

Kernel

M&A machine



February 9, 2012

INVESTMENT CASE

We initiate coverage of Kernel with a HOLD recommendation. Our 12M target price of USD 26.4 implies a 10% upside. While Kernel's investment case looks strong, the current market price against the background of high sovereign risk is the main upside-limiting factor, in our view. Kernel has nearly tripled in size over the last three years via acquisitions, is the CIS' leading listed agricultural company in terms of size and market liquidity, and is well positioned to become Black Sea region's Wilmar.

Aggressive consolidation in Black Sea commodities is a mid-term value driver

Kernel paid USD 420 mln in cash for acquisitions in Russia and Ukraine over the last three years, which helped raise EBITDA 2.4x to USD 293 mln in FY2011. Its ability to attract cheap debt (essential in the agriculture and food sectors due to their long operating cycles) provides ammunition for low-cost acquisitions. We expect the company to invest an additional USD 800 mln on M&A activity over the next five years, mainly in Russian oilseed processing and Black Sea region grain trading and export throughput facilities to double its EBITDA by 2016.

Efficiency in Ukraine to be exported to Russia

Kernel, Ukraine's leader in sunflower oil production (#1 by output in FY2011) and grain trading (#1-3 by volume exported in 2008-2011), has started moving into the more fragmented Russian market. The company is planning to take its business practices from Ukraine (e.g. forward contracts, which are still rare in Russia) to capture market share. At the same time, steady profits on the domestic market (EBIT margin of 15%-22% in oilseed processing and 9%-15% in grain trading) and access to cheap debt should help facilitate new acquisitions.

CIS' most liquid consumer play

Kernel is #1 most liquid CIS consumer play and #2 most liquid Ukrainian stock. It has USD ~1 bln in free float and 6M average daily turnover of USD 2.7 mln, roughly 2/5 of total for CIS consumer equities. The stock is a natural first choice for exposure to the CIS soft commodity and consumer market.

Initiate with a HOLD due to currently high risk of Ukraine

Though the stock trades at 7.4x on FY2012 P/E, 40% below EM peers mean, we initiate coverage with a HOLD recommendation. Despite Kernel's growth outlook is similar to peers, we believe the Ukraine's higher sovereign risk (9%) explains most of the discount. We derive our 12M target price of USD 26.4 per share (PLN 83, upside of 10%) based on DCF valuation.

Risks

Kernel's key risks are its ability to smoothly execute business combinations, especially taking into account that the supply of high-quality acquisition targets is exhausting. Other risks include the possible cancellation of sunflower seed export duties by Ukraine, raising competition in the crushing sector, and vegetable oil price volatility.

Key multiples

Company	EV/EBITDA		P/E	
	2011	2012	2011	2012
Kernel	7.4	6.1	9.1	7.4
China Agri-Ind.Hold.	11.4	10.4	9.6	8.1
IOI Corporation Berhad	12.5	11.6	16.8	15.6
China Foods Ltd	11.1	8.8	25.1	19.3
Thai Vegetable Oil	12.5	9.9	17.6	13.4
Mewah International	13.3	9.5	16.5	12.3
Indofood Agri Res.	4.6	3.9	11.0	10.9
Harmonic mean	9.5	7.9	14.6	12.3

Source: Bloomberg, Concorde Capital

Key financials*, USD mln

	FY2010	FY2011	FY2012E	FY2013E
Sales	1,020	1,899	2,258	2,390
yoy	-2.5%	86.2%	18.9%	5.8%
EBITDA	183	293	368	351
Margin	17.9%	15.4%	16.3%	14.7%
Net Income	145	210	256	241
Margin	14.2%	11.1%	11.3%	10.1%
Net Debt	237	271	348	143

* We exclude biological revaluation (IAS 41) gain.
 Source: Company data, Concorde Capital

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EXECUTIVE SUMMARY

Ukraine's largest agribusiness

Kernel is Ukraine's largest diversified agricultural company. Its main businesses are:

- **Sunflower oil production:** Production in FY2011 was 945 kt of sunflower oil, which represented 8.3% of global output. #1 sunflower oil maker in Ukraine. Segment accounted for 2/3 of FY2011 EBIT. Kernel controls seven oilseed processing plants in Ukraine and three in Russia with an aggregate capacity of 3.0 mmt of oilseed p.a.
- **Grain trading:** Exported 1.8 mmt of grain in 2010/11 (15% of Ukraine's total, #1-3 in Ukraine over the last two years). Contributed 23% of FY2011 EBIT.
- **Storage:** Silo network with 2.3 mmt capacity in grain equivalent (8% of Ukraine's total, #3 in Ukraine). 2% of FY2011 EBIT.
- **Export terminal:** Grain terminal capacity of 4.0 mmt p.a. (#2 in Ukraine, 10% of total) and vegetable oil terminal with capacity of 0.5 mmt p.a. Both located on the Black Sea. 5% of FY2011 EBIT.
- **Farming:** Leased landbank of 210,000 ha (0.7% of Ukraine's total, top-5 leaseholder). 2% of FY2011 EBIT.
- **Sugar production:** Four sugar plants with total processing capacity of 22 kt per day (#2 in Ukraine). Market share in domestic sugar production was 7% in 2011/12.

