

ELANA AGROCREDIT

INDUSTRY: FINANCIAL LEASING/AGRICULTURE

STEADY, SOUND, PREDICTABLE

WITH 11% RETURN SINCE INCEPTION, ELANA AGROCREDIT REAPS THE PROFITS FROM ITS LEAN BUSINESS MODEL OF FINANCING LAND-HUNGRY FARMERS FOR ARABLE LAND ACQUISITION. THE COMPANY WILL PERFORM AS A BOND-LIKE INVESTMENT GETTING STEADY PREDICTABLE PROFITS FROM THE ONGOING LAND APPRECIATION IN BULGARIA ENCOURAGED BY EU FUNDING FOR THE SECTOR. NEXT 5 YEARS DIVIDEND TO AVERAGE 9%.

LEAN BUSINESS MODEL

Elana Agrocredit operates a lean business model extending lease financing to local small to mid-sized farmers for arable land acquisition. It extends fix rate, up to 10 years leases, with 20% down payment and acquired land as collateral. The latter limits the default rate negatives as land is disposed of straight away in case of default with the down payment as a loss cushion. It also extends short-term working capital loans thus profiting on farmers' ongoing farming needs (fertilizers, seeds, etc.). All lending activity in line with agricultural year.

GROWING MARKET AND DEMAND

Double 2014-2020 EU agricultural subsidies vs 2007-2013 funding for smaller and younger farmers and rising land rents encourage farmers to buy rather than rent land. Thus, the Company takes advantage of the rising land demand which pushed land prices up. Still, the latter remain 3x below EU average.

EXCELLENT MOMENTUM

3900 ha of arable land funded, 1200+ deals, and BGN 22m+ leasing portfolio built in two years since inception in mid2013. With a 2:1 debt to equity target, the Company to double size and portfolio by end of 2017.

LUCRATIVE INVESTOR RETURN STRATEGY

ELANA Agrocredit's structure mirror images a REIT, thus ensuring a guaranteed annual dividend return. It is obliged to distribute 90% of annual profits. First dividend came in 2015 after first full year of operations and stood at BGN 0.062 per share. Upcoming 2015 profits' dividend projected at BGN 0.049 per share thus cumulatively returning 11% to initial investors since inception. 2016 profit projection entails a BGN 0.10 per share dividend or 9.2% yield at current quotes. Dividends over the next 5 years to easily average 10% on the Bulgarian lev or 9% average five year DY at current quotes.

EXPERIENCED MANAGEMENT TEAM, CONTROLLED BY INSTITUTIONAL INVESTORS

The Company is managed by the experienced team of the biggest of land REIT \in Bulgaria - ELARG that yielded 18% average annual return at liquidation. Elana Agrocredit's management is elected and controlled by the biggest four pension and asset managers in Bulgaria, also key shareholders in the Company.

VALUATION/RISKS

VALUATION: We raise our initial valuation from BGN 1.16 to BGN 1.19 per share based on an equally weighted DDM and RI models. This entails about 10% upside to current quotes which makes up comfortable to keep our BUY recommendation. **RISKS:** Weather conditions to impact farmers' credit quality; New players entering the market; Land market losing momentum

in kBGN, excl. ratios	2014	2015	2016F	2017F
Revenues	955	1 793	3 612	4 948
Net profit	340	1 034	2 130	2 695
Total Assets	11 256	24 546	39 939	59 554
Financed land (ha)	1 780	3 841	6 341	8 941
Total Debt	5 657	3 994	17 902	36 535
Equity	5 425	20 182	21 491	22 326
ROE	6.27%	5.12%	9.91%	12.07%
Debt/Equity	104%	20%	83%	164%
Net profit margin	36%	58%	59%	54%
EPS	0.066	0.055	0.113	0.143
DPS	0.062	0.049	0.101	0.128
P/B	0.948	1.030	0.976	0.940
Payout ratio	94%	90%	90%	90%
Dividend yield	6.20%	4.48%	9.14%	11.56%

BUY
ONE YEAR PRICE TARGET: BGN 1.19
CURRENT PRICE: BGN 1.11

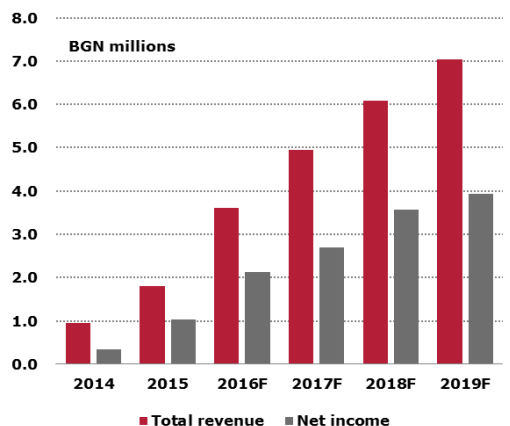
EXCHANGE RATES

EUR/BGN (FIXED): 1.95583
USD/BGN: 1.80145

MARKET DATA

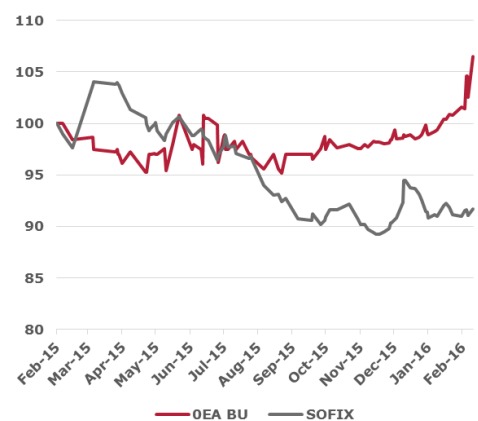
Shares Outstanding:	18.9 m
Share Capital:	18.9 m
Free-float:	69%
Market Cap.:	BGN 21m
Avg. Daily Vol.:	BGN 10,000
52 Weeks Range:	BGN 1.02-1.13
BSE Ticker	OEA
Bloomberg Ticker	OEA BU

35% CAGR OF NET INCOME OVER THE NEXT 5 YEARS ACHIEVABLE



Source: Company Data, Elana Trading estimates

LEADING AHEAD THE MARKET



Source: Bloomberg

EXECUTIVE SUMMARY

WE KEEP OUR BUY RECOMMENDATION AND RAISE OUR ONE YEAR PRICE TARGET TO BGN 1.19 PER SHARE WHICH PROVIDES ABOUT 10% UPSIDE OVER THE NEXT 12 MONTHS.

