

## Kaolin (Bloomberg:6K1 BU)

**Overview** Kaolin is the regional leader in the production of industrial minerals:

- Kaolin for paper and ceramic industries;
- Silica sands for glass, ceramics and construction industries;
- Limestone for flue gas desulfurization and other applications;
- Chamotte for ceramic industry;
- Dolomite and feldspar for glass and ceramic industries.

The company is the number one producer in Eastern Europe of silica sands and kaolin and the second largest producer of shamotte. The company exploits 34 deposits and 10 plants for processing of industrial materials. The deposits and facilities are situated in Bulgaria, Serbia, Romania and Ukraine. Most of the company's activities, however, are concentrated in Bulgaria.

**History** Kaolin was found in 1924 and was exploiting the deposits near the town of Kaolinovo. In 1937 another company for extraction and processing of industrial materials called "Danube" was established. It was exploiting the deposits in Vetovo and Senovo. Both companies continued their activity after the nationalization process that took place after 1944, but were later on merged into a single company under the name "Dimitar Blagoev". Until 1989, Kaolin was merged with several other state-owned companies, specialized in the production of industrial minerals. In 2000, Kaolin was privatized. It is public listed company since 2007.

52-weeks price high BGN 6.04

52-weeks price low BGN 3.40

52-weeks price change -21.83%

YTD price change -18.43%



The correction of Kaolin (6K1) shares extended to 45% since October 2009 but the position is gradually recovering since mid-July. The stock was among the best-performing blue chips in 2009. The main reason for the decline was the spin-off of the production of solar panels, which had been completed at end-August. However, we don't consider that all risks are already priced in and another downside move could be imminent af-

ter the announcement of the quarterly report. This reaction is expected to be short-lived and any decline should be regarded as buying opportunity.

### *Concessions and reserves*

Kaolin is specialized in the extraction and processing of kaolin, silica sands, clays, limestone, feldspar and feldspar sands and dolomite. The company is also specialized in the production of chamot, carbonate fillers and ceramic ready bodies. Kaolin is offering clays, construction sands and pressed dust. The company's product list comprises of more than 150 products.

Kaolin operates 10 concessions, and through its subsidiaries it also extracts minerals from ten other deposits. The concessions are until 2027 to 2040. The company has substantial amount of reserves, which will ensure 70 years of operations:

- Kaolinitic sands-reserves of over 120 million tons (60 million tons in exploitation; additionally concession rights for 40 million tons; and 20 million tons – secondary reserves); annual capacity of processing is 1.5 million tons;
- Silica sands-reserves of over 80 million tons; annual capacity for processing is 0.7 million tons of raw material. Thus reserves cover about 100 years of operations;
- Limestone-reserves amount to over 50 million tons; capacity processing is 1.5 tons per year, which covers about 30 years of running business.

### *Environmental control*

The holding is implementing a program of reducing emissions in the air. It started in 2001 with the gasification of the main production sites in Vetovo and Senovo, followed in 2006 in Serbian facilities and in 2007 in other Bulgarian facilities. The company has also indirect contribution to the lower emissions of carbon dioxide through products such feldspar that has lower melting temperature. Kaolin is re-cultivating the areas of old mines.

### **Products**

#### *Kaolin:*



The mineral has application in different industries – production of paper, ceramics, rubber, plastics, paints etc. The company has more than 80 years of experience in mining and processing of kaolin. Product specifications vary for different industries – cha-motte for ceramics, meta kaolin for construction mixtures, kaolin for sanitary ware, kaolin for glazes of ceramic tiles and the body of the gress porcellanato, calcined kaolin for rubber, plastics and paints.

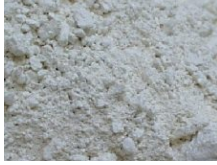
#### *Silica sand:*



Kaolin produces and sells 1.5 million tons of silica sands per year for more than 50 different applications. Products for glass industry are covering the requirements of producers of flat and container glass. The sand for crystal glass has content of FeO<sub>2</sub> less than 0.015 %. Kaolin delivers sands for ceramic bodies and glazes. For construction sector the company covers standard applications – for dry mixtures and concrete and also purified and classified products with specific characteristics for white dry mixtures, water filters, golf pitches, tennis courts, etc. Special grades of classified and fine silica sand are supplied to casting industry. Kaolin developed series of products that contribute directly and indirectly to increasing the energy efficiency, including fine grades of wet classified silica sand which can be directly used as fillers or in ceramic bodies without additional grinding, which is usually an energy intensive process.

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**Limestone:**



Limestone is a widespread earth material with wide variety of applications, including desulphurization of coal thermo-power plants in South Bulgaria. The micronized limestone finds application as filler in production of polyethylene, rubber and paint. Fast growing construction and infrastructure in Bulgaria increased the demand of limestone for road coverings, limestone as filler for asphalt and other products. Kaolin supplies the fodder industry with calcium carbonate for the production process of full-value combined fodders for all kind of animals and birds.

**Dolomite:**



Kaolin mine and process dolomite in South East Bulgaria. The mineral is used as concrete aggregate in construction and ceramic industries. The proximity of production facilities to the main consumers is an advantage for Kaolin.

