



Thursday 15th May 2008

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

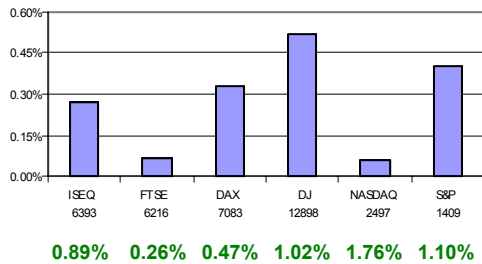
Daily Market Comment

Yesterday's Summary : Despite a very gloomy inflation outlook issued by the Bank of England, the ISEQ managed to finish in positive territory yesterday, as better than expected US CPI data pushed the Irish exchange up 0.89% to close 6,393.50. With Bradford & Bingley announcing a £300m rights issue, it was a mixed day for Irish financials. Bank of Ireland ended the session 0.5% lower at €8.76, Anglo Irish gained 0.97% to €9.40, while AIB, ahead of their interim management statement today, climbed 1.34% to €13.60. Glanbia soared 4% to €5.20, as management reiterated their guidance for double digit revenue growth this year.

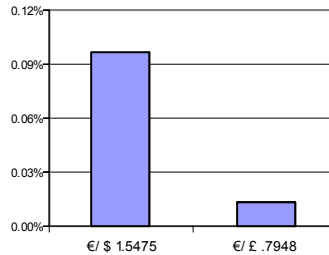
Overnight News : In Japan, the Nikkei closed up 0.9% at 14,251.74, as investors sought out bargains after Wall Street advanced overnight. In China, the benchmark Shanghai Composite Index closed down 0.55% at 3,637.32 led by banks as investors booked profits after a significant rebound in the previous session. Australia's S&P/ASX 200 closed up 0.3% at 5,890.7.

Breaking News : Kingspan have re-iterated their previous guidance of a year on year reduction in earnings for 2008. However, they did say that they are well placed to respond favorable to an upturn in economic activity. Barclays have said it took £1bn in writedowns in the first quarter and despite much expectation to the contrary, it did not announce a capital rights issue. AerLingus have reported a 10% rise in first quarter revenue, while passengers numbers increased by 11% year on year to 3.2 million. Meanwhile, PaddyPower has predicted a 2008 operating profit of €82m, up 14% from last year and 8% higher than consensus estimates. AIB has released its interim management statement and it has re-iterated its low single digit eps growth guidance for the year. In addition they said that its core tier 1 ratio is expected to be at or above the end 2007 level of 5.6% , for the end of 2008.

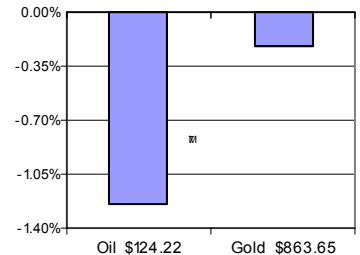
Equity Indices change on day



Currency daily % change



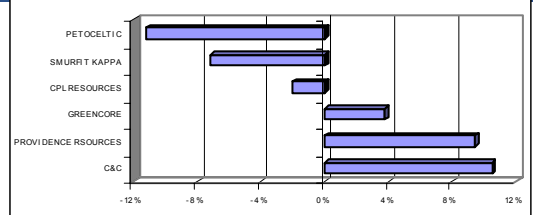
Oil/Gold daily % change



News

- "Glanbia set for 15% rise in eps in 2008"-**Glanbia**-(Irish Independent)
- "**Tullow Oil** plans to drill 25 wells this year in Ghana"-(Irish Independent)
- "**Bradford & Bingley** joins list of UK banks in search of funding"-(Irish Times)
- "Johnston Press in €267m rights issue"-**Johnston Press**-(Irish Examiner)
- "Freddie Mac reports €98m loss"-**Freddie Mac**-(Irish Examiner)

ISEQ Performers/Losers 14/05/08



Market Themes and Movers

RBS rights issue : This morning, dealings in the new **RBS** shares, nil paid, commenced on the London Stock Exchange (LSE). Shareholders are receiving the right to BUY **11** additional shares at £2 for every **18** currently owned. Dealings in the new shares, fully paid, will commence on the LSE on **9th June**. Based on yesterday's RBS closing price of 319.25p, the theoretical ex rights price at which the shares should be trading today is **274p**.

