

ELANA AGROCREDIT

INDUSTRY: FINANCIAL LEASING/AGRICULTURE

LANDING ON STEADY PROFITS

5.9% DIVIDEND YIELD IN FIRST FULL YEAR OF OPERATIONS. ELANA AGROCREDIT RUNS AN INNOVATIVE BUSINESS MODEL OF FINANCING LAND-HUNGRY FARMERS FOR ARABLE LAND ACQUISITION. THE COMPANY TO REAP PROFITS FROM THE ONGOING LAND APPRECIATION AS PRICES IN BULGARIA STILL 3X BELOW EU AVERAGE AND THE STEADY EU FUNDING FOR THE AGRICULTURAL SECTOR.

INNOVATIVE BUSINESS MODEL

Elana Agrocredit is a novelty on the Bulgarian financial and agricultural land market. It finances the acquisition of agricultural land by extending financial leases to local small and mid-sized farmers. It taps on a steady growing market with land prices in Bulgaria 3x below EU average and at least 5% expected average annual appreciation up to 2020. Double EU agricultural subsidies for the period of 2014-2020, more funding for smaller farmers and rising land rents to further encourage farmers to buy rather than rent land.

EXCELLENT MOMENTUM

Practically a start-up, in its first fully operational 2014 year the Company gained superb momentum by investing over BGN 10 mn in fresh leases, building up an arable land portfolio of 1780 ha and returning 6.23% to initial investors via the first proposed dividend of BGN 0.0623 per share or a 5.9% current dividend yield.

LUCRATIVE INVESTORS' RETURN STRATEGY

The Company offers lucrative investor return strategy as it mirror images the structure of a REIT and distributes 90% of profits. The latter come from both interest income (10% fixed lease interest) and any income from the sale of land on defaulted leases (with a 20% down payment on every lease contract). Until the leases are repaid, the Company has full title over the acquired land, thus having a profit yielding guarantee for lessee defaults. It also leverages the model with a conservative 2:1 debt to equity target ratio.

EXPERIENCED MANAGEMENT TEAM

Elana Agrocredit is managed by the team that started (in 2005) and run the first and biggest of its time REIT for agricultural land in Bulgaria – ELARG. The latter built up a land portfolio of 29K+ ha and yielded 18% average annual return when liquidated nine years after establishment.

RAISING ADDITIONAL CAPITAL

To further extend its footprint, the Company is raising additional capital via a secondary public offering of BGN 15.35 mn new shares. At an issue price of BGN 1.02 per share it offers an excellent investor entry point. SPO is planned for spring 2015.

VALUATION/RISKS

VALUATION: By conducting a dividend discount and residual income valuation models we value Elana Agrocredit at BGN 1.16 per share or about 10% higher than the current price. **RISKS:** Extreme weather conditions may affect farmers' ability to repay leases; Lack of sufficient capital; Regulatory uncertainty to foreign land ownership and penalties for offshore land ownership;

in kBGN, excl. ratios	2014	2015F	2016F	2017F
Revenues	955	2,865	4,154	5,608
Net profit	340	1,839	2,390	2,971
Total Assets	11,256	31,350	42,262	57,474
Financed land (ha)	1,780	4,916	6,286	8,118
Total Debt	5,657	8,538	18,694	33,089
Equity	5,425	22,291	22,811	23,364
ROE	6.27%	8.25%	10.48%	12.72%
Debt/Equity	104%	38%	82%	142%
Net profit margin	36%	64%	58%	53%
EPS	0.07	0.13	0.12	0.15
DPS	0.062	0.081	0.105	0.131
P/B	1.001	0.975	0.953	0.930
Payout ratio	94%	90%	90%	90%
Dividend yield	5.87%	7.62%	9.90%	12.31%

BUY
ONE YEAR PRICE TARGET: BGN 1.16
CURRENT PRICE: BGN 1.062

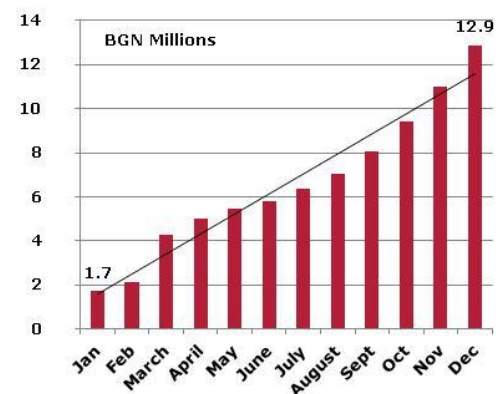
EXCHANGE RATES

EUR/BGN (FIXED): 1.95583
USD/BGN: 1.73128

MARKET DATA

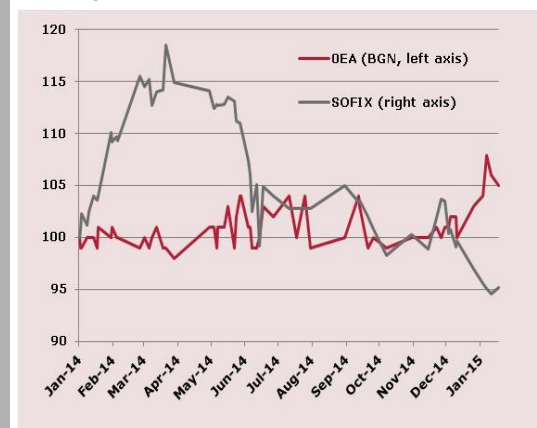
Shares Outstanding:	5.115m
Share Capital:	5.115m
Free-float:	42.2%
Market Cap.:	BGN 5.5m
Avg. Daily Vol.:	BGN 10,000
52 Weeks Range:	BGN 1.01-1.085
BSE Ticker	OEA
Bloomberg Ticker	OEA BU

7X PORTFOLIO GROWTH IN 2014



Source: Company Data

LEADING AHEAD THE MARKET



Source: Company Data

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EXECUTIVE SUMMARY

WE INITIATE COVERAGE OF ELANA AGROCREDIT WITH A BUY RECOMMENDATION AND ONE YEAR PRICE TARGET OF BGN 1.16 WHICH PROVIDES FOR A 10% UPSIDE OVER THE NEXT 12 MONTHS.

