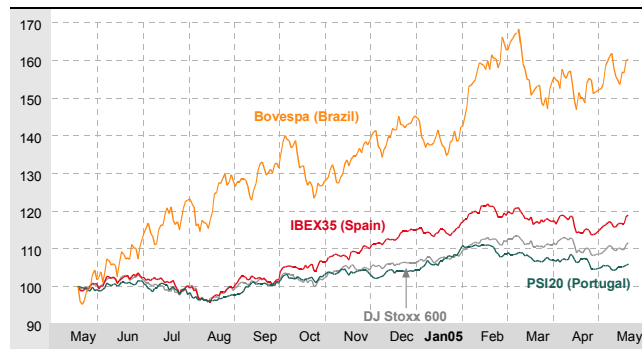


# THE IBERIAN STRATEGY OBSERVER

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## World Indices – Market Performance



Source: JCF.

## Asset Class Monitor

	Closing 20-May	-1W	-1M	QTD	YTD
DJ Stoxx 600	263.5	1.3	2.2	0.5	4.9
S&P 500	1,191.1	2.7	4.7	0.9	-1.7
10Y Euro bond yield	3.35	1.8	-2.3	-6.9	-8.4
10Y US bond yield	4.11	0.0	-1.6	-8.1	-2.4
3M Euro interest rates	2.13	0.0	-0.4	-1.0	-1.3
3M US interest rates	2.86	1.8	0.0	3.3	29.2
€/US\$	1.26	0.1	-3.2	-2.5	-7.5
Brent crude oil (US\$)	46.7	-0.7	-8.0	-11.4	16.9
CRB (US\$)	344.2	1.5	6.8	2.1	-1.2

Source: Bloomberg.

## SI Bolsa Universe Valuation

	P/E		EV/EBITDA		3Y CAGR		GDY P/BV	
	04E	05E	04E	05E	EPS	EBITDA	04E	05E
CAC40	13.6	12.3	7.1	6.5	13.3	9.0	3.0	2.3
DAX30	13.3	11.9	5.9	5.2	22.9	6.6	2.9	2.0
MIB30	15.4	14.2	6.3	6.1	18.9	4.8	4.4	2.6
PSI20	24.8	9.0	7.7	7.3	29.9	7.2	0.0	2.0
IBEX35	15.3	12.9	7.6	7.7	13.4	5.2	3.3	3.2
DJ Stoxx 600	15.2	13.1	6.3	6.1	13.5	8.6	3.2	3.1
DJ Stoxx 50	13.5	12.6	7.7	7.1	12.4	6.9	3.5	2.9
DJ Euro Stoxx 50	13.1	12.0	6.3	5.9	14.8	6.6	3.6	2.4
Ib Cap Goods	8.4	11.8	4.5	5.7	29.9	11.8	3.3	1.6
Ib Construction	15.0	13.5	8.8	8.1	-14.9	13.3	3.3	2.4
Ib Cons Goods	20.8	19.1	9.5	9.2	20.0	11.0	2.4	4.5
Ib Cons Serv	13.5	15.4	9.8	11.1	7.2	2.8	2.4	2.4
Ib Financials	14.0	12.9	NA	NA	16.8	NA	3.1	1.9
Ib Oil & Gas	14.1	12.1	6.8	6.5	11.5	6.6	2.6	2.1
Ib TNTs	38.4	28.7	15.2	13.4	48.9	14.6	1.3	9.5
Ib Utilities	13.8	13.9	6.7	7.2	6.9	2.5	4.1	2.7

Source: Bloomberg, JCF and SI Bolsa estimates and forecasts.

## Strategy Highlights

- Strong quarterly performance of the IBEX35 (+19.4% in revenues and 36.5% in net income) distorted by acquisitions, IFRS and cyclicals.
- Probable IBEX35 changes on June 8: **Cintra** in, **NH Hoteles** out.
- The completion of the **Amadeus** TOB should help **REE** be included in late June.

## Hot Spots

- We would Buy **BBVA** based on its cheap relative valuation.
- Pairs trading call: long **Enagás**, short **REE**.
- We have downgraded **Antena 3** from Hold to Underweight.
- The **Cortefiel** take-over bid might fuel interest in other targets like **A. Dominguez**, **Indra**, **Prosegur**, **Viscofán** and **TelePizza**.
- Changes in our recommended list: **BBVA** and **Enagás** in; **BCP** and **Cortefiel** out.

