

GRADUS

INDUSTRY: FOOD PROCESSING

INCUBATING GROWTH

17.4% CAGR FOR THE LAST THREE YEARS. GRADUS IS BULGARIA'S BIGGEST VERTICALLY INTEGRATED POULTRY PRODUCER. WITH 150+ POULTRY AND 15 PORK PRODUCTS, FOCUSING ON HIGH MARGIN HATCHING EGGS PRODUCTION AND DIVERSIFYING INTO PORK SEGMENT AND HOReCA SECTOR, THE COMPANY IS DESTINED FOR GROWTH ON INCREASED DEMAND BOTH LOCALLY AND FROM EXPORT.

BULGARIA'S BIGGEST VERTICALLY INTEGRATED POULTRY PRODUCER

Established in 1992, Gradus is the biggest vertically integrated poultry producer in Bulgaria with a 35% local poultry market share. With total gross built-up area of 500k m², it owns Balkan's biggest slaughterhouse with 8 000 chickens/hour capacity, 250+ broiler and parent breeding farms, three hatcheries and a grain storage facility with 95k tons annual fodder capacity.

FOCUSED ON HIGH MARGIN EXPORT-ORIENTED HATCHING EGGS SEGMENT

The Company is Europe's #2 hatching producer, delivering 120m hatching eggs and 40m 1-day chicks per year. The two subgroups contribute most to its bottom line as they deliver c.40% gross margin. Provides its customers hatching rates of 84%+, way above competitors' average of 70-75%. 80%+ destined for export in 10+ countries across Europe and the Middle East. Currently, unable to meet increased demand, Gradus seeks to invest BGN 20m of IPO proceeds to up capacity by c.20% to 140+m hatching eggs/year.

EXPANSION INTO PORK SEGMENT AND HOReCA SECTOR TO FURTHER DRIVE GROWTH

In 2016, it entered the highly competitive BGN 1bn pork market building up its own Az Yam brand. Currently producing 160 t/month, mainly sausages, with 600 t/month target by 2022. Aims diversification into high-end meat pork segment to up pork segment's gross margins to 25%. Plans expansion into growing HoReCa sector and introduce a new high-margin broiler to local market satisfying increasing high-end products demand.

HIGH BRAND AWARENESS WITH 100% LOCAL COVERAGE

Gradus has built a 99.8% local brand awareness, distributing 80% of its meat products in Bulgaria. Through its well-developed logistics network backed up by 33 specialized trucks and 50 non-specialized vehicles, it has 100% coverage of local retail chains in Bulgaria, present in over 5 000 small food shops.

TO BE THE SECOND BIGGEST IPO IN BULGARIA

Gradus' IPO, if successful, will be the second biggest IPO in Bulgaria ever. The company plans to raise BGN 100m+ by issuing 27.8m new and placing 27.8m existing shares at a price range of BGN 1.80-2.35 per share valuing it post-IPO at a 9.7x - 12.8x FY2018 forward EV/EBITDA. Proceeds to go for increase in parent breeding capacity, equipment, working capital and marketing costs to expand hatching segment, pork portfolio, introduce new breed broiler and fund possible acquisitions.

EXCELLENT CORPORATE GOVERNANCE & MANAGEMENT

Founded by the brothers Ivan and Luka Angelov and still owned by them, the Company has gradually grown in size and products portfolio as a result of savvy management and BGN 120m+ investments in the last 10 years. Focused on expansion and diversification, the two brothers managed to scale-up their business, currently operating in five municipalities and employing more than 1 300 people.

VALUATION/RISKS

VALUATION: In order to arrive at Gradus' intrinsic value, we use a DCF and a peer valuation. Our valuation takes into account management expectations, yet with a discount and does not constitute a recommendation. **RISKS:** Slower economic growth; increased poultry competition from cheap exports; fierce competition in pork sector; possible disease breakout;

in '000 BGN, excl. ratios	2017P	2018F	2019F	2020F
Revenues	214 444	199 747	227 421	245 603
EBITDA	50 272	44 531	58 098	64 847
Net profit	39 651	28 520	38 007	43 417
EBITDA margin	21.34%	21.13%	24.21%	25.03%
Profit Margin	16.83%	13.53%	15.84%	16.76%
P/E	10.03	15.70	11.78	10.31
EV/EBITDA	8.85	9.74	7.96	7.13
ROE	14.68%	9.22%	10.64%	11.54%
ROA	12%	25.63%	29.75%	34.85%
EPS (BGN)	0.18	0.11	0.15	0.17

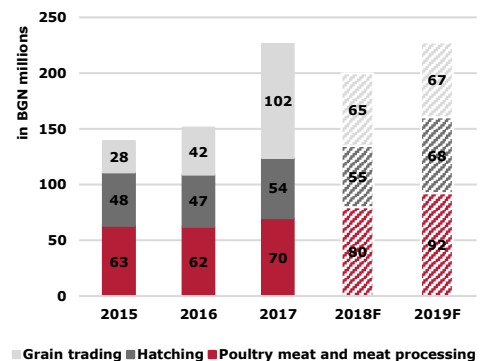
NOT RATED
INTRINSIC VALUE: BGN 2.11

EXCHANGE RATES
EUR/BGN (FIXED): 1.95583
USD/BGN: 1.66397

MARKET DATA

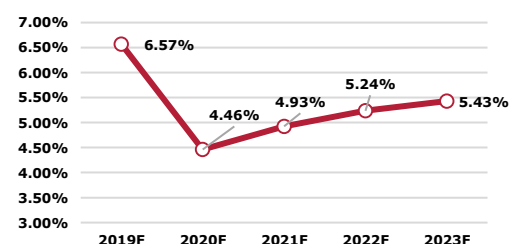
Shares Outstanding:	221m
Share Capital:	221m
Securities offering	55.6 m new and existing shares
Green shoe option	6.6m existing shares
IPO method	Auction; two days Market over Limit Orders; Time priority for Limit Orders
Allocation method	
IPO price range	BGN 1.80-2.35

DIVERSIFIED CORE REVENUE STREAM...



Source: Company Data; Elana Trading estimates

... WITH LUCRATIVE EXPECTED DIVIDEND YIELD



Source: Elana Trading estimates

EXECUTIVE SUMMARY

THE COMPANY

Gradus AD (The Group, the Company) is the biggest vertically-integrated poultry producer in Bulgaria. It is a holding company created in Nov'17 resulting from the merger of six firms operating across different segments of the poultry business production chain. The business was established 26 years ago by the brothers Ivan and Luka Angelov, who started off in the food retail sector, later transferring to the business of buying already grown broilers and producing poultry products under tolling agreements. Currently, Gradus works across the whole production chain from hatcheries and grain storage facilities, to broiler and parent breeding farms, across 500k m² of built-up area in five municipalities, employs 1 300+ people. It holds 35% of the local poultry market with 150+ products. In 2016, it entered the pork sector establishing its own Az Yam brand, currently offering 15 products.

Gradus' business can be divided into three main segments, namely poultry meat and meat processing, hatching and grain trading. The meat processing facilities have an annual capacity of 30k tons of processed product, with 11 million broilers produced and processed and 1 400 tons of pork sausages produced in 2017. The hatching segment consists of hatching eggs and 1-day broilers, the former delivering 120 million eggs and the latter – 40 million 1-day chicks. #2 producer of hatching eggs in Europe, Gradus has achieved record high average hatching rate of 81%, outpacing the industry average of c.70-75%. Grain trading segment supports fodder production, 90% of which is used internally. It is also a revenue driver as the Company supplies grains to international players such as Cargil, Glencore, Bunge, ADM, etc., as well as local export-oriented grain trading companies.

Gradus' meat production is made of 90% refrigerated and 10% frozen products. More than 80% of the meat production is sold on the local market, c.10% is sold to neighboring countries and c.10% frozen products are shipped to far-away destinations, among which the Middle East. Approximately 80% of the hatching segment's production is destined for export to 10+ countries in Europe, the Commonwealth of Independent States (CIS) and the Middle East.

Gradus focuses mostly on high-margin branded products and throughout the years it has built a 99.8% brand awareness on the local market. Its well-developed distribution network served by 33 specialized trucks and 50+ non-specialized vehicles covers 100% of local retail chains and 5 000+ small food shops across Bulgaria.

Revenue generators: Gradus has a well-diversified revenue mix, with the meat processing segment generating an average of 40-45% of the Group's revenues, the hatching segment delivering approximately 30-35%, and grain trading adding c.20-30% to the top line. As local imports have started to decrease, the Company plans to increase both branded and unbranded poultry production as well as take advantage of its c.65% free pork meat processing capacity boosting both short and long-shelf life pork products, the latter to make up 50-50% of the pork production by 2022. As Bulgarians' disposable income is growing and people seek high quality food, Gradus targets entrance to the HoReCa sector (supplying Hotels, Restaurants and Cafes) and introduction of a new broiler breed (Le Poulet), which will both add to top line.

Focused on profitability: About 50% of the Company's gross profit comes from the hatching segment, the latter's gross profit margins averaging c.40% for the last three years. The 1-day broilers offer the highest gross margin, reaching up to 50%. As Gradus' strategy aims at building on its high-margin products, the Company plans to increase by 25% its parent breeding capacity to produce additional 25-35 million hatching eggs and use the remaining c. 30% free capacity of its hatcheries for 1-day chicks. The bottom line is also boosted by branded poultry and pork portfolio and is to expand on higher margin Le Poulet and HoReCa products.

