

ALBENA (6AB)

INDUSTRY: HOTELS, RESTAURANTS AND LEISURE

IS THE WORST BEHIND?

AS EXPECTED, REVENUES AND NET PROFIT ARE DOWN IN 2014 BY BGN 5 M EACH. NEGATIVE INFLUENCE FROM 10% DECLINE OF RUSSIAN TOURISTS AND THE SEVERE RAINFALL THAT CLOSED DOWN PART OF THE RESORT'S CAPACITY. MAIN EXPENDITURES REMAINED FLAT.

4.2% Y-O-Y DECLINE OF REVENUES DURING 2014

The last year was extraordinary and Albena suffered from the weather conditions that closed down hotels and recreational facilities in the main resort at the beginning of the high season. The decline overshadowed the gradual increase of capacity utilization and the improvement of revenues per visitor from the additional services. Operating expenses were hardly changed, which resulted to 17% decrease of EBITDA. Labor costs soared 10% as the Group focuses on measures to maintain its key staff and opened early some of its hotels. The net profit fell 35%. The results showed a decline only in 3Q and we expect Albena to continue achieve higher capacity in spring months.

DOUBLE IN INVESTMENTS TO SUPPORT TOP AND BOTTOM LINE IN 2015

Albena and its subsidiaries doubled the investments in hotels and recreational facilities for a second consecutive year. Capital expenditures totaled BGN 46 m or 116% higher than 2013. The Group implements a large long-term program to raise star category of hotels, which should improve revenues and profit margins. Moreover, a water park was built for hotels in resort Albena that are long way of the coast. This provides a base for increase of revenues via entry fees and higher price per accommodation.

The investments last year were funded by 24% increase of net debt to BGN 86 million, which corresponded to 23% of equity. The Group has low debt level. The interest coverage of 5 indicates the possibility to invest further in long-term assets.

Difficult 2014 summer season due to temporary factors

The rainy 2014 was an exception for the climate in Bulgaria and Albena will recover from the flood. Moreover, losses are covered by insurances. The largest uncertainty for this year remains the probable decline of tourists from Russia. Last year's 10% fall was driven by the devaluation of the ruble and the bankruptcies of tour operators. It was compensated, however, by the solid growth of tourists from Moldova, Ukraine and Baltic states.

VALUATION: Negative revision on our expectations for revenues during 2014 has led to lower intrinsic value of Albena's shares. Nevertheless, the change is not significant as we expect the decrease to be compensated in 2015. Thus we maintain our one year target per share of BGN 78.51. The successful sale of 7% stake of Municipality of Balchik to several institutional investors in August 2014 proved that the market is also positive on the stock.

RESULTS ANALYSIS

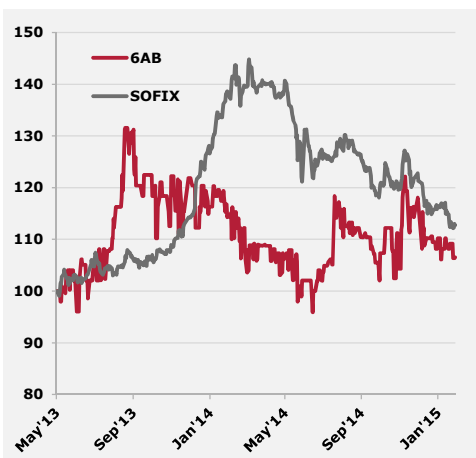
PREVIOUS RATING: BUY
ONE YEAR PRICE TARGET: BGN 78.51
 (AUGUST 14TH 2014)
CURRENT PRICE: BGN 52.11

EXCHANGE RATES
EUR/BGN (FIXED): 1.95583
USD/BGN: 1.7230

MARKET DATA

Shares Outstanding:	4 145 126
Share Capital:	4 273 126
Free-float:	22.4%
Treasury Shares	3%
Market Cap.:	BGN 216.0m
52 Weeks Range:	BGN 45.61-59.00
Ticker	6AB
Bloomberg	6AB BU

