

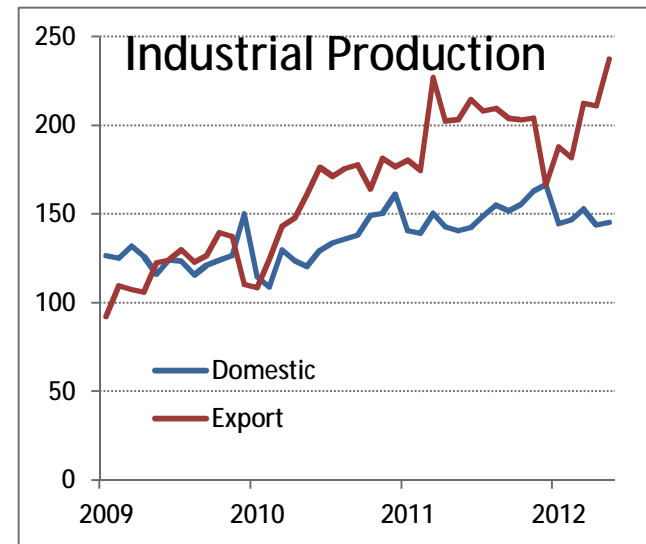
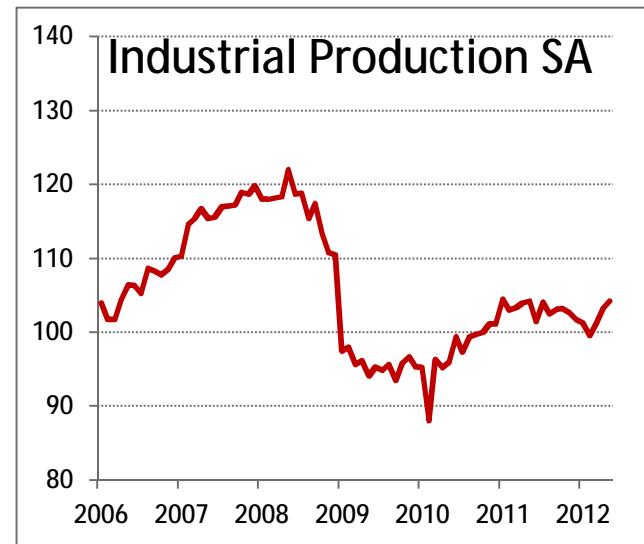
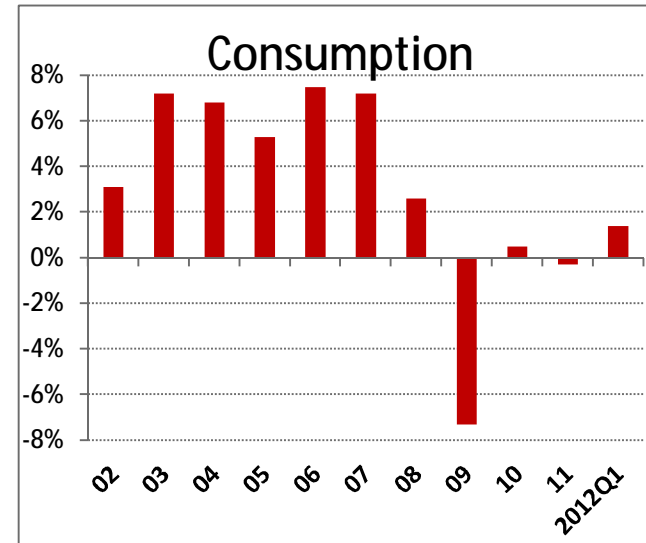
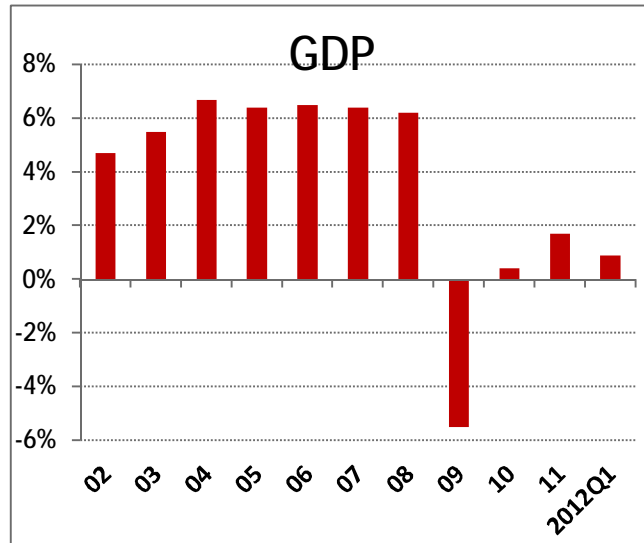


