Greek Equity Strategy – From hope to growth?

Stuck between opposite forces… – Greek stocks have returned c12% year-to-date (total return) but are stuck within a tight trading range since May, underperforming their EU peers (Stoxx 600 +4% since then). On the one hand, concerns about the fallout from the delta variant and signs of a deceleration in global growth – coupled with monetary policy concerns – have been weighing on the broad market mood. Capital raisings and significant issuance activity on the credit side have also drained liquidity, being an additional idiosyncratic headwind for the Greek equity market. On the other hand, corporate earnings momentum looks strong (upward revisions following Q2) while valuations are quite attractive (c7% equity risk premium embedded in Greek non-financials at current price levels) and Greek stocks are yet to fully retrace their COVID-induced losses (benchmark index -3% vs Feb'20 levels, non- financials -2%).

Relative case looks very compelling – Notwithstanding the short-term uncertainty around the delta variant, in our view the relative investment case for Greek stocks – vis a vis their international peers – remains quite compelling: 1) The Greek economy is experiencing stronger economic momentum than the EU (Q2 GDP +16% yoy vs 13% for the EU), 2) excess savings (€30bn accumulated since March 2020) are likely to underpin consumer spending in the coming quarters; 3) the PMI/economic sentiment momentum looks more robust than in Europe (both indices near recent/multi-year highs); 4) the Greek economy is early-cycle (rather than mid-cycle); 5) Greek stocks trade, on average, at c30-35% discount vs their EU peers; 6) besides the COVID-related normalization, the domestic economy will be further propelled by the inflow of EU-related funds from the RRF (€31bn over 2021-26, to mobilize total resources of €57.5bn, namely 31% of pre-pandemic GDP). We present an overview of Greece's National Recovery and Resilience Plan "Greece 2.0" in this note.

Reiterating OPAP, PPC, Mytilineos and NBG as top picks – Against a somewhat less conducive international backdrop given the peak growth/liquidity concerns, we do not see much room for a positive overshooting in the near term but we advocate that any correction should be seen as offering a compelling entry point given the improving long-term outlook that is yet to be priced in. We are also quite constructive for 2022, as equity premia compress and the macro recovery solidifies. From a tactical perspective, we advocate a balanced exposure in the Greek equity universe, focusing on idiosyncratic stories with catalysts (PPC, OPAP), strong yield support (OPAP) and strong profit momentum (Mytilineos). We reiterate **OPAP, PPC and Mytilineos** as our top picks while **removing ATHEX** as trading activity momentum seems to have stalled. Within our covered bank universe, we keep our preference for **NBG,** given its strong balance sheet offering a clear way to earnings recovery, coupled with an attractive valuation.

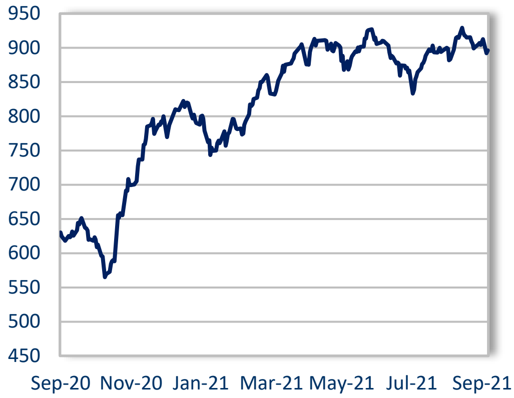
Banks: re-rating to continue – The completion of the balance sheet clean-up, which is now visible (to be completed by mid-2022) should underpin banks' further re-rating in the coming months, albeit at a more gradual pace we reckon, as this ought to have been partly priced in. As we move closer to 2022, we expect investors to focus more on profitability prospects, which will determine the extent to which Greek banks will be priced for normality and will narrow the valuation gap vs EU periphery peers.

Eurobank Equities Top Picks Portfolio

Company	MCap (€ mn)	TP (€)	Total Return*	Rating	P/E '21e	P/E '22e	EV/EBITDA – P/TBV '21e	EV/EBITDA – P/TBV '22e
OPAP	4,633	15.00	20%	Buy	15.3x	11.8x	9.2x	7.6x
NBG	2,278	3.48	40%	Buy	3.9x	5.2x	0.43x	0.40x
Mytilineos	2,181	18.70	25%	Buy	12.7x	10.8x	7.9x	8.3x
PPC	2,252	14.80	52%	Buy	17.6x	8.8x	6.8x	6.1x

Source: Eurobank Equities Research. Prices as of 20th Sep 2021.

ASE General Index Price



Index Data

Reuters RIC	.ATG
Bloomberg Code	ASE Index
Closing Price (20/09)	892.13
52 Week High	929.26
52 Week Low	564.93
Performance (1m)	1.0%
Performance (YTD)	10.3%

Eurobank Equities Research

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See Appendix for Analyst Certification and important disclosures

** Total forecast return including dividend*

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Top picks summary

- **OPAP (Buy, PT €15.0)**

  The new gaming duty regime came into force in October 2020 and this envisages a low (5%) cash duty on OPAP's over-the-counter games for the next 10 years. With OPAP having made the first few such payments, the issue has finally come to the fore, with the resulting annual net cash flow boost relative to the previous regime being sizeable, in the c€200m area on our estimates (post COVID normalization), translating to c4-5% extra yield (€0.6 extra dividend per share). The recent Q2 results were indicative of the high cash flow generative capacity of the business model, especially post the entry into force of the new duty regime, with Q2 FCF amounting to €130m. With FCFE poised to range between >€300m and >€500m in 2021-23, we expect hefty shareholder returns in the future (10-12% yield). OPAP's scrip dividend program (until 2023) facilitates the continuation of a high-dividend policy, given that the main shareholder's participation in the reinvestment program will limit the actual cash outlay, while also paving the way for additional special dividends on an ad-hoc basis (as suggested by mgt at the recent call). The dividend reinvestment program also shortens Sazka's path to a 50% stake (currently 46.4%). Operationally, online seems to be at the forefront of mgt's agenda (>25% of revenue mix to stem from online post 2023) and will drive c9% CAGR in revenues and similar growth in EBITDA between 2022 and 2025.

