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Ukrainian agriculture Farming Fortune



Ukraine | Consumer, Non-Cyclical | Agriculture
Initiating Coverage
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Investment summary

Locally essential, globally substantial

Investing in Ukrainian crop producers offers exposure to the local agriculture industry, which is one of the country's most competitive sectors globally. Agriculture is Ukraine's second largest source of export revenues after steel, and the country is one of the world's leading grain exporters (top-3 in 2008/09 MY). The sector's key competitive advantages – fertile land, low expansion costs and sizable room for growth, backed by state support – will shape incumbent Ukrainian agro players' fortunes in the mid-term. Sector leaders are set to more than double land banks and increase crop yields by around 50% in the next 5 years. Aside from its direct effect on company value, improved operating efficiency is essential for companies to qualify for material tax benefits.

Buy strategy, not speculation

We prefer the local players that are focused on short- to mid-term expansion, when the costs of increasing land banks and equipment fleets are still low. We consider the land sale moratorium an opportunity rather than a threat for existing sector players, as it subdues expansion costs and restricts competition. In the meantime, we do not rely much on speculative returns from an appreciation in land prices. Ukraine's abundant land resource, only 10% of which is currently controlled by corporations, suggests ample room for land bank growth and little unsatisfied demand for acreage.

Stock market test passed

Ukrainian agriculture has been in the stock market spotlight since 2007, and we feel the interest remains strong. The country's only two successful equity offerings in a tough 2009 were completed by agricultural companies.

Four initiations - two picks

We initiate coverage of four public Ukrainian *crop producers*: Mriya Agroholding (MAYA GR) and Sintal Agriculture (SNPS GR) with BUY recommendations, and MCB Agricole (4GW1 GR) and Landkom (LKI LN) with HOLD recommendations. Our picks, Sintal and Mriya, look better prepared to rapidly monetize fundamental sector drivers.

Recommendation summary

		Market price	MCap	EV/Sales 2011		EV/OCF 2011		12M target	Upside, %	Rec
		US\$	US\$ mn	Simple	Adjusted ⁽¹⁾	Simple	Adjusted ⁽¹⁾	US\$		
Landkom	LKI LN	0.086	37.3	1.66	2.71	33.1	23.2	0.075	-13%	HOLD
MCB Agricole	4GW1 GR	4.17	71.8	1.71	2.88	16.5	16.2	3.8	-9%	HOLD
Mriya Agroholding	MAYA GR	19.27	409.5	1.18	1.92	2.7	4.0	42.0	118%	BUY
Sintal Agriculture	SNPS GR	3.55	116.9	1.32	2.25	5.4	7.7	5.4	52%	BUY
Global peer median					3.30		11.5			

⁽¹⁾ Note: EV and operating cash flows are adjusted for Ukrainian companies' absence of land ownership to make multiples comparable to global peers
 Source: Bloomberg, Company data, BG Capital Research

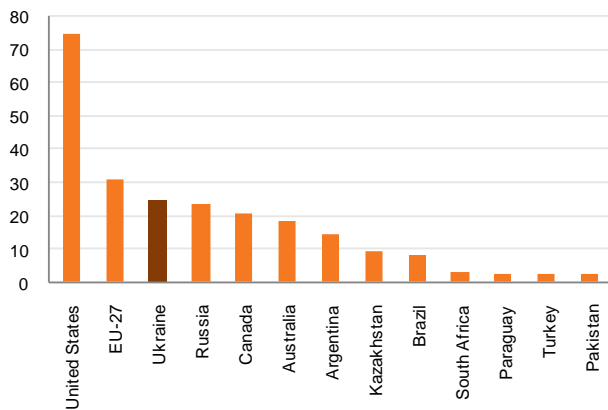
The Ukrainian breadbasket

Agriculture is one of the country's key contributors to GDP and the second largest source of export revenues behind the steel industry. The sector's key competitive advantages – superior land quality, low expansion costs and sizable space for scale-effects – provide outstanding opportunities for the country's agricultural companies.

Agriculture is Ukraine

Ukraine is one of the world's top grain exporters – first in barley and sunflower, second in rapeseed, and sixth in wheat exports over the 2008/09 marketing year, according to USDA figures.

Top 2008/09 grain⁽¹⁾ exporters, mmt



⁽¹⁾ Wheat, barley, and corn combined

Source: United States Department of Agriculture (USDA)

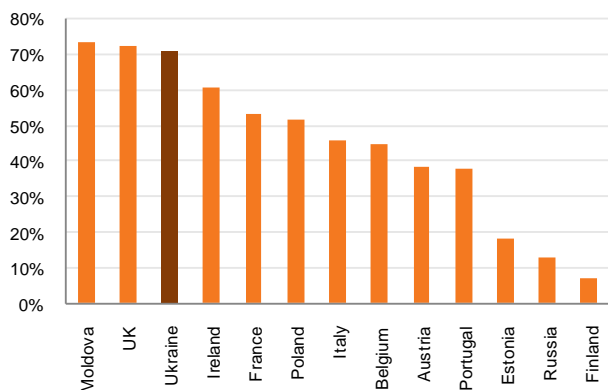
Ukraine 2008/09 crop exports

	Global rank	Volume (mmt)
Barley	1	6.4
Sunflower seed	1	2.1
Rapeseed	2	2.6
Corn	4	5.5
Wheat	6	13.0
Soybean	8	0.3

Ukraine is agriculture

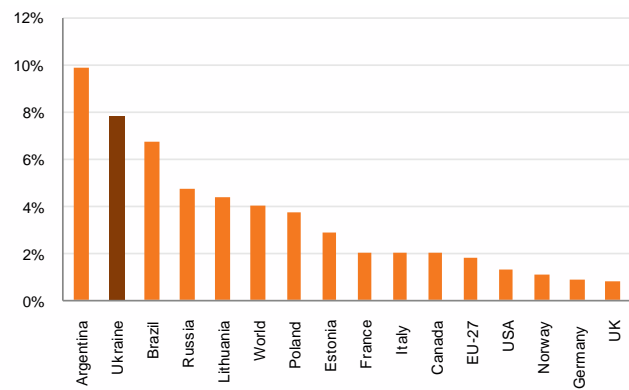
Agriculture accounted for 7.8% of Ukraine's 2008 GDP (the sector is the fourth largest GDP contributor) – a much larger share than the EU's 1.8% and Russia's 4.7%. Of Ukraine's total area of 60.4mn ha, 71% is viable for agricultural use (the 3rd largest share in Europe) and 78% of that is arable land.

Share of agricultural land in Europe



Source: UN Food and Agriculture Organization (FAO)

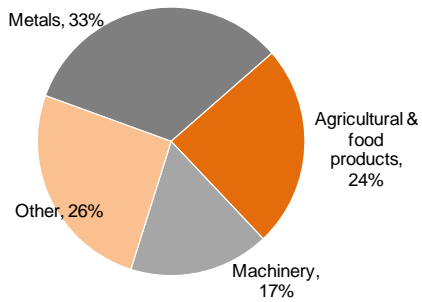
Share of agriculture sector in GDP



Source: EuroStat, CIA Factbook 2009

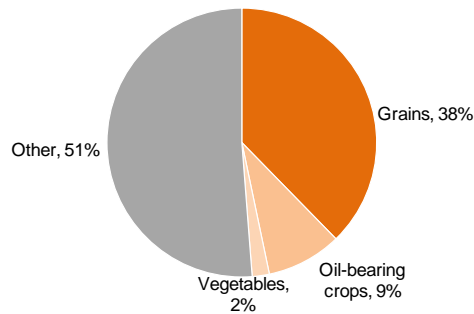
Agriculture and food-related products are the second largest export item for Ukraine after metals.

Ukraine key export items, 9M09



Source: UkrStat

Agro/food export breakdown, 9M09

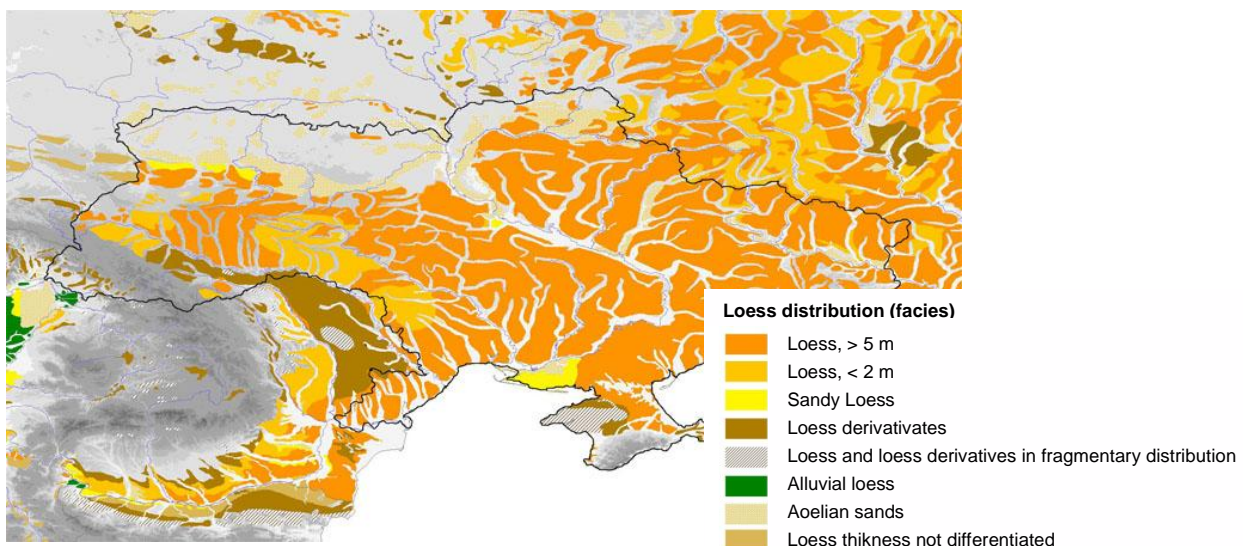


Land quality: Only the best

Ukraine's land, its main agricultural resource, is well-suited to crop growth:

- 54% of Ukraine's land area is covered with a 40-50cm thick humus layer, which creates the extra-fertile "black soil" or *Chornozem* land
- 80% of Ukraine is covered with a thick (5m) layer of mineral-rich loess sediments that greatly improve the soil's ability to grow crops
- Topographically, the country is mainly flat with 95% of land consisting of plains (60% sloped less than 1 degree, 95% sloped less than 3 degrees).

Ukrainian loess deposits

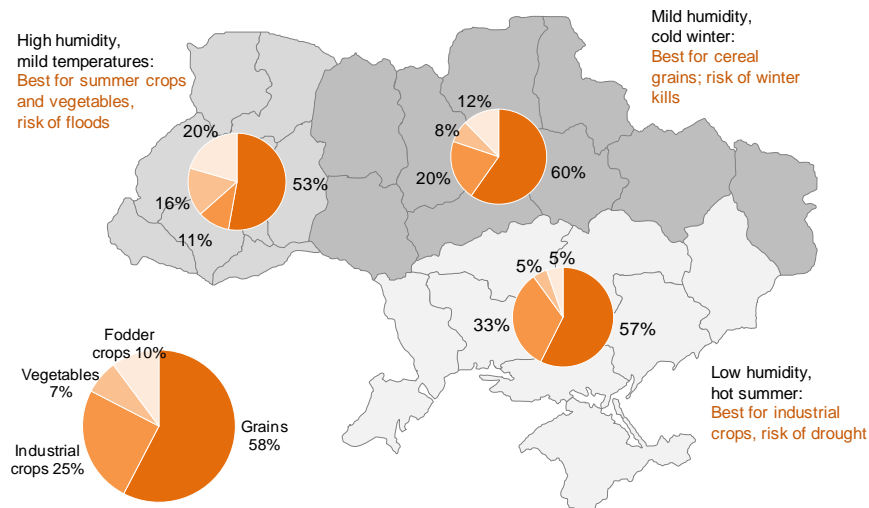


Source: Helmholtz-Centre for Environmental Research

Climate allows for diverse crops

Ukraine is comprised of three distinct climatic zones, which allows producers to vary crop growth across the country.

Ukraine's geographical differentiation in climate and crop mix (2008)



Source: UkrStat, BG Capital estimates

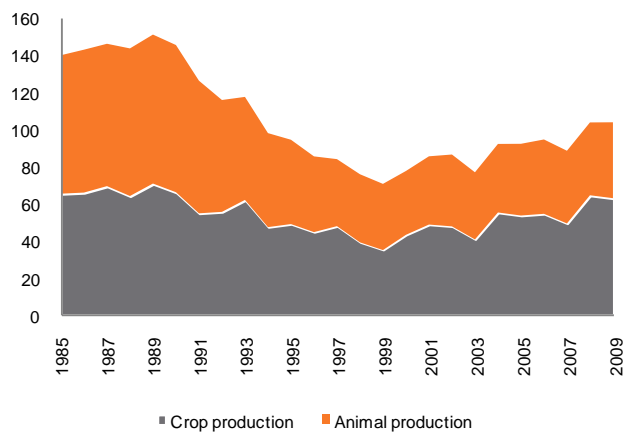
- The western regions are best-suited to crops that demand high humidity, specifically vegetables and spring grains. It is marked by mild temperatures (-3 to -6°C in January and below 18°C in July) and a high precipitation rate (over 600mm of rainfall per year). The precipitation does, however, introduce the risk of sowing and harvesting delays as machinery can be affected by land conditions.
- The central and north-eastern regions are right for all kinds of grains. The region has a more continental climate (warmer summers, colder winters), with lower precipitation than the west. Colder winter temperatures and a lack of snow increase the risk of winter kill, while lower rainfall simplifies harvesting and sowing procedures.
- The southern regions are best-suited to winter crops, as the area is Ukraine's warmest overall (average January temperatures above -3°C). Summers, however, can get hot enough to introduce the risk of droughts.

Ample room for growth

Crops drive post-Soviet production recovery

Ukraine's agro sector suffered a severe hit in the early 1990's when collective farms were broken up after the fall of the Soviet Union. Output dropped almost 50% in the '90s and only began to recover in 2000, at an average 3.3% annual output growth rate. The revival was mostly fuelled by crop production, which has grown at a 5.1% CAGR since 2001 vs. animal production's 1.7%, which has suffered from a lack of investment.

Agricultural output, UAH bn in 2005 prices

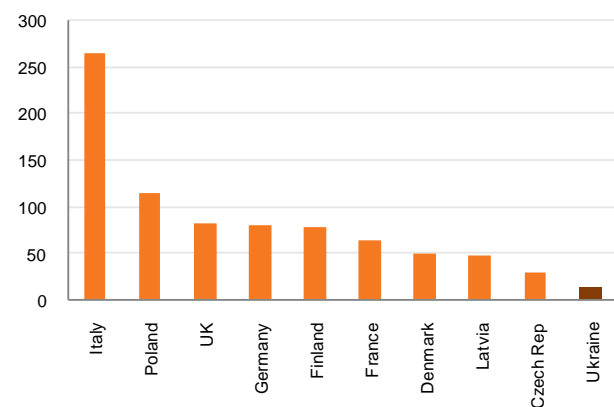


Source: UkrStat

Yields still remain well-below EU levels

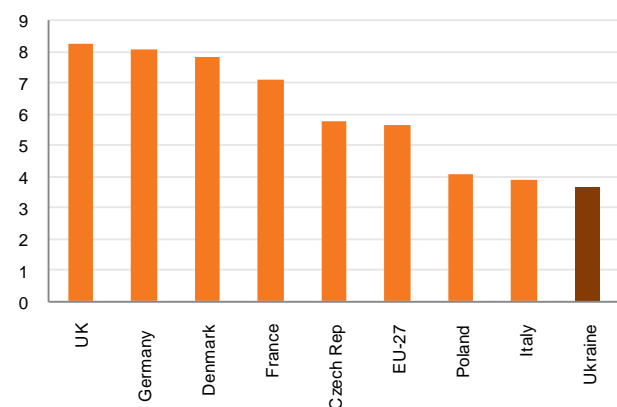
Average Ukrainian crop yields are 30-60% below those in the EU practically across all crops. Given the country's fertile land resources and increased capital inflows, we believe Ukraine has the potential to double crop output per hectare within a decade.

2008 tractor use in selected countries, tractors/'000 ha



Source: FAO

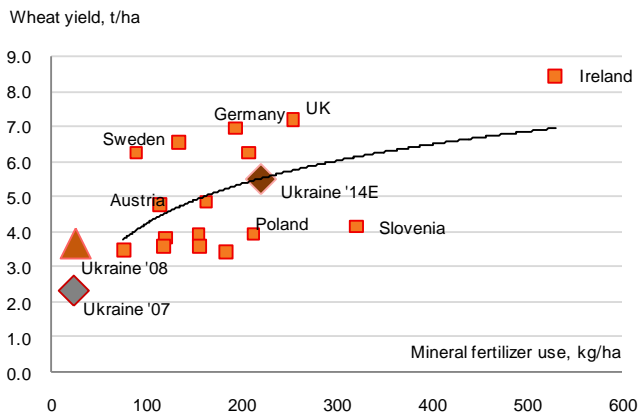
2008 wheat yields in selected countries, t/ha



Source: EuroStat, UkrStat

European data suggests that higher crop yields are associated with higher fertilizer and machinery use. In Ukraine, both of these factors are currently 7-8x below the Western European average.

2007 wheat yields vs. fertilizer use in selected countries

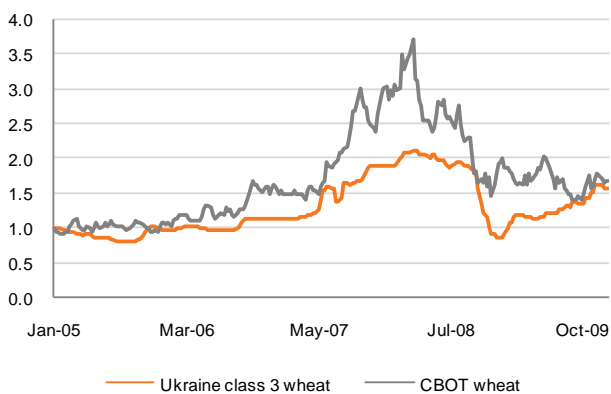


Source: EuroStat, UkrStat, BG Capital estimates

Crop prices – welcome back to growth

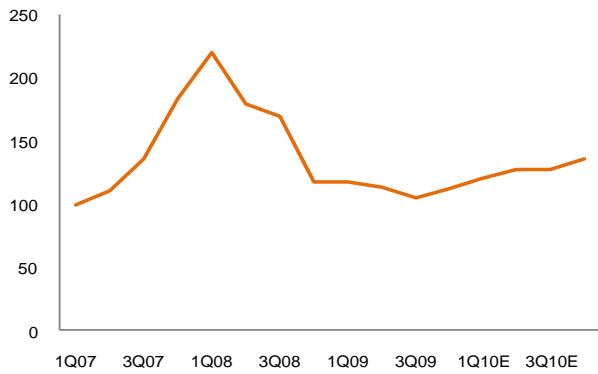
Ukrainian soft commodities have historically tracked world price dynamics. As of 3Q09, global prices are back to 2007 levels and are starting to recover. In the long run, we expect both global and Ukrainian prices to grow at an 8% CAGR.

Historical wheat prices, rebased



Source: Bloomberg, APK-Inform

In our view, corn and oilseed (rapeseed, sunflower seed, and soya) prices will show the sharpest growth among agricultural commodities in 2010 due to unmet biofuel demand in Europe and the US.

Corn CBOT price, rebased


Source: Food and Agricultural Policy Research Institute (FAPRI)

Ukraine's key domestic crop prices

	2008, US\$/t	2009, US\$/t	2010E, US\$/t
Wheat, 3rd class	213	150	152
Corn	168	107	120
Soya	445	364	393
Rapeseed	346	271	297
Barley	189	87	88
Sunflower seed	1146	609	652

Source: Bloomberg, FAPRI, APK-Inform

State supports the profitable

State support for the agricultural sector is modest in Ukraine, but the current subsidy program is quite beneficial for profitable producers.

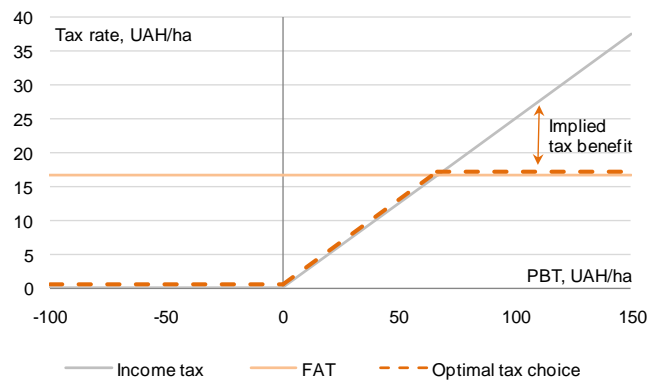
Indirect subsidies: The rich become richer

89% of aggregate subsidies received in 2008 by the 4 crop producers covered in this report were premiums directly related to their profitability. The government's current policy exempts profitable companies from income-related taxation, thereby stimulating the already big and profitable players to become even bigger and more profitable.

