



Erste Bank analysts: ATX valuation in very attractive range Aftereffects of financial crisis expected to be felt even in 3Q 08

14.07.2008

ATX outperforms by slight margin in 2008

Very attractive valuation level

Liquidity remains generally compact

ATX companies do not suffer any direct losses due to financial crisis

ATX target for year-end 2008: 4,250

Eastern Europe as driver of growth: Earnings releases in CEE in the limelight

The Vienna Stock Exchange's top picks: Andritz, EVN, Intercell, Post, OMV, Raiffeisen Int., RHI, Vienna Insurance Group

Despite recent events, the ATX was an outperformer by a slight margin in 1HY 2008 and retained its attractive valuation level. Sentiment as regards the growth driver of Eastern Europe is better than the rest of the world. On Euroland stock markets, a short-lived downtrend is probable, but overall, Erste Bank backs a neutral weighting in the third quarter 2008. Potential for catching up is believed to exist especially in 4Q 2008. On the Vienna Stock Exchange, the positive earnings trend is still on track and ROE stagnated at a high level. Earnings growth remained positive, especially among banks, insurance companies and oil-related stocks.

The international stock markets: downtrend still fully intact

The high oil price will weigh on stock market prices in the second quarter as well. Even though the oil price is having less of an effect in EUR than in US dollar, it still carries the risk of constant and rapidly growing political risks in the oil-producing countries. Erste Bank analysts expect a trading range of USD 130 to 160 per barrel for the second half of the year, and short-term, even USD 180 per barrel is possible.

European stock markets have extremely good valuations, but earnings and sales revenues forecasts are much lower. The high commodity prices and the robust EUR are weighing on exports. On the whole, Erste Bank analysts expect a slight recovery of international stock markets in the second half of 2008, with the largest part of the performance expected to be achieved in 4Q.

"What speaks in favour of European equities in this period are the higher returns on stocks (earnings yields) versus 10-year bond market yields. The higher spreads of 332 basis points add even more to their appeal," said Fritz Mostböck, Head of Research of Erste Bank group.

The Vienna Stock Exchange features particularly attractive valuations

The current PER of 9.8 is far below the historic average, though one should note that all PERs (ATX, DAX) have been converging recently. Possible further earnings revisions are clearly being anticipated on the capital market. The assessments of the ZEW and Erste Bank indicator for the economic situation in CEE and especially with respect to CEE stock markets have brightened substantially, and in terms of structure, the situation is "really good". "Eastern Europe will remain a driving force in 2nd half-year 2008 as well, with interest in CEE focusing on earnings releases. As regards sentiment, the environment in CEE is better than the EU average," added Mostböck.

Erste Bank analysts recommend concentrating on stock picking

"As an investment strategy, we would recommend concentrating on stock picking in this very difficult economic environment," said Günther Artner, Co-Head of CEE Equity Research of Erste Bank. Due to the possible "aftereffects" of the financial crisis, investments should concentrate on the following:

Solid growth financial stocks that are not directly affected by the financial crisis but whose prices have still declined sharply (Vienna Insurance Group, Raiffeisen Int.)

Attractive "energy stocks" to secure the portfolio against inflation and the oil price (EVN, OMV)

Growth stocks that develop independently of the economy (Intercell)

Selected cyclical/industrial stocks that are reporting positive earnings growth despite the dip in the economy (Andritz, Österreichische Post, RHI)



Liquid blue chips with a strong capital base and less focus on liquid small/mid-caps or on highly indebted companies

In the autumn, more attractive valuations should prevail

Erste Bank analysts still perceive July and August as problematic as regards the timing of price trends, because the figures from the second quarter might still be a burden in this case. The “year-end rally” of the ATX usually starts at the end of the fall/beginning of winter (basically in October, November). Attractive valuations supported by fundamentals are expected prevail and have a positive effect for the new start at the beginning of the year.

A faint, light blue outline map of Central and Eastern Europe is visible in the background of the slide. The map shows the borders of countries in the region, including Germany, Poland, Czech Republic, Slovakia, Austria, Hungary, and parts of the Balkans and Scandinavia.

Outlook 2nd half of 2008

International stock markets with focus on Wiener Börse

Fritz Mostböck, CEFA
Head of Group Research

Günther Artner, CFA
Co-Head of CEE Equity Research

Press conference
14 July 2008, Vienna

Outlook 2008 - Summary

- **ATX in 2008 - despite recent events - still narrowly outperforming,**
- **valuation level very attractive,**
- **overall liquidity high,**
- **ATX companies suffer no direct losses due to financial crisis,**
- **sentiment of “eastern motor” clearly better than rest of the world,**
- **ATX target values:**
Q3 08: 3.900, Q4 08/year end: 4.250, 12M: 4.500 points.
- **Top picks:**
Andritz, EVN, Intercell, Österr. Post, OMV, Raiffeisen International, RHI, Vienna Insurance Group.

International stock markets

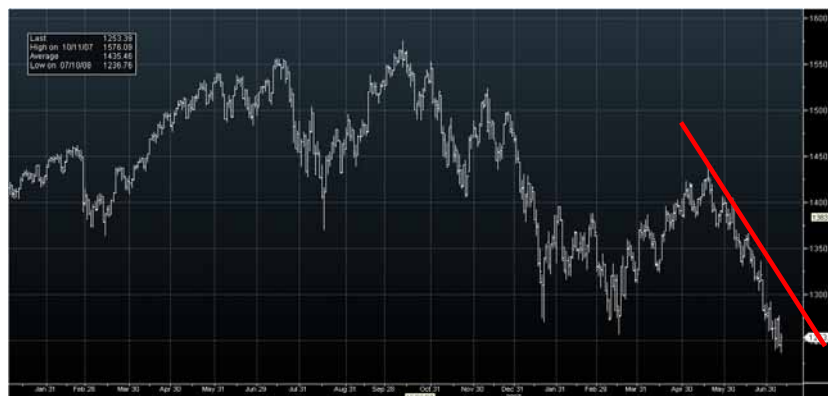


Fritz Mostböck, CEFA
Head of Group Research

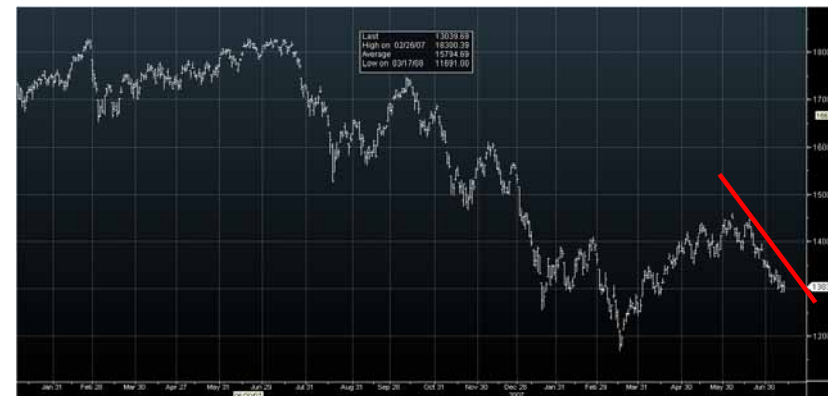
Where are we headed by end of 2008?

Current situation on stock markets

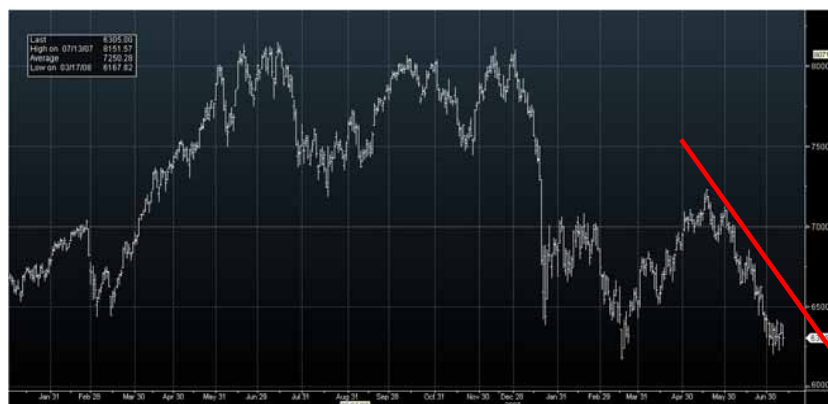
S&P 500



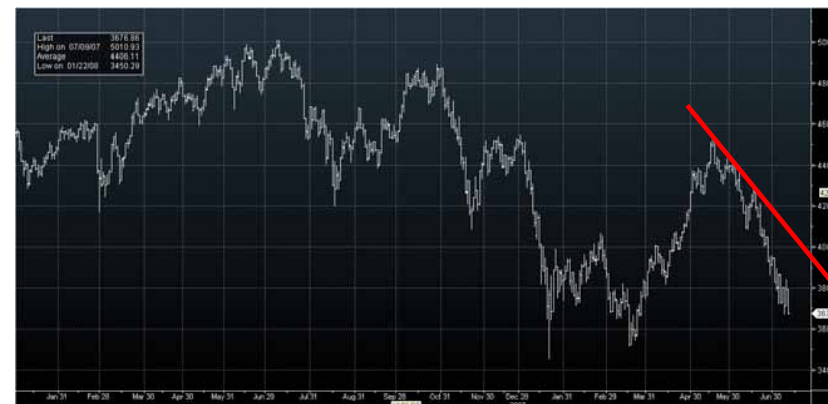
Nikkei 225



DAX



ATX



- Situations quite similar, downward trend fully intact !

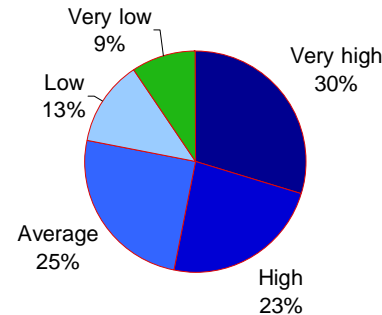
Source: Bloomberg

ZEW- Special Question: Commodities

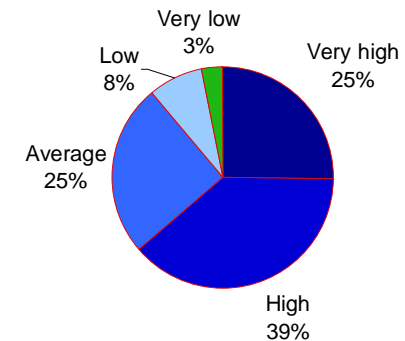
- ZEW participants were asked for their opinion regarding the further development of commodity prices
- Highly divergent opinions on oil price (30% very high / 9% very low)
- Narrow markets as speculations viewed as key influencing factors for current price development

Assessment of the performance potential of Crude Oil in the long-term (5 years)

Price development

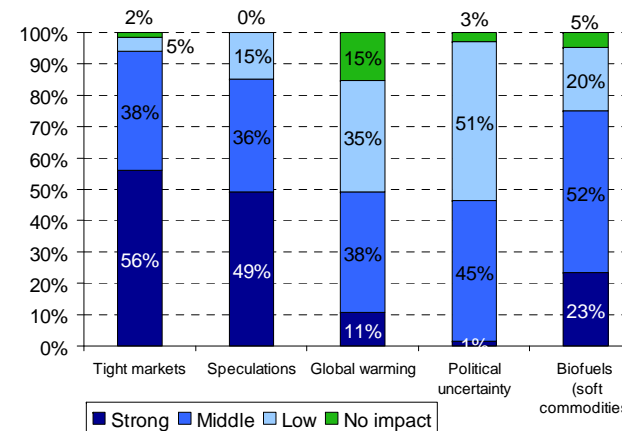


Assessment of the performance potential of Wheat in the long-term (5 years)



