

**„AUTO UNION“ AD**

Radoslav Marinov, Lead Financial Analyst  
[r.marinov@bcra-bg.com](mailto:r.marinov@bcra-bg.com)

Ivaylo Cholakov, Financial Analyst  
[i.cholakov@bcra-bg.com](mailto:i.cholakov@bcra-bg.com)

Nikoleta Koleva, Financial Analyst  
[n.koleva@bcra-bg.com](mailto:n.koleva@bcra-bg.com)

Kalina Dimitrova, Financial Analyst  
[k.dimitrova@bcra-bg.com](mailto:k.dimitrova@bcra-bg.com)

CREDIT RATING	Initial Rating
	13.02.2017
Long-term rating :	<b>BB+</b>
Outlook :	<b>stable</b>
Short-term rating :	<b>B</b>
Long-term national-scale rating :	<b>BBB+ (BG)</b>
Outlook :	<b>stable</b>
Short-term national-scale rating :	<b>A-2 (BG)</b>

**BCRA - Credit Rating Agency (BCRA)** is the third qualified rating agency in the EU, registered under the Regulation (EC) 1060/2009 of the European Parliament and of the Council. The credit ratings, assigned by BCRA, are recognized throughout the EU and are entirely equal with the other ratings, recognized by the European Securities and Markets Authority (ESMA), without any territorial or other restrictions.

**BCRA assigns to „Auto Union“ AD the following ratings:**

- The long-term credit rating: **BB+**, outlook: **stable**, short-term credit rating: **B**;
- Long-term national-scale rating: **BBB+ (BG)**, outlook: **stable**, short-term national-scale rating: **A-2 (BG)**.

The officially adopted by BCRA methodology is in use to prepare a credit report and to assign a credit rating to a group of companies and/or individual companies in the group ([http://www.bcra-bg.com/files/file\\_232.pdf](http://www.bcra-bg.com/files/file_232.pdf)).

The report has been prepared and the rating – assigned, based on information, made available by the rated company, the NSI, the BNB, BCRA's database, consultants and other public sources.

During 2015, the economy of the country reported a 3.6% real growth – the highest value after the financial crisis, as the major growth factors are export of commodities and services and growth in final consumption. The marked growth in GDP was

twice higher than the achieved for the past two years (1.6% in 2014, 1.3% in 2013). In the first half of 2016, there was an increase in importance of the domestic consumption for economic growth.

The FIF (foreign investments flow) reached 3.7% of GDP after hesitations of about 3.1%-3.3% over the past three years. A significant increase in the reinvested profit after the past year, and in investments in the share capital. The investors, however, remained cautious as the levels of the investments remained considerably lower compared to the years before the crisis. For the first half of 2016, the foreign investments reduced slightly compared to the same period of the past year – declined to 2.0% of GDI (2.1% of GDI as of Q2 2015).

The favourable changes in the labour market remained the same – unemployment rate (as well as continuous unemployment rate as a percent of the active population) maintained their downtrend after 2013. In 2015, the average unemployment rate was 9.2% (11.5% in 2014).

Since early 2014, deflationary processes have been detected and reached their peak in early 2015 and remained the same by the end of the year. According to the EC spring forecast, there will be deflation in 2016 as well, as the expected price level change is about -0.7% at the end of the year. EC foresees the factors causing a decline in the price level to be removed, and in 2017 the country to switch to a situation of low inflation.

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There was a slight improvement in the public budget of the country in 2015 and continued in 2016 as well.

After some rebalancing of the public debt at the end of 2015 and a subsequent significant increase in March 2016, the size of the debt remained almost unchanged by July.

The 2014 banking system events led to the emergence of a potential threat to banking institutions to deepen the banking crisis and involvement of a larger number of participants in the sector. Despite the increased risk in the financial system raised by the removal of one of the main players and the risk of dropping the second, the banks in Bulgaria maintained its stability. The announced on 13.08.2016 results from the assets quality review and stress tests for stability of the banks in Bulgaria showed that the banking sector is stable, well capitalized and public support to the banks with funds given by the public budget is not needed.

On the Bulgarian market for new cars (over 3.5 tons) in the last three years, an increase of over 26% was reported in revenues, together with a significant increase in generated revenues (over 130% in the last two years). These results come after a serious crisis in the sector in the period 2009-2010, after that the new cars market maintained a steady uptrend by a cumulative growth of over 66% during the period 2011 - 2015 (the most significant growth in 2015 - 26.7%). The trade in new cars is related to development of the leasing services market. For new cars dealers, the availability of good lease terms is a major opportunity to raise sales. This, together with low levels of interest rates on bank loans and wide range of leasing companies on the market support potential growth in the sector. To detent it, the effect of reduced purchasing power of Bulgarian households is very strong. In this situation, the corporate clients and business seem the main consumers of new cars.