## Relative Market Performance

	Closing 19 May	-1W	-1M	QTD	YTD
CAC40	4,080.7	1.6	3.3	0.3	6.8
DAX30	4,352.2	1.8	4.2	0.1	2.3
MIB30	31,642	0.7	1.8	-2.7	1.4
PSI20	7,709.1	0.7	-1.4	-1.0	1.4
IBEX35	9,387.8	1.8	4.1	1.4	3.4
DJ Stoxx 600	263.4	1.3	2.2	0.5	4.9
DJ Stoxx 50	2,900.0	1.4	3.2	1.2	4.5
DJ Euro Stoxx 50	3,048.3	1.8	3.5	-0.2	3.3
Ib Cap Goods	NA	3.2	1.1	-2.7	0.6
Ib Construction	NA	3.1	10.4	8.6	21.4
Ib Cons Goods	NA	1.0	4.4	6.6	12.4
Ib Cons Serv	NA	1.4	3.0	2.4	10.0
Ib Financials	NA	1.1	3.0	-0.2	2.5
Ib Oil & Gas	NA	1.4	2.3	-0.4	3.1
Ib TNTs	NA	1.7	2.8	0.1	-0.8
Ib Utilities	NA	0.8	2.9	1.6	6.6

Source: Bloomberg.

# SECTOR STRATEGY AT A GLANCE

## Iberia – Sector Strategy at a Glance

Sector	Index Weighting	SI Bolsa Stance		Comments	Preferred Stocks
		Tactical	Strategic		
<b>Banks</b>	27.4%	↓	↓	We are increasingly concerned about the Spanish economy's deceleration and the 'inflated' real estate sector. Recent signs of a soft landing for the real estate sector might prompt a de-rating of Spanish banks. The small banks have benefited from M&A speculation, which seems a little excessive at the moment.	BBVA, B. Popular, BCP
<b>Capital Goods</b>	5.3%	↑	↑	The investment cycle has bottomed out and there are signs of capital investments picking up. We believe the valuations of metal-related companies (Acerinox, Arcelor) already include a strong recovery in prices and volumes. We would rather play pulp & paper and industrial companies with a restructuring story (Uralita).	Gamesa, Uralita
<b>Construction</b>	4.0%	↑	↑	The buoyant construction cycle in Spain seems to be never-ending, in stark contrast to Portuguese companies, which are being hit by restrictions in civil works. Diversification in the services and concessions areas should provide stability in the long run. M&A activity should continue to offer some excitement in the sector.	Ferrovial, ACS
<b>Consumer Goods</b>	6.2%	↑	↑	Domestic consumption in Spain has been the main growth driver of recent years, but we see signs of concern. We prefer defensive players with turnaround stories (Ebro Puleva) to stocks with regulatory risks (Altadis) or exposure to discretionary consumption.	Ebro Puleva
<b>Financial Services</b>	0.9%	↓	↓	Cautious management teams at southern European insurers offer a degree of safety in a sector penalised by the equity markets' sharp fall. The current low discount to SOTP valuations gives limited upside to those holding companies without solid investment track records.	Corp. Mapfre
<b>Oil &amp; Gas</b>	9.0%	↑	↑	Stable (high) oil prices and the improving situation in Latam combine to offer a strong case to be bullish on the Iberian oil sector. Reinvestment and regulatory risks make investing in gas players more complex. We like Enagás' growth and stable regulatory climate.	Repsol YPF, Enagás
<b>Services</b>	8.0%	↓	↓	Despite being leveraged to the cycle's upturn, the leisure industry should see lower pricing power given the excess capacity. Real estate could suffer from the perception that property prices are peaking and from the hangover from M&A activity. We like Portugal's motorway sector because of its growth and defensive nature.	Sol Melia, Logista, Aguas de Barcelona
<b>TMTs</b>	28.8%	↑	↑	Telecoms continue their de-leveraging process, disposing of non-core activities and focusing on 'back-to-basics' strategies after the Internet hype. Latam exposure and generous shareholder remuneration policies should provide further upside in the short term. We recommend switching from TV players to newspapers in the short run.	TEF, Indra, Prisa, Sogecable
<b>Utilities</b>	10.4%	↓	↓	Advances in 'integration strategies' and financial de-leveraging are the basis for long-term outperformance. However, uncertainty regarding the implementation and effects of the EU's ETS continues to drag on Spanish electricity stocks. We believe their underperformance versus their European peers is deserved.	Endesa

Source: Santander Investment Bolsa estimates.

# THE IBERIAN MACRO OBSERVER

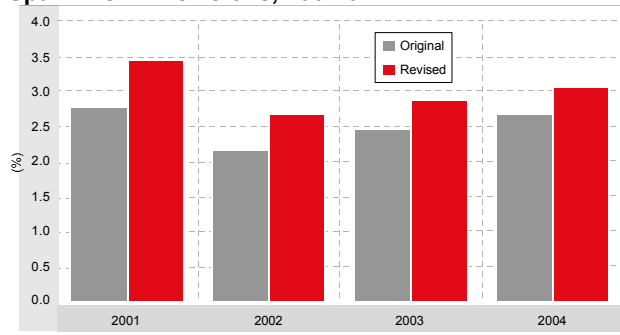
## Portuguese Public Deficit Sharply Higher

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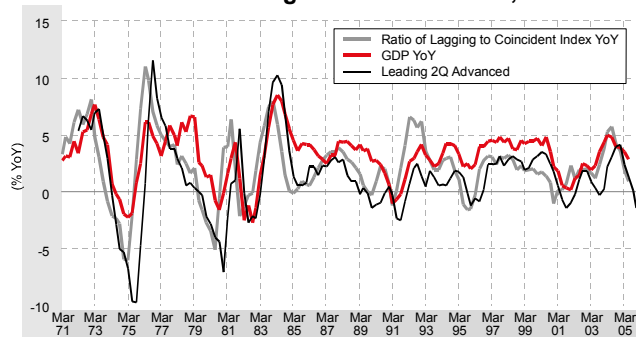
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### Spain – GDP Revisions, 2001-04



Source: INE.

