



EV/EBITDA	4.42	P/E	5.21
RoA	10.0%	P/S	0.33
RoE	15.6%	P/B	0.81

Share price of Neochim



- Bulgarian producer of ammonia fertilizers Neochim (3NB) continued with the good performance during the 3Q, despite it is seasonally weaker for the company. Only for the summer months the company posted BGN 1.5 million profit as compared to BGN 5 million net loss a year ago. Since the beginning of 2011, the financial result is BGN 20.6 million.
- The revenues doubled on yearly basis to BGN 220.8 million. On quarterly basis, the sales posted serious increase as compared to 3Q 2010 – 300% or BGN 57 million.
- The sales on domestic market stayed unchanged, whereas the export decreased its growth rate but kept its share in the total revenues. There is serious increase during the first and the second quarter. The revenues outside the country were mainly in Europe – BGN 65.3 million. The sales to Asia and Africa added 27% to the total and North America – 11.4%. Neochim postponed its seasonal maintenance this year due to the increased orders during the quarter.
- The domestic market is indeed a big surprise as last year's performance was subdued. The prices of agricultural production were at their bottoms and demand of fertilizers was limited by the slowdown of banking credit. Results of Neochim are proving that business climate in agricultural sector of Bulgaria has been improved substantially.
- Neochim generated more than BGN 2 million from the sale of carbon emissions during the first quarter, which improved further its profitability. In the 1H report the revenues from other activities amounted BGN 4.8 million, which could be due to another sale of 100 000 tones carbon emissions for totally BGN 3.5 million.
- EPS was BGN 6.70 on ttm basis. The currency risk remains substantial factor for the margins as dollar decline could hurt profits from exports. The natural gas costs increased on yearly basis but remained 75% of the total material costs. The inventories improved by 34% y-o-y.
- The report didn't influence the trading with Neochim's share. The position stepped back during the quarter and since the beginning of the year is 18.4% up.

Multiples Valuation

*Table 1
Multiples
comparison*

	2009	2010	12M
Last Price	25.01	29.40	33.80
Number of Shares	2 654 358	2 654 358	2 654 358
Market Capitalization	66 385 494	78 038 125	89 717 300
Net Profit	-19 789 000	-10 842 000	17 737 000
P/E	-3.35	-7.20	5.06
Equity	102 647 000	92 867 000	113 499 000
P/B	0.65	0.84	0.79
Sales	104 084 000	159 618 000	279 537 000
P/S	0.64	0.49	0.32
EV	92 137 494	86 637 125	123 722 300
EBITDA	-7 962 000	906 000	29 276 000
EV/EBITDA	-11.57	95.63	4.23
RoE	-19.28%	-11.67%	15.63%
RoA	-12.64%	-7.54%	10.04%

Source: Neochim
Calculations: ELANA Trading

We are using the unconsolidated results of Neochim for valuation purpose. The trailing results are showing large improvement in profit and the equity reflects the positive financial performance. Sales continued to increase and posted its best 3Q for the company since 2006. The Return on Equity went positive due to the net profit on trailing base. The huge increase of sales will provide more sustainable profits in the future thus leading to higher profitability.

Peers' comparison

We compare Neochim to other producers of fertilizers. The difference between the median and the average of multiples is substantial. This is the reason to use the median as more conservative approach.

*Table 2
Peers'
Comparison*

Multiples	P/E	P/B	P/S	EV/EBITDA
Median	7.42	1.50	1.06	5.01
Market Capitalization	131 646 533	170 159 744	295 528 473	137 899 072
Price	49.60	64.11	111.34	51.95
Weight	25%	25%	20%	30%
Current Price		33.80		
Fair Price		66.28		
Premium (Discount) to Current Price		96.09%		

Source: Bloomberg
Calculations: ELANA Trading

The fair price of Neochim decreased as compared to our previous research, mainly due to change in global capital markets. The sell-off of shares leads to significant multiples decrease and affected companies all over the world. The difference in Neochim's value is not so big and the share remained undervalued in terms of all four ratios. The current price is two-times lower as compared to the fair value.

