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ACCIONA (SPAIN)

BUY

EUR	Market Cap (mn)	Target Price	Present Price	52-Week Range	2005E P/E (x)	2006F P/E (x)	2005E EPS	2006F EPS	2005E GDY (%)	Reuters Code	Bloomberg Code
	6,037.2	0.00	95.00	51.00 - 95.00	20.9	17.7	4.54	5.37	2.4	ANA.MC	ANA SM

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To build a new biodiesel plant

(Gaceta de los Negocios - PAGE 8)

Acciona is to build a new biodiesel plant in Tarragona and to double the capacity of its Caparros plant in Navarre. The Caparros plant has a capacity of 40mn litres per year and the investment to expand the capacity would total Euro8mn. Acciona has reached a distribution agreement with Repsol YPF for its biodiesel business. The biodiesel produced by Acciona uses oil from rapeseed, soy and sunflowers.

ANALYSIS:

The new Plan for Renewable Energy is raising the target for the use of this type of fuel in Spain's energy map from 6.9% to 12.1% by 2010. In the specific case of biofuels, the new Plan contemplates increasing the energy produced from the current 228 tonnes to 2,200 tonnes.

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BBVA (SPAIN)

BUY

EUR	Market Cap (mn)	Target Price	Present Price	52-Week Range	2005E P/E (x)	2006F P/E (x)	2005E EPS	2006F EPS	2005E GDY (%)	Reuters Code	Bloomberg Code
	47,743.2	14.50	14.08	10.94 - 14.17	12.6	10.9	1.11	1.29	4.2	BBVA.MC	BBVA SM

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Aims to be one of the world's top 10 banks

(Expansión - PAGE 1)

Yesterday (September 12), chairman Francisco González stated that BBVA needed to undertake an acquisition to become one of the top 10 banks in the world. The bank plans to expand in Europe, South East Asia and the US. Mr González does not rule out any type of acquisition, even a return to Brazil.

ANALYSIS:

This is not major news, as the bank has been looking for acquisitions recently. We expect BBVA to manage a decent acquisition in terms of size, at a reasonable price. BBVA remains our top pick in the Spanish banking sector.


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BANCO SABADELL (SPAIN)

UNDERWEIGHT

EUR	Market Cap (mn)	Target Price	Present Price	52-Week Range	2005E P/E (x)	2006F P/E (x)	2005E EPS	2006F EPS	2005E GDY (%)	Reuters Code	Bloomberg Code
	6,481.2	21.00	21.18	16.50 - 21.61	15.1	12.8	1.40	1.65	2.8	SAB.MC	SAB SM

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To outsource IT systems

(Expansión - PAGE 18)

Expansión reports today (September 13) that Banco Sabadell (SAB) has agreed to outsource the management of its IT systems to IBM. The report says that SAB expects to achieve Euro42mn in annual cost savings from this contract over its ten-year term.

ANALYSIS:

If confirmed, this news would obviously be good for the stock. This level of savings would have an after-tax present value of Euro0.62 per share, which would, therefore, boost our valuation of SAB from Euro21.00/share to around Euro21.50-22.00. We expect SAB's share price to react positively to this news. However, the additional value created by this transaction would not be enough for us to justify a change in recommendation, given the low upside remaining to our valuation of SAB once we adjust for the potential cost savings. We remain cautious on the strategic merits of giving a third party the management of such an important resource as the bank's IT systems. However, the size of the cost savings seems to imply that SAB believes that the loss of control over its IT systems is worth the price.

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FERROVIAL (SPAIN)

BUY

EUR	Market Cap (mn)	Target Price	Present Price	52-Week Range	2005E P/E (x)	2006F P/E (x)	2005E EPS	2006F EPS	2005E GDY (%)	Reuters Code	Bloomberg Code
	9,201.1	71.20	65.60	34.71 - 65.60	27.8	24.7	2.36	2.66	1.4	FER.MC	FER SM

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Swissport to enter Cypriot market

(Expansión - PAGE 16)

Swissport, the airport-handling operator recently acquired by Ferrovial, has set up a joint venture with a local partner to enter Cyprus. Swissport is interested in participating in the liberalisation of the handling market in Cyprus and in providing handling services in Kamarca and Paphos.