**Chamotte:**



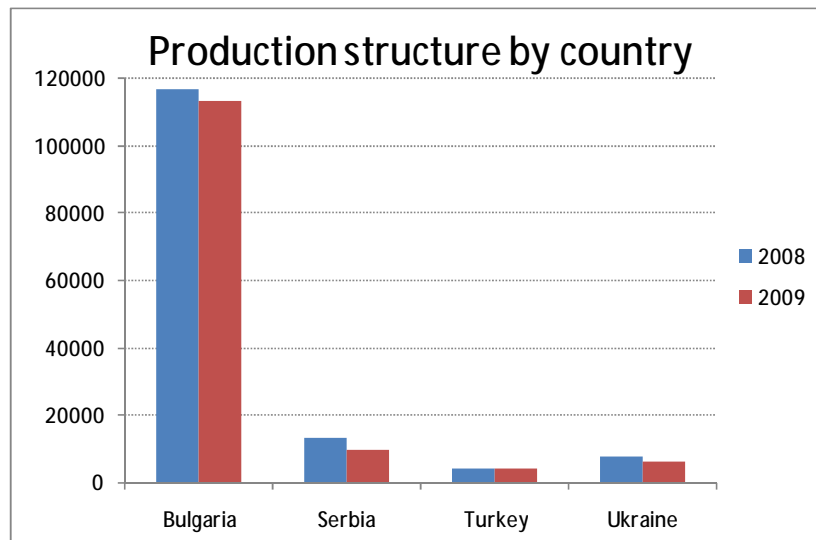
Chamotte is produced from one of the offered kaolin grades. It is made from refined kaolin, which guarantees the stable parameters of the end product. Chamotte is used in pottery and sanitary, where it achieves stability of the form and decrease deformation of the shape. Kaolin is also producing grades with low content of aluminum for special applications.

**Feldspar:**



Feldspar is a main component in ceramics and glass production. The raw material is mined in South Bulgaria. Kaolin developed a product with low melting point that improve energy efficiency and lead to less emissions of CO2.

Graph 1



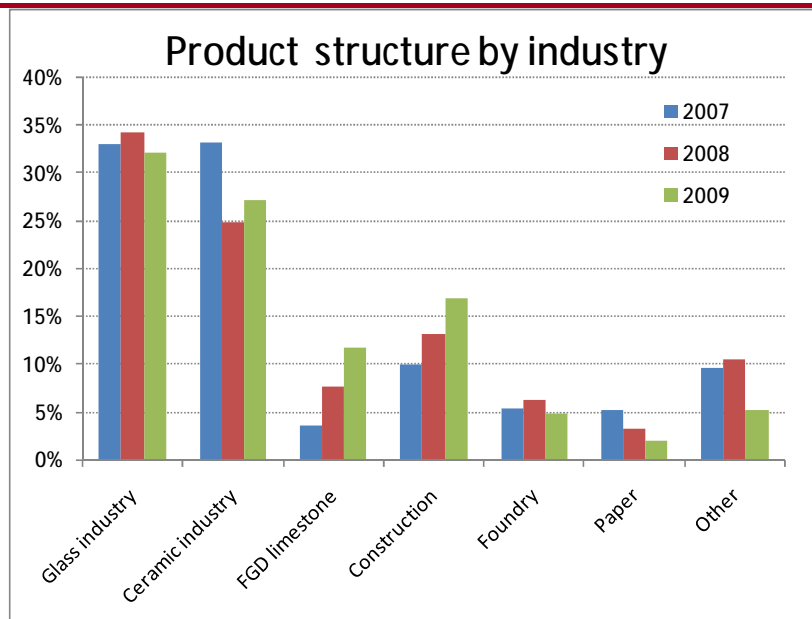
Source: Kaolin

***Production***

The expansion abroad had limited effect on the consolidated revenues during the last two years. Production facilities in Bulgaria are the main source of revenues during the implementation of the investment program abroad. However, revenues will increase after the completion of Ukrainian facility for silica sands. The investment totaled USD 15 million and the period of return is estimated to 12 years.

Kaolin exported to new markets of India, UAE, Sri Lanka, Morocco and other countries in 2009.

Graph 2



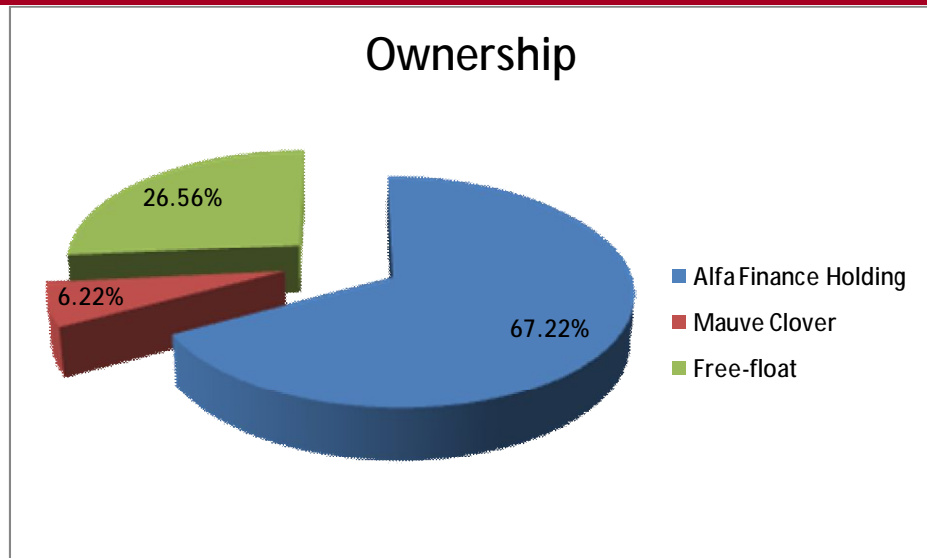
Source: Kaolin

**Structure of revenues** Limestone for flue gas desulfurization (FGD) is constantly increasing its share of revenues. Products for construction industries also increased their share since 2007. Glass and ceramic industries lost significance and their revenues in 2009 fell below the levels of 2007. Paper industry also felt the economic crisis but could post some recovery due to the rebound of paper prices and in-creased production.

