ALTA Invest

White Goods

GORENJE D.D.

28th August 2015

www.gorenje.si

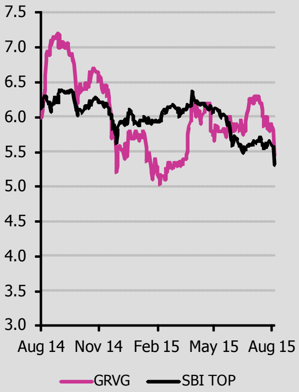
LJSE ticker: GRVG
Bloomberg: GRVG SV

Target price:
4.9 EUR

Previous target price:
6.1 EUR, HOLD (14.5.2015)

Recommendation:
SELL

12 months stock performance in EUR



4.26% European market share.

Management plans for margin expansion.

Non-core divestment process.

Cyclical industry.

Panasonic strategic partnership.

ALTA Invest, investicijske storitve, d.d.
Železna cesta 18
SI-1000 Ljubljana
Slovenia
phone: + 386 1 32 00 300
e-mail: invest@alta.si
http://www.alta.si

Head of Research:
Sašo Stanovnik
saso.stanovnik@alta.si

Institutional Trading:
Darko Jurčević
darko.jurcevic@alta.si

Stock data as of 28.08.2015			
Market price (EUR)	5.56	Market Cap (EUR)	135.8
52 week range (EUR)	5.0-7.2	No. of Shares	24.4
Avg. daily trade vol., EUR(k)	72.90	Free float	62%
Average daily % of stock traded	0.049%	Dividend yield	1.1%

Price performance	3 months	12 months	Multiples:	TTM	2015F
			P/E	neg.	neg.
price change in %	-4.1%	-15.6%	EV/Sales	0.4	0.4
SBI TOP index change in %	-11.0%	-15.1%	EV/EBITDA	6.7	6.4
relative to SBI TOP index in %	7.7%	-0.7%	EV/EBIT	16.0	14.5

Key figures (According to International Accounting Standards) *Consolidated data in EURm*

Income statement:

million €	FY2013	FY2014	FY2015	FY2016
Sales	1,240.5	1,249.6	1,221.1	1,197.5
Growth yoy	-1.8%	0.7%	-2.3%	-1.9%
EBITDA	78.2	85.8	81.5	91.4
Margin	6.3%	6.9%	6.7%	7.6%
EBIT	36.3	42.8	35.7	44.9
Margin	2.9%	3.4%	2.9%	3.7%
Net income	-25.2	1.2	-3.5	7.2
Growth				
EPS	**-0.9**	**0.1**	**-0.1**	**0.3**

Balance sheet:

million €	FY2013	FY2014	TTM
Investments	31.9	27.4	25.1
Cash	38.6	35.8	30.1
Debt	397.4	367.6	438.4
Net debt	358.8	331.8	383.3
Equity	380.7	377.4	357.7
Assets	1,148.1	1,102.4	1,144.0
D/E	104.4%	97.4%	122.6%
ROE	-6.6%	0.3%	-2.4%
ND/EBITDA	4.6	3.9	5.0

Investment Thesis:

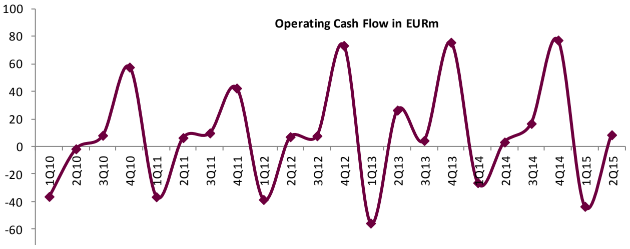
- **Owning more than 4% of European appliance market:** Gorenje is Slovenia's biggest exporter while the company has approximately 4.26% market share in European home appliances market (according to CECED data; 2014 data). We note this represents an increase during 2013, namely from 4.00%, despite adverse environment. We also note Gorenje is very strong on Eastern European markets (13.3% of sales revenues in 2014 came from Russia, 8.2% from Serbia, 4.4% from Croatia, 4.5% from Czech Republic, 2.7% from Ukraine) but also on several Western European markets (8.6% of sales revenues in 2014 came from Scandinavia, 13.2% from Germany, 10.3% from Netherlands, 5.2% from Slovenia, 2.5% from Austria). In order to further strengthen its position, Gorenje acquired ATAG (Netherlands) and Asko (Scandinavia) in the past few years. The latter contributed to better position on markets outside Europe as well.

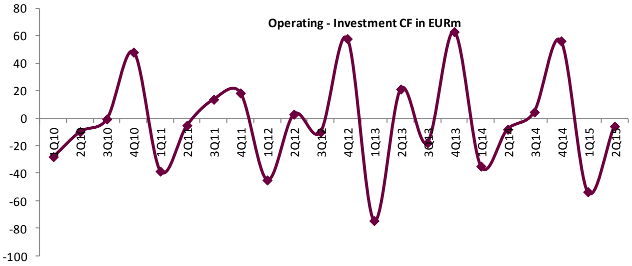
Sales in mio EUR	1H14	%	1H15	%	YoY
Western Europe	230.2	38.1%	224.7	40.3%	-2.4%
Eastern Europe	315.4	52.2%	281.4	50.4%	-10.8%
Other	59.1	9.8%	51.7	9.3%	-12.5%
Total Group	**604.7**	**100.0%**	**557.8**	**100.0%**	**-7.8%**

Sales growth within the Home segment during 1H15 was generated in the markets of the Czech Republic, Slovakia, Poland, Hungary, Slovenia, Bosnia and Herzegovina, Macedonia, Romania, Bulgaria, Benelux, Netherlands, Australia, North America and Asia. On the other hand lower sales volume was recorded in the markets of Russia and Ukraine, Germany, Scandinavia and Great Britain.

- **Ambitious Strategic Plan:** In October 2013 Gorenje Group published an updated Strategic Plan for the period from 2014 to 2018 based on successful completion of production relocation, strategic exclusive alliance with the Panasonic Corporation, divestment of its furniture manufacturing operations and sales structure reorganization and optimization.
    - ➢ Deleveraging remains a key goal to the point where the Net debt/EBITDA ratio does not exceed 3.0. This was expected to be accomplished in 2015. Now the plan is that Net debt/EBITDA in 2015 would end at 3.5. In 1H15 net debt to EBITDA stood at 5.3.
    - ➢ The Group will continue to generate most of its revenue in Europe while revenue generated outside Europe is expected to double to around EUR 170m by 2018 as Gorenje will be more aggressive in penetrating new markets.
    - ➢ They also expect to increase their market shares in most key markets.

- ➢ Revenue generated in the core activity is planned to be at over 90% of total revenue, while portfolio investments will be divested when opportunity arises (a good selling price) or if operations prove to be unprofitable (cash losing business). Some steps in this directions were made in YTD by divesting Gorenje Surovina stake.
- ➢ The Group will continue to develop the multi-brand strategy and presence across the price ranges, with ASKO being a global premium brand, ATAG a local Benelux premium brand, Gorenje as central mid segment global brand etc. 25% of sales should come from premium segments till 2018.
- ➢ Key projects for the future also include further development of strategic partnership with Panasonic, reducing complexity at all levels, optimizing the supply chain management and intensifying the development activities and innovation management.



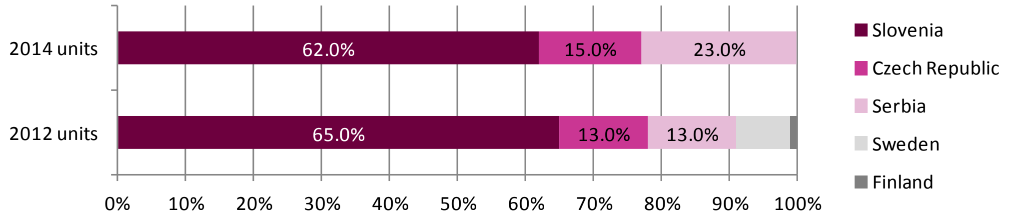


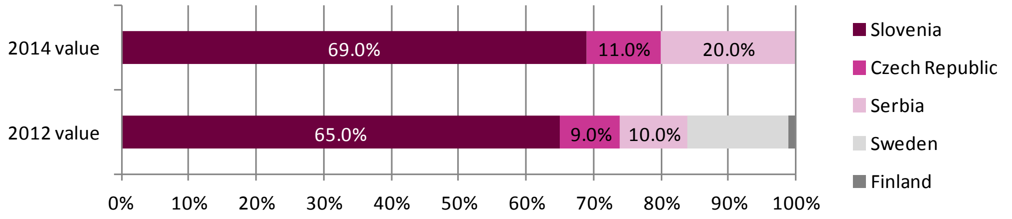
Here we must note that management continues its focus on free cash flow generation as it is aware that only through this they can improve debt levels and valuation of the company.

In line with this inventory level increased from 73 to 76 days, trade receivables increased by EUR 21.3m while trade payables declined by only EUR 25.0m. On the other hand we must be aware of FCF cyclicality in the business, clearly seen in graphs.

