



- Corporate Commercial Bank (6C9) retained its position as a leader by growth in the system despite the stagnation among largest institutions. CORP's assets jumped 65% during the last twelve months in comparison to the meager 2.6% growth of the banking system. Loans and receivables decreased their percentage to total assets from 78% to 73% as the growth of credits could not sustain the pace. However, both categories are rising very fast and despite that credits are maintaining their average percentage in assets, risks of declining portfolio's quality are rising.

- Loans-to-deposits ratio, which is indicator to the financial stability of the bank in case of liquidity crisis on the domestic market, inched lower to 0.81. Bulgarian banks don't have large investment portfolios but CORP's financial assets increased to 12% of total or more than double since early 2010.

- Equity is also rising but slower than assets, which pushed down equity-to-assets ratio to 9.7%. The banking system is maintaining average ratio above 13% during the last two years and CORP needs to cool down its growth rate or raise capital to continue to increase assets and loans at the same pace.

- CORP has solid return on equity and the growth of profits contributed to the increase of equity and the possibility to expand its balance sheet. However, net interest margin is declining and reached the lowest level since 2007. Interest income is rising slower than interest expense and net interest income fell to 0.5% of assets. The bank managed to maintain BGN 15 million quarterly profits since the beginning of 2011, which is below the level of 2010. Financial profits contributed for one-third of the profit for the last quarter. The bank's growing portfolio of securities will increase the significance and the volatility of financial profits.

Stock Price of Corporate Commercial Bank



- Impairment costs were moderate as the bank has very low level of non-performing loans. We highlighted the risks of increase in bad loans due to the high growth of assets but we have to point also that the bank is focused on credits to corporations and the retail segment is only 0.5% of total.

- The stock is very passive when comparing to the overall market. It skipped the latest decline and will probably recover slowly during the next leg up of the market. Volumes also declined significantly and the changes in the current financial results of the bank are not trouble for investors.

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

CORP is the least undervalued among banks, compared by multiples. However, this is due to the stable performance and the lower liquidity of the stock, which is usually supported by large bids on the market. The large difference in the valuation by the two multiples is due to the exceptional profitability of the bank. It is obvious that investors are looking to the middle between both high profit and high price-to-book ratio. We see some moderate upside potential in short-term in contrast to the other two banks that were subject of heavy selling.

Table 2, Forecasts

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Total Assets	2 105 879	2 035 862	2 699 427	3 914 169	4 697 003	5 401 553	6 211 786	6 957 201
Loans and Receivables	1 597 270	1 612 080	1 961 897	2 942 846	3 678 557	4 340 697	5 122 023	5 736 665
As Percentage of Assets	75.8%	79.2%	72.7%	75.2%	78.3%	80.4%	82.5%	82.5%
Total Liabilities	1 891 266	1 759 966	2 379 024	3 490 041	4 182 849	4 783 360	5 469 898	6 081 138
As Percentage of Assets	89.8%	86.4%	88.1%	89.2%	89.1%	88.6%	88.1%	87.4%
Total Equity	214 613	275 896	320 403	424 128	514 154	618 193	741 889	876 063
Net Profit	40 298	60 382	74 367	103 725	131 516	156 645	186 354	208 716
Return on Equity	18.78%	21.89%	23.21%	24.46%	25.58%	25.34%	25.12%	23.82%
Return on Assets	1.91%	2.97%	2.75%	2.65%	2.80%	2.90%	3.00%	3.00%

Calculations and estimations: ELANA Trading

We increased again our estimations for assets' growth in 2011 due to the solid gains 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. Any new capital raised will push down RoE but will also provide the possibility for growth of assets. For now this scenario is purely speculative and we will refrain from adjusting the model in this direction.

Discounted cash to equity value:	
NPV five year free cash flow	165 103
NPV terminal value	716 004
Value of shareholders' funds	881 108
Shares issued (thousand)	6 000
Value per share	146.85
Share price	77.25
<i>Premium/(discount)</i>	<i>90.10%</i>

Residual income valuation:	
Opening shareholders' funds	424 128
PV five year residual income	207 224
PV terminal value (ex incremental investment)	249 756
PV terminal value (incremental investment)	0
Value of shareholders' funds	881 108
Shares issued (thousand)	6 000
Value per share	146.85
Share price	77.25
<i>Premium/(discount)</i>	<i>90.10%</i>

Recommendation and Price Target

Recommendation: As expected, the residual income valuation method is showing much higher intrinsic value per share. Solid return-on-equity and large growth of assets is creating value for the shareholders that we expect to continue. However, the stock market conjuncture is not favorable to forecast 90% increase of the price in near term. Nevertheless, we see value in Bulgarian banks. The main risks remain the investors' confidence, which could be eroded in case of capital increase.

