



EV/EBITDA	5.96	P/E	12.40
RoA	13.12%	P/S	1.47
RoE	17.00%	P/B	2.11

Stock Price of M+S Hydraulic



- Bulgarian producer of hydraulic elements M+S Hydraulic (5MH) posted the third consecutive quarter of strong profit and finished the year with the best historical result of BGN 7.5 million. Moreover, the fourth quarter of 2010 diverged to the seasonally weaker trend in terms of profitability.

- Revenues for the quarter maintained the levels of the previous two quarters and were below the reported values in 2008. The improvement in profitability is a result of the lower costs for materials that were 50% of revenues in 2010 as compared to 58.7% in 2008 and 45.6% in 2009. Depreciation expenditures were unchanged last year, whereas labor costs soared 70% and were 23% of sales. We expect that revenues will increase faster than labor costs as rising prices of metals will push up sales faster than wages due to the subdued local labor market. The management is expecting 10% increase of revenues in 2011 but its prognoses are usually conservative.

- M+S Hydraulic is investing in new machines and equipment as part of its investment program is subsidized by EU funds. The company received first payment during the last quarter.

- The balance sheet of M+S Hydraulic hasn't undergone major changes in terms of bank loans, which have been decreased by 19%. However, the rising revenues resulted to higher working capital. The company increased its current assets by 3.6 million. M+S Hydraulic's cash per share at the end of 2010 stood at BGN 0.45, which probably will be used for the regularly distributed dividends.

- Valuation ratios improved significantly as the fourth quarter of 2009 was very weak. M+S Hydraulic is currently traded at P/E of 12, which is among the good multiples for Bulgarian industrial companies. It also improved its RoE to 17%, thus exceeding almost every public company.

- The stock price is rising steadily since the middle of 2010. Moreover, liquidity improved a bit and the recent spike in volumes is confirming that institutional demand is still sizable.

Multiples Valuation

*Table 1
Multiples
comparison*

	2008	2009	2010
Last Price	4.20	5.36	7.10
Number of Shares	13 004 800	13 018 400	13 018 400
Market Capitalization	54 620 160	69 765 606	92 430 640
Net Profit	6 627 000	38 000	7 456 000
P/E	8.24	1835.94	12.40
Equity	38 486 000	37 653 000	43 862 000
P/B	1.42	1.85	2.11
Sales	82 178 000	38 093 000	62 819 000
P/S	0.66	1.83	1.47
EV	60 575 160	70 713 605	90 962 640
EBITDA	13 961 000	7 033 000	15 272 000
EV/EBITDA	4.34	10.05	5.96
RoE	17.22%	0.10%	17.00%
RoA	11.91%	0.08%	13.12%

Source: M+S Hydraulic
Calculations: ELANA Trading

The consolidated results for the last 12 months placed the multiples of M+S Hydraulic at advantage to the average for the Bulgarian industrial companies. The stock jumped significantly since the market bottom of 2009 and is already pricing in the recovery of revenues. The unusually low P/E at end-2008 was a result of expected contraction of revenues. EV/EBITDA is also historically low and represents the large depreciations and the small debt of the company.

Peers' comparison

We compared M+S Hydraulic to similar companies in the machine building sector. We used the closest 100th companies by market cap for the average values in the comparison, excluding the companies with extremely high multiples. 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.

*Table 2
Peers'
Comparison*

Mutiples	P/E	P/B	P/S	EV/EBITDA
Average Value of Peers	16.78	1.44	1.21	10.15
Market Capitalization	125 133 289	63 121 552	75 943 282	156 506 489
Price	9.61	4.85	5.83	12.02
Weight	20%	20%	30%	30%
Current Price		7.10		
Fair Price		7.23		
Premium (Discount) to Current Price		1.78%		

Source: Bloomberg
Calculations: ELANA Trading

Most of the similar companies are in Asia. M+S Hydraulic is undervalued in terms of P/E and EV/EBITDA. Domestic investors could focus on the good profitability of the company as book value is usually below the costs of replacement of buildings and equipments, whereas revenues are still below the 2008 peak. However, multiples comparison is showing that the stock is fairly valued as compared to multiples that are near the historical averages.

Discounted Cash Flows

The DCF is better valuation method as it includes the future growth opportunities. Our DCF is based on moderate growth and margins that correspond to the averages for the last 4 years. We don't expect that the strong profitability will be maintained in the following years but rising cost for materials will also support the hefty increase of revenues.

Table 3, DCF

M+S Hydraulic											Terminal
BGN'000	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Year
EBIT	7 224	8 308	9 139	9 870	10 561	11 194	11 754	12 283	12 774	13 221	13 684
EBIT(1-T)	6 502	7 477	8 225	8 883	9 505	10 075	10 579	11 055	11 497	11 899	12 316
Add: D&A	7 224	8 308	9 139	9 870	10 561	11 194	11 754	12 283	12 774	13 221	13 684
Less: Investments	7 224	8 308	9 139	9 870	10 561	11 194	11 754	12 283	12 774	13 221	13 684
Less: Change NWC	534	2 167	1 662	1 462	1 382	1 267	1 119	1 058	983	894	958
FCF	5 967	5 310	6 563	7 421	8 123	8 808	9 459	9 997	10 514	11 005	11 358
PV FCF	5 425	4 388	4 931	5 068	5 044	4 972	4 854	4 664	4 459	4 243	
Sum of PV FCF	48 047										
PV of Continuing Value	67 367										
Total PV Free Cash Flows	115 415										
Less: Outstanding Debt	4 447										
Plus: Financial Assets	5 915										
PV of Equity	116 883										
Number of Shares	13 018										
Price Per share	8.98										
			WACC								
				SA	Growth Rate						
				8.0%	2.0%	3.0%	3.5%	4.0%	5.0%		
				10.0%	10.93	12.27	13.17	14.29	17.66		
				9.0%	9.26	10.13	10.69	11.36	13.20		
				11.0%	8.01	8.61	8.98	9.41	10.53		
				12.0%	7.04	7.47	7.73	8.02	8.75		

