

## EVN Bulgaria Elektrorazpredelenie EVN Bulgaria Elektrosnabdiavane



The privatization of the Government stake (33%) of electricity distribution companies in Bulgaria will start with the shares of EVN Bulgaria Elektrorazpredelenie and EVN Bulgaria Elektrosnabdiavane. The companies are owned by the local subsidiary of Austrian utility firm EVN AG.

EVN Elektrorazpredelenie's services include management of distribution grid and electricity supply to consumers. The companies operate on the energy market following the legal unbundling of the distribution and supply activities as from 1 January 2007. In 2010 the company delivered 8 TWh electricity to 1.64 million customers. It is maintaining about 55 600 km of electricity distribution network at high-, medium- and low voltage and over 12 000 transformer stations.

EVN Elektrosnabdiavane owns a license for supplying customers with energy on a regulated market. In 2010 the company delivered 7.87 TWh electricity.

They were privatized in early 2005 when EVN bought 67% of two local electricity distribution companies.

Shares of the both companies will be offered for privatization starting December 21 through the stock exchange by the rules of closed-mixed auction. The minimum price for each issue is set as follow:

- 51 612 shares of EVN Elektrorazpredelenie will be offered at minimum price of BGN 1 373.92, under the ticker **EV6**. The total amount of the Government stake will be at least BGN 70.9 million.
- The minimum price of 62 106 shares of EVN Elektrosnabdiavane will be BGN 120.31 under the ticker **1EV**. The Government stake amounts at least BGN 7.5 million.

The daily auctions will continue for 30 days or until the sale of all offered shares. The shares are already subscribed from Bulgarian Stock Exchange on Privatization Segment.

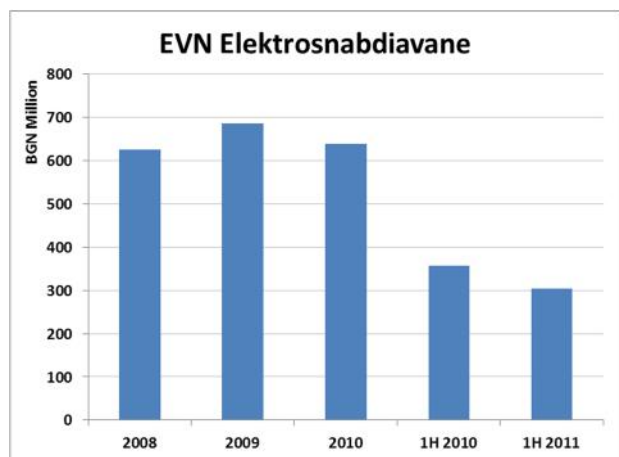
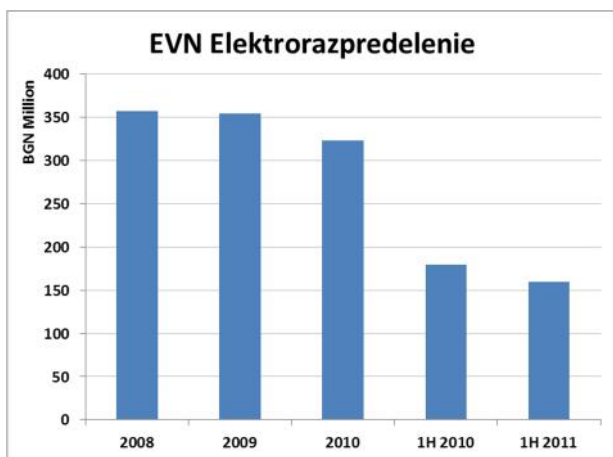
The average yearly investments for the last five years exceed BGN 120 million and are focused on the modernization of the grid. The company intends to maintain this level. EVN Elektrorazpredelenie decreased its distribution losses from 17% in 2005 to 12% in 2010, which resulted to yearly savings of 400 GWh. Interruptions, were also down by 39%. Collection toll rose from 93% in 2005 to 99% in 2010.

