

# Speedy AD (OSP:BSE) - The genuine SPO on the Bulgarian Stock Exchange

## /Company Overview & Future Prospects/

Pages of the report: 9

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Economic Environment	
Country	Bulgaria
Land Area, sq. km.	108560
Currency	BGN
EUR/BGN Rate	Fixed at 1.95583
GDP Growth, 2011	1.70%
GDP Growth, 2012 <sup>a</sup>	0.60%
GDP Growth, 2013 <sup>b</sup>	2.50%
CPI, annual, 2011 <sup>c</sup>	4.22%
Current Tax Rate	10.00%
Expected Tax Rate (next 5 years)	10.00%
Population Density, 2011	69.4
Population Density, Romania, 2011 <sup>d</sup>	93.2
Land Area, sq. km., Romania <sup>d</sup>	230060

a. World Bank estimate

b. World Bank Forecast

c. World bank DataBank

d. Closest market expansion target for Speedy AD

### Speedy At a Glance

Speedy AD ([www.speedy.bg](http://www.speedy.bg)) is a courier company, incorporated before 7 years, with headquarters in Sofia, Bulgaria.

With a market share of 30%, Speedy is a **market leader** in the courier services in Bulgaria.

The company operates 84 offices in 55 settlements. Due to its own auto fleet of more than 500 automobiles and trucks, Speedy's courier services cover 100% the area of Bulgaria.

Speedy's main focus is the **B2B** segment. As of the end of 2011 the company had long term contracts with 17 000 corporate clients. Monthly it services more than 30 000 clients, both businesses and individuals, and delivers more than 550 000 parcels, weighting from 0.5kg to 6000kg.

The company's tracking and operating **software is among the most sophisticated** ones in Europe and allows almost a non-contact acceptance of parcels from clients. The mobile bar-code scanners which are part of every Speedy courier's equipment, are connected to the central system, thus allowing the parcel's data to be processed electronically.

Since November, 2010 Speedy partners in Bulgaria with DPD ([www.dpd.com](http://www.dpd.com)) – one of the leading international parcel service providers. This gives room for further increase of the range and quality of the services provided to the Bulgarian customers.

Speedy AD is a wholly owned by Speedy Group AD.

Shares Outstanding	1482200
Shares Offered, % of outstanding	20.00%
Shares Offered, number	296440
Shares Traded to date <sup>a</sup>	6431
Volume Traded to date <sup>a</sup> , BGN	331196.5
Transactions to date <sup>a</sup> , number	42
Shares Traded to date <sup>a</sup> , % of all	0.43%
Shares Traded to date <sup>a</sup> , % of offered	2.17%
Trading Days to date <sup>a</sup> , number	3
Price Range Offered, BGN	51.50 - 55.00
P/E range <sup>b</sup>	13.9 - 14.9
Price Range Realized to date <sup>a</sup> , BGN	51.50 - 51.50
Average Market P/E <sup>c</sup>	17.23

a. November 16, 2012

b. Historical, 2011, unconsolidated;  
Source: financial statements

c. Average of BSE market indexes, as of end of October, 2012; Source: [www.bse-sofia.bg](http://www.bse-sofia.bg), author calculations

### SPO and Market Information

The Secondary Public Offering (SPO) of Speedy AD started on Wednesday, November 14, 2012. It is scheduled to continue for the next 8 trading days, till **Friday, November 23**. Investment intermediary organizing the offering is Karoll AD.

The Speedy AD stock is included in the **Standard segment** of Bulgarian Stock Exchange.

As of date of writing the highest demand is at BGN 50 while the lowest supply is at BGN 51.50. All the trades during the three trading days since the start of the SPO were realized at the lowest bound of the offering range.

For the time the stock has traded, the **volume** traded of Speedy (BGN 331196.5 = € 169338.08) amounts to **36%** of all the volume on the Standard segment for the period.

The **market capitalization** of the issue as of Friday, November 16, 2012 (BGN 76.333mln = € 39.03mln) takes **1.30%** of the market capitalization of the Standard segment.

The **P/E** achieved to date is 13.9 which is below the October, 2012 average P/E of both BG40\* and BGTR30\* indexes (35 and 24, respectively) but above the SOFIX\* P/E of 6.1.

The **EV/EBITDA** achieved to date is 8.15 based on 2011 consolidated financial results (EBITDA, book value of debt, cash available) and current stock price of BGN 51.50.

For the period SOFIX, BG40 and BGTR30 marked increases of 0.73%, 0.70% and 0.37%, respectively.

