



Stock Price of Kaolin



- Bulgarian mining company Kaolin (6K1) posted its best quarterly profit since the second quarter of 2007. Its price-to-earnings ratio adjusted to outstanding shares declined to 13 but remained above the average for the market. The improvement during the first half of 2011 is despite the spin-off of one subsidiary and is sign for continuing growth of main operations. Trailing twelve months profit were BGN 9.128 million.

- EBITDA margin during the second quarter was higher than year ago. Expenses for materials, labor and depreciation decreased as percentage of sales, whereas costs of external services, mainly transportation, remained elevated than year ago. EBITDA margin for 12 months improved a bit to 17.1% but it is closer to the lowest level for the last several years.

- Revenues were higher than year ago, although the difference YTD is mainly due to the strong first quarter. Sales of production are rising faster, whereas the other revenues categories were weaker than year ago. Kaolin did not disclosed the structure of sales by subsidiaries and countries but the consolidation added less revenues than the increase of unconsolidated results for the first half of 2011. Trailing twelve months sales were BGN 166.257 million, which correspond to price-to-sales of 0.71.

- Kaolin is among the most leveraged public listed companies in Bulgaria. The structure of liabilities did not take significant changes during the last reported period. Equity represented 40% of total assets. Bank loans exceeded BGN 75.5 million.

- Receivables were 25% of assets or BGN 51.3 million, which is slightly above the average for the last four years. Inventories remained unchanged at BGN 30 million and declined for second consecutive quarter as percentage of assets. The spin-off of SolarPro Holding decreased substantially the share of related parties' receivables. The positive effect was in the double decrease of working capital. Liquidity ratios were unchanged. Current ratio stood at 1.41.

- The stock price reacted to the market sell-off and fell to the levels of April-May this year. Volumes increased during the negative sessions of early-August but did not surpass the active days of accumulation during the peak sessions in June and July. This is the reason to remain cautiously optimistic for the share's performance in the next months.

Multiples Valuation

*Table 1
Multiples*

	2009	2010	1H 2011
Last Price	2.88	2.45	2.51
Number of Shares	50 000 000	50 000 000	47 339 996
Market Capitalization	143 750 000	122 500 000	118 823 390
Net Profit	5 013 000	7 545 000	9 128 000
P/E	28.68	16.24	13.02
Equity	106 798 000	79 650 000	80 320 000
P/B	1.35	1.54	1.48
Sales	126 423 000	141 344 000	166 257 000
P/S	1.14	0.87	0.71
EV	233 282 000	192 256 000	187 267 390
EBITDA	24 575 000	27 542 000	28 491 000
EV/EBITDA	9.49	6.98	6.57
RoE	4.69%	9.47%	11.36%
RoA	1.88%	3.88%	4.54%

Source: Kaolin
Calculations: ELANA Trading

Multiples are higher than the average of Bulgarian blue chips. However, they improved during the last six months, most notably the price-to-earnings ratio. Kaolin has advantage when comparing EV/EBITDA due to the solid depreciation. Declining equity reflects the spin-off of SolarPro Holding before end-2010 but this has minor effect on the valuation. Return on equity and P/E will improve further this year as we expect better profitability in H2 2011.

Peers' comparison

We compared Kaolin to companies of basic materials industry. 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	12.97	1.52	0.99	8.24
Market Capitalization	118 380 119	121 749 658	164 009 704	166 270 969
Price	2.50	2.57	3.46	3.51
Weight	25%	25%	25%	25%
Current Price	2.51			
Fair Price	3.01			
Premium (Discount) to Current Price	20.01%			

Source: Bloomberg
Calculations: ELANA Trading

Kaolin is undervalued in terms of P/S and EV/EBITDA ratios. The company has large depreciation expenditures, which is supporting EBITDA, whereas P/E is closer to the median of peers. The fair price calculated by median P/E is lagging behind but is close to the industry after the significant decline of share prices around the world. Average price from all multiples is BGN 3.01 or 20% above the current.

Financial data

Statement of Income (in '000 BGN)	2007	2008	2009	2010	1H 2011
Sales	117 729	143 036	135 610	154 072	81 795
Production expenses	78 238	101 150	95 459	109 777	58 153
Personnel expenses	14 671	18 548	16 438	17 190	8 332
Net income from financial activities	4 124	1 244	712	356	(1 035)
Other revenues and expenses	2 004	150	150	81	16
EBITDA	30 948	24 732	24 575	27 542	14 291
Depreciation	8 375	10 419	14 526	14 377	5 899
EBIT	22 573	14 313	10 049	13 165	8 392
Interest expense	1 559	2 482	3 337	4 245	1 998
Pretax income	21 014	11 831	6 712	8 920	6 394
Taxes	2 362	1 491	1 430	1 203	0
After-tax income	18 652	10 340	5 282	7 717	6 394
Minority interest	540	649	269	172	502
Net income	18 112	9 691	5 013	7 545	5 892
Earnings per share in BGN	0.72	0.39	0.20	0.32	0.12

