

Herti (HTV)

Recommendation: Neutral
Price Target BGN 1.72

BSE Ticker: **HTV**
 Bloomberg: **HTV BU**

Sector: **Materials**
 Industry: **Containers & packaging**

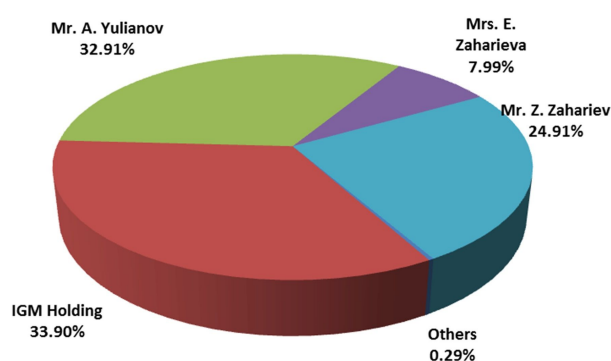
Stock price: **BGN 1.62**
 Free-float: **0.3%**

Market capitalization: **BGN 19.4 million**
 1-year change: **+20%**
 1-year range: **BGN 1.50-1.62**

Financial performance

BGN '000	2013	2014F	2015F	2016F
Revenues	30 595	32 125	35 980	41 377
EBITDA	2 351	3 761	3 058	3 517
EBIT	940	1 365	1 529	1 759
Net profit	317	540	620	773
EPS	0.03	0.04	0.05	0.06
P/E	61.4	36.0	31.8	25.2
Equity	12 835	13 197	13 607	14 124
P/B	1.52	1.48	1.43	1.38
EV/EBITDA	13.6	11.7	10.5	9.1
RoE	2.5%	4.1%	4.5%	5.5%

Shareholders Structure



Herti is leading Bulgarian and European producer of bottle caps for different segments of the food-processing industry, but part of the production is targeted at the pharmaceutical sector. Revenues from export markets represents 85% of sales with major markets are European Union and Russia.

The company is reporting low growth of revenues during the last two years, which is closely related to the crisis of beverages consumption in Europe. The pace of decline of revenues is slowing down during the first quarter. We consider it a signal for expansion of sales this year as the company is offering new product lines with innovative design. The seasonally lower revenues during the first quarter are leading to rise of costs-to-sales ratios.

Shareholders include the Austrian company IGM Holding and physical persons, engaged in the management of the company. The free-float is very low and is below half present of shares.

Herti is reporting slow increase of its trailing profit and revenues, which is supporting the valuation of the stock. Multiples are improving, although the change is not significant. We expect better results during the second and the third quarter that will lead to lower multiples to levels from the end-2012. They will remain above the average for Bulgarian public listed companies, especially the profit-related multiples.

We use two different methodologies for valuation of Herti. Both the comparison to peer group multiples and the discounted cash flow analysis are pointing to fair prices that are close to the current market levels. Our price one year price target is BGN 1.72, the fair price when comparing to peers. The recommendation is HOLD as trading liquidity is low.

COMPANY OVERVIEW

Herti is leading manufacturer of bottle closures and exports 85% of its products

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 that exports to its clients in over 50 countries around the world. The revenues from abroad exceed 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.

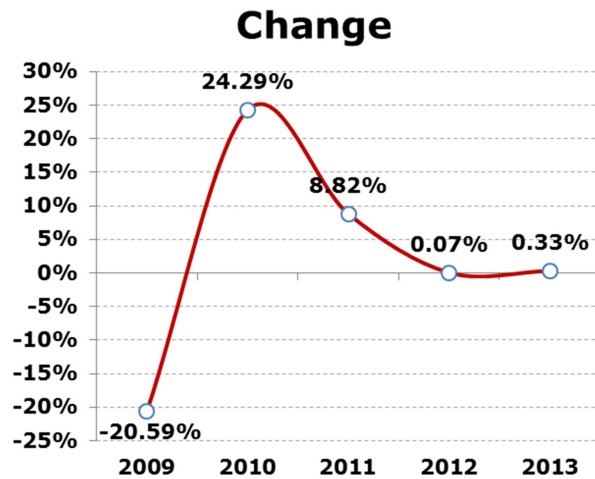
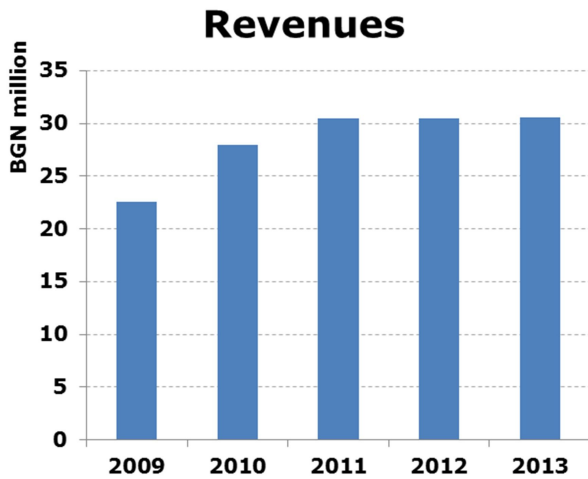
STRUCTURE OF REVENUES

