

Monbat (5MB)

BSE Ticker:	5MB
Bloomberg:	5MB BU
Sector:	Industrials
Industry:	Electrical equipment
Stock price:	BGN 8.80
Free-float:	24.4%
Market capitalization:	BGN 343 mln EUR 175 mln
Avg daily turnover:	BGN 62 000 EUR 32 000
1 year change:	+44%
1 year range:	6.08-9.15

Valuation

	2012	2013	2014E
EPS	0.48	0.66	0.81
P/E	9.86	13.39	10.93
P/B	1.35	2.12	1.93
EV/EBITDA	7.63	9.48	7.87

One year performance



Five years performance



Monbat is the leading industrial company among Bulgarian stocks. It is combining the growth prospects of successful business model in the production of car batteries with the benefits of recycling of lead. **The stock is our top pick for long term investment, combining growth with dividend payments.**

Monbat improved its financial performance substantially but the market reacted even stronger. Multiples are higher as compared to the previous two years and are roughly **in line with the valuation ratios of other Bulgarian industrial companies.**

We consider the stock **fairly valued at current levels as local investors are focused on profit-related multiples.** Further increase of P/E ratio is not impossible but it will require positive news from the company, which will reassure the market in the company's prospects.

The valuation from the discounted cash flows method shows a relatively high share price – BGN 13.13. This is the reason for the **BUY recommendation** and to hold the stock on the long run. The company will probably be paying out dividends regularly and we expect that financial results will exploit the global recovery and the future increase of lead price. **The target price is BGN 10.05.**

Higher price of lead will result to better profitability of recycling. Comparing the individual report to the consolidated profit of Monbat, it is obvious that recycling business has less contribution for the total profit as compared to historical averages. **This is the reason to consider that the company would improve further its profit margins, when the global economy returns to growth.**

Monbat's shares are one of the few on the Bulgarian market that combine the advantages of low risk for capital investments together with growth perspectives. They proved to be good investment in 2013 and will continue to. Another strong increase is not expected and we consider the stock as long-term investment.

COMPANY OVERVIEW

Monbat is exporting 90% of its production to EU and world markets

Monbat is the largest producer of lead-acid starter and stationary batteries in Bulgaria. Its product range includes batteries for both civil and military applications. The company was established in 1959 in Montana as a self-dependent factory for starter batteries. "PRISTA OIL" – Sofia acquired the company in 1998.

The Company has a wide range of products including starter batteries, stationary batteries, and solar panel batteries, special batteries for army purposes (produced by both Russian and NATO standards) and locomotive batteries.

Monbat is specialized in the production of the following types of batteries:

- Starter batteries;
- Stationary batteries;
- Locomotives batteries;
- Semi-traction batteries;
- Batteries for special purposes.

The most profitable product group, however, are starter batteries. Monbat is constantly aiming at increasing the quality of its production and widening its product range at the same time. After the IPO in 2006, Monbat became a public company with 24% free float.

The main production site of Monbat is located in the Northwest Bulgarian town of Montana, where is situated the largest capacity for production of batteries and the currently operating recycling plant. The other production site in Bulgaria is in the Northeast town of Dobrich.

Profit margins in the manufacturing of batteries are low due to worldwide competition. For Monbat to be part of the international markets, the company needs to be price competitive on a global level and the recycling of lead from used batteries is improving profitability. The company expanded its recycling capacities with plants in Serbia and Romania that encompass local markets. As a consequence Monbat provides itself with lead and polypropylene, which together form the bulk of production costs. The firm invests in modern equipment and technologies for recycling and manufacturing, which makes her very competitive in both local and international markets.

QUALITY AND ENVIRONMENT CONTROL

The company has special emphasizing on environmental problems

Monbat has been awarded the international certification ISO 9001 for quality management system in 2002. The company is in compliance with AQAP 2110 certificate that contains the NATO requirements for quality. ISO 14001 is the internationally accepted standard that sets out how a company can put in place an effective Environmental Management System. The standard is designed to address the delicate balance between maintaining profitability and reducing environmental impact, which includes every segment of the organization for accomplishing both targets.

In addition, Monbat is in compliance of OHSAS 18001 – the internationally recognized assessment specification for occupational health and safety management systems. It has been developed by leading trading and certification organizations on the basis of international standards and is targeted at a market,

which until now has been lacking a single policy measure. OHSAS 18001 has been designed to be compatible with ISO 9001 and ISO 14001, to help meet health and safety obligations in an efficient manner.

