

April 2010, Ukraine

Ukrainian grain producers: Ready to pump investments

Completed by Yaroslav Udovenko, udovenko@sokrat.com.ua



Parus Business Center
2 Mechnykova St., 8th floor, Kyiv, 01601, Ukraine
<http://www.sokrat.com.ua>

Table of Contents

EXECUTIVE SUMMARY.....	3
INVESTMENT THESIS.....	4
MARKET OVERVIEW.....	7
UKRAINIAN SOIL – AN IN-DEPTH LOOK.....	8
Agriculture is the key part of Ukraine's economy.....	9
The place of Ukraine's agricultural sector in the world.....	10
Agricultural process.....	11
The 2009 Harvest – far from its potential.....	12
Machinery & Fertilizer use - Unrevealed potential	14
Work force.....	15
Transportation and storage facilities.....	16
Land Play – fire sale to follow.....	17
Foreign Direct Investments – prime time for Agriculture.....	19
Government Regulations.....	22
Global Agriculture Outlook.....	24
Price rollercoaster.....	26
COMPARATIVE ANALYSIS.....	27
Key regions of presence.....	28
Land expansion.....	29
Yield dynamics.....	30
Efficiency estimation.....	31
Comparison by key characteristics.....	32
Comparative valuation.....	33
COMPANY PROFILES.....	34
MCB Agricole.....	35
Sintal.....	39
Landkom.....	43

Ukrainian grain producers

Ready to pump investments

With this report, we decided to update the valuation of Ukrainian grain producing companies that, in our view, have a winning combination of the strongest positions in the Ukrainian market, together with good corporate governance and a well-built business structures.

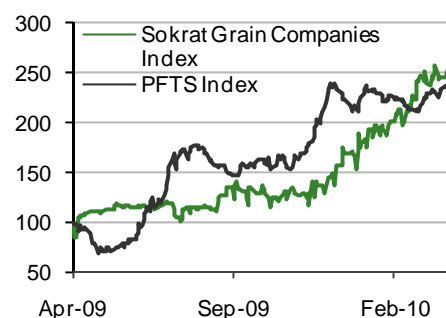
Executive summary

- Land is the key.** In terms of land area, Ukraine is the second largest country in Europe and most of the country's territory consists of fertile steppes and plateaus. With a total agricultural area of 42 mln ha, Ukraine possesses 32 mln ha of arable land or 22% of all European arable lands. Of this, 66% is covered with black soil (chernozem), soils with high natural fertility. Moreover, the 60 cm depth of the humus layer in Ukraine's fertile land significantly outperforms the EU level of 30 cm.
- The crop yield potential is far from saturated.** In the 2009/10 MY, Ukraine's average grain yield was 3.7 tonnes per ha, while some of the covered agricultural companies were able to perform at a level higher than that of Europe, reaching 5-5.5 tonnes per ha. Simple analysis shows that Ukraine is undoubtedly capable of increasing its average crop yields to current European levels.
- Location counts.** Ukraine enjoys its proximity to main export markets – Europe, Russia, the Middle East, and Africa. The European region is valued for the high income of its citizens, its increasing urbanization, and its ongoing biofuel projects. Ukraine, with its unhindered access to the Black Sea, should benefit from its location.
- Land appreciation is a unique opportunity.** Currently in Ukraine, Parliament has imposed a restriction on the sale of land until 2012. We foresee that the moratorium will be lifted in 2013. This should increase liquidity and lower risks in the agricultural sector.
- High margins significantly outperform international peer margins.** Labor costs and lease payments for land in Ukraine are among the lowest in Europe. This advantage enables the companies to post impressive EBITDA margins of 30-50%, compared to Developed market peers' 12-15% margin.
- Prime time to invest.** Despite a huge potential the Ukrainian Agriculture & Food sector is lack of funds. However, for the last few years, the situation has markedly improved, especially since Ukraine's WTO accession. The agricultural companies were the only Ukrainian companies that conducted placements in 2009. This sector appears to be under special treatment by investors in 2010. Undoubtedly, it is prime time for agriculture.

Recommendations	
BUY	2
HOLD	1
SELL	0

Region	Eastern Europe
Country	Ukraine
Area, km	604 thsd
Agricultural land, ha	41.7 mln
Arable land, ha	32.4 mln

Sokrat Grain Companies Index



Ukraine's 2009 yield

Grain harvested, mln tonnes	46.0
Average yield, tonne per ha	3.7

Land bank

Company	Land, thsd ha	EV/Land, USD/ha
MCB Agricole	96	510
Sintal	99	1434
Landkom	76	658

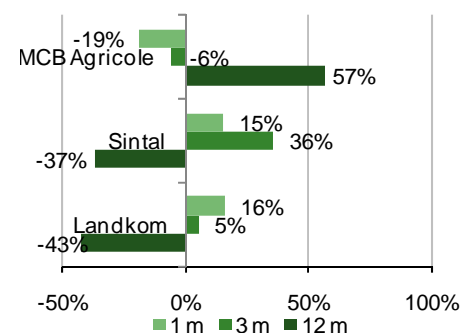
*1 Hectare = 2.5 Acres

Figure 1. Covered Agro & Food companies

	MCB Agricole	Mriya	Sintal	Landkom	MHP	Kernel	Astarta	Ukrros	Creativ
Rating	BUY	BUY	BUY	HOLD	HOLD	HOLD	BUY	BUY	BUY
Fair price, USD	8.1	45.6	7.3	0.13	14.3	24.7	27.4	1.3	26.2
Market price, USD	3.0	31.9	4.4	0.10	14.0	19.7	20.7	0.6	12.0
Mcap, USD mln	51.6	677.9	207.1	45.3	1 550.8	1 354.2	517.5	66.9	123.0
Shares outst., mln	17.2	21.3	47.1	435.2	110.8	68.7	25.0	106.2	10.3
Free Float	24%	20%	36%	99%	20%	46%	25%	20%	23%
Free Float, USD mln	12.6	135.6	75.2	44.8	310.2	624.3	127.3	13.3	28.8

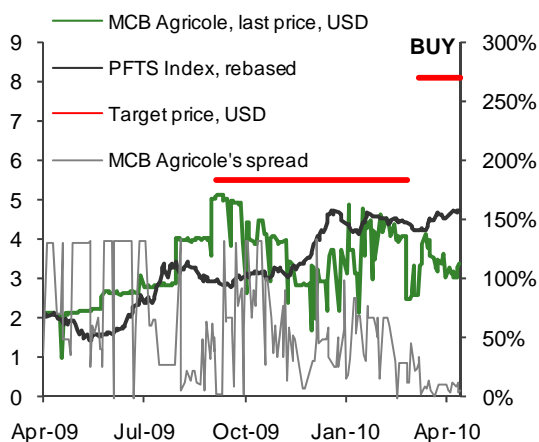
*- as of April 15, 2010

Source: Bloomberg, Sokrat estimates



INVESTMENT THESIS

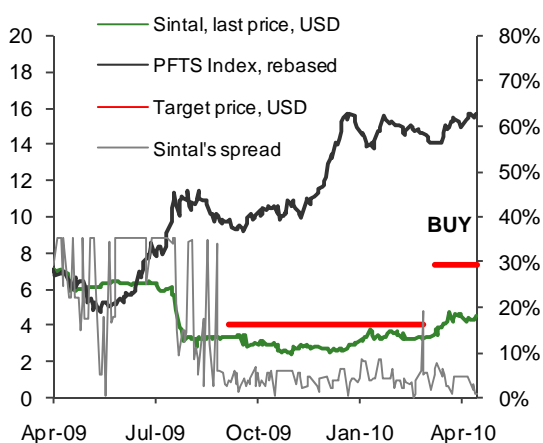
MCB Agricole
Bloomberg [4GW1 GR]



Recommendation: BUY
Fair price per DR: USD 8.1

SWOT analysis	
Strengths	Weaknesses
High corporate governance standards and local expertise;	Restricted liquidity;
11 years of experience in the agriculture business;	Undeveloped structure of the company's exports;
Diversification of regions and crops;	Weak pricing.
Less machinery needed;	
Low leverage;	
High grain yields compared to Ukraine's average.	
Opportunities	Threats
Expanding exports and finding export partners;	Continued restricted liquidity;
Lifting of the government's moratorium on the sale of land;	Abolition of subsidies (currently postponed);
Land bank restructuring;	Government regulations.
Increase of the current grain	
Forward contracts on selling company's commodities;	
Revised expansion strategy.	

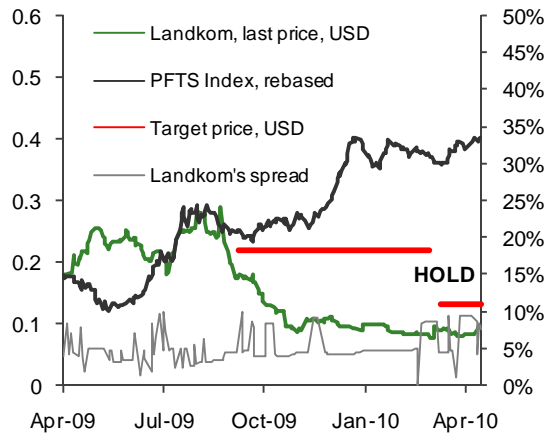
Sintal
Bloomberg [SNPS GR]



Recommendation: BUY
Fair price per DR: USD 8.1

SWOT analysis	
Strengths	Weaknesses
Good corporate governance standards;	Low regional diversification;
Export oriented (80%);	
Proximity to main sea ports;	
Permanently high rate of cultivated land (85%);	
High yields;	
Irrigation system (40% of lands);	
No-Till technique (40% of lands);	
Vast elevator capacities.	
Opportunities	Threats
Establishing exports of its own soft commodities and finding export partners;	Industry related risks (adverse weather conditions, commodity price fluctuations, macroeconomic instability etc.);
Lifting of the government's moratorium on agricultural land sales;	Abolition of subsidies (currently postponed);
Building of silo facilities;	Government regulations;
Expanding exports;	
Expanding irrigation system coverage;	
Increase application of the No-Till technique.	

Landkom
Bloomberg [LKI LN]



Recommendation: HOLD
Fair price per share: USD 0.13

SWOT analysis

SWOT analysis	
Strengths	Weaknesses
High publicity level reflected in strong stock liquidity;	Low ratio of cultivated area (53% for 2010);
Management with proven local expertise on board;	Top-notch machinery fleet that needs to be replaced;
Orientation on exportable crops;	Poor liquidity – higher exposure to commodity price volatility.
High pricing of its crops;	
Top-notch machinery fleet, which is able to process a total of 76 thsd ha of land.	
Opportunities	Threats
Increasing cultivated area;	Costs associated with restructuring;
Developing of irrigation system in Crimea;	Inability to raise funds for increasing cultivated area in 2011.
Building of silo facilities;	
Increasing crop yields.	

MARKET OVERVIEW

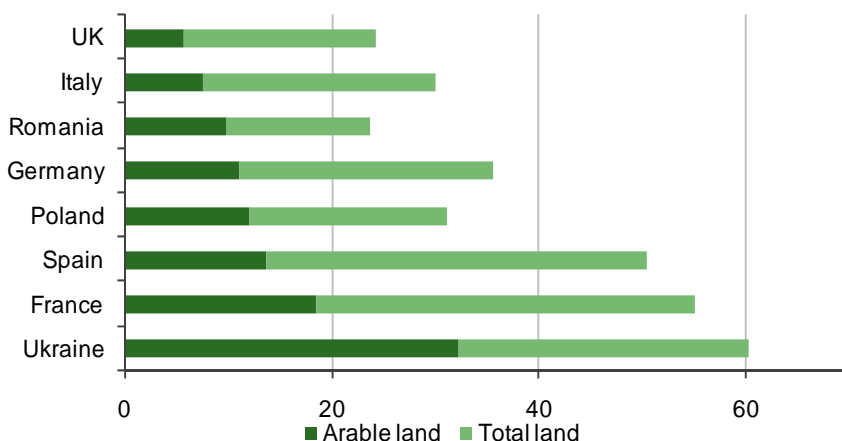
Ukrainian soil — An in-depth look

Ukraine is the second largest country in Europe and the largest among the countries fully situated within Europe. With a total land area of 603.7 sq km, the utilized agricultural area is 416.3 sq km (i.e., 71% of the total), meaning that the Ukraine possesses approximately 22% of all arable land in Europe. Arable land occupies 324.7 sq km (53% of the total), natural haymaking and pastures – 79.2 sq km (13%), orchards, berry-fields, vineyards, and other long-term plantations – 22.5 sq km (4%).

Ukraine is the second largest country in Europe and possesses 22% of all arable land in Europe.

Figure 2. Arable land in Europe, mln ha

Source: CIA World Factsbook, FAO



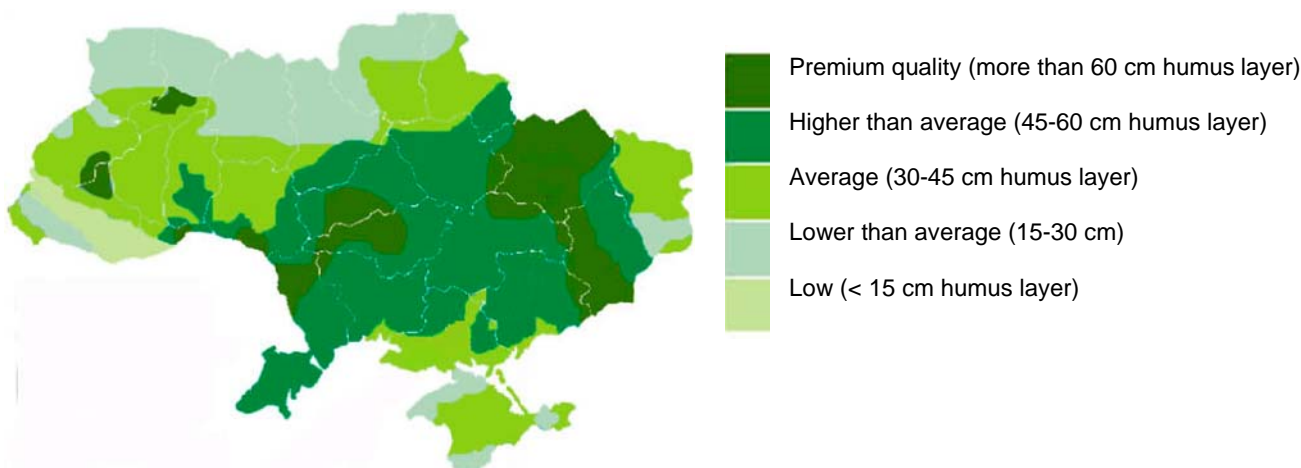
The topography of Ukraine is mostly flat: relief maps show 95% is occupied by plains and only 5% by mountains. Thus, Ukraine has extremely favorable conditions for agriculture: about 60% of agricultural land is flat, and another 35% slopes at angles in the range of 1 to 3 degrees.

Flat topography of Ukraine’s territory is extremely favorable for agriculture.

Two-thirds of the total area is covered with black soil (chernozem). Ukraine is a leader among European countries in terms of its high-quality fertile soil. According to the United States Agency for International Development (USAID), the consistency of humus layers in Ukrainian soil is between 40-60 centimeters in depth compared to an average of 10-30 centimeters in neighboring EU countries.*- as of May 20, 2009

The 60 cm deep humus layer in Ukraine’s fertile land allows it to significantly outperform EU levels.

Figure 3. Chernozem / Black soil map, Ukraine



Source: Sintal

The climate of Ukraine is suitable for both winter and spring crops. Average annual precipitation in Ukraine is approximately 600 millimeters (24 inches), including roughly 350 millimeters during the growing season (April through October). Amounts are typically higher in western and central Ukraine and lower in the south and east. The central and north-eastern regions are good for all types of crops. The southern regions are best-suited to winter crops; as summer in these regions can be rather hot and droughts occur.

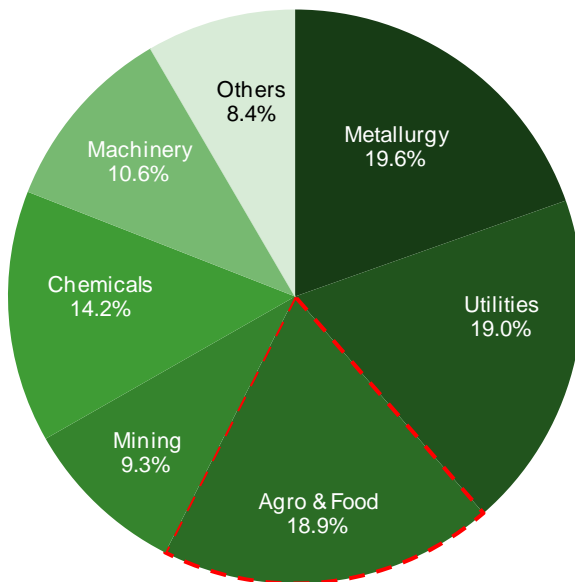
The climate is suitable for a vast variety of winter and spring crops.

Agriculture is the key part of Ukraine’s economy

Agriculture is an important component of the domestic economy. The Agro & Food sector provides food safety and food independence; it forms **18.9%** of country’s **GDP**, nearly 60% of the consumption fund, and **25% of exports**. Ukraine’s agricultural sector **employs 3.3 mln people or 16% of the work force**.

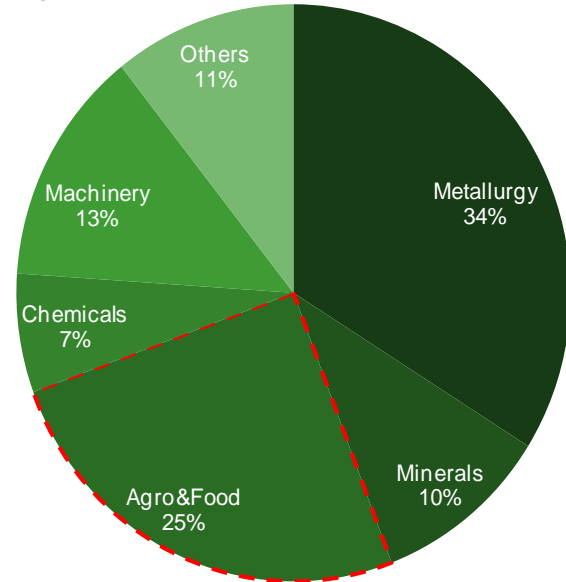
Agriculture is an inherent part of the domestic economy.

Figure 4. Ukraine’s GDP structure, 2009E



Source: State Statistics Committee of Ukraine

Figure 5. Ukraine’s export structure, 2009



Source: State Statistics Committee of Ukraine

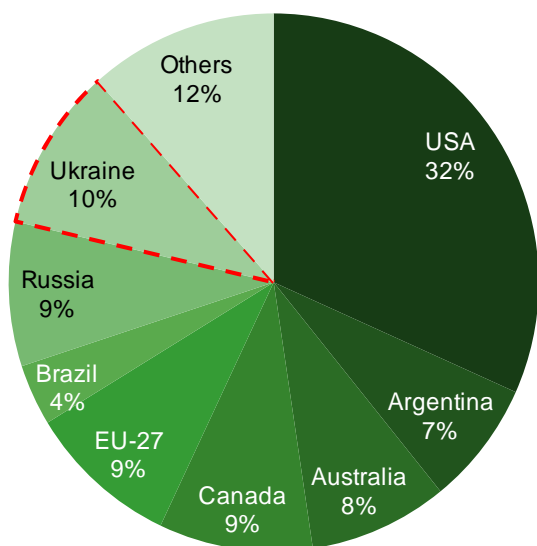
The Ukrainian agricultural sector provided a quarter of the country’s foreign currency earnings in 2009. While the total exports from Ukraine were reduced by more than 40% in 2009, from USD 67 bln to USD 39.7 bln, the agricultural export basket declined only by 12%, from USD 11 bln to USD 9.5 bln. Thus, the share of agricultural products increased from 16% in 2008 to 24% in 2009.

