

ADVANCE TERRAFUND

INDUSTRY: REIT/AGRICULTURAL LAND

FIGHTING OFF REGULATORY NONSENSE

10.6% 5YR AVERAGE DIVIDEND YIELD. AMONG THE PIONEERS IN AGRICULTURAL LAND SECURITIZATION IN BULGARIA, ADVANCE TERRAFUND IS THE BIGGEST PUBLICLY LISTED PRIVATE LAND OWNER, REAPING PROFITS FROM THE RISING LAND DEMAND AND LAND APPRECIATION. AGGRESSIVE TAKEOVER ATTEMPTS AND REGULATORY NONSENSE TO BE HURDLES FOR ITS LAND BANKING STRATEGY.

MAJOR CASH RICH LAND MARKET PLAYER

Advance Terrafund REIT is among the pioneers in agricultural land securitization in Bulgaria. Today, it is the biggest land REIT and among the biggest private land owners with 21.7K ha of land. Its long term performance proven strategy is to buy fragmented plots, consolidate and then rent and/or sell them. Despite active strategy execution and generous dividends, it has also built up a sizable cash reserve of nearly BGN 50 m (25% of total assets).

EXCELLENT PERFORMANCE AND INVESTOR RETURN TRACK RECORD

During the 10 years of operations, Advance Terrafund has purchased 45K+ ha of land and sold 23K+ ha. Thus, the REIT generated over BGN 195.0 m in land sale revenue and returned over BGN 100.0 m to investors with a 5YR average dividend yield of 10.6%. The REIT is obliged to distribute min. 90% of profits from renting and selling low-historic-cost land. Future yields to stay around 10% as it sells land, including with deferred payments, to land hungry EU subsidies benefitting mid-sized farmers.

LUCRATIVE TAKEOVER TARGET WITH A REGULATORY NONSENSE SWEETENER

The Fund's solid market position and successful strategy have turned it into a lucrative takeover target, especially appetizing to local industrial groups diversifying into land. The latter already bought out major publicly listed land REITs but have not succeeded with a takeover of Advance Terrafund. Accordingly, one hypothesis for the latest major nonsensical foreign land ownership limit in Bulgaria suggests a hostile attempt for the Fund. In mid-February, the Parliament introduced aggressive penalties to any land ownership outside the EU and the EEC, including for publicly listed companies. If not revoked the new regulation can seriously jeopardize Advance Terrafund's performance and/or lead to forced sale of the land portfolio or the entire REIT. So far, the Company said it will not go for any of the abovementioned options and has taken all necessary actions to protect the REIT's investors.

GOOD CORPORATE GOVERNANCE & ATTRACTIVE ENTRY POINT

Advance Terrafund is among the best corporate governance companies on the Bulgarian Stock Exchange. It is also among the most liquid and favored stocks on the market by local and international investors with the International Finance Corporation among the major shareholders. The latest regulatory nonsense motivated stock sell-off offers an attractive buying opportunity with the stock losing 10% of its value on an 11% expected 2014 dividend yield.

VALUATION/RISKS

VALUATION: We conservatively value Advance Terrafund's intrinsic value at BGN 2.70 per share. However, due to the new land ownership regulation and the ongoing fight for its revocation, we issue a HOLD recommendation and refrain from setting a target price. We will revalue our position once there is a resolution on the regulatory nonsense. **RISKS:** Regulatory nonsense to foreign land ownership and corresponding penalties.

in kBGN, excl. ratios	2012	2013	2014	2015F
Revenues	34,982	27,958	19,656	18,273
Net profit	49,199	34,740	13,602	12,213
Total Assets	239,397	233,395	212,779	214,094
Land portfolio (dca)	244,151	225,502	217,081	208,398
BV of Invest. Property	157,030	163,870	160,885	160,072
Debt, excl. prov. dividend	1,673	2,678	2,707	1,913
Total Equity	199,798	199,886	210,072	198,914
ROE	24.62%	17.38%	6.47%	6.14%
EPS (BGN)	0.578	0.408	0.160	0.144
DPS (BGN)	0.493	0.398	0.269	0.220
BVPS (BGN)	2.348	2.349	2.468	2.337
Dividend Payout	100%	99.99%	98%	98%
Dividend yield	18.97%	14.21%	11.26%(F)	9.19%

HOLD
INTRINSIC VALUE: BGN 2.70
CURRENT PRICE: BGN 2.39

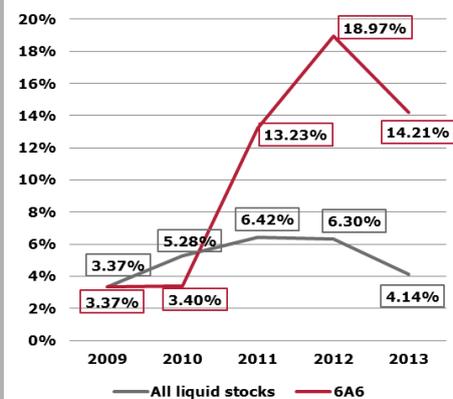
EXCHANGE RATES

EUR/BGN (FIXED): 1.95583
USD/BGN: 1.73113

MARKET DATA

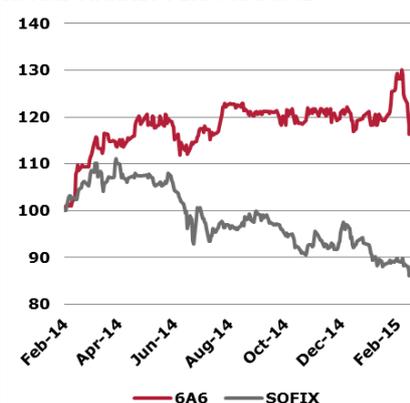
Shares Outstanding:	85.110m
Share Capital:	85.110m
Free-float:	64%
Market Cap.:	BGN 202 m
Avg. Daily Vol.:	BGN 50,000
52 Weeks Range:	BGN 2.24-2.64
BSE Ticker	6A6
Bloomberg Ticker	6A6 BU

LEADING THE LOCAL MARKET BOTH IN TERMS OF DIVIDEND YIELDS...



