

## INDUSTRIAL HOLDING BULGARIA

### INDUSTRY: DIVERSIFIED HOLDINGS

### AGAINST THE TIDE

**LARGEST INDUSTRIAL HOLDING ON THE BULGARIAN STOCK EXCHANGE AND ONE OF THE LARGEST CONGLOMERATES IN THE COUNTRY. OWNER AND OPERATOR OF FIVE SHIPS WITH TOTAL CAPACITY OF 162,000 DWT. THE BIGGEST PRODUCER OF LATHES IN EASTERN EUROPE. ACTIVITIES OF THE HOLDING INCLUDE SHIP REPAIR, METAL CASTING AND PORT SERVICES.**

#### FROM SHIPBUILDING TO CHARTERING SERVICES

Industrial Holding Bulgaria is the owner of the largest shipyard in Bulgaria. The negative market conjuncture forced the company to cease shipbuilding operations and to use its assets only for repair. The new build ships with cancelled orders have been acquired by the Holding's subsidiaries. Chartering services represent 56% of total revenues, a substantial increase from the 21% level in 2010. The Holding owns 5 ships from 9,600 dwt to 55,500 dwt for bulk and containerized cargoes that operate on main shipping routes.

#### CHALLENGING SHIPPING MARKET BUT THE FALL OF OIL WILL SUPPORT PROFITS

Operates in cyclical industries; however international trade improvement and lower oil prices should give a boost to both the top and bottom line of the Holding. International trade is expected to accelerate in 2014 to 4%-5% and Asia-to-Europe volumes have grown quite significantly and actually far ahead of the economic development in Europe. Freight rates are low due to the overcapacity and the introduction of very large ships. On the other hand, the steep decline of oil price should decrease substantially fuel costs of chartering companies and will increase profits.

#### THE NEW CONVERTIBLE BONDS MIGHT BECOME A GOOD ENTRY OPTION

The stock price of Industrial Holding Bulgaria outperformed the market but the Company lags behind in terms of financial results. Its profit for 2013 was influenced by one-time item and the Holding again reported a loss since the beginning of 2014. Nevertheless, it might provide an opportunity for investors with risk appetite via the convertible bond issue for BGN 50 m that should refinance the existing issue for BGN 30 m. We expect a recovery of financials at the back of lower fuel costs in shipping that should support the stock price and offer profit for bond holders in case of conversion.

#### VALUATION/RISKS

**VALUATION:** Our one year price target is BGN 1.16 per share which corresponds to the current market price. The valuation is based on a DCF model that assumes a moderate growth of revenue and a return to a net profit. The stock is cheap when considering the value of its assets but considering the return it makes for investors, we prefer to maintain a neutral stance at the moment.

**RISKS:** Numerous risks related to the global economic growth that might undermine the fundamentals behind the shipping industry – decrease of transport and international trade; further build of overcapacity and decline of ship disposal; increase of bunker fuel costs; new environment protection rules, concerning the maritime transportation.

in kBGN, excl. ratios	2013	2014F	2015F	2016F
REVENUES	123,424	91,216	97,594	105,773
EBITDA	36,006	15,826	26,282	26,464
EBIT	22,802	2,736	12,687	12,693
NET PROFIT	17,276	-1,116	6,084	4,527
EQUITY	254,175	253,053	259,137	263,664
ROE	7.24%	-0.44%	2.38%	1.73%
ROA	4.03%	-0.26%	1.41%	1.02%
EBITDA MARGIN	29.17%	17.35%	26.93%	25.02%
NET PROFIT MARGIN	14.00%	-1.22%	6.23%	4.28%
EPS	0.25	-0.02	0.09	0.07
DEBT/EQUITY	0.49	0.46	0.51	0.49
P/E	3.30	Neg.	12.67	17.02
P/B	0.22	0.30	0.30	0.29
EV/EBITDA	4.90	11.91	7.59	7.57

**HOLD**
**ONE YEAR PRICE TARGET: BGN 1.16**
**CURRENT PRICE: BGN 1.15**

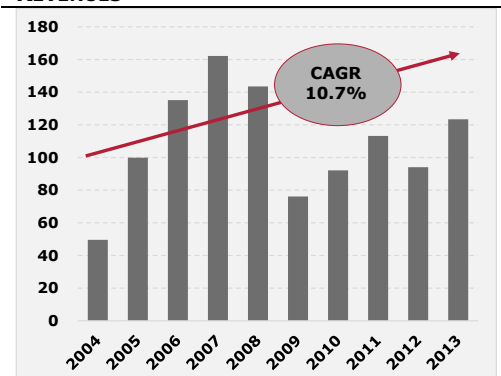
#### EXCHANGE RATES

**EUR/BGN(FIXED): 1.9583**
**USD/BGN: 1.6440**

#### MARKET DATA

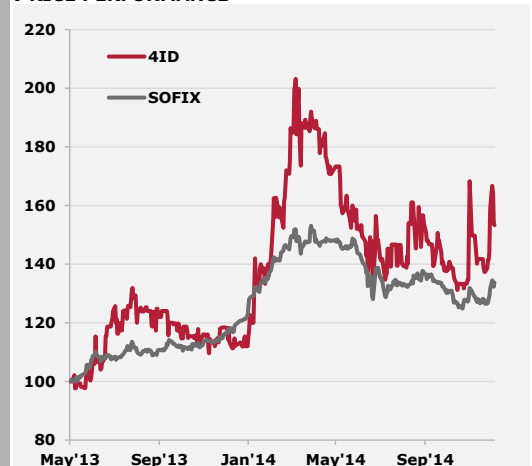
Shares Outstanding:	<b>67.0m</b>
Share Capital:	<b>BGN 67.0m</b>
Free-float:	<b>36.63%</b>
Treasury Shares	<b>1.43%</b>
Market Cap.:	<b>BGN 77.0m</b>
Avg. Daily Vol.:	<b>BGN 13,000</b>
52 Weeks Range:	<b>BGN 0.83-1.55</b>
BSE Ticker	<b>4ID</b>
Bloomberg	<b>4ID BU</b>

#### REVENUES



Source: Company data

#### PRICE PERFORMANCE



#### ANALYSTS CONTACTS:

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## EXECUTIVE SUMMARY

**WE INITIATE COVERAGE WITH A HOLD RATING OF INDUSTRIAL HOLDING BULGARIA. OUR ONE YEAR PRICE TARGET IS BGN 1.16, WHICH CORRESPONDS TO THE CURRENT MARKET PRICE.**

### THE COMPANY

Industrial Holding Bulgaria (the Group; the Holding) is the successor of one of the funds that were created in mid-90' to participate in privatization of state-owned assets. Currently, it is one of the biggest industrial conglomerates in Bulgaria with operations mainly in the field of chartering, machine building and port management. It owns the biggest private port in Southern Bulgaria together with the biggest shipyard; however due to the unfavorable economic conditions it discontinued shipbuilding and currently uses its shipbuilding assets for ship repair.

**Revenue breakdown:** Chartering services represents 56% of total revenues in 2014. The Holding owns 5 ships with total capacity of 162,000 dwt and is the second largest shipping company in Bulgaria. Its subsidiary IHB Shipping acts as the manager of all ships of the Group and provides the needed services for operations. Industrial Holding Bulgaria acquired the ships after the cancellations of orders from external clients of Bulyard. The shipyard finished the contracts and transferred the latest ship to its mother company in 2012. At the beginning of 2013 Bulyard diverted the main activity from shipbuilding to ship repair, ship conversion and production of non-standard metal constructions for various industrial usages. Despite the new orientation, the company does not exclude the realization of projects in the field of shipbuilding but the current overcapacity, lack of orders in the region and the severe competition from South Korea and China make the prospects of return to shipbuilding insignificant.

The Holding has long lasting traditions in construction of lathes, electric motors and hydro generators for water power plants. Subsidiaries are owned through ZMM Bulgaria Holding, established in 2001. Major markets are Germany, Italy, USA, Russia and Turkey, Middle and Far East, Central and South America. Major clients are Linde, Siemens, Thyssen Krupp, Bosch, Fiat and Man. The segment generates less than 30% of revenues so far in 2014. The production of generators reported an increase of orders and the Holding managed to enter new markets.

**Oil price and value of assets:** The decline of oil price has a positive effect on the profitability of shipping companies. Industrial Holding Bulgaria should benefit from lower bunker fuel costs, although the first results should be available in the report for the fourth quarter. Industry estimations point to USD 61 bn cost savings for the global shipping sector in 2015. On the other hand, low fuel price should reduce initiatives for ship scrapping and the overcapacity would maintain the downward pressure on freight rates. The ships of the Holding are relatively new and their value is higher than the current market price. The Holding sold one of its smallest ships, Marciana, in December 2014. We don't consider the sale of assets as a probable scenario for the development of the Holding, although the restructuring might improve its operational profit. Ships with capacity ranging between 15,000 and 50,000 dwt are in good demand and have less volatile revenue cycle.

**New convertible bond issue:** Industrial Holding Bulgaria has a long practice of using convertible bonds to finance its assets' expansion. At the same time, the Holding increased its capital in 2010 and 2011. Funds raised were used for the acquisition of ships. Its third issue of convertible bonds matures in February 2015 and will be refinanced by another issue for BGN 50 m. Despite the fact that the conversion price is below the current stock price, we don't expect that bondholders would use the option as the difference is small. They might prefer to buy the new 4-year bonds that should provide better long-term profit from conversion if company's financials recover and the stock price receive a boost from investors.

The Holding does not distribute dividends and its current necessity of funds for investments put on hold the stock buy-back program carried out in 2013.