BULGARIA

Investment Opportunities

Economic development

- The economy is recovering slowly
- The main source of growth is export
- Domestic consumption is lagging behind due to the shrinking bank loans
- Industrial production is expanding again, supported by export
- All industries recovered during the second quarter
- Contraction in textile, paper and chemical sectors was worst in late 2011 but they also grew this year



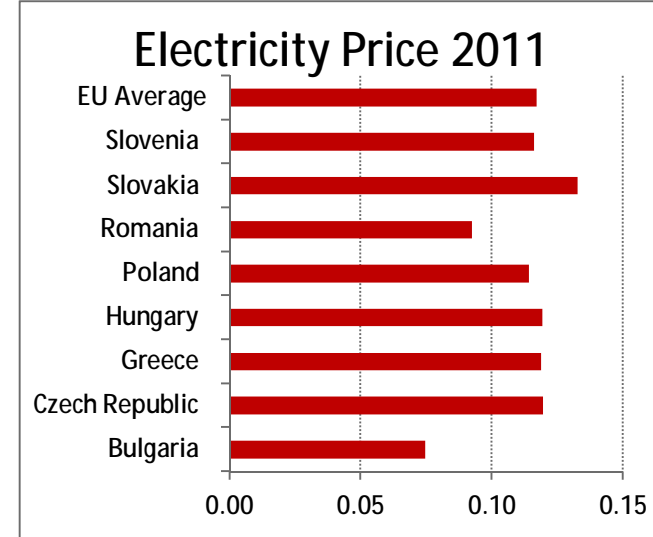
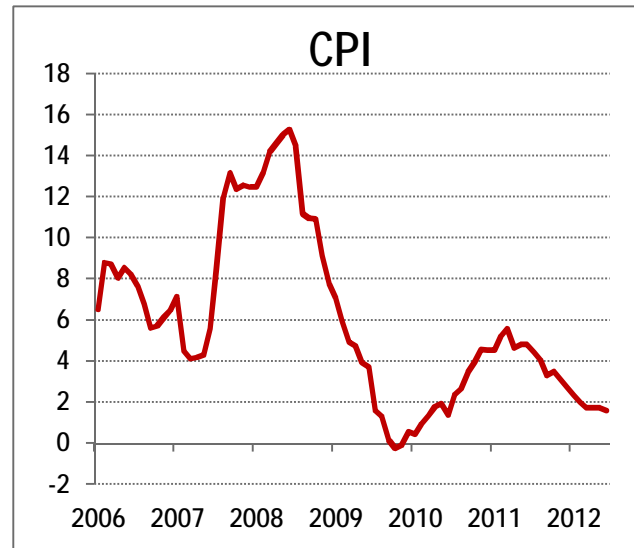
Inflation and income

- The crisis in domestic demand resulted to subdued consumer prices

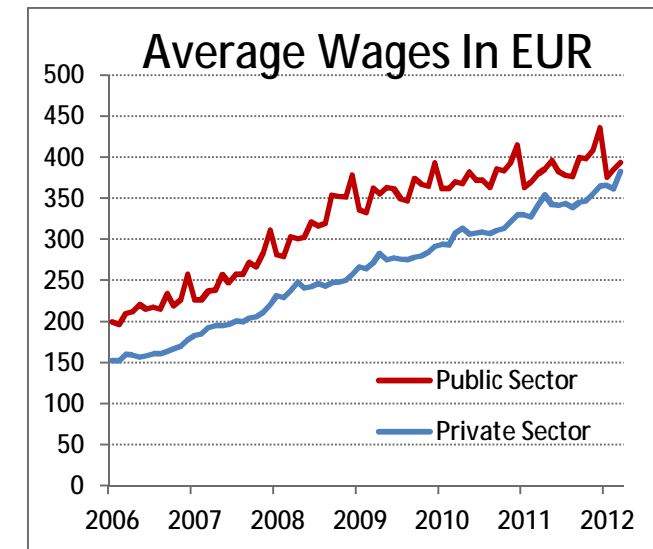
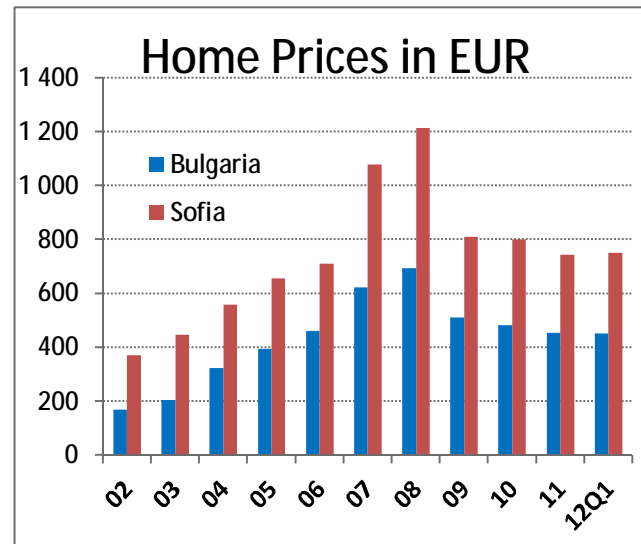
- Home prices declined, although they remain elevated to average monthly wages

