

September 5, 2013

# Agroton

## 1H13 report leaves no chance for turnaround

**Our analysis of Agroton's 1H13 financial report strengthens our belief that the company's main shareholder has no commitments to increase the company's value. Either Agroton is hiding some accumulated past troubles (bad receivables, over-reported profit from past years), or its main shareholder is deliberately stripping the company's assets. Therefore, we currently see enormous risks related to investing in Agroton shares and bonds and we do not recommend buying them at any price.**

**Record-low EBITDA on smaller land use.** Agroton reported USD 6.7 mln in 1H13 EBITDA. That's the smallest reported number historically (in the first half of 2009-2012 it was never below USD 20 mln). Notably, the company usually reported its half-year EBITDA higher than the following full-year number, as it overused profit pre-reporting opportunities that are granted to agri companies under IFRS. That suggests Agroton's full-year 2013 EBITDA will remain in the single digits.

There are many external reasons for the decline, including bad weather conditions and a decline in soft commodity prices. Still, internal reasons that led to this result should not be overlooked: soil-exhaustive farming practices implemented in previous years (an enormous focus on sunflower planting that leads to decreases in all crop yields), as well as an expected decrease of its harvested area by 1.2x yoy this year, which hints the company deliberately sowed a smaller acreage this season. Based on the available information, we calculate the company decreased its sowing area in the current season to 93,000 ha from 103,000 ha in the previous marketing year. The decline is something unusual for a company that invested more than USD 50 mln in its expansion (excluding the prepayments referred to below), or a quarter of its cumulative revenue, over the last two years.

**A generous lender that cannot service its own debt?** Agroton failed to pay a USD 3.1 mln coupon on its Eurobond in July 2013. Whatever the excuse for such failure was, at the same time Agroton was able to lend to third parties USD 5.5 mln in 1H13. Moreover, it lent USD 10 mln\* to its main shareholder on July 22, just a week after its default on the coupon, according to the company's 1H13 report. We believe such lending deals have nothing to do with Agroton's main business: if not charity, such operations resemble an attempt at hiding some bad receivables.

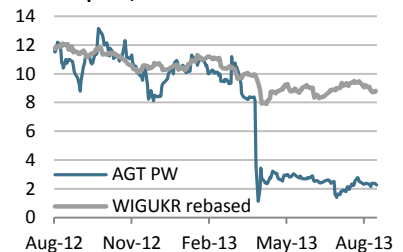
**USD 33 mln prepayment for assets: another charity operation?** Agroton paid USD 33.1 mln in prepayment for two companies in 2012, for which it should have gained ownership in late March and late June 2013. This number is more than twice the current MCap of Agroton. The company stated in its recent report that it still has not obtained the ownership rights. We were unable to gain information from the company on the possible timing of the deal's completion or probability that they will be completed.

**Turnaround expectations failed to realize.** In our March strategy report, we presented Agroton as a potential turnaround story, which we linked to our expectations of a visible improvement in the company's transparency and accountability to external investors. Now it's clear to us that the company will not be transparent with its current majority shareholder.

Alexander Paraschiy  
ap@concorde.com.ua

Bloomberg AGT PW

Market price, PLN



Price, PLN	2.22
52 week High/Low, PLN	13.16 / 1.13
MCap, PLN / USD mln	48.1 / 14.8

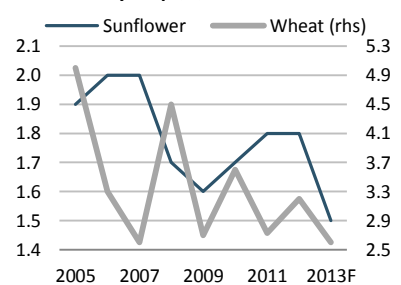
No of shares, mln	21.7
Free float, %	49%

Key shareholders

Yurii Zhuravlov	51%
Jaspen Capital	10%

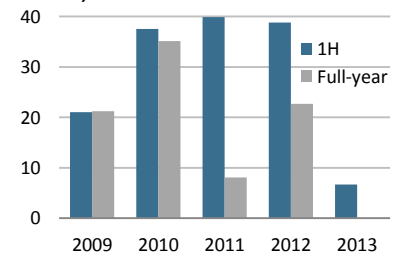
Source: Bloomberg, Company data

Yields of key crops, t/ha



Source: Company data

EBITDA, USD mln



Source: Company data

\*Note: Another interpretation of the number provided in the recent financial report might be USD 10 K. So far, the company has not informed us which number is correct.

