

SPEEDY (OSP BU)

INDUSTRY: COURIER SERVICES

READY, SET, GO...

WITH STRONG DOUBLE DIGIT REVENUE EXPANSION AND 20%+ GROWTH IN THE 4X LARGER ROMANIAN MARKET, THE LEADING BULGARIAN COURIER COMPANY SPEEDY PREPARES TO DOUBLE PROFITABILITY OVER THE NEXT THREE YEARS. ROE TO QUICKLY RETURN TO 30%+ AS THE COMPANY REAPS PROFITS FROM NEW CAPACITY IN BULGARIA AND ROMANIA WHERE BOOMING E-COMMERCE AND GOOD B2B POSITIONING DRIVE LONG TERM GROWTH

WELL-MANAGED MARKET LEADER WITH HUGE GROWTH POTENTIAL

Largest land courier in Bulgaria (30% market share) with great brand recognition. Among the top 5 couriers in Romania. The Company is ready to take on the booming e-commerce and express parcel delivery industry in Bulgaria and Romania after delivering 3x rise in the number of parcels delivered and 26% CAGR of revenues, incl. acquisitions, over the last 5 years.

ROMANIA TO BE KEY GROWTH DRIVER AFTER HEAVY CAPACITY EXPANSION

Romania to be key top line growth driver with 20%+ expected CAGR over the next three years after aggressive infrastructure capacity expansion. In 2016, the Company set up a new logistics network to tap on the booming courier industry in the country. Overall, Romanian operations expected to reach 50% of the Group's sales due to accelerating B2B and B2C segments. Speedy also continued to innovate in Bulgaria adding additional capacity and C2C services.

PROFITABILITY EXPECTED TO SURGE POST MAJOR INVESTMENTS

2016 investments surpassed BGN 15m, most of which in logistics infrastructure and fleet modernization with significant part passing through the P&L. Accordingly, margins are expected to improve considerably starting 2017 as utilization surges and Romania turns on profit. We expect 38% average EPS growth over the next five years.

STRATEGIC INVESTOR A BENCHMARK FOR GOOD CORPORATE GOVERNANCE

In 2014, Speedy signed a strategic partnership with GeoPost, the express parcel delivery subsidiary of the French La Poste. The partnership entailed GeoPost buying 25% in Speedy in exchange of its subsidiaries in Romania and Bulgaria – DPD Romania and GeoPost Bulgaria. In 2020, GeoPost has the option to increase its stake to 70% at 8x EV/EBITDA. GeoPost's involvement is a benchmark for Speedy's long term sustainable growth goal as well as a good corporate governance benchmark. Speedy's founders manage the Group's operations and to stay on board post any 2020 option exercise.

VALUATION/RISKS

VALUATION: We raise our valuation for Speedy to BGN 48.85 per share based on a DCF valuation model. We also raise our recommendation from HOLD to BUY as the stock has advanced despite profitability dip on strong investor demand.

RISKS: Increased political and financial instability in Bulgaria and Romania; Increased competition, especially on the B2C market; New regulation with the EU Digital Single Market; Low free float

in kBGN, excl. ratios	2014	2015	2016	2017F	2018F
CORE REVENUES	76 465	115 814	137 863	162 678	185 453
EBITDA	16 037	20 816	19 648	23 100	28 931
NET PROFIT	9 591	9 275	5 586	8 303	14 198
EQUITY	40 531	44 100	43 643	49 083	58 312
ROE	34.58%	21.92%	12.73%	17.91%	26.44%
ROA	16.47%	11.37%	6.46%	9.04%	14.18%
EBITDA MARGIN	19.71%	16.97%	13.41%	13.65%	14.86%
NET PROFIT MARGIN	11.79%	7.56%	3.81%	4.91%	7.29%
EPS	2.12	1.74	1.05	1.54	2.64
DEBT/EQUITY	0.44	0.48	0.54	0.40	0.30
P/E	15.32	21.00	36.87	27.45	16.05
P/B	4.28	4.42	4.72	4.64	3.91
EV/EBITDA	11.24	9.94	11.10	10.27	7.87
PAYOUT RATIO	65%	50%	50%	50%	50%
DIVIDEND YIELD	3.23%	3.10%	1.55%	1.89%	2.60%

BUY

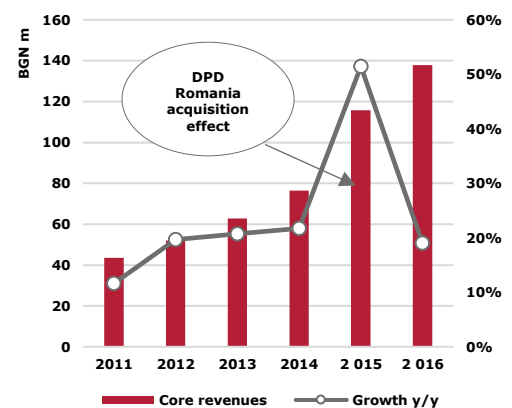
ONE YEAR PRICE TARGET: BGN 48.85
CURRENT PRICE: BGN 42.37
PREVIOUS PRICE TARGET: BGN 38.43

EXCHANGE RATES
EUR/BGN(FIXED): 1.95583
USD/BGN: 1.4920

MARKET DATA

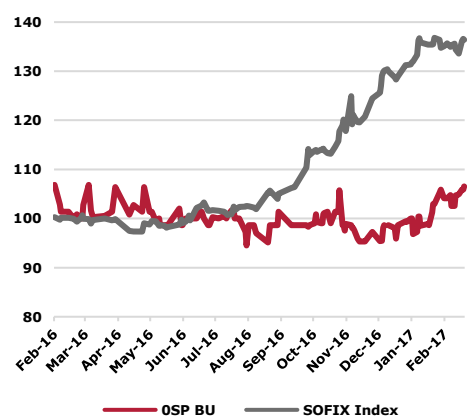
Shares Outstanding: **5.34m**
 Share Capital: **BGN 5.34m**
 Free-float: **8.6%**
 Treasury Shares: **0%**
 Market Cap.: **BGN 226m**
 Avg. Daily Vol.: **BGN 19,000**
 52 Weeks Range: **BGN 34.50-42.37**

26% CAGR OVER THE LAST 5 YEARS



Source: Company data

PRICE PERFORMANCE



Source: Bloomberg

EXECUTIVE SUMMARY

WE UPGRADE SPEEDY FROM HOLD TO WITH ONE YEAR PRICE TARGET OF BGN 48.85 PER SHARE OFFERING 15% UPSIDE OVER THE NEXT 12 MONTHS.

THE COMPANY

Speedy (Speedy, the Group, the Company) is the largest courier company in Bulgaria with excellent brand recognition and a well-diversified product mix. It is also among the top 5 express parcel delivery operators in Romania after acquiring in 2014 Dynamic Parcel Distribution (DPD) Romania, a subsidiary of the GeoPost. The latter is the international express parcel delivery subsidiary of the French Group La Poste and is among the largest land couriers in Europe.

Revenue breakdown: Speedy delivered 26% CAGR of revenues over the last five years, including the acquisition of DPD Romania. Organic growth average 16% over the same period. The Company is aggressively growing its international deliveries business. In 2016, it already accounts for c.30% of total revenues vs. 10% in 2014. The international operations share expansion is due to both the DPD Romania acquisition and the 20%+ organic growth of cross border operations.