Discounted Cash Flows

The DCF is better valuation method as it includes the future growth opportuni-

ties. Our DCF is based on moderate growth and margins that are close to the averages for the last 5 years with the presumption that the crisis in agricultural production in Bulgaria was exceptionally strong and the fertilizer market is normalizing.

Table 3, DCF

Neochim	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Terminal
BGN'000											Year
EBIT	13 568	16 281	17 909	19 521	21 083	22 558	23 912	25 108	26 237	27 287	28 242
EBIT(1-T)	12 211	14 653	16 118	17 569	18 974	20 303	21 521	22 597	23 614	24 558	25 418
Add: D&A	13 568	16 281	17 909	19 521	21 083	22 558	23 912	25 108	26 237	27 287	28 242
Less: Investments	13 568	16 281	17 909	19 521	21 083	22 558	23 912	25 108	26 237	27 287	28 242
Less: Change NWC	14 714	10 854	6 512	6 447	6 247	5 903	5 414	4 782	4 519	4 198	3 954
FCF	-2 503	3 799	9 606	11 122	12 728	14 399	16 107	17 814	19 094	20 360	21 464
PV FCF	-2 387	3 293	7 569	7 967	8 289	8 525	8 669	8 716	8 493	8 233	
Sum of PV FCF	67 366										
PV of Continuing Value	133 525										
Total PV Free Cash Flows	200 892										
					Growth Rate						
					SA	2.0%	3.0%	3.5%	4.0%	5.0%	
Less: Outstanding Debt	11 072				8.0%	89.93	102.91	111.56	122.37	154.81	
Plus: Financial Assets	2 261				9.0%	74.45	82.94	88.34	94.83	112.66	
PV of Equity	192 081				10.0%	62.93	68.77	72.36	76.56	87.46	
Number of Shares	2 654				11.0%	54.05	58.22	60.72	63.58	70.72	
Price Per share	72.36				12.0%	47.01	50.08	51.88	53.90	58.82	

Calculations: ELANA Trading

The strong sales growth during 2Q and 3Q 2011 lead to improved 2011 sales prognosis. We used 70% growth rate for sales in 2011, and kept the ratio for the next year unchanged - 20%. EBITDA margin was decreased to 10% as compared to 12.5% in our previous research to count the risk from delaying of the European economy and the increase of costs. Calculated intrinsic value is BGN 72.36 per share and is higher as compare to the previous report.

Recommendation and Price Target

Both comparison to peers and the discounting cash flows are showing the attractive valuation of Neochim. However, as mentioned above, the stock price is reflecting the risks of volatility in the financial statements and the extremely negative market conjuncture on BSE.

We give **BUY** recommendation with price target of BGN 66, which is the lower price of both valuation models. The difference with the current market price is significant and the stagnation of BSE makes even the lower price less probable.

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 low liquidity.

Financial data:

Statement of Income (in '000 BGN)	2009	2010	9M 2010	9M 2011
Sales	104 084	159 618	100 386	220 770
Production expenses	97 133	144 981	89 471	175 834
Personnel expenses	17 133	16 196	11 678	16 217
Net income from financial activities	280	1 403	953	(159)
Other revenues and expenses	0	0	0	0
EBITDA	(9 902)	(156)	190	28 560
Depreciation	8 829	8 961	6 721	7 131
EBIT	(18 731)	(9 117)	(6 531)	21 429
Interest expense	1 058	1 725	1 467	847
Pretax income	(19 789)	(10 842)	(7 998)	20 582
Taxes	(1 940)	(1 062)	0	0
After-tax income	(17 849)	(9 780)	(7 998)	20 582
Minority interest	0	0	0	0
Net income	(17 849)	(9 780)	(7 998)	20 582
Earnings per share in BGN	(6.72)	(3.68)	(3.01)	7.75

