UKRAINE/ Food

Initiating Coverage

Olha Pankiv
op@concorde.com.ua
+380 44 207 5037

Anna Dudchenko
ad@concorde.com.ua
+380 44 207 5030

CONCORDE CAPITAL

Dakor

Sweet opportunity

May 30, 2007

Contents

BUY

Bloomberg	DAKOR UZ
Xetra	WI81

Market data

Market price, USD	19.02
Shares, mln	**5.7**
MCap, USD mln	**109.0**
Free float	20.0%
FF MCap, USD mln	21.8

12M target

Price, USD	26.6
Upside	40%

Ownership

Management	80%
Institutional investors	20%

Ratios 2006

EBITDA margin	25.5%
Net margin	13.2%
Net debt to equity	1.0

Investment Case

Major Ukrainian sugar producer, Dakor is in a solid position to expand its share of the market in the midst of industry consolidation, which will be the name of the game for the next few years. In April 2007 the company first tapped the equity market, floating 20% of its shares. This year, Dakor is planning to invest net proceeds of USD 17.5 mln into modernization of its production facilities and a 14% increase of their daily capacities. We estimate Dakor's 12M target price at USD 26.6 per share, a 40% upside to the current market price. BUY.

Poised to benefit from industry consolidation. Dakor is a top five sugar producer in Ukraine, having accounted for 4.2% of total sugar production last year. Large players, such as Dakor, have advantageous positions in terms of better access to financing, more efficient production and stronger lobbying power for the distribution of sugar production quotas. We project the company's market share to double by 2010 as small sugar makers continue to be pushed out of business. Daily sugar processing capacities in the country have already decreased 35% in the last ten years.

On-going vertical integration to reduce production costs. Dakor is expanding its production chain into the cultivation of in-house sugar beets, with the goal of practically eliminating dependency on more expensive third-party beets by 2010. This target will be reached through a 28% increase in land under lease by 2009 to 100 ths ha. The company has a preemptive right to purchase the land it leases, and it plans to exercise the option after the moratorium on the sale of agricultural land is terminated, which we expect in 2009.

Investing in production efficiency. Dakor's concentration on efficiency improvement will be the major driver of further growth in the company's profitability. We expect an increase in beet yields from this year's 31 mt per ha to 45, and sugar extraction growth from 11.8% to 13.5% in the mid-term. The company's CapEx plan for 2007-2008 provides for the modernization of equipment at its sugar production mills, and the purchase of machinery for beet collection and transportation.

Ready for raw cane sugar imports. During entry negotiations for WTO membership, Ukraine arranged for an import quota for raw cane sugar of 260 ths mt per year, almost twice smaller than Australia initially required. We believe these amounts will be absorbed by the market, allowing sugar producers to cover their own deficit of sugar beet inputs with less expensive raw cane sugar. Dakor has capacities for processing raw cane sugar at two of its mills.

IPO plans. Dakor is targeting an IPO in 2009 to raise additional capital for further development. As a preparatory step, the company's management intends to have Dakor's 2007 financials audited by a major international audit company.

Financial Summary*

Key financials, USD mln

	Net Revenues	EBITDA	Net Income	EV/Sales	EV/EBITDA	P/E
2006	63.0	16.1	8.3	2.4	9.5	13.1
2007E	74.3	18.5	9.3	1.8	7.2	11.7
2008E	94.3	24.8	16.3	1.4	5.4	6.7
2009E	104.7	27.4	18.6	1.3	5.1	5.9

* *Financial statements for 2005-2006 are consolidated based on UAS accounts for separate companies and data on intra-group transactions obtained from management.*

Ukraine’s Sugar Market

Market Capacity

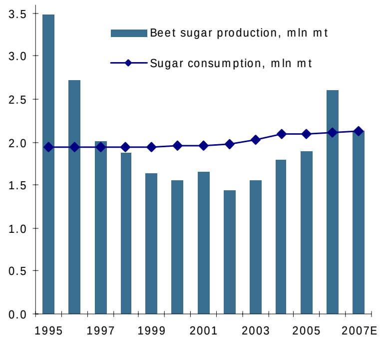
Demand supported by stable domestic consumption

Last year, sugar consumption in Ukraine was 2.1 mln mt, from which we estimate market turnover at USD 1.2 bln. Annual sugar consumption has reached a biologically optimal level of 38 kg per capita (including sugar and sugar-containing products). We expect demand for sugar in Ukraine to post moderate growth in the mid-term, which we estimate at 1% CAGR.

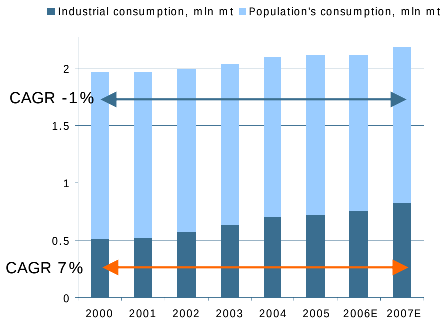
Directly exporting Ukrainian sugar is a long-term matter, depending on whether the EU relaxes regulations enough to allow imports of white sugar. Protectionist measures set by the EU and Russia, along with relatively cheaper production costs of cane sugar present an obstacle for Ukrainian sugar exports. The trend toward liberalizing the EU sugar market started in June 2006 when changes in the EU's Common Agricultural Policy were implemented.

Ukraine does, however, export sugar-containing products, and we believe that 15-18% of Ukrainian-made sugar will continue to be exported annually in the form of confectionaries.

Ukrainian sugar demand & production of beet sugar



Industrial vs. population's consumption of sugar



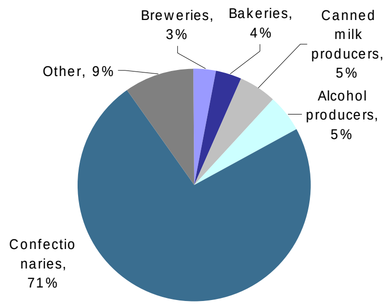
Source: Ukrsugar Association, Pro-Consulting, Concorde Capital estimates

Industrial consumption outpaces the population's intake

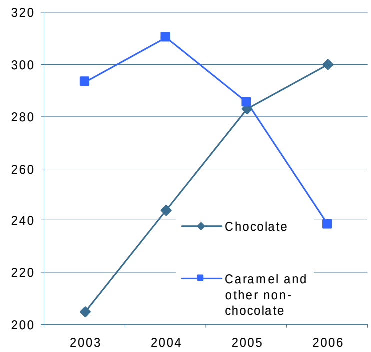
Sugar producers actively supplying industrial customers are expected to post faster sales growth relative to those targeting retail as we project industrial consumption to grow at a faster rate. Currently, Ukraine's population directly consumes 64% of total sugar sold. This is significantly higher than the 30% in the EU, and is related to higher production of home-made preserves. As disposable income has risen, higher value-added sugar-containing products are replacing direct sugar consumption by the population.

Sugar consumption by industries grew at 7% CAGR in 2000-2006, and we expect it to grow at 8% CAGR in 2006-2016 to reach the EU consumption level of 70% in ten years.

Breakdown of industrial sugar consumption, 2005



Production of confectionaries, ths mt



Source: State Statistics Committee, Pro-consulting

Growth in industrial sugar consumption will be triggered by increasing needs of non-confectionary food processing, such as from the brewery and beverage industries. We expect strong growth in demand for beer and non-alcoholic beverages, as their per capita consumption is significantly below EU levels. At the same time, demand for sugar from the confectionary industry is less likely to increase, as we believe, the effect of production growth triggered by the premium segment will be offset by a switch from caramel to less sugar-consuming products, such as chocolate.

Bioethanol as a potential demand driver

We believe that the alternative use of sugar beets or raw cane sugar for the production of bioethanol (an additive to petroleum used to upgrade its octane number) can potentially imply ~2% CAGR in terms of demand (when recalculated to sugar).

We expect bioethanol to make up 5% of petroleum used in the country in ten years (the maximum level possible without current car engines being reconstructed).

