



Stock Price of Stara Planina Hold



- The net profit of Stara Planina Hold for the first half of the year jumped solidly to BGN 7.3 million as compared to BGN 2.7 million for the same period last year. The company continued with the excellent performance on quarterly basis and beat even the pre-crisis 2008.
- The revenues also improved, mainly due to the sales of production which reached BGN 88.5 million for the first half of the year. On quarterly basis this was the best historical result for the holding since 2006.
- The company has six subsidiaries and three associated companies /with up to 50% of the capital/. As of January 01 2011 all of the companies are included in the consolidated reports, which contributed to the large difference on yearly basis. The Hydraulic Systems set up 56% of the portfolio, followed by Traction and Car Batteries with 22%, Light Industry and Road Construction.
- Data adjusted to the accounting changes are showing less impressive growth. Revenues are 49% higher than 2010, whereas the net profit soared 174% to BGN 7.35 million when excluding minority interest.
- The main activity of the holding is to provide credits to its subsidiaries and to hold their deposits. The individual profit of Stara Planina Hold is from the interest margin and dividend income.
- Main companies in Stara Planina Hold's structure are M+S Hydraulic (5MH), Elhim Iskra (52E) and Hydraulic Elements and Systems (4HE). Most of them are exporting their production abroad and rely on the demand abroad for the increase of revenues this year. The level of orders is very volatile and the good performance of subsidiaries could quickly turn into decline if foreign clients decrease demand. This is making the holding's performance difficult to predict in near term due to the expected slowdown in Europe.
- The consolidated liabilities of the holding amounted BGN 4 million for the 1H 2011 and the cash was BGN 22 million, mainly in deposits. The Return of Equity was 12% and the Return of Assets – 4.6%.
- The share of the holding company is outperforming the market in moderate volumes. The position posted 28% increase since the beginning of the year as compared to 4% growth of SOFIX.

Valuation

Table 1
Multiples comparison

| | MCH | HES | Elhim Iskra |
|------------------------------|-------------|------------|--------------------|
| Last price | 8.40 | 12.90 | 2.45 |
| Number of Shares | 13 018 400 | 3 032 292 | 12 554 205 |
| Market Capitalization | 109 354 560 | 39 116 567 | 30 757 802 |
| Net Profit ttm | 12 626 000 | 2 320 000 | 2 936 000 |
| P/E | 8.66 | 16.86 | 10.48 |
| Equity | 48 828 000 | 25 301 000 | 28 362 000 |
| P/B | 2.24 | 1.55 | 1.08 |
| Sales ttm | 78 660 000 | 6 692 000 | 37 923 000 |
| P/S | 1.39 | 5.85 | 0.81 |
| Assets | 66 625 000 | 33 839 000 | 31 060 000 |
| EV | 101 579 560 | 35 417 567 | 26 845 802 |
| EBITDA ttm | 20 288 000 | 6 125 000 | 4 930 000 |
| EV/EBITDA | 5.01 | 5.78 | 5.45 |
| RoE | 25.86% | 9.17% | 10.35% |
| RoA | 18.95% | 6.86% | 9.45% |
| Free-float | 20.42% | 27.19% | 22.74% |

Source: 1H 2011 financial reports, 2010 financial reports
Calculations: ELANA Trading

The table is presenting the three main subsidiaries of Stara Planina Hold. Their multiples vary due to factors like liquidity and market capitalization of different stocks. Smaller stocks are currently trading at higher P/E ratios but at lower P/B. However, M+S Hydraulic has very good return on equity. All three stocks are trading at low EV/EBITDA ratios when comparing the Bulgarian blue chips. We consider them good long-term investments as we do not expect serious deterioration in their revenues. The valuation of subsidiaries is supporting the price of the holding.

