

<u>Recommendation</u>	<u>Previous</u>	<u>From date</u>	<u>52-week target</u>
Market Outperform	Market Perform	25 March 2008	BGN 12.79

## Toplivo

### Business Summary

Toplivo was established in 1947 as a state-owned company, specialized in supply, storage and trade with building materials and heating fuels. Gradually, the company widened its product range and in late 60s /early 70s/ started trading with liquefied petroleum gas (LPG). Toplivo offers a wide range of products through 380 stores, warehouses and gas stations in about 196 populated areas. The company is in process of selling its gas stations to the parent company Synergon Holding. Sale of heating materials could continue to support the company's performance in short term, whereas the construction sector could cool down during the next two or three years.

### Current Market Activity

Toplivo is one of the most heavily declined stocks during the last 15 months. The stock temporarily found support at BGN 5.00 but soon afterwards moved below BGN 4.00. Volumes traded declined and Toplivo underperformed the broad market despite the relatively stable fundamentals and low price-to-book ratio.

The market expected lower profits and the news for the fourth quarter loss had been already priced in. The trailing P/E of 6.60 is the proof of the negative expectations and even the sell-off of assets for more than twice the current market capitalization had insignificant price reaction. Investors are not pleased by the non-consolidated financial results and probably are discounting very bad reports for 2009.



### Financial Summary

Part of the non-consolidated profit for 2008 was due to the sell of assets to the majority shareholder Synergon Holding. This is undermining the lower net profit as compared to 2007 as cost increased significantly. However, the debt level of Toplivo improved and the company has low debt-to-equity ratio of 0.34. The forthcoming restructuring should improve significantly the debt level of Toplivo as the company could cover its short-term bank loans and most of the long-term debt to the parent company Synergon Holding.

Revenues from trading with natural gas declined. Selling and administrative costs increased and additionally depressed the profit margins. Trading with construction and heating materials was the source of revenue growth for the year.

### Valuation Ratios

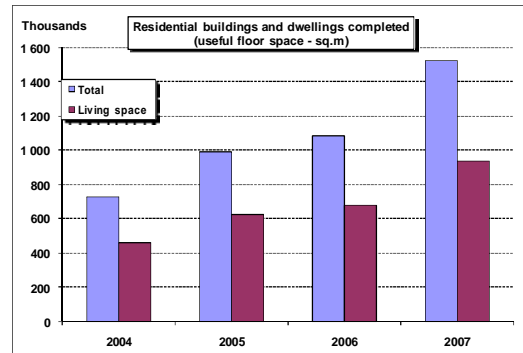
Enterprise Value	72 237 633
Dividend Yield - Gross	-
Trailing P/E (ttm)	6.58
Forward P/E (2009)	3.10
PEG Ratio (1yr expected)	-
Price/Sales (ttm)	0.07
Price/Book (mrq)	0.15
Enterprise Value/Revenues (ttm)	0.23
Enterprise Value/EBITDA (ttm)	4.99

### Profitability and Growth Ratios

Return on Capital	5.00%
Return on Equity	2.35%
Return on Assets	1.54%
EBITDA Margin	3.87%
Net Profit Margin	1.07%
Revenue Growth	9.76%
EPS Growth	-61.4%
Capital Growth	45.6%
Assets Growth	18.2%

## Market Position

The main activities of Toplivo are supplying, keeping and trading with propane butane gas, coals and briquettes as well as trading with construction materials. Toplivo is official representative of Grohe - world leader on the sanitary fixture market, Keramac and Kolo - specialized in the production of sanitary faience for Bulgaria. The company maintains its orientation toward construction materials due to the market conjuncture. In recent years the construction posted solid growth but building permits for the 4Q 2008 decreased 33% for residential dwellings y-o-y. Office buildings are also 31% less.