Speedy services 1.1m+ customers in Bulgaria with 22 000 under long term contracts offering. Corporate clients contribute to 80% of revenues with no client exceeding 3% share in sales. The Company has 100% coverage in the country with 6 logistics hubs, 340 parcel pick up shops and 30+ newly established automated postal stations (APS). The Group is a leader on the B2B segment of the market and it used to have a dominate share in the Company revenues. Due to the booming e-commerce, however, in 2015, the B2C segment surpassed the B2B and currently B2C vs B2B stands at 60%:40% of operations. In 2016, Speedy also entered the C2C market with APS services to tap on additional growth albeit at lower margins.

With no borders in the EU, Speedy has heavily invested in cross border international deliveries with Romania and Greece key target markets. The Company set up a special Express Balkan delivery service offering the three adjacent markets – Bulgaria, Romania and Greece, as one with unified service prices.

Developing the Romanian operations has been a top international priority post the 2014 acquisition. Accordingly, Speedy has heavily invested in Romania over the last two years. In 2016, it set up a new logistics network to be able to service the 4x larger market than Bulgaria as well as take on additional market share. Currently, it is among the top 5 couriers in the country with the local leader - FAN Courier, 4x larger in terms of turnover.

In Romania, Speedy set up 8 logistic hubs, some rented, others owned, including hubs in Bucharest, Sibiu, Cluj, Timisoara and Bacau. It also operates 85+ parcel shops with the aim to increase them to 300 in 2017. The Company also introduced MPOS services to deal with Romanian market cash payment issues. Currently, the Romanian operations are equally divided in terms of B2B and B2C deliveries.

Strategic Partnership: In 2014, Speedy joined forces with the French La Poste key express deliveries subsidiary - GeoPost. GeoPost acquired 25% stake in Speedy in return for 100% of its operations in Bulgaria and Romania with an option to increase the stake to 70% in 2020. The latter option, if exercised, to be at 8x EV/EBITDA. Speedy's founders and key managers took on the Group's expansion in Bulgaria and Romania and to stay on board post the 2020 option.

The strategic partnership serves as long term performance enhancement alignment of interest as well as a benchmark for good corporate governance. Speedy's goal is scaling up the business regionally building on its and DPD's expertise. Romania is the starting point for the regional expansion. Greece to follow but remain a small part of the operations in the midterm.

Operations management: In 2013, Speedy did a major cost structure reshuffle moving into subcontracting a major part of its operations. In Bulgaria, most of its couriers are already subcontractors to the Company while the logistics hubs it uses are rented. In Romania, the Company is to implement a mixed cost structure – partly rented infrastructure and partly owned, including vehicles and line hauls.

Corporate governance: Speedy is listed on the Bulgarian Stock Exchange since November 2012. It is part of the BGBX40 market index. It ranks among the best corporate governance companies on the market and pays a minimum of 50% profits.

THE COUNTRY AND THE MARKET

Bulgaria is under a currency board and the Bulgarian Lev is pegged to the Euro at fixed rate of 1.95583.

Joining the Eurozone is a midterm strategic goal for the country. Yet, it has been experiencing political instability with three caretaker governments in four years. The next snap parliamentary elections are scheduled for March 26th, 2017 but it remains uncertain if a stable new government can be formed. Despite the political instability, consensus 2017-2018 GDP growth estimates are in the 2.5%-3% range due to rising consumer spending and ongoing export expansion.

We expect the express parcel delivery industry to continue its robust double digit growth in the midterm as regional economies transform to electronic commerce. Bulgarian courier industry revenue growth averaged 8% over the last five years, while the number of parcel serviced grew twice as fast with 15% CAGR.

THE VALUATION

We use the discounted cash flows model to value Speedy. All calculations are based on the consolidated results of the Company. We value the stock of Speedy at BGN 45.52 per share or 10% above the latest market price.

SOME RISKS

Increased political instability in Bulgaria and Romania could lead to lower business activity as well as consumer confidence.

Operational risks of rising expenditures to sub-contractors.

Market risks of increased competition, especially, in the B2C segment and to lower extend in the B2B segment.

Regulatory risk with cross border express delivery regulation under the Digital Single Market in Europe

Low liquidity of the stock due to 8.6% free float.

COMPANY OVERVIEW

Speedy is a leading courier services provider in Bulgaria with a 30% market share. After acquiring DPD Romania in late 2014, the Company has also been among the top 5 express delivery providers in Romania.

Leading courier in Bulgaria and Romania

The Group's core business is door to door standard and express city, country and cross border delivery services that represent 95%+ of the revenues. It is present on the B2C, B2B and C2C segments of the express delivery market. Corporate clients generate 88% of the revenues as of 2015 with no client exceeding 3% of sales.

Speedy is a market leader on the B2B segment in Bulgaria with innovative large parcel and pallet services. It also provides competitive transport, logistics and inventory management services to corporate clients. The Company has long term contracts with 22 000 clients.

Booming e-commerce has changed the segments mix for the company from a B2B dominant model up to 2014 to a 60%:40% B2C:B2B model in 2016. The Company also offered C2C services in 2016 which, however, is still a tiny part of the operations.

Strong B2B and B2C position

The Group offers 100% coverage of Bulgaria and Romania with 6 logistics hubs in Bulgaria and 8 line hauls in Romania. A major part of the infrastructure – hubs, vehicles and couriers is subcontracted. For the rest of Europe it partners with land express delivery operators such as DPD Group and Palletways.

At the end of 2015, the Group's workforce totaled c.1200 people with more than 60% of couriers subcontracted. Speedy operates 820+ vehicles with 15%-20% renewed annually. The Company invest also considerably in ERP and software upgrades for fleet and parcel tracking as well as e-commerce clients' platform integration and payment solutions.

SHAREHOLDERS' STRUCTURE

Speedy's majority owner is founders' controlled Speedy Group. Key cofounder and CEO of the Company is local serial entrepreneur Valery Mektupchian.

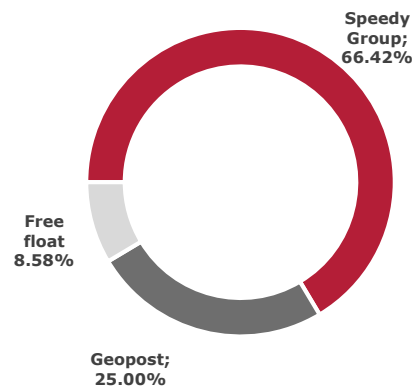
Number of shares outstanding: 5 335 919

The French La Poste's subsidiary Geo Post has 25% of the Company's outstanding shares. It acquired it as part of a 2014 transaction in which Geo Post bought the stake in Speedy and sold it its Bulgarian and Romanian subsidiaries, Geo Post Bulgaria and DPD Romania, respectively.

Geo Post has a call option to acquire up to 70% of Speedy at an 8x EV/EBITDA multiple in 2020. Management to be kept if the option is exercised.

Currently, Speedy's registered capital is BGN 5.4m with 5 335 919 shares outstanding. The free float is 8.6% and is in the hands of local pension funds and foreign institutional investors.

Speedy to issue 42 900 new shares in April 2017 under special conditions additional as part of its employee motivation program. Post the capital raise, the Company's outstanding shares will be 5 378 819 all with a par value of BGN 1 per share.



Source: Company data

POTENTIAL CATALYSTS

Booming e-commerce: The booming e-commerce economy in Eastern Europe has delivered double digit growth and is expected to sustain a strong pace over the mid- to long-term as consumers in the region increase their online presence and spending. The B2C segment to remain considerable growth driver.

Niche B2B and pallet service: The Company is a market leader on the B2B segment in Bulgaria with a focus on larger deliveries including specialized pallets offering logistics and inventory management solutions. The latter to offer additional growth and margin expansion potential as business migrate to the e-economy.

