

ALBENA (6AB BU)

INDUSTRY: HOTELS, RESTAURANTS AND LEISURE

SOLID COMPANY ON A SOFT PATCH

TOURISM - ONE OF THE BEST PERFORMING SECTORS IN THE BULGARIA'S ECONOMY. PREFERENTIAL VAT RATE - 9% COMPARED TO STANDARD 20% FOR OTHER ACTIVITIES. FOREIGN TOURISTS AND REVENUES FOR INTERNATIONAL TOURISM TO INCREASE GRADUALLY (CAGR OF 3.6% AND 5.4% IN 2013-2017, RESPECTIVELY). MAJOR PROFIT DRIVERS FOR ALBENA - SHIFT IN ITS STRATEGY TO HIGHER PROFIT MARGIN SERVICES.

THE BIGGEST HOTEL COMPANY IN BULGARIA

43 hotels, 3 resorts with holiday villas and 2 apartment complexes, over 25 000 beds. The main asset of the Group - Albena resort, generates over 70% of the Group's revenues. With development of alternative types of tourism and other tourist related services the Group aims to increase the active season up to 7 months.

SIGNIFICANT INVESTMENTS IN RENOVATIONS

More than BGN 300 m for the last 10 years. Increased share of 4- and 5-star category hotels leads to an increase in revenue per overnight stay. The investment focus of the Group - to shift to higher profit margin services. The synergy of the various activities of the group (incorporation of the hotel operations, agriculture and electricity production from waste) will lead also to better financial performance.

Proximity to the major markets

International markets generate the highest share of the Group's revenues - 53% in 2013. Russia and Romania - with the highest share. There is no significant dependence from a specific market, as the Group has long-term contracts with most of the leading tour operators in Europe.

Strong operating cash flow and good credit history

The Group can borrow at very low interest rates, compared to the market average - 3%, which reduces significantly its financial expenses. Moreover, it managed to decrease its bank loans by 38% during the last three years, while investing into renovation of its long-term assets.

VALUATION/RISKS

VALUATION: Higher level of net assets than the current price and our positive expectations for the cash flow of the Group point to higher value of the stock. According to our DCF model, the intrinsic value of Albena's share is BGN 78.51 or more than 50% above the latest trading levels

RISKS: Slow recovery of the Bulgarian economy; reduced spending power of foreign tourists due to a drop in the value of the foreign currency against the Bulgarian lev; competition in summer tourism - mainly from Greece and Turkey. Risk of losing part of key Russian market due to escalation of political relations between Russia and EU/USA.

in kBGN, excl. ratios	2013	2014F	2015F	2016F
REVENUES	107,354	100,913	107,977	116,615
EBITDA	31,760	30,807	34,855	37,235
EBIT	17,347	15,641	19,436	21,574
NET PROFIT	14,067	11,499	15,246	17,220
EQUITY	365,519	375,293	388,252	402,890
ROE	3.95%	3.10%	3.99%	4.35%
ROA	2.99%	2.35%	3.03%	3.35%
EBITDA MARGIN	29.58%	30.53%	32.28%	31.93%
NET PROFIT MARGIN	13.10%	11.40%	14.12%	14.77%
EPS	3.39	2.77	3.68	4.15
DEBT/EQUITY	0.19	0.20	0.18	0.16
P/E	17.59	18.74	14.14	12.52
P/B	0.68	0.57	0.56	0.53
EV/EBITDA	9.87	9.36	8.14	7.41
PAYOUT RATIO	0.15	0.15	0.15	0.15
DIVIDEND YIELD	0.84%	0.80%	1.06%	1.20%

BUY
ONE YEAR PRICE TARGET: BGN 78.51
CURRENT PRICE: BGN 52.00

EXCHANGE RATES

EUR/BGN (FIXED): 1.95583
USD/BGN: 1.45718

MARKET DATA

 Shares Outstanding: **4 145 126**

 Share Capital: **4 273 126**

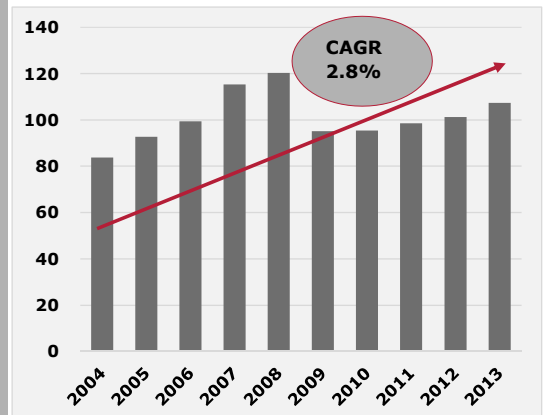
 Free-float: **15.3%**

 Treasury Shares **3%**

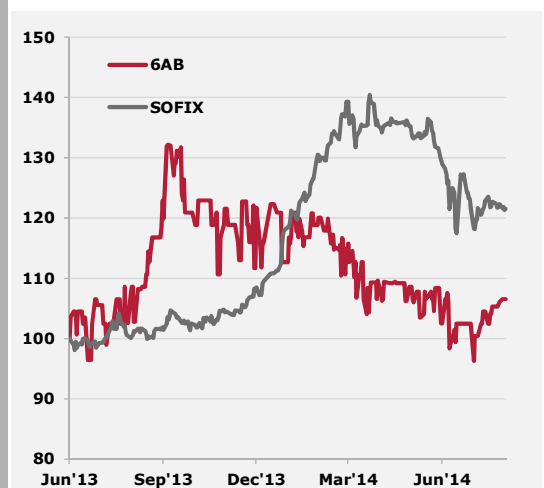
 Market Cap.: **BGN 215.5m**

 52 Weeks Range: **BGN 45.61-65.00**

REVENUE GROWTH



PRICE PERFORMANCE



EXECUTIVE SUMMARY

WE INITIATE COVERAGE OF ALBENA WITH BUY RATING AND ONE YEAR PRICE TARGET OF BGN 78.51 WHICH IS A 50% RETURN OVER THE NEXT 12 MONTHS.

THE COMPANY

Albena Plc. (Albena, the Group) is the largest hotel and restaurant operator in Bulgaria and provides lodging and entertaining services for local and foreign tourists. Among its assets is one of the biggest resort on the Northern Bulgarian seaside (Albena resort), which is situated only 30 km from the largest Bulgarian city on the Black Sea (Varna), thus benefiting from modern transportation infrastructure and easy access. Group's assets include the hotels, land and the tourism infrastructure of the resort, well developed sports centers, conference halls, SPA and medical centers, as well as stakes in several companies that provide additional services to tourists.

Main businesses for the Group are:

- Tourism and tour operations
- Airports and aviation
- Agriculture
- Energy production from biomass
- Medicine and balneology
- Real estate
- Construction

The main asset of the Group is the resort Albena, which generates over 70% of the Group's revenues. The complex offers accommodations in various hotels and villas – from 2 to 5 stars and has approximately 22 000 beds in 40 hotels. Infrastructure for congress and sport tourism is also very well-developed in Albena, while the specific services are expected to increase their contribution to revenues and profits.

International markets generate 53% of the group's revenues. Russia and Romania have the largest share with 21% and 12.2% from the total revenues, respectively. Compared to 2012, the revenues from the both markets increase by 10% and 43%. Domestic market, which generates 47% of the revenues, increases by 7% y-o-y.

The Group's strategy is to develop Albena resort as 4 and 5 stars sea resort, with high standard, 7 months of active season and selected year-round hotels.

Albena's shares are listed on the Bulgarian Stock Exchange (Premium shares segment). They are considered as one of the Blue Chips in Bulgaria and are included in main stock exchange index - SOFIX. Among shareholders of Albena are leading Bulgarian pension and mutual funds. Investors consider the position as value stock with long-term benefits of growing tourism in the country.