**Investment program** The expansion abroad of Kaolin is aiming at strategic goals to enter new markets and clients but the company is also investing in the modernization of its Bulgarian facilities. Currently Kaolin is investing in new machines and equipment that are improving the quality of products and the profitability, whereas investments during the previous several years improved the energy efficiency.

The company finished the new facility for kaolin with better quality for paper, construction and rubber industries in 2009. Investments totaled BGN 3.5 million. In October 2009 Kaolin began a new project for modernization that received subsidies from Operational program "Development of the Competitiveness of the Bulgarian Economy 2007-2013". The total investments exceed BGN 6 million with 50% of which are subsidies.

Graph 3

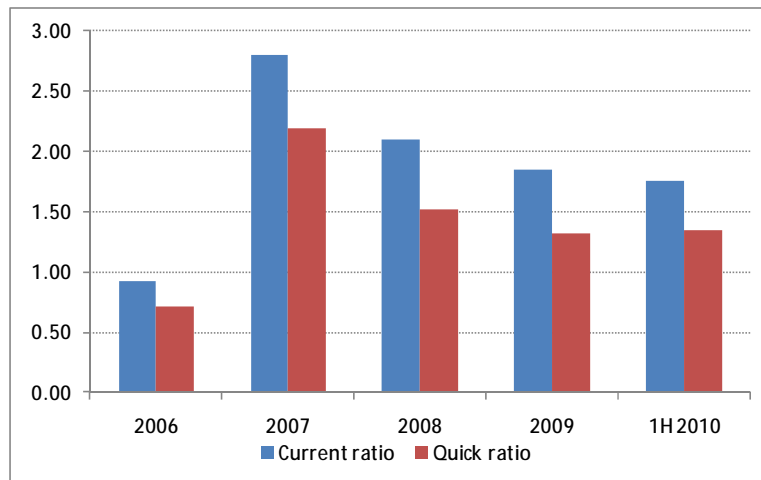


As of 3Q 2010  
Source: Kaolin

The majority owner of Kaolin is Alfa Finance Holding. The free-float of the company is above 25% of total shares, which is enough to provide very good liquidity for the domestic market's standard. It increased during the public offering in 2007. The largest shareholder Mauve Clover decreased its stake in Kaolin from 10.21% to 6.22% during the third quarter. Alfa Finance Holding also sold some of its shares during the quarter.

**Financial analysis**

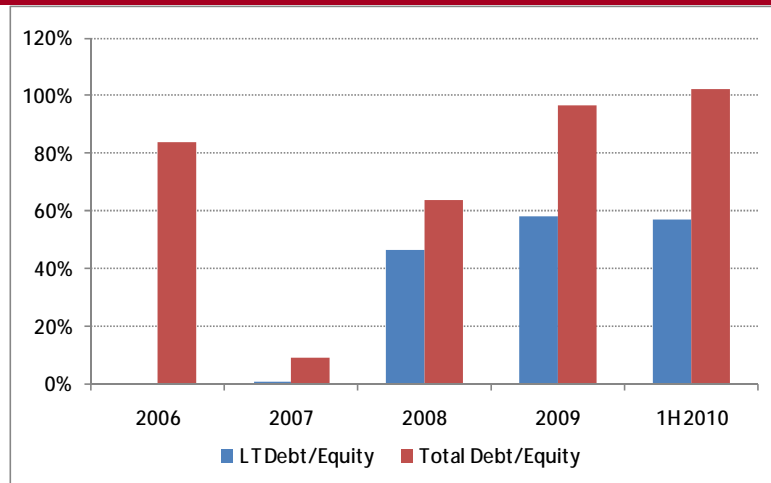
Graph 4



Source: Kaolin, consolidated data

The liquidity ratios of Kaolin managed to remain above the level of 1. The huge increase of both current and quick ratios in 2007 was due to the raising revenues and the cash flow from the capital raised. The ratios remained stable during the last three years to levels that ensure solvency. Kaolin has ratios than are close to the average for liquid Bulgarian companies. That stability is indication for sustainable business model despite the negative effects of the crisis.

