

## ELANA AGROCREDIT

### INDUSTRY: FINANCE/LEASING

#### BUILDING TRACTION

**ELANA AGROCREDIT, THE FIRST AGRICULTURE LEASING SPECIALIST IN BULGARIA, HAS STEADILY BEEN BUILDING TRACTION AND DELIVERING LUCRATIVE RETURNS. DESPITE BEING BELOW OUR ESTIMATES, THE STOCK IS AN OUTPERFORMER WITH STRONG INSTITUTIONAL AND RETAIL DEMAND. THE DIVIDEND YIELD OF 5%+ ACTS AS AN INVESTOR MAGNET IN THE CURRENT LOW INTEREST RATE ENVIRONMENT**

#### STEADILY PERFORMING AS GUIDED

Since inception in late 2013, Elana Agrocredit has been steadily building traction. The Company has delivered 91% CAGR of its leasing and loan portfolio over the past three full operational years sustaining at the same time portfolio quality with less than 2% default rate. The portfolio surged 64% y/y to BGN 36.6m in 2016 alone. Net interest income, on the other hand, increased sixfold for the same period to BGN 2.3m in 2016, despite leverage expansion. The Company targets 2:1 leverage ratio which is to be reached in 2017.

#### BUT MISSED OUR ESTIMATES

Yet, performance has been below our estimates both on the top and especially on the bottom line. The latter is mostly due to the change in the Company's remuneration for its managing company, effective mid-2016. While interest and non-interest revenues surged 83% y/y to BGN 3.3m, net income added only 58% y/y to BGN 1.64m due to higher managing company remuneration approved by shareholders –almost all pension funds in Bulgaria.

#### EXPECTED DIVIDENDS MAGNET FOR INVESTORS

Elana Agrocredit is obliged to distribute 90% of annual profits. We estimate the upcoming dividend from FY2016 profits at BGN 0.078 per share which would yield 5.37% at current market quotes. The latter yield is lucrative considering the current low interest rate environment. Local institutional and retail investors have been re-positioning into equities over the last 12M with the latter herding in actively over the last few months.

#### ROOM FOR SHORT TERM PROFIT TAKING

With the remuneration structure settled, we expect top and bottom line expansion to converge to a 20% CAGR over the 2017-2021 period. We also expect future dividends to average BGN 0.08 per share or 6% average DY at current quotes. The latter remains attractive and is in line with Elana Agrocredit's steady, sound and predictable return nature that has appealed to institutional and retail investors. Still, it led to the Company's stock appreciating 30% y/y, thus offering room for short term profit taking. The latter has been evident on the market over the last month but additional room exists.

#### VALUATION/RISKS

**VALUATION:** Based on the latest financial performance we revise downwards our top and bottom line estimates. Yet, the low interest rate environment and the low correlation of Elana Agrocredit's stock to the overall market entail downward revision of the cost of equity estimates. Thus, we raise our price target for the stock from BGN 1.19 to BGN 1.32 per share. Yet, due to the considerable appreciation of the stock over the last 12 months we issue a HOLD recommendation vs our previous BUY. **RISKS:** Increased competition and land market losing momentum.

in kBGN, excl. ratios	2014	2015	2016	2017F	2018F
Revenues	955	1 793	3 287	4 814	6 158
Net profit	340	1 034	1 636	2 361	3 142
Total Assets	11 256	24 546	39 575	59 160	80 330
Financed land (ha)	1 780	3 841	6 042	8 442	10 842
Total Debt	5 657	3 994	18 357	36 583	33 869
Equity	5 425	20 182	20 889	21 903	45 680
ROE	6.27%	8.08%	7.97%	11.03%	9.30%
Debt/Equity	104%	20%	88%	167%	74%
Net profit margin	36%	58%	50%	49%	51%
EPS	0.066	0.09	0.09	0.125	0.111
DPS	0.062	0.049	0.078	0.112	0.075
P/B	0.95	1.04	1.31	1.25	1.20
Payout ratio	94%	90%	90%	90%	90%
Dividend yield	6.20%	4.44%	5.37%	7.75%	5.16%

