

MONBAT
INDUSTRY: ELECTRICAL EQUIPMENT
BACK TO THOSE SWEET MARGINS

WITH LEAD PRICES BACK TO NORMAL FLUCTUATIONS, MONBAT RETURNS TO HIGHER OPERATING PROFITABILITY WITH EBITDA MARGIN ABOVE 18% FOR TWO CONSECUTIVE QUARTERS. RISING VOLUMES AND POSITIVE LEAD PRICE DEVELOPMENTS TO SUPPORT THE COMPANY'S H2'16 PERFORMANCE WHILE RENEWED INVESTMENTS IN CAPACITY EXPANSION AND NEW TECHNOLOGY TO DRIVE LONG TERM GROWTH

BACK TO NORMAL MARGINS

After taking a hit from abnormal lead fluctuation at the end of 2015, Monbat returned to normal margins in 2016. The Company delivered healthy 18%+ EBITDA margin two consecutive quarters with 18.4% as of June 2016. Consolidated EBITDA for H1'16 is BGN 20.9m, down 2.48% y/y, on 5% y/y decline in average LME prices, 0.9% y/y decline in sales and higher labor costs. Bottom line results are above our estimates while top line underperformed as the LME lost significant ground at the end of Q1 and beginning of Q2'16.

VOLUMES AND INVENTORY STOCKING ON THE RISE AHEAD OF THE HIGH SEASON

Monbat delivered good rise in volumes with 15% increase in the number of batteries sold in H1'16, according to management. The latter pace is expected to keep up in H2 which together with lead prices advancing considerably over July and August makes us at ease with our initial top line forecast for FY 2016. Also, Monbat has been building up inventory to take advantage of the lower lead prices at the start of 2016 and deliver good margins in H2 - the active season for car batteries.

SPEEDING UP CAPACITY AND NEW TECHNOLOGY INVESTMENTS

Nice surprise in Q2 are the higher than expected CAPEX investments. The Company is advancing on its calculated expansion in both starter and stationary batteries capacity in Dobrich and Montana with the first stage to be completed in Sept. 2016. It also initiated a EUR 9m project to expand its recycling capacity by acquiring new tin extraction technology from lead alloys. Tin has been among the biggest commodity gainers in 2016 as mining capacity problems in Asia delivered lower than expected supply. Overall, CAPEX in 2016 is expected at ~BGN 24m, as Monbat's management said at the last shareholders' meeting.

PAYS RECORD DIVIDEND WITH STOCK PRESSURE EASING

With financial investors on board for a 6th consecutive year, Monbat declared record dividend – BGN 10.9m or BGN 0.28 gross DPS, yielding 3.9% at current quotes. Nevertheless, the stock trades at YTD lows as it has been under pressure partially from MSCI's review of Bulgaria in its frontier index. However, local demand improved with pension funds adding positions in the stock, including from majority owner Prista Oil Holding. New ETF on SOFIX to add demand and liquidity on the stock as Monbat is a key component of SOFIX.

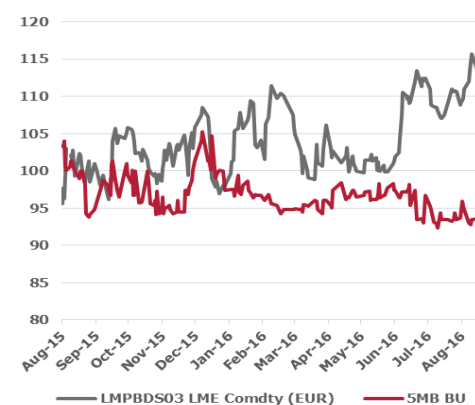
VALUATION/RISKS

VALUATION: Monbat's latest profitability results and investment momentum keep us at ease with our BUY recommendation. Higher costs, including on depreciation, however, would keep profitability slightly below our initial 5 year estimates. Thus we revise our margins estimates and accordingly our target price downwards.

RISKS: EU economic slowdown and faster than expected electric car penetration.

