TELELINK BUSINESS SERVICES GROUP (TBS BU)
INFORMATION TECHNOLOGIES/SYSTEM INTEGRATION

CONQUERING NEW HIGHS

BUY

INTRINSIC VALUE: BGN 22.78
CURRENT PRICE: BGN 16.20

WITH AN OUTSTANDING FY20 PERFORMANCE AND STRONG FUNDAMENTALS FOR 2016-2020 ON 8.3% REVENUE AND 24.5% NET PROFIT CAGRS, BULGARIA'S LEADING INTEGRATOR, NETWORKING AND PRODUCTIVITY SOLUTIONS PROVIDER TELELINK BUSINESS SERVICES GROUP TO CONTINUE BENEFITING FROM FAST DIGITALIZATION IN POST COVID-19 REALITY. EXPANSION ACROSS MARKETS AND SERVICES EXPECTED.

LEADING BULGARIAN SYSTEM INTEGRATOR
Telelink Business Services Group (TBS Group, the Group) is a leading broad scope system integrator in Bulgaria, evolved from experienced local TELELINK group. It specializes in 4 main segments – networking (57% of sales on average), data centers (22% of sales), productivity (16% of sales) and information security (4% of sales).

ESTABLISHED PLAYER ACROSS THE REGION WITH DIVERSE CLIENT BASE
For 2016-2020, revenues marked an 8.3% CAGR across various locations on the Balkans with sales in Bulgaria contributing 60% on average to the top line, Midwest Balkan region - 30%. Adding international clients since 2016 by servicing their global locations boosted the Group's presence to 30+ countries on solid 250+ clients in telecom, finance, utilities, logistics and pharma industries and the public sector.

RIDING THE DIGITALIZATION WAVE FOR POST-PANDEMIC SOLUTIONS
The Group's position of a digital services provider makes it resilient to latest COVID shock. Growth in demand for efficient and safe remote working boosted top and bottom line in 2020 and the trend is likely to continue. The Group is also focused on expanding its high value added managed services in Germany and USA on increasing global corporate IT spending. Telelink also prepares to add hyper automation to its portfolio, allowing it to tap into a new pocket of growth.

FY20 RESULTS FORTIFY FUNDAMENTALS AND UNDERPIN LONG TERM POTENTIAL
The Company delivered outstanding end year performance with revenues surging 23% y/y, and net profit up 55% y/y. Growth came from every market and almost all technological categories despite the outbreak of the COVID 19 pandemic.

SUCCESSFUL STOCK PLACEMENT IN BULGARIA, MULLS LISTING IN FRANKFURT
TBS completed two public stock sales in tranches since June 2020, placing a total of 14% of the Company's share capital among a variety of investors – international and local. The Company plans to build up to 30% of free float in 2021 and mulls listing in Frankfurt to boost liquidity and establish visibility.

STAGGERING STOCK PERFORMANCE SINCE LISTING
TBS is among the best stock performers on the BSE in 2020 with shares currently trading 130%+ above initial pricing in June 2020. Strong corporate governance, above-average dividend (c. 5%+ DY with 55% higher than expected DPS), solid financial results and a share buyback supporting a long-term performance share plan (PSP) for employees contributed to the latter stock performance. Thus, the Company is already part of SOFIX – the blue chip index in Sofia since March 2021.

VALUATION/RISKS
VALUATION: To value the Company we take into account management guidance and base our valuation on a more conservative scenario. Accordingly, we arrive at a BGN 22.78 intrinsic value per share via combined DCF and peer valuation.

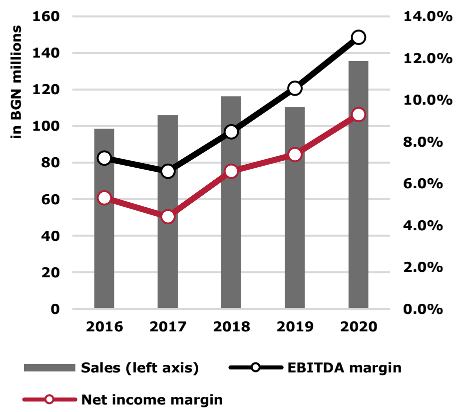
RISKS: Fierce business and engineering talent competition in the ICT sector;

EXCHANGE RATES
EUR/BGN(FIXED): 1.95583
USD/BGN: 1.65572

MARKET DATA

Share capital	**12.5 m shares**
Shares Outstanding:	**12.47 m**
Current free-float:	**17.5%**
Treasury Shares	**0.003%**
Market Cap.:	**BGN 205 m**
Range since listing	**BGN 7.60 – 17.00**
BSE Ticker	**TBS**
Bloomberg ticker	**TBS BU**

STRONG FUNDAMENTALS

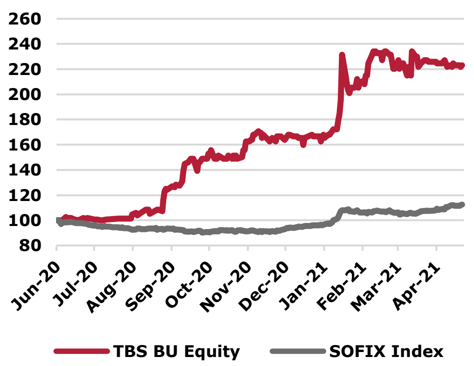


Source: Company data

KEY FINANCIALS

BGN '000, excl. ratios	2017A	2018A	2019A	2020A	2021F
Revenues	105 987	116 367	110 328	135 526	169 408
EBITDA	6 978	9 868	11 655	17 606	20 174
Net profit	4 676	7 664	11 831	12 595	14 910
EBITDA margin	6.58%	8.48%	10.56%	12.99%	11.91%
Net profit Margin	4.41%	6.59%	10.72%	9.29%	8.80%
ROA	10%	14%	15.06%	18.81%	17.85%
Total assets	48 491	55 458	54 115	66 950	83 528
Interest-bearing debt	2 888	6 740	10 133	3 364	11 145
Debt-to-assets	5.96%	12.15%	18.72%	5.02%	13.34%
EPS (BGN)	0.37	0.61	0.65	1.01	1.19

PRICE PERFORMANCE SINCE LISTING



ANALYSTS CONTACTS:
DIMITAR KIRYAKOV KIRYAKOV@ELANA.NET
RESEARCH TEAM RESEARCH@ELANA.NET

THE COMPANY

Telelink Business Services Group (TBS Group, the Company, the Group) is a leading Bulgarian IT powerhouse which spun off from local TELELINK Group in July 2019. The latter was founded in 2001 by seasoned investor and entrepreneur Lyubomir Minchev. TELELINK Group gradually emerged as a key local and regional player offering a full scope of ICT, infrastructure and automation solutions serving a wide range of industries. Following the spin-off, TBS Group united all TELELINK Group's subsidiaries operating the ICT-focused business services, while the latter kept all products and services related to physical network infrastructure.

Currently, TBS Group has operations in nine countries in Europe and the US, servicing 250+ clients in 30+ countries on four continents. It employs 240+ employees, 80%+ of which are in Bulgaria.

TBS Group's business model stems on high-volume full-fledged system integration (design, configuration, installation and commissioning) and delivery and support of software and hardware equipment produced by third party vendors, and builds on low-volume, high-margin data center, cloud, and productivity and information security solutions.

The Group partners with 50+ international vendors, world leaders in the software and hardware industries, including Cisco, Microsoft, VMware. TBS Group is the biggest partner of Microsoft, VMware and Dell for Bulgaria and in top 5 for the other vendors in the country.

Its customer base has been continuously diversified and currently consists of 250+ clients, incl. telecoms, utilities, finance, logistics and healthcare companies operating both locally and internationally, as well as public sector accounts. Key clients are leading telecom and media provider in South East Europe - United Group, Bulgaria's biggest telecom Vivacom (acquired by United Group), the three electricity distribution companies in Bulgaria: CEZ, EVN and Energo Pro, First Investment Bank (FIB BU), Raiffeisenbank and Citibank in Bulgaria along with local pharma and healthcare providers Sopharma (SFA BU) and Acibadem. Key multinational clients include German aviation group Lufthansa and UK power generation group Contour Global for which the Company services multiple locations across the globe.