The place of Ukraine’s agricultural sector in the world

The unique natural potential of the industry, combined with an extremely advantageous geographical and geopolitical location, helps Ukraine to hold a special position within the global food market. In 2009, Ukraine produced about **2.2% of world grain, 20 - 21% of sunflower seeds and sunflower oil**, and 3% of rapeseed. In 2010, this share in world trade should amount to 10% for grain, 51% for sunflower oil, and 20% for rapeseed.

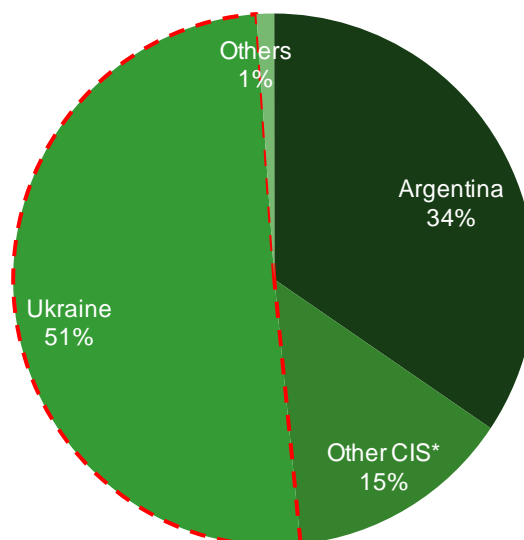
The country holds a strong position in the global market for a variety of grain commodities, rapeseed and sunflower oil.

Figure 6. Top global grain exporters, 2009/10 MY



Source: USDA

Figure 7. Top global sunoil exporters, 2009/10 MY



Source: FAPRI

In 2009/10 MY, **grain remains the primary agricultural export** commodity, with an export value of USD 3.5 bln or 37% of agricultural export value. In particular, export of wheat amounted to 13 mln tonnes, barley - 5.5 mln tonnes, corn – nearly 7 mln tonnes. The main directions of exports were to the countries in Asia, the Middle East, and North Africa.

Export of sunflower oil has been increasing from year to year. In 2008/09, Ukraine exported more than 2.3 mln tonnes of oil, which was 1 mln tonnes more than in 2008. In 2009/10 MY, this export is projected to reach 2.5 mln tonnes. The main directions include the Middle East and India. The latter traditionally imports the largest amount of Ukraine’s sunflower oil – more than 0.5 mln tonnes.

For another oilseed crop – **rapeseed** (here, **Ukraine exports mostly the seed itself**) – export of 1.7 mln tonnes is projected for 2009/10. The export of seed is due to the lack of domestic crushing facilities, an underdeveloped state program for biofuel usage, and the strong demand from Europe.

Ukrainian grain export should soon be supported by an establishment of **futures trading**. **NYSE Euronext**, a global exchange, is looking for partners in Ukraine to open a full-fledged grain futures exchange in Ukraine. The negotiations with potential partners will occur on April 22 in Paris, while **the opening of the exchange is planned for the end 2010**.

Currently, many players, especially small ones have no choice but to sell their harvest to **traders**, who have the power to **dictate the prices**. Additionally, the **interest rates** for agricultural companies are **extremely high** and only big players are able to attract financing from banks. The creation of an organized set of exchange representative offices in all regions of Ukraine should raise the market’s liquidity, increase pricing and smoothing price volatility.

Ukraine’s major crop exports

Commodity, mln tonnes	2008/09	2009/10E
Wheat	8.4	7.7
Barley	5.3	4.5
Corn	2.6	4.2
Sunflower oil	2.3	2.5
Rapeseed	2.2	2.5

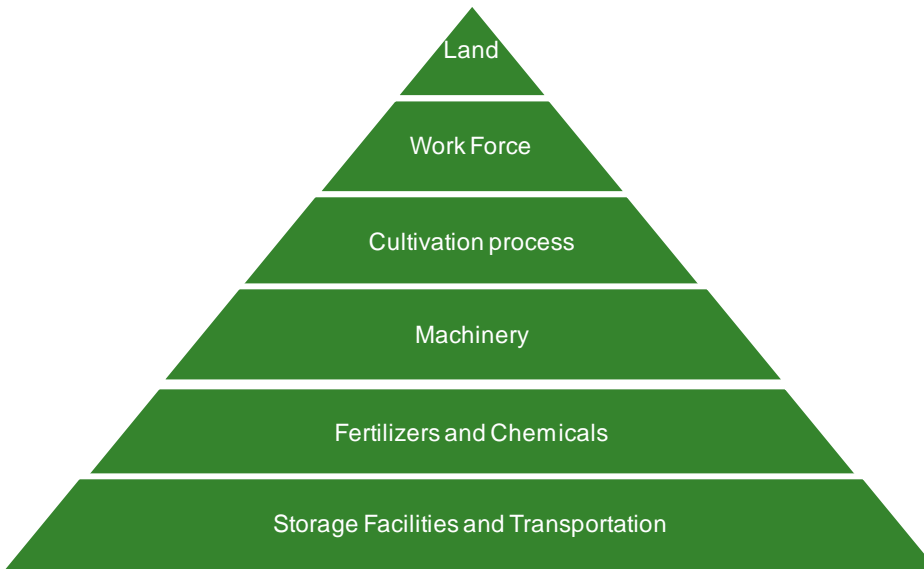
Source: FAPRI

Establishment in Ukraine of futures trading by the NYSE Euronext should raise the market’s liquidity, increase pricing, and smooth price volatility.

Agricultural process

Notwithstanding the indisputable status of **land** as a valuable asset, it should be considered in combination **with other agricultural factors** such as the workforce, seeds, agricultural machines, etc.

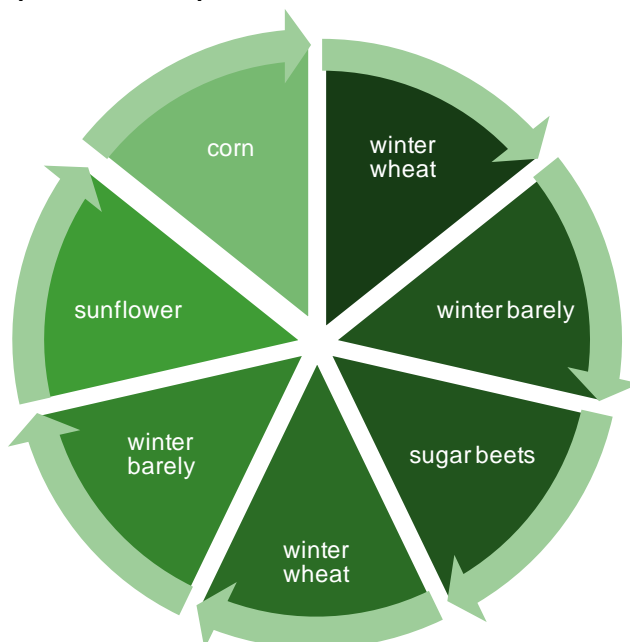
Figure 8. Agricultural process elements



Source: Sokrat analysis

Following crop rotation practices is vital for crop cultivation. Continuously growing the same crop in the same place eventually depletes the soil of needed nutrients. **A crop that depletes one type of nutrient** from the soil should be followed during the next growing season by a completely different crop that draws different nutrients. The rational use of crop rotation by companies can keep their fields under continuous production, eliminating the need to let them lie fallow as well as decreasing fertilizer use. **Imprudent rotation** of cultivated crops can lead to a number of negative consequences, such as significant **soil depletion, declines in crop yield**, etc.

Figure 9. Crop rotation example



Source: Ministry of Agrarian Policy of Ukraine

33 mln ha of arable land are available for cultivation.

The number of persons employed decreased at 4.1% CAGR in 2003-2008.

The amount of machinery decreased at 4% CAGR in the period 2003-2007.

Ukraine has the lowest implementation rate of chemical and fertilizers among European countries.

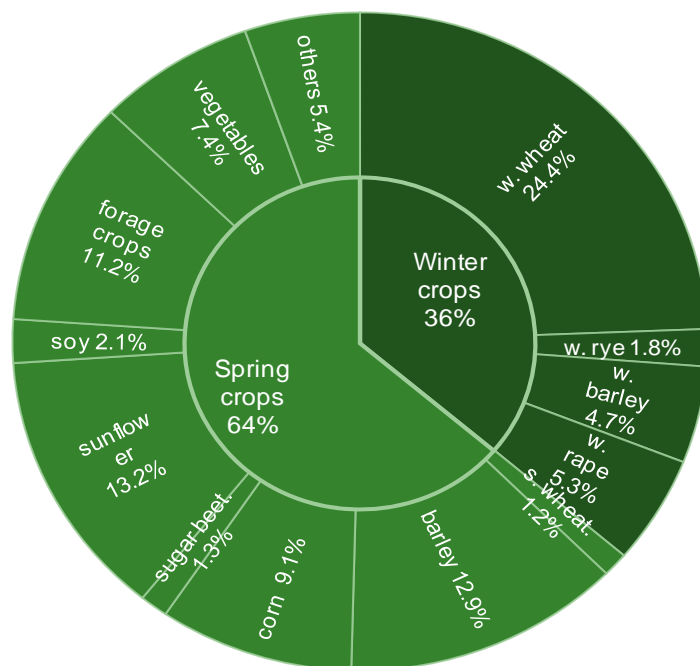
1100 silo facilities with storage capacity of 37 mln mt of grain.

The rational use of crop rotation by companies can keep fields fertile and under continuous production.

Farms in Ukraine employ a **variety of crop-rotation schemes**, some including four or more crops, some only two. A **typical six-year crop sequence** in the winter grain region might be: fallow, winter wheat, winter wheat, sunflowers, spring barley, and corn. The chief reason for including fallow in the rotation is to replenish soil-moisture reserves, and this strategy is more widely used in south-eastern Ukraine where drought is not uncommon. **Another crop rotation example would be:** fallow, two years of winter wheat, and four years of perennial forage. In southern Ukraine, clean fallow is frequently omitted and a crop rotation will likely include sugar beets and/or sunflower, the region's chief industrial crops. A **typical seven-year rotation** might be: winter wheat, winter barley, sugar beets, winter wheat, winter barley, sunflower and corn.

The Company's rotation scheme depends on the region of presence, its strategy, and sometimes on whims of the weather.

Figure 10. Land under crops in Ukraine, 2009



Source: State Statistics Committee of Ukraine

The **vast majority of field crops**, including grains, sunflowers, and sugar beets, are **not irrigated**. Traditionally, irrigation is used only on forage crops and vegetables. Roughly 5 percent of grains and 10 percent of potatoes, vegetables, and forage crops are irrigated.

Ukraine possesses rich water resources, which can be directed to irrigation.

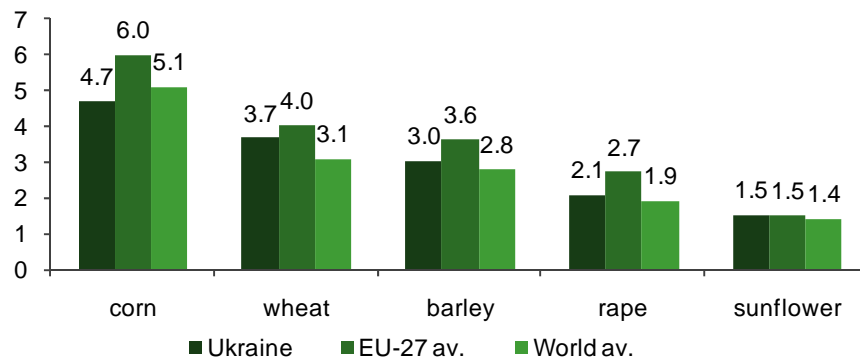
The total area under crops in 2009 was 26.7 mln ha, winter crops occupied 9.7 mln ha (36% of sown area) and spring crops 17.0 mln ha (64%). Winter wheat, spring barley, and corn are the country's main grain crops. Sunflower, sugar beet, and winter rapeseed are the main technical crops.

The 2009 Harvest – far from its potential

In 2009, Ukrainian agricultural companies harvested 46.0 mln tonnes of grains, including grain food crops at 22.3 mln tonnes (48%) and coarse grains at 23.7 mln tonnes (52%). Grain production declined by 13.7% compared to the harvest in 2008, at 53.3 mln tonnes. However, the 2008 year was a year of an outstanding harvest, when a historical maximum of Ukraine's grain production was achieved. In 2009, the weather was less suitable for grain growing. Combined with an ongoing financial crisis and restricted liquidity in Ukraine, the yield in 2009 should actually be considered a decent result.

Financial crisis and less suitable weather conditions restricted yield in Ukraine in 2009.

Figure 11. Crops yield in Ukraine, 2008



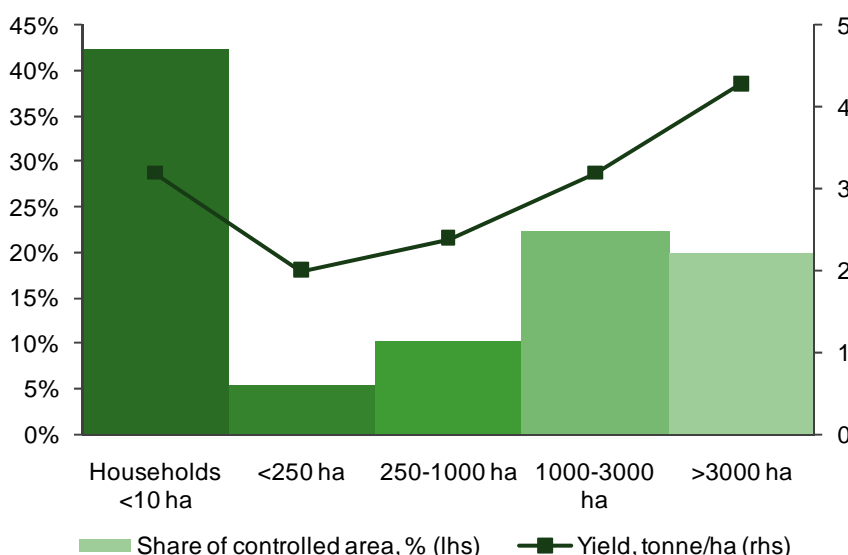
Source: State Statistics Committee of Ukraine

Ukraine has an enormous agricultural potential and the current agricultural indicators are far below their maximum level. However, maximum levels can be achieved with only a little extra effort and investment. For instance, the average wheat yield in 1990 was 3.5 tonne/ha, which exceeded by 15.4% the yield of 3.0 tonne/ha gained in 2009.

The main factors, in our view, that retard the potential of Ukrainian agriculture are:

- the lack of an effective agricultural land market and short maturity of land lease agreements;
- inefficient structure of agricultural land – the substantial part of arable land belongs to agricultural enterprises and households with a size of less than 1 000 ha, while to use the economy of scale and to make agriculture effective and efficient, the size of any agricultural area should be not less than 1 000-3 000 ha.

Figure 12. Distribution of agro farms by the size of controlled land, 2008



Source: State Statistics Committee of Ukraine

- lack of funds for development.

While dealing with these problems, we estimate that within a 7-10 year period, Ukraine will be able to achieve a yield of 80-85 mln tonnes of grains, and will become one of the most efficient grain-producing countries.

In 2008, for the first time since its independence, Ukraine achieved a wheat yield equivalent to that of 1990 – far better yields can be achieved.

Agricultural enterprises produced 35.8 mln tonnes of grains in 2009 or 78% of the total yield, while holding 72% of total land under cultivation.

Households outperform small enterprises mainly due to better liquidity.

The average grain yield of 4.3 tonne/ha for major agricultural enterprises was larger than that of small enterprises, at 2.0 tonne/ha.

Ukraine’s yield is estimated to double to 80-85 mln tonnes by 2020.

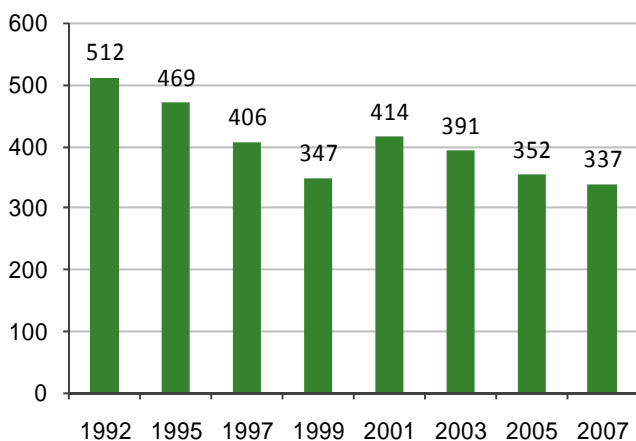
Machinery & Fertilizer use - Unrevealed potential

Production of high quality crops requires proper agricultural machinery and effective fertilization of arable land with suitable fertilizers. Ukrainian agricultural companies, and especially small enterprises, lack both of these critical factors.

Agricultural enterprises operate with insufficient units of obsolete agricultural machinery. This is mainly due to a huge lack of funding and more than a decade of neglect towards the agricultural machinery manufacturing sector. The lack of machinery and its depreciation result in inefficient crop cultivation as well as losses during harvest time.

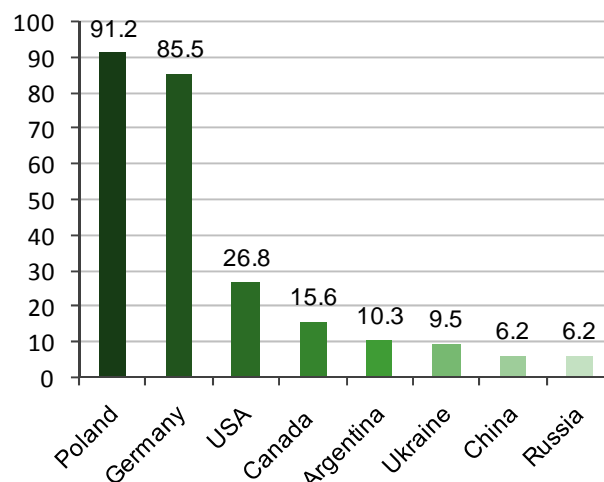
The lack of machinery and its depreciation result in inefficient crop cultivation as well as losses during harvest time.

