

Erste Group: "Emphasize Dividend Stocks in 2014"

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Outlook for Stock Markets and the Vienna Stock Exchange

2014 target for the ATX: 2,700 points

Earnings growth 2014e: +36.9%

Top Picks: Immofinanz, S Immo, BUWOG, OMV, RBI, RHI, AT&S

There is little economic growth around the world. One of the few regions that still exhibits real economic growth is Central and Eastern Europe. Sentiment in the region has improved, but the Vienna Stock Exchange is to date still lagging behind. Low interest rates are generally promoting investment in stocks, due to a lack of alternatives.

As a result of the weak global economic environment, interest rates are going to remain low in coming years, which continues to be favorable for stocks. From an international perspective, developments in stock markets have varied greatly, especially the PIIGS nations were however able to exhibit positive performance. "Debt problems appear to have been put on the back burner. Currently the markets are concerned about other crisis spots, such as the Ukraine or the war-like situation in Iraq. On a relative basis, the environment in Central and Eastern Europe, as well as in Austria, is clearly positive", states Fritz Mostböck, head of Erste Bank's Group Research department. "Trading volume on the Vienna Stock Exchange has risen significantly this year and the activity of foreign investors has increased as well"



Fritz Mostböck, head of Erste Bank's Group Research department

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Günther Artner, head of CEE Sector Research

Recommendation: A Dividend Portfolio with a Touch of Growth Potential

"As favored investments I recommend real estate stocks, which will continue to become increasingly attractive due to declining financing costs and rising rental incomes", says Günther Artner, head of CEE Sector Research. This applies currently to residential real estate stocks like BUWOG, but also to commercial real estate stocks like Immofinanz or S IMMO. On the other hand, OMV is recommended as a hedge against rising oil prices (triggered by the crisis in Iraq). RHI should benefit from the economic recovery. AT&S will see a jump in earnings beginning in

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2016 as a result of its expansion in China. Lastly, the stock of Raiffeisen Bank International is also worth recommending, as it is trading well below book value in spite of a successful capital increase and should benefit from a decline in write-offs of non-performing loans, resp. a reduction in costs from 2015 onward. "Overall, these stocks represent an attractive high dividend portfolio with a touch of growth potential", says Artner.

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Austria's ATX Index is nevertheless to date still lagging in 2014 (-2% ytd), but harbors catch-up potential due to its low valuation. The global environment remains challenging, the CEE region is however in a better position on a relative basis, not least due to its strong export relationship with Germany. Austrian stocks should generally benefit from the higher growth differential of Central and Eastern European countries (CEE). CEE vs. euro zone: 2013e: 1.2% (vs. -0.5%), 2014e: +2.6% (vs. +1.1%) and 2015e: +3.1% (vs. +1.5%). "In any event, earnings growth, P/E ratios, dividend yields and earnings yields all signal catch-up potential for the Vienna Stock Exchange. Overall we should see a slightly positive performance in the ATX in 2014. The one weakness, namely low trading volumes, has been removed and capital market transactions are once again supportive", says Mostböck. The target for the ATX this year is 2,700 points.

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