Eurofin
Lateral Thinking

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Greece

EUROFIN GROUP

This Newsletter is the official newsletter published by Eurofin Group on a monthly basis. The purpose of the Newsletter is to provide an up-to-date summary and insight on current developments in both the private and public sectors in Greece and to highlight potential opportunities. The intended audience of the Newsletter is our clients, prospective investors and market participants all over the world.

The Eurofin Group is an investment banking boutique founded in 1984. With offices established in London, Athens and Singapore, Eurofin offers financial advisory services and assistance to corporates and individuals conducting business or considering investments in a number of different industries and countries.

Although the main focus of the Group has been the shipping industry, over the years, Eurofin has also been active in other sectors such as Real Estate, Energy, Telecoms and Tourism among others.

Having established and operated our Athens office for over 25 years, we have been witnessing, monitoring and analysing the developments in Greece. During the recent years nonetheless, where the country has been in the forefront of global news for all the wrong reasons, we have kept a close watch on these developments, in an effort to share our observations with our audience.

NATIONAL ECONOMY NEWS AND TRENDS

- The latest data on consumption and exports point to the fact that the Greek economy has not yet developed the necessary momentum to break the recessionary cycle, despite government projections for an economic rebound in the second half of the year. According to Hellenic Statistical Authority (ELSTAT) figures released recently, retail commerce turnover posted an annual decline of 5.2% in June, while the months of July and August were also disappointing as the summer sales were unable to reverse the downward trend.
- Greece’s current account surplus shrank in July compared to the same month a year earlier, due to an increased trade deficit as a result of higher imports and a lower services surplus, according to the Bank of Greece (BoG).
- The dramatic drop in state spending and the positive course of revenues kept the primary budget surplus above its target in August, according to data published by the Finance Ministry.
- BoG is expecting a higher-than-anticipated primary budget surplus for this year and insists on the need for a reduction to future targets, while an ECB official refuted a Reuters report suggesting Frankfurt was in favour of a target reduction.
- The pace of state debt repayment was particularly slow in July, as the Finance Ministry reported that, although it has approved the disbursement of €1.6 billion to various state entities to pay off their expired debts to their suppliers, those entities were paid no more than just €440 million.
- Greece’s headline Consumer Price Index fell by 0.9% y-o-y in August, with the annual pace of deflation picking up from -1.0% in July, according to statistics service data. This was the 42nd consecutive month of CPI decline.
- A survey by Nielsen has found that the vast majority of Greeks are particularly pessimistic, as 82% of respondents said that Greece will remain in economic recession next year. The finding concerns the second quarter of the year and is 2% above the rate recorded in the first quarter (80%).
- Fitch Ratings announced on 2 September that it has affirmed Greece's Long-Term Foreign and Local-Currency Issuer Default Ratings (IDRs) at 'CCC'. According to Fitch, the issue ratings on Greece's long-term senior unsecured bonds have also been affirmed at 'CCC', while the short-term foreign and local currency IDRs and the rating on Greece's short-term debt have all been affirmed at 'C', and the country ceiling at 'B-'.
- Despite the positive course of its revenues, the deficit of the country’s biggest social security fund, the Social Security Foundation (IKA), which is likely to form the backbone of the planned National Social Security Entity (EFKA), is expected to reach €2.1 billion.
- The only member-state of the OECD to raise its corporate tax rate last year was Greece, while the general trend around the world has been for lower taxation to promote growth.
- The capital controls have forced a considerable portion of the underground economy out into the open and with an increased use of plastic money, contributing significantly to an increase in tax revenues, which in the January-August period exceeded their target by €364 million.
- Taxpayers’ expired debts to the state for this year increased by €1.3 billion on August, taking the total of old and new debts to the tax authorities and social security funds to €91.5 billion, or more than half of the country’s GDP.
- Greece’s annual VAT losses are roughly equal to the latest package of €5.4 billion of austerity measures, according to European Commission data on VAT deficit across EU, which adds up to €159 billion per year.
- Greece’s official jobless rate posted another marginal decline in June, while ELSTAT revised upward the May figure. The seasonally adjusted unemployment rate came to 23.4% in June, from 23.6% in May (up from a previous estimate of 23.5%), and from 24.9% in June 2015.

