



Stock Price of First Investment Bank



- Assets of First Investment Bank (5F4) continued to increase solidly on yearly basis. They grew 23% during the fourth quarter thus maintaining the trend for second consecutive year. However, loans and receivable did not manage to keep on and contracted 1% after three quarters of solid increase. Their share of total assets decreased to 71%, which had implication on the profitability. FIB is expanding its balance sheet at stronger pace than the average for the banking system, which posted 5% growth of assets and 3% of loans on average for the last four quarters.

- The bank's profit increased the equity in stable rate. However, assets grew faster and equity-to-assets ratio fell below 8% for the first time since 2007. This is limiting the future growth prospects of the bank and it is urging the management to improve the profitability and the loans-to-deposits ratio, which is again near the historical lows (0.78). The alternative is a capital increase that will have negative impact on the price per share as recent capital raises showed in Bulgaria.

- Loans and receivables decreased 1.3% during the fourth quarter. The main factor behind the decrease was loans to other financial institutions, whereas retail exposures and corporate loans gained. This will improve the profitability of the bank in near term due to the significantly higher interest rates on credits.

- Financial assets of FIB increased to 11.6% of total. This is the average level since 2007. If the bank's growth decreases to single-digit percentage, we can expect that financial assets will remain at current levels and this will have positive effect on profitability.

- The net interest margin decreased to 5.10% in the last four quarters. This is rather strong decline as the margin was 5.71% during the first half of the year on trailing basis. The main reason for the decrease is lower interest income as percentage of credits due to the higher loans to financial institutions. Interest income for the last reported period was unchanged at BGN 110 million.

- Impairment costs remained elevated at BGN 9.5 million during the fourth quarter. This was a decline to year ago but the total impairment costs exceeded BGN 34 million in 2011. The bank reported raising impairment on residential mortgage loans to individuals and on corporate loans. However, impairment on consumer credits leveled out.

- Net profit increased 18.4% in 2011 despite the higher impairment costs. This is showing the improved profitability of the bank in a more competitive market environment in terms of interest rates. Moreover, the raising market share of the bank is also put it into better position to improve the net profit.

Valuation

We compared the multiples of the three Bulgarian public listed banks with profits to the averages in Eastern Europe. Price-to-earnings and price-to-book are calculated with trailing results in the unconsolidated reports.

*Table 1
Multiples
valuation*

	Central Cooperative Bank	Corporate Commercial Bank	First Investment Bank
Number of Shares	83 155 092	6 000 000	110 000 000
Price-to-earnings of peers	12.65	12.65	12.65
Net Profit (ttm)	13 409 000	60 951 000	36 503 000
Target price	2.04	128.50	4.20
Price-to-book of peers	0.86	0.86	0.86
Equity	333 566 000	383 098 000	477 044 000
Target price	3.46	55.07	3.74
Fair Price	2.75	91.79	3.97
Current Price	0.83	76.00	1.88
Premium (Discount)	230.12%	20.77%	111.13%

Source: Unconsolidated reports, Bloomberg
Calculations: ELANA Trading

FIB is undervalued when compared to both book value and net profit. Both ratios have similar target prices. Moreover, the bank is traded at very low price-to-assets ratio, which implies that it is also undervalued in terms of its market share and position in local banking system. In brief, the fair value of FIB is twice higher than the current price, without any misbalance between target prices according to P/B and P/E comparison.

Table 2, Forecasts

	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Total Assets	4 095 287	4 943 973	6 101 669	5 685 569	6 140 414	6 754 456	7 429 902	8 358 639
Loans and Receivables	3 163 298	3 447 076	4 367 699	4 136 491	4 508 775	4 914 565	5 356 876	5 892 564
<i>As Percentage of Assets</i>	77.2%	69.7%	71.6%	72.8%	73.4%	72.8%	72.1%	70.5%
Total Liabilities	3 686 477	4 504 210	5 624 625	5 217 321	5 638 871	6 200 566	6 809 142	7 662 819
<i>As Percentage of Assets</i>	90.0%	91.1%	92.2%	91.8%	91.8%	91.8%	91.6%	91.7%
Total Equity	408 810	439 763	477 044	468 248	501 543	553 890	620 759	695 820
Net Profit	32 019	30 838	36 503	38 662	46 053	67 545	89 159	104 483
Return on Equity	7.83%	7.01%	7.65%	8.26%	9.18%	12.19%	14.36%	15.02%
Return on Assets	0.78%	0.62%	0.60%	0.68%	0.75%	1.00%	1.20%	1.25%

Calculations and estimations: ELANA Trading

The growth in 2011 was very strong and it is doubtful that it will be repeated this year. Bulgarian banks are attracting lots of deposits and will continue to do so in near future, which will start to impact the interest rates in near future. We prefer to be more conservative in the estimations for 2013 and beyond due to the necessity of capital increase. We also expect an improvement in profitability following the slowdown in impairment's growth. However, non-performing loans among corporate credits will continue to have negative impact on the profitability this year. The economic improvement will be visible next year and will increase the credits to companies and individuals along with a sizable decrease of NPL's-to-total loans.

