

## A HELL OF A COMEBACK!

**WITH 40%+ Y/Y RISE OF SOFIX, THE BULGARIAN CAPITAL MARKET MADE A HELL OF A COMEBACK. IT OUTPERFORMED EXPECTATIONS BOOKING BEST RESULTS IN 9 YEARS. DEMAND IS STRONG FROM BOTH FUNDAMENTALLY DRIVEN INSTITUTIONAL AND YIELD SEEKING RETAIL INVESTORS. UPSIDE REMAINS CONSIDERABLE DESPITE THE RALLY AS VALUATIONS STAY ATTRACTIVE AND POLITICS KEEP OUT OF THE WAY**

### BEST PERFORMANCE IN 9 YEARS

SOFIX booked its best performance in nine years with a 40%+ y/y and 13% YTD rise. The indicator surpassed its 2014 peak and is heading for a 5<sup>th</sup> consecutive up quarter – the longest since spring 2014.

### OUTPERFORMING REGIONAL PEERS WITH ATTRACTIVE VALUATIONS

SOFIX outperformed all CEE regional peers by 10%+ while the global frontier markets lag behind even more by 20%. Yet, valuations remain attractive with a SOFIX ttm P/E of 10x as fundamentals advance in line with market prices. Industrials, finance and healthcare stocks top performers for the period.

### EVIDENT MARKET DEPTH IMPROVEMENT

Market depth also improved considerably 2x y/y to steady BGN 1m+ average daily turnover on blue chips. In 1Q17, average daily turnover is up 45% y/y to BGN 1.4m for all equities. SOFIX components most traded, some returning to long unseen BGN 100k daily.

### STRONG INVESTOR DEMAND AND CONSIDERABLE FLOW INTO THE MARKET

Investor demand has been strong and rising as low interest rate environment and healthy fundamentals woo yield-seeking investors. Local institutional investors started adding positions as early as the autumn of 2016 while retail herding evident since the end of 2016. In addition, in 2016 local mutual funds recorded strongest y/y net assets growth since 2008 with inflows shifting from low –risk to high-risk exposure.

### FIRST ETF ON SOFIX PUSH-UP LEVELING OFF

The first ETF on SOFIX launched in September 2016 triggered considerable market uptick attracting c.BGN 30m in assets. Currently, ETF driven demand is leveling off to a steadier and more sustainable pace.

### SENTIMENT REMAINS POSITIVE WITH POLITICAL RISKS SUBSIDING

Low interest rate environment, improving labor market and overall economic upturn keep the sentiment positive. The autumn 2016 political turbulence faded away as expected with no major effect on the market. The new-old government signals it wants to develop the local market and potentially offer state assets for sale via IPOs/SPOs. Thus, in the midterm politics can add positive stimuli. Yet, risks to long term sustainable growth remain as the new government, led again by Prime Minister Boyko Borisov, seems unlikely to do serious structural and judicial reforms.

**MARKET DATA**  
AS OF MAY 5<sup>TH</sup>, 2017

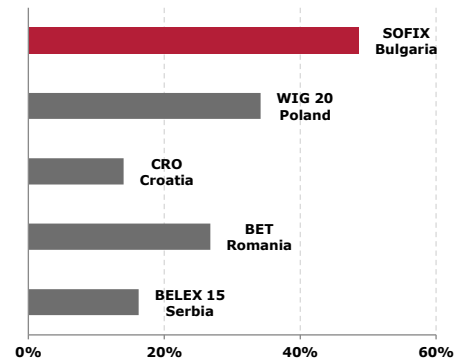
**EXCHANGE RATES**  
EUR/BGN (FIXED): 1.95583  
USD/BGN: 1.78435

### MARKET MULTIPLES

Index	Last	12M%Δ	P/E	DY
SOFIX	660.81	50.02%	9.93	4.40%
MSCI FM				
CEE+CIS*	322.69	20.90%	9.81	5.57%

