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TELECOM

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REASON FOR REPORT: TARGETS AND FORECASTS UPDATE

NEW ASSUMPTIONS, NEW TARGETS!

We have made some changes to the cost of capital (WACC) and target prices based on some adjustments in our assumptions.

1. We have reduced country risk to 400 bps.
2. Risk free rate: 4.5% = ten-year US treasury bond
3. Equity risk premium: we have retained a premium of 6.0% multiplied by the specific beta for each company.
4. We have reduced our estimates for long-term foreign exchange devaluation to 2%.
5. We added 150 bps for regulatory risk in the risk-free rate of the Brazilian wireline companies, with the exception of Embratel, which is already operating in a highly competitive market environment.
6. Since the Brazilian cellular telephony companies are already operating in a strongly competitive market, we have reduced the regulatory risk in this segment to zero.
7. We have zeroed the regulatory risk for Telmex and América Móviles, since these companies are already operating in a deregulated market.
8. We are attributing 150 bps of regulatory risk to the Telefónica Group comprising Telesp, CTC-Chile, TdP (Telefónica del Perú) and TASA
9. In the case of the foreign companies, we have made some changes on the basis of the exposure of these companies to other markets, making some slight adjustments to the respective WACCs. Telmex's WACC has been adjusted from 12% to 11.8% in local currency terms, the reason being the 50 bps cut we made in its country risk. AMX's WACC has been reduced in relation to last valuation not only for the same reason, but also impacted favorably by its Brazilian exposure. The Telefónica Group's WACC has also been cut, positively impacted by improved risk and other macroeconomic conditions in Latin America as well as a better corporate debt profile.

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Our main recommendations for the sector are:

- Telecom is a sector where the main bets are on the ON shares, with the exception of BRTo4
- BRTo4: the preferred PN shares of the Brasil Telecom operating company (a lot to catch up)
- TNLP3: The ON shares of the Telemar holding company (a spread play)
- TLPP3: The ON shares of Telesp Fixa (a dividend play)
- TCSL3 and TCSL4: Tele Celular Sul (a play on the company's fundamentals)
- TSEP, TCOC4 and CRTP5: Cheaper vehicles for investing in the Iberian joint venture
- Telmex: Long-term play
- Telesp Celular and Embratel already fully priced.

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Cost of Capital - WACC

- The average WACC of the incumbent Brazilian wireline companies has been reduced to 14.3 % in R\$ terms
- The average WACC of the Brazilian cellular companies continues at 14.7 % in R\$
- Embratel's WACC was held at 15.9 % in R\$
- Telmex's WACC was held at 11.8 % in MXN\$
- América Móviles' WACC was held at 12.5 % in MXN\$
- The Telefónica Group's WACC was held at 9.8% in EUR\$

Short Term Trading ideas

- LONG TELECOM BRASIL - SHORT IBOVESPA
- LONG TSEP₄, TCOC₄, CRTP₅ - SHORT TSPP₄
- LONG BRTO₄ - SHORT BRTP₄
- LONG EBTP₄ - SHORT EBTP₃
- LONG TNLP₃ - SHORT TNLP₄

BRAZILIAN MARKET

Full-Unbundling and transferability

Investing in networks parallel to those already in existence is unattractive in Brazil due to lack of economic viability. In the Brazilian case, therefore, full-unbundling and transferability is not a source of major concern for the wireline incumbents. Even if the incumbents lose customers to the newcomers in the domestic market, the latter will be obliged to rent the incumbents' network if they are to service the customers they take away from the entrenched providers. Or, in other words, the potential customer loss is in reality a potential loss of margin since the incumbents will be substituting retail for wholesale traffic sales. There are thus, no major threats to the incumbents' cash flow even over the long-term.

Voice services and revenue breakdown

We believe that the fall in the proportion of voice services as a percentage of total wireline revenue is a fact. Not that this represents any threat to the companies' financial equilibrium but rather a change of focus in their overall business platforms. We see the loss of revenue from voice services being offset by an increase in other lines of business, such as:

- Broad band services - ADSL
- Data transmission (High-end and Corporate)
- Network rental
- Value-added services

Voice traffic is expected to become proportionally much more representative in the mobile rather than the wireline segment. The cannibalization process is inevitable. However, the Brazilian mobile telephony companies (where there

still remains a major growth potential) are still very dependent on interconnection revenue. For this reason, the cannibalization process can be expected to be a little slower.

Wireline-Mobile Cannibalization

As already mentioned, the migration of voice traffic from wireline to mobile companies is inevitable. However, the substantial tariff gap between fixed and mobile telephony still inhibits this migration in Brazil. The difference between the two is still as high as a factor of 20. Historically, the reason for this gap lies in the interconnection tariffs (TUM and VUM) paid by wireline and/or mobile competitors to deliver traffic through other mobile networks. It is for this reason that vertical integration is so necessary. In many cases, the mobile segment is interested in the interconnecting revenue from incoming traffic rather than outgoing traffic. When the Brazilian telephony sector was privatized, the idea was for the wireline companies to subsidize the mobile companies via interconnection tariffs until such time that the latter became cash cows, no longer depending on interconnection tariffs to remain economically viable. In reality the mobile companies experienced several difficulties (foreign exchange and interest rate crises, among others) and the interconnection business has become an essential component of the operators' cash flow. So a vicious circle was created: without the interconnection revenue the companies were unable to increase their outgoing traffic, and without the outgoing traffic the companies were unable to decrease their dependence on high interconnection charges.

Broadband

Investments in broadband ADSL services have become a priority for increasing the wireline companies' ARPU and protecting the subscriber base. An ADSL subscriber tends to have a lower churn rate as the tendency is to channel all telecommunication requirements through a single service provider. Thus, a new ADSL subscriber provides not only a return on the investment itself but also helps consolidate customer loyalty for other services provided by the same operator. The combined ADSL subscriber market for the three wireline companies is close to one million, approximately 2.5% of the active subscriber base, an indication of the degree of upside potential still remaining.

Tariff adjustments

The index used to adjust tariffs is not the problem. Rather it is the way the market discounts sector stock prices whenever there is any public debate on the matter. The problem is compounded by court intervention and rulings. However, this source of discord could be behind us now that there is a strong probability that the IPCA and IGP-DI indices will tend to converge as inflationary pressures ease.

Technology and Geography

While wireline operators are unanimous in focusing investment on the ADSL area, there are major differences in the speed at which this technology is being installed. At one extreme is Telesp, with nearly 500,000 signed-up subscribers and at the other, Telemar has still to reach the 200,000 mark. Brasil Telecom is in the middle with 300,000 ADSL subscribers. Such differences do not simply reflect the amount of investment. There are other aspects involved such as income per capita as well as the nature of the network. Telesp covers an area which is geographically more compact and more densely populated (facilitating investment). Its network is modern and has undergone recent revamping. Brasil Telecom is in the middle again. The lack of geographic compactness is a problem although population concentrations help. Good quality networks inherited from some of the old state operators such as Telepar and Tele-Brasília are a plus. The worst case is Telemar, firstly because of lower purchasing power in its core market. Secondly, the limitations of its network in some major population centers covered by such former state-owned companies as Telerj, are a negative factor.

TELEMAR

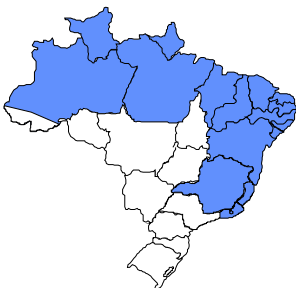
PREVIOUS TARGETS:

TNLP3:	R\$ 43.6	(BUY)
TNLP4:	R\$ 48.5	(BUY)
TNE ADR:	USD\$ 16.3	(BUY)
TMAR3:	R\$ 71.6	(HOLD)
TMAR5:	R\$ 79.5	(HOLD)

NEW TARGETS:

TNLP3:	R\$ 56.2	(BUY)
TNLP4:	R\$ 62.4	(BUY)
TNE ADR:	USD\$ 21.8	(BUY)
TMAR3:	R\$ 83.3	(HOLD)
TMAR5:	R\$ 92.5	(HOLD)

TELEMAR COVERAGE



TNLP3 IS THE HOTTEST TIP OF ALL!!

IT IS THE LARGEST INTEGRATED OPERATOR IN THE COUNTRY. WE ARE BETTING ON THE COMPANY'S LONG-TERM UPSIDE POTENTIAL, BASED ON ITS STRONG FUNDAMENTALS AND ALSO ON A NARROWING OF THE SPREAD BETWEEN THE ON AND THE PN SHARES OF THE HOLDING COMPANY.

Strengths

- Strong cash flow is guaranteed indefinitely; controls its own network
- Weak competition in wireline market and in the use of the network
- The first wireline player to maximize the advantages of vertical integration: Fixed - Mobile - Long-Distance
- OI (Mobile telephony company) contributing significantly to the optimization of the Interconnection Account at the same time offsetting cannibalization
- Low Capex requirements - less than 10% of net revenue (it has already met its targets established at the time of privatization)
- Well controlled debt: Net Debt/EBITDA(04)E: 1.25x
- High FCF (Free-Cash-Flow) Yield projected for 2004: 19%
- Has the financial muscle to make strategic acquisitions

Weaknesses

- Low average purchasing power of the region
- Region is geographically spread out making access difficult and consequently being more demanding on Capex
- High Capex (needed to reduce the period required to meet targets set on privatization) resulted in debt which was incorrectly built into the share price by the market
- Network quality problems at some state operators. Example: Telerj

Threats

- Loss of traffic revenue due to introduction of voice internet protocol technology
- Wireline-mobile cannibalization; partially being offset by OI
- Regulatory risks: tendency to decline although still a threat. While the perception of regulatory risk has decreased in the past few months (note the sector rally in recent weeks), the threat still remains. Examples: bills tabled in Congress to alter pulse per minute charged with immediate effect and a further proposal to abolish the monthly subscription charge collected by the wireline companies.

4Q03 Results - No change. Oi was the good surprise

Telemar posted good 4Q03 operating results. We expect the company to have ended 2003 with the same number of lines in service - 15.1 M - as at the end of 3Q03. Local traffic volume is an important indicator for measuring the effects of fixed-mobile cannibalization. The robust growth in the mobile telephony base is expected to impact the interconnection account although the company will benefit from OI, which is expected to offset a good part of the increase in interconnection overheads. OI should end 2003 with 4M subscribers, a record after only 18 months of operations. Our estimate for the ADSL segment is 200,000 subscribers at the end of 2003.

Net revenue for 4Q03 should be close to the R\$3.8 B. Forecasted EBITDA is R\$1.62 B, translating into a margin of 42.7 %, not far off the result for the preceding quarter. The company continues to be favorably impacted by the tariff hike but negatively so by the

OI operation. We expect the company to end 2003 with an EBITDA of R\$6.23B and a margin of 44.2 %.

We are forecasting net income of R\$191 M (R\$0.51 per 1000 shares) for the holding company in 4Q03, and a loss of R\$123 M (or R\$0.28 per 1000 shares) for the financial year 2003.

We estimate that the company invested R\$700 M of CAPEX in 4Q03, totaling R\$1.5 B for the full year, in line with the amount previously disclosed to the market.

Net company debt should be about R\$7.9 B at the end of 2003, equivalent to 1.1x EBITDA estimated for 2004.

Provisions set aside for NPD should be in the region of 3.3 % of gross revenue in 4Q03, a total of R\$158 M, and in line with our estimates. We are assuming that NPD will stabilize at close to 2.5% of gross revenue.

We reiterate our buy recommendation for the shares of Telemar holding company (TNLP₃ and TNLP₄) and our hold recommendation for the shares of Telemar Norte Leste (TMAR₅) operating company. TNLP₄ has an upside de 21 % and TMAR₅, 27 %. TNLP₃, our preferred choice among all the vehicles for investing in this group and one of our top picks, has a 38 % upside.

TELEMAR

	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	2005	2006
INSTALLED CAPACITY - (000)	17,500	17,600	17,700	17,800	17,900	18,000	18,000	18,550	19,000
LIS - LINES IN SERVICE - (000)	15,141	15,048	15,212	15,377	15,541	15,705	15,705	16,333	16,882
ADSL	49,926	200,000	230,000	260,000	290,000	320,000	320,000	432,000	540,000
MOBILE CUSTOMERS	1,401	4,011	4,426	5,049	5,464	6,086	6,086	7,278	8,205

R\$ M	2002	1Q03	2Q03	3Q03	4Q03E	2003	1Q04	2Q04	3Q04	4Q04	2004E	2005E	2006
GROSS SALES	16,091	4,453	4,570	5,152	5,148	19,323	5,191	5,371	5,694	5,954	22,099	24,214	26,213
NET SALES	11,874	3,218	3,343	3,771	3,786	14,118	3,956	4,031	4,246	4,470	16,563	18,236	19,759
EBITDA	5,081	1,476	1,479	1,663	1,615	6,234	1,614	1,644	1,848	1,975	6,958	7,744	8,462
EBITDA MARGIN	42.8%	42.8%	44.3%	44.1%	42.7%	44.2%	40.8%	40.8%	43.5%	44.2%	42.0%	42.5%	42.8%
FINANCIAL INCOMES	(1,961.1)	(452)	(518)	(606)	(316)	(1,891)	(127)	(132)	(137)	(139)	(439)	(578)	(599)
PROFIT AFTER TAX	(415.6)	(112)	(165)	(24)	192	(123)	256	272	403	484	1,415	2,745	3,111
EPS	(1.10)	(0.29)	(0.43)	(0.06)	0.51	(0.28)	0.68	0.72	1.07	1.28	3.75	7.28	8.25
YIELD PN	4.1%	0.0%	0.0%	0.0%	2.0%	2.0%	0.0%	0.0%	0.0%	0.0%	2.0%	4.2%	4.7%
YIELD ON	4.8%	0.0%	0.0%	0.0%	2.3%	2.3%	0.0%	0.0%	0.0%	0.0%	2.3%	4.8%	5.4%

R\$ MM	2004	2005	2006	2007	2008	2009	2010	2011
OPERATING PROFIT	3,675	4,411	5,080	5,212	5,781	6,026	6,859	7,257
(+) DEPRECIATION, AMORT.	3,283	3,333	3,382	3,369	3,391	3,200	2,532	2,285
EBITDA	6,958	7,744	8,462	8,581	9,172	9,225	9,815	9,977
(-) CORPORATE TAX ON EBIT	649	954	1,333	1,381	1,545	1,613	1,856	1,969
(-) WORKING CAPITAL INVESTMENT	875	260	246	100	219	91	224	113
(-) FIXED CAPITAL INVESTMENT	1,977	1,812	1,964	2,048	2,191	2,275	2,419	2,507
CASH FLOW FROM OPERATIONS	3,458	4,717	4,919	5,052	5,216	5,246	5,315	5,388

VALUATION	DCF	
CORPORATE VALUE	35,419	
(-) NET DEBT	7,880	
(-) MINORITIES	3,591	
EQUITY VALUE	23,948	
	PN	ON
EQUITY VALUE PER TH. SHARES - R\$	62.39	56.15
STOCK PRICE	51.55	40.47
UPSIDE	21.0%	38.7%
TMAR5	PN	ON
EQUITY VALUE PER TH. SHARES - R\$	92.5	83.3

WACC	EQUITY VALUE	PER SHARE
13.9%	27,432	71.5
14.6%	25,581	66.6
15.3%	23,948	62.4
15.9%	22,447	58.5
16.6%	21,109	55.0

WACC SENSIBILITY	2.0%	3.0%	4.0%	5.0%	6.0%
EMBI	2.0%	3.0%	4.0%	5.0%	6.0%
RISK FREE RATE	8.0%	9.0%	10.0%	11.0%	12.0%
MARKET PREMIUM	6.0%	6.0%	6.0%	6.0%	6.0%
BETA	1.10	1.10	1.10	1.10	1.10
COST OF EQUITY	14.6%	15.6%	16.6%	17.6%	18.6%
COST OF DEBT	10%	10%	10%	10%	10%
INCOME TAX ALÍQUOTE	34%	34%	34%	34%	34%
COST OF DEBT EX-IT	6.6%	6.6%	6.6%	6.6%	6.6%
DEBT/EQUITY	50%	50%	50%	50%	50%
..EQUITY/TOTAL CAPITAL	67%	67%	67%	67%	67%
..DEBT/TOTAL CAPITAL	33.3%	33.3%	33.3%	33.3%	33.3%
WACC IN US\$	11.93%	12.60%	13.27%	13.93%	14.60%
EXCHANGE RATE	2.00%	2.00%	2.00%	2.00%	2.00%
WACC IN R\$	13.93%	14.60%	15.27%	15.93%	16.60%

MULTIPLES EV / EBITDA VALUATION	TNLP	TMAR
TARGET MULTIPLE	4.84	4.84
COMPANY'S EBITDA	6,958	6,958
EBITDA	6,958	6,958
EV/TARGET	33,645.08	33,645.08
NET DEBT	7,879.583	9,667.063
MINORITIES	3,591.20	-
% STAKE ON EQUITY	80%	100%
TARGET VALUE	22,174	23,978
# OF SHARES	383845685	241.740544
TARGET PRICE	57.77	99.2

BRASIL TELECOM

PREVIOUS TARGETS:

BRTO3:	R\$ 23.4 (BUY)
BRTO4:	R\$ 26.0 (BUY)
BTM ADR:	USD\$ 26.9 (BUY)
BRTP3:	R\$ 28.1 (HOLD)
BRTP4:	R\$ 31.2 (HOLD)
BRP ADR:	USD\$ 53.8 (HOLD)

NEW TARGETS:

BRTO3:	R\$ 26.0 (BUY)
BRTO4:	R\$ 29.1 (BUY)
BTM ADR:	USD\$ 30.4 (BUY)
BRTP3:	R\$ 30.4 (HOLD)
BRTP4:	R\$ 33.8 (HOLD)
BRP ADR:	USD\$ 59.4 (HOLD)

Brasil Telecom Coverage



The market price ought at least to be reflecting the elimination of the consequences of the company's shareholder conflict. Our strategy focuses on two points in time:

- 1- BRTO₄ (trading at 2.8x EV/Ebitdao₄) until such time as the spread between the holding and the operating companies closes
- 2- BRTP₃ after the shareholder conflict is finally resolved, not only because of its strong fundamentals, but also because of the potential for Tag Along rights.

Strengths

- As in the case of other Brazilian wireline incumbents, the company has a guaranteed cash flow, owning its own network
- Weak competition in the wireline market and the use of the network
- There is potential for maximizing vertical integration: Wireline - Mobile - Long-Distance. Although taking longer than its competitors, there is major upside potential for optimization, principally in the interconnection area
- The mobile operation will also help mitigate cannibalization
- The company did not need to leverage debt to anticipate the meeting of its targets
- Low future Capex requirements - in spite of the need for investments in the mobile start up process
- Debt under control: Net Debt/EBITDA(04)E: 0.40x
- High FCF Yield forecasted for 2004: 23%
- Good quality networks of some of the state operators it inherited: Telepar and Tele-Brasília

Weaknesses

- Delay in start-up of mobile operations and domestic and international long distance services
- Low average purchasing power in the region, although concentrated in some areas
- Region is geographically spread out, with consequent higher Capex requirements
- Problems of network quality at some of the inherited state-run operators

Threats

- Corporate disagreements among the shareholders. However, Anatel's decision to prevent Telecom Itália vetoing SMP and long-distance services mitigates any risks of more serious conflict. Better still, the conflict has an 18-month cutoff date for final solution.
- The competition is eroding the company's market: Vivo, Claro and TIM itself
- Loss of traffic revenue with the introduction of voice internet protocol technology
- Wireline- mobile cannibalization; partially being offset by the start-up of its mobile business
- Regulatory risks: these are tending to decline although still represent a threat. While the perception of regulatory risk has decreased in the past few months (note the sector rally in the recent weeks), this risk still exists. Examples: bill tabled in Congress to alter pulse per minute charge with immediate effect; a further proposal to abolish the monthly subscription charge collected by the wireline companies.

4Q03 Results - Non-recurring losses and preparation for SMP start-up

Brasil Telecom is expected to post good operating results in 4Q03, in spite of non-recurring events detailed below. The company ended 2003 with 9.85 M LIS, a QoQ increase of 0.4%. The loss of local traffic volume through wireline-mobile cannibalization is of concern and worth looking at more closely - (10% over the year). The strong nationwide growth in the mobile subscriber base is expected to increase interconnection costs. The recent approval of a mobile operation has the potential to offset

interconnection costs which represent a third of wireline company fixed costs. The company has also done its homework on ADSL services and posted nearly 300,000 signed-up subscribers at the end of 2003.

The downside to 4Q03 results was the provisions for labor, civil and fiscal litigation at CRT. The once and for all impact on the company is expected to be R\$262 M. On the other hand, the company frees itself of these contingencies and can start its SMP business with a clean slate.