### US – Conf Board Leading Indicators vs GDP, 1968-05



Source: Bloomberg, Datastream and SI Bolsa.

### Things to Watch during the Week

#### In the US:

- (1) Existing home sales expected to rise again in April
- (2) Durable goods orders should rebound in April
- (3) 1Q05 GDP likely to be revised upwards
- (4) Personal income/spending could rise strongly in April
- (5) Univ. of Michigan confidence indicator could be down in May

#### In the Euro Zone:

- (1) 1Q05E GDP expected to rise 1.0% QoQ
- (2) The IFO index could go up in May
- (3) Business confidence expected up in France, down in Italy
- (4) German CPI should rise slightly in May
- (5) Spanish GDP estimated to grow 0.8% QoQ in 1Q05E

- Spanish GDP growth since 2001 has been upgraded as a result of switching from 1995 to 2000 as the base year for calculations. Following these revisions, GDP growth now stands at 3.5% for 2001 (2.7% previously), 2.7% for 2002 (2.2%), 2.9% for 2003 (2.5%) and 3.1% for 2004 (2.7%).

- The current account deficit rose again in February to -€3.19bn from -€1.93bn (up 65% YoY). In the first two months of 2005, the deficit rose to €7.35bn from a deficit of €2.74bn in the same period of 2004. The main reason for the sharp rise in the deficit was the trade balance, which posted an increase to €4.40bn in February from €3.07bn a year ago.

- Week after week there are increasing signs of deceleration in the US economy. Leading and sentiment indicators are falling sharply, pointing to a clear deceleration in the economy in the quarters ahead. Moreover, the loss of a pulse in the manufacturing sector was already reflected in the April industrial production data. Regarding prices, the numbers published in the past week led to mixed conclusions. We still believe that inflation is a short-term problem. That is, in our view, there are no structural inflation problems in the US economy (where activity is decelerating and pricing power is low). Housing starts numbers were strong once again.

- Last Monday, the Bank of Portugal delivered its report on the public accounts. Although the actual number was not released, there is plenty of evidence that the 2005E budget deficit could be equivalent to 7% of GDP, ie, 4.1% of GDP more than originally estimated by the previous government

# ECONOMIC CALENDAR

## Macro Data Published Last Week

Day	Time	Country	Indicator/Event	Period	Reference Data	Forecast	Actual
16-May Monday	10:00	Italy	CPI (NIC incl tobacco) (m/y)	Apr	0.3 / 1.9	-	0.2 / 1.9
	-	Spain	Current Account (€)	Feb	-4,154.8	-	-3,194.2
	14:30	US	Empire Manufacturing	May	2.0r	11.7	-11.1
	15:00	US	Net Foreign Security Purchases (US\$ bn)	Mar	84.1r	70.0	45.7
	19:00	US	NAHB Housing Market Index (m)	May	67	69	70
17-May Tuesday	14:30	US	Producer Price Index (m/y)	Apr	0.7 / 4.9	0.4 / 4.5	0.6 / 4.8
	14:30	US	PPI Ex Food & Energy (m/y)	Apr	0.1 / 2.6	0.2 / 2.6	0.3 / 2.6
	14:30	US	Housing Starts	Apr	1,836kr	2,000k	2,038k
	14:30	US	Building Permits	Apr	2,021kr	2,023k	2,129k
	14:30	US	Industrial Production	Apr	0.1r	0.2	-0.2
	14:30	US	Capacity Utilization (%)	Apr	79.4	79.5	79.2
	23:00	US	ABC Consumer Confidence	15-May	-16	-	-
18-May Wednesday	13:00	US	MBA Mortgage Applications	13-May	9.4	-	-10.5
	14:30	US	CPI (m/y)	Apr	0.6 / 3.1	0.4 / 3.3	0.5 / 3.5
	14:30	US	CPI Ex Food & Energy (m/y)	Apr	0.4 / 2.3	0.2 / 2.3	0.0 / 2.2
19-May Thursday	8:45	Germany	Producer Prices (m/y)	Apr	0.6 / 4.2	0.2 / 4.0	0.7 / 4.6
	8:45	France	Current Account (€ mn)	Mar	-298r	-1,000	-1,660
	11:00	Euro Zone	Euro Zone CPI (m/y)	Apr	0.7 / 2.1	0.4 / 2.1	0.4 / 2.1
	11:00	Euro Zone	Euro Zone CPI Core (y)	Apr	1.6	1.5	1.4
	11:00	Euro Zone	Euro Zone Industrial Production (m/y)	Mar	-0.6 / 0.4r	-0.3 / 0.2	-0.2 / -0.1
	14:30	US	Initial Jobless Claims	17-May	341kr	330k	321k
	14:30	US	Continuing Claims	7-May	2,596kr	2,583k	2,601k
	16:00	US	Leading Indicators	Apr	-0.6r	-0.2	-0.2
20-May Friday	18:00	US	Philadelphia Fed	May	25.3	17.3	7.3
	8:45	France	GDP (q/y)	1Q	0.7 / 2.1 r	0.5 / 2.0	0.2 / 1.7
	9:00	Spain	Factory Orders (y)	Mar	5.4r	-	-0.2
	10:00	Italy	Industrial Orders (m/y)	Mar	0.7 / 3.2	-0.5 / 2.2	-1.7 / -3.6
	10:00	Italy	Industrial Sales (m/y)	Mar	-1.3 / -0.2	0.3 / 1.0	1.2 / -2.3