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FINANCIAL MARKETS NEWS

- BoG findings from its probe of Attica Bank include at least 30 serious discrepancies. The report, submitted to Parliament, identifies significant shortfalls in the lenders' administrative and business operation, in risk management, in the operation of its IT systems and in its recapitalization. Attica Bank was granting loans which, in their majority, became NPLs, despite instructions to the opposite effect by the BoG, at a time when its deposits were shrinking, according to the inspection conducted jointly by the BoG and the ECB's Single Supervisory Mechanism (SSM).
- Bank bailout fund HFSF is proposing a mix of "Mediterranean" methods for the streamlining of over-indebted enterprises, with compulsory debt/equity swaps and the expulsion of shareholders, in order to tackle the mounting problem of about €100 billion NPLs.
- Greek bank deposits rose in August after a drop in the previous month but remain at levels last seen 13 years ago, keeping banks hooked on central bank funding, according to the country's central bank data. Business and household deposits rose by €1.3 billion, or 1.07% m-o-m, to €123.9 billion, their lowest level since November 2003.
- Revenues such as credit and debit card fees & commissions and charges from remittances abroad during the capital controls have significantly bolstered the takings of the banking sector in the first half of this year.
- Total credit in Greece's banking system contracted by 1.7 % y-o-y in July after a 2.5% decline in the previous month, according to BoG data. Credit extended to the government fell by 2.3% after decreasing by 5.7% in June, the BoG said, while lending to businesses and households declined by 1.6% after a 2.0% drop in June.
- The European Investment Bank (EIB) said it had signed a deal to provide Greek lender Eurobank a €40 million credit line to support SME business lending and help the economy's recovery.
- The ECB lowered the cap on emergency liquidity assistance (ELA) Greek banks draw by €0.9 billion to €51.9 billion, according to BoG. The move reflected improving liquidity conditions in Greek banks and the stabilization of private sector deposit flows.
- Greece's non-performing exposures (NPEs), which include loans past due more than 90 days (NPLs) and restructured credit likely to turn bad, have reached some €116 billion, more than half of Greece's GDP.
- Moody's, in its credit outlook published recently, said it considers the decline in Greek banks' NPLs formation and the banks' reduced cost base in Q2 2016 as credit positive, although loan-loss provisions continue to consume a large part of their pre-provision income. As per the rating agency, in Q2 2016, the banks' accumulated NPLs decreased by around €375m, with only Alpha Bank reporting a positive (but still decelerated) NPL formation of €110m.
- NBG has launched a recruitment process for the post of chairman of the board and non-executive board members. The bank has appointed executive search company EgonZehnder, while the deadline for the submission of an expression of interest was September 25.
- Greece's 4 systemic banks increased their provisions for NPLs by a total of €1 billion during the second quarter of the year, despite the first indications of an improvement in the situation in relation to bad loans.
- Greece's largest lender Piraeus Bank turned profitable in the second quarter, helped by lower provisions for impaired loans, while rival Alpha Bank widened its losses on higher bad credit charges. Piraeus, reported a net profit of €20 million after a net loss of €37 million in the first quarter.

