

WEEKLY

## TOP STORIES

**Jerónimo Martins** - Biedronka's LfL sales in Poland recovered to 5.5% in 3Q12 (from 4.7% 2Q12). Furthermore, excluding the categories of non-food and beverages from Biedronka's LfL, the numbers in many categories reached 8.4%, thus we remain confident on our estimates (6% LfL 2012) (page 11).

**PT & TEF** - Pay TV subscribers in Brazil grew 1.84% in September reaching 15.4 mn. It is still early days, but we acknowledge Oi is showing good results with Pay TV (+1.2% this year) (page 6).

## OUT THIS WEEK

**Earnings Comment** – Banco Popular, BPI, Iberdrola, Jerónimo Martins, Portucel

**Other Snapshots/Company Reports** – PT Multimedia & Sonaecom, Jerónimo Martins

**Price Target / Recommendation Changes** – Zon Multimedia, Sonaecom, Mota-Engil

**Other News** – Telefónica, PT & TEF, EDP, Jerónimo Martins

## WEEK AHEAD

**Monday** – PT's Technology and Innovation Conference (2 days); Retail sales Spain; Galp Energia's 3Q12 Earnings

**Tuesday** - Retail sales Portugal; Novabase's 3Q12 Earnings; Semapa's 3Q12 Earnings; Sonaecom's 3Q12 Earnings

**Wednesday** – Impresa's 3Q12 Earnings; Brisa's 3Q12 Earnings

**Thursday** – October new car sales in Spain

**Friday** – TV audience shares in Portugal; October new car sales in Portugal

## PORTFOLIOS

This week, **Mib Aggressive Portfolio** went down 2.43%, underperforming the PSI20 by 1.47pp. Excluding Portugal Telecom, all stocks contributed for this underperformance (page 14).

This week, **Mib Liquidity Portfolio** went down 1.24%, underperforming the PSI20 by 0.28pp. Telefónica and Galp Energia were the main contributors for this underperformance (page 15).

Stock Market	Last	1W	YTD	2011	Daily Vol. (€mn)	1W	1M	6M	2011
PSI 20	5,391	-0.95%	-1.88%	-27.60%	PSI 20	81	83	59	148
IBEX 35	7,776	-1.74%	-9.23%	-13.11%	IBEX 35	2,644	2,997	2,618	4,925
Euro Stoxx 50	2,496	-1.81%	7.75%	-5.56%	Euro Stoxx 50	9,063	8,210	8,065	14,831

Forex Rates	Last	1W	YTD	2011	Interest Rates	Last	1W	Chg	YE11
EUR/USD	1.29	-0.97%	-0.24%	-3.17%	Euribor 6m	0.40%	0.41%	-1bp	1.62%
EUR/GBP	0.80	-1.42%	-4.08%	-2.96%	10Y Bond PT	8.09%	7.56%	53bp	13.36%
EUR/BRL	2.62	-0.78%	8.49%	8.86%	10Y Bond SP	5.60%	5.37%	22bp	5.09%

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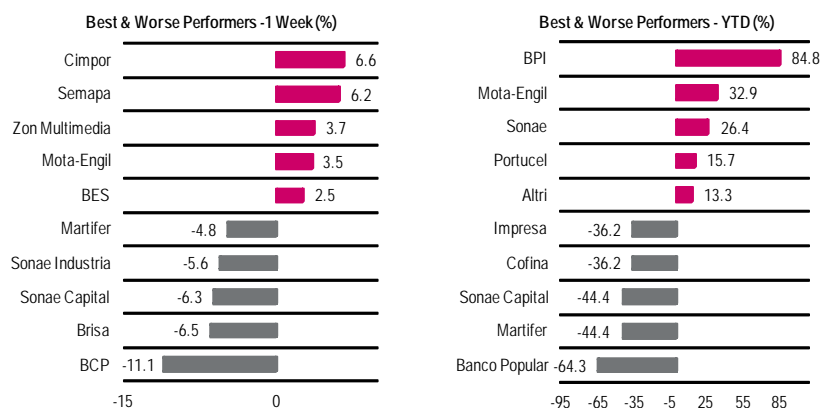
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**CHANGES**

	New		Previous		Motive
	Rating	Target	Rating	Target	
Zon Multimedia	3.20	Buy	3.05	Buy	Moving Valuation to YE13
Sonaeom	2.40	Buy	2.00	Buy	Moving Valuation to YE13
Mota-Engil	1.50	Neutral	1.50	Buy	Price Performance

**EARNINGS**

Company	3Q2012	Investor Day
Galp Energia **	12-10 BM	
Bankinter	18-10 BM	
Portucel	22-10 AM	
BPI	24-10 AM	
Iberdrola	24-10 BM	
Jerónimo Martins	25-10 BM	11-12-2012
Banco Popular	26-10 BM	
Media Capital	26-10 AM	
Galp Energia	29-10 BM	06-03-2012
Novabase	30-10 AM	
Semapa	30-10 AM	
Sonaeom	30-10 AM	15-06-2012
Impresa	31-10 AM	
Brisa	31-10 AM	
BCP	05-11 AM	
EDP	06-11 AM	25-05-2012
Sonae Sierra	06-11 AM	
EDP Renováveis	06-11 BM	24-05-2012
Telefónica	07-11 BM	
Altri	07-11 AM	
REN	08-11 AM	09-11-2012
Portugal Telecom	08-11 BM	
Cofina	08-11 AM	
Zon Multimedia	09-11 BM	
BES	13-11 AM	
Glintt	13-11 AM	
Cimpor	13-11 BM	
Sonae	14-11 AM	
Indra	15-11 AM	
Martifer	15-11 AM	
Sonae Capital	15-11 AM	
Sonae Indústria	16-11 AM	
Ibersol	19-11 AM	
Mota-Engil	21-11 AM	
ESFG	n.a.	
Soares da Costa	n.a.	
SAG	n.a.	

