

MONBAT

INDUSTRY: ELECTRICAL EQUIPMENT & AUTOMOTIVE

REAPING INVESTMENT PROFITS

THE LEADING BULGARIAN LEAD-ACID BATTERY PRODUCER MONBAT BEATS 2014 TOP LINE EXPECTATIONS. THE COMPANY IS REAPING PROFITS FROM A WELL-PLANNED AND WELL EXECUTED INVESTMENT IN ENSURING RAW MATERIALS AVAILABILITY THROUGH SCRAP LEAD RECYCLING. THE LATER HELPS SIGNIFICANTLY IMPROVE THE BOTTOM LINE EVEN WHEN THE TOP LINE FLUCTUATES WITH LEAD PRICE MOVEMENTS.

MONBAT FY 2014 RESULTS BEAT TOP LINE ESTIMATES

The biggest lead- acid batteries producer in Bulgaria - Monbat, performed better than expected and beat our top line estimates with sales declining by 3.98% y-o-y to BGN 230.6 m vs a 4.3% decline estimate. Volumes are up by 1% y-o-y to 2.28 million batteries sold due on the one hand, on the rising lead price in Q3 and lower sales due to warmer winter in Europe, on the other hand.

PROFITABILITY IMPROVES DUE TO NATURAL HEDGE WITH SCRAP LEAD RECYCLING

The bottom line also performed well thanks to the natural hedge with scrap lead recycling that allowed Monbat to manage better its raw material costs and availability. In 2014, the Company's own recycling facilities supplied 100% of Monbat's lead needs, thus helped the Group reap profits from this investment. Overall consolidated FY 2014 EBITDA is up 2.2% to BGN 43.4 m while EBITDA margin is up 1.14 p.p. to 18.83%. Net income added 4.8% to BGN 26.6 m and net income margin stood at 11.5% or 0.9 p.p. up y-o-y.

Q1'15 PRELIMINARY RESULTS SET THE GROUND FOR A STRONG 2015

Lead price fluctuations directly influence Monbat's performance with a natural hedge in scrap lead recycling soothing any strong downward trend in the former. In 2014, lead prices were down 7% y-o-y (in EUR currency) while Monbat's top line declined only 4%. With 23% lead appreciation YTD the Company shall be able to have a strong 2015 start as it can easily transfer the raw material price appreciation to customers and at the same time sell recycled lead to the market, thus tapping on additional turnover. Preliminary Q1 2015 results already reveal this strength. First quarter sales rise 6.5% y-o-y to BGN 63.3 m while EBITDA skyrockets 26.3% y-o-y to BGN 12.6 m or a 19.8% EBITDA margin.

VALUATION/RISKS

VALUATION: Despite Monbat slightly missing our bottom line estimates, we keep our BGN 10.50 one year target price for the company and our BUY recommendation.

RISKS: Prolonged period of lead price volatility to minimize the positive effect of Monbat's natural hedge with lead recycling; Increased political instability and inefficient public institutions to keep economic growth subdued; Major changes in environmental regulation

in kBGN, excl. ratios	2013	2014	2015F	2016F
REVENUES	240,144	230,590	258,261	284,087
EBITDA	42,475	43,415	51,523	55,783
EBIT	31,905	32,141	40,030	44,033
NET PROFIT	25,389	26,611	33,456	37,506
EQUITY	161,804	179,080	195,808	214,561
ROE	17.61%	15.61%	17.83%	18.28%
ROA	11.03%	10.24%	12.59%	13.35%
EBITDA MARGIN	17.69%	18.83%	19.95%	19.64%
NET PROFIT MARGIN	10.57%	11.54%	12.95%	13.20%
EPS	0.65	0.68	0.86	0.96
DEBT/EQUITY	0.37	0.41	0.28	0.24
P/E	13.55	12.02	9.56	8.53
P/B	2.13	1.79	1.63	1.49
EV/EBITDA	9.33	8.57	6.93	6.08
PAYOUT RATIO	0.35	0.35	0.50	0.50
DIVIDEND YIELD	2.61%	2.97%	5.23%	5.86%

RESULTS ANALYSIS

BUY

ONE YEAR PRICE TARGET: BGN 10.50
(SEPTEMBER 5TH, 2014)