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BUSINESS NEWS

- The deteriorating circumstances of the Marinopoulos supermarket group triggered a chain reaction in the market this summer, soaring the total amount of bounced checks to €215.4 million in August. The rise is substantial compared with August 2014 of just €24.1 million or €37.3 million in August 2013.
- Hellenic supermarket chain Sklavenitis will acquire the Marinopoulos chain and most of its debts to banks and to suppliers, according to the agreement signed by Marinopoulos, buyer Sklavenitis and the creditor banks, providing for a 50% write-off of debts to suppliers, with the other 50% to be paid out over the next 60 days.
- Aegean Airlines swung to a loss in the first half of 2016 due to weak demand at home and a VAT increase, reporting a net loss of €23.7 million versus a profit of €14.8 million in the same period last year.
- International passenger traffic through Athens International Airport posted an increase of 9.6% y-o-y last month, according official figures, while domestic arrivals rose by 10.8%.
- A new round of restructuring is under way in the Greek coastal shipping industry, with its catalyst being the tender by Piraeus Bank for the sale of a 40.44% stake in Hellenic Seaways (HSW) that belongs to the lender's portfolio. Given the buying interest from Italian group Grimaldi, which already controls 48% of HSW and more

than 94% of Minoan Lines, it appears that the future in the Aegean and Adriatic seas may have two instead of four major players; currently Attica Group (which owns Blue Star and Superfast Ferries), Minoan, HSW and ANEK, and eventually Attica Group in a joint project with ANEK for the Adriatic sea & Crete and the Grimaldi Group with Minoan & HSW.

- Container traffic overseen by COSCO in the port of Piraeus continues to break one record after another, consolidating its position as the main pillar of the Chinese group's overseas activity. The latest official data showed that the 2 terminals handled a total of 329,600 containers in August, up 32.3% from the same month in 2015, with the company planning to ramp up container volume by 35% by 2018.
- The liquidation of personal life insurance policies reached a record-high level of €260 million in the first quarter of the year, according to the Hellenic Association of Insurance Companies (EAEE). This compares with a total of €815.5 million in early liquidations for 2015 as a whole, or an average of less than €204 million per quarter.
- The Economy and Development Ministry is promising that entrepreneurs will be able to set up a company from their laptop at home or at the office in the not-too-distant future, according to a bill it has put up for public consultation until October 5. The electronic One-Stop Shop (e-OSS) will considerably reduce the time and the costs required to set up a business today, although it will not apply before the spring of 2017, as dictated by the ministry's timetable.
- Cypriot company Hellenic Water is in advanced talks with Pepsico-Ivi for the acquisition of the latter's water bottling plant at Loutraki, near Corinth. The local subsidiary of Pepsico is also in talks with a company outside the food and drink sector for the sale of its installations – offices and warehouses – at Koropi, east of Athens.
- The turnover of retail SMEs in Greece has been shrinking at an annual rate of 5% since 2013, while the number of shutdowns in the period from 2008 to 2013 reached 30,000. This translates into a 16% total reduction in shops, climbing to 28% in Attica, as shown by a recent NBG report on the domestic retail sector.
- Seeing the growing global demand not only for underground and underwater cables but also for natural gas pipelines, Viohalco is moving ahead with the absorption of its two listed subsidiaries Hellenic Cables and Corinth Pipeworks.
- Greece has seen its competitiveness drop 5 places to 86th in a list of 138 countries, according to the Global Competitiveness Report 2016-17 released by the World Economic Forum (WEF).
- Greek exports remained mired in stagnation in July, leading to a decline in the first 7 months of the year, while the country's trade deficit soared, according to data published by ELSTAT. The decline in the January-July period may be only 0.9%,yet is particularly significant as exports contained the slide of the Greek economy during the first years of the financial crisis and this is the first time that the sector is showing signs of exhaustion.

Real Estate

- A second auction of the Athens Ledra Hotel, a former member of the Ledra Marriot chain, failed to attract bidders recently. The hotel's starting price was €47.8 million, unaltered from the first auction held in July.
- Building activity retreated by 13% y-o-y over the trailing 12 months in June, whereas volume rose by 16.6% y-o-y over the same period.
- A recent survey of residential property markets in 17 European countries by Statista researchers has found that Greece is fifth in terms of how big a property one could buy with €200,000; one could expect to find a newly built three-bedroom apartment of about 120 sq.m. at that price.
- BoG data has shown that investment in the construction of new houses in Greece contracted by 95% from 2007 to the end of June, while the drop in private construction activity from 2005 to end-June came to 93% based on surface area.
- House prices in Athens and Thessaloniki have shrunk by 45% since 2008, and across Greece by 41.5%.
- The phenomenon of appropriating state land is huge in Greece, according to figures submitted in Parliament by Alternate Finance Minister Tryfon Alexiadis. Even local authorities have been found to have usurped state land, while in Attica alone 8 out of 10 state properties have been breached by private parties.

