

MONBAT
INDUSTRY: ELECTRICAL EQUIPMENT
EXPLORING NEW HORIZONS ON RECORD RESULTS

MONBAT BOOKED BEST YEAR IN HISTORY ON RISING VOLUMES, STRONG MARGINS AND SURGING LEAD PRICES. THE FUNDAMENTALS SURGE TOGETHER WITH A BULLISH MARKET SENTIMENT LED TO C.50% STOCK RALLY OVER THE LAST 12 MONTHS. LEGACY INVESTMENTS REMAIN A DRAG TO THE BOTTOM LINE WHILE NEW STRATEGIC PROJECTS EXPECTED TO DELIVER 2X EBITDA OVER THE NEXT 5 YEARS.

BEST YEAR IN HISTORY ON SUPPORTIVE LME LEAD ENVIRONMENT

Monbat booked the best year in history in FY2016. Sales added 8% y/y to BGN 266.5m and net profit surged 20.3% y/y to BGN 26.5m. EBITDA expanded 18.3% y/y to BGN 44.3m. Excellent performance was due to rising volumes (13% y/y to 2.9 million batteries) in a supportive LME lead environment. The Company's new inventory management system allowed it to profit from surge in lead prices.

MARGINS RECOVERY VISIBLE

Margins recovered with EBITDA margin adding 160 bps y/y to 16.9% for FY2016 and growing further to 18.9% in Q1'17, according to preliminary data. Still, some margin erosion was present in the seasonally active periods for the Company aka Q3 and Q4 as lower priced materials got used out.

OCTA LIGHT A DRAG ON THE BOTTOM LINE

Ongoing negative development with Monbat's investment in LED lighting producer Octa Light, however, limited net income margin's expansion. Octa's feasibility led to the first ever qualified auditor's opinion on Monbat's 2016 results. Thus, in April 2017, the Company initiated a restructuring program in Octa to improve commercialization and scaling. Management does not expect further write offs on the project but the restructuring to outline future options for Monbat in Octa.

NEW STRATEGIC PROJECTS EXPECTED TO DOUBLE PROFITS BY 2021

In 2017, Monbat focuses on two new strategic projects – tin extraction and batteries from alternative technologies. They are expected to deliver 2x in EBITDA, 10% CAGR of revenue and 20% margin expansion by 2021. The tin project to go live at end of 2017 or the start of 2018. The alternative batteries project's market and feasibility study should be finalized in H1'17, initial prototypes scheduled for the start of 2018 while mass production expected as early as Q2'19, according to management guidance. 2017 CAPEX of c. EUR 8m to be primarily focused on the tin project as lead-acid batteries capacity expansion finalized in 2016.

STOCK RALLY OFFERING PROFIT TAKING OPPORTUNITIES

With strong organic performance and new technology venture announcement the market sentiment towards Monbat's stock has turned overly positive. It rallied c.50% over the past 12 months surpassing our fair value estimate. Recent Octa related issues and auditor's opinion triggered profit taking. Room for further profit taking exists but any milestone accomplishments on the new strategic projects to be a catalyst for additional positive momentum on the stock.

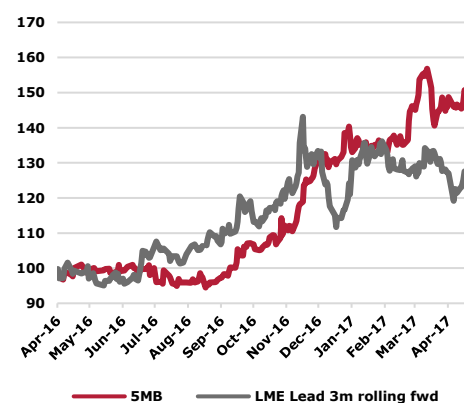
VALUATION/RISKS

VALUATION: With latest strong performance and management five year KPIs guidance we further revise upward our 1 year target price to BGN 11.32 per share. However, due to the latest stock rally we keep our HOLD recommendation.