However, government regulation currently limits production of ethanol to the level necessary for alcohol production, and needs to be relaxed to allow for the production of bioethanol as a petroleum additive. The president made the first step in this direction last year when he signed a law decreasing excise taxes for petroleum with bioethanol additive from EUR 60 to EUR 30 per mt. The law came into effect on January 1, 2007.

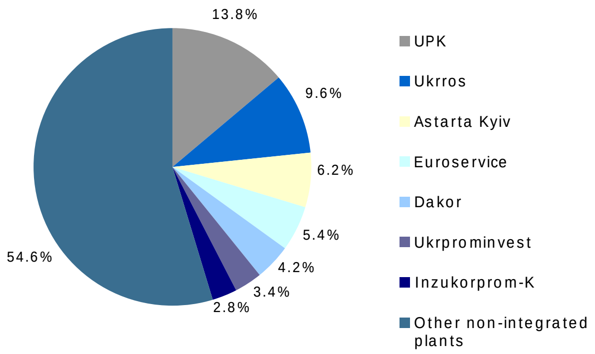
Players

Consolidation – the future of Ukraine's sugar industry

Ukraine's sugar market is significantly more dispersed compared to the EU market. We expect concentration to increase as less efficient and small players are put out of business.

The seven largest players produced over 45% of sugar in Ukraine last year.

Ukraine's sugar market structure by production, 2006

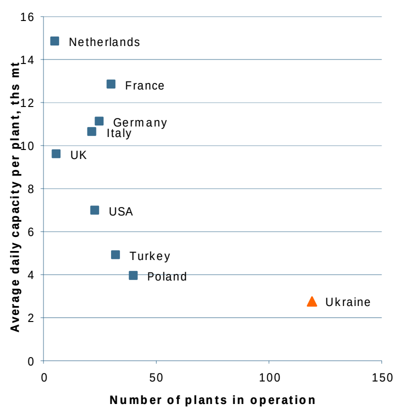


Source: Ukrsugar

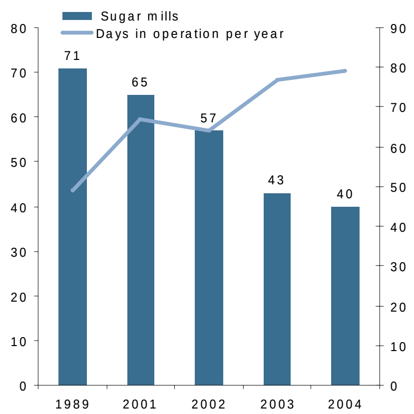
The business model for sugar production in Ukraine is different than in the EU and USA: The number of sugar mills is significantly higher and their average capacity is much lower. Currently low beet yields in Ukraine require a relatively large area of land around the sugar mill to be used for beets. Thus, small-capacity mills can save on transportation expenses.

As the efficiency of growing beets in Ukraine increases, the relative importance of transportation savings will diminish, while the importance of economy of scale will grow, as shown by the experience of Poland. We expect a similar trend to be followed by Ukraine: A decline in the number of mills in operation and an increase in the capacity of the average mill.

Sugar production industry structure: Ukraine vs. World



Poland: Sugar mills vs. Processing period duration

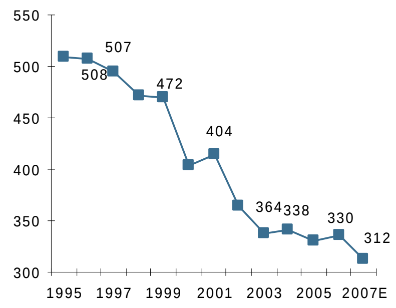


Source: Ukrsugar, Institute for economic research and policy consulting - IER

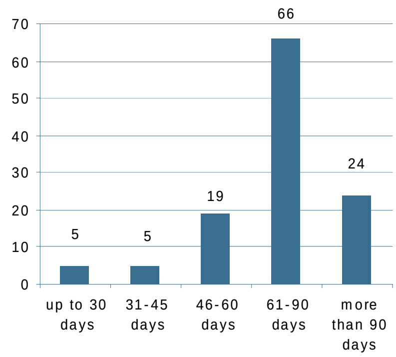
The trend toward concentration in Ukraine's sugar industry is already evident as daily sugar processing capacities in the country decreased 35% in the last ten years to 330 ths mt in 2006, as inefficient producers closed up shop.

Representatives of the Ukrsugar Association (an organization of sugar producers that make recommendations to the government on the distribution of sugar production quotas) told us that at least ten of Ukraine's sugar mills will not be given a quota amount for the current year, since they operated for less then 45 days in 2006 and failed to meet the government's minimum requirements to ensure beet supplies for at least 45 production days.

Daily capacities, ths mt of beets



Distribution of mills by days in operation in 2006



Source: Ukrsugar

Large producers increase lobbying power

Large sugar producers have recently strengthened their positions in the Ukrsugar Association. At the Association's meeting on March 21, members its members decreased the number of council members from 25 to 21, and simultaneously increased the number of representatives of large sugar producers on the council. We believe the added muscle in determining the distribution of production quotas will lead to further industry concentration.

Industry Specifics: Seasonality

Production of beet sugar in Ukraine is seasonal; the processing period normally lasts for no more than 90 days in September-November. In the absence of raw cane sugar imports, this seasonality generates significant volatility in prices during the year, and directly ties sales and profits of industry players to their ability to prolong the cash conversion cycle over a year. This normally implies benefits for large players with better access to loans.

The largest inflow of sugar to the market occurs during and immediately after the production period, which results in a decrease in prices.

Large sugar producers usually hold sugar until prices increase. High prices appear at the end of spring and last until the new season's sugar hits the market in October (in 2006 prices started peaking in February due to speculation on domestic markets about a price hike similar to that on the world sugar markets).

The planting campaign is conducted before the sugar from the previous marketing season is sold (March-April), thus prolonging the cash conversion cycle to 1.25-1.5 years.

Regulation

Ukraine's sugar industry is heavily regulated, similar to most other countries producing beet sugar. Government regulations include:

- Import tariffs
- Minimum prices for sugar and sugar beets
- Restrictions on domestic production with quotas

Agricultural producers are supported by the following privileges:

- VAT is left to a company if spent to develop its own production
- Preferential corporate profit tax rate
- Partial reimbursement of interest expenses

In our opinion, the government's major regulatory instruments – production quotas and minimum prices, favor large market players and stimulate concentration on the market.

New quota system to benefit large producers

Production of sugar in Ukraine is regulated by the government via quotas, which are set annually for the next marketing season to stabilize sugar supplies. The quotas are distributed between producers, based on their:

- production efficiency (production costs should not be higher than the minimum price set for the given marketing year);
- ability to ensure deliveries of sugar beets for processing (at least for 45 days of operation per year).

Until 2006, the availability of sugar beets was the main constraint for sugar producers and domestic production never exceeded the quota's limit. Last year, for the first time since 1998, sugar production exceeded consumption as well as the quota, which necessitated the creation of effective quota enforcement mechanisms.

We believe a more efficient quota system will be put into force starting from the 2008-2009 marketing season. We expect that either a flat payment per mt produced will be introduced or quotas will be sold at auctions. Legislation has been registered in parliament recently that proposes quotas be distributed on a paid basis.

Paid quotas would benefit large players, as they draw away working capital, which small producers lack. In fact, the bills were brought to parliament by large players that say they are willing to pay for the government to enforce production quotas. The money raised will likely be set aside to close inefficient sugar mills.

Auctioning would do a better job in terms of forcing less efficient producers out of business compared to a flat rate. We believe that if paid quotas are enforced, the payment will be transferred 100% to the final consumers of sugar.

Small players ousted from the market by sugar price floor

Minimum prices for sugar are set by the government annually. Companies, which sell below the minimum prices are penalized with fines, and have to pay VAT for the revenues calculated at the minimum price. This is usually the case for smaller companies that lacking funds to finance sowing campaigns, as these expenditures are incurred when sugar prices are low.

We believe a significant number of players will be squeezed out of the market at the current market price of USD 444 per mt (wholesale, including VAT), which is below the minimum price of USD 564 per mt, and the current season's average production costs of USD 495-515 per mt.

