

ADVANCE TERRAFUND

INDUSTRY: REIT/AGRICULTURAL LAND

BRIGHT SKY AHEAD

BIGGEST LAND REIT IN BULGARIA, ADVANCE TERRAFUND FREED FROM A REGULATORY NONSENSE LIMITATION AND SPEEDING AHEAD WITH ITS PERFORMANCE PROVEN STRATEGY OF SECURITIZING AGRICULTURAL LAND. THE FUND TO CONTINUE TO REAP PROFITS FROM RISING LAND DEMAND AND RESPECTIVE LAND APPRECIATION IN THE COUNTRY.

REGULATORY NONSENSE RESOLUTION FREES THE WAY AHEAD

As the biggest land REIT in Bulgaria, with a solid market position and successful strategy, Advance Terrafund was recently hit by a quickly enacted nonsensical offshore ownership limitation for land in Bulgaria. The regulation was just revoked by the local Parliament which frees the way ahead for the Fund to continue its performance proven land securitization strategy.

MAJOR CASH RICH LAND MARKET PLAYER

The Company is among the pioneers in agricultural land securitization in Bulgaria. It is the biggest land REIT and among the biggest private land owners in the country with 22K ha of land. Its long term strategy is to buy fragmented plots, consolidate and then rent and/or sell them. Despite active strategy execution and generous dividends, it has also built up a sizable cash reserve of nearly BGN 50 m (25% of total assets).

EXCELLENT RETURN TRACK RECORD

During the 10 years of operations, the Fund has purchased and sold 45K+ ha and 23K+ ha of land, respectively. So far it has returned to investors over BGN 100 m with a 5YR average dividend yield of 10.6%. It is obliged to distribute min. 90% of profits from renting and selling low-historic-cost land. Future yields to stay around 10% as it sells land, including with deferred payments, to land hungry EU subsidies benefitting mid-sized farmers. With an expected 0.27 DPS for 2014 the Fund yields back to investors another 10.6% dividend yield at current prices.

GOOD CORPORATE GOVERNANCE & ATTRACTIVE ENTRY POINT

Advance Terrafund is among the best corporate governance companies on the Bulgarian Stock Exchange. It is also among the most liquid and favored stocks on the market by both local and international investors with the International Finance Corporation among the major shareholders. The latest regulatory changes motivated stock sell-off offers an attractive buying opportunity. The latter is evolving as both retail and institutional investors become more active after the regulatory resolution this week.

VALUATION/RISKS

VALUATION: With the regulatory burden behind its back we are confident the Fund can return to normal operations and perform better than our initial estimation. Thus we upgrade our initial recommendation from HOLD to BUY and set a one year target price of BGN 2.98 per share vs a previous intrinsic value of BGN 2.70 per share. **RISKS:** Extreme weather to limit farmers' demand and ability to acquire land.

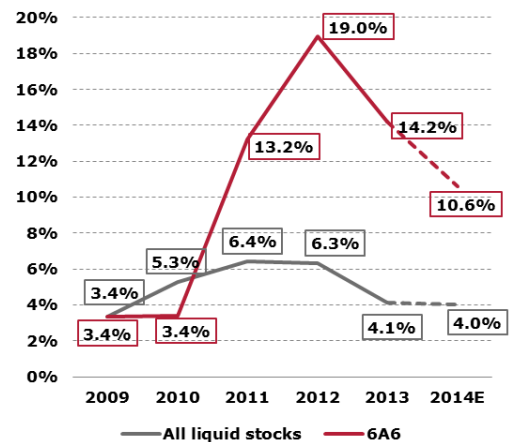
BUY
ONE YEAR PRICE TARGET: BGN 2.98
CURRENT PRICE: BGN 2.54