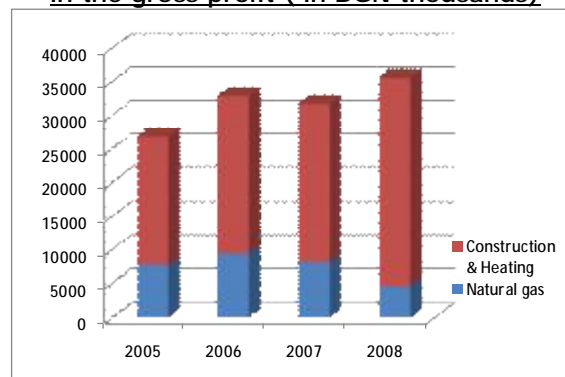


Source: National Statistic Institute

The declining construction market will put some pressure on Toplivo as the rising sales and administrative costs pushed down the profit margins in 2008.

The competitive pressure on the fuels segment intensified due to the massive entering in the market of Shell, OMV, LUKOIL and Petrol. Revenues declined last year and segment's share in the gross profit decreased further last year as Toplivo is only the reseller of imported gas. The gas stations need huge investment in modernization and Toplivo decided to sell the assets to its parent company Synergon. Shareholders took the decision in December 2008.

## Contribution of the two segments in the gross profit ( in BGN thousands)

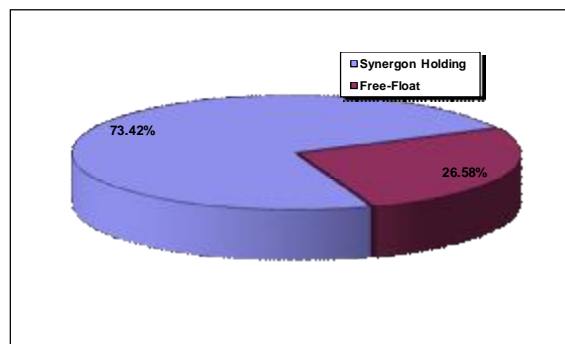


## Seasonality

Toplivo is depending on the seasonal changes in the demand of building materials and heating fuels. The strongest quarters for distribution of building materials are the second and the third as largest sales are posted in July and August whereas the lowest revenues come during January and February. The demand of heating fuels is larger during the summer months before the cold season.

## Ownership

The company was privatized in 1996 during the first wave of mass privatization, when Petrol Holding (now Synergon Holding) acquired 34% of the company's shares. The holding gradually increased its stake in Toplivo and even tried to delist it in 2002, but its attempt failed due to the state's blocking stake in the company. Recently, Synergon Holding owns 73.4% of the Toplivo's capital.



Source: Toplivo

### Stock Information (BSE Ticker: TOPL; Bloomberg: TOPL BU; REUTERS: TOPL.BB)

Last Price	3.90	Market Cap	21 125 633	1Y Range	BGN 3.66 – BGN 22	Average Volume (3m)	2 600
Beta	0.94	1Y Change	-82%	SOFIX Change	-81%	BG40 Change	-79%

### Valuation

The financial results of Toplivo are very volatile due to the competitive markets where the company is operating. Prices of fuels and building materials are also contributing to the increased uncertainty along with the higher selling and administrative costs.

At the same time the valuation during the stock market crash is very difficult because investors are ignoring the intrinsic value of the company and even the historically low multiples are not changing their negative bias. Our valuation is based solely on the discounted cash flows as this method remains the only long-term tool for estimating the fair value of the stock despite the uncertainties regarding the sell of assets and the forthcoming economic slowdown.

#### Multiples Analysis

The trailing multiples are very low due to the overall market weakness. Toplivo is a retail company and the P/S ratio is the lowest among Bulgarian stocks. The price-to-earning and EV/EBITDA are close to the market averages. Toplivo is traded at price-to-book of 0.15 and the expected lower debt-to-equity ratio after the sell of assets this year would made the stock the most attractive among blue chips.