The importance of wine industry is rising

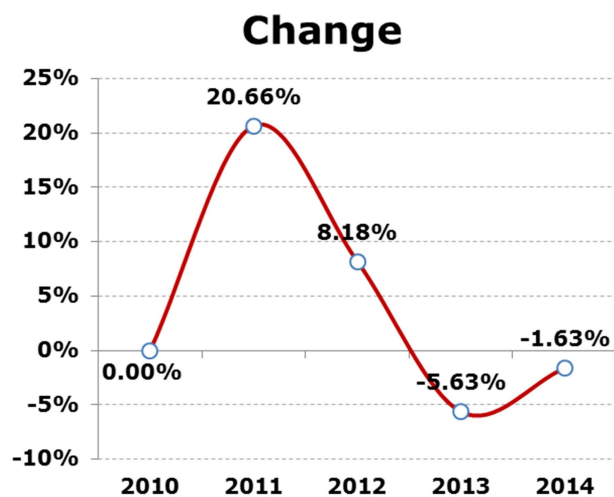
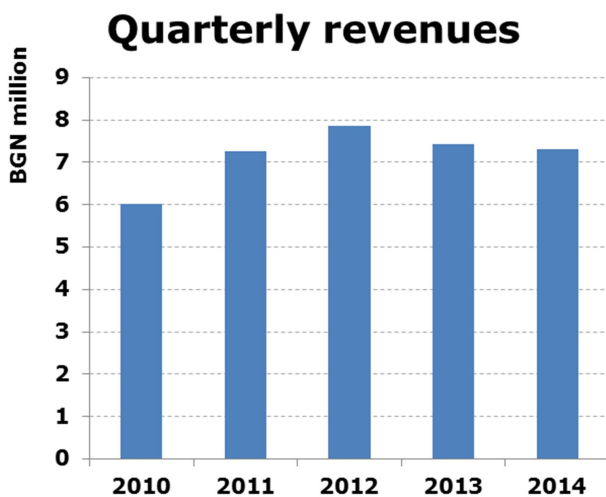
The largest part of the revenues comes from the bottle closures for alcoholic beverages. The change during the previous year is small and as of present date the segment accounts for 49% of revenues. Aluminum caps for wine are losing their share in sales and now form 29% of revenues. During the last couple of years wine producers are actively switching to twist caps due to the now highly priced cork.

The consumption of wine in Europe is declining, although we expect that the importance of aluminum caps to 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.

Closures for wine industry are priority for Herti. The company registered the trade mark Vinstar to offer its products of the segment. Herti is offering closures in two new sizes and began operating the newly installed machine for long closures. Sales of new products started this February and are already presented on the important EU markets.

