

<u>Recommendation</u>	<u>Previous</u>	<u>From date</u>	<u>52-week target</u>
Market Perform	-	-	BGN 25.96

Toplivo

Business Summary

Toplivo was established in 1947 as a state-owned company, specialized in supply, storage and trade with construction and heating materials. Gradually, the company widened its product range and in late 60s /early 70s/ started trading with liquefied petroleum gas (LPG). Toplivo offers a wide range of products through 380 stores, warehouses and gas stations in about 196 populated areas. The construction materials could continue to support the company's performance in the future as Bulgaria's housing market is said to continue to grow steadily in short term.

Current Market Activity

The current correction pushed down the price per share of Toplivo from the top of BGN 38.00 to as low as BGN 18.00. The bulk of the losses were posted in January when shares lost 25%, whereas the index SOFIX fell 17%. Toplivo outperformed the broad market during the next leg down in March as the price of BGN 20, which corresponds to the book value of the company, provided strong support. Volumes also increased recently and the offered shares for sale were absorbed by the market. The strong forth quarter report didn't provide any boost for the price in February. The correction pushed down the P/E ratio to 20, which is close to the market average and is in the comfort zone for now as we expect 15-20% increase of the net profit this year.



Financial Summary

The net profit for 2007 is far below the previous expectations as the management underestimated the negative effect from the mild winter last year. However, sales increased 3% last year and the profitability improved during the forth quarter. Toplivo is one of the cheapest stocks in terms of P/B ratio and the company has plenty of real estates that aren't revaluated recently and could add to the revaluation reserve. The forth quarter performance is a reason to expect moderate growth for the next several years which should also improve the profit margin. The current P/E is 20 whereas P/B ratio is 1.20.

Valuation Ratios

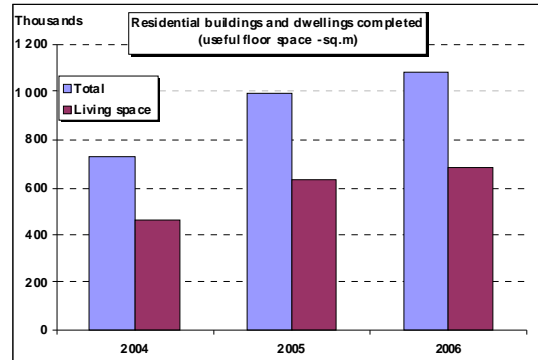
Enterprise Value	159 889 648
Dividend Yield - Gross	-
Trailing P/E (ttm)	19.84
Forward P/E (2008)	16.60
PEG Ratio (1yr expected)	1.24
Price/Sales (ttm)	0.38
Price/Book (mrq)	1.18
Enterprise Value/Revenues (ttm)	0.55
Enterprise Value/EBITDA (ttm)	10.21

Profitability and Growth Ratios

Return on Capital	9.43%
Return on Equity	5.95%
Return on Assets	3.16%
EBITDA Margin	5.30%
Net Profit Margin	1.90%
Revenue Growth	3.11%
EPS Growth	-21.4%
Capital Growth	12.5%
Assets Growth	19.1%

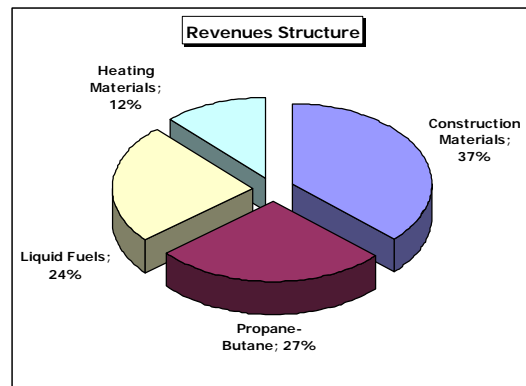
Market Position

The main activities of Toplivo are supplying, keeping and trading with propane-butane, coals and briquettes as well as trading with construction materials. Toplivo is official representative of Grohe - world leader on the sanitary fixture market, Keramac and Kolo - specialized in the production of sanitary faience for Bulgaria. The company maintains its orientation toward construction materials, which set up 37% from the 4Q 2007 sales. In recent years the construction posted solid growth. Demand is concentrated in office and commercial buildings as well as in residential estates.



Source: National Statistic Institute

Recently, the company decreased its retail trade revenues from liquid fuels due to the massive entering of Shell, OMV, LUKOIL and Petrol. The activity of Toplivo regarding of solid fuels is under the centralized method of business strategy, negotiating, pricing and repartition of the quantity in case of necessity. The mild winter last year resulted to increased stockpiles of heating materials and lower than expected sales during the first quarter. The company's balance sheet was also under pressure as Toplivo was unable to switch back in full scale to more profitable trading with construction materials during the second quarter. However, the sales during the fourth quarter posted a visible increase which could diminish the excess stockpiles.