Key revenue drivers: For the 2016-2020 period TBS Group achieved an 8.3% CAGR of sales, the total revenue reaching BGN 135.5m for FY2020. The majority of sales are generated by the networks segment (60% on average for the period 2016-2019), followed by data center solutions and services (18%), modern workplace solutions (9%) and information security (3%). Medium- to long-term strategy, forecasting 1.9x in revenue and 2.4x in EBITDA, is focused on growth in enterprise connectivity, hybrid cloud, information security and remote work solutions as well as the expected introduction of hyper automation.

FY'20 results already laid the foundations of a continuous solid financial performance. Revenues surged 23% y/y as all sectors were outperforming: telecoms (+18% y/y), public sector (+41% y/y) and enterprises (+5% y/y). Value wise, telecoms contributed the most to the top line followed by public sector and enterprises. Management expects the dynamics to reverse by 2025 when enterprises and the public sector will be dominating sales. In terms of geography, Bulgaria and Serbia are the two biggest contributors to the top line, yet other Balkan countries (North Macedonia and Albania) and international clients (Germany, USA) are quickly stepping up.

Product and market strategy: In the short run, fastest growth is expected from sales in application services(1740% y/y in 2021) and business productivity(88% y/y) segments, driven by COVID-19 pandemic, followed by information security(66% y/y) solutions needed to provide safety in the accelerated digitalization. As firms are postponing some IT investments, growth in the enterprise connectivity and hyper cloud solutions is expected post-2022. In the longer term growth will mostly come from managed services in Enterprise Connectivity (18% CAGR for 2020-2025) and from hybrid cloud solutions with both segments expected to score 18% CAGR for 2020-2025. Introduction of Hyper automation will further add to growth as companies will resort to more advanced ways of digital transformation to keep up with new technologies. The Group will continue its traditional expansion in Bulgaria with strong focus on high margin Western European, USA plus the underdeveloped tech markets on the Balkans, including the recently entered Croatia. Profitability to increase on economies of scale and rise in higher margin international sales.

Listing and corporate governance: TBS Group completed two stock sales on tranches on the Bulgarian Stock Exchange (BSE) in 2020 placing successfully a total of 14% of the Company's share capital among a variety of investors – international and local, institutional and retail. The 1st trance in June 2020 was executed at a fixed price of BGN 7.6 per share while the 2nd tranche in September 2020 was priced at 8.5x EV/EBITDA yielding a BGN 11.10 per share. The Company plans to build up to 30% of free float, with more tranches expected in 2021. It also explores options to list on the Frankfurt Stock Exchange to boost liquidity and expand visibility among a larger investor pool leveraging also on its expanding operations in Germany.

The Group employs excellent corporate governance practices with a min.50% dividend payout, regular investor meetings and mid- and long-term management strategic guidance.

SHAREHOLDERS' STRUCTURE

TBS Group's registered share capital is BGN 12.5m distributed among 12 500 000 ordinary shares with a nominal value of BGN 1 per share. TBS Group holds 356 shares as treasury stock.

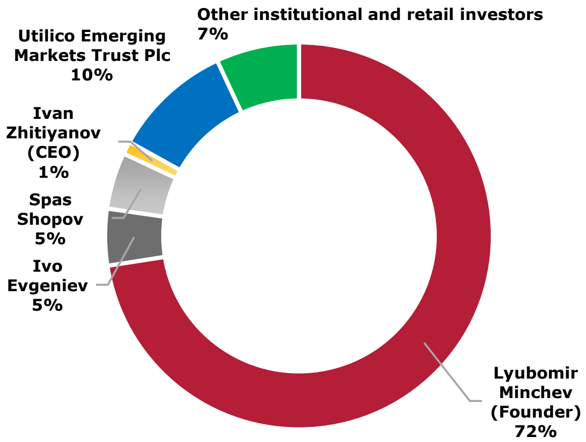
The Company's majority shareholder is its founder Lyubomir Minchev, who holds 72.53%. Utilico Emerging Markets bought 10% of the stock in 2020 and is currently the 2nd largest shareholder. Seasoned investors and key shaholders prior to listing Ivo Evgeniev and Spas Shopov each hold c.5%, while the CEO Ivan Zhitiyanov owns c. 1%. The remainder is held by other managers in the group, employees and 700+ retail and institutional investors.

In 2020, the Group developed a multi-level Employee performance share plan based on which c.140 employees received bonus stock in 2020, while mid- and senior-managers are subject to stock rewards based on performance indicators with a three-year vesting period.

Lock up: Prior to listing, founder and key shareholders signed a Lock up agreement according to which by the end of 2021 Minchev may sell up to between 23.825% and 30% from his pre-listing 83% stake, while Evgeniev and Shopov – up to 3.0875% each from their pre-listing 5% stakes. They can sell only in preliminary announced tranches on the stock exchange based on investor interest. Also, founder may not sell at a price lower than BGN 11.10 per share by the end of 2021 and must keep a controlling stake by the end of 2022

CEO Ivan Zhitiyanov is locked from any sales of his initial 1% of the Company by the end of 2021. He was adding stock in 2020.

Number of shares outstanding: 12 499 644



Source: Company data

BUSINESS OVERVIEW

A well-diversified system integration leader in Bulgaria

TBS Group is a well-diversified, broad scope system integrator set to meet the ever-increasing needs of businesses focusing on simplification of highly complex systems and applications and digitalization.

The Group offers a full range of ICT services encompassing four major technological groups:

- **Networking** – core telecom and corporate networking solutions;
- **Data centers** – hybrid cloud (computing, storage, backup, business continuity), public cloud (IaaS) and application services (SaaS, PaaS);
- **Productivity** - modern workplace technological solutions featuring software services bringing more flexibility and efficiency at the workplace;
- **Security** – the segment features a wide range of products and services for prevention of data leakage, database protection, risk and vulnerability analysis.

Along with the technical, cloud and consulting services, the Group is also specialized in the provision of high-margin managed services. The latter is a full-featured pro-active service management of IT operations for companies from various sectors and sizes facing challenges with keeping up with the fast evolvement of technologies and the need for IT personnel.

The managed services business is characterized with mid-to-long-term contractual arrangement with most contracts being signed for a five- to seven-year term, including the provision of equipment and software as a service (EaaS and SaaS). Very often, once a client signs with TBS Group for a given service, it later expands the service (up-sale) mix buying/subscribing for additional services and solutions, as a result of which a growing part of the Company's revenues are recurring.

Regional player in Midwestern and Southwestern Balkans

In terms of geographic outreach, the Group is among the leaders in the system integration in Bulgaria and prior to the spin-off from TELELINK Group held the first place (2017 and 2018) in terms of sales generated from system integration among all Bulgarian players.

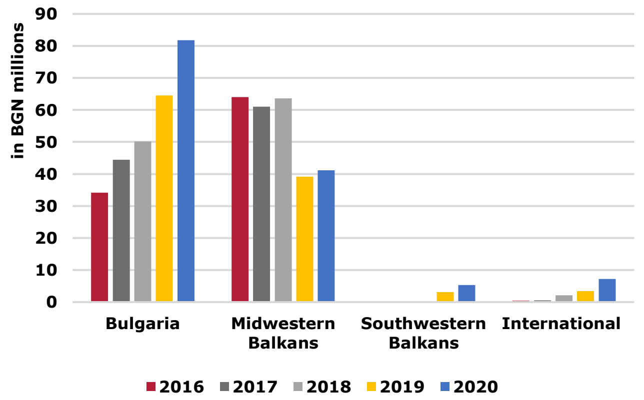
In addition, thanks to its well-developed subsidiary network, the Company evolved as a key player in the Balkan region. Apart from its Bulgarian headquarters, the Company has eight subsidiaries in Serbia, Montenegro, Slovenia, Bosnia, Albania and North Macedonia, the latter two established in 2019. In late 2020 and the beginning of 2021, the Company opened new subsidiaries in Croatia and the USA, which are yet to become operational.

