

<u>Recommendation</u>	<u>Previous</u>	<u>From date</u>	<u>52-week target</u>
Market Underperform	-	-	BGN 115.00

Orgachim

Business Summary

Orgachim is the largest Bulgarian producer of paints, lacquers, glues and resins. The company is also the sole producer of anhydrides and is the largest domestic producer of plasticizers and alkyd resins. It holds about 35-36% of the domestic market of paints and lacquers. Orgachim owns more than 12 brands, including Fasagen, Hamelekon, Deko Professional, Leko, etc., which are well-known on the Bulgarian market.

Current Market Activity

The shares of Orgachim had difficulties to sustain the August gains and underperformed the market during the whole year. Volumes traded decreased substantially since the early summer. Main players were individual investors, which contributed to the increasing volatility of the stock price. The liquidity could play positive role and the position could outperform the market if fundamentals start to improve. We expect sales to return to growth in late 2010. However, the price per share has limited downside potential and the main risk is to return to the levels around BGN 70. This is the reason to expect that shares of Orgachim will post gains during 2010 but will likely continue to underperform the market for third consecutive year.



Financial Summary

The net profit during the third quarter maintained the level of the same period of 2008. This is a mild improvement as compared to the second quarter and is also a sign for stabilization after several quarters of underperformance on yearly basis. Revenues also stabilized. The current EBITDA margin of 8% is not under the influence of one-time items but is a bit lower as compared to the first nine months of 2008.

Valuation Ratios

Enterprise Value	62 953 668
Dividend Yield - Gross	-
Trailing P/E (ttm)	-
Forward P/E (2009)	172
PEG Ratio (1yr expected)	-
Price/Sales (ttm)	0.43
Price/Book (mrq)	0.73
Enterprise Value/Revenues (ttm)	0.62
Enterprise Value/EBITDA (ttm)	-

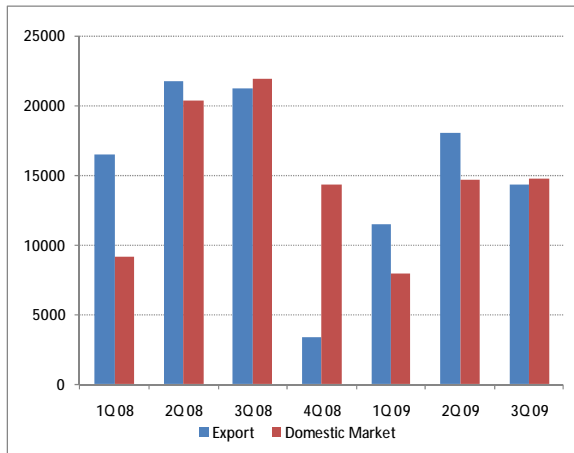
Profitability and Growth Ratios

Return on Capital	-10.48%
Return on Equity	-12.24%
Return on Assets	-6.47%
EBITDA Margin	-
Net Profit Margin	-
Revenue Growth	-26%
EPS Growth	-80%
Capital Growth	-19%
Assets Growth	-18%

Revenues Structure

Revenues from exports were more volatile than the sales in Bulgaria. Domestic revenues were also affected by the severe decline of the real estate market, although with lag as compared to the export markets of Orgachim. However, the revenues stabilized during the second and the third quarters of the year. The last year's decline is unlikely to be repeated but we expect that recovery of the construction industry in the region will be weak.

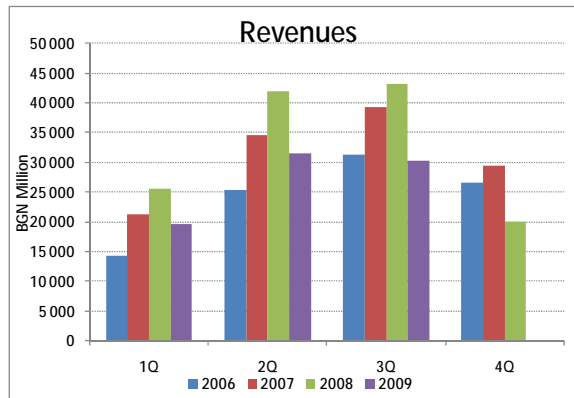
The main export markets are Turkey, Greece, Romania and Egypt. However, the stake of the Romanian market will increase as Policolor outsourced some of its production of paints to Orgachim.