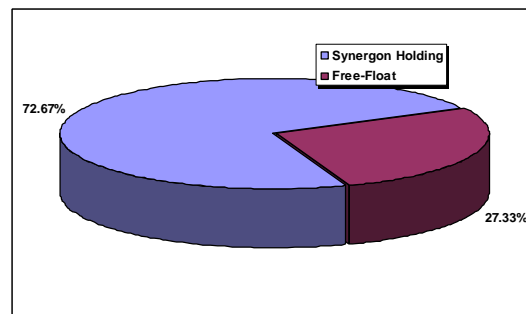
Source: Toplivo

Seasonality

Toplivo is depending on the seasonal changes in the demand of construction materials and heating fuels. The strongest quarters for distribution of construction materials are the second and the third as largest sales are posted in July and August whereas the lowest revenues come during January and February. The demand of heating fuels is larger during the summer months before the cold season.

Ownership

The company was privatized in 1996 during the first wave of mass privatization, when Petrol Holding (now Synergon Holding) acquired 34% of the company's shares. The holding gradually increased its stake in Toplivo and even tried to delist it in 2002, but its attempt failed due to the state's blocking stake in the company. Recently, Synergon Holding owns 73% of the Toplivo's capital.



Source: Toplivo

Stock Information (BSE Ticker: TOPL; Bloomberg: TOPL BU; REUTERS: TOPL.BB)

Last Price	20.00	Market Cap	108 336 580	1Y Range	BGN 18 – BGN 38	Average Volume (3m)	6 550
Beta	-	1Y Change	-16.67%	SOFIX Change	-2.24%	BG40 Change	+43.43%

Valuation

The valuation of Toplivo is heavily influenced by the relatively low growth rates as compared to other Bulgarian blue chips. The management's projection for 9 million net profit in 2007 was too optimistic and our expectations for the growth rates have been influenced on the downside due to the lower results last year. We prefer to stay at the downside of the expectations for now and to revise them after the results for the first half of the year.

Multiples Analysis

Toplivo is a retail company and the P/S ratio is the lowest among Bulgarian stocks. Other multiples based on the 2007 results are close to the market averages. P/EBITDA is 7 due to the significant interest payments and depreciation, whereas the P/E ratio is 20. An attractive valuation ratio is the P/B of 1.16, which is not only lower as comparing to other Bulgarian stocks but also don't include the possible re-valuation of tangible assets like real estates. We consider the P/B of 1 as a significant level of support but the market price of real estates cannot be estimated due to their differences in terms of location and size. Our expectations for 2008 results are based on the stable growth of sales and profits during the last several years. This leads to figures of *forward* P/E of 16.77 and slightly better EV/EBITDA.

BGN '000	2007	2008
Net Profit	5 576	6 459
EBIT	9 833	10 777
EBITDA	15 662	16 935
Sales	293 244	307 906
Equity	93 758	100 217
Market Cap	108 337	108 337
Cash	5 324	5 324
Debt	54 602	54 602
EV	163 898	163 898
P/E	19.43	16.77
P/S	0.37	0.35
P/B	1.16	1.08
EV/EBIT	16.03	14.63
EV/EBITDA	10.06	9.31
EV/Sales	0.54	0.51
P/EBIT	11.02	10.05
P/EBITDA	6.92	6.40

Calculations: ELANA Trading

5Y Projections

As a result of gradually improved margins in 4Q of 2007, we expect also higher net profits for the next five years. The company managed to increase its profit margins during the last quarter of 2007, which assures us that 5.5% EBITDA margin is achievable during the period but we cannot exclude any seasonal volatility. In addition, the growth of interest expenses should decelerate due to the already transformed debts to long-term bank loans. Those figures are used for the calculations of discounted cash flows.

BGN '000	2007	2008	2009	2010	2011	2012
Sales	293 244	307 906	323 302	337 850	353 053	367 175
<i>Growth</i>	1.91%	5.00%	5.00%	4.50%	4.50%	4.00%
EBITDA	15 662	16 935	17 782	18 582	19 418	20 195
<i>EBITDA margin</i>	5.34%	5.50%	5.50%	5.50%	5.50%	5.50%
Net Profit	5 576	6 459	6 764	7 043	7 341	7 601
<i>Net Profit margin</i>	1.90%	2.10%	2.09%	2.08%	2.08%	2.07%

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.