**HOLD**
**ONE YEAR PRICE TARGET: BGN 1.32**
**CURRENT PRICE: BGN 1.45**
**PREVIOUS PRICE TARGET: BGN 1.19**

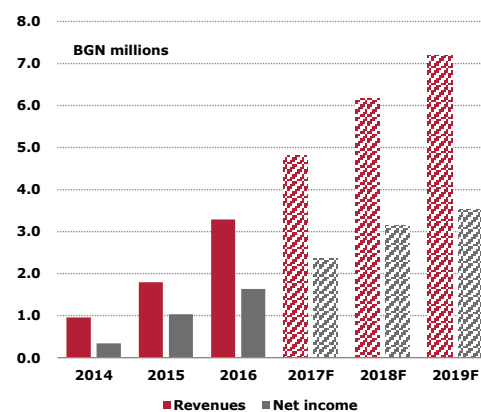
#### EXCHANGE RATES

**EUR/BGN (FIXED): 1.95583**
**USD/BGN: 1.7983**

#### MARKET DATA

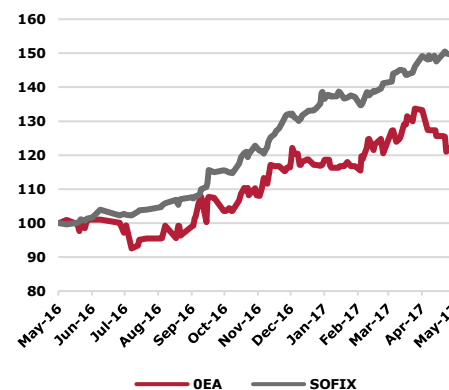
Shares Outstanding:	<b>18.9 m</b>
Share Capital:	<b>BGN 18.9 m</b>
Free-float:	<b>56%</b>
Market Cap.:	<b>BGN 27 m</b>
Avg. Daily Vol.:	<b>BGN 5,000</b>
52 Weeks Range:	<b>BGN 1.09-1.57</b>
BSE Ticker	<b>OEA</b>
Bloomberg Ticker	<b>OEA BU</b>

#### PROFITS TRIPLED IN 3 YEARS



Source: Company data, Elana Trading Forecasts

#### ROOM FOR MORE PROFIT TAKING



Source: Bloomberg

**ELANA AGROCREDIT'S PERFORMANCE REVIEW**

Elana Agrocredit has been building good traction since inception in late 2013. Portfolio expansion advanced well, only slightly below our expectation but mid-2016 newly approved remuneration fee structure for the managing company has eaten part of the bottom line. Accordingly, performance has been below our estimates.

**Top line and portfolio building:** In FY2016, Elana Agrocredit booked 83% y/y surge in revenues to BGN 3.3m while net income added 58% y/y to BGN 1.64m. The Company kept interest charged on leasing and working capital loans unchanged at 8.5% per annum while adding leverage to finance operations. Portfolio scale, however, led to net interest income advancing 84% y/y on a 64% y/y rise in loan and leasing portfolio. The latter reached BGN 36.6m as of the end of 2016 or 91% CAGR over the last three operational years.

This entailed financing 60.4k dca of arable land (6042 ha), up 57% y/y, worth BGN 48m. Volumes are slightly below our expectations, accordingly, the top line missed slightly our expectations. Yet, portfolio quality remains good with defaults below 2% at the end of 2016. Even if they occur the Company profitably realized the collateral due to the 20% down payment buffer on all leasing contracts. The latter is also supported by the ongoing land appreciation in Bulgaria with a 4% y/y average land price rise in 2016, according to national statistics.

Working capital loan portfolio advance better than expected in 2016. The latter doubled to BGN 5.2m which is 20% above our expectations. Yet, the working capital loans are still a small part of the overall portfolio of the Company, c. 14% and we expect it to stay in the 15% level over the next five years.

**Bottom line performance:** Yet, the bottom line was considerably below our expectations as the new remuneration fee structure for Elana Agrocredit's managing company kicked in. In mid-2016, the Company's shareholders approved a 20% success fee over a lower than initially set hurdle rate and allowed

the managing company to take part of the fixed annual fee per contract. The new hurdle rate is equal to the yield of 10Y Bulgarian Treasuries + 1% but not less than 3%.

Accordingly, we revise downward our top and bottom line expectations, taking into account the new cost structure. We also slightly revise the Company's loan generation pace on operational capacity limitations. Thus, we expect the top and bottom line expansion to converge to a 20% CAGR over the 2017-2021 period.

Latest Q1 2017 results support our revised expectations. The Company recently announced net income surging to BGN 624k on accelerating interest income but lower interest expense. Overall, revenues rose 49% y/y to BGN 918k in Q1 2017.

