

## AGRIA GROUP HOLDING

### INDUSTRY: AGRICULTURAL PRODUCERS

## HARVESTING GROWTH

**VERTICALLY INTEGRATED HOLDING WITH ACTIVITIES IN AGRICULTURAL PRODUCTION, GRAIN TRADING AND PROCESSING. THE COMPANY HAS ATTRACTIVE VALUATION AND WILL BENEFIT FROM THE RISING WORLDWIDE DEMAND ON GRAINS, LONG-TERM INCREASE OF PRICES AND ITS INVESTMENTS IN THE EXPANSION OF PRODUCTION. WE EXPECT FURTHER IMPROVEMENT IN PROFITABILITY OF AGRIA.**

### WELL-POSITIONED COMPANY IN A TRADITIONALLY STRONG SECTOR

Vertically integrated holding with activities in grain production, storage and trading. One of the largest Bulgarian farming companies and among the biggest traders. Main assets positioned in the region with highest crop yields on the Balkans - Northeast Bulgaria. The Group cultivated 17,000 ha land in 2013 including 4,000 ha own land. The storage capacity amounts to 150,000 tons that provides ground for 300-350,000 tons of grains for annual trading, which is the largest revenue generating segment.

### INVESTMENTS IN INCREASE OF AGRICULTURAL PRODUCTION

The growth of revenues has been accomplished by a continuous investment program and through acquisitions of smaller agricultural producers. The average annual investments during the previous three years totaled EUR 9 m, whereas the planned investments for 2014 are EUR 10 m. The investment program contributes to a gradual development of all segments of Agria. The Group invests in machines and equipment for agricultural production, including irrigation of plots near water sources, which should boost profitability.

### UNDERVALUED BASED ON ITS HOLDINGS OF AGRICULTURAL LAND

Agria increased its owned land to 5,300 ha through several acquisitions in 2014. Assets are located in Northeast Bulgaria - the region with the highest prices of farmland. We value the land of Agria at BGN 43.9 million, based on the average price for deals concluded in 2013 according to the National statistics. This represents 76% of the current market cap of Agria.

### GRAIN PRICES AS AN ADDITIONAL SOURCE OF GROWTH

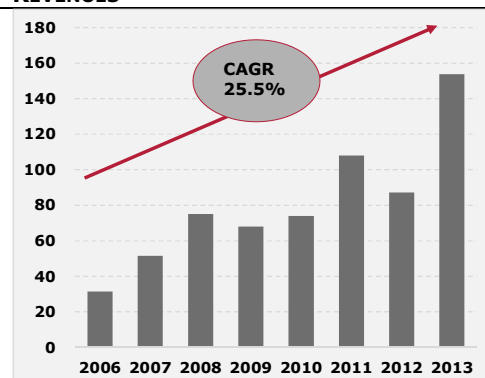
Grain prices are at multi-year lows due to the very good harvests and ample stocks. We don't consider the abundance as a long-term factor for low prices, considering the stable increase of demand worldwide. Therefore, Agria's top line might receive additional boost from higher use of grains for protein production or biofuels.

**VALUATION:** Our one year price target is BGN 15.11 per share which represents 75% upside potential vs. the current market price. The valuation is based on a DCF model that assumes a growth of revenues due to acquisitions, moderate recovery of grain prices and an investment program that aims to improve profit margins. Considering the possible increase of commodity prices from their multi-year lows that will create additional positive effect on revenues and profits, the stock represents an attractive long term investment.

in kBGN, excl. ratios	2013	2014F	2015F	2016F
REVENUES	153,754	138,379	163,287	187,780
EBITDA	16,626	17,131	22,272	26,439
EBIT	13,675	13,146	17,962	21,595
NET PROFIT	9,394	8,482	12,049	14,536
EQUITY	60,745	69,227	81,276	95,812
ROE	16.72%	13.05%	16.01%	16.42%
ROA	6.82%	5.36%	6.60%	7.24%
EBITDA MARGIN	10.81%	12.38%	13.64%	14.08%
NET PROFIT MARGIN	6.11%	6.13%	7.38%	7.74%
EPS	1.38	1.25	1.77	2.14
DEBT/EQUITY	1.06	1.22	1.10	0.95
P/E	3.58	7.08	4.96	4.11
P/B	0.55	0.85	0.72	0.62
EV/EBITDA	5.78	8.14	6.45	5.49
PAYOUT RATIO	0	0	0	0
DIVIDEND YIELD	-	-	-	-

**BUY**
**ONE YEAR PRICE TARGET: BGN 15.11**
**CURRENT PRICE: BGN 8.60**
**EXCHANGE RATES**
**EUR/BGN(FIXED): 1.95583**
**USD/BGN: 1.5710**
**MARKET DATA**

Shares Outstanding:	<b>6.8m</b>
Share Capital:	<b>BGN 6.8m</b>
Free-float:	<b>20%</b>
Treasury Shares	<b>0%</b>
Market Cap.:	<b>BGN 58.5m</b>
Avg. Daily Vol.:	<b>BGN 20,000</b>
52 Weeks Range:	<b>BGN 4.70-9.50</b>
BSE Ticker	<b>A72</b>
Bloomberg	<b>A72 BU</b>

**REVENUES**


Source: Agria

**PRICE PERFORMANCE**


## EXECUTIVE SUMMARY

**WE INITIATE COVERAGE WITH BUY RATING OF AGRIA GROUP HOLDING. ONE YEAR PRICE TARGET IS BGN 15.11, WHICH IS A 75% UPSIDE POTENTIAL OVER THE NEXT 12 MONTHS.**

### THE COMPANY

Agria Group Holding (Agria; the Group; the Company) is a holding that includes companies in the field of agricultural production and grain trading and processing. The subsidiaries of Agria operate in Northeast Bulgaria with close proximity to the main Bulgarian maritime ports, providing the logistic capacity for the Group to be one of the largest grain exporters in the country. The agricultural land that Agria owns or is in process of acquisition until the end of 2014 amounts to 5,300 ha.

**Revenue breakdown:** The grain trade contributes to the majority of consolidated revenues of Agria and represented 84% of total turnover in 2013. The Group has sizable grain storage capacity of 150,000 tons. The volumes of stored grains varied between 300,000 and 350,000 tons in 2013, including the own production. Among assets is a mill with 30,000 tons annual capacity. The mill meets all technological standards and is equipped with a laboratory in compliance with EU requirements, allowing controlling the quality of the incoming grains, as well as improving the quality of the end products. The agricultural production is the second largest segment in the Group with 14% share of turnover in 2013. The main cultures grown are wheat, barley, maize, sunflower and rapeseed. The cultivated area in 2014 is expected to reach 20,000 ha, of which 5,300 ha own land. Storage and processing contributed 2% to consolidated revenues.

**Expansion through acquisitions:** The strategy of the Group is to acquire smaller companies in the field of agricultural production. The Group accomplished three acquisitions in 2014. The company Diasvet added 706 ha farmland after the deal in March 2014. During the third quarter Agria acquired two agricultural producers - BD Agri and BD Farm, which contributed to the increase of farmland by 2,454 ha. This strategy has two distinctive advantages over the buying or renting land plots from owners. The first is the availability of machines, equipment and work force. The second is the possibility to increase farmland without directly to compete with the farmers that already cultivate it that could result to artificially high costs.

**Assets and long-term prospects:** The biggest advantage for shareholders is the land the Company owns through its subsidiaries. It amounted 4,000 ha at the end-2013 and should increase to 5,300 ha at the end-2014. We value the 5,300 ha land using the average price for concluded deals in Northeast Bulgaria in 2013 from the data of the National Statistical Institute to BGN 43.9 million. The value of land corresponds to 76% of the market capitalization of Agria. This is confirmation that the stock is not overvalued despite the huge price increase during the last 12 months.

Agria has the potential to outperform our expectations in long term. Grain prices are key factor for additional gains in revenues and profits as compared to our scenario. The current market conditions are unlikely to maintain pressure on prices, which are at multi-year lows. The demand of cereals will continue to grow steadily due to the rising population and personal income. The profitability of Agria is expected to improve as the Group invests in irrigation and cost-efficient agricultural machinery.

The stock is traded at low P/E ratio as compared to the average multiples of liquid Bulgarian stocks and will attract local investors during a positive period for the market. Agria is not paying dividends and we expect to stay that way in the foreseeable future due to the acquisitions and investments.

### THE COUNTRY AND THE MARKET

Bulgaria is under a Currency board and the Lev is pegged to the Euro at fixed rate of 1.95583. We expect a modest economic growth in 2014 (1.4% of GDP), as it will be negatively affected by the ongoing political instability. The 2<sup>nd</sup> parliamentary elections in the last 2 years took place in Oct. 5<sup>th</sup> and are expected to be followed by the 5<sup>th</sup> government for the same period. The leading political parties have shown commitment to long-term economic and political stability.

Global demand for cereals remains robust, driven by the economic growth and the rising consumption of proteins, especially in China. Production of grains during the past two years ensured very good supplies, which decreased price levels of wheat, maize and soybean by roughly 25%. Average weather conditions should not contribute to extraordinary increase of stocks due to the solid demand. Bulgaria is a traditional exporter of cereals. The production of wheat varies between 4 and 5 m tons annually, of which 1 m tons is domestic consumption. The crop this summer has good quality that corresponds to the previous year and volumes are estimated to increase by 21.4% to 5.4 m tons, resulting to higher export and subdued domestic prices that would be close to levels on international bourses.

### THE VALUATION

We use the discounted cash flows method to value Agria. Our scenario is based on the expectations of deceleration of growth from 18% in 2015 /recovery from our conservative forecasts for 2014/ to the long-term rate of 3.5% at the terminal year. The model takes into account the growth from acquisitions and assumes a moderate increase of grain prices due to the stable demand of protein and the biofuel production. Operating margin is expected to improve to 12% in 2017 due to cost efficiency and the increase of farmland. All calculations are based on the consolidated results of the Group.

