



# Dairy Industry

## Interim 9M07 results

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Company	Bloomberg
Kovelmoloko	KMOL UZ
Zhytomyr Dairy	ZHMZ UZ
Galakton	GALTN UZ
Shostka Milk	SHMK UZ

	Price \$	12M TP\$	Upside	Rec
KMOL	0.59	0.7	18.6%	BUY
ZHMZ	2.28	3.0	31.6%	BUY
GALTN	2.48	3.6	45.2%	BUY
SHMK	52.1	41.4	-20.5%	SELL

	Shares, mln	MCap \$mln	Free float %	Free float \$mln
KMOL	74.6	44.7	22%	9.8
ZHMZ	27.9	63.7	18%	11.5
GALTN	23.1	57.3	3%	1.7
SHMK	1.6	83.3	3%	2.5

**2008 multiples**

	EV/S	EV/EBITDA	P/E
KMOL	0.7	6.3	11.7
ZHMZ	0.9	5.8	9.5
GALTN	0.6	5.7	10.6
SHMK	1.2	8.1	14.6

**Targets & recommendations**

	12M TP \$	Revision	Rec'	Action	9M07 financials vs. our forecasts
KMOL	0.7	no	BUY	maintain	In line
ZHMZ	3.0	no	BUY	maintain	Below
GALTN	3.6	no	BUY	maintain	Below
SHMK	41.4	down	SELL	downgrade	Below

**Industry performance**

**9M07 financials - mixed:** sales increased by 31%-77% for dairy companies we cover, margins squeezed: EBITDA by 3.0-6.6 p.p., net by 0.3-4.4 p.p.

**Costs growing ahead of price:** a shortage of raw milk supply caused by reduction in number of cows (-2% in 9M07) has pushed raw milk purchasing prices up: +27% in 9M07, +42% in 11M07. The dairy producers failed to fully pass the hike through onto the final consumer.

**Projections revised downward:** sector performance below expectations prompts us to revise downward 2007 financial projections for all covered companies, except Kovelmoloko. We see dairy producers finalizing transfer of increased feedstock costs to the final consumer in 2008. We keep our previous forecast for 2008 intact.

**Company analysis**

**Kovelmoloko** – appears to withstand tight raw milk prices better than sector peers. Sales growth of 77% in 9M07 is in line with our full year forecast of 70% increase. In January-September 2007, EBITDA margin was 6.0%, while in April-September it was 10.3%. We think that EBITDA margin of 8.7% in the 4Q is realistic, and we confirm our previous full year forecast of 8%, which implies EBITDA of USD 3.7 mln (37% yoy growth). We keep financial forecasts, target and recommendation unchanged.

**Zhytomyr Butter** – sales and EBITDA increased by 36% and 13%, respectively, vs. our full year growth expectations of 43% and 44%. Financial forecasts for 2007 revised downward: sales reduced by 7.5% to USD 65.2 mln and EBITDA by 11.4% to USD 9.3 mln. Financial projection for 2008 were kept intact. We confirm our DCF-based target of USD 3.0 per share and keep our recommendation BUY unchanged.

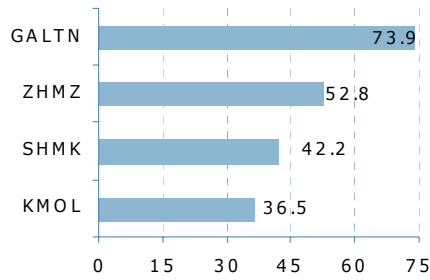
**Galakton** – sales growth of 31% was below our forecasted growth of 45% in 2007. EBITDA and net margin decreased by 6.5 and 4.4 p.p., respectively. We revised downward projections for 2007: sales reduced by 18.6% to USD 93.9 mln and EBITDA margin by 2.5 p.p. to 7.0%. As we believe the company will meet our previous financial forecasts for 2008, DCF-based target price was kept unchanged at USD 3.6 per share, recommendation BUY confirmed.

