



**Stock price of Monbat**



- Revenues of Monbat grew 13% during the third quarter on yearly basis. The producer of car batteries had substantially higher growth during the first half of the year, which was due to the lower base of 2012. Since the beginning of the year, sales were 25% higher. Monbat's forecasts for this year were more optimistic and the company expected to gain market share from the troubled producers of batteries in Europe. However, the price of lead did not increase and according to the company, this is the main reason for the miss of expectations.

- Updated forecasts are for 33% growth of sales in 2013 to BGN 269.9 million. Monbat's management is expecting EBITDA to reach BGN 44.78 million, while net profit will increase by 60% to BGN 27.7 million. Expected EPS is BGN 0.71 and P/E is 9.15. The calculations are excluding the treasury shares that at the end of November represented 2.68% of the capital. Monbat recently sold large portion of its treasury shares and ceased the buy-back operations. The company is intending to sell all shares and to use the revenues for investments.

- The net profit during the third quarter soared 33%. The period is not including the sale of treasury shares and the positive financial result of it. Growth rate since the beginning of the year is 44%. Costs for materials represented 70% of total revenues during the third quarter. The average price of lead did not change substantially during the third quarter.

- The accumulated profits of Monbat increased the level of equity. The company is distributing dividends to shareholders and yield varies between 3 and 5%. It distributed 85% of its net profit for 2012 as dividend. Bank loans are rising faster than equity due to the need of working capital. Inventories and trade receivables are following the improvement of revenues, while the company reported a slight decrease of liabilities to suppliers.

- The stock price declined in October as the company sold more than half of its treasury stocks. Investors are cautious before the sale of the rest amount of shares. It is more likely to happen at price levels that are close to the previous deals at BGN 6.40, although the uncertainty of future offering and the possible decline to lower level are limiting the price recovery.

### Valuation ratios

*Table 1*  
**Multiples Comparison**

	2011	2012	12M	2013F
<b>Last Price</b>	<b>5.25</b>	<b>4.69</b>	<b>6.60</b>	<b>6.60</b>
<b>Number of Shares</b>	36 743 111	36 370 264	37 954 287	37 954 287
<b>Market Capitalization</b>	192 901 333	170 394 687	250 498 294	250 498 294
<b>Net Profit</b>	19 156 000	17 307 000	22 107 000	27 773 000
<b>P/E</b>	<b>10.07</b>	<b>9.85</b>	<b>11.33</b>	<b>9.02</b>
<b>Equity</b>	135 063 000	126 524 000	137 947 000	-
<b>P/B</b>	<b>1.43</b>	<b>1.35</b>	<b>1.82</b>	-
<b>Sales</b>	182 078 000	202 068 000	236 501 000	283 331 000
<b>P/S</b>	<b>1.06</b>	<b>0.84</b>	<b>1.06</b>	<b>0.88</b>
<b>EV</b>	237 018 333	224 262 687	309 165 294	309 165 294
<b>EBITDA</b>	33 141 000	29 425 000	35 147 000	44 778 000
<b>EV/EBITDA</b>	<b>7.15</b>	<b>7.62</b>	<b>8.80</b>	<b>6.90</b>
<b>RoE</b>	14.18%	13.68%	16.03%	-
<b>RoA</b>	8.97%	8.14%	9.58%	-

Forecasts: Monbat  
Estimations: ELANA Trading

The table is presenting the multiples with the latest trailing results and the forecasts of Monbat for 2013 that are including the strong fourth quarter. The stock price increased substantially this year and offset the improvement of financial results. Multiples are above the average for Bulgarian companies due to the positive expectations of investors.

#### Comparison to similar companies

Monbat has very good profitability and is growing fast. This is the reason to give higher weight on price-to-earnings and EV/EBITDA multiples as investors' demand will be driven by financial results.

We are using the median of the sector of electrical equipment. Monbat has few peers that produce car batteries but the small number of companies is distorting the comparison. We are excluding stocks with unrealistic multiples, although their impact on median values is negligible.

*Table 2*  
**Comparison to similar companies**

Multiples	P/E	P/B	P/S	EV/EBITDA
<b>Median</b>	16.55	1.20	0.68	8.39
<b>Market Capitalization</b>	365 934 960	165 145 251	160 805 189	236 093 456
<b>Price</b>	9.64	4.35	4.24	6.22
<b>Weight</b>	30%	20%	20%	30%
<b>Current Price</b>	<b>6.60</b>			
<b>Fair Price</b>	<b>6.48</b>			
<b>Premium (Discount) to Current Price</b>	<b>-1.88%</b>			

Source: Bloomberg  
Calculations: ELANA Trading

The good profit and the median of P/E ratios of companies in the list are lifting the fair value of Monbat's share to level that is slightly below the current price. It is obvious that Monbat achieves better profits with less invested capital as its holding structure include the capacity to recycle all lead needed for production.