in 000 BGN, ex. ratios	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Revenues	63 325	51 153	62 479	69 001	63 893	48 563	66 920	83 895
<i>Growth y/y</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>	<i>21.59%</i>
EBITDA	12 455	9 044	8 611	7 394	12 056	8 909	11 829	11 590
EBIT	9 606	6 173	5 615	4 578	9 002	5 793	8 614	8 153
Net profit	8 265	5 004	4 456	4 326	7 803	4 742	6 629	7 353
Equity	184 942	175 196	179 747	183 295	191 684	185 119	191 879	199 018
ROE	16.12%	16.11%	14.19%	12.25%	11.80%	11.65%	12.61%	13.95%
ROA	10.84%	10.81%	9.67%	8.33%	8.08%	7.74%	8.11%	8.67%
EBITDA margin	19.67%	17.68%	13.78%	10.72%	18.87%	18.35%	17.68%	13.81%
Net profit margin	13.05%	9.78%	7.13%	6.27%	12.21%	9.76%	9.91%	8.76%
EPS	0.21	0.13	0.11	0.11	0.20	0.12	0.17	0.19
Debt/equity	0.33	0.32	0.30	0.33	0.33	0.43	0.51	0.53
P/E (ttm)	11.62	11.67	11.62	14.13	12.97	13.17	15.27	16.02
P/B (ttm)	1.75	1.87	1.63	1.70	1.46	1.52	1.87	2.14
EV/EBITDA	8.40	8.62	8.33	9.53	9.12	9.63	11.26	11.81

RESULTS ANALYSIS
HOLD
ONE YEAR PRICE TARGET: BGN 11.32
CURRENT PRICE: BGN 10.90
PREVIOUS PRICE TARGET: BGN 9.84
EXCHANGE RATES
EUR/BGN (FIXED): 1.95583
USD/BGN: 1.78991
MARKET DATA

Shares Outstanding:	39.89 m
Share Capital:	39 m
Free-float:	29%
Treasury Shares	0%
Market Cap.:	BGN 425 m
Avg. Daily Vol.:	BGN 95 000
52 Weeks Range:	BGN 6.99- 11.60
BSE Ticker	5MB
Bloomberg Ticker	SMB BU

ON A STOCK RALLY


Source: Bloomberg

MONBAT'S FY 2016 FINANCIAL RESULTS REVIEW

Monbat booked the best year in history in FY2016 on rising volumes, good inventory management and favorable lead prices environment.

Results breakdown: The Company booked 8% y/y group sales expansion to BGN 266.5m on 13% volumes growth and 6% average LME price expansion in EUR quotes. Q3 and Q4 turned out exceptionally good as lead prices surged to above EUR 2000 per ton allowing the Company to partially index the upturn while being equipped with cheap lead from early year stocking.

Monbat profited well from the new inventory management system initiated at the start of 2016. It turned to make-to-order from previous order-to-make system. The latter did require more working capital and turned Cash from operations negative but allowed for margin recovery. EBITDA margin added 160 bps y/y to BGN 16.9% for FY2016. Profitability continues to improve in Q1 2017 with EBITDA margin at 17.8%, according to preliminary consolidated results published by the Company.

Net income margin also improved considerably adding 110 bps with net income up 20.3% y/y to BGN 26.5m. The latter is the best bottom line result for Monbat ever. EBITDA also reached record levels at BGN 44.4m post audit.

However, receivables write offs and losses on LED lighting producer Octa Light limited profitability expansion. Octa is struggling with commercialization and efficient scaling ever since incorporation. Latest losses and growing receivables from Octa (c.BGN 20m) have led to Monbat receiving first ever qualified auditor's opinion on 2016 annual financial results on receivables collection issues.

Monbat's management guided Octa's unsmooth development was a „precondition and a conscious choice“ for the auditor's opinion. However, management has taken steps to strengthen operational control, restructure and speed up Octa's commercialization. Monbat's CEO Atanas Bobokov has recently taken operational control over Octa as part of an 8 month restructuring program in Octa, started in April 2017. The goal is to accelerate commercialization and scale it profitably.

The latter restructuring will also outline future strategic options for Monbat in Octa. Management guided it does not expect a short term divestment from the project, yet, Octa may very well “be left outs in the periphery of Monbat's strategic development over the next 10 years“, management concluded.

New strategic projects: Monbat has laid out preliminary plans to grow organically over the next 5 years via new technology solutions. The Company published 5 year forecasts which entail

10% CAGR of revenues, 2x in profits, 25% EBITDA margin expansion and 50%+ net profit margin expansion by 2021.

