

M. Lobotka, P. Bártek, M. Krajhanzl, V. Kmínek
tel.: 224 995 177, e-mail: research@csas.cz

7.9.2011
September

Instrument	Level 31/Aug/11		1M Forecast		6M Forecast	
MACROECONOMY – FIXED INCOME						
CZK/EUR	24.1	↗	24.0	↗	23.8	August data brought the expected slowdown as industry slackened, retail sales eased. Since so did the leading indicators one can expect further worsening of the data for July and August. On top of that, the markets have been thrown into disarray in July and August and the recession talk was revived, disquieting the consumers. CNB left the rates unchanged as markets panicked, the rekindled fears of impending recession drove the short end of the curve low – 2Y swap fell to 1.30%, an overreaction in our eyes as our baseline isn't 10 years of stagnation. Long end fell too, and for two reasons: 1) panic-driven rally in German bunds 2) S&P ratings upgrade. CZK also benefitted from the upgrade, but the overall nervousness drove it back to 24.50, a good entry point for starting to cautiously build short EURCZK.
3M Pribor	1.18	↘	1.16	↑	1.26	
2Y Swap	1.44	↘	1.38	↑	1.70	
10Y Swap	2.42	↘	2.35	↗	2.80	

TRAILING FX TRADING RECOMMENDATIONS

#	RECOMMENDATION	INSTRUMENTS	OPEN	TARGET CLOSE	ENTRY LEVEL	CURRENT LEVEL	FLAT P/L	FLAT P/L INCL. CARRY	P/L INCL. CARRY P.A.

CZECH EQUITY MARKET & RECOMMENDATIONS

Name	Last price CZK (6.9.11)	1M (%)	Up / down	YTD (%)	1M Volumes (\$ mn)	1M (%)	y/y (%)	P/E curr.	P/E 11	Recom mendati on	12M target	Up-down potent.
PX index	973,7	-5,2%	↘	-20,5%	1337,6	-27,0%	-4,7%	7,3	6,9	--	1335	37,1%
AAA Auto	19,3	16,7%	↗	-13,1%	0,3	-65,1%	119,3%	10,5	12,7	--	--	--
CETV	196,75	-5,9%	↘	-48,7%	41,0	74,8%	-54,5%	7,5	111,8	Accum.	USD 23.5	101,9%
CEZ	761,5	0,7%	↗	-3,1%	532,0	-34,9%	46,8%	8,6	9,9	Accum.	CZK 902	18,5%
Erste Bank	558,7	-14,5%	↘	-37,4%	227,6	18,7%	-8,1%	8,9	7,3	--	--	--
Fortuna	101,3	8,9%	↗	-2,3%	5,4	-79,5%	n.m.	10,7	14,5	Accum.	CZK 120	18,5%
KIT Digital	169	14,2%	↗	-45,0%	2,8	-28,5%	164,8%	-10,6	87,0	--	--	--
Komerční banka	3344	-3,5%	↘	-24,7%	240,6	-20,5%	-7,4%	9,5	8,9	Hold	CZK 4700	40,6%
NWR	157,3	0,7%	↘	-42,5%	106,0	-57,2%	-21,8%	7,3	4,1	Accum.	CZK 293	86,3%
Orco	130,5	-14,9%	↘	-28,8%	2,6	-23,7%	70,1%	0,3	3,1	Accum.	EUR 8.2	52,7%
Pegas	450	4,8%	↗	-4,1%	4,3	-56,9%	18,9%	8,1	6,7	Accum.	CZK 500	11,1%
Philip Morris CR	10731	7,0%	↗	6,0%	10,1	-26,4%	-17,5%	12,3	10,3	Reduce	CZK 9600	-10,5%
Telefónica O2 CR	378	-3,9%	↘	-1,7%	140,4	-7,1%	-38,9%	9,9	15,5	Hold	CZK 410	8,5%
Unipetrol	177,01	7,3%	↗	-9,3%	13,3	-59,1%	-75,2%	34,3	18,9	Reduce	CZK 170	-4,0%
VIG	727,3	-6,8%	↘	-26,9%	10,9	47,5%	102,1%	10,1	8,6	Buy	EUR 50	67,1%

EQUITY HIGHLIGHTS

- **Index PX fell some 3.5% m/m**, while performed more or less in line with local peers (BUX lost some 4.4% and WIG 2.3%).
- **2Q 2011 earnings season finished** with CEZ below estimates due to lower gains on CO2 (but improved guidance) and NWR in line (good cost control, but worse outlook for production mix for FY 11). Small caps (Fortuna, PMCR, Pegas, Orco) largely slightly below estimates, Orco with very cautious comments regarding refinancing in 2012. We have confirmed two recommendations after the results (CEZ on Accumulate and TCR on Hold).
- **Volumes were significantly up y/y** (+ 69% y/y and +105 m/m in August). Trading with KB and Erste was up (debt worries about the PIGS). Volumes were significantly up to levels not seen from the end of 2008 (mainly in the beginning of August).
- **TA:** strong support level drives Komerční banka towards 50MA reflecting ca 5% upside potential.

Note: the indicators show size of changes of respective indicators compared to past volatility of such instrument. The sign ↑ means appreciation of respective currency (resp. yields), the sign ↗ represents mild appreciation and respective signs for depreciation have same logic. We work with five intervals (growth, mild growth, stability, mild decline, decline), more explanations can be provided upon request. For equities current price and a price 30 days ago is used to show the changes. Upside/downside potential is calculated based on 12M target price, current share price and current exchange rate.

M. Lobotka, P. Bártek, M. Krajhanzl, V. Kmínek
tel.: 224 995 177, e-mail: research@csas.cz

7.9.2011
September

MACRO

Martin Lobotka, mlobotka@csas.cz; tel: 224 995 192

August data point to an expected slowdown, market turmoil and the uncertainty flustered the consumers

August data showed the slowdown of the economy, in line with our view (held since strong data for 1Q/11 growth came out in April) that the combination of higher oil prices, monetary policy tightening in the emerging markets, Japan quake, strong EUR and fiscal consolidation in the mature markets will negatively impact the German growth and exports as well as our industry. This was more so to be expected given that the German economy grew strongly in the 1Q/11 (an impressive growth of +1.3% q/q). Emerging markets slowed down under the weight of weaker consumption in mature markets as well as under the monetary tightening – this is now evident in slower 2Q/11 growth and weaker 3Q/11 monthly data in host of emerging markets economies although there are obviously no recession fears there.

