

Sparky AD – Public Offering of 10%

General Information

Sparky AD has been established in 1907 as an agricultural machine producer. The company gradually enlarges the production range. In 1997 the company was bought by Sparky Group. Sparky AD will offer 300 000 shares in the price range between BGN 45.70 and BGN 55.50. The size of the public offering is BGN 16.6 million (EUR 8.5 million) at the maximum price. The expected free-float is 10% in case of full subscription. Sparky plans to increase the free-float to 28.2% till 2010. The orders should be placed in one day – on February, 19 and the shares will be listed for trading on February, 21. The company will differentiate investors on professional and unprofessional. Unprofessional investors – physical and juridical persons should deposit the money in advance. The price will be equal for both groups and will be determined by book-building.

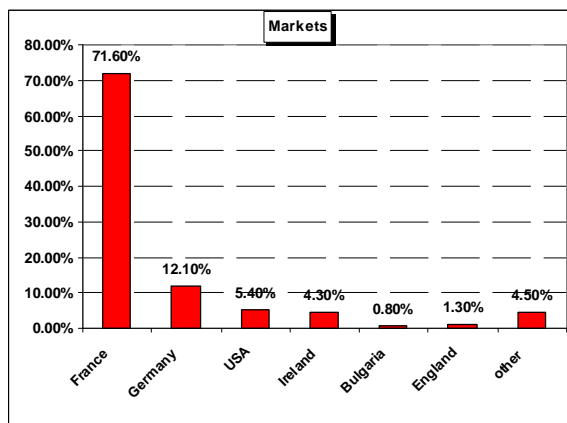
Business Description

The main activity of Sparky is producing and trading with agricultural and transport machines as well as leasing activity and rent. Company is the only producer of mechanically welded parts in Eastern Europe due to the labor extensive production. The main competitor is China but Sparky has the advantage from faster deliveries, which decreased warehouse presence and needed working capital of the clients along with the lower transportation costs.

99% from the production is for export and only 1% is intended for sale on the domestic market. The primary clients are situated in US and EU. More important destinations are France, Ireland, Germany, USA and England. Sparky's strategy is to maintain the positions on the existing markets and to enter in new one.

According the Memorandum 71.6% from the total export is for France, mainly for Haulotte, which receives 55% from the supplied production. Foreseeing stability in the market worldwide in the year ahead and with 2007 order intakes providing good visibility for the first half, Haulotte Group expects 2008 sales to exceed EUR 700 million.

Terex and Atlas Copco also are among the largest clients. The yearly growth rate of Sparky followed the growth of the orders by the main clients and is above 50% for the period 2005 – 2007.



Source: Sparky AD

General problem toward the company is the rising prices of the industrial metals on the international markets. Increased consumption of iron-ore and coke by the Chinese market additionally boosted the price of metals.

Sparky plans to invest in modernization and new equipment, which will improve the efficiency and production capacity. The total investments program for 2008 – 2010 will amount BGN 16.5 million, mainly for tangible fixed assets. During the road-show in Bulgaria, managers of Sparky announced that the company works in terms of full capacity. However, the investment program should increase the potentially and will allow Sparky to sign new contracts.

Financial Situation and Projections

Sparky increased significantly its revenues during the last three years. Moreover, the company is improving the profit margin due to the rising productivity and lower fixed costs. The strong increase of net profit in 2007 was a result of assets sale but the EBITDA margin for 2007 is already above 20%. The forecasted financial result for 2008 is slightly above the net profit for the last year as the effect of one-time revenues is not set in the future. The improvement of profit margins is slowing down and the main source of profit growth will be the expected increase of sales. The expected average sales growth for the next three years is 24%. The company will gradually increase its production capacity to meet the demand. Investments are directed to the bottle-necks of the production process.