Tax and interest privileges in effect until 2010

Ukraine’s agricultural companies pay a fixed agricultural tax, which equals 0.15% of the estimated value of leased land, and is normally several times lower than the amount of tax due if corporate taxes were applied (currently at 25%). The law is valid until January 1, 2010.

Agricultural producers are also exempt from VAT payments. Current legislation is valid until 2008, but as it has been prolonged several times, we believe the agricultural sector's strong lobbying power will provide for an extension until at least 2010.

The government foresees the partial compensation of interest payments to agricultural companies on loans for equipment purchases, construction and CapEx. The amounts to be compensated are determined annually in the government’s budget. We also expect this compensation to last until 2010.

Agricultural land expected to become tradable in 2009

Ukraine’s Land Code prohibits the trade of agricultural land until January 1, 2008 and we believe the moratorium will be prolonged for one year more, until 2009.

Currently agricultural land is owned by the rural population either as a land plot with defined borders, or as ownership rights for land that it leases to an agricultural company. Lessees pay rent annually for the use of land. The agreements are usually mid to long-term, and Ukrainian legislation gives the preemptive right to the lessee to purchase land if the owner decides to sell it.

Prohibitive import tariffs to stay

Currently import tariffs for both raw and white sugar are set at a prohibitive level of 50% of the customs value, but not less than EUR 300 per mt and are an effective means of sugar supply control.

An import quota for raw cane sugar at 260 ths mt annually will be introduced the year after Ukraine joins the WTO. Imports within the quota amount will be taxed at a preferred rate of 2%. Sugar imported above the quota will be taxed at 50% of the customs value, which, we believe, will continue serving as restrictive measure, as discussed in the next section.

Playing by WTO Rules

Accession terms favorable for Ukraine

Ukraine's negotiations with WTO members on accession terms resulted in an agreement on an annual quota for raw cane sugar imports of 260 ths mt (~12% of annual consumption), instead of 406 ths mt, which was initially asked for by Australia. Imports under the quota will be taxed at a privileged import tariff of 2%. Ukraine will also cancel the existing minimum import duty on raw sugar of EUR 300 per mt for imports over the quota and change it to 50% of the customs value, which we believe would still serve as a prohibitive tariff for raw sugar.

We expect Ukraine to join the WTO this year, and the law on quotas to be put into effect in 2008. Agreements with WTO member countries do not provide for a gradual increase in import quotas by Ukraine after accession, as they initially required. Thus, we expect the quota of 260 ths mt to remain in the mid-term.

Sugar producers to partially switch to raw cane sugar feedstock

Due to a relatively small quota (12% of Ukraine's expected consumption in 2008), we think that imports of raw cane sugar will not cause a price shock to the Ukrainian market. Rather, we expect raw cane sugar to replace expensive beet feedstock and the market to absorb white sugar made from raw cane sugar.

Fifty of Ukraine's 119 sugar mills in operation last season have the capacity to process raw cane sugar; their output is estimated at 5 mln mt of sugar, far exceeding Ukraine's annual needs.

We expect that in 2008 world sugar prices will still be at current low levels (at USD 240-250 per mt, #11 contract in spring 2007) due to increased production by Brazil and India, the world's two major sugar makers.

Based on this assumption, we estimate the cost differential between beet sugar production and raw cane sugar processing for white sugar in Ukraine at USD 40 per mt (11% of beet sugar costs).

2008E	USD / mt
World raw sugar price	240
CIF	50
Import tariff, 2% of customs value	5
Processing	35
Cane sugar processing costs	**330**
Beet sugar production costs,	**370**
Cost differential	40
Cost differential, % of beet sugar costs	11%

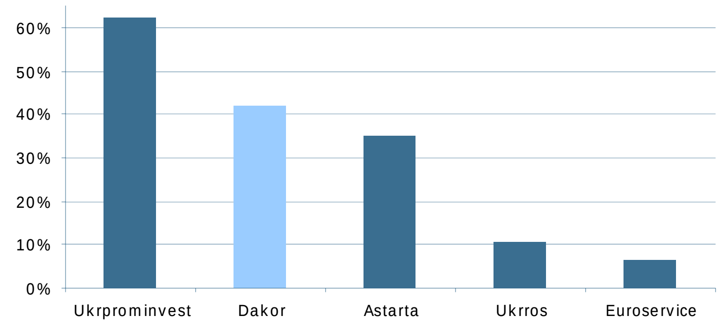
Source: Concorde Capital calculations

We think that a cost differential of only 11% will make imports of raw cane sugar in excess of the quota uneconomical due to the 50% tariff applied to them.

Inefficient beet producers will decrease beet supplies

Raw cane sugar is likely to replace third-party beets. Ukrainian sugar producers only partially meet their need from in-house beet production. A quota of 260 ths mt of raw cane sugar allows for the replacement of only 12% of beet inputs in 2008, while we estimate that largest sugar producers will be short 30-40% of needed beets.

In-house beets supplies of the largest sugar producers in 2006*



Source: Concorde Capital estimations, Ukrsugar
** Data on UPK, the largest sugar producer not available*

In March 2007, the government announced a 13% decrease in the minimum purchasing price for sugar beets to USD 33.6 per mt (including VAT). This made the sugar beet business less attractive for growers not integrated into sugar production companies. This year, even though the overall beet planting area in Ukraine decreased 18%, major sugar makers actually announced their beet planting area increased.

Price & Volume Outlook

High production in 2006-2007 season is likely to result in a sugar inventory that we expect to reach 0.7 mln mt (26% of production) by the end of the current season, compared to 10% by the end of 2005-2006 sugar marketing season.

We expect the market to move toward equilibrium during the next seasons, after which beet sugar production will eventually stabilize at 1.8-1.9 mln, which with 0.25 mln mt of sugar received as a result of imported raw cane sugar processing, will make up 100% of domestic consumption. Worsening weather conditions and government increasing purchases to the State Reserve and Agrarian Fund, may shorten the adjustment period.

Ukrainian sugar balance, ths mt

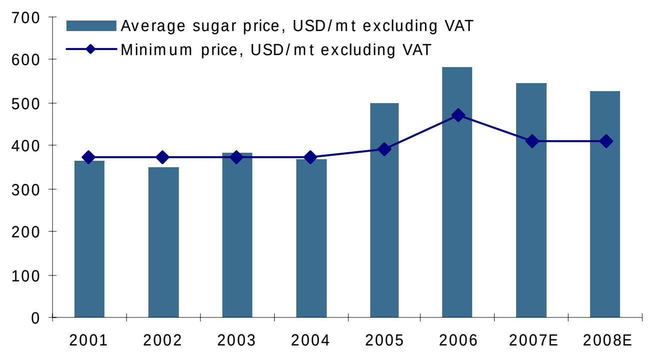
	04/05	05/06	06/07E	07/08E	08/09E	09/10E	10/11E
Beginning inventory	332	115	197	671	826	770	594
Beet sugar production	1,789	1,894	2,600	2,186	1,844	1,746	1,728
Imports*	155	338	6	100	252	252	252
Total production**	**1,944**	**2,232**	**2,606**	**2,286**	**2,096**	**1,998**	**1,980**
Consumption	2,096	2,100	2,110	2,131	2,152	2,174	2,196
Exports	65	50	22	-	-	-	-
Ending inventory	115	197	671	826	770	594	379

** Including raw cane sugar processed into white sugar*
*** Including beet sugar and processed cane sugar*
Source: Ukrsugar Association, Pro-Consulting, Concorde Capital estimates

On May 18, the Ukrsugar Association announced beet sown area decreased by 18% to 650 ths ha in 2007, which should result in a proportional reduction in sugar production this year. We anticipate the low sugar prices currently on the Ukrainian market to increase during the summer, driven by expectations of lower production volumes. According to our estimates, the average sugar price in 2007 will still be 7% lower than last year due to the effect of atypically high inventories.

Those market participants that are able to increase their working capital and wait until the high price season expected in summer, might not experience a decrease in their average selling price.

