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Strategy
CEEMEA

Greece Strategy

Road Bump or Write-Off – What Might a SYRIZA Government Mean for Greek Equities?

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- **Early parliamentary elections and a government including (or led by) main opposition and anti-bailout party SYRIZA are looking increasing likely** — The vote of confidence won by 155 to 131 votes on Friday night may buy some time, but the current government appears unlikely to get the support of 180 of 300 MPs required to get its Presidential candidate approved by February. Failure to do so would trigger early parliamentary elections a few months later. Recent polls of voter intentions show SYRIZA as the largest and main party of a new government.

- **Broadly speaking, SYRIZA seeks extensive public debt write-off and less austerity** — including a reversal of the new property tax and a higher minimum wage. Citi economists' view (3 Oct) is that extensive debt relief is needed to restore fiscal sustainability but a loosening of austerity would risk reversing fiscal consolidation achievements of recent years and may jeopardize important foreign capital inflows. We agree, although investors would be more likely to forgive (and perhaps reward) less austerity if it were accompanied by more broad-based economic growth, which until now has been lacking. In the short term we expect equities to remain volatile as investors adjust to the shifting political outlook and try to work out what new changes might mean for Greek growth and risk premiums.

- **Fundamentals for Greek corporates are improving, aided by better revenue trends and operating leverage after years of cost cutting** — Two-thirds of companies under (Citi) coverage beat estimates (for their Greek businesses) in 2Q. Citi analysts largely expect these trends to continue in 2H and 2015-16 as the economy continues to improve. Our median p.a. EPS growth forecast for 2015-16 is 13% for non-banks (and much higher for banks, but off smaller numbers / losses).

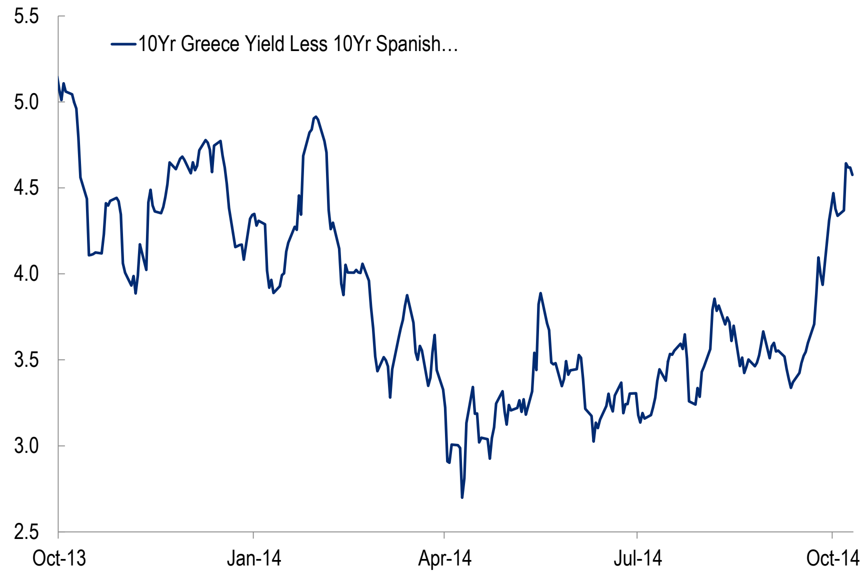
- **Even the best-performing stocks (of the 15 we cover) are off >20% from 52-wk highs** — The median P/E multiples for Citi's coverage are 12.9x 2015E and 9.2x 2016E. Ex-banks, the market cap-weighted P/Es are 13.9x 2015E and 11.9x 2016E vs. a historical average of 13.3x. The Greek banks are on a P/E of 8.5x for 2016E or P/B of 0.70x, in-line with Italy but at a hefty discount to UK/Ireland (1.20x) and Spain (1.29x) despite what we see as greater medium-term ROE expansion potential.

- **We see Buy-rated OTE and Aegean Airlines as attractively valued, with strong fundamentals and relatively insulated from economic and political changes** — OTE trades at 4.3x 2015E EV/EBITDA vs. 6.5x for the sector. Aegean Airlines trades at 5.3x 2015E P/E or <3x ex cash. PPC also looks cheap at <5x 2015E P/E but could see its expected privatization and sale of mini-PPC held up by elections and a SYRIZA-led government (SYRIZA opposes the privatization). NBG is our favourite Greek bank stock. Both OTE and NBG are CEEMEA Focus List stocks.

