

Corporate Commercial Bank (Bloomberg:6C9 BU)

Corporate Commercial Bank (CORP) was established in 1994 and its IPO was in 2007 when the bank offered 1 000 000 ordinary shares with BGN 10.00 nominal value. The bank takes pride in its customer-driven strategy, where the services are non-standardized (with few exceptions) and personal, to reflect the needs of their customers. CORP works mostly with corporate clients approaching individually each of them, ensuring transparency in relations and providing a package of financial solutions rather than a set of bank services. The bank has 25 offices all over the country.

52-weeks price high BGN 66.70

52-weeks price low BGN 44.00

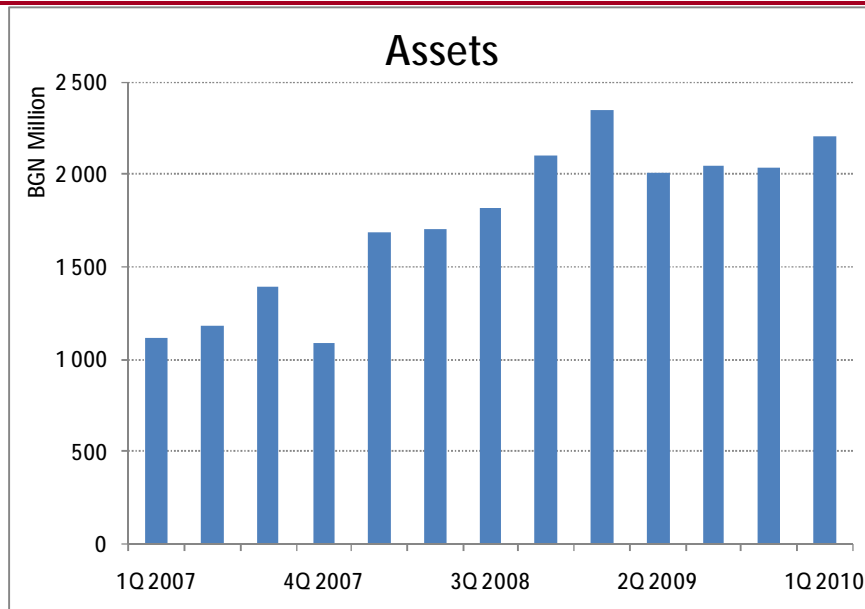
52-weeks price change -3.30%

YTD price change +4.36%



The price per share settled in the range BGN 60.00-BGN 65.00 in moderate volumes since the beginning of the year. The overall volumes remained thin during the quarter.

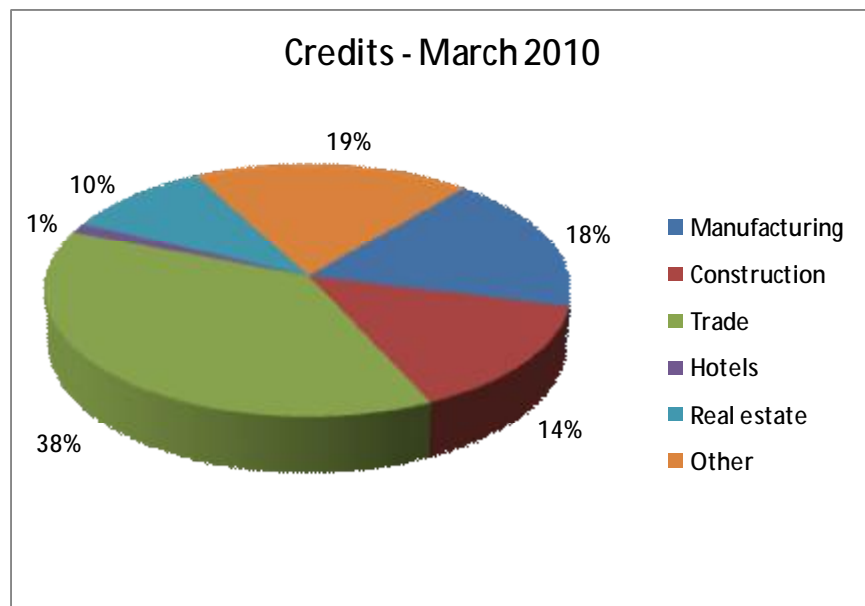
Price-to-assets ratio is 0.17, whereas the price-to-book ratio continued to be above the average for Bulgarian banks. It is fully compensated by the good profit margin and the low P/E ratio that is not distorted by profits from operations with securities or other one-time items.