Sugar prices in Ukraine, USD/mt



Source: Bloomberg, Concorde Capital projections
** Minimum price presented in the year of the season's start, e.g.: 2006-2007 minimum price is presented in 2006*

Company Overview

Strategy

Further vertical integration

Dakor's management plans to enhance the company's efficiency through deepening vertical integration. This will include increase in land under lease by 28% in 2009 to 100 ths ha to ensure self-sufficiency in supply of sugar beets, on average 18% cheaper compared to those bought from third-parties.

Improving efficiency of sugar beet production

The company targets to boost beet yield from 30 ths mt per ha last year to 45 ths mt in the mid-term by using better quality seeds (switch for imported seeds bought from KWS, Germany) and improved fertilization. Better quality beets and the modernization of sugar production equipment is expected to lead to an increase in sugar production efficiency from 11.8% sugar extraction in 2006 to 13.5% in the mid-term.

Energy saving measures

Dakor's strategy envisages a more efficient energy use. Replacement of centrifuges and presses at the company's mills coupled with other energy-saving measures is expected to result in 10% decrease in gas consumption in 2007. The company now studies the expediency of replacement 50% of gas with coal to hedge against future hikes in gas prices.

Product mix expansion

This year Dakor plans to start production of sugar with a higher refining degree at Dubno plants to target beverage producers.

A bioethanol plant, that will begin production in summer, will diversify Dakor's consumer base further, as it opens up a totally new B2B segment. The company has applied for license to be able to trade this commodity, and is now in talks with oil refiners, as it plans to deliver bioethanol for them in exchange for diesel. Dakor is also considering the possibility of using bioethanol to partially replace gas used in production process, in case of gas price hikes.

IPO plans

Dakor's shareholders plan to hold an IPO in 2009 to raise additional capital for further modernization of its capacities and purchases of land. As part of their preparation, the management intends to have 2007 financials audited by international audit firm in 2008.

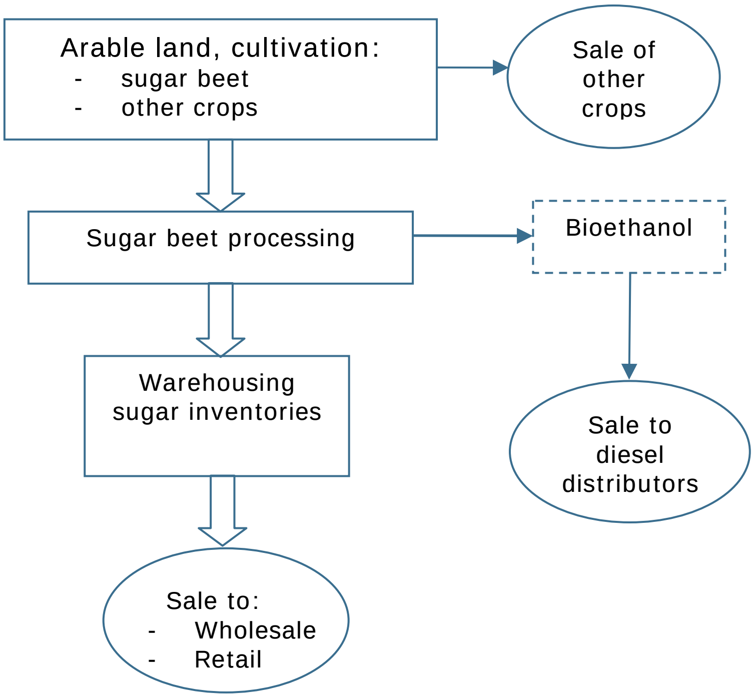
Profile

Dakor is the fifth largest sugar producer in Ukraine and held a 4.2% share in Ukrainian sugar output in 2006. The company operates four sugar mills, with a daily capacity of 14.1 ths mt. It was loaded last year for 62 days, close to the average for Ukrainian sugar mills. Dakor has a representative in the Ukrsugar Association who distributes sugar production quotas.

The company is diversified and cultivates wheat, rapeseed and other crops, as required by crop rotation practices. It also breeds cattle, and sells milk and meat. Revenues from non-sugar related crops contributed 12% to the company's overall revenues last year.

Located in Western Ukraine, Dakor supplies customers all over Ukraine. Konti, Ukraine's second-largest producer of confectionaries, accounted for 29% of Dakor's sugar sales last year. In general, half of Dakor's output is sold directly to industrial customers, less than 1% is packed and sold retail, and the rest is delivered to sugar traders.

Dakor's business structure



Source: Company data

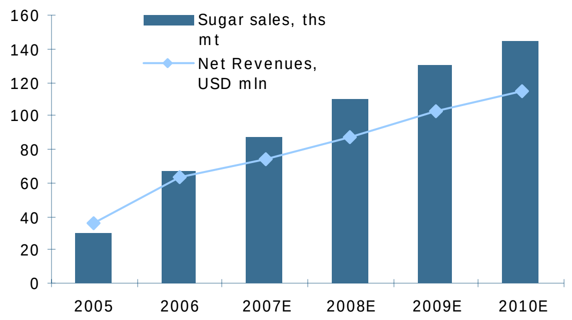
Business Development

Market share to double by 2010

We expect Dakor's market share in sugar sales to grow twofold by 2010 to reach 7%. The company has 66.9 ths mt quota confirmed for 2007/08 season, and we expect it to get at least 20 ths mt in autumn, which in sum will make up 18% increase, compared to the previous season's quota.

The major reason for growth in Dakor's market share will come as it moves into the space vacated by the closure of small and inefficient competitors.

Dakor's sugar sales and net revenue



Source: Company data, Concorde Capital projections

Capacities ensure room for production growth

We believe that the capacities of Dakor's four mills will be enough to ensure planned production growth in the long-term without further acquisitions.

A 13.5% capacity increase at the existing mills planned for 2007 will be made with growth in subsequent years in mind and to shorten the processing period to decrease storage time of collected beets.

We estimate that Dakor's annual capacity load for beet sugar will reach ~65 days in the mid-term – the current average for Ukraine's sugar market. The efficient capacity load of beet sugar producing mills is estimated at 46-90 days per year.

Processing capacities, mt of beets per day

Mills	2006	2007
Dubno	4,350	5,500
Kremenets	4,320	4,650
Zolochiv	2,730	3,000
Ostrig	2,730	2,850
Total	**14,130**	**16,000**

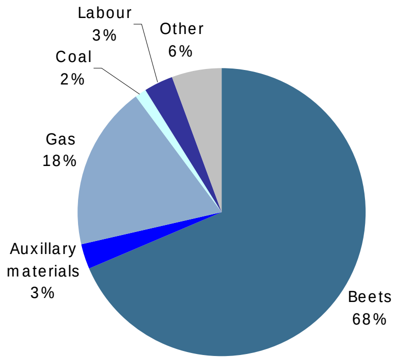
Source: Company Data

Dakor can switch its mills in Dubno, Zolochiv and Ostrig to process raw cane sugar when they are not processing beets. The company has a history of processing raw sugar cane on commission in previous years.

In-house beet production to boost sales and margins

As a key feedstock in sugar production, sugar beet accounts for 68% of Dakor's production costs.

Dakor's sugar production costs breakdown, 2006



Source: Company data

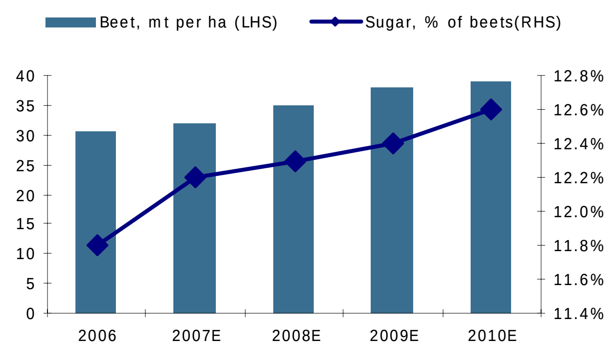
Dakor gets beets for processing from three sources: internally, from sponsored agricultural companies (through pre-payment in the form of fuel and equipment provision), and individuals.

In-house beets were 18% cheaper than third-party beets in 2006 and made up 42% of the total amount of beets processed by Dakor. According to our estimates, this is one of the largest figures in the industry, which provides Dakor with a competitive advantage in terms of lower production costs.

