

ALBENA (6AB)

INDUSTRY: HOTELS, RESTAURANTS AND LEISURE

OVERSHADOWED BY EXTREME EVENTS

FURTHER IMPROVEMENT OF TOP AND BOTTOM LINE OF ALBENA DURING Q2 DUE TO THE STRATEGY TO EXPAND THE SUMMER SEASON. MAIN EXPENDITURES ROSE BUT LOSS DECREASED. Q3 DATA SHOULD INCORPORATE SOME NEGATIVE EFFECTS OF EXTREME WEATHER CONDITIONS, BUT WE DON'T EXPECT SIZABLE DECLINE IN REVENUES DURING 2014. INVESTMENTS IN FACILITIES AND HOTELS RENOVATION BEAR FRUIT AS HIGHER STAR CATEGORY IMPROVES MARGINS.

8.6% Y-O-Y GROWTH OF REVENUES DURING THE SECOND QUARTER

The second quarter showed an improvement of consolidated revenues on yearly basis /8.6% for Q2, 6.7% for H1/, which is a continuation of the policy to increase the holiday season on the Black Sea coast. Operating expenses grew slowly /3.4%/ and the operating loss decreased by 13% during the quarter. Labor costs soared 26% as the Group focuses on key staff and opens early some of its hotels. The net loss fell 14% y-o-y during the second quarter. Q2 results maintain a positive trend that we expect to continue as Albena can achieve higher capacity in spring rather than autumn.

DOUBLE IN INVESTMENTS TO SUPPORT TOP AND BOTTOM LINE

Albena and its subsidiaries doubled the investments in hotels and recreational facilities as compared to the previous year. 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 increase of revenues via entry fees and higher price per accommodation. The investments this year were funded by 21% increase of net debt to BGN 87.8 million, which corresponded to 20% of equity at the end of the second quarter. The Group has low debt level. The interest coverage of 8 for the last 12 months indicates the possibility to invest further in long-term assets.

Difficult 2014 summer season to affect Albena

Various estimations point up to 10% decrease in summer tourism revenues this year due to the bad weather effects and the decline of visits from Russia and Ukraine. The normal operations in Albena resumed soon after the floods in June. Statistics confirmed the 12% decrease of tourists in July y-o-y and 15% in August, mainly from EU. Romanian market reported huge decline (43%), while Russian tourists were only 6% down in August after 1% growth in July.

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 next year. Thus we maintain our one year target per share of BGN 78.51 until the announcement of third quarter's results. The successful sale of 7% stake of Municipality of Balchik to several institutional investors in August 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 55.00

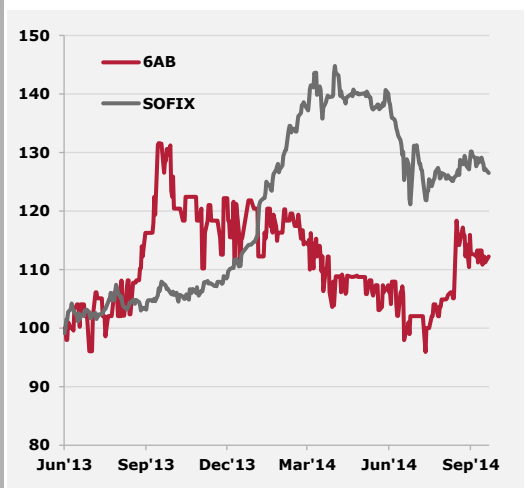
EXCHANGE RATES

EUR/BGN (FIXED): 1.95583
USD/BGN: 1.5480

MARKET DATA

Shares Outstanding: **4 145 126**
 Share Capital: **4 273 126**
 Free-float: **22.4%**
 Treasury Shares **3%**
 Market Cap.: **BGN 228.0m**
 52 Weeks Range: **BGN 45.61-65.00**
 Ticker **6AB**
 Bloomberg **6AB BU**

