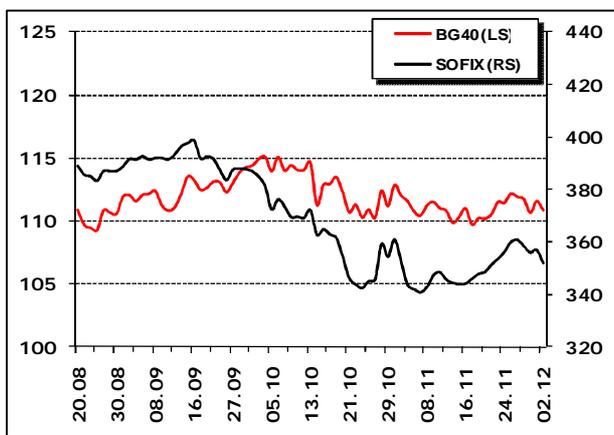


## No power for recovery

The signs for Santa rally were absent in November and the gains before the end of the month were nothing than bounce after the decline. In fact, SOFIX ended November 0.5% lower after 8% decline since September highs. The correlation to international indices continued to decline and Bulgarian stocks were driven only by the small supply and demand.



The graph of trading volumes is showing the occasional blog deals for many stocks including some non-liquid positions. At the same time trading volumes of blue chips are going down. Positions like Enemona (E4A), Kaolin (6K1) and even Chimimport (6C4) and Monbat (5MB) are usually outside the top 10 by volumes or deals. This should not be a surprise as individual investors are withdrawing some capitals from equity investments, whereas institutional investors are making only new investments.

## Valuation

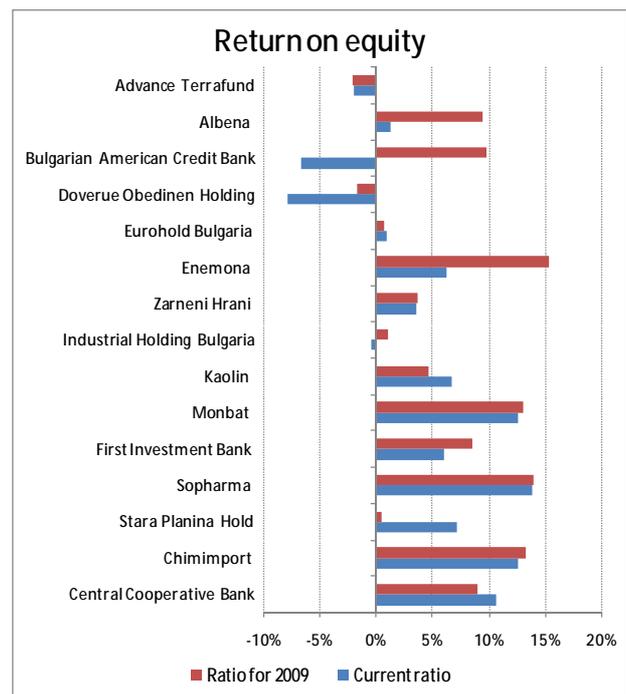
Multiples of the Bulgarian stocks are very low by historical perspective or by comparison to East European countries. This is no doubt a consequence of the capital withdrawal. But it is also a clear sign that there is something hidden behind the valuation of Bulgarian stocks. These could be either one-time items like profits from operations with financial instruments or goodwill. Holdings rely mostly on financial profits and have low price-to-

earnings ratios as investors are very skeptical to current and future cash flows.

Price-to-book ratios are also at low levels. However, the capital of industrial companies in Bulgaria includes outdated assets, lands and large buildings. Thus return on equity is low and the capital is artificially high. Companies like Monbat that invested in new equipment and facilities are traded at higher multiples. Price-to-sales ratios are usually low but they are pushed down by the meager profitability.

## Consolidated reports

The market did not have any elevated expectations for the third quarter consolidated report. And the risk of negative surprises was low. Blue chips were hardly changed after the announcements of revenues and earnings.



