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## DEVIN IPO

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### General Information

Devin will increase its capital on the 25<sup>th</sup> of July and is the third IPO for Bulgarian beverage company this year. Prior to this offering, the existing shares of the company have not been traded on the Bulgarian Stock Exchange – Sofia or on any other exchange. Devin is the biggest bottling company for mineral water in Bulgaria with growing influence on the market for packaged water and with 30% market share, as of the end of 2006. The company management develops its product portfolio and pays special attention to positioning of the trademark so as to meet the market needs.

### IPO Procedure and Timeframe

The number of shares offered is 3 million new shares and up to 450 000 existing shares in the BGN 5 and BGN 7 price range. The nominal value of each share is BGN 1 and the capital will be increased from BGN 14 891 306 to BGN 17 891 306. Shares will be allocated through the method of book-building. The day of orders is July 25, 2007, between 9 a.m. and 5 p.m. Bulgarian time, or 8 a.m. to 4 p.m. CET. The minimal size requirement in order for the current capital increase to be considered successful is subscription and payment of at least 2 250 000 new ordinary shares. The price will be set in accordance with submitted subscription orders and will be defined through a decision of the Management board of Devin. The public offering of shares will be performed in only one day, when all potential investors will be able to submit a subscription order which may be limited or market. The shares could be listed on BSE-Sofia on 24<sup>th</sup> August.

### Business Description

Devin is the largest natural mineral water bottling company and the leading bottled water brand producer on the Bulgarian market with market share of 31%. The main activity is bottling and distribution of mineral water, spring water, carbonated and non-carbonated soft drinks, energy drinks and ice tea. Devin is the only one of the leading brands which offers both mineral and spring water. Devin is concessionaire of the springs located in the Rhodope Mountains. The mineral water comes from a depth of 700 m and has low mineral concentration and favorable chemical contents, which makes it suitable for everyday consumption. The spring water is coming from a spring some 14 km away from the bottling plant and is connected to it by a pipe. It has almost no mineralization and is the only nationally presented water which is suitable for infants. Both waters are regularly analyzed locally and abroad and their qualities and chemical composition have been confirmed by Fresenius Institute of Germany.

Devin owns several concessions rights:

- Concession drill C5 given for 15 years and with 90 m liters capacity per year with an option for contract renewal;
- Concession drill C3 with 30 m capacity per year and contract for 25 years.

The license for drilling spring water allows 300 m liters to be drilled.

The most significant share in the sales represents mineral water PET 0.5 L and PET 1.5 L. In 2006 up to more than 90 m pieces were sold which exceeded with 24% the previous year amount.

Supply of mineral water in PET bottles of 3, 5 and 10 liters are the most popular in the market.

### Shareholders' Structure

The majority shareholder is DEVIN Betailigungs GMBH with 91.999% of the capital. Betailigungs GMBH is owned by Soravia Equity GMBH which operates in Bulgaria through "Soravia Real Estates" Ltd. The majority shareholder is not planning to decrease its stake in addition to the capital increase. The lock-up agreement included in the memorandum is for six months. The second primary shareholders are executive directors with equal parts of 2.667%. The free-float after the IPO will be 19%.

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**Bulgarian Beverage Sector**

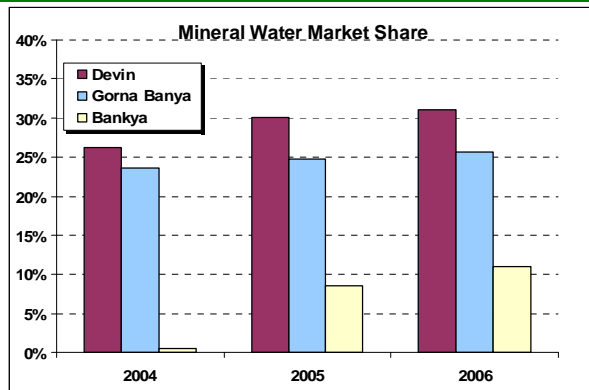
Devin is leader in the bottled water market with share of almost 31% for 2006. Second is Gorna Banya with 26%, followed by Bankya. Bankya, after been acquired by the Coca-Cola Company, solidly increased its market share but the well established distribution network and market strategy hold Devin on the top. According to the Bulgarian soft drinks association (BSDA) Bulgarians consumed 81 liters of mineral water in 2006 or 21% more than the previous year. The expectations are for 10% to 15% growth till 2009. The consumption per capita is still below the average for Europe /120 liters/ and this supports the market development. High temperatures moved up the consumption in South Europe.

