

**„STARCOM HOLDING“ AD**

Ivailo Cholakov, Lead Financial Analyst  
[i.cholakov@bcra-bg.com](mailto:i.cholakov@bcra-bg.com)  
Ventseslav Petrov, Financial Analyst  
[v.petrov@bcra-bg.com](mailto:v.petrov@bcra-bg.com)  
Radostina Stamenova, Economic Analyst  
[stamenova@bcra-bg.com](mailto:stamenova@bcra-bg.com)

**APRIL 2020**

CREDIT RATING	Initial Rating	Outlook
Date of Rating Committee:	15.03.2018	06.04.2020
Date of Publication:	22.03.2018	10.04.2020
Long-term Rating:	BBB-	BBB-
Outlook:	Stable	Stable
Short-term Rating	A-3	A-3
Long-term National-scale Rating	A (BG)	A (BG)
Outlook:	Stable	Stable
Short-term National-scale Rating	A-1 (BG)	A-1 (BG)

**\*Notes:**

- 1) To become familiar with the full rating history please see the chart at the bottom of the document;
- 2) Prior to the present publication the credit rating and rating outlook was disclosed to the rated entity. Following that disclosure amendments in the credit rating and rating outlook have not been executed;
- 3) In last 2 years, the BCRA – Credit Rating Agency AD has not provided ancillary services to the rated entity or to a related third party.

„BCRA – Credit Rating Agency“ AD (BCRA) is the third qualified rating agency in the EU, registered under Regulation (EC) No. 1060/2009 of the European Parliament and the Council. The credit ratings, assigned by BCRA, are recognized throughout the EU and are fully equal to the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other limitations.

At a meeting of the Rating Committee of BCRA, held on **06.04.2020** the members reviewed a Report of the update of the credit rating of **STARCOM HOLDING**. Kiril Grigorov in his capacity of Chairman of the Rating Committee chaired the meeting. Following the discussion of the changes that occurred in the review period on a number of factors affecting the rating, the members of the Rating Committee **took the following decision:**

**BCRA affirms the assigned ratings to Starcom Holding AD:**

- Long-term credit rating: **BBB-**, Short-term credit rating: **A-3** ;
- Long-term national-scale rating: **A (BG)**, Short-term national-scale rating: **A-1 (BG)**;

**and maintains a stable outlook,**


The following factors reflect the decision taken: the company maintained a stable financial position, with sound improvement in profitability and preserved levels of indebtedness and liquidity in the review period.

Regarding the effects on the company of the emergency related to the COVID-19 pandemic, BCRA expects that some of the activities of subsidiaries of the rated company may be affected to a greater extent (car trade and leasing). Based on the smaller share of these activities in the total business of the group and the assessed opportunities to be sufficiently supported by the holding structure, BCRA expects that Starcom Holding AD will not be seriously affected by the crisis.

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

The rating users can find information about each rating category, incl. the definition for default in the Global scale published on the site of BCRA at: ([https://www.bcra-bg.com/files/global\\_scale\\_en.pdf](https://www.bcra-bg.com/files/global_scale_en.pdf))

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

	<b>CREDIT RATING „STARCOM HOLDING“ AD</b> Long-term / Short-term credit rating: <b>BBB- / A-3</b> (Outlook: <b>stable</b> ) Long-term / Short-term national-scale rating: <b>A (BG) / A-1 (BG)</b> (Outlook: <b>stable</b> ) <b>April 2020</b>
	<b>95, Evlogi Georgiev Blvd., floor 1</b> 1142 Sofia

## Operating Environment

The emergence of the COVID-19 pandemic worldwide addressed the issue, turned into one of the main priorities in Bulgaria, as well as in all its political and economic partners. A state of emergency was declared in the country (March 13, 2020) due to the unprecedented crisis, followed by a number of legislative measures by the government to mitigate the negative economic impact. The effects are yet to be measured and evaluated and at this stage, the projections are at risk of inaccuracy due to global uncertainty about the outcome of the situation. The prospects for the development of the global economy are deteriorating significantly, and at the moment it is only clear that drastic measures to control the infection will generate a massive shock in many sectors, regions and markets, which will result in a global recession.

## Sovereign Risk

The development of economic processes in the country, including in the context of the COVID-19 pandemic, have been analysed in detail by BACR - Credit Rating Agency and affected the assigned unsolicited state rating of the Republic of Bulgaria. The changes in GDP and GVA by components are considered, as well as the dynamics of the indicators of the external sector. Bulgaria is entering the current crisis with a stable fiscal position. The current banking situation is assessed as stable.