For the moment inclusion of Speedy in any of the above indexes is not underway. *However, a possible inclusion in future could increase the visibility of the stock and present it to a greater number of investors.*

\* SOFIX, BG40 and BGTR30 are indexes provided and calculated by the Bulgarian Stock Exchange. More info on them could be found on <http://www.bse-sofia.bg/?page=Indices> .

## Speedy AD - Exploring Future Possibilities

- Capital Increase

	EV/EBITDA <sup>a</sup>	P/E <sup>a</sup>
DEUTSCHE-POST-AG (DPW)	4.91	11.70
OESTERREICHISCHE-POST-AG (POST)	6.08	14.10
POSTNL (PNL)	4.30	1.40
TNT-EXPRESS (TNTE)	8.49	40.70
FEDEX-CORPORATION (FDX) <sup>b</sup>	4.65	13.60
UNITED-PARCEL-SERVICE (UPS)	8.29	16.20
Average Europe Examined	5.95	16.98
Average All Examined	6.12	16.28
SPEEDY AD (OSP)	7.11	10.20

a. 2012e

b. 2013e

The nature of the SPO implies the current goal is not to raise money but rather to increase the visibility of Speedy AD as a possible investment opportunity.

In a recent interview Mr. Valery Metkupchian, CEO of Speedy AD, revealed **plans of a possible cross border expansion** in Romania. The company already owns Transbalkan Romania and according to management, it is also expected to acquire a local Romanian company in the courier field of business. According to the plan, the successful development of Speedy in Bulgaria should be replicated in foreign markets with similar characteristics.

The SPO and the management plans suggest the management is willing to share their ownership in the company in exchange for

financial support for future plans. Therefore, an **increase of equity capital** by issuing new shares or other ways of attracting financing could be logically the next expected step.

- Business Combination

Another option would be a business combination to take place as Speedy might be viewed as an **acquisition target**. The EBITDA (2012e) multiple is higher than the average of peers but below the average takeover EBITDA multiple in Europe for 2011 (8.6). The company is small enough compared to its peers, and is planning a significant expansion. The geographical location and the market segment it operates in, could provide growth opportunities not present in a more mature environment.

Given the EV/EBITDA ratio changes favorably, by either a stock price decrease or an EBITDA increase which surpasses the analysts and/or management estimates, the possibility for a takeover offer would increase.

- Proceeding Without a Change in Capital or Ownership

Given the announced plans for expansion are to be executed as expected, keeping the current capital size and structure seems as not a very probable option. While the company could rely on domestic demand and the expected increase in online retail trade to support revenues, Romania would provide significantly bigger market opportunities compared to Bulgaria and financing for such an expansion would be needed.

## Speedy's Profile and Financials

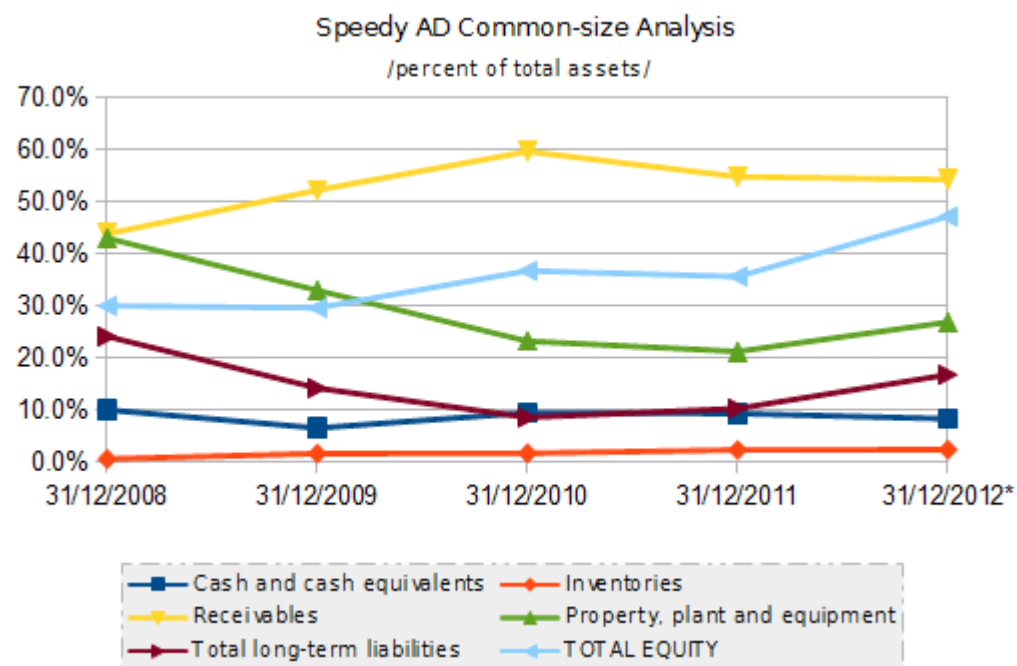
Speedy managed to provide a robust performance with an increase in most of the financial indicators during the last 4 years.