Factors that affect the sharp rise in soft commodity prices in the long-run

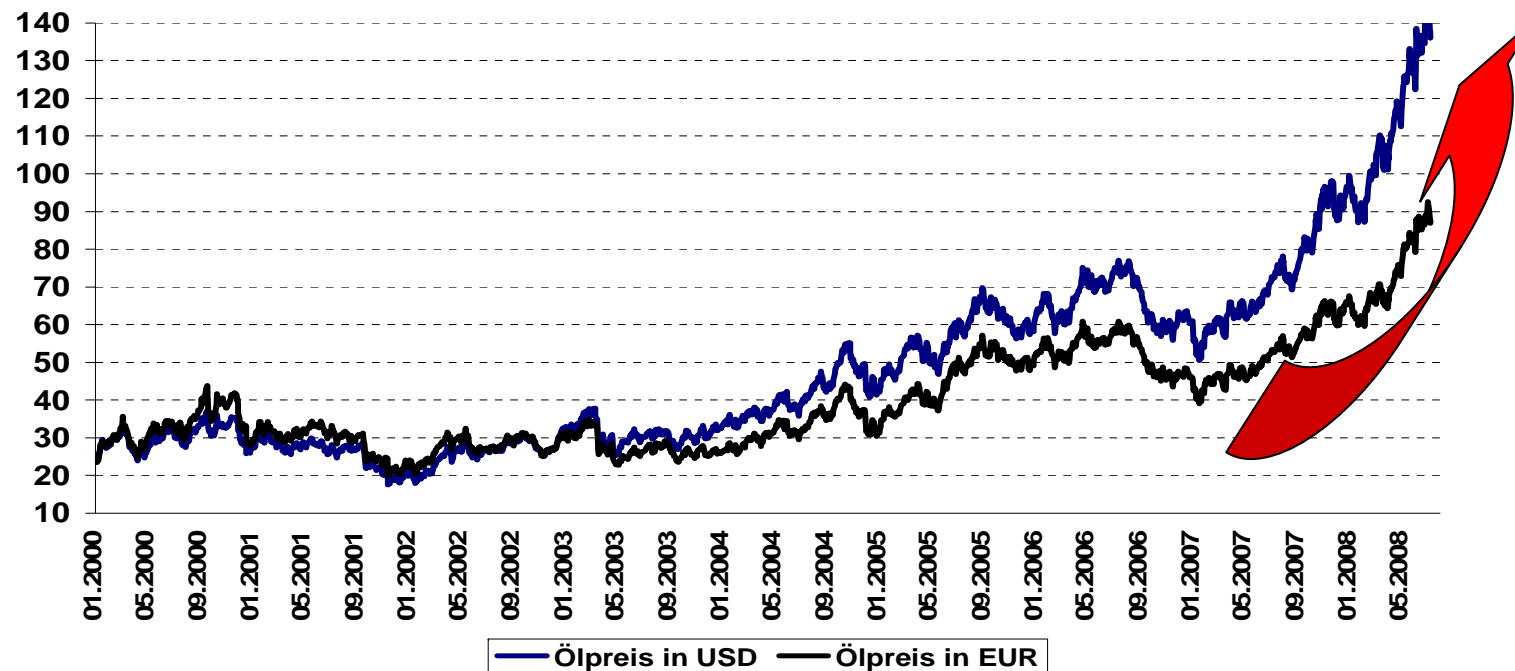
Influencing factors



Source: ZEW

Sword of Damocles oil price long term

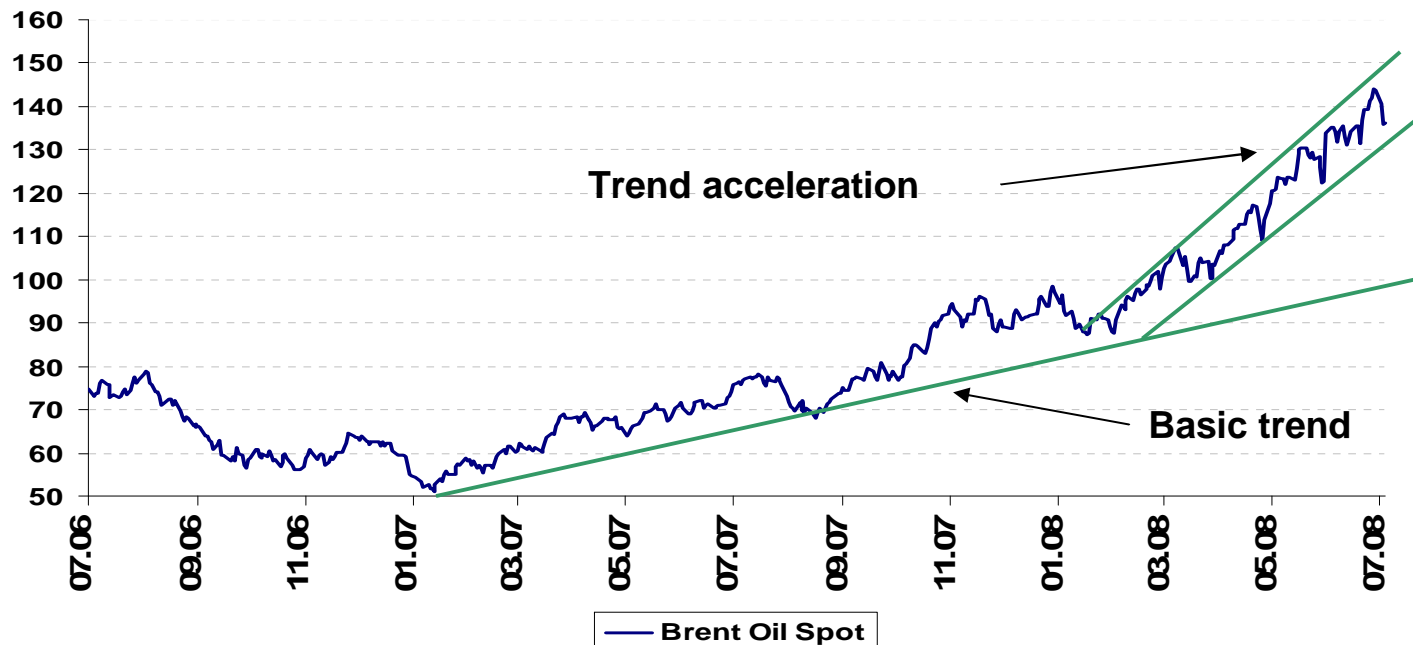
Ölfuture in USD vs. EUR



- Long-term uptrend intact
- Seasonality speaks for lighter notations in the short/medium term
- Oil price in euro less of a burden
- Risks: potential political turmoil (Iran, Venezuela, etc.)
- For the second half 2008: bandwidth USD 130 to 160 expected

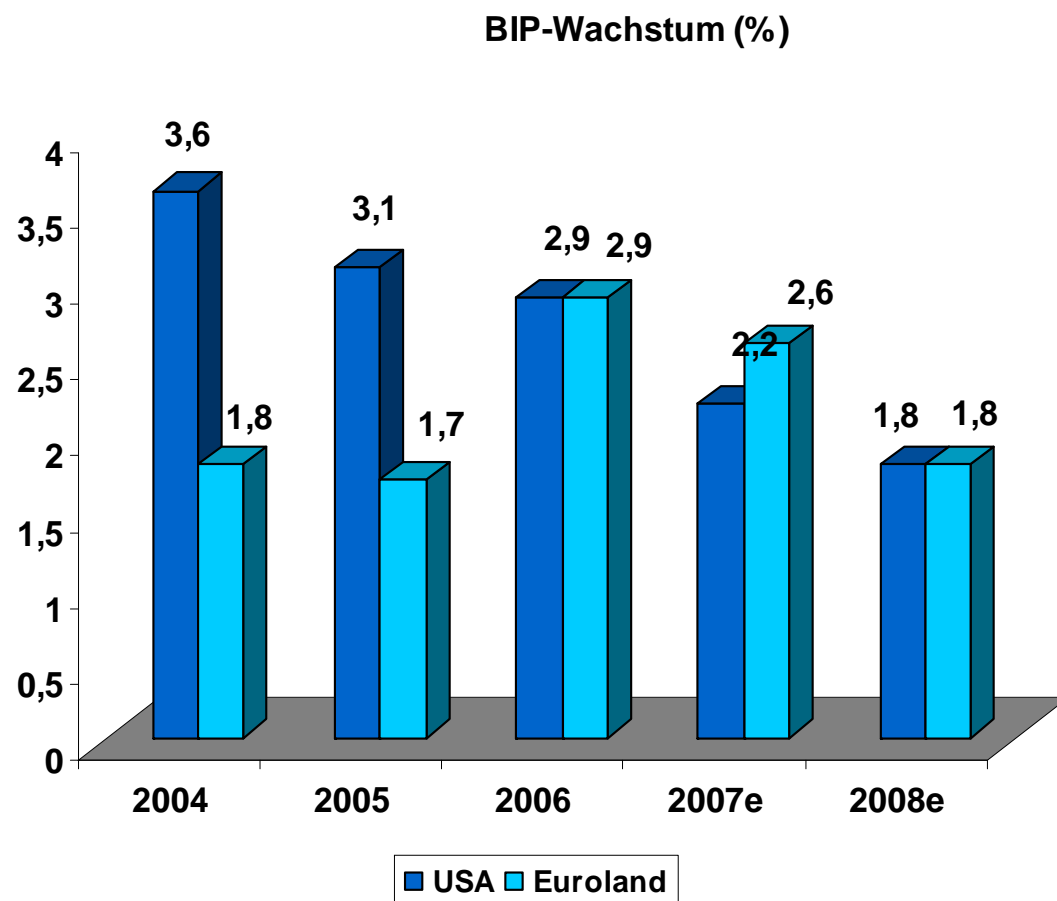
Oil price, short term

Brent Oil Spot



- Long-term and short-term uptrend intact, currently trend acceleration
- “CoT” report indicates further mark-ups
- Sentiment indicators suggest continued trend strength
- According to Elliott Wave Analysis “5th wave extension“ which may end in blow-off top (parabolic rise)
- Short-term assessment: upside predominates, currently no sign of a change of trend
- Potential up to USD 180

USA, euro area GDP growth



Source: Erste Group Research estimates

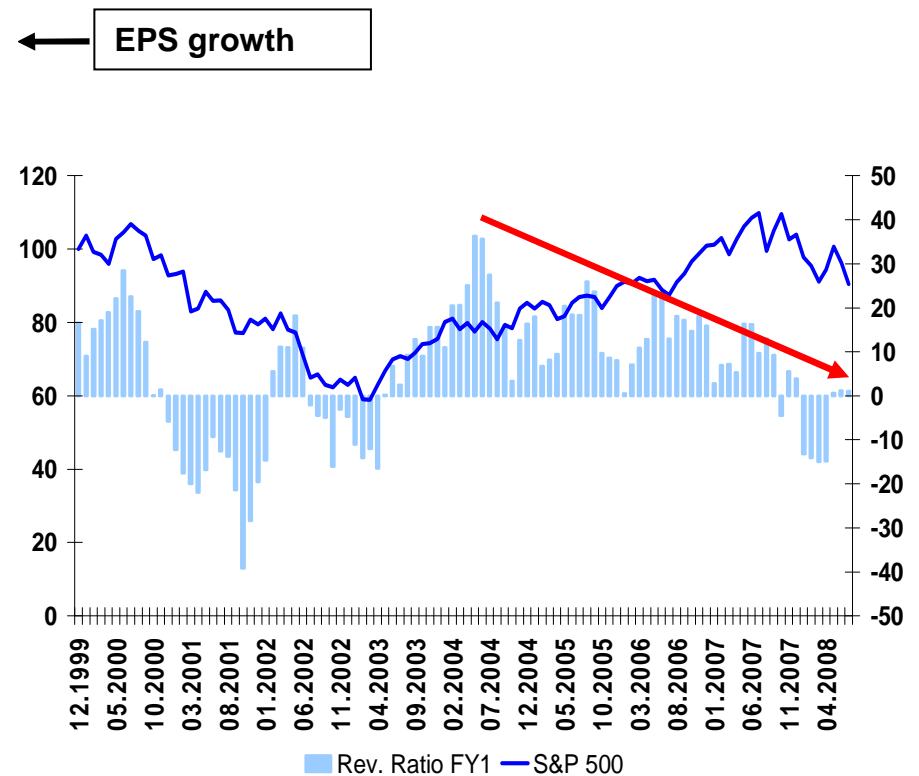
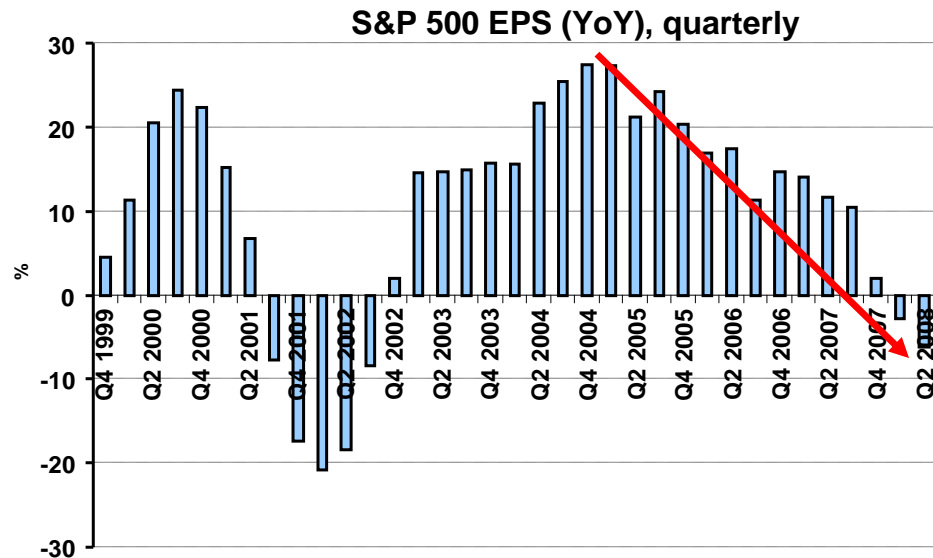
USA

