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Analysts: Mad Cow Scare May Provide A Buying Opportunity

By RICHARD GIBSON

Of DOW JONES NEWSWIRES

DES MOINES, Iowa -- The discovery of what may be the first Mad Cow episode in U.S. history presents a Christmas Eve buying opportunity for nervy investors.

"Mad Cow Case May Actually Help Restaurant Companies" was the headline Wednesday on a report from UBS Investment Research, where analyst David Palmer suggested that the negative publicity "will likely be fleeting."

If so, Palmer said, that would result in a minimal consumer response while the ban on U.S. beef imports by other countries could drive down domestic beef prices 20% or more.

"If the stocks open as weak as we expect, then we believe this could provide an even more compelling entry point" for McDonald's Corp. (MCD) in particular, he wrote.

"We would also view this positively for Wendy's (WEN)...The likely beef cost decrease could prove particularly propitious for Brinker (EAT), which has significant exposure to rising beef costs in 2004," Palmer said.

Goldman Sachs & Co. restaurants analyst Coralie Witter advised clients that "we would not panic sell (restaurant) stocks if the case remains isolated, given that these stocks rebounded" after last May's isolated case of Mad Cow disease in Canada.

Witter headlined her report "MCD, WEN, OSI likely to rebound if U.S. BSE case is isolated." OSI is the ticker symbol of Outback Steakhouse Inc. BSE is the abbreviation for bovine spongiform encephalopathy, the formal name for Mad Cow disease.

"This is likely a positive for 2004, when several larger restaurant chains lock in contracts on beef and will be able to do so at lower prices," wrote Matthew DiFrisco at Harris Nesbitt Corp. He said the May BSE scare "caused a knee-jerk reaction but no real long-term impact on either stock prices or overall consumption of beef."

Smith Barney restaurant analyst Mark Kalinowski concurred with others on the Street, advising clients that the situation "could make for trading opportunities...

"Past issues of this type show that these stocks typically recover lost ground quickly. As such, we'd use material declines in well-positioned companies such as McDonald's and Wendy's to add to long positions in those stocks," he wrote.

CIBC World Markets said that "buying on mad cow dips has been a successful strategy in past outbreaks. Still, it may take several weeks or even months to fully run down the source of this outbreak."

None of the analysts mentioned personally owns the stocks involved but UBS and Smith Barney said they seek to do business with companies covered in their research.

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