CURRENT PRICE: BGN 8.20

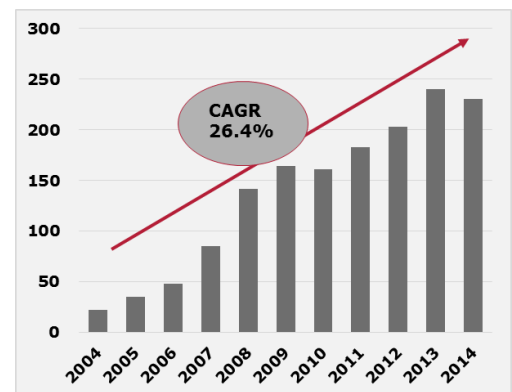
EXCHANGE RATES

EUR/BGN(FIXED): 1.95583
USD/BGN: 1.88659

MARKET DATA

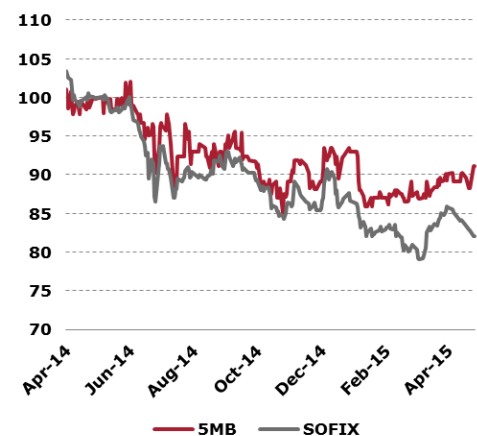
Shares Outstanding:	39.0m
Share Capital:	39.0m
Free-float:	24.43%
Market Cap.:	BGN 333.4m
Avg. Daily Vol.:	BGN 98,000
52 Weeks Range:	BGN 7.82-9.14
BSE Ticker	SMB
Bloomberg Ticker	SMB BU

A DECADE OF STRONG GROWTH



Source: Company data

OUTPERFORMING THE MARKET



Source: Bloomberg

ANALYST'S COMMENTS

Performance breakdown: The Group of Monbat beats estimates with its FY 2014 performance. It reported 3.8% y-o-y decline in sales with lead prices sliding 7% in EUR currency over the course of 2014. Our estimates were for a 4.3% decline in sales. Overall the top line amounted to BGN 230.6 m.

The Group sells lead acid car and industrial batteries to a well-diversified range of markets. Greece remained the biggest market in 2014 vs. 2013 despite the 9% y-o-y decline in turnover to the country. The latter, however, was due to the fact that in 2014 Monbat refrained from selling recycled scrap lead to outside clients, with Greece biggest market for these products, as lead prices were on the downside during the year. Thus, the scrap recycling facilities supplied 100% of Monbat's lead needs vs. a 70-80% norm in previous years.

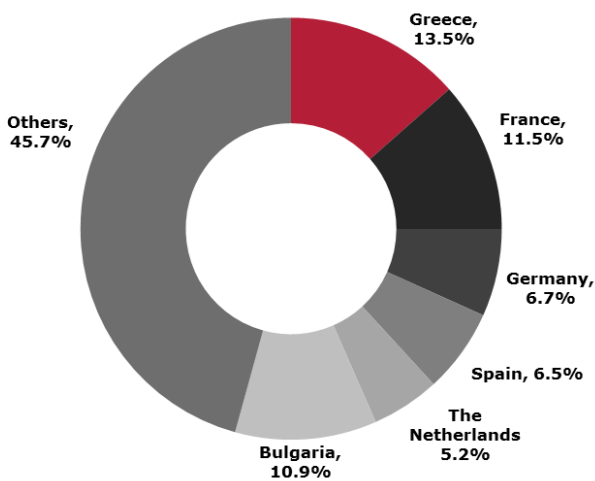
France dethroned Germany from the second place in terms of sales' geographic distribution. Sales to Spain almost doubled over the course of the year. The latter development was due to competitors losing market share in France and Spain, while the weaker performance in Germany was due to tougher competition from local producers as Johnson Controls and sales redistribution to larger car parts wholesalers, according to management's explanations. Overall volumes were up only 1% as the company sold 2.28 million batteries in 2014. However, the company gained momentum in markets like Lebanon, Italy, and Georgia and is looking into expanding market presence in Asia and Africa.

Profitability improvement: The Group slightly missed our bottom line estimates. Nevertheless, it excelled in terms of margins as scrap lead recycling investments already bear fruit and help naturally hedge the company's exposure to lead prices fluctuations. Overall consolidated FY 2014 EBITDA is up 2.2% to BGN 43.4 m while EBITDA margin is up 1.14 p.p. to 18.83%. Net income added 4.8% to BGN 26.6 m while net income margin stood at 11.5% or 0.9 p.p. y-o-y up.

