

# Sintal Agriculture

One of the leaders in Ukrainian agricultural production

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Agriculture

	Sales (\$ mln)	EBITDA (\$ mln)	Net income (\$ mln)	P/S	EV/EBITDA	P/E
2008	47.9	16.0*	14.1	3.09	9.87*	10.50
2009	42.8	11.5	8.6	3.42	12.78	17.11
2010 E	60.5	16.2	12.2	2.44	9.13	11.94

Sources: company data, UFC Capital calculations. \* - UFC Capital estimates.

**Sintal Agriculture (Sintal) is one of the largest agricultural holdings in Ukraine, and owns two sugar mills with a total capacity of 30 thnd mt of sugar per year. The company rents and cultivates about 100 thnd ha of land. The humus layer of the land, controlled by Sintal, exceeds the Ukrainian average by 30-50%. Quality black soils ("chernozems") comprise 80%-85% of the total company's land.**

- ▶ In 2008, Sintal conducted a private placement of shares and **listed depository receipts on the Frankfurt Stock Exchange.**
- ▶ In the 2010-2011 season, the company sowed 45.8 thnd ha of winter crops. Of this amount 19.4 thnd ha was wheat (-51% YoY), 16.4 thnd ha of rapeseed (+203% YoY), and 10 thnd ha of barley (+51% YoY). The crops are in good conditions due to the fact that favorable temperatures in late October and early November allowed seedlings to reach the stage of tillering, which is necessary for overwintering plants. Consequently, **the company expects a good harvest in 2011.** Sowing for 2010-2011 was conducted at the proper time.
- ▶ Sintal made a strategic decision to partially **replace early grain crops with more profitable industrial crops.** As such, the sowing of winter wheat was reduced, while the company plans to expand the area sown with corn, rapeseed, sunflower, and soybean in 2011.
- ▶ The Cabinet of Ministers decided to extend export quotas for grain until March 31, 2011 and increased the total size of quotas by 1.5 mln mt (0.5 mln mt for wheat and 1 mln mt for corn).
- ▶ **Sintal uses advanced high-performance agricultural machinery made by leading manufacturers** such as Bourgault, Helios, Case, Claas, Caterpillar, Holmer, Amazone, etc.
- ▶ The company uses modern methods for fertilizing and soil treatment. It **individualizes crop rotation schemes for each farm**, with a quality selection of crops, and utilizes **GPS mapping and GPS navigation**, and is introducing **No-Till technology**, which permits high productivity while maintaining the quality of top soil.
- ▶ Sintal's **well-developed irrigation system** and high levels of sunlight in the Kherson region **give the company an opportunity to harvest twice a year.**
- ▶ An independent evaluation of the quality of Sintal's land, conducted by experts from the Scottish Agricultural College, confirmed that the **quality of land is quite high and that it is located in a favorable climate zone, giving the company significant potential to increase productivity.**

**BUY**

Current price: \$4.49

Fair price: \$6.11

Upside: 36%

## Stock information

Stock exchange	Frankfurt
Currency	EUR
Bloomberg ticker	SNPS GR
52-week low, \$	3.01
52-week high, \$	4.84

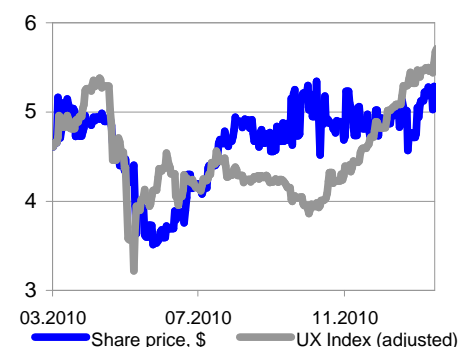
## Shareholder structure

Mykola Tolmachov	53%
Vadym Mohyla	8%
Company management	2%
Institutional investors	36%
Others	1%

## Capital structure

Number of shares	47 059
Shares per 1 GDR	700
Capitalization, \$ mln	147.9
Net debt, \$ mln	-2.0
EV, \$ mln	145.9

\* - UFC Capital estimate.



## Fair price valuation

### Sintal Agriculture and its peers: key financial indicators, \$ mln

Company	Country	Market Capitalization	EV	2010 E		
				Sales	EBITDA	Profit
Mriya Agro Holding	Ukraine	1 051.39	1564.43	271.2	128.3	116.4
Agrowill Group	Lithuania	28.32	279.58	63.7	-38.5	8.6
Ktg Agrar	Germany	130.11	208.77	44.4	7.6	9.1
Kaveri Seed	India	6 162.41	6 961.50	2 292.0	520.8	410.9
Metropolitan Resource	Sri Lanka	798.08	1 978.50	5 026.6	461.1	126.0
Alpcot Agro	Russia	771.15	768.31	253.0	-208.9	-246.1
Vupik	Croatia	155.63	195.61	202.1	-72.4	149.3
Zemjod Komb Pelagonija Bit	Macedonia	996.80	1 255.55	1 616.5	-100.0	-222.4
Fabrika Stocne Hrane Jabuka	Serbia	84.16	399.59	2 270.8	207.1	80.1
<b>Total for peers</b>		<b>10 178.1</b>	<b>13 611.9</b>	<b>12 040.5</b>	<b>905.2</b>	<b>431.8</b>
<b>Sintal Agriculture</b>	<b>Ukraine</b>	<b>147.9</b>	<b>145.9</b>	<b>60.5</b>	<b>16.2</b>	<b>12.2</b>

Sources: Bloomberg, company data, UFC Capital calculations.