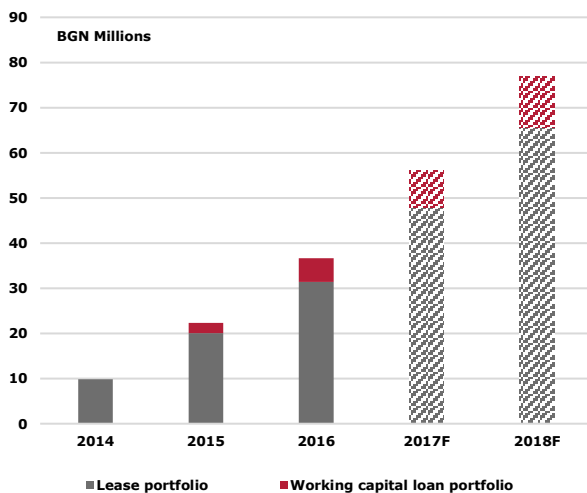
Additionally, in 2016 leverage expanded as expected with interest expense rising 81% y/y to BGN 409k. Yet debt financing remains below target ratio of 2:1 debt to registered equity and offers room for debt financing in 2017.

Going forward, we expect the Company to utilize its debt financing target by the end of 2017 or the beginning of 2018. If the target is kept, it would lead to Elana Agrocredit tapping the capital market for additional equity financing in early 2018.

The latter would dilute part of the upcoming return for current shareholders averaging expected dividends to BGN 0.08 per share over the next five years. Since inception and considering our expectations for this year's dividend, the Company would return 18% to the BGN 1 per share for all initial investors in the company or 6% average yield over the last three years.

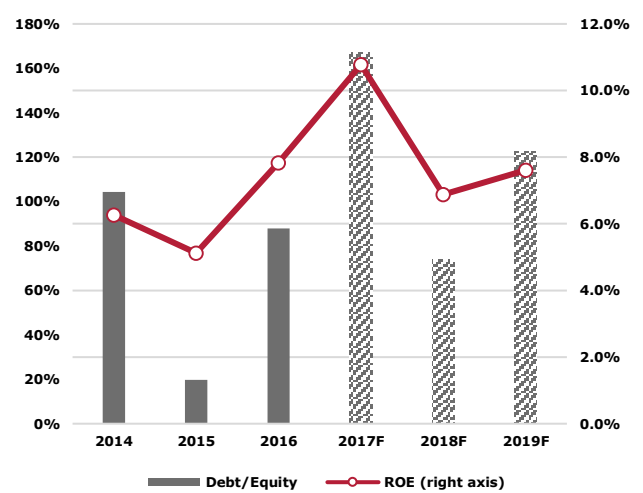
We expect the dividend yield to remain in the 5%-6% range which is below our initial estimates but the latter downward revision is also due to the considerable price appreciation over the last 12 months. Elana Agrocredit's stock advanced 30% y/y which allows for some short term profit taking to capitalize on the delivered return before adding exposure.

