ERSTE GROUP

Hungary

Weekly Summary - 25 April 2012

BUX started to fly after the probability of IMF deal increased

EUR/HUF is the winner of the week

Declining trend continues in retail trade

AGMs and dividends

Magyar Telekom: Proposal for new telecom tax on consumer (downgrade from Hold to Reduce, new target price: HUF 500)

MOL: Robin Hood tax to double next year

EU gives green light to IMF/EU negotiations

The government announced details of the new Szell Kalman Plan

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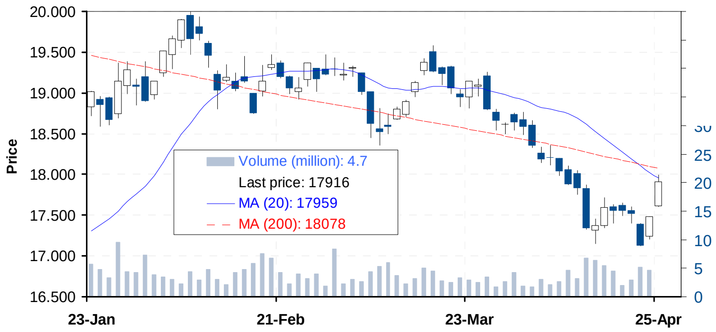
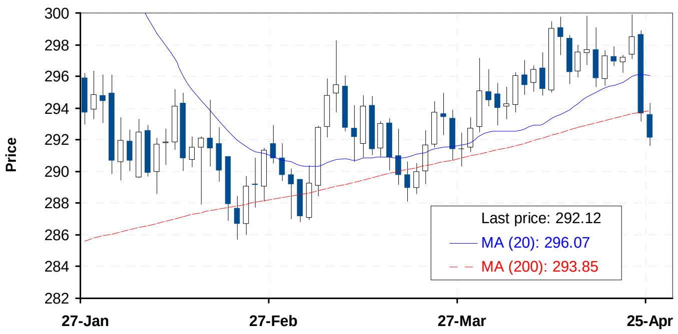
BUX (daily)



EURHUF (daily)



BUX started to fly after the probability of IMF deal increased

BUX relatively had a good performance which was helped by the positive newsflow on IMF deal on the afternoon of last Tuesday. Thanks to the gain on this news the BUX had a weekly decline of only 0.64%. At the same time Prague was the winner with 0.14% gain. The BET and WIG20 indices had declines by 1.12% and 4% respectively. The volume declined by some 30% on all exchanges in the CEE region except BET where an increase was visible.

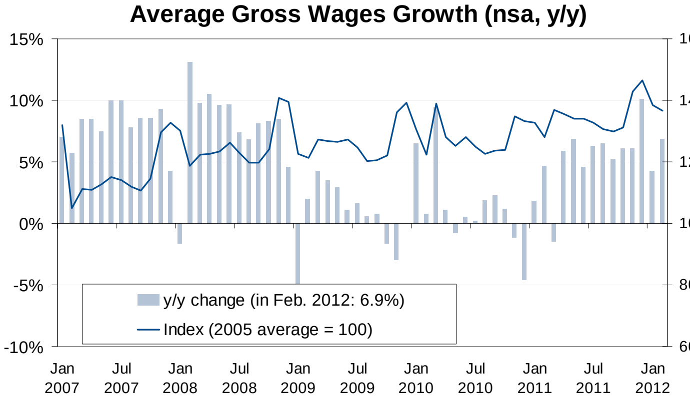
EUR/HUF is the winner of the week

Thanks to the agreement with EU on infringement processes and the possibility that IMF loan talks start soon, EUR/HUF depreciated by 0.75% and it went on Wednesday. EUR/CZK, EUR/PLN appreciated by 0.69% and 0.62% respectively, while EUR/RON almost stagnated (+0.06%).

