



### Stock Price of Enemona



- The construction company Enemona (E4A) posted the worst negative quarterly result since it became public listed. As a result, the profitability of Enemona continued to worsen on trailing basis. However, EBIT margin was stable for the last 12 months but the company needs to generate additionally BGN 6 million for the profit to remain flat as compared to 2010.

- The quarterly revenues declined 12% as compared to 4Q 2010 but are 15% higher on yearly basis. The positive effect from the sale of financial assets was limited to BGN 4.2 million in the consolidated report. Enemona received BGN 18.4 million for the capital of Agro Invest Engineering. Revenues from goods sold were 46% of total sales and represented the trading with electricity and natural gas. Enemona's energy trading is generating the growth of revenues but the profit margin of the segment is substantially lower than the construction business.

- Enemona reported construction backlog for the amount of BGN 140 million or 2.2% higher than a year ago. This is the reason not to expect further decline of revenues from construction. 69% of the backlog is orders from abroad and 7.5% are from government entities. The company is seeking to increase its operations abroad and is in process to receive the needed certificates for quality.

- Receivables continued to increase to new record high. They exceeded 50% of total assets, whereas inventories fell to 5% of total assets, reflecting the change of revenues' structure. The equity of Enemona totaled 44% of assets and despite the rising receivables, the debt decreased during the first quarter to BGN 81 million. However, the debt-to-assets ratio of Enemona remained above the average for Bulgarian blue chips. The company maintained its quick and current ratios at healthy levels.

- The stock price was under pressure despite the positive trend on the Bulgarian market since the beginning of the year. Volumes were relatively light but investors remained reluctant to add the position while it is on the downside and it is posting lower profits from core operations. We don't expect that this negative bias will change quickly. The difference between the prices of ordinary and preferred convertible stocks is significant – 45%. Preferred shares are less liquid but the difference could be explained with the risk aversion of investors.

## Multiples Valuation

*Table 1  
Multiples  
comparison*

	2009	2010	1Q 2011
<b>Last Price</b>	9.10	7.10	6.37
<b>Number of Shares</b>	11 933 600	13 036 501	13 036 501
<b>Market Capitalization</b>	108 595 760	92 559 157	83 042 511
<b>Net Profit</b>	14 816 000	4 662 000	2 871 000
<b>P/E</b>	7.33	19.85	28.92
<b>Equity</b>	96 497 000	106 295 000	104 710 000
<b>P/B</b>	1.13	0.87	0.79
<b>Sales</b>	185 513 000	188 897 000	194 711 000
<b>P/S</b>	0.59	0.49	0.43
<b>EV</b>	153 378 760	173 748 157	159 996 511
<b>EBITDA</b>	26 701 000	15 052 000	15 264 000
<b>EV/EBITDA</b>	5.74	11.54	10.48
<b>RoE</b>	15.35%	4.39%	2.74%
<b>RoA</b>	6.42%	1.86%	1.21%

Source: Enemona  
Calculations: ELANA Trading

We are using the consolidated results of Enemona for valuation purpose. The trailing results are showing the continuing deterioration of net profit but EBITDA is stabilizing during the first quarter of 2011. We expect that EBITDA will remain hardly changed in near future as order backlog is not declining on yearly basis. The return on equity is low but will improve when construction starts to increase.

### Peers' comparison

We compared Enemona to the ratios of the largest construction companies. However, the difference between the average and median multiples is significant. Therefore, we prefer to use more conservative approach in the comparison by the median.

*Table 2  
Peers'  
Comparison*

Mutiples	P/E	P/B	P/S	EV/EBITDA
Median	11.86	1.05	0.64	9.32
Market Capitalization	34 057 869	110 085 811	123 724 432	65 267 709
Price	2.61	8.44	9.49	5.01
Weight	20%	30%	20%	30%
Current Price		6.37		
Fair Price		6.46		
Premium (Discount) to Current Price		1.35%		

Source: Bloomberg  
Calculations: ELANA Trading

Enemona is undervalued in terms of P/B and P/S ratios. However, the profitability is still very low, which is weighting negatively on the investors' confidence. Market conditions are not positive and the stock is unlikely to be supported by individual investors before sizable and more sustainable improvement of profits. But any increase of revenues from construction will also send the profit at much higher level, which will support the valuation.