## Macro Data to Be Published This Week

Day	Time*	Country	Indicator/Event	Period	Reference Data	Forecast
This Week	-	Germany	Import Price Index (m/y)	Apr	1.3 / 3.8	0.3 / 3.6
23-May Monday	9:00	Spain	Hotel Occupancy	Apr	49.4	-
	9:00	Spain	Hotel Price Index (y)	Apr	1.4	-
24-May Tuesday	8:00	Germany	GDP (q/y)	1Q	-0.1 / 0.5	1.0 / 1.1
	8:45	France	Consumer Spending (m/y)	Apr	-0.8 / 4.0	0.4 / 2.5
	9:30	Italy	Consumer Confidence	May	104.8	104.8
	11:00	Euro Zone	Euro Zone Trade Balance (Eur bn)	Mar	5.1	-
	11:00	Germany	ZEW Survey (Current Situation)	May	24.6	19.4
	11:00	Euro Zone	Industrial New Orders (m/y)	Mar	-2.6 / 2.9	2.1 / 2.9
	16:00	US	Existing Home Sales (Mn units)	Apr	6.89	6.90
	20:00	US	Minutes of May 3 FOMC Meeting	-	-	-
25-May Wednesday	23:00	US	ABC Consumer Confidence	22-May	-18	-
	9:00	Spain	GDP (Constant SA) (q/y)	1Q	-	-
	9:30	Italy	Business Confidence	May	84.6	84.3
	10:00	Germany	IFO - Business Climate	May	93.3	93.5
	10:00	Germany	IFO - Current Assessment	May	93.1	93.2
	10:00	Germany	IFO - Expectations	May	94.6	94.0
	10:00	Italy	Trade Balance Non Europe (€ mn)	Apr	-645.0	-
	11:00	Italy	Retail Sales (m/y)	Mar	0.1 / 0.6	-0.2 / -0.5
	13:00	US	MBA Mortgage Applications	20-May	-	-
	14:30	US	Durable Goods Orders	Apr	-2.3r	1.1
26-May Thursday	14:30	US	Durables Ex Transportation	Apr	-05r	1.0
	16:00	US	New Home Sales	Apr	1,431k	1,345k
	-	Germany	CPI (m/y)	May	0.1 / 1.6	0.1 / 1.5
	9:00	Spain	Producer Prices (m/y)	Apr	0.8 / 5.1	-
	10:00	Italy	Hourly Wages (m/y)	Apr	0.2 / 3.5	NA / 3.3
	14:30	US	GDP Annualized	1Q	3.1	3.7
	14:30	US	Personal Consumption	1Q	3.5	3.5
	14:30	US	GDP Price Index	1Q	3.3	3.3
	14:30	US	Initial Jobless Claims	21-May	321k	329k
	14:30	US	Continuing Claims	14-May	2,601k	-
27-May Friday	16:00	US	Help Wanted Index	Apr	39	40
	8:45	France	Producer Prices (m/y)	Apr	0.6 / 3.1	0.4 / 3.2
	8:50	France	Business Confidence Indicator	May	97.0	98.0
	8:50	France	Production Outlook Indicator	May	-18.0	-1.0
	10:00	Euro Zone	Euro Zone Current Account (€ mn)	Mar	5.1	-
	14:30	US	Personal Income	Apr	0.5	0.7
	14:30	US	Personal Spending	Apr	0.6	0.8
	14:30	US	PCE Deflator (y)	Apr	2.4	-
	14:30	US	PCE Core (y)	Apr	1.7	-
	15:45	US	Univ of Michigan Confidence	May	85.3	86.0

(m) % MoM; (y) % YoY; (q) % QoQ; (a) annualised; (I) Index; (k) thousands; (mn) millions; (bn) billions; (r) revised; (E) estimate; (F) final; (P) preliminary; (sa) seasonally-adjusted; (nsa) non-seasonally adjusted; (wda) working day adjusted; (1) first release; (2) second release; (\*) CET.

Source: Bank of Spain, Ministry of Economy, Datastream, Bloomberg, Reuters and Santander Investment Bolsa estimates and forecasts.