The company's net revenue for 4Q03 is forecasted at close to R\$ 2.1B. EBITDA is forecast at R\$ 717 M, with a corresponding margin of 34.1 %, due to the explained provisions. The company is expected to end 2003 with an EBITDA of R\$3.4 B, equivalent to a margin of 43.4 %.

We are forecasting net loss of R\$33 M (R\$0.09 per 1000 shares) for the holding company in 4Q03, and a net profit of R\$347 M (or R\$0.98 per 1000 shares) for the financial year 2003.

The company invested a total of R\$351 M in 4Q03, totaling R\$1.3 B for the year as disclosed to the market previously. Capex for the mobile operation is not expected to exceed R\$1 B over three years. In other words, the company is net expected to have to leverage debt to cover the investment in the mobile business.

Net debt ended 2003 at R\$1.8 B, a little more than 40% of estimated 2004 EBITDA. A very comfortable position. The company is expected to increase its leverage in the coming months to optimize capital structure and cost of debt.

Provisions for NPD are expected to be about 2.5% of gross revenue in 4Q03, a total of R\$70 M. We expect NPD to stabilize at around the current level of 2.5% of gross revenue.

We reiterate our recommendation for the shares of Brasil Telecom holding company (BRTP3 and BRTP4); we also reiterate our buy recommendation for the shares of the operating company Brasil Telecom S.A (BRTO4). BRTP4 has an upside potential of 28%. BRTP3 has a potential upside of 44 %. BRTO4, our choice for investing in the group and one of our top picks, has an upside of 64%.

BRASIL TELECOM

	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	2005	2006
INSTALLED CAPACITY - (000)	10,550	10,400	10,500	10,600	10,700	10,800	10,800	11,016	11,236
LIS - LINES IN SERVICE - (000)	9,465	9,851	9,887	9,907	9,940	9,982	9,982	10,135	10,337
ADSL (COMERCIALIZADOS)	168	330	380	437	502	578	665	831	915
MOBILE CUSTOMERS (000)	-	-	120	380	600	1,000	1,000	1,500	1,800

R\$ M	2002	1Q03	2Q03	3Q03	4Q03E	2003	1Q04	2Q04	3Q04	4Q04	2004E	2005E
GROSS SALES	9,839.7	2,609.3	2,691	2,877	2,921	11,098	3,066	3,167	3,371	3,538	13,134	13,203
NET SALES	7,071.4	1,873.7	1,915	2,053	2,103	7,945	2,208	2,280	2,427	2,547	9,456	9,506
EBITDA	3,236.9	867.9	901.2	960.0	717.2	3,446.2	965.4	917.7	1,029.8	994.5	4,307.4	4,087.6
EBITDA MARGIN	45.8%	46.3%	47.1%	46.8%	34.1%	43.4%	43.7%	40.2%	42.4%	39.0%	45.5%	43.0%
FINANCIAL RESULT	(601.0)	-356.3	(192)	(129)	(153)	(831)	(86)	(109)	(97)	(144)	(436)	(297)
PROFIT AFTER TAX	443.0	132.4	100	148	-33	347	175	157	243	157	732	1,046
EPS (TH. SHARES) BRTP	1.26	0.38	0.28	0.41	-0.09	0.98	0.49	0.44	0.68	0.44	2.05	2.93
DIV YIELD BRTP	0.0	0.0%	0.0%	0.0%	0.8%	3.0%	0.6%	0.5%	0.8%	0.4%	2.2%	3.2%
DIV YIELD BRTO	0.0	0.0%	0.0%	0.0%	0.8%	2.9%	0.6%	0.5%	0.7%	0.4%	2.1%	3.2%

R\$ MM	2004	2005	2006	2007	2008	2009	2010	2011
OPERATING PROFIT	1,849	1,677	2,054	2,289	2,866	3,372	3,848	4,050
(+) DEPRECIATION, AMORT.	2,458	2,411	2,252	2,335	2,072	1,925	1,595	1,745
EBITDA	4,307	4,088	4,306	4,624	4,937	5,296	5,443	5,795
(-) CORPORATE TAX ON EBIT	299	427	586	713	920	1,102	1,271	1,345
(-) WORKING CAPITAL INVESTMENT	311	-60	80	64	131	119	115	65
(-) FIXED CAPITAL INVESTMENT	1,700	1,426	1,206	1,276	1,355	1,442	1,531	1,622
CASH FLOW FROM OPERATIONS	1,997	2,295	2,434	2,570	2,530	2,633	2,526	2,764

VALUATION	DCF	
VALUATION		
CORPORATE VALUE	18,996	
(-) NET DEBT.	2,239	
(-) MINORITIES	5,786	
EQUITY VALUE	10,970	
BRTP	PN	ON
EQUITY VALUE PER TH. SHARES - R\$	33.8	30.4
STOCK PRICE	25.7	20.58
UPSIDE	32.5%	48.9%
ADR - US\$	58.7	
	TARGET	
BRTO3	26.2	
BRTO4	29.1	
ADR	30.1	

WACC/EQUITY VALUE	BRTP4	BRTO4
13.7%	13,409	41.4
14.4%	12,118	37.4
15.0%	10,970	33.8
15.7%	9,945	30.7
16.4%	9,022	27.8

WACC SENSIBILITY					
EMBI	2.0%	3.0%	4.0%	5.0%	6.0%
RISK FREE RATE	8.0%	9.0%	10.0%	11.0%	12.0%
MARKET PREMIUM	6.0%	6.0%	6.0%	6.0%	6.0%
BETA	1.10	1.10	1.10	1.10	1.10
COST OF EQUITY	14.6%	15.6%	16.6%	17.6%	18.6%
COST OF DEBT	9%	9%	9%	9%	9%
INCOME TAX ALÍQUOTE	34%	34%	34%	34%	34%
COST OF DEBT EX-IT	5.9%	5.9%	5.9%	5.9%	5.9%
DEBT/EQUITY	50%	50%	50%	50%	50%
..EQUITY/TOTAL CAPITAL	67%	67%	67%	67%	67%
..DEBT/TOTAL CAPITAL	33.3%	33.3%	33.3%	33.3%	33.3%
WACC IN US\$	11.71%	12.38%	13.05%	13.71%	14.38%
EXCHANGE RATE	2.00%	2.00%	2.00%	2.00%	2.00%
WACC IN R\$	13.71%	14.38%	15.05%	15.71%	16.38%

MULTIPLES EV / EBITDA VALUATION		
	BRTP	BRTO
TARGET MULTIPLE	4.84	4.84
COMPANY'S EBITDA		
EBITDA	4,307	4,307
EV/TARGET	20,827.78	20,827.78
NET DEBT	2,239.315	3,259.8
MINORITIES	6,320.08	-
% STAKE ON EQUITY	66%	100%
TARGET VALUE	12,268	17,568
# OF SHARES	356702.5712	545166000
TARGET PRICE	34.39	32.23

TELESP FIXA

PREVIOUS TARGETS:

TLPP3:	R\$ 43.4 (BUY)
TLPP4:	R\$ 48.2 (BUY)
TSP ADR:	USD\$ 17.1 (BUY)

NEW TARGETS:

TLPP3:	R\$ 56.2 (BUY)
TLPP4:	R\$ 62.5 (HOLD)
TSP ADR:	USD\$ 21.4 (HOLD)

Telesp Fixa Coverage



TLPP3 is our play for this company!

The fundamentals are very strong. The yield on the ONs could reach 15% in 2004. It is the best operation in the country. It is one of the pillars of the Telefonica group's operation in Brazil.

Strengths

- Strong cash flow is guaranteed indefinitely since the company controls its own network
- Weak competition in the wireline market and use of own network
- Low Capex requirements - less than 10%. The region is geographically compact
- Very low debt levels: Net Debt/EBITDA(04)E: 0.6X
- High FCF Yield forecasted for 2004: 15.5%
- Has the financial muscle for making strategic acquisitions (corporate networks - SLE)
- Generous distributor of dividends: forecasted dividend yield (04) for the common ON shares - 15%

Weaknesses

- Its organizational structure does not allow the optimization of wireline-mobile synergies
- The company operates in a particularly competitive region, notably in the corporate segment

Threats

- Loss of traffic revenue due to introduction of voice internet protocol technology
- Wireline-mobile cannibalization
- Regulatory risks: tendency to decline although still representing a threat. While the perception of regulatory risk has decreased in the past few months (note the sector rally in recent weeks), this risk still exists. Examples: proposed bills tabled in Congress to alter pulse per minute charges with immediate effect; a further proposal to abolish the monthly subscription charge collected by the wireline companies

4Q03 Results - As always, robust

Similarly to the other two wireline operators, Telesp is slated to report good operating results for 4Q03. We estimate that the company will register the same 12.4M of LIS for the year ending 2003 as at the end of 3Q03. Local traffic volumes are eagerly awaited to measure the degree of wireline-mobile cannibalization. In the company's case, strong nationwide growth in cellular telephony is expected to impact the interconnection account while the additional downside here is that the company has no operational link with the group's mobile platforms. A successful ADSL strategy should confirm that company has surpassed the 500 thousand subscriber mark for the end of 2003.

Telesp's net revenues for 4Q03 should be in the region of R\$3.2 B. EBITDA is forecast at R\$1.6 B, corresponding to a margin of 48.8%, not very different from the preceding quarter. The recent tariff hike continues to impact favorably results. The company is expected to end 2003 with an EBITDA of R\$5.6 B, a margin of approximately 47%. We are estimating a net income of R\$499 M (R\$1.01 per thousand shares) for 4Q03 with an annual profit of figure of R\$1.5 B (or R\$3.07 per thousand shares) in 2003.

We are forecasting that CAPEX will total R\$400 M in 4Q03, amounting to R\$1.5B, for 2003 as a whole and in line with figures previously disclosed to the market.

Outstanding net debt should have posted R\$3.9 B at the end of 2003, representing 0.6 X of expected 2004 EBITDA.

Provisions for NPD is unlikely to have exceeded 2.5 % of growth revenue in 4Q03, and amounting to about R\$105 M. We expect NPD to stabilize at close to 2.0% of gross revenue.

We reiterate our buy recommendation for Telesp's common ON (TLPP3) shares, while we are downgrading our buy recommendation for the preferred PN (TLPP4) to a hold. TLPP4 has an upside of 19 %. TLPP3 is our preferred vehicle for investing in the group as a value stock with an upside of 34%.

TELESP FIXA

	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	2005	2006
INSTALLED CAPACITY - (000)	14,356	14,450	14,522	14,595	14,667	14,739	14,739	14,886	15,035
LIS - LINES IN SERVICE - (000)	12,633	12,350	12,392	12,435	12,477	12,520	12,520	12,708	12,899
ADSL	333,281	500,000	575,000	650,000	725,000	800,000	800,000	1,000,000	1,150,000

R\$ M	2002	1Q03	2Q03	3Q03	4Q03E	2003	1Q04	2Q04	3Q04	4Q04	2004E	2005E
GROSS SALES	13,677.1	3,669.0	3,803.4	4,346.1	4,442.1	16,260.6	4,512.0	4,569.8	4,731.5	4,772.5	18,585.8	19,279.8
NET SALES	10,088.1	2,680.7	2,774.8	3,153.1	3,242.7	11,870.2	3,293.8	3,336.0	3,454.0	3,483.9	13,567.7	14,074.2
EBITDA	4,982.3	1,221.7	1,259.1	1,519.0	1,582.2	5,582.1	1,482.1	1,500.5	1,571.5	1,573.0	6,127.0	6,088.5
EBITDA MARGIN	49.4%	45.6%	45.4%	48.2%	48.8%	47.0%	45.0%	45.0%	45.5%	45.1%	45.2%	43.3%
FINANCIAL RESULT	(1,340.1)	-179.173	(165)	(144)	(124)	(613)	(258)	(268)	(291)	(297)	(1,113)	(1,194)
PROFIT AFTER TAX	1,075.9	221	259	448	499	1,519	291	296	324	321	1,232	1,145
EPS (TH. SHARES)TLPP4	2.18	0.45	0.52	0.91	1.01	3.07	0.59	0.60	0.66	0.65	2.49	2.32
YIELD ON	0.0%	0.0%	0.0%	0.0%	0.0%	14.4%	0.0%	0.0%	0.0%	0.0%	15.2%	13.5%
YIELD PN	0.0%	0.0%	0.0%	0.0%	0.0%	11.8%	0.0%	0.0%	0.0%	0.0%	12.8%	11.0%

R\$ MM	2004	2005	2006	2007	2008	2009	2010	2011
OPERATING PROFIT	3,059	3,040	3,145	3,218	3,604	3,955	4,216	4,456
(+) DEPRECIATION, AMORT.	3,068	3,049	3,045	3,079	2,917	2,768	2,698	2,656
EBITDA	6,127	6,089	6,190	6,296	6,520	6,722	6,914	7,113
(-) CORPORATE TAX ON EBIT	596	554	560	540	622	662	687	709
(-) WORKING CAPITAL INVESTMENT	206	148	149	139	180	174	165	168
(-) FIXED CAPITAL INVESTMENT	1,221	1,196	1,241	1,283	1,327	1,370	1,412	1,456
CASH FLOW FROM OPERATIONS	4,104	4,190	4,240	4,334	4,391	4,517	4,650	4,779

VALUATION	DCF		WACC	EQUITY VALUE	PER SHARE
CORPORATE VALUE	34,861		12.9%	35,506	71.8
(-) NET DEBT.	3,969		13.5%	33,054	66.9
EQUITY VALUE	30,892		14.2%	30,892	62.5
TLPP4	PN	ON	14.9%	28,972	58.6
EQUITY VALUE PER TH. SHARES - R\$	62.48	56.24	15.5%	27,254	55.1
STOCK PRICE	52.50	42.00			
UPSIDE	19%	34%			

WACC SENSIBILITY					
EMBI	2.0%	3.0%	4.0%	5.0%	6.0%
RISK FREE RATE	8.0%	9.0%	10.0%	11.0%	12.0%
MARKET PREMIUM	6.0%	6.0%	6.0%	6.0%	6.0%
BETA	0.94	0.94	0.94	0.94	0.94
COST OF EQUITY	13.6%	14.6%	15.6%	16.6%	17.6%
COST OF DEBT	8%	8%	8%	8%	8%
INCOME TAX ALÍQUOTE	34%	34%	34%	34%	34%
COST OF DEBT EX-IT	5.3%	5.3%	5.3%	5.3%	5.3%
DEBT/EQUITY	50%	50%	50%	50%	50%
..EQUITY/TOTAL CAPITAL	67%	67%	67%	67%	67%
..DEBT/TOTAL CAPITAL	33.3%	33.3%	33.3%	33.3%	33.3%
WACC IN US\$	10.85%	11.52%	12.19%	12.85%	13.52%
EXCHANGE RATE	2.00%	2.00%	2.00%	2.00%	2.00%
WACC IN R\$	12.85%	13.52%	14.19%	14.85%	15.52%

MULTIPLES EV / EBITDA VALUATION	
TARGET MULTIPLE	TELESP 4.84
COMPANY'S EBITDA	
EBITDA	6,127
EV/TARGET	29,627
NET DEBT	3,969
MINORITIES	-
% STAKE ON EQUITY	100%
TARGET VALUE	25,657
# OF SHARES	494,395,727
TARGET PRICE	51.90

EMBRATEL

PREVIOUS TARGETS:

EBTP3:	R\$ 8.3 (BUY)
EBTP4:	R\$ 7.4 (BUY)
EMT ADR:	USD\$12.5 (BUY)

NEW TARGETS:

EBTP3:	R\$15.0 (FULLY-VALUED)
EBTP4:	R\$11.40 (HOLD)
EMT ADR:	USD\$18.5 (HOLD)

Embratel Coverage



EBTP3 is expensive; the upside for the PNs is low! We recommend steering clear.

The fall in interest rates and the stronger exchange rate have altered the market perception and, indeed, the very reality facing the company. The rule that interconnection charges cannot exceed a certain percentage of the rate to the public alters the valuation of the company. The best way to generate value is for it to focus on the higher end of the residential and corporate market.

Strengths

- Has the best nationwide coverage
- Has the know-how and a customer portfolio to boost sales of corporate services
- Has an enormous competitive advantage via interconnection (however with gradual declines due to tariff ceiling paid to wireline companies being set at a given percentage of the prevailing public tariff; as from 2006, TURL cannot exceed 60% of the public tariff).

Opportunities

- Optimize capital structure while the macroeconomic situation is favorable and given that the fall in the basic interest rate and the strengthening of the Real has relieved the pressure on the company
- Focus its business on niches such as the corporate and high net worth residential markets
- Recover part of the market-share lost with the introduction of CSP (Operator Code Selection)

Weaknesses

- Dependent on macroeconomic variables for its funding
- Low retail customer retention capacity since the principal decision driver is price
- Lack of viability of some business platforms - low income residential market
- High levels of NPD in the low income residential market
- Questionable Capex

Threats

- Changes in the macroeconomic scenario - stress in the FX markets and interest rate shocks can make operating conditions for the company difficult
- Loss of traffic revenue due to introduction of voice internet protocol technology
- Wireline-mobile cannibalization

4Q03 Results - Doing their homework

Net revenues should continue at the R\$1.8 B level. Estimated EBITDA is R\$500 M, a margin of approximately 27.7%, slightly lower than preceding quarter. The company should have ended 2003 with an EBITDA of R\$1.8 B, or a margin of 25.8%.

We are forecasting net income at R\$68 M for 4Q03, and R\$303 M (or R\$0.91 per thousand shares) for financial year 2003.

We are estimating CAPEX at R\$150 M in 4Q03, or a total of R\$650 M, as previously

disclosed to the market, however, the justification for which in our view is questionable.

Net debt is estimated to have been R\$3.3 B at the end of 2003, or almost twice EBITDA forecasted for 2004.

NPD is estimated at around 3.7 % of gross revenue in 4Q03, and close to our forecast of R\$84 M.

We are downgrading our recommendation for Embratel's share from buy to fully-valued in the case of the common ON (EBTP₃) shares and from buy to hold in the case of the preferred PN (EBTP₄) shares; EBTP₃ has no upside potential while in the case of EBTP₄ there is a small upside of 18 %.