Figure 13 . Agricultural tractors in use in Ukraine,



Source: FAO

Figure 14 . Tractor concentration by countries, units per 1000 ha (most recent data)

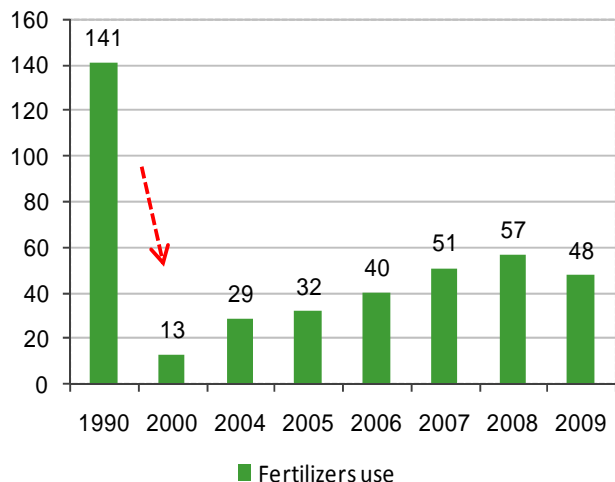


Source: World Resource Institute

According to official statistics, the fertilizer application rate for crops plunged dramatically from 141 kg/ha in 1990 (when fertilizer was excessively and wastefully applied) to 13 kg/ha in 2000. Another poor figure - **fertilizers were used on 25-30% of the total sown area in 2000**. Since then, the use of fertilizers has grown to the rate of **57 kg/ha in 2008**, while the areas with applied fertilizers grew to **69%**. In 2009, the positive dynamics were violated and the usage rate fell 16% as the farmers failed to obtain financing. This was another reason for the reduced grain harvest in 2009.

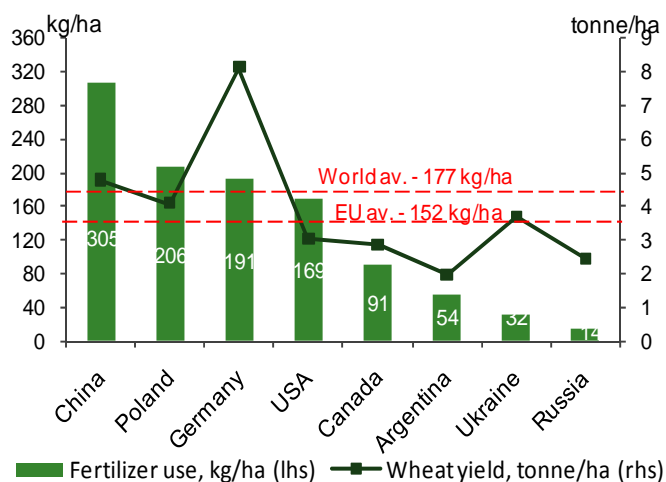
The drop in fertilizer use was another reason of reduced grain harvest in 2009.

Figure 15. Fertilizer use in Ukraine, kg/ha



Source: State Statistics Committee of Ukraine

Figure 16. Global fertilizer use vs. wheat yield, 2007



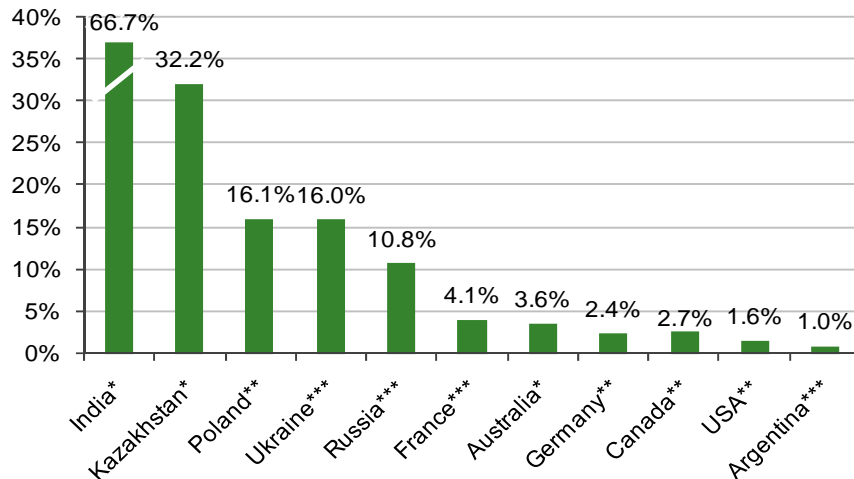
Source: FAO

Work force

Currently, **3.3 mln people, or nearly 16% of total work force** in Ukraine, are employed in **agriculture**. With Ukraine moving further toward large scale agricultural production and with the use of modern machinery, the share of labor employed by agriculture should decline. However, the share of labor employed in the Food industry should grow.

The share of labor employed by agriculture should decline in the mid-term due to improved technology.

Figure 17. Share of labor in Agriculture, by countries



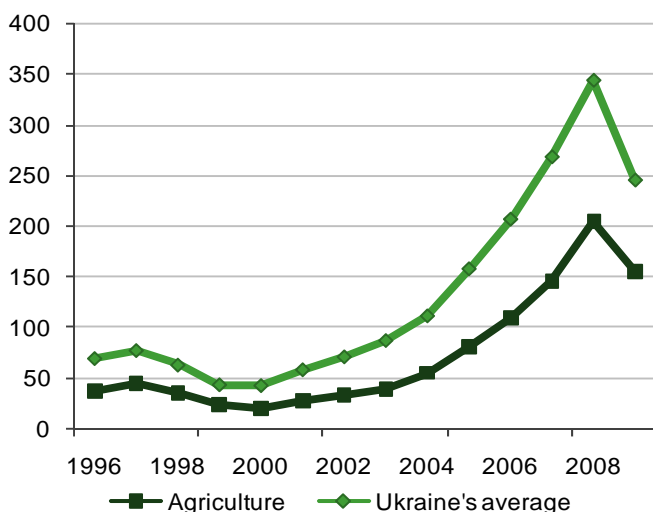
* 2002-2004 ; ** 2005; *** 2007 -2008

Source: World Development Indicators database

The qualifications and the low payscale of the Ukrainian labor force is another competitive advantage of Ukraine's agriculture sector. In 2009, the average salary in the agricultural sector was USD 154.4 per month, which is 25% less than the average salary in Ukraine, and far less than in other countries of the world.

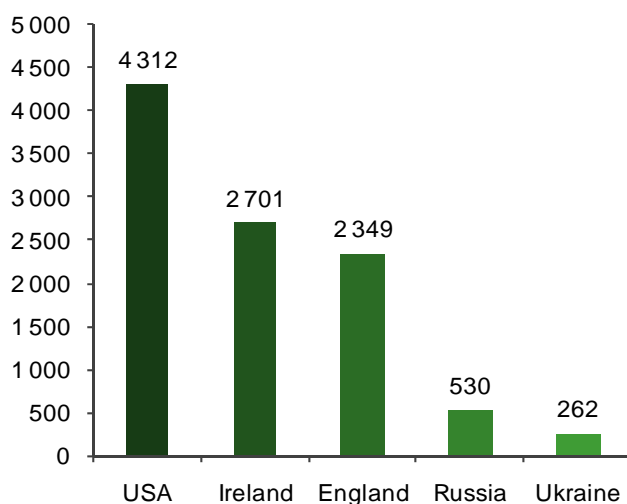
Salary in the agricultural sector of USD 154.4 per month is far less than in other countries of the world.

Figure 18. Salary in agriculture vs. average in Ukraine, USD/month



Source: State Statistics Committee of Ukraine

Figure 19. Average monthly labor cost by countries, 2009



Source: USDA, World Bank, State Statistics Committee of Ukraine

In actuality, agricultural employees in Ukraine are paid by black market cash or produced products; however, the official statistics on salaries are fairly close to reality.

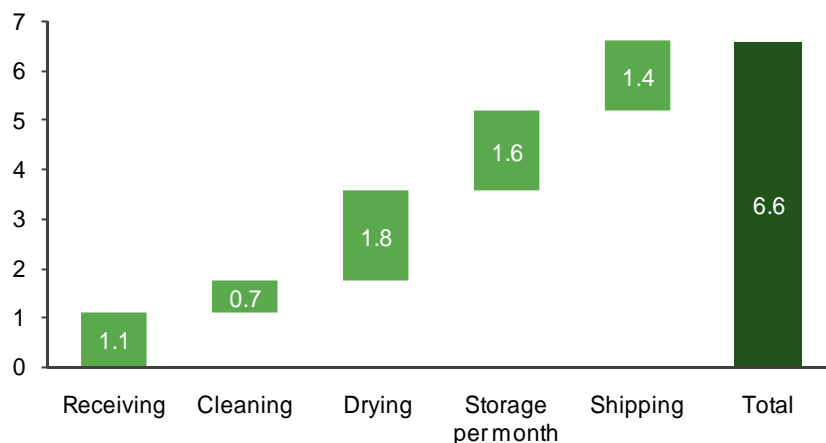
Transportation and storage facilities

Ukraine has 1100 grain storage facilities, 755 certified, evenly distributed across the country. The combined storage capacity is 37 mln tonnes (31 mln tonnes certified). The government owns 20% of all capacities; the rest are privately held.

The silo service business is highly profitable; the operating margin varies from 20 - 50% depending on the efficiency and closeness to sea and river ports. Currently, the coverage ratio for elevator capacities is about 70-80%. However, the potential for increasing harvest in Ukraine in the mid-term gives reason for further increases in capacity. As evidence, **nearly every large grower in Ukraine and many traders and processors are presently involved in building new elevators.**

The potential for increasing the harvest in Ukraine in the mid-term gives reason for further increases in capacity.

Figure 20. Silo service cost breakdown in Ukraine, 2009/10



Source: Ukraine Ministry of Agriculture

Ukraine's location in the Black Sea region makes it easier to export grain through seaports: 90% of its exports are shipped through ports. The top domestic and international grain traders have their own updated or newly-built facilities at one of the key ports. Approximately 75-80% of all grain is exported via the four biggest ports: Pivdenniy, Odessa, Ilichevsk, and Mykolayiv (also known as Nikolayev).

Ukraine's convenient location in the Black Sea region enables the export of 90% of its grain through seaports.

Port infrastructure in Ukraine today has a storage capacity of about 2 mln tonnes of grain. In 2009, about 26 mln tonnes of grain were exported from seaports over the year. During its most successful 2008/09 marketing year, Ukraine exported 24.7 mln tonnes; in 2009/10, exports are projected to reach 20 mln tonnes. Thus, currently, there is a surplus of throughput capacities in Ukraine, which is estimated to continue in 2010/11 due to lowered crop forecasts. Even with the surplus, nine ongoing projects should increase the throughput capacity of Ukraine by 8 mln tonnes in 2010-11.

Ukrzaliznytsia, the government transportation company, has a monopoly on railway transportation of grain in Ukraine. It has a total of 11.6 thsd grain hopper wagons (97% of total) and this number has declined at 4.4% CAGR over the last three years, as a result of the wagon depreciation (nearly 80%) and underinvestment by the state monopoly. This somewhat restricts the potential for increasing grain production in the mid-term.

Seaports used for grain exports, 2009

Port	Share
Pivdenniy	33%
Ilichevsk	20%
Mykolayiv	17%
Odessa	10%
Kherson	10%
Berdiansk	5%
Others	5%

Source: UkrAgroConsult

Land Play – fire sale to follow

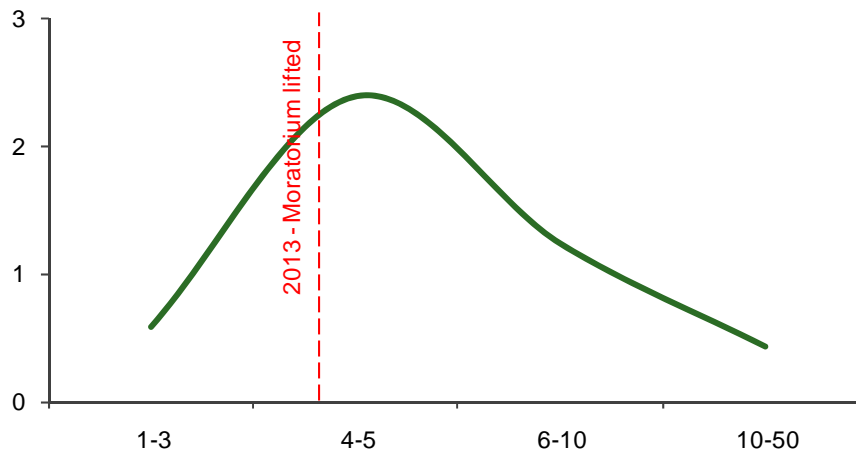
On December 22, Ukraine's parliament extended the moratorium on the sale of agricultural land until January 1, 2012. There are ongoing talks about lifting this restriction; however, the legislation base is poor. We foresee that legislation will be prepared and the moratorium will be lifted in 2013.

Currently, the majority of agricultural enterprises operate their land with the use of land lease contracts. The total area of land rented out by land plots owners is 17.5 mln hectares, or 64% of the total land divided into land plots. There were 4.6 mln signed land lease contracts in 2008.

The term of land lease contracts are as follows:

- 1-3 years - 581 thsd contracts (12.6%);
- 4-5 years – 2 388 thsd contracts (51.6%);
- 6-10 years – 1 233 thsd contracts (26.6%);
- More than 10 years - 427 thsd contracts (9.2%).

Figure 21. Disbursement of land lease contracts



Source: State Agricultural Resource Agency of Ukraine, Sokrat estimates

We estimate that the structure has changed slightly since 2008. Some of the lease contracts from the 1-3 year group have expired; another part was prolonged for a longer period of 5-10 years. More noticeable is that the majority of land lease contracts now have a maturity between 3-4 years. This means that when the moratorium is lifted as projected in 2013 there will be an abundance of land available to purchase on the market, with no restrictions concerning pre-emptive purchasing rights.

Moratorium lifting – possible scenarios

We have considered various outcome scenarios for lifting the moratorium on land sales:

First scenario – Land trading without any limits. Ukraine will gradually form a land market with the proper legal support.

Second scenario – Land trading with some restrictions. Restrictions can be varied. The government can implement restrictions on plot size per person. For example, the size of the land plot per person should not exceed 500 ha. Another possible limitation can be restrictions on selling land to foreign entities, mainly for political reasons. However, we estimate that these restrictions will be moderate and easily avoidable through establishment of joint ventures with local companies.

We foresee that legislation will be prepared and the moratorium will be lifted in 2013.

A majority of land lease contracts now have a maturity between 3-4 years, which means...

...when the moratorium is lifted in 2013, there will be an abundance of land available for purchase on the market.

Ukraine's land is projected to be traded:

without any limits...

or with some restrictions ...

Third scenario – The prolongation of the moratorium on land trading by the Parliament. In our view, this scenario is a bad deal for supporters of either the first or the second scenario. Currently, a black market exists for land trading in Ukraine, which definitely does not bring any benefits to agrarians.

Land appreciation

Due to undeveloped land, market land assets are almost unseen in the farm’s balance sheet, while in USA land assets account for 79% of total assets of agricultural farms (according to USDA). The situation will change dramatically once the moratorium on land sale is lifted.

The government sets the cadastral value of agricultural land in Ukraine, which influences the minimum lease payment ratio and tax payments. Currently it is 120% higher than our estimates for land prices on the market and we do not expect the market price for land to reach that level within 4-5 years after the moratorium is lifted.

If we try to estimate the current price of land in Ukraine, we may summarize “entry ticket” payment for long-term lease contracts (over 10 years), which is USD 260-300 per hectare in Ukraine, and discounted land lease payments (assuming 10% discount ratio). In 2009, the average rent paid in Ukraine was USD 32.2 per hectare per year. Consequently, we arrive at a figure of USD 480-520 per hectare of agricultural land.

We forecast that land prices should not skyrocket after the ban is lifted. Our opinion is supported by the fact that most land plot owners are pensioners whose pension is USD 150-200; they are not informed regarding market trends and do not know the real value of their plots. Thus, the price should start at USD 150-200 per ha for the 1st year, grow with a CAGR of 10% in the 2nd and 3rd years, and then inflate with a CAGR of 20-25% at least until 2018.

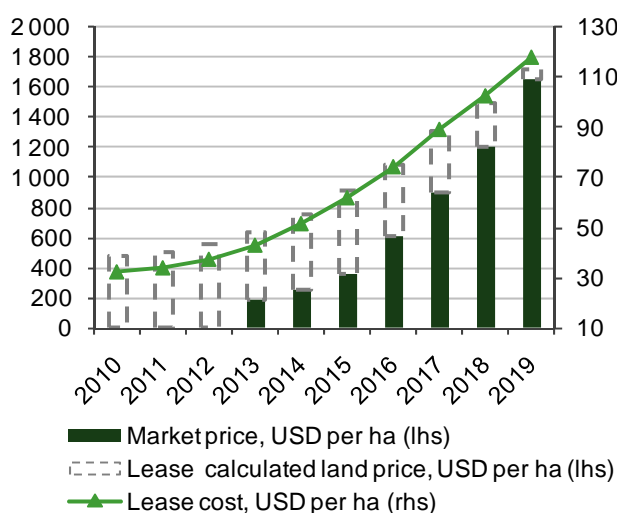
...or will continue to be untradeable.

Land, the most valuable asset of farms, is almost unseen in their balance sheet.

The current estimated market value of land is estimated at USD 580-620 per hectare,

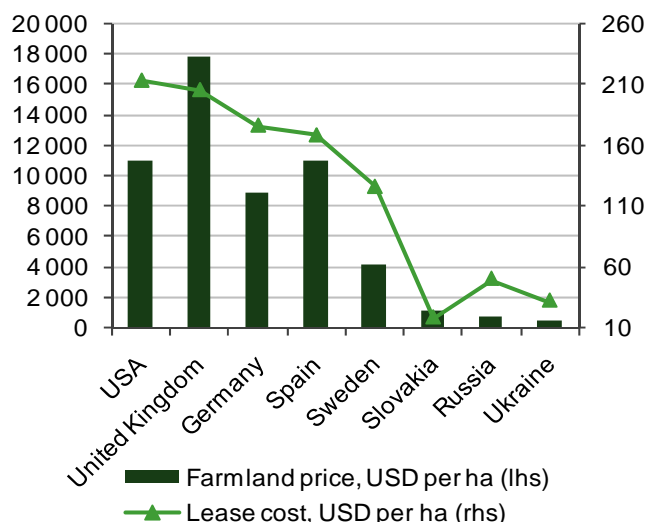
...however, when the moratorium is lifted, the price will start from USD 150-200, providing opportunities for investors.

Figure 22. Land appreciation estimate for 2010-2018



Source: Sokrat estimates

Figure 23. Agriculture land prices vs. lease costs, 2008-2009



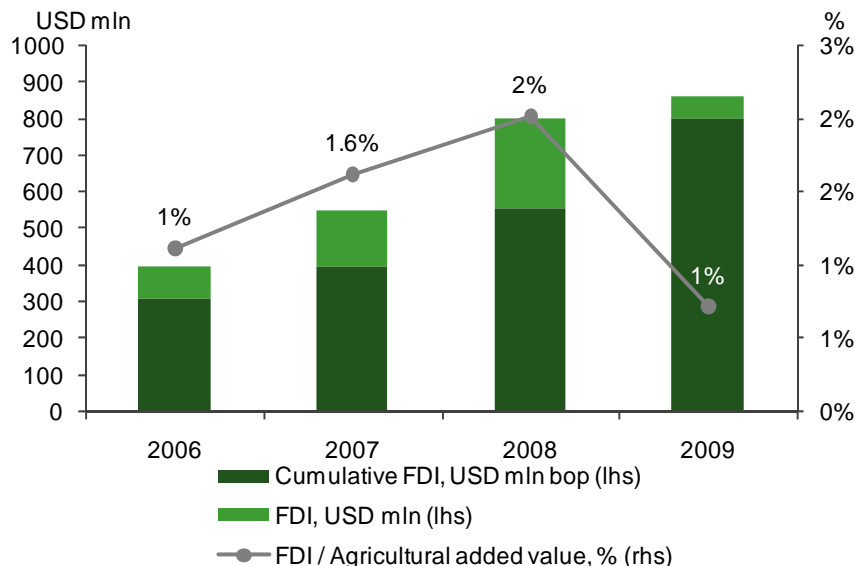
Source: FAPRI, FAO, Eurostat, Sokrat estimates

The total payment for the lease of land plots in 2009 was USD 520 mln. Notably, top-20 major agrohholdings, which control 10% of arable lands in Ukraine, paid 18% of all land lease payments in 2009. The state requires that a land lease payment be no less than 3% of its cadastral value. However, some companies pay even more, as much as 3-5% of cadastral value.