### Discounted Cash Flows

The model of discounted cash flows includes future growth opportunities. It is based on the company's forecasts for 2013 and 2014 and profitability ratios that are near the averages for the past several years.

Table 3, Discounted cash flows

Monbat											Terminal
BGN'000	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Year
<b>EBIT</b>	32 836	39 466	45 386	49 925	54 918	59 311	63 463	67 270	70 634	73 459	76 030
<b>EBIT(1-T)</b>	29 552	35 520	40 848	44 933	49 426	53 380	57 116	60 543	63 571	66 113	68 427
<b>Add: D&amp;A</b>	12 629	15 787	18 155	19 970	21 967	23 724	25 385	26 908	28 254	29 384	30 412
<b>Less: Investments</b>	10 103	12 629	18 155	19 970	21 967	23 724	25 385	26 908	28 254	29 384	30 412
<b>Less: Change NWC</b>	10 002	10 103	7 578	5 809	6 390	5 624	5 314	4 874	4 305	3 616	3 406
<b>FCF</b>	22 077	28 574	33 270	39 123	43 035	47 756	51 802	55 669	59 265	62 497	65 021
<b>PV FCF</b>	21 049	24 767	26 216	28 026	28 026	28 273	27 880	27 238	26 361	25 271	
<b>Sum of PV FCF</b>	263 108										
<b>PV of Continuing Value</b>	404 493										
<b>Total PV Free Cash Flows</b>	667 601										
<b>Less: Outstanding Debt</b>	65 910										
<b>Plus: Financial Assets</b>	7 243										
<b>PV of Equity</b>	<b>608 934</b>										
<b>Number of Shares</b>	37 954										
<b>Price Per share</b>	<b>16.04</b>										

Estimations: ELANA Trading

We are using 17.5% EBITDA margin for the calculation. This is close the average for the last six years and corresponds to the forecasts for the next year. The profitability and sales growth of the company will depend on the price of lead. Its increase during economic improvement will lift also the profit margin from recycling. Revenues in the model are growing by 25 in 2013 and 2014, followed by gradual decrease to long-term rate of 3.5%. The model includes difference between investments and depreciation only for the next two years. Any large investments will result to higher revenues that we are not including under consideration.

The fair price calculated at WACC of 10% is BGN 16.04 per share. This is substantially higher than the current price but it corresponds to the high profitability.

### Recommendation and price target

*Recommendation:*  
**BUY**  
*Target price:*  
**BGN 9.50**

The model of discounted cash flows is resulting to substantially higher intrinsic value as compared to multiples of the sector. This is mainly due to Monbat's profitability. Our price target for the next 12 months is BGN 9.50, which corresponds to P/E ratio of 10 with the profit for the next year, according to the company's management. The main hurdle before the stock is the sale of treasury shares. The price will jump after the sale and will easily return to its peak.

### Financial data:

<b>Statement of Income (in '000 BGN)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>9M 2012</b>	<b>9M 2013</b>
<b>Sales</b>	160 994	182 078	202 068	137 507	171 940
Production expenses	125 420	134 173	158 441	105 679	133 419
Personnel expenses	11 971	14 656	13 996	9 924	10 554
Net income from financial activities	(99)	(116)	(775)	(694)	(983)
Other revenues and expenses	0	8	569	430	378
<b>EBITDA</b>	23 504	33 141	29 425	21 640	27 362
Depreciation	6 111	8 718	10 323	7 694	8 025
<b>EBIT</b>	17 393	24 423	19 102	13 946	19 337
Interest expense	2 279	2 841	2 549	1 974	1 922
<b>Pretax income</b>	15 114	21 582	16 553	11 972	17 415
Taxes	2 484	2 529	1 846	1 245	2 236
<b>After-tax income</b>	12 630	19 053	14 707	10 727	15 179
Minority interest	(152)	(103)	0	0	0
<b>Net income</b>	12 782	19 156	17 307	10 727	15 179
<b>Earnings per share in BGN</b>	0.34	0.52	0.48		0.41

<b>Balance Sheet (in '000 BGN)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>9M 2012</b>	<b>9M 2013</b>
<b>Total Assets</b>	199 717	213 441	212 565	217 881	230 676
Equity subscriptions receivable	0	0	0	0	0
<b>Fixed assets</b>	114 187	125 569	115 744	125 858	117 370
Tangible fixed assets	110 739	121 918	113 650	121 810	115 778
Financial investments	8	8	8	8	8
<b>Current assets</b>	85 530	87 872	96 821	92 023	113 306
Inventory	42 624	40 836	42 861	42 605	50 617
Receivables	40 972	42 735	51 090	44 570	55 194
Financial assets	0	0	0	0	0
Cash and cash equivalents	1 634	4 108	2 626	4 554	7 243
<b>Total liabilities + equity</b>	199 717	213 441	212 565	217 881	230 676
<b>Equity</b>	126 426	135 063	126 524	136 637	137 947
Registered capital	37 326	36 858	36 377	36 377	36 758
Capital funds	78 196	83 187	74 353	82 582	78 891
Earnings	10 904	15 018	15 794	17 678	22 298
<b>Liabilities</b>	73 291	78 378	86 041	81 244	92 729
Long-term payables	4 747	18 181	6 640	8 023	5 649
Long-term bank loans	17 647	13 461	10 895	11 322	11 042
Short-term bank debt	28 104	40 286	45 599	41 361	54 868
Short-term payables	19 869	16 504	22 184	16 911	20 673
Other liabilities	266	670	996	1 356	1 276
<b>Working capital</b>	37 557	31 082	29 038	33 751	37 765