	2005	2006	9M'06	9M'07	2007f	2008f	2009f	2010f
Revenues	20 505	31 374	22 993	39 041	49 373	62 312	77 583	95 007
D&A	1 661	1 984	1 448	1 515	2 054	2 556	3 162	3 847
EBITDA	2 397	4 770	3 813	7 875	10 117	14 067	17 883	22 350
EBIT	736	2 786	2 365	6 360	8 063	11 511	14 721	18 504
Sale of Assets	525	130	109	2 856	n/f	n/f	n/f	n/f
EBT	637	2 133	1 963	8 321	n/f	n/f	n/f	n/f
Net profit	195	1 791	1 963	8 321	8 749	9 074	11 648	14 693
EBITDA Margin	11.69%	15.20%	16.58%	20.17%	20.49%	22.58%	23.05%	23.52%
EBIT Margin	3.59%	8.88%	10.29%	16.29%	16.33%	18.47%	18.97%	19.48%
Profit Margin	0.95%	5.71%	8.54%	21.31%	17.72%	14.56%	15.01%	15.47%

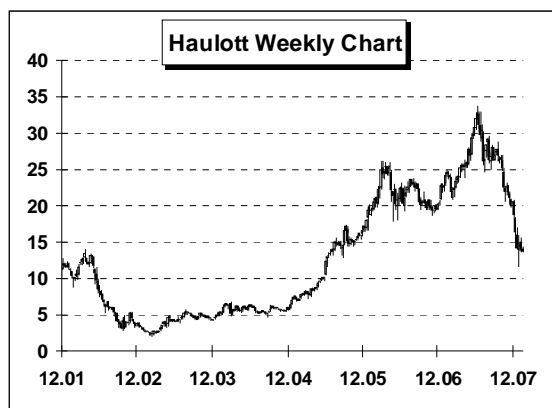
Source: Sparky

Main Clients

The main clients of Sparky are the public listed companies Haulott (France), Terex (USA) and Atlas Copco (Sweden) that produce building and agricultural machines. Sparky is the exclusive supplier of parts for specific models and its sales depend on the development of the sector.

Haulott Group manufactures boom and platform trucks for lifting materials for reaching high places. The requirement of EU to use platforms for the highs above 3 m resulted for the strong demand in the industry. However, the company's shares were under severe selling pressure due to the expectations for global economic slowdown. Currently, shares trade 7 times above net profit whereas the analysts' expectations are for 9.6% increase of sales and 10% of net profit for 2008. The management expects 11% net profit margin.

The growth last year was driven by strong equipment sales. Europe accounted 89% of total sales in the period (90% in 2006). Haulotte Group launched new manufacturing plants. The Group also continued to strengthen its commercial network, opening new offices in Mexico, Dubai and Argentina.



Source: Bloomberg

Valuation by Multiples

The price range for the public offering is BGN 45.70 to 55.50 (EUR 23.37-28.37). For valuation purposes we represent the multiples calculated on the expected financial data for 2007 and 2008. We include also comparison with the three larger clients and DCF model based on the company's projections.

Estimations for 2007

The indicative price range of BGN 45.70 to 55.50 (EUR 23.36-28.38) is resulting to market capitalization between BGN 137 and 166 million. The expected revenues for 2007 are BGN 49.7 million or the price range results to P/S between 2.7 and 3.35. The P/E is 15.67 at the minimum price, although when excluding the one-time revenues the P/E ratio will jump above 20. This is close to the average for Bulgarian stocks but in the period of correction the market could require higher premium. The minimum price is 13.55 times than the EBITDA, according to the expected financial results.

Estimations for 2008

Sparky has long-term contracts with its clients, which gives higher probability of implementation of targets. The company is aiming at other markets also as a source of future revenue growth. The forward P/E is 15.11 at the minimum price due to the higher sales and better EBITDA margin for 2008. The sales growth will decelerate this year from 57% to 26%, which is close to the average expected rate for the next three years. Sparky will maintain its debts for the three years period, which along with the increased cash will improve the Enterprise Value of the company.

Price	45.70	55.50
Number of Shares	3 000 000	3 000 000
Market Cap	137 100 000	166 500 000
Net Profit	8 749 000	8 749 000
P/E	15.67	19.03
Revenues	49 737 000	49 737 000
P/S	2.76	3.35
Equity	40 311 000	40 311 000
P/B	3.40	4.13
EV	148 969 000	178 369 000
EBITDA	10 117 000	10 117 000
EV/EBITDA	14.72	17.63
EV/Revenues	3.00	3.59
P/EBITDA	13.55	16.46

Source: Sparky;
Calculations: ELANA Trading

Price	45.70	55.50
Number of Shares	3 000 000	3 000 000
Market Cap	137 100 000	166 500 000
Net Profit	9 074 000	9 074 000
P/E	15.11	18.35
Revenues	62 312 000	62 312 000
P/S	2.20	2.67
Equity	49 384 000	49 384 000
P/B	2.78	3.37
EV	136 715 000	166 115 000
EBITDA	14 067 000	14 067 000
EV/EBITDA	9.72	11.81
EV/Revenues	2.19	2.67
P/EBITDA	9.75	11.84

Source: Sparky;
Calculations: ELANA Trading

Clients Comparison

The multiples of the three main clients of Sparky are lower due to the recent large correction. Atlas and Haulott have 22% EBITDA margin, whereas the RoE is above 25%. Sparky's expected RoE for 2008 is 20%.

