

<u>Recommendation</u>	<u>Previous</u>	<u>From date</u>	<u>52-week target</u>
Market Outperform	-	-	BGN 120.57

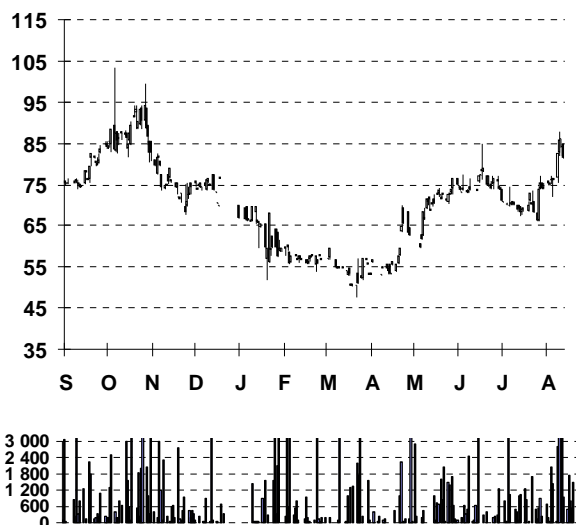
Neochim

Business Summary

Neochim is the successor of nitrogen and phosphate fertilizers plant build in 1951, later on modernized for the production of ammonia, nitric acid and ammonium nitrate. The company has capacity to produce sulfuric and phosphoric acid, aniline and nitrobenzene but installations are shut down or work in low volumes. Neochim is situated in the south part of Bulgaria, in a region with developed infrastructure and agricultural production. However, the company has storage facilities in other agricultural regions to compete with the northern fertilizer plans. Neochim is exporting more than 50% of its production, mainly to USA, Brazil, the Balkans and Europe.

Current Market Activity

Neochim is not among the most liquid stocks but has positive performance on yearly basis. The stock managed to recover after 50% decline from October to March. The solid profit for the first quarter was very good surprise for the market, which improved the valuation ratios and provided strong support of the position. The price is testing the key level of BGN 80.00. The current P/E of 11.09 is below the market average as well as other multiples. Traded volumes remained moderate but offered shares for sale were absorbed by the market. The perspectives for growth of agricultural lands and the broad investment program make shares more attractive. The only risk is the possibility of losses during the seasonally weaker 3Q.



Financial Summary

The non – consolidated 1H 2008 net profit of Neochim solidly improved to BGN 39m as compared to BGN 8m for the same period last year. Sales increased by 60% y-o-y – the export soared faster than domestic sales as revenues from fertilizers and ammonia jumped 60% and 40%, respectively. Natural gas is the main raw material used by the company and the further increasing of its price will have negative impact over the company's activity.

Valuation Ratios

Enterprise Value	242 756 288
Dividend Yield - Gross	
Trailing P/E (ttm)	11.09
Forward P/E (2008)	11.98
PEG Ratio (1yr expected)	0.97
Price/Sales (ttm)	0.91
Price/Book (mrq)	1.86
Enterprise Value/Revenues (ttm)	1.01
Enterprise Value/EBITDA (ttm)	5.66

Profitability and Growth Ratios

Return on Capital	18.43%
Return on Equity	16.80%
Return on Assets	12.38%
EBITDA Margin	23.72%
Net Profit Margin	21.62%
Revenue Growth	40.53%
EPS Growth	7.40
Capital Growth	7.37%
Assets Growth	14.85%

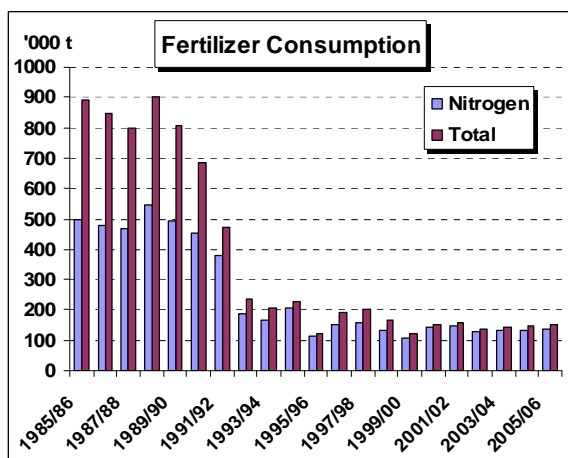
Fertilizer Market in Europe

The average yearly consumption of mineral fertilizers during the last three years by the farmers in the 27 countries of EU is 10.7 million tons (Mt) nitrogen, 3.1 Mt phosphorus and 3.5 Mt potassium. According to the European Fertilizers Manufacturers Association the use of nitrogen in the EU-27 is expected to increase by 3.6% in the next ten years. This is continuation of the positive trend of the last year, whereas phosphorus and potassium are expected to decline by 4.4% and 2.6% respectively but the latest assumptions are for more moderate decline. The main sources for the growth are the new member states of Eastern Europe. The development of energy crops (biomass and biofuels) throughout the EU-27 will continue to partially compensate the negative impact of the Common Agricultural Policy (CAP) reform on phosphorus and potassium consumption, and will contribute to the increase in nitrogen consumption.

Over the next ten years, the CAP, along with the favorable global context for agricultural products, will significantly increase the acreage used in the EU. The acreage of wheat, maize and barley will increase again and together with a continuous rise in yields, will significantly increase the total production of cereals in the EU. The area with energy crops is increasing significantly due to the higher fuel prices and the changes in the demand, following the new development of bioethanol in the USA and the biofuel plants in EU.

