EIRCOM

Corporate bonds • Sector: Telecoms • Rating: B3/B- • 04.03.2009

JYSKE MARKETS

JYSKE BANK

Recommendation

BUY

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We point out that an investment in emerging-market and corporate bonds is currently associated with extra-ordinarily high uncertainty. We recommend investors to reduce their risk exposure, and consequently we have double underweight on high-yielding bonds. For long-term risk tolerant investors, there may be good investment openings in these turbulent times. The recommendations for individual bonds are relative to the market in general and therefore the recommendations apply provided that you have decided to invest in high-yielding bonds.

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Still solid cash flows at Eircom

Company Description

Eircom is the largest supplier of fixed-line services in Ireland (approx. 2.6m customers) and also delivers broadband services to approx. 655.000 customers and mobile services to another 1,032m customers. Eircom enjoys a very strong market position in the Irish market; it has a market share of 60%-80% in its various markets. Vodafone and 0_2 are the main competitors in the private customer market, while there are more providers who address corporate customers. Eircom is owned by Babcock & Brown (B&B), an Australian investment company and an employee share ownership trust (ESOT) managing investments in Eircom on behalf of current and former employees.

Bond ratings

Moody's: B3 (stable outlook)
S&P: B- (stable outlook)

Issues	Bid	Yield	Spread	Bond ID
€ Floater 2016*	33	28.79	2699	B01553

** The coupon is fixed quarterly at 3mEuribo+500. The bond has a change of control covenant at 101. It is callable at 101 from 15/08/08 and at 100 from 15/08/09 and the bond has an equity claw. The issue is EUR 350m.*

Recent Developments

Last week Eircom announced its Q2 08/09 accounts. The problems of the Irish economy are reflected in Eircom's accounts once again, and the management took a goodwill impairment charge of EUR 720m. Furthermore, lower activity in the Irish economy meant that EBITDA fell by 4%. Finally the development in the financial markets meant that Eircom now has unfunded pension obligations of EUR 433m. It will, however, not affect liquidity in the short term.

Generally activities within fixed-line telephony are on the decline, while broadband and mobile telephony activities continue to grow but at a slower pace than earlier. The company's target to have a market share of 20% now seems to have been reached, while Eircom experienced an inflow of broadband customers of 46,000 over the past six months

In the first six months of the financial year, Eircom invested EUR 197m, primarily in its 3G network, and it is now close to its EUR 900m investment target for a three-year period.

The company's liquid position is still sound. The free cash flow in the past quarter was EUR 106m, and the net debt was reduced by EUR 81m to EUR 3,353m. The financial gearing thus ended at 4.87x, corresponding to a reduction of approx. 0.1x against LTM Q1 2009.

Recommendation

In spite of the sharp slowdown in the Irish economy, Eircom still generates strong cash flows. Since a large share of the 3G investments has been made Eircom may increase its free cash flow further, which will contribute to offsetting the effect of slower activity in the Irish economy.

Eircom's bonds have been hit hard by bad news about Ireland. As we see it, it is not justified, since we still expect that the company's cash flows will remain strong throughout the crisis. Furthermore, the company's management has admitted that focus will now turn to reducing costs further to stabilise EBITDA. Therefore, we maintain our BUY recommendation for Eircom.

Strengths/Opportunities

- Strong position in Ireland
- Eircom has gained market share in the mobile market
- Rationalisation potential
- Good growth potential within mobile telephony

Weaknesses/Threats

- Slowdown in the Irish economy
- High gearing
- Sustained technological development
- Regulated market
- Migration from fixed-line to mobile services
- Keener competition in future
- Bank debt covenants