Foreign Direct Investments – prime time for Agriculture

Despite a huge potential and lack of funds, the Ukrainian Agriculture & Food sector has managed to attract only a tiny amount of investment money, USD 2.7 bln of FDI, since 1992, which is 6.8% of total FDI in the economy. However, for the last few years, the situation has positively changed, especially since Ukraine's WTO accession, and now it is prime time for agriculture.

Figure 24. FDI in Agriculture



The Ukrainian Agriculture/Food sector has attracted the tiny amount of USD 2.7 bln of FDI since 1992.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy, Sokrat estimates

The Ukrainian Agro & Food sector is currently the most attractive for FDI and we forecast it to remain so in the mid- and long-term. We can name the following major competitive advantages/disadvantages of the Ukrainian agricultural sector:

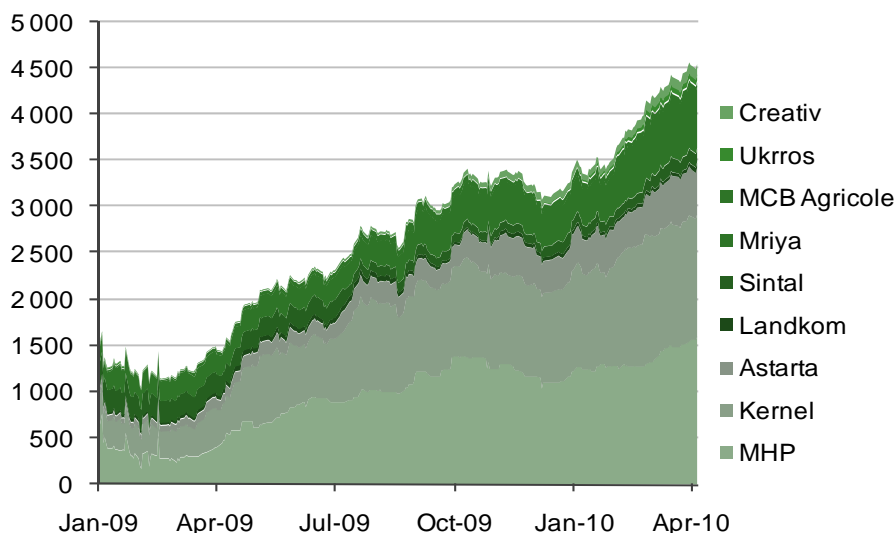
Figure 25. Advantages / disadvantages of Ukrainian Agricultural sector

Advantages	Disadvantages
Favorable geographical and geopolitical position, proximity to powerful external markets (EU, Russia, Africa, The Middle East);	Political instability;
Good climate and rich natural resources;	Undeveloped and depreciated infrastructure (roads, railway fleet);
Pent-up domestic demand, huge potential of domestic consumption;	Unclear market for agricultural land;
Low competition in the industry ;	Lack of young professionals in the industry;
Low taxation level and state support;	High cost of debt;
High profitability of agribusiness;	Risks inherent into agricultural business (risk of adverse weather conditions, high volatility of commodity prices, seasonal nature of demand).
Cheap labor;	
WTO membership since 2008.	

Source: Sokrat analysis

The successful IPOs and PPs of Ukrainian agricultural companies have shown the kinds of results that can be reached through proper management and wise investments.

Figure 26. Performance of Ukrainian agricultural companies, MCap, USD mln



Top agroholding results indicate the potential that can be reached through proper management and wise investments.

Source: Bloomberg, Sokrat estimates

The agricultural companies were the only Ukrainian companies that conducted placements in 2009. The sector is under special treatment for investors in 2010 and many agrocompanies have announced their plans to conduct IPOs or PPs this year.

The sector is under special treatment for investors in 2010 and many agrocompanies have announced their plans to conduct IPOs or PPs this year.

Figure 27. Agricultural IPO/PP in 2009-2010

Company	Date	Type of placement	Exchange	Share placed, %	Raised, USD mln
Landkom Int.	March 2009	PP	AIM of the	10	3.5
Sintal	October 2009	PP	Frankfurt SE	17.2	13
Agroton	November 2009	PP	Frankfurt SE	25	42
Landkom Int.	March 2009	PP	AIM of the London SE	45	16
AgroGeneration	March 2010	PP	NYSE Euronext	25.2	16.4
Avangard	April 2010	IPO	LSE	20-25	200-250 est.
Agroliga	July-September 2010	PP	New Connect of the Warsaw SE	20	n/a
Mriya	June-September 2010	IPO	n/a	n/a	n/a
Agroton	2010	IPO	Warsaw SE	n/a	n/a
Dakor AH	2010	IPO	Warsaw SE	n/a	n/a

Source: Company data, Sokrat estimates

Additional signs of improvements are the examples of many Western companies that have already entered or have announced their plans to enter the Ukrainian market.

Glencore International, a major global grain trader that is represented in Ukraine by its subsidiary "Serna" company, has started a grain growing business, acquiring 17 agrocompanies with a total land bank area of 80 thsd ha. Glencore currently owns a grain elevator in the port of Ilychevck with storage capacity of 120 thsd tonnes, and plans to increase capacity to 200 thsd tonnes in 2010. We should note that this move is not typical for the grain trader, as it operates grain businesses in only a few countries, while trading throughout the world. This indicates that the Company understands the potential of Ukraine's Agriculture.

Another global grain player Canadian Viterra has announced plans to start agricultural business in Ukraine. It plans to grow crops, construct elevators and processing facilities and carry on grain trading. Among the last of the global companies to enter Ukraine are CHS Ins., which has announced plans to build a grain elevator in the Odessa region, and the Noble Group.

However, the grain trading companies encountered problems concerning VAT compensation by the state in 2009/10 MY. Some of them, like Cargill company, have reduced (by four-fold) its grain trading business in Ukraine due to the huge debt of USD 125 mln (for the VAT compensation issue, look at the Government Regulation section). Nevertheless, this Company has not reduced its sunflower processing business.

Global soft commodities market players appear in Ukraine:

Glencore added grain cultivation to its trading business in Ukraine,

Viterra announced plans to start agricultural activities,

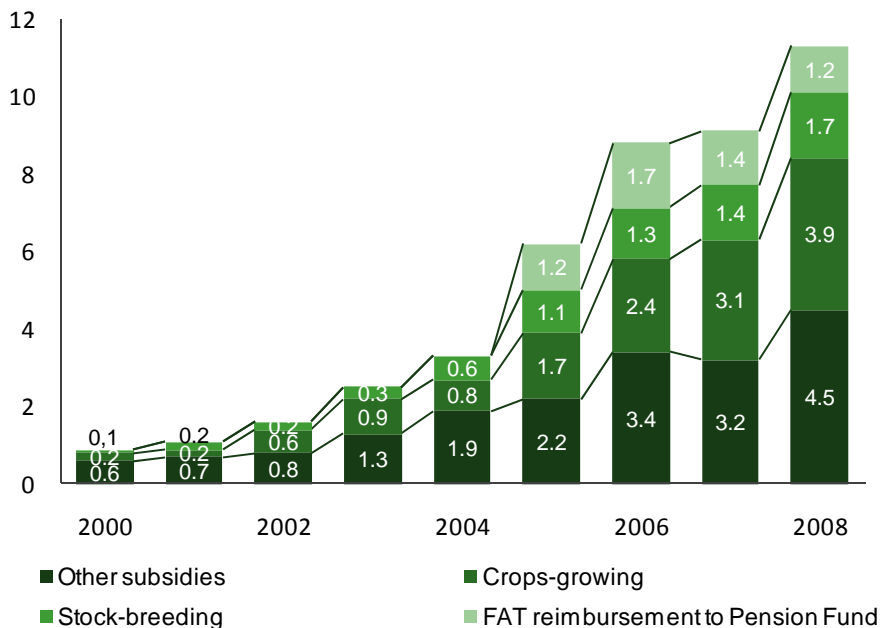
CHS Ins., Noble Group, Cargill have already entered the Ukrainian market.

Government Regulations

Agriculture is certainly one of the most promising sectors of the economy of Ukraine, but its successful functioning requires a considered and balanced state support. The state regulates the wholesale prices for some kinds of agricultural production through purchases and interventions, provides the interest compensation on loans and insurance premium compensation for agricultural producers, and regulates prices for fuel and fertilizers for farmers.

The state supports the sector with a set of direct and indirect instruments,

Figure 28. State support to Agriculture, UAH bln



Source: Ministry of Agrarian Policy

State Target Program – “Development of the Ukrainian Village”, adopted for the period until the year 2015, involves the gradual transformation of indirect government support of agricultural manufacturers according to WTO requirements. Herewith, it is foreseen that the FAT will be still functioning, but that the indirect support methods (like VAT withholding) of agricultural production will be phased out with the help of special tax regulation and that the special regulations will be maintained. On the conservative side, we estimate the FAT and VAT withholding preference to last until 2014.

...gradually preparing the sector for WTO requirements.

Value Added Tax preference. According to Ukrainian tax legislation, the Value Added Tax (VAT) rate is set at 20%. Ukrainian agricultural companies are eligible to retain the difference between VAT paid on products purchased by companies for their operational activities and VAT applied on end-products that have been sold. This measure supports those producers who sell its crops to the domestic market or to traders, while discouraging direct exports. Additionally, the effect of this preference is not particularly high. All market players have this preference and they may offer lower prices for their products. In 2009/10 MY, the huge debt to grain traders in Ukraine was reflected in lower pricing. As a result, the positive effect of the preference was mitigated to a large extent. This support measure contradicts the WTO agreement and will be eventually changed to another type of subsidy.

The VAT withholding preference seems to contradict agreements with WTO, and therefore is likely to be banned in the coming years.

Fixed Agricultural Tax (FAT)

The introduction of this tax reduces tax pressure on the agricultural producers. According to estimates, this tax decreases the tax burden on agricultural producers almost three-fold. Along with a significant reduction in the tax burden, the law provides simplification of the calculation and payment mechanism, because the fixed agricultural tax is paid on four taxes and eight fees. According to the Law of Ukraine regarding the FAT, the object of taxation is the area of agricultural land possessed by agricultural producers or rented by them. The rate of fixed agricultural tax per hectare is set as a percentage of their monetary valuation; the category of the land and the climate conditions of the territory also have an influence on the FAT. The FAT rate for arable land, pasture, and hayland is 0.15% of the official (cadastral) land value under control.

FAT is the most valuable support for profitable agro producers.

VAT compensation

The total VAT reimbursement debt of the state to agricultural exporters is more than USD 1 bln on the date. The VAT reimbursement issue has been a major problem for Ukrainian exporters, like Nibulon, Cargill, Glencore, Kernel [KER PW, HOLD] in the 2009/10 season. Considering the grain trading business, which has a 10-15% operating margin, the VAT debt of 20% causes a freezing of working capital with an uncertain future of its return. Some traders managed this problem by allocating the VAT debt between themselves and the grain producers, delaying the pay-off or decreasing the purchase price.

The new government faced the issue of the huge debt to grain traders, and

The newly appointed government is facing this problem and is likely to offer traders the opportunity to purchase state bonds instead of debt. We consider this measure as partial and questionable. Upon receipt of the bonds, the traders will try to sell them immediately (the above scheme will be also offered to exporters from other sectors), putting pressure on the bond yields.

... is likely to solve it through a state bonds issue.

Regulator

The Agricultural Fund is the most essential tool of state regulation for pricing in the agricultural sector, thus ensuring sustainable development of agriculture in Ukraine. The main tasks of the agricultural fund are: to regulate pricing in agriculture, to perform functions of the creditor on behalf of the state for the period when the regime of secured purchases is active, to administer budget programs; to form a state food reserve for commodities, and to conduct financial interventions on the organized agricultural market.

State projects are planned to create joint companies based on the state-owned SSC (State Stock Company) Bread of Ukraine and the Agricultural Fund. This united company will have a chance to become one of the largest grain traders in Ukraine, with combined elevator capacities of 8 mln tonnes or 20% of all capacities in Ukraine. This project should become a powerful instrument in government regulation of the industry.

Uniting the state owned Bread of Ukraine and the Agricultural Fund should create a powerful regulatory instrument.

Global Agriculture Outlook

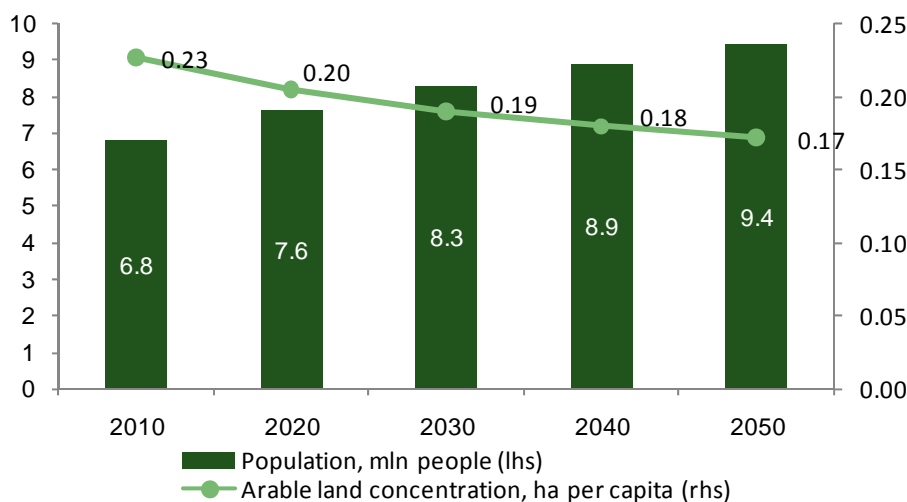
Analysis of the main factors of demand for grains and oilseeds indicates an upward trend in demand for food, which in turn will keep prices high. The main demand factors include: increases in the world population, ongoing urbanization, rise of meat & dairy consumption ratios in developing countries and the development of biofuels.

Population growth. Population growth is one of several demographic factors that is likely contributing to the current food crisis. Increasingly more land has been taken over for food production to feed the growing population, to provide housing and infrastructure for that population and now, to provide land for energy crop production.

The demand for food will be driven by...

increases in population,...

Figure 29. World population vs. Land concentration 2010-2050



Source: FAO

In 2008, the world population grew by 1.2 percent and it is expected to reach 7 bln in 2012 and 9.4 bln in 2050. Demand for food is projected to double by 2030 and 20% of that increase is attributed to population growth.

Population growth also influences the food crisis less directly – through urbanization, which results in a reduction in world arable lands. In total, global cropland is expected to expand just by 9.4% between 2005 and 2055.

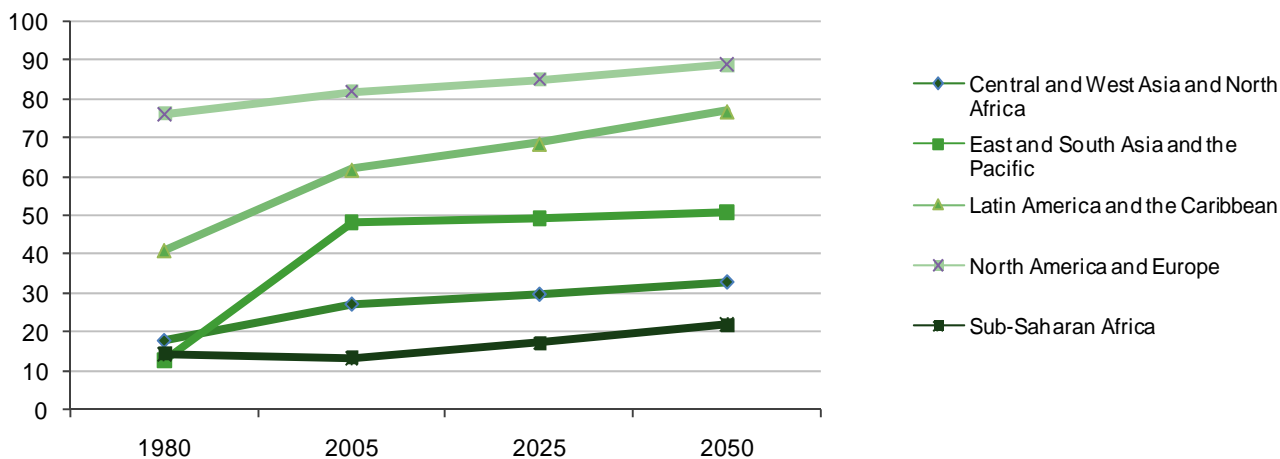
urbanization and infrastructure projects,...

Meat & dairy consumption increases. The most densely populated countries, such as **India and China** (37% of the world population) have, in recent years, experienced **significant GDP growth**. This factor improved the living standards of many people and decreased poverty. Such a rapid increase in income also changes the diet in favor of consumption of animal protein. Thus, according to FAO, annual **consumption of dairy** products per person in **China** in 1980 was **2.3 kg**, but in 2005 it was **23.2 kg**. In **India**, consumption of **dairy** products in 1980 was **38.5 kg** and in 2005 it was **65.2 kg**. A similar situation is seen in the consumption of **meat**: in China in 1980 it was **13.7 kg** and it was **59.5 kg** in 2005.

growing consumption ratios of meat and dairy products on the part of developing countries,...

Such a significant change in the consumption of livestock products, of course, requires adequate response from the production of livestock. This, in turn, directly puts additional pressure on demand for crops in the world, through the replacement of arable land by pastures, as well as indirectly through factors like feed for livestock. To produce 1 kg of chicken, it should be fed 2-3 kg of grain; for pork, 4-5.5 kg; for beef, about 10 kg. Currently, the population of China is 1.3 bln people.

Figure 30. World meat consumption ratio, kg per capita



Source: FAO

Biofuels. The concerns about the limitation and fast exhaustibility of oil reserves pushed oil prices up in 1998-2008, which stimulated an active search for alternative energy sources. At the end of 1990s, this led to emergence of the bioethanol and biodiesel markets.

