



Stock Price of Monbat



- Consolidated revenues of Monbat (5MB) increased by 22.8% during the second quarter on yearly basis. The producer of automotive batteries announced decline of sales as compared to the seasonally stronger winter months. Growth for the first half of 2011 was 17.4%. Export grew faster than domestic sales and Monbat currently is selling abroad 90.6% of its production.
- The company posted increased costs for labor and depreciation expenditures as percentage of revenues, although the level of total costs is declining. Costs of materials were 63.6% of revenues, which is below average for the last two years. Monbat's new recycling plants in Serbia and Romania began to operate in early-2011 and the profitability will increase overtime. However, changes in the regime of utilization of scrap metals in Bulgaria have negative impact on the recycling of old batteries in July. This will have temporarily effect on company's profitability.
- EBITDA margin during the second quarter was higher than year ago. Moreover, Monbat increased the margin to 20% during the quarter, which is the best performance since 2009. The company's production is higher during cold months and the absence of recycling capacity in the past resulted to lower margins. Monbat is using currently 100% recycled lead and lead alloys for production. Consolidated net profit for the second quarter was BGN 4.2 million or 39% higher than year ago. Trailing twelve months return on equity started to increase and currently is 11.5% but is significantly below the levels of 25% in 2008.
- Inventories were 20% of total assets and their share remained hardly changed since 2009. At the same time receivables are between 18 and 20% of total assets during the last two years. Monbat is insuring all its revenues from abroad and is not bearing payment risks.
- Debt-to-equity ratio of Monbat has increased to 0.39. More than two-thirds of all bank loans are maturing in less than 12 months but the company will not face higher interest payments or any problems to roll-over the debt. Moreover, large Bulgarian companies can negotiate good interest levels on loans. Currently, Monbat is paying 5.5% interest on its average loans for the last 12 months.
- The stock price was under moderate pressure in August and declined 5.7%. Volumes were not substantially higher, which is the sign of absent selling pressure from institutional investors.

Multiples Valuation

*Table 1
Multiples*

	2009	2010	1H 2011
Last Price	6.50	6.30	6.41
Number of Shares	37 949 857	37 325 585	37 095 139
Market Capitalization	246 674 071	235 151 186	237 779 841
Net Profit	15 450 000	13 324 000	14 718 000
P/E	15.97	17.65	16.16
Equity	118 242 000	126 426 000	128 591 000
P/B	2.09	1.86	1.85
Sales	114 994 000	160 994 000	173 328 000
P/S	2.15	1.46	1.37
EV	281 133 071	279 268 186	285 782 841
EBITDA	23 910 000	24 106 000	26 962 000
EV/EBITDA	11.76	11.59	10.60
RoE	13.07%	10.54%	11.45%
RoA	8.33%	6.67%	7.14%

Source: Monbat
Calculations: ELANA Trading

Multiples are higher than the average of Bulgarian blue chips. P/E and EV/EBITDA improved during the first half of 2011 but the company needs to show much better financial results to have attractive multiples. It is trading at high P/B ratio due to the stable increase of revenues and the very good corporate governance. The buy-back procedure is also contributing to the elevated multiples as Monbat decreased the number of shares by 5%.

Peers' comparison

We compared Monbat to companies that produce various types of batteries, including automotive starter and traction batteries and stationary batteries. However, the difference between average and median multiples is significant. Therefore, we prefer to use more conservative approach to value the company by the median. Most stocks are in developing countries and have low multiples.

*Table 2
Peers'
Comparison*

Multiples	P/E	P/B	P/S	EV/EBITDA
Median	13.29	1.95	0.87	8.31
Market Capitalization	195 646 889	250 947 523	150 988 967	176 064 917
Price	5.27	6.76	4.07	4.75
Weight	25%	25%	25%	25%
Current Price		6.41		
Fair Price		5.21		
Premium (Discount) to Current Price		-18.66%		

Source: Bloomberg
Calculations: ELANA Trading

The only multiples that is below the median value of sector companies is P/B. Others are lower and contributed to the low price per share. Average price from all multiples is BGN 5.21 or 20% below the current.

Discounted Cash Flows

The DCF is better valuation method as it includes the future growth opportunities. We consider it more appropriate for the valuation of Monbat due to the imperfect list of sector companies and their multiples as well as the good prospects for development of Monbat.