### THE COUNTRY AND THE MARKET

Bulgaria is under a Currency board and the Lev is pegged to the Euro at fixed rate of 1.95583. We expect a modest economic growth in 2014 and 2015, as it will be negatively affected by the global slowdown and the stall of growth in EU.

The two main areas of operations of Industrial Holding Bulgaria, the shipping and the machine building, are dependent on the global economic growth. The rising volumes in main international lanes, including Asia-to-Europe, and the solid demand of raw materials from China supported the shipping sector in 2014. Although the slowdown in the Chinese economy is one of the topics for the beginning of 2015, financial stimuli are expected to support demand for resources and GDP growth in the country. The markets for machines and generators depend on the level of investments in Europe, where industrial activity is subdued by the weak economic fundamentals, reduced capital spending from oil companies and deteriorating relations with Russia.

### THE VALUATION

Industrial Holding Bulgaria reported a large net profit for 2013 from the write-off of liabilities to shareholders from the sale of rights during a capital increase in 2007. The trailing result is negative and corresponds to the tough market conditions in shipping. Thus, our valuation is based only on the estimations for the future performance of the company, following the decline of oil price and the expected improvement of financials. We use the DCF method to value Industrial Holding Bulgaria. Our main scenario is based on a moderate increase of revenues with a peak in 2016 at 9% y-o-y. EBIT margin should improve substantially to 13% in 2015 due to the decline of oil price and the increase of global shipping volumes. All calculations are based on the consolidated results of the Holding. We value the stock at BGN 1.16 per share, which corresponds to the current price levels.

### THE MAIN RISKS

The main risks are related to the global economy. The decrease of ship recycling is a factor for further weakness of freight rates. Additional contraction of GDP in developing markets as well as the deceleration of growth in the USA and the largest EU economies could undermine demand for transportation services and machines. We consider the possibility of adopting new environmental protection rules in maritime transport as very low due to the lack of consensus among governments. However, new regulation on ballast waters could result to additional costs for shipping companies.

## COMPANY OVERVIEW

Industrial Holding Bulgaria (the Holding, the Group) is the successor of a fund, created to participate in the mass privatization in the country during the 1990s. The Holding has stakes in several sectors, including maritime transportation, shipbuilding and ship repair, manufacturing and machine building, port operations and other activities. It aims to hold controlling stakes in its subsidiaries and to determine the strategy of development. The main assets of the Group constitutes of the following:

- Five ships with total capacity of 162,000 deadweight tons, all capable to service ocean lines with bulk or containerized cargoes. Revenues of the segment represented 56% of total revenues since the beginning of 2014;
- Production of lathes, metal cutting machines and electric engines and metal casting. Companies in the segment are owned through its subsidiary ZMM Bulgaria Holding. Revenues of the segment totaled 29% during the first nine months of 2014;
- Bulyard Shipbuilding Industry – the Holding has 61.5% of the capital of Bulyard, the majority shareholder of company that holds and manages the assets of the former Varna Shipyard, biggest shipyard in Southern Bulgaria. Currently, the company's activity is limited to ship repair and represented 5% of sales in H1;
- Port operations in the two main Bulgarian ports at the Black Sea – Varna and Burgas. The segment contributed to 6% of revenues in 2014.

The economic crisis in 2008 had a major impact on Industrial Holding Bulgaria. The marine shipping has been hurt by the free capacity, as well as the economic and political risks, resulting to weak and volatile rates. The Holding was forced to acquire the ships from canceled orders. The present excess capacity in maritime transportation had extremely negative impact on the ship building industry. Therefore, Bulyard Shipbuilding Industry lost its orders and in fact ceased its main operations, cut the workforce and maintained only limited ship repair capabilities. The Holding turned its focus on the new area of maritime shipping and bought all finished vessels since 2009. Shipbuilding represented 37% of revenues in 2011 and fell to zero two years later.

The machine building segment maintained its share of revenues during the transition from ship building to chartering. Companies of the Holding design, produce and deliver metal cutting machines – wide range of universal and CNC lathes, components and accessories. The Group is the biggest producer of universal lathes in Eastern Europe. Major markets are Germany, Italy, USA, Russia and Turkey. Major clients are Linde AG, Siemens AG, Thyssen Krupp AG, Robert Bosch GmbH, Fiat, Man etc.

The proximity to major EU markets provides the benefit of fast deliveries of spare parts and additional equipment. This is an advantage for the producer of lathes as its clients are not obliged to maintain larger stock of spare parts for its machines. Cheaper electricity and low labor costs support the competitive prices of produced machines. Moreover, Bulgaria has skilled and well educated workforce in the field of engineering.

*One of the largest industrial conglomerates in Bulgaria*

*The crisis in shipbuilding forced the Holding to become a chartering company*

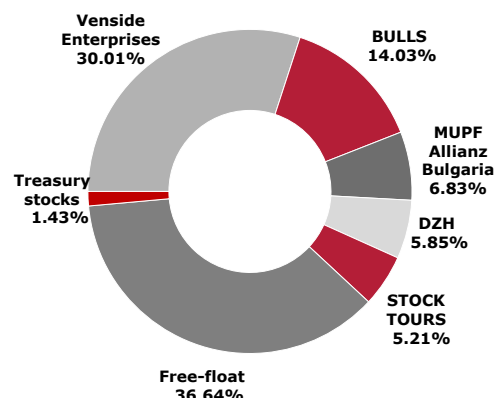
*The production of lathes has competitive advantages in the region*

## SHAREHOLDERS' STRUCTURE

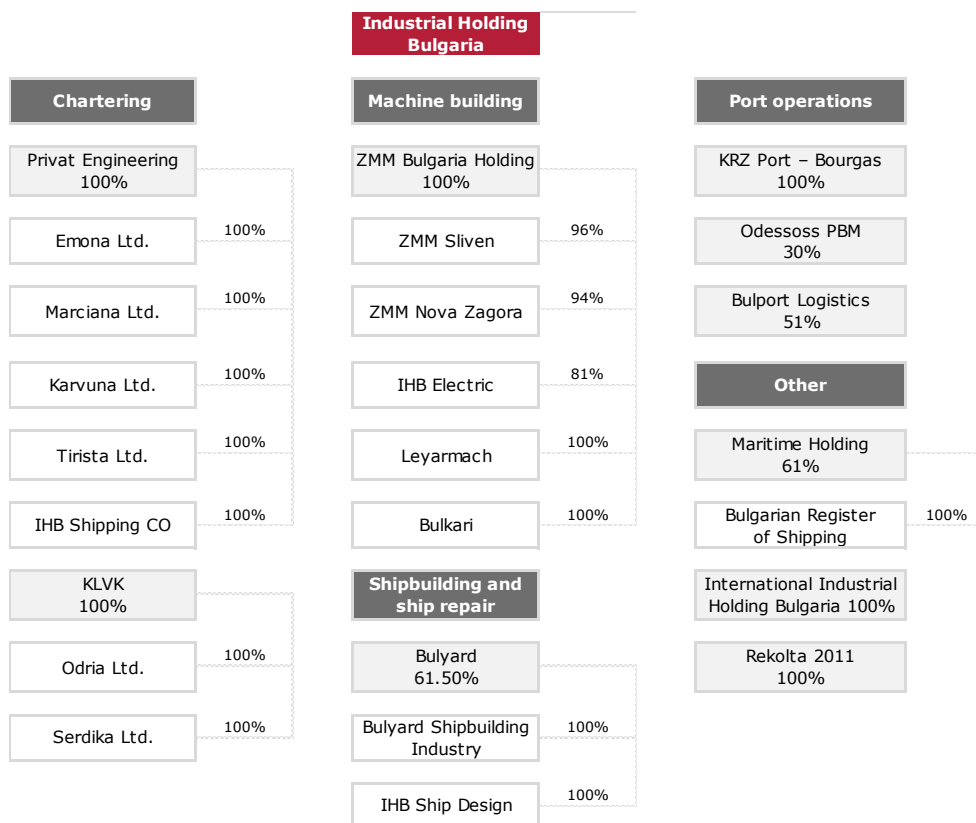
The Holding has several large shareholders that have joint control due to the big free-float and the stakes of institutional investors. The biggest shareholder is Cyprus-based company Venside Enterprises. The company and the second largest shareholder BULLS are controlled by Mr. Dimitar Zhelev, CEO and Chairman of the Board of Directors of Allianz Bulgaria. He is a well-known entrepreneur in Bulgaria with significant assets in the financial sector as well. His wife, Mrs. Daneta Zheleva, the CEO of Industrial Holding Bulgaria, has control on DZH.

Industrial Holding Bulgaria actively performed a buy-back program in 2013. In 2014, however, it ceased to buy own shares in large volumes and acquired only 6,125 stocks. The price jumped above the buy-back range of BGN 0.56-1.05.

Shareholders' structure



## STRUCTURE OF HOLDINGS



## POTENTIAL CATALYSTS

**Recovery of freight rates:** The increase of freight rates looks a distant possibility due to the overcapacity and the decline of ship scrapping. Nevertheless, the rising volumes in main destinations between Asia, Europe and North America are confirming the positive expectations for 2015 as a year of stable growth in maritime transportation. As more than half of revenues of Industrial Holding Bulgaria depend on the freight rates, any increase should boost sales and profits.

**Low fuel prices:** The decline of oil price pushed down the bunker fuel costs for shipping companies in November and December. Estimations for the cost savings point to USD 61 bn for the sector. This should improve profit margins substantially during the fourth quarter and should mitigate the negative effects from the economic risks.

**Market reconsiders the assets of the Holding:** Industrial Holding Bulgaria's stocks trade at very low price-to-book ratio due to the loss from operations and the overall negative bias on the market. The market might reconsider the value of the stock if the Holding announces plans to sell ships. Rough estimations of ships' value according to the current prices of 5-year old ships correspond to the current market capitalization of the Holding. We don't consider this possibility as plausible, although the sale of motor ship Marciana could become a trigger for the reconsideration of company's assets and the rise of share price.

