Country Report

Greece

February 16, 2011

Reality Sinking In – Path To Recovery

Greece at a crossroads

Risk vs. Opportunity

The dawn of 2011 finds Greece at a crossroads with negative sentiment towards the country as concerns over its ability to service its mounting debt persist. The challenges ahead associated with the fiscal and structural reforms are significant, the banking sector is in need of fresh liquidity, while the EU is still considering scenarios for a 'comprehensive package' of measures that could provide Greece (and also EU 'peripheral economies') with a lasting solution to its debt problems.

At this juncture, Greece, despite the significant efforts made in 2010 and the bold reform agenda set for this year, is failing to dissuade potential 'debt restructuring' concerns of investors. Even with a high probability that the country is granted an extension of the repayment period of the EUR110bn loan from the EU-IMF at potentially a lower rate, this is not enough to bring back confidence in sovereign debt sustainability. It has become obvious that only a comprehensive, European-led solution that involves all the EU peripheral economies will provide the necessary support for the country. In order for this solution to instill confidence, it must be able to quell Greek default speculation (and contagion fears) and provide enough time to allow the economy to achieve sustainable growth potential. There have been increasing reports that European authorities are considering such a comprehensive program. Nevertheless, until these measures are revealed speculation will continue to build. Ultimately, if authorities fall short of expectations the markets could react abruptly.

Apart from any EU-led solution the attention should continue to be on the fiscal consolidation program that aims to cut the deficit from 15.4% in 2009 to 1.2% in 2015 and which is yielding initial results. At the same time the government is making strong efforts to pass reforms that will be transforming the economy making it more flexible and more productive. We also highlight the potential upward GDP revaluation within 2011, assisted by the new tax law that will help the country reduce its debt/GDP to more sustainable levels.

Another effort towards the debt sustainability goal is the suggestion that Greece could consider a very ambitious asset sales/asset development/privatizations scheme aimed at raising up to EUR50bn within the next 4 ½ years. Note that the original program (part of the MoU) called for privatizations/asset development of EUR7.0bn for the period 2011-13. The indicative EUR50bn target should permit the country to cut its debt faster but it could also allow the government to negotiate more flexible solutions to its debt issues, from a position of 'strength'. We find difficult to acknowledge that Greece could achieve raising EUR50bn within such a limited period of time but the effort should grab investors' attention and should be appreciated by the markets. In any case, a well designed public property development program, apart from resulting to lower debt levels it would increase asset value and would help spur economic growth.

Critical to the economy is also the creation of stronger financial institutions in order for credit to resurface and assist with the potential recovery. The need of the system to start gradually reducing its cEUR95bn dependence on ECB liquidity could drive this development. Most likely the consolidation process will be initiated by the government and the State-controlled financial institutions but thus far little has been done.

In this environment Greek equities remain close to their 14-year lows, despite a recent rally. The Athens Exchange plummeted to levels last seen in 1997. Back then, the Greek economy, that was also facing debt issues, was just a fraction of the current, while at the same time Greek banks and corporations were much smaller in size with revenues deriving almost entirely from Greece, which is not the case now.

Although valid concerns persist, and will continue to persist until a convincing solution is found for debt sustainability, we view that the market still prices-in a very pessimistic scenario for Greece looking at the past and not at the future. There are initial signs that this negative inclination could be shifting (the Athens General Index is up 15.1% y-t-d). The catalyst was the reports/speculation for an EU-led resolution to Greece's, and all the troubled periphery, debt issue. We recognize though that skepticism still persists through the international investor community and we caution that early euphoria will be unsustainable if it is not supported by actions, both at an EU and at a Greek government level. But we also believe that Greece, gradually, is entering in a new path that eventually will allow the economy to overcome the current hurdles and lead to growth. Under this light we believe that there is 'deep value' in certain stocks that could present a significant opportunity to investors with high conviction to enter the market ahead of the curve.

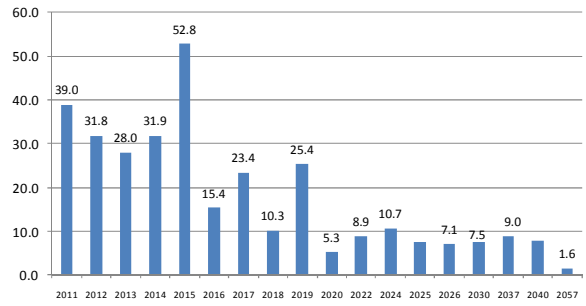
Greece: ahead with the reforms but seeking a comprehensive EU-led solution to install confidence

The market expects EU action

Only a comprehensive, EU-led solution to the European debt crisis will be able to ease concerns

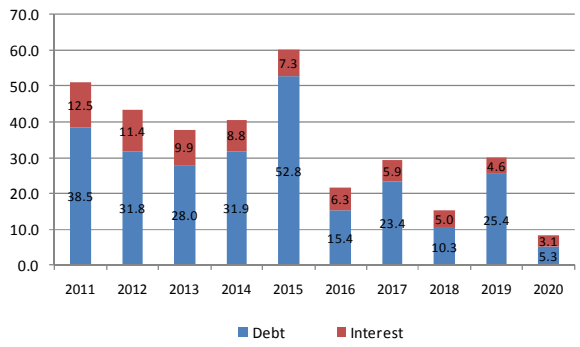
Concerns over the sustainability of the Greek debt and the steps the EU could take to deal with these concerns in a comprehensive manner will be the main theme for Greece, for the first part of 2011. Despite Greece's fiscal consolidation and reform efforts it has become increasingly likely that only some form of EU-IMF-led 'debt restructuring' could allow the economy to exit the current debt trap and unlock its potential.

Greek Debt Expirations* (EUR bn)



*including the EUR32 bn EU-IMF loan, Source: Bloomberg

Greek Debt Expirations and Interest Payments 2011-20* (EUR bn)



Source: *including the EUR32 bn EU-IMF loan, Bloomberg

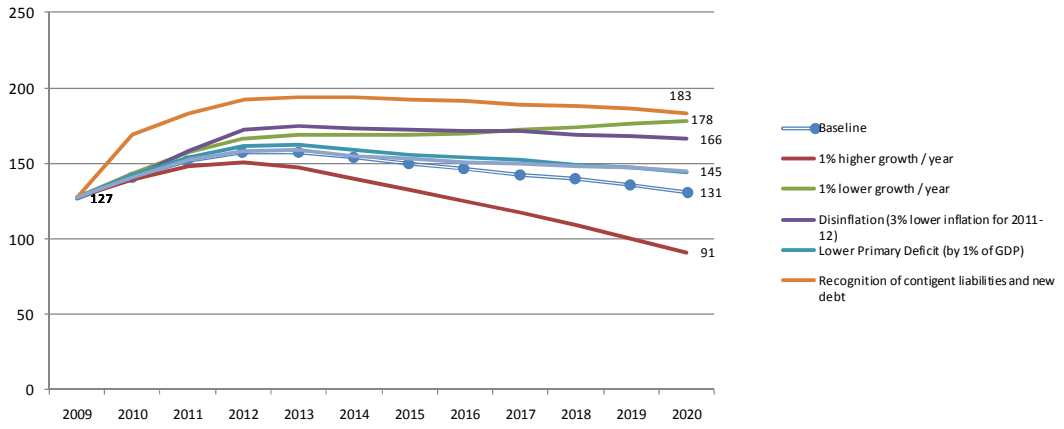
The efforts by the government to cut the deficit and implement structural reforms have not dented investor skepticism as most still believe that servicing its debt is unsustainable. Greece's debt is expected to settle at EUR348bn or 152% of GDP in 2011 and to pick to 158% of GDP by 2013 before it starts to decline. The interest paid to service this debt amounts to EUR15.9bn or 26.7% of net public income in 2011, an alarming level, which nevertheless is expected to increase in the coming years.

Greece would have to generate a significant primary surplus (estimated at c5.5%-6% for an indefinite period) to be able to initially stabilize and to gradually reduce the debt levels.

The government maintains that fiscal discipline and structural reforms will lead to primary surpluses and economic growth and this will be sufficient to allow for the debt servicing and gradually the overall reduction of debt to more sustainable levels. Greece managed to cut the deficit by c6% of GDP in 2010 and there is room to meet its 2011 budget targets. Concurrently the structural reforms are making the economy more competitive and this should start contributing to growth. Moreover, the government's asset sale/asset development/privatization efforts will lead to overall debt reduction.

Although we believe that the government's, economic plan could work, it needs time and leaves no margin of error. In addition, even if everything is executed flawlessly, the debt levels would still remain high and would prompt investors to contemplate different 'debt restructuring' scenarios. These considerations, along with Greece's lack of credibility (although this could be shifting), continue to unnerve the markets and have led to speculation of another, EU-led, solution that confronts the Greek debt issue on a more sustainable basis.

Sensitivity Test of the Public Debt Sustainability (as % of GDP)



Source: IMF

Sensitivity Test of the Public Debt Sustainability (as % of GDP)

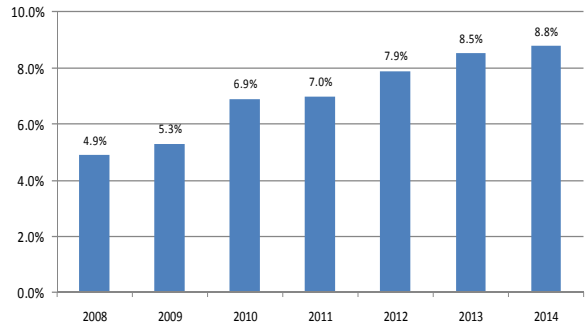
	2009	2010F	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Baseline	127	141	152	158	158	154	150	147	143	140	136	131
1% higher growth / year	127	139	148	151	147	140	132	125	117	109	100	91
1% lower growth / year	127	143	157	166	169	169	169	170	172	174	176	178
Disinflation (3% lower inflation for 2011-12)	127	141	158	172	175	173	172	171	171	169	168	166
Lower Primary Deficit (by 1% of GDP)	127	142	154	161	162	159	156	154	152	149	147	144
Recognition of contingent liabilities and new debt	127	169	183	192	194	194	192	191	189	188	186	183
200bps higher interest on new debt	127	141	152	158	159	155	153	151	150	148	147	145

Source: IMF

We believe a preemptive debt restructuring (haircut) is undesirable by all parties involved and at this point we assign small possibility to this scenario.

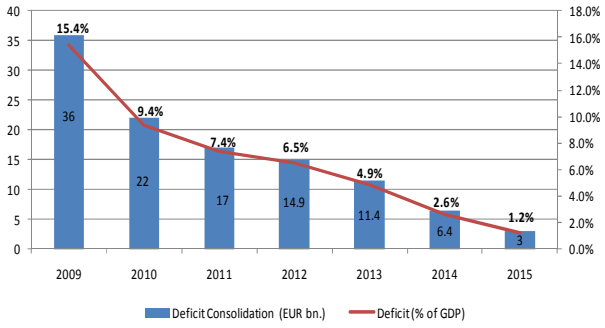
A 'grand' plan however, to address the persistent debt issue will not only ease speculation for Greece but will quell contagion fears in the EU's peripheral economies. We note that Greece is no longer the only member of the support mechanism; while concerns are wide spread that more countries will join if the EU does not take decisive action.

Estimated Interest Expenses (as % of GDP)



Source: IMF, Axia Ventures Group

Deficit Estimates 2009-15 (EUR bn) & Deficit as % of GDP



Source: IMF, Axia Ventures Group

Speculation persists as to what a potential EU debt crisis resolution plan would entail and when it will be announced.

The scenarios reported in the press have two common denominators: 1) the European authorities understand that they have to address the debt issue on an EU-wide basis and 2) it should be a 'comprehensive package' that will be able to bring confidence in debt sustainability in the EU, while allowing the region's weakest economies to grow their way out of their debt problems.

Regarding Greece, one of the proposals that the EU is reportedly considering is a mechanism that would effectively allow the country to 'restructure' its debt on the open market, while at the same time extending the repayment period of its loans.
Recent reports call for the consideration of a 3-stage scenario under which: 1) Greece could borrow funds from the European Financial Stability Facility, 2) buy back and retire outstanding Greek government bonds from the ECB (ECB has bought them at a discount to the face value), 3) offer an extension to private bondholders at reduced rates while extend the EU-IMF EUR110bn loan maturity of up to 30 years at a reduced rate.
Another scenario that could also work in conjunction with the aforementioned is that the European Financial Stability Facility (EFSF) could be mandated to buy distressed governments' debt in private placements.
Most likely an agreement among EU leaders on the comprehensive plan will be reached in March 2011.

A scenario under which Greece could restructure 2/3 of its total debt

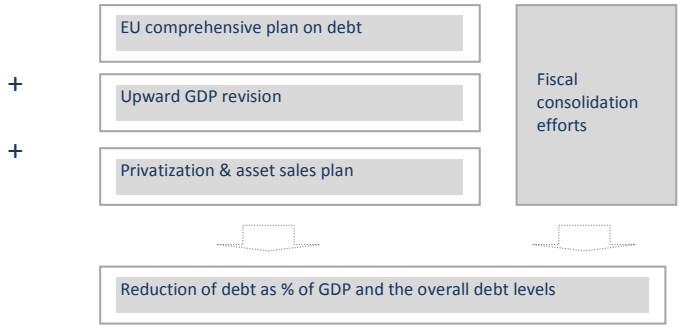
Greece borrows funds from the EFSF (reportedly it could borrow up to EUR50bn from the EFSF).

Step 1	Step 2	Step 3
Greece would use EFSF funds to buy back all GGBs bought by the ECB at the value ECB has paid.	Greece invites private investors to sell their GGBs at a 25% discount.	Private bondholders that own more than EUR100bn in GGBs would be offered an extension to their maturity at between 15 and 20 years.
Reportedly the ECB has bought GGB's of face value of cEUR60bn at an average discount of 22% (has paid cEUR47bn).	A report indicates that GGBs worth cEUR30bn could participate in this effort reducing public debt by EUR7.0bn.	
		The EU and the IMF would then extend the maturity of their bailout loans to Greece up to 30 years and according to reports the interest rate reduced below the current 5.0%.

Source: Daily To Vima, Axia Ventures Group

A type of 'debt restructuring' along with 1) a potential upward GDP revaluation within 2011, 2) a dynamic privatization and asset development/sales plan and 3) the efforts of the government to run a primary surplus, would help the country, in the medium-term, to reduce its debt/GDP ratio as well as the overall debt to more sustainable levels.

Reducing debt levels



Source: Axia Ventures Group

Any comprehensive solution that could lead to lower debt levels would be welcomed by the market as it would ease default fears and would help shift the perception for the country. In addition, it is likely that the terms of such an agreement will emphasize tackling the deficit (could become a constitutional amendment that bans deficits above certain levels) providing another level of confidence to investors.

Still, even if the above plan is well executed (buyback debt from the ECB, adjust the GDP upwards, sale/develop/privatize State assets) we roughly estimate that debt would be reduced to 115%-120% of GDP. This could lead to a fresh round of speculation regarding debt sustainability. With the market looking at c90% of GDP as a more sustainable debt level and with Greece having limited time to achieve this aim, we view that the government could be called to implement additional 'debt restructuring' plans or Greece would continue to be absent from the markets with the EU-IMF providing more time and funds to the country.

Fiscal consolidation: Good marks for 2010 but 2011 is a challenging year

The Greek government has no other option than to reach the targets

Irrespective of any proposed EU initiatives that may bring some relief, the government's efforts to proceed with fiscal adjustment will remain a priority. The 2011 targets are ambitious and some adjustments should be expected, but there is no alternative than reaching these targets.

2010 State Budget Execution – Central Government Balance

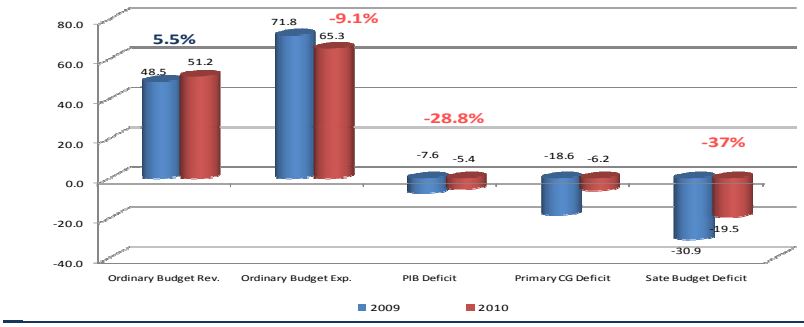
In EUR bn	2009	2010	y-o-y % Ch.	2010		y-o-y % Ch. compared to Draft Budget
				Economic Policy Program	Draft Budget Estimates	
Ordinary Budget						
Net Revenues	**48.5**	**51.2**	**5.5%**	**55.1**	**51.4**	**6.0%**
Revenues before tax return	53.4	56.1	5.1%	60.2	56.5	5.7%
Tax returns	5.0	5.0	0.5%	5.1	5.1	3.0%
Expenditure	**71.8**	**65.2**	**-9.1%**	**67.9**	**66.4**	**-7.5%**
Primary expenditure	58.0	51.7	-10.9%	54.6	52.8	-9.0%
Transfers to hospitals for past debt	1.5	0.3		0.2	0.3	
Interest	12.3	13.2	7.3%	13.0	13.3	7.6%
Public Investment Program						
Revenues	2.0	3.1	51.0%	3.3	2.9	47.7%
Expenditures	9.6	8.4	-11.9%	9.2	8.5	-11.3%
Central Government Balance	**30.9**	**19.5**	**-37.0%**	**18.7**	**20.6**	**-33.2%**

Source: Ministry of Finance, General Accounting Office

Greece is estimated to have reduced its deficit in 2010 by an impressive c6% of GDP to c9.5% of the GDP. Despite 1) the slow start to initiate a deficit reduction plan, 2) the Eurostat revision higher of previous years' deficits and 3) the difficulties in achieving its initial revenue targets (fast contracting economy, inefficient tax collection mechanisms, etc), the government has managed to reach its 2010 revised target. This is a very welcome start in its multi-year deficit consolidation effort.