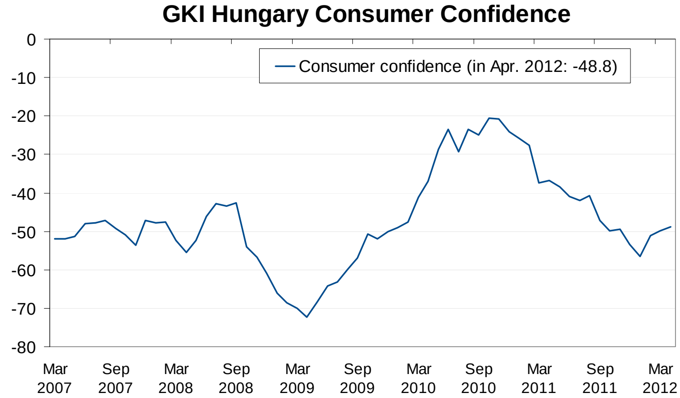
Declining trend continues in retail trade

Surprisingly retail trade for February declined by 1.4% yoy, while the market expected a 0.2% growth. The bad performance is due to the higher inflation (higher product prices) and decline in net salaries caused by the changes in the tax system. Gross wages increased in a limited manner of 6.9% yoy a bit above the CPI. Consumer confidence improved slightly to -48.8 in April from -49.9 in March. The NBH left the interest rate unchanged at 7% as market expected, but emphasized that IMF deal is needed for a possible rate cut, while the new convergence plan increases CPI. Therefore new macroeconomic path calculation is needed by the NBH. (The convergence plan was announced just one day before the NBH meeting.)

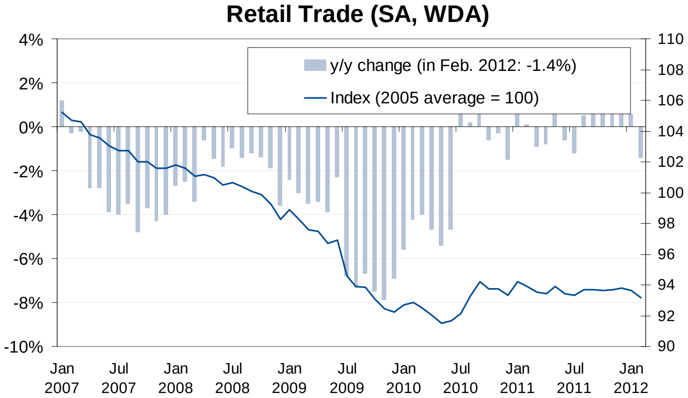
Average Gross Wages Growth (nsa, y/y)



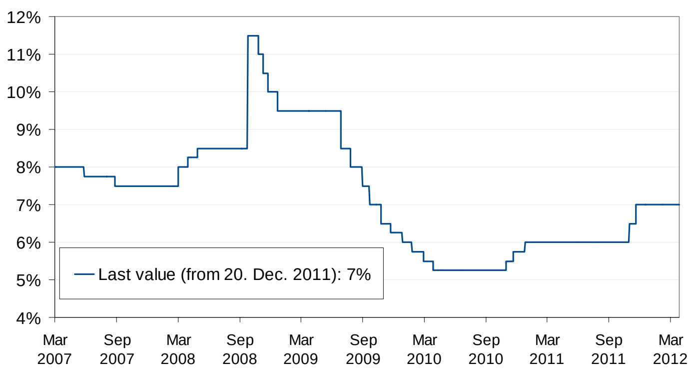
GKI Hungary Consumer Confidence



Retail Trade (SA, WDA)



NBH Base Rate



AGMs and dividends

Dividend payments

Company	Face value HUF	Share price	Dividend 2011		Div. yield 2011	Payment date	E-8 * last trade	E-7* ex-div	AGM
Állami Nyomda	98	524	**43**	A	8,2%	15-May-12	3-May-12	4-May-12	20-Apr-12
Danubius	1.000	2.800	**0**	A		-----------	----------	----------	16-Apr-12
E-Star	10	2.282	**0**	P		-----------	----------	----------	19-Apr-12
Egis	1.000	14.205	**120**	A	0,8%	2-May-12	18-Apr-12	19-Apr-12	25-Jan-12
FHB	100	537	**0**	P		-----------	----------	----------	25-Apr-12
Magyar Telekom	100	524	**50**	A	9,5%	15-May-12	3-May-12	4-May-12	16-Apr-12
MOL	1.000	16.905	**453**	P	2,7%	22-Jun-12	12-Jun-12	13-Jun-12	26-Apr-12
OTP	100	3.370	**100**	P	3,0%	11-Jun-12			27-Apr-12
PannErgy	20	630	**0**	P		-----------	----------	----------	27-Apr-12
Richter	1.000	37.000	**660**	P	1,8%				26-Apr-12

A: approved by AGM
P: proposed
C: market consensus

Source: company data, Bloomberg

Corporate News

Magyar Telekom: Proposal for new telecom tax on consumer (downgrade from Hold to Reduce, new target price: HUF 500)