AM - After market; BM - Before market; n.a. - Not available; (e) Expected;

\*\* Trading update

## NEXT WEEK RESULTS

**Sonaecom** Buy – High Risk (Target YE13: €2.40)*3Q12 Earnings Preview**Alexandra Delgado, CFA  
Equity Analyst*

Sales	YoY	EBITDA	YoY	EBIT	YoY	Net Profit	YoY
208.1	-8.3%	63.5	1.0%	25.5	-0.2%	15.4	-39%

Sonaecom will disclose its 3Q12 Earnings on October 30th 2012, after the market close. A conference call will be held the following, at 9.30 am (GMT). We're expecting the mobile segment to continue to show decreasing YoY turnover (-6.5%, in line with 2Q12 trend) driven by decreasing operator revenues impacted by mobile termination rates' drop (-18.1%) and also lower customer revenues (-6.5%). EBITDA margin should continue to increase YoY: we're estimating 41.1%, growing by +3.7pp. The wireline segment should continue to experience accesses loss and decreasing revenues, due to extreme competition in the residential segment, however the good performance of operator revenues should almost entirely offset lower customer revenues. We are forecasting a 2.9% YoY turnover drop, with a 7.6% EBITDA margin. At SSI unit, turnover should continue to drop (-9.3% YoY), as a result of equipment sales (E-initiatives programme) sharp decline of 40%; on a positive note, services should grow 7.0% YoY. Consolidated revenue should drop 8.3% YoY in 3Q12 but EBITDA should advance 1.0% YoY in 3Q12, on the back of EBITDA margin growing 2.7pp vs. 3Q11, to 30.4%.

**Impresa** Buy – High Risk (Target YE13: €0.55)*3Q12 Earnings Preview**João Flores,  
Equity Analyst*

Sales	YoY	EBITDA	YoY	EBIT	YoY	Net Profit	YoY
63.3	-8.0%	8.0	1.0%	5.5	nm	0.9	nm

Impresa will release its 3Q12 earnings on October 31th, after the market closing. A CC will be held on November 05th, at 10:00, Lisbon/London time. Revenues are expected keep showing a very tough environment, penalized by falling advertising revenues (expected decline close to 2 digits). EBITDA is estimated to slightly decline, since revenues are declining at higher pace than costs. Overall, company will keep facing a very tough environment, thus additional cost cutting measures are expected.

**Novabase** Buy – High Risk (Target YE13: €4.10)*3Q12 Earnings Preview**Alexandra Delgado, CFA  
Equity Analyst*

Sales	YoY	EBITDA	YoY	EBIT	YoY	Net Profit	YoY
49.1	-8.0%	3.9	12.0%	2.4	25.8%	1.3	6.6%

Novabase will disclose its 3Q12 Earnings next Tuesday, October 30th 2012, after the market close. We expect 3Q12 to show an 8.0% YoY revenue decline, in line with 1H trend. We're forecasting Business Solutions growth in the quarter (+14% YoY) being offset by IMS (-22%) and Venture Capital (-20%) weak topline. We highlight that our estimates already take into account the reorganization of the Digital TV business announced by Novabase in July. We forecast EBITDA to grow 12.0% YoY, which stands for an EBITDA margin of 7.9% (+1.4pp YoY). Finally, we estimate Net Profit to reach €1.3 mn in the quarter.

**Galp Energia**

**Buy – High Risk (Target YE12: €17.85)**

*3Q12 Earnings Preview*

*Vanda Mesquita,  
Equity Analyst*

Adj. EBITDA	YoY	Adj. EBIT	YoY	EBT	YoY	Adj. Net inc.	YoY
268	21%	154	40.0%	153	57.7%	77	26.2%

Galp will disclose its 3Q12 earnings on 29th October before the market opens followed by a CC at 11:30 (Lisbon and UK time). Bearing the Galp trading update in mind, we acknowledge that our estimates for Adjusted EBITDA may be conservative, namely on G&P, as gas volumes supplied posted an impressive growth of 26.9% YoY and on R&M, as Galp's refining margin should be higher than our estimates. According to our expectations, E&P business should be the main earnings driver due to the higher production coming from Brazil, though lower realized prices. The recovering refining margin (Galp's benchmark stood at a positive level for the second consecutive quarter) should help to sustain R&M earnings and also help offset the depressed earnings from marketing business. Gas & Power should continue to benefit from good trading opportunities.

**FINANCIALS**

**Banco Popular**

**Buy – High Risk (Target YE13: €1.50)**

*3Q12 Earnings Comment - Earnings below expectations; credit quality deteriorated*

*Rita Silva,  
Equity Analyst*

- Banco Popular's quarterly banking income came quite below expectations. Main differences came at NII and commission level that should be revised downwards. Details on the capital increase should be known on November 10. The uncertainties regarding the success of its execution could add pressure to the stock in the short-term.
- 3Q12 NII €668mn (-10% QoQ) below consensus and our estimates. NIM down 20bp to 1.74%. The NII drop was driven by a decrease in loan spreads (-20bp) and an increase in the cost of deposits (+10bp to 2.55%) leading to a drop in customer spread of 27bp. NII compression was also influenced by (1) the drop in loans (by €3.6bn) in quarter as the bank's strategy was towards the improvement of the commercial gap. Simultaneously, deposits increased more than expected by the bank, meaning that in the future, and given its comfortable liquidity position, Popular can resume its lending activity, which would improve its NII; (2) significant increase in NPL's. The average customer spread (loan spread minus deposit spread) stands at 2.25% vs. frontbook of 2.83%. Regarding the spread on loan frontbook we also highlight the improvement of 2bp to 5.27% (vs. 3.75% in 4Q11 and 2.7% in 1Q11).
- Impairments fell to €252mn. Regarding the RD's provisions, €200mn were made 3Q12, meaning that €4.9bn have to be made in 4Q12, (€4bn through P&L, €900mn through equity), after the rights issue. We recall that OW stress tests identified a capital shortfall under the adverse scenario of €3.2bn. According to Popular's business plan, this gap should be filled by (1) €2,500mn capital increase; (2) €400mn excess of pre-provision profit for 2012 vs. OW estimates; and (3) capital gains from the sale of non-core assets and recovery of write-offs. Popular has incorporated the level of provisions that OW identified in the adverse stress test scenario, i.e., €7.5bn provisions for RE developers + €5.4bn foreclosed assets; €3bn regarding loans to corporate and SME's (non-RE) and €1bn from loans to individuals.
- NPL ratio rose from 8.84% to 10.4%; coverage ratio down from 50% to 44%; net new entries increased €2522mn (2.4% of performing loans vs. 0.7% in 2Q12), driven by the increase of NPL and the transfer from substandard loans to NPL's. The bank expects greater deterioration of the credit quality in the future as a result of the economic situation, namely in the development and construction sector.
- EBA CT1 @ 10.33% (10.26% in 2Q12). RWA -2.4%.

