

BULGARIAN REAL ESTATE FUND

INDUSTRY: REIT / DIVERSIFIED REAL ESTATE

MAKING THE LEAP

BULGARIAN REAL ESTATE FUND PROGRESSES WELL WITH ITS NEW OFFICE BUILDING INVESTMENT, EXPECTED LAUNCH AT THE END OF YEAR WITH A 68% TAKE UP AS OF AUGUST 2016. RISING RENT INCOME AND INACTIVE PROPERTY INVESTMENTS TO OFFER BETTER AND STEADIER DIVIDEND RETURNS IN THE SINGLE DIGITS RANGE

INVESTMENTS AMIDST A REVIVING OFFICE MARKET

Bulgarian Real Estate Fund REIT (BREF) is progressing well with its new office building investment – a BGN 20m Kambanite Office Building with 10 123 sqm total leasable area. The property is expected to be operational in Q4'16 with 68% pre-let space at the moment due to two 5-year lease contracts. It will also be among the few new offerings on the high demand office market in 2016 where BPO and IT companies generate considerable demand.

RENTAL INCOME TO BOOST RETURNS FROM 2017 ONWARDS

The new building is expected to start generating revenue in Q4'16. In our valuation, we incorporated a 67% occupancy rate at the end of 2016 and 80% in 2017. This implies an easily achievable BGN 2m new rental income per annum or a 50% y/y jump of normalized rental revenues. All else equal, this would translate into a healthy dividend return in the higher single digits, expected 5% in 2016 and 9% in 2017 at current market quotes.

DIVESTMENTS OF INACTIVE PROPERTY TO HAVE A MIXED EFFECT ON RETURNS

BREF's legacy portfolio would have mixed effect on future returns as H1'16 results suggest. In Q2'16, the Company sold some of its older inactive property. The divestment of 30 250 sqm near Veliko Turnovo delivered 5x return on initial investment while the sale of a 3 616 sqm Mladost IV project plot was expectedly below book value as the project underwent considerable rearrangement after the approval of the master plan for the district. The latter deal confirmed our valuation for the buildable area of the Mladost IV project. Although could hardly be expected to generate returns, any additional plot sales would be a nice cash generator for the Company as the project is no longer leverage.

ON THE LOOKOUT FOR NEW REVENUE GENERATING ASSETS

Finishing the Kambanite project, BREF is on the lookout for new revenue generating office property to add to its portfolio. It has not revealed any specifics but is preparing the balance sheet for a potential capital raise, if necessary (1-for-3 reverse split in Q1'16 and stock nominal value decrease expected Q3'16). With below 10% interest bearing debt-to-equity, the Fund has plenty of room to add leverage in pursuit of BGN 20m+ deals. At the start of 2016, it took a BGN 11m, 10 year Sofibor+3.1% bank loan, 44% of which used in H1'16.

STOCK SPLIT TRIGGERING LIQUIDITY AND VALUATION EXPANSION

The Fund's reverse stock split in Q1'16 was a trigger on the stock, driving up both liquidity and valuation. Foreign and local investors have been active since then.

VALUATION/RISKS

VALUATION: With the progress on the new revenue generating asset we are comfortable with our valuation of the stock. Despite the run up (19% YTD) it still trades at P/B of 0.55. We keep our BUY recommendation and a BGN 2.70 per share 1YR target price, 30% + upside potential. **RISKS:** General economic slowdown.

