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Lateral Thinking

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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

- **Greece's economy** will grow by 1.5% or slightly lower this year, the leading Foundation for Economic and Industrial Research (IOBE) think tank forecast in July, sticking to a previous forecast in April.
- Greece's central government attained a **primary budget surplus** of €3.05 billion in the first 7 months of the year, beating its target by €955 million thanks to lower spending, according to Finance Ministry data.
- **State debts** continued to pile up in June, as another net €67 million was added to the €5.07 billion run up over the first 5 months of the year, for a total of €5.13 billion added to the huge mountain of state arrears this year, according to data published by the State General Accounting Office.
- **Fitch Ratings** upgraded Greece's long-term foreign-currency issuer default ratings to B- from CCC, citing reduced political risk and sustained GDP growth. Fitch said it expected the general government debt to steadily improve, cushioned by benefits from the ESM program.
- **Moody's** said in a report that Greece's credit profile is improving, but high public debt and uncertainties regarding effective implementation of reforms remain constraints. It explained that Greece's credit metrics are on an improving trend, with economic growth turning positive and the public finances on more solid footing than in past.
- Greece's **current account deficit** grew in May compared to the same month a year earlier due to wider trade and primary income gaps, according to the Bank of Greece (BoG). The data showed the deficit at €582 million vs. €457 million in May 2016.
- **Greece sold debt to private investors** for the first time in three years, a significant step towards gaining financial independence and exiting its third international bailout next year. The country raised €3 billion with a yield of 4.625%, while in April 2014 the five-year note went for a yield of 4.95%.
- Greece's **annual EU-harmonized inflation rate** was steady in July, according to Statistics Service data. The reading was 0.9%, unchanged from June and vs. 1.5% in May.
- After 8 years of financial crisis that has sent household incomes spiralling down, **Greece remains an expensive country**. Eurostat data show that Greek consumers pay more than all other EU citizens for their telephony and postal services, with price levels standing almost 40% above the EU average rates and even higher than the rates in Switzerland. Greek consumers pay dearly for food too, as prices are also above the bloc's average by about 4%, even though per capita GDP in Greece came to just 67% of the average in the EU.
- **Arrears to social security funds** increased by €827 million in 2Q2017, due to people's inability to keep up with existing debt settlement plans and the fatigue of those who until now had been able to meet their obligations according to the Center for the Collection of Social Security Arrears (KEAO).
- The government is slashing **state expenditure** by €500 million for next year, mainly affecting health spending, while credit for salaries and pensions will be increased.
- Greece is eyeing the creation by mid-2018 of a **state development bank** that would fund infrastructure projects, start-ups, small businesses and export oriented companies according to the government's economic policy council.
- BoG is reportedly creating a **special reserve account** where funds will be deposited exclusively for the repayment of the country's debts.
- Hirings outpaced dismissals for the sixth consecutive month in July. However, the increase in hirings rose at a slower pace. with most of the new jobs being in the tourism sector.