*(For further details, please refer to our snapshot out today)*

**BES****Buy – High Risk (Target YE13: €0.95)****BES interested in Banco Gallego?***Rita Silva:**Equity Analyst*

According to a Spanish newspaper, Banco Gallego may be purchased by BES, contradicting earlier news (by September), also of Spanish newspapers, that BES had withdrawn its offer. No information was given regarding values involved in the operation. BES already has a presence in Spain, through 34 subsidiaries. In 2011 BES's president, Ricardo Salgado, had already revealed its willingness to strengthen the bank's presence in Spain, taking advantage of the restructuring process of the financial sector in the country. Banco Gallego operates mainly in the area of Galicia, has a total of 183 branches and 750 employees. In terms of its balance sheet, we highlight the fact Bank Gallego has a relatively low loan-to-deposit ratio (2011), 113%, with €3.1bn in deposits, which may be a point of interest from the standpoint of potential buyers. However, the fact that the NPL ratio is above 8% and has an exposure to real estate loans of €815mn (23% of total loans) reduces the attractiveness of the business.

**BPI****Neutral – High Risk (Target YE13: €1.10)****3Q12 Earnings Highlights - Still a "sovereign player" but with strong capital buffer***Rita Silva,**Equity Analyst*

- BPI disclosed a good set of results, while signaling that it will anticipate the reimbursement of the State subscribed CoCo's by €100mn (40bp of RWA), pending approval of BoP. Albeit reducing CT1 EBA from current 9.7% to 9.3% (if done in 2012), it is still above the 9% min. requirement. This ratio would improve by 260bp to 12.3% considering the evolution of the sovereign buffer that improved from €1184mn in Sep. 11 to €543mn, driven mainly by the steep drop in Portuguese yields. Although the fact that BPI is a "sovereign player" – given the €7.45bn exposure to public debt (16% of TA) – and thus subject to sovereign swings, we consider that even with the repayment of CoCo's CT1 still stands at comfortable levels: taking into consideration the bonds that mature in 2019 (€1700mn) and a 6 yr duration, a breach of the 9% EBA level would only occur if yields went up by almost 6pp - a scenario we feel is unlikely to occur.
- At an operational level figures came better than expected, namely at a Domestic level, driven by the reinforcement of the sovereign portfolio. Domestic NII fell 11% QoQ penalized by the cost of the CoCo's (8.5% in year 1) which we estimate to be around €30mn in the quarter. Domestic NIM contracted 16bp to 1.32%, despite the good news that deposit spreads are stable at 1.9% for the second quarter in a row. This trend is in fact a reflection of the relatively low pressure that BPI has regarding its deposits (stable in the quarter) as it has a low LtD ratio (110%, down from 112%). This is also relevant as deposits account for 60% of BPI's funding structure. Loans contracted 2.7% QoQ (mortgages -1%, corporate + public loans -6%). In its international activities we highlight the worst than expected NII (€43mn, -11% QoQ) as local government yields (to which BPI is highly exposed) continue to trend downwards.
- Commissions in Portugal were also strong as BPI placed €1.1bn of corporate bonds.
- Asset quality deteriorated and continues an important issue as unemployment rates is predicted to be high in the foreseeable future. NPL ratio increased from 2.6% to 3% and credit at risk from 3.6% to 4%, with coverage at 99% and 74%, respectively. Cost of credit risk decreased from 127bp to 92bp. Foreclosed assets increased €1mn to €152mn and has 39% coverage. We estimate a NPL peak by 2014-15.
- ECB exposure +€500mn to €4.5bn; net collateral eligible for ECB discount: €5.4bn. AfS portfolio increased €1bn: €8.58bn (€5.745bn Portugal sovereign debt – 50% in T-Bills and 50% in T-Bonds; €975mn Italy; Ireland €333mn). CT1 BIS 3 14.8% RWA -2%.

*(For further details, please refer to our snapshot out this week)*

**3Q12 Earnings Comment - Still a "sovereign player" but with strong capital buffer (II)**

- Followings BPI's 3Q12 conference call we highlight:
- Uncertain economic environment in Portugal makes guidance difficult to be given. However, BPI expects NPL's to peak somewhere between June 2012 and June 2013, while cost of credit risk in 2013 should be lower than 2012. We are more prudent and expect 2013 to be worse than the current year (we expect domestic cost of credit risk of 120bp in 2012; 130bp in 2013 and 110bp in 2014);
- Sovereign (Portugal) contribution to NII stood at €50mn, while the cost with CoCo's was €30mn. BPI's current sovereign book stands at €8.6bn (19% of total assets), but no guidance was given regarding its future size or whether it will be held until maturity.
- Deposits spreads are stable at -1.9% for two quarters in a row and the bank hopes it is a turning point that will naturally depend on the action of its peers in the future; credit spreads on the other hand have stabilized in new production while is still increasing on existing stock that has not yet been repriced (mainly on the corporate side).
- No change in CoCo's original repayment calendar, albeit BPI's intention to anticipate the reimbursement of €100mn.
- All in all we feel comfortable with our current valuation, despite the need for some estimate fine-tuning.

*(For further details, please refer to our snapshot out this week)*

**TELECOMS****Telefónica****Buy – Medium Risk (Target YE12: €16.95)*****Telefónica narrows range for Telefónica Germany IPO***

*Alexandra Delgado, CFA  
Equity Analyst*

According to Reuters, Telefónica has narrowed the price range for shares in the IPO of Telefónica Germany, to €5.5-€6.0/ share (EV/EBITDA multiple between 5.2x and 5.6x), from €5.25-€6.50/ share (EV/EBITDA multiple between 5.0x and 6.0x) previously. According to the same source, the company has received orders for all the stock it is selling (23.17% of capital) in the new range. Proceeds with the IPO should be between €1,423 mn and €1,552 according to the new prices.

The deal is expected to be completed next Monday, October 29<sup>th</sup>, and shares are expected to start trading in Frankfurt the following day.

**Portugal Telecom****Buy – Medium Risk (Target YE12: €6.00)****Telefónica****Buy – Medium Risk (Target YE12: €16.95)*****Oi increases Pay TV market share, while Telefónica loses clients in September***

*Alexandra Delgado, CFA  
Equity Analyst*

The Brazilian regulator released yesterday September Pay TV subscribers' numbers. The market grew 1.84% in September reaching 15.4 million subscribers, which stands for 25.9% penetration of households.

Pay TV subscriber growth continues strong, with 200-350k net adds per month since the beginning of the year; net additions in August were 319k. Net/ Embratel (America Movil) continues to lead the market with a subscribers' market share of 53.0% (lost 0.2% market share in the month), followed by Sky with 31% (maintained market share).

Telefónica, third Pay TV operator, lost 22k clients in the month. Its subscribers' market share declined 0.2% in August to 4.0%; it lost 1.6% share since the end of 2011. Telefónica is redefining its strategy for DTH (possibility of partnership with Dish) and stopped selling IPTV on fibre (it should relaunch this service with new Microsoft platform later this month). The redefinition of the strategy, as well as the intense competition in São Paulo (GVT) explains the

poor performance in this segment.