PRODUCTS

Starter batteries

The main function of the starter battery is to secure the needed electricity for the starter during engine ignition and to maintain the engine operation for a short period of time. The application of batteries cover the entire range of passenger and commercial vehicles, heavy duty trucks and agricultural machines, operating in normal and harsh environmental conditions. Most car batteries are maintenance-free.

Stationary batteries

The "MVR" product range has application in telecommunication, industrial UPS and in large transports such as ships and locomotives. They have a compact and are unified with the standards for such use, which makes them compatible with a wide range of industrial systems. The batteries work on 2-, 4-, 6- and 12-Volts, from 50 to 600 Ah. The working life of the batteries is 12 years.

Semi-traction batteries

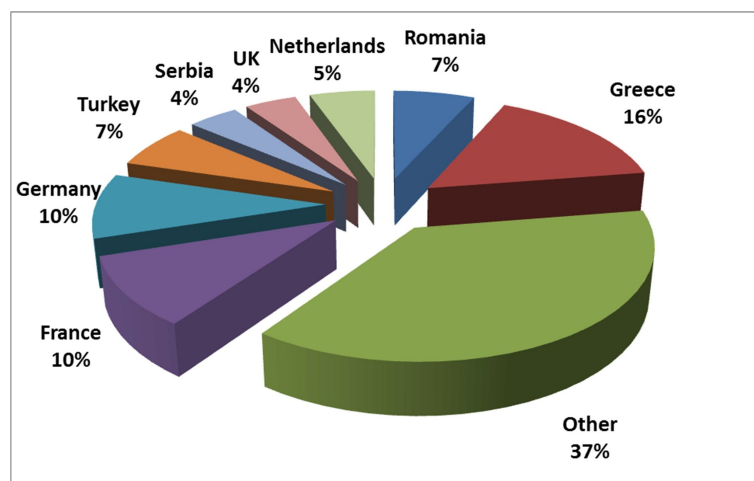
Used for various applications like small traction, solar systems, cleaning machines, lifting devices and lighting. Batteries are specifically designed for applications requiring a permanent and long lasting supply of electrical energy. They have high resistance to deep and repeated discharge cycles, which guarantees long service life.

Locomotive batteries

Locomotives starter batteries are designed for diesel engines initial cranking and to provide electronic and control circuits' power supply for electro locomotives. They usually consist of several smaller batteries, connected serially to each other after being installed in the corresponding machinery. The batteries are designed and constructed in a way that highly increases their shock and vibration resistance.

MARKET STRUCTURE

Chart 1: Structure of revenues for export



Balkan countries has rising importance for sales

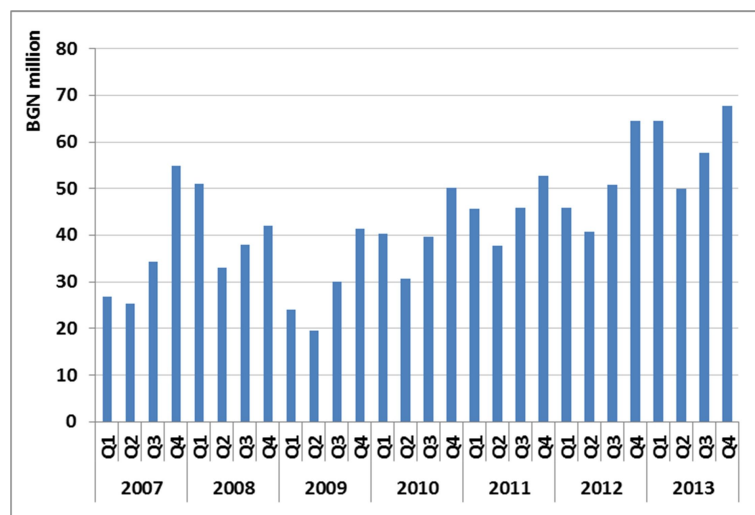
The importance of neighboring markets is rising substantially. Despite the economic difficulties in the Balkans, Monbat is reporting sizable improvement of revenues to neighboring countries. Sales to Romania jumped by 136% in 2013. Among larger EU markets Germany is rising by 43% last year, whereas sales to

Netherland jumped 75%. The company recorded large decrease of sales to Poland.

The country diversification of Monbat is the consequence of the strategic goal to maintain presence on many markets. Thus the company is limiting the country risk.