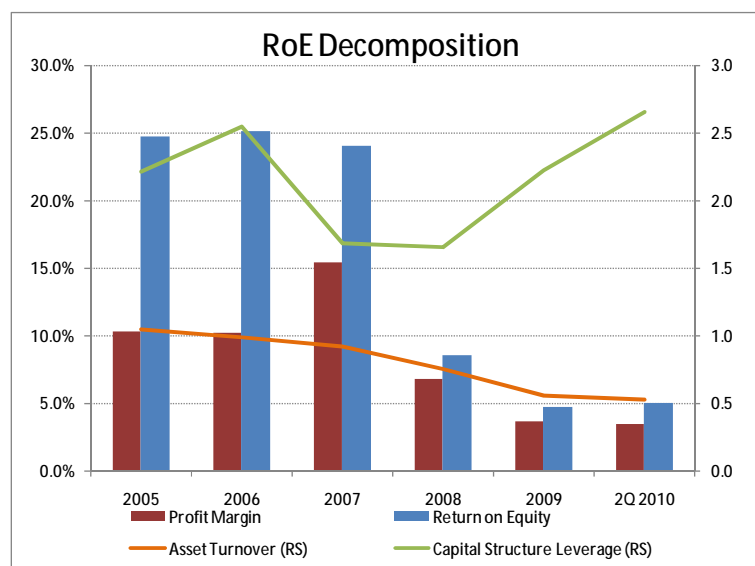
Graph 5



Source: Kaolin, consolidated data

**Debt level stabilized in 2010** Kaolin maintains higher than the average debt-to-equity ratios. The company paid back most of its debts in 2007 but increased significantly its loans in 2008. It maintained its bank loans-to-equity ratios above the average for Bulgarian public listed companies for the following years. Kaolin increased its fixed assets significantly and bank loans were the primary source of funding. Interest coverage ratio declined since 2008 but remains at 2.6 for the trailing four quarters ending June 2010.

Graph 6



Source: Kaolin, consolidated data

The profit margin of Kaolin decreased in 2008 due to the economic crisis. However, the return on equity was also under the negative influence of declining asset turnover. Kaolin's assets increased during the last two years as the company invested in SolarPro Holding, whereas revenues from it remained insignificant. As a result the leverage ratio jumped. RoE stood at 5% for year and a half. The spin-off of SolarPro Holding will have effect on the ratio.

### SolarPro Holding

Kaolin invested in the production of solar panels and solar power plants through its subsidiary SolarPro Holding, which was fully owned through Solar Ventures. Kaolin made reorganization of its activities in the renewable energy sector during the third quarter of the year. Shareholders of

Kaolin had the opportunity to exchange ordinary shares of Kaolin for ordinary shares of SolarPro Holding from their owner Solar Ventures. 1.33 million shares of Kaolin were exchanged for shares of SolarPro or 85.12% of all stocks subject of the change. This represented 73.95% of SolarPro's capital. The subsidiary of Kaolin Solar Ventures maintained 11.59% of SolarPro's capital.

|  |             |
|--|-------------|
| Kaolin shares                                      | 1 330 002   |
| Price per share                                    | 4.79        |
| Total value  | 6 370 710   |
| Kaolin's ownership in SolarPro before the spin-off | 85.54%      |
| Investment of Kaolin in Solar Ventures             | 40 004 000  |
| SolarPro Holding's capital subject of the spin-off | 73.95%      |
| Total value  | 34 583 771  |
| Difference   | -28 213 062 |

Source: Kaolin  
Calculations: ELANA Trading

The main consequence of the spin-off is a financial loss of Kaolin as the company swapped its holdings for total value of BGN 34.6 million for its shares at market value of BGN 5.72 million. This loss represents the difference between the valuations of both stocks before the spin-off that had been used for the calculation of the swap ratio. Kaolin invested in the capital of SolarPro Holding during the previous years for which it received indirectly shares for much lower market value. Most shareholders including the majority owner participated in the spin-off.

Kaolin announced in the non-consolidated report for the third quarter that the company did not made revaluation of its investments in Solar Venture after the spin-off as it is not finding reasons for loss. However, the difference is big enough for us to make some adjustments in the financial results and the company's capital.

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| Estimated 2010 consolidated data |  |                                |                                |
|----------------------------------|--|--------------------------------|--------------------------------|
|                                  | No spin-off,<br>plus sell of<br>assets | Adjusted<br>to the<br>spin-off | Including<br>financial<br>loss |
| Sales                            | 170 000                                | 168 000                        | 168 000                        |
| EBITDA                           | 36 000                                 | 27 250                         | 27 246                         |
| Depreciation                     | 14 500                                 | 14 500                         | 14 500                         |
| EBIT                             | 21 500                                 | 12 746                         | 12 746                         |
| Interest expenses                | 4 500                                  | 5 200                          | 5 200                          |
| Net profit                       | 15 100                                 | 7 500                          | -20 300                        |
| Assets                           | 293 500                                | 223 000                        | 195 000                        |
| Cash                             | 20 000                                 | 12 700                         | 12 500                         |
| Equity                           | 124 500                                | 127 000                        | 99 000                         |
| Bank loans                       | 99 650                                 | 61 000                         | 61 000                         |
| P/E                              | 6.87                                   | 13.83                          | -5.11                          |
| P/B                              | 0.83                                   | 0.82                           | 1.05                           |
| P/S                              | 0.61                                   | 0.62                           | 0.62                           |
| EV/EBITDA                        | 5.09                                   | 5.58                           | 5.59                           |

Calculations: ELANA Trading

We made calculation for comparison between three scenarios of expected data for 2010. The first case is fictional as it represents the data without spin-off. It includes the sell of assets that SolarPro made after the deal, which will impact the financial result and the structure of assets of the holding. We also present the data for Kaolin after the spin-off, excluding and including the financial loss at the amount of BGN 28 million. The balance sheet is adjusted to the decrease of assets of SolarPro. The valuation ratios vary substantially. Net profit around BGN 7.5 million looks achievable for the core business of Kaolin for 2010, excluding the one-time items. P/B is above 1 when including the revaluation and the associated loss.

