

<u>Recommendation</u>	<u>Previous</u>	<u>From date</u>	<u>52-week target</u>
Neutral	Neutral	8 February 2012	1.22

Herti

Business Summary

Herti was founded in 1993 as a start-up company. It is producing various types of closures for bottles. The packaging products are sold to producers of alcoholic and non-alcoholic beverages but part of the closures are designed for the use by the pharmaceutical industry. The company is exporting more than 85% of its production. Main markets are the European Union and Russia. Herti's business model includes the whole process of production as well as the sell to clients. The company is making market researches in its sector to respond the necessities in different economic sectors.

The company's holding structure includes four subsidiaries:

- Tihert JSC – 100% of the capital;
- Herti UK – 100% of the capital;
- Herti France – 100% of the capital;
- Herti Group International – 49.00%.

The company also owns 5.6% stake in the first Bulgarian packaging recovery organization – the non-profit company Ecopack Bulgaria. Herti is fulfilling its obligations for separate waste collection and recovery of packaging released on the market in Bulgaria according to the current legislation.

Herti is expanding its product portfolio through research and development activities. The company is applying the requirements of the world quality standards and the principles of good corporate management. It is certified under ISO 9001:2008.

Current Market Activity

Herti is among the low liquid shares on the Bulgarian stock market. The initial public offering during the first quarter of 2008 faced many obstacles in terms of limited investors' demand. The ambitious plan to raise capital and to sell existing shares through the stock exchange coincided with the first major decline of international markets. Investors turned toward the low-risk shares of large and well-known companies.

The trading activity with Herti's shares decreased substantially after the end of the first quarter according to the decline of overall market activity and the lower prices of stocks. The huge price gains to BGN 2.00 of Herti's shares during the third quarter were consequence of the low liquidity. The stock fell again to the average price for 2010 but the low liquidity contributed to the absence of gains during the market increase of January and February 2011.

Valuation Ratios

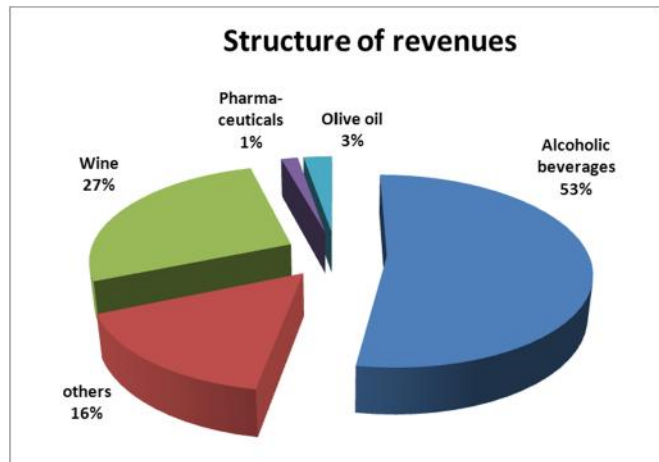
Enterprise Value	27 510 626
Dividend Yield - Gross	-
Trailing P/E (ttm)	600
Forward P/E (2010)	44
PEG Ratio (1yr expected)	-
Price/Sales (ttm)	0.52
Price/Book (mrq)	1.33
Enterprise Value/Revenues (ttm)	0.88
Enterprise Value/EBITDA (ttm)	11.87

Profitability and Growth Ratios

Return on Capital	-
Return on Equity	0.22%
Return on Assets	0.09%
EBITDA Margin	7.4%
Net Profit Margin	-
Revenue Growth	8.2%
EPS Growth	-
Capital Growth	1.2%
Assets Growth	0.5%