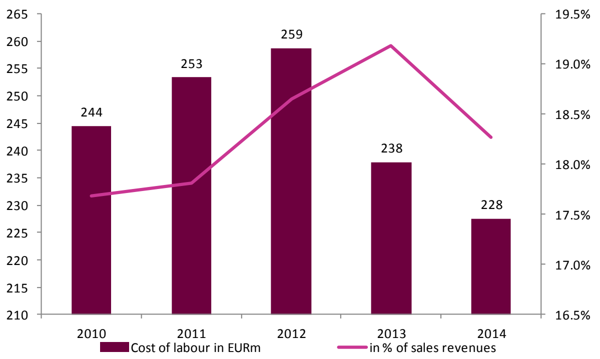
For 2015 Gorenje developed several business plans scenarios. According to the realistic scenario, the Group plans to generate revenues of EUR 1.22bn (-2.1% YoY), EBITDA of EUR 91.4m and EBIT of EUR 41.7m. Net profit is planned at EUR 6.1m versus EUR 1.2m achieved in 2014. This number includes EUR 1.5m loss from discontinued operations. In 1H15 Gorenje realized 45.6% of planned revenues, 36.9% of EBITDA, 25.7% of EBIT and achieved net loss of EUR 6.9m. CEO while confirming sales guidance after 1H15 results publication did not confirm profit guidance.

- **Production move to low cost labor countries**: Due to production facility relocation conducted in 2012 and 2013 manufacturing plants are now concentrated only in three countries, namely Slovenia, Serbia and Czech Republic. Here we note the Group shifted entire Asko manufacturing operations (7% of Gorenje's output) to other more cost effective locations. Cooker manufacturing facility was moved from Finland to Czech Republic. Washing machine, dryer and dishwasher production was moved from Sweden to Slovenia. Additionally Gorenje continued with expansion of production in Serbia, where 3 locations are now utilized (refrigerators and freezers in Valjevo, washing machines and driers in Zaječar, water heaters programmers in Stara Pazova).





Direct worker, gross-gross cost	EUR/month
Sweden	4,250
Finland	3,300
Slovenia	1,460
Czech Republic	950
Serbia	520



According to Gorenje estimates the finished process of production relocation should generate annual savings of at least EUR 20m from 2014 onwards as an increase of logistic & amortization costs of EUR 3m will partially mitigate the positive effects of labour cost savings in the amount of EUR 23m. We should point out that labour costs decreased severely in 2012 versus 2013, but this is associated with discontinued operations. In 2014 versus 2013 labour costs decreased by roughly 10m. In 1H15 labour costs remained at the same level than in 1H14 and amounted to EUR 111.4m. This was one step for achieving strategic plan and ultimate goal: margin expansion.

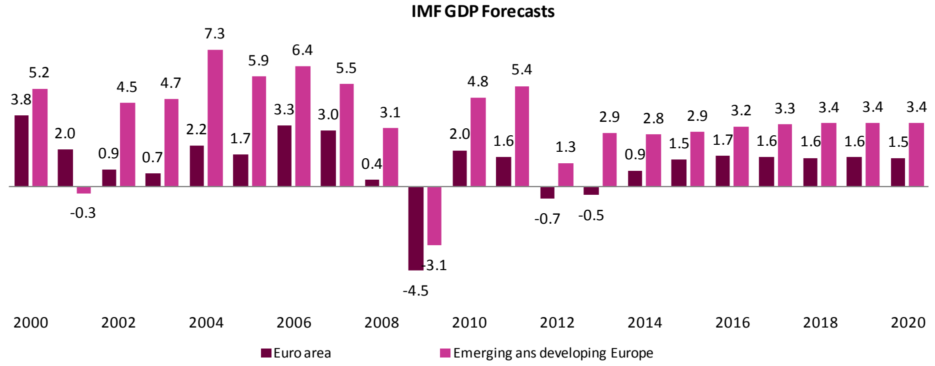
- **Non-core divestments leading to deleveraging:** Gorenje divested its Home interior division in the beginning of 2013 (Gorenje Kuhinje and Gorenje Notranja Oprema) that produced furniture especially for kitchens. This division has been producing net loss for several consecutive years and continued to struggle after several attempts to achieve a turnaround. This was definitely a positive step for Gorenje, although probably long overdue, as it shows its willingness to finally divest non-core. Any non-core divestment would lower financial leverage thereby lightening interest expense and should be positive regarding valuation.

  In July 2015 Gorenje Group and Polish company Elemental Holding SA signed a share sale and purchase agreement to divest the majority shareholding (60.32%) in Gorenje Surovina and its daughter companies Kemis Valjevo, Kemis BH and Cleaning Systems S. The agreed purchase price is set at EUR 29.2m minus the company's debt at the transaction closing date. Gorenje Group and Elemental Holding Group will remain partners in Gorenje Surovina for no less than the next 3 years and will continue to negotiate the divestment of the remaining part of Gorenje's investment in the company.

  In August 2015 Gorenje and Gorenje Surovina signed with Slovenian company HIS an agreement for the sale of their shareholding in the company Publicus together with the subsidiary Ekogor. HIS already holds 49% stake in the company Publicus. The agreed price for Gorenje's stake in Publicus and Ekogor is set at EUR 3.6m. HIS will assume all liabilities of both companies. After receiving the purchase amount, Gorenje will deleverage by EUR 6.5m.

- **Reducing the level of complexity:** The key investment rational is that Gorenje Group successfully continues its transition from complex organization to a simple streamlined organization and thereby lifts margins.

- **Operating leverage on economic recovery:** Europe is slowly recovering from recessionary environment according to IMF and Bloomberg consensus. Since Gorenje works in cyclical industry operating leverage should help boost not only top line but margins as well.



- **Lower oil and commodity prices:** Lower oil and other commodity prices can have two beneficial effects. Firstly, this can in time lower COGS pressure and open a possibility for higher margins. Secondly, household disposable income can improve which can as a consequence benefit durables spending although this depends on tax environment and reasons for a slump in commodity prices. In 1H15 COGS decreased by 5.9%, while sales revenues decreased by 7.8%. We note the Group only partly utilizes hedging to limit the effects of the raw materials price increases as they rather use midterm contracts with their suppliers.

Gorenje usually reviews arrangements with suppliers 6 to 12 months while sticking to multiple sources of purchases. Nevertheless investors must be aware that Gorenje results are highly sensitive to commodity prices (especially steel and plastics) and that an environment of low GDP growth and rising commodity prices due to supply issues can be especially damaging. Therefore raw material prices will always be a crucial risk factor through manufacturing costs and logistics costs that can at least partially offset management plans to expand margins.

- **Strategic alliance with Panasonic:** In July 2013 Gorenje Group and Panasonic Corporation announced the creation of a long-term strategic alliance that will leverage the combined strengths and capabilities of the two companies, contribute to the profitability of both partners and improve their competitiveness in Europe. The strategic alliance between Gorenje and Panasonic was structured around two pillars: joint R&D for new products and sharing of selected manufacturing platforms for selected product categories (washing machines, refrigerators and built-in ovens); and the joint sales network and marketing know-how for distribution throughout Europe. As a sign of confidence in the success of the alliance and a commitment to the long-term business relationship, Panasonic invested EUR 10 million and acquired a minority interest in Gorenje through capital injection at subscription price of EUR 4.31 per share. Panasonic has a standstill agreement not to increase its stake in share capital above 13% over 5 years (till end 2018) without the consent of Gorenje management. Currently it owns 9.5% stake in the company.

  According to the Group, additional annual revenues will grow to EUR 80 million by the year 2018 and EBITDA will gradually improve to EUR 20 million per year till 2018 due to this alliance. Gaining know-how and Asian markets is a key opportunity for Gorenje for this deal while margins will benefit from the increase in capacity utilization. On the other hand this partnership can be a limitation regarding any takeover speculation.

  We note that in July 2015 Gorenje and Panasonic agreed to expand their strategic business alliance to several new business segments, namely procurement of materials and components, manufacturing innovation, consumer (after sales) services, logistic, quality assurance and distribution of major and small domestic appliances on selected markets. Sadly we have no quantitive data on materialization of above mentioned benefits regarding Panasonic partnership.

- **Distribution partnership:** In February 2014 Gorenje Group and American premium appliance manufacturer Sub-Zero Group signed a distribution partnership. According to the agreement, Sub-Zero Group became the exclusive distributor for Asko brand in North America. The cooperation is a part of Gorenje's strategic activities oriented at boosting the Group's presence beyond Europe as well as increasing sales of appliances in the premium price segment. After Panasonic deal, this is a second (positive) step in this direction.

- **Multi Brand strategy:** Together with the acquisitions of different foreign brands (ASKO in Scandinavia, ATAG in Netherlands) Gorenje was extensively working on the rebranding project, which should contribute to future profitability. The main idea is to create a pool of brands ranging from budget to premium brands which will be focused on different distribution channels.

