



Thursday 12th June 2008

DAILY COMPANY NOTE — BT Group See page 2 for full details

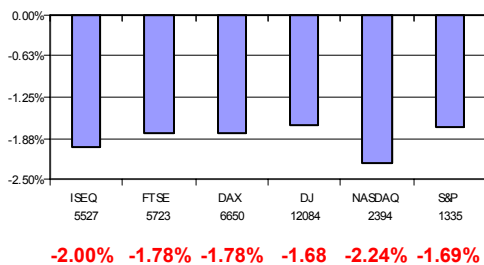
Daily Market Comment

Yesterday's Summary : Despite an ECB board member Juergen Stark dampening speculation over a series of European interest hikes and US mortgage applications rising after three weeks of declines, it was another brutal trading session yesterday, as the ISEQ closed down 2% at 5,527.39. There was further downside for Irish financials, with investor sentiment ruthlessly deteriorating day by day. AIB lost 3.2% to €11.18, Bank of Ireland fell 3.6% to €6.37 and Anglo shed nearly 3% to €6.80. However housing related stocks were the biggest losers on the day, as a UK property downgrade by Merrill Lynch hit the sector hard. McInerney Holdings declined 14% to €0.73, Abbey dropped 8% to €4.37, while CRH lost 3.08% to €20.42.

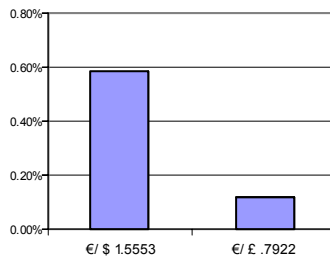
Overnight News : In Japan, the benchmark Nikkei dropped 2.1% to finish at 13,888.60, after a rebound in crude oil prices reignited inflation fears. China's benchmark Shanghai Composite Index closed down 2.21% at 2,957.53 amid high CPI growth levels.

Breaking News : HBOS has said that its £4bn rights issue is going according to plan and that current trading and specifically mortgage arrears performance, is in line with their expectations. In response to a massive decline in its share price yesterday, Barrett developments issued a statement indicating that they remain comfortable with market consensus forecasts for the year of 18,300 completions, and profit before tax and exceptional charges of £395m. Anthony O'Reilly, CEO of Independent News & Media has said in their annual shareholders meeting yesterday that revenues for the year to date were slightly ahead in constant currency terms, while advertising conditions remain volatile in the second quarter. Meanwhile InBev has offered to buy Anheuser-Busch, the maker of Budweiser beer, for \$46.3bn, which would create the world's biggest brewer with half of the US market.

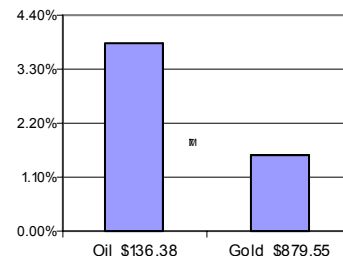
Equity Indices change on day



Currency daily % change



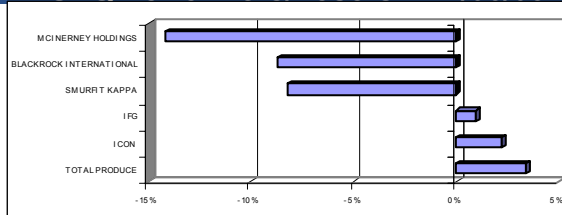
Oil/Gold daily % change



News

- “O'Reilly defends 'unique cocktail' of IN&M board”-**IN&M**-(The Irish Times)
- “ECB officials say if interest rate rises it will be a one-off”-(The Irish Times)
- “Permanent mortgages riding out the slump”-**Irish Life & Permanent**-(I.I)
- “Elan restarts trials of new Alzheimer's drug”-**Elan**-(Irish Independent)
- “Smurfit Kappa on acquisition trial”-**Smurfit Kappa**-(Irish Independent)

ISEQ Performers/Losers 11/06/08



Market Themes and Movers

Europe watches as Ireland goes to the polls: Ireland goes to the polls today to decide the future of the European community. Ireland which is regarded as the most pro-Europe nation in the EU could be about to reject the treaty, and cast the future of the EU into doubt. Despite the backing of all the major political parties support for the treaty has been divided fairly equally between the two camps, although a significant proportion of voters are still undecided. The campaign has had its share of controversy. Both sides have interpreted the treaty in different ways, the Yes campaign claims Ireland will retain its Independence and control over its Tax policies, while the No campaign claims that it is a step towards a Federal Europe, and a loss of Ireland's low corporate tax policies. A key factor behind the resistance to the treaty appears to stem from the confusion of the language of the treaty as opposed to anti-Europe sentiment. As the only nation to vote on the treaty, all other countries ratified the treaty without voting, the burden on the Irish voter is very great. A rejection of the treaty would lead to an uncertain future for Europe, as would its acceptance. Incredibly, the future of over 500 million Europeans will be decided by just over 3 million eligible Irish voters.



