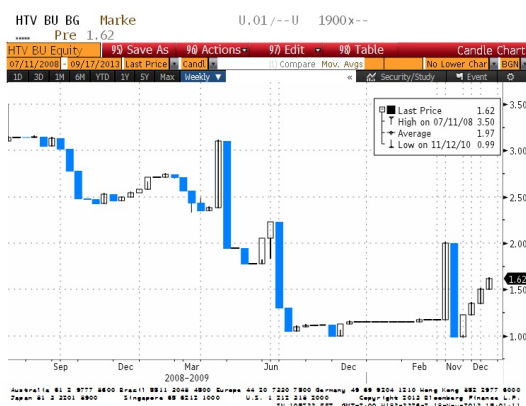


BSE ticker: **HTV**
Bloomberg: **HTV BU**

Stock price: **1.62 BGN**
Market capitalization: **19 462 351 BGN**
1 year change: **+20%**
1 year price range: **1.50-1.62 BGN**

Intrinsic value: **1.77 BGN**
Recommendation: **Hold**
Price target: **1.77 BGN**



Valuation Ratios

Enterprise Value	26 083 000
Dividend Yield - Gross	-
Trailing P/E (ttm)	61
Forward P/E (2014)	-
PEG Ratio (1yr expected)	-
Price/Sales (ttm)	0.64
Price/Book (mrq)	1.52
Enterprise Value/EBITDA (ttm)	13.62

Profitability and Growth Ratios

Return on Equity	2.5%
Return on Assets	0.9%
EBITDA Margin	7.7%
Net Profit Margin	1.0%
Revenue Growth*	0.3%
EPS Growth*	-40%
Capital Growth*	15%
Assets Growth*	2.0%

*on yearly basis

- Herti produces accessories for bottles and complete packaging solutions for manufacturers of different brands of wine and alcoholic beverages, mineral water and juices, olive oil and medicine. The products of the company are produced with very high quality standards.
- The majority of Herti's revenue comes from sales of bottle caps to spirit drinks manufacturers. The change during the last year is small and as of present date the segment accounts for 55% of revenues.
- The produce of the company is mainly for export to a wide range of markets. The Bulgarian market accounts for 14% of total sales. During the last two years the share of the local market has increased slightly, but steadily. The biggest international markets are Russia, United Kingdom and France, with European countries increasing in importance.
- Revenues of Herti during the fourth quarter increased by 4% on yearly basis. The company is returning to growth, although the weak sales at the beginning of the year are still affecting the results.
- Shares of Herti are traded rarely due to the low free-float. The company's IPO coincided with the financial crisis in Bulgaria and the investor interest to the new position was very limited. The company was planning on using the accumulated resources to pay-off some of its debt and to continue with its investment program.
- The capital of the company is distributed mainly between individuals. Joseph Mayer is the first long-term investor since 1997. The company he manages "IGM Holding" is registered in Austria and is engaged in commercial activities. The main shareholders continued to sell a small amount of their stake and the free-float reached 0.29%. Nevertheless it remained too low for there to be liquid trading even for Bulgarian standards.

Company overview

The main business of Herti is the manufacturing and sale of packaging products, specifically bottle closures. The manufacturing is focused at consumers of different segments of the food industry, but part of the production is targeted at the pharmaceutical sector. Herti produces caps with over 40 different sizes. The company exports to its clients in over 50 countries around the world. The revenues from abroad are over 85% of total sales, while the main markets are in the European Union and Russia. Herti's business model includes the whole process of production as well as the sell to clients. The company is making market researches in its sector to respond the necessities in different economic sectors. The participation in international fairs is the primary tool to attract new clients and to present its new products.