Throughout the years Gradus has been able to build a well-diversified business, investing more than BGN 120m for the past 10 years, keeping healthy debt levels, with currently no long-term debt. The latter, backed by stable revenues coming from all its operating segments as well as planned expansion of its high-margin products will enable the Group to distribute 54% of its income in the form of dividends starting from 2019. The Company aims at sustaining a healthy 5% dividend yield which will rank it among top dividend players on the Bulgarian Stock Exchange if upcoming IPO is successful.

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. The current political situation is stable, with no political surprises expected in the short term, yet mid to long term turbulences are possible as structural reforms remain on the agenda. The Bulgarian economy booked 3.6% y/y real GDP growth in 2017, 2018 consensus estimates point to 3.8% y/y GDP growth. Unemployment is at its lowest level in 9 years, disposable income rising fast. EU third lowest debt level with government in 2017 debt standing at 25.4% of GDP.

Poultry and pork consumption in Bulgaria have been increasing since 2007, with poultry consumption reaching 12.4 kg/capita in 2017, far behind EU average of 23.8 kg/capita. Pork consumption stood at 24 kg/capita in 2016 compared to EU average of 32 kg/capita. Due to EU regulations, the Bulgarian state covers 100% of poultry producers' losses in case of disease outbreaks. It also pays out subsidies for welfare animal treatment which are renewed every five years.

SOME RISKS

Slower economic growth and decrease in disposable income; increased competition in the poultry sector from exports; fierce competition in local pork sector; possible disease outbreaks may hurt reputation and slowdown growth, although for a short period;

COMPANY OVERVIEW

Gradus AD was established in 2017 as a holding structure, encompassing six companies operating across the poultry production chain. The business dates back to 1992 when it was set up by the Angelov brothers. Gradus’ subsidiaries own and manage two parent breeding farms complexes, four broiler farms complexes, three hatcheries and a feed mill with a grain storage. The production facilities are spread across five municipalities, namely Stara Zagora, Yambol, Chirpan, Haskovo and Ruse.

Biggest vertically integrated poultry producer in Bulgaria

Gradus is the biggest poultry producer in Bulgaria offering a diversified portfolio of 150+ poultry products, ranging from whole fresh and frozen chickens, chicken cuts, chicken delicacies, chicken sausages, ready-to-cook chicken meals and minced meat, among others. The Group also specializes in the production of hatching eggs and 1-day broilers, 80%+ of which are exported. It provides its customers with extremely high hatching rate of 84%, guaranteed in its sale contracts. In 2016, it also entered the pork meat sector, currently producing 15 pork products under its Az Yam brand.

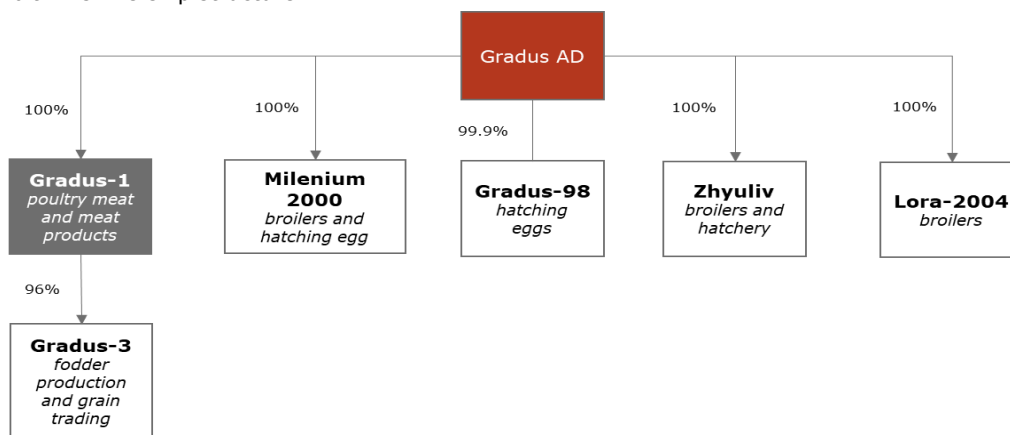
The Group’s business model is optimized covering the whole poultry production cycle. Gradus is among Bulgaria’s biggest fodder producers, with a 95k tons annual fodder capacity used mainly internally and a storage capacity of 90k tons. The Company imports parent chickens from two of the world’s leading breeds – the Ross and the Cobb breed. The parents are raised in Gradus’ parent breeding farms located in Yambol and Ruse, where the Company has more than 120 production halls. The current number of parent flocks provides for yearly maximum production capacity of 120 million hatching eggs. Its hatcheries have the capacity to produce 53 million 1-day broilers. As a result of good farming conditions and care of chickens, Gradus has managed to achieve higher hatching rates (average 81%) than the ones guaranteed by the American parent flocks producer, giving it a competitive advantage.

The Company has an annual production capacity of 13 million broilers raised in its fattening farms located in Yambol, Chirpan, Ruse and Nova Zagora. The grown broilers are being fattened for a period of 42-44 days after which they are transported to the slaughterhouse in Stara Zagora. The latter has an 8 000 chickens/hour capacity, making it the largest slaughterhouse on the Balkans. For the production of its pork products, the Company imports pork, which is processed in the pork processing plant, currently working at c.35% of its capacity. In 2017, the first full pork production year, Gradus produced 1 400 tons of pork sausages and processed 11 million broilers. Overall, the Company’s meat processing facilities have an annual capacity of 30k tons of processed meat.

Gradus also receives subsidies from the Bulgarian state for welfare animal conditions that are renewed every 5 years. The Bulgarian state covers a 100% of losses in case of poultry disease outbreaks, offering a safety net for Gradus. In addition, as the Company’s facilities are spread across five municipalities, the possibility for a disease spread is further restricted.

The Group has several certifications, including certificate for management, quality and food safety, namely IFS 6:2012, ISO 9001:2015, ISO 22000:2005. In addition, Gradus has a halal certificate, enabling it to export poultry meat products to Muslim countries.

Exhibit 1: Ownership structure



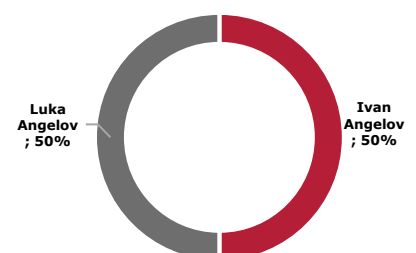
SHAREHOLDERS’ STRUCTURE

Gradus’ share capital amounts to BGN 221m and consists of 221m million outstanding ordinary share with a nominal value of BGN 1 per share.

Outstanding shares: 221 million

The holding company is owned by its original founders Ivan and Luka Angelov. The two brothers have been the owners of the companies constituting the holding company for more than 25 years.

Post-IPO, given there is a 100% placement, Gradus will increase its capital to 248.8 million shares, with its free float reaching c.25%.



POTENTIAL CATALYSTS

EXPANDING HIGH MARGIN HATCHING EGGS BUSINESS: Gradus provides high hatching rate of 84% which has led to selling its hatching eggs production for two years ahead (2019-2020) and finding it hard to keep up with the strong demand from foreign customers. As a result, the Company is set on expanding its high margin hatching eggs business by 15-20% and filling the current excess capacity in its hatcheries. It plans to invest BGN 20m in the increase of its parent breeding capacity to bring additional 20.5m+ hatching eggs per year.

TAPPING ON HIGH-MARGIN PORK PRODUCTS: Bulgarians' high demand for pork as well as the higher margins offered by pork products with longer shelf life, are the driving forces of Gradus' planned pork expansion. Taking advantage of its well-developed distribution network, 65% unused pork production capacity and high local brand recognition, Gradus is set to build on its Az Yam pork portfolio adding higher margin long-shelf-life products, increasing 5x its pork production in the midterm to 7 200 tons per year in 2022.

INTRODUCTION OF A NEW BROILER BREED: Increasing disposable net income coupled with Bulgarians' strive for healthier diet have led to Gradus' decision to build on its poultry portfolio by introducing a new broiler breed. The latter will be raised in more spacious halls with different feeding regime allowing for twice longer period of fattening compared to regular broilers. The latter to bring additional BGN 7.5m to top line by 2022.

ENTERING THE HIGH PROFIT HORECA SECTOR: High competition in the tourism sector in Bulgaria has led to increased demand for higher quality meat products. Hotels and restaurants look for well-flavored and equally quantified steaks to offer to their clients. This demand and the lack of strong supply by current competitors has urged Gradus to enter into this higher margin sector, which is expected to add BGN 10m in revenue by 2020.

SECTOR OVERVIEW

THE LOCAL POULTRY AND PORK PRODUCTS MARKET

With rising disposable income, consumption of poultry and pork meats has been steadily on the increase since 2007. Traditionally, the leading position in terms of consumption is being held by pork with average 24 kg/person consumed in 2016, growing at 6.5% CAGR for the past 10 years.

However, poultry consumption has been fast to gain share, growing at 3.6% CAGR in the past 5 years, following the EU trend. This is due to rising global desire for a healthy lifestyle, combined with its relatively lower price compared to other meat. Consistent rise in supply of poultry is the reason for the drop in prices with expectations to remain at their current level of BGN 4.70 per kg in the next 3 years. Production is estimated to grow at 18% CAGR by 2022, with internal consumption to surpass 95k tons by 2022.