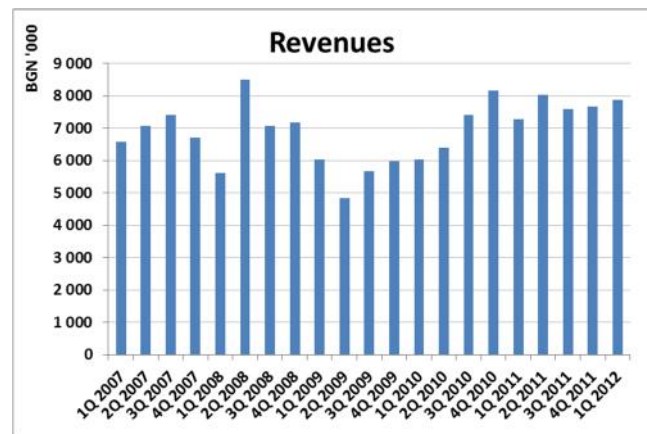
Sales

The largest part of the revenues comes from the packaging products for alcoholic beverages. The main segment that contributes to the revenues growth of Herti is aluminum closures for the wine industry, which at the moment represent 27% of total sales. Producers of wine are switching from the more expensive cork to aluminum closures to cut costs. There was a small change in the sales structure of Herti since the beginning of the year. The decrease in packaging for pharmaceutical products is due to the single export to Middle East client.



Source: Herti

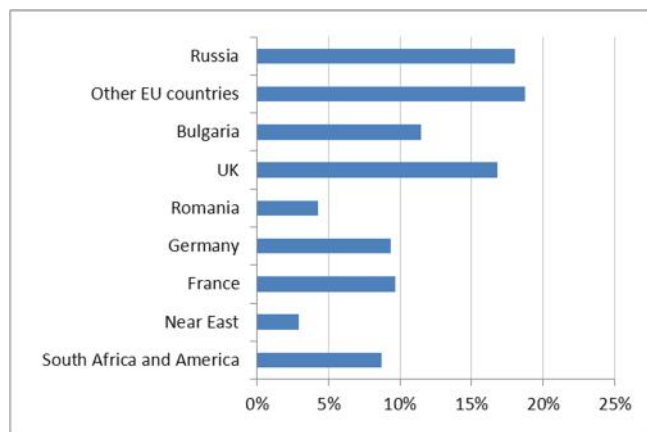
The increase in sales of Herti on annual bases resumed after the temporarily decline in the fourth quarter of 2011. Quarterly growth is weak, as revenues remain stable, despite the crisis in Europe and the consumption reduction. The recovery of sales is mainly due to the existent clients' demand. Currently there is no indication for decreases in market demand, but we have revised down our forecasts for growth in 2012. The positive news remains the slow impact of the European crisis on Herti's revenues.



Source: Herti

Plastics will continue to grow fastest of all materials, boosted by its versatility and price competitiveness, according to the research company Freedonia Group. The metal closures' market in Western Europe is stabilizing. In Eastern Europe the outlook for the metal closures is far brighter. Metal retains a particularly strong association with alcoholic beverages and it has even won a share of the wine closure market. The growth of caps and closures market will continue to receive support by the value-added products that increase the security of the packaging and the consumers' comfort. Beverages will maintain 65% market share in closures, with bottled water gaining the most. Untraditional segments like sport drinks and flavored milk will also gain solidly.

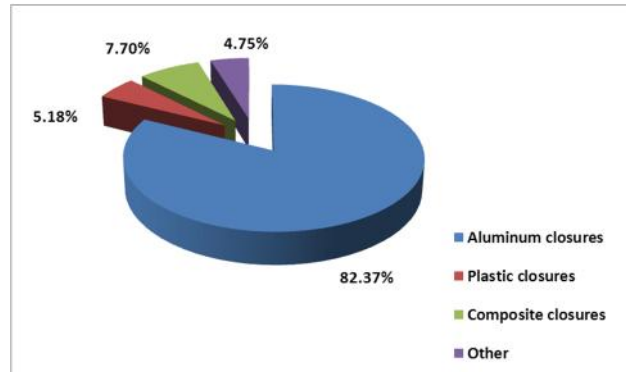
The packaging products and solutions of Herti are exported to broad range of markets. Bulgarian market represents 11% of the total sales of the company, as it remains stable in recent years. Large European markets are rising faster than others and compensated the decline of sales to Middle East. The increase in sales in South Africa and America was due to the demand of the wine industry.



