

**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**

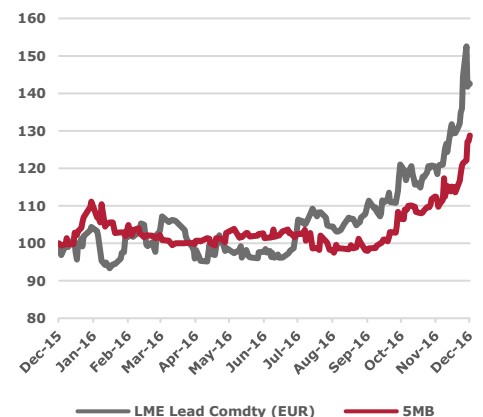
With strong organic performance and new technology venture announcement the market sentiment towards the stock has turned overly positive. It rallied 30% over the past three months, surpassing our fair value estimate. Demand remains high offering room for profit taking.

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

**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.

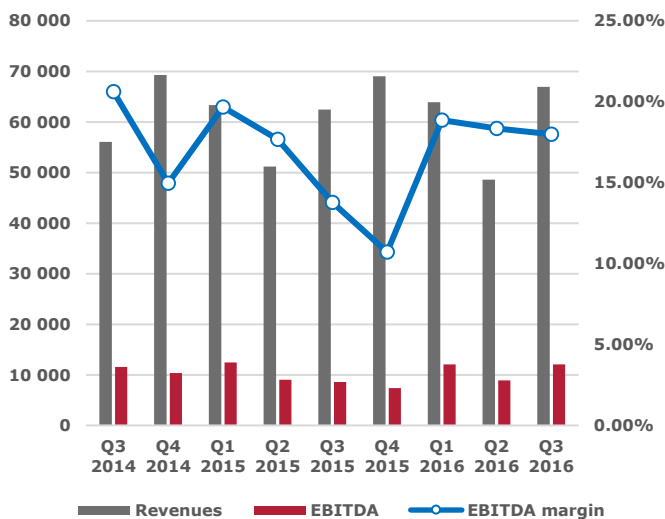
We consider the selling pressure from the MSCI review over. The latest appreciation, however, allows for some profit taking.

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.

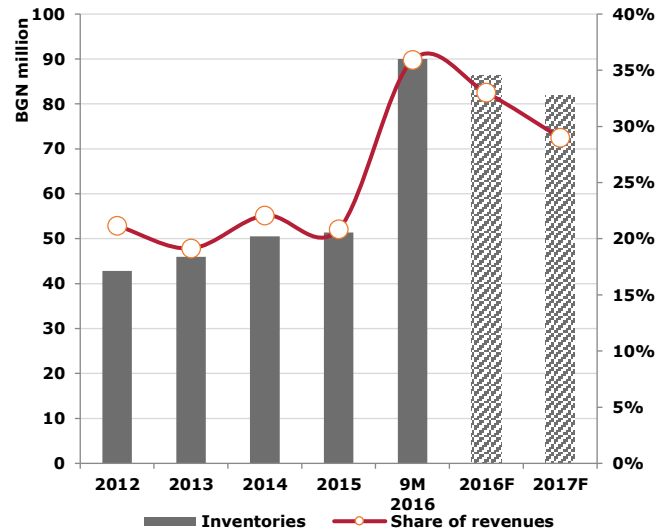
The latter transaction should allow the financial investors to focus on Monbat rather than both Monbat and Prista. It is yet to be seen if it will also translate into Monbat decreasing its related party funding for Prista.