THE COMPANY

Elana Agrocredit Jsc. (the Company) is the first and so far the only company in Bulgaria specialized in financial leasing for the purchase of agricultural land. It was created in 2013 by the team in ELANA that in 2005 started the first and biggest of its time REIT for agricultural land in Bulgaria – ELARG. ELARG was liquidated the same year by its investors, yielding an 18% average annual return.

Innovative Structure: Elana Agrocredit is registered as a joint stock company but is run as a REIT. The Company's incorporation documents stipulate it will distribute 90% of profits, thus Elana Agrocredit offers the most lucrative REIT feature. However, a REIT is not allowed to offer leasing services. In addition, the Company is managed by a specialized entity – Agromanagement, with an experienced team consisting of the people that created and run ELARG.

Business Model: Elana Agrocredit operates an innovative business model – financing farmers so they can buy rather than rent arable land. It taps on the local farmers' aim to increase the land they own as farming in Bulgaria is entering a new sustainable level of development due to the steady land price appreciation and the increased EU funding for the sector. The Company extends long term lease contracts (up to 10 years) at a fixed 10% interest, 20% down payment and a fixed BGN 5 per decare management fee paid by the lessees. It profits from the interest it charges on the lease contracts plus any profits from the resale of the land on any lease defaults as it owns the land titles until full lease repayment.

Elana Agrocredit targets smaller to mid-sized farmers (50 to 1500 ha) as they would be able and willing to get financing to purchase more land. The new 2014-2020 EU agricultural funding scheme targets exactly smaller and younger farmers as well overlooked agricultural products thus encouraging the former to buy rather than rent land. In addition, the latter funding is 2x the 2007-2013 subsidies.

Funding: Elana Agrocredit finances its operations though equity it raises from the capital market and bank financing. It targets a conservative leverage ratio of 2:1 debt to equity. It successfully completed an initial public offering on the Bulgarian Stock Exchange in November 2013, when it raised BGN 4.4 mn and increased its capital to BGN 5.1 mn. In April 2014, it signed its first bank financing contract with the European Bank for Reconstruction and Development (EBRD). The bank extended a EUR 5 mn, 8 year loan at a 3m Euribor + 5% to be absorbed on two equal tranches depending on equity capital raised. Currently, Elana Agrocredit has absorbed the first tranche of the loan. At the end of 2014, the Company also signed a loan contract with Societe Generale Expressbank for the amount of BGN 3 mn. It is short-term with the option to be extended until 2017 with an interest of 1m Sofibor + 3.1%.

With this funding, in 2014 Elana Agrocredit managed to purchase of 1700+ ha of land worth almost BGN 13 mn. It has extended BGN 10+ mn of leases, most of which 5+ years long.

In the spring of 2015, the Company will be raising additional capital to further support its business strategy. With the SPO the Company will offer investors 15.35 mn new shares at a proposed issue price of BGN 1.02.

Elana Agrocredit is registered with the Bulgarian National Bank as a leasing company. It has excellent corporate governance. It publishes financial reports and material investor information in English. It is committed to distributing 90% of profits and in 2014 proposed first dividend of BGN 0.0623 per share to be voted on the upcoming general shareholders' meeting at the end of February, 2015. The proposed dividend corresponds to 94% dividend payout and 5.9% dividend yield at current market prices.

THE COUNTRY AND THE MARKET

The country is under a Currency board arrangement and the Bulgarian lev is pegged to the Euro at 1.95583.

We expect subdued economic development as the new coalition government will be faced with major reforms to be performed in various areas such as judiciary, health care, pension insurance, energy to name a few. Additionally, public finances are stressed by recent financial system turbulences thus offering less freedom for economic stimuli.

The land market in Bulgaria has seen a drastic change over the last 25 years. EU accession revitalized it with speculative institutional investors entering the market and driving up land prices. Currently, this speculative wave is fading away and giving room to farmers supported by the new EU structural funding for the agricultural sector. The latter shall be more favorable to smaller and mid-sized farmers thus, encourage land demand. Land prices appreciation has averaged 9% over the last decade. We expect land prices to continue to rise at a more sustainable 5% CAGR over the next couple of years.

THE VALUATION

We use the dividend discount and a residual income models to value Elana Agrocredit and we arrive at a BGN 1.16 fair value per share or about 10% above the current market price.

SOME RISKS

Extreme unfavorable weather conditions may limit farmers' ability to repay leases and demand for land.

High regulatory risk; Foreign offshore land ownership is limited in the country, including via SPVs and publicly traded companies, unless foreign investors are domiciled within the EU and/or the European Economic Community; Land owning companies face penalties if they have offshore entities among their shareholders.;

Lack of sufficient capital available for new lease contracts may limit Elana Agrocredit's ability to generate higher investor returns.

New players entering the market, including existing leasing companies entering the segment which they have overlooked so far due to lack of experience and unsuitable collateral requirements towards potential lessees.

COMPANY OVERVIEW

Elana Agrocredit is so far the only financial company specialized in extending leases for the acquisition of agricultural land. Local banks do provide such financing but at a much more complex model. Contrary to banks, the Company operates via a wide land broker network which works closely with farmers in acquiring land. It also structures leases to reflect farmers’ business cycle i.e. lease interest is paid once a year in mid-September when farmers have gathered and sold their crops and thus have cash.

Elana Agrocredit to work with smaller farmers

As of the end of 2014, Elana Agrocredit has financed the purchase of 2 500+ plots in 570+ deals for BGN 12.8 mn. This corresponds to a land portfolio of 1780 ha (17 800 dca) spread in the most fertile regions of the country – Northeastern (Dobrich, Ruse, Silistra and Razgrad districts), Northcentral, Northwestern, Southeastern and South-central Bulgaria. With the new 2014-2020 EU agricultural funding scheme kicking in, the Company may start financing land acquisitions in other regions of Bulgaria which have been overlooked so far by investors. The new subsidies scheme will favor smaller and younger farmers as well as broader agricultural products as fruits and vegetables rather than bigger farmers and cereals as it was during the past 2007-2013 EU program period.