	Global brand	Local Brand
Premium segment	*ASKO*	*ATAG (Benelux)*
Mid segment	*Gorenje*	*Pelgrim (Benelux)*
Budget segment		*UPO (Scandinavia)*
		Mora (Czech, Slovakia)
		Etna (Benelux)
		Korting (SEE)

  While Gorenje brand which accounts for 70% of sales will stay company's core global brand the share of sales of brands in premium segment is seen by management to increase in the Group's total sales (25% of sales should come from premium segments from 2018 onwards), contributing to margin expansion. We deem this strategy is sensible and plausible, however its materialization will be difficult. In 2014 sales of premium appliances represent 16.4% in total sales volume of large household appliances, which is 2.0 p.p. more than in 2013. Additionally sales of small household appliances under own brands reached sales growth of 4.3%. In 1H15 sales of premium appliances represent 16.6% in total sales structure (+0.1p.p.), while sales of innovative appliances represent 7.8% (+1.1p.p.).

- **Constant development of new products**: Difficult market demands innovation and marketing. Here Gorenje was been able to keep pace in recent years with new design labels, by being one of the leaders in colourful home appliances etc. In 2014 Gorenje introduced a new generation of premium built-in ovens for various brands, expanded Asko product range with Asko ProSeries cooking line and Asko washing machines, introduced Gorenje laundry dryer with energy class A+++, upgraded free-standing fridge freezers and introduced the new Magna premium collection of household appliance. In 2014 Gorenje increased investments in development cost for 2.9% in Home Segment's revenue structure. In 1H15 Gorenje launched the new generation of built-in ovens, new Essential washing machine, new Magna premium collection of cooking appliances, new Gorenje by Starck appliances and new appliances from the Gorenje Infinity line. With all of this we believe Gorenje is moving into right direction given its production structure and market position, but markets remain difficult and competition though.

- **Stronger international shareholder structure:** In the last few years Gorenje shareholder structure shifted due to capital increases. State stake has lowered, although Gorenje remains classified as important company for Slovenia, while share of foreign ownership increased.

Shareholder structure							
before the capital increase in 2010		before the two capital increases in 2013		after the two capital increases in 2013		after the capital increase in 2014	
KAD	25.19%	KAD	22.22%	KAD	18.09%	KAD	16.37%
Home Product Europe	7.63%	IFC	11.80%	Panasonic	10.50%	IFC	11.80%
Ingor	5.66%	Home Product Europe	6.73%	IFC	8.49%	Panasonic	9.50%
KD Galileo	4.02%	NFD	5.10%	Universal Investment Capital	8.40%	KDPW - Fiduciary account	8.08%
Raiffeisen Zentralbank	3.33%	Ingor	4.99%	NFD	5.09%	NFD	4.84%

- **Serbian bridge to Russia:** Due to Group's production facilities in Serbia, Gorenje can benefit from the custom preferences relating to the Group's products sold from Serbia to Russia. Additionally Serbia is a low labour cost country as seen in thesis above.

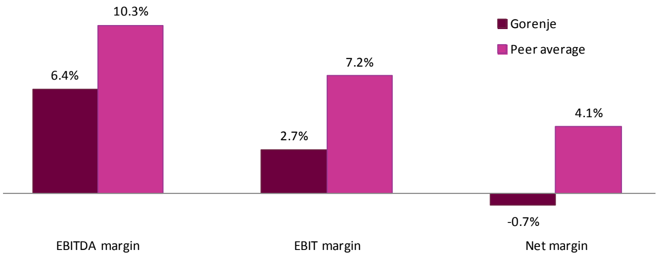
Risks:

- **Management guidance misses:** Gorenje's management has relatively weak track record history regarding guidance delivery. In the last 5 years with the exception of the year 2010 Gorenje did not achieve its planned results. In the last 2 years neither lowered mid-year plans were not realized. The details about planned and delivered business results are shown in the table below. Therefore even the guidance for 2015 (revenues of EUR 1.22bn, EBITDA of EUR 91.4m, EBIT of EUR 41.7m and net profit of EUR 6.1m) is questionable, especially if we look at 1H15 results. Namely Gorenje realized 45.6% of planned revenues, 36.9% of EBITDA, 25.7% of EBIT and achieved net loss of EUR 6.9m. However for 3Q15 the Group forecast revenue increase by more than 3% YoY and more than 10% QoQ.

	Gorenje's plans				Realized			
in EURm	Revenues	EBITDA	EBIT	Net income	Revenues	EBITDA	EBIT	Net income
2014	1,287	93.7	46.4	13.2	1,245.6	86.5	43.5	1.2
2014*	1,240			positive				
2013	1,340	96.7	48.9	4.2	1,240.5	78.2	36.3	-25.2
2013*	1,274	83.3	39.5	-8.8				
2012	1,391	101.3	50.0	13.4	1,263.1	90.6	44.9	0.1
2011	1,548	107.4	54.6	21.1	1,422.2	86.7	36.5	9.1
2010	1,244	97.8	45.0	10.1	1,382.2	108.7	56.4	19.9

* Lowered mid-year estimates

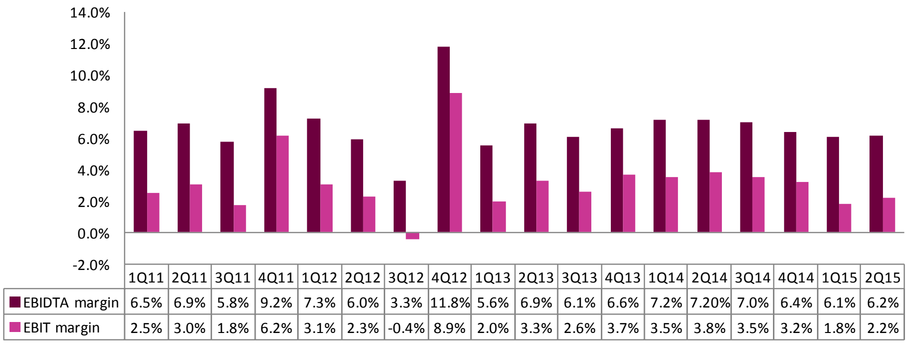
- **Severe margin lag:** Peer comparison clearly states that Gorenje is trailing its peer's in terms of margins. Namely trailing twelve months EBITDA margin of Gorenje is on 62% of peer average, EBIT margin on 38% of average while net margin is negative compared to peer average 4.1%.



This shows that while Gorenje is successful in maintaining market shares and top line it is still too cost ineffective and with it too shareholder unfriendly. We must additionally emphasise margins contracted in 2013 and while management planed for quite some time to close the gap to peer margins, they were clearly unsuccessful. Irrespective of this, in 2014 we have seen an increase in margins. However in 1H15 margins again decreased compared to the same period last year.

All in all we believe that with its vision to continue with cost cutting measures (production relocation to lower labour cost countries has already been conducted) on one hand and better penetration of higher end markets on the other, Gorenje has significant room for expanding margins in the long term. This would narrow the gap to its peers and improve bottom-line multiples. We therefore conclude that this margin lag is at the same time the biggest weakness and opportunity for Gorenje. If gap closes, results will be in a solid bottom line growth and share price should follow. But if the gap persists, Gorenje will continue to struggle especially in terms of CAPEX, debt and stability in recessionary environment; and the share price will share the fate.

EBIT and EBITDA margins



	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
EBIDTA margin	6.5%	6.9%	5.8%	9.2%	7.3%	6.0%	3.3%	11.8%	5.6%	6.9%	6.1%	6.6%	7.2%	7.20%	7.0%	6.4%	6.1%	6.2%
EBIT margin	2.5%	3.0%	1.8%	6.2%	3.1%	2.3%	-0.4%	8.9%	2.0%	3.3%	2.6%	3.7%	3.5%	3.8%	3.5%	3.2%	1.8%	2.2%

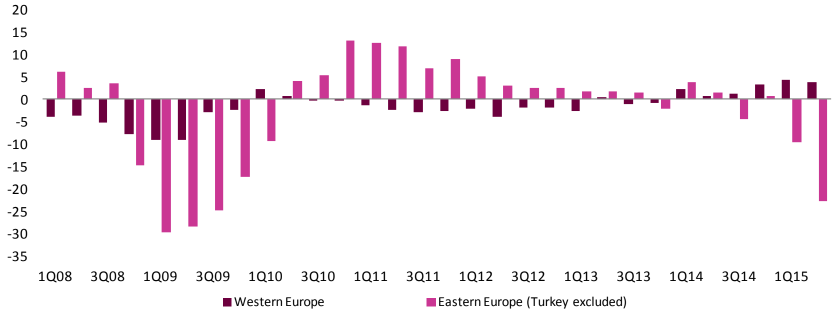
- **Increased Competition:** Intense competition is posed by several big manufacturers, namely Arcelik, Indesit, De'Longhi, Electrolux and Whirlpool. Additionally, the trend of Asian producers trying to capture market share in Europe is increasing and will probably continue. Manufacturers of household appliances are becoming fewer, larger and more international. The five largest manufacturers of major domestic / household appliances in the world (Whirlpool, Electrolux, Haier Group, Bosch-Siemens and LG Electronics) accounted for almost half of global sales in 2014. We note Whirlpool acquired controlling stake in Indesit further consolidating the industry.