THE COMPANY

Elana Agrocredit (the Company) is the first and so far the only company in Bulgaria specialized in financial leasing for agricultural land acquisition. It was created in 2013 by the team at ELANA that in 2005 started the first and biggest of its time REIT for agricultural land in Bulgaria – ELARG. ELARG was liquidated in 2013, yielding an 18% average annual return.

Elana Agrocredit is registered as a joint stock company but is run as a REIT. The Company's incorporation documents stipulate it will distribute 90% of profits, thus offers the most lucrative REIT feature – current income.

Business Model: Elana Agrocredit operates a lean business model – financing farmers to buy rather than rent arable land. It is a leasing company focused on financing farmers to buy land and fund their operations. It taps on the local farmers' goal to increase the land they own as farming in Bulgaria enters a new more sustainable level of development due to the steady land price appreciation and the increased EU funding for the sector.

The Company extends long term lease contracts (up to 10 years) at a fixed interest, 20% down payment and a fixed annual BGN 5 per decare management fee paid by the lessees. Elana Agrocredit keeps the land as collateral, thus significantly limiting the default rate negatives as it can easily dispose of the collateral with a 20% buffer to the disposal price.

The Company targets smaller to mid-sized farmers (50 to 1500 ha) as they would be able and willing to get financing to purchase more land. The new 2014-2020 EU agricultural funding scheme targets exactly smaller and younger farmers as well as overlooked agricultural products thus encouraging the former to buy rather than rent land. In addition, the EU funding for 2014-2020 is twice the 2007-2013 subsidies.

In addition, the company started extending short term (1 year) working capital loans for fertilizers, seeds and other necessities the farmers need during the agricultural year. Working capital loans per farmer are limited to the principal payments on their leases thus, tapping additional interest income on the recycled investment funds.

Since inception, Elana Agrocredit has invested BGN 27.3m with the generated portfolio ensuring collateral of 39K dca of land (3.9K ha) at an average price of BGN 711.56 per dca. The company has financed 240+ clients in 1200+ deals with average deal size of BGN 23K and average 33 dca per deal. In 2015, it also began extending working capital loans to farmers with leasing contracts with the Company and by the end of the year has finalized 80 deals for c. BGN 2.2m.

All leasing and credit activity are especially arranged to be in line with agricultural year allowing farmers to pay interest and principal once per annum at the end of the agricultural year – mid September.

Funding: Elana Agrocredit targets a 2:1 debt to equity ratio for its operations. Since inception it has raised BGN 5.1m in an Initial Public Offering on the Bulgarian stock Exchange in Nov.2013 and another BGN 14m in a secondary capital raise in April 2015. The European Bank for Reconstruction and Development has also extended a EUR 5m loan on two equal tranches of EUR 2.5m with the second tranche to be used in 2016.

Elana Agrocredit is registered with the Bulgarian National Bank as a leasing company. It has good corporate governance, publishes financial reports and material investor information in English and organizes Investor meetings on a regular basis at preannounced dates. Distributes 90% of profits.

THE COUNTRY AND THE MARKET

The country is under a Currency board arrangement and the Bulgarian lev is pegged to the Euro at 1.95583.

Economic development has accelerated in 2015 to real GDP growth of 3% in 2015, highest since 2008, due to increased government spending and higher EU funding absorption but also rising exports and household consumption. We expect economic development to remain in the 2% to 3% range in 2016, slightly decelerating due to government and EU subsidies readjustments. Nevertheless, growth remains below potential as key structural reforms such as in judiciary, health care, pension insurance and energy sectors are yet to be either executed and to bear fruits to unlock further growth potential. Additionally, upcoming banking sector asset quality review and stress tests pose uncertainty.

The land market in Bulgaria has seen a drastic change over the last 25 years. EU accession revitalized it with speculative institutional investors entering the market and driving up land prices. Currently, this speculative wave is fading away and giving room to farmers supported by the new EU structural funding for the agricultural sector. The latter shall be more favorable to smaller and mid-sized farmers thus, encourage land demand. Land prices appreciation has averaged 9.9% over the last decade. We expect them to continue to rise at a more sustainable 5% CAGR by 2020.

THE VALUATION

We use the dividend discount and a residual income models to value Elana Agrocredit and we arrive at a BGN 1.19 fair value per share or about 10% above the current market quotes. The latter already incorporates BGN 0.046 per share anticipated dividend.

SOME RISKS

Extreme unfavorable weather conditions may limit farmers' ability to repay leases and demand for land.

Lack of sufficient capital (debt and equity) available for new lease contracts may limit Elana Agrocredit's ability to generate higher investor returns.

New players entering the market, including existing leasing companies entering the segment which they have overlooked so far due to lack of experience and unsuitable collateral requirements towards potential lessees.

COMPANY OVERVIEW

Elana Agrocredit is so far the only financial institution specialized in extending leases for the acquisition of agricultural land. Local banks provide such financing but at a much more complex model. Contrary to banks, the Company operates via a broker network which works very closely with farmers. Brokers cover 23 of 28 districts in the country and are expected to extend all over Bulgaria in 2016.

Only financial institution to target smaller farmers for land purchase

The Company structures leases to reflect farmers’ business cycle i.e. lease interest and principal is paid once a year in mid-September when farmers have gathered and sold their crops and thus have cash.

In 2015, Elana Agrocredit has doubled invested funds to BGN 27.3m and doubled the area of finance land to 38.4K dca. It has also expanded the geographical allocation of the financed plots from Northern to Southern Bulgarian including overlook but well subsidized new arable and meadow areas in the country. Expansion was feasible as the new 2014-2020 EU agricultural funding scheme kicked in 2015 and started subsidizing so far overlooked areas, crops and farming activities. The new subsidies favor smaller and younger farmers as well as broader agricultural products as fruits and vegetables rather than bigger farmers and cereals as it was during the past 2007-2013 EU program period.