BUY

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

BGN 88.65

Upside: 15%



Corporate Commercial Bank 3Q 2011 Report

30 November 2011

Financial data

Assets	2007	2008	2009	2010	9M 2011
Cash and cash balances with central banks	244 048	303 183	310 524	339 764	477 673
Financial assets held for trading	34 776	21 719	26 971	61 773	193 949
Financial assets designated at fair value through profit or loss	0	0	0	0	0
Available-for-sale financial assets	76 520	40 943	55 380	176 290	194 694
Loans and receivables	1 063 794	1 047 549	1 216 543	1 961 897	2 765 428
Held-to-maturity investments	84 458	101 598	91 720	76 425	75 980
Derivatives – hedge accounting	0	0	0	0	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0	0
Tangible assets	49 275	52 340	56 844	64 257	63 024
Intangible assets	5 997	9 999	371	365	305
Investments in subsidiaries	0	34 881	34 881	8 984	165
Tax assets	172	181	355	7 948	1 709
Other assets	6 311	50 586	45 500	1 724	6 584
Non-current assets and disposal groups classified as held for sale	0	335	335	0	0
Total Assets	1 565 351	1 663 314	1 839 424	2 699 427	3 779 511
Deposits from central banks	0	0	0	0	0
Financial liabilities held for trading	0	9 252	12 106	324	0
Financial liabilities designated at fair value through profit or loss	0	0	0	0	0
Financial liabilities measured at amortised cost	1 348 891	1 421 383	1 567 824	2 366 331	3 410 637
Financial liabilities associated with transferred financial assets	0	0	0	0	0
Derivatives – hedge accounting	0	0	0	0	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0	0
Provisions	0	0	0	384	234
Tax liabilities	1 624	12	1 013	11 482	2 787
Other liabilities	3 264	4 362	6 831	503	371
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	1 353 779	1 435 009	1 587 774	2 379 024	3 414 029
Issued capital	83 155	83 155	83 155	60 000	60 000
Share premium	64 445	64 445	64 445	48 500	48 500
Other equity	0	0	0	0	0
Revaluation reserves and other valuation differences	-764	-5 257	-4 445	24 358	23 933
Reserves (including retained earnings)	44 415	64 509	86 153	113 178	187 715
Treasury shares	0	0	0	0	0
Income from current year	20 321	21 453	22 342	74 367	45 334
Interim dividends	0	0	0	0	0
Minority interest	0	0	0	0	0
Total equity	211 572	228 305	251 650	320 403	365 482



Corporate Commercial Bank 3Q 2011 Report

30 November 2011

Continuing operations	2007	2008	2009	2010	9M 2011
Financial & operating income and expenses	94 889	1 12 465	123 577	121 356	84 914
Interest income	90 982	107 922	136 738	172 146	159 294
Interest expenses	34 099	42 707	68 826	95 332	102 450
Expenses on share capital repayable on demand	0	0	0	0	0
Dividend income	685	227	45	2 972	3 426
Fee and commission income	23 764	26 163	28 088	15 338	9 642
Fee and commission expenses	3 362	3 337	3 785	927	742
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net	1 774	24 823	9 889	1 300	4 275
Gains (losses) on financial assets and liabilities held for trading, net	17 385	-1 720	7 447	19 715	956
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	-600	0	0	0	0
Gains (losses) from hedge accounting, net	0	0	0	0	0
Exchange differences, net	-2 101	591	-438	6 698	10 624
Gains (losses) on derecognition of assets other than held for sale, net	14	-63	13 507	-223	5
Other operating income	447	566	912	920	699
Other operating expenses	0	0	0	1 251	815
Administration costs	56 959	73 843	80 464	31 430	25 139
Depreciation	6 204	7 891	9 285	4 318	3 176
Provisions	0	0	0	127	0
Impairment	9 147	6 895	9 005	3 052	6 228
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	22 579	23 836	24 823	82 429	50 371
Tax expense (income) related to profit or loss from continuing operations	2 258	2 383	2 481	8 062	5 037
Total profit or loss after tax from continuing operations	20 321	21 453	22 342	74 367	45 334
Profit or loss after tax from discontinued operations	0	0	0	0	0
Total profit or loss after tax and discontinued	20 321	21 453	22 342	74 367	45 334
Profit or loss attributable to minority interest	0	0	0	0	0
Profit or loss attributable to equity holders of the parent	20 321	21 453	22 342	74 367	45 334

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