

Bulgarian-American Credit Bank (Bloomberg:5BN BU)

Bulgarian-American Credit Bank (BACB) is a specialist provider of secured finance to small - and medium-sized businesses in Bulgaria, with specific lending programs for financing SME companies in a variety of industries and companies in tourism and construction sectors.

The bank was incorporated in Sofia in 1996. It was owned by Bulgarian American Enterprise Fund – a private corporation, established by the US Congress. BACB's mission corresponds to that of BAEF and focuses on long-term financing to small and medium sized business.

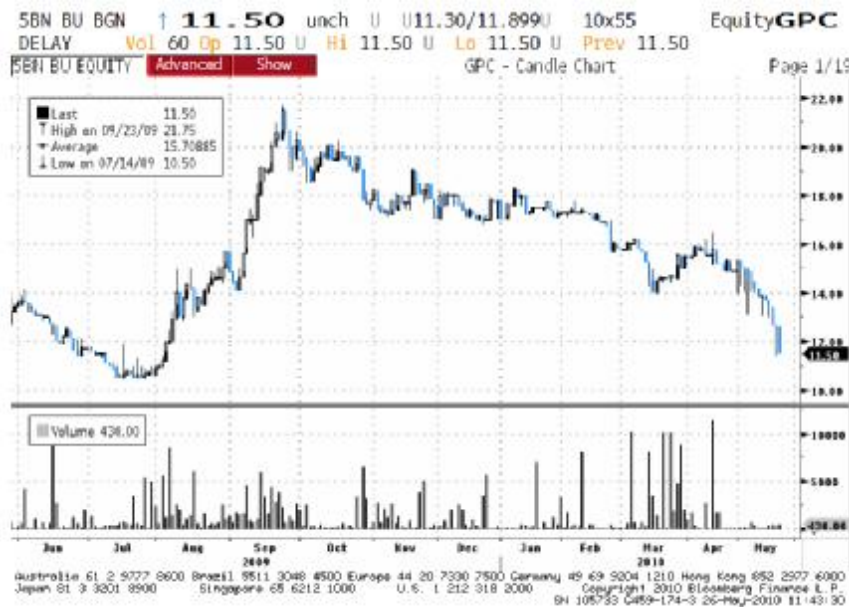
Based on statistics published by Bulgarian National Bank, at 31 December 2008, the BACB was the 19th largest bank in Bulgaria on the basis of total assets, the 13th largest in terms of total capital. BACB is among the most profitable Bulgarian banks by ROA and ROE in the last few years. It is traded on the Bulgarian Stock Exchange and has a market capitalization of BGN 178.7 million.

