

BSE ticker: HTV

Bloomberg: HTV BU

Stock price: 1.50 BGN

Market capitalization: 18 021 000 BGN

1 year change: +22%

1 year price range: 1.35-1.50 BGN

Intrinsic value: 1.52 BGN

Recommendation: Hold

Price target: 1.52 BGN



- Herti produces accessories for bottles and complete packaging solutions for manufacturers of different brands of wine and alcoholic beverages, mineral water and juices, olive oil and medicine. The products of the company are produced with very high quality standards.
- The majority of Herti's revenue comes from sales of bottle caps to spirit drinks manufacturers. The change since the beginning of the year is small and as of present date the segment accounts for 55% of revenues.
- The produce of the company is mainly for export to a wide range of markets. The Bulgarian market accounts for 14% of total sales. During the last two years the share of the local market has increased slightly, but steadily. The biggest international markets are Russia, United Kingdom and France, with European countries increasing in importance.
- The company's forecasts are positive this year, partly due to the establishment of new subsidiary in Germany. Herti plans to place new products on the market for the wine industry at the end of the third quarter, whilst expecting higher revenues from this sector.
- Shares of Herti are traded rarely due to the low free-float. The company's IPO coincided with the financial crisis in Bulgaria and the investor interest to the new position was very limited. The company was planning on using the accumulated resources to pay-off some of its debt and to continue with its investment program.
- The capital of the company is distributed mainly between individuals. Joseph Mayer is the first long-term investor since 1997. The company he manages "IGM Holding" is registered in Austria and is engaged in commercial activities. The main shareholders continued to sell a small amount of their stake and the free-float reached 0.28%. Nevertheless it remained too low for there to be liquid trading even for Bulgarian standards.

Valuation Ratios

Enterprise Value	25 074 000
Dividend Yield - Gross	-
Trailing P/E (ttm)	34.0
Forward P/E (2013)	-
PEG Ratio (1yr expected)	0.60
Price/Sales (ttm)	1.43
Price/Book (mrq)	0.83
Enterprise Value/Revenues (ttm)	10.00

Profitability and Growth Ratios

Return on Equity	4.2%
Return on Assets	1.7%
EBITDA Margin	8.3%
Net Profit Margin	1.8%
Revenue Growth*	-0.5%
EPS Growth*	-
Capital Growth*	3.5%
Assets Growth*	2.0%

*on yearly basis

Company overview

The main business of Herti is the manufacturing and sale of packaging products, specifically bottle closures. The manufacturing is focused at consumers of different segments of the food industry, but part of the production is targeted at the pharmaceutical sector. Exports account for 85% of sales on average as main revenues are generated from 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 five subsidiaries:

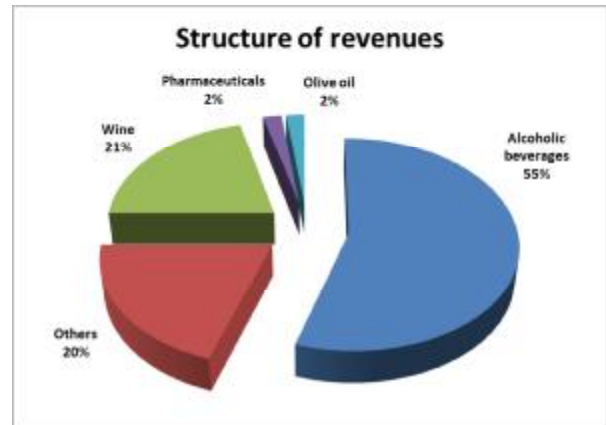
- Tihert JSC – 100% of the capital;
- Herti UK – 100% of the capital;
- Herti France – 100% of the capital;
- Herti Germany – 100% of the capital;
- Herti Group International – 49.00%.

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.

