



Tuesday 19th August 2008

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

Daily Market Comment

Yesterday's Summary : The ISEQ finished 1.35% lower at 4,544.67 yesterday, as news that UK house prices dropped a further 4.8% in August and worries about a possible dilutive capital raising by Fannie Mae and Freddie Mac undermined investor confidence. Anglo Irish Bank was the worst performing financial, losing 5.5% to €6 amid a rating downgrade from UBS. Bank of Ireland fell 3.2% to €5.87, Irish Life & Permanent lost 1.6% to €5.95, while AIB closed just 7 cent lower at €8.58. In London trading, BHP Billiton gained 1.4% as the mining company reported profits in line with expectations and raised its dividend by 49%.

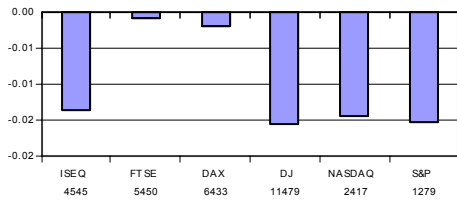
Overnight News : In the US, stocks fell sharply Monday, with financial-sector woes coming back to the fore on reports of more losses at Lehman Brothers. The Dow Jones Industrial Average fell 1.6% to 11,478, with all of its 30 components losing ground. The S&P 500 lost 1.5% to 1,278, while the Nasdaq Composite index dipped 1.4%, to 2,416.

Breaking News : Greencore have reported that revenues at its core convenience foods division fell 7.5% to €248mn in the four months to July 31, citing the weak pound that has reduced the value of UK sales in euro terms. The group said it expects to deliver full year earnings per share within the 22.8 to 25 cent range expected by analysts. Despite poor weather and deterioration in consumer sentiment, excluding acquisitions and stripping out the impact of foreign exchange swings, sales rose 7.2%. Brixton, the UK property firm, has posted an 18% decline in net asset value for the first half of the year to 448p. The industrial real estate specialist reported a loss before tax of £236.7m, compared with pretax profit of £191.7m in the previous year. Wienerberger, the Austrian brick maker and a peer of CRH, has warned that core earnings will drop by 15% this year after a collapse in the US and UK construction markets began to hit in the second quarter. The group said revenues fell 4% in the second quarter.

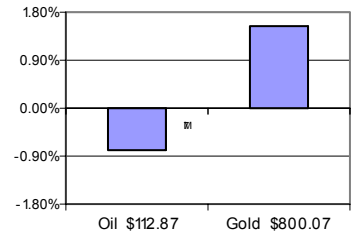
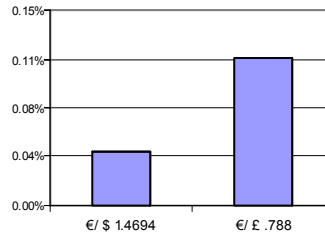
Equity Indices change on day

Currency daily % change

Oil/Gold daily % change



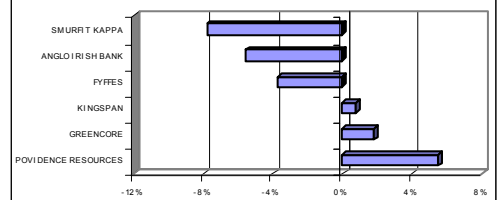
-1.35% -0.08% -0.20% -1.55% -1.45% -1.51%



News

- “Grafton and PCH team up in Chinese venture”-(The Irish Times)
- “Billiton backs Rio Tinto takeover”-**BHP Billiton**-(The Irish Times)
- “Dollar rate takes toll on Europe with rising deficit on its trade”-(Irish Independent)
- “Shares in **Paddy Power** tumble by over 4%”-(Irish Independent)
- “Price of homes in Britain fall 4.8% as banks choke lending”-(Irish Independent)

ISEQ Performers/Losers 18/08/08



Market Themes and Movers

German PPI continues to rise : German producer-price inflation accelerated to 8.9%, the fastest pace since October 1981, reinforcing speculation the European Central Bank will keep interest rates at a seven-year high even as the economy cools. Economists had expected July prices for goods from newsprint to plastics to increase 7.5% from a year earlier. Consumer prices are rising as companies pass on higher energy costs to customers. Even though the price of oil has retreated 21% from a July 11th record, the ECB kept its benchmark rate at 4.25% this month, commenting that it was worried that past commodity price increases will push up wage demands and lead to entrenched inflation. Today's report showed that German energy prices gained 25% from a year earlier and prices for electricity increased 23%.

