

MONBAT
INDUSTRY: ELECTRICAL EQUIPMENT
ON A POWER RALLY

MONBAT BOOKED THIRD CONSECUTIVE QUARTER OF STRONG RESULTS ON RISING VOLUMES AND SURGING LME PRICES. THE FUNDAMENTALS POWER SURGE TOGETHER WITH A BULLISH MARKET SENTIMENT LED TO A 30% STOCK RALLY OVER THE LAST THREE MONTHS. TO TAP LONG TERM GROWTH THE COMPANY EXPLORES NEW ENERGY MANAGEMENT SOLUTIONS

EXCELLENT NUMBERS YET AGAIN

Monbat delivered another set of strong quarterly results. Margins sustained above regional peers despite the surge in costs. In 3Q16 top line added 7.1% y/y to BGN 66.9m but EBITDA expanded 40% to BGN 12m or sustaining the 18% margin. Net profit surged by 49% y/y to BGN 6.6m. The results came from rising volumes and fast appreciating lead commodity prices. Preliminary 10M16 data signal further improvement on the top and bottom line.

INVENTORY MODEL CHANGE FOR BETTER MARGINS CONTROL

Beginning of 2016 Monbat changed its inventory model from order-to-make to make-to-order thus accumulating higher inventory. The latter aims better margin control in times of volatile lead but at higher working capital demand. So far it is profiting as it is well equipped to take on fast appreciating LME at its higher season. However, it is only another partial hedge to excessive LME volatility in addition to lead recycling. We don't foresee latest LME surge sustainable but could add short term marginal effect on the top and the bottom line.

CAPACITY EXPANSION GOING ONLINE

On the other hand, new capacity expansion investments should add mid to long term positive effects. The latter shall be operational in 4Q16. In 2016, the Company has increased its starter battery capacity by 20% y/y and its heavy vehicles batteries capacity by 30% y/y for c. EUR 5m. This will allow it to sustain double digit volumes growth midterm.

VENTURE INTO NEW BATTERY TECHNOLOGY

Yet, Monbat considers 2x profits in 5 years by growing organically and via new technology solutions. The Company announced it has laid the grounds for a new battery technology venture. It set up a subsidiary together with a li-ion experienced team to explore new energy management solutions. No immediate quantitative and qualitative details available on the project. Yet, management has guided Monbat has a place in the li-ion and li-iron phosphate niche segments.

POSITIVE STOCK SENTIMENT

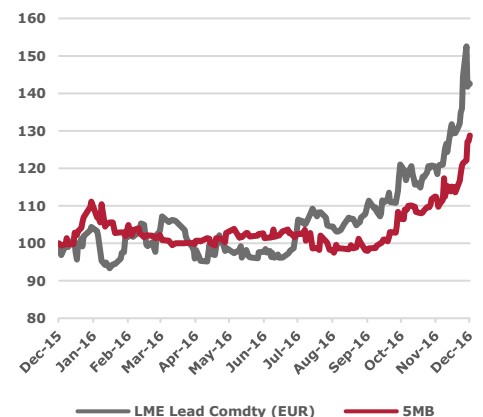
With strong organic performance and new technology venture announcement the market sentiment towards the stock has turned overly positive. It rallied 30% over the past three months, surpassing our fair value estimate. Demand remains high offering room for profit taking.

VALUATION/RISKS

VALUATION: With latest strong performance delivered and new capacity investment effect we revise upward our 1 year target price to BGN 9.84 per share. However, we revise our recommendation from BUY to HOLD as the stock rallied considerably. The continued high demand offers some profit taking room.

RESULTS ANALYSIS
HOLD
ONE YEAR PRICE TARGET: BGN 9.84
CURRENT PRICE: BGN 9.28
PREVIOUS PRICE TARGET: BGN 9.05
EXCHANGE RATES
EUR/BGN (FIXED): 1.95583
USD/BGN: 1.83784
MARKET DATA

Shares Outstanding:	39.89 m
Share Capital:	39 m
Free-float:	29%
Treasury Shares	0.03%
Market Cap.:	BGN 362 m
Avg. Daily Vol.:	BGN 83, 000
52 Weeks Range:	BGN 6.88- 9.28
BSE Ticker	5MB
Bloomberg Ticker	5MB BU

