



Thursday 8th NOVEMBER 2007

DAILY COMPANY NOTE - BT GROUP See page 2 for full details

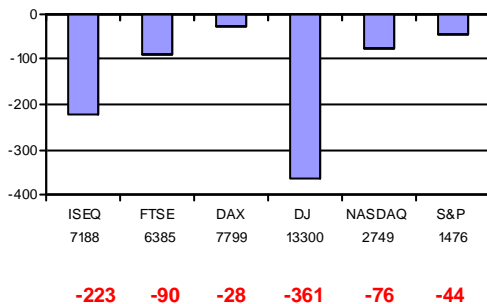
Daily Market Comment

Yesterday's Summary : Different day, same story. A weak dollar, oil sitting close to its all time high and gold breaking a 28 year high. Add in Merrill Lynch bringing out a report cutting earnings estimates on Irish banks and you end up with the ISEQ finishing the day at its lowest point since summer 2006. The ISEQ wasn't the only market that closed down with sentiment across Europe negative. Companies with large US dollar exposures were particularly badly affected especially the Autos .

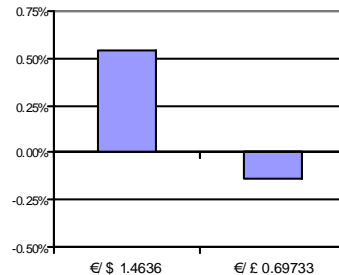
Overnight News : US Attorney General Andrew Cuomo announced Letters of Notice and Demand have been sent to the nation's two largest financiers of home mortgages, Fannie Mae and Freddie Mac. The subpoenas seek information on the mortgage loans Fannie Mae and Freddie Mac purchased from banks

Breaking News : CRH peer Lafarge announced net profit for Q3 was up 9% to €600m from €548m a year earlier, supported by emerging markets growth and higher prices, and in spite of the slowdown in the US residential market. Cement, aggregates and concrete were the driving businesses according to the company. Waterford Wedgwood reported wider first-half operating losses as sales suffered, but sees a strong Christmas season helping to lift its second-half performance. The firm posted an operating loss of €28.6m before exceptional items, compared with a loss of €12m in the same period in 2006.

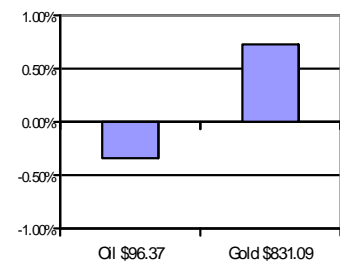
Equity Index's change on day



Currency daily % change



Oil/Gold daily % change



Paper Headlines

- O'Brien builds stake in IN&M to over 11% – **Independent News & Media** - (Irish Times)
- Earnings at AIB's Polish subsidiary grow by 34% - **AIB** - (Irish Times)
- Dublin's SE slumps in global turmoil - (Irish Independent)
- ICG directors sell shares – **ICG** - (Irish Independent)

Market Themes and Movers

Gold is not alone : While focus has been gold over the last couple of months silver futures continue to rise. Yesterday as Gold reached at 28 year high at over \$840 per oz Silver was also setting a new 27 year high at \$15.82 an oz. Precious metals have been on a tear the last two months. Demand has received a boost in part from the sinking US dollar, which is driving investors and traders to look to other investments as a way to preserve wealth.

Focus firmly on Trichet's comments : The European Central Bank held its key interest rate at 4.0 percent today as the bank contends with conflicting pressures from a soaring euro and a jump in euro zone inflation. It was expected that rates would remain unchanged for a fifth straight month as the ECB waits for a clear picture of the impact of financial market turmoil sparked by the US subprime mortgage crisis. Focus is now on ECB President Jean-Claude Trichet's monthly news conference later today.

It huffed and it puffed but it couldn't break through : Crude oil yesterday threatened to breach the \$100/b mark for the first time ever, but ultimately failed to break the psychological price barrier after the US government's Energy Information Administration reported a smaller-than-expected draw in crude inventories. With problems in the North Sea and a weakening U.S. dollar, the markets had US\$100/b in its sights yesterday, with NYMEX crude peaking at a new all-time record high of US\$98.62/b. The rally fizzled out, however, once the EIA data was released, showing a 0.8-million-barrel draw in crude inventories, with a 0.8-million-barrel draw in gasoline and a 0.1-million-barrel increase in distillate stocks.

