



Stock price of Neochim



- After two consecutive weak years, the fertilizers producer Neochim (3NB) had excellent performance in 2011. Regarding the profit, the company reported very strong first quarter, followed by three quarters of profit within BGN 1.5 million. Financial result for 2011 is BGN 22 million, compared to loss of BGN 9.8 million for 2010.
- Revenues in 2011 surpassed even the records from 2008, as only in Q4 revenues were BGN 63.5 million or a growth of 7% on annual basis. Cumulative revenues for the year reached BGN 284.3 million or 78% annual increase. Ammonium nitrate is the main product, accounting for revenues.
- Domestic sales have increased quarterly and annually, reaching BGN 157.8 million, compared to BGN 84 million a year earlier. Export has a 44% stake in the revenues. The sales are mainly in the European countries – BGN 77.7 million. The contribution of Africa and Asia is 11% of total revenues, while North America contributed for 4.4%. Due to the increased number of orders Neochim postponed the seasonal production facilities maintenance.
- The company gained BGN 4.368 million through sale of 140 000 tons carbon emissions, which increased the profit margin additionally. Funds from carbon allowance trading will be used for the implementation of emission reducing project in Nitrous acid production. The company will invest in a catalyst for purification of Nitrous oxide, which will reduce the emission of greenhouse gases in the atmosphere by 80-90% towards current levels.
- Managers refrain from giving forecasts for 2012 due to the company's dependence of external factors such as climate, grain prices, subsidies and indebtedness of grain producers. Although revenue growth is not so considerable, receivables increased at the end of the year.
- Profit per share is BGN 8.35 based on the past 12 months. Currency risk remains a significant factor for the profit rate, as the US dollar decline has negative impact on the export. Currency losses for 2011 amount to BGN 1.6 million. Costs of natural gas increased significantly on an annual basis, remaining 75% of material costs. Inventories are worth BGN 32.8 million.
- Despite good performance, company's share price has decreased 10.6% since the beginning of 2012 and 12% for the last 12 months.

Valuation ratios

*Table 1
Ratios
Comparison*

	2009	2010	2011
Last Price	25.01	29.40	31.40
Number of Shares	2 654 358	2 654 358	2 585 876
Market Capitalization	66 385 494	78 038 125	81 196 493
Net Profit	-19 789 000	-10 842 000	22 168 000
P/E	-3.35	-7.20	3.66
Equity	102 647 000	92 867 000	115 035 000
P/B	0.65	0.84	0.71
Sales	104 084 000	159 618 000	284 300 000
P/S	0.64	0.49	0.29
EV	92 137 494	86 637 125	127 178 493
EBITDA	-7 962 000	906 000	29 881 000
EV/EBITDA	-11.57	95.63	4.26
RoE	-19.28%	-11.67%	19.27%
RoA	-12.64%	-7.54%	12.55%

Source: Neochim
Estimations: ELANA Trading

For the valuation we use the unconsolidated financial results of Neochim. Current data shows significant improvement in profit, while shareholders' equity reflects the company's good condition. Return on equity ratio is very high, as the increase in sales will lead to more stable future results, generating even higher return.

Comparison with similar companies

We compare Neochim with other fertilizer producers. Significant differences in the assessment are spotted, while comparing the medians and the average values of the multiples. Therefore, we use more conservative approach and take into account the median of each ratio.

*Table 2
Comparison
with similar
companies*

Mutiples	P/E	P/B	P/S	EV/EBITDA
Median	8.16	1.94	0.95	6.21
Market Capitalization	180 818 956	222 604 746	271 176 712	176 834 633
Price	68.12	83.86	102.16	66.62
Weight	25%	25%	25%	25%
Current Price		31.40		
Fair Price		80.19		
Premium (Discount) to Current Price		155.39%		

Source: Bloomberg
Estimations: ELANA Trading

Financial performance improvement of Neochim and changes in indicators' median resulted to an increase of fair value per share, compared to other companies in the industry. The Bulgarian company continued to be traded at a significant discount compared to the world standards, which is mainly due to two factors. The first one is the low level of liquidity and BSE crisis, leading to undervalued assets on Bulgarian market. Second and more important is the sharp increase in sales, as this pace is quite unlikely to remain in short term. At the moment, investors prefer to remain cautious about the high rate of return as it is heavily dependent on natural gas price and the fertilizer market. Current share price is twice lower than the calculated fair value.