We value the stock of Agria at BGN 15.48 per share or 80% above the latest market price.

### SOME RISKS

Market risks of further decline of grain prices or increase of rents. The main operational risk represents the possible change in subsidizing of agricultural production. The assessment of Agria point to no negative effect on income from the latest changes in the subsidies for grain producers that will enter into effect in 2015 and will concern the payment at the beginning of 2016.

## COMPANY OVERVIEW

Agria is vertically integrated economic group in the field of agricultural production and grain trade. The Holding manages the operations of its subsidiaries and acquires assets in the agricultural sector through acquisitions of companies.

The main business segments are:

- Trading and export of grains
- Agriculture production on purchased or rented land; cultivation of grains and oil-bearing seeds;
- Grain storage and processing

Grain trade represented the majority of Agria's turnover and constituted to 84% of sales in 2013. Kristera and Korn Trade Ltd. are the subsidiaries carrying out trade and export for the Group. Trading and export constituted to 84% of consolidated revenues in 2013 at the amount of BGN 139 m. The domestic market represented 20% of revenues from grain trade. Partners in the export are large international companies in Europe. The Group had developed an effective structure in the trade with grains; from the providing of raw materials to the delivery to Constanta, Varna and Burgas Ports cargo terminals at the Black Sea.

Second largest segment is the agricultural production with 14% share of turnover last year. The Group cultivated a total area of 17,000 hectares in Northeast Bulgaria during 2013, of which 4,000 ha own land and the rest rented. Plans for this year constitutes of increase of cultivated land to 20,000 ha, of which 5,300 ha owned by subsidiaries. The main cultures grown are wheat, sunflower, barley, corn and rapeseed. The contribution of the segment to the bottom line is more important as companies of the Group receive substantial subsidies for agricultural production.

Agria Group Holding invested BGN 3 m in agricultural land in 2013, the rest in machines and equipment. The non-consolidated balance sheet was not increased with the amount of the purchased land and added land on a consolidated base, however, suggests that it had been acquired indirectly by subsidiaries. This practice of buying land through subsidiaries avoids the negative effects of legislation that prohibited companies with off-shore ownership to buy agricultural land in Bulgaria, including indirectly via portfolio investments.

Storage and processing of grains generated revenues at the amount of BGN 4 m in 2013 or 2% of consolidated sales. The storage facilities of the Group have capacity of 150,000 tons and the main sites are situated in cities of Popovo /60,000 tons/, Devnya /57,000 tons/ and Kardam /15,000/. The annual volumes of grains traded or stored varied between 300,000 and 350,000 tons last year.

The grain base in Popovo has an adjacent mill with an annual capacity of 30,000 tons. A modernly equipped laboratory works in compliance with EU requirements, allowing the quality control of the incoming grain, as well as improvement of the quality of end products.

The Group also performs activities that support the main business segments. Companies of Agria Group Holding trade with nutrients, chemicals for plant protection, fuels and lubricants. The Holding's operations include import of sowing-seeds made by global plant breeding companies like Monsanto and KWS SAAT as a partnership to finance the production of rapeseed and wheat for the region of Northeast Bulgaria. Agria is a GMO-free producer.

The synergy between the companies in the Group is significant. It expands from the plant growing and trade to the possible usage of waste biomass for the production of bioethanol. Agria has plans to build a refinery for bioethanol through the use of waste biomass – wheat straw and wood chips but the project has very low priority.

*Vertically integrated holding in agricultural sector*

*Grain trading is main source of revenues*

*Land is a primary asset of the Group*

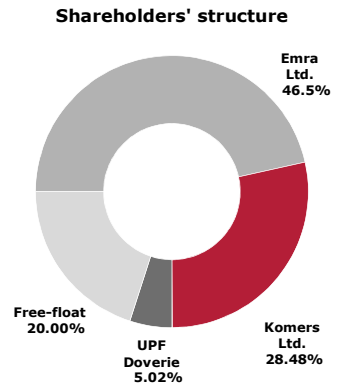
*Future plans include building a bioethanol refinery*

**SHAREHOLDERS' STRUCTURE**

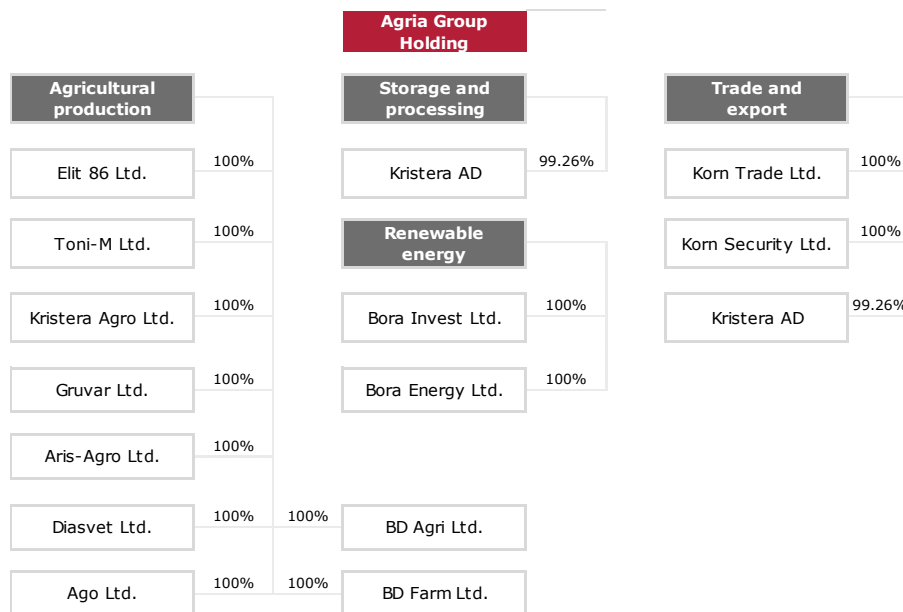
Agria's registered capital is 6.8 m shares. Emra Ltd., a company registered in the Bulgarian city of Varna, had 46.5% of the capital at the end of June. It is fully owned by the Chairman of the Board of Directors and Executive Director Emil Raykov.

The free-float of the Company was 20%, according to the latest data. The shares of Agria began trading in March 2008 after an IPO that raised BGN 15.4 m. Universal pension fund Doverie was the largest institutional investor with 5% of the capital.

Number of shares outstanding:  
6 800 000



**STRUCTURE OF HOLDINGS**



**POTENTIAL CATALYSTS**

**Market reassessment of assets:** The Group reported sizable holdings of agricultural land in Northeast Bulgaria. The region is the most fertile and suitable for grain production. Prices of land are highest in this part of the country and farmers are keen to buy or to rent. We calculated the value of owned land at BGN 43.9 m, according to the statistics for the average price in the region in 2013. This represents 83% of the market cap of Agria. Investors will reconsider their attitude toward the stock regarding assets' value, which will create another increase of share price during positive period for the market.

**Continuation of acquisition program:** Agria will continue to expand its production capacity through acquisition of smaller agricultural producers. Benefits of the strategy is the steady increase of farmland, including owned plots, as land consolidation in Northeast Bulgaria is in late stage and rapid expansion could raise costs. Therefore, we expect a gradual increase of revenues and improvement of profit margins that should support the positive bias of investors.

**Recovery of grain prices:** This is a long-term factor for the performance of Agria as prices are at multi-year lows. It is not reasonable to expect a fast recovery of grain prices in 2015 due to the already abundant stocks and large production, unless the harvest is less than expectations. Nevertheless, the global demand of grains will rise steadily supported by bigger population and consumption of proteins.

**SECTOR OVERVIEW**

**WORLD GRAIN SUPPLY AND DEMAND**

Global demand for cereals remains robust, driven by the economic growth and the rising consumption of proteins, especially in China. This trend is clearly visible on the faster increase of demand for corn (CAGR of 3% since 1991) as compared to wheat (CAGR of 1% since 1991) in exhibits 1 and 2.

*Demand driven by rising consumption of proteins*

Asian protein demand, including beef, chicken, dairy and pork, jumped on rising income and population growth. Diets in developing countries converge with mature market consumer habits. The region now accounts for at least 25% of global consumption of meat. The strongest example for the change in diets is China's share of global pork consumption, which is expected to rise to 52% in 2014 from 45% in 2007, according to United States Department of Agriculture (USDA) estimations. The country might also account for more than 75% of global pork-consumption growth during the next five year. Solid increase of consumption is expected to other meat product, which should stimulate the demand for maize and soybean, used for animal feed. South America and Africa are also registering a growth of meat consumption, albeit at lower volumes.

Production of grains during the past two years ensured very good supplies. The forecasts for this year's crops resulted to decrease of 25% of prices of wheat, corn and soybean. Nevertheless, the mid-term prospects for further stock building is related only to harvests that might outperform expectations. Average weather conditions in mid-term would not contribute to extraordinary increase of stocks due to the solid demand. This should keep prices at relatively attractive levels and encourage planting. Improved availabilities are only short-term factors that will stimulate demand through lower prices. This trend is expected to have very positive effect on margins of meat processors but it is also a factor for continuation of consumer behavior changes in developing markets.

