

STARCOM HOLDING

Ventseslav Petrov, Lead Financial Analyst
v.petrov@bcra-bg.com

Ivaylo Cholakov, Financial Analyst
i.cholakov@bcra-bg.com

Radostina Stamenova, Financial Analyst
stamenova@bcra-bg.com

CREDIT RATING	Initial Rating
Date of Rating Committee:	15.03.2018
Date of publication:	22.03.2018
Long-term rating:	BBB-
Outlook:	stable
Short-term rating:	A-3
National-scale long-term rating:	A (BG)
Outlook:	stable
National-scale short-term rating:	A-1 (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-Credit Rating Agency (BCRA) assigns to Starcom Holding the following ratings:

- Long-term credit rating: **BBB-**, outlook: „stable“, short-term credit rating: **A-3**;
- National-scale long-term rating: **A (BG)**, outlook: „stable“, national-scale short-term rating: **A-1 (BG)**.

The officially adopted methodology for preparing a credit report and assigning 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.

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 at the time of writing the report can be defined as 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, overall average change of prices register increasing positive values and reach 0.6% as of the end of September.

The state budget balance reports improvement. 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).

The budget balance on Consolidated Fiscal Programme, in the draft budget for 2018 is a deficit in the size of 1.0% of GDP. The government intends 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 taxation policy.

The level of 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 Bulgaria¹. The Ministry of Finance has set some expectations for a decline in the government debt to 22.3% of GDP as of the end of 2018 and reach 20.0% at the end of 2020.

The banking sector can be defined as stable – with high levels of liquidity and capital adequacy. The deposit base in the sector continues to grow, and lending shows positive trends – poor positive change in the size of 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 stability in the system, although for individual participants some adjustments are required (additional capital buffers for three banks).

Starcom Holding is a holding joint stock company, established in 2000 (company file No. 773/2000 Sofia City Council) with initial name „Bulgarian Holding Corporation, renamed in 2007 (decision Sofia City Council on company file No. 5/01.08.2007).

The company is public under the terms and conditions of the Public Offering of Securities Act, in its capacity of an issuer of bond issue ISIN BG2100010110 - **Stock Exchange Code** S28H, for 30 million BGN, issued on 15.04.2011 and with maturity 15.04.2021 (after renegotiation of its initial date – 15.04.2016).

The share capital as of the final date of the analyzed period (30.09.2017) is 6.9 million BGN, as out of it (13.12.2017) is registered its increase with 60 million BGN (the sum of 40 million of which is paid, and subscribed 20 million BGN, with a two-year period for paying), to 66.9 million BGN, distributed in 669 000 available, proprietary non-preference shares, with a nominal value of 100 BGN.

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 participations 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 it participates.

The company has a one-tier management system, carried out by General Assembly of Shareholders (GAS) and Board of Directors (BD), which at present are the same persons as follows:

- Assen Milkov Christov – member of the Board of Directors and Executive Director;
- Kiril Ivanov Boshov – Chair of the Board of Directors;
- Velislav Milkov Hristov – member of the Board of Director.

As of the date of last increase of the capital, the shareholding structure of the company is as follows:

<i>Shareholder</i>	<i>Shares</i>	<i>Share %</i>
Assen Milkov Christov	34 119 000	51.0%
Kiril Ivanov Boshov	22 746 000	34.0%
Velislav Milkov Hristov	10 035 000	15.0%
TOTAL	66 900 000	100.0%

The structure has no change in the shares of the owners for the entire analyzed period.

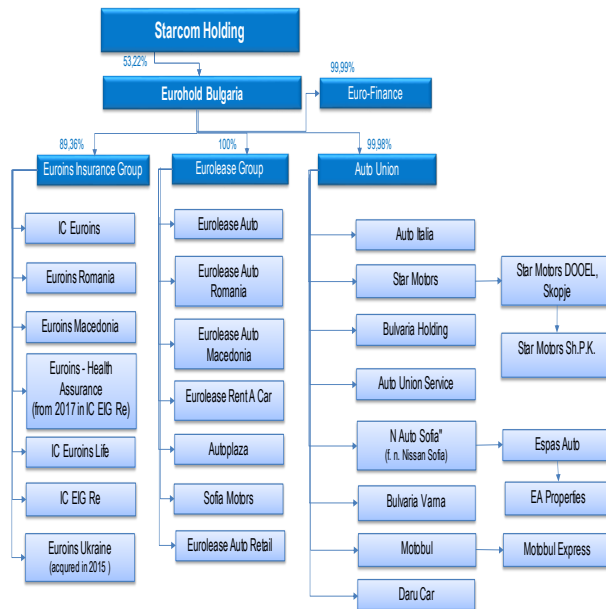
Starcom Holding does not do any activity different than investment activity, and its only investment in subsidiaries is limited to Eurohold Bulgaria (with a share of 30.09.2017 of 53.22%), which determines the activity of the company directly related to Eurohold Bulgaria.