TBS Group is active in markets with low technological maturity (Albania, North Macedonia), semi-mature markets with high level of competition (Bulgaria, Serbia, Bosnia, Slovenia and Montenegro) and international technologically mature markets (Germany, USA). The majority of the Group's revenues are generated in Bulgaria 60% for 2016-2020 and countries from the Midwestern Balkan region (Serbia, Montenegro, Bosnia and Slovenia, with a contribution to sales of 30%) and multinational clients (with 1% for 2020). Since Q4'19, the Group is active in Southwestern Balkans (Macedonia and Albania), where it generated 4% of its FY2020 sales.

In terms of service mix, the Bulgarian subsidiary, which is also the biggest in number of employees, offers the whole palette of technological solutions, while the Serbian, Slovenian and Bosnian subsidiaries are almost entirely focused on services within the segments of networking and data centers. The Macedonian and Albanian subsidiaries were established in 2019 and are yet to be developed, with special focus set on the networking and data center segments as the Group is targeting the telecom and public sectors in these two markets.

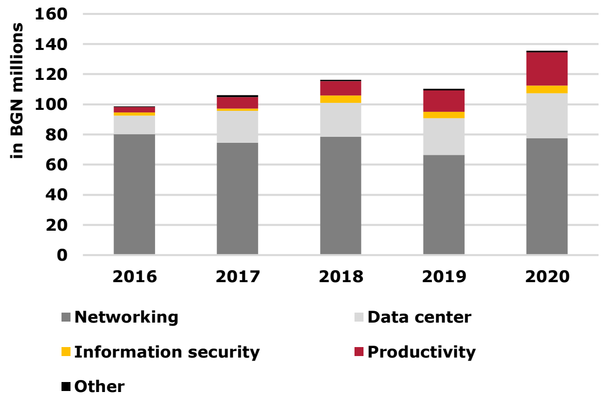
The Group employs 240+ people (as at the end of 2020), c. 86% of whom are working in Bulgaria, 9% in MidWestern Balkans and 5% in SouthWestern Balkans

Exhibit 1: The local market is the most significant contributor to sales



Source: The Company

Exhibit 2: The Group has been gradually diversifying the mix of services, boosting fast high-margin segments



Source: The Company

THE STRATEGY 2021-2025

Telelink Business Services Group aims at strong growth in top line (17% CAGR) and even stronger for net income (18% CAGR), supported by increasing profitability margins, for the 2020-2025

The Group has already taken steps in the direction of further product expansion, introducing several strategic solutions and services in the last years. These include SaaS productivity solutions for modern workplace (offered since 2015), managed services focused on cost savings and higher efficiency in the segments of information security and enterprise-related networking (offered since 2016) as well as the more flexible and cost-efficient Advanced Security Operations Center service (offered since 2017). The Group also expects to add Hyper Automation services to its product offerings in the next 5 years.

For the networking segment, TBS Group envisions a further expansion driven by enterprise connectivity's managed services growth in the longer run. For 2021 however, it is expected that the telecom sector will have the leading role as the investments from the corporate sector are is still recovering after being more heavily affected during the COVID-19 pandemic.

The Group projects 17% CAGR in the next 5 years for its hybrid cloud services as the technology becomes rapidly adopted due to the accelerated digitalization triggered by COVID-19. Corporations postponed investments in the area during the pandemic and a strong recovery is expected in the near term. In order to take advantage of this switch, TBS Group will focus on the provision of high margin hybrid cloud and PaaS services coupled with client-tailored application services. These services will be Company's fastest growing technological group with a CAGR of 99%.

Along with the expansion of cloud-based infrastructure, related managed services such as Equipment-as-a-Service (EaaS), IaaS, PaaS and IoT solutions are expected to follow due to the offered cost reduction and the shared risk of new tech adoption. After developing its expertise in the field during 2016-200, the Group has put a focus on the expansion of these services in USA and Germany for the foreseeable future.

Following the unprecedented digitalization in the last few years, the information security segment is expected to become a focal point in view of the increasing cyber threats turning into a major concern for companies. As demand for high-quality information security is now pressing across the more technologically advanced markets and, the segments will serve as TBS Group's penetration channels to new markets and clients witnessing c. 50% CAGR for 2020-2025.

After modern workplace solutions sckyrocketed during the pandemic, the expectations for the next few years is for gradual slow-down of the segment.

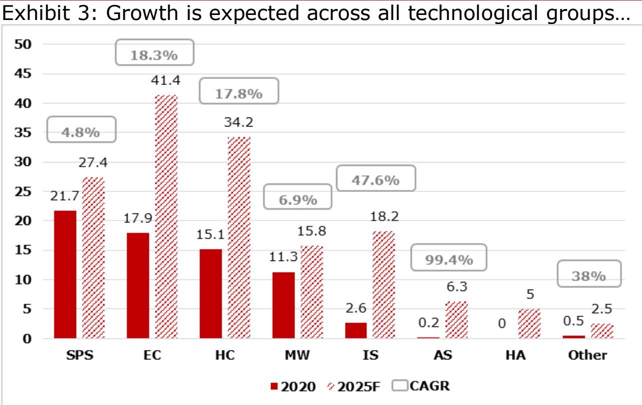
Hyperautomation will be another pocket of growth for the Company as it expects to tap into this market in the next 5 years, following the growing global demand for the service.

After having developed a strong position in Bulgaria and Serbia, the Group is targeting expansion in the remaining Western Balkan countries as well as in Western Europe, USA and Romania. TBS Group also envisions growth across every market by 2025 with Bulgaria expected to remain the leader in terms of revenue, while the strongest advancement is to be observed in USA and Germany.

COMPANY MANAGEMENT'S KEY INDICATOR PROJECTIONS

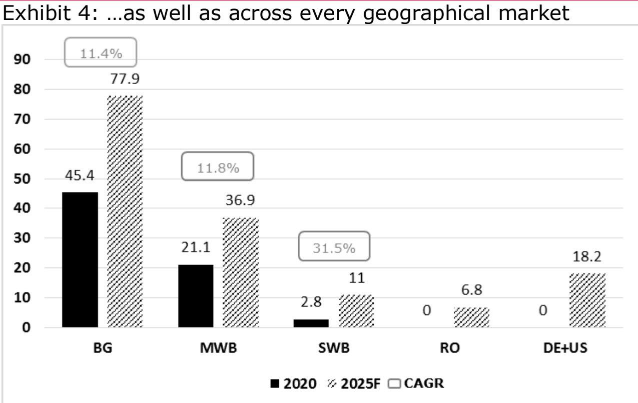
'000 EUR	2020	2025	CAGR/*p.p. difference (for profitability margins)
Revenue	69.3	150.8	17%
EBITDA	8.7	21.3	19%
Net Income	6.4	15	18%
EBITDA Margin	12.60%	14.10%	1.5 p.p.*
Net Margin	9.30%	10%	0.7 p.p.*

Exhibit 3: Growth is expected across all technological groups…



Source: Company's estimates in EUR million

Exhibit 4: …as well as across every geographical market



Source: Company's estimates in EUR million

POTENTIAL CATALYSTS

Fast digitalization post-COVID 19: COVID 19 has changed dramatically the way both public and private enterprises work, opening a sizable growth opportunity for modern (remote) workplace solutions providers. The Group is in a unique position being among the market leaders in the Southeastern European region where most enterprises and public administrations are considerably digitally underdeveloped.

Expanding high margin managed services solutions: The global market for managed services is expected to grow with 8.1% CAGR by 2025 following the growing global market trend to outsource IT services due to cost reduction and risk sharing. The Group plans on capitalizing on its references and expand with such solutions in Western Europe and USA.

Upcoming introduction of Hyper Automation: The Group believes Hyper Automation is the next, more comprehensive step towards complete digital transformation and expects to introduce the service in its portfolio in the next up to five years. Industry forecasts 14% CAGR of the global market for Hyper automation until 2025, which presents a huge opportunity for the Group.

Increase in the importance of information security: Although information security is not directly related to the return on investment for most enterprises, the threat of information leakage in an era driven by data, is already pushing more and more of them to strengthen their systems and allocate more resources in this direction. The rising global need for secure remote connections triggered by COVID-19 offers excellent opportunity of this segment's growth in the short to mid-term. The Company will continue to differentiate with Information Security services and products in SEE, where it feels is among the few to offer sizable dedicated team and vendor portfolio.

