



October 24, 2005

Contact Details:

Email : research@dsl.ie
info@dsl.ie

Tel : +353 1 633 3800
Fax : +353 1 677 4708

EQUITIES	Close	Change	% +/-	P/E '05	YTD
ISEQ	6388 ↓	-100	-1.53%	11.0	3.07%
FTSE 100	5142 ↓	-22	-0.43%	13.5	6.82%
DAX 30	4838 ↓	-26	-0.53%	15.0	13.68%
DOW	10215 ↓	-66	-0.64%	19.5	-5.27%
NASDAQ	2082 ↑	14	0.68%	15.6	-0.33%
S&P	1180 ↑	2	0.15%	21.0	-2.67%

CURRENCIES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.1949	0.6753	137.6000
Dollar	1.1949	1.0000	1.7456	115.5900
Sterling	0.6753	1.7456	1.0000	200.3800
Yen	137.6000	115.5900	200.3800	1.0000
Oil (Nymex)	60.6300			

This Week's Research

Today's Research Eircom

Breaking News

BSkyB to buy Easynet

BSkyB has agreed to buy high-speed-Internet provider Easynet Group PLC in a deal valued at 211 million pounds which will boost revenues and counter increasing competition from cable-TV providers. The offer is being recommended by Easynet management. The satellite broadcaster said in a statement that Easynet represents an "attractive source of new revenues and new customers for BSKyB as a result of involvement in a fast-growing segment of the U.K. communications sector." This month, the U.K.'s two largest cable operators, NTL Inc. and Telewest Global, agreed to merge, creating a real threat to BSKyB.

Compass suspends senior executive

Compass suspended one of its top executives on Friday and ordered an independent investigation over claims of improper behaviour in connection with a contract for the United Nations. The law firm Freshfields Bruckhaus Deringer has been appointed to carry out the inquiry relating to a \$62m three-year contract to supply food and water to UN peacekeepers in the west African state of Liberia. According to reports, the Compass subsidiary Eures Support Services obtained confidential documents relating to the Liberian contract from IHC, a former contractor to the UN's procurement department.

Google shares surge after Q3 results

Shares of Google rallied 12% on Friday, after its Q3 results topped Wall Street's expectations. Google reported its quarterly net income rose more than sevenfold to \$437 million, or \$1.51 a share, topping analysts' forecasts of \$1.37. Google also said sales grew 96% to \$1.578 billion, of which 39% came from international markets. Excluding the commissions Google pays to its distribution partners, net revenue rose 110% to \$1.05 billion, beating forecasts at the high-end of \$979 million.

Business Press

- Tesco to launch catalogue venture (II)
- Porsche ahead of sales target (IE)
- Ericsson and Alcatel bid for Marconi (IE)
- Investment banks feel benefits of energy (FT)

Eircom (€1.86) Upgrading from NEUTRAL to BUY Stuart Draper

- Takeover speculation : As the recent speculation that Swisscom was preparing a takeover bid has proved unfounded, Eircom's share price has fallen by 17% over the past 2 weeks. Our view is that this may have created a buying opportunity **under €1.90**.
- B&B investment : The recent takeover speculation came to an end when Australian investment fund, Babcock & Brown, announced that it had purchased a 12.5% stake for A\$405m as an investment, and that the stake building had not been the first step of a takeover bid from an industry player. This means that the B&B investment was made at an average price of c.€1.90 per Eircom share (€255m divided by 134m shares).
- Earnings dilution : Following the recent 5 for 12 rights issue at €1.35 per share, Eircom's forward eps, for the 12 months ending 31/03/07, falls from c.21.4c to 17.2c. This is the first Eircom financial year in which Meteor will make a contribution.
- Discount valuation : However, even following such earnings dilution there would appear some upside potential for the share price from current levels. The European incumbent telecom sector currently trades at a sector average of 13x forward earnings, and it is reasonable that Eircom should trade at a 10% discount to this sector average 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.
- Upside potential : A 10% discount to the sector would generate an Eircom target price of €2 (8% upside), based on 11.7x forward eps of 17.2c. However, once the dividend yield of 5.9% is also taken into account, an attractive total return of 13.9% is generated, even without any further takeover speculation. Eircom reported 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.
- Recommendation upgrade : Eircom is due to pay 5c per share in early December as an interim dividend and 6c per share in late July as a final dividend. Even following the Meteor deal, dividend cover remains at the reasonably healthy level of 1.56x. Therefore, at current levels, we now upgrade our Eircom recommendation from NEUTRAL to BUY.

Investment Press— Lex

- Investment banks: Animal spirits are running high in investment banking. With profits at or near record levels, many securities houses are recruiting aggressively and moving into new business lines.



Disclaimer: The information in this document has been obtained from sources, which we believe to be reliable. We cannot guarantee its accuracy or completeness. It does not constitute a solicitation for the purchase or sale of any investment. Any person acting on the information contained in this document does so at their own risk. Recommendations in this document may not be suitable for all investors. Individual circumstances should be considered before a decision to invest is taken. Investors should note the following: Past experience is not necessarily a guide to future performance. The value of investments may fall or rise against investors' interests. Income levels from investments may fluctuate. Changes in exchange rates may have an adverse effect on the value of, or income from, investments denominated in foreign currencies.

Dolmen Stockbrokers is a Member of the Irish Stock Exchange, the London Stock Exchange, and is authorised by the IFSRA. Dolmen Stockbrokers is regulated by the IFSRA as a Mortgage Intermediary.