AXIA VENTURES GROUP

Greece

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Myths Vs Reality Part II

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Greece: progress is confirmed

As we await the EU Finance Ministers and the IMF to approve the second installment of the EUR110bn loan (EUR9bn expected to be released in September) data and developments confirm our view that fiscal consolidation and reform efforts are progressing and are starting to yield results. Although the macro environment remains challenging, there are encouraging signs that these efforts may lead to positive surprises especially with respect of the speed in implementing the much needed economic restructuring.

The recent comments by the European Commission (EC)-IMF-ECB have been very supportive on the ability of the government to meet the quantitative criteria and to pass important reforms ahead of schedule. The government seems well placed to reach the fiscal targets for 2010, but most importantly, is making significant progress in its drive to revolutionize the current inefficient economic model. Legislation has passed or is expected to be submitted to the parliament soon, regarding 1) the restructuring of the pensions and labor system, 2) the opening of closed professions, 3) the liberalization of the energy market and 4) the introduction of a fast-track law to assist large investments in Greece. These represent only part of the government's efforts to create a framework that will allow the creation of an economic model that promotes flexibility and competiveness, attracts investments and generates growth.

We are at the very first steps of a multi-year program intended to transform an economy of consumption to an economy of sustainability. Despite being in the infantile stages, there are signs that the efforts are yielding results as depicted by initial commitments for significant Foreign Direct Investment (FDI). This is contributing to regain some lost confidence and is generating interest in Greek assets. Admittedly, more time and more evidence are needed to persuade investors that the country is transforming. Once investors are convinced of the latter, talk of a potential default will abate and investors will begin to look at Greece once again as an investment opportunity. The next few quarters are critical for Greece as budget implementation efforts will be closely scrutinized and new reforms will be pushed forward testing the government as well as the citizens. Eventually the front loaded nature of the measures, coupled with the government's defiance, are leading us to believe that the country will be able to put its economy in order and slowly turn it towards a sustainable growth path.

Turning to equities, investors continue to view Greece as a high-risk proposition given the significant macro challenges. Despite the recent rally in the Athens stock exchange, that led the ASE c15% higher from July to date, high concerns persist and we would expect the market to continue to seek concrete evidence that the sovereign default risk is dissipating before a re-rating of stocks takes place. That said there are a number of catalysts ahead (the speed of fiscal consolidation, restructuring of the banking sector, introduction of legislation aiming to make the economy more flexible, to boost FDIs etc), that could help accelerate this re-rating process and could allow investors to benefit from potential rallies. Note that the element of timing is of essence, especially in respect of the consolidation of the banking sector (that is in need for liquidity), since proactive and value-enhancing actions by banks could set off a positive momentum for equities. Although risks persist, our view is that as Greek credibility and market confidence gradually returns, the upside potential could be significant. Our focus is on equities with specific characteristics that are set to not only endure but also to capitalize on the restructuring of the local economy and unleash earnings potential both domestically and abroad.

Greek Budget Deficit – July 2010 (EUR m)

In EUR m	2009	2010	*7M:09/10 % Ch.*	2009	2010		*y-o-y % Ch.*
	7M:09	7M:10		Actual	Budget Targets	New Targets	
Budget							
Revenues	27,542	28,668	4.1%	48,468	53,700	**55,124**	**13.7%**
Revenues before tax return	30,346	31,356	3.3%	53,420	58,350	**60,224**	**12.7%**
Tax returns	2,804	2,688	-4.1%	4,952	4,650	**5,100**	**3.0%**
Expenditure	42,031	37,846	-10.0%	71,802	69,796	**67,873**	**-5.5%**
Primary expenditure	33,097	28,744	-13.2%	57,975	56,846	**54,611**	**-5.8%**
Medical Institute Compensations for		190		1,502		**245**	
Interest	8,934	8,913	-0.2%	12,325	12,950	**13,017**	**5.6%**
Public Investment Program							
Revenues	1,032	1,277	23.8%	2,041	3,860	**3,258**	**59.6%**
Expenditures	6,593	4,201	-36.3%	9,588	10,300	**9,200**	**-4.0%**
Surplus/Deficit	(20,050)	(12,100)	-39.7%	(30,882)	(22,536)	**(18,691)**	**-39.5%**

Source: Ministry of Finance

With MoU implementation on track we see potential for upside surprises

EC-IMF-ECB pleased with the government efforts for fiscal consolidation and structural reforms

During their recent visit to Greece the audit teams of the European Commission (EC), the IMF and the ECB, confirmed the government's strong start to the MoU with all quantitative criteria met and important structural reforms ahead of schedule. EU and IMF officials used terms as 'vigorous' and 'impressive' to describe the government's budgetary consolidation efforts. This was the first test of the implementation process of the MoU since it was signed by the Greek government in early May. The report will impact the EC-IMF decision to release the second installment of the EUR110bn loan to Greece in early September (EUR9.0bn). Specifically:

- The EC-IMF-ECB team confirmed that the budget consolidation is on target
  - The deficit reduction is ahead of the targeted 39.5% y-o-y reduction as the government has kept spending significantly below budget limits. This was also confirmed by data released after the auditor's report.
    - Nearly all fiscal measures have been implemented and are expected to yield a further boost to revenues and another round of savings in the second half of the year.
      - Revenues were weak in July, partially because of timing issues. The negative trend is expected to reverse in the coming months as the recently implemented VAT increase (from 21% to 23%) starts yielding results and as the government goes ahead with new tax collection efforts (a number of new taxes will be collected in the coming months including a tax on large property and a tax on individuals with revenues of more than EUR100,000).
  - Greece is taking steps to further tighten expenditure control and monitoring, (especially at sub-national levels), while at the same time further strengthening its tax-collection efforts.
    - The government is intensifying efforts to contain high healthcare costs and curb the increased costs of the underperforming social security and local government accounts (intention to appoint auditors, restructuring the payment procedure, etc).
    - A far-reaching restructuring of the tax authority is underway. According to the government, by the end of September, 5 dedicated task forces will be established that will ensure proper implementation of the new task legislation, collect taxes owed to the government, reorganize the large tax payers unit, create tighter and more effective control of high-wealth individuals, and improve tax payer services as well as filing and payment controls.

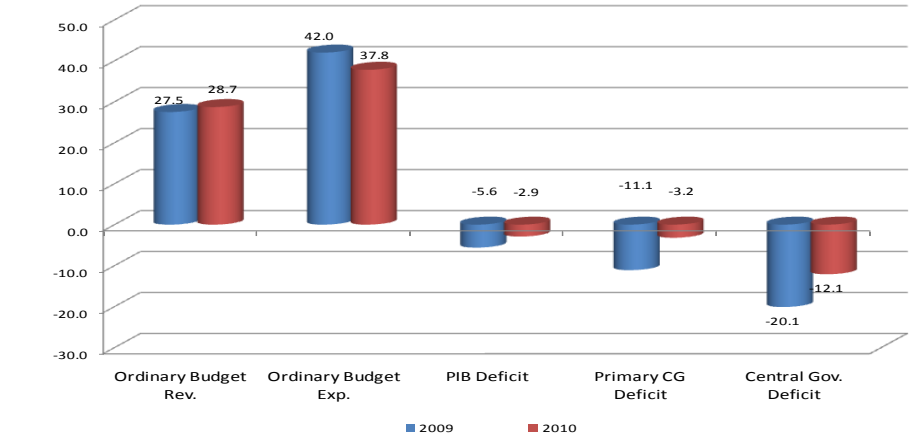
Economic Indicators

	2009	2010F	2011E	2012E	2013E	2014E	2015E
Real GDP	**-2.0%**	**-4.0%**	**-2.6%**	**1.1%**	**2.1%**	**2.1%**	**2.7%**
Total domestic demand	-2.4%	-7.1%	-5.2%	0.1%	1.7%	1.8%	2.1%
Private consumption	-1.8%	-4.0%	-3.7%	0.8%	2.8%	2.5%	2.5%
Public consumption	9.6%	-10.6%	-5.1%	-3.6%	-6.6%	-3.2%	-0.1%
Foreign balance	0.7%	3.8%	3.6%	1.0%	0.4%	0.5%	0.3%
Exports	-18.1%	4.5%	5.4%	5.9%	6.0%	5.9%	6.0%
Imports	-14.1%	-9.7%	-6.1%	1.6%	3.8%	4.6%	3.7%
Unemployment	9.4%	11.8%	14.6%	14.8%	14.3%	14.1%	13.4%
CPI	2.3%	4.75%					
Nominal GDP	237	231	224	228	235	242	251
Nominal GDP (%)	-0.7%	-2.8%	-3.1%	2.1%	2.8%	3.1%	3.8%