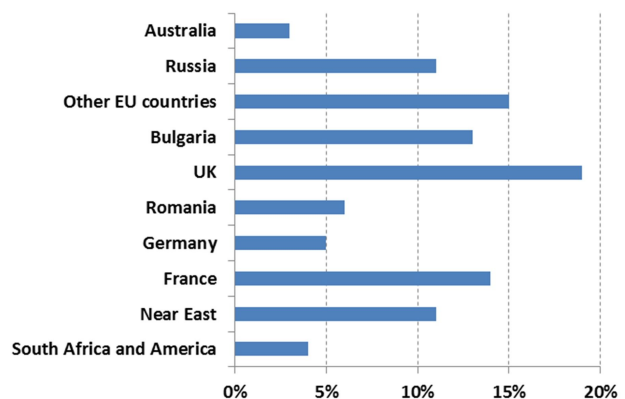
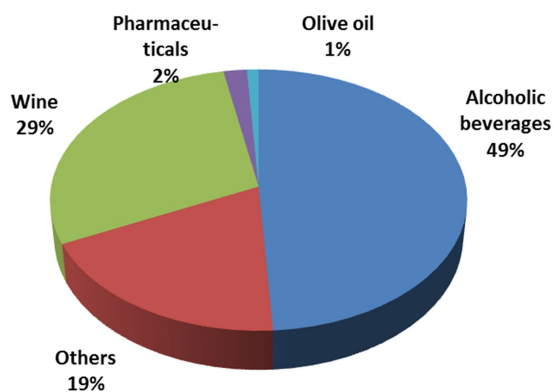


Growth of sales was very weak during the past two years as consumption of beverages stagnated in Europe.



The good start of 2014 is sign for return to growth

The first quarters of 2013 and 2014 are weaker when comparing to the yearly performance of the company. Considering the deceleration of decline, we expect that revenues will return to growth this year during the seasonally stronger summer months.



European markets have rising importance for sales

The production of the company is mainly for export to a wide range of markets. The Bulgarian market accounted for 13% 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. European markets will grow faster after the beginning for production of new closures for wine and mineral water.

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, while new products will support the expansion outside Europe.

Herti exports specific kind of caps for a client in Russia, which it does not normally manufacture. This is however, at expense of other products as sales of goods reached 8.4% of total revenues. The aluminum caps are representing 84% of total sales of Herti.

CONSUMPTION OF ALCOHOLIC BEVERAGES

Consumption in Europe is declining

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

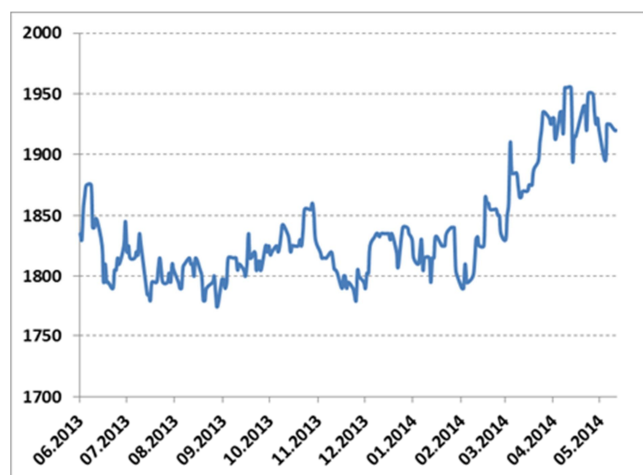
5% increase of costs for materials but no inflationary pressure

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 the past year. Moreover, the company is not experiencing any price pressure from rising costs during the first quarter.

The price increase of aluminum during March and April will lead to higher production costs for the company. We expect that the effect on financial results will be insignificant during the second reported period for 2014. The company has inventories that will negate the 5% increase of material costs. However, the effect on results during 2014 should be negative' although Herti is not reporting any inflationary pressure that could lead to increase of end-prices. We consider

that the increase of aluminum price is sign for global economic rebound and Herti will benefit more from the positive market environment for its products.