Monbat 2017-2021 Forecast						
(in EUR '000)	2016a	2017f	2018f	2019f	2020f	2021f
Volume (units)	2 906 299	3 042 677	3 332 640	3 715 894	3 868 175	3 950 000
change y/y		4.7%	9.5%	11.5%	4.1%	2.1%
Sales	134	151.6	183.6	206.9	213.5	216.4
change y/y		13.1%	21.1%	12.7%	3.2%	1.4%
EBITDA	24.6	26.5	33	41.9	45.6	49.2
change y/y		7.7%	24.5%	27.0%	8.8%	7.9%
Net profit	14.6	16.6	22.8	31	34.4	37.7
change y/y		13.7%	37.3%	36.0%	11.0%	9.6%

In 2016, Monbat finalized its lead acid batteries capacity expansion both on the starter and stationary units. Going forward, Monbat envisions two strategic projects development over the next 5 years – a tin extraction project and alternative technology (potentially Li-Ion) batteries and energy management solution.

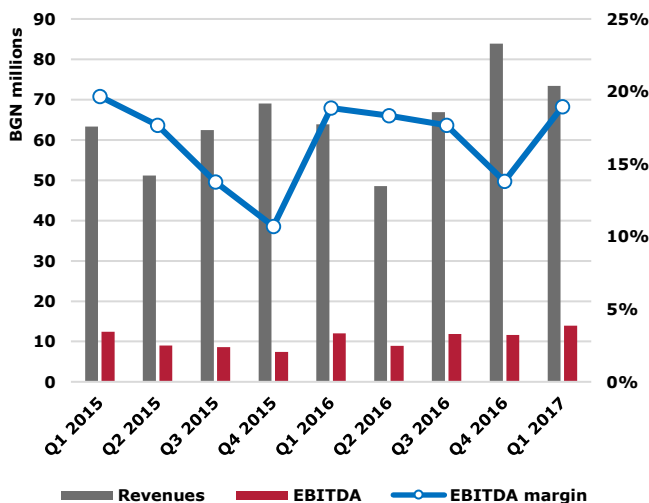
The tin project is expected to go live at end of 2017 or the start of 2018. The alternative batteries project's market and feasibility study should be finalized in H1'17. Initial prototypes are scheduled for the start of 2018 while mass production expected as early as Q2 2019, according to management guidance.

2017 CAPEX of c. EUR 8m to be primarily focused on the tin project. The latter is expected to deliver most of the incremental EBITDA margin expansion in 2018 and 2019. Alternative batteries to deliver incremental EBITDA margin expansion post 2019. No immediate details on the overall investment budget for the two projects available.

Valuation revision: We do not incorporate Octa Light and new strategic projects in our valuation. Yet, considering Monbat Q1'17 preliminary results and the Company's guidance on current operations volumes we slightly raise our top and bottom line expectations from a 7% CAGR to 8% CAGR of sales and from 17.5% to 18% average EBITDA margin over the next five years.

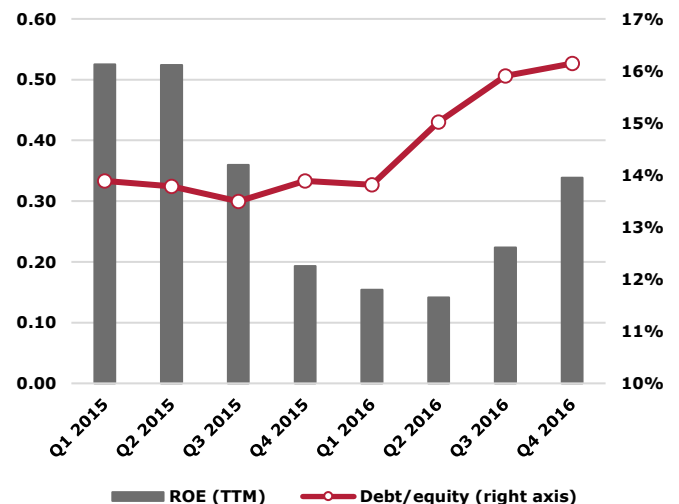
The latter, together with a cost of capital revision, led to a 15% higher fair value for Monbat's equity which however has already been partially consumed by the market.

