

## Chimimport (Bloomberg:6C4 BU)

*Overview* Chimimport was established in 1947 and has grown from a successful foreign trade enterprise specialized in trading in chemical products to a large-scale holding company, which unites more than 70 companies operating in the following sectors:

- Financial sector, including banking services, insurance, pension insurance, securitization of real estate;
- Extraction of oil and gas;
- Production of and trading in petroleum and chemical products and oil processing industry;
- Production of vegetable oils, purchase, processing and trading in grain foods; production of bio fuels;
- Air transport, ground activities related to the maintenance and repair of aircraft;
- River and maritime transport, port infrastructure.

The holding is recognized as a stable presence in the economies of Bulgaria and Central and Eastern Europe. Chimimport's short- and mid-term goals include the strengthening and optimization the company processes and entry in new markets.

### FINANCIAL SECTOR

Chimimport has 12 financial service companies in its portfolio. The objective of the holding is to provide all basic kinds of financial services via its subsidiaries and associated companies. The biggest of them are Central Cooperative Bank and Insurance Company Armeec.

### Central Cooperative Bank (Bloomberg:4CF BU)

*History* Central Cooperative Bank (CCB) was created in 1991 and became public listed in March 4, 1999. At the beginning of 2002 the share of Bank Consolidation Company amounting to 32.77% was acquired through bidding by Chimimport, which became the main shareholder of Central Cooperative Bank. Currently, Chimimport holds 75.80% of the shares of the bank through its subsidiary CCB Group Assets Management. CCB has registered capital of BGN 83 million.

According to the latest information, the interest of minority shareholders in CCB is 23.99%. In the last three years CCB has acquired six commercial banks in Bulgaria that were declared bankrupt, as well as it has acquired the major stake in two Macedonian banks.

*Overview* CCB is a universal commercial bank licensed to perform all banking operations. Central Cooperative Bank operates also as an investment intermediary and has been approved by the Bulgarian National Bank to be the primary dealer of government securities.

CCB is active in rendering services to the agricultural sector and it aims to continue to uphold its leading positions by enlarging the scope and the volume of its operations with manufacturers of agricultural products all over the country. The total number of employees is 1 812. In December 2005 CCB received a permit for its first foreign branch in Cyprus. After Chimimport acquired control over CCB in 2003, the Bank's growth accelerated – its assets and net profit increased significantly, its entire product range was changed, and it entered completely new market segments. The growth of CCB's assets in 2008 keeps up, while the growth rate, similarly to that of the banking system, slows down. In the last three years

---

CCB has acquired six Bulgarian commercial banks, all of which were declared bankrupt. As of 31 December 2008 CCB holds 82.57% of the voting shares of Sileks Banka Skopje (later renamed to Central Cooperative Bank Skopje). Chimimport also owns a 5% interest in TatInvestBank located in the Russian city of Kazan.

52-weeks price high BGN 1.69

52-weeks price low BGN 1.08

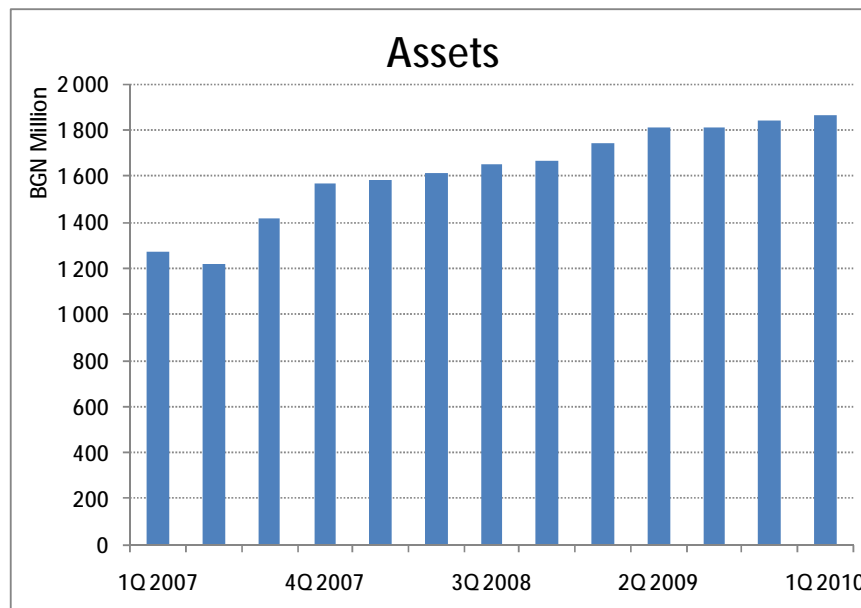
52-weeks price change -22.70%

YTD price change -16.09%



The bank broke the support of BGN 1.30 in mid-April after holding this level from the beginning of the year. The recent market weakness affected seriously the position and it fell to the lows of July 2009. The bank's shares are among the most traded due to the low multiples and large free-float.

Graph 1



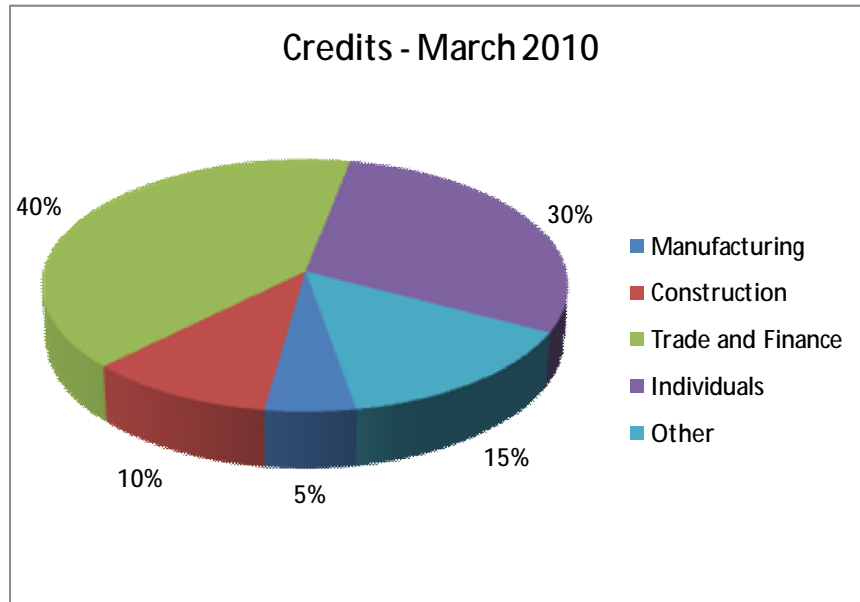
Source: Bulgarian National Bank

CCB is the eleventh largest

The total amount of assets reached 1.744 billion during the first quarter of 2010, which is a 6.95% increase as compared to the same period of

*bank in Bulgaria* last year. Central Cooperative Bank was ranked 11 among Bulgarian commercial banks by assets. The liquidity ratio was 23.81%, while the average for the period from March 2009 to March 2010 was 24.56%.

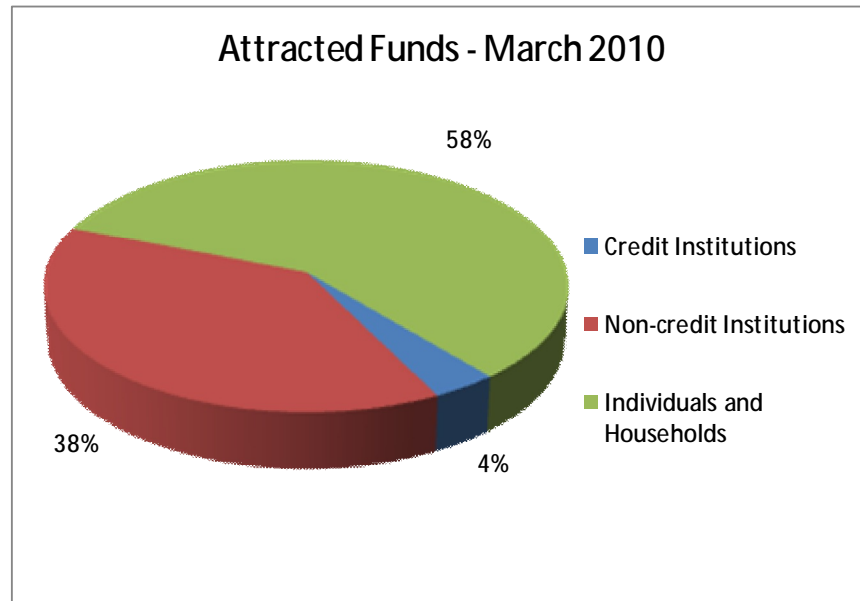
Graph 2



Source: Central Cooperative Bank

The retail segment represented 30% of credits at the end of 2009. CCB is landing mainly to companies in trading and finance industries, whereas construction is holding 10% of the total loans. The interest income was unchanged during the last quarter but declined substantially as comparing to the previous period.