Oi, fourth Pay TV operator, registered 37k net adds in September, increasing its subscribers' market share by 0.2% to 3.9%. Oi is close to surpassing Telefónica on number of Pay TV clients; it can become third player in this segment already this month. Oi has been pushing for growth in the Pay TV segment with good results: its market share increased 1.2% this year. Its strategy has been leveraged by PT's know-how and success with Pay TV in Portugal (+36% market share in four years). Growth in the Pay TV area is essential for the turnaround of Oi's wireline business, because it boosts a currently small revenue line, but also because it reduces churn in fixed voice and Broadband. We are obviously in early days, and Oi's weight in this segment is still small, but we have to acknowledge indicators are good and that evolution has been positive so far.

## Zon Multimedia

**Buy – Medium Risk (Target YE13: €3.20)**

*Alexandra Delgado, CFA*

### *Valuation Update – Tougher domestically, but cash will still flow*

*Equity Analyst*

- We have fine-tuned our estimates for Zon Multimédia. We value Zon Multimédia at €3.20 per share (YE13), revised from our previous calculation of €3.05 (YE12), meaning a 4.9% upward revision. Given the 39.1% upside on the stock we rate it as Buy (Medium Risk).
- The decrease of Portugal sovereign yield to 10% from 11% resulted in a price target increase of €0.25/ share. Lower EBITDA from Portugal allied to higher capex after 2013 lowered our price target by €0.55/ share; the appreciation of Angolan Kwanza added €0.05/ share. Finally, moving our valuation to the end of 2013 added €0.50 to our price target.
- Zon has managed to deliver quite stable and resilient earnings in the first half of 2012, despite mounting pressure on more discretionary spending such as premium revenues and cinema business. However, quarters ahead should be tougher for the domestic business, as more austerity measures impact families' available income.
- We are now projecting Zon to deliver flattish revenues and flattish EBITDA (+0.0% in FY12, +0.6% in FY13) this year and the next, which means the weakness in the domestic business will be offset by the consolidation of African business Zap.
- Free cash flow should almost double this year (to €95 mn) on the back of an expected capex reduction that follows a period of intense investment. Management already stated that the €100 mn FCF figure is also what the company envisages for the next years.
- A hot topic for Zon remains the possibility to merge with Sonaecom. We have argued for long that the merger has merits and should generate significant synergies as well as improved competitive position for the new entity. We have updated synergies' estimate for this merger: €317 mn, circa 26% of combined market caps.
- In conclusion, top line remains pressured in Portugal due to challenging macro environment, but Africa (Zap) is showing accelerated growth and profitability. Capex is controlled and FCF should double this year; the company is refinanced until the end of 2014 which ensures financial flexibility. Finally, the stock maintains its consolidation appeal.

*(For further details, please refer to our company update out this week)*

## Sonaecom

**Buy – High Risk (Target YE13: €2.40)**

## Zon Multimedia

**Buy – Medium Risk (Target YE13: €3.20)**

*Alexandra Delgado, CFA*

### *Telecom Sector: Sonaecom and Zon finally tying the knot? (II)*

*Equity Analyst*

- A possible merger between Zon and Sonaecom is an old topic that has been in investors' thoughts in the last 5 years. This topic has become hot in the last weeks, with Sonaecom's deputy CEO stating what everyone already knew: the operation is now easier after Angolan businesswoman

Isabel dos Santos increased stake in Zon to 29%.

- Because of the renewed interest on this subject, we thought it would be useful to update our estimate of the synergies this deal could generate. We have maintained our previous assumptions in terms of opex & capex savings vs. last report published in the beginning of this year; the only relevant change is that we're now considering integration of companies will occur in 2013 and not in 2012 as before.
- We value the synergies in a merger between Sonaecom and Zon Multimédia at €317 million (previous figure calculated in January 2012 was €323 million). This amount stands for 26% of the sum of the market capitalizations of both companies, thus it creates substantial shareholder value. Our estimate is based on €39 mn run-rate synergies (opex plus capex) and integration costs of €60 mn; it does not consider material revenue synergies. Opex synergies are circa 2.8% of sum of opex estimates for the two companies and capex synergies are circa 2.2%. We therefore believe these figures to be conservative and relatively easy to execute.
- The Portuguese market is small, saturated and further stressed by severe economic downturn. These conditions should lead the market to consolidate to 3 full-integrated players from current 4 main players.
- We continue to believe, as before, that a merger between Zon and Sonaecom is the most likely consolidation scenario. The two companies are complementary and an interesting fit. The new entity would have a larger scale and a higher efficiency would provide a stronger cash generation and therefore additional capacity to invest in infrastructure and R&D and compete with incumbent Portugal Telecom.
- A deal between Zon and Sonaecom should be performed through a friendly merger through stock exchange. We believe the merger exchange ratio will probably lie between average market price in the last 6 months (exchange ratio of 1.77) and our valuation for both companies (exchange ratio of 1.33), i.e., it should be around 1.55 (1 Zon share for 1.55 Sonaecom shares). We highlight that the deal is Free Cash Flow accretive and EPS accretive from 2014 onwards.
- In conclusion, we believe the rationale for a merger between Zon and Sonaecom continues to exist. The conditions are now more favourable for a deal to be closed, after Isabel dos Santo become main Zon shareholder. In fact, we are surprised this deal hasn't happen yet.

*(For further details, please refer to our sector report out this week)*

## Sonaecom

**Buy – High Risk (Target YE13: €2.40)**

### *Valuation Update – Resilient and with consolidation appeal*

*Alexandra Delgado; CFA*

*Equity Analyst*

- We have fine-tuned our estimates for Sonaecom. We value Sonaecom at €2.40 per share (YE13), revised from our previous calculation of €2.00 (YE12), meaning a 20.0% upward revision. Given the 78.4% upside on the stock we rate it as Buy (High Risk).
- The decrease of Portugal sovereign yield to 10% from 11% led to a €0.10/ share increase of our price target. Better operating cash flow from mobile was offset by weaker wireline and other segments, hence revisions did not impact our valuation materially. Finally, moving our valuation to the end of 2013 increased our price target by €0.30/ share.
- Sonaecom continues to deliver good results, despite the very challenging environment it faces. Pressures will mount on topline (worse mobile consumer revenues' trend) but EBITDA should still advance by €3 mn this year. Next year, EBITDA should decline by €2 mn, with cost cutting not covering revenue decrease; still, remaining fairly stable.
- Free cash flow (exc. spectrum acquisition) will be slightly lower this year, at €34 mn. This is due to higher capex with 4G network deployment. In FY13, as capex comes down to more normalized levels, cash flow should increase significantly (by €30 mn) to €64 mn.
- A hot topic for Sonaecom remains the possibility to merge with Zon Multimédia. We have argued for long that the merger has merits and should generate significant synergies as well as improved

competitive position for the new entity. We have updated synergies' estimate for this merger: €317 mn, circa 26% of combined market caps.

