

On the eve of big changes

Recommendation: BUY

1 year target BGN 35.00

Stock price: **BGN 23.91**
 Bloomberg code: **OSP BU**
 Industry: **Air Freight and Logistics**
 Number of shares: **4 446 600**
 Free-float: **6.1%**
 Market capitalization: **USD 74 m/BGN 106 m**
 Average daily turnover: **USD 21,550**
 1 year change: **+34%**
 1 year range: **BGN 17.20-25.90**

*1 Euro=1.95583 lev

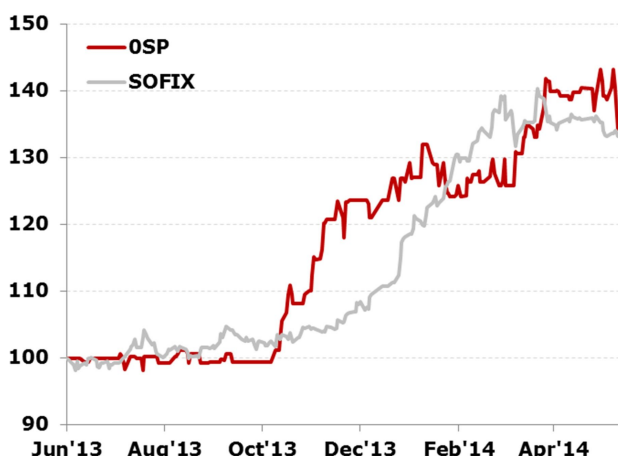
SHAREHOLDER STRUCTURE

Speedy Group: **93.9%**
 Other: **6.1%**

FORECASTS AND VALUATION

BGN'000	2013	2014F	2015F	2016F
Revenues	66,289	106,062	121,972	137,218
EBITDA	3,176	18,031	21,345	24,699
EBIT	10,268	13,258	16,161	19,211
Net profit	8,827	11,527	13,877	16,358
EPS	1.99	2.16	2.60	3.07
Equity	14,933	41,151	48,089	56,268
EV	99,256	139,104	129,068	117,706
P/E	11.08	11.57	9.61	8.15
P/B	6.55	3.24	2.77	2.37
EV/EBITDA	7.38	7.71	6.05	4.77
RoE	59.11%	28.01%	28.86%	29.07%
Dividend yield	4.55%	4.32%	5.20%	6.13%

STOCK PERFORMANCE



1M	3M	YTD	12M
-3.20%	8.09%	8.68%	34.33%

What has changed

Forthcoming entry of big strategic investor - GeoPost (2-th largest in EU) will buy 25% of the capital of Speedy. Entry is via planned capital increase for 20%, rest from the majority shareholder. GeoPost have option for majority stake in 2020.

Capital increase in the next three months. Amount is BGN 20 million, issue price is BGN 23. New shares are 889 320 to total 5 535 920.

Capital raised will fund the acquisition of GeoPost's operations in Bulgaria and Romania. Prices for both deals that in fact will merge Speedy and Geopost in Bulgaria and Romania are calculated at EV/EBITDA of 8. Median EV/EBITDA for the sector is 9.98.

After merge sales will increase by 60%, creating one of the largest courier company on the Balkans.

See p.14

Investment point and outlook

Deals will strengthen Speedy in two directions. First are deliveries abroad that are 8% of current revenues. Second is entry on Romanian market, where DPD Romania holds 4% shares and is 8th largest. Both will contribute for double-digit growth of revenues.

See p.3

Valuation

Estimations for 60% increase of sales in 2014, followed by 12-15% growth. EBITDA margin – 17-18%. Multiples are close to market averages. Comparison to peer sector is valuing the stock at BGN 35.00, not including capital increase and acquisitions. DCF model results to intrinsic value per share of BGN 48.40, taking into effect capital increase and new assets. One year price target is BGN 35.00.

See p.17

Risks

Currently the domestic market is responsible for over 92% of the company's revenue, but we expect the share of foreign markets to increase in upcoming years. Although the Bulgarian economy continues to operate below its potential, the recovery is already in progress. We do not see significant political or macroeconomic risks, as improvement of the economic environment both in Bulgaria and EU (expected GDP growth of 1.8% – 2.5% in 2014 and 2015 for Bulgaria and 1.6% - 1.8% for EU) will support the courier business and will weaken the risk of default by contractors or delay of payments. Currently, there are no expectations about new regulatory requirements that could lead to some restrictions and additional expenses.

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I. INVESTMENT SUMMARY

We confirm the **BUY** rating of Speedy with price target of BGN 35.00 with one year horizon. This is representing a 12-month return of 45%, including the effect of 4% dividend yield as the ex-dividend date is May 27th.

Potential catalysts

- Entry of GeoPost, second largest courier company in Europe, subsidiary of La Post Group. Target stake is 25%, with the option to expand its stake to majority ownership in 2020
- Significant capital raise of BGN 20 million that will be used to finance the acquisition of assets in Bulgaria and Romania, operated by GeoPost
- Integration of DPD Romania, the fourth largest courier company in Romania with 4% market share and synergy effects for the operations in both countries
- Integration of GeoPost Bulgaria, specialized company in international deliveries from and to Bulgaria
- Network of points for servicing individual clients that was expanded via partnerships with small businesses around the country
- Operating on high growing market with expected annual increase in Bulgaria between 6 and 10%
- E-commerce as leading catalyst for deliveries with expected double-digit growth annually for the next few years

Advantages

- Market leader in terms of courier and integrated logistic services in Bulgaria, 27% market share in courier services
- Partnership with European leader in land transportation DPD and further synergy effects as partner of the group. Fast growing deliveries abroad with 23% increase during the first quarter
- Experience into outsourcing transportation services of corporate customers, with specialized vehicles and warehouses
- Large investments in vehicle and warehouses to increase efficiency
- Focus on corporate clients, which generate the majority of the orders
- Implementing decisions that are new for the market and is followed by its competitors
- Two main advantages – the most advanced IT infrastructure in the country and very well-trained and motivated staff. Clear and efficient control systems

Balance sheet

- High profit margins due to the lucrative market of courier and transportation services as the company is maintaining prices that correspond to average levels. Expected profit margin for 2014 is 11%
- Double-digit growth of revenues, supported by expansion of services and presence in the country. Sales grew by 22% in 2013 and are expected to increase by 12-15%, excluding the effect of acquisitions
- Stable payout ratio of 0.5 that contributes to rising dividend payments. Current dividend yield is 4.2%
- Low debt level as the capital raise is expected to lower debt-to-equity

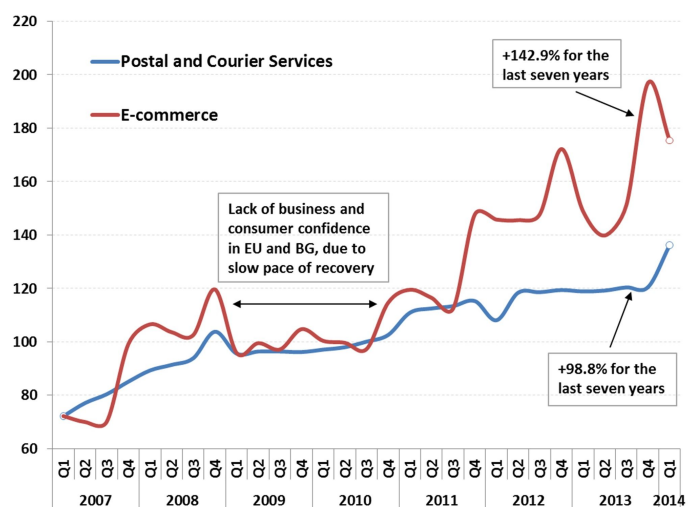
ratio to 0.52 in 2014 from 0.68 in 2013

Valuation

- Valuation by comparing to industry or peers is resulting to fair price that is 15% above the current quotes, not taking into account the capital increase and new assets. Trailing EV/EBITDA is 8.5, compared to 10 for sector
- We use a discounted cash flow (DCF) methodology to value Speedy's shares. We value the stock at BGN 41.30 per share, taking into consideration the forthcoming capital increase. Our price target is BGN 35.

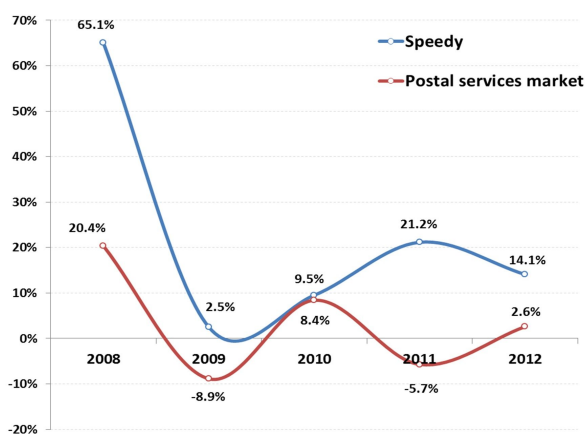
SPEEDY IN FIGURES

Fast growing market of postal and courier services that is exceeding significantly the GDP growth in Bulgaria. Online shopping to fuel the growth of delivery market in upcoming years



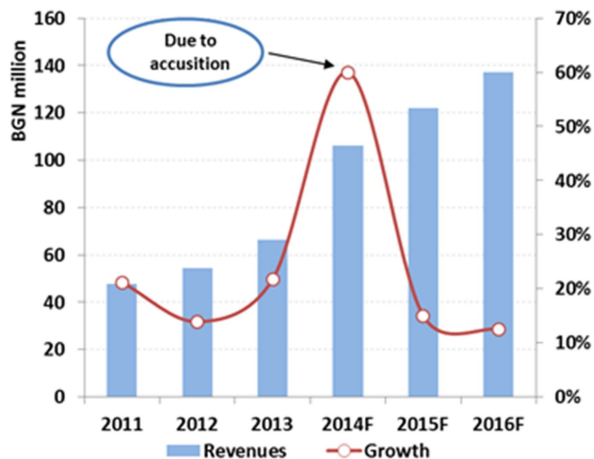
Source: National Statistical Institute, indices of postal and courier services and e-commerce

