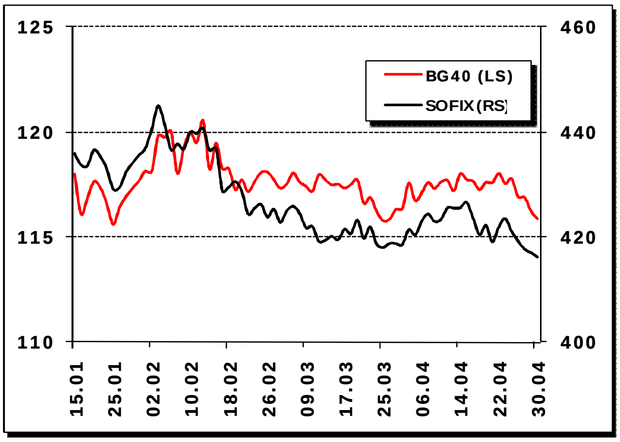
New leg down but not much

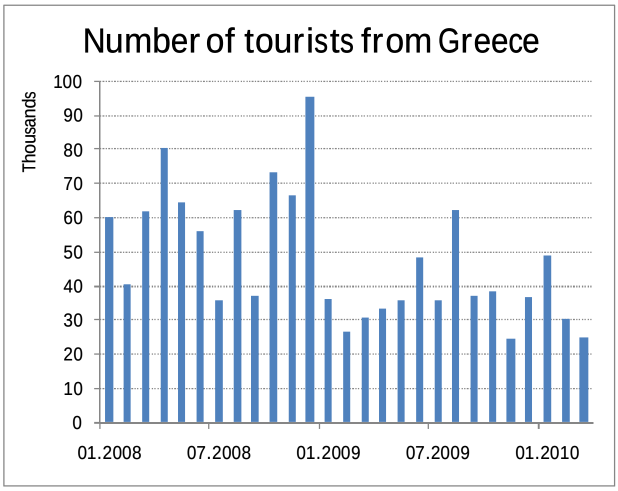
Bulgarian stocks broke the support line again and indices moved to the lows from the beginning of the year. Some of the weakness can be attributed to the quarterly reports that have been announced in late-April. However, volumes remained thin and the falling prices of blue chips were mainly pushed down by the usual supply from domestic investors, rather than renewed sell-off from institutional investors.



The new leg down will require sizable weakness on US and European markets. Only 10% correction of international indices could send SOFIX below its December bottom of 406 points. As long as no increase of volumes traded is witnessed, the monthly change of SOFIX will remain very limited on the downside. We consider the correction from September top already overdone with fair stock valuation and good perspectives for positive surprises from leading Bulgarian companies.

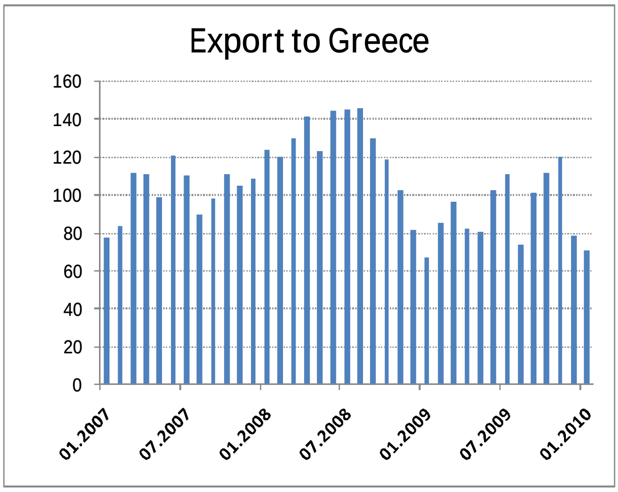
Contagion from Greece

This is probably the biggest concern among domestic and foreign investors. One month ago, we examined the CDS-spreads of Bulgarian, Romania and Greece. Since then, the situation in Greece worsened significantly, according to the level of CDS. Moreover, it jumped to level that is consistent to the most problematic countries like Venezuela and Argentina. At the same time, CDS of Bulgaria and Romania posted short-term increases but returned to the levels from the end of March. We consider those movements as due to the overall change in the risk aversion of markets and not signal for change of the investors' bias. Confirmation for the lack of contagion can be found in the latest statistics for tourism and banking system.