Source: National Statistical Services, Ministry of Economics and Finance, Bank of Greece, IMF

- The GDP is contracting in line with expectations but inflation is higher than anticipated:
  - The auditors maintained their expectations for a contraction of the economy of 4% in 2010.
    - The economy shrank 3.5% in Q2:10 and by 2.9% during H1:10. The IMF forecasts that GDP will contract by 4% in 2010; this suggests that the economy for the second half of the year has to further shrink by 5.1% - 5.2% in order to meet these forecast. A surprise might come from a lower than expected contraction in the second half of the year.
  - IMF's CPI expectations for 2010 were revised sharply upwards (from 1.9% to 4.75%) due to pass-through effects of increased taxation. This should assist the deficit and debt metrics for the year.

Major Budget Categories (EUR bn)



Source: Ministry of Finance

- Structural reforms are progressing. Key commitments are being implemented and there is progress toward medium-term reforms:
  - According to the auditors the landmark pension reform passed by the Greek parliament is far-reaching by international standards.
  - Significant pieces of legislation regarding closed professions and energy sector and the restructuring of the National Railway Organization (OSE) are to be submitted to the parliament soon.

- Banks face liquidity pressures, but there is a silver lining::
  - There has been a moderate deterioration in capital adequacy as nonperforming loans have increased in line with expectations.
  - The positive results of the recent CEBS stress tests are helping to reduce market volatility.
  - The government and the Bank of Greece are pushing for a strategic review of the banking sector and a diligence process for state banks is about to start.
  - The Financial Stability Fund that aims to maintain the stability of the Greek banking system by providing equity capital is in place. The Fund is financed of up to EUR10bn from the proceeds of loans granted in the EC-IMF program.
  - The government submitted to the parliament an additional liquidity support package for banks worth EUR25bn in State guarantees.

The positive comments by the EC-IMF-ECB support the government's difficult drive to deal with the pressing fiscal issues, and more importantly, the effort to transform the economy by introducing growth-friendly legislations. The reforms the government is pushing are the key to persuade Greek citizens and international investors that Greece is turning page and entering a new sustainable growth path helping dismiss any default speculation and proving with its actions that Greece should be viewed as an investment opportunity.

The turnaround of the economy is a medium-to-longer term proposition. In the short term the markets will pay increased attention on the fiscal consolidation efforts. The data, so far, suggest that the budget consolidation is on track and that the government will be able to achieve the MoU targets. Note that in case there is a significant divergence with the targets, there are contingency measures the government could take (has created a cushion of EUR4.0bn in reserves, could bring forward MoU revenue measures like the transfer of a number of categories to a higher VAT bracket, etc). Parallel to the deficit consolidation efforts, the focus will be on GDP contraction, debt levels and the government's decision to revise GDP.

Unless Greece shows signs of definitive fiscal consolidation, but even more importantly now, signals that the economy is slowly getting back on track and is starting to grow, the markets will continue to view the country as a high default-risk proposition. Since it takes time to support with concrete data the efforts to overhaul the economy, we would expect a re-rating of Greece to take place latter (sometime in 2011) than sooner and concurrently yields to start coming down to more 'normalized' levels.

The focus is firmly on Q3 and Q4 of 2011. By then, the fiscal effort should be yielding increased fruits, the bulk of growth-friendly structural reforms should be implemented and there should be concrete signs of an economic rebound. These conditions must be met in order for the government to start considering re-entering the capital markets in the most crucial test of this unprecedented effort.

Reforms – The government demonstrates political will and accelerates reforms

EU-IMF-ECB has expressed their satisfaction to the implementation of the unprecedented fiscal and restructuring measures. The reform efforts are already ahead of schedule with the Greek parliament having passed the very important labor and pension reform laws, while the government tries to maintain the momentum through a faster execution of other key reforms (as described in an amendment of the MoU) including the opening of the 'closed professions', liberalization of the energy market, restructuring the public transportation companies, setting up a unified pay system for public employees and reforming the hospital's cost structure.

We view that the speeding up of the reform process will benefit Greece since it will 1) accelerate the rebound of the economy 2) allow the government to turn its focus on growth and 3) help the country regain lost confidence and possibly accelerate its efforts to return to the markets sooner (possibly in late 2011).

We note that despite the reaction of certain unions and special interests to these reforms, the government has shown resolve and is moving forward despite potential political cost. This indicates a clear determination to stick with the MoU.

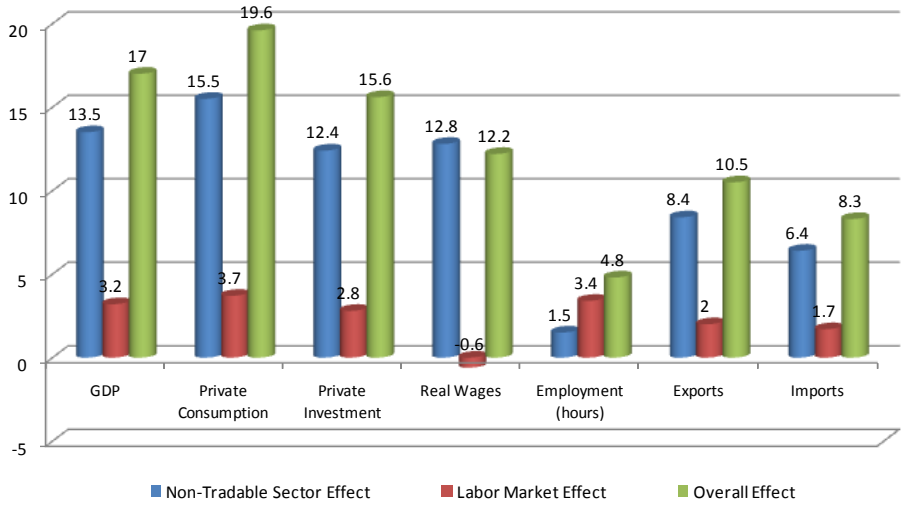
- In early July the parliament voted into law the new pension system and labor market reforms. Regardless of the substantial adverse impact of these reforms on all employees, passage was quick and public reaction was muted. This suggests that society has realized the need for an overhaul of Greece's economic model.
    - According to the head of the IMF's mission in Greece, Poul Thomsen, the passed pension reform places Greece at the European forefront in terms of addressing this issue.
    - The pension reform legislation aims at gradually reducing the public pension expenditure to 2.5% of GDP over the next 50 years from 12% of GDP currently.
    - In our view the pension legislation is the single most important piece of reforms included in the MoU. The impact of this legislation on the economy is substantial and it ensures the survival of the system and eases pressure on the budget. The table below shows the burden of pension expenditures on GDP at year 2060 for Greece and other EU countries, before Greece implements the new bill.