Russia and Georgia near agreement: Russia and Georgia near agreement: Russia and Georgia struck a tentative agreement to accept unarmed military observers from a European-North American security group. After an all-night negotiating session in Brussels, the deal to send 20 monitors today and 80 in the coming days is waiting final approval from Russian President Dmitry Medvedev and Georgian President Mikheil Saakashvili, said Finnish Foreign Minister Alexander Stubb, chairman for the Organization for Security and Cooperation in Europe. The talks come as Western officials prod Russia to withdraw its troops from Georgia under terms of an August 16th ceasefire. Russia said it is working with France to draft a United Nations Security Council resolution on the ceasefire.



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ISEQ
Beverages
Company Profile

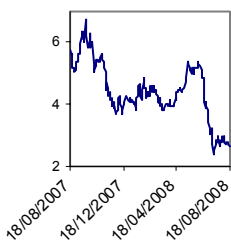
The Group's principal activities are producing, marketing and selling cider, spirits, liquors, distributing spirits, wine and beer. The Group is best known for Bulmers which is marketed in Ireland and marketed internationally under the Magners brands. The company also produces and markets spirits, most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

Fundamental View

- Following on from our last coverage of C&C the company's outlook has deteriorated notably. Although the stock is down over 35% for the year, there is still significant downside for C&C. In its July 11th AGM statement the company announced that revenue was impacted by unsettled weather and a deteriorating economic backdrop. While the company guided for flat H1 operating profit as a result of the benefits of cost cutting, we note that there is a practical limit to the benefits cost cutting can achieve.
- Recent industry data reports has been broadly negative for C&C. Volumes have increased in recent months, as expected given the seasonality of the brand. However these increases have been less than expected, and volumes remain lower than the same period last year. Rival Scottish & Newcastle (S&N) managed to increase its market share and volumes of Bulmers over the same period. It appears C&C is also seeing some price slippage, while S&N has maintained its pricing power. S&N's Strongbow's brand has seen strong performance as the UK price sensitive consumer trades down.
- Competition from S&N is a major threat to C&C. As a subsidiary of Heineken, S&N has a much stronger distribution network than C&C. This has led to a decline in C&C's market share of the on-trade, particularly amongst managed pubs. Given C&C's high payout ratio the company is in a poor position to invest in expanding its business. We fully expect that the company will be forced to review its dividend policy in the future if it continues to perform poorly.

Next catalyst

- The next catalyst for C&C will be its interim management statement due on the 29th August. Despite current credit market condition, M&A in the alcoholic drink sector remains robust. At current valuations, there is a significant possibility of a takeover. Coors, Carlsberg or InBev are the most likely potential bidders. We believe the Spirits business is attractive and would produce synergistic benefits to an acquirer. However a sale of this unit would necessitate a dividend cut for C&C and focus the business entirely on a single product.
- We are maintaining our neutral rating on C&C, although the outlook is bleak, there is significant possibility of a takeover bid. We are reducing our 12 month price target to €2.40. While this is less than 8x 02/2010 earnings we feel its justified given C&C's lack of diversification, difficult competitive environment and limited growth profile.

Statistics
Price Performance

Chart view: C&C

Support Primary: €2.55
 Support Secondary: €2.17
 Resistance Primary: €2.85
 Resistance Secondary: €3.13

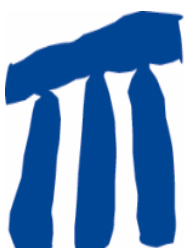
Stock continues to drift lower and the chart offers little in the way of positives. Momentum remains weak and the stock is not at oversold levels. Until the stock can consolidate and show evidence of a bottom having being formed the case for initiating fresh longs cannot be supported.

Gross Rental Income


- Cider 86%
- Spirits & Liqueurs 13%
- Other 1%

Major Shareholders		%	Peer Group Multiples			
BOI Nominees	26.2		Company name	P/E 08	P/E 09	EPS Growth 08-09
Morgan Stanley	9.8		C&C	8.2	8.0	3.03%
Fidelity International	9.2		Heineken	13.0	11.7	9.62%
Janus Capital	7.7		Carlsberg	15.3	13.3	12.85%
Shares Outstanding	312.9mln					

Share Data		Financial Data		Feb-08	Feb-09	Feb-10
Current Price (€)	2.63	Revenue (€m)		842	625	652
Mkt Cap (€m)	823	PBT (€m)		171	112	115
Reuters	GCC.I	EPS (€)		0.29	0.32	0.33
Bloomberg	GCC ID	P/E(x)		9.1	8.2	8.0
Sector	Beverages	DPS (€)		0.27	0.27	0.27
CEO	Maurice Pratt	Yield		10.3%	10.3%	10.3%
CFO	Brendan Dwan					
Website	www.candcgroupplc.ie					





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