We identify the two main state-provided subsidies that benefit crop producers: the Value-Added Tax (VAT) privilege and the Fixed Agricultural Tax (FAT), which companies can choose to pay in lieu of a 25% income tax.

The FAT is equal to 0.15% of the official land value under control (leased land). As of 2009, the government-set official land value averaged out at UAH 11,100/ha, which implies an average FAT of UAH 17/ha for agro companies. A crop producer with profit before tax (PBT) of UAH 67/ha (US\$ 8.5/ha) would see little difference between paying FAT or income tax, while a producer with PBT of over UAH 67/ha would receive an indirect tax subsidy by choosing to pay the FAT.

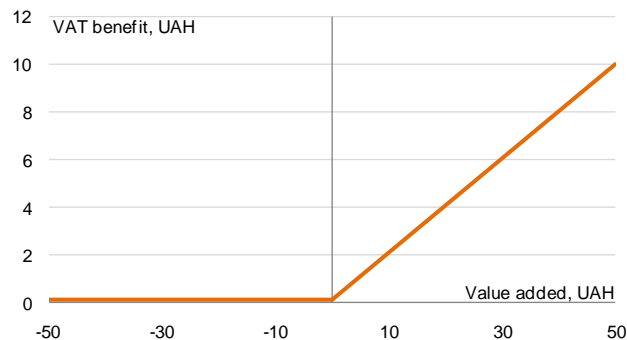
FAT and income tax subsidies, UAH/ha



Source: BG Capital estimates

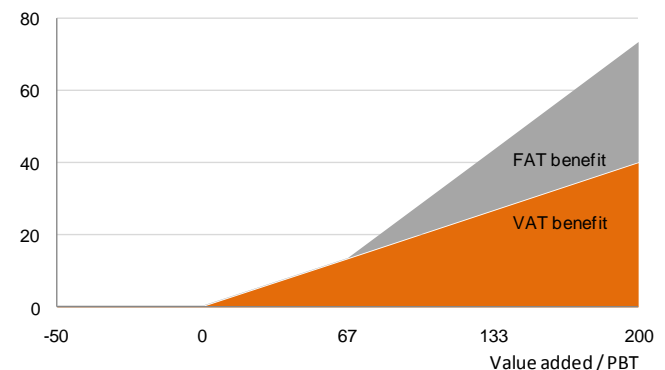
The VAT subsidy works in the same manner as the FAT privilege: if more than 75% of a company's revenues come from agricultural activity, the company's value-added is tax exempt (VAT is 20% in Ukraine). For profitable companies, the combined indirect subsidies yield a non-linear growth in total taxation benefit.

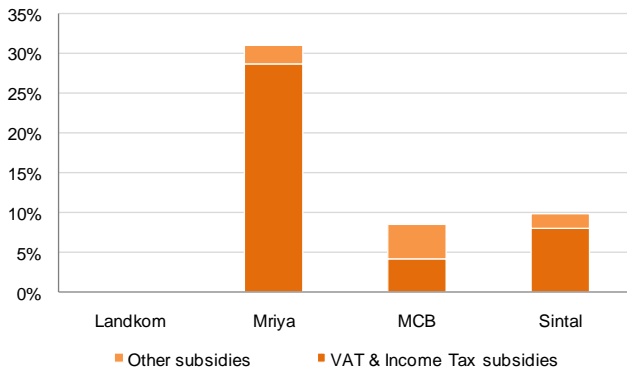
Value-added and the VAT subsidy, UAH/ha



Source: BG Capital estimates

Indirect tax benefits for profitable agro companies, UAH/ha



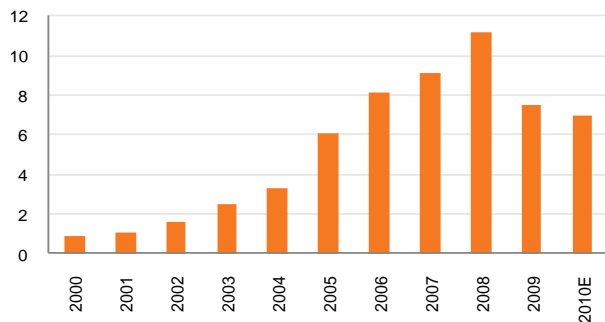
Crop producers' subsidies vs. 2008 revenue


Source: Company data, BG Capital calculations

Direct subsidies: Important for loss-makers

Most other government subsidies support agro producers through the direct compensation of a part of their expenses. Approximately 45% of state support for agro producers is linked to specific commodities. In 2005-07, the most actively subsidized agro products were poultry, sugar and pork.

Sourced from the state budget, direct subsidies to the agro sector hit a record high in 2008, but were slashed by 1/3 in 2009, and are expected to decline further in 2010.

State budget support for the agriculture sector, UAH bn


Source: Ministry of Agriculture, Institute of Economic Research and Policy Consulting

Land "market"

More than 80% of Ukraine's arable land is privately owned by the population, with the remainder owned by the state. For the most part, private owners received their land as a result of the restructuring of collective farms after the break-up of the Soviet Union. Sales of agricultural land are currently restricted by a moratorium that is part of the Land Code, whereas *non*-agricultural land can be traded. Ukrainian agricultural companies form their land banks mainly by purchasing smaller firms that had gathered acreage by signing lease contracts with individual landowners (mainly long-term, 7 years on average). On average, every 10,000ha of consolidated leases consist of over 2,000 individual leasing contracts.

Agro producers do not currently have the option of buying out their leased land (because of the moratorium), but the risks associated with a continuation, or possible cancellation, of this restriction are minimal, in our view. Furthermore, we believe the moratorium actually benefits the agro firms that already operate in Ukraine, as the ban keeps expansion costs low by restraining demand from potential entrants who do not tolerate an inability to purchase land assets.

Land sale moratorium – an overrated concern

In our view, leased land banks are much more secure than they may appear, in contrast to widespread concerns associated with the moratorium on land sales. Below, we address the three main perceived risks related to the moratorium:

- **Loss of land to the state via national reform.** According to the state land registry, 82% of Ukraine's arable land is privately owned by a large number of individuals. We believe it is entirely unrealistic for the government to pursue en-masse nationalization or in any other way deprive the public of their land plots. In addition, the state has no influence on land lease deals between an agricultural company and an individual.
- **Failure to re-sign lease contracts with individuals.** Individual land leases are of no interest to competing agro firms, as there is no value in leasing a small plot in the middle of a field controlled by another company. Large agro producers thus hold significant bargaining power over small landlords.
- **Loss of land to a competitor after the land market is unfrozen.** When the moratorium is lifted, we believe competition for land will remain low for several years, at least, because there will be an abundance of land available for purchase. The 30 largest agro firms currently control less than 10% of Ukraine's arable land, and we do not believe companies will be interested in encroaching on a competitor's land bank when other arable land is available at less of a hassle. In addition, leasees can protect themselves at low cost by purchasing small parts of their leased land (e.g. small plots in the middle and corners of fields) to make it unattractive for outsiders.

Price of land: What price?

Before the moratorium is lifted and deals reveal the market price of land, we can only make an educated guess on its intrinsic value. It can be estimated by the cost of leasing land, which is an alternative to purchasing land, plus entry cost – the cost of purchasing the right to lease a consolidated land plot.

To be able to lease a relatively large plot of land, Ukrainian agro companies pay a so-called “entry ticket” – a one-off fee paid to an intermediary that consolidates the land by signing lease contracts with a large number of individual land owners. An entry ticket can also be obtained by acquiring a smaller firm, which has already signed lease agreements with individual owners. There is no statistical data for entry tickets, but sector insiders suggest it was ~US\$ 250/ha in 2009 and is expected to drop to ~US\$ 180/ha in 2010. Given our lease payments forecast, this implies an “intrinsic” land price of US\$ 672/ha.

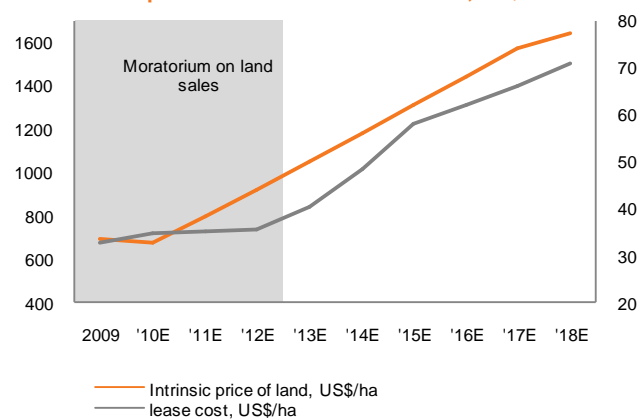
What to expect once the moratorium is lifted

After the cancellation of the moratorium, we expect lease rates to grow at an accelerating rate during the following 2-3 years (20% CAGR in 2013E-15E vs. 7% CAGR over 2010E-12E).

We also believe there will not be enough demand to push the market price of land above its intrinsic level after the moratorium is lifted, and we believe the price will remain below EU levels in the mid-term. Land in Ukraine is far from being scarce and we don't expect a shortage in the foreseeable future:

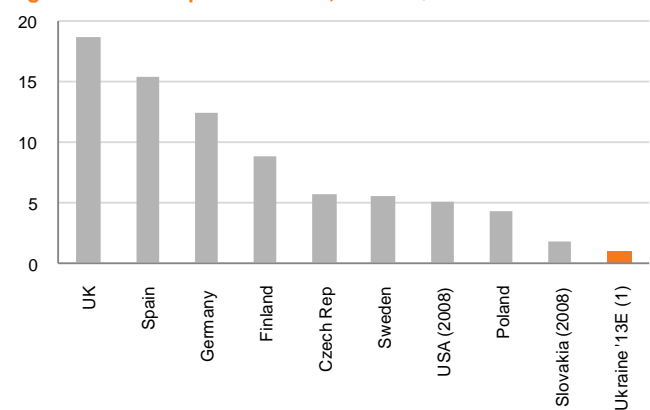
- Only 80% of the country's arable land is currently harvested, and just 10% is controlled by corporations;
- There has been no excessive demand for land for the past 3 years, otherwise lease fees, which have remained relatively stable, would have increased;
- Potential demand can be limited by the introduction of restrictions on foreign ownership ahead of the removal of the sale moratorium, as was the case with Russia's land reform in 2002. That type of decision could be motivated by political reasons – 25% of Ukrainians think foreigners should not be able to own Ukraine's agricultural land, according to a poll by the Razumkov Centre conducted in March 2009.

Intrinsic land price and lease rates in Ukraine, US\$/ha



Source: BG Capital estimates

Agricultural land prices in 2007, '000 US\$/ha



⁽¹⁾ Estimated land price after moratorium is lifted (in 2013, expectedly)

Source: EuroStat, USDA, BG Capital estimates

Fundamental value drivers

Harvested land bank growth, operating efficiency, and the ability to mitigate price and weather risks are key factors that affect the fundamental value of agricultural companies. Based on the factors, we choose Mriya and Sintal as the fundamentally strongest companies.

Cultivated land growth: Ambitions and ability

Ukraine's legal environment will continue to facilitate low-cost land expansion until the land sale moratorium is removed and probably several years after that. The agro producers that will have expanded before then look more attractive to us.

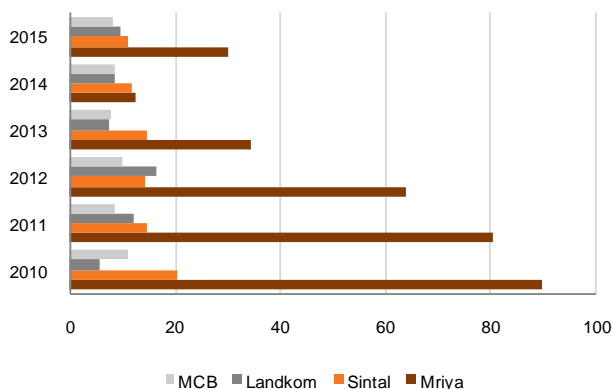
Mriya looks like the most ambitious company of the group based on land expansion plans. Having already harvested 150,000ha in 2009, the holding plans to expand operations to over 400,000ha by 2012. We believe Mriya's target is realistic, as it is supported by sufficient infrastructure (257,000t of storage capacity as of 2009) and equipment (existing machinery fleet is able to work 180,000ha), which is essential for expansion.

Sintal plans to increase harvested area 61% in two years to 132,000ha, while simultaneously improving its storage sufficiency. In November 2009 the company raised US\$ 13mn via a secondary placement, of which it plans to spend US\$ 7.6mn on expanding storage capacity from the current 50,000t to 215,000t by 2011.

Landkom is targeting better use of its existing land bank (65,900ha), of which currently only half (35,300ha) is being cultivated. In the next two years, the company plans to almost double its harvested area to 64,300ha.

MCB Agricole's growth prospects look much more modest than the others, mainly due to a lack of funding.

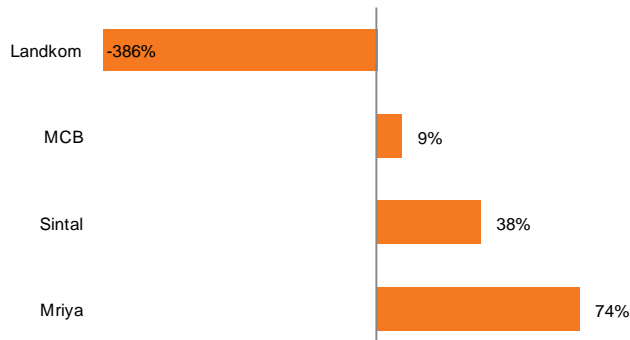
Expected harvested land expansion in 2010-15, '000 ha



Source: Company data, BG Capital estimates

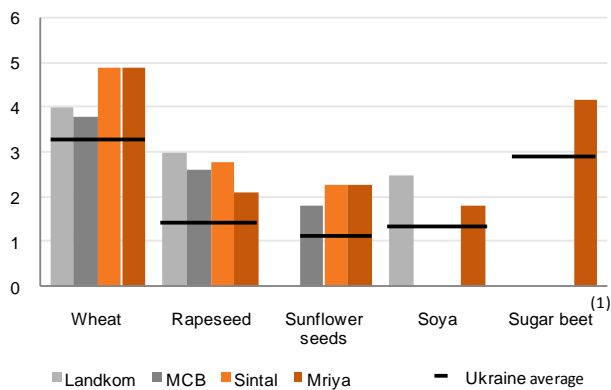
Operating efficiency

The most straightforward measure of the companies' operating efficiency is their EBITDA margin and Mriya is the undisputed leader.

EBITDA margins, 2008


Source: Company data

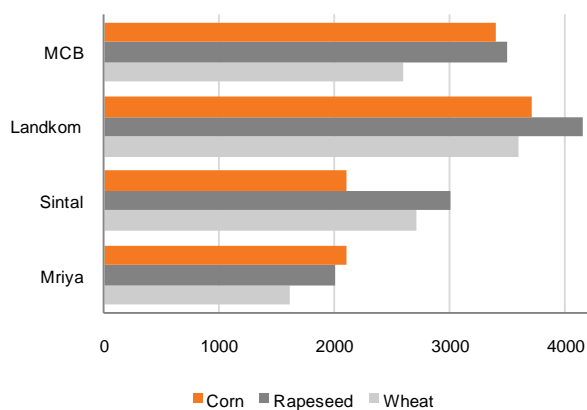
On the income side, efficiency is driven by crop yields. Based on projections for the 2010 harvest, Mriya, Sintal, and Landkom can be treated equally, while MCB lags behind.

Principal crop yields in 2010E, t/ha


⁽¹⁾ '000t/ha

Source: Company data, BG Capital estimates

Looking at the expenses side, Mriya's costs per hectare are the smallest, while Landkom's expenses are well higher than for its three covered peers.

Production costs in 2010E, UAH/ha


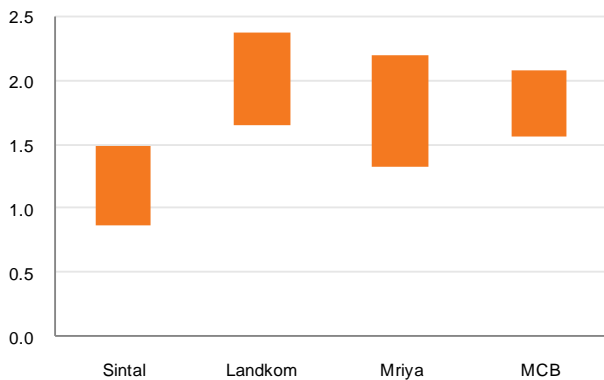
Source: Company data, BG Capital estimates

Ability to mitigate operating risks

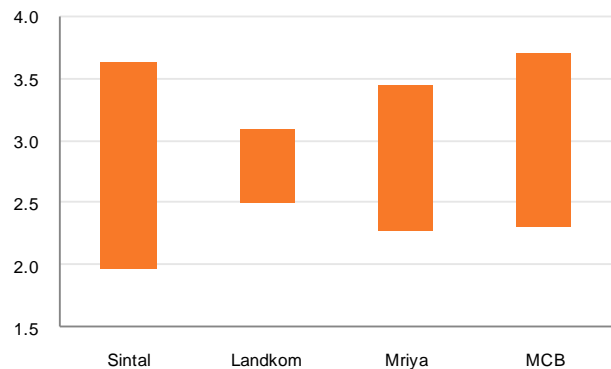
Ukrainian agro producers are exposed to risks related to adverse weather conditions and commodity price shocks.

Companies can mitigate weather risks by operating in locations with more predictable weather and climate effects. On this characteristic, we like Landkom because its region of operation (Lviv Oblast) seems to have a relatively narrow historical yield range for both wheat and rapeseed.

Wheat yield ranges in regions of operation, 2006-08



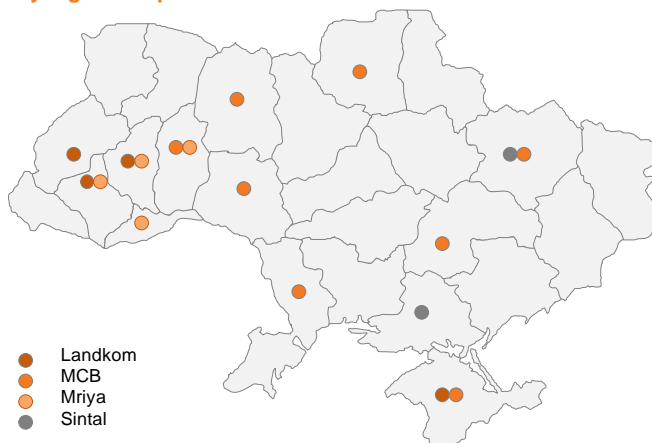
Rapeseed yield ranges in regions of operation, 2006-08



Source: UkrStat, BG Capital estimates

Another way to alleviate weather risks is to diversify geographically. MCB Agricole is the most geographically diversified with operations in all of Ukraine's climate zones. Sintal also benefits from diversification as it is split between two climate zones.

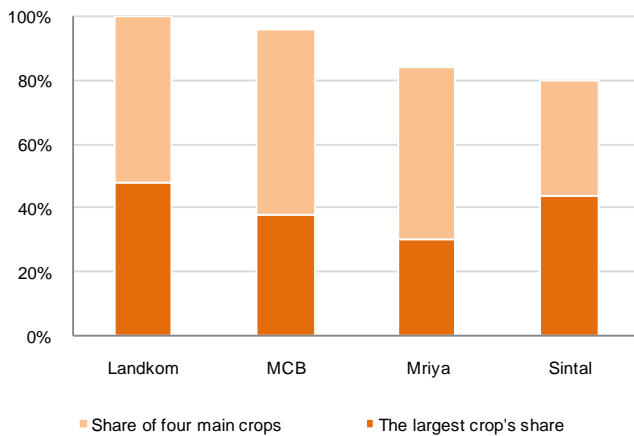
Key regions of presence



Source: Company data, BG Capital

Price shocks can be mitigated via crop diversification and exports.

Landkom's crop mix looks the least diversified, with one principal crop accounting for nearly 50% of its sown area and its four main crops accounting for 100%. Mriya looks well-diversified, with no principal crop exceeding 1/3 of its sown area.

Distribution of land to be harvested with principal crops in 2010


Source: Company data, BG Capital estimates

Exports diminish country-specific risks related to pricing. On the back of its land bank's proximity to sea ports, we find Sintal to be best-suited to exporting harvested volumes.

Infrastructure

The most significant difference in infrastructure between the four companies is storage capacity, which is generally limited in Ukraine (total storage of roughly 35mmt at a grain harvest of over 45mmt). Companies that do not own elevators run the risk of losing crop quality or being forced to sell their harvest at unfavourable prices. An absence of storage is a key disadvantage for MCB - the company does not own and has no plans to acquire capacities. Mriya and Sintal reported full sufficiency in storage needs last year, and have both announced plans to expand storage capacities in 2010-11.