Unconsolidated margins, however, are lower due to Octa Light related impairments amounting to BGN 4.5 m. Monbat impaired its investment in the LED lighting bulb producer Octa Light (BGN 1.2 m) and its receivables and interest accrued to the same subsidiary (BGN 3.3 m) on auditor's recommendation as the subsidiary is delivering results slower than anticipated. Recently, Monbat's management has pointed out that it is exploring different options for its investment in Octa Light despite the fact that the latter started retail sales in Bulgarian equipment and online stores.

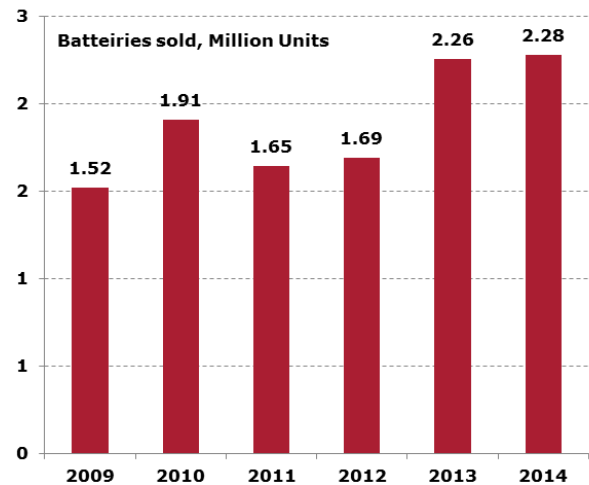
Positive preliminary 2015 signals: With lead prices up 20%+ YTD in EUR currency we are comfortable that Monbat can present an excellent 2015 in terms of top line & bottom line performance. Preliminary first quarter results already reveal positive signals - consolidated sales are up 6.5% y-o-y to BGN 63.3 m while earnings before taxes skyrocketed 44.5% y-o-y to BGN 9.33 m. EBITDA margin soared 26.3% y-o-y to BGN 12.6 m yielding a 19.8% EBITDA margin or 1 p.p higher from Q4 2014.

GREECE REMAINS THE LEADING MARKET



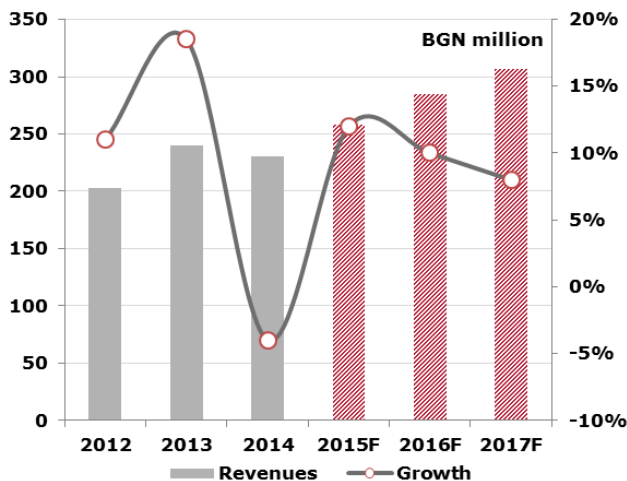
Source: Company data

VOLUMES INCHED SLIGHTLY UP IN 2014



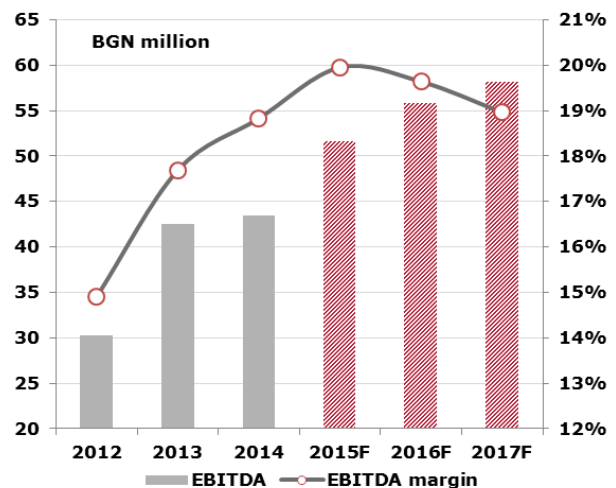
Source: Company data

REVENUES TO RETURN ON THE GROWTH PATH



Source: Company data; Elana Trading estimates

EBITDA MARGINS TO STABILIZE AT 19%-20%



Source: Company data; Elana Trading estimates

CONSOLIDATED QUARTERLY DATA (UNAUDITED)