ANALYSIS:

Cyprus is becoming one of the main tourist destinations in Europe and the fact that it is an island means that a relatively high amount of visitors arrives by plane. This would be Swissport's first deal since its acquisition by Ferrovial last August for Euro646mn. Swissport is the world's leading independent (not associated with any airline or airport) passenger and cargo handling operator. It operates in more than 170 airports in 40 countries, and over 90% of its revenues are generated in Europe and North America. According to the company, the handling market is expected to expand rapidly, at over 5% per year going forward. The growth in air traffic (both passenger and cargo), worldwide liberalisation of airport management and growing trend towards outsourcing of handling by airlines support this favourable forecast.


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BUY**PROSEGUR (SPAIN)**

EUR	Market Cap (mn)	Target Price	Present Price	52-Week Range	2005E P/E (x)	2006F P/E (x)	2005E EPS	2006F EPS	2005E GDY (%)	Reuters Code	Bloomberg Code
	1,172.5	20.00	19.00	13.03 - 19.38	18.7	15.9	1.02	1.19	89.5	PSG.MC	PSG SM

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Group 4 merger ahead of expectations; more acquisitions likely

(Financial Times - UK - PAGE 24)

Group 4's CEO, Nick Buckles, who became CEO at the beginning of July, has said that the integration process of Group 4 and Securicor is progressing faster than expected and the scheduled synergies are going to be achieved a year earlier than forecasted. He also stated that the company is now interested in new acquisitions in Mexico, Brazil, Spain, Portugal and Australia.

ANALYSIS:

In our opinion, this should bring more speculation on Prosegur, as it is the obvious candidate to fit in with this growth strategy. However, we think we are unlikely to see a transaction in the short term, as we believe Prosegur's main shareholder, with a 51% stake, would prefer to make the company grow before selling it to a third party.

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BUY**REPSOL YPF (SPAIN)**

EUR	Market Cap (mn)	Target Price	Present Price	52-Week Range	2005E P/E (x)	2006F P/E (x)	2005E EPS	2006F EPS	2005E GDY (%)	Reuters Code	Bloomberg Code
	31,685.0	26.70	25.95	16.83 - 25.95	9.6	9.7	2.70	2.68	2.3	REP.MC	REP SM

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Potential interest in Shell's assets in Uruguay

(Europa Press - PAGE 1)

According to the local press and the agency EFE, the Spanish oil company might be interested in buying Shell's downstream assets in Uruguay. Another bidder could be the Brazilian State oil company, Petrobras. Shell is currently reviewing its downstream operations worldwide in the context of its disposal programme worth US\$12-15bn. Repsol YPF could be interested in the 89 petrol stations that Shell has in Uruguay and in some E&P exploration projects. The information in the press does not include possible valuations for Shell's assets.

ANALYSIS:

We think that this possible deal would make sense in Repsol YPF's business model. Note that Repsol YPF has refineries in Argentina, Brazil and Peru, which could easily supply petrol and other distillates to Uruguay. Nevertheless, we think the possible acquisition would be quite small in the context of the group as a whole, so we do not expect a major impact. We reiterate our Buy rating on the stock and our Euro26.70/share target price.


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SONAE.COM (PORTUGAL)

BUY

EUR	Market Cap (mn)	Target Price	Present Price	52-Week Range	2005E P/E (x)	2006F P/E (x)	2005E EPS	2006F EPS	2005E GDY (%)	Reuters Code	Bloomberg Code
	769.2	4.10	3.40	2.93 - 4.42	-18.5		-0.18		0.0	SNC.LS	SNC.PL

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EGM approves capital increase

(Press Release)

In an extraordinary shareholder meeting yesterday (September 12), Sonaecom's shareholders approved a capital increase of Euro70.3mn to Euro296.5mn through the issue of 70,276,868 new shares. This capital increase is to be subscribed by France Telecom through the contribution of its stakes in Optimus (20.2%), Novis (43.3%) and Clix (43.3%). As a result, France Telecom would become Sonaecom's second-largest shareholder with a 23.7% stake.