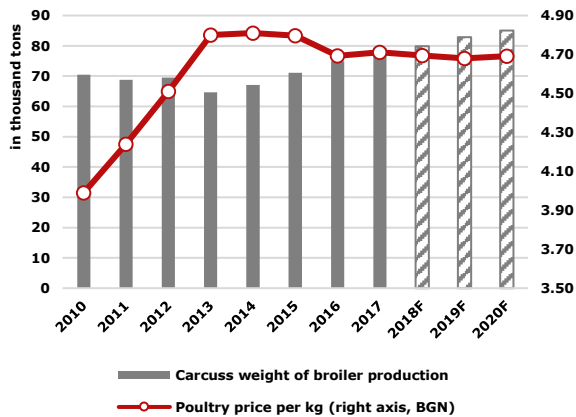
Local poultry products market is quite competitive mainly because of the cheap and volumetric imports. The latter are sold in the no-name segment where margins are thin. There is also illegal import of poultry meat which is hard to be measured. However, in the past couple of years, import has started losing momentum due to Bulgarians' substituting frozen products with chilled ones. The latter have shorter shelf life and are hard to import, opening market share for local companies. Local players include a couple of companies, with Gradus being on the lead with a 35% market share. Its biggest local competitor is Ameta Holding with its branded chicken 'Ludogorsko Pile', the latter holding some 30% market share. A competitor on the high-end poultry meat market is the company producing broilers under the name Duke, which however has a small market share (c. 2%).

Annual pork consumption is expected to increase up to 28 kg/person by 2022. This is very close to current EU average of 32 kg/person. With pork traditionally dominating the meat market in the country, the sector is already witnessing saturation with fierce competition at play. Among the main producers are Bella, Tandem, Bonni and Ken, with monthly production levels ranging from 500 to 1 000+ tons. Pork products market can be divided into two main segments – short- and long-shelf life pork products. According to national statistics, Bulgarians consume on average 6.0 kg of long- and 23 kg of short shelf-life pork products. Competition in the long-shelf-life pork products is much higher with a trend of customers following the brand, thus there is no distinct market leader. The latter makes it extremely important for local producers to build good reputation and gain customers' loyalty. With increase in disposable income, long-shelf-life pork products are expected to experience higher demand in the midterm compared to short-shelf-life ones which have been declining for the past six years, with only 2017 showing growth. The prices per kg for products with both short and long shelf-life have been rising in the last 8 years and are expected to continue doing so in the next three years.

Local poultry yearly consumption almost twice lower than EU - 12.4 kg/person annually

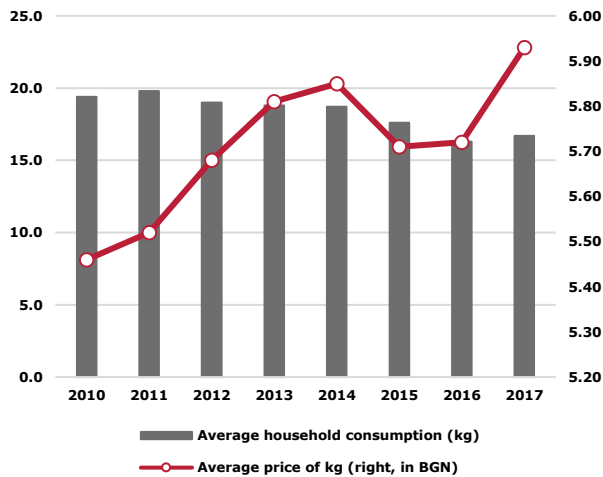
Pork is still number one meat consumed by Bulgarians - 24 kg/person annually

Exhibit 2: Broiler production expected to grow...



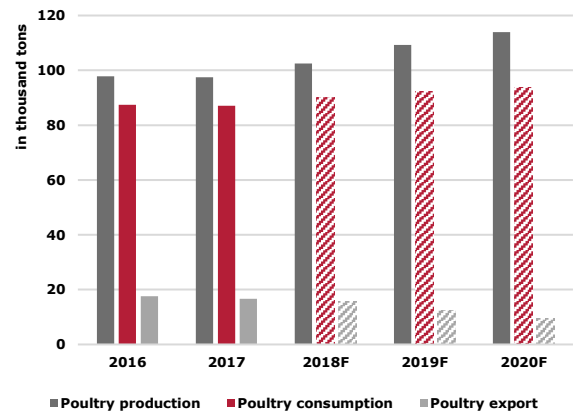
Source: National Statistics Institute; Ministry of Agriculture and Food

Exhibit 4: Short-shelf-life pork products consumption is declining on increased income...



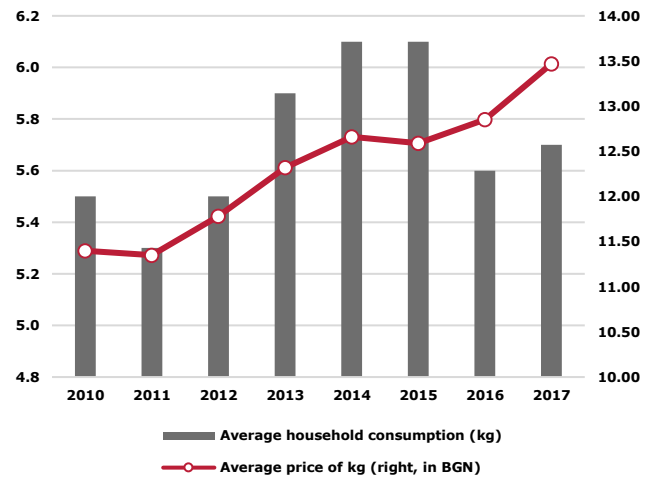
Source: National Statistics Institute

Exhibit 3: ...with increase in poultry consumption to follow, while imports to shrink



Source: Center for Agri-policy Analysis (CAPA)

Exhibit 5: ...while long-shelf-life pork products consumption fluctuating with expectation to increase



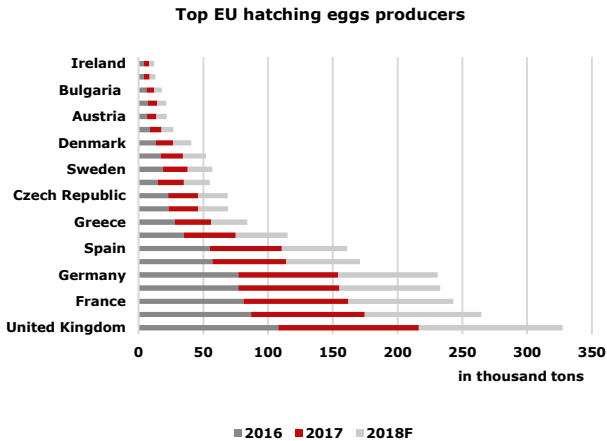
Source: National Statistics Institute

Local hatching eggs business is rather small with Gradus producing c.100% of hatching eggs. Official data statistics point to stable production levels with Bulgaria producing c. 6 000 tons of hatching eggs in 2016 and 2017. Eurostat projects 6 000 tons for 2018, as well. Of these, more than 50% are being exported, Gradus being the only exporter.

Gradus is Bulgaria's only hatching eggs exporter

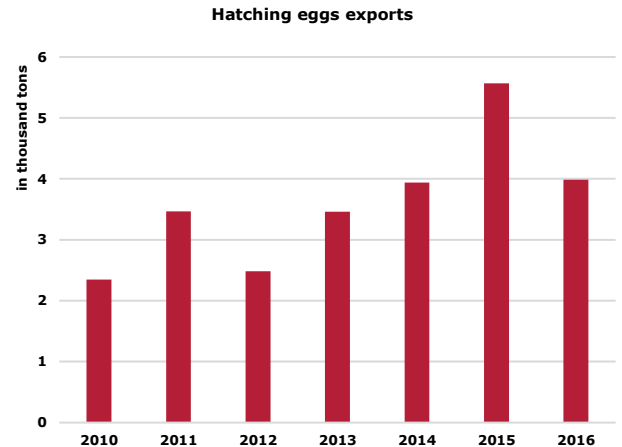
Local companies operating in the HoReCa (Hotels, Restaurants and Cafes) sector are increasingly demanding higher quality poultry products. This is specifically true for hotels and restaurants seeking to provide premium service or by the ones pushed by external management (franchise operators) to do so. It is a niche market in Bulgaria with a few distributors operating in it. However, upholding standards for quality is an issue for many of them. Renewing certificates for quality once they expire is quite costly, which is why many of the distributors cannot afford to do so, leaving potential for new entrants.

Exhibit 6: Stable hatching eggs production forming small part of EU total production...



Source: Eurostat

Exhibit 7: ...with 50%+ of local hatching eggs destined for export



Source: National Statistics Institute

THE GLOBAL POULTRY AND PORK PRODUCTS MARKET

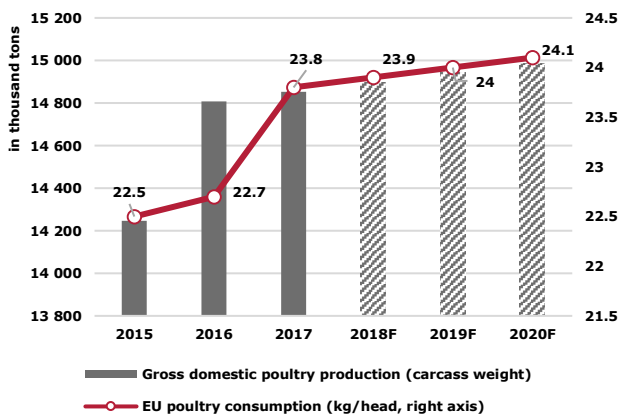
Global meat production has been growing slowly with latest statistics for 2016 showing the second lowest annual increase of 1% y/y for the last decade, as reported by the Association of Poultry Processors and Poultry Trade in the EU Countries (AVEC). According to the latter, expansion came from increase in poultry and bovine meat production, while pork and sheep production declined. Yet, meat sector's outlook is predicted to be favorable as feed grain prices are to remain low, leading to 13% increase in production in 2026 compared to 2016. Main growth driver will be poultry, with strongest growth contributors to be developing countries. Meat prices in real terms, however, are expected to trend downwards. Global meat consumption is projected to rise at 1.5% per annum by 2026 on growing world population. Pork meat consumption, however is to decline on a per capita basis because of change in eating habits, as well as environmental concerns related to greenhouse gas emissions during production.