Domestic Demand

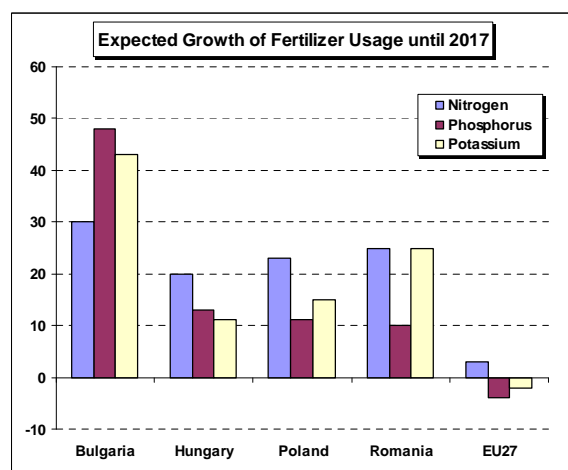
The estimations for the growth of fertilizer use in Bulgaria are for 40% increase in ten years from now. This is substantially higher than the average for other new member states and is due to the ongoing reforms in the agricultural sector, the subsidies and the low level of usage. The Bulgarian fertilizer market is already rising faster than most other Eastern European countries. The demand was supported by the soaring prices of agricultural production last year and the process of land consolidation that creates larger plots and economies of scale for farmers. However, it is firmly below the levels from 20 years ago.



Source: International Fertilizer Industry Association

Global and Regional Demand

Global fertilizer demand is seen as up 4.1% in 2007/08, according to the International Fertilizer Industry Association (IFA). Potash consumption should increase by 6%, compared to 4% for nitrogen and 3% for phosphate. At the regional level, demand is seen as surging in Latin America (+12.8%) in response to very favorable crop prices. It is also projected to rise in Eastern Europe and Central Asia by 6.3%. The direct contribution of biofuel crops to world fertilizer consumption is relatively modest, which is outpaced by the population growth and real GDP growth in emerging Asia. With market conditions expected to remain exceptionally favorable in the coming months, global fertilizer demand is projected to further grow in 2008/09 by some 3.1%.



Source: European Fertilizers Manufacturers Association

Global Fertilizer Supply

2007 was a record production year for most products, as buoyant demand stretched the fertilizer industry's capability to meet global plant nutrients requirements. The global fertilizer market has entered a new demand-pull cycle, which quickly resulted to shortage of available supply. Global supply/demand balances for most fertilizers, intermediates and raw materials were tight during 2007 and the first half of 2008. The demand will continue to strengthen. The favorable climate changes and the higher crop yield this year are unlikely to change the supply/demand balance of the fertilizer market as the better crop and lower cereal prices are creating more sustainable transition toward higher consumption of meats.

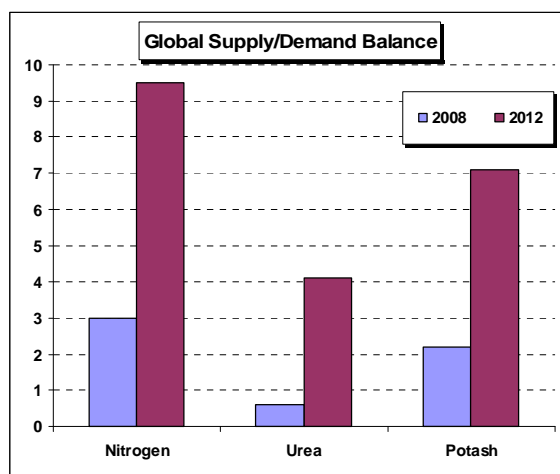
In early 2008, several exporting countries implemented export taxes on fertilizers, exacerbating the prevailing tight supply situation in their domestic markets and adding upward pressures on global prices. The largest fertilizer producer China is among those countries and aims to increase its domestic agricultural production. Several other countries impose large subsidies to fertilizers to subdue the food inflation. However, fertilizer prices have increased dramatically since the beginning of 2008, generating concerns over possible demand destruction in the short term.

During the last several years the nitrogen sector has faced various constraints such as rising energy prices, ageing equipment and competing supply from low-cost natural gas regions.

Bulgaria doesn't have the competitive advantage of cheap natural gas.

Production Capacity in Europe

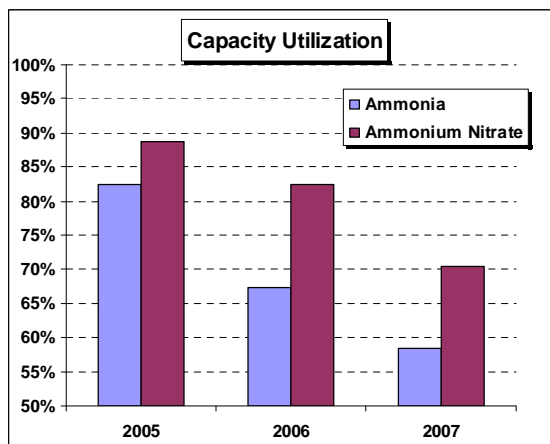
The very rapid changes in market conditions since 2006 have not left enough time for the industry to react on the supply side given the timeline required for developing green field operations, which could take from three to ten years depending on products and processes. In terms of regional distribution, the bulk of ammonia capacity growth will occur in Asia, mostly China, whilst it is projected to be relatively static in Europe until 2013. IFA estimates that the global nitrogen supply/demand balance will show a surplus of 3.0 million tons in 2008, rising to 9.5 million tons in 2012. The surplus for 2008 is relatively tight considering the idle capacity and the unexpected plant outages.



Estimations: International Fertilizer Industry Association

Production Capacity of Neochim

The capacity utilization of Neochim posted two years of decline after the solid production in 2005. The company is aiming to maintain at least 70% capacity utilization in the production of ammonium nitrate, which will ensure the profitability of the process. The most important fact is that Neochim has additional free capacity in the tight fertilizer market that is expected during the next several years. However, the lower production rates last year was due to the modernization of the equipment. The capacity utilization this year should expand as sales already jumped significantly.