Dolmen Securities
 75 St. Stephen's Green, Dublin 2, Ireland.
 45 South Mall, Cork, Ireland
 Theatre Court, Mallow St, Limerick, Ireland.

Website : www.dolmenstockbrokers.ie
 Tel : +353 1 633 3800/1890 400 300
 Tel : +353 21 422 2122
 Tel : +353 61 436 500

E-mail: info@dsl.ie
 E-mail: cork@dsl.ie
 E-mail: Limerick@dsl.ie

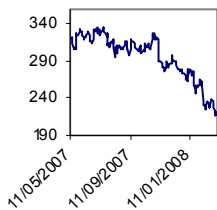
BT Group

FTSE
Telecom
Company Profile

BT Group provides telecommunications services. The group offers local and long-distance telephone products and services in the UK, broadband network solutions and web hosting to corporate customers, network ADSL, ISDN and IP services to companies.

Fundamental view

- On 15/05/08 shares in BT Group rose by 6% to 235p after the group reported consensus beating fourth quarter results. The shares have fallen back in the last number of weeks in line with the broader equity market and we believe that this weakness offers an excellent buying opportunity.
- To combat a slowdown in fixed line revenue BT Group has been increasing its focus on new wave revenue. New wave revenue during the fourth quarter rose by 9% to £2.3bn and now accounts for 42% of group revenue up from 39% last year. New wave revenue is mainly generated from networked IT services, broadband and mobility. BT remains the number one supplier of broadband networks in the UK with 12.7m customers at the end of March generating a 35% market share for the company. A further example of BT's expansion into new wave services is that it recently announced that all of its BT Vision IPTV customers will be able to receive high-definition television, gaming and movies through Microsoft's Xbox 360 console.
- Like all telecom companies, BT Group has a significant net debt position that currently stands at £9.5bn. However the group has sufficient interest cover of 3.2x with a debt to equity ratio of c. 50% which is broadly in line with the sector as a whole.
- A factor that has weighed on BT Group's share price is in relation to its pension situation. However the group today reported a healthy pension surplus of £2.1bn compared with a deficit of £0.2bn for the same period last year which should alleviate investor concerns.

Next catalyst
Statistics
Price Performance


- The next catalyst for BT Group will be on the 20/08/08 when the group's final dividend of 10.4p (representing 5% dividend yield) is due to trade ex. BT Group's shares currently trade at c. 30% discount to its peer group. While we do feel that the group deserves to trade at a discount given its lack of international exposure we believe that a 20% discount is warranted. As a result this generates our 12-month price target of 250p based on an earnings multiple of 10x 2009 forecasted EPS of 25p. What should also underpin the group's share price is that it currently has £1bn of its £2.5bn share buyback programme remaining which is due to be completed by 31/03/09.

Chart view: BT Group

Support Primary: 205
Support Secondary: 190
Resistance Primary: 227
Resistance Secondary: 240

Stock is approaching the lower end of its 5 month 205-240 trading range and this would appear to offer an attractive long entry point. However, the chart outlook is not yet positive and some caution may be warranted in this area as a break of 205 may suggest a move towards 190. Watch 205.

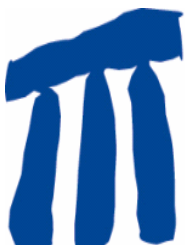
Revenue by division


■ New Wave Revenue 42%
■ EMAPA 58%

Major Shareholders	%	Peer Group Multiples			
		Company name	P/E 08	P/E 09	EPS Growth 08-09
Invesco	5.08%	BT Group	8.9	8.5	4.60%
Legal & General	4.98%	Vodafone	11.6	10.7	8.41%
Barclays	4.66%	Deutsche Telekom	13.7	12.2	12.30%
Brandes	4.27%	BSkyB	19.9	15.2	30.77%

Shares Outstanding 7712m

Share Data	Financial Data	2007	2008	2009e
Current Price (p)	Revenue (£m)	20,223	20,704	21,000
Mkt Cap (£m)	PBT (£m)	2495.0	2506	2900
Reuters	EPS (p)	22.70	23.90	25.00
Bloomberg	P/E(x)	9.34	8.87	8.48
Sector	DPS(p)	15.10	15.80	16.30
Chairman	Dividend Yield	7.12%	7.45%	7.69%
CFO				
Website				





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