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## Financial analysis

### Revenues

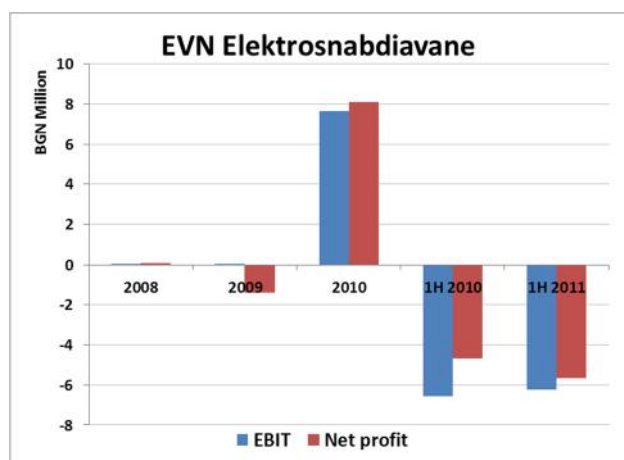
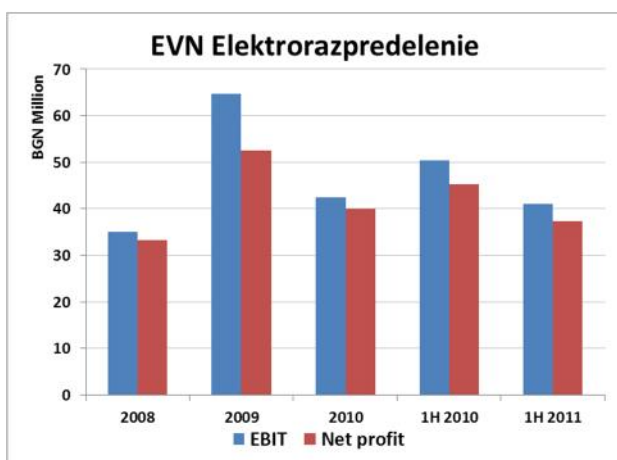
The revenues of EVN decreased in 2010 and during the first half of 2011, although the distributed electricity in 2010 posted 1.2% growth. Both companies reported larger decline for the first half of 2011 to any of the previous two years. The comparable data to the two other distribution companies showed the same pattern – grid servicing analogs of EVN Elektrorazpredelenie announced 8% decrease of revenues in 2010. However, the retail servicing subsidiaries of E.ON and Chez posted 1% growth of sales.



### Financial results

The companies of EVN Bulgaria had the largest profits in 2010 when compared to the other distributors of electricity in the country. Although the decline during the first six months is significant than year ago, EVN Elektrorazpredelenie generated large profit for the period. EVN Elektrosnabdiavane's profits are more volatile and the positive results in 2010 could prove to be an exception. E.ON's subsidiaries are the only that posted losses in 2010.

Financial results are highly dependable of the regulatory policy but in the long run the companies are expected to remain profitable. Cross-subsidizing between the two companies is not permitted by the law.



## Multiples Valuation

*Table 1  
Multiples  
comparison*

	EVN Elektrozpredelenie	EVN Elektrosnabdiavane
Minimum Price	1 373.92	120.31
Number of Shares	156 400	188 200
Market Capitalization	214 881 088	22 642 342
Government Stake	71 627 029	7 547 447
Net Profit (12M)	31 931 000	7 108 000
P/E	6.73	3.19
Equity (6M 2011)	545 716 000	67 115 000
P/B	0.39	0.34
Sales (12M)	303 245 000	584 884 000
P/S	0.71	0.04
RoE	5.85%	10.59%
RoA	4.04%	5.10%

Source: EVN Bulgaria  
Calculations: ELANA Trading

We calculated the multiples at the minimum prices for both issues. Their levels are very attractive but we have to emphasize that they are also 3.3 times lower than the privatization prices in early 2005.

### Peers' comparison

We compare the two subsidiaries of EVN Bulgaria to the largest companies in the sector of electricity.