Source: Company Data

... AND MARKET PERFORMANCE



Source: Company Data

EXECUTIVE SUMMARY**WE ISSUE A HOLD RECOMMENDATION AND VALUE ADVANCE TERRAFUND'S INTRINSIC VALUE AT 2.70 PER SHARE.****THE COMPANY**

Advance Terrafund REIT (the Company, the Fund) is among the pioneers in agricultural land securitization in Bulgaria. Established in 2005, it quickly raised BGN 80m+ and built up a considerable portfolio. The Company's strategy is to buy undervalued and fragmented agricultural land, consolidate it and rent and/or sell it. It took advantage of a newly developing phase in the Bulgarian land market that led to land demand surge and land prices tripling in the last decade. Currently, the Fund is the biggest REIT and among the biggest private land owners in Bulgaria with 22K ha of land.

Business Development: As one of the pioneers in land securitization in Bulgaria, Advance Terrafund built up a considerable land portfolio at low historic costs in the early stages of its life. By 2008, it already had 26K+ ha of land at acquisition costs of as low as BGN 2000-3000/ha. After building the portfolio and in addition to renting it to farmers, the Company also started selling consolidated plots at much higher prices. Thus, it managed to catch a significant margin with selling prices exceeding historical costs by 2 to 3 times. Major land demand and land prices driver was the rising EU funding for the Bulgarian agricultural sector.

Currently, the margin scissors are narrowing down as Advance Terrafund continues to replace sold land with newly acquired plots but at significantly higher costs – approx. BGN 6000/7000 per hectare depending on the land quality and location. Nevertheless, the Company can still catch significant margins as land in Bulgaria remains fragmented and new EU subsidies for 2014-2020 to support both overlooked regions and crops. The latter to be also twice the 2007-2013 money (EUR 5.5 bn vs. EUR 2.5 bn) and to be targeted at younger mid-sized farmers thus stimulating the latter's demand for buying rather than renting land. Over the last decade, land prices have gone up 9% per year on average. Going forward, we expect appreciation to settle down to a more sustainable and conservative 5% per year with appreciation being much higher for overlooked areas in the country and smaller for over demanded regions.

With its considerable current land portfolio (22K ha), significant resources (BGN 48 m of cash as of Dec. 2014) and excellent market knowledge (the REIT has a wide and experienced broker network all over Bulgaria), Advance Terrafund can continue its profitable land banking strategy, including but not only by entering overlooked fragmented regions to catch the appreciation potential and selling land with deferred payments to mid-sized farmers to reap profits from the latter's rising demand.

New regulatory mess: Major hurdle on its way, however, is the latest land ownership limitations set in the Ownership and Use of Agricultural Land Act, which the Bulgarian Parliament coupled with aggressive penalties in mid-February. According to the latest changes, no company, including publicly listed one, that has owners/shareholders domiciled outside the EU or the European Economic Community (EEC) can own land. If it does, as of May 1st, 2015, it will be penalized: BGN 100/dca for initial violation and triple the penalty for any secondary violation.

Such protectionist and populist measures are not a Bulgarian exception. Nevertheless, the way and the timing of their approval suggest a lobbyist rather than a protectionist move. One hypothesis for these regulatory changes is a potential hostile takeover attempt for Advance Terrafund for which the fund has become especially lucrative considering its abovementioned competitive advantages. During the last 2-3 years, with land prices tripling and EU agri-subsidies doubling, local industrial groups diversified into the sector and went on a takeover/buy out spree for land REITs and SPVs i.e. alcohol producer Vinprom Peshtera bought out Agro Finance REIT (GAG BU) and pharmaceutical producer Rompharm Company acquired SERES SPV. Advance Terrafund was the only land specialized company to withstand an attempt so far, despite being approached with offers in the past.

Accordingly, investors and business in Bulgaria consider the latest changes as a regulatory nonsense. Heated discussions on their revocation and/or public companies exclusion from the ownership limitations are already underway. Politicians signal they would reconsider the changes, at least for publicly traded companies. If not changed, the limitations could seriously jeopardize many public companies in Bulgaria as they own agricultural land as part of their normal business activity. The biggest hit, however, would be for companies like Advance Terrafund as it is specialized in land securitization. It could lead to a forced sale of the entire portfolio or the entire REIT, for example, which however, are options that Advance Terrafund has dismissed as a plausible in a statement to investors. It also said that it has taken all necessary actions to protect the REIT's investors.

Corporate Governance: Advance Terrafund is among the best corporate governance companies on the Bulgarian stock exchange, including highest dividend paying stock. It is also one of the most liquid stocks and is a component of all market indexes, including the CGIX tracking the companies with the best corporate governance.

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 subdued economic growth as the new coalition government will be faced with major reforms to be performed in various areas such as judiciary, health care, pension insurance and energy. Public finances are stressed by recent financial system turbulences thus offering less freedom for economic stimuli.

EU accession revitalized land market in Bulgaria with institutional investors entering the sector and driving prices up. Currently, this wave is fading away, giving room to farmers supported by the new EU structural funding. The latter shall be more favorable to smaller and mid-sized farmers thus further encourage land demand and land appreciation.

THE VALUATION

We conduct a net asset valuation to Advance Terrafund under normal conditions, ignoring any force majeure from the new regulations. Thus, we arrive at a conservative BGN 2.70 per share intrinsic value or about 15% above the current market price.

SOME RISKS

Significant regulatory risk with land ownership limited to entities/persons, domiciled in the EU or the EEC, accompanied with serious penalties;

COMPANY OVERVIEW

Advance Terrafund is the biggest land REIT in Bulgaria with 21.7ha (217 081 dca) of land as of the end of December 2014. The REIT was established in 2005 when it raised BGN 85 m from the capital market for land securitization.

