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HD **Punch-drunk Treasury a prime target**

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When Treasury Wine Estates was spun out of the Foster's brewing group almost three years ago, hopes were high.

A result of over-priced takeovers in Australia and the United States, the wine business was a weight around the brewer's neck when it was an internal division, but it was spun out with virtually no net debt, and a quality stable of brands.

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The conventional wisdom is also that spin-outs succeed partly because they have better focus: boards, managers, marketers and bean counters are dedicated to a single cause.

After Thursday's new profit downgrade and 20 per cent share price slide, however, TWE is looking lonely. CEO David Dearie's departure was announced in September, the search for a new boss continues, and adoption via takeover, by a private equity group perhaps, is looking increasingly like the unhappy end-game.

TWE's shares were $4.40 at the end of 2012, and hit a high of $6.43 in May last year. In mid July, however, Dearie announced that the group would take a $160 million hit as it got rid of excess wine stocks in America by cutting back on shipments to the market and literally pouring low-end wine down the drain. The shares plunged by 12 per cent to $5.11 on the news, and the reaction to the latest downgrade on Thursday has been even more savage. TWE fell by 91¢ to $3.64.

The latest downgrade sees guidance lowered for June 30 year earnings before interest, tax and SGARA, a specialist adjustment wine makers make for the value of wine and grapes, from between $230 million and $250 million to between $190 million and $210 million.

TWE also said that earnings on the same basis would be between $42 million and $46 million in the December half, well below the $73.4 million profit it posted in the December half of 2012.

It blames lower sales over the Christmas-new year period here when it resisted heavy discounting, and slow sales in China, where the government has cracked down on luxury gift-giving and other spending excesses.

Other upmarket wine producers and luxury brand groups are feeling the pinch in China as the government's austerity drive continues. Slower sales are also an obvious result of a decision not to discount as heavily or as broadly, although TWE admits that it underestimated the strength of the slide.

This is a downgrade on top of a downgrade, though, and there is no magic fix for the problems that are assailing the group.

It said on Thursday that it was making progress in the US as it reduced inventory by reducing shipments to that market, but the top end of the market that TWE aims at is crowded, and Australia's big-fruit, big-alcohol wines are less popular than they once were.

The weaker Australian dollar helps, but also makes the company cheaper for foreign groups to buy.

It's interesting to chart TWE's performance against the biggest **wine group** in the world, Constellation Brands.

TWE was spun out of a brewer, Foster's, in 2011. Its shares are now 43 per cent below last May's peak. In a side deal in June last year that cleared the way for Anheuser-Busch InBev's takeover of Mexico's Modelo Brewing **Group**, Constellation went the other way, paying almost $US5 **billion** ($5.7 **billion**) to pick up Mexican brewing assets and US import rights for Modelo beer, including one of the world's best known brands, Corona. Constellation's shares were just over $US28 at the end of June 2012, just over $US50 when TWE's shares peaked last May, and are almost $US78 now.

Fed: No surprises

Emerging market tension is a concern, but Thursday's sell-off after the US Federal Reserve announced that it was cutting another $10 **billion** a month out of its quantitative easing cash splash for the US economy looked overwrought.

The markets actually rallied in December when the Fed finally announced that its QE taper had begun with a $US10 **billion** reduction.

Cheshire Cat cuts at a rate of $US10 **billion** a month are expected, so there is no surprise that the Fed followed through this week in the last meeting chaired by Ben Bernanke.

His successor, Janet Yellen, has given no signs of changing course, and Thursday's announcement of the Fed's unanimous decision to shave QE again was anodine: changes of wording from the December statement were few and far between, and if anything, they were slightly positive about US growth.

The real shock would have been if the Fed had postponed the QE taper. The question would then have been, what risks had it seen that were not apparent in December? Tremors in emerging markets including Turkey and Argentina would have been the obvious suspect.

Now that would really have been something to sell on: a continuation of a QE taper that is built on an economic recovery in the world's biggest economy is not.

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