

ADVANCE TERRAFUND

INDUSTRY: REIT/AGRICULTURAL LAND

THOSE DIVIDENDS KEEP COMING

ADVANCE TERRAFUND, THE BIGGEST LAND REIT IN BULGARIA, OUTPERFORMS GUIDANCE AGAIN DELIVERING BETTER THAN EXPECTED LAND SALES REVENUES. THEY SUPPORT 50%+ HIGHER THAN EXPECTED UPCOMING DIVIDEND YIELDING A LUCRATIVE 7% RETURN. YET, LAND PRICES SLIPPED WITH RENTS FOLLOWING, THUS SIGNALING A ROUGH FUTURE.

OUTPERFORMING YET AGAIN

The most well regarded dividend stock in Bulgaria, Advance Terrafund REIT, outperformed guidance again, delivering better than expected results. FY2016 land sales came 25% above management guidance and 67% above our expectations with 15 168 dca sold over the last 12 months. The average price was BGN 1318 per dca, down 4% y/y, entailing BGN 20m in sales revenues.

UPCOMING DIVIDEND TO BE HIGHER THAN ANTICIPATED

Results translate into 50% higher than expected upcoming dividend. Depending on the land historical cost (dividends are due on actual historic profits), we expect the dividend to be in a conservative BGN 0.14 – BGN 0.15 per share range. Accordingly, the stock to yield a lucrative 7% at current market quotes which is among the highest expected yields on the market.

LAND PRICES FALL FOR THE FIRST TIME SINCE INCEPTION

Yet, Advance Terrafund booked a 4% y/y decline in average land prices. The latter is line with management guidance as the land market is entering a more mature state after 21% CAGR over the last five years. Declining land yields and agricultural goods' prices affect both land prices and rents. However, it can also be attributed to declining portfolio quality as the Company sold its most valuable land.

PROFITABILITY SCISSORS NARROWING ON PORTFOLIO RESHUFFLING

In 2016, Advance Terrafund sold its most expensive land in Northeast Bulgaria (e.g. Dobrich and Silistra) while adding land in less expensive regions like the Northwest (e.g. Vidin and Vratsa) and the Southeast (e.g. Yambol). In 2016, the Company acquired 9062 dca at an average price of BGN 855 per dca, up 3.4% y/y. With the portfolio reshuffle, the profitability scissors Advance Terrafund was exploiting in the last 10 years are narrowing down. The portfolio's historical cost is bound to rise allowing less room for price arbitrage.

DIRECT SALES RATHER THAN DEFERRED PAYMENTS CONTRACTS

To sustain a smoother current income return to investors we expect the Company to slightly accelerate direct sales. Deferred payment contracts will be hard to strike at an attractive price with land quality and rents declining. In 2016, the latter contracts negotiated were at an 8% y/y price discount. If management sustains more direct sales, the Company can deliver higher yields than expected.

VALUATION/RISKS

VALUATION: Advance Terrafund's good portfolio and experienced management keeps us comfortable with our initial fair value of the Company. Accordingly, we keep our BUY recommendation and price target. The stock is a practical safe haven on the market and provides for a lucrative upside. **RISKS:** Extreme weather to limit farmers' demand and ability to acquire land; New regulations may affect land ownership and transactions; Takeover attempts may be distraction to operations.

in KBGN, excl. ratios	2012	2013	2014	2015	2016F
Revenues	34 982	27 958	19 656	12 628	20 726
Net profit	49 199	34 740	24 726	33 750	13 564
Total Assets	239 397	233 395	223 903	236 859	257 506
Land portfolio (dca)	244 151	225 502	217 081	229 056	222 950
BV of Invest. Property	157 030	163 870	172 009	203 576	199 827
Debt, excl. prov. dividend	1 673	2 678	2 590	7 458	10 594
Total Equity	199 798	199 886	198 209	221 431	234 995
ROE	24.62%	17.38%	12.47%	15.24%	5.77%
EPS (BGN)	0.578	0.408	0.291	0.397	0.159
DPS (BGN)	0.493	0.398	0.300	0.100	0.152
BVPS (BGN)	2.348	2.349	2.329	2.602	2.761
Dividend Payout	100%	99.99%	98%	98%	98%
Dividend yield	18.97%	14.21%	11.77%	4.90%	7.26%