#### Corporate action history

- 01 November 2010 Kaolin revenues on individual basis for the first nine months of 2010 have increased by 25% compared to the same period last year by reaching BGN 96 million. The financial result has increased at the same time from BGN 6.3 million for the first nine months of 2009 to BGN 7.1 million for the current period under review, which is an increase of over 13%.
- 02 September 2010 The exchange of shares of Kaolin for shares of Solarpro Holding was officially concluded on September 01 2010. Throughout the period of exchange are replaced 1 330 002 shares of Kaolin representing 5.32% of the capital of the company. The maximum possible amount of exchange was 1 562 500 shares of Kaolin according to the terms set which means that 85.12% of the company's shareholders have exchanged their shares for shares of Solarpro Holding. In exchange, 34 580 052 shares of Solarpro Holding have been allocated representing 73.95% of Solarpro Holding capital. The subsidiary of Kaolin, Solar Ventures, still owns 5 420 159 shares of Solarpro Holding i.e. 11.59% of its capital.
- 01 September 2010 Mauve Clover Ltd., UK has notified Kaolin of the transfer through an exchange of 159 526 shares i.e. of 0.64% of Kaolin capital dated August 19 2010 (settlement date). As a result of the change, Mauve Clover Ltd. holds now 2 392 898 shares i.e. 9.57% of Kaolin capital directly. Mauve



- Clover Ltd. exercises directly its voting right at the GM of the company and not through controlled entities.
- 25 August 2010 In connection with the dividend distribution decision taken by the AGM of Kaolin on June 21 2010, the Management Board of the company has adopted the following procedure of the 2009 dividend distribution:  
- Dividend payout starting date: September 20 2010  
- Dividend payout final date: December 20 2010
- 22 June 2010 The AGM of Kaolin decided to allocate BGN 3.75 million as dividend payments at to set as reserves BGN 3.53 million. The right on dividend will be entitled to all shareholders registered in the Central Depository by July 05 2010.
- 04 June 2010 As a result of the reorganization of Kaolin activity at the beginning of 2010, the company's business in the field of renewable sources of energy (carried out mainly by subsidiaries at that time) has been separated in the newly established public company Solarpro Holding.  
In that connection, the shareholders of Kaolin are given the opportunity to exchange common shares of Kaolin with common shares of Solarpro Holding (the exchange) in case they would prefer to keep stake in the renewable energy business.
- 31 May 2010 Kaolin announced its 1Q 2010 consolidated report.
- 21 May 2010 Kaolin has submitted a copy of the publication of the invitation for the AGM of the company appointed for June 21 2010.
- 28 April 2010 Kaolin reports 18% revenue growth compared to the same period of 2009 and has doubled its net financial result.
- 31 March 2010 Kaolin has submitted its 2009 annual report. The report is posted on the web site of BSE-Sofia.
- 29 March 2010 Solarpro started building two new photovoltaic plants. The company broke ground of a solar power plant in the town of Malko Tarnovo. The plot comprises 1 120 ares and the planned capacity is 2.4 MWp.
- 01 March 2010 Kaolin reports consolidated sales revenues for 2009 to the amount of BGN 135 576 000 compared to BGN 143 036 000 for year 2008, which is a 5% decrease in sales for 2009 compared to 2008.
- 29 March 2010 Kaolin reports sales revenues for 2009 to the amount of BGN 105 million, which is a 14% decrease in the sales revenues compared to the preceding year (BGN 123 million). During the second and the third quarter of 2009, the company succeeded to compensate the greater drop accounted at the beginning of the year .

### **Valuation**

Kaolin became one of the favorite stocks for Bulgarian investors due to its prospects for revenues growth and the leading position in many of its product segments on the domestic markets. The recent decline of revenues had negative impact on the stock, although the valuation improved due to the huge decline of stock prices during the last 12 months.

### **Multiples comparison**

Past and current multiples are irrelevant for the valuation of Kaolin due to the spin-off of SolarPro.

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|                              | 2008        | 2009         | TTM          |
|------------------------------|-------------|--------------|--------------|
| <b>Last Price</b>            | 3.45        | 5.75         | 4.69         |
| <b>Number of Shares</b>      | 25 000 000  | 25 000 000   | 25 000 000   |
| <b>Market Capitalization</b> | 86 250 000  | 143 750 000  | 117 250 000  |
| <b>Net Profit</b>            | 9 691 000   | 5 013 000    | 5 287 500    |
| <b>P/E</b>                   | <b>8.90</b> | <b>28.68</b> | <b>22.17</b> |
| <b>Equity</b>                | 113 765 000 | 106 798 000  | 107 287 000  |
| <b>P/B</b>                   | <b>0.76</b> | <b>1.35</b>  | <b>1.09</b>  |
| <b>Sales</b>                 | 143 036 000 | 135 610 000  | 149 905 000  |
| <b>P/S</b>                   | <b>0.60</b> | <b>1.06</b>  | <b>0.78</b>  |
| <b>EV</b>                    | 139 179 000 | 233 282 000  | 225 528 000  |
| <b>EBITDA</b>                | 24 732 000  | 24 575 000   | 25 881 000   |
| <b>EV/EBITDA</b>             | <b>5.63</b> | <b>9.49</b>  | <b>8.71</b>  |
| <b>RoE</b>                   | 8.52%       | 4.69%        | 4.93%        |
| <b>RoA</b>                   | 4.32%       | 1.88%        | 1.86%        |

Calculations: ELANA Trading  
Data for trailing twelve months, consolidated reports

The price-to-earnings ratio is still very high as compared to the average for Bulgarian blue chips. The current price-to-book ratio shows no discount to equity but the expected financial loss from the spin-off of Solar-Pro Holding will result to higher level.

The recovery of revenues had positive effect on price-to-sales ratio to very low levels. However, all multiples will be negatively influenced by the expected loss for 2010 but at the moment the stock is fair valued, including the EV/EBITDA of 8.