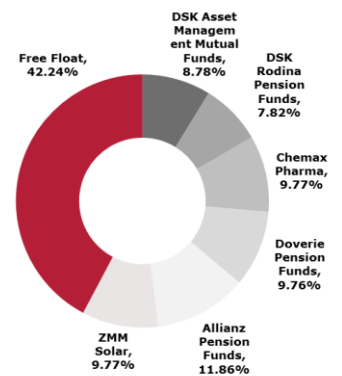
Additionally, going forward the Company envisions extending lease financing for other farming investments as new irrigation systems and/or new agricultural machinery and equipment.

SHAREHOLDERS’ STRUCTURE

Elana Agrocredits’ registered capital consists of 5.115 million ordinary shares. They are distributed among local institutional and individual investors with no single entity exceeding a 10% shareholding threshold.

Outstanding shares: 5 115 435

Biggest shareholders are local pension funds from the three pension companies – Allianz, Doverie, DSK Rodina. The latter three, together with local mutual funds and sophisticated investors own up to 57.76% of the share capital. The rest is free float.



MANAGING COMPANY

Agromanagement, owned by Elana Holding, is the Elana Agrocredit’s managing company. Shareholders have entitled it with a quarterly and an annual fee.

5% annual hurdle rate for any performance fee to the managing company

The quarterly fee is based on actual funds invested payable in four installments at the end of each quarter calculated as follows:

- 0.25% of investments when invested funds are up to BGN 10 mn
- BGN 25,000 + 0.1875% of the excess of investments over BGN 10 m when invested funds are between BGN 10 m and BGN 20 mn
- BGN 43,750 + 0.125% of the excess of investments over BGN 20 mn when invested funds are over 20 mn

The annual fee is a performance based fee (success fee) and is equal to 20% of any profits in excess of a 5% hurdle rate each year. No remuneration is owed to Agromanagement if the realized profit before taxes over the Company’s base capital is less than 5%.

POTENTIAL CATALYSTS

GROWING LAND MARKET: After experiencing a fast land price appreciation around Bulgaria’s EU accession (9% CAGR over the last decade) due to large speculative land investors, we expect the local land market to continue growing at a conservative and more sustainable 5% CAGR until 2020. Accordingly, farmers will be encouraged to own rather than rent the continuously appreciating asset.

HIGHER FARMERS’ DEMAND FOR LAND: Higher agricultural subsidies as well as targeted funding for smaller and younger farmers and more overlooked agricultural products to further stimulate land demand. The 2014-2020 direct EU agricultural subsidies in Bulgaria will be twice the 2007-2013 subsidies– BGN 5.5 bn vs. 2.5 bn, respectively.

SECTOR OVERVIEW

LAND MARKET

The land market in Bulgaria underwent a drastic change in the last 25 years. In the 1990s, after the fall of the communist regime, it went through a tough restitution process leaving land highly fragmented and in the hands of millions of small individual owners who did not have the willingness and/or the ability to cultivate it.

Currently, 80% of land holdings in the country are of a 2 ha size or less which is twice as small as in the EU, according to data from the European Commission. At the same time, land prices in Bulgaria are 3x below EU average even after taking into account the huge difference between member-state's land markets.

However, the land prices have been on the rise since Bulgaria started its EU entrance process mainly due to anticipated EU agricultural subsidies. It registered a 9% CAGR over the last decade.

Land consolidation has also been on an ascent since the beginning of the 2000s, encouraged also by high economic growth, good agricultural output and rising land rents. Accordingly, during the last decade small land holdings declined by half while holdings of 100 + ha have almost doubled. Still, the latter represent less than 2% of all land holdings.

In terms of land demand, historically it came from local farmers which took part in 90-95% of the land transactions. Speculative institutional investors became very active in the years right before and just after Bulgaria joined the EU (2006-2008) accumulating large land portfolios of 20K+ ha (200 000 dca) at attractive prices. This wave drove up both the number of transactions and the amount of transacted land. It also drove considerably up land prices which tripled in the last decade from BGN 137/dca in 2000 to BGN 429/dca in 2013, according to national statistics. However, national statistics differ significantly from real market prices as official deals are struck below market price to avoid administrative burdens. Additionally, land prices differ significantly depending on the region's fertility reaching as high as BGN 1500/dca in the most fertile region of the country - the Northeast.

Overall, as speculative players accumulated large chunks of land they became takeover targets as in the cases of ELARG, Agro Finance REIT and Seres with total land portfolio of 60K+ ha. All of which were bought out in the period of 2012-2013 by large local industrial conglomerates which additionally drove up land transaction statistics.

Accordingly, we see the speculative wave fading away and local farmers returning as major land demand drivers. In the next decade, we expect to see farmers dominating the land market again both in terms of the number and size of land transactions. We expect the latter to settle down to pre-speculative wave levels (i.e. 50K to 80K) with land prices registering a conservative 5% CAGR in the next couple of years. Some regions in the country may register higher land price appreciation as the new EU program funding for the sector will target previously overlooked crops as well as smaller and younger farmers while other previously overdemanded regions may register price declines.

The new EU funding for the agricultural sector for the period of 2014-2020 will reach BGN 5.5 bn which is twice the money for direct agricultural payments of BGN 2.5 bn in the previous program period from 2007 to 2013.