# STRATEGIST CORNER

## 1Q05 REPORTING SEASON ENDS

May 16, the deadline for the publication of 1Q05 results, brought a positive note with the IBEX35 members boosting revenues by 19.4% and net income by 36.5%. However, the non-IBEX35 companies managed to increase their revenues by 20.4% and net income by 49.6%.

The main drivers of this strong performance were: (1) the large acquisitions closed in 2004 (with Telefónica buying BellSouth's assets in Latam, BBVA acquiring Bancomer and Grupo Santander taking over Abbey, etc); (2) the new accounting standards (IFRS); (3) the electric utilities' accounting treatment of the tariff deficit; and (4) the strong commodities performance. The significant improvement in the prices and volumes of commodities accounted for 30% of the growth in IBEX35 earnings by Repsol YPF, Arcelor and Acerinox. The four main contributors to earnings growth were Santander, Repsol YPF, Arcelor and Telefónica, which represented 63% of the total (versus just 43% of the index).

### IBEX 35 – Results Summary, 1Q04-1Q05

	Sales			Net Income			Comments
	1Q04	1Q05	% Chg	1Q04	1Q05	% Chg	
Abertis	330.0	405.0	22.7	77.6	104.5	34.7	In line
Acciona	936.9	984.0	5.0	46.4	74.3	60.1	Better
Acerinox	913.9	1,146.5	25.5	60.9	76.7	25.9	Worse
ACS	2,478.1	2,692.3	8.6	90.7	113.4	25.0	Better
Altadis	2,181.0	2,815.4	29.1	109.5	114.0	4.1	Worse
Amadeus	538.0	593.2	10.3	70.2	79.3	13.0	In line
Arcelor	6,989.7	8,136.1	16.4	234.4	933.9	298.4	Better
Enagás	424.4	452.2	6.6	39.3	48.2	22.6	Better
Endesa	3,274.0	4,187.0	27.9	441.0	560.0	27.0	Better
FCC	1,464.4	1,526.8	4.3	73.6	80.9	9.9	In line
Ferrovial	1,706.9	1,808.3	5.9	69.8	77.7	11.3	In line
Gamesa	280.7	485.7	73.0	16.2	54.4	235.8	Better
Gas Natural	1,606.6	2,045.4	27.3	215.7	238.0	10.3	Worse
Iberdrola	2,057.4	2,657.2	29.2	308.6	346.6	12.3	In line
Iberia	1,035.2	1,076.5	4.0	-10.8	-16.1	49.1	Worse
Indra	257.5	284.3	10.4	18.6	23.6	26.9	Better
Metrovacesa	232.0	268.3	15.6	50.9	58.6	15.1	In line
NH Hoteles	222.5	209.9	-5.7	4.8	-0.9	NM	In line
Prisa	305.8	321.5	5.1	16.7	29.1	74.3	In line
Repsol YPF	8,985.0	10,820.0	20.4	618.0	845.0	36.7	Better
SacyrVallehermoso	744.4	817.5	9.8	68.2	144.4	111.7	In line
Sogecable	379.6	395.5	4.2	-46.6	-17.9	NM	Better
Telecinco	173.2	213.3	23.2	40.7	64.5	58.5	Better
TPI	79.1	95.8	21.1	9.7	11.9	22.7	Better
Unión Fenosa	1,102.8	1,390.2	26.1	110.3	126.1	14.3	In line
Telefónica	7,093.4	8,278.8	16.7	671.4	912.2	35.9	Better
Telefónica Móviles	2,638.5	3,675.9	39.3	448.2	432.6	-3.5	Better
Banco Popular	618.4	710.7	14.9	168.4	210.9	25.2	In line
Banco Sabadell	385.2	404.8	5.1	69.2	105.8	52.9	Better
Banesto	458.4	548.7	19.7	127.6	145.7	14.2	Not rated
Bankinter	201.9	243.4	20.6	52.3	51.1	-2.3	In line
BBVA	2,906.2	3,397.6	16.9	679.4	815.4	20.0	In line
Corp. Mapfre	1,312.1	1,368.9	4.3	55.4	67.2	21.3	In line
Santander	3,399.3	4,622.3	36.0	906.9	1,327.3	46.4	Not rated
IBEX 35	48,152.8	57,486.2	19.4	5,053.4	6,895.7	36.5	
IBEX 35 ex financials	39,500.5	46,902.5	18.7	3,107.3	4,302.3	38.5	
IBEX 35 ex financials and telecoms	32,143.2	38,256.1	19.0	2,391.1	3,346.8	40.0	

Source: Ministry of Industry and Santander Investment Bolsa estimates and forecasts.

Only 13% of results came out worse than expected (four of the 32 published), whereas 44% (14 of 32 sets of results) beat expectations. Only NH Hoteles, Iberia and Sogecable reported losses in 1Q05 (only the last two posted losses in 1Q04), although the first two should be back in the black in terms of full-year. Only four companies – NH Hoteles, Iberia, Bankinter and Telefónica Móviles – saw their net income decline in 1Q05, although this deterioration was largely expected.