FINANCIAL ANALYSIS

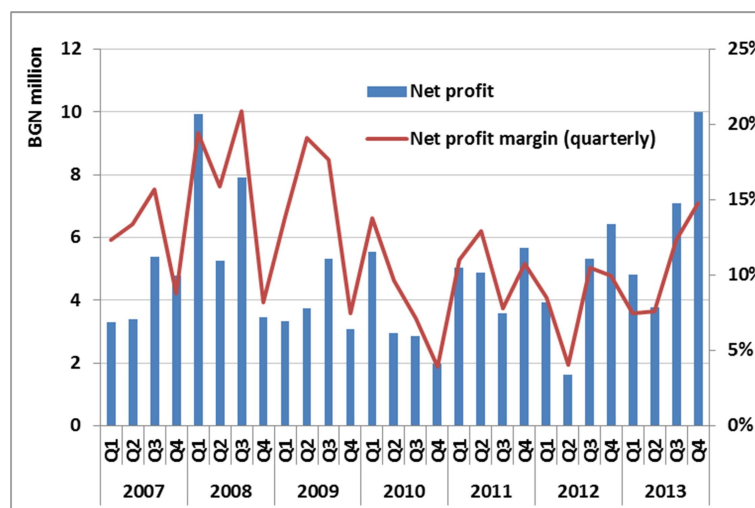
Chart 2: Revenues



Revenues will continue to rise steadily

Monbat is gaining market share in the neighboring countries, which is supporting the growth of revenues last year. Previous year's considerable change in geographical structure of sales led to a slowdown. The underlying reason can be found within Europe's stagnating economies. The second half of 2013 showed acceleration in Western Europe. The growth is organic as lead price is relatively stable.

Chart 3: Net profit



Profitability depends on the price of lead

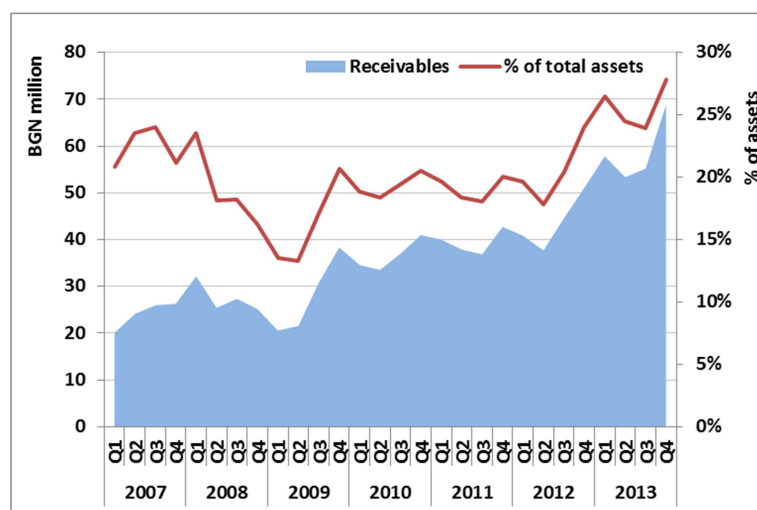
The profitability is improving as compared to a year ago. Material costs as percentage of revenues are at stable level. Depreciation costs also stabilized to BGN 2.5 million per quarter and will likely remain around 5% of revenues. The company invested in new recycling facilities that recently began to gradually in-

crease their production. Higher price of lead will result to better profitability of recycling. Comparing the individual report to the consolidated profit of Monbat, it is obvious that recycling business has less contribution for the total profit as compared to historical averages. This is the reason to consider that the company would improve further its profit margins.

Monbat's shift to Turkey and Greece as the most important markets is accompanied with more competitive end-user prices. Nevertheless, the company is benefiting from the larger scale of production that can be seen in the share of depreciation or labor costs to total revenues.

Latest report of Monbat revealed increase of consolidated revenues in February on yearly basis, although sales for the two months of 2014 were unchanged. We expect that the company will maintain its positive trend in both revenues and profits.