**Shostka Milk** – a sales increase of 39% was below our full year estimations of 59%. EBITDA and net margins decreased to 7.9% and 1.8%, respectively, vs. the forecasted 14% and 5.8% in 2007. We believe, Shostka's depressed margins are of a one-time nature, presumably caused by the inclusion into COGS of additional expenses related to restructuring by the new owners. We revised downward financial forecasts for 2007. Interim financials suggest that the company did not meet our expectations on CapEx in 2007. As we revised upward CapEx for 2008, our updated DCF-based target reduced to USD 41.4 per share, recommendation downgraded to SELL.

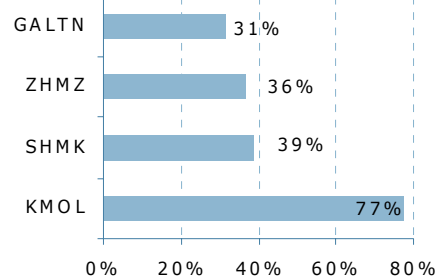
	Sales			EBITDA margin			Net margin		
	9M07	2007E	2008E	9M07	2007E	2008E	9M07	2007E	2008E
KMOL	36.5	46.8	79.0	7.4%	8.0%	11.0%	4.6%	1.2%	4.9%
ZHMZ	52.8	65.2	81.7	14.5%	14.3%	15.0%	7.7%	7.6%	8.2%
GALTN	73.9	93.9	129.4	7.2%	7.0%	10.0%	1.1%	1.3%	4.3%
SHMK	36.5	59.9	87.4	7.9%	8.2%	15.0%	1.8%	1.7%	6.5%

