Sector: Bottled Water/Soft drinks

Devin –H1'09 results update

Valuations look rich, potential sale largely priced in

➢ **H1'09 Financials**

The bottling company booked **sales of BGN 32.88m, up by 6.8% y/y**. Operating profitability continue improving as gross margin reached 43% vs 38.5% in H1'08 and 40.5% in Q1'09. EBITDA grew by 60% y/y to BGN 4.4m with EBITDA margin rising to 13.4% from 9% in 2008. Results are better than expected and indicate sustained improvement in profitability.

➢ **Change of Ownership: Soravia looking for an exit**

The Austrian Soravia announced intentions to part with 75.3% ownership in the company in order to focus on its core business in real estate. Latest publication implies that currently Soravia is in the process of negotiations with Advent International for the sale but has not signed yet. We believe that **the market has already discounted the news and we see limited potential for a higher premium**. The stock has added 55% YTD versus a market average gain of ca 26%. We do not exclude the option for a higher premium being paid in the case of significant strategic interest bearing in mind the leading market positions of Devin and the defensive characteristics. However, we attach limited probability.

➢ **H2'2009 Outlook**

The market for soft drinks lost 5% over H1'09 while the water segment declined 4%. Devin realizes traditionally ca 30% of its sales in Q3 due to seasonal patterns and we believe that 9m results would be indicative for performance and the impact of the significantly slower consumptions coupled with weaker tourism this year. **H1'09 financials suggest that the company might be outperforming the market so far but we prefer to wait for harder evidence that Devin is grabbing market share.**

➢ **We cut estimates on top-line**

We revised our estimates incorporating softer top-line while preserving improved profitability assumptions as Q1 and Q2 results provide additional support. Peer comparison suggests a fair price estimate of BGN 2.19 (30% weight) while the DCF exercise (70% weight) renders a price objective of BGN 2.92. We now see 3 year CAGR sales growing at 10.2% versus 13.1% in our last report. We have also relaxed WACC requirements given the easing of risk premiums observed recently which now stands at 10.8% compared to 12.61% employed previously**. Thus, we downrate the stock to "underperform" with a blended TP of BGN 2.70.**

Financials

BGN m	2006	2007a	2008a	2009e	2010e
Revenues	29.8	53.9	65.6	71.9	80.0
EBITDA	2.5	7.3	7.4	10.4	12.6
Net Profit	-0.5	1.5	0.8	1.6	3.0
EPS	0.0	0.1	0.0	0.1	0.2
BVPS	0.5	1.7	1.7	1.9	1.9

Valuations

	2006	2007	2008a	2009e	2010e
P/E	-	38.8	73.4	36.6	19.9
Price/ Sales	1.98	1.10	0.90	0.82	0.74
EV/EBITDA	33.4	11.6	11.6	8.2	6.7
P/B	6.6	1.97	1.96	1.74	1.70
ROaE	-	7.81%	2.51%	4.70%	8.35%

Source: Company, EFG Securities Bulgaria est;

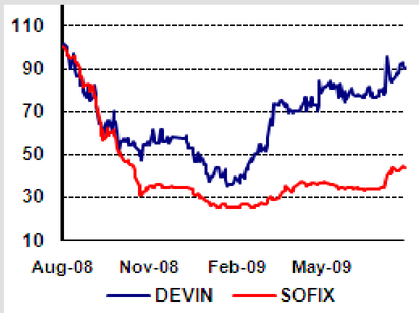
Issue Date:

31 August 2009

Last Price:	BGN 3.30
Target Price	BGN 2.70
Previous Target:	BGN 2.45

Recommendation:
We down rate:
Underperfom

Devin vs SOFIX



Source: BSE-Sofia, EFG Securities Bulgaria est

Stock Data	
BSE Ticker	6D3 BU
Index Participation	BG 40
EUR/BGN	1.95583
52 Week High	BGN 8.6
52 Week Low	BGN 1.37
Abs. performance (1m)	+17.52%
Abs. performance (YTD)	+55.99%
Number of shares (k)	17,891
Market Cap (BGN m)	BGN 59m
Avg. Daily Volume (3m)	BGN 7.0k
3yr EPS CAGR est	63.3%
Free Float	18.0%

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Company Profile

Devin is a leading producer and distributor of bottled water and other soft drinks. The company commands about 29.8% market share in the bottled water segment (excl. bulk and HOD), followed by Gorna Banya (24.8%) and Bankya (13.4%; owned by Coca-Cola Hellenic Bottling). Devin has a wide portfolio of products including mineral water, spring water, carbonated soft drinks, energy drinks and a highly recognized brand name. As of the end of 2007, Devin concluded exclusive contracts for the import and distribution of Red Bull on the territory of the country and currently holds more than 70% of the functional drinks market in value terms. Functional drinks account for about 25%-30% of Devin's total sales. The company also entered the premium juices segment beginning the distribution of Granini (Eckes-Granini Group) on the territory of Bulgaria. The company is listed on BSE-Sofia since 2007 (raised BGN 18.3 of equity capital) and about 24.7% of the capital is free-float while the rest of the company is controlled by the Austrian Soravia Group.