For our estimates, we used projected figures for 2010 or, where possible, the actual value of the financial performance of companies with similar production.

### Sintal Agriculture and its peers: market multiples, \$

Company	Country	2010 E		
		P / E	EV / EBITDA	EV/S
Mriya Agro Holding	Ukraine	9.04	12.20	5.77
Agrowill Group	Lithuania	3.29	-7.27	4.39
Ktg Agrar	Germany	14.38	27.38	4.70
Kaveri Seed	India	15.00	13.37	3.04
Metropolitan Resource	Sri Lanka	6.33	4.29	0.39
Alpcot Agro	Russia	-3.13	-3.68	3.04
Vupik	Croatia	1.04	-2.70	0.97
Zemjod Komb Pelagonija Bit	Macedonia	-4.48	-12.55	0.78
Fabrika Stocne Hrane Jabuka	Serbia	1.05	1.93	0.18
<b>Peer average</b>		<b>23.57</b>	<b>15.04</b>	<b>1.13</b>
<b>Sintal Agriculture</b>	<b>Ukraine</b>	<b>12.10</b>	<b>9.01</b>	<b>2.41</b>

Sources: Bloomberg, company data, UFC Capital calculations.

For our evaluation of Sintal Agriculture and its peers we used P/E, EV/EBITDA, and EV/S, which were given equal weight in calculating the composite fair price for the company's stock.

### Fair price estimate

Comparison method	Fair price based on indicator, \$	Indicator weight	Upside, %
P/E 2010 (estimate)	8.75	1/3	95%
EV/EBITDA 2010 (estimate)	7.46	1/3	66%
EV/S 2010 (estimate)	2.14	1/3	-52%
<b>Final estimate</b>	<b>6.11</b>	<b>1</b>	<b>36%</b>

Source: UFC Capital calculations.

Note that the **company's profitability exceeded 20%** in 2008-2010. The company is currently being traded at low multiples: P/E 2010 E = 8.8, which is significantly below the average for its peers. On the basis of our comparative evaluation, **the fair price for the company's stock is \$6.11, which implies an upside of 36%.**

## Financials

### Balance sheet, \$ mln

	31.12.2007	31.12.2008	31.12.2009
Cash and cash equivalents	2.8	0.0	7.6
Current financial investments	n/a	n/a	n/a
Commercial accounts receivable	1.8	1.6	1.0
Other accounts receivable	17.2	18.2	17.8
Inventories	19.0	42.6	17.5
Other current assets	<b>40.8</b>	<b>62.5</b>	<b>43.9</b>
<b>Total current assets</b>	n/a	n/a	n/a
Fixed assets	4.2	6.9	8.3
Other fixed assets	3.3	4.8	7.2
<b>Total fixed assets</b>	<b>7.5</b>	<b>11.7</b>	<b>15.5</b>
<b>Total assets</b>	<b>48.3</b>	<b>74.1</b>	<b>59.5</b>
Short-term bank loans	7.2	4.5	4.0
Current long-term liabilities	6.9	7.8	5.5
Goods accounts payable	12.0	10.2	2.9
Other current liabilities	<b>26.1</b>	<b>22.5</b>	<b>12.4</b>
<b>Total short-term liabilities</b>	0.0	1.0	0.8
Long-term bank loans	n/a	n/a	n/a
Other long-term financial liabilities	<b>0.0</b>	<b>1.0</b>	<b>0.8</b>
Other long-term liabilities	<b>26.1</b>	<b>23.5</b>	<b>13.2</b>
<b>Total long-term liabilities</b>	0.0	0.0	0.0
Charter capital	0.1	0.0	0.0
Retained profit	25.5	51.0	41.7
Other equity	-3.4	-0.4	4.5
<b>Total equity</b>	<b>22.2</b>	<b>50.6</b>	<b>46.3</b>
<b>Total equity and liabilities</b>	<b>48.3</b>	<b>74.1</b>	<b>59.5</b>

Sources: company data.

### Income statement, \$ mln

	2007	2008	2009
<b>Sales (net revenue)</b>	<b>15.6</b>	<b>47.9</b>	<b>42.8</b>
COGS	9.8	34.6	29.9
Gross profit (loss)	5.8	13.3	12.9
Other operating income	n/a	n/a	1.8
Administrative and other operating expenses	2.3	-8.0	5.1
<b>Operating profit (loss)</b>	<b>3.5</b>	<b>21.3</b>	<b>9.6</b>
Financial expenses	1.3	n/a	n/a
Foreign exchange losses (profit)	n/a	n/a	-0.3
Net non-operating losses (profit)	-0.2	6.4	1.9
<b>Pre-tax profit (loss) from ordinary operations</b>	<b>2.4</b>	<b>14.8</b>	<b>8.0</b>
Income tax on ordinary operations	1.1	0.7	-0.7
<b>Income before XO items</b>	<b>1.4</b>	<b>14.1</b>	<b>8.7</b>
Extraordinary loss (profit) net of tax	0.0	0.0	0.0
Minority interests	0.1	0.0	0.0
<b>Net profit (loss)</b>	<b>1.3</b>	<b>14.1</b>	<b>8.6</b>
Reference item: EBITDA	<b>4.0</b>	<b>16.0</b>	<b>11.5</b>

Sources: company data.

### Profit Margins

	2007	2008	2009
Gross profit margin	37.3%	27.7%	30.2%
EBITDA margin	25.4%	0.0%	26.8%
Operating profit margin	22.6%	44.4%	22.5%
Net profit margin	8.3%	29.4%	20.2%

Sources: company data.

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