Fundamental strength summary

	Landkom	MCB	Mriya	Sintal
Growth	+	-	++	+
Efficiency:				
Profitability	--	-	++	+
Crop yields	+	-	+	+
Crop planting costs	--	-	++	+
Diversification:				
By location	-	++	-	+
By crops	-	+	++	+
By sales (export)	-	-	-	+
Aggregate rank	--	-	++	++

Source: BG Capital Research

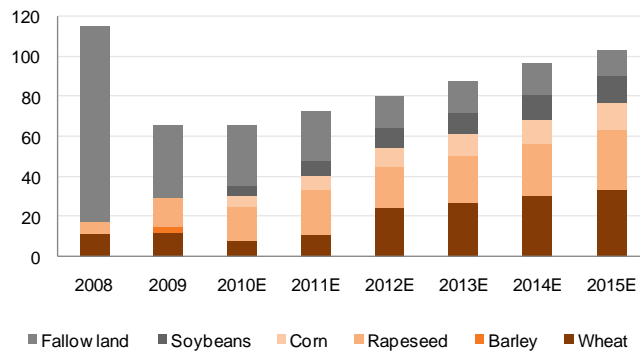
Key operating assumptions

Relatively stable crop mix

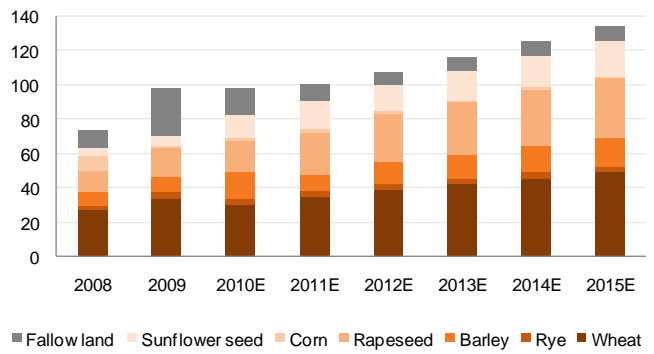
Until 2012, our land bank and crop mix assumptions are based on management forecasts. Afterwards, we do not expect significant changes in crop mixes.

Land bank use forecast, '000 ha:

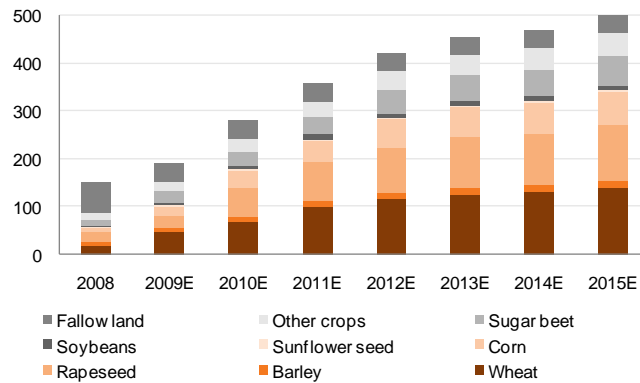
Landkom



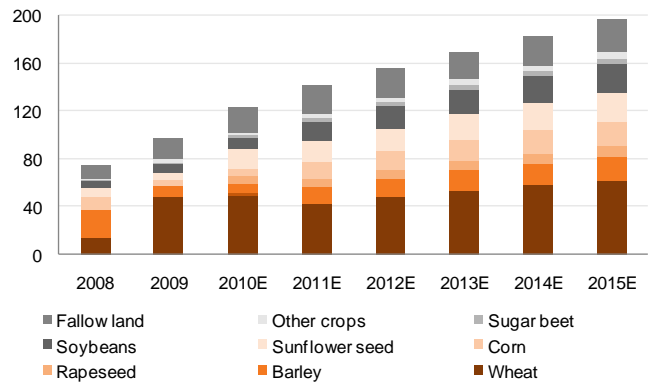
MCB Agricole



Mriya



Sintal

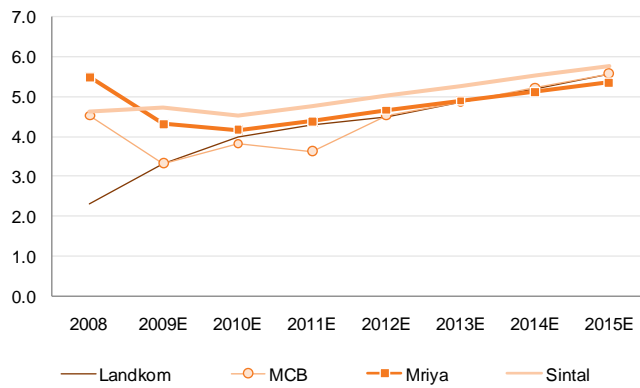


Source: Company data, BG Capital Research

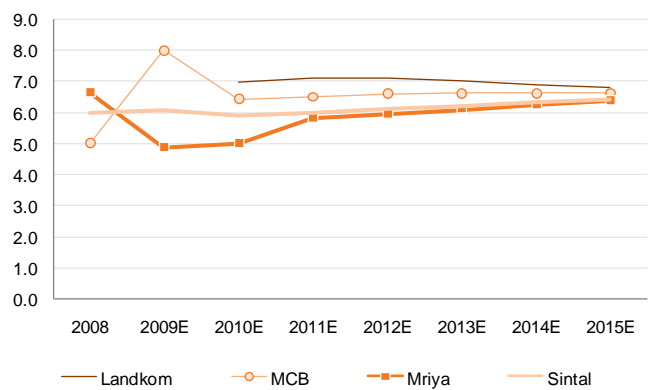
Convergence in yields in the long-term

Yield forecasts, t/ha:

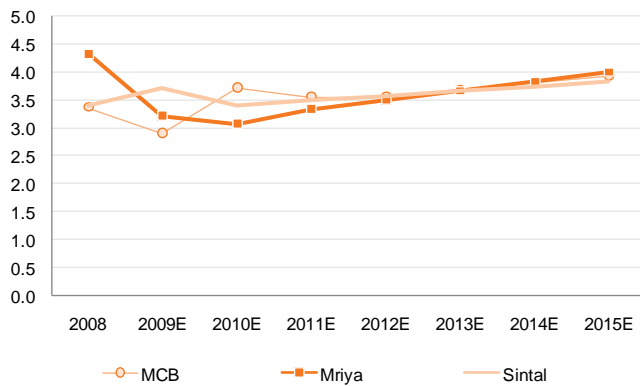
Wheat



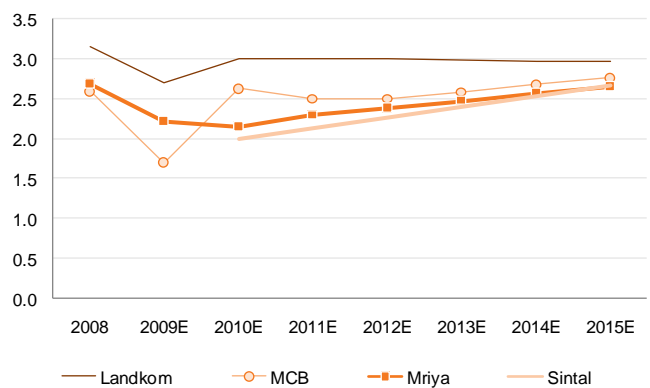
Corn



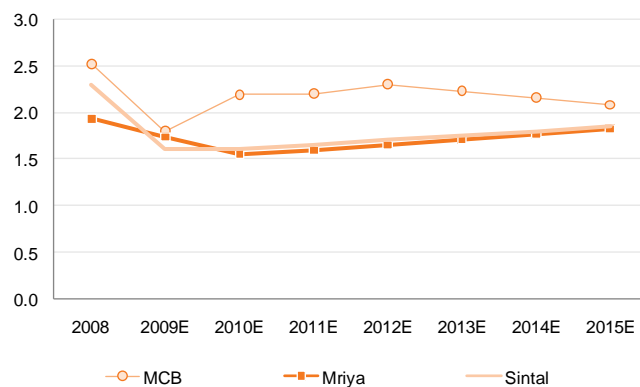
Barley



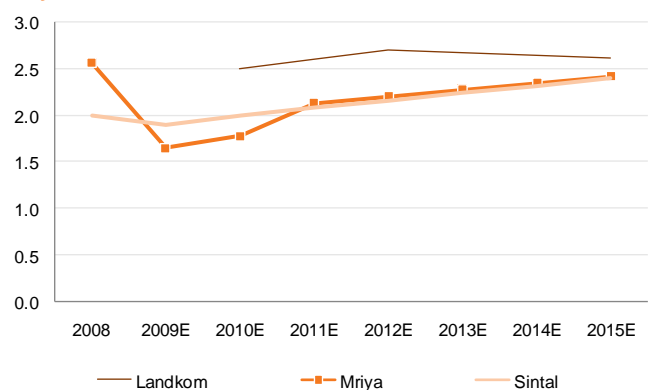
Rapeseed



Sunflower seed



Soybeans



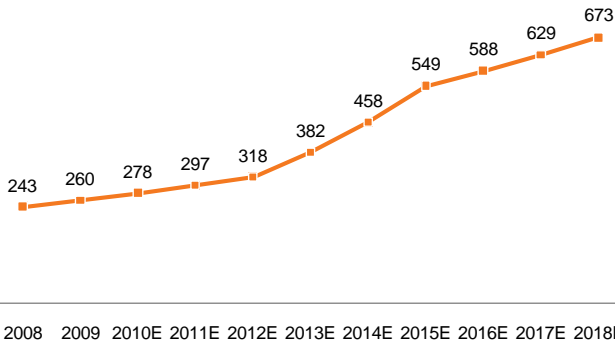
Source: Company data, BG Capital Research

Perpetual land lease assumption

We also assume agro companies will not start buying land after the cancellation of the land sale moratorium. We believe there will be no difference in costs between leasing and purchasing the land, so this assumption will not affect valuation results.

We expect lease fees (i.e. the regulator-set minimum lease price) will grow 7% y/y in 2010-12, and will show double-digit growth in 2013-15, following the cancellation of the land trade moratorium.

Average land lease fee forecast, UAH/ha

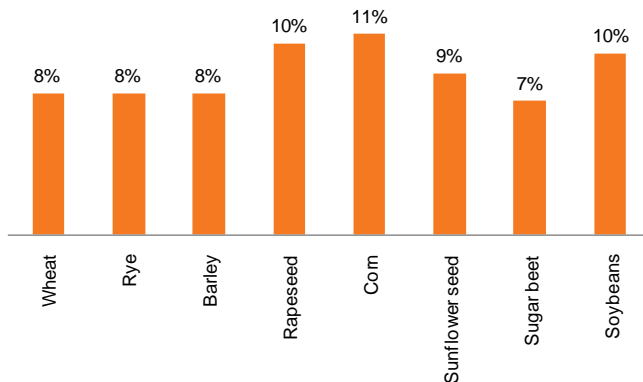


Source: Company data, BG Capital estimates

Commodity price growth based on consensus forecasts

Our models use prices from APK-Inform for 2009 and base 2010 and 2011 growth assumptions on Bloomberg consensus (Commodity Price Forecasts) and FAPRI. We expect crop prices will grow at a 6% CAGR over 2012-15, and at a 4% CAGR afterwards.

Soft commodity prices, 2009-12 CAGR



Source: FAPRI, Bloomberg, BG Capital estimates

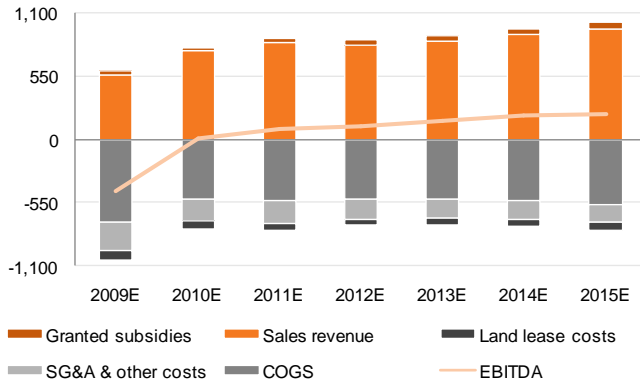
VAT subsidy removed in 2017

The two most important subsidies for profitable crop growers are the VAT preferences and the Fixed Agro Tax (FAT) instead of income tax. Our sensitivity analysis shows these two measures have a high impact on agro company values. We expect the VAT subsidy, which falls into the WTO's "amber box," is highly likely to be removed in the mid- to long-term. For valuation purposes, we assume VAT subsidies will be eliminated in 2017. We do not expect the FAT subsidy will be removed in the foreseeable future.

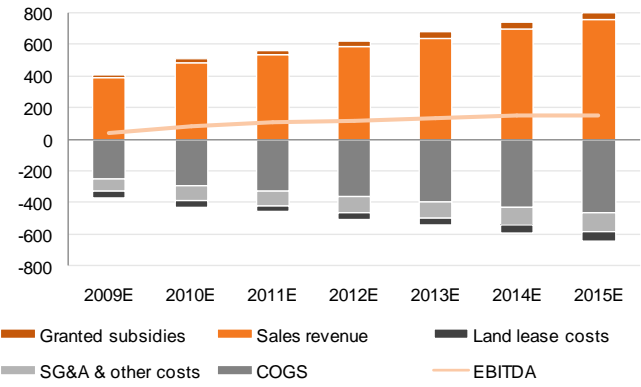
Revenue and EBITDA forecast summary

EBITDA decomposition, UAH/ha:

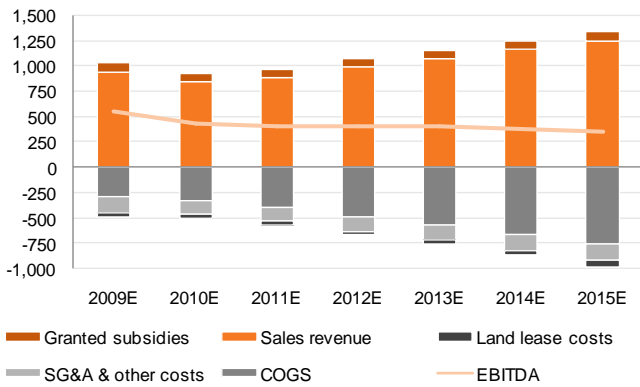
Landkom



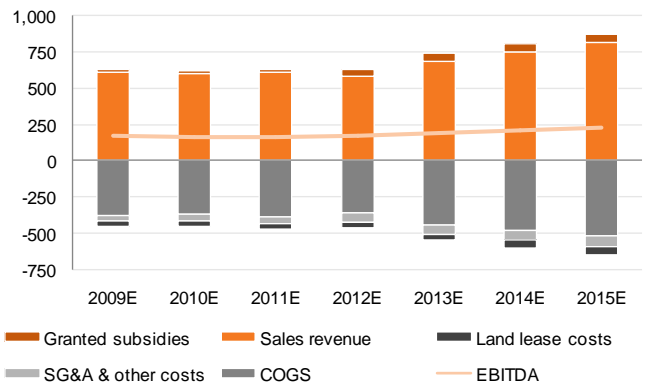
MCB Agricole



Mriya



Sintal



Source: Company data, BG Capital Research

Relative valuation

Selection of accurate multiple metrics

We believe using EV/EBITDA and P/E metrics can distort valuations for agricultural companies because IFRS standards require agro enterprises to revalue biological assets (IAS 41). During consultations with sector players, we found that different auditors use different and sometimes controversial approaches to revaluing biological assets, making the comparison of operating profits from P&L statements a tricky task. We therefore stay away from EBITDA and Net Income metrics for valuation purposes, instead using operating cash flow data.

For peer valuation purposes we use EV/Sales and EV/OCF multiples.

Peer selection

Our peer group consists of global agricultural producers whose core operation is crop planting, like the four covered Ukrainian companies. Selected peers are similar to our covered stocks in their business activity and on profitability margins. The only key difference between peers and covered companies is that most international peers own their land banks.

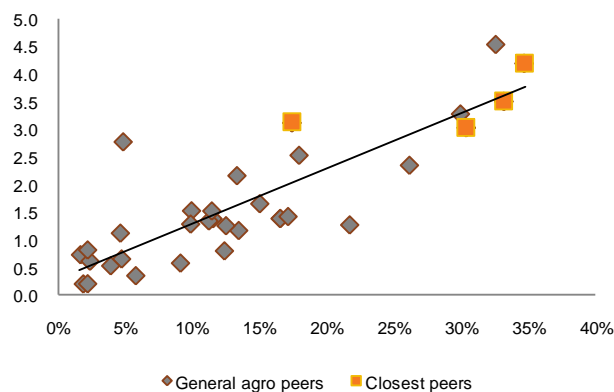
Ukrainian agro producers vs. closest peers

	Net revenue, US\$ mn		OCF margin		% of land bank in ownership
	2010E	2011E	2010E	2011E	
Mriya	188.7	270.8	49%	44%	0%
Sintal	67.2	83.4	10%	24%	0%
MCB	38.5	47.3	4%	10%	0%
Landkom	26.2	37.9	-11%	5%	0%
Ukrainian average	77.3	106.9	12.9%	20.8%	0%
Black Earth Farming	124.6	158.6	17%	22%	86%
Astra Agro Lestari	920.0	1,012.5	34%	35%	100%
Hap Seng Plantations	127.3	136.8	n/a	n/a	94%
London Sumatra Indonesia	392.9	423.2	30%	32%	n/a
SLC Agricola	329.3	434.4	19%	23%	100%
Brasil Agro	59.6	80.2	-15%	5%	63%
Global peer average	325.6	374.3	17%	23%	89%

Source: Company data, Bloomberg, BG Capital estimates

On average, the selected closest peers are more profitable than the group of global diversified agro companies, and thus enjoy much higher EV/Sales multiples.

EV/Sales vs. OCF margins in agriculture companies, 2010E



Source: Bloomberg, BG Capital calculations

Global agro companies' median multiples

	EV / Sales		
	2009E	2010E	2011E
Median for peers			
Farming (closest)	4.8	3.8	3.3
General agro	1.6	1.4	1.2
	EV / OCF		
	2009E	2010E	2011E
Median for peers			
Farming (closest)	13.7	11.4	11.5
General agro	11.0	11.3	9.9

Source: Bloomberg, BG Capital calculations

Global farming companies' multiples

	Country	MCAP US\$ mn	2010E		2011E	
			EV/S	EV/OCF	EV/OCF	EV/OCF
Black Earth Farming	BEFSDB SS Russia	455	3.7	3.1	21.8	14.2
Astra Agro Lestari	AALI IJ Indonesia	3 838	3.9	3.5	11.4	9.9
Hap Seng Plantations	HAPL MK Malaysia	550	4.1	3.7	na	na
London Sumatra Indonesia	LSIP IJ Indonesia	1 233	3.0	2.6	9.8	8.3
SLC Agricola	SLCE3 BZ Brazil	995	3.4	2.6	17.3	11.5
Brasil Agro	AGRO3 BZ Brazil	332	4.6	3.7	neg	67.9
Farming peer median			3.8	1.3	11.4	11.5

Source: Bloomberg, Company data, BG Capital Research

Adjusting for land ownership

Unlike Ukrainian agro companies, most international farming peers own their land banks. Based on the ownership, we believe they deserve a valuation premium over our covered companies.

To make both groups comparable, we account for the lack of ownership by adjusting Ukrainian companies' EV/Sales and EV/OCF ratios.

To calculate adjusted multiples, we increase net debt for the Ukrainian companies by adding an estimated cost of land buyout (in terms of balance sheet accounts, we need to increase fixed assets, which will be balanced by a decrease in cash or increased debt). Here, we define buyout cost as the cost incurred by the company if it were to purchase its leased land bank.

Since there is no real market for land at the moment (see Land Market section), we assume buyout cost equal to the net present value of all land lease fees (discount factor being company-specific WACC). Effectively, this kind of restatement is equivalent to treating land lease contracts as a capital lease. Being effectively capitalized, the expenses related to lease payments should be extracted from the companies' operating cash flows – we adjust OCFs by adding back the lease costs.

For the purposes of Ukrainian agro company valuations, we use peer-implied prices based on land-adjusted financials.

Adjustments for land ownership, US\$ mn

	Landkom			MCB			Mriya			Sintal		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
OCF	-23.0	-2.8	1.9	-1.3	1.3	4.9	74.0	92.4	118.3	3.2	6.6	20.3
OCF-adjusted	-20.8	-0.6	4.4	1.9	4.7	8.4	78.9	100.7	129.5	5.9	10.2	24.4
Net debt	7.4	19.1	25.5	7.1	9.6	9.1	-65.0	-72.1	-88.8	-4.8	3.6	-6.8
Net debt-adjusted	36.4	51.5	65.5	50.1	57.8	64.7	18.5	65.6	109.7	38.6	64.2	71.1

Source: Company data, BG Capital Research

Multiples comparison (Ukrainian – adjusted)

	Landkom		MCB		Mriya		Sintal	
	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
EV/Sales	3.4	2.7	3.4	2.9	2.5	1.9	2.7	2.3
EV/OCF	neg	23.2	27.3	16.2	4.7	4.0	17.8	7.7

Source: Bloomberg, Company data, BG Capital Research

Ownership only accounts for part of discount

To estimate the extent to which Ukrainian agro companies' discounts to peers can be justified by a lack of land ownership, we compare the discounts based on both adjusted and unadjusted financials. The difference implied by the comparison indicates that no more than half of the total discount on EV/Sales for Ukrainian agro stocks can be attributed to a lack of land ownership.