BUY
ONE YEAR PRICE TARGET: BGN 2.89
CURRENT PRICE: BGN 2.10

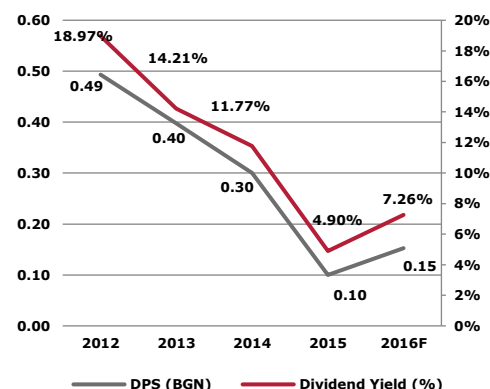
EXCHANGE RATES

EUR/BGN (FIXED): 1.95583
USD/BGN: 1.83336

MARKET DATA

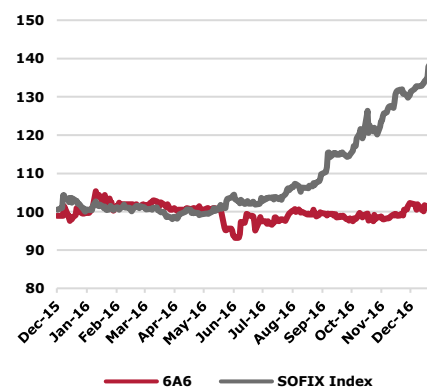
Shares Outstanding:	85.11m
Share Capital:	85.11m
Free-float:	64%
Market Cap.:	BGN 180 m
Avg. Daily Vol.:	BGN 53,000
52 Weeks Range:	BGN 1.91-2.14
BSE Ticker	6A6
Bloomberg Ticker	6A6 BU

YIELDS NORMALIZING



Source: Company data, Elana Trading estimates

A DIVIDEND SAFE HAVEN



Source: Bloomberg

ADVANCE TERRAFUND'S PERFORMANCE REVIEW

Advance Terrafund REIT outperformed expectations with preliminary FY2016 portfolio turnover results. The Company announced it has sold 15 168 dca of land in 2016 which is 25% above management guidance and 67% above our initial estimate.

Portfolio reshuffle: Land sales accelerating in the last quarter of 2016 but at lower prices as the Company sold some of its most appreciated land in its portfolio. In 2016, Advance Terrafund sold its most expensive land in Northeast Bulgaria (e.g. Dobrich, Silistra and Razgrad). These areas are among the most expensive in Bulgaria, where prices reached BGN 1400 – 1500 per dca and delivered the highest rents. Accordingly, additional sales made by the Company were at lower prices. Average land sale prices came at BGN 1318 per dca, down 4% y/y.

The portfolio reshuffle affected also average rents negotiated with farmers for the 2016/2017 agricultural year. The latter came at BGN 39/dca, down 7% y/y.

Simultaneously, Advance Terrafund kept adding land in less expensive regions like the Northwest (e.g. Vidin and Vratsa) and the Southeast (e.g. Yambol). In 2016, the Company acquired 9062 dca at an average price of BGN 855 per dca, up 3.4% y/y and in line with our expectations.

On the one hand, this entails lower current rents until these areas start consolidating and accordingly appreciate in value. On the other, average acquisition price kept rising, up 3.4% y/y in 2016. This trend will steadily lower the price arbitrage Advance Terrafund used to enjoy over the last 10 years when it bought

land cheaply and sold it 2x-3x higher.

