

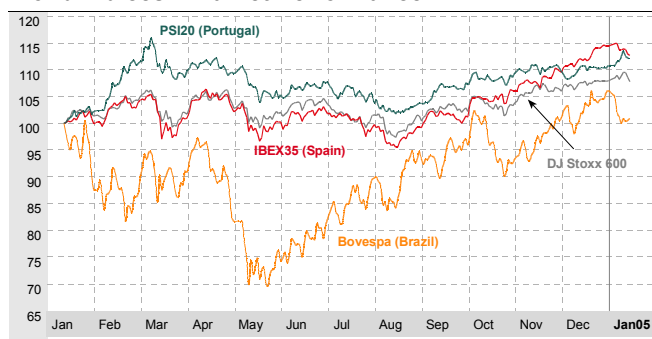
# THE IBERIAN STRATEGY OBSERVER

**Jesús Gómez**  
(34) 91-289-3315  
jegomez@gruposantander.com

**Manuel Preto**  
(351) 21-389-3623  
manuel.preto@bsnp.pt

**Antonio Espasa**  
(34) 91-289-3313  
aespa@gruposantander.com

## World Indices – Market Performance



Source: JCF.

## Asset Class Monitor

	Closing	-1W	-1M	QTD	YTD
	21-Jan				
DJ Stoxx 600	253.4	-0.6	0.6	0.6	0.6
S&P 500	1.167.9	-1.3	-3.4	-3.6	-3.6
10Y Euro bond yield	3.57	0.1	-1.5	-3.6	-3.6
10Y US bond yield	4.14	-1.6	-1.7	-1.8	-1.8
3M Euro interest rates	2.14	0.0	-1.6	-0.6	-0.6
3M US interest rates	2.35	-0.8	7.1	5.6	5.6
€/US\$	1.31	-0.1	-3.4	-3.6	-3.6
Brent crude oil (US\$)	45.7	2.3	16.1	14.7	14.7
CRB (US\$)	344.2	1.5	6.8	2.1	-1.2

Source: Bloomberg.

## SCH Universe Valuation

	P/E		EV/EBITDA		3Y CAGR		GDY P/BV	
	04E	05F	04E	05F	EPS	EBITDA	04E	05F
CAC40	12.7	11.6	6.7	6.0	11.1	8.7	3.0	2.2
DAX30	13.2	11.7	5.6	4.9	22.7	9.6	2.9	1.9
MIB30	15.1	14.0	6.2	6.0	16.3	5.1	3.9	2.8
PSI20	14.0	11.6	7.8	7.2	21.9	7.8	3.7	2.1
IBEX35	15.3	12.1	7.7	6.6	12.9	3.9	3.4	3.1
DJ Stoxx 600	13.4	12.4	2.9	2.5	13.7	7.0	3.2	2.3
DJ Stoxx 50	13.2	12.4	7.1	6.7	10.7	5.7	3.5	2.6
DJ Euro Stoxx 50	12.8	11.8	6.0	5.5	12.9	6.4	3.6	2.3
Ib Cap Goods	8.7	8.1	5.5	4.5	72.0	25.1	2.7	1.7
Ib Construction	15.4	13.8	8.8	7.9	8.3	15.3	1.8	2.3
Ib Cons Goods	20.7	17.7	9.5	8.4	25.3	12.2	1.6	4.3
Ib Cons Serv	17.6	16.9	11.5	10.6	17.2	15.0	1.9	2.6
Ib Financials	16.1	14.7	NA	NA	16.7	NA	2.7	2.4
Ib Oil & Gas	13.8	13.5	6.5	6.4	-0.8	6.0	2.3	2.1
Ib TNTs	18.8	15.7	7.2	6.4	-198.3	8.5	3.1	3.1
Ib Utilities	21.5	18.5	9.8	8.7	13.1	9.5	2.5	2.9

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

## Strategy Highlights

- **M&A in Spain:** this could be a hot issue for 2005 due to cheap financing, scant organic growth and appealing valuations.
- Buy-outs of minority stakes on the radar screen: **Telefónica Móviles**, **Terra** and **Cementos Portland**.
- Leveraged buy-outs are in fashion again. Keep an eye on **Ence**, **Viscofán**, **Amper**, **Indra**, **TPI**, **Logista** and **Transportes Azkar**.

