

EUROHOLD BULGARIA (4EH)

INDUSTRY: DIVERSIFIED HOLDINGS

AN INSURANCE FOR GROWTH

INSURANCE SECTOR TO OUTPERFORM THE REGIONAL ECONOMIES ON THE BALKANS DUE TO THE LOW PENETRATION AND DENSITY. EUROHOLD BULGARIA IS ONE OF THE LARGEST FINANCIAL CONGLOMERATES IN THE COUNTRY WITH ITS EXPOSURE IN BULGARIA AND ROMANIA. ADDITIONAL SYNERGIES WITH THE CAR DEALERSHIP AND LEASING SERVICES TO BUYERS OF VEHICLES IN BULGARIA.

EXPOSURE INTO GROWING SECTORS

The financial sector proved to be the strongest during the pre-crisis period of solid economic growth. Its recovery in the past few years, including decline of NPLs, rising assets of banks and growth of insurance premium income, suggests a leading role of the sector in mid-term. Eurohold is well positioned into the sector with the seventh largest non-life insurers in Bulgaria and Romania. It will benefit from the tendency of households to buy bigger and more expensive cars and to increase the property insurance policies.

STRENGTH THROUGH SYNERGY

The unique combination of motor insurance, leasing and car dealership is the synergy that is the biggest value-added factor for the Holding. The improvement of financial results will follow the organic growth of the sector, while the acquisitions should add to the diversification of services to life insurance. The subsidiaries are the representatives of some of the most popular vehicle brands in the country, including BMW, Opel, Fiat, Nissan, Renault and the top performing by sales in Bulgaria – Dacia. Eurolease Rent a Car is a licensee of the US Avis Budget Group well-known car rental brands Avis and Budget.

EXPANSION THROUGH ACQUISITIONS

Eurohold Bulgaria expanded its operations in life and health insurance via the acquisitions of small companies in Bulgaria. It also bought two insurance companies in the country and one in Ukraine. Although market shares in Bulgaria and Romania are less than 10%, the absence of large market leaders make the Holding significant player in both countries with its seventh places.

SOLID GROWTH OF GROSS PREMIUM WRITTEN

Eurohold Bulgaria reported a 50% increase of gross premium written during the first quarter of 2015 on yearly basis. Its insurance subsidiary in Romania was the primary driver for growth. Extreme hailstorms in 2014 pushed down profit margins from insurance in Bulgaria.

VALUATION: We prefer to value Eurohold Bulgaria as a particular entity and according to our forecast for cash flows. Our valuation model points to 67% upside potential from the current market price. Moreover, it is based on conservative expectations for the economic growth and the development of the three segments of Eurohold Bulgaria.

RISKS: Motor third party liability insurance has significant stake in the product portfolios of the insurance companies of Eurohold. This might erode profitability due to the low prices and severe competition. The main risk for the operations of insurers lies in the extraordinary events like the hailstorms in 2014 while vehicle sales depend on the economic growth in the country.

in kBGN, excl. ratios	2014	2015F	2016F	2017F
REVENUES	530,887	594,593	624,323	668,026
EBITDA	-2,474	1,189	10,301	17,703
EBIT	-9,349	-5,946	3,122	10,020
NET PROFIT	-1,684	4,405	12,181	17,473
EQUITY	192,107	196,512	208,693	226,166
ROE	-0.89%	2.27%	6.01%	8.04%
ROA	-0.23%	0.55%	1.45%	1.98%
EBITDA MARGIN	-0.47%	0.20%	1.65%	2.65%
NET PROFIT MARGIN	-0.32%	0.74%	1.95%	2.62%
EPS	-0.01	0.03	0.10	0.14
DEBT/EQUITY	0.87	0.80	0.75	0.74
P/E	-73.35	26.43	9.56	6.66
P/B	0.64	0.59	0.56	0.51
EV/EBITDA	-90.41	206.63	22.68	14.37

BUY
ONE YEAR PRICE TARGET: BGN 1.52
CURRENT PRICE: BGN 0.91

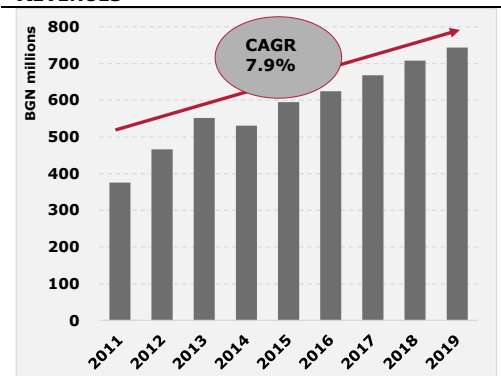
EXCHANGE RATES

EUR/BGN(FIXED): 1.95583
USD/BGN: 1.8691

MARKET DATA

Shares Outstanding:	127m
Share Capital:	BGN 127m
Free-float:	19.70%
Treasury Shares	0%
Market Cap.:	BGN 116.0m
Avg. Daily Vol.:	BGN 10,000
52 Weeks Range:	BGN 0.77-1.11
BSE Ticker	4EH
Bloomberg	4EH BU

REVENUES



Source: Company data, ELANA Trading estimates for 2015 and beyond

PRICE PERFORMANCE



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EXECUTIVE SUMMARY

WE INITIATE COVERAGE WITH A BUY RATING OF EUROHOLD BULGARIA. OUR ONE YEAR PRICE TARGET IS BGN 1.52 OR 67% UPSIDE POTENTIAL TO THE CURRENT MARKET PRICE.

THE COMPANY

Eurohold Bulgaria is a holding company specialized in financial services, including insurance and leasing, along with the car dealership. The Group operates mainly in Bulgaria and Romania but also expanded in Macedonia and Ukraine after acquiring smaller companies in the region. The sectors in which Eurohold has significant presence are fast growing and will benefit the most from the growth of personal income and the economy as a whole.

Revenue breakdown: The premium income from the general insurance operations contributes the most to consolidated revenues of the Holding. Main markets are Romania and Bulgaria and the majority of premiums are from motor insurances. The Holding aims to expand into life- and health insurance with its recent acquisitions. Both segments are less developed than the general insurance in Bulgaria and as compared to the average in EU countries. Latest reports showed 50% increase of life-insurance premium income from the beginning of the year in Bulgaria. Further improvement is expected as low interest rates on deposits sparked the demand of unit-linked life insurance plans. Moreover, health insurance also gains ground amid the high costs of the quality health care in the country. Insurance segment contributed to 69% of total revenues in 2014.

The car dealership is an important segment to the Holding. Its subsidiaries are the representatives of some of the most popular vehicle brands in the country, including BMW, Opel, Fiat, Nissan, Renault and the top performing by sales in Bulgaria – Dacia. It represented 25% of total revenues last year.

Other financial services represented 5% of the Holding's revenues. The bigger part of which were the payment on leasing contracts for vehicles.

Synergy: The motor insurance business and the car dealership operations are closely related sectors and depends on the demand of new vehicles in the country. The synergy of the Holding's operations consists of the broad services to buyers, including sale of vehicles, insurance products, car services and leasing. The insurance business, however, extends much further than vehicles sales and will remain the primary source for revenues of the Holding.

THE COUNTRY AND THE MARKET

Bulgaria is under a Currency board and the Lev is pegged to the Euro at fixed rate of 1.95583. We expect a modest economic growth in 2015, although the recovery in Europe will support export and will contribute to the rise of personal income and corporate profits. The GDP growth will remain below the potential. The end of deflationary factors should support the income in service sectors, thus creating positive environment for growth of personal income and investments.

The main areas of operations of Eurohold Bulgaria are correlated to the economic activities in the country, represented by the business climate, the investments and the personal consumption. The old vehicle park and the low personal income put limits on the growth of insurance premium income. Sizable portion of vehicles, mainly old ones and in smaller cities, are not insured. As a result, the contribution to the profits of motor third party liability insurances is negative. It represented more than one third of the total gross premiums written in 2014.

