

BT Group PLC

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BT offers 'attractive value' as regulatory and price pressures ease

BT Group PLC (LON:BT.) offers "attractive value" and there is scope for spending to fall "materially" in future to reduce the pressure on the dividend, Goldman Sachs reckons.

As part of a wider note on the "best and brightest" UK equity ideas, the investment bank restated its 'buy' recommendation on BT's shares, with a 12-month price target of 265p versus the last closing price of 172.18p.

Improving regulatory backdrop

Goldman's analysts see an "improving regulatory framework facilitating returns on fibre investment over the medium term", with the update from regulator Ofcom at the turn of the calendar year a catalyst for BT, "as higher capex to date has essentially been written off by the market".

Hopefully providing clarity on a long-term regulatory model for high-speed broadband, or fibre to the home (FTTH), for potentially 10 years-plus will be useful for the company and investors.

Another medium-term catalyst is BT's transformation plan under new boss Philip Jansen, with Goldman even seeing "extensive opportunity to restructure beyond this".

Furthermore, while Jansen's pledge to fulfil the government's wishes and accelerate investment in FTTH, which is likely to drive higher capital investment, the analysts see the potential for a fall in non-FTTH spending that would potentially avert the need for further spending hikes and therefore any near-term free cash flow downgrades.

Reduced pricing pressure

With Sky upping prices and Virgin Media recently communicating that it is following suit, thereby reducing one aspect of competitive pressure for BT.

Combined with BT's easier comparative second-half figures from last year and the improving regulatory backdrop, Goldman's analysts reckon the shares offer value from a circa-20% discount to peers.

"Given low consensus FY20 expectations, we see scope for a re-rating as BT continues to deliver improving results."

BT shares, which have lost 25% over the past six months and around two thirds over the past four years, were flat on Tuesday 171.92p.

Investors eye upturn for UK stocks

As part of its wider note, Goldman observed that the past year has seen UK domestic-facing stocks meaningfully underperform their internationally facing cousins.

The bank's strategists have found that, on a sector level, the areas that trade on the deepest discount to the broader

Price: 184.12

Market Cap: £18.2 billion

1 Year Share Price Graph



Share Information

Code: BT.A

Listing: LSE

52 week High Low
241.4 157.674

Sector: Telecoms

Website: www.btplc.com

Company Synopsis:

Operating in over 170 countries, BT is one of the world's leading providers of communications solutions and services.

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market include homebuilders and domestic banks, on 38% and 56% discounts to MSCI World index on 12-month forward p/e ratios respectively.

With the pound down sharply to below \$1.21 as Boris Johnson's government raises uncertainty about the Brexit process, accompanied by weak UK growth data, Goldman noted that when data and sentiment are this weak, it is "not unusual for speculation about an eventual upturn".

The strategists see several reasons to support interest in UK equities, including that many are trading at a sharp discount amid high levels of interest in UK assets in terms of inward M&A, while the prospect remains of a looser fiscal programme in the UK if and when a deal on Brexit has been passed.

"However, the next few months are likely to remain volatile as we head through a number of important deadlines. The same problems, in terms of parliamentary arithmetic, face the new government as faced Theresa May and her government.

"And the economic impact is becoming more pressing - fixed Investment is contracting, and consumer growth on our forecasts (which assumes a deal and a transition arrangement) is just 0.5% and 0.6% in 2020 and 2021, respectively; half the pace we expect in Euro area."

In light of this continued uncertainty, Goldman said its stock pickers were staying "highly selective" in the region.

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