Tourism

- Online rates for Athens hotels showed a slight decline on September compared to last year, according to data processed by travel booking website Trivago. The average online rate for a twin room in the Greek capital this month is down 2.7% on last year at €108 per night.
- The impact of Paros's new airport on the island's tourism has been impressive, with Olympic Air reporting a three-fold increase in the number of passengers to the Cycladic island y-o-y, from 6,159 in August 2015 to 18,725 in August 2016.
- Greece's failure in dealing with the challenge of the migrant and refugee crisis constitutes the biggest threat to the country's tourism. The president of the Association of Hellenic Tourism Enterprises (SETE), Andreas

Andreadis, believes that the decision to distribute migrant processing centres, or hot spots, across the country without first considering the peculiarities of tourism demand is a grave mistake.

- Despite the recovery of the number of visitors to Greece from the Russian tourism market, this year's figures remain a far cry from the all-time records of 2013, with 1.35 million arrivals and revenues of €1.34 billion.
- According to SETE, there is a clear risk that despite the increase in tourist arrivals the industry's revenues for the year as a whole will be considerably below expectations, The January-July figures announced recently by BoG show a 5% decline (or €346 million) in the year's first 7 months compared to the same period last year, while July alone posted a 3% annual drop (or €104 million). Travel receipts for the period reached € 6.8 billion.
- Following the y-o-y drop in travel receipts over the first 7 months of 2016 and the expected decline of 25% in hotel enterprises' net results, there are ominous signs for the industry next year.
- Foreign visitors' spending per trip to Greece posted an annual decline of 6.3% in the first 7 months of the year, and a remarkable 8.9% in July, according to figures released by BoG. In the year to end-July, visitors from abroad spent an average of €542 per trip, while in July they spent €598 per trip.

Energy

- The implementation of the prior actions required by Greece's creditors for the release of the next bailout sub-tranche will lead to electricity bills rising by 4 to 5%. The rate's rises stem from the adjustment of the levy for renewable energy sources, aimed at eliminating the deficit of the Renewable Energy Sources account.
- The JV building the natural gas pipeline between Bulgaria and Greece is seeking binding bids for the use of the gas link by the end of October, according to its chief executive. Interconnector Greece-Bulgaria (IGB), estimated to cost €220 million, has received nine expressions of interest to transport gas through it for a total capacity of 4.3 billion cubic meters.
- A significant oil reserve in the Patraikos Gulf near Patra, on a par with that at Prinos off Thasos island, has been confirmed by a study of seismic surveys conducted by Hellenic Petroleum, which is about to be completed in the coming weeks in London. This reserve includes extractable oil quantities of 80-100 million barrels, while the ongoing processing of the high-definition surveys is looking to establish whether the seabed off the western port city is indeed holding Greece's second major oil reserve, as indicated by geological findings.
- Electricity utility Public Power Corporation posted significant y-o-y declines of 45.9% in profits and 8.5% in turnover in the first half of 2016, according to recent financial figures, reflecting the reduction in its retail market share through the strengthening of competition and the impact of its discount policy for consistent customers.
- Azerbaijan's state energy company SOCAR has agreed to extend a letter of guarantee for its acquisition of Greek gas network operator DESFA by a month, according to the office of the prime minister.