- **Mytilineos (Buy, PT €18.70)**

  Mytilineos benefits from highly favourable aluminium prices (LME almost at c. 2,900 $/Ton currently, averaging at 2,360 $/Ton ytd; aluminium premium more than doubled ytd), which ensure strong profitability of the Metallurgy segment in 2021/2022 due to hedging. Performance is further underpinned by positive operating dynamics in other business units (increased wholesale prices in generation, positive prospects in RSD/SES in view of the European Green Deal). Meanwhile, the group is expanding its RES activities to >2 GW by 2023/2024e and c3GW in the long-term, which compares to operating capacity of 217 MW currently. On our numbers, new RES installations have scope to add c€180-215mn EBITDA p.a. after near-full deployment (in 2024e), leading to Group EBITDA CAGR of c12% over the next 5 years. Valuation-wise, Mytilineos is trading at < 8.5x 2022e EV/EBITDA (broadly at par with the blended peer group). We expect the stock to move higher in the valuation spectrum on account of strong aluminium prices and as the secular growth RES thesis plays out, considering that each 1 GW of incremental solar capacity (namely c€600-650m of invested capital) is worth > €800m in terms of EV, translating to an implied EV/IC ratio of 1.4x and an IRR in the high single-digits. Mgt has guided for double net income generation by 2022/2023 vs. 2020 (i.e. c. €260mn from c. €130mn in 2020), implying upside vs our current estimates.

- **PPC (Buy, PT €14.80)**

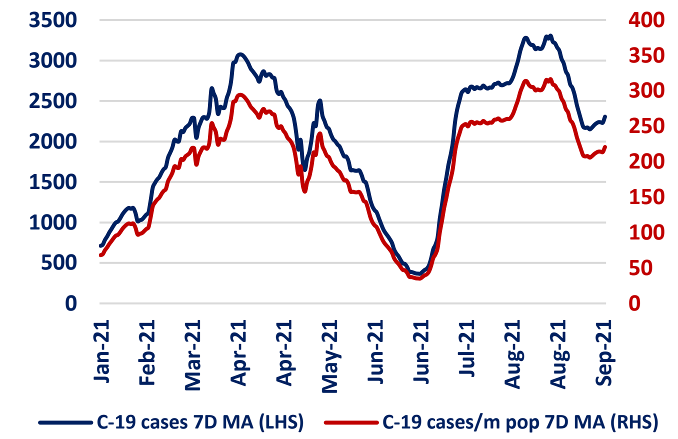
  PPC's adj. EBITDA capacity seems to have been rebased to c€0.9bn, notwithstanding increased input costs (gas input costs at multi-year highs, CO_2 near 60 €/Ton). Its 2nd transformation phase is underway, as manifested by portfolio restructuring and scaling-up of renewables. Indicatively, PPC aims for 1.4-1.5 GW of RES by 2023e, namely a 10-20% mkt share from < 3% currently. This translates to additional EBITDA of c€120mn upon full deployment (10-12% of group). The upcoming monetization of HEDNO – which fetched a binding offer of €1.3bn for the 49% equity stake to be disposed by PPC – will underpin PPC's deleveraging efforts, especially as the non-HEDNO business will see proforma leverage fall to <1x EBITDA. The transaction will also attach concrete value to almost 50% of PPC's EBITDA (HEDNO valued at 1.5x RAB and c9.9x 2021e EV/EBITDA), thereby making more obvious valuation discrepancy: at the current price levels, PPC's Generation/Supply business is valued at a mere <2.5x 2022e EV/EBITDA, quite punitive in our view. We expect the stock to move higher in the valuation spectrum to reflect: (a) the sale price of HEDNO; (b) a generation/supply value closer to that normally applied to EU peers' such units, i.e. 4-5x EV/EBITDA; and (c) secular growth as PPC expands its RES portfolio.

- **NBG (Buy, PT € 3.48)**

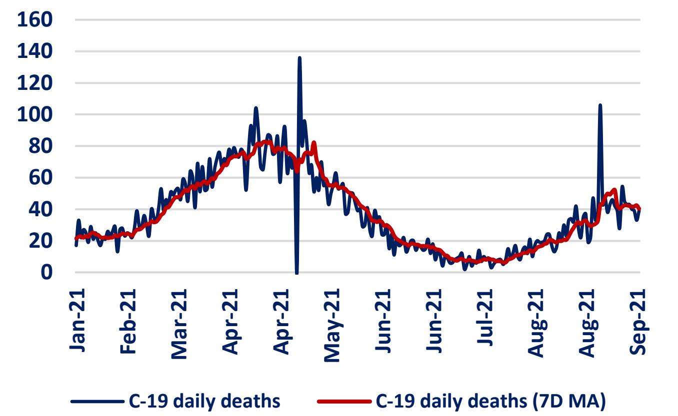
  National Bank is our preferred choice within the banking space, given its relatively stronger balance sheet as reflected in: i) lower NPE ratio (12.7% pf for Frontier vs 21.0% peers' avg), ii) higher coverage ratio (66.8% vs 52.0% peers avg), iii) best-in-class liquidity (L/D at 59% vs 75%) and iv) regulatory capital well above regulatory requirements (CAD ratio at 17.0% vs 11.0% SREP). The group is close to completing the balance sheet clean-up which will pave the way for strong earnings recovery upon deployment of excess capital and liquidity. Management's guidance calls for a 9% core RoE for next year, which – based on this year's trends – appears achievable, while maintaining a > 16% CET 1 ratio. We believe given these particularly strong characteristics the group's valuation is quite attractive, trading at c0.4x P/BV on 2022 estimates, leaving plenty of scope for upside upon achievement of the aforementioned targets.