A Rationale of the updated rating of the Republic of Bulgaria is published at the site of BCRA:

[https://www.bcrabg.com/files/rating\\_republic\\_of\\_bulgaria\\_oct\\_2019\\_bg.pdf](https://www.bcrabg.com/files/rating_republic_of_bulgaria_oct_2019_bg.pdf)

„Starcom Holding“ AD is a holding joint-stock company, registered in 2000 (company file 773/2000 of Sofia District Court), initially named Bulgarian Holding Corporation AD, renamed in 2007 (resolution of Sofia District Court company file 5/01.08.2007).

The company is public under the terms of the Public Offering of Securities Act, in its capacity of the issuer of a bond issue ISIN BG2100010110 - **stock exchange code S28H**, for BGN 30 million, issued on 15.04.2011 with a final repayment date (renegotiated) on 15.04.2026.

**The share capital** of the company as of 31.12.2018 is BGN 66.9 million. (of which BGN 18.4 million unpaid), after the last increase (by BGN 60 million)

made in December 2017, distributed in 669,000, registered non-preferred shares, with a par value of BGN 100. During the review period there is no change in the shareholders:

Shareholder	Number of shares	Share %
Assen Milkov Hristov	34 119 000	51.0%
Kiril Ivanov Boshov	22 746 000	34.0%
Velislav Milkov Hristov	10 035 000	15.0%
<b>TOTAL</b>	<b>66 900 000</b>	<b>100.0%</b>

The company is registered under UIC 121610851, with headquarters and address of management: 2170 Etropole, 191, Ruski Str.

**The scope of activity** of Starcom Holding includes acquisition, management, evaluation and sale of holdings in Bulgarian and foreign companies, bonds, patents (including granting of licenses for use by companies in which the company participates); financing of companies in which Starcom participates and any other activity not prohibited by Law.

The company is managed by the General Meeting of Shareholders (GMS) and the Board of Directors (BD) consisting of the following persons:


- Assen Milkov Hristov – a member of the BD and CEO;
- Kiril Ivanov Boshov – Chairman of BD;
- Velislav Milkov Hristov – a member of the BD;

Starcom Holding AD does not develop any activity other than **investment**, preserving major investments in the subsidiary Eurohold Bulgaria AD, holding a share of 52.92% as of 31.12.2018 (52.88% a year earlier).

At the end of 2018, the rated company acquired 67.11% of the capital of the Russian banking institution - **First Investment Bank AD** (formerly Alma Bank AD). The transaction was approved by the Central Bank of the Russian Federation on November 29, 2018. During the review period, there is no change in the amount of ownership, and the investment is considered long-term.

In 2019, the rated company acquired a majority stake of 82.23% in the independent investment company, registered in the United Kingdom – **Hanson Asset Management Limited**, London. The value of the investment as of 31.12.2019 is recorded in the trade portfolio.

In the review period, the **sectors** in which **the company operates** are not changed, namely:

	<b>CREDIT RATING „STARCOM HOLDING“ AD</b> Long-term / Short-term credit rating: <b>BBB- / A-3</b> (Outlook: <b>stable</b> ) Long-term / Short-term national-scale rating: <b>A (BG) / A-1 (BG)</b> (Outlook: <b>stable</b> ) <b>April 2020</b>
<b>95, Evlogi Georgiev Blvd., floor 1</b> 1142 Sofia	<b>phone: (+359-2) 987 6363</b> <b>www.bcra-bg.com</b>

**Insurance** – retains its leading position in the group (over 80% of the revenues), where the business is managed by the companies in Euroins Insurance Group AD (EIG) (a subsidiary of Eurohold Bulgaria AD). The company operates insurance companies in Bulgaria, Romania, North Macedonia, Greece, Ukraine and Georgia and have free access to the EU market, working in Italy, Spain and Poland. Investing in the Russian Insurance Company Euroins (48.61% at the end of 2019), EIG expanded operations in the Russian market, aiming at control of the company. Following the larger geographic expansion of markets in the previous two years, there is no further expansion in the period covered by this report. The company's efforts are focused more on strengthening its position in the long run. In the second part of the review period, the business is marked by a high increase in revenues (32.9%) and gross operating profit (21.5%).

**Car Sector** – the companies in Auto Union AD (majority shareholder Eurohold Bulgaria AD has indirect control). The business line is second of importance, managing assets (9%) and generating revenues of 16%. In the review period, the business has reported: growth in sales revenues and improved results in all individual companies in the holding. The main negative trend is the increased indebtedness, but we should note that the renegotiated terms of the financing have resulted in a general decrease in interest expenses.

