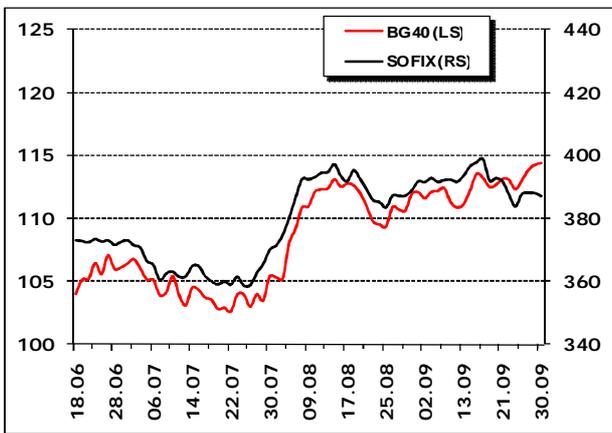


Summer lethargy or the new normal

Why we are mentioning the summer lethargy when August finished with 7% increase of SOFIX and the stock market was flat in September? The reason is the same – low volumes and meager participation of institutional and retail investors. The most of the largest deals followed the restructuring of the main index SOFIX. The biggest changes in the index forced the manager of the structured products on SOFIX to sell packages of nine companies and to buy four. As we expected, some of the least liquid stocks gained significantly but temporarily.



The new normal for the market is still intact. Retail investors are feeling apathy toward the market and are continuing to diversify into international markets. Pension funds are already invested at the maximum allowed by the regulatory framework in Bulgarian stocks that they found attractive. Mutual funds are still under pressure from the steady outflows.

The new SOFIX

The general idea behind the changes in SOFIX was improving liquidity. The number of stocks in the index has been decreased to 15 from 20. However, Sopharma and the group of Chimimport remain the heavy-weighted positions and will maintain their importance for the market gauge. It is doubtful that the change in the index will have long-term increase of liquidity. No short-term positive effect has been noticed aside of the sessions around the date of change.

IN	
6A6	Advance Terrafund
5DOV	Doverie United Holding
5SR	Stara Planina Hold
T43	Zyreni Hrani Bulgaria
REMAIN	
6AB	Albena
5BN	Bulgarian American Credit Bank
4CF	Central Cooperative Bank
6C4	Chimimport
E4A	Enemona
4EH	Eurohold Bulgaria
5F4	First Investment Bank
4ID	Industrial Holding Bulgaria
6K1	Kaolin
5MB	Monbat
3JR	Sopharma
OUT	
4EC	ELARG REIT
6C9	Corporate Commercial Bank
6H2	Holding Roads
5OTZ	Lead and Zinc Complex
5MH	M+C Hydraulic
3NB	Neochim
5ORG	Orgachim
SL9	Sparky Eltos
T57	Trace Group Hold

Additional changes will take place as the requirement for free-float will increase to 25% until September 2011. Companies in risk for replacement include Chimimport, Albena, Monbat, First Investment Bank, Bulgarian American Credit Bank, Kaolin and Enemona. They probably will increase the free-float to remain in the index but losing some of mentioned stocks will make SOFIX less important index. However, the theme is closed for now.

Valuation

No doubt some of the liquid stocks are very cheap by comparison to other Eastern European markets and by historical domestic standards, albeit very short. The list of undervalued stocks by earnings, book value or both is not very long and it

excludes low-liquid companies with losses for the trailing year.

		P/E	P/B	RoE
6AM	Alcomet	11.84	0.82	6.91%
5BN	Bulgarian American Credit Bank	117.00	0.62	0.52%
4CF	Central Cooperative Bank	3.22	0.35	10.84%
6C4	Chimimport	3.01	0.43	10.89%
6C9	Corporate Commercial Bank	4.97	1.21	24.38%
52E	Elhim	7.85	1.16	14.72%
57E	Emka	8.42	1.62	19.20%
E4A	Enemona	7.91	0.81	10.30%
4EH	Eurohold Bulgaria	88.85	0.32	0.36%
5F4	First Investment Bank	7.66	0.50	6.55%
4PX	Yuri Gagarin	6.27	0.76	12.20%
4O1	Oil&Gas	4.06	0.43	10.69%
T57	Trace Group	8.34	1.77	21.29%

Most of the companies that posted improved results during the last four quarters are industrials with high share of exports. They took advantage of the rising demand abroad, whereas their stock prices remained subdued due to the current market conditions. This trend will continue in slower pace but rising revenues will have much better effect on the profitability. This is why we have good expectations for the performance of companies like Monbat despite that they have higher multiples.

The third quarter reports will maintain the trend of improvement as year-ago data have been very bad. Lower multiples could increase the buying interest but foreign institutional investors will turn their attention to the market after sizable gains.

The confidence and Holding Roads

Investors' confidence is the key for the recovery of the stock market. Individual investors are slowly withdrawing capitals from stocks and mutual funds. The case of Holding Roads (6H2) became additional factor that will delay the return of confidence as almost 3000 individuals are shareholders of the road infrastructure company. Three of the subsidiaries will increase their capital but the holding will not participate and will lose the share of ownership. This was possible due to the complex ownership as Holding Roads is majority owner through another holding company, which is not public listed. As a result, the holding will be stripped of from one third of its

assets that were responsible to half of the holdings' revenues and profits for 2009.