MCB and Landkom trade with a premium to peers on adjusted EV/OCF, suggesting that their discounts on EV/Sales are fully justified by their smaller profits. Note that only a portion of the total EV/OCF discount for Sintal and Mriya can be explained by the lack of land ownership, suggesting that both are unjustifiably under-priced.

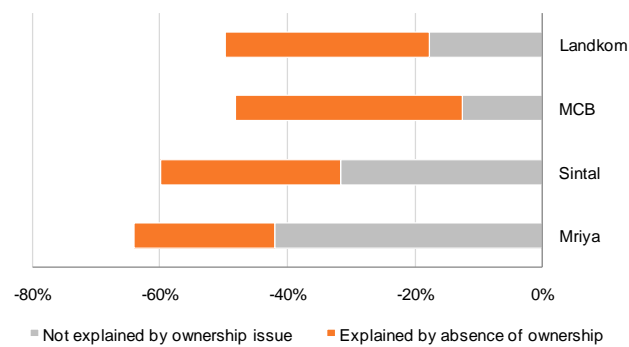


Peer comparison summary

	Mriya			Sintal			MCB			Landkom		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Multiples based on unadjusted financials												
EV/Sales	2.7	1.8	1.2	2.1	1.8	1.3	2.9	2.1	1.7	3.1	2.2	1.7
Premium/discount to peers	-44%	-53%	-64%	-56%	-53%	-60%	-38%	-45%	-48%	-36%	-44%	-50%
EV/OCF	4.7	3.7	2.7	34.8	18.2	5.4	neg	neg	16.5	neg	neg	33.1
Premium/discount to peers	-66%	-68%	-76%	n/m	59%	-53%	n/m	n/m	44%	n/m	n/m	189%
Multiples based on adjusted EV												
EV/Sales	3.3	2.5	1.9	2.9	2.7	2.3	4.5	3.4	2.9	5.0	3.4	2.7
Premium/discount to peers	-31%	-34%	-42%	-40%	-29%	-32%	-5%	-12%	-13%	6%	-11%	-18%
EV/OCF	5.4	4.7	4.0	26.3	17.8	7.7	63.1	27.3	16.2	neg	neg	23.2
Premium/discount to peers	-60%	-59%	-65%	93%	55%	-33%	361%	139%	41%	n/m	n/m	102%

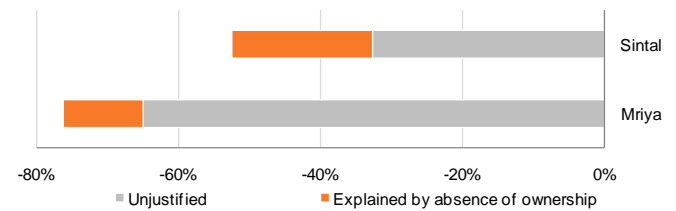
Source: Bloomberg, Company data, BG Capital Research

Discount to peers on EV/Sales 2011E



Source: Bloomberg, Company data, BG Capital Research

Discount to peers on EV/OCF 2011E





Company profiles: covered crop producers

Landkom International

A turnaround under way

- Loss-making since birth, Landkom revamped itself in 2009 – cost-cutting measures and an expected increase in its scale of operations lead us to believe the company will post its first-ever positive EBITDA in 2010
- Rapeseed yields in 2009 outperformed peers and the Ukrainian average by over 40%, impressive for a company that only recently launched farming operations
- Lack of historical profits, weak chances of reporting profits in the short-term, and a mid-term focus on resolving internal inefficiencies over expanding are key factors that limit investor interest
- The company looks fairly priced – we initiate coverage with a HOLD recommendation

Company description

Landkom International is a crop producer focused on rapeseed and wheat (split nearly 50/50) that is currently restructuring itself. Since being incorporated in 2007, Landkom has been loss-making owing to an inefficient planting and land bank strategy. Former CEO Richard Spinks stepped down in 2009, after which the company initiated a cost-cutting program. The company shrank its land bank 40% and then increased its share of cultivated land (70% y/y growth in 2009). In November 2009, Landkom raised an additional US\$ 16.1mn by issuing new shares to support operations.

Selected financials and ratios, US\$ mn

	2008	2009E	Chg. y/y	2010E	Chg. y/y
Net revenue	10.6	14.6	37%	26.2	79%
Gross margin, %	-197%	-42%	155pp	24%	66pp
EBITDA	-41.1	-11.7	-72%	0.4	-103%
EBITDA margin, %	-386%	-80%	306pp	1%	81pp
Net income	-57.7	-15.7	-73%	-4.9	-69%
Net margin, %	-542%	-107%	434pp	-19%	89pp
PP&E, net	48.3	46.5	-4%	50.7	9%
Shareholder equity	76.1	73.8	-3%	68.9	-7%
LT debt	0.0	-11.8	n/m	-15.6	32%
ST debt	0.8	19.3	2176%	34.9	81%
Total liabilities & equity	84.8	86.0	1%	92.7	8%
Operating Cash Flow	-52.5	-23.8	-55%	-4.9	-79%
CapEx	64.5	3.3	-95%	7.2	122%
Current ratio	4.2	1.6	-61%	1.1	-34%
Net debt/Equity	0.0	0.1	-323%	0.3	179%
ROA	-57%	-18%	39pp	-5%	13pp
ROE	-61%	-21%	40pp	-7%	14pp
ROIC	-60%	-20%	41pp	-6%	14pp

Source: Company data, BG Capital estimates

Operations

	2008	2009	Chg. y/y	2010E	Chg. y/y
Land under control, ha	115,000	65,900	-43%	65,900	0%
Land harvested, %	15%	45%	70%	54%	20%

Source: Company data, BG Capital estimates

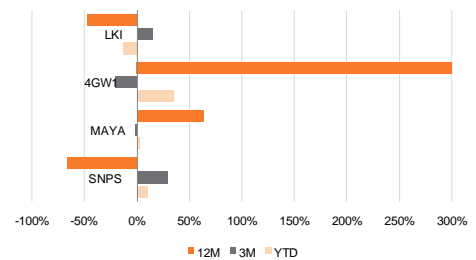
Ukraine | Agriculture
Initiating Coverage
February 08, 2010

LKI LN Current: US\$ 0.086
Target: US\$ 0.075 **HOLD**

Konstantin Fastovets

kfastovets@bgcap.ge | +38 044 498 84 01

Share price performance ⁽¹⁾



⁽¹⁾ Hereafter, share prices as of Feb 2, 2010

Source: Bloomberg

Market data

Bloomberg	LKI LN
Current price, US\$	0.086
MCap, US\$ mn	37.3
Net Debt, US\$ mn	-3.3
EV, US\$ mn	34
Free float, %	64.5
Free float, US\$ mn	21.9
Common shares outstanding, mn	435.0
Common shares per DR	n/m
Change from 52W low, %	2.4%
Change from 52W high, %	-70.5%
1M change, %	-11.4%
3M change, %	3.4%
12M change, %	-52.8%

Source: Bloomberg

Ownership structure

Hunter Hall investment	18.6%
Odey Asset Management	12.1%
Ivesco	8.6%
Other	61%

Source: Company data, BG Capital estimates

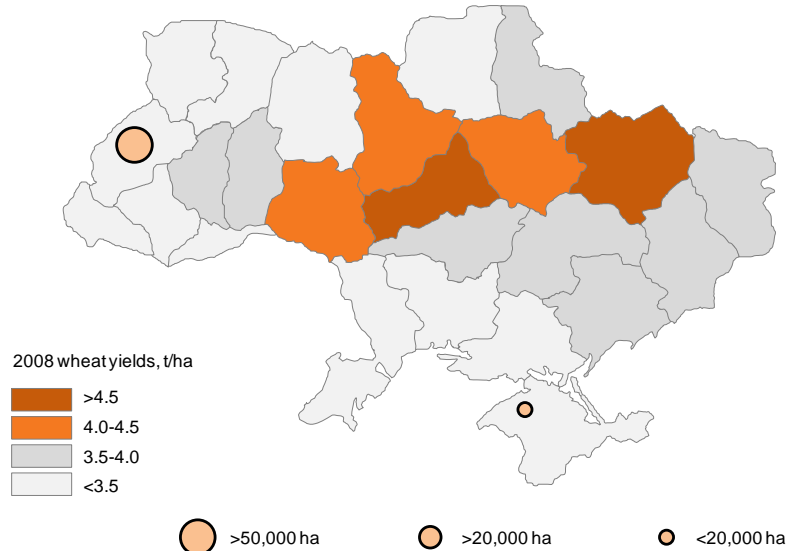
Multiples and per-share data

	2008	2009E	2010E
EV/ha controlled, US\$	295	523	670
EV/ha harvested, US\$	1,967	1,172	1,252
EV/Sales	1.5	1.9	1.5
EV/EBITDA	neg	neg	106.5
P/E	neg	neg	neg
P/B	0.3	0.3	0.3
BPS, US\$	0.17	0.17	0.16
EPS, US\$	-0.13	-0.04	-0.01
DPS, US\$	0.00	0.00	0.00

Source: Bloomberg, Company data, BG Capital estimates

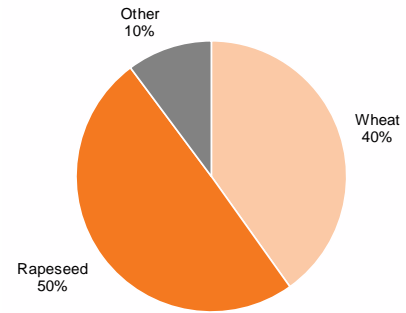
Company overview

Geographic location



Source: UkrStat, Company data

Harvest distribution, 2009



Landkom key crop yields, 2009

	Landkom t/ha	Ukraine avg t/ha	% premium
Wheat	3.3	3.2	3%
Rapeseed	2.7	1.8	50%

Source: Company data, BG Capital estimates

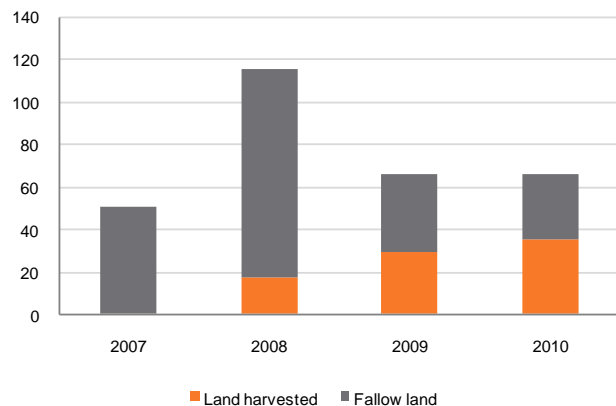
Management shuffle: Local professional enters

Former Landkom CEO Richard Spinks stepped down in May 2009 to be replaced by Vitaliy Skotskyk, a Ukrainian with 12 years of local agro experience. The company believes the new CEO can lead Landkom's operations in the right direction. One of the first initiatives by the new CEO was moving to make the company eligible for VAT exemption, which was previously not the case, as it had lacked the necessary government approval.

Strategy shift: Crops not land bank

Landkom's new management launched a turnaround in 2009 by paring its 115,000ha land bank, only 9% of which had been harvested in 2008. By YE09, the company cut its land under control to 65,900ha and increased its cultivated area 70% y/y, reaching a 45% land use level. We forecast Landkom will expand its land under cultivation at a 14.1% CAGR over 2010-18. Although the projected growth rate is the highest among covered companies, it stems primarily from Landkom's initially small harvested area (more than 3x below the peer average), not an aggressive expansion.

Landkom's land bank dynamics, '000 ha

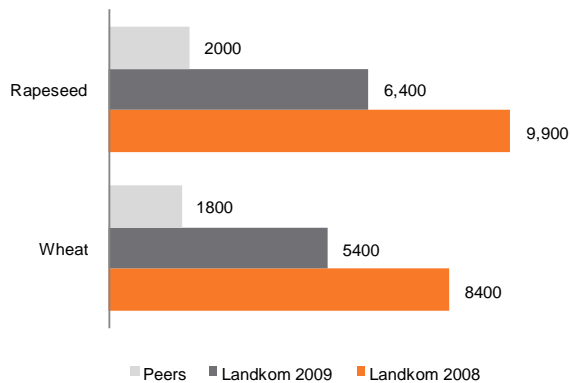


Source: Company data, BG Capital estimates

Cost optimization the key mid-term target

Landkom showed a net loss of US\$ 1.3mn in 2007 and topped it with a US\$ 55.7mn loss in 2008. Current management attributes the disappointing results to the previous team's poor planning, lack of experience operating in Ukraine, and general inefficiency. Landkom spent 4-5x more in 2008 and roughly 3x more in 2009 per unit of crop planted than local peers. We believe the company will be able to cut costs by roughly 30% y/y in 2010 and will gradually decrease opex/ha to the levels of its competitors in the mid-term.

Wheat and rapeseed COGS, UAH/ha



Source: Company data, BG Capital estimates

Additional equity financing to meet capital needs

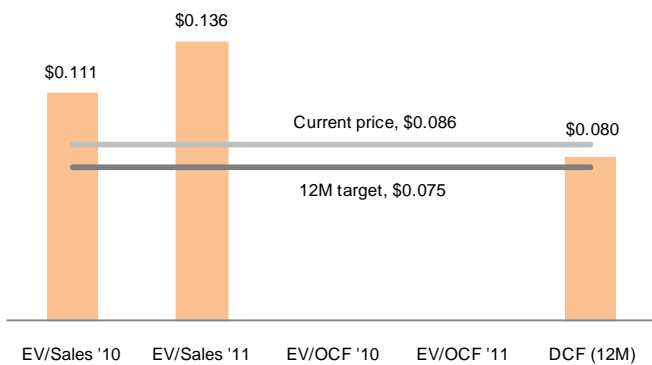
After posting a loss in 2008, Landkom raised an additional US\$ 16.1mn last November by issuing new shares to fund its 2009 harvest. In our view, this will allow the company to complete its entire 2009/10 sowing/harvesting operations.

Valuation

Summary

We believe Landkom deserves a severe discount to peers on EV/Sales, based on our expectation that the company will not turn profitable in the next couple of years. We set a 12M target slightly below our DCF-implied price. We initiate coverage of Landkom with a HOLD recommendation and a target price of US\$ 0.075, which implies 13% downside to current share price levels.

Target price metrics, LKI LN



Source: Bloomberg, BG Capital Research

Note: Multiple-implied prices are based on EV and OCF adjusted for Landkom's lack of land ownership. Refer to page 23 for details

COMPANY PROFILE | Landkom International (LKI LN)

DCF valuation

The key assumptions supporting our operating model for Landkom are presented on pages 18-21. To account for risks related to investing in the company (due to its poor profitability and the fact that Landkom's expected turnaround is only in the initial stages), we apply a company-specific premium during cost of equity calculations. We increase the company's cost of equity by 3% to 1% over the forecasted period, and apply a 1% premium (vs. local peers) for WACC in perpetuity.

Our DCF valuation yields a UAH 297mn equity value in 12 months and an implied share value of UAH 0.68 (US\$ 0.08), or 6% below the market price.

Discounted cash flow model

UAH mn, unless otherwise specified

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
EBIT	-118.8	-21.1	10.7	43.4	88.1	134.1	163.6	187.0	160.1	162.9
- Tax expenses	0.0	0.0	0.0	0.0	-0.5	-0.9	-1.1	-1.4	-1.3	-1.5
Effective tax rate, %	0.0%	0.0%	0.0%	0.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
- Tax shield on interests	0.0	0.0	0.0	0.0	-0.4	-0.5	-0.5	-0.5	-0.3	-0.1
+ D&A	26.1	24.1	22.5	21.2	20.0	20.7	25.5	28.4	29.9	30.8
- Capex	-25.8	-57.6	-53.5	-81.1	-63.0	-208.3	-125.7	-77.3	-30.0	-35.0
- Increase in working capital	-89.2	-25.8	-17.0	5.5	-0.4	-0.8	-3.0	-3.4	1.4	-18.0
FCFF	-207.7	-80.4	-37.4	-11.1	43.8	-55.6	58.6	132.8	159.9	139.1
WACC			20.2%	17.8%	17.3%	16.3%	16.2%	15.7%	15.1%	15.0%
Discount factor			0.85	0.72	0.61	0.53	0.45	0.39	0.34	0.30
Discounted FCFF @ Feb.04			-31.7	-8.0	26.9	-29.3	26.6	52.1	54.5	41.2
Terminal value (TV)										1,091.3
									Implied exit EBITDA multiple	5.6 x
										71.0%
Sum of discounted FCFFs			132.4							
TV @ Feb.04, 2011			323.5							
Enterprise value			455.9							
Less net debt			-158.9							
Equity value			297.0							
Value per share, UAH			0.68							

Terminal value assumptions:

Perpetuity growth rate	2.0%
WACC in perpetuity	15.0%

Source: Company data, BG Capital Research

Sensitivity of value per share, UAH

	Perpetuity growth rate	Perpetuity growth rate					Exit EBITDA multiple				
		0.0%	1.0%	2.0%	3.0%	4.0%	4.8 x	5.3 x	5.8 x	6.3 x	6.8 x
WACC in perp.	11.0%	0.67	0.74	0.82	0.92	1.03					
	12.0%	0.62	0.68	0.74	0.83	0.92	-2.0%	0.69	0.76	0.84	0.91
	13.0%	0.57	0.62	0.68	0.75	0.84	-1.0%	0.62	0.69	0.76	0.83
	14.0%	0.53	0.58	0.63	0.69	0.76	WACC +/-	0.55	0.62	0.68	0.75
	15.0%	0.50	0.54	0.58	0.64	0.70	1.0%	0.49	0.55	0.61	0.68
							2.0%	0.43	0.49	0.55	0.61

Source: BG Capital Research

Sensitivity of value per share, UAH

	2012	2013	Year of FAT subsidy removal					2018	never
			2014	2015	2016	2017			
Year of VAT subsidy removal	2012	0.23	0.23	0.24	0.27	0.29	0.31	0.34	0.57
	2013	0.24	0.24	0.26	0.28	0.30	0.32	0.35	0.58
	2014	0.25	0.25	0.27	0.30	0.32	0.34	0.37	0.60
	2015	0.27	0.27	0.29	0.32	0.34	0.37	0.39	0.63
	2016	0.29	0.29	0.31	0.34	0.37	0.39	0.42	0.65
	2017	0.31	0.31	0.33	0.36	0.39	0.42	0.45	0.68
	2018	0.33	0.33	0.35	0.38	0.41	0.44	0.47	0.71
	never	0.49	0.49	0.51	0.53	0.56	0.59	0.62	0.91

Source: BG Capital Research

Financials

Income statement, US\$ mn

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
Net revenue	1.6	10.6	14.6	26.2	37.9	50.2	60.2	71.7
Gross profit	-0.3	-21.0	-6.2	6.2	11.2	15.6	19.9	24.7
Gross margin	-20.4%	-197.2%	-42.2%	23.8%	29.6%	31.0%	33.0%	34.4%
EBITDA	-6.5	-41.1	-11.7	0.4	3.9	7.2	11.4	16.3
EBITDA margin	-414.1%	-386.3%	-80.0%	1.4%	10.3%	14.3%	18.9%	22.7%
D&A	-0.5	-4.9	-3.3	-3.0	-2.6	-2.4	-2.1	-2.2
EBIT	-7.0	-46.0	-15.0	-2.6	1.3	4.8	9.3	14.1
EBIT margin	-445.2%	-432.5%	-102.5%	-10.1%	3.3%	9.6%	15.4%	19.7%
Financial expenses	0.0	-0.3	-0.7	-2.2	-3.4	-3.8	-4.0	-4.8
Non-operating income/costs	5.1	-11.0	0.0	0.0	0.0	0.0	0.0	0.0
PBT	-1.9	-57.4	-15.7	-4.9	-2.2	1.0	5.3	9.3
Tax expense	0.0	-0.2	0.0	0.0	0.0	0.0	-0.1	-0.1
Net income	-1.9	-57.7	-15.7	-4.9	-2.2	1.0	5.3	9.2
Net margin	-123.2%	-541.6%	-107.4%	-18.6%	-5.7%	2.0%	8.7%	12.9%