Revenues structure

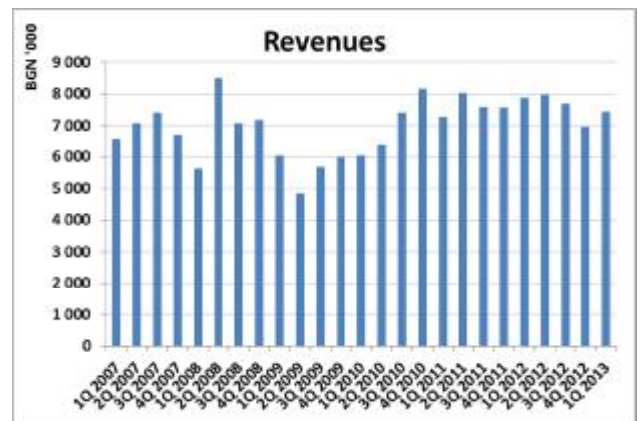
The largest part of the revenues comes from the bottle closures for alcoholic beverages. The change since the beginning of the year is small and as of present date the segment accounts for 55% of revenues. Aluminum caps for wine are losing their share in sales and now form 21% of the revenues. During the last couple of years wine produces are actively switching to twist caps due to the now highly priced cork. The consumption of wine in Europe is declining, although the importance of aluminum caps will increase.

The decrease in packaging for pharmaceutical products is due to the single exports to Middle East client.



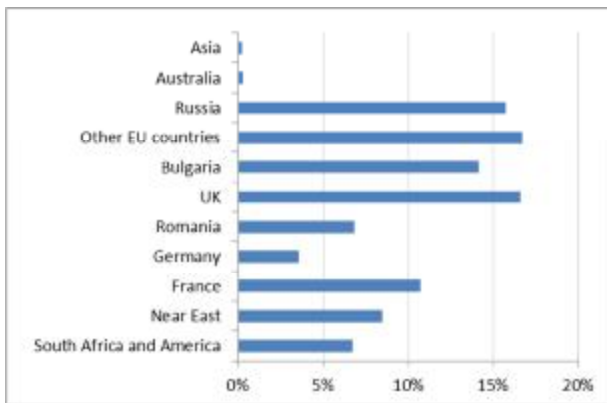
Source: Herti

The first quarter of 2013 had a negative start for the revenues of Herti, which declined 5.6%. This is confirming the downward trend from the end of 2012, but is also a consequence of the strong beginning of the last year. Lower sales of Herti are coincident with the recession in Europe and the consumption of beverages. This is reason for more conservative expectations and forecasts. We are revising on the downside our expectations for revenues and profits.



Source: Herti

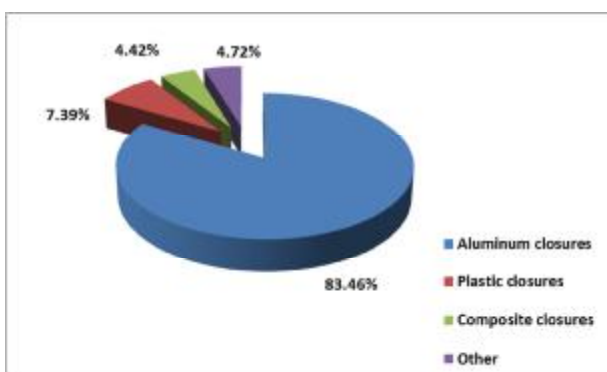
The estimates of the company were positive at the beginning of the year, partly due to the new subsidiary in Germany. At the end of 2012 the firm bought a machine for heat stamping and frontal topography on aluminum caps, which will widen the product range and attract new customers. Orders during the first quarter were lower and the decline came from the markets in Europe.



Source: Herti

The produce of the company is mainly for export to a wide range of markets. The Bulgarian market accounted for 14% of total sales in 2012. During the last two years the share of the domestic market has increased slightly, but steadily. The biggest export markets are Russia, United Kingdom and France, with European countries increasing in importance. The subsidiaries in France and the United Kingdom have a substantial contribution for the presence in these markets. Herti also founded a subsidiary in Germany, which is expected to increase the presence in the country.

Herti is very active in attracting clients by participation in trade fairs. Export to South Africa and the United States targeted the producers of wine. The company is developing the type of composite caps for a client in USA.



Source: Herti

Aluminum closures increased their share in total revenues during the first quarter of 2013 and took significantly larger part as compared to the average during the last year. This change is at the expense of composite closures that lost share to 4.7% of total sales. However, their importance in

revenues this year will be higher as they are expected to be the main generators of growth.

Consumption of alcoholic beverages

The consumption in Europe is declining during the last five years. This trend is concerning wine the most, whereas the consumption of spirits is oscillating near the average level for the last ten years. The change in the regional structure of demand is also visible – Northern Europe is consuming more, whereas the South is slowly changing toward lower quantities of wine.

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.