Graph 3

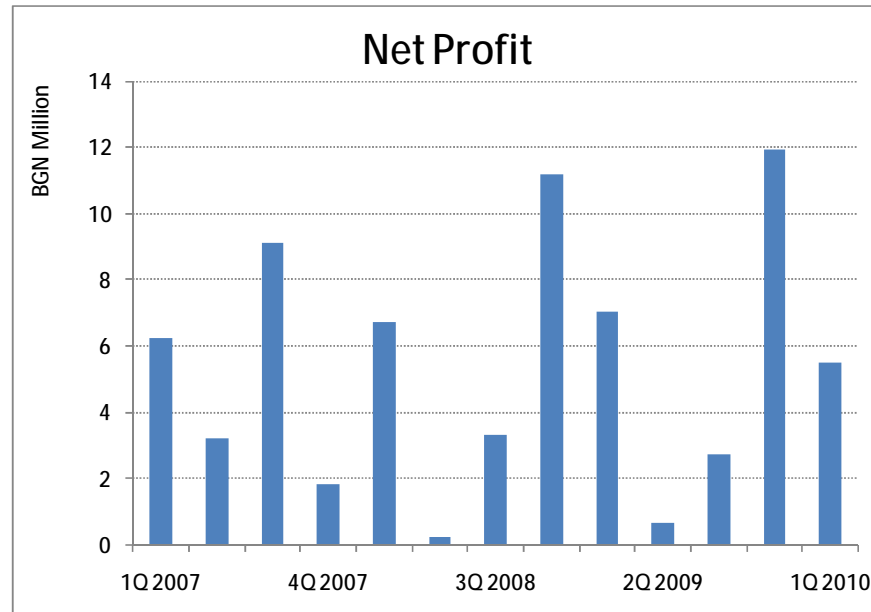


Source: Bulgarian National Bank

*CCB rely on deposits from households* Deposits contributed to 95% of total liabilities and amounted BGN 1.5 billion. In comparison to 1Q 2009, the increase is 5.73%. Deposits of households represented the major source of financing for CCB, whereas deposits of other credit institutions are 4% of total. The interest ex-

penses increased substantially since the beginning of 2009 due to the competitive market conjuncture.

Graph 4



Source: Bulgarian National Bank

*Volatile profits are due to the results from trading with securities*

Central Cooperative Bank announced BGN 5.5 million net profit for the 1Q 2010, which is 21.78% lower than 1Q 2009 (when the profit exceeded BGN 7 million). The net interest income of the bank decreased on a yearly basis from BGN 16.8 to BGN 15.1 million, whereas the revenues from taxes and commissions gained 10.62%. Administration costs shrunk by 14% y-o-y due to the cost cutting program for optimization. The financial results of 2007 and 2009 were influenced by the gains on financial assets but the net loss for the first quarter of 2010 was insignificant. CCB's portfolio is including capital instruments but the largest parts are Bulgarian government securities.

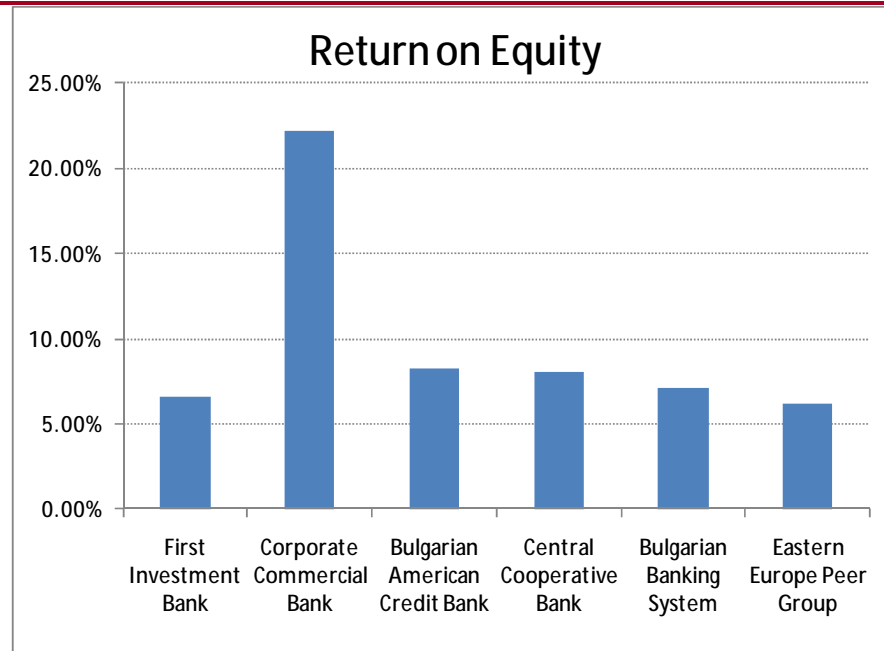
#### Valuation of Central Cooperative Bank

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.

Graph 5



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 have 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

**All banks are undervalued**

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.

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%.

**Forecasts**

	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Total Assets	1 565 351	1 663 314	1 839 424	1 913 001	2 008 651	2 169 343	2 494 745	2 993 693
Loans and Receivables	1 063 794	1 047 549	1 216 543	1 259 122	1 315 782	1 407 887	1 604 991	1 893 890
As Percentage of Assets	68,0%	63,0%	66,1%	65,8%	65,5%	64,9%	64,3%	63,3%
Total Liabilities	1 353 779	1 435 009	1 587 774	1 645 768	1 722 881	1 862 904	2 163 043	2 630 109
As Percentage of Assets	86,5%	86,3%	86,3%	86,0%	85,8%	85,9%	86,7%	87,9%
Total Equity	211 572	228 305	251 650	267 233	285 770	306 439	331 701	363 584
Net Profit	20 321	21 453	22 342	22 956	26 112	29 286	34 926	43 409
Return on Equity	9,60%	9,40%	8,88%	8,59%	9,14%	9,56%	10,53%	11,94%
Return on Assets	1,30%	1,29%	1,21%	1,20%	1,30%	1,35%	1,40%	1,45%

Estimations: ELANA Trading

Return on equity of CCB remained stable during the last two years as impairment costs in 2009 did not exceeded the level of 2007. The bank had very low level of impairment costs during the first quarter of 2010, which is the main reason for us to expect stable profit for the year. We expect faster growth of assets and loans for CCB as compared to BACB as the bank is more retail oriented and is creditor to broader range of industries. We also think that CCB will have improved profitability ratios

over two years due to the expected moderate expansion as compared to 2007-2008.

<b>Discounted cash to equity value:</b>	
NPV five year free cash flow	31 724
NPV terminal value	124 165
<b>Value of shareholders' funds</b>	<b>155 889</b>
Shares issued (thousand)	83 155
<b>Value per share</b>	<b>1,87</b>
Share price	1,15
<i>Premium/(discount)</i>	63,16%

Calculations: ELANA Trading

<b>Residual income valuation:</b>	
Opening shareholders' funds	267 233
PV five year residual income	(63 618)
PV terminal value (ex incremental investment)	(47 726)
PV terminal value (incremental investment)	0
<b>Value of shareholders' funds</b>	<b>155 889</b>
Shares issued (thousand)	83 155
<b>Value per share</b>	<b>1,87</b>
Share price	1,15
<i>Premium/(discount)</i>	63,16%

Calculations: ELANA Trading

The intrinsic value of CCB is BGN 1.87 per share or BGN 155.9 million. This is 60% higher than the current market prices. Our price target is BGN 2.62 or the average from the both methods, which is resulting to capitalization of BGN 217.9 million.