Source: Herti

Revenues from Near East increased in 2011 due to the orders from a pharmaceutical company in Iraq. The results confirmed the expectations that subsidiaries in France and United Kingdom will contribute to the expansion in the both markets. 22% of the revenues are through subsidiaries. Herti is also entering other new markets in Europe – the company is exporting aluminum closures for wine bottles to Germany and Austria. Herti is participating regularly on international exhibitions that are strengthening the market positions of the company. The company passed successfully audit from Henkel Germany and Hennessy France.

The sales of aluminum caps maintained their growth from last year to 5% during the first quarter of 2012. Their share in total revenues declined to 83%. The company reported a significant increase in composite closures sales – 77%, which contributed to the continuation of sales growth. Shipments of plastic closure decline in absolute values. Herti is increasing gradually its prices – 1.5%.



Source: Herti

Costs

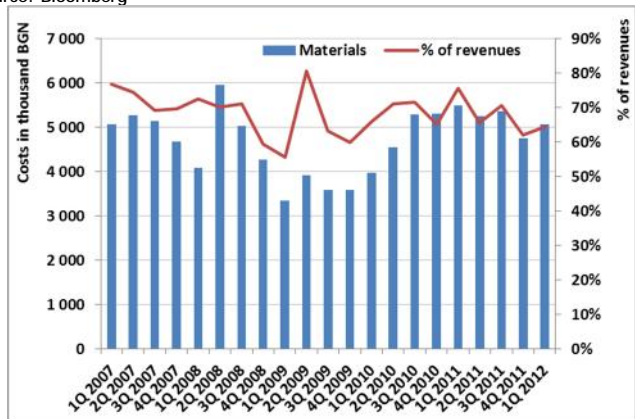
The recovery of aluminum prices proved to be temporarily and it ended the first quarter again under pressure. The profitability of Herti improved during the period of single-digit growth and low inflationary pressure.

The decrease is due to the lower demand of metals from many industries including automakers. The biggest factor behind the depreciation of metals is risk aversion.

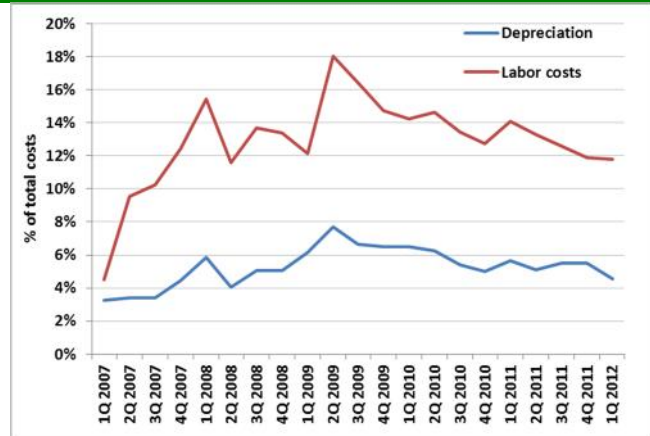


Source: Bloomberg

Costs of materials are increasing this year along with higher revenues. However, they are substantially below the recent peak from a year ago, following the price decline of aluminum. Inventories of raw materials are declining, while sales were rising.



Labor costs also fell in absolute value and as a percentage of the company's total revenues. They were at the lowest level in terms of costs since 2008. Although the change was not substantial during the last reported period, it is part of a three-year process of improvement. The share of amortization in total costs was also lower. The potential for further improvement of both expenses groups is limited but it will improve the profitability of Herti.