Source: Bulgarian National Bank

CORP is the ninth largest bank

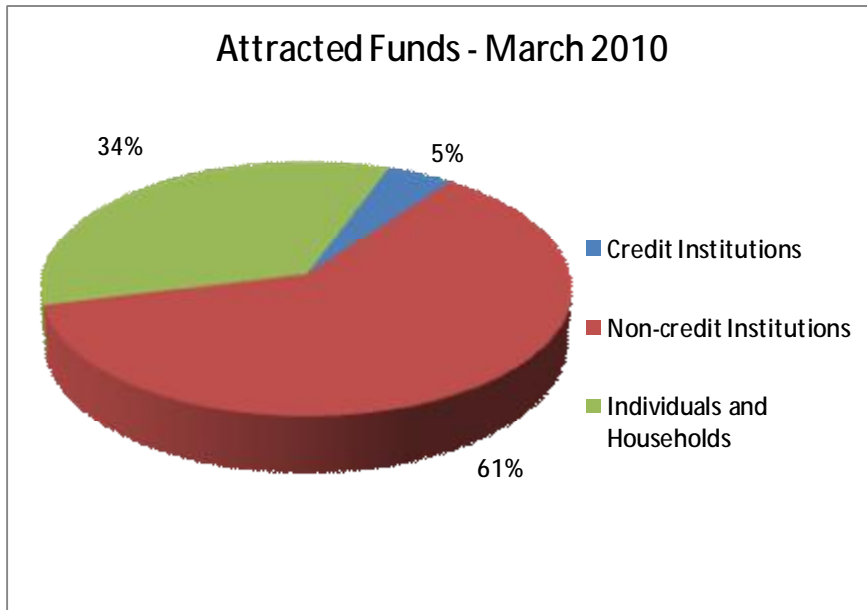
The total amount of the assets exceeded BGN 2.2 billion and increased 8.6% since the beginning of the year. Corporate Commercial Bank settled on ninth place by assets among domestic banks in accordance of Bulgarian National Bank's data.



Source: Corporate Commercial Bank

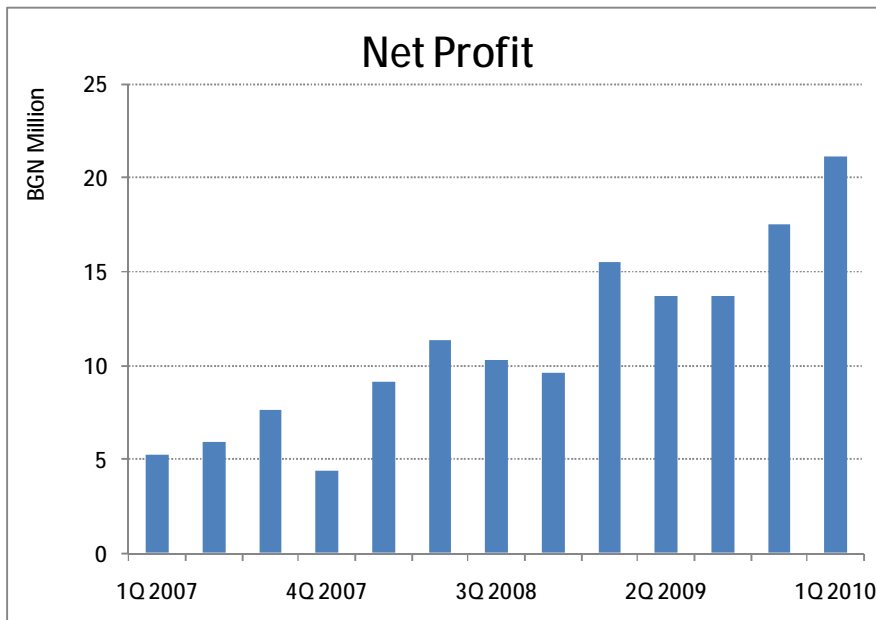
The credit portfolio of the bank represented 66.3% of the assets or BGN 1.46 billion. The percentage of bad loans was 1.18%, which is significantly lower than the average for the banking system. This is due to the specialization of the bank in large corporate credits with lower default risks. Provisions totaled 0.81% of the portfolio in 1Q as compared to 0.76% at end-2009. The liquidity assets ratio was 24.40%. Corporate Commercial Bank continued to increase the stake of credits to non-financial institutions, which is the main contributor to the im-

proved profit margin.