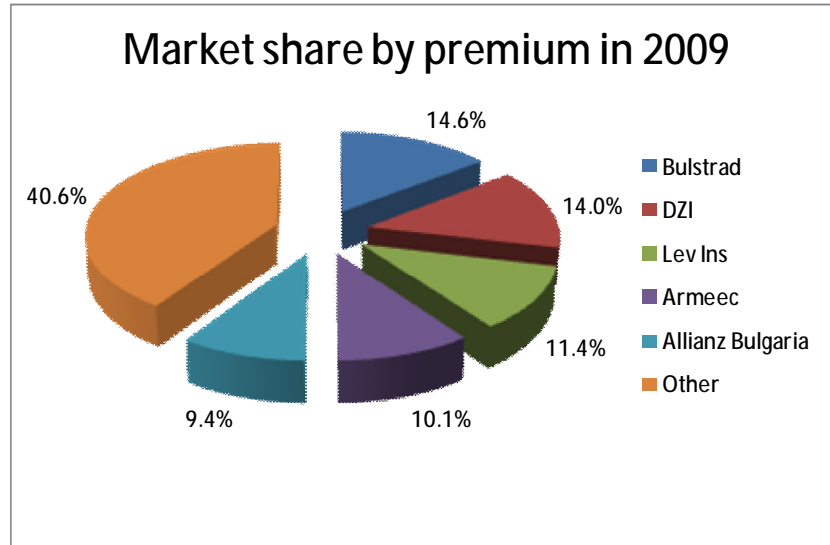
#### **Insurance Company Armeec**

*History* Armeec was established in 1996 with current capital amounting to BGN 15 019 000 and a scope of activities including insurance, reinsurance, and management of funds collected from those activities. In July 2002 Chimimport acquired 91.92% of the capital of Armeec with the Defense Ministry and commercial companies owning the remaining 8.08% of the share capital.

*Overview* The company is an absolute leader in the aviation insurance market (47% market share). Other bigger insurance branches are Vehicle Casco insurance (17% market share) and the popularity gaining "accident and assistance during travel" insurance. Armeec informed the Financial Supervision Commission in April 2008 that it is planning to perform operations in other European Union member countries under the terms of the free provision of services. The company has for several years been qualified as the most dynamically developing company in the non-banking financial sector. The strategy for growth aims at building long-term relations with clients and partners. The company preserves its position as one of the leaders on car insurance market. A success is considered also the growing share of property insurance policies in the portfolio of the company. Regarding the other types of business, such as third-party liability insurance, liability insurance, financial risks and cargo insurance, the company has retained its positions, realizing growth equal to or ex-

ceeding the growth of the market.

Graph 6



Source: Financial Supervision Commission

*Armeec is the fourth largest insurer*

Armeec quickly climbed to the fourth place by market share. The company posted double digit growth during the last several years that outpaced the increase of the total market. Its market share by premium jumped from 7.15% in end-2007 to 10.1% in end-2009.

Classes of Insurance	Market Share of Armeec
1. Accident	10.9%
2. Sickness	0.0%
3. Land vehicles	14.8%
4. Railway rolling stock	0.0%
5. Aircraft	42.2%
6. Ships	5.0%
7. Goods in transit	4.3%
8. Fire and natural forces	4.4%
9. Other damage to property	2.2%
10. Motor vehicle liability	6.4%
11. Aircraft liability	55.6%
12. Liability for ships	1.5%
13. General liability	6.4%
14. Credit	7.8%
15. Suretyship	20.9%
16. Miscellaneous financial loss	6.3%
17. Legal expenses	0.0%
18. Travel assistance	19.5%

Source: Financial Supervision Commission

Armeec has leading positions in the aviation insurance market due to the

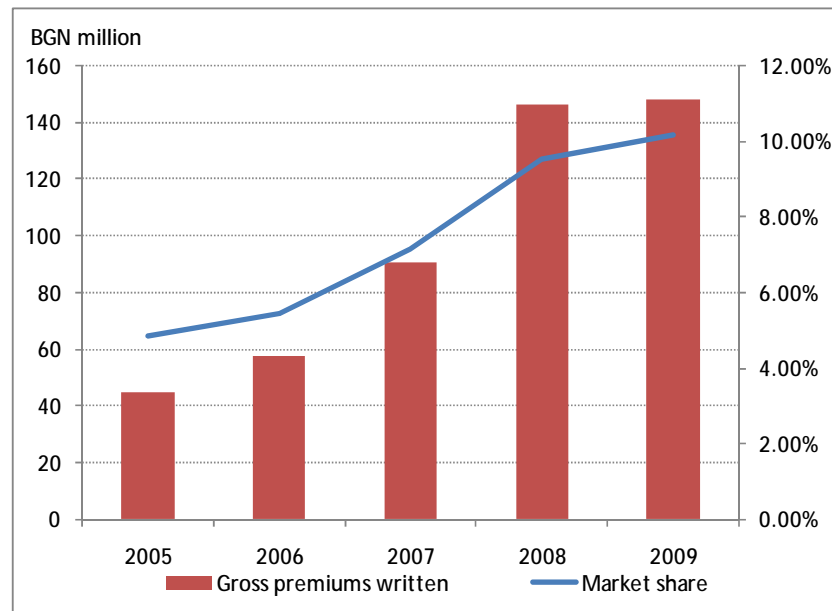


synergy effect from Chimimport group. Armeec is insuring the airline companies of Chimimport, which are the largest Bulgarian air transportation companies. However, both aircraft insurances and aircraft liability insurances represented 7% of total premium of Armeec.

Almost 80% of the companies' premium income is from land vehicle insurances and motor vehicle liability insurances. This is above average for the top five Bulgarian insurers. Armeec has higher market share in the land vehicle insurances and lower in the obligatory motor vehicle insurances.

**Reinsurance** The reinsurance program of Armeec is based on several types of reinsurance contracts – a combined quota-share and excess of loss contract, several excess contracts, two catastrophic and a number of proportional facultative contracts (mostly used with aviation insurances). Armeec places its reinsurance program through big and internationally recognized reinsurance brokers, such as Aon, Marsh and Willis. The company works with Mitsui Sumitomo Reinsurance, Hannover Re, Munich Re and others.

Graph 7



Source: Financial Supervision Commission

The effect of synergy of Chimimport and the solid growth of the insurance market provided the boost for revenues during 2006-2008. The company specialized in car insurances, which is the largest insurance segment and provided the possibility to gain market share through aggressive marketing policy.

Gross premium income of Armeec remained steady during 2009 despite the overall market decline. The economic crisis and the huge decline of new vehicle sold had negative impact on the premium income. The company's market share increased above 10%.

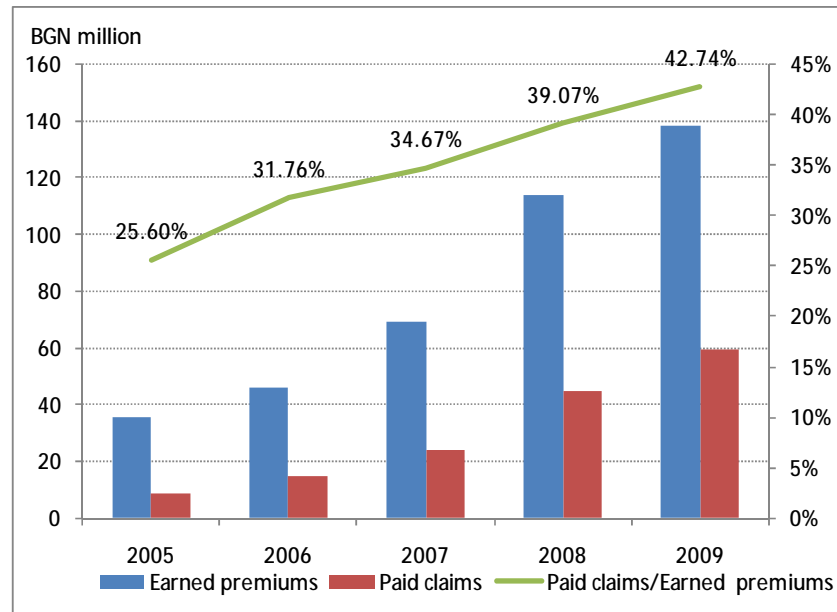
When excluding the premiums ceded to reinsurers and the change in the gross amount of unearned premium reserve, the growth last year is 21%, whereas gross premium written increased only 1.5%.

Classes of Insurance	Structure of Premium	Structure of Payment
1. Accident	1.82%	0.74%
2. Sickness	0.00%	0.00%
3. Land vehicles	60.32%	69.77%
4. Railway rolling stock	0.00%	0.00%
5. Aircraft	3.39%	2.83%
6. Ships	0.34%	0.26%
7. Goods in transit	0.37%	0.03%
8. Fire and natural forces	6.41%	1.50%
9. Other damage to property	0.96%	0.21%
10. Motor vehicle liability	18.97%	23.07%
11. Aircraft liability	3.39%	0.00%
12. Liability for ships	0.03%	0.03%
13. General liability	1.23%	0.03%
14. Credit	0.62%	0.64%
15. Suretyship	0.38%	0.02%
16. Miscellaneous financial loss	0.48%	0.05%
17. Legal expenses	0.00%	0.00%
18. Travel assistance	1.29%	0.80%

Source: Financial Supervision Commission

Almost 93% of claims paid by Armeec in 2009 were due to car insurances, which represent 79% of premiums. This difference should not be surprising as car accidents are the most common.