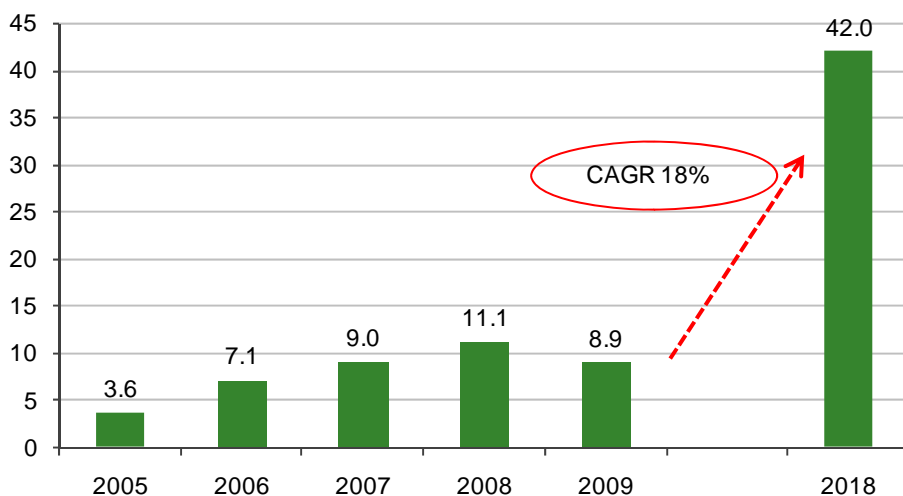
Currently **36 mln ha of cropland** is used for biofuel production, which provides close to **2% of global transport fuel** usage. According to FAO globally about **118 to 508 mln ha of cropland** would be **needed** to meet 10% of global transport fuel demand **by 2030**.

In Europe biodiesel is produced from oil crops like rapeseed, kernel oil, and others. **Europe** currently utilizes a total of 150 mln ha of **arable land**. This, according to FAO, is almost **at its absolute maximum**. Moreover, **crop yields** have also **reached their maximum**. Soft commodity supplies in EU countries will remain stable with relatively low volatility, while **demand will grow** on the back of a growing population and the increasing industrial use of grain commodities.

The intensification of biofuel usage.

Ukraine will benefit from biofuel development in Europe.

Figure 31. World biodiesel production, mln tonnes



Source: FAO-OECD Outlook (2009), Sokrat estimates

Price rollercoaster

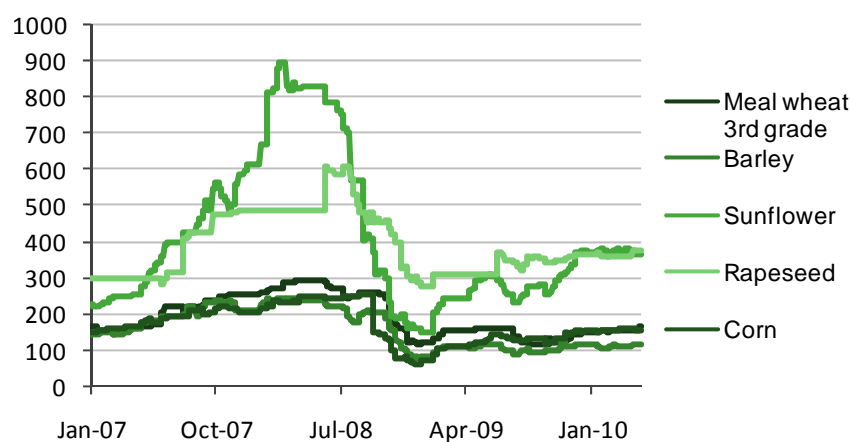
Since the government lifted grain quotas Ukraine has become a full-fledged agricultural player; thus, it is highly exposed to global commodity fluctuations. Following a period of skyrocketing soft commodity prices, when 3rd grade wheat prices in Ukraine jumped to reach USD 290-300 per tonne, came a period of slump reaching the level of 2003/04 of USD 116 per tonne. Currently, it is at USD 150 per tonne, which is still historically high, as in the period 1973-2006 the average wheat price amounted to USD 90 per mt.

We believe that, in the next few years, grain prices will be driven by the fundamental factors like growing population, increasing consumption ratio and biofuels usage. Thus, the prices should remain at their historically relatively high level.

As a full-fledged agricultural player, Ukraine is highly exposed to global commodity fluctuations.

We project the prices to remain historically high...

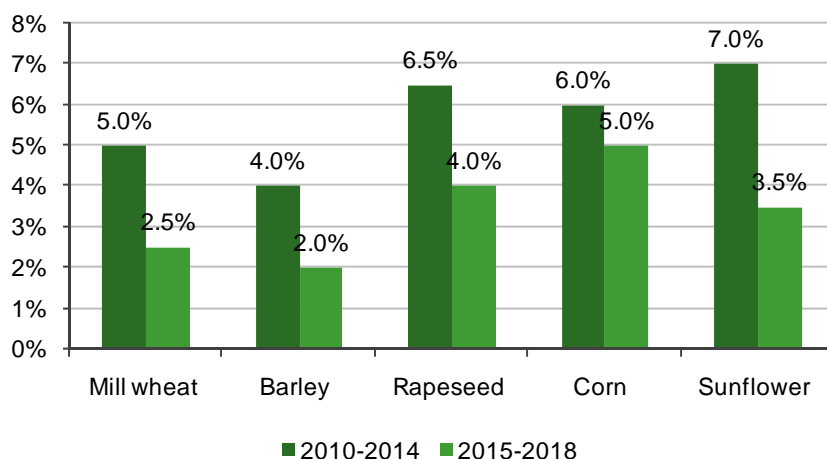
Figure 32. Commodity prices, rebased



Source: UkrAgroConsult, Sokrat estimates

Analyzing the main drivers, as well as available information resources like USDA, World Bank, FAPRI and market projections, we estimated and included in our model the price dynamics for main crops.

Figure 33. Commodity price growth assumptions, 2010-2018 CAGR



Source: World Bank, USDA, FAPRI, Bloomberg, Sokrat estimates

We should also note that Ukraine is a major global grain commodity producer. Thus, the amount harvested in Ukraine is conversely related to soft commodity prices. This is why we believe that profitability in the agricultural business is less sensitive to price volatility than it would otherwise seem.

and estimate upward price dynamics.

Curiously enough, price is not as vital for profitability of agrobusiness.

COMPARATIVE ANALYSIS

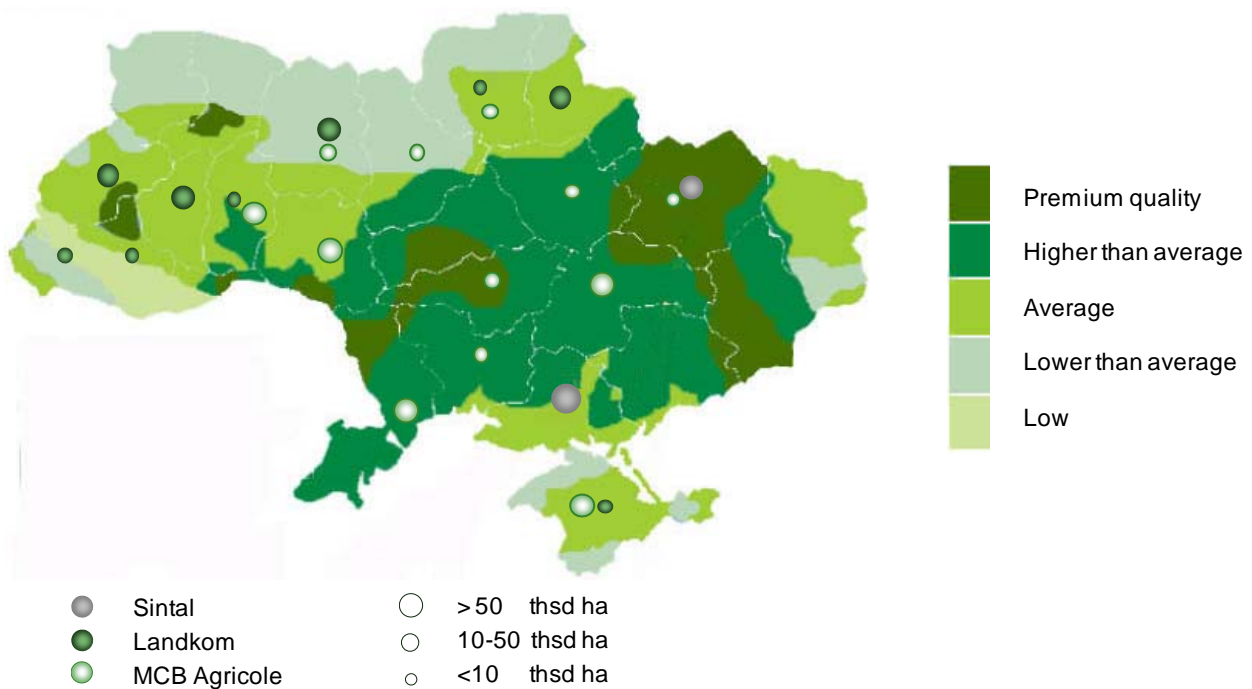
Key regions of presence

All of the reviewed companies have valuable lands suitable for cultivation of a wide variety of crops. The location of MCB Agricole is the most diversified, which allows for mitigating weather, political, and social risks. In addition, the Company needs less machinery, as it starts fieldwork from the southern regions and finishes in the north.

Landkom is also present in more than two regions. However, the land quality it operates seems to be of somewhat less quality than that of its peers.

Sintal's major geographical advantage is that most of its lands are situated in the Kherson region, close to main seaports, which enables direct exports and higher achieved prices.

Figure 34. Companies key regions of presence



Source: Company data, Sokrat estimates

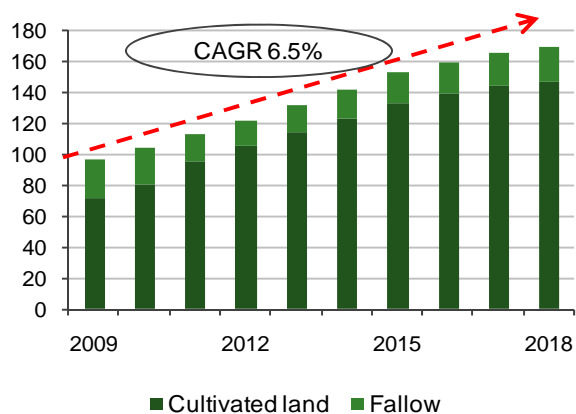
Land expansion

Among the three peer companies, we attribute the highest growth rate in 2010-2018 to Sintal. It targets to increase its land bank by 30 thsd ha in 2010, growing further by 18 thsd ha to 147 thsd ha in 2011. In addition, Sintal constantly increases the quality and market value of its lands. The coverage of its irrigation system should double and reach 40 thsd ha in 2010, while the irrigated lands cost usually two- to threefold compared to non-irrigated.

The MCB Agricole's land bank is estimated to grow with 6.5% CAGR in 2010-2018. A moderate expansion approach, combined with vast diversification by regions, enable MCB Agricole to expand with a low "entry ticket" cost of 100-150 USD per ha. However, we estimate the Company may revise its expansion plans in the near future.

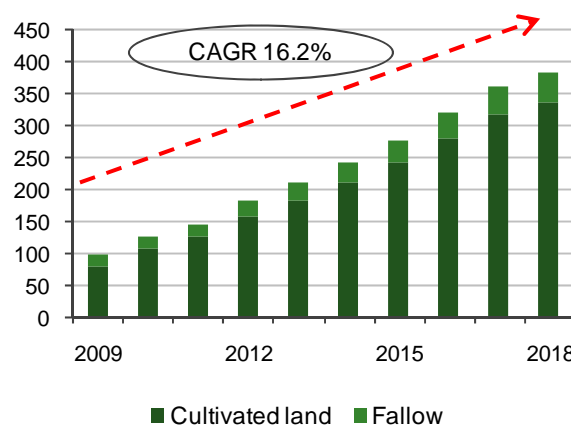
As for Landkom, it is currently restructuring its existing land assets and expanding its share of cultivated lands. Thus, we do not foresee the Company to increase its lands until 2013.

Figure 35. MCB Agricole's land expansion 2009-2018



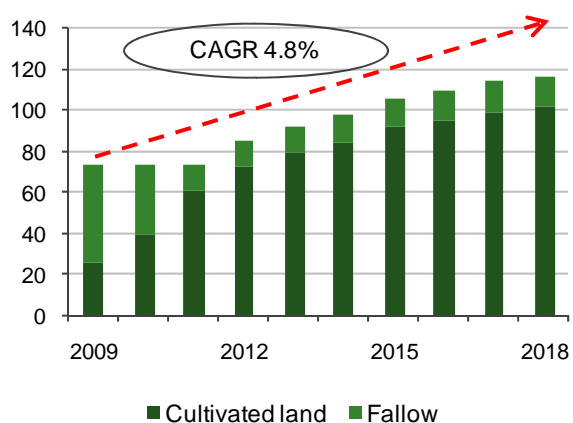
Source: Company data, Sokrat estimates

Figure 36. Sintal's land expansion 2009-2018



Source: Company data, Sokrat estimates

Figure 37. Landkom's land expansion 2009-2018



Source: Company data, Sokrat estimates

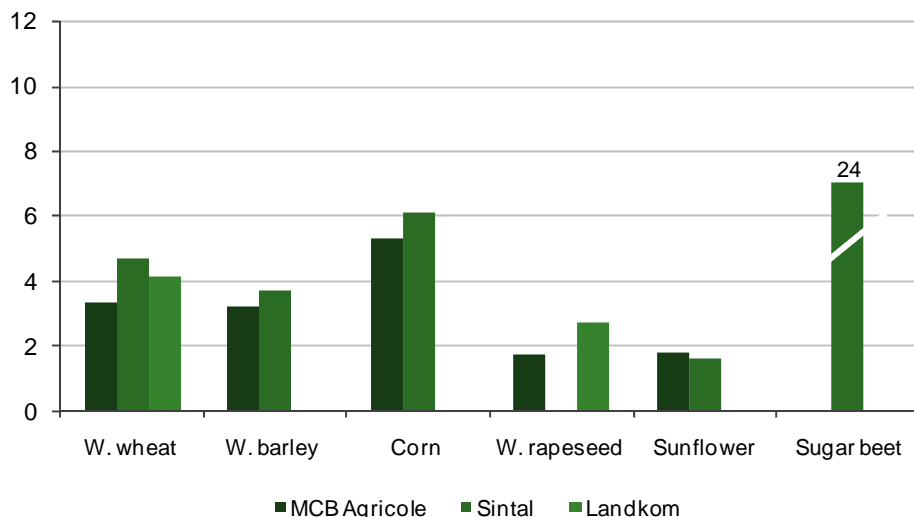
Yield dynamics

Sintal is the most efficient producer and we foresee its yields to rise in 2010-2013 for a few reasons: 40 thsd ha of land were fully prepared to No-Till (the process requires 2-3 years) and an increase in irrigation coverage. (40 thsd ha). Yields on irrigated lands are two-fold higher than on non-irrigated lands in the region.

MCB Agricole is likely to improve yields in 2010-2011, as it has undergone liquidity scrutiny and found resources for conducting a spring fieldwork and harvesting campaign.

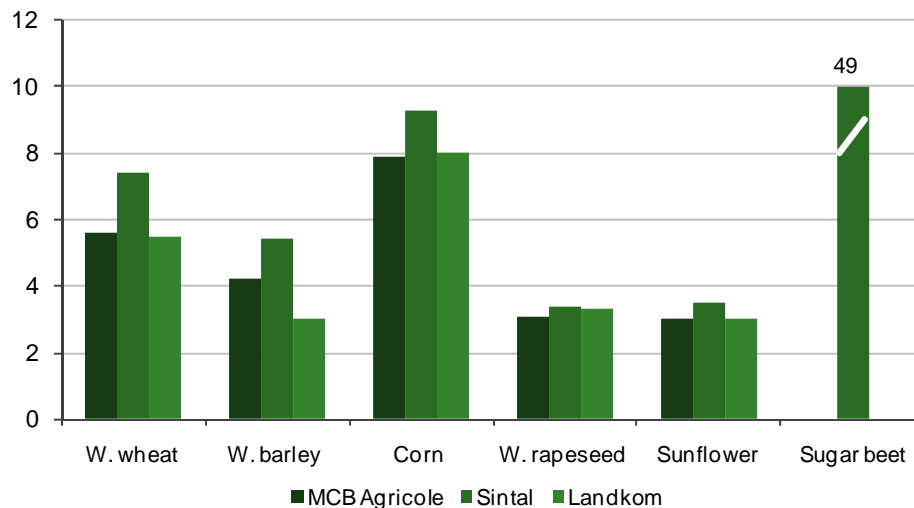
As for Landkom, we estimate high wheat and rapeseed yields – traditional crops for the Company; however, the yields of other crops (sunflower, barley, and corn) are unlikely to be high, as the Holding had never sown these before.

Figure 38. Companies crop yields 2010



Source: Company data, Sokrat estimates

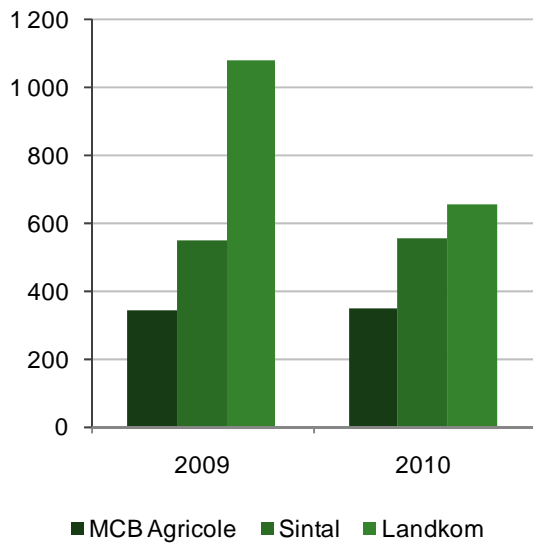
Figure 39. Companies crop yields 2018



Source: Company data, Sokrat estimates

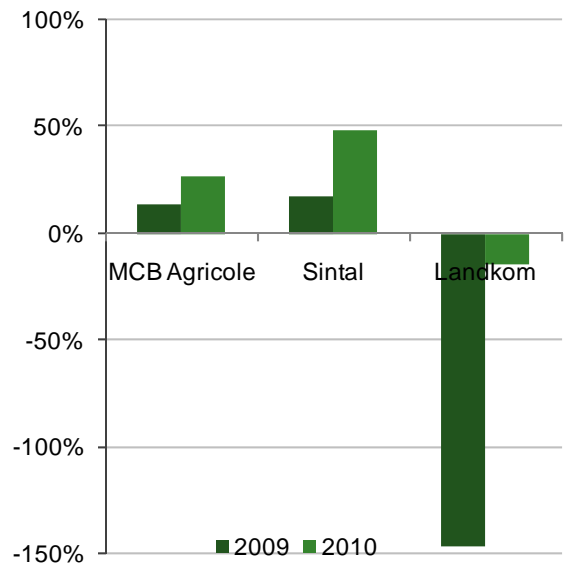
Efficiency estimation

Figure 40. Companies COGS / Cultivated Land 2009-2010



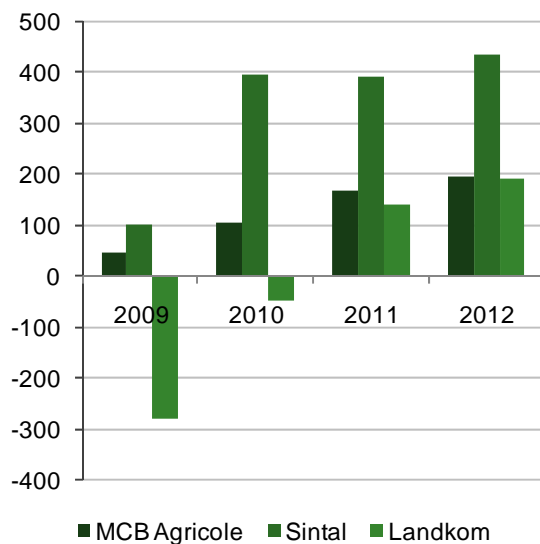
Source: Company data, Sokrat estimates

Figure 41. Companies EBITDA margin 2009-2010



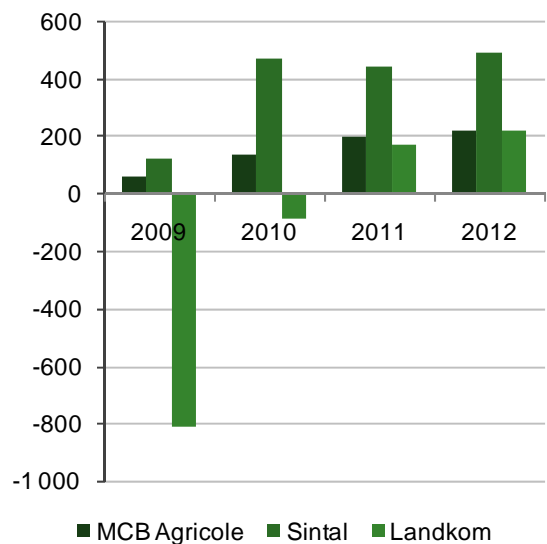
Source: Company data, Sokrat estimates

Figure 42. EBITDA / Land 2009-2012



Source: Company data, Sokrat estimates

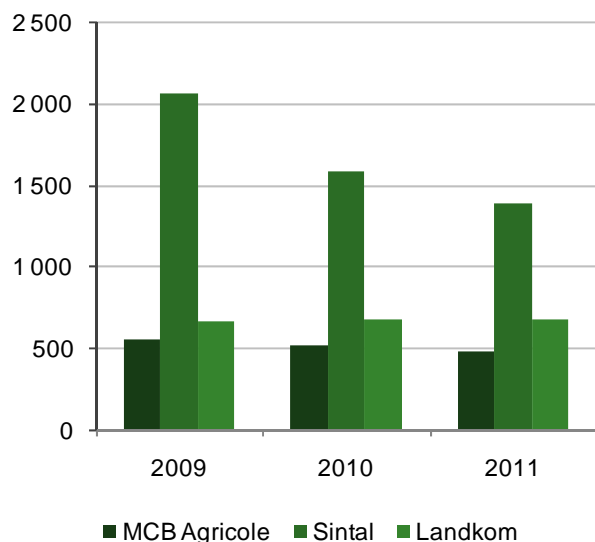
Figure 43. EBITDA / Cultivated land 2009-2012