PRICE PERFORMANCE



in kBGN, excl. ratios	4Q 2012	1Q 2013	2Q 2013	3Q 2013	4Q 2013	1Q 2014	2Q 2014
REVENUES	10,483	4,287	19,330	74,748	3,906	4,209	20,989
EBITDA	178	(773)	(2,277)	37,960	(3,257)	(1,271)	(1,922)
EBIT	(3,583)	(4,355)	(6,093)	34,501	(6,797)	(4,602)	(5,288)
NET PROFIT	(5,616)	(4,957)	(7,484)	34,348	(7,773)	(5,159)	(6,444)
EQUITY	53,009	47,737	37,121	71,469	63,696	62,423	53,907
ROE	4.69%	4.87%	4.42%	4.69%	4.04%	3.93%	4.17%
ROA	3.36%	3.52%	3.22%	3.43%	2.96%	2.88%	3.04%
EBITDA MARGIN	34.45%	33.98%	32.54%	32.24%	30.95%	30.49%	30.34%
NET PROFIT MARGIN	15.53%	15.94%	14.30%	14.97%	13.82%	13.63%	14.42%
EPS	(1.35)	(1.20)	(1.81)	8.29	(1.88)	(1.24)	(1.55)
DEBT/EQUITY	0.21	0.21	0.21	0.17	0.19	0.20	0.24
P/E	10.21	11.28	13.79	16.36	17.51	15.10	13.84
P/B	0.48	0.55	0.61	0.77	0.71	0.59	0.58
EV/EBITDA	6.61	7.13	7.88	9.35	9.73	8.72	8.65

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ANALYST'S COMMENT

Further improvement of revenues, based on the long-term strategy of the Group to extend the peak summer season. The clear upside trend in sales during Q2 since 2011 indicates the benefits of the strategy. The Group raised labor expenditures to maintain its qualified staff but most of the increase was due to the early opening of hotels. Higher material costs represented the increase of inventories and less goods sold. Albena reported a small change in depreciation. The lower Q2 loss on yearly basis was a consequence of faster increase of sales as compared to total costs.

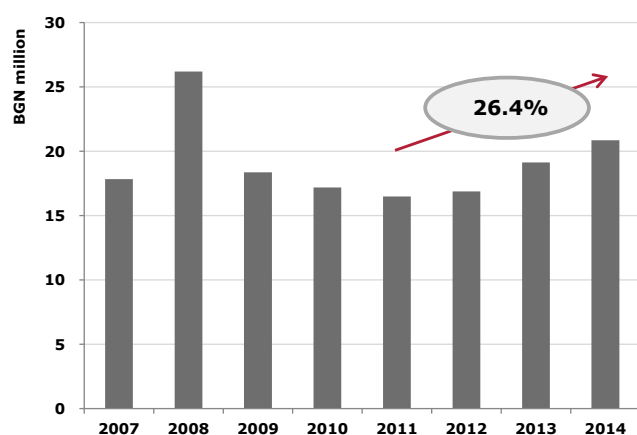
We expect a continuation of investment program at the current scale, including funds to repair property damage from floods. This might postpone some larger projects, including the complete renovation of "White Lagoon" resort.

Revenues during the second quarter did not include the negative effects of bad weather during late-June and July. 6 hotels have been evacuated after the extreme rainfall of 190 l per sq. m. Hotel "Gergana" was closed for the beginning of the season, although the damage was limited to the nearby green area and part of the infrastructure. There were cancellations of reservations immediately after the strong floods but the resort quickly returned to normal operations within a few days.

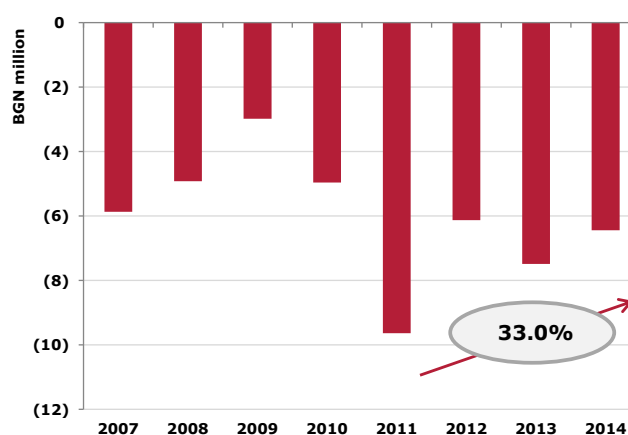
Impact on revenues during the third quarter should become clear after the announcement of the individual report for the period. The management of the Company shared its negative expectations, including damages on assets of around BGN 5 m that should be covered by insurances. We expect up to 10% decline of revenues this summer due to the outflow of Romanian tourists. Statistical data showed that Russian tourists declined by 2.5% in July-August. Larger decrease was reported by the Ukrainian market but it represents a very small part of Albena's customers. More troublesome is the 43% decline of Romanian tourists, whereas visits from UK, France and Germany fell 36%, 19% and 14%, respectively. When using the statistical data for tourists, we calculated that revenues of Albena could fall up to 10% if Bulgarian market is flat.

