



Stock Price of Central Cooperative Bank



- Central Cooperative Bank did not surprised the market with its second quarter unconsolidated report. The net profit for the quarter was BGN 4.5 million and surpassed the last year's result. The change q-o-q was insignificant but most of the profit came from operations with securities in contrast to the first quarter of 2011. Nevertheless, stability and gains y-o-y are good news when comparing to the shrinking profits of the banking system and the rising level of non-performing loans.

- Financial assets of CCB maintained their percentage of total assets at 14. They continued to increase due to the rising deposits and exceeded BGN 350 million for the first time. However, no major change in the portfolio has been implemented. Bulgarian government securities were 45% of total financial instruments.

- The bank is planning to increase capital as its percentage to total assets is steadily declining toward 10. Deposits were 88.5% of assets in mid-2011. CCB is attracting more deposits, which are rising faster than loans. As a result, loans-to-deposits ratio fell below 0.6, whereas cash jumped above 25% of assets and the bank is investing more in securities.

- Deposits of households exceeded 60% of total, whereas corporates continued to increase their holdings at slower pace. CCB's attracted funds from other financial institutions were 3.3% of total. Loans to corporate clients were 64% of total. Retail exposures declined to three year low. 80% of total impairment losses were attributed to consumer and mortgage loans.

- The trend of faster rising deposits than credits had negative effect on the net interest income of the bank when comparing to assets. For the last three years it declined from 1% of total assets to 0.6%. Net income from commissions also shrank due to the parallel increase of assets and lower credit activity. Net interest margin improved due to the lower costs on attracted funds.

- The forthcoming capital increase of CCB will probably change the well-known behavior of fast increases, followed by deep corrections. However, we see two differences as compared to other blue chips that increased their capital recently. First is the solid support from the parent company Chimimport that will eventually subscribe most stocks available from minority shareholders. The second difference is the higher issue price of new shares to the market price, which will not put them under pressure.

Valuation

We used two multiples for the valuation of CCB when comparing to banks in Eastern Europe. Price-to-earnings and price-to-book are calculated with trailing results and adjusted with the forthcoming capital increase.

Table 1
Multiples
valuation

	Before Capital Increase	After Capital Increase
Number of Shares	83 155 092	113 155 093
Market Cap	106 438 518	144 838 519
Price-to-earnings	15.04	15.04
Net Profit (ttm)	23 784 000	23 784 000
Price	4.30	3.16
Price-to-book	1.01	1.01
Equity	283 013 000	328 013 000
Price	3.44	2.93
Fair Price	3.87	3.04
Current Price	1.28	1.28
Premium (Discount)	202.31%	137.85%

Source: CCB, Bloomberg
Calculations: ELANA Trading

CCB is the most undervalued among Bulgarian public listed banks since the market bottom. This is not due to the sudden improvement of financial results but rather a consequence of the largest share of profit from securities in total earnings. We think that the market will react positively on improvement in interest income but this looks improbable in the current loans-to-deposits ratio. The fair price will be affected but it will remain significantly above the market price.

Table 2, Forecasts

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Total Assets	1 663 314	1 839 424	2 285 083	2 742 100	3 016 310	3 257 614	3 648 528	4 195 807
Loans and Receivables	1 047 549	1 216 543	1 316 797	1 448 477	1 701 960	1 957 254	2 309 560	2 713 733
<i>As Percentage of Assets</i>	63.0%	66.1%	57.6%	52.8%	56.4%	60.1%	63.3%	64.7%
Total Liabilities	1 435 009	1 587 774	2 010 250	2 403 881	2 656 524	2 873 578	3 235 645	3 747 917
<i>As Percentage of Assets</i>	86.3%	86.3%	88.0%	87.7%	88.1%	88.2%	88.7%	89.3%
Total Equity	228 305	251 650	274 833	338 219	359 786	384 037	412 883	447 891
Net Profit	21 453	22 342	23 245	26 050	30 163	34 205	40 134	48 252
Return on Equity	9.40%	8.88%	8.46%	7.70%	8.38%	8.91%	9.72%	10.77%
Return on Assets	1.29%	1.21%	1.02%	0.95%	1.00%	1.05%	1.10%	1.15%

Calculations: ELANA Trading

We downgraded again the expectations for the profitability margin of CCB due to the rising assets and the forthcoming capital increase. Our forecasts remain conservative in terms of profitability as compared to 2008 and 2009 but we prefer to retain them low due to:

- Lower level of bad loans, which may begin to increase as real income of households is decreasing;
- Large share of the net result from operations with securities in the profit.

Discounted cash to equity value:	
NPV five year free cash flow	37 913
NPV terminal value	165 529
Value of shareholders' funds	203 441
Shares issued (thousand)	113 155
Value per share	1.80
Share price	1.28
<i>Premium/(discount)</i>	<i>40.46%</i>

Residual income valuation:	
Opening shareholders' funds	338 219
PV five year residual income	(72 591)
PV terminal value (ex incremental investment)	(62 187)
PV terminal value (incremental investment)	0
Value of shareholders' funds	203 441
Shares issued (thousand)	113 155
Value per share	1.80
Share price	1.28
<i>Premium/(discount)</i>	<i>40.46%</i>

Recommendation and Price Target

Recommendation: The valuation methods showed intrinsic value of BGN 2.42, which is more than 89% above the market price after the steep correction this summer. We don't exclude any positive surprises as the operations with securities contribute a lot to the profit. However, it is less probable to see significantly improvement of the financial result this year. The bank is well positioned to increase credits to corporate clients, which will be the next year's source of growth.