**Finance Sector** – includes the two new investments of Starcom AD: Fibank, Moscow and Hanson Asset Management Ltd., London, and through Eurohold Bulgaria AD, the company participates in the investment company Euro-Finance AD and the leasing business carried out by Eurolease Group EAD. The business line has a relatively insignificant impact on the general condition of the group, generating about 2.5% of the revenues. Eurolease Auto has maintained the financial result for the period of review, with growing revenues and increased indebtedness.

In the second half of 2019, Starcom registered the company, Eastern European Electric Company II B.V., The Netherlands (100%, registered on 25.07.2019) and its subsidiary „Eastern European Electric Company B.V., the Netherlands (100%, registered on 26.07.2019) aiming at the **business in Energy sector**. As of the end of 2019, both ventures have not carried out any activities.

Given the implemented methodology for assigning of a credit rating to a group of companies and/or a

company, Eurohold Bulgaria AD influences the rating of Starcom. BCRA assigns individual credit ratings to the latter and part of the companies in the group.


**On an individual basis** in the period under review, the **balance sum** of Starcom was increasing, registered growth of 11.1% for 2018 and 14.3% for 2019 (preliminary Financial Statements). The dynamics are mainly due to the increased investments in the majority stakes in two companies acquired in the last two years (already mentioned above) and additionally, by the positive re-evaluations of parts of the trading portfolio. Apart from investments, in 2018, the loans and other trade receivables decreased, and the receivables from related parties increased - significantly in 2018 and slighter in 2019. The period marked the rise in the value of assets as a result of the growth of financial assets, calculated at fair value as a profit or loss - increased by almost three times at the end of 2019, compared to the end of 2018 and 2017.

The company registered a significant increase in net financial result for 2018, which results in the improved value of **equity** (by 41.7%). The revenues generated from operations with financial instruments resulted in high profit.

The **assets structure** remains relatively unchanged, dominated by the investments, accounting for 73.0% of total assets at the end of 2019. The receivables from related parties registered increased share and value significantly, whereas the receivables from the subsidiary Eurohold Bulgaria AD under securities transactions accounts for the major share.

The **obligations of the bonds loan** are regularly serviced and account for a significant share in the **liability structure** (BGN 30 million). At the end of 2018, its repayment schedule was changed, and the date for the final repayment of the principal was extended from April 2021 to April 2026. The volume of bonds, issued by companies in the structure of Eurohold Bulgaria AD (i.e. under the general control of Starcom Holding AD) decreased during the review period, amounting at BGN 13.7 million as of 31.12.2017 and declined to BGN 3.5 million at the end of 2019. The share of the liabilities under the bonds loan is preserved at about 1/3 of the total liabilities.

The **loans** (from non-financing and financing institutions hold a dominant share in total liabilities. In 2018, their value decreased significantly (by 31.2%), while in 2019, reversed direction – increase of 31.7%. In structural terms, these liabilities are dominated by the financing under repo transactions.

	<b>CREDIT RATING „STARCOM HOLDING“ AD</b> Long-term / Short-term credit rating: <b>BBB- / A-3</b> (Outlook: <b>stable</b> ) Long-term / Short-term national-scale rating: <b>A (BG) / A-1 (BG)</b> (Outlook: <b>stable</b> ) <b>April 2020</b>
<b>95, Evlogi Georgiev Blvd., floor 1</b> 1142 Sofia	<b>phone: (+359-2) 987 6363</b> <b>www.bcra-bg.com</b>

The principal of the loans, provided by non-financial institutions (3 creditors) grew during the review period, while the principal of the loans provided by a banking institution, remained unchanged.

The review period is characterized by **sound revenue growth** for 2018 (more than four times), due to the registered profits from operations with financial instruments. Revenues from re-evaluations of financial assets increased further. Interest income declined by 17.8%, as a result of the reduction of the loans provided by the company. Dividend income maintains a steady upward trend.

In the **expense structure**, the deviations are insignificant, where the decline of interest costs registered the major change, by 21.3%. Given the total increase of loan exposures, the reduction of costs indicates positive changes in the terms of the loans used.

During the **Q3 of 2019, as well as in the last quarter of 2019**, the company has not realized significant revenues from operations with financial assets, which resulted in a decline of the results, including loss of BGN 1.0 million for 2019 (preliminary Financial Statements). The interest costs are lower by the additional 18.7% compared to the past year. In the structure of income, the decline in the revenues from interests (by 61.7%) is more substantial and the revenues from re-evaluations of financial assets have also reduced.