<b>Last Price</b>	<b>3.90</b>
<b>Number of Shares</b>	5 416 829
<b>Market Capitalization</b>	<b>21 125 633</b>
<b>Net Profit (ttm)</b>	3 211 000
<b>P/E</b>	<b>6.58</b>
<b>Revenues (ttm)</b>	312 795 000
<b>P/S</b>	<b>0.07</b>
<b>Equity</b>	136 546 000
<b>P/B</b>	<b>0.15</b>
<b>EV</b>	72 237 633
<b>EBITDA</b>	14 478 000
<b>EV/EBITDA</b>	<b>4.99</b>
<b>EV/Revenues</b>	<b>0.23</b>

Calculations: ELANA Trading

#### Projections

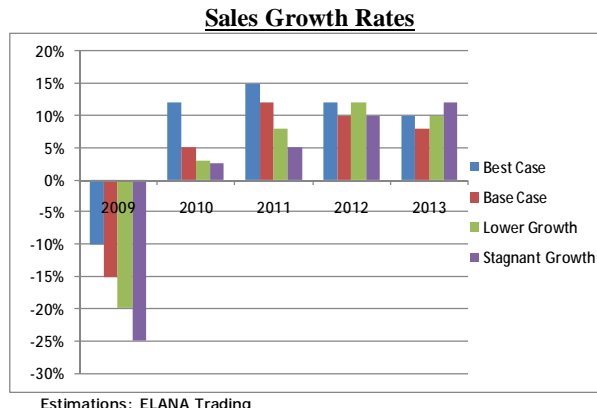
Our projections for the next several years are excluding the discontinued operations. We also adjusted the data for the previous three years to evaluate the return on equity and the sales growth. Thus we extrapolate the previous data in our DCF models according to the possibilities for future economic development in Bulgaria. The table is presenting our base scenario. The projected decline of revenues for 2009 is 15%, mainly from the segment of building materials. Trading with heating fuels is expected to remain hardly changed as prices are already lower but the consumption should depend on the winter conditions in March and the stocking before the 2009-2010 heating season. We also expect that profit margins would be improved in 2009 as the company will be forced to optimize its costs. The base case also estimates an increase of EBITDA margin for 2011 and beyond.

BGN '000	2007	2008	2009	2010	2011	2012
Sales	210 557	268 741	228 430	239 851	268 634	295 497
<i>Growth</i>	-	27.63%	-15.00%	5.00%	12.00%	10.00%
EBITDA	14 021	10 411	11 421	12 592	14 775	16 252
<i>EBITDA margin</i>	6.66%	3.87%	5.00%	5.25%	5.50%	5.50%
EBIT	11 709	7 209	8 566	9 594	11 417	12 559
Interest Payments	3 785	4 016	1 000	1 100	1 250	1 500
<i>Tax Rate</i>	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Net Profit	7 132	2 874	6 810	7 645	9 150	9 953
<i>Net Profit margin</i>	3.39%	1.07%	2.98%	3.19%	3.41%	3.37%

Estimated data for 2009-2012;  
Calculations: ELANA Trading

## Projections for Other Scenarios

Our four scenarios are based on the different sales growth rates and EBITDA margins. The best case scenario is assuming moderate decline for 2009 and booming construction in 2010 and beyond. Other two scenarios are more conservative – assumptions are growth rates to pick up modestly in 2010 and to post their peaks in 2012 and 2013, respectively. All scenarios are based on the expectations for low profit margins for 2009 and relatively stable improvements after 2010. This will depend on the cost cutting and the currently better margins from trading with building materials and heating fuels.



## Discounted Cash Flows

The table is our base case scenario. Data are adjusted to the ongoing sell of natural gas segment and the valuation is also assuming that most of the received cash will decrease the debt levels. The investment policy of the company is modest but could pick up in some later stage. We preferred to stick to more neutral investment policy in our assumptions as the natural gas segment needed huge investments. Toplivo could restrain its investments during the financial and economic turmoil.

The model gives a price per share of BGN 19.02. This is significantly higher than the current market price but the model is heavily influenced by the decrease of the debt. Still, Toplivo sold out part of its business for two times the current market capitalization.