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**

| <b>Income Statement ('000 BGN)</b>            | <b>2013</b>    | <b>2014</b>    | <b>2015</b>    | <b>9M 2015</b> | <b>9M 2016</b> | <b>TTM</b>     | <b>2016F</b>   | <b>2017F</b>   |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>                                | <b>240 144</b> | <b>229 037</b> | <b>246 773</b> | <b>177 475</b> | <b>181 393</b> | <b>250 691</b> | <b>261 579</b> | <b>282 506</b> |
| 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          |
| <b>Operating Income</b>                       | <b>31 905</b>  | <b>29 085</b>  | <b>25 972</b>  | <b>21 394</b>  | <b>23 409</b>  | <b>27 987</b>  | <b>33 482</b>  | <b>37 856</b>  |
| 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)          |
| <b>Pretax Income</b>                          | <b>28 053</b>  | <b>26 580</b>  | <b>24 121</b>  | <b>19 835</b>  | <b>21 383</b>  | <b>25 669</b>  | <b>31 550</b>  | <b>35 407</b>  |
| Income Tax Expense                            | 3 282          | 3 041          | 3 236          | 2 370          | 2 479          | 3 345          | 3 155          | 3 541          |
| <b>Income Before XO Items</b>                 | <b>24 771</b>  | <b>23 539</b>  | <b>20 885</b>  | <b>17 465</b>  | <b>18 904</b>  | <b>22 324</b>  | <b>28 395</b>  | <b>31 866</b>  |
| 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             |
| <b>Net Income</b>                             | <b>25 389</b>  | <b>25 309</b>  | <b>22 051</b>  | <b>17 725</b>  | <b>19 174</b>  | <b>23 500</b>  | <b>28 918</b>  | <b>31 838</b>  |
| <b>EPS</b>                                    | <b>0.65</b>    | <b>0.65</b>    | <b>0.57</b>    | <b>0.49</b>    | <b>0.49</b>    | <b>0.60</b>    | <b>0.74</b>    | <b>0.82</b>    |
| <b>Balance Sheet ('000 BGN)</b>               | <b>2013</b>    | <b>2014</b>    | <b>2015</b>    | <b>9M 2015</b> | <b>9M 2016</b> | <b>TTM</b>     | <b>2016F</b>   | <b>2017F</b>   |
| <b>Assets</b>                                 |                |                |                |                |                |                |                |                |
| 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          |
| <b>Total Current Assets</b>                   | <b>120 080</b> | <b>139 441</b> | <b>148 495</b> | <b>133 092</b> | <b>187 073</b> | <b>187 073</b> | <b>189 547</b> | <b>179 857</b> |
| 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          |
| <b>Total Long-Term Assets</b>                 | <b>118 001</b> | <b>120 440</b> | <b>128 390</b> | <b>122 876</b> | <b>143 045</b> | <b>143 045</b> | <b>143 346</b> | <b>154 954</b> |
| <b>Total Assets</b>                           | <b>238 081</b> | <b>259 881</b> | <b>276 885</b> | <b>255 968</b> | <b>330 118</b> | <b>330 118</b> | <b>332 892</b> | <b>334 811</b> |
| <b>Liabilities &amp; Shareholders' Equity</b> |                |                |                |                |                |                |                |                |
| 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          |
| <b>Total Current Liabilities</b>              | <b>71 747</b>  | <b>55 672</b>  | <b>73 450</b>  | <b>40 989</b>  | <b>89 894</b>  | <b>89 894</b>  | <b>81 090</b>  | <b>66 106</b>  |
| 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          |
| <b>Total Long-Term Liabilities</b>            | <b>15 070</b>  | <b>38 676</b>  | <b>23 515</b>  | <b>38 153</b>  | <b>53 312</b>  | <b>53 312</b>  | <b>49 700</b>  | <b>45 907</b>  |
| <b>Total Liabilities</b>                      | <b>86 817</b>  | <b>94 348</b>  | <b>96 965</b>  | <b>79 142</b>  | <b>143 206</b> | <b>143 206</b> | <b>130 790</b> | <b>112 014</b> |
| 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        |
| <b>Total Equity</b>                           | <b>151 264</b> | <b>168 194</b> | <b>183 295</b> | <b>179 747</b> | <b>191 879</b> | <b>191 879</b> | <b>202 103</b> | <b>222 797</b> |
| <b>Total Liabilities &amp; Equity</b>         | <b>238 081</b> | <b>259 881</b> | <b>276 885</b> | <b>255 968</b> | <b>330 118</b> | <b>330 118</b> | <b>332 892</b> | <b>334 811</b> |