Pension Expenditure as % of GDP		
	2007	**2060**
EU-27	10.2	12.6
Greece	11.7	24.1*
Germany	10.4	12.7
Portugal	11.4	13.5
Italy	14	13.6
Ireland	4.7	11.1
Spain	8.4	15.1

*before the reforms, Source: EU Commission Services, EPC

- The liberalization of the 'closed professions' is the next very important step in order to make the Greek economy more competitive and to allow for new investments. The government is preparing to submit to parliament the relevant legislation before the end of the year.
    - According to press there are more than 150,000 professionals in 70 professions that will be impacted from the opening of their professions (truck drivers, lawyers, doctors, civil engineers, pharmacists, etc).
    - Initial effort to open the truck-drivers profession ended in a confrontation between truck drivers and the government. The government showed resolve by ordering the mobilization of the owners and drivers of trucks and tank trucks across the country, forcing them back to the negotiation table.
    - 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, help add 13.5% to the GDP by boosting private consumption by 15.5% and investment by 12.4%.

The impact of the opening of closed professions on the economy



Source: IOBE, Axia Ventures Group

- The fast track law, which is placed for public consultation until August 27, is another important step by the government aiming to drastically reduce red tape for large investment flows into Greece.
    - Red tape and legal hurdles have been stalling large investments and infrastructure projects in Greece (in some cases for years). Although there is need for infrastructure projects and foreign participation interest, the current legal environment is making the licensing and the construction timetable for these projects hard to meet.
    - The fast track law creating a centralized process (through the company 'Invest in Greece') could reduce the permit process of large investments down to 3 months. This law will revolutionize the way investments in Greece are made, attracting increased foreign interest.
    - This development should also be seen in conjunction with the government's efforts to privatize assets, co-develop real estate and promote investments in specific sectors (energy, tourism, construction).
- The Energy Liberalization law, part of the MoU, is set to allow for increased competition and remove market price distortions in the energy sector. Following the liberalization of the energy sector we expect increased interest for investments.
    - Beginning in September, it is expected the government will1) present its detailed plans for the liberalization of the energy market, 2) adopt a plan for phased transitory cost-based access to lignite produced generation, including the decommissioning of the power plants scheduled under the Governments Energy Plan to meet the 20-20-20 target, 3) adopt a plan to either tender offer the hydro reserves management to an independent body or to assign this role to the independent system operator, 4) adopt a mechanism to ensure that the energy component of regulated tariffs reflect the wholesale market prices.
    - The Ministry of Environment has already revealed a program that aims to attract investments in energy and in the environment worth EUR44.4bn over the next 5 years, creating 210,000 new jobs. Specifically for the energy sector, the government expects investments worth EUR31.8bn that will create more that 169,000 jobs.
- The new budget law that was passed at the end of July was an important milestone and will serve to strengthen the fiscal management framework. Amongst all, the Ministry of Finance will have the authority to set top-down expenditure limits for line ministries, local governments and social budgets. By the end of September, the government will institute monthly fiscal reporting procedures for general government entities.
    - One important action for controlling local government expenses was the recently passed "Kallikratis Bill". Measures include employment reduction and improved budgetary results of c.EUR 500m per year from 2011-2013.

The banking system shows resilience

Greek banks successfully concluded the stress tests performed by CEBS, while potential consolidation of the sector could create stronger entities able to better overcome the economic hurdles.

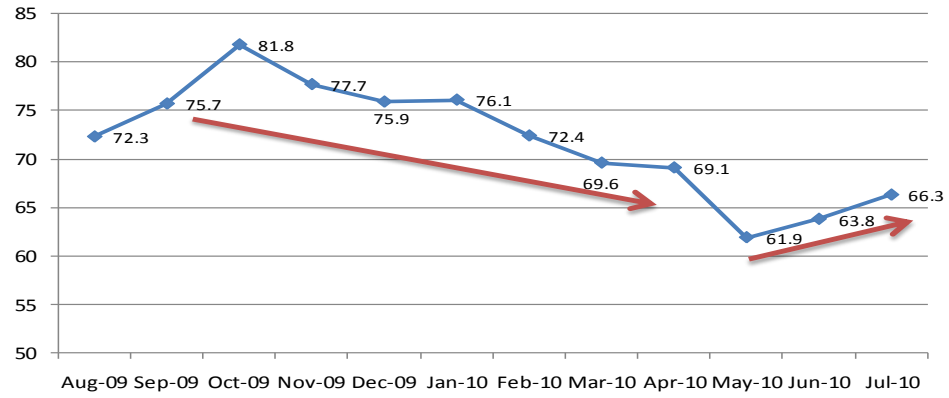
- Out of the six Greek banks that participated in the stress-test exercises only ATEbank failed to pass the 6% Tier I ratio benchmark under the 'adverse and sovereign shock scenario.'
    - For the banks that participated in the tests, as a whole, the results indicate a net surplus of Tier 1 capital in the order of EUR3.3bn above the 6 percent Tier I benchmark ratio.
- According to the latest data there is a deceleration in the rate of deposit decrease. The deceleration was recorded in May, which was a month with considerable negative news flow for Greece.
- Efforts to support the capital base and the liquidity of the banking system have accelerated with 1) the introduction of the Financial Stability Fund, 2) the efforts of the ECB, 3) the decision of the government to introduce another EUR25bn in State guarantees.

Some early positive readings

Given the sharp fiscal consolidation, business conditions have deteriorated, but there are positive signs.

- Turnover Index in Industry increased 6.1% in June driven by a sharp (27.1%) non-domestic market increase
- New Orders Index for the domestic market declined 11.4% y-o-y in June, but New Orders for the non-domestic market continued higher, posting a 27.4% y-o-y increase.
    - According to Markit (an information services company) Greek PMI continued to increased in July (reached 45.3 from 42.2 in June) raising hopes that there could be some improvement in the levels of the output and employment indices starting in Q3:10
    - According to Markit, the PMI improvement appears to have been driven principally by a weaker decline in foreign demand, suggesting that efforts by Greek manufacturers to increase their international competitiveness are starting to take effect, although they have not yet led to a rise in new export business.
- The turnover index in retail trade (including automotive fuel) in May recorded a decline in terms of value (-1.2% decline in value and 7.3% drop in terms of volume). This is despite the adverse consumers' sentiment in May impacted by the country's agreement with the EU-IMF for the EUR110bn loan.
    - Note that the small decline in value is also associated with the government's measures that induce consumers to ask for receipts aiming at curbing tax evasion and increasing VAT revenues.
- The negative economic sentiment show signs of stabilization.
    - According to the EU, the Economic Climate Index in Greece settled at 66.3 points in July from 63.8 points in June.

Economic Sentiment



Source: European Commission

- Arrival of foreign tourists in the Athens airport for the Jan-June period posted a small increase (+0.4% y-o-y) helping ease fears that the economic crisis in Greece would have an adverse impact on tourist arrivals.
    - The expectations sub-index of the Economic Climate Index (IOBE) for the hospitality industry increased to 93.1 in June from 73.2 in May and 72.7 in June last year
    - The Minister of Finance has said that revenues from tourism could drop by 10%-15% this year but there are reports that this number could be smaller.

Short-term catalysts

We view a number of short-term catalysts that could support an improvement in confidence for Greece.

- EU-IMF to confirm Greece's efforts by releasing the second installment of the EUR110bn loan in early September.
    - The Eurogroup - Ecofin to meet and approve the distribution of the installment on the 6th and 7th of September. IMF BoD to convene on September 10.
- Budget deficit reduction to continue to come ahead of expectations.
    - Focus is especially on the revenues side as they are expected to pick up in the second part of the year reflecting higher VAT (a 2% increase was implemented on July 1st) and increased tax receipts (tax efforts to accelerate in the last 4 months of the year).
- Data that verify that the economy could contract less than expected.
- Inflation to remain higher than IMF expects.
    - Inflation in June settled at 5.2% compared to 5.4% the previous month. The IMF now forecasts inflation of 4.75% for 2010. Higher inflation could have a positive impact on deficit and debt metrics.
- The government to initiate revision of GDP in the coming months.
    - According to press reports, the government, in its review of national statistics every five years, will revise the country's GDP rolling over the base year. As a result GDP could be revised upwards by 10% in Q1:11. A 10% revision could result to a debt-to-GDP of 114% for 2010 (from expectations of 125%) and a c0.5%-0.6% reduction in the budget deficit.
- The government accelerates its reform efforts by introducing legislation that opens up 'closed professions' and liberalizes the electricity market.
- The results of the appraisal of public property and the financial assets.
    - According to press reports the value of the public property is estimated at cEUR300bn or equal to the public debt. An official appraisal of the public assets (reportedly will take place within 2010) will have a positive impact on investor sentiment.
    - The government is set to appoint consultants for the valuation of the State's assets in banks. This is the first step of a process that may lead to the tender of these assets as the government favors the creation of stronger institutions. M&A activity in the banking sector could also help shape the investment sentiment towards Greece and the Greek equity market.
    - The privatization receipts should boost FDI.
- Increased interest for Greek assets could help shape the opinion on Greece.