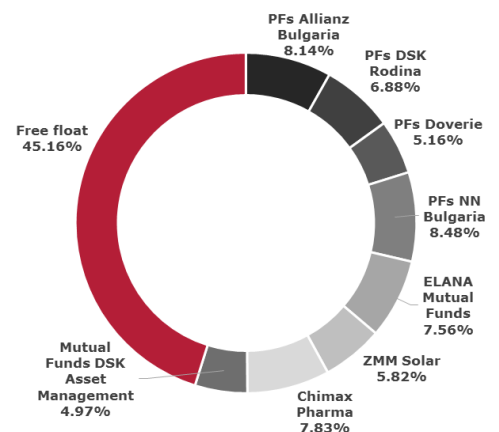
Going forward the Company envisions extending lease financing for other farming investments as new irrigation systems and/or new agricultural machinery and equipment.

SHAREHOLDERS’ STRUCTURE

Elana Agrocredits’ registered capital consists of 18.9 million ordinary shares. They are distributed among local institutional and individual investors with no single entity exceeding a 10% shareholding threshold.

Key shareholders are for of the biggest local pension and asset managers in Bulgaria. These include pension funds of Allianz, Doverie, DSK Rodina and NN Bulgaria. The latter four, together with local mutual funds and sophisticated investors own up to 55% of the share capital. The rest is free float. Nevertheless, real free float is 69% as only five entities exceed the 5% threshold.

Outstanding shares: 18 902 402



MANAGING COMPANY

Agromanagement, owned by Elana Holding, is the Elana Agrocredit’s managing company. Shareholders have entitled it with a quarterly and an annual fee.

5% annual hurdle rate for the managing company

The quarterly fee is based on actual funds invested payable in four installments at the end of each quarter calculated as follows: BGN 43,750 + 0,125% of the excess of investments over BGN 20m when invested funds are over BGN 20m.

The annual fee is a performance based fee (success fee) and is equal to 20% of any profits in excess of a 5% hurdle rate each year. No success fee is owed to Agromanagement if the realized profit before taxes over the Company’s base capital is less than 5%.

POTENTIAL CATALYSTS

GROWING LAND MARKET: After experiencing a fast land price appreciation around Bulgaria’s EU accession (9% CAGR over the last decade) due to large speculative land investors, we expect the local land market to continue growing at a conservative and more sustainable 5% CAGR until 2020. Accordingly, farmers will be encouraged to own rather than rent the continuously appreciating asset.

HIGHER FARMERS’ DEMAND FOR LAND: Higher agricultural subsidies as well as targeted funding for smaller and younger farmers and more overlooked agricultural products to further stimulate land demand. The 2014-2020 direct EU agricultural subsidies in Bulgaria will be twice the 2007-2013 subsidies– BGN 5.5 bn vs. 2.5 bn, respectively.

SECTOR OVERVIEW

LAND MARKET

The land market in Bulgaria underwent a drastic change in the last 25 years. In the 1990s, after the fall of the communist regime, it went through a tough restitution process leaving land highly fragmented and in the hands of millions of individual owners who did not have the willingness and/or the ability to cultivate it.

Currently, 80% of land holdings in the country are of a 2 ha size or less which is half the EU average, according to data from the European Commission (EC). At the same time, land prices in Bulgaria are 3x below EU average even after taking into account the huge difference between member-state's land markets. Nevertheless, land prices have been on the rise since Bulgaria started its EU entrance process mainly due to anticipated EU agricultural subsidies.

Prices almost tripped over a decade from BGN 137/dca in 2000 to BGN 429/dca in 2013, registering 9.9% CAGR, according to national statistics. However, official statistics differ significantly from real market prices as official deals are struck below market price to avoid administrative and tax burdens. Additionally, land prices differ significantly depending on the region's fertility reaching as high as BGN 1500/dca in the most fertile region of the country - the Northeast.

Land consolidation has also been on an ascent since the beginning of the 2000s, encouraged also by high economic growth, good agricultural output and rising land rents. Accordingly, over the last decade small land holdings declined by half while holdings of 100ha+ have doubled. Still, the latter represent less than 2% of all land holdings, EC data further reveals.

Historically land demand came from local farmers which took part in 90-95% of the land transactions. Speculative institutional investors became active in the years right before and just after Bulgaria joined the EU in 2007 accumulating large land portfolios of 20K+ ha at attractive prices. This wave drove up both the number of transactions and the amount of transacted land. Overall, as speculative players accumulated large chunks of land (c.5% of usable agricultural land), they became takeover targets as in the cases of ELARG, Agro Finance REIT and Seres with total land portfolio of 60K+ ha. They were bought out in the period of 2012-2013 by large local industrial conglomerates which additionally drove up land transaction statistics.

We see the speculative wave fading away and local farmers returning as major land demand drivers. In the next decade, we expect to see farmers dominating the land market again both in terms of the number and size of land transactions. We expect the latter to settle down to pre-speculative wave levels (i.e. 50K to 80K) with land prices registering a 5% CAGR in the next decade. Some regions in the country may register higher appreciation as the new EU program funding for the sector will target overlooked crops as well as smaller and younger farmers while other previously over demanded regions may register price declines.

The new EU funding for the agricultural sector for the period of 2014-2020 will reach BGN 5.5bn which is twice the money for direct agricultural payments of BGN 2.5bn in the previous program period from 2007 to 2013.