EMBRATEL

R\$ M	2002	1Q03	2Q03	3Q03	4Q03E	2003	1Q04	2Q04	3Q04	4Q04	2004E	2005E
GROSS SALES	9,217.9	2,181.7	2,172.0	2,359.2	2,336.4	9,049.3	2,254.9	2,110.1	2,220.2	2,353.9	8,939.0	8,751.1
NET SALES	7,248.1	1,708.7	1,665.7	1,794.9	1,807.8	6,977.1	1,738.6	1,626.9	1,711.8	1,814.9	6,892.1	6,747.2
EBITDA	1,440.8	368.8	378.9	553.0	500.8	1,801.5	455.8	394.7	441.1	497.5	1,789.0	1,805.1
EBITDA MARGIN	19.9%	21.6%	22.7%	30.8%	27.7%	25.8%	26.2%	24.3%	25.8%	27.4%	26.0%	26.8%
FINANCIAL RESULT	(1,457.0)	(8.0)	245.3	(232.0)	(81)	(76)	(181.9)	(168.6)	(162.0)	(148.8)	(661.3)	(364.9)
NET PROFIT	(566.8)	10.7	128.4	15.5	68.1	222.7	(27.4)	(75.2)	(22.2)	55.2	(69.6)	124.4
EPS (TH.SHARES)	(1.70)	0.03	0.38	0.05	0.20	0.63	(0.08)	(0.22)	(0.07)	0.16	(0.21)	0.37
EPS ADR	(2.97)	0.06	0.67	0.08	0.34	1.15	(0.14)	(0.39)	(0.12)	0.29	(0.36)	0.65

R\$ MM	2004	2005	2006	2007	2008	2009	2010	2011
EBT	584,030	534,536	826,919	723,828	1,232,074	1,240,930	1,249,650	1,258,232
(+) DEPRECIATION	1,205,012	1,270,538	1,347,629	1,420,838	970,813	1,022,084	1,075,384	1,130,804
-	-	-	-	-	-	-	-	-
EBITDA	1,789,041	1,805,074	2,174,548	2,144,665	2,202,887	2,263,014	2,325,034	2,389,037
(-) CAPEX	(850,000)	(1,000,000)	(949,654)	(985,394)	(1,025,427)	(1,065,994)	(1,108,413)	(1,152,778)
(-) TAX	-	(28,267)	(84,105)	(64,329)	(152,299)	(154,528)	(156,474)	(158,125)
(=) FREE CASH FLOW MAX	939,041	776,807	1,140,789	1,094,942	1,025,161	1,042,491	1,060,146	1,078,134

VALUATION	WACC	EQUITY VALUE	PER SHARE
CORPORATE VALUE	14.7%	4,574	13.68
(-) NET DEBT.	15.3%	4,173	12.48
	15.9%	3,812	11.40
EQUITY VALUE	16.6%	3,484	10.42
	17.2%	3,185	9.52
		PN	ON
EQUITY VALUE PER TH. SHARES - R\$		11.40	11.40
STOCK PRICE		9.67	14.15
UPSIDE		18%	-19%

WACC SENSIBILITY					
EMBI	2.0%	3.0%	4.0%	5.0%	6.0%
RISK FREE RATE	8.0%	9.0%	10.0%	11.0%	12.0%
MARKET PREMIUM	6.0%	6.0%	6.0%	6.0%	6.0%
BETA	119.0%	119.0%	119.0%	119.0%	119.0%
COST OF EQUITY	15.1%	16.1%	17.1%	18.1%	19.1%
COST OF DEBT	12.5%	12.5%	12.5%	12.5%	12.5%
INCOME TAX ALÍQUOTE	34.0%	34.0%	34.0%	34.0%	34.0%
COST OF DEBT EX-IT	8.3%	8.3%	8.3%	8.3%	8.3%
DEBT/EQUITY	56.0%	56.0%	56.0%	56.0%	56.0%
..EQUITY/TOTAL CAPITAL	64.1%	64.1%	64.1%	64.1%	64.1%
..DEBT/TOTAL CAPITAL	35.9%	35.9%	35.9%	35.9%	35.9%
WACC IN US\$	12.7%	13.3%	13.9%	14.6%	15.2%
EXCHANGE RATE	2.0%	2.0%	2.0%	2.0%	2.0%
WACC IN R\$	14.7%	15.3%	15.9%	16.6%	17.2%

MULTIPLES EV / EBITDA VALUATION	
TARGET MULTIPLE	EMBRATEL 4.85
COMPANY'S EBITDA EBITDA	1,789
EV/TARGET	8,685.77
NET DEBT	3,291.451
MINORITIES	-
% STAKE ON EQUITY	100%
TARGET VALUE	5,394
# OF SHARES	494,395,727
TARGET PRICE	10.91

PREVIOUS TARGETS:

TELMEX-L: MXN\$22.5 (BUY)
 TMX ADR: USD\$43.3 (BUY)

NEW TARGETS:

TELMEX-L: MXN\$25.1 (BUY)
 TMX ADR: USD\$45.8 (BUY)

Telmex Coverage

It is the same old story. There is still some upside to Telmex, but it depends on improvements in the country's macroeconomic variables. It merits a long-term bet. At 30%, the upside is tempting. Similar to the Brazilian wireline companies, the company's cash cow is not threatened, not even over the long term. Deregulation has already taken place in its market, and no parallel networks exist to host competing traffic, even were competitors to succeed in stealing a substantial part of the company's market share.

TELMEX**Strengths**

- Cash flow is unlikely to be threatened
- Growth potential in the number of lines although for this to occur, the macroeconomic variables will have to significantly improve
- Competition is weak in the wireline and network interconnection segments in spite of market deregulation
- Low Capex requirements - the network is already up and running
- Privileged financial position: Net Debt/EBITDA(04)E: 0.9x
- High FCF Yield: 14% in 2004

Opportunities

- Has the financial muscle for strategic acquisitions
- Showing itself to be one of the consolidating forces in Latin America

Weaknesses

- Low average purchasing power; income concentration
- Real lower tariffs are almost a sine qua non for company growth

Threats

- Loss of traffic revenue due to introduction of voice internet protocol technology
- Wireline-mobile cannibalization

4Q03 Results - Fundamentals continue even stronger

We are expecting the company to report good 4Q03 results and ending 2003 with about 15.4 M LIS.

Net revenues for 4Q03 are expected to be about MXN\$29.1 B. EBITDA is forecasted at MXN\$14.8 B, corresponding to a margin of 50.7 %, not very different from the preceding quarter. The company is expected to post an EBITDA of MXN\$58 B, equivalent to a 51 % margin.

We are estimating 4Q03 net income at MXN\$5.5 B (MXN\$0.45 per share), and MXN\$22 B (MXN\$1.792 per share) in 2003 as a whole.

The company's expected CAPEX outlay for 2003 is expected to be MXN\$11.6 B, approximately 10% of revenues.

Outstanding net debt at the end of 2003 is estimated at MXN\$56 B or a little more than 90% of estimated 2004 EBITDA.

We reiterate our buy recommendation for Telmex's (Telmex-L) shares, the potential upside being 29 %. We continue to recommend the company's ADRs as a buy with an upside of 29 %.

TELMEX

	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	2005	2006
LIS - LINES IN SERVICE - (000)	14,446	15,433	15,510	15,587	15,665	15,744	15,744	16,058	16,380
INTERNET ACCESS	1,165	1,414	1,457	1,442	1,486	1,471	1,471	1,589	1,668
DATA LINES	2,021	2,243	2,311	2,288	2,357	2,334	2,334	2,521	2,647

MXN\$ MM.	2002	1Q03	2Q03	3Q03	4Q03E	2003	1Q04	2Q04	3Q04	4Q04	2004E	2005E	2006
NET REVENUES	111,906	27,677	27,950	29,088	29,083	113,798	29,165	29,371	29,555	29,899	117,990	120,834	123,748
EBITDA	58,231	14,237	14,016	14,983	14,751	57,987	14,746	14,864	14,960	15,260	59,830	61,182	62,564
EBITDA MARGIN	52.0%	52.0%	50.1%	51.5%	50.7%	51.0%	50.6%	50.6%	50.6%	51.0%	50.7%	50.6%	50.6%
FINANCIAL RESULT	(6,470)	(1,683)	911	(2,016)	(1,130)	(3,918)	(1,212)	(1,167)	(1,168)	(1,165)	(4,712)	(5,632)	(5,772)
NET PROFIT	25,588	4,972	6,204	5,307	5,543	22,026	5,466	5,592	5,672	5,890	22,621	23,025	23,982
EPS MXN\$	2.08	0.40	0.50	0.43	0.45	1.79	0.44	0.46	0.46	0.48	1.84	1.87	1.95
EPADR US\$	3.86	0.75	0.93	0.80	0.84	3.32	0.82	0.84	0.85	0.89	3.41	3.47	3.61

MXPS MM	2004	2005	2006	2007	2008	2009	2010	2011
Operating profit	39,006	40,567	42,155	43,772	45,419	47,168	48,952	50,773
(+) Depreciation, Amort.	20,823	20,615	20,409	20,205	20,003	19,803	19,605	19,409
Ebitda	59,830	61,182	62,564	63,977	65,421	66,971	68,557	70,182
(-) Corporate tax on Ebit	11,317	11,529	12,007	12,444	12,912	13,437	13,996	14,592
(-) Working capital investment	1,767	1,504	1,412	1,474	1,537	1,603	1,671	1,742
(-) Fixed capital investment	14,159	13,292	13,612	13,941	14,277	14,622	14,975	15,337
Cash flow from operations	32,587	34,858	35,533	36,119	36,695	37,309	37,915	38,511

VALUATION	DCF		WACC	EQUITY VALUE	PER SHARE
CORPORATE VALUE	364,923		9.8%	419,283	34.12
(-) NET DEBT	56,488		10.8%	356,311	29.00
EQUITY VALUE MXP\$(MM)	308,436		11.8%	308,436	25.10
NUMBER OF SHARES	12,288		12.8%	270,773	22.04
	MEX	ADR	13.8%	240,345	19.56
TARGET PRICE PER SHARE MXP\$	25.10	45.85			
CURRENT PRICE	19.40	35.60			
UPSIDE	29%	29%			

WACC SENSIBILITY	0.0%	0.5%	1.0%	2.0%	3.0%
EMBI	0.0%	0.5%	1.0%	2.0%	3.0%
RISK FREE RATE	6.0%	6.5%	7.0%	8.0%	9.0%
MARKET PREMIUM	6.0%	6.0%	6.0%	6.0%	6.0%
BETA	100.0%	100.0%	100.0%	100.0%	100.0%
COST OF EQUITY	12.0%	12.5%	13.0%	14.0%	15.0%
COST OF DEBT	5.0%	5.0%	5.0%	5.0%	5.0%
INCOME TAX ALÍQUOTE	35.0%	35.0%	35.0%	35.0%	35.0%
COST OF DEBT EX-IT	3.3%	3.3%	3.3%	3.3%	3.3%
DEBT/EQUITY	50.0%	50.0%	50.0%	50.0%	50.0%
..EQUITY/TOTAL CAPITAL	66.7%	66.7%	66.7%	66.7%	66.7%
..DEBT/TOTAL CAPITAL	33.3%	33.3%	33.3%	33.3%	33.3%
WACC IN US\$	9.1%	9.4%	9.8%	10.4%	11.1%
EXCHANGE RATE	2.0%	2.0%	2.0%	2.0%	2.0%
WACC IN R\$	11.1%	11.4%	11.8%	12.4%	13.1%

MULTIPLES EV / EBITDA VALUATION	TELMEX
TARGET MULTIPLE	5.68
COMPANY'S EBITDA	59,830
EV/TARGET	339,991.10
NET DEBT	56,487.579
MINORITIES	-
% STAKE ON EQUITY	100%
TARGET VALUE	283,504
# OF SHARES	12,288
TARGET PRICE	23.07
	ADR
	42.1

AMÉRICA MÓVIL

PREVIOUS TARGETS:

AMX-L: MXN\$15.1(BUY)
AMX ADR: USD\$28.8 (BUY)

NEW TARGETS:

AMX-L: MXN\$17.6 (HOLD)
AMX ADR: USD\$32.4 (HOLD)

America Móvil Coverage



The shares are already fully priced by the market. It is a HOLD. It is also for the first time facing strong competition in Mexico, from Telefonica Móviles.

Strengths

- Dominates the Mexican market with more than a 70% market-share in spite of deregulation
- The largest operator in Latin America
- Focus on strategic acquisitions
- Has a presence in countries with a low mobile telephony penetration and a high growth potential
- Network overlay for GSM in Brazil with relatively low costs (due to favorable situation for the sector)

Weaknesses

- Relative dependence on the Mexican market (55% of Group revenue)
- Lion's share of cash generation from countries with fragile economic indicators

Threats

- Telefónica's investments in Mexico indicate a more aggressive posture on the part of this competitor, the first time that AMX has had to square up to genuine competition

One of the last growth stories

We have revised our company model, scaling back the level of sovereign risk for countries in which the company operates. Mexican country risk has been cut by 50 bps and the Brazilian risk from 600 bps to 400 bps. With these adjustments, the cost of equity has fallen from 15% to 13.9% and WACC from 12.8% to 12.5%.

Since Claro largely comprises B band companies, we expect it to report slower than average growth for the sector in spite of the vigorous growth of the Brazilian market. In terms of add-ons, the B-band companies grew by 9.7% in the quarter and similar to the 9.4% reported by the A-band and below the average for C- and D-band companies at 46%. Claro has 2 D- and E-band operations under its umbrella. However as these began activities in 4Q03, they are still unlikely to show dramatic growth.

The margins for the Brazilian operations' should be impacted by Christmas sales. We are forecasting an EBITDA margin of 22.4% in the quarter and close to 21.2% reported in 3Q03.

We are building in the consolidation of BCP, CTE and CTI into the 4Q03 balance sheet, which will negatively impact the company's net debt. Year-end company net debt should be MXN\$44.5 B, or 1.46x EBITDA.

In 2004, we believe that Telefonica Móviles will continue operating more aggressively in Mexico. While this may not be a threat to Telce's market dominance, it could impact the company's operating margins. We have factored in a loss of 1.2p.p. on the EBITDA margin for 2004. However, this possible loss of EBITDA margin could be mitigated by margin gains from operations elsewhere, principally Brazil.

We expect América Móvil to continue aggressively searching for new business opportunities in spite of these becoming increasingly scarce. We are projecting line growth of 13% for 2004. This would see the company ending the year with about 48 M subscribers, 47.2M being mobile subscribers - 53% of them in Mexico. Average 2004 line growth is estimated at 23%.

ARPU is not expected to change significantly. Revenue growth should be boosted more by the increase in number of lines than price increases (somewhere close to inflation rates in each country). Notably, there should be faster growth in the number of pre-paid subscribers in the group's total mix.

We are working on the assumption of net revenue growth of 22% from MXN\$81.9 B in 2003 to MXN\$100 B in 2004.

A company valuation based on EV/EBITDA multiples and using the average for international companies of about 7.20x, indicates that the market is already pricing América Móvil correctly.

We are downgrading our recommendation for América Móviles shares from buy to hold despite this being a growth story with strong fundamentals. However, since the shares have already performed very well and are not far off fair value, without upside.

AMERICA MOVIL

COUNTRY	COMPANY	2002	1Q03	2Q03	3Q03	2003	2004	2005	2006
MEXICO	TELCEL	20,067	20,752	21,307	22,125	23,010	25,341	26,888	28,101
GUATEMALA	SERCOM(4)	628	675	725	787	842	914	1,001	1,079
GUATEMALA	TELGUA	804	824	862	890	910	960	990	1,020
NICARAGUA	SERCOM	-	-	29	56	95	162	243	291
ECUADOR	CONECCEL	923	1,011	1,157	1,322	1,452	1,553	1,649	1,715
COLOMBIA	COMCEL	2,822	3,273	3,518	3,664	3,795	4,647	5,014	5,386
U.S.A.	TRACFONE	1,968	2,212	2,429	2,578	2,730	3,088	3,469	3,790
ARGENTINA	CTI	1,150	1,150	1,200	1,236	1,298	1,639	1,989	2,299
EL SALVADOR	CTE WIRELINE	618	627	636	646	655	668	680	692
EL SALVADOR	CTE WIRELESS	150	183	233	241	248	290	335	377
TOTAL BRAZIL	CLARO	5,192	5,282	6,669	7,056	9,798	11,461	12,596	13,519
TOTAL	TOTAL	31,600	33,206	36,696	38,478	42,632	48,125	51,850	54,902
TOTAL (EXCL WIRELINE OP)		30,178	31,755	35,834	37,588	41,722	47,165	50,860	53,882

	2002	1Q03	2Q03	3Q03	4Q03	2003	2004	2005	2006	2007	2008	2009	2010
NET REVENUES	57,461	17,193	19,692	20,991	24,459	82,782	101,236	110,142	117,235	123,207	129,121	134,905	140,971
EBIT	12,485	3,712	4,126	4,739	5,495	18,018	26,331	31,974	36,061	40,105	42,577	45,014	47,573
EBITDA	20,802	6,466	7,603	8,193	8,335	30,543	38,012	44,011	47,768	51,609	53,980	56,400	59,014
EBITDA MARGIN	30.2%	37.6%	38.6%	39.0%	34.1%	36.9%	37.5%	40.0%	40.7%	41.9%	41.8%	41.8%	41.9%
FINANCIAL RESULT	984	(306)	(1,162)	(618)	(618)	(2,674)	(2,652)	(1,860)	(1,158)	257	1,890	3,809	5,925
NET INCOME	4,601	2,985	4,544	1,946	3,902	14,752	17,891	21,220	23,343	24,992	25,518	25,843	26,120
EPS	0.36	0.23	0.35	0.15	0.30	1.14	1.38	1.64	1.81	1.93	1.98	2.00	2.02
EPS ADR (US\$)	0.65	0.42	0.65	0.28	0.55	2.10	2.54	3.01	3.32	3.55	3.62	3.67	3.71

MXN\$ MM	2004	2005	2006	2007	2008	2009	2010	2011
Operating profit	26,331	31,974	36,061	40,105	42,577	45,014	47,573	49,710
(+) Depreciation, Amort.	11,681	12,037	11,707	11,503	11,403	11,386	11,441	11,759
Ebitda	38,012	44,011	47,768	51,609	53,980	56,400	59,014	61,469
(-) Corporate tax on Ebit	9,565	10,827	11,910	12,752	13,020	13,186	13,327	13,233
(-) Working capital investment	-1,869	-634	-597	-356	-312	-176	-96	-73
(-) Fixed capital investment	11,990	11,014	11,137	11,705	12,266	12,816	13,392	13,956
Cash flow from operations	18,327	22,804	25,317	27,508	29,006	30,574	32,390	34,353

VALUATION	DCF		WACC	EQUITY VALUE	PER SHARE
VALUATION	MEX	ADR			
CORPORATE VALUE	273,737	24,352	11.2%	259,199	20.06
(-) NET DEBT	44,531	0	11.8%	243,292	18.83
(-) MINORITIES	1,178	0	12.5%	229,206	17.74
EQUITY VALUE MXN\$(MM)	228,028	20,920	13.2%	216,605	16.77
NUMBER OF SHARES	12920	646	13.8%	205,239	15.89
0	AMXL	ADR			
TARGET PRICE PER SHARE	17.65	32.38			
CURRENT PRICE	17.77	32.28			
UPSIDE	-0.7%	0.3%			

WACC SENSIBILITY					
EMBI	1,7%	2,2%	2,7%	3,7%	4,7%
RISK FREE RATE	5,2%	6,2%	7,2%	8,2%	9,2%
MARKET PREMIUM	6,0%	6,0%	6,0%	6,0%	6,0%
BETA	1,15	1,15	1,15	1,15	1,15
COST OF EQUITY	12,1%	13,1%	14,1%	15,1%	16,1%
COST OF DEBT	5%	5%	5%	5%	5%
INCOME TAX ALÍQUOTE	33%	33%	33%	33%	33%
COST OF DEBT EX-IT	3,4%	3,4%	3,4%	3,4%	3,4%
DEBT/EQUITY	50%	50%	50%	50%	50%
..EQUITY/TOTAL CAPITAL	67%	67%	67%	67%	67%
..DEBT/TOTAL CAPITAL	33,3%	33,3%	33,3%	33,3%	33,3%
WACC IN US\$	9,2%	9,8%	10,5%	11,2%	11,8%
EXCHANGE RATE	2,0%	2,0%	2,0%	2,0%	2,0%
WACC IN MX\$	11,2%	11,8%	12,5%	13,2%	13,8%

MULTIPLES EV / EBITDA VALUATION	
TARGET MULTIPLE	7.76
COMPANY'S EBITDA	
EBITDA	38,012
EV/TARGET	295,047
NET DEBT	44,531.269
MINORITIES	1,178.00
TARGET VALUE	249,338
# OF SHARES	12920
TARGET PRICE	19.30
ADR TARGET	35.41

TELEFÓNICA GROUP

PREVIOUS TARGETS:

TEFM:	EUR\$ 14.9 (BUY)
TEF ADR:	USD\$ 51.9 (BUY)
TEF BDR:	R\$ 49.9 (BUY)

NEW TARGETS:

TEFM:	EUR\$ 15.5 (HOLD)
TEF ADR:	USD\$ 58.7 (HOLD)
TEF BDR:	R\$ 55.2 (HOLD)

Telefonica Coverage



This is a dividend play. the share is already fully priced by the market. it is a hold.

the eur\$0.40 minimum dividend on its own represents a return of almost 3% in euros, which is very reasonable. its exposure to emerging markets could well go from being the villain of the past to being the main driver of positive price movement in the future.

Strengths

- Diversified activities across various business segments, as well as various countries, dilute the company's global risk; notice also that the culprit in chief of yesteryear (Latin American exposure) has now become the leading driver for share appreciation. Exposure in Latin American currencies is no longer a source of concern while operations in Latin countries are now producing some of the group's best returns in local currency terms.
- Yield play: the EUR\$0.40 minimum dividend represents almost a 3% return
- Focus on value-added business lines
- Disciplined Capex program - less than 10% of net revenue
- Debt profile is improving with each quarter: Net Debt/EBITDA(04)E: 1.56x
- Focus on strong FCF
- Has the financial muscle to make strategic acquisitions
- Has the know-how to operate globally, but at the same time using local knowledge to give all its operations local character, even those outside Spain

Weaknesses

- As with all mega companies, Telefonica is continually in the firing line of the regulators in the various markets where it operates (privately or publicly-owned companies)
- Exposure to many different countries warrants special attention to possible local stresses

Threats

- Optimization in allocating excess cash; FCF EUR\$33 B by 2006
- Loss of traffic revenue due to introduction of voice internet protocol technology
- Regulatory risks: exposed to such risks in each one of its operations

4Q03 Results - Should ratify already strong fundamentals

Telefónica is expected to report good 4Q03 operating results, reaching 92 M lines in service at the end of 2003, 40 M wireline and 52 M mobile subscribers. In the ADSL segment, the group is expected to post 3 M subscribers at the year-end.

Net group revenue for 4Q03 should record EUR\$7.2 B, and for the year EUR\$ 28 B . Projected 4Q03 EBITDA is expected to be EUR\$3.0 B, representing a margin of 42.3 %, and not very different from the preceding quarter, EBITDA for the year totaling EUR\$ 11.9 B.