Growth in cloud-based infrastructure: The Cloud computing is being boosted by data surge and the digitization of companies' operations, as well as by IoT, APIs, artificial intelligence (AI) and machine learning (ML) technologies have been growing in spikes. Although the COVID-19 outbreak did lead to some set back in enterprise capex spending, expectations are for a rebound as early as 2022.

SECTOR OVERVIEW

GLOBAL ICT MARKET AND KEY TRENDS OVERVIEW

Global IT spending to rebound by 8.4% in 2021

Prior to COVID-19, the system integration market was projected to witness fast growth driven by the rise of cloud computing, increase in business processes automation and demand for virtualization. The growth on global level was forecasted to reach 11.7% CAGR over the period 2019-2025 according to research agency GrandView, with system integration market size to reach ca. USD 600bn by the end of the period. COVID-19, however, has brought new perspectives on the IT sector, with Gartner estimated drop of 2.2% in overall IT spending by companies on a global level in 2020. Every technological category in the IT field underperformed with the exception of Data Center Systems that grew 2.3% y/y.

Things look brighter in the near-term though, with all IT spending segments forecasted to have positive growth through 2022. The highest growth will come from devices (14%) and enterprise software (10.8%) as organizations shift their focus to providing a more comfortable, innovative and productive environment for their workforce. The recovery will vary across countries with North America and Western Europe expected to recover to pre-pandemic levels by late 2021.

The pandemic served as a trigger for companies' interest in emerging innovative technologies. One of it being cloud technologies that keeps evolving from market disruptor to expected approach to IT as the companies gradually move away from traditional data centers. New technologies such as containerization, virtualization and edge computing are becoming more mainstream and driving additional cloud spending. Worldwide end-user spending on public cloud services is forecast to grow 23.1% in 2021 to total USD 332.3 billion. Software as a service (SaaS) remains the largest market segment and is forecast to reach USD 122.6 billion in 2021 as the demand for compostable applications requires a different type of SaaS experience (see Table 1). Infrastructure-as-a-service (IaaS) and desktop-as-a-service (DaaS) will see the highest growth in 2021, 38.5% and 67.7% respectively, as CIOs face continued pressures to scale infrastructure that supports moving complex workloads to the cloud and the demands of a hybrid workforce

Another focus will be on solutions and managed services, allowing organizations to outsource the complex and expensive security function to professional organizations such as the TBS Group. Mordor Intelligence values global managed infrastructure services market at USD 80.45 billion in 2020, and forecasts it to reach USD 143.23 billion by 2026, registering a CAGR of 9.95%, during the period of 2021-2026

Public cloud, managed services and Information security to perform the strongest in post-pandemic environment

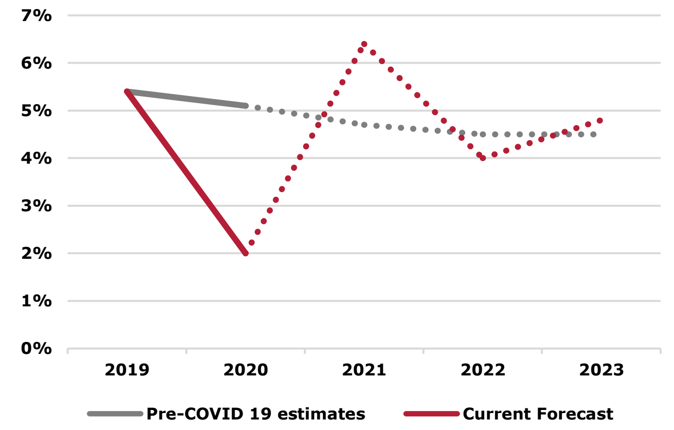
Information security is another key factor in the ICT market development as data and systems have become increasingly susceptible to hacker attacks and information leakages, especially when users operate from less secure locations such private homes and public spaces. End-user spending for the information security and risk management market is estimated to grow at a compound annual growth rate of 8.3% from 2019 through 2024 to reach USD 211.4 billion. Yet this number can surge as with the increased digitalization corporations realize protection of data is not just risk management but also integral part of sustainable growth.

The increasing need for remote working will spur a strong growth in remote workplace solutions as Gartners predicts that business will be forced to accelerate digital business transformation plans by at least five years to survive in a post-COVID-19 world. Its forecast for global IT spending related to remote work are estimated at USD 332.9 billion in 2021, an increase of 4.9% from 2020.

Hyperautomation is another emerging technology that has been trending at an unprecedented pace for the past few years and additionally accelerated by the growing demand for digitalization. The technology provides a structured approach that companies implement to identify, vet and automate as many approved business and IT processes as possible; or in other words a more comprehensive step from simple automation. It is now listed by industry experts among the trends that will drive significant disruption and opportunity over the next 5 to 10 years

Among the major global system integrators are Accenture, IBM, HCL, CSC, Wipro and Atos.

Exhibit 5: Global IT Spending growth Outlook post-COVID 19



Source: IDC, scenarios March 2021 estimates

Exhibit 6: IT spending slowed down in 2020 due to COVID-19

	2020 Value	2020 y/y (%)	2021 Value	2021 y/y (%)	2022 Value	2022 y/y (%)
Data Center Systems	220	2.3	237	7.7	248	4.5
Enterprise Software	467	-2.1	517	10.8	572	10.6
Devices	663	-6.9	756	14	779	3.1
IT Services	1 021	-1.8	1 113	9	1 193	7.3
Communication Services	1 386	-0.7	1 450	4.6	1 505	3.7
Overall IT	**3 757**	**-2.2**	**4 073**	**8.4**	**4 296**	**5.5**

Source: Gartner, in USD bn

LOCAL AND REGIONAL ICT MARKETS AND COMPETITIVE POSITON OF THE GROUP

Regional system integration market has been growing at 7-9% CAGR

Local and regional system integration markets have been growing at 7-9% CAGR for the past few years, according to data from market players. The local system integration market is estimated at BGN 468m in 2019 with TBS Group taking the first position with 23.6% of it. Serbian ICT market, which is the second largest for the Group, is estimated at EUR 150m (as at 2017 according to Vojvodina IT cluster).

Overall, the markets where TBS Group is either active or preparing to enter, can be divided into underdeveloped, semi-developed and developed markets.

Underdeveloped markets include North Macedonia, Albania (entered in 2019) and Kosovo. They can be characterized as easily accessible for new system integration companies in all segments and industries as competition is not that saturated. Information security and networking segments pose good opportunities for development, but high tech data products and services will take time to become mass adopted. Among the main players are regional well-diversified in terms of services and products providers Saga and Comtrade, along with international system integrators active in CEE region, including S&T and Asseco, and smaller players like Infosoft and Kernel.

The semi-developed markets are characterized by high level of competition among both regional and international system integrators and high potential for entering into underdeveloped industries such as manufacturing and agriculture. Markets belonging to this category include Bulgaria, Serbia, Slovenia, Montenegro, Bosnia and Herzegovina and the target markets of Romania and Croatia. The relatively low penetration of Information security coupled with newest technologies featuring PaaS and hybrid cloud as well as managed services pose good opportunities for expansion of TBS in the market, given the semi-weak competitive saturation.

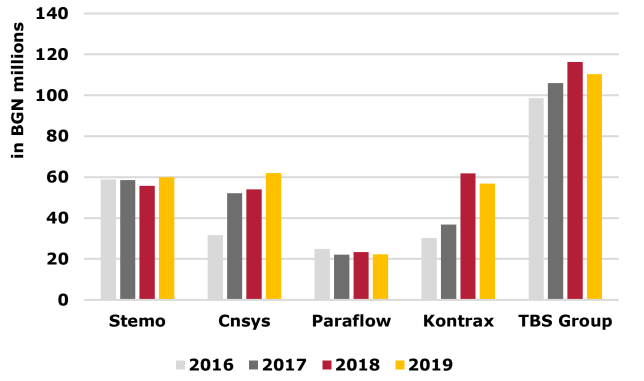
Strong local and regional player, with a competitive edge to tap Western European and US markets

In Bulgaria alone, TBS Group competes with both local and international players. The closest competitor is CNsys which offer a broad scope of system integration services and products. Other competitors include Stemo, Kontrax, Paraflow and Index Bulgaria. Most of them, however, are focused mostly on the local market. Among international competitors operating in Bulgaria, are S&T Bulgaria, IBM Bulgaria and Atos Bulgaria. TBS competitive edge on the local market is being among the few to provide a comprehensive mix of services including telecom-specific solutions, information security as a service and other managed services.