- Growth set to benefit from stimulation package in Q3
- Financial market crisis still source of considerable risks for real economy
- Economic recovery bound to be slow
- No interest rate change before year end

Euro area

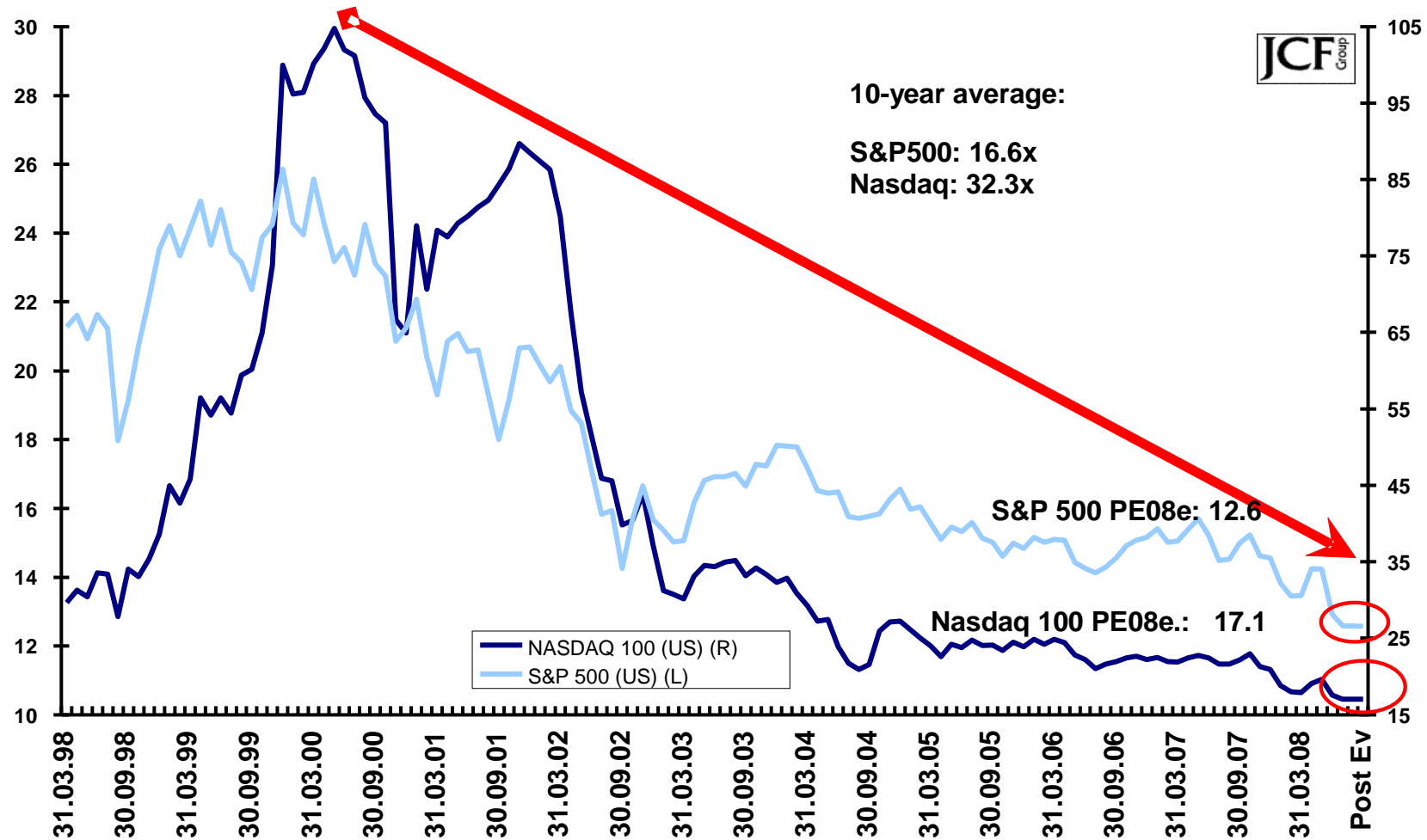
- After weak Q2 moderate recovery in Q3
- Impacts of inflation and the high external value of the EUR main sources of insecurity
- Hitherto euro area economy coped quite well with these factors
- Following interest rate increase in July no further rate hikes expected

S&P 500: EPS growth & revisions



Source: JCF Quant

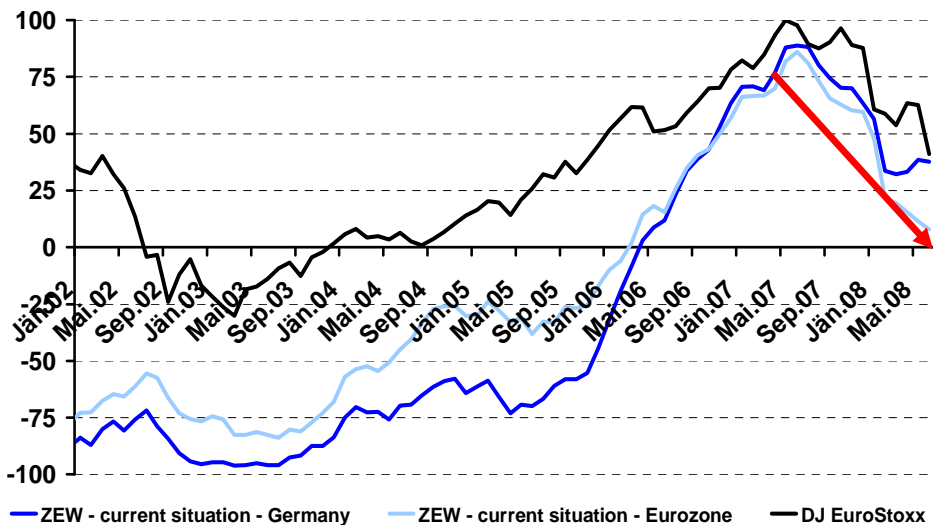
S&P 500 and Nasdaq valuation



Source: JCF Quant

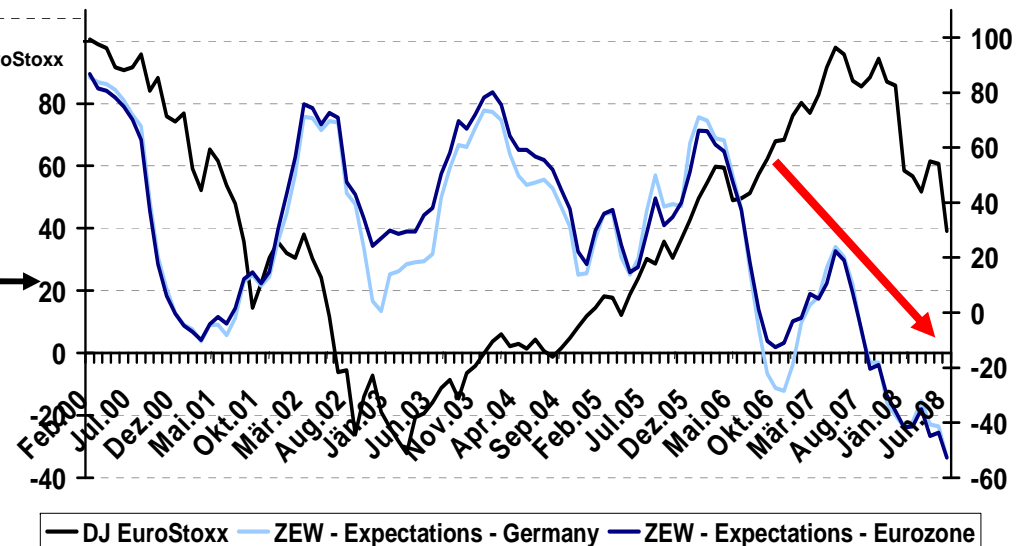
Euro zone - ZEW indicators

ZEW Gegenwart / Indexverlauf DJ EuroStoxx



The ZEW indicator for the current economic situation in Germany and the euro zone has been strongly declining in the recent past.

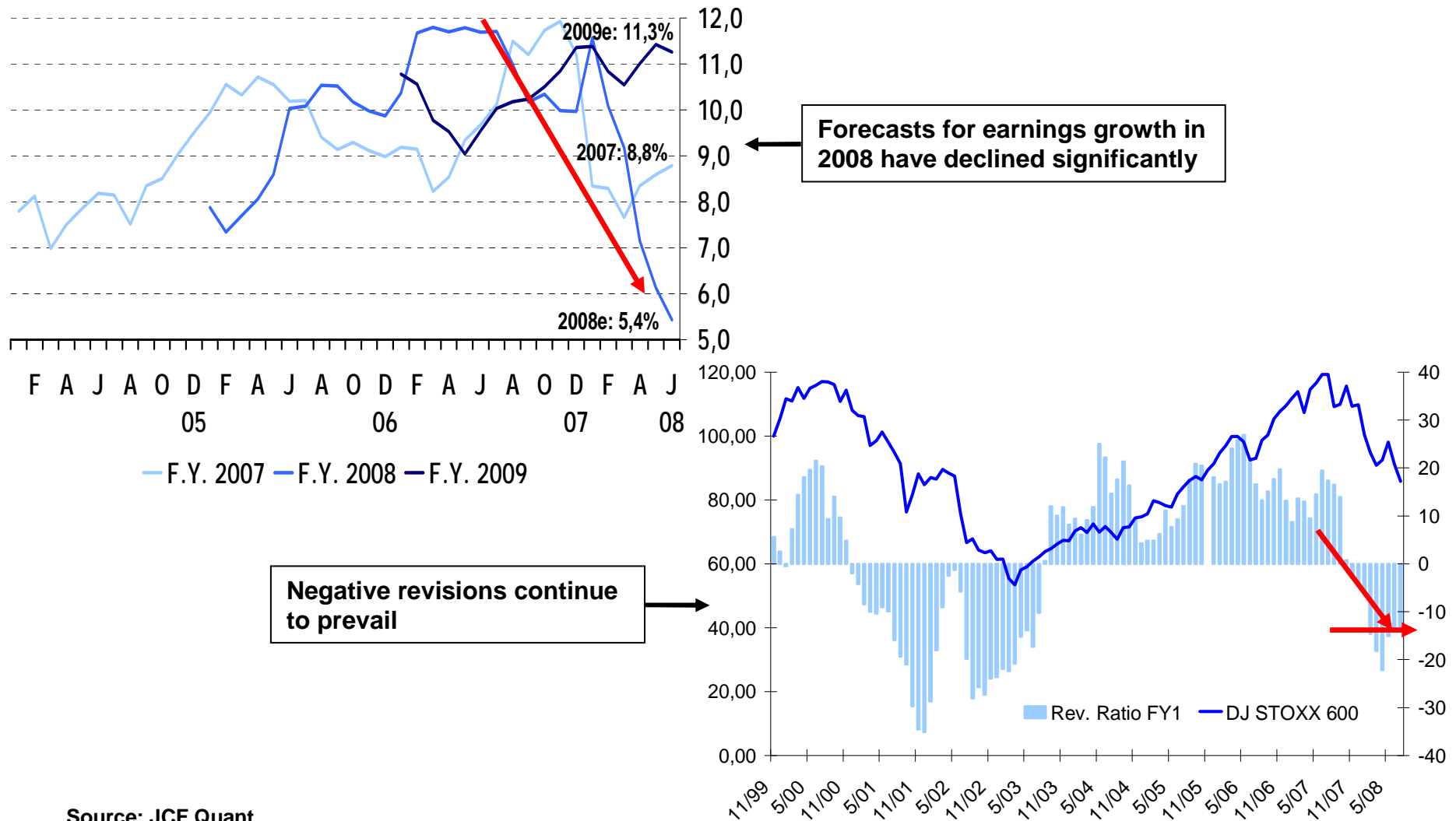
ZEW Einschätzung Zukunft vs. Indexverlauf DJ EuroStoxx