THE VALUATION

We initiate coverage of Eurohold Bulgaria with a BUY recommendation. The stock is cheap when considering its net assets and the prospects of development of the financial sector in the country. Moreover, it is a cyclical stock that gives an exposure to the fast developing segment of vehicle sales, insurances and leasing. We consider these sectors as excellent long-term investments during the recovery of Bulgarian economy and stock market. Our target price is BGN 1.52 or 67% gain over the latest quotes. It is based on DCF model that assumes moderate growth of revenues and improvement of profit margins due to the restructuring of operations in its insurance subsidiaries

THE MAIN RISKS

The motor insurances have the largest stake in gross premium written in Bulgaria and Romania, a factor that weights negatively on the profitability of the sector. The main risk for the operations of insurers lies in the extraordinary events like the hailstorms in 2014, whereas the weak demand of property insurances will continue to suppress profits. The competition is strong and the low personal income will have impact on prices, thus limiting the growth of gross premiums written.

COMPANY OVERVIEW

The Holding has been founded in 1995 and since 2006 it operates under the name Eurohold Bulgaria. It went through several acquisitions, divestitures and mergers to reach its present structure and to become one of the largest public listed companies in Bulgaria in terms of annual turnover. The subsidiaries of the Holding have significant synergies, which allow the strengthening of their market shares, costs optimization and improvement of competitiveness. The segments include:

- Insurance - through subsidiaries in Bulgaria, Romania and Macedonia via the fully-owned company Eurohold Insurance Group (EIG). The segment contributes to significant portions of revenues (69% of total in 2014), of which two thirds come from operations in Romania. Its Bulgarian subsidiary is Euro Ins (BSE ticker 5IC) and is public listed. The insurance markets in Bulgaria and Romania are mainly focused on car insurances. Recently, EIG acquired HDI Insurance (Bulgaria) and HDI Strakhuvannya (Ukraine). Deals are in process of completion and according to their most recent performance they should add EUR 30 m to the gross premium income of the Group;
- New car sales and services - the segment is presented only in Bulgaria and is hosted under the umbrella of Avto Union. It includes vehicles sales and after-sales services. The automotive holding offers 10 brands at the Bulgarian automotive market, including BMW, Opel, Fiat, Nissan and Renault;
- Leasing - leasing operations are conducted through Eurolease Group, a holding company registered in The Netherlands, which operates through subsidiaries in Bulgaria, Romania and Macedonia. It includes also short- and long-term car rentals. It is a licensee of the car rental brands Avis and Budget for Bulgaria;
- Financial services - the brokerage and asset management arm of the Group operates on the domestic financial market.

The Holding restructured its operations into sub-holdings few years ago and currently is focused on the acquisitions of smaller companies in its areas of operations. With the establishment of the leasing division at the end of 2009 Eurohold Bulgaria has finalized the plan for a company restructuring aimed to identify the core business lines - Euroins Insurance Group (insurance business), Avto Union Group (auto dealers) and Eurolease Group (leasing business).

The latest acquisitions of the Holding include the subsidiaries of the Hannover based Talanx International in Bulgaria and Ukraine, respectively HDI Zastrahovane and HDI Strakhuvannya. The gross premium income for the two companies being acquired amounted to EUR 15 m (2014) for the Bulgarian one and EUR 16 m (2013) for the Ukrainian one. The cumulative EBIT of the two companies was around one million euros in the business year 2013. The transaction is subject to the regulatory approvals and is expected to close in the second quarter of 2015.

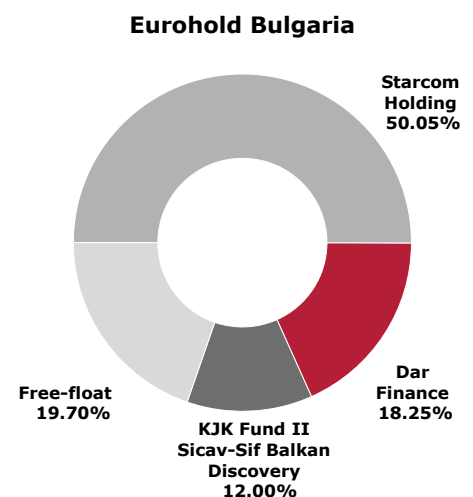
The previous acquisitions of Eurohold were the operations of QBE in Bulgaria and Romania, accomplished in 2013. They added property and general liability business in both markets, while QBE Bulgaria also had travel insurances. Few months before that deal, Eurohold acquired InterAmerican Non-Life and InterAmerican Life. Following the deals Euroins Insurance Group completed the range of insurance licenses - non-life, life and health. The Group increased its presence in the non-motor insurance business.

From restructuring to acquisitions

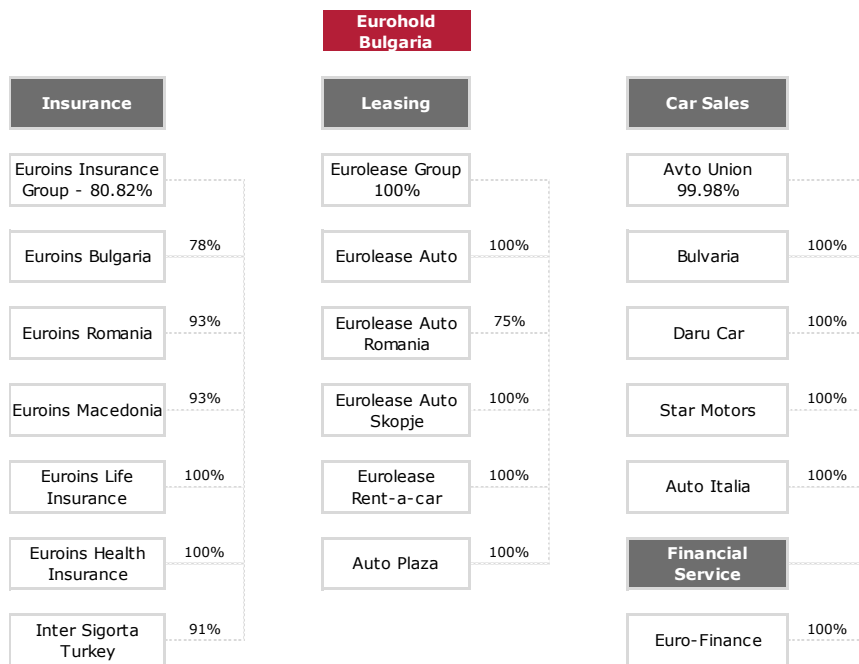
SHAREHOLDERS' STRUCTURE

The majority shareholder in Eurohold is Starcom Holding, a company based in Bulgaria and owned by the Chairman of the Supervisory Board of Eurohold, Mr. Assen Hristov and the Chairman of the Management Board Mr. Kiril Boshov. Minority shareholders are financial investors, including an investment fund focusing on the Balkan region managed by KJK Capital. Sellers of the blocks to KJK Fund II Sicav-Sif Balkan Discovery were the subsidiaries of Eurohold at the price of BGN 1.025.

The free-float is 19.70%.



STRUCTURE OF HOLDINGS



POTENTIAL CATALYSTS

Economic growth: The recovery of the Bulgarian economy is a key factor for the growth of revenues of Eurohold. Car sales depend on the personal income but in the case of Bulgaria, corporate profits also influence the segment heavily as companies are buyers of 80% of new vehicles. The insurance segment will benefit from the tendency of households to buy bigger and more expensive cars, mainly second hand, which increases premium income. Moreover, the penetration of property insurances should accelerate its growth.

Expansion of health insurance: The segment is underdeveloped in Bulgaria. The rising healthcare expenditures in the country and the bright prospects for the development of the sector should support the health insurers, despite that they have very low premium income as compared to the total volumes of the insurance sector. The health insurances are complementary to the main services of the large companies. Few small players are specialized into health insurance. The increase of penetration, along with the synergies with the general insurance and the other segments of the Holding, are long-term growth generators for Eurohold.

