



Stock price of Neochim



- Revenues of Neochim declined by 3% on yearly basis during the third quarter of 2013. The fertilizer producer is reporting 8.6% decrease of sales since the beginning of the year. The second quarter of 2013 had the biggest influence on the non-consolidated results as the company reported the largest decline of revenues.
- Neochim managed to improve its positions on the domestic market and increased its sales by 17.8% to BGN 120 million this year. The export is contracting substantially from BGN 105 million for the comparable period of 2012 to BGN 69 million. The biggest part of this decline came from the absence of sales to North America and the 23% contraction of revenues from EU markets. The most probable reason for the loss of foreign markets is the low price of natural gas in USA that made production costs of fertilizers to decline substantially and made the products of Neochim uncompetitive to local plants.
- Production costs are declining faster than revenues but the profitability of the company was influenced negatively by other costs like external services and interest payments. Neochim is reporting 11% decrease of costs for natural gas, which is the primary resource for production of fertilizers. The company is increasing wages since the beginning of the year, while depreciation costs are unchanged. Neochim had BGN 4.018 million profits before taxes as compared to BGN 4.6 million for the first nine months of 2012.
- Inventories are unchanged from the level a year ago, although the company reported substantially higher unfinished production at the end of the quarter. At the same time its finished production is at very low level. This is due to the seasonality in production and sales. Neochim's facilities are in regular maintenance during the summer months, when the demand of fertilizers is at the lowest level for the year. Neochim announced also higher receivables from related companies as they increased in the middle of 2013.
- The stock price of Neochim added 60 percent during the second and the third quarter of the year. The gains are consequence of inclusion into main index SOFIX, rather than induced from improved financial results. The demand of company's shares is declining during the last three months.

Valuation ratios

Table 1
Multiples Comparison

	2011	2012	12M
Last Price	34.90	28.30	39.00
Number of Shares	2 654 358	2 585 876	2 654 358
Market Capitalization	92 637 094	73 180 278	103 519 962
Net Profit	19 664 000	-9 434 000	-10 008 000
P/E	4.71	-7.76	-10.34
Equity	112 511 000	102 280 000	105 868 000
P/B	0.82	0.72	0.98
Sales	284 309 000	253 055 000	234 832 000
P/S	0.33	0.29	0.44
EV	79 329 494	117 010 094	96 785 278
EBITDA	32 399 000	1 564 000	1 896 000
EV/EBITDA	2.45	74.81	51.05
RoE	17.48%	-9.22%	-9.45%
RoA	12.08%	-5.41%	-5.90%

Source: Neochim
Estimations: ELANA Trading

The results of Neochim are negative during the last two years. The profitability decreased due to changes in market conjuncture and the loss of large export orders. This resulted to negative return on equity of 9%. The difference with revenues in 2011 is not substantial but production costs are rising and the company is not registering recently any improvement in its profitability. There is no sign for change in the trend.

Comparison to similar companies

The two consecutive years with financial losses is limiting the use of price-to-earning and EV/EBITDA ratios for valuation of the stock. These are the most popular multiples. One third of fertilizer producers in our list are working on loss. We are using the median of more than forty public listed companies in the sector but we exclude several that have unrealistic multiples.

Table 2
Comparison to similar companies

Mutiples	P/E	P/B	P/S	EV/EBITDA
Median	9.59	1.49	0.78	8.55
Market Capitalization	-90 502 975	152 351 379	196 752 034	-10 227 896
Price	-34.10	57.40	74.12	-3.85
Weight	20%	30%	30%	20%
Current Price	39.00			
Fair Price	31.87			
Premium (Discount) to Current Price	-18.29%			

Source: Bloomberg
Calculations: ELANA Trading

We are not excluding the profit-related multiples in the calculation of the fair price but we are giving them less weight. As the company is working on loss, both P/E and EV/EBITDA have negative contribution to fair price. Neochim shares are undervalued when comparing to equity and yearly turnover. However, the company cannot be determined as overvalued as small improvement in the profitability would have large impact on the fair price.

Discounted Cash Flows

The model of discounted cash flows includes future growth opportunities. It is based on stable increase of revenues and profitability ratios that are near the averages for the past several years. The forecasted financials are not similar to the actual performance of the company, which is volatile and impossible to predict.