- In summary, the company will face some tough quarters ahead as domestic consumption is impacted by austerity measures, but EBITDA should remain relatively resilient on the back of cost control initiatives. Free cash flow next year should go up significantly, which combined with a stable dividend should bring net debt to a very low level (1.3x EBITDA), thus ensuring a strong balance sheet. Finally, the stock maintains its consolidation appeal.

*(For further details, please refer to our company update out this week)*

## UTILITIES

### Iberdrola

**Buy – Low Risk (Target YE12: €4.95)**

#### *3Q12 Earnings Comment - Earnings boosted by renewable business*

*Vanda Mesquita,  
Equity Analyst*

- Iberdrola disclosed its 3Q12 earnings followed by a conference call and also by the presentation of its outlook for 2012-2014. Earnings disclosed came out broadly in line with our estimates, in spite of a higher net profit. Like in previous quarters, renewable and international networks activities continue to boost results. As for the outlook 2012-2014, we liked the overall message. Guidance given was lower than our estimates, meaning that we need to revise them.
- EBITDA went up 7% YoY, coming out broadly in line with our estimates, in spite of a different breakdown per area. By activity, renewable activities posted an impressive growth of 33% YoY (14% above our estimates), propelled not only by higher production, but also by higher prices. Regulated activities dropped by 3% YoY (6% below our estimates) and liberalized activities went up 4% YoY (3% below our estimates). Net profit went up 4% YoY (27% above our estimates) benefiting from the one-offs in the period (in terms of taxes). Net debt (including tariff deficit) at 9M12 stood at €31.9bn (vis-à-vis €31.7bn at YE11).
- In the coming two years, the company will be very focused on reducing investment and selling assets to shrink its debt by €6bn until 2014. Capex from 2012 to 2014 should amount to €10.5mn, less €0.8bn than our estimates. IBE's divestment plan includes €2bn of core assets in non-core countries, €300mn of which were already sold. The company said that the impact of these sales on EBITDA will be not very meaningful, only 2%. If necessary, the company could also sell €3bn in non-core assets and minority stakes in networks. Dividend will be maintained at 30 cents per share, lower than our estimates that range from 34 cents this year to 36 cents in 2014. Both EBITDA and Net Profit in 2014 should be similar to the 2011 figures vis-à-vis our estimates for EBITDA of +8.6% than in 2011 and for Net Profit +10.44% than in 2011. Bottom line, IBE's 2012-2014 business plan includes lower earnings, lower capex and lower dividends than our estimates. Despite acknowledging that we need to fine-tune our estimates, we maintain our buy recommendation and our price target. Please find a table inside in which we compare MIB's targets with new IBE's targets.

*(For further details, please refer to our snapshot out this week)*

### EDP

**Buy – Low Risk (Target YE12: €2.85)**

#### *Loan granted by Bank of China*

*Vanda Mesquita,  
Equity Analyst*

EDP has announced that Bank of China has granted a €800mn 3-year multicurrency loan, with a spread of 3.5% over 3-month Libor. The company said that this loan is to finance the normal operating activities.

The conditions of this loan are better than the company's average cost of debt (4% at the 1H11) and better than the conditions of the latest bond issues, namely the bond retail issued in May (3 years, 6% coupon rate) and the bonds issued in September (5 year, with a spread of 480 bp over mid swap).

## RETAIL

## Jerónimo Martins

Buy – Medium Risk (Target YE13: €16.00)

João Flores,  
Equity Analyst

*Carrefour exits Colombia - Positive outlook to JM*

- Carrefour sold its business in Colombia to the Chilean Group Cencosud for €2Bn. The transaction should take effect by year-end. Recall both the Chilean retailer Cencosud and the American Wal-Mart are said to have been in talks with the company in recent months.
- Deal price reached €2bn (\$2.6bn), thus EV/Sales reached 1.2x which is above 0.8x EV/Sales 12 peer multiple. We believe premium paid reflects Concesud's ambitious expansion plan and favorable outlook to Colombian retail market. According to Carrefour 2011 Earnings Report, store network as of December 31, 2011 reached 75 hypermarkets and 20 other formats (16 convenience stores and 3 cash-and-carry stores).
- Deal multiple EV/EBITDA reached 20x which compares with 13.6x that Wal-Mart paid for control of Chile's Distribucion y Servicio in 2009. According to Bloomberg, the median multiple for 10 takeovers of food retail business since 2004 is 11.9x.
- Recall our JM's valuation (Price target €16.00 YE13) has embedded a 12.1x EV/EBITDA multiple while Biedronka has a 12.4x EV/EBITDA.
- Overall, deal is positive to JM, even considering JM will have in Colombia a stronger competitor than Carrefour (we expect a more aggressive profile than Carrefour):
- JM made the right decision when chose Colombia: multiples at premium shows Colombia retail market is increasing interesting and has a positive outlook
- ii)Cencosud will replace a competitor (Carrefour exist Colombia), it's not an additional one.
- iii)Recall we are not considering Colombia in our JM's valuation since company will disclose later further details. Recall we estimated Colombian unit EV could reach c€1.2Bn, thus increasing JM's price target to €17.85 from €16.00, keeping Buy recommendation (Medium Risk).
- We highlight Carrefour shares rose 5.85% (c€0.6mn in market cap) in Paris while Cencosud declined 5% in Santiago (c€0.6mn in market cap), showing stock performances are in line with premium paid:
  - peer multiple: 0.8 EV/Sales 12 multiple, implicit EV would reach €1.351Bn
  - deal multiple: 1.2 EV/Sales 12 multiple, EV paid reached €2bn, thus difference is €0.6mn

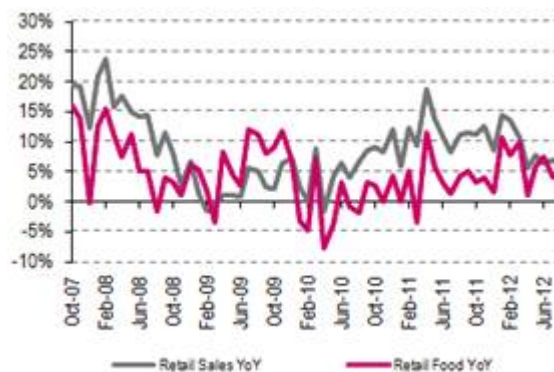
*(For further details, please refer to our snapshot out last Friday)*

**Polish retail sales growth slowed more than expected in September (Food 0.9% YoY)**

Overall, the risks of a negative surprise and strong deceleration of Polish economy are increasing, however we believe Biedronka will keep outperforming Polish food retail market, since company has room to adopt a more aggressive pricing strategy. According to the news, economic data (retail, labor-market, industrial output,...) suggests central bank will reduce benchmark rates by 25pb to 4.5% on Nov 07<sup>th</sup>.