Balance sheet, US\$ mn

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
Non-current assets	13.5	48.8	47.0	51.2	51.8	55.6	67.9	91.4
Net PP&E	13.3	48.3	46.5	50.7	51.3	55.2	67.4	90.9
Other	0.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Current assets	103.3	36.0	39.1	41.5	43.3	42.5	50.3	53.2
Cash & equivalents	87.6	4.2	0.1	0.3	0.4	0.5	0.7	0.9
Receivables & prepayments	7.1	11.1	17.4	19.6	20.4	18.1	19.7	20.4
Inventories	8.6	20.6	21.3	21.1	21.4	22.0	26.3	27.6
Other	0.0	0.0	0.3	0.5	1.1	2.0	3.6	4.3
Total assets	116.8	84.8	86.0	92.7	95.1	98.2	118.2	144.6
Shareholder equity	113.1	76.1	73.8	68.9	62.7	60.2	74.0	85.0
Non-current liabilities	0.1	0.2	-11.6	-14.9	-13.8	-12.7	-14.0	-13.7
LT interest bearing debt	0.0	0.0	-11.8	-15.6	-14.7	-13.9	-15.6	-15.6
Other	0.1	0.2	0.2	0.7	0.9	1.1	1.6	1.9
Current liabilities	3.6	8.6	23.9	38.7	46.2	50.7	58.2	73.3
ST loans	0.1	0.8	7.5	31.1	37.0	39.9	47.7	60.1
Current portion of LT debt	0.0	0.0	11.8	3.8	3.6	3.4	0.0	0.0
Trade payables & prepayments	3.6	7.7	4.1	2.6	3.7	4.5	5.8	6.7
Other	0.0	0.0	0.5	1.2	1.9	2.9	4.8	6.5
Total liabilities & equity	116.8	84.8	86.0	92.7	95.1	98.2	118.2	144.6

Financial ratios

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
Profitability								
ROE	na	-61%	-21%	-7%	-3%	2%	8%	12%
ROA	na	-57%	-18%	-5%	-2%	1%	5%	7%
ROIC	na	-60%	-20%	-6%	-2%	1%	5%	8%
Liquidity								
Current ratio	nm	420%	164%	107%	94%	84%	86%	72%
Quick ratio	nm	179%	73%	51%	45%	37%	35%	29%
Cash ratio	nm	49%	1%	1%	1%	1%	1%	1%
Turnover								
Days receivable	1 647	557	438	274	197	131	100	88
Days inventory	246	122	536	294	206	160	134	118
Days payable	690	130	73	47	51	47	44	44
Cash conversion cycle	1 203	550	901	520	352	244	191	162
Solvency								
LT debt/Equity	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Net debt/Equity	-0.8	0.0	0.1	0.3	0.4	0.5	0.4	0.5
Financial leverage	1.0	1.1	1.2	1.3	1.5	1.6	1.6	1.7
Interest coverage	-410.4	-132.7	-21.1	-1.2	0.4	1.3	2.3	3.0
Per share								
BPS, US\$	0	0.17	0.17	0.16	0.14	0.14	0.17	0.20
EPS, US\$	0.00	-0.13	-0.04	-0.01	0.00	0.00	0.01	0.02
DPS, US\$	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Company data, BG Capital Research

MCB Agricole Holding

Erring on the side of caution

- MCB's land distribution and the related seasonal climate lag allows it to use less machinery by sowing and harvesting in the south and then the north, however, the strategy comes with higher fuel usage
- Reluctant to raise debt in 2008/09 because of the liquidity crisis, which led to relatively weak 2009 yields
- Owns no grain elevators, which introduces risk of lost crop quality and pressures MCB to sell volumes immediately after the harvest
- Targeting the smallest harvested land bank expansion rate among local peers

Company description

MCB Agricole Holding is an agricultural producer with a 97, 900ha land bank located in over 12 different administrative regions in Central and Southern Ukraine. The company produces mostly wheat and oil crops (rapeseed and sunflower seed), which accounted for 47% and 34%, respectively, of the 70,800ha harvested in 2009. The company is focused on stability and plans to expand its harvested land bank 28% by 2011, at the same time boosting its share of cultivated land to 79%. The company floated a 24% stake on the Frankfurt Stock Exchange in March 2008, raising US\$ 56mn.

Selected financials and ratios, US\$ mn

	2008	2009E	Chg. y/y	2010E	Chg. y/y
Net revenue	29.6	26.9	-9%	38.5	43%
Gross margin, %	28%	24%	-3pp	30%	6pp
EBITDA	2.7	2.7	1%	6.3	130%
EBITDA margin, %	9%	10%	1pp	16%	6pp
Net income	-1.6	1.0	-165%	3.9	n/m
Net margin, %	-5%	4%	9pp	10%	6pp
PP&E, net	11.1	16.6	49%	18.1	9%
Shareholder equity	28.1	36.8	31%	40.8	11%
LT debt	9.1	0.0		0.0	
ST debt	0.9	7.3	751%	12.9	76%
Total liabilities & equity	41.5	49.0	18%	60.4	23%
Operating Cash Flow	0.1	-1.9	-1514%	-1.3	-30%
CapEx	12.6	7.1	-44%	2.8	-61%
Current ratio	7.5	2.7	-64%	2.2	-20%
Net debt/Equity	0.3	0.2	-26%	0.2	24%
ROA	-5%	2%	7pp	7%	5pp
ROE	-9%	3%	12pp	10%	7pp
ROIC	-5%	3%	8pp	8%	6pp

Source: Company data, BG Capital estimates

Operations

	2008	2009	Chg. y/y	2010E	Chg. y/y
Land under control, ha	70,000	97,900	40%	97,900	0%
% of land harvested	85%	72%	18%	84%	16%

Source: Company data, BG Capital estimates

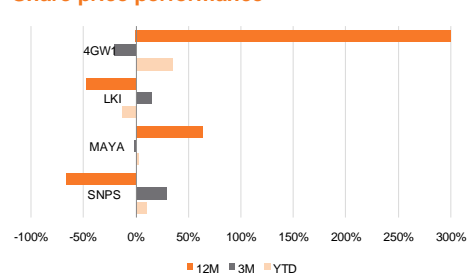
Ukraine | Agriculture
Initiating Coverage
February 08, 2010

4GW1 GR Current: US\$ 4.17
Target: US\$ 3.80 **HOLD**

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Share price performance ⁽¹⁾



⁽¹⁾ Hereafter, share prices as of Feb 2, 2010

Source: Bloomberg

Market data

	4GW1 GR
Bloomberg	
Current price, US\$	4.17
MCap, US\$ mn	71.8
Net Debt, US\$ mn	7.0
EV, US\$ mn	78.8
Free float, %	24.4
Free float, US\$ mn	17.5
DR outstanding, mn	17.2
Common shares per DR	0.5
Change from 52W low, %	550.0%
Change from 52W high, %	-8.1%
1M change, %	22.8%
3M change, %	17.6%
12M change, %	550.0%

Source: Bloomberg

Ownership structure

MKM Longboat	9.0%
Julius Baer	9.0%
Other	82.0%

Source: Company data, BG Capital estimates

Multiples and per-share data

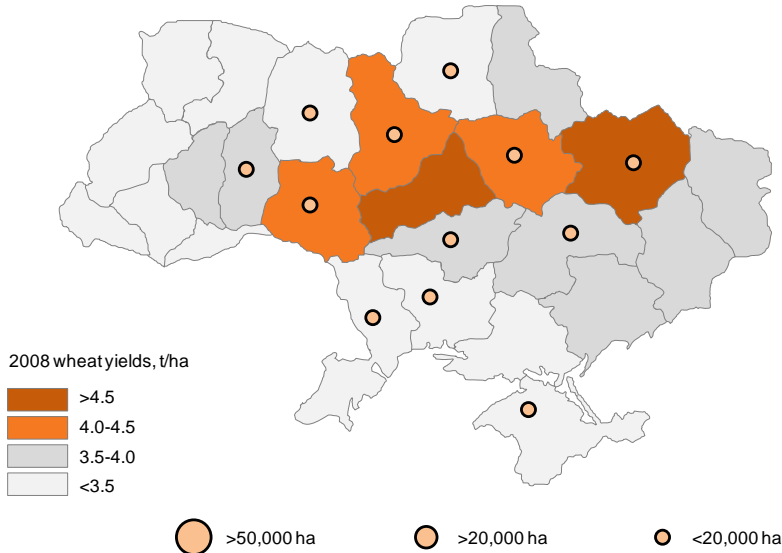
	2008	2009E	2010E
EV/ha controlled, US\$	1,125	804	899
EV/ha harvested, US\$	1,323	1,116	1,073
EV/Sales	2.8	2.9	2.3
EV/EBITDA	13.8	29.2	19.6
P/E	neg	119.7	42.2
P/B	1.6	1.6	1.5

BPS, US\$	1.63	1.60	1.70
EPS, US\$	-0.09	0.03	0.10
DPS, US\$	0.00	0.00	0.00

Source: Bloomberg, Company data, BG Capital estimates

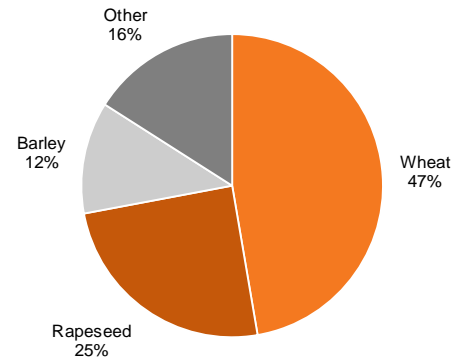
Company overview

Geographic location



Source: UkrStat, Company data

Harvest distribution, 2009



MCB principal crop yields in 2009

	MCB t/ha	Ukraine avg t/ha	% premium
Wheat	3.3	3.2	3%
Barley	2.9	2.5	16%
Corn	8	5	60%
Sunflower seed	1.8	1.6	13%

Company data, UkrStat, APK-Inform

Diversified land allows using machinery more efficiently

MCB attempts to mitigate local weather risks by holding a land bank across all of Ukraine's climate zones (12 administrative regions, including Crimea in the south and Chernihiv in the north). The sowing/harvesting campaigns in northern regions start after operations in the south have been completed, allowing MCB to utilize the same set of agricultural machinery. According to management, the strategy allows for lower costs on infrastructure investments, but it also yields higher fuel costs. We believe the overall effect from the machinery optimization is positive.

Working capital bottlenecks to be financed by debt

MCB is currently not leveraged at all, and the decision not to tap debt markets proved to be a poor choice, in our view. Under-financing in planting operations caused the company's weak harvest yields in 2009. With the worst of the economic crisis presumably past, we believe the company is now willing to raise debt, and will attract up to UAH 80mn in external financing in 1Q10.

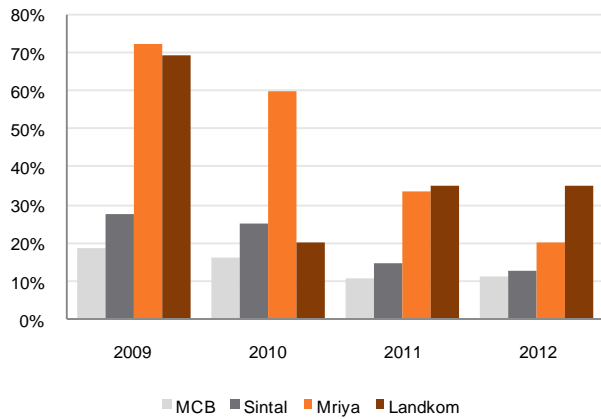
No in-house storage: Higher costs, lower achieved price

MCB Agricole is the only company of the four reviewed that does not own any private storage facilities, and is therefore faced with a risk of crop losses and a deterioration in quality. The company also pays additional fees to third parties for drying, storing and preparing crops for sale, thus incurring additional costs. Moreover, on the back of Ukraine's deficit of storage capacity, MCB is at times forced to sell its crops immediately after harvesting, potentially at below-ideal prices.

A modest expansion approach

MCB Agricole's harvested land bank expansion plans are modest, targeting 16% and 11% growth in 2010 and 2011, respectively. According to our estimates, MCB's land under cultivation will grow at roughly a 6.8% CAGR over 2010-18, the lowest growth rate of the reviewed companies.

Harvested area expansion rate, 2009-12



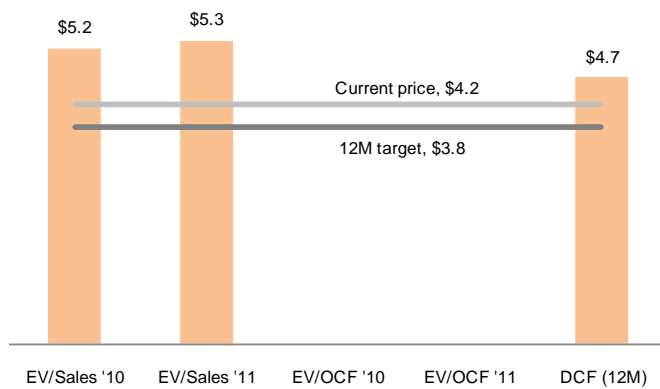
Source: UkrStat, Company data

Valuation

Summary

A low expected operating cash flow does not allow us to use the EV/OCF multiple to value MCB's DRs, suggesting the need for a severe discount on EV/Sales metrics. We don't foresee any positive catalysts in 2010, and we therefore believe the DRs deserve a discount to our DCF-implied value. We initiate coverage of MCB Agricole with a HOLD recommendation and a US\$ 3.8 target price, which implies 9% downside to current price levels.

Target price metrics, 4GW1 GR



Note: Multiple-implied prices are based on EV and OCF adjusted for MCB Agricole's lack of land ownership. Refer to page 23 for more details

Source: Bloomberg, BG Capital Research

COMPANY PROFILE | MCB Agricole Holding (4GW1 GR)

DCF valuation

The key assumptions supporting our operating model for MCB Agricole are outlined on pages 18-21.

Our DCF valuation yields a February 2011 equity value of UAH 681mn, which is equivalent to a fair share value of UAH 39.6 (US\$ 4.7) per DR, or 12% above the market

Discounted cash flow model

UAH mn, unless otherwise specified

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
EBIT	11.8	40.2	70.1	97.2	126.1	151.1	168.3	185.2	170.9	174.5
- Tax expenses	0.0	0.0	-0.6	-0.9	-1.2	-1.4	-1.6	-1.7	-1.6	-1.6
Effective tax rate, %	0.0%	0.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
- Tax shield on interests	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
+ D&A	9.9	10.1	9.9	10.2	11.0	12.2	13.6	14.3	14.9	15.4
- Capex	-56.6	-22.5	-30.4	-55.6	-65.5	-78.7	-81.9	-27.4	-14.9	-15.3
- Increase in working capital	-31.8	-39.6	-37.7	-42.1	-38.8	0.3	-10.5	-2.5	2.4	-7.4
FCFF	-66.7	-11.8	11.2	8.7	31.6	83.4	87.8	167.7	171.6	165.4
WACC			19.1%	17.0%	16.1%	15.1%	14.7%	14.4%	14.0%	14.0%
Discount factor			0.85	0.73	0.63	0.55	0.48	0.42	0.37	0.32
Discounted FCFF @ Feb.04			9.5	6.3	19.9	45.6	41.8	69.8	62.7	53.0
Terminal value (TV)										1,405.7
							Implied exit EBITDA multiple			7.4 x
							TV as % of EV			59.3%
Sum of discounted FCFFs			308.5							
TV @ Feb.04, 2011			450.1							
Enterprise value			758.7							
Less net debt			-76.9							
Equity value			681.7							
Value per share, UAH			39.6							

Terminal value assumptions:

Perpetuity growth rate	2.0%
WACC in perpetuity	14.0%

Source: Company data, BG Capital Research

Sensitivity of value per share, UAH

	Perpetuity growth rate	Exit EBITDA multiple									
		0.0%	1.0%	2.0%	3.0%	4.0%	4.8 x	5.3 x	5.8 x	6.3 x	6.8 x
WACC in perp.	11.0%	39.1	41.7	44.9	48.7	53.5					
	12.0%	37.1	39.4	42.0	45.2	49.0					
	13.0%	35.5	37.4	39.6	42.3	45.5					
	14.0%	34.0	35.7	37.6	39.9	42.6					
	15.0%	32.7	34.2	35.9	37.9	40.1					
WACC +/-	-2.0%	41.3	43.3	45.4	47.4	49.4					
	-1.0%	38.6	40.5	42.4	44.3	46.2					
	0.0%	36.1	37.9	39.6	41.4	43.2					
	1.0%	33.8	35.4	37.1	38.7	40.4					
	2.0%	31.6	33.1	34.7	36.2	37.8					

Source: BG Capital Research

Sensitivity of value per share, UAH

		Year of FAT subsidy removal							
		2012	2013	2014	2015	2016	2017	2018	never
Year of VAT subsidy removal	2012	23.2	24.1	25.0	26.0	26.9	27.8	28.7	36.1
	2013	23.7	24.7	25.7	26.6	27.6	28.5	29.4	36.8
	2014	24.3	25.3	26.4	27.4	28.3	29.2	30.1	37.5
	2015	24.9	25.8	27.0	28.1	29.0	30.0	30.8	38.2
	2016	25.4	26.4	27.5	28.6	29.8	30.7	31.5	39.0
	2017	25.9	26.9	28.0	29.2	30.3	31.4	32.2	39.6
	2018	26.4	27.4	28.5	29.7	30.8	31.9	32.9	40.3
	never	30.6	31.6	32.7	33.9	35.0	36.1	37.1	45.8

Source: BG Capital Research

Financials

Income statement, US\$ mn

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
Net revenue	18.0	29.6	26.9	38.5	47.3	58.0	68.5	80.7
Gross profit	2.6	8.2	6.5	11.7	15.2	18.8	22.0	25.6
Gross margin	14.5%	27.6%	24.2%	30.3%	32.2%	32.4%	32.2%	31.7%
EBITDA	0.7	2.7	2.7	6.3	9.4	11.9	14.4	17.2
EBITDA margin	4.1%	9.1%	10.2%	16.3%	19.9%	20.6%	21.1%	21.3%
D&A	-1.0	-1.7	-1.3	-1.3	-1.2	-1.1	-1.2	-1.3
EBIT	-0.3	1.0	1.5	5.0	8.2	10.8	13.3	15.9
EBIT margin	-1.5%	3.4%	5.5%	13.1%	17.4%	18.6%	19.4%	19.7%
Financial expenses	-1.5	-1.1	-0.5	-1.1	-1.3	-1.2	-1.2	-1.2
Non-operating income/costs	-2.5	-1.5	0.0	0.0	0.0	0.0	0.0	0.0
PBT	-4.2	-1.6	1.0	3.9	6.9	9.6	12.1	14.8
Tax expense	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Net income	-4.2	-1.6	1.0	3.9	6.9	9.5	12.0	14.6
Net margin	-23.5%	-5.4%	3.8%	10.2%	14.5%	16.3%	17.5%	18.1%

Balance sheet, US\$ mn

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
Non-current assets	7.3	11.8	17.3	18.9	20.2	24.2	34.1	42.5
Net PP&E	7.2	11.1	16.6	18.1	19.4	23.4	33.1	41.5
Other	0.1	0.7	0.7	0.8	0.8	0.8	0.9	1.0
Current assets	17.9	29.7	31.7	41.5	45.2	50.1	66.5	77.5
Cash & equivalents	0.2	2.8	0.3	3.3	2.7	2.2	5.0	14.0
Receivables & prepayments	6.2	4.2	8.0	11.5	14.2	17.4	22.8	21.1
Inventories	10.5	18.6	19.2	20.8	21.2	22.1	27.3	29.5
Other	1.0	4.1	4.3	6.0	7.1	8.4	11.4	12.9
Total assets	25.1	41.5	49.0	60.4	65.4	74.3	100.6	120.0
Shareholder equity	8.7	28.1	36.8	40.8	45.2	52.2	72.9	90.3
Non-current liabilities	2.9	9.5	0.4	0.4	0.3	0.3	0.4	0.4
LT interest bearing debt	2.9	9.1	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.4	0.4	0.4	0.3	0.3	0.4	0.4
Current liabilities	13.5	3.9	11.8	19.3	19.8	21.8	27.3	29.3
ST loans	10.7	0.9	7.3	12.9	11.8	11.1	12.5	12.5
Current portion of LT debt	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade payables & prepayments	1.0	2.3	3.0	3.9	4.5	5.5	7.4	8.2
Other	0.6	0.8	1.5	2.5	3.6	5.2	7.3	8.7
Total liabilities & equity	25.1	41.5	49.0	60.4	65.4	74.3	100.6	120.0

Financial ratios

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
Profitability								
ROE	na	-9%	3%	10%	16%	19%	19%	18%
ROA	na	-5%	2%	7%	11%	14%	14%	13%
ROIC	na	-5%	3%	8%	13%	16%	16%	16%
Liquidity								
Current ratio	132%	752%	269%	215%	228%	230%	244%	264%
Quick ratio	48%	177%	70%	77%	85%	90%	102%	120%
Cash ratio	2%	70%	3%	17%	14%	10%	18%	48%
Turnover								
Days receivable	126	76	110	110	110	110	102	80
Days inventory	33	79	263	197	163	139	123	112
Days payable	24	56	55	53	51	51	49	46
Cash conversion cycle	135	99	318	254	222	197	175	147
Solvency								
LT debt/Equity	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Net debt/Equity	1.7	0.3	0.2	0.2	0.2	0.2	0.1	0.0
Financial leverage	2.9	1.5	1.3	1.5	1.4	1.4	1.4	1.3
Interest coverage	-0.2	0.9	3.3	4.5	6.3	8.8	11.5	13.7
Per share								
BPS, US\$	0.51	1.63	2.14	2.37	2.63	3.03	4.24	5.25
EPS, US\$	-0.25	-0.09	0.06	0.23	0.40	0.55	0.70	0.85
DPS, US\$	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Company data, BG Capital Research

Mriya Agroholding

Bigger and bigger

- Mriya is pursuing an aggressive harvested land bank expansion that started in 2008 with a 3.8x increase followed by 1.7x growth in 2009. More than simply growing its land bank, the company also managed to harvest about 79% of its controlled land
- The highest EBITDA margin (biological revaluation excluded) of the reviewed peers at 74% in 2008
- Benefits from the government's VAT and FAT indirect subsidy programs, which added roughly US\$ 28mn to net income in 2008, according to our estimates
- Impressive 2008 yields: winter wheat at 6.6t/ha and spring barley at 4.6t/ha. We estimate 2009 yields were 20-25% lower (owing to newly acquired land), which are still roughly 50% above the Ukrainian sector average
- Most diversified crop mix among local peers

Company description

Mriya Agroholding is an ambitious crop producer with over 190,000ha of land under control, 79% of which was harvested in 2009. The company plans to expand its land bank to over 400,000ha by 2012, while cultivating more than 80% of its total land under control at all times. Mriya has a diversified crop structure with wheat, sugar beet, corn, and rapeseed as its main crops. In 2008 the company posted impressive yields, including 6.3t/ha for wheat, beating the Ukrainian average by over 170%.