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FINANCIAL MARKETS NEWS

- BoG has licensed 3 more **NPL management companies**, taking the number of firms with such permits to seven. The new licenses went to Alvarez & Marshal, Resolute Asset Management and UCI (a BNP Paribas subsidiary) while sources say that the list will soon extend to eight companies, as B2kapital is in the final stage of the licensing process.
- **Greek banks are preparing their own bond issues** following the country's successful return to the markets after 3 years, in order to reduce their dependence on emergency liquidity assistance (ELA).
- Over the last few months several major enterprises in Greece have drawn about €1 billion through the sale of **corporate bonds** and a large part of that was covered by money outside the banking system. Corporate bonds offer returns around 3% – while deposit interest rates are at historic lows – and are immune to bank risks such as the capital controls and a possible bail-in.
- **Total credit in the Greek banking system** contracted 1.6% y-o-y in May after another 1.6% decline April, according to BoG.
- **Demand for new corporate and mortgage loans** remained stagnant in 2Q2017, according to BoG data, as negative estimates about the financial state of businesses and households are keeping investment initiatives to a minimum.
- ECB has lowered the **cap on ELA** by €1.6 billion to €38.9 billion, according to the BoG.
- By the end of the year **Eurobank** will have completed the sale of Postbank, its subsidiary in Romania, marking the end of the program for the restructuring of the group's activities abroad. Eurobank intends to retain a strong presence in Bulgaria, Cyprus, Serbia and Luxembourg, with Cyprus and Bulgaria being at the forefront of its international operations.
- **National Bank of Greece** (NBG) has signed the agreement for the sale of its Romanian subsidiary Banca Romaneasca to Hungarian lender OTP Bank Nyrt. The bank also announced it had signed an agreement to sell its Vojvodjanska Banka unit, NBG Leasing and its corporate loan portfolio in Serbia again to OTP Bank for €125 million. NBG would also sell smaller operations in Serbia, Albania and Cyprus as part of commitments agreed with regulators.
- **Piraeus Bank** is on course to reduce its year-end NPLs to €19.1 billion from €23 billion at end-March, according to the group's CEO Christos Megalou interview to Bloomberg.
- Major changes are coming for **over-indebted enterprises**, as lenders will be going ahead with the immediate replacement of their management or even the sale of companies that do not pay off their overdues.
- More than 3/5 (63 %) of **loans granted to professionals in the agricultural sector** have become nonperforming.
- Greek **private sector bank deposits** rose in July for the third month in a row, hovering at 14-year lows. Business and household deposits rose to €121.3 billion from €120.4 billion in June.
- NBG swung to losses in **2Q2017**, while Alpha reported sharply lower profit after taking a loss on the sale of its Serbian subsidiary, despite lower provisions for impaired loans. Piraeus Bank turned profitable posting small net earnings of €7 million from continued operations as provisions for impaired loans were flat compared to the previous quarter, while Eurobank saw profits rise.
- **Attica Bank** plans to increase its share capital by €150-200 million, according to reports. However, a proposal by the bank's management for the appointment of a strategic investor has caused friction within the government.

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BUSINESS NEWS

- **Athens International Airport** (AIA) intends to tackle a spike in incoming traffic with the operation of a third terminal station by the end of this year. This is the terminal that until now operated only to cover the peak days of the summer season.
- **International arrivals** at the country's main airports increased by 10.5% y-o-y in 1H2017, exceeding 6.5 million according to figures processed by the Greek Tourism Confederation.
- **Corporate bankruptcies in Greece** are still a staggering 5x what they were during the period before the outbreak of the financial crisis, despite the small 2% decline recorded so far in 2017, according to international credit insurance company Atradius. The business sectors of food and electronics are expected to be among those to enjoy a reduction in their bankruptcy rate, unlike the construction, apparel and machinery sectors, which will continue to see high bankruptcy levels.
- Food company **Chipita's consortium with Indian peer Britannia Industries** foresees revenues of some €26.7 million in the first 3 years of operation in India and a 25% market share from the packaged croissant to be produced in the subcontinent.
- July reading of the **Economic Sentiment Index** rose to the highest level since February 2015 (just after the current government was formed), reaching 98.4 points from June's 94 points. IOBE estimates that this is an indication that the economy will pursue a positive course.
- **Markit's Purchasing Managers' Index** (PMI) for manufacturing, which accounts for about 10% of the economy, stood at 50.5 in July, unchanged from June. Readings above 50 denote expansion in activity.
- **Greek industrial output** rose by 1.6% in June y-o-y, after an upwardly revised 6.3% increase in May, according to Statistics Service.
- The **expansion of flexible labour** led to the creation of 150,000 new jobs in the country from 2Q2014 to 1Q2017 according to NBG monthly economic bulletin.
- **Part-time employment** is the dominant trend, as it has grown by almost 100% in the last 10 years to reach 10.5% of all employment in 1Q2017. Even so, the Greek rate is considerably below that of other EU states, according to Eurostat figures.
- Greeks are resisting efforts to promote the **use of generic medicines** over more costly brand-name drugs, with genomes accounting for just 25% of total sales compared to 18.5% before the start of the crisis and vs. creditors' target of 60% in order to curb state expenditures on medicine.
- Almost 3 in every 4 (73%) **people who graduated** after 2011 in Greece earn no more than €800 per month, while 1 in 6 gets less than €400 per month, if they have a job, according to the findings of a survey by IOBE. Moreover, 36% of university graduates since 2011 are currently unemployed.
- Greek retailer **Jumbo** posted a 6.8% rise in sales for its fiscal year ending in June 2017, due to strong growth in Romania and Bulgaria. It said it expected sales to rise by 6-9% in the next 12 months.
- A BoG survey has shown that more than 2/3 (68%) of **corporations in Greece reduced their salary costs** from 2010 to 2013.
- **COSCO** – the majority stakeholder in OLP (Piraeus Port Organization) – intends to revitalize and develop the ship repair industry in Greece and also engage in shipbuilding, as a second step in the process. OLP now boasts 2 fully modernized floating and 2 fixed docks. With the arrival of the new floating dock, weighing 80k tons and 240 meters long, the country's large ferries will no longer have to travel to Turkey for their annual maintenance.
- **Container traffic at Greece's biggest port in Piraeus** contracted by 4.4% in July, according to data published by COSCO, which showed that the port handled 309k containers compared to 323k in the same period last year.
- **Business at Greece's 2 privatized ports**, Piraeus and Thessaloniki, could increase the country's GDP by up to €5.6 billion a year, according to a survey by IOBE. The strategic position of Greece's 2 main ports is seen as crucial for international trade.