Company	Country	P/E	P/B	P/S	EV/Sales	EV/EBITDA	RoA	RoE	EBITDA Margin
Atlas Copco	Sweden	15.10	39.25	1.77	2.06	9.09	13.25%	31.34%	22.65%
Haulott	France	6.75	1.59	0.79	0.82	3.70	11.48%	25.73%	22.24%
Terex	USA	10.85	3.56	0.67	0.69	6.25	10.73%	28.12%	11.09%

Source: "Reuters"

DCF Valuation

Our DCF valuation is based on the company's own projections for next three years and our declining growth model for the rest of the period. The model includes average EBITDA margin of 23.50% and investment and depreciation of 4% for the second stage. We provide also a sensitivity analysis for growth rate between 1.5% and 3.5% and WACC in 10% to 14%. The discounted cash flows show a price range between BGN 43.88 and BGN 89.79. This is in-line with the indicative range for the public offering.

Sparky											Terminal
<i>BGN'000</i>	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Year
EBIT	11 511	14 721	18 504	21 861	25 140	28 157	30 973	33 451	35 458	36 876	37 798
EBIT(1-T)	10 360	13 249	16 654	19 675	22 626	25 341	27 876	30 106	31 912	33 188	34 018
Add: D&A	2 556	3 162	3 847	4 484	5 157	5 776	6 353	6 862	7 273	7 564	7 753
Less: Investments	5 008	5 608	6 310	4 484	5 157	5 776	6 353	6 862	7 273	7 564	7 753
Less: Change NWC	648	6 637	4 676	5 985	5 886	5 415	5 054	4 447	3 602	2 546	1 696
FCF	7 260	4 166	9 514	13 690	16 741	19 927	22 822	25 658	28 310	30 643	32 322
PV FCF	6 482	3 321	6 772	8 700	9 499	10 095	10 323	10 363	10 209	9 866	
Sum of PV FCF	85 631										
PV of Continuing Value	109 546										
						Growth Rate					
						SA	1.5%	2.0%	2.5%	3.0%	3.5%
Total PV Free Cash Flows	195 176					10.0%	76.02	78.83	82.00	85.62	89.79
Less: Outstanding Debt	15 834					11.0%	65.26	67.27	69.52	72.04	74.89
PV of Equity	179 342					12.0%	56.67	58.15	59.78	61.59	63.61
Number of Shares '000	3 000					13.0%	49.67	50.78	52.00	53.33	54.80
Price Per share	59.78					14.0%	43.88	44.73	45.65	46.65	47.74

Calculations: ELANA Trading

Price Targets

The public offering at the minimum price looks reasonable when comparing the forward multiples of Sparky to the average for Bulgarian stocks. However, the adjusted net profit for 2007 results to higher P/E and there is hard to find any premium. Along with the forthcoming secondary trading this week and the possibility of additional supplies of shares from the minority shareholders, those are the reasons to not expect sizable short-term speculative gains.

Bulgarian manufacturing companies in the production of hydraulic parts are traded at higher P/E ratios. M+S Hydraulic (MCH) is priced 35 times net profit, whereas Hydraulic Elements and Systems (HES) 33 times. The P/S ratios are 1.96 and 1.43, respectively. Both companies have good perspectives for growth due to the increased demand of machinery parts but they usually trade at higher multiples than the average for Bulgarian stocks.

The solid increase of sales and profits results to fair price of BGN 59.78, according to the DCF model. However, the comparison to the three main clients that are public traded companies is a reason for worries. Their prices fell significantly due to the expectations for global economic slowdown and larger premium is required.

The price target of Sparky will depend on the general market development this year. In favorable situation the stock could trade at P/E 30 and PEG of 1 or a price of BGN 90 at the end of 2008. However, we cannot exclude the risks of more prolonged economic slowdown and trading at P/E 20 which corresponds to price of BGN 60.

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