Unit-linked life insurance plans: This service also has small presence on the Bulgarian market. Most personal savings (50% of GDP) are in banks and the decline of interest rates will increase the demand of high-yield investment products. Life insurance companies offer low-risk ULIP. The alternatives of savings will increase, following the rising demand from households, thus supporting the life insurance in general.

SECTOR OVERVIEW

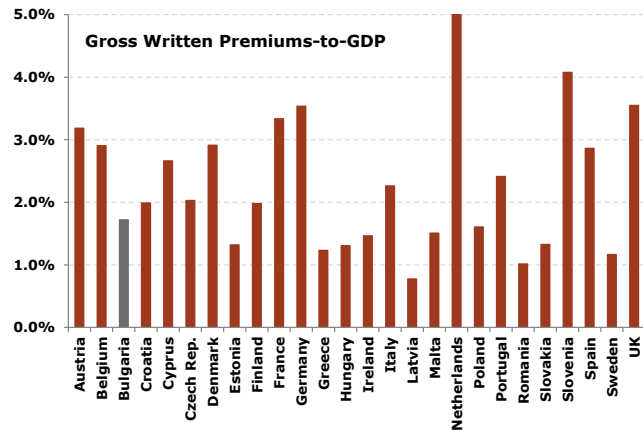
BULGARIAN INSURANCE MARKET

The Bulgarian insurance sector has been seen by independent observers as underdeveloped and with limited scope for growth. The direct premiums registered a 3.4% increase in 2014 to BGN 1.4 b. This remains the case of 2015 too, although long-term prospects are more positive and the growth will accelerate. Constraints and challenges include the small size of the economy, and the low income levels of households. They limit the potential of growth by suppressing the penetration of insurance services, mainly in the segment of property insurances, whereas the low personal income and the severe competitiveness of insurers put premiums under pressure. The fragmented nature of the non-life segment means that prices are more likely to fall than to rise, although the financial results of insurers suggest only modest downward potential. The development of the life segment is being held back by a lack of understanding of the benefits of life insurance and the general preferences on bank deposits due to the relatively high interest rates.

Despite constrains we remain long-term positive on the local insurance market

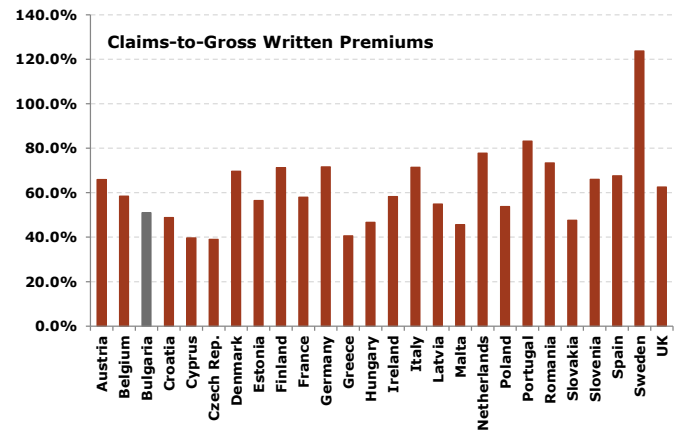
As the case in much of Central and Eastern Europe, volumes in the Bulgarian non-life segment have been held back by the general softness of the economy. They will likely continue to be so in short term. There is no obvious catalyst for an increase in penetration (premiums as a percentage of GDP) from levels that are low by most standards. Moreover, the comparison to other EU countries shows that higher GDP per capita does not automatically means better penetration of non-life insurance.

Exhibit 1: Higher income is not a warranty for better penetration of non-life insurance in EU



Source: Eurostat

Exhibit 2: Bulgaria is below the average ratio of claims paid-to-premiums with 50% payment



Source: Eurostat

Property insurances represented 16% of total gross written premiums in 2014. Motor insurances contribute to the majority of premium income of Bulgarian companies. Their share exceeded 70% last year, as obligatory "motor third party liability" insurances represented 38% of total. The car segment is considered more risky by the insured persons and the penetration of property insurances is also constrained by the low personal income in the country.

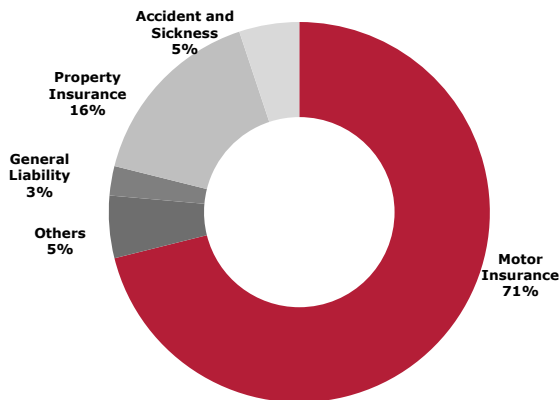
Insurance market returned to growth and reported two consecutive years on the upside

The Bulgarian insurance market reported two consecutive years of growth of direct premiums. 2014 finished with 3.41% increase to BGN 1.4 b and confirmed the positive trend after the four years in a row of contraction until 2012. The market is still lagging behind the 20% growth in 2008 but the data confirm the relation to the overall economic recovery, which is the primary factor for the expected growth in 2015.

The market is very competitive as the five largest non-life insurers have 57% share. This is a slight increase as compared to 2013 when the leading companies had 56.3% market share but the top players maintain their positions without significant changes during the past few years.

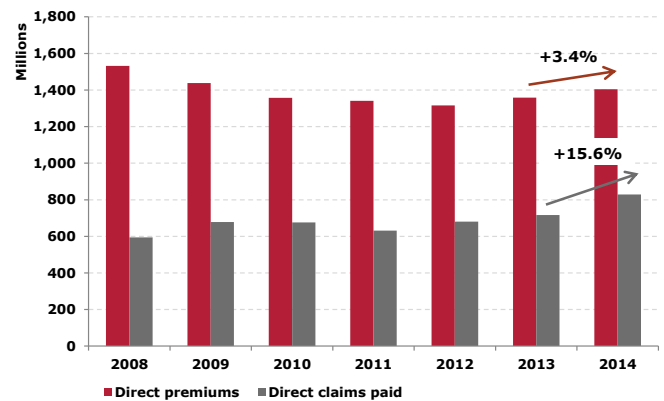
Euroins Bulgaria is the seventh largest general insurer in the country. Its market share based on the direct premium income for 2014 was 5.9%. The total premium income of the Company was BGN 82.9 m but Euroins did not have inward reinsurances to any of its classes of insurance. The structure of gross premium written by class of insurance of Euroins is similar to the structure of the sector. The distinctive differences are the higher stakes of obligatory car insurances and accident insurances at the expense of other land vehicle insurances. As a result, Euroins reported even bigger deviation to the structure of claims paid by the sector. The Company registered small profit for 2014 as its payment on the obligatory car insurances exceeded the average for the industry.