<b>TOPL</b>												<b>Terminal</b>
<i>BGN'000</i>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Year	
<b>EBIT</b>	8 566	9 594	11 417	12 559	15 159	15 917	16 554	17 133	17 647	18 176	18 631	
<b>EBIT(1-T)</b>	7 710	8 635	10 275	11 303	13 643	14 325	14 898	15 420	15 882	16 359	16 768	
<b>Add: D&amp;A</b>	2 855	2 998	3 358	3 694	3 989	4 189	4 356	4 509	4 644	4 783	4 903	
<b>Less: Investments</b>	2 855	2 998	3 358	3 694	3 989	4 189	4 356	4 509	4 644	4 783	4 903	
<b>Less: Change NWC</b>	-3 088	914	2 303	2 149	1 891	1 277	1 072	976	866	892	784	
<b>FCF</b>	10 797	7 721	7 973	9 154	11 752	13 049	13 826	14 444	15 017	15 467	15 983	
<b>PV FCF</b>	9 640	6 155	5 675	5 817	6 668	6 611	6 254	5 834	5 415	4 980		
<b>Sum of PV FCF</b>	63 050											
<b>PV of Continuing Value</b>	54 170											
<b>Total PV Free Cash Flows</b>	117 220											
<b>Less: Outstanding Debt</b>	14 200											
<b>PV of Equity</b>	<b>103 020</b>											
<b>Number of Shares</b>	5 417											
<b>Price Per share</b>	<b>19.02</b>											

Calculations: ELANA Trading

## Valuation

The four scenarios resulted to diapason of prices between BGN 12.79 and 27.51. We gave different weight for each according to the possibility of further economic slowdown. The intrinsic value of one share is BGN 17.89, according to our calculations. Even the worst scenario has much higher discounted cash flows than the current market price per share.

	<b>Probability</b>	<b>Price</b>	<b>Weighted</b>
Best Case	10%	27.51	2.75
Base Case	50%	19.02	9.51
Lower Growth	20%	15.36	3.07
Stagnant Growth	20%	12.79	2.56
<b>Intrinsic Value</b>			<b>17.89</b>

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**Recommendation**

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We give *Market Outperform* recommendation of Toplivo. The market is in huge disequilibrium as the company will receive twice the cash from sell of assets than the current market price. However, one of the reasons for the low price per share is lack of clear strategy for the development and restructuring of the non-profitable trading sites. The management's expectations for the net profit proved to be overoptimistic.

The difference between the intrinsic value and the market price is making Toplivo one of the most undervalued blue chips. The company operates in one of the most endangered sectors – the residential construction. This market will be affected by the decrease of banking credits and the lower demand for residential and office properties. Trading with heating fuels will also bring some uncertainty this year but on the positive side as the temporarily discontinued supply of Russian natural gas could create some profit opportunities.

Our one-year target is **BGN 12.79** – the intrinsic value of the worst case scenario. We realize that this level could easily remain a mirage for the market for another year or more. The economic downturn in Bulgaria has just begun and Toplivo should be affected in large degree. The market will continue to trade below the fundamentals unless a large capital inflows look for investment opportunities. The trigger for such even should become the signs of bottoming out of US economy, followed by Western Europe. The current market liquidity of Toplivo is very low. Probably, the major players will be the speculators as no large offers are pushing down the stock price. The undervalued stocks of Toplivo will attract the attention even before visible turnaround of the Bulgarian construction.

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## Financial Data

Consol. Statement of Income (in thousand BGN)	2004	2005	2006	2007	2008
Sales	192 938	250 964	284 406	284 985	312 795
Production expenses	177 033	231 409	259 840	257 308	284 627
Personnel expenses	7 578	8 720	10 168	11 335	13 302
Net income from financial activities	102	(420)	2 843	2 661	(381)
Other revenues and expenses	246	1 825	(46)	(3)	(7)
<b>EBITDA</b>	<b>8 675</b>	<b>12 240</b>	<b>17 195</b>	<b>19 000</b>	<b>14 478</b>
Depreciation	5 428	5 532	6 002	5 854	6 894
<b>EBIT</b>	<b>3 247</b>	<b>6 708</b>	<b>11 193</b>	<b>13 146</b>	<b>7 584</b>
Interest expense	(2 355)	2 409	(2 735)	(3 785)	(4 016)
Pretax income	892	4 299	8 458	9 361	3 568
Taxes	186	621	1 369	1 050	357
After-tax income	706	3 678	7 089	8 311	3 211
Minority interest	0	0	0	0	0
<b>Net income</b>	<b>706</b>	<b>3 678</b>	<b>7 089</b>	<b>8 311</b>	<b>3 211</b>
Earnings per share in BGN	0.16	0.85	1.31	1.53	0.59