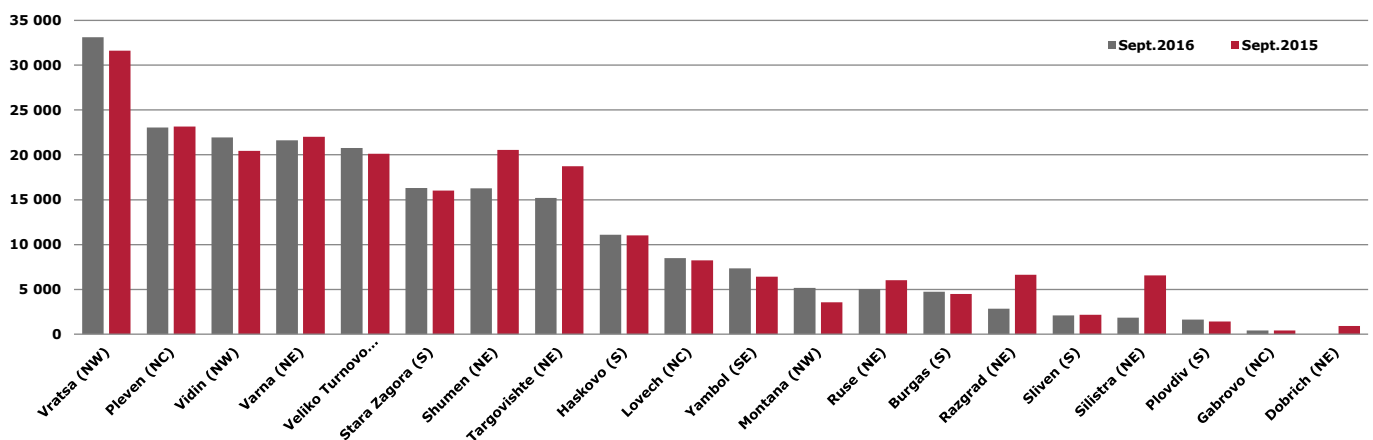
Going forward, we expect the latter arbitrage to be harder to be exploited. It would be difficult to be locked in even with deferred payment contracts that the Company initiated in 2015 unless the land consolidation happens faster to support higher value. In 2016, the Company negotiated deferred payments contracts for 13 813 dca at an average price of BGN 1371/dca, down 8% y/y. Accordingly, to sustain a smoother current income return to investors, we expect the Company to slightly accelerate sales in volumes.

Dividend projections: Based on the latest results, we also expect the upcoming dividend to be 50% higher than our initial estimate. Our new target is BGN 0.152 dividend per share on BGN 420 per dca estimated historical cost. Any +/- BGN 50/dca fluctuation in the cost entails +/- 5% change in the dividend.

This also entails a higher dividend yield of 7% at current market quotes which would again be among the highest on the market.

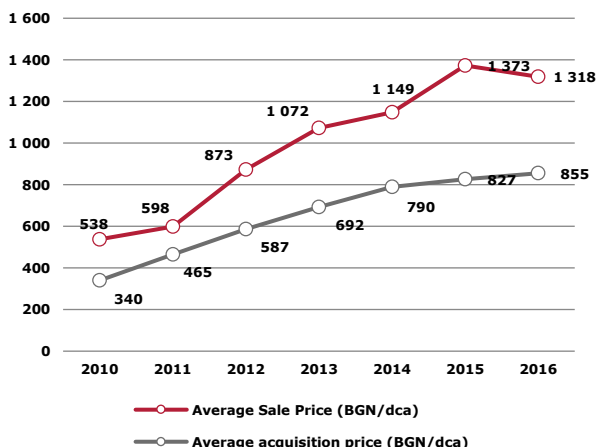
Based also on the latter developments, we revise our portfolio turnover expectations. We anticipate cumulatively 20% higher direct sales over the next five years that should translate into average five year dividend yield rising from 5% to 7%. This is below the Company's historical average but in line with management guidance. It is also very attractive in the current low interest savings environment in Bulgaria. Accordingly, we expect higher retail demand for Advance Terrafund's stock as there are few alternatives offering such returns on the market.

Exhibit 3: Advance Terrafund portfolio breakdown (land in dca)



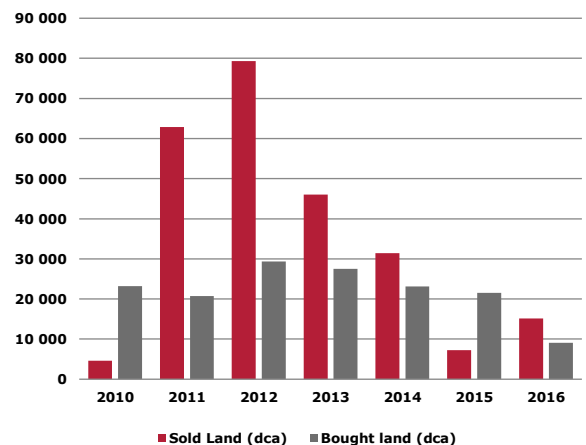
Source: Company data

Exhibit 5: Profit arbitrage narrowing...