Revenue growth of Speedy - stable above that of postal services market in Bulgaria. Strong companies' market advantages and innovative business decisions will lead to better than market performance also in upcoming years



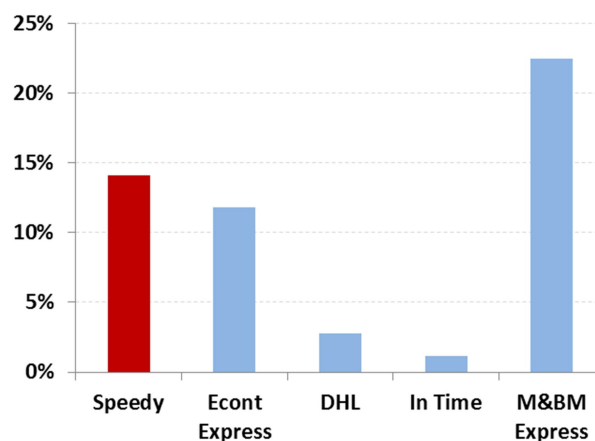
Source: Communications Regulation Commission, Speedy

60% growth of revenues after the acquisition of GeoPost's subsidiaries in Bulgaria and Romania



Forecasts: ELANA Trading

Profit margin above the average of main competitors is contributing for additional investments and leadership in prices



Source: Latest corporate reports for 2012

II. COMPANY OVERVIEW

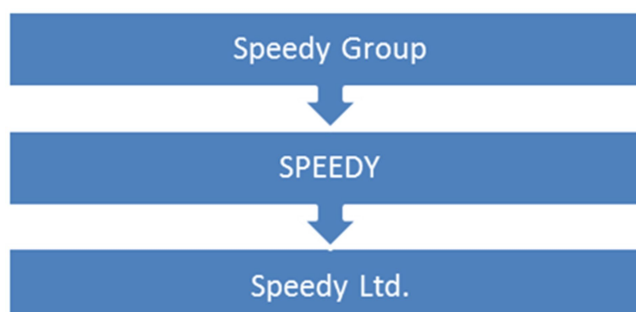
Established in 1998

Speedy is an innovative Bulgarian company in the market of door to door courier services. Since its establishment in 1998, the company proved itself as a leading courier company with a 21% market share and 26.5% share in courier services sector in the country.

The core business of Speedy is offering door to door delivery services and they hold more than 95% of the revenues for the past three years. Company's strategy is focused on servicing the transport and logistics activities of its corporate clients. The majority of the goods carried are shipments up to 6 tons.

Outsourcing transport services leads to cost optimization. This activity is expected to grow fast. Speedy uses subcontractors to transport items between cities and for delivery and acceptance of items, as well as individual companies-agents, which are serving certain areas in the country. All partners and agents work entirely within the organization standards and under the brand of Speedy and their revenues are formed by the number of processed items or the mileage. Speedy is specialized in this service and its investments in infrastructure and vehicles allow it to increase its penetration on the market.

Speedy has fully-owned subsidiary Speedy Ltd., which is its subcontractor



The public company is Speedy and since the year end of 2012 it is traded on BSE – Sofia. Its subcontractor is Speedy Ltd, which is 100% owned by the public company. Speedy Ltd. is engaged in the courier business, sorting and transport of the consignments. Speedy on the other hand, is responsible for the sales and administrative activities.

Speedy Ltd's revenues are formed entirely of its subcontractor's role. Speedy began its operations in February 2005 and since then it has a license for transportation services. The company is registered with the Communications Regulation Commission (CRC) as operator of non-universal postal services (NPS), which includes:

- Collection, transport and delivery of direct mail
- Acceptance of messages submitted in a physical or electronic form by the sender, transmitting them by electronic communications means and delivery of these messages to the addressee as postal items (hybrid mail)
- Courier services
- Money orders

Since 2005 Speedy is a certified company under the quality standard ISO 9001:2000, later replaced by ISO 9001:2008. This helps the company to in-

crease the customer satisfaction level, as 99.2% of the services in 2013 are completed within the terms of the contract. The ratio maintained its high level from the previous year. Complaints are only 0.0125% of the total shipments. Using implemented ERP system every employee can check its performance and targets. Control is performed at all levels of management, as according to the level of control it could be daily, weekly, monthly, quarterly and on a yearly basis. The company has implemented VPN (virtual private network), which provides centralized management. Hardware resources are virtualized, which minimizes cost and increases data security. Company has also GPS tracking and monitoring of the fleet in real time, guaranteeing objective information, optimizing route, car fuel and maintenance expenses.

MANAGEMENT AND SHAREHOLDER STRUCTURE

The management of Speedy proved itself as very dynamic and innovative. The company maintained its leading market share despite the changes in the market of courier services and the presence of large international players (such as DHL and TNT). Speedy is public listed since November 2012 and is gradually increasing its free-float and liquidity. The largest shareholder is Speedy Group that holds 93.9% of the capital. Ownership is transparent as Speedy Group is controlled by the CEO of Speedy, Mr. Valeri Mektupchian.

MARKET POSITION

The company has 100% coverage of the country

Speedy has 100% coverage of the country to carry out its activities. The company has over 86 offices. Moreover, a program for expansion of the presence in small towns, through a partnership network, which shall enhance small shipments, while maintaining service costs low, is currently implementing. So far, more than 90 new offices are open through the Speedy parcels shop (SPS) program. This program helps Speedy to increase its logistic network by creating new delivery points in smaller shops or small offices. Speedy will not provide staff for this activity, as the service will be provided by people in the store. The service is aimed at a certain type of customers, such as small business representatives, family businesses and freelancers. The prices in SPS will be identical with the prices of getting a parcel in Speedy offices and will be lower, than a delivery to the recipient's address. Through SPS Speedy will also make the access to its services easier to individuals in line with the strong increase of e-commerce.

The company has the advantage to operate in the largest and fastest growing segments of the postal services.



Since November 2010 Speedy has been an exclusive partner to the European shipping company Dynamic Parcels Distribution (DPD) in Bulgaria, which extends its supplies by land transport in Europe as well as the delivery services world-wide.

By acquisition of DPD Romania and GeoPost – Bulgaria, Speedy will focus on the consolidation of the two markets by providing integrated logistics services to Bulgarian and Romanian customers. Speedy will have also direct access to the logistic network of DPD in EU in its capacity of full member.

WHY CLIENTS CHOOSE SPEEDY

Corporate clients prefer services of Speedy due to:

- High standards of deliveries and state of the art facilities and warehouses. Speedy operates specially designed software that allows tracking of packages in real time
- Large scale operations and services, including pallet deliveries, that can satisfy the needs of big corporate clients
- The partnership with DPD provides cheap and fast land transportation services abroad
- Constant two-way customer communication

Individual clients choose Speedy as:

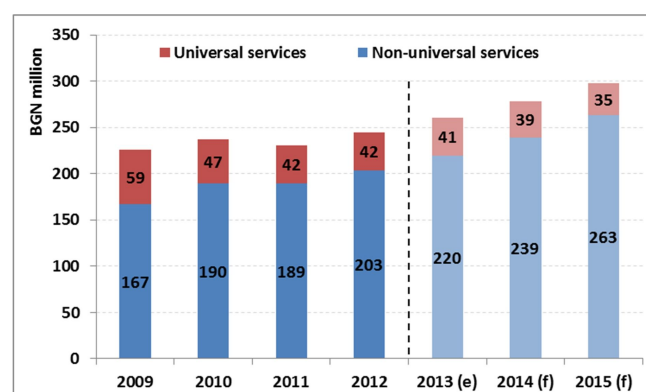
- Well-known brand with large network of access points in the country
- Very low level of parcels with problems – 0.0125%, which mainly constitutes of delays in deliveries
- One competitive price for all locations in Bulgaria as Speedy is covering the whole country
- Special service of delivery for two days at low price
- Additional package of services to facilitate the deliveries

III. BULGARIAN COURIER AND POSTAL MARKET

*Fragmented market
but leaders have large
shares*

The postal services market in Bulgaria is fragmented among a large number of participants. Access to the market and its leaving is easy, due to relatively low cost to start a business and the lack of license fee. The top 15 companies carried over 90% of the deliveries.

Revenues



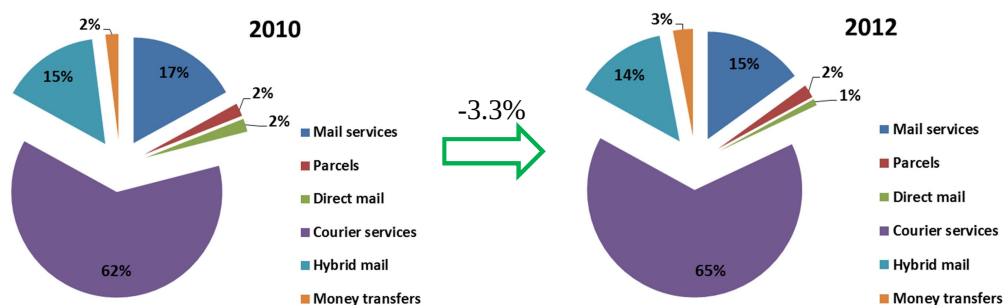
Source: Communications Regulation Commission, Elana estimates

The market will grow faster than the overall economy with 6-8% annually

After the slight annual increase in 2012 of 2.6%, Bulgarian postal service market is expected to continue to increase gradually during in the period 2013-2015, registering around 6% - 8% y-o-y growth. The main growth drivers will be the increasing share of e-commerce in the country and the service "direct mail", which is used for marketing purposes. We expect the steady downward trend in the universal postal services to continue. For the period 2009-2012, universal postal services declined 29% in revenues to BGN 41.7 million per annum. Their share fell at the expense of an increase in non-universal postal services, which according to the latest data, hold 83% of the postal services in the country.