Consol. Balance Sheet (in thousand BGN)	2004	2005	2006	2007	2008
<b>Total Assets</b>	<b>115 954</b>	<b>134 593</b>	<b>148 282</b>	<b>219 454</b>	<b>208 844</b>
Equity subscriptions receivable	0	0	0	0	0
<b>Fixed assets</b>	<b>66 289</b>	<b>76 853</b>	<b>81 216</b>	<b>137 347</b>	<b>134 445</b>
Tangible fixed assets	63 392	73 535	74 377	127 313	123 448
Financial investments	100	150	52	52	52
<b>Current assets</b>	<b>49 665</b>	<b>57 740</b>	<b>67 066</b>	<b>82 107</b>	<b>74 399</b>
Inventory	28 208	35 149	42 733	55 499	54 342
Receivables	16 778	17 117	18 286	21 069	16 294
Financial assets and cash	4 298	5 160	5 741	5 149	3 155
<b>Total liabilities + equity</b>	<b>115 954</b>	<b>134 593</b>	<b>148 282</b>	<b>219 454</b>	<b>208 844</b>
<b>Equity</b>	<b>56 987</b>	<b>69 825</b>	<b>88 182</b>	<b>133 335</b>	<b>136 546</b>
Registered capital	4 334	4 334	5 417	5 417	5 417
Capital funds	47 442	53 699	62 555	97 478	95 563
Earnings	5 211	11 792	20 210	30 440	35 566
<b>Liabilities</b>	<b>58 967</b>	<b>64 768</b>	<b>60 100</b>	<b>86 119</b>	<b>72 298</b>
Long-term payables	5 388	8 751	8 999	28 230	22 595
Long-term bank loans	7 043	3 260	16 454	0	0
Short-term bank debt	28 359	35 899	10 583	30 770	31 672
Short-term payables	18 177	16 901	24 064	27 119	18 031
Other liabilities	0	0	0	90	90
<b>Working capital</b>	<b>3 129</b>	<b>4 940</b>	<b>32 419</b>	<b>24 218</b>	<b>24 696</b>

Consol. Cash Flow Statement (in thousand BGN)	2004	2005	2006	2007	2008
<b>Net income</b>	<b>706</b>	<b>3 678</b>	<b>7 089</b>	<b>8 311</b>	<b>3 211</b>
Depreciation	5 428	5 532	6 002	5 854	6 894
Changes in Working capital	1 539	1 811	27 479	(8 201)	478
Other operating cash flow items	(1 943)	(14 129)	(31 617)	(8 815)	(4 481)
<b>Net cash from operating activities</b>	<b>5 730</b>	<b>(3 108)</b>	<b>8 953</b>	<b>(2 851)</b>	<b>6 102</b>
Capital expenditures	(5 166)	(5 898)	(8 072)	(21 859)	(10 633)
Other investing cash flow items	713	3 096	801	20 704	(828)
<b>Net cash from investing activities</b>	<b>(4 453)</b>	<b>(2 802)</b>	<b>(7 271)</b>	<b>(1 155)</b>	<b>(11 461)</b>
Issuance/ Retirement of Stock, Net	0	0	9 746	0	0
Issuance/ Retirement of Debt, Net	754	6 772	(9 775)	3 700	3 573
Dividends paid	0	0	(1 069)	0	0
Other financing cash flow items	17	0	(3)	(286)	(218)
<b>Net cash from financing activities</b>	<b>771</b>	<b>6 772</b>	<b>(1 101)</b>	<b>3 414</b>	<b>3 355</b>
<b>Net change in cash</b>	<b>2 048</b>	<b>862</b>	<b>581</b>	<b>(592)</b>	<b>(2 004)</b>
Beginning-of-period cash	2 250	4 298	5 160	5 741	5 149
<b>End-of-period cash</b>	<b>4 298</b>	<b>5 160</b>	<b>5 741</b>	<b>5 149</b>	<b>3 145</b>
Cash per share	0.99	1.19	1.06	0.95	0.58