Biggest land REIT in Bulgaria

The Company's portfolio is spread over the most fertile and most demanded arable regions in the country. Its current portfolio is mostly spread in Northern Bulgaria (80%): (from East to West) in the districts of Varna, Shumen, Targovishte, Dobrich, Veliko Tarnovo, Pleven, Vratsa and Vidin, but also to the South (20%) in the districts of Stara Zagora and Haskovo.

The Company's business model is to buy undervalued fragmented land, consolidate it and rent and/or sell it. It has a wide network of experienced land brokers and has built up significant resources (BGN 48 m) to enter overlooked land areas in the country.

During the last five years, the Fun actively sells consolidated land and replaces it with newly acquired fragmented plots, thus its portfolio is subject to medium turnover. Overall, in the ten years of operations, Advance Terrafund has purchased 45K+ ha of land and sold 23K+ ha. Thus, the REIT generated over BGN 195.0 m in revenue and returned BGN 100.0 m to investors in dividends.

Going forward, under normal operation conditions, since 2015 the Company also plans to start selling land with deferred payments. Thus, it aims to tap on the mid-sized farmers' land demand who are encouraged to buy rather than rent land with the new 2014-2020 EU agricultural subsidies scheme.

SHAREHOLDERS' STRUCTURE

Advance Terrafund's registered capital consists of 85.110 million ordinary shares. They are distributed among numerous local and international institutional and individual investors.

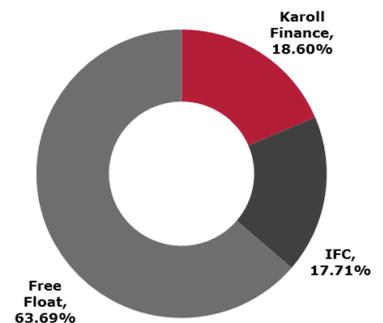
Only two shareholders exceed a 10% threshold and these are Karoll Finance (18.6%), from the local Karoll Financial Group, which created the Fund, and the International Financial Cooperation (17.7%) from the World Bank.

IFC is already past its normal investment horizon mandate but has not signaled it is ready to exit its investment in the Fund as of this moment.

Karoll Finance is owned by the founder and Chairman of the Managing Board of Karoll Financial Group – Mr. Stanimir Karolev.

The other 64% are free float (one of the highest in Bulgaria) distributed among hundreds of institutional and individual local and international investors. Most Bulgarian pension and mutual funds and most foreign investors present in Bulgaria have significant investments in the stock.

Outstanding shares: 85 110 091



MANAGING COMPANY

Karoll Finance is Advance Terrafund managing company, responsible for the Fund's operations. Shareholders have entitled it with an annual fee, calculated as following:

15% IRR per deal hurdle rate for profit sharing

- 0.375% of the Fund's investment property at acquisition cost, paid quarterly;
- 10% of the rental income, calculated quarterly;
- 10% of the difference in the land's selling price vs. acquisition cost, only if the deal has a 15% IRR (hurdle rate), calculated annually.

POTENTIAL CATALYSTS

GROWING LAND MARKET: After experiencing a fast land appreciation around Bulgaria's EU accession (9% CAGR over the last decade) due to large institutional land investors, we expect the local land market to continue growing at a more sustainable and conservative 5% CAGR until 2020 driven mostly by mid-sized land hungry farmers supported by larger and better targeted EU subsidies. The 2014-2020 direct EU agricultural funding will be twice the 2007-2013 support – BGN 5.5 bn vs. 2.5 bn, respectively, and will be targeted at smaller farmers in more overlooked crops and regions.

REGULATORY NONSENSE REVOCATION: Land ownership limit revocation or introduction an exception to public companies, to free up the Company's resources and efforts in running its normal business and focus on developing its presence in overlooked land areas to reap new EU funding stimulated benefits.

SECTOR OVERVIEW

LAND MARKET

The land market in Bulgaria underwent a drastic change in the last 25 years. In the 1990s, it went through a restitution process leaving land highly fragmented and in the hands of millions of small owners who first, did not have the willingness and/or the ability to cultivate it, and second, had no disincentive to do something with it as there is no land tax in Bulgaria.

Arable land in Bulgaria is still largely fragmented

Currently, 80% of land holdings in the country are of a 2 ha size or less which is twice as small as in the EU, according to data from the European Commission. Also, land prices in Bulgaria are still 3x below EU average even after taking into account the huge difference between member-state's markets and the considerable (9% CAGR) land price appreciation over the last decade due to the EU accession and the respective agricultural benefits.

Historically, local farmers were the major land demand driver. They took part in 90-95% of the land transactions. Institutional investors became very active in the years right before and just after Bulgaria joined the EU (2006-2008) accumulating large land portfolios of 20K+ ha at attractive prices. The institutional wave drove up both the number of transactions and the amount of transacted land. It also drove considerably up land prices which tripled in the last decade from BGN 137/dca in 2000 to BGN 429/dca in 2013, according to national statistics. However, national statistics differ significantly from real market prices as deals are struck below market prices to avoid administrative burdens. Additionally, land prices differ significantly depending on the region's fertility reaching as high as BGN 1500/dca in the most fertile region of the country - the Northeast (Dobrich district).

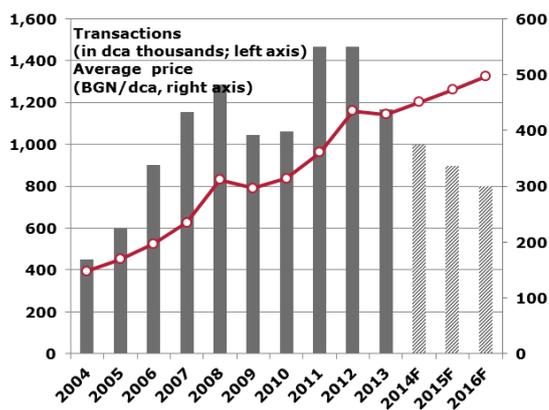
Farmers to stay land land-hungry with new EU funding scheme

As institutional players accumulated large chunks of land they became takeover targets as with ELARG, Agro Finance REIT and Seres with a total land portfolio of 60K+ ha. All of them were bought out in the period of 2012-2013 by large local industrial conglomerates which additionally drove up land transaction statistics.