## 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 are close to the averages for the last 5 years with the presumption that the crisis in construction production in Bulgaria was exceptionally strong. Enemona has large orders from abroad, which could be behind future volatility in revenues.

Table 3, DCF

<b>Enemona</b>												<b>Terminal</b>
<i>BGN'000</i>	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Year	
<b>EBIT</b>	14 876	16 363	18 818	21 640	23 804	25 709	27 251	28 614	29 901	31 097	32 186	
<b>EBIT(1-T)</b>	13 388	14 727	16 936	19 476	21 424	23 138	24 526	25 752	26 911	27 988	28 967	
<b>Add: D&amp;A</b>	4 959	5 454	6 273	7 213	7 935	8 570	9 084	9 538	9 967	10 366	10 729	
<b>Less: Investments</b>	4 959	5 454	6 273	7 213	7 935	8 570	9 084	9 538	9 967	10 366	10 729	
<b>Less: Change NWC</b>	-5 570	7 438	14 181	15 368	8 656	5 396	1 714	9 084	8 584	7 974	7 510	
<b>FCF</b>	18 958	7 289	2 754	4 109	12 768	17 742	22 812	16 669	18 327	20 014	21 457	
<b>PV FCF</b>	17 234	6 024	2 069	2 806	7 928	10 015	11 706	7 776	7 772	7 716		
<b>Sum of PV FCF</b>	81 048											
<b>PV of Continuing Value</b>	127 272											
<b>Total PV Free Cash Flows</b>	208 320											
					<b>Growth Rate</b>							
					<b>SA</b>	2.0%	3.0%	3.5%	4.0%	5.0%		
<b>Less: Outstanding Debt</b>	81 840				8.0%	13.68	16.22	17.91	20.03	26.39		
<b>Plus: Financial Assets</b>	4 886				9.0%	10.56	12.22	13.27	14.54	18.01		
<b>PV of Equity</b>	131 366				10.0%	8.25	9.38	<b>10.08</b>	10.89	13.01		
<b>Number of Shares</b>	13 037				11.0%	6.46	7.27	7.75	8.30	9.68		
<b>Price Per share</b>	10.08				12.0%	5.05	5.63	5.98	6.37	7.32		

Calculations: ELANA Trading

EBITDA margin of 10% could prove to be very conservative expectation as comparing to the solid results before the crisis when construction's share in revenues was much higher. The positive surprise could come from better growth of revenues and profit margins.

We also used low growth rates of 5% for sales in 2011 and 10% for 2012. The company's working capital is enormous but it will not grow faster than sales due to the eventually improved receivables. The calculated intrinsic value per share is BGN 10.08 or 58% above the current market price.

### Recommendation and Price Target

Both comparison to peers and the discounting cash flows are showing the reasonable valuation of Enemona. However, as mentioned above the stock price is reflecting the risks of volatility of profits and the lack of confidence in the sustainable recovery of sales and margins. Therefore, the stock price should be near its lows and risks of initiating long positions are not prevailing.

We give **HOLD** recommendation with one-year price target of BGN 8.27. However, if the company manages to show better results this year as compared to 2010, the stock could easily jumps above the target when forecasts in our DCF-model would prove to be too conservative.

## Financial data

Statement of Income (in '000 BGN)	2007	2008	2009	2010	1Q 2011
Revenues	89 382	136 247	185 513	188 897	44 170
Production expenses	66 986	98 588	129 022	145 141	34 317
Personnel expenses	7 156	17 667	34 516	32 877	7 203
Net income from financial activities	5 153	3 545	3 948	2 968	410
Other revenues and expenses	352	812	778	1 205	0
EBITDA	20 745	24 349	26 701	15 052	3 060
Depreciation	1 952	3 038	4 665	4 481	1 154
EBIT	18 793	21 311	22 036	10 571	1 906
Interest expense	3 522	5 217	5 040	5 735	1 203
Pretax income	15 271	16 094	16 996	4 836	703
Taxes	889	1 586	1 771	389	263
After-tax income	14 382	14 508	15 225	4 447	440
Minority interest	396	464	409	(215)	2 025
Net income	13 986	14 044	14 816	4 662	(1 585)
Earnings per share in BGN	1.17	1.18	1.24	0.36	(0.12)