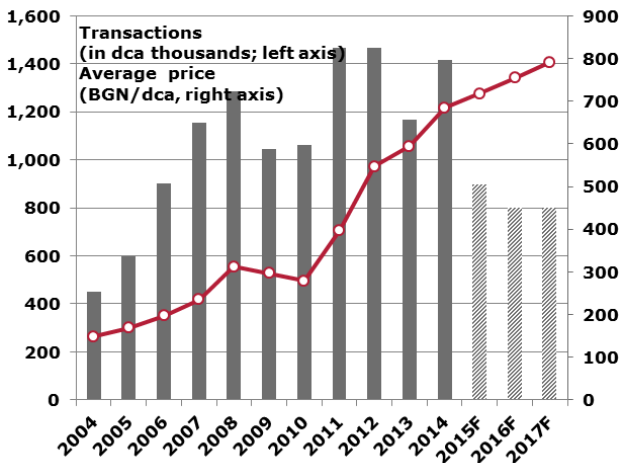
2 ha average land holding in Bulgaria

9.9% CAGR of land prices in the last decade

Farmers land-hungry due to subsidies

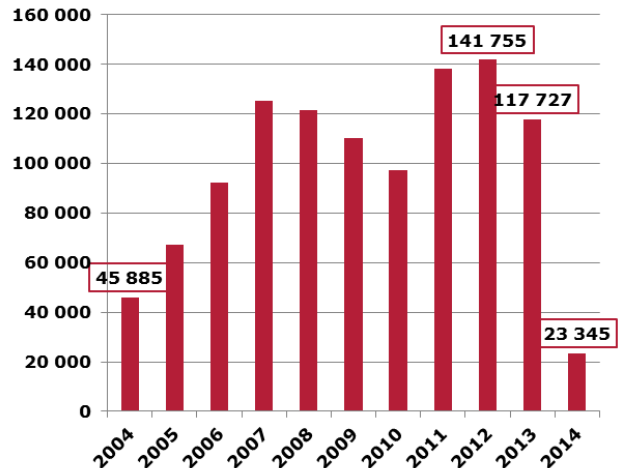
New direct EU funding for the sector double the previous at BGN 5.5 bn

Exhibit 4: Land prices to enter a steadier 5% annual growth period with land demand dominated by farmers



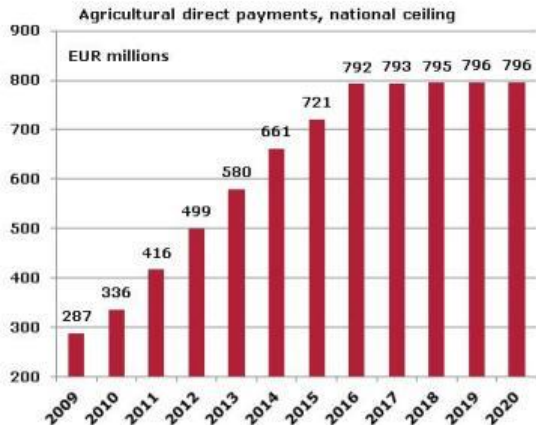
Source: National Statistics Institute (NSI)

Exhibit 5: Number of land transactions to stabilize to pre-speculative wave levels of 50k to 80K



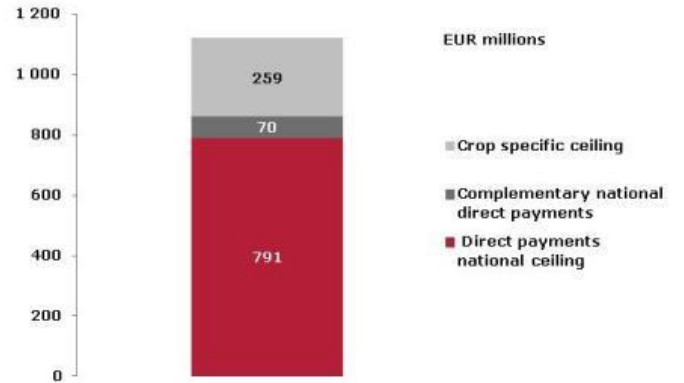
Source: NSI

Exhibit 6: 2014-2020 EU subsidies for agriculture 2x the 2007-2013 funding



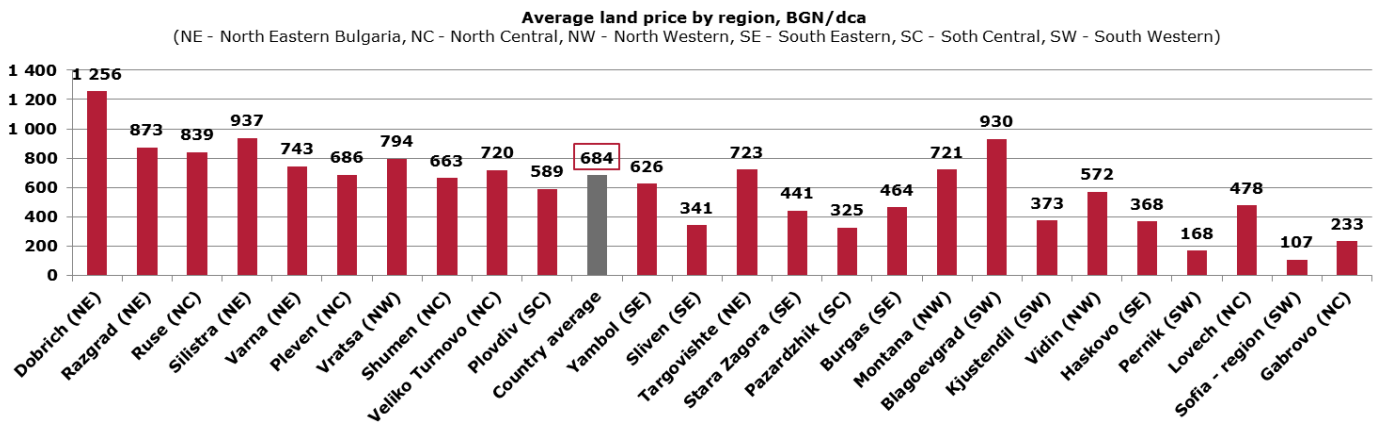
Source: European Parliament

Exhibit 7: Crop specific subsidies to add dynamics to overlooked regions and crops



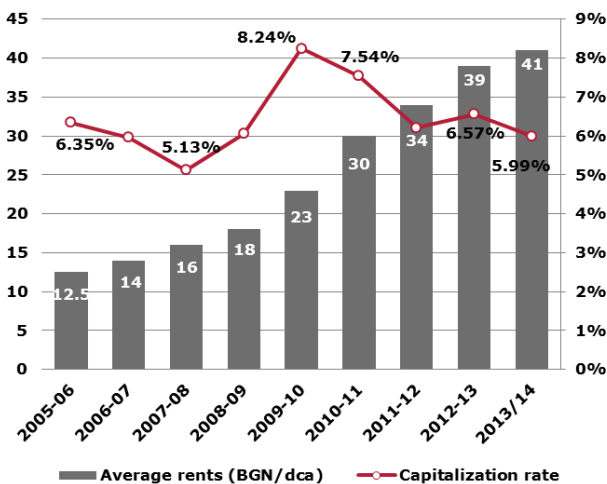
Source: Ministry of Agriculture and Food (MAF)