Politics Back to the Fore

Increasing political risk, together with the recent sell-off in global equities, is hurting Greek asset prices. The Athens Stock Exchange index is 27% off its March 2014 highs and entered a bear market in May. Sovereign yields are back at 6.6% from multi-year lows of 5.5% less than one month ago. Portuguese 10-year bond yields are <3% while Spanish and Italian yields are at 2.07% and 2.32%, respectively.

Figure 1. Political Risk Has Returned to Greece After a Period of Stability



Source: Datastream

With ongoing deadlock among MPs over the election of a new President (which if unresolved could trigger new parliamentary elections) and the main opposition and anti-bailout party SYRIZA extending its lead over the government in opinion polls, political risk has returned to Greece after two years of stability.

Figure 2. Greek Stocks Are -27% from March Highs

	1M	3M	6M	YTD	12M
ASE	-14%	-13%	-22%	-14%	-11%
Euro Stoxx	-8%	-5%	-5%	-4%	1%
MSCI World	-6%	-6%	-2%	-2%	5%
MSCI EM	-8%	-7%	-3%	-1%	-2%
PSI-20 (Portugal)	-12%	-14%	-30%	-20%	-14%
IBEX (Spain)	-7%	-4%	-2%	2%	5%
FTSEMIB (Italy)	-9%	-6%	-10%	1%	2%
RTS$ (Russia)	-14%	-23%	-12%	-26%	-28%

Prices as of close on Friday 10th October. Source: Bloomberg, Citi Research

The current President's term ends in mid-February 2015 and a new Presidential candidate needs approval of 180 out of 300 seats in the parliament. The government's majority is 155 seats and it is finding it difficult to add an additional 25 seats as the clock runs down to the February 2015 deadline. Failure to agree on a new President would trigger early elections in the spring of 2015. With recent opinion polls showing growing voter support for SYRIZA, we see a distinct possibility that SYRIZA could lead the next government.

Figure 3. Composition of 15th Hellenic Parliament (June 2012)

Party	Seats
New Democracy	127
SYRIZA (Coalition of the Radical Left)	71
PASOK (Pan-Hellenic Socialist Movement)	28
ANEL (Independent Hellenes)	13
Golden Dawn	16
DIMAR (Democratic Left)	10
KKE (Communist Party of Greece)	12
Other	14
Independents	9

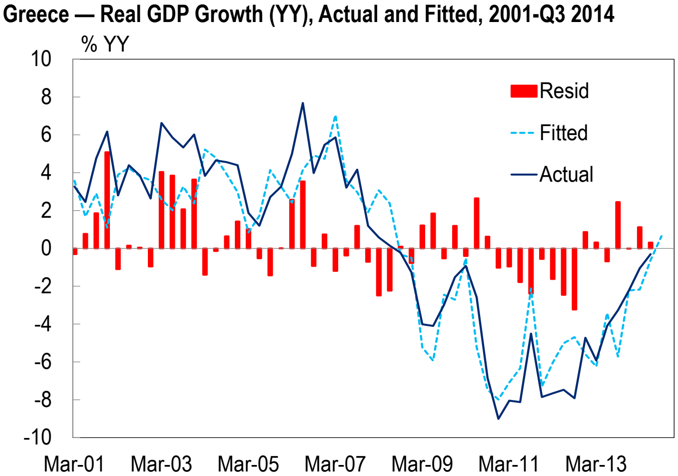
Source: Hellenic Parliament Website; Government Coalition highlighted; DIMAR were part of the post-election coalition but have since left the government, with their leader indicating that they will not support the government's Presidential candidate.

The government won Friday's vote of confidence, as was expected, by 155 votes to 131, and, while this may buy it some time, in the short term it is unlikely to reverse SYRIZA's positive momentum. The Papandreou government also got a vote of confidence in November 2011, only for the PM to step down three days later, replaced by an interim government that was followed by parliamentary elections six months later. National elections in the spring of 2015 are looking increasingly likely.

Risks Rising but Return to 2011 Unlikely

To be clear, we do not think that any government is about to allow all the hard-won achievements of the last two-and-a-half years, namely fiscal consolidation and a return to growth, to unravel. Unlike 2011, EU exit does not seem to be on the table currently. The official primary budget surplus for 2014 is expected to be 1.5% of GDP. Citi expects GDP growth of 0.5% y/y in 3Q14.