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

MARKET DATA

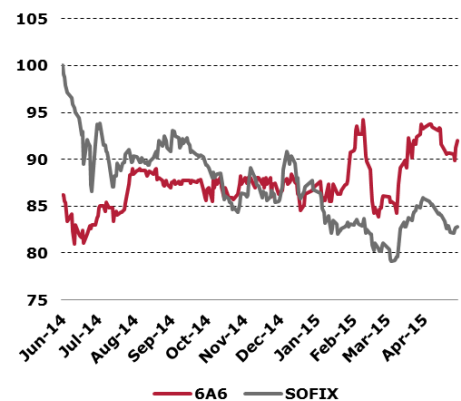
Shares Outstanding: **85.110m**
 Share Capital: **85.110m**
 Free-float: **64%**
 Market Cap.: **BGN 217 m**
 Avg. Daily Vol.: **BGN 43,000**
 52 Weeks Range: **BGN 2.27-2.64**
 BSE Ticker **6A6**
 Bloomberg Ticker **6A6 BU**

ADVANCE TERRAFUND LEADING THE MARKET BOTH IN TERMS OF DIVIDEND YIELD...



Source: Elana Trading

... AND PERFORMANCE



Source: Bloomberg

in kBGN, excl. ratios	2012	2013	2014	TTM	2015F
Revenues	34,982	27,958	19,656	19,071	18,273
Net profit	49,199	34,740	24,726	23,701	12,213
Total Assets	239,397	233,395	223,903	224,317	206,997
Land portfolio (dca)	244,151	225,502	217,081	221,145	208,398
BV of Invest. Property	157,030	163,870	172,009	175,079	182,912
Debt, excl. prov. dividend	1,673	2,678	2,590	1,372	1,892
Total Equity	199,798	199,886	198,209	199,198	187,544
ROE	24.62%	17.38%	12.47%	11.90%	6.51%
EPS (BGN)	0.578	0.408	0.291	0.000	0.144
DPS (BGN)	0.493	0.398	0.269	0.269	0.220
BVPS (BGN)	2.348	2.349	2.329	2.340	2.204
Dividend Payout	100%	99.99%	98%	98%	98%
Dividend yield	18.97%	14.21%	10.58%	10.58%	8.65%

ADVANCE TERRAFUND'S RECOMMENDATION REVIEW

Major hurdle resolution: As the leading REIT specialized in agricultural land securitization, Advance Terrafund has been a lucrative takeover target during the last couple of years. Potential interested buyers are local industrial groups looking to diversify into land. Advance Terrafund is among the few REITs that withstood attempts even though it has been approached with offers.

Major regulatory hurdle hindering the Fund's operations resolved

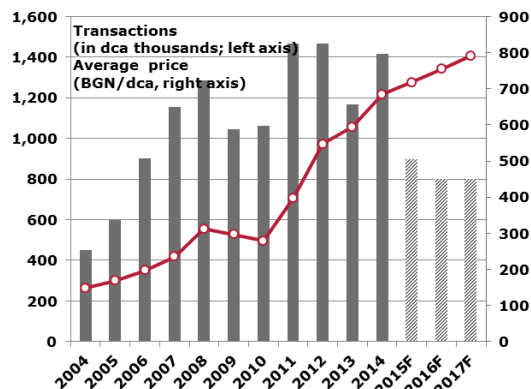
The latest regulatory nonsense that put a limit on the type of investors that can own land in Bulgaria, i.e. only EU domiciled, was also viewed as a sweetener to another attempt to take over Advance Terrafund. However, as the regulation hinders free movement of capital and is an obstacle for foreign investments into Bulgaria, the local Parliament voted on an exception and dismissed publicly traded companies from this limitation. As of this week it shall no longer apply to publicly listed companies, including Advance Terrafund. The limit and the accompanying penalties were a major hurdle for the normal operations of the Fund as it has many international investors, including investors with offshore registration. The latter would have obliged the Company to pay serious penalties which would have jeopardized Advance Terrafund's operations.

