

**AUTO UNION**

**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)

**Radostina Stamenova**, Financial Analyst  
[stamenova@bcra-bg.com](mailto:stamenova@bcra-bg.com)

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

**MARCH 2018**

CREDIT RATING	Initial rating	Review
Date of Rating Committee:	13.02.2017	29.03.2018
Date of Publication:	17.02.2017	30.03.2018
Long-term rating :	BB+	BB+
Outlook :	stable	stable
Short-term rating :	B	B
Long-term national-scale rating :	BBB+ (BG)	BBB+ (BG)
Outlook :	stable	stable
Short-term national-scale rating :	A-2 (BG)	A-2 (BG)

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 affirms the following ratings assigned to Auto Union:**

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

**and keeps stable outlook.**

The officially adopted by BCRA methodology is used to prepare a credit report and to assign a credit rating to a group of companies and/or individual companies in the group ([https://www.bcra-bg.com/files/Holding\\_Methodology\\_2016\\_en.pdf](https://www.bcra-bg.com/files/Holding_Methodology_2016_en.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.

The political situation in Bulgaria at the time of writing the report is relatively stable.

During 2016, the growth rate of the economy in Bulgaria accelerates, as from 3.6% in 2015, it reaches 3.9% in 2016. In the first half of 2017 the economy in the country increases by 3.7% compared to the same period of 2016.

The started after 2013 uptrend in the reserve assets of the BNB is confirmed, which is a solid buffer for guaranteeing the stability of the currency board.

During 2016, Direct foreign investment flows decrease to 1.4% reaching the lowest value for the last five years. The preliminary data report that the decline in the investment flows continue in the first half of 2017.

The data for the labour market in the first half of 2017 report high indicators for economic activity and employment of the population. Increasing remains the trend in labour incomes. The employment rate reaches its pre-crisis levels (6-7%).

Since June 2017, total average annual changes in prices have increasing positive values and reach 0.6% as of the end of September.

The state budget balance improves. The deficit in the size of 2.3% of GDP in 2015 reduces to 1.2% of GDP as of the end of 2016 (envisaged size of 1.9% in the Law on the State Budget of the Republic of Bulgaria).

	<b>CREDIT RATING</b> <b>Auto Union</b> Long-term / short-term credit rating: <b>BB+ / B (outlook: stable)</b> Long-term / short-term national-scale rating: <b>BBB+ (BG) / A-2 (BG) (outlook: stable)</b> <b>March 2018</b>
<b>95, Evlogi Georgiev, fl. 1</b> 1142 Sofia	<b>phone: (+359-2) 987 6363</b> <b>www.bcra-bg.com</b>

The budget balance on Consolidated Fiscal Programme in the draft budget for 2018 is a 1.0% GDP deficit. The government states to continue its policy for gradual consolidation and reach a balance budget in 2020. During the forecast period no substantial changes are planned in the tax policy.

The government debt (27.4% of GDP at the end of 2016, 23.6% of the forecast GDP at the end of September 2017) continues to be a positive factor for Bulgaria<sup>1</sup>. The Ministry of Finance expects a decline in the government debt to 22.3% of GDP as of the end of 2018 and it reaches 20.0% at the end of 2020.

The banking sector is stable – with high levels of liquidity and capital adequacy. The deposit base in the sector continues to grow, and lending shows positive trends – low positive change in the given loans to the non-financial sector and a continuous decline of the non-performing loans. In August 2016, the conducted Asset Quality Review (AQR) and Stress Tests (ST) confirm the system stability, although some changes are required for individual participants (additional capital buffers for three banks).

The Bulgarian new car market (up to 3.5 tons) continues to report an increase in sales, which is more pronounced in the last three years (growths of 26.7% in 2015, 13.6% in 2016 and 19.2% in 2017). Despite all, the country is ranked last by market share in the EU with 0.19% in 2016 (0.18% in the previous year), taking into account a slight increase compared to the maintained 0.17% in the period 2012-2014. By number of new registered cars per 1 000 people there is also a reported slight improvement, reached level of 3.7 in 2016 (3.3 for the previous year 2015), but the country remains far from the values for the leaders - Belgium with 47.7 (44.5), the UK with 41.2 (40.6) and Germany with 40.8 (39.5).