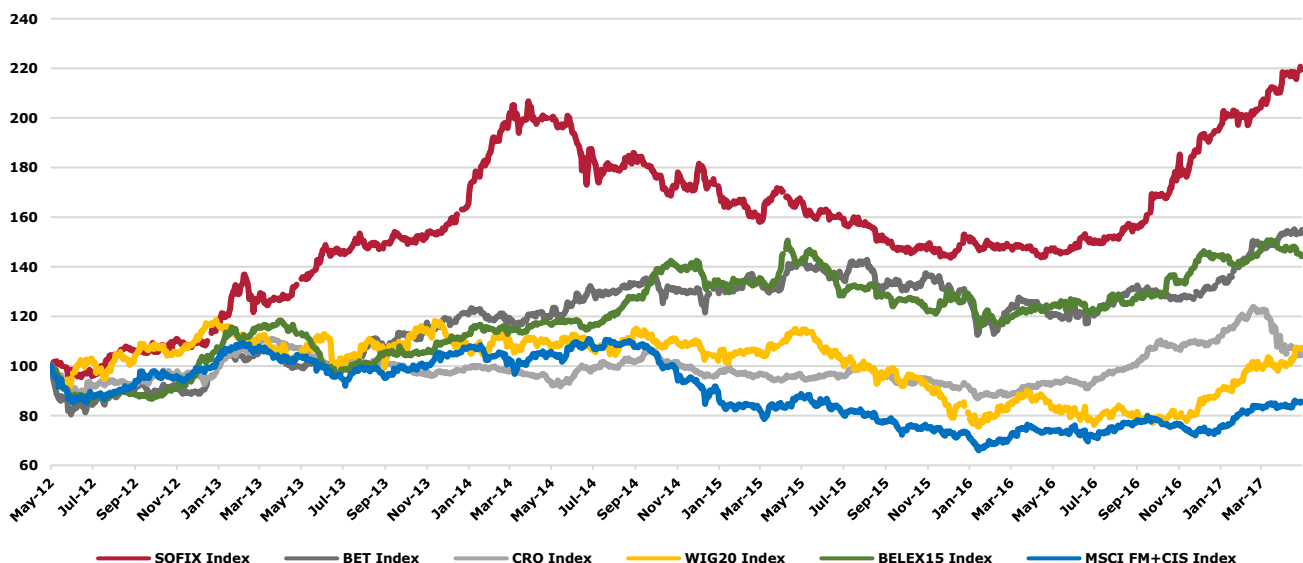
\*MSCI Frontier Markets CEE+ CIS n EUR

### BEST PERFORMER AMONG CEE PEERS Y/Y



Source: Bloomberg

### STRONGEST PERFORMANCE IN 9 YEARS, SOFIX DOUBLING OVER THE LAST 5 YEARS



**UP, UP AND AWAY**

The Bulgarian capital market's comeback has been remarkable. The 40%+ y/y and 13% YTD performance of the main index SOFIX has been way above expectations. The index continues to outperform both regional and global frontier peers with c10%+ y/y.

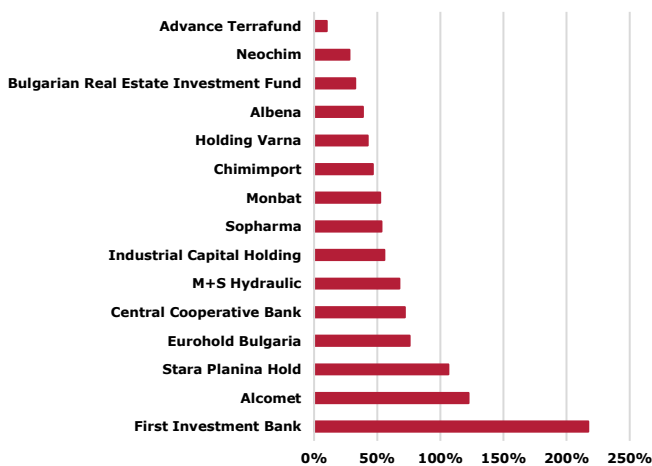
The end of the banking system asset quality review in August 2016 and the launch of the first ETF on SOFIX triggered the upturn but fundamentals backed it. Thus, valuations remain far from stretched and are attractive especially when considered in peer comparison.