„Auto Union“ AD (Auto Union) is a holding company integrating the investments of „Eurohold Bulgaria“ AD in the automotive industry. The company was registered in Republic of Bulgaria and performs business activities according to the laws in Bulgaria. Through its subsidiaries, Auto Union offers ten brands of cars on the Bulgarian market, and in the Macedonian and Kosovar

market – two brands of cars. It turns the company into a company with the most diverse portfolio of car brands in Bulgaria.

At the end of June 2016, the total size of the share capital of the company was 40 004 thousand BGN, owned almost entirely (99.99%) by „Eurohold Bulgaria“ AD, a holding company registered in the Republic of Bulgaria. „Eurohold Bulgaria“ AD is a public shareholding company within the meaning of Law on public offering of securities.

At the end of 2015, the subsidiaries in that Auto Union has shares are the following:

„Auto Italia“ EAD was registered in 1999 with a main scope of activity: sales of Fiat new cars, original spare parts, accessories, oils, warranty and post warranty service of cars. During 2013, the following Italian brands of vehicles merged into the group of cars: Maserati and Alpha Romeo and scooters: Piaggio, Vespa and Gilera. The company maintains a service activity for those brands and have service centres in Sofia, Burgas, Varna and Veliko Tarnovo for which 45 employees work. At the end of 2015, the equity of the company amounted to 7 157 thousand BGN.

„Star Motors“ EOOD was registered in 2001 with a main scope of activity: import and sales of vehicles, spare parts and accessories, repair of vehicles. The company is a dealer of the brand Mazda. There are four rented premises where the activity is performed – two in Sofia and by one in Plovdiv and Stara Zagora. Star Motors owns 100% of a subsidiary in Macedonia – Star Motors, Skopje, and through this company owns another one in Kosovo – Star Motors SH. P.K. Star Motors Skopje was registered in 2013 and has a main scope of activity: import and sales of vehicles, spare parts and accessories, repair of vehicles. Star Motors SH. P.K has the same activity. At the end of 2015, the equity of the company amounted to 1 500 thousand BGN.

„Bulvaria Holding“ EAD was registered in 1991 with a main scope of activity: import and trade in vehicles, spare parts and service, car rental. The company is an exclusive dealer of Opel. At the end of 2015, the equity of the company amounted to 2 165 thousand BGN.

„Auto Union Service“ EOOD was registered in 1997, as its main scope of activity is repair and of recovery services of car and light trucks in light,

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medium and heavy deformation, delivery and replacement of damaged parts and components. At the end of 2015, the equity of the company amounted to 5 thousand BGN.

„Nissan Sofia“ EAD is a company established in 2003 with a main scope of activity: sales of Nissan cars, as well as a sale of Nissan spare parts. At the end of 2015, the equity of the company amounted to 4 418 thousand BGN. The company has invested in a subsidiary – „Espace Auto“ OOD, which sells Renault and Dacia new cars, as well sale of spare parts, service and maintenance. The company performs its activity through seven business premises, four are located in Sofia, and the rest in Pazardzik, Blagoevgrad and Veliko Tarnovo. Initially (2006), the company was established under the name „Trayana auto“ EOOD, with an equity of 10 thousand BGN. In 2012, the equity of the company increased to 850 thousand BGN by the owner „RMG“ OOD, at the expense of undistributed profit in past years, and later, during the same year, the capital was increased to 1 735 thousand BGN through a cash contribution of 885 thousand BGN made by a new partner "Nissan Sofia" AD, thereby the company name was changed to "Espace Auto" and, accordingly, the legal form to OOD. At the end of 2015, "Nissan Sofia" EAD owns 51% of the equity of the company.

„Bulvaria Varna“ EOOD was registered in 1994 with a main scope of activity: sales of Opel new cars and Opel and Chevrolet car service. By 2011, the company has operated under the trade name „Cargoexpress“. At the end of 2015, the equity of the company amounted to 1 258 thousand BGN.