Source: Bulgarian National Bank

Deposits improved 9% since the beginning of the year and reached BGN 1.9 billion. They peaked in March 2009 at BGN 2.1 billion. CORP is relying mainly on deposits from corporate clients, with significant percentage from state-owned companies. Deposits of financial institutions set up insignificant share – 4.4% of the total amount. The stake of deposits of individuals is rising steadily during the last several years.



Source: Bulgarian National Bank

Corporate Commercial Bank announced BGN 21 million net profit for the 1Q 2010 and the financial result exceeded the preliminary prognosis by BGN 5 million or 32%. On yearly basis the profit improved by 36.1%. The quarterly profit

is the best historical result of the bank. Earnings per share jumped to BGN 3.51.

Corporate News

- 14 January 2010** On January 18, 2010 starts operating the remote office of Corporate Commercial Bank to Sofia-West financial center. The office is located in the city center and will offer the entire range of bank services.
- 29 January 2010** Corporate Commercial Bank has submitted its 4Q 2009 report.
- 24 February 2010** On February 23, 2010 the bank signed a contract with the Bulgarian Employment Agency for the realization of a project approved under the Operational Programme Human Resources Development 2007-2013, co-financed by the European Union. The project value is BGN 184 942.12 and is focus toward the improvement of the professional skills of the bank employees.
- 15 March 2010** Corporate Commercial Bank has appointed a General Meeting of Shareholders on April 21, 2010 with main item in the agenda profit allocation decision. The 2009 profit after taxation to the amount of BGN 60 million shall be distribute as follows - setting aside BGN 30.3 million as reserves and distribution of BGN 30 million as gross dividend.
- 16 March 2010** According to the audited 2009 financial statement of the bank, the net profit on individual basis amounts BGN 60.3 million. The Management Board has adopted a decision to propose the GMS to approve the following profit allocation decision for year 2009: setting aside BGN 30.3 million to the reserves; distribution of gross dividend to the shareholders to the amount of BGN 30 million i.e. BGN 5.00 per share.
- 14 April 2010** The regular annual General Meeting of the Association of Banks in Bulgaria, held on April 07, 2010, has unanimously re-elected the executive director of Corporate Commercial Bank Mr. Ilian Zafirov as a member of the Management Board of the Association for a new three-year mandate.
- 21 April 2010** The GMS of Corporate Commercial Bank voted for BGN 5.00 gross dividend payment per share. The right on dividend will be entitled to all shareholders registered in the Central Depository May 05, 2010.
- 26 April 2010** In compliance with the best practices of the National Corporate Governance Code and with a view to improve the communication with the investment community, the bank informs herewith that it will announce its 2010 interim financial and activity report on April 27, 2010 in the time frame between 1:00 p.m. and 3:00 p.m. by posting the report on several internet sites.
- 27 April 2010** Corporate Commercial Bank announced its 1Q 2010 financial report.
- 17 May 2010** On May 17 2010 starts operating the new office of Corporate Commercial Bank in the town of Pazardzhik. The office will offer to the citizens and corporate clients the entire range of the bank's services.
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Assets	2007	2008	2009
Cash and cash balances with central banks	244 048	303 183	310 524
Financial assets held for trading	34 776	21 719	26 971
Financial assets designated at fair value through profit or loss	0	0	0
Available-for-sale financial assets	76 520	40 943	55 380
Loans and receivables	1 063 794	1 047 549	1 216 543
Held-to-maturity investments	84 458	101 598	91 720
Derivatives – hedge accounting	0	0	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0
Tangible assets	49 275	52 340	56 844
Intangible assets	5 997	9 999	371
Investments in subsidiaries	0	34 881	34 881
Tax assets	172	181	355
Other assets	6 311	50 586	45 500
Non-current assets and disposal groups classified as held for sale	0	335	335
Total Assets	1 565 351	1 663 314	1 839 424
Deposits from central banks	0	0	0
Financial liabilities held for trading	0	9 252	12 106
Financial liabilities designated at fair value through profit or loss	0	0	0
Financial liabilities measured at amortised cost	1 348 891	1 421 383	1 567 824
Financial liabilities associated with transferred financial assets	0	0	0
Derivatives – hedge accounting	0	0	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0
Provisions	0	0	0
Tax liabilities	1 624	12	1 013
Other liabilities	3 264	4 362	6 831
Share capital repayable on demand	0	0	0
Liabilities included in disposal groups classified as held for sale	0	0	0
Total Liabilities	1 353 779	1 435 009	1 587 774
Issued capital	83 155	83 155	83 155
Share premium	64 445	64 445	64 445
Other equity	0	0	0
Revaluation reserves and other valuation differences	-764	-5 257	-4 445
Reserves (including retained earnings)	44 415	64 509	86 153
Treasury shares	0	0	0
Income from current year	20 321	21 453	22 342
Interim dividends	0	0	0
Minority interest	0	0	0
Total equity	211 572	228 305	251 650