Selected financials and ratios, US\$ mn

	2008	2009E	Chg. y/y	2010E	Chg. y/y
Net revenue	89.4	129.8	45%	188.7	45%
Gross margin, %	71%	65%	-6pp	56%	-8pp
EBITDA	66.4	77.2	16%	95.8	24%
EBITDA margin, %	74%	59%	-15pp	51%	-9pp
Net income	66.8	67.6	1%	87.1	29%
Net margin, %	75%	52%	-23pp	46%	-6pp
PP&E, net	55.7	62.2	12%	133.0	114%
Shareholder equity	145.8	184.2	26%	261.6	42%
LT debt	31.1	16.1	n/m	12.7	-21%
ST debt	22.8	30.0	31%	14.5	-52%
Total liabilities & equity	211.7	254.2	20%	329.8	30%
Operating Cash Flow	-11.7	66.3	-667%	82.2	24%
CapEx	23.7	17.8	-25%	82.2	361%
Current ratio	4.5	3.6	-21%	3.8	6%
Net debt/Equity	-0.1	-0.3	157%	-0.2	-21%
ROA	52%	29%	-23pp	30%	1pp
ROE	77%	41%	-36pp	39%	-2pp
ROIC	n/m	n/m	3672pp	-144%	37pp

Source: Company data, BG Capital estimates

Operations

	2008	2009E	Chg. y/y	2010E	Chg. y/y
Land under control, ha	150,000	201,000	34%	280,100	39%
% of land harvested	58%	79%	72%	86%	60%

Source: Company data, BG Capital estimates

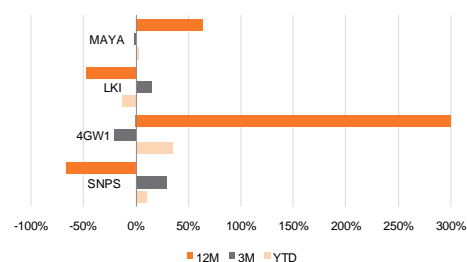
Ukraine | Agriculture
Initiating Coverage
February 08, 2010

MAYA GR Current: US\$ 19.3
Target: US\$ 42.0 **BUY**

Konstantin Fastovets

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Share price performance ⁽¹⁾



⁽¹⁾ Hereafter, share prices as of Feb 2, 2010

Source: Bloomberg

Market data

Bloomberg	MAYA GR
Current price, US\$	19.3
MCap, US\$ mn	409.5
Net Debt, US\$ mn ⁽¹⁾	-17.1
EV, US\$ mn	393.3
Free float, %	20.0
Free float, US\$ mn	78.7
DR outstanding, mn	21.3
Common shares per DR	0.2
Change from 52W low, %	230.1%
Change from 52W high, %	-8.4%
1M change, %	5.1%
3M change, %	1.0%
12M change, %	64.9%

⁽¹⁾ Based on 2008 audited financials

Source: Bloomberg

Ownership structure

Huta Family	80.0%
Other	20.0%

Source: Company data, BG Capital estimates

Multiples and per-share data

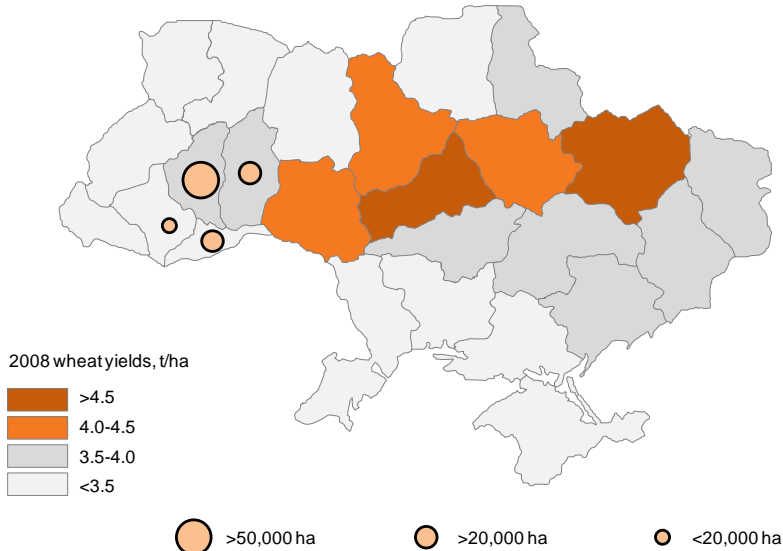
	2008	2009E	2010E
EV/ha controlled, US\$	2,622	1,753	1,234
EV/ha harvested, US\$	4,520	2,350	1,818
EV/Sales	4.4	3.0	1.9
EV/EBITDA	4.7	5.1	3.8
P/E	6.1	6.1	4.7
P/B	2.8	1.9	1.4

BPS, US\$	6.86	8.10	11.00
EPS, US\$	3.14	3.16	4.08
DPS, US\$	0.00	0.00	0.00

Source: Bloomberg, Company data, BG Capital estimates

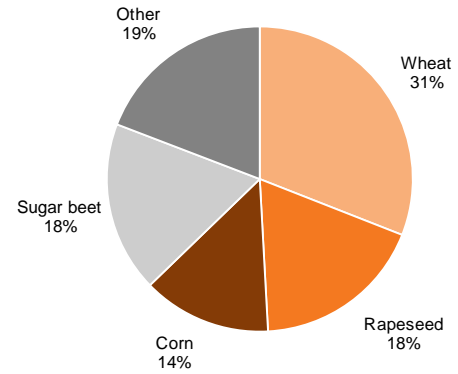
Company overview

Geographic location



Source: UkrStat, Company data

Harvest distribution, 2009



Mriya key crop yields in 2009E⁽¹⁾

	Mriya t/ha	Ukraine avg t/ha	% premium
Wheat	5.1	3.2	59%
Barley	3.8	2.5	52%
Corn	6.0	5.0	20%
Sunflower seed	1.9	1.6	1%

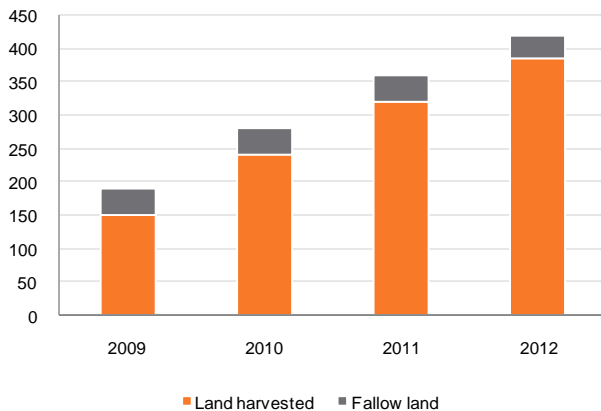
⁽¹⁾ At the day of the report's release the company has provided us with updated 2009 yield data, which will be accounted for in the company update report

Source: Company data, BG Capital estimates

Aggressive expansion

Mriya is a well-diversified crop producer with a 150,000ha harvested land bank. Starting with 26,100ha in 2007, the company boosted harvested area 3.8x in 2008, following it up with a 72% increase in 2009. Mriya plans to acquire an additional 90,000ha in 2010. Although its strategy resembles land-play behaviour, Mriya harvested 79% of its land in 2009 and plans to increase that figure to 86% in 2010, sending a clear signal that it is in fact a full-fledged agricultural producer.

Mriya land bank expansion projection, '000 ha



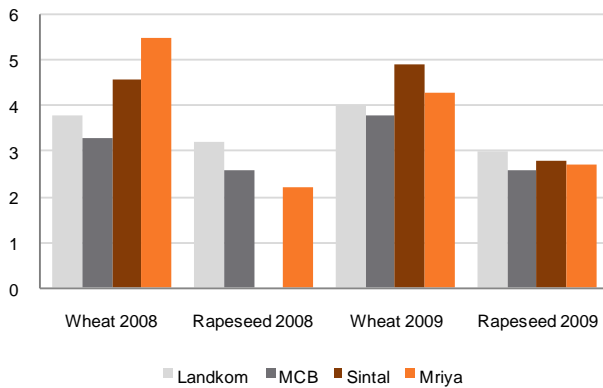
Source: Company data, BG Capital estimates

Impressive yields

In 2008 Mriya reported record yields on most of its crops, with a winter wheat yield of 6.6t/ha (on average, 40% above local peers' results), winter barley of 4.6t/ha (+28% to

COMPANY PROFILE | Mriya Agroholding (MAYA GR)

peers), winter rapeseed of 3.1t/ha (+16% to peers), and corn of 7.0t/ha (+17% to peers). 2009 yield data is still unavailable, but management predicts a drop in yields due to worse y/y weather conditions.

2008-09 wheat and rapeseed yields, t/ha


Source: Company data, BG Capital estimates

Diversified crop mix

Mriya grows four principal crops – wheat, rapeseed, sugar beet, and corn, and the diversification strategy allows it to dampen possible price risks.

State support subsidies

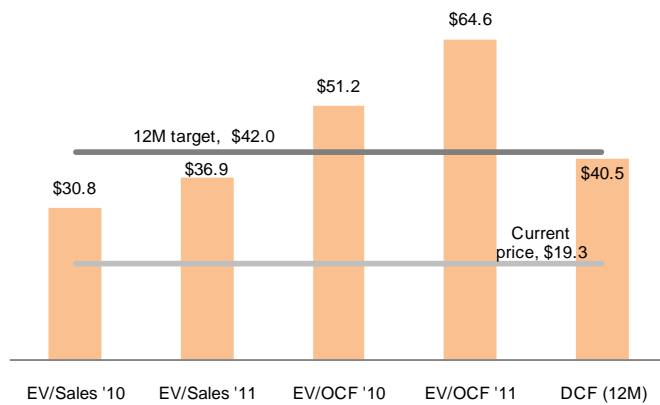
Mriya is a large and profitable agro holding without any processing operations, and it benefits significantly from the government's VAT and FAT subsidy programs (see page 10 for details). We estimate that in 2008 Mriya's total subsidies amounted to US\$ 27.7mn (equal to 31% of revenues or 38% of net income), with tax subsidies accounting for US\$ 25.9mn of the total.

Valuation

Summary

All of the valuation metrics we use suggest Mriya's DRs are overlooked. With peer-implied prices fall in the range around the DCF-implied price, we feel comfortable setting a target close to our DCF. We set a 12M target at US\$ 42/DR, which implies 118% upside to current price level. We initiate coverage of Mriya with a BUY recommendation.

Target price metrics, MAYA GR



Note: Multiple-implied prices are based on EV and OCF adjusted for Mriya's lack of land ownership. Refer to page 23 for more details

Source: Bloomberg, BG Capital Research

COMPANY PROFILE | Mriya Agroholding (MAYA GR)

DCF valuation

The key assumptions supporting our operating model for Mriya are presented on pages 18-21.

Our DCF valuation yields a February 2011 equity value of UAH 7.32bn, which is equivalent to a fair DR value of UAH 344.6 (US\$ 40.5). The model suggests upside of 110%.

Discounted cash flow model

UAH mn, unless otherwise specified

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
EBIT	601.1	746.6	1,003.5	1,295.5	1,496.1	1,484.6	1,467.7	1,484.2	1,214.0	1,240.6
- Tax expenses	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Effective tax rate, %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
- Tax shield on interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ D&A	10.3	20.1	38.2	57.2	71.8	79.6	87.6	95.1	96.9	97.9
- Capex	-141.2	-657.7	-807.5	-730.8	-453.1	-182.3	-469.0	-152.9	0.0	-97.6
- Increase in working capital	-25.0	-27.3	-36.5	-31.9	-8.6	-83.5	-132.0	-170.7	-175.6	-54.1
FCFF	445.1	81.6	197.7	589.8	1,106.1	1,298.2	954.1	1,255.6	1,135.2	1,186.7
WACC			19.7%	17.8%	17.0%	16.0%	15.6%	15.3%	14.9%	14.1%
Discount factor			0.85	0.72	0.62	0.53	0.46	0.40	0.35	0.30
Discounted FCFF @ Feb.04			168.0	425.6	682.4	690.4	438.9	500.8	393.9	361.1
Terminal value (TV)										10,087.0
								Implied exit EBITDA multiple		7.5 x
								TV as % of EV		45.6%
Sum of discounted FCFFs			3,661.0							
TV @ Feb.04, 2011			3,069.0							
Enterprise value			6,730.1							
Less net debt			593.7							
Equity value			7,323.8							
Value per share, UAH			344.6							

Terminal value assumptions:

Perpetuity growth rate	2.0%
WACC in perpetuity	14.0%

Source: Company data, BG Capital Research

Sensitivity of value per share, UAH

	Perpetuity growth rate	Exit EBITDA multiple										
		0.0%	1.0%	2.0%	3.0%	4.0%	4.8 x	5.3 x	5.8 x	6.3 x	6.8 x	
WACC in perp.	11.0%	341.8	356.2	373.5	394.7	421.1	-2.0%	357.8	368.8	379.8	390.7	401.7
	12.0%	330.9	343.2	357.8	375.2	396.6	-1.0%	341.1	351.3	361.6	371.9	382.1
	13.0%	321.6	332.2	344.6	359.3	376.9	0.0%	325.5	335.1	344.6	354.2	363.8
	14.0%	313.5	322.8	333.5	346.1	360.9	1.0%	310.9	319.9	328.8	337.8	346.7
	15.0%	306.4	314.6	324.0	334.8	347.5	2.0%	297.2	305.6	314.0	322.4	330.7
WACC +/-												

Source: BG Capital Research

Sensitivity of value per share, UAH

	Year of VAT subsidy removal	Year of FAT subsidy removal							
		2012	2013	2014	2015	2016	2017	2018	never
Year of VAT subsidy removal	2012	230.4	239.2	248.0	255.6	262.1	267.8	272.7	314.8
	2013	235.8	246.4	255.2	262.8	269.3	275.0	279.9	322.0
	2014	241.1	251.7	262.3	269.9	276.4	282.1	287.0	329.1
	2015	245.7	256.2	266.8	275.9	282.4	288.2	293.0	335.1
	2016	249.5	260.0	270.6	279.7	287.5	293.3	298.1	340.2
	2017	252.8	263.4	274.0	283.0	290.8	297.7	302.6	344.6
	2018	255.6	266.2	276.7	285.8	293.6	300.5	306.2	348.3
	never	279.2	289.7	300.3	309.3	317.1	323.9	329.7	379.6

Source: BG Capital Research

Financials

Income statement, US\$ mn

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
Net revenue	15.2	89.4	129.8	188.7	270.8	368.3	441.5	498.6
Gross profit	9.9	63.2	84.1	106.3	139.1	173.2	192.0	195.3
Gross margin	65.3%	70.6%	64.8%	56.3%	51.4%	47.0%	43.5%	39.2%
EBITDA	9.0	66.4	77.2	95.8	122.6	150.3	165.1	164.6
EBITDA margin	59.1%	74.3%	59.5%	50.8%	45.3%	40.8%	37.4%	33.0%
D&A	-0.5	-0.9	-1.3	-2.5	-4.5	-6.4	-7.6	-8.4
EBIT	8.5	65.5	75.9	93.3	118.1	143.9	157.5	156.3
EBIT margin	55.6%	73.3%	58.5%	49.5%	43.6%	39.1%	35.7%	31.3%
Financial expenses	-1.2	-3.9	-8.3	-6.2	-4.1	-3.7	-3.2	-2.9
Non-operating income/costs	7.3	5.2	0.0	0.0	0.0	0.0	0.0	0.0
PBT	14.6	66.8	67.6	87.1	113.9	140.2	154.2	153.3
Tax expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	14.6	66.8	67.6	87.1	113.9	140.2	154.2	153.3
Net margin	95.7%	74.7%	52.1%	46.2%	42.1%	38.1%	34.9%	30.8%

Balance sheet, US\$ mn

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
Non-current assets	17.1	55.8	62.3	133.2	196.8	240.1	251.9	260.5
Net PP&E	17.0	55.7	62.2	133.0	196.6	240.0	251.8	260.3
Other	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Current assets	28.9	155.9	191.9	196.6	210.7	256.0	308.3	406.9
Cash & equivalents	0.1	71.5	103.3	91.3	100.0	143.3	195.5	277.9
Receivables & prepayments	11.9	66.7	68.5	78.8	76.0	66.3	55.9	59.2
Inventories	16.6	17.4	19.5	24.9	30.2	37.4	42.9	50.0
Other	0.3	0.3	0.6	1.7	4.6	9.0	14.0	19.7
Total assets	46.1	211.7	254.2	329.8	407.5	496.1	560.2	667.4
Shareholder equity	27.0	145.8	184.2	261.6	332.3	416.8	479.7	576.8
Non-current liabilities	8.2	31.1	16.2	16.1	16.1	16.5	16.6	17.5
LT interest bearing debt	8.1	31.1	16.1	12.7	11.4	10.4	9.5	9.5
Other	0.1	0.1	0.1	3.4	4.7	6.1	7.1	8.0
Current liabilities	10.9	34.7	53.8	52.0	59.1	62.8	63.9	73.1
ST loans	6.2	22.8	19.5	11.1	10.0	9.1	8.3	8.3
Current portion of LT debt	0.0	0.0	10.5	3.4	3.0	2.8	0.0	0.0
Trade payables & prepayments	4.7	11.9	20.9	30.0	33.6	31.9	33.6	36.0
Other	0.0	0.0	2.9	7.5	12.5	19.1	22.0	28.7
Total liabilities & equity	46.1	211.7	254.2	329.8	407.5	496.1	560.2	667.4

Financial ratios

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
Profitability								
ROE	na	77%	41%	39%	38%	37%	34%	29%
ROA	na	52%	29%	30%	31%	31%	29%	25%
ROIC	na	-3852%	-181%	-144%	-163%	-143%	-103%	-70%
Liquidity								
Current ratio	266%	449%	356%	378%	357%	407%	483%	557%
Quick ratio	110%	398%	319%	327%	298%	333%	394%	462%
Cash ratio	1%	206%	192%	175%	169%	228%	306%	380%
Turnover								
Days receivable	286	398	219	172	120	80	58	55
Days inventory	396	112	48	42	35	33	36	40
Days payable	326	241	190	150	110	73	62	55
Cash conversion cycle	356	269	77	64	46	41	32	40
Solvency								
LT debt/Equity	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Net debt/Equity	0.5	-0.1	-0.3	-0.2	-0.2	-0.3	-0.4	-0.5
Financial leverage	1.7	1.5	1.4	1.3	1.2	1.2	1.2	1.2
Interest coverage	7.2	16.8	9.1	15.0	28.4	38.6	48.5	53.5
Per share								
BPS, US\$	1.27	6.86	8.67	12.31	15.64	19.61	22.57	27.14
EPS, US\$	0.68	3.14	3.18	4.10	5.36	6.60	7.26	7.22
DPS, US\$	0.00	0.00	0.00	0.00	0.00	0.00	1.45	1.44

Source: Company data, BG Capital Research

Sintal Agriculture

SNPS GR Current: US\$ 3.55
 Target: US\$ 5.40 **BUY**

Growing to export

- Sintal was able to raise equity financing (US\$ 13mn in 4Q09) to capitalize on decreased expansion costs during the economic crisis
- Reported the highest crop yields among local peers, one of the few agro companies to have improved yields in 2009
- The only crop producer with explicit ambition to export up to 50% of harvest volumes directly, which would offer benefits from higher achieved prices. Sintal's land bank and infrastructure expansion near seaports will help it attain that objective in the mid-term
- The only reviewed company with exposure to sugar production – global sugar prices surged to 25-year highs in late 2009, and we expect sugar production will account for up to half of Sintal's 2010 EBITDA

Company description

Sintal Agriculture is an agro company with lands in Kharkiv (36%) and Kherson (74%) regions that focuses on crop and sugar production (roughly 1/3 of revenue). Sintal's main crops are wheat and barley, which accounted for 58% and 11% of the 2009 harvested area. The company conducted a secondary share placement in October 2009, floating a 17% stake and raising US\$ 13mn, to fund an extensive capex program, including the acquisition of 215,000t of storage and a 30% increase in its harvested land bank.

