

Advance Terrafund

Market Data & Ratios	
Last price	2.46
No of shares outstanding, th	85 110
Market Cap., BGN th	209 371

Gross DPS (2014f)	0.24
Payout ratio (2013f)	99.00%
Dividend yield (2013f)	9.7%
Gross DPS (2015f)	0.21

NAV per share	3.17
Discount to NAV	-22.5%
P/NAV	0.78
Liquidation value per share	3.00
P/Liquidation value	0.80
BVPS, prior to revaluation	2.40
P/B	1.03

accounting EPS, ttm, BGN	0.44
P/E, ttm, accounting EPS	5.55
EPS, adjusted, 2014f	0.31
P/E, adjusted, 2014f	8.05

- Advance Terrafund REIT (ATERA) sold a total of 23 360 da (2 336 ha) of farmland in the seven months through August, quickly approaching our full-year estimate of 30 000 da (3 000 ha). Furthermore, the average selling price increased by 7% compared to 2013 to BGN 1 146 per da (EUR 5 859 per ha). All of these imply that the company is on its way to deliver a generous cash payout to shareholders for a fourth year in a row.

- On the other hand, adverse weather conditions could still hamper farmers' demand for land through the end of the year. Thus, we maintain our 30 000 da sales volume forecast for 2014 but increase the average estimated selling price to BGN 1 100 per da from BGN 1 000 previously, in line with increased prices at which ATERA has been selling land through August. Thus, our gross dividend estimate comes at **BGN 0.24** per share (up from previously expected BGN 0.23), which delivers a dividend yield of 9.8% on recent prices.

- We have also updated our estimate for the average realizable price of ATERA's land to BGN 1 000 per da from BGN 900 per da previously on the grounds of the company's higher selling price in 2014. Thus we arrived at a net asset value (NAV) of **BGN 3.17** per share and liquidation value of BGN 3.00 per share, which suggests that the company is trading at **22.5% discount** to NAV.

- We believe that solid business model, robust balance sheet, huge cash flow generations, consistent dividend policy, high quality of the portfolio, attractive valuation, make Advance Terrafund a worthy buy for value investors at present levels.

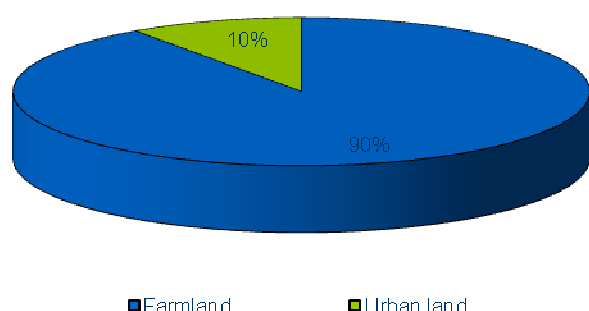
	2010	2011	2012	2013	2014f	2015f
Revenues, including:	8 151	83 547	97 813	69 367	49 907	48 065
gross income from sales of land	2 488	37 583	69 239	49 533	33 000	31 050
income from asset revaluation	0	39 781	22 626	14 037	11 019	10 919
rental income	5 584	6 106	5 886	5 797	5 888	6 096
other	79	77	62	0	0	0
Operating expenses, incl. BV of assets sold	7 068	28 332	51 263	37 294	25 034	27 107
Interest income	1 358	2 018	2 652	2 670	1 139	957
Total financial income/expense, net	1 355	2 017	2 649	2 667	1 139	957
EBT	2 438	57 232	49 199	34 740	26 012	21 915
Taxes	0	0	0	0	0	0
Net income (reported)	2 438	57 232	49 199	34 740	26 012	21 915
Less/plus gains/losses from revaluation	1 779	-39 564	-22 824	-14 037	-11 019	-10 919
Less/plus accounting gains/losses from asset sales (selling price - book value)	-1 048	-16 487	-29 034	-22 010	-15 591	-11 880
Plus gains from asset sales (selling price - cost)	1 300	20 276	44 644	35 174	21 150	19 053
Adjusted income available for distribution	4 469	21 457	41 985	33 867	20 553	18 169
Payout ratio	91.41%	99.17%	99.94%	99.99%	99.00%	99.00%
Total dividend	4 085	21 278	41 960	33 865	20 347	17 987
Number of shares	85 109	85 110	85 110	85 110	85 110	85 110
Gross DPS	0.048	0.250	0.493	0.398	0.239	0.211

Price differences among regions are still wide, depending mainly on the quality of the land, plot sizes, and competition among local farmers.