We estimate that the company can potentially decrease its sugar production costs by 6% merely by replacing third-party beets with beets grown in-house. In addition to cost savings, the elimination of commission schemes by switching to in-house beets would also lead to an increase in Dakor's sales.

Last year, Dakor processed 26% of beets (practically all beets received from individuals) on commission– i.e. sugar made was returned to beet providers, who paid Dakor for processing services. We see a positive trend toward replacing Dakor's beet processing on commission with internal sugar production. The amount of beets processed on commission in 2006 decreased by 23% to 228 ths mt. We believe that as sugar beets become less scarce, selling on commission will be fully replaced by sales of its own sugar.

Improvement of Beet Production Efficiency



Source: Company Data, Concorde Capital estimates

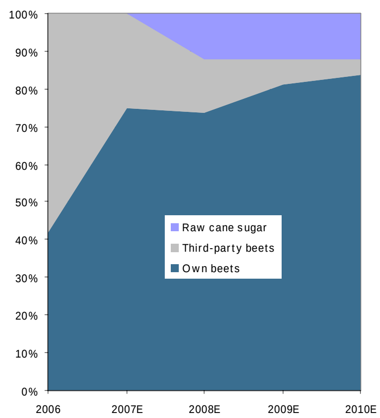
Dakor is actively improving the efficiency of its in-house beet production. The company's beet yield has been growing at 39% 5Y CAGR – from 6 mt per ha in 2001 to 30.7 mt in 2006 (compared to the industry average of 28.3 mt per ha) due to better quality seeds and soil fertilization. The company's sugar production efficiency accounted for 11.8% of sugar extraction out of mt of beets collected, in line with the industry average.

These indicators leave room for growth, as they are still significantly lower than those posted by European farmers (65-70 mt of beets per ha, 15% of sugar extraction). We expect further improvement of these indicators to 45 mt of beets per ha, and 13% of sugar extraction in the mid term.

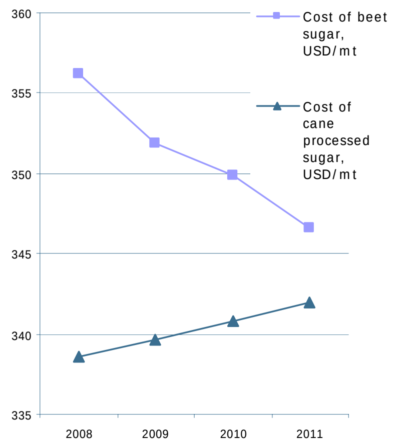
Raw cane sugar as an alternative feedstock

Starting from 2008, raw cane sugar imported in accordance with the adopted import quotas will start replacing beets that Dakor used to buy from third parties.

Dakor's sugar production by source of input, %



Production costs of beet sugar vs raw cane sugar processing*



** Assuming raw cane sugar (# 11 contract, NYBOT) price stable at USD 240*
Source: Company Data, Concorde Capital estimates

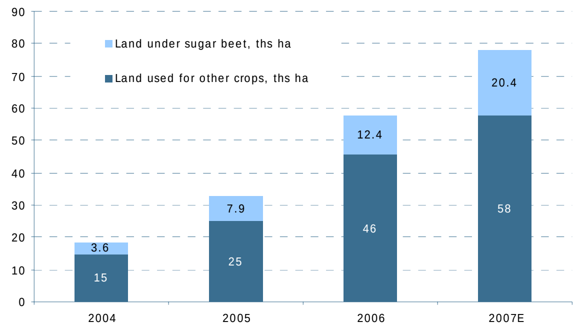
As the company improves the efficiency of beet sugar production, processing of imported raw cane sugar becomes efficient only at a relatively low price – USD 260 per mt in 2008, and USD 240 – in the mid-term.

The latter is close to average price at NYBOT in March 2007, though the world market being at its current lows, there is a chance for the world prices for raw cane sugar to grow after 2008, making its processing less efficient for Dakor compared to beet processing.

Land acquisition continues

Dakor has gradually been increasing leased land around its mills in the last few years. It currently owns 78 ths ha, out of which an estimated 20.4 ha will be used for planting beets in 2007.

Dakor's land under lease, ths ha



Source: Company Data, Concorde Capital estimates

Most of Dakor's land lease agreements still have 4-6 years remaining. Dakor has a preemptive right to renew its lease after the agreements terminate.

Currently, lease payments are low and are typically 1.5% of the land's value (USD 22 per ha annually), and are paid in grain or sugar. Due to the lack of bargaining power by land owners, which are numerous and dispersed, we do not expect rent to increase significantly in the mid-term.

Gas-saving technologies to be introduced starting from 2007

As natural gas used for heating steam in production makes up 18% of production costs, Dakor's other upcoming efficiency improvement will result in 10% gas savings in 2007. The company can potentially replace 50% of gas used in production with coal.

CapEx: Major expenditures planned for 2007

	Cost, USD mln	Effect
Replacement of centrifuges	1.0	Savings in electricity and gas, higher sugar output
Filter-presses	1.5	Ability to sell lime fertilizer by-product, energy-savings
Beet-piling machine	0.9	Less losses from storing beets
Beet loading machine	2.0	Lower transportation expenditures due to lower soil content in collected beets, lower beet losses at the field
Beet collecting complex	2.5	Lower expenditures for beet collection, as third-party services are replaced
Granulators of dry presscake	0.4	More efficient production of presscake, energy savings
Automation of its production process	0.6	Increase of sugar extraction from beets
Installing of syrup filters	0.2	Higher quality sugar
Reconstruction of electric power station	0.5	Higher sales of electricity to third parties, more efficient energy production

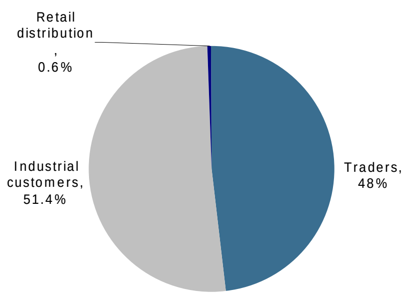
Source: Company Data, Concorde Capital estimates

Customers to become more diversified

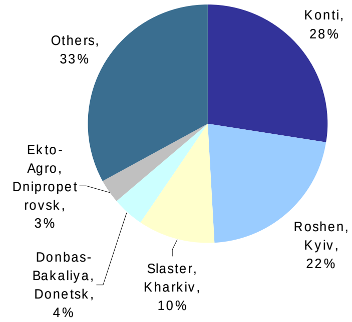
In 2006 more than half of Dakor's sugar was sold directly to large industrial customers. We believe that a significant portion of the 48% of Dakor's sugar sales that was sold to traders last year was resold to smaller industrial consumers.

Dakor's top five clients accounted for 67% of total sugar sales in 2006, demonstrating considerable concentration, which we believe is normal for large sugar producers.

Consumer base, 2006



Sales structure, 2006



Source: Company Data

The company intends to start production of higher quality sugar for beverage producers this year, thereby diversifying its customer base. Dakor also will certify its Zolochiv mill in accordance with ISO requirements for deliveries to Svitoch, Ukraine's major confectionary producer, which is controlled by Nestle.

By selling to traders, Dakor essentially outsources warehousing and storage to locations close to customers, and thus avoids building a warehouse network all over Ukraine. The company only has warehouses at production sites and near Kyiv. Sugar prices in the capital are normally the highest in Ukraine, so Dakor's focus is to keep tight control over deliveries to this region.

Retail distribution is executed in Western Ukraine only. Packaging is made at the Dubno mill.

Bioethanol production to diversify business portfolio

Dakor plans to start production of bioethanol this summer. The new mill, with an annual capacity of 4.9 ths mt, will consume 20 ths mt (50% produced in 2007) of molasses, a by-product of sugar production.

Dakor is currently in talks with oil refiners to exchange bioethanol for diesel and are awaiting a government license to allow this. We expect sales of bioethanol to contribute ~3-4% to Dakor's annual sales in the mid-term.

