ATX sleeping through the summer: 2,650 points by year-end

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Compared with major global markets, the ATX ranks among the average performers in the so far lack-lustre year 2010 at the stock exchanges, having lost 6% in the first half of 2010. For the second half of 2010, Erste Group analysts expect an improved environment and a performance of +6% for the full year. International investors are more active again as reflected by a slight increase in trading volume (+15% 2010 vs. 2009) but tend to remain underinvested overall in view of the continuing weak environment for equities. Further irritations for financial and currency markets will result above all from the problems arising from high fiscal deficits and public debt. The markets of Central and Eastern Europe will be benefiting, however, compared with the large established markets. By historical standards as well as in relative terms, the ATX is valued attractively compared with other markets, with earnings growing at solidly double-digit rates. From a yields perspective, Austrian shares look significantly more attractive than government bonds. Overall, Erste Group Research expects the environment to remain moderately friendly over the rest of the second half 2010.

Volatilities are falling, a selective approach is recommended

While average trading volumes signal a slight rise in the exposure of institutional investors the international investment climate is expected to remain vulnerable. “Investors will continue to differentiate carefully between asset classes and countries. The crisis has now finally translated into a heavy expansion of sovereign debt, the reduction of which will be difficult and take a very long time. This has been reflected this year by the widely diverging price performance of local equity markets,“ says Fritz Mostböck, Head of Group Research.

Fritz Mostböck, Head of Group Research

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Asset Allocation Q3 2010

Neutral Portfolio	
Cash/Gold	Overweight
Bonds	Underweight
Equities	Neutral
Global equities portfolio	
Europa	Slightly overweight

USA	Underweight
Japan	Neutral
Emerging Markets	Slightly overweight

CEE states: Public debt ratios below EU average
Taken together, the public debt of Hungary, the Czech Republic, Slovakia, Romania and Croatia (CEE5) amounts to about EUR 200bn, which is less than the public debt of Greece (EUR 300bn). Including Poland (CEE6), public debt stands at EUR 350m and is thus significantly lower than the public debt of Spain (EUR 690bn) or Italy (EUR 1760bn). “In a fragile environment marked by high public debt it is becoming apparent once again that Central and Eastern Europe are different. The CEE5 countries with a population of 52 billion report only two-thirds of the debt of Greece, which has 11 million inhabitants. The CEE6 region, with a population of 90 million, has only about half the debt of Spain (47 million inhabitants) and less than a quarter of the debt of Italy (60 million inhabitants), Mostböck adds.

Another key factor in connection with public debt is the share of government bonds held abroad. If this number is high, there is an increased probability of investor pressure and rapid sell-offs. This was the case in Greece, where about two-thirds of the public debt (86% of GDP) are held abroad. By comparison, the corresponding share in the CEE6 is about one-quarter (2-25% of GDP).

Recommendation: Keep focus on stock picking

“Our investment strategy in this uncertain environment remains stock picking. We prefer companies with high profitability and a strong cash flow (such as Semperit, RHI)“, says Günther Artner, Co-Head of CEE Equity Research. “The outlook is good for companies such as the Vienna Insurance Group, which benefit from growth in Emerging Markets. Others, such as Kapsch TrafficCom might benefit from higher public debt where it is used to fund more toll system projects.“

Artner, Co-Head of CEE Equity Research

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Artner recommends investments in

- Blue Chips: OMV, RHI, Vienna Insurance Group
- Growth stocks: austriamicrosystems, BWT, CAToil, Kapsch, Semperit
- Real estate stocks: conwert, s Immo

Projections for 2010 cautiously optimistic
With market performance weak year to date, the strategy is based on the expectation of moderate upward trends over the remaining year 2010. The valuation of the Vienna Stock Exchange is regarded as attractive both by historical standards and relative to other markets (PER 2010e: 11.6x, 2011e: 8.4x). Earnings growth is solidly in the double-digit range (2010e: +36%, 2011e: +37%). The Erste Group analysts therefore expect a moderate recovery until year-end 2010 – unless earnings projections are revised massively – with the possibility of some market volatility in between. “Interest rates will stay volatile for the time being. Austrian equities offer significantly more attractive returns than 10-year government bonds (+700 basis points), however. Despite the weak spell seen to date, we may well approach an ATX level of 2,650 points towards year-end 2010,” Mostböck finally says.

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