

## The summer lethargy?

The month of many holidays for the Bulgarian stock market did not bring any thrill for the investors. The market bias was mostly negative and indices finished on the red in May. SOFIX fell more than 2%, whereas BG40 lost 3.7%. Although this decline is less than worrisome, it accelerated during the first quarter and large-caps underperformed.



Trading volumes were low as expected after the calm on the market during March and April. The end-May decline could not be described as substantial profit-taking due to the low activity. However, sellers prevailed and the market is correcting.

The typical signs of summer lethargy are not presented in this persistent decline in low volumes. The market should be more stable, whereas investors are waiting to join the rally or to sell following more negative news. It is not uncommon for speculators to turn off their computers. We expect this to happen in near future, although some further selling pressure is on the pipeline. June began with decline in correlation with international markets. Greek financial problems could create further volatility but for now sell orders from brokerages that attend clients from Greece are very limited.

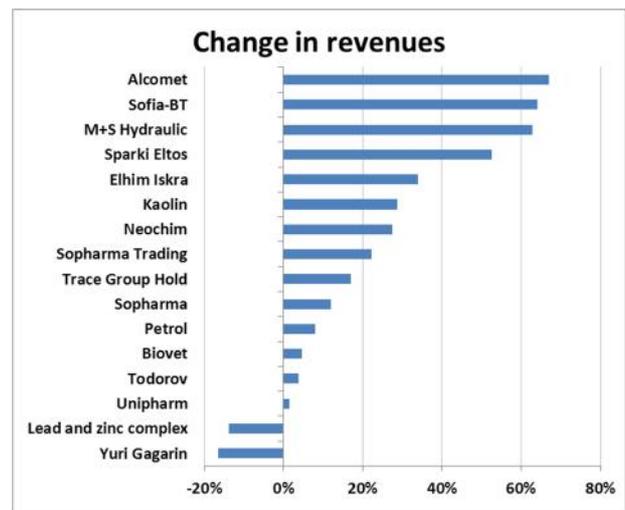
More local investors are not long-term negative on the stock market. This could be seen in the stable levels of indices after the solid gains at the start of the year. The non-consolidated reports that have been published at end-April did not triggered sell-off. The current market weakness is just the late correction that should followed the previous

gains and is unlikely to extend during the summer.

The summer lethargy and the stable share prices will create buying opportunity before another leg up this year.

## Earning season

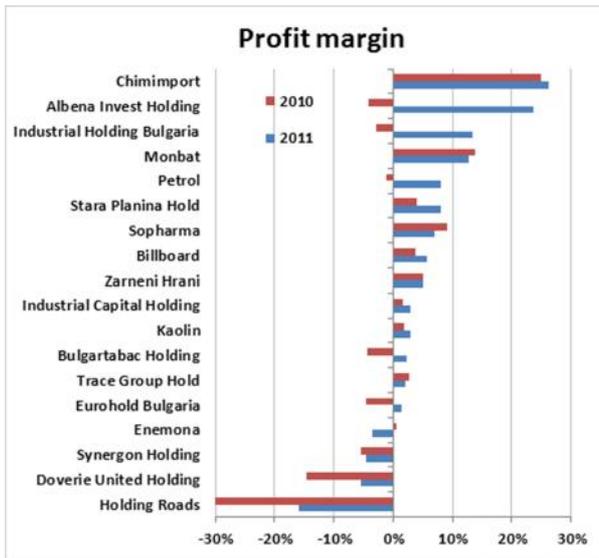
Corporate reports were not a disappointment as far as investors were not too optimistic. Export-oriented companies enjoyed solid demand from abroad and showed an increase of revenues. Profit margins remained below their highs during the booming years due to the low level of capacity utilization worldwide. Gains of revenues were a consequence of the inflation pressure from commodities and other materials for production that pushed down the profitability.



Source: Non-consolidated reports

Rising revenues were the positive news from companies but profits are not following the same trend. The increase of non-consolidated financial results was modest. They added only 4% during the first quarter as compared to a year ago. When excluding the positive result from sell of assets in Ene-mona's report cumulative profits are declining.

The consolidated reports that include holdings showed similar results. The improvement in profitability was exceptional but 70% of companies had increased revenues.



Calculations: ELANA Trading

Four of the eighteen liquid companies posted losses in their consolidated reports for the quarter. Three of them had lower losses than a year ago. Petrol, Industrial Holding Bulgaria, Bulgartabac Holding and Eurohold Bulgaria posted sizable improvement. Only Enemona had lower financial result than 1Q 2010 and at the same time finished with loss. Sopharma's profit was also lower but the pharmaceutical company is among the most profitable among liquid positions.