<b>Cash Flow Statement (in '000 BGN)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>9M 2012</b>	<b>9M 2013</b>
<b>Net income</b>	12 782	19 156	17 307	10 727	15 179
Depreciation	6 111	8 718	10 323	7 694	8 025
Changes in Working capital	(8 137)	(6 475)	(2 044)	4 713	6 683
Other operating cash flow items	2 662	3 721	(4 601)	(6 582)	(14 747)
<b>Net cash from operating activities</b>	13 418	25 120	20 985	16 552	15 140
Capital expenditures	(15 877)	(19 518)	(7 628)	(4 113)	(10 211)
Other investing cash flow items	(2 318)	(3 042)	(5 052)		(6 157)
<b>Net cash from investing activities</b>	(18 195)	(22 560)	(12 680)	(8 387)	(16 368)
Issuance/ Retirement of Stock, Net	(1 830)	(3 039)	(2 474)	(2 440)	2 439
Issuance/ Retirement of Debt, Net	5 458	8 637	(1 786)	(1 073)	8 127
Dividends paid	(130)	(1 821)	(1 679)	(1 323)	(1 512)
Other financing cash flow items	(2 927)	(3 863)	(3 747)	(2 883)	(3 209)
<b>Net cash from financing activities</b>	571	(86)	(9 686)	(7 719)	5 845
<b>Net change in cash</b>	(4 206)	2 474	(1 381)	446	4 617
Beginning-of-period cash	5 840	1 634	4 007	4 108	2 626
<b>End-of-period cash</b>	1 634	4 108	2 626	4 554	7 243
<b>Cash per share</b>	0.04	0.11	0.07		0.20

<b>Financial and Performance Indicators</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>TTM</b>
<b>Valuation Ratios</b>				
Price/Earnings (P/E)	18.40	10.17	9.86	11.99
Book Value (BV)	3.39	3.64	3.48	3.53
Price/Book (P/B)	1.86	1.44	1.35	2.01
Sales Per Share	4.31	4.91	5.56	6.43
Price/Sales (P/S)	1.46	1.07	0.84	1.10
Price/Cash per share	12.45	6.99	6.17	8.05
EV (in BGN)	279 268	244 388	224 445	312 459
EV/Sales	1.73	1.34	1.11	1.32
EV/EBITDA	11.88	7.37	7.63	8.89
EV/EBIT	16.06	10.01	11.75	12.76
<b>Liquidity</b>				
Current ratio	1.78	1.55	1.43	1.43
Quick ratio	0.89	0.83	0.80	0.84
<b>Debt Management</b>				
Debt to total assets	0.37	0.37	0.40	0.40
Interest coverage	7.63	8.60	7.49	9.81
LT Debt/Equity	0.18	0.23	0.14	0.13
Total Debt/Equity	0.58	0.58	0.68	0.68
<b>Asset Management</b>				
Inventory turnover	3.78	4.46	4.71	5.67
Days sales outstanding	92	84	91	81
Fixed asset turnover	1.41	1.45	1.75	2.02
Total asset turnover	0.81	0.85	0.95	1.09
<b>Profitability</b>				
Profit margin on sales	7.9%	10.5%	8.6%	9.2%
EBITDA margin	14.6%	18.2%	14.6%	14.9%
Basic earning power	8.7%	11.4%	9.0%	11.3%
Return on assets	6.4%	9.0%	8.1%	10.0%
Return on equity	10.1%	14.2%	13.7%	16.8%
Return on investments	8.6%	11.5%	12.0%	14.8%
<b>Dividend Information</b>				
Dividend Yield	2.78%	3.28%	4.51%	
Dividend per share	0.18	0.17	0.21	
<b>Number of shares:</b>				
	<b>37 325 585</b>	<b>37 095 139</b>	<b>36 370 264</b>	<b>36 755 546</b>
<b>Price in BGN - period end:</b>				
	<b>6.30</b>	<b>5.25</b>	<b>4.69</b>	<b>7.10</b>
<b>Market cap in BGN - period end:</b>				
	<b>235 151 186</b>	<b>194 749 480</b>	<b>170 576 538</b>	<b>260 964 377</b>

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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)

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