RESULTS ANALYSIS
BUY
ONE YEAR PRICE TARGET: BGN 9.05
CURRENT PRICE: BGN 7.20
PREVIOUS PRICE TARGET: BGN 9.45
EXCHANGE RATES
EUR/BGN (FIXED): 1.95583
USD/BGN: 1.73898
MARKET DATA

Shares Outstanding:	39.89 m
Share Capital:	39 m
Free-float:	29%
Treasury Shares	0.03%
Market Cap.:	BGN 280 m
Avg. Daily Vol.:	BGN 68 000
52 Weeks Range:	BGN 6.86- 7.70
BSE Ticker	5MB
Bloomberg Ticker	SMB BU

IN CONSIDERABLE DIVERGES WITH THE LME


Source: Bloomberg

In kBGN, excl. ratios	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Revenues	56 079	69 288	63 325	51 153	62 479	69 001	63 893	48 563
<i>Growth y/y</i>	<i>-2.94%</i>	<i>3.25%</i>	<i>6.52%</i>	<i>17.33%</i>	<i>11.41%</i>	<i>-0.41%</i>	<i>0.90%</i>	<i>-5.06%</i>
EBITDA	11 564	10 372	12 455	9 044	8 611	7 394	12 056	8 909
EBIT	8 776	7 528	9 606	6 173	5 615	4 578	9 002	5 793
Net profit	7 336	7 456	8 265	5 004	4 456	4 326	7 803	4 742
Equity	170 315	176 830	184 942	175 196	179 747	183 306	191 684	185 119
ROE (TTM)	17.20%	15.07%	16.12%	16.11%	14.19%	12.25%	11.80%	11.65%
ROA (TTM)	11.20%	9.98%	10.84%	10.81%	9.67%	8.33%	8.08%	7.75%
EBITDA margin	20.62%	14.97%	19.67%	17.68%	13.78%	10.72%	18.87%	18.35%
Net profit margin	13.08%	10.76%	13.05%	9.78%	7.13%	6.27%	12.21%	9.76%
EPS	0.19	0.19	0.21	0.13	0.11	0.11	0.20	0.12
Debt/equity	0.37	0.41	0.33	0.32	0.30	0.33	0.33	0.43
P/E	11.94	13.18	11.62	11.67	11.62	14.13	12.97	13.17
P/B	1.93	1.89	1.75	1.87	1.63	1.70	1.46	1.52
EV/EBITDA	8.67	9.57	8.40	8.62	8.33	9.53	9.12	9.63

MONBAT'S RESULTS REVIEW

Monbat delivered good margins and "preparing-for-the-high-season" consolidated results in H1'16.

Revenue breakdown: The top line slid 0.9% y/y for the first six months of 2016 and 5% y/y in Q2'16 alone partially on lower average lead prices vs the same period last year. H1'15 lead prices were abnormally up in the usually low season, thus building a higher than usual comparison base. Overall, average lead prices in H1'16 are down 5% y/y.

Monbat partially compensated the lead price effect with higher volumes. According to management, the latter are growing at an average pace of 15% y/y for the starter batteries and faster for the stationary ones. With the LME advancing considerably over July - August we expect better top line performance in Q3'16 and especially in Q4'16 despite preliminary data of 11% y/y decline in July sales. The latter is an outlier and is against a stronger than usual July 2015 due to early stocking.

Finally, Monbat started receiving state subsidies on its recycling in Serbia. However, as the latter is still negligent vs. recycling operations in Bulgaria and Romania, the subsidies effect shall be somewhere below 1% of total annual sales - thus not a major factor on the Groups overall results.

Inventory buildup: Over the period Monbat is also building up inventory (up 50% y/y to BGN 80m as of June 2016) to take advantage of a lower cost base due to lower lead prices during March-May. It will use it in the high season in H2'16. This new "make-to-order" inventory strategy should allow Monbat to do well during the second half of 2016 and sustain healthy operating margins in addition to better top line performance. Still, it resulted in negative cash flows in H1 which we expect to see to be partially offset in H2.