- Bulgaria has an advantage in terms of wages and the energy price when comparing to Eastern Europe

- The increase of wages will continue and will provide better foundations for economic growth, financial stability and improvement of government budget in long term

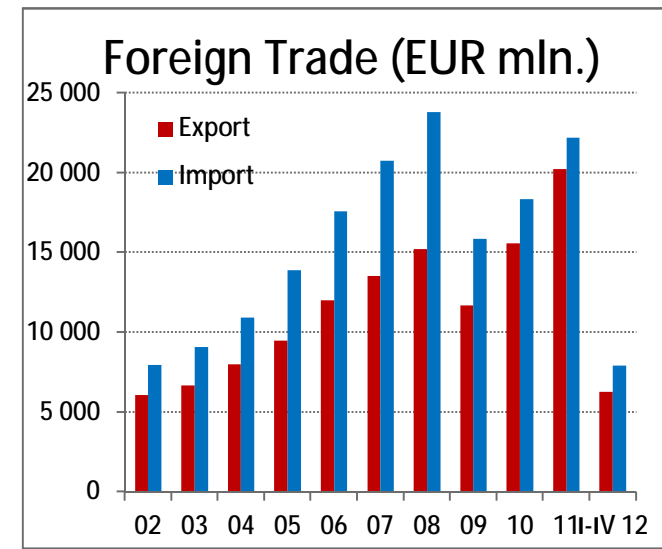
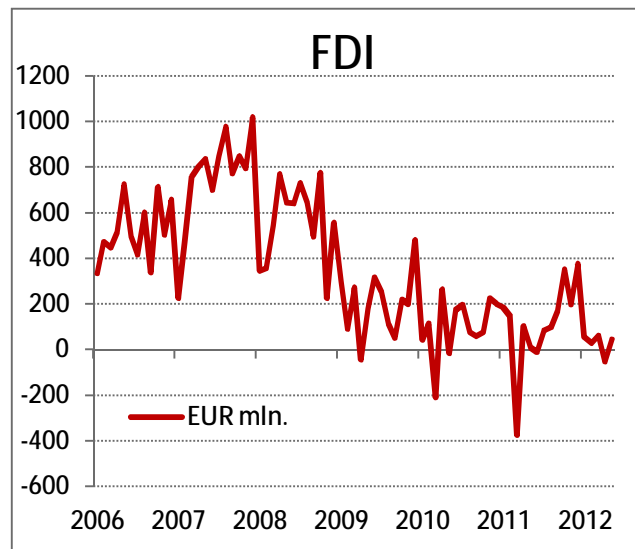
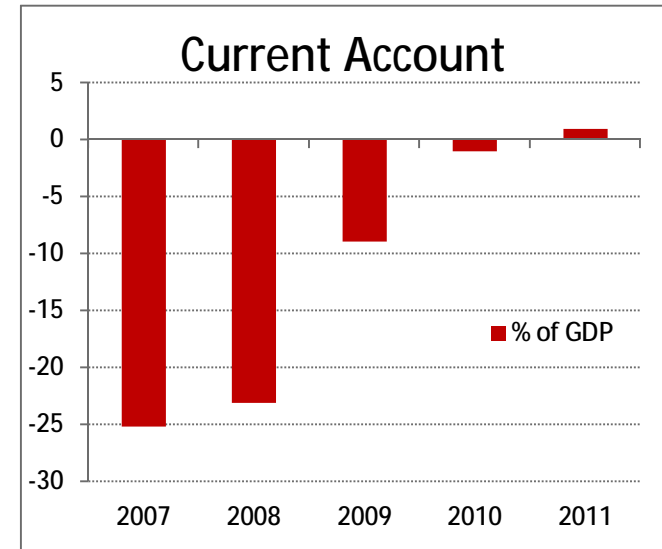
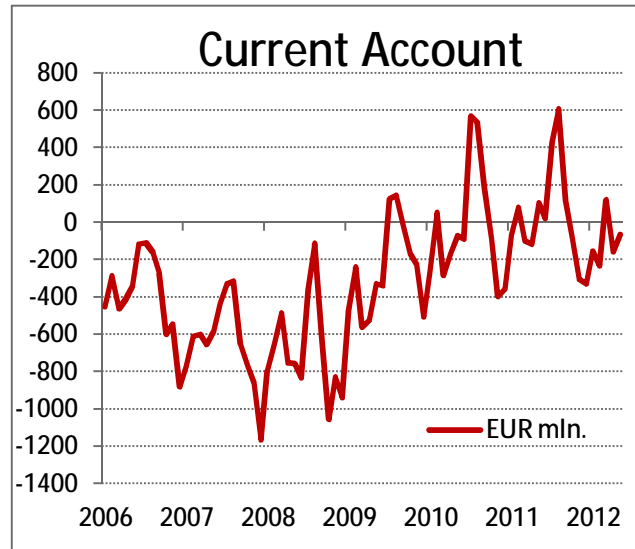


