ERSTE GROUP

Press release

5 January 2011

Equities to slowly regain appeal in 2012; CEE stocks favoured versus Eurozone

- **ZEW/Erste sentiment indicator: Equities to become more attractive in 2012 compared to 2011**
- **Analysts positive on oil&gas and defensives (telecoms and utilities); stock picking and short investment horizons as investment strategy, keep an eye on banks**
- **Investors to focus on stable companies, high debt coverage ratios, net cash companies and defensives**

Negative sentiment and risk aversion still prevail and equity risk premia remain at high levels. Thus, Erste Group analysts remain cautiously optimistic for equity markets for 2012, seeing equities in CEE as more attractive than in the Eurozone. "*Sovereign debt crisis needs structural, long-term solutions, liquidity measures will calm down markets and provide the time to put solutions at work. Overall, we do not expect any recovery move for equity markets to be as strong as in 2009. Recovery will come more quietly, while the slowly recovering sentiment should find its expression in stock market performance. We would be pleased to see this effect already sneaking in during 1Q12, but would not be surprised if it takes a bit longer*," commented Henning Esskuchen, Co-Head of CEE Equity Research.

Erste Group analysts expect a decline in GDP growth in 2012 and again forecast negative growth for Hungary and Croatia in 2012. *"We would expect the sovereign debt crisis to translate at least into a technical recession in 4Q and 1Q for the region, or at least for individual countries and consequently, our recovery outlook for equities depends on this scenario holding up, allowing for a more positive anticipation of economic development in FY12,"* said Esskuchen.

Oil & gas with most appealing growth profiles

The ZEW/Erste sentiment indicator[1] delivers some support for this, with a majority of investors not only seeing equity as a more attractive asset class compared to 2011, but also seeing equities in CEE as more attractive than in the Eurozone.

"In economically hard times, one should concentrate on companies that still manage to achieve high profitability, while also reporting stable financial figures. This is true for all of our Austrian top picks. An attractive dividend yield is also a key element in an investment decision. In our view, investors will prefer stable companies, high debt coverage ratios, net cash companies and defensives in 2012," said Esskuchen.

A positive reading is that almost all sectors have started showing improving earnings revision rates. Facing fears of recession, or at least lower growth rates, certainly weighs on basic resources. Analysts consider insurance and telecom as interesting sectors, which should also do well in 2012 and are also positive about CEE utilities, at least as a base / defensive investment. Real estate might not remain as much in focus. Analysts expect housing sales and the automotive market to contract in 2012, but white goods demand should continue its growth in 2012, in line with GDP growth (especially true for Turkey). Food retail is one of the most defensive sectors in a climate of economic slowdown.

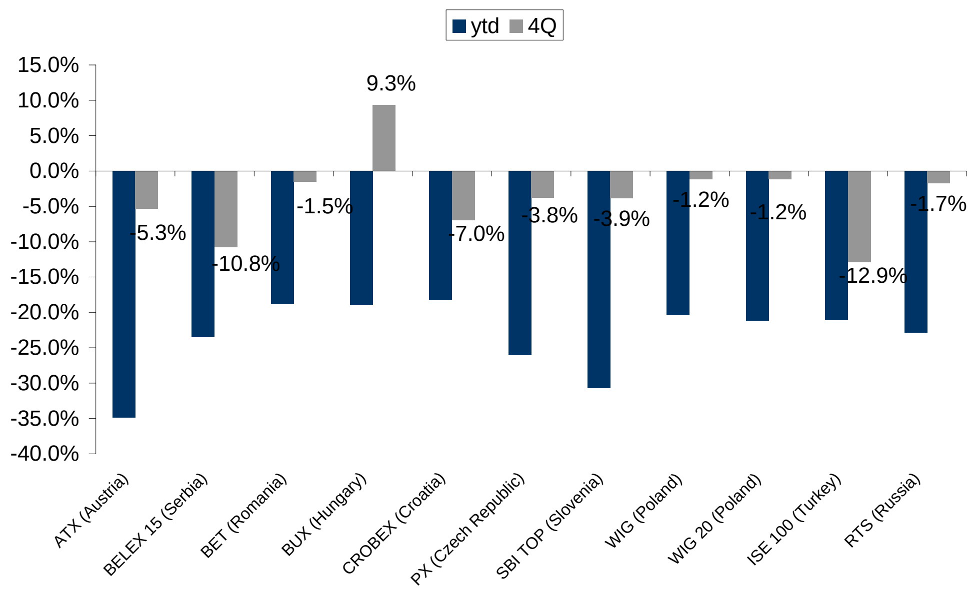
"To summarize, we would keep banks and insurance on the watch list, would favor oil & gas, would add telecom and utilities as defensives and for dividend yield and a bit of healthcare and would stay away from construction and materials and other clear cyclicals for as long as recessionary trends steer market sentiment. We also expect