Investments

- Arab entrepreneurs and state corporations are once again showing a reserved interest in the Greek market. Developments on the fronts of the sale of the Astir Palace Resort in Vouliagmeni and of the concession of the old Athens airport at Elliniko are playing a key role to that end because in both of these major privatization projects on the capital's southern coast there is important Arab private and state investment funds involvement.
- Greek and foreign shareholders are expressing their strong aversion to the course of Greece's 4 systemic banks' stocks in the first nine months of 2016, as losses start from 30% and reach as much as 53%.
- Greek bonds and stocks have been in international isolation since June, when the first €7.5 billion of the tranche of €10.3 billion got disbursed. Foreign investors are ignoring Greek securities due to the persisting uncertainty over the prospects of the country's economy.
- Investors at last Greek bourse roadshow in London said they wouldn't invest in Greece until the country returns to growth, the bailout agreement is implemented in full and Greece is included in the ECB's quantitative easing program, according to sources.
- Fund managers in London have dubbed Athens's chances of hitting the markets in the foreseeable future "a midsummer night's dream," even if that were to be with some small "pilot" bond issues, as government sources have leaked in recent days.

Technology - Communications

- Athens-listed telecom Forthnet won the tender of the Hellenic Telecommunications and Post Commission (EETT) to be Greece's universal service provider, for a maximum amount of €4.93 million per year payable by the State. This means that the company is undertaking to supply fixed telephony local network access and voice call services in 100% of the country, doing that via satellite broadband.
- Deutsche Telekom is considering options including thousands of job cuts at its German business, a review of its holdings in Eastern Europe and Greece and a partial sale of its subsidiary T-Systems, German daily Handelsblatt reported.

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TENDERS - PROCUREMENTS

- After a series of delays, the tender for the construction of Line 4 of the Athens metro is expected to be issued early next year.
- Greece has extended the deadline for bids to build and operate a new airport on Crete to replace the aging Iraklio Airport to October 27, a senior Infrastructure Ministry official said recently. The government initially set a February deadline for bids for the Kasteli project but it has been pushed backed several times due to delays in preparing documents.
- Greece has extended by three weeks to October 3 a deadline for the submission of expressions of interest in the sale if its rail maintenance firm ROSCO. The sale was re-launched in July after a previous tender was inconclusive and investors were originally due to submit documentation to take part in the process by September 12.
- ERGOSE, a railway construction management company which is a subsidiary of the Hellenic Railways Organization (OSE), has decided to award the project, for the rail link between the 10.5km route between Psathopyrgos and Rio in the northern Peloponnese, to Italy's GD Infrastrutture Srl.

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GREEK CONTROLLED SHIPPING MARKET DEVELOPMENTS

The past month has seen an improvement following the end of the summer period. In August, we had witnessed a drop in rates across all tanker sectors, but now they've bounced back after the end of several national holidays in the Far East and Middle East. Furthermore, there was an improvement in the Capesize market as China imported a considerable amount of iron ore. That being said, it is unlikely that the improvement in Capesizes is here to stay.

On the vessel supply side, the 2nd hand market saw an increase in activity among Greek shipowners as many of them are looking for and finding opportunities to buy dry bulk vessels cheaply. Many shipowners are starting to believe the market hit rock bottom in the middle of summer since 2nd hand values have already started to improve. Perhaps the improvement in values can be attributed to the market sentiment brought on by recent sales.

On the newbuilding market, however, Greek shipowners ordered no new vessels in September, although there were a few deals in discussion with various shipyards that have not been concluded.

Small shipowners continue to struggle with finding financing for acquisitions to replace their older ships – it's important to point out that there are anywhere between 400 - 600 companies in Greece alone with small fleets. Additionally, it's possible that many lenders might be falling into the trap of 'too big to fail' as they have supported the construction of newbuilding dry tonnage over the past few years, in an oversupplied market, and the market has not improved. So, this month we end the newsletter with a question for our readers: If you only had one 20-year-old debt-free vessel, earn a profit of $500 per day average throughout the year and no bank wants to lend to you, do you keep trading the vessel or scrap it and close your business?

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