THE GLOBAL CONTRARIAN

February 1, 2012

Hellenic Exchanges S.A.

(BUY)

Price: €3.10
52-Week Range: €2.46- €6.98
Shares Outstanding: 65.4 million
Market Capitalization: €202.6 milli0n ($266 million)[1]

Ticker[2]: EXAE GA
Dividend[3]: €0.2185
Yield: 7.0%

Data as of January 27, 2012

[1]One euro (€) is equivalent to $1.3134, as of January 27, 2011.
[2]The common shares of EXAE GA trade on the Athens Stock Exchange.
[3]Consists of a €0.15 dividend adjusted for a 21% tax withholding and a €0.10 return of capital.

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Investment Thesis

Hellenic Exchanges, S.A. (EXAE GA), based in Athens, is a holding company that consists of the Athens Exchange S.A. (equities and derivatives markets), the Athens Exchange Clearing House (known as ATHEXClear) and the Thessaloniki Stock Exchange Center (data vending). Hellenic Exchanges ("HELEX") has no debt and €122.5 million in cash and marketable securities. This compares to its current market capitalization of €203 million, for an enterprise value of €80 million, which is just over 2x 2010 EBITDA of €37 million. If one strips the company's cash balance from its market capitalization, HELEX also trades at less than 4x 2010 earnings. Because of the significant margin of safety afforded by these valuation metrics, combined with the importance of the exchange to Greece's capital markets and the upside to the company's earnings in a more normalized environment, shares of HELEX are recommended for purchase.

HELEX's revenues and earnings have been in decline in recent years, with 2010 earnings and EBITDA reported as being 70%-75% below the peak levels experienced in 2007. This is due largely to the drop in share prices of the companies traded on its platform, which lowers the total value of each trade and, subsequently, the fees charged by HELEX. Still, although the state of Greece's economy is uncertain over the short term, it is reasonable to believe that the market capitalization of Greek companies will eventually recover, as will HELEX's earnings. When one considers the low multiples being paid for the current, depressed earnings, a realization of this investment thesis would generate share price appreciation of over 400%, with shareholders generating a higher return should the company continue to pay a dividend. Even if it were to take fifteen years for earnings to recover, investors would earn a compounded annual return of 12%. Further, if HELEX is able to maintain its dividend – a reasonable assumption, given the company's free cash flow characteristics – investors would collect a 7% dividend while they wait.

Certainly, a Greek default is a likely concern for potential investors in HELEX. However, it could be argued that such an event would be beneficial to the exchange, as a default and adoption of a new currency could require that a significant number of new, currency-specific derivative securities be created and traded on the HELEX platform. Even if new products were not created, there seems to be little downside to trading volumes due to a default, as the increased market volatility would also serve to spur trading. In Argentina, for example, derivative volumes doubled in the year of the default and continued to grow over the subsequent decade.

No matter what the outcome of Greece's debt negotiations, HELEX has the balance sheet and operating performance - and, most likely, the national support - to survive any pressures stemming from a weak Greek economy over the coming years. Although it could be argued that earnings do not need to rebound in order for HELEX to be a profitable investment, the exchange has a demonstrated earnings potential that is nearly four times higher than its current results would indicate. Because investors are buying HELEX at depressed multiples of depressed earnings, they pay nothing for this optionality, thus giving them a significant margin of safety and compelling upside potential.

Company Description

Hellenic Exchanges, S.A. is a holding company whose businesses operate Greece's equities and derivatives exchanges, clearing and settlement services and data services. Through the first nine months of 2011, HELEX derived approximately 18% of its revenues from trading, 48% of its revenues from clearing, settlement and depository services, 17% from exchange services (listing fees, etc.), and 17% from data, IT and other services.

As is common with the European exchanges, HELEX's fee structure is based, in part, on the nominal value of the transactions that it handles. It is largely because of this that the company has experienced a significant decline in revenues in recent years. As shown in Exhibit 1, revenues in 2010 are nearly 70% below peak levels in 2007. Through the first nine months of 2011, revenues are down an additional 25% relative to the same period in 2010.