Covid-19 trends

Number of COVID infections remain elevated

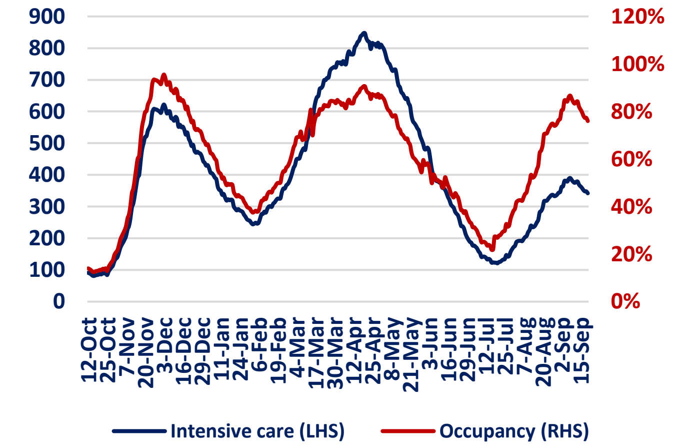


... but COVID death toll is lower than in the previous wave

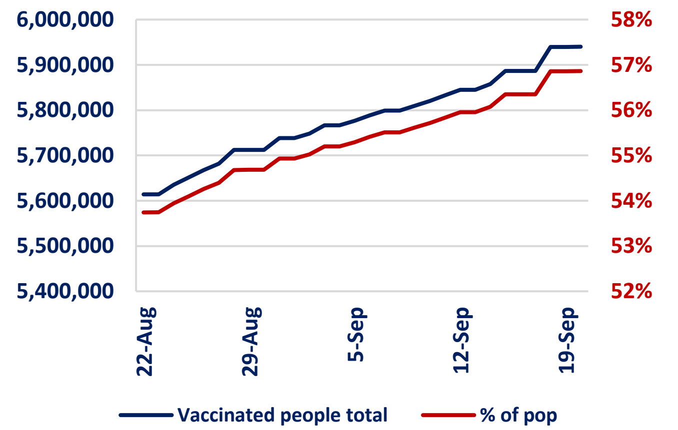


Source: Bloomberg, Eurobank Equities Research.

... although pressure on health system is elevated

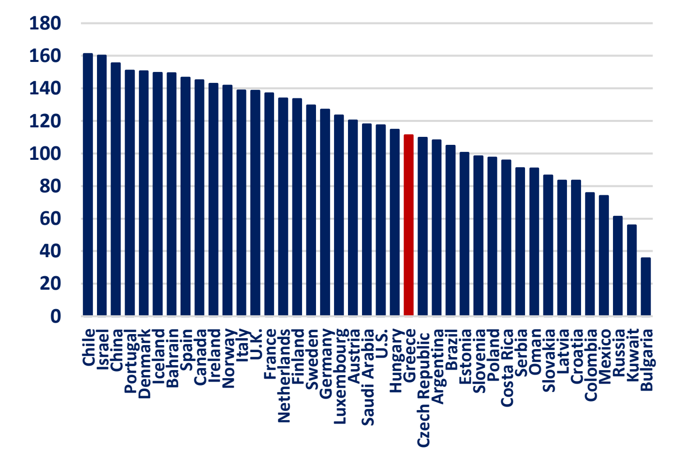


Vaccinations continue to ramp up, albeit slowly...

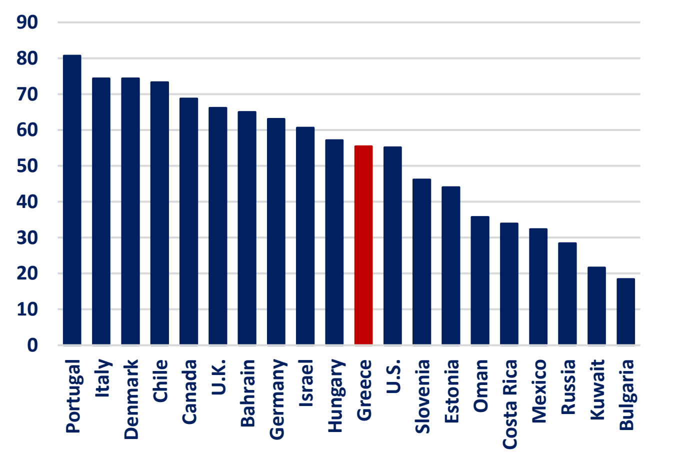


Source: Bloomberg, Eurobank Equities Research.

... while vaccinations as % of pop remain below the EU av.



