

July 28, 2010

Current price: USD 12.75
12M target: pending
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Tickers

Bloomberg	AVGR LI
Reuters	AVGRq.L

Market information

Market price, USD	12.75
MCap, USD mln	796.9
52Wk Hi/Lo, USD	15.20/11.50
GDRs, mln	12.5
GDR ratio	1:10
Free float	22%
Free float, USD mln	172.9

Shareholders

Oleg Bakhmatyuk	78%
Minorities	22%

Key financials, USD mln

	2009	2010	2011F	2012F
Revenue	319.9	351.8	404.6	485.5
EBITDA	152.0	136.8	147.7	169.9
Net inc	133.7	106.9	115.5	132.8

Net debt	102.6	180.0	220.0	260.0
Equity	360.6	467.5	583.0	715.8

Source: Company, Concorde Capital est.
Profitability margins, %

	2009	2010F	2011F	2012F
EBITDA	48%	39%	37%	35%
Net	42%	30%	29%	27%

Source: Company, Concord Capital est.
Key ratios, USD mln

	2009	2010F	2011F	2012F
ND/EBITDA	0.67	1.32	1.49	1.53
ND/Equity	0.28	0.39	0.38	0.36

Source: Company, Concorde Capital est.

Avangardco Investments Public Limited hosted a site visit on July 22-24. Management discussed the firm's key operating and financial results for 2009 as well as plans for 2010 and beyond. The stock offers 19%-44% upside to EM poultry peers on 2010-11 EV/EBITDA.

- Avangard produced 3.6 bln eggs in 2009, operating at approximately 85% of egg-laying capacity. Almost eight percent of production was further processed into egg products at the company's ultra-modern Imperovo Foods plant
- Strong margins (EBITDA: 48%; net: 42% in 2009) are created at the hatching stage, with EBIT margin at approximately 50% versus an 18% margin from egg-laying facilities and 15% for the fodder mills. Avangard benefits from the competitive advantage of owning three of Ukraine's five hatcheries
- Production at its Avis and Chornobaivske farms should begin in 2011, increasing egg-laying capacity by 31% to 24.9 mln hens. CapEx is estimated at USD 251.7 mln, predominantly funded by IPO proceeds
- Total shell egg output is expected to increase by 22% y-o-y in 2010 to 4.4 mln, driven by aggressive domestic marketing and expanding exports
- Contracts have been signed to export 1.2 bln eggs in 2010, or 26% of output compared to 9% of output in 2009. The company is seeking accreditation to export to the EU, with approval expected in 2011-12
- Plans exist to complete two droppings-fueled biogas units, expected to produce 3.3 mln mt of methane per month. Transforming biogas into electricity, Avangard plans to fully cover its electricity needs by 2013
- Avangard plans to triple Imperovo Foods' capacity from 3 mln eggs/day to 10 mln/day; as capacity utilization was only 40% in 2009, we see this happening no sooner than 2013-14

Valuation

At its current price of USD 12.75 per GDR, Avangard offers 19%-44% upside based on 2010-11E EV/EBITDA multiples vs. EM poultry producers. In our view, EM poultry producers are most appropriate for comparison due to the structure and format of Avangard's business.

Business overview

Avangard is Ukraine's largest industrial producer of shell eggs (market share: 23%) and egg products (market share: 52%) based on 2009 results. The company operates 19 egg-laying facilities, three hatcheries and nine rearing farms as well as six fodder mills across 14 regions in Ukraine and the Crimea, forming a full-cycle vertically integrated holding. The company exports eggs and egg products to 16 countries in the Middle East, Asia and the CIS. In April 2010, Avangard raised USD 208 mln via the IPO of a 21.7% equity stake on the London Stock Exchange.

Avangard peer comparison

	Mcap USD mln	EV/S			EV/EBITDA			P/E		
		09	10F	11E	09	10F	11E	09	10F	11E
Ukraine										
AVANGARD	796	2.8	2.8	2.5	5.9	7.1	6.9	6.0	7.5	6.9
EM Poultry										
BRF - BRASIL FOODS SA	11,897	1.4	1.1	1.0	23.3	11.9	8.9	84.5	33.6	20.6
CHINA YURUN FOOD GROUP LTD	5,836	3.3	2.3	1.8	26.0	18.0	14.5	30.7	22.8	18.7
CHAROEN POKPHAND FOODS PUB	5,559	1.4	1.1	1.0	13.5	10.4	9.7	18.9	14.5	14.0
MYRONIVSKY HLIBOPRODUCT	1,540	2.9	2.3	2.0	7.5	9.0	6.9	9.6	11.7	7.5
UNIVERSAL ROBINA CORP	1,463	1.5	1.3	1.2	10.6	6.8	6.2	22.1	12.3	11.8
CHERKIZOVO GROUP-GDR REG S	1,033	1.5	1.3	1.0	9.0	7.2	5.6	10.3	7.8	6.2
Median		1.5	1.3	1.1	12.0	9.7	7.9	20.5	13.4	12.9
Ukraine Agriculture										
KERNEL GROUP	1,463	1.5	1.5	1.2	8.6	8.4	6.7	11.4	9.8	8.7
MRIYA AGRO HOLDING	724	5.3	5.0	3.7	8.4	10.8	8.4	8.8	11.4	8.5
AGROTON	146	3.1	3.2	3.0	8.2	10.2	9.6	29.0	22.3	18.6
SINTAL AGRICULTURE	128	2.6	2.2	2.0	7.8	7.2	6.8	9.9	8.9	8.3
MCB AGRICOLE HOLDING AG	33	1.2	0.9	0.6	12.2	5.9	3.2	22.8	8.4	4.1
Median		2.6	2.2	2.0	8.4	8.4	6.8	11.4	9.8	8.5
Price implied by EM Poultry, USD/share		6.21	4.39	3.66	27.60	18.32	15.12	43.91	22.88	23.81
<i>Upside/Downside to EM Poultry avg</i>		-51%	-66%	-71%	116%	44%	19%	244%	79%	87%
Price implied by Ukr Agri, USD/share		11.51	9.31	9.22	18.77	15.60	12.48	24.35	16.76	15.66
<i>Upside/Downside to Ukr Agriculture avg</i>		-10%	-27%	-28%	47%	22%	-2%	91%	31%	23%

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