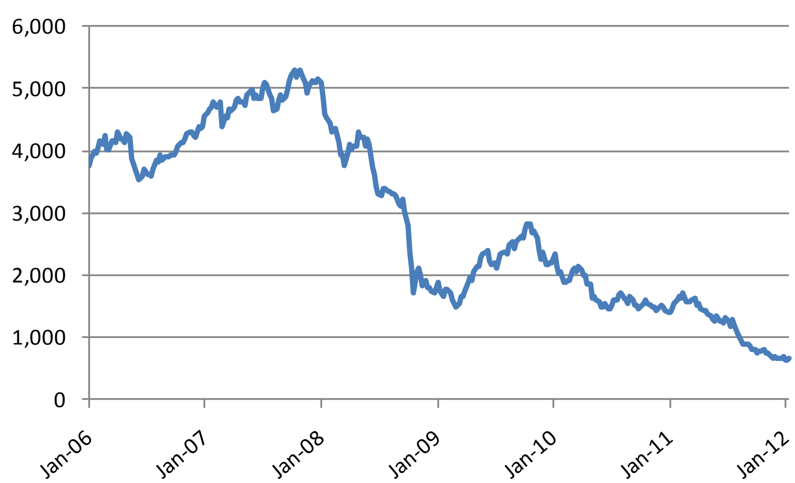
Exhibit 1 HELEX: Historical Results; 2005-2010
(Euros in thousands)

	2005	2006	2007	2008	2009	2010
Revenues	73,830	118,267	161,234	108,366	78,341	61,658
EBITDA	41,590	83,860	118,859	83,312	52,773	37,105
EBITDA Margin	*56.3%*	*70.9%*	*73.7%*	*76.9%*	*67.4%*	*60.2%*
Net Profit After Taxes	27,101	58,068	91,026	65,014	29,504	21,277

Source: Company reports.

The decline corresponds to the drop in stock prices across Greek equities market. As shown in Exhibit 2, the Athens Stock Exchange General Index lost 73% of its value from the end of 2007 through the end of 2010, and an additional 44% from the end of 2010 through September 30, 2011.

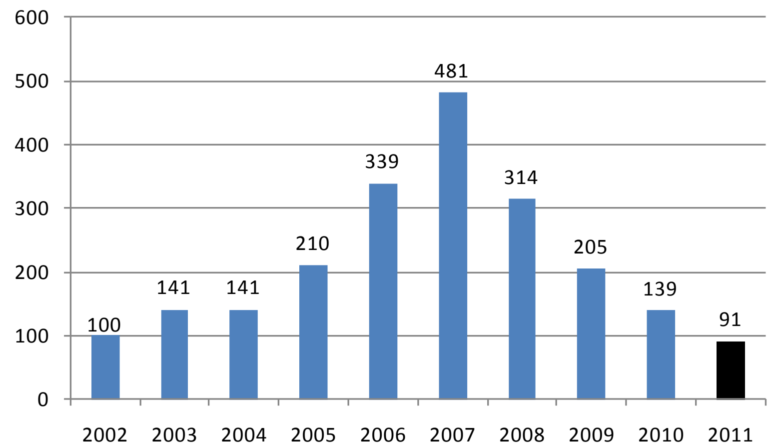
Exhibit 2 HELEX: Performance of Athens Stock Exchange General Index; 2006-2011



Source: Bloomberg.