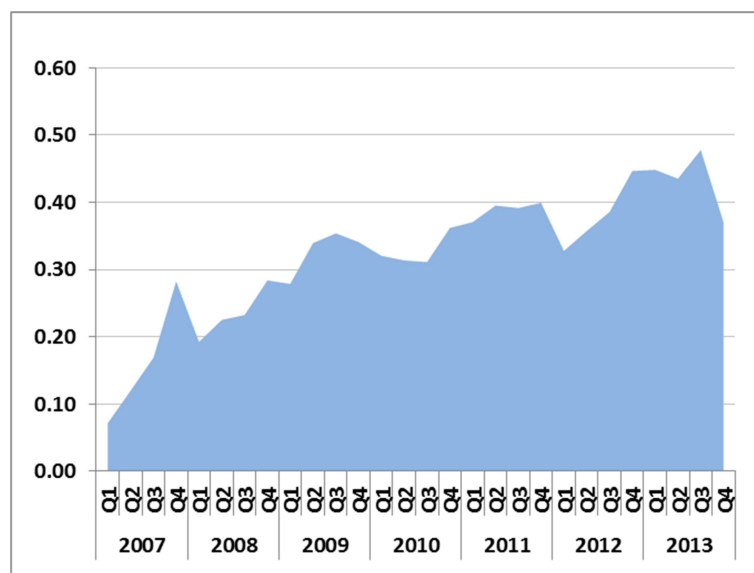
Chart 4: Receivables



Receivables are growing roughly in line with revenues

We are giving special attention to receivables as the company is exporting to many countries. Receivables are growing during the last twelve months roughly in line with the increase of revenues. Their share of total assets is not representative for the risk as Monbat did not increase its assets during the same period. Trade accounts receivables are maintaining their level in current assets and we don't expect any difficulties regarding the payments from clients in the countries with high growth of Monbat's sales. Export sales are insured in the government agency for export insurance.

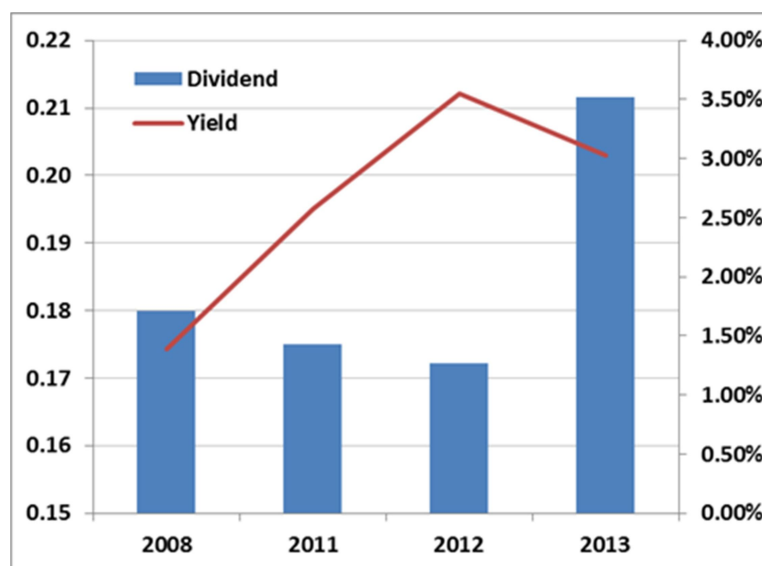
Chart 5: Debt-to-equity



Debt-to-equity ratio of 0.40 is the average for the last three years

Debt increased to 45% of equity last year before decreasing below the 40% threshold at the end of 2013. The growth came after two years of stability of the ratio. The rising production capacity and the substantial investments of the company are the reason behind the increase in debt. The firm has no problems with servicing its bank loans.

Chart 6: Dividend payments



Dividend yield will decrease as the stock price jumped

Dividend payments were suspended during the economic crisis. Monbat increased the dividend payment last year by a quarter due to the stable profits and the already finished large recycling facilities in Serbia and Romania that are not requiring additional capital injections. The dividend yield was 3% last year and we expect that the company will maintain at least the nominal level of the payment.

VALUATION

The table presents the main valuation multiples of Monbat, calculated with consolidated results for each year.