Discounted Cash Flows

The model of discounted cash flows includes future growth opportunities. Crisis in demand by farmers is over as a significant increase in sales was spotted on the Bulgarian market. Main risk for Neochim remains the fluctuation of natural gas price.

Table 3, Discounted cash flows

Neochim											Terminal
<i>BGN'000</i>	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Year
EBIT	11 514	12 666	12 272	13 253	14 181	15 032	15 783	16 573	17 318	18 011	18 641
EBIT(1-T)	10 363	11 399	11 044	11 928	12 763	13 529	14 205	14 915	15 587	16 210	16 777
Add: D&A	8 955	9 851	12 272	13 253	14 181	15 032	15 783	16 573	17 318	18 011	18 641
Less: Investments	7 676	8 444	9 204	13 253	14 181	15 032	15 783	16 573	17 318	18 011	18 641
Less: Change NWC	3 653	1 919	1 900	1 841	1 739	1 595	1 409	1 480	1 398	1 299	1 223
FCF	7 989	10 887	12 212	10 087	11 023	11 933	12 796	13 436	14 188	14 911	15 554
PV FCF	7 263	8 998	9 175	6 890	6 845	6 736	6 566	6 268	6 017	5 749	
Sum of PV FCF	70 506										
PV of Continuing Value	92 257										
Total PV Free Cash Flows	162 764										
					Growth Rate						
					SA	2.0%	3.0%	3.5%	4.0%	5.0%	
Less: Outstanding Debt	15 997			8.0%	71.44	80.72	86.91	94.65	117.87		
Plus: Financial Assets	3 053			9.0%	59.88	65.93	69.78	74.40	87.10		
PV of Equity	149 820			10.0%	51.25	55.39	57.94	60.91	68.64		
Number of Shares	2 586			11.0%	44.57	47.51	49.27	51.29	56.33		
Price Per share	57.94			12.0%	39.25	41.40	42.66	44.09	47.55		

Estimations: ELANA Trading

Our forecasts were for Neochim to maintain its revenue growth in the second quarter. They were proven by a significant increase in sales even during the period of seasonal production facilities maintenance. This year we expect reduction of revenues and deterioration in profit margins, which will reflect the appreciation of natural gas price. These are our conservative prognoses, which consider the period of production facilities maintenance as well. The anticipated revenue decline is 10%, followed by an increase of 10% in 2013. EBITDA is reduced to 8%, so the risk of rising production costs is also taken into account. Resulting fair value is BGN 56.44, which is lower than the previous analysis and reflects the conservative expectations.

Recommendation and price target

Recommendation: Comparison with similar companies and model of discounted cash flows show attractive valuation of Neochim. However, as mentioned above, stock price remains influenced by the volatile financial results and highly negative situation on the Bulgarian capital market. We recommend buying stocks with a price target BGN 58, which reflects the lower value from the two models. The difference to market price at the moment is significant as the stagnation on BSE makes it quite unlikely even the lower target price to be reached during the next 12 months.

BUY

Target price: BGN 58

Upside: 85%

Financial data:

Statement of Income (in '000 BGN)	2009	2010	9M 2010	9M 2011	2011
Sales	104 084	159 618	100 386	220 770	284 300
Production expenses	97 133	144 981	89 471	175 834	229 764
Personnel expenses	17 133	16 196	11 678	16 217	23 104
Net income from financial activities	280	1 403	953	(159)	1 287
Other revenues and expenses	0	0	0	0	0
EBITDA	(9 902)	(156)	190	28 560	32 719
Depreciation	8 829	8 961	6 721	7 131	9 510
EBIT	(18 731)	(9 117)	(6 531)	21 429	23 209
Interest expense	1 058	1 725	1 467	847	1 041
Pretax income	(19 789)	(10 842)	(7 998)	20 582	22 168
Taxes	(1 940)	(1 062)	0	0	0
After-tax income	(17 849)	(9 780)	(7 998)	20 582	22 168
Minority interest	0	0	0	0	0
Net income	(17 849)	(9 780)	(7 998)	20 582	22 168
Earnings per share in BGN	(6.72)	(3.68)	(3.01)	7.75	8.35