Currently, the institutional wave is fading away and local farmers are returning as a major land demand driver. In the next decade, we expect to see farmers dominating the market both in terms of the number and size of transactions. We expect the latter to settle down to pre-institutional wave levels with land prices registering a conservative 5% CAGR. Some regions in the country may register higher appreciation as the new EU funding for the sector will target previously overlooked crops and areas while other previously over demanded regions may register price declines.

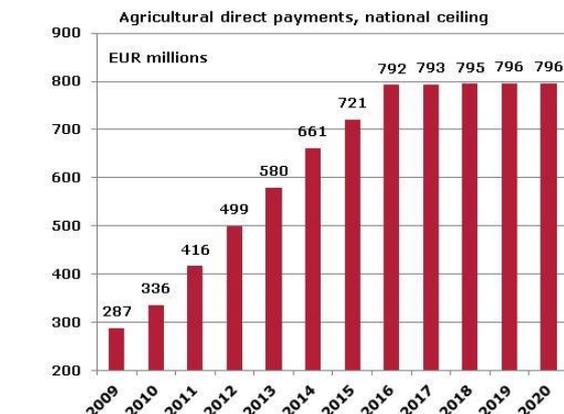
The EU funding for the sector for the period of 2014-2020 will reach EUR 5.5 bn or 2x the direct agricultural funding in the previous program period from 2007 to 2013 - EUR 2.5 bn. In addition, it will be targeted at smaller, mid-sized active and younger farmers.

Exhibit 4: Land appreciation and transactions to enter a steadier period with demand dominated by farmers



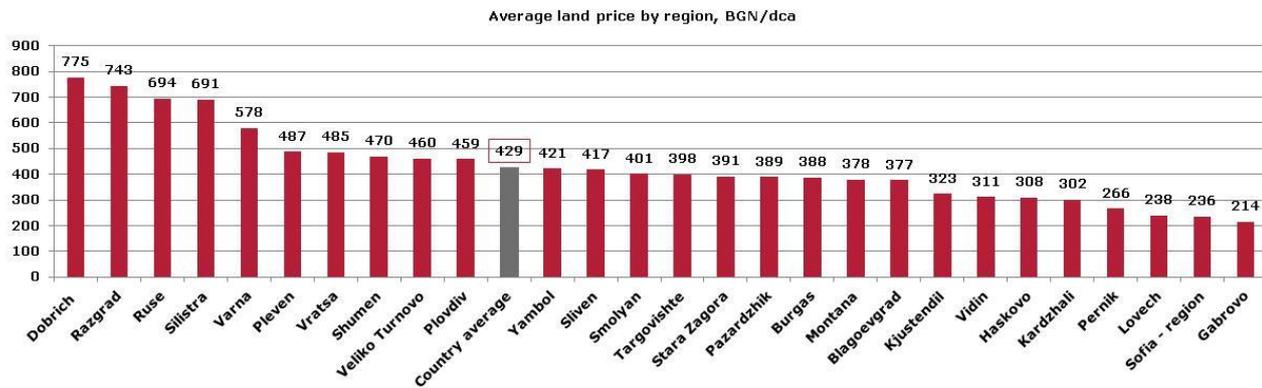
Source: Ministry of Agriculture and Food (MAF)

Exhibit 5: 2014-2020 EU subsidies for agriculture twice the 2007-2013 funding



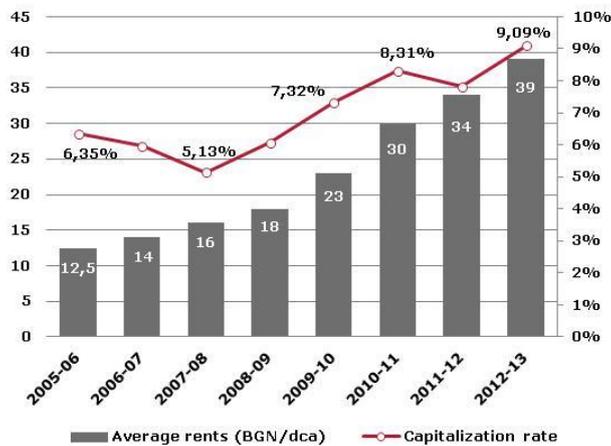
Source: MAF

Exhibit 6: Land prices in most fertile districts in Northeast Bulgaria (Dobrich, Razgrad, Ruse) 1.8x above the country average



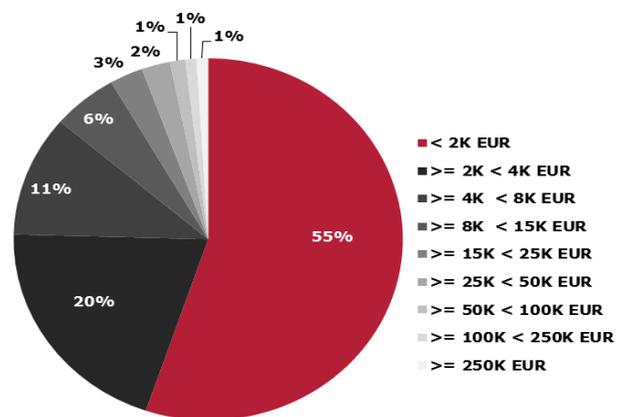
Source: National Statistical Institute, 2013 data

Exhibit 7: Rents to stabilize as land price growth settles down and may decline in highest land price regions ...