Source: Company data

Exhibit 6: Direct sales rising in 2016



Source: Company data

INDIVIDUAL FINANCIAL DATA

INCOME STATEMENT (IN '000 BGN)	2012	2013	2014	2015	Q3 2015	Q3 2016	TTM	2016F
Total Revenue	34 982	27 958	19 656	12 628	6 522	8 401	14 507	20 726
Rent revenue	5 886	5 797	5 872	7 150	5 053	5 693	7 790	6 672
Profit from sale of investment property	29 034	22 010	13 661	5 399	1 403	2 239	6 235	13 924
Other revenue	62	151	123	79	66	469	482	129
Operating expenses	11 058	9 922	7 549	5 697	3 145	4 216	6 768	7 404
Cost of external services	10 230	8 809	7 182	5 015	2 751	4 113	6 377	6 761
Labor costs	112	117	117	130	96	96	130	249
Impairments on receivables	629	921	192	225	0	0	225	207
Other expenses	87	75	58	327	298	7	36	187
Profit/(Loss) from revaluation of investment property	22 626	14 037	11 244	26 661	-6	-16	26 651	21
EBIT	46 550	32 073	23 351	33 592	3 371	4 169	34 390	13 343
Interest revenue	2 652	2 670	1 379	160	118	0	42	226
Financial expenses	3	3	4	2	2	1	1	4
Net financial income (loss)	2 649	2 667	1 375	158	116	-1	41	222
Net Income	49 199	34 740	24 726	33 750	3 487	4 168	34 431	13 564
EPS	0.578	0.408	0.291	0.397	0.041	0.049	0.405	0.159

BALANCE SHEET (IN '000 BGN)	2011	2012	2013	2014	Q3 2015	Q3 2016	TTM	2016F
Cash and cash equivalents	76 018	64 059	48 452	22 967	15 877	19 844	19 844	46 099
Account Receivables	6 268	5 208	2 878	2 369	3 783	3 242	3 242	3 774
Prepayments	16	13	564	564	564	564	564	119
Assets available for sale				5 003	0	10 616	10 616	4 362
Financial leasing receivables				431	0	680	680	767
Total Current Assets	82 302	69 280	51 894	31 334	20 224	34 946	34 946	55 121
					0	0		
Investment property	157 030	163 870	172 009	203 576	179 864	196 183	196 183	199 827
Non-current assets available for sale				0	3 002	0	0	0
Financial leasing receivables	65	245	0	1 949	1 700	2 436	2 436	2 558
Total Non-Current Assets	157 095	164 115	172 009	205 525	184 566	198 619	198 619	202 385
Total Assets	239 397	233 395	223 903	236 859	204 790	233 565	233 565	257 506
					0	0		
Accounts Payable	1 628	2 578	2 523	7 129	5 455	5 909	5 909	7 933
Accrued Expenses	45	100	67	329	341	55	55	34
Other current liabilities	37 861	30 586	23 104	7 970	0	161	161	11 916
Total Current Liabilities	39 534	33 264	25 694	15 428	5 796	6 125	6 125	19 883
				0	0	0		
Long Term Liabilities	0	0	0	0	0	2 526	2 526	2 627
Total Liabilities	39 534	33 264	25 694	15 428	5 796	8 651	8 651	22 510
					0	0		
Share Capital	85 110	85 110	85 110	85 110	85 110	85 110	85 110	85 110
Additional Paid-in Capital	43 411	43 411	43 411	43 411	43 411	43 411	43 411	43 411
Retained Earnings	71 277	71 365	69 688	92 910	70 473	96 393	96 393	106 474
Total Shareholders' Equity	199 798	199 886	198 209	221 431	198 994	224 914	224 914	234 995
Total Liabilities and Equity	239 332	233 150	223 903	236 859	204 790	233 565	233 565	257 506
Net Assets	199 863	200 131	198 209	221 431	198 994	224 914	224 914	234 995

ADVANCE TERRAFUND Overview

Ticker	6A6	Recommendation	BUY	Outstanding Shares	85.11 m
Bloomberg ticker	6A6 BU	Last review	January 20 th 2017	Free Float	63.69%
Current Price	BGN 2.14	1Y Target Price	BGN 2.89	Avr. Daily Volume	BGN 53,000

COMPANY PROFILE

Advance Terrafund is the largest REIT owner of agricultural land in Bulgaria. It is also one of the largest owners of land in the country after the Bulgarian state. It owns 23K ha of arable land which it rents or leases to farmers.