Typical for the mineral water market is the seasonal character of sales. Hot summer and tourists have a significant impact over sold liters and respectively over revenues. The tendency toward healthier lifestyle changes the market's focus from carbonated drinks to mineral water. Market saturation during 2005 leads to new product structure and introduction of large packaging formats for administrative buildings and luxury glass packages for restaurants and hotels. Increased purchasing power also contributes to growth.

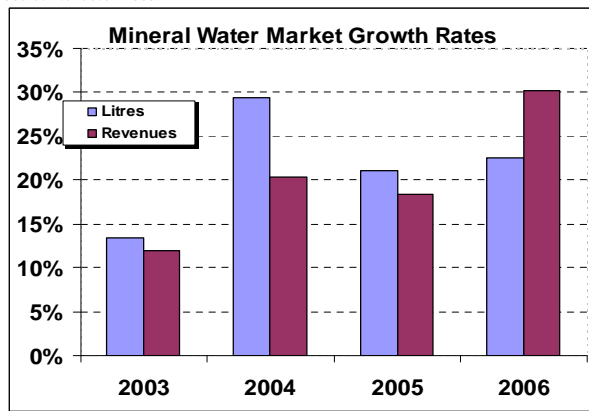
Annual sales of Devin increased solidly since establishment of the company. Bottled mineral water is the main product and represents the most significant share in sales. For the last two years Sport and Energy drinks have the biggest growth rate due to demand from young people and the price. Since the beginning of the year Devin is importer and distributor of the leader on the global energy drinks market Red Bull. With Red Bull, Devin managed to enter in this market niche. The company has 10 000 points of distribution spread over hot and cold markets which is the reason for better than expected sales of Red Bull.

Devin offers a wide range of fruit-flavored carbonated drinks but the serious competition of the Coca-Cola Company make the growth rate unsustainable. The company's advantage is to offer two types of natural water – mineral and spring. For half a year Devin spring water contributed for 20% of sales of natural water.

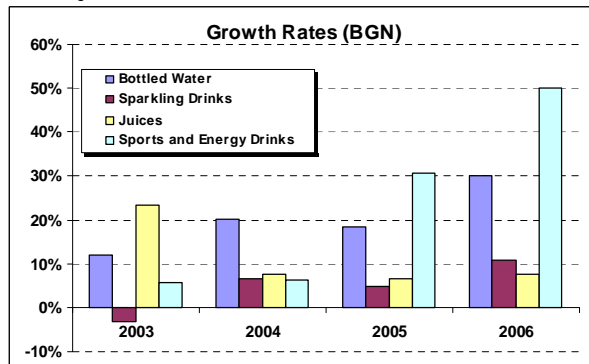
Devin leads an aggressive advertising campaign which accentuates on the quality of both waters and ecologically clean region of drilling.



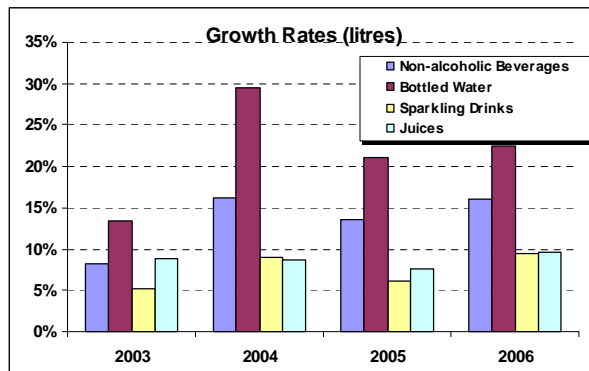
Source: Canadean 2006



Source: Bulgarian Soft Drinks Association /BSDA/



Source: BSDA



Source: BSDA

### Financial Situation

Merger with the company, which acquired Devin's assets through debt issuance, led to a significant increase in the negative financial result. This is due to interest rate payments on the debt and to the substantial expenditures of the owner on evaluation and improvements of operational activities. The effects of the merger have been described in the memorandum in details.