## Hot Spots

- We have upgraded **Cortefiel** on good earnings momentum.
- **Cintra** looks like a good defensive option in 2005F.
- Switch from **Endesa** to **Iberdrola**.
- Reduce weight in the short term in Portuguese retailers: **Jerónimo Martins** and **Sonae SGPS**.
- We are adding **BCP** and **Iberdrola** to our recommended list.

## Relative Market Performance

	Closing	-1W	-1M	QTD	YTD
	21-Jan				
CAC40	3833.0	-1.2	0.3	0.3	0.3
DAX30	4176.1	-1.6	-1.8	-1.9	-1.9
MIB30	31445.0	-0.3	0.7	0.7	0.7
PSI20	7841.2	0.9	3.7	3.2	3.2
IBEX35	8934.6	-1.8	-1.3	-1.6	-1.6
DJ Stoxx 600	252.4	-0.7	0.6	0.5	0.5
DJ Stoxx 50	2772.1	-0.7	-0.2	-0.1	-0.1
DJ Euro Stoxx 50	2927.0	-1.2	-0.8	-0.8	-0.8
Ib Cap Goods	NA	-0.7	1.2	-1.5	-1.5
Ib Construction	NA	-0.4	6.0	5.9	5.9
Ib Cons Goods	NA	-0.2	0.2	-0.5	-0.5
Ib Cons Serv	NA	-0.6	3.9	2.4	2.4
Ib Financials	NA	-1.8	-1.0	-1.2	-1.2
Ib Oil & Gas	NA	-0.5	-0.5	-0.7	-0.7
Ib TNTs	NA	-1.1	-0.1	0.3	0.3
Ib Utilities	NA	-0.9	-1.0	-1.3	-1.3

Source: Bloomberg.

# SECTOR STRATEGY AT A GLANCE

## Iberia – Sector Strategy at a Glance

Sector	Index Weighting	SCHB 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.	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 (Ence) and industrial companies with a restructuring story (Tubacex, Uralita).	Gamesa, Ence, 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.	Brisa, NH Hoteles, 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.	Iberdrola

Source: Santander Central Hispano Bolsa estimates.

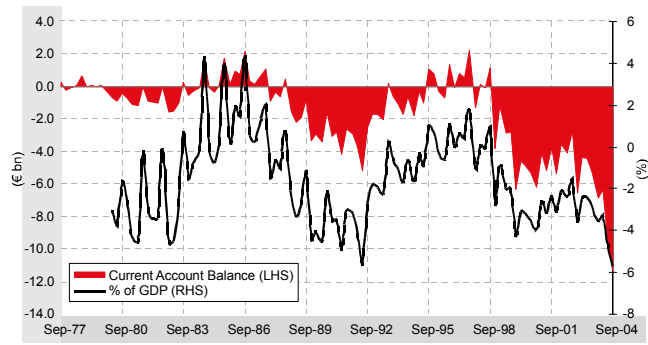
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jegomez@gruposantander.com

**Manuel Preto**  
(351 21 389 3623  
manuel.preto@bsnp.pt

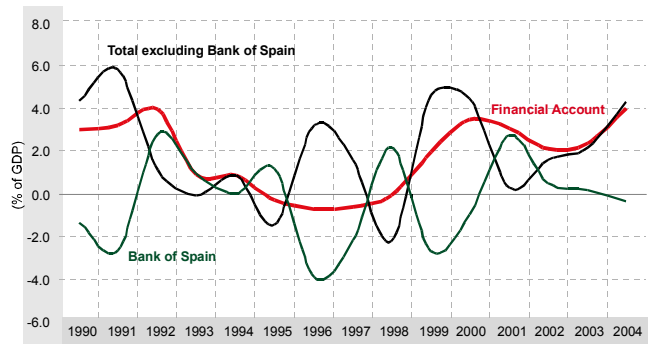
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(34) 91-289-3313  
aespasa@gruposantander.com

## Spain – Current Account Balance, 1977-2004



Source: MINECO, Bloomberg and SCH Bolsa.

## Spain – Financial Account, 1990-2004



Source: MINECO, Bloomberg and SCH Bolsa.

## Things to Watch during the Week

### In the US:

- (1) Consumer confidence could be flat in January.
- (2) Existing home sales could fall in November.
- (3) Durable goods orders to perform modestly in December.
- (4) The Help-Wanted index to remain unchanged in December.
- (5) 4Q04E GDP could grow by around 3.5%.