Poultry production to drive growth until 2026

Globally, poultry meat production is increasing due to its comparative advantages of affordability, absence of religious guidelines limiting consumption, healthy image, limiting consumption, as well as limited green-house emissions. In the EU, poultry production will continue to grow at CAGR 2.3% reaching 15 million tons by 2026. AVEC projects the strongest increase for Hungary, Poland and Romania – 1.3% per year – on sustained productivity gains and investments. On the consumption side, poultry is currently consumed at an average 23.8kg/capita for the EU, expected to grow by 0.3% annually until 2026. Expected growth in EU production, coupled with high competition from Brazil and the USA, are expected to push prices down, yet the latter will recover by the end of 2020.

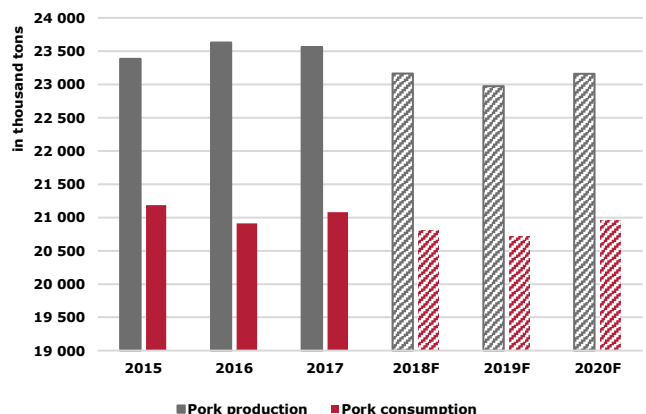
Poultry meat imports are to stay strong adding 2.4% annually over the next 10 years, yet staying lower compared to 4.4% annually over the 2006-2016 period.

Exhibit 8: EU poultry consumption to grow rather slowly



Source: AVEC

Exhibit 9: EU pork production and consumption to decline



Source: Statista

SUBSIDIARIES OVERVIEW

The holding company Gradus AD was created in Nov'17 to hold six companies operating in different processes along the poultry production cycle. These are Gradus-1, Milenium 2000, Gradus-98, Zhyuliv, Lora-2004 and Gradus-3. The holding company has 100% stakes in all of them with the exception of Gradus-3, in which it has a 96% stake, the remaining 4% held directly by Luka and Ivan Angelov. The subsidiaries engage in the following activities:

Six companies operating along the whole poultry production cycle

- Milenium 2000 – parent chicken breeding
- Lora-2004 – broiler fattening
- Gradus-1 – production of meat and meat products; transportation services for all other subsidiaries, with the exception of Gradus-3;
- Zhyuliv – hatching of 1-day chicks and broiler fattening;
- Gradus-98 – raising of parent chickens and production of hatching eggs;
- Gradus-3 – fodder production and grain trading.

As most of the companies' operations are inter-related, for the purposes of the financial analysis we will cover the holding company's operations by segments, namely grain trading, hatching eggs production and poultry meat and meat processing.

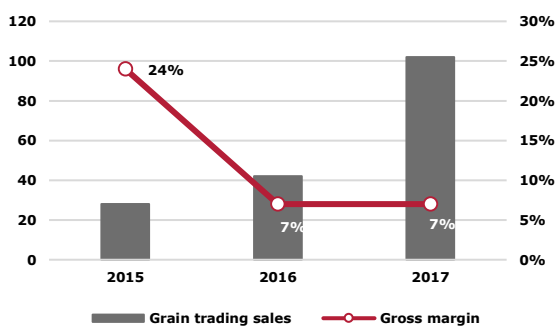
SEGMENTS' OVERVIEW

GRAIN TRADING

The company owns the biggest fodder production plant in Bulgaria with a total annual capacity of 95k tons, currently utilized at c. 80%. It buys all grains and processes them for both internal use and trade. About 90-95% of the fodder production is used internally as food for the parent chickens and for fattening the broilers. The Group has a total grain storage capacity of 90k tons which provides a safety net in times of price fluctuations and opens opportunity for grain trading. Grains, including wheat, rapeseed and coriander, are purchased from local farmers and traders and sold to international players, among which Cargil, Bunge, ADM, Glencore, etc. This includes mainly sale of sunflower and wheat. Having established long-term relations with local producers, coupled with its good geographical position close to major railways, the Company is able to supply foreign clients and local export-oriented traders with big volumes, competing with country's major grain traders. Being a trading activity, the segment adds most to the top line with very low effect on bottom line, typical gross margins ranging 5-7%. Dependent on yearly agriculture production and global grain prices, revenues may fluctuate considerably. The management does not envision any future operational changes or planned investments for this segment.

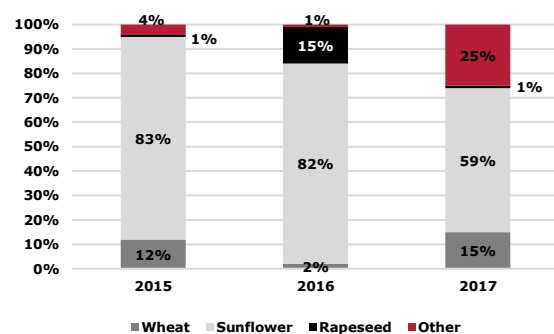
Owns the biggest fodder production plant in Bulgaria

Exhibit 10: Grain trading sales have high fluctuations...



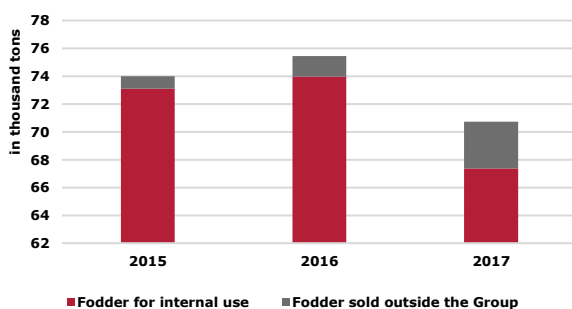
Source: Company data

Exhibit 11: ... mostly focused on sunflower seeds



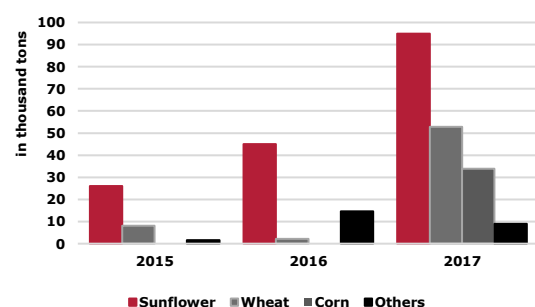
Source: Company data

Exhibit 12: Major part of fodder is used internally



Source: Company data

Exhibit 13: Sales vary on volumes produced and prices fluctuations



Source: Company data

HATCHING EGGS

The hatching eggs business includes the production of hatching eggs and 1-day broilers. The Company uses Hungary-imported parent flocks, mainly of the breed Ross 308 which are raised in two breeding farms in the municipalities of Yambol and Ruse. The facilities have a capacity of 445k growing-up chickens and more than 830k parent chickens. Hatching rates depend on the chickens' age. Fertility period starts in the 27th week with hatching rates gradually increasing until the mid-30 weeks and then starting to decline, plummeting in the 61st week. The baseline technology which is used for raising the breed envisions the production of 168 eggs per chicken per cycle, however Gradus has achieved a higher rate of 178 eggs per chicken per cycle. The latter is possible due to Gradus' successful breeding practices coupled with the good living conditions of the chickens. As a result, Gradus reports an average hatching rate of 81%. The Company's vertical integration enables it to use internally the eggs with lower hatching rates and to sell only the best quality to its customers, the hatching rate of exported eggs being 84%+ (reaching 90%). The minimum of 84% is guaranteed in its supply contracts, making it a preferred supplier.

Exported eggs with top industry hatching rates of 84%+

Apart from being a leader in terms of hatching rates, the Company is also Europe's second largest hatching eggs producer, following German Wimex. Gradus does not have direct competitors on the Bulgarian market as the nature of the business is quite capital-intensive, setting high barriers to entry.

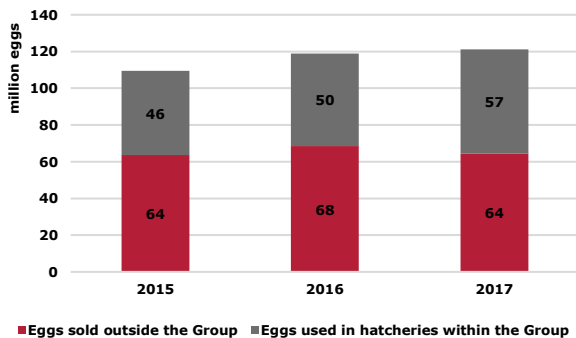
The Company keeps about 45% of the hatching eggs for internal use, with 10 to 13 million eggs used annually for the production of broilers for internal use and the remaining hatched into 1-day broilers for export. The other 55% of hatching eggs are sold, of which 80% destined for export. Among the main export markets for hatching eggs for the past three years are Iraq, Ukraine and Greece as well as neighboring Romania and Greece. Due to the unrivalled hatching rate, the Company attracts high number of purchases with demand exceeding substantially production. Currently, it has pre-sold expected production for two years ahead as it is working at 100% of its 120 million eggs breeding flocks' capacity.