THE COUNTRY AND THE MARKET

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

We expect a modest economic increase in 2014 (around 1.4% of GDP, down by 0.4 p.p. compared to our previous forecast), as it will be affected by the ongoing political changes, as in October there will be an early elections. Unemployment will remain relatively high, but its upward trend is largely over. Ongoing improvement of the economic environment in most EU countries will support the Albena business and lower the risk of Group's activity slow down.

Despite the difference of opinion between the two leading parties, politicians have agreement about the main political lines, such as currency board stability, further reduction of administrative burden, and country's competitiveness via low tax levels.

Tourism in Bulgaria will remain a fast growing sector and an important driver of national economic growth. The gradual increase of number of foreign tourist and revenue per tourist will continue. The investments in 4 and 5 stars hotels, including the renovation of hotels of lower categories, will lay the foundation for stable increase of revenues and profits from international tourism. The relative proximity to the major EU markets (Germany, UK, etc), as well as to the high-potential and still underdeveloped Russian market and Bulgaria's favorable visa policy with respect to Russia provide significant competitive advantages.

THE VALUATION

Our calculation for the value of Albena pointed to higher prices than the current. Both comparison to P/B of sector group and the DCF model reinsure our certainty that the stock is very good long-term investments even at current price and under the negative shade of low results in 2014. Therefore, we initiate coverage with **BUY** recommendation. The price target is BGN 78.51 in one-year horizon.

SOME RISKS

Reduced spending power of foreign tourists due to a drop in the value of the foreign currency against the Bulgarian lev. The devaluation of the Russian ruble and Ukrainian hryvnia have already reduced the spending power of Russian and Ukrainian tourists compared to last year.

Slow recovery of the Bulgarian economy, leading to lower than expected demand of Group's products and services on the domestic market.

Increase of competition in seaside tourism, both from Bulgarian and foreign resorts. Rainy weather in 2014 could also affect negatively the entire tourist season in Bulgaria, forcing the hotel owners to offer considerable discounts for the early booking next year. Albena is trying to manage this type of risk by offering different types of entertainments.

COMPANY OVERVIEW

Albena has 35 years of history as leading Bulgarian seaside resort. The Group expanded its presences by acquiring assets on other locations on the Black Sea coast and established companies for additional services. The Group currently incorporates 13 subsidiaries in Bulgaria and abroad. The company is famous with its all-inclusive services for families as it has almost closed business cycle. It has also long-term contracts with leading tour operators in Europe, such as Neckermann, TUI, REWE, Thomas Cook Northern Europe, etc.

The Group's assets includes:

- "Albena" - owns and manages 40 hotels, land and the tourism infrastructure of the resort, well developed sports center, conference halls, SPA and medical center. Hotels in Albena resort have more than 22 000 beds
- Village "Primorsko Club" - situated on South Black Sea Coast, including three blocks of villas and three hotels with 2500 beds
- Complex "White Lagoon", situated 20 km north of resort Albena. It has 126 studios and 79 double rooms
- "Hotel des Masques" in Switzerland
- Various companies that cover all area of services to tourists

The resort Albena generates over 70% of the Group's revenues. It is the largest hotel company in Bulgaria, privatized in 1997 as a single entity rather than in separate assets like other seaside recreation facilities (Sunny Beach and Golden Sand). Albena resort is under a single management and business strategy. This allows preservation of infrastructure and green areas of the resort and prevents excess construction that other Bulgarian resorts suffer. Albena resort is situated only 30 km from the largest Bulgarian city on the Black Sea - Varna, thus benefiting from modern transportation infrastructure and easy access. The resort is famous with its 6-km long sand beach. Hotels are surrounded by large forest parks and the resort is close to the "Balata" National Reserve. This contributes for the extremely favorable natural conditions. The Nature Reserve is spread out on 183 hectares of dense forest and is a source of cool air and fresh atmosphere in the resort. Albena is also the owner of the infrastructure in the resort. To increase the occupancy rates, Albena resort invests in various non-hotel facilities in order to offer additional services to its customers, including off-season services.

The name Albena is a symbol for first-class location and nice summer holidays of thousands of people around the world for more than 35 years. Albena cares for its employees' training and professional level, organizing annual training courses in all spheres of hotel and restaurant management.

The scale of Albena is extremely favorable factor for the company's business, as it allows the company to negotiate better conditions with tour operators and suppliers, which lead to significant savings.

Due to its strong operating cash flow and good credit history, the company can borrow at very low interest rates, compared to the market average - 3%, which reduces significantly its financial expenses.

Leading family resort in Bulgaria

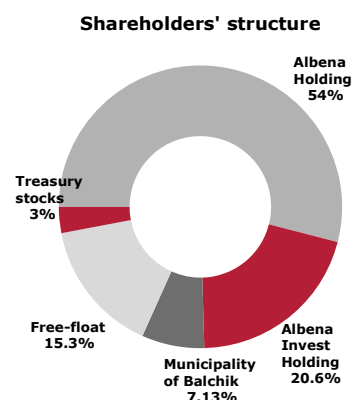
Large scale of operations provides significant benefits for the company

SHAREHOLDERS' STRUCTURE

The registered capital of Albena is 4 273 126 shares, of which treasury stocks are 128 000 (3% of the capital). Albena Holding is the largest shareholder in the Group with 54% of the total shares. It has indirect ownership though the second largest shareholder Albena Invest Holding that controls 20.6% in Albena. Albena Holding has 42% in Albena Invest Holding that corresponds to 8.64% indirect stake in Albena. We consider the following information as relevant: Albena Holding is in fact controlling Albena Invest Holding due to the large free-float of the holding and the 7.39% stake of Albena in the latter.

The Municipality of Balchik is the third largest shareholder of Albena. Its 7.13% stake is subject of the public offering that is expected to be sold during the forthcoming procedure. The free-float is 15.3%. Albena bought back 3% of its capital in 2003 with the intention to provide stock bonuses to the management team. None of the share has been distributed among managers of the company. The decision for change in remuneration system could be taken by the shareholders' meeting.

Number of shares outstanding:
4 145 126



PUBLIC OFFERING OF 7.13% OF THE CAPITAL

The Municipality of Balchik offered for sale its stake in Albena to the general public in August 2014. It includes 304 750 ordinary shares at nominal value of BGN 1.00 and minimum price of BGN 48.94. The total amount of the offering at minimum price is BGN 14.9 million.

The shareholder announced its intentions to sell the stake in 2012 and unsuccessfully carried out a tender for the whole package of 7.13% of the capital. The lack of demand forced the seller to change the procedure to public offering.

The procedure of the offering is closed-mixed auction through the Privatization segment of the Bulgarian Stock Exchange. Minimum bid is 1 share and the final date of the offering is 45 days after the beginning of the procedure on Monday, 18 August 2014. All shares that are not sold after the expiration of the offering will remain property of Municipality of Balchik. The funds from the sale will support the municipality's budget and the company will not receive any income from the sale.

Stake of 7.13% is offered for sale through the stock exchange

GROUPS' SUBSIDIARIES SUMMARY

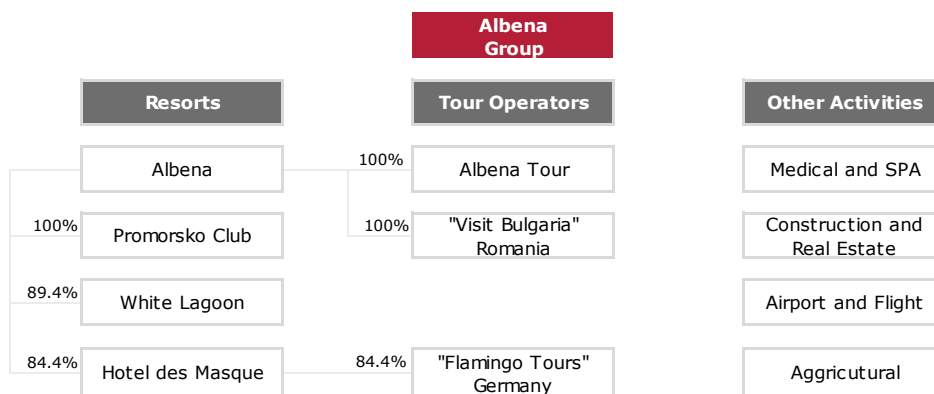
Albena offers all recreational services for its visitors, which is facilitated by broad group of 13 subsidiaries in different areas of operations. The main segment includes hotels and the infrastructure of resorts "Albena", "Primorsko Club" and "White Lagoon", which constitutes of restaurants and other recreational facilities.