### In the Euro Zone:

- (1) The IFO index is expected to continue to recover.
- (2) Italian business confidence indicators should start going up.
- (3) We expect a flat reading in French business confidence.
- (4) Euro zone money supply growth should also be flat.
- (5) Producer prices should moderate again in Spain and France.

- There has been little new information on the Spanish economy in recent weeks. 2004E GDP growth could come in at 2.6% (vs our expectation of 2.5%). On the other hand, as a result of the increasing trade deficit, the current account position is becoming a problem. Inflation grew at a faster pace than that of the Euro zone, implying a deterioration in Spain's competitive position. The employment market continued its positive tone, with strong job creation.

- There is nothing really new in the Spanish economy that would push us to change our 2005F and 2006F forecasts. We are maintaining our view that Spanish economic growth will be limited in the years ahead, capped by the required adjustments in the construction sector and the current account balance.

- The Spanish economy has developed some imbalances during the recent period of strong GDP growth, which will probably act as a ceiling for future economic growth. In our view, one of the main problems generated in recent years has been the current account deficit, which could be difficult to resolve without feeling the pain in terms of GDP growth.

- The 3Q04 current account deficit represented a record 5.7% of GDP, with the deficit largely due to the sizeable trade deficit, which represented 7.4% of GDP (again, the highest level on record).

- In our view, narrowing the current account deficit will require: (1) a deceleration in internal demand, combined with a simultaneous increase in savings; (2) a strengthening of Spain's competitive position; and (3) a pick-up in the services account (possibly by changing the tourism model).

# ECONOMIC CALENDAR

## Macro Data Published Last Week

Day	Time*	Country	Indicator/Event	Period	Reference Data	Forecast	Actual
17-Jan	10:00	Italy	CPI (NIC incl tobacco) (m/y)	Dec F	0.1/1.9	–	0.2/2.0
Monday	–	Italy	Current Account (€ mn)	Nov	990.0	–	-2,035.0
18-Jan	8:45	France	Current Account (€ mn)	Nov	1,204	-500	-302
Tuesday	10:00	Italy	Industrial Production (m/y)	Nov	-0.3/-0.4(r)	-0.2/-0.9	-0.7/-2.8
	11:00	Euro Zone	Euro Zone Labour Cost (y)	3Q	2.2	2.1	1.9
	11:00	Euro Zone	Euro Zone Industrial Production (m/y)	Nov	-0.6/1.1(r)	-0.4/0.7	-0.3/0.5
	14:30	US	Empire Manufacturing	Jan	20.07(r)	25.00	20.08
	19:00	US	NAHB Housing Market Index	Jan	71	70	70
19-Jan	0:30	US	ABC Consumer Confidence	16 Jan	-9	-9	-11
Wednesday	8:00	Germany	Producer Prices (m/y)	Dec	-0.5/2.8	-0.2/2.6	0.1/2.9
	11:00	Germany	Factory Orders (m/y)	Nov F	1.0/3.8	–	-2.4/1.2
	13:00	US	MBA Mortgage Applications	14 Jan	-3.0	–	16.2
	14:30	US	CPI (m/y)	Dec	0.2/3.5	0.0/3.4	-0.2/2.1
	14:30	US	CPI Ex Foods & Energy (m/y)	Dec	0.2/2.2	0.2/2.3	-0.1/1.7
	14:30	US	Housing Starts	Dec	1,807k (r)	1,905k	2,004k
	14:30	US	Building Permits	Dec	2,028k (r)	1,985k	2,021k
	14:30	US	Initial Jobless Claims	15 Jan	367k	345k	319k
	14:30	US	Continuing Claims	8 Jan	2,647k (r)	2,675	2,694k
	20:00	US	Fed's Beige Book	–	–	–	–
20-Jan	9:00	Spain	Factory Orders (y)	Nov	0.2(r)	–	13.4
Thursday	10:00	Euro Zone	ECB to Release January Monthly Report	–	–	–	–
	10:00	Italy	Trade Balance (€ mn)	Nov	594.0(r)	-436.5	-244.0
	11:00	Italy	Industrial Orders (m/y)	Nov	0.4/-1.1	-0.4/2.5	0.6/9.6
	11:00	Italy	Industrial Sales (m/y)	Nov	2.2/0.4(r)	-1.1/NA	-3.2/5.5
	11:00	Euro Zone	Euro Zone CPI (m/y)	Dec	-0.1/2.2	0.4/2.3	0.4/2.4
	11:00	Euro Zone	Euro Zone Trade Balance (€ mn)	Nov	5,713(r)	3,200	2,869
	11:00	Euro Zone	Euro Zone Core CPI (y)	Dec	1.9	1.9	1.9
	16:00	US	Leading Indicators	Dec	0.3	0.3	0.2
	18:00	US	Philadelphia Fed	Jan	25.4(r)	25.0	13.2
21-Jan	8:45	France	Consumer Spending (m/y) (€ mn)	Dec	1.5/6.6(r)	-0.6/5.2	0.2/6.6
Friday	8:45	France	CPI (m/y)	Dec F	0.0/2.0	0.1/2.0	0.2/2.1
	15:45	US	Univ. of Michigan Confidence Data	Jan	97.1	98.0	95.8