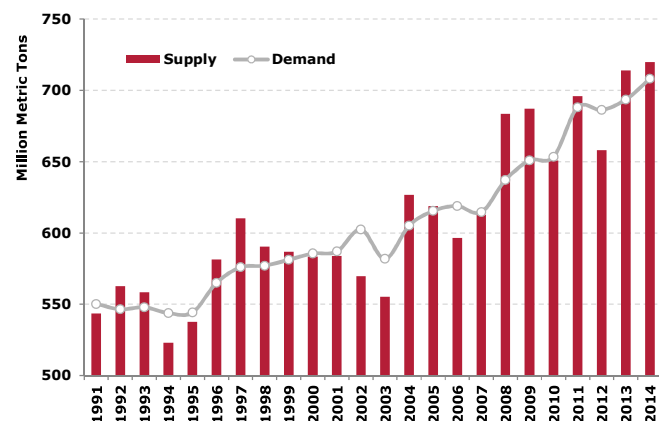
*Prices under pressure from abundant stocks*

Agricultural producers should also feel the price pressure. Moreover, a further dampening of sentiment of farmers could result to a decrease of future investments into machinery, irrigation and soil nutrients. Projections of International Grains Council (IGC) for global production are based on the assumption for area expansion in key exporters, most notably in South America and Black Sea region. The main reason for the increase in 5-year period is the improvement of productivity. Average yields are expected to grow by 1.1% annually beyond 2014/2015, compared to 0.6% increase in cultivated area. More than half of the anticipated increase in output over the next five years is maize, to reflecting the relative strength of animal feed demand over other uses. Consumption of grains for animal feed is expected to rise by 2.2% annually in the medium term, compared to 1.9% for industrial use and 1.2% for direct use for food. Short-term estimations of USDA point to 6.17% increase of world stocks of wheat this year, which are slightly below the previous forecasts. Projections for 2014/2015 are also positive but inventories are not expected to increase sizably. Corn inventories are forecasted to grow by 25% this year, followed by another 10% for harvest year 2014/2015.

*Forecasts point to moderate growth of stocks*

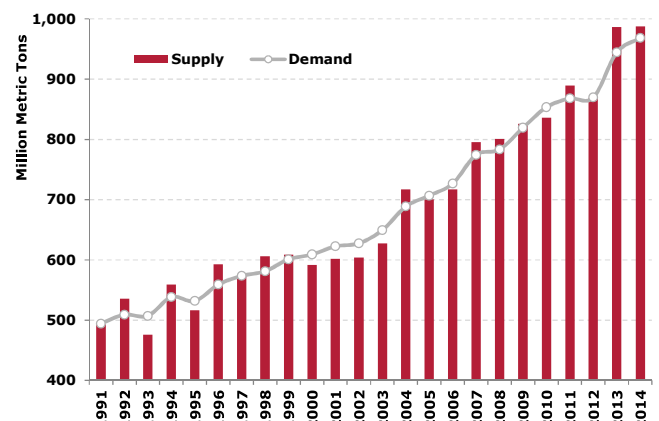
Global grains trade is seen rising strongly (by 3.4% annually), in the medium term, as increased demand is met by production growth in the major exporters. Shipments of coarse grains are expected to rise particularly strongly at 4.9% annually led by a projected 5.6% p.a. increase for maize largely driven by anticipated heavier buying by China, according to IGC.

Exhibit 1: World demand for wheat grew by 1% on average since 1991 and 2014 will add to the current surplus



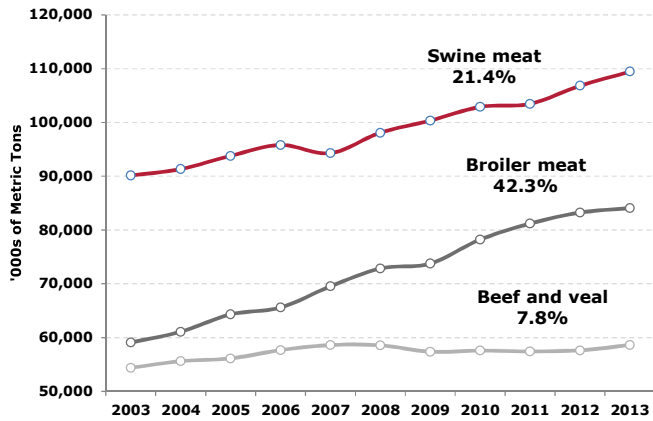
Source: USDA

Exhibit 2: World demand for corn rose by 3% on average since 1991 due to the growing consumption of meat world-wide



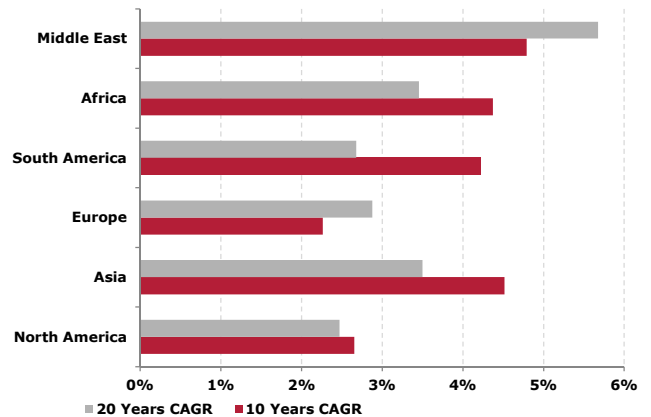
Source: USDA

Exhibit 3: Worldwide production of meat soared due to the demand from Asia



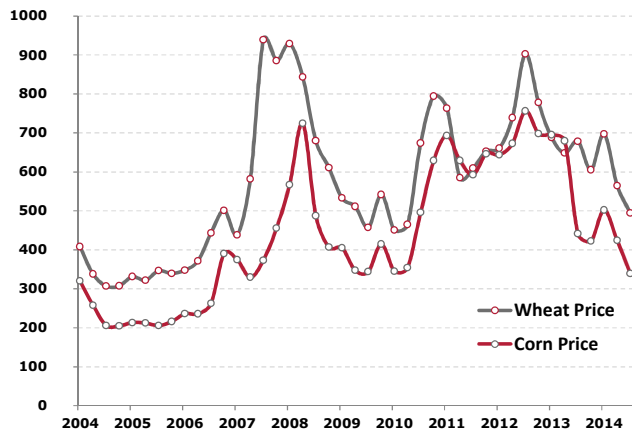
Source: Bloomberg

Exhibit 4: Growth of corn consumption, as primary measure for meat production, accelerated in Emerging markets



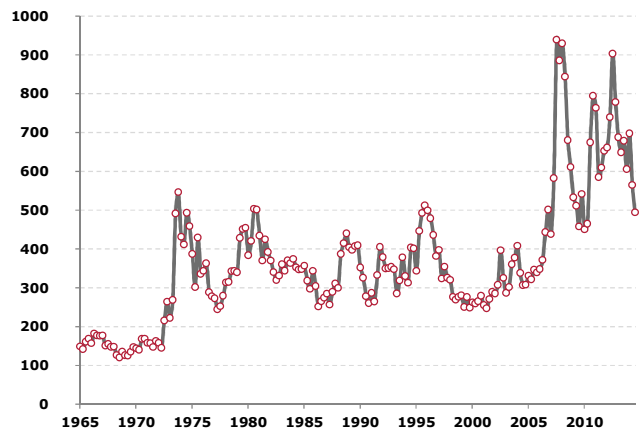
Source: USDA, calculations Elana Trading

Exhibit 5: Correlation between wheat and corn prices; decline on yearly basis is 27% and 23%, respectively



Source: Bloomberg, Generic future prices, USD cents per bushel

Exhibit 6: Price of wheat is subject of high volatility and approached a bottom that is justified by current oil prices and rising demand of grains



Source: Bloomberg, Generic future prices, USD cents per bushel

**WHEAT: MEDIUM-TERM SUPPLY AND DEMAND**

	12/13 EST.	13/14 FORECAST	14/15 PROJ.	15/16 PROJ.	16/17 PROJ.	17/18 PROJ.	18/19 PROJ.	PREVIOUS FIVE YEAR AVERAGE*	14/15	AVERAGE 14/15- 18/19
<b>YIELD (T/HA)</b>	3.0	3.2	3.1	3.2	3.2	3.2	3.2	0.5%	-0.8%	0.8%
<b>AREA (M HA)</b>	215	221	223	225	226	227	228	-0.2%	1.2%	0.5%
<b>PRODUCTION (M T)</b>	655	696	699	709	718	729	737	0.3%	0.3%	1.3%
<b>CONSUMPTION (M T)</b>	673	690	697	708	719	728	738	1.3%	1.1%	1.4%
<b>OF WHICH:</b>										
<b>FOOD</b>	466	471	476	481	486	491	497	1.1%	1.1%	1.1%
<b>FEED</b>	131	134	135	140	144	147	150	3.1%	0.5%	2.7%
<b>INDUSTRIAL</b>	18	19	20	20	20	21	21	1.4%	2.7%	1.4%
<b>OF WHICH ETHANOL</b>	7	8	8	8	8	8	9	4.9%	2.5%	1.8%
<b>TRADE (JUL/JUN, M T)</b>	141	142	138	139	143	145	148			
<b>STOCKS (M T)</b>	175	182	183	184	184	184	183			
<b>Y/Y CHANGE</b>	-18	+7	+1	+1	0	0	-1			
<b>MAJOR EXPORTERS**</b>	49	53	51	51	51	53	54			

Notes: \*2008/09-2013/14, \*\*Argentina, Australia, Canada, EU, Kazakhstan, Russia, Ukraine, US  
Source: International Grains Council

**CORN: MEDIUM-TERM SUPPLY AND DEMAND**

	12/13 EST.	13/14 FORECAST	14/15 PROJ.	15/16 PROJ.	16/17 PROJ.	17/18 PROJ.	18/19 PROJ.	PREVIOUS FIVE YEAR AVERAGE*	14/15	AVERAGE 14/15- 18/19
<b>YIELD (T/HA)</b>	4.9	5.4	5.4	5.5	5.6	5.7	5.7	1.3%	0.3%	1.4%
<b>AREA (M HA)</b>	177	175	174	175	176	176	177	2.2%	-0.7%	0.4%
<b>PRODUCTION (M T)</b>	863	948	944	962	980	997	1,016	2.9%	-0.4%	1.8%
<b>CONSUMPTION (M T)</b>	868	922	940	960	980	1,000	1,020	3.2%	1.9%	2.0%
<b>OF WHICH:</b>										
<b>FOOD</b>	100	101	102	104	106	108	109	2.3%	1.7%	1.7%
<b>FEED</b>	486	525	535	547	560	572	585	2.1%	1.8%	2.3%
<b>INDUSTRIAL</b>	247	261	266	271	276	281	287	6.2%	2.1%	1.9%
<b>OF WHICH ETHANOL</b>	144	151	152	154	155	157	158	5.7%	1.1%	0.9%
<b>TRADE (JUL/JUN, M T)</b>	96	102	105	111	118	125	130			
<b>STOCKS (M T)</b>	126	152	156	158	158	155	151			
<b>Y/Y CHANGE</b>	-5	+26	+4	+2	0	-3	-5			
<b>MAJOR EXPORTERS**</b>	35	64	68	69	67	64	60			

Notes: \*2008/09-2013/14, \*\*Argentina, Brazil, Ukraine, US

Source: International Grains Council

**CROP PRODUCTION IN BULGARIA**

Bulgaria is a traditional exporter of cereals. The production of wheat varies between 4 and 5 m tons annually, of which 1.5 m tons cover the domestic consumption. The production volumes depend on arable land each year, which is in direct connection to the previous year's prices. The usage of nutrients and protection chemicals manages to maintain the crop yield of wheat despite the negative weather effects. The quality also depends on investments in chemicals as well as the timely harvesting and the storage processing. The wheat crop this summer has good quality that corresponds to the previous year and volumes are estimated to increase by 0.9% to 4.87 m tons. The reasons for the rising production of wheat are the 1.1% increase of arable land and the 0.2% decline of average crop yield.

