

THE WAKE UP

WITH 20%+ Y/Y RISE, THE BULGARIAN CAPITAL MARKET MAIN INDEX SOFIX HAS CONSIDERABLY OUTPERFORMED EXPECTATIONS. THE FIRST ETF ON THE INDEX IS A KEY GROWTH DRIVER TOGETHER WITH FUNDAMENTALLY DRIVEN INSTITUTIONAL AND YIELD SEEKING RETAIL INVESTORS ON THE BUY SIDE. UPSIDE REMAINS CONSIDERABLE DESPITE THE RALLY AND THE RENEWED POLITICAL TURBULENCE

BEST PERFORMANCE IN 2.5 YEARS

SOFIX booked its best performance in 2.5 years with 19% YTD rise, heading for its 2014 highs. 3Q16 alone was the best quarter over the same period when the index added 11% q/q.

OUTPERFORMING REGIONAL PEERS, YET VALUATIONS REMAIN ATTRACTIVE

The results delivered outperform all CEE regional peers by 5%+ while the global frontier markets lag behind by more than 10%. Valuations yet remain attractive with a SOFIX ttm P/E at 10.4x as fundamentals advance in line with valuations on strong economic performance in all representative sectors, including industrials, tourism and finance.

TURNOVER ALMOST TRIPLED Y/Y IN 3Q16

The market depth also improved registering highest average daily turnover in three years. The latter almost tripled y/y to BGN 1m in 3Q16 for all equities with SOFIX components and new SOFIX ETF among most traded positions.

FIRST ETF ON SOFIX DRIVING DEMAND

Expat Bulgaria SOFIX UCITS ETF (BGX BU), first ETF on SOFIX, introduced to the market in the last day of Sept. 2016, immediately drove index stocks' demand up. The ETF attracted considerable inflows from local institutional investors and individual professional investors. Fund inflows keep coming in with BGN 24m under management two months after inception.

LOCAL INSTITUTIONAL AND RETAIL INVESTORS ALSO ON THE BUY SIDE

Selective fundamentally driven local institutional investors as well as alternative yield seeking retail investors are adding exposure to the market, especially in industrial, health care and real estate stocks. Buy backs also active in 3Q16 with another round expected at year end.

OVERALL POSITIVE SENTIMENT

Low interest rate environment, rising real estate property prices (6.6% y/y up in 2Q16), continuous labor market improvement (7% unemployment in 3Q16, lowest since 2009) and above expectations real GDP growth (3.5% y/y in 3Q16) are fueling additional positive sentiment to the market.

MAJOR RISKS: Renewed political turbulence post November 2016 presidential elections to be a short-term but mostly a long term setback as key economic and judiciary reforms remain in the political to do list. We don't see a major impact on the export driven economy, yet if the political issue prolongs consumer confidence and EU funding absorption could be negatively affected.

MARKET DATA

AS OF NOVEMBER 25TH, 2016

EXCHANGE RATES

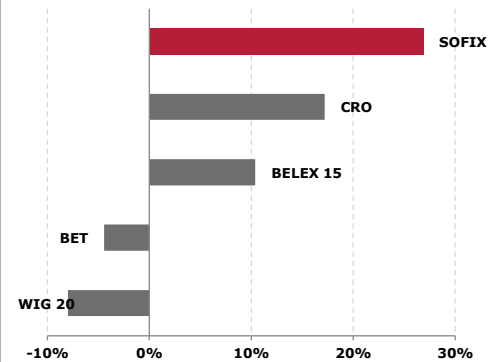
EUR/BGN (FIXED): 1.95583
USD/BGN: 1.84477

MARKET MULTIPLES

Index	Last	12M%Δ	P/E	DY
SOFIX	555.32	26.85%	10.45	4.40%
MSCI FM CEE+CIS*	284.55	-1.03%	10.12	5.57%