Amount is in euro (€) per kiloWattthour (kWh)



Financial Stability – Balance of Payment

- After running huge current account deficits for years, Bulgarian economy managed to improve the ratio due to decrease in consumption and investments
- Foreign direct investments are rising but maintain high volatility and are still near the bottom
- The current account deficit is rising since the beginning of 2012. It is not a risk factor for the financial stability as it is determined by seasonality in oil imports and revenues from tourism

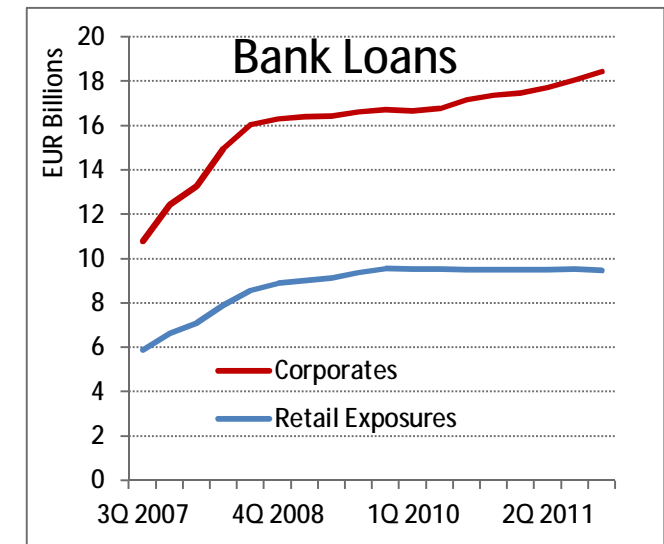
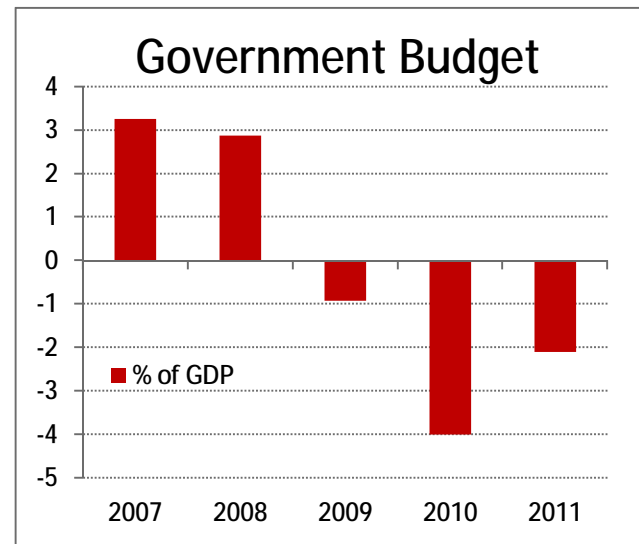
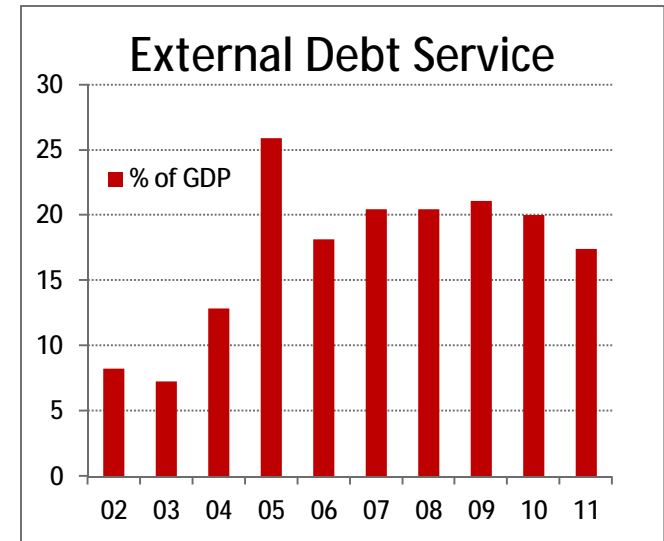
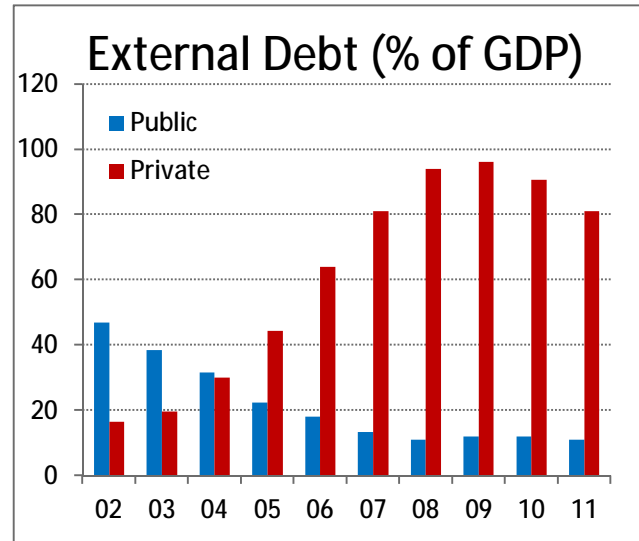