Source: Neochim

Installations in Use

The new installations for nitric acid, ammonia and ammonium nitrate were built in 1987. The projected productivity ratios of ammonia and ammonium nitrate installations are 56.7 tons per hour. Neochim managed to ensure higher than projected productivity ratio for the ammonium nitrate of 108% due to the investments for intensification.

Existing Installations	Capacity (t)
Old installation for ammonium nitrate	150 000
New installation for ammonium nitrate	450 000
Total	600 000
Ammonia	410 000
Old installation for nitric acid	120 000
New installation for nitric acid	360 000
Total	480 000

Source: Neochim

Main Export Markets for 2007

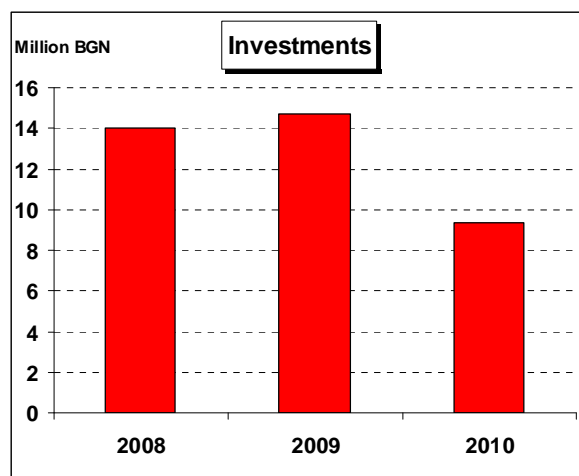
Neochim exported 29% less fertilizers in physical volume for 2007. The main reason for the lower sales abroad was the modernization of the fertilizer's installation. Brazil and Turkey became the primary export markets as traditional markets like France, England and Spain are difficult due to the higher environmental requirements.

Country	Export (t)
Brazil	90 056
Turkey	45 521
USA	31 438
Greece	17 419
Italy	3 050
Macedonia	2 586

Source: Neochim

Investment Program

Neochim has very broad investment program that includes modernization and intensification of the fertilizer production along with the covering of environmental requirements of EU. The company invested in the installation for mixed fertilizers, which make new products for the Bulgarian market. The fertilizers include all three basic plant nutrition elements (N, P, K) according to the needs of specific land plots. Neochim invested also in steam generator to utilize the heat from the production of nitric acid. Neochim constantly improved its ecology indicators through reconstruction of the installations and construction of new depots and warehouses.



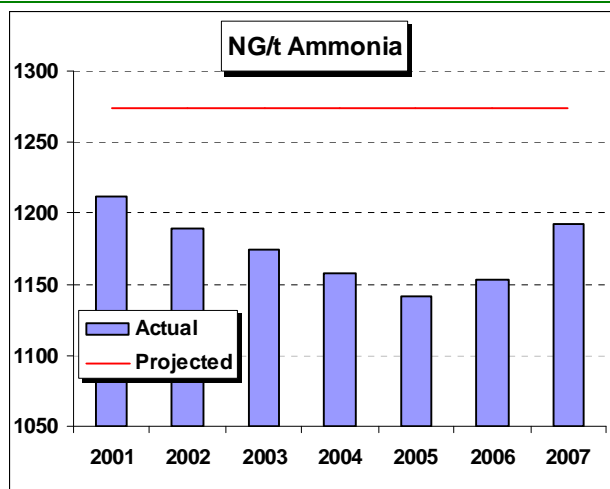
Source: Neochim

In accordance with recommendations of The Ministry of Environment and Water of Bulgaria, the company started procedures of closing some of the old depots. Neochim accomplished changes of the electricity equipment and restraining of the unorganized noxious emissions.

Natural Gas Consumption

The natural gas is the main resource for the production of ammonia. It also represents the largest cost for production - 82% of all costs for materials during the first half of 2008. The installation is using less natural gas than the projected volumes per ton ammonia. However, the discontinuance of the production is increasing the average norm as the starting operations after the modernization and maintenance consume more natural gas. Higher capacity utilization and increased production timeframe should decrease the norm again in 2008.

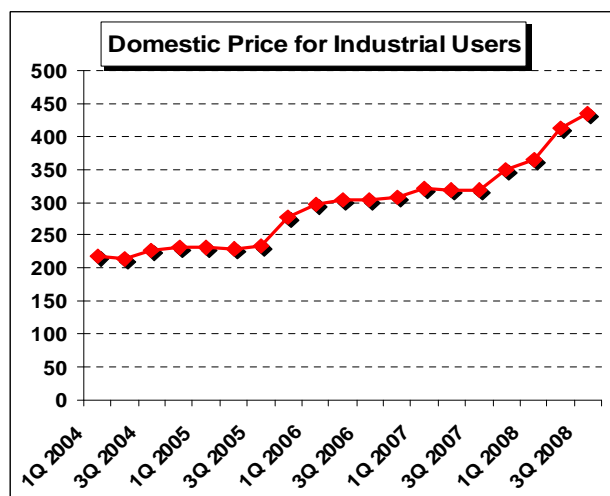
The produced ammonia is used in the installation for nitric acid and ammonium nitrate, which don't require natural gas.