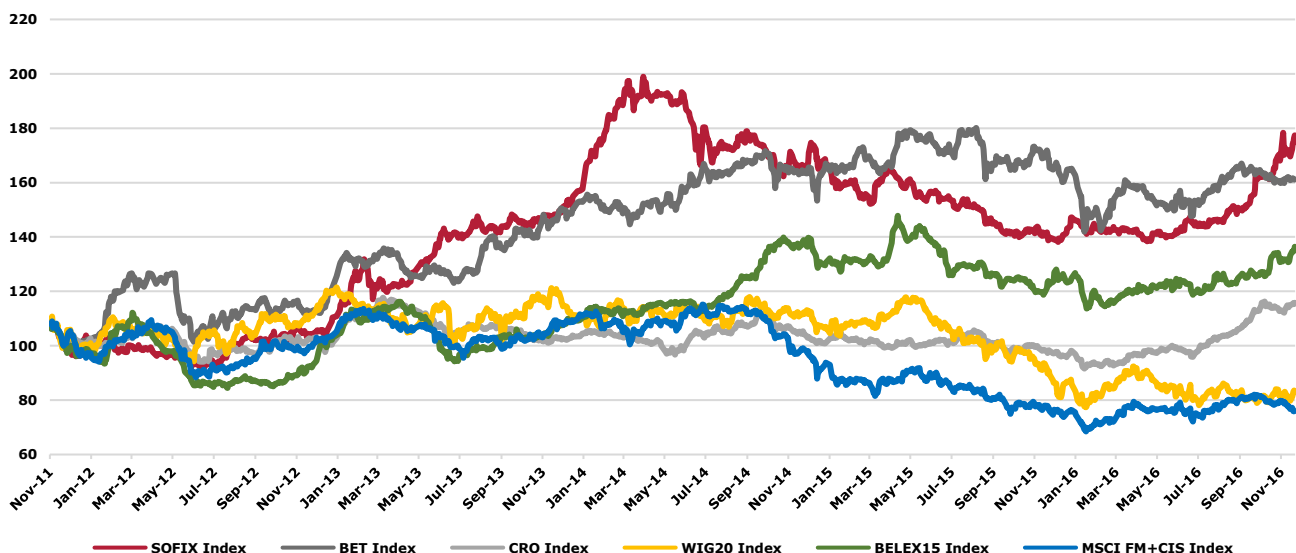
*MSCI Frontier Markets CEE+ CIS n EUR

BEST PERFORMER AMONG CEE PEERS Y/Y



Source: Bloomberg

STRONGEST PERFORMANCE IN 2.5 YEARS



THE BIG COME BACK

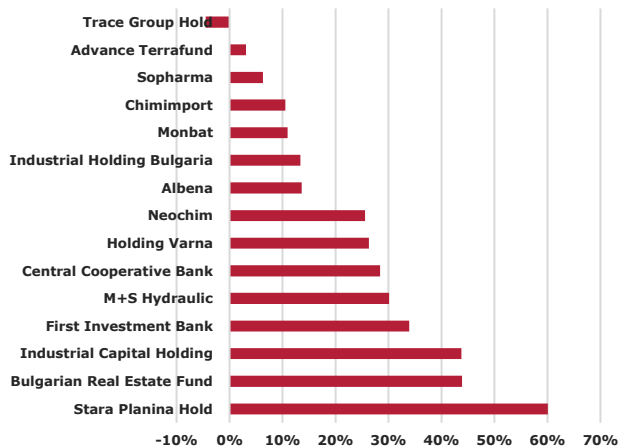
The Bulgarian equity market made an incredible comeback. The 20%+ y/y rise by mid-November 2016 is above expectations outperforming all regional peers as well as other frontier markets.

Such a performance was a positive surprise despite fundamentals suggesting it. Initial signs were visible as early as spring 2016 with early movers like the real estate stocks. The big difference to the trend, however, came at the end of the summer.

With the banks' asset quality review and stress tests completed August 2016, in the end of 3Q16 and the beginning of 4Q16 institutional investors started selectively adding exposure to fundamentally well performing stocks. Industrials led the way and financials catching up fast after the banks issues came out smaller than expected.

