



EV/EBITDA	6.58	P/E	20.73
RoA	2.70%	P/S	0.69
RoE	6.53%	P/B	1.35

Stock Price of Kaolin



- The consolidated report of Kaolin (6K1) showed profit for the third quarter despite the negative effect of the spin-off of SolarPro Holding. However, the company's equity has been decreased by BGN 28.2 million or 26%. Assets were down 33% to BGN 93.7 million. At the same time Kaolin announced net profit of BGN 3.257 million for the third quarter and BGN 7.566 million since the beginning of the year. EPS is BGN 0.32.

- Quarterly profits this year are very similar to the previous. Revenues increased in 2010. The second quarter was the best period in terms of sales growth but it was followed by significant deceleration to 14% y-o-y. All product segments excluding construction are growing. Kaolin's expansion to foreign markets managed to compensate the decline of domestic demand. The strongest markets in the ceramic segment are Turkey, Middle East and Nord Africa. Production for the glass industry is also recovering, albeit in lower pace.

- Transportation costs are soaring. The net profit margin declined during the third quarter but EBITDA margin improved to 20.27%, which is one-year high. We expect seasonally weaker fourth quarter data but the financial result is unlikely to be as negative as during the previous two years. Price-to-earnings ratio should improve further when excluding the loss from the spin-off of SolarPro Holding.

- The balance sheet has been changed significantly after the spin-off. Long-term debt-to-equity is 0.55 comparing to 0.74 at the end-2009. Total debt-to-equity fell to 1.01 from 1.13. Current liabilities are 8% down but current assets decreased 29% since the beginning of the year. As a result, the working capital is twice less and Kaolin has substantially lower cash and receivables from related entities.

- The market reaction of the reports for the third quarter was negligible. The price volatility in October has been related only to internal market factors and investors are ignoring the negative effect from the spin-off of SolarPro Holding. This is not a surprise as the price action is not usually driven by fundamentals.

- The company's prospects for growth will improve next two years as construction will start to recover. Moreover, Kaolin's expansion abroad will have very positive effect on revenues and will decrease the economic risks. The already elevated multiples when comparing to the mining industry in Europe are the only hurdle in front of the rising stock price.

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