## Macro Data to Be Published This Week

Day	Time*	Country	Indicator/Event	Period	Reference Data	Forecast
During the Week	–	Germany	Import Price index (m/y)	Dec	-1.3/2.7	-0.5/2.6
	–	Germany	Construction Orders (m/y)	Nov	1.4/-8.3	–
24-Jan	9:00	Spain	Hotel Occupancy (%)	Dec	43.6	–
Monday	9:00	Spain	Hotel Price Index (y)	Dec	1.4	–
	10:00	Italy	Retail Sales (m/y)	Nov	-0.2/-2.7	-0.1/-0.1
	11:00	Euro Zone	Industrial New Orders (m/y)	Nov	0.6/0.2	5.2/-0.5
25-Jan	9:00	Spain	Producer Prices Index (m/y)	Dec	-0.1/5.2	-0.1/5.1
Tuesday	9:30	Italy	Consumer Confidence Index (sa/nsa)	Jan	103.5/101.6	104.0/NA
	16:00	US	Consumer Confidence	Jan	102.3	101.5
	16:00	US	Existing Home Sales	Dec	6.94mn	6.80mn
26-Jan	0:30	US	ABC Consumer Confidence	Jan	-11	–
Wednesday	10:00	Euro Zone	Euro Zone Current Account (m/q) (€ bn)	Nov	0.9/8.7	–
	10:00	Germany	IFO Index Survey (Business Climate)	Jan	96.2	96.2
	10:00	Germany	IFO Current Assessment	Jan	96.0	96.1
	10:00	Germany	IFO Expectations	Jan	96.4	96.8
	13:00	US	MBA Mortgage Applications (%)	21-Jan	16.2	–
27-Jan	9:30	Italy	Business Confidence	Jan	88.9	89.0
Thursday	10:00	Italy	Trade Balance Non Europe (€ mn)	Dec	129.0	–
	14:30	US	Durable Goods Orders	Dec	1.4	0.6
	14:30	US	DG Orders Less Transportation	Dec	-1.4	1.4
	14:30	US	Initial Jobless Claims	22-Jan	319k	330k
	14:30	US	Continuing Claims	15-Jan	2,694k	–
	16:00	US	Help Wanted Index	Dec	36	36
28-Jan	8:45	France	Producer Prices (m/y)	Dec	-0.2/3.1	-0.2/3.2
Friday	8:45	France	Unemployment Rate	Dec	9.9	9.9
	8:45	France	Business Confidence	Jan	104.0	104.0
	8:45	France	Production Outlook Indicator	Jan	-1.0	-3.0
	10:00	Euro Zone	Euro Zone M3 (3Mth Average) (%)	Nov	5.9	5.9
	10:00	Euro Zone	Euro Zone M3 (y)	Dec	6.0	6.1
	14:30	US	GDP Annualized	4Q	4.0	3.6
	14:30	US	Personal Consumption	4Q	5.1	4.1
	14:30	US	GDP Price Deflator	4Q	1.4	2.2
	14:30	US	Employment Cost Index	4Q	0.9	0.9

(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 Central Hispano Bolsa estimates and forecasts.



## STRATEGIST CORNER

### Hot issue: M&A activity in Spain

In this week's *Strategist Corner*, we analyse one of the key themes that are likely to play a major role in generating alpha for those institutional investors investing in Spanish equities: corporate activity. We envisage three main sources of corporate activity in the Spanish bourse in 2005F: (1) buy-outs of minority stakes by controlling shareholders; (2) hostile and friendly take-over bids by competitors; and (3) leveraged buy-outs by either management or other financial institutions (mainly private equity).