## RESHUFFLING OF THE IBEX35

On June 8, the IBEX committee is to meet to announce the IBEX35 changes based on the clean trading volumes from December 2004 to May 2005. After five months, Cintra looks the strongest entry candidate (it ranks 19th by accumulated trading volume since December 1). Cintra would have an index weighting of 0.71% and its inclusion would trigger tracker fund purchases equivalent to around four days' trading volume.

### Potential Changes in the IBEX35

	Volume Traded <sup>1</sup> (€ mn)	Potential Weighting (%)
Cintra	1,675.3	0.71
REE	1,345.7	0.71
Antena 3	960.9	0.58
	Volume Traded <sup>1</sup> (€ mn)	Current Weighting (%)
NH Hoteles	594.1	0.34
Banesto	607.5	0.45
Prisa	773.4	0.56

(1) Adjusted trading volumes from December 1, 2004 to April 30, 2005.  
Source: Sociedad de Bolsas and Santander Investment Bolsa.

REE (which ranks 26th by accumulated trading volume) is the other main entry candidate after its exclusion in the last revision (two of the last three revisions have seen the re-inclusion of former members). It would also weigh 0.71% of the IBEX35 and would drive demand equivalent to three days' trading volume.

### Adjusted Monthly Volumes of Entry Candidates, Dec 2004-April 2005

(€ mn)	Dec-04	Jan-04	Feb-05	Mar-05	Apr-05	Total (5M)
Cintra	228.6	464.4	299.5	301.1	381.7	1,675.3
REE	385.8	144.1	364.5	276.2	175.1	1,345.7
Antena 3	129.6	207.6	246.8	195.8	181.2	960.9

Source: Sociedad de Bolsas and Santander Investment Bolsa.

### Adjusted Monthly Volumes of Exit Candidates, Dec 2004-April 2005

(€ mn)	Dec-04	Jan-04	Feb-05	Mar-05	Apr-05	Total (5M)
NH Hoteles	88.8	124.3	107.8	135.0	138.3	594.1
Banesto	78.9	152.5	123.6	104.6	147.9	607.5
Prisa	88.0	130.8	233.2	129.1	192.3	773.4

Note: Adjusted trading volumes from December 1, 2004 to April 30, 2005.  
Source: Sociedad de Bolsas and Santander Investment Bolsa.

Jazztel ranks seventh by trading volume, but would fall short of the 0.30% minimum average IBEX weighting (just 0.26%). However, Jazztel should be a clear candidate for the next revision in December 2005 (it would only need to average €1.11/share from June to December) assuming that it maintains the current high trading volumes.



Another key issue is Amadeus. The final bid for Amadeus was submitted on April 8, but CNMV approval and the acceptance period will probably take until late June (after the IBEX committee meeting). So, the IBEX committee might decide to: (1) make just one change (removing NH Hoteles and including Cintra) and wait for the conclusion of the takeover bid for Amadeus (which would be excluded automatically if acceptance exceeds 80%, as its weighting would fall below 0.30%) before including REE; or (2) make two changes in June, bringing Cintra and REE in to replace NH Hoteles and Banesto, and waiting for the Amadeus deal to be finalised before replacing it with Antena 3. We believe that the first option is more likely in order to give stability to the index.

Another possible change might derive from the reduction in TPI's free float factor (FFF) from 80% to 60% as a result of retiring treasury stock (2% of the share capital), thus reducing its IBEX35 weighting to 0.41% from 0.55%. The corresponding selling pressure from tracker funds could reach the equivalent of one day's trading. However, we would not rule out the possibility of Telefónica placing a small stake (above 2%) in the market to avoid TPI's FFF being reduced.

Gas Natural's recent placement of Enagás shares might prompt an increase in its FFF from 80% to 100%, thus increasing its weighting in the IBEX35 from 0.68% to 0.85%, equivalent to one day's trading volume.

## MAKING MONEY OUT OF IBEX35 CHANGES

As shown in the table below, successfully identifying the changes in the IBEX35, even just a month ahead of the reviews, would have made (assuming long positions in the entry candidates and short positions in the exit candidates, and equal weightings in all the positions) an average absolute return of 2.4% (2.2% higher than on the IBEX35 itself). Looking at our research on the last ten ordinary reviews in the past five years, following this strategy would have yielded a negative absolute return on only three occasions.

Moreover, for long-only investors, a portfolio of stocks joining the IBEX35 would have yielded an absolute return of 6.1% and been positive in six of the ten revisions (note that there were no changes in the IBEX35 components in the December 2001 review).