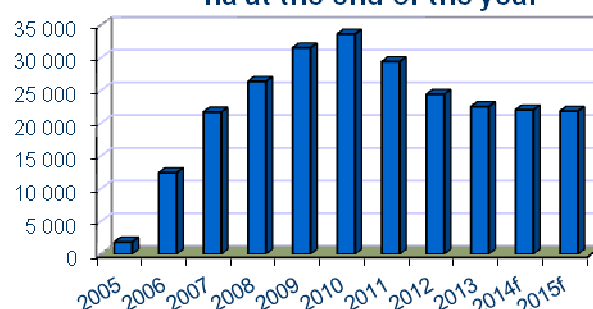
The strategy of Advance Terrafund is geared towards adding value through active management of the investment portfolio.

- With a portfolio of 214 395 da (21 439.5 ha) of agricultural land and 139 da (13.9 ha) of urban land as of the end of August 2014, Advance Terrafund is Bulgaria's largest REIT with a focus on farmland. The company's investments are concentrated in Northern Bulgaria, which is rich in the fertile black-earth soils (chernozems) and gray soils of forest origin. Price differences among regions are still wide, depending mainly on the quality of the land, plot sizes, and competition among local farmers.
- The company started operations in 2005 and rapidly expanded its farmland portfolio to 33 622 ha at the end of 2010. The bulk of Advance Terrafund's land was acquired between 2005 and 2009, when volumes in the farmland market and prices of land were two to three times lower than at present. Accordingly, the average cost of the portfolio is much lower than current market prices of farmland, which provides great opportunities for profit taking. ATERA has been a net seller of land since 2011, benefiting from soaring prices of arable land in Bulgaria.
- The strategy of Advance Terrafund is geared towards adding value through active management of the investment portfolio. It sells land in areas with intense competition among farmers, where prices have soared substantially. On the buying side, ATERA focuses on buying small parcels of land from individual owners in particular areas where prices are still reasonable (due to a high level of fragmentation or lower competition among farmers). The company subsequently consolidates the fragmented parcels into larger plots and leases or sells them to large-scale farmers or financial investors. This way ATERA benefits from exploiting differences in Bulgaria's the highly fragmented farmland sector, keeping the cost of the portfolio relatively low.

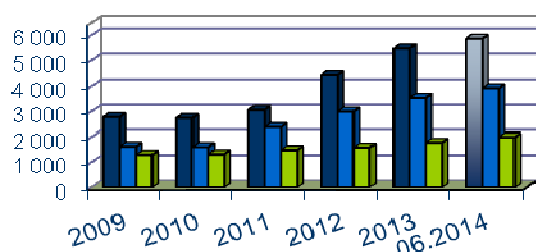
Investment Property Structure



**Farmland Portfolio
ha at the end of the year**

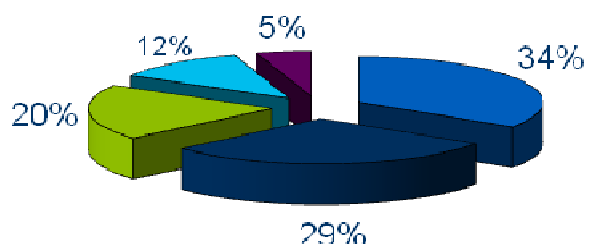


**Average Price of Land in
ATERA's Portfolio, EUR per ha**



■ Average selling price, EUR per hectare
 ■ Average buying price, EUR per hectare
 ■ Average cost of the portfolio, EUR per hectare