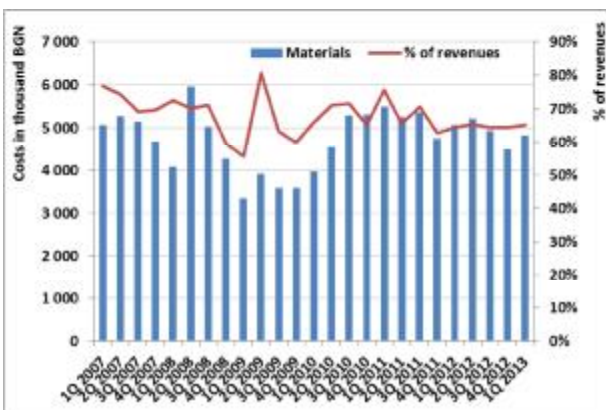
Herti is member of SEDEX – non-profit organization based in London, UK. It is a membership organization for businesses committed to continuous improvement of the ethical performance of their supply chains. SEDEX enables member companies to manage efficiently the ethical and responsible practices of their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

Financial Analysis

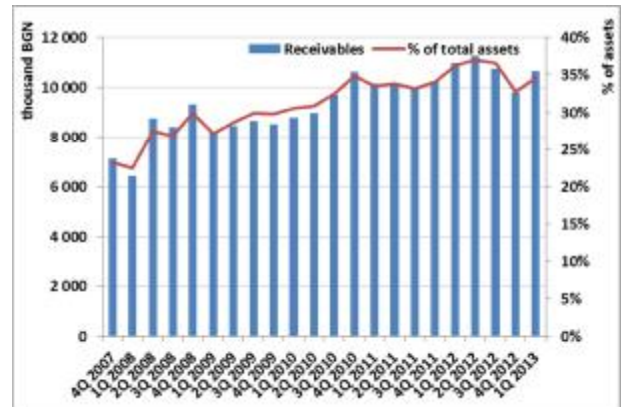
The price of aluminum is the most important factor for the production costs and the profitability of Herti. The metal represents more than half of total expenditures. Aluminum is declining steadily since mid-February and the price fell to its lowest level for the last three years.



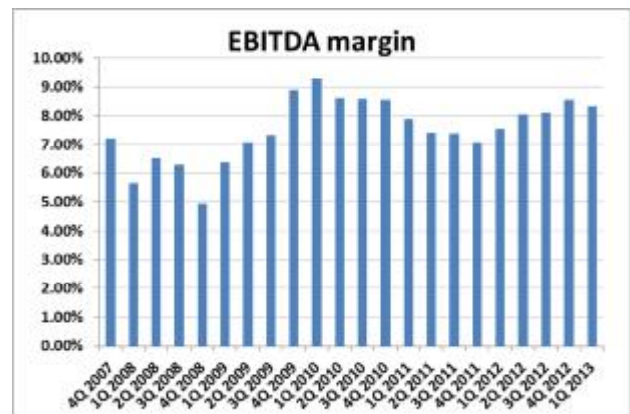
The lower aluminum price will support the profit margin during the second quarter of 2013. The metal is influenced by the over-production, since the demand is lagging the supply.



Material costs retain their share in the revenue structure and reflect the decrease in revenues during the first quarter. Depreciation costs are declining since the beginning of the year to 4.3% of total revenues. This is the lowest level for the last five years. Inventories have increased above the average level but not to levels that indicate difficulties in sales.



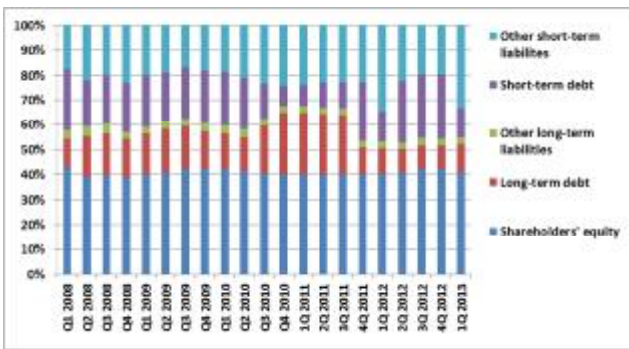
Trade receivables increased after two quarters of declining values both in nominal value and as a percentage to total assets. However, the share to total assets is hardly changed for the previous three years.



The year began with a decline of earnings before interest, taxes, depreciation and amortization. This is followed by the decrease in net profit, although not substantial and the result is near the average for the last five quarters.