Hatching eggs business delivers extremely high gross margins of c.40%

Almost 90% of the 1-day broilers sales are realized outside Bulgaria. Romania is the biggest market with 88% of production sold there. Other export markets include Greece, Kosovo and Albania. Export is restricted to a couple of days travel due to 1-day chicks' fragility.

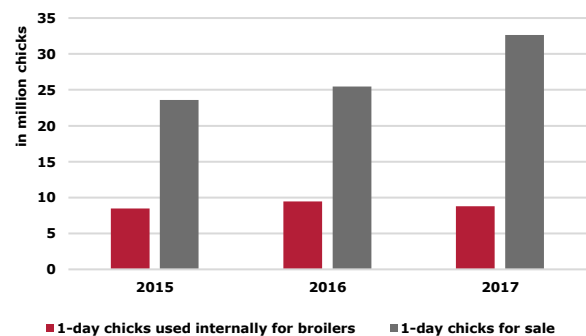
The hatching eggs segment generates c.30% of the Group's revenues. It is definitely its crown segment as it offers an average gross margin of c.40% based on 2015-2017, with 1-day broilers delivering almost 50% gross margin alone. With increasing demand and full capacity utilization, Gradus has set its focus on expanding this branch of the business.

Exhibit 14: About 55% of hatching eggs are sold...



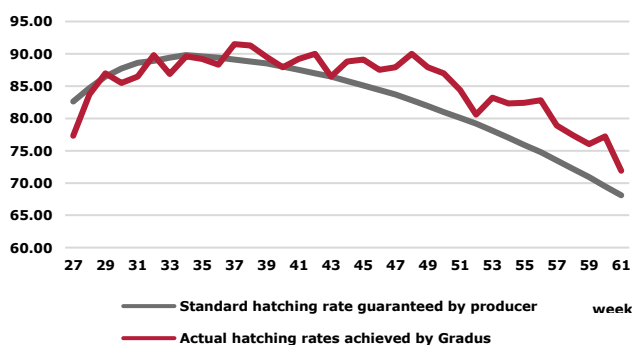
Source: Company data

Exhibit 15: ... with the remainder hatched into 1-day chicks



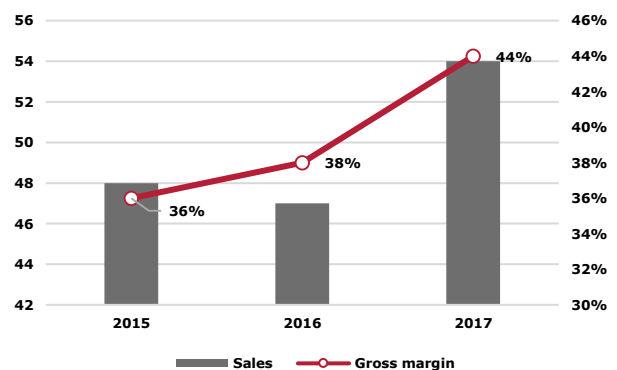
Source: Company data

Exhibit 16: Hatching rates surpass rates guaranteed by producers in most of hens' fertility weeks



Source: Company data

Exhibit 17: Hatching segment adds most to the bottom line



Source: Company data

POULTRY MEAT AND MEAT PROCESSING

The biggest part of Gradus' top line, c.40%, is generated by its poultry meat and meat processing segment. Production includes whole broilers, chicken cuts and delicacies, as well as short and long shelf-life poultry meat products and as of mid-2016 – pork products. The Group focuses on branded sales, distributing its poultry products under the brand "Gradus" and its pork products – under the brand "Az Yam". The Company has also contracts with Bulgaria's biggest retail chains to sell poultry products under their brands, as well as unbranded chicken products. The latter two categories constitute 43% of sales in value for 2017.

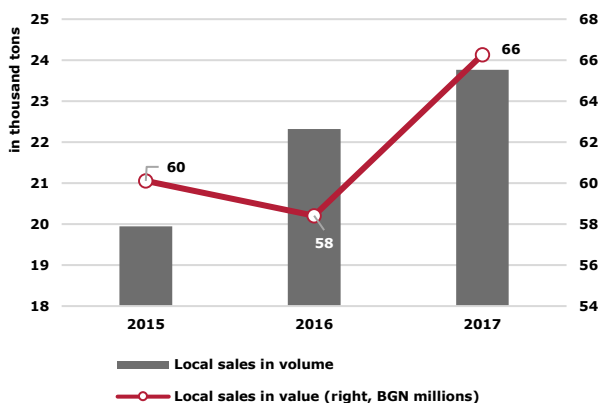
Gradus is the leader in local sales with 35% market share

About 80% of production is placed on the local market, with exports forming 15-20% of the whole production. The latter is due to the fact that the majority of Gradus' production is fresh or chilled and thus its shelf-life is quite short, usually 5-6 days, making transportation time a crucial factor. Thus, major export sales are generated in neighboring Romania, Macedonia, Greece and Cyprus. Small part of export sales come from frozen products destined mainly for the South Caucasus region and the Middle East. Demand for frozen products is not that strong in Europe as customers seek predominantly fresh or chilled poultry meat.

Since 2016, the Company entered into the pork segment with the introduction of both short- and long-shelf life pork products. FY2017 was the first full production year, Gradus generating BGN 6.3m from pork products. As the latter offer higher margins, the Company has decided to further diversify its pork portfolio focusing more on long-shelf life products, the latter to constitute 50% of all pork product by 2022. The result will eventually boost its bottom line.

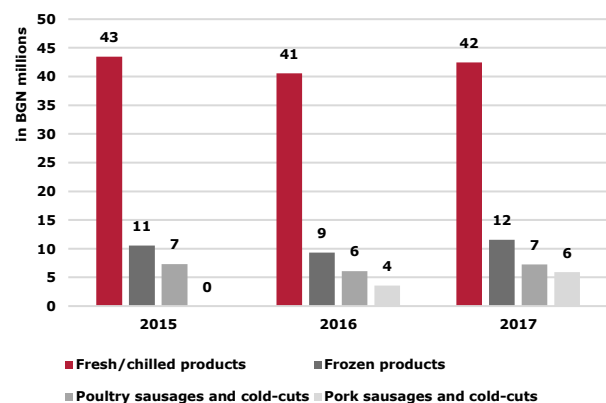
The Group realizes its meat production through well-developed distribution channels. It currently works with all international supermarket chains present on the Bulgarian market, as well as wholesalers of food production giving it outlet to more than 5 000 retailers across the whole country. As of now, the Group also does business with 45 regional distributors.

Exhibit 18: Local sales volumes expand with prices recovering from imports' pressure in 2015 and 2016



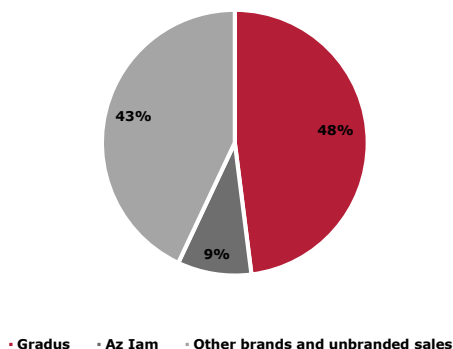
Source: Company data

Exhibit 19: Increase in revenues driven by product diversification



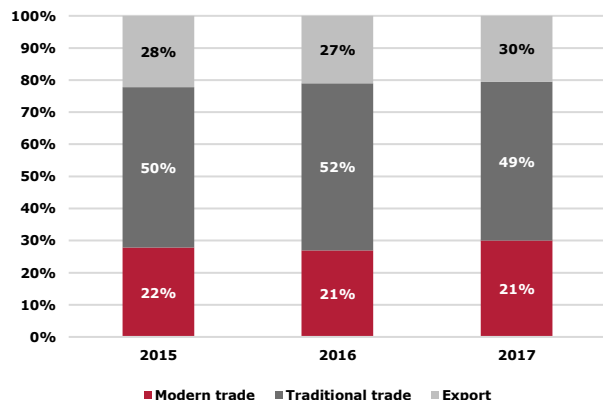
Source: Company data

Exhibit 20: High-margin branded sales are number one contributor to meat products revenue



Source: Company data for 2017

Exhibit 21: Stable and well-diversified mix of distribution channels



Source: Company data

FINANCIAL ANALYSIS AND VALUATION

Gradus AD is a well-established vertically-integrated poultry producer with solid Bulgarian presence and good exposure on international markets. The Company is focused on poultry, seeking to expand its high margin hatching segment, yet it also targets diversification into the pork segment as well as entrance into the HoReCa sector. The Company's IPO will be a turning point in the development of its hatching eggs and meat processing segments as it will enable it to realize its investment plans in the next two years leading to core revenues expansion of c.30% until 2023.

In case of a successful IPO at the upper price range (price range to be set between BGN 1.80 and BGN 2.35), Gradus will raise BGN 64m which will be invested. The Company has prioritized its investments depending on the amount to be raised. Priority is given to expansion of breeding capacity (BGN 15m), marketing and working capital for the development of Az Yam portfolio (BGN 6.7m) as well as diversification of poultry products (BGN 4.5m) and capital expenditures, including purchases of specialized vehicles, energy efficiency and an ERP system (BGN 6.2m). Secondary in the investment list are CAPEX in additional expansion of breeding capacity (BGN 5m), machines and working capital for entering the HoReCa sector (BGN 5.8m), pork freezer facilities (BGN 10m) and capital for brands acquisitions (BGN 11m). In addition, Gradus is financing with own funds a BGN 8m broiler breeding facilities repair works related to the expansion of broiler capacity. The latter is related to the introduction of the high margin Le Poulet chicken. These investments are expected to scale up the top line but also affect bottom line as the Group will forfeit its cost advantage as forecasted by the management.