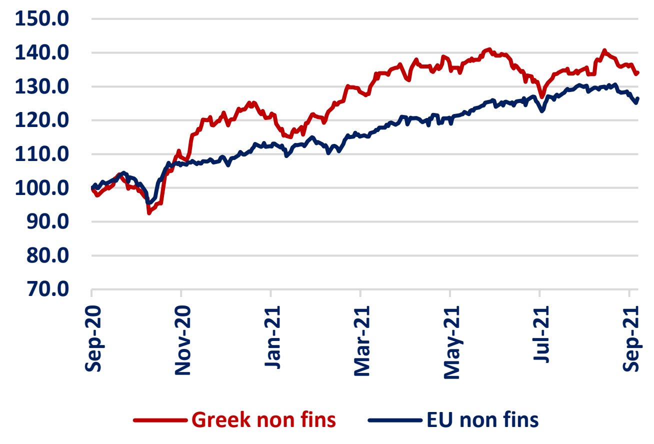
... as is the case for completed vaccinations as % of pop



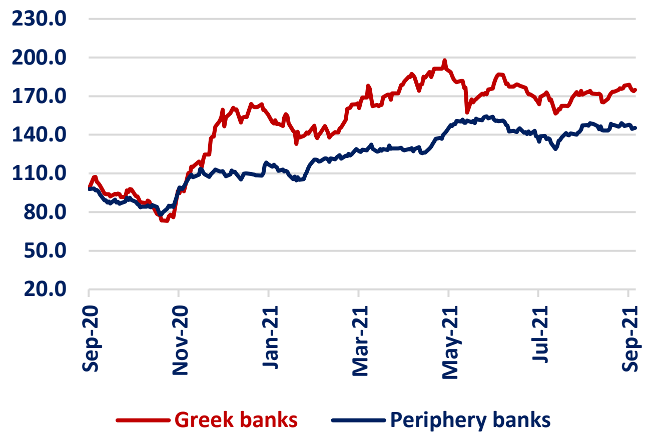
Source: Bloomberg, Eurobank Equities Research.

Performance and valuation

Momentum for non financials has stalled since May…

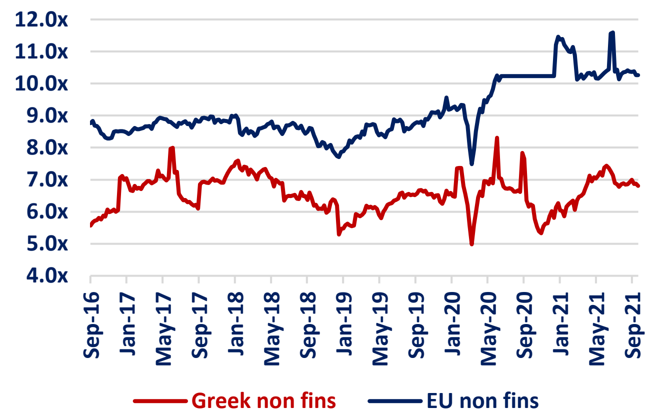


… and the same is the case for banks

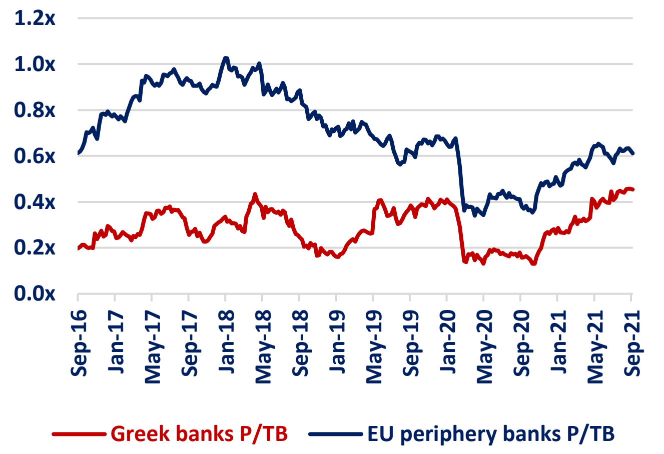


Source: Bloomberg, Eurobank Equities Research.

12m fwd EV/EBITDA: Greek non financials trading at >30% relative discount, vs a historic average of c20%

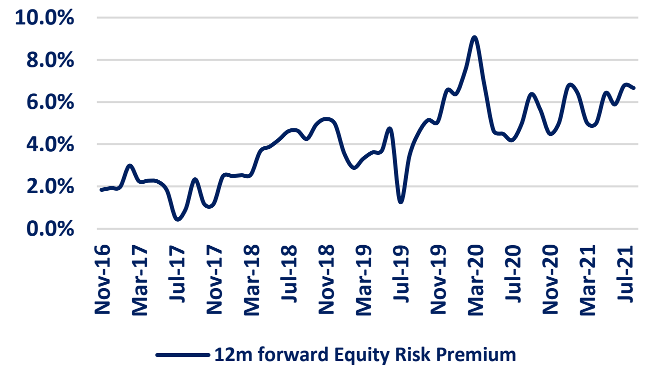


Greek banks also at significant discount vs their periphery peers

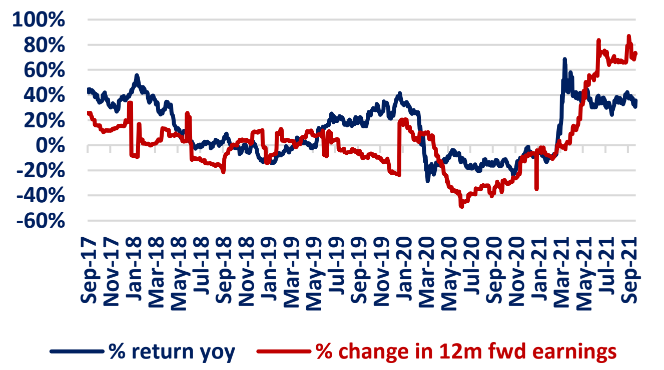


Source: Bloomberg, Eurobank Equities Research.