Developed markets include Western Europe and the US, and can be characterized as highly competitive with great number of digitally mature companies across a variety of sectors. New technologies adoption levels are high there. However, the large demand for digital solutions creates a room for new entrants with established records and competitive offerings. The Company's successful partnership with Lufthansa and ContourGlobal may open the doors for further collaboration with clients from more mature markets in the field of managed services and other ICT solutions

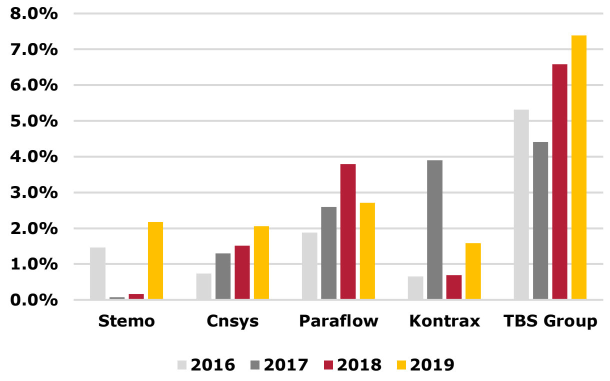
Thanks to its broad portfolio of products and services along with its exposure to both local and foreign players, TBS Group is well positioned in the respective markets. Furthermore, the Group serves companies from a variety of sectors, including telecoms, public, financial, utility and healthcare, giving it a competitive edge in targeting clients in existing and new markets. Good product differentiation, high level of flexibility compared to bigger peers and simplicity in delivering complex solutions further adds to its competitive advantages, not only on the local, but also foreign markets. It is the product and clients' diversification, coupled with the varying length of its contracts (both short and midterm), which enables the Group to be not only resilient in times of global distress but to continuously outperform and sustain growth in the longer term.

Exhibit 7: TBS Group surpasses local peers in terms of revenue ….



Source: Company data, Commercial register

Exhibit 8: ….. as well as in profitability(net margin)



Source: Company data, Commercial register

FINANCIAL PERFORMANCE ANALYSIS AND FORECAST

Steady 8.3% sales CAGR over the 2016-2020 period

During the 2016-2020 period, TBS Group delivered steady annual top line growth of 8.3% on average driven by all technological groups. The major top line contributor has been the networking segment (57% share in 2020), followed by data center segment (22%). Productivity and Information security segments, which have been developed in the 2015-2016 period made up 16% and 4%, respectively. The trend, however, is towards a more balanced mix and accelerated diversification, as the share of the networking segment is gradually decreasing, productivity and information security segments are growing strong in the short-run due to COVID-19 and data center segment to accelerate post-2022.

Profitability has been growing fast, with net profit surging 24.5% CAGR for the 2016-2020 period. The strong performance has been a result of the Group's focus on high margin services in the data center (hybrid cloud), productivity and security solutions, coupled with the introduction of high-end application and managed services, which have led to EBITDA also rising during the period. Accordingly, margins expanded with EBITDA and net margin hitting 12.99% and 9.29% in 2020, respectively.

Sizable 24.5% net income CAGR over the 2016-2020 period

In terms of geographic sales distribution, Bulgaria has been holding the first place with a share of 60% in 2020. Midwestern Balkans region including Serbia, Slovenia and Bosnia and Montenegro, delivered 30% to the top line for the same period. The recently entered SouthWestern Balkans (including Albania and North Macedonia) grew to a share of 4%, adding 1 p.p. y/y in 2020. Multinational clients represented 5% with their share expected to increase in the midterm.

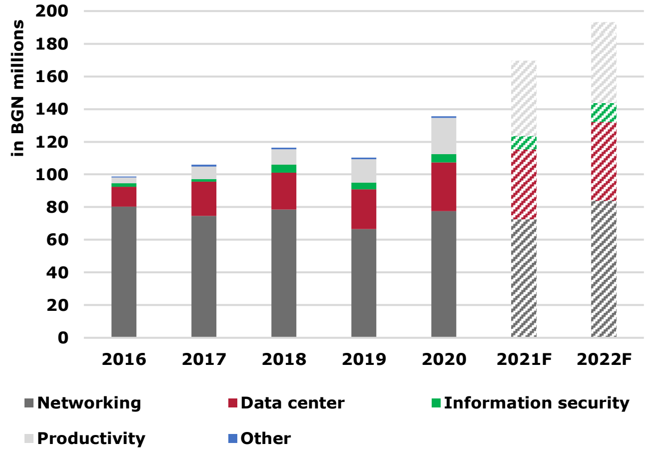
Despite the COVID-19 pandemic, TBS Group has delivered exceptional results in 2020 in line with our initial expectations with BGN 135.5m in revenues (+23% y/y), BGN 17.6m in EBITDA (+47% y/y) and BGN 12.6m in net profit (+55% y/y).

The outstanding performance has been driven by growth in all of its operating sector. The telecom sector added 18% y/y, partly because of filling a backlog of projects from last year. The public sector grew by 41% y/y as a result of TBS Group's winning a tender offer as part of a consortium in which it holds 50%, for a three-year long project targeting the design, construction and commissioning of a State Hybrid Private Cloud with consideration amounting to BGN 33m. Enterprise sector grew by 5% y/y which is the most affected sector during the pandemic.

Focus on high margin services and products, which is reflected in increasing profitability

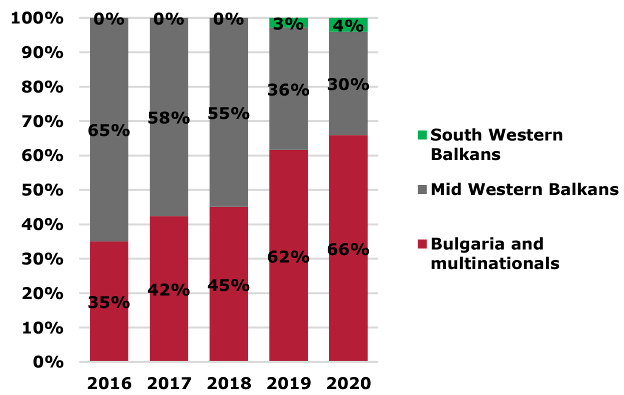
Boost in net profit in 2020 was also aided by decreasing net financial expense and the slower pace of SG&A expenses' growth partially due to lower administrative expenses as a result of fewer business trips during COVID-19. Accordingly, EBITDA margin expanded to 12.99% and net profit margin reaching 11.28%, thanks to accelerating sales of higher added value services and solutions.