To come up with an intrinsic value for the Group we use the discounted cash flow (DCF) model coupled with a peer valuation. The DCF is based on the Group's revenue generators, namely the hatching segment, poultry meat and meat processing segment and grain trading segments. For the peer valuation we use companies operating in the poultry and meat processing sectors. All estimations are based on 100% IPO placement at the min. BGN 1.80 price per share.

FINANCIAL PERFORMANCE ANALYSIS

Gradus was established in Nov'17 to hold the poultry and meat processing business of the Angelov brothers, holding six companies operating across the poultry production chain.

Based on 2015-2017 pro-forma group revenue, i.e. given the holding company existed over the past three years, its CAGR would have been 27.4%. Yet, during this period, revenues varied substantially. Since 2014, Ukrainian crisis and EU sanctions on Russia had a negative impact on Gradus' business in a two-dimensional way. First, foreign competitors pushed prices down in Gradus' export markets and second, cheap imports from Poland and other EU countries which traditionally export to Russia flooded the Bulgarian market, driving local prices down. In 2017, the latter stabilized, almost reaching their pre-crisis level, leading to top line improvement. Last year also saw record sales from grain trading, which substantially distorted the usual revenue mix.

Furthermore, merging the six subsidiaries into a holding structure involved several one-offs, which led to boosting 2017 top and bottom lines. These included a BGN 5.5m dividend revenue resulting from the separation of Angelov brothers oil business from Gradus-1 subsidiary as well as a BGN 4.5m gain from revaluations of investment properties that were rented outside the Group prior to the merger. Other income in 2017 was also boosted by one-offs related to sales of agricultural land (BGN c.8m for Milenium). Based on the latter, we provide lower estimations for other income in the next six years.

Despite difficulties posed by the Russian and Ukrainian crisis in the increased pressure from foreign competitors, Gradus' business managed to keep its high profitability level, delivering an average EBIT margin of 16.6% over the past three years. The latter was due to good product and market mix providing stable cash flows, thus leading to better results compared to local competitors which are not that well diversified. With significant IPO funding and already improved market conditions, Gradus' management expects to continue growing the top line easily at CAGR of 12%, doubling its sales by 2022 on product diversification and expanded production capacity. We are slightly more conservative on the top line expansion and expect CAGR of 10% over the next five years.

During the 2014-2016 period Gradus has also outperformed the domestic market in terms of EBITDA and net profit margins. The Group delivered 18.8% average EBITDA margin in 2014-2016, which is 75% higher than the market average of its closest competitors, and 14.6% average net income margin - 85% higher than local market average.

Profitability, however, will be affected going forward due to higher depreciation costs on increased CAPEX, as well as higher marketing costs related to pork brand and HoReCa expansion, starting as early as 2018 and being more intensive during the initial investment years 2018-2020. We also provide for a 9-10% annual growth in salaries as labor costs in Bulgaria have been gradually increasing over the past ten years and we expect this to continue during the projected period. Cost of materials should also be on the upside as the Company will increase its pork purchases on Az Yam brand expansion.

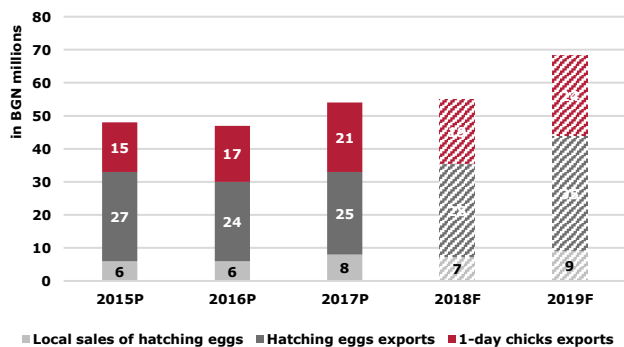
Prices have almost recovered post-Ukrainian crisis and EU sanctions on Russia

Profit margins to narrow due to intensive CAPEX

Thus, based on management margin guidelines, we expect EBITDA margin and net income margin to be lower vs. historical average in the initial years and then revert to historic levels. In line with FY'2017 results, we expect 21% EBITDA margin and 13.5% net profit margin in 2018. Going forward, return on sales investments shall bring profitability to a 25% average EBITDA margin and 16.5% average net income margin.

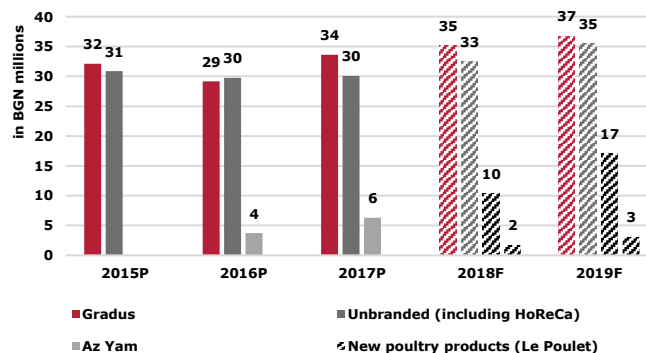
	2017P	2018F	2019F	2020F
Number of Shares, year end	221 000	248 778	248 778	248 778
Intrinsic value per share	2.11	2.11	2.11	2.11
Value to minority shareholders ('000 BGN)	466 811	525 486	525 486	525 486
Revenues ('000 BGN)	235 610	210 733	239 930	259 111
P/S	1.98	2.49	2.19	2.03
Equity ('000 BGN)	270 099	348 619	366 102	386 074
P/B	1.73	1.51	1.44	1.36
EBITDA ('000 BGN)	50 272	44 531	58 098	64 847
EV/EBITDA	8.85	9.74	7.96	7.13
Net Profit ('000 BGN)	39 651	28 520	38 007	43 417
P/E	11.77	18.43	13.83	12.10
ROE	14.7%	8.2%	10.4%	11.2%
ROA	11.7%	7.0%	8.8%	9.6%

Exhibit 22: Hatching eggs segment's top line to expand on increased export...



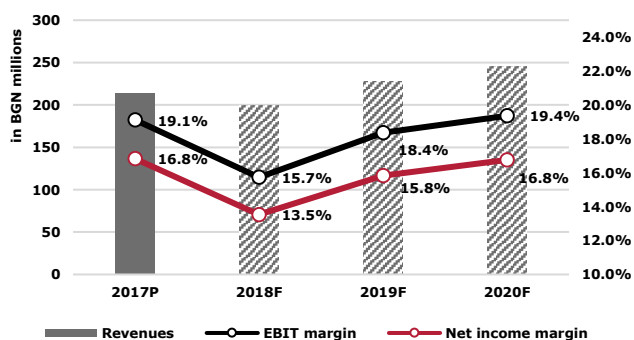
Source: Company data; Elana Trading estimates

Exhibit 23: ...while meat processing segment's sales to advance on increased production and diversification



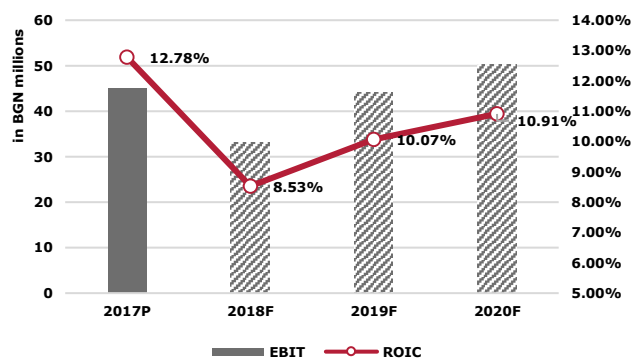
Source: Company data; Elana Trading estimates

Exhibit 24: Margins to start recovering in 2019...



Source: Company data; Elana Trading estimates

Exhibit 25: ...as higher ROIC kicks in



Source: Company data; Elana Trading Estimate

VALUATION OF GRADUS AD

To extract the most proper value to a minority shareholder in Gradus we use both the discounted cash flow model and peer valuation when arriving at its fair value per share.

When doing the DCF model we take into consideration management's CAPEX and sales forecast. However, we are more conservative on top line growth projections in the grain trading and meat processing segments. First, in the grain trading segment, we discount management's expectations on sales growth due to the high level of unpredictability of demand for grains and movement of global grain prices. Second, we are inclined to forecast a bit less revenue and more gradual annual sale growths in the meat processing segment. Although poultry imports are on the decline, opening venue for local producers, competition in the unbranded poultry sector is high and we expect other players to take

part of the market share as well. Additionally, in its pork sales projections the Company has included revenues from M&A activities. As we cannot measure the latter correctly, we base our analysis entirely on organic growth. We also add a slower growth rate for the Az Yam products as the brand is yet to build its position in the long-shelf life pork products where clients usually stick to their preferred brands.

We are a bit more conservative on the gross margins as well. This is related to the fact that hatching eggs segment's prices have almost stabilized after the Ukraine-Russian crisis and historically have been rather stable so we expect them to grow slowly. Moreover, high-margin long-shelf life pork products are yet to show results on the Group's profitability, making us more cautious about their contribution to overall margins.

We expect weaker FY2018 and FY2019 in terms of profitability due to implementation of the Company's investment program and increased marketing costs targeting the expansion of its Az Yam and HoReCa products. We expect profitability to start normalizing in 2020 onward to reveal the real earnings power of the group.