CONVERGING WITH LME


Source: Bloomberg

In kBGN, excl. ratios	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Revenues	69 288	63 325	51 153	62 479	69 001	63 893	48 563	66 920
<i>Growth y/y</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>	<i>7.11%</i>
EBITDA	10 372	12 455	9 044	8 611	7 394	12 056	8 909	12 045
EBIT	7 528	9 606	6 173	5 615	4 578	9 002	5 793	8 614
Net profit	7 456	8 265	5 004	4 456	4 326	7 803	4 742	6 629
Equity	176 830	184 942	175 196	179 747	183 306	191 684	185 119	191 879
ROE (TTM)	15.07%	16.12%	16.11%	14.19%	12.25%	11.80%	11.65%	12.61%
ROA (TTM)	9.98%	10.84%	10.81%	9.67%	8.33%	8.08%	7.75%	8.12%
EBITDA margin	14.97%	19.67%	17.68%	13.78%	10.72%	18.87%	18.35%	18.00%
Net profit margin	10.76%	13.05%	9.78%	7.13%	6.27%	12.21%	9.76%	9.91%
EPS	0.19	0.21	0.13	0.11	0.11	0.20	0.12	0.17
Debt/equity	0.41	0.33	0.32	0.30	0.33	0.33	0.43	0.51
P/E	13.18	11.62	11.67	11.62	14.13	12.97	13.17	15.27
P/B	1.89	1.75	1.87	1.63	1.70	1.46	1.52	1.87
EV/EBITDA	9.57	8.40	8.62	8.33	9.53	9.12	9.63	11.20

MONBAT'S RESULTS REVIEW

Monbat delivered another set of strong quarterly results and announced venturing in new tech solutions to sustain long term growth.

Results breakdown: The top line growth turned positive on double digit volumes growth and rising LME lead prices. In 3Q16 alone sales added 7.1% y/y to BGN 66.9m while EBITDA expanded 40% to BGN 12m. Net income added 49% y/y to BGN 6.6m. Overall 9M16 results came at 2.2% y/y group top line expansion to BGN 181m and 8% y/y net income rise to BGN 19.2m.

Preliminary 10M16 data signal further improvement with EBITDA and EBT showing double digit growth.

Overall, the Company sustains third consecutive quarter well above peer group margins which makes us comfortable that it will meet our estimates. Yet, we slightly revise our 2016 bottom line expectations to account for faster expanding labor costs as well as lead surprise surge post the US presidential elections.

Continuing inventory stocking due to new inventory model so far delivers the balancing effect needed to manage volatile LME movements. The latter is at the expense of additional working capital and negative cash flow from operations. However, we expect double digit volumes growth to smooth it out, especially after new capacity expansions take effect.

New capacity and technology investments: We expect to see positive effect from the new starter batteries capacity expansion investments both in the car and bigger vehicle solutions in Montana and Dobrich. Monbat has invested about EUR 5.3m for a 20% y/y Montana facility capacity expansion and 30% y/y Dobrich capacity upgrade. This would allow the Company under normal working conditions to produce 2.6 million starter and AGM batteries and 450 000 batteries for trucks, buses and other heavy vehicles.

Overall 2016 CAPEX to add up to about EUR 12m with capacity expansion, building renovations, efficiency and maintenance costs taking the biggest chunk.

Next in CAPEX consumption so far is Monbat's new tin separation investments. With global tin supply problems, the Company plans to extract tin from lead antimony alloys for own use and as an additional revenue streamline. So far the tin project has consumed about EUR 1m in CAPEX. The new capacity expected to be operational in H2'17 with management estimates of adding about EUR 1m of marginal EBITDA.

Finally, Monbat has announced it plans to venture into new energy management solutions. It has already established a new subsidiary together with a li-ion experienced team to explore new batteries technology. No additional details available on the project. Yet, management has suggested Monbat can take a niche in the li-ion and li-iron phosphate technological solutions.

Stock Catalyst: The latter new venture as well as the fundamentals improvement have been a catalyst for the stock performance. The latter has rallied 30% over the last three months with demand coming from local institutional and retail investors.