The last company is of key importance for the assessment of Starcom Holding in terms of the Methodology for assignment of credit rating to a group of companies and/or individual companies in the group. Eurohold Bulgaria is also a big holding structure in which as important companies for assigning credit rating are determined Euroins Insurance Group and Auto Union.

To Eurohold Bulgaria and individual main companies in its group, BCRA has assigned individual ratings in separate rating reports.

In reference with the indicated importance of the subsidiary Eurohold Bulgaria for the credit rating of Starcom Holding, below is given the organogram of this company and described individual business directions in which it develops its activity.

¹ The maximum permissible value of the Maastricht convergence criterion is 60%



- stable growth in market shares in all sectors and markets in which the group operates;
- maintain a strategy for expanding the group in the region of Eastern Europe;
- reach a loyal and diversified client basis.

To implement its strategy, the management has set current goals and development policies focused on improvement of the integration, profitability and financial state of the group.

The balance sum in the individual report of Starcom Holding (Starcom) marks a sustainable increasing change during the period of analysis, with a more substantial growth in 2016. The net financial result is negative in the last two years and as of 30.09.2017, with an increasing size of the losses, after in the prior two years are reported comparatively high profits. The formed result for the period 2013 – 30.09.2017 is a net profit in the size of over ten million BGN. Out of the analyzed period, the given preliminary data for 2017 show a positive financial result in the size of 687 thousand BGN.

The portfolio comprises four economic sectors:

- **Insurance** – carried out by the holding Euroins Insurance Group;
- **Trade and repairs of motor vehicles and motorcycles** – carried out through the companies in the holding Auto Union;
- **Lease** – carried out by the companies in the holding Eurolease Group;
- Activity as **an investment intermediary**, carried out by the owned company Euro-Finance.

The company also carries out **real estate management** – until May 2014 through Auto Union Properties (100% owned by Auto Union), and after the sale of this company (since October 2014), though EA Properties (100% subsidiary of Espas Auto, which is controlled by Auto Union, through its subsidiary N-Auto Sofia, possessing 51% of Espas Auto). At the end of 2017, Auto Union acquires directly 51% of the shares of EA Properties.

The aims set in the medium-term aspect are focused on the development of the three subholdings – insurance, automobile and lease, as well on investment management of the group, through the investment intermediary Euro-Finance.

The management of the company intend to strengthen the market positions of the companies and development of the existing business in the region for main strategic aims:

In the structure of Starkom's assets, the main share during the analyzed period (on average ~66%) is taken by the investments in the subsidiary Eurohold Bulgaria AD (Eurohold) followed by receivables from financing to related parties in the group of the last company (~ 22%). This structure implies a high degree of commitment of the mother company to the state of the companies in the group. In 2017, the absolute amount of the investment in Eurohold increases significantly as a result of Starkom's participation in capital increases (February and December).

A substantial share in the structure of liabilities of Starcom Holding over the entire period of the analysis, is occupied by the obligations on bond loans. Their relative share declines in the last two years (from average ~ 50% to ~ 30%), as a result of a significant increase in the reported trade and other liabilities, including loans granted to the company in loans from non-financial institutions and repo transactions. At the end of 2017, the company significantly reduces the amount of bank loans (less than BGN 8 million).

The debtobligation on a bond loan arises in April 2011, as a result of issued issue for 30 million BGN. Its initial maturity in 2016 is renegotiated with the bond holders for April 2021, and it is

decreased to 4.15%, the size of the payable interest (before 6.50%). The company services regularly the interest obligations on the issue keeping correct values of the indicators, for whose maintenance the company is in charge – 0.95 maximum value of the ratio „Liabilities/assets“ and 1.05 minimum value of the ratio „Coverage of the costs for interests“, calculated on consolidated financial reports of the company. An exception is registered – in 2015, received as a result from the high size of the loss reported in the insurance group of companies. The bond issue is insecure.

The received funds on it are invested entirely in an increase of the capital of the subsidiary Eurohold Bulgaria in 2011 in this way, taking into account the structure of the activity of Starcom, the qualitative service of the issue is put on a great dependency by the subsidiary.