Selected financials and ratios, US\$ mn

	2008	2009E	Chg. y/y	2010E	Chg. y/y
Net revenue	37.7	54.0	43%	67.2	25%
Gross margin, %	37%	37%	0pp	36%	-1pp
EBITDA	14.4	18.0	25%	21.8	21%
EBITDA margin, %	38%	33%	-5pp	32%	-1pp
Net income	14.1	15.2	8%	18.6	22%
Net margin, %	37%	28%	-9pp	28%	-1pp
PP&E, net	6.9	19.3	180%	31.9	65%
Shareholder equity	50.6	76.9	52%	94.7	23%
LT debt	1.0	0.4		0.3	
ST debt	7.8	7.4	-6%	6.9	-7%
Total liabilities & equity	74.1	101.8	37%	110.6	9%
Operating Cash Flow	-10.0	-1.1	-89%	4.7	-536%
CapEx	4.4	13.5	207%	14.0	4%
Current ratio	2.2	2.6	21%	3.9	48%
Net debt/Equity	-0.1	-0.1	-16%	0.0	-161%
ROA	26%	17%	-8pp	17%	0pp
ROE	47%	24%	-23pp	22%	-2pp
ROIC	39%	22%	-17pp	21%	-1pp

Source: Company data, BG Capital estimates

Operations

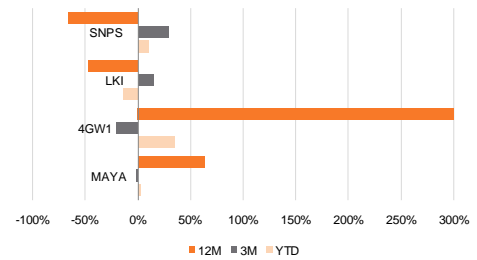
	2008	2009	Chg. y/y	2010E	Chg. y/y
Land under control, ha	75,300	98,700	31%	123,400	25%
% of land harvested	85%	83%	28%	83%	25%

Source: Company data, BG Capital estimates

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Share price performance ⁽¹⁾



⁽¹⁾ Hereafter, share prices as of Feb 2, 2010

Source: Bloomberg

Market data

	SNPS GR
Bloomberg	3.55
Current price, US\$	3.55
MCap, US\$ mn	116.9
Net Debt, US\$ mn	-3.7
EV, US\$ mn	113.4
Free float, %	36.3
Free float, US\$ mn	42.4
DR outstanding, mn	32.9
Common shares per DR	0.00143
Change from 52W low, %	48.8%
Change from 52W high, %	-52.4%
1M change, %	17.5%
3M change, %	41.7%
12M change, %	-52.4%

Source: Bloomberg

Ownership structure

Mykola Tolmachov and Vadim Mohyla	63.7%
Other	36.6%

Source: Company data, BG Capital estimates

Multiples and per-share data

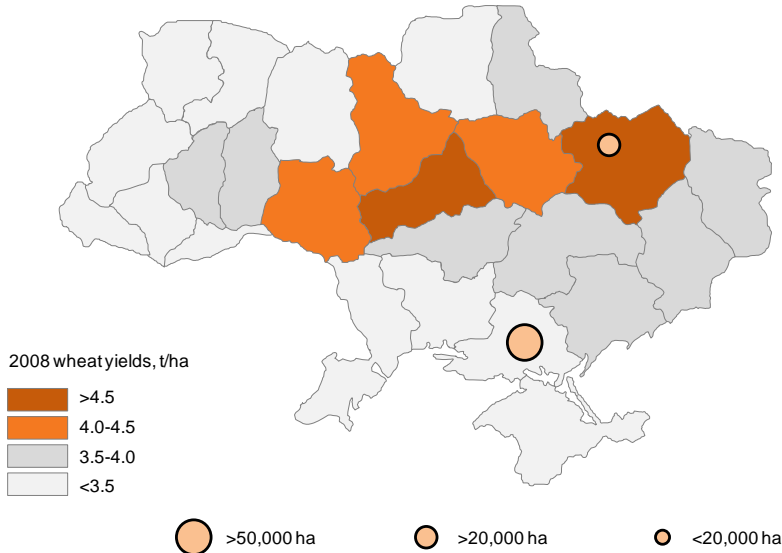
	2008	2009E	2010E
EV/ha controlled, US\$	1,626	1,150	939
EV/ha harvested, US\$	1,958	1,384	1,133
EV/Sales	3.3	2.4	1.9
EV/EBITDA	8.7	8.3	6.0
P/E	8.3	10.6	7.3
P/B	2.3	1.9	1.5

BPS, US\$	1.54	2.15	2.59
EPS, US\$	0.43	0.33	0.48
DPS, US\$	0.00	0.03	0.05

Source: Bloomberg, Company data, BG Capital estimates

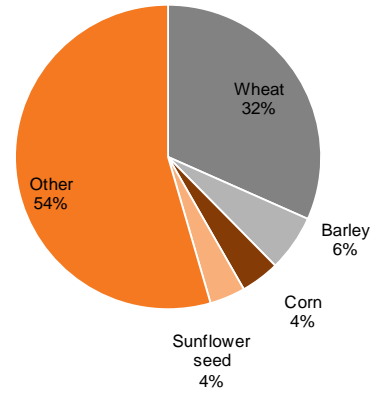
Company overview

Geographic location



Source: UkrStat, Company data

Harvest distribution, 2009



Sintal principal crop yields in 2009

	Sintal t/ha	Ukraine avg t/ha	% premium
Wheat	4.7	3.2	47%
Barley	3.7	2.5	48%
Corn	6.1	5	22%
Sunflower seed	1.6	1.6	0%

Company data, UkrStat, APK-Inform

Targeted location fits export ambition

Most of the company's agricultural land is located in Kherson region, in close proximity to seaports. Sintal's land bank expansion plans include storage capacities in Kherson region, which matches its target of exporting a large portion of its harvest in the near future.

Placed to expand

In October Sintal completed a secondary placement (17.2% stake), raising US\$ 13mn to finance a 28% harvested land bank expansion and infrastructure development to boost storage capacity. Sintal intends to supplement this initial growth phase with a 14% harvested land bank enlargement in 2011.

Sintal land bank growth, '000ha



Source: Company data, BG Capital estimates



Benefiting from the sugar boom

Sintal controls 2 sugar processing plants, which combined for 25-30% of 2008 sales. Sugar prices hit a 25-year record in 2010, and are up 70% y/y in US\$ terms. In 2007/08 the company's sugar production posted an 18% operating margin, and we expect the figure to double in 2009/10, as sugar beet prices proved rather sticky in the short-run. We estimate the company's sugar segment EBITDA will grow to match that of crop production in 2010. After sugar prices stabilize (in one or two years), the company plans to halt sugar production in order to be classified as a pure agro producer, which would allow it to benefit from the preferential tax regime.

Outperforming sector yields

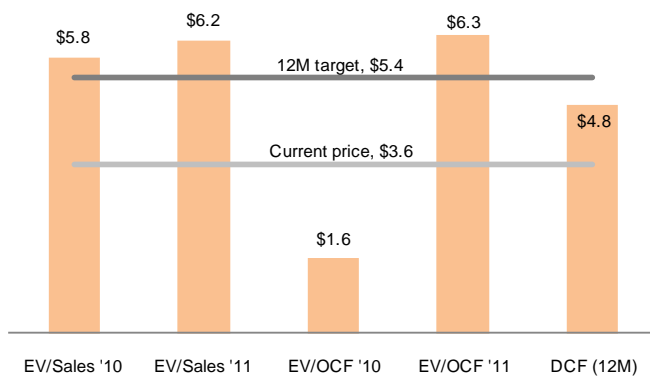
In 2009 Sintal improved its wheat and barley yields 2.2% and 8.8% y/y, respectively, despite the deterioration in weather conditions that led to a drop in Ukraine's average wheat and barley yields by 12% and 18% y/y. The company posted the best 2009 yield performance out of the reviewed peers.

Valuation

Summary

Three out of five chosen metrics suggest a narrow fair price range of US\$ 5.8 to 6.3 per DR. Weighting our DCF-implied value, we set our 12M target for Sintal DRs at US\$ 5.4, which yields 52% upside. We initiate coverage of Sintal Agriculture with a BUY recommendation.

Target price metrics, SNPS GR



Note: Multiple-implied prices are based on EV and OCF adjusted for Sintal's lack of land ownership. Refer to page 23 for more details

Source: Bloomberg, BG Capital Research

COMPANY PROFILE | Sintal Agriculture (SNPS GR)

DCF valuation

The key assumptions supporting our operating model for Sintal are outlined on pages 18-21. In addition, we assume the company will halt sugar production in 2012, as announced by management. Switching to pure crop production, Sintal will start fully benefiting from the state's VAT program, which we expect will boost the company's total subsidy three-fold from 2012.

Our DCF valuation yields a February 2011 equity value of UAH 1.35bn, which is equivalent to a fair DR value of 41.0 UAH (US\$ 4.8). The model suggests upside of 36%.

Discounted cash flow model

UAH mn, unless otherwise specified

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
EBIT	135.8	164.7	198.0	238.9	265.0	280.2	333.2	349.8	335.2	342.0
- Tax expenses	-6.9	-8.5	-10.3	-12.5	-13.9	-14.7	-17.6	-18.5	-17.7	-18.1
Effective tax rate, %	5.4%			5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%
- Tax shield on interests	-0.5	0.0	0.0	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
+ D&A	6.8	9.4	11.7	14.7	19.0	23.1	27.3	30.0	30.7	31.6
- Capex	-106.6	-111.7	-78.2	-167.1	-165.9	-156.7	-165.2	-55.7	-30.7	-31.5
- Increase in working capital	-110.2	-112.6	-27.1	0.4	-44.2	-31.7	-21.9	-20.8	-30.5	-25.7
FCFF	-81.5	-58.6	94.0	74.0	59.5	99.7	155.4	284.4	286.6	298.0
WACC			19.7%	17.7%	16.9%	16.0%	15.6%	15.3%	14.9%	14.0%
Discount factor			0.85	0.72	0.62	0.53	0.46	0.40	0.35	0.30
Discounted FCFF @ Feb.04			79.9	53.4	36.8	53.1	71.6	113.6	99.6	90.8
Terminal value (TV)										2,532.7
								Implied exit EBITDA multiple	6.8 x	56.3%
									55.8%	
Sum of discounted FCFFs			598.7							
TV @ Feb.04, 2011			772.2							
Enterprise value			1,371.0							
Less net debt			-20.3							
Equity value			1,350.6							
Value per share, UAH			41.0							

Terminal value assumptions:

Perpetuity growth rate	2.0%
WACC in perpetuity	14.0%

Source: Company data, BG Capital Research

Sensitivity of value per share, UAH

	Perpetuity growth rate	Exit EBITDA multiple										
		0.0%	1.0%	2.0%	3.0%	4.0%	4.8 x	5.3 x	5.8 x	6.3 x	6.8 x	
WACC in perp.	11.0%	40.5	42.9	45.7	49.1	53.4	-2.0%	42.1	44.1	46.1	48.0	50.0
	12.0%	38.8	40.8	43.1	46.0	49.4	-1.0%	39.7	41.6	43.4	45.3	47.1
	13.0%	37.3	39.0	41.0	43.4	46.2	0.0%	37.5	39.3	41.0	42.7	44.5
	14.0%	35.9	37.5	39.2	41.2	43.6	1.0%	35.5	37.1	38.7	40.3	42.0
	15.0%	34.8	36.1	37.7	39.4	41.5	2.0%	33.6	35.1	36.6	38.1	39.6

Source: BG Capital Research

Sensitivity of value per share, UAH

	2012	2013	Year of FAT subsidy removal					2018	never
			2014	2015	2016	2017			
Year of VAT subsidy removal	2012	26.9	27.7	28.5	29.2	29.9	30.6	31.3	37.1
	2013	27.6	28.6	29.3	30.0	30.8	31.5	32.1	38.0
	2014	28.2	29.2	30.1	30.9	31.6	32.3	32.9	38.8
	2015	28.8	29.8	30.7	31.6	32.3	33.0	33.7	39.6
	2016	29.4	30.4	31.3	32.2	33.1	33.8	34.4	40.3
	2017	29.9	30.9	31.9	32.7	33.6	34.4	35.1	41.0
	2018	30.5	31.5	32.4	33.3	34.2	35.0	35.8	41.7
	never	34.9	35.9	36.8	37.7	38.6	39.4	40.2	47.2

Source: BG Capital Research

Financials

Income statement, US\$ mn

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
Net revenue	15.6	37.7	54.0	67.2	83.4	84.5	104.1	117.5
Gross profit	6.2	13.9	19.7	24.0	27.8	28.7	31.5	34.8
Gross margin	39.8%	36.7%	36.5%	35.7%	33.3%	34.0%	30.2%	29.6%
EBITDA	4.0	14.4	18.0	21.8	24.7	28.2	29.9	31.9
EBITDA margin	25.4%	38.1%	33.4%	32.4%	29.6%	33.3%	28.7%	27.2%
D&A	-0.4	-0.9	-0.9	-1.2	-1.4	-1.6	-2.0	-2.4
EBIT	3.5	13.4	17.1	20.6	23.3	26.5	27.9	29.5
EBIT margin	22.6%	35.6%	31.8%	30.6%	27.9%	31.4%	26.8%	25.1%
Financial expenses	-1.1	-6.4	-1.1	-1.0	-0.9	-0.8	-0.8	-0.8
Non-operating income/costs	0.0	7.8	0.0	0.0	0.0	0.0	0.0	0.0
PBT	2.4	14.8	16.0	19.6	22.4	25.7	27.1	28.7
Tax expense	-1.1	-0.7	-0.9	-1.1	-1.2	-1.4	-1.5	-1.6
Net income	1.4	14.1	15.2	18.6	21.2	24.3	25.7	27.2
Net margin	8.9%	37.3%	28.1%	27.6%	25.4%	28.8%	24.7%	23.1%

Balance sheet, US\$ mn

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
Non-current assets	7.5	25.0	36.5	49.3	57.7	68.2	80.1	94.2
Net PP&E	4.2	6.9	19.1	31.9	40.2	52.7	65.4	79.4
Other	3.3	18.1	17.4	17.4	17.5	15.5	14.7	14.8
Current assets	28.0	49.1	64.3	61.3	77.1	75.7	83.3	96.5
Cash & equivalents	0.1	12.5	12.4	3.6	14.3	20.0	24.5	34.2
Receivables & prepayments	5.5	3.4	11.8	13.4	15.9	14.4	16.6	18.2
Inventories	17.5	28.9	32.6	35.5	38.1	34.6	34.9	37.0
Other	4.9	4.3	7.5	8.7	8.9	6.8	7.3	7.1
Total assets	35.6	74.1	100.8	110.6	134.8	144.0	163.4	190.7
Shareholder equity	9.5	50.6	76.1	94.7	117.2	128.5	147.4	174.6
Non-current liabilities	0.0	1.0	0.4	0.3	0.2	0.1	0.1	0.0
LT interest bearing debt	0.0	1.0	0.4	0.3	0.2	0.1	0.1	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current liabilities	26.1	22.5	24.3	15.7	17.4	15.3	15.9	16.0
ST loans	6.4	7.0	6.8	6.8	6.8	6.0	5.7	5.7
Current portion of LT debt	0.5	0.8	0.5	0.1	0.1	0.1	0.0	0.0
Trade payables & prepayments	11.6	7.4	6.8	0.0	0.0	0.0	0.0	0.0
Other	7.7	7.3	10.2	8.8	10.5	9.2	10.2	10.3
Total liabilities & equity	35.6	74.1	100.8	110.6	134.8	144.0	163.4	190.7

Financial ratios

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
Profitability								
ROE	na	47%	24%	22%	20%	20%	19%	17%
ROA	na	26%	17%	18%	17%	17%	17%	15%
ROIC	na	39%	22%	21%	20%	20%	19%	17%
Liquidity								
Current ratio	107%	218%	265%	391%	443%	495%	523%	603%
Quick ratio	21%	71%	100%	109%	173%	225%	258%	327%
Cash ratio	0%	56%	51%	23%	82%	131%	154%	214%
Turnover								
Days receivable	129	91	80	73	66	62	58	57
Days inventory	668	406	223	193	157	149	122	115
Days payable	450	165	73	73	55	55	37	37
Cash conversion cycle	346	332	230	193	168	157	144	135
Solvency								
LT debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net debt/Equity	0.7	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.2
Financial leverage	3.8	1.5	1.3	1.2	1.2	1.1	1.1	1.1
Interest coverage	3.3	2.1	15.6	21.1	26.7	32.8	36.8	39.3
Per share								
BPS, US\$	0.29	1.54	2.31	2.87	3.56	3.90	4.48	5.30
EPS, US\$	0.04	0.43	0.46	0.56	0.64	0.74	0.78	0.83
DPS, US\$	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Company data, BG Capital Research



Company profiles: other agro/food producers

Myronivsky Hliboproduct

MHPC LI Current: US\$ 11.0 N/R
 Target: N/A

The poultry leader

- Holds a 40% share of the commercially-produced chicken market with total sales of US\$ 634mn in 9M09
- Hryvnia-denominated EBITDA grew 27% y/y on the back of increased poultry prices driven by consumers switching to chicken from more expensive meats
- Vertically integrated holding that controls all stages of chicken production, including growing crops for feed and post-processing, which allows MHP to mitigate input price fluctuations
- Highly leveraged: US\$ 304mn of LT and US\$ 130mn of ST debt, with a 1.1x net debt to equity ratio.

Company description

Myronivsky Hliboproduct is a vertically integrated poultry producer with facilities located across Ukraine. Reported US\$ 660mn in 2008 poultry sales (82% of total revenue), which makes MHP the largest poultry player in Ukraine with a market share of close to 40%. The company integrates all functions related to chicken production, including hatching, fodder manufacturing, raising chickens to a marketable age, processing, and distribution. MHP conducted an IPO on the LSE in May 2008, becoming the first Ukrainian agro-industrial company to list on the London Exchange.

Selected financials and ratios, US\$ mn

	2007	2008	Chg. y/y	2009E	Chg. y/y
Net revenue	447.4	802.9	79%	657.8	-18%
Gross margin, %	26%	30%	4pp	30%	0pp
EBITDA	169.8	312.2	84%	190.7	-39%
EBITDA margin, %	38%	39%	1pp	39%	0pp
Net income	46.8	5.2	-89%	128.3	2367%
Net margin, %	10%	1%	-9pp	1%	0pp
PP&E, net	624.8	517.6	-17%	na	na
Shareholder equity	419.4	346.2	-17%	474.5	37%
LT debt	340	304.4	n/m	na	na
ST debt	130.2	130.2	0%	na	na
Total liabilities & equity	113.5	924.6	715%	na	na
Operating Cash Flow	98.6	122.7	24%	na	na
Capex	107.4	184.9	72%	na	na
Current ratio	1.4	1.5	7%	na	na
ROA	41%	1%	-40pp	na	na
ROE	11%	1%	-10pp	na	na
ROIC	5%	1%	-4pp	na	na

Source: Company data, BG Capital estimates

Operations

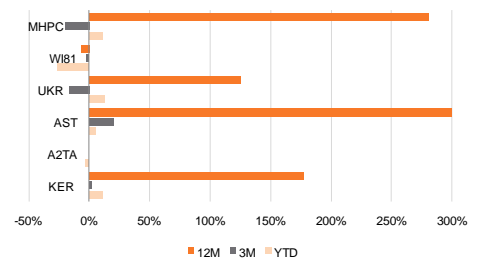
	2007	2008	Chg. y/y	2009	Chg. y/y
Chicken meat produced, t	175,300	225,600	79%	285,000	82679%
Land under control	148,500	180,000	79%	155,000	82679%
% of land harvested	74%	72%	18%	54%	-35%

Source: Company data, BG Capital estimates

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Share price performance ⁽¹⁾



⁽¹⁾ Hereafter, share prices as of Feb 1, 2010

Source: Bloomberg

Market data

Bloomberg	MHPC LN
Current price, US\$	11.0
MCap, US\$ mn	1 218.5
Net Debt, US\$ mn	454.2
EV, US\$ mn	1 672.7
Free float, %	22.3
Free float, US\$ mn	272.0
Common shares outstanding, mn	110.8
Common shares per DR	n/m
Change from 52W low, %	633.3%
Change from 52W high, %	-12.0%
1M change, %	12.2%
3M change, %	-10.4%
12M change, %	241.8%

Source: Bloomberg

Ownership structure

Y. Kosyuk (CEO)	77.7%
Other	22.3%

Source: Company data, BG Capital estimates

Multiples and per-share data

	2008	2009E	2010E
EV/Sales	2.0	2.5	1.9
EV/EBITDA	8.5	8.8	6.3
P/E	238.9	9.5	7.7
P/B	3.5	2.6	1.9

Source: Bloomberg, Company data, BG Capital estimates

Kernel Group

Sunflower oil galore

- Prior to Kernel's recently announced (and pending) acquisition of Allseeds, the company was Ukraine's 2nd largest sunflower oil producer. If the deal is completed, which is likely in our view, Kernel will take the country's top spot in sunflower oil production with roughly a 32% market share
- EBITDA grew 54% y/y in 2008/09 on an increase in grain handling and oil production, as well as a decrease in overhead per ton
- Sunflower oil prices are set for 6.6% y/y growth in 2010/11, according to conservative FAPRI forecasts, which should boost Kernel's margins even further

Company description

Kernel Group is a grain trading (56% of 2008/09 sales) and oil producing (36% of 2008/09 sales) holding that placed shares on the Warsaw Stock Exchange in November 2007. Kernel controls three crushing plants in Poltava and Kharkiv regions and produces over 200,000t of bulk oil and 100,000t of bottled oil annually. The company's grain trading segment accounted for 10% of all grain exported from Ukraine over the 2008/09 marketing year. Kernel controls a number of silos with total capacity of 1.9mmt and a grain terminal (Transbulkterminal) in Odesa.