Figure 4. Greece — Real GDP Growth (YY), Actual and Fitted, 2001-Q3 2014



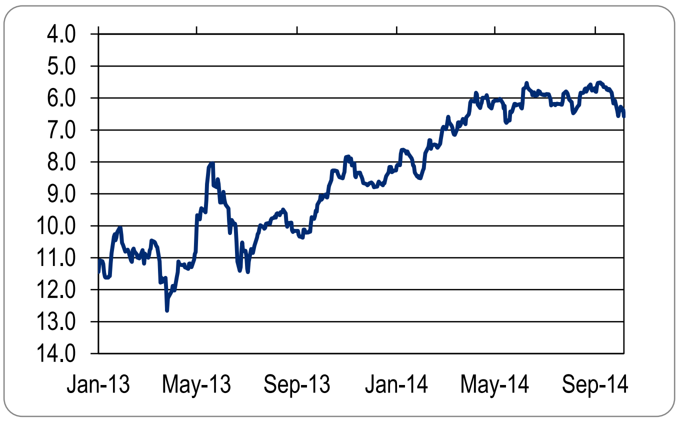
Sources: Haver Analytics, Citi Research

We think that the market should brace itself for a period of greater confrontation with Greece's official lenders and less austerity than in the past, whether or not SYRIZA forms the next government.

Current PM Antonis Samaras told German Chancellor Angela Merkel last month that Greece would look to exit its international bailout and cover its own financing needs from next year, giving up on remaining IMF disbursements and disengaging from the Troika's strict supervision. EU funding ends in December 2014, while IMF aid expires in 1Q16. Meanwhile the SYRIZA leader has confirmed that his party will pursue extensive public debt write-off and reversal of austerity if it is elected.

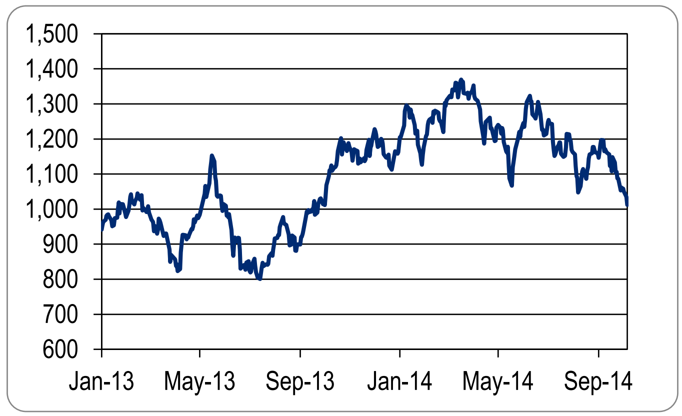
For more discussion on Greek politics and economics please see Giada Giani's contribution the 3rd October edition of Euro Economics Weekly, "Greece – Six Crucial Months Ahead".

Figure 5. 10 Year Greek Bonds Back at 6.6%



Source: Bloomberg

Figure 6. ASE Index in Bear Market Since May



Source: Bloomberg

Positioning for Political Headwinds

Figure 7. Greek Coverage

Company	RIC	Analyst	Mkt Cap ($M)	Rating	Local CCY	Share Price	Target Price	12M Div Yield	3M ADTV ($M)
Public Power Corp.	DEHr.AT	Sofia Savvantidou	2,311	1	EUR	7.85	13.0	0.8%	4
Aegean Airlines	AGNr.AT	Andrew Light	539	1	EUR	5.95	8.9	10.3%	1.3
OTE	OTEr.AT	Georgios Ierodiaconou	6,295	1	EUR	10.12	15.0	2.0%	12
Piraeus Bank	BOPr.AT	Ronit Ghose	9,292	1	EUR	1.20	1.7	0.0%	20
National Bank of Greece	NBGr.AT	Ronit Ghose	9,819	1	EUR	2.19	3.0	0.0%	25
Alpha Bank	ACBr.AT	Ronit Ghose	9,642	1	EUR	0.60	0.8	0.0%	16
Coca Cola HBC	CCH.L	Adam Spielman	7,681	2	GBP	13.08	14.5	2.7%	9
Hellenic Exchange	EXCr.AT	Abhijeet Sakhare	465	2H	EUR	5.61	9.0	7.5%	2.3
Hellenic Petroleum	HEPr.AT	Mukhtar Garadaghi	1,870	2H	EUR	4.82	8.0	0.0%	1.5
Motor Oil (Hellas)	MORr.AT	Mukhtar Garadaghi	921	2H	EUR	6.55	9.0	3.1%	0.8
METKA	MTKr.AT	Michael Klahr	646	2H	EUR	9.80	13.0	2.9%	1.0
OPAP	OPAr.AT	Michael Klahr	4,064	2H	EUR	10.04	12.0	4.4%	11
Jumbo Babyland	BABr.AT	Assad M Malic	1,709	2H	EUR	9.90	11.5	2.0%	4
Eurobank	EURBr.AT	Ronit Ghose	5,413	2H	EUR	0.29	0.3	0.0%	11
Titan Cement	TTNr.AT	Aynsley Lammin	1,906	3	EUR	19.49	19.0	0.0%	2.0