Source: Orgachim

Seasonality

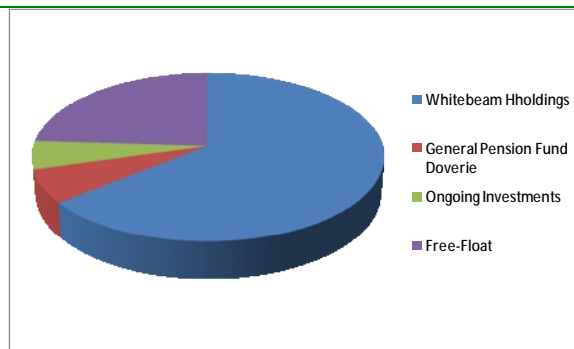
The quarterly revenues are seasonally stronger during the second and the third quarter due to the seasonal pattern in the construction industry. The total revenues were less volatile than the sales to different markets as seen on the previous graph. This managed to smooth the quarterly results but we cannot exclude that weak domestic and exports sales wouldn't contribute for period of negative surprises.



Source: Orgachim

Ownership

Orgachim was privatized in 1998 and 51% of its shares were acquired by Whitebeam Holdings Ltd, Malta for the total amount of USD 8.9 million. The owners of Orgachim's majority shareholder are the Romanian Investment Fund and the Romanian-American Enterprise Fund, which also hold the majority stake of Policolor, Romania's largest producer of varnishes and paints.



As of September 2009
Source: Orgachim

Stock Information (BSE Ticker: 5ORG; Bloomberg: 5ORG BU)

Last Price	85.85	Market Cap	43 166 668	1Y Range	BGN 52.01–109.95	Average Volume	-
Beta	1.01	1Y Change	2.83%	SOFIX Change	19.13%	BG40 Change	8.67%

Valuation

Orgachim posted volatile quarterly profits during the last several years that were overstated by one-time benefits. However, the results since 2008 are well correlated to the overall direction of the revenues.

Our valuation of Orgachim is based on the assumption of starting recovery of the regional construction business in 2010. Part of the strength of sales could be attributed to the higher orders from Romanian company Policolor as there is no positive sign for the domestic market. The DCF model is conservative as compared to the ambitions of the company to become leading paint producer in the region.

Projections

We expect that revenues of Orgachim will bottom out in 2009. However, during the following year only modest recovery of sales should be posted. The main reason is the rising export to the Romanian market. The profit margins from the deals with Policolor can deteriorate due to the agreement of at least 5% surplus charge above the production costs and the difficult market environment.

BGN '000	2006	2007	2008	2009	2010	2011	2012
Sales	97 559	124 683	130 801	98 100	103 005	113 306	127 469
<i>Growth</i>	-	27.80%	4.91%	-25.00%	5.00%	10.00%	12.50%
EBITDA	13 464	16 002	3 456	7 358	8 240	9 064	10 197
<i>EBITDA margin</i>	13.80%	12.83%	2.64%	7.50%	8.00%	8.00%	8.00%
EBIT	11 624	11 692	-2 528	1 108	2 575	3 399	3 824
<i>EBIT margin</i>	11.91%	9.38%	-1.93%	1.13%	2.50%	3.00%	3.00%
Net Profit	7 893	6 262	-3 531	250	1 450	2 149	2 574
<i>Net Profit margin</i>	8.09%	5.02%	-2.70%	0.25%	1.41%	1.90%	2.02%

*Estimations and calculations: ELANA Trading

Multiples Analysis

The financial results of Orgachim are gradually improving after the huge decline of revenues and the consequent change in the profit margins. The price-to-earnings ratio is expected to remain well above the average for Bulgarian stocks. However, the positive news should become the improvement of EV/EBITDA ratio to level of 8 for 2009. The other price multiples will remain at low levels when calculated by 2009 financial results as revenues and equity will not be changed significantly. Investors are concentrating their attention toward the growth rates and the profitability and this is the reason for the stock to underperform in 2009.