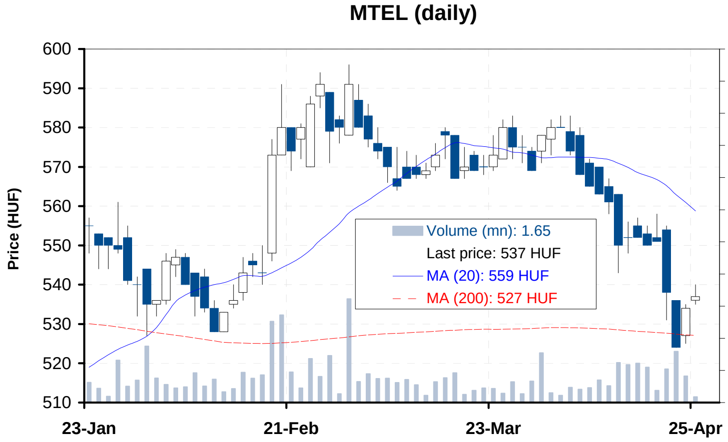
We downgrade Magyar Telekom from Hold to Reduce and lower our target price from HUF 580 to HUF 500. The reason for the downgrade is the proposal for new telecommunication taxes on consumers. The Hungarian government plans to replace the current telecom taxes (6.5% of telecom revenues), which are paid by telecom companies and will expire at the end of 2012, with a new telecom tax on consumers already from the middle of this year. This means that the state will charge both crisis tax and consumer tax during 2H12. The convergence programme does not expect significant changes in the tax system in 2014-2015. Therefore, we assume the telecommunication tax will stay until 2015.

The tax will be: HUF 2 per minute charge on all phone calls, and HUF 2 per SMS or MMS. It means some 10%+ increase on tariffs. As no tax will be introduced on internet - according to present announcements - I think every one will try to move to IP voice services. As the tax will be levied on consumers (rather than on telecom companies), it should not breach EU law. Overall, this is bad news for consumers (especially considering that VAT was already increased from 25% to 27% as of Jan. 1, 2012) and for MTel. We expect customers to churn faster and/or reduce their telecom usage, putting pressure on MTel's revenues. Some prices might need to be reduced, in order to lessen the impact on customers' bills. We therefore think it is best to sell the stock.
We lower our EPS 2013 by 11% to HUF 53.7. We include the new revenue target for energy resale of HUF 20bn in 2012, which should compensate for falling traditional telecom revenues and lead to our higher revenue estimates for 2012 onwards. Nevertheless, the EBITDA margin of the energy business is close to zero. Meanwhile, we expect the high-margin traditional telecom business to decline at an accelerated phase after the consumer tax. We also assume that MTel will subsidize its customer rather than pass the tax completely onto customers. We therefore lower our EBITDA 2013 estimate by 9%. We lower our dividend estimate for 2013 by 20% to HUF 40, as the net gearing would otherwise rise to more than the 40% threshold.

Short news on Magyar Telekom

- The fourth mobile provider held a press conference last week to detail its plans and introduce the company. The consortium of Hungarian Post (10%), Hungarian Electricity Works and Hungarian Development Bank (45% each) won the frequency tender, against which all current mobile providers appealed.

- The number of mobile subscribers decreased by 46,000 to 11.013mn in March. The loss mainly occurred at the second market player, Telenor. The market share of T-Mobile (the mobile arm of Magyar Telekom) increased to 45.32%, from the previous month's 45.25%, while Vodafone's market share stagnated at 22.88%.



MOL: Robin Hood tax to double next year
In the modified convergence program, the government increased the Robin Hood tax from the present 8% to 16%, while the crisis tax will be abolished. MOL paid a Robin Hood tax of HUF 4.9bn and HUF 1.5bn in 2010 and 2011, respectively (valid for the Hungarian operation). Therefore, the new tax has a negative surprise of some HUF 5bn per annum on the profit. The abolition of the crisis tax was expected, given the earlier communication. Although the net effect of the changes is positive, we believe that the market will only consider it a tax increase, as the abolition of the crisis tax was expected. In our rough calculation, the negative effect on MOL could be around HUF 100-500 per share, which was mainly priced in already.

Short news on MOL

- MOL announced that it will pay its dividend from June 22. The last trading day with dividend rights is June 12. The company will pay out HUF 45bn in dividends. Considering the treasury shares, this is approximately HUF 453 per share. The company will hold an AGM tomorrow to approve the dividend.