Profitability improved: In Q1'16 Monbat returned to normal EBITDA margins after aggressive lead price decline in Q3 and Q4 2015 ate up the Company's efficiency buffers in lead recycling. EBITDA margin improved considerably from only 10% in Q4'15 to 18.9% in Q1'16 and 18.4% in Q2'16. We expect it to average 17.7% in 2016 as rising lead prices should affect costs late in

H2'16 despite the preliminary inventory buildup.

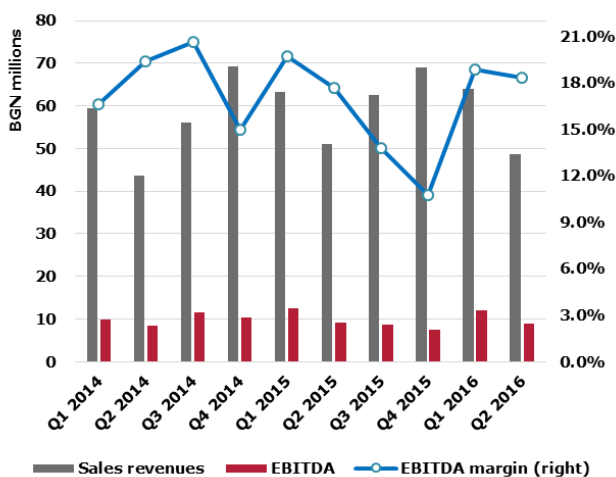
Investment speeding up: We are also positively surprised by the advance in capex investments in H1'16 with BGN 15m of the expected approx. BGN 24m already in the books. The Company is expanding its starter and stationary batteries capacity (approx. 20% in 2016) as well as its recycling capacity by investing in new tin extraction technology from lead alloys. The former shall be completed in H2'16 while the latter in 2017 totaling EUR 9m.

Both shall add to the Company's long term growth with the latter adding additional top line diversity as tin demand outpaced supply considerably in 2016 due to mining problems in Asia. All these make us comfortable with our initial top line estimates. We revise slightly downward our bottom line estimates however as higher depreciation, labor costs and additional debt kick with new investments.

Potential exit: Going forward we do not expect aggressive debt building but rather further focus on efficiency and improved profitability as the Company is heading into its third and final year of its efficiency program. The latter was initiated by its new turnaround management that is on board together with financial investors ADM Capital and EBRD. The latter hold 20% of the Company and as their investment mandate is soon to enter its seventh year we are on the lookout for a potential exit. Higher dividend payouts also support it as Monbat declared record dividend in 2016.

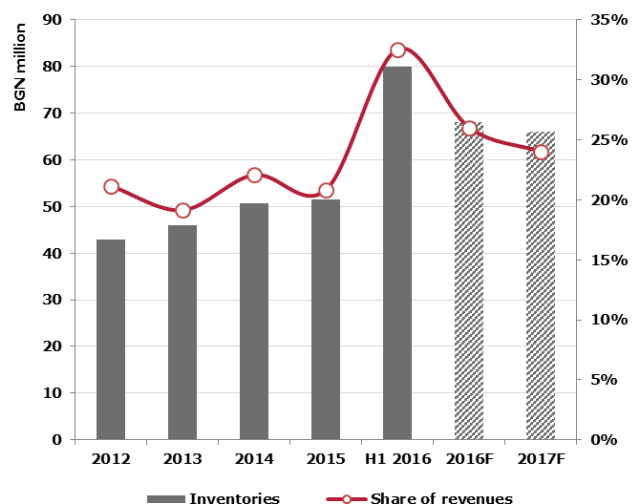
Stock catalyst: Accordingly, we are comfortable with a small downward revision to our fair value of BGN 9.05 per share as the stock has been on demand from local institutional investors in the recent weeks after being under pressure due to MSCI's review of Bulgaria in its frontier markets index. We feel the latter has eased as most frontier investors rebalanced their portfolios and renewed local demand. New ETF on SOFIX could also add to the stocks demand as Monbat is a key component of SOFIX. Any exit initiatives from the current financial investors would also be a catalyst for the share's performance.