## SECTOR OVERVIEW

### MARINE SHIPPING

Marine shipping is estimated to be a USD 375 bn industry. Public listed carriers account for about two-thirds of the market, which make it very transparent and subject of predictability. Data of United Nations estimated that dry bulk cargoes accounted for about 53% of transport in 2013, followed by tankers (30%) and containerized traffic (17%).

*Economic growth in Asia is essential for the shipping industry*

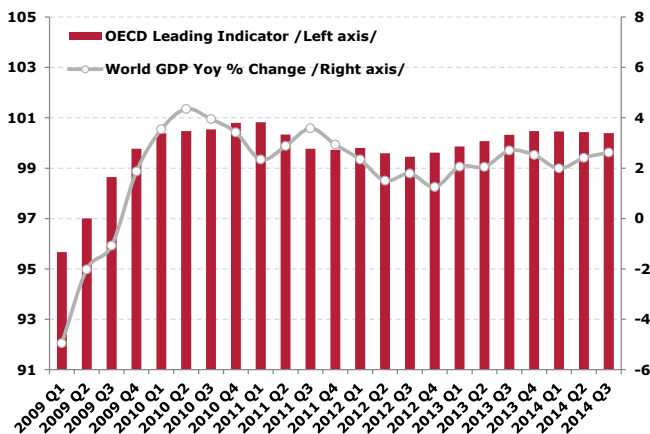
Factor number one for the sector is China with its import of raw materials and export to Europe and North America. The country is the largest importer of iron ore, with about 70% of all seaborne trade. China's industrial production registered a deceleration to 8.4% y-o-y in October. Both manufacturing and processing of metals were down from their peak growth levels, which suggest a lower demand of raw materials and the following decrease of transportation of ore. Despite the solid numbers of industrial production, the economy of China is facing the headwind of lower credit growth and the cool down in construction. The other leading Asian economy, Japan, gained momentum from the weaker yen during the third quarter and its export might continue to grow faster. Both nations have significant impact on shipping demand.

Other major themes for shipping include liner alliances and labor negotiations in USA. Alliances and extensive vessel sharing agreements completely dominate all trades in the industry. Liner companies improved their operations with joint initiatives and saved money but it is not yet clear how this will affect financial results or whether their customers will take a share of the savings.

*Alliances as cost efficient measures*

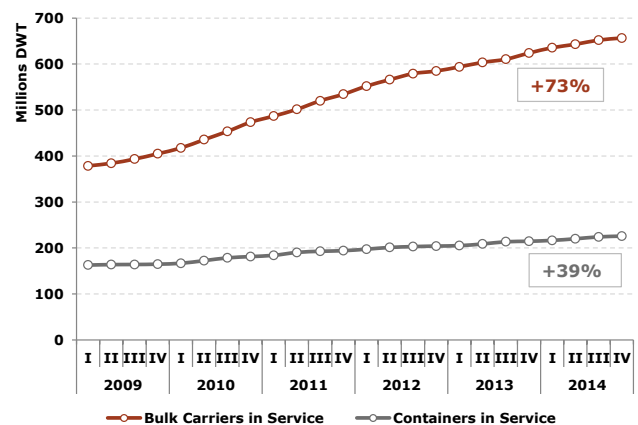
US West coast ports continue contract negotiations with labor unions to avoid a strike. With 68 percent of all containerized import shipments to the U.S. moving through West Coast ports, a strike will have serious long-term effects on trade throughout North America. The average capacity utilization of fleets should rise due to the extended destinations, thus increasing freight rates.

Exhibit 1: Global growth at moderate levels between 2 and 3% y-o-y



Source: Bloomberg

Exhibit 2: Bulk carriers' capacity grew faster due to the solid ore demand of China



Source: Bloomberg

### EXCESS CAPACITY AND FREIGHT RATES

The continuation of excess capacity has negative effect on the freight rates and the profitability of shipping companies. Containerliner industry is under pressure from 40% higher supply than demand in 2014. The average forecasts for supply are even more staggering: 90% higher supply than demand in 2015 due to the introduction of megaships and the solid shipbuilding worldwide, along with the lower level of ship disposal this year.

*Excess capacity of ships over current demand*

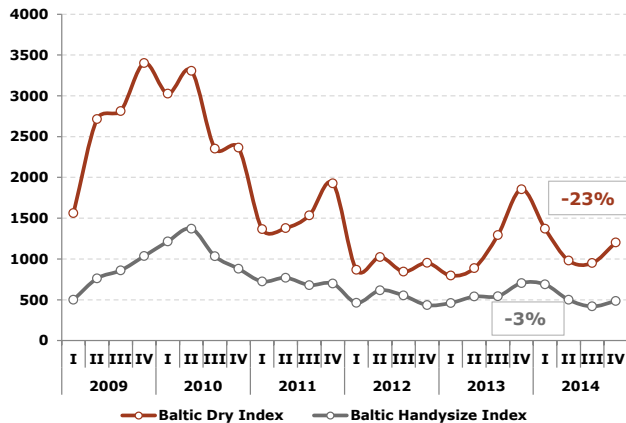
The shipping industry aims to utilize larger ships in order to control costs. The container-ship industry has evolved to include ships with capacity reaching 18,000 20-foot equivalent units (TEUs). The only barrier to container capacity increasing to 20,000 TEU-vessels is port loading and unloading infrastructure. The effect of introduction of more extremely large ships on smaller vessels should be mixed. On one hand, the decrease of costs should provide better price conditions and will improve the financial situation of large operators, thus supporting the trend for scrapping of older ships. On the other hand, shipping companies might be forced to maintain low rates on shorter destination from the few ports with suitable infrastructure to others until the excess capacity is removed.

Ship recycling is the key factor for the oversupply. The trend of increased ship disposal until 2013 was reversed due to the lower fuel costs and the improvement of global trade volumes. The weak spot market, displayed in the 23% y-o-y decline of Baltic Dry Index in Q3, might again return scrapping on the agenda. Freight rates on containers on Asia-US routes have been increased several times, including a peak surcharge since June 2013. The increases have failed to hold because of excess capacity and the sluggish global economy. This suggests that freight rates will remain low, while the decline of fuel costs would only postpone the problem's resolution.

*Ship disposal decreased in 2014*

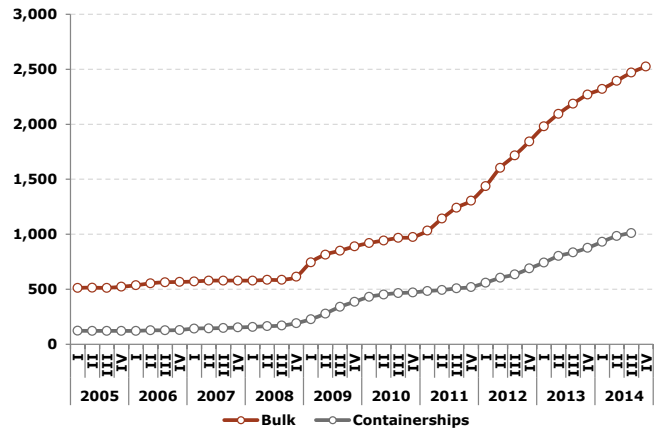
The Baltic Dry Index aggregates the cost of moving freight via 23 seaborne shipping routes. It covers the movement of dry-bulk commodities, such as ore, coal, grain, bauxite and alumina. The Index is 69% lower than the 10-year historical Q3 average.

Exhibit 3: Lower decline of freight rates of smaller ships than the average for bulk transport



Source: Baltic Exchange

Exhibit 4: The number of ships broken up decelerated in 2014 due to the low fuel costs



Source: IHS Global Limited

**OUTLOOK**

Risks on profitability of shipping companies are numerous: excess capacity, weak and volatile freight rates, as well as economic slowdown. Although those factors are negative for the sector and can be outlined by the low freight rates, there are two positive stories. New ship deliveries are coming down after years of significant supply additions and should support freight rates. In addition, the low oil price should result to yearly cost savings up to USD 61 bn for 2015, assuming an annual market for bunker fuels of 257 million tons at latest price and comparing to the price in end-2013. Bunker costs represent twice the amount spent on other operating costs. Slow steaming is used to decrease daily expenditures and will remain an integrated part of shipping in spite of the falling prices as overcapacity is significant.

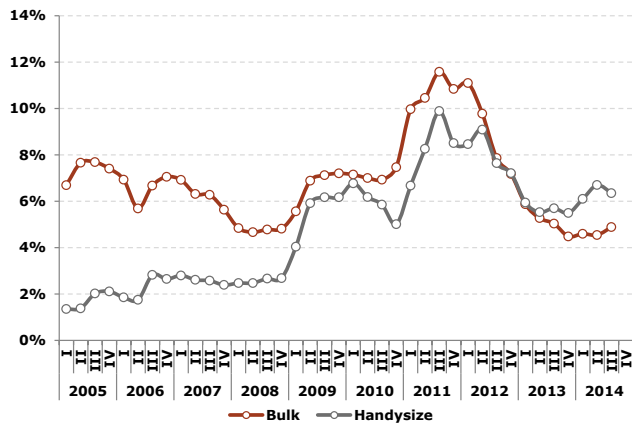
*Positive outlook based on decreased shipbuilding and low oil price*

Forecasts for the sector are positive. Kuehne&Nagel, the largest global sea freight forwarder, expects industry growth to accelerate to 4% to 5% in 2014 from 3% in 2013. Increase of volumes has been recorded in Asia-to-Europe trade channel. The Asia-to-Europe volumes have grown quite significantly and actually far ahead of the economic development in Europe. This is very positive news for the sector as shipping is highly cyclical and susceptible to the economic slowdown that took place in Europe in 2014. If the trend continues in 2015, it should be considered as a leading indicator for the future growth in EU and a more sustainable improvement in marine shipping. The three densest container lanes, which make up about 47% of global volume, posted gains through August.