- **Greek retail sales by volume** grew by 3.9% in June compared to the same month a year ago after a 0.3% increase in May, according to Statistics Service. Retail sales were led higher by furniture, household appliances, apparel, footwear, drugs and cosmetics, the data showed.
- Streamlining the **Hellenic Sugar Industry** is proving a tricky process, as its management appears reluctant to declare Serbia's MK Group as the preferred bidder in the tender, which offered €50 million for its two plants in Serbia.
- **Sales at Greek supermarkets** dipped 1% in 1H2017, according to IRI research company; the smallest decrease since 2015 and a significant improvement from the 8.8% drop recorded in 1H2016 – attributed in part to the collapse of the Marinopoulos chain.
- **Canada's Eldorado Gold Corp** although it had announced in September that it would suspend investment in its mines and development projects in Greece due to delays in permits from the Greek government and that it would place the sites in maintenance, on September 22nd they decided not to do so following a constructive dialogue with the Greek state.
- **Greek exporters** are quite concerned about the Euro's significant rise against the dollar and other key foreign currencies since March, fearing that Greek commodities could start to lose the favourable momentum that took both time and effort to build.
- In 2Q2017, from April 11 when Fraport took control of **14 regional airports in Greece**, the consortium recorded revenues of €58.2 million and EBIT of €15.2 million.
- **Hellenic Exchanges** reported consolidated net after-tax group profits of €1.5 million for 1H2017 vs. €3.2 million a year earlier (-52%).
- **Mytilineos,** the Greek industrial group, has won about $40 million in compensation from Serbia over a past deal with the country's copper miner RTB Bor, resolving a major dispute.
- More than 40 **major manufacturing businesses**, employing over 250 persons each have been forced to close since 2008, the majority belonging to the steel sector and related fields.

