



Stock Price of First Investment Bank



- Assets of First Investment Bank (5F4) continued to increase solidly on yearly basis. They grew 22% but were exceeded by the even stronger 28% increase of loans and receivables. The bank is expanding its balance sheet despite the recent stagnation in the banking system as whole, which posted 2.6% growth of assets on average for the last four quarters.
- Equity is also rising but slower than assets, which pushed down equity-to-assets ratio to 8%. This is the biggest difference to the banking system, which is maintaining the ratio above 13% during the last two years. Moreover, the low ratio is raising the probability of capital increase. This will have negative impact on the price per share as recent capital raises showed in Bulgaria.
- Loans and receivables were higher at the end of the quarter to 76% of total assets. This is below the peak in 2009 but the improvement since the end-2010 is significant, which is supporting the improvement of profitability. Net interest margin decreased during the quarter but rising loans contributed to the record interest revenues.
- Loans-to-deposits ratio stood at 0.89 at the end of September, when excluding the subordinated and hybrid debt. This is additional buffer to external liquidity risks.
- Financial assets of FIB were unchanged at 10.5% of total. This is close to the average level during the period from 2008 to end-2009 that was marked by stable assets. If the bank's growth decreases to single-digit percentage, we can expect that financial assets to remain at current levels and this will have positive effect on profitability.
- Impairment costs posted the third largest historical value. Moreover, they are increasing when comparing to the average of the last four years. The positive news is that the bank is not facing decrease of interest revenues, which in the Bulgarian practice is very strong signal for further deterioration of credit portfolio's quality.
- Administrative costs were unchanged as percentage of assets. The bank is not expanding its operations with new branches and offices as it did it in 2008 when administrative costs jumped to 0.9% of assets.
- The stock erased all gains from the beginning of 2011. The debt crisis in Europe had extremely negative impact on the confidence of local investors, which pushed down the price of FIB to one-year lows. Moreover, volumes also deteriorated significantly and the pattern of declining prices in low daily turnover persisted. It resembles to the pre-bottom market activity in early 2009.

Valuation

We compared the multiples of the three Bulgarian public listed banks with profits to the averages in Eastern Europe. Price-to-earnings and price-to-book are calculated with trailing results in their unconsolidated reports.

Table 1
Multiples
valuation

	Central Cooperative Bank	Corporate Commercial Bank	First Investment Bank
Number of Shares	83 155 092	6 000 000	110 000 000
Price-to-earnings of peers	11.83	11.83	11.83
Net Profit (ttm)	21 281 000	63 963 000	36 938 000
Target price	3.03	126.13	3.97
Price-to-book of peers	0.84	0.84	0.84
Equity	284 665 000	365 482 000	469 695 000
Target price	2.88	51.17	3.59
Fair Price	2.95	88.65	3.78
Current Price	0.82	77.25	1.80
Premium (Discount)	262.18%	14.75%	110.00%

Source: Unconsolidated reports, Bloomberg
Calculations: ELANA Trading

FIB is undervalued when compared to both book value and net profit. Both ratios have close target prices. Moreover, the bank is traded at very low price-to-assets ratio, which implies that it is also undervalued in terms of its market share and position in local banking system. In brief, the fair value of FIB is twice higher than the current price, without any misbalance between target prices according to P/B and P/E comparison.

Table 2, Forecasts

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Total Assets	4 256 134	4 095 287	4 943 973	6 031 647	6 514 179	7 165 597	7 882 156	8 867 426
Loans and Receivables	3 103 821	3 163 298	3 447 076	4 481 199	4 884 507	5 324 112	5 803 282	6 383 611
As Percentage of Assets	72.9%	77.2%	69.7%	74.3%	75.0%	74.3%	73.6%	72.0%
Total Liabilities	3 885 664	3 686 477	4 504 210	5 561 045	6 008 256	6 604 140	7 249 761	8 155 401
As Percentage of Assets	91.3%	90.0%	91.1%	92.2%	92.2%	92.2%	92.0%	92.0%
Total Equity	370 470	408 810	439 763	470 602	505 923	561 456	632 396	712 025
Net Profit	50 931	32 019	30 838	41 015	48 856	71 656	94 586	110 843
Return on Equity	13.75%	7.83%	7.01%	8.72%	9.66%	12.76%	14.96%	15.57%
Return on Assets	1.20%	0.78%	0.62%	0.68%	0.75%	1.00%	1.20%	1.25%

Calculations and estimations: ELANA Trading

We increased our estimations for assets' growth in 2011 due to the solid increase so far this year. Moreover, banks in Bulgaria are attracting lots of deposits and will continue to do so in near future. However, the absence of substantial economic and wage growth will limit this trend. We prefer to be more conservative in the estimations for 2012 and beyond due to the necessity of capital increase.

We also expect an improvement in profitability following the published data for the nine months of 2011. However, the last quarter is usually the time to write-off bad loans.