Broad range of services

The Group develops in parallel the following activities with additional synergy with the main business segment: tour operators in Bulgaria, Germany and Romania; medical tourism and SPA; construction and real estate investments; airport and flight services; agricultural production and electricity generation from biomass.

The only foreign-based hotel is the Swiss-based "Hotel des Masques", which is adding winter vacations to the portfolio of the Group.

Exhibit 1: Major business lines with their key subsidiaries


POTENTIAL CATALYSTS

THE SALE OF SHARES WILL INCREASE LIQUIDITY AND ATTRACT INVESTORS: The sale of shares will not provide a cash flow for the Group, although it is expected to have indirect positive effect on the stock's trading. The increase of free-float is regarded as main benefit for the liquidity of trading. At the same time, the offering will attract the attention of local and foreign investors to a company that we consider as undeservedly aside of the market's focus. When the company increases its trading volumes and new institutional investors enter, we will see further improvement of corporate governance and financial performance.

SIGNIFICANT AMOUNT OF INVESTMENTS WILL IMPROVE THE STAR RATING: Over the last 10 years the company has invested more than BGN 300 m in renovations and improvements to its accommodation establishment. The number of 4-star hotels was increased, which allows Albena to shift to higher profit margin services. The company plans to continue this process (another BGN 39 m will be invested in 2014). Besides improvement of its services, the Group aims to increase the length of the active season up to 7 months, including several year-round operating hotels. The planned investments in the "White Lagoon" (EUR 15 m up to 2015) will increase the category of the resort to 5-star complex, which is expected to improve the operating margin for the entire group to 20% from the current level of 15%. The newly opened aqua park in Albena resort, which is expected to be completed in

2016 with target daily capacity of 3 000 people, will increase the revenues up to BGN 1 m.

SYNERGY OF THE VARIOUS ACTIVITIES: The synergy in the Group (incorporation of the hotel operations, agriculture and electricity production from food waste) will lead to better financial performance, as well as to a sustainable development of the company. Currently, 30% of the food is produced by own farms, as the share will be increased to 60% in the upcoming years. Albena plans to invest in second biogas installation, which uses food waste from hotels. The project will reduce additionally the resort expenses and will make it more energy independent.

Proximity to major markets: The relative proximity of Bulgaria to the major markets in Europe, as well as to the high-potential Russian market, is also a factor that provides some competitive advantages. We expect the current crisis in Ukraine to affect negatively the number of tourists from the region, but within few years the share of Russian tourists will increase again. They prefer longer vacations and spent relatively more money per vacation, compared to other tourists on the Black Sea Coast.

SECTOR OVERVIEW

BULGARIAN TOURISM SECTOR

Tourism in Bulgaria is a large and a fast growing sector, and an important driver of national economic growth over the last decade. The number of foreign tourists increased steadily, as a total of 6.2 m foreigners visited Bulgaria in 2013 (up by 5.5% compare to 2012). The total value added by tourist industry is 15.7% of GDP, as 350 000 persons are employed in the sector.

The bed-capacity of accommodation facilities increased by 9.3% compared to 2008 and reached 302 000 beds. There is also an increase of the number of nights, spent in the hotels, as they increased by 18.2% compared to 2008 to 21.6 m. 43% of the bed-capacity is concentrated in the summer resorts, as well as 48% from the total overnight stays. Around half of the 2013 summer overnights stays were in 4- and 5-star hotels.

As a result of the privatization process almost all accommodation is private and the structure of the tourist sector has become strongly fragmented and dominated by small and medium-sized enterprises.

Bulgaria has 9% unified value-added tax (VAT) in the tourism sector, as it is the only one that enjoys a reduced VAT (The standard VAT rate applicable in Bulgaria is 20%).

The number of foreign tourist arrivals (transit not included) has grown by almost 20% compared to 2008 and reached 6.9 m by 2013. The annual growth rates after 2009 is around 4%. We expect a continuation of the positive trend with similar pace after a slow-down in 2014 due to the crisis in Ukraine and sanctions on Russia. The EU countries are the most important markets for Bulgaria with share over 60%.

Bulgaria has enjoyed a substantial growth in income from international tourism, as the revenues increased by more than 50% compared to 2005, reaching EUR 3 bn in 2013, which represents 7.7% of GDP.

With a diverse physical landscape, the potential for tourism in Bulgaria is vast. Nevertheless, the mainstream beach/resort tourism and snow sports remain the major draw. Bulgaria is increasingly becoming known as a spa destination. It has around 600 natural mineral springs and the country aims to become popular as a year-round destination.

Historical tourism is underdeveloped in Bulgaria but presents an area of great potential given its colorful historical pas, being home to many ancient civilizations.

Many new types of tourism are beginning to grow in popularity. Hiking, climbing and cycling tourism are experiencing strong growth in popularity among foreign visitors. Other attractions for the outdoor enthusiast include Bulgaria's national parks, as the country has 10 natural parks, 90 reserves, 429 reservation areas and 350 natural landmarks.

Tourism in Bulgaria is a large and a fast growing sector with near 16% of total value added of Bulgaria's economy

The number of foreign tourists reached 6.9 m in 2013, increasing by 20% compared to 2008

The revenues from international tourism increased to 7.7% of GDP in 2013

Some types of tourism in the country continues to be underdeveloped, such as historical tourism

BULGARIAN BLACK SEA

The Bulgarian Black Sea coast offers many and diverse opportunities for recreation and entertainment. There is something for everyone – families, young fun-seeking people or nature lovers who prefer a peaceful and quiet holiday.

The Bulgarian Black Sea coast has 378 km of shore line, over 70 beaches and many bays

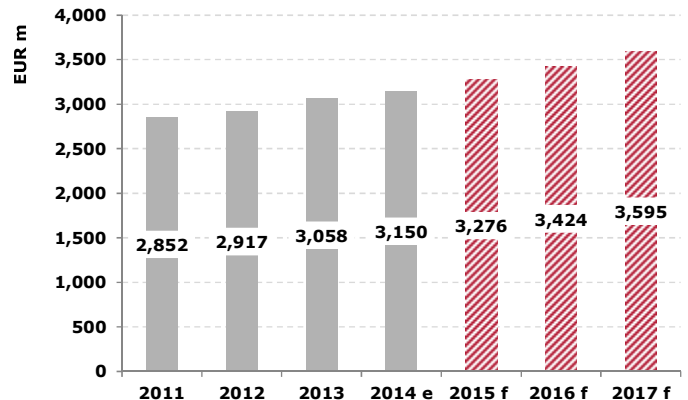
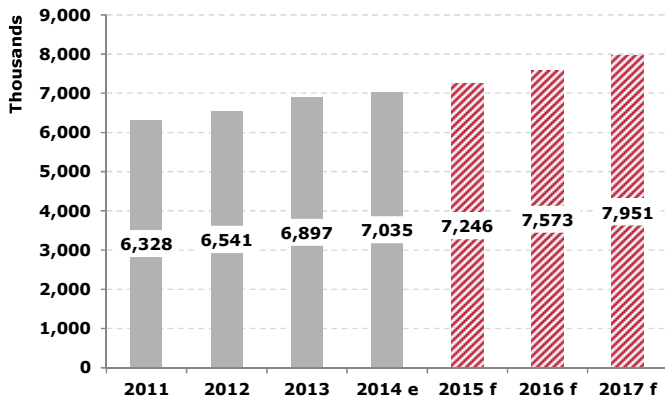
With an impressive 378 km of shore line, the coast offers 70 beaches, many bays, picturesque estuaries with beautiful dense forests and a delightful mixture of mountain and sea climates. Bulgarian beaches are popular worldwide for their fine sand. Eleven Bulgarian beaches were awarded the Blue Flag in 2014 – a distinction recognizing a clean and ecological environment. Black Sea has low tides and there are no sharks or any dangerous or poisonous life forms in its coastal waters.

