MONBAT (5MB BU)
INDUSTRY: ELECTRICAL EQUIPMENT

EBITDA, EBITDA, EBITDA...

27% CAGR OF REVENUE AND 16% AVERAGE EBITDA MARGIN OVER THE LAST 10 YEARS, MONBAT OUTPERFORMS THE GLOBAL AUTOMOTIVE BATTERY MARKET BY REAPING PROFITS FROM ITS FULLY INTEGRATED MODEL AND WELL DIVERSIFIED MARKET PRESENCE. THE COMPANY IS ON A PATH TO UNLOCK NEW POCKETS OF EFFICIENCY TO FURTHER IMPROVE PROFITABILITY.

WIDE-RANGE BATTERIES PORTFOLIO SOLD ON A DIVERSE SET OF MARKETS
Monbat produces lead-acid batteries for civil and military applications; focused on the automotive aftermarket. Exports 90% of products to 30+ countries with the EU major export destination where significant aftermarket potential is present due to still aging car fleet. Leading markets are France, Germany, Spain, and Romania while domestic sales take up 10% of revenues. Sells 2.5 million units a year which yields approx. 5.5% market share in Europe.

VERTICALLY-INTEGRATED WITH LEAD RECYCLING FOR COST EFFICIENCY
Vertically integrated company with three business lines – production, trade and recycling of batteries. Two production facilities in Bulgaria (2.8m pieces/year) and three recycling facilities in Bulgaria, Romania and Serbia (60K tonnes/year). Battery recycling acts a partial physical hedge to lead prices volatility in addition to environmental and raw materials availability benefits. 90%+ of recycled lead and 100% of recycled polypropylene used in own battery production.

COMPLETED CAPACITY EXPANSION INVESTMENT PROGRAM, FOCUSED ON EFFICIENCY
With EUR 25m investments in recycling and EUR 25m in machine and equipment investments in 2010-2014, in 2015 Monbat started a new 3 year Fit-for-Future modernization program focused on operational efficiency. Aims to achieve a sustainable above sector average EBITDA margin of 18%-20%. Additional small capacity expansion (up to 20%) also on the agenda.

VOLUME GROWTH AND NEW TECH ENDEAVORS TO DRIVE GROWTH
Batteries volume growth leveraging on Monbat's diverse customer base, flexible material sourcing and low indebtedness to be growth drivers in short- to midterm. Investments in new energy technologies a key driver in the long term. So far Monbat has invested in a LED light bulb joint venture – Octa Light. The latter is yet to prove its operational efficiency and sustain mass market production for home and commercial use. In 2014, Octa posted 34% y/y rise in sales to BGN 1.5m with first mass market initiative launched in 2015.

RUN BY EXPERIENCED TURNAROUND MANAGEMENT
Monbat is highly ranked for corporate governance with a balanced stakeholders' policy and among the best managed listed companies in Bulgaria. Run by an experienced professional turnaround team supported by both majority and minority investors (Prista Oil Group, ADM Capital and EBRD) which we consider a catalyst for future performance.

VALUATION/RISKS
VALUATION: We lower our one year price target to BGN 9.45 from BGN 10.50 per share, 31% upside, and confirm our BUY recommendation; **RISKS**: Lead price volatility dependent; Faster advance of new energy technology solutions;

in kBGN, excl. ratios	2014	2015	2016F	2017F
REVENUES	240 144	229 037	246 747	261 552
EBITDA	42 475	40 350	38 206	46 432
EBIT	31 905	29 157	26 656	38 187
NET PROFIT	25 389	25 374	21 932	33 799
ROE	18.28%	15.89%	12.48%	18.05%
ROA	11.27%	10.19%	8.17%	12.90%
EBITDA MARGIN	17.69%	17.62%	15.48%	17.75%
NET PROFIT MARGIN	10.57%	11.08%	8.89%	12.92%
EPS	0.65	0.65	0.56	0.87
DEBT/EQUITY	0.40	0.43	0.33	0.25
P/E	13.55	12.60	12.80	8.31
P/B	2.27	1.90	1.53	1.48
EV/EBITDA	9.33	9.22	8.55	6.68
PAYOUT RATIO	0.35	0.23	0.35	0.35
DIVIDEND YIELD	2.61%	1.83%	2.30%	2.44%

BUY

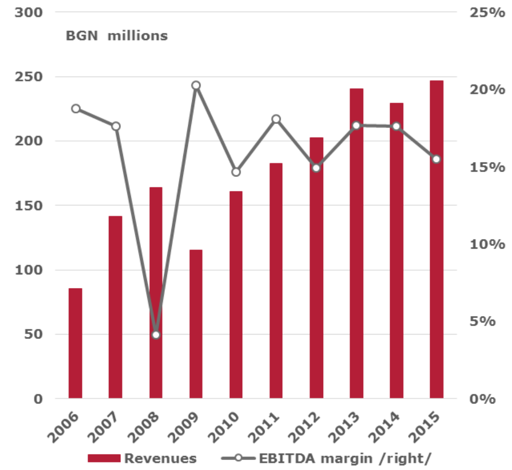
ONE YEAR PRICE TARGET: BGN 9.45
CURRENT PRICE: BGN 7.20
PREVIOUS PRICE TARGET: BGN 10.50

EXCHANGE RATES
EUR/BGN (FIXED): 1.95583
USD/BGN: 1.72062

MARKET DATA

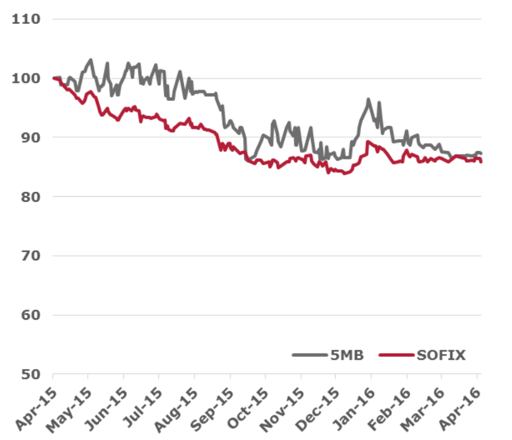
Shares Outstanding:	**39.0m**
Share Capital:	**39.0m**
Free-float:	**24%**
Treasury Shares	**0%**
Market Cap.:	**BGN 280m**
Avg. Daily Vol.:	**BGN 98,000**
52 Weeks Range:	**BGN 7.13-8.39**

REVENUE GROWTH



Source: Company data

PRICE PERFORMANCE



Source: Bloomberg

ELANA TRADING DOES AND SEEKS TO DO BUSINESS WITH COMPANIES COVERED IN ITS RESEARCH REPORTS. AS A RESULT, INVESTORS SHOULD BE AWARE THAT ELANA TRADING MAY HAVE A CONFLICT OF INTEREST THAT COULD AFFECT THE OBJECTIVITY OF THIS REPORT. INVESTORS SHOULD CONSIDER THIS REPORT AS ONLY A SINGLE FACTOR IN MAKING THEIR INVESTMENT DECISION. PLEASE SEE DISCLOSURE INFORMATION ON P.15 OF THIS RESEARCH.

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EXECUTIVE SUMMARY

WE KEEP OUR BUY RECOMMENDATION BUT LOWER OUR ONE YEAR PRICE TARGET TO BGN 9.45 PER SHARE FROM PREVIOUS TARGET OF BGN 10.50. THE FORMER PROVIDES A 31% UPSIDE POTENTIAL OVER THE NEXT 12 MONTHS.

THE COMPANY

Monbat AD (the Group, the Company) is the largest lead-acid battery producer in Bulgaria, with more than 60-year history and traditions in lead acid batteries manufacturing. The Group is among the fastest growing battery producers in South East Europe successfully rivaling Romanian and Turkey peers, Rombat and Mutlu, respectively.

The Company manufactures and distributes lead-acid batteries for civil (automotive, telecom, industrial, marine, sports & leisure sectors) and military application. It is fully vertically integrated with two production sites in Bulgaria and three scrap batteries recycling facilities in Bulgaria, Romania and Serbia. It also invests in growth businesses such as LED lighting bulbs.