Industrials and real estate stocks led the way for the rally at the end of 2016 with financial and health care stocks quickly taking the lead at the beginning of 2017.

Further financial performance improvement, generous dividends and overall positive macroeconomic development suggest lots of room for additional upside.

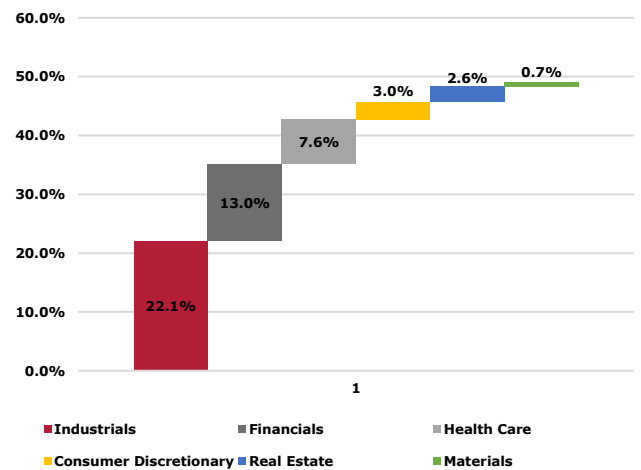
The launch of the first exchange traded fund on SOFIX on September 27<sup>th</sup>, 2016, gave the initial boost as money started flowing into the fund. The ETF managers' target to reach c.BGN 50m in assets under management missed expectations, but the fund remains a key growth factor on the market with 15-20% of assets still underinvested.

**KEY CONTRIBUTORS TO SOFIX' UPTURN Y/Y BY COMPANIES...**



Source: Bloomberg

**... AND BY SECTORS**



Source: Bloomberg

**KEY MARKET UPSIDE DRIVERS**

- Retail investors aggressively seek yield due to low interest environment and tons of liquidity stuck in banks
- Institutional investors are also selectively on the buy side
- Attractive valuation (SOFIX ttm P/E 10x) despite the rally
- Local mutual funds with 30% y/y rise in net assets to EUR 523m, strongest since 2008, both return and inflows driven. Inflows shifted from low to high risk exposure

**KEY MARKET DOWNSIDE RISKS**

- Low liquidity and room for further market depth improvement
- International investors activity still latent or very selective
- Lack of attractive, deeply undervalued assets

**KEY MACRO UPSIDE DRIVERS**

- 3.4% y/y real GDP growth in 2016, among top 5 in the European Union
- 7.1% unemployment rate in 2016, lowest in 8 years
- 7% y/y rise in new residential property prices in 2016
- 0.4% annual rate on new household 12 month bank deposits, the lowest in 17 years

**KEY MACRO DOWNSIDE RISKS**

- Lack of political drive for major structural and judicial reforms
- Lack of reforms can be a hurdle for long term sustainable economic expansion and may endanger EU funding for Bulgaria
- Ongoing geopolitical friction between Western Europe and Russia

**FURTHER UPSIDE AHEAD**

We find the market posing considerable upside potential despite the run up since our last equity strategy review in November 2016. EPS growth has complemented the valuation increase thus leaving room for multiples expansion. The latter remain c.50%+ below developed world and c.20% below regional peers' levels.

SOFIX does seem fairly valued vs the rest of the frontier markets but offering much less macro risks, including limited currency risk considering the EUR peg commitment. We do not expect the latter to change prior to Bulgaria joining the Eurozone which is among the top long term priorities of the new government.