52-weeks price
high BGN 10.50

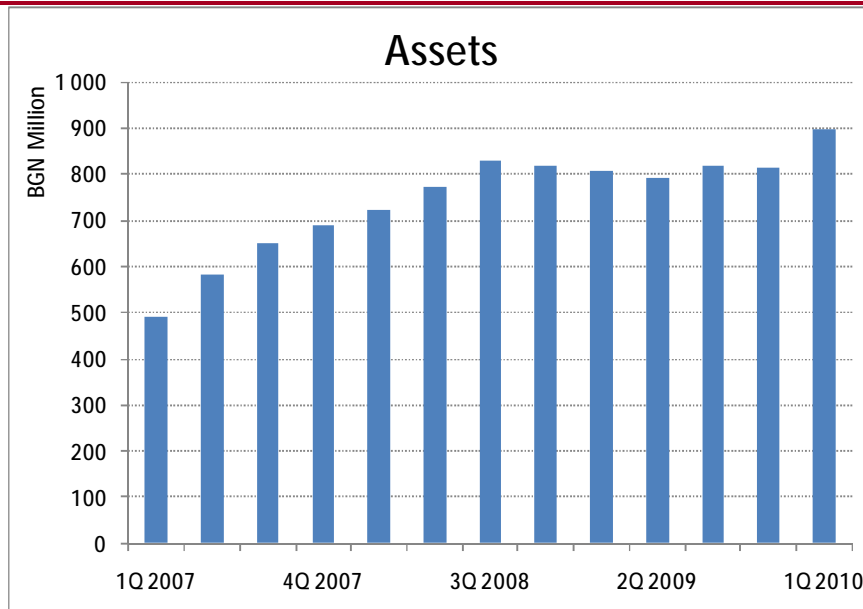
52-weeks price
low
BGN 21.75

52-weeks price
change
-12.94%

YTD price
change
-32.71%



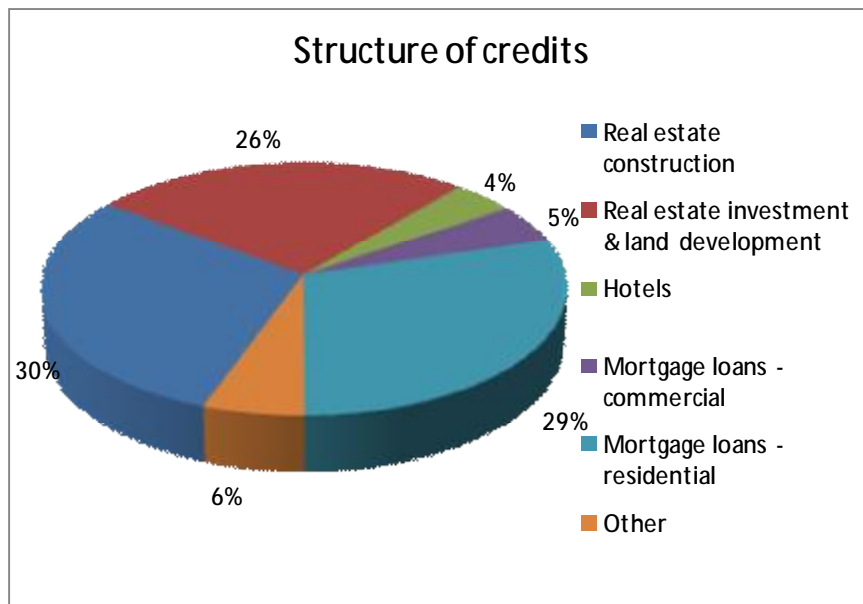
The recent market weakness sent the position at its year-to-date low at BGN 13.00. The traded volumes were moderate as compare the last year but the thin orders allowed wide movements, especially on the downside. The bank operates mainly with corporate clients and the recent economy slowdown hurts its results at the end of 2009.



Source: Bulgarian National Bank

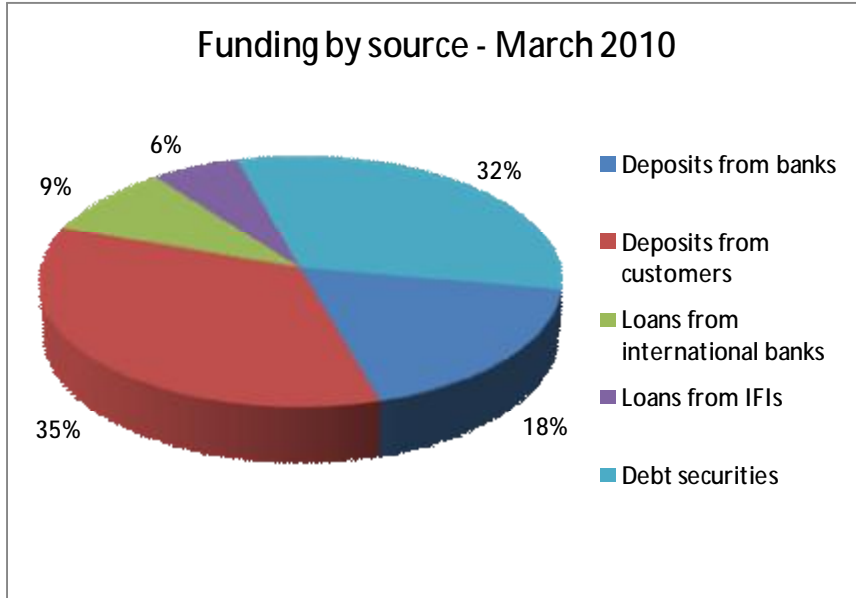
Assets are rising again

The total assets of the bank increased by 11% in 1Q 2010 on yearly basis. The growth rate significantly improved as compared to the previous quarters. The main risks ahead of the BACB are the quality of the credit portfolio and the risk for the real estate market as 90% from the bank's credits are secured with real estates.