Priced at close on Friday 10th October; Buy-rated stocks highlighted. Source: Powered by dataCentral

Of our six Buy-rated stocks, we believe OTE and Aegean Airlines stand out as having strong underlying fundamentals, offering compelling valuations in absolute terms and versus European peers, and being less exposed to a potential change of government and economic course. Both also have strong balance sheets. Net debt at OTE is <1x 2014E EBITDA. Aegean Airlines has net cash of €2.36/shr.

OTE to Benefit from Positive Earnings Trends in Medium Term

With data pricing among the highest in Europe and low usage, the company looks poised to benefit from growth in mobile ARPU in the medium term. Cheaper economic handsets and rising disposable income should help drive demand. Mobile is 43% of group EBITDA. In Fixed, OTE looks set to benefit in the medium term from increasing VDSL coverage and growth in PayTV (where penetration is the lowest in Europe), in-market consolidation and the acquisition of Champion's League content for 2015/16.

A change in government could potentially lead to a more pro-consumer regulator and perhaps greater friction with OTE's German owners, Deutsche Telecom, although neither outcome represents our base case scenario. OTE trades on 4.3x 2015E EV/EBITDA versus 6.5x for the European telecoms sector. OTE is a CEEMEA Focus List stock.

Latest research: 19th Sept – Pent-up Demand

Aegean Is Less Exposed to Wider Greek Economy

Aegean looks well-placed to continue to benefit from strong tourist arrivals and a competitive unit per cost per ASK (CASK) ex-fuel of 4.8 € cents, which could be reduced further as a result of merger synergies with Olympic.

While the economy has been mired in recession over the last six years, the number of incoming tourists is hitting record highs. The Hellenic Association of Tourism Enterprises (SETE) raised its target for tourism arrivals for the third time this year in September to 21.5m. Air arrivals at all Greek airports were +15% y/y in Jan-Jul to 9.1m. We do not see a change of government doing much to change this momentum.

Citi's expected EBITDAR margin of 21.6% for 2014E is second only to Ryanair's 24% among the European airlines under our coverage. Moreover, we believe that Aegean and Ryanair can co-exist in Greece due to Aegean's premium full service business model and brand. The stock is a top performer in Greece (+35% YTD and +70% over the last 12 months, even after a 22% sell-off from 52-week highs) but is still on a 2014E P/E of 6.0x (<3x ex-cash) and an average FCF yield of ~30% over the next three years – triple the yield of easyJet (EZJ.L; £13.45; 1) and Ryanair (RYA.I; €6.85; 1), on our estimates. We see the 2015E dividend yield of c.12% as attractive and sustainable, based on a 65% payout ratio.

Latest research: 30th Sept – Target Raised on Higher Profit and Cash Generation

Banks More of a Macro Call; NBG Is Top Pick

The investment case for the Greek banks is clearly reliant on a recovering Greek economy, new job creation and lower loan losses. Hence any change to the current economic course, with less fiscal discipline, and more expensive and harder to come by foreign funding, would potentially put the recovery at risk.

National Bank of Greece (NBG) is our favoured Greek bank stock as our analysts see it as the most AQR / stress test resilient and also the least geared to economic recovery. NBG has the lowest NPL ratio in the sector at 23.2% (90 DPD) for the group and 29.3% for the domestic business. It is the only Greek bank that is making a positive return as of today, with ROTE set to increase to 11%-12% (and c18% excluding surplus capital) in 2016-18E. Should there be a capital shortfall, our Banks team believes the bank has greater balance sheet flexibility vs. its peers, reducing the risk of a dilutive rights issue. NBG trades on 10x 2015E P/E or 0.78x TBV for 8.6% 2015E ROE. NBG is a CEEMEA Focus List stock.

