

A Work Project, presented as part of the requirements for the Award of a
Masters Degree in Finance
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MOTA-ENGIL
**A SOLUTION TO TURNOVER ITS NEGATIVE STOCK MARKET
PERFORMANCE**

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Abstract

This project started as an M&A Field Lab, where students are challenged to advise the selected company (Mota-Engil) on typical M&A proposal from an investment bank perspective. However, during the Field Lab path, the source of information to university students proved to be limited, specially in what concerns the searching for an operation abroad. Nevertheless, along the way, I tried to understand the reason why Mota-Engil's shares were being so bearish in the stock market. So, this project reflects the investigation I did to justify the market valuation of Mota-Engil, to which I proposed opposite solutions to turnaround the negative performance. All the analysis refers to the year end of 2010 and it is important to state that companies' valuations were done as the base to understand possible changes on corporate value.

A - Mota-Engil Overview

Mota-Engil (ME) is a corporation founded in 2000 after a successful takeover bid made by Mota to Engil, which came up with the biggest Portuguese construction group. ME is quoted on Euronext Lisbon and part of its main index PSI20. The Mota family with a 60% stake provides shareholder stability.

Engineering & Construction (E&C) is ME's historical core business. Besides Portugal, the company has also an important present in Eastern Europe and Angola. However, since its core market has limited opportunities of growth, the company felt the need of diversification into new industries, where it could leverage core resources. Today ME also operates in 3 other areas: Environment & Services (E&S), Transport Concession (TC) and Industry (**Exhibit 1**).

A.0 - Corporate Strategy

As presented in **exhibit 2**, E&C's turnover remains the most important one within the group, despite its decreasing path over the years. Also the EBITDA follows a similar trend, but its relevance is smaller, which means that E&C observed shorter operating margins.

In the early 2000's, ME recognized the need for diversification both into new markets and new industries, trying to leverage its based resources from construction activity. Over the years, ME has established a solid and powerful networking with political authorities, and in this way the company set a multi-business offer to both municipalities and national authorities. Additional to civil engineering, that offer includes services as waste management, water distribution and logistics platforms.

In order to pursuit growing opportunities, the corporation also felt a need for geographic diversification. Presently ME target markets include Africa, primarily Angola, Latam with a focus in Brazil and other continental opportunities. Due to its good fundamentals, Eastern Europe was also a preferential market over the last decade, but unprofitable results forced the reorganization off of the operation.

A.1 - Engineering & Construction

Despite the fact that ME is trying to become less E&C dependent, this is still the most relevant business to the corporation. Its activity is mainly focus in three countries, Portugal, Angola and Poland, with some other small operations worldwide in Eastern Europe and Latam countries (**exhibit 3 and E1**).

Portugal

This market still represents ME's main source of turnover. However it is a mature and competitive market, where opportunities to grow are limited and margins

are shrinking. The recent economic crisis is having a special effect on Portuguese construction market (**Chart 2**).

However, ME has been able to keep and strengthen its position as a market leader, mainly in its target. Indeed, ME is in charge of 20% of the works done in civil engineering, having higher operating margins than its direct competitors. That superior performance is explained by its capacity to apply to complex projects, where the higher technical skills and financial power required, tend to reduce competition and the project's risk allows prices to be raised. Moreover the knowledge acquired in the market and the network built up over the years with decision makers authorities represents a solid competitive advantage.

Africa

The construction business in Africa, mainly Angola, is ME's fastest growing market and it represents the chance to increase margins and profits.

The economic outlook is very optimistic since Angola has been one of the fastest up warding countries in the world and high GDP growth rates are expected to overdue (**exhibit E2**). Moreover, the last decade brought political stability and the business environment is now much more attractive.

Furthermore, construction is an appealing business in Angola. The country has an enormous lack on infrastructures and real estate offer to respond to the rising demand, and the national partners have the richness to support those large investments programs.

Despite the favorable outlook for ME, Angola has been attracting important foreign players, mainly Brazilian and Chinese corporation, as well as all the large Portuguese construction groups. As such, competition is increasing. Nevertheless, ME

recently agrees to sell 49% of its Angola operation to Sonangol, the business arm of the central government. Under that partnership the order book is expected to grow and margins to remain high. Still, national authorities have continually delayed payments, forcing the intervention of Portuguese President. It was only after this intervention that Angola announces the intention to fulfill its obligations.

Eastern Europe

Unlike in others geographic regions, ME does not have a success path on Eastern Europe. In spite of the positive outlook after the integration of many countries in the EU, the results over the years have been disappointing and some losses had to be accounted for. It is largely due to the aggressive competition that moved into those markets in the expecting that the European funds, which arrived in 2008, could leverage the output of local engineering markets. The difficulty to find local partners and the need for vertical integration also justifies that disappointing performance.

In 2009, ME set a plan to turnaround the problem. Hungarian, Romanian, Slovakia and Czech Republic operations were shut down, and nowadays ME is focusing its activity mainly in Poland. Over the next years, the country will finally benefit from EU large funds to set up basic infrastructures crucial to support economic growth. (exhibit E3).

A.2 - Environment & Services

On this area, ME operates through a multi-services approach to municipalities, taking advantage of a cross-selling networking (exhibit 4 and E4).

Waste Management

Through a 54,5% stake in Suma (the remaining capital belongs to the Spanish group ACS), ME delivers a service of waste collection and waste treatment to its

municipality clients. The waste management service covers more than 2,2 million people. It represents 54% market share among the privatized services which, in turn, represents 40% of the total market. However, this position expected to grow in the near future.

Presently, Suma has to renegotiate many of its concessions, and according to management expectation, this will lead to a decrease on margins. Hence, with limited opportunities in the domestic market, Suma is focusing its growth abroad, exploring ME's target markets. In 2009, it opened an operation in Luanda, and despite its small volume, it has large potential to expand since Angola's capital has a lack of basic infrastructures. More recently the company acquired an operation in Brazil.

Water Distribution

Despite reduced weight, ME believes on the potential of the water distribution business. Through a 50% stake in Indáqua (with management control), ME operates 5 water concessions which represent 20% of the Portuguese market. This business shows an unclear evolution, since the need for new investments in a negative funding outlook, faces the opposition of public services stakeholders to increase privatization.

Following corporate strategy, Indáqua is looking for international opportunities, managing already a concession in Ireland.

Logistics

It is the newest business in ME's portfolio, wrapping after the acquisition of the maritime logistics company Tertir in 2007. This division is managed in a way to provide an integrated logistics to its clients, establishing connections between port terminals, the logistic platform of *Poceirão* and the Iberian railway lines of Takargo.

Nevertheless, maritime operations are the ones that matters, accounting for over 50% of E&S revenues. Tertir manages 4 out of 5 biggest domestic ports. In fact, Tertir manage the ports in Lisboa, Leixões, Aveiro e Setúbal, and only Sines is run by the Singaporean group PSA International. In addition to the national operation, Tertir is seeking to bid for international operations worldwide. Last year, the company was awarded two concessions in Peru, on which they have ambitious expectations, despite their currently reduced volume.

A.3 - Transport Concessions

This business represents the last area to which ME diversifies to, but it perfectly fits with its strategy of becoming less dependent on construction revenues. ME aims to add green-field concessions to its portfolio, allowing the group to leverage its construction knowledge and transfer results into a business with higher margins and stable cash flows, typically working as a cash cow.

The transport concessions businesses enlarged, despite several tolled roads programs, a 18,1% stake in Metro Sul do Tejo and a 38,02% stake in Lusoponte. As ME group has shared controls over these operations, in 2010 the corporation decided to not to consolidated the results of this area.