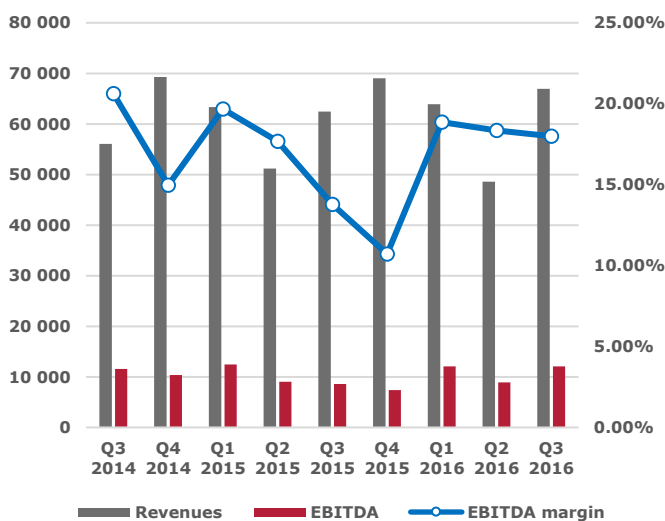
We consider the selling pressure from the MSCI review over. The latest appreciation, however, allows for some profit taking.

In addition, we find the latest shareholder reshuffle in Prista Oil Group positive for Monbat as the current experienced turnaround team shall be focused on Monbat – its financial performance and new technological ventures.

In October 2016 financial investors ADM Capital and the European Bank for Reconstruction and Development sold their stake in Prista Oil Group but kept their 20.8% direct stake in Monbat. The majority owners of the Group – the Bobokov brothers, Anatas and Plamen Bobokov, acquired it back and kept their control over Monbat.

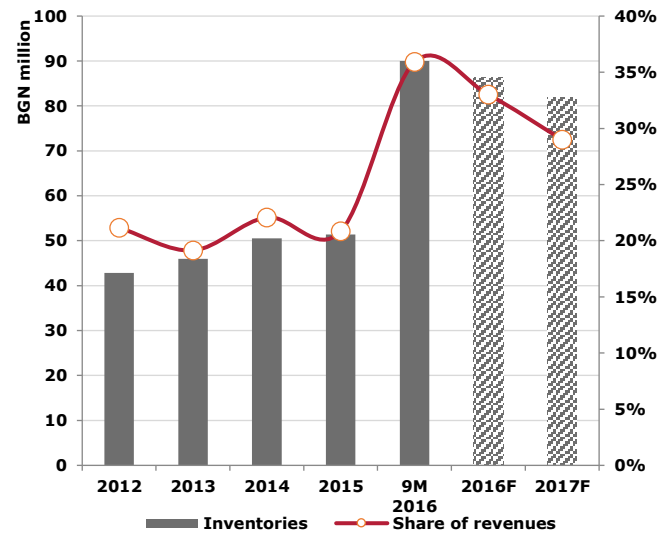
The latter transaction should allow the financial investors to focus on Monbat rather than both Monbat and Prista. It is yet to be seen if it will also translate into Monbat decreasing its related party funding for Prista.