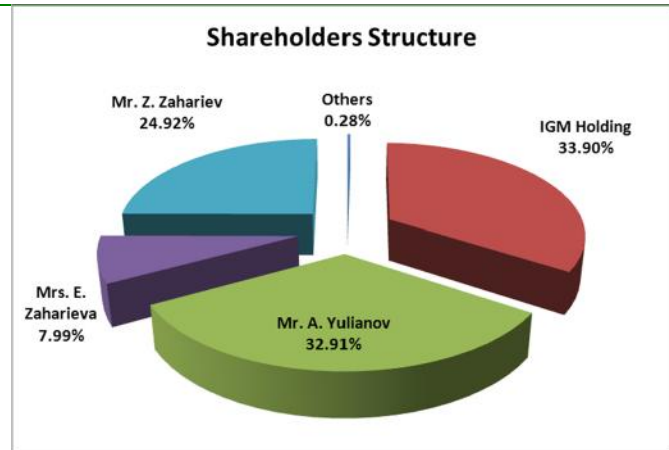
Certificates For Quality

Herti has certificate under the BRC/IOP Global Standard for Packaging and Packaging Materials. This Standard is a product certification designed to protect consumers' rights and help traders to follow the requirements of the EU for good practices. It is applied by suppliers in Europe, Africa, the Middle East, Asia, Australia, North and South America. Herti will have the opportunity of free trade with all the companies in the scheme - Tesco, Sainsbury, Marks&Spencer, Asda, Boots, Safeway, Co-op.

Herti is member of SEDEX – non-profit organization based in London, UK. It is a membership organization for businesses committed to continuous improvement of the ethical performance of their supply chains. SEDEX enables member companies to manage efficiently the ethical and responsible practices of their global supply chains in the field of Labour Standards, Health & Safety, Environment and Business Integrity.

Shareholders Structure

Main shareholders of Herti are physical persons. Joseph Mayer is the first long-term investor in the company and is a shareholder from 1997. His trading company IGM Holding is Austria-based. During the 2008 IPO the existing shares that were offered for sale were from the stake of IGM Holding. The large shareholders sold small amount of shares during 2010 and the free-float increased to 0.28%. This is still low to lead to liquid trading.



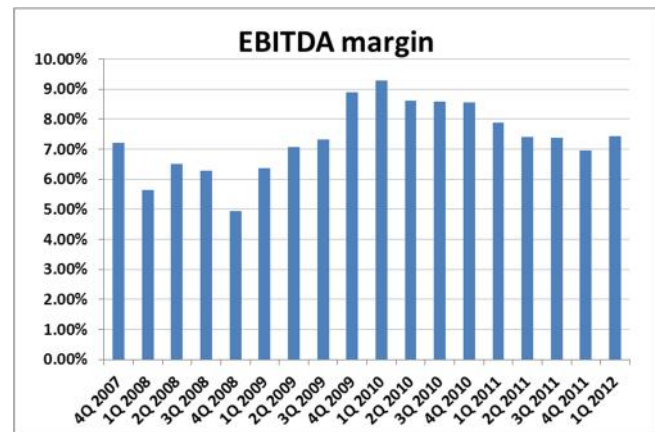
As of March 31, 2011
Source: Herti

Financial Analysis

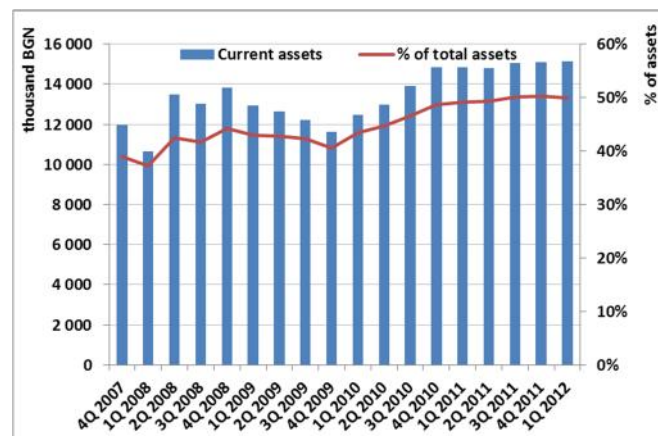
The European debt crisis is turning into economic slowdown for many industries. Large government debts have negative impact on the banking systems and the personal income in the region. The consumption, including soft drinks, remains subdued. The producers of packaging products in Europe are not experiencing decline of revenues, which is confirming that the crisis is limited to durable goods and investments.

Investments in modernization and capacity increase of Herti have been financed by loans, which have its implications on the financial ratios of Herti. The initial public offering was unable to raise enough capital due to the difficult stock market conjuncture and could not improve the level of debts.

The EBITDA margin of Herti is declining over the past two years due to the rising prices of raw materials. However, recent aluminum price decline changed the trend of profit margins of Herti. The improvement during the first quarter of 2012 is substantial. The EBITDA margin topped its highest levels since end-2010 on quarterly basis. The trailing 12 months ratio also increased.