Exhibit 9: Sales across most segments are expected to grow



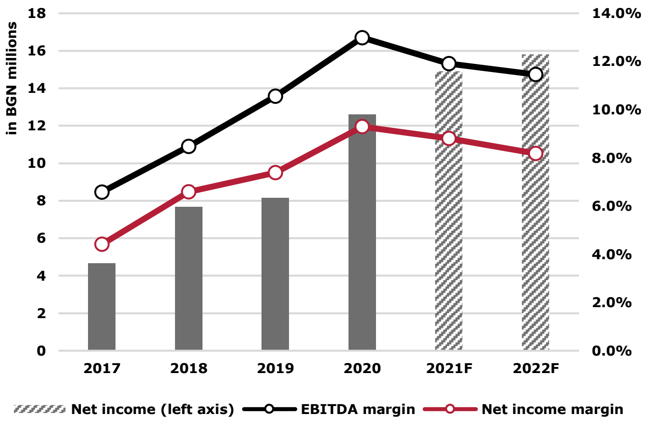
Source: Company data; Elana Trading estimates

Exhibit 10: The Group to gradually expand its presence in technologically developed markets in Western Europe & US



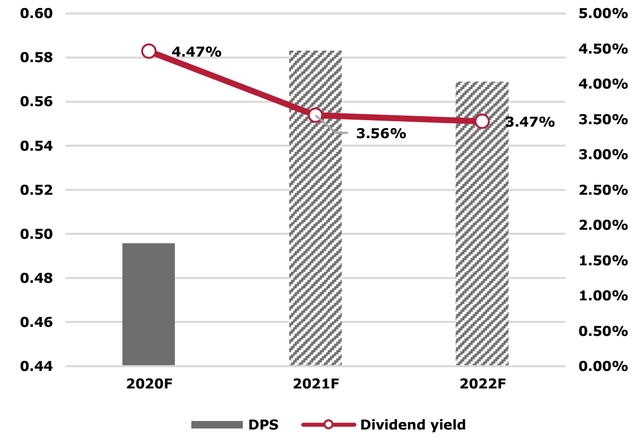
Source: Company data; Elana Trading estimates

Exhibit 11: Boost in profitability thanks to focus on high-margin services and economies of scale



Source: Company data; Elana Trading estimates

Exhibit 12: Consistent dividend distribution to be expected



Source: Company data, Elana Trading estimates; div. yield

In terms of capital structure, the Group has been lightly leveraged, with total interest-bearing debt as at the end of FY20 standing at BGN 3.36m (5% of total assets). The Group's obligations traditionally consist of working capital facilities and financial leasing, incurred for the purchase of equipment that is provided to its clients over the period of their contracts as well as due to IFRS 16. However, strong cash generation in 2020 let to net debt being negative as of the end of year with a net cash position of BGN 4.3m even after the bigger than expected dividend payment.

Concerning the dividend policy, subsidiaries to the Company, prior to the establishment of the latter, have had a history of strong dividend distribution .Accordingly, TBS Group has mandated it will distribute a min. of 50% of individual net profit among investors. Average payout, compared to consolidated results has been 46% for the 2016-2020 period. In 2020, the Group distributed a BGN 6.2m in dividends, higher than initial announcement and yielding c. 4.5% DY at ex-div quotes.

We expect CAGR of 16% for the 2020-2025 period vs. 17% CAGR expected by management

When updating our five-year forecast for the Group we take into account TBS Group's strong 2020 performance as well as management strategic outlook and guidance presented at the end of March 2021. Accordingly, we have comfortably increased our top line growth forecast for the next five years from a CAGR of 10.2% to a CAGR of 16.1% (slightly below management guidance of 17% top line CAGR) as we expect an accelerated growth in segments like data centers and managed services due to expectations for restart of the delayed investment plans in this field. Growth will also be supported on the back of increased demand for efficient and secure remote workspaces triggered by COVID-19 coupled with telecom 5G investment plans going forward despite the corona crisis and the expectations for growth in managing services and cloud solutions.

Due to strong FY20 results, we increase slightly our 2021 projection, expecting the Group to achieve a 25% y/y top line growth. Our estimates are slightly below management guidance of 27% y/y growth for the period. Currently, the plan is to grow organically although the Group has shared that it is exploring potential M&A targets for the future.

In terms of markets, in line with management guidance we expect 2021 top line to be driven mainly by the local market, international clients as well as the Macedonian and Albanian markets where the Group has recently entered. The Group's guidance points to almost tripling of revenues y/y from the latter for 2021. For 2022-2025, we envision a slowdown in growth to 13% on annual basis. We expect that the growth will be coming mostly from the Enterprise sector as companies will re-start their tech investments post-COVID19 as the need to stay ahead with new technologies will become more pressing.

Profit margins to fall in the short term due to investment costs but to fully recover and further expand on high-value-added services and economies of scale

Profit margins are forecast to remain stable by the end of 2025. Accordingly, we envision a top line growth of 14% and 18% for 2022 and 2023 respectively, accordingly as the Group is expected to boost its portfolio of multinational clients and increase sales in all of its operating segments, the highest rise to be seen in Application Services and Information Security, as well as the introduction of hyper automation.

We forecast costs to grow slower than sales (at CAGR of 15.7% by 2025) as the Group is expected to experience economies of sales and will focus more on high margin services. The latter will boost gross margin from 19.8% (in 2020) to 21% (in 2025).

We account for the rise in both the number of employees and their remuneration, expressed in higher administrative and sales & marketing expenses (labor costs are included in both) as well as for higher marketing expenses on penetrating into new tech segments.

Compared to our earlier forecast, depreciation is expected to start rising faster after 2021 when acceleration in EaaS business is projected. The latter will affect positively EBITDA, which we expect to grow at CAGR of 26.8% by 2025, considerably higher than management guidance.

Turning to the balance sheet, we expect growth in PPE entirely driven by the expansion in EaaS line of business from-2021 onwards. Financial leasing will also be on the increase, as the Group will finance investments by both loans and own cash.

VALUATION

In order to extract the most proper value to a minority shareholder in TBS Group, we use both the discounted cash flow model and peer valuation, equally weighted, when arriving at its fair value per share.

In our DCF model, for the growth phase (2020-2025) we take into consideration the management's sales and costs guidance, yet also take in the sector's regional and global growth potential, especially post COVID-19. To arrive at the terminal value for the model, we use a market observed EV/EBITDA multiple based on recent deals within the ICT sector, more precisely a 30 month trailing median EV/EBITDA as at FY20 published by tech M&A consultant Hampleton.

For the peer analysis, we have outlined a group of nine ICT-focused listed companies which by no means are perfect matches for TBS Group, yet operate and exhibit strong similarities in terms of business models, targeted products and services, as well as territorial markets and industries. The peer group includes both global and regional players.

Finally, we omitted the discount for minority shareholding considering the concentration of control has been declining since listing, as the majority owner has less than 80% of the shares and is expected to sell more of its stake in the upcoming tranches. The Company has gained momentum since listing and these tranches will expand the free float even further (up to 30%) allowing new investors to onboard.

DISCOUNTED CASH FLOWS AND PEER VALUATION MODELS

We base our DCF analysis on an updated 16.1% CAGR of the top line for the 2020-2024 period and a terminal value based on an EV/EBITDA exit multiple of 8.6x based on M&A data from H2'20 Hampleton's IT & Business Services report. This is the average of medians for the integration services and IT outsourced services sub-sectors. Based on the profile of companies operating in these two sub-sectors, we believe that the multiple is a good approximate for TBS Group.

Investments are projected in line with the management guidance for growth in its managed services operations and global expectations for the business in post COVID-19 reality

In our updated DCF analysis we incorporate a decreased fixed 5.95% weighted average cost of capital based on the average value of WACC in the 2021-2025 period which is in line with the falling risk as the markets begin to rebound after the initial COVID-19 shock. For the forecasted period we expect the current low interest rates both on corporate and sovereign debt to remain low. We keep a constant equity risk premium for the Bulgarian capital market, as stipulated by the latest estimates of NYU Stern Professor Damodaran as we believe that it is adequate for the Bulgarian capital market for the forecasted period.

Finally, when projecting TBS Group's relative volatility to the market returns, we take into account its beta value derived from Prof. Damodaran's database for Information services sector and levered against Telelink's capital structure.

For cost of debt we assume a constant rate of interests on leasing (which is the main debt instrument used by the Group). Concerning the calculation of the weight of debt in the Group's capital structure, we take the ratio of the book value of interest-bearing liabilities to constant market value of equity at current market prices added to the book value of interest-bearing liabilities. Thus, the average weight of debt in the capital structure arrives at c. 7%, which is below the average for the sector.

After taking into consideration the outstanding debt and cash as at the end of FY20, we come up with an intrinsic value of BGN 26.16 per share. It is higher compared to our previous valuation due to the increased growth forecast, rising profitability and lower discount factor.