Latest Research: 8th October – Attractive Margins, Economic Recovery and Questions on Capital…

PPC Restructuring Likely to Be Held Up Under SYRIZA Government

The investment case is partly based on a restructuring and privatization, which is less likely under a SYRIZA led-government (SYRIZA has called for a referendum on the issue and publicly opposes it). Still we do not attach any value in our model for these eventualities, so our target price would not be affected by them not happening.

Latest Research: 10th Sept – Island Interconnection Going Ahead

Corporate Fundamentals Improving

2/3rds Beat Our (Greek) Estimates in 2Q14

Fundamentals for the Greek stocks in our coverage universe are clearly improving, aided by better revenues trends and operating leverage. The majority of companies in our coverage beat estimates again in 2Q14.

- Gaming monopoly OPAP's gross gaming revenues were up 6% y/y in 2Q and 1H. 2Q EBITDA ex. 1-times was ahead of consensus, +66% y/y, on better top-line performance and impressive cost savings.
- Aegean Airlines' 2Q revenue of €256m was +13% y/y (pro-forma), driven by better scheduled revenue and higher volumes. Aegean also commented on a positive outlook for 3Q, seasonally its strongest quarter, with positive momentum on both domestic and international routes.
- Telecoms incumbent OTE's 2Q mobile service revenues were +1.4% q/q. KPIs in fixed line are also improving. Fixed line loss was 27k versus 44k in 1Q and >50k per quarter in 2013. Broadband net adds were 34k versus 14k in 1Q.
- Titan Cement's 2Q and 1H showed modest growth in Greek volumes and revenues, with 1H EBITDA in Greece rising 78% y/y.
- 2Q14 pre-provision profit at Piraeus Bank and Alpha Bank beat Citi estimates by 25% and 4%, respectively, on higher revenues and in-line expenses, due mainly to lower funding costs and better NIMs. National Bank of Greece's 2Q PBT was lower than estimates and y/y on weaker trading revenues mainly and higher risk costs. For all banks NPL formation in Greece continued to decline.
- Leading retailer Jumbo Babyland reported 10% y/y sales growth in July-Aug'14, well above the 4-6% management guidance for FY14/15, with LFL in Greece running at 3-4%.

These improvements are not simply about GDP improvement, although that is clearly part of the story. GDP was still negative in 2Q. These large listed companies are those that have survived the crisis (where competitors have not) and are now more dominant in their respective sectors than they were before, enabling them to grow at a faster rate than the market. They are also more efficient following years of cost cutting, giving them substantial operating leverage as revenues begin to recover.

It is not all bright. Aside from NBG, three other Greek stocks disappointed in 2Q versus consensus (and Citi):

- PPC reported a weak 1H, driven by lower-than-anticipated revenue and a substantial increase in provisions of 68%. Electricity demand was -8% y/y for 1H and -7% y/y for 2Q.
- Hellenic Petroleum's and Motor Oil's reported 2Q revenues and EBITDA were better y/y but lower than consensus on continued weakness in European refining margins, although these have been improving since early August on lower crude prices.

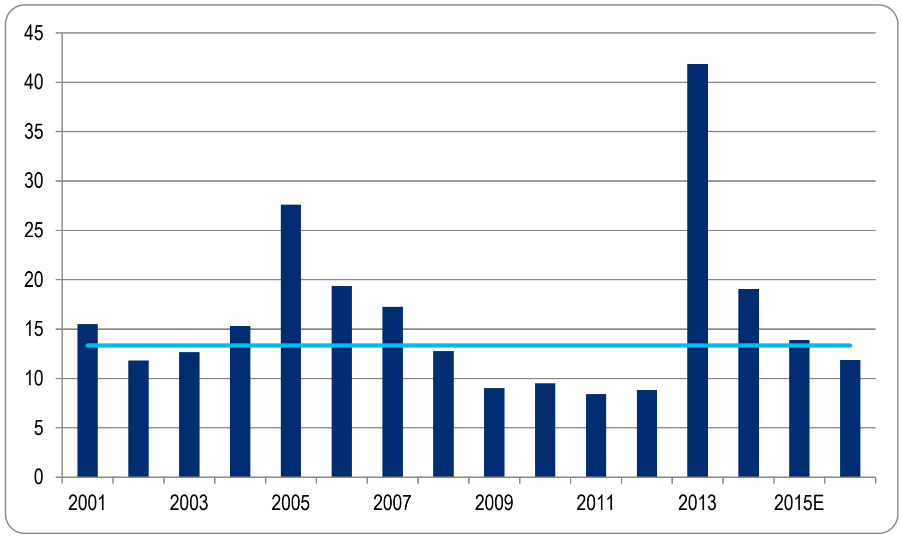
Earnings Momentum Expected to Continue in 2H14E and 2015-16E

