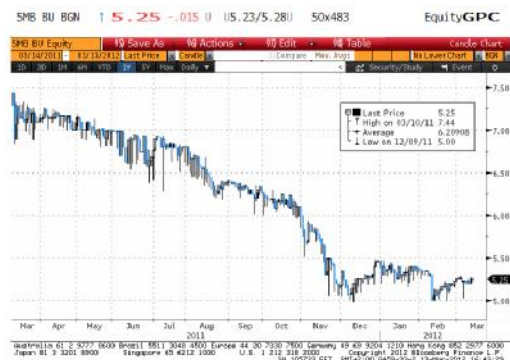


Stock price of Monbat



- The producer of lead-acid car batteries Monbat (5MB) announced improvement in its quarterly profit and revenues during the last three months of 2011. Sales were 5% higher than the comparative period of 2010 and exceeded BGN 52.7 million. The fourth quarter is seasonally strong due to the increased demand for car batteries in winter months.

- EPS exceeded BGN 0.52, which was a notable improvement as compared to BGN 0.36 in 2010. The fourth quarter profit was substantially better than the results from previous years and helped the most to achieve the yearly growth.

- Monbat is export-oriented company with 89.5% revenues from sales abroad. France became the main market last year with 15.9% share and gained the leading position from Germany (15.8%) as both countries experienced significant changes in shipments. Sales to Great Britain and Holland also declined sizably, whereas Poland and Greece became significant markets for Monbat. However, the company did not disclose the nature of changes in sales by countries.

- The net profit margin increased during the fourth quarter but its 12-month trailing value remained below the levels of 2008 as Monbat's recycling capacity was lower than the production volumes. The better profitability came from lead recycling. Production expenses declined as percentage of total revenues, although the costs of materials rose along with costs of external services. Labor costs were 8% of total sales, which is the average since 2007.

- The consolidated net profit and EBITDA of Monbat were below the management's forecasts from September but the company was able to generate better revenues.

- Receivables as indicator of revenues quality are not showing signs of deterioration and remained 20% of total assets. Moreover, Monbat is not announcing extraordinary losses from trading partners. The company debt-to-equity ratio increased from 0.3 to 0.4 in the last year. Most of the debt is short-term but we don't expect any difficulties in the rollover. The company's policy is to increase the leverage, while decreasing the number of shares outstanding.

- Monbat's buy-back supported the price per share during the recent market weakness. The company bought 1.19% of its shares in 2011 and is currently owning 5.8% of its capital. This helped establish the bottom in December but the stock lacks broad market support. For example, the buy-back represented 33% of total volumes traded in February, down from 85% in January.

Valuation ratios

*Table 1
Multiples
Comparison*

	2009	2010	2011
Last Price	6.50	6.30	5.25
Number of Shares	37 949 857	37 325 585	36 743 111
Market Capitalization	246 674 071	235 151 186	192 901 333
Net Profit	15 450 000	13 324 000	19 156 000
P/E	15.97	17.65	10.07
Equity	118 242 000	126 426 000	135 063 000
P/B	2.09	1.86	1.43
Sales	114 994 000	160 994 000	182 078 000
P/S	2.15	1.46	1.06
EV	281 133 071	279 268 186	242 540 333
EBITDA	23 910 000	24 106 000	33 141 000
EV/EBITDA	11.76	11.59	7.32
RoE	13.07%	10.54%	14.18%
RoA	8.33%	6.67%	8.97%

Source: Monbat
Estimations: ELANA Trading

We adjusted the number of shares outstanding according to the latest figure of Monbat. The recent price slump and the improvement of financial results, most notably with the contribution to profit in 4Q, had pushed down the multiples to levels not seen in years. Moreover, Monbat looks very attractive with the prospects to increase its profitability due to the rising production in the recycling facilities in Serbia and Romania.

Comparison to similar companies

We compare Monbat to producers of stationary and car batteries, although the Bulgarian company is also in the recycling business. We use the median. The comparison to companies in the auto parts industry showed much lower multiples but they are not compatible for the valuation as Monbat is more dependent on the price of lead and its products are oriented to the aftermarket and not supplied to car producers due to the large volumes and small margins.