Industry thus posted a growth of 7.4% y/y in June and 4.4% y/y in July, with 3M average of m/m rates having slowed down to 0.3% (from around 0.9% at the beginning of the year). This came as no surprise (our August expectation was 4.1%) as PMI, German IFO all suggested this was going to come. What's a bit uplifting is how well the PMI and (foreign) orders are holding up – August PMI defied expectations for a dramatic fall and held up at 53.4, unchanged since July and pointing to continuing moderate growth in the Q3. But... Although Japan quake disruptions and higher oil prices have largely faded away, the current market conditions, resurfaced recession fears and slower data in Germany, the CEE economic powerhouse, make it hard to believe the industry will escape unscathed – industry will slow to the 06-08/11 m/m average of around 0.1% before accelerating somewhat later on. The risk, however, remains one of recession in which case the industry would be the conduit through which the recession would re-enter the Czech economy.

What's dispiriting is the bad dynamic of household confidence, a prerequisite for sustainable growth going forward – the confidence fell to its lowest since March 2009, a level we find hard to justify given the situation in the real economy. We're not saying consumers are having an easy time but to compare the current situation to the layoffs-ridden 1Q/09 is a stretch. That there's a discord between how bad consumers claim they are and how bad they really are is evident in retail sales – we're seeing the slowdown of the dynamics there too (the 3M average of y/y growth rates halved in July from 3.2% at the beginning of the year) but not to the extent witnessed in 1Q/09 (-1.5% y/y in March 2009). What's making consumers dejected is the ubiquitous talk about belt-tightening and also the still-high uncertainty - this latter one was only fed by the recent turmoil. When CSO releases the final GDP data for the 2Q/11, we're probably going to see increase in the savings rate.

Preliminary Czech 2Q/11 GDP rose 0.2% q/q (2.4% y/y) and although the structure has not yet been released (it's due out tomorrow) we're guessing net exports and fixed investments were the drivers. Final domestic consumption (for both the government and households) in all likelihood fell y/y, a clear impact of fiscal restriction. The rest of the year should see – in our baseline – the similar growth and structure as in the 2Q/11. Growth should be around +0.3% q/q – domestic consumption will remain depressed, industry and exports should provide the bulk of growth, aided by fixed investments. Risks are undoubtedly pointing downwards, given the recent market situation.

Higher rating, recession fears keep the yield curve depressed

With markets in disarray, rekindled recession fears, cautionary signals from the economy (slowing PMI, weaker German data) and in line with the circumspect post-crisis approach to monetary policy, CNB kept the rates unchanged at their all-time low of 0.75%. New forecast that was unveiled counts on relatively strong CZK (CNB expects EURCZK to average 23.1 in '11) – if this doesn't materialize (and the economy continues to grow at around 2% in '12, thus evading the recession), this may create pressure on higher rates than what CNB expects. All other parameters of our latest (June) and CNB' latest prognosis remain essentially identical.

Partially because of CNB non-commitment to raise rates any time soon, much more so because of the recent developments on the global financial markets, the Czech market finished the re-appraisal of the future interest rates' path and then got scared the end of the world is around the corner, driving the 2Y swap yields to 1,30% at one moment. Essentially, the market is arguing that the 3M PRIBOR will stay at the current level over next two years. Given that our baseline isn't recession, we think this is too glum an outlook and the yield curve is low enough to justify either speculative position or hedging.

Long-end saw the drop in yields, in part because of panic-driven rally of German bunds and in part because of upgraded rating of Czech republic. Given that the S&P upgraded the rating of Czech sovereign to the third or fourth highest (for CZK- and FX-denominated debt, respectively), the 10Y spread to German bunds narrowed some 40 bps. The drop would have been larger (and will be, once situation calms down) had it not been for the heightened uncertainty – we see 70 bps. as a reasonable spread to German bunds. With the EMU debt crisis in a full swing, Czech paper is now regarded as a safe haven of sort. This nonetheless, we don't think we'll get to 70 bps. spread fast – the markets will remain edgy for the considerable period of time, the debt crisis, aggravated by the policy impotence, will continue to loom large in the markets. Since we expect - once it becomes clear the slow growth, not a recession, is what's happening – the German yields to rise from the current preposterously low levels, not even the slowly tightening spread between Czech and German yields will prevent the Czech bond yields from rising (30 bps. for bonds before year-end, somewhat more for swaps).

EQUITIES

Petr Bartek, Vaclav Kminek, Martin Krajhanzl, research@csas.cz; tel: +420 224 995 177