We are forecasting net income of EUR\$802 M (EUR\$0.16 per share) for the 4Q03, and EUR\$3.6 B (or EUR\$0.72 per share) in 2003.

We estimate that the company's CAPEX totaled EUR\$450 M in 4Q03, or EUR\$1.7 B for 2003, as previously disclosed to the market. The Company pursued a disciplined Capex policy, expenditure being maintained at below 10% of the net revenue for the year.

The company's outstanding net debt at the end of 2003 is estimated at EUR\$20 B, representing a little more than 1.5x EBITDA forecasted for 2004.

- Spain



Still the main market

The Spanish wireline operation accounts for a full third of the group's overall operations. Its mobile operations represent 70% of Telefonica Móviles, which itself accounts for another third of the group's global operations. The remaining third refers to the operations of Telefonica Internacional, of which Brazil (Telesp) accounts for a little over half. There are no long-term threats to the group's leadership in its Spanish markets. The regulatory environment, although strict, is not a problem. It is not a growth company, but the fundamentals are very strong.

- Brazil



Undisputed leader

As regards its wireline operations, Telesp is strongly positioned in the Brazilian market and its leadership is under no threat whatsoever. Telesp's dividend policy is already the apple of its Spanish controlling shareholders' eyes. As to its mobile operations, they too are competitively very well positioned, even considering the entry of competitors offering GSM technology. There is nothing here to cause any major scares.

- Argentina



The worst is over

Owner of a little over half the Argentine wireline market, TASA has contributed strong profits in local currency. The fact that it honored its debt has led the company to be priced in multiples. There is still room for future growth. We do not even rule out rate increases. The outlook is positive.

- México



The big problem is the capex for its GSM overlay
The mobile operation reached 3.5 million subscribers at year-end 2003. For the first time, it is giving Telcel some competition, and there is still room for future growth. Its strategy, however, is more defensive than offensive.

- Chile



The regulatory/rate problem still exists,
The wireline operation continues to be the market leader. Telefonica Móvil has already reached 2.3 million subscribers at year-end 2003. Despite strong operating margins, CTC-Chile is still only a relatively small part of the group.

- Perú



Strong margins. Continued leadership
TDP runs a very strong operation in terms of operating results in local currency. Telephone density in Portugal is still very low, resulting in room for future growth. The outlook is positive.

- Telefónica Móviles



A decisive contribution to consolidated results
With 52 million subscribers the world over, Telefonica Móviles accounts for close to 40% of the group's global operations. It is the incumbent in many if not most of the markets in which it operates and its operating margins and cash generation are, in general, correspondingly strong. The Spanish operation, with 19.7 million subscribers, is the financial heavyweight. VIVO in Brazil has already signed up 20.6 million subscribers and also makes a substantial contribution to consolidated results. The Mexican operation, with 3.5 million subscribers, is promising from a strategic angle

In spite of strong company fundamentals, we are downgrading our recommendation for the Telefónica Group's holding company's shares (TEF-M), as well as its ADRs (TEF) from buy to hold, since this stock still remains a strong dividend play. However, the shares have already performed very well, there is still an upside of 19% .

TELEFÓNICA S.A

	2002	2003	2004	2005	2006	2007	2008	2009	2010
(LIS) WIRELINE	42,225	40,331	41,104	41,468	41,837	42,210	42,587	42,901	43,218
(LIS) WIRELESS	41,376	52,000	54,798	57,458	59,753	61,658	63,365	65,007	66,751
TOTAL CLIENTS	83,601	92,331	95,902	98,926	101,590	103,868	105,952	107,908	109,969

	2002	1Q03	2Q03	3Q03	4Q03E	2003	1Q04	2Q04	3Q04	4Q04	2004E	2005E	2006
NET SALES	28,411	6,459	7,104	7,270	7,202	28,035	7,257	7,290	7,382	7,406	29,337	30,231	31,848
EBITDA	11,724	2,819	3,137	3,338	3,033	11,849	3,105	3,112	3,204	3,191	12,612	13,060	14,045
EBITDA MARGIN	41.3%	41.3%	44.2%	45.9%	42.1%	42.3%	42.8%	42.7%	43.4%	43.1%	43%	43.2%	44.1%
PROFIT AFTER TAX	(5,576.8)	543	913	558	802	3,581	615	600	610	600	2,425	2,754	2,926
EPS	(1.12)	0.11	0.18	0.11	0.16	0.72	0.12	0.12	0.12	0.12	0.49	0.56	0.59

EUR\$ MM SPAIN	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating profit	3,077	3,093	3,108	3,124	3,139	3,155	3,171	3,186	3,202	3,218
(+) Depreciation, Amort.	2,597	2,610	2,623	2,637	2,650	2,663	2,676	2,690	2,703	2,717
Ebitda	4,638	4,707	4,778	4,850	4,923	4,996	5,071	5,147	5,225	5,303
(-) Corporate tax on Ebit	407	409	411	413	415	417	419	422	424	426
(-) Working capital investment	85	85	85	85	85	85	85	85	85	85
(-) Fixed capital investment	1,258	1,174	1,089	1,094	1,100	1,105	1,111	1,116	1,122	1,128
Cash flow from operations	2,888	3,040	3,193	3,257	3,323	3,389	3,456	3,525	3,594	3,665

COMPANY (EUR\$B)	FAIR EV	NET DEBT	FAIR EQUITY	EBITDA (04)E	NET REV (04)E
Wireline Spain	32,841	8,052	24,788	4,638	8,983
Wireline Chile	3,505	1,369	2,136	485	1,047
Wireline Peru	2,855	466	2,389	412	866
Wireline Argent.	1,514	1,365	150	492	859
Wireline Brazil	9,684	1,103	8,581	1,551	4,081
T Latam	17,558	4,303	13,256	2,940	6,853
Tef Móviles	54,375	7,158	47,217	4,910	11,088
Tef Data	1,519	283	1,236	453	1,615
Terra-Lycos	(1,362)	254	(1,616)	(406)	565
Yellow Pages	1,467	273	1,194	437	538
Atento	524	98	426	156	538
Grand Total	106,922	20,420	86,502	13,129	30,183

VALUATION	DCF
CONSOLIDATED EQUITY VALUE	86,502
MINORITIES	9,515
NUMBER OF SHARES	4,955,892
TARGET EUR\$	15.53
CURRENT PRICE	13.06
UPSIDE	19.0%

WACC SENSIBILITY SPAIN					
RISK FREE RATE	3.5%	4.5%	5.5%	6.5%	7.5%
MARKET PREMIUM	6.0%	6.0%	6.0%	6.0%	6.0%
BETA	130.0%	130.0%	130.0%	130.0%	130.0%
COST OF EQUITY	11.3%	12.3%	13.3%	14.3%	15.3%
COST OF DEBT	5.1%	5.1%	5.1%	5.1%	5.1%
INCOME TAX ALÍQUOTE	34.0%	34.0%	34.0%	34.0%	34.0%
COST OF DEBT EX-IT	3.4%	3.4%	3.4%	3.4%	3.4%
DEBT/EQUITY	50.0%	50.0%	50.0%	50.0%	50.0%
..EQUITY/TOTAL CAPITAL	66.7%	66.7%	66.7%	66.7%	66.7%
..DEBT/TOTAL CAPITAL	33.3%	33.3%	33.3%	33.3%	33.3%
WACC IN US\$	8.5%	9.1%	9.8%	10.5%	11.1%
EXCHANGE RATE	1.0%	1.0%	1.0%	1.0%	1.0%
WACC IN EUR\$	9.5%	10.1%	10.8%	11.5%	12.1%

MULTIPLES EV / EBITDA VALUATION	
TARGET MULTIPLE	7.38
COMPANY'S EBITDA	
EBITDA	13,129
EV/TARGET	96,894.72
NET DEBT	20,419.951
MINORITIES	8,412.22
% STAKE ON EQUITY	89%
TARGET VALUE	68,063
# OF SHARES	4,955,892
TARGET PRICE	13.73

BRAZILIAN CELLULAR PHONE MARKET

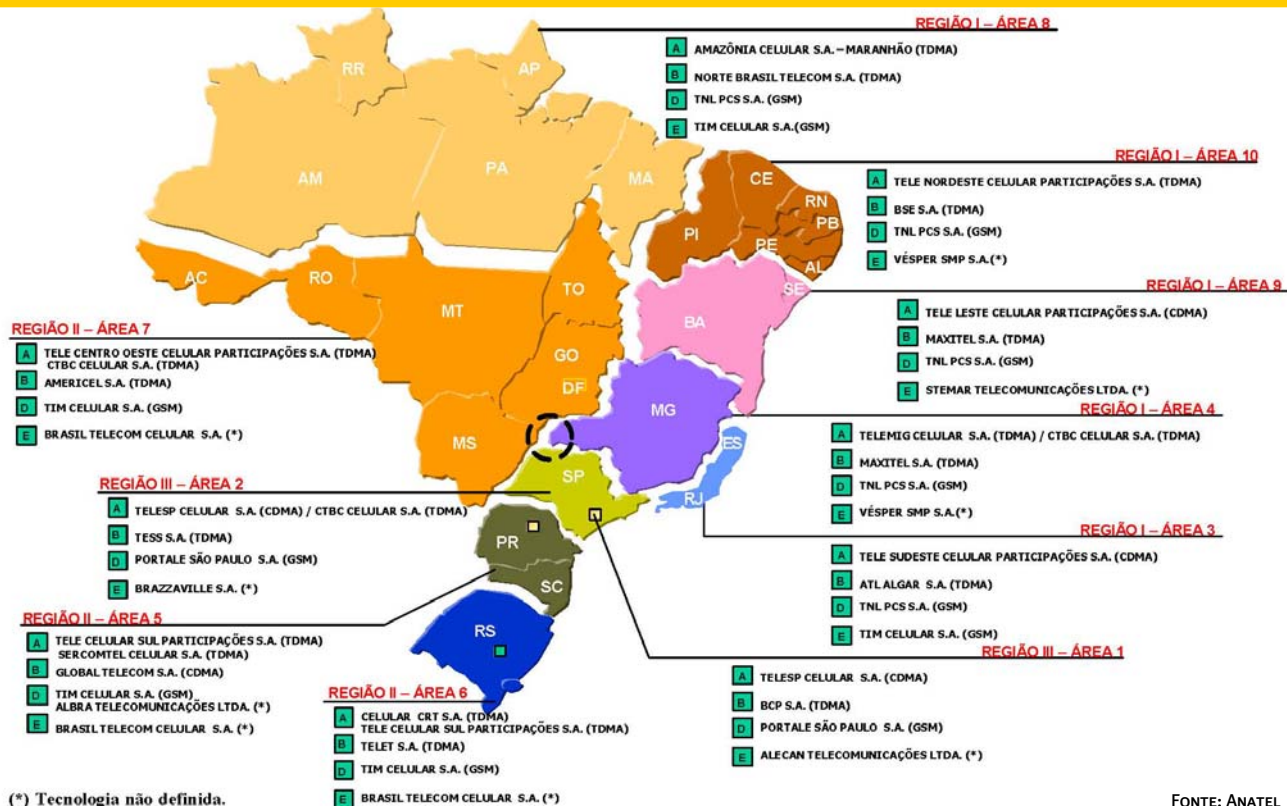
DOMESTIC OVERVIEW

The cellular phone business in Brazil is expected to grow steadily and remain highly competitive during 2004. Some of the concession areas (3,5,6,7,8,9) will already have four mobile competitors. We are forecasting for 2004 almost 9 million new adds and growth of approximately 19% in the number of cellular phones in service, which is slightly less than the 11 million new lines in 2003 and represents year-over-year growth of 32% on what by now is, remember, a larger subscriber base. Mobile phone density in Brazil at end-2003 was 26% and our expectations are that it reaches 30.6% by end-2004, or 55 million lines. Our growth assumptions are based on expectations of a recovery in the economy (3.5% GDP growth in 2004). Another important factor is the start-up of Brasil Telecom's SMP service in regions 5, 6 and 7 and of that of Telecom Américas in regions 5 and 9, which happened in mid-4Q03, the main effect of which, however, will only be felt during 2004.

Note that, even though the churn rate (rate of subscriber disconnection) associated with year-end sales will only be accounted for in 2Q04 and 3Q04, we can nevertheless estimate this number at 2.1 million, which is the number of pre-paid cellular lines that failed to register with Anatel, which is equivalent to something like 4.5% of the total subscriber base. The fact is that, even after subtracting these 2.1 million subscribers from the 46.4 million at year-end 2003, the sector will nevertheless have grown by 27%, which is still quite an achievement!

In short, despite the pressure on companies' operating margins from the intense competition in the sector, the growth in the market, with the help of the economic recovery, will at least partially compensate for any such margin reductions. For these reasons, our outlook for the sector players is positive.

OPERADORAS DE SMC E SMP BANDAS A, B, D E E



RATES

The stiff competition in the Brazilian mobile phone sector puts a limit on the ability of companies to pass their cost increases through to rates. On the other hand, the majority of them will benefit from the increase in interconnection charges scheduled for February this year. According to SMP rules, these charges will become freely negotiable from June on. We expect the interconnection charge increase in February to be about 5%, which will be positive for the mobile players, since it means that close to half their business platforms are being protected against inflation.

INTERCONNECTION AND PHONE TRAFFIC

We shall break our analysis down according to the two business platforms of the mobile phone business.

- **Outgoing traffic:** these are subscribers that are part of a company's subscriber base, and revenues thus depend on the extent to which subscribers use the company's network to make calls
- **Incoming connections:** these revenues come from charging interconnection fees to competitors that have to deliver traffic on a mobile company's network. To understand this better, we have to go back to the first privatizations, when the companies' business plans defined this kind of revenue as the differential that would ensure the financial viability of new entrants. The big problem is that the interconnection regime was supposed to guarantee a certain temporary cash surplus to tide the new entrants over until their operations could stand on their own feet, after which time things like the TUM, the charge for the use of the SMC mobile network (SMC - Mobile Cellular Service), and VUM, the charge for the use of the SMP mobile network (SMP - Personal Mobile Service), would become freely negotiable between operators. For a series of historical reasons, however, such as the exchange rate and the escalation of interest rates, the companies' operations grew substantially less than projected and the companies have grown to be much more dependent on this type of revenue.

We have not assumed very rapid growth in outgoing traffic for 2004. If it just grew by about the same as the increase in the number of mobile lines, that would actually be seen as positive. It is in this correlation that the issue of fixed/mobile cannibalization should be measured. Our view, however, is that the volume of outgoing traffic will only grow when the gap between the rates for wireline calls and the rates for mobile calls shrinks.

Incoming traffic, on the other hand, or the interconnection charge paid to mobile operators for the delivery of traffic on their networks, should gain from the rate increase scheduled for early this year. We do not, however, expect the advent of free negotiation of interconnection rates to cause substantial changes in the current policies for such

charges, at least over the short term, since interconnection charges, although high, have an important role to play in the overall viability of the mobile phone business, as mentioned previously.

Growth in subscription charges will also be limited by the fact that 90% of new additions are for pre-paid service and companies are being obliged to offer subscribers increasingly aggressive plans into order to keep churn within limits.

Due to strong competition, the companies are likely to see their operating margins stagnate or even shrink, which should be at least partially compensated for by the overall growth of the market. At the end of the day, players should be able to report increased EBITDA, in absolute terms, for 2004.

CHURN

Our prediction is that continued competition in the sector will keep the churn rate (rate of subscriber disconnection) at its current level. We forecast some increase in churn rates in certain regions where, for example, the fourth competitor has just inaugurated or is about to inaugurate its service. Campaigns to stimulate subscriber loyalty may have some effect, but sporadic. Churn is inevitable.

CONSOLIDATION

Despite the Brazilian market being composed of 10 concession areas, each with 3 or 4 competitors, the reality is that nowadays competition is limited to 5 companies: VIVO, CLARO, TIM, BRASIL TELECOM and TELEMAR (OI). The question is what will happen to Telemig and to Tele Norte. They have made overtures to Brasil Telecom but could easily become acquisition targets for VIVO (Telemig alone), Claro (Telemig and Tele Norte) in addition to Brasil Telecom itself (both of them as well). There are many opportunities for possible mergers and incorporations between the companies of each of the above groups, such as, for example:

- 1- Vivo incorporates all of its operations into one company;
- 2- A merger of all the TIM companies, though this would be more difficult since some of them are listed (TIM SUL and TNEP) and others not (Maxitel and TIM's PCS companies);
- 3- Whatever the final solution is for Telemig and Tele Norte Celular, be it sale, merger or some other solution.

Whatever happens, the way to maximize returns is for the investor in VIVO to remain positioned in shares of Tele Sudeste Celular PN, CRT Celular and TCO PN, for the investor in TIM to be positioned in shares of Tele Celular Sul ON and Tele Nordeste ON, while the shares of Telemig and Tele Norte are already appropriately priced.

PROJECTIONS BY REGION

In the following table, we give our projections for growth in the mobile phone market per region, per band and per operator. In our projections we have incorporated certain guidelines supplied by Anatel.

MOBILE MARKET	2001	2002	2003E	2004E	2005E	2006E	2007E	2008E
BRASIL								
GROWTH YOY	23.5%	23.0%	33.3%	18.7%	9.6%	4%	5%	4%
POPULATION	173,510	175,754	177,814	179,899	182,008	184,143	186,303	188,489
TERMINALS	28,274	34,790	46,374	55,031	60,293	62,609	65,739	68,368
NEW TERMINALS	5,377	6,145	11,584	8,657	5,262	4,173	3,285	2,880
DENSITY	16.3%	19.8%	26.1%	30.6%	33.1%	34.0%	35.3%	36.3%
USERS								
BAND A	18,723	21,967	26,112	28,396	29,763	30,809	31,715	32,514
BAND B	9,552	11,035	13,764	15,644	16,841	17,836	18,647	19,377
BAND D	-	1,701	5,749	8,765	10,531	11,927	13,002	13,952
BAND E	-	86	748	2,225	3,158	3,894	4,386	4,787
OPERATORS								
TERMINALS								
VIVO	11,633	13,742	20,377	22,136	23,119	23,865	24,471	24,985
CLARO	4,332	5,192	9,798	11,461	12,596	13,519	14,213	14,850
TIM BRASIL	4,577	5,425	8,352	10,228	11,411	12,386	13,181	13,897
TNL	-	1,436	4,011	6,086	7,278	8,205	8,887	9,493
OPPORTUNITY	2,579	2,864	3,375	4,575	5,290	5,870	6,345	6,728
REGIONS 1 E 2 (SP)								
TERMINALS	7,914,977	9,055,000	12,044,275	13,859,999	14,859,045	15,660,754	16,354,298	16,961,903
NEW TERMINALS	1,051,587	1,140,023	2,989,275	1,815,724	999,047	801,709	693,544	607,605
TELE DENSITY	20.9%	23.6%	31.0%	35.3%	37.4%	39.0%	40.3%	41.3%
REGION 1(METRO SP)								
TERMINALS	5,007,951	5,652,000	7,117,471	8,024,053	8,489,148	8,878,843	9,190,491	9,486,288
NEW TERMINALS	706,757	644,049	1,465,471	906,582	465,095	389,695	311,648	295,797
TELE DENSITY	25.1%	27.9%	34.8%	38.8%	40.6%	42.0%	43.0%	43.9%
REGION 2 (INT/LIT SP)								
TERMINALS	2,907,026	3,403,000	4,926,803	5,835,946	6,369,897	6,781,911	7,163,807	7,475,615
NEW TERMINALS	344,830	495,974	1,523,803	909,142	533,952	412,014	381,896	311,808
TELE DENSITY	16.2%	18.7%	26.8%	31.4%	33.9%	35.7%	37.3%	38.5%
REGION 3 (RJ/ES)								
TERMINALS	4,945,000	5,985,219	7,514,610	8,260,627	8,649,561	8,951,882	9,240,767	9,496,422
NEW TERMINALS	809,000	1,040,219	1,529,391	746,017	388,935	302,321	288,884	255,655
TELE DENSITY	27.7%	33.2%	41.2%	44.8%	46.4%	47.5%	48.5%	49.3%
REGION 4 (MG)								
TERMINALS	2,290,146	2,997,867	4,383,067	5,317,536	5,757,308	6,186,838	6,527,692	6,796,496
NEW TERMINALS	590,437	707,721	1,385,199	934,470	439,772	429,529	340,854	268,805
TELE DENSITY	12.6%	16.3%	23.5%	28.2%	30.2%	32.1%	33.5%	34.5%
REGION 5 (PR/SC)								
TERMINALS	2,465,913	2,899,660	3,741,486	4,602,215	5,130,871	5,525,613	5,863,272	6,125,360
NEW TERMINALS	586,429	433,747	841,826	860,729	528,656	394,742	337,658	262,088
TELE DENSITY	16.2%	18.8%	24.0%	29.2%	32.2%	34.3%	36.0%	37.2%
REGION 6 (RS)								
TERMINALS	2,567,000	3,190,229	4,208,780	4,682,722	4,896,363	5,070,427	5,236,681	5,383,639
NEW TERMINALS	590,454	623,229	1,018,551	473,942	213,641	174,064	166,253	146,958
TELE DENSITY	24.8%	30.5%	39.8%	43.8%	45.3%	46.4%	47.4%	48.2%
REGION 7 (MT/MS/GO/DF/TO/RO/AC)								
TERMINALS	2,611,907	3,402,435	4,615,094	5,433,174	5,967,489	6,385,295	6,681,004	6,950,327
NEW TERMINALS	760,278	790,528	1,212,659	818,080	534,315	417,805	295,710	269,323
TELE DENSITY	17.2%	22.0%	29.4%	34.1%	36.9%	38.9%	40.1%	41.1%
REGION 8 (AM/PA/RR/AP/MA)								
TERMINALS	1,325,387	1,687,605	2,752,200	3,562,485	4,124,968	4,582,965	4,966,368	5,253,783
NEW TERMINALS	313,050	362,218	1,064,595	810,285	562,483	457,997	383,404	287,415
TELE DENSITY	8%	10%	17%	21%	24%	27%	28%	30%
REGION 9 (BA/SE)								
TERMINALS	1,450,000	1,783,342	2,064,927	2,866,612	3,417,921	3,869,543	3,941,087	4,007,226
NEW TERMINALS	282,000	333,342	281,585	801,685	551,309	451,622	71,544	66,139
TELE DENSITY	9.6%	11.7%	13.4%	18.4%	21.7%	24.3%	24.5%	24.6%
REGION 10 (PI/CE/RN/PE/PB/AL)								
TERMINALS	2,704,092	3,418,500	4,589,252	5,899,908	6,891,379	7,611,210	8,286,851	8,976,436
NEW TERMINALS	394,092	714,408	1,170,752	1,310,656	991,471	719,831	675,641	689,584
TELE DENSITY	9.8%	12.2%	16.2%	20.6%	23.8%	26.0%	28.0%	30.0%

NEW ENTRANTS

CLARO - Claro commenced operations in region 5 (Paraná and Santa Catarina) and region 9 (Bahia and Sergipe). Although it made the most of the Christmas season (the hottest season for cellular sales), it will not be possible to gauge the real impact of Claro on these regions until later in 2004. Judging by the track record of Telecom Américas itself in Brazil, our feeling is that the company will seek growth, but without being particularly aggressive, unlike Oi. In other words, the company is unlikely to seek all that rapid a return on its investment, but will think twice before destroying value. It will also try to reinforce Claro's position in the city of São Paulo. Having recently completed the acquisition of BCP, it should become increasingly competitive, since it can already count on the investments in the GSM overlay to the network it acquired.