We remain positive on long-term due to the following: investments in renovation of hotels and construction of recreational facilities; partnerships with leading tour operators; return of Russian tourists next year; high quality of services; increase of touristic season with packages for May and June.

Any selling pressure that could be ignited by the negative third-quarter report should be regarded as buying opportunity.

SECOND QUARTER REVENUE


Source: Albena

SECOND QUARTER PROFIT/LOSS


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

QUARTERLY DATA (UNAUDITED)

Income Statement ('000 BGN)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Revenue	1,790	16,905	72,053	10,483	4,287	19,330	74,748	8,989	4,209	20,989
Operating Expenses	6,777	22,390	38,375	14,066	8,642	25,423	40,247	15,695	8,811	26,277
Change in Inventories	(230)	(698)	1,439	(1,683)	(260)	304	357	382	(309)	(1,330)
Cost of Material	660	4,204	7,005	2,703	1,352	5,209	8,332	398	1,745	6,424
Cost of Labor	1,364	4,969	8,954	3,443	1,988	5,740	9,984	3,864	2,099	7,244
Cost of External Services	809	6,005	6,754	2,870	1,158	6,409	7,797	3,383	1,031	7,188
Depreciation and Amortization	3,847	3,912	3,736	3,761	3,582	3,816	3,459	3,556	3,331	3,366
Net Book Value of Assets Sold	130	3,577	10,112	304	289	3,500	9,824	2,974	172	2,963
Other Costs	197	421	375	2,668	533	445	494	1,138	742	422
Operating Income	(4,987)	(5,485)	33,678	(3,583)	(4,355)	(6,093)	34,501	(6,706)	(4,602)	(5,288)
Interest Expense	695	556	583	585	655	680	793	295	589	563
NET INCOME	(5,770)	(6,124)	33,232	(5,662)	(4,957)	(7,484)	34,213	(7,705)	(5,159)	(6,444)

Balance Sheet ('000 BGN)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Cash & Near Cash Items	5,460	5,123	9,801	3,545	11,696	7,641	7,344	3,385	10,421	6,461
Accounts & Notes Receivable	7,488	13,798	12,368	4,470	5,727	9,494	10,628	4,183	6,327	10,565
Inventories	5,461	8,558	5,141	9,455	10,141	12,688	10,281	10,816	11,479	13,586
Total Current Assets	18,409	27,479	27,572	17,470	27,564	29,823	28,253	18,384	28,227	30,612
Net Fixed Assets	416,540	412,836	411,003	411,048	410,671	418,112	422,036	421,702	432,332	452,866
Other Long-Term Assets	28,586	29,221	29,324	29,897	29,658	29,584	27,956	31,336	27,944	28,480
Total Long-Term Assets	447,731	444,800	443,699	443,605	444,886	453,389	454,288	459,978	467,216	488,235
Total Assets	466,140	472,279	471,271	461,075	472,450	483,212	482,541	478,362	495,443	518,847
Accounts Payable	22,479	46,015	15,464	8,643	26,394	46,371	17,193	11,574	26,899	45,455
Short-Term Borrowings	14,595	3,174	879	17,854	14,963	8,904	3,052	22,552	21,922	15,663
Other Short-Term Liabilities	1,170	3,264	1,573	1,025	769	2,284	1,528	293	753	1,886
Total Current Liabilities	38,244	52,453	17,916	27,522	42,126	57,559	21,773	34,419	49,574	63,004
Long-Term Borrowings	70,424	70,424	70,764	55,554	55,554	59,831	60,674	46,720	50,358	67,437
Other Long-Term Liabilities	26,036	26,016	25,973	24,706	25,904	27,088	27,088	22,351	25,868	27,174
Total Long-Term Liabilities	96,460	96,440	96,737	80,260	81,458	86,919	87,762	69,071	76,226	94,611
Total Liabilities	134,704	148,893	114,653	107,782	123,584	144,478	109,535	103,490	125,800	157,615
Total Equity	325,453	317,246	350,495	347,285	342,268	332,161	366,509	365,519	360,340	351,914
Total Liabilities & Equity	466,140	472,279	471,271	461,075	472,450	483,212	482,541	478,362	495,443	518,847