„Motobul“ EOOD is a company, established in 1997 with a main scope of activity: sales of spare parts and lubricants, service and maintenance of vehicles and any other activities not forbidden by the laws of the Republic of Bulgaria. At the beginning, the activity was focused on sales of Castrol motor oils and since 2000, when British Petroleum bought Castrol, the company started offering products of Castrol. Since the end of 2013, „Motobul“ EOOD is an exclusive dealer of Orlen Oil in Bulgaria. At the end of 2015, the equity of the company amounted to 110 thousand BGN.

„Daru Car“ AD was established in 1992 with a main scope of activity: production and trade in vehicles, components, spare parts, consumables

and services in car manufacturing and transport. The company is an official importer of BMW AG products for Bulgaria. At the beginning, the company was focused on car sales, and in the first year the auto service started working. Gradually, the service and warehouse facilities for spare parts expanded. Currently, Daru Car AD is an official partner of the new office of the BMW Group in Bulgaria and the official importer of Bearnach - supplier of original parts for Land Rover. The company offers premium car sales available in the lounge, or delivery of cars by order, buying used cars, advice for financing and insuring vehicles, warranty service for BMW cars, as well specialized service for MINI, Land Rover / Range Rover and has one of the largest vehicle repair centres in Bulgaria. At the end of 2015, the equity of the company amounted to 6 343 thousand BGN, as Auto Union owns 99.84% of the capital.

„Auto Union“ AD has a one-tier management system and is managed by the Board of Directors and its members, who, as of 30.06.2016, were:

- Asen Milkov Hristov – Chair of the Board of Directors;
- Kiril Ivanov Boshov – Deputy Chair of the Board of Directors;
- Asen Emanuilov Asenov – Member of the Board of Directors and Executive Director.

The strategic objectives of the company are:

- Adequate profitability of equity;
- Major holding subsidiaries are recognized as leaders in the region;
- Loyal and diversified client base;

The competitiveness of the group is determined by the high level of service and strong synergy between the various activities in Eurohold Bulgaria (insurance, leasing and car sales), which is intended to achieve greater productivity and profitability of subsidiaries.

Each sub-holding company is certified according to international standards for quality management ISO 9001:2008 and is separately responsible for meeting the requirements of manufacturers of the condition of equipment, training of personnel and work.

Monthly comparative reports of the subsidiary companies with established budgets are included in the practices for running "Auto Union" AD. The

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results achieved and the reasons for deviations are documented in monthly and quarterly management reports. The companies plan financial flows for a period of ninety days to ensure the smooth payment of the costs on current liabilities, including financial liabilities.

The policies of individual traders follow the policies and conditions agreed with the traders whose dealers for Bulgaria are. The overall holding strategy with regard to clients continues to emphasize on the personal approach to each of them and respect their diverse needs and tastes.

The main trends in the financial position of the company could be summarized as follows:

- After 2012, a sustainable uptrend in revenues from main activity was observed;
- 2015 is the first year (after 2011), when on a consolidated basis, the company reported a positive financial result (mainly thanks to „Star Motors“ EOOD, „Motobul“ EOOD and „Espace Auto“ OOD);
- Gradual increase of the bank leverage;
- Permanent shortage of working capital.

In the past years, profitable companies in the group are: "Star Motors" EOOD, "Espace Auto" OOD, "Motobul" EOOD and "Auto Union Service" EOOD. The other companies reported losses, as the trend in this regard can be characterized as a stable, being confirmed in several consecutive years.

With the most significant amount of assets are "Espace Auto" OOD, "Star Motors" EOOD, "Daru Car" AD and "Motobul" EOOD. Overall, during the five-year period (2011-2015), the assets of the rated entity have a total cumulative increase of over 20%.

Major sub-holding companies are: "Auto Italia" EAD, "Star Motors" EOOD, "Bulvaria Holding" EAD, "Auto Union Service" EOOD, "Nissan Sofia" EOOD (on 06.06.2016 the company name was changed to "H Auto Sofia" EAD) and "Espace Auto" OOD.

Calculated on the basis of the number of vehicles sold, the market share of "Auto Union" AD in the last five years was maintained in the range 10-13%. As a competitive advantage for individual traders in the group can be determined their belonging to one holding company which enables

more effective implementation of activities by pooling technical service, total contracted deliveries, exchange of staff and managerial experience. Also, based on belonging to a holding company together with the leasing company "Eurolease Auto" EAD and the insurance "Euroins Insurance Group" AD advantages can be realized by forming more attractive customer pricing packages.

As a weakness compared to part of the competitors, we can indicate the limited access to cheap financing.

The main part of revenues are formed by car sales and spare parts, as a characteristic trend is the decreasing average rate of profit during the analyzed period.