# 9M07 interim results

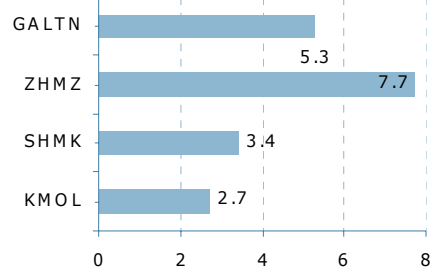
Sales, USD mln



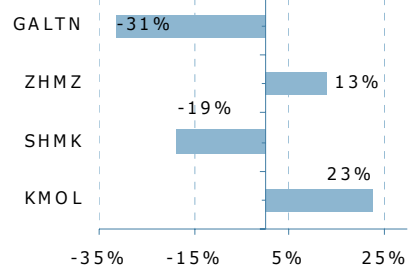
Sales growth, % yoy



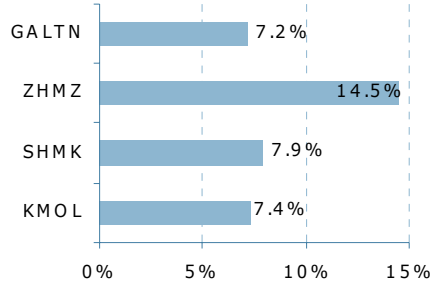
EBITDA, USD mln



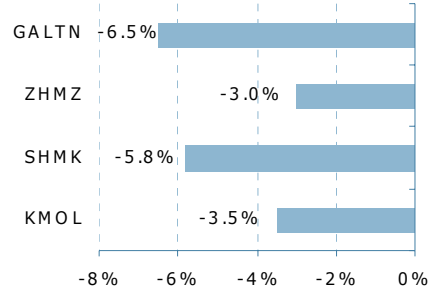
EBITDA growth, % yoy



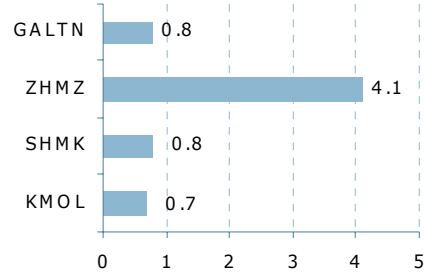
EBITDA margin, %



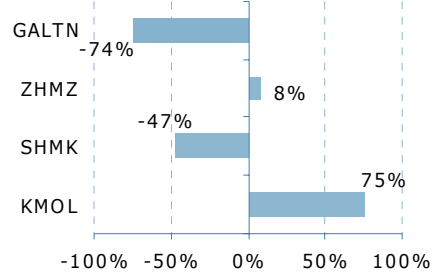
EBITDA margin change, p.p. yoy



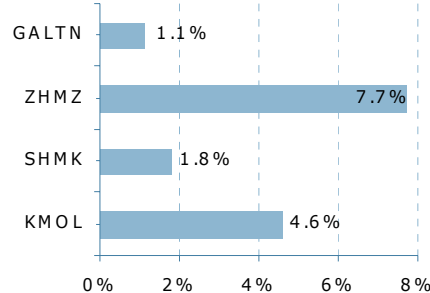
Net Income, USD mln



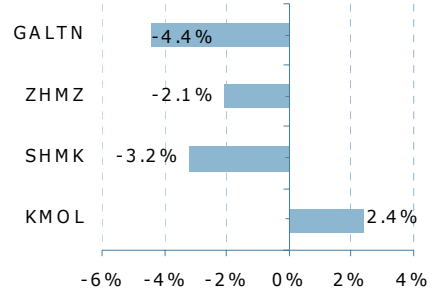
Net Income growth, % yoy



Net margin, %



Net margin change, p.p. yoy



## Quarterly analysis

### GALTN\*

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
<b>Net Revenues</b>	<b>18.2</b>	<b>18.7</b>	<b>21.0</b>	<b>18.8</b>	<b>18.9</b>	<b>18.4</b>	<b>18.9</b>	<b>23.3</b>	<b>23.3</b>	<b>25.7</b>	<b>25.0</b>
<i>Change y-o-y</i>	15.0%	0.7%	14.5%	-2.3%	4.3%	-1.4%	-10.1%	24.0%	22.9%	39.4%	32.3%
<b>Gross Profit</b>	<b>2.8</b>	<b>4.1</b>	<b>4.7</b>	<b>2.9</b>	<b>3.8</b>	<b>5.0</b>	<b>4.4</b>	<b>3.3</b>	<b>3.4</b>	<b>4.8</b>	<b>3.8</b>
<i>Gross Margin, %</i>	15.2%	21.7%	22.3%	15.2%	19.9%	27.1%	23.4%	14.2%	14.5%	18.5%	15.2%
<b>EBITDA</b>	<b>1.0</b>	<b>2.3</b>	<b>3.0</b>	<b>0.7</b>	<b>2.0</b>	<b>3.2</b>	<b>2.5</b>	<b>0.8</b>	<b>1.4</b>	<b>1.9</b>	<b>1.9</b>
<i>EBITDA margin, %</i>	5.3%	12.5%	14.2%	3.7%	10.7%	17.3%	13.0%	3.6%	6.1%	7.4%	7.5%
<b>EBIT</b>	<b>0.5</b>	<b>1.8</b>	<b>2.5</b>	<b>0.2</b>	<b>1.5</b>	<b>2.7</b>	<b>1.8</b>	<b>0.0</b>	<b>0.6</b>	<b>1.0</b>	<b>1.2</b>
<i>EBIT margin, %</i>	2.5%	9.8%	11.8%	0.9%	7.9%	14.5%	9.5%	0.2%	2.6%	4.0%	4.9%
<b>Net Income</b>	<b>(0.3)</b>	<b>1.6</b>	<b>1.7</b>	<b>(0.4)</b>	<b>0.9</b>	<b>1.4</b>	<b>0.8</b>	<b>(0.6)</b>	<b>0.0</b>	<b>0.4</b>	<b>0.4</b>
<i>Net Margin, %</i>	-1.6%	8.7%	7.9%	-2.3%	4.7%	7.5%	4.2%	-2.8%	0.0%	1.4%	1.8%

\* combined financials (Kremenchug included)