Exhibit 3: Structure of gross premium written by class of non-life insurance in 2014



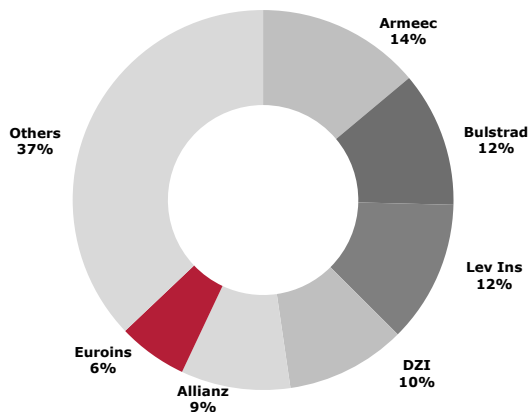
Source: Financial Supervision Commission

Exhibit 4: Direct premiums exceeds BGN 1.4 b after two years in a row of growth



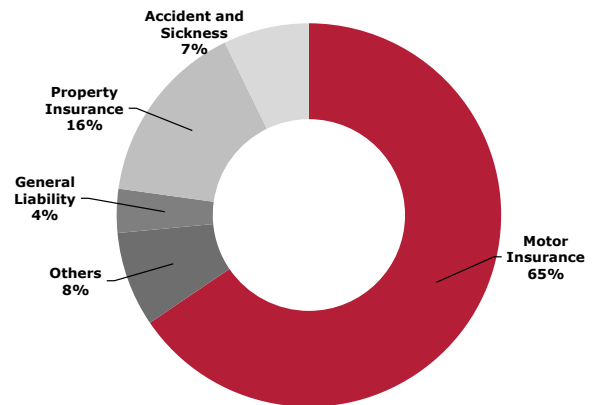
Source: Financial Supervision Commission

Exhibit 5: Market share based on direct premiums



Source: Financial Supervision Commission

Exhibit 6: Structure of gross premiums written by class of insurance in 2014 of Euroins



Source: Financial Supervision Commission

ROMANIAN INSURANCE MARKET

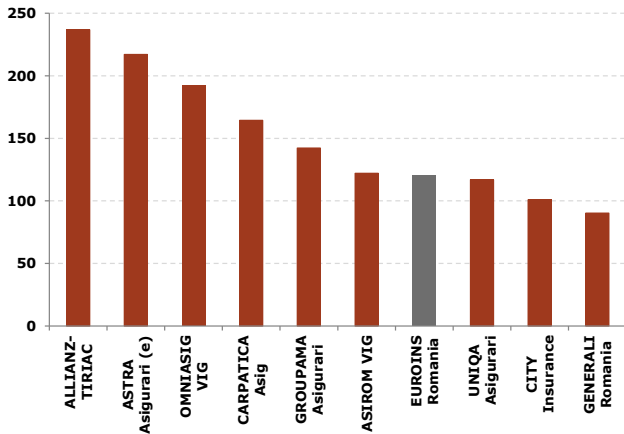
At the end of 2014, the Romanian insurance market totaled EUR 1.85 b, 1.84% less y-o-y. The non-life insurance segment was down 2% y-o-y to EUR 1.48 b. At the same time, the value of paid claims by insurers decreased by 3.3% to EUR 1.09 b, according to the Romanian regulator. The insurance penetration degree as share in GDP decreased to 1.21%, recording the lowest value in the past seven years. At the same time, the insurance density increased to EUR 92 per capita. The reduced figures for the country's population after the 2011 census influenced the indicator on the upside. The insurance market is supported by the population's focus on personal and property safety. This situation favors mostly strong companies with some experience on the Romanian market since they have gained credibility from existing and potential customers.

The Financial Surveillance Authority (ASF) in Romania has recently elaborated a new regulation to decrease the price of the civil liability insurances for young drivers. People under 25 years of age had to pay up to four times the price of a regular policy to cover the higher losses of the segment. The statistics showed a substantial increase of the amount of the average claim of 1,060 euros in 2009 to 1,600 euros in 2015. At the same time the average premium declined from 139 euros to 116 euros.

Austrian and French companies are the biggest investors in Romania's insurance market, with a cumulated share at end-2013 of over 45 per cent of the total paid up share capital, according to ASF. A breakdown shows Austria taking the first place, with 30.1 per cent, followed by France - 14.97 per cent and the Netherlands - 12.89 per cent. Euroins Insurance Group had share of 3.64 per cent. Therefore, foreign investors held 83.21% in the paid up capital of insurance companies.

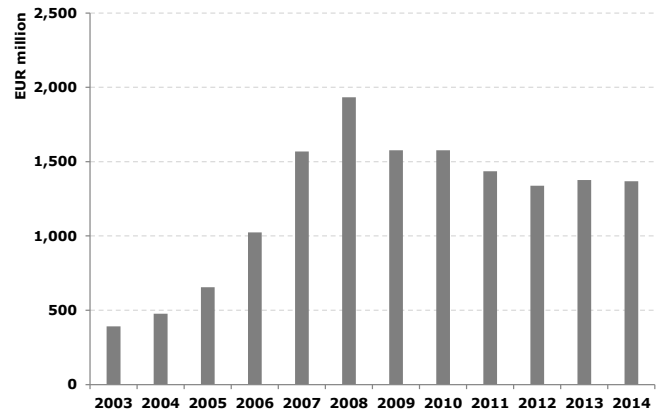
Motor insurances remain loss-incurring business in the country

Exhibit 7: Market share based on direct premiums



Source: Financial Surveillance Authority, Romania

Exhibit 8: Non-life gross written premiums



Source: Financial Surveillance Authority, Romania

EUROHOLD BULGARIA – INSURANCE SEGMENT OVERVIEW

The insurance companies in Bulgaria and Romania are fast developing and gained market shares despite the challenging environment. Considering the positive long-term perspectives, we expect both companies to accelerate their growth. The financial results were influenced by extraordinary factors – the rising claims in Bulgaria following the summer hailstorms and the changes in insurance reserve policy in Romania.

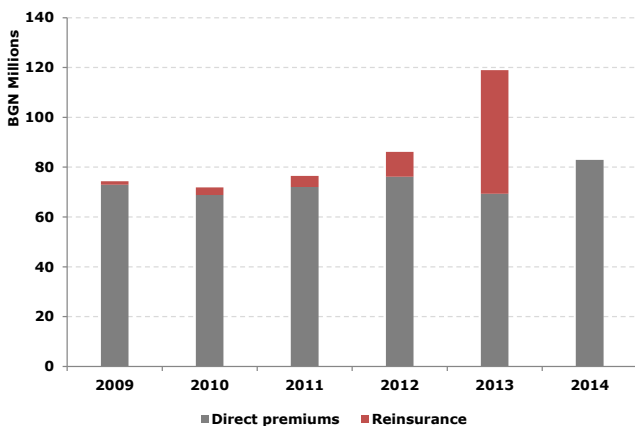
Large share of motor insurances suppresses profitability but companies put efforts in higher efficiency

Euroins Bulgaria has the advantages of the synergy with the second largest segment in the structure of the Holding – the automotive sector. The latest acquisitions of small Bulgarian insurance companies also contributed to the growth of direct premium income. Euroins Bulgaria reported 20% increase of GWP in 2014 to BGN 83 m. The premiums from motor insurance liability fell by 15% but the decline was fully compensated by the increase on other classes. As direct claims paid in 2014 were unusually high, Euroins reported a small loss in its technical account. The future performance of the company depends on the faster growth of non-motor insurances, which has lower claims paid-to-premiums ratio.

At the same time, the Romanian market will benefit from the economic growth and the changes toward personal and property safety. The insurance sector will remain, however, under the negative influence of lower premiums and rising claims. Euroins Romania reported 6% decline of premiums in 2014 to EUR 108 m. The company puts effort in the decrease of the loss-bearing segment of motor insurances, while it renegotiated the commissions with insurance brokers. Euroins Insurance Group increased the capital of its Romanian subsidiary by EUR 10 m at the end of 2014.

The premiums of Euroins Macedonia grew 14% in 2014 as the company maintain its market positions. It aims at the increase of corporate clients and non-motor insurances.

Exhibit 9: Euroins Bulgaria’s direct premium income increased in 2014 but the Group ceased its reinsurances



Source: Financial Supervision Commission

Exhibit 10: Direct claims paid of Euroins Bulgaria in 2014 were extraordinary high



Source: Financial Supervision Commission

AVTO UNION

Avto Union is a holding company that incorporates Eurohold’s investments in the automotive sector. It includes 11 automobile and 3 scooter brands, along with the import of sale of lubricants. The companies in the Holding provide car maintenance services for the respective brands. Eurohold Bulgaria’s dealership include the popular brands Opel, Mazda, Fiat, Renault, Nissan, Chevrolet and Dacia.