Last Price	85.85		
Number of Shares	502 815		
Market Capitalization	43 166 668		
	2008	TTM	2009 (e)
Net Profit	-3 531 000	-7 289 000	250 000
P/E	-12.23	-5.92	172.67
Revenues	130 801 000	101 279 000	98 100 000
P/S	0.33	0.43	0.44
Equity	67 099 000	59 529 000	59 800 000
P/B	0.64	0.73	0.72
EV	64 117 668	62 953 668	62 166 668
EBITDA	3 456 000	-39 000	7 358 000
EV/EBITDA	18.55	-1614.20	8.45
EV/Revenues	0.49	0.62	0.63

*Estimations and calculations: ELANA Trading

Industry Comparison

The comparison to producers of chemicals is representing the current market bias toward the sector. Chemical companies in Eastern Europe have lower median P/B and EV/EBITDA but most of them have negative financial results for the last 12 months. This is due to the tough economic conditions and the strong decline of revenues. The calculation of the median price-to-earnings ratios excludes the companies with losses. This is artificially lowering the value of the indicator as it is representing only the profitable companies. When the sum of all profits and losses are divided by the aggregate market capitalization, the P/E ratio will be much higher. The indicator is the least suitable to value a company during this stage of the economic cycle.

	P/E	P/B	P/S	EV/EBITDA	RoE	RoA
Eastern Europe	9.76	0.69	0.54	7.00	-0.20	-0.14
Western Europe	17.65	1.30	0.47	7.83	6.94	2.71
Global 100 Companies	22.75	1.63	0.72	9.41	4.21	1.77

Source: Bloomberg

The conclusion from the comparison of Orgachim to the chemical companies is that the Bulgarian company has better P/B and P/S multiples, whereas the EV/EBITDA could be at fair value only if our expectations for 2009 prove to be right. The profitability of Orgachim is lower than the median for the developed markets even if compared to the expected results for 2009. However, most of the smaller companies in Eastern Europe also have negative profitability ratios.

Comparison To Paint Producers

The comparison to paint producers showed similar results, although median P/B and P/S ratios are lower for the sector. We included the worldwide companies with at least 30% of revenues from paint products in the comparison to peers. Median and average values have significant difference. For the valuation purpose we are using the more conservative and more representative median values.

	P/E	P/B	P/S	EV/EBITDA	RoE	RoA
Average	71.30	1.23	0.73	10.04	-2.74	-6.39
Median	16.41	0.89	0.57	8.50	2.40	0.83
Orgachim	-	0.73	0.43	-	-10.93	-6.47