Balance Sheet (in '000 BGN)	2009	2010	9M 2010	9M 2011	2011
Total Assets	156 549	143 699	138 526	176 687	164 070
Equity subscriptions receivable	0	0	0	0	0
Fixed assets	107 388	104 143	103 530	102 566	104 744
Tangible fixed assets	98 694	93 910	94 891	92 388	94 134
Financial investments	4 159	4 159	4 154	4 154	4 159
Current assets	49 161	39 556	34 996	74 121	59 326
Inventory	33 817	23 398	22 116	31 455	32 798
Receivables	14 155	13 320	11 949	13 230	23 067
Financial assets	0	0	0	0	0
Cash and cash equivalents	745	2 362	639	29 233	3 053
Total liabilities + equity	156 549	143 699	138 526	176 687	164 070
Equity	102 647	92 867	94 649	113 449	115 035
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	103 303	93 523	115 691
Liabilities	53 902	50 832	43 877	63 238	49 035
Long-term payables	14 569	8 476	14 891	9 064	5 246
Long-term bank loans	6 221	2 472	6 627	3 060	1 225
Short-term bank debt	20 276	8 489	0	4 947	14 772
Short-term payables	(6 024)	2 570	28 986	49 227	29 017
Other liabilities	0	0	0	0	0
Working capital	34 909	28 497	6 010	19 947	15 537

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	25.00	32.75	30.05
Market cap in BGN - period end:	66 385 494	78 038 125	66 358 950	86 930 225	79 763 458

Financial and Performance Indicators	2009	2010	9M 2010	9M 2011	2011
Valuation Ratios					
Price/Earnings (P/E)	-3.72	-7.98	-8.30	4.22	3.60
Book Value (BV)	38.67	34.99	35.66	42.74	43.34
Price/Book (P/B)	0.65	0.84	0.70	0.77	0.69
Sales Per Share	39.21	60.13	37.82	83.17	107.11
Price/Sales (P/S)	0.64	0.49	0.66	0.39	0.28
Price/Cash per share	-7.36	-95.28	-51.96	3.14	2.52
EV (in BGN)	92 137	86 637	72 347	65 704	92 707
EV/Sales	0.89	0.54	0.72	0.30	0.33
EV/EBITDA	-9.30	-555.37	380.77	2.30	2.83
EV/EBIT	-4.92	-9.50	-11.08	3.07	3.99
Liquidity					
Current ratio	3.45	3.58	1.21	1.37	-1.35
Quick ratio	1.08	1.46	0.44	0.79	-0.61
Debt Management					
Debt to total assets	0.34	0.35	0.32	0.36	-0.30
Interest coverage	-17.70	-5.29	-4.45	25.30	-22.29
LT Debt/Equity	0.20	0.12	0.23	0.11	-0.06
Total Debt/Equity	0.53	0.55	0.46	0.56	-0.43
Asset Management					
Inventory turnover	3.08	6.82	4.54	7.02	8.67
Days sales outstanding	49	30	43	22	29
Fixed asset turnover	0.97	1.53	0.97	2.15	2.71
Total asset turnover	0.66	1.11	0.72	1.25	1.73
Profitability					
Profit margin on sales	-17.1%	-6.1%	-8.0%	9.3%	7.8%
EBITDA margin	-9.5%	-0.1%	0.2%	12.9%	11.5%
Basic earning power	-12.0%	-6.3%	-4.7%	12.1%	14.1%
Return on assets	-11.4%	-6.8%	-5.8%	11.6%	13.5%
Return on equity	-17.4%	-10.5%	-8.5%	18.1%	19.3%
Return on investments	-14.5%	-9.4%	-6.9%	16.4%	18.2%
Dividend Information					
Dividend Yield	-	-	-	-	-
Dividend per share	-	-	-	-	-
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	25.00	32.75	30.05
Market cap in BGN - period end:					
	66 385 494	78 038 125	66 358 950	86 930 225	79 763 458

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