Equity risk premium embedded in non-financials remains high



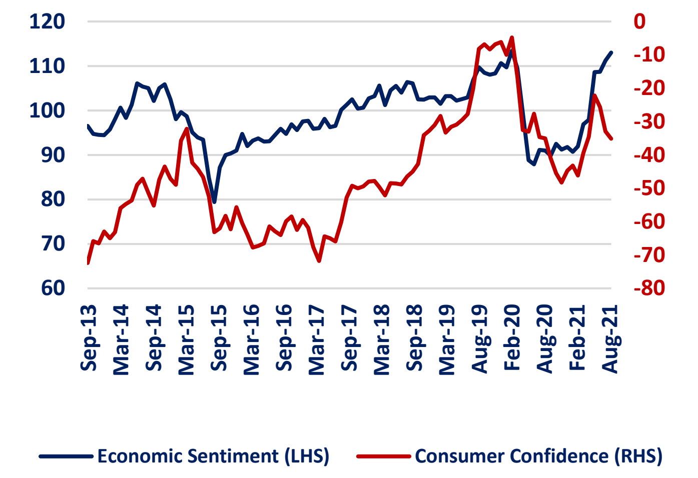
… as share prices have stalled and earnings momentum has strengthened



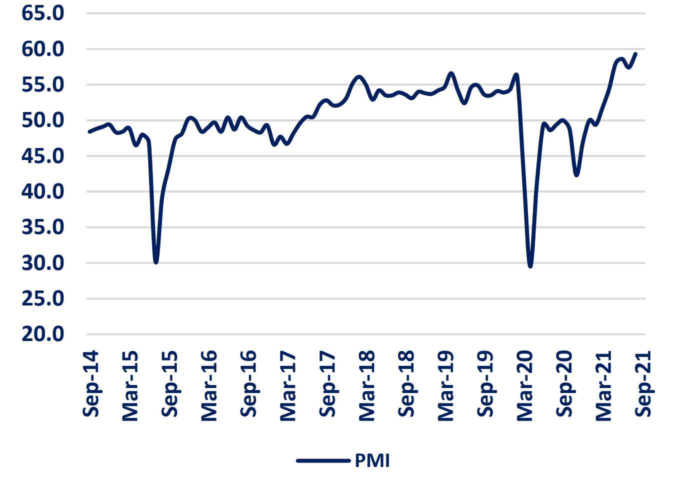
Source: Bloomberg, Eurobank Equities Research.

Macro and economic indicators

Economic sentiment has returned to pre-pandemic highs

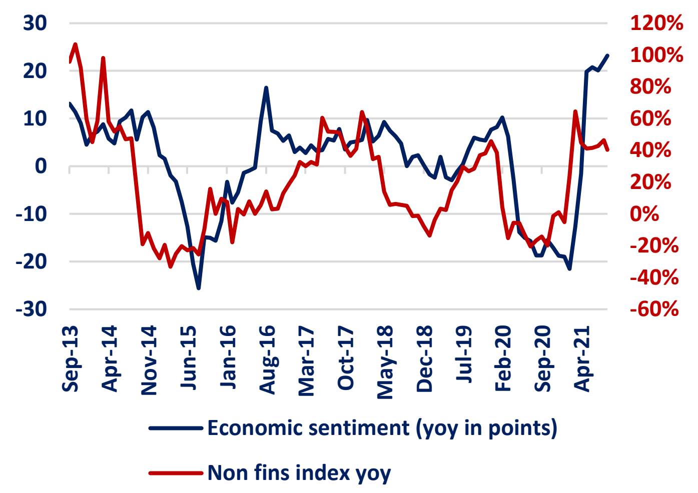


… while PMI is at multi-year highs

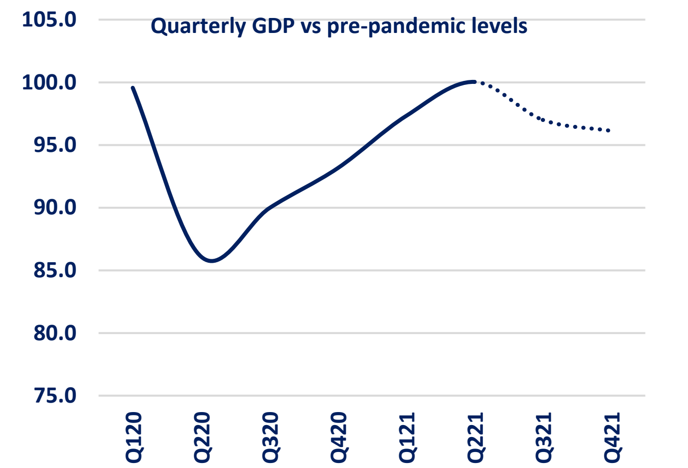


Source: Bloomberg, Eurobank Equities Research.

… but non-financials' performance has lagged the improvement in economic sentiment

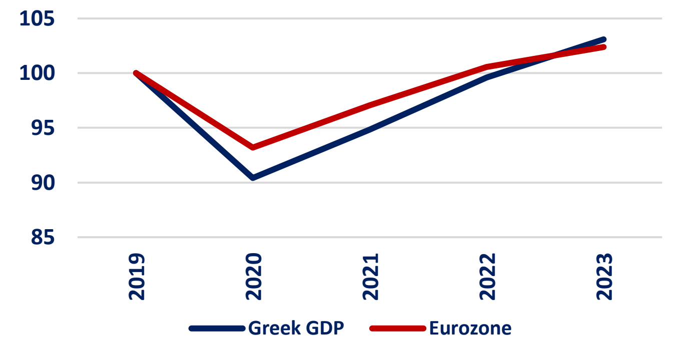


GDP has returned to pre-COVID levels, with consensus implying lower output in H2, thus leaving room for positive surprise

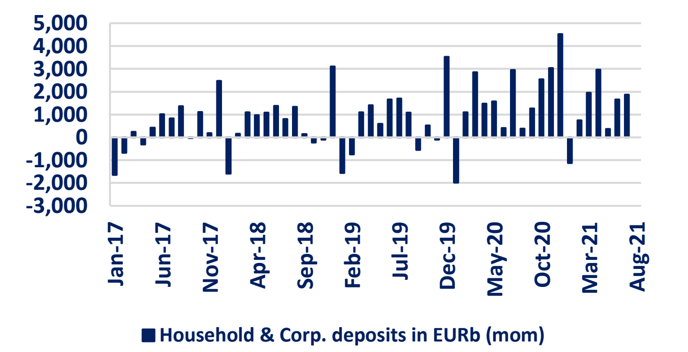


Source: Bloomberg, Eurobank Equities Research.