Expanding Bulgaria/Romania cross border trade: Lack of borders between Bulgaria and Romania as EU member states offers considerable growth potential. Growing cross border trade due to e-commerce (e.g. major online retailers) and corporate presence in both countries to fuel growth.

SECTOR OVERVIEW

EUROPEAN AND REGIONAL COURIER MARKETS

There are no clear estimates on the size of the European parcel industry due to diverging statistical data and methodology. Yet, the courier, express and parcel industry on the continent has been growing steadily over the past few years fueled mostly by e-commerce.

Conservative estimates by AT Kearney point for a 6% CAGR in volumes and 3.9% CAGR in revenues in real terms over the next decade with the major four integrators (DHL, TNT, UPS and FedEx) getting big part of the market.

The Ecommerce Foundation, on the other hand, estimates double digit expansion of the European ecommerce industry over the last five years and expects the pace to be sustained in the midterm as economies "go online" and consumers increase their online shopping budgets. In 2016 alone, the Ecommerce Foundation reports that e-commerce turnover in Europe rose 13.3% y/y to BGN 455bn.

The organization expects the share of the European Internet economy in GDP to nearly double by 2020 from the 2.6% of GDP as of the end of 2016. E-commerce to remain major driving force as 57% of European internet users shop online, but only 16% of the continent's SMEs sell online. Additionally, less than half of the latter sell across borders (7.5%).

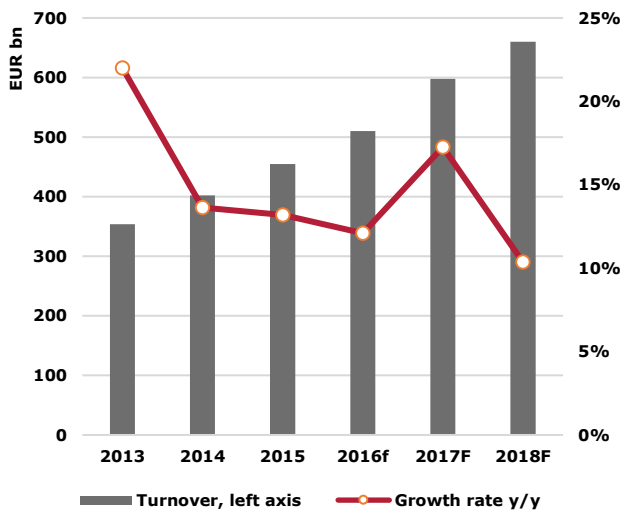
Central, Southern and Eastern Europe have been outperformers in terms of cumulative growth despite major macro imbalances in Russia and Ukraine over the past three years. Yet, the three regions are expected to continue to outpace Western Europe and converge to Europe's average. The internet economy in Eastern Europe is estimated at 1.6% of GDP at the end of 2016.

About 10% of e-commerce turnover goes to courier companies as deliveries expenses. However, competition in the B2C segment is high and margins are lower. Thus, industry players are looking into increasing scale and diversifying into other segments as B2B with supply chain optimization.

E-commerce to be the industry's driving force

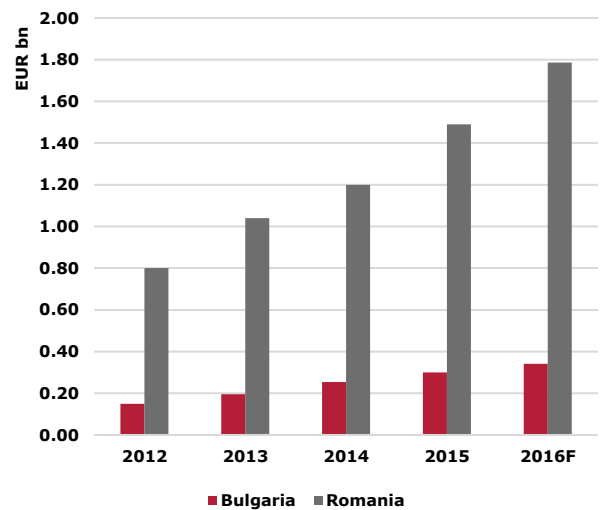
Europe's e-GDP expected to increase 2x by 2020

Exhibit 1: European ecommerce is expected to keep a double digit growth pace...



Source: Ecommerce Foundation

Exhibit 2: ...and Eastern Europe to be key growth region on the continent with Romania and Bulgaria top performers



Source: Ecommerce Foundation

BULGARIAN AND ROMANIAN COURIER MARKETS

The Bulgarian courier industry booked 8% CAGR of revenues and 15% CAGR of parcels serviced over the last five years, according to the Bulgarian Communications Regulation Commission.

In 2015 alone, the turnover of the industry grew 4% to EUR 110m while parcels delivered grew by 31% y/y to 38 million units. The latter encompasses the revenues of all non-universal postal service providers with courier operations.

The courier industry is part of the Bulgarian postal sector which has been fully liberalized in the last decade. Accordingly, the sector underwent significant transformation in line with the trends in most new EU states with booming small parcel delivery and universal postal services in decline. Overall, the Bulgarian postal sector grew 8% y/y in 2015 to EUR 161m with small parcel (below 20 kg) deliveries and courier services key growing segments.

There are 145 participants on the Bulgarian postal market with low barriers to entry. Yet, few players dominate the market. The incumbent Bulgarian Post dominates the universal postal segment while the express deliveries integrators DHL and TNT, dominate international air express deliveries.

Courier services account for 65% of the postal sector's revenues

Local couriers Speedy and Econt Express dominate the domestic door-to-door express and standard deliveries with Speedy a leader on the B2B segment and Econt Express leader in the B2C and small parcels.

Domestic deliveries represent ¾ of the overall courier industry in Bulgaria while corporate clients contribute to 80% of the non-universal revenues in the industry. The higher corporate clients share is due to both logistics outsourcing and booming of e-commerce

The Ecommerce Foundation values the Bulgarian ecommerce industry at EUR 342m in 2016, a 14% y/y rise. Overall, the foundation reports 23.5% CAGR of the local ecommerce revenues and ranks it among the top performers in Europe over the last five years.

Still, Bulgaria is among the countries with lowest internet penetration in Europe – only 60% of the population vs 81% EU average. In addition, Bulgarians spent 3x less per year on e-shopping vs. EU average of EUR 1500/annum. Also, only 19% of the 15 years+ population shops online vs 43% EU average.

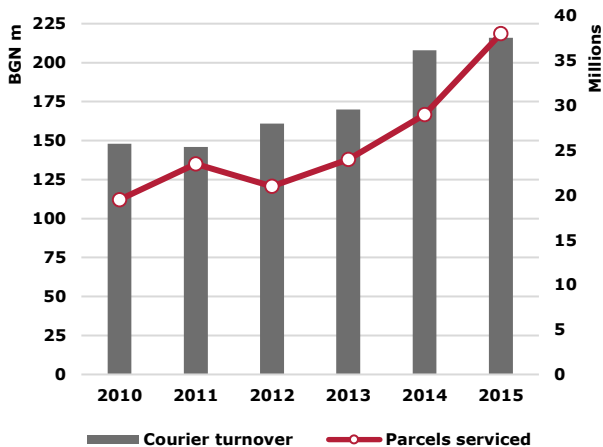
The same applies for the Romanian ecommerce market. The Ecommerce Foundation estimates it almost 5x larger than the Bulgaria with EUR 1.8bn in ecommerce turnover in 2016. Growth averaged 24% over the last five years, also top performer in Europe. Yet, even fewer Romanians shop online, only 11% of the population older than 15 years.