The c6% reduction of the deficit was achieved by a combination of efforts: revenue increases (assisted by VAT hikes, new taxes, settlement of past-due accounts and efforts to curb tax evasion), expenses reduction (slashing bonus-salaries and benefits of public sector employees, cuts in the number of non-permanent employees, efforts to curb the hospital and public transportation costs) and cuts in the Public Investment Program. Note that the government had to adjust its initial revenue targets lower and further cut in the Public Investment Program in order to reach its revised deficit targets.

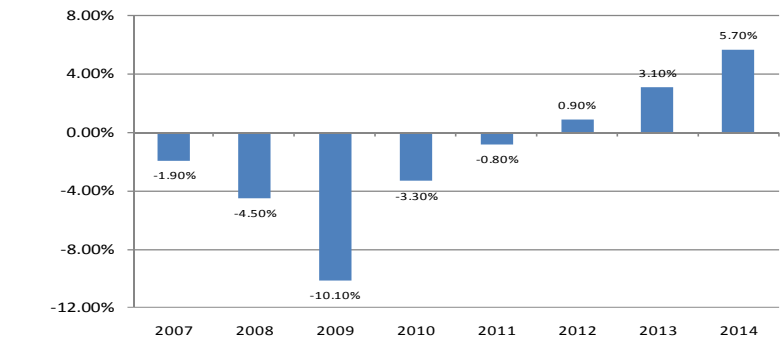
2010 State Budget Execution (EUR bn)



Source: Ministry of Finance

The 2011 adjustment efforts are equally challenging. The total consolidation effort in 2011 amounts to EUR14.3bn aiming to reduce the deficit from c9.5% to 7.4% of the GDP. The 2011 budget accounts for EUR5.3bn in additional revenues and EUR6.5bn in cost savings for the year. If the government meets its targets, the primary deficit will be reduced to 0.8% of GDP in 2011 allowing for optimism that there could be a primary surplus of 0.9% of GDP in 2012.

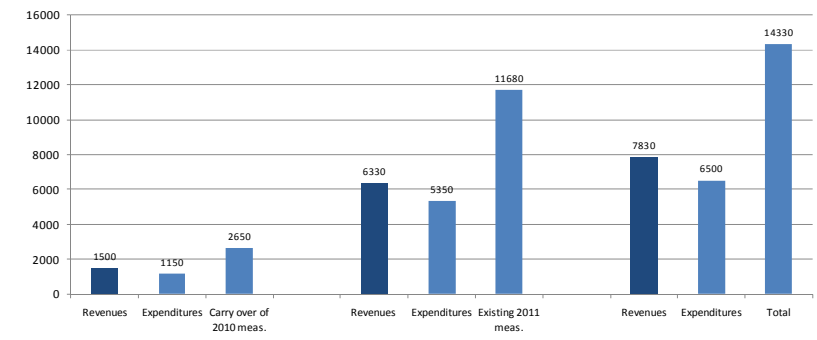
Estimated Primary Surplus in 2014



Source: IMF

The 2011 budget is ambitious and allows little margin of error to its implementation. Note that c55% of the 2011 fiscal adjustment measures derive from the revenue side that must be achieved while the economy is shrinking. Our cautious optimism that the targets could be achieved stems from the expected measures to address historically high levels of tax evasion and our belief that there is further room for deeper cuts on the expense side. Admittedly, the government may be forced to make some adjustments as it did in 2010 in case the revenue target becomes elusive but the Ministry of Finance may be able to counterbalance this drop with cuts in the Public Investment Program and /or further cuts to the expense side.

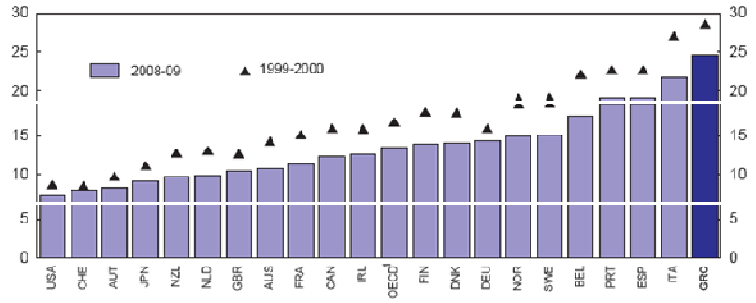
Fiscal Adjustment Measures for 2011 (EUR bn)



Source: Ministry of Finance

Focusing on revenues, we note that in 2010 the parliament voted a new tax law (amendments to this law are expected to be voted in the parliament this month) that will start yielding results in 2011. The aim is to 1) collect additional taxes (widening of the tax base, adjusting the taxable brackets, increasing personal income tax rate for wealthier individuals, etc) and 2) introduce significant changes in the effectiveness of the tax system by making efforts to beef up the tax collection mechanism and reduce tax evasion.

The Size of Shadow Economy (% of GDP)



Source: IOBE, Greece at a Glance, Policies for a Sustainable Recovery, OECD, March 2010. From 'The Size of the Shadow Economy in 21 OECD Countries Using MIMIC and Currency Demand Approach', Schneider, F. (2009)

At the same time 2011 budget calls for a reduction in public expenses by lowering public employee salaries, reducing social transfers and taking steps to cut the deficit of public organizations.

Execution risks to the budget remain but we should not discount the potential for positive surprises on either the revenue or the expense sides.

2011 Budget – Estimated General Government Balance

In EUR bn	2009	2010		2011
		Economic Policy Program	Estimations	Projections
Revenues	**50.6**	**58.4**	**54.3**	**59.5**
Net Revenues	48.5	55.2	51.4	55.6
Ordinary revenues	52.3	58.7	54.9	57.5
Other Revenues	1.1	1.5	1.7	1.8
Tax returns	5.0	5.1	5.1	3.8
Revenues of Public Investment Program	2.0	3.3	2.9	3.9
Expenditures	**84.2**	**78.9**	**77.4**	**80.3**
Expenditures of the Ordinary Budget	74.6	69.7	68.9	71.8
Primary Expenditure	58.0	54.6	52.8	52.6
Other	4.3	2.1	2.8	3.3
Interest Payments	12.3	13.0	13.3	15.9
Expenditures of Public Investment Program	9.6	9.2	8.5	8.5
State Budget Deficit	**-33.6**	**-20.5**	**-23.1**	**-20.9**
% of GDP	*-14.3%*	*-8.9%*	*-9.9%*	*-9.1%*
Primary balance	-21.3	-7.5	-9.8	-4.9
% of GDP	*-9.1%*	*-3.2%*	*-4.2%*	*-2.2%*
Balance of LGs, SSFs, Hospitals and other Legal	-2.4	2.7	-0.9	1.5
Funding of Entities with special bonds	-0.5	-0.6		-0.4
Adjustments	0.4	-0.4	2.0	3.1
General Government Balance	**-36.2**	**-18.7**	**-21.9**	**-16.8**
% of GDP	***-15.4%***	***-8.1%***	***-9.4%***	***-7.4%***
Est. Primary Balance of the General Gov.	**-23.8**	**-5.7**	**-8.6**	**-0.8**
% of GDP	***-10.1%***	***-2.5%***	***-3.7%***	***-0.4%***

Source: Ministry of Finance

Fiscal consolidation is ambitious and front loaded and this adds to the importance of reaching the targets for 2010 and 2011. If these efforts are successful, Greece would have reduced the deficit by a whopping 8% within 2 years, allowing for the country to start running primary surpluses in 2012 and to be in a better position to support any potential 'debt restructuring' outcomes.

New target: reduce the deficit from c9.5% to 1.2% of GDP by 2015

According to the government and the 'troika' (EC-IMF-ECB) officials, the new target set for Greece is to extend its original fiscal consolidation program by 1 year (2015 v. 2014 previously) with a target to reduce the public deficit by another 8% of GDP during the period 2012-15. Reaching this target, Greece will be able to run primary surpluses of 5.5% of GDP starting 2014.
The total amount of the consolidation effort comes to EUR18bn and the government has said that this target will be achieved by slashing costs (2/3 of the program) and by increasing revenues (the remaining 1/3).
The government has to provide in the coming weeks a detail proposal of the measures it intends to take and how it plans to implement these measures over the next 4 years. In any case the ruling party has called for a consultation with the opposition parties on the fiscal consolidation program. Apparently this new set of measures should be agreed upon and be voted in the parliament by mid May.

The measures intended by the government (as reported in the press) are crucial for the fiscal consolidation but also very important for the health of the economy as they address the essence of Greece's problems: the overcrowded, overpaid, inefficient, public sector. Therefore reactions are expected to be strong both by the interest groups and the society. The new austerity package along with the (initial) unwillingness of the political opposition parties for a dialogue could start a fresh round of speculation for early elections.

IMF-Suggested Fiscal Consolidation Measures for the Period 2012-14

Reform Area	Issues	Possible options
State enterprise restructuring	In 2011, public enterprises will still incur losses of more than EUR1.9bn	Review tariff policy to improve cost recovery
	No Dividends paid to the estate, except from Telecom	Limit subsidies to public service obligations
	High wage and operating costs and widespread underpricing	Tighten hiring freeze, downsize, further limit allowance, and cut operational expenditure
		Sell nonstrategic assets
Eliminate unnecessary public entities	200-300 extra-budgetary entities escape proper controls and reporting	Eliminate entities with no function
	Entities absorb central government resources though revenue earmarking	Pass functions to the appropriate line ministry where functions overlap
		Merge Entities performing similar functions and eliminate duplication
Simplify the tax system and improve its administration and efficiency	VAT collection efficiency (about 32%) and property taxes (about 0.4% of GDP)below EU average	Vat reform to widen the tax base (e.g. reduced lower rate items and eliminate geographical rate differentiation)
	Narrow corporate income tax base (e.g. high depreciation rates)	Corporate tax reform to broaden the tax base (e.g. decrease depreciation rates, eliminate exemptions, tighten transfer pricing regulations)
	Complex taxation of capital income	Rationalize the system of taxation of capital income
Reform public administration and social programs	Benefits largely untargeted and often overlapping	Reduce benefits to households above the poverty line
	Organizational structures not aligned with core functions and strategies	Eliminate duplication of benefits
	Non meritocratic HR management	Streamline public sector organizations and activities, pending findings of the functional review
Contain the wage bill	The government wage bill is about one percentage points of GDP above the EU average	Tighten hiring freeze, and downsize across general government
	The average salary in the public sector exceeds private sector wages by about 25%, and working time is about 10% shorter than in the private sector	Increase working hours from 7 to 8 (in line with private sector)
		Simplify the remuneration schemes, e.g. limit the ratio of allowances to the base wage (and link them to the job performed)
		Limit wage drift and promotions (increase years in trade beyond 2)
Contain military spending, particularly procurement	Military spending exceeds the average of the largest EU countries	Reduce military spending towards EU average

Source: IMF

Structural reforms: determination to become more competitive

Strong willed government, weak special-interests response

Structural reforms that aim to make the economy more competitive will remain theme for in 2011.
The new wave of reforms will be testing the resolve of the government but faced with no alternative (the measures are part of the MoU), these changes should pass, allowing the economy to become leaner and more productive. The wild card is whether these changes further weaken the government's popularity leading to speculation to early elections.

Main Structural Reforms Initiated in 2010

Reforms	Objective
Public Administration	
New Tax System	Improve tax administration and better distribution of the tax burden
	Fight tax evasion
	Improve tax collection
Administration Reform	"Kalikratis": reform of regional government administration – estimated savings for 2011 at EUR500m (0.2% of GDP)
	Establishment of an independent statistical authority
Labor & Pension Reforms	
Labor Reforms	Design of arbitration and collective bargaining mechanisms
	Allow symmetric access to independent arbitration services for both employers and workers
Pension Reform	The reform will achieve the goal of limiting the increase in pension spending from 12.5% to 2.5% of GDP by 2060
	Reform the auxiliary pension and welfare funds
Healthcare	
Hospital Financial Restructuring	Improve management and procurement systems of health care
	Complete move to double accounting systems
	Establish operational oversight by the Finance Minister
	Publication of audited accounts
Business Environment	
Fast track law	Fast track investment legislation simplifying and accelerating deadlines for approval of strategic investment projects
	Eligibility of investments can be decided within 30 days, applications can be completed within 15 days and licensing can be completed within 2 months after the application is filed.
Road Freight Liberalization	Removing all unnecessary restrictions on admission to the occupation of road haulage, including minimum fixed prices
Stability and Supervision of the Financial Sector	Secure potential capital needs of the Greek banks with the establishment of the Financial Stability Fund comprised of EUR10bn

Source: MoU

After an 'impressive start' (quoting the IMF Second Review Report on Greece), a second round of structural reforms has commenced. A number of important reform measures must pass, especially in H1:11 (See Appendix), in order to enhance economic competitiveness, to unlock the potential of the economy but also to ensure the release of further tranches of the original aid package.

We believe the government is determined to push ahead with all the major pieces of legislation despite escalating resistance from special interest groups.
We note that the public's reaction so far to the structural reforms has been relatively subdued and mostly led by special interest groups. The government still leads in opinion polls but the new measures will create public fatigue that could test the government's resolve and popularity.

According to daily Kathimerini how EU-IMF-ECB officials grade reform efforts, thus far		
Area of Assessment	**Grade**	**Reservations**
Closed Professions	Ok	Questions regarding the notary profession
Tax Law	Pending	The law should be implemented
Employee Relationships	Negative / No progress	Changes in the framework of employee agreement
Public Transportation	Pending	Official seek the partial privatization of the sector and additional efforts to reduce employee costs
Privatizations	Ok	Faster implementation of the program
Banking Sector	Ok	Operational restructuring and capital raising for ATEbank
Cash deficit	Ok	
Fiscal Deficit	Pending	Lack of data from a number of public entities
Healthcare Sector	Ok	
Opening of the energy market	Ok	Question marks over the Ministry's 'energy swap' scheme of PPC's lignite production
Fiscal Consolidation measures (2010-14)	Negative / No progress	No measures have been announced yet

Source: Daily Kathimerini

The new aim: Targeting EUR50bn from asset sale, asset development and privatizations

The new program to become key to the country's debt reduction efforts

Apart from the fiscal efforts and structural reforms, the government is apparently contemplating a very ambitious asset sales / asset development / privatization program that could reach up to a whapping EUR50bn. Recall that Greece had initially indicated that it would seek to raise EUR1.0bn from privatizations / asset development in 2011 and an additional EUR6.0bn over the next 2 years.

We view that the consideration of such a program is an aggressive effort by the government to persuade both the EU-IMF and the markets of its intentions to reduce debt. Parallel to this, such an effort would allow Greece to enhance its bargaining power in the discussions with the EU-IMF over a more sustainable debt solution. In addition, we believe that the government has realized that an ambitious asset development program will help increase the country's asset value and will allow for faster economic growth.

The property value of the Greek Sate is estimated (by the IMF) at EUR200-300m or between 87% - 130% of the GDP and we note that the government is currently in processes of fully assessing the value of its assets before indicating how it will use them.

Original Privatization Program for 2011					
Company	**Expected Date**	**% of State Ownership**	**% of Expected Sale**	**Expected to raise (EUR m)**	**Privatization Method**
DEPA (Gas Operator)	Q4:11	65%		170-220	Privatization in progress
Athens Intl. Airport	Q2:11	55%		200-300	Extension of concession
LARCO (Mining company)	Q4:11	55.19%		-	Sale to Strategic Investor
TRAINOSE (railway operator)	Q4:11	100%		-	Sale unsp. % to start. investor/In progress
Mont Parnes Casino	Q2:11	49%	49%	120-150	Sale to Strategic Investor
Egnatia Highway	Q4:11			-	Concession
Hellenic Defense Systems	Q3:11	99.81%		-	Sale unspecified % to strategic investor
4 Airbus A340 jets	Q1:11	100%	100%	80	Sale
Radio Frequency channels	Q3:11			250-300	Concession

Source: Ministry of Finance

Thus far Greece has been slow to implement its MoU privatization commitments, avoiding disclosing all its targets (has announced targets only for 2011) and providing a vague timetable. We view very difficult for Greece to attain the EUR50bn target (which is indicative according to the government) in such a limited period of time. The State (apart for the delays in deciding what assets to develop and the process is needed to develop them) it could be confronted with a number of issues, including social objections, legal issues and the reaction of public sector employees (in case public companies are privatized).