Exhibit 2: Margins returned to normal in H1'16 after tough H2'15



Source: Company data

Exhibit 3: Pre-season inventory stocking considerable



Source: Company data, Elana Trading estimates

INDIVIDUAL FINANCIAL DATA

Income Statement ('000 BGN)	2013	2014	2015	H1 2015	H1 2016	TTM	2016F	2017F
Revenue	240 144	229 037	246 773	114 824	113 775	245 724	261 579	274 658
Operating Expenses	208 239	199 952	220 801	99 045	98 980	220 736	227 051	236 481
Change in Inventories	1 383	(10 799)	1 884	1 116	-15 340	(14 572)	(6 016)	(4 395)
Cost of Material	153 812	153 914	149 163	66 441	83 679	166 401	175 258	185 394
Cost of Labor	14 448	16 022	18 314	7 982	10 443	20 775	19 618	19 775
Cost of External Services	18 717	17 669	19 436	8 448	9 869	20 857	18 311	17 853
Depreciation and Amortization	10 570	11 193	11 532	5 720	6 170	11 982	11 771	10 986
Net Book Value of Assets Sold	3 764	7 328	13 442	7 787	2 003	7 658	4 185	2 747
Other Costs	5 545	4 625	7 030	1 551	2 156	7 635	3 924	4 120
Operating Income	31 905	29 085	25 972	15 779	14 795	24 988	34 528	38 178
Interest Expense	2 701	2 437	2 077	1 134	1 003	1 946	1 975	2 007
Foreign Exchange Losses (Gains)	788	205	111	39	319	391	(523)	549
Net Non-Operating Losses (Gains)	363	(137)	(337)	(345)	-95	(87)	392	(343)
Pretax Income	28 053	26 580	24 121	14 951	13 568	22 738	32 684	35 965
Income Tax Expense	3 282	3 041	3 236	1 742	1 591	3 085	3 268	3 596
Income Before XO Items	24 771	23 539	20 885	13 209	11 977	19 653	29 416	32 368
Extraordinary Loss Net of Tax	0	0	0	0	0	0	0	0
Minority Interests	0	(1 770)	(1 166)	(60)	-568	(1 674)	(1 046)	(824)
Net Income	25 389	25 309	22 051	13 269	12 545	21 327	30 462	33 192
EPS	0.65	0.65	0.57	0.36	0.32	0.55	0.78	0.85
Balance Sheet ('000 BGN)	2013	2014	2015	H1 2015	H1 2016	TTM	2016F	2017F
Assets								
Cash & Near Cash Items	7 673	20 538	15 238	10 157	4 417	4 417	12 676	27 751
Short-Term Investments	0	0	50	50	50	50	0	0
Accounts & Notes Receivable	66 200	68 175	81 467	72 872	81 924	81 924	83 705	82 398
Inventories	45 958	50 560	51 403	52 921	79 939	79 939	68 011	65 918
Other Current Assets	249	168	337	375	837	837	1 308	1 373
Total Current Assets	120 080	139 441	148 495	136 375	167 167	167 167	165 700	177 440
LT Investments & LT Receivables	463	463	463	463	463	463	916	961
Net Fixed Assets	116 484	118 371	127 023	120 714	135 744	135 744	139 945	140 076
Other Long-Term Assets	1 054	1 606	904	1 540	1 050	1 050	1 177	1 373
Total Long-Term Assets	118 001	120 440	128 390	122 717	137 257	137 257	142 038	142 410
Total Assets	238 081	259 881	276 885	259 092	304 424	304 424	307 738	319 850
Liabilities & Shareholders' Equity								
Accounts Payable	18 742	14 244	22 297	19 024	28 773	28 773	23 542	24 719
Short-Term Borrowings	50 386	38 092	46 226	23 995	58 519	58 519	49 700	46 692
Other Short-Term Liabilities	2 619	3 336	4 927	5 876	8 566	8 566	5 232	1 099
Total Current Liabilities	71 747	55 672	73 450	48 895	95 858	95 858	78 474	72 510
Long-Term Borrowings	9 661	34 635	14 830	32 854	21 097	21 097	20 926	16 480
Other Long-Term Liabilities	5 409	4 041	8 685	4 868	7 555	7 555	5 232	6 180
Total Long-Term Liabilities	15 070	38 676	23 515	37 722	28 652	28 652	26 158	22 659
Total Liabilities	86 817	94 348	96 965	86 617	124 510	124 510	104 632	95 169
Total Preferred Equity	0	0	0	0	0	0	0	0
Minority Interest	(891)	(2 661)	(3 375)	(2 721)	(5 205)	(5 205)	0	0
Share Capital & APIC	39 000	39 000	38 989	39 000	38 989	38 989	39 000	39 000
Retained Earnings & Other Equity	113 155	129 194	144 306	136 196	146 130	146 130	164 106	185 681
Total Equity	151 264	168 194	183 295	175 196	185 119	185 119	203 106	224 681
Total Liabilities & Equity	238 081	259 881	276 885	259 092	304 424	304 424	307 738	319 850