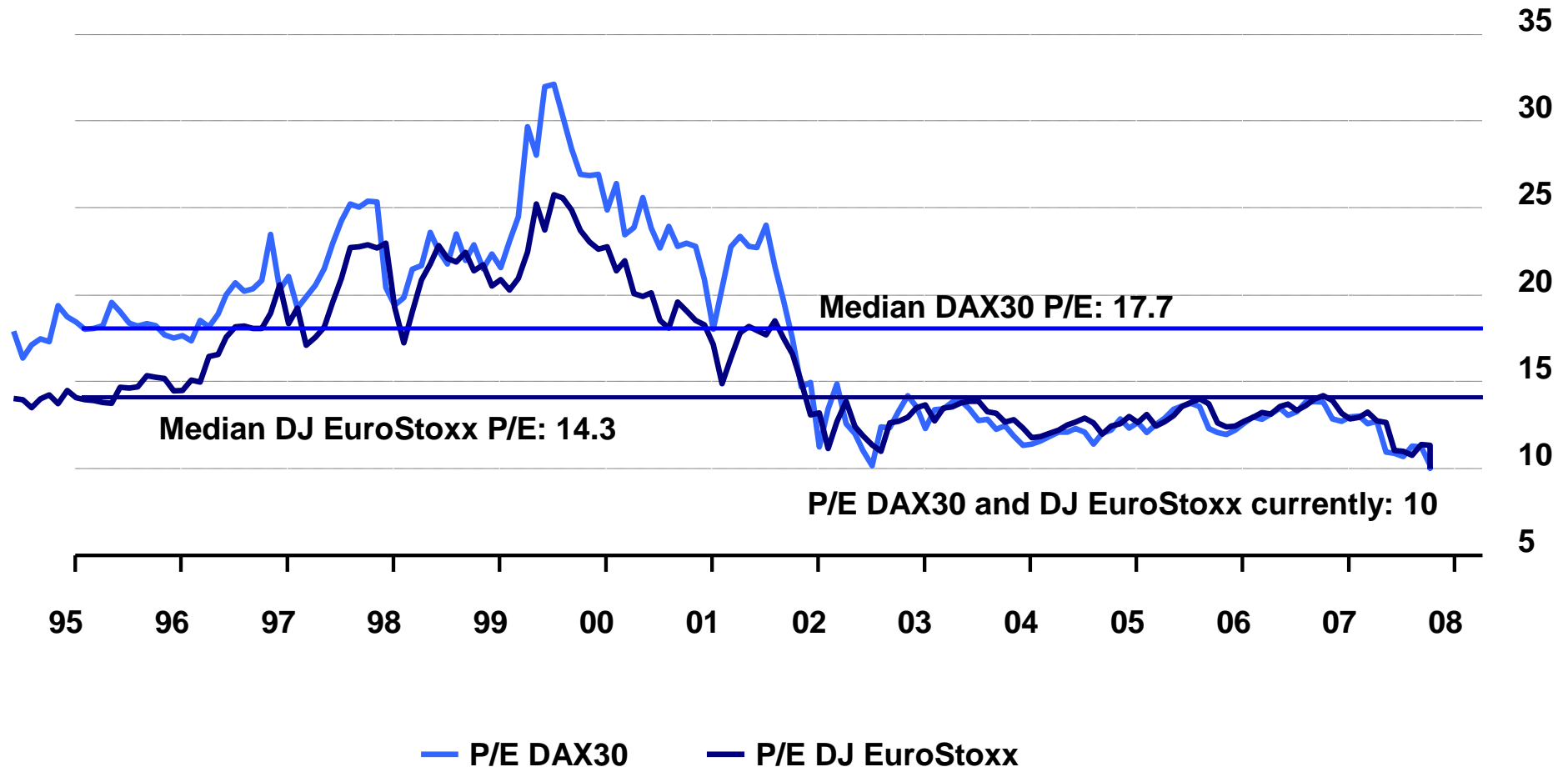
The ZEW indicator for expectations regarding economic growth over the next 6 months has recently reached a low of minus 52.4 points and thus weakened perceptibly and is now low the long-term average of 29.2 points.

Source: Bloomberg

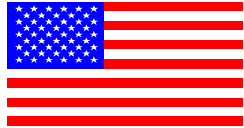
Europe – earnings growth /revisions



Euro area/Germany: valuation



USA, euro area – stock market summary



Negative

- liquidity crisis continues
- earnings downgrades prevail
- high commodity prices
- US economic outlook – higher unemployment
- long-term upward trend of S&P 500 clearly broken
- market comparatively expensive

Positive

- + relation earnings/bond yield only slightly positive
- + estimated sales growth positive
- + ISM indices almost neutral

Summary

risks exceed opportunities,
underweighting in Q3 owing to low growth



Negative

- perceptibly reduced earnings and sales growth
- weak earnings and revision dynamics for 08
- high commodity prices
- strong euro puts pressure on exports
- sentiment indicators deteriorated

Positive

- + extremely favourable valuations
- + high return stocks vs. bonds

Summary

Short-term downward tendency appears probable.
Accumulate quality stocks in periods of weakness.
Overall neutral weighting in Q3 2008.

Summary stock markets

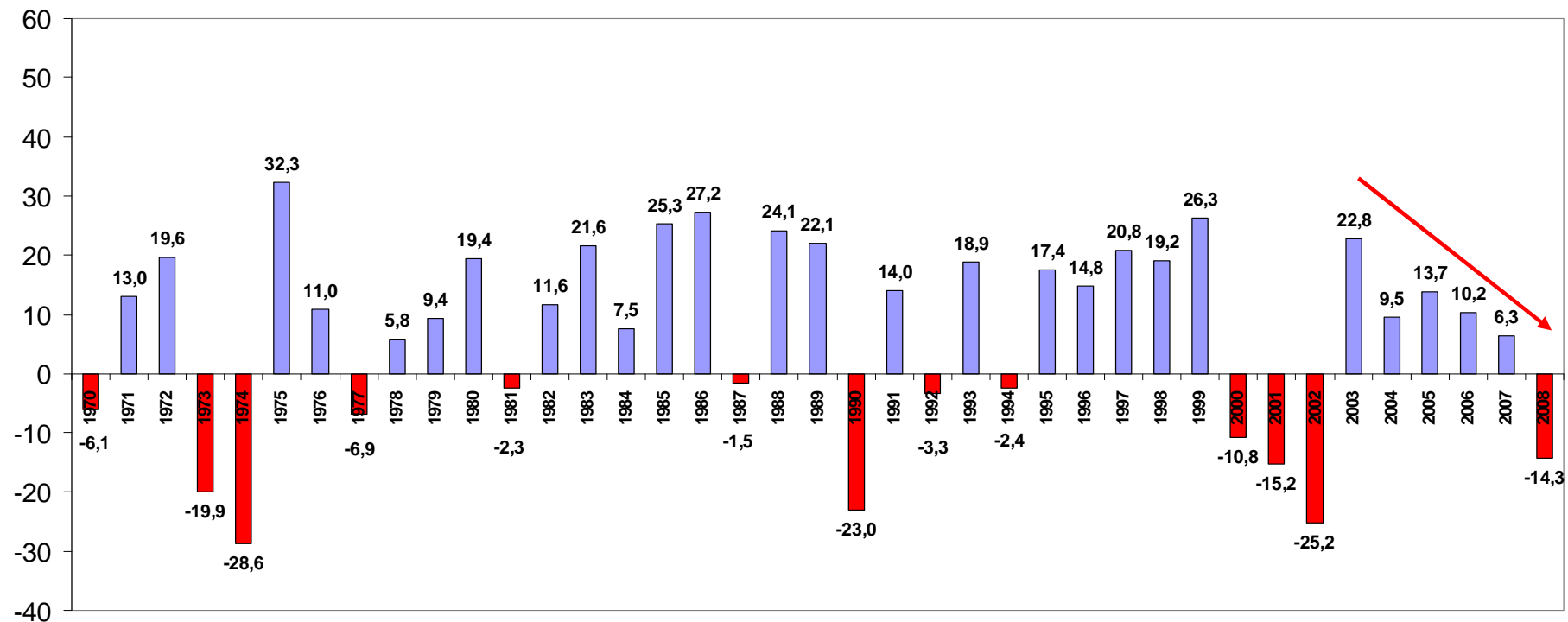
Fritz Mostböck, CEFA
Head of Group Research



Sentiment set to improve from Q4 2008...