MARKET SEGMENTS

Structure of services, share of revenues



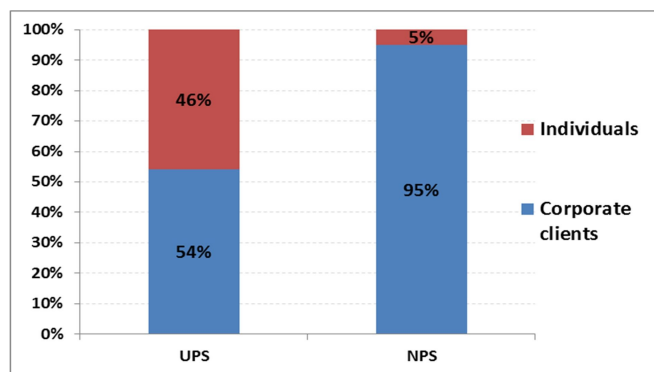
Growth of courier services, while the demand of traditional postal services decreases

Courier services take increasing part in the structure of postal services and reach 65% of the total revenues in the sector for 2012. Revenue from the service reached BGN 161 million in 2012, increasing by 7.7% compared to the previous year and by 8.4% compared to 2010. 73% of them are revenues from domestic services, but the share of deliveries abroad is increasing gradually (from 24% in 2010 to 27% in 2012).

The second largest segment is mail services with 15% market share (BGN 37 million) in the postal market as it lost 2 percentage points compared to 2010. This service reports a decrease in revenues by 8% compared to 2010, mainly due to the competitive services of courier companies.

With similar market share is the Hybrid mail (BGN 34 million), which constitutes printing and distribution of utility bills to utility companies' clients. The decline in revenues of this segment is by 3.5% compared to 2010 and it is mainly due to the transition to e-bills. Money transfers represent 3% of the market revenue (BGN 7.3 million), while parcels (up to 20 kg.) and direct mail advertisement represents the smallest share of market revenue - 2% and 1%, respectively.

Demand of postal services



Corporate clients are essential for NPS

Market trends show several persistent patterns. The first one is the importance of NPS for the market of postal services development and particularly for courier services. The demand for universal postal services gradually fall at the expense of the advent of Internet technology and the conditioned by services such as hybrid mail, e-commerce and more.

The second trend is the importance of corporate clients. This trend is even more valid for NPS, where 95% of total number of clients in 2012 was corporate clients, compared to 86% a year ago. The higher share is due to the strong increase of online trading.

MARKET SHARE OF SPEEDY

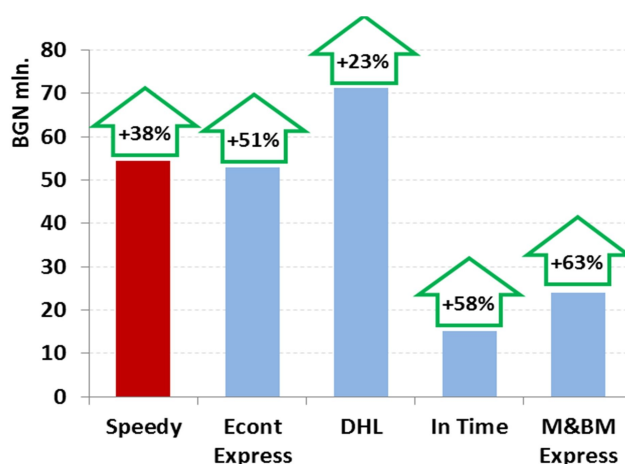
Speedy is aiming at further expansion

Speedy is a leading company in the NPS with a market share around 27% and 21% of the total market for postal services, according to the company estimates. Speedy is growing at a faster pace than the market, due mainly to attractive pricing and excellent customer service, as for the last five years the growth of the company's revenue is constantly greater than the total growth of the market. Compared to 2008 the Speedy registers 55% revenue increase, while the postal services market declines by 4%. Growth is from existing market and development of new products like international land shipment and local parcel services.

It should be noted that Speedy is not presented on the market of universal postal services (UPS), which is mainly occupied by the state-owned Bulgarian Posts. That's why Speedy is not gaining market share from the contraction in revenues of Bulgarian Posts, due to the fact that the services overlap of the two companies is very low.

Speedy's main competitor is Econt Express Ltd, which possess a similar market share but is focused on small shipments and deliveries from and to individuals. Two of the companies – DHL and In Time - have significant revenues from deliveries abroad or air freight and their total results don't correspond to the market segment of Speedy. The company growth is supported by e-commerce. The various initiatives of Speedy for better positioning in the services for individual clients and online shopping is supporting the expectations for faster revenues growth, while maintaining or improving profit margins.

Revenue in 2012 (BGN) and revenue growth compared to 2010 (%)



Source: Corporate reports for 2012

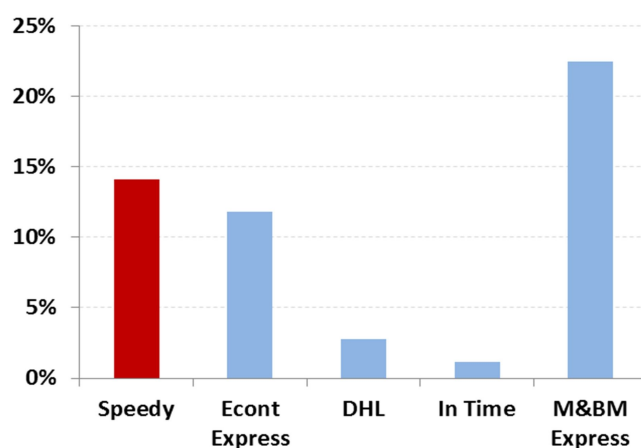
Over 94% of the company's revenue comes from courier services

Over 94% of the company's revenue is generated from courier services, as the domestic market has the major share. Speedy has license for postal money transfers since 2012 but this segment has insignificant contribution to its revenues.

COMPARISON TO BG PEERS

Speedy maintains better profitability as compared to its peers for the last few years. The company reported stable improvement of its margins (net profit margins in the range of 13-14%) and solid growth of its net profit (166% for the period 2010-2013). Its primary competitor Econt Express has similar profit margin, whereas other largest companies rely on different segments – DHL and In Time are primary engaged in deliveries abroad, whereas M&BM Express has strong position in hybrid mail.

Profit margin



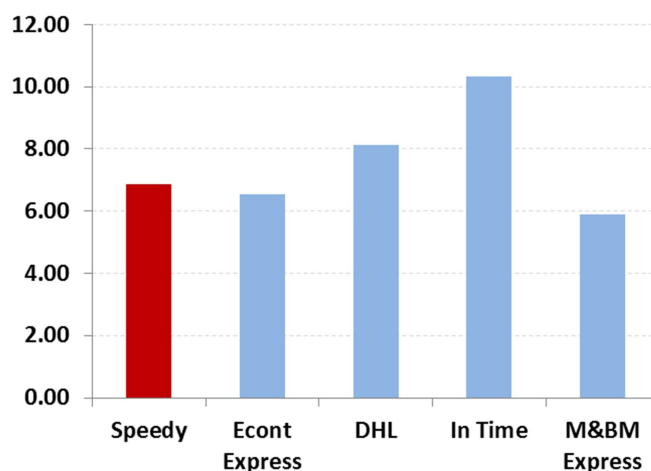
Source: Corporate reports for 2012

PRICE POLICY

Speedy maintains equal price for deliveries in Bulgaria

Speedy has competitive pricing as compared to its peers and is offering additional services and flexible deliveries.

Price for express delivery of documents in BGN



Source: Current tariffs

OPPORTUNITIES

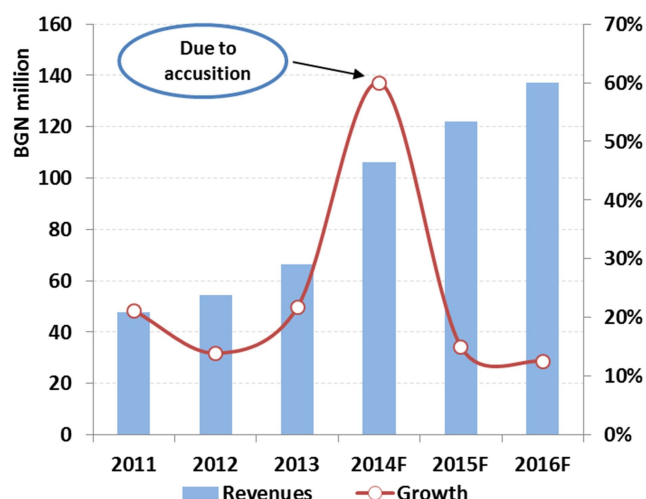
The upward trend in e-commerce is expected to increase the courier industry turnover

Globally, online shopping is one of the main drivers of the modern economy and the generated from the industry turnover increases every year. We expect that increased consumption of goods, bought via internet and better partnerships with marketing companies through the service "direct mail marketing" will be new niche for further development of the postal operators in Bulgaria. The double-digit increase in online retail trade, started in 2010, is expected to continue during the next couple of years. In 2013, the growth reached 14.4% y-o-y, according to National Statistical Institute data, as the upward trend continues in the first quarter (+17.8% y-o-y). About 60% of internet users in the country use regularly internet for shopping, as the number of internet stores is expected to increase further, according to the Bulgarian Association for e-commerce.