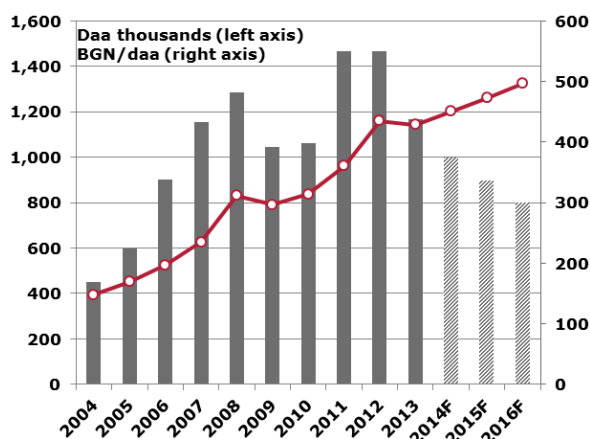
Arable land in Bulgaria is still largely fragmented

We expect conservative 5% CAGR of land prices until 2020

Farmers to stay land land-hungry

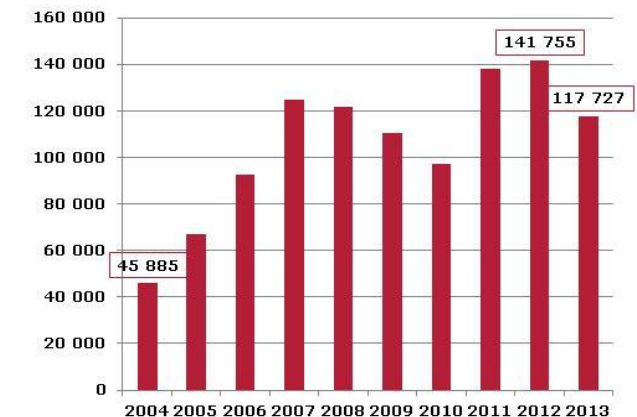
New direct EU funding for the sector double the previous at BGN 5.5 bn

Exhibit 4: Land prices to enter a steadier 5% annual growth period with land demand dominated by farmers



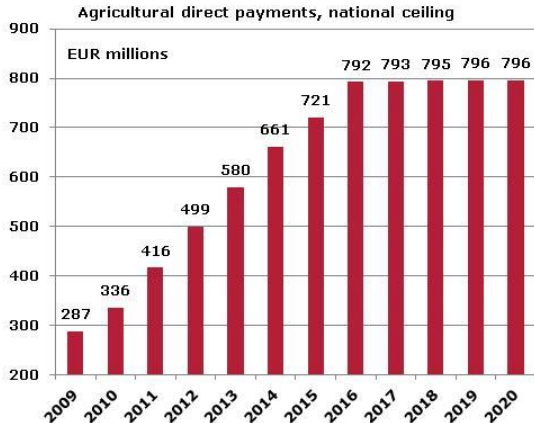
Source: Ministry of Agriculture and Food (MAF)

Exhibit 5: Land transactions to stabilize to pre-speculative wave levels of 50k to 80K



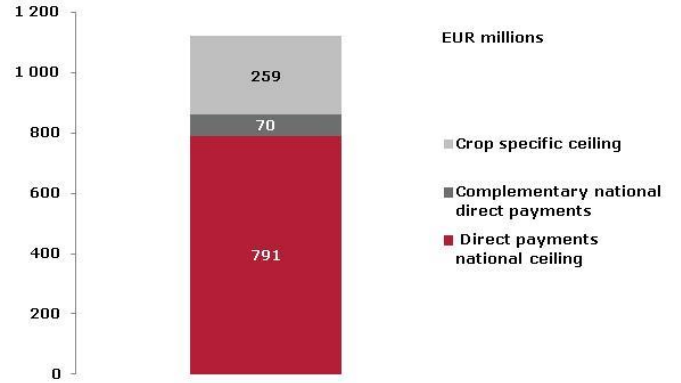
Source: MAF

Exhibit 6: 2014-2020 EU subsidies for agriculture twice the 2007-2013 spending



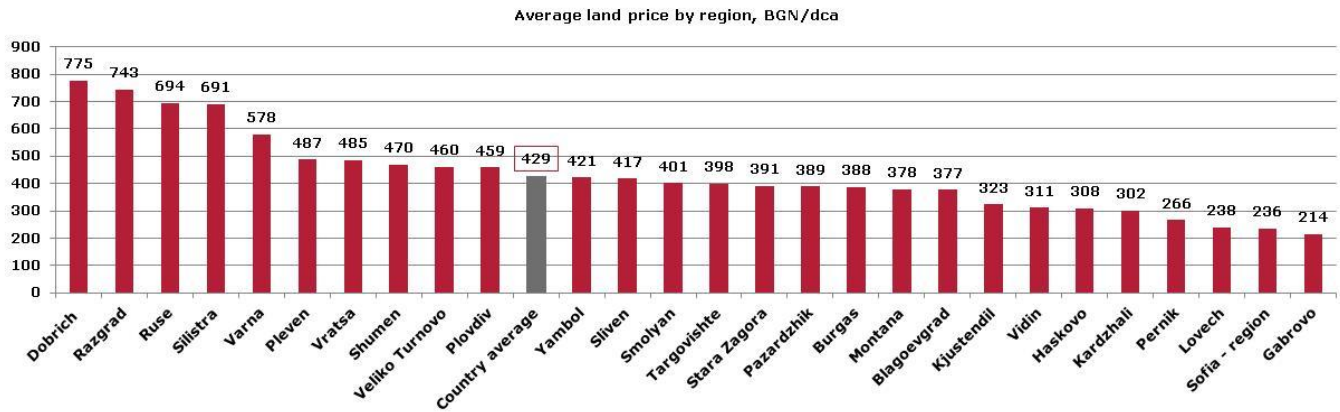
Source: European Parliament

Exhibit 7: Crop specific subsidies to add dynamics to overlooked regions and crops



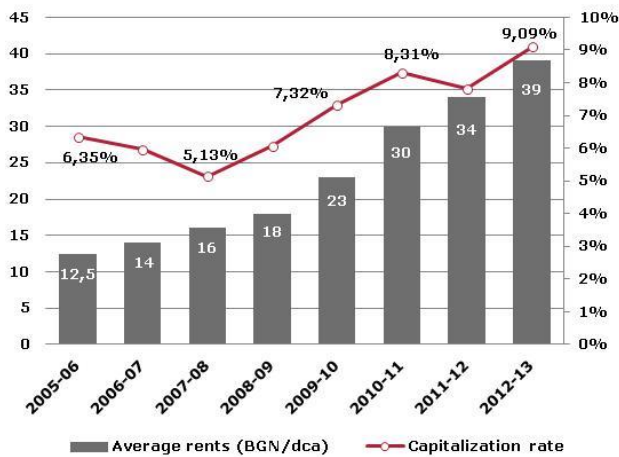
Source: MAF

Exhibit 8: Land prices in most fertile districts in Northeast Bulgaria (Dobrich, Razgrad, Ruse) 1.8x above the country average