**Portfolio Breakdown by Region as of
June 30, 2014**



■ North-Western ■ North-Eastern ■ North-Central
 ■ South-Central ■ South-Eastern

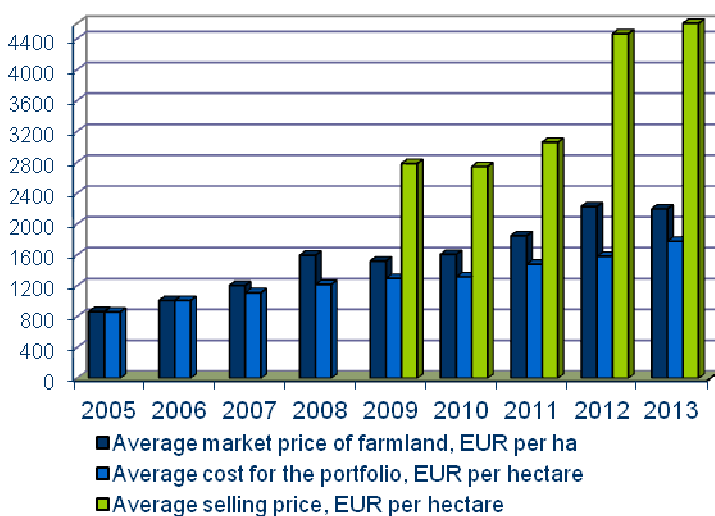
- The company remained a net seller in the first eight months of 2014 but was also active on the buying side. ATERA sold a total of 23 360 da through August (up from 6 288 da in January – August 2013) and bought 12 375 da. The average selling price increased by 3.4% y-o-y to BGN 1 146 per da (EUR 5 859 per ha). Meanwhile the weighted average acquisition price increased at a faster pace, by 4.6% on the year to BGN 767 per da (EUR 3 924 per ha). In August alone, the company acquired 3 027 da at BGN 802 per da. Consequently, the cost of the portfolio increased by 17.5% y-o-y to an average of BGN 389 per da (EUR 1 989 per ha) but still remained three times lower than the average price at which ATERA sells land at the market.

	2009	2010	2011	2012	2013	08.2014	2014f	2015f
Land acquisitions, da	50 135	23 628	20 704	29 388	27 500	3 027	25 000	25 000
Land disposals da	797	4 627	62 841	79 296	46 069	23 360	30 000	27 000
Land portfolio, da	315 000	336 219	294 090	244 124	225 380	214 395	220 380	218 380
Net change, da	51 135	21 219	-42 129	-49 966	-18 744	-3 985	-5 000	-2 000

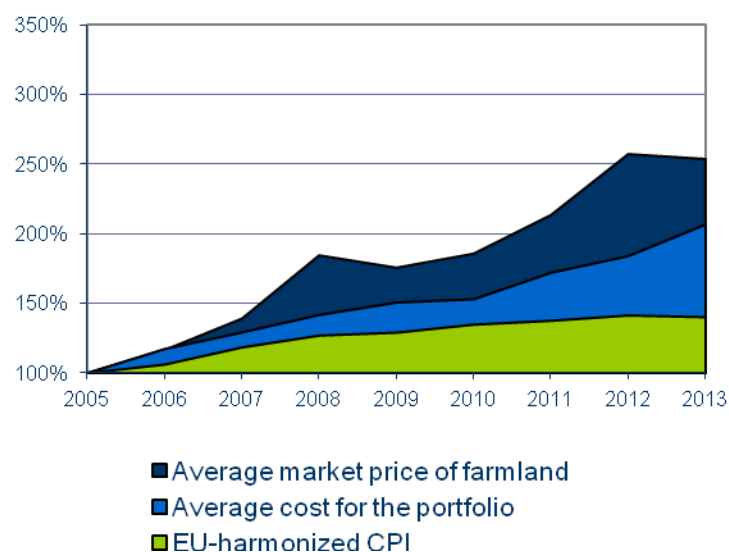
* The net change includes plots of land that have been subject to lawsuits

- ATERA's average selling price has been rising at a GAGR of 14.5% in the 2009 – 2013 periods. It has almost doubled since 2009 (when the company started to sell land from its portfolio) and reached BGN 1 146 (EUR 5 859 per ha) for January – August 2014. On the other side, the average cost of the portfolio has been increasing much more slowly, at a CAGR of 6.5% over the same period, as the bulk of the acquisitions were made between 2005 and 2009, when land prices in the country were much lower.
- While we expect the gap between selling and buying prices to keep on narrowing as the trend of consolidation evolves and the market becomes more efficient, the low cost basis of the land in ATERA's portfolio still provides potential for large capital gains.

