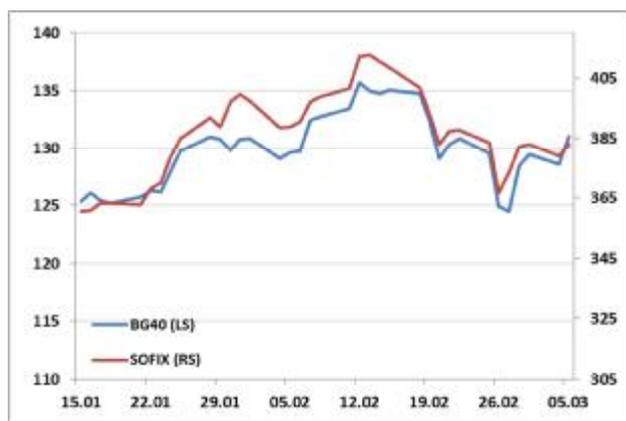


## Time of uncertainty

February became a very dynamic month for the capital market due to the government handing in its resignation and the uncertainty of the economy. Events took place extremely quickly and most of the investors on the stock market withdrew their offers, waiting the forming of a transitory government and clarification of the political situation in the country.



The stock indices fell more than 10% for the period. This does not correctly reflect the events on the market as the most liquid positions fell significantly. The top two companies by market capitalization – Corporate Commercial Bank (6C9) and Bulgartabac Holding (57B) reacted late to the news and managed to save the main index SOFIX from greater losses at the announcement of the Government resignation. Subsequently, the stock of Bulgartabac Holding showed one of the biggest decreases at very low trading volume.

## Liquid shares become cheaper

Chimimport (6C4) and Central Cooperative Bank (4CF) have proven to be very representative for the perceptions of individual investors. The two companies are actively traded normally during negative news, as was the case this time with increased volumes and number of trades.

The shares were under pressure during the first days of protests that provided ground for rumors of a possible Government resignation. The shares of Chimimport decreased by 20% and CCB fell by 12% in matter of days. Other holdings showed similar results. Industrial companies such as Monbat (5MB), Kaolin (6K1) and Sopharma (3JR) managed to restrain their losses in scale and volumes. We can even look at these securities as a long-term investment during the following weeks, as their operations are linked to markets abroad.

The risks for exporters to be influenced by a deteriorating of the business climate in Bulgaria are still very low. The companies that are dependent on the domestic market will report declining results, especially if they are linked with consumption or are reliant on the budget payments.

## Electricity distribution companies

The protests that lead to the government's resignation are largely due to the increase in living costs. Electricity distribution companies were under fire from protesters, even though many experts in the energy sector specified that the problems lie elsewhere. The results of the public companies show that they have contributed to an increase in the efficiency of the segment during the last few years as a consequence from their investments. This can hardly be said for a considerable part of the other companies in the energy sector, especially the government owned entities. The transfer of blame onto the utilities that is a problem of the whole industry, which is largely owned by the state and is 100% regulated by a government agency, was done for the purpose to justify the wrong policy in the sector. The revocation of CEZ's license will probably be impossible to implement from a legal point of view and can also have significant consequences for Bulgaria. Shares of public companies were suspended from trading for one week. The pressure of sellers gradually fades out. Stocks of utilities are primarily held by long-term investors and trade volumes are expected to decrease again to extremely low levels.

The change in electricity prices does not have a direct effect on the financial results of electricity distribution companies and their shares. However, the expected changes will decrease profits substantially, even though they work under the validated return on their assets. In the beginning of March the State Energy and Water Regulatory Commission (SEWRC) proposed an adjustment to the amount of recognized technological costs from 15% to 12% and a reduction in the required annual revenues for the three distribution companies by over 100 million BGN. The decrease in energy prices will have an extremely negative effect on the financial results of the companies.

## Financial Reports

The results of the public companies during the fourth quarter show a worsening for most of them. Only four of the components that comprise SOFIX reported an increase in their profits.