Monbat has a wide range battery portfolio from starter AGM and EFB batteries for the automotive industry both cars and heavy vehicles through stationary batteries for the telecom, industrial and renewable energy sectors as well as deep cycle power solutions for the marine, leisure and other sectors. Its products incorporate latest technologies in the lead-acid field thus usable for the growing energy consuming improvements in the automotive industry like start-stop functionality and electric vehicles.

The Company has a diverse customer base and distributes its products in over 30 countries via a well-developed distributor network all over Europe. The EU countries are its key exports markets, with France (18% of exports), Spain (11%), Germany (9%) and Romania (6%) key export markets in 2015. Domestic market sales take up about 10% of overall revenue on a group level.

There is no dependence on particular large customers due to the implemented strategy to sell products on the aftermarket through an extensive distributor network domestically and abroad. All sales with deferred payment are insured, so the non-payment risk is eliminated.

In 2010-2014 period, The Group invested EUR 25m in production modernization and capacity expansion. It also made considerable investments (EUR 25m) to ensure resource availability (lead and propylene) by building new own recycling facilities in Romania and Serbia. The recycled raw materials satisfy Monbat's production needs. Any excess raw materials are sold predominantly in the EU market when lead market volatility provides it. In 2015, 96% of the Group's total lead production needs and 100% of polypropylene needs were satisfied with own recycled resources.

In 2015, the Company started a new three year Fit-for-Future program focused on operational efficiency. The program envisions unlocking additional pockets of efficiency from the current operating facilities with a wide range of measure from third shifts in its Bulgarian facilities as well as better materials sourcing and processing (e.g. batteries manufacturing and scrap batteries recycling facilities in Bulgaria are adjacent allowing for high synergies and more efficient recycling of technical scrap). The new program also envisions to double the operation capacity of its commercial and heavy vehicles batteries production in the city of Dobrich, Bulgaria. The latter is estimated at EUR 5m.

The Group is highly ranked in different categories for corporate governance and financial performance. We consider a key growth driver the experienced professional turnaround management team that currently runs the Company with the full support from both the majority shareholder Prista Oil Group and the financial investors in the Group – ADM Capital and the European Bank for Reconstruction and Development. Accordingly, Monbat is among the best managed listed companies in Bulgaria and has been awarded many corporate governance awards since its IPO in 2006.

Monbat is considered as one of the "Blue Chips" on the Bulgarian Stock Exchange and is included in the key market index – SOFIX, which tracks 15 of the most liquid and largest public companies on the market. It is also part of the newly incorporated SEE region benchmark – SEELinX. Monbat is a regular dividend payer with dividend payout averaging 35% of individual net profit.

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 in judiciary, health care, pension and energy sectors are yet to be accomplished. Additionally, upcoming banking sector asset quality review and stress tests pose uncertainty.

The battery industry is expected to be among the fastest growing sectors driven by sales of new cars, still aging car fleet in Europe and the significant share of car battery aftermarket.

THE VALUATION

We use the discounted cash flows method to value Monbat. All calculations are based on the consolidated results of the Group that include the production of batteries and the recycling operations. We value the stock of Monbat at BGN 9.45 per share or 31% above the current market prices

SOME RISKS

Volatile lead prices and lead price curve structure key risks for sustaining margins even with Monbat's fully integrate model.

Corruption and political uncertainty in the countries the Company operates could have a negative impact

Local currency devaluation in some of the export markets, such as Turkey or Poland.

COMPANY OVERVIEW

Largest fully integrated lead acid batteries producer in Bulgaria

Monbat is the largest producer of lead-acid batteries in Bulgaria. Its portfolio includes batteries for both civil and military applications; main product lines are SLI (Starting Lighting and Ignition) and deep-cycle industrial batteries. The Company is a vertically integrated holding with three major business lines – production, sale and recycling of batteries.

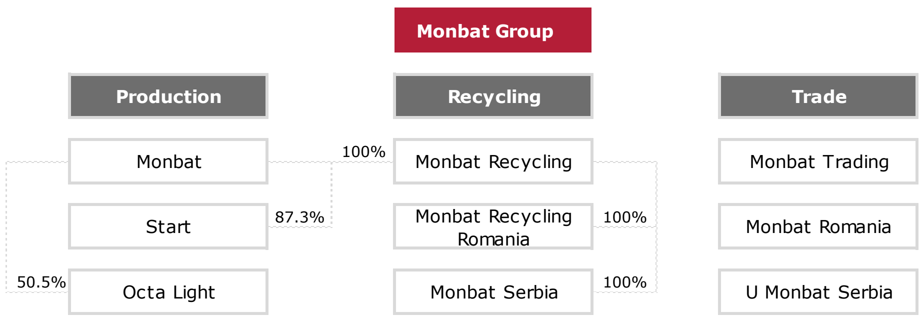
It has two production facilities in the cities of Monbat and Dobrich in Bulgaria with a total capacity of 2.8 million units and three recycling plans in Bulgaria, Romania and Serbia with a total capacity of 60K tons per year.

The Company was established in 1959 in Northwest Bulgaria as factory for starter batteries. "PRISTA OIL" – Sofia acquired Monbat in 1998. It also acquired the smaller batteries producer Start in the city of Dobrich in 2007. In 2010-2014 it finalized a major modernization and recycling plants construction program.

The Group maintains intensive R&D activities in cooperation with the Bulgarian Academy of Science. The Company invests in the development and improvement of innovative products, which in conjunction with the modern technologies and equipment in place, result in a highly competitive on the local and international markets. Monbat operates a proprietary R&D laboratory, which allows conducting broad range of chemical, physical and electrical tests, required under the internationally recognized standards for lead-acid batteries production. Monbat has adopted number of internationally accepted standards such as ISO 14001, ISO 18001, AQAP 2010, ISO/TS 16949.

In 2010, the Company also invested in a LED light bulb producing project by establishing the joint venture Octa Light. The latter is yet to prove mass market resilience.

Exhibit 1: Major business lines with their key subsidiaries



SHAREHOLDERS' SRUCTURE

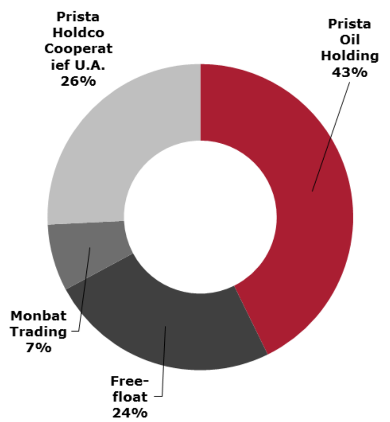
Number of shares outstanding: 39 000 000

The registered capital of Monbat consists of 39 million shares, each with a nominal value of BGN 1 per share.

Majority shareholder is Prista Oil Group (owner of Prista Oil Holding) which is controlled by the Bulgarian entrepreneurs Atanas Bobokov and Plamen Bobokov. The former is Monbat's Chairman of the Board of Directors while the latter is a Member of the Board.

A 26% stake in the Company have financial investors Asia Debt Management Capital, Hong Kong (ADM Capital) and EBRD via Prista Holdco Cooperatief U.A. They acquired the stake after purchasing 30% of Prista Oil Group in 2012. Financial investors have their appointees in Monbat's Board of Directors – 4 out of 9 Board Members, which are experienced turnaround professionals responsible for the day to day operations both in Prista and Monbat.

The rest of the stock, 24.43% free float, is owned by more than 150 local and international institutional investors and more than 1700 individuals. It is among the most favored stock on the Bulgarian Stock Exchange as well as among the most liquid stocks on the market.



POTENTIAL CATALYSTS

GROWING AUTOMOTIVE BATTERY MARKET: The revival of the automotive market is already in progress, as the main market for the Group – the EU, is expected to increase by 1/3 up to 2020. At the same time more than 60% of the vehicles in the EU and over 95% of the vehicles in Bulgaria are older than 5 years. The average life of car batteries is 5 years and after that they should be replaced. For economic and technical reasons the 12V lead-based battery will continue to be the only technology that satisfies mass market requirements, so we expect Monbat to generate solid profit from the aftermarket in the upcoming years.