Source: Bloomberg

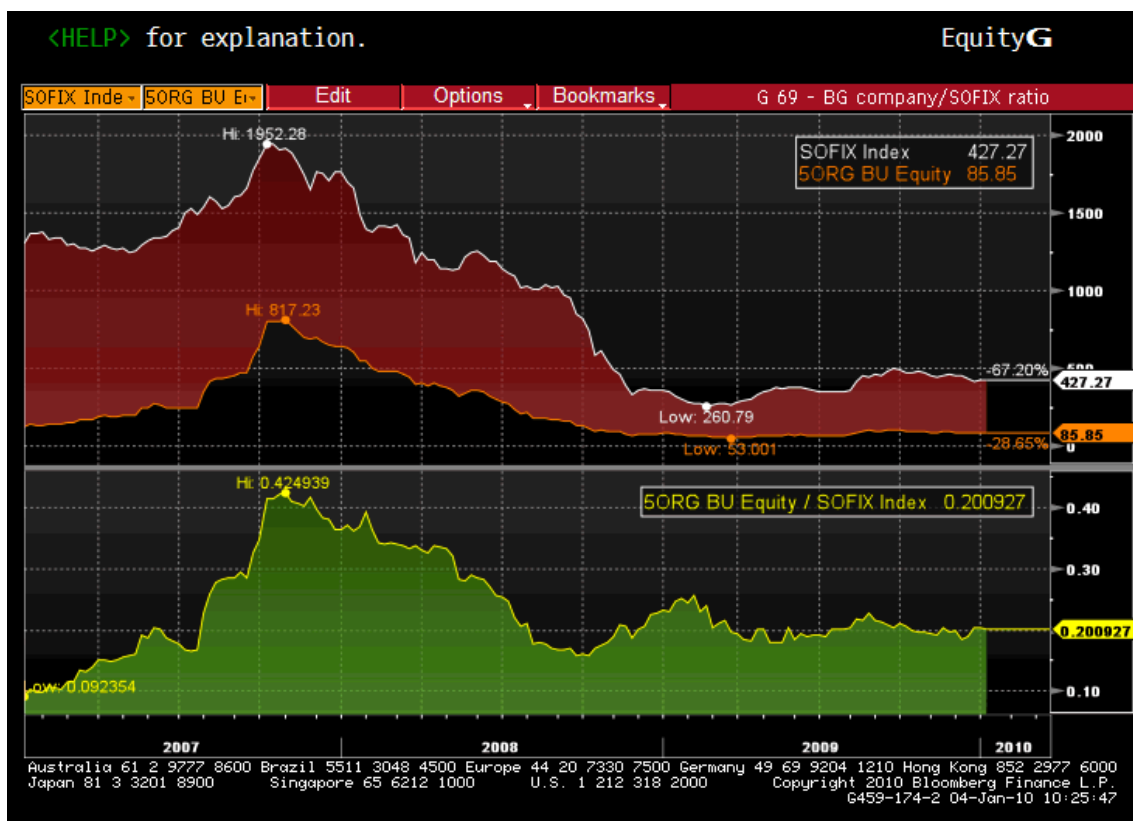
The weight of the price-to-earnings ratio is only 10% as it is overstating the real situation with profits. We also used the estimated results for 2009 to calculate the fair value according to the profit sensitive P/E and EV/EBITDA. The calculated share price of Orgachim is BGN 92.85. P/B and P/S are contributing for the higher price levels in the valuation.

Multiples	Value	Price	Weight
P/E (2009E)	16.41	8.16	10%
P/B	0.89	105.37	30%
P/S	0.57	114.81	30%
EV/EBITDA (2009E)	8.50	86.60	30%
Price (BGN)			92.85

*Estimations and calculations: ELANA Trading

SOFIX Comparison

Orgachim outperformed the index SOFIX during the 2007 market boom. The stock fell significantly in 2008 and only slightly underperformed in 2009. Orgachim proved to be one of the most dynamic positions. However, the company should post improved financial results to begin outperformed the broad market. That is unlikely to happen in 2010.



Discounted Cash Flows

Discounting of the cash flows gives better picture for the price, according to the growth opportunities as the long-term perspectives are not included in the multiples P/E or EV/EBITDA. However, this method has several flaws – it is based on the presumptions for sales and profit margins and the price is very sensitive to the discount factor and the long-term growth rate.

The DCF model is based on our projections for sales and profits for 2009 and beyond. We expect that the peak of the growth will be in 2013 and 2014, followed by gradually decrease to the long-term levels. The construction business is expected to outperform the economic growth in Bulgaria but the current disequilibrium between supply and demand on the housing market needs additional time to resolve.

The projected long-term growth rate is 3.00% with WACC of 10%. We use higher long-term growth rate than the average for EU. The discount rate is returning to lower levels that are associated with stable market environment.

The intrinsic value according to the DCF-model is BGN 93.19.

