



# Spanish firms lean on LatAm

## Telefónica is following Santander's strategy

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Reuters

### Analysis

MADRID - Spanish group Telefónica is following in the footsteps of compatriot Banco Santander by looking to squeeze cash out of its Latin American business to help battle a grim recession at home.

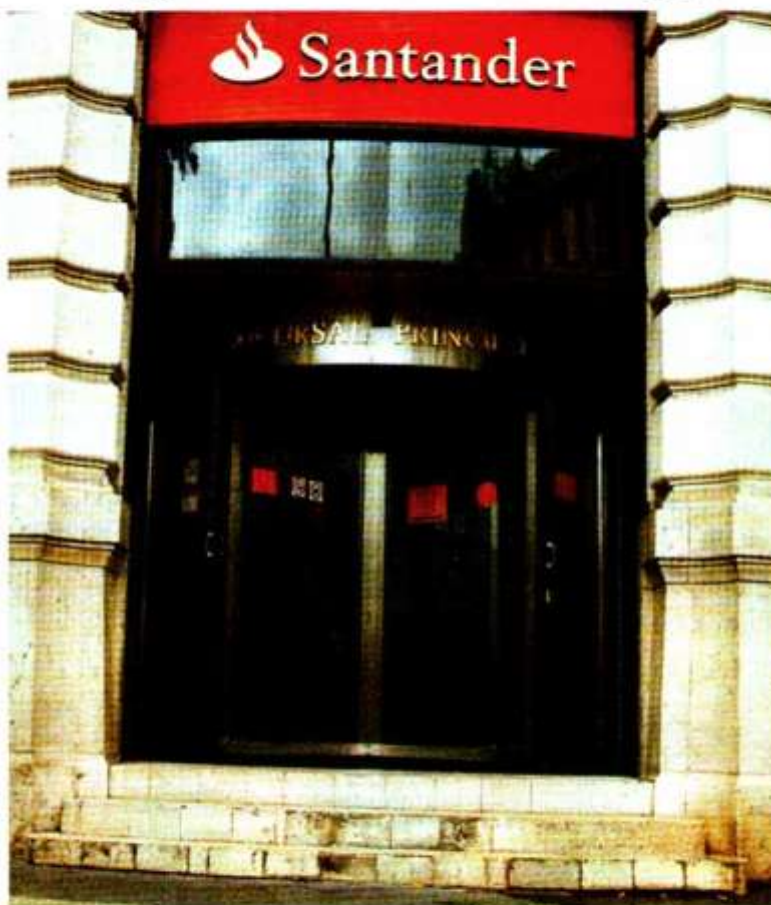
Both Spanish corporate giants took advantage of cultural and language links with Latin America by expanding aggressively into the region in the 1990s, years before a real estate crash in Spain triggered the country's worst recession in half a century.

Latin America accounts for more of Telefónica's revenues than Europe, while half of Santander's profit comes from the fast-growing region. Now both companies are shedding assets outside their core market and trimming balance sheets to show investors they can keep their heads above turbulent water if the situation deteriorates in Spain and Madrid has to request international aid.

"They're following similar paths but the starting point is slightly different," said Fiona MacRae, who manages Alliance Trust's European Equity Fund.

She holds Santander shares but has not had Telefónica stock for around two years.

"They're reaching their targets ... but you could argue that they're selling part of their future growth."



This file photo shows the main branch of Spain's Santander bank in Madrid.

Santander is ahead with the strategy of asset sales, stock market listings, dividend cuts, a buying freeze and a buy-back of subordinated debt, but Telefónica, with more than €50 billion (\$64 billion) of debt, is quickly following suit.

Santander is under regulatory pressure to raise core capital because of Spain's banking crisis, while Telefónica must pare debt to avoid losing its prized investment grade rating and the spiraling

financing costs that would accompany a downgrade.

Telefónica, which had €56 billion of debt at end-Sept., has said it will meet its year-end target leverage ratio of 2.35 times operating income before depreciation and amortization. Both companies are rated two notches above junk by ratings agencies Moody's and Standard and Poor's. If Spain, hovering one notch above, is downgraded, they will fall too.