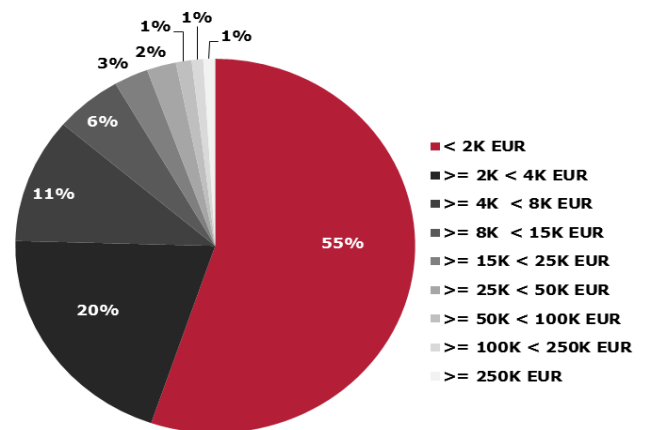
Source: National Statistical Institute, 2013 data

Exhibit 9: Rents to stabilize as land price growth settles down and even decline in highest land price regions ...



Source: National Statistics Institute

Exhibit 10: ... while land consolidation to increase average farm size both in terms of land and standard output



Source: MAF; Farms by standard output

ELANA AGROCREDIT'S MARKET PRESENCE

Elana Agrocredit's presence on the Bulgarian land market is still less sensible but is gaining considerable momentum. This is evident from the Company's fast rising lease portfolio and the corresponding financed land portfolio.

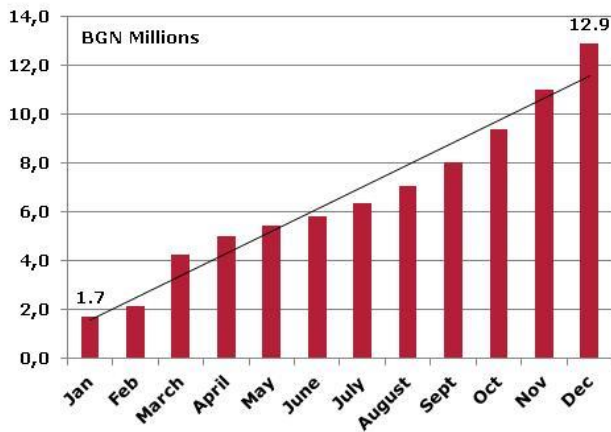
1st leasing company specialized in financing of arable land

The biggest land owners in the country are still the state and the church. However, the recent speculative wave has also created a couple of major private land owners with 30K+ ha of arable land per market player – mostly SPVs as Advance Terrafund (6A6 BU) but also major industrial groups (i.e. Rompharm Company, Agrion Invest, etc.)

Nevertheless, Elana Agrocredit is unique on the leasing market with its special focus on lending money for land acquisitions. With the speculative wave fading away demand for land will intensify among smaller local farmers and landlords opening up room for acquisition and creating land financing hunger. Advance Terrafund's (one of the biggest REITs and private land owners in Bulgaria) plans to start selling land with deferred payments is an evidence of this coming trend.

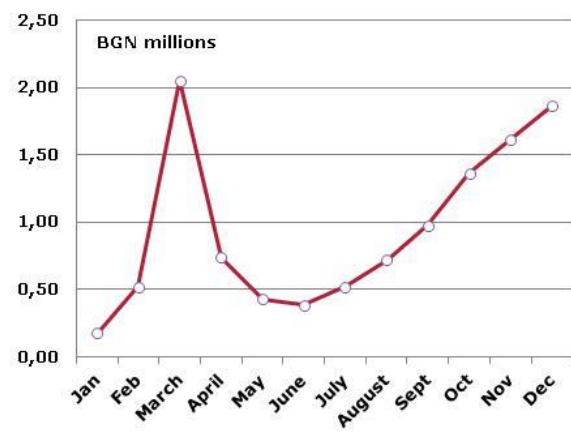
Thus, Elana Agrocredit's land market experience and lease market momentum gives it a considerable comparative advantage to any other financial player in building up a significant market position. It has already financed 2500+ in 19 of the 20 major districts in Bulgaria. Overall, in its first fully operational year it has invested about BGN 13+ mn and financed the acquisition of 1780 ha of arable land.

Exhibit 11: Gaining moment in 2014 with 7x increase in invested capital ...



Source: Company data

Exhibit 12: ... and a steady increase in monthly deal size



Source: Company data

FINANCIAL ANALYSIS AND VALUATION

The experience of Elana Agrocredit's management team with ELARG and the innovative business model of capturing the sector's growth via financing activities give the Company considerable advantage on reaping profits from the shifting trend on the Bulgarian land market.

Experience and innovative model to help the Company reap profits from the shifting trend on the land market

Additionally, the uniquely structured operations allow the Company to diversify capital sources and at the same time increase profits via leverage. The only shortcoming to the company structure is the fact that as a joint stock company it has to pay taxes from which REITs are discharged. However, in Bulgaria REITs cannot operate as leasing companies.

Thus, Elana Agrocredit offers an attractive investment opportunity for long term investors looking for steady dividend returns and modest capital gains.

Currently, the stock is traded at P/B of 1, but the price includes the proposed dividend of BGN 0.0623 per share. The SPO with a proposed issue price of BGN 1.02 per share offers good investor entry point.