The entire analyzed period is characterized with a constant increase of the incomes from interests, which together with the growth in the costs for such is a result of the increased volumes in the given and received loans. The major part of the given funds are directed to the subsidiary and related companies.

The incomes from dividends are kept in relatively small volumes and a share of the total incomes. After a decline in their size in 2015 and 2016, in the last 2017 some growth is observed, incomes of 655 thousand BGN are reported.

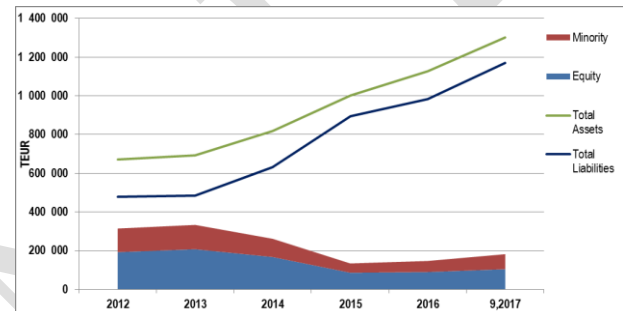
The incomes from financial operations with assets come sporadically, but are with substantial values and determining influence for the final financial result (2013, 2014 and 2017).

On consolidated basis the reports of Starcom Holding unite the individual reports of the company and the consolidated reports of the subsidiary company Eurohold Bulgaria AD in which are the consolidated reports of the three holdings: the insurance Euroins Insurance Group; the automobile Auto Union and the lease company Eurolease Group, as well as financial-investment intermediary Euro Finance.

With the low volume of the incomes from individual activity (below 0.2% in the last three years) and costs (below 0.1%), the reports and, respectively, the state of Eurohold, are entirely determining for the evaluation of Starcom.

To Eurohold Bulgaria and part of the companies in its group are assigned individual credit ratings that is why, in the current resume are marked only some key characteristics and changes in their financial state.

The total sum of the consolidated assets of the companies in the assessed Starcom Holding increases with a constant pace during the entire analyzed period exceeding 1.3 billion BGN as of the end of September 2017, forming a total growth for the period with a starting point 01.01.2013 of 93.5%, showing a serious pace of development of the company.



The characteristics, incl. distribution of the assets on are the following:

- Assets of the group *Property, machines and equipment* (with a share in total assets in the analyzed period from 4.2% to 4.8%) are concentrated mainly in the activities on Trade and Repairs of automobiles (Auto Union) and Lease Activities (Eurolease Group), and the value of *Inventories* (3-3.8%) is mainly formed in the directions Trade and repairs of automobiles;
- In the total amount of *Long-term (non-current) receivables on loans and guarantees*, forming a share of 7.4% of the total assets and 23.9% of non-current assets. As of 30.09.2017, the share of receivables on finance lease (45.0%) is the main one. Its relative share declines at the end of the analyzed period (57.0% to 52.1% in the period 2013-2016). The other long-term receivables are from related parties;
- For all other types of asset groups with a leading role and highly dominant role are those owned by the insurance companies as the assets of the mother company reported independently in the last three

years of the analyzed period do not exceed 2%;

- The aggregate trade receivables increase in the analyzed period, and focus should be drawn on their high percentage compared to the reported annual sales revenues by type of activity. Accordingly, for Insurance, this percentage is 47.4% in 2016 and 54.5% in 2015, and for Lease activity - 50.0% in 2016 and 44.5% in 2015. The current receivables reported in the group of insurers form a share compared to total assets of 35.5% as of the end of September 2017;
- In the total assets a large relative share decreasing from 28% to 15%, occupies the reported as a non-current asset *Trade reputation*. The latter is formed at initial acquisition of individual companies in the holding structure and is not subject to impairment during the analyzed period
- The total current assets exceed the non-current assets constantly after 2013 (including), and this is particularly expressed in 2016 and 2017 (by data up to 30.09.2017), when the excess is more than twice.

The structure of liabilities is characterized by a substantial increase of financing through bond loans and related substantial decrease in the size of bank lending. For the assessment of the company are essential the made renegotiations of bond issues of subsidiaries for a new five-year period (maturing over in 2016 and 2017) at decrease of the interest coupon.

A high share and meaning in the structure of liabilities have the maintained insurance reserves.

Overall, the incomes in the group increase constantly during the analyzed period forming an increase of more than twice in the period 2012-2016, as the most substantial growth is reported in 2015 (51.4%), followed by the growth in 2016 (15.4%).