On the negative side

There are areas of concern that could potentially derail the government's efforts to push for reforms and could jeopardize the fiscal consolidation.

- Persistently high inflation to further erode the economy's competitiveness and create friction, as the austerity measures reduces disposable income.
- Strong reaction by professionals for the opening of 'closed professions' and PPC's employee union to the liberalization of the energy market. This could lead to a confrontation between government and professionals/employees, putting a further burden on sentiment.
- Difficulties at containing the high costs of hospitals and social security.
    - Despite the government's contention that it has created a EUR4.0bn buffer to deal with shortfalls, challenges remain.
- Fears for a potential upwards revision of debt.
    - According to press, the government will assume the debt it has guaranteed in the National Railway Company (OSE) in an effort to restructure and partially privatize the company. As OSE's debt reaches cEUR10bn this will have an adverse impact on public debt by c4.2%.

The Greek Banking sector

Within less than 2 years the Greek banking sector faced two unprecedented challenges: the global economic crisis and the Greek economic crisis. Although wounded, Greek banks continue to be adequately capitalized (as the recent stress tests have shown) but as more challenges are ahead we expect significant developments in the sector in the short term.

The Greek banking system has faced an unprecedented crisis during the last 10 months. Successive credit rating downgrades of the Greek sovereign debt eventually led to the downgrade of the credit rating of the banks, and resulted in capital outflows and severe liquidity issues.

The MoU has provided support to the economy, while the ECB and the Greek government have taken successive actions to provide the system with liquidity. Notwithstanding, the adoption to a new economic reality has been challenging and will continue to be so:

- NPL formation is increasing resulting in higher impairment charges and hurting the profitability of the sector.
- Credit expansion is expected to be marginal for this year.
- There is an outflow of deposits, a trend that should have decelerated following the signing of the MoU (no available data over a significant period yet).
- Margins are pressured because of higher customer deposit costs.

One major concern for us remains the alarming deposit-outflow trend: In May the system recorded an outflow of deposits from households and business of EUR2.2bn, while in June the trend accelerated recording an outflow of EUR3.3bn. Since January deposits of households and businesses have dropped by EUR21.4bn or by 9%. We believe that this adverse development puts increased stress on the system and should necessitate the faster consolidation of the sector, in order to withstand the mounting pressure.

The ECB, the IMF and the government have taken decisive steps to support the Greek banking system.

- ECB continues to provide liquidity.
- The creation of the Financial Stability Fund is on track.
- The Greek government, after expanding a EUR15bn program of State guarantees, announced a new one of EUR25bn.

The CEBS stress tests resulted in all but ATEbank (at the adverse scenario) meeting the 6% Tier I ratio.

- For the six banks participated in the tests, as a whole, the results indicate a net surplus of Tier 1 capital of the order of EUR3.3bn above the 6% ratio of Tier 1 capital that was agreed as a benchmark.
- The results show that under the adverse scenario including sovereign shock five out of six banks pass the test. Only for ATEbank, the Tier 1 ratio fell to 4.4% at the end of 2011, indicating a shortfall of EUR242 million.

Greek Banks stress tests results

	2009 TIER 1	2011 adverse TIER 1	2011 adverse + sovereign shock	PASS/FAIL
National Bank of Greece	11.3%	9.6%	7.4%	PASS
Alpha Bank	11.6%	10.9%	8.2%	PASS
EFG Eurobank	11.2%	10.2%	8.2%	PASS
Piraeus Bank	9.1%	8.3%	6.0%	PASS
ATE Bank	8.4%	8.9%	4.4%	FAIL
Hellenic Postbank	17.1%	15.0%	8.4%	PASS
Bank of Cyprus	10.5%	9.4%	8.0%	PASS
Marfin Popular Bank	9.4%	8.5%	7.1%	PASS

Source: CEBS

Developments in the sector

Over the past several months, the Greek government and the Bank of Greece have made it clear that they would welcome a consolidation in the sector and/or efforts by banks to find strategic partners aiming at creating stronger entities that could better overcome the challenges of the protracted recession in Greece, while at the same time be able to help the economy return to growth.

In the next few months we are expecting developments in the sector that could be related to:

- Mergers and acquisitions among banks.
  - There are scenarios that there could be a consolidation drive in the sector as Greek banks will try to merge to create stronger entities. There a number of different scenarios involving all local entities.
    - Mergers among Greek banks most likely will include share swaps and no cash.
    - Foreign banks, reportedly, could be interested in acquiring stakes in National Bank of Greece, Alpha Bank and EFG Eurobank helping them with their efforts to access liquidity.
- The decision of the government regarding its stakes in the banking sector.
  - The government has already received a proposal by Piraeus Bank to buy its stake in ATEbank and in Hellenic Postbank.
  - The government is set to appoint consultants to evaluate its stakes in the financial sector and then decide how to proceed. Reportedly it could favor an international tender as this would assist to the consolidation of the sector, while the government could maximize its proceeds.

Greek Banking sector – Q1:10 ratios

	Banks		Banking Groups	
	Dec-09	**Mar-10**	**Dec-09**	**Mar-10**
Asset Quality				
NPL's - total	7.7	8.2		
Housing Loans	7.4	8.2		
Consumer Loans	13.4	14.7		
Business Loans	6.7	7		
Coverage ratio	41.5	42.8		
Liquidity				
Loan-to-deposit ratio	106.6	111.5	113.7	118.4
Liquidity asset ratio	24.2	20.5	21.4	18.7
Asset-liability maturity mismatch ratio	-4.2	-12.4	-4.9	-9.4
Capital adequacy				
Capital adequacy ratio	13.2	13	11.8	11.7
Tier 1 ratio	12	11.7	10.6	10.6
	Q1:09	**Q1:10**	**Q1:09**	**Q1:10**
Profitability				
Net interest margin	1.7	2	2.5	2.7
Cost-to-income ratio	59.5	65.8	54.2	58
Return on assets (after tax)	0	-0.6	0.4	-0.2
Return on equity (after tax)	1.1	-11	7.5	-3.4

Source: Bank of Greece

- Capital Increases
  - The government has already stated that it will participate in the capital increase of ATEbank that failed in the adverse scenario of stress tests.
  - There are reports that other Greek banks could consider capital increases in the near future aiming to fortify their capital ratios and obtain fire power ahead of a potential consolidation of the sector (reportedly Piraeus Bank is interested in a capital increase).