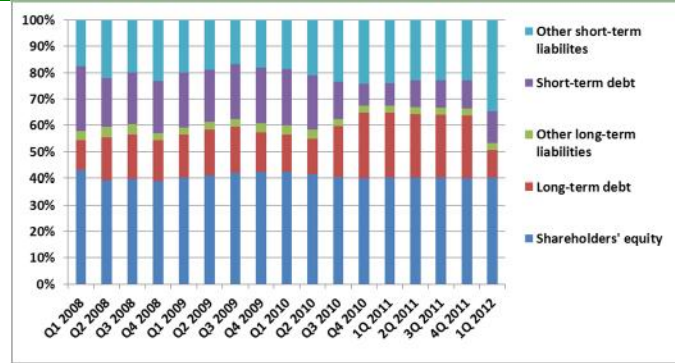


The balance sheet of Herti stabilized during the last year and a half. Stockpiles of raw materials declined to the average levels in the companies' inventories. Receivables are rising less than inventories of the company. The working capital is maintaining stable level of BGN 5 million.



Changes in the capital structure of the company were due to the maturing debts for less than a year. It is most likely that Herti will increase the maturity of its loans as the company does not have solvency problems. The equity remained at 40% of total assets.

Current and quick ratios improved last year but changed significantly following the different structure of debts.



Prognoses

Herti's revenues are record high. The company recovered from the crisis. The growth is likely to weaken this year due to the negative effect of European debt crisis on consumption and retail sales. We made a revision of forecasted sales below the previous expectations for faster growth. The approach should be more conservative regarding the global uncertainties. Therefore, we expect only 5% increase of revenues in 2012, followed by acceleration of growth to 10% in 2013 due to improvement in European economy.

The company manages to gain new positions on the international markets, where the competition is very strong in terms of production scale and pricing advantages for individual products. The profitability remains relatively low. The recent improvement is not yet a stable trend in better profits. We doubt that the net profit will be sufficient to ensure price-to-earnings ratio that is close to the average for the Bulgarian market even in 2013. However, the better results at the beginning of 2012 are reason to expect net profit this year.

BGN '000	2007	2008	2009	2010	2011	2012E	2013E	2014E
Sales	27 783	30 965	22 529	28 002	30 569	29 402	33 626	37 829
<i>Growth</i>	17.54%	11.45%	-27.24%	24.29%	9.17%	5.00%	10.00%	12.50%
EBITDA	1 613	2 030	2 006	2 394	2 129	2 205	2 556	3 026
<i>EBITDA margin</i>	5.81%	6.56%	8.90%	8.55%	6.96%	7.50%	7.60%	8.00%
EBIT	599	573	499	795	469	882	1 009	1 324
<i>EBIT margin</i>	2.16%	1.85%	2.21%	2.84%	1.53%	3.00%	3.00%	3.50%
Net Profit	-339	-651	-290	60	-281	368	420	579
<i>Net Profit margin</i>	-1.22%	-2.10%	-1.29%	0.21%	-0.92%	1.25%	1.25%	1.53%

Data for 2012 and beyond are estimations of ELANA Trading

Stock Information (BSE Ticker: HTV; Bloomberg: HTV BU)

Last Price	1.23	Market Cap	14 776 970	1Y Range	-	Average Volume	-
Beta	-	1Y Change	-	SOFIX Change	-29%	BG40 Change	-20%

Valuation

The stocks of Herti are low liquid due to the unsuccessful IPO in the beginning of 2008 when the capital has been increased by only 14 000 shares. We use for valuation purposes the comparison to companies in the global packaging industry. We are looking at the company as a potential takeover target due to its market position and the prospects for development. We use the DCF method for calculating the fair price as the company already has history and its sales showed stable growth rates.

Multiples Analysis

The strong financial performance during the first quarter improved the total profit to positive value for the first time since 2010. It is too early to call for continuation of the trend but we expect net profit for this year. Price-to-earnings ratio is very high and it is unlikely that will decrease to the average for the market.