CAPACITY MODERNIZATION AND NEW EFFICIENCY FOCUS: Monbat has implemented a considerably modernization program of its battery factories in Bulgaria which would allow it to grow faster in the future. Going forward, the Company will continue capacity expansion on a more moderate level and focus on efficiency after securing raw materials availability with own recycling facilities. In 2015, the Company started a new Fit For Future program with efficiency key target aiming at sustaining an above average 18%-20% EBITDA margin.

Secure raw materials supply: The Group's recycling facilities secure the raw materials availability, add to profitability via cheaper lead and act a partial physical hedge to commodity prices volatility. When lead prices are rising, these facilities provide an additional revenue stream as there is free recycling capacity.

OCTA LIGHT TO ADD POTENTIAL IF IT REACHES MASS MARKET SUSTAINABILITY: After registering over 500% y/y sales increase in 2013 and another 34% y/y rise in 2014, Octa Light is tapping the mass market for home and office lighting. If it proves competitive the venture could add significant growth potential to Monbat's group.

SECTOR OVERVIEW

GLOBAL LEAD - ACID BATTERIES SECTOR

6% CAGR expected on the global lead-acid batteries market by 2022

The global lead- acid batteries market is expected to grow at an average estimate 6% CAGR by 2022, according to various research driven by growing demand for application in UPS systems, engine, security systems, back up and telecommunication systems, etc. Growing car market and aging fleet in particular regions will also support growth potential.

The lead acid batteries are expected to continue to dominate the automotive battery market even with the advance of electric vehicles which require new energy generating and storing solutions like Lithium-Ion technologies. Key reasons for this dominance are the cost efficiency, tradition and end-user affordability as lead acid technology has been around for more than 100 years. Advanced lead acid technology (EFB and AGM), in addition, could serve new start-stop technology as well as hybrid vehicles.

By 2020, the International Energy Agency expects about 20m electric vehicles (EV) on the road globally, or 20% of all cars sales while by 2050 hybrid and electric unit sales are expected to reach 70% of all sales.

Significant aftermarket potential in Europe with aging vehicle fleet

Nevertheless, there are 250 million passenger cars already in use only in Europe with an increasing average age which would stimulate the lead acid batteries after market. Average age of cars in use in Europe is up 15% over the last decade to 9.7 years with about 30% over 10 years old.

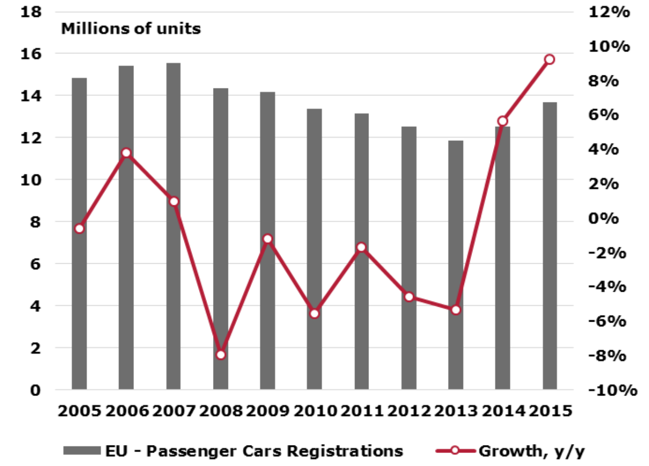
Still, passenger car registrations in the EU also registered 9% y/y growth in 2015, highest in a decade as the EU car market is reviving from the post 2008-crisis and despite the Russian and Ukraine market's decline.

In Bulgaria there are around 3.8 million vehicles and only 4% of them are less than 5 years old. Around 40% of the vehicles are over 20 years old. The battery aftermarket in the country has higher potential than other EU countries. Extreme hot and cold weather, as well as the rule to keep vehicle lights permanently switched on, additionally reduce the battery life.

For economic and technical reasons the 12V lead-based battery will continue to be the only technology that satisfies mass market requirements

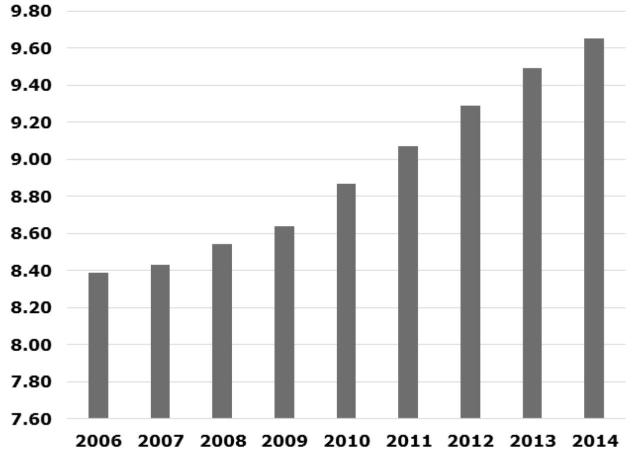
According to a Eurobat research, for economic and technical reasons (it is difficult to replace one technology by another without impacting on overall performance and vehicle cost) the 12V lead-based battery will continue to be the only technology that satisfies mass market requirements for the foreseeable future. As long as any residual risks to human health and the environment are properly managed, their cost-efficiency, durability, and cold-cranking ability will set them apart from other technologies in this high-volume segment.

Exhibit 2: New passenger car registration EU picked up in 2015 despite the global Volkswagen scandal



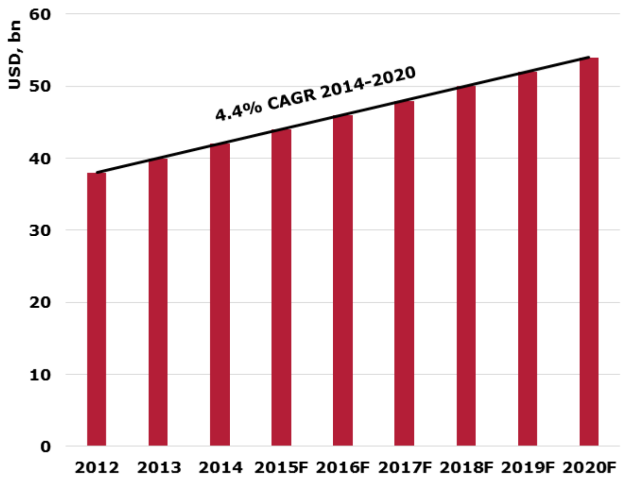
Source: ACEA

Exhibit 3: Average age of EU car fleet is up 15% over the last decade



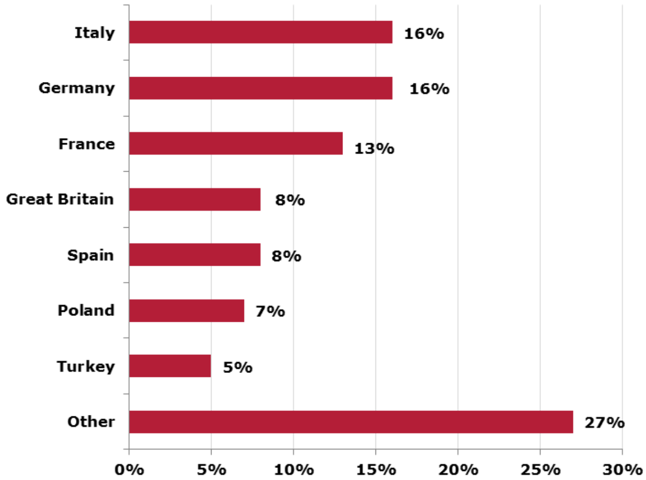
Source: ACEA

Exhibit 4: The global motive battery market expected to grow between 4% and 7% per year by various research



Source: Future Market Insight Research

Exhibit 5: The EU battery aftermarket reached 45 million units in 2013, with largest EU markets taking 73% of the sales



Source: Eurobat

Recycling of Lead Acid Batteries

Recycling improves profit margins and expands operations

The main resources for production of batteries are lead with purity of 99.99%, alloys with antimony and calcium, polypropylene and sulfuric acid. Accordingly, lead is among the most recycled commodity in the world with 90%+ of scrap lead and old lead acid batteries recycled in Europe, according to EUROBAT.

