

## ADVANCE TERRAFUND

### INDUSTRY: REIT/AGRICULTURAL LAND

### OUTPERFORMING EVEN IN TOUGH TIMES

**BIGGEST LAND REIT IN BULGARIA, ADVANCE TERRAFUND OUTPERFORMS EXPECTATIONS DESPITE A YEAR ON A CROSSROAD. THE COMPANY'S FY2015 RESULTS ARE SET TO BE BETTER THAN MANAGEMENT GUIDANCE. WITH THE SHIFT IN ITS STRATEGY MIDTERM DY TO SETTLE C.5% AS REVENUE STREAM WILL SMOOTH OUT.**

#### OUTPERFORMS EXPECTATIONS

Advance Terrafund, the biggest land banking REIT in Bulgaria, outperformed guidance despite a difficult 2015. The company sold more land than preliminary anticipated thus delivering higher current income for investors. It accelerated land sales at the end of the year after regulatory obstacles prevented the Fund from land transactions pre-June 2015. With the regulatory issue eliminated in mid-2015, Advance Terrafund sold 7212 dca vs a 5400 dca guidance. Overall volume sold is below our expectation but average selling price outperformed forecasts. Average land selling price was BGN 1373/dca up 19.5% y/y and 17.25% above our expectations.

#### DIVIDEND YIELD TO AVERAGE 5% FOR 2015

Outperforming 2015 land sales should yield higher current income than management guidance. We estimate a BGN 0.096 DPS from 2015 net profit at 90% payout and BGN 0.105 DPS at 98% payout with the former being regulatory payout and the latter Advance Terrafund normal payout. This yields 4.6% and 5.04%, respectively, at current market quotes and should stay in the c.5% range in the midterm if the company maintains current strategy. Five year average DY stood at 12.3% distributing BGN 125m to investors over the period due to accelerated land sales.

#### SHIFT IN STRATEGY TO SMOOTH OUT RETURNS

Advance Terrafund has shifted its strategy from sole direct land sales to a more balanced divestment strategy – a mix of direct lands sales and land leasing, to smooth out returns and cash flows and better execute its long term land banking strategy. Since inception, the REIT has purchased and sold 47K+ ha and 23K+ ha of land, respectively, with consolidated land plots' sales being main return driver. In 2015, Advance Terrafund began land sales with deferred payment (leasing) to earlier tap on higher selling prices. While revenue recognition will extend over a longer period the price premium the company will get should yield a more balanced and predictive average return. In 2015, average land leasing prices achieved by the company in 2015 add 8.5% premium to average direct sales prices for the year, BGN 1490/dca vs. BGN 1373/dca, respectively. The Fund leased 2424 dca over the course of the year.

#### VALUATION/RISKS

**VALUATION:** With the regulatory burden behind, Advance Terrafund has as expected returned to normal operations which makes us comfortable to reiterate our BUY recommendation. We slightly lower our target price in light to new cash and portfolio position from BGN 2.98 to BGN 2.89 per share which still leaves a 38% upside to current quotes. **RISKS:** Extreme weather to limit farmers' demand and ability to acquire land; New takeover attempts to distract fund's management from normal operations

in kBGN, excl. ratios	2012	2013	2014	2015	2016F
Revenues	34 982	27 958	19 656	12 628	16 951
Net profit	49 199	34 740	24 726	7 081	8 555
Total Assets	239 397	233 395	223 903	210 190	224 534
Land portfolio (dca)	244 151	225 502	217 081	229 056	237 480
BV of Invest. Property	157 030	163 870	172 009	178 596	196 873
Debt, excl. prov. dividend	1 673	2 678	2 590	7 602	3 418
Total Equity	199 798	199 886	198 209	202 588	213 913
ROE	24.62%	17.38%	12.47%	3.50%	4.00%
EPS (BGN)	0.578	0.408	0.291	0.083	0.101
DPS (BGN)*	0.493	0.398	0.300	0.105	0.092
BVPS (BGN)	2.348	2.349	2.329	2.380	2.513
Dividend Payout*	100%	99.99%	98%	98%	98%
Dividend yield*	18.97%	14.21%	11.77%	5.04%	4.52%