Balance Sheet (in '000 BGN)	2007	2008	2009	2010	1Q 2011
Total Assets	134 551	191 085	230 716	250 140	238 020
Equity subscriptions receivable	0	0	0	0	0
Fixed assets	49 637	80 963	104 602	115 648	94 677
Tangible fixed assets	41 842	64 736	72 423	80 964	54 663
Financial investments	3 664	11 836	15 373	9 917	9 955
Current assets	84 914	110 122	126 114	134 492	143 343
Inventory	26 216	45 492	20 715	12 245	10 312
Receivables	25 542	40 432	81 971	115 570	128 145
Financial assets	0	1 625	49	49	0
Cash and cash equivalents	33 106	22 519	23 379	6 628	4 886
Total liabilities + equity	134 551	191 085	230 716	250 140	238 020
Equity	76 354	85 223	96 497	106 295	104 710
Registered capital	11 934	11 934	11 934	13 037	13 037
Capital funds	49 932	59 300	55 176	75 345	75 345
Earnings	14 488	13 989	29 387	17 913	16 328
Liabilities	58 197	105 546	133 903	143 529	132 994
Long-term payables	20 162	23 825	7 111	9 757	7 302
Long-term bank loans	8 069	17 544	11 987	20 422	21 462
Short-term bank debt	7 566	28 655	56 175	67 395	60 378
Short-term payables	19 289	32 393	52 494	40 034	39 682
Other liabilities	29	0	0	0	0
Working capital	58 059	49 074	17 445	27 063	43 283

Number of shares:	11 933 600	11 933 600	11 933 600	13 036 501	13 036 501
Price in BGN - period end:	17.67	13.40	9.10	7.10	6.37
Market cap in BGN - period end:	210 866 712	159 910 240	108 595 760	92 559 157	83 042 511

Financial and Performance Indicators	2007	2008	2009	2010	1Q 2011
<b>Valuation Ratios</b>					
Price/Earnings (P/E)	15.08	11.39	7.33	19.85	-52.39
Book Value (BV)	6.40	7.14	8.09	8.15	8.03
Price/Book (P/B)	2.76	1.88	1.13	0.87	0.79
Sales Per Share	7.49	11.42	15.55	14.49	3.39
Price/Sales (P/S)	2.36	1.17	0.59	0.49	1.88
Price/Cash per share	13.23	9.36	5.57	10.12	-192.67
EV (in BGN)	178 366	161 911	109 737	110 451	102 677
EV/Sales	2.00	1.19	0.59	0.58	2.32
EV/EBITDA	8.60	6.65	4.11	7.34	33.55
EV/EBIT	9.49	7.60	4.98	10.45	53.87
<b>Liquidity</b>					
Current ratio	3.16	1.80	1.16	1.25	1.43
Quick ratio	2.19	1.06	0.97	1.14	1.33
<b>Debt Management</b>					
Debt to total assets	0.43	0.55	0.58	0.57	0.56
Interest coverage	5.34	4.08	4.37	1.84	1.58
LT Debt/Equity	0.37	0.49	0.20	0.28	0.27
Total Debt/Equity	0.76	1.24	1.39	1.35	1.27
<b>Asset Management</b>					
Inventory turnover	3.41	2.99	8.96	15.43	4.28
Days sales outstanding	103	107	159	220	1044
Fixed asset turnover	1.80	1.68	1.77	1.63	0.47
Total asset turnover	0.66	0.71	0.80	0.76	0.19
<b>Profitability</b>					
Profit margin on sales	15.6%	10.3%	8.0%	2.5%	-3.6%
EBITDA margin	23.2%	17.9%	14.4%	8.0%	6.9%
Basic earning power	14.0%	11.2%	9.6%	4.2%	0.8%
Return on assets	10.4%	7.3%	6.4%	1.9%	-0.7%
Return on equity	18.3%	16.5%	15.4%	4.4%	-1.5%
Return on investments	13.4%	11.1%	12.8%	3.4%	-1.2%
<b>Dividend Information</b>					
Dividend Yield	n/a	n/a	n/a	n/a	n/a
Dividend per share	n/a	n/a	n/a	n/a	n/a
<b>Number of shares:</b>					
	11 933 600	11 933 600	11 933 600	13 036 501	13 036 501
<b>Price in BGN - period end:</b>					
	17.67	13.40	9.10	7.10	6.37
<b>Market cap in BGN - period end:</b>					
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