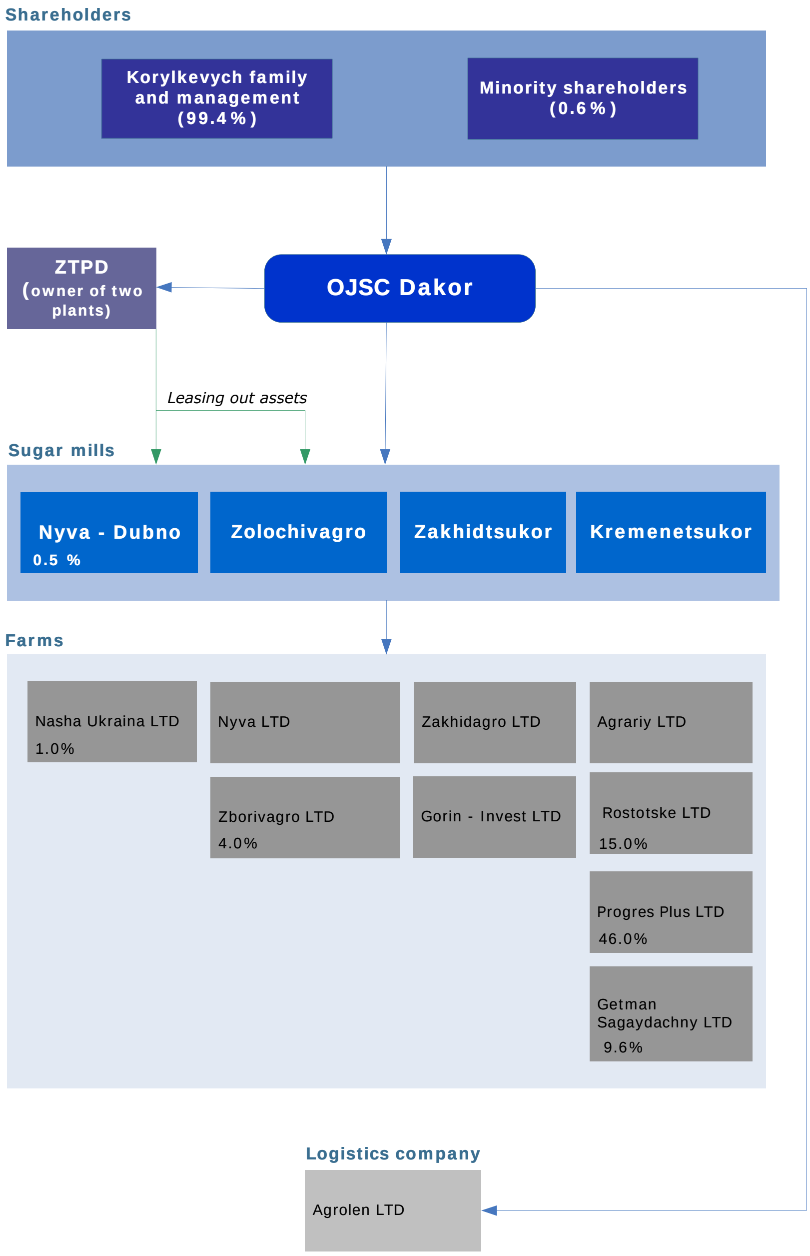
Legal Structure

Dakor is a holding company for four sugar producers, nine agricultural companies and one company dealing with transportation and beet logistics.

Dakor is controlled by the Korylkevych family, with over 95% belonging to Danylo Korylkevych, former head of the Rivne oblast council.

ZTPD, another holding company owned by Dakor, possesses production assets, which are leased to Nyva and Zolochiv sugar mills, directly controlled by Dakor.

Dakor's structure*



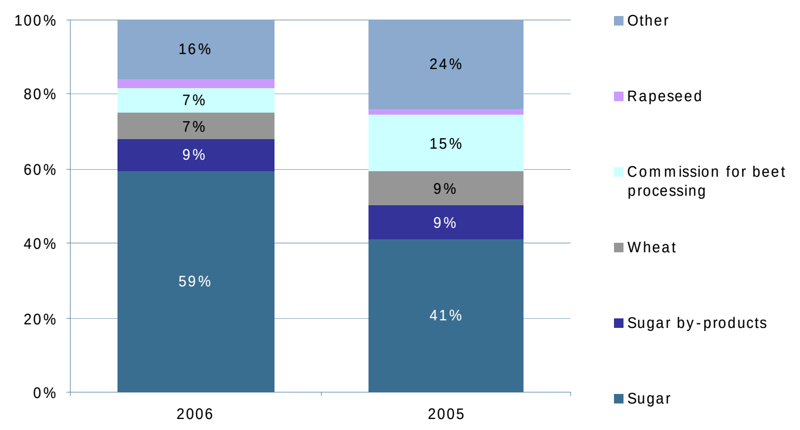
Source: Company data
**Percentages given represent minority interest, not consolidated*

Financial Analysis

Sales

Last year Dakor posted a 74% increase in net revenues to USD 63 mln. The growth was based on a 2.2 times increase in sugar sales to 66.5 ths mt, coupled with 13% growth in the average selling price of sugar to USD 563.4 per mt. Part of the growth came at the expense of revenues from processing beets on tolling schemes, which decreased by 23% last year to USD 4.3 mln. We view the replacement of tolling schemes as a positive trend, and believe it will have a positive influence on the company's sales and profits in the future.

Dakor revenue breakdown, 2005 and 2006, %



Source: Company data

Profitability

Increases in production costs lagged far behind growth in product prices last year, and sent Dakor's profitability margins upward. Its EBITDA margin strengthened from 8% in 2005 to 25%, while its net margin grew from 5% to 13%. We do not expect significant cost increases in the mid-term, except for gas prices, which are projected to rise 31% in 2007. Though effect of gas price hike will be softened by the introduction of gas-saving technology. Further growth in profitability margins will be triggered by increased efficiency.

Financial Debt

Dakor's debt to equity ratio decreased from 2.5 in 2005 to 1.0 last year, as equity grew by USD 38 mln from increased net income earned and a revaluation of fixed assets.

In absolute terms, Dakor's interest-bearing debt more than doubled by the end of 2006, as the company had to finance inventory increases, which resulted from the management's plan to postpone sugar sales to spring-summer 2007, when sugar prices are expected to rise.

We expect the D/E ratio to fall to 0.35 in 2007 due to a further accumulation of retained earnings and a charter fund increase in 2007.

Risks

Major Risks Faced by Dakor

Lack of feedstock supplies. The major feedstock for sugar production, sugar beet, was in short supply prior to 2006. A raw material shortage could both drive up feedstock prices and hinder sugar makers' production targets. In this regard, Dakor took a pre-emptive approach to develop in-house beet production and invest into its efficiency. Additionally, the company's status as a major sugar producer gives it bargaining power in negotiations with beet growers. For these two reasons, we believe Dakor is well protected from the risk of a feedstock deficit.

The government's inability to efficiently regulate sugar production. Due to possible inefficiencies in the government's regulation of the sugar industry, excess supplies of sugar might disturb the market like in 2006. The resulting downward pressure on prices could lower sales. Although this risk applies to all companies operating in the sugar market, industry leaders, including Dakor, are better able to mitigate the negative effect of price shocks on sales due to their ability to hold sugar inventories forward to periods when sugar prices are at their seasonal peaks.

Production cost increases due to higher natural gas prices. The cost of gas accounted for 18% of Dakor's sugar production costs in 2006, which is typical for the industry. Future gas tariff hikes, brought about by expected increases in import prices for gas, might negatively affect the company's margins. To prevent this Dakor is currently converting its facilities to using cheaper coal, which will reduce gas use by at least 50% in the next few years. In 2007, the company expects to cut gas utilization by 10%.

