
Enemona IPO

General Information

Enemona is a private Bulgarian engineering company, established in 1990. The company is a leader on the market of public sector energy efficiency services based on an ESCO model. Along with that in 2007 ESCO model was developed and successfully adapted for its application in industry. This year Enemona signed the first in Bulgaria contract for energy efficiency activities execution. The company not only intends to play a leading part in that sector, but is also plans to successfully implement utility services.

Enemona will offer 2 000 000 new shares in the price range between BGN 11.00 and BGN 16.80. Total stock number after successful IPO will be 11 933 600 and the expected free-float is around 16.7%. Proceeds received from the new issue will be used for the investment program of the company. The total market capitalization of the company at the price maximum of BGN 16.80 is BGN 200.5 million.

This research note will provide short description of Enemona current projects, the IPO procedure and timeframe as well as the company's current financial data and the management's projections. The valuation of Enemona at the IPO price is based on multiples, comparison with similar companies in CEE and discounted cash flows.

Business Description

Enemona has the control part of shares in several companies and prepares consolidated reports according to the requirements. The business of Enemona Group is structured in two key segments – the abovementioned engineering, construction and installation and energy production, supply and trade. The list of operations includes:

- engineering and project management;
- project design;
- turn-key construction;
- assembly works;
- construction;
- insulations;
- adjusting and testing activities in energetic, industry ecology and civil engineering;
- energy efficiency.

The company adopted system for quality control, in accordance with the international standard EN ISO 9001.

Current Projects

Lom Lignite Energy Project (LLEP) is part of Lom coal field, the only lignite coal field in Northern Bulgaria. The proven deposit resources presume a significant energy potential. The purpose of the coal field is to create an energy and multi-industrial center including a thermal power plant. The project will be realized in three stages. The first stage is already completed. The second step is exploration of the coal field. The final phase will be accomplished in cooperation with foreign investors. Enemona project of LLEP for production of electric energy is based on two years research, analyses and technical and economic assessments of several branches.

Enemona earned a tender for construction of heating power plant in Northern city of Nikopol. The total amount of the project is BGN 72 million and the generated power by the plant will be around 10 MWT. Recently, Enemona completed the similar project in Bansko but with lower generation power – 5 MTW.

Among the important projects which the Company is currently carrying out are the reconstruction and modernization of 5th and 6th unit of the Kozloduy Nuclear Power Plant, various projects in Maritsa-East Thermal Power Plants Complex, Sofia Airport, and the reconstruction and modernization of the Court of Law building in Sofia.

IPO Procedure and Timeframe

Enemona will offer 2 000 000 new shares in the range between BGN 11.00 and BGN 16.80. The price and the allocation proportion will be determined by the conditions of book-building and will be equal for all participants. The date for orders is November 26, 2007, between 9.00 a.m. and 4.00 p.m. local time, whereas the deadline for payment of the subscribed shares is extended to November, 30. The offering price will be announced on the day, following the accepting of subscription orders.

In case of complete subscription, the total number of shares will be 11 933 600. The lock-up period is six months after the IPO.

The expected date for secondary trading is January 8, 2008

Oversubscription

The last IPO deal of Trace Group Hold was oversubscribed 1 500 times as no preliminary payments were required and the price was fixed. This limited the price risk and most speculators posted huge offers well above their financial potentialities. The IPO of Enemona will attract decent market interest but investment intermediaries already took measures to limit the hollow oversubscription.

The requirement of orders that are backed by financial assets will allow proportionally participation of institutional investors and speculators. However, the company is attractive and the IPO will be oversubscribed more than the average for the deals this year - the First Investment Bank, Corporate Commercial Bank, Kaolin and Devin.

Financial Situation and Projections

The company is expecting solid growth of revenues for 2007 and 2008. The third stage of Lom Lignite Energy Project, which includes a thermal power plant, will support the growth rate. Enemona will rely on the large projects in the energy sector – the second nuclear power plant Belene and the thermal power plants in the field of Maritza. The government will provide half of the orders in the next several years. Enemona will also acquire additional assets to increase its market stake in the construction and engineering sector.

The company expects further improvement in the profit margins. The additional revenues from sell of financial assets will support the net profit in 2007 and 2008 as Enemona will decrease further its stake in the brewery Lomsko Pivo next year. EBITDA margin is expected to stabilize to 22% in 2012 when the company will enter more mature growth stage.

The company has large debt, including a corporate bond issue, to finance its growing business. Part of the capital raised will cover the debts. Enemona will finance its future projects through the stock exchange by a capital increase.

BGN'000	2007	2008	2009	2010	2011	2012
Sales	82 595	80 192	118 118	149 343	178 134	188 456
Sales Growth	35,5%	36,6%	52,3%	30,7%	23,2%	13,4%
EBITDA	9 859	16 047	31 562	45 955	61 695	70 410
EBITDA Margin	11,9%	14,2%	18,4%	20,5%	22,3%	22,4%
Depreciation	3 160	3 755	6 424	10 001	14 229	15 357
EBIT	6 699	12 292	25 138	35 954	47 465	55 053
EBIT Margin	8,1%	10,9%	14,6%	16,0%	17,1%	17,5%
EBT	9 878	18 824	24 203	26 397	35 172	41 878
Net Profit	9 300	17 765	21 978	24 022	32 062	38 204

Forecasts: Enemona

Valuation by Multiples

The valuation based on the trailing twelve months financial results shows very attractive multiples as compared to the Bulgarian market. However, the net profit for 2007 is positively influenced by the sale of stake in a subsidiary. We also included for calculations of P/B the funds raised from the IPO as they will be added in the capital. The large debts increase the enterprise value (EV) of the company but the debt reduction and the higher cash after the IPO will lower the EV/EBITDA and EV/Sales ratios. At the maximum price the Price/EBITDA ratio is 10.