Exhibit 8: Land prices in most fertile districts in Northeast Bulgaria (Dobrich, Razgrad, Ruse) 1.8x above the country average



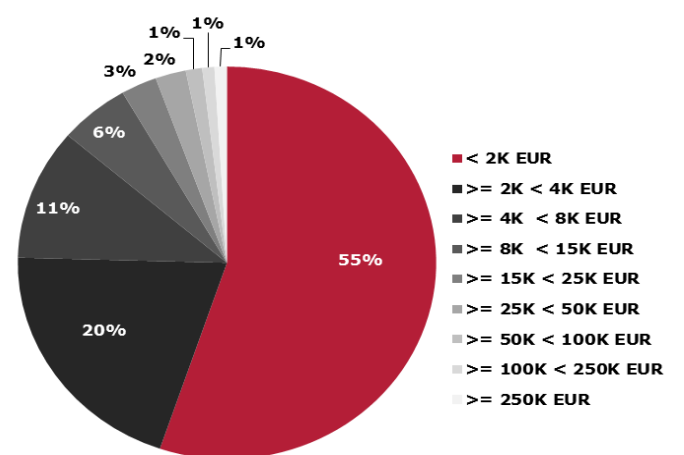
Source: NSI, 2014 data

Exhibit 9: Rents to stabilize but capitalization rates to decline as price difference across the country narrows ...



Source: NSI

Exhibit 10: ... while land consolidation to increase average farm size both in terms of land and standard output



Source: MAF; Farms by standard output

ELANA AGROCREDIT'S MARKET PRESENCE

Elana Agrocredit's presence on the Bulgarian land market is sensible with BGN 27m invested in 1200+ deals for 3.9K ha of land as well as on the financial market with a portfolio of BGN 22m of both leasing (90% of portfolio) and short term loans (10% of portfolio).

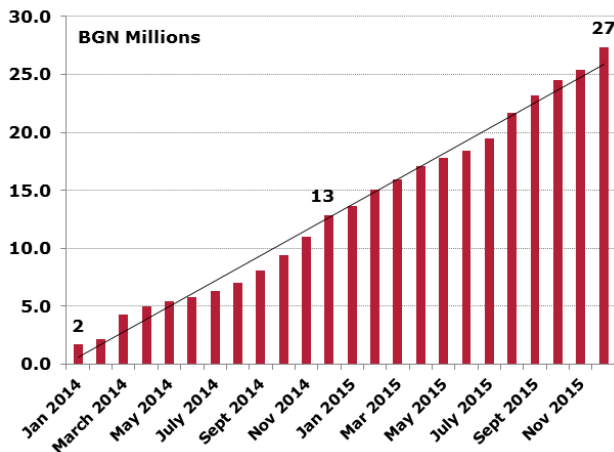
Niche, fast and flexible financial player, developing own market

On the land market, the company targets smaller farmers but also finances secondary market deals between farmers and the major speculative players with 30K+ ha of land each – mostly SPVs as Advance Terrafund (6A6 BU) but also major industrial groups (i.e. Rompharm Company, Agrion Invest, etc.).

As a first comer and with the previous management experience on the market, Elana Agrocredit has also a considerable advantage to big financial institutions and leasing companies in building a considerable lease portfolio. Experience with farmers and landlords allows the Company to be fast and flexible and work out a deal in a day. Thus, it competes with banks only on price. Banks will be slow to eat out market share due bureaucracy and higher collateral requirements towards smaller to mid-sized farmers that they also consider riskier.

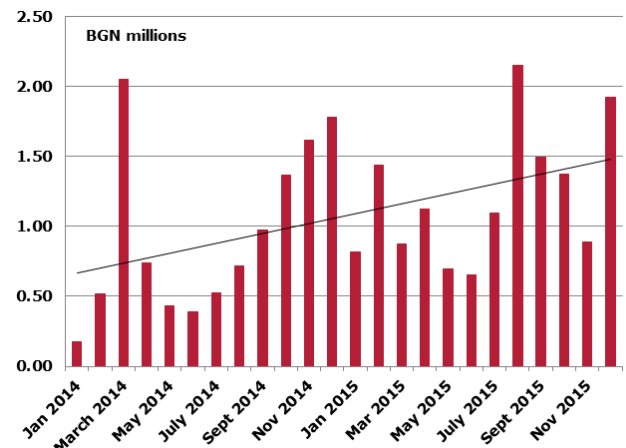
Competition has enter the market from major land owners who want to tap on higher returns with selling land with deferred payments. Advance Terrafund (6A6 BU) started leasing its land in 2015 but less favorable requirements on leases so far limit their realized deal volumes.

Exhibit 11: Gaining moment in 2015 with 2x increase in invested capital ...



Source: Company data

Exhibit 12: ... and a steady increase in monthly deal size



Source: Company data

FINANCIAL ANALYSIS AND VALUATION

Elana Agrocredit's lean model has helped it double in size (portfolio and lending volume) in 2015 and could easily achieve another double by 2017 as considerable leverage reserve to a 2:1 debt to equity target accelerates lending activity.

Lucrative, steady, predictable return via dividends

The Company's unique structure and simple and flexible operations allow it to reap twice the interest income achieved by local financial institutions with many times ELANA Agrocredit size, while the mandatory dividend distribution provides a lucrative, steady and predictable regular investor return.

Thus, Elana Agrocredit offers an attractive investment opportunity for long term investors looking for steady dividend returns and modest capital gains.

Currently, the stock is traded at book value, but the price incorporates dividend of BGN 0.049 per share.

ANALYSIS OF FINANCIAL PERFORMANCE

Since inception, in mid2013, Elana Agrocredit has raise BGN 19.1m in an IPO in 2013 and a supplementary capital raise in 2015. Using some leverage, as of the end of Jan 2016, it has invested BGN 27m in 1200+ deals for 39K ha of land financing 240+ farmers and agricultural companies. The Company has doubled in size in 2015 and started diversifying via short term working capital loans to existing credible clients.

Interest income and proceeds from sales of defaulted leases to drive revenue

We expect it to do another double by the end of 2017 as additional leverage accelerates lending activity. The Company has considerable leverage reverse to its target debt/equity ratio of 2:1 from current 20%. The latter being so low can be explained with the Company

being still a startup when it struck the first long term agreement for debt capital with the European Bank of Reconstruction and Development in the spring of 2014. The deal entailed a EUR 5m loan available in two Tranches based of capital raised and invested.