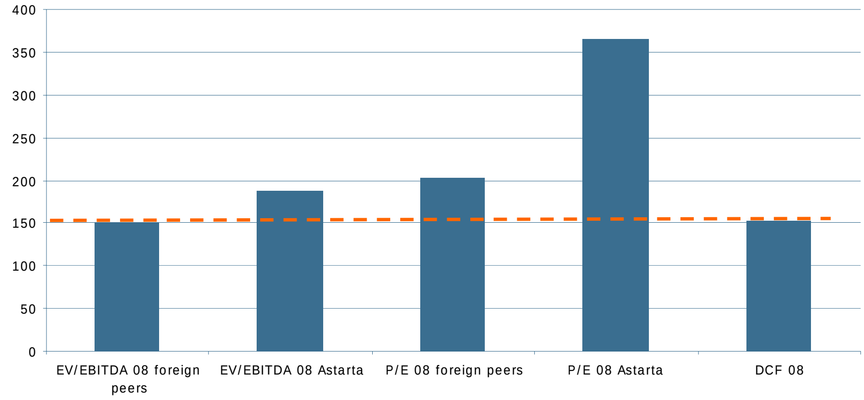
Valuation

Valuation Summary

We estimate Dakor's 12M target market cap at USD 152 mln, based on DCF and multiples valuations.

Dakor reports financials separately for each of the companies it owns. Our valuation is based on consolidated financials, using management-reported intra-group transactions.

Implied MCap, USD mln



Source: Concorde Capital estimates

For the purpose of relative valuation, we compared Dakor to a group of beet sugar producers from the EU and Russia. We believe that sales-based multiples do not adequately reflect the company's intrinsic value, as Dakor currently posts higher profitability margins compared to its foreign peers and this is likely to persist thanks to Dakor's growing production efficiency.

Our relative valuation is based on 2008E forward looking EV/EBITDA and P/E metrics. We did not rely on 2007E multiples, as we consider them not representative of the company's value for the following reason. Dakor's projected 2007E margins do not reflect the company's ability to generate cash flows, as they are likely to be temporarily dampened due to sugar overproduction in 2006. Excess supply of sugar is not typical of the Ukrainian market and occurred for the first time only last year. We expect the situation to start reversing in 2008, and consider 2008-based implied market cap as better estimate of the company's value.

In addition to international peer comparison, we also estimated Dakor's value using multiples of its Ukrainian peer, Astarta, as a benchmark.

Peer valuations suggest a target range for Dakor's equity value of USD 150-360 mln. DCF method puts Dakor's equity value in 12 months from now at USD 152 mln.

Model Assumptions

We expect sugar demand to grow at 1% CAGR in the mid-term. The market will adjust to overproduction in 2006, and start importing raw cane sugar in 2008.

We project a temporary decline in sugar prices – by 7% in 2007 and 3% in 2008, followed by moderate growth of 1-2% per annum.

We expect Dakor to get 20 ths mt quota in autumn 2007, in addition to 66.9 ths mt confirmed in April.

The processing of sugar on commission will be eliminated starting this year.

Imported raw cane sugar will be evenly distributed between Ukraine's sugar producers, so that 12% of Dakor's sugar will be produced out of these inputs in 2008-2012. This share will increase to 17% (assuming the import quota increases to 406 ths mt, as initially required by Australia) after 2012.

Under our assumptions, starting from 2009 the company will accumulate on its cash account reserves in excess of its operating needs, which, we believe, will be spent for the purchase of land (currently under lease) after the moratorium on land sale is canceled. As Ukraine lacks a market for agricultural land, we assume that the land price will be equal to the discounted value of rent payments.

	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Ukraine's sugar market											
Consumption, ths mt	2,110	2,131	2,146	2,167	2,189	2,211	2,233	2,255	2,278	2,278	2,278
Price, wholesale, USD/mt w/o VAT	585	544	528	538	549	560	566	571	571	571	571
Dakor											
Beets processed, ths mt	754	712	859	958	1013	1007	1001	947	949	937	946
Share of own beets, %	42%	75%	90%	87%	96%	96%	97%	98%	98%	98%	98%
Land used for production total, ths ha	58	78	88	88	100	100	100	100	100	100	100
incl. land for beet production, ths ha	12	21	22	22	25	23	23	21	21	21	21
Sugar sales, ths mt	62	87	120	135	145	146	148	149	151	152	154
Sales of other agricult. crops, ths mt	57	91	116	117	135	141	144	149	151	154	159
Dakor's revenues, USD mln	**63**	**74**	**94**	**105**	**116**	**120**	**123**	**126**	**128**	**130**	**132**

Source: Company Data, Concorde Capital projections

Discounted Cash Flow Valuation

As of May 30, 2008

For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	94	126	140	164	170	175	174	169	170	171
EBIT	70	101	113	137	142	148	146	140	141	142
TaxRate	*3%*	*3%*	*3%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
TaxedEBIT	68	98	110	102.5	106.7	110.9	109.5	105.4	106.0	106.6
PlusD&A	24	26	27	27	27	28	28	28	28	28
LessCapEx	(49)	(63)	(37)	(32)	(31)	(30)	(30)	(30)	(30)	(29)
LesschangeinOWC	(17)	(43)	(3)	(0)	3	4	6	4	4	5
FCFF	**-**	**18**	**96**	**97**	**107**	**112**	**113**	**108**	**108**	**111**
WACC	16.3%	16.1%	15.0%	13.3%	12.0%	11.3%	11.3%	11.1%	11.0%	11.0%

Discounted TV	417		
Firm Value	899		
Portion due to TV	46.4%	WACC to Perpetuity	11%
Less Net Debt	(125)	Perpetuity Growth Rate	1.0%
Equity Value	774	Implied Exit EBITDA Multiple	x 6.6
Equity Value (USD mln)	152		

Sensitivity Analysis: Equity Value, USD mln

	Perpetuity Growth Rate				
WACC, Y08-16	***0.0%***	***0.5%***	***1.0%***	***1.5%***	***2.0%***
-2.0%	164	168	173	179	185
-1.0%	153	158	162	167	173
+0.0%	144	147	**152**	156	162
+1.0%	135	138	142	146	151
+2.0%	126	129	133	137	142

Sensitivity Analysis: Equity Value, USD mln

	Perpetuity Growth Rate				
WACC to perpetuity	***0.0%***	***0.5%***	***1.0%***	***1.5%***	***2.0%***
-2.0%	159	164	171	178	186
-1.0%	150	155	160	166	172
+0.0%	144	147	**152**	156	162
+1.0%	138	141	145	149	153
+2.0%	133	136	139	143	146

Peer Valuation

	Country	Sales		EBITDA margin		Net margin	
		2007E	2008E	2007E	2008E	2007E	2008E
Dakor	**Ukraine**	**74**	**94**	**25%**	**26%**	**12%**	**17%**
Beet sugar producers							
Agrana Beteiligung Ordinary	Austria	2,564	2,715	12%	12%	5%	5%
Danisco A/S	Denmark	3,694	3,691	17%	18%	6%	7%
Group Razgulyay	Russian Federation	932	1,035	14%	15%	4%	5%
Suedzucker AG	Germany	7,493	7,431	13%	14%	4%	4%
Tate&Lyle	United Kingdom	7,001	6,705	14%	15%	7%	7%
Ebro Puleva SA	Spain	3,673	3,614	13%	14%	6%	7%
Astarta	Ukraine	102	113	17%	20%	4%	5%
Average				**14%**	**15%**	**5%**	**6%**

	Country	Mcap USD mln	EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E
Dakor	**Ukraine**	**109**	**7.2**	**5.4**	**11.7**	**6.7**
Beet sugar producers						
Agrana Beteiligung Ordinary	Austria	1,529	6.5	5.8	11.1	12.2
Danisco A/S	Denmark	4,246	10.1	9.1	18.1	16.2
Group Razgulyay	Russian Federation	400	5.6	4.8	10.6	7.2
Suedzucker AG	Germany	3,849	6.1	5.7	12.1	12.1
Tate&Lyle	United Kingdom	6,370	8.2	7.7	13.2	12.8
Ebro Puleva SA	Spain	3,514	10.0	9.2	16.4	14.6
Average			**7.7**	**7.0**	**13.6**	**12.5**
Dakor's implied MCap, USD mln			118.8	**150.3**	125.9	**202.6**
Astarta	Ukraine	140	11.2	8.5	34.3	22.5
Dakor's implied MCap, USD mln			183.6	**187.7**	318.7	**365.1**