## Agroton financials, USD mln

### P&L and Cash Flow summary

	2011	2012	2013E	1H11	1H12	1H13
Net revenue	99.7	88.0	64.6	64.0	41.3	40.8
IAS 41 gain	22.3	12.1	12.0	30.4	31.4	12.2
EBITDA	8.0	22.7	8.6	39.9	38.8	6.7
EBITDA margin	7%	23%	14%	62%	94%	16%
EBIT	6.0	16.5	3.3	35.7	35.7	4.1
Operating margin	6%	19%	5%	56%	86%	10%
Finance costs	-5.8	-8.4	-4.4	-4.6	-4.6	-3.8
Profit before tax	286.0	8.2	-0.7	31.1	31.1	-0.2
Net income	-2.1	6.8	-0.7	31.1	30.5	-0.2
Net margin	-2%	8%	-1%	49%	74%	-1%
Cash EBITDA*	8.8	4.9	3.3	12.2	4.4	-2.3
Cash EBITDA / EBITDA	1.3x	0.2x	0.4x	0.3x	0.1x	n/m
Operating cash flow	-2.3	70.3	na	-13.3	38.2	9.4
Investing cash flow	-26.3	-68.0	na	-1.1	-28.5	-13.1
Net CapEx	-29.0	-65.3	na	-1.2	-28.5	-3.7

\* Operating cash flow before working capital changes, interest and taxes

Source: Company data, Concorde Capital estimates

### Balance Sheet summary

	2011	2012	1H13
Non-current assets	56.9	114.8	115.0
PP&E	31.2	33.8	35.4
Current assets	123.1	72.3	75.4
Cash & deposits	17.6	9.8	4.3
Loans receivable*	0.2	3.3	9.3
Equity	119.8	126.6	126.4
Non-current liabilities	47.9	48.4	48.9
Long-term debt	47.9	48.4	48.9
Current liabilities	12.3	12.1	15.1
Short-term debt	6.9	4.0	4.1
Net debt	37.0	39.3	39.4
Net debt / Full-year EBITDA	4.6x	1.7x	4.5x

\* Part of cash equivalents, according to the company

Source: Company data, Concorde Capital calculations

## Contacts

**CONCORDE CAPITAL**  
 2 Mechnikova Street, 16th Floor  
 Parus Business Centre  
 Kyiv 01601, Ukraine  
 Tel.: +380 44 391 5577  
 Fax: +380 44 391 5571  
 www.concorde.ua  
 Bloomberg: TYPE CONR <GO>

### CEO

Igor Mazepa [im@concorde.com.ua](mailto:im@concorde.com.ua)

### SALES

Andriy Gerus [ga@concorde.com.ua](mailto:ga@concorde.com.ua)  
 Alexandra Kushnir [ak@concorde-group.eu](mailto:ak@concorde-group.eu)  
 Yuri Tovstenko [ytovstenko@concorde.com.ua](mailto:ytovstenko@concorde.com.ua)

### RESEARCH

#### Head of Research

Alexander Paraschiy [ap@concorde.com.ua](mailto:ap@concorde.com.ua)

#### Agriculture, Consumer, Utilities

Alexander Paraschiy [syg@concorde.com.ua](mailto:syg@concorde.com.ua)

#### Oil & Gas, Machinery

Roman Dmytrenko [rd@concorde.com.ua](mailto:rd@concorde.com.ua)

#### Basic Materials

Roman Topolyuk [rt@concorde.com.ua](mailto:rt@concorde.com.ua)

#### Macro, Fixed income, Financials

Alexander Paraschiy [ap@concorde.com.ua](mailto:ap@concorde.com.ua)

#### Editor, Politics

Zenon Zawada [zzawada@concorde.com.ua](mailto:zzawada@concorde.com.ua)

## Disclaimer

THIS REPORT HAS BEEN PREPARED BY CONCORDE CAPITAL INVESTMENT BANK INDEPENDENTLY OF THE RESPECTIVE COMPANIES MENTIONED HEREIN FOR INFORMATIONAL PURPOSES ONLY. CONCORDE CAPITAL DOES AND SEEKS TO DO BUSINESS WITH COMPANIES COVERED IN ITS RESEARCH REPORTS. AS A RESULT, INVESTORS SHOULD BE AWARE THAT CONCORDE CAPITAL MIGHT HAVE A CONFLICT OF INTEREST THAT COULD AFFECT THE OBJECTIVITY OF THIS REPORT.

