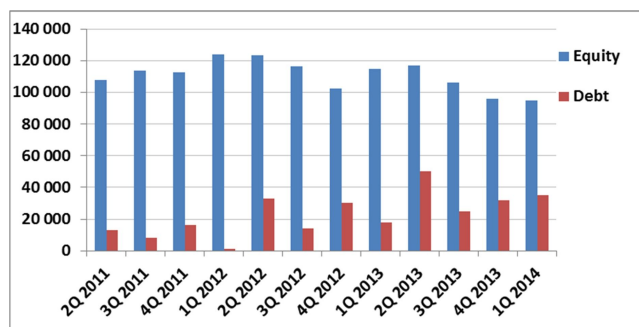
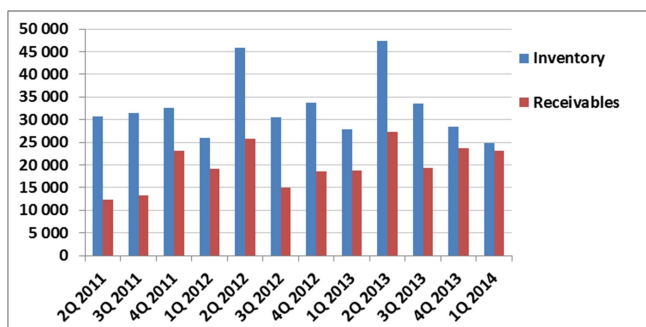
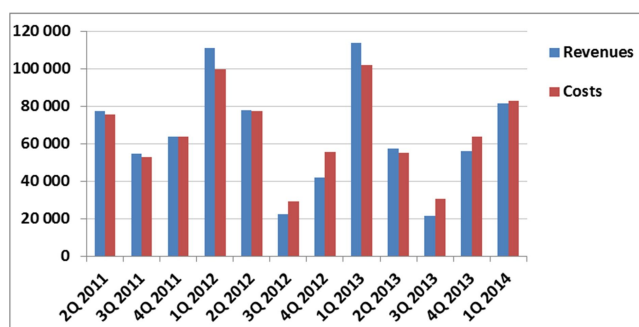
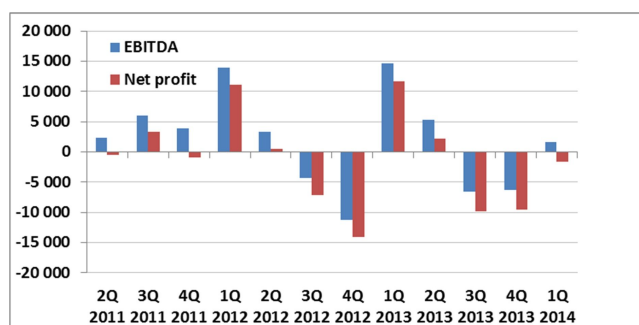


- The fertilizer producer Neochim (**3NB**) reported loss during the seasonally strong first quarter. Although the negative result is less than the previous two quarters, the company's profit is highly dependent on the first three months of the year. Moreover, Neochim will report deep loss for the year.
- The company did not reported the reasons for its weak performance during the quarter. Domestic sales fell by 20%, while export revenues dropped by 43% due to the lost markets in Asia and Africa. Sales to European countries were 15% lower. This could be related to the drop of prices of ammonia fertilizers.
- The production costs fell less than the decrease of revenues and were the main reason behind the quarterly loss. However, prices of fertilizers are expected to rise due to better demand in April after

the long period of decline that the sector is experiencing for the last 18 months. The market of fertilizers is rising steadily and consumers are switching toward more complex products.

- The situation in Ukraine is crucial for the market of fertilizers in the region. Cheap production from Ukraine will cease to be factor for price pressure as Russia stop to sell cheap natural gas for the country. Moreover, the inefficient production of Ukraine will also result to sizable decrease of supply that will create better market conditions for Neochim to export in the region.
- At the end of the last year, the European leader in production and trade with fertilizers Borealis bought 20% of shares of Neochim. We consider the entry as major step toward the increase of revenues and profits of Neochim.