Leading car dealer in Bulgaria

The sales of automobiles in Bulgaria is well below the average for EU. New car registrations per 1,000 inhabitants in 2014 were 3 as compared to 40 for EU and lagging several times behind the average for Eastern Europe’s countries. The bright spot for the sector is that the country’s sales grew by 5.2% in 2014, which corresponded to the EU growth of 5.6%.

Demand will increase exponentially when economy accelerates

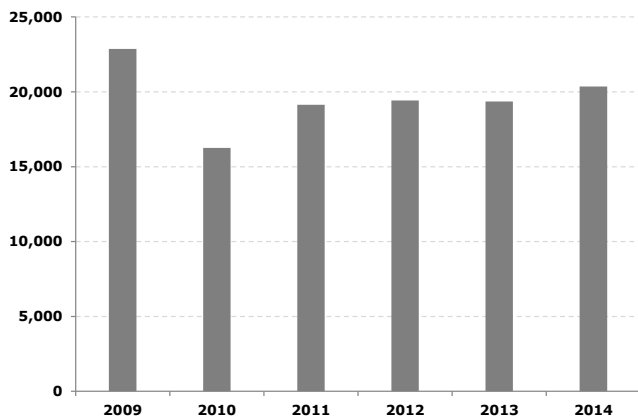
The demand of new cars in Bulgaria depends on economic growth. The yearly sales recovered from 2010’s bottom but remain 55% lower as compared to 2008’s peak. They represent less than 10% of all car registrations. Main buyers with up to 70% of volumes are corporates. This creates the environment for steady growth in near future, until the acceleration of economic growth supports the exponential increase of demand from corporates and individuals.

Another specificity of the market is the predominant number of old cars. 85% of the cars are at least 10 years old. The proportion between new and used car is 1 to 12 in the purchases. 2014 marked a change in the behavior of the local buyers from mini and light to compact and SUV segments. This confirms the growth trend of the car market, which should increase in both volumes of cars and average price of models.

The expectations for the car market are positive. Car dealers estimate up to 7% annual growth of sales of new and used cars during the next few years. As the share of new car registration is still very low, the prospects for the segment are even better.

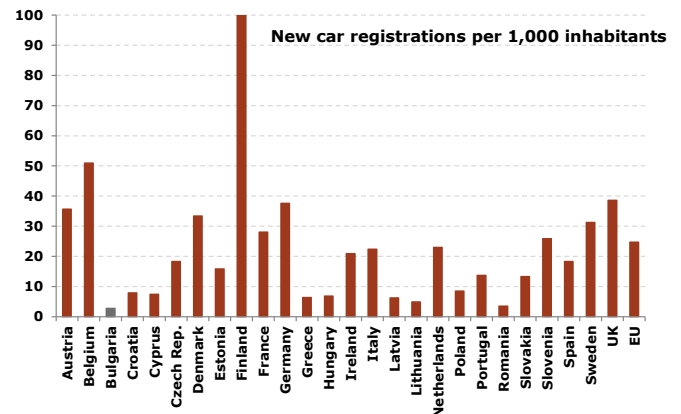
Avto Union’s number of vehicles sold soared 33% in 2014 as it concluded large deals to corporate clients and deliveries within the Group. Revenues, including spare parts and lubricants, increased 7.6% for the period, while revenues from maintenance were down 5%.

Exhibit 11: New car registrations in Bulgaria were flat for three years in a row



Source: European Automobile Manufacturer’s Association

Exhibit 12: Bulgaria’s low level of new car registrations per inhabitants provides prospects for long-term growth



Calculations: Elana Trading

LEASING AND BROKERAGE COMPANIES

The leasing operations of Eurohold Bulgaria on the Balkans are incorporated in the fully owned Eurolease Group. The company is registered in the Netherlands in order to ensure easier access to financial resources from the international financial markets. Eurolease Auto Bulgaria represents the majority of consolidated assets of the segment. They totaled BGN 87.4 m or 86% of Eurolease Group’s assets. The company provides the leasing for vehicle buyers. It uses bank loans and bonds to raise funds for its operations.

Leasing services for vehicle buyers

Eurolease Rent a Car is a licensee of the US Avis Budget Group – the well-known car rental brands Avis and Budget for Bulgaria. The company offers operating leasing, including short-term (rent a car). Its assets were BGN 18 m at the end of 2014 and Eurolease Rent a Car operated more than 800 vehicles.

The other two leasing companies are in Romania and Macedonia. They are much smaller and the Holding is currently focused on the expansion of operations in Macedonia and cost optimization in Romania.

The investment intermediary in the Group is Euro-Finance. The company has been founded in 1993. It operates in accordance with European legislation and has been licensed by the Financial Supervision Commission. Euro-Finance offers currency trading (FOREX), gold, silver, oil, stocks, indices, etc. The company provides access to the Bulgarian Stock Exchange. In addition to the brokerage services, Euro-Finance provides asset management, investment banking, advising on mergers and acquisitions and other investment services.

FINANCIAL ANALYSIS AND VALUATION

Eurohold's results rely on the automobile sector. The financial segment depends heavily on car insurances and leasing. This has its positive side for car dealership and insurances due to the high average age of vehicle fleet and the possible solid growth of new registrations in the country. We are confident that the sector will outperform the economy, especially in period of solid GDP growth.

The Holding's consolidated reports are influenced by the insurance sector and the regulations that could generate sudden changes in the financial performance. Examples are numerous during the last several years in Bulgaria and Romania. Insurers operate in uncertain environment considering also the risks of losses from climate anomalies and revaluation of financial instruments. Our forecasts take in mind the normal market and we consider that the regulatory risks will be minimal as Bulgaria and Romania has synchronized their legislations to EU standards.

Investors who prefer the exposure in the insurance sector in Bulgaria have the possibility to buy shares of Euroins (5IC BU). The pros also include very low valuation of the stock, while the cons are related to the low market capitalization and liquidity of the position.

We value the stock of Eurohold Bulgaria based on our expectations for gradual improvement of profit and increase of investments, including in acquisitions of smaller insurers in SEE. Most multiples are not suitable for comparison to market averages due to the Holding's complex structure.

Stocks of Eurohold are exposure on insurance sector

EUROHOLD BULGARIA					
	2012	2013	2014	2015E	2016E
Last Price	1.05	0.88	0.97	0.91	0.91
Number of Shares	127,345,000	127,345,000	127,345,000	127,345,000	127,345,000
Market Capitalization	133,584,905	112,063,600	123,524,650	116,393,330	116,393,330
Net Profit	-9,212,000	2,278,000	-1,684,000	4,404,542	12,181,257
P/E	-14.50	49.19	-73.35	26.43	9.56
Equity	181,629,000	186,441,000	192,107,000	196,511,542	208,692,799
P/B	0.74	0.60	0.64	0.59	0.56
Sales	466,140,000	551,696,000	530,887,000	594,593,440	624,323,112
P/S	0.29	0.20	0.23	0.20	0.19
EV	254,146,905	178,980,600	223,677,650	245,718,993	233,597,195
EBITDA	-5,159,000	4,122,000	-2,474,000	1,189,187	10,301,331
EV/EBITDA	-49.26	43.42	-90.41	206.63	22.68
ROE	-4.86%	1.24%	-0.89%	2.27%	6.01%
ROA	-1.40%	0.33%	-0.23%	0.55%	1.45%

FINANCIAL PERFORMANCE ANALYSIS

Eurohold Bulgaria operates in sectors that depend on the personal income, although the cyclical effect is limited by the obligatory car insurances. The subsidiaries have very volatile financial results, while the acquisitions in 2013 supported the growth of consolidated revenues. The organic growth is behind the increase of premiums in 2014.