Greek Public Sector Asset		
In EUR bn	**2009**	**2010F**
Financial Assets	**76**	**75**
% of GDP	*32.5%*	*32.7%*
Currency	13	12
% of GDP	*5.4%*	*5.4%*
Securities	2	2
% of GDP	*0.7%*	*0.7%*
Loans	1	1
% of GDP	*0.6%*	*0.6%*
Shares	39	39
% of GDP	*16.9%*	*17.0%*
Other	21	21
% of GDP	*8.9%*	*8.9%*
Public Sector Capital Stock	**121**	**120**
% of GDP	*52%*	*52.2%*
Real Estate	**Estimated at EUR200-300 bn**	
% of GDP	*Estimated at 87%-130% of GDP*	

Source: IMF

We expect asset development / privatizations efforts to dominate the Greek market this and in the coming years. As the reform process deepens and economic conditions begin to steadily improve, we believe tangible investor interest will materialize in State assets, both listed and non-listed.

Greek State's Main Listed Assets		
Company	**% Stake**	**Value of the stake at current price levels (EUR-price at 11/02/2011)**
OPAP	34%	1,685,475,673
PPC	51.1%	1,470,703,414
Hellenic Petroleum	35.5%	804,552,856
OTE	16%	592,885,931
Agricultural Bank	77.3%	595,013,850
Athens Water	61.3%	324,639,108
Hellenic Postbank	34%	331,197,574
Pireaus Port Authority	74.1%	259,482,160
Thessaloniki Water	74%	112,308,240
Thessaloniki Port Authority	74.3%	101,961,962
National Bank of Greece	1.2%	86,919,930
Bank of Greece	8.9%	62,199,525
Piraeus Bank	2.5%	13,293,429
Folli Follie Group	2.8%	21,374,983

Source: Axia Ventures Group

Economic Recovery: finding path

Stabilization of the Greek economy in 2011, is it feasible?

The economic hurdles and the subsequent austerity measures implemented are led to a GDP decline of 4.5% in 2010 (steeper than the government's and the IMF projections for a 4.2% decline). The IMF and the Bank of Greece expect the economy to further decline by c3% in 2011. The question as to when the economy will return to growth remains open but we do not exclude the possibility that the functional changes taking place due to the structural reforms could lead to a positive surprise on growth by year end. At the same time, we believe it is likely that Greece could adjust its GDP higher on the back of higher revenues, generated by the new tax legislation. Still the persistently high inflation could pose a threat to the efforts.

IMF Economic Forecasts

	2010F	2011E	2012E	2013E	2014E	2015E
Real GDP	**-4.5%***	**-3.0%**	**1.1%**	**2.1%**	**2.1%**	**2.7%**
Total domestic demand	-7.3%	-5.5%	-0.7%	1.2%	1.3%	2.0%
Private consumption	-4.1%	-4.3%	0.3%	1.1%	1.2%	1.3%
Public consumption	-9%	-8.6%	-6%	-1.5%	-0.2%	2.1%
Foreign balance	4.0%	3.0%	1.8%	0.8%	0.7%	0.6%
Exports	0.9%	5.4%	6.0%	7.0%	7.1%	7.3%
Imports	-12.0%	-6.4%	-1.5%	3.0%	3.7%	4.5%
Unemployment	12.2%	14.3%	15%	14.6%	14.2%	13.4%
CPI	4.6%	2.2%	0.5%	0.7%	1.0%	1.0%
Nominal GDP (EUR bn)	230	227	230	236	244	253
Nominal GDP (% ch.)	-1.3%	-1.5%	1.4%	2.9%	3.1%	3.6%

*Actual number from El.Stat, Source: IMF

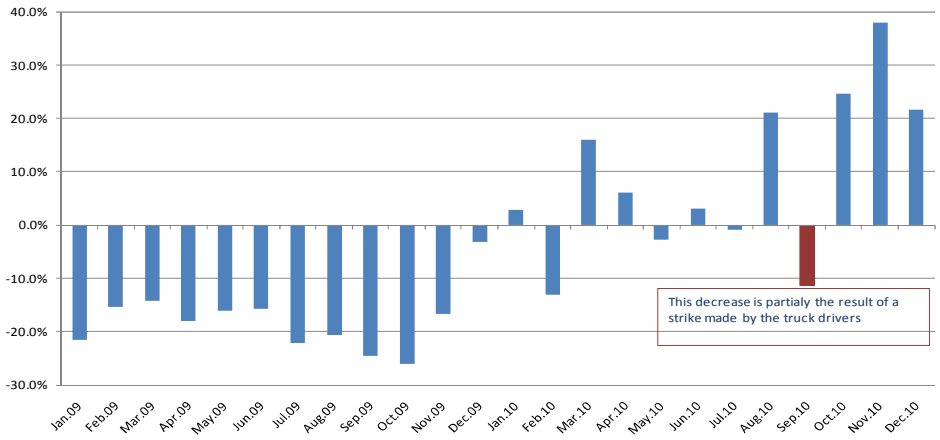
Economic activity is anticipated to continue to move lower in 2011, hurt by shrinking demand as private consumption is expected to continue to be under pressure due to higher unemployment and lower disposable income. There are 2 catalysts that may contribute to an upside surprise in growth and lead to stabilization in late Q3:11 or in early Q4:11: exports and tourism.

In terms of exports we note the structural reforms are making Greek companies increasingly more competitive (more flexible now to adjust salaries, push for redundancies and to negotiate operating costs lower).

We are already witnessing a favorable trend that is expected to accelerate in the coming quarters as corporate operating costs decline and as global demand improves.

As far as the tourism sector, expectations are for an improvement in the industry over 2010 performance, assisted by expanding global economic activity, competitive pricing, reduction in negative newsflow that was pervasive last summer and the political instability in other traditional tourist destinations.

Greek Exports 2009-10 (y-o-y %Ch.)



Source: El.Stat.

The sharp drop of private consumption in 2010 is the result of increasing unemployment and lower disposable income but also the result of the very negative sentiment driven by speculation and rumors. If speculation over Greece's ability to weather the financial storm subsides, then sentiment could gradually start to improve. We would like to highlight the very low private sector debt levels in Greece compared to other Euro-zone country-members. An improved sentiment, coupled with low private debt levels along with country-specific economic and cultural characteristics (high home ownership, family ties etc), should help mitigate the impact of the fiscal and structural reforms and allow for a quicker rebound of the economy.

On the other hand, the persistently high inflation presents the economy with a challenge. Despite the severe austerity measures, inflation remain at high levels (CPI came to 5.2% in January). The IMF was forced to revise its initial 2010 targets higher and this could also be the case for this year. The high inflation in 2010 was partially attributed to VAT and tax increases for some products (these increases plus hikes in utility bills will also impact part of 2011) but also is related to the rigidness of the Greek economy. We caution that if inflation levels remain high this could eradicate the efforts of the government to make the economy more competitive and to reduce public expenses.

Upward GDP revision: a possibility

Data have driven sentiment to the conclusion that current GDP levels could not be representative of the real economy. Certain indications though are pointing to a potential upward revision of the GDP in 2011 that the market is completely ignoring.

This revision, which needs to be approved by Eurostat, will come on the heels of the success of the new tax law (income tax declarations for 2011), which broadened the tax base and eliminated tax evading loopholes as well as the implementation of a more effective tax-collection mechanism. Recall that the new tax system ties implied standard of living to tax declaration (i.e. ownership of a luxurious assets like yachts, big houses, swimming pools implies higher tax burden and increased state revenues). Since tax evasion is estimated to be above 20% and as much as 40% of GDP, improved collection practices could materially change the estimates for public revenues.
Incorporating even a fraction of the black economy, GDP could see a meaningful enough boost to improve key ratios allowing for a much faster fiscal consolidation.

Banking Sector

A comprehensive solution on Greece's debt would propel the sentiment towards the sector but the business prospects remain challenging in the coming quarters

The sovereign risk concerns are dominating the financial sector as Greek banks hold cEUR51bn in Greek government bonds. At the same time they continue to face a tough economic environment and challenging liquidity conditions.

Improving sovereign perception and consolidation are the two significant triggers, in the short term, which could reignite interest in the sector. Focusing on the latter, neither Greek banks nor the Greek government (that controls some financial institutions) have shown any firm will to go ahead with a sector consolidation that could create stronger institutions, something that would ultimately assist to the recovery of the economy.

Greek* / Cypriot Banks Multiples vs. International Peers

	Market Cap.	NII 20009	NII 20010F	NII 2010E	Net Income 2009	Net Income 2010F	Net Income 2010E	Mean P/E 2010F	Mean P/E 2011E	Mean P/BV 2010F	Mean P/BV 2011E
Societe Generale S.A.	36,127	10,959	11,705	11,936	633	3,883	4,677	8.0	7.8	0.7	0.9
BBVA S.A.	40,126	13,893	13,368	13,364	4,312	4,661	4,818	6.5	8.4	1.0	1.0
BNP Paribas S.A.	67,988	20,677	22,897	19,713	5,697	7,895	8,922	7.0	7.7	0.8	0.9
Natixis	11,458	2,796	4,315	5,505	-1,538	1,535	1,789	8.3	7.7	0.6	0.7
UBS AG	53,564	4,346	5,149	5,155	-1,714	5,683	5,373	8.0	9.8	1.2	1.3
Dexia S.A.	5,746	4,877	4,460	4,263	1,066	830	679	5.9	7.4	0.3	0.6
HSBC Holdings PLC	149,274	28,387	29,242	29,732	4,408	10,569	13,648	13.2	10.7	1.3	1.3
Erste Group Bank AG	14,255	5,221	5,444	5,582	880	949	1,304	14.6	11.6	1.1	1.1
Barclays PLC	44,751	13,384	14,190	14,918	9,155	3,669	5,209	9.8	8.7	0.6	0.7
Credit Agricole S.A.	27,775	13,301	13,082	13,485	1,280	1,586	4,305	9.1	6.2	0.5	0.6
Intesa Sanpaolo S.p.A.	31,047	10,504	9,857	10,340	2,795	2,701	3,081	10.4	9.8	0.5	0.6
Julius Baer Group AG	6,749	315	364	363	294	365	396	18.3	15.4	2.0	1.9
Lloyds Banking Group PLC	53,726	14,323	16,299	16,701	-2,485	695	5,114	37.1	9.1	1.0	0.9
RBS Group Plc	30,391	14,743	16,781	16,950	-4,364	-894	3,493	44.7	12.6	0.6	0.7
Banco Santander S.A.	74,612	26,331	29,245	30,521	9,061	8,345	9,325	7.9	8.1	0.9	1.0
Danske Bank A/S	11,733	3,699	3,196	3,300	242	514	1,319	20.3	9.4	0.9	0.8
Swedbank AB	14,017	2,028	1,809	2,105	-1,012	818	1,335	15.6	10.3	1.1	1.2
Bankinter S.A.	2,152	798	558	509	255	160	159	10.6	14.0	0.7	0.8
Deutsche Bank AG	42,915	12,460	15,226	16,721	4,926	2,452	5,544	11.0	8.0	0.8	0.8
BCP S/A	2,859	1,431	1,486	1,520	262	284	330	10.2	9.7	0.5	0.5
Arithmetic Average								13.8	9.6	0.9	0.9
National Bank of Greece	**7,046**	**3,940**	**4,143**	**4,236**	**915**	**301**	**695**	**14.3**	**9.4**	**0.6**	**0.7**
EFG Eurobank Ergasias	**2,343**	**2,341**	**2,259**	**2,309**	**290**	**20**	**105**			**0.5**	**0.6**
Alpha Bank A.E.	**2,329**	**1,763**	**1,824**	**1,826**	**335**	**68**	**216**		**10.2**	**0.5**	**0.5**
Piraeus Bank S.A.	**1,784**	**1,105**	**1,198**	**1,206**	**206**	**-26**	**23**			**0.4**	**0.5**
ATEbank S.A.	**770**	**708**	**835**	**854**	**-414**	**-131**	**10**	**5.9**	**8.8**	**0.7**	**1.0**
TT Hellenic Postbank S.A.	**973**	**263**	**380**	**369**	**32**	**-46**	**64**	**12.3**	**14.0**	**0.3**	**0.3**
Bank of Cyprus PCL	**2,926**	**848**	**1,041**	**1,117**	**315**	**319**	**354**			**2.5**	**2.9**
Marfin Popular Bank PCL	**1,596**	**636**	**724**	**788**	**175**	**96**	**119**		**16.1**	**1.0**	**0.9**
Arithmetic Average Greek / Cypriot Banks								**11.6**	**11.4**	**0.8**	**0.9**

* Net profits include the special contribution tax for 2010/11 - Source: FactSet, AVG Research

Scenarios for a potential restructuring of sovereign debt that could include a haircut on Greek government bonds persist and weigh on the sector. Total holdings of Greek government bonds from Greek banks amount to cEUR51bn (Q3:10). Although we view that the market has discounted, to an extent, a potential haircut, unless there is a clear long-term solution to the Greek debt issue (that does not involve a haircut), valuations are expected to remain pressured. In addition, the sector is directly confronted with the impact of potential further downgrades to sovereign credit rating and speculation of a possible contagion effect across Europe's peripheral economies.

Core Tier I of Greek / Cypriot Banks				
	Q4:09	Q1:10	Q2:10	Q3:10
National Bank of Greece	10.0%	9.9%	9.3%	12.0%
EFG Eurobank	8.7%	8.4%	8.0%	8.0%
Alpha Bank	8.9%	8.9%	8.8%	8.8%
Piraeus Bank	7.7%	7.7%	7.5%	7.5%
Bank of Cyprus	7.4%	7.1%	6.8%	8.1%
Marfin Bank	7.7%	7.5%	7.2%	7.5%

Source: The Banks, Axia Ventures Group

The recent and ongoing capital increases are helping address some of the concerns but 1) not all banks have undertaken capitalization efforts 2) there is always the potential that banks might need additional capital if a sovereign haircut materializes (depending on its extend) and 3) additional capital will be needed if the ECB alters its collateral requirements or if rating agencies continue to downgrade the sovereign debt.

Capital Raising efforts from Greek and Cypriot Banks			
	Rights Issue	Convertible Bond	Other
National Bank of Greece	EUR631m / completed	EUR1.184bn / completed	At least EUR1.0bn from the sale of a 20% stake in Finansbank – TBA exp. end of Q1:11
Piraeus bank	EUR800m / completed	Up to EUR250m / TBA – exp. in H1:11	
Bank of Cyprus	EUR345m / completed		
Marfin Popular Bank	EUR488.6m / completed	Up to EUR660m / TBA – exp. in H1:11	
ATEbank	EUR1.0bn / TBA – exp. in H1:11		

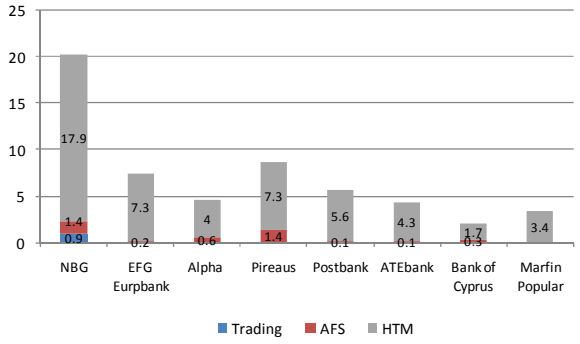
Source: The Banks, Axia Ventures Group

We note that the Bank of Greece (BoG) along with the EC-IMF-ECB have established the Financial Stability Fund comprised of EUR10bn and this should provide support in case capital adequacy ratios by some banks are not met. There are a number of conditions for banks looking to access these funds including 1) the issuance of preferred shares that could be converted to common shares under certain terms 2) the appointment of Fund member to the BoD of the institution 3) presentation of a restructuring plan and 4) veto of key decisions of the credit institution by BoG/EC-IMF-ECB.