### IBEX 35 – Index Reviews and Performance 2M Prior to Change in Composition

	IN	IN	OUT	OUT	IBEX35	Changes
13-Dec-2004 -1M	SacyrVallehermoso -7.6	Telecinco -0.4	REE 5.1	Zeltia -5.3	4.0	-1.9
8-Jun-2004 -1M	B. Sabadell -2.3		SacyrVallehermoso -5.9		1.0	1.8
11-Dec-2003 -1M	Banesto 3.0	Prisa 13.4	Dragados 3.2	Terra -5.0	3.3	4.6
11-Jun-2003 -1M	Mapfre 0.9		Prisa 27.9		6.3	-13.5
9-Dec-2002 -1M	Metrovacesa 9.3	Vallehermoso 21.7	CF Alba -2.1	Sol Melia 0.0	3.6	8.3
11-Jun-2002 -1M	Iberia 2.6		TelePizza 3.4		-4.3	-0.4
11-Dec-2001 -1M						
12-Jun-2001 -1M	Inditex (*) 28.2		Picking Pack -11.6		-2.5	19.9
12-Dec-2000 -1M	T. Moviles (*) 0.8	Picking Pack -13.1	Agbar 2.2	Vallehermoso 3.8	-2.3	-4.6
7-Jun-2000 -1M	REE 14.4	Zeltia 9.2	Aumar 4.4	Mapfre -11.9	-7.5	7.8

(\*) Note that there were no changes in the IBEX35 components in the December 2001 revision.

Source: Sociedad de Bolsas, Bloomberg and Santander Investment Bolsa.

## HOT SPOTS

- Following BBVA's 1Q05 results and its correction in the equity market, we have upgraded our recommendation and target price on **BBVA** (Buy, TP €14.50). Although the BNL deal (if it goes ahead) should be neutral from a valuation viewpoint, we welcome BBVA's improvement in equity allocation, shifting from capital consuming industrial portfolios to purely retail banking activities. Although margin contraction in the domestic business might persist in the quarters ahead, volume growth and cost contention should have a positive impact on the bottom line. Moreover, strong volume growth in Mexico (we expect 25% in net income in 2004-06F) should keep fuelling future growth. Trading at 10.5x 2006F P/E, with 15% annual growth in net income, 2.7x 2006F P/BV with a 27% ROE and 4.3% 2005F GDY, valuation is a compelling argument. We have decided to remove **BCP** (Buy, TP €2.50) from our recommended list and include BBVA.
- We have re-initiated coverage of **REE** (TP €20.00) with an Underweight rating given its stretched valuation (16.2x 2005E P/E), which we believe already incorporates the strong recent news flow: the upgraded capex plan, increased earnings guidance, potential divestment of telecom assets and possible re-entry into the IBEX 35 in the June revision. Furthermore, the stock overhang (24% of the shares to be sold by the Spanish government and the electric utilities) could exert some pressure on the share price in the short term. We would rather play the upcoming national energy plan through **Enagás** (Buy, TP €14.50).
- Despite upgrading our advertising market estimates, we have downgraded **Antena 3** (from Hold to Underweight, TP €16.50) since its current high profitability (a 36.6% operating margin in 2005E) is at risk from the expected deterioration of the competitive environment, pressure on programming costs given the company's unstable grid and worsening risk profile on the back of its diversification strategy.
- The recent take-over bid for **Cortefiel** (Under Review) has triggered a new spate of M&A activity after a busy 2H04 (take-over bids for **Amadeus**, **Recoletos** and **Aldeasa**). We could see speculation on other possible targets: **Adolfo Dominguez** (Buy, TP €23.00), **Indra** (Buy, TP €15.80), **Prosegur** (Buy, TP €20.00), **Viscofán** (U/W, TP €8.00) and **TelePizza** (U/W, TP €1.35). We have decided to switch from **Cortefiel** into **Enagás** in our recommended list.
- In Portugal, the release of the central bank's report on public accounts showed a large fiscal deficit (around 7% of GDP), which is likely to trigger action by the Socialist government that could curb economic growth in the years to come. In the short run, we would recommend avoiding **PT** (Hold, TP €10.20), **BCP** (Buy, TP €2.50), **Sonae SGPS** (Buy, TP €1.50), **Media Capital** (Hold, TP €6.00) and **Impresa** (Buy, TP €5.40).

### Main Revisions in Recommendations and Target Prices

Date	Company	Rating		Target Price		%	2005E EPS			Comments
		New	Old	New	Old		Chg	New	Old	
19-May	Repsol	Buy	Buy	23.00	23.00	-	2.13	1.91	11.9	Upgrading earnings from refining
18-May	REE	U/W	-	20.00	NA	-	1.15	NA	-	Re-initiation of coverage
18-May	BBVA	Buy	U/W	14.50	12.50	16.0	1.03	0.99	4.0	Better volumes, costs and provisions
17-May	Antena 3	U/W	Hold	16.50	14.75	11.9	0.96	0.86	11.6	Upgrading advertising market estimates
4-May	EDP	Buy	-	2.45	NA	-	0.17	NA	-	Re-initiation of coverage
18-Apr	Endesa	Hold	Hold	19.50	18.50	5.4	1.25	1.30	-3.8	Stronger than expected Latam results
18-Apr	ACS	Buy	Buy	22.30	20.50	8.8	1.53	1.50	2.0	Fine-tuning after 2004 results
5-Apr	Ferrovial	Buy	Buy	56.70	49.90	13.6	2.72	2.69	1.1	Fine-tuning after 2004 results. Airports
1-Apr	Abertis	U/W	U/W	18.20	15.40	18.2	1.08	0.84	28.4	Incorporating TBI airports
23-Mar	Sonaeacom	Buy	Buy	4.95	4.85	2.1	0.11	0.10	10.0	Acquisition of small stake in Optimus
21-Mar	Jazztel	U/W	U/R	0.75	U/R	-	-0.15	U/R	-	Reinstating negative recommendation

Note: U/W = Underweight; U/R = Under review; N/R = Not rated.