Our forecasts of steady, single-digit post-2015 growth is based on the improvement in all segments. The positive effect on revenues from the latest acquisitions of HDI Bulgaria and Ukraine should vary from BGN 40 m to BGN 60 m, depending on the performance of the Ukrainian division. The premium income should be influenced by the steep decline of the Ukrainian currency and we expect the subsidiary to have lower contribution to consolidated revenue of Eurohold than the realized GPW of EUR 30 m in 2013. We presume a 50% decline as compared to the reported GPW in 2013, which resulted to 12% increase of consolidated revenues for 2015.

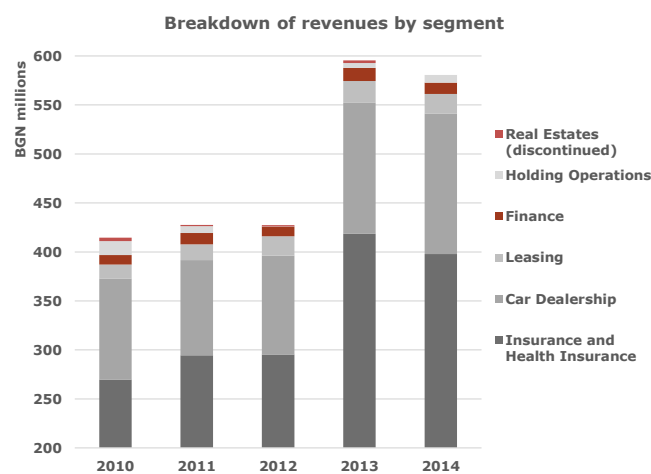
We expect a steady single-digit growth of revenues in the next few years

The profitability of insurance segment in 2014 was decreased by the heavy hailstorms in Bulgaria as claims paid jumped. The extraordinary event postponed the improvement of operational profit of Euroins Bulgaria and weighted on the financial result of the Holding. At the same time the Romanian subsidiary finished its portfolio-restructuring program to decrease the claims paid. 2015 should be much better year for the insurance segment and our expectations are for sizable improvement of the profit. Further growth of revenue and profit will be realized at the back of economic growth and rising demand of vehicles and motor insurances, while the Holding's focus remains on profitability.

Restructuring program will increase profit

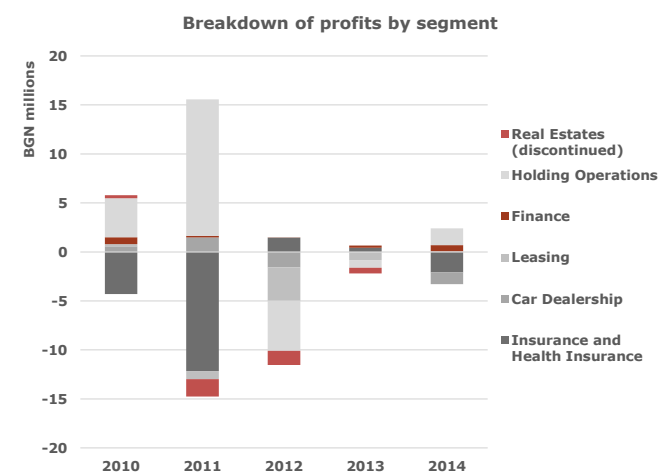
Eurohold Bulgaria is a leveraged company as its consolidated debt-to-equity ratio stood at 0.87 at the end of 2014. It is related to the expansion of the Holding, including acquisitions of smaller companies and the capital increases of its insurers. According to our model, which does not presume more acquisitions, the Holding will generate enough cash flow to cover its obligations, while the expected profits will contribute to the improvement of the debt-to-equity ratio.

Exhibit 13: Acquisitions of insurance companies contribute to the growth of revenues



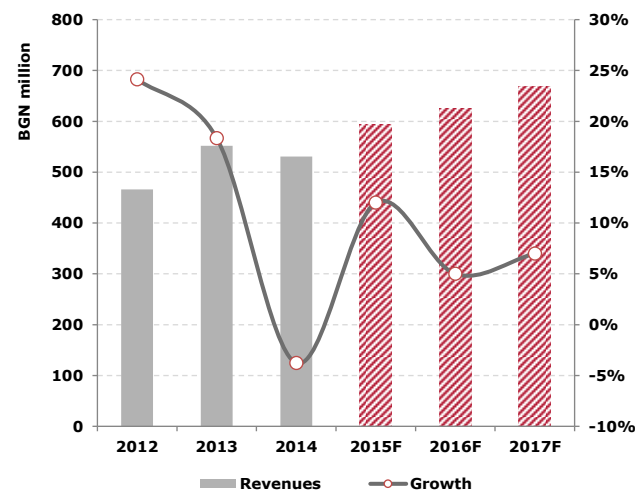
Source Company data

Exhibit 14: Financial segment and holding operations had positive results in 2014



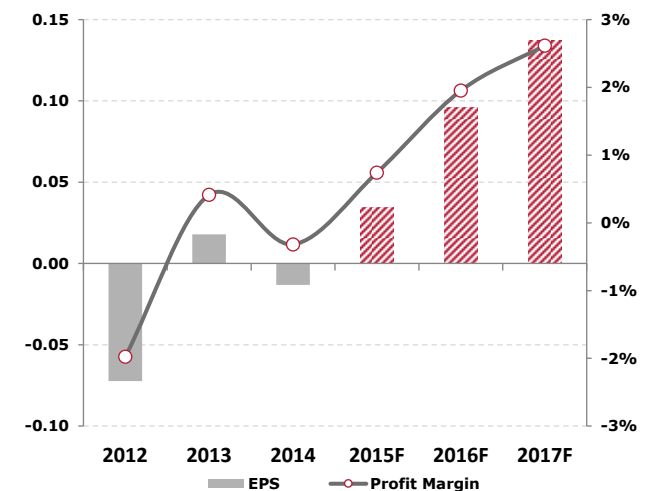
Source: Company data

Exhibit 15: Expectations of steady growth of consolidated revenues



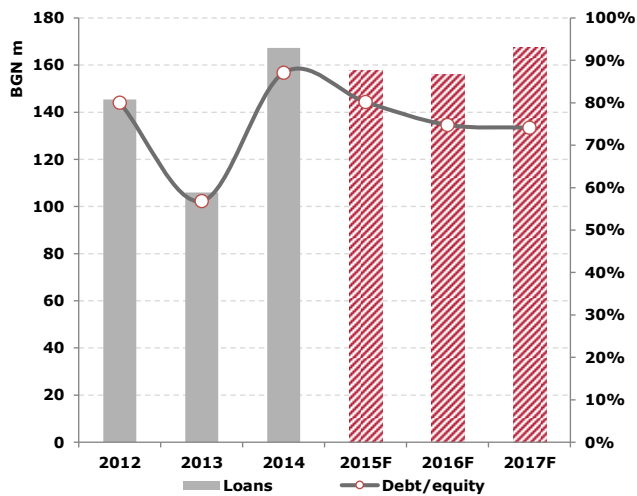
Source: Elana Trading estimates, company data

Exhibit 16: 2014 was a turning point for the insurance segment and will be followed by steady improvement of EPS



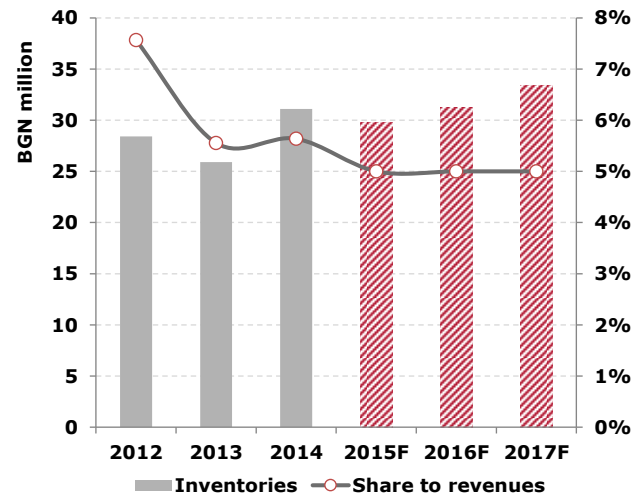
Source: Elana Trading estimates, company data

Exhibit 17: The debt levels depend on future acquisitions but the cash flow is sufficient to cover the obligations



Source: Elana Trading estimates, company data

Exhibit 18: Moderate LT growth of inventories due to the expectations of single-digit increase of vehicle sales



Source: Elana Trading estimates, company data

VALUATION OF EUROHOLD BULGARIA

We prefer to value Eurohold Bulgaria according to our forecasts for cash flows. The sum-of-the-parts method for valuation will presume that the Holding's divisions could be worth more if they are sold to other companies. This exclude the advantages of synergies in the Holding due to the connections between the three segments in the Group. Therefore, we consider that SOPT would underestimate the fair value of Eurohold as compared to the DCF method of valuation.