Again, international integrators dominate the international express deliveries in Romania. Domestic deliveries have been dominated by local players with the biggest one FAN Courier expected to have reached EUR 100m in turnover in 2016.

Speedy's subsidiary – DPD Romania, is among the top 5 couriers in Romania with an estimated EUR 22m in revenues in 2016.

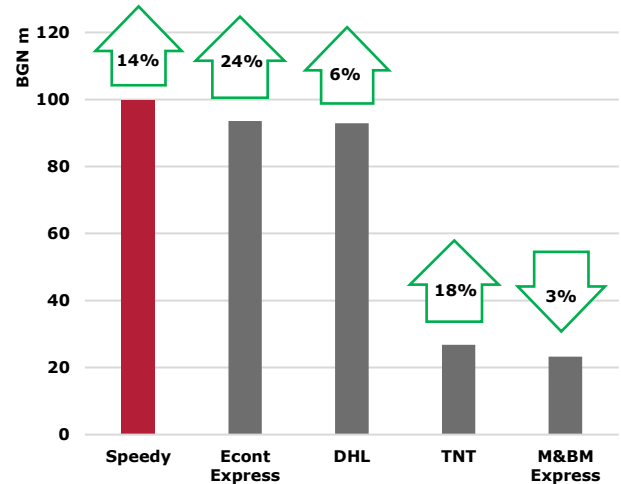
Corporate customers – the most important segment

Exhibit 3: Courier services represent largest part of the postal industry in Bulgaria



Source: Communications Regulation Commission, 2015 Annual Report

Exhibit 4: Speedy is a market leader in Bulgaria in terms of revenue



Source: Trade Registry, Company financial statements FY2015

SPEEDY'S MARKET PRESENCE

Speedy is a market leader on the Bulgarian courier market with 30% market share and among top 5 courier companies in Romania with its subsidiary - DPD Romania.

Leading courier with 30% market share in Bulgaria

In Bulgaria, the Group is an absolute leader in the B2B segment of the market with more than 20k long term corporate clients. However, due to the booming ecommerce the Company has been gaining huge momentum on the B2C segment as well. As of the end of 2015 the product mix has shifted from B2B dominant to 60%:40% distribution of B2C vs B2B.

The Group has been adding capacity and developing products to service both the B2B and B2C expansion.

On the one hand, its Pallet One service aims at capturing additional corporate revenue by offering clients customized pallet platforms useful for both ad hoc logistics and supply chain optimization. It also offers online shops platform development and courier solutions integration for corporate client generation and retention.

On the other, its Speedy Parcel Shop (SPS) network and own service points were developed to service the booming ecommerce. Accordingly, the Company has 100% national coverage with 6 logistics hubs, 340 parcel pick up shops and 30+ newly established automated postal stations (APS). The latter is also a step into the C2C segment of the market for small parcel deliveries sent and received by individual clients aka newest Speedy Mail services. The APS are expected to reach 50 by the end of 2017.

Econt Express is Speedy's biggest competitor in Bulgaria but only on the B2C segment where it has outpaced Speedy's growth. However, the B2C offers smaller margins while Speedy has competitive advantages with larger parcels and pallets and is a leader on the B2B segment.

Leader on the B2B segment, gaining speed on the B2C

Speedy has also been growing its international cross border deliveries. Over the past few years the latter expanded from 8% to 12% of revenues, excluding DPD Romania. Its Express Balkans services aim at providing deliveries into Romania and Greece at domestic prices.

Cross border deliveries are to be considerable growth driver with DPD Romania at hand and the increased trading activity between Romania and Bulgaria. Further tariff and regulation harmonization could also add to expanding cross border operations.

In Romania, the Group has a balanced portfolio with B2B and B2C with equal weights in the operations. International integrators are key competitors on the international parcel delivery in Romania while local couriers FAN Courier and Urgent Cargus are key competitors on the B2C segment.

In 2016, Speedy has been heavily investing in developing a new logistics infrastructure and network in Romania to be able to gain additional market share. The Romanian market is 4x larger than the Bulgarian and is growing at twice the pace, thus offering room for considerable scaling.

So far, Speedy has set up 8 logistic hubs in Romania, some rented, others owned, including hubs in Bucharest, Sibiu, Cluj, Timisoara and Bacau. It operates 85+ parcel shops expected to rise to 300 in 2017. The Company also introduced MPOS services to deal with Romanian market cash payment issues.

FINANCIAL ANALYSIS AND VALUATION

Speedy is a solid company with a leading market position in Bulgaria and excellent potential to expand in the 4x larger Romanian market. The Group has made massive investments in expanding its logistic network and capacity potential to take on the booming e-commerce economies in both countries. The latter has affected the bottom line but net profit bottomed out in 4Q16 and is expected to improve considerably 2017 onward.

The Company is well equipped to generate considerably free cash flows and generous return on equity as most of the CAPEX has been completed. Future investments be focus on upgrading the fleet as it ages and adding some capacity post full utilization of the currently built on.

Therefore, we base our valuation on the discounted cash flow model. For comparative reasons we present a peer multiples review which signals slight overvaluation for Speedy in terms of median P/E and EV/EBITDA multiples that disregard outliers. However, Speedy's last 12 months results have been expectedly under pressure from the intensive investment mode. Normalizing returns over the last three years suggests slight undervaluation.

The Company is undervalued when it comes to the preliminary 2020 option price agreed with GeoPost at 8xEV/EBITDA as we expect both considerable margin improvement in 2018 and 2019 as well as scale expansion.

Our DCF analysis is based on consolidated results that incorporate both the operations in Bulgaria and Romania. We take into account management guidance on sustaining strong double digit growth of revenues and margins recovering in the 2017-2019 period. Thus, we consider Speedy a solid company and an attractive long term investment opportunity with moderate volatility.

(in BGN)	2014A	2015A	2016A	2017F
Last Price	32.50	36.50	38.60	42.37
Number of Shares, year end	5 335 919	5 335 919	5 335 919	5 335 919
Market Capitalization	173 417 368	194 761 044	205 966 473	226 082 888
Net Profit	9 591 000	9 275 000	5 586 000	8 303 102
P/E	18.08	21.00	36.87	27.23
Equity	40 531 000	44 100 000	43 643 000	49 083 017
P/B	4.28	4.42	4.72	4.61
Sales	76 465 000	115 814 000	137 863 000	162 678 340
P/S	2.27	1.68	1.49	1.39
EV	180 231 368	206 955 044	217 996 473	237 219 068
EBITDA	16 037 000	20 816 000	19 648 000	23 100 324
EV/EBITDA	11.24	9.94	11.10	10.27
ROE	34.58%	21.92%	12.73%	17.91%
ROA	16.47%	11.37%	6.46%	9.04%

FINANCIAL PERFORMANCE ANALYSIS

Speedy outpaced considerably the overall courier and postal marker in Bulgaria over the last five years. Organic growth averaged 16% for the period. The deal with GeoPost in 2014 added considerable scale and overall the Group tripled in size. Going forward, management sees double digit growth continuing in the mid-term, especially with Romanian market growing at 20%+ per year.

In 2016 alone, Speedy outperformed management top line expectations for a 14%-15% growth. Consolidated core sales rose 19% y/y on both stronger domestic courier services

*16% organic CAGR
during the last five years*

and booming Romanian operations. We estimate that Romanian operations grew by 25%+ y/y in 2016, which is above our expectations.

We expect growth to remain in the double digit spectrum with a 14% CAGR for the 2017-2019 period. Afterwards, we expect the pace to gradually decline to a 3.5% long term sustainable growth rate post 2022.