Average Price of Land in ATERA's Portfolio, EUR per ha

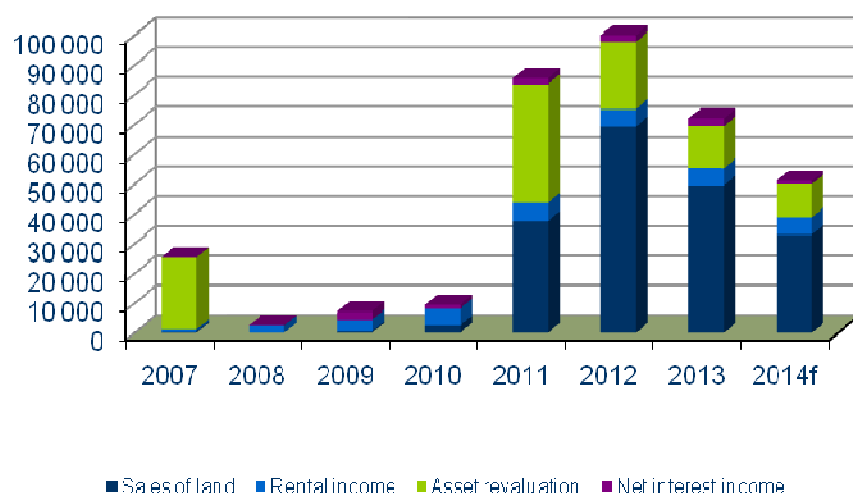


Accumulated Price Appreciation



- Sales of farmland remained the main profit driver in H1'2014 and accounted for 86% of the total revenue for the period. The company recognized BGN 17.39 mln of revenue from sales of land in H1'2014, up from BGN 5.49 mln a year earlier. In volume terms, the REIT sold 15 125 da (1 512.5 ha) through June, up from 4 819 da (481.9 ha) in H1'2013. The adjusted net income from sales of land came at BGN 11.2 mln in H1'2014, according to our estimate. The accounting earnings totalled BGN 7.59 mln for January – June 2014, up by 64% on the year.

Revenue and Revenue Breakdown, BGN'000



- ATERA also reported BGN 2.8 mln of rental revenue in H1'2014, down by 1.2% y-o-y. As of June 30, the company had rental agreements for 156 508 da, which represented 71.26% of the land portfolio, down from 76.31% a year earlier. The decrease in the occupation rate is related to the increased turnover of the land in the portfolio. Also, the company's practice is to exclude newly acquired plots of land that have established tenancy agreements (with prior owners) from the reported acreage rented out. Such a practice results in lower reported occupation rates in periods with increased acquisition activities, as in 2014.

- The average rent for the new contracts for agriculture year 2013/2014 remained unchanged at BGN 45.00 per da. The average rent for all contracts came at BGN 36.43 for agriculture year 2013/2014, up from BGN 30.04 for 2012/2013. Rental revenue is forecasted to reach BGN 5.63 mln for agriculture year 2013/2014, down from BGN 5.65 for 2012/2013, the company said in its monthly newsletter. ATERA has already collected BGN 1.94 mln of the rentals, or 34.5% of the forecasted rental revenue for the year.

	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Average rent, BGN per da	11.18	14.20	17.21	20.51	23.78	26.85	36.60	45.00
Average rent, EUR per ha	57.16	72.60	87.99	104.87	121.59	137.28	187.13	230.00
Occupation rate	51.10%	67.90%	78.30%	79.70%	87.10%	90.50%	80.60%	71.26%*
Collection rate	99.10%	97.90%	97.90%	96.10%	96.50%	96.90%	84.10%*	34.50%*

* data for less than full year

- Net interest income amounted to BGN 0.941 mln in H1'2014, down from BGN 1.67 mln a year earlier as the company's cash position was decreasing, in line with increased acquisitions and substantial dividend payments. We expect interest income to keep on decreasing, due to diminishing cash position, decreasing interest rates in the country, and a more conservative approach in the company's cash management policy, related to the bank run in Bulgaria in June and July, 2014.