Regarding the tolled roads business, ME established a joint venture with bank BES to set up Ascendi where it has a 60% stake. Currently, Ascendi has a portfolio of 7 concessions in Portugal and 3 abroad. Ascendi experiences higher margins than its comparable companies since most of its operations are shadow tolls, where the traffic risk is transferred to the sponsors. Moreover, since the sponsor pretends to change those operations to real tolls business, it represents an opportunity to upgrade the contracts.

ME is also running operations on three different countries, mostly under the Ascendi partnership, and it aims to bid for new green-field concessions in the above mentioned target markets.

B - Stock Market Performance

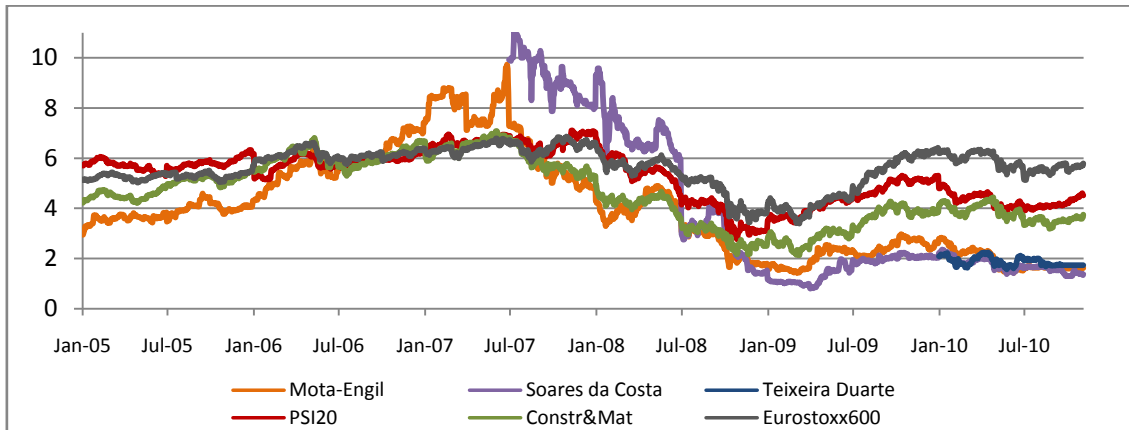
B.0 - Disappointing path

Since their minimums in March 2009, the Portuguese stock market index PSI20 and most of its securities has been able to take off, overcoming all the specific events that affect the national economy. However, ME's shares are living a shadow period, since they are powerless to recover after the global financial crisis, and even on 2010 they had the worst performance of the entire PSI20.

Looking back, between 2005 and the sub-prime crash in August 2007, ME's shares were traded at the same level or even above the average Price-to-EBITDA of its benchmark, the EuroStoxx Construction & Materials Index.

Afterwards, the negative feeling, pushed worldwide stock markets down to a bear market, which had a special effect on the sector's performance. Since their lowest point after the Lehman Brothers default on September 2008, Construction & Materials Index and PSI20 have been able to upturn part of its value decrease but on a smaller scale than Euro-zone benchmark (Eurostoxx 600). In spite of that generalized rebound, ME's shares continued to fell, reinforcing the conclusion that were being traded at discount (**chart 1**).

Chart 1 – Price-to-EBITDA



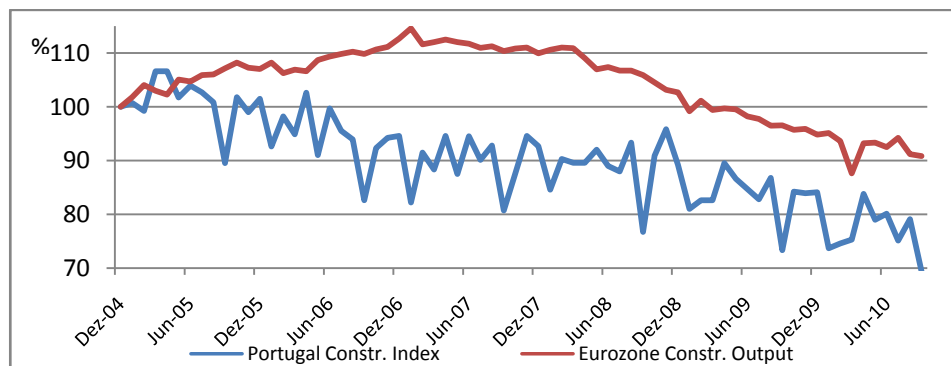
Source: Bloomberg

In order to understand why investors are not investing in ME's shares, some hypotheses will be raised and presented below.

B.1 - 1st Hypotheses - Portuguese Construction Outlook

Since ME's major internal competitors (Teixeira Duarte and Soares da Costa) are facing a similar path in the stock market, perhaps their discount could be explained by a national negative sector outlook. In fact, the global real estate crisis and more recently sovereign debt stress are affecting Portugal more than other Euro-zone country, with the total national construction output falling 30% while European construction output fell only 10% (**chart 2**).

Chart 2 – Portuguese vs European Construction Output



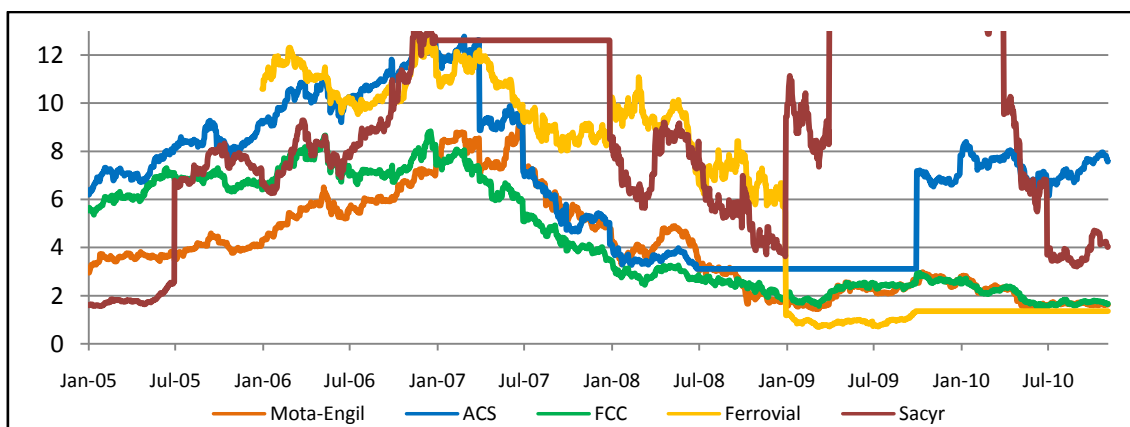
Source: Bloomberg

Hence, the first hypothesis is the following: is the more severe fall in the Portuguese construction output the reason to the Portuguese firms' underperformance,

even though Portuguese companies are focusing on pursuing a successful internationalization strategy?

Carrying on a comparable analysis on Spanish constructors' performance, it is not obvious that the negative sector outlook is the justification for that discount. According to *Euroconstruct*, Spanish construction's output has fell by 46,25% since 2005, above the 30% verified in Portugal. However, Spanish constructors are not being so punished by the market. Looking to their Price-to-EBITDA excluding Ferrovial which is, severely affected by its negative Eastern Europe operations, all of them were trading above ME in 2010 (**Chart 3**). Moreover, although the Spanish constructors tend to be more diversified, both operationally and geographically, the domestic construction turnover is not lower than ME's turnover (for instance, it is 15% for Ferrovial and 33% for Sacyr).