Table 1: Multiples comparison

	2011	2012	2013
Last Price	5.25	4.69	8.82
Number of Shares	36 743 111	36 370 264	39 000 000
Market Capitalization	192 901 333	170 394 687	343 980 000
Net Profit	19 156 000	17 307 000	25 691 000
P/E	10.07	9.85	13.39
Equity	135 063 000	126 524 000	162 106 000
P/B	1.43	1.35	2.12
Sales	182 078 000	202 068 000	239 700 000
P/S	1.06	0.84	1.44
EV	237 018 333	224 262 687	396 353 000
EBITDA	33 141 000	29 425 000	41 800 000
EV/EBITDA	7.15	7.62	9.48
RoE	14.18%	13.68%	15.85%
RoA	8.97%	8.14%	10.38%

Monbat did improve its financial performance substantially but the market reacted even stronger. The market capitalization of the company increased also as the company sold its treasury shares. Multiples are higher as compared to the previous two years and are roughly in line with the valuation ratios of other Bulgarian industrial companies.

We consider the stock fairly valued at current levels as local investors are focused on profit-related multiples. Further increase of P/E ratio is not impossible but it will require positive news from the company.

Table 2: Comparison to peer group

	P/E	P/B	P/S	EV/EBITDA
NIPRESS	5.89	0.86	0.22	
GS YUASA CORP	44.80	1.73	0.72	11.56
GLOBAL & YUASA	9.86	1.07	0.75	4.51
FURUKAWA BATTERY	12.25	1.73	0.50	7.16
THAI STORAGE BAT	14.53	0.96	0.24	0.00
AMARA RAJA BATT	23.00	6.22	2.23	13.78
MUTLU AKU	13.33	2.88	1.16	9.82
JOHNSON CONTROLS	16.66	2.72	0.75	9.73
Share price of Monbat	11.55	9.44	5.05	8.76

Comparison to peers is
valuing Monbat at BGN
8.70

Comparing Monbat to the average multiples of several producers of stationary and car batteries, the fair value of the Bulgarian stock is varying substantially from BGN 5.05 to BGN 11.55, according to the latest financial data of the company. Although the number of peers is very limited, the comparison is suitable

and the value of Monbat is BGN 8.70.

Table 3: Comparison to industry

Mutiples	P/E	P/B	P/S	EV/EBITDA
Median	18.74	1.37	0.78	9.09
Market Capitalization	481 390 687	222 589 370	185 993 777	327 480 508
Price	12.34	5.71	4.77	8.40
Weight	30%	20%	20%	30%
Current Price	8.82			
Fair Price	8.32			
Premium (Discount) to Current Price	-5.70%			

*Comparison to industry
is valuing Monbat at
BGN 8.32*

The larger sample of companies worldwide is resulting to more realistic fair price then the comparison to the few battery producers. We believe that this valuation method is more justified, taking into account the state of the wider industry sector or the market as a whole. The weight of profit related multiples P/E and EV/EBITDA is higher as Monbat is attractive with its dividend yield and margins rather than being cheap in terms of net assets.

Table 4: Discounted cash flows

Monbat BGN'000	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Terminal Year
EBIT	37 393	46 742	55 155	61 774	67 951	73 387	78 524	83 236	87 397	90 893	94 074
EBIT(1-T)	33 654	42 067	49 639	55 596	61 156	66 048	70 672	74 912	78 658	81 804	84 667
Add: D&A	12 944	16 180	19 092	21 383	23 521	25 403	27 181	28 812	30 253	31 463	32 564
Less: Investments	14 382	17 978	21 213	23 759	26 135	28 226	30 202	28 812	30 253	31 463	32 564
Less: Change NWC	6 314	12 944	11 649	9 164	8 553	7 527	7 113	6 524	5 762	4 840	4 559
FCF	25 901	27 326	35 869	44 056	49 989	55 699	60 539	68 388	72 895	76 963	80 108
PV FCF	23 126	21 784	25 531	27 998	28 365	28 219	27 385	27 621	26 287	24 780	
Sum of PV FCF	261 096										
PV of Continuing Value	303 443										
Total PV Free Cash Flows	564 539										
Less: Outstanding Debt	60 047										
Plus: Financial Assets	7 674										
PV of Equity	512 166										
Number of Shares	39 000										
Price Per share	13.13										

RECOMMENDATION AND PRICE TARGET

Recommendation: BUY
Target Price: 10.00
BGN
Increase: 19%

The valuation from the discounted cash flows method shows a relatively high share price – BGN 13.13. This is the reason for the **BUY** recommendation and to hold the stock on the long run. The company will probably be paying out dividends regularly and we expect that financial results will exploit the global recovery and the future increase of lead price. The target price is average from the three models or BGN 10.05.

Monbat's shares are one of the few on the Bulgarian market that combine the advantages of low risk for capital investments together with growth perspectives. They proved to be good investment in 2013 and will continue to.