Monbat is relying on recycling of batteries for the bulk of its materials by using 90%+ of own recycled lead. Thus, it ensures resource availability and hedged against LME price volatility in addition to environmental benefits.

The Group has a recycling facility at the major plant site in the city of Montana in Bulgaria. It has a 16 000 ton/annum capacity and adds the most to recycling efficiency as it can directly recycle the technical scrap out of the batteries production in Montana.

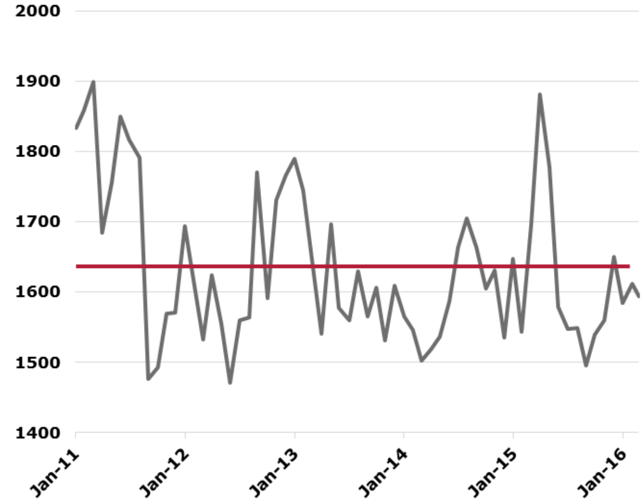
The main foreign recycling plant is in Romania. It was officially opened in January 2011. The investment totaled EUR 13m. The plant's capacity is 22 000 tons of lead and alloys annually with higher volumes in the fragmentation and metallurgic units. The recycled resources are used in the production of batteries or sold abroad to third parties if market environment provides for it.

The third recycling facility is in Serbia. It has an annual capacity of recycling 22 000 tons of lead and alloys. The total investment in it was EUR 12m but the Group had issues with transporting the final product from Serbia to Bulgaria over the last few years. Management explained those issues were resolved and the new state subsidy for recycling lead in Serbia has significantly improved recycling conditions. Thus Monbat has postponed plans to divest of the Serbian unit and started better utilization of the facility.

The recycling of car batteries is lucrative business that is improving the Group's margins. The Company can absorb lead price volatility as scrap prices lag behind and are priced at a 20-30% discount to primary lead. Thus, the Group is better able to sustain above average margins.

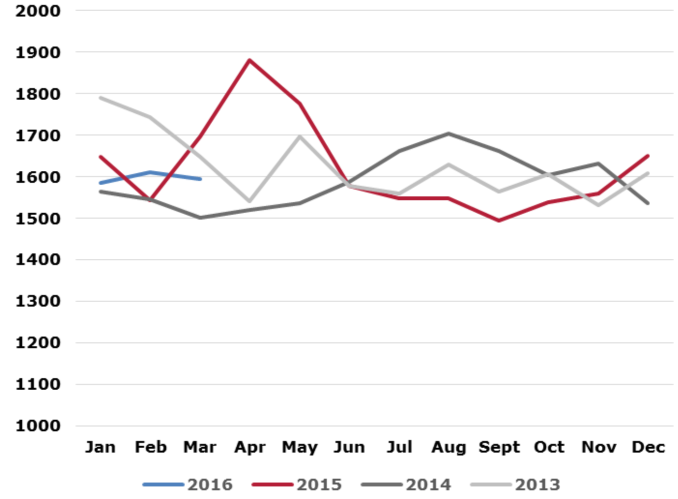
However, the recycling hedge is only partial because the battery market is seasonal with higher demand at the end of the summer and the autumn while LME price dynamics over the course of a calendar year could diverge from this demand factor.

Exhibit 6: LME price volatility over the last 5 years with an average for the period at EUR 1633 /ton



Source: Bloomberg

Exhibit 7: LME price corridors over the year affect recycling hedge, lowering its effect with early spring spikes (in EUR/ton)



Source: Bloomberg

Production of LED Lighting Bulbs

Monbat bought a small producer of LED light bulbs

Monbat initiated the production of Light-Emitting Diode (LED) bulbs through the acquisition of Octa Light Bulgaria. The company was established in 2010 and is the first that has all its research centers and production facilities in Europe. Octa Light covers the following activities:

- Manufacturing of powerful high-brightness light emitting diodes - LED 110 - 120 - 130 Lm/W at 1W, 3W and 5W
- Manufacturing of LED luminaires for all types of lighting systems – street lighting, tunnel lighting, industrial, exterior and interior applications

The stake of Monbat in Octa Light is 50.45%. Currently, Octa Light sells LED tubes and LED powered bulbs for special lighting applications such as refrigerators, sewing machines, desktop lamps, furniture backlights. Octa Light is also known for the several accomplished large projects for exterior and industrial lightning. In 2015, the company also mass marketing its products with results yet to be seen.

LED technology will replace current bulbs due to lower energy costs and longer life

LED light bulbs is superior technology in lightning due to its cost efficiency and long-lasting effect. Typical 60-Watt incandescent lamps produce only 16 lumens of light output per Watt with useful lifetimes of 1,000 hours on average. An equivalent CFL provides about 67 lumens per Watt and lasts 10 times longer. LED lamps are even more efficient — currently producing around 83 lumens per Watt and are rated to last more than 30 times as long as a comparable incandescent lamp. LED lighting technologies have been advancing rapidly with projections for further improvements, resulting in lower cost, increased reliability, and reduced energy consumption. By 2020, EIA projects LEDs to produce more than 150 lumens per Watt.

The reason LEDs have not yet displaced CFLs from the market is twofold: the first generation LED bulbs had a narrow and focused light beam, and the cost was too high. Recent developments in LED technology have addressed these issues. LEDs have been 'clustered' to provide more light, and mounted within diffuser lenses which spread the light across a wider area. In addition, advancements in manufacturing technology have driven the prices down to a level where LED bulbs are more cost-effective than CFLs or incandescent bulbs. This trend continues, with LED bulbs being designed for more applications while the prices are going down over time.

MONBAT'S MARKET PRESENCE

90% export to over 30 foreign markets provides stability of financial performance

Monbat has excellent market diversification, as the Group exports to over 30 countries. This determines Monbat as less dependent to economic contraction in a particular country. The Group produces a wide range of products and has well-grounded positions in the local markets, the markets of the Balkan region and in the Western European. The consolidated exports revenues represent near 90% of the total net sales revenues. The increase in sales in Europe is due mainly to the excellent quality of the products and focused market policy.

The main markets are France, Germany, and Spain as all of them registered a significant annual increase in 2015. We expect the positive trend to continue in the coming years, driven by the growth of automotive market. A market with lower 2015 results compared to 2014 is Greece as the Company did not sell extra recycled lead to that market but rather use it in own production as LME prices were in decline.

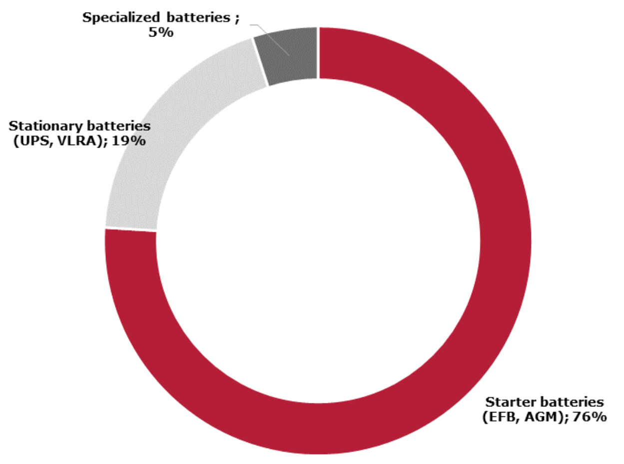
In 2015, volumes sold grew 12.5% y/y to 2.6 million units while CAGR in units stood at 7% over the last 5 years. We expect volumes growth to continue as the Company has already expanded production and currently focused on extracting the highest efficiency out of it.