Comments & Highlights

- **CEZ** reported a 12.8% y/y decline in EBITDA, primarily due to lower hedged power prices and due to surprisingly low gains on CO2 permits (higher utilization of coal plants and negative revaluation). Net income was further affected by the 32% gift tax on granted CO2 permits and by the decreasing value of options on MOL shares and fell by 40% y/y. The 2Q results were basically hurt by several negatives, which will be hardly repeated. More importantly, the company confirmed its FY11 EBITDA guidance at CZK 84.8bn (-4.8% y/y) and increased its net income guidance by 1.2%, to CZK 40.6bn (-14% y/y), thanks to lower achieved interest rates.
- **CEZ:** Czech Environment Ministry specified its draft plan for free CO2 permit allocations in 2013-2020 to be submitted with the EC by the end of September. Electricity producers will be granted total 108.2mn permits in the period and CEZ will get 77.6mn permits. We have included the proposal to our new report with more or less neutral impact compared to earlier expectations. However, Finance Ministry later said it is against free CO2 allocation in NAP III and wants to find a compromise to get more money to the state budget. We can imagine e.g. continuation of the 32% gift tax, which would lower our TP by some CZK 10/share.
- **NWR** reported 2Q 11 net income down 36% y/y to EUR 82.5mn due to last year's EUR 82mn one-off gain from assets disposal. EBITDA increased by 50% y/y to EUR 168mn thanks to 39% higher coking coal prices. Results were almost in line with consensus as the company provided detailed trading statement earlier. NWR expects worse production mix than earlier with 52% of steam coal, 4% PCI coal and only 44% coking coal in FY 2011 (earlier 50/50). NWR said it sees risks of near term volatility in coal prices and risks to 2012 volumes. We will have to lower our estimates for 2011-12, what should be already priced in our view. We can also imagine lower DVD PoR in 2012-13.
- **Komerční banka:** Increased rating of the Czech Republic from S&P by two notches to AA-, KB's rating by one notch from A to A+ and a decline in yields on govies increases value of KB's bond portfolio, otherwise no effect on its operating performance. KB's primary funding are client deposits with close-zero rates. Czech CB said that Czech banking sector Tier 1 does not fall below 10% even in the case of complete write-off of PIIGS exposure.
- **Telefonica CR:** We confirm our Hold recommendation on Telefonica CR, while reducing the target price to CZK 410, due to our lower earnings estimate. The company should update its shareholder remuneration policy only next year alongside the FY11 earnings release, with the aim of maintaining its shareholder distribution at CZK 40/share. TCR went ex-dividend on Monday, September 7.
- **Fortuna** – 1H results slightly below estimates. The Polish parliament agreed to allow online gambling – Fortuna is now waiting for the license from Polish Ministry of Finance (when they obtain it, they could kick-off the online platform in Poland). In the meantime Fortuna agreed to buy ca 190 outlets in Poland, which will improve its market share above 33% (currently around 30%). The acquisition of 190 Polish outlets will not have a significant impact on cash flow and Fortuna will be able to sustain a hefty dividend ability (CAPEX will not exceed EUR ths).
- **PM CR** – reported its results in line with consensus. 1H11 net profit up 1% y/y to CZK 1.13bn, in line with the CZK 1.14bn consensus, but below our estimate. The results were worse than we expected, due to the continued decline in market share in the Czech Republic, which resulted in lower average selling prices and margins. Exports were stronger than expected, but this could not compensate for the decline in the Czech Republic. We maintain our cautious stance on the stock.

Selected detailed info

CEZ: Summary of our company report (Accumulate maintained)

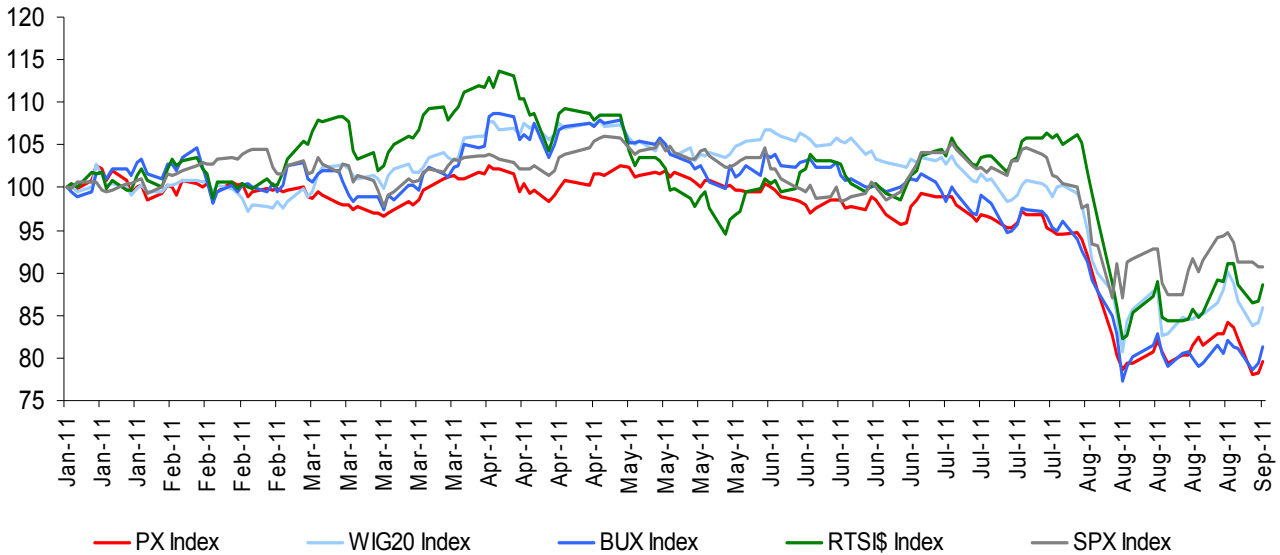
As we roll over our forecast period, we lower our target price for CEZ by 7% to CZK 902/share, due to higher YE 2011e net debt and slightly lower mid-term estimates, which is partly offset with lower WACC (safe haven effect). We keep our 2011-12 estimates almost unchanged, but lower our 2013 estimates 9.5%, due to lower expected CO2 and, consequently, electricity prices. The later finalization of two power plants (from early 2013 to 2014) further delays earnings growth. We keep our Accumulate recommendation with 18% upside potential, as we see the basic story about a necessary increase in electricity prices as untouched. CEZ is one of the best plays on power prices in the CE region. Our main reasons for an Accumulate recommendation are as follows:

- CEZ has approx. two times leverage to electricity prices. We see current prices on EEX low and expect long term growth from around EUR 58/MWh to EUR 70/MWh.
- Electricity consumption in the Czech Republic is growing by 1-2% in 2011, after a 4% jump in 2010. The CE region benefits from indirect exports to EM Asia and has a relatively low trade balance with the troubled south parts of EU. We thus believe that there is low risk of recession in CEZ's core markets and do not change our capacity driven production forecast (from 70 TWh in 2011 to local peak at 77 TWh in 2015).
- We expect 6% increase in both EBITDA and net income in 2012 (growing renewable and lignite capacity, acquisition of Energotrans, growing results in distribution).
- Falling CAPEX from CZK 72bn in 2010 to CZK 28bn in 2015 allows stable dividend policy at 50-60% PoR.

PX vs. CEE region

Full-scale panic, which was seen in begging of August, started to calm down, while regional indexes performed more or less flat during last month. PX index lost some 3.5% m/m, more or less in line with local peers (WIG -2.3% m/m, BUX -4.3% m/m). The European debt crisis came back with the full vigor, supported by worries about the development of the global economy.

