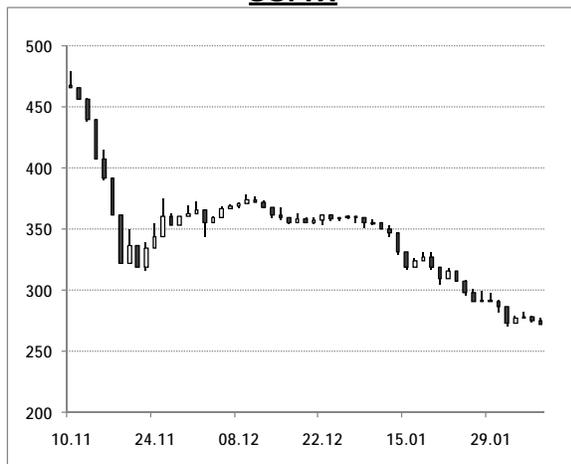


Weak start of the year

The New Year did not change the situation on the Bulgarian stock exchange. January was very challenging as the recovery of the prices that began in mid-November turned again into a persistent and moderate sell-off. Stock prices continued to drift lower in very low volumes as no significant support had been noticed. Moreover, investors have been concerned that the fourth quarter corporate reports would be much weaker than the trend of the last year. The USA and European markets also fell during January, which is one of the usual reasons for losses of Bulgarian stocks. The process of deleveraging is not unknown for domestic speculators despite the absence of margin trading and some of them had been forced to close their positions during the month or to add to their collateral.

SOFIX



The index SOFIX lost 20% during January and posted new lows of the current cycle of correction. Investors were aside of the market and traded volumes remained around BGN 1 million.

The formation of a double-bottom at 320 points proved to be just a good wish. The market ignored the very low multiples and focused only on the forthcoming effects of the global economic crisis. Exporters are susceptible to solid decline of orders and the companies in the mining and metallurgy are already in deep recession.

The news of the discontinued supply of natural gas also undermined the shares of the

companies that use the resource for its production. Most of the industrial companies had to switch to other types of energy that increased their costs, whereas several of them ceased the production for days. The Ministry of Economy announced that losses from the discontinued gas supplies exceeded BGN 456 million.

The macroeconomic news for Bulgaria showed a grim picture at the end of 2008, including the lower industrial production and business climate. This headwind is still too strong for investors to change their attitude to more optimistic stance. The negative news will continue to depress the financial results of the public companies and we don't expect the stock prices to diverge from fundamentals for at least one quarter.

The valuation of the most liquid companies is showing that they are significantly oversold. As expected, net profits are weakening but the companies are cutting costs and are trading well below the net assets value. The market is still ignoring this fact and fundamental undervalued stocks are not luring investors.

The stocks are falling in low volumes without the buyers' support. Investors preferred to follow the direction of the developed markets during the second half of January before the announcements of the corporate reports.

The banking sector

The four liquid banks posted stable financial results for the quarter and the year as a whole. The market is pricing in some liquid problems and is obvious that the confidence in the domestic banking system is very low when comparing the valuation of the banks to other East European markets. The report of Corporate Commercial Bank showed the largest yearly growth of net profit in the sector as its 74% contrasts to the average of 2% for the other three liquid banks. Credit portfolios are not a concern and some banks even had lower provisions for bad credits as compared to the previous year. Deposits of households are rising steadily due to the higher interest rates during the last quarter of the year.

Very important news for the banking sector in January is the decline of money market interest rates. The 3-month SOFIBOR index

fell from 8% to 6.5% during the last two and half months. It returned to the levels from the beginning of 2008 when banks had credit growth for a top priority and the access to foreign capitals was much easier.

Bulgarian banks remain very conservative in their credits but recent reports are showing less tight credit conditions for big projects, including in the construction. The decrease of minimum required reserves to 10% and the capital inflows during January from government bonds also contributed to the less tight conditions in the money market.

SOFIX's Components in January

Stock	Last Price	Change
Albena	19.50	-29.86%
Bulgarian-American Credit Bank	8.50	-29.17%
Central Cooperative Bank	0.86	-23.08%
Chimimport	1.39	-33.17%
Corporate Commercial Bank	75.00	15.38%
Elana Opportunity Land Fund	0.66	-26.09%
Enemona	7.04	0.50%
Euro Ins	1.63	-44.73%
First Investment Bank	1.13	-55.07%
Holding Roads	1.90	-41.54%
Industrial Holding Bulgaria	1.19	-24.64%
Kaolin	2.35	-31.91%
Lead and Zink Complex	6.30	-4.73%
M+S Hydraulic	3.90	-7.14%
Monbat	4.44	-6.53%
Neochim	29.25	-28.48%
Orgachim	70.00	-16.16%
Sopharma	2.10	-6.09%
Sparky Eltos	1.35	-25.28%
Toplivo	4.11	-31.50%

Gainers during January were only two stocks – Corporate Commercial Bank and Enemona. They have been supported by the positive news but Enemona erased most of its gains. Several other companies fell 5-7 per cent and managed to outperform the broad market.

First Investment Bank and insurer Euro Ins were the worst performing positions in January. Holding Road lost almost half of its market capitalization after the vote of huge bonuses to the Board of Directors.