Source: Company data, Sokrat estimates

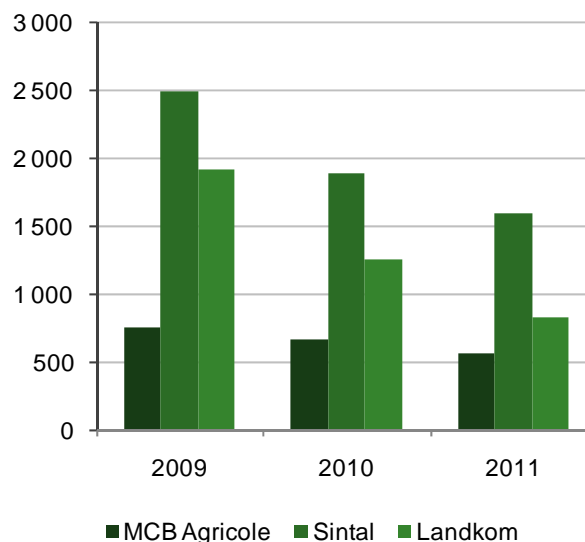
The market has estimated the Companies efficiencies and potentials by the EV/Land multiples. The highest ratio is held by Mriya, while MCB Agricole seems to be underpriced.

Figure 44. EV / Land 2009-2011



Source: Company data, Sokrat estimates

Figure 45. EV / Cultivated Land 2009-2011



Source: Company data, Sokrat estimates

Comparison by key characteristics

Figure 46. Companies key characteristics

	MCB Agricole	Sintal	Landkom
Land bank growth rate	*	**	*
Yields for primary crops	**	***	**
COGS / Cultivated land	*	**	***
Land quality	***	***	**
Land lease maturity	**	***	**
Irrigation coverage	-	**	-
No-till cultivation share	-	**	-
Diversification by regions	***	*	**
Diversification by crops	**	**	**
Share of direct exports	*	**	***
Storage facilities	-	***	**
Combined ranking	II	I	III

Source: Company data, Sokrat estimates

Comparative valuation

For our comparative valuation, we chose two peer groups: **Emerging market grain producing companies and Ukrainian Agro & Food companies**, and assigned them equal weights. We used a comparative method of valuation on EV/EBITDA, EV/S and P/E 2010-2011 multiples. We haven't included EV/Land, EV/Cultivated land multiples, as these multiples indicate more the efficiency of land bank usage rather than upside / downside.

We should also note that to make the Companies' data more comparable, we have somewhat adjusted their financials, particularly the "Net change in fair value of agricultural produce less anticipated cost of sale" statement.

The Comparative valuation suggests an upside of 63% for MCB Agricole, 47% for Sintal, and 41% for Landkom.

Figure 47. Comparative valuation

	Share Price, USD	M Cap, USD m ln	EV, USD m ln	EV/Sales		EV/EBITDA		P/E	
				2010F	2011F	2010F	2011F	2010F	2011F
Covered grain peers									
MCB Agricole	3.0	51.6	50.0	1.2	0.9	4.7	2.7	7.9	4.0
Sintal	4.4	207	204	1.9	1.7	4.0	3.6	4.8	4.4
Landkom	0.1	46	46	1.9	1.0	neg	4.4	neg	neg
Grain peers, median				1.9	1.0	4.3	3.6	6.4	4.2
Ukrainian Food & Agro peers									
Astarta Holding	21.0	525	620	2.2	2.2	5.1	6.2	5.2	6.5
Tsukrovyy Soyuz Ukrros	0.6	67	152	0.9	n/a	3.0	n/a	2.3	n/a
MHP	13.8	1523	1551	1.9	1.7	5.7	5.1	9.3	8.0
Kernel Holding	19.4	1335	1316	1.2	1.1	5.5	4.9	7.2	6.4
Ukrainian agriculture peers, median				1.5	1.7	5.3	5.1	6.2	6.5
Emerging market peers									
Black Earth Farming	3.9	478	522	3.4	3.0	11.0	10.4	17.0	14.3
Trigon Agri	1.1	141	137	0.9	0.8	4.5	2.9	8.7	4.9
Razgulay Group	2.2	343	1142	0.9	0.9	6.9	5.9	neg	9.8
SLC Agricola	8.1	797	989	2.3	2.0	8.6	7.1	19.8	14.4
Brasilagro-CIA Brasileira	4.9	288	233	4.5	3.2	neg	neg	neg	neg
Emerging market peers, median				2.3	2.0	7.8	6.5	17.0	12.0
Upside				2010F	2011F	2010F	2011F	2010F	2011F
MCB Agricole				70%	84%	33%	102%	-6%	105%
Sintal				10%	6%	93%	84%	120%	132%
Landkom				-18%	57%	n/a	16%	n/a	n/a
Target price				2010F	2011F	2010F	2011F	2010F	2011F
MCB Agricole				5.1	5.5	4.0	6.1	2.8	6.1
Sintal				4.8	4.7	8.5	8.1	9.7	10.2
Landkom				0.09	0.16	neg	0.12	neg	neg
Weights				2010F	2011F	2010F	2011F	2010F	2011F
MCB Agricole				15%	15%	15%	15%	20%	20%
Sintal				15%	15%	15%	15%	20%	20%
Landkom				50%	50%	0%	0%	0%	0%
	MCB Agricole	Sintal	Landkom						
Fair price, USD	4.9	6.5	0.15						
Current price, USD	3.0	4.4	0.11						
Upside	63%	47%	41%						

Source: Company data, Sokrat estimates

COMPANY PROFILES

MCB Agricole – Better safe than sorry

Bloomberg [4GW1 GR]

MCB Agricole is the holding company for Ukrzernoprom Agro, a Ukrainian agricultural producer mainly focused on crop cultivation and grain trading. With 96 thsd ha in the Company's land bank, Agricole is well positioned among the top 20 domestic agricultural companies. The company's well-structured land bank and efficient crop portfolio, in conjunction with top-notch assets, allows it to support the healthy growth of its revenues and profits. We recommend to BUY Agricole and see a fair value of USD 8.1.

Executive summary

Profit-making history. The Company has not posted a loss for the last three years, surviving the liquidity crisis and macroeconomic instability of 2008-2009, and proving the sustainability of its business model. We estimate the Company to continue this positive tradition in the future. We expect the company's EBITDA margin of 26.9% in 2010. We estimated the EBITDA should grow in 2010-2018 with a CAGR of 20.6%, and a Net Income with CAGR of 27.3%.

Wise management of land assets. The Company's land assets are distributed over 12 regions. Undeniably, this type of diversification allows MCB Agricole to mitigate possible exposure to negative climatic conditions as well as social and political risks. This strategy also enables the Company to efficiently use its machinery fleet, as machinery starts fieldwork in the southern regions and continues moving north to service 90% of cultivated lands.

Low leverage. The Holding decided not to enter the debt market in 2009 due to the liquidity crisis, which was reflected in lower yields this season and the need to sell crops soon after the harvest. However, this strategy, which we consider now to be too cautious, was a rational alternative if we remember the unstable market in the early 2009. Now, with most of the instability in the past, we believe that the Company can opt to attract additional financing in 2010, which should improve its operations and profitability.

Moderate land bank expansion. The Company currently controls over 96 thsd ha with 79.6 thsd ha being used for crop cultivation this season. The Company's land bank is estimated to grow with an 8% CAGR in 2010-2014. However, we assume that the Company may revise its expansion plans in the near future.

Operational snapshot. In 2009, MCB Agricole's cultivated area will grow by 13% compared to 2009. The Company is planning to use a total of 29 thsd ha for cultivating spring crops, half of which will be sunflower. Agricole is fully supplied with seeds, fertilizers, and means of plant protection. Another important note is that 37 thsd ha of current lands were added in 2008, and so they are prepared for resulting good crops yields. Considering the improved technology applied, we forecast the Company's main crop yields to improve by 15-20% in 2010.

Valuation. We make use of different valuation approaches, including the DCF model and comparative valuation. Our DCF model suggests a fair price of USD 11.4 per DR, which implies an upside of 280%. The Comparative valuation on EV/EBITDA, EV/S and P/E multiples suggests an upside of 63%. We recommend to BUY DRs in Agricole and see a fair value at USD 8.1 per DR.

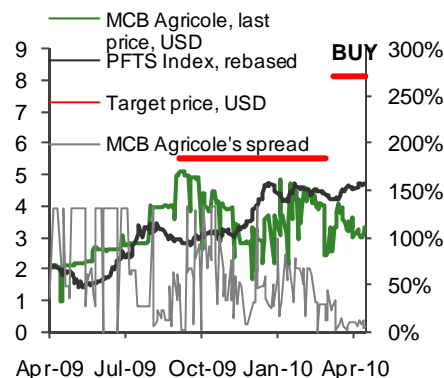
Figure 48. Key indicators

USD mln	2008E	2009E	2010F	2011F	2012F
Net sales	29.6	31.5	41.1	55.4	66.6
Gross profit	6.5	8.1	14.6	21.7	26.9
EBITDA	2.7	4.4	11.0	19.0	23.8
Net Income	0.6	2.8	6.8	13.5	17.6
Gross margin	22.1%	25.7%	35.4%	39.3%	40.4%
EBITDA margin	9.1%	13.9%	26.9%	34.3%	35.8%
Net margin	2.1%	9.0%	16.7%	24.3%	26.5%

BUY

Fair value, DR	USD 8.1
Price, DR	USD 3.0
Upside	168%

Stock data



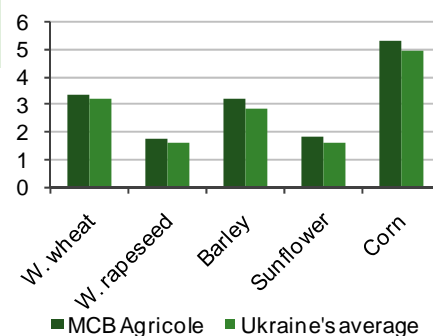
DRs outstanding, mln	17.2
Market cap., USD mln	51.6
EV, USD mln	53.2
BV, USD mln	43.7

Shareholders structure

Management	75.6%
Free float	24.4%
Free float, USD mln	12.6

Production, thsd tonnes	2009E	2010F
Wheat	109.1	99.5
Rapeseed	29.1	34.0
Barley	24.6	33.3
Sunflower	11.6	26.6
Rye	9.0	7.3
Corn	5.3	22.4

Company key crop yields, 2009



Assumptions

Agricole’s financial year ends in December. We expect the company margins in 2010 to be posted as follows: Gross Margin at 35.4% and EBITDA margin at 26.9%. We estimated the growth rate of the key financials as follows: **Net Revenue CAGR 2008-2018 of 20.3%**, **EBITDA CAGR of 31.7%**, and **Net Income CAGR of 31.5%**. We expect the company EBITDA margins to stay in the range of 20-30%, supported by the growth of financials and economies of scale, due to increasing land assets. In our assumptions, we have included a **COGS CAGR 2008-2018 of 16.5%** and a **SG&A CAGR of 9.2%**.

In our DCF model, we included a total CapEx of USD 210.6 mln. Furthermore, the company’s expected land expansion is estimated at 6.5% CAGR over the next five years.

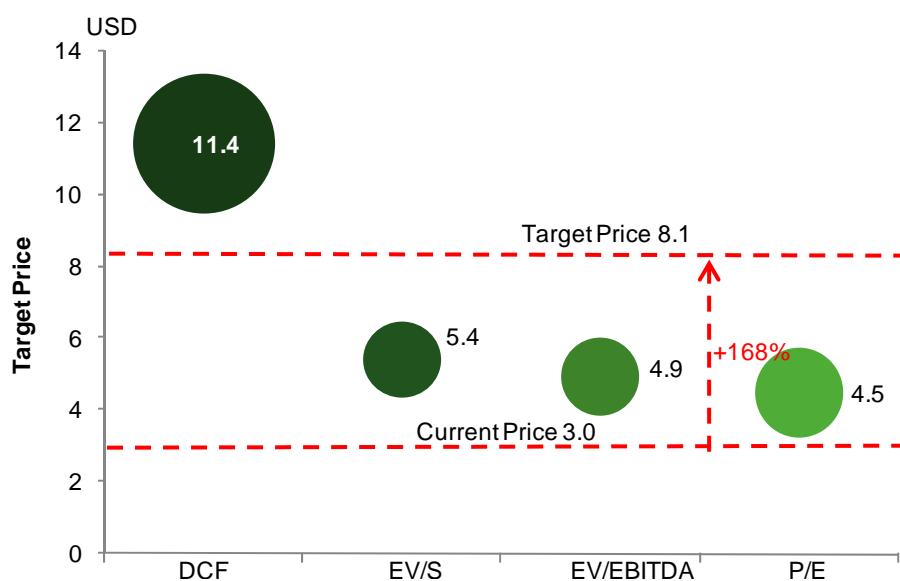
Valuation

The Holding issued reports just for its Ukrainian subsidiary Company—Ukrzernoprom Agro. Therefore in this report we tried to estimate the consolidated financial statements for the MCB Agricole Holding.

Again making use of different valuation approaches, including the DCF model and comparative valuation, our DCF model suggests a fair price of USD 11.4 per share, which implies an upside of 280%.

Again, as a sanity check, we used a comparative method of valuation on EV/EBITDA, EV/S and P/E 2010-2011 multiples. We chose two peers groups: emerging market grain producing companies and Ukrainian Agro / Food companies. The company is traded at x12.2 EV/EBITDA, x1.5 EV/S and x 6.7 P/E. The Comparative valuation suggests an upside of 57%. We recommend to BUY DRs in Agricole and see a fair value at USD 8.1 per DR.

Figure 49. Valuation summary



Source: Sokrat estimates

Figure 50. DCF model

All amounts in USD mln unless otherwise stated

	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
EBITDA	11	19	24	35	32	38	43	47	52
EBIT	9	17	22	32	28	33	37	42	47
Tax Rate	0%	0%	5%	5%	25%	25%	25%	25%	25%
Less Tax	-	-	(1)	(2)	(7)	(8)	(9)	(11)	(12)
Plus D&A	2	2	2	3	4	5	5	5	5
Less CapEx	(2)	(2)	(2)	(3)	(4)	(5)	(5)	(5)	(5)
Less change in OWC	(14)	(13)	(12)	(11)	(10)	(9)	(8)	(7)	(6)
FCFF	6	10	14	23	11	18	19	26	26
WACC	19.3%	16.6%	14.8%	13.5%	12.4%	12.1%	11.1%	10.7%	10.3%
Perpetuity Growth Rate	2.5%								
Wacc to Perpetuity	10.0%								
Implied EBITDA Multiple	6.8								
Implied Terminal Value	356								
NPV of Terminal Value	120								
Enterprise value, USD mln	195								
Portion due to TV	61.7%								
Less Net Debt, USD mln	2								
Equity Value, USD mln	197								
Fair Value per DR, USD	11.4								
Current Price per DR, USD	3.0								
Upside	281.2%								

Sensitivity analysis					
WACC	Exit Multiple (EBITDA)				
	4.8 x	5.8 x	6.8 x	7.8 x	8.8 x
-3.0%	11.3	12.6	13.9	15.2	16.5
-2.0%	10.6	11.8	13.0	14.2	15.4
-1.0%	10.0	11.1	12.2	13.3	14.4
0.0%	9.4	10.4	11.4	12.5	13.5
+1.0%	8.8	9.8	10.7	11.7	12.6
+2.0%	8.3	9.2	10.1	11.0	11.9
+3.0%	7.9	8.7	9.5	10.3	11.1

WACC calculation	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
WACC	19.3%	16.6%	14.8%	13.5%	12.4%	12.1%	11.1%	10.7%	10.3%
Cost of Equity	16.0%	15.5%	14.5%	13.5%	13.0%	12.5%	11.5%	11.0%	10.5%
Ukraine 5Y yield	7.5%	7.5%	7.5%	7.0%	7.0%	7.0%	7.0%	6.5%	6.5%
Equity risk	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Currency risk	1.5%	1.5%	1.0%	1.0%	1.0%	1.0%	0.5%	0.5%	0.5%
Company specific risk	5.0%	4.5%	4.0%	3.5%	3.0%	2.5%	2.0%	2.0%	1.5%
Equity/(Debt+Equity)	75.2%	80.5%	85.1%	85.0%	87.0%	88.7%	90.2%	91.5%	92.6%
After tax cost of debt	29.4%	21.4%	16.5%	13.8%	8.6%	8.6%	7.9%	7.9%	7.9%
Pre-tax cost of debt	29%	21%	17%	15%	12%	12%	11%	11%	11%
Tax rate	0%	0%	5%	5%	25%	25%	25%	25%	25%
Debt/(Debt+Equity)	24.8%	19.5%	14.9%	15.0%	13.0%	11.3%	9.8%	8.5%	7.4%