H1'2009 Financials Review

The bottling company booked sales of BGN 32.88m, up by 6.8% y/y. Operating profitability continued improving as gross margin reached 43% vs 38.5% in H1'08 and 40.5% in Q1'09. EBITDA grew by 60% y/y to BGN 4.4m with EBITDA margin rising to 13.4% from 9% a year earlier. Financial expenses were down by 9% y/y to BGN 0.67m. EBT amounted to BGN 1.06m compared to almost zero in H1'08. The reported figures are better than expected and indicate sustained improvement in profitability, and completely offset the BGN 0.36n loss in Q1. Despite the better operating margins demonstrated, the top-line is exhibited softer than expected growth. Still the achieved increase beat the market trend over the quarter. The soft drinks market sank in the red with 5% y/y in H1'09 after a marginal decline of 1% in Q1. The total market amounted to 755m litres for the half year declining by some 39m litres compared to H1'2008. The bottled water segment saw a 4% decline. The functional and sports drinks segment saw the steepest decline of 14%, followed by fruit juices and nectars (-12%).

In the last quarter alone gross margin stood at 45% (39.9% in Q2'09), EBITDA was up by 38% y/y to BGN 3.04m (BGN 2.2m in Q2'08) and bottom line amounted to BGN 1.43m. Management explained the enhanced profitability with the higher efficiency as a result of completed investments in 2008.

Financials Summary

	2007	2008	Q2'08	Q2'09	H1'08	H1'09	2009e	2010e
BGN'000	cons	cons	cons	cons	cons	cons	cons	cons
			quarter only	quarter only				
Sales	**53 888**	**68 490**	**17 708**	**18 972**	**30 797**	**32 880**	**71 915**	**80 041**
y/y chg	80.6%	27.1%	25.1%	7.1%	21.8%	6.8%	5.0%	11.3%
COGS	**33 351**	**41 177**	**10 642**	**10 452**	**18 938**	**18 728**	**42 949**	**47 158**
Gross Profit	**20 537**	**27 313**	**7 066**	**8 520**	**11 859**	**14 152**	**28 965**	**32 883**
% margin	38.11%	39.88%	39.90%	44.91%	38.51%	43.04%	40.28%	41.08%
EBITDA	**7 303**	**7 353**	**2 205**	**3 041**	**2 759**	**4 403**	**10 368**	**12 633**
y/y change	187.0%	0.7%	255.6%	37.9%	31.1%	59.6%	41.0%	21.9%
% margin	13.6%	10.7%	12.5%	16.0%	9.0%	13.4%	14.4%	15.8%
Financial Expenses, net	**2 048**	**1 736**	**-446**	**-297**	**739**	**671**	**241**	**241**
Net profit (loss)	**1 521**	**805**	**723**	**1 426**	**3**	**1 063**	**1 721**	**3 127**

Source: Company, EFG Securities Bulgaria est

Soravia looking for an exit: selling 75.3% in the company

The Austrian Soravia announced intentions to part with its 75.3% ownership in the company in order to focus on its core business in real estate. Press reports suggest that among the interested parties are Argus Capital, Balkan Accession Fund, SGAM, GED and Bancroft Private Equity. Latest publication implies that currently Soravia is in the process of negotiations with Advent International for the sale but has not signed yet. We believe that the market has already discounted news and we see limited potential for a higher premium. **The stock has added 55% YTD versus a market average gain of ca 26%**.

We do not exclude the option for a higher premium being paid in the case of significant strategic interest bearing in mind the leading market positions of Devin and its defensive characteristics. However, we attach limited probability. A cross-reference to pre-crisis 29 M&A transactions in the sector (average EV value of EUR 968m) on a global scale indicates the following multiples of about 10.4x EBITDA and 26x earnings. Thus, in the case of Devin we might witness lower multiples given the uncertain economic environment and expect a transaction near the current market levels implying 8x-9x EBITDA multiple.