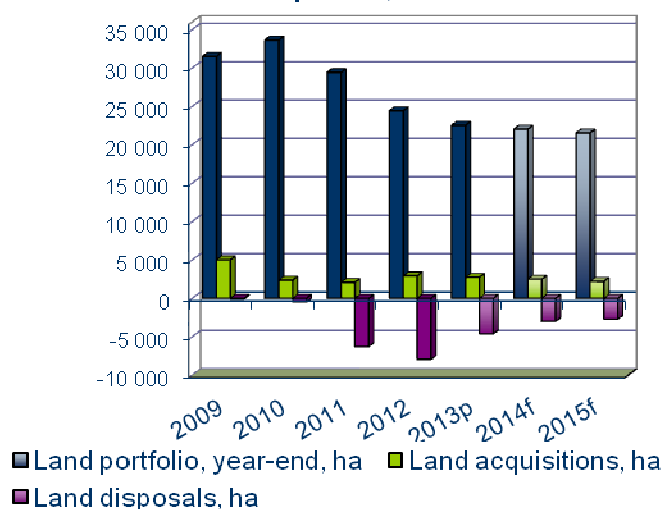
- The balance sheet remained strong, with virtually no interest-bearing debt and plenty of cash. The value of the investment property decreased by 1.6% YTD to BGN 160.979 mln at the end of June. Operating cash flow amounted to BGN 18.849 mln in H1'2014, up from BGN 8.893 mln a year earlier. Cash and cash equivalents dropped by 35% YTD as the company distributed BGN 33.856 of dividends for 2013, or BGN 0.3979 gross DPS (99.99% payout).

Outlook

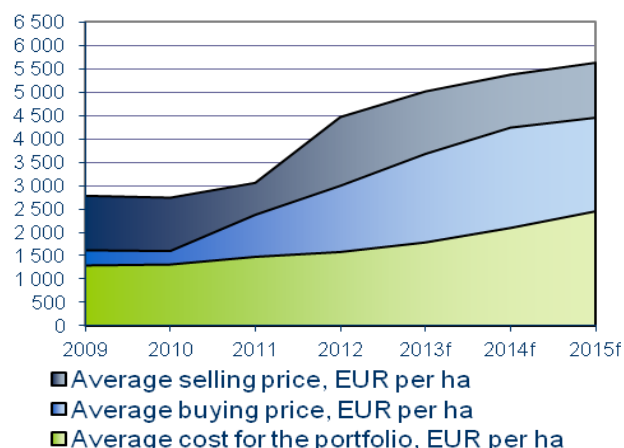
We keep our estimate for full-year sales volume of 30 000 da but updated the average estimated selling price to BGN 1 100 per da from BGN 1 000 previously, in line with the higher prices at which ATERA has been selling land in January – August, 2014.

- As sales of farmland generate the bulk of the revenue, the selling price of land and the volume of sales are the most important factors that influence the performance of the company. Although ATERA has already sold 23 360 da through August, we keep our conservative estimate for full-year sales volume of 30 000 da, down from 46 069 da in 2013, in line with the cooling off of the farmland market in Bulgaria. We also expect that the company shall continue to be an active buyer as profitable acquisition opportunities arise (a result of adverse weather conditions which affected farmers' profits in 2014).
- We updated the average estimated selling price for 2014 to BGN 1 100 per da from BGN 1 000 previously, in line with the increase in the price at which ATERA has been selling land in January – August (BGN 1146 per da, up from BGN 1072 in 2013). Consequently, we estimate revenues from sale of land to come at BGN 33.0 mln in 2014, down from BGN 49.5 mln in 2013, and to account for 66% of total revenue.
- We expect that ATERA shall remain a net seller in 2014 and 2015 but the difference between buying and selling volumes shall shrink substantially, as well as the spread between acquisition and selling prices, in line with the higher prices at which the company acquires new plots of land. We also expect the average selling price to remain in the range between BGN 1100 - 1150 per da in 2014 and 2015, and the average purchase price to rise by 11.3% y-o-y to BGN 770 per da in 2014 and by 7.8% to BGN 830 per da in 2015. The low cost basis for the bulk of the portfolio, however, still offers some profit potential.