RESULTS ANALYSIS

BUY

ONE YEAR PRICE TARGET: BGN 2.70

CURRENT PRICE: BGN 1.87

EXCHANGE RATES

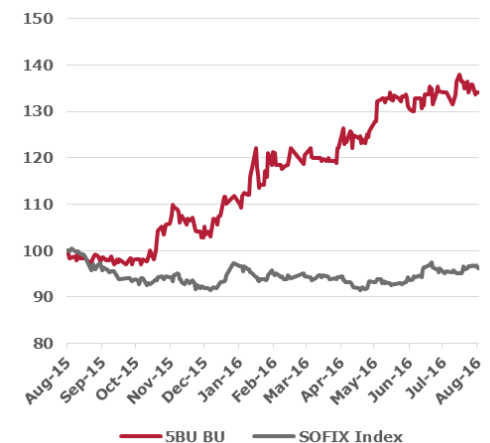
EUR/BGN (FIXED): 1.95583

USD/BGN: 1.74628

MARKET DATA

Shares Outstanding:	20.15 m
Share Capital:	60.45 m
Free-float:	67%
Treasury Shares	0%
Market Cap.:	BGN 37.5 m
Avg. Daily Vol.:	BGN 20 000
52 Weeks Range:	BGN 1.35 -1.919
BSE Ticker	5BU
Bloomberg Ticker	5BU BU

THE MARKET REACTED POSITIVELY TO THE STOCK SPLIT AND INVESTMENTS PROGRESS



Source: Bloomberg

000' BGN, excl. ratios	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Revenue	819	1 095	1 306	1 033	1 031	1 508	1 053	3 133
incl. Rental Income	728	970	994	996	999	995	1 016	1 027
incl. Proceeds on sales of assets	39	0	258	0	0	1	0	2 075
Net profit	63	-4 201	360	450	446	753	453	249
Net assets	71 177	69 890	67 153	67 605	68 049	72 611	67 649	67 898
Shares outstanding	60 450	60 450	60 450	60 450	60 450	60 450	20 150	20 150
Book value per share	1.18	1.16	1.11	1.12	1.13	1.20	3.36	3.37
Price per share (BGN)	0.56	0.54	0.49	0.46	0.45	0.55	1.70	1.86
P/B	0.48	0.47	0.44	0.41	0.40	0.46	0.51	0.55
Dividend per share (BGN)	-	0.00	-	-	-	0.08	-	-
Dividend Yield	-	0%	-	-	-	4.81%	-	-

* 1-for-3 reverse split in Feb 2016

** FY 2015 dividend yet to be approved at the AGM, scheduled for August 11th, 2016; Management proposed BGN 0.08 DPS

BULGARIAN REAL ESTATE FUND H1'16 RESULTS REVIEW

In H1'16, RBEF delivered 79% y/y rise in the top line to BGN 4.2m while net profit retreated 13% to BGN 702k.

Revenue breakdown: Top line growth came from rental income 2.7% y/y rise and property divestments. BREF indexes its rental receivables from the two Mr. Bricolage properties in Sofia and Varna as well as from the 7300 sqm office Building 1 in Business Park Sofia (BPS), biggest office park in Bulgaria.

In Q2 '16, the Fund also had three divestment deals. The biggest deal was for a 3 616 sqm plot of the Mladost IV project adjacent to Business Park Sofia. The plot sold at EUR 250/sqm which was above our expectations. Nevertheless, the whole Mladost IV project, totaling 33 105 sqm of which 25 132 sqm buildable, is valued on the books at an average of EUR 322/sqm (post masterplan rearrangements a couple of years ago and reflected in the stock price). Thus, the fund booked a loss on the sale which should be a drag on the upcoming dividend.

BREF sold also a 30 250 sqm plot near the town of Veliko Turnovo. Total sales value was BGN 250k, which offers a 5x return on historic price and would add up to the upcoming dividend.

Lastly, BREF sold one apartment in its apartment building in the mountain resorts of Borovets. This, however, is a negligent deal when compared to the overall revenue stream.

Portfolio development: As of Q4'16 we expect to see first rental income stream from the new Kambanite office building. BREF has finalized the basic construction of the building. It is already working on the outside vertical planning and has signed two major lease contracts adding up to a 68% occupancy rate. Rental income at 80% take-up, which we expect in 2017 should be approx. BGN 2m/annum, excluding restaurant area and parking lots. Kambanite office building has a total build up area of 13 486 sqm, 10 123 are leasable office space. The rest are restaurants and parking lots.