Financial Stability – Private and Public Debt

- The economic growth was fueled by huge increase of private debt. The servicing of debts also jumped due to payments of principal, whereas interest represents around 10% of total debt service or less than 2% of GDP

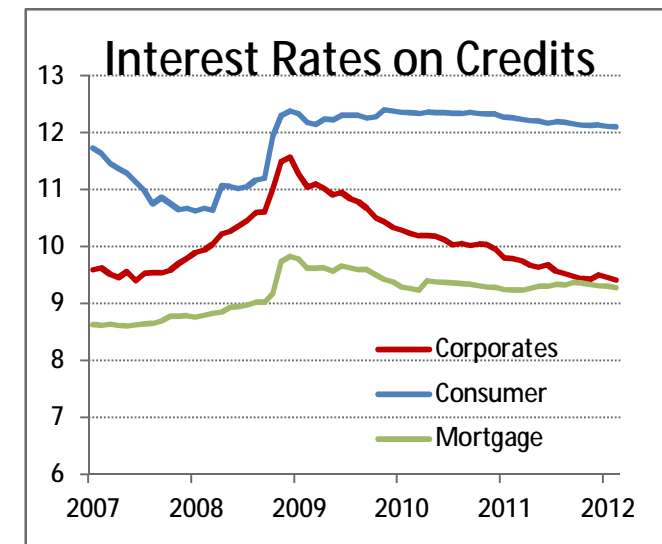
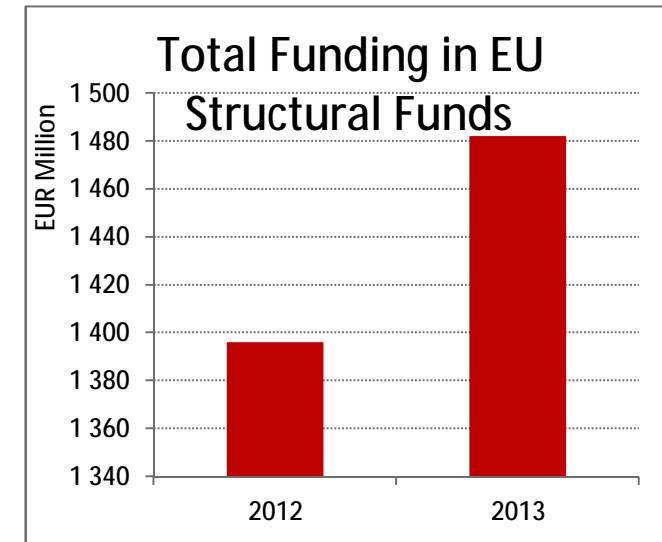
- The Government budget deficit exceeded 2% to GDP in 2011. However, EU methodology is pointing to much higher deficit in 2009 and worst data for the previous years

