



July 16, 2007

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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	9135	↓ -15	-0.17%	14.1	-2.91%
FTSE 100	6717	↑ 19	0.28%	13.2	7.97%
DAX 30	8093	↑ 39	0.49%	14.2	22.67%
DOW	13907	↑ 46	0.33%	15.2	11.58%
NASDAQ	2707	↑ 5	0.20%	26.1	12.08%
S&P	1553	↑ 5	0.31%	15.9	9.46%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.3788	0.6774	167.9300
Dollar	1.3788	1.0000	2.0351	121.8100
Sterling	0.6774	2.0351	1.0000	247.9100
Interest Rates (%)	4.0000	5.2500	5.7500	0.5000
Oil (Nymex)	73.9300			

This Week's Research

Today's Research C&C Group

Today's Recommendation

C&C (€8.33) Major downgrade to guidance Stuart Draper
Target : €9.35 (16/07/07 ; previously €13.50, issued 27/04/07)

- Major downgrade : Previously, we had considered that C&C Group would generate current year operating profit growth of 15%, which pre-exceptionals implied operating profit of €230m and eps of c.63c. We had considered this to be a reasonably conservative forecast to take account of the unusually bad summer weather so far this year, given that this represented the bottom end of the company's previous wide guidance range for between 15% and 25% operating profit growth. However the weather and intensified competition have considerably impacted the company's outlook.
- Weather sensitivity : However, for the company to now state that it expects full year operating profit to only match last year's €199.6m based on the very poor weather of June and into July implies that growth in the premium packaged cider category may be significantly more dependent on good early summer weather than previous guidance. The early summer weather is important in that it establishes the number of new drinkers for the rest of the year.
- Lower growth : Our previous current year eps forecast of 63c was based on operating profit growth of 15%. Even though zero operating profit growth would imply eps growth of c.5%, assuming that €300m is spent buying back and cancelling C&C shares at an average price of €9, an interest charge c.€10m higher this year would eliminate this growth, implying a flat full year eps of c.55c.
- Greater volatility : Such lower than expected growth, combined with the assumption that the category's growth prospects have a greater sensitivity to good weather than previous guidance, and so are more volatile in nature, implies that a discount to peers is now appropriate, rather than a premium rating. The greater than average probability of the group being involved in corporate activity, either through becoming a takeover target itself following its recent soft drinks division disposal, or else from the disposal of its spirits and liqueurs business, means that a 20% / 25% discount to peers may be excessive.

- Further Upside : There are potential further catalysts either from mergers and acquisitions, perhaps triggered by a Guinness sale by Diageo or equally a sale of C&C's spirit division allowing additional monies for further share buybacks. While some market commentators have suggested upside from the market tests in Barcelona and Munich, we believe this premature, expecting some positive news from Spain but the German test is limited by the lack of available television advertising and the premium price of the brand.
- Peer discount : While we are clearly disappointed with the recent developments at C&C it is important to neither solely hold onto our positive view out of a sense of "being long and wrong" nor to drop the stock in a knee jerk reaction. There are some concerns from the conference call that perhaps not all the bad news is out of the way and further adverse trade announcements could accompany August's trading statement. However we believe we are at the lowest point in sentiment given the adverse weather, the smoking ban in the UK , and the current campaigns by competitors. Peers such as Diageo, SABMiller and Heineken currently trade at an average of c.20x current year eps, so if we assume that a 15% discount is merited until greater clarity is provided over the trading outlook, then our revised 12 month share price target of €9.35 (13% upside) is based on 17x current year eps of 55c. The shares will also pay a current year dividend yield of c.3.3% : BUY.

Breaking News

RBS led consortium raises cash component of ABN offer

Royal Bank of Scotland (RBS) together with Fortis and Santander confirmed that they intend to proceed with their proposed offer for ABN Amro and have raised the cash component of the offer to 93%. The consortium plans to offer €38.40 comprising of €35.60 in cash plus 0.296 new RBS shares. Under this revised offer, the total consideration payable by the banks to ABN Amro shareholders will be €71.1bn. The conditions to the revised offer will include ABN Amro not having made or agreed to make any acquisitions or disposals of a material part of its business or assets, with the exception of the disposal of LaSalle. As a result of the transaction, RBS expects to deliver cost savings amounting to €1,237m and net revenue benefits amounting to €481m.

Business Press

- Price to be 14 times earnings at radio stations (IT)
- Investors want Vodafone overall (II)
- Dollar hits record lows against euro, sterling (IE)
- RBS team hammers out new ABN bid (FT)

Investment Press

- Consortium bid for ABN: After the phony war, the two sides fighting for control of ABN Amro are now fully engaged.

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