	1Q 2014	q-o-q	y-o-y
Revenues	81 624	46.40%	-28.30%
Costs, incl. depreciation	82 704	29.50%	-18.83%
Interest expenses	2 647	-2.83%	4.29%
EBITDA	505	-11.56%	44.29%
EBIT	1 569	-125.22%	-89.24%
Net profit	-1 078	-87.95%	-109.0%
Assets	-1 583	-83.36%	-
Long-term assets	163 490	-2.85%	-1.11%
Inventories	109 357	-1.04%	2.36%
Receivables	24 785	-12.74%	-11.19%
Cash	23 157	-2.24%	22.73%
Equity	628	15.65%	-78.54%
Long-term loans	94 845	-1.10%	-17.24%
Short-term loans	18 049	5.88%	1.2%
	17 043	15.30%	



\*Source: Neochim; '000 BGN

**VALUATION**

The table presents the main valuation multiples of Neochim, calculated with the unconsolidated results for each year.

**Multiples comparison**

	2012	2013	12M
Last Price	<b>28.30</b>	<b>53.00</b>	<b>52.90</b>
Number of Shares	2 585 876	2 585 876	2 654 358
Market Capitalization	73 180 278	137 051 405	140 415 538
Net Profit	-9 434 000	-9 516 000	-18 775 000
P/E	<b>-7.76</b>	<b>-14.40</b>	<b>-7.48</b>
Equity	102 280 000	95 901 000	94 845 000
P/B	<b>0.72</b>	<b>1.43</b>	<b>1.48</b>
Sales	253 055 000	248 598 000	216 397 000
P/S	<b>0.29</b>	<b>0.55</b>	<b>0.65</b>
EV	90 758 494	104 465 278	171 515 405
EBITDA	1 564 000	6 973 000	-6 040 000
EV/EBITDA	<b>58.03</b>	<b>14.98</b>	<b>-28.40</b>
RoE	-9.22%	-9.92%	-19.80%
RoA	-5.41%	-5.65%	-11.48%

The difficult market conjuncture had negative impact on valuation ratios of Neochim for consecutive year. Moreover, the first quarter is predicting very negative result for 2014 unless the cooperation with Borealis did not provide sudden increase of revenues from foreign markets or the company takes the place of Ukrainian producers on the domestic market. This is not impossible, although in short-term we see the possibility of cheap import from Ukraine due to the devaluation of the currency and the fact that Ukraine is not paying for natural gas.

**Comparison to industry**

Mutiples	P/E	P/B	P/S	EV/EBITDA
Median	13.00	1.23	0.69	7.20
Market Capitalization	-244 075 000	117 078 043	149 920 058	-77 967 662
Price	-91.95	44.11	56.48	-29.37
Weight	0%	50%	50%	0%
Current Price		<b>52.90</b>		
Fair Price		<b>50.29</b>		
Premium (Discount) to Current Price		<b>-4.93%</b>		

*The loss is making Neochim incomparable to peers*

Profit related multiples are negative and make Neochim incomparable to peers. We present the table with calculations for informational purposes and not for valuation purposes. The stock is in line with the valuation of peers by comparing to book value and revenues.