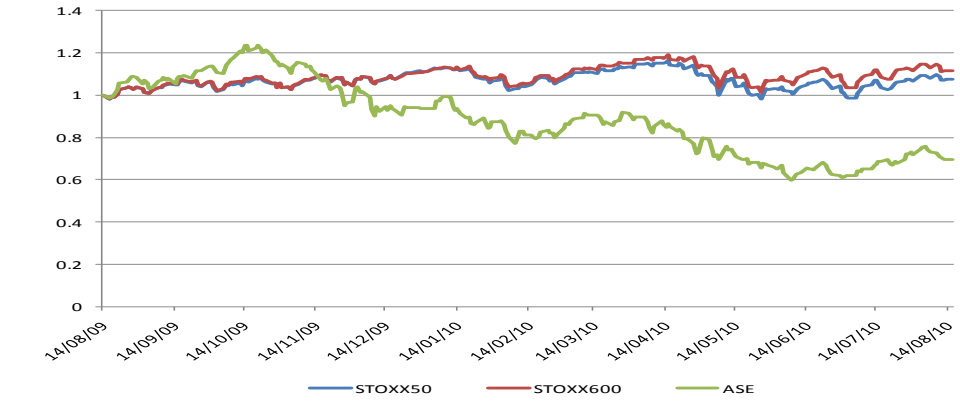
- September stress-tests
  - According to press reports, a further stress-test on Greek banks will be performed by the Bank of Greece under the supervision of the EC-IMF-ECB, most likely in late September.
  - The stress-tests will take under consideration the specific characteristics of each bank that have to do with the structure of the banking portfolio and the geographical reach. The scenarios will be similar to those used for the stress-tests of the EU banks (including Greek banks) in July (a base scenario and an adverse scenario with sovereign shock).

Turning slowly to equities

The Athens Stock Exchange retreated by c35% since October of 2009 underperforming the Stoxx600 Index for the period (Stoxx600 up c7% since October 2009). This of course does not come as a surprise given the developments and news flow regarding the position of the Greek economy that eventually led the government to agree to a EUR110bn loan from the EC-IMF under strict conditions.

Our view is that there are signs that Greece will be able to meet the MoU targets and we believe that the government will succeed in achieving fiscal order and in implementing growth-friendly reforms. That said we believe that there are specific Greek equities with very favorable risk-reward profiles set to gain early on, as confidence towards the Greek economy gradually increases.

ASE vs. Stoxx600 and Stoxx50 (rebased)



Source: Fact Set, Axia Ventures Group

What pushed equities lower?

The announcement of a much larger than expected fiscal imbalance (reached 13.7%) and the high debt levels (115% of GDP) in 2009 started a series of actions in October of 2009 that led to the inability of the Greek government to borrow from the markets and eventually (in May of 2010) requested activation of an aid mechanism backed by the EU and the IMF. The mechanism foresees a sharp fiscal adjustment (aiming to turn the 8.6% primary deficit in 2009 to a surplus of 1% in 2012), forcing the government to initiate a series of measures to increase public revenues and reduce expenses.
The impact of the austerity measures on the economy and on business led the market to a sharp earnings revision adjustment. At the same time, as Greek companies started to carry a much higher country risk, resulting to higher discount rates, pushing valuations lower. Specifically Greek stocks tumbled due to:

- Fears that eventually Greece would default / restructure its debt.
  - As interest rate spreads reached record highs and credit agencies started to revise the sovereign ratings downwards (reached junk status) investors turned away from Greek equities.
  - The 'default' scenario weighted heavily on the banking sector as Greek banks control c19% of sovereign debt, while they represent c32.5% of market capitalization (currently).
- The impact of the austerity measures on the economy. Since late last year the government took actions to deal with the deficit while the fiscal consolidation efforts accelerated with the introduction of the Stability and Growth Package (in January) and the MoU (in May). The IMF now forecasts:
  - Real GDP to contract 4% in 2010 and a further 2.6% in 2011.
  - Unemployment from 9.4% in 2009 to jump to 14.8% by 2012
  - Private consumption to decline by 4% in 2010 and by 3.7% in 2011
  - Public consumption to drop 10.6% in 2010 and 5.1% in 2011
- The 'extraordinary social contribution tax.' In May of 2010 (part of the MoU agreement) the government introduced 3-year levy paid by all companies that record profits above EUR100,000.
  - Corporate profits above EUR5.0m will be taxed with an additional 10% rate for the next 3-years.
  - There was increased speculation initially that this would end up being a permanent levy but the Minister of Finance has dismissed this notion.
- The extraordinary tax the government levied in late 2009 on profitable companies. The extraordinary tax was recorded on FY09 accounts pushing the Q4:09 EPS sharply lower.

- The change in the law regarding the taxation of distributed earnings. The new law accounts for the gradual decline of the taxation of non-distributed profits from 25% to 20% in 2014 but it calls for the taxation of distributed profits as personal income. This effectively replaces a 10% withholding tax on dividends with an increase in the corporation tax rate from 25% to 40% for the distributed profits. This law also leads to increased taxation of dividends from foreign subsidiaries.
- Worries regarding the strength of the banking sector. Banks found themselves in difficult position as customer deposits were depleting, the NPLs continued to rise and there was no alternative for liquidity other than the ECB.
- Tight credit conditions that are impacting the financing of corporations.

Is it time to buy?

As long as there are concerns over the ability of the government to meet the strict MoU targets and speculation that Greece might default (irrespectively if it meets the MoU targets) investors could continue to shy away from Greek equities.

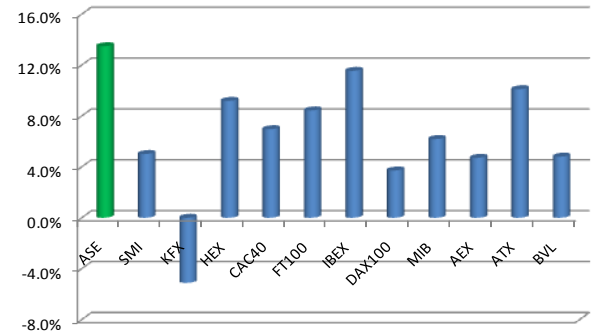
Still, we believe that this unprecedented fiscal tightening coupled with the much-needed structural reforms is set to transform the Greek economy and local business. The 'Greek way of doing business' under which many companies flourished during the past years is quickly changing, benefiting companies that have a strong management, a sound business plan and a solid balance sheet. As the economy picks up, these companies will be in a position to not only survive but to significantly expand as they take advantage of the weak competition and increased opportunities.
We recognize 5 reasons that could prompt inventors to start considering Greek equities again:

- Greece is ahead of its targets for fiscal consolidation and on schedule in implementing structural reforms allowing increased optimism that the MoU targets not only could be achieved but there could be some positive surprises.
- The market has discounted the worst case scenario for Greece: the default. Instead, the EUR110bn EC-IMF loan gives the economy breathing space to implement reforms. At the same time the EC, the IMF and the ECB are increasing their exposure in Greek government debt, reducing, in our view, the possibility of a default.
- The MoU is front loaded allowing the economy to start to rebound sometime in the second half of 2011.
- The Greek banking sector remains under strain but there are positive developments: The recent CEBS stress-tests demonstrated that the main banks are adequately capitalized; there are scenarios for consolidation/re-capitalization in the sector in order to create stronger entities; the ECB continues to support the system with liquidity.
- Foreign investors start expressing interest in investing in Greece.

P/E for ASE vs. Stoxx600

Source: Factset, Axia Ventures Group

Indices Performance between July 1 to August 10, 2010



Source: Bloomberg, Axia Ventures Group

Short-to-Medium term catalysts that could help drive stocks higher

Catalysts that could help enhance the performance of the ATHEX are:

- Greece securing the second (early September) and the third (early November) installment of the EUR110bn loan
  - The EC-IMF-ECB has already concluded their visit/report for the second installment while a new visit is expected in October.
- Budget deficit execution to continue to exceed targets allowing for faster fiscal consolidation.
- An adjustment for lower GDP contraction expectations for 2010.