The company's holding structure includes five subsidiaries:

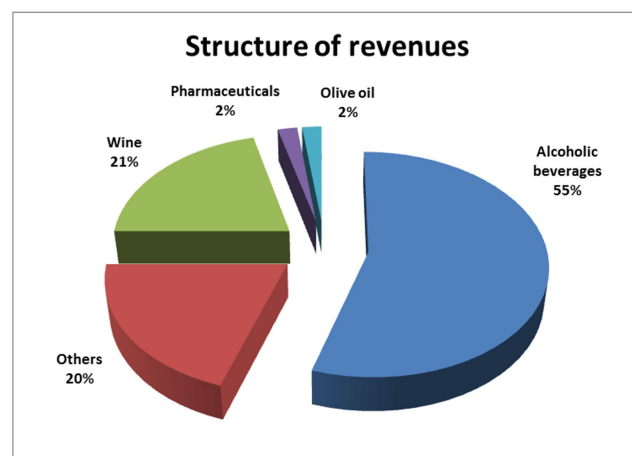
- Tihert JSC – 100% of the capital;
- Herti UK – 100% of the capital;
- Herti France – 100% of the capital;
- Herti Germany – 100% of the capital;
- Herti Group International – 49.00%.

The company also owns 5.6% stake in the first Bulgarian packaging recovery organization – the non-profit company Ecopack Bulgaria. Herti is fulfilling its obligations for separate waste collection and recovery of packaging released on the market in Bulgaria according to the current legislation. Herti is expanding its product portfolio through research and development activities. The company is applying the requirements of the world quality standards and the principles of good corporate management. It is certified under ISO 9001:2008.

Revenues structure

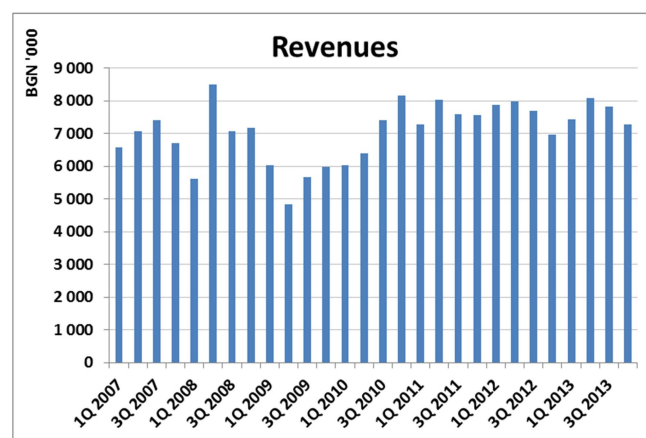
The largest part of the revenues comes from the bottle closures for alcoholic beverages. The change during the previous year is small and as of present date the segment accounts for 55% of revenues. Aluminum caps for wine are losing their share in sales and now

form 21% of the revenues. During the last couple of years wine produces are actively switching to twist caps due to the now highly priced cork. The consumption of wine in Europe is declining, although the importance of aluminum caps will increase. Herti expands its decoration options by heat stamping and frontal topography as well as aluminum, PVC wine bottles closures, to improve the quality of the drinks. The sales expansion globally will be made by those products.



Source: Herti

Revenues of Herti during the fourth quarter increased by 4% on yearly basis. The company is returning to growth, although the weak sales at the beginning of the year are still affecting the results. Growth for total 2013 is negligible.

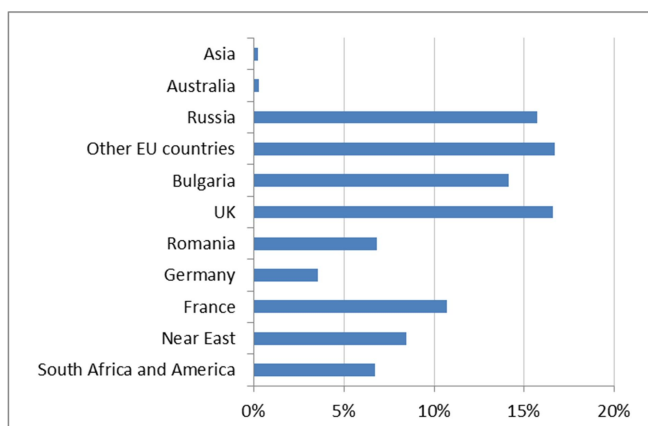


Source: Herti

The weak growth of revenues was a consequence of the crisis in Europe that resulted to lower consumption of beverages.

