



<b>EV/EBITDA</b>	12.43	<b>P/E</b>	661.40
<b>RoA</b>	0.08%	<b>P/S</b>	0.45
<b>RoE</b>	0.12%	<b>P/B</b>	0.79

### Stock Price of Orgachim



- The fourth quarter was a negative surprise for the paint producer Orgachim (5ORG), although the performance was close to the seasonally weaker winter months. Revenues fell 27.7% as compared to the last quarter of 2009. They totaled BGN 18.1 million, which became the worst performance for the last five years for this quarter. The net loss was 20% higher y-o-y or BGN 2.2 million, thus erased the previous profit. The year finished at the meager net profit of BGN 65 000.

- Total revenues for 2010 fell 10% to BGN 95.7 million. This is considerably less than the 18.7% decline during the previous year. Moreover, revenues in 2009 included more than BGN 6 million other sales – more likely assets as the company reported impairment of assets for BGN 4 million. The effect of one-time items in 2010 was limited to less than 1% of total revenues.

- Export sales added 4.8% in 2010 and the difference to domestic sales continued to widen. Export represented 60% of sales in 2010 and it is likely that Orgachim will continue to sale abroad more as long as the real estate market in Bulgaria is frozen. Domestic revenues during the quarter were the insignificant BGN 1.2 million.

- Orgachim managed to improve its profitability despite the decline of revenues. The changes in the management are bearing fruits as the company implemented severe cost cutting measures, including labor costs by 21%. Depreciation costs also decreased substantially but the company did not disclose the reasons behind the BGN 3 million lower payments. EBITDA margin was 11.04% in 2010.

- Bank loans were relatively unchanged and Orgachim continued to maintain mainly short-term bank debts. The company announced that their effective interest rates on bank credits are rising last year.

- Inventories and receivables increased last year by 14% despite the lower revenues. However, they remained significantly below the levels from 2007 and 2008, which is one of main reason for the decrease of debts.

- The stock price has been little changed during the market rally since the beginning of the year. Domestic investors stayed aside of the position due to the lack of recovery in revenues and mainly due to the last year's tender offer from the majority owner.

## Multiples Valuation

*Table 1  
Multiples  
comparison*

	2008	2009	2010
Last Price	83.49	85.85	85.50
Number of Shares	502 815	502 815	502 815
Market Capitalization	41 980 024	43 166 668	42 990 683
Net Profit	-3 531 000	-888 000	65 000
P/E	-11.89	-48.61	661.40
Equity	65 600 000	54 733 000	54 754 000
P/B	0.64	0.79	0.79
Sales	130 801 000	106 334 000	95 718 000
P/S	0.32	0.41	0.45
EV	62 931 000	59 321 000	58 994 000
EBITDA	3 456 000	6 255 000	4 748 000
EV/EBITDA	18.21	9.48	12.43
RoE	-5.38%	-1.62%	0.12%
RoA	-3.32%	-1.08%	0.08%

Source: Orgachim  
Calculations: ELANA Trading

Orgachim is slowly improving its profitability but the net profit is well below the level that can be associated with normal price-to-earnings ratio. However, EV/EBITDA of 12 is not unusual during the late-stage of the bull market cycle but at the moment it is above the average for Bulgarian industrial companies. Further improvement of the ratio is likely but it will require significant increase of revenues including from the domestic market. Last year's better net profit came from the lower labor costs and depreciation, which is impossible to continue. It can be seen in the deteriorating EBITDA as compared to 2009.

P/S is still low, whereas the price-to-book below 1 is a clear sign of the focus on the profitability of the company and not toward the underpriced assets. Only sudden increase of revenues could shift the market focus from the meager profitability.

### Peers' comparison

We compared Orgachim to companies that had at least 50% share of revenues from the production of paints. We excluded several companies with extreme 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*

Multiples	P/E	P/B	P/S	EV/EBITDA
Average Value of Peers	22.01	2.03	1.29	9.14
Market Capitalization	1 430 827	111 261 254	123 647 578	27 388 627
Price	2.85	221.28	245.91	54.47
Weight	20%	20%	30%	30%
Current Price		85.50		
Fair Price		134.94		
Premium (Discount) to Current Price		57.82%		

Source: Bloomberg  
Calculations: ELANA Trading

Orgachim is undervalued in terms of P/B and P/S as we mentioned above due to the low profitability and the lack of prospects for growth of the local paint market. However, revenues are stabilizing and we cannot rule out that the export would support an increase of sales in 2011. Multiples comparison is showing that the stock is undervalued and the fair price is BGN 134.94.

## 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 have to emphasize that performance during the last three year is extremely weak due to the severe contraction of construction and could be followed by significant recovery in South Eastern Europe.