Domestic prices of wheat will remain at current levels in 2014/2015 due to the ample supplies and low international prices. However, some upward pressure might come from the higher production costs and the demand of high grade wheat. Bulgarian producers were reluctant to sell at low prices after the harvest as this year's cost of 0.15 EUR per kg corresponded to the late summer domestic price.

Producers' biggest problem this season was high harvest costs of wheat and barley. Fuel costs could also raise total expenditure up to 10% of the total price of wheat this year. Machines were unable to operate at optimal conditions due to the rainfall. Additional costs for chemicals against plant diseases might increase further expenditures of farmers. Estimations of farmers' association point to production costs per hectare at the amount of BGN 1,500 in 2014.

No pressure is expected from international producers, despite the record high crops in Russia and Ukraine. Bulgarian production maintains good quality in 2014, whereas the rainfall in Ukraine, France and Romania decreased the quality of grains. The main risk on wheat price is the embargo of Russia to import meat from EU that could limit the demand of grains from meat and milk producers. Bulgarian companies reported normal operations in export of grains, despite the delays in harvest. Bulgaria's predominant markets are EU countries – Italy, Spain, Portugal, France and Germany. The good positions are determined by the excellent quality of wheat. Another large market for the region of Black Sea is Egypt, while the exports of Bulgaria this year will be directed to Lebanon, Libya and Saudi Arabia.

The production of corn was estimated from the Ministry of Agriculture and Food to exceed by 57% the volumes of 2013. Current inventories are abundant and extra volumes should increase export. The estimated production costs per ton are BGN 201.

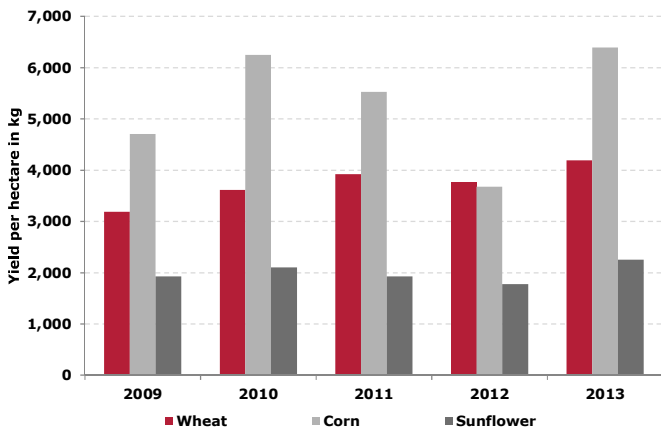
The crop of sunflower is expected to remain unchanged in terms of volumes as the lower crop yield per hectare should be compensated by higher arable land. The decrease in average crop yield in Northeast Bulgaria is 4% to 2,540 kg/ha, according to the first estimates of the Ministry.

The farmers' profit per hectare varies between BGN 200 and 300 for production of cereals. Rents are under pressure from lower prices of grains and rising harvest costs. Profitability depends substantially on the quality of grains and the investments of farmers in production of high grade cereals. Higher rents on land also have negative effect on the return per hectare.

*Good quality but higher wheat production costs*

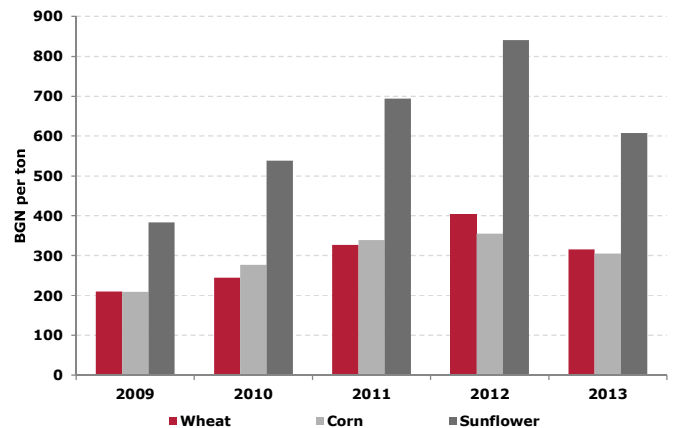
*Lower prices of maize and sunflower in 2014*

Exhibit 7: Weather conditions are stronger factor for corn yield than other grain crops in Bulgaria



Source: Bulgarian Ministry of Agriculture and Food

Exhibit 8: Domestic prices depends on quality of grains /for wheat/ and production volumes /for sunflower/



Source: Bulgarian Ministry of Agriculture and Food

### AGRICULTURAL LAND MARKET

The agricultural land market in Bulgaria gathered speed during the first decade of the century. Post-financial crisis period had little impact on volumes traded and prices. Moreover, positive cash flows of agricultural producers had improved their access to bank loans. They invested in land to secure their production capacities or to achieve further growth. Few SPVs were created to invest in land and became large owners. The process of land consolidation speeded up due to the rising prices and availability of credit.

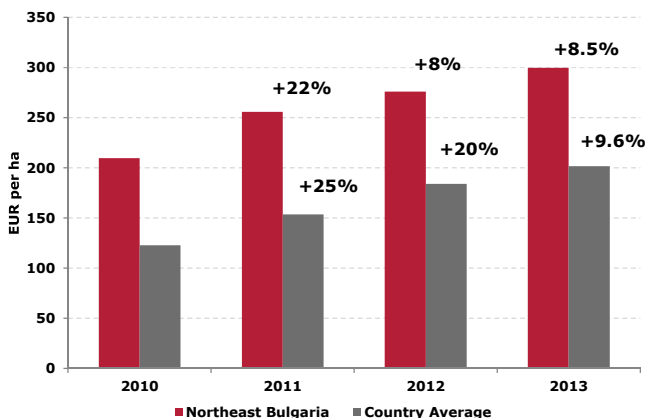
*Stable land prices in Northeast Bulgaria in 2013*

Short-term changes of rents and prices suggest that an important phase of land market development has finished. Prices of land rose faster than rents during the past three years. It could be explained with the high rent yields in 2010 that were 11.05% in Northeast Bulgaria. At the same time country's average was 8.60%. According to the official statistics, rent yields in 2013 were 7% and 6.4% of land price in northeastern region and the country, respectively. The average land price per hectare soared 126% in Northeast Bulgaria for the period 2010-2013. Similar figures were reported for the country's average prices. The deceleration of growth in land prices is in relation to the current level of profitability from agricultural production. We expect that the pace of increase would be moderate and should correlate to the overall productivity growth as well as the level of subsidies for farming.

Producers were also eager to pay high rents for the year 2013-2014. That could have negative effect on their end-year results, following the rising production costs and the grain prices' slump. Thus further deceleration of land price growth is possible.

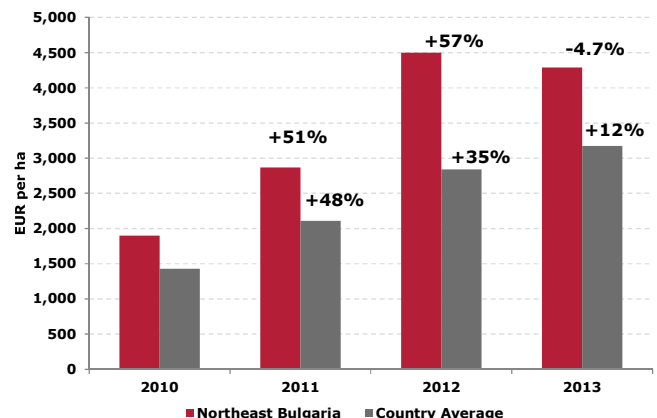
Agricultural land prices in EU are higher than these in Bulgaria with similar soil quality, with lowest difference among the counties in Central and Eastern Europe.

Exhibit 9: Rents rose by single-digit percentage in 2013



Source: National Statistical Institute

Exhibit 10: Agricultural land prices based on concluded deals



Source: National Statistical Institute



**AGRIA'S OPERATIONS**

The subsidizing of agricultural production in Bulgaria contributes substantially to the financial results of Agria. The payments depend on the arable land and the investments in machine and equipment of agricultural producers. The subsidies for land are from the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD). Kristera Agro received most subsidies in Agria Group. The increase of subsidies as percentage of net profit could be attributed to the solid investments in 2011-2013. The farmland of Agria's group remained unchanged for the period.

*Subsidies contributed to profits and risk of decline is low*

Income from subsidies will remain an important factor for the performance of the Group. The forthcoming changes in subsidies' regime should affect large grain producers. To avoid concentration in payments and to support broad range of agricultural producers, the government approved a new scheme for subsidies for the next year. It adds a ceiling of subsidy to EUR 300,000 per agricultural producer. For farmers that receive between EUR 150,000 and EUR 300,000 a decrease of subsidy by 5% should be implemented, net of labor costs and social payments. However, a registration of additional companies as agricultural producers might evade the ceiling of subsidies with small addition to costs for big farmers. The changes will be applied on the payments in 2015, i.e. at the beginning of the following year. Expected payment is EUR 84.72 per ha for 2015 or 10% increase as compared to the current year.