Graph 8



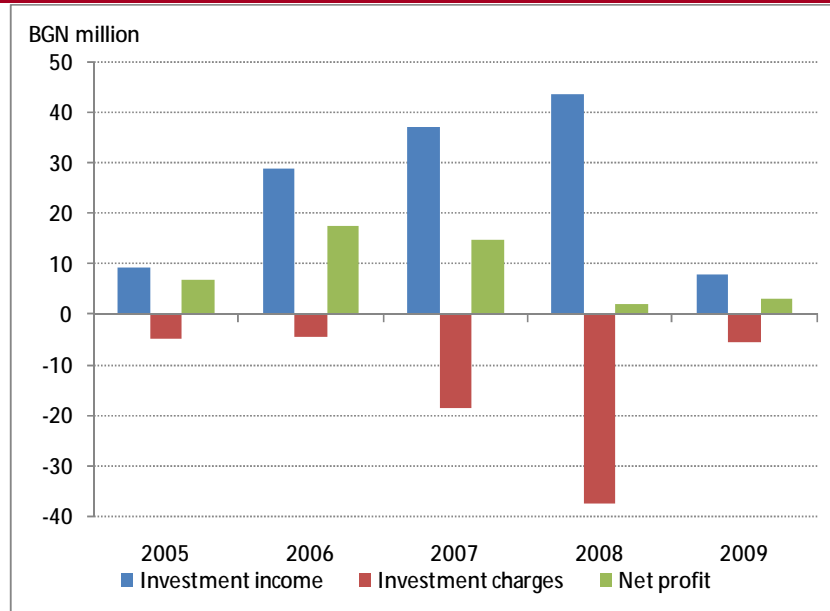
\*Net of reinsurance

Source: Financial Supervision Commission

*Claims paid increased faster*

Claims paid increased by faster pace as compared to earned premiums. This resulted to gradual but steady increase of paid claims-to-earned premiums to 43% in 2009. Only one competitor among top 5 has better ratio – Lev Ins, whereas Armeec has also advantage to the average of the non-life insurance market.

Graph 9



Source: Financial Supervision Commission

Armeec posted net profits during the previous five years. However, the financial results were significantly influenced by the investment income and charges.

#### Valuation of Armeec

Three Bulgarian insurers are currently public listed companies. Two of them – DZI and Bulstrad have very low free-float. The third company – Euro Ins is currently traded at very low multiples due to the expectations for losses incurred from insuring corporate bond issues. This is the reason to use only Eastern European peers in the valuation of Armeec.

#### Multiples comparison

We are using Bulstrad for comparison as Euro Ins had negative financial result for 2009. However, the small profit of Bulstrad is incomparable for valuation purposes.

Comparison:	Bulstrad	Sector
P/E	824.65	29.01
Net profit	2 975 000	2 975 000
Capitalization	-	86 310 551
P/B	5.75	0.97
Equity	35 159 000	35 159 000
Capitalization	202 242 168	33 967 198
P/Premium	0.37	0.89
Premium	148 239 000	148 239 000
Capitalization	55 471 093	132 173 038

Calculations: ELANA Trading

Multiples	Price	Weight
P/E	86 310 551	20%
P/B	33 967 198	40%
P/Premium	132 173 038	40%
<i>Price (BGN)</i>		83 718 205

Source: Bloomberg

The price of Armeec, according to comparison to Eastern European companies, is BGN 83.7 million. We give lower weight to price-to-earnings as most insurers have negative financial results.

#### CCB Assets Management

*History and overview* CCB Assets Management was established as a Management company under Public Offering of Securities Act on 22 November 2006. It operates three mutual funds each of which takes a different amount of risk – high, moderate and minimal. They share a common investment strategy of retaining and increasing the value of unit holders' investments, earning a maximum income and securing liquidity of investments in the fund's units. At the end of June 2010 the total value of assets under management is more than BGN 28 million.

#### CCB Sila

*History and overview* Chimimport owns 89.25% of the capital of CCB Sila which is a pension insurance company managing three pension funds – universal, professional, and voluntary. In August 2009, another Chimimport-owned pension fund, Lukoil-Garant, merged into CCB Sila. Chimimport also holds a non-controlling interest of 49.43% in pension insurance company Saglasie.

#### TRANSPORTATION SECTOR

The transportation industry is of strategic importance of Chimimport. The holding encompasses 16 distinct companies in the transportation area of business with two main branches mostly allocated into two sub-holdings.

#### Bulgarian Aviation Group

*Overview* Bulgarian Aviation Group's strategy focuses on the development of the existing aviation companies Bulgaria Air and Hemus Air, the creation of joint ventures with local and foreign companies, the active participation in the concessions of airports in Bulgaria, and the provision of comprehensive service to present and future clients. With share capital of BGN 30.9 million, the sub-holding is a key figure in the Bulgarian air transportation and maintenance industry.

- **Bulgaria Air:** Bulgaria Aviation Group acquired the national air carrier Bulgaria Air in 2007, with the Bulgarian Ministry of Transport and Communications keeping 1 "golden" share. The share capital of the aviation company is BGN 120 million, BGN 114.9 of which have been effectively paid in. In 2008 Bulgaria Air entirely took from Hemus Air the operation of flights on the regular lines, and since 2009 it is also taking the charter flights. The market share (based on number of tickets sold) of the united aviation company for 2008 is 39.94%.
- **Hemus Air:** Hemus Air was privatized in 2003 when Chimimport

acquired 100% of the company's capital. The company's current activities are aircraft on lease, cargo transportation, and maintenance and repair services.

- **Aviation Company Air Ban:** Bulgarian Aviation Group also holds 100% of the shares of Air Ban, a company that operates in the fields of helicopter air transportation, transport accidents assistance, aerial photography, and business flights.
- **Lufthansa Technik Sofia:** A joint venture of Bulgarian Aviation Group (20%) and Lufthansa Technik AG (80%) with scope of activities the maintenance, repair and painting of aircraft, where priority is given to the performance of heavy technical structural airplanes with workload exceeding 6,000 man-hours. The registered capital of the company is BGN 9.8 million with additional investments envisaged to the amount of EUR 20 million.
- **Fraport Twin Star Airport Management:** Chimimport has an over 40% interest (the venture partner Fraport holding 60%) in Fraport Twin Star Airport Management AD, which is the largest airport operator and ground servicing operator in Bulgaria. The basic activities of the company are related to operation, maintenance, development and expansion of the civil airports in Bourgas and Varna,, ground servicing of aircraft, passengers and luggage, servicing of cargo and mail, and any activities and services, related to the operation and the management of airports, including duty-free commerce, currency exchange, retail shops management, etc.

**Valuation of Bulgarian Aviation Group**

Bulgaria Air did not posted its yearly report of 2009 yet, whereas Bulgarian Aviation Group's audited report is unconsolidated. This is the reason to value the group only by comparison to book value.

Comparison	Sector
Number of shares	51 450 000
Price/book value	1,21
Equity	138 437 000
Market capitalization	167 149 664
Share price	3,25

Source: Bloomberg

The valuation of Bulgarian Aviation Group is based on comparison to price-to-book ratios of European airlines. Other multiples could not be used due to the lack of up to date financial data for the company. Chimimport reported consolidated revenues from transportation segment of 335 million, including other companies, which will value Bulgarian Aviation Group lower.

**Bulgarian River Shipping (Bloomberg: 5BR BU)**

*History* Bulgarian River Shipping (BRS) was established on 17th of March 1935. The beginning of Danube navigation was set with opening a regular passenger and cargo line between ports of Ruse and Vidin. Originally, the company was named "Coastal River Navigation". Later on, with special

law, issued on 31st May 1940, it was transformed into a separate company - Bulgarian River Shipping, based in Ruse.

In the beginning of the 90s the fleet of Bulgarian River Shipping consisted of more than 300 vessels – pushers, passenger ships, open top and covered barges, oil tanks, specialized barges, Ro-Ro barges, etc. Nowadays the company is among the most prestigious and celebrated shipowners along the Danube river.