Financial Data

Statement of Income (in '000 BGN)	2010	2011	2012	2013
Sales	160 994	182 078	202 068	239 700
Production expenses	125 420	134 173	158 441	182 819
Personnel expenses	11 971	14 656	13 996	14 448
Net income from financial activities	(99)	(116)	(775)	(1 274)
Other revenues and expenses	0	8	569	641
EBITDA	23 504	33 141	29 425	41 800
Depreciation	6 111	8 718	10 323	10 579
EBIT	17 393	24 423	19 102	31 221
Interest expense	2 279	2 841	2 549	2 695
Pretax income	15 114	21 582	16 553	28 526
Taxes	2 484	2 529	1 846	3 516
After-tax income	12 630	19 053	14 707	25 010
Minority interest	(152)	(103)	0	0
Net income	12 782	19 156	17 307	25 010
Earnings per share in BGN	0.34	0.52	0.48	0.64

Balance Sheet (in '000 BGN)	2010	2011	2012	2013
Total Assets	199 717	213 441	212 565	247 574
Equity subscriptions receivable	0	0	0	0
Fixed assets	114 187	125 569	115 744	117 873
Tangible fixed assets	110 739	121 918	113 650	116 356
Financial investments	8	8	8	8
Current assets	85 530	87 872	96 821	129 701
Inventory	42 624	40 836	42 861	52 943
Receivables	40 972	42 735	51 090	68 835
Financial assets	0	0	0	0
Cash and cash equivalents	1 634	4 108	2 626	7 674
Total liabilities + equity	199 717	213 441	212 565	247 574
Equity	126 426	135 063	126 524	162 106
Registered capital	37 326	36 858	36 377	39 000
Capital funds	78 196	83 187	74 353	90 802
Earnings	10 904	15 018	15 794	32 304
Liabilities	73 291	78 378	86 041	85 468
Long-term payables	4 747	18 181	6 640	5 368
Long-term bank loans	17 647	13 461	10 895	10 813
Short-term bank debt	28 104	40 286	45 599	49 234
Short-term payables	19 869	16 504	22 184	19 761
Other liabilities	266	670	996	1 246
Working capital	37 557	31 082	29 038	60 706

Cash Flow Statement (in '000 BGN)	2010	2011	2012	2013
Net income	12 782	19 156	17 307	25 010
Depreciation	6 111	8 718	10 323	10 579
Changes in Working capital	(8 137)	(6 475)	(2 044)	31 668
Other operating cash flow items	2 662	3 721	(4 601)	(42 684)
Net cash from operating activities	13 418	25 120	20 985	24 573
Capital expenditures	(15 877)	(19 518)	(7 628)	(12 798)
Other investing cash flow items	(2 318)	(3 042)	(5 052)	(18 680)
Net cash from investing activities	(18 195)	(22 560)	(12 680)	(31 478)
Issuance/ Retirement of Stock, Net	(1 830)	(3 039)	(2 474)	16 617
Issuance/ Retirement of Debt, Net	5 458	8 637	(1 786)	1 538
Dividends paid	(130)	(1 821)	(1 679)	(1 976)
Other financing cash flow items	(2 927)	(3 863)	(3 747)	(4 226)
Net cash from financing activities	571	(86)	(9 686)	11 953
Net change in cash	(4 206)	2 474	(1 381)	5 048
Beginning-of-period cash	5 840	1 634	4 007	2 626
End-of-period cash	1 634	4 108	2 626	7 674
Cash per share	0.04	0.11	0.07	0.20

