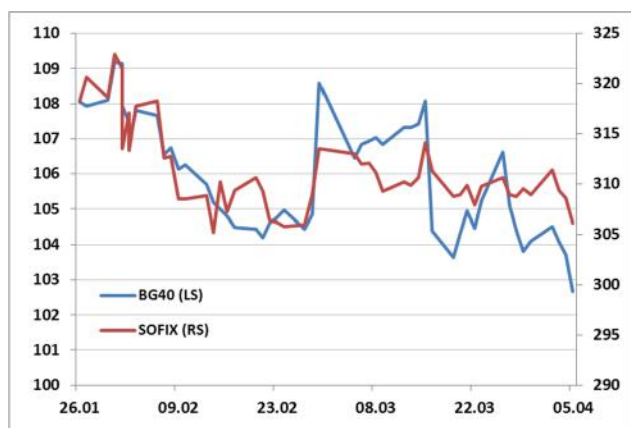


The stable stock market

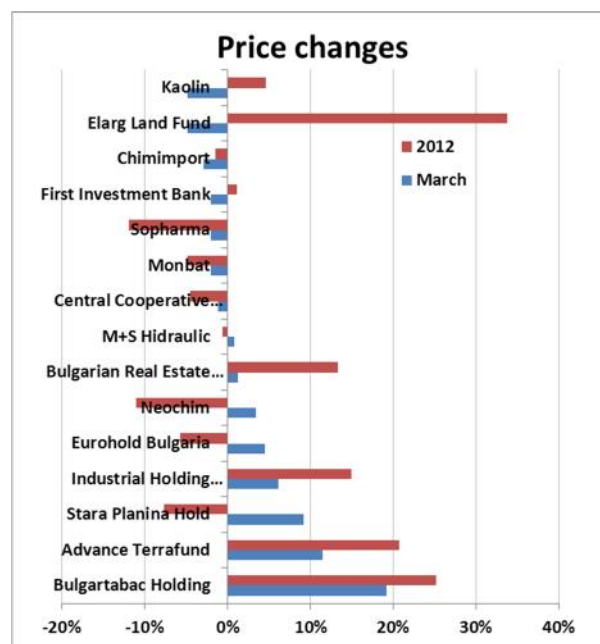
Indices remained near the market bottom during March and failed to test new lows but also lacked any sign of improvement in investment climate. The supply of shares was limited after the large liquidations from mutual funds in February. The main index SOFIX declined 1.5% in March, whereas the price-weighted BG40 fell 4%.



The dynamics of index SOFIX were insignificant. Many similarities can be found in the previous periods of consolidations before rise. The bad news is hidden into the absence of domestic investors. The turnover is mainly determined by the large block deals of stocks outside of SOFIX. Their trading activity remained constrain but they shined among the blue chips. However, the contribution to the development of the capital market is small – the number of shareholders is very limited and often they are related to one economic group.

The corporate reports had little effect on the stock market performance. The reaction was not imminent, although the stock prices were already under positive or negative perception, following the corporate performance during the winter months. Investors are not ignoring the published data of profits and revenues. They are giving preferences to companies with stable financial results and attractive valuation, whenever it is possible due to the diminishing liquidity.

The second graph is representing the price changes of SOFIX's components since the beginning of the year, compared to the change during March. The index did not posted significant change last month but several of the components were very dynamic during the two periods. The main reason was the regular reshuffle of indices according to the latest statistics of volumes traded and number of deals.



The most notable appreciation posted shares of the newly included in SOFIX company Bulgartabac Holding. The tobacco holding is not a newcomer in SOFIX as it was previously among the representatives of liquidity and free-float. The rebalancing of portfolios that track the index supported the prices of Bulgartabac Holding and ELARG Agricultural Land Fund REIT. The changes were implemented as of March, 19. At the same time, shares of Corporate Commercial Bank and Albena weakened, following the sell-off and were unable to recover until the end of March.