During the past couple of years Speedy has also outperformed the market in terms of profitability. EBITDA margins averaged 18.2% during the last five years, peaking at 20.45% in 2013 and slashing to 13.4% in 2016 on heavy investments, big part of which expensed.

18.2% average EBITDA margin in five years

The profitability dip was in line with management guidance as post the 2014 acquisition the Group has heavily invested in developing its Romanian operations. It also added new capacity in Bulgaria to better service both booming markets. Additionally, the Company changed its cost structure by outsourcing a big part of its operations to subcontractors.

Thus, a big part of the infrastructure and logistics network investments were expenses. These include courier subcontractors and line haul rents. Rising fleet amortization also contributed to profitability decline.

CAPEX peaked in 2016 to BGN 15.8m which encompasses new logistic network building in Romania as well as expanding the vehicle fleet, software solutions and new product development (e.g. automated postal stations) in Bulgaria. Thus, most of the capital expenditure has been done and investments are expected to normalize significantly lower.

Management expects EBITDA margin to return to a normal 15%-18% range 2017 onward as the new capacity is utilized. The latter EBITDA margin guidance is below historic averages as Romanian operations are not expected to reach Speedy's pre-2014 margins due to more exposure to the lower margin B2C market. The Group's product mix has also changed post 2014 with B2C already 60% of overall operations vs. a dominant B2B exposure in the past.

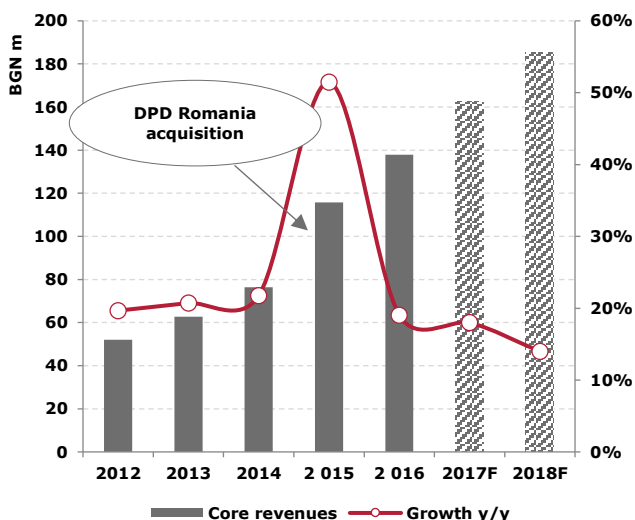
EBITDA margin to be in the 15%-18% range going forward

Net profit margin averaged 10.5% during the last five years, peaking in 2012 at 13.97% and bottoming out in 2016 at 3.8%. 4Q16 results signal that profitability erosion has been stopped, the inflection has been reached and going forward margins will start to improve as management guided. We expect considerably EPS improvement in 2017 with an average EPS growth of 38% over the next five years. This to be achieved from network utilization but also lower depreciation as the latter surged on fleet and facility additions.

Net profit will also improve on lower interest expense as the Company pays off the debt used for the 2014 acquisition. We do not expect adding additional leverage over the next five years as the Company generates enough cash flow to fund operations.

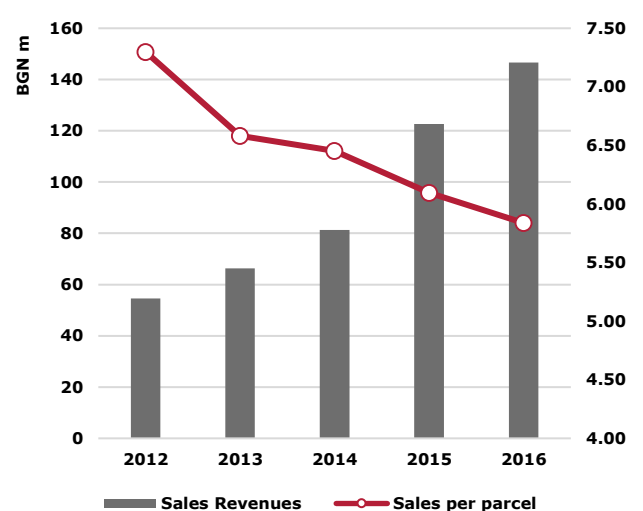
Finally, over the last three years, Speedy has lowered considerably its account receivables from related parties. We consider this a positive development but the issue should still be monitored as the Company continues to do business with related parties. It has sales and purchases with parties related to the majority owner as part of its subcontracting policy. They are stable over the last couple of years averaging 2.5% of sales for the former and 7% of sales for the latter.

Exhibit 5: Double digit growth in the midterm achievable



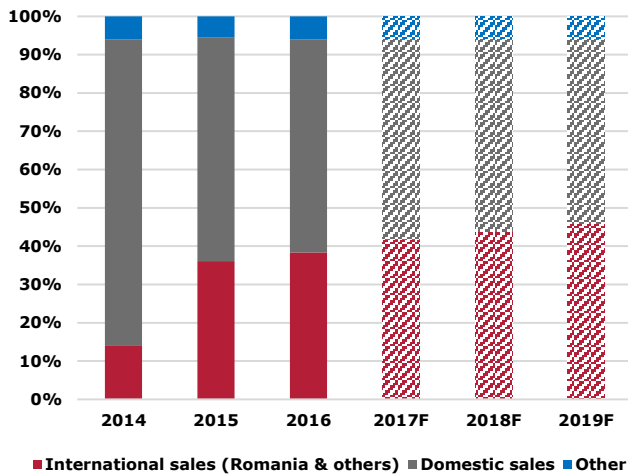
Source: Company data; Elana Trading estimates

Exhibit 6: B2C expansion drags revenue per parcel down



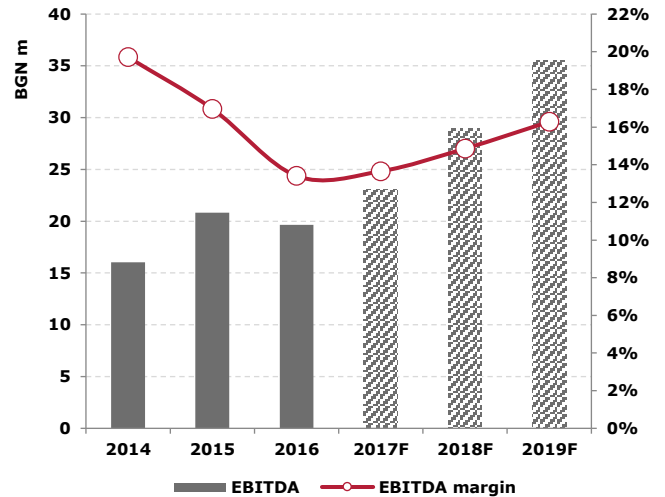
Source: Company data; Elana Trading estimates

Exhibit 7: Romania and other markets to gain sizable weight



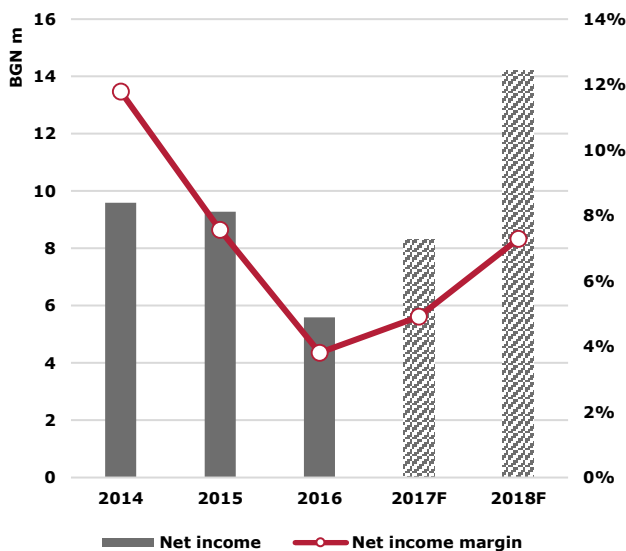
Source: Company data; Elana Trading estimates