### Estimated financial results of Devin

Estimated financial results of Devin have been based on a conservative sales growth perspective of 13% for the following years. Company management estimates real growth of 7% and price inflation of 5% per annum. These estimates are significantly below the market growth rate during the last several years of 20%, as well as below the estimates of the Bulgarian Soft Drinks Association, which expects the historical growth to continue for at least 3 more years. Furthermore, Bulgaria is scheduled to join the Eurozone in 2010 or 2011 – statistical data reveals that prices experienced inflation in the majority of the countries, which joined the single currency. Bulgaria's acceptance in the EU in the beginning of 2007 led to price inflation in the food and drinks markets, while Devin, as a market leader, introduced a 15% increase in mineral water prices since January.

### Estimated financial results after inclusion of the effect of the IPO

	2007	2008	2009	2010	2011	2012
Sales	57 191	63 913	71 469	79 970	89 535	100 302
Growth		11,75%	11,82%	11,89%	11,96%	12,03%
Mineral Water	43 826	49 657	56 261	63 477	72 222	81 828
Growth		13,30%	13,30%	12,83%	13,78%	13,30%
Red Bull	12 256	13 114	14 032	15 014	16 065	17 189
Growth		7,00%	7,00%	7,00%	7,00%	7,00%
Other	1 109	1 142	1 176	1 212	1 248	1 285
Growth		2,98%	2,98%	3,06%	2,97%	2,96%
EBITDA	7 422	10 625	12 825	14 770	17 010	19 580
EBITDA margin	12,98%	16,62%	17,94%	18,47%	19,00%	19,52%
EBIT	3 402	6 499	7 597	9 239	11 174	13 436
EBIT margin	5,95%	10,17%	10,63%	11,55%	12,48%	13,40%
Net Profit	2 065	5 738	7 015	8 798	10 869	13 257
Net Profit margin	3,61%	8,98%	9,82%	11,00%	12,14%	13,22%
Assets	50 391	53 034	57 466	64 306	73 257	85 231
Equity	30 669	36 406	43 422	52 220	63 089	76 346
Long-term Liabilities	17 022	13 765	10 911	8 605	6 299	4 581
Short-term Liabilities	2 700	2 863	3 133	3 480	3 869	4 304

Source: DEVIN  
Calculations: Elana Trading

Estimated financial results after taking into account the effect of the capital increase differ from the results published in the memorandum with the planned investment of 10 million BGN for new equipment. The equipment will decrease expenditure on packaging, labor and the number of people employed. The positive financial effect is estimated to be 2 million BGN per annum, with the new equipment becoming operational on April 1, 2008. Estimates of earnings before interest, taxation, depreciation and amortization /EBITDA/ have been increased by 1,5 million BGL for 2008, and with 2 million BGN for each following year. As a consequence, the increase in amortization result in a smaller difference of earnings before interest and taxation /EBIT/ after the actualization of the estimates, but increase is also included.

Covering part of Devin's debt will result in higher net profit. Thus, the net profit for 2007 will be 2.065 million BGN, while for 2008 it will be 5.74 million BGN.

**Revision of the estimates after semi-annual results**

Devin's results from operational activity caused a revision of the estimates for 2007 apart from the lower interest payments and higher net profit of 2.065 million BGN. Based on the performance so far the estimated sales of mineral water were revised downward to 41 million BGN and upward for Red Bull. The decrease in sales in this occasion is 760 000 BGN as compared to the initial estimations. Net profit on the other hand has been revised upward to 2.5 million BGN. The increase in net profit is substantial, with EBITDA margin on the 14.5% mark.

