

PORTUGAL

2Q04 GDP Surprises

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- 2Q04 GDP surprised on the upside yesterday (September 8), growing at an impressive 4.7% QoQ annualised rate and bringing YoY growth to 1.5% in 2Q04, an acceleration from the 0.9% growth posted in 1Q04. The 2Q04 figures suggest that the economic recovery is clearly on track and that the economy is actually growing faster than anticipated. Internal demand was extremely strong, particularly at the private consumption and business spending levels. We now see our full year 1.3% GDP growth estimate as conservative.

Portugal – 2Q04 GDP Breakdown

(%)	QoQa	YoY
GDP	4.7	1.5
Internal demand	–	2.8
Private consumption	7.0	2.8
Business spending	10.2	3.9
Public consumption	1.4	0.6
External demand	–	-1.3
Exports	13.5	9.8
Imports	9.7	8.1

Source: INE (National Statistics Institute).

- We believe the numbers clearly show that the economy is growing and that GDP growth in 2005F will accelerate further, to well over 2%, with private consumption continuing to lead the way. Thus, the domestic macro environment remains compelling for equity investments and the risk to company earnings remains on the upside. At this stage, we recommend **Brisa**, **Impresa**, **Portugal Telecom**, **PT Multimedia** as the perfect way to play the economic recovery theme. We also believe banks, like **BES** or **BCP**, will provide attractive returns.
- **Brisa** (target price €7.50/share, current price €6.33/share) remains a compelling investment story, as it is the European motorway company that historically reports the highest sensitivity to traffic growth and GDP (2.2x). It has underperformed the sector this year and is trading at a discount to peers. IRR stands at 9.7% and the dividend yield at close to 4%. If July domestic tourism numbers (8% YoY growth) are any indication, 3Q04E traffic growth should again be extremely strong and further growth opportunities through new concessions in Portugal underpin the equity story.
- We like media stocks and although **MediaCapital** (target price €6.00/share, current price €4.05/share) is trading at a discount to **Impresa** (target price €5.00/share, current price €4.09/share), we believe Impresa's short-term momentum will be more positive on the back of TV audience gains. It trades at 7.8x 2005F EV/EBITDA and 15x 2005F P/E on what may prove to be conservative advertising growth estimates. Our estimates assume 7% advertising growth a year in 2004E-05F, while the latest advertising projections for 2004 by buying agencies point to as much as 14% growth. The tremendous operating leverage (1pp more on the top line implies a 3%-4% gain in EBITDA) may provide further earnings surprises.

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- We believe telecom stocks should also do well in the short term and **PT Multimedia** (target price €21.60/share, current price €18.22/share) is our preferred stock in the sector. Earnings growth remains extremely strong and we believe that a sharp increase in shareholder remuneration is just around the corner, given the company's extremely low debt level. Also, **Portugal Telecom's** (target price €8.45/share, current price €10.40/share) strong 2Q04 numbers, which point to a stabilisation of EBITDA in the wireline segment in Portugal (vs our 3% projected decline for 2004E) and better-than-expected mobile numbers, should provide room for earnings upgrades and momentum.
 - We believe banks should also provide attractive opportunities, as provision requirements fall in the midst of stronger economic growth. We believe **BES** (target price €16.00/share, current price €13.50/share) is a safe investment option because its strong earnings momentum in the past few quarters and higher provisioning requirements in recent years have given it better chances for an earnings upgrades. However, we also feel that **BCP** (target price €2.10/share, current price €1.80/share) has been left out of the recent momentum seen in bank stocks, without any real reason. The SeP disposal provides a more solid capital base to grow and at 10.5x 2005F earnings, its valuation is compelling.

ANALYST CERTIFICATION: I, Manuel Preto, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been promised compensation either directly or indirectly for expressing the recommendations in this report.

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Key to Investment Codes¹

Buy	Upside of more than 20%.
Hold	Upside of 15%-20%.
Underweight	Upside of less than 15%.

(1) Target prices set from January to June are for December 31 of the current year. Target prices set from July to December are for December 31 of the following year.

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