Exhibit 2: Margins recovered in 2016



Source: Company data

Exhibit 3: ROE also recovering but D/E on the rise due to working capital and investment financing



Source: Company data

ANNUAL CONSOLIDATED FINANCIAL DATA (AUDITED)

Income Statement ('000 BGN)	2013A	2014A	2015A	2016A	2017F	2018F
Sales	232 965	221 027	245 958	263 271	289 598	333 038
Other operating income	7 179	8 010	815	3 251	3 576	4 113
Change in Inventories	1 383	-10 212	1 884	-19 333	-16 125	-10 115
Cost of Materials	153 812	154 380	149 163	179 095	199 358	224 205
Cost of External Services	18 717	17 669	19 436	23 140	24 040	25 286
Cost of Labor	14 448	16 022	18 314	23 179	25 799	28 658
Other Operating Expenses	5 545	4 625	7 030	7 471	5 277	6 069
Net Book value of Assets Sold	3 764	7 328	13 442	8 586	5 863	5 057
Total Operating Expenses	208 239	201 005	220 801	234 960	244 214	279 160
EBITDA	42 475	39 225	37 504	44 384	48 960	57 990
Depreciation and Amortization	10 570	11 193	11 532	12 822	12 313	12 812
EBIT	31 905	28 032	25 972	31 562	36 647	45 178
Financial revenue	5 092	2 884	3 819	3 585	4 344	4 663
Financial expense	8 944	5 389	5 670	6 697	8 108	8 196
Interest Expense	2 701	2 437	2 077	2 431	3 544	3 466
EBT	28 053	25 527	24 121	28 450	32 883	41 645
Income Taxes	3 282	2 936	3 236	3 664	3 288	4 164
Minority Interest	-618	-1 770	-1 166	-1 741	-29	337
Net Income	25 389	24 361	22 051	26 527	29 624	37 143
EPS	0.65	0.65	0.57	0.68	0.76	0.95

Balance Sheet ('000 BGN)	2013	2014	2015	2016	2017F	2018F
Assets						
Cash & Near Cash Items	7 673	20 538	15 238	5 550	8 326	6 625
Short-Term Investments	0	0	50	50	0	0
Accounts & Notes Receivable	66 200	68 175	81 467	94 701	93 816	97 774
Inventories	45 958	50 560	51 403	87 970	86 486	74 173
Other Current Assets	249	168	337	629	1 466	1 686
Total Current Assets	120 080	139 441	148 495	188 900	190 094	180 257
LT Investments & LT Receivables	463	463	463	463	1 026	674
Net Fixed Assets	116 484	118 371	127 023	145 692	152 451	175 318
Other Long-Term Assets	1 054	1 606	904	1 465	1 466	1 349
Total Long-Term Assets	118 001	120 440	128 390	147 620	154 943	177 341
Total Assets	238 081	259 881	276 885	336 520	345 037	357 598
Liabilities & Shareholders' Equity						
Accounts Payable	18 742	14 244	22 297	27 098	32 249	30 344
Short-Term Borrowings	50 386	38 092	46 226	58 173	46 908	37 087
Other Short-Term Liabilities	2 619	3 336	4 927	4 573	1 173	1 349
Total Current Liabilities	71 747	55 672	73 450	89 844	80 330	68 779
Long-Term Borrowings	9 661	34 635	14 830	46 626	43 976	37 087
Other Long-Term Liabilities	5 409	4 041	8 685	7 446	6 596	6 743
Total Long-Term Liabilities	15 070	38 676	23 515	54 072	50 573	43 830
Total Liabilities	86 817	94 348	96 965	143 916	130 902	112 608
Total Preferred Equity	0	0	0	0	0	0
Minority Interest	-891	-2 661	-3 375	-6 414	-7 329	-6 069
Share Capital & APIC	39 000	39 000	38 989	38 989	39 000	39 000
Retained Earnings & Other Equity	113 155	129 194	144 306	160 029	182 464	212 059
Total Equity	151 264	168 194	183 295	199 018	221 464	251 059
Total Liabilities & Equity	238 081	259 881	276 885	336 520	345 037	357 598