Economic risks

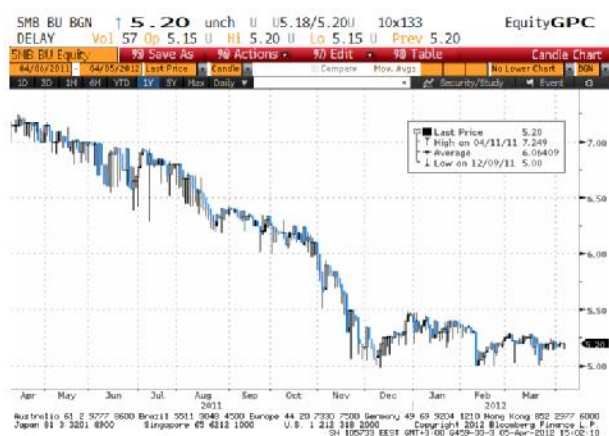
The main risks for Bulgarian companies remain the worsening economic situation in Bulgaria during the winter months. In fact, the recovery stalled since the beginning of 2012, mainly due to the bad weather and the related logistics difficulties, including exports. However, the negative news are already priced in and we don't expect selling pressure during the 1Q earning season.

The main risks are currently related to the increase of electricity and natural gas prices in Bulgaria that will have negative impact on profitability during the second quarter of 2012. This rise of energy prices will diminish the difference between Bulgaria and the average EU levels, thus limiting the competitive advantage of Bulgarian industrial companies.

Stocks in focus

The lower turnover with shares of leading companies along with the stable prices are the signs for bottom formation. The large spreads between bid and ask prices are determining price movement of 5 to 10% as unimportant.

Monbat (5MB)



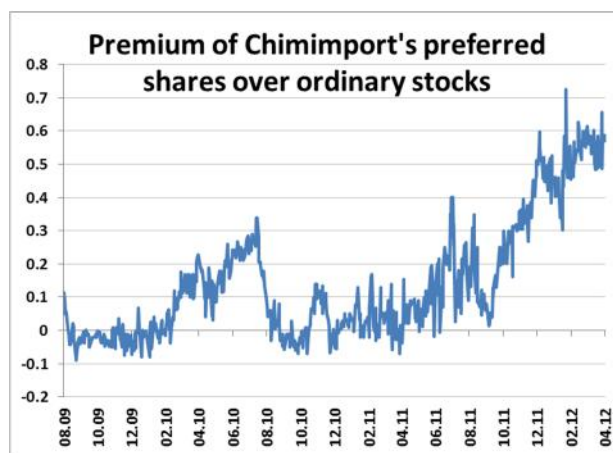
The producer of lead-acid car batteries is announcing its revenues and profits every month. Monbat's results were weaker during the winter months due to declining demand. The profit fell significantly but this has not reaction on the market as investors expected some difficulties during the period. Moreover, the management announced its expectations for the quick recovery of revenues at the end of the quarter.

The latest results of Monbat improved significantly the valuation of the stock. The company is currently traded at price-to-earnings ratio of 10, which is among the best in the history of Monbat. However, it will increase after the 1Q report.

The position is very stable due to the buy-back that currently runs for more than three years in a row. Monbat is using it for supporting the price per share in period of decline but mainly during low liquidity on the market. The company bought back 60% of the total shares traded in March. Data for previous months showed similar percentages and even higher levels during periods of lower turnover.

We consider the stock of Monbat as undervalued and attractive investment opportunity after the announcement of the first quarter report. Any disappointment will push the price below BGN 5.00, which we consider as temporarily buying opportunity.

Chimimport (6C4)



The premium of preferred shares over the ordinary stocks of Chimimport posted a substantial increase since September. The spread movement was very predictable before that as both shares moved in tandem. The premium increased only in month before the payment of yearly dividend of BGN 0.20, followed by the return to equal levels. The increase of the premium is mainly due to the falling prices of ordinary shares as the preferred issue maintained current levels of BGN 1.90 since the beginning of 2012.

The preferred shares attracted long-term capitals during the public offering that happened after the market boom. Investors were attracted by the high dividend of 9% to the issue price. The conversion to ordinary shares is optional during the lifespan of the issue. However, speculators remained aside of the offering, thus leading to significantly lower turnover of preferred shares. The spread of both issues is showing the capital outflows from smaller investors that are substantially higher among owners of ordinary shareholders. This imbalance is not only to Chimimport shares but is broad-based and most stocks are undervalued due to the outflows from domestic speculators.

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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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