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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	8327	↓ -24	-0.29%	14.1	-11.49%
FTSE 100	6220	↑ 23	0.37%	13.2	-0.01%
DAX 30	7507	↓ -5	-0.06%	14.2	13.80%
DOW	13379	↑ 143	1.08%	15.2	7.34%
NASDAQ	2577	↑ 35	1.38%	26.1	6.68%
S&P	1479	↑ 17	1.15%	15.9	4.31%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.3671	0.6777	158.8000
Dollar	1.3671	1.0000	2.0173	116.1300
Sterling	0.6777	2.0173	1.0000	234.3100
Interest Rates (%)	4.0000	5.2500	5.7500	0.5000
Oil (Nymex)	71.0900			

## This Week's Research

## Today's Research

## Breaking News

### Cadbury Schweppes (570p): Initiating Coverage Stephen Taylor Price Target 600p

- **Entry Level:** Following the recent turmoil in global credit markets Cadbury Schweppes' share price has experienced a significant sell-off falling by c. 30% from its all time high of 728p at the end of May. The fall has been due to concerns that it may face difficulty selling its US Beverages unit as liquidity has dried up in the Leveraged Buyout Market (LBO).
- **US beverages:** On the 15th of March, Cadbury announced that it is to separate its US Beverages division through a straight sale or by separating the unit into a new entity. The group said it would use the proceeds to return capital to shareholders and reduce debt. The announcement came just two days after activist investor Nelson Peltz raised his stake in the group to 2.97%. However, on 27th July, the company said that due to extreme volatility in the debt markets it has extended the sale time table (without providing a timeframe) to allow bidders complete their proposals against a more stable debt market. When Cadbury first announced its intention to separate the unit it had been estimated it would fetch c. \$15bn. However, due to recent turmoil in the debt markets estimates have been tapered back to \$13bn-\$14bn.
- **Margin erosion:** On 1st August Cadbury reported first half profit that rose by 3% to GBP180m. The company said however that operating margins had slipped by 30 basis points and will not return to growth until next year. Cadbury noted that margins have been pressured by higher commodity costs particularly milk where prices have risen by 20% and will increase costs by up to GBP40m. Cadbury previously said it expected to raise operating margins from 10% currently to 'mid-teens' by 2011.
- **Fairly Valued:** With ongoing concerns that Cadbury will struggle to sell its US Beverages division in the foreseeable future we expect its share price to under-perform. While Cadbury does benefit from generating 30% of its revenues from emerging markets, its inability to pass on increasing input costs is a concern. We therefore believe that Cadbury deserves only to trade in line with its peer group of 20x 2007 earnings. As a result, we derive a 12 month price target of 600p based on 20x forecasted EPS of 30p. With only 5% upside to our target we initiate coverage of the company with a neutral rating. What prevents us from having a sell on the stock is the above average probability of corporate activity concerning its US Beverages division. **NEUTRAL**

## Breaking News

### Ryanair to charge for checking in

Ryanair announced on Friday it plans to charge passengers £2 or €3 for using check-in facilities at airports on bookings made from September 20. In a move to discourage passengers from checking in bags at airports, customers that check in online and only have hand luggage won't have to pay a fee. A Ryanair spokesman said the move isn't designed to boost revenue but rather to cut costs as some of its airport costs are based on the number of bags being handled. The airline, which is Europe's largest budget airline based on passengers carried, already charges passengers around £5.50, or €6, for each bag being checked in. The fast-expanding carrier has been pushing through a number of initiatives in recent years to boost its ancillary, or non-ticket, revenues.

### DCC receives regulatory approval for takeover

DCC, who announced on the 20<sup>th</sup> of July that it had reached conditional agreement to acquire CPL Petroleum Limited, a leading oil distribution business in Britain has received clearance from the UK Office of Fair Trading. It now expects to complete the acquisition shortly. In related news it was reported in the press that DCC sale of Manor Park may be in doubt as it is believed that property developer Liam O'Carroll is the sole remaining bidder.

### Equities boosted by positive US economic data

Global equities continued to rebound on Friday boosted by strong economic data out of the US. Sales unexpectedly rose by 2.8% to an annual pace of 870,000, reversing two months of declines. The median price of new home sales rose by 0.6% to \$239,500, while inventories declined to 533,000 from 538,000 previously. Sales increased in two of four regions; rising by 22% in the West and 0.6% in the South (the largest region for new home purchases), while sales declined 24% in the Northeast and 0.9% in the Midwest. Also boosting equity markets on Friday was a better than expected US durable goods number. Durable goods orders for July rose by 5.9% from 1.9% in June. Excluding orders for transportation equipment orders rose by 3.7%, the most since August 2005.

## Business Press

- BA considers bid for Spanish airline (IE)
- Retail Goliath takes stock as the battle with Tesco looms (FT)
- Big banks begin to find favour (FT)

## Investment Press

- **Engineering strength:** While the weakness of financial mechanics is being exposed, the old economy kind have been chugging along. Shares in European engineering companies are up 22 per cent this year.

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