

LEAD STORY **FOCUS ON SPAIN**

TOP ADVISERS ON DEALS WITH ANY SPANISH INVOLVEMENT

1/1/07 to 2/2/5/07

Rank	Financial Adviser	Value (US\$m)	Mkt. Share	No of Deals
1	Morgan Stanley	93,663.9	65.6	16
2	Citi	84,561.3	59.2	10
3	Merrill Lynch	84,524.5	59.2	11
4	Lehman Brothers	70,032.4	49.0	9
5	JP Morgan	67,000.5	46.9	9
6	Credit Suisse	62,299.0	43.6	5
7	Santander Global Banking	53,108.7	37.2	19
8	Mediobanca	43,982.8	30.8	7
9	UBS	40,692.5	28.5	8
10	BNP Paribas	40,671.6	28.5	6
11	Deutsche Bank	39,064.2	27.3	5
12	Dresdner Kleinwort	38,199.2	26.7	4
13	Goldman Sachs & Co	35,535.7	24.9	7
14	Rothschild	30,744.7	21.5	8
15	Lazard	30,098.0	21.1	7
16	Societe Generale	25,089.8	17.6	5
17	Calyon	22,414.7	15.7	5
18	HSBC Holdings	19,518.9	13.7	4
19	Sandler O'Neill Partners	9,870.6	6.9	1
20	RBS	4,600.0	3.2	3
Subtotal with financial adviser		136,037.9	95.2	184
Subtotal without financial adviser		6,819.9	4.8	296
Industry total		142,857.8	100.0	480

Source: Thomson Reuters

A complication is that the political situation is not clear. "The new minister for industry, Miguel Sebastian Gascon, has given mixed signals in connection with a Gas Natural merger with Iberdrola," says Woods. "Some say he would not oppose a merger but some say he would."

Catalan savings bank La Caixa could prompt action by Gas Natural, as it has a 35.5% stake in the business. Woods suggests that Repsol YPF, in which La Caixa has a 12.7% stake, could be a possible partner, saying: "At present, there seems little indication of one purchasing the other but a joint venture, strategic alliance or merger could be on the horizon."



Kevin Woods

Repsol YPF also boasts a major construction group as a shareholder, with Sacyr Vallehermoso holding 19%. Sacyr has experienced a turbulent few years, failing in its €17.5bn (US\$23.9bn) attempt to take over French rival Eiffage and putting on hold the flotation of infrastructure subsidiary Itinere. Sacyr has sold its entire Eiffage stake.

Woods points out that this means Sacyr "is under considerable pressure to renegotiate the debt on its balance sheet and could make further divestments. There is a question mark over what it will do with its stake in Repsol YPF."

EDF's putative partner in the Iberdrola deal, ACS, also has other interests in the sector. As well as its 13% stake in Iberdrola, it holds 45% of fellow utility Union Fenosa.

"ACS's thinking was that these investments would help smooth out the cyclical nature of its core construction market," says Woods. "ACS has tried to merge Fenosa with Iberdrola without success. A deal is unlikely but remains a possibility."

Overseas expansion

Aside from EDF, the level of interest shown by foreign acquirers in Spanish targets has dropped significantly, in line with the downturn in the Spanish economy.

Closa, part of mid-market network M&A International, has been actively advising such groups on Spanish acquisitions for more than 20 years. Senior partner Josep Maria Romances says: "Since 1991, we have always

had several such deals each year, but this year is the first where we have seen no interest in Spanish companies."

However, Closa remains active in cross-border work. "We currently have 21 buy mandates from Spanish companies looking at acquisitions, principally in the US and Eastern Europe," says Romances. "Spanish groups have plenty of money and are eager to buy outside Spain."

One of the other major proposed acquisitions of a Spanish company by a foreign acquirer involved Investment Corp of Dubai making an opportunistic €9.9bn (US\$15.2bn) offer for troubled property developer Inmobiliaria Colonial in January.

However, this was later withdrawn as the heavily indebted group reached agreement on a debt-for-equity swap with its bankers, led by Banco Popular, with 9.15%, and La Caixa, holding 5.42%, as well as five smaller savings banks.

This syndicate of banks now wishes to sell some of Colonial's assets, principally its 84% holding in French property group Societe Fonciere Lyonnaise and a 15% stake in Spanish construction company Fomento de Construcciones y Contratas (FCC).

Spanish banks overall retain significant resources in order to take advantage of opportunities thrown up by the current adverse financial conditions.

"Spanish banks have not suffered directly from the US sub-prime issues but it has provoked a readjustment overall," says Uribe Menendez's Luis de Carlos.

Kevin Woods at GBS Finanzas agrees, saying, "There has been no direct sub-prime contagion, either because the Bank of Spain has regulated and structured the banking system well or because the Spanish banks were too slow to get involved in sub-prime connected issues."



Josep Maria Romances