Bloomberg.com

# Ferrovial, Sacyr Shares Drop on Borrowing Concerns (Update3)

By Brian McGee

Enlarge/Details

Sept. 17 (Bloomberg) -- Grupo Ferrovial SA, Spain's second-largest builder, and Sacyr Vallehermoso SA fell in Madrid trading on concern construction companies may find it difficult to borrow and finance expansion.

Ferrovial, which paid $20 billion for U.K. airport operator BAA Plc, fell 3.1 percent in Madrid trading today. Sacyr, bidding to buy French rival Eiffage SA, dropped 6.4 percent, the sharpest decline since Jan. 27, 2003.

Spanish builders have taken on debt to target acquisitions in the more profitable energy, services and transport industries as the nation's housing market cools. The collapse of subprime mortgages in the U.S. has driven borrowing costs higher and Ferrovial may have to delay its 7.8 billion-pound ($16 billion) bond sale to 2008, Merrill Lynch said in a report.

``Even though many of these firms are well-diversified internationally, they're still heavily indebted,'' said Oscar Iglesias, institutional sales trader at InterMoney Valores in Madrid. ``It's becoming more and more difficult to obtain further finance going forward.''

Luis Prieto, a Merrill analyst in London, cut Ferrovial's stock-price target to 90 euros from 96 euros. The Madrid-based company may have to wait until the second quarter of next year to carry out its planned bond sale, which had been scheduled for the end of 2007, the analyst said today.

``The high debt levels of some of these companies endangers their growth prospects,'' said Guillermo Aranda, who helps manage the equivalent of $1.7 billion at Atlas Capital in Madrid. Aranda says he doesn't hold any Spanish building shares.

Spanish Housing Market

Other European builder stocks also dropped, including Impregilo SpA, down 6.2 percent to 4.49 euros. Actividades de Construccion & Servicios SA, Spain's biggest builder, lost 3.4 percent to 32.92 euros.

Any squeeze on debt financing comes as Spain's property market cools. Shares of Astroc Mediterraneo SA, the Spanish real estate company that's merging with a rival, fell 4.3 percent today, taking their decline this year to 74 percent. It's the worst performing stock on the 127-member Madrid Stock Exchange General Index in the period.

Spanish house prices have surged since the 1990s, fueled by a drop in interest rates, increasing incomes and a boom in vacation home purchases by Germans, Britons and other Northern Europeans. About 700,000 new housing units will go on sale across Spain this year, 300,000 more than projected demand, according to Fernando Rodriguez de Acuna, president of R. R. de Acuna & Asociados, a real-estate research firm in Madrid.

Financing Pain

``The fundamental problem is people have borrowed too much, especially in Spain and Ireland,'' said Tobias Woerner, a construction analyst at MF Global Ltd. in London. ``This pain will continue as financing becomes more difficult.''

CRH Plc dropped 3.8 percent to 26.60 euros after the Irish building-materials supplier said it's in talks to buy a maximum $4.5 billion in assets from Cemex SAB of Mexico. Any purchase would involve debt financing, the Dublin-based company said.

Moody's Investors Service said today it may downgrade the Baa1 rating on $3.75 billion of CRH debt because the company may now be taking on too much credit.

U.K. homebuilder stocks also slumped.

Barratt Developments Plc, Britain's second-biggest house builder by volume, led declines, falling 7.3 percent to 769 pence. Persimmon Plc tumbled 6.9 percent, while Taylor Wimpey Plc declined 5 percent. House prices in London dropped the most in three years in September, according to a Sept. 14 report from property Web site Rightmove Plc.

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*Last Updated: September 17, 2007 12:02 EDT*