The airports in the Black Sea cities of Burgas and Varna have been recently modernized to increase their capacity. The both airports serviced more than 3.6 m passengers in 2013. Russians held the biggest share of serviced passengers, increasing by 1/3 compared to 2012. German passengers, the second biggest group, went up by over 4%. Visitors from the UK and the Czech Republic ranked third and fourth, respectively.

Varna and Burgas airports have been recently modernize to increase their capacity

Exhibit 2: The number of foreign tourists in Bulgaria is expected to continue to increase gradually

Exhibit 3: International tourism balance of payments, EUR m

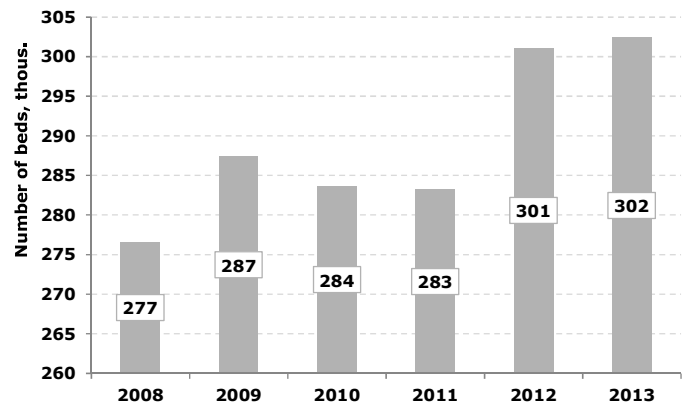
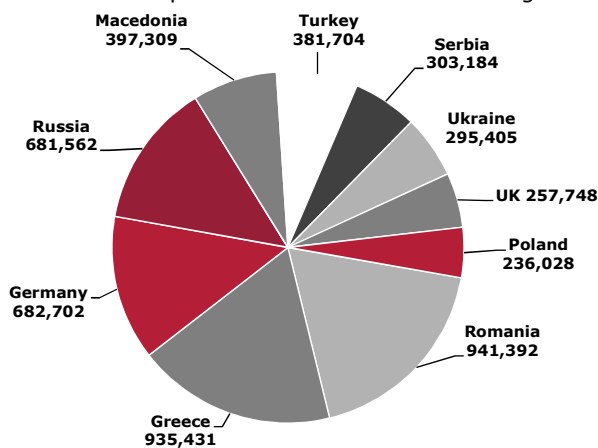


Source: National Statistical Institute

Source: National Statistical Institute

Exhibit 4: Most important tourism markets for Bulgaria

Exhibit 5: Number of beds in accommodation establishments



Source: National Statistical Institute

Source: National Statistical Institute

ALBENA'S MARKET PRESENCE

International markets are the main ones for the group, as they generate 53% of the group revenues. Russia has the largest share with 21% of the total revenues. The share of the Russian market increased significantly during the past two years, rising from 15% in 2011 to the present level. There was also an increase in the share of the Romanian market – from 9.8% in 2011 to 12.2 in 2013. The domestic market reduced its importance, as its share from the total revenues dropped to 47% in 2013 compared to over 50% in 2011.

International markets are the main ones for the group

Seasonality has a significant impact on the amount of revenue and profit of the group. The reason for this is the specific nature of its business, as the company relies mainly on Marine tourism. The main revenues come from Albena resort, which is situated on the North

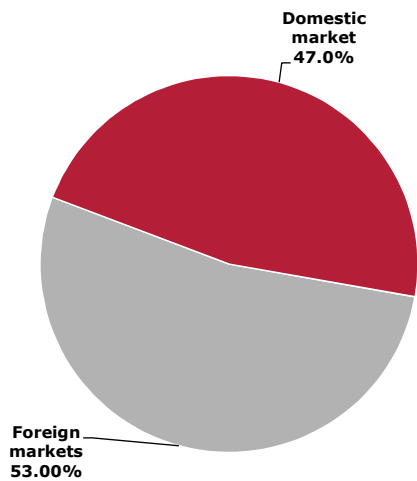
Black Sea coast. The complex offers accommodations in various hotels and villas – from 2 to 5 stars and has approximately 22 000 beds in 40 hotels. Albena is the third largest seaside resort after Golden sands and Sunny beach. Over 3/4 of the visitors are foreigners. Most of the hotels operate on all-inclusive basis, which makes the complex preferable for families with children because of the numerous entertainment facilities for the young and the excellent possibilities for relaxation.

Albena offers also tennis courts, volleyball, football, and basketball halls. The resort has also a hockey ground, four indoor pools, three spa centres, etc. It also provides good opportunities for equestrianism and water sports (water skiing, surfing, and triathlon). Three of the most attractive golf courts in the country are located nearby.

The infrastructure for congress tourism is also very well-developed in Albena. Various events are held there – festivals, conferences, congresses, sports events, etc., many of which are international. There is a significant potential for revenue increase in the upcoming years.

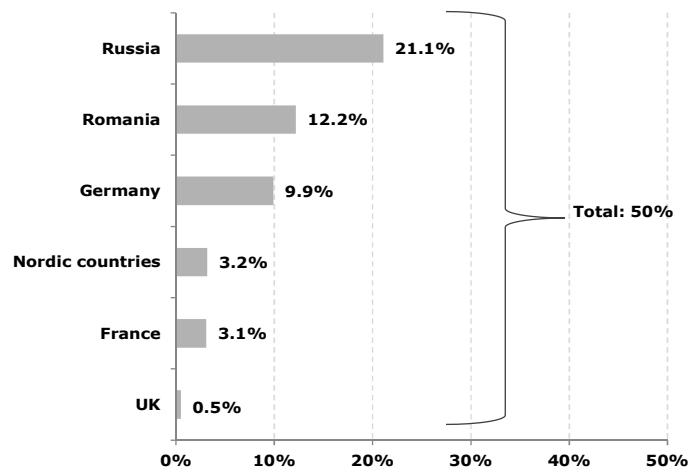
In addition to the traditional one, Albena offers number of different types of tourism

Exhibit 6: Net sales revenues on domestic and foreign market



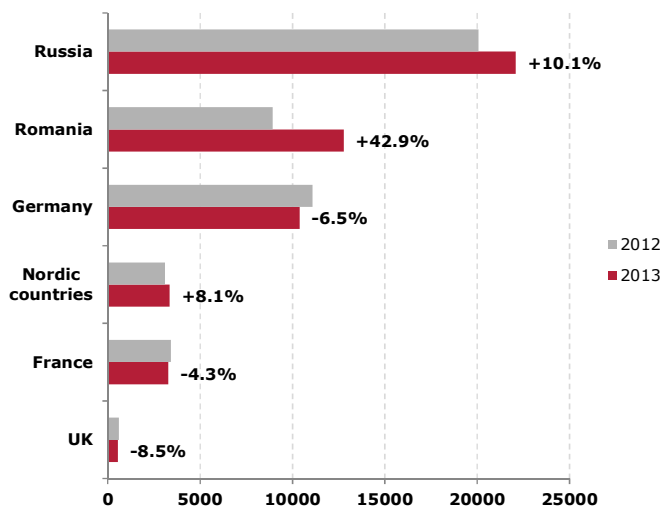
Source: Albena

Exhibit 7: Main markets, % of total revenues in 2013



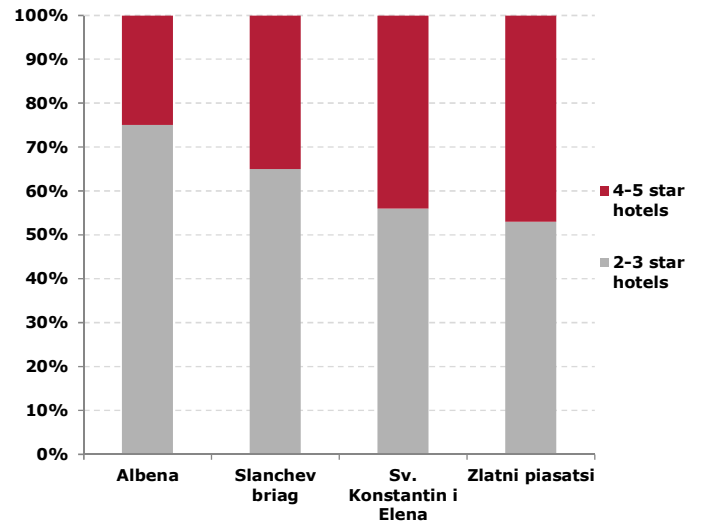
Source: Albena

Exhibit 8: The strong growth in Russian and Romanian markets led to a decline in some European markets



