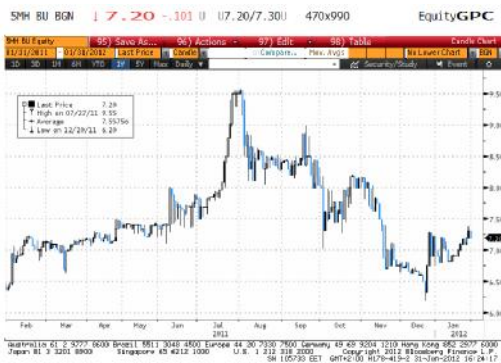


- The second half of the year showed more stable results of the Bulgarian producer of hydraulic elements M+S Hydraulic (5MH). The company posted growth on yearly basis, although it could not exceed the strong performance of the second quarter. M+S Hydraulic performed very well in light of the recent economic events in Europe and the slowdown of its main markets. Sales grew 46.2% in 2011 whereas the increase during the fourth quarter was a slight below a 40% year over year.
- M+S Hydraulic is a barometer for the export-oriented Bulgarian companies. Recently, the economic group that owns the largest stake in the company published a warning of a probable decrease of revenues due to declining demand. However, the recession in Europe had so far very mild effect on the revenues. The profit margin returned to the levels of the second half of 2010 due to the solid price pressure from materials and the increase of labor costs. We expect that EBIT margin will also remain near the average for the last two years. Moreover, the negative impact of the European slowdown should be noticed, which means that foreign markets are less susceptible of the debt crisis as compared to the expectations.
- Another positive sign is the decline of receivables during the fourth quarter. They remain above the 2010 level, which correspond to the rising revenues and are close to the nominal values of 2008. The company is not facing increased delays from its clients. The turnover ratios are improving in 2011.
- M+S Hydraulic is investing in new machines and equipment and part of its investment program is subsidized by EU funds. The company was approved to receive grant of BGN 2.46 million for its investment program during the first half of 2011.

Stock Price of M+S Hydraulic



- Shareholders' equity remained the primary source of funding for the company. It stood at 80% of total assets. Banks loans were 5% of assets and M+S Hydraulic is among the least indebted Bulgarian companies on the stock exchange.
- The stock was supported constantly by bids from small investors in 2011. However, the optimism in July, following the stronger than expected results for the second quarter, faded out due to the overall market weakness. The stock continued to trade at very low multiples, reflecting also the decrease of liquidity.

Multiples Valuation

*Table 1
Multiples
comparison*

	2009	2010	2011
Last Price	5.36	7.10	7.20
Number of Shares	13 018 400	13 018 400	13 018 400
Market Capitalization	69 765 606	92 430 640	93 732 480
Net Profit	38 000	7 456 000	14 478 000
P/E	1835.94	12.40	6.47
Equity	37 653 000	43 862 000	55 308 000
P/B	1.85	2.11	1.69
Sales	38 093 000	62 819 000	91 851 000
P/S	1.83	1.47	1.02
EV	70 713 606	90 962 640	81 561 480
EBITDA	7 033 000	15 292 000	22 694 000
EV/EBITDA	10.05	5.96	3.59
RoE	0.10%	17.00%	26.18%
RoA	0.08%	13.12%	20.83%

Source: M+S Hydraulic
Calculations: ELANA Trading

The stock price of M+S Hydraulic finished 2011 hardly changed as compared to year ago, whereas all financial data improved substantially. Multiples decreased to very attractive levels. However, the strong growth in 2011 is unlikely to be repeated in near-term due to the economic slowdown in Europe. Thus the market is pricing in some risks of deterioration of multiples. EV/EBITDA is also historically low due to the large depreciation costs and the small debt of the company.

Peers' comparison

We compared M+S Hydraulic to similar companies in the machine building sector. We changed our list of peers to include more emerging markets as the previous comparison was made to the largest companies in Eastern Europe by market cap. P/S and EV/EBITDA have the biggest weight in the calculations as they are better representation for the market positions and the company's results. We used the median of multiples.

*Table 2
Peers'
Comparison*

Multiples	P/E	P/B	P/S	EV/EBITDA
Median	11.49	0.95	0.59	5.61
Market Capitalization	166 328 150	52 313 570	53 827 717	139 526 982
Price	12.78	4.02	4.13	10.72
Weight	20%	20%	30%	30%
Current Price		7.20		
Fair Price		7.81		
Premium (Discount) to Current Price		8.54%		

Source: Bloomberg
Calculations: ELANA Trading

M+S Hydraulic is undervalued in terms of the median P/E and EV/EBITDA. This is due to the good profitability of the company as book value is usually below the costs of replacement of buildings and equipment. There is also substantial change in the fair value of the stock, according to the previous comparison to peers. The fair price is currently BGN 7.81, compared to BGN 9.03 six months ago. The change in the scope of peers could be the reason for the lower price