The share price increased but this had small effect on multiples. Sales are rising steadily and profits are adding to equity. EV/EBITDA was higher than the average for the Bulgarian public companies. Higher market capitalization had negative impact on the ratio.

	2010	2011	12M
Last Price	1.23	1.23	1.35
Number of Shares	12 013 797	12 013 797	12 013 797
Market Capitalization	14 776 970	14 776 970	16 218 626
Net Profit	80 000	-216 000	27 000
P/E	184.71	-68.41	600.69
Equity	12 232 000	12 016 000	12 200 000
P/B	1.21	1.23	1.33
Sales	28 002 000	30 569 000	31 164 000
P/S	0.53	0.48	0.52
EV	24 851 970	24 965 970	27 510 626
EBITDA	2 394 000	2 129 000	2 318 000
EV/EBITDA	10.38	11.73	11.87
RoE	0.65%	-1.80%	0.22%
RoA	0.26%	-0.72%	0.09%

* Estimations and calculations: ELANA Trading

Sector Comparison

The production of bottles' closures is only a specialized part of the packaging industry where lots of companies are operating in Europe. Few of them are direct competitors of Herti but using the average multiples of broader number of companies gives a better valuation.

Multiples	P/E	P/B	P/S	EV/EBITDA
Average Value of Peers	17.15	1.21	0.94	7.38
Market Capitalization	462 937	14 783 192	29 397 701	5 819 616
Price	0.04	1.23	2.45	0.48
Weight	20%	20%	30%	30%
Current Price		1.35		
Fair Price		1.13		
Premium (Discount) to Current Price		-16.06%		

Source: Bloomberg

The list of peers is unchanged as compared to the previous valuation of Herti. Average multiples are under the influence of large movements of stock markets, mainly Asian bourses. The appetite to risky assets is declining and lower average multiples translated into lower fair price of Herti's shares. The most notable decrease is in EV/EBITDA, although it is completely offset by the better P/E ratio. We retain the higher weight of EV/EBITDA and price-to-sales ratio in the valuation as more representative.

The average price-to-earnings ratio of the companies in our list is much higher than the averag-

Valuation

The both methods have average price per share of BGN 1.22, comparing to BGN 1.33 from our previous calculations. Both methods contribute to the lower price target. However, the change of the fair price is insignificant as compared to the current price volatility due to the low trading liquidity.

Method	Price	Weight
Peers' Comparisor	1.13	50%
DCF	1.32	50%
<i>Price (BGN)</i>		1.22

Calculations: ELANA Trading

Recommendation And Price Target

We give **Neutral** recommendation of Herti's shares due to the low liquidity and the higher risk of small-caps. Our one-year price target is based on the average of both method and is **BGN 1.33**. The changes in price targets in the last two reports were substantial. It is mainly due to the changes in global stock market conjuncture. Herti is improving its financials and is growing at a pace that we think it will accelerate in near future. Our revision of expectations for 2012 and 2013 is also important factor on the valuation as we prefer more conservative estimations. Risks in front of the European economies are substantial, although we don't expect the crisis to worsen.

The price target is already reflecting the global recovery but the risk appetite of domestic investors is very low and will limit the recovery of Herti's stock during the next several quarters. The stocks' liquidity was a major factor for their performance in early 2011 and it is unlikely that investors will put money into companies with low free-float.

Financial Data (non-consolidated)

Statement of Income (in '000 BGN)	2009	2010	2011	1Q 2011	1Q 2012
Sales	22 529	28 002	30 569	7 271	7 866
Production expenses	17 051	21 689	24 405	5 697	6 255
Personnel expenses	3 419	3 832	3 955	1 024	926
Net income from financial activities	(53)	(87)	(80)	(77)	(23)
Other revenues and expenses	0	0	0	0	0
EBITDA	2 006	2 394	2 129	473	662
Depreciation	1 507	1 599	1 660	410	357
EBIT	499	795	469	63	305
Interest expense	789	735	685	162	161
Pretax income	(290)	60	(216)	(99)	144
Taxes	0	0	0	0	0
After-tax income	(290)	60	(216)	(99)	144
Minority interest	0	0	0	0	0
Net income	(290)	60	(216)	(99)	144
Earnings per share in BGN	(0.02)	0.00	(0.02)	(0.01)	0.01