\* 2015 and 2016 data Elana Trading forecasts

**BUY**
**ONE YEAR PRICE TARGET: BGN 2.89**
**CURRENT PRICE: BGN 2.08**

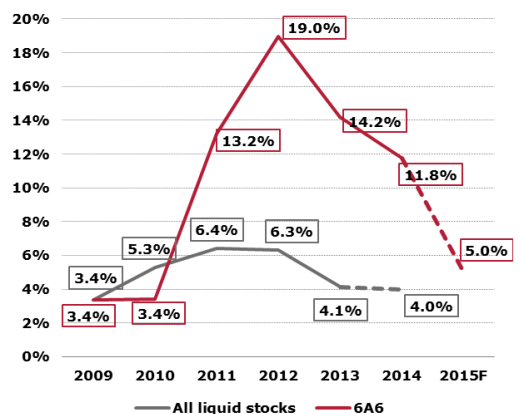
#### EXCHANGE RATES

**EUR/BGN (FIXED): 1.95583**
**USD/BGN: 1.76598**

#### MARKET DATA

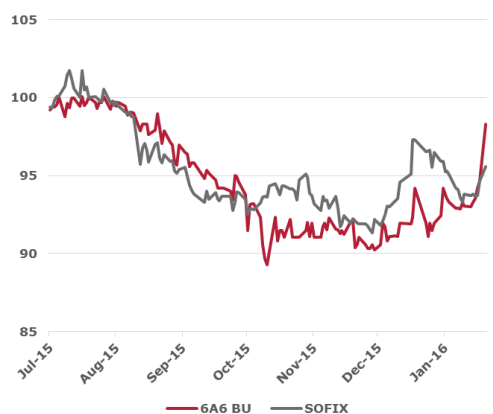
Shares Outstanding:	<b>85.110m</b>
Share Capital:	<b>85.110m</b>
Free-float:	<b>64%</b>
Market Cap.:	<b>BGN 174.5 m</b>
Avg. Daily Vol.:	<b>BGN 92,000</b>
52 Weeks Range:	<b>BGN 1.96-2.32</b>
BSE Ticker	<b>6A6</b>
Bloomberg Ticker	<b>6A6 BU</b>

#### DIVIDEND YIELD TO SETTLE AROUND 5%



Source: Elana Trading

#### ... AND PERFORMANCE TO FOLLOW THE MARKET



Source: Bloomberg

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## ADVANCE TERRAFUND'S PERFORMANCE REVIEW

Advance Terrafund had a tough year but outperformed expectations. The Company could not temporarily operate normally due to ridiculous regulatory issues. A regulatory change prevented the Fund from selling/buying land without a penalty for the Company. However, the Bulgarian Parliament abolished the questionable regulation in early summer and the Fund initiated normal land banking operations.

*Outperforms land sales volume guidance*

Over the course of the second half of 2015, Advance Terrafund accelerated land sales and initiated land leasing operations to smooth out revenue and cash flow streams and to lock in higher land prices. Management guidance was to have 5400 dca of land sold and 2400 dca leased by the end of the year. However, due to higher demand the company sold 7212 dca of land or 33% above guidance and leased 2424 dca in line with guidance. For 2016, the Company already has preliminary sale agreements for c.4600 dca. Keeping the current strategy, we thus expect 2016 direct land sales to average 9000 dca.

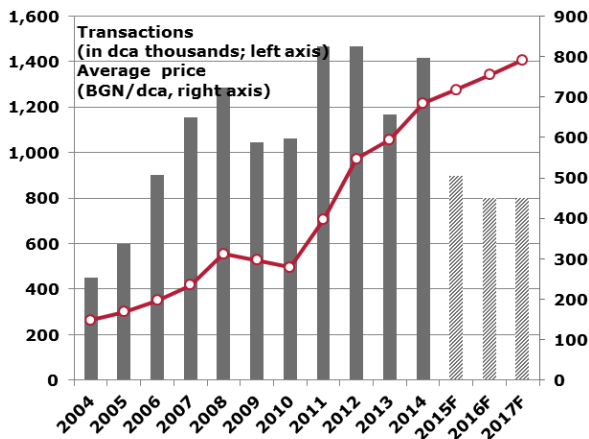
The 2015 sales volume results were below our initial estimate from April 2015 for 28K dca of land sold. Nevertheless, the Company significantly outperformed with the selling price levels achieved over the course of the year. Average direct land selling price stood at BGN 1373/dca or 17.25% above our expectations. This is 19.5% y/y change from the average selling price achieved in 2014.

*Taps 19% higher selling prices in 2015*

Advance Terrafund was also able to lock in another 8.5% premium in prices with the land leasing contracts it signed over the course of 2015. Average leasing prices stood at BGN 1490/dca which is slightly below the company's initial expectations of BGN 1600/dca. It signs 5 year leasing contracts with a 25% down payment at the contract start and five consecutive equal payments.