### BUY-OUT OF MINORITY STAKES

In 2005F, controlling shareholders might decide to buy-out minority shareholders of their listed subsidiaries:

- **Telefónica** has three listed subsidiaries: Telefónica Móviles (92.5% stake), Terra (75.9% stake) and TPI (60% stake). The rationale behind launching a de-listing bid for Telefónica Móviles (2000 IPO price: €11.00/share) seems to be based on examples of other European players (Telecom Italia, France Telecom, etc). On the other hand, Telefónica would lose the higher visibility on its sum-of-the-parts valuation. The case of Terra seems more straightforward, following the (unsuccessful) 2003 attempt to de-list the company and the potential to take advantage of tax loss carryforwards accumulated at Terra.
- On the other hand, Grupo Santander holds an 88.5% stake in Banesto, and Total owns a direct 45.3% stake in Cepsa and has shown an interest in buying it out.
- FCC holds a 58.8% stake in Cementos Portland following the Valderrivas acquisition.
- Puleva holds a 72.4% stake in Puleva Biotech (its biotechnology subsidiary).

### FRIENDLY AND HOSTILE TAKE-OVER BIDS

### The take-over code

Spanish legislation on take-over bids was reformed in 2003 to increase the protection for minority shareholders. The main changes are:

#### Changes in Spanish Take-over Legislation

	OLD	NEW
<b>Compulsory take-over</b>		
Stake below 25% but appointing 1/3 of BoD	NO	At least an additional 10%
Stake below 50% but appointing 1/2 of BoD	NO	100%
Increase stake above 25%	At least an additional 10%	At least an additional 10%
Increase stake to between 25% and 50%	At least an additional 10%	At least an additional 10%
Increase stake above 50%	At least 75%	100%
<b>Conditional take-over</b>		
	NO	YES
<b>Competitive bids</b>		
	Advantage to first bidder: the only one able to improve offer	No advantage to first bidder: any bidder can improve offer
	Price improvement of at least 5%	Conditions have to improve, but no minimum
	Possible extension 'in aeternum' of competitive bids	Time limit on new offers

Source: Santander Central Hispano Bolsa.

We believe that the current low interest rate environment, the accumulation of cash piles by listed companies and the problems in delivering strong organic growth will be the main drivers of a significant increase in corporate activity.

## Spain – Potential Takeover Targets

Target	Business	Market Cap		Free Float		Potential Partner
		€ mn	€ mn	%	%	
Banco Pastor	Banks	1,346	525	39		Cajas, Barclays, RBoS
Bankinter	Banks	2,582	1,988	77		RBoS, Barclays
Banco de Valencia	Banks	1,776	941	53		Bancaja, Popular
Banco Guipuzcoano	Banks	725	421	58		BBK, Kutxa
Barón de Ley	Beverages	257	182	71		Diageo, Allied Domecq, private equity fund
Cementos Portland	Building Materials	1,219	402	33		FCC (59% stake), Cimpor, Lafarge, Cemex
Uralita	Building Materials	648	285	44		Lafarge, Saint-Gobain, Nefinsa (45% stake)
Vidrala	Building Materials	281	129	46		Owens Illinois, BSN Group
FCC	Construction	3,963	1,506	38		Acciona (8.7% stake)
Unión Fenosa <sup>1</sup>	Electricity	5,704	3,935	69		EDP, Enel
Zardoya Otis	Engineering & Machinery	4,092	1,555	38		UTH (51%)
SOS Cuétara	Food	792	333	42		Large food multinationals (eg, Nestlé)
TelePizza	Food	353	286	81		Domino's Pizza, Tricon, private equity fund
Viscofán	Food	369	258	70		Private equity fund
Ence	Forestry & Paper	581	314	54		Scandinavian paper producers (shareholder lock-up expired 01/01/05)
Amper	IT Hardware	115	87	76		European IT or defense company (Indra)
NH Hoteles	Lodging	1,159	696	60		Hilton, InterContinental
Recoletos <sup>1</sup>	Media	776	148	19		Pearson (79% stake), Vocento
Cepsa <sup>1</sup>	Oil & Gas	8,108	649	8		Total (45% stake)
Repsol YPF	Oil & Gas	21,951	17,561	80		Total, any US 'supermajor'
Zeltia	Pharmaceuticals	1,124	585	52		Johnson & Johnson
Inmobiliaria Urbis <sup>1</sup>	Real Estate	1,180	330	28		Caltagirone, Inmob. Colonial
Adolfo Domínguez	Retail	–	–	–		–
Indra	Software & Computer Serv	1,760	1,566	89		Large IT companies
ServicePoint	Software & Computer Serv	94	90	96		Xerox, OCE
Terra Lycos	Software & Computer Serv	1,696	424	25		Telefónica (75% stake)
TPI	Software & Computer Serv	2,095	838	40		Telefónica (60% stake)
Tubacex	Steel & Other Materials	237	223	94		Tenaris, Tubos Reunidos, private equity fund
Prosegur	Support Services	824	313	38		Group 4 Falck, UTC
Transportes Azkar	Support Services	303	100	33		TNT Post, Deutsche Post, La Poste
Jazztel	Telecom Services	277	277	100		Auna <sup>1</sup> , ONO <sup>1</sup> , Uni2
Telefónica Móviles	Telecom Services	38,542	2,698	7		Telefónica (93% stake)
Cortefiel	Textile	763	297	39		El Corte Inglés
Altadis	Tobacco	8,255	8,090	98		BAT, Imperial
Iberia	Transport	1,974	1,086	55		Merger with BA (10% stake)