  The Gorenje Group's products will be under pricing pressure especially in low and mid price levels because of intense competition and desire from competitors to increase their respective market shares with Gorenje cost structure limiting its response. Furthermore, price pressure will be even more present also in high-end segment. Consequently, margins will be under pressure. Additionally since constant investments in R&D are necessary (around 5% of sales is CAPEX) FCF generation is weak.

- **Though environment persists:** West European markets are saturated and overall there cannot be any substantial growth in units (product penetrations for cookers, refrigerators and washing machines is between 90 to 100%, for dryers around 40%). Population growth in this market is also low and sales are dominated by replacement products. On the other side East European market has a growth potential, but depending on economic activity which remains rather unpredictable and weak. Here we note that Gorenje Group sales structure clearly indicates Eastern European markets have to pick up in order for sustainable turnaround of Gorenje results.

  In 2013 demand for core appliances in Western Europe declined by 1%, while in Eastern Europe market demand was unchanged compared to 2012. In 2014 the situation improved as demand for core appliances in Western increased by 2%, while Eastern Europe remained unchanged mainly due to uncertainties in Russia and Ukraine. For 2015 market demand for core appliances in Europe was expected to increase between 1% and 2%, even though the situation in Russia and Ukraine remains uncertain. This is a consequence of slightly higher pace of economic growth seen by IMF, especially in Central and Eastern Europe. In 1H15, especially in 2Q15 industry shipments significantly decreased in Eastern Europe, namely by 22.9% (Turkey excluded).

Industry shipments QoQ growth (in %)

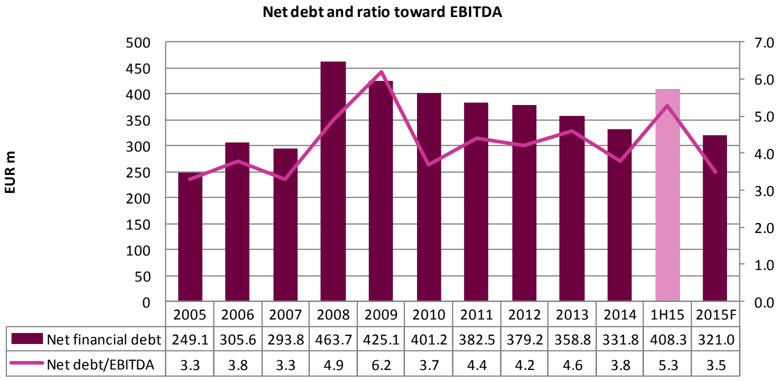


  We note that due to continuation of adverse environment in Ukraine and Russia Gorenje sent 136 employees on forced leave in 1Q15. On one hand this was negative news as these markets will continue to pressure the top-line, on the other side relatively quick Gorenje reaction is a positive development. However as orders increased again the workers gradually returned to work, (most of them came back as of July 1), while Gorenje also temporarily hired additional 171 workers.

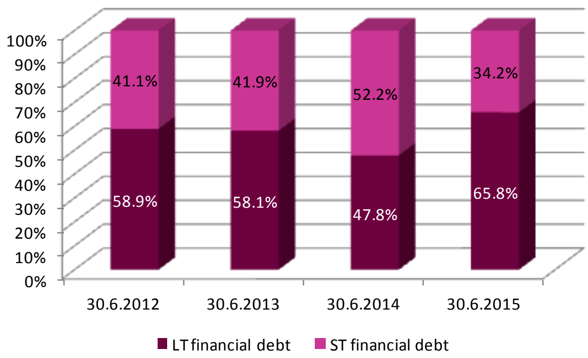
- **Exposure to Russia and Ukraine:** In 1H15 macroeconomic and political tensions in Ukraine had an adverse effect on Gorup's operating activity, the same applies to Russia and its currency dynamic. Also no market recovery is expected in the near future, especially as oil prices remain under pressure. We note Gorenje Group exposure to both countries in terms of value sales under own brands was 16.0% in 2014, down from 19.3% in 2013. All in all we believe that at least in EUR value terms, these markets weaknesses will impact Gorenje Group bottom line in 2H15 as well.

- **Currency risk:** Due to its sales structure Gorenje is exposed to currency risk. In 2014 Gorenje sales were impacted by foreign currency fluctuations, especially in Eastern Europe and markets outside of Europe. The main topic here was Russian-Ukraine crisis and RUB depreciation, mostly occurred in 4Q14. During 2014 RUB lost 37% relative to EUR. Despite this revenues generated in Russia were up YoY, albeit significantly below plans. In the same time in December 2014 sales prices were additionally adjusted with respect to the RUB movement. We note Gorenje Group sensitivity shows that a 5% increase (decrease) in EUR value versus RUB implies a loss of EUR 977 thousand, CZK 198 thousand, RSD 78 thousand and HRK 587 thousand. However we must also note most of the cash flows in RUB was hedged by means of forward contracts. Nevertheless in current times currency risk is elevated while hedging expensive.

- **Elevated debt levels:** Despite the debt decline in 2013 and 2014 (YoY), debt levels remain uncomfortably high. On 30 June 2015 Gorenje's net financial debt amounted to EUR 408.3m, EUR 76.5m more than in 2014. On 30 June 2015 Net debt to EBITDA ratio (including only cash) therefore stood at 5.3 which represent an increase versus 2014 (when it stood at 4.6). According to the prior company's plan net debt to EBITDA would not exceed 3.0 in 2015. Now this number was disappointingly corrected to 3.5. Namely till this ratio is materially reduced, risk is also elevated, with our valuation model showing us a very light possibility to generate FCF big enough (without drastic increase in profitability or NWC optimization) to repay a bigger chunk of debt in the short time span.
  It is true however that in 2014 the Group issued bonds (5 year; EUR 73m) and improved maturity of the debt (LT mix is at 74% versus 50%), thereby migrating refinancing risk. In 1Q15 Gorenje also issued 10-month commercial papers bearing an interest rate of 2.20%. In 1H15 Gorenje repaid EUR 35.0m of currently due long-term borrowings. As for the maturity structure of financial liabilities, 65.8% refer to non-current financial liabilities, while 34.2% represent current financial liabilities.



- **Capital injection dilution:** Mostly in order to deleverage, Gorenje went through capital increase process in second half of 2013. However while Panasonic paid in agreed amount of EUR 10m into the company (which we deem positive), only 3,877,365 shares at set price EUR 4.31 out of planned 10,440,835 were paid in by other investors. Existing shareholders subscribed 1,284,541 shares with total value of EUR 5.5m, employees subscribed and paid in 17,512 shares worth EUR 0.08m, while new investors subscribed a total of 2,575,688 new shares, amounting to EUR 11.1m. This under subscription was amended by higher investor interest in 1H14 when third round of capital increase followed through debt-to-equity conversion agreement with IFC for 1,005,020 issued shares and with Gorenjska banka which subscribed 1,315,166 new shares. Thus the number of GRVG shares further increased to 24,424,613. While this will allowed the Group to deleverage further (which we deemed positive) it did lead to dilution of existing owners. Additionally slow reduction of debt can, in case of another quick economic downturn, open a possibility for another capital injection in order to keep net debt to EBITDA ratio below 4.



1H15 Results and Recent news

Results again below expectations due to Russia and Ukraine.

million €	1H14	1H15	YoY	2Q14	1Q15	2Q15	QoQ	YoY
Sales	604.7	557.8	**-7.8%**	312.0	267.9	289.8	**8.2%**	**-7.1%**
EBITDA	42.4	33.7	**-20.6%**	22.0	15.8	17.9	**13.4%**	**-18.7%**
Margin	7.0%	6.0%		7.1%	5.9%	6.2%		
EBIT	21.1	10.7	**-49.2%**	11.3	4.5	6.3	**40.8%**	**-44.6%**
Margin	3.5%	1.9%		3.6%	1.7%	2.2%		
Net income	3.1	-6.9		2.0	-2.1	-4.8		
Margin	0.5%	-1.2%		0.7%	-0.8%	-1.7%		

Revenues decreased by 7.8%.

- In 1H15 Gorenje Group sales revenues amounted to EUR 557.8m which is 7.8% less versus 1H14. Achieved revenues were slightly below our lowered expectations of EUR 562.0m. In 2Q15 revenues stood at EUR 289.8m and were by 8.2% higher QoQ but lower by 7.1% YoY.
- Eastern Europe region still had a 50.4% stake in total sales. Revenues achieved in this region were down by 10.8% YoY to EUR 281.4m. Western Europe sales represented 40.3% of all sales, slightly more than a year ago. Revenues in this region were down by 2.4% YoY. Sales volume outside Europe decreased by 12.6% YoY and amounted to EUR 51.7m. But here we note CEO mentioned an inventory reduction of one of US distributers was the main culprit – and should adjust yearend.

Sales decreased in all markets and segments.