Chart 3 – Price-to-EBITDA Spanish Constructors



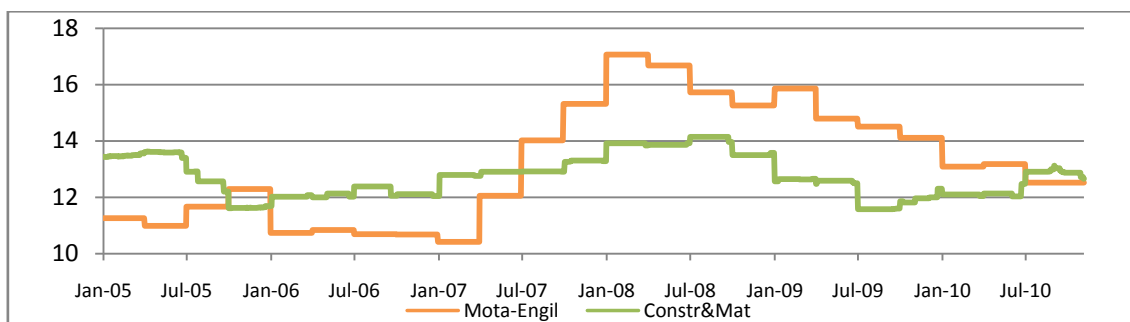
Source: Bloomberg

B.2 - 2nd Hypothesis - Corporate Specific Features

While the depressed domestic outlook does not seem to be the reason for ME's trading discount, many other issues can distress the company's share, specially because the Portuguese stock market has been under watch of financial players.

A very important ratio that equity investors take into analysis is the margin EBITDA (EBITDA / Turnover). It reflects how efficiently a company is managed and what is the ability of the firm to generate profits. Regarding ME, the group has the highest margin in the Portuguese construction market and its consolidated results show an efficiency close to the European sector index (12,52% vs. 12,66%). It was even better over the past three years (**chart 4**).

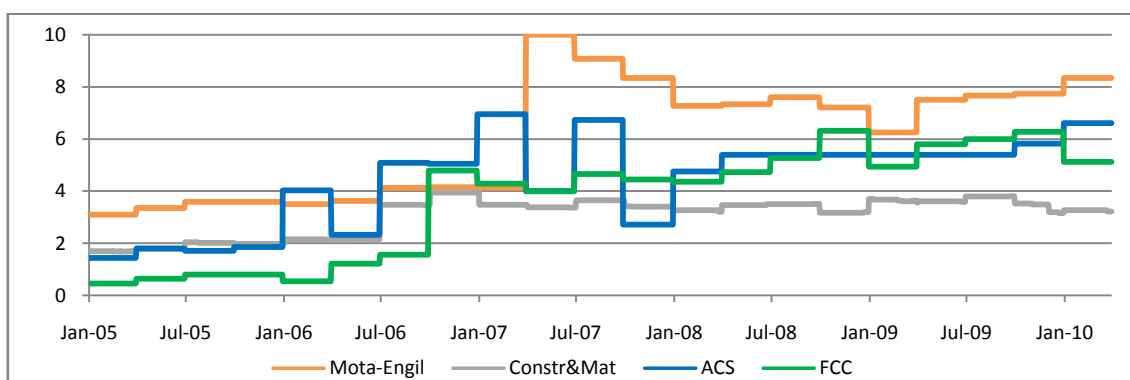
Chart 4 – EBITDA Margins



Source: Bloomberg

However, even if the company operation are healthy, its debt level contributes to increase the risk of its equity investors (**Chart 5**). Hence, a second hypothesis to explain the stock market performance refers to indebtedness level of ME.

Chart 5 – Net Debt / EBITDA



Source: Bloomberg

As a matter of fact, ME is a highly leveraged company, with an historical level above its benchmark (Constr&Mat), and the gap has increased. However, there are others competitors with have not been traded at a discount. Even so, ME’s financial

structure represents an increasing risk to equity investors, so we can not reject that ME's liabilities weight is the reason why investors avoid invest on the firm.

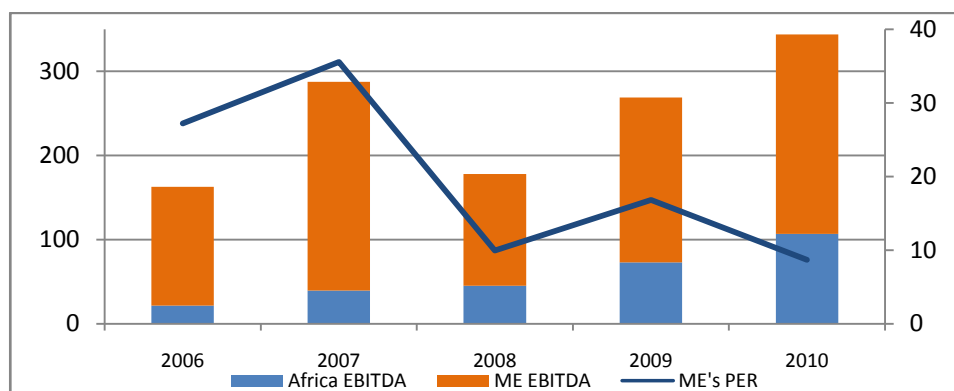
According to the previous, there is not any easy explanation to justify ME's shares to be traded at discount. The company operating and financing profile do not differ from its competitors, and most analyst have been publishing recommendations to buy (**exhibit E5**), with an average target price of €2,78, representing a 60% potential upside (in 31-12-2010, ME shares were traded at €1,74).

B.3 - 3rd Hypothesis – ME's diversification strategy

Another hypothesis to explain why investors are not picking ME stocks, is related to its diversification strategy. Does the market believe that the company will keep delivering sustainable results over the future? This implies that the market may have no faith on ME (diversification) strategy.

A few years ago, ME recognized its short potential to grow domestically in its core business, and settled a plan to expand abroad and became an international player. However, the Eastern Europe operations did not perform as ambitioned and needed to be restructured, and the services e transport concessions are having a slow expansion path overseas. As such, on the last years, ME's growth has been exclusively drive by its Angolan's construction evolution (**chart 5**).

Chart 5 – African Results vs PER



Source: Bloomberg and Company Data

Excluding Angola's operation, ME's revenues have not been growing on the last three years and its EBITDA is similar to the one of 2006. While Angola strengthens its weights on year end results, ME's shares emphasize its discount price. As so we can say that investors tend to reject Angola as a key strategic market for ME.

Actually, uncertainties related to political stability in the medium run, national authorities that do not recognize their obligations and do not fulfill them and several measures to implement cash flows controls by economic regulators, drives many potential investors to avoid being exposed to that region. Underlying this idea, according to the risk management firm AON Corporation, Angola's political risk is labeled medium-high and the country is negatively affected by political interference, insufficient legal and regulatory framework and limited foreign transfers (**exhibit E6**).

C –Turnaround the negative stock market performance

According to the conclusions previously taken on ME's diversification strategy, the growing dependency of Angolan construction business is shaking investor's confidence on long-term performance. In order to turnaround that outlook, the group must review its tactical strategy. There are some types of M&A operations that the company should take into analysis.

Even if the diversification to emerging markets and to related businesses with more secure cash flows, appear to be a shared vision with mostly European construction companies. The ways ME is doing it seems to be the issue. In my point of view, a possible turnaround would be ME focus its investments on a different emerging market region rather than Angola.

On the other hand, with credit markets getting more demand, ME highly leverage level could be a limitation to future growths. Following that idea, some deleverage opportunities must be taken into consideration.

C1- M&A Operation – Stake acquisition

ME's corporate strategy already states that aims Brazil to become a target operation in the near future. The economic potential and the market size, as well as common language and culture resemblance, make Brazil a right alternative to bring confidence back to ME's shares.

Nowadays Brazil has one of the most spotting markets, and it is already the 7th largest economy of the world. Over the last decade, the country was able to accomplish important economic results that carry optimism to the next years. National authorities were able to take inflation under control which allows exchange rates stabilization. A more ambitious social and educational program was put in place, without compromising the concern with healthy public finances, which recently experienced a credit upgrading by all rating agencies¹⁾. As a result 27 million people were promoted to medium class status, representing nowadays 52% of total population. The dynamics of the giant internal market - 196,8 million people – energy independence, economic liberalization and productivity gains, lead to the accomplishment of a very consistent growth over the last years (**exhibit 5**). On the turn of the decade, with the openness to international trade and the setting of a national plan to reduce the lack of basic infrastructure (**exhibit E7**), the optimistic economic outlook has even enhanced.