Source: Santander Investment Bolsa estimates and forecasts.



# IBERIAN RECOMMENDED LIST

## Iberian Large Caps – Santander Investment Bolsa Recommended List

Companies	Date of Inclusion	Price (€)		Market Performance (%)						
		Current	31-Dec-04	Absolute	Rel to Iberian Large Caps	Relative to IBEX35	-1M	-3M	-6M	YTD
Sogecable	30-Sep-04	29.11	32.66	-10.9	-12.6	-14.4	2.7	-8.5	-9.3	-10.3
BCP (*)	25-Jan-05	2.13	1.88	13.3	11.6	9.8	0.0	-1.4	12.8	12.2
Ferrovial	16-May-03	46.57	39.32	18.4	16.7	14.9	6.1	-1.1	30.8	18.1
Endesa	22-Apr-05	17.62	17.29	1.9	0.2	-1.6	5.8	-0.6	6.7	1.9
Repsol YPF	17-Jul-03	20.03	19.16	4.5	2.8	1.0	1.8	-2.8	12.4	4.7
Inditex	04-Mar-05	23.93	21.70	10.3	8.6	6.8	3.8	2.4	13.7	10.9
<b>SI Bolsa Large Caps Model Portfolio</b>	–	<b>106.58</b>	<b>100.00</b>	<b>6.6</b>	<b>4.9</b>	<b>3.1</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>6.6</b>
Iberian Large Caps	–	101.72	100.00	1.7	0.0	-1.8	NA	NA	NA	1.7
IBEX35	–	9,400.10	9,080.80	3.5	1.8	0.0	4.1	-1.9	8.8	3.4
PSI20	–	7,705.61	7,571.85	1.8	0.0	-1.7	-1.1	-4.0	2.3	1.6
DJ Stoxx 50	–	2,900.26	2,774.77	4.5	2.8	1.0	3	-0.6	4.8	4.5

Source: Santander Investment Bolsa estimates and forecasts. (\*) As of May 23, we have included BBVA and excluded BCP.

## Iberian Small & Mid Caps – Santander Investment Bolsa Recommended List

Companies	Date of Inclusion	Price (€)		Market Performance (%)						
		Current	31-Dec-04	Absolute	Rel to Iberian SMCs	Relative to IBEX35	-1M	-3M	-6M	YTD
Ebro Puleva	30-Dec-04	14.09	10.50	34.2	22.0	30.7	3.7	13.6	49.6	34.2
Sol Meliá	16-Feb-05	8.36	7.30	14.5	2.3	11.0	-4.6	-4.0	17.8	14.4
Prisa	30-Dec-04	15.42	15.62	-1.3	-13.5	-4.8	5.1	-4.2	-1.9	-1.3
Cortefiel (*)	16-Feb-05	18.72	11.64	60.8	48.6	57.3	32.3	40.9	72.2	59.8
Indra	30-Dec-04	14.47	12.57	15.1	2.9	11.6	4.4	8.6	22.0	14.9
Prosegur	08-Mar-05	17.35	14.48	19.8	7.6	16.3	2.6	16.5	26.1	19.8
<b>SI Bolsa Small &amp; Mid Caps Model Portfolio</b>	–	<b>119.61</b>	<b>100.00</b>	<b>19.6</b>	<b>7.4</b>	<b>16.1</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>19.6</b>
Iberian SMCs	–	112.22	100.00	12.2	0.0	8.7	NA	NA	NA	12.2
IBEX35	–	9,400.10	9,080.80	3.5	-8.7	0.0	4.1	-1.9	8.8	3.4
PSI20	–	7,705.61	7,571.85	1.8	-10.4	-1.7	-1.1	-4.0	2.3	1.6
DJ Stoxx SML 200	–	136.46	129.16	5.7	-6.6	2.1	0.1	-2.3	9.9	5.6

Source: Santander Investment Bolsa estimates and forecasts. (\*) As of May 23, we have included Enagás and excluded Cortefiel.

**ANALYST CERTIFICATION:** We, Jesús Gómez and Antonio Espasa, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject companies and their securities. We also certify that we have not been promised compensation, either directly or indirectly, for expressing the recommendations in this report.

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### Key to Investment Codes<sup>1</sup>

<b>Buy</b>	Upside of more than 15%.
<b>Hold</b>	Upside of 10%-15%.
<b>Underweight</b>	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.

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