### KMOL

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
<b>Net Revenues</b>	<b>4.7</b>	<b>8.4</b>	<b>6.2</b>	<b>7.9</b>	<b>5.2</b>	<b>7.7</b>	<b>7.7</b>	<b>7.0</b>	<b>8.4</b>	<b>14.7</b>	<b>13.4</b>
<i>Change y-o-y</i>	17.1%	30.8%	23.0%	29.1%	18.8%	27.7%	28.0%	25.4%	23.0%	40.2%	36.7%
<b>Gross Profit</b>	<b>1.1</b>	<b>1.8</b>	<b>0.9</b>	<b>1.2</b>	<b>1.2</b>	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>	<b>0.2</b>	<b>2.3</b>	<b>2.2</b>
<i>Gross Margin, %</i>	22.9%	20.9%	14.0%	15.5%	22.7%	13.4%	12.4%	13.5%	1.9%	15.5%	16.6%
<b>EBITDA</b>	<b>0.8</b>	<b>0.8</b>	<b>0.5</b>	<b>0.6</b>	<b>1.0</b>	<b>0.7</b>	<b>0.6</b>	<b>0.4</b>	<b>(0.2)</b>	<b>1.8</b>	<b>1.2</b>
<i>EBITDA margin, %</i>	17.5%	9.2%	7.9%	7.8%	18.7%	8.9%	7.6%	6.1%	-2.5%	11.9%	8.7%
<b>EBIT</b>	<b>0.5</b>	<b>0.4</b>	<b>0.1</b>	<b>0.2</b>	<b>0.6</b>	<b>0.3</b>	<b>0.1</b>	<b>(0.1)</b>	<b>(0.7)</b>	<b>1.2</b>	<b>0.7</b>
<i>EBIT margin, %</i>	9.9%	4.7%	1.1%	2.6%	11.0%	3.3%	1.1%	-1.3%	-8.6%	8.1%	12.2%
<b>Net Income</b>	<b>0.4</b>	<b>0.2</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>0.4</b>	<b>0.1</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.8)</b>	<b>1.0</b>	<b>0.5</b>
<i>Net Margin, %</i>	7.6%	2.7%	-1.5%	-2.3%	7.9%	1.3%	-0.8%	-3.2%	-9.9%	7.2%	3.8%

### ZHMZ

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
<b>Net Revenues</b>	<b>6.0</b>	<b>15.9</b>	<b>16.3</b>	<b>9.4</b>	<b>6.9</b>	<b>15.6</b>	<b>16.3</b>	<b>8.2</b>	<b>9.3</b>	<b>22.1</b>	<b>21.4</b>
<i>Change y-o-y</i>	34.7%	35.3%	35.7%	35.2%	14.2%	-2.1%	-0.2%	-12.6%	35.9%	41.5%	31.5%
<b>Gross Profit</b>	<b>1.2</b>	<b>3.6</b>	<b>3.6</b>	<b>1.3</b>	<b>1.6</b>	<b>5.3</b>	<b>5.3</b>	<b>2.1</b>	<b>2.5</b>	<b>7.1</b>	<b>6.8</b>
<i>Gross Margin, %</i>	20.5%	22.8%	22.1%	14.1%	22.8%	34.1%	32.8%	25.2%	26.5%	32.1%	31.7%
<b>EBITDA</b>	<b>0.5</b>	<b>2.4</b>	<b>2.1</b>	<b>0.2</b>	<b>0.6</b>	<b>3.2</b>	<b>3.0</b>	<b>0.6</b>	<b>0.9</b>	<b>3.8</b>	<b>3.0</b>
<i>EBITDA margin, %</i>	9.1%	14.9%	13.1%	1.8%	8.7%	20.3%	18.5%	6.9%	9.8%	17.1%	14.0%
<b>EBIT</b>	<b>0.2</b>	<b>2.0</b>	<b>1.7</b>	<b>(0.3)</b>	<b>0.2</b>	<b>2.7</b>	<b>2.5</b>	<b>(0.1)</b>	<b>0.3</b>	<b>3.1</b>	<b>2.3</b>
<i>EBIT margin, %</i>	2.8%	12.3%	10.4%	-3.1%	2.5%	17.2%	15.2%	-1.2%	3.7%	14.0%	10.7%
<b>Net Income</b>	<b>0.1</b>	<b>1.3</b>	<b>1.3</b>	<b>(0.4)</b>	<b>0.1</b>	<b>2.0</b>	<b>1.7</b>	<b>(0.2)</b>	<b>0.1</b>	<b>2.4</b>	<b>1.6</b>
<i>Net Margin, %</i>	1.6%	8.5%	7.7%	-4.5%	1.0%	12.8%	10.6%	-1.9%	1.3%	10.7%	7.5%