Real Estate

- **Lamda Development** said in a stock filing that the total value for 100% of shopping centre "The Mall Athens" amounts to €381.2 million. The Athens-listed blue-chip company said that taking into consideration the bank loan of €193 million, the liabilities and other assets of Lamda Olympia Village SA (LOV), owner of The Mall Athens, it paid the amount of €85 million for the acquisition of the 50% of LOV share capital.
- The listed building of Olympos Naoussa in Thessaloniki was bought by **Grivalia** for €5.5 million through a tender conducted by Eurobank. The company, in cooperation with Macedonian Hotels, will create a 50-bed boutique hotel.
- Last year **Ethniki Pangaea** bought Moreas Beach located in the city of Patra, and it announced that after renovations conducted by the leaseholder, the property will be operated by Moxy Hotels; the trade name of Marriott International since September 2014 and will make its debut in Greece via this city hotel.
- Greece is once again a **property market** laggard, as Eurostat data published for the first quarter of the year suggested that local rates showed the biggest decline in the EU, coming to 1.8% on an annual basis.
- Labour Ministry declared its intention to issue an open call to all public entities, ministries, state corporations, local authorities and universities for the **utilization of 120 buildings in central Athens** that belong to social security funds and have remained unused for years. The Ministry has a pilot plan to make use of 24 emblematic properties in the capital's centre.
- Despite Greece's protracted financial crisis, the capital's southern coast has been undergoing a facelift with an estimated €10 billion worth of works that could transform the **Athens Riviera** into one of the most attractive metropolitan seafront areas in the Mediterranean.
- The trend toward an increase in **office rental rates in the Greek capital**, first noted in 2H2016, was consolidated in the 1H2017. A recent analysis of the state of the sector in Europe by Savills indicated that the Athens market is continuing its positive course this year, with rental rates ranging between €10 and €14 per square meter per month.

- The **decline of residential property prices** continued in 2Q2017, according to BoG, at a time when many were hoping the market would bottom out and start to stabilize. Data showed prices down 1.2% percent in the April-to-June period this year compared to a year earlier.
- Inflows of money from abroad for **acquisition of properties in Greece** jumped by 51.7% in the first 4 months of the year compared to 2016, according to BoG data. It is estimated that €135 million arrived from abroad to be invested in the local property market, while the total for the whole of 2016 came to €270 million, up by 45% from the previous year.
- Greece is the dominant European market for investors looking for high returns in **tourism-related luxury properties**. 9 of Europe's 10 leading investment locations, in terms of high rates of return on upscale holiday homes, are Greek destinations, according to an annual report by international property consultants Algean Property (Mykonos, Santorini and Paros held their positions as the leading European destinations for luxury holiday accommodation investors, where Mykonos offers an 8.4% investment return, while Santorini and Paros registered rates of 6.4% percent, according to the market report).

Tourism

- **Foreign tourists' average spending per trip** in the first 5 months of the year posted a decline of 1.5% from last year to reach €430.4, according to BoG.
- Data from firms in the industry put the figure of **holiday homes around Greece** that have obtained the Greek National Tourism Organization stamp at over 10,000, with 80% of them having been added over the last three years.
- **Owners leasing their properties via short-term rental platforms** such as Airbnb and HomeAway will have their earnings taxed at the same rates as regular rental incomes and without having to pay VAT, according to the Independent Authority for Public Revenue.
- There has been a dramatic decrease in the number of passengers on **cruise ships** visiting Greek ports, according to the latest available data. The numbers suggest that the instability in Turkey has led to fewer cruises in the Aegean. The port of Iraklio on Crete is a case in point where between January and July this year, there was a 39.4% drop in the number of passengers and a 28.4% decline in the number of cruise liners docking there.
- Visitors from France and Germany have spearheaded the rise in **tourism revenue** in the first 6 months of the year. Revenue from French tourists rose by 17.3% compared to the same period last year, while income from German visitors grew by 15.4%.
- Tourists from Turkey have been arriving on Greek islands in record numbers this summer, giving the local economy a welcome boost. According to the latest data, total **arrivals from Turkey** on the eastern Aegean islands of Chios, Lesvos and Samos in the first 6 months of the year were up by 50% compared to the same period last year.