Recycling has enough capacity for the next few years to provide lead for Monbat's production

The recycling facilities are utilized at 85-90% of their capacity. Therefore, the Group will not make major investments in additional recycling facilities in the next few years. The production of batteries will continue to use recycled lead for most of its capacity.

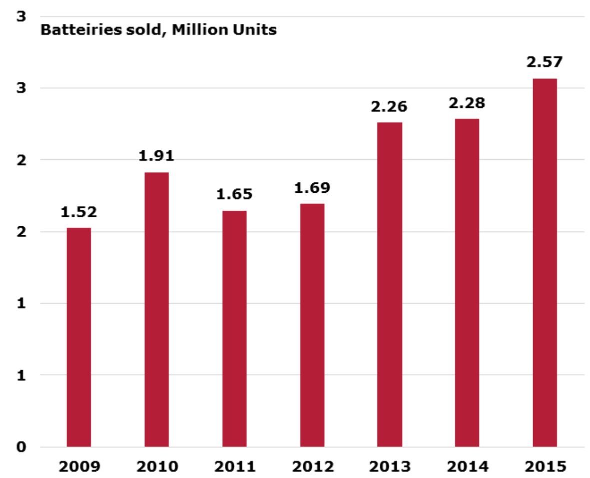
Over 76% of all sold products are starter batteries, while stationary batteries are between c.19% of units sold. The other types of batteries (deep cycle batteries, locomotive batteries and batteries for special and leisure purposes) occupy 4-5% of the total units sold.

Exhibit 8: Starter automotive batteries



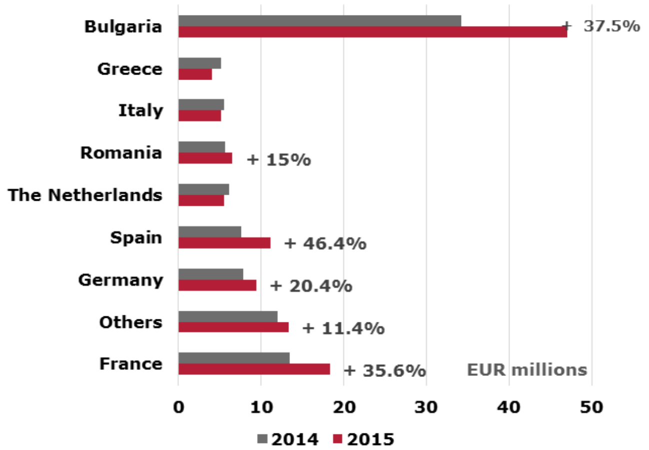
Source: Company data

Exhibit 9: Volumes registered 7% CAGR over the last 5 years



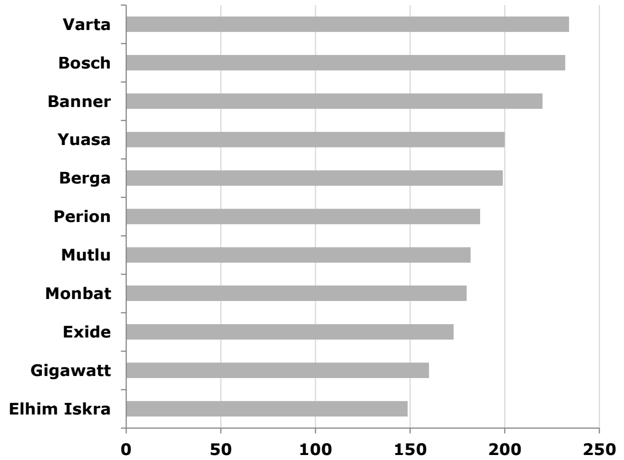
Source: Company data

Exhibit 10: All main export markets registered increases



Source: Company data

Exhibit 11: Retail car batteries prices with advantage Monbat



Source: ELANA Trading

FINANCIAL ANALYSIS AND VALUATION

Further improvement of financial results is opportunity for both short- and long-term investors

The ability to recycle gives Monbat a profit margin improvement advantage plus a partial insurance for LME volatility. This vertical integration and solid presence on EU aftermarket make the Group more stable in terms of financial performance, while the excellent market diversification preserves it from separate market shocks.

The stock is traded at average P/E ratio for Bulgarian industrial companies but slightly below sector average. However, our primary valuation tool continues to be the analysis of cash flows on consolidated basis. Considering the big difference between Monbat and the larger global producers of batteries in terms of sales and equity, we present the peer multiples for informational purposes only.

The above-mentioned factors support the argument for Monbat as an attractive investment with moderate price volatility that is an opportunity for both long- and short-term investors.

	2012	2013	2014	2015
Last Price (BGN per share)	**4.69**	**8.82**	**8.20**	**7.20**
Number of Shares	36 370 264	38 999 880	39 000 000	39 000 000
Market Capitalization	170 576 538	343 978 942	319 800 000	280 800 000
Net Profit	17 307 000	25 389 000	25 374 000	21 932 000
P/E	**9.86**	**13.55**	**12.60**	**12.80**
Equity	126 524 000	151 264 000	168 194 000	183 295 000
P/B	**1.35**	**2.27**	**1.90**	**1.53**
Sales	202 637 000	240 144 000	229 037 000	246 747 000
P/S	**0.84**	**1.43**	**1.40**	**1.14**
EV	224 444 538	396 352 942	371 989 000	326 618 000
EBITDA	30 200 000	42 475 000	40 350 000	38 206 000
EV/EBITDA	**7.43**	**9.33**	**9.22**	**8.55**
ROE	13.26%	18.28%	15.89%	12.48%
ROA	8.14%	11.27%	10.19%	8.17%

ANALYSIS OF FINANCIAL PERFORMANCE

Stable lead prices improve profit margins

Monbat reported 7.7% y/y rise in consolidated revenues in FY2015 due to accelerated volume sales, up 12.5% y/y, and partial positive advantage of higher LME prices at the beginning of 2015. However, the Company was not able to take full inflationary advantage on the batteries' prices as LME dynamics later in the year ate out the start-of-year positives. Nevertheless, the Company performed well considering an 8% CAGR of consolidate revenues over the previous three years.

Inverse LME dynamics in 2015 a.k.a. higher lead prices at the start of the year and sharp decline in lead prices during the second half of 2015 ate out margin sustainability. The LME price depreciation of 25% from April peak to September bottom (which is the battery market high season) led to a 2% gross margin erosion. Monbat's management considers this a success as it was able to take a smoother hit by almost 1/3 vs market environment.

EBITDA margin eroded slightly further due to 15.48% due also to an one-off transportation charge booked as a result with a tax authorities dispute in Serbia. The charge amounted to BGN 2.4m, according to management, thus normalized EBITDA would be BGN 40.6m yielding a 16.46% or 98 bps higher EBITDA margin. The latter is in line with five year average EBITDA margin for the Company despite the rare LME dynamics over the year. IT is also better than peer group performance, especially Turkish Mutlu Aku and Romanian Rombat peers which faced additional market dynamics from Russia, for example. Average sector EBITDA margin stood below 15%.

We expect Monbat to be able to easily reach an 18% EBITDA margin target with LME dynamics normalization. Jan – Feb 2016 preliminary data already signal an 18.22% EBITDA margin for the two month period.

We believe that as margins are closely related to the volumes of recycled lead and the Company has started a new three year efficiency improvement program results will be elevated in the coming years. Monbat plans to work on better channeling processed lead, and rolling of existing stock, to name some of the efficiency measures. This should help improve and sustain higher profitability in the future.

Other expenditures, including labour costs and depreciation, also to decline as percentage of revenues due to finished major modernization and economies of scale, a trend that is anticipated to continue.