Corporate reports on focus

The fourth quarter showed that the Bulgarian economy is following the global slowdown. We expected some moderate decline of sales and profits for the quarter and good perfor-

mance for the total 2008. The exceptions were the firms in the mining and metallurgy. They are too close related to the global prices of metals and cannot benefit from the booming Bulgarian economy. Manufacturing companies with some exceptions are also showing fewer orders.

The negative financial results are already priced in the stocks but the market reaction to several reports showed that the element of surprise is still available. The printing company Billboard lost 40% after the announcement of weak yearly report. Many other stocks were under pressure whereas the positive earnings surprises were aside of the market focus.

The major concern is the companies' debts. Some companies could have serious solvency problems when shrinking revenues and profit margins emerge. The paper producer Svilosa is the perfect example, whereas Lead and Zink Complex is facing huge loss for 2008 and negative EBITDA. Public companies didn't provide profit guidance for this year and thus only pushed the market uncertainty to the limits.

Consolidated reports will not become the catalyst for market recovery in February. On the contrary, large investors are very skeptical toward the profits from trading with securities and other financial revenues of the holdings. Especially when profits are results from the large block deals of low liquid stocks.

What should we expect during 2009?

The negative market bias is due to the huge losses of the stock prices and the fears of economic recession in Bulgaria which will additionally suppress the corporate earnings. The confidence is completely lost and speculators are leaving the market.

Several months ago the shrinking corporate profits have been just expectations and speculations. Lots of prognoses and rumors for devaluation of the currency and change in the currency regime are in the media. We cannot exclude the worst case scenario but this is not the most probable either. Bulgarian companies are facing serious decline of revenues and orders. In some case it is 20-30% during the fourth quarter.

Thus, the years of extraordinary growth in 2007 and 2008 will quickly become history. The negative trend will be more pronounced this year and the current low liquidity will create the perfect storm for the stock market.

Where is the bottom while the market is completely ignoring the oversold conditions? Obviously, below the liquidation value of the companies. Some of the companies are trading below their cash in banks. This disequilibrium is continuing for months and it is probable to start to wipe out later this year. The market will react positively before any improvements in the corporate reports but it is unlikely that growth and improvement in margins to be witnessed during the first half of the year. Prices of commodities leveled out and the huge economical and financial stimulus in USA and Europe would support the international trade. Any signal for recovery in the US and global construction would be very positive for the Bulgarian stock market. And maybe it will be much important than the corporate reports.

Stocks in focus:

January was weak in terms of any news about the companies as we exclude the financial reports but we will lead some more important events and their effect on the positions.

Corporate Commercial Bank (6C9) was among the stocks with price growth during the month. The large bid order at BGN 65.00 supported the price and the news for sell of 30% of bank's capital sent the share above BGN 70.00.



At the end of January the financial institution announced that Bulgarian Acquisition Company II bought 30% of 6C9's capital.

The forthcoming GMS will decide if representatives of the fund to be include in the bank's supervision. The financial report of 6C9 proved that the Bulgarian banking system is stable so far, despite the negative expectations. On yearly basis the net profit exceeded preliminary expectations by almost 3%.

The net profit for the 4Q 2008 is BGN 9.6 m, whereas for the same period of the last year the result is BGN 4.4 m. The price to assets ratio is 0.22, and price to book value is higher as compared to the other public banks.

Enemona (E4A) also closed the month on positive territory, despite the position stepped back from its higher levels and the rise is insignificant. The news for the order by the Ministry of Justice for projecting and construction of administrative building to the total amount of BGN 150 m support E4A at the beginning of the month. The company significantly declined at the end of 2008 but the market hasn't any worries about sales shrink or financial results decline.



Enemona will lead an extraordinary GMS on March, 10. Voting right will have all shareholders registered in the Central Depository by February 24, 2009.

The non-consolidated financial results increased on yearly basis, but the consolidated data will be more indicative as the company is with holding structure.

Svilosa (3MZ) couldn't resist on the World crisis and the cheap Chinese import and stop its activity at the beginning of February. The sharp contraction of the cellulose's consumption on the international markets leave the company without contracts for 2009 and in order of limiting the losses Svilosa began gradually suspension of powers. The Management expects BGN 14 m losses for 2008. At the middle of January the company ceases its project for construction of new factory for the total amount of EUR 230 – 250 m. The most optimistic expectations are the production to be restored after month and a half. The position wasn't very liquid during the month but fall 73% since the beginning of the year. After the negative news the price of 3MZ fall to BGN 0.32, which is the lower level since the company became public.

Neochim (3NB) couldn't stay aside from the market. Despite the great performance on yearly basis, the 4Q results of the fertilizer producer disappointed the investors. The company was among most damaged from the gas crisis as the natural gas is its main raw material. The resource set up 61% of the total costs for 2008 or BGN 115 m. The final effect will be visible in 1Q 2009 report in April. Despite the problems, the fertilizer

producer is among the most attractive positions on BSE by multiples. Price to earnings ratio is 1.68 and price to sales 0.27.



The price of 3NB's share remained below the threshold of BGN 30.00 in moderate volumes. The investors are cautious, but any positive news will support the position. The sector will begin to restore in the second half of 2009, when the agriculture will be support by credits, and the stores from 2008 will be spend. The increased price of natural gas for Ukraine will take the competition priority of the local producers and will give Neochim a competitive advantage.

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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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