New stress tests as the ECB and the Greek government continue to take actions to provide liquidity

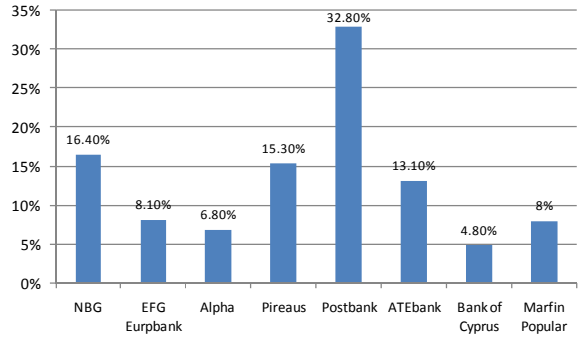
A new round of stress tests designed to test bank's liquidity is expected to take place in H1:11 and according to press, they will be tougher in accounting for sovereign-debt risk. The new stress tests are expected to add further heighten concerns regarding the Greek banking system's current liquidity position and the amount of Greek government bond holdings concentrated on balance sheets.

Greek/Cypriot Bank's Exposure to GGBs (EUR bn)



Source: Banks, Axia Ventures Group

Greek/Cypriot Bank's Exposure to GGBs to Total Assets (end of Q3:10)



Source: Banks, Axia Ventures Group

In this challenging environment the ECB and the Greek government have taken successive actions to provide the system with liquidity.

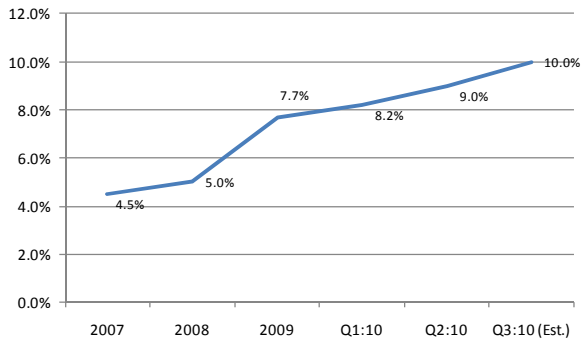
The system remains dependant on ECB lending facility for liquidity. As of November 2010 the reliance of the Greek banking system on ECB repo agreements amounted to EUR95bn, (peeked in July at EUR96.7bn). The extraordinary liquidity provided by the ECB should continue until at least April. We believe it is highly unlikely that the European Central Bank would alter its supportive policy in the medium-term, as such action would abruptly destabilize the delicate conditions in Europe's peripheral economies.

In addition to the ECB facility, the Greek State has provided guarantees of up-to EUR40bn in 2010, bringing the total support (guarantees, preferred shares) to the sector to cEUR65bn since 2008. Apparently the government, in agreement with the EU-IMF-ECB, prepares a new package of EUR30bn in guarantees aiming at further improving the systems' liquidity and boosting the economy. We believe that the State will continue to provide liquidity to the system shielding the sector from the impact of further sovereign downgrades and deposits outflow.

The weak economy will continue to pressure banks

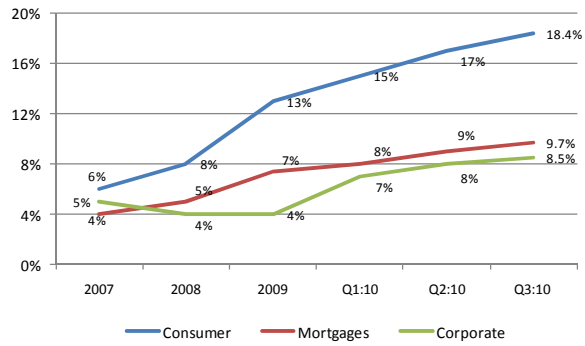
With the economic environment expected to remain difficult in 2011, we should expect asset quality to continue to deteriorate and deposits to decline. Asset quality has deteriorated in the past few quarters and now the market expects this trend to continue throughout 2011 and until mid-2012. According to the Bank of Greece, NPLs for the sector reached 10.0% in Q3 2010, and speculation is that this level will reach c11% for 2011 and could settle to c14%-15% in 2012.

Greek Banking System NPLs



Source: Bank of Greece

NPL Ratio by Product Category

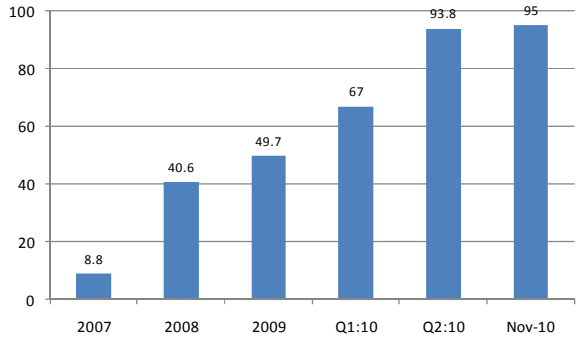


Source: Bank of Greece

In 2011 the banking sector suffered from deposits outflow, initially on the back of escalating sovereign risk concerns and later from the impact of recession which prompted companies and households to start depleting their savings. The year-on-year drop in deposits of households and businesses in Greek banks in December 2010 reached EUR29.1bn or -12.2% y-o-y.

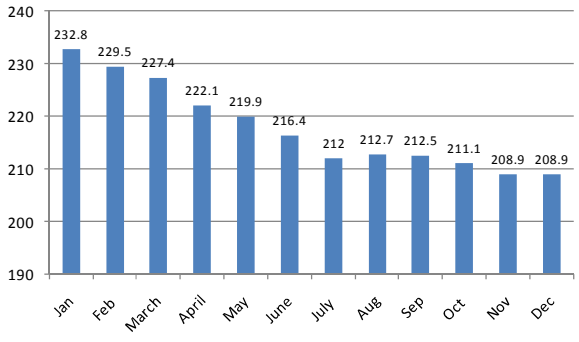
NBG's Head Economist forecasts a further reduction in deposits by EUR20bn (the base for this forecast was EUR213bn of deposits), assuming the recession end in H2:11 and GDP contracts by 3% in 2011.
We believe deposit outflows should continue as the economy contracts, widening the funding gap of the banks and thus risking additional capital needs for the system.

ECB Funding Evolution to Greek Banks (EUR bn)



Source: Bank of Greece

Greek Deposits 2010 (EUR bn)



Source: Bank of Greece

But there are some mitigating factors for the banking sector

The need for liquidity to fund credit demand is seen limited as demand for credit declines (actually deleveraging takes place) and banks bolster lending criteria. December 2010 was the first month since 1981 (Bank of Greece started to record data) that credit contracted. The most probable scenario is for credit expansion will continue to contract throughout 2011.

One supporting factor is the performance of foreign subsidiaries of Greek institutions located in stabilizing or expanding markets throughout southeastern Europe and Turkey. In the case of NBG, the favorable economic conditions in Turkey are expected to allow the bank to sell a minority stake of its subsidiary, Finansbank, at hefty multiples, boosting the group's capital and creating the conditions to fund further expansion in Turkish market.

Loan Growth

	Q4:09	Q1:10	Q2:10	Q3:10
NBG	8.0%	8.0%	10.0%	6.0%
EFG Eurobank	1.0%	3.0%	4.0%	1.0%
Alpha Bank	2.0%	2.0%	2.0%	-1.0%
Piraeus Bank	-1.0%	1.0%	4.0%	2.0%
Bank of Cyprus	5.0%	8.0%	10.0%	11.0%
Marfin Bank	7.0%	10.0%	11.0%	8.0%

Source: Bank of Greece

Total Revenue Growth (y-o-y)

	Q4:09	Q1:10	Q2:10	Q3:10
NBG	-15.0%	-13.0%	-19.0%	-10.0%
EFG Eurobank	-11.0%	6.0%	-2.0%	-8.0%
Alpha Bank	10.0%	2.0%	-8.0%	-12.0%
Piraeus Bank	23.0%	-1.0%	-11.0%	-19.0%
Bank of Cyprus	-7.0%	25.0%	9.0%	-1.0%
Marfin Bank	37.0%	17.0%	-12.0%	-12.0%

Source: Bank of Greece

The difficult market conditions, the new stress-tests and potential speculation for sovereign debt restructuring could create a new wave of urgency for fresh capital that may also be accompanied by a consolidation in the sector. Government controlled banks are more likely to initiate the consolidation phase but smaller banks with limited access to capital are also expected to participate.

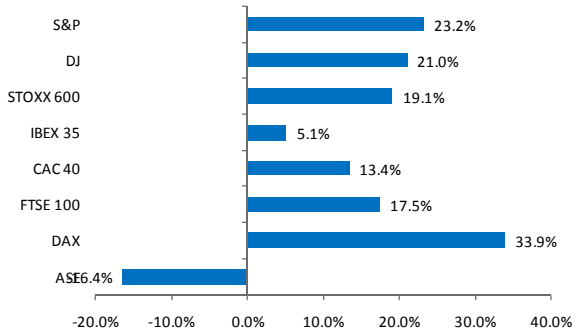
Greek Stocks

After discounting the worst, are valuations leading to opportunities?

We believe that the market has priced-in a very pessimistic scenario for the country. The combination of sovereign risk worries and weak macroeconomic outlook is expected to continue to weigh on Greek equities in the short-to-medium term. Since the macroeconomic picture is not anticipated to dramatically change in the coming quarters, it is the prospect of a permanent Greek debt solution that could drive equities during this period as it would reduce country risk.
On a corporate level, the prospects for EPS growth that would make Greek equities appealing again to the vast majority of investors remain challenging for 2011 (for most stocks). In addition, positive news flow and developments (such those of the lowering of the corporate tax rate and the overhaul of the dividend tax law), both on a corporate and on a company-specific level, will be welcomed by the market but the reaction will be capped until the sovereign issue is resolved.

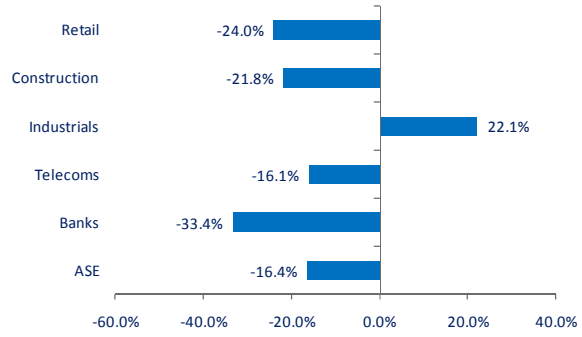
Businesses will continue to face a very challenging and changing environment: 1) the Greek economy is contracting as demand is shrinking; pushing corporate revenues lower 2) liquidity issues remain critical as financing becomes increasingly rare, and 3) the State continues to apply extraordinary taxes on profitable corporations. Corporate focus in the short-to-medium term remains on managing cash flow and on trying to enhance the capital position either by divesting, merging or by seeking capital increases.

ASE General Index vs. Stoxx600 (rebased - 1 year % change)



Source: Factset, Axia Ventures Group

ASE Indices Performance (rebased - 1 year % change)



Source: Factset, Axia Ventures Group

On the positive side this unprecedented fiscal tightening coupled with the much-needed structural reforms is transforming the Greek economy and could prove to be an opportunity for business. As we have already indicated the 'Greek way' of doing business under which many companies flourished during the past years is quickly changing, benefiting companies that have a strong management, a sound business plan and a solid balance sheet. The impact of these reforms on the market as well as on the balance sheet and the P&L of corporations is significant and already evident: the cost structure is declining at a significant pace; debt structure is optimized, while uncompetitive antagonists face extinction.

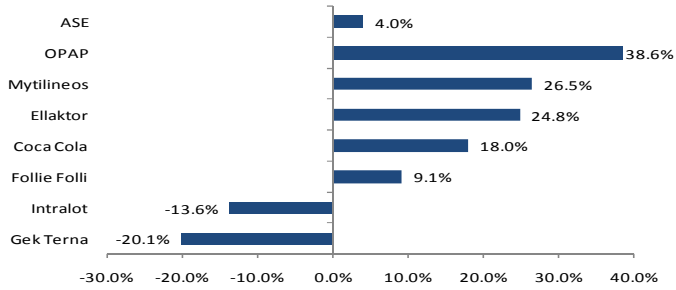
To this end we have to note that the Greek economy is not at the same position it was few months ago when it was signing the original MoU with the EU-IMF-ECB. Quoting Poul Thomsen, the head of the IMF's Greece mission, '[the government and the MoU] have successfully pulled the economy from an abyss.' The country has avoided the 'default' scenario and now is in a transition period that could result in a comprehensive and sustainable debt solution coupled with growth. Despite the challenges ahead, a dim light has started to appear at the end of the tunnel. In this evolving environment we recognize that there is value in specific equities and we deem that these stocks could present a significant opportunity to investors with high conviction to enter the market ahead of the curve.

Our top Picks

Risk & Opportunity go hand in hand

In light of the many challenges facing the country, we believe that there are Greek companies with specific characteristics that could/should attract investment interest. These companies will eventually drive Greek equities once the macro environment shows signs of stabilization. Specifically, we continue to focus on companies that have strong management, a substantial income stream that comes from abroad, a well diversified product mix, a promising business model and a strong balance sheet.

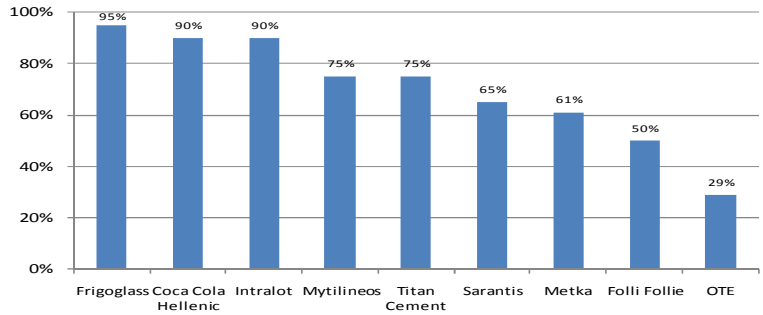
Performance of the top picks of our previous report* vs. the ASE General Index



*24/08/2010, Source: Fact Set, Axia Ventures Group

We've identified a number of companies with such characteristics that we expect them to outperform the market and potentially come out of the crisis stronger and leaner. Our picks include Mytilineos Group, OTE, PPC, Intralot, Folli Follie Group, Ellaktor, Gek Terna, Hellenic Exchanges, OPAP, Jumbo and Coca Cola Hellenic. All of our picks satisfy one or more of our criteria:

International Sales as % of the Total for Selected Greek Companies (2010F)



Source: The Companies, Axia Ventures Group

- **Mytilineos Group** has a very strong growth potential given the group's increasing exposure in the highly promising Greek electricity market and coupled with the favorable prospects of its core businesses (metals & mining and EPC);
- **OTE** should benefit by management's efforts to reduce its cost base and exploit its asset portfolio, while in the short term the stock could gain by a decision of the Greek State on how to proceed with Deutsche Telekoms' reported intention to raise its stake in the company;
- **PPC** is the main power producing company in Greece and regardless of the market liberalization initiatives by authorities it will remain the market's largest player and it will benefit from efforts to deregulate the tariffs and reduce personnel costs;
- **Intralot** holds a leading position globally in the integrated lottery system market and trades at significant discount relative to its peers;
- **Folli Follie** has a substantial income stream coming from abroad, especially from Asia, while it is working on a very ambitious expansionary business plan for Asia;

- **Ellaktor** has a strong construction backlog, c34% of which concern projects outside Greece, while it holds an attractive portfolio of concessions and has interest in other business areas as energy, waste management, gold mining and casinos;
- **Gek-Terna** has a strong construction backlog but more importantly a significant exposure in the energy sector that includes thermal plants, a significant capacity of renewable energy and a large pipeline in renewable energy projects;
- **Hellenic Exchanges** should benefit by a pickup in trading activity as well as additional income from capital increases;
- **OPAP** has a very strong balance sheet and is in a position to take full advantage of the opportunities presented from the opening of the Greek gaming market;
- **Jumbo** is the leading toy retailer in Greece and a principal player in other market segments of the Greek retail. The company should benefit from the weakening competition in Greece, but most importantly, by the group's expansion plans (supported by its balance sheet) both in Greece and in SEE;
- **Coca Cola Hellenic** is well diversified internationally with strong income stream coming from outside Greece, and has a stellar management team.

In addition to our top picks we view that there are a few more interesting companies that possess the characteristics we seek and their stock price could gain in the short-to-medium term but limitations such as low market cap and/or limited free float restricts us from recommending them. In these companies we include:

- **S&B Industrial Minerals** a global leader in the production of bauxite and perlite but also a company with a diversified portfolio of products, clients/ industries and geographies (very limited exposure to Greece). The company is expected to gain as demand increases but more importantly as margins fast improve, driven by the global economic recovery;
- **Piraeus Port Authority** is entering into a new era of growth mainly as it is expected to gain from its long-term relationship with Cosco (35-year concession). The company will also benefit by additional plans to improve efficiency, expand operations and exploit its assets in the medium term;
- **Korres** could gain as it pursues its expansion strategy. The company, which offers complete lines of care products including skin and hair care products, although it is highly exposed in the local retail market, it enjoys a strong brand name in Greece and is expanding its local distribution channels. In addition, Korres is increasing its revenue stream from abroad as it continues to pursue its goal to become an international brand (has already presence in 30 countries at 1,250 POS globally).