(1) Grupo Santander has a stake of 3% or more in this company.  
Source: Santander Central Hispano Bolsa.

## LEVERAGED BUY-OUTS

### LBOs and MBOs set to continue

Several Spanish companies, especially in the mid and small cap arena (ie, those with a market cap of less than €3bn), have been subject to take-over bids by private equity funds/management teams with the aid of financial institutions over the past three months: eg, Amadeus, Recoletos and Aldeasa. As highlighted in our *2005 Strategy Report* (published in November 2004, page 38), a number of Spanish companies offer the potential to generate value for private acquirers through the re-leveraging of their balance sheets.



### Spain – Potential Value Creation by Re-leveraging Balance Sheets

Company	2005F		Share Buy-Back (%)	2005F		05F WACC	05F WACC	Potential Value Creation
	D/E Before Buy-Back	D/E After Buy-Back		(%) Before Buy-Back	(%) After Buy-Back			
Amper	-25.6	84.7	43.4	9.6	6.8	57.0		
Terra Lycos	-15.2	8.3	24.9	13.1	9.5	48.7		
Miquel y Costas	-9.8	76.3	28.7	8.8	7.0	35.2		
FCC	11.0	83.5	27.1	9.0	7.3	30.5		
Ence	26.4	63.4	21.1	7.9	6.8	23.0		
Logista	0.6	80.2	19.5	7.3	6.3	22.8		
Inditex	-29.0	87.5	25.1	9.2	7.9	22.7		
Acciona	7.2	37.4	18.6	8.0	6.9	22.5		
Indra	-19.8	68.4	19.5	8.7	7.6	20.8		
C. F. Alba	-21.1	1.3	12.9	9.6	8.4	17.4		
Repsol YPF	20.6	88.0	29.7	7.4	6.7	16.7		
Prosegur	33.9	100.0	16.6	9.3	8.4	15.2		
Iberia	-62.2	44.5	62.4	10.8	9.7	14.5		
Antena 3	-14.8	57.1	12.3	9.3	8.4	13.5		
Cortefiel	16.7	59.9	16.2	8.2	7.5	12.7		
Viscofán	19.1	44.8	14.4	7.9	7.3	11.8		
Barón de Ley	7.3	37.5	16.3	7.3	6.8	11.7		
Transportes Azkar	20.6	49.0	12.8	6.9	6.4	10.7		
TPI	10.6	100.0	9.9	7.9	7.4	10.4		

Note: We have increased net debt at the end of 2005F (to the lower of 1.5x EBITDA or D/E of 100%) and used the proceeds to buy back shares at current market prices.

Source: Santander Central Hispano Bolsa estimates and forecasts.

The stability, recurrence and low regulatory risk of the above-mentioned companies' business models would actually be sufficient to support a significantly higher debt load. In this regard, we would highlight Indra and TPI. However, in order to see the potential for creating value through the re-leveraging of balance sheets, it is important to note the existence of controlling groups (and their willingness to cede control of the company).