Now that there is an exception to publicly listed companies, we are confident Advance Terrafund can continue its well-structured and performance proven strategy of securitizing land. As a pioneer in the business, the Company is still enjoying an excellent profit margin scissors between the prices at which it acquires and later sells land. Currently, it is still able to enjoy a 2 to 3 times profit on the average historic cost of the land on its books. The latter will be narrowing but not significantly in the midterm. As of March 2015, Advance Terrafund has 22.1K ha of land, spread all over Bulgaria which is slightly below their 10YR average of 24K ha.

Market potential: In 2014, land prices have increased by 15% with average appreciation of 9% over the last decade, according to national statistics. We expect land prices to continue their upward trend in the coming 7-8 years driven by local mid-sized farmers' demand which are land hungry and stimulated by EU agricultural subsidies. The latter will be double the money from the last seven years. Our land price increase estimate is a bit more conservative at 5% per year.

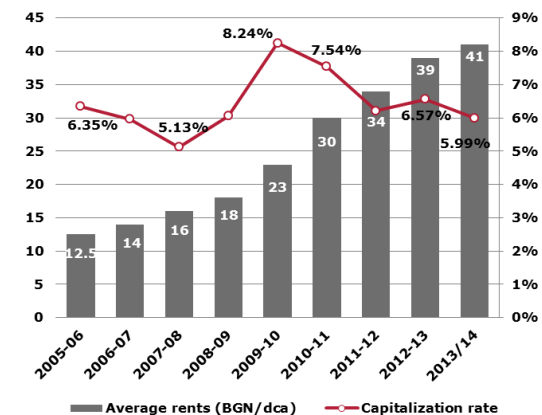
15% increase in land prices in Bulgaria in 2014

Exhibit 3: 2014 revealed an active land market



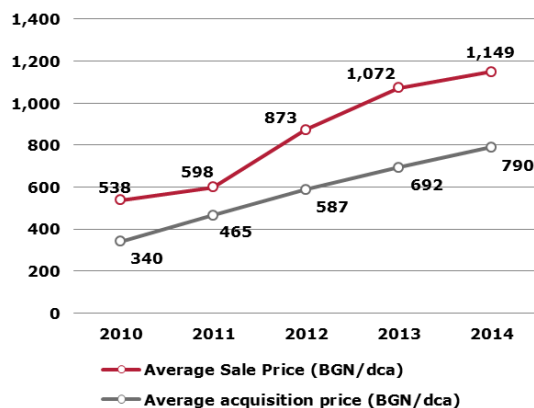
Source: National statistics institute

Exhibit 4: Land rents also continued their rise



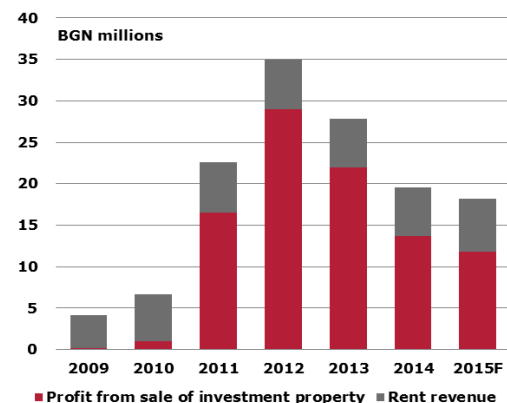
Source: National statistics institute

Exhibit 5: The Fund is able to close a lucrative land price profit margin, but the scissors shall be narrowing down...



Source: Company data

Exhibit 6: Profits from land sales to continue to be major return driver



Source: Company data, Elana Trading estimates

UPDATED VALUATION OF ADVANCE TERRAFUND

Since the land ownership limitation is no longer an obstacle, we revise our initial valuation of Advance Terrafund. To come up with a fair value of its net assets we value the Company's land portfolio at normal selling prices in line with what it has been able to accomplish under normal working conditions.