Source: Neochim

Natural Gas Price

The natural gas price is determined by the State Energy and Water Regulatory Commission, according to their calculations for the transit taxes and revenues from domestic market. The wholesaler Bulgargas had been insisting on 19.6% increase from the July 1, 2008, when the regulator body determined only 5% price hike. The company claims that posted loss in 1Q, which was not confirmed by the Commission. The state is attempting to decrease the price pressure for end-users as the solvency problems of heating plants are huge. However, the price is rising following the global trend. Bulgaria depends on the imported natural gas and the energy intensified production of fertilizers could lose its competitiveness in case of subsidized export from countries rich in natural gas.

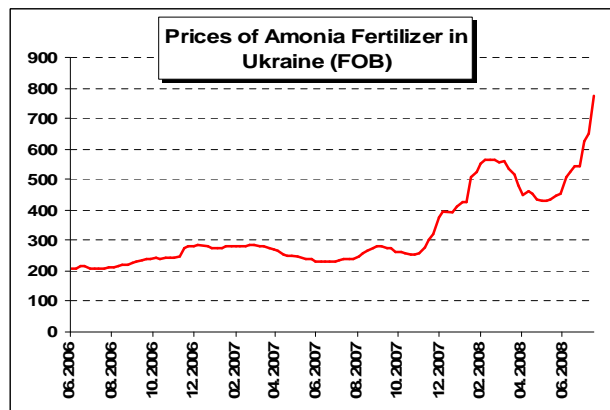


BGN per 1000 m3

Source: Bulgarian State Energy and Water Regulatory Commission

Fertilizer Prices

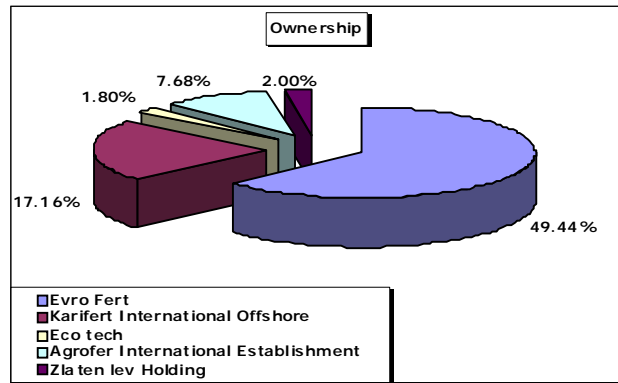
The rising fertilizer prices were the primary reason for the soaring revenues of Neochim as the production volumes decreased last year. The international prices jumped when China imposed export tax this year. However, it is unlikely that this trend will be sustained in mid-term. The decline of natural gas price by 40% in US and the steep correction of wheat price are among the reasons to expect that the record quarter for world fertilizer producers is over. Although this looks imminent when the global economy cools and commodities correct, the supply/demand balance is still favorable factor for fertilizer prices.



Source: Bloomberg

Ownership

Neochim was privatized in mid-2000. 51% stake of its capital was bought by a consortium between Evro Fert Plc and the Lebanon-based Karifert International SAL, which paid a total amount of USD 100 thousand. On June 11, 2008 Evro Fert has transferred 680 000 shares or 25.62% of the capital of Neochim to Eco Tech. Following a decision of the GMS, recently the company repurchased 1.43% of its capital.



As of the 1Q 2008
Source: Neochim

SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> Huge investment program in modernization Well-known partner on the international markets Diversified products for the domestic market Large free capacity when comparing to industry standards Good logistic base 	<ul style="list-style-type: none"> Dependant on natural gas price Foreign currency risk Distance to main Bulgarian clients and maritime ports Lost markets in Western Europe
Opportunities	Threats
<ul style="list-style-type: none"> Low consumption in the domestic market Aggricatural subsidies form EU Increase of large land plots and economies of the scale Low capacity of nitrogen fertilizers in global scale Increase of global population and fertilizer demand 	<ul style="list-style-type: none"> Dependant on aggricatural sector - volatile prices and competitive pressure in the sector Dumping prices from natural gas producing countries Higher transportation costs Fertilizer prices are likely to follow commodities on the downside when global economy cools

Corporate Action History



- 30 Aug. 2007 Neochim announced 2Q 2007 financial results. Despite the improved net profit and sales the stock traded around BGN 75.00.
- 08 Oct. 2007 Neochim posted all-time high in accordance with SOFIX's advance.
- 30 Oct. 2007 The non-consolidated 3Q report pushed down the price to BGN 86.45.
- 28 Nov. 2007 The consolidated 3Q 2007 report showed a decline of net profit y-o-y and sales growth of 8%. The price stayed in the recent range as the market already was priced in the results.
- 22 Jan. 2008 SOFIX made one of its worst sessions after the losses on international markets. Shares of Neochim dropped to BGN 51.68 but managed to reverse and closed at BGN 59.62 hardly changed for the session.
- 29 Jan. 2008 Neochim announced preliminary 4Q quarterly results, which sent the price to lower levels.
- 28 Feb. 2008 Consolidated yearly report showed increased net profit on yearly basis and insignificantly higher sales. Domestic sales exceeded the export of Neochim and represented 61% of total revenues in 2007. The non-core operations had lower contribution for the net profit as compared to 2006. The company invested in modernization of its facilities. The shares added 2% during the day, but the price was in the recent trading range.
- 28 Mar. 2008 The 2007 annual report of Neochim has been submitted and boosted the price by 8%.

Corporate Action History

15 Apr. 2008	The company published the agenda of the regular General Shareholders Meeting, which includes the proposal for repurchasing of up to 3% from the capital and the profit allocation decision. The market reaction was rather negative during the following two sessions but mainly due to the pressure over the entire market from long liquidation of Bulgarian speculators.
29 Apr. 2008	The non-consolidated 1Q 2008 financial results didn't provided support and the price fell, following the strong gains from a week ago.
30 May 2008	Positive reaction after the announced consolidated quarterly results.
10 Jun. 2008	The GMS decided to allocate BGN 0.50 gross dividend per share and to repurchase up to 3% from the capital at price between BGN 60 and BGN 95. The news didn't have any significant impact on the price.
29 Jul. 2008	The non-consolidated 1H report supported the price of the fertilizer producer in the next following sessions.
05 Aug. 2008	Neochim published the agenda for the extraordinary GMS on September, 26.