Source: Albena

Exhibit 9: Albena resort has a significant potential for revenue increase after renovation of assets



Source: ELANA Trading

FINANCIAL ANALYSIS AND VALUATION

The value of Albena is function of two variables: the real estate assets and the return that they realize for shareholders. The Group has very lucrative assets in its balance sheet, which are undervalued when regarding the low price-to-book ratio of 0.60. Moreover, we are confident that in three years horizon these assets could have higher market value than presented in the books. The return on equity is the second variable with great potential for improvement, although it doesn't point at Albena as undervalued company at the moment. Nevertheless, Albena will continue to invest in renovation of its hotels that will increase revenues and operating margin.

Valuation depends on lucrative rea-estate assets and moderate return on equity

The Group is steadily generating cash that is used for investments and decrease of bank loans. The trend of rising sales and profit is expected to continue with the temporarily setback from the extraordinary rainfall at the beginning of the summer season in 2014. The large investments will also put on pause the declining trend of bank loans but they will lay the foundation for improvement of margins. Moreover, the company reported higher profitability in 2013, which showed the potential for additional benefits in 2015 and afterwards. The contributors for the long-term growth of sales and profit margins are broader package of services, investments in hotels and the improvement of average income from a tourist.

The book value of Albena is BGN 86.93. We consider that the stock's performance depends more on the profit margin and the cash flow; thus our valuation is based on the analysis of cash flows on consolidated basis. We present the multiples for information purposes and analysis to peers from different countries as Bulgarian companies are not suitable for comparison. Although we expect a decrease of revenues and profit in 2014, the long term prospects for development and the great historical record during years of touristic boom (2004-2008) put the stock among the attractive investments with low price volatility. We consider the current offering as opportunity for long-term investors.

	2012	2013	12M	2014E
Current Price	38.74	59.70	52.00	52.00
Number of Shares	4,145,126	4,145,126	4,145,126	4,145,126
Market Capitalization	160,582,181	247,464,022	215,542,407	215,542,407
Net Profit	15,676,000	14,067,000	13,865,000	11,499,094
P/E	10.24	17.59	15.55	18.74
Equity	347,285,000	365,519,000	360,340,000	375,293,230
P/B	0.46	0.68	0.60	0.57
Sales	101,231,000	107,354,000	107,276,000	100,912,760
P/S	1.59	2.31	2.01	2.14
EV	230,445,181	313,351,022	277,401,407	288,301,831
EBITDA	34,879,000	31,760,000	31,262,000	30,806,647
EV/EBITDA	6.61	9.87	8.87	9.36
RoE	4.62%	3.95%	3.95%	3.10%
RoA	3.39%	2.99%	2.86%	2.35%

ANALYSIS OF FINANCIAL PERFORMANCE

The Group reported 6% growth of revenues in 2013, which is the best performance since 2007. However, this summer season presents several big challenges in front of the company. The biggest one is the cancellations of visits, following the heavy rainfall in June and the closure of one hotel. The company announced its expectations for a decrease of revenues by BGN 5 m and estimations for lower profit in the range between BGN 3-5 m y-o-y. Damages of property from the flood are estimated at BGN 1 m, which will be covered by insurances.

Temporarily decline of revenues in 2014 will be followed by accelerated growth

The second important factor is the decline of visits from Russia and Ukraine due to the falling currencies of both countries. Forecasts of Bulgarian think-tank organization in tourism points to 12% decline of revenues from the Russian market in 2014. Both extraordinary events are behind our forecasts for 6% decline of revenues this year.

Recovery in revenues during 2015 would be slow as the recent climate effects will influence negatively the booking for the next season. We expect that the Group will compensate the decline of booking with larger discounts for early reservations, although it will additionally subdue the recovery of revenues. Our estimations for growth of revenues are in the range of 8-9% during 2016-2018.

We expect margins to improve in 2015 and afterwards. The profitability will depend on the investment program and the positive effects from synergy in the Group. Costs are manageable according to the market conjuncture and despite the temporarily decline of expected operating margin in 2015, we consider the scenario of 19% EBIT margin as plausible, following the already recorded improvement of average revenue per night and the investments in renovation of existing hotels. Average wage in the Group will continue to increase, which supports the thesis that Albena provides the best touristic services among large resorts in Bulgaria. We expect that labor costs will grow slightly faster than revenues in long term but will not endanger profit margins.

Room for improvement of profit margins

Seasonality in revenues is substantial factor for the Group. 71% of consolidated annual revenues are recorded during the third quarter of the year, whereas the second one contributes for additional 18%. The Group plans to prolong its active season with higher occupancy in spring and early autumn months. However, this could be achieved gradually and doesn't influence significantly our forecasts for the next three years. More important factors for the revenue growth represent the change in number of room nights, higher category of hotels and the synergy effects within the Group.

Albena's long-term assets constitute of hotels and buildings of service industries in its resorts. Considering the high level of invested capital in long-term assets, the return on assets (2.86%) and return on equity (3.95%) are lower than other leading Bulgarian stocks.

Investment program is key for future performance

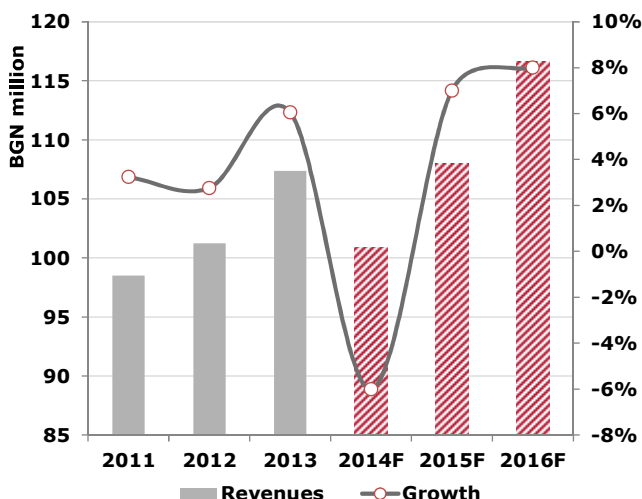
The investment program of Albena is key factor for the development and for the financial performance of the company. The Group announced its plan to invest BGN 39 m in 2014, of which 50% are already accomplished. It includes the renovation of hotel "Ralitza" in Albena, "Neptune" in Primorsko Club and 116 apartments in "White Lagoon" to 5-star category. Additional funds are invested in the aqua park and new bar. The broadening of recreational services is expected to increase income per visitor, thus leading to improvement of profit margins.