Income Statement ('000 BGN)	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Revenue	51,058	64,700	64,576	49,964	57,778	67,826	59,653	43,786	56,195	70,956
Operating Expenses	44,091	59,463	58,418	44,816	48,764	56,241	52,525	38,133	47,419	60,372
Change in Inventories	521	(2,269)	6,246	(373)	(4,147)	(343)	1,181	(2,631)	(1,453)	(6,392)
Cost of Material	31,152	41,980	39,332	33,085	40,644	40,751	38,910	28,724	36,214	50,512
Cost of Labor	3,615	4,072	3,751	3,263	3,540	3,894	3,788	3,548	3,422	4,189
Cost of External Services	4,326	4,723	4,140	3,973	4,621	5,983	3,808	3,596	4,386	4,635
Depreciation and Amortization	2,661	2,629	2,600	2,647	2,778	2,545	2,755	2,806	2,788	2,925
Net Book Value of Assets Sold	893	1,338	1,103	855	541	1,265	1,085	1,375	1,366	3,502
Other Costs	923	6,990	1,246	1,366	787	2,146	998	715	696	1,001
Operating Income	6,967	5,237	6,158	5,148	9,014	11,585	7,128	5,653	8,776	10,584
Interest Expense	628	575	653	575	694	779	622	582	549	696
Foreign Exchange Losses (Gains)	202	97	59	120	368	241	(24)	(48)	148	129
Net Non-Operating Losses (Gains)	226	(16)	104	195	137	(73)	138	(164)	(163)	44
Pretax Income	5,911	4,581	5,342	4,258	7,815	10,638	6,392	5,283	8,242	9,715
Income Tax Expense	640	601	730	607	899	1,046	803	680	1,126	1,029
Net Income	5,330	6,422	4,807	3,779	7,099	9,704	5,748	4,769	7,336	8,758

Balance Sheet ('000 BGN)	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Assets										
Cash & Near Cash Items	4,554	2,724	5,293	4,918	7,243	7,673	5,608	7,985	10,147	20,539
Short-Term Investments	0	0	0	0	0	0	0	0	0	0
Accounts & Notes Receivable	44,570	51,172	57,827	53,362	55,194	66,200	70,074	66,447	65,571	71,201
Inventories	42,605	46,792	39,336	41,688	50,617	55,607	50,191	55,581	57,481	58,216
Other Current Assets	294	244	326	368	252	249	338	348	257	168
Total Current Assets	92,023	100,932	102,782	100,336	113,306	129,729	126,211	130,361	133,456	150,124
LT Investments & LT Receivables	8	8	961	946	463	463	463	463	463	463
Net Fixed Assets	121,810	121,236	113,494	115,109	115,778	116,484	117,280	120,092	119,754	118,371
Other Long-Term Assets	4,040	4,046	1,142	1,133	1,129	1,054	1,015	968	925	3,102
Total Long-Term Assets	125,858	125,290	115,597	117,188	117,370	118,001	118,758	121,523	121,142	121,936
Total Assets	217,881	226,222	218,379	217,524	230,676	247,730	244,969	251,884	254,598	272,060
Liabilities & Shareholders' Equity										
Accounts Payable	16,127	19,169	19,217	22,032	19,089	18,742	12,957	16,730	15,764	13,903
Short-Term Borrowings	41,361	41,072	48,667	45,153	54,868	50,386	48,728	49,469	50,865	38,092
Other Short-Term Liabilities	2,140	2,063	2,921	4,243	2,860	2,619	2,592	7,674	2,733	3,337
Total Current Liabilities	59,628	62,304	70,805	71,428	76,817	71,747	64,277	73,873	69,362	55,332
Long-Term Borrowings	11,322	10,895	10,268	11,260	11,042	9,661	9,391	11,042	11,780	34,635
Other Long-Term Liabilities	8,023	7,750	6,296	5,809	5,649	5,409	4,953	4,791	4,577	4,521
Total Long-Term Liabilities	19,345	18,645	16,564	17,069	16,691	15,070	14,344	15,833	16,357	39,156
Total Liabilities	78,973	80,949	87,369	88,497	93,508	86,817	78,621	89,706	85,719	94,488
Total Preferred Equity	0	0	0	0	0	0	0	0	0	0
Minority Interest	2,271	2,109	(468)	(596)	(779)	(891)	(1,050)	(1,216)	(1,436)	(1,508)
Share Capital & APIC	36,377	36,377	36,412	36,756	36,758	39,000	39,000	39,000	39,000	39,000
Retained Earnings	100,260	106,787	95,066	92,867	101,189	122,804	128,398	124,394	131,315	140,080
Total Equity	136,637	143,164	131,478	129,623	137,947	161,804	167,398	163,394	170,315	179,080
Total Liabilities & Equity	217,881	226,222	218,379	217,524	230,676	247,730	244,969	251,884	254,598	272,060

