ERSTE Group

ATX: Domestic Equities as Income Boosters for Portfolios

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Stock Market Outlook and the Vienna Stock Exchange in 2013

- ATX: 2,400 points by year end
- Good earnings growth (2013e: +27.9%; 2014e: +12.7%)
- Stocks yield more than 10-year government bonds
- Growth potential of important CEE nations is better

The Second Half in the ATX
Erste Group's analysts see catch-up potential in the ATX. After clearly underperforming in the first half of the year with a decline of 8% (ytd), a bit of positive momentum could set in until the end of the year.

The international backdrop is quite mixed, many developed markets were able to deliver a better performance than the Vienna Stock Exchange. Overall though, the Euro Stoxx 50 Index was e.g. also slightly negative in the first half of the year. “Current valuation ratios such as expected earnings growth, price-earnings ratios, earnings and dividend yields definitely signal catch-up potential for the Vienna Stock Exchange in the second half of the year”, states Fritz Mostböck, head of Erste Group Research. “Due to low interest rates worldwide, Austrian stocks remain attractive for investors from an income perspective.”

Mag. Friedrich Mostböck

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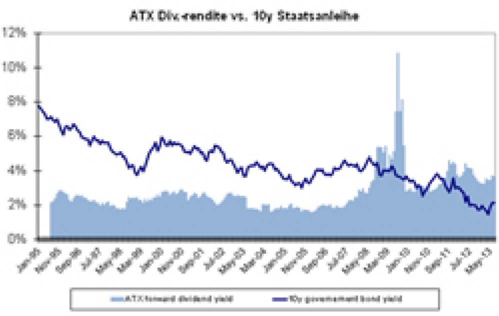
Domestic Stock Market Lags Behind



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Austrian Stocks should generally benefit from the higher economic growth potential in Central and Eastern European countries (CEE). In the past five years of crisis, CEE countries have outperformed the rest of Europe economically, which is increasingly recognized internationally as well. “In conjunction with attractive valuation levels, this foundation should provide the driving force for a better performance in the second half. The bottom line is that we should see the ATX at approximately 2,400 points by the end of 2013”, Mostböck adds. In the analysts' opinion, the Vienna Stock Exchange lags behind the general trend in 2013. Although trading volume has increased by 7% this year, it remains at a very low level overall. The spread between bond yields (10 year government bonds) and dividend yields has increased massively in favor of stocks in recent months, in spite of the fact that bond yields have risen quite a bit from their lows as well. Historically this is a quite unusual situation. The reason is not least attributable to the past decline in the ATX, which has resulted in its component stocks trading well below book value.

Recommendation: Put A Package of Dividend Stocks Together
“The preferred investments that are to be recommended in the current low interest rate environment are counters with a stable business model, a sound balance sheet and steadily increasing dividends”, says Günther Artner, head of CEE Sector Research. Currently that applies to real estate stocks such as Immofinanz or S IMMO, but also to blue chip stocks like Vienna Insurance Group and OMV. All four stocks sport a forward dividend yield of at least 4% for 2014, with a rising trend. "Investors can put a dividend package together”, Artner says. In addition, special situations like STRABAG and Kapsch TrafficCom are to be recommended on the Vienna Stock Exchange at present. While STRABAG has slumped to a valuation well below its book value on the back of negative sentiment in the construction sector, Kapsch should slowly return to the road to success after encountering problems with projects in Poland and South Africa.

Mag. Günther Artner

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