Table 3, DCF

<b>Orgachim</b>											<b>Terminal</b>
BGN'000	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Year
EBIT	5 528	6 357	7 310	8 041	8 685	9 206	9 666	10 101	10 505	10 873	11 253
EBIT(1-T)	4 975	5 721	6 579	7 237	7 816	8 285	8 700	9 091	9 455	9 786	10 128
Add: D&A	4 523	5 201	5 981	6 579	7 106	7 532	7 909	8 265	8 595	8 896	9 207
Less: Investments	4 523	5 201	5 981	6 579	7 106	7 532	7 909	8 265	8 595	8 896	9 207
Less: Change NWC	5 614	1 055	1 214	930	819	663	586	554	514	468	501
FCF	-639	4 666	5 366	6 307	6 998	7 622	8 114	8 537	8 940	9 318	9 627
PV FCF	-581	3 856	4 031	4 308	4 345	4 302	4 164	3 983	3 792	3 592	
Sum of PV FCF	35 792										
PV of Continuing Value	57 101										
Total PV Free Cash Flows	92 892										
Less: Outstanding Debt	22 007										
Plus: Financial Assets	1 724										
PV of Equity	72 609										
Number of Shares	503										
Price Per share	144.41										

  

	SA	Growth Rate				
		2.0%	3.0%	3.5%	4.0%	5.0%
Less: Outstanding Debt	8.0%	187.02	216.59	236.29	260.93	334.83
Plus: Financial Assets	9.0%	150.41	169.67	181.92	196.62	237.06
PV of Equity	10.0%	123.11	136.29	144.41	153.87	178.47
Number of Shares	11.0%	102.01	111.38	117.00	123.42	139.47
Price Per share	12.0%	85.25	92.10	96.12	100.66	111.67

Calculations: ELANA Trading

Our forecasts for 2011 are for small increase of revenues followed by three years of double-digit growth. We don't see yet any reasons for more optimistic expectations and according to the model, revenues will hit the 2008's high in 2013. Another conservative assumption is that margins will stay well below the best years. Rising energy costs will have negative impact on production costs but the global economy doesn't seem able to absorb much higher oil price for now and we think that margins of Orgachim have room to improve. Price per share according to the model is BGN 144.41.

Both comparison to peers and the discounting cash flows are showing steep discount of Orgachim shares at the moment. The stock price is lacking catalyst for gains, which we think should come from improvement of revenues this year. Better profitability would have huge impact on valuation as both P/E and EV/EBITDA could improve substantially when sales increase.

## Financial data

Statement of Income (in '000 BGN)	2007	2008	2009	2010
Sales	124 683	130 801	106 334	95 718
Production expenses	101 421	114 622	90 541	83 620
Personnel expenses	9 566	12 231	9 224	7 262
Net income from financial activities	2 306	(588)	(484)	(114)
Other revenues and expenses	0	96	170	26
<b>EBITDA</b>	<b>16 002</b>	<b>3 456</b>	<b>6 255</b>	<b>4 748</b>
Depreciation	4 310	5 984	6 433	3 412
<b>EBIT</b>	<b>11 692</b>	<b>(2 528)</b>	<b>(178)</b>	<b>1 336</b>
Interest expense	(1 592)	(1 319)	(1 057)	(1 041)
<b>Pretax income</b>	<b>10 100</b>	<b>(3 847)</b>	<b>(1 235)</b>	<b>295</b>
Taxes	3 838	(316)	(347)	230
<b>After-tax income</b>	<b>6 262</b>	<b>(3 531)</b>	<b>(888)</b>	<b>65</b>
Minority interest	0	0	0	0
<b>Net income</b>	<b>6 262</b>	<b>(3 531)</b>	<b>(888)</b>	<b>65</b>
<b>Earnings per share in BGN</b>	<b>12.45</b>	<b>(7.02)</b>	<b>(1.77)</b>	<b>0.13</b>

Balance Sheet (in '000 BGN)	2007	2008	2009	2010
<b>Total Assets</b>	<b>107 903</b>	<b>106 413</b>	<b>82 157</b>	<b>84 004</b>
Equity subscriptions receivable	0	0	0	0
<b>Fixed assets</b>	<b>76 026</b>	<b>77 196</b>	<b>61 436</b>	<b>60 576</b>
Tangible fixed assets	75 373	76 358	61 116	60 152
Financial investments	0	0	0	0
<b>Current assets</b>	<b>31 877</b>	<b>29 217</b>	<b>20 721</b>	<b>23 428</b>
Inventory	19 933	21 655	10 669	12 307
Receivables	11 322	5 882	8 143	9 306
Financial assets	1	5	0	0
Cash and cash equivalents	460	1 544	1 824	1 724
<b>Total liabilities + equity</b>	<b>107 903</b>	<b>106 413</b>	<b>82 157</b>	<b>84 004</b>
<b>Equity</b>	<b>69 131</b>	<b>65 600</b>	<b>54 733</b>	<b>54 754</b>
Registered capital	503	503	503	503
Capital funds	62 568	69 332	54 883	52 948
Earnings	6 060	(4 235)	(653)	1 303
<b>Liabilities</b>	<b>38 772</b>	<b>40 813</b>	<b>27 424</b>	<b>29 250</b>
Long-term payables	4 068	3 903	3 994	4 115
Long-term bank loans	18 964	16 267	10 743	3 128
Short-term bank debt	5 298	6 228	7 236	14 600
Short-term payables	10 442	14 415	5 451	7 407
Other liabilities	0	0	0	0
<b>Working capital</b>	<b>16 137</b>	<b>8 574</b>	<b>8 034</b>	<b>1 421</b>