[1] The ZEW-Erste Group Bank Economic Sentiment Indicator for Central and Eastern Europe including Turkey (CEE) is calculated as the balance of positive and negative expectations for the economic development on a six-month time horizon.

2012 to be positive for all retail companies, due to the continued growth of consumption in CEE," concluded Esskuchen.

Country allocation

Performance overview 4Q 2011 (in LC)



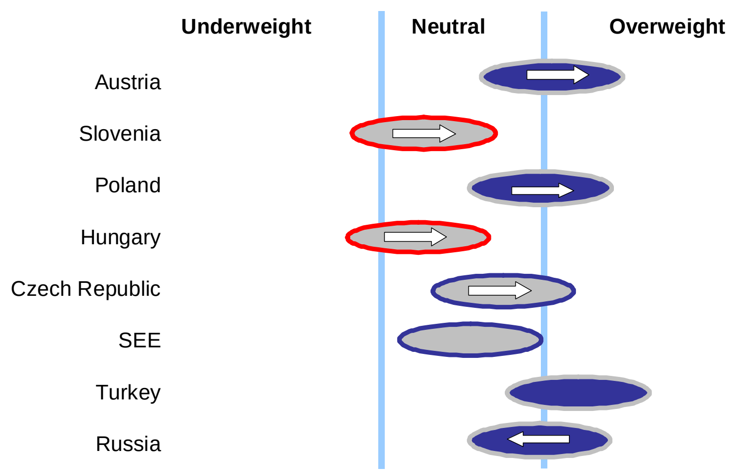
4Q 2011 = 3month performance, closing price 29.12.2011; Source: Factset Partners, Erste Group Research

- **Austria – moderate Overweight.** To cut it short, the performance of the Austrian market will largely depend on how its heavyweight financials develop. Risk aversion is still extremely high for this market and a reduction of this factor could mean significant gains. Valuation is more than reasonable and, acknowledging that earnings growth in 2012 is driven by one-offs in the previous year, the setup looks good and it offers the most attractive relation of valuation/growth (even when taking out the one-offs). The model puts Austria into the neutral area, but Erste Group analysts dare to veto this by again moving the market into a moderate Overweight position.
- **Czech Republic – sound Neutral.** Valuation-wise, the Czech Republic is certainly not the cheapest market in the Erste Group Research universe, while growth is currently as distorted as in Austria, for the same reason. Revision rates are still pretty high and risk aversion seems to be hitting the market rather strongly. Depending on how sentiment develops in 1Q, analysts would veto the model outcome and improve the positioning to a sound Neutral.
- **Hungary – weak Neutral, waiting for IMF.** It seems that the market has reached a point where most of the governmental creativity and uncertainty has been priced in; from that bottom, the market could do rather well. Overall, Erste Group analysts see Hungary now as being dependent on the results of the IMF negotiations. However, analysts believe that in 1Q there will be no immediate pressure for Hungary, to find an agreement with the IMF and the EU. Rumors are that Hungary potentially even has to face sanctions by the EU. In this case analysts would move the allocation proposal even more into the negative territory.
- **Poland – moderate Overweight.** Valuations, earnings revisions, and discounts to implied fair values would speak in favor of the Polish market. However, for 2012, the consensus sees Polish earnings declining by an overall 10%, returning to only moderately positive numbers in 2013. Budget consolidation will remain a major theme for the Polish economy. Poland would be the option in a positive scenario with sentiment improving next

year and markets starting to anticipate recovery throughout 2012 already early in 2012. Hence, Erste Group analysts veto the model outcome and call the market a moderate Overweight