Despite the economic environment improvement, and the boom of foreign investment (from 2000 to 2010, Brazilian stock of FDI growth 309%) Brazil is not an

¹⁾ S&P: BBB-; Fitch: BBB; Moody's: Baa3

easy market to move toward. ME is already approaching this country through small operations, but in order to get importance enough in a way that investors could recognize the weight of the exposure to that region, it must pursue a sizable acquisition, that quickly could achieve results. Moreover, such an operation represents an important decision for the future and so uncertainty must be overcome. Then, it is recommendable the acquisition of a minority stake on a large corporation as a way to reduce risks.

Target Selection

In order to get a sizable and fast exposure to Brazilian market, it is only possible through a listed company on São Paulo Stock Exchange. As a basis of an M&A Operation targeting a listed corporation, the main criteria is to find a transaction sustained by a strong economic rationale. Otherwise it would be doing a diversification that shareholders could make by themselves.

The target selection borders the search by market cap (\$250M - \$1,000M) and industry. Then, from an eligible short list, I tried to understand which company could better fit ME's Brazilian strategy (**exhibit E8**). According to Brazilian operations CEO, the group objective to that region is to reply the domestic strategy and focus its activities on construction related business. In order to choose a target company, intrinsic factors of firms, such as the quality of their results, growth perspective, shareholder structure and corporate governance bylaws, were taken into consideration.

Wilson, Sons

Through the analysis exposed, Wilson, Sons (WS) was the corporation selected for ME to launch a hostile tender offer (because not previously negotiated with WS' board).

WS is Bermuda based company with a presence in Brazil over 170 years. The corporation went public on 2007 on SP Stock Exchange, being traded as BDRs (Brazilian Depositary Receipts) (**exhibit E9**). Since 1957 the corporation has been controlled by Ocean Wilsons Holdings Ltd, an investment firm that, further to the stake on WS, also diversifies its portfolio through global equities, fixed income and alternative assets with an emphasis on emerging markets. By itself, Ocean Wilsons is listed in the London Stock Exchange and it is controlled by two British trust firms (Hansa and N.B. Dill). These firms are focused on maximizing the return of investment, and for that reason, they are likely to accept the entrance of a corporate partners on WS, if they recognize an economic rational on it.

Similar to ME, over the decades the WS has developed an extensive national network. The company provides a comprehensive set of maritime services to domestic and international trade operators, and more recently to oil and gas extractors, building up a valuable portfolio of clients (e.g. Maersk, Petrobás, Vale). Its operations are divided in two main areas: Port Terminals and Logistics, which represent 53% of its total turnover, and Maritime Business - Towage, Shipping Agency, Offshore logistics and Shipyard – accounting to 43% of WS' revenue (**exhibit 6 and E10**).

Corporate strategy and growth opportunities

Behind the optimistic economic outlook from which WS benefit, the company is also exposed to other sector specific factors. In order to develop in Brazil the required infrastructure to support the increasing number of containers handled, which experienced a recent historical CAGR of 8,9% (**exhibit E11**), by 2025 29% of government transport expenditures would be driven to waterways. It serves WS' corporate strategy, which aims to consolidate and enlarge an integrated logistics offer

and take advantage of the sector growth to expand its activities. Moreover, new ports to be awarded in Brazil and in other South American countries, represent an excellent business opportunity.

WS is also focused on cost efficiency and productivity gains, trying to achieve economy of scales by share administrative function and exchanging know-how. The company also experiences a healthy financial structure, with mostly of its assets financed with equity capital. (The company valuation is presented in **exhibit 7 and E12**).

A 10% stake acquisition

Taking into account that a key point is to sustain it through the creation of value, ME's first objective must be to appoint a corporate director. It is the first way that ME can make its voice to be listened to. It is also a way to have access to private corporate information, and consequently seek to have a positive impact on the target company.

Respecting to WS bylaws (**exhibit E13**), with a minimum of 10% of its capital, which represents a €102,7 million investment (according to WS' market cap of 31-12-2010), a shareholder could name a board director. In addition, according to Brazilian stock market authority CVM, to target for a stake below 33,3%, does not oblige the launch of a tender offer over the entire target capital.

If ME decides to take this acquisition, it should contract brokers and investment banks to advise and perform the operation on its behalf. Despite the fact WS' has a 41,75% free float, its shares have limit liquidity (average bid/ask spread above R\$0,5) and so it should be established 6 months to acquire the required basket of stocks.

M&A operating funding and its total impact

Even if this transaction has a reasonable economic rationale, the financing issue of this operation is a threat to its feasibility, taking present the credit crunch that affects the Portuguese economy. In fact, according to Mr. Jorge Coelho ME's CEO, the actual stress credit outlook is blocking funding access, so nowadays the company prefers to finance locally its investment activities, including in Brazil (**exhibit E14**).

Therefore, ME must finance the operation in Brazil, even if the cost of funding is higher - Brazilian inter-banking rate CDI is 11,25%. This transaction should be structured as a leveraged finance operation on which the WS' shares bought by ME would be pledged as a guarantee in order to reduce the risk of bondholders.

In order to compute a quantitative analysis of the impact of the operation, WS' stock market performance and its paid dividends are not taking into consideration. Under this assumption, it is possible to isolate the economic rationale of the proposal, which is the reason why ME must perform this diversification, instead of its shareholders.

Exhibit 8 summarizes the total loss on shareholders' value. It is important to state that, if the operation was financed with Dollars or Euros, with a lower interest rate, the total impact would be significantly reduced, even if forex hedging costs are considered.

Opportunity to creating value

This proposal creates an economic value only if the possible benefit overcomes the mentioned negative impact. Those benefits came from the possibility of exploring synergies among both companies. Those synergies represent the profits that this

partnership can generate above the performance of each company stand alone. The synergies drivers can lie both on cost efficiency and revenues growth.

Shared Know-How

Maritime logistics is a new segment in ME's portfolio, and for this reason, the group does not have know-how or experience on the business. Previous ownership promoted a very traditional and conservative management. As a consequence, despite small improvements on the last years, Tertir experience an operating margin below its competitors. On the contrary, WS is a group focus on maritime solutions for over a century, and this experience allows the company to accomplish an EBITDA margin close to the largest global port terminal operators (**exhibit E15**). At the same time, the port of Salvador and Rio Grande have a productivity, measure by number of TEU's moved by hour, similar or even above the other important Brazilian ports - 46,1 and 36,6 cont/h respectively. As so, it is expected that, by having preferential access to WS successful operating track record, ME could experience large operating improvements.

Growth Opportunities

Further than cost efficiency gains, the success of this transaction would be translated on privileged traffic relationship on the trade flows Europe – South America, namely Portugal – Brazil. The overseas exchange between Portugal and Brazil is growing above 20% a year since 2003 (excepting in 2009), achieving already a trade volume above \$2 billion²⁾. According to the *Câmara de Comércio e Indústria Luso-brasileira*, this trend is likely to continue for the following years due to the approximation between both economies. This scenario of increasing trade flows represents an opportunity if both companies could operate together to develop a common approach to better address that maritime line. This would be even a bigger break to ME as the Port of Sines, Tertir's operations major competitor, is the main

²⁾ In 2010 Brazil represents the third non-European market for Portuguese exportation, accounting 4,7% of total exports and, at the same time, Brazil is the third non-European supplier, responsible for 14,1% of total imports.

platform to support South American exchanges. On the same way, the idea of developing a partnership with a European port operator, could also represent a key competitive advantage to WS, to become an important player on the main maritime line for Brazilian overseas trade – Europe is 2nd market for Brazilian exports and its 1st supplier.