***Source: National Statistic institute**

The negative impact on tourism from Greece was limited during the winter months of 2010. Further decline during the summer season could decrease the total number of tourist visits during the year. However, Bulgarian summer resorts are advertised as low-cost destinations and we don't expect significant decline of tourists this year.

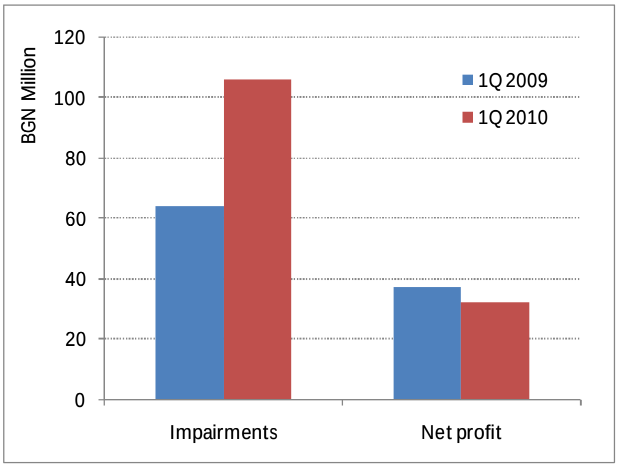


Data for the export to Greece also confirmed the lack of sizable effects on yearly basis. The decline is much larger when comparing to 2008 but since the debt problem of

Greece, no further reduction has been noticed. Those are the reasons to remain confident that Bulgarian economy will not be hit hard by the Greek crisis.

Banking system also looks immune

Banking system is major concern as assets of Greece-owned banks in Bulgaria represent 28% of total. Four banks in Bulgaria are owned by Greek banks and one is operating as a branch. Their assets increased 3.5% during the last 12 months, whereas the equity jumped 20%. Next graph is presenting the change in impairments and net profit in nominal value.



Source: Bulgarian National Bank

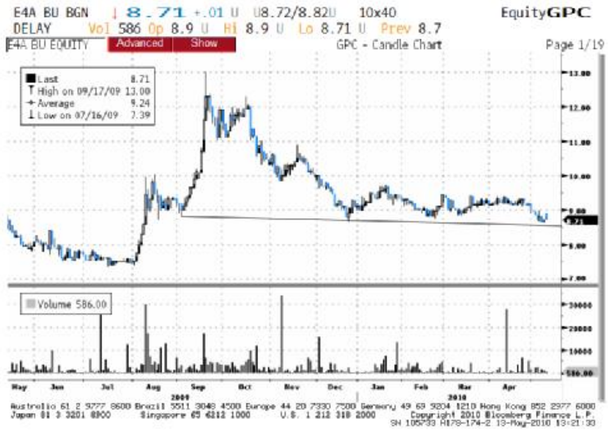
The percentage changes are as follow: 65% for impairments and decline of 14% for the net profit. Both figures are telling that banks are able to mitigate the negative impact on profits from bad loans. Moreover, their capital is rising that will ensure their solvency.
The liquidity crisis in the Bulgarian banking system is also over. Interbank interest rates fell significantly. At the same time, banks maintained their high interest rates on credits and decreased significantly new loans, which supported their liquidity.

Earning season

Domestic investors are not too concerned about the stability of the banking system but are not turning their attention to more important factors like the earning season. The market reaction to non-consolidated reports was limited due to the already 20% correction since September 2009.

Stocks in focus

Enemona



Enemona (E4A BU) could be the example for the negative reaction to weaker quarterly report. The price per share fell again to the important support zone of BGN 8.70-8.80 in thin volumes. The construction company announced 40% decrease of revenues due to the strong performance year ago. They were very close to the levels in 2007 and 2008, but the profit was weaker.
We consider this reaction in line to the overall trend of market weakness. With rising orders backlog and consolidated revenues that will be less affected from the crisis in construction, Enemona is still in our favorite Bulgarian shares. Testing July lows is a possibility we cannot ignore but it will require further pressure with improved volumes and much negative market bias.
Positive note is the performance of the other two securities of Enemona. The preferred shares continued to trade at their issue price, whereas warrants showed increased volatility that is due to the broad spreads and not to profit-taking.

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Outperform	More than 5% higher as compared to SOFIX and BG40 performance
Market Perform	Market performance, +/-5% as compared to SOFIX and BG40
Underperform	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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