The distribution of the fleet of cars in Bulgaria per production year shows a yet low share of cars under the age of 10 - barely 14.0% as of 08.01.2018, as some improvement is reported compared to their levels as of 30.09.2016 - 12.3%. When evaluating the improvement, we have to take into account the impact of legislative changes

<sup>1</sup> The maximum permissible value of the Maastricht convergence criterion is 60%

for 2017 (compulsory official deregistration of motor vehicles without a valid insurance „Motor Third Party Liability“), which led to a total reduction of the number of registered cars, mainly in the group of cars older than 20 years.

By market positions, the dominant brands of cars continue to be Dacia and Renault.

Very characteristic for the new car trade is its strong commitment to the development of the lease market. For new car dealers, the good lease conditions is a major opportunity to increase sales. On this market the main asset groups leased by companies, operating in Bulgaria, are cars with a constantly increasing share in the lease portfolio: 55.9% (12.2014), 61.2% (12.2015), 66.2% (12.12.2016) and 67.5% as of 30.09.2017. After the slump in lease deals which is a result of the economic crisis, which continues until the end of 2012, the car leasing market reports a slight but steady growth up to now, rising over the last three years.

This, together with low interest rates on bank loans and the wide range of lease companies on the market, supports the growth potential in the sector, including the segment of it covering the new car trade.

The growth in the sector is put on hold due to the reduced purchasing power of Bulgarian households. The corporate customers and businesses seem to be the main users of new cars.

The revenues generated in the subsector new cars trade (up to 3.5 tones) by the major market participants<sup>2</sup> continue to report growth with a fall in total profits. This indirectly testifies for continuous reduction of the trade margins with which the local dealers work.

An entry of new competitive companies might be expected with good overall industry indicators. In new car sales, this will depend on two factors: the car manufacturers' commercial policies and their major dealers, and the policies of lease companies and banks. In addition, upon the risk the economic activity and the size of the market influence.

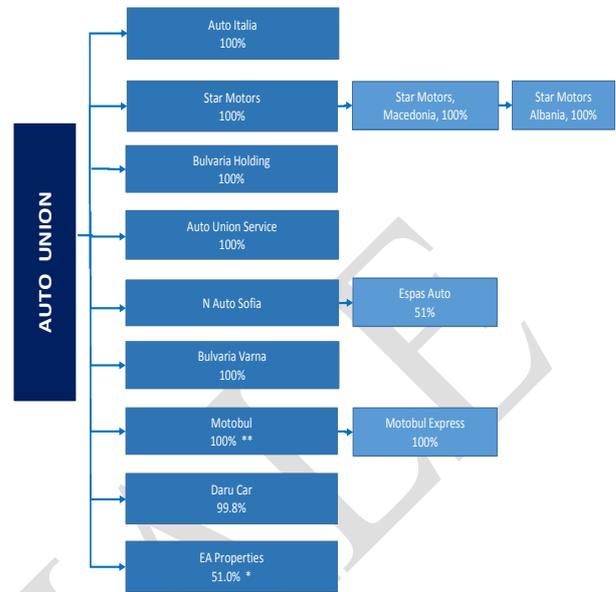
<sup>2</sup> The group holds 23 companies operating in the segment for which there is some public accessible information, as almost all authorized new car dealers in the country are included.

In the short run, we cannot consider that there are premises for an increased risk of an entry of new competitors on the highly populated domestic market of dealers. Despite all, in 2017, the company Daimler conveys its dissatisfaction with its long-standing representative for the local market - Balkan Star (25 years) and transfers the rights of general representative of Mercedes for Bulgaria to a new market player – the company Silver Star. This case can be considered as indicative for one of the possible scenarios for an entry of new competitors - dissatisfaction of the owner of the brand with his local representative. A raising interest in the sector and more substantial shifts of the operating companies in the sector could be expected in keeping the reported two-year uptrend in sales.

