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EQUITIES	Close	Change	% +/-	P/E '05	YTD
ISEQ	6830	↓ -60	-0.86%	11.0	10.20%
FTSE 100	5372	↓ -55	-1.02%	13.5	11.60%
DAX 30	5017	↓ -52	-1.03%	15.0	17.89%
DOW	10287	↓ -30	-0.29%	19.5	-4.60%
NASDAQ	2084	↓ -19	-0.90%	15.6	-0.24%
S&P	1191	↓ -5	-0.41%	21.0	-1.69%

CURRENCIES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.2162	0.6866	137.9800
Dollar	1.2162	1.0000	1.7735	113.4000
Sterling	0.6866	1.7735	1.0000	201.7100
Yen	137.9800	113.4000	201.7100	1.0000
Oil (Nymex)	61.3600			

This Week's Research
CNG Travel
ThirdForce
BNP Paribas

Today's Research
Eircom

Breaking News

C&W warn on profits

Cable & Wireless expects first-half revenue at its core business to fall 6 percent, hit by a weak retail business, the telecoms company said today. The company estimated total revenue for its business in the first-half to end-September to fall to 765 million pounds from 810 million in the same period last year, with retail revenues falling 13 percent to 375 million pounds. C&W said the business had seen a shift in the revenue mix to carrier services from retail, with weaker margins in the retail businesses. The firm said it had seen some loss of momentum in sales planning since the announcement of the Energis deal. C&W said the completion of the Energis deal could be delayed as approvals from the Office of Fair Trading took longer than expected.

EU to probe Ryanair in Finland

The European Commission has opened an investigation into Ryanair's use of a terminal at the airport in Tampere, Finland, a Commission spokesman said on Thursday. The terminal, which is only being used by Ryanair, is a cargo hall that has been turned into a no-frills passenger hall that costs less to maintain, meaning Ryanair pays less than other airlines for operating at the airport. The spokesman said that the probe followed a complaint against Ryanair from an unidentified source. Ryanair said in a statement the deal between it and Tampere airport is legal and supports competition.

Q2 sales up at Sainsbury

Same-store sales at supermarket group J Sainsbury rose 4.1 percent in the second quarter despite continued price cutting caused by fierce competition in the grocery market. But the company said it had increased its level of provisioning for bad or doubtful debt at its Sainsbury's Bank unit, and said it expected the financial services arm to report a small loss for the first half of the year. Total sales increased by 6.6 percent in the quarter, while same-store sales excluding fuel rose 2.8 percent.

Business Press

- Petrel raises €2.6m in placing (IT)
- Providence ends well drilling (IT)
- Trichet warns interest rates may rise due to oil prices (IT)
- Chances rise of UK rate cut (FT)

Eircom (€2.24)

Rights issue closes today

Stuart Draper

- Rights issue : Following press reports that significant holdings of Eircom rights have recently been accumulated as a possible way of stake-building in the company, the closing of the rights issue today will force any such rights holder to exercise them and disclose any resultant shareholding in excess of 3%.
- Talks denied : Eircom yesterday stated that it is not currently in talks with Swisscom or any other company in relation to a possible offer. The rights to 100m shares that are reported to have been accumulated would translate into a c.9.4% stake in Eircom.
- Takeover rationale : The rationale for Swisscom being a potential acquirer is that it has already stated that it is looking for Western European deals with no government stake, having recently made failed bids for both Telekom Austria and Cesky Telecom. Consolidation is also widespread in the European telecom sector currently and Eircom is sufficiently small to have takeover potential.
- ESOT stake : 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.
- Earnings dilution : Eircom recently announced revenue and EBITDA of €399m and €149m respectively for the 3 months ended 30/06/05, slightly lower than the prior year comparatives of €401m and €154m. Crucially, following the 5 for 12 rights issue at €1.35 per share, the consensus forward eps for Eircom falls by c.20% from 21.4c to 17.2c, and the dividend cover weakens from 1.95x to 1.56x post the deal.
- Discount deserved : This would leave Eircom currently trading at 13.0x forward eps, in line with the current European telecom sector average of 13.2x. However, our view is that at least a 10% discount to the sector is warranted given that Eircom's European peers have profitable mobile businesses with significant post paid bases, whereas Meteor is a prepaid mobile operator which has yet to report a profit.
- Risk / reward : Valuing Eircom at a 10% discount to peers generates a fair value of €2.04 per share, based on 11.88x forward eps of 17.2c. However, if a takeover bid were made a 20% premium to this level could be expected, generating a potential takeover price of €2.45 per share. Therefore, with the downside risk as large as the further upside potential from current levels, we reiterate our current NEUTRAL recommendation : **NEUTRAL**.

Investment Press— Lex

- Cadbury: The maker of Mini Eggs has laid a mini profit warning. Higher oil prices and the rising cost of both plastic and glass bottles will knock about £25m, or 3 per cent, off second-half profits.



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