Industry Breakdown

Telecoms: Price competition is expected to remain the name of the game in the foreseeable future for the telecom sector (both fixed line and mobile). Although OTE is the leading operator controlling c80% of the fixed line, its market share is seen declining as broadband competition intensifies and as full LLU is growing fast. At the same time, mobile operators (Vodafone Hellas and Wind Hellas) are leveraging on their client base offering integrated services. In the saturated Greek telecom market (both fixed line and mobile) the focus of the competition is on pricing and this approach is expected to be maintained in the medium term. As this strategy hurts market participants, they should continue to seek ways to lower their cost base, while smaller alternative fixed line operators should carry on with M&A discussions as they try to form stronger entities. Eventually fewer but stronger players will allow for healthier competition in the sector.

OTE Multiples* vs. International Peers

	Market Cap.	Sales 20010F	Sales 20011E	EBITDA 2010F	EBITDA 2011E	Net Income 2010F	Net Income 2010E	Mean P/E 2010F	Mean P/E 2011E	Mean EV/ EBITDA 2010F	Mean EV/ EBITDA 2011E
Telefonica S.A.	83,635	60,558	63,870	24,520	23,915	11,429	8,593	9.0	9.6	4.9	5.7
Telecom Italia S.p.A.	19,347	27,426	29,568	11,446	12,264	2,392	2,496	8.1	8.1	4.4	4.0
Koninklijke KPN N.V.	18,620	13,398	13,349	5,476	5,443	1,792	1,826	9.5	9.7	5.2	5.6
Deutsche Telekom AG	42,781	62,401	60,891	19,660	19,224	3,209	3,283	12.4	13.2	4.3	4.4
Portugal Telecom SGPS	7,691	3,744	3,669	1,471	1,429	5,718	535	49.1	14.5	5.5	7.9
France Telecom	43,015	45,373	45,608	15,578	15,485	5,410	4,761	8.7	9.0	4.6	4.6
Telekom Austria AG	4,660	4,633	4,587	1,646	1,596	278	292	16.3	16.0	5.0	5.0
Belgacom S.A.	9,135	6,616	6,570	1,967	1,941	1,206	770	10.6	11.2	4.2	5.4
Telenor ASA	18,902	12,163	12,542	3,679	3,883	1,838	1,598	14.0	11.6	6.2	5.4
TeliaSonera AB	27,873	11,817	12,208	4,120	4,309	2,357	2,453	11.3	11.1	7.6	7.9
BT Group PLC	16,981	23,542	23,553	6,808	6,939	1,627	1,844	9.3	8.5	4.1	3.7
Colt Group S.A.	1,611	1,586	1,595	326	345	57	128	23.0	15.3	3.5	3.6
Vodafone Group PLC	110,289	53,063	54,680	17,161	17,569	11,047	10,359	9.8	10.7	8.1	8.3
Arithmetic Average								**14.7**	**11.4**	**5.2**	**5.5**
OTE	**3706**	**5570**	**5302**	**1906**	**1827**	**221**	**326**	**9.6**	**11.9**	**3.9**	**4.2**

* Net profits include the special contribution tax for 2010/11 - Source: FactSet, AVG Research

Energy: The energy sector is the greatest puzzle to investors at this point in time but it presents them with significant opportunities as well. The sector is at a crossroads, and developments are driven (at least in the short-term) by political decisions rather than market forces. Specifically, the market awaits the government's decision on how the wholesale market will be liberalized and how it will start rationalizing electricity tariffs. To this end Greece has to adopt legislation that unbundles electricity and strengthens the regulator. The market liberalization is part of the MoU Greece signed with the EC-IMF-ECB and the steps the government will take on the issue will weigh on the EC-IMF-ECB decision to allot further tranches of the EUR110bn loan the country received. Although still unclear how the liberalization will take place, PPC's market share in the generation market is expected to remain high despite the fact that a number of new CCGT power plants from IPPs will enter the market. The market will also focus on two other areas in 2011: a potential new investment plan by PPC for the next several years and the speed of investments in RES.

PPC Multiples* vs. International Peers

	Market Cap.	Sales 20010F	Sales 20011E	EBITDA 2010F	EBITDA 2011E	Net Income 2010F	Net Income 2010E	Mean P/E 2010F	Mean P/E 2011E	Mean EV/ EBITDA 2010F	Mean EV/ EBITDA 2011E
E.ON AG	49,585	81,462	80,695	13,203	11,602	4,856	4,021	9.6	11.8	5.7	6.9
EDP-Energias de Portugal	9,818	13,250	13,836	3,560	3,707	1,092	1,061	9.7	9.9	7.0	6.9
Endesa S.A.	23,081	25,969	26,553	7,110	7,073	3,764	2,211	8.6	10.4	4.9	4.9
Enel S.p.A.	40,575	73,400	70,076	17,179	17,045	4,313	4,406	9.3	9.1	4.8	5.1
Gas Natural SDG S.A.	11,162	19,306	19,866	4,419	4,469	1,245	1,124	9.4	10.1	6.7	6.6
GDF Suez S.A.	66,879	83,899	91,049	15,103	17,407	4,585	4,938	15.4	13.3	6.3	6.2
Iberdrola S.A.	34,746	27,060	28,092	7,518	7,822	2,866	2,902	12.2	11.6	8.0	8.1
Cez A.S.	18,161	7,919	8,474	3,532	3,701	1,897	1,873	9.5	9.6	6.6	6.9
RWE AG	29,986	51,779	52,827	9,765	8,988	3,437	2,982	7.9	9.7	4.8	5.4
Scottish & Southern Energy PLC	12,992	24,973	25,588	2,195	2,372	1,168	1,188	11.2	10.6	9.4	8.9
Verbund AG	10,125	3,181	3,424	1,022	1,113	448	558	20.5	17.9	12.8	12.7
Arithmetic Average								**11.2**	**11.3**	**7.0**	**7.2**
Public Power Corp. S.A.	**2,877**	**5,831**	**5,921**	**1,544**	**1,624**	**586**	**553**	**4.9**	**5.1**	**4.5**	**5.0**

* Net profits include the special contribution tax for 2010/11 - Source: FactSet, AVG Research

Refining: Demand for oil products is expected to continue to decline in Greece, the result of the recession but also due to the higher VAT and the tax hikes on oil. Notwithstanding Greece's two oil refining companies (Hellenic Petroleum and Motor Oil) are expected to gain from a pick up in the historically low refining margins witnessed in 2010. In addition, both companies are expected to benefit from refining investments (Motor Oil's CDU investment was concluded in H1:10, while Hellenic Petroleum's Elefsina refinery upgrades are expected to take effect in late 2011) and recent acquisitions (Hellenic Petroleum acquired BP's ground business in Greece and c1,200 branded stations, while Motor Oil acquired Shell's assets in Greece along with c700 branded stations).

Greek Refineries Multiples* vs. International Peers

	Market Cap.	Sales 20010F	Sales 20011E	EBITDA 2010F	EBITDA 2011E	Net Income 2010F	Net Income 2010E	Mean P/E 2010F	Mean P/E 2011E	Mean EV/ EBITDA 2010F	Mean EV/ EBITDA 2011E
Neste Oil Oyj	3,338	11,892	14,329	513	678	205	247	22.3	13.5	9.5	7.6
MOL	8,350	15,001	17,187	2,027	2,417	566	828	12.9	9.1	5.5	4.8
Galp Energia SGPS S/A	15,986	14,064	16,338	852	1,221	348	524	39.3	24.9	20.9	15.6
OMV AG	10,080	22,507	26,741	3,775	4,456	1,199	1,503	8.3	6.9	3.6	3.2
TUPRAS	4,693	12,490	14,411	651	670	403	463	11.5	10.1	6.2	6.9
PKN ORLEN S.A.	5,015	21,079	22,819	1,305	1,280	487	444	10.7	11.7	5.7	5.8
Saras S.p.A.	1,798	7,092	7,947	153	341	-28	70		26.0	14.0	6.9
ERG S.p.A.	1,521	7,649	8,532	292	427	9	78		22.1	9.3	6.0
Arithmetic Average								**17.5**	**15.5**	**9.3**	**7.1**
Hellenic Petroleum S.A.	**2,268**	**8,097**	**9,213**	**499**	**520**	**158**	**194**	**13.1**	**10.8**	**7.4**	**8.4**
Motor Oil Hellas	**1,016**	**5,326**	**6,128**	**240**	**299**	**93**	**119**	**10.9**	**8.4**	**7.8**	**6.8**

* Net profits include the special contribution tax for 2010/11 - Source: FactSet, AVG Research

Gaming: 2011 is seen as a key year for the Greek gaming sector as the government pushes for the deregulation of the on line internet gaming market as well as the introduction of Video Lottery Terminals (VLTs). The impact from this development on OPAP, Greece's gaming monopoly, should be significant and positive. Deregulation of online betting and the introduction of VLTs would allow OPAP to compete, and most likely, take a significant portion of the EUR4.0bn in gross revenues the two markets, illegally, currently generate. On the other hand, we could have developments in OPAP's monopoly case as the Greek State Council has referred to the European Court of Justice for an opinion on whether OPAP can maintain its monopoly in the domestic gaming industry. We note that the deregulation of the online and the VLT markets could potentially attract the interest of Intralot, which runs similar operations in a number of countries.

Greek Gaming Sector Multiples* vs. International Peers

	Market Cap.	Sales 20010F	Sales 20011E	EBITDA 2010F	EBITDA 2011E	Net Income 2010F	Net Income 2010E	Mean P/E 2010F	Mean P/E 2011E	Mean EV/ EBITDA 2010F	Mean EV/ EBITDA 2011E
Lottomatica S.p.A.	1,834	2,315	2,469	803	855	30	80	21.6	16.2	5.7	5.5
Scientific Games Corp.	662	650	619	221	227	9	21	21.9	28.0	7.3	6.6
Ladbrokes PLC	1,492	1,151	1,167	291	286	254	155	10.0	9.9	6.5	7.0
William Hill PLC	1,534	1,247	1,279	359	349	161	172	9.1	9.1	5.5	5.9
Paddy Power PLC	1,425	438	471	127	131	82	92	17.3	16.2	10.6	10.2
SNAI S.p.A.	282	586	646	85	117	-11	18		15.4	7.0	4.6
TABCorp Holdings Ltd.	3,753	3,285	3,320	784	802	360	362	9.4	10.2	6.6	6.4
Aristocrat Leisure Ltd.	1,137	530	555	94	108	51	46	27.1	24.5	15.2	12.2
bwin	909	429	450	78	97	25	45	19.1	13.3	12.1	7.7
PartyGaming PLC	843	356	449	98	105	65	67	11.2	10.3	9.4	7.1
888 Holdings PLC	193	195	196	20	21	6	8	18.1	15.5	9.0	8.0
Sportingbet PLC	305	249	268	56	62	18	39	8.5	7.9	5.8	4.1
Arithmetic Average								15.8	14.7	8.4	7.1
OPAP S.A.	**5,072**	**5,172**	**4,735**	**906**	**780**	**548**	**524**	**9**	**9.5**	**4.8**	**5.6**
Intralot S.A.	**407**	**1,090**	**1,203**	**157**	**182**	**46**	**57**	**9.3**	**7.4**	**4.3**	**3.7**

* Net profits include the special contribution tax for 2010/11 - Source: FactSet, AVG Research

Construction: Two questions will continue to dominate the Greek construction sector in the coming months: 1) are market participants going to be able to replenish their declining backlogs and 2) what the construction margins will be? To the first question, foreign expansion will remain the key catalyst for the major construction companies. The market focus though will also be placed on the tenders of two major projects in Greece, expected to commence later this year: the expansion of Attica Ring Road and the construction of the Kasteli Airport in Crete. All of the major construction companies in Greece are expected to bid for the above mentioned projects. As far as the margins of the construction sector they should be pressured. In any case large construction companies will continue with their efforts to diversify operations.

Greek Construction Sector Multiples* vs. International Peers

	Market Cap.	Sales 20010F	Sales 20011E	EBITDA 2010F	EBITDA 2011E	Net Income 2010F	Net Income 2010E	Mean P/E 2010F	Mean P/E 2011E	Mean EV/ EBITDA 2010F	Mean EV/ EBITDA 2011E
Vinci S.A.	24,351	34,793	35,662	5,301	5,523	1,733	1,847	12.8	13.1	6.8	7.0
Bouygues S.A.	12,313	31,025	31,583	3,370	3,505	1,073	1,144	10.7	10.7	4.3	4.2
ACS	10,299	15,716	15,826	1,498	1,522	1,247	915	12.2	10.7	12.7	12.6
FCC	2,867	12,184	12,069	1,422	1,434	299	294	8.7	9.4	7.2	7.6
Ferrovial S.A.	6,428	11,619	11,098	2,448	2,363	71	155			11.1	12.6
Acciona S.A.	4,313	6,655	6,859	1,184	1,337	152	175	21.2	23.8	9.7	9.9
Hochtief AG	5,109	18,861	19,986	1,168	1,355	214	267	19.9	18.5	4.3	3.9
Skanska AB	6,358	13,552	14,049	708	975	422	790	15.4	14.7	7.9	5.0
Bilfinger Berger SE	2,949	7,896	7,945	513	494	263	286	10.1	11.0	9.8	6.1
Sacyr-Vallehermoso S.A.	3,157	4,775	4,656	471	554	115	162	10.3	18.4	28.9	27.4
Autostrada Torino-Milano	935	912	1,016	538	632	139	152	7.3	6.1	4.9	4.5
Brisa	3,097	680	694	484	499	879	136	3.3	22.2	11.2	10.7
Arithmetic Average								**12.0**	**14.4**	**9.9**	**9.3**
Ellaktor S.A.	**703**	**1,718**	**1,562**	**271**	**235**	**15**	**35**	**24.8**	**19.0**	**5.6**	**6.4**
GEK TERNA Holding	**304**	**578**	**978**	**66**	**122**	**2**	**25**	**54.7**	**11.6**	**10.7**	**9.9**
J&P-Avax S.A.	**103**	**757**	**804**	**55**	**56**	**12**	**17**	**7.8**	**6.1**	**7.0**	**8.5**

* Net profits include the special contribution tax for 2010/11 - Source: FactSet, AVG Research

Retail: This is expected to be another challenging year for retailers in Greece as the government measures aiming to consolidate the deficit are expected to continue to pressure private consumption, lead to higher unemployment and to lower disposable income. In addition, households are finding it increasingly difficult to access funding. The prevailing conditions have resulted in a gradual shift by consumers towards value (that could pressure some retailers' margins) and to a more organized shopping experience (Malls, Department Stores). The current business environment leads to further concentration of the sector, reduced investments and an acceleration of international expansion (strategy of the bigger players). Focusing on specific companies: Folli Follie revenues are expected to remain stable in its segments in Greece but to continue to grow at a fast pace in Asia helped by increased demand and network expansion; Fourlis is expected to continue to increase market share in its segments (IKEA, Intersort) in Greece and to gain from the further expansion of its network in Greece and abroad; Jumbo, despite Greece representing the bulk of its operations, should be able to mitigate the impact of lower demand by the fast consolidation of the sector and the network expansion in Greece and in Bulgaria; finally Sarantis, through its strong portfolio (brand and own name products) and its significant exposure in southeastern Europe should be able to partially counterbalance weak local demand.