Land Portfolio, Acquisitions and Disposals, Ha



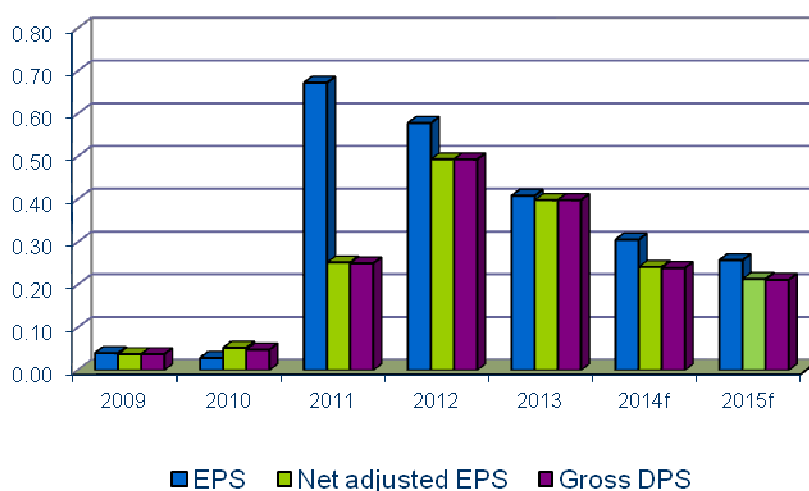
Average Price of Land in ATERA's Portfolio, EUR per ha



- We revised downwards our estimated occupation rate to 75% from 85% previously, in line with the increased turnover of the land portfolio. Consequently, estimated rental revenues came at BGN 5.89 mln for 2014 and BGN 6.1 mln for 2015, respectively. We also made a downward revision to our net interest income estimate, in line with decreasing interest rates in the country, along with ATERA's more conservative approach to the cash management after the bank run in Bulgaria in the summer of 2014.
- We expect to see BGN 20.55 mln of adjusted profit available for distribution for 2014 (including BGN 11 mln positive revaluation effects), down by 39% from 2013. At the expected payout ratio of 99%, this translates into a gross dividend of BGN 0.24 per share for 2014 and delivers a dividend yield of 9.8%.
- We believe that ATERA shall continue to see strong performance and massive cash generation, given the company's active approach in managing its land portfolio and the favorable outlook for Bulgaria's agricultural sector, based on rising subsidies, strong demand from farmers, large potential for further consolidation of fragmented holdings and gradual price convergence with CEE countries.

We expect to see BGN 20.55 mln of adjusted profit available for distribution for 2014 which translates into a gross dividend of BGN 0.24 per share for 2014 and delivers a dividend yield of 9.8%.

EPS, Adjusted EPD and Gross DPS, BGN



Land Portfolio, da	2009	2010	2011	2012	2013	08.2014	2014f	2015f
Land portfolio, year-end, ha	31 500	33 622	29 409	24 412	22 538	21 440	22 038	21 838
Land portfolio, year-end, da	315 000	336 219	294 090	244 124	225 380	214 395	220 380	218 380
Land acquisitions, ha	5 014	2 363	2 070	2 939	2 750	303	2 500	2 500
Land acquisitions, da	50 135	23 628	20 704	29 388	27 500	3 027	25 000	25 000
Land disposals, ha	-80	-463	-6 284	-7 930	-4 607	-2 336	-3 000	-2 700
Land disposals da	797	4 627	62 841	79 296	46 069	23 360	30 000	27 000
	2009	2010	2011	2012	2013	08.2014	2014f	2015f
Average selling price for the year, BGN per da	544	536	598	873	1 072	1 146	1 100	1 150
Weighted-average buying price for the year, BGN per da	317	313	465	587	692	767	770	830
Average cost of the portfolio, BGN per da	253	257	289	309	347	389	395	444
Average selling price, EUR per hectare	2 781	2 741	3 058	4 464	5 481	5 859	5 624	5 880
Average buying price, EUR per hectare	1 621	1 603	2 378	2 999	3 538	3 924	3 937	4 244
Average cost of the portfolio, EUR per hectare	1 294	1 314	1 478	1 580	1 774	1 989	2 020	2 272