PRICE PERFORMANCE



in kBGN, excl. ratios	2Q 2013	3Q 2013	4Q 2013	1Q 2014	2Q 2014	3Q 2014	4Q 2014
REVENUES	19,330	74,748	3,906	4,209	20,989	68,536	9,106
EBITDA	(2,277)	37,960	(3,257)	(1,271)	(1,922)	30,342	(1,805)
EBIT	(6,093)	34,501	(6,797)	(4,602)	(5,288)	27,816	(5,550)
NET PROFIT	(7,484)	34,348	(7,773)	(5,159)	(6,444)	27,352	(6,621)
EQUITY	332,161	366,509	365,519	360,340	351,914	379,487	373,014
ROE	4.42%	4.69%	4.04%	3.93%	4.17%	2.23%	2.53%
ROA	3.22%	3.43%	2.96%	2.88%	3.04%	1.61%	1.81%
EBITDA MARGIN	32.54%	32.24%	30.95%	30.49%	30.34%	26.07%	26.18%
NET PROFIT MARGIN	14.30%	14.97%	13.82%	13.63%	14.42%	8.36%	9.08%
EPS	(1.81)	8.29	(1.88)	(1.24)	(1.55)	6.62	(1.59)
DEBT/EQUITY	0.21	0.17	0.19	0.20	0.24	0.22	0.23
P/E	13.79	16.36	17.51	15.10	13.84	27.87	26.02
P/B	0.61	0.77	0.71	0.59	0.58	0.59	0.63
EV/EBITDA	7.88	9.35	9.73	8.72	8.65	12.24	12.3

ANALYST'S COMMENT

2014 was a year of challenges for the tourism in Bulgaria. The biggest hurdle was the weather but the sector managed to "outperform" the worst expectations. Estimations for overall sector revenues point to 12% decline during the summer season, 9% lower number of overnights and 7% decrease of tourists in 2014. Albena is better than the average with 8% decline of revenues during the third quarter, which is mainly due to the closure of Hotel "Gergana" from the flood at the beginning of the season. Six other hotels have been evacuated temporarily. There were cancelations of reservations immediately after the strong floods but the resort quickly returned to normal operations (within a few days). It managed to increase the revenues during the weaker second and fourth quarters. We expect further improvement of revenues, based on the long-term strategy of the Group to extend the peak summer season.

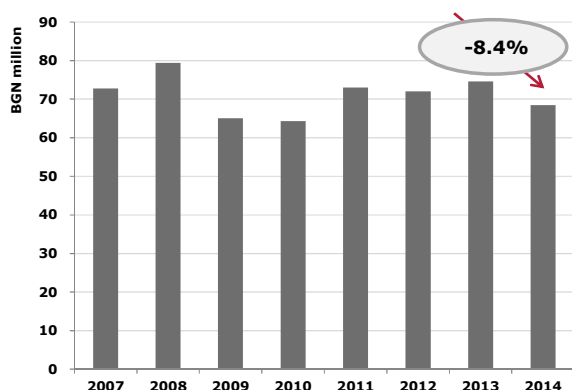
The revenues and the income from the summer season is crucial for the performance of Albena. The profitability of the Group depends on the investments in star categories and in additional recreational facilities that rises the revenues per tourist. Albena increased substantially its investments during the last two years but the floods will postpone some larger projects, including the complete renovation of "White Lagoon" resort.

In parallel with the increase of investments, the Company raised labor expenditures to maintain its qualified staff. It realizes that the quality of services is essential for the improvement of profitability along with investments.

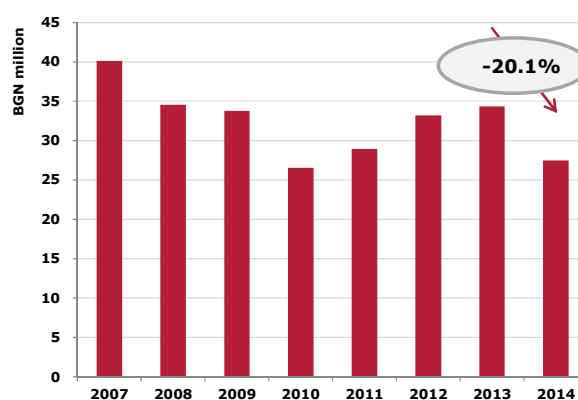
We expect a recovery of revenues in 2015 but uncertainties remain. The decline of tourists from Russia is the primary risk due mainly to the devaluation of the Russian currency. The source market registered 10% decrease in 2014. Latest financial news from Ukraine suggest that the number of visits from the country will be negligible but it represents a very small part of Albena's customers. The number of Romanian tourists was unchanged due to the price initiatives from Albena and the proximity to the country. At the same time, the sector registered a decline of visits from Romania due to the bad weather.