Selected financials and ratios, US\$ mn

	2007	2008	Chg. y/y	2009E	Chg. y/y
Net revenue	350.4	663.1	89%	1047.1	58%
Gross margin, %	26%	24%	-2pp	30%	6pp
EBITDA	46.4	123.2	267%	190.1	12%
EBITDA margin, %	13%	19%	6pp	18%	-1pp
Net income	18.6	82.2	342%	131.9	60%
Net margin, %	5%	12%	7pp	13%	1pp
PP&E, net	172.9	231.6	34%	221.8	-4%
Shareholder equity	77.8	396.8	410%	355.8	-10%
LT debt	112.4	91.1	n/m	121.4	33%
ST debt	44.4	161.7	264%	157.7	-2%
Total liabilities & equity	275.1	755.6	175%	699.7	-7%
Operating Cash Flow	11.6	-94.1	-912%	163.2	-273%
Capex	57.2	24.4	-57%	88.6	263%
Current ratio	2.0	2	2%	1.9	-5%
Net debt/Equity	1.7	0.4	-76%	0.4	0%
ROA	7%	70%	63pp	70%	0pp
ROE	24%	10%	-14pp	20%	10pp
ROIC	8%	20%	12pp	30%	4pp

⁽¹⁾ Data are presented in marketing years (e.g. 2007 stand for June 2006-July 2007)

Source: Company data, BG Capital estimates

Operations

	2007	2008	Chg. y/y	2009	Chg. y/y
Bulk oil, t	175,300	225,600	89%	285,000	26%
Land under control	78,000	85,000	89%	85,000	0%
% of land harvested	90%	90%	9%	90%	0%

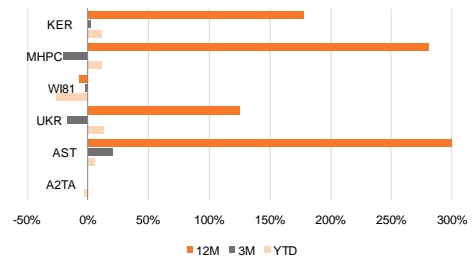
Source: Company data, BG Capital estimates

KER PW	Current:	US\$ 16.3	N/R
	Target:	N/A	

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Share price performance ⁽¹⁾



⁽¹⁾ Hereafter, share prices as of Feb 1, 2010

Source: Bloomberg

Market data

	KER PW
Bloomberg	
Current price, US\$	16.3
MCap, US\$ mn	1 119.9
Net Debt, US\$ mn	283.0
EV, US\$ mn	1402.9
Free float, %	40.8
Free float, US\$ mn	456.9
Common shares outstanding, mn	68.7
Common shares per DR	n/m
Change from 52W low, %	212.7%
Change from 52W high, %	-5.3%
1M change, %	12.1%
3M change, %	11.6%
12M change, %	157.5%

Source: Bloomberg

Ownership structure

Namsen LTD	59.0%
Other	41.0%

Source: Company data, BG Capital estimates

Multiples and per-share data

	2008	2009E	2010E
EV/Sales	1.9	1.3	1.0
EV/EBITDA	10.5	7.5	6.1
P/E	13.6	8.6	6.5
P/B	2.6	2.0	1.5

Source: Bloomberg, Company data, BG Capital estimates

Astarta

Catching a sweet price wave

- In 2008 Astarta became the largest player on the Ukrainian sugar market, producing 0.24mmt and occupying a 15% market share
- A vertically integrated producer, 84% of Astarta's sugar beet needs were covered by in-house production in 2008
- Global and Ukrainian sugar prices hit 25-year highs in 2009 and the growth has continued unabated. We expect sugar prices to remain elevated over 2010, which will allow the company to re-sign sugar contracts at the heightened prices and will support wider margins.

Company description

Astarta is an agro holding located in Poltava, Vinnytsia, and Khmelnytsk regions that focuses on sugar (57% of 2008 sales) and crop production (24% of 2008 sales). With 6 sugar plants in operation, the company became the largest player on the Ukrainian sugar market (15% market share) in 2008. Astarta controls 159,000ha of land and its principal crops are sugar beet, wheat, and barley. The company conducted an IPO in August 2006 on the Warsaw Stock Exchange, which made it one of the first Ukrainian agricultural placements on an international exchange.

Selected financials and ratios, UAH mn

	2007	2008	Chg. y/y	2009E	Chg. y/y
Net revenue	615.3	970.7	58%	1341	38%
Gross margin, %	28%	26%	-2pp	30%	4pp
EBITDA	213.7	223.5	5%	314.4	41%
EBITDA margin, %	34%	23%	-11pp	23%	0pp
Net income	159.8	-89.2	-156%	148.8	-267%
Net margin, %	9%	9%	0pp	11%	2pp
PP&E, net	578.1	818.1	42%	na	na
Shareholder equity	735.1	648.1	-12%	796.9	23%
LT debt	41.9	142.5	n/m	na	na
ST debt	338.6	905.8	168%	na	na
Total liabilities & equity	1281.3	1954	53%	na	na
Operating Cash Flow	16.7	-47.1	-383%	na	na
Capex	-164.9	285.9	-273%	na	na
Current ratio	1.5	0.92	-39%	na	na
Net debt/Equity	0.3	1.6	450%	na	na
ROE	12%	-5%	-53pp	na	na
ROIC	22%	-14%	-69pp	na	na

Source: Company data, BG Capital estimates

Operations

	2007	2008	Chg. y/y	2009	Chg. y/y
Sugar produced, t	155,500	235,600	52%	144,100	-39%
Land under control	134,170	166,000	24%	166,000	0%
% of land harvested	85%	87%	27%	96%	10%

Source: Company data, BG Capital estimates

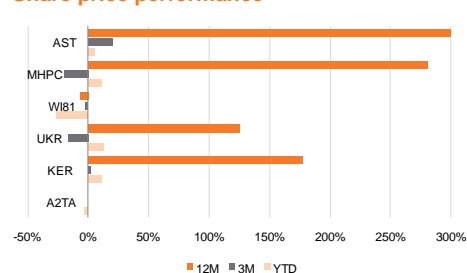
Ukraine | Agriculture
Initiating Coverage
February 08, 2010

AST PW Current: US\$ 16.3
Target: N/A **N/R**

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Share price performance ⁽¹⁾



⁽¹⁾ Hereafter, share prices as of Feb 1, 2010

Source: Bloomberg

Market data

	AST PW
Bloomberg	
Current price, US\$	16.3
MCap, US\$ mn	382.6
Net Debt, US\$ mn	127.5
EV, US\$ mn	510.1
Free float, %	20.0
Free float, US\$ mn	102.0
Common shares outstanding, mn	25.0
Common shares per DR	n/m
Change from 52W low, %	-94.3%
Change from 52W high, %	-99.1%
1M change, %	15.6%
3M change, %	32.2%
12M change, %	464.1%

Source: Bloomberg

Ownership structure

Viktor Ivanchyk	40.0%
Valeriy Korotkov	40.0%
Other	20.0%

Source: Company data, BG Capital estimates

Multiples and per-share data

	2008	2009E	2010E
EV/Sales	2.8	3.0	2.4
EV/EBITDA	12.1	12.8	9.2
P/E	neg	20.6	13.3
P/B	4.5	3.7	2.9

Source: Bloomberg, Company data, BG Capital estimates

COMPANY PROFILE

Ukrproduct Group

The Milky Way

- Ukrproduct increased its domestic market shares in butter and processed cheese, its key products, to 8% and 23% in 2008
- Group sales increased 8.7% y/y to GBP 52.3mn in 2008 on the back of branded product and skim milk powder production expansions
- World milk prices are poised to rise 10% y/y in 2010, according to FAPRI forecasts, and the company's margins will likely benefit from the increase

Company description

Ukrproduct Group is a dairy producer with 5 plants in Central and Western Ukraine and a logistics and distribution network, which operates domestically through AgroSpetsResursy. The group operates in two main segments: branded products (73% of 2008 sales) such as processed and hard cheeses, butters, and spreads, and skim milk powder (22% of 2008 sales). The group posted consolidated 2008 sales of GBP 52.3mn. Ukrproduct was the first Ukrainian company to place its shares on the LSE AIM in February 2005.

Selected financials and ratios, GBP mn

	2007	2008	Chg. y/y	2009E	Chg. y/y
Net revenue	48.1	52.3	9%	82.3	57%
Gross margin, %	22%	24%	2pp	na	na
EBITDA	5.5	4.7	-15%	4.3	-9%
EBITDA margin, %	11%	9%	-2pp	5%	-4pp
Net income	3.3	2.3	-29%	1.1	-52%
Net margin, %	7%	4%	-3pp	1%	-3pp
PP&E, net	11.9	10.5	-12%	na	na
Shareholder equity	15.4	16.0	4%	17.1	7%
LT debt	0.0	0.3	n/m	na	na
ST debt	3.4	3.4	0%	na	na
Total liabilities & equity	23.7	22.5	-5%	na	na
Operating Cash Flow	3.9	2.6	-33%	na	na
Capex	2.5	1.3	-48%	na	na
Current ratio	1.8	1.4	-24%	na	na
Net debt/Equity	0.1	0.2	63%	na	na
ROA	14%	20%	6pp	na	na
ROE	21%	28%	7pp	na	na

Source: Company data, BG Capital estimates

Operations

	2007	2008	Chg. y/y	2009	Chg. y/y
Branded products	25,155	38,179	52%	na	na
Skim Milk Powder	20,410	11,561	-43%	na	na

Source: Company data, BG Capital estimates

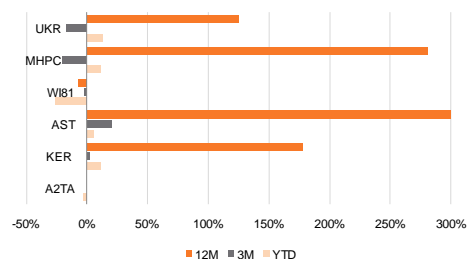
Ukraine | Agriculture
Initiating Coverage
February 08, 2010

UKR LN Current: US\$ 0.44
Target: N/A **N/R**

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Share price performance ⁽¹⁾



⁽¹⁾ Hereafter, share prices as of Feb 1, 2010

Source: Bloomberg

Market data

	UKR LN
Bloomberg	
Current price, US\$	0.44
MCap, US\$ mn	18.0
Net Debt, US\$ mn	7.5
EV, US\$ mn	25.5
Free float, %	29.6
Free float, US\$ mn	7.5
Common shares outstanding, mn	41.1
Common shares per DR	n/m
Change from 52W low, %	-93.2%
Change from 52W high, %	-98.7%
1M change, %	15.7%
3M change, %	-2.5%
12M change, %	91.6%

Source: Bloomberg

Ownership structure

Sergey Evlanchik & Alexander Slipchuk	67.5%
Treasury shares	4.10%
Other	28.4%

Source: Company data, BG Capital estimates

Multiples and per-share data

	2008	2009E	2010E
EV/Sales	0.2	0.3	na
EV/EBITDA	2.6	5.9	na
P/E	4.3	16.4	na
P/B	0.8	0.7	na

Source: Bloomberg, Company data, BG Capital estimates

Dakor Agro Holding

Real sugar

- After merging with Land West in September 2009, Dakor Agro boasts a combined land bank of 163,000ha, making it Ukraine's 6th largest land leaser
- Sugar prices are at 25 year highs and will stay at those levels at least until 2010. We expect Dakor's EBITDA margins to grow to 30% in 2009/2010.
- Self-sufficient in sugar storage capacities with 95,000t of simultaneous storage.

Company description

Dakor Agro Holding is a sugar and crop producer with a 163,000ha land bank and 4 sugar plants with total sugar capacity of 200,000t annually. Dakor Agro Holding is 100% sufficient in sugar beet and includes wheat, rapeseed, barley, and corn in its crop rotation.

Selected financials and ratios, UAH mn

	2007	2008	Chg. y/y	2009E	Chg. y/y
Net revenue	410.9	716.7	74%	na	na
Gross margin, %	22%	13%	-9pp	na	na
EBITDA	103.2	163.3	58%	na	na
EBITDA margin, %	25%	23%	-2pp	na	na
Net income	59.9	117.2	96%	na	na
Net margin, %	15%	16%	1pp		
PP&E, net	309.2	98.0	-68%	na	na
Shareholder equity	491.2	686.8	40%	na	na
LT debt	112.8	383.8	n/m	na	na
ST debt	259.7	90.3	-65%	na	na
Total liabilities & equity	1073.5	1 466.9	37%	na	na
Operating Cash Flow	-125.1	23.9	-119%	na	na
Capex	310.4	248.3	-20%	na	na
Current ratio	2.1	1.2	-43%	na	na
ROA	6%	16%	10pp	na	na
ROE	12%	34%	22pp	na	na
ROIC	7%	21%	14pp	na	na

Source: Company data, BG Capital estimates

Operations

	2007	2008	Chg. y/y	2009	Chg. y/y
Land under control, ha	na	298,000	na	na	na
% of land harvested	na	41%	na	na	na
sugar produced, t	na	112,400	na	na	na

Source: Company data, BG Capital estimates

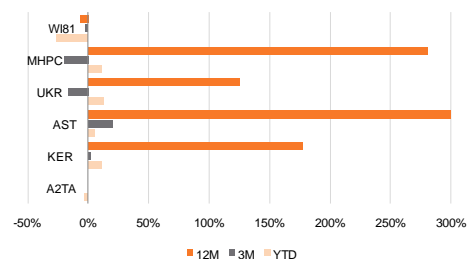
Ukraine | Agriculture
Initiating Coverage
February 08, 2010

WI81 GR Current: US\$ 8.18
Target: N/A **N/R**

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Share price performance ⁽¹⁾



⁽¹⁾ Hereafter, share prices as of Feb 1, 2010

Source: Bloomberg

Market data

	WI81 GR
Bloomberg	
Current price, US\$	8.18
MCap, US\$ mn	46.8
Net Debt, US\$ mn	89.8
EV, US\$ mn	136.6
Free float, %	24.2
Free float, US\$ mn	11.3
Common shares outstanding, mn	5.7
Common shares per DR	1
Change from 52W low, %	-3.1%
Change from 52W high, %	-33.1%
1M change, %	-26.4%
3M change, %	-28.2%
12M change, %	-33.1%

Source: Bloomberg

Ownership structure

Danilo Korlykevych	75.8%
DakorWest minorities	19.4%
LandWest minorities	4.8%

Source: Company data, BG Capital estimates

Multiples and per-share data

	2008	2009E	2010E
EV/Sales	1.0	na	na
EV/EBITDA	4.4	na	na
P/E	2.1	na	na
P/B	0.4	na	na

Source: Bloomberg, Company data, BG Capital estimates

Agroton

New kid on the block

- Agroton conducted an IPO in November 2009 and raised US\$ 42mn in order to fund a 40,000ha land bank expansion
- Agroton's revenue is sourced from crop farming (47%), livestock (24%), and food processing (29%), a diversification that alleviates price-related risks
- Located solely in Luhansk region, allowing it to efficiently allocate resources and incur smaller administrative and transportation costs
- According to 2008 financials, Agroton's net debt was US\$ 48mn, including ST of US\$ 40mn, yielding a 1.0x net debt to equity for 2008

Company description

Agroton is an agricultural holding with 134,000ha of leased land and 235,000t of elevator storage capacity. The company recently conducted a share placement and raised US\$ 42mn for 20% of its shares

Selected financials and ratios, US\$ mn

	2007	2008	Chg, y/y	2009E	Chg, y/y
Net revenue	51.6	76.3	na	na	na
Gross margin, %	15%	10%	na	na	na
EBITDA	22.3	21.6	na	na	na
EBITDA margin, %	43%	28%	na	na	na
Net income	14.6	-4.6	na	na	na
Net margin, %	28%	-6%	na	na	na
PP&E, net	48.3	29.0	na	na	na
Shareholder equity	52.0	47.5	na	na	na
LT debt	3.8	16.8	na	na	na
ST debt	33.9	39.7	na	na	na
Total liabilities & equity	96.7	78.7	na	na	na
Operating Cash Flow	na	na	na	na	na
Capex	na	na	na	na	na
Current ratio	1.2	0.9	na	na	na
ROA	15%	-6%	na	na	na
ROE	28%	-10%	na	na	na
ROIC	16%	-4%	na	na	na

Source: Company data, BG Capital estimates

Operations

	2007	2008	Chg, y/y	2009	Chg, y/y
Poultry, kg	2,628	6,897	162%	na	na
Milk, kg	7,625	12,074	158%	na	na
Land under control, ha	na	134,000	na	na	na

Source: Company data, BG Capital estimates

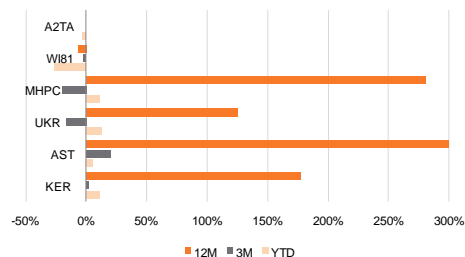
Ukraine | Agriculture
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February 08, 2010

A2TA GR Current: US\$ 10.0
Target: N/A **N/R**

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Share price performance ⁽¹⁾



⁽¹⁾ Hereafter, share prices as of Feb 1, 2010

Source: Bloomberg

Market data

Bloomberg	A2TA GR
Current price, US\$	10.01
MCap, US\$ mn	57.2
Net Debt, US\$ mn	47.8
EV, US\$ mn	105.0
Free float, %	20.0
Free float, US\$ mn	11.4
Common shares outstanding, mn	5.7
Common shares per DR	1
Change from 52W low, %	-4.1%
Change from 52W high, %	-6.9%
1M change, %	-2.1%
3M change, %	n/m
12M change, %	n/m

Source: Bloomberg

Ownership structure

Iurii Zhuravlev	80.0%
Other	20.0%

Source: Company data, BG Capital estimates

Multiples and per-share data

	2008	2009E	2010E
EV/Sales	1.4	na	na
EV/EBITDA	4.9	na	na
P/E	neg	na	na
P/B	neg	na	na

Source: Bloomberg, Company data, BG Capital estimates

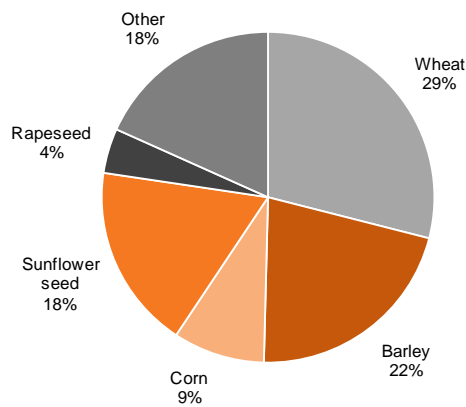


Appendices

Appendix I. Harvest data

In 2009 Ukraine harvested 23.3mn ha of crops, and wheat, barley and sunflower seeds were responsible for nearly 70% of the harvested area.

Ukraine 2009 harvest by area



Source: UkrStat

Ukraine harvest volumes, mmt

	2008	2009
Wheat	25.9	20.9
Potatoes	19.6	19.7
Barley	12.6	11.8
Corn	11.4	10.5
Sugar beet	13.4	10.0
Vegetables	8.0	8.3
Sunflower seed	4.3	6.4

Source: UkrStat



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