- The average realizable price of the farmland in the portfolio is the most important factor when determining the net asset value (NAV) of Advance Terrafund REIT. We base our NAV valuation on an average realizable price of BGN 1000 per da (EUR 4 601 per ha), which is 16% below the average selling price of BGN 1 072 per da (EUR 5 481 per ha) in 2013 and 13% below the average selling price for January – August 2014. Although the company has diligently devaluated the urban land in its portfolio by more than 30% since 2008 to reflect the falling prices of urban plots, we apply an additional 50% discount to reflect unfavorable conditions in the domestic market.
- Subtracting the value of the liabilities as of the end of June 2014, we arrive at a **net asset value of BGN 3.17 per share**.
- Then, subtracting the estimated transaction costs related to the liquidation of the portfolio, we arrive at the **liquidation value of BGN 3.00 per share**.
- Although the stock has rallied in the past twelve months, it is still trading at 22.5% discount to NAV which reflects the generally low liquidity of farmland as an asset class and uncertainties about the average realizable price of land. However, given the company's low use of leverage, high quality of the portfolio, transparent structure and the high liquidity of the share, we believe that the stock still offers some upside potential in the medium term. We remain positive on the long term prospects of the company due to the favorable outlook for the agricultural sector and the management's active approach in managing the land portfolio, which creates further opportunities for value creation. In the short term, weather conditions could affect the price of farmland, i.e. the performance of ATERA, as the short and dry winter on the Balkans might affect the harvest.
- Investors should be aware that the NAV approach does not take into consideration the full value arising from the company's continuing activity as a going concern, i.e. the value of growth. Its underlying assumption is that the company is worth its current net realizable value of assets.

NAV, BGN amounts in thousands, except otherwise stated	30.06. 2014
Land portfolio, da*	219 603
Price per da, BGN	1 000
Value of land	219 603
Urban land, book value	14 642
Urban land, adjusted value	7 321
PPE	250
Current assets	48 135
Total assets (3 + 5 +6 +7)	275 309
Total liabilities (excluding dividend to be paid)	5 289
NAV (8 - 9)	270 020
Number of shares, thousands	85 110
NAV per share, BGN	3.17
Transaction costs related to liquidation	14 419
Liquidation value	255 601
Liquidation value per share	3.00

NAV Sensitivity analysis	Price per da, BGN										
	400	500	600	700	800	873	900	1 000	1 100	1 146	1 200
NAV per share, BGN	1.62	1.88	2.14	2.40	2.66	2.84	2.91	3.17	3.43	3.55	3.69
Liquidation value per share	1.61	1.84	2.08	2.31	2.54	2.71	2.77	3.00	3.26	3.38	3.52

Financials

Income Statement, YTD	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012	31/12/2013	30/06/2014
REVENUES	25 668	4 815	4 452	8 151	83 547	97 813	69 367	20 188
% change (y-o-y)	198.6%	-81.2%	-7.5%	83.1%	925.0%	17.1%	-29.1%	142.7%
Operating expenses								
Materials and energy	0	0	274	2	0	1	27 372	0
Compensation	67	115	114	112	112	112	117	59
Cost of hired services	1 744	3 183	3 211	3 553	6 675	10 230	8 809	3 292
Other operating expenses	426	2	147	1 443	21 096	40 205	20	10 186
Impairments / writedowns & provisions	23	786	93	1 958	449	715	976	0
Total operating expenses	2 260	4 086	3 839	7 068	28 332	51 263	37 294	13 537
% change (y-o-y)		80.8%	-6.0%	84.1%	300.8%	80.9%	-27.2%	152.5%
OPERATING INCOME (EBITDA)	23 408	729	613	1 083	55 215	46 550	32 073	6 651
% change (y-o-y)	220.6%	-96.9%	-15.9%	76.7%	4998.3%	-15.7%	-31.1%	124.8%
EBITDA margin	91.2%	15.1%	13.8%	13.3%	66.1%	47.6%	46.2%	32.9%
Depreciation and amortization	0	0	0	0	0	0	0	0
EBIT	23 408	729	613	1 083	55 215	46 550	32 073	6 651
% change (y-o-y)	220.6%	-96.9%	-15.9%	76.7%	4998.3%	-15.7%	-31.1%	124.8%
EBIT margin	91.2%	15.1%	13.8%	13.3%	66.1%	47.6%	46.2%	32.9%
Financial income / expenses								
Interest income / cost, net	120	161	2 797	1 358	2 018	2 652	2 670	941
FX gain / loss, net	0	-4	-2	-1	0	0	0	0
Income / loss from investments, net	0	0	0	0	0	0	0	0
Other, net	-57	-148	-2	-2	-1	-3	-3	-1
Total financial income / expenses	63	9	2 793	1 355	2 017	2 649	2 667	940
Extraordinary items	0	0	0	0	0	0	0	0
Income / loss from associates	0	0	0	0	0	0	0	0
INCOME BEFORE TAXATION	23 471	738	3 406	2 438	57 232	49 199	34 740	7 591
Tax expenses	0	0	0	0	0	0	0	0
Minority interest	0	0	0	0	0	0	0	0
NET INCOME	23 471	738	3 406	2 438	57 232	49 199	34 740	7 591
% change (y-o-y)	219.4%	-96.9%	361.5%	-28.4%	2247.5%	-14.0%	-29.4%	64.1%
Net income margin	91.4%	15.3%	76.5%	29.9%	68.5%	50.3%	50.1%	37.6%