When finished, Kambanite Business Center will be BREF's biggest office assets after the Building 1 in BPS (7400 sqm) which it acquired in 2014.

Office space will take up approx. 40% of the Fund's portfolio followed by the two big box stores (25% of the portfolio) with a total build up area of 12 900 sqm it has leased long term to Mr. Bricolage do-it-yourself chain in Sofia and Varna.

Profitability review: With the new office building kicking in we expect to see rental income driving dividend returns. Divestments can have a mixed effect on profitability considering Mladost IV weight in the portfolio - 23% and the master plan rearrangements that lowered the total area of the project.

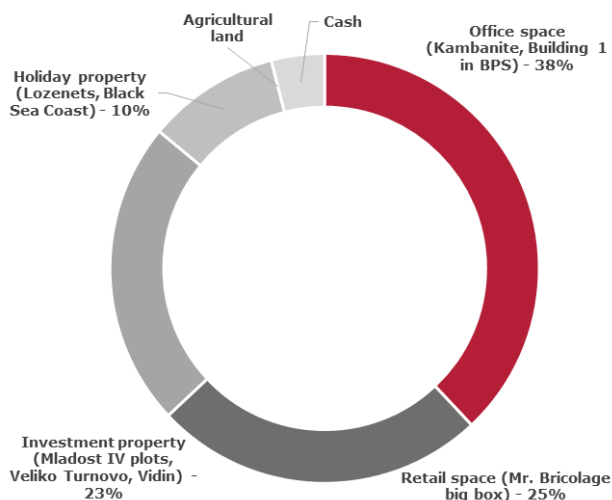
Nevertheless, the Mladost IV project is debt free, thus is not a cash drag on the books and any divestment would bring in cash for investments in new revenue generating assets. Management has already suggested that it is considering acquisitions in the office segment of the real estate market. If needed it will do a capital raise. The balance sheet also offers plenty of room for addition debt with a 10% interest bearing debt to equity, even considering the BGN 11m bank loan taken at the start of 2016 to finance the Kambanite construction.

Yet, we do not incorporate new debt coming in into our forecast. We consider only the new office building rental income coming in as early as Q4'16. Initially, we incorporate the 67% take up announced. In 2017, we estimate an 80% occupancy rate of the new building as office space demand is up driven by expanding BPO and IT companies in Bulgaria. In addition, BREF's Kambanite building will be among the few newly completed projects on the office segment of the commercial real estate market, thus could easily achieve a 100% take up by the end of 2016.

Accordingly, we expect rental income to go up almost 8% y/y in FY2016 estimating two revenue generating months for Kambanite Business Center in 2016 and 46% y/y in FY2017 when the building shall be full year operational. Net profit should settle at 12% y/y decline in FY2016 on the one off Mladost IV book loss and 85% y/y up in FY2015 solely on higher rental income. Interest expense would be almost unchanged despite the new bank loan while all operating expenses shall stay close to current levels including with some renovation investments in the Mr. Bricolage stores.

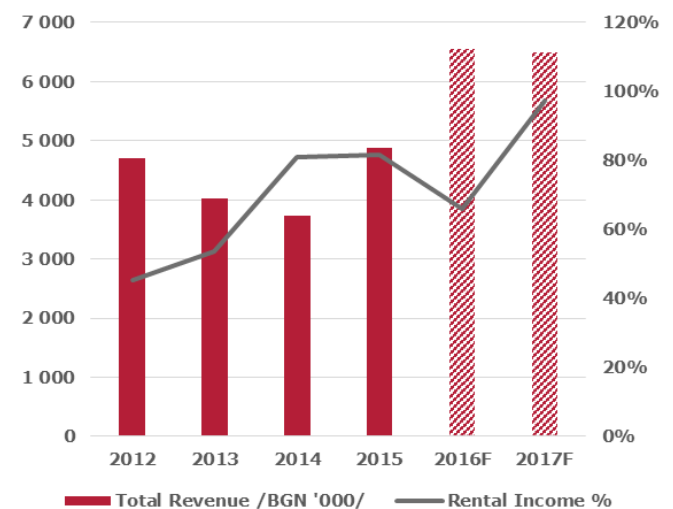
The latter developments shall translate into a steady and consistent dividend income for shareholders in the higher single digits. We expect approx. BGN 0.096 DPS for 2016 and 0.17 DPS for 2017, yielding 5% and 9%, respectively at current market quotes.