*Table 2  
Peers'  
Comparison*

EVN Elektrozpredelenie			
Multiples	P/E	P/B	P/S
Median	12.80	1.24	0.86
Market Capitalization	408 754 000	545 716 000	303 245 000
Price	2613.52	3489.23	1938.91
Weight	50%	40%	10%
Minimum Price		1373.92	
Fair Price		2896.34	
Premium (Discount) to Current Price		110.81%	

Source: Bloomberg  
Calculations: ELANA Trading

*Table 3  
Peers'  
Comparison*

EVN Elektrosnabdiavane			
Multiples	P/E	P/B	P/S
Median	12.80	1.24	0.86
Market Capitalization	90 990 681	83 249 580	503 423 988
Price	483.48	442.35	2674.94
Weight	50%	50%	0%
Minimum Price		120.31	
Fair Price		462.91	
Premium (Discount) to Current Price		284.77%	

Source: Bloomberg  
Calculations: ELANA Trading

We give larger weight to the profits in the valuation of EVN Elektrorazpredelenie, whereas revenues are not essential for the pricing of the second company. The book value is also supporting the idea of much higher prices than the minimums but it is likely that financial investors will focus mainly on the current profitability and the return-on-equity.

#### **Recommendation and Price Target**

The companies of EVN Bulgaria are the smallest in the sector in terms of revenues. However, the privatization is fulfilling two main conditions:

- The minimum price is very low and will not be a hurdle during the very difficult period for global markets and investors' confidence. Moreover, it is providing ground for possible capital gains that will turn again the focus toward Bulgarian stocks;
- The closed-mixed auction is among the best tools for determining the market price according to the demand. This auction is also convenient to individual investors.

These are the reasons to maintain a neutral bias before the privatization in such challenging times. Moreover, too many factors are pointing toward the possibility to fail its role as a catalyst for the development of the stock exchange. We doubt that the time for the public offering is long enough to attract decent demand, whereas the information supplied before the offering is considered by domestic institutional investors as insufficient. Moreover, the prevailing feeling is that shares will be bought by one or several large investors, which will limit substantially the secondary trading.

Our recommendation to investors is to participate in the auctions with limited offers at prices that are at least 25% lower than the fair values by comparison to multiples. In terms of positioning we recommend investors to buy more shares of EVN Elektrorazpredelenie and to maintain only a modest share of EVN Elektrosnabdiavane due to the volatile financial results.

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## EVN Elektrorazpredelenie

000 'BGN	2008	2009	2010	30 June 2010	30 June 2011
<b>Revenues from Electricity Distribution</b>	356 440	354 240	323 185	179 346	159 406
Other Revenues	12 047	20 590	19 928	10 044	10 125
Other Operating Revenues	4 777	2 725	1 639	808	1 317
Expenses of Goods Sold	(23)	(650)	(53)	(18)	(3)
Capitalized Expenses	2 368	8 482	6 086	2 824	2 870
Technological Expenses of Electricity Distribution	(96 849)	(104 440)	(99 679)	(44 522)	(45 988)
Impairments	(22 707)	(1 236)	(2 311)	213	(1 579)
Material Expenses	(29 255)	(20 876)	(21 669)	(10 303)	(8 152)
External Services Expenses	(50 898)	(45 309)	(44 927)	(18 706)	(19 353)
Depreciation	(55 920)	(75 678)	(71 752)	(35 818)	(34 200)
Personnel Expenses	(63 916)	(65 218)	(64 443)	(31 121)	(31 165)
Other Operating Expenses	(20 988)	(7 992)	(3 539)	(2 308)	7 826
<b>Net result from Operating Activities</b>	35 076	64 638	42 465	50 439	41 104
<b>Financial Revenues/Expenses - Net Result</b>	2 207	(5 315)	2 268	92	(673)
Pretax Income	37 283	59 323	44 733	50 531	40 431
Taxes	(3 932)	(6 818)	(4 812)	(5 281)	(3 171)
<b>Net Income</b>	33 351	52 505	39 921	45 250	37 260

