ERSTE Group

Outlook 2012: Equity Markets and Vienna Stock Exchange

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Stocks perform poorly at low trading volumes YTD; ATX performance expected to be moderately positive in 2012

Sovereign debt with negative impact also in 2012; volatile environment expected; much lower rates of government indebtedness in Austria and especially in CEE; relatively attractive valuations; stock-picking recommended

- **Trend clearly negative for ATX 2011 YTD; strong underperformance at low trading volumes**
- **Attractive valuations (PER 2011e:9.2; PER 2012e: 8.3)**
- **Debt situation a burdening factor, but debt levels of CEE countries far below euro zone average**
- **Economic trends in CEE expected to be much better than Western euro zone in 2012e/2013e**
- **2012e/ATX: Slight double-digit performance expected; overall, debt crisis will continue to fuel volatility**

Top Picks:

- **AMAG, Immofinanz, Kapsch, Lenzing, Österreichische Post, OMV, Semperit**
- **Investors still very selective: focus on stock picking.**

The year 2011 has been a very disappointing one for ATX stocks up to now (-36% YTD). The ViennaStock Exchange basically followed the negative international trend, with the pressure on European markets being especially severe. Exception factors such as the Arab crisis, the events in Japan (Fukushima) and the continuing escalation of the debt crisis weighed heavily on markets in 2011. The much lower rates of indebtedness in Austria, and especially in the CEE, have failed to have a really positive or supportive influence up to now. Trading volumes remain low. Irritations on the financial and currency markets will continue to come from the high deficits and sovereign debt problems in 2012. Nonetheless, the markets of Central and Eastern Europe should succeed to a relative extent in decoupling from the trends of major markets and serve as a factor of stabilisation. The ATX currently has an attractive valuation level in historic comparison and in relative terms. Austrian stocks may be assessed as much more attractive than government bonds, especially based on yields (870 bps spread versus 10-year government bonds based on PER 2011/12e). Overall, Erste Group Research expects a moderately positive stock performance for the ATX in 2012 despite some phases of turbulence.

International markets and the ViennaStock Exchange: debt problems will remain dominant theme. Since it is impossible to contain high levels of overall indebtedness or deficits swiftly – and on top of everything else in a contracting economy – the international investment environment will remain vulnerable. “As in the past few months, the trend of differentiating between countries and asset classes will continue. The crisis originated in sovereign debt, which can only be reduced with difficulty and over the long term. Since the initial financial crisis of 2008/09, it has become clear that governments in the core CEE countries have much lower debt ratios than the euro zone average and the rest of the major industrialized nations. This fact and the very poor development of stock prices up to now should give the ViennaStock Exchange the space it needs for stabilisation and relative improvement over the course of the year 2012," explained Fritz Mostböck, Head of Group Research.

Focus on solid balance sheets and high profitability. "In economically hard times, one should concentrate on companies that achieve high profitability even in such settings, and additionally, report stable financial figures. This is true for all of our top picks. An attractive dividend yield is also a key element in an investment decision (especially in the case of Immofinanz, Österr. Post, OMV and Semperit)," stated Günther Artner, Co-Head of CEE Equity Research. "Many of these preferred companies are leaders in their fields, and some even worldwide (e.g. Kapsch TrafficCom, Lenzing). In the case of OMV, the intentions of IPIC to increase its stake even gave rise to hopes of upside potential recently. Also at AMAG, there is a financial investor that will at some point want to sell its shares. The two companies are very attractively priced even without the takeover upside. Only when an economic recovery sets in, will cyclical and financial stocks gain a sustainable appeal. In this case, we would invest in stocks like Polytec, RHI, voestalpine and Raiffeisen Bank Int."

Specifically, Günther Artner recommends investing in:

Blue Chips: Lenzing, Immofinanz, Österr. Post, OMV

Small/Mid Caps: AMAG, Kapsch TrafficCom, Semperit

Expectations moderately positive for 2012. As regards strategy, we expect impulses from attractive valuation ratios, lower rates of indebtedness and a higher average growth potential in CEE countries for the year 2012. The valuation level of the Vienna Stock Exchange is attractive both historically as well as relative to other markets (PER 2011e: 9.2x, 2012e: 8.3x). Erste Group Research expects a moderate uptrend for stocks in the coming year, with wider price fluctuations being possible in some phases. "Interest rates will remain low on the whole. Austrian stocks are still returning much better yields than 10-year government bonds (+870 basis points in favour of stocks). Despite weak trading volumes and disappointing price trends YTD, it is quite possible that based on the much better fundamental data in relative comparison, we will see the ATX reach a level above 2,100 points in 2012," said Fritz Mostböck Head of Group Research.