MSCI World: performance since 1970

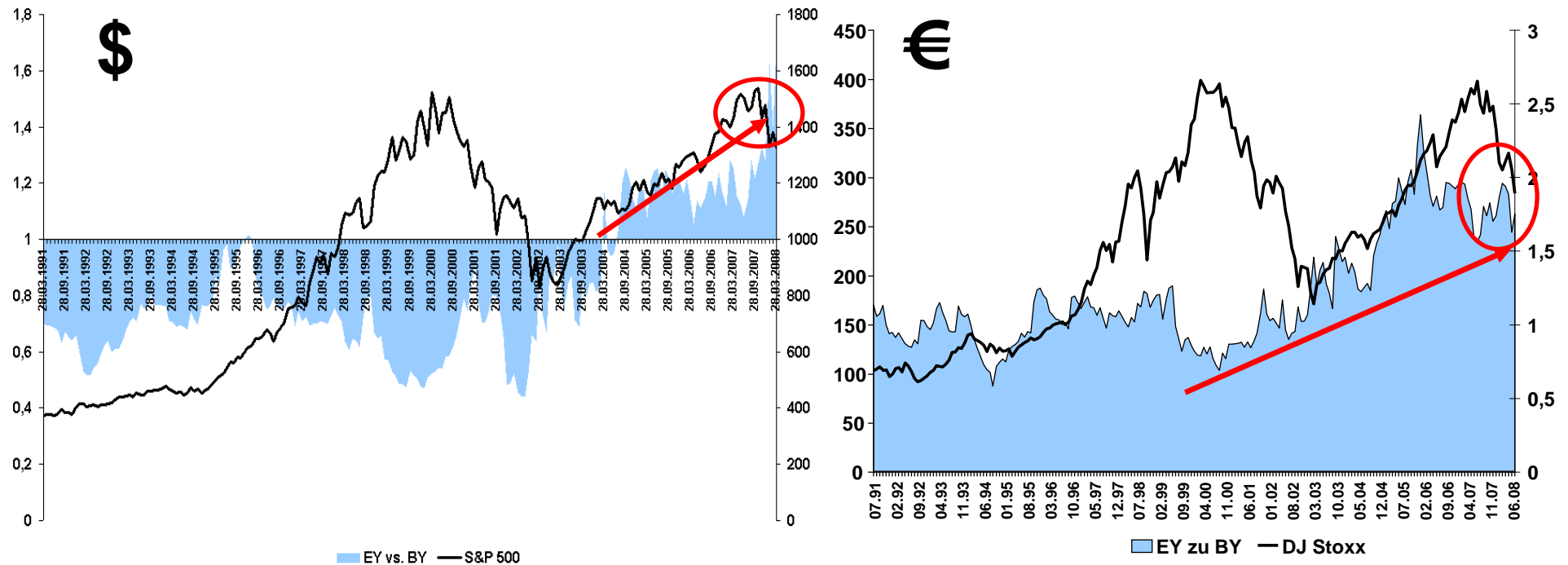
Performance MSCI World Index



Source: Datastream

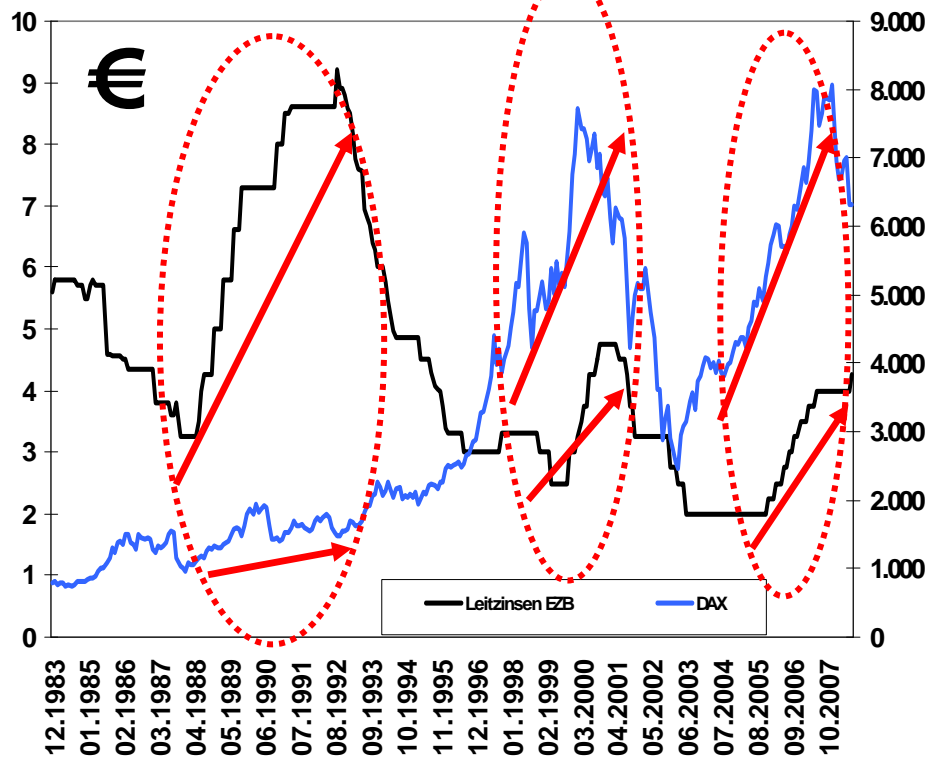
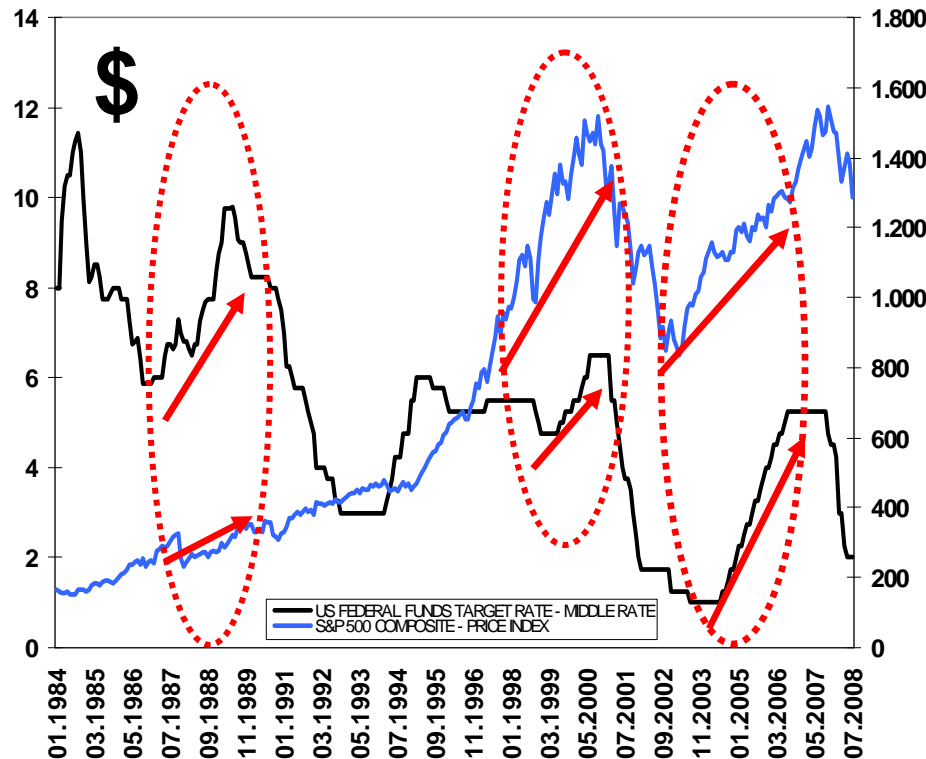
- Stock performance of the past 5 years positive
- Long-term, despite a number of “crashes”: 7.7 % performance p.a.

Earnings vs. bond yield



- USA: slightly positive relation (1.22 -> spread 87 bp),
- Euro area: higher relation (1.75 -> spread 332 bp), argues for European stocks,
- From a yield perspective, stocks are to be rated more attractive than bonds above all in Europe.

Interest rates vs. share earnings - It. compatible



- Interest rate expectation: **USA: no further change expected in 2008**
EUR: increase July/25 bp, no further change exp. in 2008
Key rate development not expected to be a source of major irritation for stocks.

Stocks, bonds or cash?

Pros

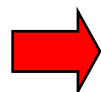


- economy is generally growing, but highly differentiated development
- earnings growth intact, but...
- valuations partly extremely attractive
- stocks generating higher yields
- stock liquidity good

Cons



- sentiment sceptical, volatile
- earnings revisions frequently downward still
- further impacts -> Q2 08 figures?
- liquidity reduction due to insecurity
- sustained financial market crisis?



**As regards timing, best wait and see over the summer
-> “buy on bad news” in Q4 2008...**

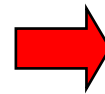
ZEW/Erste Bank indicator CEE

Sentiment CEE

ZEW/Erste Bank indicator



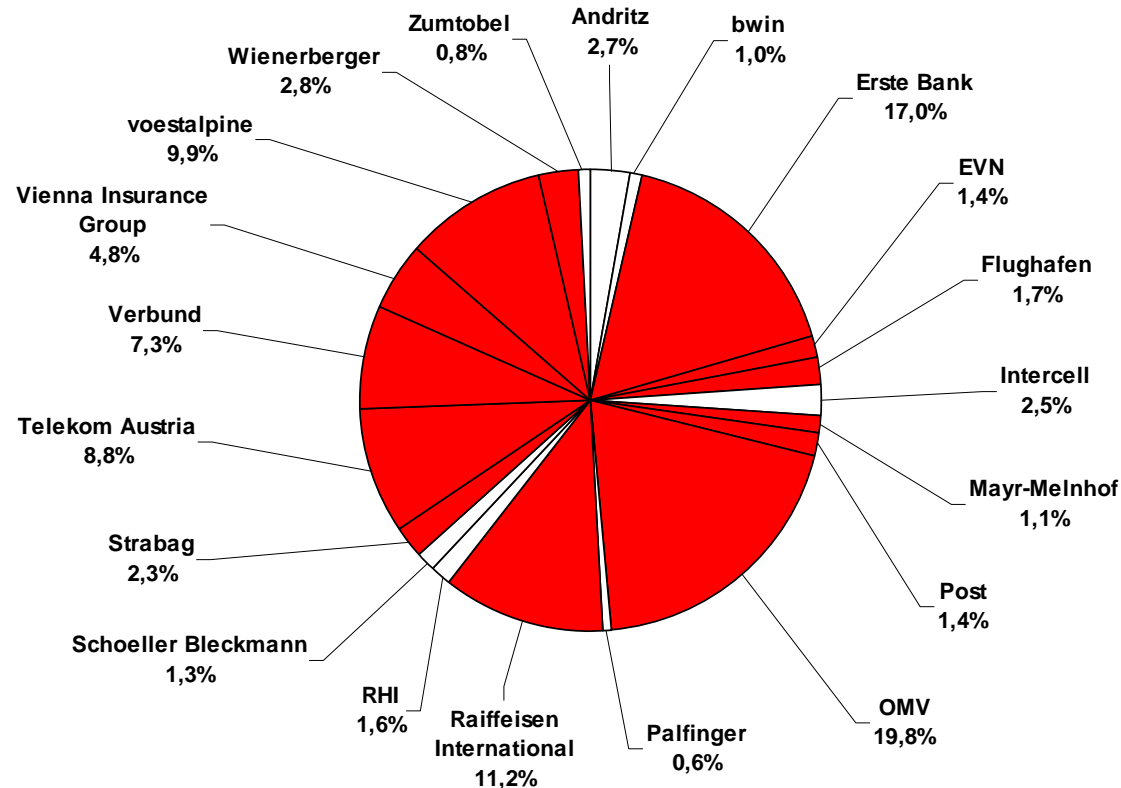
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Head of Group Research



**Improved environment and
clearly better than the rest.**

Wiener Börse and CEE shares/ATX

**CEE Investment
Story (ATX):
~90%**

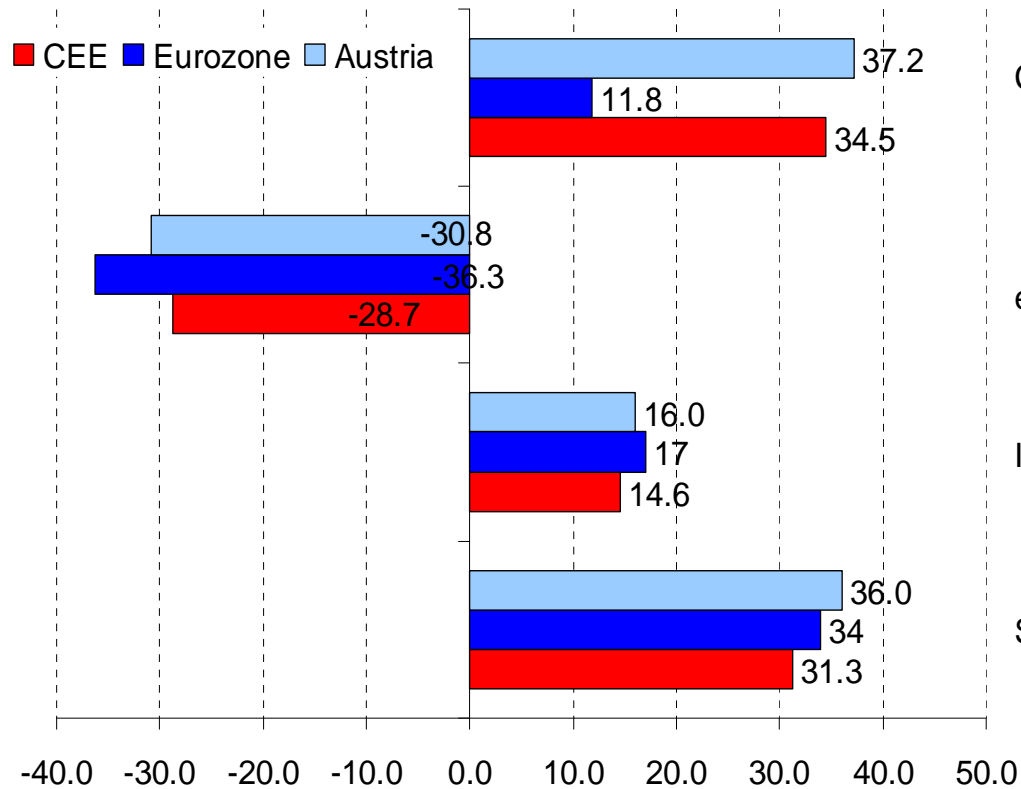


Source: Erste Group Research

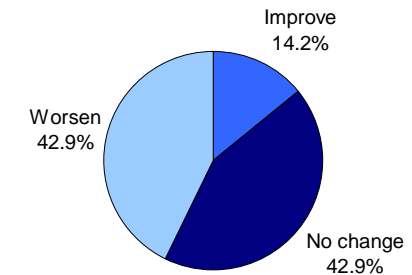


ATX blue chips basically no longer correlated with the Austrian economy, but high correlations with CEE region.