Energy

- The Regulatory Authority for Energy (RAE) will grant a two-month deadline to the new shareholders of the Independent Power Transmission Operator (ADMIE) for submitting a binding timetable regarding the **electricity connection of Crete to the country's continental network**. If the plan is not implemented in time, RAE will use the authority it has by law for launching an open tender to concede the project to a third party.
- The **business plan of Public Power Corporation** (PPC), including the list of the units to be put up for sale, will be supervised by the European Investment Bank, PPC's biggest creditor.
- **Energean** bought the Karish and Tanin fields, located in deep waters around 100 kilometres off Israel's coast, last August for $148 million from US-Israeli partners Delek Group and Noble Energy. Israel Chemicals, Bazan Group Oil Refineries and OPC Energy signed agreements to buy 39 bcm of gas from the Karish and Tanin fields over 15 years, or 2.6 bcm annually.
- The **sale of the lignite-powered plants of PPC** is evolving into a tug-of-war between the government and potential investors, with the European Commission acting as referee. This

battle is set to last until at least early this fall when the market test begins, with all sides showing their hand.
- Greece's biggest oil refiner **Hellenic Petroleum** reported a 46% rise in 2Q2017 core profit as a combination of lower crude prices and rising fuel prices lifted its margins.

Investments

- Athens-listed **Grivalia Properties Real Estate Investment Company** announced that its Grivalia Hospitality unit has successfully raised €60 million from Grivalia Properties and Eurolife ERG Life Insurance Company SA.
- **Greece continues to be the largest investor in Albania**, leaving behind countries which may have a bigger economic potential, according to Bank of Albania. The foreign direct investments made by Greece in Albania amounted to €1.22 billion in 1Q2017, compared to €1.18 billion in 2016.
- Central Athens, the city's southern suburbs and Piraeus are expected to be the main locations of the next generation of **shopping centres** planned for the broader capital region by the end of the decade. This concerns total investments that may exceed €1 billion and would have already opened for business were it not for the usual red tape and the extension of the financial crisis since early 2015 due to political and economic uncertainty.
- Greece accounted for just 60 of 10,660 (0.56%) **foreign direct investment** projects in 7 Mediterranean countries between 2011 and 2015, according to a study conducted by EY. The USA was the most common source of FDI for Greece accounting for 15 projects, followed by Germany with 6, while the sectors that attracted most FDI were software (8 projects) and professional services (8 projects).

Technology - Communications

- Samsung Electronics will buy the Greek company **Innoetics** that develops text-to-speech technology for close to €50 million. The Samsung deal is by far the biggest success of a Greek research centre spin-off. The buyout agreement, which was put together in a few months, stipulates that Innoetics will become a wholly owned subsidiary of the Korean multinational giant, while the company will remain based in Greece – something that the Greek side insisted on in negotiations.
- July saw the number of **Greek startups** to be sold off this year rise to 5, as app developer Quizdom was bought out by Germany's Friend4Media Group. Just 3 years since it was founded, Quizdom claims its app of the same name has been downloaded onto over half the smartphones used in Greece – i.e. by more than 2 million people.
- Turnover of **e-commerce in Greece** is on the rise, according to figures from European association Ecommerce Europe. More specifically, turnover in Greece increased to €4.5 billion last year from €3.8 billion in 2015.
- Greece proposed that betting company **OPAP** should operate a total of 25,000 video lottery machines, down from the 35,000 machines the country's current legislation stipulates. OPAP, Europe's fourth-biggest betting firm, has said it will conclude the rollout of 16,500 video lottery terminals (VLTs) by May 2018.
- **OTE**, the now 40% owned and managed by Germany's Deutsche Telekom, said EBITDA came in at €313.9 million in 2Q2017, up from €310.9 million a year earlier.
- **Pay TV** in Greece has suffered a setback. Having gradually become a mature market, and at a time when taxation makes up more than 40% of what the customer pays, a reduction in subscriber numbers has been recorded.