Moreover, there is also an advantage coming from the possibility of the two companies to combine technical, human and financial efforts, in order to deliver superior proposals and have greater *shooting power* to bid for the many privatizations announced all over South America - specially in Argentina, Chile and Peru. That possibility of winning other Latam port terminal operations is aligned both with ME and WS strategic objectives.

Transaction Outcome

Under the possible scenarios described, in order to overcome the negative impact compute above, it is required that after three years the improvements in ME's logistics results, sales growth or operating margins, would bring to the area of E&S a minimum perpetuity increase of 0,7%, above which this transaction is creating value to ME's shareholders (**exhibit 9**). Additionally, ME's shareholders also profit from the benefits that this partnership may bring to WS.

Following the initial objective, through such an acquisition, ME is able to get the aim to increase the exposure to Brazilian growing economy. Due to its dimension, and the need to convince WS major shareholders of the benefits that this partnership could raise, it represents a risky operation. However the drivers to explore synergies, through cost efficiency and increasing revenues, are feasible and clearly set.

Moreover, if this investment showed to be profitable for both companies, ME could evaluate the possibility of rising the stake on WS, or take advantage of this experience to push up its expansion on emerging markets.

C2 - Deleverage Opportunity

The need for deleverage

Although the transaction proposed seems to be supported by an economic rationale, on reality it would be threatened by the financing issue. Therefore, if the group is constrained, the alternative is to think about a deleverage process, which could decrease investors' risk and lead them to pick up ME's shares.

Despite the intention mentioned by the CEO of funding its operations locally, still 91% of ME liabilities are expressed in Euros. In addition, the fact that ME does not have or pretends to have explicitly a credit rating, does not allow the company to diversify its funding sources. Besides, the recent bailout to the Portuguese economy will erase domestic credit market even more, and will worsen the liquidity restrictions that the country is facing.

As a matter of fact, ME is already facing a more severe credit market outlook, once its financial results eroded further than the deterioration of its financial ratios. In 2010, while its net debt-to-EBITDA rose 1,9%, ME financial cost increased by 6,7%. This evolution may be associated with the hypothesis that the corporation is beyond its optimal leverage ratio and, therefore, facing default costs.

Business sale

If ME considers a deleverage operation, the business/ asset selected to put in the market must be large enough to allow an important reduction in corporate net debt.

Looking to ME portfolio there are not much opportunities to realize such an operation that would not represent a review on its strategy. Given the depressed construction market, I would not recommend taking such an action in E&C business line. Indeed, Portuguese construction market is the core corporate business and ME' Eastern Europe operations are experiencing a restructuring process. Angola lives an opposite outlook but it represents ME's main source of growth. Moreover, 49% of its capital already belongs to Sonangol.

Regarding E&S, Tertir and Vista are the only sizeable companies to be under analysis but both are key areas to operations to ME's future strategy. Subsequently selling one of them would limit future perspectives. The 37,5% stake on Martifer has negligible synergies with corporate activity and it could represent an opportunity to make cash from a financial participation. However, it does not seem to be the best moment to sell Martifer shares, once they face a deep bear market, being traded 87% below their IPO price in 2007.

Thus, a sale operation could only come from the transport concessions area. The value of these businesses comes from the sum of the value of all its assets, being each concession managed as a stand alone operation, which means that not many synergies would be lost. There are two possible alternatives sales: to sell an Ascendi's operation or to sell the stake in Lusoponte. The first alternative seems less likely because it would have to get the agreement of BES.

Then, the feasible sale to put in place would be to the 38,02% stake on Lusoponte. It is an ongoing mature concession and its sale would not impact on any other ME's business. In September 2008, ME bough 24,19% of this company to Macquarie for €89 million, having evaluated it in €366 million.

Lusoponte manages two bridges on the area of Lisbon and it is a very attractive asset both to other shareholders – mainly Vinci – and to infrastructure asset funds. However, for the purpose of this analysis, a conservative approach will be followed. Hence, the sale price will embody a discount over its valuation as current high oil prices and the economic outlook should lead to a slight reduction on traffic.

Deleverage impact

The cash generated with the sale of Lusoponte shares, would represent an opportunity to decrease net debt on other corporate area. Although E&S has a higher debt-to-equity ratio, E&C faces a poorer operating performance and a higher business risk. Hence, I propose that ME would decrease debt in the E&C business line.

Such an action could have opposite impacts. The fact that a larger percentage of invested assets would be financed with equity capital, does not necessary means that the weight average cost of capital (WACC) of the firm increases on the same proportion. In fact, using Modigliani-Miller II (mm2) results, a deleverage operation represents a reduction in equity risk, leading to the reduction in the return required for equity investment. The WACC needs to be computed taking into account that both the weights and the cost of equity will change. Even so, computing a new cost of equity according to mm2, and considering a different capital structure, all else equal, E&C equity value increase does not seem to overcome the sale of Lusoponte stake (**exhibit 10**).

However, the explanation above ignored the possibility of a reduction in the cost of debt, due to declining bondholder's risk. In order to ME's shareholders indifferent between selling or not the Lusoponte stake, the reduction in spread paid by ME's debt would have to be, at least, 0,63%, which is not likely to negotiate due to present market conditions.

Still, even if the proposed computed deleverage operation does not seem to increase shareholders value, it should not be discarded. There are other issues, which are not easy to quantify, that should be taken into account when deciding on the optimal capital structure. In fact, the above mentioned credit crunch outlook that affects the Portuguese economy is likely to continue. Under that scenario, it is likely that the cost of debt would rise, thus affecting the competitiveness of the corporation.

Conclusion

Ten years after the acquisition of Engil, ME has being challenged to prove that it remains valuable asset for equity investors.

Over the last decade, the company was focus on a diversification strategy that allows the firm to avoid the declination of its core market – domestic construction. That strategy track a trend followed by many European constructors. The markets seem to share that view and ME's share used to experience a performance above the market index.

However, since a more severe outlook distress economy environment, ME has been severely affected on stock market. Motorways traffic below expectation and new business that not perform as expected, constrained corporate results' growth to the operation in Angola.

Despite the outlook mentioned, I still believe that there are some opportunities to ME explores and thus be able to turnaround the negative stock market performance. Those opportunities should preferentially pursuit emerging market exposure, and have a scale that allows investors to recognize a change on corporate path. Nevertheless, if ME faces credit restriction on finance those operations, it would be recommendable to focus

on debt reduction that gives the group the necessary flexibility keep on track is diversification strategy in the medium run.

