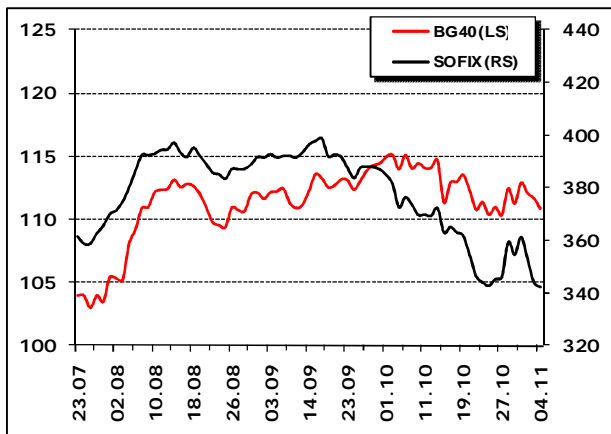


Stock market shock

The late-summer gains of the stock market have been easily erased in October. The main index SOFIX fell 8.4% and diverged from the other world indices. The decline was domestic driven as negative news influenced the market bias.



The first hit on the confidence was the bankruptcy filing of infrastructure company Moststroy. The news was a surprise for the market as the company's relations to the much larger Holding Roads were anchor of stability. Both companies were under huge pressure and are the worst performing positions for this year. They are among our stocks in focus due to the speculative interest of the market.

The impact of Moststroy's bankruptcy on the overall market was small. The changes that took place in September had also some small impact on SOFIX as prices of newly included components lost their previous gains.

The pension reform

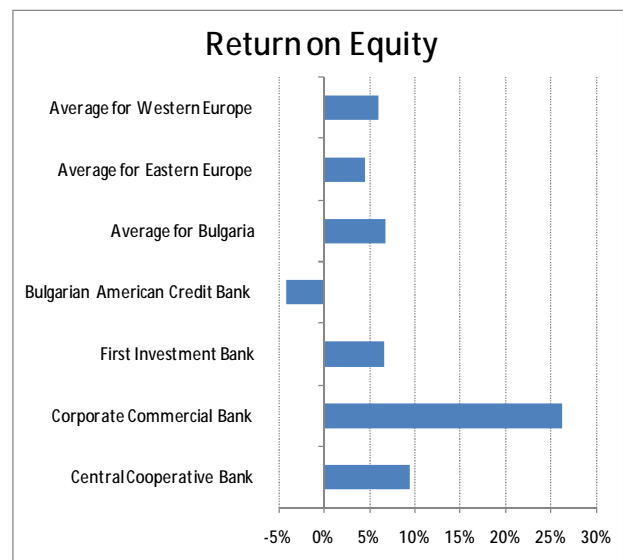
Much more important factor for the decline was the discussion of the transfer of some assets of pension funds to the government social security system. The casus arise due to the deficit in the professional pension funds that have to pay for early retirements. The first decision of the Government was for the transfer of all individual accounts into the social security system and thus creating news fund. As the government-run social security doesn't have asset management the

market expected sell-off of all stocks in the professional pension funds. All liquid stocks were under pressure for several sessions. SOFIX steadily declined and among sellers were domestic institutional investors and speculators. The market did not posted sizable recovery after the final tuning of the pension reform that left the assets under management to funds. This shock is a temporarily factor but the recovery of prices can only follow capital inflows from abroad or demand from speculators. Both are scarce today as investors' confidence is very low.

The earning season

This year corporate earnings are aside of the market's attention. However, companies with growth performed better than lagers and we expect that stocks with price-to-earnings ratios below 10 to post gains next year despite the negative market bias.

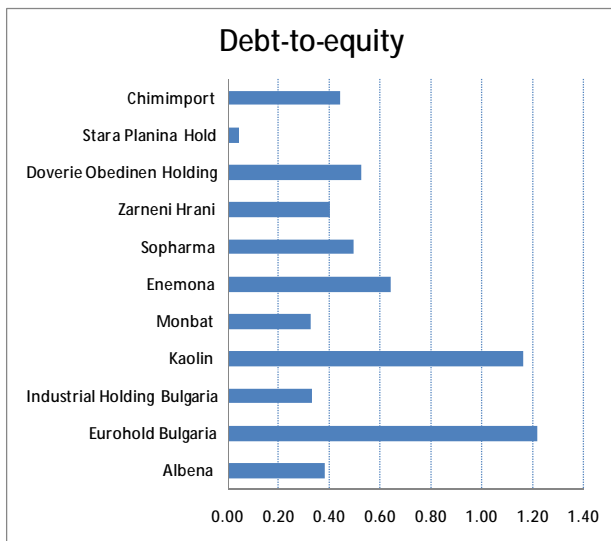
Banks had the attention of investors. Their non-consolidated report showed stability in most categories. Only Bulgarian American Credit Bank went to loss due to the rising impairment costs.



All Bulgarian banks are maintaining good level of liquidity and capital adequacy ratios. The pressure on stocks prices was not due to their reports or any concerns about the stability of the banking system.

The other components of SOFIX will announce their consolidated reports at the end of November. We want to emphasize on the

debt-to-equity ratios of the companies as their bank loans are relatively low. This will create positive environment for long-term growth of profitability ratios as companies will be able to finance their expansion through debts. At the moment the graph is indicative for the stability of SOFIX components. Moreover, the average debt-to-equity ratio for the liquid positions is below 0.5.



The only exceptions in SOFIX are Kaolin and Eurohold Bulgaria. However, both companies will decrease their debts this year due to the sale of assets and will narrow the focus of their activities.

Stocks in focus

Moststroy and Holding Roads

Both stocks are in free fall mode for one year that erased 83% of the stock value of Holding Roads and 95% of Moststroy.



The graph shows the relation of both companies that are under similar control. Moststroy stayed aside of the sell-off of Holding Roads in September when the company announced the controversy increase of capital of its subsidiaries that in fact is leading to lost control of third of its assets.

The market perception changed when Moststroy filled to bankruptcy in October. Shares of Holding Roads also fell significantly after the news. Both stocks are the worst case on the stock exchange and have negative influence on domestic individual investors. However, they grabbed the attention of speculators and had huge volatility.

Corporate Commercial Bank

The bank is among the few that are trading above the levels of September 2009.



This is due to the very high profit margins and the low level of NPLs. Corporate Commercial Bank distributed gross dividend of BGN 5.00 per share this summer. The position was removed from SOFIX in September but the impact on the stock price was low.

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:

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.

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
becheva@elana.net

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