We use a conservative cost of capital to arrive at an intrinsic value for the Group by taking into account Bulgaria's risk free rate measured via its 10-year international bonds yield and conservative sector market risk premium. To be further on the safe side, we add a country risk premium to get 8.26% cost of capital.

We also present a peer valuation based on global, Western, Central and East European peers. We have chosen a wider peer group as Gradus' business is quite peculiar in terms of product mix and there are very few listed regional companies which can be taken as peers. Our valuation guideline are the median EV/EBITDA and P/E multiples as we believe they are most representative for the industry. The peer multiple comparison yields BGN 1.43 per share fair value for Gradus' stock.

As the selected peers are not perfect matches for Gradus, we allocate a 40% weight of the peer-derived value in the final valuation of the Group, and 60% of the DCF model. Thus, we arrive at BGN 2.11 conservative intrinsic value per share of Gradus.

DCF MODEL

KEY DCF ASSUMPTIONS

Poultry meat and meat processing sales (in '000 BGN)	2015	2016	2017	2018F	2019F	2020F	2021F	2022F	2023F
Gradus	32 130	29 140	33 600	35 179	36 762	38 417	40 145	41 952	43 840
<i>growth rate</i>		-9.3%	15.3%	4.7%	4.5%	4.5%	4.5%	4.5%	4.5%
Az Yam (pork products)	0	3 720	6 300	10 320	17 028	23 220	25 800	29 040	31 680
<i>growth rate</i>			69.4%	63.8%	65.0%	36.4%	11.1%	12.6%	9.1%
New poultry products (Le Poulet)	0	0	0	1 720	3 090	4 720	6 600	7 000	8 000
<i>growth rate</i>		0.0%	0.0%	0.0%	79.7%	52.8%	39.8%	6.1%	14.3%
Unbranded (including HoReCa)	30 870	29 760	30 100	32 508	35 434	38 977	42 095	45 884	49 096
<i>growth rate</i>		-3.60%	1.14%	8.00%	9.00%	10.00%	8.00%	9.00%	7.00%
Total revenue from poultry meat and meat processing	63 000	62 000	70 000	79 727	92 314	105 334	114 641	123 876	132 615
<i>growth rate</i>		-1.6%	12.9%	13.9%	15.8%	14.1%	8.8%	8.1%	7.1%
COGS	48 510	51 460	56 700	64 579	73 851	83 214	89 420	96 623	103 440
Gross margin	23%	17%	19%	19%	20%	21%	22%	22%	22%

Hatching eggs sales (in '000 BGN)	2015	2016	2017	2018F	2019F	2020F	2021F	2022F	2023F
Local sales of hatching eggs	6 000	6 000	8 000	7 351	9 099	9 655	9 892	10 031	10 224
<i>growth rate</i>		0.0%	33.3%	-8.1%	23.8%	6.1%	2.4%	1.4%	1.9%
Hatching eggs exports	27 000	24 000	25 000	28 172	34 873	37 004	37 910	38 445	39 185
<i>growth rate</i>		-11.1%	4.2%	12.7%	23.8%	6.1%	2.4%	1.4%	1.9%
1-day chicks exports	15 000	17 000	21 000	19 497	24 135	25 610	26 236	26 607	27 119
<i>growth rate</i>		13.3%	23.5%	-7.2%	23.8%	6.1%	2.4%	1.4%	1.9%
Total revenue from hatching eggs segment	48 000	47 000	54 000	55 020	68 108	72 269	74 037	75 082	76 528
<i>growth rate</i>		-2.1%	14.9%	1.9%	23.8%	6.1%	2.4%	1.4%	1.9%
COGS	30 720	29 140	30 240	32 462	40 183	41 916	42 942	43 548	44 386
Gross margin	36%	38%	44%	41%	41%	42%	42%	42%	42%

Grain trading sales (in '000 BGN)	2015	2016	2017	2018F	2019F	2020F	2021F	2022F	2023F
Revenue from grain trading	28 000	42 000	102 000	65 000	67 000	70 000	71 000	72 000	72 000
<i>growth rate</i>		50.0%	142.9%	-36.3%	3.1%	1.5%	2.9%	2.9%	0.0%
COGS	21 280	39 060	94 860	61 750	63 650	66 500	67 450	68 400	68 400
Gross margin	24%	7%	7%	5%	5%	5%	5%	5%	5%

in '000 BGN	2017P	2018F	2019F	2020F	2021F	2022F	2023F
Sales	214 444	199 747	227 421	245 603	258 678	270 958	281 144
<i>y/y growth</i>	50.0%	-6.9%	13.9%	8.0%	5.3%	4.7%	3.8%
EBITDA	50 272	44 531	58 098	64 847	70 759	74 683	76 131
<i>EBITDA margin</i>	21.3%	21.1%	24.2%	25.0%	25.9%	26.1%	25.7%
Depreciation	-5 246	-11 386	-14 043	-14 687	-15 301	-15 851	-15 182
<i>% of tangible assets</i>	-3.1%	-6.0%	-6.5%	-6.5%	-6.5%	-6.5%	-6.0%
Investments	97 599	31 205	40 334	24 591	24 743	24 317	24 349
<i>% of sales</i>	45.5%	15.6%	17.7%	10.0%	9.6%	9.0%	8.7%
EBIT	45 026	33 145	44 055	50 160	55 459	58 832	60 949
<i>EBIT margin</i>	19.1%	15.7%	18.4%	19.4%	20.3%	20.6%	20.5%
Non-cash working capital	31 735	44 144	50 260	59 190	62 341	69 365	76 190
<i>% of sales</i>	14.8%	22.1%	22.1%	24.1%	24.1%	25.6%	27.1%
Change in non-cash working capital	28 385	12 409	6 116	8 930	3 151	7 024	6 825

WEIGHTED AVERAGE COST OF CAPITAL
Weighted average cost of capital

	2018	2019	2020	2021	2022	2023
Risk-free rate	1.80%	2.00%	2.50%	3.00%	3.50%	3.50%
Equity risk premium	5.84%	5.84%	5.84%	5.84%	5.84%	5.84%
Beta	0.68	0.68	0.68	0.68	0.68	0.68
Country risk premium	2.19%	2.19%	2.19%	2.19%	2.19%	2.19%
Cost of equity	7.96%	8.16%	8.66%	9.16%	9.66%	9.66%
Cost of debt	4.00%	4.50%	5.00%	5.50%	5.50%	5.50%
Effective tax rate	10%	10%	10%	10%	10%	10%
After-tax cost of debt	3.6%	4.1%	4.5%	5.0%	5.0%	5.0%
Weight of equity	86%	85%	86%	86%	86%	87%
WACC	7.36%	7.55%	8.07%	8.56%	9.01%	9.03%
Average WACC	8.26%					

DISCOUNTED CASH FLOWS

Gradus AD ('000 BGN)	2018F	2019F	2020F	2021F	2022F	2023F	2024T
EBIT	33 145	44 055	50 160	55 459	58 832	60 949	62 168
EBIT(1-T)	29 831	39 650	45 144	49 913	52 949	54 854	55 951
Add: D&A	11 386	14 043	14 687	15 301	15 851	15 182	
Less: Investments	31 205	40 334	24 591	24 743	24 317	24 349	
Less: Change NWC	12 409	6 116	8 930	3 151	7 024	6 825	
FCFF	-2 398	7 243	26 310	37 319	37 459	38 862	
Present Value Factors(WACC)	0.96	0.89	0.82	0.76	0.70	0.65	
PV FCFF	-2 305	6 430	21 572	28 264	26 204	25 110	
Sum of PV FCFF	105 274						
PV of Continuing Value	577 048						
Total PV Free Cash Flows	682 322						
Less: Outstanding Debt	46 890						
Add: Cash	2 889						
PV of Equity	638 321						
Number of outstanding shares	248 778						
PV Equity ('000 BGN)	2.57						

SENSITIVITY ANALYSIS

		GROWTH RATE						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
DISCOUNT RATE	6.26%	3.03	3.31	3.65	4.06	4.58	5.27	6.20
	7.26%	2.49	2.68	2.90	3.17	3.49	3.89	4.39
	8.26%	2.09	2.23	2.39	2.57	2.78	3.04	3.34
	9.26%	1.79	1.89	2.00	2.13	2.29	2.46	2.67
	10.26%	1.54	1.62	1.71	1.81	1.92	2.04	2.19

IMPLIED IPO MULTIPLES

Gradus AD 2018F	Net profit	Book value	Revenue	EBITDA
(^000 BGN)	28,520	348,619	210,733	44,531

IMPLIED MULTIPLES

IPO price range (BGN per share)	P/E	P/B	P/S	EV/EBITDA
Minimum	1.80	15.70	1.28	9.74
	2.00	17.45	1.43	10.86
	2.20	19.19	1.57	11.97
Maximum	2.35	20.50	1.68	12.81
Implied Intrinsic Value	2.11	18.41	1.51	11.47