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Selected accounting figures	Q2 2008	Q2 2009	Q2 2008 LTM	Q2 2009 LTM
	(in EUR million unless otherwise stated)			
Income Statement				
Sales	520	517	2,024	2.057
EBITDA	173	167	671	688
EBIT	98	68	255	335
Interest expenses	82	151	289	347
Profit for the period	12	(805)	(27)	(33)
Balance Sheet				
Property, plant and equipment	2,155	2,140	2,155	2.140
Intangible assets	3,081	2,341	3,081	2.341
Short-term debt	138	60	138	60
Long-term debt	4,179	3,577	4,179	3.577
Total debt	4,317	3,637	4,317	3.637
Cash holdings and securities	342	284	342	284
Net debt	3,975	3,353	3,975	3.353
Operating leases	563	550	563	550
Equity	414	101	414	101
Balance sheet total	6,284	5,229	6,284	5.229
Cash Flow Statement				
Cash flow from operations before interest expenses and dividend (CFO)	160	201	609	795
Investments (capex)	78	95	227	369
FCF	82	106	382	426
Financial Ratios				
EBITDA margin	33%	32%	33%	33%
EBIT margin	19%	13%	13%	16%
Net margin	2%	-156%	-1%	-2%
EBITDA/interest expenses	211%	111%	232%	198%
CFO/interest expenses	195%	133%	211%	229%
Tangible fixed assets/total assets	34%	41%	34%	41%
Equity/total assets	7%	2%	7%	2%
Total debt/Equity	10.4x	36x	10.4x	36x
Debt ratios exclusive of leasing				
Total debt/EBITDA LTM	6.4x	5.3x	6.4x	5.3x
Net debt/EBITDA LTM	5.9x	4.87x	5.9x	4.87x
CFO LTM/total debt	14%	22%	14%	22%
FCF LTM/total debt	9%	12%	9%	12%
CFO LTM/interest expenses	2.1x	2.3x	2.1x	2.3x
FCF LTM/interest expenses	1.3x	1.2x	1.3x	1.2x
Debt ratios inclusive of leasing				
Total debt/EBITDA LTM	7.3x	6.1x	7.3x	6.1x
Net debt/EBITDA LTM	6.8x	5.7x	6.8x	5.7x
CFO LTM/total debt	0.12	0.19	0.12	0,19

Source: Eircom and Jyske Bank

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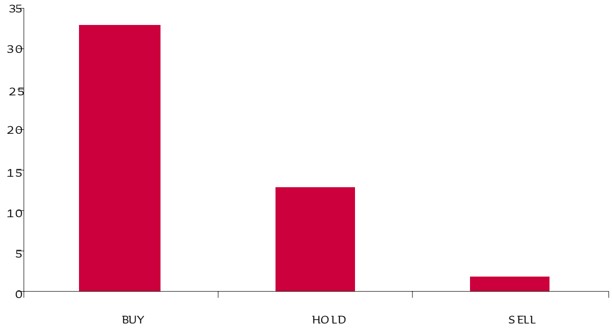
Jyske Bank's corporate bond recommendations – current breakdown

Breakdown of recommendations, corporate bonds (number)



Source: Jyske Bank

Financial models

Jyske Bank uses mainly Credit Edge from Moody's.

Risk

Investment in this corporate bond is associated with risk. Movements in the credit market, the sector and/or the news flows, etc. regarding the company may affect the price of the bond. See the front page of the research report for our view of the risk associated with the corporate bond. The risk factors stated and/or calculations of sensitivities in the research report are not to be considered all-encompassing. If the corporate bond is denominated in a currency other than the investor's base currency, the investor accepts an FX risk.

Update of the research report

The planned update of the report will be prepared immediately upon the release of the company's financial statements.

See the front page for the initial date of publication of the report.
All prices stated are the latest trading prices at the time of the release of the research report, unless otherwise stated.

Recommendation concepts

Our recommendations are based on market developments and an assessment of the expected return. A positive recommendation (BUY) is based on expectations that investment in the corporate bond will generate a return above that of the general credit market. On the other hand, a negative recommendation (SELL) implies that we expect investment in the corporate bond to generate a return below that of the general credit market.

The future and historical returns estimated in the research report are stated as returns before costs since returns after costs depend on a number of factors relating to individual customer relations, custodian charges, volume of trade as well as market-, currency- and product-specific factors.