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Discounted cash to equity value:	
NPV five year free cash flow	71 206
NPV terminal value	358 431
Value of shareholders' funds	429 637
Shares issued (thousand)	110 000
Value per share	3.91
Share price	1.88
<i>Premium/(discount)</i>	<i>107.75%</i>

Residual income valuation:	
Opening shareholders' funds	468 248
PV five year residual income	(49 017)
PV terminal value (ex incremental investment)	10 406
PV terminal value (incremental investment)	0
Value of shareholders' funds	429 637
Shares issued (thousand)	110 000
Value per share	3.91
Share price	1.88
<i>Premium/(discount)</i>	<i>107.75%</i>

Recommendation and Price Target

Recommendation: The change in the fair price is not substantial according to the residual income valuation as compared to our previous calculations. The fair price declined from BGN 4.14 to BGN 3.91. This is in-line with the fair price when comparing multiples. Our one-year price target remains 100% above the current quotes.

BUY

Target price: However, in this market environment is very hard to call for much higher price in one-year horizon. Nevertheless, we see value in Bulgarian banks and in FIB

BGN 3.94

Upside: in particular. The main risks remain the investors' confidence, which could be eroded further in case of capital increase.

110%

First Investment Bank

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Financial data

Assets	2007	2008	2009	2010	2011
Cash and cash balances with central banks	540 344	587 396	398 874	495 291	772 955
Financial assets held for trading	13 529	9 681	9 023	16 641	8 659
Financial assets designated at fair value through profit or loss	0	0	0	0	0
Available-for-sale financial assets	374 203	286 624	285 110	708 861	644 553
Loans and receivables	3 019 043	3 103 821	3 163 298	3 447 076	4 367 699
Held-to-maturity investments	104 706	60 393	30 018	38 207	54 961
Derivatives – hedge accounting	823	274	0	0	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0	0
Tangible assets	111 282	149 010	127 683	124 909	115 942
Intangible assets	429	5 164	18 115	16 321	14 343
Investments in subsidiaries	22 965	24 920	28 876	34 341	36 371
Tax assets	862	2 047	3 270	6 414	4 549
Other assets	11 960	20 796	20 926	22 465	27 224
Non-current assets and disposal groups classified as held for sale	4 930	6 008	10 094	33 447	54 413
Total Assets	4 205 076	4 256 134	4 095 287	4 943 973	6 101 669
Deposits from central banks	0	0	0	0	0
Financial liabilities held for trading	0	0	0	0	0
Financial liabilities designated at fair value through profit or loss	0	0	0	0	0
Financial liabilities measured at amortised cost	3 870 326	3 877 460	3 677 884	4 497 390	5 617 141
Financial liabilities associated with transferred financial assets	0	0	0	0	0
Derivatives – hedge accounting	1 924	1 336	248	247	358
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0	0
Provisions	0	0	0	0	0
Tax liabilities	4 116	2 683	2 901	4 051	3 916
Other liabilities	3 396	4 185	5 444	2 522	3 210
Share capital repayable on demand	0	0	0	0	0
Liabilities included in disposal groups classified as held for sale	0	0	0	0	0
Total Liabilities	3 879 762	3 885 664	3 686 477	4 504 210	5 624 625
Issued capital	110 000	110 000	110 000	110 000	110 000
Share premium	97 000	97 000	97 000	97 000	97 000
Other equity	0	0	0	0	0
Revaluation reserves and other valuation differences	-350	-6 467	-146	-32	746
Reserves (including retained earnings)	68 599	119 006	169 937	201 957	232 795
Treasury shares	0	0	0	0	0
Income from current year	50 065	50 931	32 019	30 838	36 503
Interim dividends	0	0	0	0	0
Minority interest	0	0	0	0	0
Total equity	325 314	370 470	408 810	439 763	477 044

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Continuing operations	2007	2008	2009	2010	2011
Financial & operating income and expenses	192 478	209 635	192 987	210 802	243 868
Interest income	269 669	333 421	359 724	392 681	432 610
Interest expenses	138 918	189 069	234 823	258 930	276 181
Expenses on share capital repayable on demand	0	0	0	0	0
Dividend income	32	69	386	32	438
Fee and commission income	59 253	69 656	55 993	61 810	78 946
Fee and commission expenses	9 637	9 046	7 174	7 451	8 166
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net	-231	-1 581	600	4 551	-2 192
Gains (losses) on financial assets and liabilities held for trading, net	2 762	-3 773	8 365	7 369	9 596
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	0	0	0	0	0
Gains (losses) from hedge accounting, net	0	0	0	0	0
Exchange differences, net	7 626	5 619	-565	950	1 522
Gains (losses) on derecognition of assets other than held for sale, net	0	0	0	0	0
Other operating income	2 770	4 710	10 613	10 163	7 561
Other operating expenses	848	371	132	373	266
Administration costs	98 922	139 556	130 267	130 332	147 728
Depreciation	11 541	16 796	17 822	20 522	21 160
Provisions	0	0	0	0	0
Impairment	26 408	-2 742	8 615	25 666	34 370
Negative goodwill immediately recognised in profit or loss	0	0	0	0	0
Share of the profit or loss of associates and joint ventures accounted for using the equity method	0	0	0	0	0
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	0	0	0	0	0
Total profit or loss before tax from continuing operations	55 607	56 025	36 283	34 282	40 610
Tax expense (income) related to profit or loss from continuing operations	5 542	5 094	4 264	3 444	4 107
Total profit or loss after tax from continuing operations	50 065	50 931	32 019	30 838	36 503
Profit or loss after tax from discontinued operations	0	0	0	0	0
Total profit or loss after tax and discontinued	50 065	50 931	32 019	30 838	36 503
Profit or loss attributable to minority interest	0	0	0	0	0
Profit or loss attributable to equity holders of the parent	50 065	50 931	32 019	30 838	36 503

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