- Bank loans to corporate clients are rising, although access to credits is still difficult to small and mid-sized companies



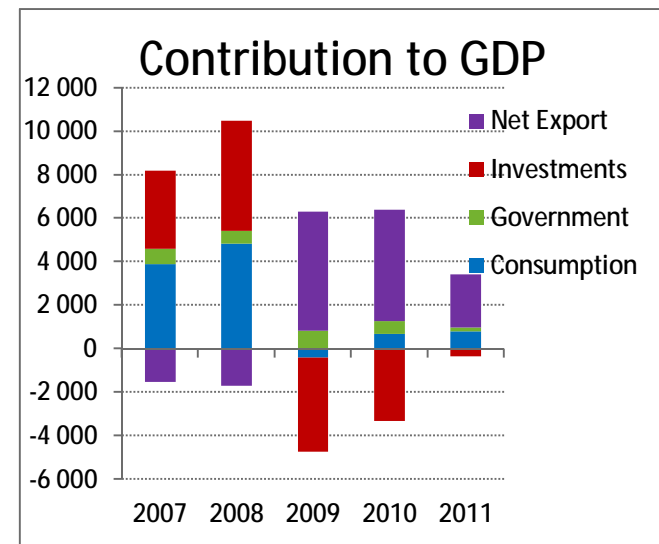
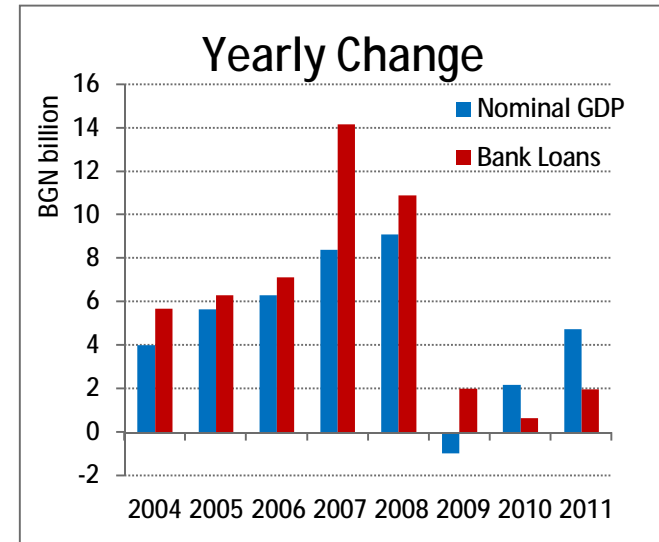
Sources of Growth

- EU funds and large infrastructure projects – total funding by operational programs in 2012 is close to EUR 1.4 billion, including national co-funding. However, the implementation percentage is between 20 and 30 per cent of the program budgets
- Global inflation and wage growth – the CPI is decelerating recently and is limiting the wage growth while the rising costs for energy and food have negative impact on the living standards and the ability to pay bills and credits of large proportion of Bulgarian citizens. In this regard inflation could improve revenues of Bulgarian companies which will result to wage growth in many sectors
- Lower interest rates – Bulgarian banks are reluctant to decrease the interest rate on consumer and mortgage loans. However, rates on corporate credits fell significantly despite the increasing level of non-performing loans and its negative implications on profits. It is expected that rates on credits and deposits will gradually decrease this year thus creating positive environment for credit growth