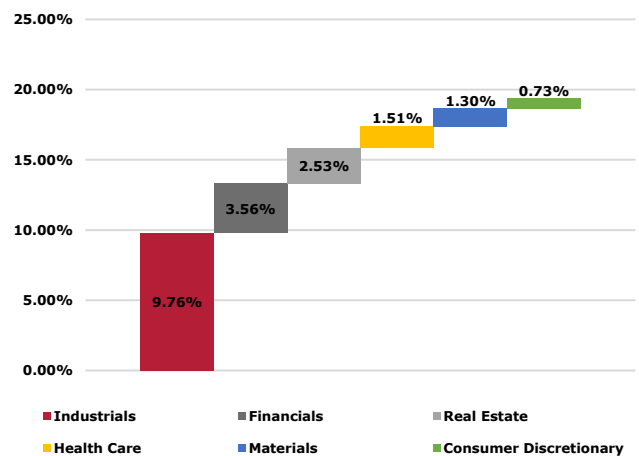
The launch of the first exchange traded fund on SOFIX on September 27th, 2016, gave the final boost. The ETF opened the door for the big come back with all components of the main index SOFIX in considerable demand. Cash started flowing both to the ETF, BGN 24m NAV mid-November, and directly to the market from retail investors seeking alternative to the low interest rates returns elsewhere. The ETF fund managers target to double the ETF's assets under management by end of 2016.

KEY CONTRIBUTORS TO SOFIX YTD RETURN BY COMPONENTS...



Source: Bulgarian Stock Exchange

... AND BY SECTORS



Source: Bloomberg

KEY MARKET UPSIDE DRIVERS

- New ETF on SOFIX getting steady inflows, expected 2x AUM by end of 2016
- Institutional investors selectively on the buy side on fundamentals
- Retail investors chasing yield in a low interest rate environment with tons of liquidity in the banks
- Attractive valuation (SOFIX ttm P/E 10.5x) despite considerable run up

KEY MARKET RISKS

- Low liquidity and lack of market depth despite 3Q16 average daily turnover surging 3x to BGN 1m
- Lack of international investors presence as their activity is more or less latent over the last 12M
- Lack of attractive, deeply undervalued assets

KEY MACRO UPSIDE DRIVERS

- 3.5% y/y real GDP growth in 3Q16
- 7% unemployment rate in 3Q16, lowest in 7 years
- 6.6% y/y rise in residential property prices in 2Q16
- 0.8% annual return on new household 12 month bank deposits, the lowest in 16 years
- Progressing with energy sector restructuring

KEY MACRO RISKS

- New political turbulences with early parliamentary elections expected spring 2017
- Lack of key structural reforms in judiciary, health care and education to be a drag to long term economic performance
- Potential for EU funding absorption and domestic consumption slowdown on political turbulence

VALUATIONS STILL ATTRACTIVE

Despite the run up, we find the market posing considerable upside potential. Especially, as valuation expansion has been complemented with strong fundamentals on the full sectors spectrum - industrials, real estate, health care, financials and consumer discretionary. Overall SOFIX multiples (e.g ttm P/E 10.5x) remain well below developed world and below peers valuations, offering considerable room for the rally to continue.

The prevailing ETF demand on SOFIX components to remain a key up factor. The fund has yet to invest about a fifth of its assets into equities, assuming no additional inflows coming in. The balancing itself should add fuel to the market.

SOFIX SUSTAINS ATTRACTIVE MULTIPLES DESPITE THE RALLY

Index	Country	YTD change	P/E*	P/B*
SOFIX	Bulgaria	18.63%	10.45	1.1
DAX	Germany	-0.75%	16.67	1.69
S&P500	USA	7.57%	20.56	2.84
WIG 20	Poland	-3.36%	32.09	1.04
ASE	Greece	0.18%	12.40	0.53
BET	Romania	-2.37%	14.64	0.84
CROBEX	Croatia	17.84%	12.35	1.09
MSCI Frontier Markets, CEE+CIS	World	0.44%	10.12	0.86
MSCI Emerging Markets Index	World	7.97%	15.28	1.46

As of November 23rd, 2016, Source: Bloomberg

THE ETF YET TO ADD HOLDINGS

Expat Bulgaria SOFIX UCITS ETF Holdings (as of Nov 22 nd .2016)			
Company	Ticker	SOFIX weight	BGX weight
Chimimport	6C4	10.69%	10.84%
Sopharma	3JR	13.44%	9.90%
Advance Terrafund REIT	6A6	11.32%	9.33%
M+S Hydraulic	5MH	6.45%	5.62%
Industrial Holding Bulgaria	4ID	3.39%	5.41%
Albena	6AB	6.93%	5.20%
Monbat	5MB	10.38%	5.15%
Stara Planina Hold	5SR	8.36%	5.11%
Bulgarian Real Estate Fund REIT	5BU	3.89%	5.08%
First Investment Bank	5F4	5.33%	5.03%
Neochim	3NB	4.09%	3.80%
Industrial Capital Holding	4I8	4.04%	2.81%
Central Cooperative Bank	4CF	3.54%	1.08%
Trace Group Hold	T57	3.49%	0.59%
Holding Varna	5V2	4.65%	0.37%
Cash	Cash	0	24.7%

