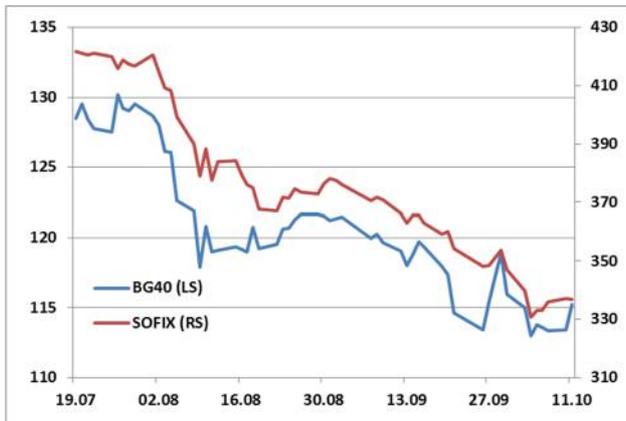


Closer to the bottom

The stable behavior showed by the exchange in the beginning of September turned out to be temporary. After the first signs of weakness at the foreign markets, indices went straight down. SOFIX lost additional 8.23% in September after a weak performance in August.



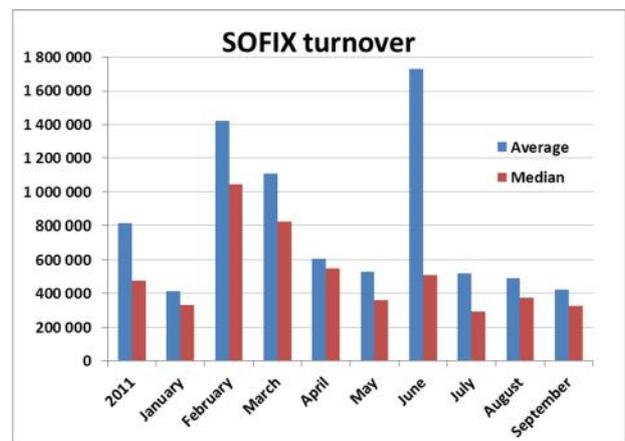
Market risks were clearly on the downside and there is no sign of a future change yet. Sales were at relatively low volumes but there was a daily pressure on prices achieved through a big bank. The bank serves mainly foreign investors.

SOFIX certificates

The main index's drop was mainly due to the correction abroad and to the risk revaluation on the Bulgarian market. In 2011 there were two periods of decline, which finds its explanation in the structured products on SOFIX. On June 6, 2011 and on August 9, 2011, Royal Bank of Scotland announced it had closed two of the certificates based on SOFIX. That resulted in a market decline due to the fact that for repaying the certificates the bank needs to sell stocks. Foreign investors have probably decided to decrease their exposure on the Bulgarian market. However, if that continues, it will not be surprising if the September drop is also from foreign activity. Local investors' behavior is not diverging from their foreign counterparts'. Negative bias is prevailing, although we cannot consider that as being an effect of the global

economic slowdown yet. Demand has surely decreased and that supported September's decline, which was characterized by weaker turnovers. Withdrawal of buy orders was typical for the negative sessions. Local investors are usually cautious when foreign markets are trending lower and they don't buy after positive sessions abroad to avoid being trapped in more serious decline.

The strong downtrend had to be confirmed with increased turnovers as compared to the previous months. The graph below shows that it was not the case.



We are considering the median of the daily turnovers in order to isolate the effect of big packages' movements, such as in June. The lack of increase in the daily turnovers proved the limited scope of the sales and investors' withdrawal, of course. Due to the global uncertainty, there is no willingness to buy, despite the low prices.

Our expectations lead towards a market bottom in the next couple of weeks. Sales pressure will decrease to insignificant levels, investors will remain cautious, with no willingness to buy. October will probably account for the lowest levels of turnover this year, even if the foreign exchanges experience price recovery and less negativism towards the European bank crisis. That model of behavior of BSE was settled in the last couple of years, as the investors prefer being cautious when the market goes down.

Non-consolidated reports

Publishing of the first reports will start in the end of October. Some companies will reveal information regarding their entire line of business while others will only cover their main operations. In the table below we present expected results for revenue and net income for Q3, based on a regression analysis using data from the last 30 months. Gross margin is calculated as the trailing 12 months average.

	Revenues	Change	Profit	Margin
Alcomet	80 071	28.10%	2 954	3.69%
Blagoevgrad-BT	55 771	10.99%	2 441	4.38%
Elhim Iskra	12 074	-17.18%	1 155	9.57%
Emka	20 750	22.28%	857	4.13%
Kaolin	37 660	6.16%	2 471	6.56%
M+S Hydraulic	24 927	45.81%	3 912	15.70%
Neochim	13 747	-2.06%	-4 986	-36.27%
Lead and Zink	31 195	-6.60%	225	0.72%
Sopharma	61 508	6.69%	10 695	17.39%
Sopharma Trading	119 145	19.19%	2 059	1.73%
Sparky Eltos	14 911	70.72%	-1 752	-11.75%
HES	12 670	3.72%	920	7.26%
Juriy Gagarin	15 070	12.73%	1 061	7.04%

That method of forecasting does not account for the industry specifics, except for Neochim. In their case the seasonal effect is considerable and thus just the summer months' data are used for the analysis.

Net income is calculated via the average margin for the past four quarters. That helps us see which companies are operating below and above their averages during Q3. We are currently not expecting sharp improvements in the financial results. The positive trend in the net income increase will improve the profit margin but the global slowdown and the potential recession in Europe could bring negative surprises. As to its scale, we will only know from the Q4 reports release.

Companies in focus

Privatization of Bulgartabac Holding (57B) is already completed. The company was sold at nearly 30 BGN per share. Stocks' market price remained lower despite the perspectives of a higher tender offer if the new majority owner decide to delist the holding or any of its subsidiaries. It is not clear for now

on what is about to happen to the two public listed factories in Blagoevgrad and Sofia. The lack of bidding offers from more participants during the sale of the majority stake and the price being close to the minimum, mean that the premium for control is insignificant. That is, the current quotations of the companies' stocks are fundamentally underpriced. They can remain like that due to market reasons.

The shares of Orgachim (5ORG) are not actively traded and there is no fluctuation in prices. The auction supply and the diminished free-float have led to the position's disappearing from investors' sight. An important step towards the delisting of the company from the exchange is the sale of the share of the pension fund Doverie. They owned a significant package and could in practice help in blocking the decision of delisting.

Trace Group Hold (T57) was down in the trailing three months by nearly 15%, and compared to its peak for the year it is down 33%. The stock is interesting with the big time gap between the last day with a right of participation in the capital increase and the actual start of the new shares' trading. The diminished liquidity could have contributed for the weaker correction in the share price. Indeed, the trading with the new shares pushed down the price with more than 15% on October, 10th. It begun to recover but the weakness was expected and we considered it as sign for long-term bottom.

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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

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.

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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
becheva@elana.net

Internet:
www.elana.net
www.elana.net