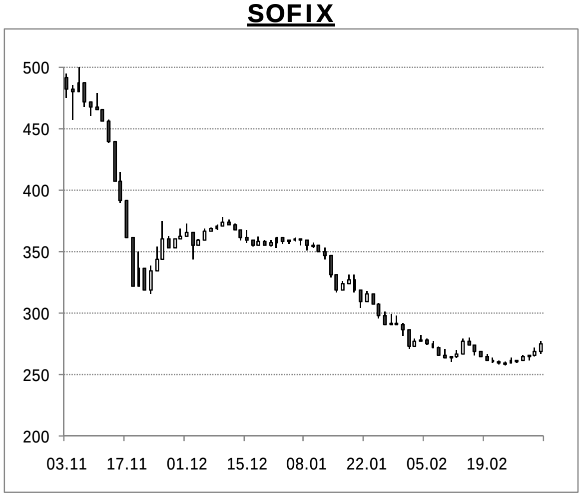
Stable prices despite the news

Investors are concerned about the financial results of Bulgarian companies and the performance of the economy. The financial results weren't so negative side and did little to push prices further to the downside. The main reason is that prices are already very low.

The bad news of the recent weeks came from the international markets. Indices in US and Europe posted new lows, whereas all news headlines remained very bleak. Bulgarian economy also showed more signs of slowdown. The fourth quarter GDP growth decelerated to 3.5%. This is the second best performance in Europe in terms of real growth but some sectors are going to be hit in the months ahead.

The decline decelerated during February along with the even lower trading volumes. US indices declined 20% during the previous month, whereas SOFIX outperformed with the negative 7.7%.

SOFIX



Comparison between the two markets is not relevant for the moment and the only useful observation is the rising divergence between Bulgarian stock exchange and the global trend. This was very distinguishable in end-February and during the first trading days of March when the market began to form a new short-term bottom.

The technical pattern in early formation is a rounded bottom. A symmetrical formation of the pattern means that the level of 300 points should be achieved in the first days of April.

The low volumes are the typical signal for the bottom as investors are very cautious and stay aside of the market. The last leg down of the indices was a result of the speculators pressure on liquid stocks. The lack of substantial volatility of SOFIX on daily basis is also a characteristic for the rounded bottom. This pattern is very reliable but we want to see the March performance of SOFIX before to conclude that it is formed. The breakout of 320 points should be the initial confirmation that the market is at its bottom for at least several months.

Corporate reports

At least, consolidated reports calmed the market. We didn't expect support for the stock prices as the companies are not providing detailed information for the effects of the crisis on their business or on the future sales and cash flows. The management of liquid companies also provided none or little information for their respond to the declining revenues.

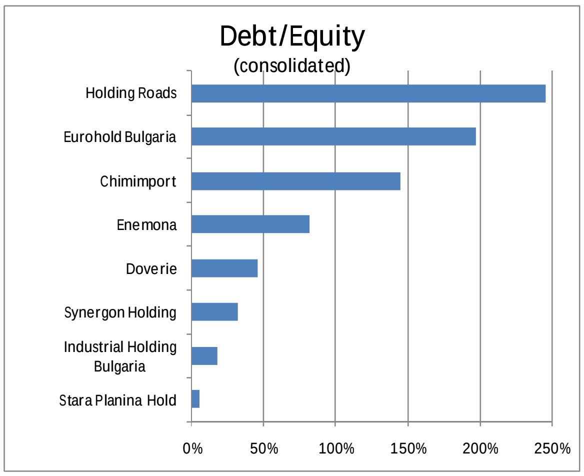
Most economic sectors will post a huge decline in revenues. The mining and metallurgy had stable but low prices for their production. The decline of their orders is not over and it is likely to experience the pressure during the first half of the year. The manufacturing is also reporting a decline of orders. Most Bulgarian companies are exporting the largest part of its production but sales abroad declined by one third during January. The contracting orders are erasing the positive news of the low material costs.

Update for the 2009 prognoses

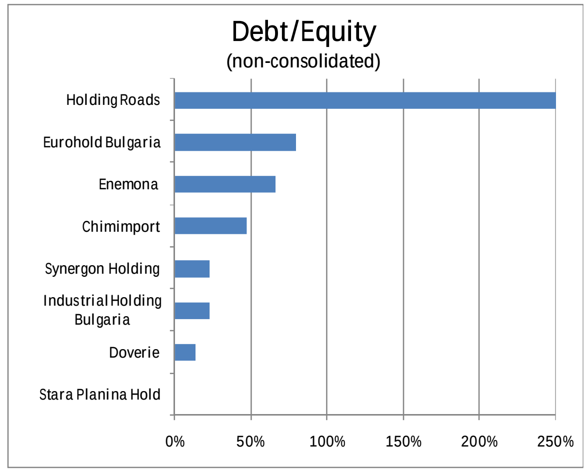
Corporate revenues are likely to contract by 30% during the first months of 2009. The decrease on early basis could be less terrible as 1Q of 2008 was seasonally weaker. The first quarterly reports should show the impact of the ceased supply of natural gas in January. The total losses for the Bulgarian economy exceeded EUR 250 million. It is more probable that profit margins will decrease.