Exhibit 5: Steady portfolio traction building



Source: Company data, Elana Trading Forecasts

Exhibit 6: Utilizing leverage to boost ROE



Source: Company data, Elana Trading Forecasts

**ANNUAL FINANCIAL DATA**

<b>INCOME STATEMENT (IN '000 BGN)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>
Interest Income	517	1 530	2 736	4 391	5 616
Other revenue	438	263	551	422	542
<b>Total revenue</b>	<b>955</b>	<b>1 793</b>	<b>3 287</b>	<b>4 814</b>	<b>6 158</b>
Cost of Materials	-2	-1	-1	-8	-9
External services expenses	-50	-57	-116	-41	-56
Expenses for remuneration of managing company	-110	-238	-731	-1 150	-1 403
Depreciation	-2	-2	-1	-8	-9
Employee benefits expenses	-32	-49	-53	-82	-105
Other expenses	-266	-48	-144	-58	-92
<b>Operating profit</b>	<b>493</b>	<b>1 398</b>	<b>2 241</b>	<b>3 468</b>	<b>4 484</b>
Financial revenues	0	30	7	0	0
Financial expenses	-115	-281	-431	-834	-993
Interest expense	-104	-271	-409	-827	-986
<b>EBT</b>	<b>378</b>	<b>1 147</b>	<b>1 817</b>	<b>2 633</b>	<b>3 491</b>
Tax expense	-38	-113	-181	-263	-349
<b>Net profit</b>	<b>340</b>	<b>1 034</b>	<b>1 636</b>	<b>2 370</b>	<b>3 142</b>
<i>EPS</i>	<i>0.066</i>	<i>0.086</i>	<i>0.087</i>	<i>0.125</i>	<i>0.111</i>
<b>BALANCE SHEET (IN '000 BGN)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>
Cash & Cash Equivalents	1 397	490	2 621	3 132	3 436
Finance lease receivables	1 219	2 646	4 296	6 017	7 697
Loan receivables	0	2 263	5 192	8 118	11 292
Other receivables	10	9	323	0	0
Financial assets	0	1 729	0	0	0
<b>Current Assets</b>	<b>2 626</b>	<b>7 137</b>	<b>12 432</b>	<b>16 804</b>	<b>22 425</b>
Machines and equipment	1	0	0	0	0
Intangible assets	4	3	2	16	20
Finance lease receivables	8 625	17 406	27 141	41 878	57 885
<b>Non-Current Assets</b>	<b>8 630</b>	<b>17 409</b>	<b>27 143</b>	<b>41 893</b>	<b>57 905</b>
<b>Total Assets</b>	<b>11 256</b>	<b>24 546</b>	<b>39 575</b>	<b>59 160</b>	<b>80 330</b>
Share capital	5 115	18 902	18 902	18 902	37 804
Share premium reserves	-47	208	208	208	3 988
Legal reserves	4	38	143	432	746
Retain earnings	353	1 034	1 636	2 361	3 142
<b>Total Equity</b>	<b>5 425</b>	<b>20 182</b>	<b>20 889</b>	<b>21 903</b>	<b>45 680</b>
Short-term borrowings	1 696	688	4 149	3 851	4 926
Tax liabilities	16	80	32	62	72
Trade payables	53	115	98	205	238
Advances received	96	166	181	372	431
Other payables	6	5	14	23	27
Payables to employees and social security	3	4	4	12	13
<b>Current Liabilities</b>	<b>1 870</b>	<b>1 058</b>	<b>4 478</b>	<b>4 525</b>	<b>5 707</b>
Long term borrowings	3 961	3 306	14 208	32 732	28 942
<b>Non-Current Liabilities</b>	<b>3 961</b>	<b>3 306</b>	<b>14 208</b>	<b>32 732</b>	<b>28 942</b>
<b>Total Liabilities</b>	<b>5 831</b>	<b>4 364</b>	<b>18 686</b>	<b>37 257</b>	<b>34 650</b>
<b>Total Equity &amp; Liabilities</b>	<b>11 256</b>	<b>24 546</b>	<b>39 575</b>	<b>59 160</b>	<b>80 330</b>
<b>MARKET CAP IN BGN - PERIOD END:</b>	<b>5 141 012</b>	<b>20 981 666</b>	<b>27 408 483</b>	<b>27 408 483</b>	<b>54 816 966</b>
NUMBER OF SHARES:	5 115 435	18 902 402	18 902 402	18 902 402	37 804 804
<b>PRICE IN BGN - PERIOD END:</b>	<b>1.005</b>	<b>1.110</b>	<b>1.450</b>	<b>1.4500</b>	<b>1.4500</b>

<b>FINANCIAL PERFORMANCE INDICATORS</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>
<b>Valuation</b>					
P/B	0.95	1.04	1.31	1.25	1.20
BVPS	1.06	1.07	1.11	1.16	1.21
<b>Profitability</b>					
EPS	0.07	0.09	0.09	0.12	0.11
Net Income Margin	36%	58%	50%	49%	51%
EBIT Margin	52%	78%	68%	72%	73%
ROE	6.27%	8.08%	7.97%	11.03%	9.30%
ROA	3.02%	4.21%	4.13%	3.99%	3.91%
<b>Dividend</b>					
DPS	0.062	0.049	0.078	0.112	0.075
Dividend Yield	6.20%	4.44%	5.37%	7.75%	5.16%
Dividend Payout	94%	90%	90%	90%	90%
<b>Liquidity</b>					
Current Ratio	1.40	6.75	2.78	3.71	3.93
Acid Test Ratio	1.40	6.74	2.70	3.71	3.93
<b>Credit</b>					
Debt/Equity	104%	20%	88%	167%	74%
Debt/Assets	50.26%	16.27%	46.39%	61.84%	42.16%

**Elana Agrocredit Overview**

**COMPANY PROFILE**

Elana Agrocredit is the first leasing company in Bulgaria specialized in financial agricultural land acquisition. It was created by the team that started the first and biggest of its time REIT for agricultural land in Bulgaria – ELARG, which yielded 18% average annual return when liquidated in 2013.

Elana Agrocredit is a joint stock company, but operates as a REIT. It is obliged to distributing 90% of profits and is managed by a specialized entity. It raises capital on the Bulgarian capital market and provides financing to farmers so they can buy rather rent arable land. The Company extends long term lease contracts (up to 10 years) with 20% minimum down payment by the lessees and the acquired land as a collateral. In 2015 it also started extending short term working capital loans to farmers.

