

Market Overview

February brought another dose of controversial legislative changes regarding the capital market, which were adopted without adequate debate and continued to exert pressure on the market. Consequently, investors remained cautious, reflecting a significant 75% drop in the monthly turnover on the Bulgarian Stock Exchange.

Despite the weak positivity in the early days of February, which tried to push the main index SOFIX above the psychological level of 500 point, the enthusiasm soon cooled off. The index continued its down trend during the month and registered a decline of 2.54%, after losing 4.14% of its value in the first month of 2015. The drop was mainly provoked by the decision of the Parliament to adopt legislative amendments to the Bulgaria Agricultural Land Ownership and Use Act. The changes impose financial penalties on companies (incl. public ones) that own agricultural land in Bulgaria and have shareholders, registered in countries outside EU, EEA and offshore.

February proved to be an extremely successful for Trace Group Hold AD [57T] which shares surged 30% m-o-m (see Stocks in Focus) after the major shareholder sold 1% of its shares, aiming to increase the free float. Among the other outperformers were Biovet AD [53B], which price registered an increase of 13.46% after better than expected consolidated financial results for 2014.

Among the group of the losers in February were the shares of Yuri Gagarin AD [4PX], which lost 16.66% of their value, followed by Bulgarian Real Estate Fund REIT [5BU] (-6.74%) and Sopharma AD [3JR] (-6.18), which disappointed investors with poor consolidated annual results.

Relatively good Q4 were far from enough to offset the negative impact of political news. Another cold shower upon the market was brought by the news that the European Commission has stepped up the macroeconomic imbalances procedure against Bulgaria.

Continues on page 4

Monthly Newsletter 02'2015

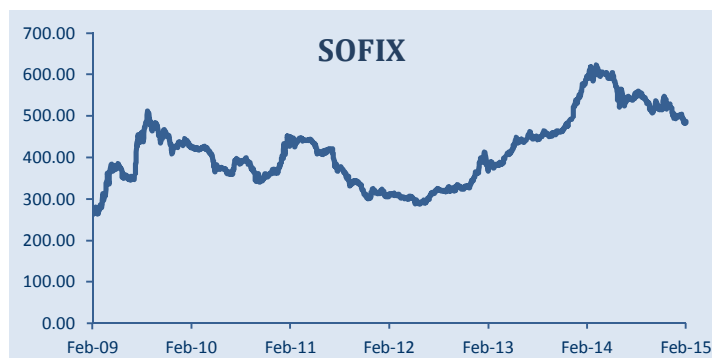
Bulgarian Stock Exchange | Trends

	Value	Monthly change	Year-to-date
SOFIX	487.79	-2.54%	-6.57%
BGBX 40*	99.18	-1.22%	-5.19%
BG REIT	94.77	-1.47%	-4.03%
BGTR 30	397.97	0.57%	-2.34%

*BGBX 40 replaces BG40 starting on January 1, 2014

BSE Turnover	BGN	EUR
Equities (BGN/EUR'000)	19 663.05	10 053.56
Bonds (BGN/EUR'000)	2 879.49	1 472.26
Other (BGN/EUR'000)	354.98	181.50
Total-Regulated market (BGN/EUR'000)	22 897.53	11 707.32
OTC market (BGN/EUR'000)	61 835.59	31 616.03
Market Cap (BGN/EUR'000 000)	7 209.28	3 686.04
Market Cap/GDP	7.2%	