BRASIL TELECOM - After obtaining authorization from Anatel earlier this month, Brazil Telecom is scheduled to commence its PCS operations in early 2Q04. Given the ongoing shareholder conflict, there are a number of possible outcomes:

1. Telecom Italia ceases to be a shareholder;
2. An operating alliance between TIM and Brasil Telecom (less probable);
3. Opportunity buys Telecom Italia out (even less probable).

On the assumption that Brasil Telecom embarks on a greenfield operation, we have adopted the following premises:

1. It will achieve 1 million subscribers within 12 months of operations;
2. It will achieve a client mix with 25% of post-paid subscribers in a market where an average 90% of the growth is in pre-paid subscribers and only 10% in the post-paid service;
3. Relatively modest capex for the mobile operation: something like R\$1 billion over three years.

The company is unlikely to aggressively offer discounts on handsets to the point of destroying shareholder value.

The truth of the matter, however, is that not even the majority shareholders themselves know how the current shareholder conflict is going to play out. Above all it seems to be a question of price that will determine who buys whom: Opportunity or Telecom Italia.

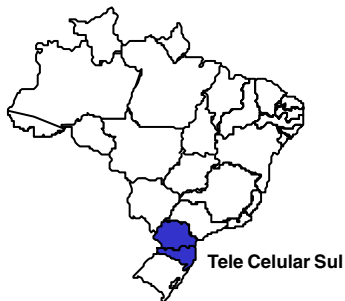
PREVIOUS TARGETS:

TCSL3:	4.1 (BUY)
TCSL4:	4.6 (BUY)
TSU ADR:	15.4 (BUY)

NEW TARGETS:

TCSL3:	5.5 (BUY)
TCSL4:	6.1 (BUY)
TSU ADR:	21.7 (BUY)

TIM SUL Coverage



This is one of our favorite tips among Brazilian cellular companies. With 67% upside potential, TCSL3 is the best way to invest in the group, although liquidity is a problem. TCSL is having to face two new competitors in its region, Brasil Telecom PCS and Claro, but the impact of the greater competition will still take some time to make itself felt.

TIM SUL (TCSL)

Strong Points:

- Market leader in its region. Incumbent
- Large cash balances
- Net cash positive
- Well-established coverage; investments in overlay under way
- Its region has 4 competitors, but 2 of them are new entrants (Claro and Brasil Telecom PCS).

Weak Points

- 2 new competitors in its region (Claro and Brasil Telecom PCS)
- Strong competition from Global Telecom (VIVO)
- Shareholder risk (merger with other TIM operations)

Net cash positive and strong competitive position

Despite heightened competition with the arrival of the two new entrants, Tele Celular Sul is unlikely to lose its position as leader in its region. The new competition is bound to have some effect, probably eating away at its margins, for example, but results should not suffer in absolute terms. In other words, we project that in 2004 EBITDA, in nominal terms, will increase 5% over that of 2003, which, in real terms, represents an almost insignificant reduction.

We expect Tim Sul to continue investing in its GSM overlay. The pace of spending picked up in 4Q03 and we imagine that capex for the full year must have been R\$200 million. We do not see, however, any threat during 2004 to its very comfortable financial position, with a net cash surplus on its balance sheet.

Strong sales towards the end of the year should mean growth in net adds. We estimate that the company must have reach about 2.08 million subscribers by the end of last year, with 9% growth in the fourth quarter alone. The vast majority of these additions will have been for the pre-paid service. Given the sector's traditional seasonality, we expect reasonable revenue growth in 4Q03, driven by handset sales.

Despite the deterioration of the subscriber mix, the simple growth in the subscriber base should be enough to ensure that EBITDA tops R\$100 million in 4Q03, although the EBITDA margin is likely to slip below 34%. We emphasize once more that revenues are strongly impacted by handset sales.

At the bottom line, we are expecting that the company's net cash position will guarantee strong net income. We are projecting 4Q03 net income of close to R\$42 million.

Shareholder risk

There always exists the possibility that TIM will take the step of consolidating all of the group companies into one vehicle. Our view is that investors wishing to maximize their gains should be positioned in the common ON shares, which are trading at a 35% spread over the preferred PN shares. There is another school of thought that predicts that TIM will exit Brazil entirely. Were that ever to happen, the tag along rights would obviously make the common ON shares more attractive.

We have valued TIM Sul by the DCF method, using a 14.2% WACC and a 3% perpetuity growth rate. Our new target price is R\$6.11/000 PN and R\$5.5/000 ON shares, implying a 41% upside potential for the preferred PN shares and a 71% potential for the common ON shares, our preferred vehicle for investors. We are thus maintaining our BUY recommendation for both the PN and the ON shares.

TELE CELULAR SUL

	2002E	2003E	1Q04	2Q04	3Q04	4Q04	2004E	2005E	2006E
NO OF SUBSCRIBER (000)	1,724	2,077	2,108	2,155	2,186	2,232	2,232	2,311	2,371
CONTRACT	509	540	542	544	546	548	548	558	570
PRE-PAID	1,215	1,395	1,425	1,469	1,498	1,543	1,530	1,590	1,637

R\$ M	2002	1Q03	2Q03	3Q03	4Q03E	2003	1Q04	2Q04	3Q04	4Q04	2004E	2005E
GROSS SALES	1,145.9	317.5	333.7	341.0	405.2	1,397.4	367.3	388.4	387.7	398.3	1,541.8	1,592.1
NET SALES	891.3	246.6	259.7	262.8	317.8	1,086.8	289.2	306.8	301.4	301.8	1,199.1	1,238.3
EBITDA	321.2	98.8	87.3	95.9	104.1	386.0	98.2	102.6	106.7	97.7	404.9	421.7
EBITDA MARGIN	36.0%	40.1%	33.6%	36.5%	32.8%	35.5%	34.0%	33.4%	35.4%	32.4%	33.8%	34.1%
FINANCIAL RESULT	(19.0)	5.8	9.1	10.6	22.6	48.1	(1.1)	0.2	3.3	21.9	24.3	33.7
PROFIT AFTER TAX	65.8	20.5	21.5	27.3	42.5	111.9	9.1	23.9	26.2	27.5	86.3	128.5
EPS	0.19	0.06	0.06	0.08	0.12	0.33	0.03	0.07	0.08	0.08	0.25	0.37
EPS ADR	0.67	0.22	0.23	0.29	0.44	1.15	0.09	0.24	0.27	0.28	0.88	1.31

	2004	2005	2006	2007	2008	2009	2010	2011
EBIT	135,360	186,320	208,561	226,357	246,101	254,565	260,838	270,426
(-) UNLEVERAGE TAX ON EBIT	(32,758)	(45,071)	(49,432)	(52,586)	(56,188)	(58,384)	(61,044)	(64,438)
(=) NOPLAT	102,602	141,249	159,129	173,771	189,913	196,182	199,793	205,989
(+) DEPRECIATION	269,535	235,336	259,898	283,615	307,359	331,588	356,656	382,794
(-) NET CHANGE IN WORKING CAPITAL	(2,343)	(21,722)	(8,030)	(215)	(555)	973	1,326	843
(-) CAPEX	(200,000)	(176,000)	(153,937)	(160,038)	(166,068)	(173,962)	(182,793)	(191,670)
FREE CASH FLOW	169,794	178,864	257,060	297,133	330,649	354,781	374,983	397,956

VALUATION	DCF	WACC	EQUITY VALUE	PER SHARE
CORPORATE VALUE	2,465,776	12.9%	2,545,651	7.14
(-) NET DEBT	(256,538)	13.6%	2,349,956	6.59
(-) MINORITY PART.	544,463	14.2%	2,177,852	6.11
EQUITY VALUE	2,177,852	14.9%	2,025,368	5.68
NUMBER OF SHARES	356,478	15.6%	1,889,374	5.30
	PN	ON		
EQUITY VALUE PER TH. SHARES - R\$	6.1	5.5		
STOCK PRICE	4.3			
UPSIDE	41%			
TARGET ADR - US\$	21.66			

WACC SENSIBILITY					
EMBI	2.0%	3.0%	4.0%	5.0%	6.0%
RISK FREE RATE	6.5%	7.5%	8.5%	9.5%	10.5%
MARKET PREMIUM	6.0%	6.0%	6.0%	6.0%	6.0%
BETA	1.15	1.15	1.15	1.15	1.15
COST OF EQUITY	13.4%	14.4%	15.4%	16.4%	17.4%
COST OF DEBT	9%	9%	9%	9%	9%
INCOME TAX ALÍQUOTE	34%	34%	34%	34%	34%
COST OF DEBT EX-IT	5.9%	5.9%	5.9%	5.9%	5.9%
DEBT/EQUITY	50%	50%	50%	50%	50%
WACC IN US\$	10.91%	11.58%	12.25%	12.91%	13.58%
EXCHANGE RATE	2.00%	2.00%	2.00%	2.00%	2.00%
WACC IN R\$	12.91%	13.58%	14.25%	14.91%	15.58%

MULTIPLES EV / EBITDA VALUATION	
TARGET MULTIPLE	5.86
COMPANY'S EBITDA	TCSL4
EBITDA	404,895
EV/TARGET	2,372,465
NET DEBT	(256,538)
MINORITIES	423,185
% STAKE ON EQUITY	80%
TARGET VALUE	2,205,818
# OF SHARES	356,478
TARGET PRICE	6.19

TIM NORDESTE (TNEP)

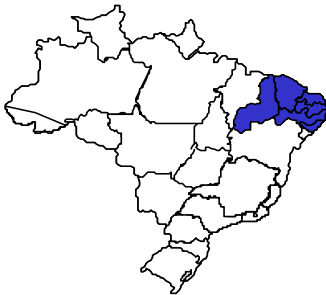
PREVIOUS TARGETS:

TNEP3:	3.2 (BUY)
TNEP4:	4.2 (BUY)
TND ADR:	28.0 (BUY)

NEW TARGETS:

TNEP3:	5.3 (BUY)
TNEP4:	5.8 (BUY)
TND ADR:	42.0 (BUY)

TIM Nordeste Coverage



Another one of our favorite tips, although the liquidity of the ONs is an obstacle. TNEP4 is the best vehicle for investing in the company. Although only two other operators compete in this region, OI and Claro have been very aggressive. The impact of competition has been major.

Strong points

- Market leader in its region. Incumbent
- Large cash balances
- Net cash positive
- Well-established coverage; investments in overlay already under way
- Plenty of potential for increasing density
- Only 2 competitors in its region (Vesper returned its license)

Weak points

- Strong competition from OI
- Shareholder risk (merger with other TIM operations)
- Low purchasing power of the population in its region

Growth potential still exists

Tele Nordeste Celular may well stand to gain from the fact that it operates in a region with strong potential for growth in the mobile phone business. Density in the Northeastern region is around 14 phones per 100 inhabitants, which is low compared with the national average of 26. If our projections of economic growth are correct, cellular penetration in the Northeast region could grow to 19.4% by year-end 2004, a 29% increase. We cannot forget, however, that competition in the region is intense, chiefly due to the aggressive tactics of OI, which has been responsible for a large part of the net adds.

TNEP is sure to try and defend its lead position, although it will seek to avoid a price war that would eat into its operating margins. We still believe in the growth potential of the region, the possibility of reasonable competition between players and a reduction in churn, all of which would reduce the need for subsidies and permit some improvement in operating margins.

Our expectations for growth in the subscriber base in 4Q03 are conservative, since the company recently purged its subscriber base. We are thus assuming slower growth, something in the order of 90 thousand new subscribers.

Our forecast for the EBITDA margin in 2003 is 38.8%, and something very close to that for 4Q03, such as 38%, which would represent a slight improvement over 3Q03.

We are assuming net revenues for 2003 of R\$990 million and net income of R\$128 million.

We are projecting capex of R\$240 million for full year 2003, with a sharp pick-up in investments in its GSM overlay.

The future

Our forecast for 2004 is for a slight reduction in margins to something like 37.5%, due to the outlook for continued intense competition. From then on we see a gradual recovery in the company's margins. Growth in the subscriber base should generate an 11% YoY growth in net revenues.

Shareholder risk

There is always the possibility that TIM takes the initiative to consolidate all of the group companies under one roof. Were TNEP to be merged with the other companies of the group, the greatest risk would be that TNEP be in some way bundled together with Maxitel, the most highly leveraged company of the TIM group, which would be detrimental to TNEP. In any event, investors wishing to maximize their holdings should be positioned in the common ON shares, which are trading at a XX% spread over the preferred PN shares. There is even a school of thought that believes that TIM will exit from Brazil completely. If that were ever to happen, it is clear that the tag along rights make the ON shares more attractive.

Merger of subsidiaries

TNEP has announced that it intends to consolidate its operating subsidiaries in the near future, in order to benefit from possible tax credits. This is positive news for investors in TIM shares traded on the SOMA.

Tax benefits

The company has succeeded in negotiating with the government a tax break, exempting it from 75% of the income tax on its operating activities over the next 10 years. We have incorporated this benefit into our projections.

We have valued TIM Nordeste by the DCF method, using a 14.2% WACC and a 3% perpetuity growth rate. Our new target price is R\$5.3/000 ON and R\$5.8/000 PN shares, implying an 32% upside potential for the preferred PN shares and a 61% potential for the common ON shares, our recommended vehicle for investing in the company. We maintain our BUY recommendation for both the PN and the ON shares.

TNEP4

	2002E	2003E	1Q04	2Q04	3Q04	4Q04	2004E	2005E	2006E
NO OF SUBSCRIBER (000)	2,065	2,192	2,257	2,355	2,421	2,519	2,519	2,797	3,013
CONTRACT	694	715	722	731	738	748	748	776	793
PRE-PAID	1,232	1,419	1,478	1,566	1,625	1,714	1,714	1,964	2,162

R\$ M	2002	1Q03	2Q03	3Q03	4Q03E	2003	1Q04	2Q04	3Q04	4Q04	2004E	2005E
GROSS SALES	1,198.5	307.8	326.3	334.7	333.7	1,302.4	332.3	360.3	361.7	377.8	1,432.1	1,570.4
NET SALES	939.0	234.5	249.6	252.2	253.5	989.9	255.8	277.4	278.5	290.9	1,102.7	1,193.5
EBITDA	424.6	101.6	92.8	89.6	96.1	384.1	97.7	102.7	109.0	103.9	413.3	447.0
EBITDA MARGIN	0.0%	43.3%	37.2%	35.5%	37.9%	38.8%	38.2%	37.0%	39.2%	35.7%	37.5%	37.5%
FINANCIAL RESULT	(2.1)	9.9	12.9	9.6	2.1	34.5	(4.2)	(1.7)	0.7	6.7	1.5	11.7
PROFIT AFTER TAX	161.8	33.0	30.4	29.9	34.7	127.9	16.5	28.1	36.1	41.3	122.1	138.1
EPS (TH. SHARES)	0.45	0.10	0.08	0.08	0.10	0.36	0.05	0.08	0.10	0.12	0.34	0.39
EPS ADR	3.17	0.67	0.60	0.59	0.68	2.51	0.32	0.55	0.71	0.81	2.39	2.71

	2004	2005	2006	2007	2008	2009	2010	2011
EBIT	192,704	203,710	266,163	281,900	313,179	346,297	355,294	349,001
(-) UNLEVERAGE TAX ON EBIT	(12,718)	(13,400)	(17,456)	(18,461)	(20,464)	(22,532)	(22,958)	(22,329)
(=) NOPLAT	179,987	190,309	248,706	263,439	292,715	323,765	332,336	326,672
(+) DEPRECIATION	220,627	243,278	252,033	278,427	306,423	336,426	368,208	401,315
(-) NET CHANGE IN WORKING CAPITAL	(45,638)	(49,489)	(29,619)	(35,118)	(47,871)	(17,523)	(14,945)	(25,250)
(-) CAPEX	(239,126)	(177,162)	(194,041)	(206,298)	(222,491)	(236,373)	(245,743)	(253,542)
FREE CASH FLOW	115,851	206,936	277,078	300,449	328,776	406,296	439,856	449,195

VALUATION	DCF	WACC	EQUITY VALUE	PER SHARE
VALUATION	DCF	12.9%	2,541,050	6.97
CORPORATE VALUE	2,677,811	13.6%	2,321,483	6.37
(-) NET DEBT	(89,490)	14.2%	2,128,516	5.84
(-) MINORITY PARTICIPATIONS	638,785	14.9%	1,957,666	5.37
EQUITY VALUE	2,128,516	15.6%	1,805,403	4.95
# OF SHARES	357,828			
	PN			ON
EQUITY VALUE PER TH. SHARES - R\$	5.8			5.3
STOCK PRICE	4.4			
UPSIDE	32%			
ADR - US\$	42.19			

WACC SENSIBILITY						MULTIPLES EV / EBITDA VALUATION	
EMBI	2.0%	3.0%	4.0%	5.0%	6.0%	TARGET MULTIPLE	5.86
RISK FREE RATE	6.5%	7.5%	8.5%	9.5%	10.5%	COMPANY'S EBITDA	
MARKET PREMIUM	6.0%	6.0%	6.0%	6.0%	6.0%	EBITDA	413,332
BETA	1.15	1.15	1.15	1.15	1.15	EV/TARGET	2,421,901
COST OF EQUITY	13.4%	14.4%	15.4%	16.4%	17.4%	NET DEBT	(89,490)
COST OF DEBT	9%	9%	9%	9%	9%	MINORITIES	538,398
INCOME TAX ALÍQUOTE	34%	34%	34%	34%	34%	% STAKE ON EQUITY	77%
COST OF DEBT EX-IT	5.9%	5.9%	5.9%	5.9%	5.9%	TARGET VALUE	1,972,993
DEBT/EQUITY	50%	50%	50%	50%	50%	# OF SHARES	357,828
WACC IN US\$	10.91%	11.58%	12.25%	12.91%	13.58%	TARGET PRICE	5.51
EXCHANGE RATE	2.00%	2.00%	2.00%	2.00%	2.00%		
WACC IN R\$	12.91%	13.58%	14.25%	14.91%	15.58%		

TELEMIG CELULAR

PREVIOUS TARGETS:

TMCP3:	5.3 (BUY)
TMCP4:	5.9 (BUY)
TMB ADR:	39.3 (BUY)

NEW TARGETS:

TMCP3:	7.8 (HOLD)
TMCP4:	7.8 (HOLD)
TMB ADR:	55.5 (HOLD)

TELEMIG CELULAR Coverage



Its excellent operating results are already in the price. The ONs already reflect the possibility of a sale. The upside potential of the PNs is not attractive. We recommend steering clear.