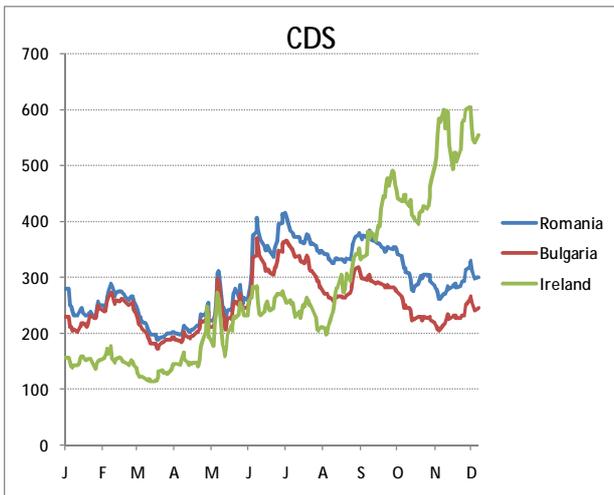
The most financial results are improving as the global economy is recovering and exports are rising faster. However, 2010 is not a year for huge improvement for blue chips. The strongest improvement of RoE has been posted by Stara Planina Hold, Kaolin and Central Cooperative Bank. Those positions could be considered as exceptions from the rule. Stara Planina Hold has three export-oriented subsidiaries, whereas Kaolin is ex-

panding abroad and it is also improving from low base of RoE. Central Cooperative Bank received a boost from the consolidation of its Macedonian subsidiaries.

The three companies with higher RoE are Monbat, Sopharma and Chimimport. Their ratios had little change since the beginning of the year. The market would like to see some improvement along with higher cash flows from operations.

### The Irish effect

The Irish tensions had some effect on the CDS of Bulgaria. However, Bulgaria and Romania moved in close correlation in November but remained below the highs of June.

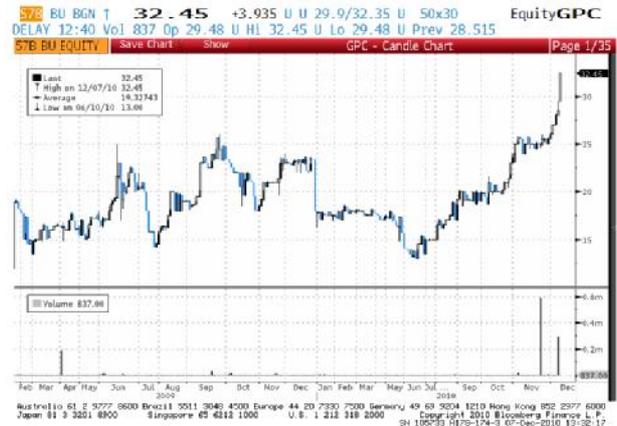


The rising default risk did not have any impact on the stock prices in Bulgaria. Volumes were low and no additional selling pressure had been witnessed. Trading volumes were very thin and it is very hard to find good blocks of largest companies.

### Stocks in focus

#### Bulgartabac Holding

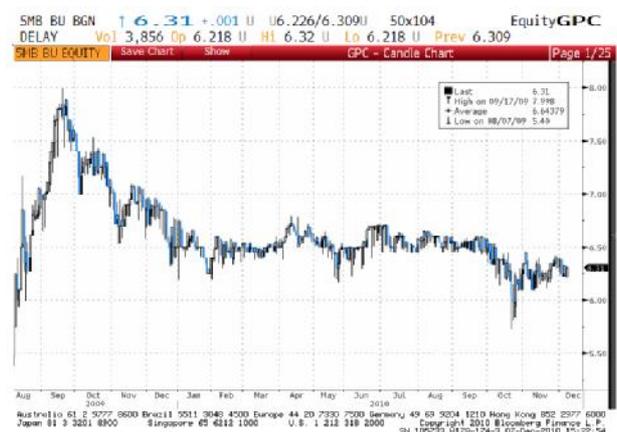
The former tobacco monopoly entered the news with two block deals in November for 8% of the capital, followed by another 4% in early December.



The Central Depository did not disclosed changes in the ownership for stakes above 5%. However, there is a possibility that one block of 4% of the capital changed hands more than once. Recent comments from the Government raised the speculations that the tobacco holding will be privatized next year.

#### Monbat

The car batteries producer decreased its prognoses for 2010 from EUR 12.4 million to EUR 8.1 million due to the delay in the start of the recycling facilities in Serbia and Romania. The recycling of lead is the most profitable segment of Monbat's operations as the rising price of the metal squeezed the profit margin of the company.



The stock was under pressure before the quarterly report but recovered quickly due to the buy-back.

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<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.

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