Stock Information (BSE Ticker: 3NB; Bloomberg: 3NB BU; REUTERS: NEOH.BB)

Last Price	81.20	Market Cap	215 534 000	1Y Range	BGN 48.00 – 104.00	Average Volume (3m)	1 073
Beta	0.71	1Y Change	+27.13%	SOFIX Change	-33.09%	BG40 Change	-34.72%

Valuation

Neochim is not among the most liquid stocks but has positive performance on yearly basis. The stock managed to recover after 50% decline from October to March. The solid profit for the first quarter was very good surprise for the market, which improved the valuation ratios. The market is pricing in the seasonal volatility in sales and profits including the negative effects of rising natural gas prices.

Multiples Analysis

The profit soared during the first quarter and resulted to one of the most attractive valuation of Bulgarian stocks. However, the market is reluctant to price in all the good news of the increased production and the results of the investment program. P/E ratio could remain below the average for the market as the volatile profit margins make 2008 net profit hard to predict. P/S ratio is very attractive particularly with the good return on equity. Other multiples also showed strong improvement on ttm basis. Shares look attractive and the only risk is the possibility of losses during the third quarter of the year, which is seasonally weaker. We doubt that potential loss for the 2H 2008 will send the P/E ratio above the market average.

BGN '000	2007	1Q'08ttm	2Q08*	2008
Net Profit	3 612	18 055	30 561	18 201
EBIT	5 995	21 871	36 401	21 423
EBITDA	11 040	27 160	41 736	29 055
Sales	188 439	208 804	236 696	267 790
Equity	79 199	101 589	117 004	102 400
Market Cap	215 534	215 534	215 534	215 534
Cash	2 626	2 130	720	2 500
Debt	8 439	13 293	13 920	15 000
EV	221 347	226 697	228 734	228 034
P/E	59.67	11.94	7.05	11.84
P/S	1.14	1.03	0.91	0.80
P/B	2.72	2.12	1.84	2.10
EV/EBIT	36.92	10.37	6.28	10.64
EV/EBITDA	20.05	8.35	5.48	7.85
EV/Sales	1.17	1.09	0.97	0.85
P/EBIT	35.95	9.85	5.92	10.06
P/EBITDA	19.52	7.94	5.16	7.42

* Non-consolidated
 Estimations and calculations: ELANA Trading
 Data for trailing twelve months

We also added a column with the multiples calculated with the non-consolidated data for last 12 months ending June 30, 2008. The results are very close to the consolidated financial report as the core business of Neochim represents the major source of revenues and income. We cannot put aside the strong financial statement for the second quarter, which was supported by the very positive market conjuncture.

The third quarter is the period with lower sales that usually brings profit loss. We expect this pattern to repeat in 2008, although the financial result could be positively influenced by the global demand of fertilizers. Neochim will post a record year as prices of fertilizers are at all-time highs and Bulgarian government is seeking to subdue the negative effect of natural gas price hikes to the consumers.

Consolidated Revenues/Earnings Data							
Revenues (Thousand BGN)							
	2002	2003	2004	2005	2006	2007	2008
1Q	55 825	48 840	59 088	54 437	66 838	75 177	94 709
2Q	22 523	34 395	43 321	58 175	42 770	53 289	
3Q	8 414	12 690	21 881	30 805	28 870	21 288	
4Q	43 445	56 386	29 892	45 513	47 154	38 685	
Year	130 207	152 311	154 182	188 930	185 632	188 439	
Earnings per Share (BGN)							
	2002	2003	2004	2005	2006	2007	2008
1Q	3.36	1.03	1.67	1.62	1.72	2.45	8.49
2Q	-0.52	0.41	-0.02	2.48	0.61	0.51	
3Q	-0.99	-0.78	-0.60	0.06	-1.33	-2.38	
4Q	-1.70	1.06	0.27	0.55	0.22	0.79	
Year	0.16	1.72	1.32	4.71	1.22	1.36	

*Calculations: ELANA Trading

5Y Projections

The management of Neochim is expecting solid increase of sales for 2008. The prognosis was supported by the soaring fertilizer prices but domestic shipments during the first half also pointed to solid demand. Moreover, the investment program is aiming at better efficiency and new products. We expect decelerating growth rates which would exceed the growth rates of the Bulgarian economy during the next five years and even beyond. One of the reasons is the expected development of the Bulgarian agricultural production after more than decade of underinvestment, fragmentation of lands and lower usage of fertilizers. The growth rates of export are more unclear. We cannot exclude a sudden increase of export due to extraordinary events like hurricane Katrina in 2005 that paralyzed the production of fertilizers in Americas due to surging prices of natural gas. But it is unrealistic to take for granted such growth rates of export only due to the proximity to Russian natural gas as compared to Western Europe. In fact, natural gas prices rose in USA this spring above USD 10 for 1000 mmBtu and were very close to the Katrina related price spike.

The current fertilizer prices could prove to be unsustainable in medium term – agricultural commodities are already in deep correction. Revenues in 2009 should be influenced by this probable correction. We give 25% growth of sales for 2009 as risks for 2008 are on the upside and Neochim could benefit from its free capacity during the period of shortage on the global fertilizer market.

