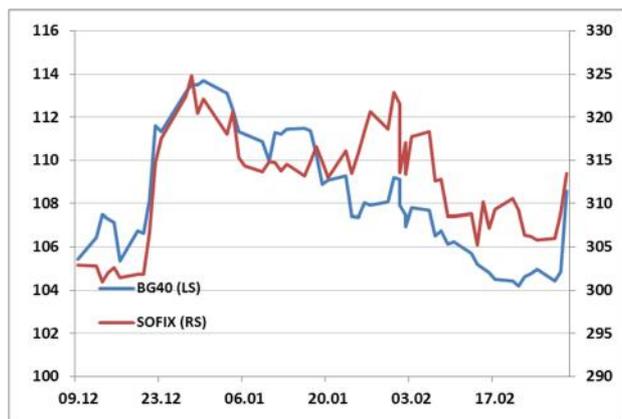


Near the bottom

Bulgarian stock market stabilized during the second half of February. The selling pressure faded out and daily turnover decreased. However, the month was not very bad in terms of overall decline of indices as SOFIX fell 2.9%, whereas the price-weighted index BG40 was down by the negligible 0.54%.



Although the percentage of decline was not worrisome, investors' moods were grim. The constant decline since the beginning of 2012 and the substantial losses from the second half of last year added to the negative bias. Domestic investors lost confidence in the market as a place for even moderate gains in short-term. They expect that the stagnation on the market will continue and their absence further depressed the overall volumes thus limiting the potential interest of larger domestic and foreign investors. Only speculators could bring the stock exchange to life at the moment.

Inflows and outflows

Large inflows from broad circle of investors are usually consequence of the economic and credit boom. Currently, savers in Bulgaria prefer the security and regular income of bank deposits. This is understandable regarding the low household income, economic risks and the negligible financial knowledge of savers. Moreover, interest rates on deposits remain attractive and are higher than inflation. Households are not diversifying their assets to mutual funds or directly to high-risk investments in stocks.

We expect that this negative conjuncture will start to change this year due to several factors, including:

- Decrease of interest rates on deposits – banks are hoarding money and in the near future will make them more aggressive in credits;

- Gradual increase of inflation – rising prices of commodities will pass on most goods and services. Households will need to find high-yield investment opportunities to maintain real yields;
- Economic recovery – the confidence in the domestic economy will improve through the course of the year. The result will be rising confidence in public listed companies;
- Improvement of corporate profits – 2011 was a challenging year as profits of industrial companies gradually rose. We expect that this year will bring sizable improvement of profitability.

The sell-off in February increased the overall volumes of stock trading by 50% as compared to the previous month. Prices fell but gradually and without selling pressure from closed margin positions. We added a graph with the volumes of stocks in the index SOFIX. It represents that the steep rise of volumes is not coinciding with the periods of increase or decline of indices.



The more smooth increase of volumes in the beginning of 2011 coincided with the market gains. As seen on the graph, the positive period begun from very low turnover and gradually increase to three times more monthly volumes. Other spikes in trading activities are due to block deals that are negotiated and not to the overall market activity. This is the reason why we consider current low volumes as signal for stabilization and we expect growth during the spring months.

Stocks in focus

The stocks of the two largest REITs that invest in agricultural lands posted solid gains during the last three months. Other blue chips struggled to form a market bottom during this period. The general news that sent REITs soaring was the proposed liquidation of assets of ELARG Agricultural Land Fund. Only shares of Agro Finance REIT were unchanged so far.

ELARG Agricultural Land Fund REIT (4EC BU)



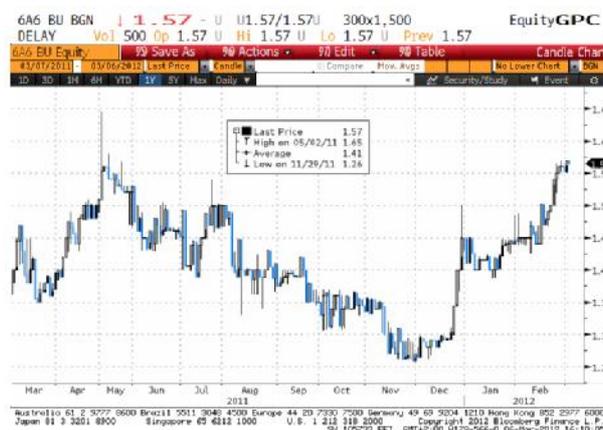
Shareholders of the company voted at the end of February for the proposal of assets liquidation on extraordinary meeting. This proposal was issued by the managers of the fund due to the huge difference between market capitalization and the equity of ELARG. Readers should be aware that the new management represents the recent change in ownership, which was due in very low price levels. In the time of proposal the price for share was BGN 0.70. Even at the current stock price of BGN 1.25 the market capitalization is 33% below the equity value of the company. The huge increase of profit for 2011 contributed the most to the larger equity of ELARG as assets were transferred from investments to assets for sale. The company will distribute dividends from the realized profit from the sell of agricultural lands during 2011.

The fund sold assets at prices that could deviate substantially from the future liquidation or the current levels for valuation purposes in the balance sheet. Moreover, the supply of available for sale lands will be overwhelming for the tinny market demand and will depend mostly on buying from farmers or other financial investors. The huge part of fund's land is rented and is under cultivation.

The risks for the achievement of lower liquidation value per share include the payment of penalty for the management company that is governing the

fund's assets. It amounts BGN 13 million and most of it is already paid up front. This is the reason behind our expectations for liquidation share in the lower range (BGN 1.50-2.00) of the estimations of the fund's management.

Advance Terrafund REIT (6A6 BU)



Soaring prices of shares of Advance Terrafund REIT has its explanation in two points. First is the understanding of market players that REITs are cheap as compared to their equity and even more as compared to the current value of lands. This applies not only to ELARG but also to all REITs that invest in agricultural lands. Shareholders of Advance Terrafund are not planning to liquidate the fund but shares were supported from the fact that additional value is not priced in.

The second major reason for the rising prices is the leading position that Advance Terrafund should gain after the liquidation of its main peer. This will attract additional demand to the existing share of the company.

Price-to-book ratio of Advance Terrafund also increased following the rising stock prices. At the same time the fund sold some of its assets and posted profit for 2011, which added to the company's equity. Advance Terrafund is currently traded at 25% discount to its equity.

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Financial Interest: ELANA Trading may trade or own shares of the analyzed companies. The research analyst(s) is not holding shares of the analyzed companies, unless otherwise noted.

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

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