Stock valuation

Most shares are trading at extremely low multiples. The main reason is the market slump as several stocks lost more than 90% for the last 18 months. At the same time the financial results are influenced by the solid growth of 2008 and the delayed impact of the crisis. That is the reason we are turning our attention toward the future cash flows and debt of the public companies.
The graph is representing the debt-to-equity ratio of the most liquid holdings. Data are consolidated and are representative for the subsidiaries of the holdings and not the leverage of the selected holdings.



The graph also showed that there are long list of companies with relatively low debts compared to the equity. The data for Chimimport are including the balance sheet of Central Cooperative Bank, which made the ratio more negative. The two companies in the infrastructure and construction - Holding Roads and Enemona – are using big leverage to complete their projects.
Non-consolidated balance sheets of the holdings give more reliable information for the leverage. Excluding Holding Roads, that has the enormous 548% debt-to-equity ratio.
The ex-privatization funds have the lowest debt-to-equity ratio. They acquired their assets during the mass privatization a decade ago and during this period managed to capitalize the profits and the revaluated assets. Moreover, they made a moderate expansion of their operations during the last several years and thus maintained low debt level.



Bottom line, most Bulgarian public listed companies have good debt-to-equity ratios and will not face liquidity problems due to limited bank financing or higher interest rates.

Economical risks

Foreign observers are emphasizing the risks if the Bulgarian banking system along with the problematic states of Eastern Europe. Comparison with the whole New Europe or the European banking system is irrelevant. This applies also to the average Bulgarian public company. Most of the companies have low debts and even the expected 30% decline of revenues will not result to mass defaults. Bulgarian companies responded to the lower orders with job cuts and some optimization of costs. Moreover, Bulgarian industry performed huge modernization during the last several years and we expect that companies will decrease substantially their investments in new equipment and machines. The data of the import and aggregate investments are already contracting heavily during the last several months. We expect that cash flows will improve somewhat.
The other major risk is the current account deficit. For now, it is not a problem for the currency regime. Moreover, the fiscal reserve and the conservative budget policy are two important buffers for the stability of the financial system. This year won't be an easy one but putting Bulgaria among the riskiest

nations is simply an overreaction of the investors.

Stocks in focus:

Industrial Holding Bulgaria (4ID) is among the several positive surprises. Its consolidated report showed improved margins and stable revenues, which supported the price per share in the sessions before and after the announcement.

In fact, the revenues declined y-o-y but the main reason is that the production of ships for the holdings' subsidiaries was excluded from the sales. The costs are capitalized but after adjustment the revenues should exceed marginally the results for the previous year. The better profit compensated the falling revenues in the eyes of investors, which are currently overreacting to all negative news.
The disclosed information for the program against the economic crisis was little. However, the assurances that consolidated revenues would be less affected by the crisis had a supportive effect on the stock. Bullyard and Elprom ZEM are the two main subsidiaries of Industrial Holding Bulgaria. They have long-term orders, which will ensure that revenues of the holding will remain hardly changed this year.

The maritime transportation is already hurt heavily from the decline of the global trading. This negative market conjuncture will have impact on the shipbuilding of the holding and also on the future revenues from the three ships that are in process of production.
The stock remains among the most attractive blue chips with its cash and low book value. The market capitalization of the holding is BGN 60 million, whereas the cash and cash equivalents are more than BGN 80 million. The equity is BGN 200 million.

Lead & Zinc Complex (5OTZ) is the other best performing position after the forming of short-term low of SOFIX in end-February. Market participants have enough time to price in the announced huge loss for 2008.
During the first trading session of March the position soared quickly from BGN 5.50 to BGN 8.50.

The company also informed that the preliminary results for January are showing positive profit before tax. Although the result is modest, it is a visible improvement to the huge loss during the fourth quarter of 2008.
The price of lead declined a bit at the end of February from the stable quotes of 1100 USD per metric ton. Zinc traded in London Metal Exchange between 1100 and 1200 USD per metric ton.

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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

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