Financial data

Statement of Income (in '000 BGN)	2008	2009	2010	2011
Sales	82 178	38 093	62 819	91 851
Production expenses	51 010	21 623	32 167	47 919
Personnel expenses	17 003	9 314	15 405	21 385
Net income from financial activities	(204)	(123)	25	147
Other revenues and expenses	0	0	0	0
EBITDA	13 961	7 033	15 272	22 694
Depreciation	5 796	6 572	6 690	6 453
EBIT	8 165	461	8 582	16 241
Interest expense	688	419	297	143
Pretax income	7 477	42	8 285	16 098
Taxes	850	4	829	1 620
After-tax income	6 627	38	7 456	14 478
Minority interest	0	0	0	0
Net income	6 627	38	7 456	14 478
Earnings per share in BGN	0.51	0.00	0.57	1.11

Balance Sheet (in '000 BGN)	2008	2009	2010	2011
Total Assets	55 633	49 991	56 848	69 515
Equity subscriptions receivable	0	0	0	0
Fixed assets	31 248	32 334	33 895	30 168
Tangible fixed assets	30 422	31 942	33 684	30 049
Financial investments	16	16	16	16
Current assets	24 385	17 657	22 953	39 347
Inventory	11 575	7 896	9 094	11 462
Receivables	11 575	5 192	7 883	13 011
Financial assets	0	0	0	0
Cash and cash equivalents	1 471	4 537	5 915	14 784
Total liabilities + equity	55 633	49 991	56 848	69 515
Equity	38 486	37 653	43 862	55 308
Registered capital	13 018	13 018	13 018	13 018
Capital funds	15 321	14 158	14 114	14 099
Earnings	10 147	10 477	16 730	28 191
Liabilities	17 147	12 338	12 986	14 207
Long-term payables	6 088	4 972	3 947	2 405
Long-term bank loans	4 685	3 625	2 566	1 506
Short-term bank debt	2 741	1 860	1 881	1 060
Short-term payables	8 318	5 524	7 158	10 742
Other liabilities	0	0	0	0
Working capital	13 326	10 273	13 914	27 545

Cash Flow Statement (in '000 BGN)	2008	2009	2010	2011
Net income	6 627	38	7 456	14 478
Depreciation	5 796	6 572	6 690	6 453
Changes in Working capital	2 652	(3 053)	3 641	13 631
Other operating cash flow items	(3 813)	8 065	(7 009)	(16 869)
Net cash from operating activities	11 262	11 622	10 778	17 693
Capital expenditures	(9 655)	(5 311)	(6 341)	(5 530)
Other investing cash flow items	0	497	352	1 345
Net cash from investing activities	(9 655)	(4 814)	(5 989)	(4 185)
Issuance/ Retirement of Stock, Net	0	0	0	0
Issuance/ Retirement of Debt, Net	(254)	(1 978)	(1 073)	(1 881)
Dividends paid	(1 125)	(953)	(1 492)	(2 593)
Other financing cash flow items	(898)	(811)	(846)	(165)
Net cash from financing activities	(2 277)	(3 742)	(3 411)	(4 639)
Net change in cash	(670)	3 066	1 378	8 869
Beginning-of-period cash	2 141	1 471	4 537	5 915
End-of-period cash	1 471	4 537	5 915	14 784
Cash per share	0.11	0.35	0.45	1.14

Financial and Performance Indicators	2008	2009	2010	2011
Valuation Ratios				
Price/Earnings (P/E)	8.24	1 835.94	11.48	6.47
Book Value (BV)	2.96	2.89	3.37	4.25
Price/Book (P/B)	1.42	1.85	1.95	1.69
Sales Per Share	6.32	2.93	4.83	7.06
Price/Sales (P/S)	0.66	1.83	1.36	1.02
Price/Cash per share	4.40	10.55	6.05	4.48
EV (in BGN)	60 575	70 714	84 115	81 514
EV/Sales	0.74	1.86	1.34	0.89
EV/EBITDA	4.34	10.05	5.51	3.59
EV/EBIT	7.42	153.39	9.80	5.02
Liquidity				
Current ratio	2.20	2.39	2.54	3.33
Quick ratio	1.16	1.32	1.53	2.36
Debt Management				
Debt to total assets	0.31	0.25	0.23	0.20
Interest coverage	11.87	1.10	28.90	113.57
LT Debt/Equity	0.28	0.23	0.15	0.07
Total Debt/Equity	0.45	0.33	0.30	0.26
Asset Management				
Inventory turnover	7.10	4.82	6.91	8.01
Days sales outstanding	51	49	45	51
Fixed asset turnover	2.63	1.18	1.85	3.04
Total asset turnover	1.48	0.76	1.11	1.32
Profitability				
Profit margin on sales	8.1%	0.1%	11.9%	15.8%
EBITDA margin	17.0%	18.5%	24.3%	24.7%
Basic earning power	14.7%	0.9%	15.1%	23.4%
Return on assets	11.9%	0.1%	13.1%	20.8%
Return on equity	17.2%	0.1%	17.0%	26.2%
Return on investments	13.5%	0.1%	14.8%	24.4%
Dividend Information				
Dividend Yield	1.50%	1.77%	3.04%	0.00%
Dividend per share	0.06	0.09	0.20	
Number of shares:				
	13 004 800	13 018 400	13 018 400	13 018 400
Price in BGN - period end:				
	4.20	5.36	6.57	7.20
Market cap in BGN - period end:				
	54 620 160	69 765 606	85 582 962	93 732 480

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Market Perform	Market performance, +/-5% as compared to SOFIX and BG40
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