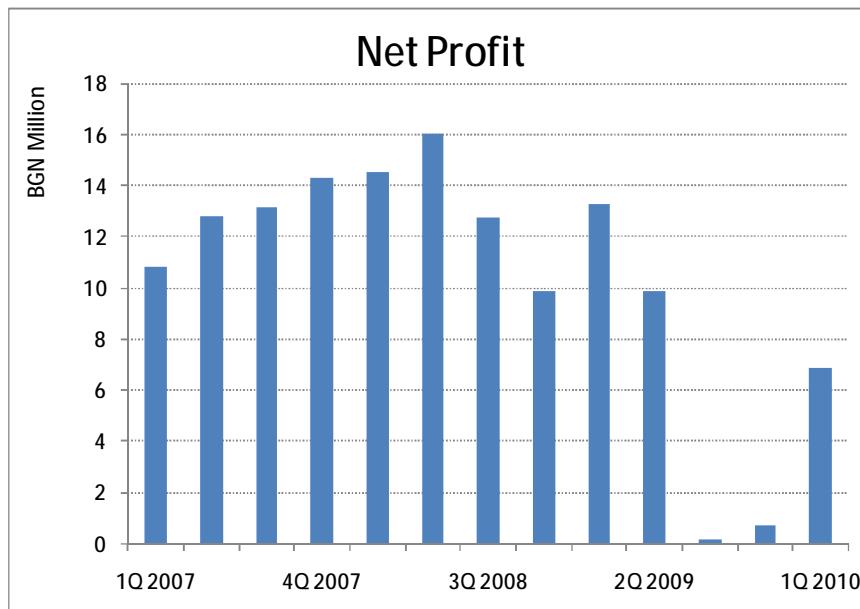
Source: Bulgarian-American Credit Bank

For the first three months of the year, the net credit portfolio of the bank decreased by 3.5%. In accordance with the worsening credit portfolio, BACB set BGN 5.5 million as provisions. As of March 31, the provisions are representing 9.8% of the gross credit portfolio. The volumes of loans past due over 90 days increased to 12.5% in 1Q as compared to 9.5% of the gross portfolio as of end 2009. The existing provisions covered 78.7% of exposures past due over 90 days.



Source: Bulgarian National Bank

As of the middle of 2009, the bank has aggressive marketing policy, especially in terms of deposits, which increased the attracted resources. BACB's main source of financing are deposits from customers, mainly corporate clients. However, deposits from banks set up 27% of total deposits. Debt securities are the second largest source with 32% share of all funding.



Source: Bulgarian National Bank

The huge decline of 2009 net profit was also due to the shrinking interest rate margins. BACB announced lower income from fees and commissions and the decline by 73.8% was mainly due to the lack of pay off credits before the term set. The net interest income also decreased but in tight range – 4.30% on yearly basis. The net income from fees and commissions continued to decline during the 1Q 2010 and reached its lower level since 2007. This was due to the

decline of new credits and we expect that the trend will persist in 2010 at least. The net interest income also declined on yearly basis. However, the bank's profit jumped as compared to the last quarters of 2009.

Corporate News

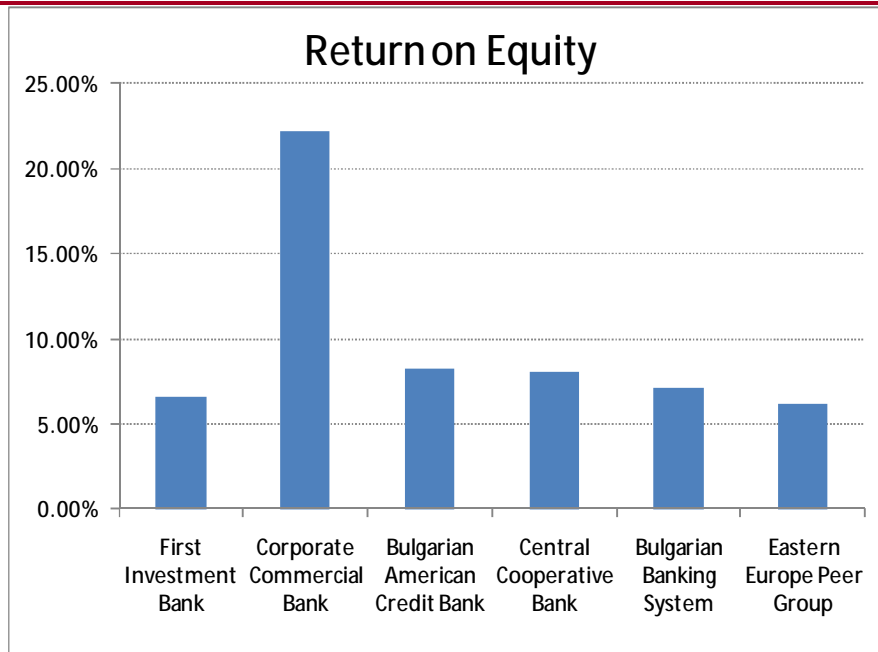
- 09 Feb 2010** Under a decision dated 5 February 2010, the Financial Supervision Commission (FSC) has issued a license to "Imoti Direct" REIT to securitize real estates as a special investment purpose company. The FSC approved the prospectus of the initial mandatory capital increase through a public offering of 60 000 common, voting shares of BGN 10.00 nominal and issuing value each. Founders of the company are Bulgarian-American Credit Bank (70% of the registered capital) and its wholly owned subsidiary Capital Direct EAD (30% of the registered capital). BACB owns directly and indirectly 100% of the registered capital in the amount of BGN 1,500,000, distributed in 150,000 shares of BGN 10 nominal value each.
- 01 April 2010** Bulgarian-American Credit Bank announced its 2009 annual report.
- 20 April 2010** BACB issued 15 000 bonds at a nominal value of EUR 1 000, traded at the Bulgarian Stock Exchange.
- 30 April 2010** Bulgarian-American Credit Bank announced 1Q 2010 financial report.