Source: Company IFRS Financial Statements Audited; Elana Trading Estimates

QUARTERLY FINANCIAL DATA

Income Statement ('000 BGN)	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Sales revenues	63 325	51 153	62 479	69 001	63 893	48 563	66 920	83 895
Other revenues	-426	150	172	297	615	704	698	1 234
Operating Expenses	53 915	45 130	57 036	64 720	55 506	43 474	59 004	76 976
Change in Inventories	7 615	-6 499	-342	1 110	-6 647	-8 693	-971	-3 022
Cost of Material	31 087	35 354	41 060	41 662	46 223	37 456	38 852	56 564
Cost of Labor	4 078	3 904	4 515	5 817	5 136	5 307	6 117	6 619
Cost of External Services	4 149	4 299	4 781	6 207	5 425	4 444	6 023	7 248
Depreciation and Amortization	2 849	2 871	2 996	2 816	3 054	3 116	3 215	3 437
Net Book Value of Assets Sold	3 420	4 367	3 015	2 640	1 044	959	4 208	2 375
Other Costs	717	834	1 011	4 468	1 271	885	1 560	3 755
Operating Income	9 606	6 173	5 615	4 578	9 002	5 793	8 614	8 153
Financial revenues	1 079	749	892	1 099	854	655	1 205	871
Financial Expenses	1 388	1 268	1 623	1 391	1 449	1 287	2 004	1 957
Interest Expense	647	487	453	490	489	514	717	711
Pretax Income	9 297	5 654	4 884	4 286	8 407	5 161	7 815	7 067
Income Tax Expense	1 111	631	628	866	917	674	888	1 185
Income Before XO Items	8 186	5 023	4 256	3 420	7 490	4 487	6 927	5 882
Extraordinary Loss Net of Tax	0	0	0	0	0	0	0	0
Minority Interests	-79	19	-200	-906	-313	-255	298	-1 471
Net Income	8 265	5 004	4 456	4 326	7 803	4 742	6 629	7 353
Balance Sheet ('000 BGN)	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Assets								
Cash & Near Cash Items	25 119	10 157	9 137	15 238	4 383	4 417	3 308	5 550
Short-Term Investments	0	50	50	50	50	50	50	50
Accounts & Notes Receivable	66 850	72 872	75 522	81 467	82 205	81 924	92 662	94 701
Inventories	49 146	52 921	48 083	51 403	62 349	79 939	90 018	87 970
Other Current Assets	363	375	300	337	730	837	1 035	629
Total Current Assets	141 478	136 375	133 092	148 495	149 717	167 167	187 073	188 900
LT Investments & LT Receivables	463	463	463	463	463	463	463	463
Net Fixed Assets	120 089	120 714	120 932	127 023	130 150	135 744	141 506	145 692
Other Long-Term Assets	1 562	1 540	1 481	904	876	1 050	1 076	1 465
Total Long-Term Assets	122 114	122 717	122 876	128 390	131 489	137 257	143 045	147 620
Total Assets	263 592	259 092	255 968	276 885	281 206	304 424	330 118	336 520
Liabilities & Shareholders' Equity								
Accounts Payable	13 403	19 024	15 658	22 297	20 470	28 773	35 054	27 098
Short-Term Borrowings	27 912	23 995	21 722	46 226	49 700	58 519	51 413	58 173
Other Short-Term Liabilities	2 526	5 876	3 609	4 927	4 005	8 566	3 427	4 573
Total Current Liabilities	43 841	48 895	40 989	73 450	74 175	95 858	89 894	89 844
Long-Term Borrowings	33 707	32 854	32 148	14 830	12 952	21 097	45 690	46 626
Other Long-Term Liabilities	3 842	4 868	6 005	8 685	7 332	7 555	7 622	7 446
Total Long-Term Liabilities	37 549	37 722	38 153	23 515	20 284	28 652	53 312	54 072
Total Liabilities	81 390	86 617	79 142	96 965	94 459	124 510	143 206	143 916
Total Preferred Equity	0	0	0	0	0	0	0	0
Minority Interest	-2 740	-2 721	-2 921	-3 375	-4 937	-5 205	-4 967	-6 414
Share Capital & APIC	39 000	39 000	39 000	38 989	38 989	38 989	38 989	38 989
Retained Earnings & Other Equity	145 942	136 196	140 747	144 306	152 695	146 130	152 890	160 029
Total Equity	184 942	175 196	179 747	183 295	191 684	185 119	191 879	199 018
Total Liabilities & Equity	263 592	259 092	255 968	276 885	281 206	304 424	330 118	336 520