At the end of 2012 the firm bought a machine for heat stamping and frontal topography on aluminum caps, which widens the

product range. Herti has special focus on caps for wine bottles. The company presented two new wine bottle closures and registered the trade mark Vinstar, which help the offering of different product lines. In the fourth quarter of 2013 Herti put into exploitation new machine for long closures for wine bottles. The production began in February. It is aiming at expansion on EU markets.

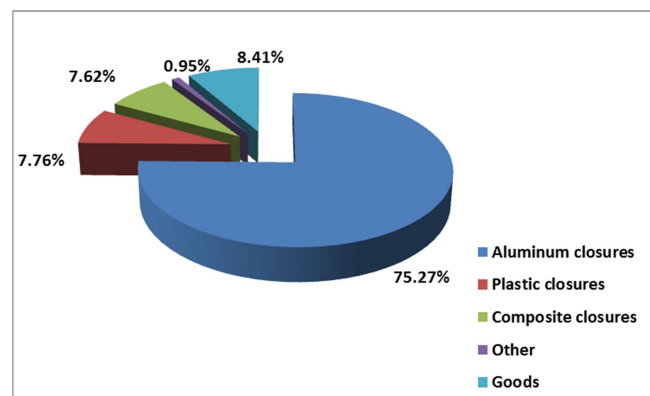


Source: Herti

The production of the company is mainly for export to a wide range of markets. The Bulgarian market accounted for 14% of total sales in 2013. During the last two years the share of the domestic market has increased slightly, but steadily. The biggest export markets are Russia, United Kingdom and France, with European countries increasing in importance. The subsidiaries in France and the United Kingdom have a substantial contribution for the presence in these markets. Herti also founded a subsidiary in Germany, which is expected to increase the presence in the country.

Herti is very active in attracting clients by participation in trade fairs. Export to South Africa and the United States targeted the producers of wine and new company's products will support the expansion outside Europe.

The proportion of goods in Herti's revenues is growing and this leads to a shift in the proportion of the other types of products. The company exports specific kind of caps which it does not normally manufacture for a client in Russia. This is however, at expense of other products. The aluminum caps are representing 75% of total sales of Herti for 2013.



Source: Herti

Consumption of alcoholic beverages

The consumption in Europe is declining during the last five years. This trend is concerning wine the most, whereas the consumption of spirits is oscillating near the average level for the last ten years. The change in the regional structure of demand is also visible – Northern Europe is consuming more, whereas the South is slowly changing toward lower quantities of wine.

Certificates for quality

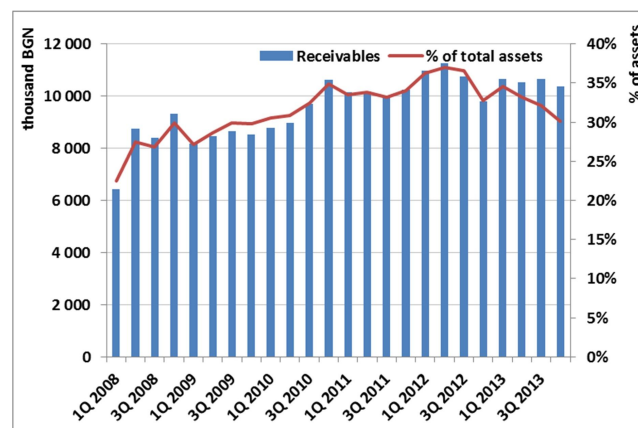
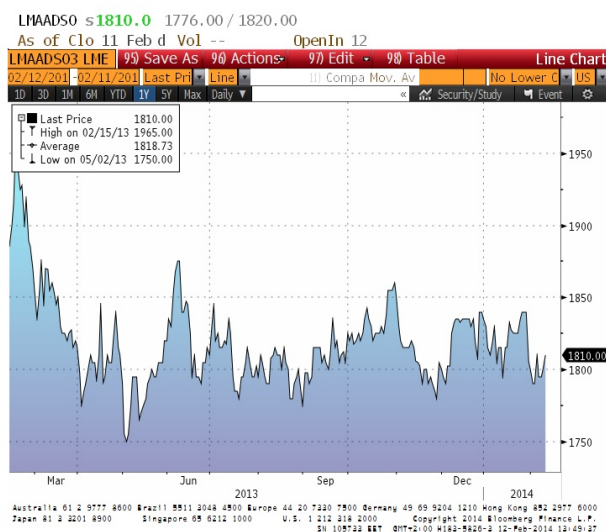
Herti has certificate under the BRC/IOP Global Standard for Packaging and Packaging Materials. This Standard is a product certification designed to protect consumers' rights and help traders to follow the requirements of the EU for good practices. It is applied by suppliers in Europe, Africa, the Middle East, Asia, Australia, North and South America. Herti will have the opportunity of free trade with all the companies in the scheme - Tesco, Sainsbury, Marks&Spencer, Asda, Boots, Safeway, Co-op.

