



- Chimimport (6C4) proved again the sustainability of its revenues and profits during the second quarter. The profit exceeded BGN 35 million for second consecutive quarter. The net profit margin was also stable at 25% but the main contributors to the holding's profit are financial revenues. The net contribution of financial revenues in profit is BGN 11.2 million as compared to the second quarter of 2010.
- Non-financial revenues for the quarter also grew but the increase had insignificant contribution to the overall performance of the holding. Moreover, the financial segment of Chimimport reported decrease of net interest income and non-financial revenues that exceeded the growth of the production and transportation sectors.
- The insurance business of Chimimport is growing despite the difficult market environment and the low penetration of property insurances. The income from the segment is also growing.
- Consolidated assets are rising steadily, partially due to the attracted funds of Central Cooperative Bank. This is the reason why the bank is planning to raise capital this year. Fixed assets declined to 10% of total assets in mid-2011, whereas current assets are rising steadily to 59% of total assets.
- Related parties receivables exceeded the trade account receivables for third consecutive quarter. Moreover, the stable level of inventories is pointing to the diminishing importance of non-financial in the revenues of the holding.

	Production		Finance		Transportation		Consolidation	
	1H 2010	1H 2011	1H 2010	1H 2011	1H 2010	1H 2011	1H 2010	1H 2011
Non-financial revenues	103 568	112 226	21 558	12 843	162 249	172 558	277 854	281 821
Non-financial profit	11 882	13 592	21 558	12 843	14 541	9 125	47 668	34 564
Insurance premium	-	-	207 901	230 244	-	-	200 633	227 327
Insurance income	-	-	10 798	13 389	-	-	6 122	13 136
Interest income	3 931	5 278	111 408	114 187	4 407	1 719	95 030	108 767
Interest expense	-5 580	-5 820	-57 559	-69 845	-8 100	-6 703	-46 337	-70 015
Net interest income	-1 649	-542	53 849	44 342	-3 693	-4 984	48 693	38 752
Net income from securities	3 576	9 725	37 918	119 623	-	-	30 174	47 410
Net profit	10 293	16 994	59 313	63 693	72	2 261	76 380	77 223
Percentage change								
Non-financial revenues		8.36%		-40.43%		6.35%		1.43%
Non-financial profit		14.39%		-40.43%		-37.25%		-27.49%
Net interest income		-67.13%		-17.65%		34.96%		-20.42%
Net income from securities		171.95%		215.48%				57.12%
Net profit		65.10%		7.38%		3040.28%		1.10%

Source: Chimimport

Holding's Valuation

*Table 1
Sum of the
parts*

Public listed companies	Stake	Value	
Central Cooperative Bank	75.33%	321 777 245	242 394 799
Zarneni Hrani	60.07%	131 240 719	78 836 300
Oil and Gas Exploration and Production	53.94%	102 004 217	55 021 075
Bulgarian River Shipping	82.16%	45 880 191	37 695 165
Stakes in non-public companies			
Armeec	87.90%	73 534 340	64 636 684
Bulgarian Aviation Group	100.00%	169 049 113	169 049 113
Other companies			93 446 000
Total (BGN)			741 079 136
Number of shares			239 646 267
<i>Price (BGN)</i>			<i>3.09</i>

Source: Chimimport
Calculations: ELANA Trading

We calculated the fair value of each large company in the structure of Chimimport. We don't use the current market cap of the four public listed companies due to the current market crisis worldwide and the usual low valuation of Bulgarian stocks.

The change as compared to the previous valuation in mid-2010 is substantial in several subsidiaries. Currently Armeec is valued lower, whereas Oil and Gas Exploration and Production is valued much higher. There is an increase in other companies' values. We used the valuation of Central Cooperative Bank in our latest report. The other companies in the structure of Chimimport are valued at core capital and not include the non-public companies in the subholdings. Thus the real value is higher than the valuation. It is divided by the number of shares including convertible preferred shares.

Valuation of Subsidiaries

We calculated the fair value of each important subsidiary by comparison to peers in the sector. We used largest companies by market cap for the comparison, excluding the companies with extremely high multiples. We used the median of multiples. All reported data

*Table 2
Valuation of
Zarneni Hrani*

Multiples	Sector	Market cap	Weight
Price/earnings	9.78	81 459 785	10%
Price/book value	1.03	211 073 209	25%
Price/sales	0.85	173 039 069	25%
EV/EBITDA	7.25	67 666 679	40%
<i>Price (BGN)</i>			<i>131 240 719</i>

Source: Bloomberg
Calculations: ELANA Trading

Zarneni Hrani (T43) is trading with grains, produces biofuels and has storage facilities for cereals. Our valuation comparison showed that the company lags in terms of profitability but is trading at discount when comparing book value and revenues. Its current market capitalization is BGN 71.6 million and is below the valuation. Investors are focused on profits due to the low historical growth of the financial results. The stock is priced in the low range of the possible diapason, which we consider undervalued for the moment.

Table 3
Valuation of Oil and Gas Production and Exploration

Multiples	Sector	Market cap	Weight
Price/earnings	16.08	199 374 419	10%
Price/book value	1.11	88 850 862	40%
Price/sales	2.60	76 394 764	40%
EV/EBITDA	8.83	159 685 245	10%
<i>Price (BGN)</i>			102 004 217

Source: Bloomberg
Calculations: ELANA Trading

Oil and Gas Production and Exploration (4O1) is the sole domestic company in the extraction of oil. However, the business is very small and all wells are old. The company is investing in new drilling equipment that will improve its extraction. The current market capitalization is several times lower than the valuation by peers – 26.9 million. The net profit jumped during the second quarter of 2011 due to extraordinary items but the low weight of P/E and EV/EBITDA ratios is making this difference insignificant. However, other multiples contributed to the total valuation of BGN 102 million.