Dolmen Squawk Box

Today five years ago Dublin closed fractionally above its session low as European bourses turned lower in afternoon trading on disappointment at the European Central Bank's decision to leave rates unchanged.



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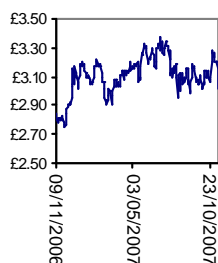
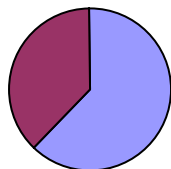
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BT Group

Target (11/10/2007)

£3.40
Current
£3.01
ISEQ
Telecom
Company Profile

BT Group provides telecommunications services. The group provides local and long-distance telephone call products and services, broadband network solutions and web hosting to corporate customers. BT operates in four main divisions; Global Services, Retail, Wholesale and Open-reach.

Statistics
Price Performance

Revenue by Region


■ Traditional 62%
■ New wave 38%

Results announced : BT Group (BT) announced second quarter results that were in line with expectations. EBITDA increased by 1.4% to £1.41bn, while revenue rose by 3.1% to £5.1bn. BT added 178,000 broadband clients, excluding new customers from acquisitions, and said it had 38% of the new UK broadband clients in the quarter. BT raised its interim dividend by 6% to 5.4p. The company also reiterated its guidance that it expects to grow revenue, EBITDA, EPS and dividends for the full-year.

New wave products : BT has been placing increasing focus on changing its operating mix to expand into new wave services which includes BT Global Services' integrated products, broadband and converged services. New wave revenues showed a strong increase of 10% to £1.9m and accounted for 38% of the group's revenue. BT's continued push to becoming a global leader in networked IT services saw it secure total contract wins of £1.6bn in the second quarter, with £9.2bn achieved over the last 12 months. BT also said it is on track to launch next generation broadband services in Spring 2008.

Restructuring : BT has undergone significant restructuring over the last number of years in both management changes and decreasing its workforce. The company has cut about 5,000 jobs in each of the past five years and expects to cut the same amount next year. BT said that its restructuring is 'slightly ahead' of schedule and that it will add to earnings within two to three years. BT has previously said that restructuring costs will total £450m.

Pension surplus : One factor that has previously weighed on BT's share price has been in relation to its pension deficit. However, its second quarter results reported a pension surplus of £1.5bn, up from £1.4bn in the first quarter and compared with a deficit of £2bn for the same period last year

Upside potential : BT currently trades at a 2009 forecast P/E of 12x and EV/EBITDA of 5.5x, a discount to its peer group of 14x and 6.7x respectively. While we believe that BT does deserve to trade at a discount given its lack of international exposure we feel that a multiple of 13x would be more appropriate. As a result, we generate our 12-month price target of £3.40 based on 13x forecasted 2009 EPS of 26p. Given BT's solid results today and 13% upside to our price target we reiterate our buy rating on the stock. BT shares also provide a dividend yield of c. 5% and offers investors a good safe have play in current market turbulence.

Major Shareholders	%	Peer Group Multiples			
Barclays Global	13.90%	Company name	P/E 07	P/E 08	EPS Growth 08-09
Barclays	4.47%	BT	12.9	12.7	7.00%
Brandes	4.10%	Vodafone	16.73	15.31	9.24%
Legal & General	4.04%	Cable & Wireless	33.3	20.4	63.14%

Shares Outstanding

Share Data	Financial Data	2007a	2008e	2009e	
Current Price (£)	3.02	Revenue (£m)	20,223	20,793	21,160
Mkt Cap (£m)	£24.4bn	PBT (£m)	2,852	2,542	2,576
Reuters	BT.L	EPS (£)	0.23	0.24	0.26
Bloomberg	BT/A LN	P/E(x)	13.1	12.9	12.1
Sector	Telecom	DPS (£)	0.15	0.15	0.16
CEO	Ben Verwaayen	Yield	5.00%	5.11%	5.43%
CFO	Hanif Lalani				
Website	www.btplc.com				



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