The number of visits from Eastern Europe will depend on the cheaper air transportation. We expect a positive outcome for tourism from lower fuel costs that will support visits from the Baltic states, Scandinavia and Germany.

The number of tourists from Bulgaria was unchanged in 2014. The limited parking lots in the resort is considered as the biggest constraint for further growth of Bulgarian and Romanian tourists. Therefore, the weakness of any of the two source markets should be compensated by the increase of the other.

THIRD QUARTER REVENUE


Source: Albena

THIRD QUARTER PROFIT


Source: Albena; data for 2011 adjusted to one-time items

QUARTERLY DATA (UNAUDITED)

Income Statement ('000 BGN)	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Revenue	72,053	10,483	4,287	19,330	74,748	8,989	4,209	20,989	68,536	9,106
Operating Expenses	38,375	14,066	8,642	25,423	40,247	15,695	8,811	26,277	40,720	14,656
Change in Inventories	1,439	(1,683)	(260)	304	357	382	(309)	(1,330)	975	2,067
Cost of Material	7,005	2,703	1,352	5,209	8,332	398	1,745	6,424	6,973	3,094
Cost of Labor	8,954	3,443	1,988	5,740	9,984	3,864	2,099	7,244	10,811	3,651
Cost of External Services	6,754	2,870	1,158	6,409	7,797	3,383	1,031	7,188	8,214	1,871
Depreciation and Amortization	3,736	3,761	3,582	3,816	3,459	3,556	3,331	3,366	3,526	3,745
Net Book Value of Assets Sold	10,112	304	289	3,500	9,824	2,974	172	2,963	9,139	450
Other Costs	375	2,668	533	445	494	1,138	742	422	1,082	(222)
Operating Income	33,678	(3,583)	(4,355)	(6,093)	34,501	(6,706)	(4,602)	(5,288)	27,816	(5,550)
Interest Expense	583	585	655	680	793	295	589	563	648	788
NET INCOME	33,232	(5,662)	(4,957)	(7,484)	34,213	(7,705)	(5,159)	(6,444)	27,352	(6,621)

Balance Sheet ('000 BGN)	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Cash & Near Cash Items	9,801	3,545	11,696	7,641	7,344	3,385	10,421	6,461	3,926	3,747
Accounts & Notes Receivable	12,368	4,470	5,727	9,494	10,628	4,183	6,327	10,565	11,620	5,705
Inventories	5,141	9,455	10,141	12,688	10,281	10,816	11,479	13,586	10,830	10,077
Total Current Assets	27,572	17,470	27,564	29,823	28,253	18,384	28,227	30,612	26,376	19,529
Net Fixed Assets	411,003	411,048	410,671	418,112	422,036	421,702	432,332	452,866	459,289	455,868
Other Long-Term Assets	29,324	29,897	29,658	29,584	27,956	31,336	27,944	28,480	28,856	28,606
Total Long-Term Assets	443,699	443,605	444,886	453,389	454,288	459,978	467,216	488,235	495,155	491,356
Total Assets	471,271	461,075	472,450	483,212	482,541	478,362	495,443	518,847	521,531	510,885
Accounts Payable	15,464	8,643	26,394	46,371	17,193	11,574	26,899	45,455	19,949	14,809
Short-Term Borrowings	879	17,854	14,963	8,904	3,052	22,552	21,922	15,663	3,444	17,946
Other Short-Term Liabilities	1,573	1,025	769	2,284	1,528	293	753	1,886	1,949	599
Total Current Liabilities	17,916	27,522	42,126	57,559	21,773	34,419	49,574	63,004	25,342	33,354
Long-Term Borrowings	70,764	55,554	55,554	59,831	60,674	46,720	50,358	67,437	78,301	68,528
Other Long-Term Liabilities	25,973	24,706	25,904	27,088	27,088	22,351	25,868	27,174	29,140	28,773
Total Long-Term Liabilities	96,737	80,260	81,458	86,919	87,762	69,071	76,226	94,611	107,441	97,301
Total Liabilities	114,653	107,782	123,584	144,478	109,535	103,490	125,800	157,615	132,783	130,655
Total Equity	350,495	347,285	342,268	332,161	366,509	365,519	360,340	351,914	379,487	373,014
Total Liabilities & Equity	471,271	461,075	472,450	483,212	482,541	478,362	495,443	518,847	521,531	510,885
Cash Flow Statement ('000 BGN)	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Cash From Operations	8,843	(3,029)	14,077	9,027	9,725	(2,096)	13,990	7,992	4,636	(2,544)
Cash From Investing Activities	(804)	(2,115)	(4,624)	(12,369)	(1,844)	(1,561)	(12,393)	(24,084)	(8,069)	(1,365)
Cash from Financing Activities	(3,365)	(1,130)	(1,310)	(1,251)	(7,655)	(186)	5,481	12,032	911	3,775
Net Changes in Cash	4,674	(6,274)	8,143	(4,593)	226	(3,843)	7,078	(4,060)	(2,522)	(134)
End-of-period cash	11,236	3,455	13,545	8,605	13,505	3,385	16,112	7,459	5,163	3,747

