

Searching for the market bottom

Bulgarian stock market was stable in March and April, although prices of many blue chips posted sizable movements. The last month changed the picture. Most liquid positions weakened and the index SOFIX fell to 3-year lows after the sell-off during the second half of May. Investors offered large blocks and some of the sellers preferred to put shares on the market, thus pushing down stock prices. SOFIX lost additional 2.6% in May, whereas the broad index BG40 was on green due to the gains of tobacco shares.



The sell-off preceded the releases of first quarter consolidated earnings of Bulgarian companies. The connection between corporate results and the market reaction is very weak – some companies surprised with quarterly data on the downside but the trend was seen a month earlier when they announced non-consolidated reports. The slowdown in quarterly reports was already priced in.

European crisis remains a concern

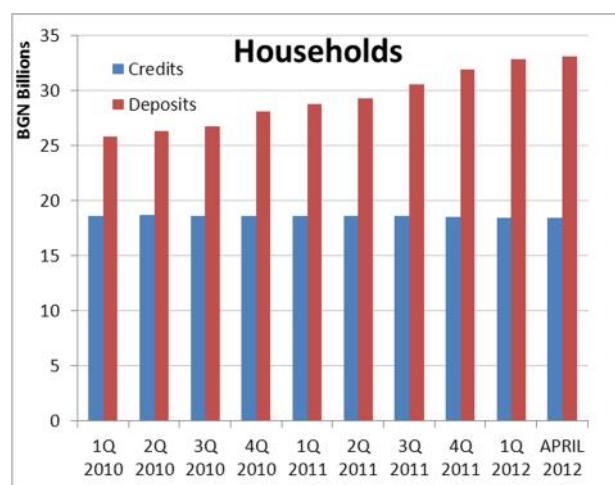
The economic crisis in Europe continued to repel new capitals and investors from Bulgaria. Many companies posted lower quarterly revenues from exports to EU countries. The results are making investors very defensive and even the attractive valuation of Bulgarian stocks cannot improve the market bias. The expectations are negative when concerning financial results – a new step on the downside is probable. In 2008 and 2009 Bulgarian economy contracted with some lag to the global crisis, whereas many companies reported very successful financial year.

This time the situation in corporate reports is different. Export-oriented companies are losing ground as growth rates are deteriorating. Some of them are even shrinking in terms of sales, profits or both. Additional decline is highly probable this year,

which will have negative implication on stock valuation. Investors will buy Bulgarian stocks in large volumes only after the start of economic recovery in EU plus signs of improvement in corporate reports.

Bank deposits

Domestic mutual funds have large exposures in Bulgarian stocks. Neither stocks nor funds can show good performance due to the economic reasons. This is limiting the capital inflows of households to risky assets. However, banks are attracting sizable new resources, especially from wealthy savers.



The graph is representing the total volumes of credits and deposits of households in domestic banks. The increase in April was close to BGN 300 million. Deposits of corporate clients also jumped significantly, although the volatility in this category is substantial. Total deposits increased much faster than credits in April and since the beginning of the year. The accumulated resources in banks already pushed down interest rates on deposits to the pre-crisis levels. This trend is likely to continue for at least a year as demand for new credits is low. The decline in interest rates will start to increase risk appetite to alternative investments. However, more important factor is the market performance.

Stocks in focus

Most Bulgarian stocks fell in May with very low number of exceptions among liquid positions. This was not a difference to previous market reaction of global turmoil. The exceptions were tobacco companies and some real-estate funds.

Bulgartabac Holding (57B)



The prequel of recent gains can be found in the privatization in August last year. The change in management and ownership resulted almost immediately into sizable improvement of profits of main subsidiaries – Blagoevgrad-BT and Sofia-BT. The two companies reported BGN 9.5 million profits during the first quarter of 2012 as revenues jumped when comparing to last year.

Shares of Bulgartabac Holding began to appreciate last December, driven by the rising demand on the market. Rumors are mentioning the presence of the new owner on the market as main driving force. It is an interesting fact that shares of subsidiaries began to appreciate with lag of several months. At the moment, the three stocks are among the best performing positions since the beginning of 2012.

The expectations of investors are pointing to the forthcoming delisting from the stock exchange. The tender offer is usually at higher prices than the average market quotes. The valuation of tobacco shares also improved and will continue to do, following the rising profits and revenues. Thus, the tender offer price could be even better than the current.

First Investment Bank (5F4)

Shares of First Investment Bank were also affected by the market decline. They were among the worst hit positions in SOFIX.



The recent losses were not provoked by corporate news or latest financial results. On the contrary, investors had enough time to become acquaint with the non-consolidated report for the first quarter, published at end-April. Sellers could be driven by the rumors or expectations of credit portfolio deterioration. The sell-off was more likely result of portfolio liquidation, rather than mass exit.

EVN

The majority owner of EVN Electrosnabdiavane (1EV) issued a tender offer to minority shareholders and is planning to delist the company. The Austrian company is already owner of 99% of shares. It offered a price of BGN 357.01 per share or 80% above the last price. The minimum privatization price for the 33% of the capital offered last December was BGN 120.31, whereas shares changed hands at 30% above it. The majority owner acquired most shares.

The other company – EVN Electrorazpredelenie (EV6) will most likely also delisted. We expect that the tender offer price will be higher than the current quotes but we expect significantly less premium. The two companies will be example for gains after the privatization and will attract investors' interest on the next sell of state property.

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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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