	1-5m 2007	1-6m 2007	2007
Sales	20 028	25 291	56 425
Mineral Water	14 552	-	40 987
Red Bull	4 724	-	13 811
Other	752	-	1 627
Costs	11 804	14 859	33 688
Mineral Water	7 391	-	20 874
Red Bull	3 753	-	11 545
Other	660	-	1 269
EBITDA	2 676	3 964	8 221
EBITDA margin	13,36%	15,67%	14,57%
EBIT	1 243	2 105	4 402
EBIT margin	6,21%	8,32%	7,80%
Net Profit	396	855	2 502
Net Profit margin	1,98%	3,38%	4,43%

Source: DEVIN  
Calculations: Elana Trading

The financial report for the first half of the year showed solid increase of sales and profits in the seasonally strong June. The EBITDA margin for the period was even stronger than the expected for 2007. The expected net profit of BGN 2.5 million looks achievable as the other two summer months will add BGN 0.8-1 million to the net profit. However, sales are growing faster than estimations and could confirm our expectations for 20% or faster growth for 2007 and beyond.

**Factors suggesting stronger than expected growth**

The conservative estimates of 13% growth rate may be over-fulfilled, given the mineral water market grew by 15% for the first half of the year with the hottest months yet to come. In the long run the difference among prices of similar products from the EU and their gradual alignment will be important. Growth in the personal disposable income will play an important role in energy drink consumption, with the proportion of the price of energy drinks to income still being relatively high when compared to the same proportion in the EU.

Lower mineral water consumption and prices in Bulgaria give rise to expectations of average growth of 15-20% for the next five years. Profits will also grow at a stronger pace than estimated from the management as free funds will be allocated towards better debt management and investments in equipment, which will decrease volatile bottling expenditure. Future development plans include the establishment of a logistical site in Central Bulgaria, which will reduce transport expenditures for mineral water. So far, however, nothing specific has been released.

Devin has already taken steps for the expansion of its product portfolio by attempting to buy the natural juice company BBB; however the acquisition did not go through. The company has plans to expand its activities in neighboring countries.

**Valuation**

Devin's valuation has been based on estimated expectations for 2007 and 2008 due to the fact that the one off financial effects of the merger do not represent the accurate state of affairs of the company. In addition it can be noted that Devin's sales growth is exceptional and evaluation on historical results would not be accurate as well.

**Multiple Analysis**

The calculation of multiples has been based on the revised estimates of Devin's management for 2007. The P/EBITDA ranges from 11 to 15 for the indicative IPO range. The P/E multiple is in the 35-50 range, which is higher than the market average, but is indicative of a fast growing company.

	BGN 5	BGN 6	BGN 7
<b>Market Capitalization</b>	89 456 530	107 347 836	125 239 142
<b>EBITDA</b>	8 221 000	8 221 000	8 221 000
<b>P/EBITDA</b>	<b>10,88</b>	<b>13,06</b>	<b>15,23</b>
<b>Net Profit</b>	2 502 000	2 502 000	2 502 000
<b>P/E</b>	<b>35,75</b>	<b>42,90</b>	<b>50,06</b>
<b>Equity</b>	31 106 000	31 106 000	31 106 000
<b>P/B</b>	<b>2,88</b>	<b>3,45</b>	<b>4,03</b>
<b>Sales</b>	56 425 000	56 425 001	56 425 002
<b>P/S</b>	<b>1,59</b>	<b>1,90</b>	<b>2,22</b>

Source: DEVIN  
Calculations: Elana Trading

**Multiple analysis using estimates for the period 2007 – 2008**

For the valuation of Devin using multiples for the next twelve months we used the average for 2007 and 2008. Our estimations are based on the revised results for 2007 as well as the sales growth of 15% and same profit margins as the management's projections for 2008. However, the better margins from the interim report could improve slightly our figures. The multiples calculated at the price of BGN 6 per share are close to the current averages for Bulgarian public companies. It should be noted that multiple valuation for 2007, or the next 12 months, carries the risk of negative surprises.