Selected Average Historical Data /Speedy AD, 2008-2011/ <sup>a</sup>	
Revenue Growth	11.1%
Earnings Growth	42.6%
Operating Margin	17.1%
Net Margin	8.7%
EPS	5.12
ROA	20.7%
ROE	63.9%
Current Ratio	1.20
Quick Ratio	1.15
Debt/Assets	0.22
Financial Leverage	3.13

a. Unconsolidated results;  
Source: financial statements

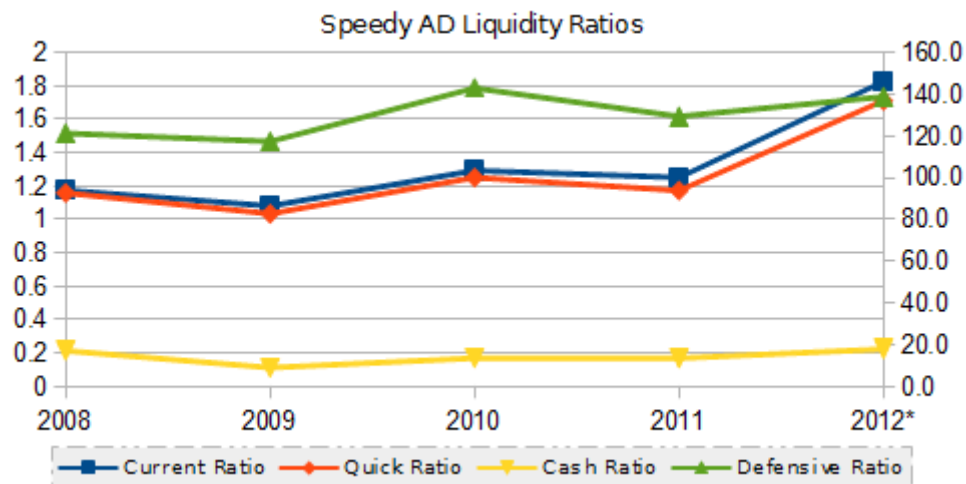
Proportion, as % of Total Assets					
	2008	2009	2010	2011	2012*
Cash and cash equivalents	9.8%	6.4%	9.3%	9.1%	8.1%
Inventories	0.4%	1.5%	1.5%	2.1%	2.2%
Receivables	43.7%	52.1%	59.5%	54.7%	54.1%
Property, plant and equipment	42.9%	32.8%	23.1%	21.1%	26.7%
Total long-term liabilities	24.0%	14.0%	8.4%	10.1%	16.6%
<b>TOTAL EQUITY</b>	<b>29.8%</b>	<b>29.4%</b>	<b>36.6%</b>	<b>35.5%</b>	<b>47.0%</b>

\*. 2012 estimates; Source: company management and Karoll, here and in all the tables below, if not stated otherwise.



**Receivables** take a significant part of company's assets with a slight tendency of decreasing in 2011. As Speedy works

in the services field, a practice of financing certain customers for services done seems to be in line with the normal course of business. For 2011 trade receivables took 54% of all receivables while trade loans took another 38%.

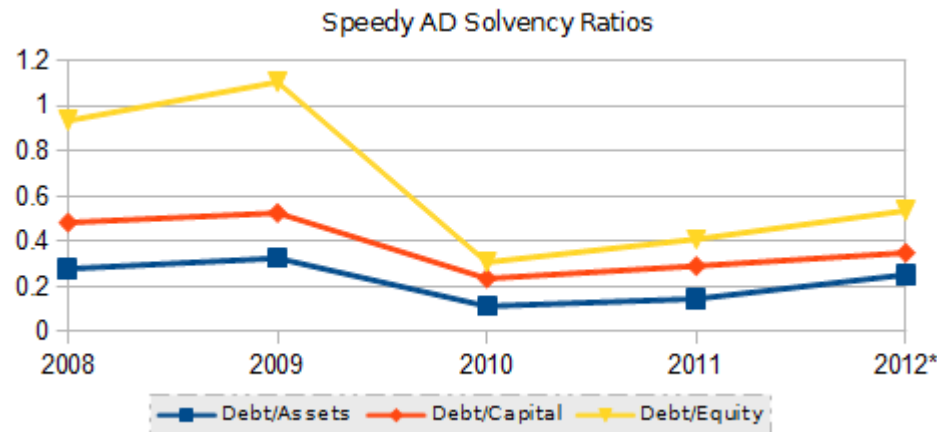


	2008	2009	2010	2011	2012*	Average Mean
Current Ratio	1.17	1.08	1.29	1.25	1.83	1.33
Quick Ratio	1.16	1.03	1.25	1.17	1.71	1.27
Cash Ratio	0.21	0.11	0.17	0.17	0.22	0.18
Defensive Ratio	121.3	117.4	143.0	129.4	138.8	92.8