The Fund's holdings are mainly concentrated in the most fertile regions of the country: 29% of the land is in North-East Bulgaria as of Sept. 2016. However, over the past few years it has been realizing profits in the Northeast and building a portfolio in the Northwest and the South.

The company was established in 2005 to take advantage of the consolidation wave in the agricultural sector as arable land was highly fragmented. In addition, it took advantage of the lower land prices which almost tripled from the EU accession of Bulgaria (2007) until nowadays.

The REIT rents or leases its vacant land for a period of up to 4 years to more than 500 farmers, mainly producers of grain and technical crops. Payments are received on annual basis and are connected to the annual increase of subsidies to agricultural producers. The Fund receives steady cash flows that cover its fixed costs. The average rent on new contracts for 2016/2017 is EUR 199 per ha.

FUNDAMENTAL STORY

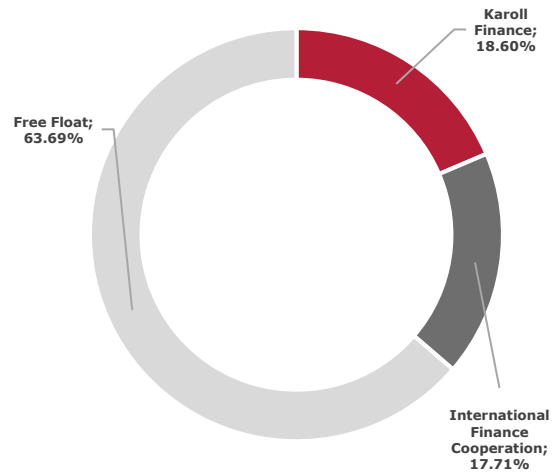
Advance Terrafund has accumulated considerable and high quality land portfolio at attractive prices over the years. Since the Fund's inception market prices of land have tripled, although they are still well below EU average. This allows for considerable profits from the sale of investment property which the fund has realized in the last couple of years. It has distributed 90% of these profits to investors, as required by law, and still manages to keep considerable cash positions. The value of land on its books has gone up since inception as the Fund replenished sold land. However, the average book value is below market levels, which makes the Fund a good investment opportunity.

The Fund trades below NAV and manages to sell plots at 40% higher prices than the acquisition prices as concentrated land plots have higher prices compared to regular fragmented plots.

STRENGTHS & OPPORTUNITIES

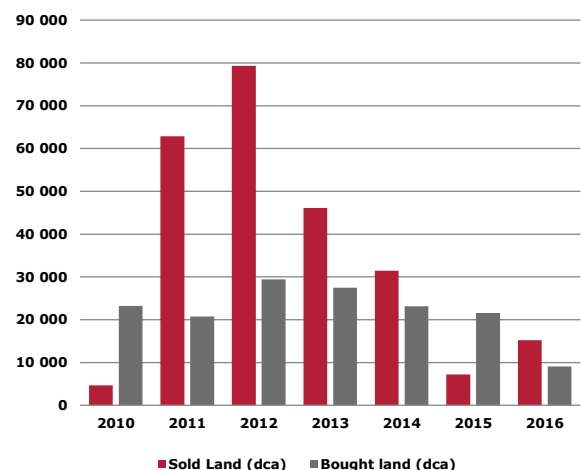
- Diversified land portfolio with 40% exposure to higher quality regions in Northern Bulgaria
- Stable income from rents
- Good corporate governance
- Good stock liquidity
- 90% of income distributed as dividends as required by local REITs regulation
- Preferred stock for both institutional and individual investors
- High M&A potential in the industry with big players on the lookout for major portfolio acquisitions

SHAREHOLDERS' STRUCTURE



Source: Company data

PORTFOLIO TURNOVER



Source: Company data

WEAKNESSES & THREATS

- Land price increase affects new purchases potential
- Rent receivables collection slow down
- Bad agricultural season may lower rents considerably
- New EU agricultural subsidies policy for the 2014-2020 period to limit subsidies growth

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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.

Q4 2016 Recommendation Review			Market Maker Services
Recommendation	#	Share	
BUY	7	37%	SKK BU
HOLD	9	47%	
SELL	0	0%	
Under review	3	16%	

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