ERSTE Group

Outlook 2012: Equity Markets and the Vienna Stock Exchange

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ATX moderately positive in 2012 up to now; attractive valuations in thin trading

Problem of global debt will continue to exert negative influence in 2012; environment to remain volatile; relatively low debt in Austria and CEE and yields on Austrian government bonds confirm save haven

ATX 2012 positive up to now; overall, outperformance at thin trading volumes

Valuation still attractive (PER 2012e: 8.2x; PER 2013e: 7.0x),

Earnings growth well into double digit range (2012e: +17.8%; 2013e: +14.5%),

Debt situation relatively better, indebtedness of key CEE states better than euro zone average

Economies in CEE fared better in 2012e/2013e than in the Western euro zone

2012e/ ATX: slight double-digit performance expected, debt situation will continue to fuel volatility

Top picks: Immofinanz, Kapsch, Lenzing, OMV, Polytec, RHI

Focus still on stock picking

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The performance of the ATX has been moderately positive in 2012 up to now (+4% YTD). This is justified especially when compared to many other European countries whose sovereign debt tends to be higher in comparison. The Vienna Stock Exchange generally followed a volatile, but nonetheless differentiated international investment trend, which gave due consideration to states with better macroeconomic data (growth, debt, interest, labour market). The relatively lower debt ratios for Austria and especially for the CEE may very well turn out to be positive factors. However, trading volumes remain thin. The performance of the major listed companies of the Vienna Stock Exchange, which still function as the hub between Eastern and Western Europe, should nonetheless be able to continue to their relatively good trend. The ATX is attractively valued at present. Returns on Austrian stocks make them much more attractive – as a consequence of the low interest rates on sovereign bonds (1,120 basis-point spread vs. 10-year government bonds based on PERs 2012/13e). Erste Group Research expects the rest of the year 2012 to remain volatile, but with a moderately positive trend until year end.

International markets and Vienna Stock Exchange: global debt situation to remain dominant theme
As the huge debts and deficits – in a phase of global economic contraction – cannot be contained in the short term, the environment will remain fragile. The same as in the previous months, a distinction will continue to be made between countries and asset classes. This circumstance has had a positive effect on Austria. The crisis is stuck in the quagmire of debt which will be hard to reduce and only over time. As revealed by the financial crisis 2008/09, Austria and the main core countries of CEE have much lower levels of government debt – in relative comparison – than the euro average and the rest of the world (industrialized nations like the US, UK, Japan). This circumstance became apparent for the first time in the relatively more favourable trend of Austrian equities and bonds. “The

conspiracy theory that claims that Austria has a credit risk is wrong. The figures for growth, debt, employment and especially returns make a very clear statement," said Fritz Mostböck, Head of Erste Group Research.

Focus on specific themes. Investors are currently very selective in what they are picking and are showing a preference for companies with one or more of the following characteristics: (1) international positioning (large share of emerging markets business), (2) stable and profitable business model, (3) attractive dividend yield, and (4) asset-like quality with inflation protection. These criteria currently apply to the best of the Vienna Stock Exchange: Immofinanz, Kapsch TrafficCom, Lenzing, OMV, Polytec and RHI. "There are currently ten stocks on the Vienna Stock Exchange that have a dividend yield of over 4% and many more stocks that are just slightly below this figure. This is nearly twice as high as the interest on 10-year Austrian government bonds. We have not seen a valuation constellation like this for a long time. Compared to the book value, Austrian ATX stocks are trading at a discount of 20% right now. Based on these valuation ratios, we believe that Austrian stocks are attractive and should be included in portfolios and will help investors preserve their purchasing power over the long term," explained Günther Artner, Head of CEE Sector Research.

Expectations for the rest of the year are moderately positive. Austrian stocks are set to continue to profit from the low levels of debt and high growth potential of the CEE countries in conjunction with the attractive valuations. Therefore, Erste Group Research expects the moderately upwards trend to continue for the rest of the year 2012. "Interest will remain historically low in Europe. Yields on Austrian government bonds confirm the safe haven function. If one looks at only the bare facts, a top rating for Austria – based on a sober analysis of the relative comparison – never would have been at doubt. Austrian stocks are expected to continue to profit from this 'safe haven' function together with the moderately better fundamental factors in Central and Eastern Europe. Earnings growth in the ATX will therefore remain robust (2012e: +17.8%, 2013e: +14.5%). Generally, we expect the ATX to climb to 2,200 points by the end of 2012," said Fritz Mostböck, Head of Group Research in his closing remark.