Table 3, DCF

Monbat	Terminal										
BGN'000	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Year
EBIT	23 747	30 586	39 150	43 848	48 232	52 091	55 737	59 082	62 036	64 517	66 775
EBIT(1-T)	21 372	27 527	35 235	39 463	43 409	46 882	50 164	53 173	55 832	58 065	60 098
Add: D&A	7 599	8 739	9 787	10 962	12 058	13 023	13 934	14 770	15 509	16 129	16 694
Less: Investments	7 599	8 739	9 787	10 962	12 058	13 023	13 934	14 770	15 509	16 129	16 694
Less: Change NWC	9 936	7 124	6 554	7 341	6 851	6 029	5 697	5 225	4 616	3 877	3 652
FCF	11 436	20 403	28 681	32 122	36 558	40 853	44 466	47 948	51 216	54 188	56 446
PV FCF	10 904	17 685	22 600	23 011	23 808	24 186	23 932	23 460	22 781	21 912	
Sum of PV FCF	214 277										
PV of Continuing Value	351 146										
Total PV Free Cash Flows	565 423										
						Growth Rate					
						SA	2.0%	3.0%	3.5%	4.0%	5.0%
Less: Outstanding Debt	50 820					8.0%	17.29	19.73	21.36	23.40	29.50
Plus: Financial Assets	2 817					9.0%	14.36	15.96	16.97	18.19	21.55
PV of Equity	517 420					10.0%	12.17	13.27	13.95	14.74	16.79
Number of Shares	37 095					11.0%	10.49	11.27	11.74	12.28	13.62
Price Per share	13.95					12.0%	9.14	9.72	10.06	10.44	11.37

Calculations: ELANA Trading

Our DCF is based on growth of revenues that will decelerate gradually from the current levels. Expected margins are higher but we remain conservative with 16.5% EBITDA margin for 2011 and improvement to 20% in 2013. Therefore, we leave a room for positive surprises in the future as Monbat had much higher margins when used only recycled lead. We also estimate that working capital will remain at the current levels of 25% of annual revenues.

The calculated intrinsic value per share is BGN 13.95 or 117% above the current market price. The main risk for the value of shares according to the DCF-model is raising risk aversion that will require also higher discount rate. We use 10% discount rate and 3.5% long-term growth rate. Adjustment to mid-year is applied on the discounting of cash flows.

Recommendation and Price Target

The difference between the two methods is large. Discounting cash flows are showing the attractive valuation of Monbat in case of moderate sales growth and improvement of margins to levels of 2008 and 2009. High multiples of Monbat will limit the increase of share price during the next two quarters but the improvement of margins will provide support for the stock.

We give BUY recommendation with price target of BGN 7.30, which were the highs for this year. However, if the company continued to show better results this year as compared to 2010, the stock could easily jumps above the target due to the moderate supply and the much higher intrinsic value according to the DCF.

Financial data

Statement of Income (in '000 BGN)	2007	2008	2009	2010	1H 2011
Sales	141 226	163 981	114 994	160 994	83 413
Production expenses	106 424	117 093	80 959	124 818	60 158
Personnel expenses	9 953	12 765	10 720	11 971	6 875
Net income from financial activities	(604)	437	(275)	(99)	149
Other revenues and expenses	4	0	0	0	0
EBITDA	24 249	34 560	23 040	24 106	16 529
Depreciation	4 553	4 108	4 796	6 111	4 030
EBIT	19 696	30 452	18 244	17 995	12 499
Interest expense	753	1 545	1 559	2 279	1 336
Pretax income	18 943	28 907	16 685	15 716	11 163
Taxes	2 042	3 157	1 921	2 544	1 325
After-tax income	16 901	25 750	14 764	13 172	9 838
Minority interest	16	86	96	(152)	(62)
Net income	16 885	25 664	14 668	13 324	9 900
Earnings per share in BGN	0.87	0.66	0.39	0.36	0.27

Balance Sheet (in '000 BGN)	2007	2008	2009	2010	1H 2011
Total Assets	124 179	154 721	184 815	199 717	206 156
Equity subscriptions receivable	0	0	0	0	0
Fixed assets	50 276	89 491	99 333	114 187	122 443
Tangible fixed assets	49 764	88 923	98 596	110 739	118 867
Financial investments	8	6	8	8	8
Current assets	73 903	65 230	85 482	85 530	83 713
Inventory	41 631	35 035	40 894	42 624	42 507
Receivables	26 281	25 176	38 367	40 972	37 873
Financial assets	0	0	0	0	0
Cash and cash equivalents	5 934	4 634	5 840	1 634	2 817
Total liabilities + equity	124 179	154 721	184 815	199 717	206 156
Equity	86 760	105 516	117 460	126 426	128 591
Registered capital	19 500	38 533	37 950	37 326	37 146
Capital funds	46 969	41 632	65 307	78 196	85 247
Earnings	20 291	25 351	14 203	10 904	6 198
Liabilities	37 103	48 889	67 039	72 975	77 249
Long-term payables	2 586	5 106	4 358	4 747	4 538
Long-term bank loans	18 897	21 447	22 195	17 647	15 241
Short-term bank debt	5 623	8 848	18 104	28 104	35 579
Short-term payables	9 997	14 384	21 684	19 869	19 345
Other liabilities	0	0	0	0	0
Working capital	58 283	41 998	45 694	37 557	28 789

