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| EQUITIES | Close   | Change | % +/-  | P/E '05 | YTD    |
|----------|---------|--------|--------|---------|--------|
| ISEQ     | 6791 ↑  | 5      | 0.07%  | 11.0    | 9.56%  |
| FTSE 100 | 5470 ↑  | 5      | 0.09%  | 13.5    | 13.63% |
| DAX 30   | 5092 ↑  | 2      | 0.03%  | 15.0    | 19.65% |
| DOW      | 10697 ↑ | 11     | 0.10%  | 19.5    | -0.80% |
| NASDAQ   | 2201 ↓  | -2     | -0.07% | 15.6    | 5.36%  |
| S&P      | 1234 ↓  | -1     | -0.08% | 21.0    | 1.79%  |

| CURRENCIES  | Euro     | Dollar   | Stg      | Yen      |
|-------------|----------|----------|----------|----------|
| Euro        | 1.0000   | 1.1692   | 0.6726   | 138.9700 |
| Dollar      | 1.1692   | 1.0000   | 1.7379   | 118.8500 |
| Sterling    | 0.6726   | 1.7379   | 1.0000   | 206.5700 |
| Yen         | 138.9700 | 118.8500 | 206.5700 | 1.0000   |
| Oil (Nymex) | 57.6900  |          |          |          |

This Week's Research  
Grafton Group

Today's Research  
Eircom

## Breaking News

### Vodafone H1 results

Vodafone's H1 results have beaten consensus forecasts, but warned that growth would slow in 2007. Vodafone said EBITDA rose to 6.7 billion pounds on revenue of 18.3 billion pounds. Vodafone also boosted its share buy-back programme by 2 billion pounds to 6.5 billion for the year to March 2006 while increasing its dividend by 15 percent to 2.2 pence. Although the company reiterated full-year forecasts for revenue growth of 6 to 9 percent and flat or 1 percentage point weaker margins, it said its half-year margin fell to 37.9 percent from 39.4 percent and unveiled a more cautious forecast for 2007. It said 2007 free cashflow, mobile revenue growth and mobile EBITDA margins outside Japan would be lower than in 2006.

### Irish Ferries rejects Labour Court ruling

Irish Continental Group said Monday that its subsidiary Irish Ferries received the recommendations of the Labour Court in relation to its controversial cost reduction programme. The Labour Court has called on Irish Ferries to honour its 2004 wage-pact agreement with the two labor unions involved. Irish Ferries has rejected this recommendation and vowed to press ahead with plans to replace more than 500 employees with cheaper workers from Eastern Europe. The company said it could not accept the court's nonbinding ruling, adding that it faced "unprecedented adverse trading conditions" and found it "impossible to see how management can accept any course other than the cost-reduction program proposed by the company."

### UK house prices fall at slowest pace in 15 months

UK house prices fell at their weakest pace in over a year in the three months to October, a report has revealed today. The Royal Institution of Chartered Surveyors said its closely-watched house prices balance rose sharply to -9 in October from -21 in the three months to September, with prices in London showing their first increase in almost 15 months. RICS said the Bank of England's August quarter-point interest rate cut had helped to engineer the biggest rise in new buyer enquiries in nearly two years.

## Business Press

- O2 Ireland profits surge 14% to €130m (IT)
- Possible diamond find for Karelion (IT)
- Ormonde Spanish hopes riding high (IT)
- Irish retail sales grow at fastest rate in ten years (II)

## Eircom (€2.29)

## Q2 results announced

Stuart Draper

- Results announced : This morning, Eircom announced results for the 3 months ended 30/09/05. Revenue and EBITDA of €403m and €149m respectively were largely in line with consensus forecasts of €396m and €152m. The revenue figure was a year on year increase of 1% and the EBITDA result was a year on year decrease of 0.67%.
- Revenue flat : The flat revenue result was driven by reduced traffic revenues as traffic continues to migrate from fixed line to mobile, with the slight EBITDA deterioration was being offset by cost savings. However, some progress was achieved in adding broadband customers, with the number of broadband customers increasing from 141,000 to 184,000 at 10th November.
- Takeover approach : Eircom recently confirmed that it had received a takeover approach from Swisscom, which has been looking for Western European deals with no government stake for some time, following failed takeover bids for both Telekom Austria and Cesky Telecom earlier this year.
- 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.
- Risk / reward : Even though some may argue that a premium is warranted given the 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 off-setting 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, even in the event of a successful takeover bid, there may be limited further share price upside from current levels, and so on a risk / reward basis, it may be advisable now to take profits. Therefore, we recently downgraded our Eircom recommendation from BUY to NEUTRAL.

## Investment Press— Lex

- Britvic: Britvic's flotation mixes a cocktail of still drinks with a dash of fizzy equity markets. UK initial public offering volumes, £12.3bn so far in 2005, are bigger than the previous two years combined.



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