Discounted cash to equity value:	
NPV five year free cash flow	75 541
NPV terminal value	380 248
Value of shareholders' funds	455 789
Shares issued (thousand)	110 000
Value per share	4.14
Share price	1.80
<i>Premium/(discount)</i>	<i>130.20%</i>

Residual income valuation:	
Opening shareholders' funds	470 602
PV five year residual income	(38 853)
PV terminal value (ex incremental investment)	24 040
PV terminal value (incremental investment)	0
Value of shareholders' funds	455 789
Shares issued (thousand)	110 000
Value per share	4.14
Share price	1.80
<i>Premium/(discount)</i>	<i>130.20%</i>

Recommendation and Price Target

Recommendation: **BUY**

Target price: **BGN 3.78**

Upside: **110%**

Although the residual income valuation method is showing even higher intrinsic value per share, the price is depressed under the suspicions for further losses from bad loans and the negative market conjuncture. In this environment is very hard to call for much higher price in one-year horizon. Nevertheless, we see value in Bulgarian banks and in FIB in particular. The main risks remain the investors' confidence, which could be eroded further in case of capital increase.

We use the price from the peers' comparison to define one-year price target.

First Investment Bank 3Q 2011 Report

24 November 2011

Financial data

Assets	2007	2008	2009	2010	9M 2011
Cash and cash balances with central banks	540 344	587 396	398 874	495 291	526 020
Financial assets held for trading	13 529	9 681	9 023	16 641	8 686
Financial assets designated at fair value through profit or loss	0	0	0	0	0
Available-for-sale financial assets	374 203	286 624	285 110	708 861	548 915
Loans and receivables	3 019 043	3 103 821	3 163 298	3 447 076	4 424 966
Held-to-maturity investments	104 706	60 393	30 018	38 207	49 947
Derivatives – hedge accounting	823	274	0	0	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0	0
Tangible assets	111 282	149 010	127 683	124 909	118 512
Intangible assets	429	5 164	18 115	16 321	14 814
Investments in subsidiaries	22 965	24 920	28 876	34 341	36 371
Tax assets	862	2 047	3 270	6 414	3 885
Other assets	11 960	20 796	20 926	22 465	31 081
Non-current assets and disposal groups classified as held for sale	4 930	6 008	10 094	33 447	36 924
Total Assets	4 205 076	4 256 134	4 095 287	4 943 973	5 800 121
Deposits from central banks	0	0	0	0	0
Financial liabilities held for trading	0	0	0	0	0
Financial liabilities designated at fair value through profit or loss	0	0	0	0	0
Financial liabilities measured at amortised cost	3 870 326	3 877 460	3 677 884	4 497 390	5 319 615
Financial liabilities associated with transferred financial assets	0	0	0	0	0
Derivatives – hedge accounting	1 924	1 336	248	247	276
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0	0
Provisions	0	0	0	0	0
Tax liabilities	4 116	2 683	2 901	4 051	5 887
Other liabilities	3 396	4 185	5 444	2 522	4 648
Share capital repayable on demand	0	0	0	0	0
Liabilities included in disposal groups classified as held for sale	0	0	0	0	0
Total Liabilities	3 879 762	3 885 664	3 686 477	4 504 210	5 330 426
Issued capital	110 000	110 000	110 000	110 000	110 000
Share premium	97 000	97 000	97 000	97 000	97 000
Other equity	0	0	0	0	0
Revaluation reserves and other valuation differences	-350	-6 467	-146	-32	341
Reserves (including retained earnings)	68 599	119 006	169 937	201 957	232 796
Treasury shares	0	0	0	0	0
Income from current year	50 065	50 931	32 019	30 838	29 558
Interim dividends	0	0	0	0	0
Minority interest	0	0	0	0	0
Total equity	325 314	370 470	408 810	439 763	469 695



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Continuing operations	2007	2008	2009	2010	9M 2011
Financial & operating income and expenses	192 478	209 635	192 987	210 802	183 145
Interest income	269 669	333 421	359 724	392 681	321 770
Interest expenses	138 918	189 069	234 823	258 930	200 952
Expenses on share capital repayable on demand	0	0	0	0	0
Dividend income	32	69	386	32	31
Fee and commission income	59 253	69 656	55 993	61 810	56 565
Fee and commission expenses	9 637	9 046	7 174	7 451	6 128
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net	-231	-1 581	600	4 551	-2 707
Gains (losses) on financial assets and liabilities held for trading, net	2 762	-3 773	8 365	7 369	7 951
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	0	0	0	0	0
Gains (losses) from hedge accounting, net	0	0	0	0	0
Exchange differences, net	7 626	5 619	-565	950	1 052
Gains (losses) on derecognition of assets other than held for sale, net	0	0	0	0	0
Other operating income	2 770	4 710	10 613	10 163	5 709
Other operating expenses	848	371	132	373	146
Administration costs	98 922	139 556	130 267	130 332	109 521
Depreciation	11 541	16 796	17 822	20 522	15 932
Provisions	0	0	0	0	0
Impairment	26 408	-2 742	8 615	25 666	24 795
Negative goodwill immediately recognised in profit or loss	0	0	0	0	0
Share of the profit or loss of associates and joint ventures accounted for using the equity method	0	0	0	0	0
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	0	0	0	0	0
Total profit or loss before tax from continuing operations	55 607	56 025	36 283	34 282	32 897
Tax expense (income) related to profit or loss from continuing operations	5 542	5 094	4 264	3 444	3 339
Total profit or loss after tax from continuing operations	50 065	50 931	32 019	30 838	29 558
Profit or loss after tax from discontinued operations	0	0	0	0	0
Total profit or loss after tax and discontinued	50 065	50 931	32 019	30 838	29 558
Profit or loss attributable to minority interest	0	0	0	0	0
Profit or loss attributable to equity holders of the parent	50 065	50 931	32 019	30 838	29 558

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