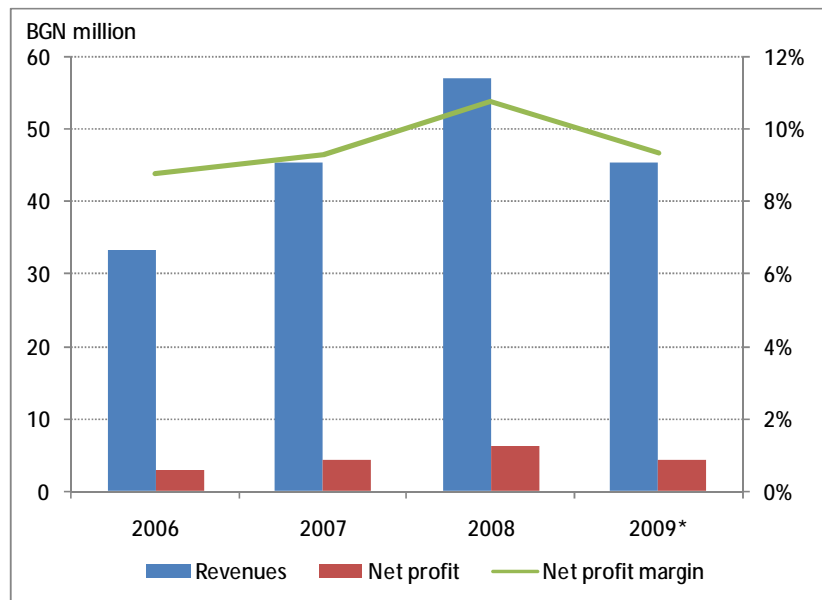
**Overview** Since 2006, Chimimport holds control of Bulgarian River Shipping, a public company (traded on the Bulgarian Stock Exchange) with capital amounting to BGN 35.7 million. Bulgarian River Shipping specializes in the transportation of bulk and general cargos, liquid non-hazardous cargos and fuels and concentrated cargos, regular transportation between Bulgaria, Romania, and Germany, as well as agency services for Bulgarian and foreign vessel chartering. The company controls around 40% of the cargo flow along the river Danube to and from Bulgaria.

BRS has its own fleet at its disposal which consists of:

- ships: pushboats; tugboats; auxiliary ships; ferryboat platform for transportation of passengers and vehicles; passenger ships for 243 passengers;
- non-propelled fleet: manned barges; tank barges; unmanned sections; ceilings.

**Risks** The level of the Danube River is one of the main risks for the Bulgarian River Shipping's activity. The recent high water of the river will have negative impact on the company's results for June as the costs are rising and revenues declined. The fuel costs sharply increased due to the appreciation of US dollar and elevated oil price.

Graph 10



\*Adjusted

Source: Bulgarian River Shipping

**BRS maintained its results** 40% of the company's revenues are from transportation services of Russian and Ukrainian raw materials, that are payable in US dollars. The uptrend of the dollar supported the revenues so far, but on the other hand this has significantly lower effect as compared to the decreased of 30-40% freight rates due to the higher competition. BRS posted 27%

decline of revenues from cargo transportation in 2009.

Total revenues were supported by the sell of assets. Adjusted to one-time effects, revenues should be BGN 45.3 million or 20% lower than 2008, whereas net profit should be BGN 5 thousand lower. Adjusted net profit margin is 9.34% as compared to 7.10% non-adjusted, when accounting total revenues of BGN 59.7 million and net profit of BGN 4.239 million.

The last year BRS increased its capital to BGN 35.7 million through issuing 6.8 million ordinary shares with right of dividend and liquidation stake and BGN 1.00 nominal value. The majority shareholder of the company is Bulgarian Shipping Company with 81.09% stake.

During the 2 Q 2010 the main activities of the company will be concentrated in:

- Cereals – the export to Hungary and Serbia will continue but in lower rate as compared to the previous quarter. The main contracts will be spot. Except the corn, on the market will be placed the last year's wheat. The taxes for transportation of cereals are still low and will remain subdued until the harvest of new crops.
- Ores and other raw materials – the shrunk worldwide consumption of metals decreased the capacity usage in the metallurgy. Since March, one European company sharply decreased its consumption due to technical problems and additionally pushed down the transportation market, leaving free capacity.
- Coals – the consumption of coals is seasonally lower in the second quarter. The transportation of coals remained subdued due to the collected reserves.
- Metals and derivatives – the transportation of metals and derivatives was also limited due to the lower capacities utilization in the metallurgy.

#### **Valuation of Bulgarian River Shipping**

We compare Bulgarian River Shipping to companies in the maritime transportation sector in Eastern Europe. The river shipping through Danube is very specific niche and do not provide the needed peers for comparison.

#### **Multiples comparison**

Peers have low price-to-book ratios and the median is currently at 0.5. This is due to the contraction of transported cargo during the last two years that resulted to spare capacity. Profitability ratios also decreased significantly and only few companies among peers have positive price-to-earnings ratios.

---

Comparison	Sector
Number of shares	35 708 674
Price/earnings	17,27
Net profit	4 239 000
Market capitalization	73 197 291
Share price	2,05
Price/book value	0,54
Equity	65 926 000
Market capitalization	35 610 324
Share price	1,00
Price/sales	1,07
Sales	59 733 000
Market capitalization	63 982 824
Share price	1,79
EV/EBITDA	10,40
EBITDA	7 759 000
Market capitalization	77 921 274
Share price	2,18

Calculations: ELANA Trading

Multiples	Price	Weight
Price/earnings	2,05	10%
Price/book value	1,00	25%
Price/sales	1,79	25%
EV/EBITDA	2,18	40%
<i>Price (BGN)</i>		1,78

Source: Bloomberg

The low median P/B ratio has only small effect on the valuation of BRS as other three multiples are above the current market price of BGN 1.38. EBITDA of the Bulgarian company is very good but the level of fair price is supported mainly by the absence of debt.

#### Other companies in the transportation segment

Chimimport also owns stakes in several other companies that are operating in the transportation or related services.

- **VTC AD:** VTC operates in the market of towage services in the ports of Varna and Balchik in partnership with other companies and individuals. With registered capital of BGN 1.1 million, VTC's main activity is providing towage services in the ports of Varna – East, Varna – South, and Lesport, i.e. in the entire region of Varna, as well as in the port of Balchik.
- **Mayak-KM AD – Novi Pazar:** A subsidiary of BRS in the business of producing deck cranes, hull devices, superstructures, auxiliary installations, equipment and other machinery and repair of agricultural machinery.
- **Ship Machine Building AD:** The only company in Bulgaria, specialized in the manufacturing of hatch covers, stern and side loading platforms, Ro-Ro ships and other similar large-size ship



---

equipment. In 2007 the company has adopted a strategic investment program for an amount of EUR 1 million in order to increase the capacity of the company. The main strategic of Ship Machine Building is the creation of conditions for active building of vessels of up to 90 m length and up to 1,800 tons of weight.

- **Odessos Shiprepair Yard AD:** Specialized in the performance of high quality dock, scheduled, break down and restoration repairs of all types of dry carrier, passenger and liquid carrier ships, as well as of ships with underwater wings and vessels of the hydro construction. Chimimport holds stake in Odessos through its subsidiary Bulgarian Ship Company.
- **Port Lesport AD:** Chimimport owns 99% of the stake in Port Lesport AD with 1% owned by Chimimport Invest. In 2006 a thirty-year contract has been signed for the concession of Lesport port terminal. The port provides technical facilities and organization for maintenance and repair of port machinery. Some of the company's activities include management of cargo, transportation inside the port, and other services related to the handling and servicing of vessels.
- **Port Balchik AD:** A port with a scope of activities including the rendering of port services of loading, unloading, ordering, storage, repackaging of various types of load, and sea-technical services. The investments which have to be made for the entire term of the contract (25 years, starting in 2006) amount to BGN 3,474,800.

#### **MANUFACTURING SECTOR**

The manufacturing sector accounts for less than 20% of Chimimport's net assets. The main subsectors in which the holding and its respective subsidiary companies focus their activities are petroleum product extraction, production, and trade, vegetable oil and production, and purchasing, processing, and sale of cereal crop.

#### **Oil and Gas Exploration and Production AD (Bloomberg: 4O1 BU)**

*Overview* Oil and Gas Exploration and Production (OGEP) is the only company for crude oil extraction in Bulgaria. The company is the successor of the main geological, research and production companies and establishments of the oil industry in Bulgaria with a history of more than 50 years. OGEP has been granted and operates twelve concession agreements for oil and/or gas production, while it is also the holder of five permits for oil and gas prospecting and exploration. The petroleum company performs the full range of activities in the research, exploration, drilling, development and exploitation of oil and gas deposits, as well as the processing of crude oil into end products for the market.

