Enemona AD – preferred shares offering in development

Date	27 January 2010
Recommendation	Buy
52-week Price Target, BGN	12.17
Upside	31%

In relation to the forthcoming capital increase of the public company Enemona AD through an issue of preferred shares, presented here is a resume of the company and the issue itself.

Enemona is among the leading holding companies, operating in the field of engineering, construction and assembly works, as well as energy and energy efficiency projects. The first group of activities includes project management and engineering, construction of new and reconstruction and modernization of existing power plants; the second one consists of trading in electricity and natural gas and development and implementation of energy efficiency projects. Enemona's clients are industrial and natural gas distribution companies, municipal and state-owned buildings, energy companies, as well as other investors operating in the field of energy and energy efficiency.
Enemona is a leading company in the sphere of energy efficiency based on the so called ESCO contracts.

Enemona has the reputation of one of the best companies, traded on the stock exchange in Bulgaria with its corporate ethics, publicity and investor relations policy. The company first presented to the Bulgarian Stock Exchange in 2005 with its bond issue for the amount of BGN 2.5 million. In 2007 Enemona came up with an IPO, offering shares at the amount of BGN 33 million. The issue was oversubscribed 30 times, making one of the most successful IPO's in the Bulgarian capital market history. At the end of 2009 and the beginning of 2010 Enemona realized the first issue of warrants in Bulgaria. Each warrant gives its owner the right to participate in capital increase of the company within the next six years. Within this period each warrant may be exercised and a common share may be purchased against it at the price of BGN 18.50. Every capital increase that may eventually take place during the term of validity of the warrants would automatically change their exercise price. Following the end of the preferred shares capital increase, Enemona will not only be the biggest engineering and energy company traded on the BSE but also the only one presented by three non-debt issues – common and preferred shares and warrants.
Considered from the perspective of its positioning on the capital market, Enemona is part of the leading stock exchange index SOFIX, as well as of the wider one BG40. It is also among the 20 most liquid positions on BSE. Its shares are included in the portfolio investments of considerable institutional investors. In its efforts to secure liquidity of the shares, Enemona chose to use a market maker with the obligation to keep bids and asks at any time.
The issue described herein has the following characteristics: number of shares - 5 966 800 preferred shares; issue price – BGN 9.92; preferential, guaranteed, cumulative annual dividend to the amount of 10 per cent of the issue price of one preferred share or 0.992 BGN for the period of 7 years. Conversion into common shares at the end of year seven is mandatory. Every common share entitles its owner to receive one right. For the subscription of every preferred share the shareholders need to exercise two rights. Initial date for trading in rights on the Exchange is January 25 and final date is February 08. Date of the auction for the unexercised rights shall be February 24.

Shareholders' Structure

As of October 2009 (the date of preparation of the Prospectus for Public Offering of Preferred Shares) the majority shareholder in Enemona AD is Dichko Prokopiev Prokopiev, owning 78.48% of the capital, of which 60.13% - directly and 18.34 % through its subsidiary Global Capital (where Dichko Prokopiev owns 96% of the capital).

Investments

Enemona has an investment plan until the year 2012 at the amount of BGN 215 million. Part of the funds will be raised through the forthcoming issue of preferred shares, as well as through the expected exercise of the warrants. The company's management expect that 2.1 million warrants shall be exercised during the year 2011, while another 1.1 million is expected to be exercised in 2012 at the price of BGN 16.78. This means that the management expects the market price of the common shares at the beginning of next year to exceed BGN 16.78. According to us this scenario is of small probability. In the spirit of our expectations the realization of the investment program in the period 2011-2012 will rely on outside financing to an extend grater that the original planning. The scheduled investments are as follows:

- Energy project Lom Lignite – mine (250 millions of tons of lignite) and Thermoelectric Power Station (between 400 and 600 MW) – BGN 30 million. The total amount of investments in this project is estimated at BGN 3 billion. This made Enemona use the services of Deloitte to find a strategic investor and structure the transaction.

- Combined Heat and Power Plant Nikopol (18MW fueled by biomass) – BGN 120 million.

- Working Capital after EU Environmental Program (EUR 2 billion, granted for the construction of 200 of plant and machinery with deadline 2015) – BGN 30 million.
- Virtual Gas Pipelines – BGN 10 million.

- Engineering and Construction Works (production base, equipment) – BGN 10 million;

- Working Capital Utilities – BGN 15 million.