Considering the volumes of international trade, an important trend emerged on the market. Brazil is gaining position as global supplier of high-quality iron ore with estimated 10% increase of volumes in 2014. Both Australian and Brazilian iron ore exports have long been expected to reach new heights. Accelerated exports from Brazil would be more meaningful on excess capacity because average voyage times are about three times longer than from Australia to China.

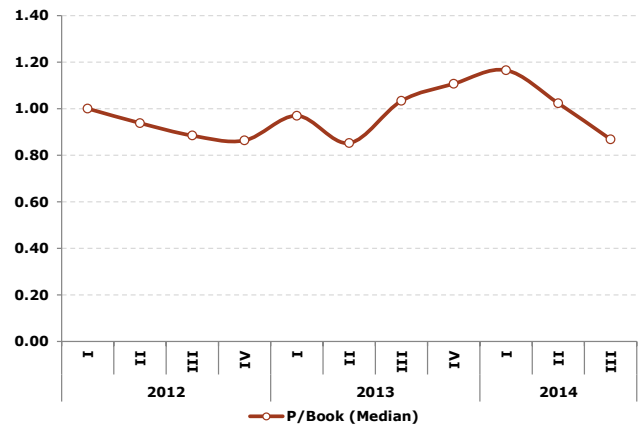
*Brazil as growing supplier of iron ore for China*

**Exhibit 5: Shipbuilding as percentage of current fleet under exploitation as measured by orders under construction**



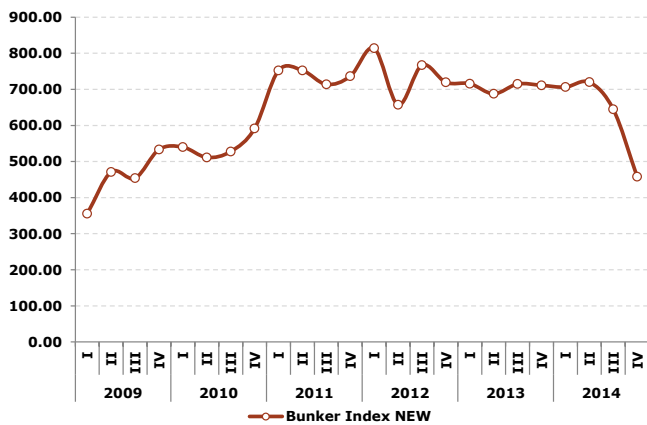
Source: Bloomberg, calculations Elana Trading

**Exhibit 6: Challenging market resulted to decrease of P/B ratio of shipping companies**



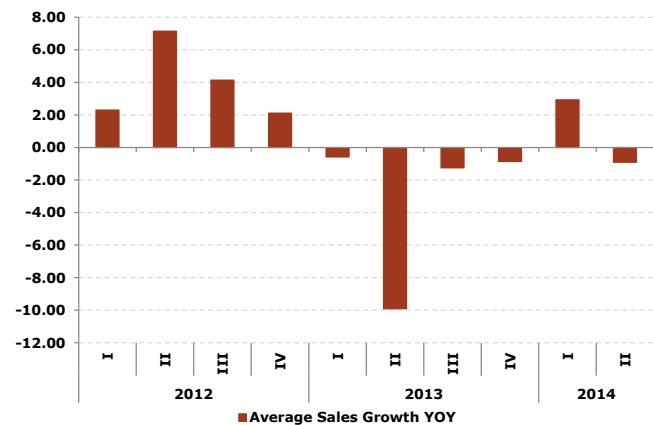
Source: Bloomberg

**Exhibit 7: Fuel costs registered a steep decline and will improve the financial performance of shipping companies**



Source: Bunker Index

**Exhibit 8: Revenues of charterers should remain unchanged due to the low freight rates and the overcapacity**



Source: Bloomberg

## SHIP OPERATIONS OF INDUSTRIAL HOLDING BULGARIA

The five ships of Industrial Holding Bulgaria are directly owned by five companies, three of which through Privat Engineering, while the two biggest ships are owned by KLVK. The company that acts as manager for the chartering services is IHB Shipping Co. All companies are fully owned by Industrial Holding Bulgaria. For 2013 write-offs totaled BGN 5.5 mn for the oldest and smallest ships Emona and Marciana, respectively. Other ships reported net profits for their corresponding companies.

The Holding acquired the ships after the cancelation of orders from clients of Bulyard Shipbuilding Industry. Thus the Holding's main operations turned from shipbuilding to chartering. Revenues from services represented 56% of total during the first nine months of 2014. Biggest ships are 55,500 dwt bulk carriers. Supramax vessels are in great demand from commodity shippers due to their larger cargo carrying capacities and on-board cargo handling flexibility. Their size allows them to trade in a much wider range of world ports and terminals. The other two are smaller bulk carriers with 21,100 dwt, while the smallest two are 9,600-tonnes multipurpose ships. Supramax and Handysize (capacity ranging between 15,000 and 35,000 dwt) have less volatile cycles of revenues than larger ships.

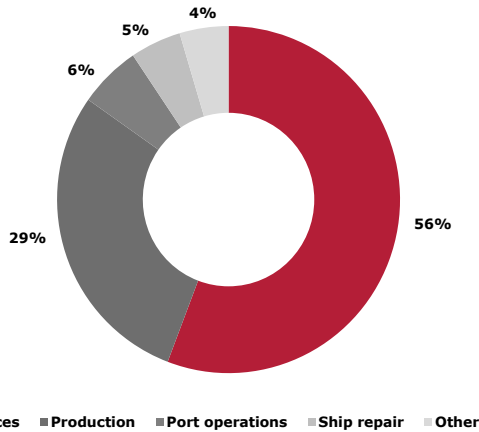
The global shipbuilding market suffers from overcapacities, depressed prices, low profit margins, trade distortions and widespread subsidization. Those factors removed the advantages of Bulgaria in shipbuilding, including low labor costs and the location. At the beginning of 2013 Bulyard diverted the main activity from shipbuilding to ship repair, ship conversion and production of non-standard metal constructions for various industrial usages. The shipyard restructured its production sites and facilities to optimize technological processes, to reduce production expenses and to increase competitiveness. The company purchased several new machines and sold some of the non-used machines and the surplus of inventories. Despite the new orientation, the company does not exclude the realization of projects in the field of shipbuilding.

*Chartering represents majority of revenue*

*Shipbuilding capacity turned to ship repair*

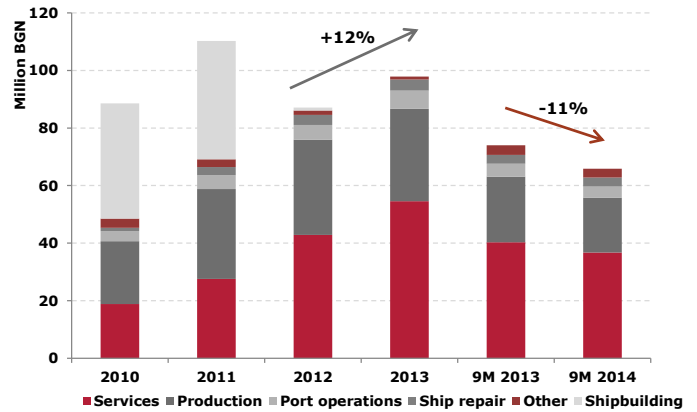
The share of ship repair operations in revenues increased to 5% of total. The Holding sees further opportunities for growth in the implementations of International Convention for the Control and Management of Ships' Ballast Water. The regulations aim at the installation of new systems in ships to control the damages on ecosystems. Although ships are among the biggest air polluters, no additional regulations are expected in near future that could impact shipping or will require changes in their technical features.

Exhibit 9: Chartering services contribute the most to revenues



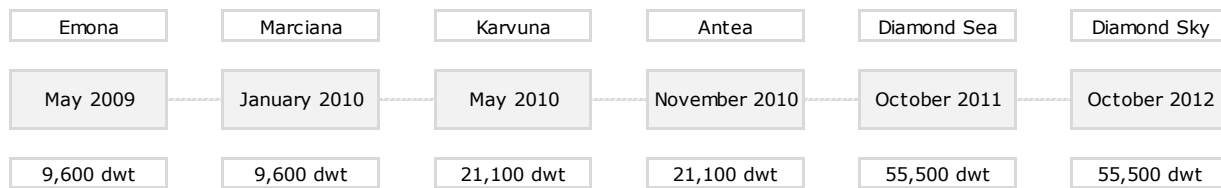
Source: Company data

Exhibit 10: Revenues from services declined 9% or below the total slump on yearly basis



Source: Company data

Exhibit 11: Ships of Industrial Holding Bulgaria



Source: Company data

**MACHINE BUILDING**

Machine building sector is cyclical and depends on the global growth. Prospects for 2015 are mixed. Chinese companies will be encouraged to invest in infrastructure development in neighboring countries to improve trade and tourism. Chinese construction equipment makers have low foreign exposure and international investments may spur construction equipment purchases. North America, which accounts for one-third of machinery industry sales, might benefit from accelerated economic growth and recovery of construction. Demand in Europe, also one-third of revenue, bears the risks of weak economic indicators, reduced capital spending from oil companies and deteriorating relations with Russia.