European GDP & Inflation : The European Statistics Office has reported that gross domestic product in the euro area has increased by 0.7% from the previous three months, implying a year on year GDP growth of 2.2%. This data comes in 0.3% higher than economist forecasts of 0.5%, as stronger than expected growth in both Germany and France compensated for the slowing economies of Italy and Spain. Annual euro area inflation was also confirmed today and according to the Eurostat estimates, consumer prices in the 15 member eurozone rose by 0.3% on a monthly basis, indicating an annual inflation rate of 3.3% in April. Annual euro area inflation hit a record high of 3.6% in March, where it was 1.9% the previous year. Soaring oil and food costs are being blamed for the dramatic price increases.



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BT Group

Stephen Taylor BUY

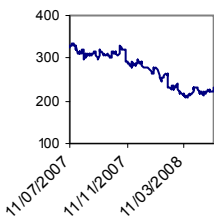
| | |
|----------------------------|-------------|
| Target | 250p |
| Previous (28/03/08) | 245p |
| Current | 223p |

FTSE
Telecom
Company Profile

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

Fundamental view

- This morning, BT Group posted a strong set of fourth quarter results for the period ending 31/03/08. The group reported an 11% rise in adjusted EPS to 7p slightly ahead of analyst expectations. Revenue increased by 2% to £5.4bn boosted by its continued expansion into new wave revenue to combat a decline in fixed line sales. The group's full-year dividend also showed a healthy increase rising by 5% to 15.8p. BT group reiterated that that it expects to grow revenue, earnings and dividends.
- To combat a slowdown in fixed line revenue BT Group has been increasing its focus on new wave revenue. New wave revenue 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.

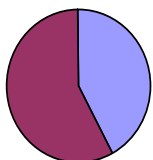
Statistics
Price Performance

Next catalyst

- The next catalyst for BT Group will be on the 20/08/08 when the group's final dividend of 10.4p (representing 4.5% dividend yield) is due to be paid. 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: 219
Support Secondary: 205
Resistance Primary: 239
Resistance Secondary: 253

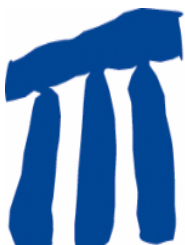
Stock continues to trade in its 6 ½ month 205-240 range. A solid support base has been built at the lower end of this range and this should limit any downside. To the upside the 239 level may prove difficult to overcome on the first attempt. A break of this level will have the stock targeting the 260 area. Look to trade the range.

Revenue by Division


■ Traditional 42%
■ New Wave Revenue 25%

| Major Shareholders | % | Peer Group Multiples. | | | |
|--------------------|-------|-----------------------|--------|--------|------------------|
| | | Company name | P/E 08 | P/E 09 | EPS Growth 08-09 |
| Invesco | 5.08% | BT Group | 9.3 | 8.9 | 4.60% |
| Legal & General | 4.98% | Vodafone | 13.9 | 12.3 | 13.01% |
| Barclays | 4.66% | Deutsche Telekom | 15.7 | 14.1 | 11.35% |
| Brandes | 4.27% | BSkyB | 19.0 | 15.1 | 25.83% |
| Shares Outstanding | | 7744m | | | |

| Share Data | Financial Data | 2007 | 2008 | 2009e |
|-------------------|----------------|--------|--------|--------|
| Current Price (p) | Revenue (£m) | 20,223 | 20,704 | 21,000 |
| Mkt Cap (£m) | PBT (£m) | 2,495 | 2,506 | 2,900 |
| Reuters | EPS (p) | 22.70 | 23.90 | 25.00 |
| Bloomberg | P/E(x) | 9.82 | 9.33 | 8.92 |
| Sector | DPS (p) | 15.10 | 15.80 | 16.30 |
| Chairman | Dividend Yield | 6.77% | 7.09% | 7.31% |
| CFO | | | | |
| Website | | | | |





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