Strong points

- Market leader in its region. Incumbent
- Large cash balances
- Net cash positive
- Best coverage in its region
- Potential for increasing density
- Only two competitors in its region: Oi and Maxitel (Vesper returned its license)

Weak points

- Tough competition from Oi
- Shareholder risk
- Need for investments in overlay
- Unaligned with any of the larger groups active in its region

An ON play, though already reflected in the price

This year the company should finally invest in its overlay, adopting as its new technological standard either CDMA or GSM, according to who ends up as the new controlling shareholder. The company says that it has already applied to migrate to SMP, which implies a slight loss of bill and keep revenue and the loss of part of its long-distance calls. Nothing, however, that should significantly impact the company, since the migration was already awaited.

Telemig Celular has been adopting a strategy of retaining its most profitable clients, which has produced positive results, since, although growth in its subscriber base has not been that great, it has managed to preserve its margins. It is true that Oi has become a bit more aggressive in the Minas Gerais region, while TIM (Maxitel) has already installed its GSM platform. On the other hand, Vesper has returned its license to Anatel and the region now has one less competitor than most of the rest of the country.

Even were Anatel to put the E band up for auction again, Claro would be unlikely to be interested in building a greenfield network in the Minas Gerais region and, in the case of Vivo, the E license is incompatible with its CDMA technology.

The future

We expect Telemig Celular to continue returning positive operating results during 2004, with an EBITDA margin of close to 40%, EBITDA growth in absolute terms of something like 11.3% and an 10% growth in its subscriber base. Although it needs to invest in overlay, its strong cash position plus its cash generation during the year will be sufficient to cover its capital expenditure for the year, with cash to spare, whichever the technology chosen.

An ON play, though already reflected in the price

We think there is still a strong possibility that Telemig will be acquired by one of its larger competitors. The company's market dominance, its superior coverage and its attractive subscriber mix make Telemig a very tempting target for Vivo and Claro, neither of which have coverage in the state of Minas Gerais (region 4). The questions are: at what price would Opportunity sell its stake? Is this price compatible with the plans of either of the potential acquirers? In any event, the outcome of the incorporation of TCO will serve as a yardstick for the investor wishing to position himself in the ON shares.

Possible acquisitions

The fact that Telemig went to the market to raise US\$120 million, of which, in reality, US\$80 million for the company itself and US\$40 million for Tele Norte Celular, can be interpreted in two ways:

- 1- The company is simply strengthening its capital structure and lengthening its debt maturity schedule;
- 2- More probably, the company is already negotiating an acquisition. In this case, the most obvious candidate is CTBC Celular.

Telemig already attempted to acquire CTBC Celular in 2H03, but negotiations were broken off. It is perfectly possible that negotiations will be resumed in the future.

CTBC Celular is an A band operator in the states of Minas Gerais, São Paulo and Mato Grosso, with about 320 thousand subscribers and a good percentage of post-paid subscribers in its mix. Such an acquisition would fill out Telemig's coverage of the Minas Gerais region, besides, of course, adding subscribers. The acquisition would thus make sense, depending, of course, on the price.

Risk of merger with Tele Norte Celular

When dealing with Telemig, the risk of some kind of deal involving its sister company Tele Norte Celular cannot be ignored.

An acquisition of Tele Norte Celular could offer certain synergies regarding the use of tax credits, since Tele Norte has reported losses in most of the recent years. It could also seek the same kind of tax breaks that Tele Nordeste succeeded in negotiating. A major problem, however, for shareholders in Telemig Celular is that there are very few additional administrative synergies to be gained, since both companies are already managed so as to maximize such efficiencies, and Tele Norte would probably not add all that much in strategic terms. Furthermore, at what price would such an acquisition be made? Tele Norte is far more leveraged than Telemig and has weaker margins, since it faces a more hostile competitive environment (the same competitors as Telemig, plus Vivo). Since the controlling shareholders of the two companies are practically the same, one company's loss is the other company's gain. Minority shareholders, however, run the risk that the acquisition is sealed at an unattractive price, which could be extremely damaging.

We have valued Telemig Celular by the DCF method, using a WACC of 13.85% and a 3% perpetuity growth rate. Our new target price is R\$7.8/000 ON and PN shares, which implies a 18% upside potential for the preferred PN shares and a 18% downside for the common ON shares.

TMCP4

	2002E	2003E	1Q04	2Q04	3Q04	4Q04	2004E	2005E	2006E
NO OF SUBSCRIBER (000)	1,923	2,338	2,385	2,455	2,502	2,572	2,572	2,682	2,789
CONTRACT	657	719	729	743	752	766	765	790	817
PRE-PAID	1,266	1,619	1,656	1,713	1,750	1,806	1,802	1,904	1,984

R\$ M	2002	1Q03	2Q03	3Q03	4Q03E	2003	1Q04	2Q04	3Q04	4Q04	2004E	2005E
GROSS SALES	1,208.4	321.0	334.7	363.5	402.9	1,422.2	387.3	410.2	415.8	428.0	1,641.3	1,797.3
NET SALES	947.4	252.6	262.9	277.1	309.6	1,102.2	300.2	317.9	322.3	331.7	1,272.0	1,415.4
EBITDA	393.6	109.0	122.1	123.9	130.8	485.8	127.4	133.0	139.2	139.7	540.6	629.6
EBITDA MARGIN	41.5%	43.2%	46.4%	44.7%	42.2%	44.1%	42.4%	41.9%	43.2%	42.1%	42.5%	44.5%
FINANCIAL RESULT	(82.6)	17.4	1.3	8.6	9.1	36.4	2.1	(22.4)	0.3	13.8	(6.2)	(28.4)
PROFIT AFTER TAX	67.9	44.3	45.6	50.1	45.4	185.4	47.2	29.2	52.6	54.4	184.6	208.3
EPS	0.20	0.13	0.13	0.14	0.13	0.53	0.14	0.08	0.15	0.16	0.53	0.60
EPS ADR	1.40	0.90	0.92	1.01	0.92	3.75	0.95	0.59	1.06	1.10	3.74	4.22

	2004	2005	2006	2007	2008	2009	2010	2011
EBIT	339,598	401,277	397,316	409,128	408,276	403,995	400,905	401,093
(-) UNLEVERAGE TAX ON EBIT	(101,845)	(119,781)	(118,422)	(122,627)	(122,471)	(120,923)	(119,417)	(118,615)
(=) NOPLAT	237,753	281,496	278,894	286,501	285,805	283,072	281,487	282,479
(+) DEPRECIATION	200,997	228,279	246,177	262,820	279,798	297,252	315,223	333,732
(-) NET CHANGE IN WORKING CAPITAL	26,473	(6,646)	6,156	863	4,160	5,382	6,491	6,369
(-) CAPEX	(280,000)	(120,000)	(126,000)	(132,300)	(136,269)	(140,357)	(144,568)	(148,905)
FREE CASH FLOW	185,223	383,129	405,227	417,884	433,495	445,349	458,635	473,675

VALUATION	DCF		WACC	EQUITY VALUE	PER SHARE
CORPORATE VALUE	3,263,853		12.5%	3,188,972	9.20
(-) NET DEBT	(151,161)		13.2%	2,935,105	8.46
(-) MINORITY PARTICIPATIONS	702,437		13.8%	2,712,577	7.82
EQUITY VALUE	2,712,577		14.5%	2,515,935	7.26
# OF SHARES	346,751,938		15.2%	2,340,923	6.75
	PN	ON			
EQUITY VALUE PER TH. SHARES - R\$	7.82	7.82			
STOCK PRICE	6.60				
UPSIDE	18%				
ADR - US\$	55.48				

WACC SENSIBILITY					
EMBI	2.0%	3.0%	4.0%	5.0%	6.0%
RISK FREE RATE	6.5%	7.5%	8.5%	9.5%	10.5%
MARKET PREMIUM	6.0%	6.0%	6.0%	6.0%	6.0%
BETA	1.05	1.05	1.05	1.05	1.05
COST OF EQUITY	12.8%	13.8%	14.8%	15.8%	16.8%
COST OF DEBT	9%	9%	9%	9%	9%
INCOME TAX ALÍQUOTE	34%	34%	34%	34%	34%
COST OF DEBT EX-IT	5.9%	5.9%	5.9%	5.9%	5.9%
DEBT/EQUITY	50%	50%	50%	50%	50%
WACC IN US\$	10.51%	11.18%	11.85%	12.51%	13.18%
EXCHANGE RATE	2.00%	2.00%	2.00%	2.00%	2.00%
WACC IN R\$	12.51%	13.18%	13.85%	14.51%	15.18%

MULTIPLES EV / EBITDA VALUATION	
TARGET MULTIPLE	5.86
COMPANY'S EBITDA	TMCP4
EBITDA	540,595
EV/TARGET	3,167,597
NET DEBT	(151,161)
MINORITIES	514,604
% STAKE ON EQUITY	83%
TARGET VALUE	2,804,154
# OF SHARES	346,752
TARGET PRICE	8.09

TELE NORTE CELULAR

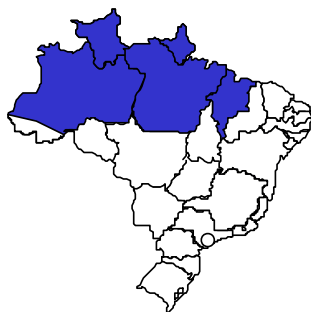
PREVIOUS TARGETS:

TNCP3:	0.60 (BUY)
TNCP4:	0.60 (BUY)
TCN ADR:	10.0 (BUY)

NEW TARGETS:

TNCP3:	1.06 (HOLD)
TNCP4:	1.06 (HOLD)
TCN ADR:	18.6 (HOLD)

Tele Norte Celular Coverage



The possibility of a sale is already priced into the ONs. Similar to Telemig, the upside is not attractive.

Strong competition from OI, TIM and VIVO.

We recommend staying away from the shares..

Strong points

- Market leader in its region. Incumbent
- Potential to increase density

Weak points

- 3 competitors in its region
- Intense competition from OI
- Need to invest in overlay
- High net debt (1.7x/EBITDA₀₄) compared with other A band operators

Better options exist

Despite its efforts to maintain profitability, we expect Tele Norte to continue losing market share during 2004. On the other hand, the fact that its region has one of the lowest densities in the country suggests the prospect of higher growth than in other regions. In our projections we assumed that the density of cellular phones per 100 inhabitants will increase from 16.7 to 21.3 by year-end 2004. We are assuming 6.5% growth in Tele Norte Celular's subscriber base to 1.1 million this year, and marginal growth of 2% in ARPU, based on higher traffic as the result of the recovery of the economy. We are thus forecasting net revenue to increase 11% to R\$558 million. As mentioned when discussing Telemig, Tele Norte has already applied to migrate to SMP, which implies the consequences we already discussed. In addition, Tele Norte will have to make its decision concerning technology (CDMA or GSM) and begin investing in its overlay during this year. We are not expecting, however, a very aggressive capex campaign, given the company's less than comfortable cash position. Net debt currently stands at R\$266 million, close to 1.7x EBITDA₀₄.

In strategic terms, we do not see many avenues for growth for Tele Norte Celular, except for the above-mentioned merger with Telemig. Another long-term scenario might be sale of the company to Claro, which does not cover this region but, on the other hand, is unlikely to pay very much to obtain such coverage.

Tax break

Like Tele Nordeste Celular, Tele Norte could apply for some kind of tax break in exchange for investments in the North/Northeast of the country, but we have not built any such event into our projections.

We have valued Tele Norte Celular by the DCF method, using a 13.1% WACC and a 3% perpetuity growth rate. Our new target price is R\$1.1/000 ON and PN shares, implying 56% upside potential for the PN shares and a downside of 3% for the PN shares.

TNCP

	2002E	2003E	1Q04	2Q04	3Q04	4Q04	2004E	2005E	2006E
NO OF SUBSCRIBER (000)	941	1,037	1,053	1,077	1,093	1,118	1,118	1,202	1,271
CONTRACT	255	284	287	292	295	300	300	308	315
PRE-PAID	686	753	766	785	798	818	818	894	956

R\$ M	2002	1Q03	2Q03	3Q03	4Q03E	2003	1Q04	2Q04	3Q04	4Q04	2004E	2005E
GGROSS SALES	594.5	149.3	164.6	172.3	184.3	670.5	174.1	183.2	183.2	188.2	728.7	745.5
NET SALES	454.1	116.2	127.6	131.3	138.7	513.8	133.4	140.4	140.4	144.2	558.4	571.2
EBITDA	134.6	28.3	41.1	34.6	33.9	137.9	40.4	39.1	41.6	41.8	162.9	161.0
EBITDA MARGIN	29.6%	24.3%	32.2%	26.4%	24.4%	26.8%	30.3%	27.9%	29.6%	29.0%	29.2%	28.2%
FINANCIAL RESULT	(77.2)	3.1	(23.9)	(11.9)	(9.7)	(42.4)	(6.9)	(6.9)	(6.9)	(6.9)	(27.8)	(20.3)
PROFIT AFTER TAX	(24.5)	1.9	(2.4)	0.1	(5.2)	(5.5)	11.4	10.8	13.3	13.6	49.0	69.7
EPS (TH. SHARES)	(0.07)	0.01	(0.01)	0.00	(0.02)	(0.02)	0.03	0.03	0.04	0.04	0.15	0.21
EPS ADR	(1.28)	0.10	(0.12)	0.01	(0.27)	(0.29)	0.59	0.57	0.69	0.71	2.57	3.65

	2004	2005	2006	2007	2008	2009	2010	2011
EBIT	64,952	73,317	85,452	171,608	193,239	203,820	207,722	218,394
(-) UNLEVERAGE TAX ON EBIT	21,434	24,195	28,199	56,631	63,769	67,261	68,548	72,070
(=) NOPLAT	43,518	49,123	57,253	114,977	129,470	136,559	139,174	146,324
(+) DEPRECIATION	97,947	87,678	84,722	18,533	24,916	31,552	38,454	45,632
(-) NET CHANGE IN WORKING CAPITAL	(6,040)	(8,041)	(1,583)	(14,672)	(2,506)	(1,102)	(395)	(653)
(-) CAPEX	(90,000)	(80,000)	(63,782)	(67,744)	(70,586)	(73,673)	(77,592)	(81,020)
FREE CASH FLOW	45,425	48,760	76,610	51,094	81,293	93,337	99,641	110,283

VALUATION	DCF	WACC	EQUITY VALUE	PER SHARE
CORPORATE VALUE	740,730	11.8%	482,741	1.44
(-) NET DEBT	265,982	12.5%	414,723	1.24
(-) MINORITY PARTICIPATION	118,877	13.1%	355,871	1.06
EQUITY VALUE	355,871	13.8%	304,478	0.91
# OF SHARES	335,084,155	14.5%	259,234	0.77
EQUITY VALUE PER TH. SHARES - R\$	PN 1.06	ON 1.06		
STOCK PRICE	0.68			
UPSIDE	56%			
TCN ADR - US\$	18.63			

WACC SENSIBILITY	2.0%	3.0%	4.0%	5.0%	6.0%
EMBI	2.0%	3.0%	4.0%	5.0%	6.0%
RISK FREE RATE	6.5%	7.5%	8.5%	9.5%	10.5%
MARKET PREMIUM	6.0%	6.0%	6.0%	6.0%	6.0%
BETA	0.80	0.80	0.80	0.80	0.80
COST OF EQUITY	11.3%	12.3%	13.3%	14.3%	15.3%
COST OF DEBT	9%	9%	9%	9%	9%
INCOME TAX ALÍQUOTE	25%	25%	25%	25%	25%
COST OF DEBT EX-IT	6.8%	6.8%	6.8%	6.8%	6.8%
DEBT/EQUITY	50%	50%	50%	50%	50%
WACC IN US\$	9.78%	10.45%	11.12%	11.78%	12.45%
EXCHANGE RATE	2.00%	2.00%	2.00%	2.00%	2.00%
WACC IN R\$	11.78%	12.45%	13.12%	13.78%	14.45%

MULTIPLES EV / EBITDA VALUATION	
TARGET MULTIPLE	5.86
COMPANY'S EBITDA	TNCP4
EBITDA	162,899
EV/TARGET	954,498
NET DEBT	265,982
MINORITIES	305,608
% STAKE ON EQUITY	75%
TARGET VALUE	382,908
# OF SHARES	335,084
TARGET PRICE	1.14

VIVO - TELESP CELULAR

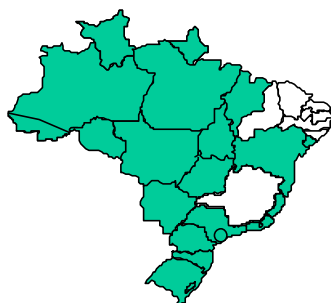
PREVIOUS TARGETS

TSPP3:	9.09 (HOLD)
TSPP4:	10.1 (HOLD)
TCP ADR:	8.90 (HOLD)

NEW TARGETS

TSPP3:	10.0 (HOLD)
TSPP4:	11.0 (HOLD)
TCP ADR:	9.70 (HOLD)

Vivo Coverage



The market already fully values the Telesp Celular shares. There are other, cheaper vehicles for investing in the Iberian joint venture, such as TSEP, TCOC and CRT. We recommend keeping clear of Telesp Celular.

Strong points

- Market leader in the regions where it operates, with the exception of Global Telecom, the only one of its operations that is not an incumbent
- Strong cash generation
- Well-established coverage
- Little short-term need for capex
- Region with high purchasing power
- Only 2 competitors in its region (Claro and TIM).

Weak points

- Shareholder risk (merger of VIVO entities/exchange ratio?)
- Region subject to attack from competitors

Competition still a way off

Telesp Celular benefited from the acquisition of BCP by Claro, since one more competitor was eliminated from the region's mobile phone market. It also benefited from Vesper's decision to return its license to Anatel. The state of São Paulo is now served by three competing companies per region: the capital city (region 1) and upstate São Paulo (region 2). **It is true that Claro's acquisition of BCP should breathe new life into this long-time competitor. Still, better one slightly stronger competitor than two.**

For 2004 we assumed 13.7% growth in the subscriber base in the whole of the state of São Paulo, most of it in upstate São Paulo. We are forecasting 18.4% growth for the region, which should achieve a density of 31 accesses per 100 inhabitants by the end of 2004. Among our assumptions we included a gradual loss of market share by Telesp Celular, but nothing very dramatic, since, with the exception of one or other specific campaign, its competitors have not shown themselves to be particularly aggressive. We are projecting Telesp Celular to reach 8.34 million cellular phones in service in São Paulo during 2004.

The very fact of operating in the state of São Paulo, the largest GDP in the country, already gives it an advantage, which is reflected in the company's ARPU (R\$45.8-Blended), one of the highest in the industry.

Remember that Telesp Celular is the largest and most liquid of the cellular shares on the Bovespa index, with a 4.5% weighting. If we include TCO, on the assumption that the incorporation of the PN preferred shares will resurface, the weighting rises to 7.2%.

Global Telecom, Vivo's region 5 (Paraná and Santa Catarina) operation has been competing fiercely with Tim Sul and has succeeded in gaining market share. We expect the company to have taken a slight lead in terms of net adds during 2003 and are predicting it will add another 155 thousand subscribers during 2004, reaching a total of 1.74 million cellular phones in service during 2004. In terms of net 4Q03 revenues, we

are projecting R\$205 M and EBITDA of R\$33 M. For 2004 we are projecting R\$814 M and R\$189 M, respectively. The company is bound to feel, albeit gradually, the effects of the entry of two new competitors to the region during 2004: Claro, which has already inaugurated its service, and Brasil Telecom, which has received Anatel's authorization to operate a PCS service and should commence operations with a few months. Our valuation of Global Telecom on a stand-alone basis reached a fair Firm Value of R\$1.3 billion.

We have valued Telesp Celular by the DCF method, using a WACC of 14.2% and a 3% perpetuity growth rate. Our new target price is R\$10/000 ON shares and R\$11.1/000 PN shares, implying an 9% upside potential for the PNs, leading us to maintain our HOLD recommendation for both classes of shares.

