



EV/EBITDA	5.01	P/E	45.67
RoA	1.5%	P/S	0.58
RoE	2.1%	P/B	0.94

### Stock Price of Neochim



- Bulgarian producer of ammonia fertilizers Neochim (3NB) surprised with quarterly profit for the second quarter of 2011 as the company posted net loss for the same period of the last two years. The result didn't follow the strong 1Q profit but the seasonal factor is very important as most of the revenues are generated before the spring.
- The revenues jumped on yearly basis to BGN 163.7 million. On quarterly basis, the sales posted serious increase to BGN 74.7 million as compared to BGN 16.6 million for 2Q 2010.
- The sales on domestic market decreased during the second quarter, whereas the export solidly improved to BGN 47.8 million. The export during the first half of the year was mainly to European countries – BGN 46 million as compare to BGN 17 million for the same period last year. The sales to Asia and Africa added 37% to the total. The CEO of the company disclosed that lot of orders during the second quarter will postpone the seasonal maintenance this year.
- The domestic market is indeed a big surprise as last year's performance was subdued. The prices of agricultural production were at their bottoms and demand of fertilizers was limited by the slowdown of banking credit. Results of Neochim are proving that business climate in agricultural sector of Bulgaria has been improved substantially.
- Neochim generated more than BGN 2 million from the sale of carbon emissions during the first quarter, which improved further its profitability. In the 1H report the revenues from other activities amounted BGN 4.8 million, which could be due to another sale of 100 000 tones carbon emissions for totally BGN 3.5 million.
- EPS was BGN 4.06 due to the weak last year's results. The currency risk remains substantial factor for the margins as dollar decline could hurt profits from exports. For the moment, higher euro is behind the stable prices of natural gas for domestic companies. The natural gas costs increased by 95% on yearly basis but remained 75% of the total material costs. The inventories improved by 21% y-o-y.
- The report hadn't effect on Neochim share. The position added 35% since the beginning of the year.

## Multiples Valuation

*Table 1  
Multiples  
comparison*

	2009	2010	1H 2011
Last Price	25.01	29.40	39.80
Number of Shares	2 654 358	2 654 358	2 654 358
Market Capitalization	66 385 494	78 038 125	105 643 448
Net Profit	-19 789 000	-10 842 000	10 784 000
P/E	-3.35	-7.20	9.80
Equity	102 647 000	92 867 000	111 939 000
P/B	0.65	0.84	0.94
Sales	104 084 000	159 618 000	236 531 000
P/S	0.64	0.49	0.45
EV	92 137 494	86 637 125	122 060 448
EBITDA	-7 962 000	906 000	24 370 000
EV/EBITDA	-11.57	95.63	5.01
RoE	-19.28%	-11.67%	9.63%
RoA	-12.64%	-7.54%	7.07%

Source: Neochim  
Calculations: ELANA Trading

We are using unconsolidated results of Neochim for valuation purpose. The trailing results are showing large improvement in profit, whereas the equity jumped due to the positive financial performance. Sales continued to increase and posted second best 2Q for the company since 2006. The Return of Equity went positive due to the net profit on trailing base. The huge increase of sales and the announced improved orders will provide more sustainable profits in the future thus leading to higher profitability.

### Peers' comparison

We compared Neochim to producers of various fertilizers. However, the difference between average and median multiples is significant. Therefore, we prefer to use more conservative approach in the comparison by the median.

*Table 2  
Peers'  
Comparison*

Multiples	P/E	P/B	P/S	EV/EBITDA
Median	9.89	1.92	1.19	7.39
Market Capitalization	106 674 153	214 563 668	281 909 591	171 209 142
Price	40.19	80.83	106.21	64.50
Weight	25%	25%	20%	30%
Current Price		39.80		
Fair Price		70.85		
Premium (Discount) to Current Price		78.01%		

Source: Bloomberg  
Calculations: ELANA Trading

Neochim is undervalued in terms of P/B and P/S ratios. We change the weight of both multiples as compared to our previous valuation due to the volatile character of revenues. Highest weight is still given to EV/EBITDA ratio. The market is in stand by mood and the stock couldn't receive support after the 1H report. But the stock is trading at discount to fair value when comparing to sector multiples and has potential for gains.



## Financial data

Statement of Income (in '000 BGN)	2009	2010	1H 2010	1H 2011
Sales	104 084	159 618	86 350	163 728
Production expenses	97 133	144 981	75 578	128 025
Personnel expenses	17 133	16 196	8 407	10 991
Net income from financial activities	280	1 403	574	(342)
Other revenues and expenses	0	0	0	0
<b>EBITDA</b>	<b>(9 902)</b>	<b>(156)</b>	<b>2 939</b>	<b>24 370</b>
Depreciation	8 829	8 961	4 488	4 757
<b>EBIT</b>	<b>(18 731)</b>	<b>(9 117)</b>	<b>(1 549)</b>	<b>19 613</b>
Interest expense	1 058	1 725	1 006	541
<b>Pretax income</b>	<b>(19 789)</b>	<b>(10 842)</b>	<b>(2 555)</b>	<b>19 072</b>
Taxes	(1 940)	(1 062)	0	0
<b>After-tax income</b>	<b>(17 849)</b>	<b>(9 780)</b>	<b>(2 555)</b>	<b>19 072</b>
Minority interest	0	0	0	0
<b>Net income</b>	<b>(17 849)</b>	<b>(9 780)</b>	<b>(2 555)</b>	<b>19 072</b>
<b>Earnings per share in BGN</b>	<b>(6.72)</b>	<b>(3.68)</b>	<b>(0.96)</b>	<b>7.19</b>