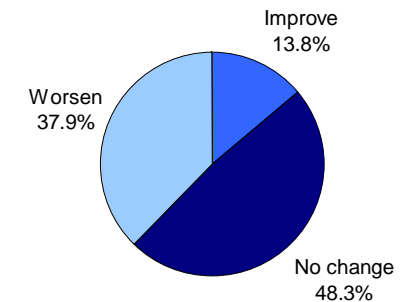
ZEW/Erste Bank indicator CEE, Jun 2007



CEE economic expectations current month



previous month

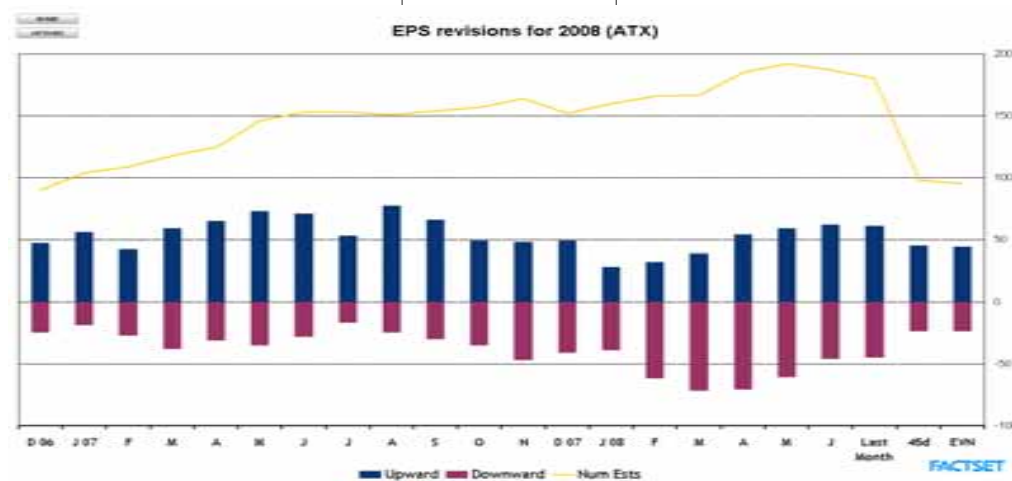
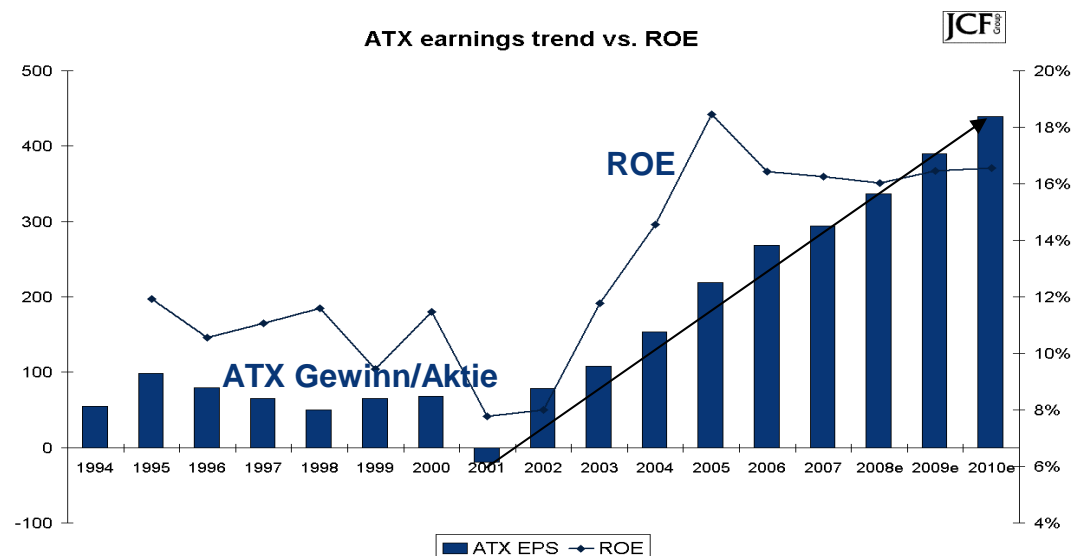


Estimates regarding economic developments and, above all, stock markets in CEE have improved, situation from a structural viewpoint not bad.

Wiener Börse: highlights

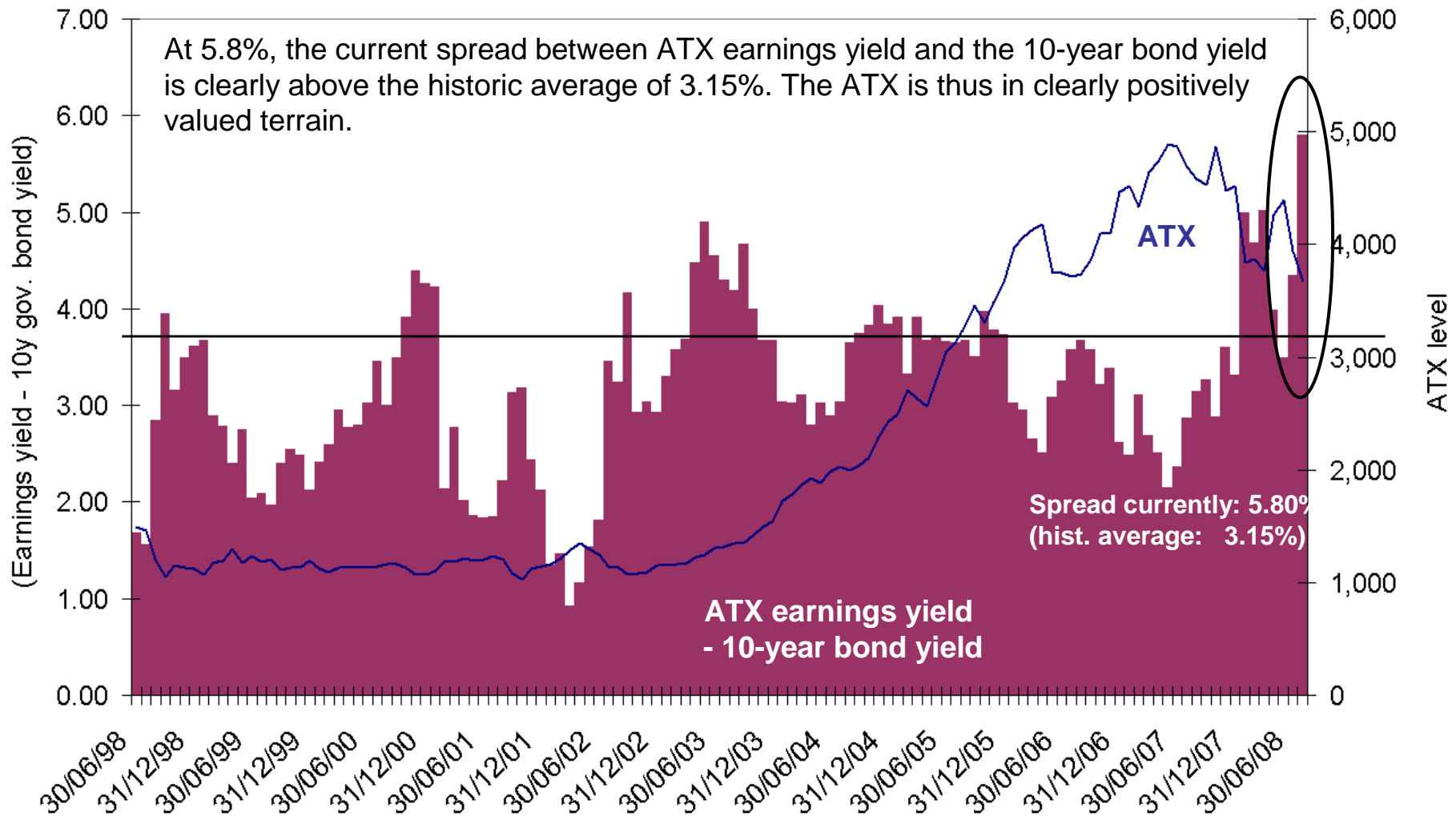
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Co-Head of CEE Equity Research

Earnings growth intact in spite of crisis

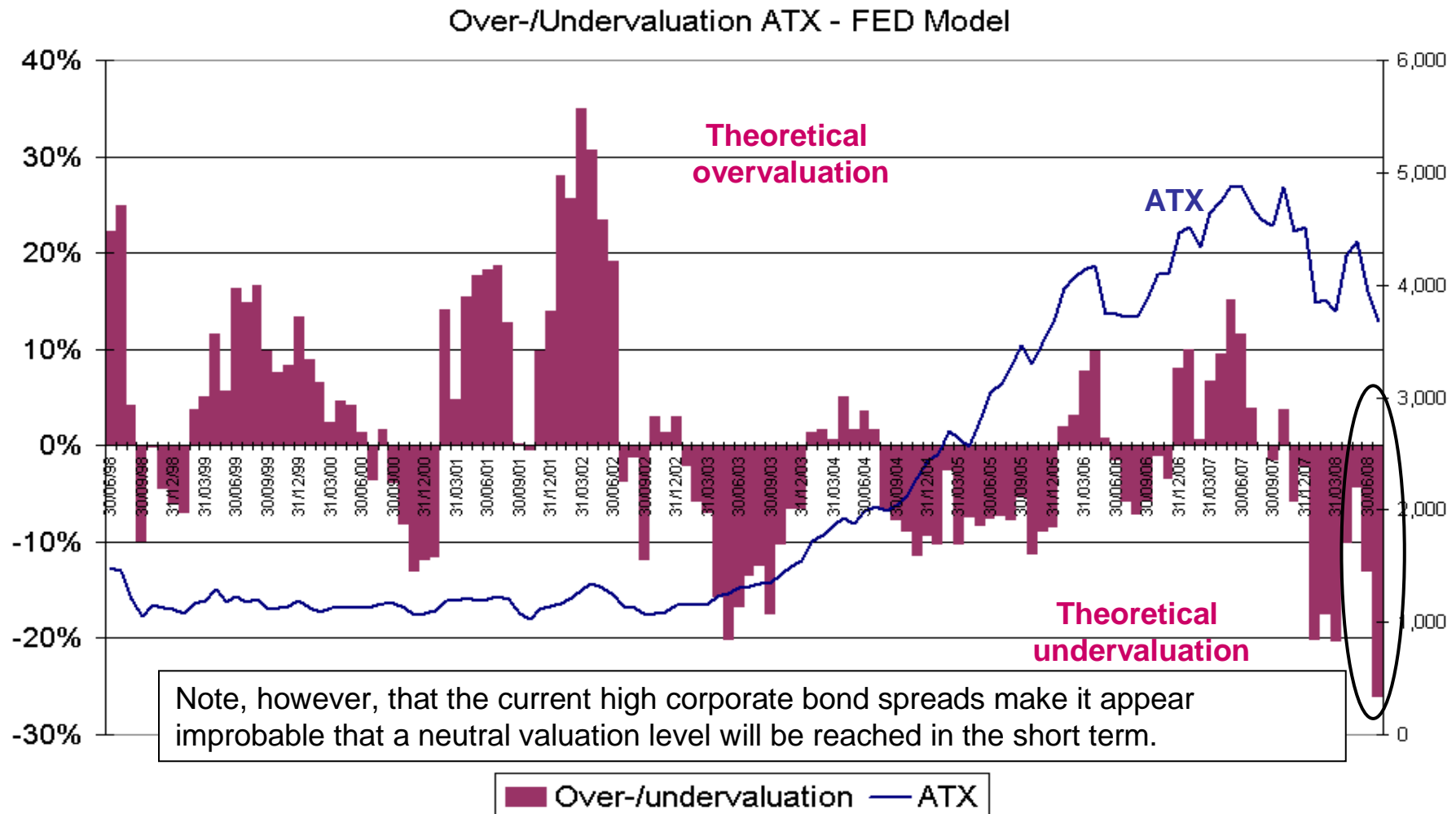


- ATX-weighted earnings growth clearly positive notwithstanding financial market crisis
- Clearly more earnings downgrades than in spring
- Earnings growth of banks (Erste, RI), insurances (VIG), oil-related stocks (OMV, Verbund) and STRABAG sustain consensus
- Cyclical stocks recently experienced downgrades
- Further downward revisions are highly probable