Agria did not expect any decline of subsidies after the implementations of the new rules. Although it is still unclear how the implementation of new ceilings could affect large producers, the fragmentation of large-scale farms might avoid the limits on payments as no ceiling is considered for related companies.

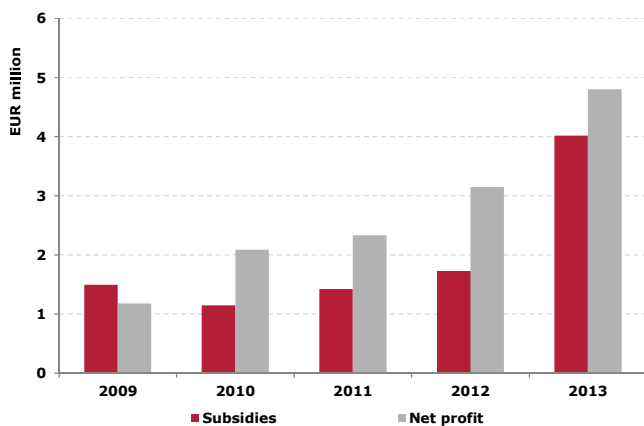
The management of the Group announced that this year's harvest should reach at least 95% of 2013's volumes. The impact of the rainy weather on wheat was limited by the usage of protective chemicals, whereas maize and sunflower received a boost in yields from the heavy rainfall. The quality of grains is expected to be very good. Only 5% of wheat crop had higher harvesting costs.

*Forecasts for slightly lower production volumes in 2014*

As end of September, companies of the Group cultivate 18,000 ha farmland. Agria planned to increase the area by 15% to 20,000 ha in 2014-15. This is the largest expansion of agricultural production in three years and should improve profitability further. Crop yields showed sizable improvement last year due to the investments in irrigation and the selection of arable land. Irrigated land of Agria represents 900 ha as access of water in North-east Bulgaria is limited. The Group aims to double its crop yield of corn on irrigated land, where it is possible to build the infrastructure on owned land.

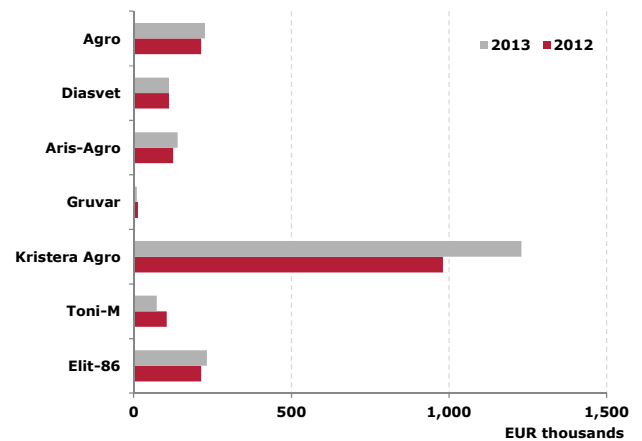
Agria's subsidiaries use hybrid seeds from leading brands and are GMO-free producers.

Exhibit 11: Subsidies for agricultural production represented the majority of net profit



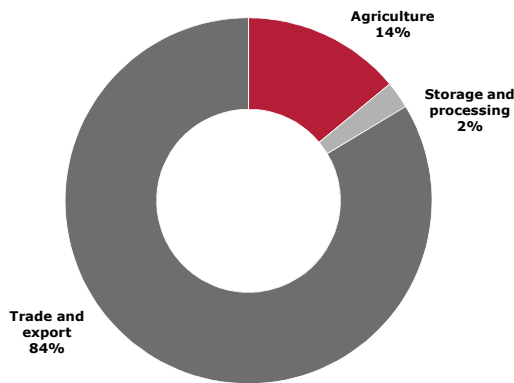
Source: Agria

Exhibit 12: Subsidies of Agria's subsidiaries from EAGF and EAFRD



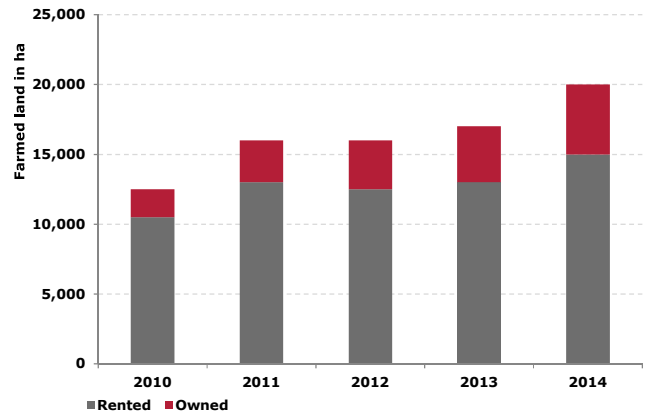
Source: State Fund Agriculture

Exhibit 13: Business segments of Agria Group Hold by generated revenues in 2013



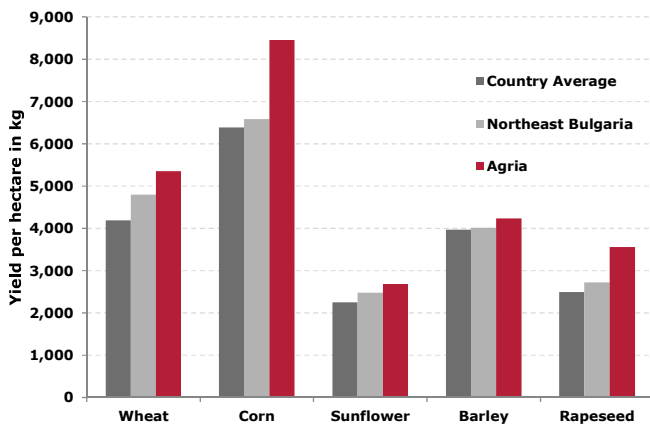
Source: Agria

Exhibit 14: Increase of arable land by 15% in 2014-2015



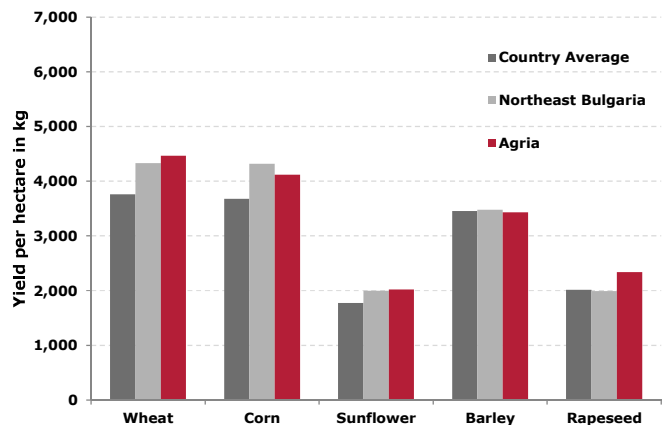
Source: Agria; forecasts for 2014

Exhibit 15: Significant advantage in crop yields in 2012-2013 as compared to country average and the northeast region...



Source: Agria, Ministry of Agriculture and Food

Exhibit 16: ... while crop yields in 2011-2012 were close to the averages for the region



Source: Agria

## INVESTMENT PROGRAM

Agria implements a straightforward investment program that aims at increase of agricultural production and improvement of profitability. The first target is achieved through acquisitions of smaller agricultural producers. The benefit of the strategy is hidden in the selection of land plots and production factors, including labor force. Moreover, Agria avoids the pitfall of paying higher than average rents or prices for land since it is not in direct completion for the rights to farm.

The Group accomplished three acquisitions in 2014. The acquisition of Diasvet added 706 ha farmed land after the deal in March 2014, while the acquisitions of BD Agri and BD Farm in the third quarter contributed to the increase of farmed land by 2,454 ha.

2014 investment program by segments includes:

- Agriculture: increase of owned land to 5,300 ha; investments in equipment at the amount of EUR 150,000
- Storage and processing: purchase of transportation equipment at the amount of EUR 250,000; reconstruction of the base in Popovo town
- Trade and export: increase of capacity of storage facility in Devnya to 65,000 tons at the amount of EUR 400,000. Higher capacity should expand export of grains

The total value of planned investments is EUR 9,8 m. The bulk of funds (EUR 6 million) should be used for acquisitions of agricultural producers.

The Group actively manages its land assets with the aim to improve average crop yield and to benefit from its logistic network. Investments in 2015, at the amount of EUR 10 m, should focus on irrigation and other equipment, resulting to improved profitability in mid-term.

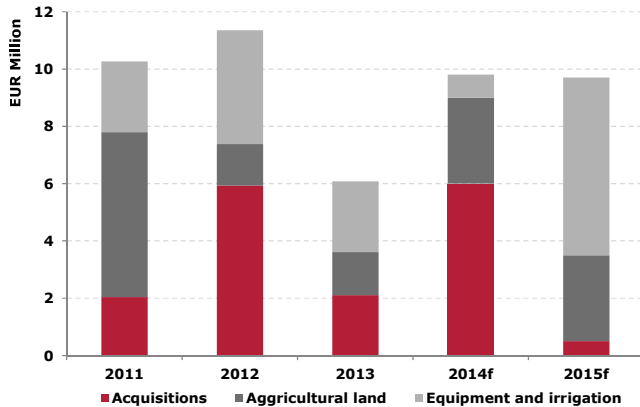
*Investments in increase of farmland and equipment*

The increase of agricultural production provides the opportunity to expand the business focus of the Group to other areas that could benefit from the current strategy. Agria planned to invest in biofuel production after the IPO in 2008 but abandoned its intentions due to the negative market conditions afterwards. Nevertheless, the management has in consideration the possibilities to produce second-generation bioethanol from waste biomass. The other investment project is building a facility for corn oil and farina.