The long-term improvement in the recent past is due to the decrease of interest payments. Lower prices of materials and the depreciation influenced the results for 2012 as profit margins increased. However, the first quarter is under the negative effects of appreciating aluminum.

The change in the capital structure of Herti is negligible. The level of other short-term liabilities is again rising, which is a consequence of the forthcoming payments to banks. In fact, the level of bank loans is relatively stable.



Bank loans of the company are around 80% of the equity. The change in the debt structure is small and Herti has no difficulties to service its bank loans.

The quick and current ratios are higher than one, which shows adequate solvency. They are rising steadily during the previous year. The working capital of the company exceeded 1 million BGN and has grown steadily for the last two years reflecting the increase in revenues.

Prognosis

The economic crisis in Europe had a weak effect on Herti's revenues. This is because of the non-cyclical characteristics of the pack-

aging industry and the growing presence in new markets. The weak start of the year is due to the weakening demand from European markets. The company expects higher revenues in 2013 due to the establishment of the subsidiary Herti Germany and the launch of new products on the market. In the model we take this growth rate in to account followed by steady increase of revenues for the following years.

The investments of the company for this year will exceed 4 million BGN, which include the implementation of the two funding projects from the previous year. These are an ERP system for 300 000 EUR and the purchase of a varnishing and printing machine for 1 200 000 EUR. The software will enable faster and more reliable information for making decisions and the varnishing and printing machine will enhance quality and reduce energy. Furthermore during 2013 there are plans for investments of 500 000 EUR for a new production line of aluminum caps with PVC gaskets, 50 000 EUR for constructing a new storage facility and 100 000 EUR for machines that apply finishing works in composite caps.

Valuation ratios

*Table 1
Multiples*

	2011	2012	12M
Last Price	1.23	1.50	1.50
Number of Shares	12 013 797	12 013 797	12 013 797
Market Capitalization	14 776 970	18 020 696	18 020 696
Net Profit	-216 000	569 000	530 000
P/E	-68.41	31.67	34.00
Equity	12 016 000	12 625 000	12 623 000
P/B	1.23	1.43	1.43
Sales	30 569 000	30 495 000	30 052 000
P/S	0.48	0.59	0.60
EV	24 965 970	28 304 696	25 073 696
EBITDA	2 129 000	2 610 000	2 507 000
EV/EBITDA	11.73	10.84	10.00
RoE	-1.80%	4.51%	4.20%
RoA	-0.72%	1.90%	1.72%

Source: Herti
Calculations: ELANA Trading

Financial results of Herti weakened during the first quarter, albeit in small degree. Multiples increased as the trading with Herti's shares was mediocre but the value of the company did not change substantially and the stock continued to trade at higher than the market averages. EV/EBITDA ratio posted a decline due to the change in the representation of bank loans in the balance sheet. This is a temporarily effect in the valuation as similarities have been noticed a year ago. The decrease of EBITDA for the trailing twelve months is in fact resulting to EV/EBITDA above 11. We expect that the data to return in the normal after the announcement of earnings for the second quarter.

Comparison to peers

Manufacturing of bottle closures is part of the larger range of packaging products where a lot of companies operate. Very few of them have specialized in the products that Herti provides. A wider range of companies gives a better basis for comparison. That is why we compare the whole sector, taking the averages of the four valuation ratios.

*Table 2
Comparison
to peers*

Mutiples	P/E	P/B	P/S	EV/EBITDA
Average Value of Peers	16.23	1.44	1.06	8.66
Market Capitalization	8 603 421	18 120 055	31 906 093	14 662 841
Price	0.72	1.51	2.66	1.22
Weight	20%	20%	30%	30%
Current Price		1.50		
Fair Price		1.61		
Premium (Discount) to Current Price		7.18%		

Source: Bloomberg
Calculations: ELANA Trading

The fair price of Herti's shares when comparing to the averages of sector's multiples is close to the latest market prices. The largest weight is given to revenues and EV/EBITDA multiples when calculation the fair price. The share is traded rarely due to the unsuccessful IPO that was unable to attract a large

number of investors during the first months of the financial crisis. The illiquid trading means that the company should be regarded as a possible acquisition target by a larger firm.

The fair price comparing to the sector is BGN1.61 and is increasing due to the higher average value of price-to-sales ratio. The change is not substantial and we don't consider the stock of Herti as either overvalued or undervalued. However, this fair price is not including the possible premium for lack of liquidity.

