

Record, but colored in red

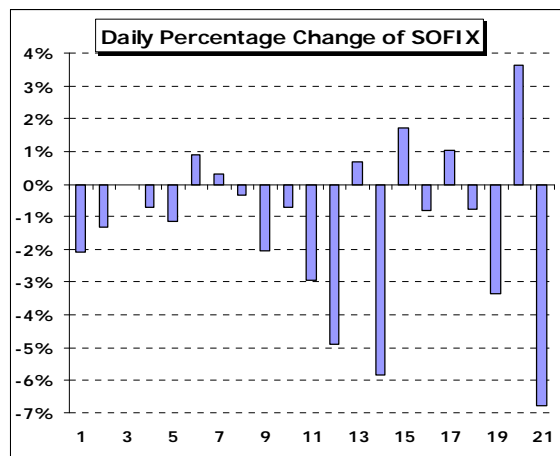
September was the worst month in the recent Bulgarian Stock Exchange's history. SOFIX declined by 22.91%, almost as in January when the main index lost 20.65%. The drop since the beginning of the year reached 55.17%. There were not a lot of shares, which managed to stay aside from the overall weakness. Even usually steady position like Monbat, which overperformed the market during the correction, declined by 25% on monthly basis. The market weakness is a result of the international market's slump and the withdrawing of capitals from foreign investors. There are no economic or corporate reasons for the sharp sell off, but the investors are pricing in the increased risk of recession in EU and in global scale.

SOFIX's Components

Stock	Last Price	Change
Albena	51.90	-21.36%
Bulgarian-American Credit Bank	39.89	-31.91%
Central Cooperative Bank	2.88	-20.44%
Chimimport	5.40	-34.94%
Corporate Commercial Bank	86.00	-4.44%
Elana Opportunity Land Fund	1.53	-18.83%
Enemona	13.47	-23.05%
Euro Ins	4.50	-37.50%
First Investment Bank	4.87	-16.03%
Holding Roads	14.90	-16.76%
Industrial Holding Bulgaria	5.10	-16.39%
Kaolin	5.15	-30.41%
Lead and Zink Complex	20.16	-27.37%
M+S Hydraulic	7.00	4.79%
Monbat	9.03	-24.88%
Neochim	75.00	-8.54%
Orgachim	132.99	-22.46%
Sopharma	2.93	-32.70%
Sparky Eltos	6.00	-24.15%
Toplivo	13.90	-15.60%

It is groundless to think that the Bulgarian market should stay aside from the global slowdown, even the real growth to remain on the current 7% annually. The lower valuation ratios abroad are pushing down also the ratios of Bulgarian stocks but the average P/E and P/S multiples are well below the average for Eastern European countries or US. One reason for the increased difference is the recession risk. Although it is smaller for Bulgarian economy as compared to the problems of consumer lead recession in US, this

risk has its implications on the valuation ratios.



SOFIX gained in only 6 from totally 21 sessions in September. The graph shows the significant volatility on daily basis. It is bigger during sessions, which follow the develop markets' sell off and the news for banks' and financial institutions' bankruptcies.

The regional markets also posted severe losses and the main reason is the capital withdrawal by foreign investors. The Bulgarian market is also under selling pressure from large foreign investors. However, the constant pressure on prices wasn't from the big packages but from the fire sell from speculators and small players. Mutual funds are also facing increased withdrawals from their investors and are also net sellers on the market.

Trading volumes remained moderate during September. Banks were among the most actively traded positions.

The news that shake the world...