BUY

Target price: BGN 2.42

Upside: 89%

We use the average price from both methods to define one-year price target.



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Financial data

Assets	2007	2008	2009	2010	1H 2011
Cash and cash balances with central banks	244 048	303 183	310 524	486 644	669 698
Financial assets held for trading	34 776	21 719	26 971	49 127	52 795
Financial assets designated at fair value through profit or loss	0	0	0	0	0
Available-for-sale financial assets	76 520	40 943	55 380	131 825	180 245
Loans and receivables	1 063 794	1 047 549	1 216 543	1 316 797	1 370 117
Held-to-maturity investments	84 458	101 598	91 720	138 969	131 637
Derivatives – hedge accounting	0	0	0	0	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0	0
Tangible assets	49 275	52 340	56 844	49 202	46 589
Intangible assets	5 997	9 999	371	1 122	875
Investments in subsidiaries	0	34 881	34 881	46 217	46 216
Tax assets	172	181	355	323	438
Other assets	6 311	50 586	45 500	63 823	83 322
Non-current assets and disposal groups classified as held for sale	0	335	335	1 034	1 633
Total Assets	1 565 351	1 663 314	1 839 424	2 285 083	2 583 565
Deposits from central banks	0	0	0	0	0
Financial liabilities held for trading	0	9 252	12 106	6 916	12 318
Financial liabilities designated at fair value through profit or loss	0	0	0	0	0
Financial liabilities measured at amortised cost	1 348 891	1 421 383	1 567 824	2 000 245	2 285 879
Financial liabilities associated with transferred financial assets	0	0	0	0	0
Derivatives – hedge accounting	0	0	0	0	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0	0
Provisions	0	0	0	0	0
Tax liabilities	1 624	12	1 013	0	209
Other liabilities	3 264	4 362	6 831	3 089	2 146
Share capital repayable on demand	0	0	0	0	0
Liabilities included in disposal groups classified as held for sale	0	0	0	0	0
Total Liabilities	1 353 779	1 435 009	1 587 774	2 010 250	2 300 552
Issued capital	83 155	83 155	83 155	83 155	83 155
Share premium	64 445	64 445	64 445	64 445	64 445
Other equity	0	0	0	0	0
Revaluation reserves and other valuation differences	-764	-5 257	-4 445	-4 259	-4 289
Reserves (including retained earnings)	44 415	64 509	86 153	108 247	130 633
Treasury shares	0	0	0	0	0
Income from current year	20 321	21 453	22 342	23 245	9 069
Interim dividends	0	0	0	0	0
Minority interest	0	0	0	0	0
Total equity	211 572	228 305	251 650	274 833	283 013

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Continuing operations	2007	2008	2009	2010	1H 2011
Financial & operating income and expenses	94 889	1 12 465	123 577	120 557	47 813
Interest income	90 982	107 922	136 738	143 610	76 303
Interest expenses	34 099	42 707	68 826	74 829	46 573
Expenses on share capital repayable on demand	0	0	0	0	0
Dividend income	685	227	45	20	2
Fee and commission income	23 764	26 163	28 088	28 525	14 915
Fee and commission expenses	3 362	3 337	3 785	3 769	1 954
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net	1 774	24 823	9 889	8 314	1 263
Gains (losses) on financial assets and liabilities held for trading, net	17 385	-1 720	7 447	14 675	3 562
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	-600	0	0	0	0
Gains (losses) from hedge accounting, net	0	0	0	0	0
Exchange differences, net	-2 101	591	-438	1 407	-913
Gains (losses) on derecognition of assets other than held for sale, net	14	-63	13 507	-172	-43
Other operating income	447	566	912	2 776	1 251
Other operating expenses	0	0	0	0	0
Administration costs	56 959	73 843	80 464	78 789	36 694
Depreciation	6 204	7 891	9 285	9 419	4 515
Provisions	0	0	0	0	0
Impairment	9 147	6 895	9 005	6 521	-3 473
Negative goodwill immediately recognised in profit or loss	0	0	0	0	0
Share of the profit or loss of associates and joint ventures accounted for using the equity method	0	0	0	0	0
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	0	0	0	0	0
Total profit or loss before tax from continuing operations	22 579	23 836	24 823	25 828	10 077
Tax expense (income) related to profit or loss from continuing operations	2 258	2 383	2 481	2 583	1 008
Total profit or loss after tax from continuing operations	20 321	21 453	22 342	23 245	9 069
Profit or loss after tax from discontinued operations	0	0	0	0	0
Total profit or loss after tax and discontinued	20 321	21 453	22 342	23 245	9 069
Profit or loss attributable to minority interest	0	0	0	0	0
Profit or loss attributable to equity holders of the parent	20 321	21 453	22 342	23 245	9 069



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