Cash Flow Statement ('000 BGN)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Cash From Operations	10,196	14,584	8,843	(3,029)	14,077	9,027	9,725	(2,096)	13,990	7,992
Cash From Investing Activities	(1,398)	(3,226)	(804)	(2,115)	(4,624)	(12,369)	(1,844)	(1,561)	(12,393)	(24,084)
Cash from Financing Activities	(4,290)	(11,705)	(3,365)	(1,130)	(1,310)	(1,251)	(7,655)	(186)	5,481	12,032
Net Changes in Cash	4,508	(347)	4,674	(6,274)	8,143	(4,593)	226	(3,843)	7,078	(4,060)
End-of-period cash	7,707	7,642	11,236	3,455	13,545	8,605	13,505	3,385	16,112	7,459

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.

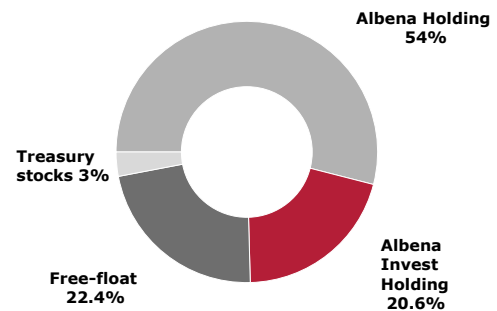
STRENGTHS AND OPPORTUNITIES

- 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

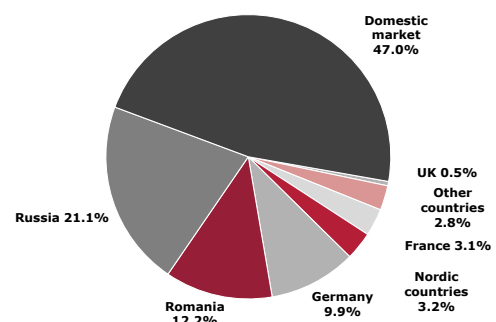
WEAKNESSES AND THREADS

- 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
- Dependent on the Russian market and possible negative effects on consumer behavior from EU sanctions; ruble depreciation

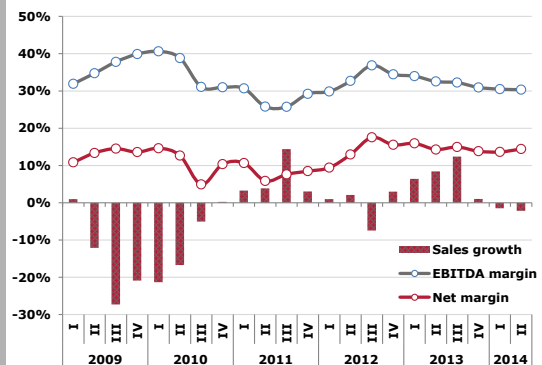
SHAREHOLDERS' STRUCTURE



SALES BREAKDOWN IN 2013



MARGINS



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

PRICE TRIGGERS

- Better than expected performance during Q3 of 2014
- Resume of profit margin growth after 2014 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 (AUDITED)