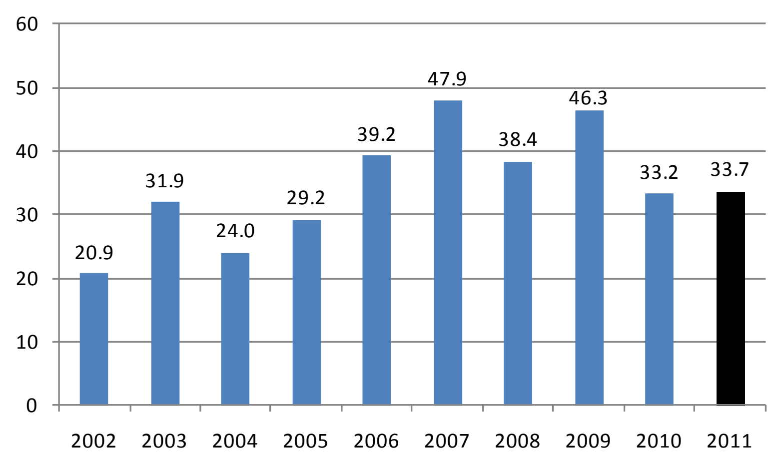
At the moment, the five largest companies listed on the Athens Stock Exchange General Index, by market capitalization, account for 61% of exchange's stock trading volume. It is not surprising, therefore, to see that HELEX's average daily traded value in equities declined 71% between 2007 and 2010, on par with the value lost in the broader index (see Exhibit 3). It is interesting to note that average daily volume on the exchange declined only 30% during this period (see Exhibit 4) and are not far below the levels seen in 2006 and 2008, implying that the appetite to trade has subsided to a lesser degree and further supporting the claim the HELEX's shrinking revenues were primarily caused by the declining share prices of the companies listed on the exchange. This dynamic impacts not only trading revenues, but clearing and settlement revenues as well, the fees for which are partly based upon the value of each transaction.

Exhibit 3 HELEX: Average Daily Traded Value in the Cash Market; 2002-9M2011
(Euros in millions)



Source: Company reports.

Exhibit 4 HELEX: Average Daily Volume in the Cash Market; 2002-9M2011
(Shares in millions)

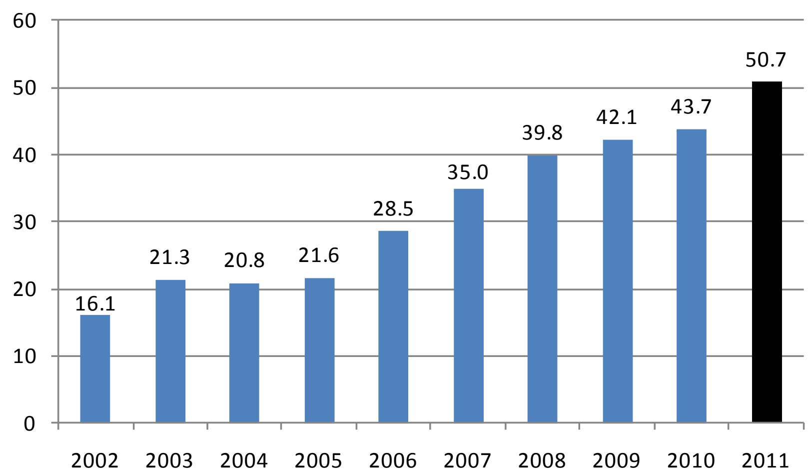


Source: Company reports.

This impact that lower stock prices can have on the company's earnings is particularly evident in the company's 2009 results. As shown in the above exhibits, average daily volumes actually increased 20% in 2009, but, due to declining stock prices, average daily traded value declined by 35%. As a result, the company's revenues were down 28% on the year.

Although equities have struggled, HELEX's derivatives business has been growing steadily throughout this period, with the average daily number of contracts through the first three quarters of 2011 up 16% relative to the average for the 2010 calendar year and up nearly 50% relative to 2007 (see Exhibit 5).

Exhibit 5 HELEX: Average Daily Number of Derivative Contracts; 2002-9M2011
(Contracts in thousands)



Source: Company reports.

Lastly, Data Feed, IT Services and Exchange Services have been steady, with all three line items showing growth through the first nine months of 2011 (see Exhibit 6). Again, all of the factors indicate that the decline in HELEX's revenues and earnings in recent years has primarily been the result of falling equity prices, which has negatively impacted revenues for the trading, clearing and settlement businesses and that, otherwise, HELEX is a solid company with the potential for continued future growth.