#### Peers comparison

| Mutiples                            | P/E        | P/B        | P/S         | EV/EBITDA  |
|-------------------------------------|------------|------------|-------------|------------|
| Median Value of Peers               | 8.92       | 0.84       | 1.91        | 6.28       |
| Market Capitalization               | 47 153 449 | 90 010 145 | 286 781 607 | 54 183 507 |
| Price                               | 1.89       | 3.60       | 11.47       | 2.17       |
| Weight                              | 20%        | 30%        | 30%         | 20%        |
| Current Price                       |            | 4.69       |             |            |
| Fair Price                          |            | 4.53       |             |            |
| Premium (Discount) to Current Price |            | -3.46%     |             |            |

Source: Bloomberg  
Calculations: ELANA Trading

*Only P/S is below the median of peers*

Kaolin has only one distinctive advantage when comparing to the main multiples of companies in the mineral extraction sector. This is the price-to-sales ratio as the median of peers is 1.91. However, all other multiples are not in favor for Kaolin, especially the high trailing P/E. It is improving but data for 2010 could be distorted by the spin-off. Half of the peers have negative financial results and P/E and EV/EBITDA are understating the valuation of Kaolin.

Fair price is BGN 4.53. P/B and P/S have higher weight as comparing to the other two multiples.

#### Discounted cash flows

| <b>Kaolin</b>                   |         |        |        |        |                    |        |        |             |        |        | <b>Terminal</b> |
|---------------------------------|---------|--------|--------|--------|--------------------|--------|--------|-------------|--------|--------|-----------------|
| <i>BGN'000</i>                  | 2011    | 2012   | 2013   | 2014   | 2015               | 2016   | 2017   | 2018        | 2019   | 2020   | Year            |
| <b>EBIT</b>                     | 12 746  | 15 945 | 25 226 | 30 900 | 38 924             | 42 816 | 46 241 | 49 016      | 51 468 | 53 527 | 57 895          |
| <b>EBIT(1-T)</b>                | 11 471  | 14 351 | 22 703 | 27 810 | 35 032             | 38 534 | 41 617 | 44 115      | 46 321 | 48 175 | 52 106          |
| <b>Add: D&amp;A</b>             | 7 999   | 9 220  | 8 981  | 9 616  | 10 320             | 11 099 | 11 943 | 12 857      | 13 831 | 14 384 | 14 476          |
| <b>Less: Investments</b>        | 9 999   | 14 220 | 23 012 | 22 916 | 18 752             | 20 451 | 22 287 | 24 073      | 25 984 | 27 315 | 14 476          |
| <b>Less: Change NWC</b>         | 4 982   | 7 884  | 13 015 | 8 933  | 6 385              | 9 329  | 4 735  | 3 890       | 3 023  | 3 563  | 3 854           |
| <b>FCF</b>                      | 4 489   | 1 467  | -4 342 | 5 577  | 20 216             | 19 853 | 26 538 | 29 009      | 31 145 | 31 681 | 48 252          |
| <b>PV FCF</b>                   | 4 008   | 1 169  | -3 090 | 3 544  | 11 471             | 10 058 | 12 005 | 11 716      | 11 231 | 10 200 |                 |
| <b>Sum of PV FCF</b>            | 72 313  |        |        |        |                    |        |        |             |        |        |                 |
| <b>PV of Continuing Value</b>   | 194 198 |        |        |        |                    |        |        |             |        |        |                 |
| <b>Total PV Free Cash Flows</b> | 266 511 |        |        |        |                    |        |        |             |        |        |                 |
|                                 |         |        |        |        | <b>Growth Rate</b> |        |        |             |        |        |                 |
|                                 |         |        |        |        | <b>SA</b>          | 2.0%   | 3.0%   | 4.0%        | 5.0%   | 6.0%   |                 |
| <b>Less: Outstanding Debt</b>   | 63 500  |        |        |        | 10.0%              | 10.74  | 11.99  | 13.66       | 15.98  | 19.46  |                 |
| <b>Plus: Financial Assets</b>   | 12 700  |        |        |        | 11.0%              | 8.75   | 9.63   | 10.76       | 12.26  | 14.35  |                 |
| <b>PV of Equity</b>             | 215 711 |        |        |        | 12.0%              | 7.20   | 7.84   | <b>8.63</b> | 9.64   | 11.00  |                 |
| <b>Number of Shares</b>         | 25 000  |        |        |        | 13.0%              | 5.96   | 6.43   | 7.00        | 7.72   | 8.63   |                 |
| <b>Price Per share</b>          | 8.63    |        |        |        | 14.0%              | 4.95   | 5.30   | 5.73        | 6.25   | 6.89   |                 |

Calculations: ELANA Trading

The DCF model is based on our projections for the core business of Kaolin. It is not including the effect of the spin-off of SolarPro Holding. The company maintains positive cash flow for all projected years excluding 2013 when we calculated large increase of investments to support the expected revenues growth in foreign markets. Afterwards we project a gradually decrease of growth rates and constant profit margins. Long-term growth rate is 4%, which is above the average growth rate for developed economy but the sector's specifics support the idea of faster growth of revenues and costs for production, mainly energy. The sensitivity analysis is extending the range of intrinsic value from BGN 4.95 to BGN 19.46. All values are significantly higher than the current price per share.

| Method             | Price | Weight      |
|--------------------|-------|-------------|
| Peers' Comparison  | 4.53  | 50%         |
| DCF                | 8.63  | 50%         |
| <i>Price (BGN)</i> |       | <b>6.58</b> |

Calculations: ELANA Trading

The two methods of valuation give price per share of BGN 6.58. This is 40% above the current market price. The huge difference between the two methods is a clear evidence of the current market crisis and the lack of confidence of domestic investors.