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.

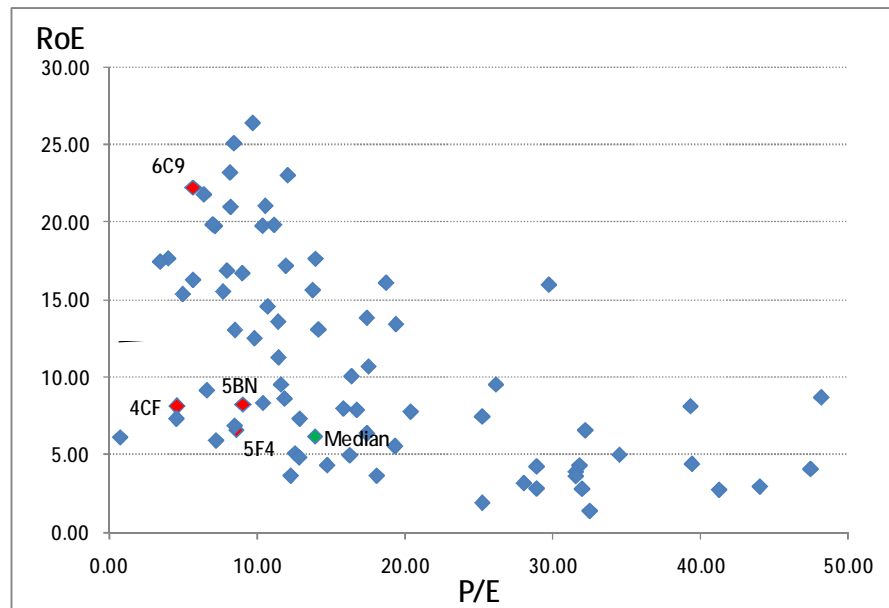
Valuation

	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%.

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	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Total Assets	689 632	818 045	814 824	825 417	858 433	927 108	1 066 174	1 279 409
Loans and Receivables	623 562	743 325	762 400	777 648	800 977	841 026	941 949	1 083 242
As Percentage of Assets	90,4%	90,9%	93,6%	94,2%	93,3%	90,7%	88,3%	84,7%
Total Liabilities	536 463	631 152	605 991	595 948	605 729	642 599	731 463	882 646
As Percentage of Assets	77,8%	77,2%	74,4%	72,2%	70,6%	69,3%	68,6%	69,0%
Total Equity	153 169	186 893	208 833	229 468	252 704	284 509	334 712	396 763
Net Profit	51 100	53 166	24 020	20 635	30 045	41 720	63 970	83 162
Return on Equity	33,36%	28,45%	11,50%	8,99%	11,89%	14,66%	19,11%	20,96%
Return on Assets	7,41%	6,50%	2,95%	2,50%	3,50%	4,50%	6,00%	6,50%

Estimations: ELANA Trading

Slower recovery to pre-crisis levels in 2014

Our forecasts for the next five years are based on the expected slow recovery of construction and real estates in Bulgaria. This is the area of expertise of BACB as three quarter of bank's credits are in those sectors or are mortgage-based. Considering the possibility of further losses from NPL, we expect that BACB's profitability will improve as early as next year and will reach pre-crisis levels in 2014. Return on equity is expected to be lower due to the larger capital base of the bank as credit expansion will be lower than the period of 2004-2008.