Herti is member of SEDEX – non-profit organization based in London, UK. It is a membership organization for businesses committed to continuous improvement of the ethical performance of their supply chains. SEDEX enables member companies to manage efficiently the ethical and responsible practices of their global supply chains in the field of Labor Standards, Health & Safety, Environment and Business Integrity.

Financial Analysis

The price of aluminum is the most important factor for expenditures and the profitability

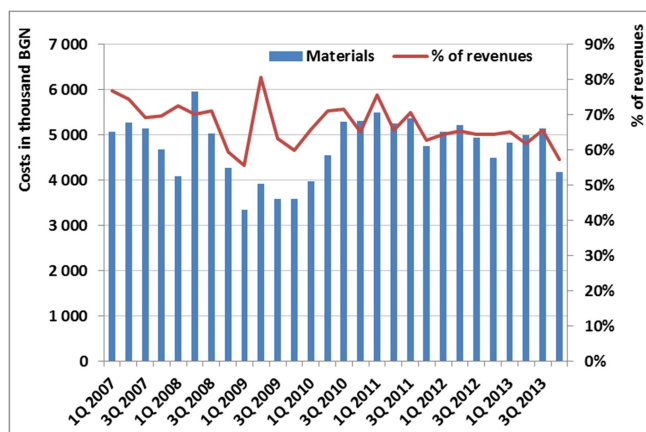
of Herti. The metal represents more than half of total production costs. Aluminum's price change was relatively small during 2013 is at three-year lows. Moreover, the company is not experiencing any price pressure from rising costs at the moment.



Trade receivables are decreasing slightly when compared to assets. The nominal value is hardly changed for the last year. The peak in receivables was recorded year and a half ago. The improvement is due to the stable trading partnerships of Herti and the slight increase of revenues.

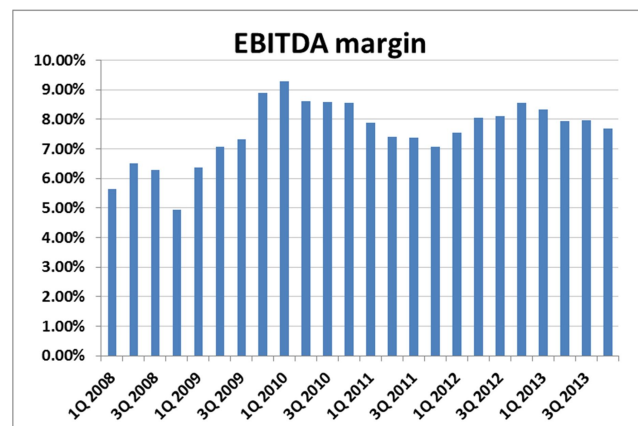
Herti is not facing difficulties collecting its receivables.

Company's profit margin did not improve during the fourth quarter as it has been under the pressure from rising depreciation.