KEY ASSUMPTIONS

'000 BGN	2018	2019	2020	2021F	2022F	2023F
Sales	105 987	110 328	135 526	169 408	193 125	227 887
y/y growth	*7.4%*	*-5.2%*	*16.5%*	*25.0%*	*14.0%*	*18.0%*
EBITDA	6 978	11 655	17 606	20 174	22 129	27 161
EBITDA margin	*6.6%*	*10.6%*	*13.0%*	*11.9%*	*11.5%*	*11.9%*
D&A	1 546	2 151	2 631	3 405	4 345	4 581
% of PPE and intangible long-term assets	*73.1%*	*24.0%*	*28.7%*	*27.7%*	*28.0%*	*27.5%*
Investments	1 600	7 004	2 173	6 842	7 479	5 365
% of sales	*1.5%*	*6.3%*	*1.6%*	*4.0%*	*3.9%*	*2.4%*
EBIT	5 669	9 802	14 677	16 769	17 784	22 581
EBIT margin	*5.3%*	*8.9%*	*10.8%*	*9.9%*	*9.2%*	*9.9%*
Non-cash working capital	(3 938)	108	(4 704)	2 771	8 206	10 989
% of sales	*-3.7%*	*0.1%*	*-3.5%*	*1.6%*	*4.2%*	*4.8%*
Change in non-cash working capital	(2 771)	(1 954)	(4 292)	7 475	5 435	2 783

Discounted Cash Flows

BGN'000	2021F	2022F	2023F	2024F	2025F	Terminal value (exit multiple x EBITDA 2025)
EBITDA	20 174	22 129	27 161	31 388	38 213	
EBIT	16 769	17 784	22 581	26 835	33 754	
EBIT(1-T)	15 092	16 006	20 323	24 152	30 379	
Add: D&A	3 405	4 345	4 581	4 553	4 459	
Less: Investments	6 842	7 479	5 365	4 462	4 145	
Less: Change NWC	7 475	5 435	2 783	643	(120)	
FCF	4 180	7 436	16 756	23 600	30 812	328 632
PV FCF	4 180	7 019	14 926	19 841	24 449	
					EV/EBITDA multiple	**8.6**
Sum of PV FCF	67 734					
Total PV Free Cash Flows	250,843					
Less: Outstanding Debt (as at end of FY20)	3,364					
Plus: Financial Assets (as at end of FY20)	11,761					
PV of Equity	326,974					
Total number of shares outstanding	12,499,644					
Fair Value per share (BGN)	**26.16**					

Weighted Average Cost of Capital

	2021	2022	2023	2024	2025
Risk free rate (Yield on 10-year German Bonds)	-0.33%	-0.33%	-0.33%	-0.33%	-0.33%
Equity risk premium (NYU Stern Estimate)	5.00%	5.00%	5.00%	5.00%	5.00%
Beta (NYU Stern Estimate)	0.99	0.99	0.99	0.99	0.99
Cost of equity	**6.20%**	**6.20%**	**6.20%**	**6.20%**	**6.20%**
Cost of debt	3.00%	3.00%	3.00%	3.00%	3.00%
Effective tax rate	10.00%	10.00%	10.00%	10.00%	10.00%
After-tax cost of debt	**2.70%**	**2.70%**	**2.70%**	**2.70%**	**2.70%**
Weight of debt	5.22%	5.74%	6.30%	7.57%	10.43%
WACC	**6.02%**	**6.00%**	**5.98%**	**5.93%**	**5.83%**
Average WACC	**5.95%**				

To arrive at a final fair value for the Company we add a peer comparison analysis based entirely on the median forward 1 year P/E ratio, as we believe this is the most reliable measure considering the Company's proven sustainable growth of net profit. We decided to omit EV/EBITDA exit multiple valuation as Telelink is very lightly leveraged, having below the industry's average debt levels, which will lead to distorted valuation. The estimated fair value based on the peers' multiples yields a price per share of BGN 19.40, higher than our previous valuation mainly due to TBS Group's higher than expected FY20 financial results.

When equally weighting the outcomes of the two valuation models - DCF and peer comparison, we arrive at a BGN 22.78 per share intrinsic value, which yields 40% upside potential from the current market levels.

Peer Comparison

Name	Ticker	Country	Mkt Cap (M EUR)	Forward P/E(1 year)
ACCENTURE PLC-CL A	ACN US	IRELAND	294 672	29.54
CAPGEMINI SE	CAP FP	FRANCE	48 858	16.81
ATOS SE	ATO FP	FRANCE	12 534	7.49
TIETO OYJ	TIETO FH	FINLAND	6 194	10.69
COMPUTACENTER PLC	CCC LN	BRITAIN	6 391	18.37
S&T AG	SANT GR	AUSTRIA	2 872	16.58
COMARCH SA	CMR PW	POLAND	771	15.94
ASSECO SOUTH EASTERN EUROPE	ASE PW	POLAND	896	16.67
4IG	4IG HB	HUNGARY	328	12.12
COMP SA	CMP PW	POLAND	143	8.04
Mean			**37 366**	**15.23**
Median			**4 533**	**16.26**

Source: Bloomberg

Peer Multiples	Forward P/E
Median peer multiple	16.26
TBS Group's fair value based on peer multiple ('000 BGN)	242 458
Weight of multiple fair value	100%
Final peer multiple fair value per share (BGN)	**19.40**

	DCF	Peer Comparison
Fair Value per Model	26.16	19.40
Weight of Model	50%	50%
FINAL FAIR VALUE PER SHARE (BGN)	**22.78**	

Recommendation and Price Target

Recommendation: BUY

Target Price: BGN 22.78

Upside potential: 40.60%

We reiterate a BUY recommendation as the price target offers 40% upside potential to current quotes and the Company continues to deliver outstanding results and to expand its business. Strong cash generating power supports our expectations for 2x growth in top and bottom line by 2025, making it a good long term investment.

A major price trigger could be expected upcoming stock placements in 2021 targeting to increase the free float up to 30%. After two successful placements in 2020, TBS Group's stock surged 130%+ in 8 months, proving to be one of the most desired companies on the market.

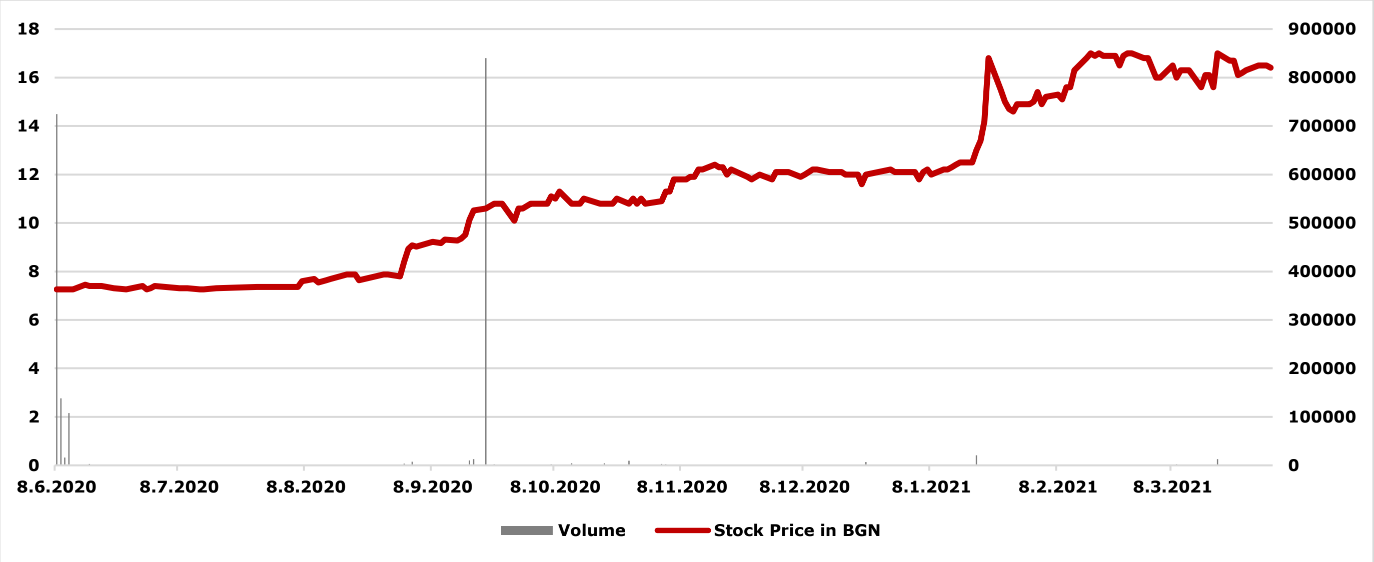
The excellent corporate governance can further help close the gap in the mid-term. The Company's higher than average dividend payout, coupled with the launched in 2020 stock buyback program to support Long-term Performance Share Plan for Employees are among the factors helping the Company to attract diverse range of international and local, retail and institutional investors.