Source: x3analyses, Karoll

Financials

Balance Sheet	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012	31/12/2013	30/06/2014
ASSETS								
Current assets								
Inventories	0	0	0	0	0	0	0	0
ST investments in securities	0	0	0	0	0	0	0	0
Receivables	1 066	2 852	5 185	5 597	6 500	6 268	5 208	6 646
Prepayments	26	12	28	104	14	16	13	7
Cash and cash equivalents	514	49 839	29 287	23 317	47 625	76 018	64 059	41 482
Total currents assets	1 606	52 703	34 500	29 018	54 139	82 302	69 280	48 135
Non-currents assets								
Property, plant and equipment	0	0	35	35	39	65	245	250
Intangibles	0	0	0	0	0	0	0	0
LT investments in securities	0	0	0	0	0	0	0	0
Long-term receivables	0	0	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0	0	0
Investment property	91 929	112 512	123 870	128 644	157 144	156 965	163 625	160 979
Other	0	0	0	0	0	0	0	0
Total non-currents assets	91 929	112 512	123 905	128 679	157 183	157 030	163 870	161 229
TOTAL ASSETS	93 535	165 215	158 405	157 697	211 322	239 332	233 150	209 364
LIABILITIES AND EQUITY								
Currents liabilities								
Accounts payable	1 181	4 707	1 122	1 157	1 632	1 712	1 108	1 083
Short-term debt	8 022	0	0	0	0	0	0	0
ST accrued expenses	1 753	0	0	0	0	0	1 570	4 169
Other current liabilities	0	0	2 864	4 022	19 314	37 822	30 586	51
Total currents liabilities	10 956	4 707	3 986	5 179	20 946	39 534	33 264	5 303
Long-term liabilities								
LT accrued expenses	0	0	0	0	0	0	0	0
Long-term debt	0	0	0	0	0	0	0	0
Deferred taxes	0	0	0	0	0	0	0	0
Financing	0	0	0	0	0	0	0	0
Other long-term liabilities	0	0	0	0	0	0	0	0
Total long-term liabilities	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	10 956	4 707	3 986	5 179	20 946	39 534	33 264	5 289
Health	0	0	1	0	0	0	0	0
Minority interest	0	0	0	0	0	0	0	0
Equity								
Share capital	44 056	85 110	85 110	85 110	85 110	85 110	85 110	85 110
Reserves	7 701	43 411	43 411	43 411	43 411	43 411	43 411	43 411
Retained earnings (accumulated loss)	30 822	31 987	25 898	23 997	61 855	71 277	71 365	75 540
TOTAL EQUITY	82 579	160 508	154 419	152 518	190 376	199 798	199 886	204 061
TOTAL LIABILITIES AND EQUITY	93 535	165 215	158 405	157 697	211 322	239 332	233 150	209 350

Source: x3analyses, Karoll

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