Source: National Statistics Institute

Exhibit 8: ... while land consolidation to increase average farm size both in terms of land ownership and standard output



Source: MAF; Farms by standard output

ADVANCE TERRAFUND'S MARKET PRESENCE

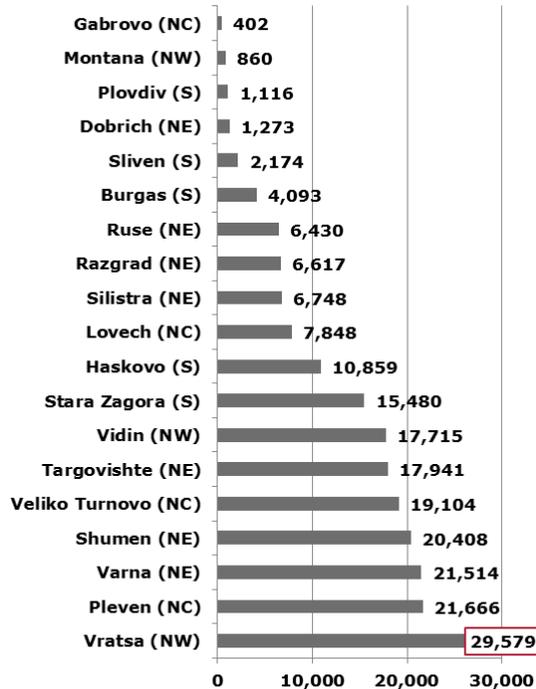
Advance Terrafund's presence on the Bulgarian land market is significant. As the biggest land REIT with 22K ha of land on the books, it is also one of the most market oriented and transparent player, buying undervalued fragmented plots, consolidating them in a particular region/village and then renting or selling them to local farmers or landlords.

One of the biggest land players

The Company is present in all important regions for the market via an experience broker network. So far, the biggest part of its portfolio is located in Northeast, Northwest and Northcentral Bulgaria which incorporate the most fertile grain producing regions of the country and thus the most attractive parts of the land market. However, the Fund is becoming active in Southern Bulgaria as well which so far has been overlooked as it is suitable for growing crops other from cereals. The latter has been the most subsidized as of the end of 2013. Going forward, additional crops and regions will be targeted with the new EU funding, thus making attractive overlooked land plots elsewhere in the country as well.

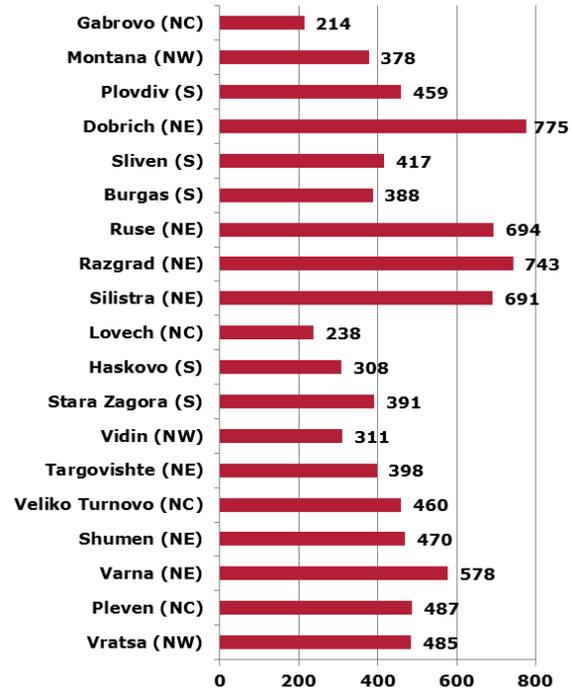
With its size, excellent market position and significant resources, Advance Terrafund is a lucrative takeover target for major local industrial groups who are looking into land diversification. Accordingly, the recent changes in the Ownership and Use of Agricultural Land Act in Bulgaria, penalizing land ownership in the country by entities and persons domiciled outside the EU and the EEC, benefit the abovementioned industrial groups and signal a lobbyist move supporting a possible hostile takeover.

Exhibit 9: Appetizing Northwest (NW) and Northeast (NE) still dominate the Fund's portfolio ...



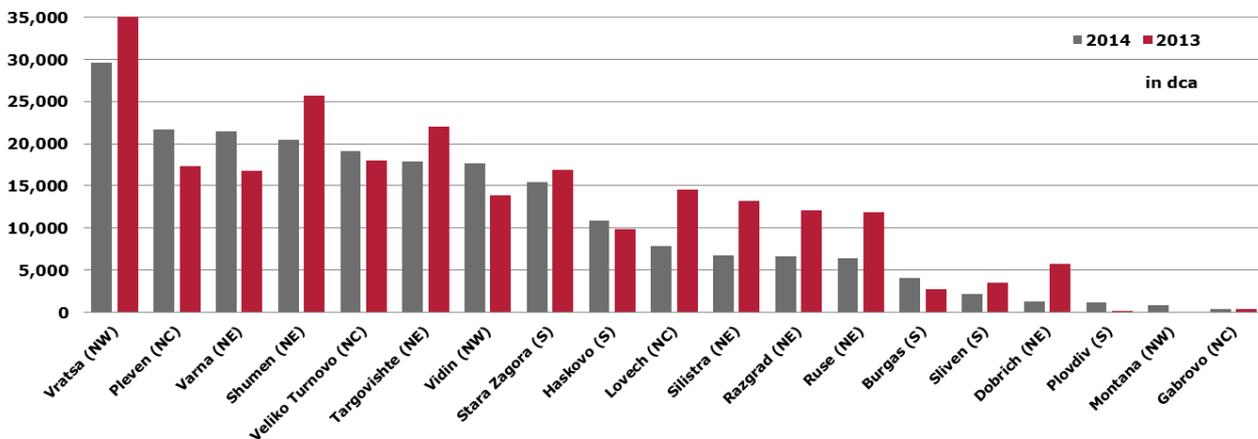
Source: Company data; (In dca)

Exhibit 10: ... which corresponds to some of the most high-priced districts in Bulgaria



Source: MAF; (in BGN/dca)

Exhibit 11: Last year, the Company sold some of the plots in the most expensive and demanded regions in the North (i.e. Silistra, Razgrad) to add plots from freshly demanded areas in the South of Bulgaria (i.e. Haskovo, Vidin, Pleven, Varna)



Source: Company data

FINANCIAL ANALYSIS AND VALUATION

Advance Terrafund's early start, significant market position and excellent track record still give the Company considerable competitive advantage to earn excellent margins from its land banking strategy. Nevertheless, with land prices appreciating considerably over the last decade, the possibility to reap 2x-3x profits from the difference between land acquisition and land selling prices will be subsiding to more suitable levels. Thus, under normal market conditions, we expect final investor dividend returns to decrease from steady double digits to more sustainable 9%-10% dividend yield.