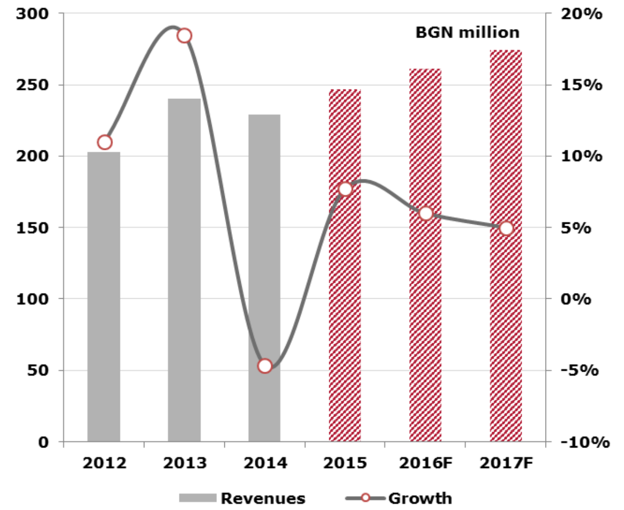
We expect Monbat to grow the top line by a conservative 6% and 5%, respectively in 2016 and 2017, mostly on volume growth and modest fluctuation in LME prices. This top line forecasts are lower our initial estimates due to higher LME dynamics the last year. Overall, for the next five years we expect Monbat's top line to book a conservative 4.6% CAGR. Efficiency measures, however, should help it sustain an average EBITDA margin of 17.5% followed by an average net income margin of 12.8%. ROE should increase by c.200bps to an average of 16% over the next five years.

Large modernization program accomplished

The Group already made significant capacity and recycling investments. Thus, going forward we expect only smaller capacity expansion and average investments in the BGN 8m range shall be more than enough to sustain planned sales expansion.

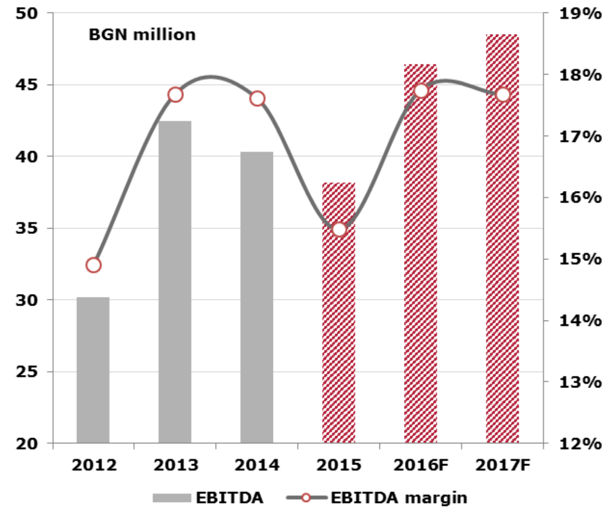
An issue to be further monitored are Monbat's related party receivables which amounted to 11% of total consolidated assets as of December 2015, up 24% y/y. The latter mainly consists of a deposit with the mother company Prista Oil which Monbat's management keeps at Prista level for cash flow flexibility. The deposit was flat y/y and Monbat receive above market average interest on it. However, in mid2015 the Company lowered the interest it charged on all related party receivables from 6% to 4% due to near zero interest rate environment in the country. The other related party receivables related to Monbat supporting the commercialization phase of its LED project in Octa Light as well a one-off deal with Prista. Going forward we expect related party receivables to decline to about 5-7% of total assets if the Company considers to continue its cash flow management via the mother company.

Exhibit 12: Sales growth to follow volume growth and larger capacity, but also conservative LME development



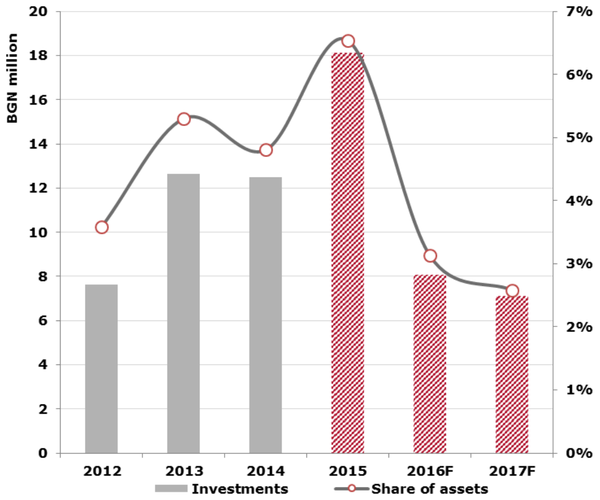
Source: Elana Trading estimates, company data

Exhibit 13: Higher EBITDA margin due to stable lead price and cost cutting



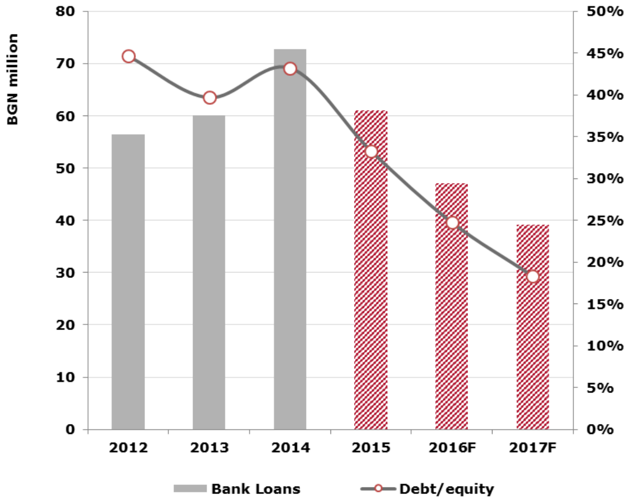
Source: Elana Trading estimates, company data

Exhibit 14: The Group will maintain a less aggressive program of investment and work on efficiency



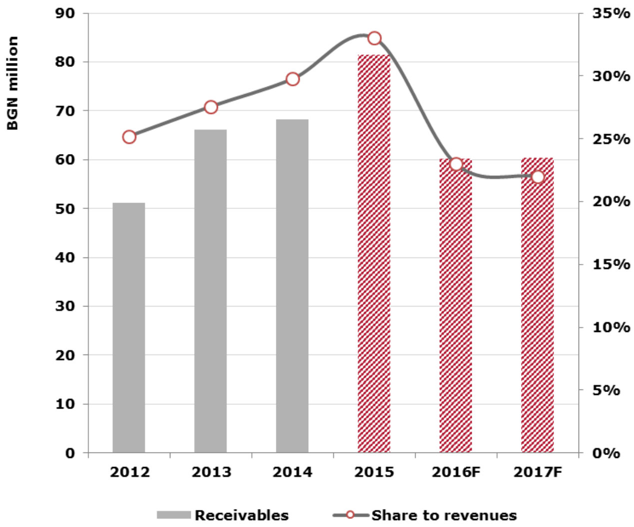
Source: Elana Trading estimates, company data

Exhibit 15: Monbat will generate solid cash flows to further decrease leverage



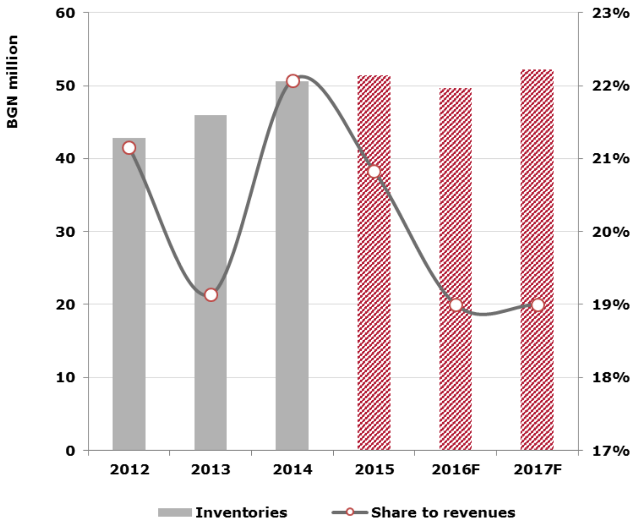
Source: Elana Trading estimates, company data

Exhibit 16: Receivables include large loan to majority owner, that raised their level above the normal 25% of revenues



Source: Elana Trading estimates, company data

Exhibit 17: Inventory turnover to improve after one off reclassification of finished goods and efficiency improvement



Source: Elana Trading estimates, company data

VALUATION OF MONBAT

Monbat is generating solid cash flows that we expect to further improve in the foreseeable future. Our DCF model is based on expectations for growth and profit margins that are lower than historical ones. This scenario represents the current situation of stable lead prices and moderate expansion of company's products in EU markets. We do not include any forecasts for the performance of Octa Light Bulgaria, due to the lack of historical data and the early stage of LED lightning penetration in consumer markets.