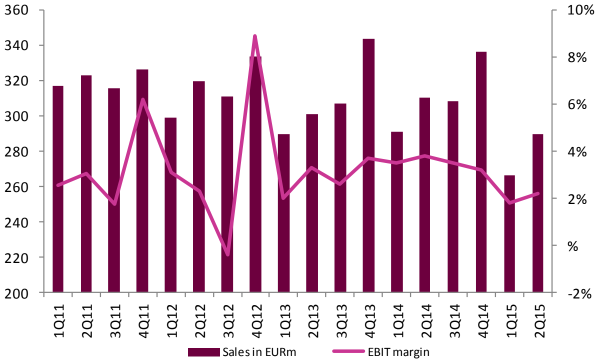
- In business segment Home sales revenues decreased by 7.2% YoY to EUR 472.8m, which is mainly the consequence of the downward sales spiral in Russia and Ukraine and deteriorating macroeconomic conditions in these markets. We note home segment represents 84.8% of total sales. Excluding effects of exchange rate fluctuations the organic decline in revenues would amount to 5.0% YoY. In Western Europe sales declined by 3.0%, while in Eastern Europe sales were down 10.0% YoY. The highest decline was recorded outside Europe, namely by 12.6% YoY.
- In business segment Portfolio Investments revenues decreased by 10.7% YoY to EUR 85.0m, mostly due to lower sales of coal and medical equipment, machine and tool manufacture.

Sales in mio EUR	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Portfolio	49.6	38.0	34.7	53.1	48.3	46.9	37.2	47.3	44.0	41.0
Home	239.8	262.7	272.3	290.3	242.4	263.1	271.3	289.1	224.0	248.8

- The product-sales structure improved due to focused sales of innovative and premium appliances. Premium appliances represented 16.6% in total sales structure (+0.1p.p.). The share of sales of innovative appliances in total sales structure grew to 7.8% (+1.1p.p.).
- COGS stood at EUR 446.5m and were 5.9% lower versus 1H14. Labor cost remained at the same level than in 1H14 and amounted to EUR 111.4m, while average number of employees stood at 10,348, which is 175 less than in the same period last year. D&A costs increased by EUR 1.6m to EUR 22.9m. Other operating expenses were almost in line with 1H14 an amounted to EUR 9.5m.

Decrease in EBIT and EBITDA margin.

- Consequently EBITDA margin decreased by 1.0 p.p. to 6.0%, while EBITDA itself decreased by 20.6% YoY to EUR 33.7m. EBIT decreased by 49.2% YoY to EUR 10.7m, while EBIT margin decreased to 1.9%, down by 1.6 p.p. The deterioration in EBIT is mainly the consequence of lower sales in Russia and strengthening of the USD against EUR (affected profitability of small and large household appliances and input prices of raw materials). In 2Q15 EBITDA stood at EUR 17.9m, while EBIT was at EUR 6.3m. Both achieved numbers were below our expectations.



- In business segment Home a positive EBIT was generated in the amount of EUR 6.8m, which represents a decrease by EUR 11.2m YoY. Lower EBIT is the consequence of lower contribution margin at the cost of goods and materials level. In business segment Portfolio Investments EBIT amounted to EUR 3.9m, which represent an increase of EUR 0.7m.

Net income below our lowered estimate.

- Net financial expenses were almost to the same level compared to 1H14, at EUR 16.0m.
- Net loss and stood at EUR 6.9m, which represents deterioration compared to 1H14, when net profit stood at EUR 6.1m. Achieved net income was below our expectations of EUR -0.5m.
- Reported net financial debt stood at EUR 408.3m while financial debt was at EUR 438.4m. Both numbers are slightly higher compared to 1H14. Reported net debt to EBITDA ratio is at 5.3 (including only cash items), but some divestment followed after June 2015.

Debt slightly higher.

- In 1H15 negative net cash flow from operating activities was recorded in the amount of EUR 35.0m versus negative EUR 23.1m in 1H14, while net cash used in investing activities was negative in the amount of EUR 24.2m. Compared to the end of 2014, trade receivables increased by EUR 21.3m, inventories increased by EUR 29.0m, while trade payables decreased by EUR 25.0m.
- CAPEX amounted to EUR 30.1m, which is EUR 7.1m more compared to the same period last year.

Relative valuation:

Trades at discount for top line multiples…

	EV/S			EV/EBITDA			EV/EBIT		
Company name	**TTM**	**2015F**	**2016F**	**TTM**	**2015F**	**2016F**	**TTM**	**2015F**	**2016F**
Electrolux	0.6	0.6	0.5	8.3	6.9	6.2	14.1	11.0	9.5
Arcelik	1.0	0.9	0.8	9.5	8.1	7.3	12.8	10.5	9.4
De'Longhi	1.7	1.5	1.4	11.3	9.8	8.9	13.8	11.8	10.6
Whirlpool	0.8	0.8	0.7	9.5	6.5	5.7	14.5	9.0	7.6
SEB SA	1.1	1.0	1.0	10.1	9.3	8.5	13.7	12.4	11.3
Amica	0.6	0.6	0.5	6.7	6.9	6.7	8.7	9.0	8.8
Vestel Beyaz	1.2	1.0	0.9	9.0	11.3	9.6	12.8	15.8	13.3
Gorenje	0.4	0.4	0.4	6.7	6.4	5.7	16.0	14.5	11.6
Average	1.0	0.9	0.8	9.2	8.4	7.6	12.9	11.4	10.1

…but less when looking at bottom line multiples.

	P/S			P/E			P/B		
Company name	**TTM**	**2015F**	**2016F**	**TTM**	**2015F**	**2016F**	**TTM**	**2015F**	**2016F**
Electrolux	0.6	0.5	0.5	23.5	14.4	12.4	4.2	3.2	2.7
Arcelik	0.7	0.6	0.6	12.2	12.1	10.5	2.2	1.9	1.7
De'Longhi	1.7	1.5	1.4	23.8	19.0	17.7	3.4	3.3	2.9
Whirlpool	0.6	0.6	0.6	19.6	11.1	9.2	2.7	n.a.	n.a.
SEB SA	1.0	0.9	0.8	21.1	17.8	15.7	2.6	2.3	2.1
Amica	0.6	0.5	0.5	14.1	12.5	12.0	2.1	1.9	1.7
Vestel Beyaz	1.1	1.0	0.8	24.7	23.6	20.4	4.4	3.6	3.3
Gorenje	0.1	0.1	0.1	neg.	neg.	18.9	0.4	0.4	0.3
Average	0.9	0.8	0.8	19.9	15.8	14.0	3.1	2.7	2.4

Still severely lagging in profitability.

Company name	**EBITDA margin TTM**	**EBIT margin (%)**	**Profit margin (%)**	**ROE TTM**	**ROA TTM**	**Assets turnover**	**Div. yield (%)**	**Assets/ Equity**	**Net debt to EBITDA**
Electrolux	7.8%	4.6%	2.4%	17.8%	3.4%	1.44	2.78	5.22	0.57
Arcelik	10.7%	7.9%	6.2%	18.3%	6.2%	1.01	3.09	2.94	2.45
De'Longhi	15.0%	12.2%	7.3%	14.3%	8.2%	1.13	2.02	1.73	-0.38
Whirlpool	8.7%	5.7%	3.3%	13.6%	3.5%	1.07	1.42	3.96	2.23
SEB SA	10.8%	8.0%	4.4%	12.3%	5.0%	1.15	0.00	2.41	1.22
Amica	9.0%	7.0%	4.2%	15.0%	7.6%	1.81	2.22	1.98	0.15
Vestel Beyaz	12.8%	9.0%	4.5%	17.8%	6.1%	1.36	3.44	2.88	0.27
Gorenje	6.4%	2.7%	-0.7%	-2.4%	-0.8%	1.05	1.08	3.20	4.97
Average	10.7%	7.8%	4.6%	15.6%	5.7%	1.28	2.14	3.02	0.93

ROE decomposition (company/peer average):

EBITDA margin	
6.4%	10.7%

EBIT/EBITDA	
42.0%	72.7%

NI/EBIT	
-27.0%	59.1%

Profit margin	
-0.7%	4.6%

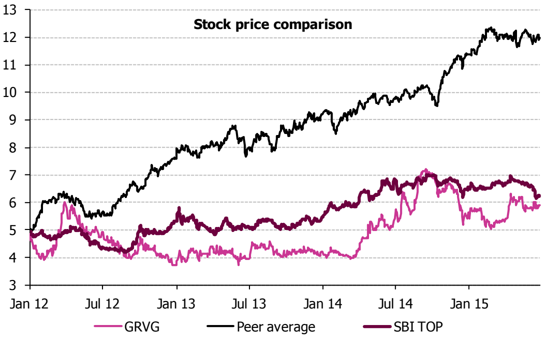
Sales to assets	
1.05	1.28

Assets to Equity	
3.20	3.02

ROA	
-0.8%	5.7%

ROE	
-2.4%	**15.6%**

Valuation discount is a logical consequence.