Exhibit 8: EBITDA margin to stabilize at 15%



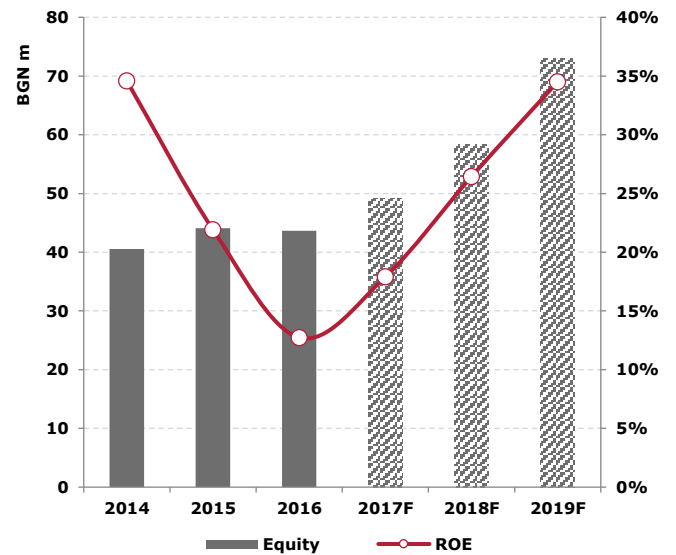
Source: Company data; Elana Trading estimates

Exhibit 9: Net profit margin to improve faster than EBITDA



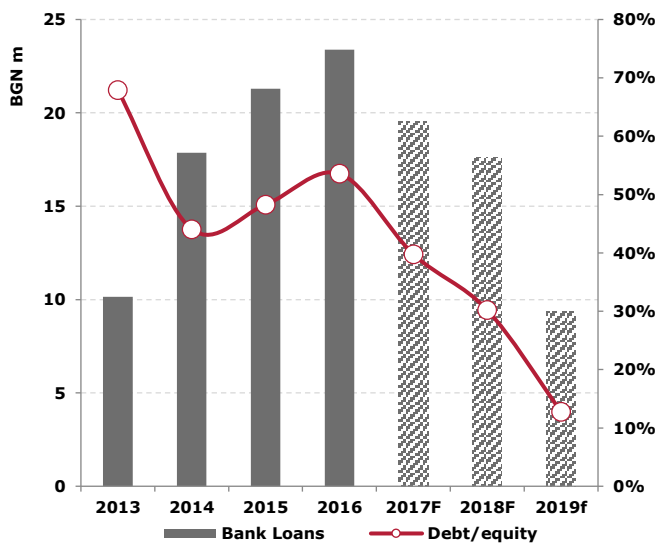
Source: Company data; Elana Trading estimates

Exhibit 10: ... ROE to recover starting in 2017



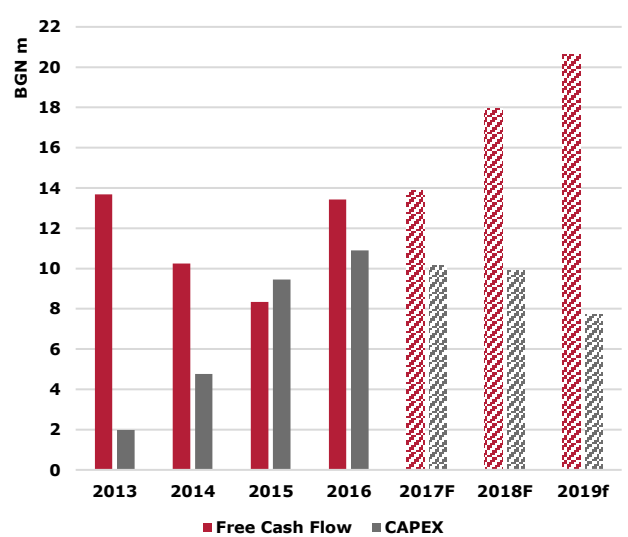
Source: Company data; Elana Trading estimates

Exhibit 11: Debt burden to decrease to historical norm ...



Source: Company data; Elana Trading estimates

Exhibit 12: ...as Speedy generates hefty free cash flow



Source: Company data; Elana Trading estimates

VALUATION OF SPEEDY

To value Speedy's fair value we take into account the Group's ability to generate healthy cash flows out of normal operations. Accordingly, we conduct a discounted cash flow analysis.

We base our analysis on a conservative 11% CAGR of the top line for the 2017-2021 period and a 3.5% sustainable long term growth rate post-2021. Romanian and international cross border deliveries to be key growth drivers as both deliver impressive 20%+ per year growth pace over the last few year. We expect this pace to sustain in the midterm but remain on the lookout for increased competition among the key market players both in Bulgaria and Romania.

We also incorporate EBITDA margin stabilizing at an average level of 15% over the same 2017-2021 period as product mix balances out between B2B and B2C segments. This is at the lower range of management guidance for achieving a 15%-18% EBITDA margin as investments in Romania and Bulgaria start to deliver and new capacity is utilized. Margin recovery is expected to start in 2017 with the last quarter of 2016 already signaling an inflection point.

Profitability improvement will also be supported by declining amortization costs as fleet and facility additions have more or less been accomplished.

We do not expect significant changes in the Company's capital structure during the analyzed period with debt levels steadily declining as Speedy pays off the loan taken out to finance its 2014 acquisition and following investments. Foreign exchange fluctuations related to the Romanian lei may affect the bottom line, but we do not expect it to be substantial due to stable macroeconomic situation of Romania in the midterm.

In our DCF analysis we incorporate a fixed 10.5% weighted average cost of capital which we believe is a more fair estimation of the long term WACC born by the Company despite a very favorable current low interest rate environment. To arrive at this WACC we take Bulgaria's 10 year government bond current yield as a measure for a risk free rate and add additional risk premium to reflect expected global rate hike environment as well as a country risk premium. We also take into account a 9% Central and Eastern Europe equity risk premium and a beta estimate as reflected currently by the market.

To arrive at a final fair value for the Company we also incorporate a 10% liquidity discount due to Speedy's lower free float and majority owner's unwillingness to increase it at current market levels. The float will slightly increase after April 2017 as the Company issues and distributes 42 900 new ordinary shareholders among key employees. We have incorporated the latter action in our valuation but it will increase the free float by only 80 bps.

Finally, we present a sensitivity analysis to our final fair value for the Company to reflect on the possible changes to it based on our key EBITDA margin and WACC assumptions.

For comparison reasons we also present key multiples at which Speedy's global peers are currently been traded. However, we do not take the peer comparison in our final valuation due size and operational differences.

Based on our DCF analysis, Speedy's intrinsic value is BGN 48.85 per share.