Source: Company IFRS Financial Statements Audited; Elana Trading Estimates

QUARTERLY FINANCIAL DATA

Income Statement ('000 BGN)	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Sales revenues	56 079	69 288	63 325	51 153	62 479	69 001	63 893	48 563
Other revenues	116	115	-426	150	172	297	615	704
Operating Expenses	47 419	61 875	53 915	45 130	57 036	64 720	55 506	43 474
Change in Inventories	-1 453	-7 896	7 615	-6 499	-342	1 110	-6 647	-8 693
Cost of Material	36 214	50 066	31 087	35 354	41 060	41 662	46 223	37 456
Cost of Labor	3 422	5 264	4 078	3 904	4 515	5 817	5 136	5 307
Cost of External Services	4 386	5 879	4 149	4 299	4 781	6 207	5 425	4 444
Depreciation and Amortization	2 788	2 844	2 849	2 871	2 996	2 816	3 054	3 116
Net Book Value of Assets Sold	1 366	3 502	3 420	4 367	3 015	2 640	1 044	959
Other Costs	696	2 216	717	834	1 011	4 468	1 271	885
Operating Income	8 776	7 528	9 606	6 173	5 615	4 578	9 002	5 793
Financial revenues	673	725	1 079	749	892	1 099	854	655
Financial Expenses	1 207	1 590	1 388	1 268	1 623	1 391	1 449	1 287
Interest Expense	549	684	647	487	453	490	489	514
Pretax Income	8 242	6 663	9 297	5 654	4 884	4 286	8 407	5 161
Income Tax Expense	1 126	432	1 111	631	628	866	917	674
Income Before XO Items	7 116	6 231	8 186	5 023	4 256	3 420	7 490	4 487
Extraordinary Loss Net of Tax	0	0	0	0	0	0	0	0
Minority Interests	-220	-1 225	-79	19	-200	-906	-313	-255
Net Income	7 336	7 456	8 265	5 004	4 456	4 326	7 803	4 742
Balance Sheet ('000 BGN)	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Assets								
Cash & Near Cash Items	10 147	20 538	25 119	10 157	9 137	15 232	4 383	4 417
Short-Term Investments	0	0	0	50	50	50	50	50
Accounts & Notes Receivable	65 571	68 276	66 850	72 872	75 522	79 602	82 205	81 924
Inventories	57 481	59 084	49 146	52 921	48 083	52 547	62 349	79 939
Other Current Assets	257	168	363	375	300	344	730	837
Total Current Assets	133 456	148 066	141 478	136 375	133 092	147 775	149 717	167 167
LT Investments & LT Receivables	463	463	463	463	463	463	463	463
Net Fixed Assets	119 754	118 371	120 089	120 714	120 932	126 517	130 150	135 744
Other Long-Term Assets	925	1 606	1 562	1 540	1 481	905	876	1 050
Total Long-Term Assets	121 142	120 440	122 114	122 717	122 876	127 885	131 489	137 257
Total Assets	254 598	268 506	263 592	259 092	255 968	275 660	281 206	304 424
Liabilities & Shareholders' Equity								
Accounts Payable	15 764	14 233	13 403	19 024	15 658	23 194	20 470	28 773
Short-Term Borrowings	50 865	38 092	27 912	23 995	21 722	48 446	49 700	58 519
Other Short-Term Liabilities	2 733	3 336	2 526	5 876	3 609	4 421	4 005	8 566
Total Current Liabilities	69 362	55 661	43 841	48 895	40 989	76 061	74 175	95 858
Long-Term Borrowings	11 780	34 635	33 707	32 854	32 148	12 610	12 952	21 097
Other Long-Term Liabilities	4 577	4 041	3 842	4 868	6 005	7 510	7 332	7 555
Total Long-Term Liabilities	16 357	38 676	37 549	37 722	38 153	20 120	20 284	28 652
Total Liabilities	85 719	94 337	81 390	86 617	79 142	96 181	94 459	124 510
Total Preferred Equity	0	0	0	0	0	0	0	0
Minority Interest	-1 436	-2 661	-2 740	-2 721	(2 921)	(3 827)	(4 937)	-5 205
Share Capital & APIC	39 000	39 000	39 000	39 000	39 000	38 989	38 989	38 989
Retained Earnings & Other Equity	131 315	137 830	145 942	136 196	140 747	144 317	152 695	146 130
Total Equity	170 315	176 830	184 942	175 196	179 747	183 306	191 684	185 119
Total Liabilities & Equity	254 598	268 506	263 592	259 092	255 968	275 660	281 206	304 424