Source: Bulgarian National Bank

Continuing operations	2007	2008	2009
Financial & operating income and expenses	94 889	112 465	123 577
Interest income	90 982	107 922	136 738
Interest expenses	34 099	42 707	68 826
Expenses on share capital repayable on demand	0	0	0
Dividend income	685	227	45
Fee and commission income	23 764	26 163	28 088
Fee and commission expenses	3 362	3 337	3 785
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net	1 774	24 823	9 889
Gains (losses) on financial assets and liabilities held for trading, net	17 385	-1 720	7 447
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	-600	0	0
Gains (losses) from hedge accounting, net	0	0	0
Exchange differences, net	-2 101	591	-438
Gains (losses) on derecognition of assets other than held for sale, net	14	-63	13 507
Other operating income	447	566	912
Other operating expenses	0	0	0
Administration costs	56 959	73 843	80 464
Depreciation	6 204	7 891	9 285
Provisions	0	0	0
Impairment	9 147	6 895	9 005
Negative goodwill immediately recognised in profit or loss	0	0	0
Share of the profit or loss of associates and joint ventures accounted for using the equity method	0	0	0
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	0	0	0
Total profit or loss before tax from continuing operations	22 579	23 836	24 823
Tax expense (income) related to profit or loss from continuing operations	2 258	2 383	2 481
Total profit or loss after tax from continuing operations	20 321	21 453	22 342
Profit or loss after tax from discontinued operations	0	0	0
Total profit or loss after tax and discontinued	20 321	21 453	22 342
Profit or loss attributable to minority interest	0	0	0
Profit or loss attributable to equity holders of the parent	20 321	21 453	22 342

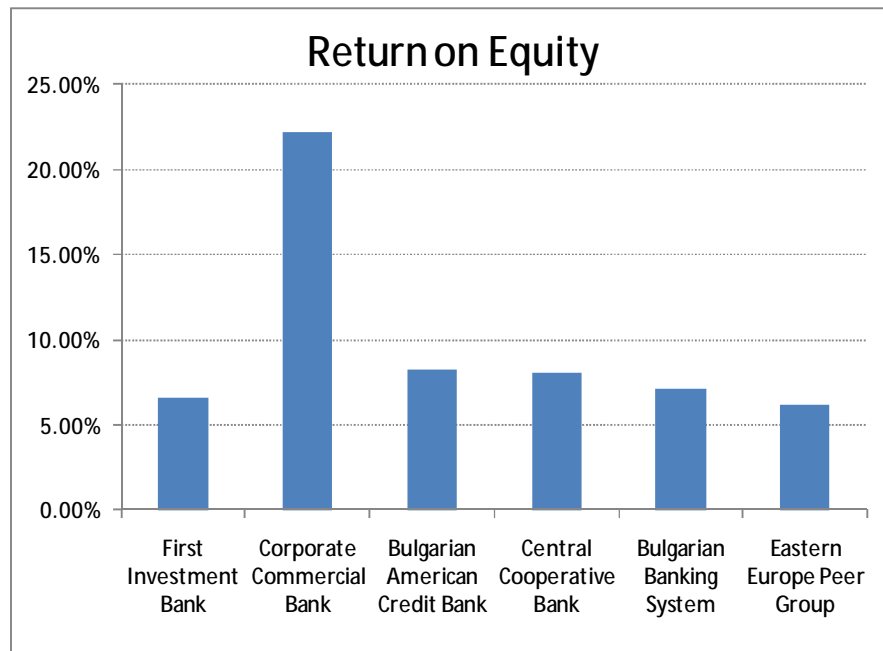
Source: Bulgarian National Bank

VALUATION

Bulgarian public listed banks are traded at very low multiples. We consider all four shares undervalued when comparing to the median of multiples of banks in Eastern Europe. All negative news are priced in and the weakness of stock prices in May is due to the overall market decline in very low volumes.

Multiples comparison

Bulgarian banks are traded at very low price multiples. All four liquid banks have profits and positive P/E ratios. Although the decline of banking profits was significant, multiples were supported by the larger decline of stock prices. We consider banks at very attractive levels and we expect that their shares will appreciate with high double-digit percentages annually during the next several years.



