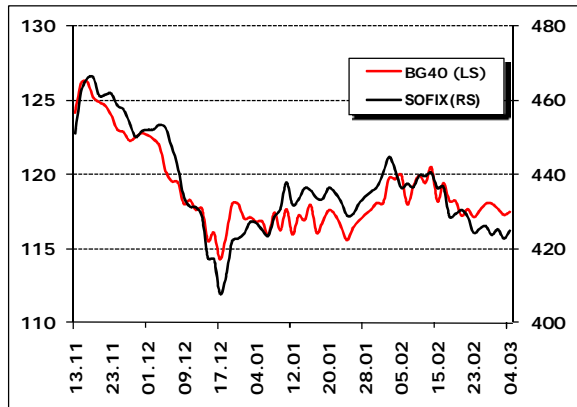


One year after the market bottom

The similarities between February 2009 and February 2010 were many – liquidity was low and the volatility of stock prices was large in daily basis for each position but had no significant impact on indices. Most investors remained silent observers including the short-term speculators. Like one year ago, skepticism prevailed.

However, one very important similarity was missing – the bottom after five months of correction in Bulgaria did not attract institutional demand. The correction of international markets was very limited. Moreover, even the possible repeat of June-July period could not lure investors in the stock market before any visible economic improvement. Last year's gains were due to expectations of economic recovery but now those expectations are suppressed by the absence of money on the market.

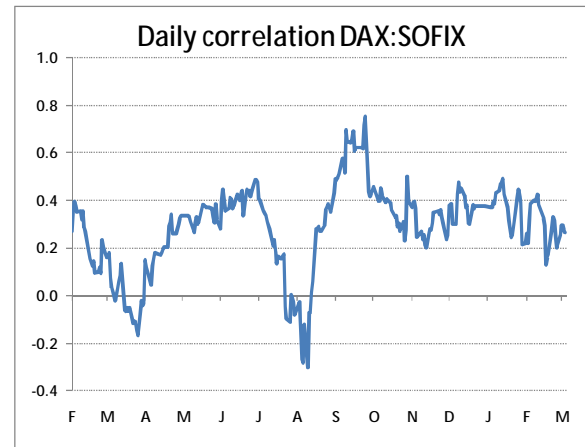


The trading in February has been mostly on the downside but we consider it as movement in the current range since the beginning of the year and not extension on the downside.

The usual supply from individuals and the large offers for sell of several blue chips, including Monbat (5MB BU) and Central Cooperative Bank (4CF BU), pushed down the prices of most liquid stocks. This supply did not find the demand that could boost the stock market for another leg up. Or not yet. We still consider the possibility of two periods of sharp increases as the most likely scenario for 2010. The low liquidity is a prob-

lem but it also created the environment for the gains in August 2009. The situation now is more resembling to that period of mild correction in the uptrend than the bottom of February 2009.

The correlation to European markets



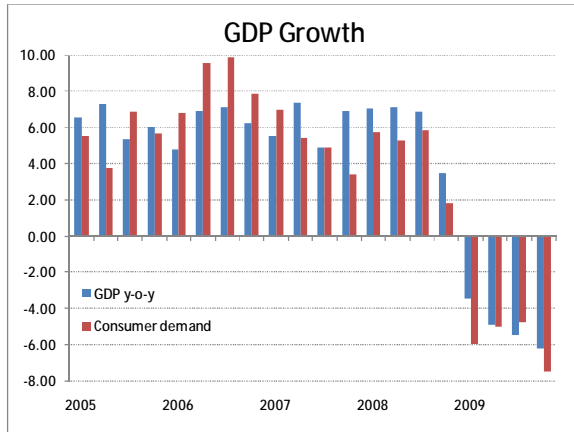
The graph is representing the one-month correlation of SOFIX and DAX. We choose the correlation for a short time, as periods of divergence of the indices are relatively brief. It declined after SOFIX reached a peak in mid-September, but did not fall to the levels recorded when BSE bottomed in February and July. Then the correlation was near zero, but subsequently became negative, as SOFIX diverged briefly with events abroad. Signal for growth last year can be found in the combination of a sharp decrease in the correlation plus relatively stable stock prices and low volumes. This cannot be seen today.

The correlation to other Eastern European markets like Romania and Hungary also declined significantly but not to the levels of the last year's bottoms. It is suggesting that SOFIX is approaching the next leg up but it needs additional time.