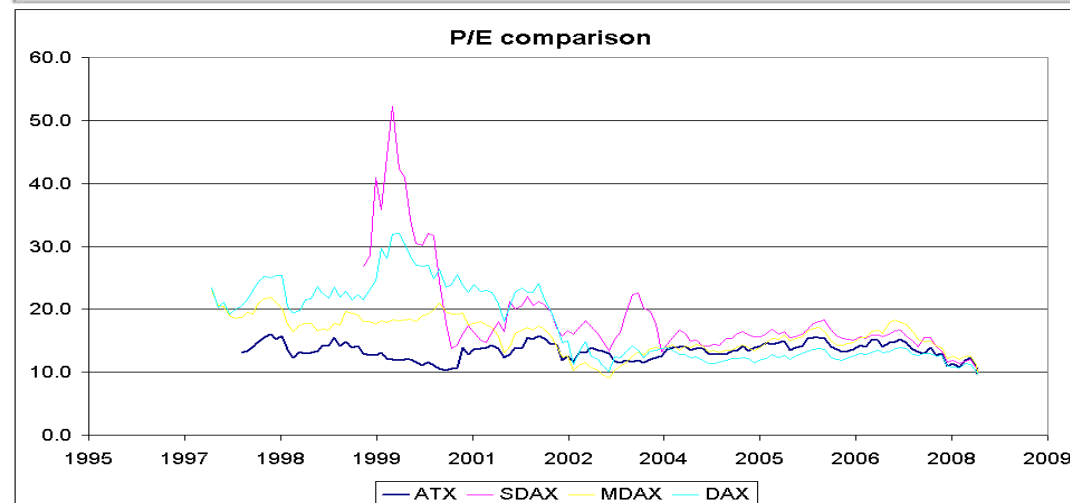
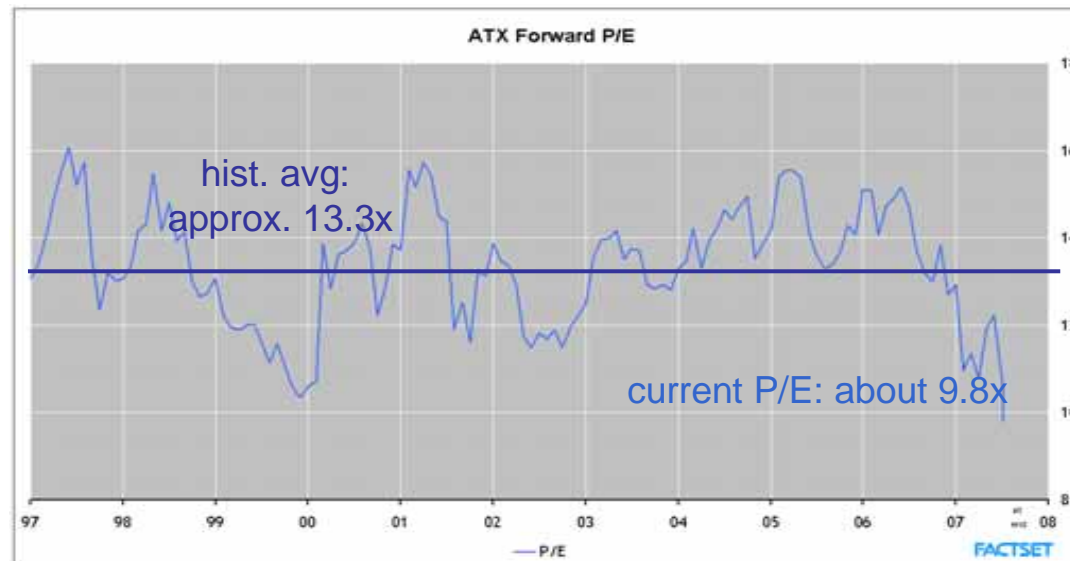
ATX in an attractive range despite crisis



FED modell shows undervaluation of ATX



ATX P/E currently within the lowest range



- At 9.8x, the current forward P/E in the ATX is clearly below the historic average of roughly 13.3x
- Possible further negative earnings revisions are clearly anticipated on the capital market
- Valuations include high insecurity discounts
- P/E ratios have all clearly converged lately

Highlights summarised

- **Positive earnings trend intact, ROE stagnates at high level**
 - ATX-weighted earnings growth clearly positive despite financial market crisis
 - Markedly more negative earnings revision in spring; further negative revisions – above all for cyclical stocks – are highly probable
 - Earnings growth of banks (Erste, RI), insurances (VIG), oil-related stocks (OMV, Verbund) and STRABAG sustain consensus

- **ATX valuations in an attractive range despite crisis**
 - At 5,8%, the current spread between the ATX earnings yield and the 10-year bond yield is clearly above the historic average of 3.15% → which implies a theoretic undervaluation of the ATX well in the double-digit range.
 - Note, however, that the currently high corporate bond spreads make it appear improbable that a neutral valuation level will be reached in the short term.
 - At 9.8x, the current forward P/E in the ATX is clearly below the historic average of roughly 13.3x; the market obviously already anticipates possible further downward revisions.
 - Valuations include high insecurity discounts.

Wiener Börse: Top picks

Günther Artner, CFA
Co-Head of CEE Equity Research

Focus on ...

- ... **(1) high-growth financial stocks** not directly affected by the financial market crisis, but the price of some of which has all the same perceptibly declined (again) (Vienna Insurance Group, Raiffeisen Int.)
- ... **(2) attractive “energy stocks”** (EVN, OMV) to hedge portfolios against inflation and the oil price
- ... **(3) Growth stocks** exhibiting little dependence on economic developments (Intercell)
- ... **(4) selected cyclical/industry stocks** likely to generate positive earnings growth despite economic weakness (Andritz, Österr. Post, RHI)
- ... liquid **blue chips** with a strong capital structure and less on illiquid small / mid caps, and highly leveraged companies

... (1) High-growth financial stocks

Vienna Insurance Group

- Western European insurance company with the highest CEE share
- Clear expansion strategy in CEE countries (premium income share already >42%)
- With 14% market share No. 1 in CEE in absolute terms
- Enormous long-term potential for improving market penetration in terms of per capita premium volume
- Strong guidance: 2007 profit on ordinary activities set to almost double within three years.
- Conservative investment policy
→ no subprime exposure
- Excellent, conservative long-term investment for investors of any type!
- Price target: EUR 66

Raiffeisen Int.

- Broad risk diversification due to presence in 16 countries, 100% CEE
- Strong market position in South Eastern Europe and CIS
- No write-offs on account of US mortgage crisis
- Capital increase (EUR 1.2 bn) creates a nest egg for acquisitions in Kazakhstan und Russia
- Strong financing structure as a strategic edge given rising refinancing costs
- At 21.5% p.a. one of the highest EPS growth rates 07-10e
- Price target: EUR 114

... (2) attractive “energy stocks”

EVN

- Business result largely independent of cyclical developments
- High value contribution of 12.5% share in Verbund, whose value appreciation was not reflected in the EVN share price in the recent past
- Substantially higher target value in “sum-of-the-parts” valuation of the individual segments
- CEE subsidiaries and environment segments offer additional growth opportunities
- Hardly any substantial downside risk at the current price level → solid risk/opportunities relationship
- Price target: EUR 29.5

OMV

- Leading oil and gas group in Central Europe
- Strong CEE exposure (51% share in Romanian Petrom)
- Market entry in Turkey due to Acquisition of a minority participation in Petrol Ofisi
- High oil price, refining margins and restructuring of Petrom as earnings drivers over the next few years
- Attractive multiples; share price failed to rise in tandem with oil price increase
- Good hedge against rising oil and petrol prices and inflation
- Price target: EUR 59.7

... (3) Growth stocks

Intercell

- Specialised on therapeutic and prophylactic vaccines
- Vaccines market with excellent long-term growth perspectives
- Comprehensive cooperation with Novartis as further quantum leap
- Meaningful mix of own development projects and cooperation projects
- Strong growth of pipeline of development projects ark → much improved risk diversification
- Excellent management team with excellent track record
- Sustainable profitable biotech company with high cash cushion for further reasearch projects
- Price target: EUR 40.5

... (4) selected industry stocks

Andritz

- Excellent strategic positioning due to high market shares in oligopolist markets with major entry barriers
- Andritz already generates 35-40% of sales in the quickly growing segment of renewable energies (eg water power)
- Dynamic growth regions such as China, India and Brazil contribute around 40% to sales.
- High return on capital employed (>50%) permits high double-digit growth rates and a high dividend rate (40% for 2007)
- Price target: EUR 54.4

Österr. Post

- Austria's leading logistics enterprise
- Highly profitable company after restructuring
- Growth thanks to numerous acquisitions and still available liquid funds
- Optimised capital structure allows distribution of high dividends (incl. bonus dividend, dividend yield currently over 10%)
- Possible share buy back as additional price driver
- Price decline without fundamental news offers good entry opportunity
- Price target: EUR 33

RHI

- Globally active world market leader (share of about 12%) for refractory products
- Benefits from ongoing consolidation of customer industries
- Owing to its market situation is in a position to pass on rising commodity costs to customers (further price increases in mid-year)
- Increasing raw material integration with start of JV in China to over 50%; clearly positive effect on profitability
- Favourable valuation with single-digit P/E ratio on earnings 2008e
- Price target: EUR 37

Stocks better to keep away from at the moment

AUA

- Airline stocks are among the big losers of the surge of oil prices
- Doubling of the oil price since the beginning of the year – counteraction with hedging programme comes belatedly
- Profit warning for 2008 with loss of EUR 70-90 million
- Still highly leveraged
- New elections could delay a possible privatisation process as outcome of the current strategy check
- Price target: being revised

CAToil

- Our sceptical stance towards CAToil is due to the company's disappointing operative performance
- The core problem of CAToil lies in the unexpectedly high input costs for implementing the expansion of the company's service portfolio
- For the first half of 2008 the management expects a continued weak earnings development
- At a P/E of 14.9x for 2008 despite operating problems the share is not really cheap
- Price target: EUR 8.5

CWT

- Notwithstanding a favourable economic environment for companies building water preparation plants CWT's operating results in 2006 and 2007 failed to convince
- CWT encountered problems in terms of costs exceeding budgets and with the integration of newly acquired companies
- We expect that the company's problems may even increase against the weaker economic background
- At a P/E of 30 for 2008 the stock is all but cheap
- Price target: EUR 8.5

Outlook summary

wiener  borse.at



Fritz Mostböck, CEFA
Head of Group Research

Tending higher from Q4 2008

Performance vs. volume

Index	2002	2003	2004	2005	2006	2007	2008 to date
Dow Jones	-16.8%	+25.3%	+3.1%	- 0.6%	+16.3%	-4.0%	-15.4%
DAX 30	-43.9%	+37.1%	+7.3%	+24.5%	+22.0%	+22.3%	-21.9%
CAC 40	-33.7%	+16.1%	+7.4%	+23.5%	+17.5%	+1.3%	-24.3%
AEX	-36.3%	+4.6%	+3.1%	+25.3%	+13.4%	+4.1%	-21.4%
SMI	-27.8%	+18.5%	+3.7%	+33.2%	+15.8%	-6.1%	-19.7%
ATX	+0.8%	+34.4%	+57.4%	+50.8%	+21.7%	+1.1%	-17.7%

Average turnover / day

	in EUR mn	Change in %
1997	88.0	+38.8%
1998	119.5	+35.8%
1999	87.0	- 27.2%
2000	83.2	- 4.4%
2001	65.9	- 20.8%
2002	50.2	- 23.8%
2003	76.5	+ 52.3%
2004	152.0	+ 98.7%
2005	301.8	+ 98.6%
2006	510.9	+ 69.3%
2007	714.1	+ 39,8%
2008 to date	645.1	- 9,7%

After 2007 in 2008 still marginally outperforming.

Turnover 2008 to date slightly weaker -> overall, however, compact, sustained positive volume development.