COMPANY OVERVIEW

COMPANY PROFILE

Largest hotel and restaurant operator in Bulgaria, situated on the Black Sea coast. The main asset is the summer resort "Albena", which generates over 70% of the Group's revenues. It is the leading family resort in Bulgaria and owns 40 hotels. Albena avoided over development of the resort as it acquired also the land and infrastructure during the privatization. The Group incorporates also two smaller resorts - "Primorsko Club" and "White Lagoon", which add the number of beds to more than 25 000.

The Group has long-term contracts with leading tour operators in Europe, such as Neckermann, TUI, REWE, Thomas Cook Northern Europe, etc. Its structure includes tour operators, companies in medical and SPA tourism, real estate, agricultural production, airport and flight services. Subsidiaries support the hotel business with additional services and goods and add to Albena's profitability.

FUNDAMENTAL STORY

Net assets of Albena exceed substantially its market cap. Moreover, the sale of hotels should bring even higher return for shareholders. The profitability of assets would be a consequence of investments in higher star category of Albena's hotels. Development of "Primorsko Club" resort aims at increase of number of beds, while "White Lagoon" should change to highest quality vacation and balneotherapy resort in Bulgaria. Investments in 2014 doubled y-o-y and are planned to increase further.

The summer season is relatively shorter in Bulgaria as compared to the warmer resorts in Greece and Turkey. The peak of visits is in July-August. The long-term goal of Albena is to increase its occupancy rates during April-June. Latest revenue data proved the positive trend as the period is the only suitable for early vacations.

Albena also offers large number of congress halls for up to 1000 people. This segment registered 12 000 more visits in 2013 and will mostly contribute to sales during low season.

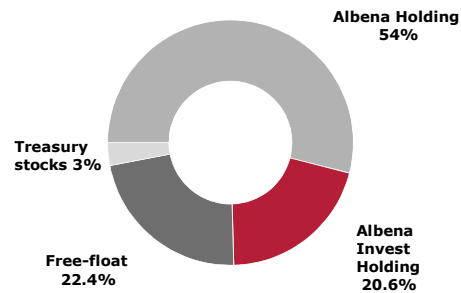
STRENGTHS AND OPPORTUNITIES

- Well-known brand in Bulgaria; focus on family vacations; excellent services
- Partnerships with leading EU tour operators and diversified markets
- Improvement of star category of hotels to attract higher value tourists and raise margins
- Investments in recreational facilities, congress tourism and balneotherapy to add to top and bottom line
- Vertically integrated structure of companies that includes additional and cost-efficient services
- Close proximity to fast growing Romanian market

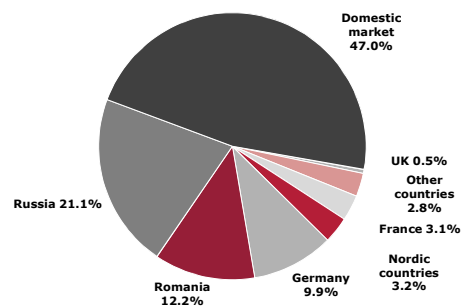
WEAKNESSES AND THREADS

- Underinvestment in infrastructure /star category, recreational facilities and parking lots/
- Dependence on short summer season
- Turkish and Greek resorts are highly competitive in both price and service quality
- High beach concession expenses
- Large share of the Russian source market that could shrink further on EU sanctions; ruble depreciation

