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EQUITIES	Close	Change	% +/-	P/E '05	YTD
ISEQ	6687 ↑	40	0.61%	11.0	7.88%
FTSE 100	5359 ↑	14	0.27%	13.5	11.31%
DAX 30	4955 ↑	32	0.66%	15.0	16.42%
DOW	10473 ↑	66	0.63%	19.5	-2.88%
NASDAQ	2144 ↑	30	1.43%	15.6	2.65%
S&P	1215 ↑	12	1.00%	21.0	0.23%

CURRENCIES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.2059	0.6794	140.9600
Dollar	1.2059	1.0000	1.7738	116.9000
Sterling	0.6794	1.7738	1.0000	207.4500
Yen	140.9600	116.9000	207.4500	1.0000
Oil (Nymex)	59.7500			

This Week's Research
HBOS
CRH

Today's Research
Eircom

Breaking News

Ryanair average fares up about 3%-4% in H1

Ryanair Chief Executive Michael O'Leary said yesterday that average fares for the first half of its current financial year rose by about 3% to 4% compared with the same period a year ago. He added that he still expects the airline to carry over 35 million passengers this year. O'Leary also said that the airline aims to launch a new in-flight entertainment system next summer. Sometime after this, possibly in 2007, it also aims to make in-flight gambling possible on its aircraft, he added. In-flight gambling could potentially generate €50 million in annual sales within a few years, O'Leary said. Ryanair will release Q2 results on Monday 7th November.

McCarthy & Stone reports 14% drop in profits

McCarthy & Stone, the retirement home builder, reported a 14 percent drop in profits in the year to August due to difficult conditions in the housebuilding market, and said it sees 'a testing year ahead'. The company posted pretax profits of 127.4 million pounds for the year to Aug 31 2005, down from 147.8 million last time, on sales up at 325.6 million pounds from 317.2 million. But volume sales of retirement homes declined by 3.5 percent to 1,983 units, and the company cautioned that it does not expect volumes for the current year to exceed those of last year. It also predicted a further easing of margins in the current year.

Unilever margins disappoint

Unilever reported a higher-than-expected 25 percent rise in third-quarter earnings today as cost savings and a move to higher priced products offset higher input costs. The consumer products group said underlying sales rose by 3.5 percent in the three months to September 30, slightly ahead of consensus forecasts of 3.8 percent. However the Anglo-Dutch group reported flat pricing over the quarter while its operating margins suffered a higher-than-expected fall. The company's operating profit margin declined sharply to 15.6 percent from around 17.7 percent the previous year.

Eircom (€2.40) Downgrading from BUY to NEUTRAL Stuart Draper

- Takeover approach : Eircom has confirmed that it has received a takeover approach, with the 0.25% fall in the Irish company's 5 year credit default swaps pointing to a well funded bidder, which Swisscom would be.
- Strong rationale : In our note of 07/10/05, we had described the strong rationale for a Swisscom approach, in that it had already stated that it was looking for Western European deals with no government stake, a criteria which Eircom would fit. Swisscom has already this year made failed takeover bids for both Telekom Austria and Cesky Telecom. Eircom is also one of the few European telecom companies sufficiently small to have takeover potential.
- ESOT risk : However, one potential barrier to a takeover could be the shareholding of the Employee Share Ownership Plan (ESOP), which stood at 20.9% as at 31/03/05. Once the ESOP's convertible preference shares of €159m are included, this stake rises to c.29%, which means that the agreement of the ESOP would be necessary for any deal to be successful.
- Recent deals : Earlier this year in the fixed line telecom sector, both Telefonica's takeover of Cesky Telecom and Cable & Wireless' takeover of Energis took place at an EV / 2005 EBITDA multiple of 6.2x. Applying the same multiple to Eircom and including a €36.2m EBITDA contribution from Meteor, would generate a potential takeover price of **€2.39 per share**, once Eircom's sizeable net debt of €1.502 bn is taken into account.
- Limited upside : Even though some may argue that an extra premium is warranted given the high growth prospects of the Irish economy, Cesky Telecom is the dominant player in the high growth Czech Republic economy, and it could equally be argued that an offsetting discount is warranted given that Meteor is a prepaid mobile operator which has yet to report a profit, rather than a profitable mobile business with a significant post paid base.
- Take profits : Therefore, in our view, even in the event of a successful takeover bid, there is limited further share price upside from the current €2.40 level, and so on a risk / reward basis, it may be advisable now to take profits. Therefore, we now downgrade our Eircom recommendation from BUY to NEUTRAL, the share price having risen by **29%** since our last BUY note of 24/10/05 : **NEUTRAL**.

Business Press

- Depfa on target to make over €500m in profits in 2005 (IT)
- Swisscom move on Eircom is latest bid to expand (IT)
- Economist sees chance of shock rise in ECB rates (II)
- Deutsche Telekom will not counterbid for O2 (FT)

Investment Press— Lex

- J&J/Guidant: The poker over Guidant's future has entered its final round. Johnson & Johnson on Wednesday secured anti-trust clearance to buy the medical devices group. That leaves 48 hours for J&J to close the deal, renegotiate the price or claim a material adverse change in Guidant's business and walk away.



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