



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 | | | | | | | | | | 8.0% | |
| Plus: Financial Assets | 4 108 | | | | | | | | | | 9.0% | |
| PV of Equity | 467 707 | | | | | | | | | | 10.0% | |
| Number of Shares | 36 743 | | | | | | | | | | 11.0% | |
| Price Per share | 12.73 | | | | | | | | | | 12.0% | |
| | | | | | | | | | | | WACC | |
| | | | | | | | | | | | 2.0% | |
| | | | | | | | | | | | 3.0% | |
| | | | | | | | | | | | 3.5% | |
| | | | | | | | | | | | 4.0% | |
| | | | | | | | | | | | 5.0% | |

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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| | |
|-----------------------|---|
| Outperform | More than 5% higher as compared to SOFIX and BG40 performance |
| Market Perform | Market performance, +/-5% as compared to SOFIX and BG40 |
| Underperform | More than 5% lower as compared to SOFIX and BG40 performance |

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