Calculations: ELANA Trading

Our expectations for the growth of sales of M+S Hydraulic is exceeding the conservative forecast for 10% increase in 2011 mainly due to the inflation threat in raw materials. The EBIT margin for the projected years is set at 10%, which is also below the previous year's performance but inline to the average for the last four year. The calculated intrinsic value per share is BGN 8.98 or 26% above the current market price. The main risk for the value of shares according to the DCF-model is rising risk aversion that will require also higher discount rate.

Both comparison to peers and the discounting cash flows are showing a reasonable valuation of M+S Hydraulic at the moment. Correction of the stock price is possible after the solid gains for three consecutive quarters but we expect that volumes will remain low.

Financial data

Statement of Income (in '000 BGN)	2007	2008	2009	2010
Sales	76 217	82 178	38 093	62 819
Production expenses	50 193	51 010	21 623	32 167
Personnel expenses	15 653	17 003	9 314	15 405
Net income from financial activities	(177)	(204)	(123)	25
Other revenues and expenses	0	0	0	0
EBITDA	10 194	13 961	7 033	15 272
Depreciation	4 798	5 796	6 572	6 690
EBIT	5 396	8 165	461	8 582
Interest expense	756	688	419	297
Pretax income	4 640	7 477	42	8 285
Taxes	500	850	4	829
After-tax income	4 140	6 627	38	7 456
Minority interest	0	0	0	0
Net income	4 140	6 627	38	7 456
Earnings per share in BGN	0.32	0.51	0.00	0.57

Balance Sheet (in '000 BGN)	2007	2008	2009	2010
Total Assets	52 874	55 633	49 991	56 848
Equity subscriptions receivable	0	0	0	0
Fixed assets	27 948	31 248	32 334	33 895
Tangible fixed assets	27 618	30 422	31 942	33 684
Financial investments	16	16	16	16
Current assets	24 926	24 385	17 657	22 953
Inventory	12 748	11 575	7 896	9 094
Receivables	10 027	11 575	5 192	7 883
Financial assets	0	0	0	0
Cash and cash equivalents	2 141	1 471	4 537	5 915
Total liabilities + equity	52 874	55 633	49 991	56 848
Equity	32 992	38 486	37 653	43 862
Registered capital	13 018	13 018	13 018	13 018
Capital funds	12 356	15 321	14 158	14 114
Earnings	7 618	10 147	10 477	16 730
Liabilities	19 882	17 147	12 338	12 986
Long-term payables	5 630	6 088	4 972	3 947
Long-term bank loans	3 716	4 685	3 625	2 566
Short-term bank debt	3 929	2 741	1 860	1 881
Short-term payables	10 323	8 318	5 524	7 158
Other liabilities	0	0	0	0
Working capital	10 674	13 326	10 273	13 914

Number of shares:	13 018 400	13 004 800	13 018 400	13 018 400
Price in BGN - period end:	13.68	4.20	5.36	6.57
Market cap in BGN - period end:	178 143 786	54 620 160	69 765 606	85 582 962

Financial and Performance Indicators	2007	2008	2009	2010
Valuation Ratios				
Price/Earnings (P/E)	43.03	8.24	1 835.94	11.48
Book Value (BV)	2.53	2.96	2.89	3.37
Price/Book (P/B)	5.40	1.42	1.85	1.95
Sales Per Share	5.85	6.32	2.93	4.83
Price/Sales (P/S)	2.34	0.66	1.83	1.36
Price/Cash per share	19.93	4.40	10.55	6.05
EV (in BGN)	183 648	60 575	70 714	84 115
EV/Sales	2.41	0.74	1.86	1.34
EV/EBITDA	18.02	4.34	10.05	5.51
EV/EBIT	34.03	7.42	153.39	9.80
Liquidity				
Current ratio	1.75	2.20	2.39	2.54
Quick ratio	0.85	1.16	1.32	1.53
Debt Management				
Debt to total assets	0.38	0.31	0.25	0.23
Interest coverage	7.14	11.87	1.10	28.90
LT Debt/Equity	0.28	0.28	0.23	0.15
Total Debt/Equity	0.60	0.45	0.33	0.30
Asset Management				
Inventory turnover	5.98	7.10	4.82	6.91
Days sales outstanding	47	51	49	45
Fixed asset turnover	2.73	2.63	1.18	1.85
Total asset turnover	1.44	1.48	0.76	1.11
Profitability				
Profit margin on sales	5.4%	8.1%	0.1%	11.9%
EBITDA margin	13.4%	17.0%	18.5%	24.3%
Basic earning power	10.2%	14.7%	0.9%	15.1%
Return on assets	7.8%	11.9%	0.1%	13.1%
Return on equity	12.5%	17.2%	0.1%	17.0%
Return on investments	9.8%	13.5%	0.1%	14.8%
Dividend Information				
Dividend Yield	0.69%	1.50%	1.77%	-
Dividend per share	0.09	0.06	0.09	-
Number of shares:				
	13 018 400	13 004 800	13 018 400	13 018 400
Price in BGN - period end:				
	13.68	4.20	5.36	6.57
Market cap in BGN - period end:				
	178 143 786	54 620 160	69 765 606	85 582 962

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