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TENDERS - PROCUREMENTS

- Greece expects potential investors will offer at least €400 million for a majority stake in its **gas grid operator DESFA**, according to Energy Minister.
- The board of state sell-off fund TAIPED annulled the tender for hiring a financial consultant for the sale of the 17% stake in **PPC**. This decision seals the fund's intention to delay the sale of its share of the power utility until the transactions of the electricity producing units the company is promoting are completed.
- TAIPED expects a further delay on the **DESFA** front, as RAE has only just started the process of determining gas charges. That process could delay the privatization project by 1 or2 more months, probably putting off the transaction of the 66% DESFA stake to 2018. The same sources did add that the new charges by RAE will offer a clearer environment for any investors interested. The interested investors for DESFA are: Macquarie Infrastructure and Real Assets (UK); a consortium of Italy's Snam, Belgium's Fluxys, Dutch-based Gasunie and Spain's Enagas; Romanian state-owned Transgaz with France's GRTgaz; Spain's Regasificadora del Noroeste; Integrated Utility Services (USA); and PowerGlobe LLC (Qatar).
- The TAIPED board started the procedures for the **concession of the marinas** at Argostoli, Zakynthos, Kalamaria, Rhodes, Itea, etc. The first step will be to commission consultants to assist in drafting the invitation of interest.
- Greece aims to raise €6 billion in **privatization revenues** through 2018, according to the head of TAIPED.
- Greece launched 2 tenders for **offshore oil and gas exploration and exploitation** in the west and south of the country, the Energy Ministry said. The move follows expressions of interest by a consortium of Total, Exxon Mobil and Hellenic Petroleum for exploration in 2 sites off the island of Crete, and by Greece's Energean for a block in the Ionian Sea in western Greece.
- 4 bidders have expressed interest in Greece's tender for a €1.45 billion project to expand the **Athens metro**, according to state-owned Attiko Metro. The interested investors are Greek contractor GEK Terna with France's Vinci and Siemens; J&P Avax with Italy's Ghella and France's Alstom; Greek construction firm Aktor with Hitachi Rail Italy; Spain's FCC with Archirodon and Mytilineos.
- TAIPED is preparing to hire advisers to explore the **privatization of 10 port authorities** in which it holds stakes. Although the process relates to all 10 ports, sources suggest that the first to be sold will be that in Alexandroupoli as it has already attracted substantial interest domestically and internationally.

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GREEK CONTROLLED SHIPPING MARKET DEVELOPMENTS

The tanker market is suffering in recent months due to a lack of demand for oil cargoes. In fact, oil producers are increasing their stockpiles or using previously chartered vessels as storage, which does not give any new business to the market.

On the other hand, the dry bulk market has been performing very positively, with many analysts expecting the market to continue to improve and stay healthy in 2018. It seems that a strong iron ore market is the main driving factor for this. Iron ore future prices in China have increased considerably and there is a rush from many importers to buy now. Panamax and Supramax vessels have also benefitted from the iron ore market as they ship to and from smaller ports. India still has few ports that have been dredged deep enough to handle Capesizes, which means that most of the trade in and out of India is on the smaller vessels.

On the acquisition side of things, Greek shipowners have a tendency to slow down their purchases and orders in the month of August due to the summer holiday period. However, prior to embarking on their vacations, Greek owners placed a number of orders in the tanker and dry bulk sectors. A total of 14 tankers, including options, were ordered with a combined deadweight of over 2m Dwt. In the dry bulk market, a total of 18 vessels, including options, were ordered with a combined deadweight of over 2m Dwt.

Clearly Greek shipowners are still very much committed to expanding their fleets. However, there is concern that the global fleet might suffer from oversupply. Scrapping has decreased considerably since the end of 2016 and will likely stall completely with the current improvement in the market. Moreover, the IMO has extended the period for Ballast Water Treatment Systems to be installed from September 2017 to September 2019. However, any owner who completes the necessary item of the Special Survey before September 2019 will automatically get a 5-year extension from the IMO before they either install a BWTS or scrap the vessel.

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