Significant market position and excellent track record provide strong competitive advantage

Currently, the stock is under stress due to the land regulatory changes. Nevertheless, after gaining some market support it trades at 0.97 P/NAV. However, the price includes an expected 2014 dividend which we forecast to be between 0.24 and 0.26 BGN per share based on the dividend calculation matrix set by the REITs law.

ANALYSIS OF FINANCIAL PERFORMANCE

Advance Terrafund’s simple business model reflects into two main revenue sources - land rents and land sale profits. Currently, each of them represent a 1/3 and 2/3 of revenues, respectively.

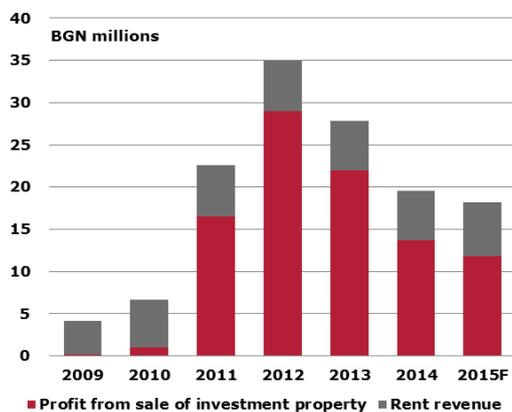
Rent income and land sale profit two major revenue sources

In the ten years of operations, Advance Terrafund has purchased 45K+ ha of land and sold 23K+ ha. Thus, the REIT generated over BGN 195.0 m in land sale revenue and over BGN 35.0 m in rent income. Going forward, under normal conditions and keeping up with its land banking strategy of adding new land to partially cover sold one, the fund should be able to sustain its historic revenue breakdown.

Additionally, the Fund has accumulated significant cash reserves amounting to BGN 48 m as of the end of 2014 even after its generous dividends over the years. Thus, it has the resources to further develop its strategy in overlooked land areas in the country.

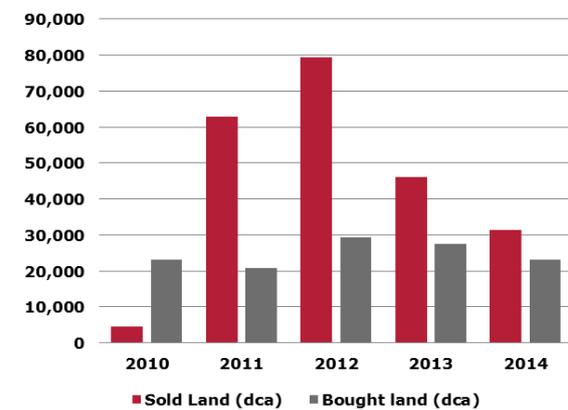
During the last ten years, the Company has returned BGN 104.0 m to investors via dividends with 5YR average dividend yield exceeding 10%. It is among the highest dividend paying companies on the Bulgarian stock exchange. Under normal conditions, going forward we expect the company to continue generating good dividend return but at more sustainable 9%-10% yields.

Exhibit 13: Profit from land sales were major revenue source in the last four years...



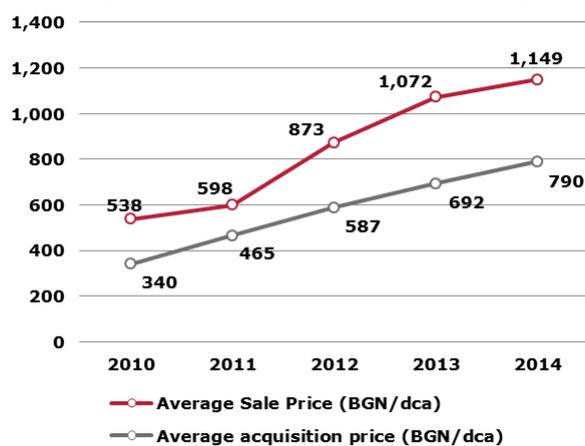
Source: Elana Trading estimates, company data

Exhibit 14: ... still the Fund steadily adds new land to keep up with its long term land banking strategy



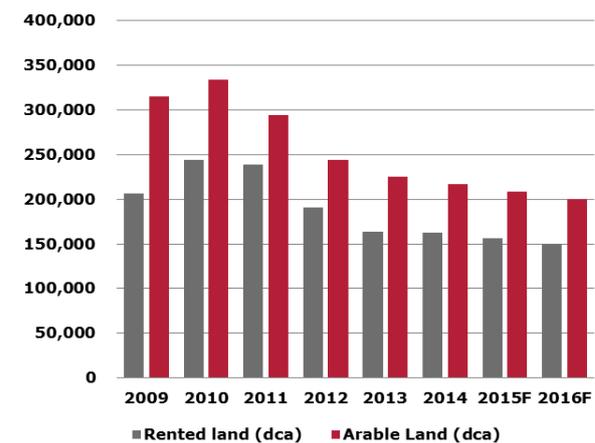
Source: Company data

Exhibit 15: The Fund was able to close a lucrative land price profit margin, but the scissors shall be narrowing down...