Table 2

| | Stake of the Holding | Market Cap | % in the Market Cap |
|-----------------------|-----------------------------|-------------------|----------------------------|
| MCH | 30.91% | 109 354 560 | 33 801 494 |
| HES | 64.53% | 39 116 567 | 25 241 921 |
| Elhim Iskra | 51.40% | 30 757 802 | 15 809 510 |
| Fazan | 74.72% | 484 056 | 361 687 |
| Bulgarian Rose | 49.99% | 1 872 843 | 936 234 |
| Total | - | - | 76 150 846 |

Source: Stara Planina Hold
Calculations: ELANA Trading

In addition to the three large subsidiaries Stara Planina Hold has another two public listed companies that we can compare by market value. Although they are illiquid and are not essential for the consolidated results, we will add their value to the total capitalization. The declining market price of Stara Planina Hold resulted to lower capitalization than the sum of its subsidiaries. At the price of BGN 3.47 per share Stara Planina Hold has capitalization of BGN 72.77 million, excluding the investments in other companies.

The attractive valuation of subsidiaries and the discount to the value of public listed companies in the holding's portfolio is reason to give **BUY** recommendation to shares of Stara Planina Hold. Moreover, it is trading at P/B of 0.79. Our price target is based on the book value or BGN 4.40 per share.

M+S Hydraulic

M+S Hydraulic is leading Bulgarian manufacturer of low speed, high torque, orbital hydraulic motors, hydrostatic steering units, brakes and accessories for the products. The company holds a significant share of world market of hydraulic motors. The company is certified according to the quality standard ISO 9001:2000.

M+S Hydraulic established a well-developed distributors' network in over 32 countries in Europe, the Americas, Asia, Australia and Africa. The company maintains a constant pool of customers, while trying to increase its sales in the emerging markets in Eastern Europe, Asia and South America.

Some of M+S Hydraulic customers are:

- Terex Handlers, Genie in USA
- Manitou, Pinguely-Haulotte in France
- Sandvik Tamrock, Avant Techno in Finland
- GKN group in Belgium and Norway
- Comer Industries in Italy
- Aichi in Japan
- Krauss Maffei, Krone Gruppe in Germany

Hydraulic Elements and Systems

Hydraulic Elements and Systems (HES) is a leading producer of piston and plunger hydraulic cylinders in Eastern Europe.

The company is certified according to the quality standard ISO 9001:2000, guaranteeing the quality of its production.

HES is one of the biggest producers of hydraulic cylinders in Eastern Europe and exports 97% of its production to EU and USA.

Main customers of the company are:

- PALFINGER Group
- HS PENTA Srl
- FARMTRAC North America LLC
- STERTIL B.V.

Elhim Iskra

Elhim Iskra is Bulgarian producer of starter and traction batteries with well-known brand in the domestic market for over four decades. The products of the firm conform to the European standards BSS EN 60095. Elhim produce wide range of starter batteries from 12V/44Ah to 12V/210Ah for different type of vehicles. The product portfolio includes also stationary batteries for telecommunication usage from 12V to 220V and capacity up to 3000Ah.

Financial Data

| Statement of Income (in '000 BGN) | 2007 | 2008 | 2009 | 2010 | 1H 2011 |
|--------------------------------------|---------------|---------------|--------------|---------------|---------------|
| Sales | 95 358 | 89 235 | 42 635 | 74 918 | 95 136 |
| Production expenses | 73 313 | 67 335 | 31 107 | 54 487 | 59 625 |
| Personnel expenses | 12 757 | 13 011 | 8 001 | 11 889 | 16 311 |
| Net income from financial activities | 3 008 | 772 | 647 | 1 222 | 1 676 |
| Other revenues and expenses | 1 700 | 2 447 | 47 | 2 546 | 288 |
| EBITDA | 13 996 | 12 108 | 4 221 | 12 310 | 21 164 |
| Depreciation | 2 647 | 3 248 | 2 711 | 4 343 | 5 751 |
| EBIT | 11 349 | 8 860 | 1 510 | 7 967 | 15 413 |
| Interest expense | 466 | 321 | 62 | 273 | 143 |
| Pretax income | 10 883 | 8 539 | 1 448 | 7 694 | 15 270 |
| Taxes | 611 | 810 | 250 | 578 | 1 228 |
| After-tax income | 10 272 | 7 729 | 1 198 | 7 116 | 14 042 |
| Minority interest | 2 121 | 2 745 | 953 | 2 215 | 6 691 |
| Net income | 8 151 | 4 984 | 245 | 4 901 | 7 351 |
| Earnings per share in BGN | 0.39 | 0.24 | 0.01 | 0.24 | 0.35 |