Overall, the sector is characterized by a high competition level between the individual car brands and, in addition, the traders in the group are subjected to extremely high competitive pressure with regard to the brands offered by dealers out of the group - Dacia (it is imported by Balkan Star, Omnikar), Opel (by Sofia Auto and Generous Auto), Renault (by Renault Bulgaria), BMW (by Kamor Auto), etc. This, along with the reduced purchasing power of households over the past years caused pressure to lower price levels and reduction of the norms of profit margins with that the companies in the industry operate. A direct consequence of this are the reported financial results of the companies in the sub-holding.

In the structure of the company's assets, the levels of non-current and current assets were balanced gradually.

The structure of long-term receivables is dominated by receivables from related parties and the so called "Other receivables". Short-term receivables almost entirely are determined by the dynamics of the outstanding stock cars and receivables from clients.

In the past two years there was an uptrend in long-term liabilities as effect of growth, mainly in bank loans. In the third quarter of 2016, a significant decline was reported in long-term bank loans that is compensated by growth in "Other liabilities". The attracted bond loan has a maturity date of December 2017.

In current liabilities, the main part is from liabilities to suppliers, increased significantly at the end of

the analyzed period. Second in importance are the credit liabilities to banks, declined in the last year of the period.

The payables to related parties in the period 2012-06.2016 did not change significantly, while the receivables increased by over three times by the end of 2015 and declined highly in the first half of 2016. After 2013, the amount of receivables from related parties always exceeded the liabilities.

The levels of key financial indicators for the activity of „Auto Union“ AD show:

- Due to reported loss during some separate analyzed periods, the levels of profitability indicators were negative, that is why they lost their own analytical value. As of the six-month of 2016, all indicators measuring the profitability of the group had low but acceptable values. A comparison with an excerpt from a competitive group of companies shows that the values of the ratio of net profitability of sales in the periods when the sub-holding reported a positive financial result on a consolidated basis were lower than the average for competitors;
- During all reviewed periods, all liquidity indicators had lower than acceptable levels. This is an indicator for potential liquidity issues, as well for a possible shortage in working capital on a consolidated basis. The data of the rated company are under the average in the competitive group;
- All values of the leverage ratio at the end of 2015 and as of the first half of 2016 maintained relatively stable values. Overall, the analysis of the values of ratios

in dynamics shows that on a consolidated basis there is a slight long-term uptrend in profitability of the companies in subholding and the continuing need to attract financing for operating activities. The values of the indicator for total leverage of Auto Union are at levels close to the average for the compared competitive group.

- Tracking the values of the efficiency ratios in retrospect shows: a gradual increase in the turnover of assets on a consolidated basis for the entire period; opposite trend in collection of receivables and payment of debts to suppliers; acceleration in turnover of inventories. Overall, sub-holding companies more quickly collect their receivables than paying off their debts to suppliers. There is a slight growth of circulation of the arranged working capital, which is an indirect evidence and for expanding the scale of business of the group as a whole. Compared to the competitive group, the values of Auto Union are positioned slightly below the average.

**Main financial data:**

<b>Indicator</b>	<b>6.2016</b>	<b>6.2015</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Assets	112 051	106 065	113 549	94 308	100 019	93 471	91 938
Total incomes (incl. financial)	79 397	82 966	163 124	144 250	134 907	100 984	109 731
Net financial result	245	-454	899	-762	-38	-1 578	1 473
Net profitability of incomes from sales	0.31%	-0.55%	0.56%	-0.53%	-0.03%	-1.57%	1.35%
Profitability of equity	1.17%	-2.32%	2.53%	-6.01%	-1.30%	-7.02%	7.40%
Credit dependency (financial leverage)*	1.59	1.55	1.55	1.17	1.02	1.12	0.94
Solvency ratio (financial autonomy)	0.24	0.23	0.23	0.28	0.29	0.32	0.26
Ratio for covering interest payments	1.46	0.50	0.49	-0.08	0.68	0.25	1.52
Current Liquidity	0.99	0.82	0.86	0.85	0.85	0.80	0.85



**CREDIT RATING**

**„Auto Union“ AD**

Long-term/ short-term credit rating:

**BB+/B** (outlook: **stable**)

Long-term national-scale / short-term national-scale rating:

**BBB+(BG) / A-2 (BG)** (outlook: **stable**)

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Quick Liquidity	0.03	0.05	0.05	0.10	0.06	0.06	0.04
Leverage	0.79	0.80	0.80	0.77	0.76	0.75	0.79

RATIONALE