Transaction Multiples: 29 M&A transactions 2006-2009

	x Sales	x EBITDA	x Earnings
Average	2.0	10.4	26.1
Median	1.4	9.4	24.1

Source: mergermarket

- ### H2'2009 Outlook

The market for soft drinks lost 5% over H1'09 and the water segment declined 4%. Devin realizes traditionally ca 30% of its sales in Q3 due to seasonal patterns and we believe that 9m results would be indicative for performance going forward. We would be looking for better clues on the impact of the significantly slower consumptions coupled with weaker tourism this year and implications for 2010 financial estimates. **H1'09 financials suggest that the company might be outperforming the market so far but we prefer to wait for harder evidence that Devin is grabbing market share**. Furthermore, the market for functional drinks which has been the primary driver of sales growth is experiencing deeper declines (14% YTD). We are still convinced that Devin is better positioned to build its market share in the current environment due to the strong brand name, distributioning channels and hefty product portfolio.

Valuation and Estimates Revision

We estimate a fair price per share of BGN 2.71 which implies 18% lower estimated fair price from current levels. Our computations are based on a peer comparison analysis and a DCF model. We attach a 30% weight to the comparables approach and a 70% weight to the cash flow based method.

DCF Exercise

The softer H1'09 sales figures and the weaker market for soft drinks prompt us to incorporate a 3-year CAGR sales growth of 10.2% versus 13.1% in the previous model. We raise gross and operating margins slightly which leaves our 3-year CAGR EBIT growth estimate virtually unchanged at 37.5%. We expect 2009 and 2010 EBITDA to stand at respectively BGN 10.4m and BGN 12.6 while earnings are seen at BGN 1.7 and BGN 3.2m respectively.

Our DCF analysis returns a fair price estimate of BGN 2.92 per share, a 11% downside potential from current market levels, assuming a WACC of 10.8% (12.63% previously modeled) and a 1.5% terminal growth rate. We lower the WACC estimates on evidence of decreasing equity premiums and lower risk-free rate.

Devin: Free Cash Flows

BGN m	2009e	2010e	2011e	2012e	2013e
Revenues	**71.9**	**80.0**	**87.8**	**95.3**	**97.7**
EBITDA	**10.4**	**12.6**	**13.8**	**14.1**	**14.9**
NOPAT	**3.7**	**5.4**	**6.0**	**6.1**	**6.5**
CAPEX	-5.3	-5.0	-4.4	-3.4	-3.3
D&A	6.7	6.2	6.7	7.1	7.4
Change in WC	-3.1	-3.7	-1.6	-1.3	-1.2
Free Cash Flow	**1.6**	**3.4**	**7.1**	**8.7**	**9.6**

DCF Summary (BGN m)

SUM of discounted FCFFs 2008-2013	22.4
Terminal Value	55.9
Total	**78.3**
WACC	10.82%
Net Debt (2008)	26.0
Equity value	52.3
Mcap	58.9
No of shares	17 891 306
Fair price per share (BGN)	**2.92**
Current price	**3.29**
Upside/Downside	**-11%**

Implied Equity Value per share (BGN)

	Long-term growth rate				
WACC	**1.0%**	**1.3%**	**1.5%**	**1.8%**	**2.0%**
9.5%	2.93	3.03	3.14	3.26	3.38
10.0%	3.00	**3.09**	**3.18**	**3.28**	3.39
10.5%	2.76	**2.84**	**2.92**	**3.01**	3.11
11.0%	2.56	**2.63**	**2.71**	**2.79**	2.87
11.5%	2.38	2.44	2.51	2.57	2.65

Source: EFG Securities est

Peers Comparison

Looking at a universe of global peers Devin is trading at above average market multiples. The company is value by the market a 13% premium in terms of EV/EBITDA and at significantly more expensive in terms of P/E. Applying equal weights to 2009e P/E, EV/EBITDA and EV/Sales, we derive a target price of BGN 2.19.

Company	Country	Mcap (BGN m)	P/E			EV/EBITDA			EV/SALES		
			TTM	2009e	2010e	TTM	2009e	2010e	TTM	2009e	2010e
COCA-COLA SA	GR	**11 420.70**	41.4 x	36.1 x	19.1 x	15.3 x	8.0 x	6.5 x	1.2 x	1.0 x	1.1 x
PEPSI BOTTLING	US	**10 655.76**	29.1 x	14.1 x	12.8 x	8.0 x	7.9 x	7.4 x	1.2 x	1.1 x	1.2 x
PEPSIAMERICAS	US	**4 825.62**	16.3 x	15.1 x	13.7 x	8.5 x	8.1 x	7.6 x	1.1 x	1.0 x	1.1 x
NATL BEVERAGE	US	**692.33**	13.8 x	14.7 x	13.5 x	8.7 x	8.8 x	8.2 x	1.2 x	1.2 x	1.3 x
COTT CORP	CA	**691.01**	20.3 x	18.9 x	17.4 x	8.5 x	8.0 x	7.4 x	0.7 x	0.7 x	0.7 x
SUN-RYPE PRODS	CA	**121.79**	NA	9.2 x	9.3 x	NA	5.5 x	5.2 x	NA	0.5 x	0.5 x
BADEL 1862 DD	HR	**27.13**	31.0 x	9.0 x	8.4 x	NA	5.4 x	5.2 x	0.8 x	0.7 x	0.7 x
COCA-COLA ICECEK	TU	**2 460.44**	19.9 x	15.0 x	13.2 x	7.6 x	6.7 x	6.1 x	1.3 x	1.2 x	1.3 x
DEVIN		**58.86**	**73.38**	**36.58**	**19.89**	**11.57**	**8.21**	**6.73**	**0.90**	**0.82**	**0.74**
Average peer group			**24.5 x**	**16.5 x**	**13.4 x**	**9.4 x**	**7.3 x**	**6.7 x**	**1.1 x**	**0.9 x**	**1.0 x**
Median peer group			**20.3 x**	**14.8 x**	**13.3 x**	**8.5 x**	**7.9 x**	**7.0 x**	**1.2 x**	**1.0 x**	**1.1 x**
Premium/Discount			*199%*	*122%*	*48%*	*23%*	*13%*	*0%*	*-16%*	*-13%*	*-25%*