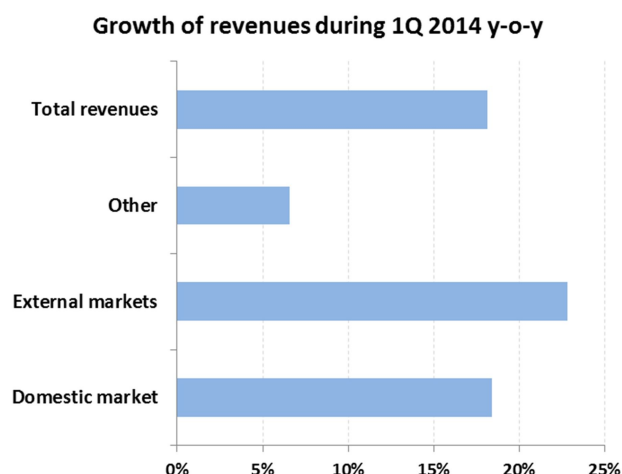
Deteriorating of the market conditions due to the financial difficulties in EU and particularly in Greece had negative impact on the sector, but ongoing recovery of Bulgaria and neighboring countries is expected to influence positively courier services market. Poor transport infrastructure and high fuel prices have a direct impact on the courier companies' costs. To limit this threat, Speedy implemented a fuel tax on its clients, thus limiting the negative effect on its profits.

IV. FINANCIAL ANALYSIS

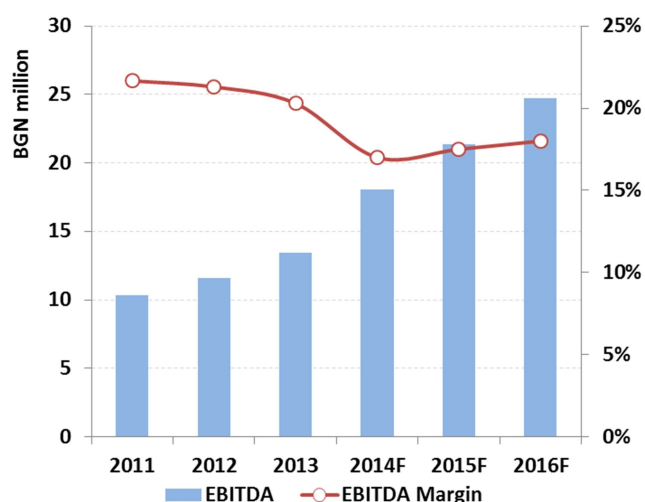
60% expected growth of revenues in 2014, followed by 12-15% annual increase



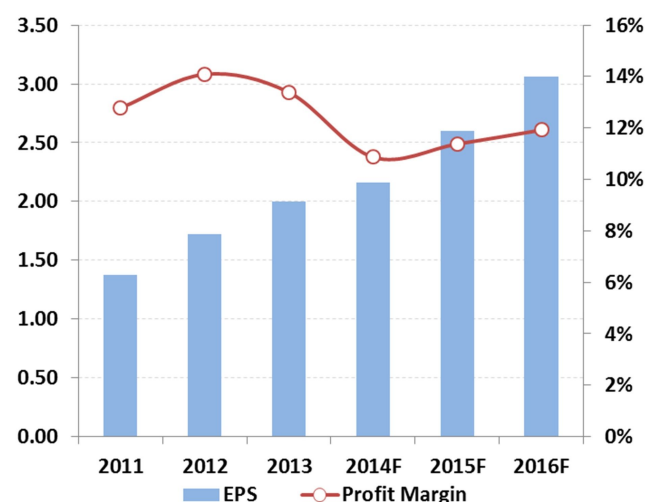
Faster growth of deliveries abroad, although they represent less than 10% of sales



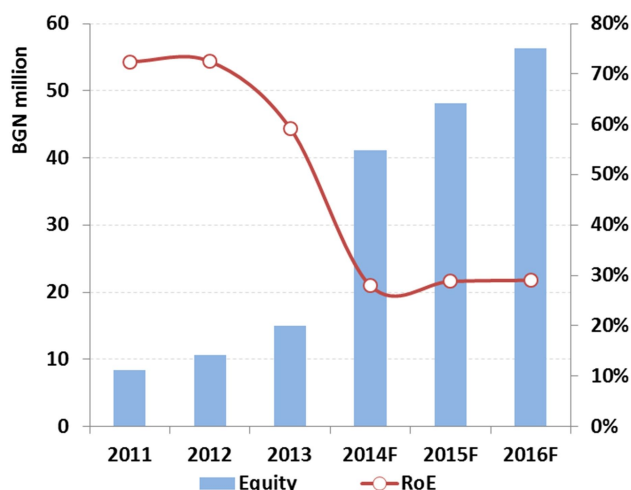
EBITDA margin is expected to decline after the acquisition but successful business model will support expansion again



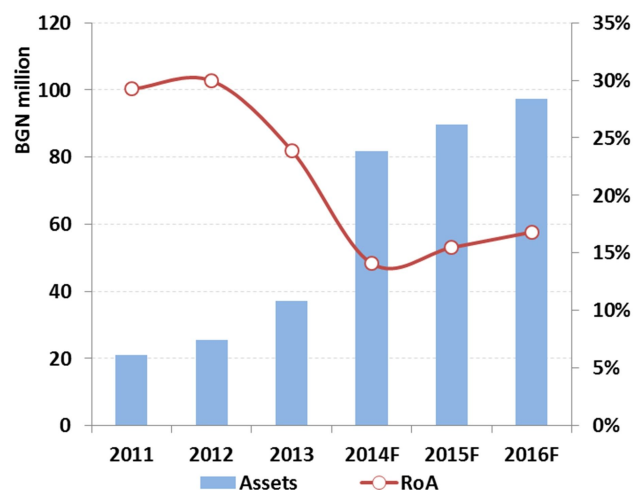
Net profit will follow the positive trend on EBITDA but profit margin will improve faster due to decrease of loans



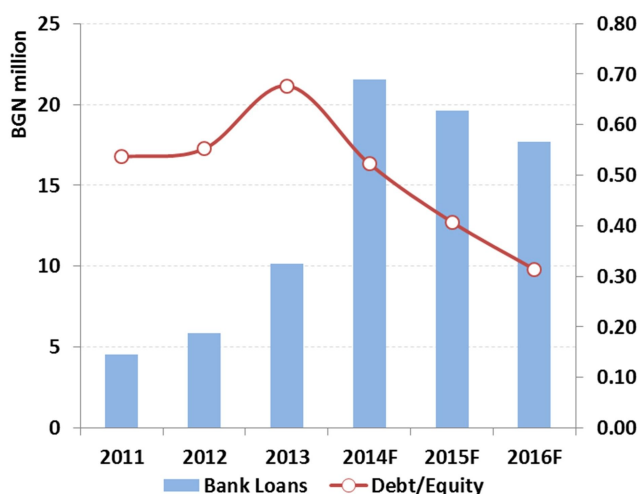
Forthcoming capital increase but stable RoE above 20% afterwards



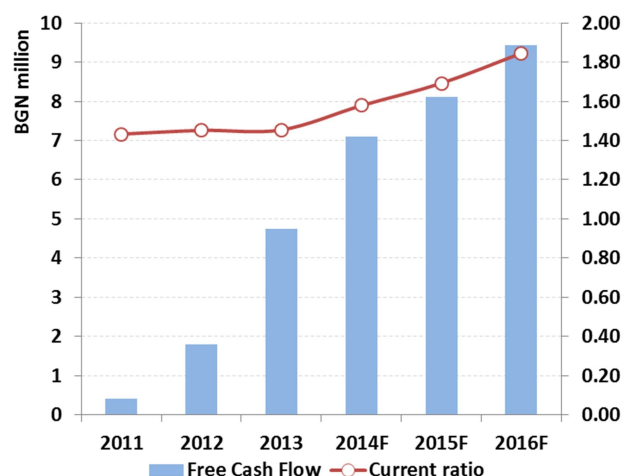
Assets growth after the acquisitions and expected RoA above 15%



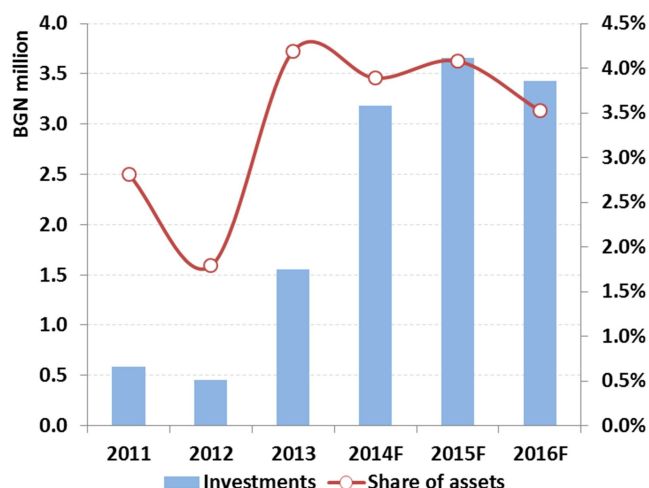
Debt/equity ratio will decline due to the capital raise this year



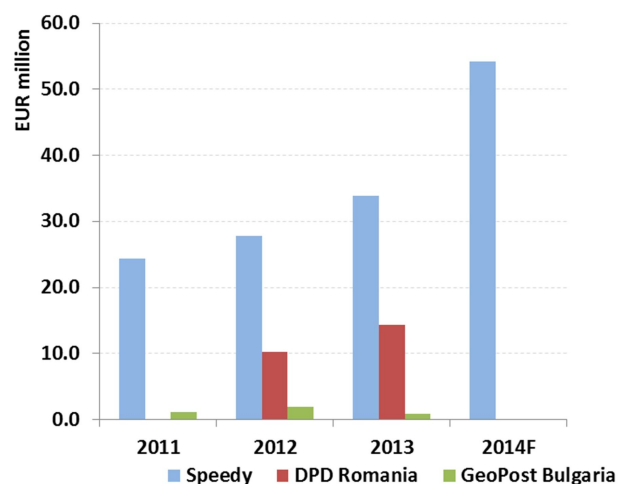
Excellent liquidity and solid cash flows due to good profits



Few years with higher investments, especially in the Romanian subsidiary



DPD Romania grew by 40% in 2013 and contribute for 60% rise due to consolidation



Organic growth is expected to exceed 12%

Revenues will increase in 2014 by 60% due to the acquisitions of DPD Romania. We expect the company to maintain organic growth between 12-15% in the

years to follow as the regional markets are developing very fast and Speedy proved capable to increase its positions. EBITDA and profit margins will decrease after the acquisitions, although the successful business model of Speedy will contribute to gradual increase of margins along with the stable growth of revenues. The companies on the Romanian market have lower profitability but the market is very similar to the Bulgarian. Speedy will offer more services and will use the same business model.