Greek Retail Sector Multiples* vs. International Peers

	Market Cap.	Sales 20010F	Sales 20011E	EBITDA 2010F	EBITDA 2011E	Net Income 2010F	Net Income 2010E	Mean P/E 2010F	Mean P/E 2011E	Mean EV/ EBITDA 2010F	Mean EV/ EBITDA 2011E
Coach Inc.	12,629	2,891	3,222	1,017	1,132	602	687	24.6	19.9	12.4	11.2
Bulgari S.P.A.	2,327	1,069	1,159	159	194	53	94	44.5	25.1	16.8	13.0
Burberry Group PLC	6,050	1,679	1,959	378	472	194	278	26.0	20.8	13.6	11.5
LVMH	58,583	20,320	22,121	5,019	5,711	2,848	2,956	20.5	19.3	12.4	10.5
Swatch Group AG	16,770	4,930	5,061	1,317	1,405	859	967	19.6	17.6	12.4	10.6
Tiffany & Co.	6,012	2,272	2,481	549	603	263	298			10.3	9.6
Tod's S.p.A.	2,339	788	860	191	216	108	123	21.7	18.6	11.2	10.1
PPR S.A.	14,898	15,069	15,795	1,906	2,112	892	1,069	16.8	14.0	9.9	8.3
Luxottica Group S.p.A.	10,271	5,798	6,087	1,046	1,147	420	486	23.7	20.1	12.2	10.6
Adidas AG	10,145	11,757	12,395	1,181	1,322	566	666	18.0	15.2	9.4	8.1
Puma	3,361	2,640	2,812	398	425	227	255	14.7	12.9	8.3	6.6
Nike Inc. (Cl B)	30,798	14,881	15,911	2,240	2,443	1,528	1,685	19.3	17.5	12.4	11.3
Esprit Holdings Ltd.	4,931	3,271	3,406	516	575	381	385	12.4	13.8	8.5	8.6
Hennes & Mauritz AB	39,548	12,094	13,285	3,076	3,177	2,060	2,069	19.1	19.2	12.5	11.8
Inditex	33,429	12,385	13,798	2,887	3,236	1,651	1,878	19.6	17.7	10.7	8.9
Benetton Group S.p.A.	851	2,053	2,039	291	267	105	83	7.6	9.8	4.8	5.1
Marks & Spencer Group	6,885	11,347	11,888	1,501	1,618	603	651	11.2	10.3	6.0	5.7
Hugo Boss AG	3,710	1,725	1,867	334	372	188	219	20.6	17.9	12.1	10.6
Home Retail Group PLC	2,240	6,892	6,930	467	459	216	207	10.9	10.8	3.2	4.2
Bed Bath & Beyond Inc.	9,407	6,332	6,710	1,025	1,098	540	591	17.1	15.2	8.1	7.6
Beiersdorf AG	10,464	6,173	6,127	803	736	386	379	23.6	24.2	11.1	11.8
Estee Lauder Cos. (Cl A)	14,091	6,117	6,564	953	1,120	447	567	33.9	25.9	14.5	13.3
Inter Parfums S.A.	463	306	352	45	49	26	30	17.2	15.4	9.8	8.2
Ales Groupe S.A.	184	173	184	19	21	7	9	28.0	23.0	8.1	8.3
Mattel Inc.	6,768	4,365	4,542	805	852	511	524	13.6	12.6	8.7	8.0
Hasbro Inc.	4,568	2,983	3,203	552	621	296	318	17.4	14.8	10.0	8.4
HMV Group PLC	115	2,247	2,158	124	110	48	40	3.2	3.5	1.9	1.5
Casino Guichard-Perrachon S.A.	7,862	29,078	32,216	1,977	2,221	541	635	14.6	12.7	6.2	5.4
Arithmetic Average								**19.2**	**16.6**	**9.9**	**8.9**
Folli-Follie S.A.	**606**	**999**	**1,041**	**205**	**211**	**90**	**115**	**8.8**	**8.3**	**5.9**	**5.5**
Fourlis Holdings S.A.	**284**	**641**	**485**	**47**	**49**	**15**	**18**	**17.6**	**14.9**	**8.4**	**8.2**
Gr. Sarantis S.A.	**120**	**222**	**225**	**20**	**22**	**12**	**13**	**10.0**	**8.7**	**6.2**	**5.4**

* Net profits include the special contribution tax for 2010/11 - Source: FactSet, AVG Research

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Mytilineos Group

Holding / Greece

Reuters / Bloomberg: MYTr.AT / MYTIL GA

We continue to view Mytilineos as one of the most interesting investment cases in the Greek stock exchange because of the group's interests in the Greek electricity generation market, metals and in EPC. At full deployment Mytilineos' thermal generation capacity in 2012 will stand at c1.2GW (this capacity does not produce any money yet), while better cost control, increased alumina and aluminum prices and an increasing number of EPC projects will boost the group's top and bottom line in the short-to-medium term.

Investment Case

- By 2012 the group will have in operation 3 thermal power units with a total generation capacity of c1.2GW. In addition it has renewable licenses at various levels of installation of 1.2GW of which 32MW are operational. It is well positioned to become the largest IPP in terms of thermal plants, installed capacity and electricity production in Greece
- Mytilineos, in a JV with Motor Oil, has become the second most important player in the Greek gas market by importing LNG (to be used in its own power plants but also to be sold to third parties)
- The group is one of the largest vertically integrated alumina and aluminum producers in Europe as it owns Aluminum of Greece (AoG). Among the assets of AoG is a co-generation power plant, significant bauxite reserves (used in alumina production) and easy sea access
- Management considers investments for the increase of its alumina production capacity
- Management to continue with its cost cutting efforts in AoG. The goal is for AoG to produce aluminum at a lower cost than its Chinese competitors. To this end we note the agreement with PPC on tariffs that slashes the operating cost
- Its EPC subsidiary, Metka, has a backlog for the construction of EUR2.4bn in the next 3 years, the majority of which concerns projects abroad
- Traditionally Metka enjoys an above 17% EBITDA margin and has a very strong balance sheet
- The growth potential of Metka is significant as demand for electricity in the region (central & south Europe, Middle East and especially Turkey) is expected to remain very high for many years to come

Catalysts/Triggers

- The opening up of the Greek electricity market that is currently dominated by PPC. This market liberalization is part of the MoU and developments are expected within 2011
- Commodity prices lifted by global demand
- The commercial operation of the group's CHP (AoG's) power plant. The operational framework for the plant has not yet been finalized and therefore it cannot invoice yet.
- Entry to the Greek retail electricity market
- New projects for Metka both in Greece and abroad
- Potential acquisitions, mainly in the metal & mining business
- Increased market recognition as the company was selected for the first aluminum ETF (NYSE)

Negatives

- Demand for electricity and SMP in Greece could remain low in the short-to-medium term
- Unfavorable operating conditions in the Greek energy wholesale market
- The group's sensitivity in metal prices / FX
- Potential delay in execution of Metka's projects
- Potential pressure of Metka's margins from increasing international exposure and higher competition
- Political, economic and currency risk from Metka's exposure in emerging markets

EUR m	2009	2010F	2011E	2012E
Sales	661.8	947.5	1,374.4	1,668.9
EBITDA	89.3	169.6	206.2	260.3
EBITDA margin	*13.5%*	*17.9%*	*15.0%*	*15.6%*
EBT	36.8	129.8	153.9	201.5
Net Income	13.7	57.5	75.1	106.0
EPS (EUR)	0.12	0.49	0.64	0.91
P/E (x)	46.3	11.1	8.5	6.0
EV/EBITDA (x)	9.8	5.7	4.6	3.9
DPS	0.00	0.15	0.19	0.27
Dividend Yield	0.0%	2.7%	3.5%	5.0%
Net Debt	395.6	446.5	411.9	426.3

Source: The Company, Axia Ventures Group

Valuation

The sum of parts valuation returns a fair value for the group of EUR910m or EUR7.80/share (EUR8.50/share if adjusted for treasury stocks). The represents an 43% upside potential from current price levels. In our valuation, Metka's total equity value (Mytilineos has a 56% stake) is estimated at EUR680m, AoG (excluding the power plant) EUR314m, and the group's energy assets (equity stake in CHP plant, Viotia Plant, Korinthos Power) at EUR540m.

Stock Data

Price (11/02/2011) - EUR	5.44
Market Cap (EUR m)	636.4
Enterprise Value (EUR m)	1,083

Performance

	1m	3m	12m
Absolute (%)	26.2	24.2	27.7
ASE General (%)	18.4	8.6	-16.4

Daily avg. no. of traded shares– 12M (k)	232
Price high – 12 months (EUR)	5.79
Price low – 12 months (EUR)	3.70

Company description

Mytilineos is a leading industrial group with 3 distinctive activities: metals (Aluminum of Greece one of the largest aluminum producers in Europe) & mining (Sometra), EPC (Metka) and energy. The group has also exposure in defense construction and vehicle manufacturing. The stock is included in FTSE/ASE 20 index.

Shareholders

Mytilineos E. 14.55%, Mytilineos I. 15.44%,

OTE

Telecom / Greece

Reuters / Bloomberg: OTEr.AT / HTO GA

OTE, the leading integrated telecommunication company southeastern Europe, has experienced a significant valuation compression due to the impact of the austerity measures on demand, tax hikes and the increasing competition. We believe that there could be upside potential for the group as discussions with the unions and the government to allow the company to streamline its cost base continue, as the sector consolidates and weaker players exit the market and as the Greek State decides how to proceed with the reported interest of Deutsche Telekom to increase its stake in the company. We also note that OTE holds a significant portfolio of real estate assets (valued at least EUR1.5bn) that is not efficiently managed.

Investment Case

- OTE controls a majority stake on the Greek telecom market (c.4.6m lines), while he is the leader on the local mobile market (c8.3m customers).
- OTE holds a leading position in South East Europe having presence in Bulgaria (c.3.9m mobile customers), in Romania (c. 2.6m total lines and 54% stake in RomTelekom), Albania (c. 2m mobile customers), and Serbia (20% stake in Telecom Serbia).
- The company is expected to benefit in the coming years from a drive to cut costs, mainly associated to personnel costs. Management's efforts should be supported by the introduction of pieces of legislation in Greece aiming to make the economy more flexible
- The cooperation with Deutsche Telekom is expected to yield further synergies, especially in the area of procurement
- The company could gain by efforts to enter into new market segments (i.e. satellite pay-TV, real estate development, etc.)
- Capital gains from the sale of its 20% stake in Telekom Serbia

Catalysts/Triggers

- Potential agreement with employees that would lead to the rationalization of the cost base leading to the stabilization of margins
- Signs of economic stabilization in Greece and in the Balkans
- Further consolidation of alternative fixed-line providers that would lead healthier competition
- Decision by the Greek regulator to allow OTE to introduce more competitive (in terms of pricing) products
- Decision by the Greek government whether to allow Deutsche Telekom to increase its stake in the company
- Capital gains from the sale of its 20% stake in Telekom Serbia
- Decision over whether OTE would increase its stake in RomTelekom
- Actions toward better managing the real estate assets

Negatives

- Austerity measures could continue negatively affect consumers and disposable income in Greece and in Romania.
- Revenues may further weaken as long as there is significant price competition.
- Consumer migration could increase if the regulator maintains the pricing gap between OTE and its competitors
- OTE employee union could refuse to negotiate a more flexible cost structure

EUR m	2009	2010F	2011E	2012E
Sales	5,984	5,594	5,362	5,355
EBITDA	2,156	1,915	1,827	1,844
EBITDA margin	*36.3%*	*34.2%*	*34.1%*	*34.4%*
EBT	781	462	494	533
Net Income	404	227	333	242
EPS (EUR)	0.82	0.38	0.61	0.63
P/E (x)	9.4 x	9.6 x	11.9 x	11.0 x
EV/EBITDA (x)	4.3	3.9	4.2	4.1
Dividend Yield	7.06%	3.26%	3.46%	2.93%

Source: The Company, FactSet

Stock Data

Price (11/02/2011) - EUR	7.84
Market Cap (EUR m)	3,843

Performance

	1m	3m	12m
Absolute (%)	14.5	30.7	-15.4
ASE General (%)	18.4	8.6	-16.4

Daily avg. no. of traded shares– 12M (k)	1,060
Price high – 12 months (EUR)	9.71
Price low – 12 months (EUR)	5.16

Company description

OTE is the leading integrated telecommunication in Greece and in the South East Europe area. The company provides integrated products and services in fixed line telephony, mobile telephony, broadband connectivity and pay TV. Currently the company holds a 54% stake in RomTelecom, a 20% stake in Telekom Serbia and has mobile operations in Albania, Romania and Bulgaria through its 100% subsidiary Cosmote.

Shareholders

Hellenic Republic 20%, Deutsche Telekom 30%

Public Power Corporation

Electricity / Greece

Reuters / Bloomberg: DEHr.AT / PPC GA

The increased uncertainty over what will entail for PPC the liberalization of the Greek electricity market, along with economic woes and delays by the management to introduce a comprehensive, long-term, investment program have pressured PPC's valuation. As decisions over market liberalization are clarified, PPC could return to investor's radar. We should also note the markets' subdued reaction to very important developments like the significant reduction of the payroll cost, and the new, more competitive, tariff structure.

Investment Case

- PPC holds the leading position in the Greek electricity market and is the sole owner of transmission and distribution assets.
- Through its 100% subsidiary PPC Renewables, PPC is on the path of becoming the leading energy producer in the renewable energy source sector within the next few years. Currently, PPC's installed capacity reaches c.130MW. There is a significant pipeline of new projects.
- The company will enjoy significant savings due to reduced personnel costs, following the governments' recent legislation amendments
- The new tariff structure that could allow the company to reduce migration of higher margin clients

Catalysts/Triggers

- Decision by the government for the opening up the electricity market
- The announcement of the group's new business plan
- Corporate restructuring (set up of subsidiaries) that could lead to more efficient management
- Potential government's decision on electricity tariffs, part of the planned tariff rationalization

Negatives

- Pressures by the EU to break up their monopolized structure. EU prefers the sale or lease of 40% PPC's lignite energy production units, while PPC and the Greek government prefers the "energy swap" scheme
- Demand for electricity is expected to remain low for 2011
- Unfavorable operating conditions in the Greek energy wholesale market
- A further increase in accounts receivable. According to the management, overdue receivables are expected to increase for 2011 as Low and Medium voltage customers have been negatively affected by the sluggish economic environment
- PPC has one of the highest exposures to CO2 emissions in Europe

EUR m	2009	2010F	2011E	2012E
Sales	6,030	5,830	5,921	6,066
EBITDA	1,677	1,546	1,624	1,639
EBITDA margin	*28.1%*	*26.5%*	*27.4%*	*27.0%*
EBT	1,136	824	846	1,049
Net Income	693.3	587	553	496
EPS (EUR)	2.99	2.50	2.37	2.02
P/E (x)	4.0 x	4.2 x	4.8 x	5.1 x
EV/EBITDA (x)	4.3	4.6	4.9	5.6
Dividend Yield	8.23%	8.49%	6.80%	5.66%

Source: The Company, FactSet

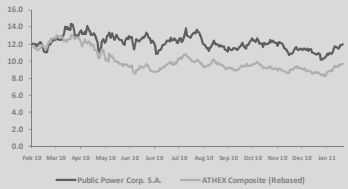
Stock Data

Price (11/02/2011) - EUR	12.10
Market Cap (EUR m)	2,807

Performance

	1m	3m	12m
Absolute (%)	16.9	-1.0	2.5
ASE General (%)	18.4	8.6	-16.4

Daily avg. no. of traded shares– 12M (k)	453
Price high – 12 months (EUR)	14.56
Price low – 12 months (EUR)	10.03



Company description

PPC is a state-owned vertically integrated electric utility with main activities in mining, generation, transmission, distribution and supply. Based on 2009 data, total installed capacity was recorded at 12.814 MW, net generation at 50.1TWh, while electricity sold to end customers at 54.4TWh. PPC's customer base stands at 7.55m.

Shareholders

Greek State 51.49%, Fidelity Investments 5%, Silchester International Investor LLP 6.37%

Intralot

Gaming / Greece

Reuters / Bloomberg: INLr.AT / INLOT GA

The valuation of Intralot, a leading provider of integrated lottery systems globally, has been pressured as it is confronted with a weak consumer sentiment, sharp competition and the underperformance in some important markets. We believe that significant hurdles (contract with OPAP, operations in Turkey) are behind, while there are a number of catalysts that could help change the picture to the better. The company trades at a sharp discount to its peers.

Investment Case

- Intralot is a key player in the international gaming markets – one of the three largest integrated lottery systems companies in the world
- It is well diversified geographically with presence in almost 50 countries
- It has significant technological and operating know-how and substantial experience in the gaming sector
- It is one of the largest fixed-odds betting operators globally
- It has a significant success rate in wining tenders internationally
- Intralot is starting to reap the benefits of considerable investments during the past few years, while new operations have or are expected to start soon (VLTs in Italy, Jamaica and Brazil)
- The global gaming market is expected to continue to grow and Intralot should also benefit from the drive to regulate gaming in a number of countries
- Intralot recently endeavored into the online gaming market and it plans to participate in State tenders for online gaming licenses worldwide

Catalysts/Triggers

- Gradual improvement in market conditions in key economies (Italy, Bulgaria, Romania and Poland)
- The potential of the new games (monitor / instant draw games) Intralot will operate along with OPAP. Note that the agreement is reportedly facing regulatory hurdles at this point in time
- The opening up of the Greek gaming market (VLTs, online gaming, scratch ticket)
- Tenders for new vendors/operators in large US States
- The liberalization of gaming markets in Europe in the US and in Asia

Risks

- Political, economic and currency risk from Intralot exposure in a number of emerging markets
- Increased competition, litigation and the contractual nature of business
- The economic environment since disposable income impacts sales
- Increased competition from illegal internet companies
- Higher than targeted payout for fixed-odds betting games could have an impact on profits

EUR m	2009	2010F	2011E	2012E
Sales	903.6	1,090.2	1,202.6	1,294.1
EBITDA	154.4	157.0	181.6	201.9
EBITDA margin	*17.1%*	*14.4%*	*15.1%*	*15.6%*
EBT	104.5	97.9	120.1	139.7
Net Income	49.8	46.0	57.3	67.8
EPS (EUR)	0.31	0.29	0.36	0.43
P/E (x)	8.5	9.3	7.4	6.3
EV/EBITDA (x)	4.3	4.3	3.7	3.3
DPS	0.22	0.10	0.13	0.15
Dividend Yield	8.1%	3.8%	4.7%	5.6%
Net Debt	267.4	242.2	193.5	143.4

Source: The Company, Axia Ventures Group

Valuation

Our 3-stage DCF valuation returns a target price of EUR3.70/share (WAAC of 10.5%, explicit forecasts until 2014, 2% FCF growth until 2019 and 1% growth to perpetuity) suggesting 38% upside potential from current levels. The company trades at a sharp discount to its global peers: 41% discount to 2010F P/E and 48.8% to 2010F EV/EBITDA.