The DCF model is based on our projections for gradual increase of sales and modest improvement of profit margins for 2008 and beyond. Growth rates are expected to decelerate to the end of the ten-year period. The projected long-term growth rate is 2.5% with WACC of 12%. The discount rate could be higher as the BSE is very volatile at the moment and investors could be requiring higher risk premium.

The working capital increased from 2% of sales in 2005 to 12% in 2006 due to the changes in debt structure of the company. It remained above 10% last year and we prefer to create our DCF model at higher working capital as the company struggled with excessive stockpiles last year.

The model gives a price per share of BGN 8.65. This is lower than the other used methods. When using 2% working capital of sales, the calculated price is above BGN 10.

TOPL											Terminal
<i>BGN'000</i>	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Year
EBIT	10 777	11 316	11 825	12 357	12 851	13 365	13 833	14 317	14 747	15 189	15 569
EBIT(1-T)	9 699	10 184	10 642	11 121	11 566	12 029	12 450	12 885	13 272	13 670	14 012
Add: D&A	6 158	6 466	6 757	7 061	7 344	7 637	7 905	8 181	8 427	8 679	8 896
Less: Investments	6 158	6 466	6 757	7 061	7 344	7 637	7 905	8 181	8 427	8 679	8 896
Less: Change NWC	-448	1 540	1 455	1 520	1 412	1 469	1 337	1 383	1 227	1 264	1 112
FCF	10 147	8 644	9 187	9 601	10 154	10 560	11 113	11 502	12 045	12 406	12 900
PV FCF	9 060	6 891	6 539	6 102	5 762	5 350	5 027	4 646	4 343	3 994	
Sum of PV FCF	57 714										
PV of Continuing Value	43 720										
Total PV Free Cash Flows	101 434										
Less: Outstanding Debt	54 602										
PV of Equity	46 832										
Number of Shares	5 417										
Price Per share	8.65										
				WACC							
					Growth Rate						
					SA	1.5%	2.0%	2.5%	3.0%	3.5%	
					10.0%	12.63	13.18	13.80	14.51	15.33	
					11.0%	10.09	10.48	10.92	11.40	11.95	
					12.0%	8.06	8.34	8.65	8.99	9.37	
					13.0%	6.38	6.59	6.81	7.06	7.33	
					14.0%	4.98	5.13	5.30	5.48	5.68	

Calculations: ELANA Trading

Valuation

The valuation requires different approach as the low P/B ratio is in contrast to the calculated price by the DCF model. This is due to the moderate growth we used in the model, following the sales growth deceleration in 2007. Toplivo needs to show better profit margins as the current P/E of 20 is close to the market average. The current P/B is providing good support for the price and this is the reason to give higher weight on this component.

Method	Value	Price	Weight
Multiples			
P/E - 2007	20	20.59	10%
forward P/E	15	17.89	10%
P/S - 2007	0.50	27.07	10%
forward P/S	0.45	25.58	10%
EV/EBITDA	10	19.82	10%
P/B	1.50	25.96	25%
DCF		8.65	25%
Price (BGN)			19.75

Calculations: ELANA Trading

Recommendation

We give *Market Perform* recommendation of Toplivo as we give preference to only moderate growth rate of the total market for the next one or two quarters. The one year price target depends on the market psychology at the moment. Investors are focusing toward the P/E ratios and factors like liquidity and management are also weighting on their decisions. However, the main risk is the investors' reluctance to support stock that trade at higher than average P/E ratio in later stage of the market recovery. This will lead to profit-taking and below market performance for Toplivo. Still, the strong forth quarter of 2007 is factor for better expectations and positive surprises in 2008 despite the tough market conditions. Our price target is calculated by P/B of 1.5 or BGN 25.96.

Financial Data

Consol. Statement of Income (in thousand BGN)	2004	2005	2006	2007
Sales	192 938	250 964	284 406	293 244
Production expenses	177 033	231 409	259 840	266 419
Personnel expenses	7 578	8 720	10 168	10 758
Net income from financial activities	102	(420)	2 843	(400)
Other revenues and expenses	246	1 825	(46)	(5)
EBITDA	8 675	12 240	17 195	15 662
Depreciation	5 428	5 532	6 002	5 829
EBIT	3 247	6 708	11 193	9 833
Interest expense	(2 355)	2 409	2 735	(3 637)
Pretax income	892	4 299	8 458	6 196
Taxes	186	621	1 369	620
After-tax income	706	3 678	7 089	5 576
Minority interest	0	0	0	0
Net income	706	3 678	7 089	5 576
Earnings per share in BGN	0.16	0.85	1.31	1.03