We take into account the current arable land portfolio plus the small portion of urban land it has on the books. With the regards to the latter, we do not expect the Fund to develop it in the foreseeable future but rather sell it when interest surfaces. Considering it was on the books for some time now, we apply a more conservative 30% discount to its book value to arrive at a fair value of the urban land.

When valuing the arable portfolio, we revise our previous conservative estimate of BGN 800 per dca selling price to BGN 1000 per dca as we believe this to be an achievable target for the Company under normal conditions. It already has been able to sell land on average prices of BGN 1000+/dca during the last two years.

In addition, we provide a 2014 dividend projection based on the currently available public information as well as the REIT regulatory dividend calculation matrix. The Fund has provisioned an obligatory dividend payment in line with our estimate. The final dividend decision, however, shall be taken at the yet to be scheduled AGM.

NAV VALUATION

(⁰⁰⁰ BGN)	
Arable Land (221 145 dca @ BGN 1000 per dca)	221,145
Urban Land (@ 30% discount to book value, as of Dec. 2014)	9,799
PPE	0
Short Term Assets	48,452
Total Assets	279,396
Less Liabilities	25,694
Net Assets Value	253,702
NAV per share (BGN)	2.98

NAV SENSITIVITY ANALYSIS TO LAND'S SELLING PRICE

	1000	900	800	700	600	500
Land price per decare (BGN)	1000	900	800	700	600	500
NAV (⁰⁰⁰ BGN)	253,702	231,587	209,473	187,358	165,244	143,129
NAV per share (BGN)	2.98	2.72	2.46	2.20	1.94	1.68
Current price per share	2.54	2.54	2.54	2.54	2.54	2.54
P/NAV	0.85	0.93	1.03	1.15	1.31	1.51

DIVIDEND PROJECTIONS

(⁰⁰⁰ BGN)	2013A	2014A	2015F
Net income	34,740	24,726	12,213
Plus/Minus net revaluation loss/gains	-14,037	-11,244	-128
Minus profit from land sales based on BV	22,010	13,661	11,802
Plus profit from land sales based on historic cost	35,174	25,600	18,802
Distributable Profit	33,867	25,421	19,086
90% Dividend Payout	30,480	22,879	17,177
Gross DPS @ mandatory 90% payout, BGN	0.3581	0.2688	0.2018
Declared Dividend	33,865		
Actual DPS paid (BGN)	0.39790		
Actual Dividend Payout	99.995%		

RECOMMENDATION AND PRICE TARGET

Several factors support the long-term positive trend of Advance Terrafund's shares: solid market and cash position, proven track record, and lucrative investment return via excellent dividend payout.

Currently, the Company trades at a 2.6% premium to its book value. However, the book value of the Company's land reflects too low of a historical value. Our revaluation of the land portfolio under current market conditions reveals a 15% discount to NAV including the expected dividend per share of BGN 0.27.

With no regulatory burdens in the way, we upgrade our HOLD recommendation to a **BUY** and value the stock at BGN 2.98 per share. The latter provides a 17% upside potential to the current market price. The risk of underperformance as compared to other Bulgarian stocks is low. The market reacted sharply to the potential regulatory damages. However, with its resolution market participants started accumulating positions again:

- Bulgarian institutional investors are not aggressively on the market as they like the stock for its excellent dividend return, good liquidity, excellent management and simple business model.
- Foreign institutional investors are still passive as there are still considering the regulatory resolution. However, they prefer the stock for its predictable dividend returns and good liquidity.
- Individual investors are active and have been on the market during past few weeks.