Orgachim											Terminal
<i>BGN'000</i>	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Year
EBIT	2 575	3 399	3 824	5 131	5 900	6 638	7 302	7 886	8 359	8 693	8 610
EBIT(1-T)	2 318	3 059	3 442	4 618	5 310	5 974	6 571	7 097	7 523	7 824	7 749
Add: D&A	5 665	5 665	6 373	6 597	7 586	8 534	9 388	10 139	10 747	11 177	11 069
Less: Investments	3 090	3 682	5 099	6 597	7 586	8 534	9 388	10 139	10 747	11 177	11 069
Less: Change NWC	255	876	1 204	1 625	1 869	1 791	1 612	1 419	1 149	812	627
FCF	4 637	4 167	3 512	2 992	3 441	4 183	4 959	5 678	6 374	7 012	7 121
PV FCF	4 216	3 443	2 639	2 044	2 137	2 361	2 545	2 649	2 703	2 703	
Sum of PV FCF	27 440										
PV of Continuing Value	39 222										
Total PV Free Cash Flows	66 663										
Less: Outstanding Debt	21 868										
Plus: Financial Assets	2 081										
PV of Equity	46 876										
Number of Shares	503										
Price Per share	93.19										
			WACC								
					Growth Rate						
					SA	2.0%	2.5%	3.0%	4.0%	5.0%	
					8.0%	132.17	141.16	151.92	181.44	230.51	
					9.0%	104.97	110.79	117.56	135.11	161.35	
					10.0%	84.77	88.70	93.19	104.37	119.97	
					11.0%	69.21	71.96	75.06	82.54	92.47	
					12.0%	56.89	58.87	61.07	66.26	72.91	

Calculations: ELANA Trading

Recommendation and Price Target

Both valuation models showed very similar results. The intrinsic value of the discounted cash flows is BGN 93.19, whereas the weighted price when comparing to the median multiples of the sector is BGN 92.85. This is the reason to expect that Orgachim will underperform the broad market during the next several quarters.

However, the liquidity is low and any modest demand could boost the prices quickly to new highs since the bottom of 2009. Our one-year price target is based on the highest levels from the comparison to the P/B and P/S multiples of the sector or BGN 115.

Financial Data

Statement of Income (in '000 BGN)	2004	2005	2006	2007	2008
Sales	56 291	73 401	97 559	124 683	130 801
Production expenses	47 044	67 240	83 462	101 421	114 622
Personnel expenses	4 633	5 451	6 698	9 566	12 231
Net income from financial activities	1 463	(2 822)	6 065	2 306	(588)
Other revenues and expenses	0	0	0	0	96
EBITDA	6 077	(2 112)	13 464	16 002	3 456
Depreciation	1 168	1 401	1 840	4 310	5 984
EBIT	4 909	(3 513)	11 624	11 692	(2 528)
Interest expense	(1 510)	(2 555)	(2 670)	(1 592)	(1 319)
Pretax income	3 399	(6 068)	8 954	10 100	(3 847)
Taxes	(1 143)	(861)	1 061	3 838	(316)
Net income	4 542	(5 207)	7 893	6 262	(3 531)
Earnings per share in BGN	9.03	(10.36)	15.70	12.45	(7.02)

Balance Sheet (in '000 BGN)	2004	2005	2006	2007	2008
Total Assets	40 840	49 865	54 958	107 903	106 413
Equity subscriptions receivable	0	0	0	0	0
Fixed assets	20 001	20 922	24 287	76 026	77 196
Tangible fixed assets	18 930	19 010	22 903	75 373	76 358
Financial investments	0	0	0	0	0
Current assets	20 839	28 998	30 671	31 877	29 217
Inventory	12 875	13 577	15 491	19 933	21 655
Receivables	5 845	6 736	9 234	11 322	5 882
Financial assets	0	3 261	521	1	5
Cash and cash equivalents	2 069	5 301	5 343	460	1 544
Total liabilities + equity	40 840	49 865	54 958	107 903	106 413
Equity	11 783	6 731	14 624	69 131	65 600
Registered capital	503	503	503	503	503
Capital funds	3 829	11 435	6 228	62 568	69 332
Earnings	7 451	(5 207)	7 893	6 060	(4 235)
Liabilities	29 057	43 134	40 334	38 772	40 813
Long-term payables	17 823	19 854	16 448	4 068	3 903
Long-term bank loans	356	0	746	18 964	16 267
Short-term bank debt	1 658	1 156	6 373	5 298	6 228
Short-term payables	9 220	22 124	16 767	10 442	14 415
Other liabilities	0	0	0	0	0
Working capital	9 961	5 718	7 531	16 137	8 574