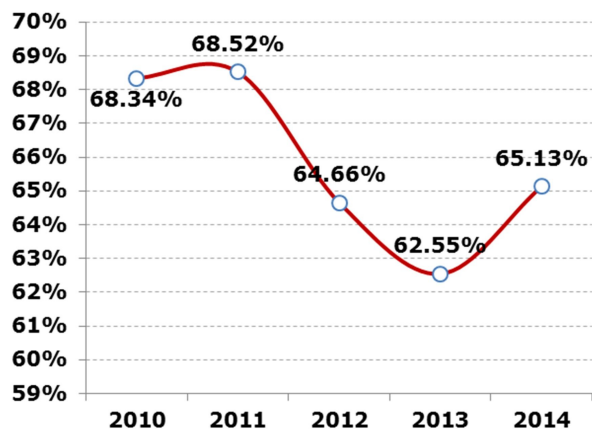
Price of aluminum



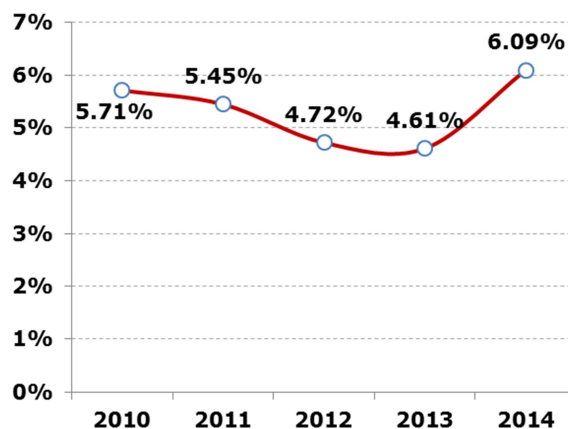
Expenditures are rising as percentage of revenues.

Costs as percentage of revenues

Material costs

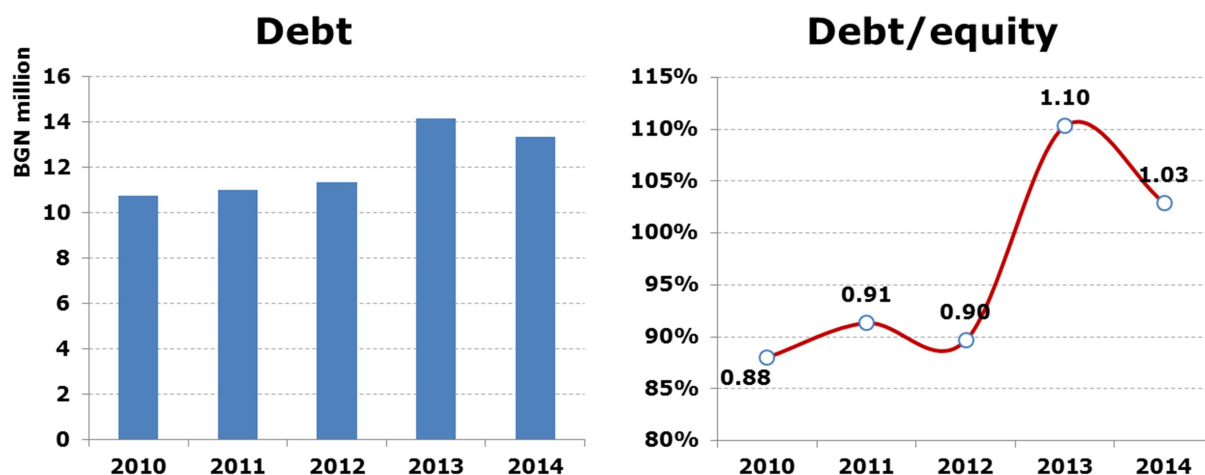


Depreciation



Investments increases depreciation

Material costs are rising as percentage of revenues, despite the relatively unchanged price of aluminum. The company has reported an increase of depreciation and amortization due to its recent investments in new production capacity. The company relies on its new products to increase revenues, including bottle closures for mineral water and the products of Vinstar brand.



The investment program during 2013 increased the level of debt. Herti is not facing difficulties servicing its bank loans.

VALUATION

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

Multiples comparison

	2012	2013	12M
Last Price	1.50	1.62	1.62
Number of Shares	12,013,797	12,013,797	12,013,797
Market Capitalization	18,020,696	19,462,351	19,462,351
Net Profit	569,000	317,000	353,000
P/E	31.67	61.40	55.13
Equity	12,625,000	12,835,000	12,976,000
P/B	1.43	1.52	1.50
Sales	30,495,000	30,595,000	30,747,000
P/S	0.59	0.64	0.63
EV	28,304,696	32,012,351	32,657,351
EBITDA	2,610,000	2,351,000	2,553,000
EV/EBITDA	10.84	13.62	12.79
RoE	4.51%	2.47%	2.72%
RoA	1.90%	0.92%	1.02%

Q1 results improve valuation multiples

Herti reported a slight improvement in its quarterly results that has positive influence on the valuation ratios. The difference is not sizable, although we expect further improvement of financial results during the second and the third quarters. Multiples are expected to decline to levels that correspond to the performance in 2012. Their levels should remain above the averages for Bulgarian public listed companies.