Source: Expat Capital

TOP 5 COMPANIES BY MARKET CAP, (Oct 2016, in EUR mln)

Company Name (Ticker)	Market Cap
Sopharma (3JR)	204
Tchaikapharma (7TH)	186
Chimimport (6C4)	166
Monbat (5MB)	153
First Investment Bank (5F4)	134

TOP 5 MOST TRADED STOCKS IN Q3'16 (in EUR mln).

Company Name (Ticker)	Turnover
Monbat (5MB)	8.5
Agria Group Holding (A72)	4.0
Biovet (53B)	3.46
Chimimport (6C4)	1.68
First Investment Bank (5F4)	1.4

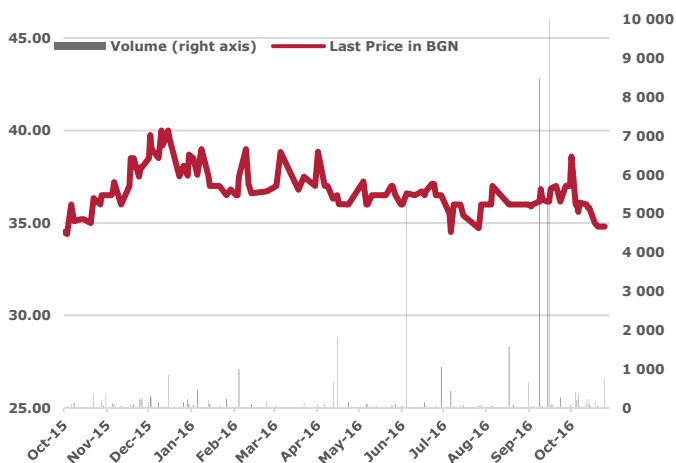
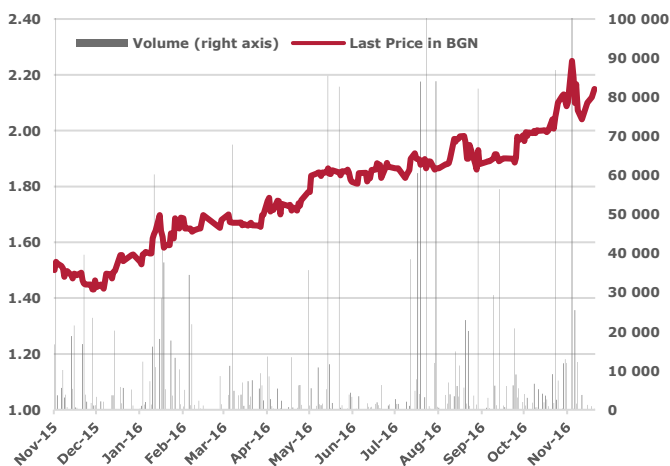
ELANA TOP PICKS AND STRATEGY

At this stage of the market, we recommend selective stock picking investment strategy, combining SOFIX and non-SOFIX components with strong fundamentals. Thus, we balance out the ETF effect on SOFIX with quality undervalued stocks driven by fundamentals.

Our top picks are fundamentally strong stocks offering long term potential in the industrials, real estate and health care sector. Financials, both banks and leasing companies also pose interesting buying stories as net interest margins enter nice profit making levels. Yet, the latter should be carefully considers for NPL performance and balance sheet cleaning efforts.

Stock	Ticker	Market Cap (BGN m)	Last Price (BGN per share)	12M%Δ	Elana 1 year price target	fP/E	Reco
Monbat	5MB BU	358 m	8.80	+ 19%	9.05	11.25	BUY
Speedy	0SP BU	185 m	34.80	- 4.6%	38.42	36.20	HOLD
Bulgarian Real Estate Fund REIT	5BU BU	43 m	2.15	+ 44.15%	2.70 (intrinsic value.)	0.61 (p/b)	BUY
Sirma Group Holding	SKK BU	52 m	0.88	- 26.67%	1.38	28.02	BUY
Sopharma	3JR BU	374 m	2.88	+ 11.69%	3.09	9.18	BUY
Sopharma Trading	SO5 BU	201 m	6.12	+ 16.13%	6.03	13.86	BUY