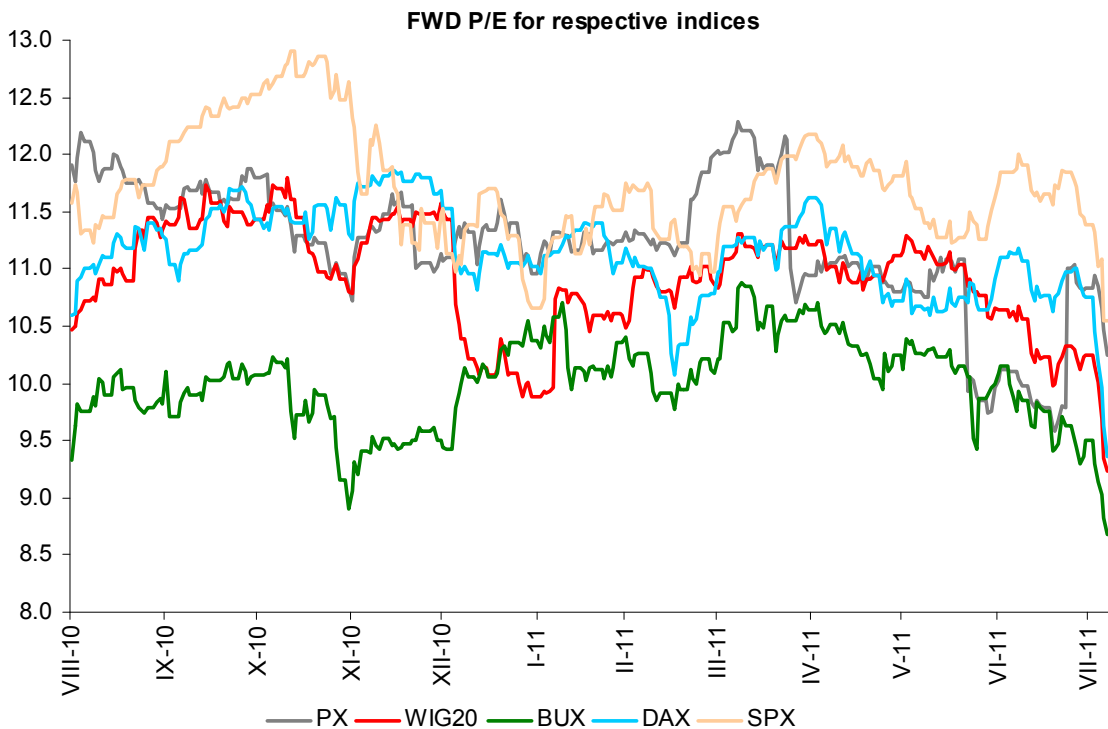
Graph: Development of PX index, other CEE indexes and S&P 500 index as of beginning of 2010



Source: Bloomberg

The following graph illustrates the development of 2012e P/E ratios of regional indices (including US SP500 for comparison). All indices saw the P/E falling. However, it is fair to say we saw mostly downward revisions to mid term EPS estimates (2012-13) and this trend is likely to continue. American S&P 500 kept its premium to all regional markets. Valuation of the Czech index PX decreased more than its peers also due to ex-dividend on Telefonica CR (PX dropped some 7% after Telefonica CR ex-div).

Graph: Development of P/E₂₀₁₂ ratio of CEE indexes



Source: Bloomberg

Relative valuation

Data from Bloomberg, Factset and Erste Group research

Banks

Name	Ticker	Last price (CZK)	MCap (mn)	performance (%)			3M avg		52 week low	52 week high
				weekly	monthly	YTD	volume (mn)			
Komerční banka	KOMB CP	3310	125,813	-4.6	-7.0	-25.4	320	2900	4583	
Erste Bank*	RBAG CP	560	211,752	-5.8	-19.6	-37.1	205	554	965	

Name	Ticker	P/E		P/BV		dividend yield		EPS growth	
		2010	2011e	2010	2011e	2010	2011e	2010	2011e
Komerční banka	KOMB CP	12.6	8.8	2.25	1.60	6.1%	8.1%	21.1%	7.4%
Erste Bank	RBAG CP	9.6	8.4	1.12	0.68	3.9%	4.4%	-7.7%	14.6%
CEE Median		9.8	7.4	1.39	0.98	1.0%	3.3%	7.4%	32.9%
EuroStoxx Banks		13.0	8.1	0.65	0.39	5.6%	6.1%	22.1%	8.5%

Name	Ticker	Net interest margin		ROE		loans/deposit ratio		Tier1	deposits/assets
		2010	2011e	2010	2011e	2010	2011e		
Komerční banka	KOMB CP	3.1%	3.2%	18.7%	18.6%	74%	73%	13.6%	77.5%
Erste Bank	RBAG CP	2.7%	2.6%	7.6%	8.1%	110%	n.a.	11.8%	n.a.
CEE Median		4.3%	3.6%	15.3%	14.3%	96%	104%	n.a.	64.5%
EuroStoxx Banks		1.5%	1.6%	5.6%	5.1%	n.a.	n.a.	n.a.	n.a.

Utility

Name	Ticker	Last price (CZK)	MCap (mn)	performance (%)			3M avg		52 week low	52 week high
				weekly	monthly	YTD	volume (mn)			
CEZ	CEZ CP	756	403,632	-1.7	-10.0	-3.4	658	742	961	

Name	Ticker	P/E		EV/EBITDA		dividend yield		EPS growth	
		2010	2011e	2010	2011e	2010	2011e	2010	2011e
CEZ	CEZ CP	8.8	9.8	6.4	6.8	6.4%	6.1%	-8.5%	-13.2%
CEE Median		13.5	10.2	7.0	6.8	2.0%	3.1%	-15.1%	33.2%
EuroStoxx Utilities		10.9	9.2	6.6	5.9	6.9%	7.5%	-18.6%	15.0%

Name	Ticker	EBITDA margin		Net margin		ROE		net debt/equity	liabilities/equity
		2010	2011e	2010	2011e	2010	2011e		
CEZ	CEZ CP	44.8%	40.7%	23.7%	19.6%	22.4%	17.9%	69%	59%
CEE Median		20.9%	26.1%	6.6%	8.4%	8.8%	9.9%	63%	59%
EuroStoxx Utilities		24.6%	24.9%	7.2%	7.3%	9.9%	11.2%	n.a.	n.a.

