



| | | | |
|-----------|------|-----|-------|
| 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 |
| EBITDA | (9 902) | (156) | 2 939 | 24 370 |
| Depreciation | 8 829 | 8 961 | 4 488 | 4 757 |
| EBIT | (18 731) | (9 117) | (1 549) | 19 613 |
| Interest expense | 1 058 | 1 725 | 1 006 | 541 |
| Pretax income | (19 789) | (10 842) | (2 555) | 19 072 |
| Taxes | (1 940) | (1 062) | 0 | 0 |
| After-tax income | (17 849) | (9 780) | (2 555) | 19 072 |
| Minority interest | 0 | 0 | 0 | 0 |
| Net income | (17 849) | (9 780) | (2 555) | 19 072 |
| Earnings per share in BGN | (6.72) | (3.68) | (0.96) | 7.19 |

| Balance Sheet (in '000 BGN) | 2009 | 2010 | 1H 2010 | 1H 2011 |
|-----------------------------------|----------------|----------------|----------------|----------------|
| Total Assets | 156 549 | 143 699 | 151 036 | 152 425 |
| Equity subscriptions receivable | 0 | 0 | 0 | 0 |
| Fixed assets | 107 388 | 104 143 | 103 778 | 102 558 |
| Tangible fixed assets | 98 694 | 93 910 | 95 117 | 92 359 |
| Financial investments | 4 159 | 4 159 | 4 159 | 4 159 |
| Current assets | 49 161 | 39 556 | 47 258 | 49 876 |
| 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 |
| Total liabilities + equity | 156 549 | 143 699 | 151 036 | 152 425 |
| Equity | 102 647 | 92 867 | 100 092 | 111 939 |
| 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 |
| Liabilities | 53 902 | 50 832 | 50 944 | 40 486 |
| 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 |
| Working capital | 34 909 | 28 497 | 10 799 | 17 852 |

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

| Financial and Performance Indicators | 2009 | 2010 | 1H 2010 | 1H 2011 |
|--|------------|------------|------------|------------|
| Valuation Ratios | | | | |
| 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 |
| Liquidity | | | | |
| Current ratio | 3.45 | 3.58 | 1.30 | 1.56 |
| Quick ratio | 1.08 | 1.46 | 0.41 | 0.67 |
| Debt Management | | | | |
| 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 |
| Asset Management | | | | |
| 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 |
| Profitability | | | | |
| 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% |
| Dividend Information | | | | |
| Dividend Yield | - | - | - | - |
| Dividend per share | - | - | - | - |
| Number of shares: | | | | |
| | 2 654 358 | 2 654 358 | 2 654 358 | 2 654 358 |
| Price in BGN - period end: | | | | |
| | 25.01 | 29.40 | 25.00 | 30.90 |
| Market cap in BGN - period end: | | | | |
| | 66 385 494 | 78 038 125 | 66 358 950 | 82 019 662 |

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| | |
|-------------|---|
| BUY | More than 5% higher as compared to SOFIX and BG40 performance |
| HOLD | Market performance, +/-5% as compared to SOFIX and BG40 |
| SELL | More than 5% lower as compared to SOFIX and BG40 performance |

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