



2015 Outlook for Stock Markets and the Vienna Stock Exchange

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ATX: Attractive Valuations Suggest Catch-Up Potential in 2015

Worldwide, economic growth remains moderate. Looking at the actual data, Central and Eastern Europe remains one of the few regions which has been able to positively decouple in a sustainable manner. Extremely low interest rates in the euro area continue to make investment in stocks attractive. As the Vienna Stock Exchange has been lagging for a variety of reasons, there is definitely catch-up potential in 2015.

ATX price target for 2015: 2,550 points

Decrease in earnings and Ukraine crisis weigh

Sentiment in CEE region stable and positive

Focus on stock picking

Vienna Stock Exchange – Racing to Catch Up in 2015?

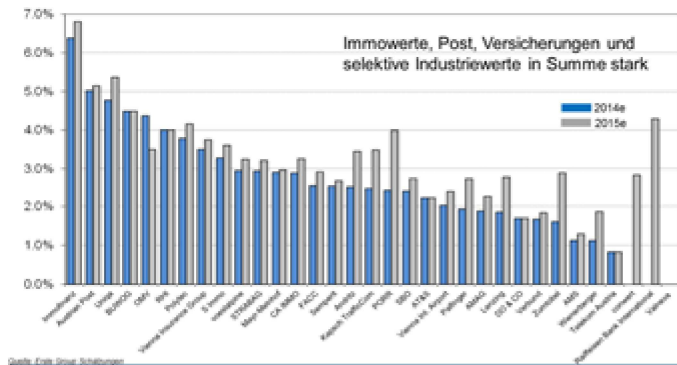
For a variety of reasons, the Vienna Stock Exchange has been lagging behind other stock markets. As a result, there is considerable catch-up potential in 2015. The majority of ATX companies (12 out of 20) had to announce in some cases substantial earnings revisions (-14% decline in earnings in 2014). Thus there is a fundamental reason for Vienna's disappointing performance this year. Moreover, the Ukraine/Russia conflict is disproportionately overrated. "If one looks at a map, the crisis can be grasped from a geographical perspective. In actual fact, only RBI and Immofinanz are affected and negative perceptions are overblown. As a result of this one-off effect and the partially justifiable underperformance, very attractive valuations and considerable catch-up potential are now in place", states Fritz Mostböck, Head of Group Research. "In addition, in 2014 trading volumes on the Vienna Stock Exchange have increased significantly again for the first time in a while."



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Recommendation: Real Estate Stocks, Dividend Stocks, USD and Oil Price Beneficiaries

Dividendenrenditen österr. Werte



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“Austrian property stocks have massively outperformed the overall market since the summer of 2014. Real estate companies are the clear winners of the current low interest rate environment. We expect additional gains in this sector”, says Günther Artner, Head of CEE Sector Research. “In this segment, we prefer BUWOG in the residential real estate sector and Immofinanz, resp. S IMMO in the commercial real estate sector”. In addition, experts of Erste Group Research recommend focusing on companies that are benefiting either from a strong USD, a weak oil price or even both. Globally active industrial companies are in this group, such as e.g. Andritz,

AT&S, RHI or FACC. Spin-offs have done quite well recently – see e.g. Buwog. The next transaction of this kind is imminent with PIAG/PORR, thus PORR remains one of our top picks. STRABAG is also benefiting in this context, and moreover also exhibits significant earnings growth potential in the medium term. At its current low level, UNIQA offers a highly appealing dividend yield of nearly 5%, which appears attractive as well. “In short, we once again see numerous interesting investment opportunities at current lower prices”, Artner says in conclusion.

Potential of Central and Eastern Europe

A positive growth differential in Central and Eastern Europe (CEE), as well as favorable valuation ratios, indicate catch-up potential. The global environment remains challenging, not least due to unresolved economic problems as well as geopolitical crises. In a relative comparison, the CEE countries have however developed markedly better than the large industrialized nations. CEE vs. euro area: 2014e: +2.5% (vs. +0.6%), 2015e: +2.4% (vs. +1.0%) and 2016e: +2.8% (vs. +1.5%). For one thing, Austrian stocks should benefit from the above average growth rates in the region. For another, there are a number of companies which are active in global market niches – leaders in terms of know-how and cost control – and should therefore outperform. “In any case, earnings growth rates, P/E ratios, dividend and earnings yields for 2015 and 2016, are all signaling catch-up potential for the Vienna Stock Exchange. All in all we should see a low double digit gain in the ATX by the end of 2015. Strong inflows indicate that foreign investors remain active as well”, Fritz Mostböck concludes.

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