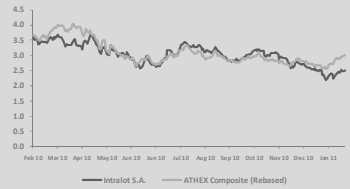
Stock Data

Price (11/02/2011) - EUR	2.68
Market Cap (EUR m)	426
Enterprise Value (EUR m)	669

Performance

	1m	3m	12m
Absolute (%)	19.6	-13	-23.6
ASE General (%)	18.4	8.6	-16.4

Daily avg. no. of traded shares– 12M (k)	333
Price high – 12 months (EUR)	3.74
Price low – 12 months (EUR)	2.16



Company description

Intralot is a leading provider of integrated lottery systems, operation and related services, globally. The company offers an exposure to the fast growing and liberalized gaming markets of eastern Europe, Italy and Turkey, it has several contracts with US State lotteries as well as with lottery organizations in South and Central America. Finally, the company has exposure in the liberalizing markets in Australia and in several Asian countries

Shareholders

S. Kokkalis 20%, K. Demitriadis 8.95%, Invesco Ltd 5%, Intesa Sanpaolo SA 5.01%

Folli Follie

Retail / Greece

Reuters / Bloomberg: FOLr.AT / FFGRP GA

Folli Follie designs, produces and distributes jewelry, watches and accessories, enjoying a strong presence in the affordable luxury market segment. The group has an extended retail presence in Greece that apart from jewelry stores, it includes discounted department stores and Duty Free stores. Nevertheless the group's strength is on its large network abroad and mainly in Asia. In Asia Folli Follie has become an important player in its market segment and is expected to continue to enjoy strong growth as it expands its network and the offerings.

Investment Case

- The group is geographically diversified, out if which c. 50% of sales comes from Asia (excluding Japan), c. 16% of sales comes from Japan, c. 17% comes from Europe, and the remaining from travel retail
- The potential in Asia (especially in China) remain significant
- The merger between Folli-Follie, Hellenic Duty Free Shops and Elmec Sport created a more manageable structure, helping reduce costs and attain better refinancing rates

Catalysts/Triggers

- Significant growth potential of the operations in Asia driven by demand and new store openings
- The introduction of its subsidiary Links of London to the Asian markets
- Expansion opportunities of other group concepts/subsidiaries in new markets
- Improvement of the retail market conditions in Greece
- Growth in tourism in Greece that could boost revenues of Hellenic Duty Free

Risks

- The impact of the recession in Greece. Lower than expected Greek sales will further deteriorate the group's revenue stream. In the case of Hellenic Duty Free revenues are tied to the number of tourists as well as business travel. In the case of Elmec Sport, the effects of the austerity measures on demand might end up being worse than expected
- A potential slowdown of the Asian economies (especially China) could lead to weaker than expected sales growth in the region
- FX fluctuations
- The group remains levered

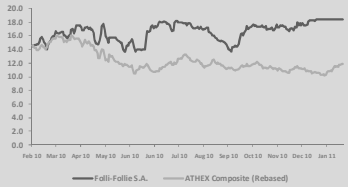
Stock Data

Price (11/02/2011) - EUR	14.44
Market Cap (EUR m)	875

Performance

	1m	3m	12m
Absolute (%)	20.3	40.2	2.1
ASE General (%)	18.4	8.6	-16.4

Daily avg. no. of traded shares– 12M (k)	13
Price high – 12 months (EUR)	15.40
Price low – 12 months (EUR)	8.51



Company description

Folli Follie is a retail group which consists of Folli Follie, Hellenic Duty Free Shops, Links of London and Elmec Sport. Folli Follie Standalone, which contributes 37% of sales in the group based on 2009 figures, manufactures jewelry (59%), watches (34%) and fashion accessories (7%). Hellenic Duty Free, which contributes (27% of sales), is a travel retailer which owns exclusive duty free rights in Greece until 2048. Links of London, contributes 9% of sales, while Elmec Sport, which contributes (27% of sales) is a sports retailer. Almost half of the group's net sales come from Asia (excluding Japan), while c. 17% comes from Europe; c. 16% comes from Japan and the remaining from Travel Retail. The group operates in 25 countries with more than 380points of sales worldwide.

Shareholders

D. Koutsolioutsos 37.47%, ATEbank 7.6%, Fidelity Int. 6.82%

Ellaktor Group

Holding / Greece

Reuters/Bloomberg: HELr.AT / ELLAKTOR GA

Ellaktor is the largest construction company in Greece with significant interest on concessions and other activities that include renewable energy, waste management, and real estate development. We value the company's international focus (34% of its EUR2.6bn construction backlog comes from abroad), its concession stakes in Attica Road and in Rio-Antirio Bridge and the potential of its stake in Hellas Gold.

Investment case

- The company has a construction backlog of EUR2.6bn, 34% of which concerns projects outside Greece
- The construction focus abroad is in high growth countries like Abu Dhabi, Oman and Qatar
- The company controls a 59.2% stake in the Attica Road concession and 22% stake in Rio-Antirio Bridge concession.
- Ellaktor continues to invest in renewable energy in Greece: The construction of 116MW of wind and solar farms are under construction, while 1100MW in RES are in different stages of development and another 1090MW in submission phase. These efforts will be benefited from the new energy law which will speed up the process for the whole procedure
- It controls a c24% stake directly and indirectly in Hellas Gold, that has total reserves in Greece of 9.mMOz gold, 70Moz silver and 2Moz lead and zinc. Hellas Gold is expected to get the approval for excavation in 2011.
- Has a 15.3% stake in the Hellenic Casino Parnitha
- Has a significant property portfolio with a book value of EUR116m
- Is actively pursuing its expansion in waste management in SEE

Catalysts/ Triggers

- The tender of two large concession projects in Greece: Kastelli Airport in Crete (worth EUR 1bn), and the Attica Ring Road expansion
- New construction projects in the Balkans and in the Arabic peninsula
- New Public-Private Partnership projects in Greece
- Potential interest in the privatization of State assets including the Athens and the Thessaloniki water companies
- Progress in the approval of the environmental studies of Hellas Gold
- Further consolidation in the construction industry in Greece that would benefit the strong players in the industry
- Developments in Hellenic Casino Parnitha

Risks

- Execution and cancellation risk of projects
- Further margin deterioration in the construction and concession segments because of competition
- Delays in the payments from the Greek State could lead to working capital pressures
- The bureaucratic environment in Greece may lead to delays in the assignment as well as the execution of construction and concession projects.
- Delays in the construction of alternative energy projects
- Delays in receiving the license for the development of Hellas Gold reserves
- Waste management is facing opposition from local communities, thus slowing down the projects
- The adverse macroeconomic environment, in a number of countries could delay construction and concessions process
- The difficult macro environment could lead the cost of funding higher resulting to a delay and/or cancelation of projects

EUR m	2009	2010F	2011E	2012E
Sales	2,269	1,720	1,511	1,514
EBITDA	335.3	273	216	301
EBITDA margin	*14.1%*	*15.9%*	*14.3%*	*19.9%*
EBT	172	83	58	
Net Income	65	20	33	43
EPS (EUR)	0.38	0.09	0.18	0.19
P/E (x)	13.7	24.8	19	15.8
EV/EBITDA (x)	5.5	5.6	6.4	6.2

Source: The Company, FactSet

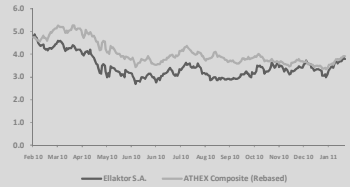
Stock Data

Price (11/02/2011) - EUR	3.97
Market Cap (EUR m)	703

Performance

	1m	3m	12m
Absolute (%)	28.1	17.1	-18.5
ASE General (%)	18.4	8.6	-16.4

Daily avg. no. of traded shares– 12M (k)	237
Price high – 12 months (EUR)	6.74
Price low – 12 months (EUR)	2.56



Company description

Ellaktor is a holding company mainly focused on Construction, Concessions, Renewable Sources of Energy, Waste Management, and Real Estate Development. Some other minor investments include stake in the casino of Parnitha and majority stake in Hellas Gold. In concessions, the group holds the largest road concession portfolio in Greece, including Attika Ring Road and Rio-Antirrio Bridge. In energy, the group is mainly active in renewables, in the waste management it has interest both in Greece and in Cyprus, while the group is involved in the development and operation of commercial and entertainment centers, and residential complexes through its subsidiary REDS (55.4%).

Shareholders

L. Bobolas 15.02%, Mitica Lim. 5.04%, Kalitsantisis Family 10.02%, Capital research & Management 5.71%

Gek Terna

Holding / Greece

Reuters / Bloomberg: HRMr.AT / GEKTERNA GA

Gek Terna is a major player in the construction industry in Greece, while during the past several years has established a growing presence in the thermal and renewable energy market segments. The group is expected to benefit from the government's drive to tender new large concession projects and to open the local electricity sector.

Investment Case

- The group has a well diversified income stream including construction, toll and parking concessions, alternative energy and thermal energy plants already in operation
- The company expects to have operational or under construction by the end of 2011 600-650MW in renewable energy in Greece and abroad.
- The group, jointly with GDF Suez, has two thermal plants (in operation) of a total capacity of c. 600MW in operation. The group aims at becoming a significant player in the Greek energy market and is expected to gain from the government's drive to open the electricity market
- In construction, the current backlog stands at EUR 2.17bn small part of which derives from abroad (Balkans and Middle East). Management believes that backlog's replenishment can be succeeded by projects from abroad.
- Participation in three large road concession projects in Greece, currently under construction
- The group has significant real estate assets in Greece and abroad

Catalysts/Triggers

- The new renewable energy law which is speeding up the licensing procedure is very important since the group has a large amount of installed capacity in the pipeline
- Participating in new concessions in Greece including the tender for the Kasteli Airport and the expansion of the Attica Ring Road
- New Public-Private Partnership projects in Greece
- Potential interest in the privatization of State assets including the Athens and the Thessaloniki water companies
- Further consolidation in the construction industry in Greece that would benefit the strong players in the industry

Risks

- Delays in motorways concessions, mainly because of expropriation reasons in Greece
- The delayed payment cycle of the Greek State which forces the group to maintain high capital levels
- Delays in commissioning new RES capacity. Currently, the energy grid capacity can handle a part of the submitted applications. Unless the grid is upgraded, there is going to be limited capacity of new RES that can be added
- Changes in the government policies in renewable energy projects that could lower the IRR of the projects
- Increase in construction input costs such as oil and cement might further pressure margins

EUR m	2009	2010F	2011E	2012E
Sales	764	566	768	842
EBITDA	91	64	99	130
EBITDA margin	*11.9%*	*11.3%*	*12.8%*	*15.4%*
EBT	101	57	67	
Net Income	27	8	17	30
EPS (EUR)	0.31	0.03	0.17	0.30
P/E (x)	12.9	54.7	11.6	9.9
EV/EBITDA (x)	8.4	10.7	9.9	8.1

Source: The Company, FactSet

Stock Data

Price (11/02/2011) - EUR	3.54
Market Cap (EUR m)	304

Performance

	1m	3m	12m
Absolute (%)	22.9	-2.5	-30.3
ASE General (%)	18.4	8.6	-16.4

Daily avg. no. of traded shares– 12M (k)	91
Price high – 12 months (EUR)	5.65
Price low – 12 months (EUR)	2.84

Company description

GEK TERNA is the parent company of the group that includes construction (100%), Renewable Energy (47.6%), thermal energy (100%), real estate (100%), and concessions (100%). The Renewable energy activity falls under Terna Energy (47.6%). The thermal energy division includes 50% ownership in the plants HERON1 and HERON2 after the deal with GDF SUEZ. The group holds one of the leading positions in their area of activities in Greece and also has established strong positions in key markets in South East Europe in Energy, real estate and construction.

Shareholders

G. Peristeris 13.98%, N. Kambas 10%

Hellenic Exchanges

Financial Services / Greece

Reuters / Bloomberg: EXCr.AT / EXAE GA

Hellenic Exchanges Holding is set to gain in 2011 from a potential 'comprehensive solution' on Greece's sovereign debt issue as it would result to increased interest for Athens listed assets. At the same time potential capital increases and IPO's (of State controlled entities) could further enhance the company's top and bottom line in the medium term. Finally, we highlight the group's net cash position and the fact that its dividend policy remains generous.

Investment Case

- Hellenic Exchanges is the largest exchange in SEE offering investors direct and indirect access to the region
- Cash market trading volume has remained at multi-year low levels, which is expected to change once there is a lasting solution to Greece's sovereign issue
- Further capital increases (mainly by banks) and potential IPOs of state controlled companies could further enhance the group's top line in the medium term
- Enhanced profitability following management's efforts to make the company leaner
- The group remains cash rich, while the company's dividend policy is generous with a targeted payout ratio at 60%

Catalysts/Triggers

- The expected recovery of the Greek Economy will provide liquidity and increased interest in the Greek stock market
- Possible share capital increases in the banking sector for 2011

Negatives

- Price competition from newly established alternative trading platforms could force Hellenic Exchanges to further cut their trading and clearance fees
- Uncertainties over the government's intention to introduce a capital gains tax on stock transactions

EUR m	2009	2010F	2011E	2012E
Sales	78	63	65	71
EBITDA	53	38	40	46
EBITDA margin	*71.0%*	*60.4%*	*61.4%*	*63.9%*
EBT	50.2	40	41	45
Net Income	29.5	24	27	32
EPS (EUR)	0.45	0.36	0.41	0.44
P/E (x)	14.3 x	14.2 x	16.3 x	13.9 x
EV/EBITDA (x)	6.5	5.3	7.7	6.4

Source: The Company, FactSet

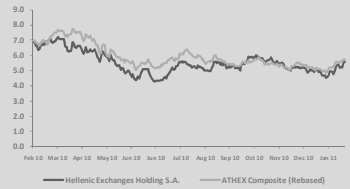
Stock Data

Price (11/02/2011) - EUR	6.50
Market Cap (EUR m)	424.9

Performance

	1m	3m	12m
Absolute (%)	41.6	18.2	-5.0
ASE General (%)	18.4	8.6	-16.4

Daily avg. no. of traded shares– 12M (k)	210
Price high – 12 months (EUR)	7.30
Price low – 12 months (EUR)	4.24



Company description

Hellenic Exchanges Group is the operator of the Greek cash and derivatives market. The Group offers trading services through Athens Exchange, settlement and registration through HELEX, clearing through ATHEXClear and data vending through Thessaloniki Stock Exchange Centre. In 2003, Hellenic Exchanges Group was fully privatized

Shareholders

Stichting Pensionefinds ABP 6.27% , Franklin Templeton Inv. 5.02%

OPAP

Gaming / Greece

Reuters / Bloomberg: OPAr.AT / OPAP GA

OPAP is one of the leading betting operators in Europe, with the monopoly rights until 2020 to all numerical lottery games and sports betting (apart from horse betting) in Greece. Although uncertainty over its monopoly status will weigh until an opinion by the ECJ is issued, we believe that there are significant positive catalysts ahead for OPAP associated with the regulation of online gaming (illegal thus far) and the introduction of VLTs. These developments coupled with OPAP's strong balance sheet would allow the company to take advantage of the opportunities as presented. The company trades at a sharp discount to its peers.

Investment Case

- OPAP has a monopoly betting license to operate specific games until 2020
- Although the European Court of Justice has been called by the Greek State Council to form an opinion in respect of OPAP's monopoly, we note that recent ECJ opinions have upheld the monopoly of operators in other EU countries
- OPAP controls more than 50% of the legal Greek gaming market that has a size of EUR9.5bn
- The company has the largest network in Greece with c5,000 independent agents (in franchisee agreements)
- OPAP is a highly recognized and well respected brand name in Greece
- OPAP to launch a number of new games this year once is cleared by regulatory hurdles
- The online betting and the VLTs markets are expected to be regulated later in the year giving OPAP the opportunity to expand into new segments
- Strong balance sheet – OPAP has no debt. Net cash position is estimated at EUR687m in 2010.
- Traditionally OPAP is distributing more than 95% of net profits.

