



Erste Bank Analysts do not expect soaring prices for 2008, but rather only moderate gains

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In 2007, Wiener Börse underperformed versus international stock markets for the first time in six years (year-to-date performance: +1.0%). The “Eastern Europe motor” has become a bit slower as regards sentiment, but it is not faltering,” said Fritz Mostböck, Head of Research of the Erste Bank Group. “The fundamental situation in CEE has not changed essentially and the capital markets of the region have come under pressure unjustly as a consequence of the subprime crisis. The valuation level of the ATX may still be assessed as historically attractive. A source of stimulation is still the robust liquidity. The higher returns on Austrian stocks versus the 10-year end of the bond market (+370 basis points) are also supportive of Wiener Börse. We do not expect to see soaring stocks in 2008, but rather only moderate price gains. Overall, a bit more can be earned here than in the 10-year fixed-income segment at present (4.25%),” said Fritz Mostböck.

International stock markets are expected to be able to deliver only moderate growth guidance at high volatility for the further course of the year 2008. As the economy weakens in the US, earnings growth is also expected to slow down for 2007 and 2008. Growth rates are still being reported, but only in the lower double-digit range. Attractive valuations and relatively stable sales revenues and earnings forecasts are being reported primarily for European stock markets. The interest rate moves expected of the Federal Reserve and the ECB for 2008 will tend to be benign rather than an irritation. On the whole, expectations point to a rather moderate performance of international stock markets in 2008. The still high returns on stocks are supportive (earnings yields) as compared to 10-year bond market yields. At present it is mainly in Europe that stocks have a wide, positive spread of 370 basis points.

Wiener Börse has an attractive valuation level and solid expected earnings growth for 2008. PER 2008e is historically attractive at 12.0 and comparable with other European stock markets on the average. Even though the ZEW/Erste Bank Indicator for CEE is signaling dimmer sentiment as regards capital markets, the overall results for the CEE region may still be described as good in comparison. When earnings for 2008 are reported, it will definitely be possible to assess the significance of the role played by CEE as a contributor to earnings in the overall picture. On the whole, we expect solid double-digit earnings growth of 18% for 2008.

Erste Bank analysts recommend stock-picking.

“The strategy we recommend in an environment of globally slightly declining fundamentals is to focus on stock-picking,” said Günther Artner, Head of CEE Equity Research

Specifically, this means that investments should be made selectively focusing on the following:

- High-growth financial stocks not directly affected by the financial crisis (Wr. Städtische, Raiffeisen Int.)
- Attractive defensive stocks (EVN, Österr. Post)
- Growth stocks not sensitive to business cycles (Intercell)
- Bombed-out cyclical that still report solid earnings growth despite a potential economic dip (Andritz, voestalpine)
- Liquid blue chips rather than illiquid small caps

As regards the timing, price trends should be more robust at the start of the year and in the phase at the end of fall/start of winter. Brighter sentiment and a return to more attractive valuations are expected to have a benign short-term effect on stock prices at the beginning of the January/February. The potential for negative surprises among the full-year figures for 2007 might create a weaker environment from May 2008 until summer if volatility is high. “After this correction, we expect a firmer environment for the Viennese market only at the end of fall/ start of winter. Attractive valuations should prevail and liquidity should return to a high level again,” said Fritz Mostböck.

	PER	PER	PER	Earnings growth		
	06e	07e	08e	06e	07e	08e
ATX	14.Apr	14.Jän	12.0	31.1%	2.0%	18.2%
(adj.ATX)	16.0			18.1 %	13.2 %	

Germany	16.Mär	13.9	12.Apr	23.3 %	16.7 %	12.3 %
Netherlands	11.0	10.3	10.Apr	7.9 %	6.9 %	-0.9 %
France	14.Sep	13.9	12.Mai	4.1 %	7.4 %	10.6 %
U.K.	13.Jul	13.0	12.0	11.6 %	5.3 %	8.9 %
Switzerland	15.Apr	14.7	13.0	28.6 %	5.3 %	12.9 %
Euro Stoxx 50	13.Sep	12.7	11.Aug	13.0 %	11.2 %	10.0 %
US	17.Mär	16.5	14.Apr	15.8 %	4.8 %	15.1 %

Top picks: Andritz, EVN, Intercell, Österreichische Post, Raiffeisen International, voestalpine, Wiener Städtische.