- **Russia – Neutral to Overweight.** Russia remains a difficult call. The model calls it an Overweight, mostly relying on valuation and profitability as the strongest argument. Keeping an option on the oil price – which is still at rather high levels, but does not have strong momentum – the analysts soften the Overweight towards the Neutral area.
- **SEE – Neutral, Romania more towards Overweight.** Croatia remains expensive in relative terms with a forward P/E of 11.3, while growth remains rather meager, hovering around 2%. Erste Group analysts expect the economy overall to post negative GDP growth in 2012. So, they would not expect too much positive activity on this market. Romania remains their favorite in this region. Its valuation is the lowest in the region and growth is still at attractive 15%, relative to a forward P/E of 5.4. The market could become quite active in terms of new listings during 2012. Liquidity remains the main concern. With SEE at neutral, analysts would move Romania more towards Overweight.
- **Slovenia – weak Neutral.** Slovenia comes in as the strongest underweight from the quantitative model. Looking at the combination of fundamentals and valuation, this seems to be beating the market below its value, but it should remain difficult for these arguments to counterbalance the extremely thin liquidity. There might be some corporate actions among Slovenian blue chips, but here the question remains whether that would be a trigger for 1Q.
- **Turkey – Overweight.** Turkey is probably the most top-down-steered market in the Erste Group Research universe. Concerns about a hard landing and (in particular) the still high current account contributed to a weak performance in the fourth quarter, while a strongly weakening currency has made things even worse. Erste Group analysts tend to see the expected slowdown in GDP growth for 2012 rather as a reflection of domestic growth slowing down to more sustainable levels. With this kind of positive fundamental backing, analysts expect the Turkish market to remain most dependent on overall sentiment and on developments among financials. However, with the assumption of a change in trend earlier in 2012, Turkey could indeed surprise. Hence, analysts rate the Turkish market as one of the strongest options on a change in sentiment and rate the market an Overweight.

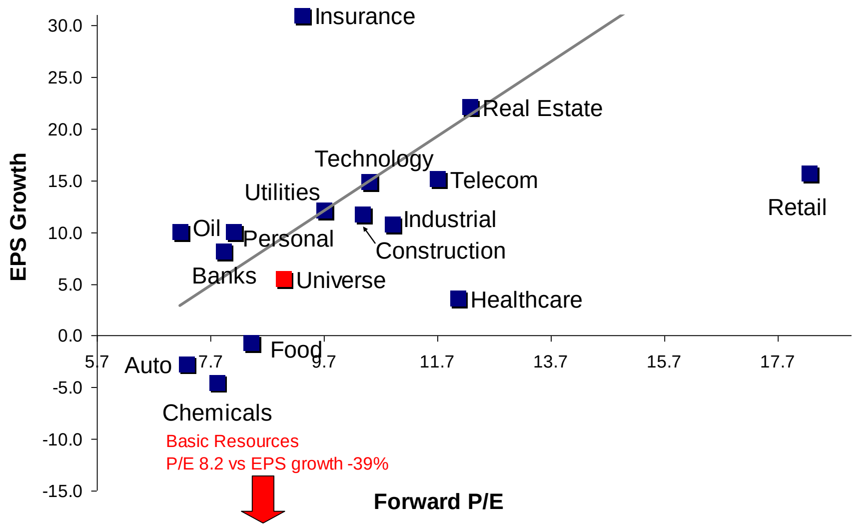
<u>Country allocation proposal</u>



Source: Erste Group Research

Sector allocation

Sectors - forward P/E and growth (EUR, consensus)



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