Going forward we expect leverage to considerably increase with D/E reaching 170% in 2017 before additional round of equity shall be needed to maintain the 2:1 target.

In 2015, revenues doubled to BGN 1.8m with 85% coming from interest income earned on leasing contracts. The other 15% is profit on the sale of land on defaulted lease contracts and management fees on land fixed at BGN 5 per dca annually.

In 2015, effectively collected lease payments were 99.75% aka 0.25% default rate. Single digit lease defaults can be expected as a norm going forward. However, we do not incorporate it in our valuation as any defaults would affect the Company more on the upside due to the 20% down payment on all leases that limits the downside risk offers an upside. Any lease payment late 30 days+ is considered defaulted and the Company can sell the land left as collateral. The 20% down payment acts as a buffer at disposal vs. market prices thus adding to profitability.

Interest income to remain key revenue source both on leasing and working capital loans. The Company's lean model allows it to tap 2x the average interest margin of 4% of local financial institutions based on experience and well specified target. We expect interest margin to stay in the 8% to 6% range. The company started operations by extending an approximately BGN 20m leasing portfolio at 10% interest on low D/E. In 2015, it started lowering the rate charged on leasing and loans. As of 2016 it charges 8.5% for all new leasing contracts. This should allow it to strike an approximately 6% interest income margin over the next couple of years even with additional smaller downward pressure on rates.

Prepayment risk currently remains low considering the smaller deal size and the smaller clients the Company targets which discourage prepayments. To soothe any prepayment risk the Company has 3% charge on prepayment.

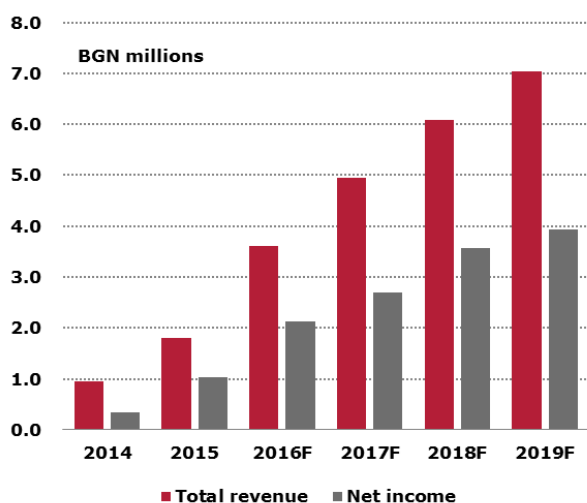
We base our forecasts on the assumption that going forward competition will be active which together with a low interest market environment in Bulgaria will force Elana Agrocredit to lower again interest it charges farmers. In 2014 and 2015 it build a BGN 20m portfolio at 10% fixed interest rate but competition and interest environment led to the Company lowering rates in late 2015. Currently, Elana Agrocredit charges 8.5% on new lease contract. In our valuation we incorporate another rate decline by 50 bps further on as the Company already slashed rates considerably. Accordingly, we also expect cost of debt to remain steady over the next few years as rates are to remain at their lowest and are expected to remain low in the midterm.

2015 profitability settled at 58% net income margin and we expect it to remain on these levels by 2020 even with a debt to equity ratio of 2:1.

We also expect earnings per share to average at BGN 0.012 over the next five year period and dividends to follow at an average of BGN 0.0107 per share. Accordingly, we expect ROE to increase from 8% to 10% on average for the forecasted period, considering a third capital hike in 2018. Our forecasts envision that the Company will need to raise additional capital in 2018, a year earlier from our previous valuation a year ago, in order to keep up the gathered momentum and deliver projected performance.

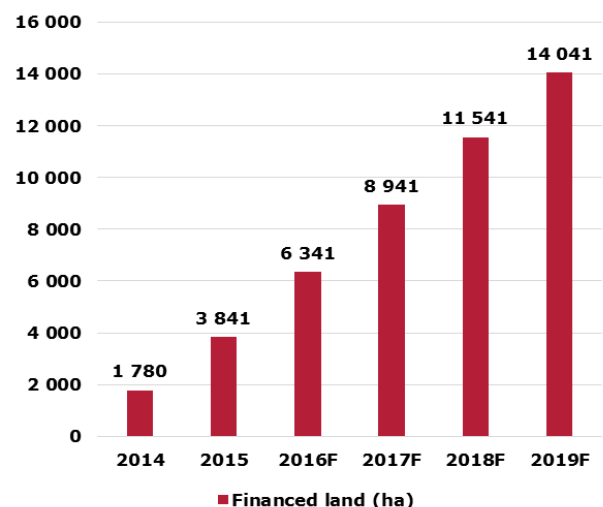
Net income margin to remain above 50%

Exhibit 13: We expect revenues and net profit to increase 4x by 2019...



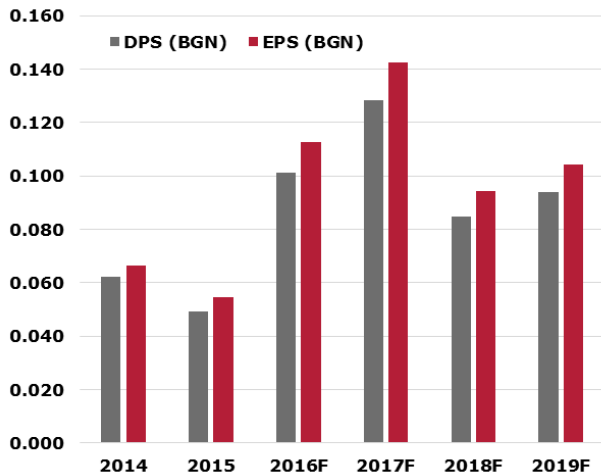
Source: Company data, Elana Trading estimates

Exhibit 14: ... and land financed to reach 14K ha by 2019



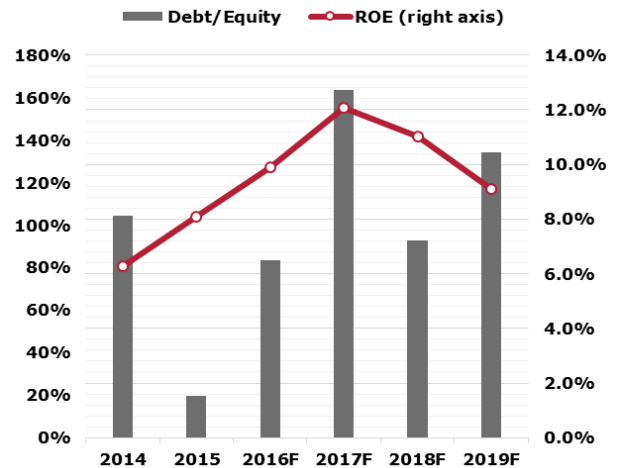
Source: Company data, Elana Trading estimates

Exhibit 17: DPS to average at 10% on the Bulgarian lev...