**Auto Union** is a holding company, which unites the investments of Eurohold Bulgaria (Eurohold) in the automotive sector. The company is registered in the Republic of Bulgaria and carries out its activity under Bulgarian law. Through its affiliates, Auto Union offers ten brands on the Bulgarian automotive market, and on the Macedonian and Kosovar markets – two automobile brands. This makes it the company with the most extensive portfolio of car brands in Bulgaria.

During the period of updating, there is not any change in the equity of the company and after its last increase (2012) of Eurohold Bulgaria, it amounts to BGN 40 004 thousand BGN, distributed in 80 008 shares (registered, unprivileged), with a nominal value of BGN 500 each. There are no changes in the shareholding structure – the majority shareholder is Eurohold Bulgaria with a 99.98% share.

The structure of the possessed participations of Auto Union is maintained the same.



The changes are:

- acquisition at the end of 2017 of 51% of EA Properties (before it was 100% affiliated by Espas Auto as the other company shares are owned by the partner RMG in Espas Auto);
- at the end of 2017 restructuring of Motobul EOOD to OOD with capital of 3 million.

There are no changes in the company's management:

- Asen Milkov Hristov – Chair of the Board of Directors (BD);
- Kiril Ivanov Boshov – Vice Chair of the Board of Directors;
- Asen Emanuilov Asenov – Member of the Board of Directors and CEO.

The mandate of the Board of Directors expires on 28.02.2022.

There are no changes in the strategic purposes of the company:

- Provision of adequate profitability of the capital;
- Recognition of the main affiliates of the holding as leaders in the region;
- achievement of loyal and diversified clients base;

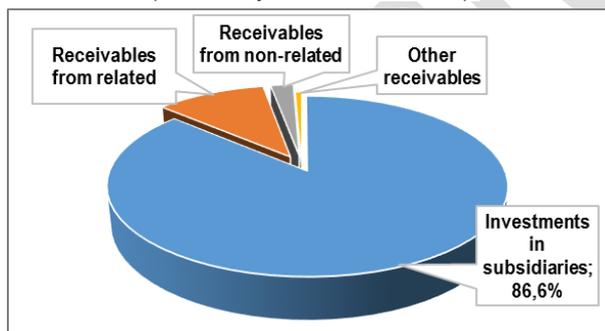
The competition of the group is determined by the high level of services and of strong synergy of different activities in Eurohold Bulgaria (insurance,

lease and sales of cars), through which the aim is to reach a bigger productivity and profitability of the affiliates.

**On an individual basis** Auto Union maintains the gained positive financial result with a decline due to a great extent of a drop in dividend incomes. The company's expenses keep the downtrend in 2016, but increase in the first nine months of 2017 due to a more substantial increase in interest expenses on loans from related parties.

By indicators EBITDA and proportion of EBITDA to interest expenses, the company reports declines increasing towards the end of the analyzed period (unfinished financial year), as of 30.09.2017, the free cash flow from the holding company's activity, conditionally intended for servicing external (attracted) debt decreases and is able to cover the interest payments the company has to pay of over 100% - twice at the end of the previous two years. These values can be considered satisfactory, taking into account the lack of credit obligations of Auto Union to banks, on an individual basis.

The change in the total assets is volatile - with an increase in 2016 and a decrease in the first nine months of 2017. There are no changes in the structure, maintaining the dominant share of investments in subsidiaries - 86.6% as of 30.09.2017 (88.1% by the end of 2015).



Receivables from related companies, after an increase in 2016, decrease substantially in the first nine months of 2017 (a loan paid by Starcom Holding). The subsidiary Auto Italia, which continues to generate losses during the period of updating, remains the main user of the financing of the holding, but with a decreasing size and a significant growth in sales.