GDP on track for full recovery vs pre-COVID in 2022e



… underpinned by the €30bn of deposits amassed by h/holds and corporates since Feb 2020



Source: Bloomberg, Eurobank Equities Research.

Eurobank Equities

EU Recovery Fund | Front-loaded disbursements, c7pps annual boost to GDP by 2026

a) Brief overview

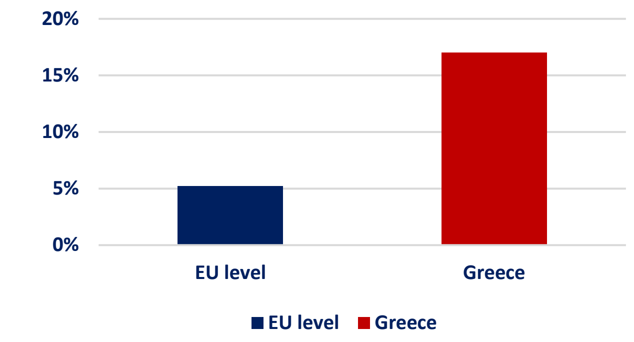
Greece among the main beneficiaries of the Recovery Fund...

The disbursement of EU funds in 2021 is key for Greece, as the country is poised to be one of the main beneficiaries of the Next Generation EU package. As a reminder, the latter (NGEU) is a wide-ranging package adopted as an answer to the temporary challenge induced by the epidemic. It is part of a broad set of policies aimed at safeguarding the economies from the coronavirus-induced crisis.

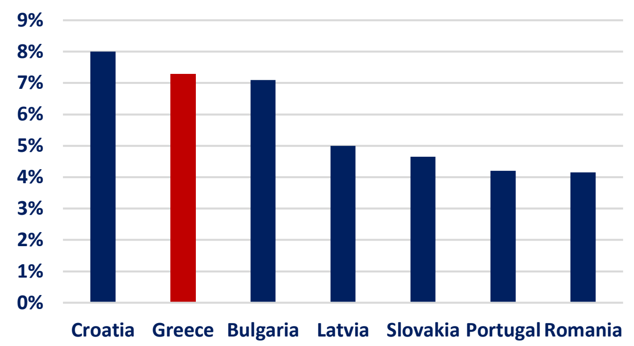
NGEU has earmarked €750bn, namely c5% of EU GDP. The bulk of this financial envelope (90%) relates to the firepower of the Recovery and Resilience Facility (RRF), with the remaining relating to other secondary schemes such as REACT-EU, Just Transition Fund, etc.

As shown below, the allocation for Greece corresponds to c17% of its GDP, namely a total of c€31bn over the period 2021-26. The latter comprises €18bn in grants and €13bn in loans and will be further topped up (by c€3bn) by the other secondary schemes.

Next Generation EU as % of 2019 GDP



First 2 year grants, as % of GDP (Recovery and Resilience Facility)



Source: EC, ING, Eurobank Equities Research.

Greece's national recovery and resilience plan (NRRP), branded as *"Greece 2.0"*, was submitted to the European Commission (EC) in end April 2021, with the EC endorsing the plan on 17th June 2021.

Greece National Recovery and Resilience Plan overview

EURbn	RRF Budget	Total amounts to be mobilized
Green transition	6.0	10.4
Digital Transformation	2.1	2.1
Employment, skills and social cohesion	5.2	5.3
Private investment and economic and institutional transformation	4.8	7.8
Total grants	**18.2**	**25.6**
Loans	12.7	31.8
Total budget	**30.9**	**57.5**
% of GDP (2019)	17%	31%

Source: Greek Finance Ministry, European Commission, Eurobank Equities Research

Following the final approval of the plan by the European Council in July, Greece received €4bn in pre-financing, namely 13% of the total allocated amount over the 6-year period. As far as future funding is concerned, the EC will *"authorise further disbursements based on the satisfactory fulfilment of the milestones and targets outlined in the Council Implementing Decision, reflecting progress on the implementation of the investments and reforms"*. On our understanding, the Greek govt is eyeing an additional c€4.1bn of disbursements in 2021 (on top of the €4bn advance funding), thereby hoping for a front-loaded take-up timeline.

We present below the need-to-know elements of "Greece 2.0" while running into some of the details of the plan in the next few pages.