Discounted Cash Flows

The model of discounted cash flows is indicative of the company's future development because it includes the outlook for growth in sales and profits.

Table 3, Discounted Cash Flows

Herti											Terminal
BGN'000	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Year
EBIT	1 147	1 416	1 558	1 745	2 139	2 289	2 404	2 778	2 875	2 975	3 080
EBIT(1-T)	1 033	1 275	1 402	1 570	1 926	2 060	2 163	2 500	2 587	2 678	2 772
Add: D&A	1 475	1 593	1 753	1 963	1 902	2 035	2 137	1 944	2 012	2 083	2 156
Less: Investments	983	1 062	1 168	1 309	1 426	1 526	1 602	1 944	2 012	2 083	2 156
Less: Change NWC	326	131	177	234	196	166	127	107	97	101	108
FCF	1 198	1 675	1 809	1 991	2 205	2 403	2 570	2 393	2 490	2 577	2 664
PV FCF	1 089	1 384	1 359	1 360	1 369	1 356	1 319	1 116	1 056	994	
Sum of PV FCF	12 403										
PV of Continuing Value	15 801										
Total PV Free Cash Flows	28 203										
Less: Outstanding Debt	11 072										
Plus: Financial Assets	19										
PV of Equity	17 150										
Number of Shares	12 014										
Price Per share	1.43										
			WACC								
				SA	2.0%	3.0%	3.5%	4.0%	5.0%		
				8.0%	1.94	2.28	2.50	2.78	3.63		
				9.0%	1.51	1.73	1.87	2.04	2.50		
				10.0%	1.18	1.33	1.43	1.54	1.82		
				11.0%	0.93	1.04	1.11	1.18	1.36		
				12.0%	0.73	0.81	0.86	0.91	1.04		

Calculations: ELANA Trading

The shrinking revenues of Herti during the first quarter of the year are the main reason to decrease our forecasts for sales and profit margins. The introduction of new products and the expansion to European markets will have positive effect on revenues. We consider moderate growth rates in the range of 10-12% during the coming years. They look plausible, taking into account mild growth in global perspective. Profitability in the model is a bit lower to the results achieved last year. We prefer to use more conservative estimates even when the investments of the company will enhance efficiency. Moreover we consider lower investment costs to account European Union subsidies.

Recommendation and Price Target

Recommendation: The fair price using the discounted cash flows method is 1.43 BGN. This is lower than our previous analysis because it also takes into account the conservative expectations, following the worsening revenues from the first quarter. The price target is the average from the both models as the gap between their fair prices is larger.

HOLD

Target Price: 1.52 BGN

Increase: 1%

Financial Data

Statement of Income (in '000 BGN)	2009	2010	2011	2012	3M 2013
Sales	22 529	28 002	30 473	30 495	7 423
Production expenses	17 051	21 689	24 284	24 013	5 861
Personnel expenses	3 419	3 832	3 955	3 787	927
Net income from financial activities	(53)	(87)	(80)	(85)	(76)
Other revenues and expenses	0	0	0	0	0
EBITDA	2 006	2 394	2 154	2 610	559
Depreciation	1 507	1 599	1 660	1 440	319
EBIT	499	795	494	1 170	240
Interest expense	789	735	688	601	135
Pretax income	(290)	60	(194)	569	105
Taxes	0	0	(18)	0	0
After-tax income	(290)	60	(176)	569	105
Minority interest	0	0	0	0	0
Net income	(290)	60	(176)	569	105
Earnings per share in BGN	(0.02)	0.00	(0.02)	0.05	0.01

Balance Sheet (in '000 BGN)	2009	2010	2011	2012	3M 2013
Total Assets	28 621	30 531	30 111	29 877	30 886
Equity subscriptions receivable	0	0	0	0	0
Fixed assets	16 544	15 687	15 395	14 963	15 530
Tangible fixed assets	16 206	15 402	15 022	14 546	15 115
Financial investments	279	279	279	328	328
Current assets	12 077	14 844	15 395	14 963	15 356
Inventory	3 276	4 161	4 310	4 892	4 670
Receivables	8 542	10 638	10 249	9 785	10 667
Financial assets	0	0	0	0	0
Cash and cash equivalents	259	45	157	237	19
Total liabilities + equity	28 621	30 531	30 111	29 877	30 886
Equity	12 134	12 212	12 056	12 625	12 623
Registered capital	12 014	12 014	12 014	12 014	12 014
Capital funds	354	358	438	438	438
Earnings	-234	-160	-396	173	171
Liabilities	16 487	18 319	18 055	17 252	18 263
Long-term payables	1 038	799	808	808	4 347
Long-term bank loans	4 284	7 568	3 237	2 843	3 467
Short-term bank debt	6 065	2 552	7 108	7 678	3 605
Short-term payables	5 100	7 400	6 902	5 923	10 311
Other liabilities	0	0	0	0	0
Working capital	912	4 892	5 005	1 362	1 440