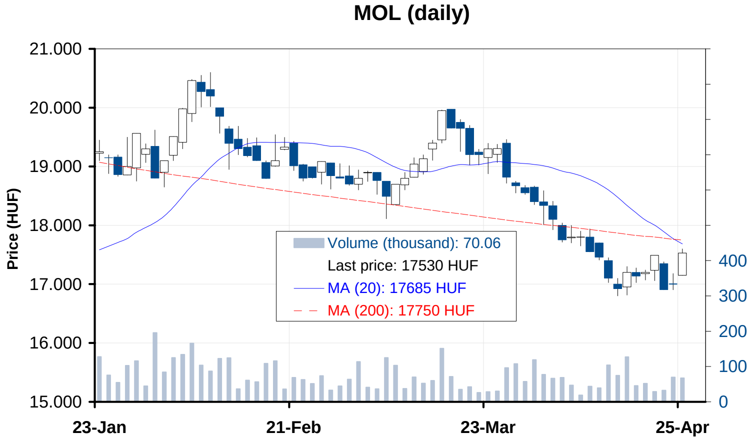
- MOL said that it will not support the budget plan of Nabucco for 2012. MOL has 16.67% in the limited liability company; therefore, the decision of other partners is also necessary, if there is no special shareholder agreement.

- Dana gas hired Blackstone (in addition to Deutsche Bank) as an advisor for helping to refinance the USD 1bn Islamic bond expiring in October. Dana Gas has a 3% stake in MOL; therefore, MOL shareholders worry from time to time that this stake might go to the market.

- Hungarian PM Orban met Gazprom Chairman Miller last week. They discussed the current status of the South Stream pipeline. They emphasized that the project is going according to plan.

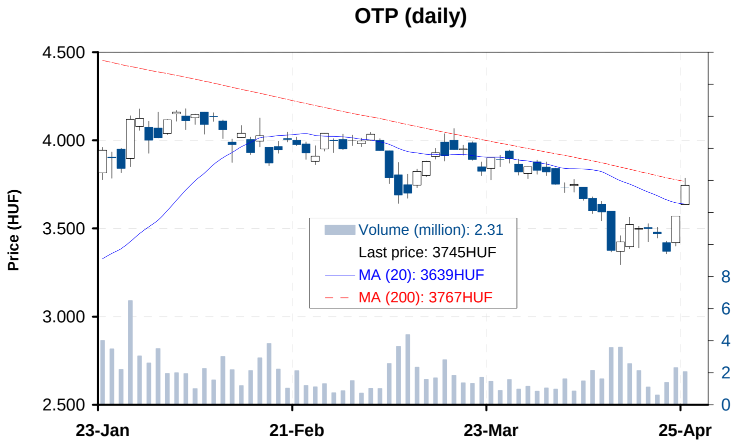
- According to an SB member of INA. Mr. Vandejic, MOL did not properly fulfill the development program at INA, which caused the market share to decline from 32% to 20% in the region (Bosnia, Serbia, Albania, Macedonia and Montenegro). The news is negative.

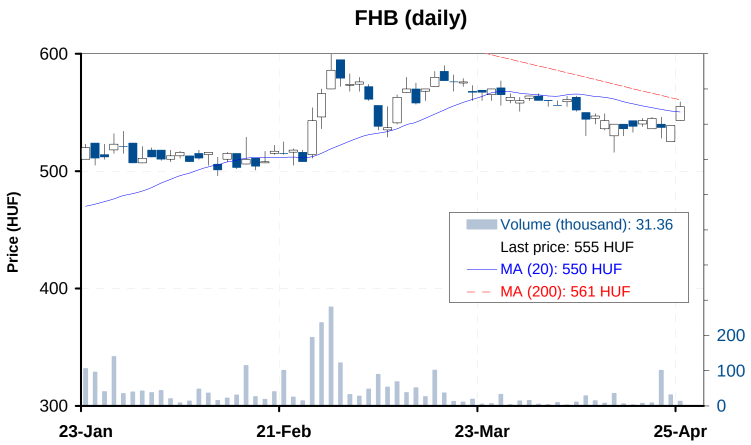
- Gulf Keystone had a successful test at the Shaikan field in Kurdistan. 24,000 bpd production was achieved in the Shaikan-4 well. Gulf Keystone's share price soared some 5% on the news. Translating this to MOL, the positive effect on the share price should be some HUF 150-200 per share.