Balance Sheet (in '000 BGN)	2009	2010	9M 2010	9M 2011
Total Assets	156 549	143 699	138 526	176 687
Equity subscriptions receivable	0	0	0	0
Fixed assets	107 388	104 143	103 530	102 566
Tangible fixed assets	98 694	93 910	94 891	92 388
Financial investments	4 159	4 159	4 154	4 154
Current assets	49 161	39 556	34 996	74 121
Inventory	33 817	23 398	22 116	31 455
Receivables	14 155	13 320	11 949	13 230
Financial assets	0	0	0	0
Cash and cash equivalents	745	2 362	639	29 233
Total liabilities + equity	156 549	143 699	138 526	176 687
Equity	102 647	92 867	94 649	113 449
Registered capital	2 586	2 586	2 586	2 586
Capital funds	-3 242	-3 242	-3 242	-3 242
Earnings	103 303	93 523	103 303	93 523
Liabilities	53 902	50 832	43 877	63 238
Long-term payables	14 569	8 476	14 891	9 064
Long-term bank loans	6 221	2 472	6 627	3 060
Short-term bank debt	20 276	8 489	0	4 947
Short-term payables	(6 024)	2 570	28 986	49 227
Other liabilities	0	0	0	0
Working capital	34 909	28 497	6 010	19 947

Number of shares:	2 654 358	2 654 358	2 654 358	2 654 358
Price in BGN - period end:	25.01	29.40	25.00	32.75
Market cap in BGN - period end:	66 385 494	78 038 125	66 358 950	86 930 225

Financial and Performance Indicators	2009	2010	9M 2010	9M 2011
Valuation Ratios				
Price/Earnings (P/E)	-3.72	-7.98	-8.30	4.22
Book Value (BV)	38.67	34.99	35.66	42.74
Price/Book (P/B)	0.65	0.84	0.70	0.77
Sales Per Share	39.21	60.13	37.82	83.17
Price/Sales (P/S)	0.64	0.49	0.66	0.39
Price/Cash per share	-7.36	-95.28	-51.96	3.14
EV (in BGN)	92 137	86 637	72 347	65 704
EV/Sales	0.89	0.54	0.72	0.30
EV/EBITDA	-9.30	-555.37	380.77	2.30
EV/EBIT	-4.92	-9.50	-11.08	3.07
Liquidity				
Current ratio	3.45	3.58	1.21	1.37
Quick ratio	1.08	1.46	0.44	0.79
Debt Management				
Debt to total assets	0.34	0.35	0.32	0.36
Interest coverage	-17.70	-5.29	-4.45	25.30
LT Debt/Equity	0.20	0.12	0.23	0.11
Total Debt/Equity	0.53	0.55	0.46	0.56
Asset Management				
Inventory turnover	3.08	6.82	4.54	7.02
Days sales outstanding	49	30	43	22
Fixed asset turnover	0.97	1.53	0.97	2.15
Total asset turnover	0.66	1.11	0.72	1.25
Profitability				
Profit margin on sales	-17.1%	-6.1%	-8.0%	9.3%
EBITDA margin	-9.5%	-0.1%	0.2%	12.9%
Basic earning power	-12.0%	-6.3%	-4.7%	12.1%
Return on assets	-11.4%	-6.8%	-5.8%	11.6%
Return on equity	-17.4%	-10.5%	-8.5%	18.1%
Return on investments	-14.5%	-9.4%	-6.9%	16.4%
Dividend Information				
Dividend Yield	-	-	-	-
Dividend per share	-	-	-	-
Number of shares:				
	2 654 358	2 654 358	2 654 358	2 654 358
Price in BGN - period end:				
	25.01	29.40	25.00	32.75
Market cap in BGN - period end:				
	66 385 494	78 038 125	66 358 950	86 930 225

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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
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