Exhibit 6 HELEX: Historical Results; 2005-2010
(Euros in thousands)

	Nine Months Ended	
	Sept. 2011	**Sept. 2010**
Revenue		
Trading	6,398	10,664
Clearing	12,352	18,852
Settlement	993	1,427
Exchange Services	5,833	5,308
Depository Services	3,159	3,737
Clearinghouse Services	444	476
Data Feed	3,228	3,064
IT Services	1,658	1,486
Other Services	928	1,559
Turnover	**34,993**	**46,573**

Source: Company reports.

If it were not for falling equity prices, HELEX's fundamentals would be eye-popping. In the current environment, these fundamentals are still compelling. As shown in Exhibit 7, HELEX has posted a return on equity of over 14% in 2010 and 2011, despite the drastic decline in revenues (2011 figures are based on net income through only the first nine months of the year). In the company's best year, return on equity exceeded 50%. These returns highlight one of the key attributes of the exchange business model – the fixed cost, scalable platform that is able to accommodate higher transaction volumes with negligible incremental cost.

Exhibit 7 HELEX: Historical Return on Equity; 2005-2010
(Euros in thousands, shares in thousands)

	2005	2006	2007	2008	2009	2010	9M2011
Net Profit After Taxes	27,101	58,068	91,026	65,014	29,504	21,277	21,823
Shareholder's Equity	202,187	154,539	189,170	160,389	150,568	148,666	152,198
Return on Avg. Equity		**32.6%**	**53.0%**	**37.2%**	**19.0%**	**14.2%**	**14.5%**
Shares Outstanding	70,230	70,271	70,486	70,486	65,369	65,369	
BV/Share	€ 2.88	€ 2.20	€ 2.68	€ 2.28	€ 2.30	€ 2.27	
Return of Capital	145,731	87,788	35,135	0	9,805	8,498	
Dividend	14,063	17,576	35,135	52,864	29,416	14,381	
BV/Share + Accumulated Returns of Capital and Div.	**€ 2.88**	**€ 3.70**	**€ 5.19**	**€ 5.53**	**€ 5.98**	**€ 6.30**	
5-Yr. CAGR						**17.0%**	

Source: Company reports, *The Global Contrarian* estimates.

It should further be noted that although shareholders' equity declined in four of the years highlighted in Exhibit 7, these declines are due entirely to returns of capital to shareholders, dividends distributed to shareholders and the repurchase of shares. On a per share basis, when one includes cumulative returns of capital and dividends, book value grew at a compounded rate of 17% per year from 2005 through 2010.

Of course, the fixed-cost nature of the exchange can weigh heavily on margins in an environment where revenues are in decline, and HELEX may struggle with this in the coming quarters. As investors are well aware, the future trajectory of Greece's economy is uncertain and the impact on Greek equities cannot be known. Further, despite recent reports that negotiations with debt holders may be successful and forestall a Greek default, many believe that these negotiations are futile and that a default is inevitable. Given the multiples currently attached to HELEX, it is almost as though investors believe the exchange will not survive such an event. However, given the company's balance sheet, which is comprised of €136 million in current assets (€115 million of which is cash and equivalents) and only €19 million of *total* liabilities (no debt) and free cash flow characteristics, combined with the importance of HELEX to Greece's capital markets, there is very little chance of this happening.

One interesting paradox regarding Greece's debt crisis is that a default could actually be beneficial to HELEX. It is likely, for example, that a default would be accompanied by a move by Greece to leave the euro and adopt its own currency. Although this would certainly throw the Greek economy into turmoil over the short-term, this action would also create a significant number of drachma-denominated securities – currency derivatives, drachma-denominated commodity derivatives and drachma-denominated bonds and interest rate derivatives, for example - that are almost certain to trade on the HELEX platform. When one considers the added trading volumes and revenues that would be gained in such a transition, a Greek default should only concern investors in HELEX in terms of potential mark-to-market losses over the short term.

Valuation Analysis

A quick review of HELEX's valuation metrics should convince investors that the turmoil surrounding the Greek capital markets is sufficiently priced into the company's shares. It could even be argued that HELEX, which is trading at just over 4x depressed earnings (based on 2012 estimates after adjusting the market capitalization for cash), is being valued as though it will not survive past 2015. However, when one considers the importance of the exchange to the country's equity and derivatives markets, the company's a robust balance sheet and compelling return on equity and strong free cash flow characteristics, it would not appear that HELEX is going away.