Greece National Recovery and Resilience Plan – Need to Know

- €31bn RRF budget (17% of GDP)
- €57.5bn total amounts to be mobilized (31% of GDP)
- €4bn advance funding in July 2021, another €4bn targeted by the govt in H2'21
  --> c30% of RRF budget on year 1
- Green component totalling €11bn, lying at the core of RRF budget (37% of total)
- Digital component amounting to €7.4bn, c23% of the overall budget
- Mobilization of additional €26bn to take place through the crowding-in of private investment (equity and bank debt)
- Short-term GDP boost vs "steady state" level: 7pps in total
  - 4.3% boost to GDP by 2026 from RRF implementation
  - Extra 2.6% boost to GDP by 2026 from structural reforms
- Medium-term and long-term GDP boost: 6.6pps in total
  - c2.1% boost in the medium term and c0.6% in the long-term from RRF implementation
  - Further 5-6% sustainable boost from structural reforms
- Bullish scenario: extra 1.6pps boost by 2026 from digital push in public administration

Source: Greek Finance Ministry, European Commission, Eurobank Equities Research

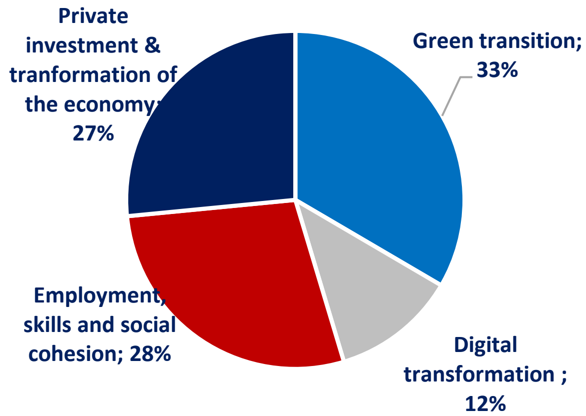
b) "Greece 2.0": The pillars

37% allocated to Green, 23% allocated to digital

The plan is structured around 4 pillars, with focus on core priorities in the EU, namely Green transition and digitization. Through the implementation of the plan the Greek government effectively aims at a paradigm shift via reforms and investments towards an extrovert, competitive, green and digital growth model. While there is clearly emphasis on green transition and digital transformation, in line with the RRF's key pillars, social cohesion and justice are also within the targets of the plan.

Overall, Greece's total allocation to measures that support climate objectives amounts to c37.5%, and is thus in sync with the EU's objective to secure green transition. The allocation to digital is smaller, at 23%, but well ahead of the minimum 20% required by the RRF regulation and far greater than the headline €2.1bn amount related to the Digital pillar might suggest.

Allocation of grants as per the government plan 'Greece 2.0'



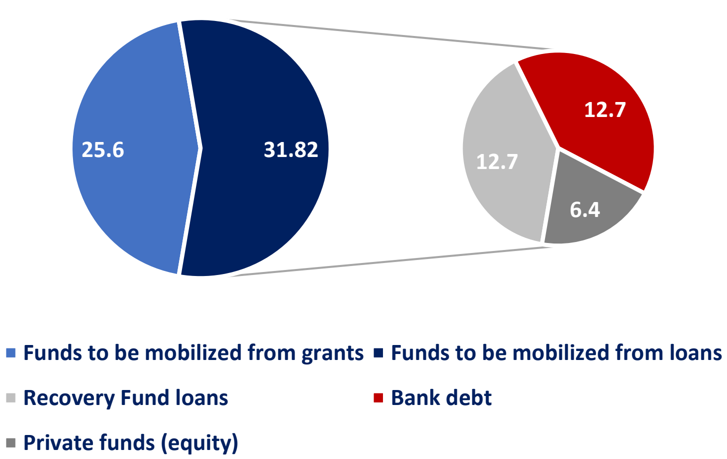
Source: primeminister.gr, Eurobank Equities Research

c) Total mobilization of resources to amount to €57.5bn

Although the RRF budget is €31bn, the Greek national plan envisages mobilizing far more significant total resources, namely €57.5bn. The way this will be done is through the use of co-financing that will leverage additional private resources in the implementation of eligible private investments. Effectively, the govt will use the banking system and private resources to scale up the recovery fund loans (and to a lesser extent the grants provided by RRF).

To exemplify this, the €12.7bn RRF loan component can be expanded by an additional c€19bn comprising €12.7bn bank debt and €6.4bn private funds (equity). In other words, the loan component would be used to crowd in private investment which would co-finance up to 60% of investment project budgets (40% bank debt, 20% private money).

Resources to be mobilized by the RRF exceed €57bn



Source: Eurobank Equities Research, Finance Ministry, Bank of Greece

d) End result: 6-7% long-term boost to GDP

With the total mobilized investment resources set to exceed €57bn, namely >30% of (pre COVID) GDP, it becomes apparent that the Recovery Fund is a unique opportunity for Greece to not only mitigate the economic and social impact of COVID but also to reshape its production model and to close the significant investment gap. Although market participants tend to focus more on the short-term economic boost from the Recovery Fund, the long-run effect is probably more important as it can be a game changer for the Greek economy.

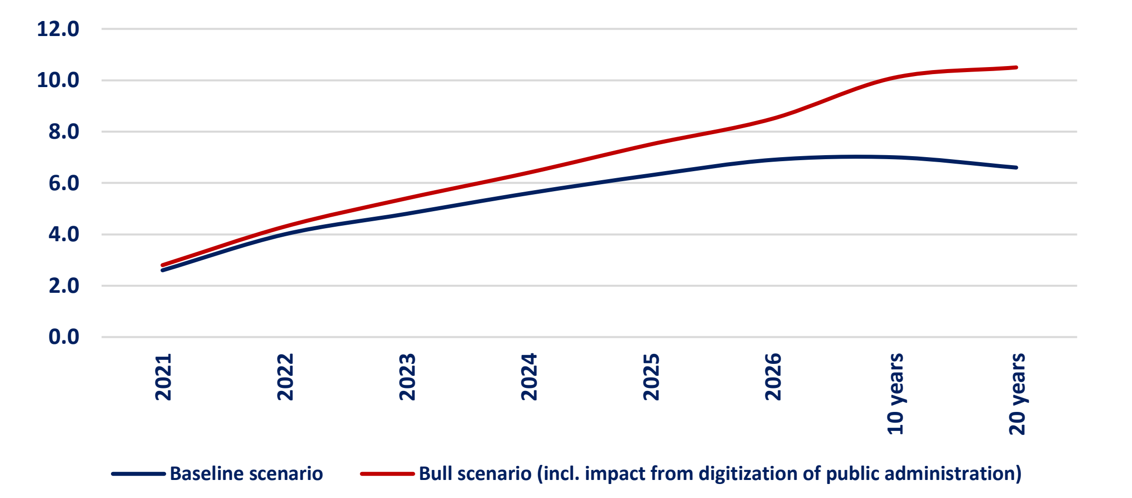
Indicative of this significant long-term opportunity is a recent study by the BoG. The latter **estimates a 4.3% boost to GDP by 2026 vs the "steady state" level.** Post 2026, when the flow of RRF funds will stop, GDP will gradually trend down towards the steady state, but some of the NRRP's projects will have a carry-over long-term effect thanks to the increase in the capital stock. **These are likely to be c2.1% in the medium term and c0.6% in the long-term.**