Cash flows generation to be strong in the 2017-2021 period

DISCOUNTED CASH FLOWS

BGN'000	2017F	2018F	2019F	2020F	2021F	2022F TERMINAL
EBIT	10 899	17 804	27 210	30 508	30 856	30 461
EBIT(1-T)	9 592	15 667	23 945	26 847	27 153	26 806
ADD: D&A	12 201	11 127	8 308	6 730	5 889	2 816
LESS: INVESTMENTS	10 174	9 891	7 715	6 813	2 636	2 048
LESS: CHANGE NWC	-2 279	-1 064	3 909	2 393	1 391	1 617
FCF	13 898	17 967	20 629	24 371	29 015	25 957
PV FCF	12 577	14 715	15 289	16 347	17 612	
SUM OF PV FCF	76 540					
PV OF CONTINUING VALUE	225 083					
TOTAL PV FREE CASH FLOWS	301 622					
LESS: OUTSTANDING DEBT	23 381					
PLUS: FINANCIAL ASSETS	11 351					
PV OF EQUITY	289 592					
NUMBER OF SHARES ('000)	5 336					
PRICE PER SHARE	54.27					
LIQUIDITY DISCOUNT	10%					
FAIR VALUE PER SHARE (BGN)	48.85					

KEY ASSUMPTIONS

BGN '000	2016	2017F	2018F	2019F	2020F	2021F	2022F Terminal
SALES	146 567	169 185	194 726	218 093	235 541	247 318	255 974
<i>Growth y/y</i>	<i>19.49%</i>	<i>15.43%</i>	<i>15.10%</i>	<i>12.00%</i>	<i>8.00%</i>	<i>5.00%</i>	<i>3.50%</i>
EBITDA	19 648	23 100	28 931	35 518	37 238	36 744	33 277
<i>EBITDA margin</i>	<i>13.41%</i>	<i>13.65%</i>	<i>14.86%</i>	<i>16.29%</i>	<i>15.81%</i>	<i>14.86%</i>	<i>13.00%</i>
DEPRECIATION	11 656	12 201	11 127	8 308	6 730	5 889	2 816
INVESTMENTS	10 896	10 174	9 891	7 715	6 813	2 636	2 048
EBIT	7 992	10 899	17 804	27 210	30 508	30 856	30 461
<i>EBIT margin</i>	<i>5.45%</i>	<i>6.44%</i>	<i>9.14%</i>	<i>12.48%</i>	<i>12.95%</i>	<i>12.48%</i>	<i>11.90%</i>
NET WORKING CAPITAL	-5 627	-976	-2 040	1 869	4 262	5 653	7 270

COST OF CAPITAL

A	Risk-free rate	10-year Bulgarian government bond yield	1.80%
B	Beta	Bloomberg	0.75
C	Equity risk premium	NYU Sterns research estimate	9.09%
D	Country risk premium	NYU Sterns research estimate	2.70%
E	Cost of equity	E=A+B*C+D	11.32%
F	Cost of debt	Average for the forecasted period	4.0%
G	Effective tax rate		12%
H	After-tax cost of debt	H=F*(1-G)	3.52%
I	Weight of equity	Optimal capital structure	89%
J	WACC	J=I*E+(1-I)*H	10.46%

SENSITIVITY ANALYSIS

Long term EBITDA margin

	11.00%	12.00%	13.00%	14.00%	15.00%
WACC					
8.50%	59.78	64.83	69.88	74.94	79.99
9.50%	49.56	53.59	57.61	61.63	65.65
10.50%	42.26	45.55	48.85	52.14	55.43
11.50%	36.76	39.52	42.28	45.03	47.79
12.50%	32.48	34.83	37.17	39.51	41.85

Source: Elana Trading estimates

PEER COMPARISON

Company	Ticker	Country	Mkt Cap (BGN m)	P/E	ROE (%)	P/B	P/S	EV/EBITDA T12M	Sales 1 Yr Growth
SPEEDY AD	OSP BU	BULGARIA	206	22.74	21.50	4.70	1.80	10.55	19.49
LBC EXPRESS HOLDINGS INC	LBC PM	PHILIPPINES	732	#N/A	#N/A	7.03	#N/A	#N/A	13.00
GD EXPRESS CARRIER BHD	GDX MK	MALAYSIA	930	59.78	13.36	5.67	9.53	46.92	12.73
BLUE DART EXPRESS LTD	BDE IN	INDIA	2 797	52.73	53.44	24.54	3.96	37.73	#N/A
POSTNL NV	PNL NA	NETHERLANDS	3 783	6.77	#N/A	#N/A	0.56	4.23	-1.28
ROYAL MAIL PLC	RMG LN	BRITAIN	9 437	19.29	7.55	0.79	0.44	9.41	1.33
OESTERREICHISCHE POST AG	POST AV	AUSTRIA	4 526	34.26	28.46	3.88	1.07	4.32	-23.15
CTT-CORREIOS DE PORTUGAL	CTT PL	PORTUGAL	1 471	11.06	31.65	3.34	1.06	5.96	-1.92
BPOST SA	BPOST BB	BELGIUM	8 997	13.57	42.86	5.13	1.95	6.39	-2.77
UNITED PARCEL SERVICE-CL B	UPS US	US	171 778	18.15	221.81	34.02	1.55	10.27	5.46
YAMATO HOLDINGS CO LTD	9064 JP	JAPAN	15 060	24.22	6.70	1.59	0.62	8.14	2.73
MEDIAN			3 783	21.0	28.5	4.9	1.3	8.8	
AVERAGE			19 974	26.3	47.5	9.1	2.3	14.4	

RECOMMENDATION AND PRICE TARGET

We raise our HOLD recommendation on Speedy to BUY as the Company has a solid track record and has already taken on most of the capacity upgrade that was a drag to profitability. Moreover, it is set on path for profits recovery while scaling its operations.

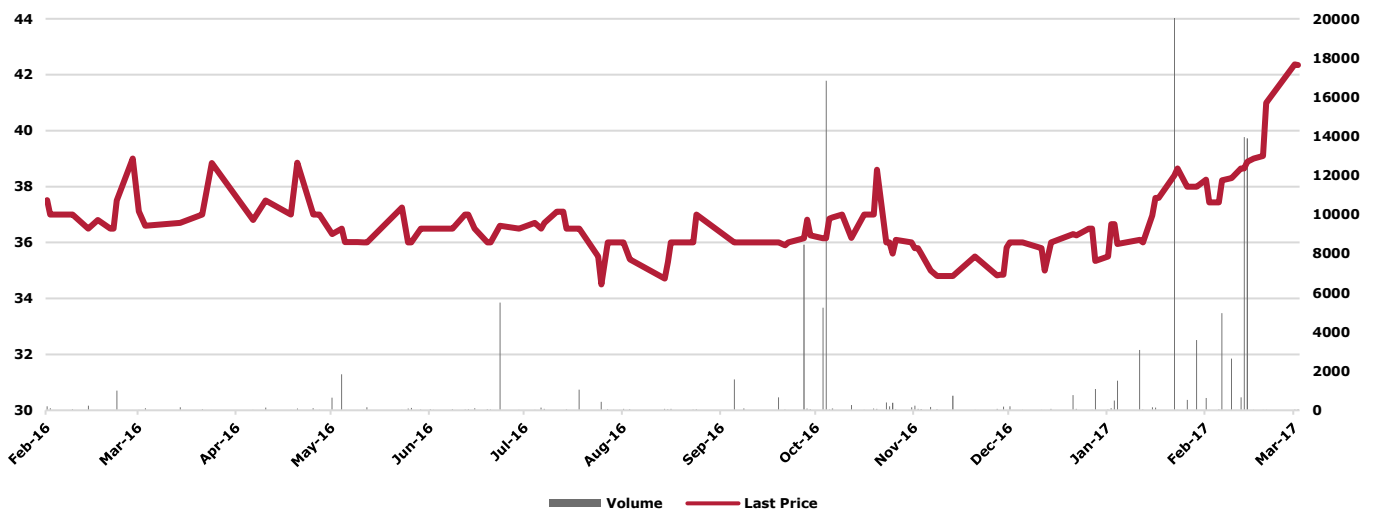
*Recommendation: BUY
Target Price: BGN 48.85
Upside: 15%*

Our new DCF analysis makes us comfortable with a BGN 48.85 price per share 12-month target price. This represents a modest 15% upside but also reflects more conservative expectations in the profitability recovery. The latter is also conservative when considering the strong demand for the stock from both institutional and individual investors.