Calculations: ELANA Trading

RoE of banks is close to the sector average Two banks have broad branch networks and are retail oriented – Central Cooperative Bank (CCB) and First Investment Bank (FIB). Both their stocks are trading at the lowest price-to-assets ratios of 0.05, which is due to the calculated risks of defaulting consumer and corporate loans. The other two banks has much higher ratios – Bulgarian-American Credit Bank (BACB) and Corporate Commercial Bank (CORP) are specialized in corporate credits and have small branch networks. Return on equity of CORP exceeds 20%, whereas BACB had even higher ratios before the decline of profit in 2009. When comparing to the average ratios of the domestic banking system and the median of Eastern European peers, Bulgarian public listed banks are in better shape with the exception of FIB that was influenced by impairment costs.

Multiples comparison

	Bulgarian American Credit Bank	Central Cooperative Bank	Corporate Commercial Bank	First Investment Bank
Last Price	12.60	1.15	62.45	2.13
Number of Shares	12 624 725	83 155 092	6 000 000	110 000 000
Market Capitalization	159 071 535	95 545 201	374 700 000	234 300 000
Net Profit (ttm)	17 554 000	20 811 000	65 974 000	27 400 000
P/E	9.06	4.59	5.68	8.55
Assets (ttm)	898 375 000	1 865 322 000	2 210 492 000	4 310 678 000
P/Assets	0.18	0.05	0.17	0.05
Equity	212 049 000	257 202 000	296 643 000	417 217 000
P/B	0.75	0.37	1.26	0.56
RoE	8.28%	8.09%	22.24%	6.57%
RoA	1.95%	1.12%	2.98%	0.64%

Calculations: ELANA Trading

P/E ratios are below 10 Public listed banks vary substantially by assets and market capitalization. All banks have P/E ratios below 10 and only CORP's P/B ratio exceeds 1 due to its high return on equity and the low stock trading. The profits of all banks are from their core banking operations and are not influenced significantly by one-time items.

We compared Bulgarian banks to multiples of banks in Eastern Europe, using median values of their multiples to eliminate the distortions of extremes. The data for the price-to-earnings ratio exclude the effect of losses of certain percentages of banks under consideration. This is understating the fair value of stocks that are compared to the peer group. The median price-to-earnings ratio is 13.91, whereas median price-to-book is 1.05.

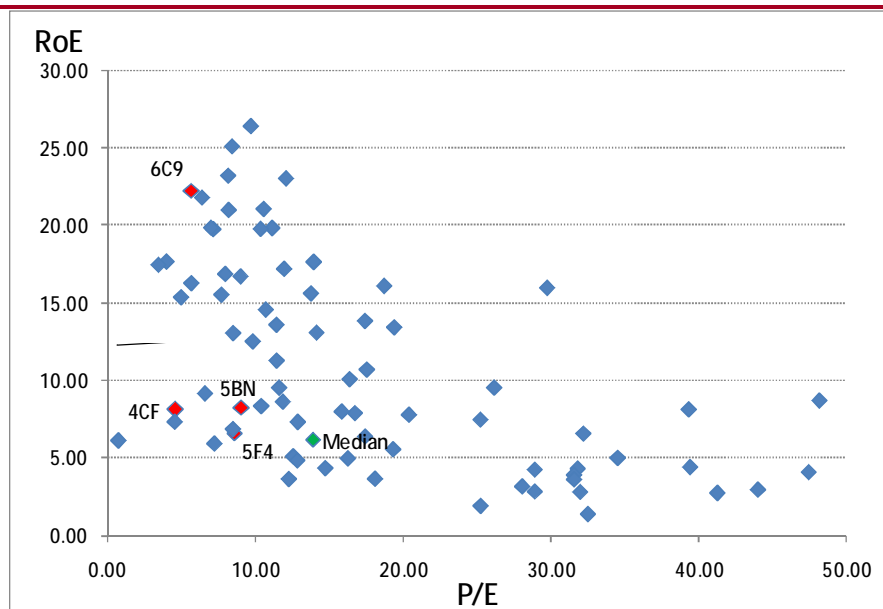
Valuation

	Bulgarian American Credit Bank	Central Cooperative Bank	Corporate Commercial Bank	First Investment Bank
Number of Shares	12 624 725	83 155 092	6 000 000	110 000 000
Price-to-earnings	13.91	13.91	13.91	13.91
Net Profit (ttm)	17 554 000	20 811 000	65 974 000	27 400 000
Price	19.34	3.48	152.97	3.47
Price-to-book	1.05	1.05	1.05	1.05
Equity	212 049 000	257 202 000	296 643 000	417 217 000
Price	17.62	3.24	51.86	3.98
Fair Price	18.48	3.36	102.42	3.72
Premium (Discount)	46.68%	192.71%	64.00%	74.75%