Source: Sokrat estimates

Figure 51. Income statement

USD, mln	2008E	2009E	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
Net Revenues	29.6	31.5	41.1	55.4	66.6	85.9	100.8	117.6	132.9	149.9	166.1
Change YoY	-	6.6%	30.2%	34.8%	20.3%	28.9%	17.4%	16.7%	13.0%	12.8%	10.8%
COGS	(24.6)	(24.0)	(27.6)	(34.7)	(41.7)	(49.7)	(57.9)	(67.8)	(76.4)	(85.9)	(94.9)
Change YoY	-	-2.3%	14.9%	25.9%	20.0%	19.1%	16.6%	17.1%	12.7%	12.5%	10.4%
Net change in fair val. of bio assets	1.5	0.6	1.1	1.1	2.0	1.8	1.3	1.5	1.4	1.6	1.5
Gross Profit	6.5	8.1	14.6	21.7	26.9	38.0	44.2	51.3	57.8	65.6	72.7
SG&A	(5.5)	(2.8)	(3.1)	(3.4)	(3.7)	(4.2)	(4.5)	(4.9)	(5.3)	(5.8)	(6.2)
Other operating income*	1.8	1.5	3.1	5.8	6.6	9.1	1.1	1.2	1.2	1.2	1.3
Other operating income/costs	(1.9)	(3.9)	(5.1)	(6.9)	(8.3)	(10.6)	(12.5)	(14.6)	(16.5)	(18.6)	(20.6)
EBITDA	2.7	4.4	11.0	19.0	23.8	35.2	32.0	37.5	42.7	47.2	52.4
Depreciation	(2)	(1)	(2)	(2)	(2)	(3)	(4)	(5)	(5)	(5)	(5)
EBIT	1.0	2.9	9.5	17.2	21.5	32.3	28.3	33.0	37.3	42.5	47.2
Interest expense**	(1)	(0)	(3)	(4)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Other financial income/expense	0	-	-	-	-	-	-	-	-	-	-
PBT	0.6	2.8	6.8	13.5	18.6	29.5	25.7	30.3	34.7	39.8	44.5
Tax	0.0	-	-	-	(0.9)	(1.5)	(6.4)	(7.6)	(8.7)	(10.0)	(11.1)
Effective tax rate	-6.4%	0.0%	0.0%	0.0%	5.0%	5.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net Income	0.6	2.8	6.8	13.5	17.6	28.0	19.3	22.7	26.0	29.9	33.4
Gross margin. %	22.1%	25.7%	35.4%	39.3%	40.4%	44.3%	43.9%	43.6%	43.5%	43.7%	43.8%
EBITDA margin. %	9.1%	13.9%	26.9%	34.3%	35.8%	41.0%	31.7%	31.9%	32.1%	31.5%	31.5%
EBIT margin. %	3.4%	9.1%	23.1%	31.1%	32.3%	37.6%	28.1%	28.0%	28.0%	28.3%	28.4%
Net Margin. %	2.1%	9.0%	16.7%	24.3%	26.5%	32.6%	19.1%	19.3%	19.6%	19.9%	20.1%

*including subsidies from government (VAT preference, interest compensation, direct subsidies)

**without interest compensation

Source: Company data, Sokrat estimates

Figure 52. Balance sheet

USD, mln	2008E	2009E	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
Current Assets	31.7	31.8	56.0	69.7	87.3	121.8	141.7	165.8	193.0	224.2	258.8
Cash & Equivalents	4.8	0.8	19.9	25.0	35.0	60.0	69.3	85.8	102.7	126.8	151.0
Trade Receivables	1.8	2.5	3.3	3.3	4.0	5.2	6.0	5.9	6.6	7.5	8.3
Inventories	6.1	8.4	8.3	8.7	10.4	12.4	14.5	13.6	15.3	17.2	19.0
Biological Assets	12.5	13.2	17.2	23.2	28.0	32.6	38.3	44.7	50.5	52.5	58.1
Other current assets	6.5	6.9	7.4	9.4	10.0	11.6	13.6	15.9	17.9	20.2	22.4
Fixed Assets	11.8	12.4	12.5	12.5	12.6	12.6	12.7	12.7	12.8	12.9	13.0
PP&E. net	11.1	11.6	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7
Other Fixed Assets	0.7	0.7	0.8	0.8	0.9	0.9	1.0	1.0	1.1	1.2	1.3
Total Assets	43.5	44.2	68.5	82.2	99.9	134.4	154.4	178.5	205.8	237.1	271.9
Shareholders' Equity	38.9	41.8	48.6	62.1	79.7	107.7	127.0	149.7	175.7	205.6	239.0
Share Capital	28.7	28.7	28.7	28.7	28.7	28.7	28.7	28.7	28.7	28.7	28.7
Reserves and Retained Earnings	10.3	13.1	19.9	33.4	51.1	79.1	98.3	121.0	147.0	176.9	210.3
Current Liabilities	4.2	2.0	15.3	15.3	15.2	21.4	21.9	23.1	24.1	25.3	26.4
ST Interest Bearing Debt	0.9	0.0	12.0	11.0	10.0	15.0	15.0	15.0	15.0	15.0	15.0
Trade Payables	1.7	1.7	1.7	2.1	2.5	3.0	2.9	3.4	3.8	4.3	4.7
Other Current Liabilities	1.7	0.3	1.6	2.2	2.7	3.4	4.0	4.7	5.3	6.0	6.6
LT Liabilities	0.4	0.5	4.6	4.8	5.0	5.3	5.5	5.8	6.0	6.2	6.5
LT Interest Bearing Debt	0.0	0.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Other LT	0.4	0.5	0.6	0.8	1.0	1.3	1.5	1.8	2.0	2.2	2.5
Total Liabilities & Equity	43.5	44.2	68.5	82.2	99.9	134.4	154.4	178.5	205.8	237.1	271.9

Source: Company data, Sokrat estimates

Sintal – Investing wisely

Bloomberg [SNPS GR]

Sintal's core business is grain cultivation and trading. Sintal's land assets of 100 thsd ha are based in the fertile regions of Ukraine; consequently, grain yields well outperform Ukraine's average. The Company launched major investment projects after conducting SPO in 2009, indicating an efficient use of funds raised. We issue a BUY recommendation based on our valuation. We estimate Sintal's fair price at USD 7.3.

Executive summary

Strong financial results should be shown by Sintal in the coming years. We estimate its revenue to grow by 84% in 2010 and grow with CAGR 29% in 2010-2018; the EBITDA will grow to USD 51 mln in 2010 and accelerate with CAGR 18% in 2010-2018.

Land assets based in a fertile region of Ukraine. Consequently Sintal will benefit from high and competitive grain yields. The company's wheat yields range from 6.6-7 tonnes per ha. Irrigation systems in Kherson Oblast allow Sintal to take advantage of long and sunny days without any threat of drought.

Sintal's business is targeted toward exports, which implies higher pricing. The share of crops sold directly through export contracts is planned to reach 50% for 2010/11 MY; another 30% should go through traders. Notably, most of the Company's lands are situated in the Kherson region, in close proximity to main seaports.

Efficient use of funds. The Company conducted a SPO in late 2009, raising USD 13 mln for a 17.2% stake. Sintal used the funds to increase its elevator capacities by 215 thsd tonnes for 2010/11 MY. The land bank under lease is projected to increase by 30 thsd ha in 2010, growing further by 18 thsd ha to 147 thsd ha in 2011. The coverage of the irrigation system should double and reach 40 thsd ha in 2010.

Operational snapshot. Sintal's percentage of cultivated land remains high and amounts to 85% as of 2010. A total of 40 thsd ha of land covered by irrigation system in 2010 enables it to increase its yield of irrigated crops by 50-100%, thus significantly lowering exposure to drought. Another 40 thsd ha are fully prepared for utilizing the No-Till technique. The above factors indicate that the Company's yields should improve by 20-30% in 2010.

Benefiting from high sugar prices in Ukraine. Sintal operates two sugar mills, growing sugar beet on its lands. It produced about 30 thsd tonnes of sugar in 2009/10 MY. The Company is not planning to develop its sugar business, so that when the margins decrease in 2-3 years, Sintal will likely sell it.

Our valuation reveals Sintal's upside. The company's fundamentals look quite healthy and strong. Its stock performance also lags behind agricultural peers and PFTS Index. Our DCF and Comparative valuation indicates that Sintal's current quotes are undervalued. We see 66% upside and issue a BUY recommendation.

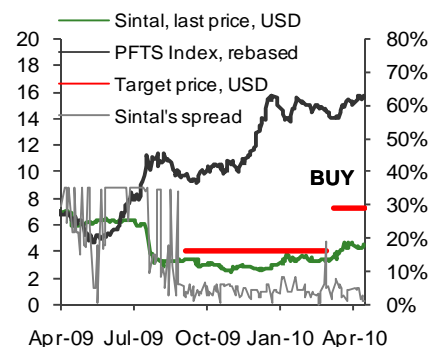
Figure 53. Key indicators

USD mln	2008	2009E	2010F	2011F	2012F
Net sales	37.7	57.0	105.2	121.7	150.7
Gross profit	13.3	12.3	47.5	51.6	63.1
EBITDA	22.2	10.0	51.1	57.4	71.2
Net Income	14.1	6.6	43.3	47.0	54.8
Gross margin	35.2%	21.6%	45.2%	42.4%	41.9%
EBITDA margin	58.8%	17.6%	48.6%	47.1%	47.3%
Net margin	37.3%	11.6%	41.2%	38.6%	36.4%

BUY

Fair value, DR	USD 7.3
Price, DR	USD 4.4
Upside	66%

Stock data



DRs outstanding, mln	47.1
Market cap., USD mln	207.1
EV, USD mln	204.1
BV, USD mln	82

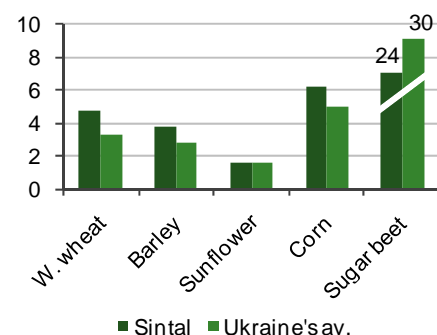
Shareholders structure

Nikolay Tolmachev	52.9%
Management	10.8%
Free float	36.3%
Free float	75.2

Production, thsd tonnes

	2009E	2010F
Wheat	224.0	219.9
Rapeseed	0.0	19.0
Barley	33.4	44.9
Sunflower	9.1	50.5
Corn	37.6	45.1
Soybean	14.4	23.0
Sugar	30.0	41.0

Company key crop yields, 2009



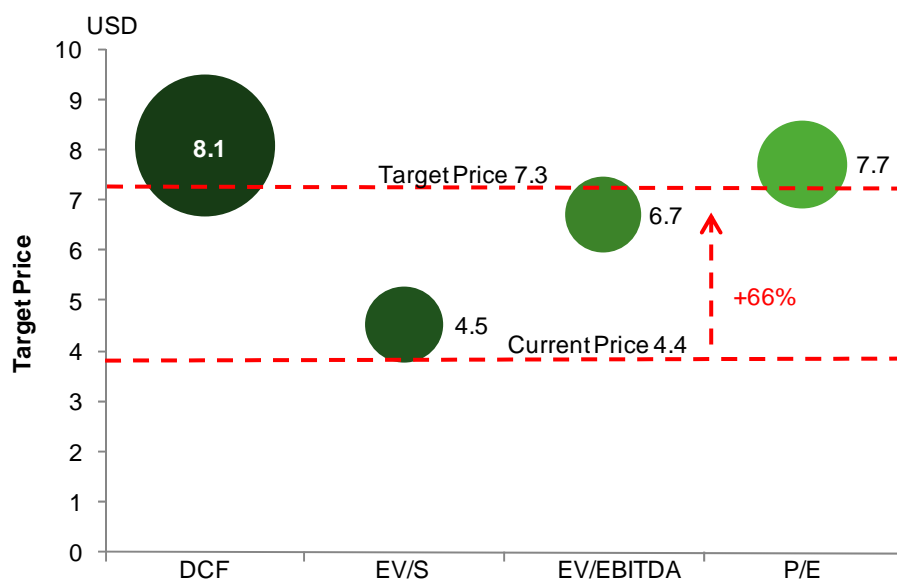
Assumptions

Sintal's financial year ends in December. In 2010 we expect the company to increase its net revenues to USD 105.2 mln, EBITDA to arrive at USD 51.1 mln, and net income to grow to USD 43.3 mln. These results will be achieved due to increased yields this year (see Comparative analysis section) and high margin of sugar business. In 2010-2018, we forecast the company's net **revenues** to grow at **29% CAGR** and **EBITDA** to increase at **18% CAGR**. The company has low SG&A costs at 9.0% of its net revenues; we used in our estimation a **SG&A** ranging from **7.5% to 9.5%** of net revenues over 2009-2018. We estimate Sintal's **CapEx** at **USD 226 mln** over the 2010-2018.

Valuation

We again used the DCF valuation method for estimating the fair price of Sintal's stock. Our DCF model recommends a fair price of USD 8.1 and implies an upside of 85%. As for comparative method of valuation, Sintal's stock is traded at x1.9 EV/S '10E, x4.0 EV/EBITDA '10E and x4.4 on P/E'10E multiple. The comparative valuation suggests a fair value of USD 6.5 and upside of 47%. We recommend to BUY the stock and we estimate a fair value of USD 7.3 with an upside of 66%.

Figure 54. Valuation summary



Source: Sokrat estimates

Figure 55. DCF model

All amounts in USD mln unless otherwise stated

	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
EBITDA	51	57	71	54	53	65	77	91	102
EBIT	48	52	64	44	41	50	60	73	84
Tax Rate	5%	5%	10%	10%	25%	25%	25%	25%	25%
Less Tax	(2)	(3)	(6)	(4)	(10)	(12)	(15)	(18)	(21)
Plus D&A	4	5	7	10	12	15	17	18	18
Less CapEx	(17)	(24)	(25)	(37)	(30)	(33)	(20)	(20)	(20)
Less change in OWC	1	(3)	(5)	3	(7)	(8)	(8)	(9)	(8)
FCFF	33	28	35	15	6	11	34	44	53
WACC	13.2%	13.3%	13.3%	12.4%	12.1%	12.0%	11.9%	11.4%	11.3%
Perpetuity Growth Rate	2.5%								
Wacc to Perpetuity	11.0%								
Implied EBITDA Multiple	6.2								
Implied Terminal Value	634								
NPV of Terminal Value	231								
Enterprise value, USD mln	378								
Portion due to TV	61.0%								
Less Net Debt, USD mln	3								
Equity Value, USD mln	381								
Fair Value per DR, USD	8.1								
Current Price per DR, USD	4.4								
Upside	83.7%								

Sensitivity analysis					
WACC	Exit Multiple (EBITDA)				
	4.2 x	5.2 x	6.2 x	7.2 x	8.2 x
-3.0%	7.8	8.8	9.8	10.8	11.8
-2.0%	7.3	8.3	9.2	10.1	11.0
-1.0%	6.9	7.8	8.6	9.5	10.3
0.0%	6.5	7.3	8.1	8.9	9.7
+1.0%	6.2	6.9	7.6	8.4	9.1
+2.0%	5.8	6.5	7.2	7.9	8.5
+3.0%	5.5	6.2	6.8	7.4	8.0

WACC calculation	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
WACC	13.2%	13.3%	13.3%	12.4%	12.1%	12.0%	11.9%	11.4%	11.3%
Cost of Equity	13.5%	13.5%	13.5%	12.5%	12.4%	12.3%	12.2%	11.6%	11.5%
Ukraine 5Y yield	7.5%	7.5%	7.5%	7.0%	7.0%	7.0%	7.0%	6.5%	6.5%
Equity risk	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Currency risk	1.5%	1.5%	1.5%	1.5%	1.4%	1.3%	1.2%	1.1%	1.0%
Company specific risk	2.5%	2.5%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Equity/(Debt+Equity)	93.4%	95.2%	96.1%	96.8%	95.2%	95.4%	95.6%	95.9%	96.1%
After tax cost of debt	8.5%	8.5%	8.1%	8.1%	6.2%	6.3%	6.3%	6.4%	6.5%
Pre-tax cost of debt	8.9%	8.9%	9.0%	9.0%	8.2%	8.3%	8.4%	8.5%	8.6%
Tax rate	5.0%	5.0%	10.0%	10.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Debt/(Debt+Equity)	6.6%	4.8%	3.9%	3.2%	4.8%	4.6%	4.4%	4.1%	3.9%

Source: Sokrat estimates

Figure 56. Income statement

USD, mln	2008	2009E	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
Net Revenues	37.7	57.0	105.2	121.7	150.7	152.5	188.1	227.6	274.3	327.5	377.7
Change YoY	-	51.2%	84.4%	15.8%	23.8%	1.2%	23.4%	21.0%	20.5%	19.4%	15.3%
COGS	(34.6)	(45.0)	(59.7)	(71.6)	(90.8)	(113.4)	(135.0)	(162.7)	(196.0)	(233.6)	(268.6)
Change YoY	-	30.1%	32.6%	19.9%	26.7%	25.0%	19.0%	20.5%	20.5%	19.2%	15.0%
Net change in fair value of bio asset	10.2	0.3	2.1	1.5	3.2	2.9	3.1	3.4	4.0	4.6	4.3
Gross Profit	13.3	12.3	47.5	51.6	63.1	42.0	56.2	68.4	82.3	98.4	113.4
SG&A	(3.4)	(5.6)	(8.2)	(9.4)	(11.6)	(14.1)	(16.7)	(19.6)	(23.1)	(27.0)	(31.1)
Other operating income*	11.4	2.0	8.1	9.8	12.3	16.1	1.1	1.2	1.2	1.2	1.3
Other operating income/costs	-	-	-	-	-	-	-	-	-	-	-
EBITDA	22.2	10.0	51.1	57.4	71.2	53.8	52.9	64.8	77.1	90.9	101.7
Depreciation	(1)	(1)	(4)	(5)	(7)	(10)	(12)	(15)	(17)	(18)	(18)
EBIT	21.3	8.7	47.5	51.9	63.8	44.0	40.7	49.9	60.5	72.6	83.6
Financial income/costs, net**	(6.4)	(1.8)	(1.9)	(2.5)	(2.9)	(3.1)	(3.2)	(3.8)	(4.3)	(5.0)	(5.8)
Other income/expense	-	-	-	-	-	15.0	-	-	-	-	-
PBT	14.8	7.0	45.6	49.5	60.9	55.9	37.4	46.1	56.2	67.6	77.8
Tax	(0.7)	(0.3)	(2.3)	(2.5)	(6.1)	(5.6)	(9.4)	(11.5)	(14.0)	(16.9)	(19.5)
Effective tax rate	4.9%	5.0%	5.0%	5.0%	10.0%	10.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net Income	14.1	6.6	43.3	47.0	54.8	50.3	28.1	34.6	42.1	50.7	58.4
Gross margin. %	35.2%	21.6%	45.2%	42.4%	41.9%	27.5%	29.9%	30.0%	30.0%	30.1%	30.0%
EBITDA margin. %	58.8%	17.6%	48.6%	47.1%	47.3%	35.3%	28.1%	28.5%	28.1%	27.8%	26.9%
EBIT margin. %	56.4%	15.3%	45.2%	42.7%	42.3%	28.8%	21.6%	21.9%	22.1%	22.2%	22.1%
Net Margin. %	37.3%	11.6%	41.2%	38.6%	36.4%	33.0%	14.9%	15.2%	15.4%	15.5%	15.4%