Citi analysts largely expect these trends to continue in 2H and 2015-16 as the economy continues to improve. Our median p.a. EPS growth forecast for 2015-16 is 13% for non-banks (and much higher for banks, but off smaller numbers / losses).

Better Earnings + Lower Stock Prices = Better Valuations

The median P/E multiples for Citi's coverage are 12.9x 2015E and 9.2x 2016E, or 16.5x and 10.0x on a market cap-weighted basis. Ex-banks (45% by market cap), the market cap-weighted P/Es are 13.9x 2015E and 11.9x 2016E vs. a historical average of 13.3x.

Figure 8. Non-Bank P/E of 11.9x in 2016E



Source: Bloomberg; Citi Research estimates

Figure 9. Greek Coverage Valuations

		P/E			EV/EBITDA			P/B			Dividend Yield		
Company	**RIC**	**2014E**	**2015E**	**2016E**	**2014E**	**2015E**	**2016E**	**2014E**	**2015E**	**2016E**	**2014E**	**2015E**	**2016E**
Aegean Airlines	AGNr.AT	6.0	5.3	4.7	2.1	1.3	0.7	2.6	2.2	1.9	27.2%	12.2%	13.7%
Alpha Bank	ACBr.AT	22.8	17.0	9.7				0.9	0.8	0.8	0.0%	0.0%	0.0%
Coca Cola HBC	CCH.L	21.0	18.8	16.8	15.8	8.6	7.8	1.9	1.8	1.7	2.1%	2.3%	2.6%
Eurobank	EURBr.AT	n/a	19.3	8.1				0.7	0.7	0.6	0.0%	0.0%	0.0%
Hellenic Exchange	EXCr.AT	15.6	14.1	12.5	7.2	6.2	5.5	1.9	1.9	2.0	7.4%	8.7%	9.3%
Hellenic Petroleum	HEPr.AT	24.8	9.1	7.2	14.5	5.2	4.6	0.7	0.6	0.6	0.0%	6.2%	9.3%
Jumbo Babyland	BABr.AT	13.3	12.3	11.4	9.9	7.4	6.6	1.8	1.7	1.5	1.8%	1.8%	1.8%
METKA	MTKr.AT	8.0	7.7		4.5	3.3		1.1	1.0		2.8%	2.9%	
National Bank of Greece	NBGr.AT	6.0	10.4	7.3				0.8	0.7	0.7	0.0%	0.0%	0.0%
Motor Oil (Hellas)	MORr.AT	9.8	8.2	5.6	9.1	5.4	4.1	1.2	1.1	1.0	4.6%	4.6%	7.6%
OPAP	OPAr.AT	18.2	12.9	11.2	9.9	6.1	5.0	2.4	2.0	1.8	4.4%	7.4%	8.5%
OTE	OTEr.AT	17.7	13.3	10.9	4.6	4.3	4.0	2.4	2.2	1.9	2.2%	3.0%	3.7%
Piraeus Bank	BOPr.AT	n/a	28.9	8.7				0.8	0.8	0.7	0.0%	0.0%	0.0%
Public Power Corp.	DEHr.AT	10.9	4.8	5.7	14.9	5.0	5.2	0.3	0.3	0.3	1.8%	4.2%	3.5%
Titan Cement	TTNr.AT	40.0	21.9	14.2	22.1	7.9	6.5	1.1	1.0	1.0	0.5%	1.0%	1.0%
Median		15.6	12.9	9.2	9.9	5.4	5.1	1.1	1.0	1.0	1.8%	2.9%	3.1%
Mkt Cap Weighted		17.1	16.5	10.0	12.9	6.2	5.5	1.4	1.1	1.0	1.7%	1.8%	2.1%
Banks		14.3	18.7	8.5				1.0	0.8	0.7	0.0%	0.0%	0.0%
Ex Banks		19.1	13.9	11.9	12.9	6.2	5.5	1.8	1.6	1.5	2.8%	3.9%	4.6%