When considering demand from different sectors, the expectations for machinery are mixed. Mining capital spending is expected to fall, with consensus projecting declines of 15% in 2015 and 12% in 2016. Total equipment sales will remain pressured, though signs of stability are emerging. Sales of oil country lathes will be affected the most. Global farm equipment demand could decline in 2015, with grain prices falling 40% to 50% from their 2012 peak. Farmers could delay purchases of machines and equipment following a seven-year rally, from 2007-13, the longest on record, when unit sales rose 122% vs. the average of 34% in prior cycle peaks.

Construction equipment demand is forecasted to grow in most regions in 2015, led by North America at 7%, according to Off Highway Research. China excavator demand, down 15% year-to-date, may rise 8%, yet excess inventories and widespread customer financial stress may keep production below end market demand, hurting margins and factory utilization. The 4% growth forecast for Europe could be tempered by economic softness. Demand varied in 2014, as North America strength was offset by weakness in China.

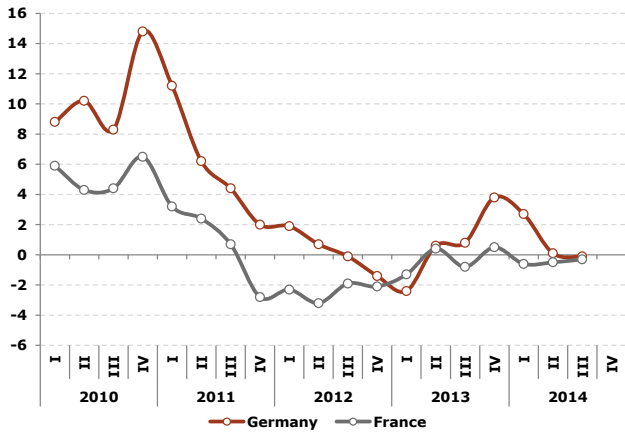
Bottom line is that the production of machinery like lathes should remain subdued by the weak demand in mining and agricultural sectors, while construction might provide a modest boost, mainly in USA. The weakening euro and robust economic growth in China will drive sales of industrials as governments undertake major infrastructure projects, such as construction of railways and highways.

*Machine building also depends on China for growth*

*Expected decline of investments in oil and agricultural sectors*

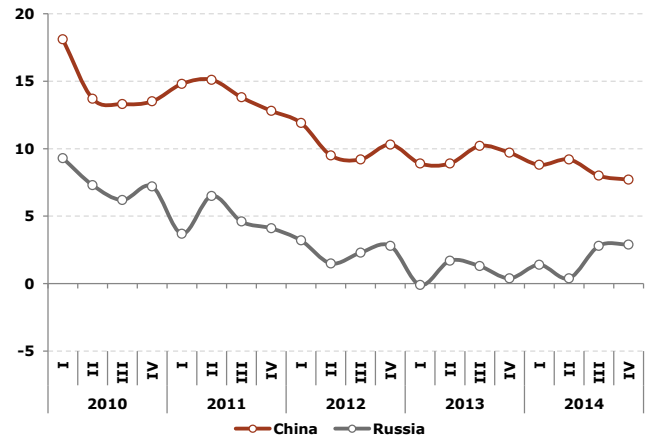


Exhibit 12: Growth of industrial production stalled on yearly basis in Europe...



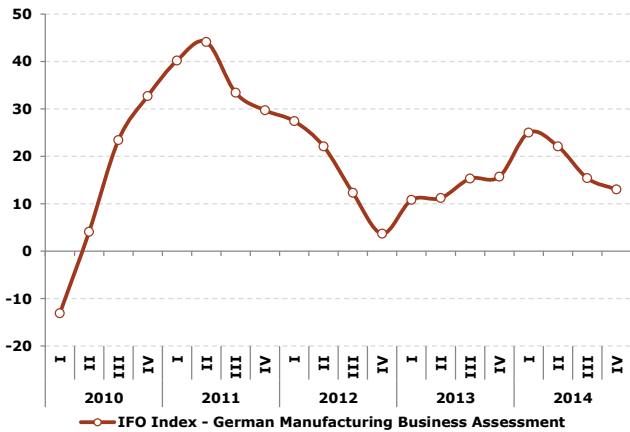
Source: Bloomberg

Exhibit 13: ...while growth in China fell to moderate levels



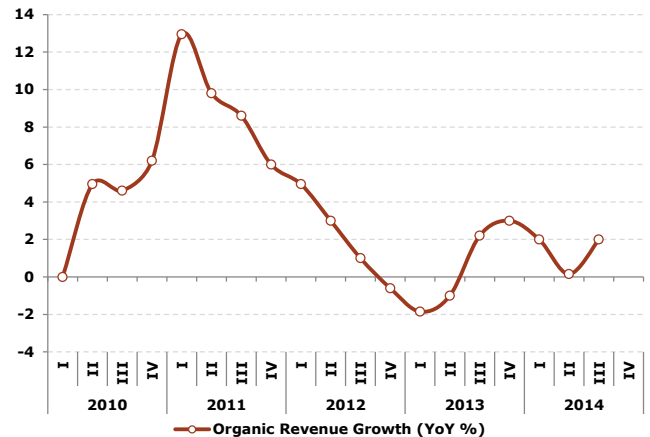
Source: Bloomberg

Exhibit 14: Business climate in Germany suggests a continuation of weakness in industrial production



Source: Bloomberg

Exhibit 15: Sales of leading manufacturing public companies could have hit the bottom in mid-2014



Source: Bloomberg

## OPERATIONS OF INDUSTRIAL HOLDING BULGARIA

The Holding is one of the biggest European exporters of universal and CNC lathes, electric motors and hydro generators. Subsidiaries are owned through ZMM Bulgaria Holding, established in 2001. The companies in its structure have experience in the production of universal lathes; lathes with variable speed control; CNC (computer numerical control) lathes; oil country lathes; accessories and spare parts; gear wheels, hydro generators, electric motors and foundry products. Major markets are Germany, Italy, USA, Russia and Turkey, Middle and Far East, Central and South America. Major clients are Linde, Siemens, Thyssen Krupp, Bosch, Fiat and Man.

The main advantages include synergy within the group with Leyarmash that produce castings for manufacturing of lathes: bodies for lathes; gear boxes, lathe carriages; casting for other machine tools. The attractive location to major EU markets provides the benefit of fast deliveries of spare parts and additional equipment. Additional benefit can be found in cheaper electricity and low labor costs. Bulgaria has skilled and well educated workforce, although engineering sector reports some shortages recently. We consider those factors as an advantage only to other EU countries.

The decline of orders and revenues from the production of lathes, which is in low double-digit percentage for the nine months of 2014, reflect the problems of the main markets – the unstable political and economic situation in Ukraine and several African nations as well as the fall of the Turkish lira. To stimulate growth, the Holding focuses its efforts on diversification of markets, proactive marketing policy, including update of its web-presence, improvement of relations with distributors and participation on international fairs. The efforts in modernization of existing and development of new products should contribute to the competitiveness of Industrial Holding Bulgaria. Currently, the development emphasizes on CNC lathes.

*Traditional producer of lathes with the benefit of location and skilled workforce*

The production of generators for hydroelectric power plants not only reported an increase of orders but also the Holding managed to enter new markets and should accomplish a growth of revenues in 2014. Due to the delivery of generators at the end of the year, sales will increase in the fourth quarter. IHB Electric has more aggressive marketing policy in Europe, the Balkans, Turkey and India.

## PORT SERVICES

Port services represented less than 6% of total revenues since the beginning of 2014. Industrial Holding Bulgaria owns the operators of three ports on the Black Sea. KRZ Port Burgas is specialized in handling of metals, metal constructions and bulk cargoes. The port is connected to the national railway and road network. Its geographical position in the city of Burgas provides easy access to the South part of the country. Following the positive trend in agricultural production in South Bulgaria, the port registered an increase of grain transportation, while it continued to develop its infrastructure and customer relations.

The second port is in the vicinity of the largest Bulgarian city on the Black Sea, Varna. Odessos PBM is specialized in general and bulk cargoes and can service ships with maximum draft of 6 m. The port has regional significance. The third port of the Group is Bulport Logistics and its main activities are ship repairing and mooring of small vessels, and renting of warehouses.

*The Holding operates the largest port in Southern Bulgaria*

## FINANCIAL ANALYSIS AND VALUATION

Industrial Holding Bulgaria is among the well-known stocks on the domestic market. The negative financial results for the past few years, including 2013 when adjusted to the one-time positive effect are due to the above mentioned restructuring of shipbuilding and the challenging chartering market. Our forecasts for 2015 point to moderate profit that should improve P/E and EV/EBITDA but they will remain above the averages for Bulgarian industrial companies.

Investors might focus on the low price-to-book ratio as a sign of cheap valuation. Considering the value of the five ships with total tonnage of 162,000 dwt, assets will exceed substantially the current market capitalization. New build vessel's price for a 55,000 dwt ship varies around USD 30 m. The Holding did not suggest that it plans to liquidate assets. Even applying 30% discount on ships, Industrial Holding Bulgaria should be valued at BGN 80 m. The average P/B ratio of listed shipping companies worldwide stood at 0.87 at the end of the third quarter, which corresponds to the value of the ships of the Holding and its market capitalization. This calculation did not include the value of other assets.

We value the stock of Industrial Holding Bulgaria based on our expectations for the future performance, while putting aside the low P/B ratio with the presumption of continuation of its operations.