Oil&Gas

Name	Ticker	Last price (CZK)	MCap (mn)	performance (%)			3M avg		52 week low	52 week high
				weekly	monthly	YTD	volume (mn)			
Unipetrol	UNIP CP	178	32,278	-0.1	4.7	-9.6	26	167	226	

Name	Ticker	P/E		EV/EBITDA		dividend yield		EPS growth	
		2010	2011e	2010	2011e	2010	2011e	2010	2011e
Unipetrol	UNIP CP	38.1	18.2	6.4	6.4	0.0%	1.6%	n.a.	89.0%
CEE Median		11.3	7.2	1.3	0.9	0.6%	3.6%	202.4%	57.1%
EuroStoxx Oil & Gas		11.6	8.0	5.9	5.9	3.9%	3.8%	9.3%	28.4%

Name	Ticker	EBITDA margin		Net margin		ROE		net debt/equity	liabilities/equity
		2010	2011e	2010	2011e	2010	2011e		
Unipetrol	UNIP CP	6.0%	5.1%	1.1%	1.7%	2.4%	4.5%	7%	41%
CEE Median		9.3%	11.1%	3.2%	4.9%	10.0%	12.7%	25%	50%
EuroStoxx Oil & Gas		19.1%	20.3%	4.2%	7.6%	12.3%	13.4%	n.a.	n.a.

Telecoms

Name	Ticker	Last price (CZK)	MCap (mn)	performance (%)			3M avg volume (mn)	52 week low	52 week high
				weekly	monthly	YTD			
Telefonica O2 CR	SPTT CP	375	120,784	-12.6	-10.9	-1.7	166	369	440

Name	Ticker	P/E		EV/EBITDA		dividend yield		EPS growth	
		2010	2011e	2010	2011e	2010	2011e	2010	2011e
Telefonica O2 CR	SPTT CP	10.0	14.8	4.4	5.3	10.5%	9.3%	5.3%	-33.6%
CEE Median		11.3	13.1	5.4	4.7	8.6%	9.0%	15.0%	-8.2%
EuroStoxx Telecom		9.8	9.6	5.0	4.8	8.9%	9.5%	-5.7%	1.2%

Name	Ticker	EBITDA margin		Net margin		ROE		net debt/equity	liabilities/equity
		2010	2011e	2010	2011e	2010	2011e	2011e	2011e
Telefonica O2 CR	SPTT CP	49.2%	42.0%	22.1%	15.4%	16.7%	11.5%	-4%	21%
CEE Median		33.7%	38.2%	15.8%	14.1%	14.0%	12.5%	40%	48%
EuroStoxx Telecom		33.3%	33.8%	9.5%	9.6%	19.6%	23.7%	n.a.	n.a.

Non-financials

Name	Description	Last price (CZK)	MCap (mn)	performance (%)			3M avg volume (mn)	52 week low	52 week high
				weekly	monthly	YTD			
CME	media	194	12,317	-11.7	-22.3	-45.4	37	194	465
NWR	mining	156	41,334	-4.6	-15.5	-45.0	173	156	287
Pegas Nonwovens	chemicals	451	4,162	0.3	0.8	-3.6	16	412	474
Philip Morris CR	personal goods	10750	29,513	2.9	3.4	5.0	19	8808	10895
Fortuna Ent.	gaming	102	5,299	-0.1	0.5	-1.7	15	87	137

Name	Ticker	P/E		EV/EBITDA		dividend yield		EPS growth	
		2010	2011e	2010	2011e	2010	2011e	2010	2011e
CME	CETV CP	4.4	106.4	16.2	11.1	0.0%	0.0%	n/m	-95.9%
NWR	NWR CP		4.1		2.6		12.2%	n/m	n/m
Pegas Nonwovens	PEGAS CP	8.1	6.7	7.4	7.5	5.1%	5.4%	-3.2%	22.0%
Philip Morris CR	TABAK CP	10.9	10.3	6.5	6.3	8.3%	8.7%	8.0%	5.5%
Fortuna Ent.	FORTUNA CP	10.3	14.6	9.2	10.9	6.8%	4.8%	14.6%	-29.3%

Name	Ticker	EBITDA margin		Net margin		ROE		net debt/equity	liabilities/equity
		2010	2011e	2010	2011e	2010	2011e	2011e	2011e
CME	CETV CP	14.7%	21.0%	-9.8%	0.8%	11.8%	0.5%	82%	131%
NWR	NWR CP	29.9%	39.4%	14.2%	21.9%	33.6%	45.3%	27%	58%
Pegas Nonwovens	PEGAS CP	23.8%	20.7%	14.2%	14.5%	17.1%	18.8%	75%	50%
Philip Morris CR	TABAK CP	33.1%	32.5%	23.1%	22.9%	29.4%	29.4%	-38%	36%
Fortuna Ent.	FORTUNA CP	30.2%	22.0%	22.5%	15.9%	45.5%	32.8%	14%	96%

Financials

Name	Description	Last price (CZK)	MCap (mn)	performance (%)			3M avg volume (mn)	52 week low	52 week high
				weekly	monthly	YTD			
Orco Property Group	real estates	125	1,751	-19.6	-25.9	-30.2	3	125	242
Vienna Insurance	insurance	719	92,050	-6.6	-11.6	-24.4	9	719	1067

Name	Ticker	P/E		P/BV		dividend yield		EPS growth	
		2010	2011e	2010	2011e	2010	2011e	2010	2011e
Orco Property Group	ORCO CP	0.4	3.0	0.34	0.21	0.0%	0.0%	n.a.	-86.3%
Vienna Insurance	VIG CP	13.0	8.5	1.20	0.85	2.6%	3.7%	6.7%	12.9%

Name	Ticker	Net margin		BV Growth		ROE		net debt/equity	liabilities/equity
		2010	2011e	2010	2011e	2010	2011e	2011e	2011e
Orco Property Group	ORCO CP	70.8%	7.8%	265.5%	61.3%	129.7%	7.4%	245%	79%
Vienna Insurance	VIG CP	4.4%	5.0%	-0.4%	41.8%	9.3%	10.2%	n.a.	n.a.