Peer comparison shows Gorenje is lagging peers in terms of margins and therefore profitability. This lag has not decreased in recent years and this should be taken into account when comparing multiples. Additionally consensus estimates imply higher sales growth of peer companies versus own estimates for Gorenje. On the other hand capital intensity is higher at Gorenje versus peer average which is most likely a consequence of CAPEX. EV/Sales regression to operating margin as well as peer EV/EBITDA (9.2 versus 6.8) shows significant potential for Gorenje shares and a clear buy signal. However due to all of the above mentioned trailing profitability data it's impossible to imagine or rationalize that Gorenje multiple would align with peer average. While pure peer alignment implies a target price of EUR 6.2 per share, theoretically justified ratios (based on growth, net margin etc.) imply distressing and disturbing EV/EBITDA of 3.8 versus higher net debt to EBITDA ratio while regression on EV/Sales and 2016 EBIT margin (thereby including a potential margin lift off) EUR 5.9 per share. All methods derive a target price of EUR 4.9.

Peer analysis implies a target price of EUR 4.9.

Comparison of stock price movement from 2009 (in recovery period) shows an expanding gap and lag of Gorenjes shares, despite the similar nature and problems in business environment. Again lagging improvement in profitability could be a partial explanation behind this.

Outlook:

While we agree in terms of revenue growth, we are slightly more cautious on margins.

The key value driver is operating margin.

- For 2015 Gorenje guided revenues of EUR 1.22bn (-2.1% YoY), EBITDA of EUR 91.4m and EBIT of EUR 41.7m (adjusted versus end 2014 documents, most likely due to Group changes). Net profit was planned at EUR 6.1m. This number includes EUR 1.5m loss from discontinued operations. But as pointed out in the risk segment of this analysis, Gorenje had a tendency to miss its guidance. In 1H15 Gorenje realized 45.6% of planned revenues, 36.9% of EBITDA, 25.7% of EBIT and achieved net loss of EUR 6.9m. According to our opinion, once again the planned results will not be achieved, although CEO confirmed sales guidance (but not net income). Also it is recognized that Gorenje indicated several times orders are up for 3Q15. But if we take into account our lowered guidance for 2015, made after 1Q15, Gorenje Group in 1H15 realized 45.7% of planned revenues, 37.1% of EBITDA and 23.8% of EBIT. Consequently we still lowered our margin estimates.
- Our sales estimation is still based on European GDP dynamic which is by IMF forecasted to pick up. While we are also still slightly more negative for Eastern Europe in 2015, we agree that in 2016 to 2019 period growth should accelerate. Plus there are increasing effects of Panasonic alliance. We note Home Segment growth is more tied to regional GDP dynamic while Portfolio investment segment sales revenues should decrease its relevance due to divestments.
- For 2015 we retain sales revenues at EUR 1,221.1m. Main risk here is economic cooling in Russia. On the other hand we additionally lowered our profit expectations as we now expect EBITDA margin at 6.7% in 2015 and EBIT margin at 2.9% with net loss of EUR 3.5m.
- We were therefore more pessimistic on margin forecasts versus management, as we believe the competition will be more intense while cost optimization will continue to lag. This will not be fully balanced by lower input costs (commodity slump). It is true however that we are still calculating in closing the profitability gap to peer average (and therefore a turnaround). Namely for 2016 we see EBITDA at EUR 91.4m and net income at EUR 6.9m. By 2019 EBITDA margin is seen at 8.1% with EBIT at 4.2%. Here we note we applied proportional raise of revenues and EBIT for Panasonic deal.
- CAPEX for 2015 is at EUR 60m and beyond since further investments will be needed in R&D for competitiveness of products and cost optimization.

all data in EURm

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Sales	1,382.2	1,386.6	1,263.1	1,240.5	1,245.6	1,221.1	1,197.5	1,254.9	1,319.5	1,367.0
Sales growth		0.3%	-8.9%	-1.8%	0.4%	-2.0%	-1.9%	4.8%	5.1%	3.6%
EBITDA	108.7	92.0	90.6	78.2	86.5	81.5	91.4	97.3	109.2	110.7
EBITDA margin	7.9%	6.6%	7.2%	6.3%	6.9%	6.7%	7.6%	7.8%	8.3%	8.1%
EBIT	56.4	43.7	44.9	36.3	43.6	35.7	44.9	49.2	58.6	57.0
EBIT margin	4.1%	3.1%	3.6%	2.9%	3.5%	2.9%	3.7%	3.9%	4.4%	4.2%
EBT	22.5	11.0	14.8	-18.6	4.9	-3.5	8.8	14.6	25.8	25.3
EBT margin	1.6%	0.8%	1.2%	-1.5%	0.4%	-0.3%	0.7%	1.2%	2.0%	1.8%
Net income	19.9	9.0	0.1	-25.2	1.1	-3.5	7.2	11.9	19.3	18.9
Net income growth		-55.0%	-99.2%					65.7%	62.7%	-2.0%

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fixed assets	563.4	556.3	566.1	593.9	593.3	601.9	616.1	628.6	638.5	646.1
PPE	375.4	358.8	341.2	356.6	356.0	370.5	384.4	396.6	406.4	413.0
Intangible assets	160.2	158.6	159.6	167.9	181.6	181.6	181.6	181.6	181.6	181.6
LT-investments	9.8	18.2	31.8	34.4	24.2	16.9	16.1	15.3	14.5	15.0
Other fixed assets	18.0	20.7	33.6	35.1	31.5	32.8	34.0	35.1	36.0	36.6
Current assets	755.3	695.3	631.2	554.2	509.1	505.7	483.1	489.2	497.2	513.8
Inventories	257.6	245.6	247.4	235.8	219.4	212.0	201.9	205.3	209.3	216.8
Trade receivables	306.3	255.9	218.5	205.6	180.4	189.0	179.4	181.7	184.5	191.1
Cash	82.7	101.6	53.5	38.6	35.8	35.1	34.5	36.1	38.0	39.3
ST-investments	50.1	42.3	33.7	18.9	20.5	14.4	10.1	7.0	4.9	5.1
Other current assets	58.6	49.9	78.2	55.4	53.0	55.1	57.2	59.0	60.5	61.4
Total Assets	1,318.8	1,251.7	1,197.3	1,148.1	1,102.4	1,107.6	1,099.2	1,117.8	1,135.6	1,160.0
Debt	484.9	484.1	432.7	397.4	367.6	376.6	367.6	363.6	351.6	350.6
ST-debt	224.0	181.6	155.8	198.7	97.5	99.9	97.5	96.5	93.3	93.0
LT-debt	260.9	302.5	276.9	198.8	270.1	276.7	270.1	267.1	258.3	257.6
Provisions	89.0	76.3	65.0	66.7	63.5	63.8	63.3	64.3	65.4	66.8
Trade payables	237.0	194.2	212.4	213.8	202.5	198.5	188.7	197.7	207.9	215.4
Other liabilities	115.7	99.2	95.0	89.5	88.6	89.0	88.3	89.8	91.3	93.2
Minority intrest	1.8	1.8	2.4	2.8	2.8	2.8	2.9	3.0	3.1	3.2
Equity	390.3	396.0	389.8	380.7	380.3	376.7	388.8	399.2	416.2	431.2

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Net profit margin	1.4%	0.6%	0.0%	-2.0%	0.1%	-0.3%	0.6%	0.9%	1.5%	1.4%
Asset turnover	1.05	1.11	1.05	1.08	1.13	1.10	1.09	1.12	1.16	1.18
ROA	1.5%	0.7%	0.0%	-2.2%	0.1%	-0.3%	0.7%	1.1%	1.7%	1.6%
Equity multiplier	3.38	3.16	3.07	3.02	2.90	2.94	2.83	2.80	2.73	2.69
ROE	5.1%	2.3%	0.0%	-6.6%	0.3%	-0.9%	1.8%	3.0%	4.6%	4.4%
CAPEX/Depreciation	85.5%	98.2%	132.9%	182.9%	143.3%	131.8%	129.8%	125.3%	119.3%	112.4%
Financial debt/Equity	1.24	1.22	1.11	1.04	0.97	1.00	0.95	0.91	0.84	0.81
Financial debt/Assets	0.37	0.39	0.36	0.35	0.33	0.34	0.33	0.33	0.31	0.30
Net debt/EBITDA	3.15	3.50	3.46	3.91	3.32	3.91	3.26	3.09	2.58	2.62
Working capital/ Sales	29.6%	29.5%	24.3%	21.5%	18.7%	19.5%	19.0%	18.0%	17.0%	17.0%
ROIC	0.0%	4.1%	3.4%	5.7%	8.9%	4.7%	5.3%	5.8%	6.3%	6.0%

Discounted Cash Flow Valuation:

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	TV
NOPLAT	35.7	40.4	44.2	48.6	47.3	48.8	51.3	54.0	56.7	59.6	47.2
NOPLAT growth	-46.5%	13.0%	9.6%	9.9%	-2.7%	3.1%	5.2%	5.2%	5.1%	5.1%	-20.9%
Depreciation	45.8	46.5	48.2	50.6	53.7	54.4	55.3	56.2	57.1	58.1	58.5
Depretiation/Sales	3.8%	3.9%	3.8%	3.8%	3.9%	3.8%	3.8%	3.7%	3.6%	3.6%	3.6%
CAPEX	60.4	60.4	60.4	60.4	60.4	61.3	62.2	63.1	64.1	65.0	59.2
CAPEX/Sales	4.9%	5.0%	4.8%	4.6%	4.4%	4.3%	4.2%	4.2%	4.1%	4.0%	3.6%
Change in net working capital	4.6	-10.6	-1.7	-1.6	8.1	8.1	8.4	8.7	9.0	9.3	4.1
NWC/Sales	19.5%	19.0%	18.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
FCF to firm	**16.6**	**37.1**	**33.7**	**40.4**	**32.6**	**33.8**	**36.0**	**38.4**	**40.8**	**43.3**	**42.4**

FCF valuation	
Value in forecasting period	220
Continuing value	249
Total enterprise value	**470**
Net debt	349
Equity value	**120**
No. of shares (in mio)	24.4
Equity value per share	**4.9**

WACC	2015	TV
Tax rate	17.0%	17.0%
Cost of debt	5.6%	5.6%
Beta	1.6	1.6
Cost of equity	12.9%	12.9%
Debt/Equity	100.0%	100.0%
WACC	**8.8%**	**8.8%**
Perpetuity growth rate		**1.5%**

DCF valuation implies a target price of EUR 4.9.

Our DCF valuation calculation of EUR 4.9 assumes terminal growth rate of 1.5%, WACC of 8.8%, EBITDA margin in 2020 to 2024 period at 8.0% while long term EBITDA margin conservatively set at 7.0%, under the current peer average and due to trends of significant price competition. We note net debt should was viewed from end-year (and not TTM) perspective due to FCF cycles and in light of recent divestments (after 1H15 released data). This is also included in 2016 sales slump.

Sensitivity analysis:

		Sales growth 2020-2024						
		2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%
EBITDA margin 2020-2024	7.4%	2.6	3.1	3.6	4.1	4.7	5.2	5.8
	7.6%	2.8	3.3	3.9	4.4	4.9	5.5	6.0
	7.8%	3.1	3.6	4.1	4.7	5.2	5.8	6.3
	8.0%	3.3	3.9	4.4	4.9	5.5	6.0	6.6
	8.2%	3.6	4.1	4.6	5.2	5.7	6.3	6.9
	8.4%	3.8	4.4	4.9	5.4	6.0	6.6	7.1
	8.6%	4.1	4.6	5.2	5.7	6.3	6.8	7.4

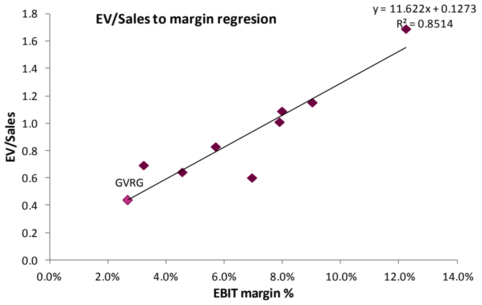
		Perpetuity Growth						
		0.6%	0.9%	1.2%	1.5%	1.8%	2.1%	2.4%
Perpetuity EBITDA margin	6.4%	2.0	2.3	2.6	2.9	3.3	3.7	4.1
	6.6%	2.6	2.9	3.2	3.6	4.0	4.4	4.8
	6.8%	3.2	3.5	3.9	4.3	4.7	5.1	5.6
	7.0%	3.8	4.1	4.5	4.9	5.4	5.8	6.4
	7.2%	4.4	4.8	5.1	5.6	6.0	6.5	7.1
	7.4%	5.0	5.4	5.8	6.2	6.7	7.3	7.9
	7.6%	5.6	6.0	6.4	6.9	7.4	8.0	8.6

		Perpetuity Growth						
		0.6%	0.9%	1.2%	1.5%	1.8%	2.1%	2.4%
WACC	7.3%	6.3	6.7	7.1	7.6	8.1	8.7	9.3
	7.8%	5.5	5.8	6.1	6.5	7.0	7.4	8.0
	8.3%	4.8	5.0	5.3	5.7	6.0	6.4	6.9
	8.8%	4.1	4.4	4.6	4.9	5.2	5.5	5.9
	9.3%	3.6	3.8	4.0	4.3	4.5	4.8	5.1
	9.8%	3.1	3.3	3.5	3.7	3.9	4.1	4.4
	10.3%	2.7	2.8	3.0	3.2	3.4	3.6	3.8

Final target price calculation:

Target price is set at EUR 4.9.

Our valuation based on equal 50%:50% mix between peer and DCF valuation points to EUR 4.9 per share.



We point to our regression picture of EV/Sales to EBIT margin. This clearly shows current undervaluation, especially if management will be at least partially successful in expanding EBIT margin in following years. However if it fails at delivery next economic cooling will led to capital injections (as leverage remains high while FCF relatively weak) at low prices, diluting additionally any upside. All in all we will need a delivery of better results and higher guidance's in order to turn again optimistic on the stock. For now our recommendation has turned to sell.

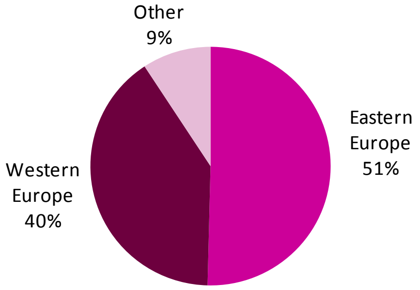
Top5 shareholders:	
KAD	16.4%
IFC	11.8%
Panasonic Corp	9.5%
KDPW - Fiduciary	8.1%
Alpen.Si	4.8%

Brief Company profile

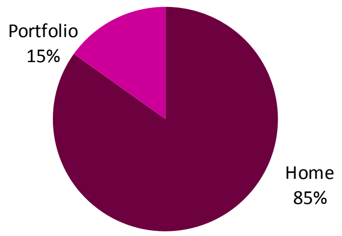
Gorenje is a manufacturer of white goods and has approximately 4.24% of European market share. Around 90% of its products are sold under its own brand name. Its production capacity is 3.6m large household appliances, while employing little less than 10.500 employees.

In recent years, Gorenje grew organically and through acquisitions, the largest being ATAG in 2008 and Asko in 2010. But at the same time Gorenje divested several non-core assets including Interior Design Division in 2013. Unconsolidated South-East European and East European markets represent a great opportunity for Gorenje's future growth, while Gorenje is also targeting mature West-European and Overseas markets through improving perception of its brand name and acquired brand names. In July 2013 it entered strategic alliance with Panasonic Corporation.

Group sales by region (1H15)



Group sales by segment (1H15)



Disclaimer

GENERAL DISCLOSURE

The research department of ALTA Invest, investicijske storitve, d.d. (eng. ALTA Invest, investment services, Inc.), is, in order to avoid and deter conflict of interests, a separate organizational part of the company. It is independent in its decisions regarding selection, monitoring and updating of its investment recommendations of an individual issuer. According to its information policy, ALTA Invest, investicijske storitve, d.d. observes data privacy and strongly defends access to its data bases and other materials connected with the research department against any unauthorized access or personnel.

ALTA Invest, investicijske storitve, d.d. may trade with the financial instruments mentioned in this document for its own account and may also engage in securities transactions in a manner inconsistent with the content of this research report as a result of short-term trading recommendations by analysts.

Remuneration of the analyst who provides monitoring of a certain issuer is based, among other factors, also on the profitability of ALTA Invest, investicijske storitve, d.d.; a part is also profit arising from ALTA Invest, investicijske storitve, d.d. investment services.

ALTA Invest, investicijske storitve, d.d. is supervised by the Slovenian Securities Market Agency (Agencija za trg vrednostnih papirjev), Poljanski Nasip 6, 1000 Ljubljana, Slovenia.

CONFLICT OF INTEREST

ALTA Invest, investicijske storitve, d.d. (ALTA Invest, investment services, Inc.), declares that all of its affiliated legal entities, financial analysts, and with them related clients and any other subjects that have participated in the creation of this document, do not hold any important stakes concerning the financial instruments that are the subject of this document. Nor do they have any important financial interest with the issuer of those instruments that might arise from cross-ownership, financial instrument market making, facilitating public offerings for financial instruments or any other special services connected to such instruments in the past 12 months, as well as interests from the purchases of this document, the remuneration of the employees and/or other participating subjects, especially financial analysts, connected with turnover of tangible financial instruments or with other interest relations, eg. any other agreements, which might refer to providing services with financial instruments. ALTA Invest, investicijske storitve, d.d. also declares, that there are neither no conflicts of interests of the stated individuals/entities connected with financial instruments, which are subject of this document, nor any conflicts of interests concerning the issuer of the instrument.