Food: There was a 0.9% YoY gain in retail sales of food, beverages and tobacco products (from 5.0% in August), thus YTD average declined to 5.8% from 6.5%.

Recall our Biedronka's estimated LfL sales in 2012 were revised downwards to 6% from 10%, following Biedronka's disappointing numbers in 2Q12 (+4.7%) and company revised downwards target, thus we keep confident with our estimates.



	Survey Sep*	Sep-12	Aug-12	Sep-11	Chg MoM	Chg YoY
MoM	0.3%	-1.3%	0.1%	1.3%	-1.4pp	-2.6pp
YoY	4.5%	3.1%	5.8%	11.4%	-2.7pp	-8.3pp
<b>Food</b>						
MoM	na	-3.3%	0.9%	0.6%	-4.2pp	-3.9pp
YoY	na	0.9%	5.0%	5.2%	-4.1pp	-4.3pp

\*Bloomberg

Retail sales in Poland: increased 3.1% on an annual basis in September (4.5% consensus), lower than the 5.8% growth seen in August and the slowest number since April 2010. On a monthly basis, retail sales declined 1.3% during the month (0.3% consensus), following 0.1% increase in August. Recall car sales in Poland increased pace of decline in September -13% YoY (disclosed on October 4th), thus suggesting retail sales slowdown.

The unemployment rate was unchanged at 12.4% in September (12.5% estimated).

**3Q12 Earnings Highlights – A special dividend?**

- Jerónimo Martins (JM) published this week its 3Q12 figures. Overall numbers were slightly below estimated, however we believe special dividend will help the stock.
- Polish numbers were in line while numbers in Portugal showed an increasing tough environment.
- We highlight company will propose at an extraordinary Shareholder's meeting the distribution of €150mn in 2012 (€0.239/share) from free reserves.
- Sales rose 10.8% YoY to €2.846mn (vs estimated €2.860mn):
- LfL Poland 5.5% 3Q12; 4.7% 2Q12; 9.5% 1Q12; 12.2% 3Q11 (vs estimated 6% 2012)
- LfL Portugal -0.6% 3Q12; 2.4% 2Q12; -1.6% 1Q12; 1.4% 3Q11 (vs estimated 1.3% 2012)
- EBITDA rose 5.6% YoY to €228mn (vs estimated €233.5mn):

- 3Q12 EBITDA margin 8.0% vs 8.2% estimated
- 9M12 EBITDA margin 7.0% (in line with estimated). Distribution Poland 8.2% in 9M12 vs estimated 8.0% (7.8% 9M11); Distribution Portugal 5.4% in 9M12 vs estimated 5.2% (6.3% 9M11).
- Net debt €251mn (estimated c€150mn by YE12).
- Outlook: 66 new stores in Poland in 3Q12 (142 new stores in 9M12), target 250 stores by Year end (no surprise); No further details from Colombia; company expects Group EBITDA margin slightly below 2011 (no surprise). No further details from LfL sales (probably will disclose on I. Day).

*(For further details, please refer to our snapshot out this week)*

### **3Q12 CC Highlights - Special dividend (II)**

- Jerónimo Martins (JM) published this week its 3Q12 figures. Overall, numbers were slightly below estimated, however we believe special dividend will help the stock.
- Polish numbers were in line while numbers in Portugal showed an increasing tough environment.
- We highlight company will propose at an extraordinary Shareholder's meeting the distribution of €150mn in 2012 (€0.239/share) from free reserves.
- We believe JM's strong balance (net Debt/EBITDA multiple 0.2x, including Colombia conservative investment program) allows company to pay a special dividend, even considering investment needed to reach Top 3 in Colombia's retail market (€400mn + €400mn estimated). The reason not to do it would be cash need for a possible M&A in Colombia (which seems likely in order to reach Top 3 in Colombia's food retail market) or a sharp worsening of Portuguese and/or Polish environment. Recall our valuation includes a special dividend to be paid in 2013 above €300mn, thus anticipating to 2012 the payment of a special dividend will have a minor impact on px target.
- Excluding the categories of non-food and beverages from Biedronka's LfL, the LfL numbers in many categories reached 8.4%.
- Net debt declined to €251mn vs estimated c€150mn by YE12 (€331mn 3Q11).
- Outlook:  
With the decision to invest to strengthen business in Portugal, Group EBITDA margin could be below the previous year. Recall we estimate a slight decline in EBITDA margin from 7.3% to 7.2%.  
Environment in Portugal has changed faster and more negatively than JM expected.  
On Poland, JM remain very positive on the countries fundamentals and on the prospects for the food retail market. JM remains confident of opening c. 250 new stores by year-end (in line with our estimates).  
No further news from Colombia. We expect company will disclose further details from Colombia on I. Day (December 11th).

*(For further details, please refer to our snapshot out this week)*

## **INDUSTRIALS**

### **Portucel**

**Buy – Medium Risk (Target YE13: €2.55)**

#### **3Q12 Earnings Comment - On track to higher margins**

*João Mateus;  
Equity Analyst*

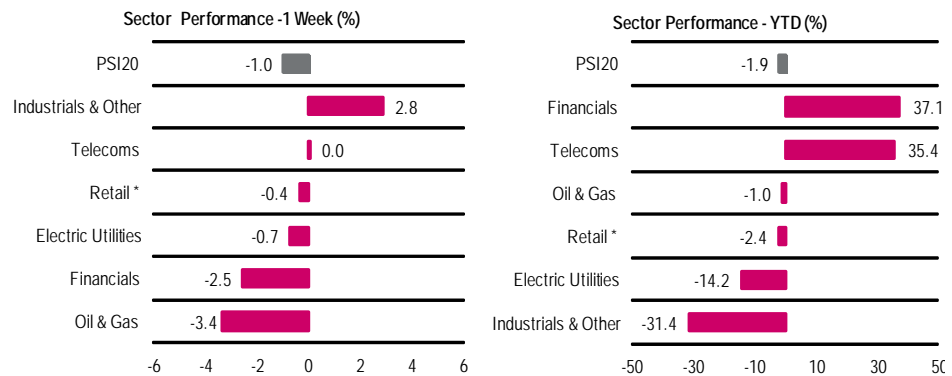
- Portucel released the 3Q12 earnings. We maintained our price target of €2.55 per share, for the YE13, with a buy, medium risk recommendation. Generally, the positive trend in pulp and paper prices, together with lower input and personnel costs, will most probably offset the negative effect of further worsenings of logistics costs.
- On the 3Q12, EBITDAP came 2.7% over our estimate (+0.6pp) and 7.8% higher YoY (+1.2pp), essentially on higher paper volume sales and pulp and paper prices. The 2.3% QoQ increase in EBITDAP came essentially on the back of a margin recovery of 2.1pp resulting from not specified

non-recurrent facts that hampered the margin of the 2Q12.