Technical analysis part: Komerční banka strong support drives it towards 50MA reflecting ca 5% upside potential.

Martin Krajhanzl, mkrajhanzl@csas.cz

Komerční banka (KB)

➤ Recently: Forecast:

- R5:** 3,882 20 EMA
- R4:** 3,749 local bottom
- R3:** 3,581 50 EMA
- R2:** 3,498 local bottom
- R1:** 3,405 20 MA
- S1:** 3,226 Fibonacci 50% Retracement
- S2:** 3,193 local bottoms
- S3:** 2,893 local bottom (VIII 2011)

- Although KB has fallen recent days, it holds above Fibonacci 50% Retracement level representing strong support.
- MACD above signal line keeping its distance (i.e. positive).
- Volume on 10MA average which is slightly rising.
- RSI testing its 14 MA and in the short term probably also 50 pts. If successful it would be positive for further growth.
- The current TA-indicators situation looks slightly positive (MACD keeping its distance above signal curve and RSI potentially testing 50 pts. level).
- Thus, we expect gradual recovery from the current price level towards 50 MA.



Chart: Reuters

Czech Republic – Long-term forecast

		2007	2008	2009	2010	2011f	2012f	2013f
Real GDP	y/y %	6.1	2.3	-4.0	2.2	2.3	2.5	3.5
Household Consumption	y/y %	4.9	3.5	-0.2	-0.1	0.1	1.1	2.5
Fixed investment	y/y %	10.9	-1.5	-7.9	-3.1	3.3	4.7	2.8
Nominal Wages	y/y %	7.3	7.9	3.4	2.0	2.2	3.2	3.7
Retail Sales	y/y %	10.1	3.1	-4.7	0.4	2.5	2.3	3.7
Manufacturing	y/y %	9.2	7.2	-11.4	7.0	8.5	5.8	5.3
CPI	y/y %, year-end	5.4	3.6	1.0	2.3	2.0	2.6	2.0
Unemployment	(%)	6.6	5.4	8.6	9.0	8.7	8.4	7.5
Trade Balance	(% GDP)	3.4	2.8	2.2	1.5	1.6	2.1	2.3
FDI	(USD bn.)	10.4	6.5	2.9	6.8	8.0	8.8	7.6
Budget	(% GDP)	-0.7	-2.7	-5.9	-4.7	-4.0	-3.7	-2.9
2W Repo	(year-end)	3.5	2.5	1.1	0.8	0.9	1.4	2.3
3M PRIBOR	(average %)	3.1	4.0	2.2	1.3	1.4	1.8	2.6
10Y Swap	(average %)	4.2	4.2	3.7	3.0	3.2	3.6	4.0
CZK / USD	(average)	20.3	17.1	19.0	19.1	17.0	17.0	17.1
CZK / USD	(year-end)	18.1	19.4	17.9	18.7	16.3	17.3	17.0
CZK / EUR	(average)	27.8	25.0	26.4	25.3	24.2	23.7	23.1
CZK / EUR	(year-end)	26.4	26.2	26.1	25.2	24.0	23.3	22.9

Calendars

Macro

	For period	Date of release	Time of release	ČS Forecast or Reality	Previously
CZ Monthly Forecast / September 2011					
2Q/11 GDP, % q/q, final	7/2011	8.9	9:00	0.3	0.9
Industrial production (% y/y)	7/2011	already out	9:00	4.4%	7.9%
Retail Sales (incl. cars, % y/y)	7/2011	already out		-1.7%	-3.3%
Unemployment (new, %)	8/2011	8.9	9:00	8.2%	8.2%
CPI (% m/m)	8/2011	9.9	9:00	-0.2%	0.3%
CPI (% y/y)	8/2011	9.9	9:00	1.8%	1.7%
Current account (CZK bn.)	7/2011	12.9	10:00	-16	-9.31
PPI (m/m)	8/2011	15.9	9:00	0.2%	0.0%
PPI (y/y)	8/2011	15.9	9:00	6.0%	5.4%
CNB repo-rate meeting, %		21.9	13:00	0.75%	0.75%

Equities:

	Company	Event
September 2011		
19.9.	PX Index	New index base
28.9.	Stock-Exchange closed	CR – St. Venceslav
30.9.	NWR	Interim-DPS EUR 0.16 pay-out
October 2011		
6.10.	Telefónica CR	DPS CZK 40 pay-out
17.10.	Pegas NW	Last trading day with DPS EUR 1 rights (record day Oct 20)
21.10.	Unipetrol	Q3 trading statement
26.10.	CETV	Q3 2011 results
27.10.	Unipetrol	Q3 2011 results
27.10.	Pegas NW	DPS EUR 1 pay-out
28.10.	Erste Bank	Q3 2011 results
31.10.	CEZ	European NPP stress test results

Table of past investment recommendations (12M) on stocks covered within SPAD system (PX index)