Oil and Gas Exploration and Production is a concessionaire in twelve concession contracts for crude oil and/or natural gas extraction, as well as in the 5 permits for the search and exploration of subterranean resources. In 2008 OGEP acquired Bulgarian Drilling Company, Geophysical Research, Petro Gas Anika and Chimimport Oil (with company name changed to PDNG Oil). The acquiring company succeeded the activities of those companies which further increased its scope of activities.

---

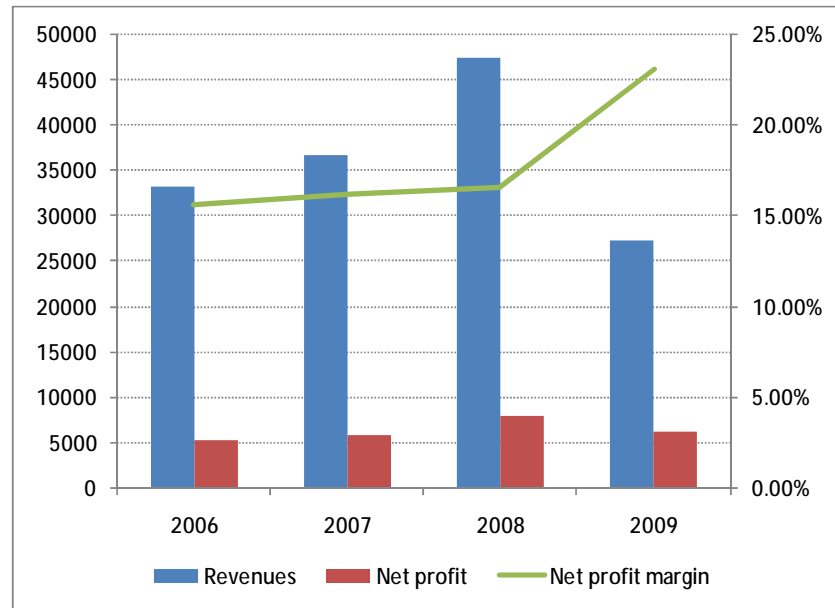
OGEP owns 65% of the company Golf Shabla, established in 2007 in partnership with Shabla Municipality. The company has a capital of BGN 10,183,700 and its main activity includes: construction of golf courses and related facilities, provision of tourist, hotel and restaurant services; design, furnishing, purchase and sale of real estate.

**History** Oil and Gas Exploration and Production was established in 1991, having its head office in the town of Pleven. The newly formed company incorporated the exploration, research and production companies and establishments, which originally launched the Bulgarian oil industry, starting with a discovery of an oil field in the area of "Tjuleno", in close proximity to the town of Shabla.

In 2003, following two bid procedures, carried out by the Privatization Agency, and effected through Bulgarian Stock Exchange – Sofia, 100% of OGEP shares were privatized. In 2004 the new shareholders of the company launched a program for restructuring and modernization of Oil and Gas Exploration and Production, aiming at an increase of its efficiency, an improvement of its financial results, while adapting its activity to a more dynamic market and business environment both on a national and international scale.

**Capital structure** The capital of OGEP amounts to BGN 12,228,062 allocated into the same amount of dematerialized registered shares, each of nominal value BGN 1. The company is listed on the Bulgarian Stock Exchange. Chimimport holding directly or via related entities 53.66% of the capital.

Graph 11



Source: Oil and Gas Exploration and Production

The revenues of the company tracked the volatile price of crude oil. Most of the production of OGEP is used or sold to other companies in the group of Chimimport. The processed fuels are covering 40% of the consumption of the group, excluding fuels for airplanes.

**Valuation of Oil and Gas Exploration and Production**

We compare Oil and Gas Exploration and Production to companies of oil sector in Eastern Europe. However, the comparison to international oil companies could be done only by multiples as

OGEP is not providing any information about its proven reserves.

#### Multiples comparison

The price of the Bulgarian company is significantly lower than the median of multiples of Eastern European oil companies. Three ratios are pointing to higher price of OGEP and the fair price according to price-to-sales ratio is close to the current.

Comparison	Sector
Number of shares	12 228 062
Price/earnings	8.03
Net profit	6 314 000
Market capitalization	50 672 079
Share price	4.14
Price/book value	1.07
Equity	62 765 000
Market capitalization	67 448 116
Share price	5.52
Price/sales	0.90
Sales	27 301 000
Market capitalization	24 585 219
Share price	2.01
EV/EBITDA	5.43
EBITDA	10 551 000
Market capitalization	36 806 454
Share price	3.01

Calculations: ELANA Trading

Multiples	Price	Weight
Price/earnings	4.14	10%
Price/book value	5.52	25%
Price/sales	2.01	25%
EV/EBITDA	3.01	40%
<i>Price (BGN)</i>		3.50

Source: Bloomberg

The market capitalization of Oil and Gas Exploration and Production, according to comparison to Eastern European companies, is BGN 42.789 million or BGN 3.50 per share. We give lower weight to price-to-earnings in expense of the more representative EV/EBITDA.

#### Zarneni Hrani Bulgaria AD (Bloomberg: T43 BU)

**Overview** Zarneni Hrani Bulgaria is one of the leaders on the Bulgarian market in the buying, storing and trading with grain and oleaginous seeds, the production of vegetable oils and its production in bio diesel. The company completed the integration of the agriculture business of Chimimport and created a vertically integrated business model covering all staged from producer to end user.

The main spheres of business activity of Zarneni Hrani include:

- Trade, including import and export, of grain crops (wheat, barley,

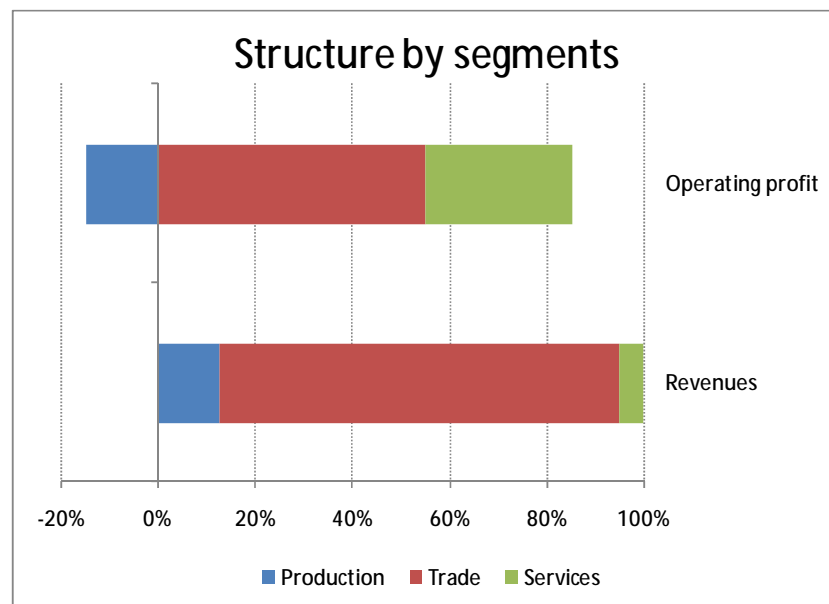
- maize), oleaginous seeds (sunflower, rapeseed);
- Provision of storage services for grain and oleaginous seeds;
- Production and trade of vegetable oils (cooking oil);
- Processing of bread-production wheat;
- Production and trade with bio diesel, including services of certifying the quality of bio fuels in its own accredited laboratory;
- Distribution of fertilisers, plant protectants, seeds and fuels.

**History** Zarneni Hrani is a joint-stock company established in 2007 via the merger of eight companies, and as a result all the assets and liabilities of the merging companies were transferred to the newly established entity. In 2009 the company acquired the Big Dobrudja Mill EOOD, which helped to enter another related to the scope of activities sector. Zarneni Hrani became public listed company after an IPO in late-2007. It has broad base of investors and is among the most liquid companies on the stock exchange.

**Bio diesel production disappointed** The company is owning the currently most advanced installation for production of bio diesel in Bulgaria. The factory, which was built by the leading company Ballestra on the basis of a modern technology, has an annual production capacity of 100,000 tons, and can be supplied with different types of resources, in order to provide more arbitrage possibilities between the prices of resources and end production. Storage capacities include – 6 000 cubic meters for storage of bio diesel and 2 000 cubic meters for storage of neutral vegetable oil, for an aggregate cost of EUR 15 million.