Growth Forecasts

- Bank loans grew faster than nominal GDP before 2010. We don't expect sizable increase of credits, which will limit GDP growth. Moreover, with 14% share of non-performing loans the peak of bad loans is yet to be seen. Latest data confirmed that only large corporate credits are contributing to the increase of bad loans. The economy is in process of restructuring and non-competitive and ill-managed companies will not overcome the crisis
- The contribution to GDP growth was mainly from debt-sensitive components – consumption and investments. The positive effect from declining import and rising export offset shrinking investments. Considering the expected slow increase of bank loans both components will continue to slow down the GDP growth
- We expect the real GDP to grow 2% annually on average during the next 2 years, followed by improvement in investments and consumption. However, maximum GDP growth should remain below 4% in contrast to 6% growth during the booming years of last decade



Bulgarian Stocks

Diversified Holdings – representative for the Bulgarian market; very dependent on the market appetite to risk assets; profit is mainly from financial operations:

- Chimimport – 6C4 BU
- Eurohold Bulgaria – 4EH BU

Industrial Holdings – majority owners in industrial companies; improving results due to the rising export revenues; mainly traded by local investors:

- Stara Planina Hold – 5SR

Banks – very dependent on the market appetite to risk assets; assessed as very risky due to the high level of non-performing loans; profit is above current losses of bad loans; assets and credits are expanding:

- First Investment Bank – 5F4 BU
- Central Cooperative Bank -4CF BU
- Corporate Commercial Bank – 6C9 BU

Exporters – producers of machinery or raw materials, mainly for EU markets; announced moderate decline of revenues due to the slowdown in Europe; stocks are traded at low multiples:

- Alcomet – 6AM BU
- Kaolin – 6K1 BU
- Monbat – 5MB BU
- M+S Hydraulic – 5MH BU
- Neochim – 3NB BU
- Sopharma – 3JR BU

In Focus

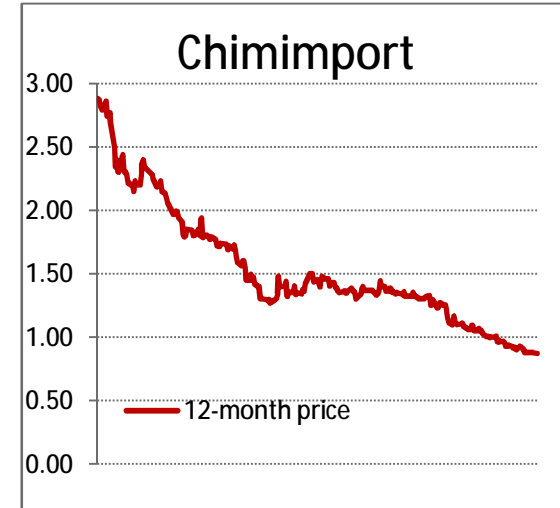
Chimimport – established in 1947; has grown from a foreign trade enterprise to a large-scale holding company, operating in the financial sector, including banking services, insurance, pension insurance, securitization of real estate; extraction of oil and gas; production of vegetable oils and bio fuels; air, river and maritime transport, port infrastructure

Central Cooperative Bank – ninth largest bank in Bulgaria by assets; subsidiary of Chimimport; low level of bad loans as it is focused on corporate clients

Both stocks are very sensitive to liquidation of positions by small and mid-sized investors; recent decline was fueled by decreased exposure to Bulgarian market by local speculators

The economic model of Chimimport includes aggressive acquisitions and large investment projects with low return and delayed time frame; financial profit from investments in subsidiaries and bonds are essential for the low P/E

Record low prices could attract speculative demand and would provide ground for strong gains during upward movement of local stocks



Price (BGN)	0.88
P/E	1.78
P/B	0.16
P/S	0.36
Div. Yield	0.00%

In Focus

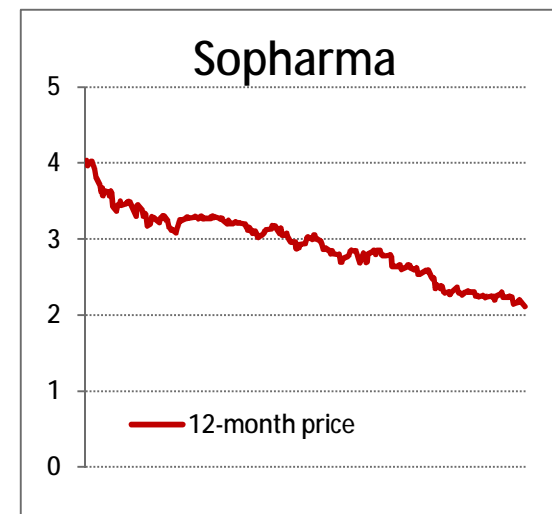
Sopharma – the second largest pharmaceutical company in Bulgaria with vertical integration from production to wholesale and apothecary leases; Sopharma is planning to merge with its subsidiaries that produce medicines