Appendixes

Exhibit 1: ME's Corporate Structure

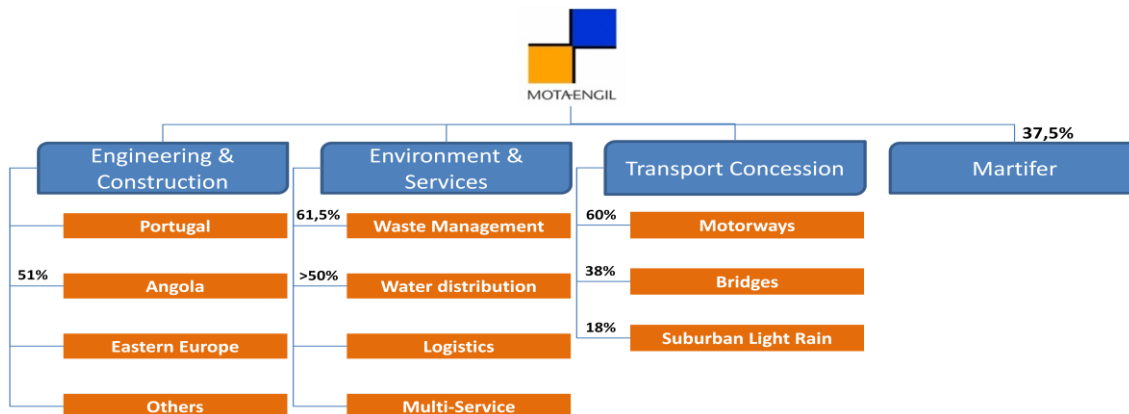
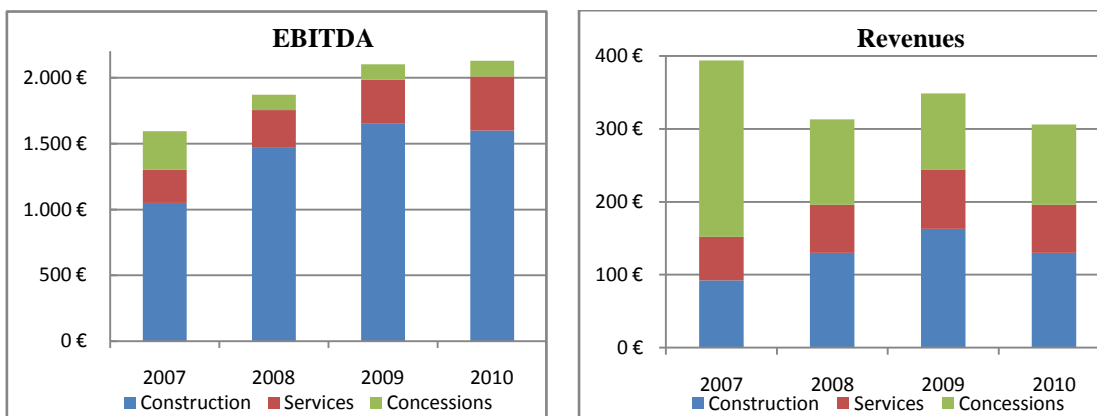


Exhibit 2: ME's Source of Results



Source: Company Data

Exhibit 3: E&C - Equity Value

Engineering & Construction						
Year	2009	2010	2011E	2012E	2013E	2014E
Revenues	1705	1612	1657	1744	1856	1981
EBITDA	131	163	149	155	167	180
FCFF	-73,2	2,4	14,7	18,7	33,9	42,7
DCF			13,9	16,6	28,4	33,7
Terminal Value	812,7					
Enterprise Value	905,3					
Equity Value	454,3					

Assumptions	Value	Comments
Cost of Equity	10,9%	CAPM
Risk Free	4,8%	10-years Bunds yield (31-12-2010)
Country Risk Premium	1,5%	Spread OT VS Bunds (until Mar 10)
Beta (β)	1,22	Peer group average ¹⁾
Market Premium	5,0%	
We	30,4%	
Cost of Debt	5,7%	Eur180 (31-12-2010) + 450 bp Spread
Wd	69,6%	
Tax Rate	29,0%	
WACC	6,1%	-
Perpetuity	2,0%	

1) Soares da Costa, Teixeira Duarte, Vinci, FCC, Eiffage, Hotchfiet, Billfinger Berger, Strabag and Skanska

Exhibit 4: E&S - Equity Value

Environment & Services						
Year	2009	2010	2011E	2012E	2013E	2014E
Revenues	363	413	428	441	455	468
EBITDA	67	80	94	98	103	108
FCFF	-68,0	-6,9	24,6	36,6	39,0	45,8
DCF			23,4	33,1	33,5	37,5
Terminal Value	1.184,9					
Enterprise Value	1.312,4					
Equity Value	905,4					

Assumptions	Value	Comments
Cost of Equity	10,3%	CAPM
Risk Free	4,8%	10-years Bunds yield (31-12-2010)
Country Risk Premium	1,5%	Spread OT VS Bunds (until Mar 10)
Beta (β)	1,1	Peer group average ¹⁾
Market Premium	5,0%	
We	17,6%	
Cost of Debt	5,7%	Eur180 (31-12-2010) + 450 bp Spread
Wd	82,4%	
Tax Rate	29,0%	
WACC	5,2%	-
Perpetuity	2,0%	

1) Aguas de Barcelona, Veolia Environment and Suez Environment

Exhibit 5: Brazilian GDP Growth



Exhibit 6: WS' Corporate Structure

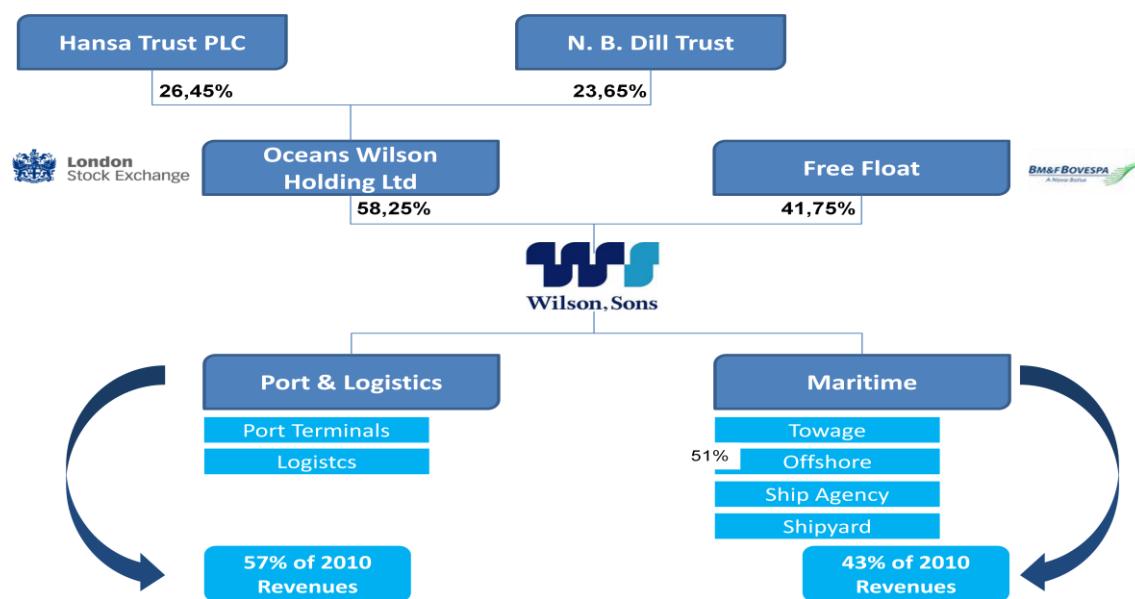


Exhibit 7: WS - Equity Value

Wilson, Sons						
Year	2009	2010	2011E	2012E	2013E	2014E
Revenues	478	576	610	653	705	761
EBITDA	146,0	189,9	201,3	221,9	246,7	266,5
FCFF	-34,7	-31,1	29,2	80,6	97,3	109,2
DCF			26,2	65,1	70,7	71,3
Terminal Value	1.504,8					
Enterprise Value	1.738,2					
Equity Value	1568,2					
Share Price (\$)	22,0	71,16 # Outstanding Shares (million)				
Share Price (R\$)	36,4	1,6539 USD/BRL (31-12-10)				

Assumptions	Value	Comments
Cost of Equity	14,7%	
Risk Free	11,25%	SELIC
Beta (β)	0,59	WS Leverage Beta (source: Bloomberg)
Market Premium	5,8%	
Target We	70%	
Cost of Debt	4,9%	
Target Wd	30%	
Wd in \$	85%	
Cost of Debt (\$)	3,5%	Merchant Shipping Fund - Fixed Rate [3%-4%]
Wd in R\$	15%	
Cost of Debt (R\$)	12,75%	150 bp spread
Tax Rate	34,0%	(15%+10%) IRC + 9% social contribution
WACC	11,2%	
2014 Inflation (IMF)	4,5%	
Perpetuity	6,5%	