The only significant external obligation of Auto Union is on a bond loan - issued in December 2012 and traded on the Bulgarian Stock Exchange

(ISIN BG2100025126) bon issue in the amount of BGN 6 800 000, a 5.50% interest rate (once reduced in 2013), six-month coupon payments and final maturity in December 2017. With a decision of the bondholders, the maturity is renegotiated for December 2022 (the interest coupon reduces to 4.50% per annum), which significantly improves the current liquidity of the company. For the entire period of servicing the loan delays of coupon payments are not reported.

At the end of the analyzed period, a decrease in liabilities to related companies is reported.

The changes in the main financial indicators during the period of updating of the credit rating of Auto Union, calculated on the basis of individual reports, show decreasing net and operating profitability, significantly improved liquidity and retention of relatively equal leverage ratios.

**On the basis of consolidated reports**, in the last three financial years (2014-2016), Auto Union, by means of its subsidiaries, sell on average over 3 600 new cars annually, and for the nine-month period of 2017 - 3 727 cars. Calculated by a number of sold cars for the nine-month period of 2017 is formed total growth in the sales of 32.1% compared to the previous nine-month period (by 2 821 cars), which exceeds the reported growth for the sector of 19.2%.

The company retains its position of a dealer with a wider volume of car brands (10, plus 4 motorcycle brands) on the Bulgarian market, with a substantial market share<sup>3</sup>, increasing in the period of updating of the rating from 11.2% to 14.2% (comparing the nine-month period of 2017 with the same period of 2016). Individual traders in the group retain as a competitive advantage their belonging to one holding company which enables more effective implementation of the activity, through a merger of a repair service centre, negotiated deliveries, exchange of personnel and management experience. The participation in an overall holding structure with the lease company Eurolease Auto and the insurance Euroins Insurance Group allows realization of advantages through formation of more attractive price packages for the customers.

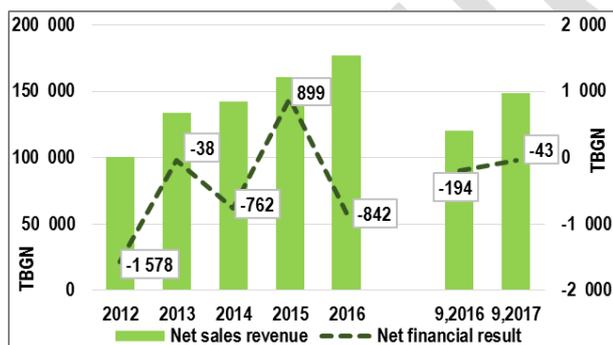
In the period of updating, the companies in the group of Auto Union maintain an average annual

<sup>3</sup> Calculated per number of sold automobiles

growth rate in the sales of about 12%, analogical to the previous 2015, maintaining the downtrend in the average profit norm from the realization of the goods.

The main trends in the financial state of the subholding for the period of the review of credit rating is summarized as:

- The uptrend in revenues from main activity retain (sustainable after 2012) as more substantial are the growths in the first nine months of 2017 – 23.5% (compared to a previous similar period), 10.2% in 2016 and 12.8% in 2015;
- For 2016 a consolidated negative net financial result is reported, and there is also a negative one as of 30.09.2017. In 2016, five of the subsidiaries end up with profits, as the highest are those of Espas Auto, Star Motors, Motobul, Bulvaria Holding and Auto Union Service. With the worst operating data and continuing to report losses remain Auto Italia, and with a great loss ends up the company N Auto Sofia. The current data as of 30.09.2017 provide expectations for a successful 2017, as the profitable companies are five again, with an increasing leadership position and importance of **ESPAS Auto**;

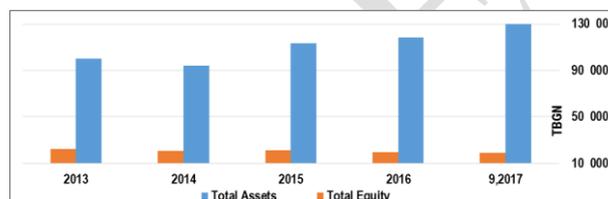


By a realized annual volume of net incomes from sales and gained net financial result the company has a position below the average levels for the competitive group<sup>4</sup> in the last three complete financial years.