Cash Flow Statement (in '000 BGN)	2009	2010	2011	2012	3M 2013
Net income	(290)	60	(176)	569	105
Depreciation	1 507	1 599	1 660	1 440	319
Changes in Working capital	539	3 980	113	(3 643)	78
Other operating cash flow items	(365)	(4 024)	(54)	3 342	(41)
Net cash from operating activities	1 391	1 615	1 543	1 708	461
Capital expenditures	(113)	(649)	(392)	(1 074)	(880)
Other investing cash flow items	42	0	0	(49)	0
Net cash from investing activities	(71)	(649)	(392)	(1 123)	(880)
Issuance/ Retirement of Stock, Net	0	0	0	0	0
Issuance/ Retirement of Debt, Net	(512)	(397)	(91)	332	309
Dividends paid	0	0	0	0	0
Other financing cash flow items	(1 073)	(783)	(948)	(837)	(105)
Net cash from financing activities	(1 585)	(1 180)	(1 039)	(505)	204
Net change in cash	(265)	(214)	112	80	(215)
Beginning-of-period cash	524	259	45	157	234
End-of-period cash	259	45	157	237	19
Cash per share	0.02	0.00	0.01	0.02	0.00

Financial and Performance Indicators	2009	2010	2011	2012	3M 2013
Valuation Ratios					
Price/Earnings (P/E)	-47.64	246.28	-68.41	31.67	-26.50
Book Value (BV)	1.01	1.02	1.00	1.05	1.05
Price/Book (P/B)	1.14	1.21	1.23	1.43	1.43
Sales Per Share	1.88	2.33	2.54	2.54	0.62
Price/Sales (P/S)	0.61	0.53	0.48	0.59	2.43
Price/Cash per share	11.35	8.91	9.96	8.97	42.50
EV (in BGN)	23 906	24 852	24 965	28 305	25 074
EV/Sales	1.06	0.89	0.82	0.93	3.39
EV/EBITDA	11.92	10.38	11.59	10.84	243.43
EV/EBIT	47.91	31.26	50.54	24.19	-57.51
Liquidity					
Current ratio	1.08	1.49	1.10	1.10	1.10
Quick ratio	0.79	1.07	0.79	0.74	0.77
Debt Management					
Debt to total assets	0.58	0.60	0.60	0.58	0.59
Interest coverage	0.63	1.08	0.72	1.95	-1.96
LT Debt/Equity	0.44	0.69	0.34	0.29	0.62
Total Debt/Equity	1.36	1.50	1.50	1.37	1.45
Asset Management					
Inventory turnover	6.88	6.73	7.07	6.23	1.58
Days sales outstanding	136	137	121	116	519
Fixed asset turnover	1.36	1.79	1.98	2.04	0.48
Total asset turnover	0.79	0.92	1.01	1.02	0.24
Profitability					
Profit margin on sales	-1.3%	0.2%	-0.6%	1.9%	-8.6%
EBITDA margin	8.9%	8.5%	7.1%	8.6%	1.4%
Basic earning power	1.7%	2.6%	1.6%	3.9%	-1.4%
Return on assets	-1.0%	0.2%	-0.6%	1.9%	-2.1%
Return on equity	-2.4%	0.5%	-1.5%	4.5%	-5.1%
Return on investments	-1.7%	0.3%	-1.1%	3.5%	-3.1%
Dividend Information					
Dividend Yield	n/a	n/a	n/a	n/a	n/a
Dividend per share	n/a	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	1.50	1.50
Market cap in BGN - period end:					
	13 815 867	14 776 970	14 776 970	18 020 696	18 020 696

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HOLD	Market performance, +/-5% as compared to SOFIX and BG40
SELL	More than 5% lower as compared to SOFIX and BG40 performance

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