Short news on OTP, FHB

- A financial transaction tax will be introduced on banking transactions (not the Tobin tax). This will mainly affect clients.
- FHB purchased back EUR 2.5mn and HUF 1.57bn bonds. The bonds will be cancelled.
- FHB is to hold its AGM today. No dividend payment expected.





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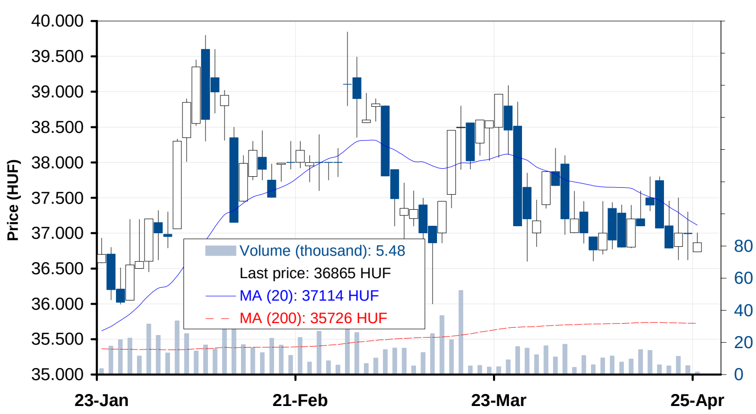
Short news on Richter, Egis

- The government intends to cut the drug subsidy budget further in the new convergence plan by HUF 10bn this year and an additional HUF 30bn from next year, beyond the earlier measurements of HUF 87bn and HUF 37bn respective cuts. It seems that in the new steps government will introduce some co-payments on the patients. Therefore the effect on pharma companies could be limited.

- Richter inaugurated its new biotech factory in Debrecen, Hungary. CEO Bogsch said that the CAPEX of the greenfield investment amounted to HUF 25bn.



Other companies

- **E-Star** held its AGM on April 19, but due to the lack of audited reports, a new AGM will be held soon.

- **E-Star** established a private equity firm, but did not announce details on it.

- The AGM of **Allami Nyomda** held on Friday approved the HUF 43 DPS proposed by management. Dividend payment starts May 15. The last trading day with dividend rights is May 3. The AGM also entitled the board to purchase shares up to 20% of the issued capital until October 20, 2013.

- **PannErgy** continued purchasing its treasury shares:
  - 3,000 pieces at an average price of HUF 629 on April 20.
  - 8,800 pieces at an average price of HUF 628 on April 23.

  The company holds 3,165,783 pieces (15.04%) after the transactions.

Economic News

- EU gives green light to IMF/EU negotiations. EC said today that it decided not to refer the central bank dispute to the European Court, while it will refer the other two issues (data protection, and retirement age of judges) to the court. This was also indicated by Olli Rehn yesterday. Mr. Orban met Mr. Barroso yesterday. EU will form opinion on the modified convergence program only by the end of May.

- The government announced details of the convergence plan (new Szell Kalman Plan) to reduce the fiscal deficit. To achieve the HUF 150bn measurement on budget (0.5% of GDP) means introducing new taxes. The HUF 115bn is cut (74%) and HUF 40bn is income increase of the HUF 155bn improvement of the budget in 2012. (Cuts on: drug budget cut, improvement of local municipalities by HUF 60bn, HUF 45bn decrease of central budget). Some HUF 230bn is budget cut (38%) out of the HUF 600bn improvement plan of the budget in 2013.

  - The tax on energy service companies (Robin Hood tax) will increase from the current 8% to 16% from 2013. (It is calculated on pre-tax result of Hungarian operation.) The government expects HUF 55bn additional income on it.
  - The recently announced new telecom tax will be introduced already in the middle of this year. The government expects HUF 30bn income on it in this year and some HUF 52bn from the next year).
  - Further cuts in the drug subsidy system.
  - On financial transaction tax government expects some HUF 130-220bn income. Its effect is hard to estimate at the moment, but it is inline with earlier communication.

  Overall the budget improvement plan is welcomed. The problem is that, again, the bigger part is tax increase, while the smaller part is real cut, with some uncertainty. Overall we do not expect major effect on share prices now, on the news. The question whether EC will like this plan as it is part of the new, actualized convergence plan sent to EU last week.

- State secretary of Economic Ministry Csefalvay told Reuters last week that economic growth could be lower than earlier expected, and may only reach 0-0.5% this year. The budget calculated with a 0.5% growth rate.

- IMF decreased the potential growth rate of Hungary to 2% from the earlier 3% in its latest report. IMF sees recovery in the world economy in the second half of this year.

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