The company presents a decent **liquidity** with a strong cash position. During the 2008 – 2011 years the company had an average of 8.65% of its assets in cash while the proportion between total assets and long term liabilities was 14.1%, on average.

The defensive ratio shows Speedy could cover its daily cash expenditures (0.084mln, 2011; 0.102mln, 2012e) for about

130 days (an increase from 68 in 2009).

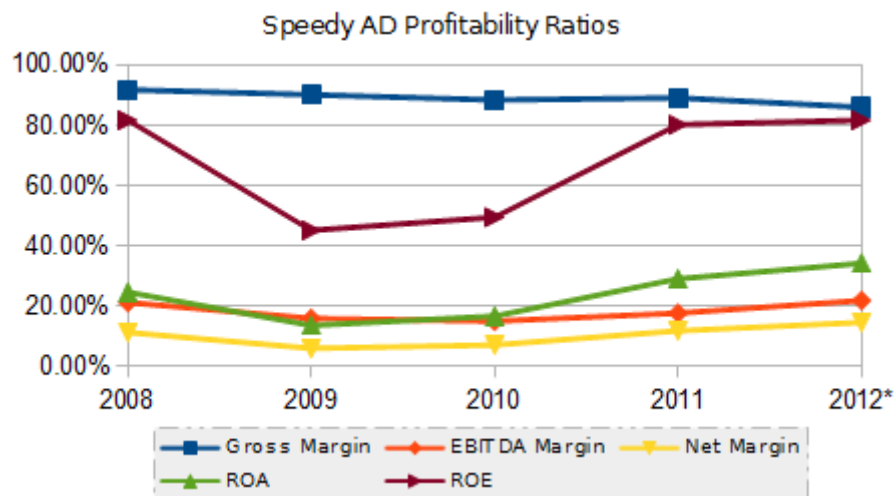


	2008	2009	2010	2011	2012*	Average Mean
Debt/Assets	0.28	0.32	0.11	0.15	0.25	0.22
Debt/Capital	0.48	0.52	0.23	0.29	0.35	0.38
Debt/Equity	0.93	1.10	0.31	0.41	0.53	0.66
Financial Leverage	3.35	3.37	3.00	2.78	2.40	2.98
Interest Coverage	11.56	19.51	12.92	9.43	35.67	17.82

in assets. After decreasing significantly its debt load in 2009, Speedy started to gradually increasing it thereafter. The average values for the examined period are:

- Debt/Assets = 0.22
- Debt/Capital = 0.38
- Debt/Equity = 0.66

The **financial leverage** of Speedy decreases throughout the whole period due mostly to a faster increase in equity than

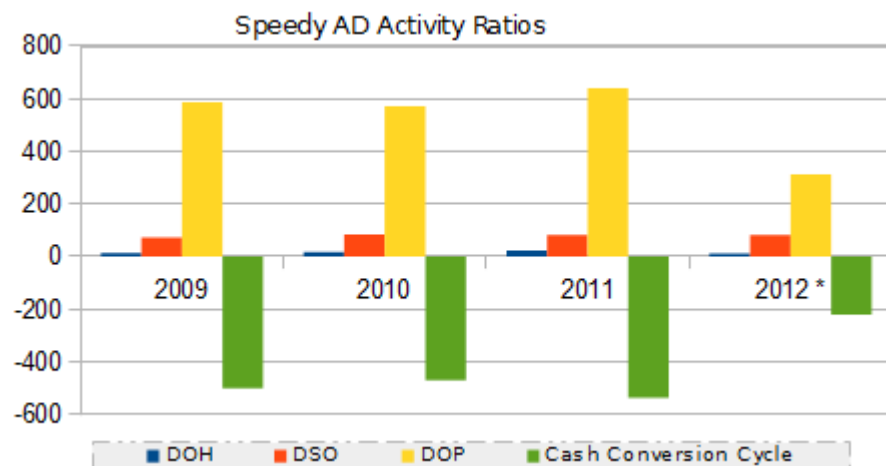


	2008	2009	2010	2011	2012*	Average Mean
Gross Margin	91.6%	89.9%	88.2%	88.9%	85.8%	88.9%
EBITDA Margin	20.9%	15.6%	14.7%	17.4%	21.6%	18.0%
Net Margin	10.9%	5.7%	6.8%	11.5%	14.3%	9.8%
ROA	24.3%	13.3%	16.4%	28.8%	33.9%	23.3%
ROE	81.5%	44.9%	49.2%	80.0%	81.5%	67.4%

After declining in 2009 due to the harsh overall economic conditions, Speedy's **profit margins** are currently increasing.