Calculations: ELANA Trading

According to the comparison to regional peers, all Bulgarian banking stocks are undervalued. CCB is currently trading more than 200% below the fair price, calculated by comparing P/E and P/B with equal weight. Both multiples had fair prices that are close to each in CCB, FIB and BACB. The large profit of CORP contributed for higher fair price, whereas the bank's book value was a negative factor for the valuation.

We do not expect that Bulgarian public listed banks will be subject of acquisition deals at the current low prices. Price-to-assets ratio is confirming also the attractive valuation but supply is the main restrain of such deals – it is highly unlikely that majority owners will sell any stakes at current prices.



Source: Bloomberg

Bulgarian banks are mainly situated in the P/E and RoE lows. Notable exception is CORP due to its high return on equity. Most positions are having low P/E ratios and high return on equity. The data are not a surprise as Bulgarian stock market is lagging the recovery since September 2009, which explains the low P/E of domestic banks. Moreover, losses from NPL increased in 2009 that also has negative impact on the profits with lag as compared to other European countries. Those factors are main reasons for bank stocks to be undervalued.

The 5-year average return on equity of the four banks is 16.70%. We will use this value as discount factor for the residual income valuation of the four banks. The expected long-term growth rate is 3.5%, whereas the payout ratio is 33%.

	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Total Assets	1 772 123	2 105 879	2 035 862	2 066 400	2 128 392	2 234 812	2 458 293	2 753 288
Loans and Receivables	1 316 299	1 597 270	1 612 080	1 644 322	1 718 316	1 804 232	1 948 570	2 143 427
<i>As Percentage of Assets</i>	74,3%	75,8%	79,2%	79,6%	80,7%	80,7%	79,3%	77,8%
Total Liabilities	1 616 011	1 891 266	1 759 966	1 744 399	1 764 257	1 825 023	1 998 109	2 235 580
<i>As Percentage of Assets</i>	91,2%	89,8%	86,4%	84,4%	82,9%	81,7%	81,3%	81,2%
Total Equity	156 112	214 613	275 896	322 001	364 135	409 789	460 184	517 708
Net Profit	23 177	40 298	60 382	70 258	70 237	73 749	79 895	89 482
Return on Equity	14,85%	18,78%	21,89%	21,82%	19,29%	18,00%	17,36%	17,28%
Return on Assets	1,31%	1,91%	2,97%	3,40%	3,30%	3,30%	3,25%	3,25%

Estimations: ELANA Trading

Our forecasts for CORP are based on the expectations for more competitive market environment in the forthcoming years of gradual expansion of the banking system. The deposits of CORP include huge amount of capitals of state-owned companies and any redistribution of corporate capitals could undermine the profitability of the bank. In addition, CORP's small branch network is limitation during economic expansion and it is likely that the bank's growth of loans will be less than the average for the system.

Discounted cash to equity value:	
NPV five year free cash flow	97 015
NPV terminal value	255 952
Value of shareholders' funds	352 967
Shares issued (thousand)	6 000
Value per share	58,83
Share price	62,45
<i>Premium/(discount)</i>	<i>-5,80%</i>

Calculations: ELANA Trading

Residual income valuation:	
Opening shareholders' funds	322 001
PV five year residual income	30 011
PV terminal value (ex incremental investment)	955
PV terminal value (incremental investment)	0
Value of shareholders' funds	352 967
Shares issued (thousand)	6 000
Value per share	58,83
Share price	62,45
<i>Premium/(discount)</i>	<i>-5,80%</i>

Calculations: ELANA Trading

Rating: **HOLD** The intrinsic value of CORP, according to the residual income valuation, is lower than the current market price. The bank is the only one among the four stocks that is trading above the value from this method of valuation. However, its enormous net profit and low P/E ratio supported the valuation by multiples of CORP and ensure it much higher average price than the current. Both methods gave target price of 80.62 or 30% higher than the market quotes. However, we will give hold recommendation due to the different results of each valuation method and the lowest upside potential as compared to other banking stocks.

Target price: **BGN 80.62**

Upside: **30%**



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Market Perform	Market performance, +/-5% as compared to SOFIX and BG40
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