*Table 2
Comparison
to similar
companies*

Mutiples	P/E	P/B	P/S	EV/EBITDA
Median	16.49	1.09	0.32	8.06
Market Capitalization	315 916 059	147 173 019	58 815 564	217 543 195
Price	8.60	4.01	1.60	5.92
Weight	25%	25%	25%	25%
Current Price		5.25		
Fair Price		5.03		
Premium (Discount) to Current Price		-4.17%		

Source: Bloomberg
Calculations: ELANA Trading

The current price is very close to the fair value when comparing to the median of other batteries producers. Monbat is overvalued in terms of its revenues and equity but should be priced higher if taking into account only profits. This has its explanation in the recycling of lead that improves profit margins significantly and is the biggest difference to other producers.

Bottom line is that Monbat is traded at reasonable market price and its profitability is good. The company will distribute up to 35% of its profit as annual dividend.

Discounted Cash Flows

The model of discounted cash flows includes future growth opportunities. Monbat is not dependent on the stagnating domestic demand and its expansion in Serbia and Romania is decreasing also the dependence of resources.

Table 3, Discounted cash flows

Monbat	Terminal										
<i>BGN'000</i>	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Year
EBIT	26 174	31 660	38 085	41 894	46 083	49 770	53 254	56 449	59 272	61 643	63 800
EBIT(1-T)	23 556	28 494	34 277	37 705	41 475	44 793	47 929	50 804	53 345	55 478	57 420
Add: D&A	11 516	12 898	14 446	15 891	17 480	18 878	20 200	21 412	22 482	23 382	24 200
Less: Investments	13 610	15 244	17 073	18 780	20 658	22 311	23 872	25 305	26 570	27 633	24 200
Less: Change NWC	6 231	4 397	4 925	4 597	5 056	4 449	4 205	3 856	3 406	2 861	2 695
FCF	15 231	21 751	26 725	30 219	33 241	36 911	40 051	43 055	45 850	48 366	54 725
PV FCF	13 847	17 976	20 079	20 640	20 640	20 835	20 553	20 085	19 445	18 647	
Sum of PV FCF	192 748										
PV of Continuing Value	324 598										
Total PV Free Cash Flows	517 346										
											Growth Rate
											SA
Less: Outstanding Debt	53 747										2.0%
Plus: Financial Assets	4 108										3.0%
PV of Equity	467 707										3.5%
Number of Shares	36 743										4.0%
Price Per share	12.73										5.0%
											WACC
											8.0%
											9.0%
											10.0%
											11.0%
											12.0%

Estimations: ELANA Trading

Our expectations for revenues in 2011 were more upbeat than the reality. However, Monbat showed much better profitability than our forecasts in mid-2011. As a result we are maintaining 18% EBITDA margin for 2012 and gradually increasing it to the level of 20%. Sales are expected to grow in low digit percentages in the next several years. Monbat is investing in production facilities but revenues could grow faster than real volumes if the price of lead soars as it is determining the prices of car batteries. However, our model is using higher investments than the depreciation to ensure growth of revenues in real volumes. The intrinsic value is BGN 12.73, which is significantly above the current market price due to the stable increase of EBIT.

Recommendation and price target

Recommendation: The model of discounted cash flows shows the attractive valuation of Monbat. The stock price remains influenced by the market crisis and the over-optimistic expectations of investors toward the results of Monbat. We have to emphasize **BUY** on the solid improvement in profits last year that pushed down the P/E ratio.

Target price: Our buy recommendation is based on the expected benefits of stable and profitable business but the price target of BGN 7.00 is not related to any model.

BGN 7

Upside: The stock traded at that level a year ago and could easily reach it again when the current market conditions improve as Monbat fulfilled the prerequisites for price increase – attractive valuation and financial data on the path to growth.

33%

Financial data:

Statement of Income (in '000 BGN)	2007	2008	2009	2010	2011
Sales	141 226	163 981	114 994	160 994	182 078
Production expenses	106 424	117 093	80 959	125 420	134 173
Personnel expenses	9 953	12 765	10 720	11 971	14 656
Net income from financial activities	(604)	437	(275)	(99)	(116)
Other revenues and expenses	4	0	0	0	8
EBITDA	24 249	34 560	23 040	23 504	33 141
Depreciation	4 553	4 108	4 796	6 111	8 718
EBIT	19 696	30 452	18 244	17 393	24 423
Interest expense	753	1 545	1 559	2 279	2 841
Pretax income	18 943	28 907	16 685	15 114	21 582
Taxes	2 042	3 157	1 921	2 484	2 529
After-tax income	16 901	25 750	14 764	12 630	19 053
Minority interest	16	86	96	(152)	(103)
Net income	16 885	25 664	14 668	12 782	19 156
Earnings per share in BGN	0.87	0.66	0.39	0.34	0.52