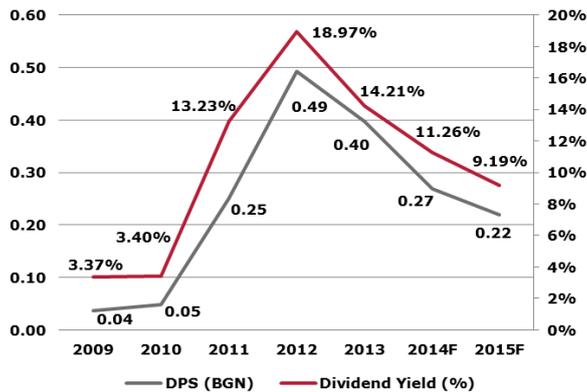
Source: Company data

Exhibit 16: Land rents have also been steady over the years and we expect them to stay this way



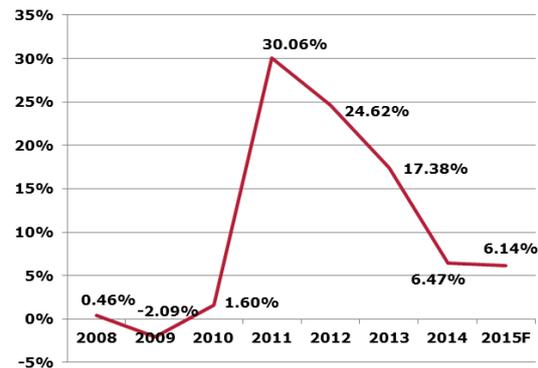
Source: Elana Trading estimates, company data

Exhibit 17: DPS averaged at 10.64% to the one Bulgarian lev in the last five years but to settle down at 9%-10%



Source: Elana Trading estimates, company data

Exhibit 18: ... with ROE to follow as land appreciates and margin scissors narrow down



Source: Elana Trading estimates, company data

REGULATORY CHANGES EFFECTS ON ADVANCE TERRAFUND AND SCENARIOS

Major hurdle to Advance Terrafund’s long term strategy can be the latest changes in the Ownership and Use of Agricultural Land Act, penalizing land ownership in the country by EU and EEC domiciled entities. Depending on how they are resolved, two major scenarios can be envisioned.

Ownership limit revocation: Due on the current major investor disapproval, the limitations are revoked or at least publicly traded land owning companies are excluded from their jurisdiction. Then, Advance Terrafund can go on with its normal business activities to seek profits from the available land market opportunities.

Ownership limit confirmation: The limitations stay as voted. Then, from the 1st of May, 2015 Advance Terrafund will be in violation, thus should pay a first penalty of BGN 21.7 m. To avoid the penalty, the most plausible option would be for the Fund to force sell the entire land portfolio. However, the sale price per ha would be distressed and be followed by a liquidation to the REIT, unless some legally complex arrangement allows for a nonpublic related local SPV to buy the portfolio and offer some comforting return to the REIT’s current investors. For example, the sale could be through a deferred payment agreement that would allow for the REIT to stop the violation i.e. no longer be the land’s owner, but still generate investor returns from the future cash flow from the agreement. The latter, of course, is highly hypothetical and we provide it only for explanatory reasons.

Currently, Advance Terrafund has overruled the forced portfolio or entire company sale options and together with the rest of the major business in the country is working on a resolution to the problem. In the worst case scenario, Advance Terrafund has enough cash to meet any potential initial penalties and work on an investor protecting solution to sustain reasonable returns.

VALUATION OF ADVANCE TERRAFUND

Since the regulatory resolution is hard to forecast, we value Advance Terrafund only under normal business conditions. To come up with a fair value of its net assets we value the Company’s land portfolio at normal rather than distressed selling prices.

We take into account the current arable land portfolio plus the small portion of urban land it has on the books. With the regards to the latter, we do not expect the Fund to develop it in the foreseeable future but rather sell it when interest surfaces. Considering it was on the books for some time now, we apply a more conservative 30% discount to its book value to arrive at a fair value of the urban land.

When valuing the arable portfolio, we are conservative and use a BGN 800 per decare to arrive at a fair value. It was a price a knowledgeable market player offered Advance Terrafund in the past. For comparison, currently the Fund sells its land at a 40% higher market prices i.e. BGN 1050-1150 per decare. We should also point out that if it comes to a forced land portfolio sale it would be highly unlikely for the selling price to be below BGN 500 per decare.

In addition, we provide a 2014 dividend projection based on the currently available public information on rents, sale revenues and land book values as well as the REIT regulatory dividend calculation matrix. To come up at the FY 2014 distributable profit we only estimate the approximate historical cost of the 2014 sold land, which component also goes into the matrix. Our estimate of the historical cost is BGN 400 per dca.

In conclusion, we value Advance Terradund’s intrinsic value at BGN 2.70 per share under normal market conditions.

NAV VALUATION

('000 BGN)	
Arable Land (217 081 dca @ BGN 800 per dca)	173,665
Urban Land (@ 30% discount to book value, as of Dec. 2014)	10,212
PPE	0
Short Term Assets	48,452
Total Assets	232,328
Less Liabilities	2,707
Net Assets Value	229,621
NAV per share (BGN)	2.70

NAV SENSITIVITY ANALYSIS TO LAND'S SELLING PRICE

	1000	900	800	700	600	500
Land price per decare (BGN)	1000	900	800	700	600	500
NAV ('000 BGN)	273,038	251,330	229,621	207,913	186,205	164,497
NAV per share (BGN)	3.21	2.95	2.70	2.44	2.19	1.93
Current price per share	2.39	2.39	2.39	2.39	2.39	2.39
P/NAV	0.745	0.81	0.89	0.98	1.09	1.24

DIVIDEND PROJECTIONS

('000 BGN)	2013A	2014F	2015F
Net income	34,740	13,602	12,213
Plus/Minus net revaluation loss/gains	-14,037	-120	-128
Minus profit from land sales based on BV	22,010	13,661	11,802
Plus profit from land sales based on historic cost	35,174	23,550	18,802
Distributable Profit	33,867	23,371	19,086
90% Dividend Payout	30,480	21,034	17,177
Gross DPS @ mandatory 90% payout, BGN	0.3581	0.2471	0.2018
Declared Dividend	33,865		
Actual DPS paid (BGN)	0.3979		
Actual Dividend Payout	99.99%		

RECOMMENDATION AND PRICE TARGET

Several factors support the long-term positive trend of Advance Terrafund's shares: solid market and cash position, proven track record, and lucrative investment return via excellent dividend payout.