The mortgage crisis takes more victims, in front of which the crash of several regional banks and the absorption of Bear Sterns from JP Morgan looks insignificant. The losses from mortgage bonds lead to decapitalization of the financial institutions. They have to sell assets in low price levels and their creditors make additional pressure to limit their losses. The Government support was insufficient to save the entire industry – the mortgage giants Freddie Mac and Fannie May, along with the insurance company AIG,

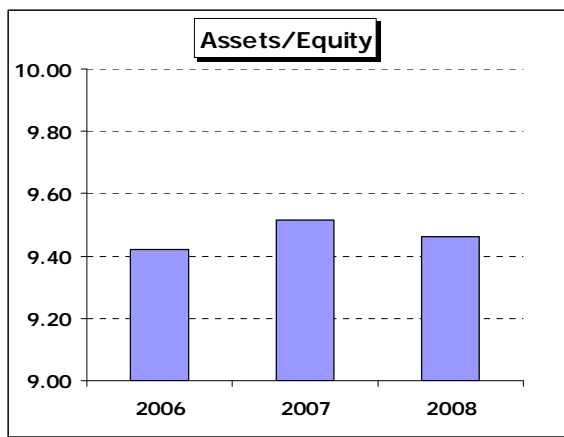
received financial support but practically leave the shareholders without real holdings. The investment bank Lehman Brothers announced a bankruptcy as the efforts had been aimed at the bailout of Merrill Lynch.

...are coming in Europe.

Fortis is the European bank, which received Government support and marked the beginning of the problems on the Continent. The German Hypo Real Estate and the British Bradford & Bingley were the other victims of the mortgage crisis.

Bulgarian banks attracted the attention of the investment community. Their shares also slumped and even underperformed the broad market. Even Corporate Commercial Bank's shares stepped back despite the solid support from large buyer.

The worries about Bulgarian banking system are mainly from foreign investors. They are a bit justified due to the limited access to funds from abroad. The parent banks of the largest Bulgarian financial institutions provided huge funds as short-term deposits. The parent banks not only ceased the landing but started to withdraw the capitals.



*August each year

Source: Bulgarian National Bank

The Bulgarian banking system has a lot of possibilities to overcome the liquidity crisis. The proportion between Assets and Equity is around 9.5 for the Bulgarian banks and the larger institutions have even lower ratio. Commercial banks capitalized their profits, which rose substantially. The return on eq-

uity of largest banks was between 10 and 20%.

The increased minimum required reserves from 8% to 12% are also a reserve, which could be released by the Central Bank if it is necessary. The branches of foreign banks have considerably less capital as compared to assets. We expect difficult access to credits for Bulgarian companies in mid term, which will influence their investment programs.

Corporate Earnings

The nonconsolidated 3Q financial reports would be announced until the end of October. The fundamental news didn't influence the market and probably the reports wouldn't change the current situation. And yet the reports will show if the improved financial results will retain its strength during the second half of the year. We expect the companies to retain their sales growth but the profit growth would be more volatile due to the rising labor costs and the huge price fluctuations of materials and energy. The positive surprises are not excluded, but the good 4Q 2007 performance gives us a hint that the improvement will be more probable at the end of 2008. The 20% drop in September resulted to attractive price to sales and price to earnings ratios.

However, the stabilization of the market conditions in Bulgaria and abroad are required before investors turn again to the corporate news and the valuation of stocks. Although the mid-term perspectives for global economic recession are rising, the falling shares prices attracted some bargain hunting in short term. Lots of bad news are already priced in the stocks globally and the expected Santa rally could bring some relief in developed markets and in Bulgaria. But the time before the corporate reports is running out.

Foreign investors that are selling large packages are exiting the market for two or three years. However, the environment is more different than 2003 and 2004 when those packages had been accumulated. It is highly probable that the entry during bull market will be far more difficult that exit at current price levels.

Stocks in focus:

Last month's stocks in focus remain one of the most attractive Bulgarian shares at the moment in terms of the valuation ratios and their prospects for development. The panic sell-off and margin calls pushed down the prices to levels not seen for years and our list of undervalued stocks expanded substantially.

Eurohold Bulgaria (4EH) posted significant decline since the beginning of the year. The position lost 73% y-o-y and is trading at the initial price levels, when the shares were placed on BSE. Eurohold is trading below the book value, which is not an exception for diversified holdings. It is difficult to say if the insurance business is the root of the price decline or underperformance is due to the general market correction.