The Group cited the mid-tem plan to invest in:

- Hotel Kardam (EUR 12 m) – new 5-star hotel in Albena with the capacity of 200 studios and apartments, 2 restaurants, 2 swimming pools and SPA;
- White Lagoon (EUR 15 m) – raise of category to 5-star and increase of capacity to 1000 beds. The resort will cover standards of the highest quality brand Sunwing Resort of Scandinavian tour operator Thomas Cook Northern Europe. Funds needed are currently under negotiation with a bank. The investment is planned for 2015 but a delay to 2016 is possible in relation to the decline of financial results
- Plan in 3-5 year horizon (EUR 50 m) – renovation of several hotels in Albena and construction of eco-village in "Primorsko Club" that will double the number of beds to 5000, mostly in 4- and 5-star category

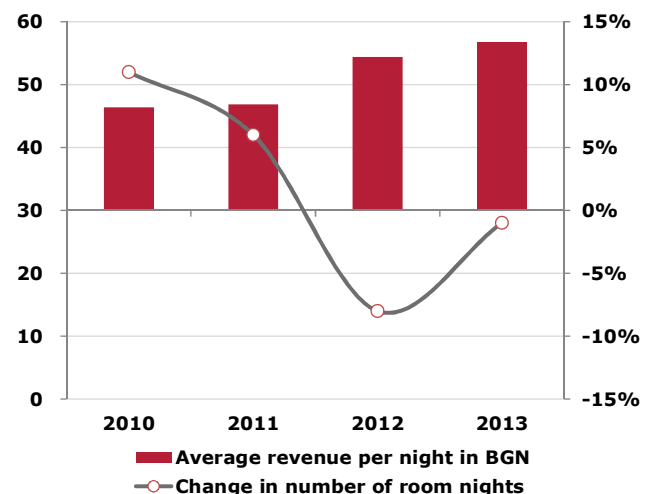
Albena financed its investments in 2011-2013 by the positive cash flows from operations that exceeded capital expenditures and provided ground for 38% decrease of bank loans during the above mentioned period. However, the company doubles its capex in 2014, which in our considerations should be funded by temporarily increase of debt. Our scenario for the level of investments is based on the forecasts for capex that are close to the average level for 2011-2013. Thus the Group will maintain moderate expansion of number of beds, while the renovation of existing hotels will keep quality of services.

Exhibit 10: Modest growth in competitive market environment that will accelerate after a temporarily setback



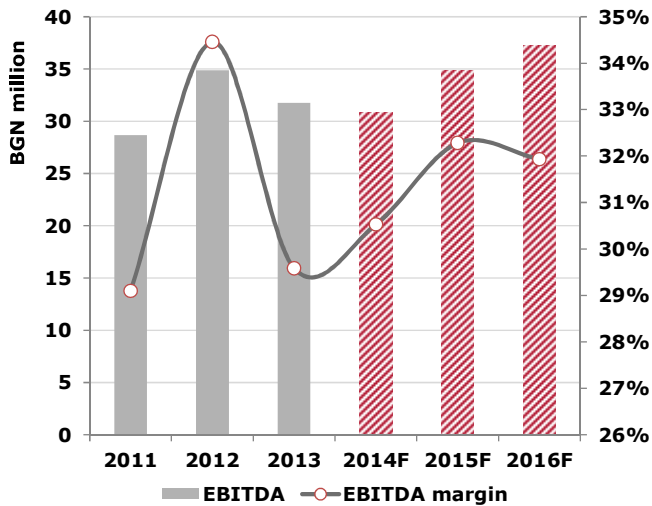
Source: Elana Trading estimates, company data

Exhibit 11: Average revenue per night in resort Albena increased, while number of room nights were unchanged



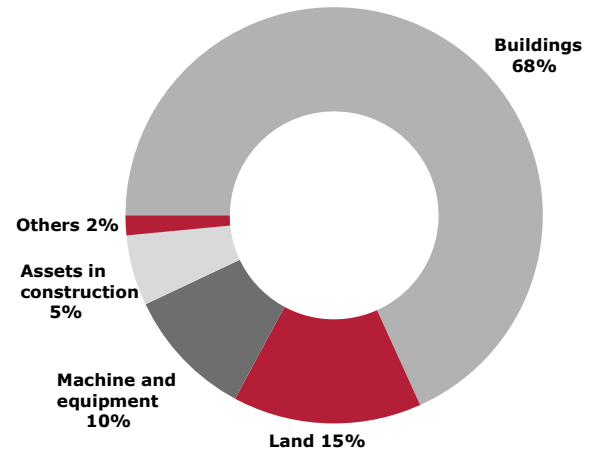
Source: Company data

Exhibit 12: Profitability will return to historical average of the last four years



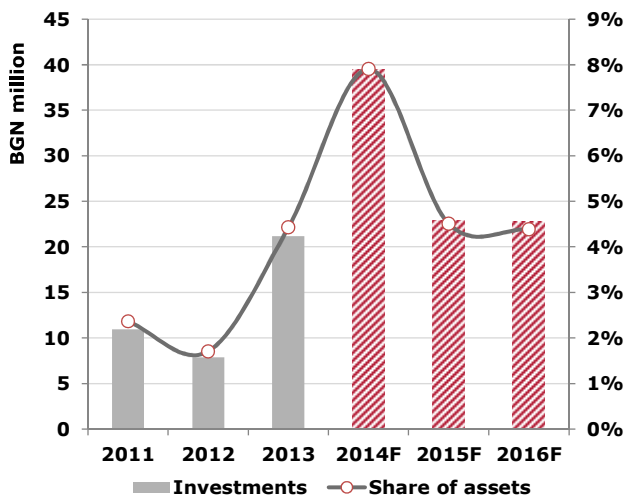
Source: Elana Trading estimates, company data

Exhibit 13: Long-term assets represent 87% of total assets and mainly constitute of hotels and service buildings



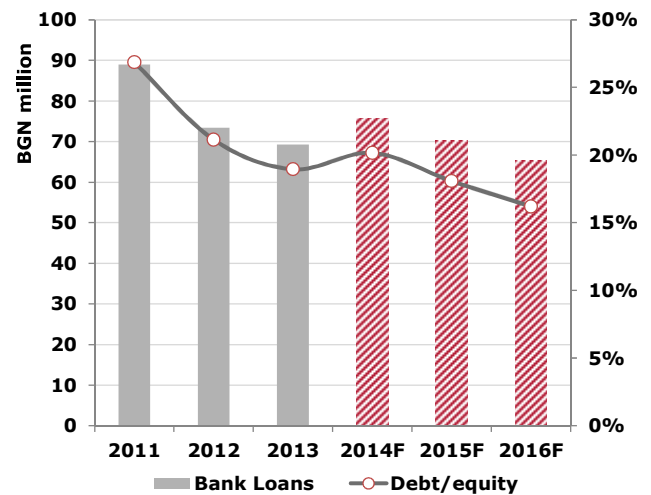
Source: Company data

Exhibit 14: Albena increased its investments in renovation of hotels and in expansion of capacity in "White Lagoon"



Source: Elana Trading estimates, company data

Exhibit 15: Bank loans declined despite large investments and is expected to continue to due to the positive cash flows



Source: Elana Trading estimates, company data

VALUATION OF ALBENA

The Group's net assets should be valued with a certain discount in consideration with the difficulties to sell large properties due to the current market conditions. According to our search in Bloomberg for the public listed companies with more than 90% of revenues, the median of P/B exceeds 1.15. Therefore, we consider that the book value of Albena (BGN 86.93) is good indicator for the long-term value of the stock.

Net assets and DCF method point to higher value of Albena

The DCF model represents the expected cash flows with our presumptions for moderate investment policy and gradual increase of revenues (28% for the period 2013-2018) and operating margin (19% in 2018). We expect that the company will continue to decrease its bank loans, albeit in slower pace than records in recent years. Source of financing will be depreciation and profit. Albena is interesting position with its negative working capital, which does not influence the DCF model as changes are unsubstantial. The exception is 2016-2017 due to our exact forecasts on the mature structure of bank loans.

The calculation of Bloomberg on Albena's beta based on the last two years' performance to main index SOFIX is 0.56. The position proved to be hardly correlated to the overall market trend, due to the high value of net assets and its constant profit and dividend payment. Therefore, we consider the Bloomberg's beta as representative for the stock behavior in long term. We expect the cost of capital to remain low.

The intrinsic value of Albena's share is BGN 78.51.