Fari Value Estimates	P/E	EV/EBITDA	EV/SALES
Est Equity Value (BGN m)	26.6	49.5	41.7
Estimated Price/Share(BGN)	1.49	2.77	2.33
Weight	33%	33%	33%

Est. Price Per share (BGN)	**2.19**
Current Price/share (BGN)	3.30
Upside(Downside)	-33.5%

Source: EFG Securities Bulgaria est, Bloomberg; prices as of 27th August, 2009

Income Statement	2006a	2007a	2008a	2009e	2010e
BGN'000	cons	cons	cons	cons	cons
- Sales	29 836	53 888	65 596	71 915	80 041
COGS	21 522	33 351	41 177	42 949	47 158
OPEX	8 152	16 974	-24 731	24 828	26 934
EBITDA	2 545	7 303	7 353	10 368	12 633
EBIT	11	3 578	2 583	4 137	5 949
Net Profit	-460	1 521	805	1 721	3 127

Source: Company, EFG Securities Estimates

Balance sheet	2006	2007	2008	2009e	2010e
BGN'000	cons	cons	cons	cons	cons
Current Assets	**4 246**	**13 890**	**15 835**	**22 021**	**29 391**
Inventory	1 798	5 042	7 421	8 074	8 164
Trade and other Receivables	2 242	4 575	7 068	11 944	15 710
Receivables from related partis	0	0		0	0
Cash and cash equivalents	164	1 228	920	1 354	4 867
Advance Payments	42	3 045	426	650	650
Non-Current Assets	**38 010**	**36 767**	**49 191**	**49 347**	**52 734**
PPE	15 850	16 416	30 451	32 207	37 194
Intangible assets	22 144	20 341	18 730	17 130	15 530
Investments	3	3	3	3	3
Defered taxes	13	7	7	7	7
Total Assets	**42 256**	**50 657**	**65 026**	**71 368**	**82 125**
Equity	**8 960**	**29 974**	**30 794**	**33 915**	**34 724**
Current Liabilities	**8 226**	**10 859**	**11 766**	**10 854**	**14 105**
Liabilities for payment of benefits to employees	1	1	1	1	1
Fianancial Loans	2 885	3 966	4 589	3 649	4 752
Liabilities to related parties	978	0	0	0	0
Payables	4 362	6 892	7 176	7 204	9 352
Non-Current Liabilities	**25 070**	**9 824**	**22 466**	**26 599**	**33 295**
Deferred taxes	36	39	23	23	23
Liabilities for payment of benefits to employees	58	84	84	84	84
Financial loans	24 976	9 701	22 359	26 492	33 188
Total Liabilities	**33 296**	**20 683**	**34 232**	**37 453**	**47 400**
Total Liabilities and Equity, incl minority	**42 256**	**50 657**	**65 026**	**71 368**	**82 125**

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12-month Rating History on Devin:

Date	Rating	Stock price	Target price
09/January/2009	Outperform	1.44	2.13
30/April/2009	Market Perform	2.53	2.45
28/August/2009	Underperform	3.30	2.70

Source: EFG Securities Bulgaria

EFG Securities Bulgaria Rating System:

Our rating system is based on the expected performance of the stock relative to the SOFIX index over a 12-month period. The underlying assumption is a flat market.

Stock Ratings	Explanation	% of EFG Securities Bulgaria Recommendations	% of rated stocks to which investment banking services were provided within the last 12 months
Outperform	Expected out performance of 10%-20%	50%	0%
Market Perform	Expected performance in line with the index ie +/- 10%	50%	0%
Under Perform	Expected underperformance of 10%-20%	0%	0%
Restricted	Under EFG Group policy and/or regulations which do not allow ratings	0%	0%

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