1 – year stock performance

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MONBAT (5MB BU)

- The largest lead-acid batteries producer in Bulgaria
- 13% EPS CAGR and 9% revenues CAGR over the last five years
- 15% average ROE and 3% average DY over the last five years
- Vertically integrated with a natural hedge from batteries recycling allowing to reduce lead prices volatility risk
- Excellent market diversification with aftermarket exports to 20+ countries; Key markets in Western Europe
- Explores new batteries technology in lithium ion and lithium-iron phosphate niches.
- Institutional and retail investors actively on the buy side on strong results and investment announcement

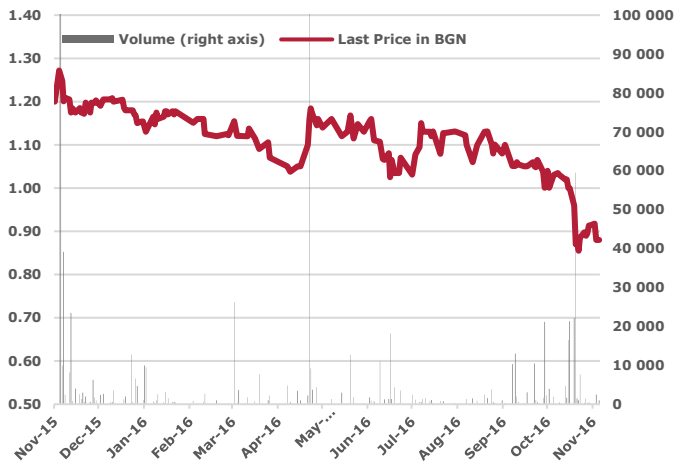
SPEEDY (OSP BU)

- Leading courier in Bulgaria with a strong position in both the B2B and B2C segments, incl. e-commerce.
- Aggressively expanding in Romania with French La Poste's land courier – GeoPost and its DPD network in Europe.
- GeoPost has the option to increase its current stake in Speedy from 25% to 70% in 2020 at 8x EV/EBITDA.
- Profitability slashed in 2016 due to heavy investing in Romania. Margins to recover H2 2017 onward on 20%+ growth in Romania
- 26% CAGR of revenues over the last five years
- 57% average ROE and 4% average DY over the last five years

BULGARIAN REAL ESTATE FUND REIT (5BU BU)

- Diversified REIT with a well-structured office and commercial revenue generating portfolio
- Recently launched new revenue generating asset - an office building with 72% occupancy on launch
- Benefiting from high office demand from BPO and IT outsourcing companies in Bulgaria
- Market savvy management and good corporate governance
- 9% average DY over the last five years
- 30% discount to NAV despite recent stock appreciation on renewed investment mode
- Low D/E to be exploited for revenue generating assets acquisitions

1 – year stock performance



SIRMA GROUP HOLDING (SKK BU)

- Leading software and product development IT group in Bulgaria
- Diversified in software engineering, semantic technologies, system integration, cloud and mobile solutions, e-government, CAD/CAM and collocation services
- 19% CAGR of revenues over the last five years.
- Raised BGN 11.5m in an IPO in Sofia in the autumn of 2015
- Expanding in the US and Europe with key emphasis on the sales and project management function
- Targets 4x top line expansion by 2020

1 – year stock performance



SOPHARMA (3JR BU)

- Leading generic pharmaceutical producer in Bulgaria with a small phyto original portfolio
- Exposed to Russia and Ukraine but 3Q16 seen as an inflection point as sales start to normalize and cost optimization kicks in
- 9% average ROE over the last five years and improving on optimization and non-operating assets disposals
- Controls the biggest pharma group in Bulgaria with the leading medical distributor Sopharma Trading (SO5 BU) as well as smaller medical devices and consumables producers
- Focuses on entering Serbia with an own 20+ OTC products

1 – year stock performance



SOPHARMA TRADING (SO5 BU)

- Leading pharmaceutical distributor in Bulgaria
- Key hospitals' medicine, equipment and consumables provider; developing own pharmacy chain; Expanding in Serbia
- 14% EPS CAGR and 8% CAGR of the top line over the last five years
- 15% average ROE over the last five years
- Good corporate governance
- Consistent dividend payer with 80% constant dividend payout
- 6% average DY over the last five years

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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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