Table 3, Discounted cash flows

Neochim											Terminal
BGN'000	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Year
EBIT	8 148	9 126	8 605	9 336	9 990	10 589	11 118	11 674	12 200	12 688	13 132
EBIT(1-T)	7 334	8 214	7 744	8 402	8 991	9 530	10 007	10 507	10 980	11 419	11 819
Add: D&A	8 148	9 126	11 473	12 448	13 319	14 119	14 825	15 566	16 266	16 917	17 509
Less: Investments	8 148	9 126	10 039	12 448	13 319	14 119	14 825	15 566	16 266	16 917	17 509
Less: Change NWC	-1 568	1 676	1 564	1 463	1 307	1 199	1 059	1 112	1 051	976	919
FCF	8 902	6 537	7 614	6 940	7 684	8 331	8 948	9 395	9 929	10 443	10 899
PV FCF	8 488	5 666	6 000	4 971	5 004	4 932	4 816	4 597	4 416	4 223	
Sum of PV FCF	53 113										
PV of Continuing Value	67 804										
Total PV Free Cash Flows	120 917										
						Growth Rate					
						SA	2.0%	3.0%	3.5%	4.0%	5.0%
Less: Outstanding Debt	24 727					8.0%	47.02	53.78	58.29	63.93	80.84
Plus: Financial Assets	1 122					9.0%	38.83	43.26	46.07	49.45	58.75
PV of Equity	97 312					10.0%	32.72	35.76	37.63	39.82	45.50
Number of Shares	2 586					11.0%	27.98	30.15	31.45	32.94	36.67
Price Per share	37.63					12.0%	24.21	25.80	26.74	27.80	30.36

Estimations: ELANA Trading

We are using 7% EBITDA margin for the calculation of Neochim's intrinsic value. This is above the average for the last five years but most of the period was marked by economic and financial crisis and low prices of agricultural production. The price of natural gas is also subject of dynamic and unpredictable factors. We are using 12% increase of revenues in the model for 2014, followed by gradual decrease of yearly growth. The fair price calculated at WACC of 10% is BGN 37.63 per share.

Recommendation and price target

Recommendation:
HOLD
Target price:
BGN 37.63

The model of discounted cash flows is resulting to higher intrinsic value as compared to multiples of the sector. This is mainly due to our forecasts for positive profitability, despite the lack of signs for improvement in the market conjuncture. Our price target for the next 12 months is BGN 37.63, which is lower than the current price. The primary reason for the negative expectation is the challenging market of fertilizers in Bulgaria and the absence of prospects to return on North American markets. However, we don't expect either decline of the share price but the stock will lag during bull market.

Financial data:

Statement of Income (in '000 BGN)	2009	2010	2011	2012	9M 2013
Sales	104 084	159 618	284 300	253 055	192 842
Production expenses	97 133	144 981	229 764	229 291	161 522
Personnel expenses	17 133	16 196	23 104	22 194	18 301
Net income from financial activities	280	1 403	1 287	(6)	175
Other revenues and expenses	0	0	0	0	0
EBITDA	(9 902)	(156)	32 719	1 564	13 194
Depreciation	8 829	8 961	9 510	9 957	7 652
EBIT	(18 731)	(9 117)	23 209	(8 393)	5 542
Interest expense	1 058	1 725	1 041	1 041	1 524
Pretax income	(19 789)	(10 842)	22 168	(9 434)	4 018
Taxes	(1 940)	(1 062)	0	0	0
After-tax income	(17 849)	(9 780)	22 168	(9 434)	4 018
Minority interest	0	0	0	0	0
Net income	(17 849)	(9 780)	22 168	(9 434)	4 018
Earnings per share in BGN	(6.72)	(3.68)	8.35	(3.55)	1.51

Balance Sheet (in '000 BGN)	2009	2010	2011	2012	9M 2013
Total Assets	156 549	143 699	164 070	174 361	169 484
Equity subscriptions receivable	0	0	0	0	0
Fixed assets	107 388	104 143	104 744	115 573	115 257
Tangible fixed assets	98 694	93 910	94 134	106 549	107 341
Financial investments	4 159	4 159	4 159	4 242	4 242
Current assets	49 161	39 556	59 326	58 788	54 227
Inventory	33 817	23 398	32 798	33 811	33 584
Receivables	14 155	13 320	23 067	18 674	19 282
Financial assets	0	0	0	0	0
Cash and cash equivalents	745	2 362	3 053	5 906	1 122
Total liabilities + equity	156 549	143 699	164 070	174 361	169 484
Equity	102 647	92 867	115 035	102 280	105 868
Registered capital	2 586	2 586	2 586	2 586	2 586
Capital funds	-3 242	-3 242	(3 242)	(3 242)	(3 242)
Earnings	103 303	93 523	115 691	102 936	106 524
Liabilities	53 902	50 832	49 035	72 081	63 616
Long-term payables	14 569	8 476	5 246	22 512	4 189
Long-term bank loans	6 221	2 472	1 225	16 895	18 807
Short-term bank debt	20 276	8 489	14 772	13 384	5 920
Short-term payables	(6 024)	2 570	29 017	36 185	34 700
Other liabilities	0	0	0	0	0
Working capital	34 909	28 497	15 537	9 219	13 607