In terms of significant investors involved in our stock market, we share the following observations:

- Bulgarian institutional investors consider the stock attractive and would like to increase exposure upon available liquidity. They acquired most of the free float when the majority owner was willing to increase it as the stock offers an interesting exit story if GeoPost exercises its option.
- Foreign investors looking for exposure in domestic companies with high growth were stopped by the low liquidity of the stock. However, they would add exposure to Speedy on promising growth potential and good corporate governance.
- Domestic individual investors are increasing their exposures but supply is limited. Stocks for sale came from other investors taking profit on the position as the stock appreciated by 70%+ over the last two years.

STOCK PRICE DYNAMICS



Source: Bloomberg

ANNUAL FINANCIAL DATA(AUDITED)

INCOME STATEMENT ('000 BGN)	2013	2014	2015	2016	2017F	2018F
CORE REVENUES	62 807	76 465	115 814	137 863	162 678	185 453
OTHER OPERATING INCOME	3 490	4 894	6 846	8 704	6 507	9 273
CHANGE IN INVENTORIES	0	0	0	0	0	0
COST OF MATERIALS	8 305	6 958	7 181	7 154	7 321	8 345
COST OF EXTERNAL SERVICES	21 348	37 634	67 949	88 179	104 114	117 763
COST OF LABOR	20 383	18 176	22 979	28 277	31 234	36 163
OTHER OPERATING EXPENSES	1 275	1 058	2 174	2 558	2 440	2 782
COGS	1 428	1 496	1 561	751	976	742
TOTAL OPERATING EXPENSES	55 915	70 344	111 312	138 575	146 085	165 795
EBITDA	13 558	16 037	20 816	19 648	23 100	28 931
DEPRECIATION AND AMORTIZATION	3 176	5 022	9 468	11 656	12 201	11 127
EBIT	10 382	11 015	11 348	7 992	10 899	17 804
FINANCIAL REVENUE	334	343	341	101	325	371
FINANCIAL EXPENSE	849	732	1 282	1 757	1 789	2 040
INTEREST EXPENSE	401	526	781	747	683	617
EBT	9 867	10 626	10 407	6 336	9 435	16 134
INCOME TAXES	1 040	1 035	1 132	750	1 132	1 936
NET INCOME	8 827	9 591	9 275	5 586	8 303	14 198
BALANCE SHEET ('000 BGN)	2013	2014	2015	2016	2017F	2018F
CASH AND NEAR CASH ITEMS	8 714	11 046	9 092	11 351	10 203	17 698
SHORT-TERM INVESTMENTS	0	0	0	0	0	0
ACCOUNTS AND NOTES RECEIVABLE	11 892	22 758	25 170	22 631	29 282	31 527
INVENTORIES	605	530	568	609	976	1 113
OTHER CURRENT ASSETS	549	486	747	701	1 301	1 484
TOTAL CURRENT ASSETS	21 760	34 820	35 577	35 292	41 762	51 821
LT INVESTMENTS AND LT RECEIVABLES	0	0	0	0	0	0
NET FIXED ASSETS	14 671	23 650	26 627	32 936	30 909	29 673
OTHER LONG-TERM ASSETS	784	20 805	21 628	20 804	21 962	24 109
TOTAL LONG-TERM ASSETS	15 455	44 455	48 255	53 740	52 870	53 781
TOTAL ASSETS	37 215	79 275	83 832	89 032	94 633	105 603
ACCOUNTS PAYABLE						
SHORT-TERM BORROWINGS	6 142	15 437	12 747	16 001	19 521	22 254
OTHER SHORT-TERM LIABILITIES	2 884	4 944	8 199	7 560	6 507	6 491
TOTAL CURRENT LIABILITIES	6 000	5 447	5 699	6 007	6 507	7 418
LONG-TERM BORROWINGS	15 026	25 828	26 645	29 568	32 536	36 163
OTHER LONG-TERM LIABILITIES	7 256	12 916	13 087	15 821	13 014	11 127
TOTAL LONG-TERM LIABILITIES	0	0	0	0	0	0
TOTAL LIABILITIES	7 256	12 916	13 087	15 821	13 014	11 127
TOTAL PREFERRED EQUITY	22 282	38 744	39 732	15 821	45 550	47 291
MINORITY INTEREST	0	0	0	0	0	0
SHARE CAPITAL & APIC	0	0	0	0	0	0
RETAINED EARNINGS & OTHER EQUITY	4 447	5 336	5 336	5 336	5 379	5 379
TOTAL EQUITY	10 486	35 195	38 764	38 307	43 704	52 933
WORKING CAPITAL	14 933	40 531	44 100	43 643	49 083	58 312
NUMBER OF SHARES:	4 446 600	5 335 919	5 335 919	5 335 919	5 378 819	5 378 819
PRICE IN BGN - PERIOD END:	22.00	32.50	36.50	38.60	42.37	42.37
MARKET CAP IN BGN - PERIOD END:	97 830	173 417	194 761	205 966	227 901	227 901

FINANCIAL AND PERFORMANCE INDICATORS

	2013	2014	2015	2016	2017F	2018F
VALUATION						
PRICE/EARNINGS (P/E)	7.39	15.32	21.00	36.87	27.45	16.05
PRICE/BOOK (P/B)	6.55	4.28	4.42	4.72	4.64	3.91
PRICE/SALES (P/S)	1.56	2.27	1.68	1.49	1.40	1.23
PRICE/CASH PER SHARE	99 256	180 231	206 955	217 996	237 219	227 821
EV (IN '000 BGN)	7.32	11.24	9.94	11.10	10.27	7.87
EV/EBITDA						
PROFITABILITY						
RETURN ON COMMON EQUITY	69.35%	34.58%	21.92%	12.73%	17.91%	26.44%
RETURN ON ASSETS	28.06%	16.47%	11.37%	6.46%	9.04%	14.18%
RETURN ON INVESTED CAPITAL	56.31%	33.84%	28.62%	23.96%	28.08%	33.20%
EBITDA MARGIN	20.45%	19.71%	16.97%	13.41%	13.65%	14.86%
OPERATING MARGIN	21.59%	20.97%	17.97%	14.25%	14.20%	15.60%
NET INCOME MARGIN	13.31%	11.79%	7.56%	3.81%	4.91%	7.29%
DIVIDEND						
DIVIDEND YIELD	4.55%	3.23%	3.10%	1.55%	1.89%	2.60%
DIVIDEND PER SHARE	1.00	1.05	1.13	0.60	0.80	1.10
LIQUIDITY						
CURRENT RATIO	1.45	1.35	1.34	1.19	1.28	1.43
QUICK RATIO	1.37	1.31	1.29	1.15	1.21	1.36
CREDIT						
LT DEBT/EQUITY	0.49	0.32	0.30	0.36	0.27	0.19
TOTAL DEBT/EQUITY	0.68	0.44	0.48	0.54	0.40	0.30
TOTAL DEBT/TOTAL ASSETS	0.27	0.23	0.25	0.26	0.21	0.17
EBITDA/INTEREST EXPENSE	7.39	15.32	21.00	36.87	27.45	16.05
	6.55	4.28	4.42	4.72	4.64	3.91

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HOLD	Target price in +/-10% range of the current quotes
SELL	Target price is more than 10% below the current quotes

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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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