Balance Sheet (in '000 BGN)	2009	2010	2011	1Q 2011	1Q 2012
Total Assets	28 621	30 531	30 103	30 229	30 283
Equity subscriptions receivable	0	0	0	0	0
Fixed assets	16 544	15 687	14 987	15 393	15 156
Tangible fixed assets	16 206	15 402	14 702	15 108	14 785
Financial investments	279	279	279	279	279
Current assets	12 077	14 844	15 116	14 836	15 127
Inventory	3 276	4 161	4 716	4 530	4 034
Receivables	8 542	10 638	10 243	10 139	10 983
Financial assets	0	0	0	0	0
Cash and cash equivalents	259	45	157	167	110
Total liabilities + equity	28 621	30 531	30 103	30 229	30 283
Equity	12 134	12 212	12 016	12 016	12 200
Registered capital	12 014	12 014	12 014	12 014	12 014
Capital funds	354	358	358	358	438
Earnings	-234	-160	-356	-356	-252
Liabilities	16 487	18 319	18 087	18 213	18 083
Long-term payables	1 038	799	826	826	808
Long-term bank loans	4 284	7 568	7 150	7 150	3 089
Short-term bank debt	6 065	2 552	3 196	3 196	8 313
Short-term payables	5 100	7 400	6 915	6 915	5 873
Other liabilities	0	0	0	0	0
Working capital	912	4 892	5 005	4 725	941

Cash Flow Statement (in '000 BGN)	2009	2010	2011	1Q 2011	1Q 2012
Net income	(290)	60	(216)	(99)	144
Depreciation	1 507	1 599	1 660	410	357
Changes in Working capital	539	3 980	113	(280)	(3 784)
Other operating cash flow items	(365)	(4 024)	539	621	3 350
Net cash from operating activities	1 391	1 615	2 096	652	67
Capital expenditures	(113)	(649)	(945)	(163)	(229)
Other investing cash flow items	42	0	0	0	0
Net cash from investing activities	(71)	(649)	(945)	(163)	(229)
Issuance/ Retirement of Stock, Net	0	0	0	0	0
Issuance/ Retirement of Debt, Net	(512)	(397)	(91)	(152)	352
Dividends paid	0	0	0	0	0
Other financing cash flow items	(1 073)	(783)	(948)	(215)	(237)
Net cash from financing activities	(1 585)	(1 180)	(1 039)	(367)	115
Net change in cash	(265)	(214)	112	122	(47)
Beginning-of-period cash	524	522	45	308	157
End-of-period cash	259	308	157	430	110
Cash per share	0.02	0.03	0.01	0.04	0.01

Financial and Performance Indicators	2009	2010	2011		1Q 2012
Valuation Ratios					
Price/Earnings (P/E)	-47.64	246.28	-68.41		600.69
Book Value (BV)	1.01	1.02	1.00		1.02
Price/Book (P/B)	1.14	1.21	1.23		1.33
Sales Per Share	1.88	2.33	2.54		2.59
Price/Sales (P/S)	0.61	0.53	0.48		0.52
Price/Cash per share	11.35	8.91	10.23		32.37
EV (in BGN)	23 906	24 852	24 966		27 511
EV/Sales	1.06	0.89	0.82		0.88
EV/EBITDA	11.92	10.38	11.73		11.87
EV/EBIT	47.91	31.26	53.23		38.69
Liquidity					
Current ratio	1.08	1.49	1.50		1.07
Quick ratio	0.79	1.07	1.03		0.78
Debt Management					
Debt to total assets	0.58	0.60	0.60		0.60
Interest coverage	0.63	1.08	0.68		1.04
LT Debt/Equity	0.44	0.69	0.66		0.32
Total Debt/Equity	1.36	1.50	1.51		1.48
Asset Management					
Inventory turnover	6.88	6.73	6.48		7.73
Days sales outstanding	136	137	121		127
Fixed asset turnover	1.36	1.79	2.04		2.06
Total asset turnover	0.79	0.92	1.02		1.03
Profitability					
Profit margin on sales	-1.3%	0.2%	-0.7%		0.1%
EBITDA margin	8.9%	8.5%	7.0%		7.4%
Basic earning power	1.7%	2.6%	1.6%		2.3%
Return on assets	-1.0%	0.2%	-0.7%		0.1%
Return on equity	-2.4%	0.5%	-1.8%		0.2%
Return on investments	-1.7%	0.3%	-1.1%		0.2%
Dividend Information					
Dividend Yield	n/a	n/a	n/a		n/a
Dividend per share	n/a	n/a	n/a		n/a
Number of shares:					
	12 013 797	12 013 797	12 013 797	12 013 797	12 013 797
Price in BGN - period end:					
	1.15	1.23	1.23	1.23	1.35
Market cap in BGN - period end:					
	13 815 867	14 776 970	14 776 970	14 776 970	16 218 626