SOFIX



P/E	P/B	EPS growth	Market Cap	Turnover
13.90	0.56	-46.0%	2 869	8.342

Annual trailing EPS growth; Market cap and turnover in BGN'000 000

CEE and Global Markets

Country / Region	Index	Value	Monthly change	Year-to-date
Bulgaria	SOFIX	487.79	-2.54%	-6.57%
Greece	ASE	880.48	21.96%	6.57%
Macedonia	MBI-10	1 842.39	-1.71%	-0.10%
Poland	WIG20	2 367.10	1.11%	2.21%
Romania	BET	7 196.81	2.33%	1.61%
Russia	RTS	896.63	21.60%	13.40%
Slovakia	SAX	257.98	13.46%	16.04%
Slovenia	SBITOP	796.41	0.77%	1.57%
Serbia	BELEX15	658.01	-0.94%	-1.35%
Turkey	ISE-100	84 147.51	-5.39%	-1.84%
Ukraine	PFTS	445.10	16.41%	15.04%
Hungary	BUX	18 210.19	10.16%	9.48%
Croatia	CROBEX	1 745.56	-1.09%	0.01%
Montenegro	NEX20	11 961.97	5.80%	5.34%
Czech Republic	PX	1 022.75	7.01%	8.03%
Morgan Stanley	MSCI EE (€)	335.62	16.21%	21.97%
USA	S&P 500	2 104.50	5.49%	2.21%
Germany	DAX	11 401.66	6.61%	16.28%
Japan	NIKKEI	18 797.94	6.36%	7.72%

Trace Group Hold AD [T57]

Sector: infrastructure building

Trace Group Hold missed management guidance for sales, but the stock still shot up by as much as 30% in February following an announcement that the major shareholder is determined to increase the free float of the company (which is currently around 10%). Investors cheered the news as a higher free float would prompt inclusion of the stock in the composition of blue-chip index SOFIX. The stock surged to a four-year high of BGN 8.15 on February 23, when 233 569 stocks changed hands at that price. Data from the Central Depository showed that majority owner Nikolay Mihailov has sold nearly 1% of his shares, slightly decreasing its interest in the company to 79.58% from 80.55% before the transaction. Mihailov has not revealed what percentage of the company would be offered for sale yet.

Consolidated sales totaled BGN 105.5 mln for the December quarter, down by 25.7% y-o-y and missing management guidelines by more than BGN 20 mln. EBITDA dropped by 33% in Q4 to BGN 8.2 mln, while earnings tumbled by more than 39% to BGN 5.5 mln.

Shares outstanding, th	24 200	P/E	19.30
Last share price*	7.55	P/B	1.80
Market cap, BGN th	182 710	P/S	0.50
Assets, BGN mln	235.98	ROA, ttm	4.40%
Debt/Assets	56.48%	ROE, ttm	9.50%

* as of March 10, 2015

Full-year consolidated revenues inched up 5.2% to BGN 339.4 mln, 5.7% below the management forecast. Meanwhile, EBITDA slumped by 30% to BGN 18.8 mln and the EBITDA margin narrowed to 5.6% from 8.4% a year earlier as expenses grew faster than revenues. Cost of raw materials and labor expenses increased the most, by 22% and 16%, respectively. The company's net income for the year saw a 42% decrease over last year, falling from BGN 16.4 mln to BGN 9.5 mln.

On the balance sheet, cash in troubled Corporate Commercial Bank [6C9], whose license has been revoked, decreased to BGN 4.9 mln from BGN 9.5 mln at the end of September, 2014. The management forecasts Q1'15 revenues to increase 25.8% y-o-y to BGN 72 mln, while full-year revenue is forecasted to grow by 3% to BGN 350 mln.

Advance Terrafund REIT [6A6]

Sector: REITs

Share price of Advance Terrafund [6A6] dropped 5.15% to BGN 2.39 in February on fears that the company's business could be severely affected by amendments in the law on the ownership of agricultural land. According to the law, citizens and companies outside the European Union (EU) and European Economic Area (EEA) and offshore areas are prohibited to own shares in companies which possess farmland, with no exclusion for publicly traded companies.

Effective from May 1, the changes provide for a fine of BGN 1000 per hectare for a company that owns land and which has shareholders registered in countries outside the EU and EEA and offshore, which would be followed, in the case of a second offence, by a fine of BGN 3000 per hectare. The penalty may be imposed every three months while the law is still being breached. Those liable to be penalized would be companies with non-EU foreign participation and non-EU individuals.

The Parliament approved the second reading of changes to the Ownership and Use of Agricultural Land Act on February 11 which sparked a sell-off on the stock exchange in Sofia.