**Recommendation and price target**

We give **HOLD** recommendation due to the prospects for growth on foreign markets. Moreover, the price per share fell significantly during the last year and the negative news could already be in consideration by investors. We still need to see the initial reaction of a possible financial loss for 2010 but it should be limited. Domestic macro risks are sizable but are lower than year ago as many industries are recovering. Our one-year price target is **BGN 6.58**. This is the average from the two valuation methods and is a realistic approach to the fair value of the stock as the price remains under pressure and under the risks of additional decline.

**Financial Data**

| Statement of Income (in '000 BGN)         | 2007            | 2008            | 2009            | TTM             |
|---|-----------------|-----------------|-----------------|-----------------|
| Sales                                     | 117 729         | 143 036         | 135 610         | 110 303         |
| Production expenses                       | 78 238          | 101 150         | 95 459          | 72 547          |
| Personnel expenses                        | 14 671          | 18 548          | 16 438          | 12 561          |
| Net income from financial activities      | 4 124           | 1 244           | 712             | 3 592           |
| Other revenues and expenses               | 2 004           | 150             | 150             | 2 004           |
| <b>EBITDA</b>                             | <b>30 948</b>   | <b>24 732</b>   | <b>24 575</b>   | <b>30 791</b>   |
| Depreciation                              | 8 375           | 10 419          | 14 526          | 12 482          |
| <b>EBIT</b>                               | <b>22 573</b>   | <b>14 313</b>   | <b>10 049</b>   | <b>18 309</b>   |
| Interest expense                          | 1 559           | 2 482           | 3 337           | 2 414           |
| <b>Pretax income</b>                      | <b>21 014</b>   | <b>11 831</b>   | <b>6 712</b>    | <b>15 895</b>   |
| Taxes                                     | 2 362           | 1 491           | 1 430           | 2 301           |
| <b>After-tax income</b>                   | <b>18 652</b>   | <b>10 340</b>   | <b>5 282</b>    | <b>13 594</b>   |
| Minority interest                         | 540             | 649             | 269             | 160             |
| <b>Net income</b>                         | <b>18 112</b>   | <b>9 691</b>    | <b>5 013</b>    | <b>13 434</b>   |
| <b>Earnings per share in BGN</b>          | <b>0.72</b>     | <b>0.39</b>     | <b>0.20</b>     | <b>0.54</b>     |
| Balance Sheet (in '000 BGN)               | 2007            | 2008            | 2009            | TTM             |
| <b>Total Assets</b>                       | <b>154 125</b>  | <b>224 307</b>  | <b>266 846</b>  | <b>284 576</b>  |
| Equity subscriptions receivable           | 0               | 0               | 0               | 0               |
| <b>Fixed assets</b>                       | <b>64 764</b>   | <b>126 353</b>  | <b>146 539</b>  | <b>148 645</b>  |
| Tangible fixed assets                     | 55 962          | 110 041         | 127 758         | 128 805         |
| Financial investments                     | 69              | 12              | 12              | 0               |
| <b>Current assets</b>                     | <b>89 361</b>   | <b>97 954</b>   | <b>120 307</b>  | <b>135 931</b>  |
| Inventory                                 | 19 185          | 27 308          | 34 149          | 32 354          |
| Receivables                               | 32 212          | 48 341          | 58 228          | 87 462          |
| Financial assets                          | 0               | 6               | 7               | 0               |
| Cash and cash equivalents                 | 33 394          | 19 790          | 25 494          | 13 398          |
| <b>Total liabilities + equity</b>         | <b>154 125</b>  | <b>224 307</b>  | <b>266 846</b>  | <b>284 576</b>  |
| <b>Equity</b>                             | <b>115 231</b>  | <b>113 765</b>  | <b>106 798</b>  | <b>107 287</b>  |
| Registered capital                        | 25 000          | 25 000          | 25 000          | 25 000          |
| Capital funds                             | 63 548          | 78 878          | 75 753          | 79 071          |
| Earnings                                  | 26 683          | 9 887           | 6 045           | 3 216           |
| <b>Liabilities</b>                        | <b>38 894</b>   | <b>110 542</b>  | <b>160 048</b>  | <b>177 289</b>  |
| Long-term payables                        | 3 981           | 58 134          | 79 757          | 79 090          |
| Long-term bank loans                      | 39              | 52 516          | 62 359          | 61 454          |
| Short-term bank debt                      | 10 294          | 20 203          | 40 752          | 48 149          |
| Short-term payables                       | 21 630          | 26 314          | 24 350          | 77 158          |
| Other liabilities                         | 294             | 279             | 275             | 266             |
| <b>Working capital</b>                    | <b>57 437</b>   | <b>51 437</b>   | <b>55 205</b>   | <b>10 624</b>   |
| Cash Flow Statement (in '000 BGN)         | 2007            | 2008            | 2009            | TTM             |
| <b>Net income</b>                         | <b>18 112</b>   | <b>9 691</b>    | <b>5 013</b>    | <b>13 434</b>   |
| Depreciation                              | 8 375           | 10 419          | 14 526          | 12 482          |
| Changes in Working capital                | 61 619          | (6 000)         | 3 768           | (44 581)        |
| Other operating cash flow items           | (78 116)        | (2 489)         | (9 889)         | 30 001          |
| <b>Net cash from operating activities</b> | <b>9 990</b>    | <b>11 621</b>   | <b>13 418</b>   | <b>11 336</b>   |
| Capital expenditures                      | (24 365)        | (58 952)        | (33 358)        | (11 952)        |
| Other investing cash flow items           | (2 299)         | (12 710)        | (847)           | (21 294)        |
| <b>Net cash from investing activities</b> | <b>(26 664)</b> | <b>(71 662)</b> | <b>(34 205)</b> | <b>(33 246)</b> |
| Issuance/ Retirement of Stock, Net        | 62 438          | 2 892           | 3 653           | 4 570           |
| Issuance/ Retirement of Debt, Net         | (15 427)        | 52 559          | 29 185          | 11 064          |
| Dividends paid                            | (5)             | (7 396)         | (3 705)         | (23)            |
| Other financing cash flow items           | 270             | (1 618)         | (2 642)         | (5 796)         |
| <b>Net cash from financing activities</b> | <b>47 276</b>   | <b>46 437</b>   | <b>26 491</b>   | <b>9 815</b>    |
| <b>Net change in cash</b>                 | <b>30 602</b>   | <b>(13 604)</b> | <b>5 704</b>    | <b>(12 095)</b> |
| Beginning-of-period cash                  | 2 792           | 33 394          | 19 790          | 25 495          |
| <b>End-of-period cash</b>                 | <b>33 394</b>   | <b>19 790</b>   | <b>25 494</b>   | <b>13 400</b>   |
| <b>Cash per share</b>                     | <b>1.34</b>     | <b>0.79</b>     | <b>1.02</b>     | <b>0.54</b>     |

