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EQUITIES	Close	Change	% +/-	P/E '07	YTD
ISEQ	8315	↓ -75	-0.90%	14.1	-11.62%
FTSE 100	6691	↑ 76	1.14%	13.2	7.56%
DAX 30	7987	↑ 7	0.08%	14.2	21.07%
DOW	14079	↓ -86	-0.60%	15.2	12.96%
NASDAQ	2812	↑ 8	0.29%	26.1	16.42%
S&P	1562	↓ -3	-0.20%	15.9	10.13%

CURRENCIES & RATES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.4173	0.6955	166.2300
Dollar	1.4173	1.0000	2.0376	117.2900
Sterling	0.6955	2.0376	1.0000	239.4200
Interest Rates (%)	4.0000	5.2500	5.7500	0.5000
Oil (Nymex)	80.2600			

This Week's Research
 Royal Bank of Scotland
 BHP Billiton
 C&C

Today's Research
 BT Group

Breaking News

UK announces plan to change air passenger duty

UK Chancellor Alistair Darling announced plans to replace air passenger duty (APD) in two years' time with a tax payable per plane rather than per passenger. The change will give airlines the incentive to fly full instead of flying half empty and wasting fuel in order to hang on to prized landing slots. In February, APD on short haul flights was doubled to €10 from €5 with the aim of cutting carbon emissions and the increase led to a decline in demand in air travel out of the UK. The new proposal more accurately reflects the fuel efficiency of aircrafts by placing the tax on each aircraft operated. This should benefit low-cost operators such as Ryanair and easyJet by rewarding higher load factors that should reduce the current per passenger tax regime. The proposals will now be debated and a consultation is to start immediately.

Consortium's bid for ABN Amro is unconditional

The RBS-led consortium have said that their €72bn offer for ABN Amro is now unconditional. The consortium which includes Fortis and Santander said that payment of the offer price of €35.60 in cash and 0.296 new RBS share for each ABN Amro share will take place next Wednesday. Around 86% of ABN shareholders have until October 31 to tender their shares. The consortium is expected to move quickly to demonstrate the value of the ABN deal particularly RBS which is taking on ABN's business most affected by the capital market turbulence.

Sony Ericsson reports third quarter profit ahead of expectations

The 50:50 mobile joint venture between Sony and Ericsson, Sony Ericsson, has reported a pretax profit of €384m ahead of the €380m expected by analysts. The average selling price (ASP) for its mobile phones fell to €120 from €147 a year earlier as the company expanded its lower-end phone range to compete for emerging market share with Nokia. The number of mobile units shipped rose to 25.9m from 19.8m a year earlier and the company expects total global sales for mobile phones across the industry for 2007 to be above 1.1 billion. Sony Ericsson also pointed out that it gained 1% market share compared to the same period last year and finished the quarter with over 9% of the market.

Business Press

- C&C chief blames bad weather for almost 33% fall in profits (IT)
- Providence discovery boosts shares (II)
- RBS consortium to take control of ABN with board nominations
- Cadbury has changes to address (FT)

Breaking News

BT Group (£3.04) Initiate coverage at buy Stephen Taylor

- Earnings catalyst : Since the Federal Reserve decided to cut interest rates by 0.5% on 18/09/07 shares in BT Group (BT) have underperformed the FTSE by c. 9% due mainly to the outperformance of interest rate sensitive stocks. On 08/11/07 BT is due to release its 2Q results that should provide a positive catalyst for the stock. BT is expected to report a 4% rise in EBITDA to £1.45bn on revenue of £5.1bn, an increase of 3%. We also believe that BT will reassure investors about its outlook to grow revenue, EBITDA, EPS and dividends.
- Acquisition announced : BT announced yesterday that it plans to acquire 68.6% of Net2, a French based IT consultancy firm valuing the group at €68.5m. BT will issue c. 7m new shares to fund 60% of the purchase with the remainder in cash. While the deal is relatively small for BT it represents its continuing commitment to expand its IT operations and the fact that Net2's shareholders are willing to accept equity in BT outlines their confidence in the company.
- New wave products : To combat the decline in fixed line revenues, BT has been increasing its focus on offering 'new wave' services which includes BT Global Services' integrated products, broadband and converged services. For the year ended March 2007, new wave products accounted for 36% of group revenues, up from 32% in the previous financial year. At BT's recent 1Q results for the period ending 30/06/07 total group revenue showed a 3% increase, while new wave revenue rose by 11%. Key to increases in new wave revenue has been due to BT's expansion in networked IT solutions to include outsourcing and management services for corporates.
- Pension surplus : One factor that has previously weighed on BT's shares has been in relation to its pension deficit. However at the group's 1Q results BT reported a pension surplus of £1.4bn compared to a deficit of £1.6bn in the previous year. BT has also reduced the equity proportion of its pension investments over the last number of years to 55% from 64%.
- Peer discount : BT currently trades at a 2008 forecasted 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 BT does deserve to trade at a discount given its lack of international exposure we feel that a P/E multiple of 13x would be more appropriate. As a result we generate our 12-month price target of £3.40 based on 13x forecasted 2008 EPS of 26p and initiate coverage of BT with a BUY rating. What should also underpin the group's share price is that it provides a forecasted 2008 dividend yield of 5.5%: **BUY**

Investment Press

- Antitrust rush: The November 2008 election is looming, and Democratic presidential candidates are promising voters that they will come down harder on big business combinations. So are US companies getting together while they still can?

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