The recent exit of Gramercy Emerging Market Funds is a good news in long-term as the largest investor liquidated all its stakes in Sopharma; nevertheless, large block deals are still indicating that selling pressure persists

The valuation of Sopharma is attractive with the combination of low multiples, low risks of revenues and profit decline during crisis and good dividend yield

The new plant for tablets will start production in February-March 2013 and will increase capacity by 35%; the investment exceed EUR 35 million

Latest report showed lower profitability mainly due to temporary and external factors



Price (BGN)	2.17
P/E	7.81
P/B	0.94
P/S	0.46
Div. Yield	3.23%

In Focus

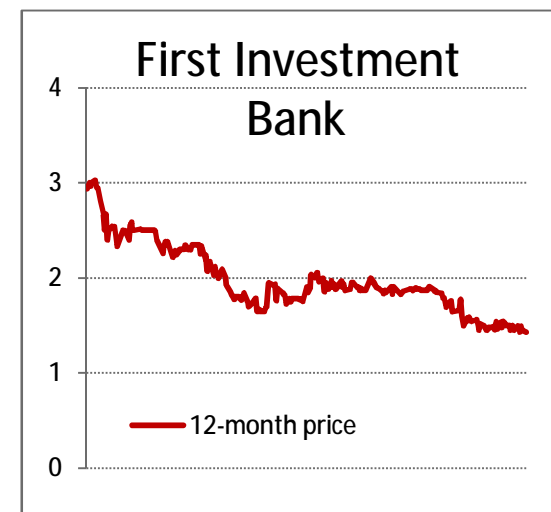
First Investment Bank – the fifth largest Bulgarian bank with large branch network; it is specialized to corporate credits; 85% of deposits are from corporate clients

The assets of FIB are rising faster than the average for the banking system and gained 19% y-o-y at the end of the first quarter; loans and receivables soared 22% at the same time

Equity fell to 7.7% of assets due to the slower increase of equity. This is very low as compared to the Bulgarian banking system; FIB relies to capitalize profits and is not yet planning capital increase, which could have negative impact on the stock price if announced and should be regarded as buying opportunity

The net profit is declining due to the decrease of net interest margin; as a result, we expect net profit in 2012 to fall to BGN 20 million if impairment costs maintain their level of previous year

Current P/E ratio is very low but will increase to 8 if our expectations for declining profit prove to be correct



Price (BGN)	1.45
P/E	4.32
P/B	0.30
P/S	-
Div. Yield	0.00%

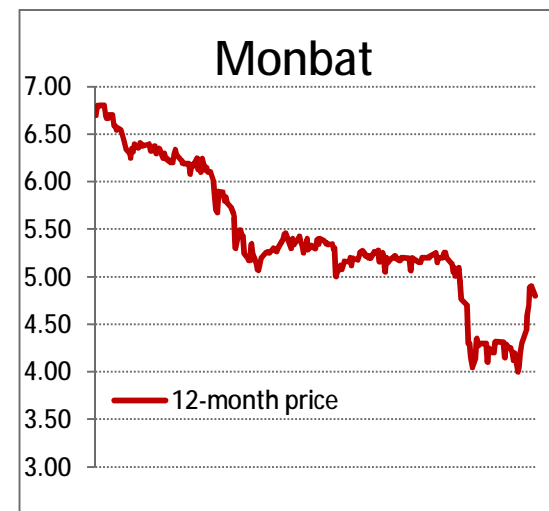
In Focus

Monbat – the largest producer of lead-acid car batteries in Bulgaria has solid market position in Europe; export revenues are 85% of total sales; the group uses 100% recycled lead from its facilities in Bulgaria, Serbia and Romania; revenues depend on lead price fluctuations

Consolidated revenues of Monbat declined 12% during the first quarter but started to improve in April; the profitability fell significantly and the company did not disclose the reasons for the large changes in sales to various countries

The stock of Monbat should be regarded as a commodity play; recycling of old batteries is improving significantly the group's profitability as compared to the industry' average; the effect on profits will be larger in period of rising lead prices

The share was supported by buy-back and the recent decline will either prove to be temporary and the price will return above BGN 5.00 or the stock will find support near BGN 4.00; the latter scenario is more probable



Price (BGN)	4.90
P/E	9.49
P/B	1.35
P/S	1.00
Div. Yield	3.52%

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