Exhibit 2: Margins sustained third consecutive quarter



Source: Company data

Exhibit 3: Inventory stocking considerable in 3Q16 as well



Source: Company data, Elana Trading estimates

CONSOLIDATED FINANCIAL DATA

Income Statement ('000 BGN)	2013	2014	2015	9M 2015	9M 2016	TTM	2016F	2017F
Revenue	240 144	229 037	246 773	177 475	181 393	250 691	261 579	282 506
Operating Expenses	208 239	199 952	220 801	156 081	157 984	222 704	228 097	244 650
Change in Inventories	1 383	(10 799)	1 884	774	-16 311	(15 201)	(20 926)	(15 538)
Cost of Material	153 812	153 914	149 163	107 501	122 531	164 193	177 874	189 279
Cost of Labor	14 448	16 022	18 314	12 497	16 560	22 377	23 542	24 861
Cost of External Services	18 717	17 669	19 436	13 229	15 892	22 099	20 926	22 600
Depreciation and Amortization	10 570	11 193	11 532	8 716	9 385	12 201	13 079	12 713
Net Book Value of Assets Sold	3 764	7 328	13 442	10 802	6 211	8 851	8 371	5 650
Other Costs	5 545	4 625	7 030	2 562	3 716	8 184	5 232	5 085
Operating Income	31 905	29 085	25 972	21 394	23 409	27 987	33 482	37 856
Interest Expense	2 701	2 437	2 077	1 587	1 720	2 210	2 063	2 237
Foreign Exchange Losses (Gains)	788	205	111	324	448	235	(523)	565
Net Non-Operating Losses (Gains)	363	(137)	(337)	(352)	-142	(127)	392	(353)
Pretax Income	28 053	26 580	24 121	19 835	21 383	25 669	31 550	35 407
Income Tax Expense	3 282	3 041	3 236	2 370	2 479	3 345	3 155	3 541
Income Before XO Items	24 771	23 539	20 885	17 465	18 904	22 324	28 395	31 866
Extraordinary Loss Net of Tax	0	0	0	0	0	0	0	0
Minority Interests	0	(1 770)	(1 166)	-260	-270	(1 176)	(523)	28
Net Income	25 389	25 309	22 051	17 725	19 174	23 500	28 918	31 838
EPS	0.65	0.65	0.57	0.49	0.49	0.60	0.74	0.82
Balance Sheet ('000 BGN)	2013	2014	2015	9M 2015	9M 2016	TTM	2016F	2017F
Assets								
Cash & Near Cash Items	7 673	20 538	15 238	9 137	3 308	3 308	7 749	11 766
Short-Term Investments	0	0	50	50	50	50	0	0
Accounts & Notes Receivable	66 200	68 175	81 467	75 522	92 662	92 662	94 169	84 752
Inventories	45 958	50 560	51 403	48 083	90 018	90 018	86 321	81 927
Other Current Assets	249	168	337	300	1 035	1 035	1 308	1 413
Total Current Assets	120 080	139 441	148 495	133 092	187 073	187 073	189 547	179 857
LT Investments & LT Receivables	463	463	463	463	463	463	916	989
Net Fixed Assets	116 484	118 371	127 023	120 932	141 506	141 506	141 253	152 553
Other Long-Term Assets	1 054	1 606	904	1 481	1 076	1 076	1 177	1 413
Total Long-Term Assets	118 001	120 440	128 390	122 876	143 045	143 045	143 346	154 954
Total Assets	238 081	259 881	276 885	255 968	330 118	330 118	332 892	334 811
Liabilities & Shareholders' Equity								
Accounts Payable	18 742	14 244	22 297	15 658	35 054	35 054	34 005	31 076
Short-Term Borrowings	50 386	38 092	46 226	21 722	51 413	51 413	41 853	33 901
Other Short-Term Liabilities	2 619	3 336	4 927	3 609	3 427	3 427	5 232	1 130
Total Current Liabilities	71 747	55 672	73 450	40 989	89 894	89 894	81 090	66 106
Long-Term Borrowings	9 661	34 635	14 830	32 148	45 690	45 690	44 468	39 551
Other Long-Term Liabilities	5 409	4 041	8 685	6 005	7 622	7 622	5 232	6 356
Total Long-Term Liabilities	15 070	38 676	23 515	38 153	53 312	53 312	49 700	45 907
Total Liabilities	86 817	94 348	96 965	79 142	143 206	143 206	130 790	112 014
Total Preferred Equity	0	0	0	0	0	0	0	0
Minority Interest	(891)	(2 661)	(3 375)	(2 921)	(4 967)	(4 967)	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	140 747	152 890	152 890	163 103	183 797
Total Equity	151 264	168 194	183 295	179 747	191 879	191 879	202 103	222 797
Total Liabilities & Equity	238 081	259 881	276 885	255 968	330 118	330 118	332 892	334 811