Our DCF model is based on an increase of revenues in 2015 of 6% despite management guidance on higher performance as a precautionary measure to LME dynamics. We expect growth to gradually decelerate to 3% in 2020. Forecasts for EBITDA margin presume an average of 17.5% over the forecasted period. We expect investments to be lower than the spending during the past three years, the future capital expenditures should exceed depreciation by the necessary amount to provide replacement of equipment and support the moderate growth of revenues.

We retain Monbat's beta of 0.92, as indicated by Bloomberg, as we believe it corresponds to the stock's market movement as well as its correlation with global LME dynamics. To calculate the weighted average cost of capital we also take the Bulgarian 10 year notes yield as we believe it is a good estimate for a risk free rate as well as an equity risk premium of 8% which we believe is adequate for the Bulgarian market. Cost of debt is at lowest levels already and we expect it to rise significantly post 2018. We arrive at a cost of capital that will exceed 10% due to the gradual increase of risk-free rate and cost of debt.

All latter factors return a BGN 9.45 per share intrinsic value for Monbat shares.

We provide sensitivity analysis on the price per share, based on a fixed WACC for the period and floating terminal growth and EBIT margin.

SECTOR COMPARISON

Company	Country	Mkt Cap (EUR m)	P/E	ROE	P/B	P/S	EV/EBITDA T12M
JOHNSON CONTROLS	US	21 860	11.21	21.08	2.36	0.68	9.50
ENERSYS	US	2 267	14.53	17.16	2.50	1.11	8.94
GS YUASA CORP	JAPAN	1 583	24.29	5.30	1.25	0.54	7.05
EXIDE INDUSTRIES LTD	INDIA	1 550	18.85	16.84	3.02	1.21	12.45
TIANNENG POWER INTL LTD	CHINA	843	9.78	20.16	1.81	0.34	5.96
MONBAT AD	BULGARIA	144	12.91	12.18	1.53	1.15	8.55
ATLAS BATTERY LTD	PAKISTAN	80	9.33	33.95	2.77	0.59	7.04
THAI STORAGE BATTERY	THAILAND	50	11.05	10.53	1.12	0.90	5.90
ELHIM ISKRA	BULGARIA	15	19.16	6.47	1.21	1.27	7.50
Average		**3 154**	**14.57**	**15.96**	**1.95**	**0.87**	**8.10**
Median		**843**	**12.91**	**16.84**	**1.81**	**0.90**	**7.50**

WACC CALCULATION

	2016	2017	2018	2019	2020	Terminal Year
RISK FREE RATE	2.80%	3.00%	3.50%	3.50%	3.50%	3.50%
EQUITY RISK PREMIUM	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
BETA	0.92	0.92	0.92	0.92	0.92	0.92
COST OF EQUITY	**10.16%**	**10.36%**	**10.86%**	**10.86%**	**10.86%**	**10.86%**
COST OF DEBT	3.70%	3.50%	3.75%	5.50%	5.50%	5.50%
EFFECTIVE TAX RATE	10%	10%	10%	10%	10%	10%
AFTER-TAX COST OF DEBT	**3.33%**	**3.15%**	**3.38%**	**4.95%**	**4.95%**	**4.95%**
WEIGHT OF EQUITY	80%	84%	88%	90%	90%	90%
WACC	**8.78%**	**9.19%**	**9.97%**	**10.27%**	**10.27%**	**10.27%**

DISCOUNTED CASH FLOWS

BGN'000	2016	2017	2018	2019	2020	Terminal Year
EBIT	38 187	40 371	43 831	42 585	45 407	46 769
EBIT(1-T)	34 368	36 333	39 448	38 327	40 866	42 092
ADD: D&A	8 245	8 176	8 247	8 187	7 599	7 827
LESS: INVESTMENTS	8 075	7 103	9 346	7 264	8 289	8 077
LESS: CHANGE NWC	-3 312	8 317	15 063	3 195	4 037	2 613
FCF	37 850	29 088	23 286	36 054	36 140	39 229
PV FCF	34 797	24 396	17 512	24 386	22 168	

SUM OF PV FCF	123 258
PV OF CONTINUING VALUE	290 997
TOTAL PV FREE CASH FLOWS	414 255
LESS: OUTSTANDING DEBT	61 056
PLUS: FINANCIAL ASSETS	15 238
PV OF EQUITY	**368 437**
NUMBER OF SHARES ('000)	39 000
PRICE PER SHARE	**9.45**

SENSITIVITY ANALYSIS

Exhibit 18: Terminal growth

WACC	1.00%	1.50%	2.00%	2.50%	3.00%
8.00%	10.80	11.48	12.27	13.20	14.33
9.00%	9.70	10.21	10.80	11.48	12.27
10.27%	8.64	9.02	9.45	9.93	10.47
11.00%	8.16	8.48	8.84	9.24	9.70
12.00%	7.59	7.86	8.16	8.48	8.84

Source: Elana Trading estimates

Exhibit 19: Terminal EBIT margin

WACC	12.0%	13.0%	14.0%	15.0%	16.0%
8.00%	12.27	12.27	12.27	12.27	12.27
9.00%	10.80	10.80	10.80	10.80	10.80
10.27%	9.45	9.45	9.45	9.45	9.45
11.00%	8.84	8.84	8.84	8.84	8.84
12.00%	8.16	8.16	8.16	8.16	8.16

Source: Elana Trading estimates

RECOMMENDATION AND PRICE TARGET

Recommendation: BUY
Target Price: BGN 9.45
Increase: 31%

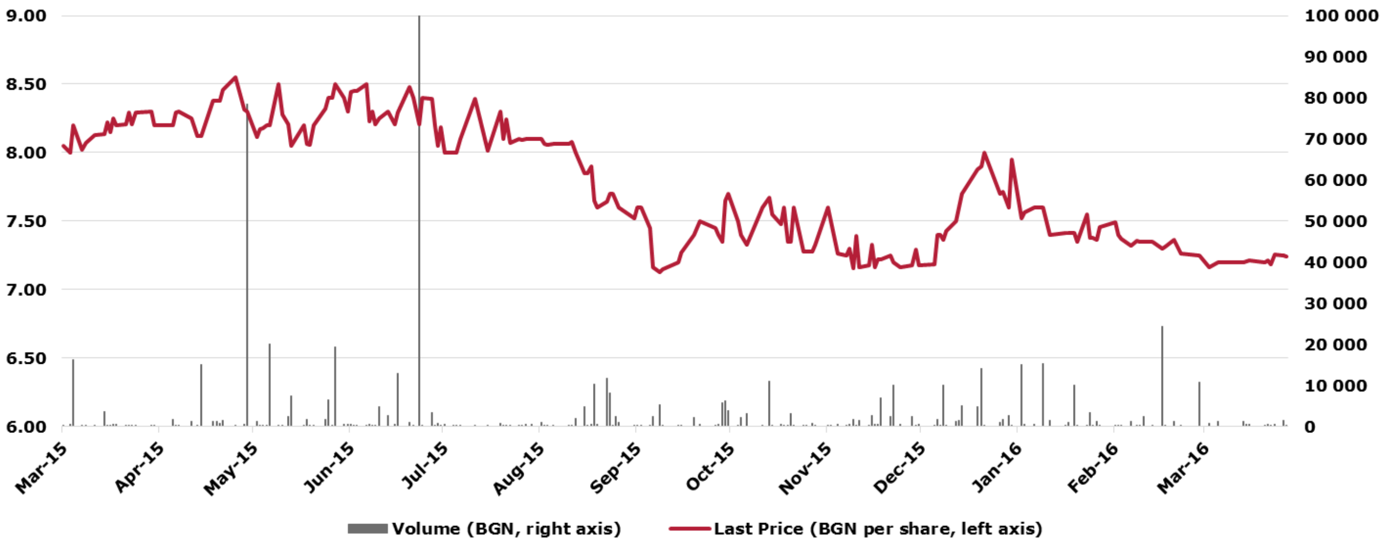
Several factors support a long-term positive trend for Monbat's shares: perspectives for growth with solid cash flows and improving profitability; attractive valuation (fP/E of 8.3 for 2016) and 31% higher intrinsic value than the current price per share; very positive attitude of local investors toward the Group and the management.