PEER COMPARISON
**Poultry and meat processing companies
(Global)**

Company	Ticker	Country	Market Cap	P/E	P/B	ROE	EV/EBITDA TTM
			(EUR m)	Current	Current	Current	Current
TYSON FOODS INC-CL A	TSN US	USA	23 143	11.72	1.67	25.44	10.07
HORMEL FOODS CORP	HRL US	USA	16 196	22.72	3.69	18.81	14.21
PILGRIM'S PRIDE CORP	PPC US	USA	4 394	6.76	2.66	48.10	5.34
BRF SA	BRFS3 BZ	Brazil	4 206		1.62	-8.56	11.34
MAPLE LEAF FOODS INC	MFI CN	Canada	2 451	20.38	1.78	7.82	10.51
INDUSTRIAS BACHOCO-SER B	BACHOCOB MM	Mexico	2 437	10.41	1.56	15.93	6.10
SANDERSON FARMS INC	SAFM US	USA	2 063	9.01	1.64	22.45	3.97
CAL-MAINE FOODS INC	CALM US	USA	1 961		2.56	3.37	79.59
MHP SE	MHPC LI	Ukraine	1 249	6.74	1.74	17.28	5.73
CHERKIZOVO GROUP PJSC	GCHE RM	Russia	654	6.72	0.86	12.80	5.93
BANVIT BANDIRMA VITAMINLI YE	BANVT TI	Turkey	246	5.57	2.03	45.59	3.44
OVOSTAR UNION NV	OVO PW	Poland	134	6.19	1.51	23.64	5.92
PINAR SUT MAMULLERI SANAYII	PNSUT TI	Turkey	84	9.75	0.63	7.08	6.64
L.D.C. SA	LOUP FP	France	2 409	21.02	2.23	13.44	8.44
CRANSWICK PLC	CWK LN	UK	1 977	24.47	3.59	15.53	13.47
SCANDI STANDARD AB	SCST SS	Sweden	375	20.49	2.44	14.12	10.37
Minimum				5.57x	0.63x	-8.56x	3.44x
Mean				13x	2.01x	17.68x	12.57x
Median				10.08x	1.76x	15.73x	7.54x
Maximum				24.47x	3.69x	48.10x	75.59x

Source: Bloomberg

	P/E ttm	EV/EBITDA ttm
Median peer multiple	10.08	7.54
Gradus' fair value '000 BGN based on the peer multiple	286 729	335 792
Fair value per share based on peer multiple	1.30	1.52
Weight of multiple fair value	40%	60%
Fair value per share	1.43	

FINAL VALUATION

	DCF	Peer Comparison
Fair Value per Model (in BGN)	2.57	1.43
Weight of Model	60%	40%
Final Fair Value per Share (in BGN)	2.11	

FINANCIAL DATA

INCOME STATEMENT ('000 BGN)	2017P	2018F	2019F	2020F	2021F	2022F	2023F
Revenues	214 444	199 747	227 421	245 603	258 678	270 958	281 144
Other income	21 166	10 986	12 508	13 508	14 227	14 903	15 463
Capitalized expenses	171	0	0	0	0	0	0
Dividend income	5 522	0	0	0	0	0	0
Revenue from revaluation of investment properties	4 531	0	0	0	0	0	0
COGS (without production)	-96 554	-66 861	-67 830	-69 768	-70 737	-71 706	-74 402
Change in inventories	7 171	3 995	4 548	4 912	5 174	5 419	5 623
Cost of materials	-71 220	-66 316	-75 959	-84 242	-88 726	-93 752	-97 276
Cost of external services	-10 044	-14 981	-18 194	-18 420	-18 883	-19 780	-20 523
Cost of labor	-16 404	-18 044	-19 849	-21 834	-23 799	-25 941	-28 275
Other costs	-4 137	-3 995	-4 548	-4 912	-5 174	-5 419	-5 623
Total operating costs	-200 808	-177 588	-195 875	-208 951	-217 446	-227 029	-235 658
EBITDA	50 272	44 531	58 098	64 847	70 759	74 683	76 131
<i>EBITDA margin</i>	<i>21.34%</i>	<i>21.13%</i>	<i>24.21%</i>	<i>25.03%</i>	<i>25.93%</i>	<i>26.13%</i>	<i>25.67%</i>
Depreciation costs	-5 246	-11 386	-14 043	-14 687	-15 301	-15 851	-15 182
Impairments	-4 374	0	0	0	0	0	0
EBIT	45 026	33 145	44 055	50 160	55 459	58 832	60 949
<i>EBIT margin</i>	<i>19.11%</i>	<i>15.73%</i>	<i>18.36%</i>	<i>19.36%</i>	<i>20.32%</i>	<i>20.58%</i>	<i>20.55%</i>
Financial income	102	95	108	117	123	129	134
Financial expense	-1 811	-1 358	-1 740	-1 842	-2 134	-2 161	-2 165
Net financial income/expense	-1 709	-1 263	-1 632	-1 725	-2 011	-2 032	-2 031
EBT	43 317	31 882	42 423	48 435	53 447	56 800	58 918
Income tax	-3 492	-3 188	-4 242	-4 843	-5 345	-5 680	-5 892
Minority interest	174	174	174	174	174	174	174
Net income	39 651	28 520	38 007	43 417	47 929	50 946	52 852
<i>Net income margin</i>	<i>16.83%</i>	<i>13.53%</i>	<i>15.84%</i>	<i>16.76%</i>	<i>17.56%</i>	<i>17.82%</i>	<i>17.82%</i>

BALANCE SHEET ('000 BGN)	2017P	2018F	2019F	2020F	2021F	2022F	2023F
Property plant and equipment	169 940	189 760	216 050	225 955	235 397	243 862	253 029
Intangibles	53 973	53 973	64 973	69 573	71 660	73 810	76 024
Goodwill	20 656	20 656	20 656	20 656	20 656	20 656	20 656
Investment properties	6 350	6 350	6 350	6 350	6 350	6 350	6 350
Long-term investments	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Total Long-Term Assets	250 920	270 740	308 030	322 535	334 064	344 679	356 061
Inventories	43 772	43 944	47 759	51 577	54 322	59 611	64 663
Receivables from related parties	4 947	4 994	5 686	6 140	6 467	6 774	7 029
Trade receivables	34 381	33 957	40 936	44 208	46 562	48 772	50 606
Provided loans	1 380	1 398	1 592	1 719	1 811	1 897	1 968
Other Current Assets	1 406	1 398	1 592	1 719	1 811	1 897	1 968
Cash and cash equivalents	2 889	48 114	24 183	22 029	30 337	37 017	43 856
Total Current Assets	88 775	133 805	121 746	127 393	141 310	155 967	170 089
Total Assets	339 695	404 545	429 777	449 927	475 374	500 647	526 150
Share Capital	221 000	248 778	248 778	248 778	248 778	248 778	248 778
Reserves	44 200	66 422	66 422	66 422	66 422	66 422	66 422
Actuary impairment reserves	-29	-29	-29	-29	-29	-29	-29
Retained earnings	3 372	31 892	49 375	69 347	91 394	114 829	139 141
Minority interest	1 556	1 556	1 556	1 556	1 556	1 556	1 556
Total shareholders' equity	270 099	348 619	366 102	386 074	408 122	431 557	455 869
Deferred taxes	14 937	13 982	15 920	17 192	18 107	18 967	19 680
Long-term liabilities to employees	211	197	224	242	255	267	277
Other long-term liabilities	297	200	227	246	259	271	281
Total Long-Term Liabilities	15 445	14 379	16 371	17 679	18 621	19 505	20 238
Short-term borrowings	46 890	33 957	38 662	36 840	38 802	39 289	39 360
Account payables to related parties	479	599	682	737	776	813	843
Account payables	3 717	3 995	4 548	4 912	5 174	5 419	5 623
Tax liabilities	942	999	1 137	1 228	1 293	1 355	1 406
Short-term liabilities to employees	1 492	1 398	1 592	1 719	1 811	1 897	1 968
Other Short-Term Liabilities	631	599	682	737	776	813	843
Total Current Liabilities	54 151	41 547	47 304	46 173	48 631	49 585	50 044
Total Liabilities	69 596	55 926	63 674	63 853	67 252	69 090	70 281
Total Liabilities & Equity	339 695	404 545	429 777	449 927	475 374	500 647	526 150

Financial and Performance Indicators	2017P	2018F	2019F	2020F	2021F	2022F	2023F
Valuation							
Price/Earnings (P/E)	10.03	15.70	11.78	10.31	9.34	8.79	8.47
Price/Book (P/B)	1.47	1.28	1.22	1.16	1.10	1.04	0.98
Price/Sales (P/S)	1.69	2.12	1.87	1.73	1.64	1.57	1.51
EV (in '000 BGN)	444 690	433 644	462 280	462 612	456 265	450 073	443 305
EV/EBITDA	8.85	9.74	7.96	7.13	6.45	6.03	5.82
Profitability							
Return on common equity	14.68%	8.18%	10.38%	11.25%	11.74%	11.81%	11.59%
Return on assets	11.67%	7.05%	8.84%	9.65%	10.08%	10.18%	10.05%
Return on invested capital	12.78%	8.53%	10.07%	10.91%	11.48%	11.54%	11.36%
EBITDA margin	21.34%	21.13%	24.21%	25.03%	25.93%	26.13%	25.67%
Operating margin	19.11%	15.73%	18.36%	19.36%	20.32%	20.58%	20.55%
Net income margin	16.83%	13.53%	15.84%	16.76%	17.56%	17.82%	17.82%
Dividend							
Dividend yield	0.00%	0.00%	6.57%	4.46%	4.93%	5.24%	5.43%
Dividend per share	0.00	0.00	0.14	0.09	0.10	0.11	0.11
Liquidity							
Current ratio	1.64	3.22	2.57	2.76	2.91	3.15	3.40
Quick ratio	0.83	2.16	1.56	1.64	1.79	1.94	2.11
Credit							
LT debt/equity	0%	0%	0%	0%	0%	0%	0%
Total debt/equity	0.17	0.10	0.11	0.10	0.10	0.09	0.09
Total debt/total assets	0.14	0.08	0.09	0.08	0.08	0.08	0.07

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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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Q1 2018 Recommendation Review			Market Maker Services
Recommendation	#	Share	
BUY	5	31%	SKK BU; 4KX BU
HOLD	11	69%	
SELL	0	0%	

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