Source: Company IFRS Financial Statements

KEY FINANCIAL AND PERFORMANCE INDICATORS	2012	2013	2014	2015	2016F	2017F
VALUATION						
PRICE/EARNINGS (P/E)	9.86	13.55	12.64	13.19	9.15	8.40
PRICE/BOOK (P/B)	1.35	2.27	1.90	1.59	1.37	1.24
PRICE/SALES (P/S)	0.84	1.43	1.40	1.18	1.07	1.01
PRICE/CASH PER SHARE	6.17	9.57	8.76	8.66	6.60	6.31
EV (IN BGN)	224 445	396 353	371 989	336 758	336 721	314 192
EV/EBITDA	7.43	9.33	9.24	8.98	7.27	6.39
PROFITABILITY						
RETURN ON COMMON EQUITY	13.26%	18.28%	15.84%	12.55%	15.77%	15.52%
RETURN ON ASSETS	8.14%	11.27%	10.17%	8.22%	10.42%	10.58%
RETURN ON INVESTED CAPITAL	10.54%	14.09%	11.36%	9.35%	12.04%	12.17%
EBITDA MARGIN	14.90%	17.69%	17.59%	15.20%	17.70%	17.90%
OPERATING MARGIN	9.81%	13.29%	12.70%	10.52%	13.20%	13.90%
NET INCOME MARGIN	8.54%	10.57%	11.05%	8.94%	11.65%	12.08%
DIVIDEND						
DIVIDEND YIELD	4.24%	2.61%	1.83%	3.75%	2.46%	2.58%
DIVIDEND PER SHARE	0.20	0.23	0.15	0.28	0.18	0.18
LIQUIDITY						
CURRENT RATIO	1.41	1.67	2.50	2.02	2.11	2.45
QUICK RATIO	0.78	1.03	1.59	1.32	1.23	1.52
CREDIT						
LT DEBT/EQUITY	0.09	0.06	0.21	0.08	0.10	0.07
TOTAL DEBT/EQUITY	0.45	0.40	0.43	0.33	0.35	0.28
TOTAL DEBT/TOTAL ASSETS	0.27	0.25	0.28	0.22	0.23	0.20
EBIT/INTEREST EXPENSE	11.85	15.73	16.53	18.06	23.44	24.50

MONBAT Overview

COMPANY PROFILE

Monbat is the largest lead-acid battery producer in Bulgaria, focused on the automotive aftermarket. It is fully vertically integrated with two production sites in Bulgaria (2.8 million batteries capacity) and three scrap batteries recycling facilities in Bulgaria, Romania and Serbia (60K tons/annum capacity). It also invests in growth businesses such as LED lighting bulbs.