We expect that Speedy will generate sizable cash flows that will decrease the debt-to-equity ratio. The bank loans, used for the acquisitions will be financed at up to 4.5% annual interest rate. The company has sound liquidity ratios. Our forecasts are conservative when comparing to the growth rates of the previous years due to the higher scale and the differences of the Romania market. Speedy has BGN 3.5 million receivables from companies that are related to its majority owner. The sum is constantly decreasing.

V. CAPITAL INCREASE

Speedy will raise BGN 20 million to finance the acquisitions in Bulgaria and Romania

Speedy will raise BGN 20 million through the stock exchange. The number of shares will be increased by 889 320 to 5 335 920 at the issue price of BGN 23 per share. 5 rights will be used for the subscription of one new share. The capital will be used for the acquisitions of DPD Romania and GeoPost Bulgaria. According to the agreement between the two companies, GeoPost will acquire up to 25% of the capital of Speedy. We expect this to happen during the capital increase as the minimum number of shares for the issue to be successful is 711 456. The rest of the planned stake should be acquired from the majority shareholder. Moreover, GeoPost has the option to become majority owner of Speedy in 2020.

Impact of capital increase on multiples			
	2014E	2015E	2016E
Data pres-capital increase			
Book value	20,506	27,040	34,555
Net profit	11,050	13,067	15,032
P/B	5.42	4.11	3.22
P/E	10.06	8.51	7.40
Capital increase			
Number of shares	889,320		
Price per share	23.00		
Amount (BGN)	20,454,360		
Data post-capital increase			
Book value	41,199	48,138	56,317
Net profit	11,528	13,878	16,359
P/B	3.24	2.77	2.37
P/E	11.57	9.61	8.15
Dilution (%)			
P/B	-40%	-33%	-26%
P/E	15%	13%	10%
New per share figures			
EPS	2.16	2.60	3.07
BVPS	7.71	9.01	10.55

After the capital increase, P/B will decrease substantially as the company will raise additional BGN 20 million and is currently traded at high level of the multiple. Our estimations are net profit to grow slightly. As a result, the P/E ratio will increase.

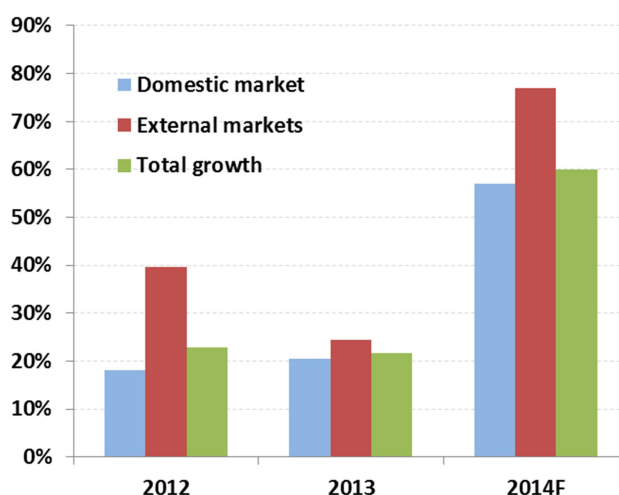
VI. FORECASTS

Deliveries abroad are the primary source for growth for most courier companies in Bulgaria. We estimate that Speedy's revenues will increase by 60% in 2014 after the acquisitions. Sales from deliveries abroad will exceed the overall growth as GeoPost Bulgaria will contribute for faster increase due to the smaller basis of the segment. Speedy will have significant operations in Romania but the country should be regarded as domestic market. Exact figures for segments and markets cannot be forecasted. We expect revenues from deliveries abroad to continue to be the main driver for Speedy in Bulgaria, whereas the operations in Romania will grow due to the e-commerce.

Standardized pallet service – Pallet one, is expected to continue to grow rapidly. Using this pallet, the customer could prepare his shipment by himself. This gives flexibility, while the company could optimize the vehicle space and to reduce the delivery cost.

For the growth within the domestic market will contribute also the high brand recognition and favourable price conditions, as the company is synonym for speed, security and quality.

Annual growth by segments of revenues



Estimations include acquisitions

Our estimations for the company's performance during the next three years are presented in the table, compared to the estimations from our previous report. Changes are substantial when regarding the forthcoming acquisitions. We have cut our estimates to account the decrease of profitability. We would like to see the performance after the consolidation of the two companies before using growth rates that are closer to the historical performance of Speedy.

	Previous and current estimates										
	2012	2013	2014E Prev	2014E Curr	Change	2015E Prev	2015E Curr	Change	2016E Prev	2016E Curr	Change
Net Sales	54,446	66,289	79,550	106,062	39.99%	93,869	121,972	-3.00%	107,950	137,218	-2.50%
<i>y-o-y change</i>	13.92%	21.75%	20.01%	60.00%		18.00%	15.00%		15.00%	12.50%	
Costs of goods sold	24,509	32,356	47,700	65,228	54.17%	56,300	77,452	0.71%	64,500	89,878	1.48%
<i>y-o-y change</i>	7.00%	32.02%	47.42%	101.60%		18.03%	18.74%		14.56%	16.04%	
Sales and administrative costs	18,856	20,383	20,680	23,334	13.02%	22,500	24,394	-4.26%	24,820	24,699	-9.06%
<i>y-o-y change</i>	22.57%	8.10%	1.46%	14.48%		8.80%	4.55%		10.31%	1.25%	
EBITDA	11,594	13,444	16,706	18,031	9.86%	19,713	21,345	0.38%	22,669	24,699	0.71%
<i>y-o-y change</i>	11.97%	15.96%	24.26%	34.12%		18.00%	18.38%		15.00%	15.71%	
EBIT	8,839	10,268	12,728	13,258	5.16%	15,019	16,161	3.90%	17,272	19,211	3.87%
<i>y-o-y change</i>	24.35%	16.17%	23.96%	29.12%		18.00%	21.90%		15.00%	18.87%	
Net profit	7,671	8,827	11,050	11,527	5.40%	13,067	13,877	2.13%	15,032	16,358	2.85%
<i>y-o-y change</i>	25.55%	15.07%	25.19%	30.59%		18.25%	20.39%		15.03%	17.88%	
Equity	10,581	14,933	20,506	41,151	138.25%	27,040	48,089	-15.00%	34,555	56,268	-10.78%
<i>y-o-y change</i>	25.46%	41.13%	37.32%	175.57%		31.86%	16.86%		27.79%	17.01%	
Ratio Analysis											
<i>P/E</i>	9.95	11.08	9.62	11.06		8.13	9.19		7.07	7.80	
<i>P/B</i>	7.21	6.55	5.18	3.10		3.93	2.65		3.08	2.27	
<i>P/S</i>	1.60	1.48	1.34	1.20		1.13	1.05		0.98	0.93	
<i>Dividend yield</i>	5.79%	4.55%	5.60%	4.32%		6.62%	5.20%		7.61%	6.13%	
<i>Profit margin</i>	14.09%	13.32%	13.89%	10.87%		13.92%	11.38%		13.92%	11.92%	
<i>RoE</i>	72.50%	59.11%	53.89%	28.01%		48.33%	28.86%		43.50%	29.07%	

The improvement in financial results during the first quarter of 2014 is not representative as it was due to the mild weather and less bonus payments to employees as compared to the previous three months. Investments in Bulgaria will decrease as the renovation of vehicle park is almost completed.

VII. VALUATION

The table presents the main valuation multiples of Speedy, calculated with the annual reports for 2012 and 2013 and the data for the last 12 reported months. We are also including our estimations for 2014 and multiples calculated with consideration of forthcoming capital increase.

Multiples

	2012	2013	12M	2014E
Current Price	51.50	22.00	23.90	23.90
Number of Shares	1,482,200	4,446,600	4,446,600	5,335,920
Market Capitalization	76,333,300	97,829,647	106,273,740	127,528,488
Net Profit	7,671,000	8,827,000	7,822,000	11,527,560
P/E	9.95	11.08	13.59	11.06
Equity	10,581,000	14,933,000	17,486,000	41,151,140
P/B	7.21	6.55	6.08	3.10
Sales	47,567,000	66,289,000	68,940,000	106,067,200
P/S	1.60	1.48	1.54	1.20
EV	78,220,300	99,255,647	107,699,740	125,190,708
EBITDA	11,594,000	13,444,000	12,789,000	18,031,424
EV/EBITDA	6.75	7.38	8.42	6.94
RoE	72.50%	59.11%	44.73%	28.01%
RoA	29.96%	23.72%	22.41%	28.34%

Multiples increased as stock price jumped

Multiples of Speedy are close to the market's averages. We expect improvement in 2014, despite the capital increase and the dilution. Q1 profit is reflecting the change in cost structure and will increase in Q2 faster than the previous year.