	2011	2012	P/E
Advance Terrafund REIT	57 232	26 941	7.61
Bulgartabac Holding	179	86 037	7.17
Eurohold Bulgaria	-277	-7 782	-15.79
Industrial Holding Bulgaria	-5 487	-5 187	-10.29
Kaolin	8 521	9 152	19.50
Corporate Commercial Bank	59 811	56 414	9.39
M+S Hydraulic	14 471	10 827	8.24
Monbat	18 392	18 201	13.01
Neochim	16 587	-8 218	-8.33
First Investments Bank	37 281	29 187	6.43
Sopharma	38 404	34 057	8.64
Stara Planina Hold	9 151	5 411	9.57
Real Estate Fund Bulgaria REIT	60 546	4 725	7.33
Chimimport	111 681	105 985	1.94
Central Cooperative Bank	12 158	15 097	6.37

\*Profits for 2011 and 2012 are in thousand BGN

The pressure on the profitability ratios comes from a relatively modest reduction in revenues and keeping costs at the same level. The inflationary effect on costs of public companies is rising and is the second most important factor for the reduction of profits. Similar growth rates of costs would not be a problem during an economic expansion as the inflation would be transferred to final sales prices. 2013 could possibly be the beginning of such a long term process as a consequence of the global economic recovery and the rise in prices of raw materials.

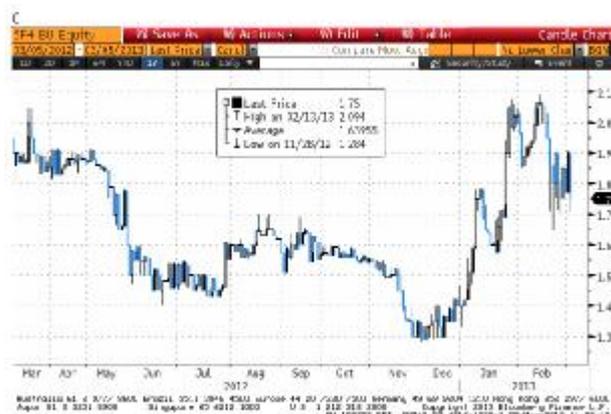
Valuation ratios remain low, despite the falling financial results of companies in the index SOFIX. Price-to-earnings ratio is below 10 for most companies. The share prices of some of them rose significantly this year, but remain at attractive levels compared to international peers. The stock market will be under the influence of uncertainty before the elections and the formation of a new government with stable majority in Parliament.

Global stock markets are performing well. This will have a positive effect on the stock market as foreign investors are not actively selling Bulgarian shares. The situation can change during the next few months from a correction in the stock indices. The causes of a temporary decrease in prices are several: the budget restrictions that are coming in force in USA and their reflection on growth in the country, the economic turmoil in Europe and the historically high stock indices.

## Stocks on focus

The companies with excellent performance since the beginning of the year were selling strong in 2012. Their rise in prices was not due to financial results but from an increase in demand from investors.

## First Investment Bank



The share price of First Investment Bank also benefited from the enthusiasm on the market since the beginning of the year. The correction after the resignation of the government was considerable but the price stabilized due to low trade volumes. The large bid-ask spread is behind the volatility. A key moment for the position remains the expected capital raise which should occur this year. The worsening of the financial results is not very large and the shares are still traded at a low price-to-earnings ratio. The continuance of the correction can make the position an attractive for long positions, but we have to take into account the assumption that buying should be at low volumes in accordance of the factors concerning the increase of equity. Most likely this will increase the pressure on the share or in the best case scenario - will restrict its price increase.

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<b>BUY</b>	More than 5% higher as compared to SOFIX and BG40 performance
<b>HOLD</b>	Market performance, +/-5% as compared to SOFIX and BG40
<b>SELL</b>	More than 5% lower as compared to SOFIX and BG40 performance

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