The company's innovative business model taps on the local farmers' aim to increase the land they own. Apart from interest income the company also profits from the divestment of the land from defaulted lease payers.

As of Dec 2016, Elana Agrocredit had 6042 ha of arable land funded, 1900+ deals, and BGN 36m+ leasing and loan portfolio built in since inception in mid2013.

It targets 2:1 leverage vs registered capital to boost profits.

**FUNDAMENTAL STORY**

Elana Agrocredit innovative business model provides it a competitive advantage as it taps on a defensive and stable growing sector with land in Bulgaria still largely fragmented and considerably undervalued compared to EU averages.

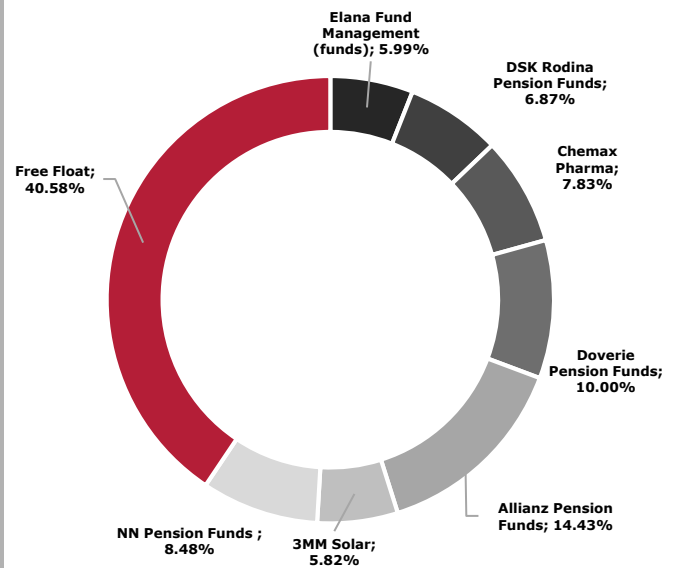
Despite the rise in land investments during the last couple of years, including from large institutional investors, smaller farmers are the main land accumulators as they tap on stable crop yields, steady agricultural subsidies and EU structural funding for the sector for the new program period 2014-2020.

In the future, Elana Agrocredit also aims at enlarging its portfolio by financing other agriculture related project e.g. irrigation, new machinery & equipment, fertilizers, permanent crops, etc. Thus, it will tap on additional profitable segments which have been so far overlooked and current infrastructure and equipment are outdated.

**STRENGTHS & OPPORTUNITIES**

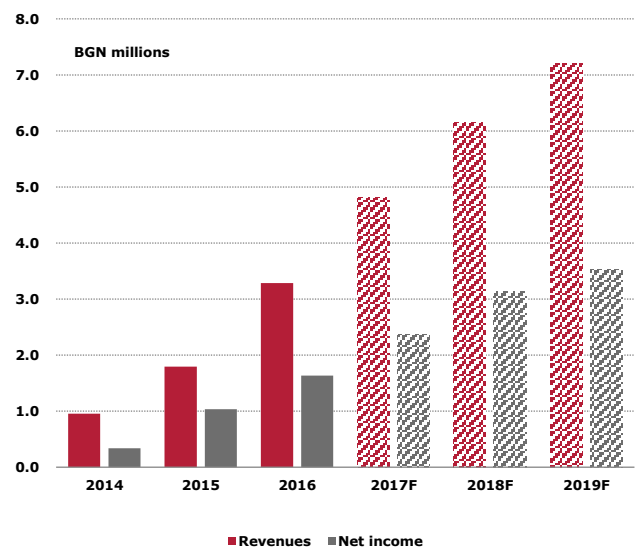
- Innovative business strategy
- Excellent corporate governance
- Offers potential for good dividend yields
- Strong market position with wide network of regional representatives and ELARG experience

**SHAREHOLDERS' STRUCTURE (31<sup>ST</sup> DECEMBER 2016)**



Source: Company data

**20%+ CAGR EXPECTED BY END OF 2021**



Source: Company data, Elana Trading Forecasts

**WEAKNESSES & THREATS**

- Vulnerable to farmers' ability and willingness to repay leases due to various conditions such as but not only bad weather, etc.
- Delay in investment of accumulated capital
- Low stock liquidity

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<b>BUY</b>	Target price is more than 10% above current quotes
<b>HOLD</b>	Target price in +/-10% range of the current quotes
<b>SELL</b>	Target price is more than 10% below the current quotes

**Frequency of Recommendations:** No schedule of recommendations is available. The frequency of recommendations depends on specific factors to individual companies and the opinion of the analyst(s) for the necessity of minor or major changes.

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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