Number of shares:	502 815	502 815	502 815	502 815
Price in BGN - period end:	644.08	83.49	85.85	85.50
Market cap in BGN - period end:	323 853 085	41 980 024	43 166 668	42 990 683

Cash Flow Statement (in '000 BGN)	2007	2008	2009	2010
Net income	6 262	(3 531)	(888)	65
Depreciation	4 310	5 984	6 433	3 412
Changes in Working capital	8 606	(7 563)	(540)	(6 613)
Other operating cash flow items	(11 886)	10 978	(4 089)	4 214
<b>Net cash from operating activities</b>	<b>7 292</b>	<b>5 868</b>	<b>916</b>	<b>1 078</b>
Capital expenditures	(7 809)	(3 912)	3 880	(1 027)
Other investing cash flow items	301	896	0	100
<b>Net cash from investing activities</b>	<b>(7 508)</b>	<b>(3 016)</b>	<b>3 880</b>	<b>(927)</b>
Issuance/ Retirement of Stock, Net	0	0	0	0
Issuance/ Retirement of Debt, Net	(4 667)	(1 768)	(4 516)	(251)
Dividends paid	0	0	0	0
Other financing cash flow items	0	0	0	0
<b>Net cash from financing activities</b>	<b>(4 667)</b>	<b>(1 768)</b>	<b>(4 516)</b>	<b>(251)</b>
<b>Net change in cash</b>	<b>(4 883)</b>	<b>1 084</b>	<b>280</b>	<b>(100)</b>
Beginning-of-period cash	5 343	460	1 544	1 824
<b>End-of-period cash</b>	<b>460</b>	<b>1 544</b>	<b>1 824</b>	<b>1 724</b>
<b>Cash per share</b>	<b>0.91</b>	<b>3.07</b>	<b>3.63</b>	<b>3.43</b>

Financial and Performance Indicators	2007	2008	2009	2010
<b>Valuation Ratios</b>				
Price/Earnings (P/E)	51.72	-11.89	-48.61	661.40
Book Value (BV)	137.49	130.47	108.85	108.89
Price/Book (P/B)	4.68	0.64	0.79	0.79
Sales Per Share	247.97	260.14	211.48	190.36
Price/Sales (P/S)	2.60	0.32	0.41	0.45
Price/Cash per share	30.63	17.11	7.78	12.36
EV (in BGN)	347 655	62 931	59 322	58 995
EV/Sales	2.79	0.48	0.56	0.62
EV/EBITDA	21.73	18.21	9.48	12.43
EV/EBIT	29.73	-24.89	-333.27	44.16
<b>Liquidity</b>				
Current ratio	2.03	1.42	1.63	1.06
Quick ratio	0.76	0.37	0.79	0.51
<b>Debt Management</b>				
Debt to total assets	0.36	0.38	0.33	0.35
Interest coverage	-7.34	1.92	0.17	-1.28
LT Debt/Equity	0.33	0.31	0.27	0.13
Total Debt/Equity	0.56	0.62	0.50	0.53
<b>Asset Management</b>				
Inventory turnover	6.26	6.04	9.97	7.78
Days sales outstanding	33	16	28	35
Fixed asset turnover	1.64	1.69	1.73	1.58
Total asset turnover	1.16	1.23	1.29	1.14
<b>Profitability</b>				
Profit margin on sales	5.0%	-2.7%	-0.8%	0.1%
EBITDA margin	12.8%	2.6%	5.9%	5.0%
Basic earning power	10.8%	-2.4%	-0.2%	1.6%
Return on assets	5.8%	-3.3%	-1.1%	0.1%
Return on equity	9.1%	-5.4%	-1.6%	0.1%
Return on investments	6.8%	-4.1%	-1.3%	0.1%
<b>Dividend Information</b>				
Dividend Yield	0.00%	0.00%	0.00%	-
Dividend per share	0.00	0.00	0.00	-

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<b>Market Perform</b>	Market performance, +/-5% as compared to SOFIX and BG40
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