TSPP

	2002E	2003E	1Q04	2Q04	3Q04	4Q04	2004E	2005E	2006E
NO OF SUBSCRIBER (000)	6,060.00	7,568.71	7,723.03	7,954.52	8,108.84	8,340.33	8,340.33	8,763.20	9,064.40
CONTRACT	1,426.00	1,576.87	1,600.02	1,634.74	1,657.89	1,692.61	1,692.61	1,734.90	1,765.02
PRE-PAID	4,634.00	5,991.84	6,123.01	6,319.78	6,450.95	6,647.71	6,647.71	7,028.30	7,299.38

R\$ M	2002	1Q03	2Q03	3Q03	4Q03E	2003	1Q04	2Q04	3Q04	4Q04	2004E	2005E
GROSS SALES	4,352.2	1,701.4	2,200.9	2,232.7	2,469.6	8,604.6	2,258.3	2,419.8	2,408.7	2,593.6	9,680.4	10,276.8
NET SALES	3,390.6	1,337.3	1,667.0	1,729.7	1,895.8	6,629.8	1,765.3	1,891.7	1,883.1	2,029.1	7,569.3	8,020.6
EBITDA	1,417.7	280.4	602.7	709.0	687.7	2,279.8	697.3	662.4	673.8	705.0	2,971.4	3,359.6
EBITDA MARGIN	41.8%	21.0%	36.2%	41.0%	36.3%	34.4%	39.5%	35.0%	35.8%	34.7%	39.3%	41.9%
FINANCIAL RESULT	(808.4)	(225.1)	(363.1)	(210.9)	(192.1)	(991.3)	(115.4)	(389.3)	(164.2)	(13.2)	(682.1)	(549.8)
PROFIT AFTER TAX	(1,140.8)	(39.3)	(219.5)	(69.1)	(101.3)	(429.2)	106.5	(77.0)	54.5	82.6	166.7	519.4
EPS (TH. SHARES)	(0.97)	(0.03)	(0.19)	(0.06)	(0.09)	(0.37)	0.09	(0.07)	0.05	0.07	0.14	0.44
EPS ADR	(0.85)	(0.03)	(0.16)	(0.05)	(0.08)	(0.32)	0.08	(0.06)	0.04	0.06	0.12	0.39

TELESP CELULAR (PARENT COMPANY)	2004	2005	2006	2007	2008	2009	2010	2011
EBT	993,590	1,251,610	1,326,024	1,415,403	2,042,348	2,231,907	2,442,293	2,649,770
ADJUSTMENT FOR FIN.REV.	(15,232)	(43,489)	(111,930)	4,812	7,862	8,169	8,462	8,670
(=) NOPLAT	890,946	1,051,758	942,678	1,295,213	1,744,365	1,890,358	2,051,778	2,212,551
(+) DEPRECIATION	909,862	879,962	931,973	986,881	522,621	553,895	587,491	623,623
(=) CASH FLOW	1,800,809	1,931,720	1,874,651	2,282,094	2,266,986	2,444,253	2,639,269	2,836,173
(=) FREE CASH FLOW	1,321,311	1,412,239	1,326,741	1,700,532	1,642,676	1,773,391	1,917,742	2,059,535

VALUATION SUM OF PARTS

CORPORATE VALUE	11,998,062
(-) NET DEBT	986,023
(-) MINORITY PARTICIPATIONS	-
VALUATION OF TCP	-
DCF TCP	12,317,379
VALUE OF GT	1,330,755
VALUE OF TCOC	4,967,245
TOTAL VALUE OF ASSETS	18,615,379
NET DEBT	2,769,988
EQUITY FAIR VALUE	12,865,104
NO OF SHARES AFTER MERGER WITH TCOC PN	1,171,784
FAIR STOCK PRICE	10.98
CURRENT STOCK PRICE	10.08
UPSIDE	9%
SHARES PER ADR	2.50
TCP ADR TARGET	9.63

MULTIPLES EV / EBITDA VALUATION

TARGET MULTIPLE	5.86
COMPANY'S EBITDA	TSPP4
EBITDA	2,971,416
EV/TARGET	17,410,891
NET DEBT	2,769,988
MINORITIES	4,036,176
% STAKE ON EQUITY	80%
TARGET VALUE	10,604,727
# OF SHARES	1,171,784
TARGET PRICE	9.05

WACC SENSIBILITY

EMBI	2.0%	3.0%	4.0%	5.0%	6.0%
RISK FREE RATE	6.5%	7.5%	8.5%	9.5%	10.5%
MARKET PREMIUM	6.0%	6.0%	6.0%	6.0%	6.0%
BETA	1.33	1.33	1.33	1.33	1.33
COST OF EQUITY	14.5%	15.5%	16.5%	17.5%	18.5%
COST OF DEBT	9%	9%	9%	9%	9%
INCOME TAX ALÍQUOTE	34%	34%	34%	34%	34%
COST OF DEBT EX-IT	5.9%	5.9%	5.9%	5.9%	5.9%
DEBT/EQUITY	50%	50%	50%	50%	50%
WACC IN US\$	11.63%	12.30%	12.97%	13.63%	14.30%
EXCHANGE RATE	2.00%	2.00%	2.00%	2.00%	2.00%
WACC IN R\$	13.63%	14.30%	14.97%	15.63%	16.30%

TELE CENTRO-OESTE CELULAR - TCOC

PREVIOUS TARGETS

TCOC3:	13.0 (HOLD)
TCOC4:	14.5 (BUY)
TRO ADR:	15.2 (BUY)

NEW TARGETS

TCOC3:	12.2 (HOLD)
TCOC4:	15.2 (BUY)
TRO ADR:	16.1 (BUY)

TELE CENTRO-OESTE Coverage



Operationally, the results are good, the impact of competition is only starting and it is cheap. The market, however, fears the consequences of canceling the incorporation. We recommend investing in the shares, since it is one of the cheapest in the Iberian joint venture. The ratio of TRO to TCP should be 1.43x. It is currently 1.04x.

Strong points

- Market leader in its region (with the exception of NBT)
- Strong cash generation
- Net cash positive
- Well-established coverage
- Little short-term need of capex
- Good growth prospects for the regional economy

Weak points

- Brasil Telecom's entry into the Midwest region
- Shareholder risk (risk that the merger with Telesp Celular is refloated/exchange ratio? Or risk of merger between all Grupo Vivo companies)
- NBT's region (fierce competition between the 4 companies operating in the region)

Leadership probably assured

We are projecting TCO to maintain its operating margins at around 40%, which would imply maintaining its leadership in region 8 without any material loss of margin.

We expect the company to benefit from the economic growth through which region 7, the Midwest, is passing, taking advantage of the boom in agribusiness. Despite stronger growth at its competitor Claro (Americel), which caused a considerable loss of market share (7% over the past 12 months), there appears to have been no material impact on the company's most recent results, which continue to boast an EBITDA margin of 40%. Brasil Telecom's strategy for the region is not yet clear, but we believe that TCO's structure leaves it well positioned to resist the attacks of any new entrant. As to region 8 (the North of the country), where NBT, TCO's subsidiary, operates, we are not predicting any gain in market share, but the increase in cellular density in the region could alone contribute something like 200 thousand new subscribers during 2004. That a lightly populated area, like the Northern region, with low average income, should be disputed by 4 competitors is indeed a source of concern, but the companies will have to learn how to live with this without destroying shareholder value. NBT accounts for no more than 20% of TCO's subscriber base.

Incorporation of TCO's PN shares

Telesp Celular has decided to give up its attempt to incorporate TCO's PN shares. The decision was intended to comply with CVM's conclusion that the transaction was unfair, since it treated different classes of shareholders in a different way and, thus, was unfair to PN shareholders. We do not rule out the possibility that VIVO takes the initiative to consolidate all of its operations into one vehicle sometime in the future, at which time TCO would also be incorporated, though at a different exchange ratio.

We have valued Tele Centro Oeste Celular by the DCF method, using a WACC of 14.9% and a 3% perpetuity growth rate. Our new target price is R\$12.2/000 ON shares and R\$15.2/000 PN shares, implying upside potential of 45% for the PNs, leading us to maintain our HOLD recommendation for the ON shares and BUY recommendation for the PNs.

TCO

	2002E	2003E	1Q04	2Q04	3Q04	4Q04	2004E	2005E	2006E
NO OF SUBSCRIBER (000)	3,067	3,840	3,930	4,040	4,130	4,247	4,247	4,495	4,693
CONTRACT	860	951	962	975	986	1,000	976	1,001	1,025
PRE-PAID	2,206	2,465	2,545	2,641	2,721	2,824	2,647	2,829	3,003

R\$ M	2002	1Q03	2Q03	3Q03	4Q03E	2003	1Q04	2Q04	3Q04	4Q04	2004E	2005E
GROSS SALES	1,982.3	524.9	617.6	637.2	643.2	2,422.9	697.0	723.6	725.1	754.4	2,900.1	3,115.7
NET SALES	1,561.3	410.0	488.7	504.6	505.0	1,908.4	549.0	569.9	571.1	594.2	2,284.2	2,454.0
EBITDA	599.6	162.0	197.3	210.8	194.3	764.5	230.6	207.7	224.6	215.7	878.6	1,015.4
EBITDA MARGIN	38.4%	39.5%	40.4%	41.8%	38.5%	40.1%	42.0%	36.4%	39.3%	36.3%	38.5%	41.4%
FINANCIAL RESULT	(90.7)	27.3	39.3	28.0	29.7	124.2	59.6	86.8	38.6	36.6	221.6	265.9
PROFIT AFTER TAX	329.2	92.2	119.9	114.2	113.6	439.9	181.1	162.0	126.1	128.8	598.1	701.9
EPS (000)	0.87	0.25	0.32	0.31	0.30	1.18	0.49	0.43	0.34	0.34	1.60	1.88
EPS ADR	0.91	0.26	0.34	0.32	0.32	1.24	0.51	0.46	0.36	0.36	1.69	1.98

	2004	2005	2006	2007	2008	2009	2010	2011
EBIT	694,982	809,879	923,503	996,329	1,097,959	1,138,940	1,165,723	1,213,044
(-) UNLEVERAGE TAX ON EBIT	(206,029)	(238,458)	(253,547)	(271,613)	(303,421)	(316,812)	(326,813)	(343,443)
(=) NOPLAT	488,953	571,421	669,956	724,716	794,538	822,128	838,910	869,601
(+) DEPRECIATION	183,569	205,480	188,693	210,631	155,818	171,926	188,782	206,453
(-) NET CHANGE IN WORKING CAPITAL	17,199	(6,459)	(18,771)	972	(21,529)	5,881	10,858	6,574
(-) CAPEX	(202,671)	(233,132)	(244,384)	(257,008)	(268,376)	(280,545)	(294,557)	(308,032)
FREE CASH FLOW	487,050	537,310	595,495	679,310	660,451	719,391	743,993	774,597

VALUATION	DCF	WACC	EQUITY VALUE	PER SHARE
VALUATION	DCF			
CORPORATE VALUE	4,967,245	13.6%	6,329,151	16.95
(-) NET DEBT	(709,692)	14.2%	5,983,561	16.02
(-) MINORITY PARTICIPATIONS	-	14.9%	5,676,937	15.20
EQUITY VALUE	5,676,937	15.6%	5,403,067	14.47
NO OF SHARES	373,408,642	16.2%	5,156,992	13.81
	PN			
	15.20			
UPSIDE	45%			
ADR - US\$	16.0			

						MULTIPLES EV / EBITDA VALUATION	
EEMBI	2.0%	3.0%	4.0%	5.0%	6.0%	TTARGET MULTIPLE	5.86
RISK FREE RATE	6.5%	7.5%	8.5%	9.5%	10.5%	COMPANY'S EBITDA	TCOC4
MARKET PREMIUM	6.0%	6.0%	6.0%	6.0%	6.0%	EBITDA	878,551
BETA	1.31	1.31	1.31	1.31	1.31	EV/TARGET	5,147,836
COST OF EQUITY	14.4%	15.4%	16.4%	17.4%	18.4%	NET DEBT	(709,692)
COST OF DEBT	9%	9%	9%	9%	9%	MINORITIES	-
INCOME TAX ALÍQUOTE	34%	34%	34%	34%	34%	% STAKE ON EQUITY	100%
COST OF DEBT EX-IT	5.9%	5.9%	5.9%	5.9%	5.9%	TARGET VALUE	5,857,528
DEBT/EQUITY	50%	50%	50%	50%	50%	# OF SHARES	373,409
WACC IN US\$	11.55%	12.22%	12.89%	13.55%	14.22%	TARGET PRICE	15.69
EXCHANGE RATE	2.00%	2.00%	2.00%	2.00%	2.00%		
WACC IN R\$	13.55%	14.22%	14.89%	15.55%	16.22%		

CRT CELULAR

PREVIOUS TARGETS:

CRTP3: 560.0 (HOLD)

CRTP5: 621.7 (BUY)

NEW TARGETS:

CRTP3: 776.4 (HOLD)

CRTP5: 862.7 (BUY)

CRT CELULAR Coverage



The fundamentals are strong and the effects of greater competition still incipient. We recommend CRTP5 because it is cheaper and more liquid than TSPP4.

Strong points

- Market leader in its region
- Net cash positive
- Well-established coverage
- Little short-term need of capex

Weak points

- New competition in the region (Brasil Telecom)
- Shareholder risk (merger of all VIVO operations/exchange ratio?)

One of the most attractive vehicles exist for investing in VIVO

We do not expect CRT's results to contain many surprises. The company should report 2003 net revenue in excess of R\$1 billion and EBITDA of close to R\$440 million, which implies a 43% margin for the year. We are estimating a 9% 4Q03 increase in the subscriber base, bringing total subscribers to above 2.5 million. The 4Q03 subscriber growth will affect the EBITDA margin, which we forecast to drop to 39%. Even so, in absolute terms, CRT's 4Q04 EBITDA should come in very near that of the previous quarter. We are projecting EBITDA of R\$116 million for the quarter. At the bottom line, we are projecting net income of R\$58 million, or R\$18/000 shares.

The start-up of Brasil Telecom's operations in 2004 will heat up competition in the region, but CRT is very well prepared to defend its leadership, since it has the best coverage in the region. Nevertheless, the arrival of a new competitor can be expected to cause some erosion of margins. We are projecting CRT's margin to remain at 40% on an annual basis, and that any pressure on the margin will occur during the second half of the year, when Brasil Telecom's operations should be turning more aggressive.

CRT's market (the state of Rio Grande do Sul) is one of the states with the highest cellular density in Brazil, reaching 39.8 by year-end 2003. This means that growth for the coming years will not be as rapid as in other areas with lower density. Even so, we are predicting almost 4% growth in 2004 to a density of 43.8%. As we have seen in the past, the entry of a new competitor often has the effect of increasing the density in the region.

We have valued CRT Celular by the DCF method, using a WACC of 13.6% and a 3% perpetuity growth rate. Our new target price is R\$863 for PN shares, our preferred vehicle for investing in the company. We are maintaining our HOLD recommendation for the ONs and BUY recommendation for the PNs.

CRT CELULAR

	2002E	2003E	1Q04	2Q04	3Q04	4Q04	2004E	2005E	2006E
NO OF SUBSCRIBER (000)	2,078	2,506	2,526	2,556	2,576	2,624	2,624	2,678	2,721
CONTRACT	611	718	721	725	728	736	736	741	745
PRE-PAID	1,467	1,788	1,805	1,830	1,847	1,889	1,889	1,937	1,976

R\$ M	2002	1Q03	2Q03	3Q03	4Q03E	2003	1Q04	2Q04	3Q04	4Q04	2004E	2005E
GROSS SALES	1162.3	316.5	344.9	339.4	407.6	1408.4	351.9	357.9	357.3	371.2	1480.6	1548.2
NET SALES	910.9	236.7	257.2	248.0	300.2	1042.2	260.4	264.8	264.4	274.7	1064.3	1145.6
EBITDA MARGIN	379.9	110.1	103.2	114.6	116.5	444.4	106.7	106.7	107.4	100.8	421.3	486.6
EBITDA MARGIN	41.7%	46.5%	40.1%	46.2%	38.8%	42.6%	41.0%	40.3%	40.6%	36.7%	39.6%	42.5%
FINANCIAL RESULT	-5.8	2.8	-1.3	11.1	26.4	39.0	15.8	27.9	11.6	-4.7	50.7	61.0
PROFIT AFTER TAX	147.6	42.4	37.0	47.2	58.0	184.6	49.2	64.0	43.5	14.5	170.9	210.4
EPS (TH. SHARES)	48.50	13.40	11.70	14.92	18.31	58.32	15.56	20.21	13.73	4.58	53.99	66.49

	2004	2005	2006	2007	2008	2009	2010	2011
EBIT	208,208	257,842	280,610	294,380	440,314	440,344	437,963	434,808
(-) UNLEVERAGE TAX ON EBIT	(35,930)	(60,828)	(69,494)	(91,277)	(140,843)	(140,854)	(140,045)	(138,973)
(=) NOPLAT	172,277	197,014	211,116	203,103	299,471	299,490	297,918	295,836
(+) DEPRECIATION	213,074	228,784	246,404	266,379	143,800	154,848	166,292	178,132
(-) NET CHANGE IN WORKING CAPITAL	(7,700)	(2,025)	(3,551)	(3,922)	(23,334)	(3,516)	(4,000)	(3,642)
(-) CAPEX	(119,372)	(119,735)	(140,048)	(147,133)	(152,594)	(157,836)	(163,282)	(168,928)
FREE CASH FLOW	258,279	304,039	313,921	318,427	267,343	292,987	296,928	301,398

VALUATION	DCF	WACC	EQUITY VALUE	PER SHARE
CORPORATE VALUE	2,350,682	11.6%	3,051,228	1,035.0
(-) NET DEBT	(192,487)	12.6%	2,771,389	940.1
0	-	13.6%	2,543,169	862.7
EQUITY VALUE	2,543,169	14.6%	2,353,334	798.3
# OF SHARES	2,948,000	15.6%	2,192,832	743.8
EQUITY VALUE PER TH. SHARES - R\$	PN 862.7	ON 776.4		
STOCK PRICE	669.0			
UPSIDE	29%			

WACC SENSIBILITY	2.0%	3.0%	4.0%	5.0%	6.0%
EMBI	2.0%	3.0%	4.0%	5.0%	6.0%
RISK FREE RATE	6.5%	7.5%	8.5%	9.5%	10.5%
MARKET PREMIUM	6.0%	6.0%	6.0%	6.0%	6.0%
BETA	1.00	1.00	1.00	1.00	1.00
COST OF EQUITY	12.5%	13.5%	14.5%	15.5%	16.5%
COST OF DEBT	9%	9%	9%	9%	9%
INCOME TAX ALÍQUOTE	34%	34%	34%	34%	34%
COST OF DEBT EX-IT	5.9%	5.9%	5.9%	5.9%	5.9%
DEBT/EQUITY	50%	50%	50%	50%	50%
WACC IN US\$	10.31%	10.98%	11.65%	12.31%	12.98%
EXCHANGE RATE	2.00%	2.00%	2.00%	2.00%	2.00%
WACC IN R\$	12.31%	12.98%	13.65%	14.31%	14.98%

MULTIPLES EV / EBITDA VALUATION	
TARGET MULTIPLE	5.86
COMPANY'S EBITDA	CRTP5
EBITDA	421,282
EV/TARGET	2,468,483
NET DEBT	(192,487)
MINORITIES	-
% STAKE ON EQUITY	100%
TARGET VALUE	2,660,970
# OF SHARES	2,948
TARGET PRICE	902.64

TELE LESTE CELULAR

PREVIOUS TARGETS:

TLCP3:	0.89 (HOLD)
TLCP4:	0.57 (HOLD)
TBE ADR:	9.50 (HOLD)

NEW TARGETS:

TLCP3:	1.01 (HOLD)
TLCP4:	1.12 (HOLD)
TBE ADR:	19.0 (HOLD)

TELE LESTE CELULAR Coverage



Its region has high income concentration. There is a real risk that marketing battles destroy shareholder value. The share still offers some upside potential, but we think that there are other, cheaper ways of investing in the Iberian joint venture. Our recommendation is to give these shares a miss.

Strong points

- Market leader in its region
- Strong potential for increasing cellular density
- Net cash positive ?????

Weak points

- Tough competition from Oi
- Shareholder risk (merger of VIVO's operations/exchange ratio?)
- Low average purchasing power of the region's population
- Geographic concentration of purchasing power

It is not the best investment option

Region 9 ????? (Bahia and Sergipe) has one of Brazil's lowest mobile phone densities, reflecting the low average purchasing power of the population. If the country were to return to a path of sustainable economic growth, this is one of the regions that could offer one of the highest relative growth rates, same as region 8 (certain states in the North and the state of Maranhão) and region 10 (other states in Brazil's Northeast).

Tele Leste Celular, after having to suffer strong growth at competitor Oi, had to face up to a new competitor in 4Q03: Claro. The outlook for maintaining its margins does not look very positive.