Our forecasts for 2015 are based on consolidation of the recently acquired insurance companies in Bulgaria and Ukraine. Organic growth in all segments should remain single-digit and we prefer a cautious approach to the results of 2015, excluding the acquisition effect, due to the slow economic growth in the country. Moreover, we maintain the conservative growth figures until the Holding reports an acceleration of growth above the averages from the past years.

The intrinsic value of Eurohold's share is BGN 1.52, calculated by our forecasts for WACC.

ESTIMATIONS

	2015	2016	2017	2018	2019	2021	2021	2022	2023	2024	TERMINAL YEAR
REVENUE	594,593	624,323	668,026	708,107	743,513	780,688	815,819	852,531	886,632	922,098	954,371
GROWTH	12.00%	5.00%	7.00%	6.00%	5.00%	5.00%	4.50%	4.50%	4.00%	4.00%	3.50%
EBITDA	1,189	10,301	17,703	21,951	30,484	32,008	33,449	34,954	36,352	37,806	39,129
EBITDA MARGIN	0.20%	1.65%	2.65%	3.10%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%
DEPRECIATION	7,135	7,180	7,682	7,789	8,179	8,588	8,974	9,378	9,753	10,143	10,498
INVESTMENTS	7,726	8,666	9,867	9,793	9,949	9,111	9,467	9,893	10,229	10,638	10,946
EBIT	-5,946	3,122	10,020	14,162	22,305	23,421	24,475	25,576	26,599	27,663	52,490
EBIT MARGIN	-1.00%	0.50%	1.50%	2.00%	3.00%	3.00%	3.00%	3.00%	5.50%	5.50%	5.50%

WACC CALCULATION

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	TERMINAL YEAR
RISK FREE RATE	2.20%	3.00%	3.25%	3.50%	3.50%	3.50%	4.00%	4.00%	4.00%	4.00%	4.00%
EQUITY RISK PREMIUM	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
BETA	0.92	0.92	0.92	0.92	0.92	0.92	0.92	0.92	0.92	0.92	0.92
COST OF EQUITY	9.56%	10.36%	10.61%	10.86%	10.86%	10.86%	11.36%	11.36%	11.36%	11.36%	11.36%
COST OF DEBT	8.00%	8.00%	9.00%	9.00%	9.00%	8.60%	8.60%	8.60%	8.60%	8.60%	8.60%
EFFECTIVE TAX RATE	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
AFTER-TAX COST OF DEBT	7.20%	7.20%	8.10%	8.10%	8.10%	7.74%	7.74%	7.74%	7.74%	7.74%	7.74%
WEIGHT OF EQUITY	55%	57%	57%	57%	59%	65%	65%	65%	65%	65%	65%
WACC	8.51%	9.01%	9.54%	9.67%	9.73%	9.77%	10.09%	10.09%	10.09%	10.09%	10.09%

DISCOUNTED CASH FLOWS

BGN'000	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	TERMINAL YEAR
EBIT	-5,946	3,122	10,020	14,162	22,305	23,421	24,475	25,576	26,599	27,663	52,490
EBIT(1-T)	-5,351	2,809	9,018	12,746	20,075	21,079	22,027	23,018	23,939	24,897	47,241
ADD: D&A	7,135	7,180	7,682	7,789	8,179	8,588	8,974	9,378	9,753	10,143	10,498
LESS: INVESTMENTS	7,726	8,666	9,867	9,793	9,949	9,111	9,467	9,893	10,229	10,638	10,946
LESS: CHANGE NWC	31,227	-11,624	16,632	6,333	9,489	-10,431	1,806	1,887	1,753	1,823	1,717
FCF	-37,169	12,947	-9,799	4,409	8,816	30,986	19,729	20,617	21,710	22,579	45,076
PV FCF	-34,254	10,896	-7,455	3,048	5,541	17,714	10,064	9,553	9,138	8,632	
SUM OF PV FCF	32,877										
PV OF CONTINUING VALUE	261,377										
TOTAL PV FREE CASH FLOWS	294,254										
LESS: OUTSTANDING DEBT	167,300										
PLUS: FINANCIAL ASSETS	67,147										
PV OF EQUITY	194,101										
NUMBER OF SHARES ('000)	127,345										
PRICE PER SHARE	1.52										

RECOMMENDATION AND PRICE TARGET

We initiate coverage of Eurohold Bulgaria with a BUY recommendation. Our valuation model points to big upside potential from the current market price. Moreover, it is based on conservative expectations for the economic growth and the development of the three segments of Eurohold Bulgaria. What we don't have yet are the profit margins after the acquisitions. The profit margins in the model assume a gradual improvement of business conditions. We give BUY recommendation at the back of the cheap valuation as seen in P/B of 0.56. Any disappointment in the Holding's performance will have sizable effect on the intrinsic value of shares. Investors should be aware of delay of profit growth that could influence the buying interest. Nevertheless, we give a BUY recommendation as any positive surprise in profits will make the stock soar. Our price target is BGN 1.52 or 67% above the current quotes.

Recommendation: BUY
Target Price: BGN 1.52
Upside: 67%

In terms of significant investors involved in our stock market, we share the following observations:

- Foreign investors might be driven back by the low market capitalization of Eurohold Bulgaria and especially its subsidiary Euroins. Eurohold is undervalued when considering its net assets and that makes the stock interesting for buyers.
- Bulgarian institutional investors are not very active at the moment. However, the stock is considered an interesting investment with several large active local institutional investors (pension and mutual funds).
- Domestic private investors are influenced by latest economic and political news and remain cautious.

STOCK PRICE DYNAMICS



ANNUAL FINANCIAL DATA (AUDITED)

INCOME STATEMENT ('000 BGN)	2011	2012	2013	2014	2015F	2016F
REVENUE	375,490	466,140	551,696	530,887	594,593	624,323
OPERATING EXPENSES	413,341	479,177	554,334	540,236	600,539	621,201
CHANGE IN INVENTORIES	0	0	0	0	0	0
COST OF MATERIAL	5,235	3,078	5,237	2,916	3,568	3,122
COST OF LABOR	30,916	32,952	35,997	34,259	39,838	41,205
COST OF EXTERNAL SERVICES	75,830	87,116	100,009	100,453	107,027	106,135
DEPRECIATION AND AMORTIZATION	7,849	7,878	6,760	6,875	7,135	7,180
NET BOOK VALUE OF ASSETS SOLD	76,554	79,879	111,078	123,043	142,702	149,838
OTHER COSTS	216,957	268,274	295,253	272,690	300,270	313,722
OPERATING INCOME	(37,851)	(13,037)	(2,638)	(9,349)	(5,946)	3,122
INTEREST EXPENSE	13,921	12,040	11,051	12,553	12,995	12,546
FOREIGN EXCHANGE LOSSES (GAINS)	452	(54)	1,948	(122)	(595)	(375)
NET NON-OPERATING LOSSES (GAINS)	(37,011)	(16,332)	(21,658)	(20,535)	(23,784)	(24,973)
PRETAX INCOME	(15,689)	(8,691)	6,021	(1,245)	5,438	15,923
INCOME TAX EXPENSE	(12,074)	142	2,738	274	544	1,592
INCOME BEFORE XO ITEMS	(3,615)	(8,833)	3,283	(1,519)	4,894	14,331
EXTRAORDINARY LOSS NET OF TAX	0	0	0	0	0	0
MINORITY INTEREST	(3,339)	379	1,005	166	489	2,150
NET INCOME	(277)	(9,212)	2,278	(1,684)	4,405	12,181
EARNINGS PER SHARE IN BGN	(0.00)	(0.07)	0.02	(0.01)	0.03	0.10