Source: Company IFRS Financial Statements Audited; Elana Trading Estimates

**QUARTERLY FINANCIAL DATA**

| <b>Income Statement ('000 BGN)</b>            | <b>Q4 2014</b> | <b>Q1 2015</b> | <b>Q2 2015</b> | <b>Q3 2015</b> | <b>Q4 2015</b> | <b>Q1 2016</b> | <b>Q2 2016</b> | <b>Q3 2016</b> |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Sales revenues</b>                         | <b>69 288</b>  | <b>63 325</b>  | <b>51 153</b>  | <b>62 479</b>  | <b>69 001</b>  | <b>63 893</b>  | <b>48 563</b>  | <b>66 920</b>  |
| 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          |
| <b>Operating Income</b>                       | <b>7 528</b>   | <b>9 606</b>   | <b>6 173</b>   | <b>5 615</b>   | <b>4 578</b>   | <b>9 002</b>   | <b>5 793</b>   | <b>8 614</b>   |
| 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            |
| <b>Pretax Income</b>                          | <b>6 663</b>   | <b>9 297</b>   | <b>5 654</b>   | <b>4 884</b>   | <b>4 286</b>   | <b>8 407</b>   | <b>5 161</b>   | <b>7 815</b>   |
| Income Tax Expense                            | 432            | 1 111          | 631            | 628            | 866            | 917            | 674            | 888            |
| Income Before XO Items                        | <b>6 231</b>   | <b>8 186</b>   | <b>5 023</b>   | <b>4 256</b>   | <b>3 420</b>   | <b>7 490</b>   | <b>4 487</b>   | <b>6 927</b>   |
| Extraordinary Loss Net of Tax                 | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |
| Minority Interests                            | -1 225         | -79            | 19             | -200           | -906           | -313           | -255           | 298            |
| <b>Net Income</b>                             | <b>7 456</b>   | <b>8 265</b>   | <b>5 004</b>   | <b>4 456</b>   | <b>4 326</b>   | <b>7 803</b>   | <b>4 742</b>   | <b>6 629</b>   |
| <b>Balance Sheet ('000 BGN)</b>               | <b>Q4 2014</b> | <b>Q1 2015</b> | <b>Q2 2015</b> | <b>Q3 2015</b> | <b>Q4 2015</b> | <b>Q1 2016</b> | <b>Q2 2016</b> | <b>Q3 2016</b> |
| <b>Assets</b>                                 |                |                |                |                |                |                |                |                |
| 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          |
| <b>Total Current Assets</b>                   | <b>148 066</b> | <b>141 478</b> | <b>136 375</b> | <b>133 092</b> | <b>147 775</b> | <b>149 717</b> | <b>167 167</b> | <b>187 073</b> |
| 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          |
| <b>Total Long-Term Assets</b>                 | <b>120 440</b> | <b>122 114</b> | <b>122 717</b> | <b>122 876</b> | <b>127 885</b> | <b>131 489</b> | <b>137 257</b> | <b>143 045</b> |
| <b>Total Assets</b>                           | <b>268 506</b> | <b>263 592</b> | <b>259 092</b> | <b>255 968</b> | <b>275 660</b> | <b>281 206</b> | <b>304 424</b> | <b>330 118</b> |
| <b>Liabilities &amp; Shareholders' Equity</b> |                |                |                |                |                |                |                |                |
| 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          |
| <b>Total Current Liabilities</b>              | <b>55 661</b>  | <b>43 841</b>  | <b>48 895</b>  | <b>40 989</b>  | <b>76 061</b>  | <b>74 175</b>  | <b>95 858</b>  | <b>89 894</b>  |
| 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          |
| <b>Total Long-Term Liabilities</b>            | <b>38 676</b>  | <b>37 549</b>  | <b>37 722</b>  | <b>38 153</b>  | <b>20 120</b>  | <b>20 284</b>  | <b>28 652</b>  | <b>53 312</b>  |
| <b>Total Liabilities</b>                      | <b>94 337</b>  | <b>81 390</b>  | <b>86 617</b>  | <b>79 142</b>  | <b>96 181</b>  | <b>94 459</b>  | <b>124 510</b> | <b>143 206</b> |
| 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        |
| <b>Total Equity</b>                           | <b>176 830</b> | <b>184 942</b> | <b>175 196</b> | <b>179 747</b> | <b>183 306</b> | <b>191 684</b> | <b>185 119</b> | <b>191 879</b> |
| <b>Total Liabilities &amp; Equity</b>         | <b>268 506</b> | <b>263 592</b> | <b>259 092</b> | <b>255 968</b> | <b>275 660</b> | <b>281 206</b> | <b>304 424</b> | <b>330 118</b> |