Our expectations for the profit margins are far more conservative. This is insurance to the volatile natural gas market. We used 8% EBIT margin for the calculations of profits for the next five years. This figure is below the industrial average but we prefer to underestimate it due to the lower capacity utilization as compared to large peers and the dependency of imported natural gas. The EBIT margin of Neochim is better than 8% so far this year and reached 15% when using the second quarter non-consolidated report.

BGN '000	2007	2008	2009	2010	2011	2012
Sales	188 439	267 790	334 738	401 685	471 980	542 777
Growth	65.55%	42.11%	25.00%	20.00%	17.50%	15.00%
EBITDA	11 040	29 055	36 821	44 185	51 918	59 705
EBITDA margin	5.86%	10.85%	11.00%	11.00%	11.00%	11.00%
EBIT	5 995	21 423	26 779	32 135	37 758	43 422
EBIT margin	3.18%	8.00%	8.00%	8.00%	8.00%	8.00%
Net Profit	3 612	18 201	23 201	28 201	33 443	38 720
Net Profit margin	1.92%	6.80%	6.93%	7.02%	7.09%	7.13%

Estimated data for 2008-2012;
Calculations: ELANA Trading

Discounted Cash Flows

Discounting of the cash flows gives better picture for the price, according to the growth opportunities as the long-term perspectives are not included in the multiples P/E or EV/EBITDA. However, this method has several flaws – it is based on the presumptions for sales and profit margins and the price is very sensitive to the discount factor and the long-term growth rate.

The DCF model is based mainly on our projections for sales and profits. As we mentioned above, the expected financial results are somewhat conservative. The production of fertilizers cannot decouple from the global economy and the current business cycle can turn to less favorable. However, we don't expect that the industry would be affected at the way it happened to producers of basic metals or other cyclical sectors.

Growth rates are expected to decelerate to the end of the ten-year period. The projected long-term growth rate is 3% and we think that the dependency to natural gas and the global trend of rising population and improved human nutrition could assure higher growth rates than the potential level of a developed economy.

The WACC for the final valuation is 14% but we also provided sensitivity analysis from 12 to 16%. The discount rate could be even higher as the Bulgarian market is among the worst performer this year and foreign investors are seeking higher risk premium. We also made mid-year adjustments. The price per share is between BGN 83.68 and 148.98.

Neochim											Terminal
<i>BGN'000</i>	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Year
EBIT	21 423	26 779	32 135	37 758	43 422	48 850	53 735	57 765	60 653	63 079	64 972
EBIT(1-T)	19 281	24 101	28 921	33 983	39 080	43 965	48 361	51 989	54 588	56 771	58 475
Add: D&A	7 632	10 042	12 051	14 159	16 283	18 319	20 151	21 662	22 745	23 655	24 364
Less: Investments	13 996	14 710	9 360	14 159	16 283	18 319	20 151	21 662	22 745	23 655	24 364
Less: Change NWC	22 652	4 686	4 686	4 921	4 956	4 749	4 274	3 526	2 527	2 123	1 706
FCF	-9 735	14 747	26 926	29 062	34 124	39 216	44 087	48 462	52 061	54 649	56 769
PV FCF	-9 118	12 116	19 404	18 372	18 923	19 076	18 812	18 139	17 093	15 739	
Sum of PV FCF	148 556										
PV of Continuing Value	148 636										
Total PV Free Cash Flows	297 192										
Less: Outstanding Debt	13 293										
Plus: Financial Assets	2 130										
PV of Equity	286 029										
Number of Shares	2 654										
Price Per share	107.76										
				WACC							
					Growth Rate						
					SA	2.0%	2.5%	3.0%	3.5%	4.0%	
					12.0%	130.81	134.64	138.89	143.64	148.98	
					13.0%	115.63	118.53	121.71	125.22	129.12	
					14.0%	103.10	105.33	107.76	110.41	113.33	
					15.0%	92.60	94.34	96.22	98.27	100.50	
					16.0%	83.68	85.06	86.55	88.15	89.88	

Calculations: ELANA Trading

Peers Comparison

Although there is plenty of fertilizer producers among the public listed companies, picking up the right stocks to compare wasn't a simple task. The main reason is that some companies have the advantage of subsidized production through low natural gas price for domestic entities. This policy aims to bring down the food inflation but could turn an unprofitable company into regional leader and major exporter of cheaper fertilizers. The Common Agricultural Policy in Europe also changed the market during the last several years.

USA, Russia and China have the largest number of companies in our list, which includes exclusively fertilizer producers. There are several stocks in the list that have very high multiples. As we included lots of companies in the sector, we prefer to use the median instead of the average for each multiple. However, in both cases Neochim trades at huge discount to the sector peers.