Shares outstanding, th	85 110	P/E	14.79
Last share price *	2.36	P/B	0.96
Market cap, BGN th	201 200	P/S	4.76
Assets, BGN mln	212.78	ROA, ttm	4.94%
Debt/Equity	1.22%	ROE, ttm	6.64%

* as of March 10, 2015

The estimated market capitalization of the companies which would potentially be affected is BGN 1.5 bn, or 20% of the total capitalization of the Bulgarian stock market, and includes companies from a vast majority of businesses, including tourism, pharmaceutical, agricultural, real estate, etc.

The clauses of the law take no account of the fact that shares of public companies are freely transferable by law, and breach basic principles of stock trading and capital markets. A number of Bulgarian business associations and the Bulgarian Stock Exchange have spoken out publicly against the changes, calling MPs to reconsider controversial articles.

Advance Terrafund owned 21 708 ha of farmland as of the end of 2014. The company reported net profit of BGN 1.5 mln for Q4'2014 before revaluation, down from BGN 25 mln (after revaluation) in Q4'2013. It sold 3146.2 ha of farmland in 2014 at an average price of BGN 11490 per ha, compared to 4606.9 ha at an average of BGN 10720 a year earlier.

Main Economic Indicators

	2011	2012	2013	2014
GDP, in BGN bn	78.4	80.0	80.3	82.0
GDP, real annual growth (%)	2	0.5	1.1	-
Inflation (%)	4.2	3.0	0.9	-1.4
Jobless rate (%)	10.4	11.4	11.8	10.7
Fiscal balance, %GDP	-2.0	-0.5	-1.2	0.0
Gross public debt, %GDP	15.7	18	18.3	23.6
Gross external debt, %GDP	90.5	92.2	90.0	94.3
Current account, %GDP	0.1	-1.1	2.1	0.0
FDI, %GDP	3.3	2.8	3.1	2.8
Prime interest rate (%)	0.22	0.03	0.04	0.01

For 2014 latest available official data is used. GDP data is for 2014. Data for inflation and unemployment are at end-December 2014. Fiscal balance and Gross public debt data is for Q3'2014. Gross external debt, current account and FDI data is at end-December 2014. Data for the prime interest rate is for March 2015.

Market Overview (cont.)

from page 1

The decision of the European Commission is the final step before the start of a formal procedure against the country which could lead to sanctions. The main reason behind the decision of the Commission are concerns regarding the existence of bank practices in some of the Bulgarian banks with domestic ownership, which might have significant negative impact over the financial sector. These concerns were raised after the banking turmoil from the summer of 2014.

February was good for most of the European markets as they continued their strong uptrend. Positivism was boosted by news for the temporary resolution of the Greek problem, and the agreement in Minsk regarding the row between Russia and Ukraine. Furthermore, upbeat macro data for the US economy and the Eurozone supported the optimistic mood among investors and leading European markets like Germany and France reached impressive double-digit growth rates of 15% since the beginning of the year, continuing a trend that had started in January with the announcement of ECB's massive QE program. As a side effect of the QE, however, the euro continued to weaken against the dollar, reaching new lows in February.

