

10 October 2011

Grain export duty cancellation is positive surprise

MHP, Kernel, IMC to benefit the most

Parliament votes for export duties abolishment. On Friday, Ukraine's parliament abolished export duties on wheat and corn, but retained the export duty on barley. The law still must be signed by the president and should be effective immediately following official publication.

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Summary of changes in export duties

	Export duty since 1 June 2011*	Proposed new export duty	Share in total Ukraine's grain and oilseed export in 2010/11**
Barley	max(EUR 23 per mt, 14%)	max(EUR 23 per mt, 14%)	17%
Corn	max(EUR 20 per mt, 12%)	0%	40%
Wheat	max(EUR 17 per mt, 9%)	0%	32%
Sunflower oilseed	11%	11%	9%

*Bold is the duty effective at current prices **Measured in monetary terms. Source: Interfax

Duty cancellation is a positive surprise to us. With the government budget tight, a tax on agricultural exports, which benefited from the global soft commodities' rally, has seemed logical, in our view. We think a presidential veto is possible; even after the global soft commodities correction this last month, we still see ample profit in farming to tax.

Local grain prices should adjust by the amount of the duty, boosting farmers' revenues and profit. While farmers have already sold most of their wheat, corn is still being harvested.

MHP and IMC should benefit most among farmers, as they have more corn in their crop structure.

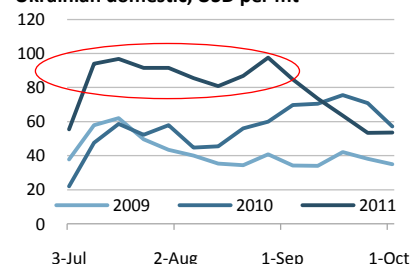
Estimated benefits of listed companies from export duty abolition on corn

	Land under corn, ths ha	% of total landbank	Projected harvest, ths mt	Estimated benefit*, USD mln
Agroton	9	7%	36	1
Astarta	29	14%	218	6
KSG Agro	0	0%	-	-
Industrial Milk	19	42%	114	3
Landkom	10.5	19%	63	2
MCB Agricole	n/a	n/a	n/a	n/a
MHP	111	40%	1,055	28
Mriya	16.8	7%	101	3
Sintal Agriculture	n/a	n/a	n/a	n/a

* Based on assumption that companies' increase their corn selling prices by the amount of the abolished duty of EUR 20 per mt. Source: Company data, Concorde Capital estimations

Kernel, as trader, should effectively pocket part of the duty, because the spread between domestic and global grain prices during July-September reflected the duty. Though exact figures will be known only when the company reports its 1Q11/12 financials (expected in mid-November), we estimate windfall benefit to be around USD 10 mln (3% of 2011/12E net income), based on previous year grain export contracts signed but not yet delivered as of September of USD 143 mln, and grain and corn comprising two-thirds of total crop export volumes.

Price difference between EU Liffe wheat and Ukrainian domestic, USD per mt



Note: Red circle indicates the price difference this year reflected from the 9% export duty on wheat
 Source: APK-Inform, Concorde Capital calculations

Appendices

Analyst certification

I, Yegor Samusenko, 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.

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