	Country	P/B	P/S	RoE	P/E	Est P/E 08	EBIT margin	Sales Growth	EV/EBITDA
Rosier	Belgium	1.63	0.41	14.97	18.41	-	3.60	163.05	9.49
China BlueChemical	China	2.66	4.95	-	14.83	15.01	34.95	25.24	9.41
Qinghai Salt Lake Potash	China	25.54	21.63	43.04	63.94	29.63	59.34	5.49	34.27
Sinofert Holdings	China	5.46	1.41	10.75	52.82	17.45	4.16	39.34	35.82
Yunnan Yuntianhua	China	9.88	4.79	22.80	45.08	37.80	13.97	46.05	27.65
Abu Qir	Egypt	4.62	5.26	38.37	12.48	9.72	32.16	21.24	-
K+S	Germany	15.72	3.48	-6.83	-	14.88	11.31	18.56	24.52
Lifosa	Lithuania	2.47	1.54	52.34	7.62	-	32.88	65.05	4.22
Yara International	Norway	4.00	1.41	48.49	9.87	7.35	13.60	45.44	9.65
Zaklady Azotowe Pulawy	Poland	1.71	0.98	18.09	10.08	10.00	10.57	13.77	5.81
Azomures	Romania	1.04	0.47	36.16	7.42	-	10.18	14.76	3.63
Akron	Russia	3.79	3.48	25.59	16.27	14.67	31.27	31.66	10.49
NAK Azot	Russia	1.33	1.03	37.35	4.21	-	33.23	29.05	3.87
Nevinnomysskiy Azot	Russia	1.34	1.49	34.50	4.57	-	43.55	52.64	4.28
Silvinit	Russia	14.83	12.61	42.33	39.27	16.30	46.07	45.75	34.62
Uralkaliy	Russia	25.50	21.21	37.69	77.89	14.87	35.24	32.34	50.61
Omnia Holdings	S. Africa	2.91	0.42	22.41	10.30	6.07	7.96	32.56	4.73
Namhae Chemical	S. Korea	4.02	1.44	10.22	41.84	10.91	4.90	3.26	22.45
Taiwan Fertilizer	Taiwan	2.16	9.55	7.37	29.42	23.35	2.03	5.36	235.00
Agrium	USA	3.19	1.74	39.24	11.05	6.56	-	90.30	9.86
CF Industries Holdings	USA	4.46	2.37	52.12	11.03	6.33	-	36.80	5.45
Compass Minerals International	USA	75.25	2.11	-	19.57	8.69	-	27.10	11.31
Mosaic Co.	USA	6.43	4.72	38.16	20.87	5.76	-	105.80	13.36
Potash Corp. of Saskatchewan	USA	7.88	8.11	37.07	26.36	7.98	-	102.30	17.44
Terra Industries Inc.	USA	4.24	1.68	48.04	10.85	6.81	-	21.70	4.91
Terra Nitrogen Company, L.P.	USA	7.71	2.45	139.70	7.15	-	-	44.70	4.99

Source: Reuters, Bloomberg

Relative Valuation - Peers

The relative valuation with peers showed that Neochim's shares are undervalued to all ratios excluding the forward P/E. This could be in part due to our conservative estimations for EBIT margin for 2008. We used the consolidated report on ttm basis, which also undermine the valuation of Neochim. The company has distinctive advantage when compared to P/S and P/B.

Relative Valuation - Peers	Value	Price	Weight
Multiples			
P/E (ttm)	14.73	100.19	20%
P/E (2008)	10.46	71.72	20%
P/S (ttm)	2.24	176.21	20%
EV/EBITDA	9.86	96.68	20%
P/B	4.13	158.07	20%
Price (BGN)			120.57

 Median values for multiples of peers
 Calculations: ELANA Trading

Relative Valuation - SOFIX

Shares of Neochim are unevaluated when compared to Bulgarian blue chips. The announcement of the consolidated report will enlarge the difference between Neochim and the other components of SOFIX as we didn't included the 2Q report for the calculation of the multiples.

Relative Valuation - SOFIX	Value	Price	Weight
Multiples			
P/E (ttm)	14.73	99.04	25%
P/S (ttm)	1.32	106.98	25%
EV/EBITDA	10.51	104.67	25%
P/B	2.24	84.58	25%
Price (BGN)			98.82

 SOFIX components, excl. REIT
 Calculations: ELANA Trading

Valuation

The three methods of valuation give price per share of BGN 108.73. This is 33% below the current market price. It is obvious that sector peers are valued at higher price levels than the Bulgarian market.

Method	Price	Weight
Relative Valuation - Peers	120.57	25%
Relative Valuation - SOFIX	98.82	25%
DCF	107.76	50%
Price (BGN)		108.73

Calculations: ELANA Trading

Recommendation and Price Target

The market is pricing in some degree of uncertainty about the financial results for the second quarter of 2008. Our opinion is that this approach is justified at the back of the ongoing severe correction. The stock market index is among the worst performers from the beginning of the year and this will have long-term implementations on the valuation.

We give **Market Outperform** recommendation of Neochim. The company is facing favorable market with good long-term perspectives that seem stronger than the threats. Neochim isn't relying on the positive market developments only – the investments from 2004 to 2010 will exceed 30% of the current market capitalization. And not at last, the stock has very attractive valuation when compared to the sector and Bulgarian blue chips. The price is 60% higher than the March low and solid technical break is operative. The valuation of Neochim is above the all-time high of BGN 104 and look to us achievable.

Our one-year price target is calculated by the relative valuation with international peers or BGN 120.57.