News of the Past Month | Corporate Sector

- Software developer Sirma Group Holding AD announced that it's working on its IPO on BSE. The company will try to raise between BGN 19.2 mln and BGN 26.4 mln through issuance of 16 mln new ordinary shares with an issue price between BGN 1.20 and BGN 1.65 per share, the conglomerate said. Sirma Group Holding AD is one of the largest software groups in Southeastern Europe with more than 23 years of experience. Last available financial statements reveal consolidated loss of BGN 2.95 mln for 2013 vs. negative bottom line of BGN 1.88 mln for 2012.
- Euroins Insurance Group, a subsidiary of Eurohold Bulgaria AD [4EH], has signed agreement with Talanx International to acquire its Bulgarian and Ukrainian insurance businesses – HDI Insurance in Bulgaria and HDI Strakhuvannya, Eurohold Bulgaria AD announced. The gross written premium earned by HDI Insurance amounted to EUR 13 mln for 2013 and EUR 16 mln for HDI Strakhuvannya. Combined EBIT of the two companies arrived at around EUR 1 mln for 2013. The transaction is subject to regulatory approvals and is expected to be completed in the Q2'2015. Meanwhile, Euroins Insurance Group reported a 42.77% annual increase of the gross written premium for January 2015 to EUR 19.278 mln.
- Eurohold Bulgaria AD [4EH] finished 2014 with net consolidated loss of BGN 1.685 mln vs. net income of BGN 2.278 mln a year earlier, consolidated Q4 financial statement showed. Revenues fell 3% on the year to BGN 569.909 mln, while operating expenses decreased twice as slow, by 1.5% y-o-y to BGN 508.352 mln. Thus, EBITDA dropped by an annual 42% to BGN 11.713 mln. Financial expenses jumped 23% on the year to BGN 5.783 mln.

News of the Past Month | Economy and Politics

- Moody's assigned a provisional unsecured Baa2 rating to Bulgaria's Global Medium Term Note program. The rating reflects the country's weak economic growth outlook in an environment of moderate credit expansion and persistent unemployment. The rating also takes into account the challenges to the banking system, the high fiscal strength, the low government debt and the maintaining the fiscal reserves.
- Bulgaria's Parliament approved a controversial EUR 8 bn debt program, which will be managed by Citi, HSBC, Societe Generale and Unicredit. The funds will be raised through bond sales over the next three years. The proceeds will be used to roll over maturing debt, cover fiscal shortfalls and guarantee the fiscal reserve.

News of the Past Month | Economy and Politics

- Assets under management of local and foreign funds, operating in Bulgaria increased 27% on the year to BGN 1.958 bn in 2014, showed the preliminary data provided by the Bulgarian central bank. This is the highest amount of assets ever managed by the investment funds since the beginning of the statistics, collected by BNB. 106 were the local fund at the end of 2014 and they managed BGN 802.3 mln, which is an annual increase of 15%. Assets under management of the foreign investment funds expanded 36% y-o-y to BGN 1.16 bn at the end of 2014.
- The European Commission has stepped up the macroeconomic imbalance procedure against Bulgaria. The Commission noted the financial sector turmoil in 2014, which necessitated specific monitoring. It expressed concerns about the existence of banking practices in the domestically-owned banks with potentially significant implications for the financial sector and overall macroeconomic stability. Among the other reasons cited by the Commission were corporate overleveraging and weak labor market adjustment.
- Bulgaria's current account surplus amounted to EUR 18.8 mln (0.04% of GDP) in 2014, down from EUR 848.2 mln (2.1% of GDP) a year earlier, data by BNB showed. The trade balance was negative at EUR 2 902.4 mln (6.9% of GDP) in 2014 vs. a deficit of EUR 2 430 mln (5.9% of GDP) a year earlier. Exports for 2014 decreased 0.7% y-o-y to EUR 22 106.3 mln while imports increased by 1.2% on the year to EUR 25 008.7 mln. Foreign direct investment (FDI) arrived at EUR 1 181.6 mln (2.8% of GDP) for 2014, down from EUR 1 275.1 mln (3.1% of GDP) a year earlier.
- European Commission notified Bulgaria that the payments under the operational program Regional Development for the programming period 2007 – 2013 can be resumed. Payments were temporarily suspended in order to ensure the effectiveness of control systems. The Commission will immediately proceed to the first payment of more than EUR 52 mln and the EUR 92 mln requests for payments received in February will be paid in March.