Discounted cash to equity value:	
NPV five year free cash flow	39 991
NPV terminal value	237 874
Value of shareholders' funds	277 864
Shares issued (thousand)	12 625
Value per share	22,01
Share price	12,60
Premium/(discount)	74,68%

Calculations: ELANA Trading

Residual income valuation:	
Opening shareholders' funds	229 468
PV five year residual income	(6 249)
PV terminal value (ex incremental investment)	54 645
PV terminal value (incremental investment)	0
Value of shareholders' funds	277 864
Shares issued (thousand)	12 625
Value per share	22,01
Share price	12,60
Premium/(discount)	74,68%

Calculations: ELANA Trading

Rating: Our valuation methods calculated intrinsic value of BGN 22.01 per share. The premium is more than 75% above the current market price. We prefer to use
BUY the most conservative expectations for the development of the real estate market due to the expansion in the tourism, that is on hold at the moment. However, risks are on the upside and we will not be surprised to see faster recovery
Target price: of the credit market than expected, which will have much higher effect on the market price of BACB.
BGN 20.24 The intrinsic value of BACB' share is higher than the price by multiples comparison. The average price of both methods is BGN 20.24. We give buy recommendation for BACB with target price of BGN 20.24, which is more than 60% higher than current market price.
Upside:
60%

Assets	2007	2008	2009
Cash and cash balances with central banks	45 243	48 403	25 473
Financial assets held for trading	3 528	42	0
Financial assets designated at fair value through profit or loss	0	0	0
Available-for-sale financial assets	6 358	7 307	6 775
Loans and receivables	623 562	743 325	762 400
Held-to-maturity investments	0	0	0
Derivatives – hedge accounting	54	3 655	3 174
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0
Tangible assets	4 635	4 345	9 445
Intangible assets	218	163	95
Investments in subsidiaries	3 000	3 000	4 050
Tax assets	208	859	1 178
Other assets	1 482	3 888	814
Non-current assets and disposal groups classified as held for sale	1 344	3 058	1 420
Total Assets	689 632	818 045	814 824
Deposits from central banks	0	0	0
Financial liabilities held for trading	0	5	0
Financial liabilities designated at fair value through profit or loss	0	0	0
Financial liabilities measured at amortised cost	528 639	627 852	603 991
Financial liabilities associated with transferred financial assets	0	0	0
Derivatives – hedge accounting	619	0	2
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0
Provisions	0	0	0
Tax liabilities	2 067	0	0
Other liabilities	5 138	3 295	1 998
Share capital repayable on demand	0	0	0
Liabilities included in disposal groups classified as held for sale	0	0	0
Total Liabilities	536 463	631 152	605 991
Issued capital	12 625	12 625	12 625
Share premium	315	315	850
Other equity	0	0	0
Revaluation reserves and other valuation differences	177	-328	-155
Reserves (including retained earnings)	88 952	121 115	171 493
Treasury shares	0	0	0
Income from current year	51 100	53 166	24 020
Interim dividends	0	0	0
Minority interest	0	0	0
Total equity	153 169	186 893	208 833

Source: Bulgarian National Bank

Continuing operations	2007	2008	2009
Financial & operating income and expenses	74 214	83 274	77 322
Interest income	84 895	109 183	104 385
Interest expenses	18 273	30 449	28 811
Expenses on share capital repayable on demand	0	0	0
Dividend income	138	185	163
Fee and commission income	6 003	3 889	1 058
Fee and commission expenses	101	76	62
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net	-399	1	-262
Gains (losses) on financial assets and liabilities held for trading, net	917	289	395
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	0	0	0
Gains (losses) from hedge accounting, net	-454	-1 013	-27
Exchange differences, net	-463	-149	22
Gains (losses) on derecognition of assets other than held for sale, net	-6	0	0
Other operating income	1 957	1 414	461
Other operating expenses	0	0	0
Administration costs	11 270	11 129	12 855
Depreciation	657	680	680
Provisions	0	0	0
Impairment	5 485	12 421	37 113
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	56 802	59 044	26 674
Tax expense (income) related to profit or loss from continuing operations	5 702	5 878	2 654
Total profit or loss after tax from continuing operations	51 100	53 166	24 020
Profit or loss after tax from discontinued operations	0	0	0
Total profit or loss after tax and discontinued	51 100	53 166	24 020
Profit or loss attributable to minority interest	0	0	0
Profit or loss attributable to equity holders of the parent	51 100	53 166	24 020

Source: Bulgarian National Bank



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