Balance Sheet (in '000 BGN)	2007	2008	2009	2010	2011
Total Assets	124 179	154 721	184 815	199 717	213 441
Equity subscriptions receivable	0	0	0	0	0
Fixed assets	50 276	89 491	99 333	114 187	125 569
Tangible fixed assets	49 764	88 923	98 596	110 739	121 918
Financial investments	8	6	8	8	8
Current assets	73 903	65 230	85 482	85 530	87 872
Inventory	41 631	35 035	40 894	42 624	40 836
Receivables	26 281	25 176	38 367	40 972	42 735
Financial assets	0	0	0	0	0
Cash and cash equivalents	5 934	4 634	5 840	1 634	4 108
Total liabilities + equity	124 179	154 721	184 815	199 717	213 441
Equity	86 760	105 516	117 460	126 426	135 063
Registered capital	19 500	38 533	37 950	37 326	36 858
Capital funds	46 969	41 632	65 307	78 196	83 187
Earnings	20 291	25 351	14 203	10 904	15 018
Liabilities	37 103	48 889	67 039	72 975	78 062
Long-term payables	2 586	5 106	4 358	4 747	18 181
Long-term bank loans	18 897	21 447	22 195	17 647	13 461
Short-term bank debt	5 623	8 848	18 104	28 104	40 286
Short-term payables	9 997	14 384	21 684	19 869	16 504
Other liabilities	0	0	0	266	670
Working capital	58 283	41 998	45 694	37 557	31 082

Number of shares:	19 500 000	39 000 000	37 949 857	37 325 585	37 095 139
Price in BGN - period end:	30.56	4.75	6.50	6.30	5.25
Market cap in BGN - period end:	595 920 000	185 250 000	246 674 071	235 151 186	194 749 480

Financial and Performance Indicators	2007	2008	2009	2010	2011
Valuation Ratios					
Price/Earnings (P/E)	35.29	7.22	16.82	18.40	10.17
Book Value (BV)	4.45	2.71	3.10	3.39	3.64
Price/Book (P/B)	6.87	1.76	2.10	1.86	1.44
Sales Per Share	7.24	4.20	3.03	4.31	4.91
Price/Sales (P/S)	4.22	1.13	2.15	1.46	1.07
Price/Cash per share	27.80	6.22	12.67	12.45	6.99
EV (in BGN)	614 506	210 911	281 133	279 268	244 388
EV/Sales	4.35	1.29	2.44	1.73	1.34
EV/EBITDA	25.34	6.10	12.20	11.88	7.37
EV/EBIT	31.20	6.93	15.41	16.06	10.01
Liquidity					
Current ratio	4.73	2.81	2.15	1.78	1.55
Quick ratio	2.07	1.30	1.12	0.89	0.83
Debt Management					
Debt to total assets	0.30	0.32	0.36	0.37	0.37
Interest coverage	26.16	19.71	11.70	7.63	8.60
LT Debt/Equity	0.25	0.25	0.23	0.18	0.23
Total Debt/Equity	0.43	0.46	0.57	0.58	0.58
Asset Management					
Inventory turnover	3.39	4.68	2.81	3.78	4.46
Days sales outstanding	67	55	120	92	84
Fixed asset turnover	2.81	1.83	1.16	1.41	1.45
Total asset turnover	1.14	1.06	0.62	0.81	0.85
Profitability					
Profit margin on sales	12.0%	15.7%	12.8%	7.9%	10.5%
EBITDA margin	17.2%	21.1%	20.0%	14.6%	18.2%
Basic earning power	15.9%	19.7%	9.9%	8.7%	11.4%
Return on assets	13.6%	16.6%	7.9%	6.4%	9.0%
Return on equity	19.5%	24.3%	12.5%	10.1%	14.2%
Return on investments	15.6%	19.4%	10.2%	8.6%	11.5%
Dividend Information					
Dividend Yield	0.58%	3.75%	2.74%	2.78%	-
Dividend per share	0.18	0.18	0.18	0.18	-
Number of shares:					
	19 500 000	39 000 000	37 949 857	37 325 585	37 095 139
Price in BGN - period end:					
	30.56	4.75	6.50	6.30	5.25
Market cap in BGN - period end:					
	595 920 000	185 250 000	246 674 071	235 151 186	194 749 480

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