Financial Data

Consol. Statement of Income (in thousand BGN)	2003	2004	2005	2006	2007
Sales	152 311	154 183	188 678	185 632	188 439
Production expenses	127 444	130 022	151 428	158 437	155 456
Personnel expenses	13 897	15 766	16 624	16 710	22 736
Net income from financial activities	(1 890)	(85)	2 276	(1 326)	793
Other revenues and expenses	(64)	2	(5)	5	0
EBITDA	9 016	8 312	22 897	9 164	11 040
Depreciation	3 200	3 588	4 570	4 725	5 045
EBIT	5 816	4 724	18 327	4 439	5 995
Interest expense	(732)	(699)	(1 456)	(1 449)	(1 862)
Pretax income	5 084	4 025	16 871	2 990	4 133
Taxes	523	531	2 695	(251)	521
Net income	4 561	3 494	14 176	3 241	3 612
Earnings per share in BGN	1.72	1.32	5.39	1.23	1.38
Consol. Balance Sheet (in thousand BGN)	2003	2004	2005	2006	2007
Total Assets	99 333	109 855	117 360	121 765	138 890
Equity subscriptions receivable	0	0			
Fixed assets	60 286	70 345	71 092	81 953	101 604
Tangible fixed assets	60 176	70 267	71 004	81 760	101 421
Financial investments	10	3	5	0	0
Current assets	39 047	39 510	46 268	39 812	37 286
Inventory	17 207	19 794	25 419	25 025	26 839
Receivables	12 757	16 028	18 426	6 105	7 066
Financial assets and cash	8 772	3 219	1 948	7 794	2 626
Total liabilities + equity	99 333	109 855	117 360	121 765	138 890
Equity	57 907	61 331	74 361	75 819	79 181
Registered capital	2 654	2 654	1 991	2 616	2 616
Capital funds	276	284	291	(924)	(923)
Earnings	54 977	58 393	72 079	74 127	77 488
Liabilities	41 426	48 524	42 994	45 946	59 707
Long-term payables	17 874	15 856	14 858	11 886	11 476
Long-term bank loans	0	11 976	8 865	6 243	7 038
Short-term bank debt	6 986	0	1 115	0	1 401
Short-term payables	16 564	20 692	19 271	27 817	39 792
Other liabilities	0	0	0	0	0
Working capital	15 497	18 818	25 882	11 995	(3 907)
Consol. Cash Flow Statement (in thousand BGN)	2003	2004	2005	2006	2007
Net income	4 561	3 494	14 176	3 241	3 612
Depreciation	3 200	3 588	4 570	4 725	5 045
Changes in Working capital	2 603	3 321	7 064	(13 887)	(15 902)
Other operating cash flow items	(564)	(9 254)	(21 898)	18 991	17 638
Net cash from operating activities	9 800	1 149	3 912	13 070	10 393
Capital expenditures	(2 373)	(12 843)	(3 381)	(4 741)	(17 282)
Other investing cash flow items	1 082	131	174	1 977	850
Net cash from investing activities	(1 291)	(12 712)	(3 207)	(2 764)	(16 432)
Issuance/ Retirement of Stock, Net	0	0	(663)	(601)	0
Issuance/ Retirement of Debt, Net	(2 462)	6 219	1 020	(1 678)	2 920
Dividends paid	0	0	0	(876)	(510)
Other financing cash flow items	(167)	(732)	(1 468)	(1 305)	(1 539)
Net cash from financing activities	(2 629)	5 487	(1 111)	(4 460)	871
Net change in cash	5 880	(6 076)	(406)	5 846	(5 168)
Beginning-of-period cash	2 550	8 430	2 354	1 948	7 794
End-of-period cash	8 430	2 354	1 948	7 794	2 626
Cash per share	3.18	0.89	0.74	2.96	1.00
Number of shares:	2 654 358	2 654 358	2 631 531	2 631 531	2 616 000
Price in BGN - period end:	5.00	16.50	32.80	45.35	76.95
Market cap in BGN - period end:	13 271 790	43 796 907	86 314 201	119 339 909	201 301 200

Financial and Performance Indicators	2003	2004	2005	2006	2007
Valuation Ratios					
Price/Earnings (P/E)	2.91	12.53	6.09	36.82	55.73
Book Value	21.82	23.11	28.26	28.81	30.27
Price/Book (P/B)	0.23	0.71	1.16	1.57	2.54
Sales Per Share	57.38	58.09	71.70	70.54	72.03
Price/Sales (P/S)	0.09	0.28	0.46	0.64	1.07
Price/Cash flow	1.71	6.18	4.60	14.98	23.25
EV (in thousand BGN)	14 201	56 235	94 346	117 789	207 114
EV/Sales	0.09	0.36	0.50	0.63	1.10
EV/EBITDA	1.58	6.77	4.12	12.85	18.76
EV/EBIT	2.44	11.90	5.15	26.54	34.55
Liquidity					
Current ratio	1.66	1.91	2.27	1.43	0.91
Quick ratio	0.93	0.95	1.02	0.53	0.25
Debt Management					
Debt to total assets	41.7%	44.2%	36.6%	37.7%	43.0%
Interest coverage	7.95	8.27	32.10	7.77	10.50
LT Debt/Equity	30.9%	45.4%	31.9%	23.9%	23.4%
Total Debt/Equity	71.5%	79.1%	57.8%	60.6%	75.4%
Asset Management					
Inventory turnover	8.85	7.79	7.42	7.42	7.02
Days sales outstanding	30	37	35	12	13
Fixed asset turnover	2.53	2.19	2.65	2.27	1.85
Total asset turnover	1.53	1.40	1.61	1.52	1.36
Profitability					
Profit margin on sales	3.0%	2.3%	7.5%	1.7%	1.9%
EBITDA Margin	5.9%	5.4%	12.1%	4.9%	5.9%
Basic earning power	5.9%	4.3%	15.6%	3.6%	4.3%
Return on assets	4.6%	3.2%	12.1%	2.7%	2.6%
Return on equity	7.9%	5.7%	19.1%	4.3%	4.6%
Return on investments	6.0%	3.9%	14.5%	3.4%	3.7%
Dividend Information					
Dividend Yield	n/a	0.91%	n/a	n/a	0.65%
Dividend per share	0.0	0.15	n/a	n/a	0.50
Number of shares:					
	2 654 358	2 654 358	2 631 531	2 631 531	2 616 000
Price in BGN - period end:					
	5.00	16.50	32.80	45.35	76.95
Market cap in BGN - period end:					
	13 271 790	43 796 907	86 314 201	119 339 909	201 301 200

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

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Regulatory Authority: Financial Supervisory Commission, *Shar Planina* Street 33, 1303 Sofia, Bulgaria

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Outperform	More than 5% higher as compared to SOFIX and BG40 performance
Neutral	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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