- The top line of the 3Q12 came broadly in line with our estimate (+0.4%) and 2.9% higher YoY, essentially on higher paper volume sales and pulp and paper prices, despite lower pulp volume sales. The QoQ decrease of 5.9% in the top line came mainly from the fall of 8% in paper sales. The QoQ fall at the top-line was cushioned by a slight increase in paper average prices.
- Net financial costs came 29% lower YoY in the 3Q12 on the decrease in Net Debt and came 18% lower QoQ on further reductions in Net Debt and stated decrease in average interest costs.
- We maintain our view that paper and pulp prices will follow a positive trend at least until the YE12, sustained by strong pulp demand from China. Cost inflation, high leverage and the need to monetize investments will continue to provide a positive pressure on pulp prices that will accordingly provide further pressure on paper prices.

(For further details, please refer to our snapshot out this week)

**SECTOR PERFORMANCE**



\* includes Jeronimo Martins and Sonae

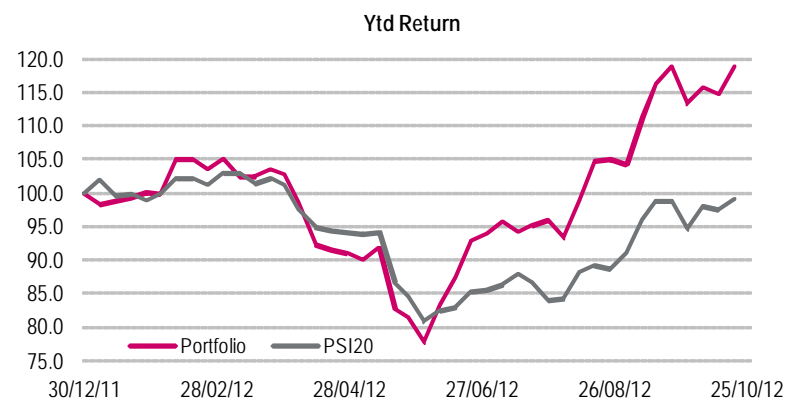
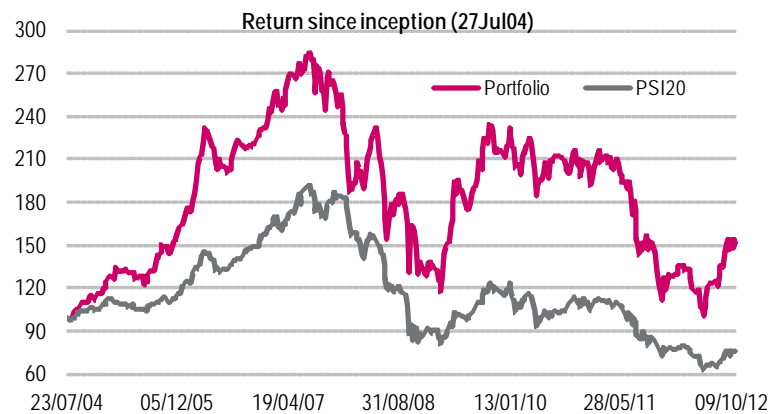
- This week, the PSI20 went down 1.00%. The best performing sector was Industrials & Other with a 2.8% growth and the worst was Oil & Gas with a 3.4% fall.
- On a Ytd basis, the PSI20 went down 1.9%. The best performing sector was Financials with a 37.1% growth and the worst was Industrials & Other with a 31.4% fall.

**AGGRESSIVE PORTFOLIO**

- This week, *Mib Aggressive Portfolio* went down 2.43%, underperforming the PSI20 by 1.47pp. Excluding Portugal Telecom, all stocks contributed for this underperformance.
- We highlight that the portfolio is composed by the five stocks with the highest upside potential of our coverage universe. It is equal weighted and rebalanced on a weekly basis.

**LIQUIDITY PORTFOLIO**

- This week, *Mib Liquidity Portfolio* went down 1.24%, underperforming the PSI20 by 0.28pp. Telefónica and Galp Energia were the main contributors for this underperformance.
- We highlight that the portfolio is composed by the five stocks with the highest upside potential of our coverage universe, excluding the less liquid stocks. It is equal weighted and rebalanced on a weekly basis.



Mib AGGRESSIVE PORTFOLIO

Portfolio weekly return

Company	Risk Rating	Market Price (€)	Price Target (€)	Upside Potential	Performance		
					Weekly Return	Contribution	Deviation
Novabase	High	2.02	4.10	103%	-3.3%	-0.67pp	-0.48pp
Impresa	High	0.30	0.55	83%	-3.2%	-0.65pp	-0.45pp
Telefónica	Medium	10.20	16.95	66%	-3.8%	-0.75pp	-0.56pp
Portugal Telecom	Medium	3.86	6.00	55%	-0.6%	-0.12pp	0.01pp
Sonaecom	High	1.33	2.40	81%	-1.2%	-0.24pp	-0.05pp
<b>Portfolio</b>					<b>-2.43%</b>		
PSI 20					-0.95%		
<b>Gain/loss</b>					<b>-1.47pp</b>		
Explained by the portfolio					-1.53pp		
Explained by being underweight in the remaining PSI20 stocks					0.06pp		

Next week Portfolio

Company	Risk Rating	Market Price (€)	Price Target (€)	Upside Potential
Novabase	High	2.02	4.10	103%
Impresa	High	0.30	0.55	83%
Sonaecom	High	1.33	2.40	81%
Telefónica	Medium	10.20	16.95	66%
Sonae Industria	High	0.54	0.85	58%