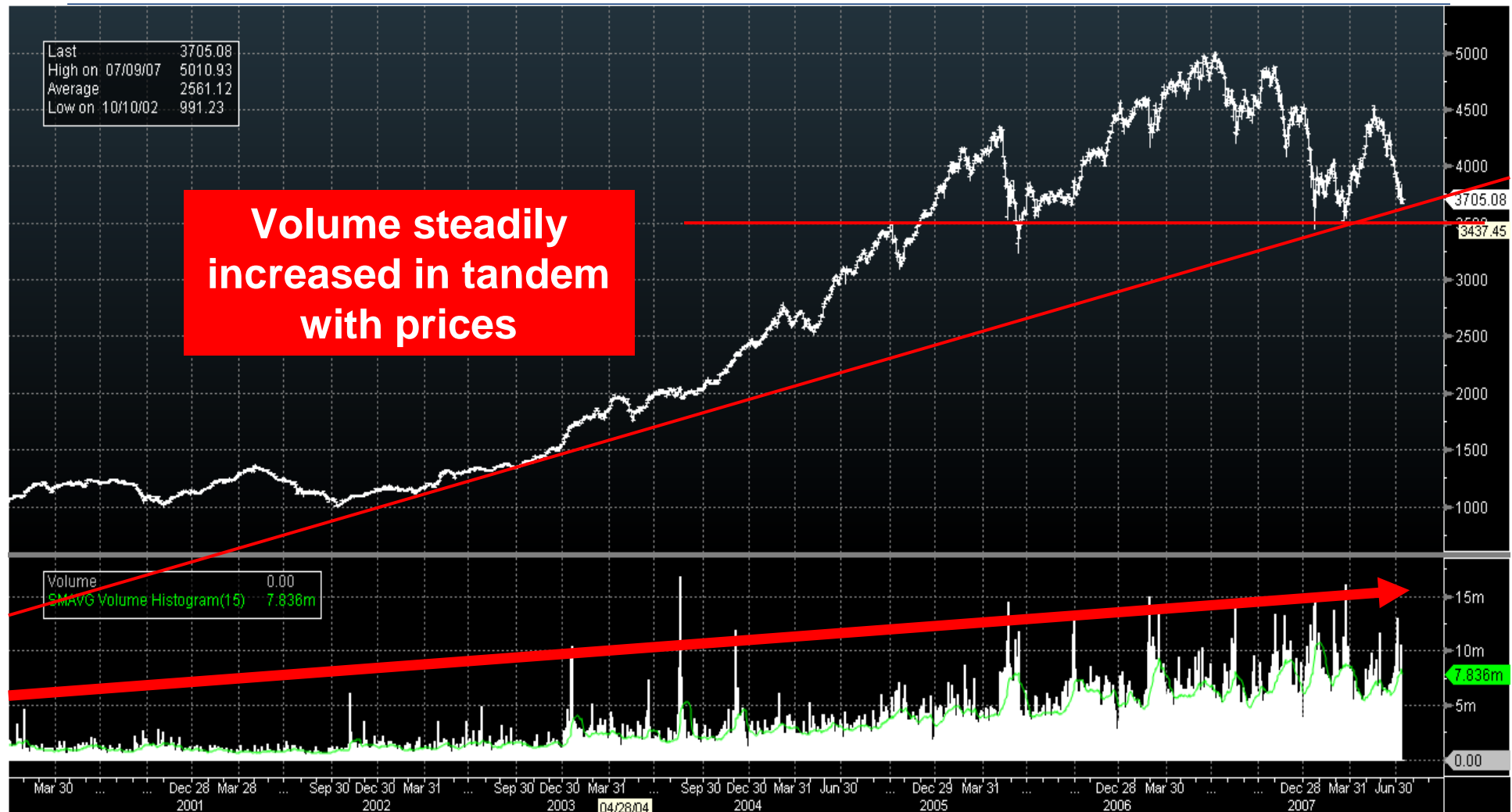
Valuation – stock marketes and ATX

	P/E 07	P/E 08e	P/E 09e	Earnings growth		
				07	08e	09e
Austria						
ATX	11.6	9.8	9.2	4.8 %	19.0 %	6.2 %
(adj. Wachstum¹⁾)				14.9 %		
Germany	11.0	10.8	9.3	17.0 %	1.7 %	15.5 %
Netherlands	9.0	8.7	8.2	0.9 %	2.8 %	5.8 %
France	11.0	9.9	9.0	1.4 %	10.9 %	9.4 %
UK	10.1	10.4	9.6	- 9.8 %	- 2.8 %	9.6 %
Switzerland	15.0	16.0	10.7	- 19.4 %	- 6.3 %	48.9 %
Euro STOXX 50	9.9	9.4	11.9	3.3 %	5.9 %	10.9 %
USA	15.5	14.1	11.9	- 3.0 %	8.9 %	19.7 %

Source: JCF Quant, Erste Group Research

1) Without extraordinary result Raiffeisen International in 2006

Wiener Börse – traded volume



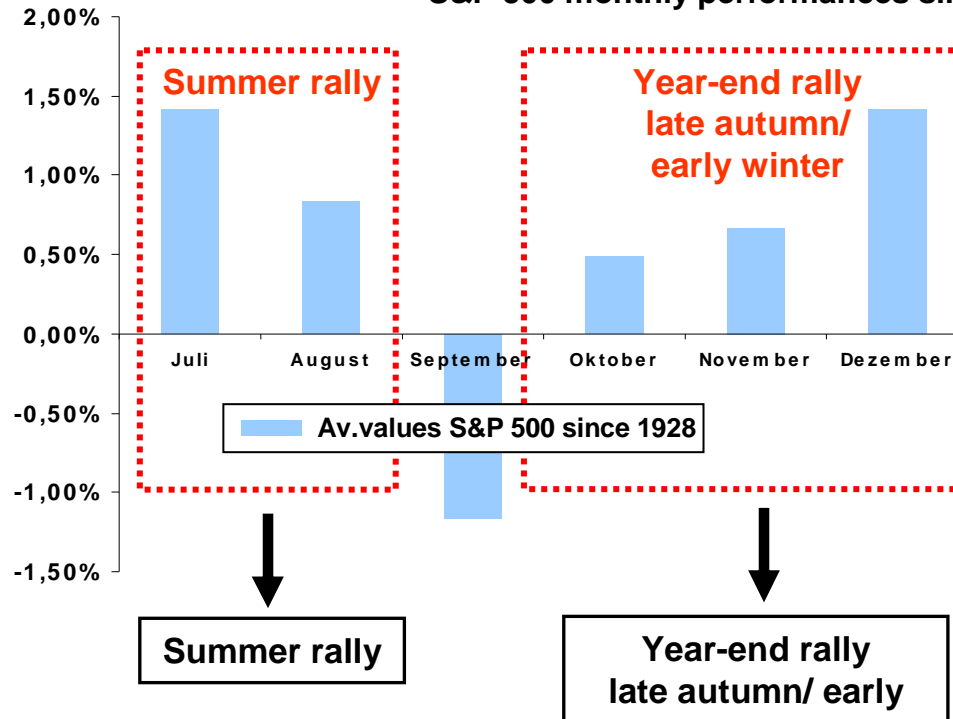
Source: Bloomberg

ATX – short-term indicators



Annual phases S&P 500, timing ATX

S&P 500 monthly performances since 01/1928 and ATX since 01/2007



Summer rally

**Year-end rally
late autumn/ early**

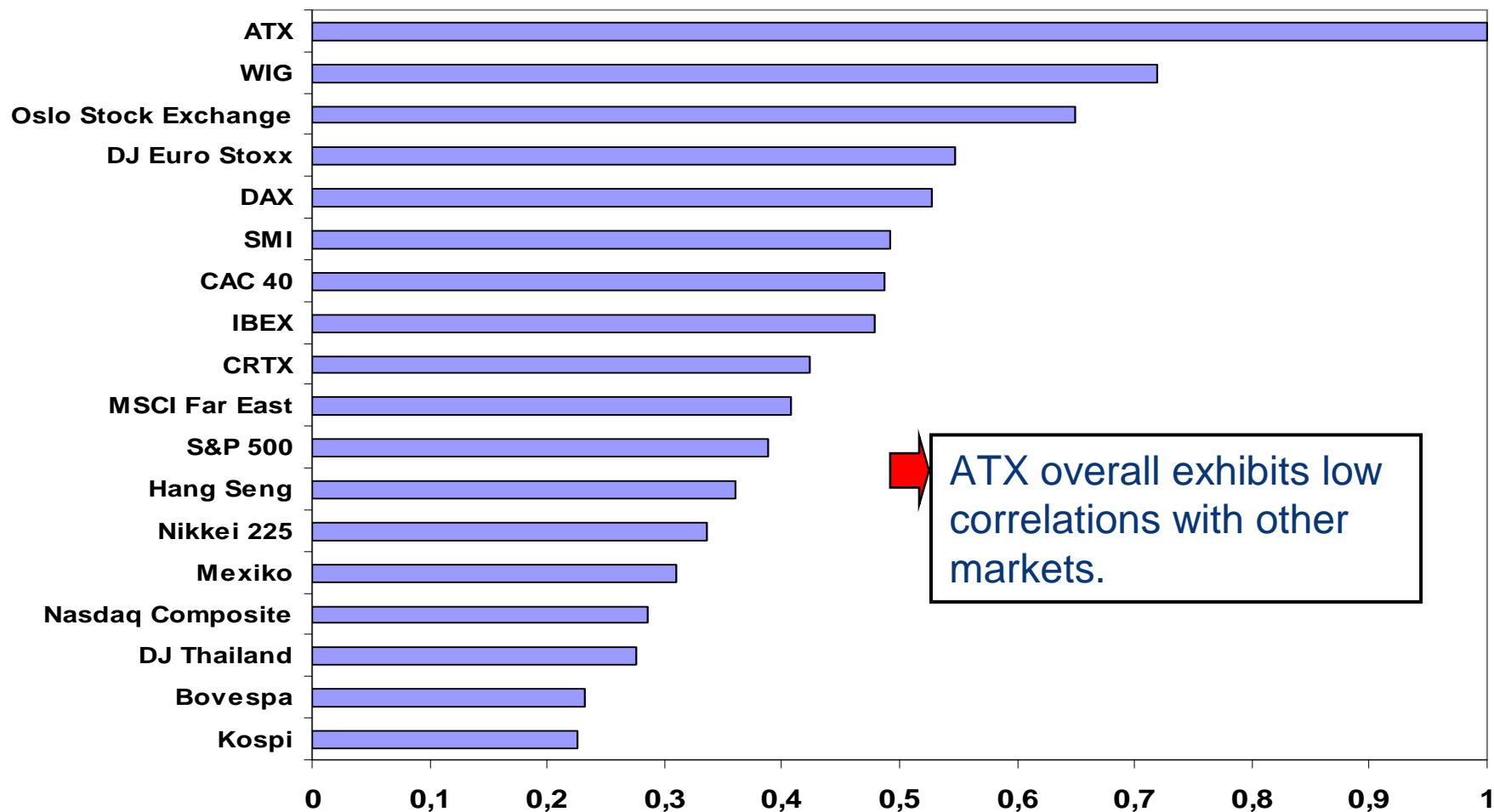
Improbable

Probable

in ATX usually summer low,
Q2 figures could still
generate pressure

Fundamentally favourable
valuations should strike
through

Correlation ATX vs. Other markets



ATX index forecasts

Horizon	Trading range	Target value
3rd quarter 08	3,550 – 4,000	3,900
4th quarter 08	3,900 – 4,350	4,250
1st half year 09	4,200 – 4,600	4,500

- **Outperformance possible; generally orientation on international parameters, markets should terminate correction phase in the current Q3.**
- **from end of 3rd quarter 08 (September) improved sentiment, markets likely to stabilise and create a bottom, attractive valuation, increasing volume,**
- **4th quarter 08: October and November should - except for further international irritation - present themselves stronger, sub prime-crisis left behind,**
- **On 12M continued improved environment expected, volatility may remain high, fundamental data should start to strike through, yield premium on 10-y bonds.**

Investment strategy

Buy Austrian stocks, but...

buy them:

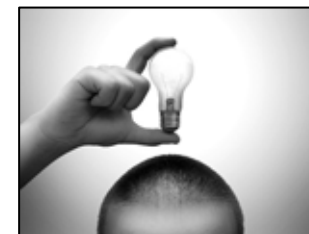
■ selectively,



■ on events,



■ on ideas,



■ on a good strategy/story.



Wiener Börse: Summary

- Economy/sentiment CEE markedly better than EU average,
- International markets likely give positive impulses on and off,
- Arguments for Wiener Börse:
 1. “Eastern motor” remains motor of growth, attention will be on “presentation of CEE figures”,
 2. Valuation is highly attractive,
 3. Liquidity compact on a sustained basis,
 4. Stocks yielding higher returns than bonds (+530 bp PE 08, +580 bp on basis of PE 09).



Moderate decoupling possible. High volatility probable.

- Focus will be on “stock picking”!



Outlook 2nd half of 2008

International stock markets with focus on Wiener Börse

Fritz Mostböck, CEFA
Head of Group Research

Günther Artner, CFA
Co-Head of CEE Equity Research

Press conference
14 July 2008, Vienna