| Balance Sheet (in '000 BGN) | 2007 | 2008 | 2009 | 2010 | 1H 2011 |
|-----------------------------------|---------------|---------------|---------------|---------------|----------------|
| Total Assets | 85 734 | 82 332 | 80 110 | 98 028 | 159 113 |
| Equity subscriptions receivable | 0 | 0 | 0 | 0 | 0 |
| Fixed assets | 45 221 | 43 752 | 42 811 | 53 390 | 70 492 |
| Tangible fixed assets | 24 723 | 26 561 | 26 694 | 33 694 | 65 416 |
| Financial investments | 19 822 | 16 208 | 15 231 | 18 516 | 3 715 |
| Current assets | 40 513 | 38 580 | 37 299 | 44 638 | 88 621 |
| Inventory | 20 862 | 19 630 | 14 199 | 17 934 | 70 492 |
| Receivables | 13 551 | 12 515 | 11 709 | 17 244 | 32 420 |
| Financial assets | 0 | 260 | 42 | 350 | 297 |
| Cash and cash equivalents | 5 979 | 6 031 | 11 227 | 8 875 | 22 133 |
| Total liabilities + equity | 85 734 | 82 332 | 80 110 | 98 028 | 159 113 |
| Equity | 51 893 | 50 481 | 50 037 | 56 247 | 61 644 |
| Registered capital | 21 000 | 20 863 | 20 729 | 20 729 | 20 729 |
| Capital funds | 2 913 | 5 349 | 5 828 | 6 019 | 6 296 |
| Earnings | 27 980 | 24 269 | 23 480 | 29 499 | 34 619 |
| Liabilities | 33 841 | 31 851 | 30 073 | 41 781 | 97 469 |
| Long-term payables | 518 | 523 | 167 | 602 | 3 934 |
| Long-term bank loans | 0 | 5 | 4 | 3 | 3 |
| Short-term bank debt | 4 438 | 2 078 | 1 408 | 2 243 | 1 570 |
| Short-term payables | 11 231 | 9 364 | 7 715 | 15 198 | 30 089 |
| Other liabilities | 103 | 60 | 430 | 453 | 1 942 |
| Working capital | 24 844 | 27 138 | 28 176 | 27 197 | 56 962 |

| Cash Flow Statement (in '000 BGN) | 2007 | 2008 | 2009 | 2010 | 1H 2011 |
|---|----------------|----------------|----------------|----------------|----------------|
| Net income | 8 151 | 4 984 | 245 | 4 901 | 7 351 |
| Depreciation | 2 647 | 3 248 | 2 711 | 4 343 | 5 751 |
| Changes in Working capital | 14 871 | 2 294 | 1 038 | (979) | 29 765 |
| Other operating cash flow items | (23 315) | (3 047) | 4 237 | (6 891) | (32 131) |
| Net cash from operating activities | 2 354 | 7 479 | 8 231 | 1 374 | 10 736 |
| Capital expenditures | (2 384) | (3 345) | (1 928) | (3 903) | (2 941) |
| Other investing cash flow items | 1 150 | (654) | (27) | 614 | 2 731 |
| Net cash from investing activities | (1 234) | (3 999) | (1 955) | (3 289) | (210) |
| Issuance/ Retirement of Stock, Net | 8 146 | (308) | (128) | 0 | 0 |
| Issuance/ Retirement of Debt, Net | (4 060) | (2 361) | (669) | (89) | (2 553) |
| Dividends paid | (501) | (494) | (347) | (436) | (476) |
| Other financing cash flow items | (350) | (265) | 64 | (48) | (199) |
| Net cash from financing activities | 3 235 | (3 428) | (1 080) | (573) | (3 228) |
| Net change in cash | 4 355 | 52 | 5 196 | (2 488) | 7 298 |
| Beginning-of-period cash | 1 624 | 5 979 | 6 031 | 11 227 | 14 835 |
| End-of-period cash | 5 979 | 6 031 | 11 227 | 8 739 | 22 133 |
| Cash per share | 0.28 | 0.29 | 0.54 | 0.42 | 1.07 |