Source: Company IFRS Financial Statements

| <b>KEY FINANCIAL AND PERFORMANCE INDICATORS</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016F</b> | <b>2017F</b> |
|---|-------------|-------------|-------------|-------------|--------------|--------------|
| <b>VALUATION</b>                                |             |             |             |             |              |              |
| 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         |
| <b>PROFITABILITY</b>                            |             |             |             |             |              |              |
| 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%       |
| <b>DIVIDEND</b>                                 |             |             |             |             |              |              |
| 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         |
| <b>LIQUIDITY</b>                                |             |             |             |             |              |              |
| 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         |
| <b>CREDIT</b>                                   |             |             |             |             |              |              |
| 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%.

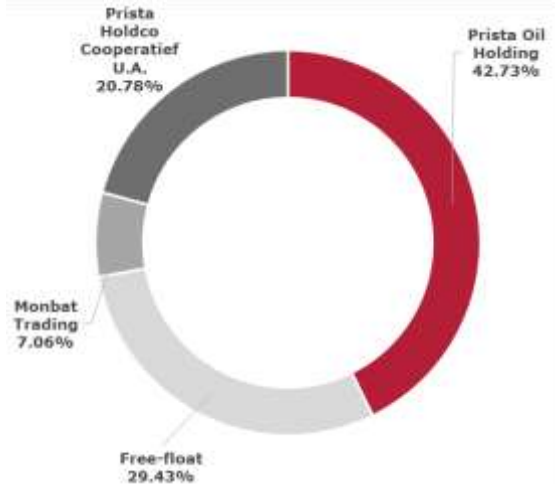
Despite the rising demand on electric vehicles, the current technology for starting batteries is expected to remain without substitution. Lead-acid batteries are most cost efficient for industrial applications and will remain primary back-up choice for telecoms.

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**

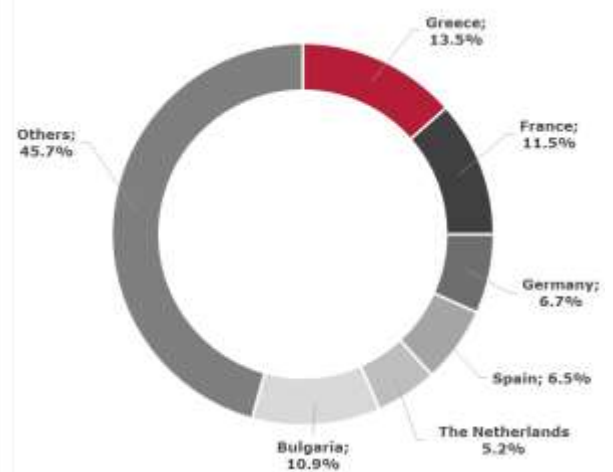
- Broad distribution network in most EU countries
- No dependence on large client or particular market
- Highly ranked for corporate governance and financial performance from Bulgarian investors
- Resource availability from recycling of old batteries
- Competitive product prices and very high profit 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 31<sup>st</sup> 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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|             |  |
|-------------|--|
| <b>BUY</b>  | Target price is more than 10% above current quotes     |
| <b>HOLD</b> | Target price in +/-10% range of the current quotes     |
| <b>SELL</b> | 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.

| <b>Q3 2016 Recommendation Review</b> |          |              | <b>Market Maker Services</b> |
|--------------------------------------|----------|--------------|------------------------------|
| <b>Recommendation</b>                | <b>#</b> | <b>Share</b> |                              |
| BUY                                  | 8        | 42%          | SKK BU                       |
| HOLD                                 | 8        | 42%          |                              |
| SELL                                 | 0        | 0%           |                              |
| Under review                         | 3        | 16%          |                              |

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