BALANCE SHEET ('000 BGN)	2011	2012	2013	2014	2015F	2016F
CASH AND NEAR CASH ITEMS	27,468	24,835	39,029	67,147	28,242	38,877
SHORT-TERM INVESTMENTS	84,620	76,859	108,237	102,056	107,027	121,743
ACCOUNTS AND NOTES RECEIVABLE	134,237	181,538	185,688	279,076	297,297	299,675
INVENTORIES	28,406	25,898	31,106	23,095	29,730	31,216
OTHER CURRENT ASSETS	749	1,280	666	2,192	2,973	2,497
TOTAL CURRENT ASSETS	275,480	310,410	364,726	473,566	465,268	494,008
LT INVESTMENTS AND LT RECEIVABLES	83,773	85,572	71,468	84,237	95,135	93,648
NET FIXED ASSETS	55,344	52,283	30,423	29,139	29,730	31,216
OTHER LONG-TERM ASSETS	222,202	227,133	220,350	213,295	225,946	243,486
TOTAL LONG-TERM ASSETS	361,319	364,988	322,241	326,671	350,810	368,351
TOTAL ASSETS	636,799	675,398	686,967	800,237	816,078	862,359
ACCOUNTS PAYABLE	34,936	51,089	75,068	66,266	71,351	81,162
SHORT-TERM BORROWINGS	17,703	35,824	19,012	34,383	32,703	31,216
OTHER SHORT-TERM LIABILITIES	177,081	210,517	233,114	291,185	303,243	324,648
TOTAL CURRENT LIABILITIES	229,720	297,430	327,194	391,834	407,297	437,026
LONG-TERM BORROWINGS	133,506	109,573	86,934	132,917	124,865	124,865
OTHER LONG-TERM LIABILITIES	27,458	36,694	35,194	31,669	29,730	31,216
TOTAL LONG-TERM LIABILITIES	160,964	146,267	122,128	164,586	154,594	156,081
TOTAL LIABILITIES	390,684	443,697	449,322	556,420	561,891	593,107
TOTAL PREFERRED EQUITY	0	0	0	0	0	0
MINORITY INTEREST	48,845	50,072	51,204	51,710	57,676	60,559
SHARE CAPITAL & APIC	123,234	118,312	121,454	127,321	127,321	127,321
RETAINED EARNINGS & OTHER EQUITY	74,036	63,317	64,987	64,786	69,191	81,372
TOTAL EQUITY	197,270	181,629	186,441	192,107	196,512	208,693
WORKING CAPITAL	18,292	(11,855)	(1,497)	14,585	29,730	18,105

NUMBER OF SHARES:	108,643,712	127,345,000	127,345,000	127,345,000	127,345,000	127,345,000
PRICE IN BGN - PERIOD END:	1.19	1.05	0.88	0.97	0.91	0.91
MARKET CAP IN BGN - PERIOD END:	129,069,000	133,585,000	112,064,000	123,525,000	116,393,000	116,393,000

CASH FLOW STATEMENT ('000 BGN)	2011	2012	2013	2014	2015F	2016F
NET INCOME	13,867	47,243	17,682	4,389	11,285	19,020
DEPRECIATION& AMORTIZATION	60,669	60,413	61,232	62,406	62,719	65,713
OTHER NON-CASH ADJUSTMENTS	(40,703)	(31,467)	(10,872)	(16,320)	4,803	(250)
CHANGES IN NON-CASH CAPITAL	21,954	9,225	52,014	(38,892)	10,219	14,652
CASH FROM OPERATIONS	55,787	85,414	120,056	11,583	89,025	99,135
DISPOSAL OF FIXED ASSETS	487	93	111	2,318	0	0
CAPITAL EXPENDITURES	(63,512)	(104,026)	(104,112)	(37,063)	(73,791)	(97,233)
INCREASE IN INVESTMENTS	(3,000)	(10,000)	0	0	0	0
DECREASE IN INVESTMENTS	15,000	10,000	0	0	0	0
OTHER INVESTING ACTIVITIES	0	0	0	0	(1,425)	(1,653)
CASH FROM INVESTING ACTIVITIES	(51,025)	(103,933)	(104,001)	(34,745)	(75,215)	(98,885)
DIVIDENDS PAID	0	0	0	(48,200)	0	0
CHANGE IN SHORT-TERM BORROWINGS	0	14,737	(7,369)	7,369	(681)	1,210
CHANGE IN LONG-TERM BORROWINGS	0	47,895	(14,737)	(14,737)	7,135	5,452
INCREASE IN CAPITAL STOCKS	0	0	0	0	0	0
DECREASE IN CAPITAL STOCKS	0	0	0	0	0	0
OTHER FINANCIAL ACTIVITIES	(159)	(1,449)	(1,285)	(1,285)	2,059	(107)
CASH FROM FINANCING ACTIVITIES	(159)	61,183	(23,391)	(56,583)	8,513	6,555
NET CHANGES IN CASH	4,603	42,664	(7,336)	(79,745)	22,323	6,804
END-OF-PERIOD CASH	67,023	109,687	102,351	22,606	44,929	51,733
CASH PER SHARE	34.76	56.89	53.09	11.73	23.30	26.83

FINANCIAL AND PERFORMANCE INDICATORS	2011	2012	2013	2014	2015F	2016F
VALUATION						
PRICE/EARNINGS (P/E)	-465.95	-14.50	49.19	-73.35	26.43	9.56
PRICE/BOOK (P/B)	0.65	0.74	0.60	0.64	0.59	0.56
PRICE/SALES (P/S)	0.34	0.29	0.20	0.23	0.20	0.19
PRICE/CASH FLOW PER SHARE	17.05	-100.14	12.40	23.80	10.09	6.01
EV (IN '000 BGN)	252,810	254,147	178,981	223,678	245,719	233,597
EV/EBITDA	-8.43	-49.26	43.42	-90.41	206.63	22.68
PROFITABILITY						
RETURN ON COMMON EQUITY	-0.16%	-4.86%	1.24%	-0.89%	2.27%	6.01%
RETURN ON ASSETS	-0.04%	-1.40%	0.33%	-0.23%	0.55%	1.45%
RETURN ON INVESTED CAPITAL	-0.12%	1.01%	3.01%	4.23%	4.65%	7.13%
EBITDA MARGIN	-7.99%	-1.11%	0.75%	-0.47%	0.20%	1.65%
OPERATING MARGIN	-10.08%	-2.80%	-0.48%	-1.76%	-1.00%	0.50%
NET INCOME MARGIN	-0.07%	-1.98%	0.41%	-0.32%	0.74%	1.95%
LIQUIDITY						
CURRENT RATIO	1.20	1.04	1.11	1.21	1.14	1.13
QUICK RATIO	1.07	0.95	1.02	1.14	1.06	1.05
CREDIT						
LT DEBT/EQUITY	0.68	0.60	0.47	0.69	0.64	0.60
TOTAL DEBT/EQUITY	0.77	0.80	0.57	0.87	0.80	0.75
TOTAL DEBT/TOTAL ASSETS	0.24	0.22	0.15	0.21	0.19	0.18
EBITDA/INTEREST EXPENSE	-2.16	-0.43	0.37	-0.20	0.09	0.82

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BUY	Target price is more than 10% above the current quotes
HOLD	Target price in +/-10% range of the current quotes
SELL	Target price is more than 10% below the current quotes

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