In addition, TBS is currently exploring the opportunity to list on Frankfurt Stock Exchange to boost liquidity and visibility.

In terms of significant investors involved in with stock market, we share the following observations:

- TBS Group is a growing company in the promising ICT sector that has attracted international institutional investors with experience on frontier markets due to its outstanding fundamentals and transparent management. Among them is a UK fund that quickly built a 10% stake since listing.
- Domestic institutional and retail investors are also interested in the Company due to its exceptional stock and financial performance, coupled with the strong dividend policy and expectations for higher liquidity.

Stock Price Dynamics



Annual Consolidated Financial Data

Income Statement ('000 BGN)	2016	2017	2018	2019	2020	2021F	2022F
Sales, incl.	**98 663**	**105 987**	**116 367**	**110 328**	**135 526**	**169 408**	**193 125**
Networking	*80 255*	*74 534*	*78 585*	*66 456*	*77 441*	*72 845*	*84 009*
Data center	*12 163*	*21 063*	*22 443*	*24 450*	*29 855*	*42 352*	*48 281*
Information security	*2 158*	*1 601*	*4 908*	*4 086*	*5 077*	*8 470*	*11 587*
Productivity	*3 596*	*7 687*	*9 395*	*14 308*	*22 187*	*40 658*	*42 487*
Other	*490*	*1 102*	*1 036*	*1 030*	*966*	*5 082*	*6 759*
Cost of sales	(84 841)	(91 852)	(97 806)	(90 469)	(108 744)	(136 373)	(153 920)
Gross profit	**13 822**	**14 135**	**18 561**	**19 859**	**26 782**	**33 034**	**39 204**
Gross margin	***14.0%***	***13.3%***	***16.0%***	***18.0%***	***19.8%***	***19.5%***	***20.3%***
Other income	152	112	323	364	477	508	599
Administrative expense	(3 264)	(3 833)	(4 541)	(4 589)	(5 672)	(6 268)	(8 497)
Sales and marketing expense	(4 396)	(4 555)	(4 962)	(5 498)	(6 845)	(10 503)	(13 519)
Other expenses	(87)	(131)	(161)	(179)	(2)	(2)	(3)
Net impairment of receivables and assets	0	(59)	8	(155)	(298)	0	0
EBIT	**6 227**	**5 669**	**9 228**	**9 802**	**14 677**	**16 769**	**17 784**
EBIT margin	***6.3%***	***5.3%***	***7.9%***	***8.9%***	***10.8%***	***9.9%***	***9.2%***
Depreciation and amortization expense	(938)	(1 546)	(919)	(2 151)	(2 631)	(3 405)	(4 345)
EBITDA	**7 117**	**6 978**	**9 868**	**11 655**	**17 606**	**20 174**	**22 129**
EBITDA margin	***7.2%***	***6.6%***	***8.5%***	***10.6%***	***13.0%***	***11.9%***	***11.5%***
Normalized EBITDA	7 117	7 037	9 860	11 831	17 308	20 174	22 129
Net financial result	(223)	(328)	(460)	(660)	(458)	(202)	(219)
Pre-tax income	6 004	5 341	8 768	9 142	14 219	16 567	17 565
Income tax	(757)	(665)	(1 104)	(990)	(1 624)	(1 657)	(1 757)
Net income	**5 247**	**4 676**	**7 664**	**8 152**	**12 595**	**14 910**	**15 809**
Net income margin	***5.3%***	***4.4%***	***6.6%***	***7.4%***	***9.3%***	***8.8%***	***8.2%***
Other comprehensive income	(59)	102	8	0	0	0	0
incl. currency exchange rates differences	(59)	102	8	0	0	0	0
Total comprehensive income	**5 188**	**4 778**	**7 672**	**8 152**	**12 595**	**14 910**	**15 809**

Balance Sheet ('000 BGN)	2016	2017	2018	2019	2020	2021F	2022F
Property, plant and equipment	751	1 654	2 132	8 371	7 913	11 350	14 484
Investment properties	332	332	342	362	372	372	372
Intangible assets	1 310	461	802	574	631	932	1 062
Other non-current assets	2 756	2 572	3 342	4 134	4 337	8 020	9 143
Non-current Assets	**5 149**	**5 019**	**6 618**	**13 441**	**13 253**	**20 674**	**25 061**
Inventories	1 875	4 063	3 865	5 691	8 406	8 470	11 587
Trade and other receivables	24 384	26 055	26 384	24 871	28 383	40 658	46 929
Other current assets	6 338	5 946	15 278	7 913	5 147	11 859	15 450
Cash and cash equivalents	1 256	7 408	3 313	2 199	11 761	1 867	159
Current assets	**33 853**	**43 472**	**48 840**	**40 674**	**53 697**	**62 854**	**74 126**
Total Assets	**39 002**	**48 491**	**55 458**	**54 115**	**66 950**	**83 528**	**99 187**
Share capital	1 572	1 580	1 580	12 500	12 500	12 500	12 500
Reserves	(572)	(478)	(470)	(14 351)	(14 068)	(12 880)	(12 791)
Retained Earnings	2 232	4 561	7 360	9 635	16 008	16 859	23 797
Equity	**3 232**	**5 663**	**8 469**	**7 784**	**14 440**	**16 478**	**23 506**
Financial leasing liabilities	23	766	890	4 331	2 785	3 751	4 126
Other non-current liabilities	1 983	2 060	2 634	3 080	3 085	5 082	5 794
Non-current liabilities	**2 006**	**2 826**	**3 524**	**7 401**	**5 870**	**8 833**	**9 920**
Interest-bearing borrowings	4 047	1 845	5 312	4 124	2 004	3 712	4 454
Short-term financial leasing liabilities	14	277	538	1 883	794	3 682	3 756
Other current liabilities	29 703	37 880	37 615	32 923	43 842	50 822	57 551
Current liabilities	**33 764**	**40 002**	**43 465**	**38 930**	**46 640**	**58 216**	**65 761**
Total Equity & Liabilities	**39 002**	**48 491**	**55 458**	**54 115**	**66 950**	**83 528**	**99 187**

FINANCIAL AND PERFORMANCE INDICATORS

Financial and Performance Indicators	2020	2021F	2022F
Valuation			
Price/Earnings (P/E)	16.24	13.72	12.94
Price/Sales (P/S)	1.51	1.21	1.06
EV (in '000 BGN)	198 347	213 803	216 702
EV/EBITDA	11.27	10.60	9.79
Profitability			
Return on assets	18.81%	17.85%	15.94%
EBITDA margin	12.99%	11.91%	11.46%
Operating margin	10.83%	9.90%	9.21%
Net income margin	9.29%	8.80%	8.19%
Dividend			
Dividend yield	4.47%	3.56%	3.47%
Dividend per share	0.50	0.58	0.57
Liquidity			
Current ratio	1.15	1.08	1.13
Credit			
Debt/assets	0.08	0.13	0.12

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BUY	Target price is more than 10% above current quotes
HOLD	Target price in +/-10% range of the current quotes
SELL	Target price is more than 10% below the current quotes

Frequency of Recommendations: No schedule of recommendations is available. The frequency of recommendations depends on specific factors to individual companies and the opinion of the analyst(s) for the necessity of minor or major changes.

Q1 2021 Recommendation Review			Market Maker Services
Recommendation	**#**	**Share**	
BUY	6	38%	SKK BU; Korado; Elana Agrocredit; Albena; Expat Bulgaria SOFIX UCITS ETF; TBS
HOLD	10	62%	
SELL	0	0%	

For more information, please contact:

Research Analyst	**Phone:**	**E-mail:**	**Internet:**
Dimitar Kiryakov	**+359 2 810 00 27**	kiryakov@elana.net	www.elana.net
Research Team	**+359 2 810 00 20**	research@elana.net	www.elana.net