### SHMK

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
<b>Net Revenues</b>	<b>8.2</b>	<b>10.7</b>	<b>12.9</b>	<b>12.3</b>	<b>8.4</b>	<b>10.4</b>	<b>11.6</b>	<b>13.1</b>	<b>10.8</b>	<b>13.8</b>	<b>17.7</b>
<i>Change y-o-y</i>	62.8%	30.3%	68.8%	57.8%	2.2%	-3.5%	-9.6%	6.4%	28.8%	32.9%	52.0%
<b>Gross Profit</b>	<b>1.5</b>	<b>2.0</b>	<b>3.8</b>	<b>2.2</b>	<b>1.8</b>	<b>2.2</b>	<b>3.1</b>	<b>3.7</b>	<b>2.0</b>	<b>3.1</b>	<b>3.2</b>
<i>Gross Margin, %</i>	18.7%	18.6%	29.4%	17.7%	21.0%	20.9%	26.6%	28.4%	18.9%	22.5%	18.0%
<b>EBITDA</b>	<b>1.0</b>	<b>1.4</b>	<b>2.9</b>	<b>1.1</b>	<b>0.9</b>	<b>1.2</b>	<b>2.0</b>	<b>2.2</b>	<b>0.6</b>	<b>1.4</b>	<b>1.4</b>
<i>EBITDA margin, %</i>	12.2%	13.0%	22.6%	8.5%	10.7%	11.9%	17.5%	16.9%	5.4%	9.9%	8.0%
<b>EBIT</b>	<b>0.8</b>	<b>1.2</b>	<b>2.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.8</b>	<b>1.4</b>	<b>1.6</b>	<b>0.0</b>	<b>0.9</b>	<b>0.9</b>
<i>EBIT margin, %</i>	9.5%	11.0%	20.4%	5.3%	6.1%	7.7%	11.9%	12.4%	0.1%	6.2%	5.2%
<b>Net Income</b>	<b>0.5</b>	<b>0.8</b>	<b>1.9</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>	<b>0.8</b>	<b>1.0</b>	<b>(0.2)</b>	<b>0.4</b>	<b>0.5</b>
<i>Net Margin, %</i>	5.8%	7.5%	14.7%	2.1%	3.0%	4.3%	7.1%	7.8%	-1.6%	3.3%	2.9%

## Revised forecasts

Sales							
2006		2007E			2008E		
		new	new/old	07E/06	new	new/old	08E/07E
KMOL	27.6	46.8	0.0%	70%	79.0	0.0%	69%
ZHMZ	49.4	65.2	-7.5%	32%	81.7	0.0%	25%
GALTN	79.5	93.9	-18.6%	18%	129.4	0.0%	38%
SHMK	43.5	59.9	-13.4%	38%	87.4	0.0%	46%

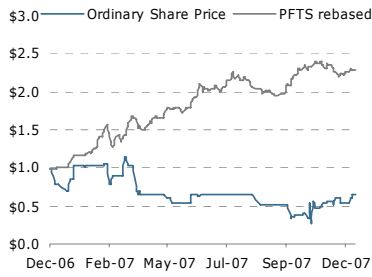
EBITDA margin							
2006		2007E			2008E		
		new	new/old	07E/06	new	new/old	08E/07E
KMOL	9.7%	8.0%	0.0 p.p.	-1.7 p.p.	11.0%	0.0 p.p.	3.0 p.p.
ZHMZ	14.9%	14.3%	-0.6 p.p.	-0.6 p.p.	15.0%	0.0 p.p.	0.1 p.p.
GALTN	10.7%	7.0%	-2.5 p.p.	-3.7 p.p.	10.0%	0.0 p.p.	3.0 p.p.
SHMK	14.7%	8.2%	-5.8 p.p.	-6.5 p.p.	15.0%	0.0 p.p.	6.8 p.p.

Net margin							
2006		2007E			2008E		
		new	new/old	07E/06	new	new/old	08E/07E
KMOL	0.8%	1.2%	0.0 p.p.	0.4 p.p.	4.9%	0.0 p.p.	3.7 p.p.
ZHMZ	7.1%	7.6%	-0.6 p.p.	0.5 p.p.	8.2%	0.0 p.p.	0.6 p.p.
GALTN	2.8%	1.3%	-2.3 p.p.	-1.5 p.p.	4.3%	0.0 p.p.	3.0 p.p.
SHMK	5.9%	1.7%	-4.1 p.p.	-4.2 p.p.	6.5%	0.0 p.p.	4.8 p.p.