Source: Company data

ANNUAL YEARLY DATA

Income Statement ('000 BGN)	2011	2012	2013	2014	2015F	2016F
Revenue	182,562	202,637	240,144	230,590	258,261	284,087
Operating Expenses	158,244	182,760	208,239	198,449	218,230	240,053
Change in Inventories	3,404	(5,701)	1,383	(9,295)	(5,165)	1,420
Cost of Material	110,316	133,242	153,812	154,360	160,122	181,816
Cost of Labor	14,686	13,996	14,448	14,947	16,529	18,466
Cost of External Services	16,087	18,076	18,717	16,425	20,403	21,307
Depreciation and Amortization	8,718	10,323	10,570	11,274	11,493	11,750
Net Book Value of Assets Sold	2,355	3,414	3,764	7,328	8,264	4,545
Other Costs	2,678	9,410	5,545	3,410	6,586	750
Operating Income	24,318	19,877	31,905	32,141	40,030	44,033
Interest Expense	2,848	2,549	2,701	2,449	2,857	2,503
Foreign Exchange Losses (Gains)	11	460	788	205	(258)	(568)
Net Non-Operating Losses (Gains)	57	315	363	(145)	258	426
Pretax Income	21,402	16,553	28,053	29,632	37,174	41,673
Income Tax Expense	2,380	1,846	3,282	3,638	3,717	4,167
Net Income	19,134	17,307	25,389	26,611	33,456	37,506

Balance Sheet ('000 BGN)	2011	2012	2013	2014	2015F	2016F
Assets						
Cash & Near Cash Items	4,108	2,626	7,673	20,539	16,963	31,609
Short-Term Investments	0	0	0	0	0	0
Accounts & Notes Receivable	42,737	51,090	66,200	71,201	77,478	65,340
Inventories	40,817	42,861	55,607	58,216	46,487	53,977
Other Current Assets	193	244	249	168	1,291	1,420
Total Current Assets	87,855	96,821	129,729	150,124	142,219	152,346
LT Investments & LT Receivables	8	1,071	463	463	646	994
Net Fixed Assets	121,413	113,650	116,484	118,371	129,130	133,521
Other Long-Term Assets	3,643	1,023	1,054	3,102	1,550	1,278
Total Long-Term Assets	125,064	115,744	118,001	121,936	131,326	135,794
Total Assets	212,919	212,565	247,730	272,060	273,545	288,140
Liabilities & Shareholders' Equity						
Accounts Payable	15,302	20,324	18,742	13,903	14,979	15,909
Short-Term Borrowings	40,288	45,599	50,386	38,092	43,904	42,613
Other Short-Term Liabilities	1,866	2,856	2,619	3,337	1,808	852
Total Current Liabilities	57,456	68,779	71,747	55,332	60,691	59,374
Long-Term Borrowings	13,459	10,895	9,661	34,635	10,330	8,523
Other Long-Term Liabilities	4,667	6,640	5,409	4,521	6,715	5,682
Total Long-Term Liabilities	18,126	17,535	15,070	39,156	17,045	14,204
Total Liabilities	75,582	86,314	86,817	94,488	77,737	73,579
Total Preferred Equity	0	0	0	0	0	0
Minority Interest	2,728	(273)	(891)	(1,508)	0	0
Share Capital & APIC	36,858	36,377	39,000	39,000	39,000	39,000
Retained Earnings	97,751	90,147	122,804	140,080	156,808	175,561
Total Equity	134,609	126,524	161,804	179,080	195,808	214,561
Total Liabilities & Equity	212,919	212,565	247,730	272,060	273,545	288,140

Source: Company data

MONBAT Overview

Ticker	5MB	Recommendation	BUY	Outstanding Shares	39 m
Bloomberg ticker	5MB BU	Last review	5 th September 2014	Free Float	24.43%
Current Price	BGN 8.20	1Y Target Price	BGN 10.50	Avr. Daily Volume	BGN 98,000

COMPANY PROFILE

Monbat is a vertically integrated holding with three major business lines – production, sale and recycling of lead-acid batteries. The Company is locally owned and is among the fastest growing battery producers in South East Europe.