Exhibit 8: 10% acquisition on WS - Equity value impact

10% Stake on WS		
Data	Value	Comments
WS Quote	32,00 BRL	31-12-2010
Market Cap	2.277 BRL	
10% Stake	228 BRL	
Pledge Rate	100%	
Cost of Debt	14,0%	Fw CDI (3y.) + 250 bp Spread based on market consultation
Δ Debt	102,7 €	EUR/BRL 2,2177 31-12-10
M&A on Wd	20,1%	
Δ Cost of debt	1,6%	
Δ WACC	0,7%	
Δ Enterprise Value	-112,9	
Δ Equity Value	-215,5	

Exhibit 9: Change on E&S valuation to make shareholders equal before WS stake

Required change on E&S to make shareholders equal						
Year	2009	2010	2011E	2012E	2013E	2014E
Revenues	363	413	427,8	443,6	460,6	473,3
EBITDA	67,0	80,0	93,7	99,2	104,9	109,6
FCFF	-68,0	-6,9	24,6	36,6	39,0	45,8
DCF	23,2 32,6 32,8 36,4					
Terminal Value	1.122,9					
Enterprise Value	1.362,0					
10% stake on WS	93,1					
Equity Value	862,6					

WACC	5,939%
Perpetuity	2,00%
Perpetuity increase	0,70%

Exhibit 10: Deleverage impact on E&C area

Deleverage Impact		
Data	Value	Comments
Lusoponte	366,0	According to Macquarie 30,6% stake sell on Set 08
ME Stake	139,0	38,02% stake
Debt Redution	132,1	5% Discount over the asset valuation
Δ Cost of Equity	-0,8%	Mm2
Δ WACC	0,2%	No changes on Cost of Debt consider
Δ E&C EV	-34,1	
Δ Shareholder Value	98,0	

Extra-appendixes

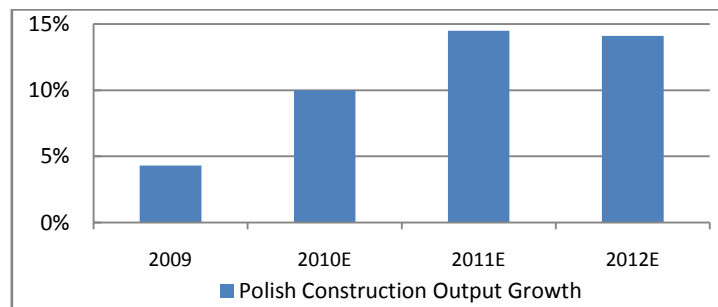
(No required to fully comprehension of all the arguments exposed WP)

Exhibit E1: E&C Equity Value – full data

Engineering & Construction						
Year	2009	2010	2011E	2012E	2013E	2014E
Revenues	1705	1612	1657	1744	1856	1981
Portugal	879	664	598	568	568	579
Africa	497	626	701	785	864	950
Eastern Europe	287	239	263	284	307	322
America	42	83	95	107	118	129
Growth		-5%	3%	5%	6%	7%
Portugal		-24%	-10%	-5%	0%	2%
Africa		26%	12%	12%	10%	10%
Eastern Europe		-17%	10%	8%	8%	5%
America		98%	15%	12%	10%	10%
Margins EBITDA	8%	10%	9%	9%	9%	9%
Portugal	6%	6%	7%	6%	6%	6%
Africa	15%	17%	12%	12%	12%	12%
Eastern Europe	1%	3%	5%	5%	5%	5%
America	2%	7%	10%	12%	12%	12%
EBITDA	131	163	149	155	167	180
Portugal	53	42	42	34	34	35
Africa	73	107	84	94	104	114
Eastern Europe	4	8	13	14	15	16
America	1	6	10	13	14	16
Depreciation	51	54,7	69,4	72,3	74,2	75,7
depreciation rate	13,9%	14,3%				
EBIT	80,0	108,3	79,3	83,0	92,9	104,7
Tax Income	23,2	31,4	23,0	24,1	27,0	30,4
tax rate	29%					
NOPAT	56,8	76,9	56,3	59,0	66,0	74,3
Depreciation	51,0	54,7	69,4	72,3	74,2	75,7

Operating CF	107,8	131,6	125,7	131,2	140,2	150,0
Capex	114	84,2	95,5	97,5	98,8	99,8
Δ NWC	67	45	15,42	15	7,5	7,5
Investments CF	-181	-129,2	-110,9	-112,5	-106,3	-107,3
FCFF	-73,2	2,4	14,7	18,7	33,9	42,7
DCF			13,9	16,6	28,4	33,7
Terminal Value	812,7					
Enterprise Value	905,3					
Equity Value	454,3					

Exhibit E2: Polish Construction Output Growth



Source: Euroconstruct

Exhibit E3: Angola's GDP Growth

Angola's GDP Growth	
2006	18,6%
2008	14,8%
2010	2,5%
2011E	8,3%
2015E	4,5%

Source: IMF

Exhibit E4: E&S Equity Value – full data

Environment & Services						
Year	2009	2010	2011E	2012E	2013E	2014E
Revenues	363	413	428	441	455	468
Waste	112	119	126	131	135	138
Water	47	77	81	83	86	87
Logistics	151	159	162	167	174	181
Multi-Service	53	58	59	59	60	62
Growth		13,8%	3,6%	3,0%	3,2%	2,8%
Waste		6,3%	6,0%	4,0%	3,0%	2,0%
Water		63,8%	5,0%	3,0%	3,0%	2,0%
Logistics		5,3%	2,0%	3,0%	4,0%	4,0%
Multi-Service		9,4%	1,0%	1,0%	2,0%	2,0%
Margin EBITDA	18,5%	19,4%	21,9%	22,3%	22,7%	23,1%
Waste	23,2%	26,9%	25,0%	25,0%	25,0%	25,0%
Water	34,0%	23,4%	30,0%	30,0%	30,0%	30,0%
Logistics	16,6%	20,1%	21,0%	22,0%	23,0%	24,0%
Multi-Service	5,7%	6,9%	6,5%	6,5%	6,5%	6,5%
EBITDA	67,0	80,0	93,7	98,4	103,4	108,1
Waste	26,0	32,0	31,5	32,8	33,8	34,5
Water	16,0	18,0	24,3	25,0	25,7	26,2
Logistics	25,0	32,0	34,1	36,7	40,0	43,4
Multi-Service	3,0	4,0	3,8	3,8	3,9	4,0
Depreciation	29,2	29,8	31,0	31,5	31,9	32,4
depreciation rate	12,6%	0,2	0,1			
EBIT	37,8	50,2	62,7	66,9	71,5	75,7
Tax Income	11,0	14,6	18,2	19,4	20,7	21,9
tax rate	29,0%					
NOPAT	26,8	35,6	44,5	47,5	50,7	53,7
Depreciation	29,2	29,8	31,0	31,5	31,9	32,4
Operating CF	56,0	65,4	75,5	79,0	82,7	86,1
Capex	86,0	85,3	40,5	41,1	41,7	42,3
Δ NWC	38,0	-13,0	10,4	1,2	2,0	-2,0

Investments CF	-124,0	-72,3	-50,9	-42,3	-43,7	-40,3
FCFF	-68,0	-6,9	24,6	36,6	39,0	45,8
DCF			23,4	33,1	33,5	37,5
Terminal Value	1184,9					
Enterprise Value	1312,4					
Equity Value	905,4					

Exhibit E5: ME Equity Researchs

Investment Bank	Target	Recommendation
Santander	3,00 €	Buy
BANIF IB	2,19 €	Hold
Caixa BI	3,05 €	Buy
BESI	3,80 €	Buy
BPI	1,90 €	Hold
BCP	2,75 €	Buy

Exhibit E6: AON Map – 2009 Political Risk Map



Exhibit E7: Brazil – Infrastructure Investment Pipeline

The organization of the Summer Olympic Games on 2016, the Football World Cup on 2014 and special the pipeline of offshore investments on oil explorations, must boom Brazilian national investment.



