management is remaining firm on its plans to implement its €75m cost saving strategy. However with Aer Lingus' largest union SIPTU indicating it will initiate industrial action as early as November 24th, the ease with which this will be passed is at best uncertain. Notwithstanding worker disruptions, costs will be further impacted by the new Irish government air travel tax. With c.50% of routes originating from Ireland, and only a marginal percentage falling into the lower rate bracket, management anticipates the new government initiative will reduce 2009 profits by €30m.
- While its decision to add to the reduction in capacity over the coming period, (already reducing capacity by 11% on long haul and 1% on short haul for the 2008/09 winter period), with the grounding of a further long haul aircraft in summer 2009, will help to preserve passenger yields, we would suggest it won't be enough to prevent significant further average fare declines in 2009. With 65% of it's 2009 fuel requirements hedged at c.\$99 a barrel, management, citing the new air travel tax and the deteriorating economic climate, it is now expecting to post a full year loss in 2009.

Fundamental view
Statistics
Price Performance


- There is no doubt that at the current share price Aer Lingus's valuation is attractive. Despite its lack of earnings momentum, it's net cash of €767m is in excess of its current market capitalisation and 23 Heathrow slot pairs estimated be worth in excess of €300m. The issue from an investor perspective is the possibility of this value being realised. Given the makeup of its ownership and its significance as a national airline, we would suggest there are many bridges to be crossed before a takeover could be considered as a viable investment strategy.
- With the possibility of a takeover unlikely for the medium term and with too many uncertainties surrounding its restructuring programme, we remain cautious on the airline. Rating the stock at 0.7x book value per share generates a price target of €1.25 with a neutral rating.

Valuation
Chart View: Aer Lingus

Primary Resistance: 1.32
Secondary Resistance: 1.67
Key Support: 1.01

The current rally has created a short term base with support at 1.01. Weak price action on up days is a cause for concern; however momentum indicators continue to trade higher. Upside is likely to be capped at 1.32 for the short term.

Revenue by Region


■ Europe 66%

■ Rest of World 34%

Major Shareholders	%	Peer Group Multiples			
		Company name	P/E 08	P/E 09	EPS Growth 08-09
Ryanair Holdings	29.82%	Aer Lingus	n/a	n/a	n/a
Minister for Finance	25.12%	Ryanair	n/a	12.0	n/m
ESOT	14.23%	Air France	6.7	7.9	-15.19%
M&G Investment Mgt.	3.74%				
JP Morgan Asset Mgt.	2.25%				

Shares Outstanding 536.35m

Share Data	Financial Data	2007	2008e	2009e	
Current Price (€)	1.18	Revenue (€m)	1,298	1,342	1,344
Mkt Cap (€m)	644	Net Profit (€m)	102	-9	-40
Reuters	AERL.I	EPS (€)	0.17	0.00	0.00
Bloomberg	AERL ID	P/E(x)	9.56	n/a	n/a
Sector	Airline				
CEO	Dermot Mannion				
CFO	Séan Coyle				
Website	www.aerlingus.ie				



Target: €2.10

Previous: (10/10/08) €1.80

Current: €1.40

ISEQ
Beverages
Company Profile

The Group's principal activities are producing, marketing and selling cider, spirits, liquors, distributing spirits, wine and beer. The Group is best known for Bulmers which is marketed in Ireland and marketed internationally under the Magners brands. The company also produces and markets spirits, most notably Carolans.

Statistics
Price Performance

Revenue by Region


■ Cider 86%

■ Spirits & Liqueurs 13%

■ Other 1%

Fundamental View

- On Monday, C&C announced the appointment of John Dunsmore as CEO, replacing Maurice Pratt, effective immediately. John Dunsmore is best known for his role as CEO of Scottish & Newcastle prior to its takeover by Heineken and Carlsberg. Joining Mr. Dunsmore in C&C will be former Scottish & Newcastle colleagues Stephen Glancey as COO and Kenny Neilson as Strategy Director.
- The change of management is a welcome one. In the last twelve months C&C has lost significant market share in both the on-trade and off-trade of the UK cider market. Total cider volumes were 12% lower for the first half of this year compared to the previous year. John Dunsmore would appear to be the ideal candidate to lead C&C, given his knowledge of the UK LAD market in general, and S&N business in particular. C&C will issue 16 million new shares at €1.15 each as part of a remuneration package for the new and existing executives. This will dilute existing shareholders by approximately 5%.
- The new appointments have positive implications for potential M&A activity involving C&C, but not in the short term. In our view, management will need to stabilise Magners market share before M&A is likely. Also, M&A is unlikely until liquidity improves significantly in credit markets. After cutting its dividend last month, C&C still yields an attractive 8.6%, with a coverage ratio of just under 2x. Although we feel it is unlikely, there remains the possibility of the strategic review, or new management recommending a change in dividend policy.

Next catalyst

- Following the appointment of the new CEO, the next potential positive catalyst is likely to relate to the current strategic review, the results of which are expected before calendar year end. Any changes implemented by new management will take time to take affect, and wont mitigate the expected poor industry data over the next few months. Sterling weakness is also a negative for C&C.

Valuation

- We are upgrading our recommendation on C&C to Buy and our price target to €2.10. Despite the steep gains in C&C over the last couple of days, there is significant further upside potential, although the stock price may consolidate in the short term. Our price target takes into account the dilutive effect of the proposed equity issuance and an expected diluted earnings trough estimate of €0.19 per share for full year 2010.

Chartview : C&C

Key Support Level: 1.01
 Primary Resistance: 2.17
 Secondary Resistance: 2.85

Stock remains dominated by its long term downtrend, however price looks to be forming a near term price base with support at 1.01. With daily volume picking up more and momentum indicators gaining upward strength, we expect to see price trade higher to test its downtrend at 2.17. Go long on intra-day pullbacks.

Major Shareholders		Peer Group Multiples			
	%	Company name	P/E 08	P/E 09	EPS Growth 08-09
Morgan Stanley	10.6	C&C	6.4		
Causeway	7.9	Heineken	10.5	9.6	9.5%
Invesco	7.0	Carlsberg	7.6	6.6	15.0%
Janus Capital	3.2				
Shares Outstanding		312.9mIn			

Share Data		Financial Data		
		Feb-08	Feb-09	Feb-10
Current Price (€)	1.40	Revenue (€m)	842	580
Mkt Cap (£m)	438	PBT (€m)	171	105
Reuters	GCC.I	EPS (€)	0.29	0.22
Bloomberg	GCC.ID	P/E(x)	4.8	6.4
Sector	Beverages	DPS (€)	0.27	0.12
CEO	John Dunsmore	Yield	19.3%	8.6%
CFO	Brendan Dwan			
Website	www.candcgroupplc.ie			





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