Bulgarian insurance companies are not damaged from the mortgage crisis. **Euroins (5IC)**, the main subsidiary of Eurohold, is experiencing the negative effects of the market correction in the company's balance sheet as securities in the portfolio depreciated. Both companies have large growth opportunities but due to their higher liquidity stocks are subject of sell off from foreign investors and domestic participants, who faced closures of REPO deals.

Odessos (5ODE) was among best performers on BSE due to the market buy orders, which boosted the price above BGN 200.00. This makes the position less attractive as

compared to the rest of industrial companies with lower P/E and P/S.

At BGN 180.00 price to earning ratio of Odessos is 11.8 and is above the average for the Bulgarian industrial companies. Business opportunities for the company are good. The rising US dollar will improve the sales and the core business profit. It is less probable that the 3Q financial report will show worsening activity as the company has enough orders and the regional slowdown will not influence them. The lack of capacity in the sector will ensure the orders until the end of the year and only strong maritime transport's decline will influence Odessos's activity. Decreasing of the power utilization will be a sign for a longer period of weakness.

Monbat (5MB) recently outperformed the market but turned to one of the worst performers in September and during the first week of October. The buy-back operations couldn't stabilize the position and will not be surprising if the investors increased their offered amounts of shares in September to use the buy-back.



Monbat deserves more attention, because the last sell offs created good opportunity. The market's worries are provoked by the crisis in Europe and the negative effect from the falling lead price. Monbat doesn't produce car batteries for the automobile companies, which were most damaged from the crises. The secondary market is less hit than the production of batteries for new cars. Moreover, the old batteries should be replaced more often when the car is less used or after their initial life-time of 3 to 5 years. Thus the

crisis doesn't have significant importance on the demand of Monbat. The lead is a different factor – the metal is the base for the pricing of batteries and the metal is already under severe correction. The domestic demand of batteries is stable and prices are less volatile as compared to the lead. This is also the probable picture for Monbat's main markets. The profit margin will be affected as the company recycles old batteries, but we don't think it will dramatically change the financial results, moreover Monbat already covered the preliminary expectations. The trailing P/E is below 10, and if we calculated estimated 2008 net profit the ratio is below 8.

Orgachim (5ORG), Toplivo (3TV), Kaolin (6K1), Fazerles (4F6) and Enemona (E4A) were marked in the previous bulletin like shares with attractive multiples and stable fundament. The situation stayed unchanged during this month, except the price decline made the shares cheapest in historical plan. Companies like **Orgachim (5ORG)** and **Toplivo (3TV)** worth almost as the newcomer **Billboard (5BP)**.

We can include several other companies, which could be positive surprises at the end of the year. The free fall of **Albena (6AB)** price to BGN 40.00 pushed down the trailing P/E to 8, and the market cap of the company is 60% of the book value.



3Q financial report will show if there are any surprises this year, but if the company retain the net profit of BGN 20 m, will become one of the best investment opportunities.

Neochim (3NB) began to worry the investors after the proposed hike of the natural gas price. The significant 1H 2008 net profit allows the company to take the cost's pressure if continue to work in higher capacity utilization but some negative effect should be witnessed. However, at current P/E ratio below 5 the stock is already reflecting the bad news.



Neochim has free capacity in industry, which will experience the current crisis in different manner as compared to the other sectors. The agricultural production in Bulgaria will continue to grow with healthy rates, whereas the consumption of fertilizers will by 50% during the next several years.

The position outperformed the market in September. The early signs for troubles could come from the global competition due to the falling prices of natural gas in many regions.

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Outperform	More than 5% higher as compared to SOFIX and BG40 performance
Market Perform	Market performance, +/-5% as compared to SOFIX and BG40
Underperform	More than 5% lower as compared to SOFIX and BG40 performance

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For more information, please contact:

Research analyst
Tsvetoslav Tsachev
Tamara Becheva

Phone:
+359 2 810 00 23
+359 2 810 07 23

E-mail:
tsachev@elana.net
becheva@elana.net

Internet:
www.elana.net
www.elana.net