LIMITED LIABILITY

The document was prepared by ALTA Invest, investicijske storitve, d.d. (ALTA Invest, investment services, Inc.), Železna cesta 18, Ljubljana. ALTA Invest, investicijske storitve, d.d. is a member of the Ljubljana Stock Exchange and is supervised by the Slovenian Securities Market Agency, Poljanski nasip 6, Ljubljana.

The document is, according to the Article 378 of The Securities Market Act, treated as an investment recommendation. The recommendation is prepared solely for the purposes of better understanding financial instruments and performance of capital markets and is not intended for a specific audience. Therefore it is not to be construed as an offer to buy or sell, nor as a solicitation of an offer to buy or sell any financial instrument. Additionally, no opinion in the document is intended to provide any personal investment services or advice, since it does not take into consideration any specific investment objectives, financial context or situation, investor knowledge, investor experience or any particular needs of any specific person that has, for whatever reason, become familiar with the contents of this document or part of such**.**

The document was prepared for the purposes of ALTA Invest, investicijske storitve, d.d. clients and is not subject to reproduction, distribution or publication without the explicit permission of ALTA Invest, investicijske storitve, d.d.. Similarly, any kind of mediation, variation or summarizing of this document is only permitted with the prior explicit written consent of ALTA Invest, investicijske storitve, d.d. Therefore with the acceptance and examination of this document, the reader is obligated not to disclose the contents, opinions, conclusions or any other data from this document, as well as any investment recommendations, evaluations, forecasts or target prices, without the prior explicit permission of ALTA Invest, investicijske storitve, d.d.
Any information in this document is based on data obtained from public sources, printed media, annual and semi-annual reports, company presentations, Bloomberg L.P., electronic media and other sources, which ALTA Invest, investicijske storitve, d.d. considers to have been reliable on the date of publication or, exceptionally, indicates doubts concerning the reliability of such. The financial analysts that have prepared this document have gathered the data, reorganised it and processed it according to the principles of fairness and with professional care; however, no representations or guarantees are made by ALTA Invest, investicijske storitve, d.d. with regard to the accuracy or completeness of the data. The facts, on which the document is grounded, are clearly differentiated from those interpretations, assessments, opinions and other information that are not strictly factual in nature. Projections, forecasts and target prices are marked, and the document clearly indicates the central assumptions on which they are based, and are subject to change without notice. These forward looking statements involve known and unknown risks, uncertainties and other factors, which may cause actual results, performance, achievements, or prospects to differ materially from any future results, performance, achievements or prospects expressed or implied by such statements. The document may also contain historical data on the profitability of certain financial instruments; however, past performance is not necessarily indicative of future results.

ALTA Invest, investicijske storitve, d.d. points out that any investments in financial instruments, including the financial instruments that are the subject of this document, pose certain risks. When investing in financial instruments, it is important to be aware of both systematic and unsystematic risks. Unsystematic risk applies to certain financial instrument that are not under the influence of the entire financial market and are relatively independent of developments on those markets. The effects of unsystematic risk can be reduced or eliminated with portfolio diversification. On the other hand, systematic risk applies to factors that influence the entire financial market and therefore affect the value of an investor's portfolio. Furthermore, settlement and custodial risk in emerging markets may be higher than in markets where there is a long-established infrastructure. Stock liquidity may be impacted by the number of market participants that may therefore impact the reliability of any investments made as a result of acting upon information contained in this document. Further, risks not discussed in this document may apply to the discussed security. Investors should always investigate the various risk aspects of any security in any market before making an investment decision. We advise investors to contact the appropriate investment consultants or brokers to gather additional information.

The selling price of a financial instrument is usually not known in advance and can differ from the expected target price used to calculate expected gross return. Therefore, realized and expected gross returns may differ. Also, the investor must take into account that provisions, trade costs and taxes will influence the final net return earned on the difference between the purchase and selling price of a financial instrument. The difference may be positive or negative and cannot be forecast with any certainty in advance. In addition, all investors should be aware of the possibility of failure to achieve forecasted events and valuation assumptions on which the document is based, as well as the possibilities of price fluctuation of a particular financial instrument and/or issuer. In the case of unfavourable movements of the price of a particular financial instrument, there is the possibility of lower future value of the investment compared to the initial (purchase) value or vice versa. If a financial instrument is denominated in a currency other than the investor's currency, a change in exchange rates may adversely affect the price or value of, or the income derived from, the financial instrument, and such investor effectively assumes this currency risk. The reader of the document should also be aware of the significant impact of certain assumptions on predicting the target price of the issuer of the financial instrument, which is presented in the document, especially in the sensitivity analysis, as well as the fact that past performance is not necessarily an indicator of future profitability of the issuer of the financial instrument and vice versa.

ALTA Invest, investicijske storitve, d.d. accepts no responsibility for any damage or loss arising from the use of information in this document.

Target price and recommendation is set by determining the fair value of stocks, taking into account fundamental factors and news and should be understood as such. The target price and recommendation does not indicate any relative performance of the stock versus a regional or sector benchmark.

BUY: The investment rating reflects the total expected return (the difference between the current price of the stock and estimated price, expressed in %, and the estimated dividend yield) for a potential investment in the 12-month period from the date of the initial rating, which is more than 10%.
HOLD: The investment rating reflects the total expected return (the difference between the current price of the stock and estimated price, expressed in %, and the estimated dividend yield) for a potential investment in the 12-month period from the date of the initial rating, which is between 0% and 10%.
SELL: The investment rating reflects the total expected return (the difference between the current price of the stock and estimated price, expressed in %, and the estimated dividend yield) for a potential investment in the 12-month period from the date of the initial rating, which is lower than 10%.
NO RECCOMMENDATION / EVALUATION: No recommendation can be given on the basis of the data available.

In the period between 01.07.2014 and 01.07.2015 the structure of all investment research was:

	Number	Share	Share of issuers, for which ALTA Invest, investicijske storitve, d.d., has provided investment services regarding financial instruments in last 12 months
Buy	26	52%	22%
Hold	14	28%	8%
Sell	10	20%	30%

Recommendations issued by ALTA Invest, investicijske storitve, d.d. Železna cesta 18, 1000 Ljubljana, are valid for 12 months, except in case of previous update of the recommendation. However, ALTA Invest, investicijske storitve, d.d. is not engaged in periodical updating of the recommendations of the issuer under consideration as well as is not obliged to notify readers about any kind of valuation, opinion or forecast changes, which have arisen from the occurrences after the recommendation release. When dealing with its customers, ALTA Invest, investicijske storitve, d.d. is not obliged to act in accordance with opinions and assessments expressed in investment recommendations.

Financial analysts responsible for the preparation of the document and other individuals that are familiar with the content of the document have not engaged in any personal transactions or trade with the financial instruments that are the subject of the document nor have they been connected with the financial instruments during the preparation period of the document, up to and including one day after its publication.

SPECIFIC DISCLOSURES

ALTA Invest, investicijske storitve, d.d. Železna cesta 18, 1000 Ljubljana, Slovenia, and the financial analyst responsible for monitoring the issuer under consideration, guarantee that this document has not been disclosed to the issuer of the financial instrument before its public release.

ALTA Invest, investicijske storitve, d.d. and its related legal entities can own shares of the issuer under consideration. A financial analyst responsible for monitoring of the issuer under consideration does not have any significant financial interests concerning the financial instrument. They also do not have any conflict of interest concerning the issuer under consideration.

ALTA Invest, investicijske storitve, d.d. and/or its related legal entities has performed services concerning financial instruments to the issuer under consideration herein within the past 12 months.

ALTA Invest, investicijske storitve, d.d. and related entities may hold securities of the issuer in question herein.

STATEMENT OF FINANCIAL ANALYST

ALTA Invest, investicijske storitve, d.d. (eng. ALTA Invest, investment services, Inc.), and the undersigned financial analysts, responsible for the monitoring of the issuer under consideration, declare that they have not received any kind of compensation that could affect the formulation of this document or opinions expressed in this document. The recommendation has not been disclosed to anyone before it was publicly released.

Tina Orzan, Analyst. On the day of the public release, the author of the recommendation did not held securities of the relevant issuer.

Sašo Stanovnik, Head of research. On the day of the public release, the author of the recommendation held securities of the relevant issuer.

First release of the recommendation was performed on 13.04.2010.
Quarterly updates are planned for data, valuation, target price and recommendation.

OTHER INFORMATION

Other information about the services of ALTA Invest, investicijske storitve, d.d. and financial instruments, including general conditions for the provision of services, price lists and other disclosures and information can be found at http://www.alta.si/, http://www.alta.si/Organizacija_skupine/Ceniki_pogoji_in_akti and http://www.alta.si/Osnove_trgovanja/Razlaga_financnih_instrumentov.

ALTA Invest, investicijske storitve, d.d., Železna cesta 18, SI-1000 Ljubljana. Registered at the District Court of Ljubljana, Registration Number: 3710432000, ID for DDV: SI89931181, Share capital: 2,031,803.00 EUR.

The distribution and/or content of this document in other jurisdictions may be restricted or differently regulated by law, and the reader should inform himself regarding any such restrictions. By accepting this document, the reader consents to be bound by the foregoing instructions.