*including subsidies from government (VAT preference, interest compensation, direct subsidies)

**without interest compensation

Source: Company data, Sokrat estimates

Figure 57. Balance sheet

USD, mln	2008	2009E	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
Current Assets	62.5	69.8	111.0	143.8	189.0	228.4	251.0	275.6	326.2	388.6	457.7
Cash & Equivalents	0.0	1.8	37.2	62.5	95.2	135.0	144.8	153.9	186.1	227.7	277.3
Trade Receivables	1.6	2.9	5.3	6.1	7.5	7.6	9.4	11.4	13.7	16.4	18.9
Inventories	18.2	24.8	20.9	25.1	31.8	34.0	40.5	48.8	58.8	70.1	80.6
Biological Assets	10.8	8.6	15.8	18.3	22.6	19.8	24.5	29.6	35.7	42.6	49.1
Other current assets	31.9	31.9	31.9	31.9	31.9	31.9	31.9	31.9	31.9	31.9	31.9
Fixed Assets	11.7	21.9	35.3	53.8	71.3	84.4	102.2	120.2	123.5	125.1	126.9
PP&E. net	6.9	19.2	33.5	51.0	68.4	80.9	98.6	116.3	121.6	123.4	125.2
Other Fixed Assets	4.8	2.7	1.8	2.8	2.9	3.6	3.5	3.9	1.9	1.8	1.7
Total Assets	74.1	91.7	146.3	197.6	260.3	312.8	353.2	395.8	449.7	513.7	584.6
Shareholders' Equity	50.6	70.2	113.5	160.5	215.3	265.7	293.8	328.4	370.5	421.2	479.5
Share Capital	51.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0
Reserves and Retained Earnings	-0.4	6.3	49.5	96.5	151.4	201.7	229.8	264.4	306.5	357.2	415.6
Current Liabilities	22.5	21.5	27.7	32.0	40.0	42.2	49.4	57.4	69.2	82.5	95.1
ST Interest Bearing Debt	7.8	3.3	3.0	3.0	3.8	3.8	4.7	5.7	6.9	8.2	9.4
Trade Payables	4.5	6.8	9.0	10.7	13.6	17.0	20.2	24.4	29.4	35.0	40.3
Other Current Liabilities	10.2	11.4	15.8	18.3	22.6	21.3	24.5	27.3	32.9	39.3	45.3
LT Liabilities	1.0	0.0	5.0	5.0	5.0	5.0	10.0	10.0	10.0	10.0	10.0
LT Interest Bearing Debt	1.0	0.0	5.0	5.0	5.0	5.0	10.0	10.0	10.0	10.0	10.0
Other LT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities & Equity	74.1	91.7	146.3	197.6	260.3	312.8	353.2	395.8	449.7	513.7	584.6

Source: Company data, Sokrat estimates

Landkom – Analyzing mistakes

Bloomberg [LKI LN]

Landkom is a grain and oil crops producer, formerly governed by western management. Due to inefficiently used funds and lack of local expertise, the Company posted serious losses in 2008-2009. The Company conducted a SPO in November 2009 and raised USD 16.1 mln after the old management was dismissed. The newly appointed CEO with local experience came on board and the Company started restructuring program, targeting to improve operations, cut costs, and reach a breakeven point in 2010. We see the costs associated with restructuring to be the main risk for the Company in 2010-2011. We recommend to HOLD Landkom's stock and estimate a fair value of USD 0.13.

Executive summary

Doing business, not speculation. Landkom's operations in 2008-2009 looked rather more to be speculation on land play rather than an efficient business. The former management lacked local experience, inflated its land bank while disregarding efficiency, and cultivated only a tiny proportion of its leased lands. As a result, the Company posted a loss of USD 60.3 mln in 2008 and USD 40.3 mln in 10m2009. With a new management on board, the Company is moving towards efficiency. We estimate Landkom to almost achieve a breakeven EBITDA in 2010 and to post its first-ever positive income in 2012.

Restructuring of the company's land assets. The new management has revised the existing land bank and cut it from 114 thsd ha in 2008 to 74 thsd ha in 2010, 39.4 thsd ha of which are cultivated for 2010 yield. Thus, the share of land under cultivation will increase from 25% in 2009 to 53% in 2010, which is clearly a positive signal.

Cutting costs. Some effects of the new strategy have already appeared. In particular, the administrative expenses fell significantly from USD 15.8 mln in 2008 to USD 4.6 mln for 10m2009, suggesting a 65% decrease YoY.

Revising the machinery fleet. The Company currently operates a modern machinery fleet worth USD 40 mln. This machinery, though new and modern, is not suitable for large scale grain growing. For this reason, a 2-3 year machinery replacement program has been launched, which should result in additional costs.

Operational snapshot. Landkom has an experience of achieving high yields on its land. For instance, rapeseed yielded 2.7 tonne/ha, and winter wheat - 4.1 tonne/ha. In addition to these winter crops, the Company diversified its business in 2010, sowing 18 thsd ha of spring crops, which are corn (41%), spring wheat (20%), soybean (17%), sunflower (17%), and other crops (5%). A good harvest, combined with a slight price increase on grain markets, may even result in a positive EBITDA for 2010.

Valuation summary. The company is likely to improve its operations in the mid-term. As for the near term, we see serious risks, which were reflected in our valuation. Our DCF and Comparative valuation indicate that Landkom's shares are fairly priced. We issue a HOLD recommendation.

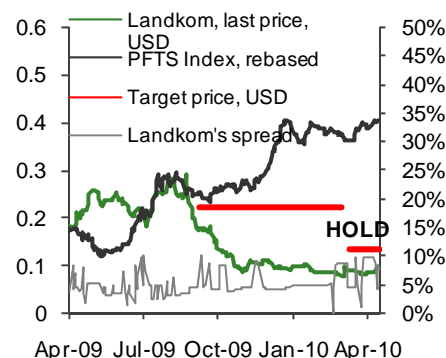
Figure 58. Key indicators

USD mln	2008	2009E	2010F	2011F	2012F
Net sales	10.6	14.6	23.6	45.3	55.2
Gross profit	(22.1)	(1.8)	6.9	14.6	19.7
EBITDA	(52.4)	(21.2)	(3.4)	10.0	16.4
Net Income	(55.7)	(42.1)	(12.8)	(2.4)	4.6
Gross margin	-207.2%	-12.1%	29.4%	32.3%	35.7%
EBITDA margin	-492.2%	-145.9%	-14.6%	22.1%	29.8%
Net margin	-523.7%	-289.3%	-54.1%	-5.3%	8.4%

HOLD

Fair value, share	USD 0.13
Price, share	USD 0.11
Upside	25%

Stock data



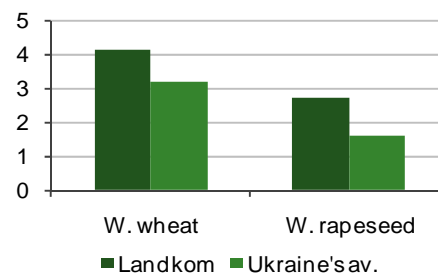
Shares outstanding, mln	435.2
Market cap., USD mln	45.3
EV, USD mln	45.2
BV, USD mln	55

Shareholders structure

Management	1.0%
Free float	99.0%
Free float, USD mln	44.8

Production, thsd tonnes	2009E	2010F
Wheat	37.6	41.3
Rapeseed	39.5	46.2
Sunflower	0.0	6.1
Corn	0.0	40.6
Soy	0.0	6.1

Company key crop yields, 2009



Assumptions

Landkom’s financial **year-end** has been changed in **2010 to October**, while in 2007-2008 it ended in December. In 10m2009 the company’s net revenues grew by 37% YoY to USD 14.6 mln, Landkom had a negative EBITDA of USD 21.2 mln, and net losses of USD 42.1 mln. Landkom’s cultivated land has been increased in 2010 to 32 thsd ha. Therefore, we believe the company will have much better results in 2010 and estimate an increase in net revenue by 61%, to USD 23.6 mln, with an EBITDA of USD –3.4 mln, based on the company’s efforts to cut its operational and other costs. In 2010-2018 period, we expect net **revenues** to grow at **25% CAGR**. We estimate the Company to post **first-ever positive EBITDA in 2011 and positive Net income in 2012**.

We foresee Company’s SG&A costs to increase slightly by 17% in 2010 due to increased operations and wider financial period, and to reach a level comparable to its peers in 2011.

We attribute a cost of USD 6 mln (“Other income / costs net”) to the ongoing restructuring program. We distribute this loss in the period 2010-2012.

We expect the Company will be able to attract financing at the end of 2010 for a moderate increase in its share of cultivated land.

Valuation

We took into consideration two valuation methods – a DCF model and a comparative valuation – while estimating Landkom’s stock fair price. Our DCF model recommends a fair price of USD 0.11, which implies an upside of 8.3%. To have a wider outlook, we estimated the fair value of the Landkom’s stock using a comparative valuation as well. The company’s stock is traded at x1.9 on EV/S multiple and has a negative P/E and EV/EBITDA in 2010. We recommend to HOLD Landkom’s stock with a fair value of USD 0.13 per share.

Figure 59. Valuation summary



Source: Sokrat estimates

Figure 60. DCF model

All amounts in USD mln unless otherwise stated

	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
EBITDA	(3)	10	16	27	28	29	35	37	33
EBIT	(10)	2	10	16	14	17	20	20	19
Tax Rate	0%	0%	5%	5%	25%	25%	25%	25%	25%
Less Tax	-	-	(1)	(1)	(4)	(4)	(5)	(5)	(5)
Plus D&A	7	8	6	11	13	13	15	17	14
Less CapEx	(10)	(16)	(17)	(16)	(19)	(18)	(18)	(18)	(14)
Less change in OWC	1	(1)	(1)	(2)	(2)	(1)	(1)	(1)	(1)
FCFF	(12)	(7)	(2)	8	3	6	11	13	14
WACC	34.3%	26.4%	23.4%	19.8%	16.9%	16.4%	15.7%	15.1%	14.7%

Perpetuity Growth Rate	2.5%
Wacc to Perpetuity	14.0%
Implied EBITDA Multiple	3.7
Implied Terminal Value	124
NPV of Terminal Value	26
Enterprise value, USD mln	26
Portion due to TV	100.0%
Less Net Debt, USD mln	0
Equity Value, USD mln	26
Fair Value per share, USD	0.11
Current Price per share, US	0.10
Upside	7.9%

Sensitivity analysis

WACC	Exit Multiple (EBITDA)				
	1.7 x	2.7 x	3.7 x	4.7 x	5.7 x
-3.0%	0.1	0.1	0.1	0.2	0.2
-2.0%	0.1	0.1	0.1	0.2	0.2
-1.0%	0.1	0.1	0.1	0.2	0.2
0.0%	0.1	0.1	0.1	0.1	0.2
+1.0%	0.0	0.1	0.1	0.1	0.2
+2.0%	0.0	0.1	0.1	0.1	0.1
+3.0%	0.0	0.1	0.1	0.1	0.1

WACC calculation	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
WACC	34.3%	26.4%	23.4%	19.8%	16.9%	16.4%	15.7%	15.1%	14.7%
Cost of Equity	35.0%	33.0%	27.5%	22.0%	19.5%	19.0%	18.0%	17.5%	17.0%
Ukraine 5Y yield	7.5%	7.5%	7.5%	7.0%	7.0%	7.0%	7.0%	6.5%	6.5%
Equity risk	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Currency risk	2.0%	2.5%	2.5%	2.0%	1.5%	1.5%	1.0%	1.0%	0.5%
Company specific risk	23.5%	21.0%	15.5%	11.0%	9.0%	8.5%	8.0%	8.0%	8.0%
Equity/(Debt+Equity)	95.8%	63.5%	70.7%	74.3%	73.0%	72.1%	72.0%	72.0%	71.9%
After tax cost of debt	17.4%	14.9%	13.7%	13.4%	9.8%	9.7%	9.7%	9.0%	8.9%
Pre-tax cost of debt	17%	15%	14%	14%	13%	13%	13%	12%	12%
Tax rate	0%	0%	5%	5%	25%	25%	25%	25%	25%
Debt/(Debt+Equity)	4.2%	36.5%	29.3%	25.7%	27.0%	27.9%	28.0%	28.0%	28.1%

Source: Sokrat estimates

Figure 61. Income statement

USD, mln	2008	2009E	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
Net Revenues	10.6	14.6	23.6	45.3	55.2	65.1	74.9	86.4	97.2	106.1	113.9
Change YoY	-	36.7%	62.0%	92.1%	21.9%	18.0%	15.0%	15.4%	12.4%	9.2%	7.3%
COGS	(36.3)	(28.1)	(26.1)	(39.0)	(41.6)	(45.5)	(51.5)	(59.4)	(66.0)	(72.7)	(80.0)
Change YoY	-	-22.6%	-7.2%	49.4%	6.8%	9.4%	13.2%	15.2%	11.1%	10.2%	10.1%
Net change in fair val. of bio assets	(11.0)	(8.5)	0.7	0.6	1.1	0.1	0.1	0.1	0.1	0.1	0.1
Gross Profit	-36.7	-22.1	-1.8	6.9	14.6	19.7	23.5	27.2	31.3	33.5	33.9
SG&A	(15.8)	(4.6)	(5.4)	(7.1)	(8.3)	(9.5)	(10.8)	(12.3)	(13.9)	(15.6)	(17.5)
Other operating income*	-	1.2	-	2.4	4.6	6.0	1.5	1.8	2.2	2.3	2.6
Other operating income/costs	(4.6)	(2.0)	(3.3)	(0.5)	(0.6)	(0.7)	-	-	-	-	-
EBITDA	(52.4)	(21.2)	(3.4)	10.0	16.4	27.0	27.6	29.3	34.7	36.9	33.3
Depreciation	(5)	(6)	(7)	(8)	(6)	(11)	(13)	(13)	(15)	(17)	(14)
EBIT	(57.1)	(27.4)	(10.4)	1.7	10.4	15.6	14.2	16.7	19.7	20.2	19.0
Financial income/costs, net**	2	(0)	(0)	(2)	(4)	(3)	(3)	(4)	(5)	(5)	(5)
Other income/costs, net	(0)	(15)	(2)	(2)	(2)	-	-	-	-	-	-
PBT	(55.7)	(42.1)	(12.8)	(2.4)	4.9	12.3	10.8	12.6	15.0	15.3	13.5
Tax	(0.0)	-	-	-	(0.2)	(0.6)	(2.7)	(3.2)	(3.7)	(3.8)	(3.4)
Effective tax rate	0.0%	0.0%	0.0%	0.0%	5.0%	5.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net Income	(55.7)	(42.1)	(12.8)	(2.4)	4.6	11.7	8.1	9.5	11.2	11.5	10.1
Gross margin. %	-344.8%	-151.6%	-7.5%	15.3%	26.5%	30.3%	31.3%	31.5%	32.3%	31.6%	29.8%
EBITDA margin. %	-492.2%	-145.9%	-14.6%	22.1%	29.8%	41.4%	36.9%	33.9%	35.8%	34.7%	29.2%
EBIT margin. %	-536.1%	-188.6%	-44.2%	3.9%	18.9%	23.9%	18.9%	19.3%	20.2%	19.1%	16.7%
Net Margin. %	-523.7%	-289.3%	-54.1%	-5.3%	8.4%	18.0%	10.8%	11.0%	11.5%	10.8%	8.9%

*including subsidies from government (VAT preference, interest compensation, direct subsidies)

**without interest compensation

Source: Company data, Sokrat estimates

Figure 62. Balance sheet

USD, mln	2008	2009E	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F
Current Assets	36.0	10.2	12.4	31.2	27.9	37.1	45.9	57.0	72.0	88.4	105.0
Cash & Equivalents	4.2	0.2	4.2	17.8	12.4	18.2	23.1	30.8	42.6	56.2	70.1
Trade Receivables	11.1	0.7	3.5	6.8	8.8	11.1	13.5	15.6	17.5	19.1	20.5
Inventories	7.3	5.2	4.7	6.6	6.7	7.7	9.3	10.7	11.9	13.1	14.4
Biological Assets	13.4	4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fixed Assets	48.8	40.5	42.2	46.0	53.0	57.5	63.1	68.5	71.4	72.8	72.5
PP&E, net	48.3	40.5	41.0	43.8	50.7	55.1	60.2	65.7	68.7	70.0	70.3
Other Fixed Assets	0.5	0.0	1.2	2.1	2.3	2.4	2.9	2.7	2.7	2.7	2.1
Total Assets	84.8	50.7	54.6	77.2	80.8	94.6	109.0	125.5	143.4	161.2	177.5
Shareholders' Equity	76.1	42.8	45.2	41.8	48.3	60.0	68.1	77.6	88.8	100.2	110.4
Share Capital	138.2	144.8	160.9	160.9	160.9	160.9	160.9	160.9	160.9	160.9	160.9
Reserves and Retained Earnings	-62.1	-102.0	-115.7	-119.2	-112.6	-100.9	-92.8	-83.4	-72.1	-60.7	-50.5
Current Liabilities	8.6	7.5	9.2	30.2	24.2	23.3	26.6	30.7	34.3	37.6	40.8
ST Interest Bearing Debt	0.0	0.0	2.0	19.0	12.0	9.8	11.2	13.0	14.6	15.9	17.1
Trade Payables	7.7	6.7	6.3	9.4	10.0	10.9	12.4	14.2	15.8	17.5	19.2
Other Current Liabilities	0.8	0.9	0.9	1.8	2.2	2.6	3.0	3.5	3.9	4.2	4.6
LT Liabilities	0.2	0.4	0.2	5.3	8.3	11.3	14.3	17.3	20.3	23.3	26.3
LT Interest Bearing Debt	0.0	0.0	0.0	5.0	8.0	11.0	14.0	17.0	20.0	23.0	26.0
Other LT	0.2	0.4	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total Liabilities & Equity	84.8	50.7	54.6	77.2	80.8	94.6	109.0	125.5	143.4	161.2	177.5

Source: Company data, Sokrat estimates

CJSC "FC Sokrat"

Parus Business Center
2 Mechnykova St., 8th floor
Kyiv, 01601, Ukraine
Telephone/Fax: +380 44 207-0100, 207-0101
<http://www.sokrat.com.ua>

Sales & Trading:

Constantine Lisnychy

Head of Sales
lisnychy@sokrat.com.ua
tel (+38-044) 207-0103

Anfisa Anikushina

International Equity Sales
anikushina@sokrat.com.ua
tel (+38-044) 207-0100

Valeria Kotsur

International Equity Sales
kotsur@sokrat.com.ua
tel (+38-044) 207-0100

Vladimir Ponomarenko

Domestic Clients
ponomarenko@sokrat.com.ua
tel (+38-044) 207-0102

Research:

Sergiy Nevmerzhytskyi

Head of Research, Equity Strategy,
Energy, Macroeconomics
snev@sokrat.com.ua

Evgeniy Oksha

Metals & Mining
oksha@sokrat.com.ua

Maksim Shtepa

Machinery, Fixed Income
shtepa@sokrat.com.ua

Yaroslav Udovenko

Agriculture
udovenko@sokrat.com.ua

Inna Zakharyeva

Assistant
zakharyeva@sokrat.com.ua

Rebecca Leonard

Editor