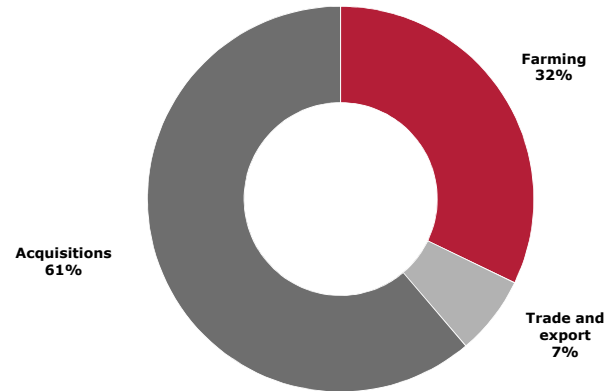
*Long-term goal is to add a biofuel plant for biomass waste*

Exhibit 17: Changing the focus from acquisition of land and rights to rent to investments in equipment and irrigation

Exhibit 18: Structure of investments in 2014 by business lines



Source: Agria



Source: Agria

## FINANCIAL ANALYSIS AND VALUATION

Agria's business depends mainly on two factors. The first and most important are agricultural prices that contribute to revenues from both production and trading with grains. The second factor is the volumes and quality of crops. All factors make forecasts uncertain.

*Expected recovery of sales in 2015*

We prefer to build a model based on two expectations:

- Growth through acquisitions, mainly in agricultural production. The Group also invested recently in the increase of storage capacity, but we don't expect the focus to turn predominantly to this segment. Our forecasts for 2014 are negative (10% decline of sales), considering the lower prices of grains. We expect that 2015-18 will post a double-digit growth in sales each year due to recovery of prices and higher production volumes. Years afterwards should be followed by organic growth and improvement in crop yields. Therefore, we assume a gradual deceleration of sales growth to 3.5%;
- Investment program that will lead to an improvement of margins. Our forecasts are for moderate increase of margins. Operating margin could rise from 9% in 2013 to 12% in long-term. It will reach the high level, registered in 2012. However, we consider it an achievable target considering the investments in irrigation and new machines as well as the long-term recovery of grain prices.

The following table presents the multiples calculated with consolidated results for the past three years. It reveals that Agria has low multiples on trailing base, while our forecasts for decline in 2014 correspond to small deterioration in ratios. P/E and EV/EBITDA ratios suggest that the market is still cautious regarding the latest trends in the sector. EV/EBITDA is higher than P/E ratio due to the sizable debt of the company. It is 8 and is suggesting that further strong price gains are not likely to happen.

*Low multiples suggest that investors are still cautious regarding the bad weather effects*

The market cleared up the imbalance in price-to-book during this year but it is still below 1. The driving force behind the long-term growth of the stock price should become the cash flows generated by the company through its successful model to expand storage volumes, trade and production of grains.

According to our DCF model, Agria is an attractive long-term investment with a defensive profile. Short-term risks, including larger decline of revenues in 2014 or prolonged period of low grain prices, are priced in the multiples that are well below average for Bulgarian stocks.

	2012	2013	TTM	2014E
<b>Last Price</b>	<b>3.15</b>	<b>4.95</b>	<b>8.60</b>	<b>8.60</b>
<b>Number of Shares</b>	6,800,000	6,800,000	6,800,000	6,800,000
<b>Market Capitalization</b>	21,413,200	33,653,200	58,480,000	58,480,000
<b>Net Profit</b>	6,165,000	9,394,000	9,112,000	8,261,038
<b>P/E</b>	<b>3.47</b>	<b>3.58</b>	<b>6.42</b>	<b>7.08</b>
<b>Equity</b>	51,635,000	60,745,000	64,042,000	69,006,038
<b>P/B</b>	<b>0.41</b>	<b>0.55</b>	<b>0.91</b>	<b>0.85</b>
<b>Sales</b>	87,220,000	153,754,000	127,436,000	135,303,520
<b>P/S</b>	<b>0.25</b>	<b>0.22</b>	<b>0.46</b>	<b>0.43</b>
<b>EV</b>	89,192,200	96,106,200	128,799,000	136,283,282
<b>EBITDA</b>	14,393,000	16,626,000	15,413,000	16,750,576
<b>EV/EBITDA</b>	<b>6.20</b>	<b>5.78</b>	<b>8.36</b>	<b>8.14</b>
<b>ROE</b>	12.60%	16.72%	15.33%	12.73%
<b>ROA</b>	5.44%	6.82%	6.07%	5.27%

**FINANCIAL PERFORMANCE ANALYSIS**

Agria implements a policy of gradual growth by acquisitions of companies and investments in storage facilities. The dependence on volatile agricultural prices makes revenues difficult to forecast. We expect a long-term growth of grain prices that will contribute to double-digit increase of sales in 2015 and afterwards. The profit margins should improve due to the investments in storage facilities and irrigation but rising prices of grains also have sizable contribution to bottom line in our model.

*We expect an increase of debts for short term*

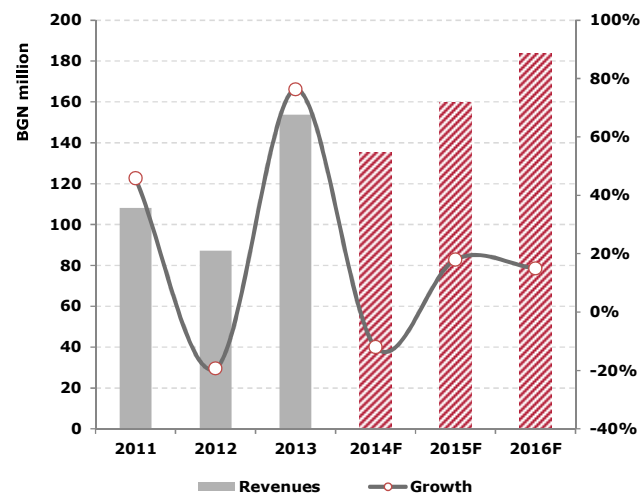
The Company generated solid cash flow from operations in 2013 that was used to acquire additional assets and for investments. We consider Agria as a growing company and the payment of dividends is not on the agenda for at least two or three years. It maintained large debt during the past three years to ensure funds for its investments and higher inventories. Our model assumes that the Group would increase further its debt level in 2014 to ensure the capital needed to finance its acquisition program and higher receivables and inventories. Afterwards, we expect debt/equity to decline.

Agria maintained high ROE during the last three years. The EBIT it generated covered at least 4 times the interest expenses in 2013. We expect that the company to maintain similar level of interest coverage.

The first half of the year was substantially weaker in terms of sales. Reasons could be found in the decrease of grain prices, whereas the colder, rainy weather postponed the harvest of wheat to the third quarter. However, the management of Agria forecasted only 7% decline of revenues in 2014, followed by 5% growth in 2015. Net profit is expected to reach BGN 11.5 m in 2014 and BGN 12.6 m in 2015.

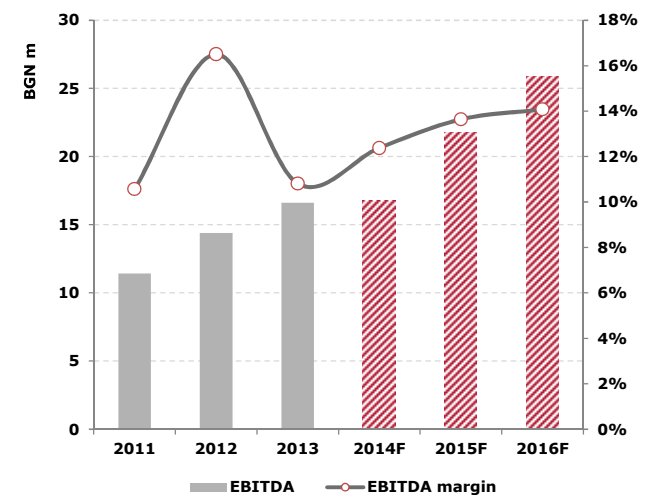
*Agria's forecasts are more positive regarding net profit*

Exhibit 19: A decline of revenues in 2014, followed by steady growth due to the expansion of production and trade



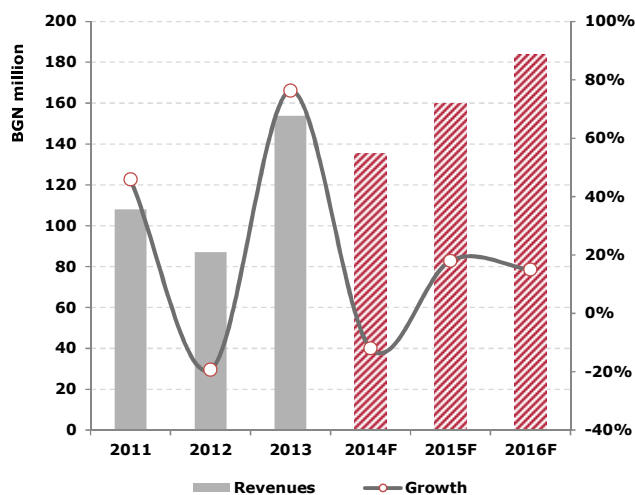
Source: Elana Trading estimates, company data

Exhibit 20: EBITDA margin to increase to 14%



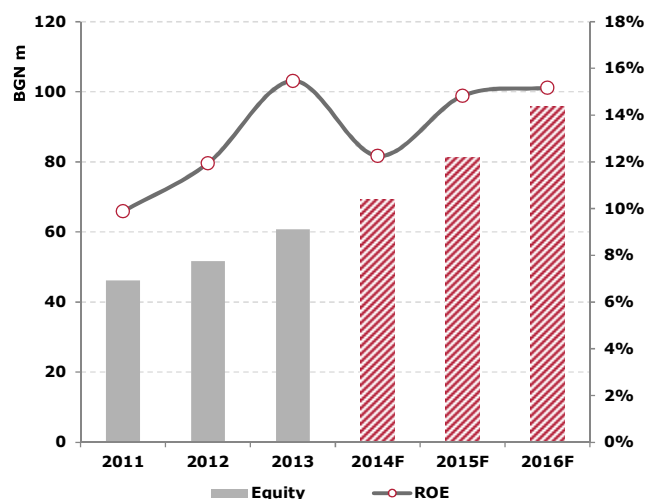
Source: Elana Trading estimates, company data

Exhibit 21: Relatively high debt-to-equity ratio is a margin of safety in our scenario of acquisitions and investments



Source: Elana Trading estimates, company data

Exhibit 22: ROE to return on high levels after the weakness in 2014



Source: Elana Trading estimates, company data

### VALUATION OF AGRIA

Agria is currently traded at below average multiples as compared to the Bulgarian market. The Company might face some short-term difficulties due to the lower prices of grains but the market already priced in the negative expectations after the very positive 2013.