Currently, the Company trades at an 11% discount to NAV, but market prices incorporate expected dividend from 2014 performance. So far, Advance Terrafund has not provisioned a dividend for 2014, but REIT regulatory calculation matrix points to BGN 0.25 dividend per share at a 90% dividend payout. However, historically the Company has distributed about 98% of distributable profit. Thus, we expect a BGN 0.27 DPS or 11% dividend under normal market conditions and current market price.

Nevertheless, any negative development with the land ownership regulation and penalties may completely change the situation. Thus, we issue a **HOLD** recommendation and value the stock at BGN 2.70 per share. The risk of underperformance as compared to other Bulgarian stocks is low under normal market condition, but high with no regulatory nonsense resolution. However, the market already had sufficient time to react to the potential damages and currently market participants are starting to accumulate the stock again:

- Bulgarian institutional investors are not aggressively on the market as they like the stock for its excellent dividend return, good liquidity, excellent management and simple business model.
- Foreign institutional investors are also passive at the moment and considering potential damages. Nevertheless, they prefer the stock also for predictable dividend returns and good liquidity.
- Individual investors are more cautious and have been on the market during past few weeks, however, under normal conditions the stock is among their favorites due to dividends and liquidity.

Recommendation: HOLD
Intrinsic Value: BGN 2.70
Upside potential: 13%

STOCK PRICE DYNAMICS



Source: Bloomberg

FINANCIAL DATA (AUDITED)

INCOME STATEMENT (IN '000 BGN)	2011	2012	2013	2014	2015F
Total Revenue	22,670	34,982	27,958	19,656	18,273
Rent revenue	6,106	5,886	5,797	5,872	6,346
Profit from sale of investment property	16,487	29,034	22,010	13,661	11,802
Other revenue	77	62	151	123	125
Operating expenses	7,236	11,058	9,922	7,549	7,309
Cost of external services	6,675	10,230	8,809	7,182	6,944
Labor costs	112	112	117	117	146
Impairments on receivables	430	629	921	192	183
Other expenses	19	87	75	58	37
Profit/(Loss) from revaluation of investment property	39,781	22,626	14,037	120	128
EBIT	55,215	46,550	32,073	12,227	11,091
Interest revenue	2,018	2,652	2,670	1,379	1,125
Financial expenses	1	3	3	4	3
Net financial income (loss)	2,017	2,649	2,667	1,375	1,122
Net Income	57,232	49,199	34,740	13,602	12,213
Number of shares	85,110,091	85,110,091	85,110,091	85,110,091	85,110,091
EPS	0.672	0.578	0.408	0.160	0.144
BALANCE SHEET (IN '000 BGN)	2011	2012	2013	2014	2015F
Cash and cash equivalents	47,625	76,018	64,059	48,452	47,945
Account Receivables	6,500	6,268	5,208	2,878	5,897
Prepayments	14	16	13	564	180
Total Current Assets	54,139	82,302	69,280	51,894	54,021
Investment property	157,144	157,030	163,870	160,885	160,072
Machinery and equipment	39	65	245	0	0
Total Non-Current Assets	157,183	157,095	164,115	160,885	160,072
Total Assets	211,322	239,397	233,395	212,779	214,094
Accounts Payable	1,625	1,628	2,578	2,640	1,883
Accrued Expenses	0	45	100	67	30
Other Current liabilities (Provisioned Dividend)	19,321	37,861	30,586	0	13,266
Total Current Liabilities	20,946	39,534	33,264	2,707	15,180
Long Term Liabilities	0	0	0	0	0
Total Liabilities	20,946	39,534	33,264	2,707	15,180
Share Capital	85,110	85,110	85,110	85,110	85,110
Additional Paid-in Capital	43,411	43,411	43,411	43,411	43,411
Retained Earnings	61,855	71,277	71,365	81,551	70,393
Total Shareholders' Equity	190,376	199,798	199,886	210,072	198,914
Total Liabilities and Equity	211,322	239,332	233,150	212,779	214,094
Net Assets	190,376	199,863	200,131	210,072	198,914
MARKET CAP IN BGN - PERIOD END:	123,324,522	191,497,705	202,562,017	203,413,117	203,413,117
NUMBER OF SHARES:	85,110,091	85,110,091	85,110,091	85,110,091	85,110,091
PRICE IN BGN - PERIOD END:	1.449	2.25	2.38	2.39	2.39

FINANCIAL PERFORMANCE INDICATORS	2011	2012	2013	2014	2015F
Valuation					
P/B	0.65	0.96	1.01	0.97	1.02
BVPS	2.24	2.35	2.35	2.47	2.34
Profitability					
EPS	0.67	0.58	0.41	0.16	0.14
Net Income Margin	252%	141%	124%	69%	67%
EBIT Margin	244%	133%	115%	62%	61%
ROE	30.06%	24.62%	17.38%	6.47%	6.14%
ROA	27.08%	20.55%	14.88%	6.39%	5.70%
Dividend					
DPS	0.25	0.49	0.40	0.27*	0.22
Dividend Yield	13.23%	18.97%	14.21%	11.26%	9.19%
Dividend Payout	99.16%	100.00%	99.99%	98.00%	98.00%
Liquidity					
Current Ratio	2.58	2.08	2.08	2.03**	3.56

* ELANA Trading Estimate

**ELANA Trading estimate with projected 2014 dividend. Advance Terrafund has not provisioned a dividend on 2014 balance sheet.

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Regulatory Authority: Financial Supervisory Commission, *Budapest Street 18, 1303 Sofia, Bulgaria*

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For more information, please contact:

Research analyst	Phone:	E-mail:	Internet:
Tatyana Vasileva	+359 2 810 00 24	vasileva@elana.net	www.elana.net
Tsvetoslav Tsachev	+359 2 810 00 23	tsachev@elana.net	www.elana.net
Lyubomir Peshev	+359 2 810 00 27	peshev@elana.net	www.elana.net