

ATX stands to profit again in 2011 from an improved environment in CEE

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Outlook on equity markets and the Vienna Stock Exchange for 2011

- ATX 2011: Slight double-digit performance expected
- Debt situation will keep volatility going
- Economy in CEE: 2011/12 expected to do better than euro zone
- Recommendation for 2011: Stock picking

The year 2010 was an average one for the ATX with a gain of 10%. The Vienna Stock Exchange essentially followed the moderate international trend, with international investors differentiating by government debt levels. As a result of the low levels of indebtedness in Austria and in Central and Eastern Europe, performance versus the PIIGS states, for example, was clearly positive. Trading volumes stagnated. In 2011, irritations on financial and currency markets will continue caused by problems relating to high deficits and government debt. Most markets in Central and Eastern Europe will profit compared to the major established markets. The ATX is currently attractively valued in historic comparison and relative to other markets with clear double-digit profit growth rates. Austrian equities are also much more attractive than government bonds from the perspective of returns. Overall, Erste Group Research expects moderately positive price performance for the ATX in 2011 despite some bouts of turbulence.

2011 as well: Volatility driven by debt issues

As high deficits and overall debt – and moreover in a phase of a slumping economy – cannot be contained overnight, the international investment climate will remain vulnerable. Average trading volumes are not pointing to any immediate reversal of this sentiment. "The clear differentiation between countries will continue. The latest effect of the crisis is seen in the substantial widening of government debt, which will be difficult to reduce and progress only very slowly. The relationship between indebtedness and price performance on local stock markets is obvious. The key CEE countries have much lower rates of indebtedness than the EU euro average, and for this reason, the impact on the Vienna Stock Exchange will be less severe in 2011 as well," said Fritz Mostböck, Head of Erste Group Research.

Recommendation: Stock picking

"The best investment strategy in this uncertain environment remains stock picking. We have a preference for companies with high profitability, moderate valuations and solid dividend yields such as, for example, OMV, Semperit or voestalpine," said Günther Artner, Co-Head of CEE Equity Research. Furthermore, Erste Group is betting on companies that profit from the long-term recovery process in the emerging markets (e.g. Raiffeisen Bank Int., Vienna Insurance Group). Moreover, one has to take into account special situations like at Kapsch TrafficCom where recently the dynamic in the toll



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systems industry picked up and Kapsch has now become one of the world's market leaders.

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Artner recommends investing in:

- Blue Chips: OMV, Raiffeisen Bank Int., RHI, Vienna Insurance Group, voestalpine
- Growth stocks: austriamicrosystems, AT&S, BWT, Kapsch TrafficCom, Semperit
- Real estate stocks: Immofinanz, s Immo

"With a view to the possible introduction of a new withholding tax on securities, we recommend buying stocks before this year ends that feature long-term profitability and low valuations at present as well as a stable and sustainable business model," stated Artner. Some top stock buy recommendations with a perspective of 10 to 15 years are: RHI, Kapsch TrafficCom, Raiffeisen Bank Int., OMV, voestalpine.

Expectations for 2011 are cautiously optimistic

As regards strategy, there is some moderate upside potential for the coming years as a result of attractive valuation ratios. The valuation level of the Vienna Stock Exchange is attractive both historically as well as relative to other markets (PER 2010e: 11.8x, 2011e: 9.3x). Earnings growth is well in the double-digit range in both cases (2010e: +49.5%, 2011e: +27.7%). Consequently, the research team of Erste Group expects a moderate price potential for 2011, with the possibility of some phases with heftier price fluctuations. "Interest rates will remain low for now. Austrian stocks are still returning earnings yields much better than 10-year government bonds (+650 basis points in favour of stocks). Despite mostly sideways movements before a backdrop of thin trading volumes up to now, it could very well be possible that we will see the ATX rise to the mark of 3,100 points by year-end 2011," according to Fritz Mostböck.

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