Cash Flow Statement (in '000 BGN)	2004	2005	2006	2007	2008
Cash receipts from sales or for the performance of services	58 408	76 567	102 104	129 741	137 597
Payments to suppliers for goods and services	(54 097)	(63 558)	(94 547)	(112 951)	(117 853)
Payments to employees or on behalf of employees	(4 564)	(5 251)	(6 545)	(9 127)	(11 961)
Tax payments	(1 077)	336	2 492	3 679	1 802
Other operating cash flow items	(13)	(737)	(649)	(4 050)	(3 717)
Net cash from operating activities	(1 343)	7 357	2 854	7 292	5 868
Capital expenditures	(890)	(2 774)	(4 038)	(7 809)	(3 912)
Other investing cash flow items	14	(789)	(4 789)	301	896
Net cash from investing activities	(876)	(3 563)	(8 827)	(7 508)	(3 016)
Issuance/ Retirement of Stock, Net		0	0	0	0
Issuance/ Retirement of Debt, Net	473	(502)	6 071	(4 667)	(1 768)
Dividends paid	0	0	0	0	0
Other financing cash flow items	(11)	(60)	(57)	0	0
Net cash from financing activities	462	(562)	6 014	(4 667)	(1 768)
Net change in cash	(1 757)	3 232	42	(4 883)	1 084
Beginning-of-period cash	3 826	2 069	5 301	5 343	460
End-of-period cash	2 069	5 301	5 343	460	1 544
Cash per share	4.11	10.54	10.63	0.91	3.07

Number of shares:	502 815	502 815	502 815	502 815	502 815
Price in BGN - period end:	23.98	72.00	115.37	644.08	84.00
Market cap in BGN - period end:	12 057 504	36 202 680	58 009 767	323 853 085	42 236 460

Financial and Performance Indicators	2004	2005	2006	2007	2008
Valuation Ratios					
Price/Earnings (P/E)	2.65	-6.95	7.35	51.72	-11.96
Book Value (BV)	23.43	13.39	29.08	137.49	130.47
Price/Book (P/B)	1.02	5.38	3.97	4.68	0.64
Sales Per Share	111.95	145.98	194.03	247.97	260.14
Price/Sales (P/S)	0.21	0.49	0.59	2.60	0.32
Price/Cash per share	5.83	6.83	10.86	704.42	27.35
EV (in BGN)	30 359	53 659	79 515	347 655	63 187
EV/Sales	0.54	0.73	0.82	2.79	0.48
EV/EBITDA	5.00	-25.41	5.91	21.73	18.28
EV/EBIT	6.18	-15.27	6.84	29.73	-25.00
Liquidity					
Current ratio	1.92	1.25	1.33	2.03	1.42
Quick ratio	0.73	0.66	0.66	0.76	0.37
Debt Management					
Debt to total assets	71.1%	86.5%	73.4%	35.9%	38.4%
Interest coverage	3.25	-1.37	4.35	7.34	-1.92
LT Debt/Equity	1.54	2.95	1.18	0.33	0.31
Total Debt/Equity	2.47	6.41	2.76	0.56	0.62
Asset Management					
Inventory turnover	4.37	5.41	6.30	6.26	6.04
Days sales outstanding	37	33	34	33	16
Fixed asset turnover	2.81	3.51	4.02	1.64	1.69
Total asset turnover	1.38	1.47	1.78	1.16	1.23
Profitability					
Profit margin on sales	8.1%	-7.1%	8.1%	5.0%	-2.7%
EBITDA margin	10.8%	-2.9%	13.8%	12.8%	2.6%
Basic earning power	12.0%	-7.0%	21.2%	10.8%	-2.4%
Return on assets	11.1%	-10.4%	14.4%	5.8%	-3.3%
Return on equity	38.5%	-77.4%	54.0%	9.1%	-5.4%
Return on investments	15.2%	-19.6%	24.8%	6.8%	-4.1%
Dividend Information					
Dividend Yield	n/a	n/a	n/a	n/a	n/a
Dividend per share	0.0	0.0	0.0	0.0	0.0
Number of shares:					
	502 815	502 815	502 815	502 815	502 815
Price in BGN - period end:					
	23.98	72.00	115.37	644.08	84.00
Market cap in BGN - period end:					
	12 057 504	36 202 680	58 009 767	323 853 085	42 236 460

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Outperform	More than 5% higher as compared to SOFIX and BG40 performance
Neutral	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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