000 'BGN	2008	2009	2010	30 June 2010	30 June 2011
<b>Assets</b>					
Fixed Assets	592 777	646 493	684 906	663 101	685 676
<i>Machinery and Equipment</i>	571 604	622 726	657 509	637 333	660 050
Current Assets	88 883	89 980	76 445	94 329	104 797
<b>Total Assets</b>	<b>681 660</b>	<b>736 473</b>	<b>761 351</b>	<b>757 430</b>	<b>790 473</b>
<b>Capital and Reserves</b>					
Registered Capital	1 564	1 564	1 564	1 564	1 564
Reserves	71 775	419 465	466 970	466 970	506 892
Earnings	347 690	52 505	39 921	45 250	37 260
<b>Equity</b>	<b>421 029</b>	<b>473 534</b>	<b>508 455</b>	<b>513 784</b>	<b>545 716</b>
<b>Liabilities</b>					
Long-term Liabilities	171 780	183 857	193 152	186 254	197 469
Short-term Liabilities	88 851	79 082	59 744	57 392	47 288
<b>Total Liabilities</b>	<b>260 631</b>	<b>262 939</b>	<b>252 896</b>	<b>243 646</b>	<b>244 757</b>

## EVN Elektrosnabdiavane

000 'BGN	2008	2009	2010	30 June 2010	30 June 2011
<b>Sales</b>	<b>624 009</b>	<b>684 818</b>	<b>638 582</b>	<b>357 340</b>	<b>303 642</b>
Other Revenues	18 934	19 431	13 638	7 908	10 067
Electricity Expenses	(613 427)	(665 252)	(624 350)	(348 566)	(304 417)
Impairments	(13 459)	(1 265)	(3 121)	(1 641)	(799)
Material Expenses	(27)	(42)	(53)	(28)	(5)
External Services Expenses	(6 155)	(7 593)	(9 398)	(4 649)	(5 099)
External Services Expenses - within the Group	(7 189)	(10 488)	(9 061)	(4 492)	(3 905)
Depreciation	(1)	(1)	(1)		
Personnel Expenses	(1 274)	(1 116)	(1 327)	(719)	(624)
Other Operational Expenses	(1 346)	(18 467)	2 750	(11 738)	(5 078)
<b>Net result from Operating activity</b>	<b>65</b>	<b>25</b>	<b>7 659</b>	<b>(6 585)</b>	<b>(6 218)</b>
<b>Financial Revenues/Expenses - Net Result</b>	<b>(154)</b>	<b>84</b>	<b>4</b>	<b>3</b>	<b>(8)</b>
<b>Pretax Income</b>	<b>(89)</b>	<b>109</b>	<b>7 663</b>	<b>(6 582)</b>	<b>(6 226)</b>
Taxes	162	(1 517)	434	1 902	557
<b>Net income</b>	<b>73</b>	<b>(1 408)</b>	<b>8 097</b>	<b>(4 680)</b>	<b>(5 669)</b>

000 'BGN	2008	2009	2010	30 June 2010	30 June 2011
<b>Assets</b>					
Fixed Assets	4 494	4 112	5 122	6 465	5 463
Current Assets	157 579	153 546	147 947	139 421	133 823
<b>Total Assets</b>	<b>162 073</b>	<b>157 658</b>	<b>153 069</b>	<b>145 886</b>	<b>139 286</b>
<b>Capital and Reserves</b>					
Registered Capital	1 882	1 882	1 882	1 882	1 882
Reserves	9 888	64 213	64 213	64 213	70 902
Earnings	54 325	(1 408)	6 689	(6 088)	(5 669)
<b>Equity</b>	<b>66 095</b>	<b>64 687</b>	<b>72 784</b>	<b>60 007</b>	<b>67 115</b>
<b>Liabilities</b>					
Long-term Liabilities	79	339	947	978	1 338
Short-term Liabilities	95 899	92 632	79 338	84 901	70 833
<b>Total Liabilities</b>	<b>95 978</b>	<b>92 971</b>	<b>80 285</b>	<b>85 879</b>	<b>72 171</b>

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<b>HOLD</b>	Market performance, +/-5% as compared to SOFIX and BG40
<b>SELL</b>	More than 5% lower as compared to SOFIX and BG40 performance

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