

Trace Group Hold AD [T57]

Overview

Market Data	
No of shares outstanding, th	24 169
Last price	6.22
Market Cap., BGN th	150 331

P/E (ttm)	10.51
P/S (ttm)	0.43
P/B	1.54
EV/EBITDA (ttm)	5.88
EV/SALES (ttm)	0.39



Trace Group Hold AD [T57] reported a net loss of BGN 0.7 mln on the back of a 9% decrease in revenues in Q3'2014. The construction conglomerate disappointed investors with a 46% plunge in nine-month earnings despite a strong 29% growth in revenues.

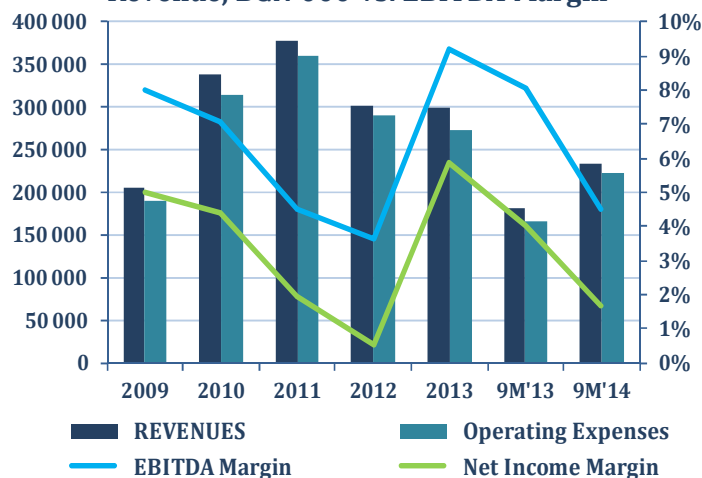
Highlights:

- Revenue increased 29% on the year to BGN 233.902 for 9M'2014.
- OPEX jumped faster than revenue, by an annual 34% to BGN 223.303, hurting the profitability. Consequently, the net income margin fell to 1.69% from 4.02% a year earlier.
- EBIT slumped 42% y-o-y to BGN 5.366 mln.
- Both ROE and ROA were on the raise due to increased asset turnover.
- The Debt to Assets ratio also dropped to 58% from 61.5% a year earlier;
- Despite the drop in the cash position the liquidity remained satisfactory with a current ratio of 1.14 and a cash ratio of 0.21;
- EPS (ttm) amounted to BGN 0.59, up from BGN 0.45 a year earlier, due to the effect of the strong fourth quarter of 2014.

Key Financials, BGN'000	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Sep-13	Sep-14
REVENUES	206 738	339 165	377 485	302 760	300 115	180 740	233 902
% change (y-o-y)	78.2%	64.1%	11.3%	-19.8%	-0.9%	-22.5%	29.4%
OPERATING INCOME (EBITDA)	16 521	24 100	17 122	11 027	27 663	14 558	10 599
% change (y-o-y)	82.9%	45.9%	-29.0%	-35.6%	150.9%	163.0%	-27.2%
EBITDA margin	8.0%	7.1%	4.5%	3.6%	9.2%	8.1%	4.5%
EBIT	12 146	19 472	10 742	3 734	20 518	9 176	5 366
% change (y-o-y)	289.7%	60.3%	-44.8%	-65.2%	449.5%	4488.0%	-41.5%
EBIT margin	5.9%	5.7%	2.8%	1.2%	6.8%	5.1%	2.3%
NET INCOME	10 365	15 028	7 268	1 629	17 611	7 263	3 953
% change (y-o-y)	1287.6%	45.0%	-51.6%	-77.6%	981.1%	-461.5%	-45.6%
Net income margin	5.0%	4.4%	1.9%	0.5%	5.9%	4.0%	1.7%
Ratios	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Sep-13	Sep-14
ROA (ttm)	5.83%	7.27%	4.06%	1.58%	8.21%	5.44%	6.54%
ROE (ttm)	19.66%	23.09%	9.62%	2.04%	19.91%	13.28%	15.50%
Debt/Assets	74.21%	71.55%	64.02%	60.69%	60.63%	61.51%	58.24%
Debt/Equity	289.34%	254.05%	178.52%	154.66%	153.88%	160.09%	139.27%
Loans/Equity	48.54%	67.46%	54.30%	22.74%	18.31%	11.19%	15.92%
EPS (ttm), BGN	4.71	6.83	0.30	0.07	0.73	0.45	0.59