Therefore, we maintain our **BUY** recommendation with price target that is more than 30% higher than the current. The risk of underperformance of Monbat's shares as compared to other Bulgarian industrial stocks is low. The Group operates on most EU markets and during the last several years created significant value for investors. Also, the latest market correction over the course of 2015 and the beginning of 2016 provide a good investment opportunity in the stock.

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

- Foreign investors prefer Monbat shares for their higher liquidity, integrated company business model and stable performance during the last couple of years. The stock is representative for the development of the Bulgarian capital market, together with the low risks of the presence on many EU markets
- Bulgarian institutional investors are not active currently on the buy side. However, they are expected to maintain their present portfolio and will not provide excess volumes in following months
- Domestic private investors view the stock as stable and perspective for longer-term holding, rather than short-term speculation with high return

STOCK PRICE DYNAMICS



Financial Data (AUDITED)

Income Statement (in '000 BGN)	2012	2013	2014	2015	2016F	2017F
Revenue	**202 637**	**240 144**	**229 037**	**246 747**	**261 552**	**274 629**
Operating expenses	182 760	208 239	199 880	220 091	223 365	234 259
Change in inventories	(5 701)	1 383	(10 847)	2 208	1 308	1 373
Cost of material	133 242	153 812	153 890	149 074	160 854	170 270
Cost of labour	13 996	14 448	16 022	17 907	18 309	19 224
Cost of external services	18 076	18 717	17 669	19 063	17 786	18 675
Depreciation and amortization	10 323	10 570	11 193	11 550	8 245	8 176
Net book value of assets sold	3 414	3 764	7 328	13 564	4 185	2 746
Other costs	9 410	5 545	4 625	6 725	3 923	4 119
Operating income	**19 877**	**31 905**	**29 157**	**26 656**	**38 187**	**40 371**
Interest expense	2 549	2 701	2 437	2 077	1 925	1 509
Foreign exchange losses (gains)	460	788	205	460	(523)	549
Net non-operating losses (gains)	315	363	(137)	(345)	392	(343)
Pretax income	**16 553**	**28 053**	**26 652**	**24 464**	**36 392**	**38 656**
Income tax expense	1 846	3 282	3 048	3 246	3 639	3 866
Income before XO items	14 707	24 771	23 604	21 218	32 753	34 790
Extraordinary loss net of tax	0	0	0	0	0	0
Minority interest	0	0	(1 770)	(714)	(1 046)	(824)
Net income	**17 307**	**25 389**	**25 374**	**21 932**	**33 799**	**35 614**
Earnings per share in BGN	**0.48**	**0.65**	**0.65**	**0.56**	**0.87**	**0.91**

Balance Sheet (in '000 BGN)	2012	2013	2014	2015	2016F	2017F
Cash and near cash items	2 626	7 673	20 538	15 238	17 801	32 744
Short-term investments	0	0	0	50	0	0
Accounts and notes receivable	51 090	66 200	68 175	81 467	60 157	60 418
Inventories	42 861	45 958	50 560	51 403	49 695	52 180
Other current assets	244	249	168	337	1 308	1 373
Total current assets	**96 821**	**120 080**	**139 441**	**148 495**	**128 960**	**146 715**
LT investments and LT receivables	1 071	463	463	463	915	961
Net fixed assets	113 650	116 484	118 371	127 023	126 853	125 780
Other long-term assets	1 023	1 054	1 606	904	1 177	1 373
Total long-term assets	**115 744**	**118 001**	**120 440**	**128 390**	**128 945**	**128 115**
Total assets	**212 565**	**238 081**	**259 881**	**276 885**	**257 905**	**274 829**
Accounts payable	20 324	18 742	14 244	22 297	14 647	15 105
Short-term borrowings	45 599	50 386	38 092	46 226	39 233	32 956
Other short-term liabilities	2 856	2 619	3 336	4 927	785	1 099
Total current liabilities	**68 779**	**71 747**	**55 672**	**73 450**	**54 664**	**49 159**
Long-term borrowings	10 895	9 661	34 635	14 830	7 847	6 179
Other long-term liabilities	6 640	5 409	4 041	8 685	5 231	6 179
Total long-term liabilities	**17 535**	**15 070**	**38 676**	**23 515**	**13 078**	**12 358**
Total liabilities	**86 314**	**86 817**	**94 348**	**96 965**	**67 742**	**61 517**
Total preferred equity	0	0	0	0	0	0
Minority interest	(273)	(891)	(2 661)	(3 375)	0	0
Share capital & APIC	36 377	39 000	39 000	38 989	39 000	39 000
Retained earnings & other equity	90 147	113 155	129 194	144 306	151 163	174 312
Total equity	**126 524**	**151 264**	**168 194**	**183 295**	**190 163**	**213 312**
Total Liabilities & Equity	**212 565**	**238 081**	**259 881**	**276 885**	**257 905**	**274 829**

Number of shares:	36 370 264	38 999 880	39 000 000	39 000 000	39 000 000	39 000 000
Price in BGN - period end:	4.69	8.82	8.20	7.20	7.20	7.20
Market cap in BGN - period end:	170 577 000	343 979 000	319 800 000	280 800 000	280 800 000	280 800 000

FINANCIAL AND PERFORMANCE INDICATORS	2012	2013	2014	2015	2016F	2017F
VALUATION						
PRICE/EARNINGS (P/E)	9.86	13.55	12.60	12.80	8.31	7.88
PRICE/BOOK (P/B)	1.35	2.27	1.90	1.53	1.48	1.32
PRICE/SALES (P/S)	0.84	1.43	1.40	1.14	1.07	1.02
PRICE/CASH PER SHARE	6.17	9.57	8.75	8.39	6.68	6.41
EV (IN BGN)	224 445	396 353	371 989	326 618	310 079	287 191
EV/EBITDA	7.43	9.33	9.22	8.55	6.68	5.92
PROFITABILITY						
RETURN ON COMMON EQUITY	13.26%	18.28%	15.89%	12.48%	18.05%	17.65%
RETURN ON ASSETS	8.14%	11.27%	10.19%	8.17%	12.90%	13.37%
RETURN ON INVESTED CAPITAL	10.54%	14.09%	11.39%	9.49%	14.41%	14.76%
EBITDA MARGIN	14.90%	17.69%	17.62%	15.48%	17.75%	17.68%
OPERATING MARGIN	9.81%	13.29%	12.73%	10.80%	14.60%	14.70%
NET INCOME MARGIN	8.54%	10.57%	11.08%	8.89%	12.92%	12.97%
DIVIDEND						
DIVIDEND YIELD	4.24%	2.61%	1.83%	2.30%	2.44%	2.56%
DIVIDEND PER SHARE	0.20	0.23	0.15	0.17	0.18	0.18
LIQUIDITY						
CURRENT RATIO	1.41	1.67	2.50	2.02	2.36	2.98
QUICK RATIO	0.78	1.03	1.59	1.32	1.43	1.90
CREDIT						
LT DEBT/EQUITY	0.09	0.06	0.21	0.08	0.04	0.03
TOTAL DEBT/EQUITY	0.45	0.40	0.43	0.33	0.25	0.18
TOTAL DEBT/TOTAL ASSETS	0.27	0.25	0.28	0.22	0.18	0.14
EBIT/INTEREST EXPENSE	11.85	15.73	16.56	18.39	24.11	32.18

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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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