STATEMENT OF INCOME (IN '000 BGN)	2011	2012	2013	TTM	6M 2013	6M 2014
SALES	98,508	101,231	107,354	108,935	23,617	25,198
OPERATING EXPENSES	86,481	81,608	90,007	91,030	34,065	35,088
CHANGE IN INVENTORIES	(371)	(1,172)	783	(900)	44	(1,639)
COST OF MATERIAL	15,852	14,572	15,291	16,899	6,561	8,169
COST OF LABOUR	19,095	18,730	21,576	23,191	7,728	9,343
COST OF EXTERNAL SERVICES	16,920	16,438	18,747	19,399	7,567	8,219
DEPRECIATION AND AMORTIZATION	16,636	15,256	14,413	13,712	7,398	6,697
NET BOOK VALUE OF ASSETS SOLD	16,421	14,123	16,587	15,933	3,789	3,135
OTHER COSTS	1,928	3,661	2,610	2,796	978	1,164
OPERATING INCOME	12,027	19,623	17,347	17,905	(10,448)	(9,890)
INTEREST EXPENSE	3,485	2,419	2,423	2,240	1,335	1,152
FOREIGN EXCHANGE LOSSES (GAINS)	(486)	(492)	(525)	(514)	(88)	(77)
NET NON-OPERATING LOSSES (GAINS)	(281)	(18)	85	62	(149)	(172)
PRETAX INCOME	9,309	17,714	15,448	16,099	(11,546)	(10,895)
INCOME TAX EXPENSE	1,026	2,038	1,381	1,153	954	726
INCOME BEFORE XO ITEMS	8,283	15,676	14,067	14,946	(12,500)	(11,621)
EXTRAORDINARY LOSS NET OF TAX	0	0	0	0	0	0
MINORITY INTEREST	0	0	0	41	(59)	(18)
NET INCOME	8,283	15,676	14,067	14,905	(12,441)	(11,603)
EARNINGS PER SHARE IN BGN	2.00	3.78	3.39	3.60	(3.00)	(2.80)

BALANCE SHEET (IN '000 BGN)	2011	2012	2013	TTM	6M 2013	6M 2014
CASH AND NEAR CASH ITEMS	952	3,545	3,385	6,461	7,641	6,461
SHORT-TERM INVESTMENTS	0	0	0	0	0	0
ACCOUNTS AND NOTES RECEIVABLE	7,365	4,470	4,183	10,565	9,494	10,565
INVENTORIES	4,939	9,455	10,816	13,586	12,688	13,586
OTHER CURRENT ASSETS	0	0	0	0	0	0
TOTAL CURRENT ASSETS	13,256	17,470	18,384	30,612	29,823	30,612
LT INVESTMENTS AND LT RECEIVABLES	2,580	2,660	6,940	6,889	5,693	6,889
NET FIXED ASSETS	419,564	411,048	421,702	452,866	418,112	452,866
OTHER LONG-TERM ASSETS	28,685	29,897	31,336	28,480	29,584	28,480
TOTAL LONG-TERM ASSETS	450,829	443,605	459,978	488,235	453,389	488,235
TOTAL ASSETS	464,085	461,075	478,362	518,847	483,212	518,847
ACCOUNTS PAYABLE	11,248	8,643	11,574	45,455	46,371	45,455
SHORT-TERM BORROWINGS	18,524	17,854	22,552	15,663	8,904	15,663
OTHER SHORT-TERM LIABILITIES	706	1,025	293	1,886	2,284	1,886
TOTAL CURRENT LIABILITIES	30,478	27,522	34,419	63,004	57,559	63,004
LONG-TERM BORROWINGS	70,424	55,554	46,720	67,437	59,831	67,437
OTHER LONG-TERM LIABILITIES	25,970	24,706	22,351	27,174	27,088	27,174
TOTAL LONG-TERM LIABILITIES	96,394	80,260	69,071	94,611	86,919	94,611
TOTAL LIABILITIES	126,872	107,782	103,490	157,615	144,478	157,615
TOTAL PREFERRED EQUITY	0	0	0	0	0	0
MINORITY INTEREST	6,073	6,008	9,353	9,318	6,573	9,318
SHARE CAPITAL & APIC	2,737	2,737	2,737	2,737	2,737	2,737
RETAINED EARNINGS & OTHER EQUITY	328,403	344,548	362,782	349,177	329,424	349,177
TOTAL EQUITY	331,140	347,285	365,519	351,914	332,161	351,914
WORKING CAPITAL	(18,174)	(13,597)	(19,420)	(38,853)	(35,377)	(38,853)

