Outlook Stock Markets and Vienna Stock Exchange 2013

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ATX Top Performer, but Weak Trading Volume a Drawback

- CEE economies: stronger than Western euro zone
- Sovereign debt remains biggest problem
- ATX: double digit earnings growth (2012e: +44%, 2013e: +16%)

The ATX records an excellent performance this year (+25% year-to-date). Among developed markets in Europe, only the DAX managed an even better performance. In any event, the price trend and the orientation toward Central and Eastern Europe, where sovereign debt remains on average relatively low and economic growth is markedly higher in the long term, for the first time confirm that a comparative 'safe haven' status is justified. The only weak points of the positive trend at the Vienna Stock Exchange remain low trading volumes and the absence of capital market transactions. The major listed corporations on the Vienna Stock Exchange, which function successfully as a hub for Central and Eastern Europe, should continue to be able to decouple from bigger markets. In spite of the recent upward trend, the ATX remains attractively valued. From a yield perspective, Austrian stocks are to be rated as notably more attractive, due to extremely low interest rates on sovereign bonds (spread over 10-year government bonds at 740 basis points based on 2012/13 P/E ratio estimate). For the coming year, Erste Group Research expects an intermittently more volatile, but nevertheless moderately positive trend into year-end 2013.

Global Debt Situation Remains Major Topic
In a globally tense economic situation, high debts and deficits won't be redressed quickly. However, the debt crisis cannot be viewed exclusively as a euro area phenomenon, but includes other industrial nations as well, such as the US, the UK and Japan, where both cumulative debt as well as newly incurred debt are in fact comparatively higher. As a consequence, the international environment in 2013 should at times remain fragile. “There continues to be selective differentiation between countries and asset classes. This investment pattern has recently had a very positive effect on Austria. The crisis has ultimately arrived at the countries’ debt levels. However, as it now turns out, Austria and important CEE nations exhibit much lower sovereign debt levels. These facts have for the first time clearly led to a better performance of Austrian government bonds as well as domestic stocks”, says Fritz Mostböck, Head of Group Research.

Fritz Mostböck, Head of Group Research

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Dividend Stocks in Focus
“Due to the low level of interest rates, dividend stocks are currently quite popular with investors, whereby it is not only the absolute height, but also the sustainability of dividends that is important”, says Günther Artner, Head of CEE Sector Research. Currently the experts recommend to buy shares like Immofinanz, OMV, Verbund, VIG and voestalpine. These five stocks offer a well-balanced mix of sectors, together possess a notable real asset base and currently trade at an average dividend yield of 3.9% based on 2012 numbers and 4.5% based on 2013 numbers. Suitable as portfolio additions are shares like AT&S, Lenzing, Polytec or Semperit, which sport in sum a somewhat lower dividend yield, but offer better growth

perspectives. Due to the recent rally, Austrian shares are now on average once again trading at book value. In terms of P/E ratios and also their valuations relative to the level of interest rates, there still remains upside potential, even though the massive undervaluation of summer of 2012 has been reduced in the meantime.

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2013 Expected to be Moderately Positive

Austrian stocks should continue to profit from the higher growth potential in Central and Eastern Europe. Over the past five years, this is to say precisely while the economic crisis was playing out, the CEE countries have clearly outperformed the rest of Europe economically. Lower government debt coupled with attractive valuation levels should continue to be drivers of a better trend. Erste Group Research anticipates a moderate continuation of the market rally in the coming year. “We expect another rate cut by the ECB to 0.5% in the first quarter of 2013. Interest rates in the euro zone should remain at historically low levels at least until 2015”, Mostböck says further. Based on the facts, Austrian government bonds remain a safe haven and a top rating isn't open to question. Consequently, Austrian stocks should profit from this situation as well. Earnings growth of the ATX is intact (2012e: +44%, 2013e: +16%), valuations are attractive. “All in all, we should see a low double digit increase in the ATX by the end of 2013”, Mostböck says in conclusion.

ATX: Over/undervaluation

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