Cash Flow Statement (in '000 BGN)	2007	2008	2009	2010	1H 2011
Net income	16 885	25 664	14 668	13 324	9 900
Depreciation	4 553	4 108	4 796	6 111	4 030
Changes in Working capital	13 606	(16 285)	3 696	(8 137)	(8 768)
Other operating cash flow items	(41 203)	18 735	(9 502)	2 120	6 607
Net cash from operating activities	(6 159)	32 222	13 658	13 418	11 769
Capital expenditures	(15 857)	(25 899)	(11 687)	(15 877)	(10 833)
Other investing cash flow items	(7 273)	(1 207)	(5 442)	(2 318)	(1 732)
Net cash from investing activities	(23 130)	(27 106)	(17 129)	(18 195)	(12 565)
Issuance/ Retirement of Stock, Net	0	(3 671)	(2 724)	(1 830)	(1 253)
Issuance/ Retirement of Debt, Net	29 483	4 362	9 914	5 458	5 185
Dividends paid	0	(3 252)	(50)	(130)	(30)
Other financing cash flow items	(1 442)	(3 855)	(2 463)	(2 927)	(1 923)
Net cash from financing activities	28 041	(6 416)	4 677	571	1 979
Net change in cash	(1 248)	(1 300)	1 206	(4 206)	1 183
Beginning-of-period cash	7 182	5 934	4 634	5 840	1 634
End-of-period cash	5 934	4 634	5 840	1 634	2 817
Cash per share	0.30	0.12	0.15	0.04	0.08

Financial and Performance Indicators	2007	2008	2009	2010	1H 2011
Valuation Ratios					
Price/Earnings (P/E)	35.29	7.22	16.82	17.65	25.10
Book Value (BV)	4.45	2.71	3.10	3.39	3.47
Price/Book (P/B)	6.87	1.76	2.10	1.86	1.93
Sales Per Share	7.24	4.20	3.03	4.31	2.25
Price/Sales (P/S)	4.22	1.13	2.15	1.46	2.98
Price/Cash per share	27.80	6.22	12.67	12.10	17.84
EV (in BGN)	614 506	210 911	281 133	279 268	296 540
EV/Sales	4.35	1.29	2.44	1.73	3.56
EV/EBITDA	25.34	6.10	12.20	11.59	17.94
EV/EBIT	31.20	6.93	15.41	15.52	23.73
Liquidity					
Current ratio	4.73	2.81	2.15	1.78	1.52
Quick ratio	2.07	1.30	1.12	0.89	0.75
Debt Management					
Debt to total assets	0.30	0.32	0.36	0.37	0.37
Interest coverage	26.16	19.71	11.70	7.90	9.36
LT Debt/Equity	0.25	0.25	0.23	0.18	0.15
Total Debt/Equity	0.43	0.46	0.57	0.58	0.60
Asset Management					
Inventory turnover	3.39	4.68	2.81	3.78	1.96
Days sales outstanding	67	55	120	92	163
Fixed asset turnover	2.81	1.83	1.16	1.41	0.68
Total asset turnover	1.14	1.06	0.62	0.81	0.40
Profitability					
Profit margin on sales	12.0%	15.7%	12.8%	8.3%	11.9%
EBITDA margin	17.2%	21.1%	20.0%	15.0%	19.8%
Basic earning power	15.9%	19.7%	9.9%	9.0%	6.1%
Return on assets	13.6%	16.6%	7.9%	6.7%	4.8%
Return on equity	19.5%	24.3%	12.5%	10.5%	7.7%
Return on investments	15.6%	19.4%	10.2%	9.0%	6.7%
Dividend Information					
Dividend Yield	0.58%	3.75%	2.74%	2.78%	-
Dividend per share	0.18	0.18	0.18	0.18	-
Number of shares:					
	19 500 000	39 000 000	37 949 857	37 325 585	37 095 139
Price in BGN - period end:					
	30.56	4.75	6.50	6.30	6.70
Market cap in BGN - period end:					
	595 920 000	185 250 000	246 674 071	235 151 186	248 537 431

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HOLD	Market performance, +/-5% as compared to SOFIX and BG40
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