WACC CALCULATION

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TERMINAL YEAR
RISK FREE RATE	2.46%	2.75%	3.25%	3.50%	3.75%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
EQUITY RISK PREMIUM	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
BETA	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56
COST OF EQUITY	7.50%	7.79%	8.29%	8.54%	8.79%	9.04%	9.04%	9.04%	9.04%	9.04%	9.04%
COST OF DEBT											
EFFECTIVE TAX RATE	3.50%	3.50%	3.75%	4.00%	4.25%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%
AFTER-TAX COST OF DEBT	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
WEIGHT OF EQUITY	3.15%	3.15%	3.38%	3.60%	3.83%	4.28%	4.28%	4.28%	4.28%	4.28%	4.28%
WACC											

DISCOUNTED CASH FLOWS

BGN'000	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TERMINAL YEAR
EBIT	15,641	19,436	21,574	24,151	26,083	27,909	29,583	31,063	32,460	33,759	34,940
EBIT(1-T)	14,077	17,492	19,416	21,736	23,475	25,118	26,625	27,956	29,214	30,383	31,446
Add: D&A	15,165	15,419	15,661	15,818	16,103	17,230	18,264	19,177	20,040	20,842	21,571
LESS: INVESTMENTS	39,498	22,887	22,788	20,412	24,492	18,477	19,397	20,168	20,972	21,704	22,352
LESS: CHANGE NWC	45	4,582	-17,859	16,636	641	686	-881	-779	-736	-683	-644
FCF	-10,300	5,442	30,149	505	14,445	23,184	26,373	27,743	29,018	30,204	31,309
PV FCF	-9,968	4,912	25,102	387	10,122	14,755	15,460	14,981	14,433	13,838	
SUM OF PV FCF	104,020										
PV OF CONTINUING VALUE	283,286										
TOTAL PV FREE CASH FLOWS	387,306										
LESS: OUTSTANDING DEBT	72,280										
PLUS: FINANCIAL ASSETS	10,421										
PV OF EQUITY	325,447										
NUMBER OF SHARES ('000)	4,145										
PRICE PER SHARE	78.51										

RECOMMENDATION AND PRICE TARGET

Our calculation of the value of Albena pointed to higher prices than the current ones. Both comparison to P/B of sector group and the DCF model reinsure our certainty that the stock is very good long-term investments even at current price and under the negative shade of low results in 2014. Therefore, we initiate coverage with **BUY** recommendation. The price target is BGN 78.51 in one-year horizon but investors should be aware of the risks: negative market reaction from local investors to the possible decline of profit for 2014; additional withdrawal of capitals from the stock market in short-term; higher than average P/E ratio that will limit the price increase even after positive corporate news.

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

- Foreign investors consider the stock of Albena as excellent vehicle for exposure on the Bulgarian market and into the fast growing tourism sector. Low liquidity and price volatility are negative factors for the entry of new capitals
- Bulgarian institutional investors are not active currently on the buy side. However, they are expected to maintain their positions in Albena and will not provide excess volumes in following months
- Domestic private investors view the stock as stable and perspective for longer-term holding, rather than short-term speculation with high return

*Recommendation: BUY
Target Price: BGN 78.51
Increase: 50%*

STOCK PRICE DYNAMICS



FINANCIAL DATA

STATEMENT OF INCOME (IN '000 BGN)	2011	2012	2013	TTM	3M 2013	3M 2014
SALES	98,508	101,231	107,354	107,276	4,287	4,209
OPERATING EXPENSES	86,481	81,608	90,007	90,176	8,642	8,811
CHANGE IN INVENTORIES	(371)	(1,172)	783	734	(260)	(309)
COST OF MATERIAL	15,852	14,572	15,291	15,684	1,352	1,745
COST OF LABOUR	19,095	18,730	21,576	21,687	1,988	2,099
COST OF EXTERNAL SERVICES	16,920	16,438	18,747	18,620	1,158	1,031
DEPRECIATION AND AMORTIZATION	16,636	15,256	14,413	14,162	3,582	3,331
NET BOOK VALUE OF ASSETS SOLD	16,421	14,123	16,587	16,470	289	172
OTHER COSTS	1,928	3,661	2,610	2,819	533	742
OPERATING INCOME	12,027	19,623	17,347	17,100	(4,355)	(4,602)
INTEREST EXPENSE	3,485	2,419	2,423	2,357	655	589
FOREIGN EXCHANGE LOSSES (GAINS)	(486)	(492)	(525)	(518)	(1)	6
NET NON-OPERATING LOSSES (GAINS)	(281)	(18)	85	86	(1)	0
PRETAX INCOME	9,309	17,714	15,448	15,259	(5,008)	(5,197)
INCOME TAX EXPENSE	1,026	2,038	1,381	1,381	0	0
INCOME BEFORE XO ITEMS	8,283	15,676	14,067	13,878	(5,008)	(5,197)
EXTRAORDINARY LOSS NET OF TAX	0	0	0	0	0	0
MINORITY INTEREST	0	0	0	13	(51)	(38)
NET INCOME	8,283	15,676	14,067	13,865	(4,957)	(5,159)
EARNINGS PER SHARE IN BGN	2.00	3.78	3.39	3.34	(1.20)	(1.24)