Source: Company data, Elana Trading estimates

Exhibit 18: ... with debt to equity gravitating to the target leverage ratio of 2:1 while ROE c.10%



Source: Company data, Elana Trading estimates

VALUATION OF ELANA AGROCREDIT

To value Elana Agrocredit we consider the Company's unique feature of distributing 90% of profits among shareholders. Thus, we conduct a dividend discount valuation model (DDM) together with a Residual income valuation which we then weight equally to arrive at a final fair value.

Additionally, we value the Company's expected performance over the next five years in which we incorporate another capital hike in 2018 vs. initial capital raise estimate of 2019.

To arrive at future dividend payments we base our valuation on the Company's ability to invest on average BGN 16m in new leases which translates into 24K ha of new land collateral. We assume 5% annual land price increase over the forecasted period and 8.5% interest on new lease portfolio generated in 2016 and 2017 and 8% interest on new portfolio generation by 2020.

We have revised downward our cost of equity estimate from 12% to 10% on average over the forecasted period. When running the DDM we also use a 5% terminal year sustainable dividend growth rate.

To arrive at a final fair value per share we take a 10% discount to take into account the stock's lower liquidity since the start of its trading. Thus, we value the stock at BGN 1.19 per share.

Finally, we provide a sensitivity analysis to our valuation models on key assumptions – invested capital per year (new lease portfolio generated) and lease interest rate.

COST OF EQUITY CALCULATION

	2016	2017	2018	2019	2020	Terminal Year
RISK FREE RATE	2.50%	2.50%	2.75%	2.75%	2.90%	2.90%
EQUITY RISK PREMIUM	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
BETA	0.95	0.95	0.95	0.95	0.95	0.95
COST OF EQUITY	10.10%	10.10%	10.35%	10.35%	10.50%	10.50%

DIVIDEND DISCOUNT VALUATION

BGN PER SHARE	2016F	2017F	2018F	2019F	2020F	Terminal Year
DPS	0.101	0.128	0.085	0.094	0.100	0.099
PV of DPS	0.092	0.105	0.063	0.063	0.061	1.859
Sum of PV of DPS	0.385					
PV of Continuing Value	1.139					
Fair value per share	1.52					

RESIDUAL INCOME VALUATION

BGN'000	2015	2016F	2017F	2018F	2019F	2020F	Terminal Year
Book value of equity	20 182	21 491	22 326	42 456	43 225	43 897	45 214
Dividend payable		1 917	2 426	3 210	3 547	3 775	3 888
Cost of Equity		10.30%	10.30%	10.30%	10.30%	10.30%	10.30%
Equity Charge		2 016	2 050	4 042	4 087	4 133	4 257
Net Income		2 130	2 695	3 567	3 941	4 195	4 321
Residual Income		114	645	-475	-146	62	64
PV of value	21 140						
Fair Value per share	1.12						

FINAL VALUATION

	Dividend discount	Residual Income
Fair value per model (BGN)	1.52	1.12
Weight	50%	50%
Weighted fair value per share	1.32	
Liquidity discount	10%	
Final fair value per share (BGN)	1.19	

SENSITIVITY ANALYSIS

DDM		New lease portfolio generated (BGN'000)				
		9 000	12 000	15 000	18 000	21 000
Interest charged	6.0%	0.88	1.02	1.17	1.31	1.46
	7.0%	0.96	1.13	1.29	1.46	1.63
	8.0%	1.04	1.23	1.42	1.61	1.80
	9.0%	1.12	1.33	1.55	1.76	1.98
	10.0%	1.20	1.44	1.68	1.92	2.16

Residual income		New lease portfolio generated (BGN'000)				
		9 000	12 000	15 000	18 000	21 000
Interest charged	6.0%	-0.33	0.05	0.43	0.81	1.20
	7.0%	-0.17	0.26	0.70	1.13	1.57
	8.0%	-0.01	0.48	0.97	1.46	1.95
	9.0%	0.16	0.70	1.24	1.79	2.33
	10.0%	0.32	0.92	1.52	2.12	2.71

RECOMMENDATION AND PRICE TARGET

The lean business model, flexibility, management experience and steady and predictable results support the long-term investment potential of Elana Agrocredit shares. Currently, the Company trades at a P/B of 1, but includes expected dividend of BGN 0.049.

We are comfortable to keep our **BUY** recommendation with a one year target price of BGN 1.19 for Elana Agrocredit as the Company has proved its ability to earn a steady, sound and predictable return on invested capital. The risk of underperformance as compared to other Bulgarian stocks is low as the Company has already built a sound portfolio. Nevertheless, any price decline below BGN 1.10 per share would be a good entry point for conservative long term investors.