Comparison to peer group

Company	P/E	P/B	P/S	EV/EBITDA	Express & Courier Services Revenues (%)
Deutsche Post	15.37	3.27	0.59	8.22	100
GD Express	64.96	16.74	9.37	51.12	100
TNT Express		1.45	0.54	10.91	100
Nationwide Express		0.77	0.49		100
AIR T	16.10	1.02	0.27	6.41	86
GATI	87.12	1.06	0.66	17.04	85
UPS	22.21	14.96	1.70	11.16	83
Yamato Holdings	26.09	1.63	0.66	8.47	78
Federal Express	21.57	2.71	0.96	7.24	74
Aramex	16.66	2.22	1.42	9.89	54
Median	21.89	1.92	0.66	9.89	
Speedy Multiples	13.59	6.08	1.54	8.42	
Speedy Implied Price	38.51	7.56	10.24	28.13	

Speedy is undervalued when comparing by profit-related multiples

We are comparing Speedy to companies engaged in courier and parcel services. Speedy has advantages to the median of P/E and EV/EBITDA due to its excellent profitability. Its business model relies on less capital usage. The comparison is

not having into consideration the forthcoming capital increase.

WACC Calculation

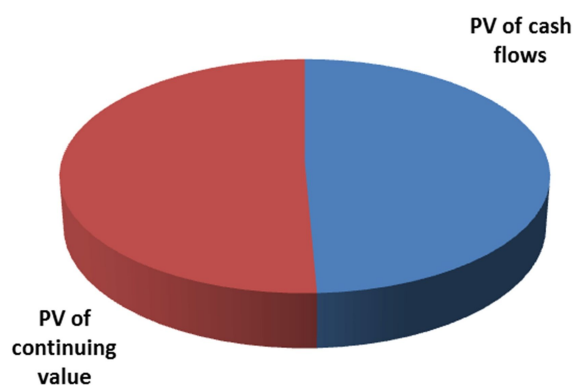
WACC Calculation

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Terminal Year
Risk free rate	2.26%	2.50%	3.00%	3.50%	3.50%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Equity risk premium	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Beta	0.27	0.50	0.75	0.75	0.90	0.90	0.90	0.90	1.00	1.00	1.00
Cost of equity	4.42%	6.50%	9.00%	9.50%	10.70%	11.20%	11.20%	11.20%	12.00%	12.00%	12.00%
Cost of debt	4.50%	4.50%	5.00%	5.50%	5.50%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Effective tax rate	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
After-tax cost of debt	4.05%	4.05%	4.50%	4.95%	4.95%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%
Weight of equity	66%	71%	76%	80%	85%	85%	85%	85%	85%	85%	85%
WACC	4.29%	5.79%	7.93%	8.59%	9.84%	10.33%	10.33%	10.33%	11.01%	11.01%	11.01%

Discounted cash flows

BGN'000	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Terminal Year
EBIT	13,258	16,161	19,211	21,516	23,667	25,561	27,094	28,449	29,587	30,623	31,694
EBIT(1-T)	11,932	14,545	17,289	19,364	21,301	23,005	24,385	25,604	26,628	27,560	28,525
Add: D&A	4,773	5,184	5,489	6,147	6,762	7,303	7,741	8,128	8,453	8,749	9,056
Less: Investments	3,182	3,659	3,430	3,842	4,226	5,477	5,806	6,096	8,453	8,749	9,056
Less: Change NWC	1,626	636	610	659	615	541	438	387	325	296	317
FCF	11,896	15,433	18,738	21,011	23,222	24,290	25,882	27,249	26,303	27,265	28,208
PV FCF	11,407	13,790	14,906	15,111	14,526	13,467	13,006	12,411	10,274	9,594	
Sum of PV FCF	128,490										
PV of Continuing Value	132,164										
Total PV Free Cash Flows	260,654										
Less: Outstanding Debt	10,140										
Plus: Financial Assets	8,714										
PV of Equity	259,228										
Number of Shares	5,336										
Price Per share	48.58										

Breakdown



Sensitivity analysis

		Terminal growth				
WACC		2.0%	3.0%	3.5%	4.0%	5.0%
	9.0%	55.40	60.91	64.41	68.62	80.18
	10.0%	49.04	52.84	55.17	57.89	64.97
	11.0%	44.30	47.01	48.64	50.50	55.14
	12.0%	40.67	42.66	43.84	45.16	48.36
	13.0%	37.83	39.34	40.21	41.17	43.47

		Terminal EBIT margin				
WACC		12.0%	13.0%	14.0%	15.0%	16.0%
	9.0%	58.55	61.48	64.41	67.35	70.28
	10.0%	50.64	52.90	55.17	57.43	59.70
	11.0%	45.05	46.84	48.64	50.43	52.22
	12.0%	40.94	42.39	43.84	45.28	46.73
	13.0%	37.84	39.02	40.21	41.39	42.57

Speedy has very low beta that is consequence of lower liquidity a year ago, when the majority owner started to increase the free-float. We expect that it will increase gradually over time but will remain below 1 as most minority shareholders are long-term value oriented investors. Moreover, the company's performance was positive despite the stagnation of the Bulgarian economy. It manages to negotiate bank loan to relatively low floating interest rate. We expect that WACC will increase to 11%.

The discounted cash flows model is adjusted to the capital increase and is based on our estimations for the company's performance afterwards. We assume decrease of yearly growth of revenues from 12% in 2017 to long-term growth of 3.5% for the terminal year. EBITDA margin is expected to remain at 18%, while depreciation is presumed at 4% of annual sales. Our forecasts for investments are based on the expectations for lower level as compared to depreciation due to the already completed program of vehicle substitution.

The intrinsic value of Speedy is BGN 48.58, giving large premium to the current price.

RECOMMENDATION AND PRICE TARGET

*Recommendation: **BUY**
Target Price: **BGN 35.00**
Increase: **45%***

We maintain the **BUY** recommendation on Speedy's shares before and after the capital increase. Moreover, shareholders received this year BGN 1.00 dividend per share or 4% yield. The stock will continue to be one of the best performing positions on the market. **Our 12-month target price is BGN 35.00**, which is the average from the comparison to peer's P/E and EV/EBITDA multiples. The DCF-based value of the stock is even higher. We expect that increase of financial results and multiples expansion will contribute to the performance of the stock price.

We note the different classes of investors:

- Foreign investors who are looking for exposure in domestic companies with high growth were stopped by the low liquidity of the stock. However, the trading volumes are rising along with the higher free-float and we expect to see some demand for rights of the capital increase
- Bulgarian institutional investors are not very active at the moment. The stock is considered interesting and attractive investment by several mutual funds
- Domestic private investors are increasing their exposures as the supply is limited and came from the majority shareholder during the previous twelve months. They have very positive attitude toward the position as the company is well known brand and its financial results improved

Stock price dynamics



VIII. KEY RISKS

Political risks

Bulgaria is free market economy, with relatively small share of government owned companies. Despite the difference of opinion between two leading parties, politicians have agreement about the main political lines, such as currency board stability, further reduction of administrative burden and keeping country's competitiveness via relatively low tax levels.

Macroeconomic risks

As the company operates through several countries, its activity depends on the economic situation of the region. Currently the domestic market is responsible for over 85% of the company's revenue, but the share of deliveries abroad is expected to increase in upcoming years. Although the Bulgarian economy continues to operate below its potential, the recovery is already in progress. Exports oriented businesses are set to continue growing at a moderate pace in the next couple of years, sustained by the recovery of the EU as a whole. We expect the consumer confidence to rise further, which will translate into higher household consumption. For this will help the gradual increase of the minimum wage, pensions and the current low inflation, which is supporting the real income. Improvement of the economic environment both in Bulgaria and neighboring countries will support the courier business and lower the risk of company's activity slow down. Current crisis in Ukraine is not expected to have significant impact on the business sentiment.

Regulatory risks

Currently, there are no expectations about new regulatory requirements that could lead to some restrictions and additional expenses.

Other risks

All loans, granted to the company, are with floating interest rate, EURIBOR and SOFIBOR, as rise in interest rates will have a negative effect on the company. Nevertheless, our expectations are central banks to keep policy rate low until

economic recovery strengthened further and lending activity to companies and households started to increase.

With improvement of the economy, the risk of default by contractors or delay of payments weakens. Over 80% of revenues from services are based on long-term customer contracts and payments are regular. The company also has a system, which monitor customer obligations and payment terms, which help to lower the potential losses due to outstanding contracts.