CEZ Date	12M Target price (CZK)	Recommendation	Unipetrol Date	12M Target price (CZK)	Recommendation
31.8.11	902	accumulate	17.6.2011	170	reduce
13.4.11	970	accumulate	30.9.2010	191	reduce
13.12.10	820	hold	28.9.2009	140	reduce
8.2.10	980	accumulate	30.3.2009	120	reduce
4.2.09	1230	buy	24.9.2008	250	buy
3.9.08	1316	hold	17.3.08	358	buy
Telefónica CR Date	12M Target price (CZK)	Recommendation	Orco Date	12M Target price (EUR)	Recommendation
7.9.11	410	hold	24.9.10	8.2 (€)	accumulate
5.5.11	450	hold	7.10.09	7.2 (€)	reduce
4.2.11	450	accumulate	3.4.09	3.7 (€)	reduce
11.11.10	450	accumulate	25.9.08	41 (€)	buy
9.9.10	425	hold	21.7.08	48 (€)	hold
4.8.10	470	hold			
Komerční banka Date	12M Target price (CZK)	Recommendation	Fortuna Date	12M Target price (CZK)	Recommendation
7.2.11	4 700	hold	14.1.2011	120	accumulate
8.2.10	3 850	hold			
22.10.09	3 850	hold			
29.7.09	3 290	accumulate			
CME Date	12M Target price (USD)	Recommendation	Philip Morris CR Date	12M Target price (CZK)	Recommendation
17.12.10	23.5	accumulate	7.1.11	9 600	reduce
16.6.10	33	buy	12.3.10	8 600	sell
23.11.09	27	reduce	25.6.09	7 150	accumulate
16.2.09	35	buy	14.10.08	8 900	buy
27.2.08	93	reduce			
Pegas Date	12M Target price (CZK)	Recommendation	NWR Date	12M Target price (CZK)	Recommendation
7.6.11	500	accumulate	23.2.2011	293	accumulate
26.11.10	480	accumulate	1.9.2010	253	accumulate
10.3.10	500	accumulate	6.5.2010	306	buy
20.5.09	350	hold	16.4.2010	306	hold
25.4.08	505	hold	18.2.2010	211	accumulate
VIG Date	12M Target price (EUR)	Recommendation			
9.2.11	50,0	buy			
4.2.10	44,5	buy			
21.11.08	44	buy			
11.7.08	66	buy			

Disclaimer

Ceska sporitelna, a.s., Erste Group, their subsidiaries and clients may have positions in the investment instruments referred to in the recommendations, may trade in the investment instruments of the companies referred to in the recommendations or may provide these companies with investment or banking services. The Department of Economic and Strategic Analyses of Ceska sporitelna, a.s. is organizationally and physically separated from the departments of the Division of Financial Markets of Ceska sporitelna, a.s. The interests and the possible resulting conflicts of interest of the Financial Group of Ceska sporitelna in relation to the analyzed joint-stock companies in the Czech Republic (companies traded in the SPAD system outside Erste Group) are mentioned in Table below.

Type of conflict of interest

- (1) ČS and/or a related person has direct or indirect interest in the registered capital of the issuer of more than 5%.
- (2) The issuer has direct or indirect interest in the registered capital of ČS and/or a related person of more than 5%.
- (3) ČS and/or a related person has another major financial interest in relation to the issuer.
- (4) ČS and/or a related person is the market maker or a person otherwise ensuring liquidity in relation to the financial instruments issued by the issuer.
- (5) ČS and/or a related person has been in the last 12 months a supervising manager or co-supervising manager of a public tender for financial instruments issued by the issuer.
- (6) ČS and/or a related person has concluded with the issuer another contract for investment services.
- (7) ČS and/or a related person has concluded with the issuer an agreement regarding development and distribution of investment recommendations.

Company name	Conflict of interest (type of conflict of interest)
AAA Auto	4
CETV	4, 5, 6
CEZ	4, 5, 6
ECM	4
Fortuna	4, 5, 6
KIT Digital	4
Komerční banka	4
NWR	4
ORCO	4, 6
Pegas	4
Philip Morris CR	4
TO2 CR	4
Unipetrol	4
VIG	3, 4, 5

Source: CS/Erste Group

	SPAD 11	Erste Group interest (5)
Buy	9%	25%
Accumulate	55%	75%
Hold	18%	0%
Reduce	18%	0%
Sell	0%	0%

Source: CS/Erste Group

This research report was prepared by Erste Group Bank AG ("Erste Group") or its affiliate named herein. The individual(s) involved in the preparation of the report were at the relevant time employed in Erste Group or any of its affiliates. The report was prepared for Erste Group clients. The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. All opinions, forecasts and estimates herein reflect our judgment on the date of this report and are subject to change without notice. The report is not intended to be an offer, or the solicitation of any offer, to buy or sell the securities referred to herein. From time to time, Erste Group or its affiliates or the principals or employees of Erste Group or its affiliates may have a position in the securities referred to herein or hold options, warrants or rights with respect thereto or other securities of such issuers and may make a market or otherwise act as principal in transactions in any of these securities. Erste Group or its affiliates or the principals or employees of Erste Group or its affiliates may from time to time provide investment banking or consulting services to or serve as a director of a company being reported on herein. Further information on the securities referred to herein may be obtained from Erste Group upon request. Past performance is not necessarily indicative for future results and transactions in securities, options or futures can be considered risky. Not all transactions are suitable for every investor. Investors should consult their advisor, to make sure that the planned investment fits into their needs and preferences and that the involved risks are fully understood. This document may not be reproduced, distributed or published without the prior consent of Erste Group. Erste Group Bank AG confirms that it has approved any investment advertisements contained in this material. Erste Group Bank AG is regulated by the Financial Market Authority (FMA) Otto-Wagner-Platz 5, 1090 Vienna, and for the conduct of investment business in the UK by the Financial Services Authority (FSA).

Notice to Turkish Investors: As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided in accordance with a contract of engagement on investment advisory concluded between brokerage houses, portfolio management companies, non-deposit banks and clients. Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

Published by Erste Group Bank AG, Neutorgasse 17, 1010 Vienna, Austria. Phone +43 (0)5 0100 - ext.

Erste Group Homepage: www.erstegroup.com On Bloomberg please type: ERBK <GO>.

Please refer to www.erstegroup.com for the current list of specific disclosures and the breakdown of Erste Group's investment recommendations.