### Spain – Shareholder Structure

Company	Ence	Viscofán	M y Costas	Amper	Repsol YPF	Indra
Controlling shareholder group	NO	NO	NO	NO	NO	NO
Shareholders willing to give up control	-	-	-	-	-	-
Company	T Azkar	B. de Ley	TPI	Logista	Iberia	Antena 3
Controlling shareholder group	YES	YES	YES	YES	YES	YES
Shareholders willing to give up control	?	?	?	?	YES	NO
Company	Inditex	FCC	C. F. Alba	Terra Lycos	Prosegur	Acciona
Controlling shareholder group	YES	YES	YES	YES	YES	YES
Shareholders willing to give up control	NO	NO	NO	NO	NO	NO

Source: Santander Central Hispano Bolsa.

Of the companies without a controlling shareholder group and good potential to generate value through re-leveraging, we would highlight Ence, Viscofán, Miquel y Costas, Amper, Repsol YPF and Indra. Companies in which we believe the controlling shareholder group might be tempted to cede control should the right offer come along include Transportes Azkar, Barón de Ley, TPI, Logista and Iberia.

## HOT SPOTS

- We have upgraded our recommendation on **Cortefiel** (Buy, TP €14.35) following strong quarterly results on the back of the restructuring the company has been carrying out recently and the opening of new sales space. These measures, together with the corresponding improvement in margins (partially justified by the favourable trend in exchange rates), should lead to continued improvement in profitability in the coming quarters that has not yet been fully recognised by the equity market.
- **Cintra** (Buy, TP €10.00) is, in our opinion, one of the most attractive stories for 2005F in a scenario of low growth and low, stable interest rates. We consider Cintra to be a safe haven in the concession business, with growth potential in new concessions and capacity to continue generating more value in existing ones. This is a rare and valuable combination, a utility with a growth story. As a result of our positive stance on Cintra (and the conservative valuation that we had previously assumed for the company), we have upgraded our valuation on **Ferrovial** (Buy, TP €49.90), making it our top pick in the construction sector.
- On the other hand, although the final version of the National Allocation Plan (NAP) revised the treatment of fossil-fuel fired generation plants slightly upwards, we believe that the short-term news flow should continue to weigh negatively on **Endesa** (Hold, TP €18.50), whose recommendation we recently downgraded.
- In **Portugal**, news on the approval by the central government of 200 licences for new stores came out late last week. The licences are still subject to final approval by local authorities, which may now negotiate directly with retailers. If local councils give their go-ahead on the licences, sales areas could increase by up to 25% – substantially hindering margins and increasing capex requirements. The potential negative impact is much higher for **Jerónimo Martins** (where Portuguese food distribution represents 40% of its SoP) than **Sonae SGPS** (25% weighting in its SoP).
- We have made two changes to our large caps recommended list: we have included **BCP** (Buy, TP €2.50), given the improvement in volumes, reduction in future provisions and attractive relative valuation, and **Iberdrola** (Buy, TP €20.50), based on its favourable generation mix and the potential positive impact of regulatory changes in Spain.

### Main Revisions in Recommendations and Target Prices

Date	Company	Rating		Target Price			2005E EPS			Comments
		New	Old	New	Old	Chg	New	Old	Chg	
30-Dec	Arcelor	UW	N/R	15.15	–	–	3.20	–	–	Re-initiation of coverage
12-Jan	Cintra	Buy	N/R	10.00	–	–	0.20	–	–	Initiation of coverage
13-Jan	Amadeus	UW	Buy	6.85	6.85	0	0.38	0.38	–	Game over after take-over bid
13-Jan	Repsol YPF	Buy	Buy	23.00	21.00	9.5	1.95	1.95	0	Higher long-term oil price assumptions
17-Jan	Ferrovial	Buy	Buy	49.90	43.80	13.9	2.56	2.68	-1	Higher valuation for Cintra
17-Jan	Logista	Buy	Buy	47.00	45.00	4.4	2.62	2.62	0	Higher YE2005F cash position
19-Jan	Endesa	Hold	Buy	18.50	18.50	0	1.35	1.35	0	Limited upside potential
20-Jan	Cortefiel	Buy	Hold	14.35	10.35	38.6	1.06	0.81	30.9	Higher long-term margins
20-Jan	Vidrala	UW	N/R	16.00	–	–	1.30	–	–	Re-initiation of coverage

Note: UW = Underweight; N/R = Not rated.

Source: Santander Central Hispano Bolsa estimates and forecasts.