IX. FINANCIALS

Statement of Income (in '000 BGN)	2011	2012	2013	TTM	2014F	2015F	2016F	3M 2013	3M 2014
Sales	47,792	54,446	66,289	68,940	106,067	121,977	137,224	14,617	17,268
Production expenses	22,906	24,509	32,356	35,798	65,231	77,456	89,882	6,524	9,966
Personnel expenses	15,384	18,856	20,383	20,161	23,335	24,395	24,700	3,426	3,204
Net income from financial activities	799	482	(114)	(204)	(530)	(1,220)	(2,058)	78	(12)
Other revenues and expenses	54	31	8	12	0	0	0	0	4
EBITDA	10,355	11,594	13,444	12,789	18,031	21,346	24,700	4,745	4,090
Depreciation	3,247	2,755	3,176	3,576	4,773	5,184	5,489	713	1,113
EBIT	7,108	8,839	10,268	9,213	13,258	16,162	19,211	4,032	2,977
Interest expense	304	316	401	462	450	743	1,035	79	140
Pretax income	6,804	8,523	9,867	8,751	12,808	15,419	18,176	3,953	2,837
Taxes	694	852	1,040	929	1,281	1,542	1,818	395	284
After-tax income	6,110	7,671	8,827	7,822	11,528	13,878	16,359	3,558	2,553
Minority interest	0	0	0	0	0	0	0	0	0
Net income	6,110	7,671	8,827	7,822	11,528	13,878	16,359	3,558	2,553
Earnings per share in BGN	4.12	5.18	1.99	1.76	2.16	2.60	3.07	2.40	0.57

Balance Sheet (in '000 BGN)	2011	2012	2013	TTM	2014F	2015F	2016F	3M 2013	3M 2014
Total Assets	20,900	25,608	37,215	34,909	81,825	89,705	97,314	25,263	34,909
Equity subscriptions receivable	0	0	0	0	0	0	0	0	0
Fixed assets	6,039	8,786	15,455	15,305	46,670	46,351	46,656	8,997	15,305
Tangible fixed assets	4,639	7,169	14,671	14,470	42,427	43,912	43,912	8,394	14,470
Financial investments	0	0	0	0	0	0	0	0	0
Current assets	14,861	16,822	21,760	19,604	35,156	43,354	50,658	16,266	19,604
Inventory	438	556	605	420	1,637	1,794	1,946	568	420
Receivables	11,672	11,979	11,892	11,417	17,733	17,660	15,392	12,016	11,417
Financial assets	0	0	0	0	0	0	0	0	0
Cash and cash equivalents	2,169	3,958	8,714	7,254	15,786	23,900	33,320	3,208	7,254
Total liabilities + equity	20,900	25,608	37,215	34,909	81,825	89,705	97,314	25,263	34,909
Equity	8,434	10,581	14,933	17,486	41,199	48,138	56,317	14,081	17,486
Registered capital	1,482	1,482	4,447	4,447	25,790	25,790	25,790	1,482	4,447
Capital funds	348	348	448	448	1,601	1,736	2,084	348	448
Earnings	6,604	8,751	10,038	12,591	13,808	20,612	28,443	12,251	12,591
Liabilities	12,466	15,027	22,282	17,423	40,626	41,567	40,997	11,182	17,423
Long-term payables	0	0	0	0	0	0	0	0	0
Long-term bank loans	2,094	3,439	7,256	6,852	18,352	15,952	13,552	3,336	6,852
Short-term bank debt	2,429	2,406	2,884	2,852	3,182	3,659	4,117	1,834	2,852
Short-term payables	7,943	9,182	12,122	7,704	19,092	21,956	23,328	6,012	7,704
Other liabilities	0	0	20	15	0	0	0	0	15
Working capital	1,912	2,178	6,754	9,048	4,243	4,879	5,489	2,339	2,763

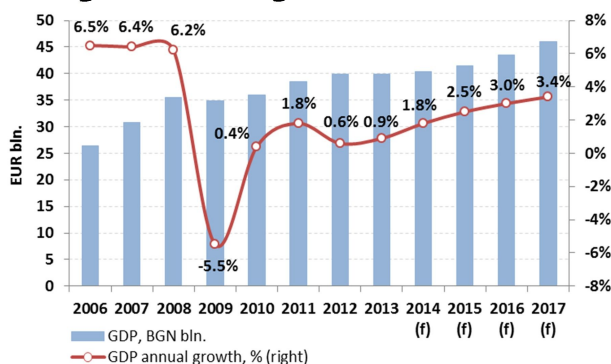
Cash Flow Statement (in '000 BGN)	2011	2012	2013	TTM	2014F	2015F	2016F	3M 2013	3M 2014
Net income	6,110	7,671	8,827	7,822	11,528	13,878	16,359	3,558	2,553
Depreciation	3,247	2,755	3,176	3,576	4,773	5,184	5,489	713	1,113
Changes in Working capital	334	266	4,576	6,709	1,627	636	610	161	424
Other operating cash flow items	(2,161)	(2,248)	(2,237)	(7,330)	(1,061)	(1,220)	(1,372)	(596)	(3,819)
Net cash from operating activities	7,530	8,444	14,342	10,777	13,613	17,205	19,866	3,836	271
Capital expenditures	(588)	(546)	(1,983)	(2,380)	(32,541)	(6,669)	(5,489)	(141)	(538)
Other investing cash flow items	0	6	725	519	0	0	0	223	17
Net cash from investing activities	(588)	(540)	(1,258)	(1,861)	(32,541)	(6,669)	(5,489)	82	(521)
Issuance/ Retirement of Stock, Net	0	0	0	0	21,343	0	0	0	0
Issuance/ Retirement of Debt, Net	(88)	(1,273)	187	881	11,392	(1,923)	(1,943)	(694)	0
Dividends paid	(3,671)	(5,013)	(4,410)	(4,410)	(5,764)	(6,939)	(8,179)	0	0
Other financing cash flow items	(2,772)	171	(4,103)	(1,341)	(6,718)	1,187	(1,396)	(3,972)	(1,210)
Net cash from financing activities	(6,531)	(6,115)	(8,326)	(4,870)	26,017	(736)	(3,339)	(4,666)	(1,210)
Net change in cash	411	1,789	4,758	4,046	7,090	8,114	9,420	(748)	(1,460)
Beginning-of-period cash	1,758	2,169	3,956	3,208	8,696	15,786	23,900	3,956	8,714
End-of-period cash	2,169	3,958	8,714	7,254	15,786	23,900	33,320	3,208	7,254
Cash per share	1.46	2.67	1.96	1.63	2.96	4.48	6.24	2.16	1.63

Number of shares:	1,482,200	1,482,200	4,446,600	4,446,600	5,335,920	5,335,920	5,335,920	1,482,200	4,446,600
Price in BGN - period end:	51.50	51.50	22.00	24.90	25.00	25.00	25.00	51.50	23.90
Market cap - period end:	76,333	76,333	97,830	110,720	133,398	133,398	133,398	76,333	106,274

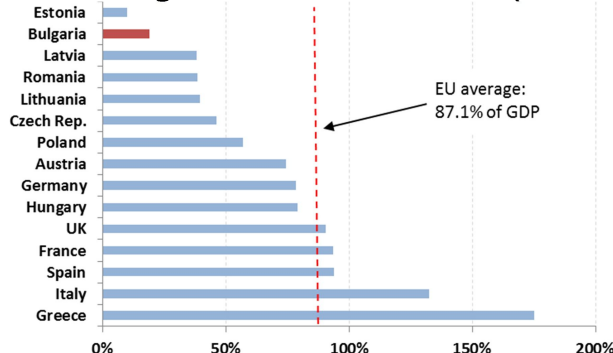
Financial and Performance Indicators	2011	2012	2013	TTM	2014F	2015F	2016F
Valuation Ratios							
Price/Earnings (P/E)	12.49	9.95	11.08	13.59	11.57	9.61	8.15
Book Value (BV)	5.69	7.14	3.36	3.93	7.72	9.02	10.55
Price/Book (P/B)	9.05	7.21	6.55	6.08	3.24	2.77	2.37
Sales Per Share	32.24	36.73	14.91	15.50	19.88	22.86	25.72
Price/Sales (P/S)	1.60	1.40	1.48	1.54	1.26	1.09	0.97
Price/Cash per share	8.16	7.32	8.15	9.32	8.18	7.00	6.11
EV (in BGN)	78,687	78,220	99,256	108,724	139,146	129,109	117,747
EV/Sales	1.65	1.44	1.50	1.58	1.31	1.06	0.86
EV/EBITDA	7.60	6.75	7.38	8.50	7.72	6.05	4.77
EV/EBIT	11.07	8.85	9.67	11.80	10.49	7.99	6.13
Liquidity							
Current ratio	1.43	1.45	1.45	1.86	1.58	1.69	1.85
Quick ratio	1.39	1.40	1.41	1.82	1.50	1.62	1.77
Debt Management							
Debt to total assets	0.60	0.59	0.60	0.50	0.50	0.46	0.42
Interest coverage	23.38	27.97	25.61	19.94	29.46	21.77	18.56
LT Debt/Equity	0.25	0.33	0.49	0.39	0.45	0.33	0.24
Total Debt/Equity	0.54	0.55	1.49	1.00	0.52	0.41	0.31
Asset Management							
Inventory turnover	109.11	97.92	109.57	164.14	64.81	67.99	70.51
Days sales outstanding	88	79	65	60	60	52	40
Fixed asset turnover	7.91	6.20	4.29	4.50	2.27	2.63	2.94
Total asset turnover	2.29	2.13	1.78	1.97	1.30	1.36	1.41
Profitability							
Profit margin on sales	12.8%	14.1%	13.3%	11.3%	10.9%	11.4%	11.9%
EBITDA margin	21.7%	21.3%	20.3%	18.6%	17.0%	17.5%	18.0%
Basic earning power	34.0%	34.5%	27.6%	26.4%	16.2%	18.0%	19.7%
Return on assets	29.2%	30.0%	23.7%	22.4%	14.1%	15.5%	16.8%
Return on equity	72.4%	72.5%	59.1%	44.7%	28.0%	28.8%	29.0%
Return on investments	58.0%	54.7%	39.8%	32.1%	19.4%	21.7%	23.4%
Dividend Information							
Dividend Yield		5.8%	4.5%	4.2%	4.3%	5.2%	6.1%
Dividend per share		2.98	1.00	1.00	1.08	1.30	1.5
Number of shares:							
	1,482,200	1,482,200	4,446,600	4,446,600	5,335,920	5,335,920	5,335,920
Price in BGN - period end:							
	51.50	51.50	22.00	24.90	25.00	25.00	25.00
Market cap - period end:							
	76,333	76,333	97,830	110,720	133,398	133,398	133,398