Further underpinning GDP growth will be **several structural reforms**, which are designed to drive permanent improvements in productivity, thereby leading to a reduction in production costs, increases in employment, improvements in Greece's competitive position and, as a result, an increase in exports. According to BoG, **structural reforms can boost GDP by 2.6pps by 2026**. Most importantly though, after their full implementation at the end of the RRF horizon, **their contribution to GDP growth will accelerate and reach 6pps in the long-run.**

Overall, BoG envisages **a c7% GDP boost from the Recovery Fund by 2026, which it argues can be sustained both in the medium and in the long-term (6.6%) thanks to the implementation of structural reforms.**

The BoG has also examined an alternative more bullish scenario whereby there will be further concrete **benefits from digitization of the public administration** and the resulting improvement of the allocation of resources in the production process. **The digital push in public administration would lift GDP by an additional 1.6pps by 2026 and 3-4pps in the medium and long-term respectively.** On that basis, under the BoG's more bullish scenario, the boost to GDP from the implementation of all reforms envisaged in "Greece 2.0" could reach 8.5ps relative to the "steady state" level by 2026 and >10% in the medium and long-term. In other words, the **cumulative boost to GDP through to 2026 would reach c30% under the BoG's baseline scenario** (35% under bull scenario) and c44% in the long run (55% under bull scenario).

% of GDP boost from Recovery Fund



Source: Bank of Greece, Eurobank Equities Research.

e) Milestones due in 2021

Following the initial disbursement related to the advanced funding (13% of total, €4bn in Greece's case), further disbursements will follow subject to member states meeting the agreed milestones and targets. Effectively, depending on progress made in the implementation of investments and reforms, Greece will be able to receive further installments.

Digging through the details of the milestones that are to be completed in 2021, we have seen that the bulk relates to legislative initiatives that need to be taken by the Greek govt. Most legislative milestones do not seem contentious to us, and, on that basis, we would not expect much resistance (political/social). Against this background, we reckon that Greece is indeed well-placed to secure further tranches from the RRF this year.

Indicatively, according to recent press reports on Kathimerini, the govt is eyeing an additional €4.1bn release from the Recovery Fund by the end of the year, on top of the €4bn advance funding already received. This is higher than the govt's initial plans (€3.5-3.8bn) and the application will be made in the coming weeks, after fulfillment of the relevant milestones. In other words, the govt seems keen to secure c30% of the total RRF budget on the first year. This front-loaded timeline of disbursements ought to significantly propel growth prospects for the next couple of years.

Milestones to be completed in 2021

Reform	Indicative timeline for Completion
Adoption of the energy poverty action plan	Q3 21
Entry into force of ministerial decisions regarding EV's market (charging services, tax-based incentives, installation of infrastructure)	Q3 21
Entry into force of a revised legislative framework for public urban and regional passenger transportation services	Q4 21
Legislation for recycling and landfilling	Q3 21
Publication of tender notice for the construction of 13 Regional Civil protection centres.	Q3 21
Entry into force of legislation related to the labour market (which shall modernise the law for individual labour, collective labour and the trade union law) and implementation of an IT monitoring system for the labour market.	Q3 21
Organizational reform of the Hellenic Manpower Employment Organisation (OAED)	Q3 21
Entry into force of the legislation regarding the clawback reduction in the healthcare sector.	Q3 21
Super-deduction for SME green and digital investments	Q4 21
Entry into force of amendment of the legal framework providing specific incentives for the enhancement of electronic transactions.	Q4 21
Tax codification deliverables (e.g. set up of relevant committees)	Q3 21
Draft legislation to encourage business extroversion (e.g. legal framework for tax, financial and licencing and incentives for M&A)	Q3 21
Identification of buildings not affected by the revision of the judicial map	Q3 21
Entry into force of a new law on the Hellenic Capital Market Commission, which will amend internal processes and organisation.	Q4 21
Roadmap for re-organization of state rail companies.	Q3 21
Entry into force of legislative amendments to reform the framework for attracting strategic investments (e.g. acceleration of licencing procedures)	Q4 21
Signing of operational agreements between the FinMin and international financial institutions in the context of the RRP loan facility.	Q3 21
Launch of call for the selection of commercial banks in the context of the RRP loan facility.	Q3 21
Entry into force of the mandate of the Financial Audit Committee to ensure monitoring of achievement of milestones and targets.	Q3 21
Source: EC, Eurobank Equities Research	

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Sell	0	0%	0	0%
Restricted	1	4%	0	0%
Under Review	2	8%	0	0%
Not Rated	4	15%	0	0%
Total	26	100%		

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