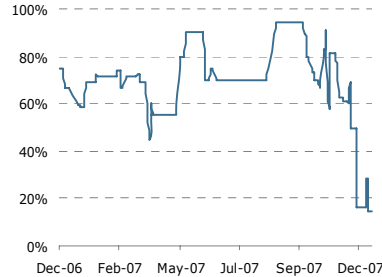
# Stock monitor

## Kovelmoloko

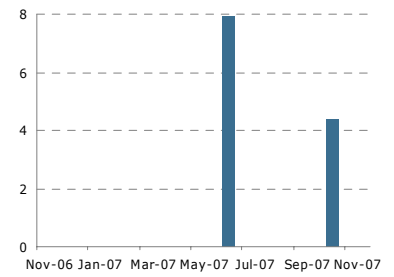
Price vs. PFTS index



Spread, %

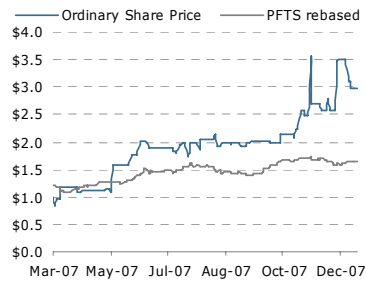


Trading volumes, USD ths

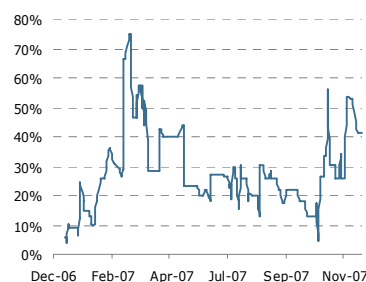


## Zhytomyr Dairy

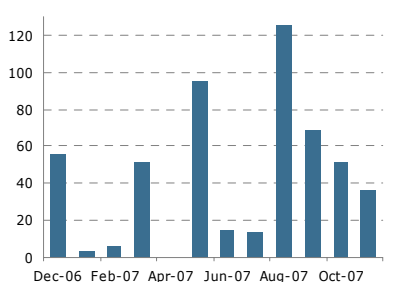
Price vs. PFTS index



Spread, %

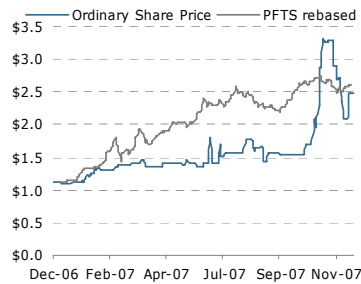


Trading volumes, USD ths

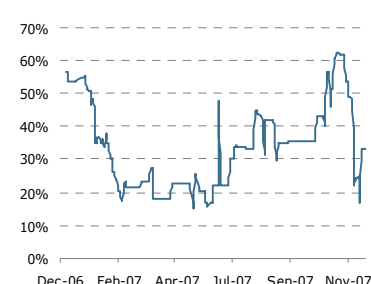


## Galakton

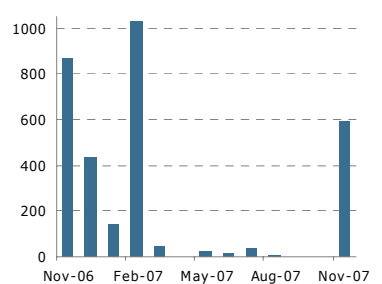
Price vs. PFTS index



Spread, %

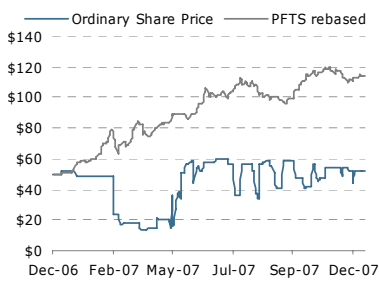


Trading volumes, USD ths

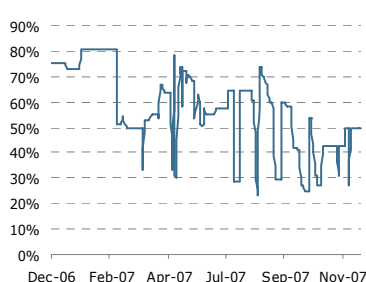


## Shostka milk

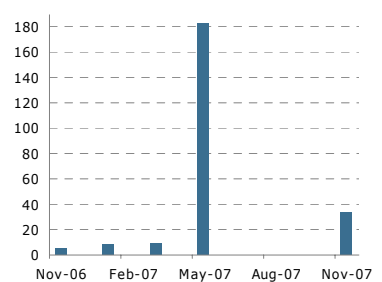
Price vs. PFTS index



Spread, %



Trading volumes, USD ths



Source: PFTS, Bloomberg

# Appendix - Disclosures

## Analyst Certification

I, Anna Dudchenko, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

KMOL				
Date	Target price, USD	Market Price, USD	Rec	Action
02-Nov-07	0.7	0.5	BUY	Initiating
21-Dec-07	0.7	0.6	BUY	Maintain

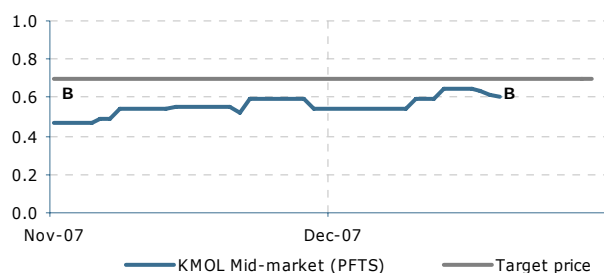
ZHMZ				
Date	Target price, USD	Market Price, USD	Rec	Action