Number of shares-end period	4 333 928	4 333 928	5 416 829	5 416 829	5 416 829
Average outstanding shares					
Price in BGN - period end:	3.30	6.13	17.47	29.12	6.00
Market cap in BGN (period end):	14 301 962	26 566 979	94 632 003	157 738 060	32 500 974

Financial and Performance Indicators	2004	2005	2006	2007	2008
<b>Valuation Ratios</b>					
Price/Earnings (P/E)	20.26	7.22	13.35	18.98	10.12
Book Value	13.15	16.11	16.28	24.61	25.21
Price/Book (P/B)	0.25	0.38	1.07	1.18	0.24
Sales Per Share	44.52	57.91	52.50	52.61	57.75
Price/Sales (P/S)	0.07	0.11	0.33	0.55	0.10
Price/Cash flow	2.33	2.88	7.23	11.14	3.22
EV (in thousand BGN)	45 406	60 574	115 861	191 380	68 137
EV/Sales	0.24	0.24	0.41	0.67	0.22
EV/EBITDA	5.23	4.95	6.74	10.07	4.71
EV/EBIT	13.98	9.03	10.35	14.56	8.98
<b>Liquidity</b>					
Current ratio	1.07	1.09	1.94	1.42	1.50
Quick ratio	0.46	0.43	0.70	0.46	0.40
<b>Debt Management</b>					
Debt to total assets	50.9%	48.1%	40.5%	39.2%	34.6%
Interest coverage	1.38	-2.78	4.09	3.47	1.89
LT Debt/Equity	21.8%	17.2%	28.9%	21.2%	16.5%
Total Debt/Equity	103.5%	92.8%	68.2%	64.6%	52.9%
<b>Asset Management</b>					
Inventory turnover	6.84	7.14	6.66	5.13	5.76
Days sales outstanding	31	25	23	27	19
Fixed asset turnover	2.91	3.27	3.50	2.07	2.33
Total asset turnover	1.66	1.86	1.92	1.30	1.50
<b>Profitability</b>					
Profit margin on sales	0.4%	1.5%	2.5%	2.9%	1.0%
EBITDA Margin	4.5%	4.9%	6.0%	6.7%	4.6%
Basic earning power	2.8%	5.0%	7.5%	6.0%	3.6%
Return on assets	0.6%	2.7%	4.8%	3.8%	1.5%
Return on equity	1.2%	5.3%	8.0%	6.2%	2.4%
Return on investments	1.0%	4.5%	6.2%	5.1%	2.0%
<b>Dividend Information</b>					
Dividend Yield	n/a	4.08%	n/a	n/a	n/a
Dividend per share (in BGN)	0.00	0.25	n/a	n/a	n/a

\* Valuation and profitability ratios are estimated on ttm basis. Other ratios are calculated for the most recent quarter.

Number of shares-end period	4 333 928	4 333 928	5 416 829	5 416 829	5 416 829
<b>Average outstanding shares</b>					
Price in BGN - period end:	3.30	6.13	17.47	29.12	6.00
Market cap in BGN (period end):	14 301 962	26 566 979	94 632 003	157 738 060	32 500 974



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<b>Outperform</b>	More than 5% higher as compared to SOFIX and BG40 performance
<b>Market Perform</b>	Market performance, +/-5% as compared to SOFIX and BG40
<b>Underperform</b>	More than 5% lower as compared to SOFIX and BG40 performance

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