Appendix 1: Economic overview

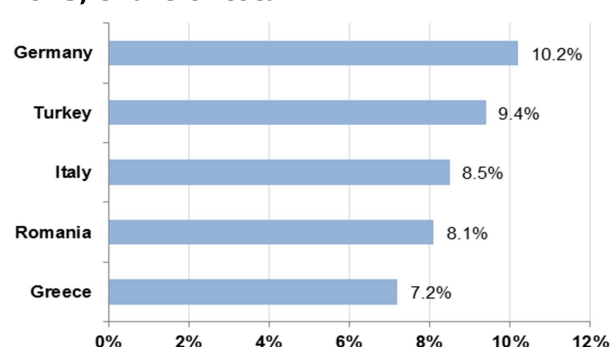
GDP growth of Bulgaria



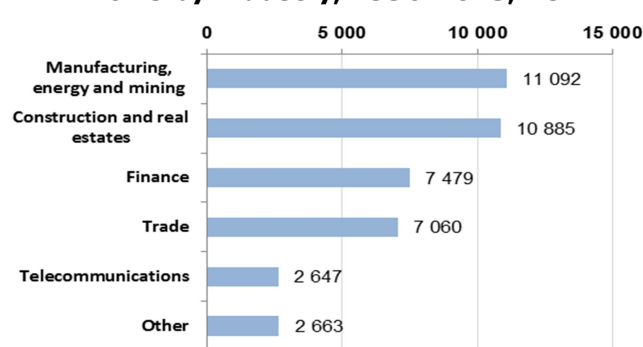
General government debt in 2013, % of GDP



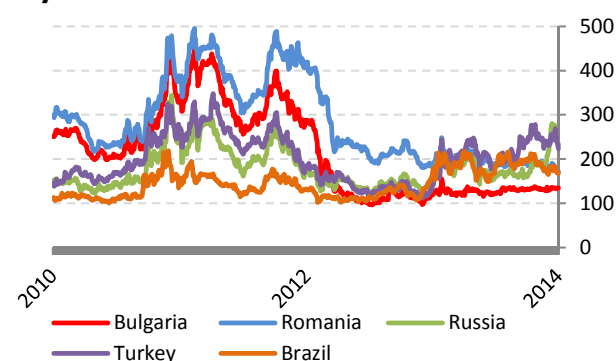
Exports to main trade partners of Bulgaria in 2013, share of total



FDI flows by industry, 1996-2013, EUR mln.



5-year CDS Levels



Sovereign credit rating

	Moody's	S&P	Fitch	JCRA*	
Investment grade	Aaa	AAA	AAA	AAA	Dec. 2011 last change
	...	...	...	...	
	A3	A-	A-	A-	
	Baa1	BBB+	BBB+	BBB+	
	Baa2	BBB	BBB	BBB	
	Baa3	BBB-	BBB-	BBB-	
Subinvestment grade	Ba1	BB+	BB+	BB+	Dec. 1996
	Ba2	BB	BB	BB	
	Ba3	BB-	BB-	BB-	
	B1	B+	B+	B+	
	B2	B	B	B	
	B3	B-	B-	B-	
	Caa	CCC+	CCC	CCC	
	...	...	...	...	
	Caa	D	D	D	

- Bulgarian economy has performed better than EU average since 2004. As an open economy, it will benefit by ongoing global recovery, rising export orders and increased investment interest
- Currency board arrangement, strongly supported by all institutions. 1.95583 Bulgarian Lev=1 Euro
- The stable fiscal position of the country in the last 17 years confirmed ability of the several governments to meet their deficit targets and to maintain public finance stability
- Since 1999, Bulgaria has managed to reduce the ratio of government debt to GDP from around 80% to below 20%. To guarantee fiscal discipline the government adopted the Public Finance Law in 2013, setting rules for the budget deficit, expenditure and government debt
- Five Pan-European corridors pass through the country, as Bulgaria is a strategic logistics hub. Close commercial ties with the EU, which accounts for around 60% of the countries' exports
- Industry has attracted 1/3 of the total FDIs for the period, as biggest investors are supported through a priority investment scheme
- Bulgarian 5-year USD CDS is one of the lowest among Frontier/Emerging markets, credit rating with two notches above investment grade, most favorable tax regime in EU and competitive costs of labor

Appendix 2: Stock market overview

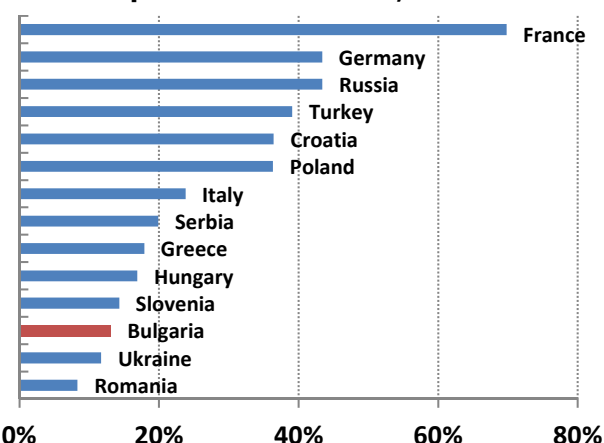
Stock Market Infrastructure

Market Operator	Bulgarian Stock Exchange - Sofia
Custody	Central Depository
Regulator	Financial Supervision Commission
Legislation	Fully EU/MIFID Harmonized
Trading platform	XETRA (provided by Deutsche Boerse)
BSE shareholder structure	Government owns 50% (expected privatization in 2014 by a leading world market operator)
Corporate governance	National code since 2007, National commission since 2009, Corporate Governance Index (CGIX) since 2011

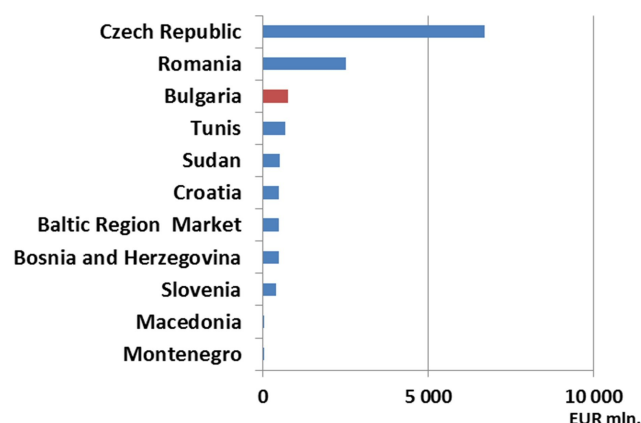
Stock Market Snapshot

Market Capitalization	EUR 5.1 bln.
Market Capitalization/GDP	13%
Main Index	SOFIX
Total 2013 turnover	EUR 778 mln.
Average daily turnover (2013)	EUR 3.2 mln.
Top 10 Average free float	0.33
SOFIX P/E	9.87
SOFIX P/B	0.82

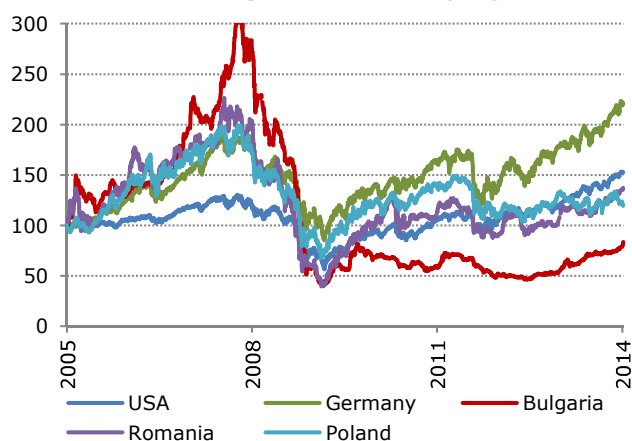
Market capitalization to GDP, %



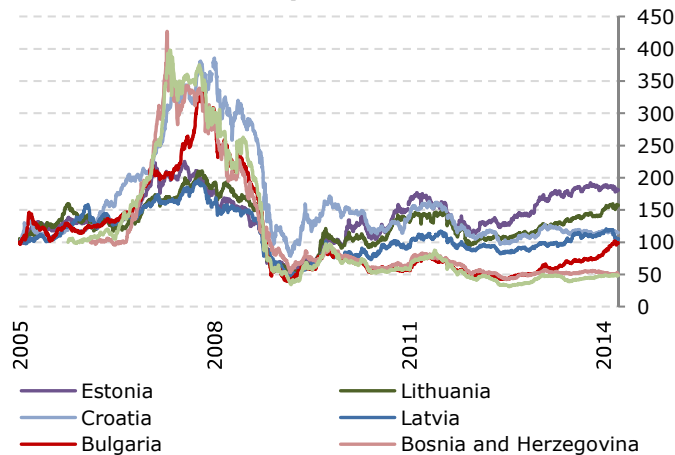
Stock exchange turnover for some emerging and frontier markets in 2013



10 year Bulgarian market (SOFIX) performance vs developed and emerging markets



10 year Bulgarian market (SOFIX) performance vs European frontier markets



- Bulgarian market has significant long term potential for catching up with global markets' recovery as it has recovered around 30% from the 2007 peak, while developed world markets have already reached their peaks
- The main market players on the BSE remain the pension funds. We expect at least EUR 50 mln. (7% of 2013 BSE turnover) fresh flow in BSE in 2014 from institutional investors
- The stable potential for growth is also based on the already started gradual increase of the economy and disposable personal income, as well as the high level of bank deposits of individuals (50% of GDP)

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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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