Balance Sheet (in '000 BGN)	2009	2010	1H 2010	1H 2011
<b>Total Assets</b>	<b>156 549</b>	<b>143 699</b>	<b>151 036</b>	<b>152 425</b>
Equity subscriptions receivable	0	0	0	0
<b>Fixed assets</b>	<b>107 388</b>	<b>104 143</b>	<b>103 778</b>	<b>102 558</b>
Tangible fixed assets	98 694	93 910	95 117	92 359
Financial investments	4 159	4 159	4 159	4 159
<b>Current assets</b>	<b>49 161</b>	<b>39 556</b>	<b>47 258</b>	<b>49 876</b>
Inventory	33 817	23 398	32 323	28 283
Receivables	14 155	13 320	13 750	18 653
Financial assets	0	0	0	0
Cash and cash equivalents	745	2 362	852	2 625
<b>Total liabilities + equity</b>	<b>156 549</b>	<b>143 699</b>	<b>151 036</b>	<b>152 425</b>
<b>Equity</b>	<b>102 647</b>	<b>92 867</b>	<b>100 092</b>	<b>111 939</b>
Registered capital	2 586	2 586	2 586	2 586
Capital funds	-3 242	-3 242	-3 242	15 830
Earnings	103 303	93 523	100 748	93 523
<b>Liabilities</b>	<b>53 902</b>	<b>50 832</b>	<b>50 944</b>	<b>40 486</b>
Long-term payables	14 569	8 476	14 458	8 462
Long-term bank loans	6 221	2 472	6 221	2 458
Short-term bank debt	20 276	8 489	15 798	10 580
Short-term payables	(6 024)	2 570	20 661	21 444
Other liabilities	0	0	0	0
<b>Working capital</b>	<b>34 909</b>	<b>28 497</b>	<b>10 799</b>	<b>17 852</b>

<b>Number of shares:</b>	<b>2 654 358</b>	<b>2 654 358</b>	<b>2 654 358</b>	<b>2 654 358</b>
<b>Price in BGN - period end:</b>	<b>25.01</b>	<b>29.40</b>	<b>25.00</b>	<b>30.90</b>
<b>Market cap in BGN - period end:</b>	<b>66 385 494</b>	<b>78 038 125</b>	<b>66 358 950</b>	<b>82 019 662</b>

Financial and Performance Indicators	2009	2010	1H 2010	1H 2011
<b>Valuation Ratios</b>				
Price/Earnings (P/E)	-3.72	-7.98	-25.97	4.30
Book Value (BV)	38.67	34.99	37.71	42.17
Price/Book (P/B)	0.65	0.84	0.66	0.73
Sales Per Share	39.21	60.13	32.53	61.68
Price/Sales (P/S)	0.64	0.49	0.77	0.50
Price/Cash per share	-7.36	-95.28	34.33	3.44
EV (in BGN)	92 137	86 637	87 526	92 433
EV/Sales	0.89	0.54	1.01	0.56
EV/EBITDA	-9.30	-555.37	29.78	3.79
EV/EBIT	-4.92	-9.50	-56.50	4.71
<b>Liquidity</b>				
Current ratio	3.45	3.58	1.30	1.56
Quick ratio	1.08	1.46	0.41	0.67
<b>Debt Management</b>				
Debt to total assets	0.34	0.35	0.34	0.27
Interest coverage	-17.70	-5.29	-1.54	36.25
LT Debt/Equity	0.20	0.12	0.21	0.10
Total Debt/Equity	0.53	0.55	0.51	0.36
<b>Asset Management</b>				
Inventory turnover	3.08	6.82	2.67	5.79
Days sales outstanding	49	30	57	41
Fixed asset turnover	0.97	1.53	0.83	1.60
Total asset turnover	0.66	1.11	0.57	1.07
<b>Profitability</b>				
Profit margin on sales	-17.1%	-6.1%	-3.0%	11.6%
EBITDA margin	-9.5%	-0.1%	3.4%	14.9%
Basic earning power	-12.0%	-6.3%	-1.0%	12.9%
Return on assets	-11.4%	-6.8%	-1.7%	12.5%
Return on equity	-17.4%	-10.5%	-2.6%	17.0%
Return on investments	-14.5%	-9.4%	-2.1%	15.5%
<b>Dividend Information</b>				
Dividend Yield	-	-	-	-
Dividend per share	-	-	-	-
<b>Number of shares:</b>				
	2 654 358	2 654 358	2 654 358	2 654 358
<b>Price in BGN - period end:</b>				
	25.01	29.40	25.00	30.90
<b>Market cap in BGN - period end:</b>				
	66 385 494	78 038 125	66 358 950	82 019 662

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<b>HOLD</b>	Market performance, +/-5% as compared to SOFIX and BG40
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**For more information, please contact:**

Research analyst  
Tsvetoslav Tsachev  
Tamara Becheva

Phone:  
+359 2 810 00 23  
+359 2 810 00 27

E-mail:  
[tsachev@elana.net](mailto:tsachev@elana.net)  
[becheva@elana.net](mailto:becheva@elana.net)

Internet:  
[www.elana.net](http://www.elana.net)  
[www.elana.net](http://www.elana.net)