The most substantial influence on the size and change of the incomes of Starcom Holding causes the insurance activity which in the last three years forms 79 and 81% of the incomes and between 83 and 84% of the costs of the companies in the group. In this business department is reported the

highest growth during the analyzed period, formed mainly by business expansion out of Bulgaria (mainly expansion in the Romanian market). The generated growth in the incomes from insurance activity is much higher in 2015 - 71.6%. In 2016, the increase is 16.4%, and as of the nine months of 2017 is 20.7%.


The incomes from trade with automobiles, spare parts and repairs, report a constant uptrend after 2012 (the only reported decline), reaching its highest value in 2016, forming a 15.7% share of total group incomes. Due to the higher increase rate of the incomes from insurance, this share decreases gradually during the analyzed period (from 21.0% in 2013).

The incomes from lease are being fluctuated in a relatively narrow range of 18.5-22.0 million BGN, with the highest levels, reached and maintained, in the last two years. Their average share in the incomes of the assessed company is 3.0% for the period 2012-2016 and 2.1% as of 30.09.2017 (the decreased share is formed as a result of the increase in incomes in the insurance sector). In this business direction is formed the highest norm of operating profit and the highest risk levels on receivables collection.

Volatile are also incomes from financial investment activity – with variations in a wide range 9.3-13.5 million BGN annually, without constantly formed trend. Their average share in the total incomes in the period 2012-2016 is 1.6% (decreased to 0.5% for the nine-month period of 2017).

The incomes realized by the subsidiary Eurohold Bulgaria, are also volatile, as their levels depend mainly on investment transactions in a given financial period.

Key companies in the holding, in the terms of the Methodology for assigning credit rating to a group of companies and/or are Euroins Insurance Group and Auto Union, as the state of the first plays a main role in assigning credit rating to Starcom Holding. Its deteriorated economic and financial results for 2014 and 2015 (based on the activity of Euroins Romania Insurance-Reinsurance), cause negative influence on the overall assessment of the credit rating. At the same time, the substantial improvement of the results from its activity in two consecutive years, as well as its successful coming out of the recovery programme, have a very positive effect.

	CREDIT RATING STARCOM HOLDING Long-term / short-term credit rating: BBB- / A-3 (outlook: stable); National-scale long-term / national-scale short-term: A (BG) / A-1 (BG) (outlook: stable); March 2018
	95, Evlogi Georgiev Blvd., fl. 1 1142 Sofia

The change in the main economic indicators of Starcom Holding are given in the following two tables:

Main financial data

Reporting on an individual basis

<i>Indicators</i>	9.2017	2016	2015	2014	2013
Assets	143 786	135 998	111 925	105 257	97 592
Income (incl. financial)	2 899	2 267	2 417	13 640	20 221
Net financial result	-2 846	-2 395	-2 104	9 307	8 624
Net profitability	- %	- %	- %	68.23%	42.65%
Profitability on equity	- %	- %	- %	18.41%	20.91%
Credit dependence (financial leverage)*	0.81	0.76	0.72	0.53	0.72
Solvency ratio (financial autonomy)	0.42	0.51	0.75	0.92	0.73
Coverage of interest payments	-0.80	-0.59	-0.54	2.52	2.49
Current liquidity	0.52	0.87	0.77	0.92	0.80
Quick liquidity	0.02	0.02	0.03	0.03	0.03
Leverage	0.72	0.66	0.57	0.52	0.58

On consolidated basis

<i>Indicator</i>	9.2017	2016	2015	2014	2013
Assets	1 300 527	1 125 589	1 000 440	818 586	693 356
Income (incl. financial)	881 804	1 059 243	918 920	608 352	607 780
Net financial result	7 741	7 040	-84 007	972	13 114
Net profitability	0.88%	0.66%	-9.15%	0.16%	2.16%
Profitability on equity	7.38%	7.80%	-97.10%	0.58%	6.31%
Credit dependence (financial leverage)*	2.60	2.69	1.97	0.93	0.61
Solvency ratio (financial autonomy)	0.09	0.09	0.09	0.26	0.43
Coverage of interest payments	2.01	0.42	-6.88	0.13	1.80
Current liquidity	1.04	1.04	0.95	1.16	1.07
Quick liquidity	0.11	0.14	0.11	0.16	0.12
Leverage	0.92	0.92	0.91	0.80	0.70

* to external creditors (bank loans and bond loans)