Performance

Revenue, BGN'000 vs. EBITDA Margin

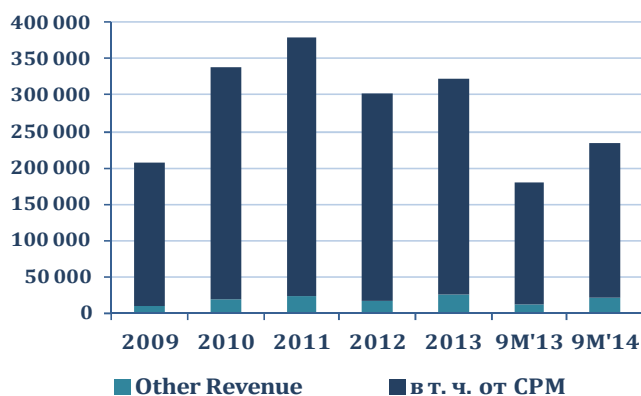


Despite a substantial increase in revenues, Trace Group Hold AD [T57] finished Q3'2014 with a bottom line of BGN 3.953 mln vs. BGN 7.263 mln a year earlier, or 46% plunge. Consequently, the net income margin fell to 1.69% for the first 9 months of 2014 from 4.02% a year earlier.

The sharp decrease in the bottom line was due to a faster growth of the operating expenses than revenue. Revenue jumped 29% on the year to BGN 233.902 mln, and BGN 213.506 mln from them were realized from construction works.

Operating profitability deteriorated significantly and EBITDA margin narrowed to 4.53% in 9M'2014 from 8.05% a year earlier.

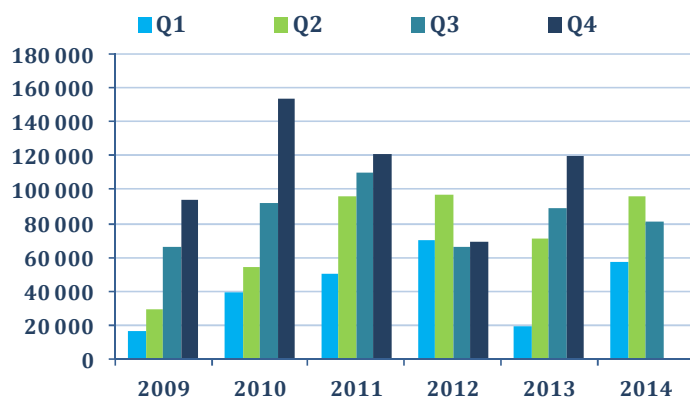
Revenue, BGN'000



TRACE is currently working on projects with total value of BGN 1.017 bn (including the part for other parties when working in consortium). Due to the business model and the revenue recognition principles, the revenue is recognized to the amount of the project completion. Thus, some of the revenues from these contracts will be realized in 2015.

The company has entered into new contracts worth BGN 328.16 mln (including the part for other parties when working in consortium with others on some contracts) since the beginning of the year, and has accomplished projects totaling BGN 60.393 mln from the beginning 2014 until October 2014.

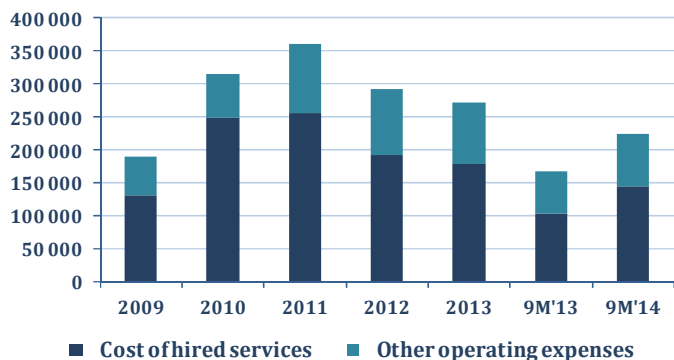
Quarterly Revenue, BGN'000



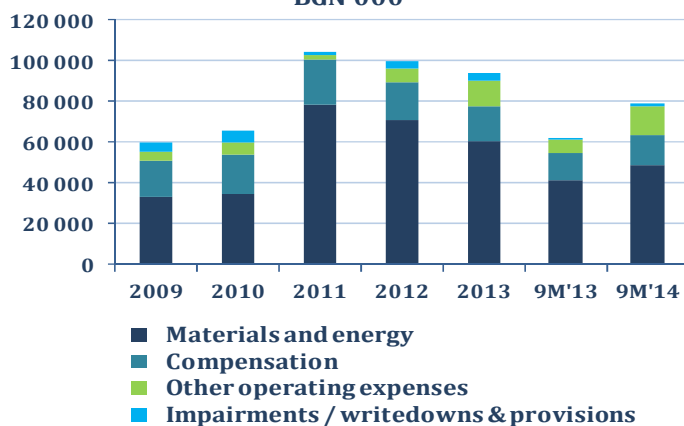
Some of the recently signed contracts include:

- ◆ a BGN 12 mln contract for finishing works on the Western part of Sofia ring road;
- ◆ a BGN 5.7 mln contract for reconstruction of transportation terminal Meden Rudnik in Bourgas;
- ◆ a BGN 4.4 mln contract for rehabilitation of overpasses in Burgas;
- ◆ two contracts with Chepelare municipality amounting to BGN 6.3 mln; the first one is for rehabilitation of local roads for BGN 6.1 mln and the second one is for reconstruction of water supply network worth BGN 153 000;
- ◆ few contracts for winter maintenance and emergency repairs of roads on the territories of Chepelare, Stara Zagora and Yambol municipalities.

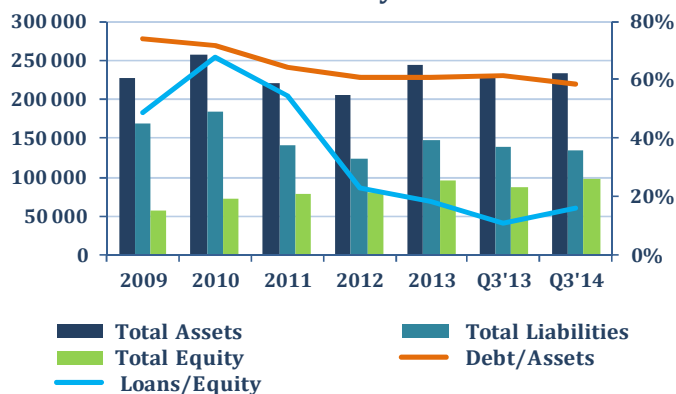
Operating expenses, BGN'000



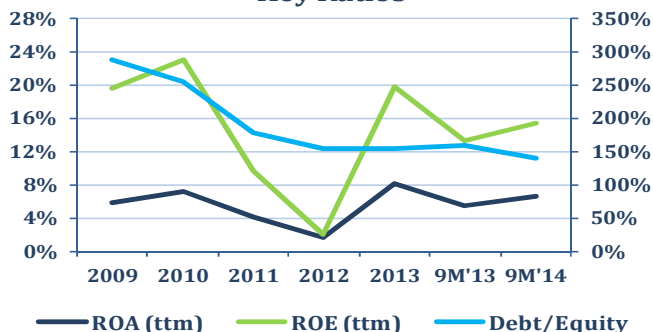
Operating Expenses (excl. Cost of Hired Services) BGN'000



Balance Sheet Key Financials



Key Ratios



Operating expenses advanced by 34% on the year to BGN 223.303 mln, mainly due to an increase in the costs of hired services, which are the main operating expense for the company. They rose by 39% y-o-y to BGN 144.291 mln and accounted for 65% of the operating expenses for 9M'2014; 88% of the costs for hired services were expenses for subcontractors.

Expenses for raw materials and energy are usually the second largest component of the operating expenses. For 9M'2014 they increased by an annual 16% to BGN 48.455 mln.

Labor costs reached BGN 15.058 mln for 9M'2014, up from BGN 12.674 mln a year earlier.

Other operating expenses jumped to BGN 14.211 mln from BGN 6.896 mln due to a significant increase in the book value of assets sold.

Net financial expenses shrank 49% on the year to BGN 678 000 as TRACE realized net gains of BGN 159 000 from foreign currency transactions. Net interest income was BGN 12 000 for 9M'2014 vs. net interest expenses of BGN 382 000 a year earlier.