**SOFIX SUSTAINS ATTRACTIVE MULTIPLES DESPITE THE RALLY...**

Index	Country	YTD Δ	P/E	P/B
SOFIX	Bulgaria	12.97%	9.93	0.63
DAX	Germany	10.83%	19.01	1.81
S&P500	USA	4.02%	21.10	3.09
WIG20	Poland	27.92%	20.14	1.40
ASE	Greece	18.03%	17.69	0.64
BET	Romania	17.14%	12.01	0.97
CRO	Croatia	-3.02%	16.74	1.00
MSCI Frontier markets, CEE+CIS	World	12.25%	9.81	0.97
MSCI Emerging Markets Index	World	10.22%	15.74	1.68

As of May 5<sup>th</sup>, 2017;

Indices change calculated in EUR denomination;

Source: Bloomberg

**...BUT ETF POWER SETTLES IN**

Expat Bulgaria SOFIX UCITS ETF Holdings (March 31 <sup>st</sup> , 2017)			
Company	Ticker	SOFIX weight	BGX weight
Sopharma	3JR	15.38%	12.93%
Advance Terrafund REIT	6A6	10.20%	9.29%
Chimimport	6C4	9.73%	8.93%
Stara Planina Hold	5SR	9.07%	5.58%
CB First Investment Bank	5F4	7.70%	5.39%
M+S Hydraulic	5MH	6.77%	5.35%
Albena	6AB	7.98%	4.95%
Neochim	3NB	4.22%	4.84%
Bulgarian Real Estate Fund	5BU	3.80%	4.76%
Monbat	5MB	7.29%	4.76%
Eurohold Bulgaria	4EH	2.77%	4.22%
Alcomet	6AM	3.35%	4.20%
CB Central Cooperative Bank	4CF	4.17%	3.90%
Industrial Capital Holding	4I8	3.47%	3.05%
Holding Varna	5V2	4.11%	0.21%
Cash		0	17.65%

Source: Expat Capital

**ELANA PICKS AND STRATEGY**

At this stage of the market, we stick to our selective stock picking equity strategy on the market. We believe it offers the potential to uncover sustainable long term returns. However, positive overall market sentiment as well as investors growing risk appetite provide room for "buying-the-whole-market" opportunities.

Our top picks are fundamentally strong stocks offering long term potential in the industrials, real estate and health care sector. Financials, both banks and leasing companies, also continue to offer interesting buying stories as net interest margins enter nice profit making levels and dividend flows increase. M&A and consolidation activity in the financial and energy sector provide additional event driven return potential as First Investment Bank considers strategic options and the Czech energy group CEZ mulls over its Bulgarian assets sale.

Company	Ticker	Market Cap BGN m	Y/Y Δ	Free Float	Last 12M Turnover, BGN	Av. Daily Turnover, BGN	P/E ttm	DY*	ROE ttm
First Investment Bank	5F4	649 000 000	222.4%	15.00%	11 965 201	47 861	7.6	n/a	9.94%
Sopharma	3JR	539 191 596	49.4%	31.98%	28 086 377	112 346	13.7	2.5%	8.02%
CEZ Distribution Bulgaria	3CZ	508 992 000	115.3%	26.01%	6 419 753	25 679	19.1	n/a	4.26%
Monbat	5MB	423 150 000	50.8%	27.96%	23 782 781	95 131	16.0	3.8%	14.0%
Alcomet	6AM	335 361 274	122.4%	9.90%	3 158 805	12 635	12.5	2.4%	16.4%
Sopharma Trading	SO5	286 273 578	67.0%	28.10%	3 768 234	15 073	21.0	3.5%	18.6%
Speedy	OSP	213 436 760	13.7%	8.90%	5 419 576	21 678	31.9	3.1%	12.9%
Advance Terrafund REIT	6A6	183 412 246	9.7%	57.17%	23 224 431	92 898	17.4	8.0%	4.8%
Stara Planina Hold	5SR	166 152 000	110.8%	59.26%	3 726 357	14 905	23.2	2.9%	8.0%
CEZ Electro Bulgaria	1CZ	107 500 000	230.8%	8.14%	929 784	3 719	>100	n/a	0.56%
Agria Group Hold	A72	89 216 000	26.0%	18.11%	10 004 928	40 020	10.6	n/a	9.03%
Korado	4KX	76 369 182	114.8%	15.40%	1 049 151	4 197	21.1	4.2%	19.1%
Sirma Group Holding	SKK	68 145 874	9.3%	38.00%	1 479 773	5 919	29.8	n/a	2.95%
Bulgarian Real Estate Fund REIT	5BU	45 639 750	27.8%	67.00%	6 146 211	24 585	10.0	4.3%	6.5%
Elana Agrocredit	0EA	26 954 825	33.3%	42.20%	1 199 381	4 798	14.7	4.3%	8.5%