CONTACTS

[HTTP://WWW.CSAS.CZ/ANALYZA](http://www.csas.cz/analyza)

Economic and strategic research unit

Head of dept., Chief economist	David Navratil	+420/224 995 439	dnavratil@csas.cz
Macro (CEE)	Jana Krajčová	+420/224 995 232	jkrajcova@csas.cz
Macro (ČR)	Martin Lobotka	+420/224 995 192	mlobotka@csas.cz
Macro (USA, EMU)	Luboš Mokráš	+420/224 995 456	lmokras@csas.cz
Macro (Banking strategist)	Petr Bittner	+420/224 995 172	pbittner@csas.cz
Equities (Utilities, NWR, CEE Real Estate)	Petr Bártek	+420/224 995 227	pbartek@csas.cz
Equities (ČR, CEE Media)	Václav Kmínek	+420/224 995 289	vkminek@csas.cz
Equities (Market analyst, Equity strategist)	Martin Krajhanzl	+420/224 995 434	mkrajhanzl@csas.cz

Financial markets division – Sales & Trading

Head of dept.	Libor Vošický	+420/224 995 592	lvosicky@csas.cz
Co-head	Robert Novotný	+420/224 995 148	rnovotny@csas.cz
Debt Capital markets unit – Head of unit	Tomáš Černý	+420/224 995 197	tcerny@csas.cz
	Alice Racková	+420/224 995 197	arackova@csas.cz
	Martin Chudoba	+420/224 995 138	mchudoba@csas.cz
Treasury unit – Head of unit	Tomáš Píček	+420/224 995 511	tpicek@csas.cz
Capital markets trading – Head of unit	Ondřej Čech	+420/224 995 577	ocech@csas.cz
Institutional asset management – Head of unit	Viktor Kottlán	+420/224 995 217	vkotlan@csas.cz
Proprietary trading unit – Head of unit	Robert Novotný	+420/224 995 417	rnovotny@csas.cz
Equity sales – Head of unit	Michal Rízek	+420 224 995 537	mrizek@csas.cz
Equity sales	Radim Kramule	+420 224 995 556	rkramule@csas.cz
Equity sales and trading	Pavel Krabická	+420 224 995 411	pkrabicka@csas.cz
Foreign equity sales	Jiri Smehlik	+420 224 995 510	jsmehlik@csas.cz

Investment banking unit

Head of dept.	Jan Brabec	+420/224 995 816	jbrabec@csas.cz
Private Equity a Venture Capital – Head of unit	František Havrda	+420/224 995 836	fhavrda@csas.cz
Correspondent banking – Head of unit	Barbora Procházková	+420/224 995 338	bprochazkova@csas.cz
Financial institutions – Head of unit	Pavel Bříza	+420/224 995 176	pbriza@csas.cz
IPO – Head of unit	Antonín Piskáček	+420/224 995 810	apiskacek@csas.cz
	Jiří Korbel	+420/224 995 820	jkorbel@csas.cz
M&A	Frank Nosek	+420/224 995 231	Frank.Nosek@erste-cf.com
	Jan Vrátník	+420/224 995 211	jan.vratnik@erste-cf.com

Erste Bank Vienna – CEE Equity

Head of Group Research	Friedrich Mostböck	+43 501 00 119 02	friedrich.mostboeck@erstegroup.com
Co-Head of CEE Equities	Henning Esskuchen	+43 501 00 196 34	henning.esskuchen@erstegroup.com
Co-Head of CEE Equities	Guenter Artner	+43 501 00 115 23	guenter.artner@erstegroup.com
Equities – CEE construction & steel	Franz Hoerl	+43 501 00 18 506	Franz.hoerl@csas.cz
Equities – CEE banking	Guenter Hohberger	+43 501 00 173 54	guenter.hohberger@erstegroup.com
Equities – CEE Oil & gas	Thomas Unger	+43 501 00 17 344	Thomas.unger@erstegroup.com
Equities – CEE Telecoms	Vera Sutedja, CFA	+43 501 00 119 05	Mariaveronika.sutedja@erstegroup.com
Equities – CEE Pharma	Vladimíra Urbánková	+43 501 00 17 343	Vladimira.urbankova@erstegroup.com
Equities – IT	Daniel Lion	+43 501 00 174 20	daniel.lion@erstegroup.com
Equities – Engineering	Gerald Walek, CFA	+43 501 00 163 60	gerald.walek@erstegroup.com
Equities – CEE Insurance	Christoph Schultes	+43 501 00 163 14	christoph.schultes@erstegroup.com

Erste Bank Vienna – Macro/Fixed Income

Head of Macro/ Fixed Income Research	Gudrun Egger	+43 501 00 119 09	Gudrun.Egger@erstegroup.com
Co-Head of CEE Fixed Income Research	Rainer Singer	+43 501 00 111 85	rainer.singer@erstegroup.com
Co-Head of CEE Fixed Income Research	Juraj Kotian	+43 501 00 173 57	juraj.kotian@erstegroup.com

Brokerjet

On-line trading		+420 224 995 777	www.brokerjet.cz
-----------------	--	------------------	------------------

Institutional Equity Sales Vienna

Head	Brigitte Zeitberger-Schmid	+43 501 00 831 23	brigitte.zeitberger@erstebank.at
------	----------------------------	-------------------	----------------------------------

Institutional Equity Sales London

Head	Michal Rízek	+44 20 7623 4154	michal.rizek@erstegroup.com
	Jiri Feres	+44 20 7623 4154	jiri.feres@erstegroup.com
	Declan Wooloughan	+44 20 7623 - 4154	declan.wooloughan@erstegroup.com

This research report was prepared by Erste Group Bank AG ("Erste Group") or its affiliate named herein. The individual(s) involved in the preparation of the report were at the relevant time employed in Erste Group or any of its affiliates. The report was prepared for Erste Group clients. The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. All opinions, forecasts and estimates herein reflect our judgment on the date of this report and are subject to change without notice. The report is not intended to be an offer, or the solicitation of any offer, to buy or sell the securities referred to herein. From time to time, Erste Group or its affiliates or the principals or employees of Erste Group or its affiliates may have a position in the securities referred to herein or hold options, warrants or rights with respect thereto or other securities of such issuers and may make a market or otherwise act as principal in transactions in any of these securities. Erste Group or its affiliates or the principals or employees of Erste Group or its affiliates may from time to time provide investment banking or consulting services to or serve as a director of a company being reported on herein. Further information on the securities referred to herein may be obtained from Erste Group upon request. Past performance is not necessarily indicative for future results and transactions in securities, options or futures can be considered risky. Not all transactions are suitable for every investor. Investors should consult their advisor, to make sure that the planned investment fits into their needs and preferences and that the involved risks are fully understood. This document may not be reproduced, distributed or published without the prior consent of Erste Group. Erste Group Bank AG confirms that it has approved any investment advertisements contained in this material. Erste Group Bank AG is regulated by the Financial Market Authority (FMA) Otto-Wagner-Platz 5, 1090 Vienna, and for the conduct of investment business in the UK by the Financial Services Authority (FSA).