Balance Sheet (in '000 BGN)	2007	2008	2009	2010	1H 2011
Total Assets	154 125	224 307	266 846	194 280	201 229
Equity subscriptions receivable	0	0	0	0	0
Fixed assets	64 764	126 353	146 539	106 167	106 283
Tangible fixed assets	55 962	110 041	127 758	89 967	92 164
Financial investments	69	12	12	10	15
Current assets	89 361	97 954	120 307	88 113	94 946
Inventory	19 185	27 308	34 149	31 335	30 232
Receivables	32 212	48 341	58 228	45 301	51 377
Financial assets	0	6	7	3 055	3 143
Cash and cash equivalents	33 394	19 790	25 494	5 652	7 071
Total liabilities + equity	154 125	224 307	266 846	194 280	201 229
Equity	115 231	113 765	106 798	79 650	80 320
Registered capital	25 000	25 000	25 000	23 670	47 340
Capital funds	63 548	78 878	75 753	49 679	28 760
Earnings	26 683	9 887	6 045	6 301	4 220
Liabilities	38 894	110 542	160 048	114 630	120 909
Long-term payables	3 981	5 401	5 483	4 486	5 881
Long-term bank loans	39	52 516	74 274	38 988	38 917
Short-term bank debt	10 294	20 203	40 752	36 420	36 598
Short-term payables	21 630	26 314	24 350	25 715	29 576
Other liabilities	294	279	275	958	993
Working capital	57 437	51 437	55 205	25 978	28 772

Cash Flow Statement (in '000 BGN)	2007	2008	2009	2010	1H 2011
Net income	18 112	9 691	5 013	7 545	5 892
Depreciation	8 375	10 419	14 526	14 377	5 899
Changes in Working capital	61 619	(6 000)	3 768	(29 227)	2 794
Other operating cash flow items	(78 116)	(2 489)	(9 889)	14 006	(2 765)
Net cash from operating activities	9 990	11 621	13 418	6 701	11 820
Capital expenditures	(24 365)	(58 952)	(33 358)	(8 822)	(6 072)
Other investing cash flow items	(2 299)	(12 710)	(847)	(10 022)	(712)
Net cash from investing activities	(26 664)	(71 662)	(34 205)	(18 844)	(6 784)
Issuance/ Retirement of Stock, Net	62 438	2 892	3 653	4 642	0
Issuance/ Retirement of Debt, Net	(15 427)	52 559	29 185	(3 692)	(2 333)
Dividends paid	(5)	(7 396)	(3 705)	(3 877)	(80)
Other financing cash flow items	270	(1 618)	(2 642)	(4 772)	(1 204)
Net cash from financing activities	47 276	46 437	26 491	(7 699)	(3 617)
Net change in cash	30 602	(13 604)	5 704	(19 842)	1 419
Beginning-of-period cash	2 792	33 394	19 790	25 494	5 652
End-of-period cash	33 394	19 790	25 494	5 652	7 071
Cash per share	1.34	0.79	1.02	0.24	0.15

Financial and Performance Indicators	2007	2008	2009	2010	1H 2011
Valuation Ratios					
Price/Earnings (P/E)	23.16	8.90	28.68	15.37	23.82
Book Value (BV)	4.61	4.55	4.27	3.37	1.70
Price/Book (P/B)	3.64	0.76	1.35	1.46	1.75
Sales Per Share	4.71	5.72	5.42	6.51	1.73
Price/Sales (P/S)	3.56	0.60	1.06	0.75	1.72
Price/Cash per share	15.84	4.29	7.36	5.29	11.90
EV (in BGN)	396 439	139 179	233 282	185 739	208 807
EV/Sales	3.37	0.97	1.72	1.21	2.55
EV/EBITDA	12.81	5.63	9.49	6.74	14.61
EV/EBIT	17.56	9.72	23.21	14.11	24.88
Liquidity					
Current ratio	2.80	2.11	1.85	1.42	1.43
Quick ratio	2.20	1.52	1.32	0.91	0.98
Debt Management					
Debt to total assets	0.07	0.32	0.43	0.39	0.38
Interest coverage	14.48	5.77	3.01	3.10	4.20
LT Debt/Equity	0.00	0.46	0.70	0.49	0.48
Total Debt/Equity	0.09	0.64	1.08	0.95	0.94
Asset Management					
Inventory turnover	6.14	5.24	3.97	4.92	2.71
Days sales outstanding	99	122	155	106	226
Fixed asset turnover	1.82	1.13	0.93	1.45	0.77
Total asset turnover	0.76	0.64	0.51	0.79	0.41
Profitability					
Profit margin on sales	15.4%	6.8%	3.7%	4.9%	7.2%
EBITDA margin	26.3%	17.3%	18.1%	17.9%	17.5%
Basic earning power	14.6%	6.4%	3.8%	6.8%	4.2%
Return on assets	11.8%	4.3%	1.9%	3.9%	2.9%
Return on equity	15.7%	8.5%	4.7%	9.5%	7.3%
Return on investments	15.2%	5.6%	2.7%	6.1%	4.7%
Dividend Information					
Dividend Yield	1.70%	4.35%	2.61%	3.06%	-
Dividend per share	0.29	0.15	0.15	0.15	-
Number of shares:					
	25 000 000	25 000 000	25 000 000	23 669 998	47 339 996
Price in BGN - period end:					
	16.78	3.45	5.75	4.90	2.97
Market cap in BGN - period end:					
	419 500 000	86 250 000	143 750 000	115 982 990	140 363 088

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