# IBERIAN RECOMMENDED LIST

## Iberian Large Caps – Santander Central Hispano 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	28.83	32.66	-11.7	-11.6	-11.4	-12.8	-7.6	-6.9	-12.3
Union Fenosa (*)	12-Feb-04	19.81	19.35	2.4	2.5	2.7	0.6	4.8	14.0	1.7
Ferrovial	16-May-03	44.58	39.32	13.4	13.5	13.7	11.6	20.2	22.9	11.5
Endesa (*)	14-Apr-04	16.88	17.29	-2.4	-2.3	-2.1	-2.3	7.8	12.1	-2.9
Repsol	17-Jul-03	19.20	19.16	0.2	0.3	0.5	0.4	9.7	8.6	0.4
Telefónica Móviles	14-Apr-04	10.12	9.26	9.3	9.4	9.6	6.4	12.4	18.9	8.0
<b>SCH Large Caps Model</b>										
<b>Portfolio</b>	–	<b>102.99</b>	<b>100.00</b>	<b>3.0</b>	<b>3.1</b>	<b>3.3</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>3.0</b>
Iberian Large Caps	–	99.89	100.00	-0.1	0.0	0.2	NA	NA	NA	-0.1
IBEX35	–	8,999.40	9,024.40	-0.3	-0.2	0.0	-1.5	6.5	13.7	-1.8
PSI 20	–	7,871.28	7,659.45	2.8	2.9	3.0	3.5	5.0	8.7	3.1
DJ Stoxx 50	–	2,779.65	2,783.41	-0.1	0.0	0.1	0	3.1	6.6	-0.1

(\*) As of January 24, we are including BCP and Iberdrola in our large caps recommended list and excluding Unión Fenosa and Endesa.

Source: Santander Central Hispano Bolsa estimates and forecasts.

## Iberian Small & Mid Caps – Santander Central Hispano 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	05-Jan-05	11.39	10.50	8.5	5.3	8.8	8.0	21.2	18.8	7.3
Gamesa	05-Jan-05	11.05	10.30	7.3	4.1	7.6	8.0	-0.2	-8.8	6.1
Prisa	05-Jan-05	14.70	15.62	-5.9	-9.1	-5.6	-8.2	-4.2	5.1	-7.7
Aguas de Barcelona	05-Jan-05	15.50	15.38	0.8	-2.4	1.1	2.0	14.8	10.6	0.6
Indra	05-Jan-05	12.86	12.57	2.3	-0.9	2.6	1.1	12.0	25.6	2.0
Ence	05-Jan-05	23.21	22.53	3.0	-0.2	3.3	1.8	1.3	3.1	2.1
<b>SCH Small &amp; Mid Caps Model Portfolio</b>										
		<b>102.66</b>	<b>100.00</b>	<b>2.7</b>	<b>-0.5</b>	<b>2.9</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>2.7</b>
Iberian SMCs	–	103.18	100.00	3.2	0.0	3.5	NA	NA	NA	3.2
IBEX35	–	8,999.40	9,024.40	-0.3	-3.5	0.0	-1.5	6.5	13.7	-1.8
PSI 20	–	7,871.28	7,659.45	2.8	-0.4	3.0	3.5	5.0	8.7	3.1
DJ Stoxx SML 200	–	132.52	130.00	1.9	-1.2	2.2	2.6	10.7	12.4	2.2

Source: Santander Central Hispano Bolsa estimates and forecasts.

**ANALYST CERTIFICATION:** We, Jesús Gómez, Antonio Espasa and Manuel Preto, 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.

## Local Offices

### Madrid

Tel: 34-91-257-2309  
Fax: 34-91-257-1811

### Lisbon

Tel: 351-21-389-3400  
Fax: 351-21-387-9133

### London

Tel: 44-207-332-6900  
Fax: 44-207-332-6909

### New York

Tel: 212-692-2550  
Fax: 212-407-4540

### Bogotá

Tel: 571-644-8006  
Fax: 571-592-0638

### Buenos Aires

Tel: 54114-341-1052  
Fax: 54114-341-1226

### Caracas

Tel: 582-401-4306  
Fax: 582-401-4219

### Lima

Tel: 511-215-8100  
Fax: 511-215-8185

### Mexico City

Tel: 5255-5629-5040  
Fax: 5255-5629-5846

### Santiago

Tel: 562-336-3300  
Fax: 562-697-3869

### São Paulo

Tel: 5511-5538-8226  
Fax: 5511-5538-8407

### Tokyo

Tel: 813-3211-0356  
Fax: 813-3211-0362

### 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%.

(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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