Our price target is derived from the DCF method for valuation. Rather than use a comparison to agricultural producers and grain traders, we prefer to focus on the long-term prospects. The effect of volatile prices and production volumes cannot be excluded.

The discounted cash flows model is based on our estimations for deceleration of growth from 18% in 2015 to the long-term rate of 3.5%. This performance represents our scenario for growth from acquisitions. Therefore, the small improvement of profit margins is due to the higher percentage of irrigated farming and the investments in machines. We expect operating margin to reach 12% in 2017.

Agria had access to cheap financing via bank loans during the previous several years. There are no reasons to expect that the Company should face higher than market interest rates on its loans. The cost of debt should follow the trend of average bank rates. Therefore, the cost of debt will remain lower than cost of equity. We estimate in our model that Agria will decrease gradually its debt level as its growth phase will turn to more mature development. Therefore, our starting WACC is at 8.78% but we expect it to grow gradually to 13.88% as we forecast Bulgaria's risk free rate to increase in the coming decade both due to the expected higher base rates in Europe and higher debt financing by the Bulgarian state. Agria's beta is 1.2, according to Bloomberg's calculation on the price action during the past two years. The beta exceeds 1 as the stock outperformed the market from its very low price level. We maintain the beta despite the fact that the stock should be regarded as defensive position.

The intrinsic value of Agria's share is BGN 15.11, calculated by our forecasts for WACC. We also provide sensitivity analysis on the price per share, based on terminal growth and EBIT margin with the assumption of identical WACC for the 10-year period.

*Long-term prospects are positive*

*High WACC represents the low market capitalization*

### WACC CALCULATION

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TERMINAL YEAR
RISK FREE RATE	2.20%	3.00%	3.25%	3.50%	3.50%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
EQUITY RISK PREMIUM	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
BETA	1.18	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
<b>COST OF EQUITY</b>	<b>14.00%</b>	<b>15.00%</b>	<b>15.25%</b>	<b>15.50%</b>	<b>15.50%</b>	<b>16.00%</b>	<b>16.00%</b>	<b>16.00%</b>	<b>16.00%</b>	<b>16.00%</b>	<b>16.00%</b>
COST OF DEBT	5.00%	5.25%	5.50%	5.75%	5.75%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
EFFECTIVE TAX RATE	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
<b>AFTER-TAX COST OF DEBT</b>	<b>4.50%</b>	<b>4.73%</b>	<b>4.95%</b>	<b>5.18%</b>	<b>5.18%</b>	<b>5.40%</b>	<b>5.40%</b>	<b>5.40%</b>	<b>5.40%</b>	<b>5.40%</b>	<b>5.40%</b>
WEIGHT OF EQUITY	46%	48%	52%	56%	59%	65%	70%	75%	75%	80%	80%
<b>WACC</b>	<b>8.83%</b>	<b>9.65%</b>	<b>10.27%</b>	<b>10.95%</b>	<b>11.31%</b>	<b>12.29%</b>	<b>12.82%</b>	<b>13.35%</b>	<b>13.35%</b>	<b>13.88%</b>	<b>13.88%</b>

**DCF ASSUMPTIONS**

BGN'000	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TERMINAL YEAR
<b>REVENUES</b>	135,304	159,658	183,607	206,558	227,214	246,527	263,784	279,611	293,591	305,335	316,021
<i>GROWTH</i>	-12.00%	18.00%	15.00%	12.50%	10.00%	8.50%	7.00%	6.00%	5.00%	4.00%	3.50%
<b>EBIT</b>	12,854	17,562	21,115	24,787	27,266	29,583	31,654	33,553	35,231	36,640	37,923
<i>EBIT MARGIN</i>	9.50%	11.00%	11.50%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%
<b>INVESTMENTS</b>	17,341	9,519	13,438	15,198	13,540	6,853	7,226	7,584	7,883	8,116	8,358
<b>DEPRECIATION</b>	3,897	4,215	4,737	5,329	5,794	6,286	6,726	7,130	7,487	7,786	8,059
<b>NET WORKING CAPITAL</b>	9,471	15,966	18,636	24,064	26,584	24,899	26,642	28,241	29,653	30,839	31,918

**DISCOUNTED CASH FLOWS**

BGN'000	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TERMINAL YEAR
<b>EBIT</b>	12,854	17,562	21,115	24,787	27,266	29,583	31,654	33,553	35,231	36,640	37,923
<b>EBIT(1-T)</b>	11,568	15,806	19,003	22,308	24,539	26,625	28,489	30,198	31,708	32,976	34,130
<b>ADD: D&amp;A</b>	3,897	4,215	4,737	5,329	5,794	6,286	6,726	7,130	7,487	7,786	8,059
<b>LESS: INVESTMENTS</b>	17,341	9,519	13,438	15,198	13,540	6,853	7,226	7,584	7,883	8,116	8,358
<b>LESS: CHANGE NWC</b>	-3,025	6,495	2,670	5,428	2,520	-1,685	1,743	1,599	1,412	1,186	1,117
<b>FCF</b>	1,149	4,008	7,632	7,011	14,273	27,743	26,247	28,146	29,899	31,460	32,714
<b>PV FCF</b>	1,101	3,491	5,977	4,873	8,812	14,665	11,983	10,996	10,306	9,152	
<b>SUM OF PV FCF</b>	81,355										
<b>PV OF CONTINUING VALUE</b>	91,683										
<b>TOTAL PV FREE CASH FLOWS</b>	173,038										
<b>LESS: OUTSTANDING DEBT</b>	72,130										
<b>PLUS: FINANCIAL ASSETS</b>	1,811										
<b>PV OF EQUITY</b>	<b>102,719</b>										
<b>NUMBER OF SHARES ('000)</b>	6,800										
<b>PRICE PER SHARE</b>	15.11										

**SENSITIVITY ANALYSIS**

Exhibit 23: Terminal growth

	2.0%	3.0%	3.5%	4.0%	5.0%
<b>WACC</b> 12.0%	18.08	19.86	20.91	22.09	24.94
13.0%	15.37	16.71	17.48	18.34	20.37
14.0%	13.21	14.24	<b>14.82</b>	15.46	16.95
15.0%	11.47	12.26	12.71	13.20	14.32
16.0%	10.04	10.67	11.02	11.40	12.25

Source: Elana Trading estimates

Exhibit 24: Terminal EBIT margin

	10.0%	11.0%	12.0%	13.0%	14.0%
<b>WACC</b> 12.0%	17.56	19.23	20.91	22.59	24.26
13.0%	14.72	16.10	17.48	18.86	20.24
14.0%	12.52	13.67	<b>14.82</b>	15.97	17.11
15.0%	10.78	11.75	12.71	13.68	14.64
16.0%	9.39	10.20	11.02	11.84	12.65

Source: Elana Trading estimates

**RECOMMENDATION AND PRICE TARGET**

We initiate coverage of Agria with BUY recommendation. We consider the current consolidation of the stock price as good entry point with long-term horizon. The risk of share price decline due to negative surprises on quarterly results is already priced in.

Our 12-month target price is BGN 15.11, based on our DCF model. This represents 90% upside potential. This is very large difference with the current stock price and it looks difficult to achieve nowadays regarding the current market conditions. However, the stock is undervalued when having in mind the future cash flows and the low multiples. The stock's performance should follow the growth of revenues in the long-term, although the expansion of multiples could become primary reason for short-term gains.

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

- Agria is a growth company that might attract institutional investors with experience on frontier markets that will not be restricted by the small market capitalization of the Company /USD 35 m/.
- Bulgarian institutional investors are not active at the moment. However, several large local institutional investors (pension and mutual funds) consider the stock

*Recommendation: BUY*  
*Target Price: BGN 15.11*  
*Upside potential: 90%*

as interesting and have it in their portfolios.

- Domestic private investors are more susceptible to the latest news. Nevertheless, they have positive bias toward the stock and will increase their demand at lower price levels.