Comparison to industry

Mutiples	P/E	P/B	P/S	EV/EBITDA
Average Value of Peers	23.80	1.41	0.99	13.45
Market Capitalization	8,402,935	18,278,477	30,353,745	21,132,774
Price	0.70	1.52	2.53	1.76
Weight	20%	20%	30%	30%
Current Price		1.62		
Fair Price		1.73		
Premium (Discount) to Current Price		6.78%		

Comparison to industry
is valuing Herti at BGN
1.73

Comparing the average multiples of companies in the manufacturing of packaging products is valuing Herti at levels that are close to the recent quotes.

Discounted cash flows

Herti											Terminal
BGN'000	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Year
EBIT	1,365	1,529	1,759	2,022	2,398	2,638	2,836	3,309	3,441	3,561	3,686
EBIT(1-T)	1,229	1,376	1,583	1,820	2,158	2,374	2,552	2,978	3,097	3,205	3,317
Add: D&A	1,365	1,529	1,759	2,022	2,132	2,345	2,521	2,316	2,409	2,493	2,580
Less: Investments	2,000	1,079	1,241	1,427	1,599	1,759	1,891	2,316	2,409	2,493	2,580
Less: Change NWC	120	135	189	217	200	187	154	110	93	84	90
FCF	474	1,691	1,911	2,198	2,491	2,774	3,029	2,867	3,004	3,121	3,227
PV FCF	431	1,398	1,436	1,501	1,547	1,566	1,554	1,338	1,274	1,203	
Sum of PV FCF	13,247										
PV of Continuing Value	19,141										
Total PV Free Cash Flows	32,388										
Less: Outstanding Debt	13,354										
Plus: Financial Assets	159										
PV of Equity	19,193										
Number of Shares	12,014										
Price Per share	1.60										

Intrinsic value is BGN
1.60

We maintain our forecasts for moderate growth this year, as we prefer to assess the positive effects of new investments on revenues and profit margins after one or two quarters. We expect improvement as compared to 2013 in both sales and profits. The decrease of intrinsic value from the previous research is consequence of lower cash but the change is insignificant. The intrinsic value of BGN 1.60 corresponds to the latest deals.

RECOMMENDATION AND PRICE TARGET

Recommendation:
HOLD
12M target Price:
BGN 1.73
Increase:
7%

Investments in modernization and expansion of capacity will improve the financial performance of the company. The valuation of the stocks corresponds closely to the latest deals on the stock exchange. The one-year price target is BGN 1.73, which is the value when comparing to companies in packaging industry.

Financial Data

Statement of Income (in '000 BGN)	2011	2012	2013	1Q 2013	1Q 2014
Sales	30,473	30,495	30,595	7,423	7,302
Production expenses	24,284	24,013	24,259	5,861	5,570
Personnel expenses	3,955	3,787	3,865	927	955
Net income from financial activities	(80)	(85)	(166)	(76)	(16)
Other revenues and expenses	0	0	46	0	0
EBITDA	2,154	2,610	2,351	559	761
Depreciation	1,660	1,440	1,411	319	445
EBIT	494	1,170	940	240	316
Interest expense	688	601	623	135	175
Pretax income	(194)	569	317	105	141
Taxes	(18)	0	0	0	0
After-tax income	(176)	569	317	105	141
Minority interest	0	0	0	0	0
Net income	(176)	569	317	105	141
Earnings per share in BGN	(0.02)	0.05	0.03	0.01	0.01

Balance Sheet (in '000 BGN)	2011	2012	2013	1Q 2013	1Q 2014
Total Assets	30,111	29,877	34,446	30,886	34,585
Equity subscriptions receivable	0	0	0	0	0
Fixed assets	15,395	14,963	18,737	15,530	18,563
Tangible fixed assets	15,022	14,546	17,879	15,115	17,646
Financial investments	279	328	336	328	336
Current assets	15,395	14,963	15,709	15,356	16,022
Inventory	4,310	4,892	4,809	4,670	4,898
Receivables	10,249	9,785	10,373	10,667	10,965
Financial assets	0	0	0	0	0
Cash and cash equivalents	157	237	527	19	159
Total liabilities + equity	30,111	29,877	34,446	30,886	34,585
Equity	12,056	12,625	12,835	12,623	12,976
Registered capital	12,014	12,014	12,014	12,014	12,014
Capital funds	438	438	484	438	516
Earnings	-396	173	337	171	446
Liabilities	18,055	17,252	21,611	18,263	21,609
Long-term payables	808	808	1,180	880	2,356
Long-term bank loans	3,237	2,843	5,726	3,467	5,108
Short-term bank debt	7,108	7,678	7,351	3,605	6,859
Short-term payables	6,902	5,923	7,354	10,311	7,286
Other liabilities	0	0	0	0	0
Working capital	5,005	1,362	1,004	1,440	1,877