Exhibit 8 HELEX: Current Valuation Metrics
(Euros in millions)

Share Price (1/27/2012)	€ 3.10
Shares Outstanding (millions)	65.4
Market Capitalization	**€ 202.6**
Net Cash	(122.5)
Enterprise Value	**€ 80.1**

EBITDA 3Q 2011	€ 5.37	Earnings 3Q 2011	€ 5.06		
EV/EBITDA	**14.9x**	**EV/Earnings**	**15.8x**		
EBITDA First 9 Months 2011	€ 23.58	Earnings First 9 Months 2011	€ 19.88	Free Cash Flow First 9 Months 2011	€ 8.56
EV/EBITDA	**3.4x**	**EV/Earnings**	**4.0x**	**EV/Free Cash Flow**	**9.4x**
2011E Consensus EBITDA	€ 26.65	2011E Consensus Earnings	€ 20.87		
EV/EBITDA	**3.0x**	**EV/Earnings**	**3.8x**		
2012E Consensus EBITDA	€ 22.81	2012E Consensus Earnings	€ 18.83		
EV/EBITDA	**3.5x**	**EV/Earnings**	**4.3x**		

Source: Company reports, *The Global Contrarian* estimates.

As one can see in Exhibit 8, consensus estimates reflect further deterioration to HELEX's earnings in 2012. Still, the company is trading at only 3.5x the 2012 consensus EBITDA forecast and 4.3x consensus earnings. Both multiples reflect the company's current net cash position, although this cash balance will likely continue to grow or be distributed to shareholders. Further, the company is trading at over a 10% free cash flow yield based only on the cash generated through the first nine months of 2011, even though cash flow during this period is understated due to working capital changes. By comparison, the company had cash earnings (net income plus depreciation) of nearly €28 million, which, if one were to assume no change in working capital, would reflect a free cash flow yield of approximately 35%.

As noted earlier, the problems causing the decline in revenues on the exchange are exogenous to the company and are not reflective of the company being mismanaged or displaced by competitors. The loss of revenues is due simply to declining equity prices and these prices will eventually rebound. This recovery may take a number of years – possibly a decade or more – but HELEX shares are priced at such a discount that investors can still earn a compelling rate of return under such a scenario.

This potential return is shown in Exhibit 9, which assumes simply that the earnings of the company return to 2007 levels. This is akin to assuming that the market capitalization of Greek equities returns to 2007 levels, although it should be noted that HELEX's derivatives market has grown significantly since that time, so earnings would likely be higher under this scenario. If one further assumed that HELEX were to trade at a price-to-earnings multiple of 12x (slightly below the historical average since 2005 of 14x), investors would realize share price appreciation of nearly 440%. Even if it were to take fifteen years for this to happen, investors would earn a compounded annual return of 12% before dividends.

Exhibit 9 HELEX: Fair Value Scenarios
(Euros in thousands)

Estimated Earnings	91,000
Target P/E	12.0x
Fair Value Estimate	**1,092,000**
Current Market Capitalization	202,643
Total Return, ex. Dividends	**439%**
Compounded Annual Return, ex. Dividends:	
Five Years	40%
Ten Years	18%
Fifteen Years	12%

Source: *The Global Contrarian* estimates.