For more information, please contact:

Research analyst
Tsvetoslav Tsachev
Tamara Becheva

Phone:
+359 2 810 00 23
+359 2 810 00 27

E-mail:
tsachev@elana.net
becheva@elana.net

Internet:
www.elana.net
www.elana.net

Disclaimer

Analyst Certification: The research analyst(s) certifies that: (1) ELANA Trading is part of agreement with the issuer for preparation of the document; (2) all of the views expressed in this document accurately reflect his or her personal views about any and all of the subject securities or issuers.

Financial Interest: ELANA Trading may trade or own shares of the analyzed companies. The research analyst(s) is not holding shares of the analyzed companies, unless otherwise noted.

Regulatory Authority: Financial Supervisory Commission, *Shar Planina* Street 33, 1303 Sofia, Bulgaria

Information Disclosure: All reasonable care has been taken to ensure the facts stated are accurate and opinions given are fair and reasonable. Our recommendations are based on information available to the public that we consider to be reliable but for the completeness and accuracy of which we assume no liability. Neither ELANA Trading, nor its directors, officers or employees shall in any way be responsible for its contents. The views expressed may differ from the views of other firm departments or representatives. Additional information is available upon request. Unless otherwise noted, sources for all information in charts and tables are ELANA Trading's calculations.

Risks for Investors: Information in this document should not be regarded as an offer to buy or sell any financial instruments. The investment possibilities discussed in this document may not be suitable for certain investors depending on their specific investment objectives and time horizon or in the context of their overall financial situation. In particular, the risks associated with an investment in the securities or the financial instruments under discussion are not explained in its entirety. The prices or values of the securities may go down as well as up and can fluctuate and fall against the investor. The securities or investments may cause the investor to lose the amount invested. Past performance is not a guide to future performance. Changes in exchange rates may have an adverse effect on the value, price or income of the securities or investments.

Valuation Methods: Company valuations are based on the following methods: multiple-based (P/E, P/B, EV/EBITDA), historical valuation approaches, peer comparisons, discount models (DCF, DDM) or asset-based evaluation methods. Valuation models are dependent on macroeconomic factors, including interest rates, foreign exchange rates, prices of raw materials, and any expectations about the economy, the market sentiment. The valuation is based on expectations that might change rapidly and without notice, depending on developments specific to individual industries and countries. Recommendations and target prices derived from the models might therefore change accordingly. The application of models depends on forecasts of a range of economic variables, thus there is a range of reasonable variations within models. Any valuation is dependent upon inputs that are based on the subjective opinion of the analysts carrying out this valuation.

Recommendations: Analyst(s) recommendations are based on the specific factors for the company, sector, country and global developments, as compared to market indices. Recommendations and opinions reflect ELANA Trading's expectations over the 12-month period following publication from the perspective of long-only investment clients. ELANA Trading reserves the right to express different or contrary recommendations and opinions for different timescales or for other types of investment client. Except as otherwise noted, expected performance over next 12 months vary for different recommendations for Bulgarian stocks as follows:

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

Frequency of Recommendations: No schedule of recommendations is available. The frequency of recommendations depends on specific factors to individual companies and the opinion of the analyst(s) for the necessity of minor or major changes.