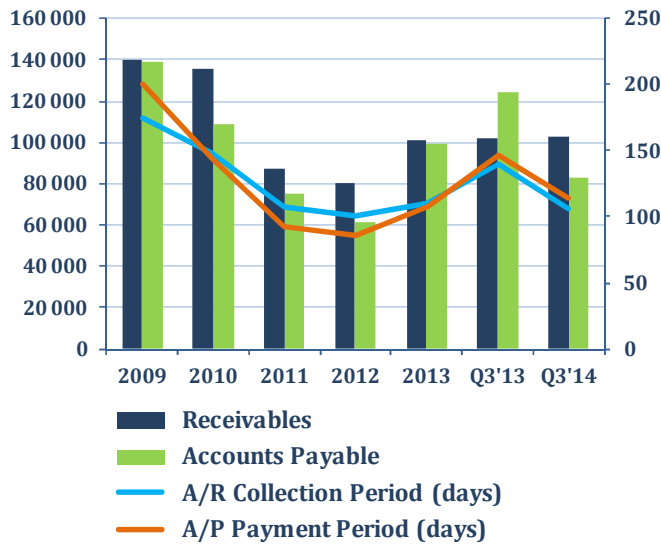
Assets decreased 5% YTD to BGN 232.726 mln mainly due to a 40% drop in the cash and cash equivalents to BGN 26.527 mln. Despite the drop in the cash, the liquidity positions remained satisfactory with a quick liquidity ratio of 1.05.

Liabilities decreased faster than the assets, by almost 9% YTD to BGN 135.536 mln. The slip is mainly due to a drop in the accounts payable and the short-term interest-bearing debt.

ROA and ROE resumed their uptrend. ROA increased to 6.54% from 5.44% a year earlier. ROE also improved to 15.50% from 13.28% a year earlier. The expansion in the ROE was mainly due to increased asset turnover. Debt to Equity ratio continued its downtrend and reached 139%.

Trace Group Hold AD reported receivables of BGN 103.002 mln as of the end of Q3'2014, up from BGN 100.968 mln at the end of 2013. The average receivables collection period shortened to 106 day from 140 days a year earlier.

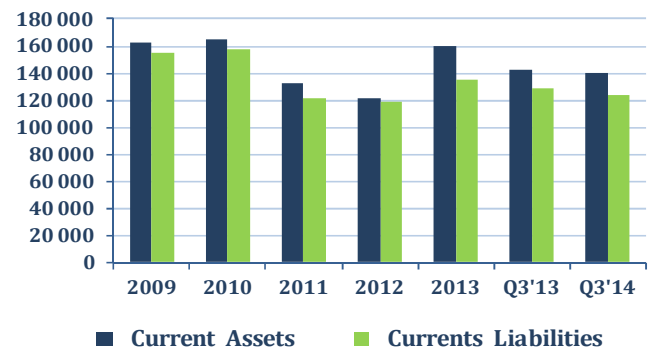
Receivables vs. Payables



Accounts payable decreased 17% YTD to BGN 82.606 mln at the end of September. Thus, the average payables payment period shortened to 115 days from 147 days a year earlier.

The conglomerate generated negative cash flow from operating activities of BGN 8.238 mln for 9M'2014 vs. positive BGN 6.313 mln a year earlier.

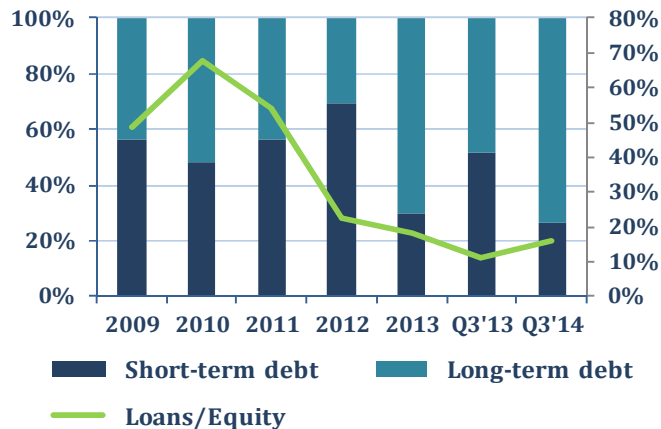
Current Assets vs. Current Liabilities



Current assets decreased 12% YTD to BGN 140.591 mln, while current liabilities slipped a bit slower, by 9% YTD to BGN 123.593 mln in Q3'2014. The largest part of the current assets, some 88%, was financed with current liabilities.

Short-term debt decreased 21% YTD to BGN 4.115 mln at the end of September, as the company managed to repay over BGN 1 mln of its short-term bank loans. Long-term debt to banks also decreased to BGN 11.379 mln at the end of September from BGN 12.426 mln at the end of 2013. Overall, the capital structure remained balanced with 58% of debt.

Short-term Debt vs. Long-term Debt



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