The substantial increase of the profitability and coverage of interest payments ratios as of 2018 refer to the dynamics of the assessed rating indicators and are formed as a one-off effect of the extremely high increase of the annual financial result. Further, the general trends for the period are related to the slightly reduced level of leverage and the substantial decline in the level of credit dependence.

The total amount of the consolidated **assets** of the companies associated in the rated company is increasing in the period under review, recording growth rates of 9.0% for 2018 and 8.8% for 2019 (according to preliminary Financial statements). Thus, at the end of 2019, the value of managed assets exceeded BGN 1.5 billion.

In the period under review, there is a general increase of the **Equity** (by 48.2% for the two financial years - December 2019 compared to December 2017), in line with achieved high profit for the owners of the parent company. The value of the non-controlling share in the Equity reduced by 6.2% for the corresponding period.

The **Receivables of the insurance companies** in the group (from reinsurers in technical reserves and by insurance operations) in the **asset structure** preserves the largest share, with high growth rates (total 13.1% on annual basis as of the end of 2018 and 16.1% at the end of 2019), which follow the trend of the total increase in the volume of the written business by insurers for the entire period.


**Financial assets** remain second in volume and importance in the asset structure. They registered a downward trend, in 2018 – by 2.7%, in 2019 – by 2.6%. In terms of business activity, the main share remains concentrated in the insurance business line (over 80%). The period under review is marked by the change in 2019, of **government securities** exemption at the account of an increase of corporate bonds, capital investments and other financial investments, reported at a depreciated cost. A major share of the exempted government securities remains in the **cash resources** in the company's accounts and forms a significant increase in total assets (8.3%) at the end of 2019.

The upward trend in the value of **investments** – in terms of investment properties, the investments in associates and other enterprises, as well as in the book value of lands and buildings - is marked clearly in the period. The last increase is strongly influenced by the one-off effect of a change in the accounting principles in 2019, as a result of the introduction of IFRS 16 “Leasing”, which requires the rights to use assets being booked in the balance sheet.

More distinctive dynamics in the **liabilities** in the period under review are:

- Following the several years of steady decline in the value of obligations on loans provided by **banking and non-banking financial institutions**, which lasted until 2017, in the period under review, a clear growing trend of 41.2% is observed, followed by a minimum decline by 1.1%. The leasing business concentrates more than half of the loan obligations, registering a total increase of 68.5% for the past two years. Eurohold Bulgaria AD is placed second, with a volatile dynamics of the loan exposures – increasing in 2018 (31.4%) and declining (by 19.6%). The car sector registered a total reduction in the value of bank loans in the last two years (but increasing the financing through bond issues).

- The changes in the **obligations under bonds loans** in 2018 are related to the newly issued bond loan by a company in the Car sector. At the end of 2018, the value recorded an annual growth of 5.2%, in 2019, they reached a similar rate of 4.6%.

	<b>CREDIT RATING „STARCOM HOLDING“ AD</b> Long-term / Short-term credit rating: <b>BBB- / A-3</b> (Outlook: <b>stable</b> ) Long-term / Short-term national-scale rating: <b>A (BG) / A-1 (BG)</b> (Outlook: <b>stable</b> ) <b>April 2020</b>
<b>95, Evlogi Georgiev Blvd., floor 1</b> 1142 Sofia	<b>phone: (+359-2) 987 6363</b> <b>www.bcra-bg.com</b>

The changes are mainly related to the reduced amount in the Leasing division and increased liabilities of Eurohold Bulgaria AD. The obligation under the bond loan of the parent company has also been increased - by BGN 18.3 million at the end of 2018 to BGN 26.3 million, at the end of 2019.

In the period of review, the company retains the clear trend of a **rising income** – by 4% for 2018 and by the significant rate of 23.6% in 2019 (preliminary Financial Statements). More substantial increase, in absolute terms, register the two leaders in the business – Insurance and Cars. The year 2018 is marked by a significant amount of revenues from financial activity (operations with financial assets), achieved by Eurohold Bulgaria and Starcom Holding. In the period under review, revenues in the financial division also improved expressively, where those from financial and investment activities grew strongly, while the leasing retained a constant level in the last three years.

The main **expenses** follow the same trend as the dynamics of income, as a result of the business expansion.

The **gross operating profit** boosted in 2018 (as a result of the positive results from operations with financial assets), while in 2019, decreased by 17.7%, a rate close to the registered in 2017, influenced by the lack of high income from operations with financial assets.

The increase in other (administrative) costs for the activity is influenced by the **increase of remunerations**, while the other item – costs for external services witness diverse changes – growth in 2018 and decline in 2019.