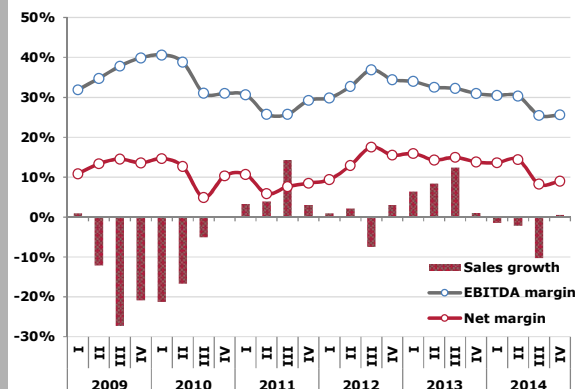
SHAREHOLDERS' STRUCTURE



SALES BREAKDOWN IN 2013



MARGINS



Source: Albena; data for 2011 adjusted to one-time items; 12 months trailing data

PRICE TRIGGERS

- Better than expected booking for the summer season
- Resume of profit margin growth due to investments and synergy in the Group
- Favorable conditions on the Bulgarian Stock Exchange and expansion of multiples
- Recovery of EU economies
- Ease of political tensions between Russia and EU

YEARLY DATA

STATEMENT OF INCOME (IN '000 BGN)	2011	2012	2013	2014
SALES	98,508	101,231	107,354	102,840
OPERATING EXPENSES	86,481	81,608	90,007	90,464
CHANGE IN INVENTORIES	(371)	(1,172)	783	1,403
COST OF MATERIAL	15,852	14,572	15,291	18,236
COST OF LABOUR	19,095	18,730	21,576	23,805
COST OF EXTERNAL SERVICES	16,920	16,438	18,747	18,304
DEPRECIATION AND AMORTIZATION	16,636	15,256	14,413	13,968
NET BOOK VALUE OF ASSETS SOLD	16,421	14,123	16,587	12,724
OTHER COSTS	1,928	3,661	2,610	2,024
OPERATING INCOME	12,027	19,623	17,347	12,376
INTEREST EXPENSE	3,485	2,419	2,423	2,588
FOREIGN EXCHANGE LOSSES (GAINS)	(486)	(492)	(525)	(412)
NET NON-OPERATING LOSSES (GAINS)	(281)	(18)	85	47
PRETAX INCOME	9,309	17,714	15,448	10,137
INCOME TAX EXPENSE	1,026	2,038	1,381	944
INCOME BEFORE XO ITEMS	8,283	15,676	14,067	9,193
EXTRAORDINARY LOSS NET OF TAX	0	0	0	0
MINORITY INTEREST	0	0	0	65
NET INCOME	8,283	15,676	14,067	9,128
EARNINGS PER SHARE IN BGN	2.00	3.78	3.39	2.20
BALANCE SHEET (IN '000 BGN)	2011	2012	2013	2014
CASH AND NEAR CASH ITEMS	952	3,545	3,385	3,747
SHORT-TERM INVESTMENTS	0	0	0	0
ACCOUNTS AND NOTES RECEIVABLE	7,365	4,470	4,183	5,705
INVENTORIES	4,939	9,455	10,816	10,077
OTHER CURRENT ASSETS	0	0	0	0
TOTAL CURRENT ASSETS	13,256	17,470	18,384	19,529
LT INVESTMENTS AND LT RECEIVABLES	2,580	2,660	6,940	6,882
NET FIXED ASSETS	419,564	411,048	421,702	455,868
OTHER LONG-TERM ASSETS	28,685	29,897	31,336	28,606
TOTAL LONG-TERM ASSETS	450,829	443,605	459,978	491,356
TOTAL ASSETS	464,085	461,075	478,362	510,885
ACCOUNTS PAYABLE	11,248	8,643	11,574	14,809
SHORT-TERM BORROWINGS	18,524	17,854	22,552	17,946
OTHER SHORT-TERM LIABILITIES	706	1,025	293	599
TOTAL CURRENT LIABILITIES	30,478	27,522	34,419	33,354
LONG-TERM BORROWINGS	70,424	55,554	46,720	68,528
OTHER LONG-TERM LIABILITIES	25,970	24,706	22,351	28,773
TOTAL LONG-TERM LIABILITIES	96,394	80,260	69,071	97,301
TOTAL LIABILITIES	126,872	107,782	103,490	130,655
TOTAL PREFERRED EQUITY	0	0	0	0
MINORITY INTEREST	6,073	6,008	9,353	7,216
SHARE CAPITAL & APIC	2,737	2,737	2,737	2,737
RETAINED EARNINGS & OTHER EQUITY	328,403	344,548	362,782	370,277
TOTAL EQUITY	331,140	347,285	365,519	373,014
WORKING CAPITAL	(18,174)	(13,597)	(19,420)	(17,572)
NUMBER OF SHARES:	4,145,126	4,145,126	4,145,126	4,145,126
PRICE IN BGN - PERIOD END:	58.80	38.74	59.70	57.30
MARKET CAP IN '000 BGN - PERIOD END:	243,733	160,582	247,464	237,516