We are forecasting the company to report 4Q03 net revenue of R\$112.3 million, with EBITDA of R\$33 million and a 29.4% EBITDA margin. At the bottom line, the company will continue to report losses (R\$4.2 million), although lower than the R\$14 million loss of the previous quarter. EBITDA for the full year should be R\$129.0 million, with an EBITDA margin of 29.6%.

As to an eventual merger of all VIVO's operations under one roof, Tele Leste Celular is one of the companies where the VIVO joint venture has its lowest share: 31%. In other words, VIVO would have no interest in overvaluing Tele Leste's shares in an exchange ratio.

We are maintaining our HOLD recommendation for both Tele Leste's ON and PN shares. Our new target price is R\$1.01/000 ON shares and R\$1.12/000 PN shares, implying a 33% upside for the PNs and 19% for ON shares.

TELE LESTE CELULAR

	2002E	2003E	1Q04	2Q04	3Q04	4Q04	2004E	2005E	2006E
NO OF SUBSCRIBER (000)	973	1,060	1,084	1,120	1,144	1,181	1,181	1,263	1,331
CONTRACT	300	296	297	299	300	302	298	300	302
PRE-PAID	673	765	788	822	845	879	819	854	876

R\$ M	2002	1Q03	2Q03	3Q03	4Q03E	2003	1Q04	2Q04	3Q04	4Q04	2004E	2005E
GROSS SALES	602.5	147.6	157.5	147.8	158.6	611.4	160.4	169.5	168.5	174.6	666.5	725.4
NET SALES	431.4	107.8	111.5	104.9	112.3	436.5	114.5	121.0	120.3	124.6	475.8	517.9
EBITDA	131.7	28.8	35.6	31.7	33.0	129.0	29.3	31.6	36.1	34.3	131.3	159.2
EBITDA MARGIN	30.5%	26.7%	31.9%	30.2%	29.4%	29.6%	25.6%	26.2%	30.0%	27.5%	27.6%	30.7%
FINANCIAL RESULT	(27.1)	(6.7)	(10.8)	(7.0)	(5.7)	(30.2)	(6.2)	(11.5)	(3.2)	5.9	(15.0)	(8.4)
PROFIT AFTER TAX	(5.1)	(16.2)	(4.0)	(14.6)	(4.2)	(39.0)	(4.5)	(6.9)	6.9	13.3	3.3	36.5
EPS (TH. SHARES)	(0.01)	(0.03)	(0.01)	(0.03)	(0.01)	(0.12)	(0.01)	(0.02)	0.02	0.04	0.01	0.11
EPS ADR	(0.19)	(0.59)	(0.15)	(0.54)	(0.15)	(2.05)	(0.23)	(0.36)	0.36	0.70	0.18	1.92

	2004	2005	2006	2007	2008	2009	2010	2011
EBIT	19,303	64,611	103,543	122,791	125,931	130,603	140,597	154,582
(-) UNLEVERAGE TAX ON EBIT	(50)	(19,084)	(35,519)	(45,247)	(48,780)	(52,928)	(59,103)	(66,353)
(=) NOPLAT	19,253	45,527	68,024	77,544	77,151	77,675	81,494	88,229
(+) DEPRECIATION	107,383	94,616	80,001	79,129	83,353	87,810	92,542	97,507
(-) NET CHANGE IN WORKING CAPITAL	(21,542)	(7,708)	(17,065)	(6,107)	(7,325)	(15,069)	(15,760)	(8,046)
(-) CAPEX	(49,962)	(51,792)	(53,409)	(56,175)	(58,350)	(61,565)	(65,359)	(68,588)
FREE CASH FLOW	55,133	80,642	77,552	94,392	94,830	88,851	92,916	109,102

VALUATION			WACC	EQUITY VALUE	PER SHARE
CORPORATE VALUE	719,287		12.1%	700,863	1.46
(-) NET DEBT	182,952		13.1%	610,454	1.27
EQUITY VALUE	536,334		14.1%	536,334	1.12
# OF SHARES	479,445,039		15.1%	474,479	0.99
	PN	ON	16.1%	422,087	0.88
EQUITY VALUE PER TH. SHARES - R\$	1.12	1.01			
STOCK PRICE	0.84				
UPSIDE	33%				
ADR - US\$	19.02				

WACC SENSIBILITY	2.0%	3.0%	4.0%	5.0%	6.0%
EMBI	2.0%	3.0%	4.0%	5.0%	6.0%
RISK FREE RATE	6.5%	7.5%	8.5%	9.5%	10.5%
MARKET PREMIUM	6.0%	6.0%	6.0%	6.0%	6.0%
BETA	1.12	1.12	1.12	1.12	1.12
COST OF EQUITY	13.2%	14.2%	15.2%	16.2%	17.2%
COST OF DEBT	9%	9%	9%	9%	9%
INCOME TAX ALÍQUOTE	34%	34%	34%	34%	34%
COST OF DEBT EX-IT	5.9%	5.9%	5.9%	5.9%	5.9%
DEBT/EQUITY	50%	50%	50%	50%	50%
WACC IN US\$	10.79%	11.46%	12.13%	12.79%	13.46%
EXCHANGE RATE	2.00%	2.00%	2.00%	2.00%	2.00%
WACC IN R\$	12.79%	13.46%	14.13%	14.79%	15.46%

MULTIPLES EV / EBITDA VALUATION	
TARGET MULTIPLE	5.86
COMPANY'S EBITDA	TLCP4
EBITDA	131,315
EV/TARGET	769,435
NET DEBT	182,952
MINORITIES	-
% STAKE ON EQUITY	100%
TARGET VALUE	586,482
# OF SHARES	479,445
TARGET PRICE	1.22

TELE SUDESTE CELULAR

PREVIOUS TARGETS:

TSEP3:	5.19 (BUY)
TSEP4:	6.80 (BUY)
TSD ADR:	2.42 (BUY)

NEW TARGETS:

TSEP3:	8.60 (BUY)
TSEP4:	9.60 (BUY)
TSD ADR:	3.40 (BUY)

TELE SUDESTE CELULAR Coverage



Despite the strong competition in its region, we see TSEP as the "winning horse" in the exchange ratio in the event of a restructuring of VIVO. Notwithstanding its poor liquidity, we recommend investing in TSEP4. A fair exchange ratio between TSEP4 and TSP4 would be 0.86x rather than the current 0.65x.

Strong points

- Market leader in its region
- Strong cash generation
- Net cash positive
- Well-established coverage
- Little short-term need for capex
- Region enjoys high average purchasing power

Weak points

- Tough competition from OI; 3 competitors in the region (OI, TIM and Claro)
- Low potential for density growth (region already has the highest density in the country: 41.8% in the two states it covers)
- Shareholder risk (merger of VIVO companies/exchange ratio?)

The winning horse in the exchange ratio

Tele Sudeste Celular is the second largest company of the VIVO group. It will probably have reached 3.56 million subscribers at year-end 2003, after 2.3% growth for the quarter. We are forecasting 4Q03 net revenue of R\$515 million, an EBITDA margin of 34.2% and total EBITDA of R\$176.2 million. We are estimating net income of R\$74 million, or R\$0.17/000 shares. EBITDA for the full year should be R\$ 673 M, with an EBITDA margin of 35.2% on net revenues of R\$1.9 Billion.

Tele Sudeste continues to face intense competition from OI and, to a certain extent, saturation of its market, since Rio de Janeiro has the highest cellular density in the country (41.2%) and has registered one of the lowest rates of relative growth. This outlook makes us conservative when estimating Tele Sudeste's performance for 2004. We are forecasting a modest 2.8% growth in its subscriber base in 2004. In terms of results, we expect EBITDA to grow by 2.5%. Although this paints a rather gloomy picture, we should not underestimate the success of VIVO's operation in this region. It has managed to conserve its subscriber base and even increase it slightly, especially in the more profitable post-paid segment. The company has a major advantage in its financial situation, with R\$30 million of net cash on hand and little short-term need of capital expenditures. In other words, although the outlook for growth is not very promising, if the company continues to successfully trade off its margins and profitability (margin in excess of 35%) against market share, it can be considered a good case de fundamento.

Tele Sudeste is one of the companies in which the Iberian joint venture has its highest stake (86.2% of the operating company's total capital), which potentially makes it a winner in the event of a merger of all the VIVO group companies.

In our DCF valuation, using a WACC of 13.6%, we reached a target price of R\$8.6/000 ON shares and R\$9.6/000 PN shares, implying a 62% upside for the ONs and a 38% upside for the PNs, our preferred vehicle for investing in the company. We are maintaining our BUY recommendation for both the ON and the PN shares.

TELE SUDESTE CELULAR

	2002E	2003E	1Q04	2Q04	3Q04	4Q04	2004E	2005E	2006E
NO OF SUBSCRIBER (000)	3,455	3,563	3,583	3,612	3,632	3,662	3,662	3,752	3,845
CONTRACT	1,087	1,124	1,126	1,129	1,131	1,134	1,134	1,138	1,143
PRE-PAID	2,368	2,439	2,457	2,484	2,501	2,528	2,528	2,614	2,702

R\$ M	2002	1Q03	2Q03	3Q03	4Q03E	2003	1Q04	2Q04	3Q04	4Q04	2004E	2005E
GROSS SALES	2382.6	633.9	656.3	667.9	712.2	2670.4	671.1	707.4	694.7	708.7	2781.9	2901.6
NET SALES	1847.6	463.5	476.1	454.5	515.2	1909.3	479.8	505.8	496.7	506.7	1989.1	2074.6
EBITDA	601.8	167.0	157.0	172.3	176.2	672.5	160.1	167.5	184.4	177.2	689.2	732.8
EBITDA MARGIN	32.6%	36.0%	33.0%	37.9%	34.2%	35.2%	33.4%	33.1%	37.1%	35.0%	34.7%	35.3%
FINANCIAL RESULT	-26.2	-11.4	-14.8	9.4	15.8	-1.0	10.0	21.2	7.5	-0.2	38.5	67.6
PROFIT AFTER TAX	140.4	29.7	9.8	44.5	74.0	158.0	51.4	54.3	57.8	55.9	218.3	286.1
EPS (TH. SHARES)	0.34	0.07	0.02	0.10	0.17	0.38	124.16	0.13	0.14	0.13	0.53	0.69
EPS ADR	0.59	0.12	0.04	0.18	0.30	0.67	217.83	0.23	0.24	0.24	0.92	1.21

	2004	2005	2006	2007	2008	2009	2010	2011
EBIT	302,837	379,486	463,235	568,190	742,465	923,526	1,064,114	1,216,716
(-) UNLEVERAGE TAX ON EBIT	(99,328)	(131,515)	(159,703)	(194,815)	(254,532)	(316,271)	(363,008)	(413,697)
(=) NOPLAT	203,510	247,971	303,532	373,376	487,933	607,255	701,106	803,019
(+) DEPRECIATION	386,386	353,337	342,353	351,455	304,043	263,077	284,588	307,934
(-) NET CHANGE IN WORKING CAPITAL	(12,498)	(13,903)	(15,152)	(16,764)	(29,637)	(30,360)	(21,320)	(19,371)
(-) CAPEX	(243,888)	(254,476)	(297,384)	(321,555)	(348,063)	(376,996)	(409,730)	(443,399)
FREE CASH FLOW	333,510	332,928	333,350	386,512	414,275	462,975	554,644	648,184

VALUATION	DCF	WACC	EQUITY VALUE	PER SHARE
VALUATION	DCF	11.6%	5,223,105	12.07
CORPORATE VALUE	4,090,848	12.6%	4,630,301	10.70
(-) NET DEBT	(60,991)	13.6%	4,151,839	9.60
EQUITY VALUE	4,151,839	14.6%	3,758,087	8.69
NUMBER OF SHARES	432,598	15.6%	3,428,797	7.93
	PN			ON
EQUITY VALUE PER TH. SHARES - R\$	9.6			8.6
STOCK PRICE	6.9			
UPSIDE	38%			
ADR - US\$	3.40			

WACC SENSIBILITY					
EMBI	2.0%	3.0%	4.0%	5.0%	6.0%
RISK FREE RATE	6.5%	7.5%	8.5%	9.5%	10.5%
MARKET PREMIUM	6.0%	6.0%	6.0%	6.0%	6.0%
BETA	1.00	1.00	1.00	1.00	1.00
COST OF EQUITY	12.5%	13.5%	14.5%	15.5%	16.5%
COST OF DEBT	9%	9%	9%	9%	9%
INCOME TAX ALIQUOTE	34%	34%	34%	34%	34%
COST OF DEBT EX-IT	5.9%	5.9%	5.9%	5.9%	5.9%
DEBT/EQUITY	50%	50%	50%	50%	50%
WACC IN US\$	10.31%	10.98%	11.65%	12.31%	12.98%
EXCHANGE RATE	2.00%	2.00%	2.00%	2.00%	2.00%
WACC IN R\$	12.31%	12.98%	13.65%	14.31%	14.98%

MULTIPLES EV / EBITDA VALUATION	
TARGET MULTIPLE	5.86
	TSEP4
COMPANY'S EBITDA	
EBITDA	689,223
EV/TARGET	4,038,473
NET DEBT	(60,991)
MINORITIES	-
% STAKE ON EQUITY	100%
TARGET VALUE	4,099,464
# OF SHARES	432,598
TARGET PRICE	9.48

ANNEXES

WIRELESS' COMPANIES MULTIPLES

	EBITDA03E	EBITDA04E	EBITDA05E	EV/EBITDA03	EV/EBITDA04	EV/EBITDA05
ORANGE SA	6,510	7,064	7,557	8.14	7.51	7.02
TELEFONICA MOVILES SA	4,444	4,867	5,093	10.15	9.27	8.86
VODAFONE GROUP PLC	13,095	13,912	14,626	8.43	7.94	7.55
AMERICA MOVIL SA DE CV-SER A	30,543	38,012	44,011	8.71	7.00	6.05
TIM SPA	5,369	5,756	6,096	7.32	6.83	6.45
A T & T WIRELESS SERVICES	4,616	4,773	5,273	9.40	9.09	8.23
SPRINT MOBILE	3,388	3,779	4,185	6.63	5.94	5.37
AVERAGE				8.40	7.65	7.07
IMPLICIT RETURN				11.9%	13.1%	14.1%
COUNTRY RISK PREMIUM				4%	4%	4%
IMPLICIT RETURN FOR BRAZILIAN COMPANIES				15.91%	17.07%	18.14%
TARGET MULTIPLE				6.29	5.86	5.51

WIRESLINE'S COMPANIES MULTIPLES

TICKER	NAME	CURR ENT P VAL	EBITDA 03	EBITDA 04	EBITDA 05	EV/EBITDA03	EV/EBITDA04	EV/EBITDA05
DTE	DEUTSCHE TELEKOM AG-REG	123,223	18,278	19,530	20,600	6.74	6.31	5.98
TEF	TELEFONICA S.A.	90,857	12,433	13,146	13,769	7.31	6.91	6.60
BT/A	BT GROUP PLC	24,381	5,910	5,971	6,050	4.13	4.08	4.03
FTE	FRANCE TELECOM SA	118,729	17,211	18,396	19,478	6.90	6.45	6.10
PTC	PORTUGAL TELECOM SGPS	16,367	2,274	2,380	2,452	7.20	6.88	6.68
TIT	TELECOM ITALIA SPA	74,754	14,039	14,368	15,046	5.32	5.20	4.97
SBC	SBC COMMUNICATIONS INC	101,679	17,266	16,340	16,292	5.89	6.22	6.24
BLS	BELLSOUTH CORP	65,794	12,061	11,983	12,078	5.46	5.49	5.45
VZ	VERIZON COMMUNICATIONS INC	172,620	27,345	26,959	27,207	6.31	6.40	6.34
AVERAGE			13,556	13,679	14,007	6.14	5.99	5.82
IMPLICIT RETURN						16.3%	16.7%	17.2%
COUNTRY RISK PREMIUM						4.0%	4.0%	4.0%
IMPLICIT RETURN FOR BRAZILIAN COMPANIES						20.3%	20.7%	21.2%
TARGET MULTIPLE						4.93	4.84	4.7

SOURCE : BLOOMBERG (VALUES IN COMPANIES'S LOCAL CURRENCY); UNIBANCO'S ESTIMATED EBITDA FOR AMX AND TELEFONICA MÓVILES

BRAZILIAN COMPANIES MULTIPLES

COMPANY	TICKER	ADR	MKT CAP.		EBITDA					FV/EBITDA					
			(R\$ M)	2000	2001E	2002E	2003E	2004E	2005E	2000	2001E	2002E	2003E	2004E	2005E
TELE CENTRO OESTE PN	TCOC4	TRO	3.921	318	461	600	764	879	1.015	13,1	10,7	6,5	4,5	3,9	3,4
TELEMIG CELULAR PN	TMCP4	TMB	2.289	243	370	394	486	541	630	12,2	8,0	7,6	5,4	4,9	4,2
TELEMIG CELULAR ON	TMCP3		3.329	243	370	394	486	541	630	17,3	11,4	10,8	8,0	7,2	6,2
TELE NORTE CELULAR PN	TNCP4	TCN	228	103	148	135	138	163	161	4,3	3,6	3,9	3,6	3,1	3,1
TELE NORTE CELULAR ON	TNCP3		369	103	148	135	138	163	161	6,1	4,9	5,3	5,0	4,2	4,3
TELE NORDESTE CELULAR PN	TNEP4	TND	1.535	293	313	425	384	413	447	7,7	7,0	4,6	5,0	4,7	4,3
TELE NORDESTE CELULAR ON	TNEP3		1.141	293	313	425	384	413	447	6,0	5,3	3,3	3,7	3,4	3,2
TELE CELULAR SUL PN	TCSL4	TSU	1.488	204	303	321	386	405	422	10,1	6,8	5,5	4,3	4,1	3,9
TELE CELULAR SUL ON	TCSL3		1.104	204	303	321	386	405	422	7,8	5,2	4,0	3,0	2,9	2,8
TELESP CELULAR PN*	TSPP4	TCP	11.812	888	847	1.481	2.028	2.350	2.642	14,4	20,0	10,1	7,6	6,5	5,8
TELESP CELULAR ON*	TSPP3		7.910	888	847	1.481	2.028	2.350	2.642	10,0	15,4	7,5	5,7	4,9	4,3
TELE LESTE CELULAR PN	TLCP4	TBE	403	96	124	132	129	131	159	6,6	5,9	4,7	4,5	4,5	3,7
TELE LESTE CELULAR ON	TLCP3		408	96	124	132	129	131	159	6,7	6,0	4,7	4,6	4,5	3,7
TELE SUDESTE CELULAR PN	TSEP4	TSD	2.877	584	588	602	673	689	733	5,7	5,6	5,1	4,2	4,1	3,8
TELE SUDESTE CELULAR ON	TSEP3		2.194	96	588	602	673	689	733	27,8	4,4	4,0	3,2	3,1	2,9
CRT PN	CRTP5	CRT	2.117	267	342	380	444	421	487	9,2	7,5	5,8	4,3	4,6	4,0
AVERAGE	AVERAGE		26.267	2.899	3.371	4.337	5.303	5.861	6.536	10,3	8,0	5,8	4,8	4,4	4,0
WIRELINE															
TELEMAR PN*	TNLP4	TNE	19.925	3.418	2.776	5.081	6.234	6.958	7.744	7,4	11,7	6,6	4,9	4,4	3,9
TELEMAR ON*	TNLP3		15.546	3.418	2.776	5.081	6.234	6.958	7.744	5,8	9,7	5,6	4,0	3,6	3,2
TELE NORTE LESTE PNA*	TMAR5		17.647	3.418	3.235	5.488	6.126	7.173	7.960	5,4	7,4	4,1	4,3	3,7	3,3
BRASIL TELECOM PART PN*	BRTP4	BRP	9.363	2.218	2.637	3.237	3.446	4.307	4.307	7,1	6,5	5,2	4,8	3,8	3,8
BRASIL TELECOM PN*	BRTO4	BTM	9.704	2.218	2.637	3.237	3.446	4.307	4.088	5,1	4,7	3,8	3,5	2,8	2,9
TELESP PN*	TLPP4		26.351	3.939	4.659	4.982	5.582	6.127	6.089	7,1	6,5	6,1	5,4	4,9	5,0
TELESP ON*	TLPP3		20.765	3.939	4.659	4.982	5.582	6.127	6.089	5,7	5,3	5,0	4,4	4,0	4,1
EMBRATEL PN*	EBTP4	EMT	3.347	1.704	1.015	1.358	1.802	1.789	1.805	3,1	4,9	5,4	3,7	3,7	3,7
EMBRATEL ON*	EBTP3		4.942	1.704	1.015	1.358	1.802	1.789	1.805	4,0	6,5	6,6	4,6	4,6	4,6
AVERAGE	AVERAGE		88.200	11.279	11.546	15.065	16.956	19.397	19.941	5,6	7,0	5,4	4,4	4,0	3,8

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