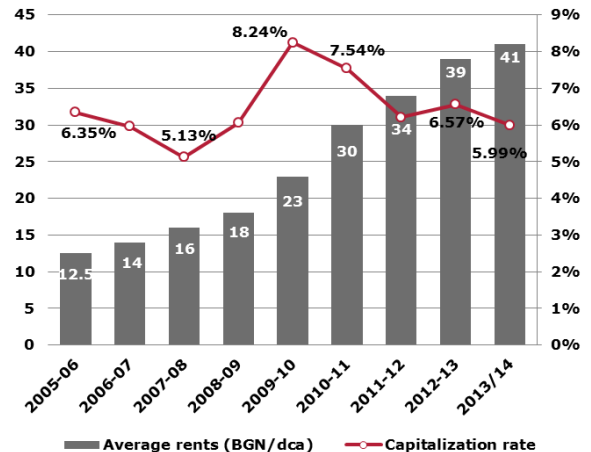
In 2015, Advance Terrafund managed to add 21.5K of land to its portfolio at an average price of BGN 827/dca or 4.68% above the average price a year ago. Accordingly, at the end of 2015 the Company operates 229K dca of land (23K ha). It has rented 75% of it (170.8K dca) at a BGN 43.1/dca or 5% y/y rise in average land rents.

Exhibit 3: Land market remains active



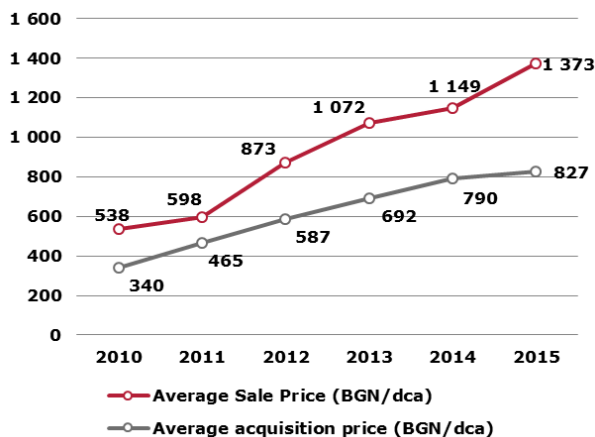
Source: National statistics institute

Exhibit 4: Land rents continue their rise



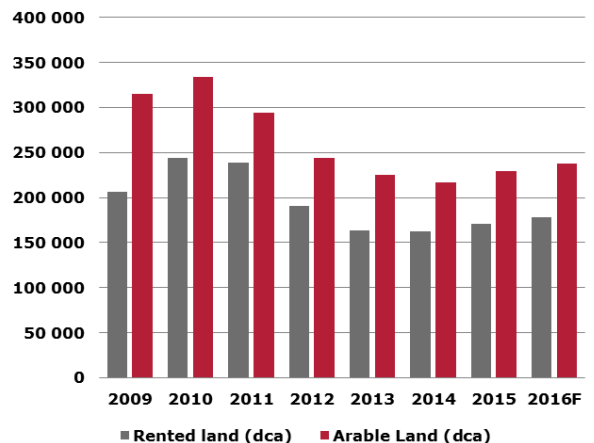
Source: National statistics institute

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 a major profit driver but rented land also steady return generator



Source: Company data, Elana Trading estimates

## UPDATED VALUATION OF ADVANCE TERRAFUND

We value Advance Terrafund based on its current portfolio of land owned at market observable land prices. To value the arable land portfolio which represent 90% of the fund's total portfolio we apply a conservative BGN 1000/dca land selling price while the Company currently sells land at an average price of BGN 1373/dca.

We also consider the small chunk of urban land in the Company's balance sheet but discount its book value by 30% as the fund has been inactive with it for a long time and we do not consider it being developed but rather sold at some future time.

Accordingly, we slightly lower our target price from BGN 2.98 per share to BGN 2.89 per share.

Finally, we estimate a BGN 0.096 dividend per share from 2015 profits at 90% dividend payout. The company's normal payout, however, is 98%, thus our 2015 DPS projection is for BGN 0.105. Both yield 4.6% and 5.02% at current market quotes, respectively.