ANALYSIS OF FINANCIAL PERFORMANCE

Elana Agrocredit's specific business model entails interest income to be major revenue source. However, the Company also profits from a fixed BGN 5 per dca (0.1ha) annual management fee and any proceeds from the sale of land on defaulted leases.

Interest income and proceeds from sales of defaulted leases to drive revenue

In the first fully operational fiscal year, i.e. 2014, the Company has generated BGN 955K of revenues, 54% of which came from normal interest income and 37% from the sale of land on defaulted leases. The rest were land management fees and we expect them will stay in

the 7% to 8% range in the future.

Overall, the Company had 95% interest payment collection. All lease repayments are due on September 15th after the farmers have reaped the profits from the agricultural year. If a farmer delays payments with more than 30 day, the Company can sell the corresponding land as the land title stays with it until full lease repayment.

Single digit lease defaults can be expected as a norm going forward. However, we do not incorporate it in our financial forecasts. We expect interest income to be major revenue source so we stick to a conservative interest income driven business model with any unanticipated defaults and the following land sales only adding additional profitability. With a 20% minimum down payment on the leases any defaults within the 20% range would inevitably bring additional profitability to Elana Agrocredit.

We base our forecasts on the conservative assumption that going forward competition will increase which together with a low interest market environment in Bulgaria will force Elana Agrocredit to lower the 10% fixed interest it charges farmers. We expect the first decrease to happen in 2016 and to be 9%, followed by a second decrease in 2019 to 8%. Accordingly, we also expect cost of debt to slightly decrease over this five year period.

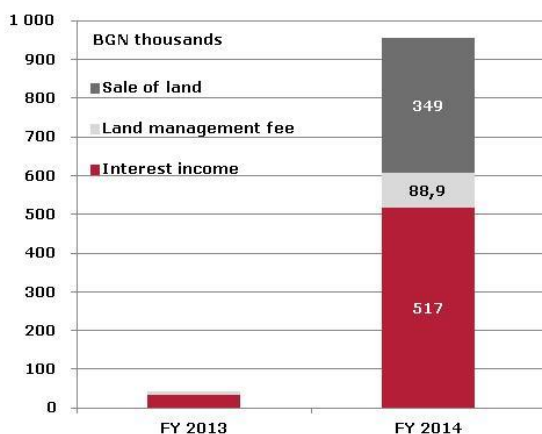
2014 profitability settled at 36% net income margin due higher debt financing costs. Going forward we expect debt costs to decline with the increase in equity capital and sustaining a debt to equity ratio of 2:1. Thus, it will open up room for additional profitability which we expect to translate into a 70%-80% average EBT and 50%-60% average net income margins.

Net income margin to exceed 50% by 2019

We also expect earnings per share to average at BGN 0.012 over a five year period and dividends to follow at an average of BGN 0.011 per share.

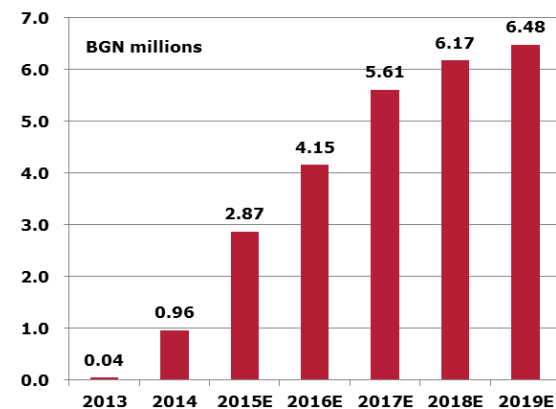
Accordingly, we expect ROE to increase from 6% to over 12% in 2018. Our forecasts envision that the Company will need to raise additional equity capital in 2019, apart from the planned share capital increase in 2015, in order to keep up the gathered momentum and deliver projected performance.

Exhibit 13: Revenue breakdown



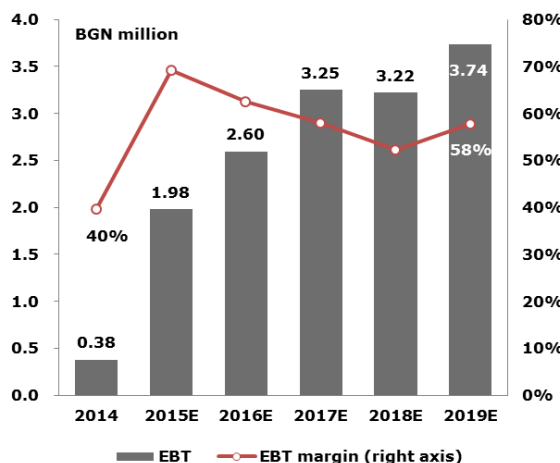
Source: Elana Trading estimates, company data

Exhibit 14: We expect revenues to increase sixfold by 2019...



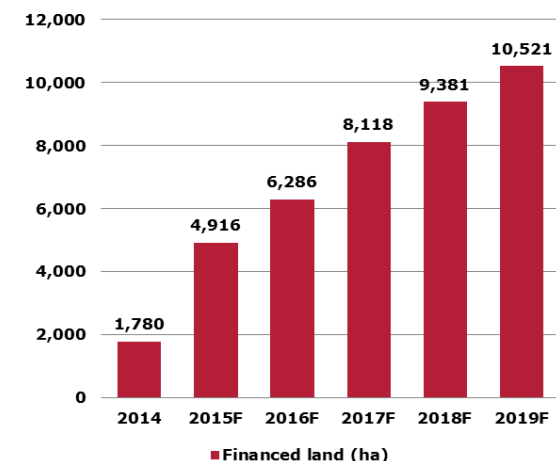
Source: Elana Trading estimates, company data

Exhibit 15: ... with EBT heading for 60% of revenues...