NUMBER OF SHARES:	4,145,126	4,145,126	4,145,126	4,145,126	4,145,126	4,145,126
PRICE IN BGN - PERIOD END:	58.80	38.74	59.70	55.00	45.00	55.20
MARKET CAP IN BGN - PERIOD END:	243,733	160,582	247,464	227,982	186,531	228,811

CASH FLOW STATEMENT (IN '000 BGN)	2011	2012	2013	TTM	6M 2013	6M 2014
NET INCOME	8,283	15,676	14,067	14,905	(12,441)	(11,603)
DEPRECIATION & AMORTIZATION	16,636	15,256	14,413	13,712	7,398	6,697
OTHER NON-CASH ADJUSTMENTS	7,399	4,239	(3,570)	(8,305)	12,190	7,455
CHANGES IN NON-CASH CAPITAL	(4,368)	(4,577)	5,823	9,299	15,957	19,433
CASH FROM OPERATIONS	27,950	30,594	30,733	29,611	23,104	21,982
DISPOSAL OF FIXED ASSETS	40	247	819	822	0	3
CAPITAL EXPENDITURES	(10,970)	(7,876)	(21,185)	(40,635)	(17,036)	(36,486)
INCREASE IN INVESTMENTS	(206)	(14)	(88)	(86)	(3)	(1)
DECREASE IN INVESTMENTS	13	21	15	17	5	7
OTHER INVESTING ACTIVITIES	52	79	41	0	41	0
CASH FROM INVESTING ACTIVITIES	(11,071)	(7,543)	(20,398)	(39,882)	(16,993)	(36,477)
DIVIDENDS PAID	(1,622)	(1,280)	(2,575)	(3,482)	(103)	(1,010)
CHANGE IN SHORT-TERM BORROWINGS	(6,477)	(670)	4,698	6,759	(8,950)	(6,889)
CHANGE IN LONG-TERM BORROWINGS	(16,467)	(14,870)	(8,834)	7,606	4,277	20,717
INCREASE IN CAPITAL STOCKS	0	0	641	0	641	0
DECREASE IN CAPITAL STOCKS	0	0	0	0	0	0
OTHER FINANCIAL ACTIVITIES	1,451	(3,670)	(4,332)	(1,211)	1,574	4,695
CASH FROM FINANCING ACTIVITIES	(23,115)	(20,490)	(10,402)	9,672	(2,561)	17,513
NET CHANGES IN CASH	(6,236)	2,561	(67)	(599)	3,550	3,018
END-OF-PERIOD CASH	894	3,455	3,385	7,459	8,605	7,459
CASH PER SHARE	0.22	0.83	0.82	1.80	2.08	1.80

FINANCIAL AND PERFORMANCE INDICATORS	2011	2012	2013	TTM
VALUATION				
PRICE/EARNINGS (P/E)	29.43	10.24	17.59	15.30
PRICE/BOOK (P/B)	0.74	0.46	0.68	0.65
PRICE/SALES (P/S)	2.47	1.59	2.31	2.09
EV (IN BGN)	331,729	230,445	313,351	304,621
EV/EBITDA	11.57	6.61	9.87	9.63
PROFITABILITY				
RETURN ON COMMON EQUITY	2.53%	4.62%	3.95%	4.36%
RETURN ON ASSETS	1.76%	3.39%	2.99%	2.97%
RETURN ON INVESTED CAPITAL	2.66%	4.24%	3.80%	4.07%
EBITDA MARGIN	29.10%	34.45%	29.58%	29.02%
OPERATING MARGIN	12.21%	19.38%	16.16%	16.44%
NET INCOME MARGIN	8.41%	15.49%	13.10%	13.68%
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	0.49
QUICK RATIO	0.27	0.29	0.22	0.27
CREDIT				
LT DEBT/EQUITY	0.21	0.16	0.13	0.14
TOTAL DEBT/EQUITY	0.27	0.21	0.19	0.24
TOTAL DEBT/TOTAL ASSETS	0.19	0.16	0.14	0.16
EBIT/INTEREST EXPENSE	3.45	8.11	7.16	7.99

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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

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