	BGN 6
<b>Market Capitalization</b>	107 347 836
<b>EBITDA</b>	9 475 000
<b>forward P/EBITDA</b>	<b>11,33</b>
<b>Net Profit</b>	4 177 000
<b>forward P/E</b>	<b>25,70</b>
<b>Equity</b>	32 811 000
<b>forward P/B</b>	<b>3,27</b>
<b>Sales</b>	60 726 000
<b>forward P/S</b>	<b>1,77</b>

Source: DEVIN  
Calculations: Elana Trading

**Comparison to Bulgarian companies with capital increases in 2007**

For comparison to Bulgarian companies, which had or plan to have a capital increases this year, several larger entities have been chosen. There are no competitors to Devin among these companies, but the table is indicative for the market interest for these companies and banks. All of these entities are currently being traded near or at their historical highs reached in July. This is indicative for the market interest, which is due not only to institutional investors but also to speculators. All multiples have been calculated with the closing price on July 17 using financial reports from the last 12 months. No adjustment to one-time items have been made, with only Kaolin /KAO/ under possible negative revision of profits and multiples.

	HES	IHLBL	ELTOS	CCB	CORP	FIB	KAO	MONBAT
<b>Market Capitalization</b>	76 656 226	268 841 370	217 420 000	662 850 697	527 880 000	1 530 100 000	366 750 000	292 500 000
<b>EBITDA</b>	3 938 000	18 147 000	10 988 000	-	-	-	27 050 000	16 021 000
<b>P/EBITDA</b>	<b>19,47</b>	<b>14,81</b>	<b>19,79</b>	-	-	-	<b>13,56</b>	<b>18,26</b>
<b>Net Profit</b>	2 153 000	10 170 000	3 916 000	17 130 000	16 000 000	36 195 000	15 775 000	9 283 000
<b>P/E</b>	<b>35,60</b>	<b>26,43</b>	<b>55,52</b>	<b>38,70</b>	<b>32,99</b>	<b>42,27</b>	<b>23,25</b>	<b>31,51</b>
<b>Equity</b>	11 619 000	94 719 000	49 691 000	122 787 000	144 426 000	294 541 000	109 820 000	77 113 000
<b>P/B</b>	<b>6,60</b>	<b>2,84</b>	<b>4,38</b>	<b>5,40</b>	<b>3,66</b>	<b>5,19</b>	<b>3,34</b>	<b>3,79</b>
<b>Sales</b>	60 726 000	137 606 000	54 241 000	-	-	-	103 889 000	84 519 000
<b>P/S</b>	<b>1,26</b>	<b>1,95</b>	<b>4,01</b>	-	-	-	<b>3,53</b>	<b>3,46</b>

Source: DEVIN  
Calculations: Elana Trading

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**Price Targets**

Our price targets are based on the presumption that the market will maintain higher P/E ratio of 40 due to the perspectives of solid sales and profits growth. The price target for end-2007 shows modest gains as compared to the minimum price from the indicative range between BGN 5 and 7. The comparison to P/E ratios of other Bulgarian companies and banks showed that the market is very tolerant to overbought multiples when the growth rates are huge.

The calculations through the expected net profits and decreasing P/E ratios are showing several price targets. 2008 should become the most successful year but the market could absorb part of this upside potential after the IPO.

	IPO	2007f	2008f	2009f	2010f
<b>Net Profit</b>		2 502 000	5 852 000	7 389 000	9 531 000
<b>Expected P/E</b>		40	30	27,5	25
<b>Price Target</b>	5,00	5,59	9,81	11,36	13,32
<b>Growth</b>		11,88%	75,42%	15,74%	17,26%

Source: DEVIN  
Calculations: Elana Trading

**Demand and oversubscription**

We cannot exclude oversubscription in large scale as the IPO of Devin is relatively smaller compared to this year's offerings. In addition, the IPO represents a good possibility to enter the fast developing Bulgarian market at the moment when large packages of blue chips are not an easy task for acquiring. The beverage sector is not well represented in the stock exchange and even the producers of consumer goods are scarce among listed companies.

The oversubscription will put upward pressure on the secondary market. However, solid gains of 20-30% at the opening are not the most possible scenario due to the high valuation ratios. Nevertheless, the recent market bias is positive and all large IPO deals posted gains this year.

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<b>Outperform</b>	More than 5% higher as compared to SOFIX and BG40 performance
<b>Market Perform</b>	Market performance, +/-5% as compared to SOFIX and BG40
<b>Underperform</b>	More than 5% lower as compared to SOFIX and BG40 performance

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