Source: Company IFRS Financial Statements Audited; Elana Trading Estimates

QUARTERLY FINANCIAL DATA

Income Statement ('000 BGN)	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Sales revenues	69 288	63 325	51 153	62 479	69 001	63 893	48 563	66 920
Other revenues	115	-426	150	172	297	615	704	698
Operating Expenses	61 875	53 915	45 130	57 036	64 720	55 506	43 474	59 004
Change in Inventories	-7 896	7 615	-6 499	-342	1 110	-6 647	-8 693	-971
Cost of Material	50 066	31 087	35 354	41 060	41 662	46 223	37 456	38 852
Cost of Labor	5 264	4 078	3 904	4 515	5 817	5 136	5 307	6 117
Cost of External Services	5 879	4 149	4 299	4 781	6 207	5 425	4 444	6 023
Depreciation and Amortization	2 844	2 849	2 871	2 996	2 816	3 054	3 116	3 215
Net Book Value of Assets Sold	3 502	3 420	4 367	3 015	2 640	1 044	959	4 208
Other Costs	2 216	717	834	1 011	4 468	1 271	885	1 560
Operating Income	7 528	9 606	6 173	5 615	4 578	9 002	5 793	8 614
Financial revenues	725	1 079	749	892	1 099	854	655	1 205
Financial Expenses	1 590	1 388	1 268	1 623	1 391	1 449	1 287	2 004
Interest Expense	684	647	487	453	490	489	514	717
Pretax Income	6 663	9 297	5 654	4 884	4 286	8 407	5 161	7 815
Income Tax Expense	432	1 111	631	628	866	917	674	888
Income Before XO Items	6 231	8 186	5 023	4 256	3 420	7 490	4 487	6 927
Extraordinary Loss Net of Tax	0	0	0	0	0	0	0	0
Minority Interests	-1 225	-79	19	-200	-906	-313	-255	298
Net Income	7 456	8 265	5 004	4 456	4 326	7 803	4 742	6 629
Balance Sheet ('000 BGN)	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Assets								
Cash & Near Cash Items	20 538	25 119	10 157	9 137	15 232	4 383	4 417	3 308
Short-Term Investments	0	0	50	50	50	50	50	50
Accounts & Notes Receivable	68 276	66 850	72 872	75 522	79 602	82 205	81 924	92 662
Inventories	59 084	49 146	52 921	48 083	52 547	62 349	79 939	90 018
Other Current Assets	168	363	375	300	344	730	837	1 035
Total Current Assets	148 066	141 478	136 375	133 092	147 775	149 717	167 167	187 073
LT Investments & LT Receivables	463	463	463	463	463	463	463	463
Net Fixed Assets	118 371	120 089	120 714	120 932	126 517	130 150	135 744	141 506
Other Long-Term Assets	1 606	1 562	1 540	1 481	905	876	1 050	1 076
Total Long-Term Assets	120 440	122 114	122 717	122 876	127 885	131 489	137 257	143 045
Total Assets	268 506	263 592	259 092	255 968	275 660	281 206	304 424	330 118
Liabilities & Shareholders' Equity								
Accounts Payable	14 233	13 403	19 024	15 658	23 194	20 470	28 773	35 054
Short-Term Borrowings	38 092	27 912	23 995	21 722	48 446	49 700	58 519	51 413
Other Short-Term Liabilities	3 336	2 526	5 876	3 609	4 421	4 005	8 566	3 427
Total Current Liabilities	55 661	43 841	48 895	40 989	76 061	74 175	95 858	89 894
Long-Term Borrowings	34 635	33 707	32 854	32 148	12 610	12 952	21 097	45 690
Other Long-Term Liabilities	4 041	3 842	4 868	6 005	7 510	7 332	7 555	7 622
Total Long-Term Liabilities	38 676	37 549	37 722	38 153	20 120	20 284	28 652	53 312
Total Liabilities	94 337	81 390	86 617	79 142	96 181	94 459	124 510	143 206
Total Preferred Equity	0	0	0	0	0	0	0	0
Minority Interest	-2 661	-2 740	-2 721	(2 921)	(3 827)	(4 937)	-5 205	-4 967
Share Capital & APIC	39 000	39 000	39 000	39 000	38 989	38 989	38 989	38 989
Retained Earnings & Other Equity	137 830	145 942	136 196	140 747	144 317	152 695	146 130	152 890
Total Equity	176 830	184 942	175 196	179 747	183 306	191 684	185 119	191 879
Total Liabilities & Equity	268 506	263 592	259 092	255 968	275 660	281 206	304 424	330 118