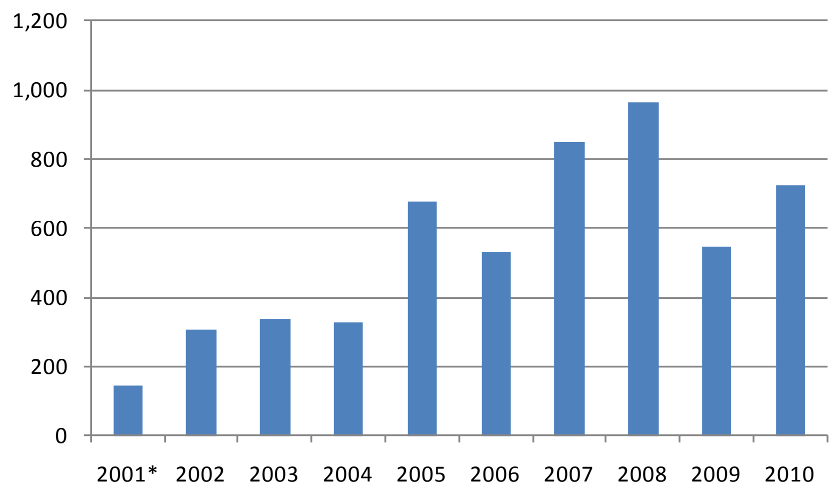
While the capital appreciation potential justifies this investment, any potential cash distributions would add to this return. For example, HELEX made distributions of €0.2185 per share during 2011, of which, €0.10 was a return of capital. This amounts to a yield of over 7% at the current share price. It is also likely that this dividend would increase as results improve, as HELEX has made distributions of as much as €0.75 per share in a year, giving investors a dividend yield of nearly 25% at the current share price.

Lastly, investors should consider the outlook for HELEX should Greece default on its debt. In the months following a default, it is reasonable to assume that the share prices of exchange-listed companies would drop dramatically, which would then put further pressure on the company's earnings – no doubt, a negative for HELEX in the short term. However, a default would also likely lead to Greece adopting its own currency, a move that could be massively beneficial for the exchange.

For example, to the extent that participants in the Greek capital markets require currency or commodity derivatives, it is reasonable to believe that these demands, at present, are largely euro-based. Although HELEX has a share of this business, other exchanges, which likely have even larger pools of liquidity for euro-denominated derivatives, also compete for these trades. If, however, Greece were to adopt the drachma, local businesses and market participants would likely demand drachma-denominated currency pairs and commodity derivatives in order to hedge various aspects of their business. It is also reasonable to believe that these products will primarily be traded on the HELEX, which would be a significant benefit to all of the primary aspects of the company's business – trading, clearing and settlement and data.

Investors can look to Argentina for an indication of what trading volumes in may look like in a post-default scenario. As shown in Exhibit 10, the average daily volume on the Mercado de Velores de Buenos Aires ("MERVAL") more than doubled in 2002, the year of Argentina's default, and continued to grow through 2008. Further, this growth was achieved without the creation of new derivative products necessitated by a change in currency. At the very least, this chart lends support to the argument that trading volumes in Greece are not likely to decline in the event of a default, which, considering HELEX's current valuation, may be all that is required.

Exhibit 10 MERVAL: Daily Average Trading Volume; 2001-2010
(AR$ in millions)



*Full-year average derived from company reported monthly averages.
Source: Company reports, *The Global Contrarian* estimates.

With earnings more than 75% off of their 2007 peak, and with the prospect of higher earnings in the future, one would not expect HELEX to trade at a significantly depressed multiple of earnings. However, possibly because investors are unwilling to consider any Greek equities for fear of short-term mark-to-market losses, we find HELEX trading at both trough earnings (or close to it) and trough multiples, thus providing an opportunity for investors willing to hold HELEX shares until Greece recovers from its debt crisis.

Conclusion

HELEX, which operates Greece's equity and derivatives exchanges, as well as the related clearing, settlement and data services, is vital to the country's capital markets. Other factors, such as national interests and the company's balance sheet and operating fundamentals, lend a degree of permanence to this institution, regardless of the state of the Greek economy. Further, it is interesting to note that the importance of the exchange is likely to only increase should Greece ultimately default, as this would likely result in the adoption of a national currency, which would then necessitate new securities to then be traded on the exchange. In short, HELEX is not going away.