**Forecasts – conservative scenario**

Statement of income (000 BGN)	2011	2012	2013P	2014E	2015E	2016E	2017E	2018E
<b>Net Sales</b>	<b>284 309</b>	<b>253 055</b>	<b>248 598</b>	<b>218 766</b>	<b>290 959</b>	<b>363 699</b>	<b>429 165</b>	<b>493 539</b>
Material costs	222 767	209 306	195 479	185 951	226 948	276 411	317 582	365 219
Sales and administrative costs	36 218	40 904	39 057	32 815	43 644	49 099	57 937	65 394
<b>EBITDA</b>	<b>32 719</b>	<b>1 564</b>	<b>6 973</b>	<b>3 281</b>	<b>14 548</b>	<b>20 003</b>	<b>25 750</b>	<b>29 612</b>
Depreciation and amortization	9 510	9 957	10 376	8 751	11 638	14 548	16 094	18 508
<b>EBIT</b>	<b>23 209</b>	<b>-8 393</b>	<b>-3 403</b>	<b>-5 469</b>	<b>2 910</b>	<b>5 455</b>	<b>9 656</b>	<b>11 105</b>
Interest expenses	1 041	1 041	2 095	2 305	2 535	1 901	1 426	1 782
<b>Net profit</b>	<b>19 644</b>	<b>-9 434</b>	<b>-5 498</b>	<b>-7 774</b>	<b>337</b>	<b>3 199</b>	<b>7 407</b>	<b>8 390</b>

*The company will turn into profit in 2015*

The weak start of the year is the reason to decrease or expectations for revenues in 2014. However, we consider this year as exceptional – media reports are suggesting that fertilizer prices are recovering and that domestic market will turn to growth. In light of the recent events in Ukraine we are becoming more positive on Neochim in long-term. This is why we expect gradual improvement of EBITDA margin from 5% in 2015 to 7% in 2021. Moreover, the company's productivity will improve due to recent investments. Interest expenses will decrease as investments are concentrated more in the next few years. Net profit will be positive next year. We consider this as conservative scenario as history showed that the company can achieve even higher increase of revenues if demand is present.

**Discounted cash flows**

Neochim	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Terminal Year
BGN'000											
<b>EBIT</b>	-5 469	2 910	5 455	9 656	11 105	14 930	16 124	20 199	21 209	22 057	22 829
<b>EBIT(1-T)</b>	-4 922	2 619	4 910	8 691	9 994	13 437	14 512	18 179	19 088	19 851	20 546
<b>Add: D&amp;A</b>	8 751	11 638	14 548	16 094	18 508	20 358	21 987	23 306	24 472	25 451	26 341
<b>Less: Investments</b>	12 032	14 548	18 185	12 875	14 806	10 858	11 726	21 753	22 840	23 754	26 341
<b>Less: Change NWC</b>	1 091	722	2 546	982	966	3 455	869	704	622	522	475
<b>FCF</b>	-9 294	-1 013	-1 273	10 927	12 730	19 482	23 904	19 029	20 098	21 026	20 071
<b>PV FCF</b>	-8 449	-837	-956	7 464	7 904	10 997	12 266	8 877	8 523	8 106	
<b>Sum of PV FCF</b>	53 896										
<b>PV of Continuing Value</b>	119 051										
<b>Total PV Free Cash Flows</b>	172 947										
<b>Less: Outstanding Debt</b>	35 092										
<b>Plus: Financial Assets</b>	628										
<b>PV of Equity</b>	138 483										
<b>Number of Shares</b>	2 654										
<b>Price Per share</b>	52.17										
			<b>WACC</b>								
				<b>Growth Rate</b>							
				<b>SA</b>	2.0%	3.0%	3.5%	4.0%	5.0%		
				8.0%	68.94	80.62	88.40	98.13	127.32		
				9.0%	54.51	62.11	66.95	72.76	88.73		
				10.0%	43.76	48.97	52.17	55.91	65.63		
				11.0%	35.47	39.17	41.39	43.93	50.27		
				12.0%	28.90	31.60	33.19	34.98	39.33		

**RECOMMENDATION AND PRICE TARGET**

*Recommendation:*  
**HOLD**  
*Target Price:* **52.00**  
**BGN**  
*Increase:* **0%**

Discounting our expectations for the company's development for the next ten years resulted to price per share that corresponds to the latest quotes. Although higher risk premium than 10% is not justifying the current price, we are confident that Neochim will manage to show good results after the strategic alliance with Borealis. What we lack now is the proof of it and the effects from the crisis in Ukraine. Nevertheless, the market is giving good credit of confidence to the stock and we don't see high risks of price decrease in the next two quarters.