The steep decline of oil price has negative influence on the demand of bio fuels. The domestic production since 2007 was very low, despite the existing or under construction capacity of over 240 thousand tons. The government statistics showed that Bulgaria used 350 tons bio fuels in 2009 from 18 455 tons produced. However, 7% of fuel consumption in EU in 2020 should constitute of bio fuels, which will guarantee the steady increase of production of bio diesel. Currently, 2% of diesel sold in Bulgaria has bio component.

Graph 12

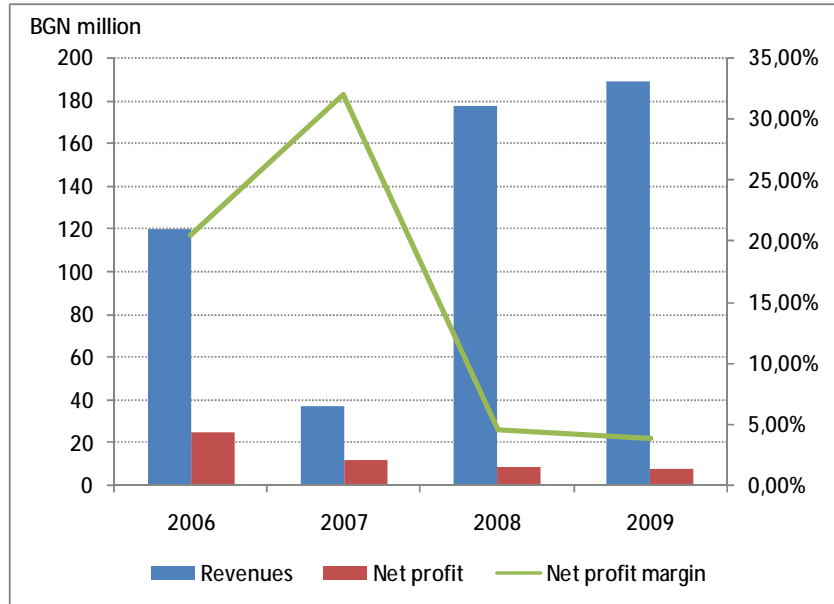


Source: Zarneni Hrani

**Trade segment showed stable results**

Revenues from production segment posted 17% decline in 2009 on year-ly basis. The main source of revenues remained trade with cereals, which was stable in terms of sales. The operating profit of Zarneni Hrani improved significantly in 2009 despite that production segment turned to large loss. Other two activities contributed to the increase but services were the main reason for the better profit.

Graph 13

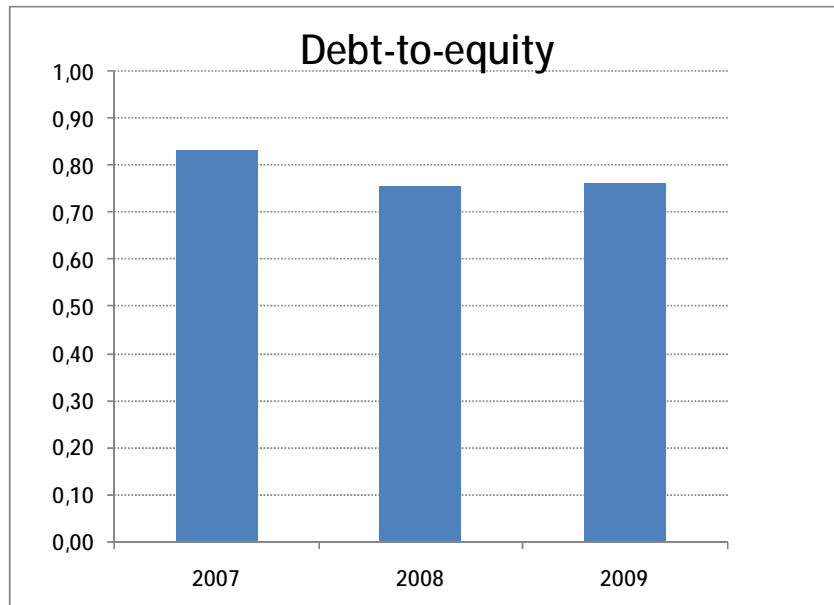


Source: Zarneni Hrani

**Significant influence on profits from investments**

Data for 2006 and 2007 are not comparable and represent the company's various businesses before the merge. The profit margin declined from 4.46% to 3.80% as financial results of Zarneni Hrani had been influenced by gains from investments in subsidiaries and profits from sell of intangible assets.

Graph 14



Source: Zarneni Hrani

Zarneni Hrani has higher debt-to-equity ratio than the average for Bulgarian public listed companies. Its strategy to expand in various production and trading segments resulted to high debts. The company also has large liabilities to companies, including entities related to the Chimimport group.

The capital of Zarneni Hrani amounts to BGN 170,785,600 distributed in 170,785,600 ordinary shares bearing one vote each and with a par value of BGN 1.00 and Chimimport owns 59.81% of the capital.

#### Valuation of Zarneni Hrani

We compared the multiple of Zarneni Hrani to the median of agricultural producers and trading companies in Eastern Europe.

#### Multiples comparison

Earnings and revenues of Zarneni Hrani correspond to the median P/E and P/S ratios of the sector. However, the large debts of the company contributed to lower valuation when using EV/EBITDA.

Comparison	Sector
Number of shares	170 785 600
Price/earnings	12,26
Net profit	7 152 000
Market capitalization	87 713 308
Share price	0,51
Price/book value	1,04
Equity	197 500 000
Market capitalization	206 020 051
Share price	1,21
Price/sales	0,46
Sales	188 228 000
Market capitalization	87 193 139
Share price	0,51
EV/EBITDA	6,35
EBITDA	23 361 000
Market capitalization	66 462 894
Share price	0,39

Calculations: ELANA Trading

Multiples	Price	Weight
Price/earnings	0,51	10%
Price/book value	1,21	25%
Price/sales	0,51	25%
EV/EBITDA	0,39	40%
Price (BGN)		0,64

Source: Bloomberg

Most of the companies in the sector had profits for the last four reported quarters but we prefer to give higher weight on the EV/EBITDA ratio due to the significant debt of Zarneni Hrani. Price-to-book is the only one ratio that showed huge difference to the current market price of BGN 0.52. The fair value resulted to market capitalization of BGN 108.66 mil-

lion.

**OTHER ACTIVITIES**

**Chimsnab AD:** Chimimport owns 93% of the capital of Chimsnab, which is in the industry for liquid chemicals processing, equipment for water dispersion paint production, as well as a production line for liquid chemical products. The company is located in the economically attractive region in Sofia, where it has its own railway track and available resources for loading, unloading, and other cargo and goods servicing operations.

**Varna Sports Center AD:** Established in 2005 with capital of BGN 34.6 million, Varna Sports Center includes a stadium, comprising land with an area of 69,300m<sup>2</sup>, terrains with a total area of 54,000m<sup>2</sup>, a public parking lot (18,405m<sup>2</sup>), an indoor swimming pool (3,900m<sup>2</sup>) and a sports facility with a build-up area of 1,467m<sup>2</sup> and 4,000m<sup>2</sup> of land. Chimimport holds 65% of the capital, the rest 35% being owned by the Varna Municipality.

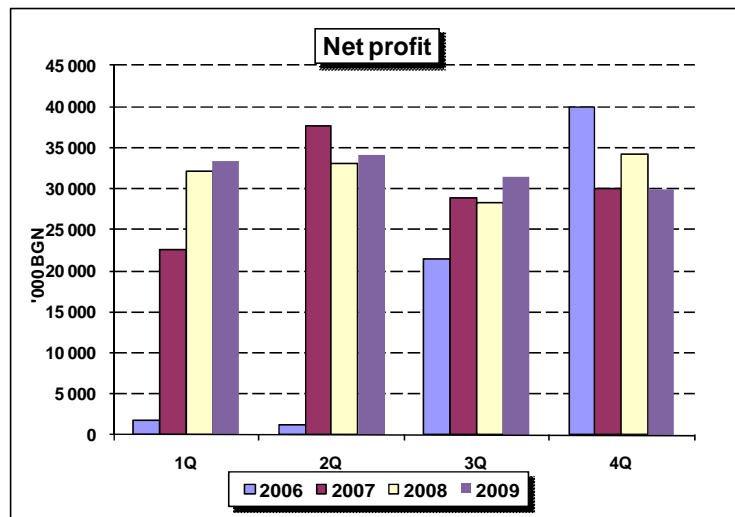
**Energoproekt AD:** Energoproekt has designed all energy projects in the country, including water power plants, thermal power plants, Kozloduy Atomic Power Plant, and the power supply network. Chimimport currently owns 83.20% of the company and is a main consultant for and designer for Chimimport's projects related primarily to the use of renewable energy sources like biogas, biodiesel, wind, and geothermal sources.