CASH FLOW STATEMENT (IN '000 BGN)	2011	2012	2013	2014
NET INCOME	8,283	15,676	14,067	9,128
DEPRECIATION & AMORTIZATION	16,636	15,256	14,413	13,968
OTHER NON-CASH ADJUSTMENTS	7,399	4,239	(3,570)	(2,997)
CHANGES IN NON-CASH CAPITAL	(4,368)	(4,577)	5,823	3,975
CASH FROM OPERATIONS	27,950	30,594	30,733	24,074
DISPOSAL OF FIXED ASSETS	40	247	819	0
CAPITAL EXPENDITURES	(10,970)	(7,876)	(21,185)	(45,890)
INCREASE IN INVESTMENTS	(206)	(14)	(88)	0
DECREASE IN INVESTMENTS	13	21	15	19
OTHER INVESTING ACTIVITIES	52	79	41	(41)
CASH FROM INVESTING ACTIVITIES	(11,071)	(7,543)	(20,398)	(45,911)
DIVIDENDS PAID	(1,622)	(1,280)	(2,575)	(1,600)
CHANGE IN SHORT-TERM BORROWINGS	(6,477)	(670)	4,698	92
CHANGE IN LONG-TERM BORROWINGS	(16,467)	(14,870)	(8,834)	12,974
INCREASE IN CAPITAL STOCKS	0	0	641	0
DECREASE IN CAPITAL STOCKS	0	0	0	0
OTHER FINANCIAL ACTIVITIES	1,451	(3,670)	(4,332)	10,733
CASH FROM FINANCING ACTIVITIES	(23,115)	(20,490)	(10,402)	22,199
NET CHANGES IN CASH	(6,236)	2,561	(67)	362
END-OF-PERIOD CASH	894	3,455	3,385	3,747
CASH PER SHARE	0.22	0.83	0.82	0.90

FINANCIAL AND PERFORMANCE INDICATORS	2011	2012	2013	2014
VALUATION				
PRICE/EARNINGS (P/E)	29.43	10.24	17.59	26.02
PRICE/BOOK (P/B)	0.74	0.46	0.68	0.64
PRICE/SALES (P/S)	2.47	1.59	2.31	2.31
EV (IN '000 BGN)	331,729	230,445	313,351	320,243
EV/EBITDA	11.57	6.61	9.87	12.16
PROFITABILITY				
RETURN ON COMMON EQUITY	2.53%	4.62%	3.95%	2.47%
RETURN ON ASSETS	1.76%	3.39%	2.99%	1.85%
RETURN ON INVESTED CAPITAL	2.66%	4.24%	3.80%	2.58%
EBITDA MARGIN	29.10%	34.45%	29.58%	25.62%
OPERATING MARGIN	12.21%	19.38%	16.16%	12.03%
NET INCOME MARGIN	8.41%	15.49%	13.10%	8.88%
DIVIDEND				
DIVIDEND YIELD	0.43%	1.94%	0.84%	
DIVIDEND PER SHARE	0.25	0.75	0.50	
LIQUIDITY				
CURRENT RATIO	0.43	0.63	0.53	0.59
QUICK RATIO	0.27	0.29	0.22	0.28
CREDIT				
LT DEBT/EQUITY	0.21	0.16	0.13	0.18
TOTAL DEBT/EQUITY	0.27	0.21	0.19	0.23
TOTAL DEBT/TOTAL ASSETS	0.19	0.16	0.14	0.17
EBIT/INTEREST EXPENSE	3.45	8.11	7.16	4.78

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BUY	More than 5% higher as compared to SOFIX and BG40 performance
HOLD	Market performance, +/-5% as compared to SOFIX and BG40
SELL	More than 5% lower as compared to SOFIX and BG40 performance

Frequency of Recommendations: No schedule of recommendations is available. The frequency of recommendations depends on specific factors to individual companies and the opinion of the analyst(s) for the necessity of minor or major changes.

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