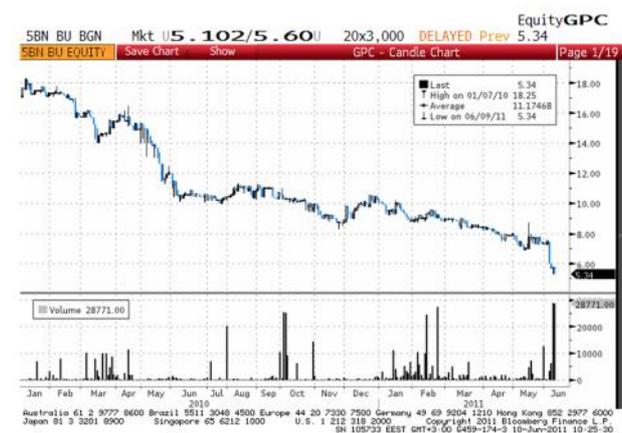
The profitability of holdings is not exceptional even for Bulgarian standards. The market is lagging behind other emerging countries. However, improvement on yearly basis is solid. The consolidated reports of holding companies in BG40 showed 135% increase of profits, whereas revenues jumped 17.3%. Holdings have much better profit margins. Export-oriented companies are outperforming. Several companies, including those that are reporting on non-consolidated basis, had large profits from trading with securities. The high profits are not stable and companies like Petrol and Industrial Holding Bulgaria would not be able to maintain the present growth rates. Moreover, they could easily return to normal.

Share prices are reflecting very accurately the quality of corporate earnings. We don't expect that positions with one-time profits will continue to outperform the broad market.

## Stocks on focus

Three banking stocks are performing very well since the beginning of the year. Shares of Bulgarian-American Credit Bank suffered significantly after the news for the capital increase and was under pressure as the issue price was below the current. The measures are aiming at stabilization of the bank and to provide opportunities for growth from the current situation of rising bad loans. The bank is reporting constant decrease of loans during the previous four quarters. Investors are worried about the negative trend of the stock as well as the future of the bank.

The news of capital rising preceded the announcement of the price for the 49%. However, the majority stake has been transferred in mid-June at the symbolic price of EUR 100 000 for half of the bank's capital.



The new capital and the credit line from the majority owner will provide to AIB the possibility to withdraw its short-term loans to BACB.

The intrinsic value of BACB's stock is close to the market level. However, forecasts for the next several quarters could prove to be very optimistic when comparing to the price-paid for the majority stake. Moreover, the increase will dilute the capital. The fair value should be in the broad range between BGN 4 and BGN 6. What the market don't know is the results of the audit that resulted to price per share of BGN 0.03. There are maybe additional skeletons in the closet.

## Disclaimer

**Analyst Certification:** The research analyst(s) certifies that: (1) all of the views expressed in this document accurately reflect his or her personal views about any and all of the subject securities or issuers; (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this document.

**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.

**Regulatory Authority:** Financial Supervisory Commission, *Shar Planina* Street 33, 1303 Sofia, Bulgaria

**Information Disclosure:** All reasonable care has been taken to ensure the facts stated are accurate and opinions given are fair and reasonable. Our recommendations are based on information available to the public that we consider to be reliable but for the completeness and accuracy of which we assume no liability. Neither ELANA Trading, nor its directors, officers or employees shall in any way be responsible for its contents. The views expressed may differ from the views of other firm departments or representatives. Additional information is available upon request. Unless otherwise noted, sources for all information in charts and tables are ELANA Trading's calculations.

**Risks for Investors:** Information in this document should not be regarded as an offer to buy or sell any financial instruments. The investment possibilities discussed in this document may not be suitable for certain investors depending on their specific investment objectives and time horizon or in the context of their overall financial situation. In particular, the risks associated with an investment in the securities or the financial instruments under discussion are not explained in its entirety. The prices or values of the securities may go down as well as up and can fluctuate and fall against the investor. The securities or investments may cause the investor to lose the amount invested. Past performance is not a guide to future performance. Changes in exchange rates may have an adverse effect on the value, price or income of the securities or investments.

**Valuation Methods:** Company valuations are based on the following methods: multiple-based (P/E, P/B, EV/EBITDA), historical valuation approaches, peer comparisons, discount models (DCF, DDM) or asset-based evaluation methods. Valuation models are dependent on macroeconomic factors, including interest rates, foreign exchange rates, prices of raw materials, and any expectations about the economy, the market sentiment. The valuation is based on expectations that might change rapidly and without notice, depending on developments specific to individual industries and countries. Recommendations and target prices derived from the models might therefore change accordingly. The application of models depends on forecasts of a range of economic variables, thus there is a range of reasonable variations within models. Any valuation is dependent upon inputs that are based on the subjective opinion of the analysts carrying out this valuation.

**Recommendations:** Analyst(s) recommendations are based on the specific factors for the company, sector, country and global developments, as compared to market indices. Recommendations and opinions reflect ELANA Trading's expectations over the 12-month period following publication from the perspective of long-only investment clients. ELANA Trading reserves the right to express different or contrary recommendations and opinions for different timescales or for other types of investment client. Except as otherwise noted, expected performance over next 12 months vary for different recommendations for Bulgarian stocks as follows:

<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

**Frequency of Recommendations:** No schedule of recommendations is available. The frequency of recommendations depends on specific factors to individual companies and the opinion of the analyst(s) for the necessity of minor or major changes.

**Copyrights:** The copyrights of ELANA Trading analyses belong to the Research Department of the brokerage and their content cannot be used for commercial purposes. Replication and redistribution of ELANA Trading analyses content is expressly prohibited without the prior written consent of the appointed contacts listed below.

For more information, please contact:

Research analyst  
Tsvetoslav Tsachev  
Tamara Becheva

Phone:  
+359 2 810 00 23  
+359 2 810 00 27

E-mail:  
[tsachev@elana.net](mailto:tsachev@elana.net)  
[becheva@elana.net](mailto:becheva@elana.net)

Internet:  
[www.elana.net](http://www.elana.net)  
[www.elana.net](http://www.elana.net)