

The First Real Market Rally

The first signs of a market bottom in February turned to be the beginning of the first real rally. The main index SOFIX jumped 47% since its February low. This is the largest increase of SOFIX since the beginning of the market downturn in October 2007. Moreover, it is also the most prolonged as it is nearing the end of its second month.

The question is the market changing its direction or the next leg down is inevitable. At the moment, we give preference to the first scenario – the bottom was in February but we expect that a renewed weakness will be the first test of the next bull market.

The risk appetite is growing not only in Bulgaria. Large buy orders confirmed that the capital inflows from abroad improved significantly during April. Domestic institutional investors, mainly pension funds, were also active buyers. Mutual funds have more limited capitals to invest as the outflows from retail investors already depleted their capitals.

Individual investors played more significant role this time. They started the market recovery and intensified their purchases in late April and during the first trading days of May. The broad market demand resulted to increased trading volumes and improved number of deals.



The Bulgarian stock market was also supported by the positive developments on the international markets. No doubt, without the

Wall Street rally SOFIX could not be able to move above 300 points even in much over-sold conditions.

The Earning Season

Corporate reports for the first quarter were gloomy. We expected 30% decline of revenues on yearly basis but some industrial companies even underperformed. Their revenues slumped 40% due to the lower demand and decreased factory orders from clients abroad. Most seriously hurt are export-oriented companies from the manufacturing industries. At the same time, companies from the basic material sectors experienced slower rate of decline as prices of industrial metals were stable and in some cases began to move higher.

The following table represents the quarterly earnings per share and sales compared to the first quarter of 2008.

	EPS	Sales
Alcomet	-0.09	-33%
Devin	-0.02	8%
Kaolin	0.01	-3%
Lead & Zinc Complex	0.15	-30%
M+S Hydraulic	0.08	-40%
Monbat	0.10	-53%
Neochim	-0.98	-65%
Odessos Shiprepair Yard	1.96	-45%
Orgachim	-4.02	-26%
Sopharma	0.07	4%
Sparky Eltos	-0.13	-84%

*non-consolidated reports, excluding Devin

The market reaction to non-consolidated reports was very weak as most industrial companies managed to remain on profit before taxes. Some of the companies even improved their profit margins. The cost cutting measures included lay-offs and decrease of non-essential spending but the most important factors for the positive financial results for the companies remained the lower material and energy costs.

On general, Bulgarian companies didn't implemented massive lay-offs. They preferred only to tune up the number of seasonal and part-time jobs to a more relevant level and

not to hire at the free places of retired workers. This is the reason for the only meager increase of unemployment in Bulgaria and could easily result to huge increase of industrial production when orders again start to increase.

Macro Picture

The management of some of the largest manufacturing companies reported 30% decrease of orders during the quarter. However, some signs that inventories are decreasing and orders are stabilizing emerged during the last two months. However, the industrial production in March improved only on monthly basis and is still 17.1% lower than the same month of 2008. The pace of the monthly increase is also lower.

March is usually a month for significant improvement of the industrial production after the seasonally weakest two months of the year. This time the global crisis hit hard the export-oriented companies and especially the producer of intermediary and investment goods. Only utilities increased their production on yearly basis. The sectors with largest decline in the production activity include textile and apparel, basic materials, metallurgy and chemicals. The decline in those sectors is between 50 and 40%.

The consumer demand is also decreasing. Retail sales are contracting by 12% y-o-y and consumer electronics are leading the way down. Car sales are 35% lower. The import is particularly damaged but the current account deficit slumped from EUR 1.46 billion to EUR 649 million (1.8% of GDP) for January-February as compared to the same months of 2008.

The Banking System

Domestic banks refused to follow the negative expectations of various international institutions, including private observers. Assets of Bulgarian banks declined by 0.5% for the quarter, whereas credits to non-financial institutions and individuals increased by 0.9%.

The more closely watched indicators of classified and overdue exposures also increased but remain at adequate levels of provisioning. At the end of March 2009 the provision-

ing coverage ratio of exposures classified as "loss" was 145%, which is one of the highest levels of provisioning in EU. The total capital adequacy of the banking sector was 16.5% (compared to 14.9% at the end of 2008), and the adequacy of tier one capital reached 12.7% (at a minimum requirement of 6%).

The banking sector in the country recorded a profit of BGN 271 million for the first three months, which ensures a 1.6% return on assets and serves as an additional buffer against possible future adverse developments. The higher interest expenses reduce insignificantly the net interest margin, the latter continuing to be the leading instrument for managing earnings. At the end of March the level of the system's liquid asset ratio remained good and stood at 20.7%.

The public listed banks had stable performance on yearly basis and only Corporate Commercial Bank posted solid increase of assets and net profit.

	EPS	Profit	Assets
Bulgarian American Credit Bank	1.07	-8%	18%
Central Cooperative Bank	0.08	5%	10%
Corporate Commercial Bank	2.58	70%	39%
First Investment Bank	0.11	-16%	4%

Outlook For May And June

The first selling pressure pushed down the indices by several percentages in moderate volumes. The two months of rising prices could easily turn to lackluster performance during May and June. Moreover, the forthcoming parliament elections and the calm summer trading will at least put the market into sideway consolidation.

The first doubt of the economical recovery in global scale will push down the prices and test of 300 points for SOFIX could be seen during the summer. However, we expect that the next market low will provide significant buying opportunities and will confirm that the February market turn is the beginning of the next bull phase.

Stocks in focus:

Chimimport (6C4) is no doubt the benchmark of the Bulgarian stock exchange and the increased buying interest from different type of investors showed the improved risk appetite. The position made more than 100% from its low. However, its recent capital increase is the largest hurdle in front of the position and the market.



The news for the capital increase and the lack of information for the parameters caused the volatility during the last trading days of April. The following market optimism was due to the positive conjuncture and the price of common shares again returned to the levels where the new 90 million convertible preferred shares will be issued. The capital increase will be successful if at least 63 million shares are subscribed. The preferred shares have 9% annual dividend. All preferred shares should be converted to common shares at the end of the seventh year. However, conversion is possible if the closing price is 50% above the issue price or BGN 3.33 during the previous 20 of last 30 trading sessions at the end of the third year. This should be voted at the meeting of preferred shareholders with at least three quarter of

the represented votes. Any shareholder could convert all or part of its shares at any time during the seven year period.

The price of the rights did not fully reflect the difference between common and preferred shares. It also did not include the discounted dividend. The market is under the pressure of the new offering.

This issue is real test for the market bullishness as most investors have Chimimport in their portfolios. Good participation in the capital increase will be the turning point for the stock exchange.

Albena (6AB) is the other interesting company. The majority shareholder Albena Holding issued tender offer after it acquired control over the second largest shareholder. The price of the tender offer was BGN 27.02, which automatically send the price per share a bit below that level. The Financial Supervision Commission put a temporary ban on the tender offer and the price could be increased.



We don't expect that large part of minority shareholders will sell their stocks unless a new round of general pessimism grabs the foreign and domestic markets. The price is still well below the book value.

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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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