Priced at close on Friday 10th October; Buy-rated stocks highlighted. Source: Powered by dataCentral

Buy-Rated Stocks Are Good Value vs. European Peers

Our six Buy-rated stocks all stand out as attractively valued versus European peers. OTE trades at 4.3x 2015E EV/EBITDA versus 6.5x for the sector. Its FCF yield averages 10.6% over the next three years versus 6.5% for the sector, on our estimates. Aegean Airlines trades at 5.3x 2015E P/E and has an average FCF yield of ~30% over the next three years – triple the yield of easyJet and Ryanair, on our estimates. The Greek banks are on a P/E of 8.5x for 2016E or P/B of 0.70x, in-line with Italy but at a hefty discount to UK/Ireland (1.20x) and Spain (1.29x) despite what we see as greater medium-term ROE expansion potential. PPC is on <5x 2015E P/E.

Figure 10. 1- and 3-Month Performance

	1M		3M
Titan Cement	-2.3%	Aegean Airlines	-0.2%
Coca Cola HBC	-4.7%	Coca Cola HBC	-3.2%
OTE	-10.1%	Alpha Bank	-3.6%
Jumbo Babyland	-11.0%	OTE	-3.6%
Alpha Bank	-11.2%	Jumbo Babyland	-7.7%
Aegean Airlines	-12.8%	Titan Cement	-10.2%
Hellenic Petroleum	-13.2%	Hellenic Petroleum	-10.6%
METKA	-14.0%	National Bank of Greece	-11.3%
National Bank of Greece	-14.1%	Motor Oil (Hellas)	-15.5%
OPAP	-14.2%	OPAP	-17.7%
Eurobank	-16.4%	Eurobank	-17.8%
Piraeus Bank	-20.5%	METKA	-19.7%
Motor Oil (Hellas)	-21.8%	Piraeus Bank	-21.1%
Hellenic Exchange	-25.1%	Public Power Corp.	-23.3%

Priced at close on Friday 10th October. Source: Powered by dataCentral

Figure 11. YTD and 12-Month Performance

	YTD		12M
Aegean Airlines	35.6%	Aegean Airlines	57.0%
OPAP	6.4%	OTE	16.3%
OTE	4.7%	OPAP	12.7%
Titan Cement	-1.0%	Titan Cement	6.5%
Alpha Bank	-5.7%	Jumbo Babyland	0.5%
Jumbo Babyland	-10.8%	Alpha Bank	-6.0%
METKA	-11.9%	Piraeus Bank	-17.2%
Motor Oil (Hellas)	-17.9%	Hellenic Exchange	-18.9%
Piraeus Bank	-21.6%	Public Power Corp.	-19.6%
Coca Cola HBC	-24.2%	Motor Oil (Hellas)	-19.7%
Hellenic Exchange	-25.5%	METKA	-22.2%
Public Power Corp.	-27.3%	Coca Cola HBC	-22.7%
Hellenic Petroleum	-36.4%	National Bank of Greece	-38.8%
National Bank of Greece	-43.1%	Hellenic Petroleum	-47.3%

Priced at close on Friday 10th October. Source: Powered by dataCentral

Figure 12. Performance From (52-Week) Highs and Lows

	From 52-Wk High		From 52-Wk Low
Aegean Airlines	-21.5%	Public Power Corp.	0.6%
OTE	-23.3%	Hellenic Exchange	1.3%
Alpha Bank	-24.1%	Motor Oil (Hellas)	2.3%
OPAP	-26.4%	Coca Cola HBC	2.4%
Titan Cement	-27.3%	Piraeus Bank	2.6%
Coca Cola HBC	-28.9%	Eurobank	4.7%
Jumbo Babyland	-31.3%	METKA	5.6%
METKA	-31.4%	Hellenic Petroleum	5.9%
Motor Oil (Hellas)	-36.4%	Jumbo Babyland	8.9%
Public Power Corp.	-38.4%	National Bank of Greece	10.6%
Hellenic Exchange	-39.6%	Titan Cement	11.6%
Piraeus Bank	-43.1%	Alpha Bank	12.1%
Hellenic Petroleum	-51.6%	OPAP	15.1%
National Bank of Greece	-53.4%	OTE	22.5%

Priced at close on Friday 10th October. Source: Powered by dataCentral

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

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