- Successful efforts by the government to privatize State assets. Note that Greece (under the MoU) must raise EUR1.0bn per year in the next 3 years (starting in 2011) selling assets. Increased interest in this process (that has been initiated) could enhance the sentiment for Greek equities.
- Developments in the banking sector that could include M&A and recapitalization. These developments could include private as well as State-controlled banks. Regarding State assets the government has appointed consultants to evaluate them, a process that is expected to be concluded in September.
- The upcoming stress tests on the endurance of the Greek banking system that will take place in September and will be performed by the Bank of Greece under scenarios set by the IMF.
- The drive to open up the energy sector. This could lead to increased interest for investments in the sector from local and international players. The process should start in September.
- Potential changes in the corporate / dividend taxation and the introduction of growth-enhancing legislation.
- According to press the government is considering the reduction of the levy on dividends below the current 40% rate. This could have a substantial positive impact on the effective tax rate of corporations that traditionally distribute dividends as well as on their dividend payout. In addition this will positively impact companies that receive dividends from subsidiaries.
- The introduction of the 'fast track' law that is expected to attract the interest of foreign investors.

Focusing on specific stocks

Greek equities are faced with sovereign risk, something that prevents investors (especially those unfamiliar with the market) from getting into the Greek market. We recognize this concern but we also note that there are Greek equities with specific characteristics that could attract investment interest over the medium/long term once the macro environment shows concrete signs of stabilization. These companies are expected not only to be able to overcome the current economic difficulties but to grow significantly and fast in and outside the Greek market once conditions improve. We 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.

Companies with such characteristics will definitely stay afloat during the sluggish Greek market times and will definitely outperform once Greece comes out of the woods. Our picks include **Mytilineos Group, OPAP, Intralot, Titan Cement, Coca Cola, Ellaktor, Gek-Terna and Folli Follie**. All of our picks satisfy one or more of the latter characteristics. Mytilineos has a very strong growth potential given the group's increasing exposure in the highly promising Greek electricity market and coupled with the high prospects of its core businesses (metals & mining and EPC); OPAP has a very strong balance sheet and a number of catalysts ahead; Intralot holds a leading position globally in the integrated lottery system market and trades at significant discount relative to its peers; Titan cement has a strong management team and has the majority of its income coming from abroad; Coca Cola is well diversified internationally with strong income stream coming from outside Greece, and has a stellar management team; Ellaktor has a strong construction backlog, a large part of which (32%) concern projects outside Greece, while it holds an attractive portfolio of concessions; Folli Follie has a substantial income stream coming from abroad and especially from Asia; Gek-Terna has a very strong construction backlog along with a significant exposure in energy that includes a large pipeline in alternative energy capacity.

Company profiles

- **Mytilineos**
- **OPAP**
- **Intralot**
- **Titan Cement**
- **Coca Cola Hellenic**
- **Ellaktor**
- **Gek Terna**
- **Folli Follie**

Mytilineos Group

Holding / Greece

Reuters / Bloomberg: MYTr.AT / MYTIL GA

We view Mytilineos as one of the most interesting investment cases in the Greek stock exchange because of the group's increasing exposure in the highly promising Greek electricity market coupled with the significant upside potential from its core business (metals & mining and 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 new EPC projects (already are under construction) 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
- Fully controls its energy assets after the acquisition of the 50% of Endesa Hellas from Enel in Q1:10
- 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). AoG owns a power plant, significant bauxite reserves (used in alumina production) and has easy sea access
- There is potential for alumina production capacity increase
- The cost cutting efforts initiated in AoG to start producing results. To this end we note the recent agreement with PPC on tariffs that slashes the operating cost of the company significantly
- Its EPC subsidiary, Metka, has a backlog for the construction of EUR1.9bn 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, Turkey and Middle East) is expected to remain very high for many years to come
- The majority of the group's revenues in 2010 is expected to come from abroad

Catalysts/Triggers

- The opening up of the Greek electricity market that is currently dominated by PPC. This is part of the MoU and is expected to be concluded in Q1:11
- 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.
- Drive of the group in the retail electricity market
- The impact of the successful negotiations with PPC to adjust electricity tariffs in AoG lower
- New projects for Metka both in Greece and abroad
- Potential acquisitions, mainly in the metal & mining business

Negatives

- Demand for electricity and SMP could remain low
- 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

EUR m	2009	2010F	2011E	2012E
Sales	661.8	1,009.9	1,644.1	1,814.2
EBITDA	89.3	172.7	241.7	259.4
EBITDA margin	*13.5%*	*17.1%*	*14.7%*	*14.3%*
EBT	36.8	119.8	188.8	206.0
Net Income	13.7	42.3	109.2	110.4
EPS (EUR)	0.12	0.36	0.93	0.94
P/E (x)	38.6	12.5	4.9	4.8
EV/EBITDA (x)	8.6	5.1	3.7	3.6
DPS	0.00	0.11	0.28	0.28
Dividend Yield	0.0%	2.4%	6.2%	6.3%
Net Debt	395.62	466.65	462.22	473.12

Source: The Company, Axia Ventures Group

Valuation

The sum of parts valuation returns a fair value for the group of EUR892m or EUR8.4/share (adjusting for treasury stocks). The represents a 83% upside potential from current price levels. In our valuation, Metka's total equity value is estimated at EUR670m, AoG (excluding the power plant) EUR264m, and the group's energy assets (equity stake in CHP plant, Viotia Plant, Korinthos Power) EUR616m.

Stock Data

Price (23/08/2010) - EUR	4.53
Market Cap (EUR m)	529.9
Enterprise Value (EUR m)	997
No. of Shares (m)	116.9

Performance

	1m	3m	12m
Absolute (%)	12.0	2.9	-24.3
ASE General (%)	0.7	0.5	-33.7

Daily avg. no. of traded shares– 12M (k)	262
Price high – 12 months (EUR)	6.74
Price low – 12 months (EUR)	3.53

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%, Free Float 30%

OPAP

Gaming / Greece

Reuters / Bloomberg: OPAr.AT / OPAP GA

OPAP, one of the leading betting operators in Europe, has experienced a significant valuation compression recently the result of the economic crisis in Greece, tax increases and uncertainties that have to do with the opening of the Greek gaming sector. We believe that there are significant positive catalysts ahead for OPAP, which coupled with its strong balance sheet they 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 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)
- It acquired a monopoly betting license to operate specific games until 2020
- OPAP is a highly recognized and well respected brand name in Greece
- Betting per capita in Greece is one of the highest in the world and has grown faster than the GDP over the past 10 years through the introduction of new games and innovations. New games are expected to be introduced in the coming years as the gaming market opens
- Recent decisions by the European Court of Justice quash concerns that the monopoly license could be revoked
- Strong balance sheet – The company has no debt. Net cash position is estimated at EUR687m in 2010.
- Traditionally OPAP is distributing more than 95% of net profits. Even under the new, highly taxed system the dividend yield for 2010 is estimated at 11.7%

Catalysts/Triggers

- The introduction of Video Lotto in Greece. OPAP could significantly benefit from this new market given the size of its network
- The online deregulation. The unregulated 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 deregulation of the online market in Greece and eventually to expand abroad
- Scratch card deregulation. OPAP could participate in the tender and benefit from a potential license given its network and experience in running regulated gaming concessions
- Potential interest in other government gaming assets, including the State's participation in casinos
- Potential acquisition opportunities abroad
- A potential reduction of the levy on dividends should decrease the company's effective tax rate, enhancing OPAP's EPS

Negatives

- Calls for deregulation of the gaming markets in Europe
- Strong competition from the unregulated online market. 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	5,184.0	5,034.6	5,192.9
EBITDA	966.8	880.4	859.6	875.6
EBITDA margin	*17.8%*	*17.0%*	*17.1%*	*16.9%*
EBT	946.9	849.3	827.9	843.8
Net Income	593.8	432.4	429.1	449.4
EPS (EUR)	1.86	1.36	1.35	1.41
P/E (x)	6.2	8.5	8.5	8.2
EV/EBITDA (x)	3.0	3.4	3.4	3.3
DPS	1.75	1.34	1.33	1.39
Dividend Yield	15.2%	11.7%	11.6%	12.1%
Net Debt	-699.6	-687.1	-720.0	-755.0

Source: The Company, Axia Ventures Group

Valuation

Our 3-satge DCF valuation returns a target price of EUR15.3/share (WAAC of 11%, explicit forecasts until 2014, 0% FCF growth until 2019 and 0% growth to perpetuity) suggesting 33% upside potential from current levels. The company trades at a sharp discount to its global peers: 36% discount to 2010F P/E and 55% to 2010F EV/EBITDA.