Internal Rate of Return and Net Margin on the Investments

- Energy project Lom Lignite – expected internal rate of return of 8%

- Heating and Thermoelectric Power Plant Nikopol – expected internal rate of return of 10%

- Developing Virtual Gas Pipelines – current internal rate of return of 12%

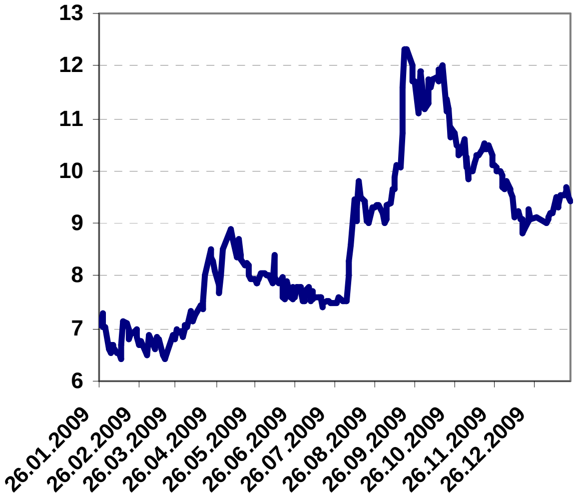
- EU Environmental Program (engineering, construction and assembly works) – current net margin of 9%

- Engineering and Construction Works – current net margin of 9%

- Energy Trading (Utilities)– current net margin of 4,5%

Stock Exchange Performance

Price Performance, 12 months



Source: BSE

Price Stats

Price per share 22.1.2010	9.3 BGN
52-wk High	13.0 BGN
52-wk Low	6.2 BGN
Avg. Vol	2 914

Source: BSE

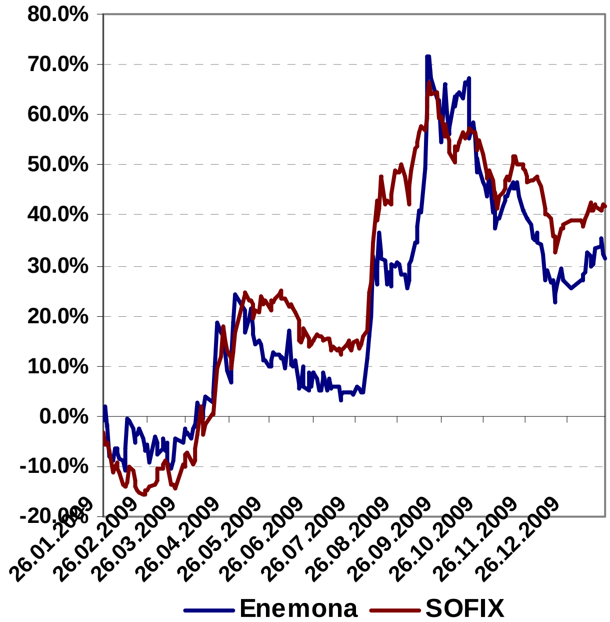
Ratios

Price per share 22.1.2010	9.3 BGN
Market Cap (mil.BGN)	110 986
Enterprise Value (mil. BGN)	132 306
P/E, 2009	7.4x
P/B 2009	1.1x
P/S 2009	0.7x
EV/EBITDA 2009	4.8x
EV/EBIT 2009	5.8x
EV/Revenues 2009	0.8x

Source: Enemona, Bull Trend Brokerage

Enemona's common shares are included in three of the indices on BSE - SOFIX, BGTR30, BG40 and are considered to be one of the blue-chips presented on the Bulgarian capital market. The price floatation of the company's stock is close to the one of the leading index SOFIX. During the past 12 months Enemona's common shares have increased in price by 31.5%, compared to 40.8% rise of SOFIX. However, Enemona's shares were among the least influenced by the market collapse due to the financial crisis. Their current market price of BGN 9.3 is only 56% below its peak at the end of 2007, while SOFIX has lost 78% of its maximum value. This comes to show that the investment in Enemona's shares has preserved more of its net value compared to the overall market performance for this period.

LTM performance of Enemona shares and SOFIX



Source: BSE

DCF valuation

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	Terminal value
Revenues	166 400	194 700	235 800	285 000	327 750	360 525	396 578	
COGS	138 782	163 553	196 905	233 706	268 762	295 638	325 202	
Depreciation	4 793	4 892	10 815	13 822	17 665	20 315	22 346	
EBITDA	27 618	31 147	38 895	51 294	58 988	64 887	71 376	
EBIT	22 825	26 255	28 080	37 472	41 323	44 572	49 029	
EBIT*(1-t)	20 543	23 630	25 272	33 725	37 191	40 115	44 126	
CAPEX	-14 478	52 290	70 965	56 025	33 615	30 254	30 254	
Investment in NWC (non-cash)	1 130	1 079	1 177	1 354	1 557	1 790	2 059	
FCFF	38 684	-24 848	-36 055	-9 832	19 684	28 386	34 161	406 435
PV FCFF		-22 700	-29 919	-7 409	13 473	17 647	19 290	233 625
EV	224 007							
Debt	66 299							
Equity	151 100							
Fair value per share	**12.66**							
Equity	220 421	(including issuance of 2.99 million preferred shares and exercise for 3.2 million warrants)						
Fair value per share	**12.17**	(including issuance of 2.99 million preferred shares and exercise for 3.2 million warrants)						