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

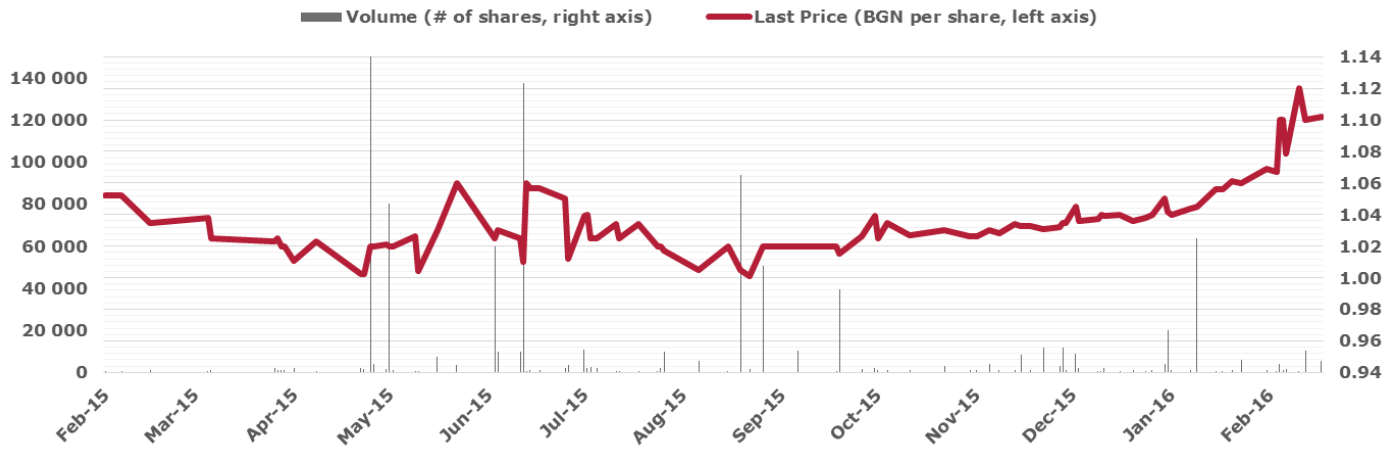
- Bulgarian institutional investors prefer the stock as it offers steady and predictable current income and moderate capital gains despite the reinvestment risk.
- Local sophisticated and individual investors prefer the stock for its forecasted good dividend income as an alternative to other cash management strategies.

Recommendation: BUY

Target Price: BGN 1.19

Upside potential: 7%

STOCK PRICE DYNAMICS



Source: Bloomberg

FINANCIAL DATA

INCOME STATEMENT (IN '000 BGN)	2014	2015	2016F	2017F	2018F
Interest Income	517	1 530	3 295	4 500	5 506
Other revenue	438	263	317	447	577
Total revenue	955	1 793	3 612	4 948	6 083
Cost of Materials	-2	-1	-6	-8	-9
External services expenses	-50	-57	-60	-42	-55
Expenses for remuneration of managing company	-110	-238	-506	-693	-791
Depreciation	-2	-2	-6	-8	-9
Employee benefits expenses	-32	-49	-66	-76	-76
Other expenses	-266	-48	-60	-38	-85
Operating profit	493	1 398	2 908	4 083	5 058
Financial revenues	0	30	0	0	0
Financial expenses	-115	-281	-542	-1 088	-1 095
Interest expense	-104	-271	-542	-1 088	-1 095
EBT	378	1 147	2 366	2 995	3 963
Tax expense	-38	-113	-237	-299	-396
Net profit	340	1 034	2 130	2 695	3 567
EPS	0.066	0.055	0.113	0.143	0.094
BALANCE SHEET (IN '000 BGN)	2014	2015	2016F	2017F	2018F
Cash & Cash Equivalents	1 397	490	1 238	1 523	4 039
Finance lease receivables	1 219	2 646	3 251	4 453	5 474
Loan receivables	0	2 263	4 374	6 668	9 285
Other receivables	10	9	0	0	0
Financial assets	0	1 729	0	0	0
Current Assets	2 626	7 137	8 863	12 644	18 799
Machines and equipment	1	0	0	0	0
Intangible assets	4	3	12	16	20
Finance lease receivables	8 625	17 406	31 064	47 002	63 869
Non-Current Assets	8 630	17 409	31 076	47 018	63 889
Total Assets	11 256	24 546	39 939	59 554	82 687
Share capital	5 115	18 902	18 902	18 902	37 804
Share premium reserves	-47	208	208	208	208
Legal reserves	4	38	251	520	877
Retain earnings	353	1 034	2 130	2 695	3 567
Total Equity	5 425	20 182	21 491	22 326	42 456
Short-term borrowings	1 696	688	1 648	1 902	2 963
Tax liabilities	16	80	50	64	71
Trade payables	53	115	166	211	235
Advances received	96	166	301	382	426
Other payables	6	5	19	24	27
Payables to employees and social security	3	4	9	12	13
Current Liabilities	1 870	1 058	2 194	2 595	3 735
Long term borrowings	3 961	3 306	16 254	34 633	36 496
Non-Current Liabilities	3 961	3 306	16 254	34 633	36 496
Total Liabilities	5 831	4 364	18 448	37 228	40 231
Total Equity & Liabilities	11 256	24 546	39 939	59 554	82 687
MARKET CAP IN BGN - PERIOD END:	5 141 012	20 792 642	20 981 666	20 981 666	41 963 332
NUMBER OF SHARES:	5 115 435	18 902 402	18 902 402	18 902 402	37 804 804
PRICE IN BGN - PERIOD END:	1.005	1.100	1.1100	1.1100	1.1100

FINANCIAL PERFORMANCE INDICATORS	2014	2015	2016F	2017F	2018F
Valuation					
P/B	0.95	1.03	0.98	0.94	0.99
BVPS	1.06	1.07	1.14	1.18	1.12
Profitability					
EPS	0.07	0.05	0.11	0.14	0.09
Net Income Margin	36%	58%	59%	54%	59%
EBIT Margin	52%	78%	81%	83%	83%
ROE	6.27%	8.08%	9.91%	12.07%	11.01%
ROA	3.02%	4.21%	5.33%	4.53%	4.31%
Dividend					
DPS	0.062	0.049	0.101	0.128	0.085
Dividend Yield	6.20%	4.48%	9.14%	11.56%	7.65%
Dividend Payout	94%	90%	90%	90%	90%
Liquidity					
Current Ratio	1.40	6.75	4.04	4.87	5.03
Acid Test Ratio	1.40	6.74	4.04	4.87	5.03
Credit					
Debt/Equity	104%	20%	83%	164%	93%
Debt/Assets	50.26%	16.27%	44.82%	61.35%	47.72%

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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

Frequency of Recommendations: No schedule of recommendations is available. The frequency of recommendations depends on specific factors to individual companies and the opinion of the analyst(s) for the necessity of minor or major changes.

Q4 2015 Recommendation Review			Market Maker Services
Recommendation	#	Share	
BUY	9	47%	SKK BU
HOLD	7	37%	
SELL	0	0%	
Under review	3	16%	

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