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	12.40	11.27
PRICE/BOOK (P/B)	1.35	2.27	1.90	1.59	1.77	1.61
PRICE/SALES (P/S)	0.84	1.43	1.40	1.18	1.37	1.27
PRICE/CASH PER SHARE	6.17	9.57	8.76	8.66	8.54	8.05
EV (IN BGN)	224 445	396 353	371 989	336 758	437 271	420 385
EV/EBITDA	7.43	9.33	9.24	8.98	9.39	8.31
PROFITABILITY						
RETURN ON COMMON EQUITY	13.26%	18.28%	15.84%	12.55%	15.01%	14.99%
RETURN ON ASSETS	8.14%	11.27%	10.17%	8.22%	9.48%	9.54%
RETURN ON INVESTED CAPITAL	10.54%	14.09%	11.36%	9.35%	11.36%	11.59%
EBITDA MARGIN	14.90%	17.69%	17.59%	15.20%	17.80%	17.90%
OPERATING MARGIN	9.81%	13.29%	12.70%	10.52%	12.80%	13.40%
NET INCOME MARGIN	8.54%	10.57%	11.05%	8.94%	11.06%	11.27%
DIVIDEND						
DIVIDEND YIELD	4.24%	2.61%	1.83%	3.75%	1.91%	2.00%
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	2.34	2.72
QUICK RATIO	0.78	1.03	1.59	1.32	1.26	1.46
CREDIT						
LT DEBT/EQUITY	0.09	0.06	0.21	0.08	0.22	0.18
TOTAL DEBT/EQUITY	0.45	0.40	0.43	0.33	0.43	0.33
TOTAL DEBT/TOTAL ASSETS	0.27	0.25	0.28	0.22	0.26	0.22
EBIT/INTEREST EXPENSE	11.85	15.73	16.53	18.06	22.57	22.61

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%.

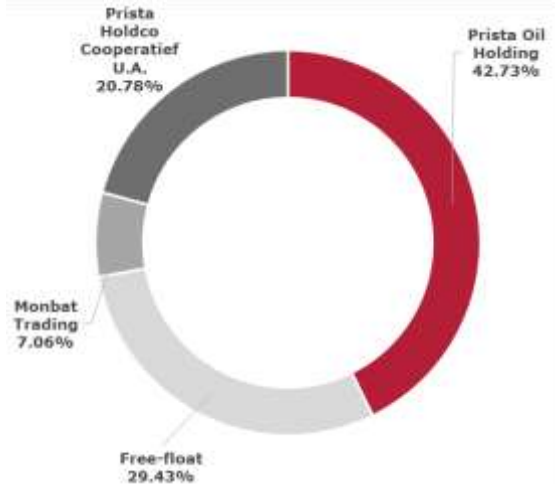
Despite the rising demand on electric vehicles, the current technology for starting batteries is expected to remain without substitution. Lead-acid batteries are most cost efficient for industrial applications and will remain primary back-up choice for telecoms.

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

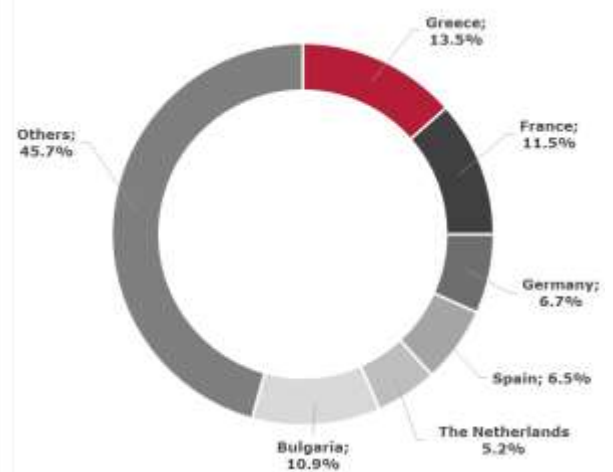
- Broad distribution network in most EU countries
- No dependence on large client or particular market
- Highly ranked for corporate governance and financial performance from Bulgarian investors
- Resource availability from recycling of old batteries
- Competitive product prices and very high profit 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.

Q3 2016 Recommendation Review			Market Maker Services
Recommendation	#	Share	
BUY	8	42%	SKK BU
HOLD	8	42%	
SELL	0	0%	
Under review	3	16%	

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For more information, please contact:

Research Analyst
Tatyana Vasileva

Phone:
+359 2 810 00 24

E-mail:
vasileva@elana.net

Internet:
www.elana.net