Although earnings and revenues may remain depressed for a number of years, and even though there may be further downside to the company's results in the coming quarters, HELEX's long-term earnings potential is clear. It also seems likely, given the experience in Argentina, for example, that the market capitalizations of exchange-listed companies will eventually recover, thus boosting HELEX's revenues. Even if this were to take fifteen years, a reasonable valuation scenario points to a compounded rate of return of 12% solely from share price appreciation. Assuming HELEX is able to maintain its dividend, investors will benefit from the 7% dividend yield in the interim. Because of this appreciation potential, and given the low likelihood of a permanent impairment to HELEX's operations, shares of HELEX are recommended to investors willing to hold these securities through the duration of Greece's financial crisis.

Exhibit 11 HELEX: Consolidated Income Statement
(Euros in thousands)

	Nine Months Ended		
	Sept. 2011	**Sept. 2010**	**2010**
Revenue			
Trading	6,398	10,664	12,851
Clearing	12,352	18,852	22,880
Settlement	993	1,427	1,718
Exchange Services	5,833	5,308	9,027
Depository Services	3,159	3,737	6,237
Clearinghouse Services	444	476	660
Data Feed	3,228	3,064	4,142
IT Services	1,658	1,486	2,413
Other Services	928	1,559	1,731
Turnover	**34,993**	**46,573**	**61,658**
Hellenic Capital Market Commission Fee	(1,380)	(2,219)	(2,691)
Total Operating Expenses	**33,613**	**44,354**	**58,967**
Non-Recurring Revenue	5,107	477	477
Total Revenue	**38,720**	**44,831**	**59,444**
Costs and Expenses			
Personnel Remuneration and Expenses	9,011	9,632	12,603
Third Party Remuneration and Expenses	614	797	1,393
Utilities	1,070	1,263	1,677
Maintenance/IT Support	1,110	1,355	1,753
Taxes-VAT	920	961	1,335
Building/Equipment Management	595	581	868
Marketing and Advertising Costs	316	159	228
Other Expenses	1,504	1,667	2,380
Total Operating Expenses	**15,140**	**16,415**	**22,237**
Non-Recurring Expenses	**0**	**75**	**102**
Total Operating Expenses incl. Non-Recu	**15,140**	**16,490**	**22,339**
EBITDA	**23,580**	**28,341**	**37,105**
Depreciation	(1,360)	(1,933)	(2,448)
Operating Results (EBIT)	**22,220**	**26,408**	**34,657**
Capital Income	4,307	3,150	4,456
Dividend Income	0	0	0
Securities Valuation Difference and Other Fina	(9)	(7)	(9)
Earnings Before Taxes	**26,518**	**29,551**	**39,104**
Income Tax	(4,695)	(7,386)	(9,895)
Earnings After Taxes	**21,823**	**22,165**	**29,209**
Extraordinary Tax	0	(7,926)	(7,932)
Earnings After Taxes and Extraordinary T	**21,823**	**14,239**	**21,277**
Total Other Revenue (Loss) After Taxes	(1,947)	(304)	(300)
Total Comprehensive Income After Taxes	**19,876**	**13,935**	**20,977**

Source: Company reports.

Exhibit 12 HELEX: Consolidated Balance Sheet
(Euros in thousands)

	3Q2011	2010
Current Assets		
Cash and Cash Equivalents	115,291	114,673
Clients	5,913	5,560
Other Receivables	7,992	6,083
Securities at Fair Value through Profit & Loss	7,236	9,670
Total Current Assets	**136,432**	**135,986**
Non-Current Assets		
Tangible Assets for Own Use	26,057	26,969
Intangible Assets	11	51
Non-Current Assets Earmarked for Sale	5,223	5,415
Participations and Other Long-Term Receivabl	1,474	1,476
Deferred Tax	2,058	1,749
Total Assets	**171,255**	**171,646**
Short-Term Liabilities		
Suppliers and Other Liabilities	12,860	7,707
Deferred Tax	3,192	3,192
Taxes Payable	0	8,248
Social Security	236	462
Total Short-Term Liabilities	**16,288**	**19,609**
Long-Term Liabilities		
Subsidies and Other Long-Term Liabilities	502	502
Provisions	2,267	2,869
Total Shareholders' Equity	**152,198**	**148,666**
Total Liabilities and Shareholders' Equity	**171,255**	**171,646**

Source: Company reports.