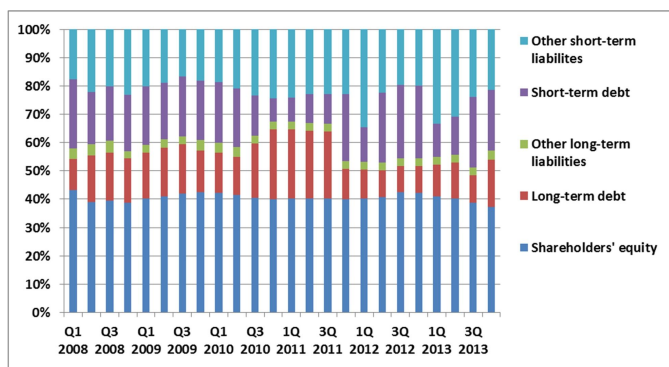


Costs for materials are declining substantially during the fourth quarter. The net profit for the last year was pressured by the high level of expenditures. Herti is planning an optimization of costs, including wages and number of personnel. The measures are aiming at lowering fixed costs for production. Investments are also focused on improved profitability.

Inventories went down to 14% of assets which corresponds to the average for the last few years. Herti maintains a stable level of finished goods stock.



EBITDA margin is declining below the level of 8% during the last quarter of 2013. This is the average level for the past three years and the company is maintaining its profitability in very difficult market environment. The long-term improvement in the recent past is due to the decrease of interest payments. Lower prices of materials and the depreciation influenced the results for 2012 as profit margins increased but it is mostly a temporarily factor.



Bank loans of Herti are rising last year. Attracted capitals are used for investments, including financing the implementation of ERP system and new varnishing and printing machine. Funds to this project should be received in the first quarter of 2014. Herti will cover its investment costs before receiving the EU subsidy by bank loan, which in short-term will result in higher interest payments. Bank loans of the company are around 80% of the equity. The change in the debt struc-

ture is small and Herti has no difficulties to service its bank loans. The quick and current ratios are higher than one, which shows adequate solvency.

Prognosis

The economic crisis in Europe had a weak effect on Herti's revenues. This is because of the non-cyclical characteristics of the packaging industry and the growing presence in new markets. The company expects gradual increase of revenues following the establishment of the subsidiary Herti Germany and the launch of new products on the market. Furthermore, the growth of orders during the second half of 2013 is also a positive sign. In the model we use conservative growth rate into account followed by recovery of revenues for the following years.

Valuation ratios

Table 1
Multiples

	2011	2012	2013
Last Price	1.23	1.50	1.62
Number of Shares	12 013 797	12 013 797	12 013 797
Market Capitalization	14 776 970	18 020 696	19 462 351
Net Profit	-216 000	569 000	317 000
P/E	-68.41	31.67	61.40
Equity	12 016 000	12 625 000	12 835 000
P/B	1.23	1.43	1.52
Sales	30 569 000	30 495 000	30 595 000
P/S	0.48	0.59	0.64
EV	24 965 970	28 304 696	32 012 351
EBITDA	2 129 000	2 610 000	2 351 000
EV/EBITDA	11.73	10.84	13.62
RoE	-1.80%	4.51%	2.47%
RoA	-0.72%	1.90%	0.92%

Source: Herti
Calculations: ELANA Trading

The profit of Herti was lower during the fourth quarter of 2013 as compared to the same period of the previous year. This has negative influence on the valuation ratios. The difference is more substantial when regarding price-to-earnings ratio, which is over 60 with the latest financial result. The company's equity is rising with yearly profits but the stock price jumped more and resulted to higher P/B ratio of 1.52. The important EV/EBITDA ratio is increasing faster due to the higher debt of the company, related to latest investment projects. EBITDA is also lower on yearly basis.

Herti has low price-to-sales ratio but the stock market is favoring companies with good profitability and low P/E ratios.

Comparison to peers

Manufacturing of bottle closures is part of the larger range of packaging products where a lot of companies operate. Very few of them have specialized in the products that Herti provides. A wider range of companies gives a better basis for comparison. That is why we compare the whole sector, taking the averages of the four valuation ratios.

Table 2
Comparison to peers

Mutiples	P/E	P/B	P/S	EV/EBITDA
Average Value of Peers	23.60	2.30	1.18	11.43
Market Capitalization	7 480 321	29 568 611	36 240 991	14 311 685
Price	0.62	2.46	3.02	1.19
Weight	20%	20%	30%	30%
Current Price	1.62			
Fair Price	1.88			
Premium (Discount) to Current Price	16.00%			

Source: Bloomberg
Calculations: ELANA Trading

The small decline in the financial results of the company was compensated by the good market conjuncture worldwide. The trend of rising stock prices moved average multiples of the sector on the upside. The average ratios are

increasing. Our calculations are showing a fair price of BGN 1.88. This is 16% higher to the latest market price. Highest price came from equity and yearly sales.