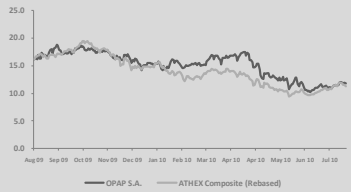
Stock Data

Price (23/08/2010) - EUR	11.50
Market Cap (EUR m)	3,668
Enterprise Value (EUR m)	2,981
No. of Shares (m)	319

Performance

	1m	3m	12m
Absolute (%)	3.0	-11.8	-29.4
ASE General (%)	0.7	0.5	-33.7

Daily avg. no. of traded shares– 12M (k)	873
Price high – 12 months (EUR)	19.05
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%

Intralot

Gaming / Greece

Reuters / Bloomberg: INLr.AT / INLOT GA

Intralot, a leading provider of integrated lottery systems globally, has been pressured lately, faced with a weak consumer sentiment, sharp competition and the underperformance in some important markets. We believe that significant hurdles (contract with OPAP, weak comparison base 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
- One of the largest fixed-odds betting operators globally
- Over 40% success rate in wining tenders internationally
- Intralot is starting to reap the benefits of considerable investments during the past few years, while new operations are expected to start soon (VLTs in Italy, Jamaica, Brazil)
- The global gaming market is expected to continue to grow. There is also the potential, globally, of regulating market segments that are offering 'illegal' gaming
- Intralot recently endeavored into the online gaming market and it plans to participate in State tenders for online gaming licenses worldwide

Catalysts/Triggers

- Improvement in market conditions in key economies (Italy, Bulgaria, Romania)
- The opening up of the Greek gaming market (VLTs, online gaming, scratch ticket)
- Tenders for new vendors/operators in large US States (Texas, Illinois)
- 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	1,187.5	1,220.6	1,294.1
EBITDA	154.4	178.1	188.0	205.8
EBITDA margin	*17.1%*	*15.0%*	*15.4%*	*15.9%*
EBT	104.5	119.9	127.8	144.9
Net Income	49.8	57.0	61.6	72.4
EPS (EUR)	0.31	0.36	0.39	0.46
P/E (x)	10.3	9.0	8.3	7.1
EV/EBITDA (x)	4.9	4.3	4.0	3.7
DPS	0.22	0.13	0.14	0.16
Dividend Yield	6.8%	3.9%	4.2%	4.9%
Net Debt	267.4	245.8	193.9	139.2

Source: The Company, Axia Ventures Group

Valuation

Our 3-satge DCF valuation returns a target price of EUR4.20/share (WAAC of 11%, explicit forecasts until 2014, 3.5% FCF growth until 2019 and 2.5% growth to perpetuity) suggesting 30% upside potential from current levels. The company trades at a sharp discount to its global peers: 27.5% discount to 2010F P/E and 40.5% to 2010F EV/EBITDA.

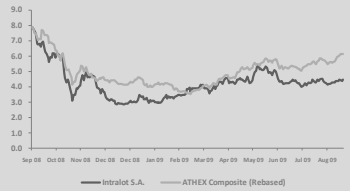
Stock Data

Price (23/08/2010) - EUR	3.22
Market Cap (EUR m)	511.8
Enterprise Value (EUR m)	757.7
No. of Shares (m)	158.9

Performance

	1m	3m	12m
Absolute (%)	10.9	0.2	-39.6
ASE General (%)	0.7	0.5	-33.7

Daily avg. no. of traded shares– 12M (k)	581
Price high – 12 months (EUR)	8.00
Price low – 12 months (EUR)	2.70



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%

Titan Cement

Building Materials / Greece

Reuters / Bloomberg: TTNr.AT / TITK GA

Titan Cement is a longer-term proposition with the stock expected to start rebounding after there are signs of reversal of the negative trends in the key markets of Greece and the US. We value Titan's geographical diversification, strong management and the excellent track record in creating shareholder value.

Investment Case

- Titan has cement interests in 8 countries producing more than 19m MT of cement
- There is a balance in the production capacity between developed markets (Greece, US) and emerging markets (Egypt, Bulgaria, Albania, Serbia, FYROM, Turkey) helping smooth the cycles: currently demand for cement in Greece, the US and Bulgaria is lagging but there is strong growth in Egypt (mainly) and in Albania
- Demand in Egypt (second largest market in terms of capacity) is expected to continue healthy in the coming years
- Strong base in Greece that allows for strong margins when local demand is high. The Greek cement market is in effect a duopoly with limited competition and (thus far) no price erosion
- Significant exposure in Florida. Although hard hit by weak consumer confidence, the long term perspectives of the Florida cement market remain favorable
- Port access for a number of plants, facilitating trading
- Management has deep knowledge in the cement market and vested interest

Catalysts/Triggers

- Cement demand and prices in Egypt to remain strong
- Improvement in the consumer and business confidence in the US
- Ability to further support margins by cost cutting efforts
- Sale of non-core assets
- The difficult macroeconomic condition and the implementation of the austerity measures do not provide room for a significant rebound of residential construction (c80% of total cement demand) in Greece in the short term

Risks

- Economic cycles and regulations could have an impact on volumes and on profitability
- Political and currency risk from the exposure in a number of emerging markets
- Increases in energy, fuel and freight costs have a significant adverse impact on profitability
- The potential impact of CO2 emissions

EUR m	2009	2010F	2011E	2012E
Sales	1,360.6	1,437.2	1,509.5	1,618.8
EBITDA	329.8	344.9	353.2	401.5
EBITDA margin	*24.2%*	*24.0%*	*23.4%*	*24.8%*
EBT	158.1	183.0	175.3	222.9
Net Income	123.4	140.9	133.0	162.9
EPS (EUR)	1.5	1.7	1.6	1.9
P/E (x)	10.9	9.8	10.4	8.5
EV/EBITDA (x)	7.1	6.3	5.9	4.9
DPS	0.42	0.45	0.42	0.52
Dividend Yield	2.6%	2.8%	2.6%	3.2%
Net Debt	971.1	821.5	726.8	613.2

Source: The Company, Axia Ventures Group

Valuation

The company suffers from limited visibility in the Greek and the US markets. In our model we expect the Greek market to continue to decline in the next 2 years, while we pencil in a gradual increase in revenues in the US starting this year. Our 3-satge DCF valuation returns a target price of EUR20.30/share (WAAC of 10%, explicit forecasts until 2014, 1.5% FCF growth until 2019 and 1% growth to perpetuity) suggesting 30% upside potential from current levels. In terms of peer valuation, Titan trades at a 2010F P/E of 9.8x vs. 14.9x of a selected group of peers and at 2010 EV/EBITDA of 6.3x vs. 6.1x of its peers.

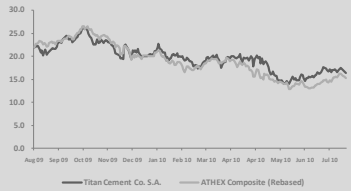
Stock Data

Price (23/08/2010) - EUR	15.68
Market Cap (EUR m)	1,280
Enterprise Value (EUR m)	2,101
No. of Shares (m)	84.5

Performance

	1m	3m	12m
Absolute (%)	-8.2	-1.8	-28.9
ASE General (%)	0.7	0.5	-33.7

Daily avg. no. of traded shares– 12M (k)	109
Price high – 12 months (EUR)	26.63
Price low – 12 months (EUR)	13.16



Company description

Titan is a vertically integrated producer of cement and related building materials with a presence in 8 countries (Greece, US, Egypt, Bulgaria, Serbia, FYROM, Albania and Turkey) producing more than 19m MT of cement. The company also hassignificant cement-trading operations.