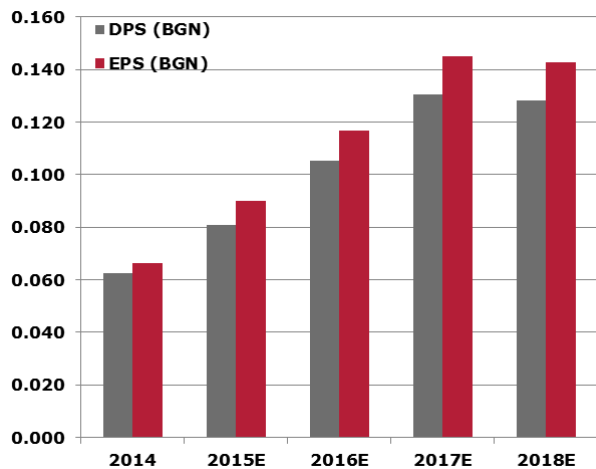
Source: Elana Trading estimates, company data

Exhibit 16: ... and land financed reaching 10K ha by 2019



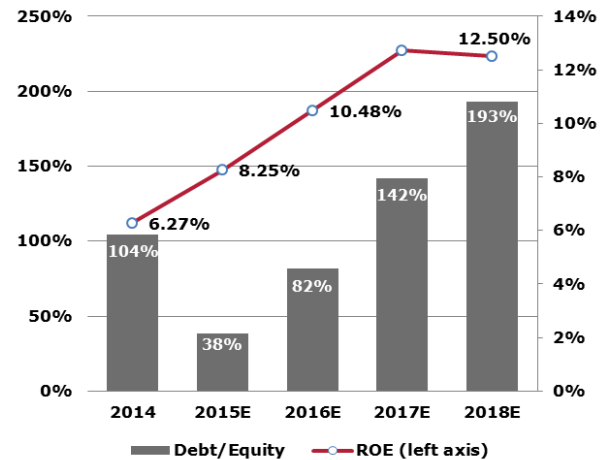
Source: Elana Trading estimates, company data

Exhibit 17: DPS to average at 10% to the one Bulgarian lev...



Source: Elana Trading estimates, company data

Exhibit 18: ... with debt to equity gravitating to the target leverage ratio of 2:1



Source: Elana Trading estimates, company data

VALUATION OF ELANA AGROCREDIT

To value Elana Agrocredit we consider the Company's unique feature of distributing 90% of profits among shareholders. Thus, we conduct a dividend discount valuation model (DDM) together with a residual income valuation which we then weight equally to arrive at a final fair value.

Additionally, we value the Company's expected performance over the next five years taking into account the planned SPO and a successful increase in share capital to 20.5 million shares.

We do a five year DDM as we believe this will be the period in which the Company will have fully invested the money from the 2015 capital raise plus any additional leverage and from 2019 onward will need an additional capital raise.

When running our models, we use a 12.4% average cost of equity over the next five years and 5% terminal year sustainable dividend growth rate.

In addition, to arrive at a final fair value per share we take a 10% discount to take into account the stock's lower liquidity since the start of its trading. Thus, we value the stock at BGN 1.16 per share.

COST OF EQUITY CALCULATION

	2015	2016	2017	2018	Terminal Year
RISK FREE RATE	2.00%	2.50%	2.75%	3.25%	4.00%
EQUITY RISK PREMIUM	10.00%	10.00%	10.00%	10.00%	10.00%
BETA	0.95	0.95	0.95	0.95	0.95
COST OF EQUITY	11.50%	12.00%	12.25%	12.75%	13.50%

DIVIDEND DISCOUNT VALUATION

BGN'000	2015E	2016E	2017E	2018E	Terminal Year
Sales	2865	4154	5608	6169	
Net income	1839	2390	2971	2917	
EPS	0.090	0.117	0.145	0.143	
Sustainable growth rate					5%
DPS	0.081	0.105	0.131	0.128	0.135
PV of DPS	0.073	0.084	0.092	0.079	1.585
Sum of PV of DPS	0.328				
PV of Continuing Value	0.841				
Fair value per share	1.17				

RESIDUAL INCOME VALUATION

BGN'000	2015E	2016E	2017E	2018E	Terminal Year
Equity	5,425	22,291	22,811	23,364	23,344
Cost of Equity		12.00%	12.25%	12.75%	13.50%
Equity Charge		2,675	2,794	2,979	3,151
Net Income		2,390	2,971	2,917	3,416
Residual Income		-285	177	-62	264
PV of RI		-227	125	-38	1,874
Fair Value	7,159				
Fair Value per share	1.40				

FINAL VALUATION

	Dividend discount	Residual Income
Fair value per model (BGN)	1.17	1.40
Weight	50%	50%
Weighted fair value per share	1.28	
Liquidity discount	10%	
Final fair value per share (BGN)	1.16	

RECOMMENDATION AND PRICE TARGET

Several factors support the long-term positive trend of Elana Agrocredit's shares: innovative business model that takes advantage of the steady growing agricultural land market and offers lucrative investment return via a 90% profit distribution requirement. Currently, the Company trades at a P/B of 1, but includes expected dividend of BGN 0.0623.