News of the Past Month | Corporate Sector

from page 4

- Sopharma AD [3JR] reported a greater decrease of its earnings for 2014 after consolidation, despite the good performance of its subsidiary Sopharma Trading AD [S05]. Consolidated net income plunged 49.02% on the year to BGN 15.039 mln, showed the consolidated financial statements for Q4. Revenue increased 11.30% y-o-y to BGN 855.694 mln, while operating expenses jumped faster by an annual 13.31% to BGN 778.151 mln. EBIT fell 13.31% on the year to BGN 48.459 mln. The management of Sopharma AD explained the poor performance mainly with the decreased exports to Ukraine due to the situation there.
- Albena AD [6AB] reported a 34.655 annual decrease of its net consolidated income to BGN 9.193 mln for 2014, showed the consolidated Q4 financial statement. Revenue fell 4.20% on the year to BGN 102.840 mln, while operating expenses increased 1.19% y-o-y to BGN 76.496 mln. Consequently, EBITDA dropped 17.05% on the year to BGN 26.344 mln. The slump in the revenue was mainly due to the weak summer season and the decreased number of Ukrainian and Russian tourists.
- Bulgartabac Holding AD [57B] finished 2014 with a 53.37% annual decrease in its net income to BGN 31.576 mln, showed the consolidated Q4 financial statement of the conglomerate. Revenue inched up 3.41% on the year to BGN 534.792 mln, while operating expenses jumped 5 times faster, by 17.56% y-o-y to BGN 472.859 mln. The increase in the OPEX is mainly due to an expansion in the raw and energy materials as well as cost of hired services. EBITDA reached BGN 61.933 mln vs. BGN 114.935 mln at the end of 2013.
- Sopharma Trading AD [S05] has established a new subsidiary Sopharmasi Ltd, which main activities will be franchising and consultation, announced from the company. The capital of the newly founded entity is BGN 5 000 and the sole owner is Sopharma Trading AD. Meanwhile, Sopharma Trading AD disclosed that it ended the first month of 2015 with a 4% annual increase in EBIT to BGN 1.564 mln. Revenues arrived at BGN 52.029 mln vs. BGN 52.6 mln for January, 2014.