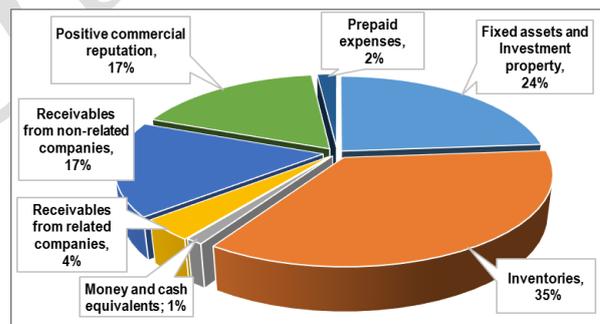
<sup>4</sup> Toyota Balkans (Toyota, Lexus); Porsche BG EOOD (Volkswagen, Audi); Moto Pfohe Ltd. (Ford, Volvo, Land Rover, Jaguar); Balkan Star Retail Ltd. (Mercedes / till 04.2017 /, Mitsubishi, Jeppe, Chrysler, Dodge, Dacia, Renault, Nissan)

- Substantially decreases the total bank leverage for the group and the maturity is extended with five years on the served bond issue by the subholding. Decreasing the external financing, the company starts using resources of financial lease and of the owner (Eurohold);

In the asset value growth continues to be observed – 4.1% for 2016 and more 9.8% for the first nine months of 2017.



The asset structure remains relatively unchanged, with more substantial increases in inventories (cars, spare parts and consumables) and in the fixed assets and investment properties (related to investments made to expand the basis for carrying out the activity). The tangible fixed assets owned by EA Properties, Espas Auto, Bulvaria Holding remain with the most substantial size.

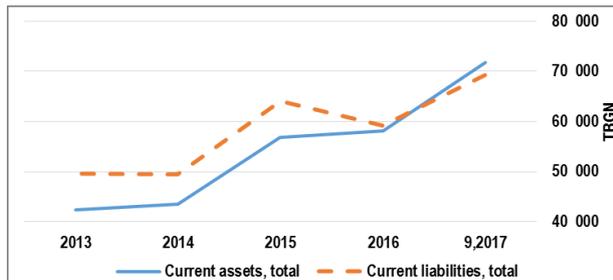


As of the end of September 2017, dominant in the structure are already the current assets (55%), and the receivables from related persons have a relatively small share. Without a change and with a high relative share remains the positive commercial reputation.

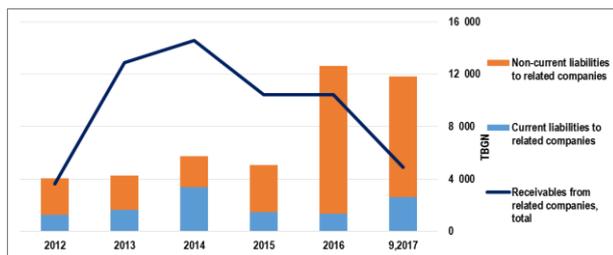
The most characteristic change in the structure of the liabilities is connected to a decline in liabilities to banks, at the expense of increased internal group long-term financing.

As of the end of the nine-month period of 2017 the liabilities to suppliers increase.

The coverage level of the current liabilities with current assets improves, incl. with excluded influence of the receivables and liabilities from/ to related persons.



In the updated period the liabilities to related persons are in size which is substantially higher than the receivables from related persons.



The values by key financial indicators for the activity of Auto Union show:

- Due to the substantial size of amortization on assets, the values of *EBIT* and *EBITDA* are different in quality. In the period of the review the free cash flow generated on a consolidated basis which could be taken as basis for servicing the payments to external creditors is a positive quantity maintained at a stable level of around 4 million BGN, sufficient to cover the interest payments more than twice;
- Due to the reported losses, some of the profitability ratios are negative and lose their analytical value. An improvement is reported in the operating profitability, but the values gained by Auto Union remain the lowest compared to those of the companies in the competitive group;
- *The current liquidity* improves, as of the end of the nine-month period of 2017 for the first time it reaches 1.01. As a result of renegotiations of current to long-term liabilities and a substantial decrease of the used credit bank resource. With this the liquidity problems of the companies in the group of Auto Union should not be considered to be solved but their dependency is transmitted mainly to the mother company. The values of the rated company remain below all in the competitive group;
- In the period of updating of the credit rating, the leverage ratios do not have any changes. The level of the indicator *Credit dependence* improves, as a result of the decline in credit liabilities of the company to commercial banks. The downtrend in the values of *Solvency ratio*, as a result of one-direction influence by the decline in equity (as a result of the reported losses) and increases of the liabilities (mainly to related companies and to a less extent on received commercial loans). *Total financial leverage* increases (credit and other liabilities) on a consolidated basis, which shows that for the continuous expansion of the business, part of the companies in the subholding has a constant need to use attracted funds for their activity (provided by the owner and to a less extent through commercial and bank loans). The values of the indicator *Total leverage* of Auto Union remain high compared to the levels for the competitors in the group, as more negative are registered only by one company in it;
- The tracking of the changes in the values of the efficiency indicators shows a decrease in the *turnover of the assets* as a direct effect of relatively high increase of assets which is not compensated by the incomes, despite their substantial growth. Uptrends are maintained in the duration of the collection time of receivables and the turnover of inventories, and the period for paying off of liabilities to suppliers changes volatile, increasing significantly at the end of September 2017. Overall, the operating cycle is increasing. Compared to the competitive group, all values for Auto Union's indicators remain above the average. To a great extent this could be explained with the specifics of the business model of the rated company – a holding company with entirely Bulgarian participation and dealerships for more than eight brands of cars, while in the competitive group there is a direct foreign participation of big car traders which changes substantially the specifics of payments.

**CREDIT RATING**

Auto Union

Long-term / short-term credit rating:

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

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

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

**March 2018**
**95, Evlogi Georgiev, fl. 1**  
 1142 Sofia

**phone: (+359-2) 987 6363**  
**www.bcra-bg.com**
**Main financial data:**

<b>Indicator</b>	<b>9.2017</b>	<b>9.2016</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Assets	129 763	111 767	118 207	113 549	94 308	100 019
Total incomes	149 210	120 764	177 351	163 124	144 250	134 907
Net financial result	-43	-194	-842	899	-762	-38
Net incomes from sales	148 850	120 547	177 060	160 735	142 468	133 588
Expenses from operating activity	146 899	119 155	175 671	159 949	142 614	132 358
<b>Financial result from operating activity</b>	<b>1 951</b>	<b>1 392</b>	<b>1 389</b>	<b>786</b>	<b>-146</b>	<b>1 230</b>
Financial incomes	360	217	291	2 389	1 782	1 319
Financial expenses	2 342	1 803	2 182	2 143	2 214	2 185
<b>Net result from financial activity</b>	<b>-1 982</b>	<b>-1 586</b>	<b>-1 891</b>	<b>246</b>	<b>-432</b>	<b>-866</b>
EBIT	1 874	1 157	1 259	2 629	1 212	2 164
EBITDA	4 147	3 068	3 784	5 169	3 345	4 206
<b>EBITDA / interest payments</b>	<b>2.18</b>	<b>2.27</b>	<b>2.15</b>	<b>3.24</b>	<b>1.87</b>	<b>2.34</b>
Net profitability of incomes from sales	-0.16%	-0.16%	-0.78%	0.33%	-0.28%	-0.03%
Profitability of equity	-4.15%	-2.69%	-7.07%	2.53%	-6.01%	-1.30%
Financial leverage	1.24	1.27	0.96	1.55	1.17	1.02
Solvency ratio	0.17	0.23	0.20	0.23	0.28	0.29
Current liquidity	1.01	0.97	0.85	0.86	0.85	0.85
Quick liquidity	0.02	0.03	0.02	0.05	0.10	0.06
Leverage (total leverage)	0.83	0.80	0.81	0.80	0.77	0.76