Recommendation: BUY

Target Price: BGN 2.98

Increase: 17%

INDIVIDUAL FINANCIAL DATA

INCOME STATEMENT (IN '000 BGN)	2011	2012	2013	2014	Q1 2014	Q1 2015	TTM	2015F
Total Revenue	22,670	34,982	27,958	19,656	2,319	1,734	19,071	18,273
Rent revenue	6,106	5,886	5,797	5,872	1,511	1,701	6,062	6,346
Profit from sale of investment property	16,487	29,034	22,010	13,661	795	8	12,874	11,802
Other revenue	77	62	151	123	13	25	135	125
Operating expenses	7,236	11,058	9,922	7,549	826	685	7,408	7,309
Cost of external services	6,675	10,230	8,809	7,182	794	653	7,041	6,944
Labor costs	112	112	117	117	28	31	120	146
Impairments on receivables	430	629	921	192	0	0	192	183
Other expenses	19	87	75	58	4	1	55	37
Profit/(Loss) from revaluation of investment property	39,781	22,626	14,037	11,244	0	0	11,244	128
EBIT	55,215	46,550	32,073	23,351	1,493	1,049	22,907	11,091
Interest revenue	2,018	2,652	2,670	1,379	643	85	821	1,125
Financial expenses	1	3	3	4	0	23	27	3
Net financial income (loss)	2,017	2,649	2,667	1,375	643	62	794	1,122
Net Income	57,232	49,199	34,740	24,726	2,136	1,111	23,701	12,213
EPS	0.672	0.578	0.408	0.291	0.025	0.013	0.278	0.144
BALANCE SHEET (IN '000 BGN)	2011	2012	2013	2014	Q1' 14	Q1' 15	TTM	2015F
Cash and cash equivalents	47,625	76,018	64,059	48,452	64,324	44,902	44,902	18,008
Account Receivables	6,500	6,268	5,208	2,878	6,705	3,772	3,772	5,897
Prepayments	14	16	13	564	564	564	564	180
Total Current Assets	54,139	82,302	69,280	51,894	71,593	49,238	49,238	24,085
Investment property	157,144	157,030	163,870	172,009	153,439	175,079	175,079	182,912
Machinery and equipment	39	65	245	0	0	0	0	0
Total Non-Current Assets	157,183	157,095	164,115	172,009	153,439	175,079	175,079	182,912
Total Assets	211,322	239,397	233,395	223,903	225,032	224,317	224,317	206,997
Accounts Payable	1,625	1,628	2,578	2,523	105	28	28	1,861
Accrued Expenses	0	45	100	67	3,860	1,344	1,344	30
Other Current liabilities (incl. Provisioned Dividend)	19,321	37,861	30,586	23,104	31,285	23,747	23,747	17,562
Total Current Liabilities	20,946	39,534	33,264	25,694	35,250	25,119	25,119	19,453
Long Term Liabilities	0	0	0	0	0	0	0	0
Total Liabilities	20,946	39,534	33,264	25,694	35,250	25,119	25,119	19,453
Share Capital	85,110	85,110	85,110	85,110	85,110	85,110	85,110	85,110
Additional Paid-in Capital	43,411	43,411	43,411	43,411	43,411	43,411	43,411	43,411
Retained Earnings	61,855	71,277	71,365	69,688	73,501	70,677	70,677	59,023
Total Shareholders' Equity	190,376	199,798	199,886	198,209	202,022	199,198	199,198	187,544
Total Liabilities and Equity	211,322	239,332	233,150	223,903	237,272	224,317	224,317	206,997
Net Assets	190,376	199,863	200,131	198,209	189,782	199,198	199,198	187,544

ADVANCE TERRAFUND Overview

Ticker	6A6	Recommendation	BUY	Outstanding Shares	85.11 m
Bloomberg ticker	6A6 BU	Last review	April 30 th , 2015	Free Float	63.69%
Current Price	BGN 2.54	1Y Target Price	BGN 2.98	Avr. Daily Volume	BGN 43,000

COMPANY PROFILE

Advance Terrafund is the largest REIT owner of agricultural land in Bulgaria. It is also one of the largest owners of land in the country after the Bulgarian state. It owns 22 ha. of arable land which it rents or leases to farmers.

