Outlook 2011: Equity Markets and Vienna Stock Exchange

Low turnovers and below average stock trends
Moderately positive performance of ATX expected for rest of 2011

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- **Economic development in CEE for 2011/12e expected to be better than in euro zone, 2011e: +3.3% (vs. +2.0%), 2012e: +3.8 (vs. +1.6%);**
- **Debt ratios in Austria and CEE much lower;**
- **Top picks: OMV, RHI, Immofinanz, voestalpine, AMAG, Kapsch, Polytec, AT&S**
- **ATX 2011e: slight double-digit performance expected, debt theme will create volatility; earnings growth 2011e (+32.0%) and 2012e (+22.6%) well within double-digit zone;**

2011 has been a year of below average stock performance for the ATX up to now (-10% YTD). The Vienna Stock Exchange more or less just followed the negative international trend. Extraordinary factors like the Arab crisis, the events in Japan (Fukushima) and the persistent debt crisis contributed to creating an overall gloomy environment. The much lower debt ratios in Austria and CEE have not been able to prevail positively on performance yet. Trading volumes remain sluggish. Irritations will keep cropping up for financial and currency markets in the further course of 2011 due to the problems of high deficits and sovereign debt. However, the markets of Central and Eastern Europe should be able to decouple from the major established markets. In historic comparison with other markets, the ATX currently has a very attractive valuation level with clear double-digit earnings growth rates. Austrian stocks are also much more appealing than government bonds when one compares yields (840bp spread vs. 10-year German government bonds based on PER 2011/12e. On the whole, Erste Group Research expects a moderately positive performance for the ATX in the second half of 2011 despite the possible bouts of turbulence.

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International markets and the Vienna Stock Exchange: debt concerns will remain the predominant theme. As it will not be possible to contain the high overall debts and deficits – on top of everything else in the midst of a not very boisterous economic situation – the international investment environment will remain vulnerable. “Just like in the past few months, a strong differentiation between countries will be necessary. The crisis has now arrived in government debt, which will be hard to reduce and take a long time. After the financial crisis, it has now become clear that the levels of indebtedness in the key CEE states are much lower than the euro average. For this reason, the relative burden for the Vienna Stock Exchange in the further course of the year 2011 will also be much less severe,” explained Fritz Mostböck, Head of Group Research.

Capital gains tax with strong negative effect on private investment volumes. The tax on price gains has, of course, had only negative effects on the capital market up to now. But it has a number of negative consequences for the macro-economy as well. In total, the tax does not contribute effectively to a sustainable consolidation of the budget (capital gains tax accounts p.a. for around 0.4% of the projected deficit for 2011e). “From a macroeconomic perspective, the third pillar of retirement provisioning is being very adversely affected. The full impact will become noticeable to all of us only in the future. The 25% capital gains tax will simply reduce the very important future purchasing power from private retirement provisions by 25%. Valuable long-term savings schemes and investment fund savings models will unfortunately lose their appeal,” Mr. Mostböck elaborated.

Company-specific factors shifting into the foreground.

Artner recommends the following investments:

Blue Chips: OMV, RHI, Immofinanz, voestalpine

Small/Mid Caps: AMAG, Kapsch TrafficCom, Polytec, AT&S

Expectations for the rest of 2011 moderately positive. With respect to strategy, a moderate upside push is expected in H2 2011 due to attractive valuations. The valuation level of the Vienna Stock Exchange may be assessed as very attractive in historic comparison as well as versus other markets (PER 2011e: 9.5x, 2012e: 7.7x). Earnings growth is clearly in the double-digit range in both cases (2011e: +32.0%, 2012e: +22.6%). Erste Group Research therefore expects moderate upside potential for the rest of the year, with some bouts of wide fluctuations being possible. “Overall interest rates will remain low. Therefore, Austrian stocks will yield much better returns than 10-year government bonds (+840bp in favour of stocks). Despite sluggish turnover and the disappointing price trends to date, based on the well founded fundamental facts (PER, earnings growth) it is still feasible that we will see the ATX rise to the maximum mark of 2900 points by year-end 2011,” added Fritz Mostböck Head Group Research in his closing remark.