We arrive at our dividend estimations considering a regulatory profit distribution matrix that takes in consideration actual realized profit on the sale of investment property based on historic cost. To arrive at the actual realized profit we estimate a BGN 500/dca historic cost considering a BGN 335/dca historic cost derived from Company data.

Finally, when estimating regulatory dividend profit on financial leasing sales are recognized and distributable when property title transfers at the end of the leasing contract. Accordingly, in 2015 we disregard leasing profit from distributable profit.

### NAV VALUATION

( <sup>000</sup> BGN)	
Arable Land (229K dca @ BGN 1000 per dca)	229 056
Urban Land (@ 30% discount to book value, as of Dec. 2015)	9 799
PPE	0
Short Term Assets	22 967
Total Assets	261 822
Less Liabilities, including dividend	15 793
<b>Net Assets Value</b>	<b>246 029</b>
<b>NAV per share (BGN)</b>	<b>2.89</b>

### 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 ( <sup>000</sup> BGN)	246 029	223 123	200 218	177 312	154 407	131 501
NAV per share (BGN)	2.89	2.62	2.35	2.08	1.81	1.55
Current price per share	2.08	2.08	2.08	2.08	2.08	2.08
<b>P/NAV</b>	<b>0.72</b>	0.79	0.88	1.00	1.15	1.35

### DIVIDEND PROJECTIONS

( <sup>000</sup> BGN)	2013A	2014A	2015F
<b>Net income</b>	<b>34,740</b>	<b>24 726</b>	<b>7 081</b>
Plus/Minus net revaluation loss/gains	-14,037	-11 244	8
Minus profit from land sales based on BV	22,010	13 661	5 399
Plus profit from land sales based on historic cost and title transferred; no financial leasing profit	35,174	25 600	7 411
<b>Distributable Profit</b>	<b>33,867</b>	<b>25 421</b>	<b>9 101</b>
90% Dividend Payout	30,480	22 879	8 191
<b>Gross DPS @ mandatory 90% payout, BGN</b>	<b>0.358</b>	<b>0.269</b>	<b>0.096</b>
Declared Dividend	33,865	25 541	
<b>Actual DPS paid (BGN)</b>	<b>0.398</b>	<b>0.300</b>	
Actual Dividend Payout	99.995%	100.5%	

## INDIVIDUAL FINANCIAL DATA

INCOME STATEMENT (IN '000 BGN)	2011	2012	2013	2014	Q4 2014	Q4 2015	TTM	2016F
<b>Total Revenue</b>	<b>22,670</b>	<b>34,982</b>	<b>27,958</b>	<b>19,656</b>	<b>19 656</b>	<b>12 628</b>	<b>12 628</b>	<b>16 951</b>
Rent revenue	6,106	5,886	5,797	5,872	5 872	7 150	<b>7 150</b>	8 015
Profit from sale of investment property	16,487	29,034	22,010	13,661	13 661	5 399	<b>5 399</b>	8 808
Other revenue	77	62	151	123	123	79	<b>79</b>	129
<b>Operating expenses</b>	<b>7,236</b>	<b>11,058</b>	<b>9,922</b>	<b>7,549</b>	<b>7 549</b>	<b>5 697</b>	<b>5 697</b>	<b>8 662</b>
Cost of external services	6,675	10,230	8,809	7,182	7 182	5 015	5 015	8 137
Labor costs	112	112	117	117	117	130	130	203
Impairments on receivables	430	629	921	192	192	225	225	170
Other expenses	19	87	75	58	58	327	327	153
Profit/(Loss) from revaluation of investment property	39,781	22,626	14,037	11,244	11 244	-8	-8	17
<b>EBIT</b>	<b>55,215</b>	<b>46,550</b>	<b>32,073</b>	<b>23,351</b>	<b>23 351</b>	<b>6 923</b>	<b>6 923</b>	<b>8 306</b>
Interest revenue	2,018	2,652	2,670	1,379	1 379	160	160	253
Financial expenses	1	3	3	4	4	2	2	4
<b>Net financial income (loss)</b>	<b>2,017</b>	<b>2,649</b>	<b>2,667</b>	<b>1,375</b>	<b>1 375</b>	<b>158</b>	<b>158</b>	<b>249</b>
<b>Net Income</b>	<b>57,232</b>	<b>49,199</b>	<b>34,740</b>	<b>24,726</b>	<b>24 726</b>	<b>7 081</b>	<b>7 081</b>	<b>8 555</b>
<b>EPS</b>	<b>0.672</b>	<b>0.578</b>	<b>0.408</b>	<b>0.291</b>	<b>0.291</b>	<b>0.083</b>	<b>0.083</b>	<b>0.101</b>