ANALYSIS:

The operation is now only subject to the approval by the competition authorities. The roll-up of France Telecom's stakes and transfer to Sonaecom would imply a 15% discount. Sonaecom has already made similar proposals to Optimus' remaining shareholders (the State holding company, Parpublica, with 5.08% and OPTEP, which is related to EDP, with 25.72%). So, we would not rule out the possibility of Sonaecom acquiring Optimus' remaining minority shareholders, which could imply a Euro0.16 positive impact on the valuation (assuming similar discounts). In a conference call with the IR of Sonaecom's parent company, Sonae SGPS, it was reiterated that Sonae SGPS does not consider itself as Sonaecom's natural owner. Thus, in the longer run, we continue to see Sonaecom as a takeover target.

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TELECINCO (SPAIN)

UNDERWEIGHT

EUR	Market Cap (mn)	Target Price	Present Price	52-Week Range	2005E P/E (x)	2006F P/E (x)	2005E EPS	2006F EPS	2005E GDY (%)	Reuters Code	Bloomberg Code
	4,697.7	20.50	19.05	14.18 - 20.38	16.0	15.5	1.19	1.23	3.7	TL5.MC	TL5.SM

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Advertising revenues up 12% in 3Q05

(Company Release)

Yesterday (September 12), Telecinco announced that its advertising revenues grew by 12% in 3Q05. However, the company also said that the advertising revenue growth in 4Q05 would be lower than in 3Q05.

ANALYSIS:

Although the 12% growth in advertising revenues in 3Q05 is stronger than the high single-digit growth announced for 2H05 at its 2Q05 results (late July), the comments on a further slowdown in 4Q05 should curb upward revisions in consensus estimates, as the weighting of 4Q05 is much higher than the seasonally weak 3Q05.

Although this announcement could prompt a rebound from its recent share price weakness, we maintain our cautious stance towards the stock on fundamentals due to the uncertainties related to the advertising prospects for 2006F and the impact of the entry of new competitors.



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BANKS (SPAIN)

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Basque government defends possible merger of local S&Ls

(Cinco Días - PAGE 20)

Yesterday (September 12), Idoia Zenarrutzabeitia, the vice-president of the Basque government, commented that the time was right for a possible merger of the Basque savings and loans institutions: Kutxa, BBK and Vital.

ANALYSIS:

Discussions on the possibility of a merger between the three Basque S&Ls have been underway for some time now and we expect the process to continue.

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ELECTRICITY (SPAIN)

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Gas Natural would reduce its offer if Endesa paid a special dividend

(Expansión - PAGE 4)

Both Gas Natural and Endesa have discrepancies regarding the legality of Endesa's distributing a special dividend among its shareholders. Whilst Gas Natural says that this would contravene article 14 of the Spanish takeover law (which prohibits moves that could alter the value of the targeted company), Endesa insists that it has always announced that a portion of the cash stemming from the disposal of Auna (around Euro4.3bn, or Euro4.10/share) would be dedicated to a special dividend.

According to *Expansión*, Gas Natural would modify its offer if Endesa decided to distribute a special dividend on the disposal of Auna by reducing the cash portion of the offer in proportion with the special dividend.

ANALYSIS:

It is difficult to know what the final outcome will be, since the interpretations differ radically depending on the party involved. However, it seems that Gas Natural will have to raise its offer if it wants to acquire Endesa. Templeton, Endesa's second-largest institutional investor after Caja Madrid, has said that the offer seems insufficient.

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Key to Investment Codes

Buy	Upside of more than 15%.
Hold	Upside of 10%-15%.
Underweight	Upside of less than 10%.

Note: New investment code criteria were implemented on January 1, 2005. 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.

IMPORTANT DISCLOSURES:

Santander Investment Bolsa expects to receive or intends to seek compensation for investment banking services from the following companies in the next three months: Telecinco, Ferrovial and Acciona.

Santander Investment Bolsa has received compensation for investment banking services from the following companies in the past 12 months: Repsol YPF, Banco Sabadell, Telecinco, Ferrovial and Acciona.

Santander Investment Bolsa has managed or co-managed a public offering of Telecinco's securities in the past 12 months.

SCH or its affiliates beneficially own 1% or more of any class of common equity securities of: Repsol YPF and Ferrovial.

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