The largest weight is given to revenues and EV/EBITDA multiples when calculating the fair price. The share is traded rarely due to the unsuccessful IPO that was unable to attract a large number of investors during the first months of the financial crisis. The illiquid trading means that the company should be regarded as a possible acquisition target by a larger firm. We don't consider the stock of Herti as either overvalued or undervalued. However, this fair price is not including the possible premium for lack of liquidity.

Discounted Cash Flows

The model of discounted cash flows is indicative of the company's future development because it includes the outlook for growth in sales and profits.

Table 3, Discounted Cash Flows

[illegible]

Calculations: ELANA Trading

Growth of revenues stalled in 2013 but we expect that the market conjuncture in the sector of packaging will improve. New products will also contribute to better sales. Our forecasts for 2014 are based on moderate increase of 5%, which will be followed by accelerations of revenues. European economies are under the negative influence of stagnating consumption.

Currently, EBITDA margin is 8.50% and is at the average level for the last four years. We consider this level of profitability as achievable in long-term period due to the forthcoming positive effects of investments and the planned cost cutting.

Recommendation and Price Target

Recommendation: **HOLD**
Target Price: **1.77 BGN**
Change:

The fair price using the discounted cash flows method is 1.65 BGN. This is slightly lower than our previous analysis. The price target is the average from the both models as the gap between their fair prices is not substantial.

Financial Data

Statement of Income (in '000 BGN)	2009	2010	2011	2012	2013
Sales	22 529	28 002	30 473	30 495	23 323
Production expenses	17 051	21 689	24 284	24 013	18 559
Personnel expenses	3 419	3 832	3 955	3 787	2 868
Net income from financial activities	(53)	(87)	(80)	(85)	(132)
Other revenues and expenses	0	0	0	0	0
EBITDA	2 006	2 394	2 154	2 610	1 764
Depreciation	1 507	1 599	1 660	1 440	1 010
EBIT	499	795	494	1 170	754
Interest expense	789	735	688	601	450
Pretax income	(290)	60	(194)	569	304
Taxes	0	0	(18)	0	0
After-tax income	(290)	60	(176)	569	304
Minority interest	0	0	0	0	0
Net income	(290)	60	(176)	569	304
Earnings per share in BGN	(0.02)	0.00	(0.02)	0.05	0.03

Balance Sheet (in '000 BGN)	2009	2010	2011	2012	2013
Total Assets	28 621	30 531	30 111	29 877	33 071
Equity subscriptions receivable	0	0	0	0	0
Fixed assets	16 544	15 687	15 395	14 963	17 595
Tangible fixed assets	16 206	15 402	15 022	14 546	16 714
Financial investments	279	279	279	328	336
Current assets	12 077	14 844	15 395	14 963	15 476
Inventory	3 276	4 161	4 310	4 892	4 665
Receivables	8 542	10 638	10 249	9 785	10 644
Financial assets	0	0	0	0	0
Cash and cash equivalents	259	45	157	237	167
Total liabilities + equity	28 621	30 531	30 111	29 877	33 071
Equity	12 134	12 212	12 056	12 625	12 822
Registered capital	12 014	12 014	12 014	12 014	12 014
Capital funds	354	358	438	438	467
Earnings	-234	-160	-396	173	341
Liabilities	16 487	18 319	18 055	17 252	20 249
Long-term payables	1 038	799	808	808	880
Long-term bank loans	4 284	7 568	3 237	2 843	3 213
Short-term bank debt	6 065	2 552	7 108	7 678	8 232
Short-term payables	5 100	7 400	6 902	5 923	7 924
Other liabilities	0	0	0	0	0
Working capital	912	4 892	5 005	1 362	(680)