BALANCE SHEET (IN '000 BGN)	2011	2012	2013	2014	Q4'14	Q4'15	TTM	2016F
Cash and cash equivalents	47,625	76,018	64,059	48,452	48 452	22 967	22 967	8 650
Account Receivables	6,500	6,268	5,208	2,878	2 878	2 369	2 369	3 774
Prepayments	14	16	13	564	564	564	564	119
<b>Total Current Assets</b>	<b>54,139</b>	<b>82,302</b>	<b>69,280</b>	<b>51,894</b>	<b>51 894</b>	<b>25 900</b>	<b>25 900</b>	<b>12 542</b>
Investment property	157,144	157,030	163,870	172,009	172 009	178 596	178 596	196 873
Non-current assets available for sale	39	65	245	0	0	3 314	3 314	8 700
Financial leasing receivables					0	2 380	2 380	6 418
<b>Total Non-Current Assets</b>	<b>157,183</b>	<b>157,095</b>	<b>164,115</b>	<b>172,009</b>	<b>172 009</b>	<b>184 290</b>	<b>184 290</b>	<b>211 992</b>
<b>Total Assets</b>	<b>211,322</b>	<b>239,397</b>	<b>233,395</b>	<b>223,903</b>	<b>223 903</b>	<b>210 190</b>	<b>210 190</b>	<b>224 534</b>
Accounts Payable	1,625	1,628	2,578	2,523	25 627	7 273	7 273	3 390
Accrued Expenses	0	45	100	67	67	329	329	28
Other liabilities (incl. Provisioned Dividend)*	19,321	37,861	30,586	23,104	0	0	0	7 202
<b>Total Current Liabilities</b>	<b>20,946</b>	<b>39,534</b>	<b>33,264</b>	<b>25,694</b>	<b>25 694</b>	<b>7 602</b>	<b>7 602</b>	<b>10 621</b>
Long Term Liabilities	0	0	0	0	0	0	0	0
<b>Total Liabilities</b>	<b>20,946</b>	<b>39,534</b>	<b>33,264</b>	<b>25,694</b>	<b>25 694</b>	<b>7 602</b>	<b>7 602</b>	<b>10 621</b>
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	81 551	74 067	74 067	85 392
Total Shareholders' Equity	190,376	199,798	199,886	198,209	210 072	202 588	202 588	213 913
<b>Total Liabilities and Equity</b>	<b>211,322</b>	<b>239,332</b>	<b>233,150</b>	<b>223,903</b>	<b>235 766</b>	<b>210 190</b>	<b>210 190</b>	<b>224 534</b>
<b>Net Assets</b>	<b>190,376</b>	<b>199,863</b>	<b>200,131</b>	<b>198,209</b>	<b>198 209</b>	<b>202 588</b>	<b>202 588</b>	<b>213 913</b>

\* Dividend provisions for 2015 to be applied after financial reports' auditor review

## ADVANCE TERRAFUND Overview

<b>Ticker</b>	6A6	<b>Recommendation</b>	BUY	<b>Outstanding Shares</b>	85.11 m
<b>Bloomberg ticker</b>	6A6 BU	<b>Last review</b>	February 1 <sup>st</sup> , 2016	<b>Free Float</b>	63.69%
<b>Current Price</b>	BGN 2.08	<b>1Y Target Price</b>	BGN 2.89	<b>Avr. Daily Volume</b>	BGN 92,000

### 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 23K 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.

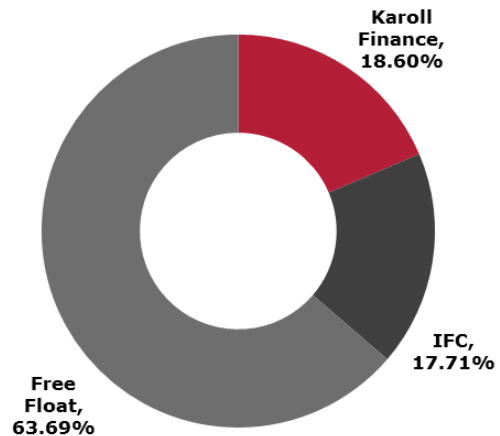
Despite the fact that the Fund's market capitalization corresponds to NAV, it manages to sell plots at 40% higher prices than the acquisition prices as concentrated land plots have higher prices compared to regular fragmented plots.

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

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