Shareholders

A. Kanelopoulos 12.79%, Kanelopoulos Found. 9.75%

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. After a significant cost cutting initiative, the company is set to gain as demand in key markets eventually picks up (Italy, Russia, Poland, Greece, Romania, Bulgaria). We also note the acquisition opportunities the current market conditions offer

Investment case

- CCHBC has a balanced portfolio of countries as it includes mature markets (i.e. Italy and 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 as 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 results
- 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
- 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

- A significant percentage of the company's profit growth is generated from developing and emerging markets which carry macroeconomic risks
- 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 adversely impacting demand and/or profitability

EUR m	2009	2010F	2011E	2012E
Sales	6,543.6	6,777.5	7,159.6	7,525.2
EBITDA	1,004.2	1,082.4	1,149.0	1,210.4
EBITDA margin	*15.3%*	*16.0%*	*16.0%*	*16.1%*
EBT	549.0	630.1	691.2	738.6
Net Income	384.1	450.1	502.9	537.4
EPS (EUR)	1.15	1.23	1.38	1.47
P/E (x)	15.4	14.4	12.9	12.1
EV/EBITDA (x)	8.7	7.7	6.9	6.2
DPS*	0.30	0.00	0.00	0.00
Dividend Yield*	1.7%	0.0%	0.0%	0.0%
Net Debt	2,175.6	1,760.9	1,369.4	926.1

*We assume no dividend for 2010 and beyond given the uncertainty regarding the company's dividend policy following the latest levy on dividends, Source: The Company, Axia Ventures Group

Valuation

In the near-term, the adverse macro environment in a number of markets (Greece, Italy, Ireland, Romania, Bulgaria) will continue to impact the group. On the other hand, we do expect for the company to return to high single-digit or even low double-digit earnings growth 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 EUR19.50/share (WAAC of 8.3%, explicit forecasts until 2014, 1.5% FCF growth until 2019 and 1% growth to perpetuity) suggesting 10% upside potential from current levels. In terms of peer valuation, trades at a 2010F P/E of 14.2x vs. 15.5x of a selected group of peers and at 2010F EV/EBITDA of 7.6x vs. 9.0x its peers.

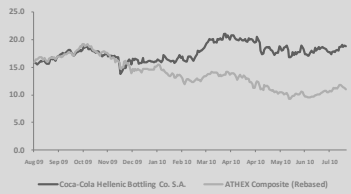
Stock Data

Price (23/08/2010) - EUR	17.75
Market Cap (EUR m)	6,494
Enterprise Value (EUR m)	8,249
No. of Shares (m)	365.3

Performance

	1m	3m	12m
Absolute (%)	-1.9	2.3	21.9
ASE General (%)	0.7	0.5	-33.7

Daily avg. no. of traded shares– 12M (k)	360
Price high – 12 months (EUR)	21.0
Price low – 12 months (EUR)	13.5



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. 29.50%, Competrol Est. 5.11%, Credit Suisse Sec. 5.08%

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 (32% of its EUR2.9bn construction backlog comes from abroad) as well as its concession stakes in Attica Road and in Rio-Antirio Bridge.

Investment case

- The company has a construction backlog of EUR2.9bn, 32% of which concerns projects outside Greece
- The construction focus of the company 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. Note that in July ATEbank acquired a 9.88% concession stake from a distressed construction company for c. EUR 115m
- Ellaktor continues to invest in renewable energy in Greece: The construction of 147MW of wind farms are under construction, while 761MW of wind farms are in different stages of development and another 1267MW in submission phase. These efforts will be benefited from the new energy law which will speed up the process for the whole procedure
- The early exposure in the Greek and Cypriot waste management as well as in the Balkans (mainly in Bulgaria) is expected to bear fruits over the medium-long term in the groups' revenue stream since EU promotes a more environmental friendly treatment for its residents

Catalysts/ Triggers

- The tender process 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 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
- A potential reduction of the levy on dividends should decrease the company's revenues from subsidiaries (concessions)

Risks

- Execution and cancellation risk of projects
- In the construction and concession segments competition pressures the margins
- 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 the projects both in construction and in concessions. In the alternative energy sector there seems to be a slight improvement since the government is trying to speed up the procedure
- 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

Stock Data

Price (23/08/2010) - EUR	3.17
Market Cap (EUR m)	547
Enterprise Value (EUR m)	1420
No. of Shares (m)	177

Performance

	1m	3m	12m
Absolute (%)	1.6	3.3	-47.1
ASE General (%)	0.7	0.5	-33.7

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 / GEK 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
- In construction, which on FY09 accounted c. 87% of Gek-Terna's revenues, the backlog stands at EUR 2.05bn (Q1:10), 15% of which derives from abroad (Balkans and Middle East)
- The group, jointly with GDF Suez, has two thermal plants (1 in operation and 1 in testing process) of a total capacity of c. 600MW. The group aims at becoming one of the significant players in the Greek energy market and is expected to gain from the government's drive to open the electricity market
- On the alternative energy sector, the group (through its subsidiary Terna Energy) holds a highly visible pipeline of c. 1,200MW of installed capacity by year 2012. This pipeline is highly likely to be accomplished since the group has c. 90% historical track record of converting submitted licenses into production licenses. Growth prospects are very attractive assisted by recent legislation that makes the licensing process easier

Catalysts/Triggers

- The new renewable energy law which will speed up the licensing procedure is very important since the group has a large amount of installed capacity in the pipeline
- Participating in new concessions is a major catalyst for the company since the remaining construction spending from EU funds in the context of the 3rd Community Support Framework is c. EUR 4bn. and the infrastructure spending from the 4th Community Support Framework is c. EUR 10bn
- Potential interest in the privatization of State assets including the Athens and the Thessaloniki water companies
- Due to the economic situation in Greece, we expect to see consolidation in the construction industry. This will benefit the strong players in the industry, such as GEK Terna

Risks

- A major risk includes delays in motorways concessions. In addition to that, the Greek state has had traditionally a delayed payment cycle 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

Stock Data

Price (23/08/2010) - EUR	4.51
Market Cap (EUR m)	377
Enterprise Value (EUR m)	827
No. of Shares (m)	85.88

Performance

	1m	3m	12m
Absolute (%)	10.7	3.6	-21.4
ASE General (%)	0.7	0.5	-33.7

Daily avg. no. of traded shares– 12M (k)	135
Price high – 12 months (EUR)	7.46
Price low – 12 months (EUR)	3.82

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%

Folli Follie

Retail / Greece

Reuters / Bloomberg: FOLr.AT / FOLLI GA

Operating a large store network, mainly in Asia, Folli Follie is an important player in the affordable luxury market segment and is expected to continue to enjoy strong growth as the markets and its network expand.

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 announced on June 24, 2010 will create a more manageable structure, helping reduce costs and attain better refinancing rates
- Refinancing risk was lifted after the group rolled over cEUR300m. Total debt of the company is EUR 752.38m

Catalysts/Triggers

- Growth potential in Asia could be lifted driven by demand and new store openings
- Expansion opportunities of Folli Follie subsidiaries in new markets
- Improvement of the retail market conditions in Greece
- Growth in tourism in Greece 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, especially for Hellenic Duty Free and Elmec Sport. In the case of Hellenic Duty Free passenger numbers might decrease mainly due to a slight decrease in tourism 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 highly levered

Stock Data

Price (23/08/2010) - EUR	17.11
Market Cap (EUR m)	564
Enterprise Value (EUR m)	1,177
No. of Shares (m)	32.95

Performance

	1m	3m	12m
Absolute (%)	3.6	13.8	16.1
ASE General (%)	0.7	0.5	-33.7

Daily avg. no. of traded shares– 12M (k)	73
Price high – 12 months (EUR)	19.00
Price low – 12 months (EUR)	12.50

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 jewellery (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 42.46%, Fidelity Int. 5.05%

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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
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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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