Source: Bloomberg, Thomson Financial, ING

Financial statements*

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Net Revenues	**36**	**63**	**74**	**94**	**105**	**116**	**120**	**123**	**126**	**128**	**130**	**132**
Change y-o-y	n/m	76.8%	17.9%	27.0%	11.0%	10.6%	3.5%	2.9%	2.2%	1.4%	1.5%	1.5%
Cost Of Sales	(32)	(44)	(52)	(64)	(71)	(76)	(77)	(79)	(81)	(83)	(84)	(86)
Gross Profit	4	19	23	30	34	40	43	44	45	45	46	46
Other Operating Income/Costs, net	1	1	0	0	1	1	-	-	-	-	-	-
SG&A	(2)	(4)	(4)	(6)	(7)	(8)	(10)	(10)	(11)	(12)	(12)	(13)
EBITDA	**3**	**16**	**19**	**25**	**27**	**32**	**33**	**34**	**34**	**33**	**33**	**33**
EBITDA margin, %	7.9%	25.5%	25.0%	26.3%	26.2%	27.7%	27.7%	27.9%	27.0%	25.8%	25.6%	25.4%
Depreciation	(1)	(4)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(6)	(6)
EBIT	**2**	**12**	**14**	**20**	**22**	**27**	**28**	**29**	**29**	**28**	**28**	**28**
EBIT margin, %	5.5%	18.5%	18.6%	20.9%	21.2%	23.2%	23.3%	23.5%	22.7%	21.6%	21.3%	21.2%
Interest Expense	(2)	(5)	(6)	(4)	(4)	(5)	(5)	(6)	(6)	(6)	(6)	(6)
Financial income/(expense)	0	1	1	1	1	1	-	-	-	-	-	-
Other income/(expense)	1	0	0	0	0	0	-	-	-	-	-	-
PBT	**2**	**9**	**10**	**17**	**19**	**23**	**22**	**23**	**22**	**21**	**22**	**22**
Tax	(0)	(0)	(0)	(1)	(1)	(6)	(6)	(6)	(6)	(5)	(5)	(5)
Net Income	**2**	**8**	**9**	**16**	**19**	**17**	**17**	**17**	**17**	**16**	**16**	**16**
Net Margin, %	5.0%	13.2%	12.5%	17.2%	17.7%	14.9%	14.1%	14.0%	13.2%	12.6%	12.6%	12.4%
Dividend Declared	**-**	**-**	**-**	**-**	**-**	**10**	**10**	**10**	**12**	**11**	**11**	**11**

Balance Sheet Summary, USD mln

	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Current Assets	**34**	**47**	**52**	**64**	**89**	**99**	**110**	**122**	**129**	**136**	**143**	**150**
Cash & Equivalents	0	0	0	1	24	33	44	55	63	70	77	85
Trade Receivables	4	3	4	7	10	15	18	19	20	21	22	22
Inventories	24	39	41	48	46	42	38	37	35	35	34	33
Other current assets	6	5	6	8	8	9	10	10	10	10	10	11
Fixed Assets	**12**	**45**	**49**	**57**	**59**	**60**	**60**	**61**	**61**	**62**	**62**	**62**
PP&E, net	11	43	48	55	58	59	59	60	60	61	61	61
Other Fixed Assets	1	2	1	1	1	1	1	1	1	1	1	1
Total Assets	**46**	**92**	**101**	**120**	**148**	**159**	**171**	**182**	**190**	**198**	**205**	**212**
Shareholders' Equity	**8**	**43**	**69**	**85**	**104**	**111**	**117**	**124**	**129**	**134**	**139**	**144**
Share Capital	4	5	22	22	22	22	22	22	22	22	22	22
Reserves and Other	4	38	47	63	82	89	95	102	107	112	117	122
Current Liabilities	**34**	**39**	**21**	**24**	**32**	**35**	**39**	**43**	**46**	**49**	**51**	**54**
ST Interest Bearing Debt	15	34	14	14	21	23	26	30	32	33	35	37
Trade Payables	13	2	3	5	6	6	7	8	8	9	10	10
Other Current Liabilities	5	4	4	5	5	6	6	6	6	6	6	7
LT Liabilities	**4**	**10**	**11**	**11**	**12**	**13**	**14**	**15**	**15**	**15**	**15**	**15**
LT Interest Bearing Debt	4	10	11	11	12	13	14	15	15	15	15	15
Other LT	0	0	0	0	0	0	0	0	0	0	0	0
Total Liabilities & Equity	**46**	**92**	**101**	**120**	**148**	**159**	**171**	**182**	**190**	**198**	**205**	**212**

Cash Flow Statement Summary, USD mln

	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Net Income	**2**	**8**	**9**	**16**	**19**	**17**	**17**	**17**	**17**	**16**	**16**	**16**
Depreciation	1	4	5	5	5	5	5	5	5	5	6	6
Non-operating and non-cash items	(1)	(0)	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Changes in working capital	(7)	(26)	(3)	(8)	(1)	(0)	1	1	1	1	1	1
Operating Cash Flow	**(5)**	**(14)**	**11**	**13**	**23**	**22**	**23**	**23**	**23**	**22**	**23**	**23**
Capital Expenditures. net	1	(6)	(10)	(12)	(7)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Other Investments. net	(1)	1	-	-	-	-	-	-	-	-	-	-
Investing Cash Flow	**-**	**(5)**	**(10)**	**(12)**	**(7)**	**(6)**	**(6)**	**(6)**	**(6)**	**(6)**	**(6)**	**(6)**
Net Borrowings/(repayments)	10	25	(18)	1	7	3	4	4	2	2	2	2
Dividends Paid	-	-	-	-	-	(10)	(10)	(10)	(12)	(11)	(11)	(11)
Other	(2)	(6)	17	-	-	-	-	-	-	-	-	-
Financing Cash Flow	**8**	**19**	**(1)**	**1**	**7**	**(7)**	**(6)**	**(6)**	**(10)**	**(10)**	**(10)**	**(10)**
Beginning Cash Balance	n/a	1	0	0	1	24	33	44	55	63	70	77
Ending Cash Balance	0	0	0	1	24	33	44	55	63	70	77	85
Net Cash Inflows/Outflows	**3**	**0**	**0**	**1**	**23**	**9**	**11**	**11**	**8**	**7**	**7**	**8**

**Financial statements for 2005-2006 are consolidated based on UAS accounts for separate companies and data on intra-group transactions from the management.*
Revaluation of PP&E was made in 2007 based on the estimate by Raiffeisen Bank Aval, Dakor's major lender

Concorde Capital
3V Sportyvna Square
2nd entrance, 3rd floor
Kyiv 01023, UKRAINE

Tel: +380 44 207 5030
Fax: +380 44 206 8366
www.concorde.com.ua
office@concorde.com.ua

CEO
Igor Mazepa im@concorde.com.ua

Head of Equity Sales
Lucas Romriell lr@concorde.com.ua

Equity Sales
Marina Martirosyan mm@concorde.com.ua
Anastasiya Nazarenko an@concorde.com.ua

Director of Research
Konstantin Fisun, CFA kf@concorde.com.ua

RESEARCH COVERAGE BY SECTOR

Strategy
Konstantin Fisun kf@concorde.com.ua
Oleksandr Klymchuk ok@concorde.com.ua

Metals & Mining
Eugene Cherviachenko ec@concorde.com.ua

Utilities (Telecom, Energy)
Alexander Paraschiy ap@concorde.com.ua

Oil & Gas, Chemicals
Vladimir Nesterenko vn@concorde.com.ua

Consumer/Retail Group
Andriy Gostik ag@concorde.com.ua
Olha Pankiv op@concorde.com.ua
Alexander Romanov ar@concorde.com.ua
Anna Dudchenko ad@concorde.com.ua

Machinery
Olha Pankiv op@concorde.com.ua
Eugene Cherviachenko ec@concorde.com.ua
Inna Perepelytsya pi@concorde.com.ua

Financial Services, Macroeconomics
Alexander Viktorov av@concorde.com.ua

Fixed Income
Oleksandr Klymchuk ok@concorde.com.ua

Corporate Governance
Nick Piazza np@concorde.com.ua

News/Production
Nick Piazza np@concorde.com.ua
Polina Khomenko pk@concorde.com.ua

Editor
Brad Wells bw@concorde.com.ua

Disclaimer