Source: BTB, Enemona

We are using weighted average cost of capital (WACC) equal to 10.09 percent and beyond forecasted growth of 2 percent. Derived fair value of 12.66 BGN per share doesn't take into account the successful capital increase through convertible preferred shares and exercise of warrants issued. Applying the information from the corporate presentation to Enemona[1] for the successful issuance of 3 million preferred shares, the fair value per share is lowered to 12.10 BGN due to the lower issue price of preferred shares than originally estimated fair one. After adjusting for the exercise of 3 million warrants at an issue price of 16.78 BGN per share fair, fundamental value per share rose to 12.17 BGN. We allow the exercise of warrants to be a fact in early 2013 not in 2011 and 2012 as stated in the Company's corporate presentation.

In our calculations we haven't applied scheduled by Enemona's management exercise of 2 119 000 warrants in 2011 and 1 077 000 exercise in 2012 with an exercise price of 16.78 BGN. For us it is unlikely that the exercise of warrants at a price of 16.78 BGN is reasonable in 2011 and 2012 having in mind presented by the company forecasts about revenues and profits and scant information about the possible sale of investment projects and the subsequent financial effects of this. We find hardly any fundamental reasons in official information for stock prices of Enemona to appreciate above 16.78 BGN so soon.

Peer analysis valutaion

Company (Exch:Ticker)	EV/Rev	EV/EBITDA	EV/EBIT	P/E	P/Tang BV
RPS Group plc (LSE:RPS)	1.2x	6.8x	7.9x	11.7x	11.9x
Entrepose Contracting (ENXTPA:ENTC)	0.4x	5.0x	6.3x	13.2x	6.3x
Interserve plc (LSE:IRV)	0.2x	3.1x	4.1x	4.5x	NM
WSP Group plc (LSE:WSH)	0.3x	4.0x	5.3x	5.9x	NM
Costain Group plc (LSE:COST)	0.0x	2.7x	3.1x	10.3x	NM
Nippon Koei Co. Ltd. (TSE:1954)	0.4x	7.8x	13.8x	44.0x	0.7x
Renew Holdings Plc (AIM:RNWH)	0.0x	1.3x	1.8x	60.4x	17.2x
May Gurney Integrated Services plc (AIM:MAYG)	0.3x	4.9x	8.4x	47.1x	6.7x
Chicago Bridge & Iron Company N.V. (NYSE:CBI)	0.5x	5.3x	6.5x	11.2x	NM
Oranjewoud NV (ENXTAM:ORANW)	0.4x	4.9x	7.4x	10.3x	3.2x
Instal Krakow SA (WSE:INK)	0.4x	3.6x	3.8x	5.8x	1.2x
Energopol-Poludnie S.A (WSE:EPL)	0.6x	6.0x	14.3x	NM	1.4x
Enemona S.A. (BUL:E4A)	0.8x	4.8x	5.8x	7.4x	1.1x
High	1.2x	7.8x	14.3x	60.4x	17.2x
Low	0.0x	1.3x	1.8x	4.5x	0.7x
Average	0.4x	4.7x	6.8x	19.4x	5.5x
Median	**0.4x**	**4.9x**	**6.4x**	**10.7x**	**3.2x**
Weights	20%	20%	20%	10%	30%
Fair value per share	**12.16**				

Source: BTB, Capital IQ

Fundamental value per share using peer analysis is 12.16 BGN. For the purpose of calculations we are using 2009 financial figures, released in Enemona's corporate presentation[1]. We are using five price multiples with different weights each for computing fair value through this method (EV / Revenues with 20% weight, EV / EBITDA-20%, EV / EBIT-20%, P / E-10% and Price / Tangible BV with 30% weight).

Median value of 13 peers for each ratio is used. Enemona's ordinary shares are traded with discount for all the ratios (median values) but the EV/Revenues.

Enemona manages to operate with higher than average profitability ratios.

[1] Corporate presentation, Enemona, January 2010, http:/enemona.bg/File/Documents/Enemona_IPO2_BG.pdf

Fair value per share of Enemona

Fair value per share (common stock) of Enemona AD is derived as a weighted average of the DCF and Peer analysis valuations (each with a 50% weight) standing at 12.17 BGN for the common stock.

Our price target for common shares of Enemona, for the next 52 weeks is 12.17 BGN per share representing 31% up potential. We are issuing a BUY recommendation.

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Conflict of interest

Authors of this analytic material and employees of Bull Trend Brokerage do not have open position in financial instruments, issued by Enemona. Customers of Bull Trend Brokerage Ltd hold open positions referring to the financial instruments being discussed.

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Ratings

Recommendation	Expected 52 weeks return, %
Buy	>12%
Hold	-2%>12%<
Sell	-2%<