Cash Flow Statement (in '000 BGN)	2009	2010	2011	2012	2013
Net income	(290)	60	(176)	569	304
Depreciation	1 507	1 599	1 660	1 440	1 010
Changes in Working capital	539	3 980	113	(3 643)	(2 042)
Other operating cash flow items	(365)	(4 024)	(54)	3 342	1 851
Net cash from operating activities	1 391	1 615	1 543	1 708	1 123
Capital expenditures	(113)	(649)	(392)	(1 074)	(3 531)
Other investing cash flow items	42	0	0	(49)	0
Net cash from investing activities	(71)	(649)	(392)	(1 123)	(3 531)
Issuance/ Retirement of Stock, Net	0	0	0	0	0
Issuance/ Retirement of Debt, Net	(512)	(397)	(91)	332	2 650
Dividends paid	0	0	0	0	0
Other financing cash flow items	(1 073)	(783)	(948)	(837)	(309)
Net cash from financing activities	(1 585)	(1 180)	(1 039)	(505)	2 341
Net change in cash	(265)	(214)	112	80	(67)
Beginning-of-period cash	524	259	45	157	234
End-of-period cash	259	45	157	237	167
Cash per share	0.02	0.00	0.01	0.02	0.01

Financial and Performance Indicators	2009	2010	2011	2012	2013
Valuation Ratios					
Price/Earnings (P/E)	-47.64	246.28	-68.41	31.67	22.29
Book Value (BV)	1.01	1.02	1.00	1.05	1.07
Price/Book (P/B)	1.14	1.21	1.23	1.43	1.52
Sales Per Share	1.88	2.33	2.54	2.54	4.48
Price/Sales (P/S)	0.61	0.53	0.48	0.59	0.36
Price/Cash per share	11.35	8.91	9.96	8.97	14.81
EV (in BGN)	23 906	24 852	24 965	28 305	30 740
EV/Sales	1.06	0.89	0.82	0.93	0.57
EV/EBITDA	11.92	10.38	11.59	10.84	7.03
EV/EBIT	47.91	31.26	50.54	24.19	15.98
Liquidity					
Current ratio	1.08	1.49	1.10	1.10	0.96
Quick ratio	0.79	1.07	0.79	0.74	0.67
Debt Management					
Debt to total assets	0.58	0.60	0.60	0.58	0.61
Interest coverage	0.63	1.08	0.72	1.95	1.83
LT Debt/Equity	0.44	0.69	0.34	0.29	0.32
Total Debt/Equity	1.36	1.50	1.50	1.37	1.58
Asset Management					
Inventory turnover	6.88	6.73	7.07	6.23	11.54
Days sales outstanding	136	137	121	116	71
Fixed asset turnover	1.36	1.79	1.98	2.04	3.06
Total asset turnover	0.79	0.92	1.01	1.02	1.63
Profitability					
Profit margin on sales	-1.3%	0.2%	-0.6%	1.9%	1.6%
EBITDA margin	8.9%	8.5%	7.1%	8.6%	8.1%
Basic earning power	1.7%	2.6%	1.6%	3.9%	5.8%
Return on assets	-1.0%	0.2%	-0.6%	1.9%	2.6%
Return on equity	-2.4%	0.5%	-1.5%	4.5%	6.8%
Return on investments	-1.7%	0.3%	-1.1%	3.5%	5.2%
Dividend Information					
Dividend Yield	n/a	n/a	n/a	n/a	n/a
Dividend per share	n/a	n/a	n/a	n/a	n/a
Number of shares:					
	12 013 797	12 013 797	12 013 797	12 013 797	12 013 797
Price in BGN - period end:					
	1.15	1.23	1.23	1.50	1.62
Market cap in BGN - period end:					
	13 815 867	14 776 970	14 776 970	18 020 696	19 462 351

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Analyst Certification: The research analyst(s) certifies that: (1) all of the views expressed in this document accurately reflect his or her personal views about any and all of the subject securities or issuers; (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this document.

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BUY	More than 5% higher as compared to SOFIX and BG40 performance
HOLD	Market performance, +/-5% as compared to SOFIX and BG40
SELL	More than 5% lower as compared to SOFIX and BG40 performance

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