Market catalyst

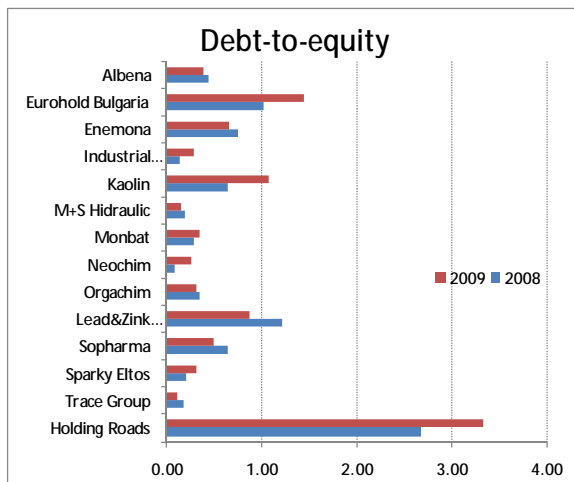
The force that can change the market direction is not present. Neither fundamental factors like corporate reports and macro data nor the demand from large foreign investors could become catalyst for the next leg up.

February did not bring any new information regarding the Bulgarian economy and the recovery.



The fourth quarter decline of GDP accelerated due to the negative contribution of the consumer demand and the government spending. The only factor for growth was the slower decrease of exports as compared to imports, which is partly due to the falling consumer expenses.

The industrial production bottomed out in early 2009 but the recovery is far from the expectations for V-shaped rebound. Mining sectors led the recovery, whereas manufacturing companies posted growth during the final months of last year. The winter months are usually less active and we expect that some improvement in the business climate is coming. Investments should remain low, especially in the construction sector that is restrained by banking credits.



The lackluster macro environment had its negative influence on the corporate balance sheets. The debt-to-equity increased last year to those companies that experienced difficulties last year, although notable exceptions were Kaolin (6K1 BU) and Orgachim (5ORG BU). Most industrial companies have very good equity-to-assets ratio that will provide opportunities to increase their debts during the recovery phase. We expect that leading Bulgarian companies will restart their investment programs sooner than later.

The companies in SOFIX with high debts are Holding Roads (6H2 BU), Eurohold Bulgaria (4EH BU) and Lead&Zink Complex (5OTZ BU). Moreover, their equity-to-assets ratios are very low. The other infrastructure company in our watch list is Trace Group (T57 BU) and has very low equity-to-assets ratio that we are associating with the sector's specifics. At the same time, its bank loans are significantly lower than the loans of other public listed companies.

Opportunities

Bulgarian market has its good sectors and attractive companies, despite the GDP contraction and the prospects for meager growth this year. Most of the currently preferable stocks by us are export oriented and their debts are easy to service. The examples are Monbat (5MB BU) and Sopharma (3JR BU) that will continue to grow in 2010 after strong quarterly performance in the second half of the last year. Those companies will continue to attract domestic buyers due to the good corporate governance and the stable growth rates of revenues and profits. Bargain hunting will not be the case in the market at the way that has been seen a year ago.

The major opportunity is for long-term investors as the modest supply at current prices could be used for stock accumulation. However, this period could extend further with lower prices if correction on international markets resume. The downside potential looks limited as Bulgarian stocks were not under pressure during the decline abroad in January and early February.

Stocks in focus

Enemona



The bank traded at unusually low volatility last month that can fit in the average daily changes in December. Speculators stepped aside as this volatility is not providing opportunities for short-term gains. Volumes fell significantly but the selling pressure did not intensify and the price remained close to the level of BGN 1.30.

We are mentioning the bank as one of the blue chips that could benefit from eventual market recovery with fast gains. It is trading at P/B below 0.5 and declined 25% from its recent peak in September. It is unclear if stocks with largest decline will outperform during market recovery but it happened twice last year.

Shares of Enemona (E4A BU) fell in February to the key level of BGN 8.80 where good horizontal support converges with the 50% correction. Current market bids are placed below BGN 9.00 but no strong buying interest is present.

The position is interesting with the market reaction to the recent capital increase. Almost one fifth of the offered six million shares were subscribed, mainly from domestic institutional investors. The yield of 10% did not attract interest from abroad. The low subscription rate is in fact positive in terms of the earnings dilution. Most of the pressure on prices was due to the selling from investors that participated in the capital increase and thus no sizable recovery followed the end of the procedure. But this significant obstacle is behind the stock and we expect its gradual recovery in mid-term perspective.

Central Cooperative Bank



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Outperform	More than 5% higher as compared to SOFIX and BG40 performance
Market Perform	Market performance, +/-5% as compared to SOFIX and BG40
Underperform	More than 5% lower as compared to SOFIX and BG40 performance

Frequency of Recommendations: No schedule of recommendations is available. The frequency of recommendations depends on specific factors to individual companies and the opinion of the analyst(s) for the necessity of minor or major changes.

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For more information, please contact:

Research analyst
Tsvetoslav Tsachev
Tamara Becheva

Phone:
+ 359 2 810 00 23
+ 359 2 810 00 27

E-mail:
tsachev@elana.net
becheva@elana.net

Internet:
www.elana.net
www.elana.net