The significant ROE achieved during the examined period (80% for 2011) is due to the company's policy of distributing a high proportion of its earnings as dividends. The average

**dividend payout ratio** for the 2008 – 2011 years goes to 64%. The management announced its plans to continue to distribute a significant part (50% to 65%) of company's profit to its shareholders. Such plans however should be assessed against the financial needs of any expected expansion.



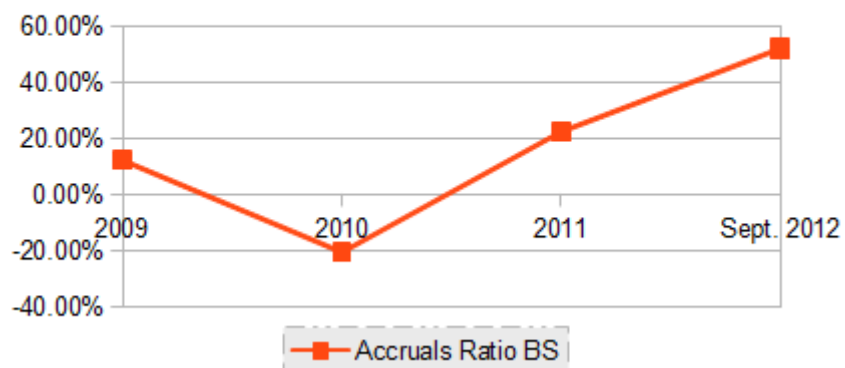
	2009	2010	2011	2012*	Average Mean
Inventory Turnover	25.69	19.23	15.05	15.60	18.89
DOH	14.01	18.72	23.92	11.67	17.08
Receivables Turnover	4.90	4.29	4.39	4.36	4.49
DSO	73.51	83.88	81.93	82.49	80.45
Payables Turnover	0.61	0.63	0.56	1.15	0.74
DOP	587.45	571.77	641.06	313.92	528.55
Cash Conversion Cycle	-499.93	-469.17	-535.21	-219.77	-431.02

There is a deterioration seen in the inventory and receivables turnover. Those are more than compensated by the delay of payables. The company had enough cash during the years so the reason for not paying faster should be that it probably took advantage of favorable credit conditions. This leads to a significant **negative cash conversion cycle** where Speedy has enough room to invest its excess cash in interest bearing activities rather than in working capital.



### Speedy AD Accruals Ratio

/Balance Sheet Based/



Speedy AD	2009	2010	2011	Sept. 2012
Net Operating Assets	8275	6723	8411	14330
Av. NOA	7803	7499	7567	11371
Aggregate Accruals BS	944	-1552	1688	5919
Accruals Ratio BS	12.1%	-20.7%	22.3%	52.1%

Peers Accruals Ratio BS	2010	2011	Sept. 2012
DEUTSCHE-POST-AG (DPW)	23.3%	-7.5%	-1.2%
OESTERREICHISCHE-POST-AG (POST)	-10.2%	-11.3%	4.1%
TNT-EXPRESS (TNTE)	7.8%	10.2%	-1.5%

Accruals ratio shows a deteriorating **quality of earnings** of Speedy, compared both to different points in time and to some of its peers.

Examining the situation, the increase of accruals during 2012 could be attributed mainly to a 69% decrease of cash and cash components of assets in a combination with a 45% increase in PP&E, 39% decrease in payables and 85% increase of debt (author calculations, based on data from the last interim financial report of the company – September, 2012).

Although such a high ratio could be considered a part of the normal business course of an expanding company, the high level of accruals should be watched as it suggests the current earnings ability to persist is lowered.

### Speedy AD Ownership Information

As of September 30, 2012 Speedy AD was wholly owned by Speedy Group AD.

As of the end of 2011 the company was managed by a board of directors which included Valeri Metkupchian, CEO, Georgi Glogov and "Omnicar-S" Ltd.

Speedy AD consolidates the business results of Speedy Ltd. which does the transportation activities and delivery services. More information on shareholders should be available on conclusion of the SPO.



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