Source: Company IFRS Financial Statements

KEY FINANCIAL AND PERFORMANCE INDICATORS	2013A	2014A	2015A	2016A	2017F	2018F
VALUATION						
PRICE/EARNINGS (P/E)	13.55	12.64	13.19	16.03	14.35	11.44
PRICE/BOOK (P/B)	2.27	1.90	1.59	2.14	1.92	1.69
PRICE/SALES (P/S)	1.43	1.40	1.18	1.59	1.45	1.26
PRICE/CASH PER SHARE	9.57	8.76	8.66	10.80	10.14	8.51
EV (IN BGN)	396 353	371 989	336 758	524 349	507 658	492 648
EV/EBITDA	9.33	9.24	8.98	11.81	10.37	8.50
PROFITABILITY						
RETURN ON COMMON EQUITY	18.28%	15.84%	12.55%	13.88%	14.09%	15.72%
RETURN ON ASSETS	11.27%	10.17%	8.22%	8.65%	8.69%	10.57%
RETURN ON INVESTED CAPITAL	14.09%	11.36%	9.35%	9.82%	10.64%	12.74%
EBITDA MARGIN	17.69%	17.59%	15.20%	16.65%	16.70%	17.20%
OPERATING MARGIN	13.29%	12.70%	10.52%	11.84%	12.50%	13.40%
NET INCOME MARGIN	10.57%	11.05%	8.94%	9.95%	10.10%	11.02%
DIVIDEND						
DIVIDEND YIELD	2.61%	1.83%	3.75%	1.61%	1.69%	1.78%
DIVIDEND PER SHARE	0.23	0.15	0.28	0.18	0.18	0.19
LIQUIDITY						
CURRENT RATIO	1.67	2.50	2.02	2.10	2.37	2.62
QUICK RATIO	1.03	1.59	1.32	1.12	1.27	1.52
CREDIT						
LT DEBT/EQUITY	0.06	0.21	0.08	0.23	0.20	0.15
TOTAL DEBT/EQUITY	0.40	0.43	0.33	0.53	0.41	0.30
TOTAL DEBT/TOTAL ASSETS	0.25	0.28	0.22	0.31	0.26	0.21
EBIT/INTEREST EXPENSE	15.73	16.53	18.06	18.26	13.81	16.73

*2016 DPS not yet announced. Elana Trading estimate

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 (3 million units 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 3 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.

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.

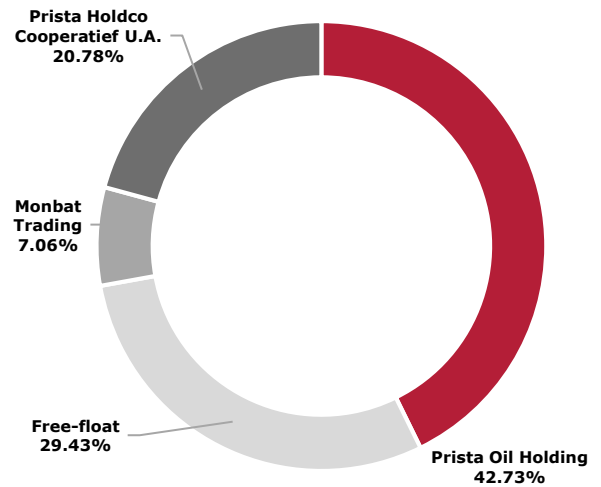
A new five investment program envisions strategic investments in tin extraction from lead alloys and new batteries and energy management solutions from alternative technology.

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

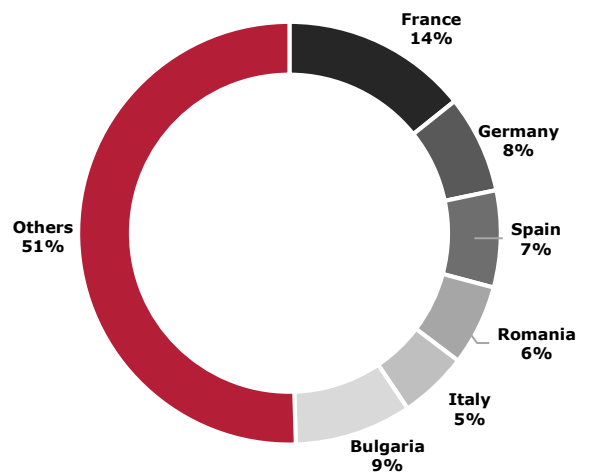
- Broad distribution network in most EU countries
- No dependence on large client or particular market
- Highly ranked for corporate governance and financial performance from Bulgarian investors
- Resource availability from recycling of old batteries
- Competitive product prices and very high profit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

SHAREHOLDERS' STRUCTURE



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

SALES BREAKDOWN IN 2016



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.

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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