	2012	2013	TTM	2014E	2015E
<b>Last Price</b>	<b>0.70</b>	<b>0.84</b>	<b>1.15</b>	<b>1.15</b>	<b>1.15</b>
<b>Number of Shares</b>	67,978,543	67,978,543	67,978,543	67,005,277	67,005,277
<b>Market Capitalization</b>	47,584,980	57,033,998	78,175,324	77,056,069	77,056,069
<b>Net Profit</b>	-5,811,000	17,276,000	-3,641,000	-1,116,490	6,084,024
<b>P/E</b>	<b>Neg.</b>	<b>3.30</b>	<b>Neg.</b>	<b>Neg.</b>	<b>12.67</b>
<b>Equity</b>	222,902,000	254,175,000	247,680,000	253,052,510	259,136,534
<b>P/B</b>	<b>0.21</b>	<b>0.22</b>	<b>0.32</b>	<b>0.30</b>	<b>0.30</b>
<b>Sales</b>	94,034,000	123,424,000	97,099,000	91,216,327	97,593,693
<b>P/S</b>	<b>0.51</b>	<b>0.46</b>	<b>0.81</b>	<b>0.84</b>	<b>0.79</b>
<b>EV</b>	171,372,980	176,458,998	196,565,324	188,412,787	199,608,470
<b>EBITDA</b>	1,454,000	36,006,000	16,508,000	15,826,033	26,281,982
<b>EV/EBITDA</b>	<b>117.86</b>	<b>4.90</b>	<b>11.91</b>	<b>11.91</b>	<b>7.59</b>
<b>ROE</b>	-2.57%	7.24%	-1.48%	-0.44%	2.38%
<b>ROA</b>	-1.32%	4.03%	-0.87%	-0.26%	1.41%

## FINANCIAL PERFORMANCE ANALYSIS

Industrial Holding Bulgaria reported net losses for several years due to the challenging market conjuncture in the chartering and machine building. Moreover, revenues fell in 2012 as Bulyard completed the last ship and ceased its main operations. Revenues from chartering and ship repair could not compensate the decline in turnover from ship building.

*Write-off of liabilities increased profit in 2013*

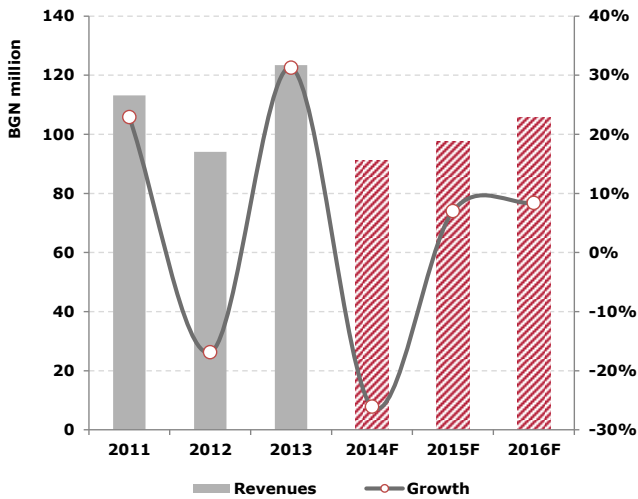
Both sales and profit have been distorted by the one-time positive result from the write-off of liabilities to shareholders from the sale of rights during a capital increase in 2007. The extraordinary profit from the write-off was BGN 18.3 m.

We expect sales to rebound after the weak 2014. The main source of growth would be chartering services, although the global economic recovery might also support the demand of lathes and the increase of sales in the segment. EBITDA during the first nine months of 2014 are the positive sign for rebound of financials. We expect the Holding to invest in its manufacturing subsidiaries to modernize production. 2015 should be much better in terms of improved profitability from lower fuel costs in shipping. Oil price looks susceptible to additional decline in short-term. The current balance between supply and demand of oil doesn't suggest sizable increase within the next two-three years, which supports our expectations for stable EBITDA margin of 25-26% for the period.

Industrial Holding Bulgaria plans to issue convertible bonds for BGN 50 m at the beginning of 2015. Most of the capital raised should be used for the payment on the current convertible bond issue that matures in February. Its size is BGN 30 m and the conversion price is BGN 1. It is lower than the current market price but we consider that bondholders will not use the conversion option. The main reason is the small difference to the current market price as bondholders will maintain their option within the 3-year lifespan of the new issue. More information should be available in the prospect of the issue during the first quarter of 2015. The Holding will use the additional funds for investments, including in port infrastructure.

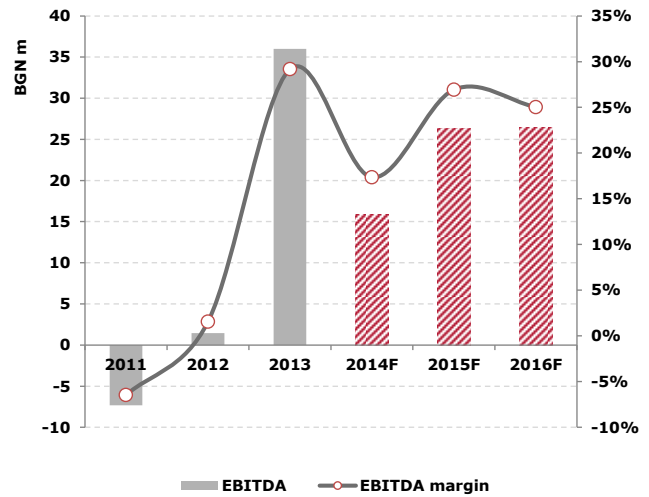
*Convertible bonds for BGN 50 m as long-term option*

Exhibit 16: Our estimates on revenues exclude the effect of one-time gains in 2013



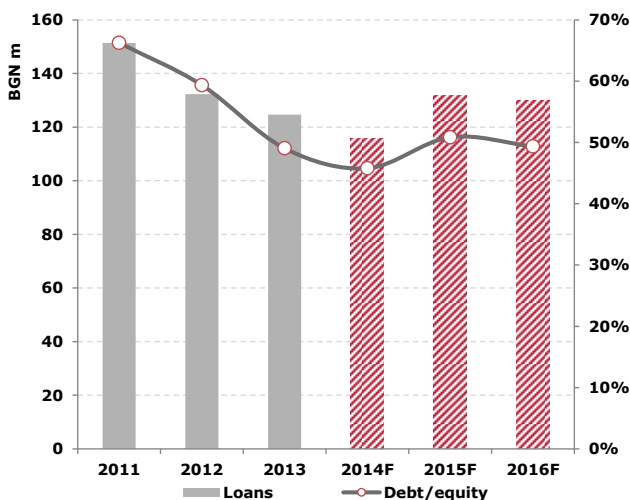
Source: Elana Trading estimates, company data

Exhibit 17: EBITDA already improved and we see ground for further increase of margins



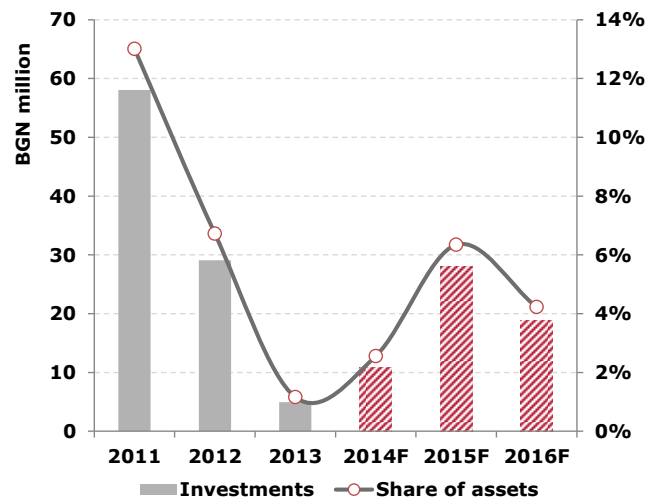
Source: Elana Trading estimates, company data

Exhibit 18: The debt remains large, although it is half the equity



Source: Elana Trading estimates, company data

Exhibit 19: The investments declined since 2011 as the Holding acquired its last ship in 2012



Source: Elana Trading estimates, company data

## VALUATION OF INDUSTRIAL HOLDING BULGARIA

2015 should become the first positive year for the Holding since the structural changes from shipbuilding to chartering services. The main reason for our optimistic expectations is the price of oil and the signs of improvement in industrial production and international trade. Industrial Holding Bulgaria is a cyclical company and will remain under the pressure from sluggish recovery and subdued investments. Its cost of equity is higher than the usual for Bulgarian industrial stocks, although we consider the high beta as subject of the low trading liquidity and large spreads.

The discounted cash flows model is based on our estimations for sales growth of 8.4% in 2016, followed by gradual deceleration to the long-term rate of 3.5%. This performance represents our scenario for optimization of revenues in chartering and the benefits of moderate expansion in the production of lathes. The solid improvement of profit margins is due to the decline of fuel costs. We expect operating margin to reach 13% in 2015.

The intrinsic value of Industrial Holding Bulgaria's share is BGN 1.16, calculated by our forecasts for WACC.