Its product range includes batteries for both civil and military applications; main product lines are SLI (Starting Lighting and Ignition) and deep-cycle industrial batteries. Monbat supplies industrial batteries to leading telecommunication companies worldwide. The Group also recycles lead-acid batteries with facilities in Bulgaria, Romania and Serbia. It invests in growth business such as LED lighting bulbs. Monbat is well-recognized brand in Bulgaria and the EU. The export represents 85% of sales. Main markets are Greece, France and Germany.

FUNDAMENTAL STORY

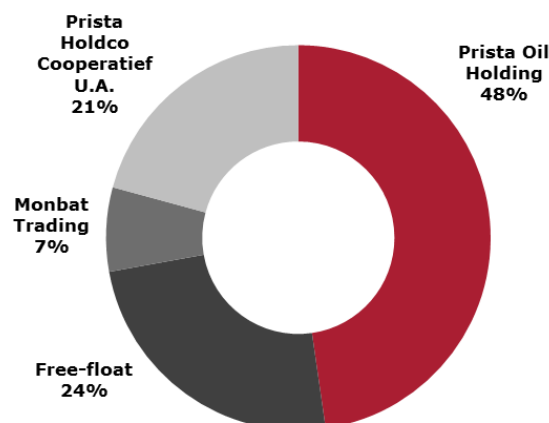
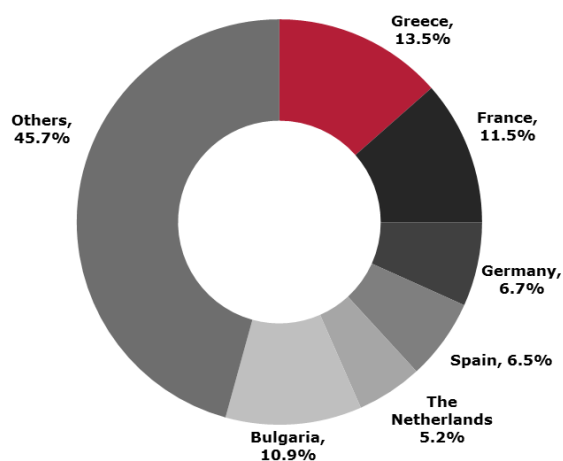
The vertical integrations provides constant supplies of raw materials and improves profitability of the Group as margins in production are usually low due to the competition from large manufacturers. Financial performance depend substantially on lead price volatility as low prices improves margins on production, while rising lead on LME provides competitive advantages while maintain profitability. Monbat sales its product under its brands or act as ODM for its distributors abroad. It implements the latest technologies in lead-acid battery manufacturing.

Despite the rising demand on electric vehicles, the current technology for starting batteries is expected to remain without substitution. Lead-acid batteries are most cost efficient for industrial applications and will remain primary back-up choice for telecoms.

Monbat's management proved to be very capable in the steady expansion of the Group, while investing in capacity increase and maintaining profit margins at industry's record highs.

STRENGTHS & OPPORTUNITIES

- Broad distribution network in most EU countries
- No dependence on large client or particular market
- Highly ranked for corporate governance and financial performance from Bulgarian investors
- Resource availability from recycling of old batteries
- Competitive product prices and very high profit margins as compared to leading companies in the sector
- Innovative technology in production of LED light bulbs in prospective market

SHAREHOLDERS' STRUCTURE

SALES BREAKDOWN IN 2014

WEAKNESSES & THREATS

- Further decline of lead price might erode the supply of old batteries and decrease revenues
- Fast increase of lead price is a threat to margins in battery production, that recycling can't compensate on short-term

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BUY	Target price is more than 10% above 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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For more information, please contact:

Research analyst	Phone:	E-mail:	Internet:
Tatyana Vasileva	+ 359 2 810 00 24	vasileva@elana.net	www.elana.net
Tsvetoslav Tsachev	+359 2 810 00 23	tsachev@elana.net	www.elana.net
Lyubomir Peshev	+359 2 810 00 27	peshev@elana.net	www.elana.net