**Financial Data**

<b>Statement of Income (in '000 BGN)</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Sales</b>	104 084	159 618	284 300	253 055	248 620
Production expenses	97 133	144 981	229 764	229 291	216 732
Personnel expenses	17 133	16 196	23 104	22 194	24 272
Net income from financial activities	280	1 403	1 287	(6)	(663)
Other revenues and expenses	0	0	0	0	0
<b>EBITDA</b>	(9 902)	(156)	32 719	1 564	6 953
Depreciation	8 829	8 961	9 510	9 957	10 366
<b>EBIT</b>	(18 731)	(9 117)	23 209	(8 393)	(3 413)
Interest expense	1 058	1 725	1 041	1 041	2 095
<b>Pretax income</b>	(19 789)	(10 842)	22 168	(9 434)	(5 508)
Taxes	(1 940)	(1 062)	0	0	(537)
<b>After-tax income</b>	(17 849)	(9 780)	22 168	(9 434)	(4 971)
Minority interest	0	0	0	0	0
<b>Net income</b>	(17 849)	(9 780)	22 168	(9 434)	(4 971)
<b>Earnings per share in BGN</b>	(6.72)	(3.68)	8.35	(3.55)	(1.87)

<b>Balance Sheet (in '000 BGN)</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Total Assets</b>	156 549	143 699	164 070	174 361	168 927
Equity subscriptions receivable	0	0	0	0	0
<b>Fixed assets</b>	107 388	104 143	104 744	115 573	115 866
Tangible fixed assets	98 694	93 910	94 134	106 549	110 628
Financial investments	4 159	4 159	4 159	4 242	4 242
<b>Current assets</b>	49 161	39 556	59 326	58 788	53 061
Inventory	33 817	23 398	32 798	33 811	28 360
Receivables	14 155	13 320	23 067	18 674	23 717
Financial assets	0	0	0	0	0
Cash and cash equivalents	745	2 362	3 053	5 906	543
<b>Total liabilities + equity</b>	156 549	143 699	164 070	174 361	168 927
<b>Equity</b>	102 647	92 867	115 035	102 280	96 428
Registered capital	2 586	2 586	2 586	2 586	2 586
Capital funds	(3 242)	(3 242)	(3 242)	(3 242)	(4 042)
Earnings	103 303	93 523	115 691	102 936	97 884
<b>Liabilities</b>	53 902	50 832	49 035	72 081	72 499
Long-term payables	14 569	8 476	5 246	22 512	3 488
Long-term bank loans	6 221	2 472	1 225	16 895	17 047
Short-term bank debt	20 276	8 489	14 772	13 384	14 781
Short-term payables	(6 024)	33 867	29 017	36 185	37 183
Other liabilities	0	0	0	0	0
<b>Working capital</b>	34 909	(2 800)	15 537	9 219	1 097

<b>Cash Flow Statement (in '000 BGN)</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Net income</b>	(17 849)	(9 780)	22 168	(9 434)	(4 971)
Depreciation	8 829	8 961	9 510	9 957	10 366
Changes in Working capital	(23 040)	(37 709)	18 337	(6 318)	(8 122)
Other operating cash flow items	9 145	65 083	(45 376)	16 979	10 409
<b>Net cash from operating activities</b>	(22 915)	26 555	4 639	11 184	7 682
Capital expenditures	(4 615)	(3 714)	(8 096)	(22 106)	(13 198)
Other investing cash flow items	0	0	97	0	0
<b>Net cash from investing activities</b>	(4 615)	(3 714)	(7 999)	(20 236)	(13 169)
Issuance/ Retirement of Stock, Net	0	0	0	0	0
Issuance/ Retirement of Debt, Net	21 689	(20 410)	4 186	12 462	2 443
Dividends paid	(31)	(1)	(4)	(333)	(1 026)
Other financing cash flow items	(764)	(813)	(131)	(224)	(1 293)
<b>Net cash from financing activities</b>	20 894	(21 224)	4 051	11 905	124
<b>Net change in cash</b>	(6 636)	1 617	691	2 853	(5 363)
Beginning-of-period cash	7 381	745	2 362	3 053	5 906
<b>End-of-period cash</b>	745	2 362	3 053	5 906	543
<b>Cash per share</b>	0.28	0.89	1.15	2.23	0.20