\*DY based on 2017 proposed DSP or 2016 DPS if no 2017 DPS has been yet announced

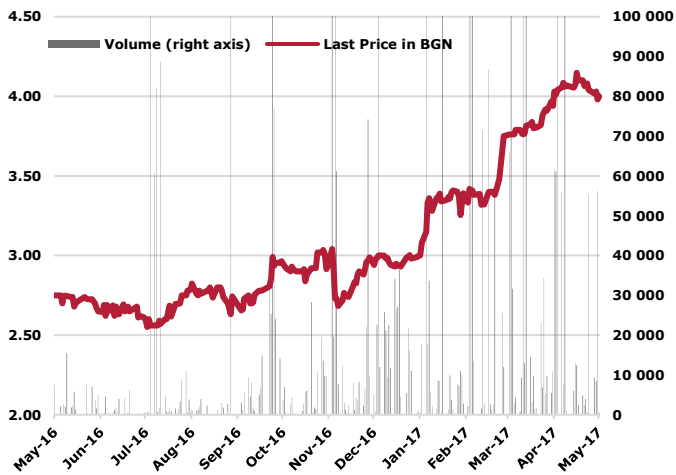
**1 – year stock performance**



**MONBAT (5MB BU)**

- Largest lead-acid batteries producer in Bulgaria focused on the batteries aftermarket; Present in 20+ countries with Western Europe key export market
- 13% EPS and 8% revenues CAGR over the last 5 years
- 15% average ROE and 3% average DY for last 5 years
- Vertically integrated with a natural hedge from batteries recycling allowing it to reduce lead prices volatility risk
- Explores new batteries technology in lithium ion and lithium-iron phosphate niches.
- Institutional and retail investors actively on the buy side on strong results and investment announcement

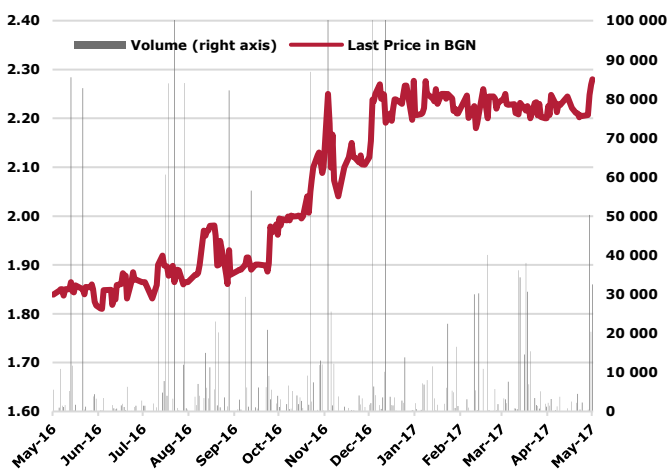
**1 – year stock performance**



**SOPHARMA (3JR BU)**

- Leading generic pharmaceutical producer in Bulgaria with a small original portfolio
- Controls the biggest pharma group in Bulgaria with leading distributor Sopharma Trading (SO5 BU) as well as smaller medical consumables producers
- Exposed to Russia and Ukraine which are in recovery since 3Q16
- Potential US FDA smoking cessation drug registration with major milestone development expected 2018
- 9% average ROE over the last 5 years and rising on cost optimization, non-operating assets disposals and key markets recovery
- Seeks expansion into Serbia with 20+ OTC products