02-Nov-07	3.0	2.6	BUY	Initiating
21-Dec-07	3.0	3.1	HOLD	Maintain

GALTN				
Date	Target price, USD	Market Price, USD	Rec	Action
02-Nov-07	3.6	2.0	BUY	Initiating
21-Dec-07	3.6	2.2	BUY	Maintain

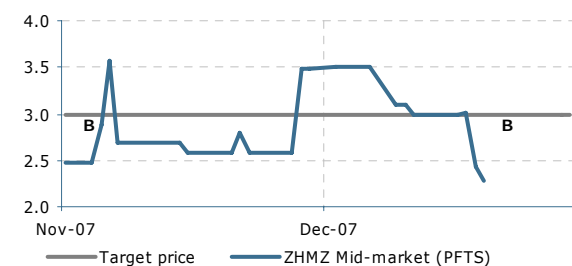
SHMK				
Date	Target price, USD	Market Price, USD	Rec	Action
02-Nov-07	47.6	47.0	HOLD	Initiating
21-Dec-07	41.4	52.0	SELL	Downgrade

## Recommendation history

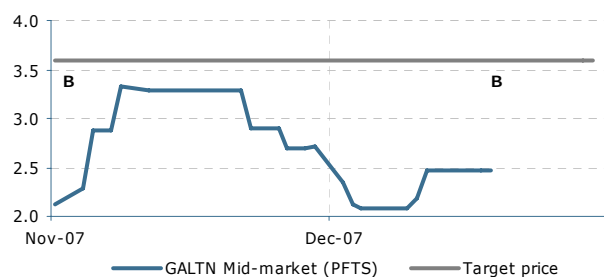
KMOL



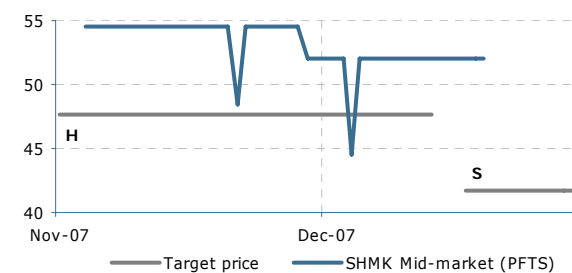
ZHMZ



GALTN



SHMK



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## Investment Ratings

The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 15% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 15%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

<b>Concorde Capital ratings distribution</b>		
Buy	37	38%
Hold	28	39%
Sell	13	13%
Under Review	19	20%
<b>Total</b>	<b>97</b>	<b>100%</b>

<b>Investment banking clients*</b>		
Buy	8	80%
Hold	2	20%
Sell	0	0%
Under Review	0	0%
<b>Total</b>	<b>10</b>	<b>100%</b>

*\*Within the last twelve month period, Concorde Capital has obtained compensation from these companies*

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