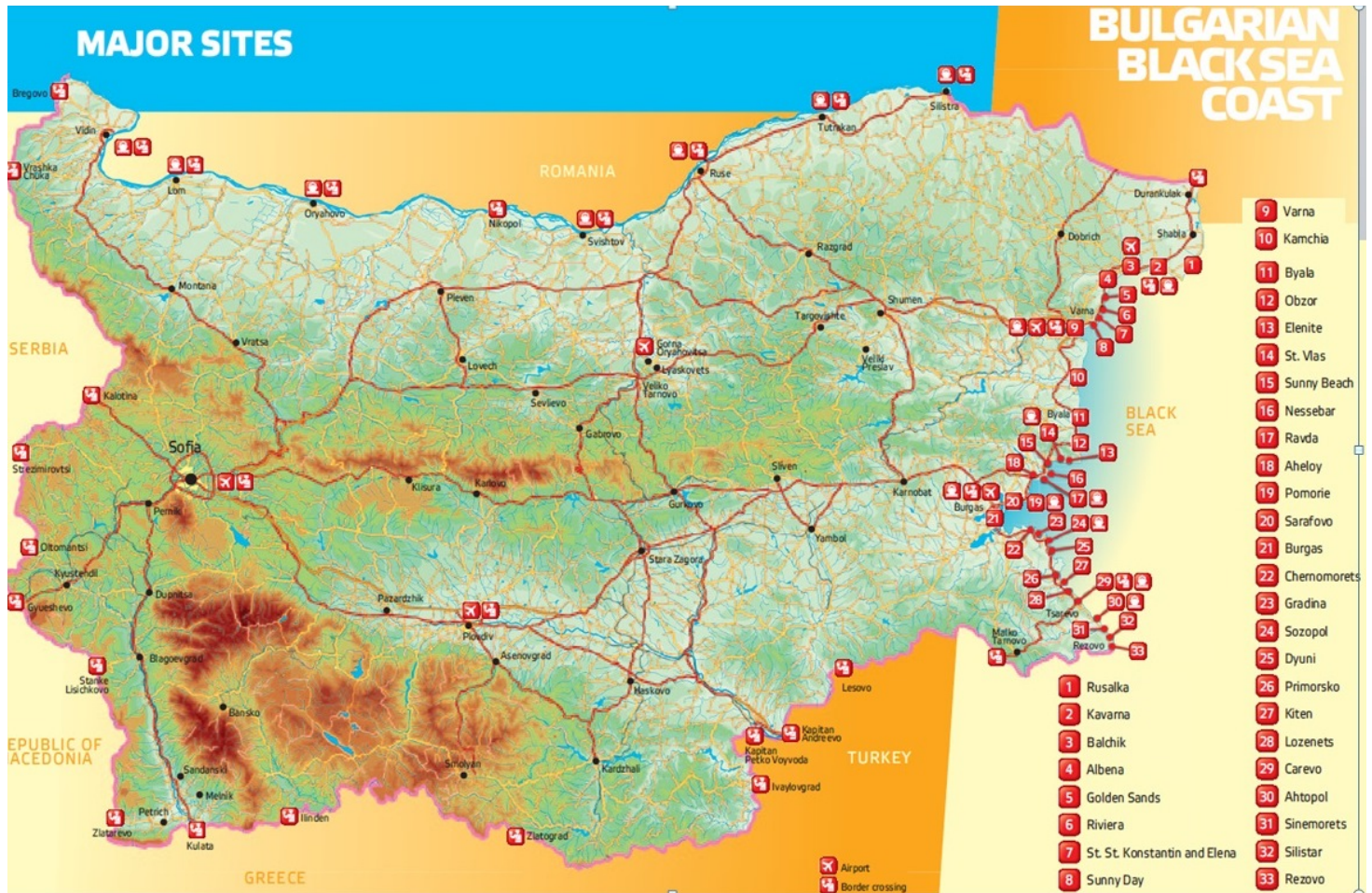
BALANCE SHEET (IN '000 BGN)	2011	2012	2013	TTM	3M 2013	3M 2014
CASH AND NEAR CASH ITEMS	952	3,545	3,385	10,421	11,696	10,421
SHORT-TERM INVESTMENTS	0	0	0	0	0	0
ACCOUNTS AND NOTES RECEIVABLE	7,365	4,470	4,183	6,327	5,727	6,327
INVENTORIES	4,939	9,455	10,816	11,479	10,141	11,479
OTHER CURRENT ASSETS	0	0	0	0	0	0
TOTAL CURRENT ASSETS	13,256	17,470	18,384	28,227	27,564	28,227
LT INVESTMENTS AND LT RECEIVABLES	2,580	2,660	6,940	6,940	4,557	6,940
NET FIXED ASSETS	419,564	411,048	421,702	432,332	410,671	432,332
OTHER LONG-TERM ASSETS	28,685	29,897	31,336	27,944	29,658	27,944
TOTAL LONG-TERM ASSETS	450,829	443,605	459,978	467,216	444,886	467,216
TOTAL ASSETS	464,085	461,075	478,362	495,443	472,450	495,443
ACCOUNTS PAYABLE	11,248	8,643	11,574	26,899	26,394	26,899
SHORT-TERM BORROWINGS	18,524	17,854	22,552	21,922	14,963	21,922
OTHER SHORT-TERM LIABILITIES	706	1,025	293	753	769	753
TOTAL CURRENT LIABILITIES	30,478	27,522	34,419	49,574	42,126	49,574
LONG-TERM BORROWINGS	70,424	55,554	46,720	50,358	55,554	50,358
OTHER LONG-TERM LIABILITIES	25,970	24,706	22,351	25,868	25,904	25,868
TOTAL LONG-TERM LIABILITIES	96,394	80,260	69,071	76,226	81,458	76,226
TOTAL LIABILITIES	126,872	107,782	103,490	125,800	123,584	125,800
TOTAL PREFERRED EQUITY	0	0	0	0	0	0
MINORITY INTEREST	6,073	6,008	9,353	9,303	6,598	9,303
SHARE CAPITAL & APIC	2,737	2,737	2,737	2,737	2,737	2,737
RETAINED EARNINGS & OTHER EQUITY	328,403	344,548	362,782	357,603	339,531	357,603
TOTAL EQUITY	331,140	347,285	365,519	360,340	342,268	360,340
WORKING CAPITAL	464,085	461,075	478,362	495,443	472,450	495,443

NUMBER OF SHARES:	4,145,126	4,145,126	4,145,126	4,145,126	4,145,126	4,145,126
PRICE IN BGN - PERIOD END:	58.80	38.74	59.70	52.00	45.00	50.76
MARKET CAP IN BGN - PERIOD END:	243,733	160,582	247,464	215,542	186,531	210,407

CASH FLOW STATEMENT (IN '000 BGN)	2011	2012	2013	TTM	3M 2013	3M 2014
NET INCOME	8,283	15,676	14,067	13,865	(4,957)	(5,159)
DEPRECIATION & AMORTIZATION	16,636	15,256	14,413	14,162	3,582	3,331
OTHER NON-CASH ADJUSTMENTS	7,399	4,239	(3,570)	(8,714)	8,614	3,470
CHANGES IN NON-CASH CAPITAL	(4,368)	(4,577)	5,823	11,333	6,838	12,348
CASH FROM OPERATIONS	27,950	30,594	30,733	30,646	14,077	13,990
DISPOSAL OF FIXED ASSETS	40	247	819	819	0	0
CAPITAL EXPENDITURES	(10,970)	(7,876)	(21,185)	(28,957)	(4,625)	(12,397)
INCREASE IN INVESTMENTS	(206)	(14)	(88)	(88)	0	0
DECREASE IN INVESTMENTS	13	21	15	19	0	4
OTHER INVESTING ACTIVITIES	52	79	41	41	0	0
CASH FROM INVESTING ACTIVITIES	(11,071)	(7,543)	(20,398)	(28,167)	(4,624)	(12,393)
DIVIDENDS PAID	(1,622)	(1,280)	(2,575)	(3,584)	0	(1,009)
CHANGE IN SHORT-TERM BORROWINGS	(6,477)	(670)	4,698	6,959	(2,891)	(630)
CHANGE IN LONG-TERM BORROWINGS	(16,467)	(14,870)	(8,834)	(5,196)	0	3,638
INCREASE IN CAPITAL STOCKS	0	0	641	0	641	0
DECREASE IN CAPITAL STOCKS	0	0	0	0	0	0
OTHER FINANCIAL ACTIVITIES	1,451	(3,670)	(4,332)	(1,790)	940	3,482
CASH FROM FINANCING ACTIVITIES	(23,115)	(20,490)	(10,402)	(3,611)	(1,310)	5,481
NET CHANGES IN CASH	(6,236)	2,561	(67)	(1,132)	8,143	7,078
END-OF-PERIOD CASH	894	3,455	3,385	16,112	13,545	16,112
CASH PER SHARE	0.22	0.83	0.82	3.89	3.27	3.89

FINANCIAL AND PERFORMANCE INDICATORS	2011	2012	2013	TTM
VALUATION				
PRICE/EARNINGS (P/E)	29.43	10.24	17.59	15.55
PRICE/BOOK (P/B)	0.74	0.46	0.68	0.66
PRICE/SALES (P/S)	2.47	1.59	2.31	2.01
EV (IN BGN)	331,729	230,445	313,351	277,401
EV/EBITDA	11.57	6.61	9.87	8.87
PROFITABILITY				
RETURN ON COMMON EQUITY	2.53%	4.62%	3.95%	3.95%
RETURN ON ASSETS	1.76%	3.39%	2.99%	2.86%
RETURN ON INVESTED CAPITAL	2.66%	4.24%	3.80%	3.79%
EBITDA MARGIN	29.10%	34.45%	29.58%	29.14%
OPERATING MARGIN	12.21%	19.38%	16.16%	15.94%
NET INCOME MARGIN	8.41%	15.49%	13.10%	12.92%
DIVIDEND				
DIVIDEND YIELD	0.43%	1.94%	0.84%	
DIVIDEND PER SHARE	0.25	0.75	0.50	
LIQUIDITY				
CURRENT RATIO	0.43	0.63	0.53	0.57
QUICK RATIO	0.27	0.29	0.22	0.34
CREDIT				
LT DEBT/EQUITY	0.21	0.16	0.13	0.14
TOTAL DEBT/EQUITY	0.27	0.21	0.19	0.20
TOTAL DEBT/TOTAL ASSETS	0.19	0.16	0.14	0.15
EBIT/INTEREST EXPENSE	3.45	8.11	7.16	7.25

APPENDIX – BULGARIAN BLACK SEA COAST



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

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