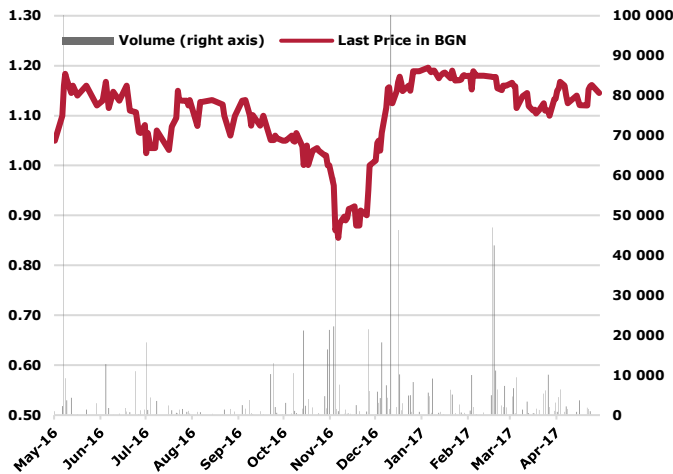
**1 – year stock performance**



**BULGARIAN REAL ESTATE FUND REIT (5BU BU)**

- Diversified REIT with a well-structured office and commercial revenue generating portfolio
- Benefiting from high office space demand from BPO and IT outsourcing companies in Bulgaria
- Market savvy management and good corporate governance
- 9% average DY over the last 5 years
- 30% discount to NAV despite recent stock appreciation on renewed investment mode
- Low D/E to be exploited for revenue generating assets acquisitions

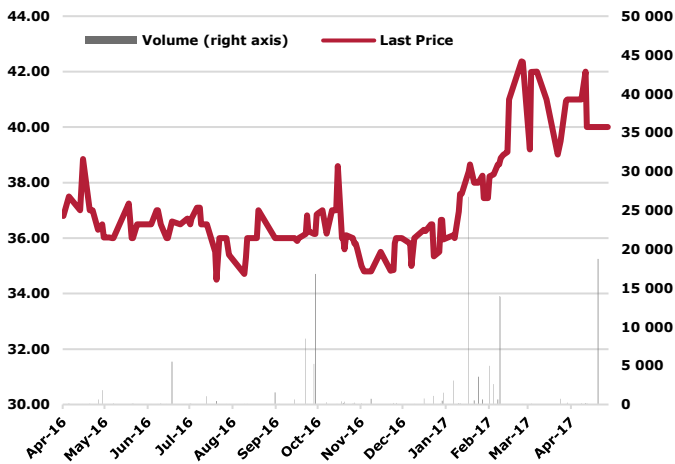
**1 – year stock performance**



**SIRMA GROUP HOLDING (SKK BU)**

- Leading IT group in Bulgaria diversified in software development, big data, cloud, artificial intelligence, system integration and collocation services
- 23% CAGR of revenues over the last 5 years.
- Raised BGN 11.5m in an IPO in Sofia at the end of 2015
- Expanding in the US and Europe with key emphasis on the sales and project management function
- Targets 4x top line expansion by 2021

**1 – year stock performance**



**SPEEDY (OSP BU)**

- Leading courier in Bulgaria with a strong position in both the B2B and B2C segments, incl. e-commerce.
- Aggressively expanding in Romania together with the French GeoPost and its DPD network in Europe.
- GeoPost has the option to increase its current stake in Speedy from 25% to 70% in 2020 at 8x EV/EBITDA
- Profitability slashed in 2016 due to heavy investing
- Margins expected to recover H2 2017 onward
- 26% CAGR of revenues over the last 5 years
- 43% average ROE and 4% av. DY over the last 5 years

**1 – year stock performance**



**ELANA AGROGREDIT (OEA BU)**

- 1<sup>st</sup> specialized leasing company focusing on agricultural financing in Bulgaria
- Seasoned management and good corporate governance
- Lean business model reaping profits from land-hungry small to mid-sized farmers
- Built a BGN 37m loan and leasing portfolio in 2.5 years since inception with an average net interest margin of c.600 bps
- Targets 2:1 leverage ratio
- 5.5% average DY since inception
- 8% average ROE over the last 3 years

## **Disclaimer**

**Regulatory Restrictions:** No publication of ELANA Trading should be construed as an offer (or solicitation of an offer) to **U.S. persons** to buy or sell financial instruments or any financial product, make any investment or participate in any particular trading strategy (collectively "Offers"). No Publication of ELANA Trading should be construed as an Offer (or solicitation of an offer) in any jurisdiction in which such Offer would be illegal. Any such perceived Offer will not be honoured by ELANA Trading.