Financial and Performance Indicators	2010	2011	2012	2013
Valuation Ratios				
Price/Earnings (P/E)	18.40	10.17	9.86	13.75
Book Value (BV)	3.39	3.64	3.48	4.16
Price/Book (P/B)	1.86	1.44	1.35	2.12
Sales Per Share	4.31	4.91	5.56	6.15
Price/Sales (P/S)	1.46	1.07	0.84	1.44
Price/Cash per share	12.45	6.99	6.17	9.67
EV (in BGN)	279 268	244 388	224 445	396 353
EV/Sales	1.73	1.34	1.11	1.65
EV/EBITDA	11.88	7.37	7.63	9.48
EV/EBIT	16.06	10.01	11.75	12.70
Liquidity				
Current ratio	1.78	1.55	1.43	1.88
Quick ratio	0.89	0.83	0.80	1.11
Debt Management				
Debt to total assets	0.37	0.37	0.40	0.35
Interest coverage	7.63	8.60	7.49	11.58
LT Debt/Equity	0.18	0.23	0.14	0.10
Total Debt/Equity	0.58	0.58	0.68	0.53
Asset Management				
Inventory turnover	3.78	4.46	4.71	4.53
Days sales outstanding	92	84	91	103
Fixed asset turnover	1.41	1.45	1.75	2.03
Total asset turnover	0.81	0.85	0.95	0.97
Profitability				
Profit margin on sales	7.9%	10.5%	8.6%	10.4%
EBITDA margin	14.6%	18.2%	14.6%	17.4%
Basic earning power	8.7%	11.4%	9.0%	12.6%
Return on assets	6.4%	9.0%	8.1%	10.1%
Return on equity	10.1%	14.2%	13.7%	15.4%
Return on investments	8.6%	11.5%	12.0%	14.0%
Dividend Information				
Dividend Yield	2.78%	3.28%	4.51%	13.74%
Dividend per share	0.18	0.17	0.21	1.21
Number of shares:				
	37 325 585	37 095 139	36 370 264	39 000 000
Price in BGN - period end:				
	6.30	5.25	4.69	8.82
Market cap in BGN - period end:				
	235 151 186	194 749 480	170 576 538	343 980 000

Disclaimer

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.

Financial Interest: ELANA Trading may trade or own shares of the analyzed companies. The research analyst(s) is not holding shares of the analyzed companies, unless otherwise noted.

Regulatory Authority: Financial Supervisory Commission, *Budapest* Street 18, 1303 Sofia, Bulgaria

Information Disclosure: All reasonable care has been taken to ensure the facts stated are accurate and opinions given are fair and reasonable. Our recommendations are based on information available to the public that we consider to be reliable but for the completeness and accuracy of which we assume no liability. Neither ELANA Trading, nor its directors, officers or employees shall in any way be responsible for its contents. The views expressed may differ from the views of other firm departments or representatives. Additional information is available upon request. Unless otherwise noted, sources for all information in charts and tables are ELANA Trading's calculations.

Risks for Investors: Information in this document should not be regarded as an offer to buy or sell any financial instruments. The investment possibilities discussed in this document may not be suitable for certain investors depending on their specific investment objectives and time horizon or in the context of their overall financial situation. In particular, the risks associated with an investment in the securities or the financial instruments under discussion are not explained in its entirety.

The prices or values of the securities may go down as well as up and can fluctuate and fall against the investor. The securities or investments may cause the investor to lose the amount invested. Past performance is not a guide to future performance. Changes in exchange rates may have an adverse effect on the value, price or income of the securities or investments.

Valuation Methods: Company valuations are based on the following methods: multiple-based (P/E, P/B, EV/EBITDA), historical valuation approaches, peer comparisons, discount models (DCF, DDM) or asset-based evaluation methods. Valuation models are dependent on macroeconomic factors, including interest rates, foreign exchange rates, prices of raw materials, and any expectations about the economy, the market sentiment. The valuation is based on expectations that might change rapidly and without notice, depending on developments specific to individual industries and countries. Recommendations and target prices derived from the models might therefore change accordingly. The application of models depends on forecasts of a range of economic variables, thus there is a range of reasonable variations within models. Any valuation is dependent upon inputs that are based on the subjective opinion of the analysts carrying out this valuation.

Recommendations: Analyst(s) recommendations are based on the specific factors for the company, sector, country and global developments, as compared to market indices. Recommendations and opinions reflect ELANA Trading's expectations over the 12-month period following publication from the perspective of long-only investment clients. ELANA Trading reserves the right to express different or contrary recommendations and opinions for different timescales or for other types of investment client. Except as otherwise noted, expected performance over next 12 months vary for different recommendations for Bulgarian stocks as follows:

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

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.

Copyrights: The copyrights of ELANA Trading analyses belong to the Research Department of the brokerage and their content cannot be used for commercial purposes. Replication and redistribution of ELANA Trading analyses content is expressly prohibited without the prior written consent of the appointed contacts listed below.

For more information, please contact:

Research analyst
Tsvetoslav Tsachev
Lyubomir Peshev

Phone:
+359 2 810 00 23
+359 2 810 00 27

E-mail:
tsachev@elana.net
peshev@elana.net

Internet:
www.elana.net
www.elana.net