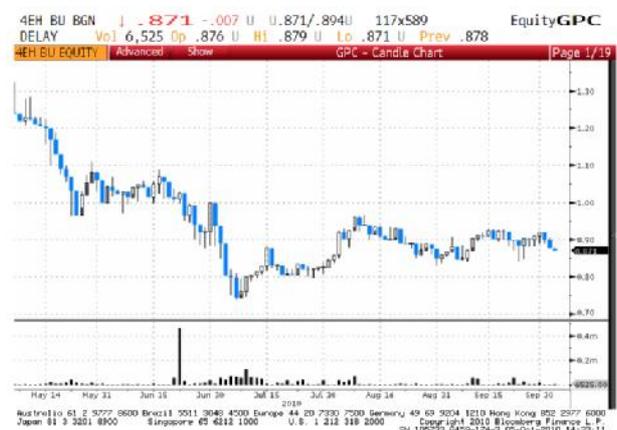


The stock lost 50% for a week after the announcement. It remains under pressure and the bounce was temporary.

Stocks in focus

Eurohold Bulgaria

At the beginning of the month Eurohold Bulgaria (4EH) announced the intention to sell seven of its subsidiaries. The total amount of the deals is BGN 40 million, which will be use for covering long-term liabilities. Two of the companies are public listed – Formoplast (4F8) and Etropol (5E0). Until the end of September the holding sold three of its manufacturing companies /for totally BGN 13.9 million/ and two other companies in real estate business for BGN 9.4 million.



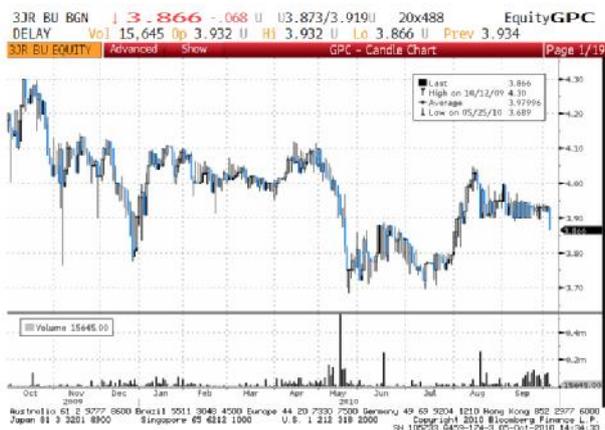
After the conclusion of the restructuring program Eurohold will consolidate its subhold-

ings – Euroins Insurance Group, Euro lease Auto and Auto Union Group. The consolidated long-term bank loans exceeded BGN 139 million at the end of 1H 2010.

The share of Eurohold consolidated at BGN 0.90 in low volumes and remained below the threshold of BGN 1.00. The position is under pressure due to the weak financial results. We do not expect the share to recover in short-term, although some bounce is possible as it fell 59% since last year's highs.

Sopharma

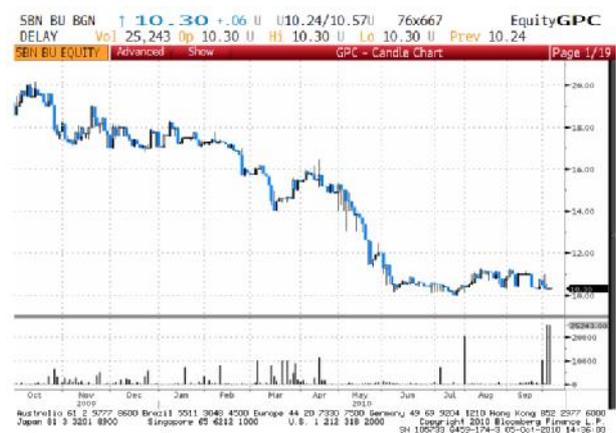
Sopharma (3JR) remained the most liquid position during the month. The buy-back procedure is part of the restructuring program of the company. In August 2010 Sopharma has been bought 198 580 shares at the average price of BGN 3.94. Sopharma intends to merge some of its subsidiaries in the next year through stock swap. However, this is not the only reason for the improved activity. The pharmaceutical company continued to announce its financial results on monthly basis. For August Sopharma realized 14% sales growth as compared to the same period last year. At the end of the month began the construction of new factory in Serbia. The project envisages the establishment of entire production cycle from raw materials to finished products. The plant shall ensure 110 work places and the value of the investment will reach EUR 8 million.



The position broke below the recent consolidation around BGN 4.00 and is 2% down since the beginning of the year as compared to 13% drop of SOFIX.

Bulgarian American Credit Bank

At the end of August Allied Irish Bank announced that will sell its stake in Bulgarian-American Credit Bank (5BN) until March 2011. The information was posted in the 1H 2010 financial report of AIB. The bank already sold its 70% stake in the Polish lender Bank Zachodni to Banco Santander. Allied Irish is seeking to raise EUR 7.4 billion by the end of the year to meet regulatory capital targets.



The news didn't affect the position and the bank share remained around BGN 11.00 in September.

In the middle of 2008, Allied Irish Bank bought the shares of BACB on the total amount of EUR 216 million. The market value today is EUR 33.24 million.

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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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