**The Financial expenses** retain their values in relatively narrow limits, between BGN 23-26 million, with lowest registered in 2019, formed by interest expenses. As far as it is achieved in line with a steady upward trend of the loan exposure of the companies in the Group, we should note the effect of the steady continuous improvement of the terms on the financing used.

**The financial revenues** remain low, without significant impact on the final financial result.

In the last year of the review period, the **depreciation costs** rose substantially (by BGN 10.5 million), reflecting the final annual net financial result.

**In terms of the structure**, the insurance activity influences mostly the total result (above 50% of the total operating profit for 2019), followed by the realized numbers by the Cars and Insurance


business. The operations with financial assets managed by the two holdings, Eurohold Bulgaria and the parent company have one-off effects, of which most significant are those reported in 2018.

In terms of the observed **financial indicators**, the review period is marked by:

- Improvement of profitability ratios for 2018 (as a result of the high value of the positive net result) and a substantially lower amount for 2019;
- Retained unchanged in practical terms level of the total leverage;
- Increased level of credit dependence from 1.70 at the end of 2017 to 1.83 by the end of 2019;
- Maintained a high level of coverage on interest payments;
- preserved current liquidity ratio (about 0.82 in past three years).

*Positive pressures on the rating could cause the reduction of the indebtedness, preserved improvements of sale and financial results, and increase of capital. Negative pressures on the rating would cause in opposite directions.*

*Main financial data of the company on a consolidated basis are shown in the table below:*

	<b>CREDIT RATING „STARCOM HOLDING“ AD</b> Long-term / Short-term credit rating: <b>BBB- / A-3</b> (Outlook: <b>stable</b> ) Long-term / Short-term national-scale rating: <b>A (BG) / A-1 (BG)</b> (Outlook: <b>stable</b> ) <b>April 2020</b>
	<b>95, Evlogi Georgiev Blvd., floor 1</b> 1142 Sofia

### Main Financial Indicators:

#### Individual

Indicator	2019*	2018	2017	2016	2015	2014
Assets	187 178	163 830	147 473	135 998	111 925	105 257
Revenues	3 520	35 656	8 284	2 267	2 417	13 640
Net financial result	-1 028	28 372	720	-2 395	-2 104	9 307
Net profitability	-	79.6%	8.7%	-%	-%	68.2%
Return on equity	-	37.5%	1.5%	-%	-%	18.4%
Leverage	0.49	0.42	0.54	0.66	0.57	0.52
Solvency ratio (financial leverage)	0.75	0.65	1.14	0.71	0.62	0.53
Debt ratio (financial independence)	0.85	1.11	0.59	0.51	0.75	0.92
Coverage of interest payments	-0.33	7.89	0.15	-0.59	-0.54	2.52
Current liquidity	1.22	0.88	0.97	0.87	0.77	0.92
Immediate liquidity	0.00	0.01	0.02	0.02	0.03	0.03

#### Consolidated

Indicator	2019*	2018	2017	2016	2015	2014
Assets	1 580 930	1 453 660	1 333 568	1 125 589	1 000 440	818 586
Revenues (incl. financial)	1 603 858	1 297 927	1 246 489	1 053 925	918 920	608 352
Net financial result	2 384	46 163	24 400	7 829	-84 007	972
Net profitability	0.1%	3.6%	2.0%	0.7%	-%	0.16%
Return on equity	1.3%	24.5%	15.3%	8.7%	-%	0.58%
Leverage	0.89	0.87	0.88	0.92	0.91	0.80
Solvency ratio (Financial leverage) **	1.83	1.71	1.70	2.66	1.97	0.93
Debt ratio (financial independence)	0.13	0.15	0.14	0.09	0.09	0.26
Coverage of interest payments (EBITDA/interest costs)	2.31	3.27	2.51	2.06	-6.58	1.97
Current liquidity	0.82	0.83	0.83	0.74	0.95	1.16

\* preliminary Financial Statement;

\*\* to external creditors (includes bank loans and debenture loans)

### Rating History:

CREDIT RATING	Initial rating	Review	Review
Date of Rating Committee:	15.03.2018	29.03.2019	06.04.2020
Date of Publication:	22.03.2018	05.04.2019	10.04.2020
Long-term Rating :	BBB-	BBB-	BBB-
Outlook:	stable	stable	stable
Short-term Rating :	A-3	A-3	A-3
Long-term National-scale Rating:	A (BG)	A (BG)	A (BG)
Outlook:	stable	stable	stable
Short-term National-scale Rating:	A-1 (BG)	A-1 (BG)	A-1 (BG)