Exhibit 2: Portfolio breakdown



Source: Company data, Q2 2016

Exhibit 3: Rental income to drive steady returns



Source: Company data, ELANA Trading Estimates

FINANCIAL DATA & ELANA FORECAST

INCOME STATEMENT / BGN '000/	2012	2013	2014	Q2'15	2015	Q2'16	TTM	2016F	2017F
Total Revenue	4 710	4 019	3 734	2 339	4 878	4 186	6 724	6 550	6 494
Proceeds from sale of properties	0	0	80	258	259	2 075	2 076	2 075	0
Rental income	2 132	2 151	3 030	1 989	3 984	2 043	4 038	4 324	6 330
interest income	2 095	1 451	374	8	13	4	9	8	8
Gain on derivative financial instrument	102	246	160	66	114	32	79	110	156
Net gains from FV adjustments	0	76	0	0	487	0	487	0	0
Other income	381	94	90	18	21	32	35	32	0
Total Expenses	2 990	2 333	7 440	1 529	2 869	3 484	4 823	4 784	3 211
Value of assets sold	0	0	106	327	327	2 267	2 267	2 267	0
Operating Expenses	1 594	1 786	2 130	585	2 138	1 126	2 609	2 142	2 266
Interest expense	458	356	276	92	202	83	193	168	648
Net loss from FV adjustments	282	0	4 633	0	0	0	0	0	0
Other expenses & FX differences + loss from derivatives	657	192	295	526	202	79	-246	206	297
Net Profit	1 719	1 686	-3 706	810	2 009	702	1 901	1 766	3 283
Shares outstanding	60 450	60 450	60 450	60 450	60 450	20 150	20 150	20 150	20 150
EPS	0.028	0.028	-0.061	0.013	0.033	0.035	0.094	0.088	0.163

BALANCE SHEET / EUR'000/	2012	2013	2014	Q2'15	2015	Q2'16	TTM	2016F	2017F
ASSETS									
Current Assets	32 475	28 232	10 005	9 278	5 271	5 515	5 515	7 647	10 685
Investment property held for sale	2 392	2 367	1 618	1 576	1 524	1 467	1 467	1 576	1 576
Trade & other receivables	1 027	288	93	63	217	741	741	145	880
Cash & cash equivalents	29 046	25 569	8 272	7 593	3 510	2 562	2 562	5 897	8 199
Other current assets	0	0	0	23	0	705	705	0	0
Deferred expenses	10	10	22	23	20	40	40	29	29
Non-current Assets	49 629	49 715	61 737	62 393	67 341	70 518	70 518	79 467	79 154
Investment property	49 623	49 711	0	60 594	0	11 079	11 079	79 328	79 152
Cost for acquisition of fixed assets	0	0	140	1 091	5 483	2	2	137	0
Plant & equipment	6	4	2	0	0	1	1	0	0
Intangible assets	0	0	4	4	2	0	0	2	2
Restricted cash	0	0	704	0	704	0	0	0	0
Total Assets	82 104	77 948	71 742	71 671	72 612	76 033	76 033	87 115	89 839
EQUITY AND LIABILITIES									
Current Liabilities	3 837	3 483	2 355	2 466	5 415	4 785	4 785	5 711	5 633
Current part of non-current liabilities	1 610	1 696	1 790	1 838	1 886	1 473	1 473	1 966	1 134
Provisions for dividends due	1 799	1 447	0	0	1 608	1 608	1 608	1 790	3 520
Trade and other current payables	428	340	565	628	1 921	1 704	1 704	1 956	978
Non-current Liabilities	5 889	3 966	2 590	1 600	0	3 350	3 350	11 350	10 372
Interest bearing loans	5 322	3 646	1 878	952	0	3 350	3 350	10 757	9 779
Derivative financial instrument	567	321	158	94	0	0	0	39	39
Other long-term liability	0	0	553	553	0	0	0	553	553
Total Liabilities	9 726	7 450	4 944	4 066	5 415	8 135	8 135	17 061	16 005
Share Capital	60 449	60 449	60 451	60 449	60 451	60 450	60 450	60 449	60 449
Share premium	9 810	9 810	9 810	9 810	6 345	6 345	6 345	6 345	6 345
Retained earnings	2 118	239	-3 464	-2 654	401	1 103	1 103	3 260	7 058
Total Equity	72 377	70 498	66 797	67 605	67 197	67 898	67 898	70 054	73 852
Total Equity and Liabilities	82 104	77 948	71 742	71 671	72 611	76 033	76 033	87 114	89 839
Net Assets	72 377	70 498	66 798	67 605	67 197	67 898	67 898	70 054	73 835

