

INVESTMENT OPPORTUNITIES IN GREECE

1. Distress Investment Opportunities

Many investment opportunities exist in a distressed economy like Greece. Five years of recession with the GDP declining, private consumption collapsing and liquidity evaporating have created a highly differentiated corporate structure.

- (a) Companies targeting the domestic market have suffered the most: residential construction and public work contractors, car representatives and dealerships, retail outlets, media corporations, advertising companies have been hugely affected.
- (b) Companies that have been highly geared before the eruption of the crisis have been unable to refinance loans even in sectors targeting foreign markets: hotels, manufacturing companies that have undertaken investments towards the end of the boom.
- (c) Companies which are export oriented mainly in food/drinks/plastics have withstood the crisis better and are growing as labor market reforms have led to a drastic reduction of their cost base.

Since the beginning of the crisis banks have abruptly reduced lending and their activities limited to re-financing existing loans so that large clients remain technically solvent. The PSI in 2012 has been another turning point with all systemic banks becoming insolvent and in urgent need of recapitalization. Bank managements preoccupied with their own survival have to a large extent failed to restructure their loan portfolios.

The Blackrock survey of the banking system has identified the shortfall in capital required due to the level of non-performing loans and the impact of PSI. According to the Report on the Recapitalization and Restructuring of the Greek Banking Sector December 2012, the resulting capital needs for all Greek commercial banks were estimated in May 2012 at €40.5 billion, of which the €27.5 billion corresponded to the four "core banks". The Bank of Greece considers that, under reasonable levels of economic uncertainty, the amount of €50 billion earmarked in the Economic Adjustment Program is appropriate to cover the Greek banking sector's recapitalization and

restructuring costs, including a capital buffer of 5 billion to cover emergencies.

Several large companies in distress have filed for protection under article 99 while others went bankrupt. In total 640 companies have filed for protection in the 13 months November 2011 to December 2012.

Values have plummeted with the Athens Stock Exchange market capitalization collapsing from 83.5 billion euro in 2009 to 33.8 billion in 2012 or by 60%.

There is a lot of scope in getting involved in distress financing and opportunities exist. Banks have in their portfolios a huge number of non-performing loans. It is estimated that 55 billion of loans are non-performing and another 35 billion euro in delay. There are cases of companies that their only structural problem is over-indebtedness while they have innovative products or services to offer.

When the banks are re-capitalized they will be able to restructure the loans of corporate clients. That process will probably start in the third quarter of 2013. In any case banks loans departments are key contacts for the mapping of the distress market and the identification of opportunities.

However, business culture and shareholder structure peculiarities make the exercise extremely difficult and a lot of resources will be required in order to carry out due diligence and cover for litigation related risks.

2. Emerging sectors Investment opportunities

The ongoing crisis has unearthed the potential of several sub-sectors and activities that are crisis resistant and have good prospects for growth. A 2010 McKinsey study for Greece¹ has identified several emerging sectors with considerable potential for growth: manufacturing of generic drugs, health tourism, aquaculture, logistics, waste management, specialized food, etc. In these sectors existing companies have a head start and may be considered

¹ Mc Kinsey (2010) Greece: Ten Years Ahead.
http://www.mckinsey.com/locations/athens/GreeceExecutiveSummary_new/pdfs/Executive_summary_English.pdf

investment opportunities. A small number of about 30 SMEs are already active and require equity injection in order to grow. The existing aquaculture companies represent a special case. They are over-indebted and the sector is characterized by intense competition therefore the only way forward is consolidation.

3. Privatization opportunities

A distress state like the HR is under pressure to sell assets. The hugely overoptimistic privatization program of 2011 has been cut down but there are considerable opportunities which require careful consideration. Some assets are in distress and for the first time the HRADF is considering to start liquidation procedures as they are unable to dispose them as a going concern. However, the majority of the remaining assets have some potential especially in utilities (electricity, water) and infrastructure (Athens International Airport, Regional Airports). Finally, the state disposes a large number of real estate assets some of them could be considered as prime for either residential (second homes for Europeans) or tourist developments.

A number of distress funds are already active in Greece. Furthermore, other funds are investing in privatizations (Third Point has submitted on the 17th of April an offer for OPAP S.A.) and others have formed dedicated funds for Greece trying to invest in growing sectors and companies.