**Analyst Certification:** The research analyst(s) certifies that: (1) all of the views expressed in this document accurately reflect his or her personal views about any and all of the subject securities or issuers; (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this document.

**Financial Interest:** ELANA trading does and seeks to do business with companies covered in its research reports. This may and includes investment banking services for which ELANA Trading shall be remunerated. ELANA Trading acts a market maker for Sirma Group Holding. ELANA Trading has performed investment banking services for Sopharma (3JR BU) for which it was flat remunerated. ELANA Trading may trade or own shares of the analyzed companies. The research analyst(s) is not holding shares of the analyzed companies, unless otherwise noted. As a result, investors should be aware that ELANA trading may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**Regulatory Authority:** Financial Supervisory Commission, *Budapest Street 16, 1000 Sofia, Bulgaria*

**Information Disclosure:** All reasonable care has been taken to ensure the facts stated are accurate and opinions given are fair and reasonable. Our recommendations are based on information available to the public that we consider to be reliable but for the completeness and accuracy of which we assume no liability. Neither ELANA Trading, nor its directors, officers or employees shall in any way be responsible for its contents. The views expressed may differ from the views of other firm departments or representatives. Additional information is available upon request. Unless otherwise noted, sources for all information in charts and tables are ELANA Trading's calculations.

**Risks for Investors:** Information in this document should not be regarded as an offer to buy or sell any financial instruments. The investment possibilities discussed in this document may not be suitable for certain investors depending on their specific investment objectives and time horizon or in the context of their overall financial situation. In particular, the risks associated with an investment in the securities or the financial instruments under discussion are not explained in its entirety.

The prices or values of the securities may go down as well as up and can fluctuate and fall against the investor. The securities or investments may cause the investor to lose the amount invested. Past performance is not a guide to future performance. Changes in exchange rates may have an adverse effect on the value, price or income of the securities or investments.

**Valuation Methods:** Company valuations are based on the following methods: multiple-based (P/E, P/B, EV/EBITDA), historical valuation approaches, peer comparisons, discount models (DCF, DDM) or asset-based evaluation methods. Valuation models are dependent on macroeconomic factors, including interest rates, foreign exchange rates, prices of raw materials, and any expectations about the economy, the market sentiment. The valuation is based on expectations that might change rapidly and without notice, depending on developments specific to individual industries and countries. Recommendations and target prices derived from the models might therefore change accordingly. The application of models depends on forecasts of a range of economic variables, thus there is a range of reasonable variations within models. Any valuation is dependent upon inputs that are based on the subjective opinion of the analysts carrying out this valuation.

**Recommendations:** Analyst(s) recommendations are based on the specific factors for the company, sector, country and global developments, as compared to market indices. Recommendations and opinions reflect ELANA Trading's expectations over the 12-month period following publication from the perspective of long-only investment clients. ELANA Trading reserves the right to express different or contrary recommendations and opinions for different timescales or for other types of investment client. Except as otherwise noted, expected performance over next 12 months vary for different recommendations for Bulgarian stocks as follows:

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

**Copyrights:** The copyrights of ELANA Trading analyses belong to the Research Department of the brokerage and their content cannot be used for commercial purposes. Replication and redistribution of ELANA Trading analyses content is expressly prohibited without the prior written consent of the appointed contacts listed below.

### **For more information, please contact:**

**Research Analyst**  
Tatyana Vasileva

**Phone:**  
+359 2 810 00 24

**E-mail:**  
[vasileva@elana.net](mailto:vasileva@elana.net)

**Internet:**  
[www.elana.net](http://www.elana.net)