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“Undervalued Assets in Greece as strong buy opportunities?”

“why Greek stocks are still not attractive to international institutional investors”

Reforming Greece
opportunities & challenges

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Practically Greece has lost its sovereignty as the new debt issued in the past years was good only to pay interest for the old debt and for salaries to civil servants. Reportedly the government debt will reach next year €420bn after €299bn in 2009 and €337bn until September 2010, an alarming acceleration towards a potential insolvency, despite last introduction of austerity measures.

Actually the goal was to reduce and not accelerate sovereign debt. In 2011 the State will be funded by €46.5bn bail-out loan and €22.5bn from T-Bills issues, instead of natural income from growth of the economy and higher consumer spending of the 5m labour force, what seems impossible to happen because of the austerity.

Portfolio Managers abroad believe that the reform introduced by the Government represents severe handicaps for the Greek economy, cannot support either the industrial growth or consumer spending in the country and therefore cannot be able to improve, but further deteriorate the critical condition of the Greek economy.

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Accordingly to the Hellenic Statistical Authority unemployment rate in Greece is increasing every month, in August 12.2% y/y from 9% in August 2009, and the OECD forecasts in this regard an alarming 15.2% rate by 2012. CPI increased in October 5.2% y/y. In September industrial production index fell by 7.1% y/y, imports by 30% y/y and export by 9.6% y/y. How institutional investors abroad can understand Greece as buy opportunity under such a circumstance?

The general expectation in the financial community is that due to the ongoing collapse of the economy, Greece will be not able to reduce debt and cannot longer avoid the restructuring of all liabilities. The constantly revisions of the GDP contractions by the Government, now down to -4.2% in 2010 (versus previous -4%) and to -3% in 2011 (versus previous 2.6%), confirm the worrisome expectations circulating in the market since Q4 2009, when the Government was prospecting at that time only -0.3% for 2010 and even +0.7% for 2011.

With 2% of the European Union's GDP, Greece represents a small part of the economy of one of the major currencies in the world. However the Greek debt is a serious problem for the EU and the ECB to be ignored, as they did it and handled the Hellenic debt as it would not be their business, but of Greeks only.

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The ECB and the EU council knew too well during the year that a monetary union without supporting the restructuring of the Greek debt was and is mathematically no longer realistic. They were not quick with dealing with the facts and failed to calm any natural irrationality and well known speculative ambiguity of capital markets. On the contrary, unnecessary daily comments about the Greek debt provided rooms to speculators to bet against the Euro and actually caused higher refinancing costs to the Greek Government.

The obvious instrumentalization of the Greek debt in the financial market, involuntary boosted by too many inappropriate comments released by V.I.P. of the financial community, proved once again the dramatic inefficiency of stock exchanges worldwide and the authorized anarchy caused by uncontrolled financial instruments as in the case of Credit Default Swaps or Short Selling. Yes, the scruffy structure of financial markets and the incomprehensible behavior of different market players aggravated not only the deterioration of the Euro dramatically, but worsened in round terms the challenging management of an historical financial crisis in Athens.

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To substantially upgrade the critical outlook of the Greek capital market by institutional investors abroad are necessary two key measures, which can only be provided by the Government: the urgent privatization of the most State's assets and a strongly missed consumer friendly tax-reform, able to improve the consumer spending attitude of the 5m Greek labour force.

The Government needs to privatise the most assets and reduce all listed holdings. According to several domestic sources the valuation of the State's owned assets is supposed to be about €280bn, hereby €7bn the value of listed corporations as Hellenic Petroleum, PPC, Athens Water and others, and about €3bn of eternally expected IPOs or sales of Athens Airport, DEPA and others.

Further to the strong message to the capital market and to the extraordinary income, able to reduce debt, the privatization's most strategic positive effects for the State is the cost reduction for the Government in terms of salaries and company related expenses, last but not least the improvement of market competitiveness of the holdings, once privatized.

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But the incognito of a sustainable performance of the Greek capital market remains linked to the ongoing recession, which Portfolio Managers see escalated by the austerity program. In their view the challenging reduction of the deficit is consequently worsening pivotal factors for a real sustainable income and urgently economic growth of the country. Actually, in all economies tax raises lead to less consumer spending, less economic growth, higher inflation, higher unemployment and lower market capitalization at the stock exchange: what Portfolio Managers see in Greece today is against their basic criteria necessary to invest in a country. According to global polls 71% of institutional investors prospects Greece defaulting and not able to reach deficit reduction targets. Speaking to investors in the market on daily basis, they say that a controlled restructuring of the sovereign debt cannot be longer ruled out.

Because of the collapsed capitalizations of Greek stocks, Greece cannot be considered in the radar of the most institutional investors, because of missed minimum requirment by capitalization of free float and liquidity in the market. Therefore, investors are reluctant to invest even in particularly well managed and favorable valued Greek companies, it does not matter if 67% or 80% of the revenues are made out of Greece and if balance sheets sounds strong.

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Due to the mentioned circumstance, well managed and excellent companies among so many others strong buy opportunities in Greece like Metka, Mytilineos, Hellenic Petroleum, Motor Oil, Korres, S&B Industrial, Ellaktor, Corinth Pipeworks, Folli Follie, Euroconsultants and really so many others representative members of the Athens Stock Exchange have problems to be considered by institutional investors abroad and ironically not because of their fault.

Basically this crisis is a chance to implement necessary capital market friendly reforms to boost the GDP growth, because only with economic growth and consumer spending it is possible to generate prosperity, reduce debt and create attractive criteria to the Greek financial market, which represents the signboard of the country abroad. Greece has the historical opportunity to become an example of making modern politics for the entire world and surprise the financial markets with a wise and unavoidable – necessary political strategy.

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Because of the historical momentum and really very urgent goals to be achieved it is allowed to ask, if it does make sense in the country today to still keep opposed lagers of the two main political parties, instead of working together to take the country out of the crisis. A grand coalitions with involvement of technocrats, together able to work out favourable and sustainable solutions for a systematic reduction of debt, is a strong call for the Athens Stock Exchange, which therefore should outperform other European stock exchanges. Actually, in a sinking vessel working together it is imperative to rescue the Crew and hopefully also the ship.

Ladies and Gentlemen, thank you for your attention at this forum, which is a practical support of the perception of Greece by international investors.

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