Source: Company Data

Exhibit E8: ME’s Brazilian Strategy

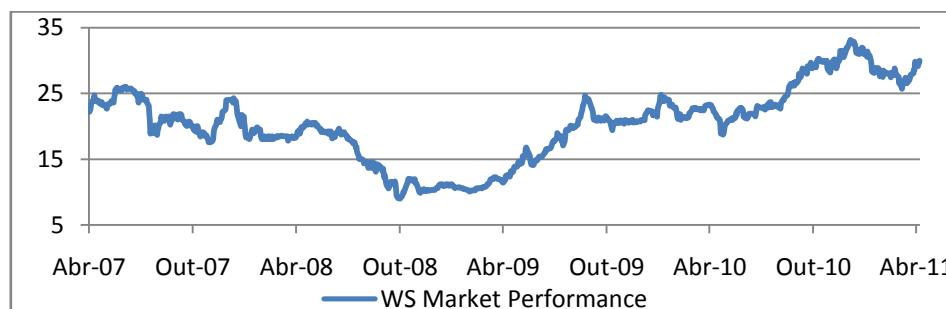
“ME seeking partners for expansion in Brazil

The president of Brazil Mota-Engil said in an interview that the company wants to replicate its business model in Brazil.

Mota-Engil, who two weeks ago announced the purchase of a Brazilian construction company of "average size" is actively seeking partners in other locations across the country to enter the port sector, water and sanitation, eager to replicate in Brazil the business model that takes into Portugal. (...)"

in Diário Económico (10/11/2010)

Exhibit E9: WS’s Stock Market Evolution (Ticker WSON11:BZ)



Source: Bloomberg

Exhibit E10: WS's business areas

- **Port Terminals.** WS is the third largest container terminal player in Brazil, operating two of the principal container terminals in Brazil, located in Rio Grande do Sul and Bahia. The concessions, which together represent 11% of the total containers handled in Brazil, were awarded in 1997 and 2000 respectively for a period of 25-year, renewable for an equal time. Besides this main terminal through Brasco, WS also operates five port and logistics terminals, providing service to the offshore oil and natural gas industry in Brazil, being the second largest player of this type of terminals in Brazil.
- **Towage.** With a fleet of 72 tugboats, WS is the leading provider of towage services in South America. It operates in all the main Brazilian ports and has a market share above 50%. It also develops oceangoing towage and salvage operations.
- **Logistics.** WS provides customized and integrated supply chain solutions to its large national and multinational client base operating in Brazil. Taking advantage of its two logistics platforms, those solutions goes from a maritime, road and rail transportation services, storage or distribution. On the last years, this business experienced a two digit growth, constantly above the industry average.
- **Ship Agency.** WS is the oldest and leading Brazilian ship agent, operating in every major port of the country, through a national coverage over twenty own offices.
- **Offshore.** Through a 50% participation on the joint venture WS Ultratug Offshore,

WS operates offshore supply vessels that provide support services, from equipment to cement or food, to offshore oil and gas exploration and production platforms. Currently WS operate platform supply vessels under long-term contracts with Petrobras.

- **Shipyards.** WS own and operates an own shipyard in the state of São Paulo, that is responsible for building and maintaining its own vessels, providing WS with a competitive advantage. Two additional shipyard projects are currently in progress.

Exhibit E11: Forecasted increasing containers handling in Brazil (#TEU M)

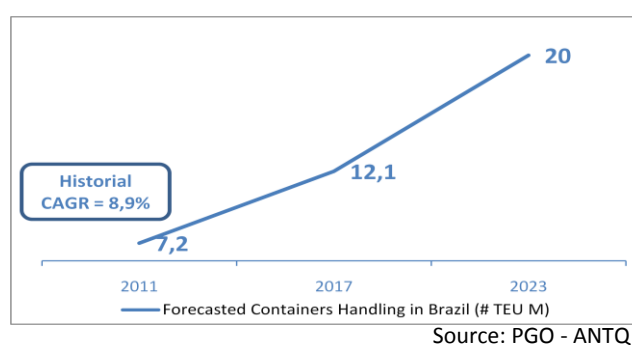


Exhibit E12: WS' Equity Value – full data

Wilson, Sons						
Year	2009	2010	2011E	2012E	2013E	2014E
Revenues	47	77	82	87	94	102
Growth		5%	6%	7%	8%	8%
Margins EBITDA	30,6%	33%	33%	34%	35%	35%
EBITDA	146,0	189,9	201,3	221,9	246,7	266,5
Depreciation	32,1	42,9	45	45	45	45
depreciation rate	7,3%	7,4%	7,5%			
EBIT	113,9	147,0	156,3	176,9	201,7	221,5
Tax Income	31,1	50,0	53,1	60,2	68,6	75,3

tax rate	34,0%					
NOPAT	82,8	97,0	103,2	116,8	133,1	146,2
Depreciation	32,1	42,9	45	45	45	45
Operating CF	114,9	139,9	148,2	161,8	178,1	191,2
Capex	149,6	167	120	80	80	80
Δ NWC		-4	1	-1,2	-0,8	-2
Investments CF	-149,6	-171,0	-119,0	-81,2	-80,8	-82,0
FCFF	-34,7	-31,1	29,2	80,6	97,3	109,2
DCF			26,2	65,1	70,7	71,3
Terminal Value	1.504,8					
Enterprise Value	1.738,2					
Equity Value	1568,2					
Share Price (\$)	22,0	71,2	# Outstanding Shares (million)			
Share Price (R\$)	36,4	1,6539	USD/BRL - 31-12-10			

Exhibit E13: WS's bylaw – Section *Conselheiros e Directores*, article 34/ 4b)

(b) Qualquer Sócio ou grupo de Sócios que estiver representando no mínimo 10% do capital social integralizado da Sociedade, seja individualmente ou com Associadas, terá o direito de eleger um único Conselheiro em qualquer assembleia geral ordinária, em uma deliberação separada que exclua o voto dos Acionistas Controladores (um "Conselheiro Minoritário"), desde que esse(s) Sócio(s) ofereça(m) à Sociedade notificação por escrito com 10 dias de antecedência a respeito de sua intenção de realizar a eleição de um Conselheiro Minoritário antes de tal assembleia geral, notificação essa que incluirá a identidade do candidato a ser eleito como Conselheiro Minoritário, e desde que, ainda, o Conselho de Administração, atuando de forma razoável nos interesses da Sociedade e de seus Sócios, considerar que essa pessoa seja adequada para atuar nessa qualidade e não concorra com os negócios da Sociedade e de suas Afiliadas e que não represente interesses que conflitem com os da Sociedade e de suas Afiliadas. Fica hipótese alguma haverá mais do que 1 (um) Diretor Minoritário.

Exhibit E14: ME – Local Funding

“ME is negotiating funding with banks in countries where it operates

Mr. Jorge Coelho said the Portuguese financial system is locked and the ability to support national companies is very low.

The constructor is therefore negotiating with banks in countries where it is present, said Coelho.

"For the group to continue to invest on its increasing international business, it is negotiating with the financial system of countries like Brazil and Peru, " said Coelho.

in Jornal de Negócios (17/03/2011)

Exhibit E15: Largest global Port Terminal Operators

Company	Home Country	EBITDA Margin
Hutchison Whampoa	HK	31%
PSA International	Singapore	36%
Dubai Port World	Dubai	40,3%
APM Terminals (Maersk)	Denmark	25,3%
ICTSI	Philippines	47%

Source: Companies Data