Cash Flow Statement (in '000 BGN)	2011	2012	2013	1Q 2013	1Q 2014
Net income	(176)	569	317	105	141
Depreciation	1,660	1,440	1,411	319	445
Changes in Working capital	113	(3,643)	(358)	436	437
Other operating cash flow items	(54)	3,342	345	(399)	(670)
Net cash from operating activities	1,543	1,708	1,715	461	353
Capital expenditures	(392)	(1,074)	(4,156)	(880)	(791)
Other investing cash flow items	0	(49)	670	0	1,911
Net cash from investing activities	(392)	(1,123)	(3,486)	(880)	1,120
Issuance/ Retirement of Stock, Net	0	0	0	0	0
Issuance/ Retirement of Debt, Net	(91)	332	2,545	309	(1,629)
Dividends paid	0	0	0	0	0
Other financing cash flow items	(948)	(837)	(481)	(105)	(212)
Net cash from financing activities	(1,039)	(505)	2,064	204	(1,841)
Net change in cash	112	80	293	(215)	(368)
Beginning-of-period cash	45	157	234	234	527
End-of-period cash	157	237	527	19	159
Cash per share	0.01	0.02	0.04	0.00	0.01

Financial and Performance Indicators	2011	2012	2013		TTM
Valuation Ratios					
Price/Earnings (P/E)	-68.41	31.67	61.40		55.13
Book Value (BV)	1.00	1.05	1.07		1.08
Price/Book (P/B)	1.23	1.43	1.52		1.50
Sales Per Share	2.54	2.54	2.55		2.54
Price/Sales (P/S)	0.48	0.59	0.64		0.64
Price/Cash per share	9.96	8.97	11.26		10.30
EV (in BGN)	24,965	28,305	32,012		31,270
EV/Sales	0.82	0.93	1.05		1.03
EV/EBITDA	11.59	10.84	13.62		12.25
EV/EBIT	50.54	24.19	34.06		98.96
Liquidity					
Current ratio	1.10	1.10	1.07		1.13
Quick ratio	0.79	0.74	0.74		0.79
Debt Management					
Debt to total assets	0.60	0.58	0.63		0.62
Interest coverage	0.72	1.95	1.51		1.53
LT Debt/Equity	0.34	0.29	0.54		0.58
Total Debt/Equity	1.50	1.37	1.68		1.67
Asset Management					
Inventory turnover	7.07	6.23	6.36		6.22
Days sales outstanding	121	116	122		130
Fixed asset turnover	1.98	2.04	1.63		1.64
Total asset turnover	1.01	1.02	0.89		0.88
Profitability					
Profit margin on sales	-0.6%	1.9%	1.0%		1.2%
EBITDA margin	7.1%	8.6%	7.7%		8.4%
Basic earning power	1.6%	3.9%	2.7%		2.9%
Return on assets	-0.6%	1.9%	0.9%		1.0%
Return on equity	-1.5%	4.5%	2.5%		2.7%
Return on investments	-1.1%	3.5%	1.6%		1.7%
Dividend Information					
Dividend Yield	n/a	n/a	n/a		n/a
Dividend per share	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:					
	1.23	1.50	1.62	1.62	1.62
Market cap in BGN - period end:					
	14,776,970	18,020,696	19,462,351	19,462,351	19,462,351

Disclaimer

Regulatory Restrictions: No publication of ELANA Trading should be construed as an offer (or solicitation of an offer) to **U.S. persons** to buy or sell financial instruments or any financial product, make any investment or participate in any particular trading strategy (collectively "Offers"). No Publication of ELANA Trading should be construed as an Offer (or solicitation of an offer) in any jurisdiction in which such Offer would be illegal. Any such perceived Offer will not be honoured by ELANA Trading.

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