Changes in Portfolio

In	Out
Sonae Industria	Portugal Telecom

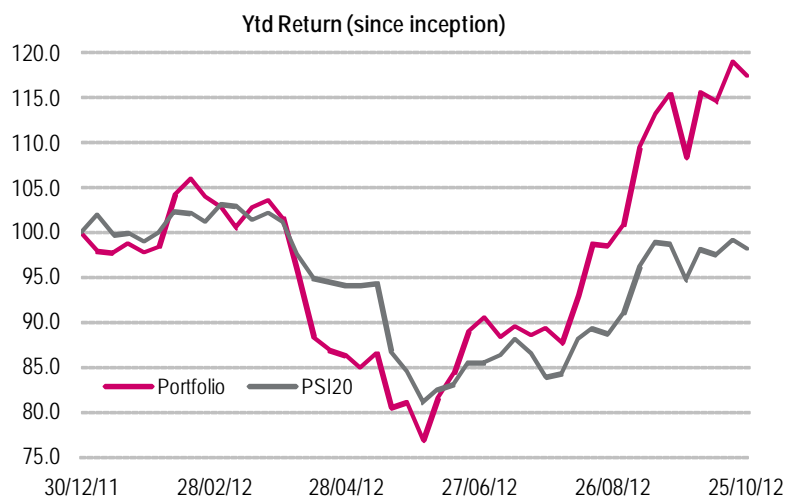
Return vs. PSI 20

	2007	2008	2009	2010	2011	YTD	1 Month	1 Week
Portfolio	-2.4%	-43.6%	71.9%	-7.30%	-36.6%	16.0%	2.3%	-2.4%
PSI20	16.3%	-51.3%	33.5%	-10.30%	-27.6%	-1.9%	3.6%	-1.0%
<b>Gain/loss</b>	<b>-18.7pp</b>	<b>7.7pp</b>	<b>38.5pp</b>	<b>3.0pp</b>	<b>-9.0pp</b>	<b>17.9pp</b>	<b>-1.4pp</b>	<b>-1.5pp</b>

Source: Bloomberg; Millennium investment banking

"Mib Aggressive Portfolio" is composed by the five stocks with a higher upside potential of our coverage universe.

"Mib Aggressive Portfolio" is equal-weighted and its composition changes at the end of the last trading day of each week.



Mib LIQUIDITY PORTFOLIO

Portfolio weekly return

Company	Risk Rating	Market Price (€)	Price Target (€)	Upside Potential	Weekly Return	Performance	
						Contribution	Deviation
Telefónica	Medium	10.20	16.95	66%	-3.8%	-0.75pp	-0.56pp
Portugal Telecom	Medium	3.86	6.00	55%	-0.6%	-0.12pp	0.01pp
EDP Renováveis	Low	3.73	5.30	42%	0.8%	0.16pp	0.25pp
Indra	High	8.75	12.40	42%	0.7%	0.14pp	0.34pp
Galp Energia	High	12.66	17.85	41%	-3.4%	-0.67pp	-0.09pp
<b>Portfolio</b>					<b>-1.24%</b>		
PSI 20					-0.95%		
<b>Gain/loss</b>					<b>-0.28pp</b>		
Explained by the portfolio					-1.53pp		
Explained by being underweight in the remaining PSI20 stocks					1.25pp		

Next week Portfolio

Company	Risk Rating	Market Price (€)	Price Target (€)	Upside Potential
Telefónica	Medium	10.20	16.95	66%
Portugal Telecom	Medium	3.86	6.00	55%
EDP Renováveis	Low	3.73	5.30	42%
Indra	High	8.75	12.40	42%
Galp Energia	High	12.66	17.85	41%

Changes in Portfolio

In	Out
-	-

Return vs. PSI 20

	2011	YTD	1 Month	1 Week
Portfolio	-	17.4%	8.4%	-1.2%
PSI20	-27.6%	-1.9%	3.6%	-1.0%
<b>Gain/loss</b>	-	<b>19.3pp</b>	<b>4.8pp</b>	<b>-0.3pp</b>

Source: Bloomberg; Millennium investment banking

"Mib Liquidity Portfolio" is composed by the five stocks with a higher upside potential, excluding less liquid stocks.

"Mib Liquidity Portfolio" is equal-weighted and its composition changes at the end of the last trading day of each week.



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- Recommendations:  
Buy means more than 10% absolute return;  
Neutral means between 0% and +10% absolute return;  
Reduce means between -10% and 0% absolute return;  
Sell means less than -10% absolute return.
- Unless otherwise specified, the time frame for price targets included in this report is current year-end or next year-end.
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- Analysts are paid in part based on the profitability of BCP group, which includes investment banking revenues.
- BCP group has more than 2% of EDP.
- BCP group has more than 2% of Sonaecom.
- BCP group was chosen to evaluate EDP regarding the 8th stage of the privatization process.
- BCP group was chosen to evaluate REN regarding the 2nd stage of the privatization process.
- A member of the Executive Board of Directors of Millennium bcp is member of the General and Supervisory Board of EDP - Energias de Portugal, SA.
- Banco Millennium bcp Investimento, S.A. (merged into Millennium bcp) was chosen as a joint global coordinator of the Initial Public Offering of EDP Renováveis.
- Banco Millennium bcp Investimento, S.A. (merged into Millennium bcp) was part of the consortium, as a Co-Leader, of BES rights issue, done in April 2009.
- Millennium bcp was part of the consortium, as Co-Manager, of BES rights issue completed in May 2012.
- Millenniumbcp through its investment banking department is providing investment banking services to Tagus Holdings S.a.r.l. ("Offeror" in the launch of a tender offer over Brisa - Autoestradas de Portugal, S.A. shares).
- Recommendations on Millennium bcp covered companies (%)

Recommendation	Sep-12	Jun-12	Mar-12	Dec-11	Sep-11	Jun-11	Mar-11	Dec-10	Dec-09	Dec-08	Dec-07	Dec-06	Dec-05	Dec-04
Buy	65%	78%	72%	68%	93%	76%	79%	79%	63%	54%	41%	37%	30%	63%
Neutral	19%	4%	7%	11%	0%	14%	14%	7%	15%	4%	27%	11%	40%	6%
Reduce	4%	0%	3%	0%	0%	0%	0%	0%	7%	0%	0%	21%	5%	6%
Sell	8%	7%	3%	7%	0%	0%	4%	4%	4%	0%	14%	16%	5%	0%
Unrated/Under Revision	4%	11%	14%	14%	7%	10%	4%	11%	11%	42%	18%	16%	20%	25%
Performance	10.7%	-15%	1%	-7%	-20%	-6%	2%	-10%	33%	-51%	16%	30%	13%	na
PSI 20	5,203	4,698	5,557	5,494	5,891	7,324	7,753	7,588	8,464	6,341	13,019	11,198	8,619	7,600

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