| Financial and Performance Indicators | 2007 | 2008 | 2009 | 2010 | 1H 2011 |
|--|-------------|------------|------------|------------|------------|
| Valuation Ratios | | | | | |
| Price/Earnings (P/E) | 19.27 | 8.04 | 176.75 | 11.76 | 9.75 |
| Book Value (BV) | 2.47 | 2.42 | 2.41 | 2.71 | 2.97 |
| Price/Book (P/B) | 3.03 | 0.79 | 0.87 | 1.02 | 1.16 |
| Sales Per Share | 4.54 | 4.28 | 2.06 | 3.61 | 4.59 |
| Price/Sales (P/S) | 1.65 | 0.45 | 1.02 | 0.77 | 0.75 |
| Price/Cash per share | 14.54 | 4.87 | 14.65 | 6.23 | 5.47 |
| EV (in BGN) | 155 497 | 36 109 | 33 488 | 50 998 | 51 079 |
| EV/Sales | 1.63 | 0.40 | 0.79 | 0.68 | 0.54 |
| EV/EBITDA | 11.11 | 2.98 | 7.93 | 4.14 | 2.41 |
| EV/EBIT | 13.70 | 4.08 | 22.18 | 6.40 | 3.31 |
| Liquidity | | | | | |
| Current ratio | 2.59 | 3.37 | 4.09 | 2.56 | 2.80 |
| Quick ratio | 1.25 | 1.66 | 2.53 | 1.53 | 0.57 |
| Debt Management | | | | | |
| Debt to total assets | 0.05 | 0.03 | 0.02 | 0.02 | 0.01 |
| Interest coverage | 24.35 | 27.60 | 24.35 | 29.18 | 107.78 |
| LT Debt/Equity | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Debt/Equity | 0.09 | 0.04 | 0.03 | 0.04 | 0.03 |
| Asset Management | | | | | |
| Inventory turnover | 4.57 | 4.55 | 3.00 | 4.18 | 1.35 |
| Days sales outstanding | 51 | 50 | 99 | 83 | 123 |
| Fixed asset turnover | 2.11 | 2.04 | 1.00 | 1.40 | 1.35 |
| Total asset turnover | 1.11 | 1.08 | 0.53 | 0.76 | 0.60 |
| Profitability | | | | | |
| Profit margin on sales | 8.5% | 5.6% | 0.6% | 6.5% | 7.7% |
| EBITDA margin | 14.7% | 13.6% | 9.9% | 16.4% | 22.2% |
| Basic earning power | 13.2% | 10.8% | 1.9% | 8.1% | 9.7% |
| Return on assets | 9.5% | 6.1% | 0.3% | 5.0% | 4.6% |
| Return on equity | 15.7% | 9.9% | 0.5% | 8.7% | 11.9% |
| Return on investments | 15.6% | 9.8% | 0.5% | 8.6% | 11.2% |
| Dividend Information | | | | | |
| Dividend Yield | 0.16% | 0.46% | 0.57% | 0.47% | - |
| Dividend per share | 0.01 | 0.01 | 0.01 | 0.01 | - |
| Number of shares: | | | | | |
| | 21 000 000 | 20 863 000 | 20 729 000 | 20 729 000 | 20 729 000 |
| Price in BGN - period end: | | | | | |
| | 7.48 | 1.92 | 2.09 | 2.78 | 3.46 |
| Market cap in BGN - period end: | | | | | |
| | 157 038 000 | 40 056 960 | 43 302 881 | 57 626 620 | 71 639 424 |

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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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