<b>Financial and Performance Indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Valuation Ratios</b>					
Price/Earnings (P/E)	-3.72	-7.98	3.60	-7.96	-28.30
Book Value (BV)	38.67	34.99	43.34	38.53	36.33
Price/Book (P/B)	0.65	0.84	0.69	0.73	1.46
Sales Per Share	39.21	60.13	107.11	95.34	93.66
Price/Sales (P/S)	0.64	0.49	0.28	0.30	0.57
Price/Cash per share	-7.36	-95.28	2.52	143.63	26.08
EV (in BGN)	92 137	86 637	92 707	99 491	171 966
EV/Sales	0.89	0.54	0.33	0.39	0.69
EV/EBITDA	-9.30	-555.37	2.83	63.61	24.73
EV/EBIT	-4.92	-9.50	3.99	-11.85	-50.39
<b>Liquidity</b>					
Current ratio	3.45	0.93	1.35	1.19	1.02
Quick ratio	1.08	0.38	0.61	0.50	0.48
<b>Debt Management</b>					
Debt to total assets	0.34	0.35	0.30	0.41	0.43
Interest coverage	-17.70	-5.29	22.29	-8.06	-1.63
LT Debt/Equity	0.20	0.12	0.06	0.39	0.21
Total Debt/Equity	0.53	0.55	0.43	0.70	0.75
<b>Asset Management</b>					
Inventory turnover	3.08	6.82	8.67	7.48	8.77
Days sales outstanding	49	30	29	27	34
Fixed asset turnover	0.97	1.53	2.71	2.19	2.15
Total asset turnover	0.66	1.11	1.73	1.45	1.47
<b>Profitability</b>					
Profit margin on sales	-17.1%	-6.1%	7.8%	-3.7%	-2.0%
EBITDA margin	-9.5%	-0.1%	11.5%	0.6%	2.8%
Basic earning power	-12.0%	-6.3%	14.1%	-4.8%	-2.0%
Return on assets	-11.4%	-6.8%	13.5%	-5.4%	-2.9%
Return on equity	-17.4%	-10.5%	19.3%	-9.2%	-5.2%
Return on investments	-14.5%	-9.4%	18.2%	-6.7%	-4.3%
<b>Dividend Information</b>					
Dividend Yield	-	-	1.00%	1.41%	-
Dividend per share	-	-	0.30	0.40	-
<b>Number of shares:</b>					
	<b>2 654 358</b>	<b>2 654 358</b>	<b>2 654 358</b>	<b>2 654 358</b>	<b>2 654 358</b>
<b>Price in BGN - period end:</b>					
	<b>25.01</b>	<b>29.40</b>	<b>30.05</b>	<b>28.30</b>	<b>53.00</b>
<b>Market cap in BGN - period end:</b>					
	<b>66 385 494</b>	<b>78 038 125</b>	<b>79 763 458</b>	<b>75 118 331</b>	<b>140 680 974</b>

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<b>BUY</b>	More than 5% higher as compared to SOFIX and BG40 performance
<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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**For more information, please contact:**

**Research analyst**  
Tsvetoslav Tsachev

**Phone:**  
+359 2 810 00 23

**E-mail:**  
[tsachev@elana.net](mailto:tsachev@elana.net)

**Internet:**  
[www.elana.net](http://www.elana.net)