| <b>Financial and Performance Indicators</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>TTM</b>  |
|---|-------------|-------------|-------------|-------------|
| <b>Valuation Ratios</b>                     |             |             |             |             |
| Price/Earnings (P/E)                        | 23.16       | 8.90        | 28.68       | 8.73        |
| Book Value (BV)                             | 4.61        | 4.55        | 4.27        | 4.29        |
| Price/Book (P/B)                            | 3.64        | 0.76        | 1.35        | 1.09        |
| Sales Per Share                             | 4.71        | 5.72        | 5.42        | 4.41        |
| Price/Sales (P/S)                           | 3.56        | 0.60        | 1.06        | 1.06        |
| Price/Cash per share                        | 15.84       | 4.29        | 7.36        | 4.52        |
| EV (in BGN)                                 | 410 626     | 100 588     | 162 913     | 148 509     |
| EV/Sales                                    | 3.49        | 0.70        | 1.20        | 1.35        |
| EV/EBITDA                                   | 13.27       | 4.07        | 6.63        | 4.82        |
| EV/EBIT                                     | 18.19       | 7.03        | 16.21       | 8.11        |
| <b>Liquidity</b>                            |             |             |             |             |
| Current ratio                               | 2.80        | 2.11        | 1.85        | 1.08        |
| Quick ratio                                 | 2.20        | 1.52        | 1.32        | 0.83        |
| <b>Debt Management</b>                      |             |             |             |             |
| Debt to total assets                        | 0.07        | 0.32        | 0.39        | 0.62        |
| Interest coverage                           | 14.48       | 5.77        | 3.01        | 7.58        |
| LT Debt/Equity                              | 0.00        | 0.46        | 0.58        | 1.31        |
| Total Debt/Equity                           | 0.09        | 0.64        | 0.97        | 1.65        |
| <b>Asset Management</b>                     |             |             |             |             |
| Inventory turnover                          | 6.14        | 5.24        | 3.97        | 3.41        |
| Days sales outstanding                      | 99          | 122         | 155         | 285         |
| Fixed asset turnover                        | 1.82        | 1.13        | 0.93        | 0.74        |
| Total asset turnover                        | 0.76        | 0.64        | 0.51        | 0.39        |
| <b>Profitability</b>                        |             |             |             |             |
| Profit margin on sales                      | 15.4%       | 6.8%        | 3.7%        | 12.2%       |
| EBITDA margin                               | 26.3%       | 17.3%       | 18.1%       | 27.9%       |
| Basic earning power                         | 14.6%       | 6.4%        | 3.8%        | 6.4%        |
| Return on assets                            | 11.8%       | 4.3%        | 1.9%        | 4.7%        |
| Return on equity                            | 15.7%       | 8.5%        | 4.7%        | 12.5%       |
| Return on investments                       | 15.2%       | 4.3%        | 2.0%        | 5.4%        |
| <b>Dividend Information</b>                 |             |             |             |             |
| Dividend Yield                              | 0.00%       | 8.70%       | 2.61%       | 0.00%       |
| Dividend per share                          |             | 0.30        | 0.15        |             |
| <b>Number of shares:</b>                    |             |             |             |             |
|   | 25 000 000  | 25 000 000  | 25 000 000  | 25 000 000  |
| <b>Price in BGN - period end:</b>           |             |             |             |             |
|   | 16.78       | 3.45        | 5.75        | 4.69        |
| <b>Market cap in BGN - period end:</b>      |             |             |             |             |
|   | 419 500 000 | 86 250 000  | 143 750 000 | 117 250 000 |



## Company Profile and Valuation 25 November 2010

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|             |   |
|-------------|---|
| <b>BUY</b>  | More than 5% higher as compared to SOFIX and BG40 performance |
| <b>HOLD</b> | Market performance, +/-5% as compared to SOFIX and BG40       |
| <b>SELL</b> | More than 5% lower as compared to SOFIX and BG40 performance  |

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