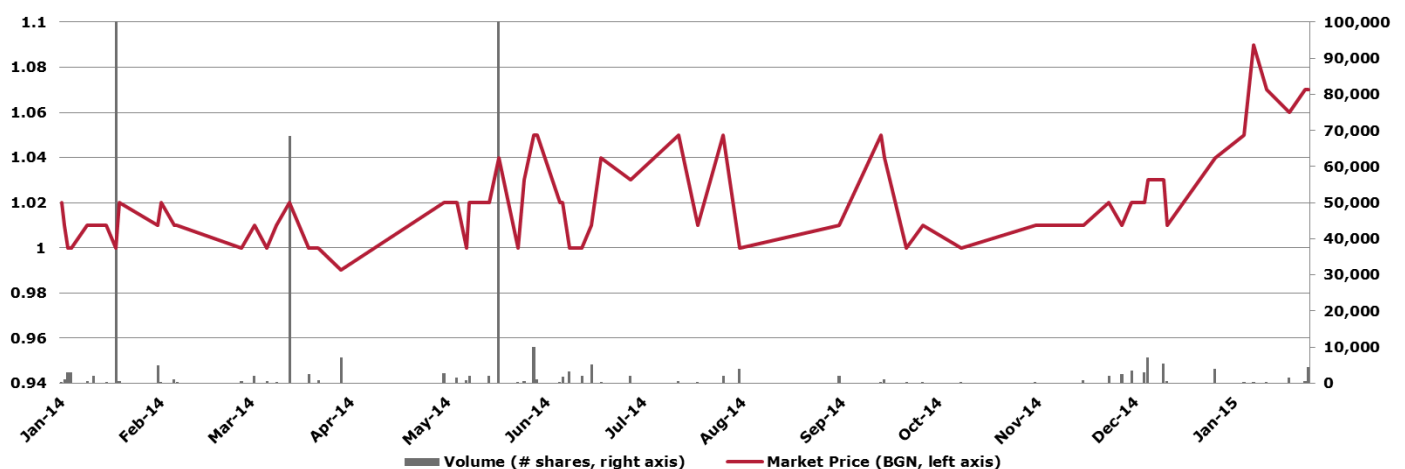
Accordingly, we initiate coverage on Elana Agrocredit with a **BUY** recommendation with a one year target price of BGN 1.16. The risk of underperformance as compared to other Bulgarian stocks is moderate as the Company's strategy is highly dependent on the outcome of the forthcoming SPO. Nevertheless, the SPO provides a good entry opportunity as issue price per share is below market levels and offers a discount to book value.

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

- Bulgarian institutional investors prefer the stock as it is set to offer steady dividend returns and moderate capital gains. They are expected to maintain their investments and take part in the forthcoming SPO.
- Local sophisticated and individual investors prefer the stock for its forecasted good dividend income as an alternative to other cash management strategies.

*Recommendation: BUY
Target Price: BGN 1.16
Upside potential: 10%*

STOCK PRICE DYNAMICS



FINANCIAL DATA (AUDITED)

INCOME STATEMENT (IN '000 BGN)	2014	2015F	2016F	2017F	2018F
Total revenue	955	2,865	4,154	5,608	6,169
Cost of Materials	(2)	(6)	(9)	(12)	(13)
External services expenses	(50)	(72)	(83)	(84)	(80)
Expenses for remuneration of managing company	(110)	(172)	(332)	(561)	(740)
Depreciation	(2)	(6)	(9)	(12)	(13)
Employee benefits expenses	(32)	(133)	(208)	(308)	(339)
Other expenses	(266)	(172)	(208)	(224)	(185)
Operating profit	493	2,305	3,306	4,407	4,798
Financial expenses	(115)	(324)	(710)	(1,158)	(1,576)
Interest expense	(104)	(299)	(654)	(1,059)	(1,441)
EBT	378	1,980	2,596	3,249	3,222
Tax expense	(38)	(142)	(206)	(277)	(305)
Net profit	340	1,839	2,390	2,971	2,917
EPS	0.066	0.090	0.117	0.145	0.143
5% Hurdle rate	256	1,023	1,023	1,023	1,023
Return above 5% hurdle rate	1.65%	3.99%	6.68%	9.52%	9.26%

BALANCE SHEET (IN '000 BGN)	2014	2015F	2016F	2017F	2018F
Cash & Cash Equivalents	1,397	1,423	2,077	2,986	3,396
Finance lease receivables	1,219	4,097	4,809	6,730	7,403
Other receivables	10	30	44	59	65
Tax recovery	0	0	0	0	0
Current Assets	2,626	5,550	6,930	9,775	10,864
Machines and equipment	1	3	4	6	6
Intangible assets	4	12	17	23	26
Finance lease receivables	8,625	25,785	35,311	47,670	58,606
Non Current Assets	8,630	25,800	35,333	47,699	58,638
Total Assets	11,256	31,350	42,262	57,474	69,502
Share capital	5,115	20,461	20,461	20,461	20,461
Share premium reserves	-47	-47	-47	-47	-47
Legal reserves	4	188	212	241	271
Retain earnings	353	1,689	2,185	2,708	2,659
Total Equity	5,425	22,291	22,811	23,364	23,344
Short-term borrowings	1,696	1,375	2,077	5,047	4,935
Tax liabilities	16	48	70	94	103
Trade payables	53	159	231	311	342
Advances received	96	288	418	564	620
Other payables	6	18	26	35	39
Payables to employees and social security	3	9	13	18	19
Current Liabilities	1,870	1,897	2,834	6,069	6,059
Long term borrowings	3,961	7,163	16,617	28,041	40,099
Non Current Liabilities	3,961	7,163	16,617	28,041	40,099
Total Liabilities	5,831	9,060	19,451	34,110	46,158
Total SE & Liabilities	11,256	31,350	42,262	57,474	69,502

MARKET CAP IN BGN - PERIOD END:	5,320,052	21,730,368	21,730,368	21,730,368	21,730,368
NUMBER OF SHARES:	5,115,435	20,461,740	20,461,740	20,461,740	20,461,740
PRICE IN BGN - PERIOD END:	1.062	1.062	1.062	1.062	1.062

FINANCIAL PERFORMANCE INDICATORS	2014	2015F	2016F	2017F	2018F
Valuation					
P/B	1.00	0.97	0.95	0.93	0.93
BVPS	1.06	1.09	1.11	1.14	1.14
Profitability					
EPS	0.07	0.13	0.12	0.15	0.14
Net Income Margin	36%	64%	58%	53%	47%
EBIT Margin	52%	80%	80%	79%	78%
ROE	6.27%	8.25%	10.48%	12.72%	12.50%
ROA	3.02%	5.86%	5.66%	5.17%	4.20%
Dividend					
DPS	0.06	0.08	0.11	0.13	0.13
Dividend Yield	5.87%	7.62%	9.90%	12.31%	12.08%
Dividend Payout	94%	90%	90%	90%	90%
Liquidity					
Current Ratio	1.40	2.93	2.45	1.61	1.79
Quick Ratio	1.40	2.91	2.43	1.60	1.78
Credit					
Debt/Equity	104%	38%	82%	142%	193%
Debt/Assets	50.26%	27.23%	44.23%	57.57%	64.80%

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

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