### ESTIMATIONS

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TERMINAL YEAR
REVENUE	91,216	97,594	105,773	112,773	118,798	125,332	131,598	137,520	143,709	149,457	154,688
GROWTH	-11.30%	6.99%	8.38%	6.62%	5.34%	5.50%	5.00%	4.50%	4.50%	4.00%	3.50%
EBITDA	15,826	26,282	26,464	27,545	28,987	30,581	32,110	33,555	35,065	36,467	37,744
<b>EBITDA MARGIN</b>	<b>17.35%</b>	<b>26.93%</b>	<b>25.02%</b>	<b>24.43%</b>	<b>24.40%</b>	<b>24.40%</b>	<b>24.40%</b>	<b>24.40%</b>	<b>24.40%</b>	<b>24.40%</b>	<b>24.40%</b>
DEPRECIATION	13,090	13,595	13,772	14,012	14,137	14,914	15,660	16,365	17,101	17,785	18,408
INVESTMENTS	10,818	28,031	18,823	20,883	17,704	15,763	16,471	17,127	17,898	18,522	19,075
EBIT	2,736	12,687	12,693	13,533	14,850	15,666	16,450	17,190	17,964	18,682	19,336
<b>EBIT MARGIN</b>	<b>3.00%</b>	<b>13.00%</b>	<b>12.00%</b>	<b>12.00%</b>	<b>12.50%</b>	<b>12.50%</b>	<b>12.50%</b>	<b>12.50%</b>	<b>12.50%</b>	<b>12.50%</b>	<b>12.50%</b>

### WACC CALCULATION

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TERMINAL YEAR
RISK FREE RATE	2.20%	3.00%	3.25%	3.50%	3.50%	3.50%	4.00%	4.00%	4.00%	4.00%	4.00%
EQUITY RISK PREMIUM	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
BETA	1.40	1.40	1.30	1.30	1.20	1.20	1.00	1.00	1.00	1.00	1.00
<b>COST OF EQUITY</b>	<b>13.40%</b>	<b>14.20%</b>	<b>13.65%</b>	<b>13.90%</b>	<b>13.10%</b>	<b>13.10%</b>	<b>12.00%</b>	<b>12.00%</b>	<b>12.00%</b>	<b>12.00%</b>	<b>12.00%</b>
COST OF DEBT	5.50%	5.25%	5.25%	5.50%	5.50%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
EFFECTIVE TAX RATE	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
<b>AFTER-TAX COST OF DEBT</b>	<b>4.95%</b>	<b>4.73%</b>	<b>4.73%</b>	<b>4.95%</b>	<b>4.95%</b>	<b>5.40%</b>	<b>5.40%</b>	<b>5.40%</b>	<b>5.40%</b>	<b>5.40%</b>	<b>5.40%</b>
WEIGHT OF EQUITY	69%	66%	67%	68%	69%	65%	65%	65%	65%	65%	65%
<b>WACC</b>	<b>10.75%</b>	<b>11.01%</b>	<b>10.70%</b>	<b>11.04%</b>	<b>10.59%</b>	<b>10.41%</b>	<b>9.69%</b>	<b>9.69%</b>	<b>9.69%</b>	<b>9.69%</b>	<b>9.69%</b>

### DISCOUNTED CASH FLOWS

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TERMINAL YEAR
BGN'000											
EBIT	2,736	12,687	12,693	13,533	14,850	15,666	16,450	17,190	17,964	18,682	19,336
EBIT(1-T)	2,463	11,418	11,423	12,180	13,365	14,100	14,805	15,471	16,167	16,814	17,402
ADD: D&A	13,090	13,595	13,772	14,012	14,137	14,914	15,660	16,365	17,101	17,785	18,408
LESS: INVESTMENTS	10,818	28,031	18,823	20,883	17,704	15,763	16,471	17,127	17,898	18,522	19,075
LESS: CHANGE NWC	(36,059)	38,010	6,198	4,696	2,793	(25,610)	(2,641)	(2,495)	(2,608)	(2,422)	(2,281)
FCF	40,793	(41,028)	174	613	7,005	38,861	16,635	17,204	17,979	18,500	19,017
PV FCF	39,765	(36,008)	138	436	4,567	23,111	9,332	8,799	8,383	7,864	
SUM OF PV FCF	66,388										
PV OF CONTINUING VALUE	130,589										
TOTAL PV FREE CASH FLOWS	196,977										
LESS: OUTSTANDING DEBT	121,570										
PLUS: FINANCIAL ASSETS	3,180										
PV OF EQUITY	<b>78,587</b>										
NUMBER OF SHARES ('000)	67,979										
PRICE PER SHARE	<b>1.16</b>										

## RECOMMENDATION AND PRICE TARGET

We initiate coverage of Industrial Holding Bulgaria with a HOLD recommendation. Our valuation model doesn't suggest solid upside potential. Moreover, we only see the first signs for the improvement of financial results that should support our positive expectations, but risks of negative surprises exist. We consider the stock undervalued in terms of its net assets. The ships are relatively new and the marine transportation sector recovered from its state of permanent overcapacity and low freight rates.

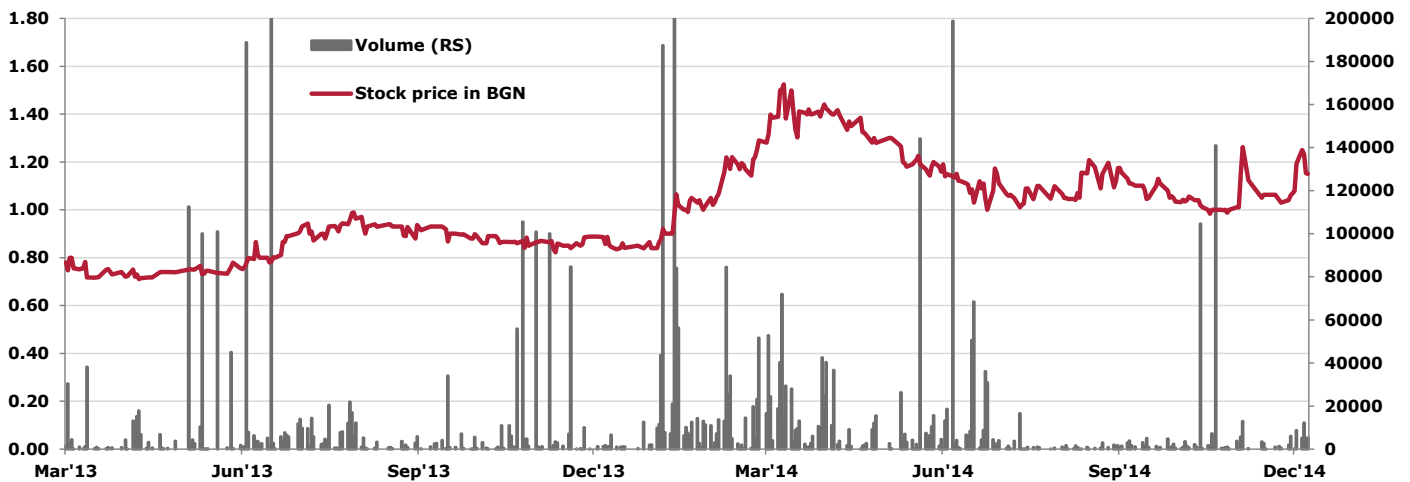
*Recommendation: HOLD*  
*Target Price: BGN 1.16*  
*Upside: 1%*

We consider the forthcoming convertible bond issue as an interesting opportunity with low risk. Investors might acquire 3-year bonds with 5% coupon with the option for additional gains in case of improved financials and stock price growth during the period. This issue might be one of the most interesting events on the Bulgarian capital market in the beginning of 2015. The risk of further decline due to negative surprise on quarterly results is already priced in but the confirmation of our positive expectations should come in the fourth quarter report.

In terms of significant investors involved in our stock market, we share the following observations:

- Foreign investors might be driven back by the negative financial performance of the Holding in 2014. We foresee positive factors for the improvement of profit in shipping that might make the stock interesting for buyers.
- Bulgarian institutional investors are not very active at the moment. However, the stock is considered an interesting investment with several large local institutional investors (pension and mutual funds).
- Domestic private investors are more susceptible to the latest news flow and are not active buyers.

## STOCK PRICE DYNAMICS



**ANNUAL FINANCIAL DATA(AUDITED)**

<b>INCOME STATEMENT ('000 BGN)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>TTM</b>	<b>2014F</b>	<b>2015F</b>
<b>REVENUE</b>	<b>113,148</b>	<b>94,034</b>	<b>123,424</b>	<b>97,099</b>	<b>91,216</b>	<b>97,594</b>
OPERATING EXPENSES	129,349	103,269	100,622	94,118	88,480	84,907
CHANGE IN INVENTORIES	(2,316)	(23,046)	(3,249)	(2,598)	(3,649)	(2,440)
COST OF MATERIAL	62,957	58,886	33,033	31,179	31,014	29,278
COST OF LABOR	23,971	23,998	22,663	22,207	21,892	21,471
COST OF EXTERNAL SERVICES	25,747	21,406	21,129	19,368	19,155	20,495
DEPRECIATION AND AMORTIZATION	8,876	10,689	13,204	13,527	13,090	13,595
NET BOOK VALUE OF ASSETS SOLD	866	5,662	266	(72)	912	781
OTHER COSTS	9,248	5,674	13,576	10,507	6,066	1,727
<b>OPERATING INCOME</b>	<b>(16,201)</b>	<b>(9,235)</b>	<b>22,802</b>	<b>2,981</b>	<b>2,736</b>	<b>12,687</b>
INTEREST EXPENSE	4,980	6,802	6,973	6,320	6,613	6,809
FOREIGN EXCHANGE LOSSES (GAINS)	7,813	(3,300)	(3,329)	773	(91)	(98)
NET NON-OPERATING LOSSES (GAINS)	(4,409)	(1,598)	518	1,002	91	98
<b>PRETAX INCOME</b>	<b>(18,977)</b>	<b>(11,027)</b>	<b>18,784</b>	<b>(4,976)</b>	<b>(3,877)</b>	<b>5,878</b>
INCOME TAX EXPENSE	(1,224)	1,814	2,963	1,131	(388)	588
<b>INCOME BEFORE XO ITEMS</b>	<b>(17,753)</b>	<b>(12,841)</b>	<b>15,821</b>	<b>(6,107)</b>	<b>(3,489)</b>	<b>5,290</b>
EXTRAORDINARY LOSS NET OF TAX	0	0	0	0	0	0
MINORITY INTEREST	(12,266)	(7,030)	(1,455)	(2,466)	(2,373)	(794)
<b>NET INCOME</b>	<b>(5,487)</b>	<b>(5,811)</b>	<b>17,276</b>	<b>(3,641)</b>	<b>(1,116)</b>	<b>6,084</b>
<b>EARNINGS PER SHARE IN BGN</b>	<b>(0.08)</b>	<b>(0.09)</b>	<b>0.25</b>	<b>(0.05)</b>	<b>(0.02)</b>	<b>0.09</b>