Source: Company IFRS Financial Statements

FINANCIAL PERFORMANCE	2012	2013	2014	2015	TTM	2016F	2017F
Valuation							
BVPS	1.197	1.166	1.105	1.112	3.370	3.477	3.665
P/B	0.434	0.454	0.489	0.467	0.553	0.536	0.509
Profitability							
Earnings per share	0.028	0.028	-0.061	0.033	0.035	0.088	0.189
Net income margin	36.5%	41.9%	-99.3%	41.2%	28%	27.1%	58.5%
Return on Equity	2.38%	2.39%	-5.55%	2.99%	1.03%	2.54%	5.14%
Return on Assets	2.09%	2.16%	n/a	2.77%	2.50%	1.98%	4.23%
Dividend							
Dividend per share	0.03	0.02	0.00	0.08	0.00	0.10	0.17
Dividend Yield	5.72%	4.50%	0%	4.81%	0%	5.09%	8.87%
Liquidity							
Current Ratio	8.46	8.10	4.25	0.97	1.15	1.34	1.20
Stock Price, BGN	0.520	0.530	0.540	0.276	1.865	1.865	1.865
Market Capitalisation' 000 BGN	31 434	32 039	32 643	16 689	37 580	37 580	37 580

BULGARIAN REAL ESTATE FUND Overview

COMPANY PROFILE

Bulgarian Real Estate Fund REIT (BREF) is among the pioneers in real estate securitization in Bulgaria. Established in 2004, it raised EUR 36m and built up a diversified portfolio of real estate projects. The principal investment objective of the Fund is to provide its shareholders with a combination of current income and long-term appreciation of the common stock value. As a market player in commercial real estate, BREF is relatively of mid-size, targeting projects within the range of EUR 2-20m.

BREF has a diversified portfolio of real estate investments in Bulgaria, allocated in retail (25%), office (30%), holiday properties (10%), investment plots (28%) and agricultural land (0.2%). It also has a cash position of BGN 3.5 m or 5% of its portfolio as of Dec. 30th 2015.

The Company has returned EUR 13.5 m to investors via dividends, reaching more than 10% 5YR average dividend yield. Rental income has increasingly dominated as the main revenue stream, with 90% share for 2015. BREF has successfully exited office space projects worth more than EUR 40 m.

The Fund's capital consists of local and international institutional and individual investors. BREF is a favorite among the local pension funds.

FUNDAMENTAL STORY

With the awakening of the local real estate market, driven by the rising IT and BPO office space demand, we expect BREF to set on a new track of steady profits. It has shifted its focus towards more liquid projects in the prime office segment, where it already has acquired considerable expertise.