THE INFORMATION GIVEN AND OPINIONS EXPRESSED IN THIS DOCUMENT ARE SOLELY THOSE OF CONCORDE CAPITAL AS PART OF ITS INTERNAL RESEARCH COVERAGE. THIS DOCUMENT DOES NOT CONSTITUTE OR CONTAIN AN OFFER OF OR AN INVITATION TO SUBSCRIBE FOR OR ACQUIRE ANY SECURITIES. THIS DOCUMENT IS CONFIDENTIAL TO CLIENTS OF CONCORDE CAPITAL AND IS NOT TO BE REPRODUCED OR DISTRIBUTED OR GIVEN TO ANY OTHER PERSON.

CONCORDE CAPITAL, ITS DIRECTORS AND EMPLOYEES OR CLIENTS MIGHT HAVE OR HAVE HAD INTERESTS OR LONG/SHORT POSITIONS IN THE SECURITIES REFERRED TO HEREIN, AND MIGHT AT ANY TIME MAKE PURCHASES AND/OR SALES IN THEM AS A PRINCIPAL OR AN AGENT. CONCORDE CAPITAL MIGHT ACT OR HAS ACTED AS A MARKET-MAKER IN THE SECURITIES DISCUSSED IN THIS REPORT. THE RESEARCH ANALYSTS AND/OR CORPORATE BANKING ASSOCIATES PRINCIPALLY RESPONSIBLE FOR THE PREPARATION OF THIS REPORT RECEIVE COMPENSATION BASED UPON VARIOUS FACTORS, INCLUDING QUALITY OF RESEARCH, INVESTOR/CLIENT FEEDBACK, STOCK PICKING, COMPETITIVE FACTORS, FIRM REVENUES AND INVESTMENT BANKING REVENUES.

PRICES OF LISTED SECURITIES REFERRED TO IN THIS REPORT ARE DENOTED IN THE CURRENCY OF THE RESPECTIVE EXCHANGES. INVESTORS IN FINANCIAL INSTRUMENTS SUCH AS DEPOSITORY RECEIPTS, THE VALUES OR PRICES OF WHICH ARE INFLUENCED BY CURRENCY VOLATILITY, EFFECTIVELY ASSUME CURRENCY RISK.

DUE TO THE TIMELY NATURE OF THIS REPORT, THE INFORMATION CONTAINED MIGHT NOT HAVE BEEN VERIFIED AND IS BASED ON THE OPINION OF THE ANALYST. WE DO NOT PURPORT THIS DOCUMENT TO BE ENTIRELY ACCURATE AND DO NOT GUARANTEE IT TO BE A COMPLETE STATEMENT OR SUMMARY OF AVAILABLE DATA. ANY OPINIONS EXPRESSED HEREIN ARE STATEMENTS OF OUR JUDGMENTS AS OF THE DATE OF PUBLICATION AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART WITHOUT PRIOR PERMISSION IS PROHIBITED.

NEITHER THIS DOCUMENT NOR ANY COPY HEREOF MAY BE TAKEN OR TRANSMITTED INTO THE UNITED STATES OR DISTRIBUTED IN THE UNITED STATES OR TO ANY U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")), OTHER THAN TO A LIMITED NUMBER OF "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) SELECTED BY CONCORDE CAPITAL.

THIS DOCUMENT MAY ONLY BE DELIVERED WITHIN THE UNITED KINGDOM TO PERSONS WHO ARE AUTHORIZED OR EXEMPT WITHIN THE MEANING OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 ("FSMA") OR TO PERSONS WHO ARE OTHERWISE ENTITLED TO RECEIVE THIS DOCUMENT UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, OR ANY OTHER ORDER MADE UNDER THE FSMA.