Consol. Balance Sheet (in thousand BGN)	2004	2005	2006	2007
Total Assets	115 954	134 593	148 282	176 634
Equity subscriptions receivable	0	0	0	0
Fixed assets	66 289	76 853	81 216	93 199
Tangible fixed assets	63 392	73 535	74 377	86 293
Financial investments	100	150	150	52
Current assets	49 665	57 740	67 066	83 435
Inventory	28 208	35 149	42 733	55 778
Receivables	16 778	17 117	18 286	21 788
Financial assets and cash	4 298	5 160	5 741	5 324
Total liabilities + equity	115 954	134 593	148 282	176 634
Equity	56 987	69 825	88 128	93 758
Registered capital	4 334	4 334	5 417	5 417
Capital funds	47 442	53 699	62 555	62 555
Earnings	5 211	11 792	20 210	25 786
Liabilities	58 967	64 768	60 154	82 876
Long-term payables	5 388	8 751	8 999	23 682
Long-term bank loans	7 043	3 260	16 454	6 998
Short-term bank debt	28 359	35 899	10 583	23 922
Short-term payables	18 177	16 901	24 064	28 274
Other liabilities	0	0	0	0
Working capital	3 129	4 940	32 419	31 239

Consol. Cash Flow Statement (in thousand BGN)	2004	2005	2006	2007
Net income	706	3 678	7 089	5 576
Depreciation	5 428	5 532	6 002	5 829
Changes in Working capital	1 539	1 811	25 204	621
Other operating cash flow items	(1 943)	(14 129)	(29 342)	(19 660)
Net cash from operating activities	5 730	(3 108)	8 953	(7 634)
Capital expenditures	(5 166)	(5 898)	(8 072)	(15 065)
Other investing cash flow items	713	3 096	801	18 545
Net cash from investing activities	(4 453)	(2 802)	(7 271)	3 480
Issuance/ Retirement of Stock, Net	0	0	9 746	0
Issuance/ Retirement of Debt, Net	754	6 772	(9 775)	3 737
Dividends paid	0	0	(1 073)	0
Other financing cash flow items	17	0	1	0
Net cash from financing activities	771	6 772	(1 101)	3 737
Net change in cash	2 048	862	581	(417)
Beginning-of-period cash	2 250	4 298	5 160	5 741
End-of-period cash	4 298	5 160	5 741	5 324
Cash per share	0.99	1.19	1.06	0.98

Number of shares-end period	4 333 928	4 333 928	5 416 829	5 416 829
Average outstanding shares				
Price in BGN - period end:	3.30	6.13	17.47	21.00
Market cap in BGN (period end):	14 301 962	26 566 979	94 632 003	113 753 409

Financial and Performance Indicators	2004	2005	2006	2007
Valuation Ratios				
Price/Earnings (P/E)	20.26	7.22	13.35	20.40
Book Value	13.15	16.11	16.27	17.31
Price/Book (P/B)	0.25	0.38	1.07	1.21
Sales Per Share	44.52	57.91	52.50	54.14
Price/Sales (P/S)	0.07	0.11	0.33	0.39
Price/Cash flow	2.33	2.88	7.23	9.97
EV (in thousand BGN)	45 406	60 574	115 861	147 220
EV/Sales	0.24	0.24	0.41	0.50
EV/EBITDA	5.23	4.95	6.74	9.40
EV/EBIT	13.98	9.03	10.35	14.97
Liquidity				
Current ratio	1.07	1.09	1.94	1.60
Quick ratio	0.46	0.43	0.70	0.53
Debt Management				
Debt to total assets	50.9%	48.1%	40.6%	46.9%
Interest coverage	1.38	-2.78	-4.09	2.70
LT Debt/Equity	21.8%	17.2%	28.9%	32.7%
Total Debt/Equity	103.5%	92.8%	68.3%	88.4%
Asset Management				
Inventory turnover	6.84	7.14	6.66	5.26
Days sales outstanding	31	25	23	27
Fixed asset turnover	2.91	3.27	3.50	3.15
Total asset turnover	1.66	1.86	1.92	1.66
Profitability				
Profit margin on sales	0.4%	1.5%	2.5%	1.9%
EBITDA Margin	4.5%	4.9%	6.0%	5.3%
Basic earning power	2.8%	5.0%	7.5%	5.6%
Return on assets	0.6%	2.7%	4.8%	3.2%
Return on equity	1.2%	5.3%	8.0%	5.9%
Return on investments	1.0%	4.5%	6.2%	4.5%
Dividend Information				
Dividend Yield	n/a	n/a	n/a	n/a
Dividend per share (in BGN)	0.00	n/a	n/a	n/a
<i>* Valuation and profitability ratios are estimated on ttm basis. Other ratios are calculated for the most recent quarter.</i>				
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Negative	More than 5% lower as compared to SOFIX and BG40 performance

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