The multiples calculated by the forecasted results from Enemona are higher due to the lower net profit from the current financial result for 2007. According to our estimations, the net profit should exceed BGN 11.3 million. Our estimations for the forth quarter results are calculated by the expected rise of sales and the EBITDA margin of 11% despite its already improved value for the year. The growing sales and profits in the 2008 forecasts of Enemona are behind the improvement of both forward P/E and P/S. The company is aiming at even faster sales growth in 2009. We excluded from calculations the P/B ratio as the value will be lower than the adjusted P/B by the capital raised from the IPO and the added net profit for 2007 and 2008.

Price	11,00	16,80
Number of Shares	11 933 600	11 933 600
Market Capitalization	131 269 600	200 484 480
Net Profit	13 186 000	13 186 000
P/E	9,96	15,20
Revenues	87 900 000	87 900 000
P/S	1,49	2,28
Equity	31 159 000	31 159 000
P/B	4,21	6,43
Adjusted Equity	53 159 000	64 759 000
P/B	2,47	3,10
EV	171 252 600	240 467 480
EBITDA	20 203 000	20 203 000
EV/EBITDA	8,48	11,90
EV/Revenues	1,95	2,74

Calculations by ELANA Trading

Price	11,00	16,80
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Market Capitalization	131 269 600	200 484 480
2007 Forecasts from Enemona		
Net Profit	9 300 000	9 300 000
P/E	14,12	21,56
Revenues	82 595 000	82 595 000
P/S	1,59	2,43
2007 Estimations from Elana Trading		
Net Profit	11 345 000	11 345 000
P/E	11,57	17,67
EBITDA	17 165 000	17 165 000
P/EBITDA	7,65	11,68
2008 Forecasts from Enemona		
Net Profit	17 765 000	17 765 000
P/E	7,39	11,29
Revenues	112 819 000	112 819 000
P/S	1,16	1,78

Calculations by ELANA Trading

Financial Data

Consol. Statement of Income (in thousand BGN)	2005	2006	3Q2006	3Q2007
Sales	46 351	60 959	33 835	60 776
Production expenses	39 040	49 602	31 766	49 447
Personnel expenses	4 765	4 448	6 309	6 309
Net income from financial activities	(205)	131	179	1 985
Other revenues and expenses	8	34	24	75
EBI TDA	3 755	9 188	3 750	14 765
Depreciation	1 403	2 068	1 478	1 362
EBI T	2 352	7 120	2 272	13 403
Interest expense	630	1 317	573	1 839
Pretax income	1 722	5 803	1 699	11 564
Taxes	217	780	0	1 156
After-tax income	1 505	5 023	1 699	10 408
Minority interest	15	151	68	463
Net income	1 490	4 872	1 631	9 945

Consol. Balance Sheet (in thousand BGN)	2005	2006	3Q2006	3Q2007
Total Assets	38 949	66 865	52 969	98 789
Fixed assets	11 784	23 460	17 077	43 343
Tangible fixed assets	10 072	17 952	14 781	33 820
Financial investments	1 347	1 115	1 185	2 318
Goodwill	80	(2 250)	80	(1 816)
Current assets	27 165	43 405	35 892	55 446
Inventory	7 935	11 536	10 681	22 300
Receivables	18 177	24 731	22 148	24 190
Financial assets and cash	1 053	6 999	2 865	8 563
Total liabilities + equity	38 949	66 865	52 969	98 789
Equity	9 323	13 041	11 966	31 159
Registered capital	3 683	5 947	5 974	9 819
Capital funds	1 836	1 728	3 885	10 912
Earnings	3 804	5 366	2 107	10 428
Liabilities	29 626	53 824	41 003	67 630
Long-term payables	3 574	21 177	18 832	21 395
Long-term bank loans	5 206	7 291	2 857	6 742
Short-term bank debt	890	1 338	1 335	18 980
Short-term payables	19 805	20 816	17 413	18 125
Other liabilities	0	0	0	0
Working capital	6 470	21 251	17 144	18 341

Consol. Cash Flow Statement (in thousand BGN)	2005	2006	3Q2006	3Q2007
Net income	1 490	4 872	1 631	9 945
Depreciation	1 403	2 068	1 478	1 362
Changes in Working capital	-	14 781	(4 107)	1 197
Other operating cash flow items	-	(25 436)	(10 278)	(13 424)
Net cash from operating activities	(3 428)	(3 715)	(11 276)	(920)
Capital expenditures	4	3	(3 303)	(7 290)
Other investing cash flow items	(2 167)	(14 203)	89	331
Net cash from investing activities	(2 163)	(14 200)	(3 214)	(6 959)
Issuance/ Retirement of Stock, Net	390	3 874	1 808	110
Issuance/ Retirement of Debt, Net	3 624	20 398	14 898	12 075
Dividends paid	(66)	(90)	(73)	(117)
Other financing cash flow items	(176)	(321)	(331)	(2 660)
Net cash from financing activities	3 772	23 861	16 302	9 408
Other	0	0	0	0
Net change in cash	(1 819)	5 946	1 812	1 529
Beginning-of-period cash	2 872	1 053	1 053	7 034
End-of-period cash	1 053	6 999	2 865	8 563

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Market Perform	Market performance, +/-5% as compared to SOFIX and BG40
Underperform	More than 5% lower as compared to SOFIX and BG40 performance

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