The Fund's holdings are mainly concentrated in the most fertile regions of the country: 40% of the land is in North-East Bulgaria.

The company was established in 2005 to take advantage of the consolidation wave in the agricultural sector as arable land was highly fragmented at time point in time. In addition, it took advantage of the lower land prices which almost tripled from the EU accession of Bulgaria (2007) until nowadays.

The REIT rents or leases its vacant land for a period of up to 4 years to more than 500 farmers, mainly producers of grain and technical crops. Payments are received on yearly basis and are tight to the annual increase of subsidies to agricultural producers. The Fund receives steady cash flows that cover its fixed costs. The average rent on new contracts for 2013-2014 is EUR 128 per ha.

FUNDAMENTAL STORY

Advance Terrafund has accumulated considerable and high quality land portfolio at attractive prices over the years. Since the Fund's inception market prices of land have tripled, although they are still well below EU average. This allows for considerable profits from the sale of investment property which the fund has realized in the last couple of years. It has distributed 90% of these profits to investors, as required by law, and still manages to keep considerable cash positions. The value of land on its books has gone up since inception as the Fund replenished sold land. However, the average book value is below market levels, which makes the Fund a good investment opportunity.

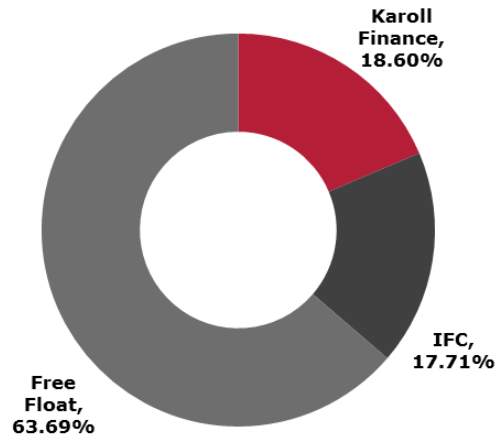
Despite the fact that the Fund's market capitalization corresponds to NAV, it manages to sell plots at 40% higher prices than the acquisition prices as concentrated land plots have higher prices compared to regular fragmented plots.

Additionally, in the last two years major players have emerged in the industry interested in acquiring considerable land portfolios of more than 20 to 40K ha. Thus, the potential for mergers and acquisitions in the sector is currently high.

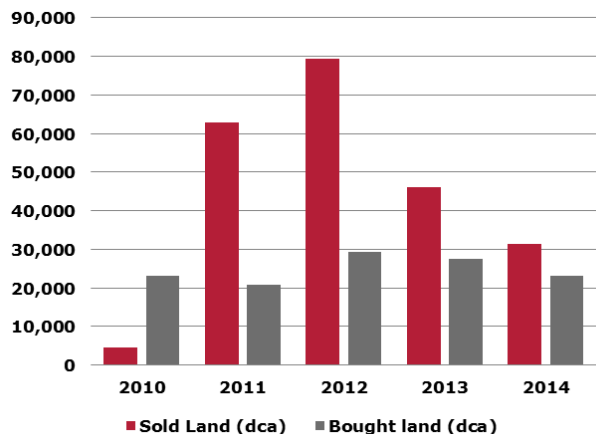
STRENGTHS & OPPORTUNITIES

- Diversified land portfolio with 45% exposure to higher quality regions in North-West and North-Central Bulgaria
- Stable income from rents
- Good corporate governance
- Good stock liquidity
- 90% of income distributed as dividends as required by local REITs regulation
- Preferred stock for both institutional and individual investors
- High M&A potential in the industry with big players on the lookout for major portfolio acquisitions

SHAREHOLDERS' STRUCTURE



PORTFOLIO TURNOVER



WEAKNESSES & THREATS

- Land price increase affects new purchases potential
- Rent receivables collection slow down
- Bad agricultural season may lower rents considerably
- New EU agricultural subsidies policy for the 2014-2020 period to limit subsidies growth

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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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