Cash Flow Statement (in '000 BGN)	2009	2010	2011	2012	9M 2013
Net income	(17 849)	(9 780)	22 168	(9 434)	4 018
Depreciation	8 829	8 961	9 510	9 957	7 652
Changes in Working capital	(23 040)	(6 412)	18 337	3 209	(6 340)
Other operating cash flow items	9 145	33 786	(45 376)	7 452	5 901
Net cash from operating activities	(22 915)	26 555	4 639	11 184	11 231
Capital expenditures	(4 615)	(3 714)	(8 096)	(22 106)	(7 401)
Other investing cash flow items	0	0	97	0	0
Net cash from investing activities	(4 615)	(3 714)	(7 999)	(20 236)	(7 391)
Issuance/ Retirement of Stock, Net	0	0	0	0	0
Issuance/ Retirement of Debt, Net	21 689	(20 410)	4 186	12 462	(7 671)
Dividends paid	(31)	(1)	(4)	(333)	(3)
Other financing cash flow items	(764)	(813)	(131)	(224)	(950)
Net cash from financing activities	20 894	(21 224)	4 051	11 905	(8 624)
Net change in cash	(6 636)	1 617	691	2 853	(4 784)
Beginning-of-period cash	7 381	745	2 362	3 053	5 906
End-of-period cash	745	2 362	3 053	5 906	1 122
Cash per share	0.28	0.89	1.15	2.23	0.42

Financial and Performance Indicators	2009	2010	2011	2012	9M 2013
Valuation Ratios					
Price/Earnings (P/E)	-3.72	-7.98	3.60	-7.09	-10.34
Book Value (BV)	38.67	34.99	43.34	38.53	39.88
Price/Book (P/B)	0.65	0.84	0.69	0.65	0.98
Sales Per Share	39.21	60.13	107.11	95.34	88.47
Price/Sales (P/S)	0.64	0.49	0.28	0.26	0.44
Price/Cash per share	-7.36	-95.28	2.52	127.95	631.22
EV (in BGN)	92 137	86 637	92 707	91 289	127 125
EV/Sales	0.89	0.54	0.33	0.36	0.66
EV/EBITDA	-9.30	-555.37	2.83	58.37	67.05
EV/EBIT	-4.92	-9.50	3.99	-10.88	-15.36
Liquidity					
Current ratio	3.45	3.58	1.35	1.19	1.33
Quick ratio	1.08	1.46	0.61	0.50	0.51
Debt Management					
Debt to total assets	0.34	0.35	0.30	0.41	0.38
Interest coverage	-17.70	-5.29	22.29	-8.06	-4.78
LT Debt/Equity	0.20	0.12	0.06	0.39	0.22
Total Debt/Equity	0.53	0.55	0.43	0.70	0.60
Asset Management					
Inventory turnover	3.08	6.82	8.67	7.48	6.99
Days sales outstanding	49	30	29	27	30
Fixed asset turnover	0.97	1.53	2.71	2.19	2.04
Total asset turnover	0.66	1.11	1.73	1.45	1.39
Profitability					
Profit margin on sales	-17.1%	-6.1%	7.8%	-3.7%	-4.3%
EBITDA margin	-9.5%	-0.1%	11.5%	0.6%	0.8%
Basic earning power	-12.0%	-6.3%	14.1%	-4.8%	-4.9%
Return on assets	-11.4%	-6.8%	13.5%	-5.4%	-5.9%
Return on equity	-17.4%	-10.5%	19.3%	-9.2%	-9.5%
Return on investments	-14.5%	-9.4%	18.2%	-6.7%	-7.8%
Dividend Information					
Dividend Yield	-	-	1.00%	1.59%	-
Dividend per share	-	-	0.30	0.40	-
Number of shares:					
	2 654 358	2 654 358	2 654 358	2 654 358	2 654 358
Price in BGN - period end:					
	25.01	29.40	30.05	25.21	39.00
Market cap in BGN - period end:					
	66 385 494	78 038 125	79 763 458	66 916 365	103 519 962

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