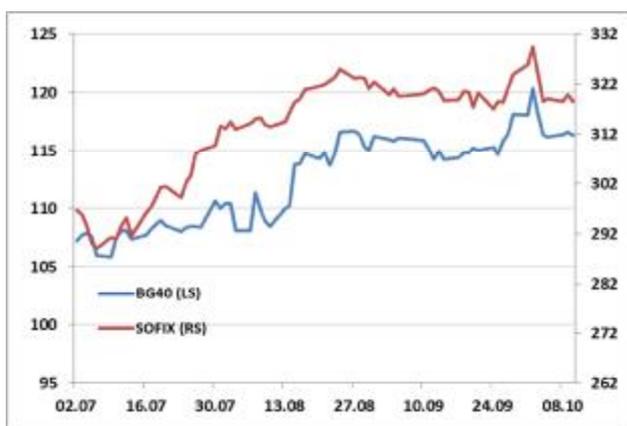


## Stable indices, dynamic prices

The summer ended with a boring September, during which investors chose to withdraw from the demand side. Furthermore, some of them were even actively selling. SOFIX remained almost unchanged despite the restructure at the end of the month. Turnover remained low, allowing significant changes in the price of some shares.



At the beginning of the summer we expected the stock exchange to form a bottom. This happened during the summer months, when some of the leading position recorded significant increase – like Monbat and Kaolin. Bulgartabac Holding also stepped up, which offset the weak performance of Chimimport and Central Cooperative Bank. Moreover, the bad news for investors came all over the Globe. The economic situation in USA and Europe was gradually worsening, which had negative effect on the export-oriented Bulgarian sectors as well. The revenues from export shrunk, although the rates of decline were not the same as during the 2008-09 crisis. The deteriorated financial results will persist during the third quarter as well. The financial reports will be published at the end of October.

## What to expect from the financial statements?

The most considerable among the non-consolidated statements, which will be published by the end of the month, will be banks' reports and export oriented companies' results. Their weight and liquidity in the indices are significant. Economic problems in Europe will have an impact on the performance of several important companies. Their results were already reported as worsening, which was already seen in the monthly reports of Monbat and Stara Planina Hold. On the other side industrial sector

performed better compared to 2009 in both sales and net profits for the period. The explanation of this can be found the preliminary preparation made by a lot of the European industrial companies. They expected the crisis. Bulgarian industrial companies are mainly their suppliers and their incomes fall dramatically if there are surprising changes in inventories due to the decline in the final demand. Currently, large companies are managing their inventories driven by expectations of crises and lower income - there are no sudden transformations throughout the production chain.

The banking sector is highly dependent on the ability of the recipients to service their loans. Non-performing household's credits already made their peak, while banks are trying to sell assets and bad corporate loans. The effect from the decreased interest rate will be seen in the 3Q results. These changes will have a positive impact on the profit margins during the next couple of quarters and we should observe how and which public bank will take advantage of the process.

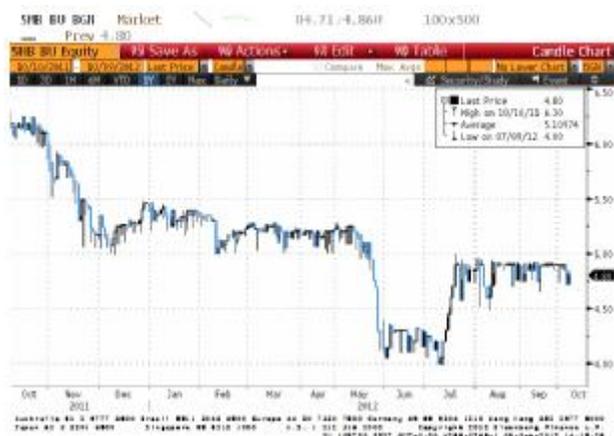
## Energo-Pro Privatization

The most important event in late September and early October was Energo-Pro privatization. The state offered its residual 33% stakes. The deal attracted the attention of the stock exchange with expectations for short-term profit like the privatization of EVN Bulgaria subsidiaries at the end of 2011. The purchases of most shares by the majority shareholder led to price increase at the opening. However, it was short lived. Investors with short-term horizons took advantage of the growth and the sells roughly amounted 1% of the capital during the first trading days. SOFIX decreased at the privatization day, which hadn't reference to the participation on the auction. The deals showed that there is sufficient capital on the market which stays unused, including speculative one. The privatization is not a factor for the development of the stock market but short-term gains will move on the speculators and even will increase the interest toward the stock exchange.

## Stocks on focus

It is hard to talk about a reaction to the corporate news on BSE during the last year. The market is slowly adjusting to company's financial status change but imbalances between fair value and current prices are high. Shares on focus are companies that have already been largely affected by the crisis in Europe, while investor's reaction of the financial statements is indicative for their attitude to the current situation.

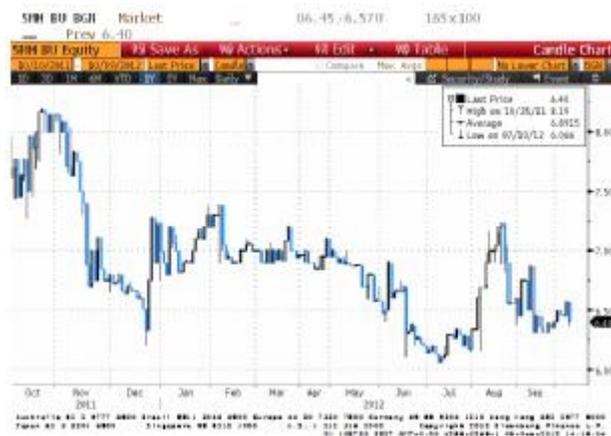
**Monbat**



The shares of Monbat, one of the companies with stable revenue growth during the recent years, begins to lose its status of a liquid position. Current trading is mainly determined by the buyback procedures which could be observed by the lack of correlation of the share price and market movements. The position is interesting for the market with its management forecasts and mainly with the regular announcements of financial results every month. This limits the surprises and makes the forecasting easier. Share price is driven by long-term investors' expectations. During the first half of the year Monbat reported sales decrease on several markets. At the same time part of this decrease was offset by strong revenue growth of other countries. The company did not disclose the reasons for these significant changes on single markets, which certainly account the crisis effects on the final demand. The third quarter is seasonally better than the second one. Our expectations are that the company will report revenues of at least BGN 40 million based on consolidated accounts for the period. These are our most conservative estimates, as we take into consideration already published data on BGN 30 million revenues in July and August. Based

on this we also estimate a lower profit level - BGN 2.2 million, which reflects a zero result from September. In this case, the share will be traded at price to earnings ratio of 14. We don't expect a market reaction but a decrease toward the recent bottom will be a good bargain as these will be the worst financial results for the year.

**M+S Hydraulic**



The forecasts and preliminary data of M+S Hydraulic for the third quarter are also suggesting shrinking revenues and worsening of profit margins. This should be the first quarter with a large decline in revenues compared to the average level for the last one year. It is worth to note that this decline is significantly less compared to the summer of 2009. However, it is still early to talk about reverse of the trend. Our expectations are that the crisis will not be as strong and the company will not report a decrease comparable to 2009.

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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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