Company	Ticker	Sector	Market	Price	Monthly	YTD	Turnover	P/E	P/B	P/S	EV/	EV/
			Cap	end of	change	change	(BGN'000)				EBITDA	Sales
			(BGN'000)	month								
Advance Equity Holding AD	6A8	conglomerate	14 378	0.40	0.0%	-13.0% ▼	0.40	72.6	0.4	n.a.	-79.0	n.a.
Advance Terrafund REIT	6A6	REITS	205 456	2.41	-5.1% ▼	-1.1% ▼	4 484.10	15.0	1.0	4.8	12.7	3.7
Agria Group Holding AD-Varna	A72	agribusiness	61 472	9.04	2.7% ▲	6.4% ▲	363.92	4.2	0.9	0.5	6.0	1.0
Albena AD	6AB	tourism	223 057	52.20	-3.3% ▼	-8.9% ▼	1 228.11	24.4	0.6	2.2	12.2	3.1
Albena Invest Holding AD-Albena	5ALB	conglomerates	33 864	6.16	0.1% ▲	-5.2% ▼	68.70	38.5	0.3	5.4	35.2	5.2
Biovet AD	53B	chemicals	100 055	14.75	13.5% ▲	28.8% ▲	153.86	6.4	1.0	0.5	5.0	0.7
Bulgarian Real Estate Fund REIT	5BU	REITS	30 104	0.50	-6.7% ▼	-7.8% ▼	352.45	-	0.4	9.5	-29.4	7.9
Bulgarian Stock Exchange-Sofia	BSO	fin.services	23 033	3.50	2.9% ▲	-2.8% ▼	83.35	neg	2.3	10.5	849.9	9.3
CB Central Cooperative Bank AD	4CF	banks	115 417	1.02	-2.9% ▼	-7.2% ▼	220.90	16.8	0.3	-		
CEZ Distribution Bulgaria AD	3CZ	utilities	281 488	146.00	2.1% ▲	2.8% ▲	153.71	35.6	0.3	0.4	4.3	0.7
Chimimport AD	6C4	conglomerates	248 615	1.65	-1.4% ▼	-4.6% ▼	533.30	3.3	0.2	0.4	-8.9	1.7
Doverie Obedinen Holding AD	5DOV	conglomerates	17 612	0.94	7.7% ▲	-5.1% ▼	13.96	15.4	0.2	0.1	9.5	0.6
Enemona AD	E4A	energy	19 929	1.67	-1.1% ▼	-4.6% ▼	35.07	-	-	-	-	-
Eurohold Bulgaria AD	4EH	conglomerates	107 097	0.84	-6.6% ▼	-13.3% ▼	49.46	neg	0.5	0.2	-95.9	0.4
Fazerles AD	4F6	industrials	23 948	46.50	-0.5% ▼	-4.1% ▼	79.17	15.1	1.0	1.3	6.6	1.1
First Investment Bank AD	5F4	banks	279 950	2.55	2.7% ▲	-9.1% ▼	135.27	8.7	0.4	-		
Industrial Capital Holding AD	4I8	conglomerates	49 766	3.20	-3.9% ▼	-15.9% ▼	35.52	16.6	1.3	0.3	1.2	0.2
Industrial Holding Bulgaria PLC	4ID	conglomerates	73 417	1.08	-0.1% ▼	-6.1% ▼	111.05	9.6	0.3	0.8	9.2	2.2
M+S Hydraulic AD	5MH	machinery	206 993	5.30	-1.5% ▼	1.7% ▲	98.52	15.3	2.6	1.8	9.6	2.1
Monbat AD	5MB	machinery	313 170	8.03	0.4% ▲	-6.1% ▼	397.50	11.7	1.7	1.4	8.4	1.6
Neochim AD	3NB	chemicals	108 829	41.00	10.8% ▲	5.3% ▲	47.77	neg	1.5	0.4	-11.0	0.6
Sopharma AD	3JR	pharmaceuticals	430 554	3.40	-6.2% ▼	-12.4% ▼	520.74	26.2	1.1	0.5	8.4	0.8
Sopharma Properties REIT-Sofia	6S6	REITS	56 087	3.57	2.3% ▲	4.2% ▲	117.52	10.5	1.6	5.4	12.6	9.2
Sopharma Trading	SO5	pharma trading	167 190	5.08	-6.7% ▼	-8.5% ▼	452.70	12.9	2.6	0.3	16.4	0.5
Sparky Eltos AD-Lovech	SL9	machinery	14 995	0.90	0.6% ▲	-0.4% ▼	3.24	-	0.3	-	-	-
Stara Planina Hold AD	5SR	conglomerates	86 331	4.11	0.3% ▲	-4.4% ▼	55.27	12.4	1.1	0.5	1.7	0.3
Synergion Holding AD	6S7	conglomerates	21 976	1.20	0.6% ▲	-0.2% ▼	66.94	neg	0.1	0.1	11.6	0.3
Toplivo AD	3TV	commerce	27 897	5.15	3.0% ▲	3.0% ▲	138.45	80.6	0.2	0.1	11.2	0.3
Trace group Hold AD	T57	infrastructure	195 004	8.06	30.0% ▲	29.3% ▲	3 237.12	19.8	1.8	0.6	8.8	0.5
Yuri Gagarin PLC-Plovdiv	4PX	industrials	35 137	35.00	-16.7% ▼	-11.9% ▼	430.56	61.0	0.5	0.3	6.8	0.4

The composition of BG30 was changed in September 2014 in accordance with a decision of the Board of Directors of the Bulgarian Stock Exchange. Agro Finance REIT [6AG], Sila Holding AD [6S5], Himsnab Bulgaria AD [58E] and Holding Varna AD [5V2] were replaced by CEZ Distribution Bulgaria [3CZ], Fazerles AD-Silistra [4F6], Advance Equity Holding AD [6A8], and Toplivo AD [3TV],

Top 3 Gainers*			Change	Top 3 Losers*			Change
Trace Group Hold AD	T57	+ 29.97%		Yuri Gagarin AD	4PX	-16.66%	
Biovet AD	53B	+ 13.46%		Bulgarian Real Estate Fund REIT	5BU	-6.74%	
Speedy AD	OSP	+ 4.91%		Sopharma AD	3JR	-6.18%	

* Among all stocks with turnover of at least BGN 100 000 for the past month

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