**Financial results of Chimimport**

The quarterly profit of Chimimport for fourth quarter of 2009 was slightly changed from the levels of the last three years. This is due to the broad portfolio of assets in the structure of Chimimport but results were also been supported by the usually large financial profits from operations with securities.

Production and transportation sectors posted better profits in 2009, respectively 15% and 12.5%. The financial sector also contributed to the consolidated result, despite the decline of financial profits from operations with securities. The difference in the latter exceeded BGN 60 million in 2009 or 26%.

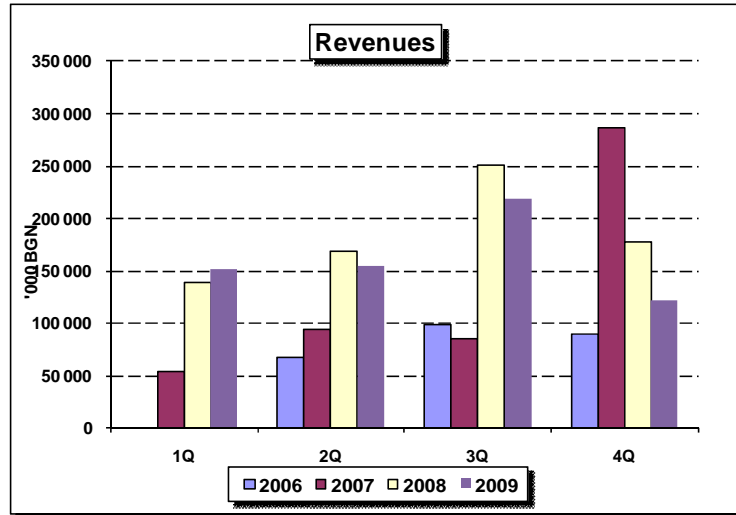
Graph 15



The holding's revenues declined 31% during the quarter on yearly basis. However, the change for the total 2009 was only 12% due to the much

better first half of the year. The transportation and the production companies have been hurt the hardest. Both segments lost 29%. The air transport was under the negative influence of the lower number of flights and falling charges. The declining international trade with raw materials and agricultural production contributed for the smaller revenues of the transportation sector. Lower fuel costs improved the profitability ratio of the segment along with the rising dollar.

Graph 16



The financial sector was the source of growth for the revenues. The insurance business of Chimimport posted 25% increase in terms of premium growth to BGN 280 million, whereas the net interest income gained 7%. Revenues from interest jumped significantly as rates began the year at very high levels. Interest paid to deposits was also high. The consolidated profit last year was less influenced by the operations with securities as compared to 2008.



*Financial data  
by segments*

Production and trade			
BGN thousand	2007	2008	2009
Sales	149 488	235 617	216 857
Revenues from non-financial operations	153 647	308 303	261 353
Income	19 665	22 598	20 827
Net interest income	-2 570	-6 206	-3 003
Trading with securities	7 794	16 382	14 195
Administrative costs		12 927	-8 781
Profit before tax	23 074	17 560	20 465
Net profit	20 965	15 848	18 253
Financial segment			
BGN thousand	2007	2008	2009
Sales	13 383	50 720	22 264
Revenues from non-financial operations	17 900	74 493	38 806
Income	17 900	74 493	38 806
Net revenues from insurance	141 457	221 892	279 271
Income	15 558	17 233	21 471
Net interest income	61 435	80 984	86 602
Trading with securities	142 235	17 079	91 791
Administrative costs	-112 186	-130 078	-140 711
Profit before tax	143 402	119 644	123 883
Net profit	141 212	112 254	116 861
Transportation segment			
BGN thousand	2007	2008	2009
Sales	397 832	434 205	334 244
Revenues from non-financial operations	399 027	497 619	351 811
Income	1 717	45 127	33 656
Net interest income	-6 869	-13 789	-12 733
Trading with securities	12 211	-299	7 295
Administrative costs		-20 184	-13 884
Profit before tax	2 013	17 854	19 638
Net profit	1 970	16 592	18 662
Consolidated			
BGN thousand	2007	2008	2009
Sales	510 767	722 491	581 471
Revenues from non-financial operations	510 767	736 099	619 640
Income	39 085	82 277	91 344
Net revenues from insurance	135 537	215 374	269 691
Income	11 743	11 406	14 110
Net interest income	52 348	61 230	71 017
Trading with securities	129 383	61 254	105 738
Administrative costs	-107 634	-157 738	-156 598
Profit before tax	141 119	151 928	154 570
Net profit	136 290	141 557	144 337

Source: Chimimport

**Valuation of Chimimport**

We compared the multiples of Chimimport to the median of holding companies in Eastern Europe and used the sum-of-the-parts method for calculating the fair value. The number of shares includes both ordinary and convertible preferred shares issue, whereas the number of shares owned by subsidiaries of Chimimport is subtracted.

**Multiples comparison**

Revenues of Chimimport declined in 2009 as non-financial operations contracted during the economic crisis. However, earnings were relatively flat at very high level, which managed to support the valuation of the holding.

We compared Chimimport to holding companies in Eastern Europe.

Comparison	Sector
Number of shares	229 862 302
Price/earnings	8,07
Net profit	129 531 000
Market capitalization	1 044 889 402
Share price	4,55
Price/book value	0,67
Equity	1 168 752 000
Market capitalization	788 803 581
Share price	3,43
Price/sales	0,76
Sales	640 850 000
Market capitalization	484 712 024
Share price	2,11

Calculations: ELANA Trading

Multiples	Price	Weight
Price/earnings	4,55	20%
Price/book value	3,43	60%
Price/sales	2,11	20%
<i>Price (BGN)</i>		3,39

Source: Bloomberg

We give lower weight to price-to-earnings ratio as earnings are not adjusted to extraordinary items, including trading with securities. Price-to-sales ratio is also less representative for Chimimport due to the consolidation of big financial subsidiaries like Central Cooperative Bank and Armeec Insurance Company.

The fair value as compared to the median of multiples is BGN 3.39.

**Sum-of-the-parts method**

This method of valuation is based on the separate valuation of the largest subsidiaries of Chimimport, according to their audited yearly results.

Public listed companies	Stake	Value	
Central Cooperative Bank	76,16%	217 900 000	165 952 640
Zarneni Hrani	62,19%	108 660 000	67 575 654
Oil and Gas Exploration and Production	53,66%	42 798 000	22 965 407
Bulgarian River Shipping	82,89%	63 386 000	52 540 655
<b>Stakes in non-public companies</b>			
Armeec	87,90%	83 718 000	73 588 122
Bulgarian Aviation Group	100,00%	167 150 000	167 150 000
Other companies			93 212 000
<b>Total (BGN)</b>			<b>642 984 478</b>
Number of shares			229 862 302
<i>Price (BGN)</i>			<i>2,80</i>

Calculations: ELANA Trading

According to sum-of-the-parts method, the fair value of each share is BGN 2.80. Chimimport does not face liquidity and financial problems and will not sell assets to obtain cash. This is the reason not to apply discount to asset prices of different subsidiaries, including the public-listed companies with low market liquidity and free-float. Moreover, the valuation of other subsidiaries could underestimate their market value due to the usage of equity.

#### **Valuation and recommendation**

The fair price of Chimimport shares is calculated by the average of both methods and is BGN 3.10. This is more than 50% above the current market price and is the primary reason to give BUY recommendation.

**Disclaimer**

**Analyst Certification:** The research analyst(s) certifies that: (1) 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; (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this document.

**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:

---

<b>BUY</b>	More than 5% higher as compared to SOFIX and BG40 performance
<b>HOLD</b>	Market performance, +/-5% as compared to SOFIX and BG40
<b>SELL</b>	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.

**Rights:** The copyrights of ELANA Trading analyses belong to the Research Department of the brokerage and their content cannot be used for commercial purposes. Replication and redistribution of ELANA Trading analyses content is expressly prohibited without the prior written consent of the appointed contacts listed below.

For more information about the current recommendations, please visit ELANA Trading web page: <http://analysis.elana.net/en/recommendations.aspx> .

**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](mailto:tsachev@elana.net)  
[becheva@elana.net](mailto:becheva@elana.net)

Internet:  
[www.elana.net](http://www.elana.net)  
[www.elana.net](http://www.elana.net)