**STOCK PRICE DYNAMICS**



**ANNUAL FINANCIAL DATA(AUDITED)**

<b>INCOME STATEMENT ('000 BGN)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>TTM</b>	<b>6M 2013</b>	<b>6M 2014</b>
<b>REVENUE</b>	<b>108,085</b>	<b>87,220</b>	<b>153,754</b>	<b>127,436</b>	<b>54,216</b>	<b>27,898</b>
OPERATING EXPENSES	99,796	76,753	140,079	114,253	48,879	23,053
CHANGE IN INVENTORIES	(4,219)	(4,192)	(2,791)	(3,588)	(8,280)	(9,077)
COST OF MATERIAL	17,562	17,967	20,806	19,612	12,231	11,037
COST OF LABOR	1,477	1,890	2,236	2,443	1,071	1,278
COST OF EXTERNAL SERVICES	7,371	9,097	11,444	10,819	2,533	1,908
DEPRECIATION AND AMORTIZATION	3,138	3,926	2,951	2,230	2,447	1,726
NET BOOK VALUE OF ASSETS SOLD	73,749	47,983	104,678	82,094	38,699	16,115
OTHER COSTS	718	82	755	643	178	66
<b>OPERATING INCOME</b>	<b>8,289</b>	<b>10,467</b>	<b>13,675</b>	<b>13,183</b>	<b>5,337</b>	<b>4,845</b>
INTEREST EXPENSE	2,187	2,726	3,123	3,047	1,477	1,401
FOREIGN EXCHANGE LOSSES (GAINS)	366	91	(37)	3	(30)	10
NET NON-OPERATING LOSSES (GAINS)	672	709	597	423	377	203
<b>PRETAX INCOME</b>	<b>5,064</b>	<b>6,941</b>	<b>9,992</b>	<b>9,710</b>	<b>3,513</b>	<b>3,231</b>
INCOME TAX EXPENSE	502	776	598	598	0	0
<b>INCOME BEFORE XO ITEMS</b>	<b>4,562</b>	<b>6,165</b>	<b>9,394</b>	<b>9,112</b>	<b>3,513</b>	<b>3,231</b>
EXTRAORDINARY LOSS NET OF TAX	0	0	0	0	0	0
MINORITY INTEREST	0	0	0	0	0	0
<b>NET INCOME</b>	<b>4,562</b>	<b>6,165</b>	<b>9,394</b>	<b>9,112</b>	<b>3,513</b>	<b>3,231</b>
<b>EARNINGS PER SHARE IN BGN</b>	<b>0.67</b>	<b>0.91</b>	<b>1.38</b>	<b>1.34</b>	<b>0.52</b>	<b>0.48</b>
<b>BALANCE SHEET ('000 BGN)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>TTM</b>	<b>6M 2013</b>	<b>6M 2014</b>
CASH AND NEAR CASH ITEMS	578	674	2,008	1,811	2,286	1,811
SHORT-TERM INVESTMENTS	0	0	0	0	0	0
ACCOUNTS AND NOTES RECEIVABLE	17,039	20,073	40,522	50,058	31,464	50,058
INVENTORIES	32,585	58,208	36,106	39,389	44,207	39,389
OTHER CURRENT ASSETS	213	115	236	181	408	181
<b>TOTAL CURRENT ASSETS</b>	<b>50,415</b>	<b>79,070</b>	<b>78,872</b>	<b>91,439</b>	<b>78,365</b>	<b>91,439</b>
LT INVESTMENTS AND LT RECEIVABLES	5	5	5	5	5	5
NET FIXED ASSETS	39,152	45,871	51,501	54,185	49,399	54,185
OTHER LONG-TERM ASSETS	4,853	7,251	12,900	13,728	12,929	13,728
<b>TOTAL LONG-TERM ASSETS</b>	<b>44,010</b>	<b>53,127</b>	<b>64,406</b>	<b>67,918</b>	<b>62,333</b>	<b>67,918</b>
<b>TOTAL ASSETS</b>	<b>94,425</b>	<b>132,197</b>	<b>143,278</b>	<b>159,357</b>	<b>140,698</b>	<b>159,357</b>
ACCOUNTS PAYABLE	2,230	7,677	12,316	15,597	10,645	15,597
SHORT-TERM BORROWINGS	25,413	53,822	51,317	52,073	47,487	52,073
OTHER SHORT-TERM LIABILITIES	272	21	735	705	437	705
<b>TOTAL CURRENT LIABILITIES</b>	<b>27,915</b>	<b>61,520</b>	<b>64,368</b>	<b>68,375</b>	<b>58,569</b>	<b>68,375</b>
LONG-TERM BORROWINGS	19,272	14,631	13,144	20,057	19,357	20,057
OTHER LONG-TERM LIABILITIES	1,051	4,411	5,021	6,883	7,922	6,883
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>20,323</b>	<b>19,042</b>	<b>18,165</b>	<b>26,940</b>	<b>27,279</b>	<b>26,940</b>
<b>TOTAL LIABILITIES</b>	<b>48,238</b>	<b>80,562</b>	<b>82,533</b>	<b>95,315</b>	<b>85,848</b>	<b>95,315</b>
TOTAL PREFERRED EQUITY	0	0	0	0	0	0
MINORITY INTEREST	0	0	0	0	0	0
SHARE CAPITAL & APIC	6,800	6,800	6,800	6,800	6,800	6,800
RETAINED EARNINGS & OTHER EQUITY	39,387	44,835	53,945	57,242	48,050	57,242
<b>TOTAL EQUITY</b>	<b>46,187</b>	<b>51,635</b>	<b>60,745</b>	<b>64,042</b>	<b>54,850</b>	<b>64,042</b>
<b>WORKING CAPITAL</b>	<b>21,922</b>	<b>16,876</b>	<b>12,496</b>	<b>21,253</b>	<b>17,510</b>	<b>21,253</b>
<b>NUMBER OF SHARES:</b>	<b>6,800,000</b>	<b>6,800,000</b>	<b>6,800,000</b>	<b>6,800,000</b>	<b>6,800,000</b>	<b>6,800,000</b>
<b>PRICE IN BGN - PERIOD END:</b>	<b>3.05</b>	<b>3.15</b>	<b>4.95</b>	<b>7.80</b>	<b>8.10</b>	<b>8.60</b>
<b>MARKET CAP IN ,000 BGN - PERIOD END:</b>	<b>20,747</b>	<b>21,413</b>	<b>33,653</b>	<b>53,047</b>	<b>55,080</b>	<b>58,480</b>



<b>CASH FLOW STATEMENT ('000 BGN)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>TTM</b>	<b>6M 2013</b>	<b>6M 2014</b>
NET INCOME	4,562	6,165	9,394	9,112	3,513	3,231
DEPRECIATION& AMORTIZATION	3,138	3,926	2,951	2,230	2,447	1,726
OTHER NON-CASH ADJUSTMENTS	2,434	(17,336)	20,531	14,107	12,114	5,690
CHANGES IN NON-CASH CAPITAL	4,294	5,046	4,380	637	(5,014)	(8,757)
<b>CASH FROM OPERATIONS</b>	<b>14,428</b>	<b>(2,199)</b>	<b>37,256</b>	<b>26,086</b>	<b>13,060</b>	<b>1,890</b>
DISPOSAL OF FIXED ASSETS	0	1,072	275	1,986	222	1,933
CAPITAL EXPENDITURES	(14,976)	(7,593)	(3,790)	(4,545)	(1,949)	(2,704)
INCREASE IN INVESTMENTS	(4,736)	(3,006)	(3,997)	(352)	(4,365)	(720)
DECREASE IN INVESTMENTS	0	0	0	0	0	0
OTHER INVESTING ACTIVITIES	0	0	0	0	0	0
<b>CASH FROM INVESTING ACTIVITIES</b>	<b>(19,712)</b>	<b>(9,527)</b>	<b>(7,512)</b>	<b>(2,911)</b>	<b>(6,092)</b>	<b>(1,491)</b>
DIVIDENDS PAID	0	0	0	0	0	0
CHANGE IN SHORT-TERM BORROWINGS	4,211	28,409	(2,505)	4,586	(6,335)	756
CHANGE IN LONG-TERM BORROWINGS	8,334	(4,641)	(1,487)	700	4,726	6,913
INCREASE IN CAPITAL STOCKS	0	0	0	0	0	0
DECREASE IN CAPITAL STOCKS	0	0	0	0	0	0
OTHER FINANCIAL ACTIVITIES	(7,271)	(11,946)	(24,418)	(28,936)	(3,747)	(8,265)
<b>CASH FROM FINANCING ACTIVITIES</b>	<b>5,274</b>	<b>11,822</b>	<b>(28,410)</b>	<b>(23,650)</b>	<b>(5,356)</b>	<b>(596)</b>
<b>NET CHANGES IN CASH</b>	<b>(10)</b>	<b>96</b>	<b>1,334</b>	<b>(475)</b>	<b>1,612</b>	<b>(197)</b>
<b>END-OF-PERIOD CASH</b>	<b>578</b>	<b>674</b>	<b>2,008</b>	<b>1,811</b>	<b>2,286</b>	<b>1,811</b>
<b>CASH PER SHARE</b>	<b>0.09</b>	<b>0.10</b>	<b>0.30</b>	<b>0.27</b>	<b>0.34</b>	<b>0.27</b>

<b>FINANCIAL AND PERFORMANCE INDICATORS</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>TTM</b>
<b>VALUATION</b>				
PRICE/EARNINGS (P/E)	4.55	3.47	3.58	6.42
PRICE/BOOK (P/B)	0.45	0.41	0.55	0.91
PRICE/SALES (P/S)	0.19	0.25	0.22	0.46
PRICE/CASH PER SHARE	2.69	2.12	2.73	5.16
EV (IN '000 BGN)	64,854	89,192	96,106	128,799
EV/EBITDA	5.68	6.20	5.78	8.36
<b>PROFITABILITY</b>				
RETURN ON COMMON EQUITY	10.59%	12.60%	16.72%	15.33%
RETURN ON ASSETS	5.28%	5.44%	6.82%	6.07%
RETURN ON INVESTED CAPITAL	8.02%	8.14%	10.05%	9.28%
EBITDA MARGIN	10.57%	16.50%	10.81%	12.09%
OPERATING MARGIN	7.67%	12.00%	8.89%	10.34%
NET INCOME MARGIN	4.22%	7.07%	6.11%	7.15%
<b>DIVIDEND</b>				
DIVIDEND YIELD	0.00%	0.00%	0.00%	
DIVIDEND PER SHARE				
<b>LIQUIDITY</b>				
CURRENT RATIO	1.81	1.29	1.23	1.34
QUICK RATIO	0.63	0.34	0.66	0.76
<b>CREDIT</b>				
LT DEBT/EQUITY	0.42	0.28	0.22	0.31
TOTAL DEBT/EQUITY	0.97	1.33	1.06	1.13
TOTAL DEBT/TOTAL ASSETS	0.47	0.52	0.45	0.45
EBITDA/INTEREST EXPENSE	5.22	5.28	5.32	5.06

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