<b>BALANCE SHEET ('000 BGN)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>TTM</b>	<b>2014F</b>	<b>2015F</b>
CASH AND NEAR CASH ITEMS	11,075	8,494	5,210	3,180	4,488	9,199
SHORT-TERM INVESTMENTS	0	969	1,426	1,270	1,824	1,171
ACCOUNTS AND NOTES RECEIVABLE	7,976	7,202	5,693	7,203	7,297	7,027
INVENTORIES	67,023	24,086	18,903	21,282	19,155	19,519
OTHER CURRENT ASSETS	2,992	779	399	633	456	488
<b>TOTAL CURRENT ASSETS</b>	<b>89,066</b>	<b>41,530</b>	<b>31,631</b>	<b>33,568</b>	<b>33,221</b>	<b>37,404</b>
LT INVESTMENTS AND LT RECEIVABLES	25,056	6,802	3,115	3,140	2,736	3,416
NET FIXED ASSETS	321,091	371,234	376,258	372,408	373,987	388,423
OTHER LONG-TERM ASSETS	10,899	13,323	14,084	13,021	12,770	12,687
<b>TOTAL LONG-TERM ASSETS</b>	<b>357,046</b>	<b>391,359</b>	<b>393,457</b>	<b>388,569</b>	<b>389,494</b>	<b>404,526</b>
<b>TOTAL ASSETS</b>	<b>446,112</b>	<b>432,889</b>	<b>425,088</b>	<b>422,137</b>	<b>422,715</b>	<b>441,930</b>
ACCOUNTS PAYABLE	24,316	32,953	8,648	14,757	15,507	13,663
SHORT-TERM BORROWINGS	23,413	88,598	58,663	91,605	89,392	53,677
OTHER SHORT-TERM LIABILITIES	21,320	21,862	1,953	2,288	2,736	1,757
<b>TOTAL CURRENT LIABILITIES</b>	<b>69,049</b>	<b>143,413</b>	<b>69,264</b>	<b>108,650</b>	<b>107,635</b>	<b>69,096</b>
LONG-TERM BORROWINGS	127,993	43,684	65,972	29,965	26,453	78,075
OTHER LONG-TERM LIABILITIES	6,862	6,796	16,369	19,135	20,068	19,519
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>134,855</b>	<b>50,480</b>	<b>82,341</b>	<b>49,100</b>	<b>46,520</b>	<b>97,594</b>
<b>TOTAL LIABILITIES</b>	<b>203,904</b>	<b>193,893</b>	<b>151,605</b>	<b>157,750</b>	<b>154,156</b>	<b>166,690</b>
TOTAL PREFERRED EQUITY	0	0	0	0	0	0
MINORITY INTEREST	13,673	16,094	19,308	16,707	15,507	16,103
SHARE CAPITAL & APIC	67,978	67,978	67,207	67,201	67,201	67,201
RETAINED EARNINGS & OTHER EQUITY	160,557	154,924	186,968	180,479	15,507	13,663
<b>TOTAL EQUITY</b>	<b>228,535</b>	<b>222,902</b>	<b>254,175</b>	<b>247,680</b>	<b>89,392</b>	<b>53,677</b>
<b>WORKING CAPITAL</b>	<b>8,942</b>	<b>(110,377)</b>	<b>(42,843)</b>	<b>(78,262)</b>	<b>(78,902)</b>	<b>(40,892)</b>

<b>NUMBER OF SHARES:</b>	<b>67,978,543</b>	<b>67,978,543</b>	<b>67,978,543</b>	<b>67,005,277</b>	<b>67,005,277</b>	<b>67,005,277</b>
<b>PRICE IN BGN - PERIOD END:</b>	<b>0.60</b>	<b>0.70</b>	<b>0.84</b>	<b>1.15</b>	<b>1.15</b>	<b>1.15</b>
<b>MARKET CAP IN BGN - PERIOD END:</b>	<b>40,787</b>	<b>47,585</b>	<b>57,034</b>	<b>77,056</b>	<b>77,056</b>	<b>77,056</b>

<b>CASH FLOW STATEMENT ('000 BGN)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>TTM</b>	<b>2014F</b>	<b>2015F</b>
NET INCOME	(5,487)	(5,811)	17,276	(3,641)	(1,116)	6,084
DEPRECIATION& AMORTIZATION	8,876	10,689	13,204	13,527	13,090	13,595
OTHER NON-CASH ADJUSTMENTS	(20,117)	(103,345)	52,180	41,835	(21,614)	25,034
CHANGES IN NON-CASH CAPITAL	17,274	119,319	(67,534)	(33,038)	36,059	(38,010)
<b>CASH FROM OPERATIONS</b>	<b>546</b>	<b>20,852</b>	<b>15,126</b>	<b>18,683</b>	<b>26,419</b>	<b>6,702</b>
DISPOSAL OF FIXED ASSETS	1,117	852	2,670	707	0	0
CAPITAL EXPENDITURES	(58,040)	(29,095)	(4,937)	(6,882)	(10,818)	(28,031)
INCREASE IN INVESTMENTS	(1,985)	(1,179)	(222)	(222)	379	(679)
DECREASE IN INVESTMENTS	3,811	16,366	0	0	0	0
OTHER INVESTING ACTIVITIES	8,112	(2,785)	4,416	1,534	1,314	83
<b>CASH FROM INVESTING ACTIVITIES</b>	<b>(46,821)</b>	<b>(15,525)</b>	<b>2,030</b>	<b>(4,718)</b>	<b>(9,126)</b>	<b>(28,627)</b>
DIVIDENDS PAID	(311)	(311)	(376)	(89)	0	0
CHANGE IN SHORT-TERM BORROWINGS	2,211	65,185	(29,935)	32,044	30,729	(35,715)
CHANGE IN LONG-TERM BORROWINGS	117,055	(84,309)	22,288	(41,211)	(39,519)	51,622
INCREASE IN CAPITAL STOCKS	9,987	0	8,320	26	0	0
DECREASE IN CAPITAL STOCKS	0	0	(790)	(408)	0	0
OTHER FINANCIAL ACTIVITIES	(8,504)	(8,237)	(8,677)	(6,952)	(9,263)	10,729
<b>CASH FROM FINANCING ACTIVITIES</b>	<b>48,444</b>	<b>(7,413)</b>	<b>(20,896)</b>	<b>(16,582)</b>	<b>(18,053)</b>	<b>26,636</b>
<b>NET CHANGES IN CASH</b>	<b>2,169</b>	<b>(2,086)</b>	<b>(3,740)</b>	<b>(2,617)</b>	<b>(761)</b>	<b>4,711</b>
<b>END-OF-PERIOD CASH</b>	<b>11,075</b>	<b>8,989</b>	<b>5,249</b>	<b>3,185</b>	<b>4,488</b>	<b>9,199</b>
<b>CASH PER SHARE</b>	<b>0.16</b>	<b>0.13</b>	<b>0.08</b>	<b>0.05</b>	<b>0.07</b>	<b>0.14</b>

<b>FINANCIAL AND PERFORMANCE INDICATORS</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>TTM</b>	<b>2014F</b>	<b>2015F</b>
<b>VALUATION</b>						
PRICE/EARNINGS (P/E)	Neg.	Neg.	3.30	Neg.	Neg.	12.67
PRICE/BOOK (P/B)	0.18	0.21	0.22	0.31	0.30	0.30
PRICE/SALES (P/S)	0.36	0.51	0.46	0.79	0.84	0.79
PRICE/CASH FLOW PER SHARE	12.04	9.76	1.87	7.79	6.44	3.92
EV (IN '000 BGN)	181,118	171,373	176,459	195,446	188,413	199,608
EV/EBITDA	-24.73	117.86	4.90	11.84	11.91	7.59
<b>PROFITABILITY</b>						
RETURN ON COMMON EQUITY	-4.09%	-2.57%	7.24%	-1.48%	-0.44%	2.38%
RETURN ON ASSETS	-2.09%	-1.32%	4.03%	-0.87%	-0.26%	1.41%
RETURN ON INVESTED CAPITAL	-5.79%	-1.34%	5.91%	0.44%	0.66%	3.01%
EBITDA MARGIN	-6.47%	1.55%	29.17%	17.0%	17.35%	26.93%
OPERATING MARGIN	-14.32%	-9.82%	18.47%	3.07%	3%	13%
NET INCOME MARGIN	-4.85%	-6.18%	14.00%	-3.75%	-1.22%	6.23%
<b>DIVIDEND</b>						
DIVIDEND YIELD	0%	0%	0%		0%	0%
DIVIDEND PER SHARE	-	-	-		-	-
<b>LIQUIDITY</b>						
CURRENT RATIO	1.29	0.29	0.46	0.31	0.31	0.54
QUICK RATIO	0.28	0.12	0.18	0.11	0.13	0.25
<b>CREDIT</b>						
LT DEBT/EQUITY	0.56	0.20	0.26	0.12	0.10	0.30
TOTAL DEBT/EQUITY	0.66	0.59	0.49	0.49	0.46	0.51
TOTAL DEBT/TOTAL ASSETS	0.34	0.31	0.29	0.29	0.27	0.30
EBITDA/INTEREST EXPENSE	-1.47	0.21	5.16	2.61	2.39	3.86

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<b>BUY</b>	Target price is more than 10% above the current quotes
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<b>HOLD</b>	Target price in +/-10% range of the current quotes
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<b>SELL</b>	Target price is more than 10% below the current quotes
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