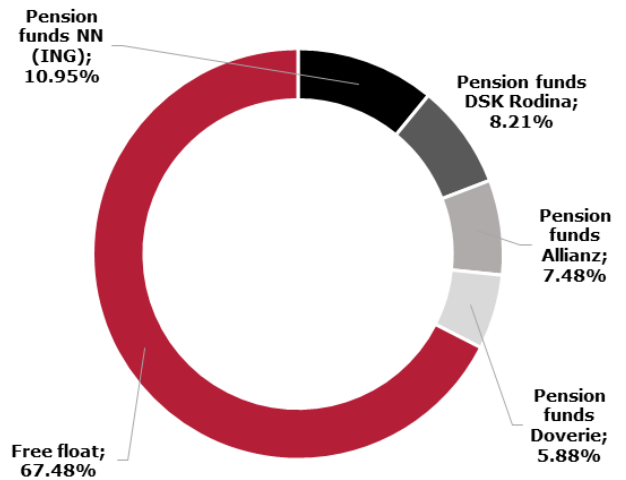
In 2014, the fund acquired Office Building 1 within Business Park Sofia, the largest office area in Bulgaria. In 2015, it commenced the construction of a new office building, Kambanite Office Center, which is adjacent to Kambanite Business Center, a successful exit by BREF in 2011, when the office building was bought by Zeus Capital Partners for EUR 23 m. Kambanite Office Center is situated just across the Business Park and on the Sofia South Ring Road.

The Fund is also on the lookout for a second office building acquisition, which will increase the office segment of its portfolio and increase rental income. A potential acquisition will entail the need for fresh capital and fortify its strategy towards more liquidity, thus enabling BREF to capitalize on the dynamics within this market segment.

STRENGTHS & OPPORTUNITIES

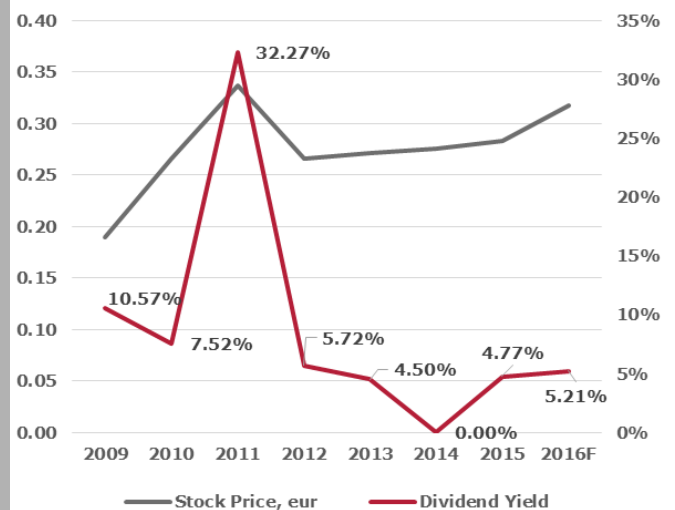
- Market savvy management team
- Successful exit in office space; the latter being the most vibrant segment within the commercial real estate market
- 10% 5YR average dividend yield; returned EUR 13.5 m via dividends
- Minimal Debt/Equity ratio

SHAREHOLDERS' STRUCTURE



Source: Company data

MEAN DY OF 9.4% SINCE 2009; 5.28% EXPECTED FOR 2015



Source: Bulgarian Stock Exchange, Elana Trading Estimations;

*Data prior to 1-for-3 reverse split in Q1'16

WEAKNESSES & THREATS

- 20% of the portfolio is in still illiquid properties
- Foreign institutional investors cautiously active on the stock
- Room for improving sentiment among the individual investor

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BUY	Target price is more than 10% above current quotes
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SELL	Target price is more than 10% below the current quotes

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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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