The company exports 90% of products to 30+ countries with the EU major export destination via a wide distribution network. 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.

FUNDAMENTAL STORY

Monbat has 60 years+ of history in lead acid batteries manufacturing. The latest investments in own recycling facilities act as partial natural hedge to LME price volatility in addition to providing environmental and raw materials availability benefits. Accordingly, the company is able to earn above sector average margins of 16% average EBITDA margin over the last 10 years. With a new three year efficiency improvement program the company aims at increasing average EBITDA margins to 18-20%.

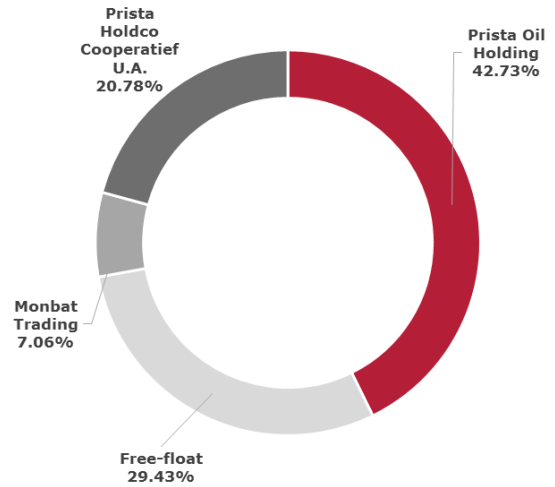
Despite the rising demand on electric vehicles, the current technology for starting batteries is expected to remain without substitution. Lead-acid batteries are most cost efficient for industrial applications and will remain primary back-up choice for telecoms.

Monbat is highly ranked for corporate governance with a balanced stakeholders' policy and among the best managed listed companies in Bulgaria. It is run by an experienced professional turnaround team supported by both majority shareholder - Prista Oil Group, and minority investors - turnaround specialist ADM Capital and the European Bank for Reconstruction and Development.

STRENGTHS & OPPORTUNITIES

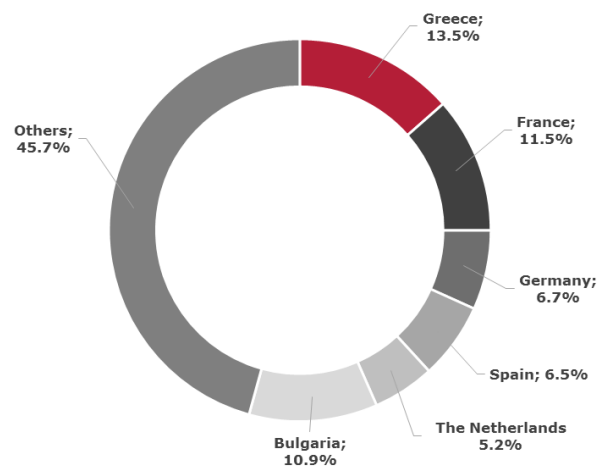
- Broad distribution network in most EU countries
- No dependence on large client or particular market
- Highly ranked for corporate governance and financial performance from Bulgarian investors
- Resource availability from recycling of old batteries
- Competitive product prices and very high profit margins as compared to leading companies in the sector
- Innovative technology in production of LED light bulbs in prospective market

SHAREHOLDERS' STRUCTURE



Source: Company data, As of 31st of August 2016

SALES BREAKDOWN IN 2015



Source: Company data

WEAKNESSES & THREATS

- Volatile global lead prices may erode both margins and top line performance as price transfer may not happen as fast as commodity price fluctuations, scrap lead availability may decrease and recycling margins may not offset primary market turbulences

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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.

Q2 2016 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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