Catalysts/Triggers

- The regulation of the online market in Greece. The unregulated market online market in Greece is estimated by market participants at above EUR4.0bn. OPAP does not operate online gaming in Greece since it is currently illegal. OPAP has the brand name and the financial muscle to take advantage of regulation of the online market in Greece and eventually to expand abroad
- The introduction of Video Lotto in Greece. OPAP could significantly benefit from this new market leveraging on the size of its network and its brand name
- Scratch card reintroduction. OPAP could be interested in a potential tender for scratch card tickets and benefit (if it wins the tender) by leveraging on its network and its experience in running regulated gaming concessions
- Expansion of the activities through alternative sales channels
- Possible interest in other government gaming assets, including the State's participation in casinos
- Potential acquisition opportunities abroad
- The positive impact of the new tax legislation on the company's EPS (the levy on dividends is not placed at a company level, while the corporate tax rate declines from 2011 to 20% from 24%)

Negatives

- Uncertainty over its monopoly status as the market awaits an ECJ opinion
- Strong competition from illegal online companies. This impacts both the top line (customers) and bottom line (higher payouts)
- The impact of the financial crisis in Greece to the disposable income
- Speculation that the government would like to sell its 34% stake in the company. This could also be viewed positively, since the actions of the State should aim at increasing the value of the company

EUR m	2009	2010F	2011E	2012E
Sales	5,440.9	5,172.3	4,735.5	4,799.0
EBITDA	966.8	906.1	779.5	765.0
EBITDA margin	*17.8%*	*17.5%*	*16.5%*	*15.9%*
EBT	946.9	877.5	748.5	733.2
Net Income	593.8	548.4	523.9	513.2
EPS (EUR)	1.86	1.72	1.64	1.61
P/E (x)	8.3	9.0	9.5	9.7
EV/EBITDA (x)	4.4	4.8	5.6	5.7
DPS	1.75	1.70	1.63	1.59
Dividend Yield	11.3%	11.0%	10.5%	10.2%
Net Debt	-699.6	-609.3	-571.5	-608.8

Source: The Company, Axia Ventures Group

Valuation

Our 3-stage DCF valuation returns a target price of EUR17.1o/share (WAAC of 11%, explicit forecasts until 2014, 1% FCF growth until 2019 and 0% growth to perpetuity) suggesting 10% upside potential from current levels. The company trades at a sharp discount to its global peers: 42.9% lower to 2010F P/E and 42% lower to 2010F peer group EV/EBITDA.

Stock Data

Price (11/02/2011) - EUR	15.54
Market Cap (EUR m)	4,957
Enterprise Value (EUR m)	4,347

Performance

	1m	3m	12m
Absolute (%)	21.4	23.2	4.1
ASE General (%)	18.4	8.6	-16.4

Daily avg. no. of traded shares– 12M (k)	690
Price high – 12 months (EUR)	17.73
Price low – 12 months (EUR)	9.95

Company description

OPAP has the monopoly rights until 2020 to all numerical lottery games and sports betting (apart from horse betting) in Greece. In addition it has the right of first refusal for new lottery games. The government has a 34% stake in the company. OPAP operates a network of c5,300 agencies in Greece and in Cyprus. The stock is included in FTSE/ASE 20 index.

Shareholders

Hellenic Republic 34.37%, Capital Research & Management 15%, Fidelity Investments 5%

Jumbo

Retail / Greece

Reuters / Bloomberg: BABr.AT / BELA GA

Jumbo is the leading toy retailer in Greece but also a principal player in specific market segments including home-and-seasonal products, books and stationary and baby apparel. The company has a network of 45 stores in Greece that continues to expand. Jumbo has also operations in Cyprus (3 stores) and recently started to expand in Bulgaria (3 in stores). The next wave of growth is expected from its expansion in south eastern Europe (Bulgaria, Romania) as Jumbo tries to replicate its successful low-cost model in the region. The recent economic woes in Greece, although lead to pressured sales (sales are expected flat for the year supported by network expansion) but are also helping the company to gain market share and be in an even stronger position once the market conditions start to stabilize.

Investment case

- Jumbo has a network of 51 stores in Greece, Cyprus and Romania
- Jumbo has a very strong brand-name in Greece and Cyprus
- In Greece It targets a market worth EUR1.5bn and currently enjoys a c36% market share. The company is expected to increase its share as weak competitors exit the market.
- Jumbo has been successful in positioning itself as a value player while at the same time most of its business segments (toys, baby apparel, book and stationary) have relatively defensive characteristics
- The company enjoys (and is expected to continue to do so) hefty margins supported by its purchase strategies, strong bargaining power and efficient infrastructure.
- A second wave of strong growth for Jumbo in the medium term will be associated with the group's expansion strategy, initially in Bulgaria and at a second stage in Romania
- Jumbo has a significant real estate portfolio as it owns many of its stores
- It has a strong balance sheet
- Management team is very knowledgeable of the specific market segments and has an excellent track record

Catalysts/ Triggers

- The new stores the company plans to open. For FY10/11 the company aims to open 6 new stores in Greece, Cyprus and in Bulgaria
- An opportunity to grow revenues as competition in Greece is exiting the market
- Continues improvement of the sales mix that allows for higher margins

Risks

- The direct impact of the adverse economic environment on sales.
- Potential delays in the network expansion
- The political, economic, currency and execution risks related to the expansion outside Greece
- The impact of the recent VAT increases in Greece on margins. Jumbo have decided to absorb the VAT increases, hurting its profitability
- Competition from alternative channels (supermarkets, internet, TV etc)
- There is no obvious succession path of the top management of the company

EUR m	2010/11F	2011/12E	2012/13E
Sales	556.9	613.6	661.9
EBITDA	146.0	164.3	187.6
EBITDA margin	*26.2%*	*26.8%*	*28.3%*
EBT	126.1	146.9	171.6
Net Income	82.0	117.5	137.3
EPS (EUR)	0.63	0.90	1.05
P/E (x)	8.3	5.8	5.0
EV/EBITDA (x)	5.2	4.4	3.5
DPS	0.19	0.27	0.32
Dividend Yield	3.6%	5.2%	6.0%

Source: Axia Ventures Group

Valuation

We argue that the impact of the adverse macro environment is to a great extend incorporated to the company's market price. Still we expect the group to increase its market share in Greece and gain from the aggressive expansion drive in Bulgaria (margins in this market are even higher). Our 3-stage DCF valuation returns a target price of EUR6.30/share (WAAC of 12%, explicit forecasts until 2014, 3% FCF growth until 2019 and 1.5% growth to perpetuity) suggesting 20% upside potential from current levels. In terms of peer valuation, trades at a 2010/11E P/E of 8.3 vs. 11.9x of a selected group of peers and at 2010/11E EV/EBITDA of 5.2x vs.6.0x its peers.

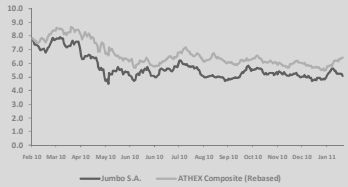
Stock Data

Price (11/02/2011) - EUR	5.25
Market Cap (EUR m)	683
Enterprise Value (EUR m)	740

Performance

	1m	3m	12m
Absolute (%)	6.7	-0.9	-31.6
ASE General (%)	18.4	8.6	-16.4

Daily avg. no. of traded shares– 12M (k)	192
Price high – 12 months (EUR)	7.95
Price low – 12 months (EUR)	4.50



Company description

Jumbo is the leading retailer in Greece of toys, books & stationary, baby apparel and home & seasonal products. The company has a currently a network of a total xxx stores in Greece, Cyprus and Bulgaria that plans to continue to expand in the coming years. Jumbo enjoys high brand-name recognition, while it has a significant property portfolio and a strong balance sheet.

Shareholders

A. Vakakis 26.79%, Capital research and Management Co. 15.86%, FMR 5%, Franklin Templeton Inst. 5%

Coca Cola Hellenic

Food & Beverage / Greece

Reuters / Bloomberg: HLBr.AT / EEEK GA

Coca Cola Hellenic offers a well recognized portfolio of products, is well diversified internationally with a balanced portfolio of mature and growing markets and has a strong management team with long experience in the sector. A gradual pickup in demand (already seen in some markets) along with the group's significant cost cutting efforts should help significantly improve profitability. We also note the acquisition opportunities the current market conditions present.

Investment case

- CCHBC has a balanced portfolio of countries as it includes mature markets (i.e. Italy, Greece), developing markets (i.e. Poland, Hungary, Czech Republic) and emerging markets (i.e. Russia, Nigeria, Ukraine, Romania)
- The company offers a well diversified product mix since 64% of revenues generation in 2009 came from sparkling beverages, 9% from Juice, 21% from water and the remaining 6% from other beverages
- The company has been very successful over the years in its drive to increase single serving packages, allowing margins to remain high
- The recent efforts to cut expenses are yielding significant results and will greatly benefit the group as the market returns to growth
- CCHBC's strong balance sheet and highly accelerated FCF generation can support future acquisition opportunities

Catalysts/ Triggers

- Pick up of the economic activity. Generally, soft drink consumption follows GDP growth therefore a turnaround in the economies that are currently lagging will boost revenues and profitability
- Stabilization / improvement of the package mix
- Acquisition opportunities. The focus is on acquisitions in the juice and water segments that will allow the company to strengthen its portfolio in specific markets

Risks

- Changes in the economic environment that has an impact on demand
- Further deterioration of the package mix, impacting the margins
- Economic and political risks in developing and emerging markets
- The company is exposed into fluctuations in raw material prices and energy cost pressures
- The company is exposed into FX fluctuations between the Euro and Russian Ruble, Polish Zloty, Hungarian Forint, Romanian Leu and Nigerian Naira
- Increased competition that could hurt revenues and margins
- Potential transfer of a number of food & beverage categories to a higher VAT bracket (from 11% to 23%) in the lucrative Greek market will adversely impact demand and/or profitability

EUR m	2010	2011F	2012E	2013E
Sales	6,793.6	6,994.3	7,299.1	7,620.9
EBITDA	1,046.6	1,116.6	1,157.6	1,191.5
EBITDA margin	*15.4%*	*16.0%*	*15.9%*	*15.6%*
EBT	571.8	615.9	667.4	695.7
Net Income	423.2	473.4	508.9	530.7
EPS (EUR)	1.15	1.29	1.39	1.45
P/E (x)	17.7	15.8	14.7	14.1
EV/EBITDA (x)	9.3	8.3	7.7	7.2
DPS	0.00	0.32	0.35	0.36
Dividend Yield	0.0%	1.6%	1.7%	1.8%
Net Debt	2,175.6	1,693.5	1,390.0	1,071.8

Source: The Company, Axia Ventures Group

Valuation

In the near-term, the adverse macro environment in a number of markets (Greece, Italy, Ireland, Romania and Bulgaria) will continue to impact the group. On the other hand, we do expect for the company to enter into a significant growth cycle once these markets start to recover. The advantage of Coca Cola Hellenic is that it has the financial flexibility to withstand economic financial burden while it has low debt and strong cash basis. Our 3-stage DCF valuation returns a target price of EUR21.70/share (WAAC of 8.3%, explicit forecasts until 2015, 2% FCF growth until 2019 and 1% growth to perpetuity) suggesting 6% upside potential from current levels. In terms of peer valuation, trades at a 2011F P/E of 15.8x vs. 15.1x of a selected group of peers and at 2011F EV/EBITDA of 8.3x vs. 9.2x its peers.

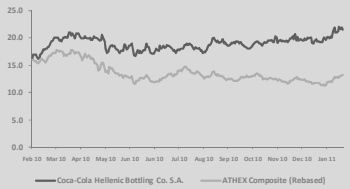
Stock Data

Price (11/02/2011) - EUR	20.45
Market Cap (EUR m)	7,475
Enterprise Value (EUR m)	9,169

Performance

	1m	3m	12m
Absolute (%)	4.3	6.0	20.9
ASE General (%)	18.4	8.0	-16.4

Daily avg. no. of traded shares– 12M (k)	313
Price high – 12 months (EUR)	22.28
Price low – 12 months (EUR)	15.98



Company description

CCHBC is the second largest Coke bottler globally operating in 28 countries, including amongst others Greece, Italy, Ireland, Austria, Switzerland, all the Central European countries that have recently joined the EU, many of the Eastern European countries including Russia and Nigeria. CCHBC serves c. 550m customers in 3 major geographic segments; established markets, emerging markets and developing markets. The company's product portfolio includes Sparkling Beverages, Water, Juices, Tea and other beverages.

Shareholders

The Coca Cola Company 23.97%, Kar-Tess Hold. 23.3%, Competrol Est. 5.11%, Credit Suisse Sec. 5.08%

APPENDIX

Legislation will be introduced by the Greek government in the coming months to comply with MoU

Tax Legislation

The Greek cabinet has already approved the draft legislations for tax reforms. It is currently placed for public consultation and will be tabled to the parliament for ratification in February. The law aims to create a friendlier framework for growth, while at the same time tries to tackle tax evasion. The new tax legislation calls for 1) the reduction of the corporate tax rate from 24% to 20%, starting January 1st 2011, 2) the change in the law regarding the dividend distribution tax, 3) impose strict penalties on tax evaders and 4) implement the overhaul of the tax collection mechanism.

Open Professions

The opening of closed professions is of paramount importance to the government and an integral part of the Memorandum of Understating Greece signed with the EC-IMF-ECB in May of 2010. More specifically, as indicated by the MOU, the government must remove restrictions to trade in professions including (among others) the legal, the pharmacy, the notary, architectures, engineering and auditing services professions.
The main goal of this action is to bring prices down, make the economy more competitive and thus stimulate growth. Also it gives the opportunity for "new-comers" to have easy and fair access to the job market. According to the Foundation for Economic and Industrial Research (IOBE), a leading private sector think-tank, the full liberalization of the 'closed professions' could, in the long-term, add 13.5% to the GDP by boosting private consumption by 15.5% and investment by 12.4%.
The government has delayed the unveiling of the liberalization bill as it is facing, pressure from organized labor.

Energy Liberalization

Energy liberalization efforts will include strengthening the independence of the Regulatory Agency for Energy (RAE), as well as expanding its capacity. Moreover it will include the unbundling of the Hellenic Transmission System Operator (HTSO) and the Hellenic Gas Transmission System Operator (DESFA). The legislation and the measures to unbundle electricity and gas activities, as well as the strengthening of RAE should be adopted by March 2011.
Further actions expected by the government are the following:

- Adoption of a plan for phased transitory cost-based access to lignite produced generation, including the decommissioning of PPC power plants scheduled under the Governments Energy Plan to meet 20-20-20 target (20% less CO2, 20% energy efficiency, 20% of energy from RES).
- Adoption of a plan to either tender offer the hydro reserves management to an independent body or to assign this role to the independent system operator.
- Break-up the monopolized environment of PPC; so far there have been 2 options on the table, the one that is most favorable for PPC is the "energy swap" scheme that was proposed by the Greek government, and the second that is favored by the EU is the sale or lease of 40% of the lignite energy production units of PPC.
- All regulatory powers assigned to EU energy regulators in the 3rd energy liberalization package, such as licensing, network access, network charges, market monitoring, should be transfer to the Regulatory Agency for Energy (RAE).
- Adoption of measures to ensure the independence of RAE

Public Sector Wages and Human Report Management

In the coming months the government must:

- Take steps to fight public enterprise waste: the Government is expected to adopt an act by the end of February. Some of the actions should be effective by the end of January and collectively should result in EUR800m in savings. This will include actions to reduce operating expenditure of public companies by 15%-25%, increase urban transport tariffs by at least 30%, establishes a ceiling of EUR 4000 per month for gross earnings, limit secondary remuneration to 10% of primary remuneration at company level and decrease primary remuneration in public enterprises by at least 10% at company level.
- Modernize the health care system: Hospital computerization and monitoring system, comprehensive E-prescribing, increasing use of generic medicines , re-pricing of the medicines (on retail level), improved accounting control to all major hospitals, and improved governance in the health care system are the actions to be adopted by the government within H1:11.

Asset Restructuring and Privatization

Legislation is expected to be drafted and submitted to the parliament in the coming months that concerns privatizations and the development of public property.
Already the Ministry of Finance has announced a privatizations table for 2011 aiming to raise EUR1.0bn during this year.

The Greek authorities are also taking steps to

- Develop the former airport of Athens “Elliniko”
- Privatize major real estate assets.
- Improve management of commercial public real-estate assets.

Opening the Gaming Sector

The Greek cabinet approved draft deregulation for the regulation of the online gaming and Video Lotto market segments. The Ministry of Finance aims to raise EUR700m in licensing and fees from these games this year. The amount is already part of the 2011 Budget.

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Neutral	The stock to generate total return* *between -10% and 10% within the next 12-months
Sell	The stock to generate total return* * of and below -10% within the next 12 months
Under Review	Stock's target price or rating is subject to possible change
Restricted	Applicable Laws / Regulation and AXIA Ventures Group Limited policies might restrict certain types of communication and investment recommendations
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**total return: % price appreciation –percentage change in share price from current price to projected target price plus projected dividend yield

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