Table 4
Valuation of Bulgarian River Shipping

Multiples	Sector	Market cap	Weight
Price/earnings	9.04	24 291 555	10%
Price/book value	0.70	48 606 442	25%
Price/sales	0.79	34 592 300	25%
EV/EBITDA	9.05	56 628 376	40%
<i>Price (BGN)</i>			45 880 191

Source: Bloomberg
Calculations: ELANA Trading

Bulgarian River Shipping (5BR) is valued at BGN 45 million, whereas its market capitalization is BGN 33 million. EV/EBITDA has largest contribution to the price. The net profit is the weakest ratio of the transportation company, although we have to emphasize on the ongoing modernization of ships that will improve the overall efficiency over time.

Table 5
Valuation of Armeec

Multiples	Sector	Market cap	Weight
Price/earnings	9.21	61 854 772	30%
Price/book value	0.94	38 731 027	30%
Price/premium	0.70	108 396 500	40%
<i>Price (BGN)</i>			73 534 340

Source: Bloomberg
Calculations: ELANA Trading

The insurance company Armeec is not listed on the stock exchange. We used three multiples for the comparison as price-to-premium is the substitution for market share by revenues. The market capitalization of Armeec is calculated at BGN 73 million, which is significantly below the valuation year ago. However, the book value of the company is resulting to lower valuation as well as the net profit. We consider Armeec as a fast growing company that is lagging the good profitability and large equity of big insurers worldwide. This can be considered an advantage.

The cons for the company are the low penetration of property insurances in the market and the low personal income that is limiting the growth. Moreover, the competition on the market forced the prices of automotive insurance to stay subdued and seriously hurt the profitability and capital of insurers.

Table 6
Valuation of
Bulgarian
Aviation
Group

Multiples	Sector	Market cap	Weight
Price/book value	1.22	235 273 449	50%
Price/sales	0.30	102 824 776	50%
<i>Price (BGN)</i>			169 049 113

Source: Bloomberg
Calculations: ELANA Trading

The insignificant net profit and the large debts are distorting the valuation by P/E and EV/EBITDA. Comparing the national air carrier to peers is only by book value and revenues. The fair value of the holding company is BGN 169 million. Multiples of peers are lower than the averages for developed markets which is pushing down the price of BAG.

Price action and recommendation



It is too early to call for a bottom on Chimimport stock. However, probing below the psychological level of BGN 2.00 is important – it either could be good buying opportunity or at least a reason to watch carefully the price action. Our valuation calculations are providing good fundamental reason to look for the long side of the market. When comparing to the current capitalization of subsidiaries, it is not. We consider this difference to be purely market driven and not sign for worries about the holding's solvency and financial health.

Production and trade				
BGN thousand	2007	2008	2009	2010
Sales	149 488	235 617	216 857	246 233
Revenues from non-financial operations	153 647	308 303	261 353	263 311
Income	19 665	22 598	20 827	27 252
Net interest income	-2 570	-6 206	-3 003	-2 984
Trading with securities	7 794	16 382	14 195	4 782
Administrative costs		12 927	-8 781	-6 988
Profit before tax	23 074	17 560	20 465	21 576
Net profit	20 965	15 848	18 253	19 683
Financial segment				
BGN thousand	2007	2008	2009	2010
Sales	13 383	50 720	22 264	24 096
Revenues from non-financial operations	17 900	74 493	38 806	26 734
Income	17 900	74 493	38 806	26 734
Net revenues from insurance	141 457	221 892	279 271	301 294
Income	15 558	17 233	21 471	24 891
Net interest income	61 435	80 984	86 602	93 914
Trading with securities	142 235	17 079	91 791	111 842
Administrative costs	-112 186	-130 078	-140 711	-155 177
Profit before tax	143 402	119 644	123 883	127 634
Net profit	141 212	112 254	116 861	121 471
Transportation segment				
BGN thousand	2007	2008	2009	2010
Sales	397 832	434 205	334 244	362 115
Revenues from non-financial operations	399 027	497 619	351 811	368 982
Income	1 717	45 127	33 656	21 848
Net interest income	-6 869	-13 789	-12 733	-5 012
Trading with securities	12 211	-299	7 295	4 580
Administrative costs		-20 184	-13 884	-11 617
Profit before tax	2 013	17 854	19 638	14 282
Net profit	1 970	16 592	18 662	13 353
Consolidated				
BGN thousand	2007	2008	2009	2010
Sales	510 767	722 491	581 471	636 783
Revenues from non-financial operations	510 767	736 099	619 640	634 430
Income	39 085	82 277	91 344	77 073
Net revenues from insurance	135 537	215 374	269 691	289 963
Income	11 743	11 406	14 110	13 991
Net interest income	52 348	61 230	71 017	86 564
Trading with securities	129 383	61 254	105 738	121 094
Administrative costs	-107 634	-157 738	-156 598	-167 425
Profit before tax	141 119	151 928	154 570	159 526
Net profit	136 290	141 557	144 337	150 515

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