Key financials*, USD mln

	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Sales	350	663	1,047	1,020	1,899	2,258	2,390
yoy		89.3%	57.9%	-2.5%	86.2%	18.9%	5.8%
EBITDA	46	105	191	183	293	368	351
margin	13.1%	15.8%	18.3%	17.9%	15.4%	16.3%	14.7%
Net Income	14	64	133	145	210	256	241
margin	3.9%	9.6%	12.7%	14.2%	11.1%	11.3%	10.1%
Net Debt	118	160	154	237	271	348	143
Net Debt/EBITDA	2.6	1.5	0.8	1.3	0.9	0.9	0.4

Note: We exclude biological revaluation (IAS 41) gain

* Kernel's financial year ends June 30. Source: Company data, Concorde Capital projections

Leveraging access to capital for growth through acquisitions

Most of Kernel's 2.4x growth in EBIT over the last three years has come from M&A. In 2011 alone, Kernel completed four acquisitions for a cumulative EV of USD 410 mln.

Kernel's acquisitions summary

Name	Date	Brief overview	Cash paid, USD mln	Net Debt, USD mln	EV, USD mln	Est. EBITDA contribution, USD mln
Ukrros	March30	- 22 ths t daily sugar processing capacity - 93 ths ha landbank - 87 ths t storage capacity	42	100	160	46
Black Sea Industries	June27	-1,500 t daily sunflower oilseed crushing plant capacity	140	0	140	30
Russian Oils	August 15	- 3 oilseed crushing plants in Russia with daily processing capacity of 1,400 t	15	45	60	16
Enselco farm	September 9	- 29.3 ths ha landbank	52	-	52	10
Farming enterprises	Ongoing	- Targeting adding 150 ths ha in land within two years	n/a	n/a	Est. 170	40*
Deep-water grain terminal	Ongoing	- 2.5 mln t of grain throughput capacity on the Black Sea	n/a	n/a	Est. 120-130	25*

* Kernel estimates. Source: Company data, Concorde Capital estimates

At multiples of 3-5x FY2012E EV/EBITDA, we view three of the four completed acquisitions as value accretive for the company with only Enselco farm acquisition being neutral.

As Kernel has arguably the cheapest access to credit in the Ukrainian agriculture sector (7-10% rate vs. 15%-25% for most farmers), we see the company as a clear sector consolidator. The company is far from completing its acquisition pipeline as its leverage is still low (Net Debt/EBITDA of 0.9x at FY2012E) and annual operating cash flow exceeds CapEx needs by almost four times.

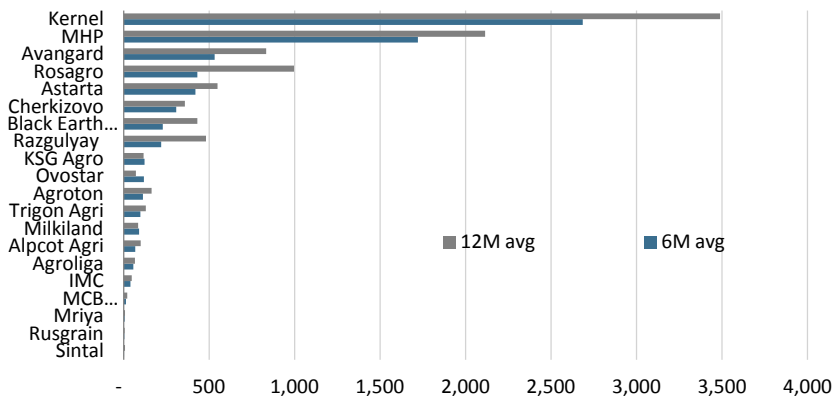
We expect further acquisitions in the following segments:

- Sunflower oilseed processing and grain trading in Russia
- Sugar in Ukraine
- Farming in Ukraine
- Black Sea ports, either in Russia or Ukraine

Most liquid CIS agriculture name

Kernel is the CIS' most liquid consumer play, with around USD 1 bln in free float and 6M average daily turnover of USD 2.7 mln. It is the second most liquid Ukrainian stock after Ferrexpo.

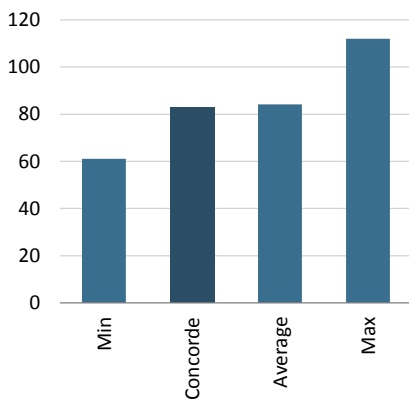
Average daily trading volumes of CIS agriculture and food names, USD ths



Source: Bloomberg

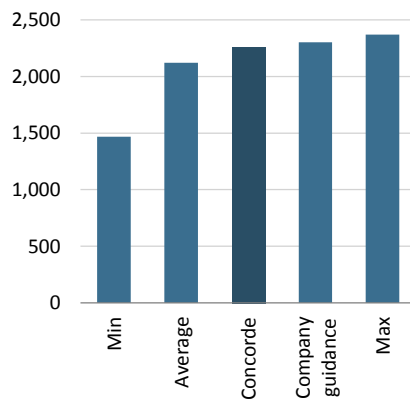
Concorde vs. Consensus

Target price, PLN per share



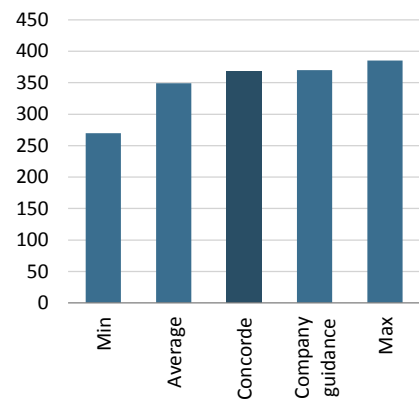
Source: Bloomberg, Concorde Capital

Sales FY2012, USD mln



Source: Bloomberg, Concorde Capital

EBITDA FY2012, USD mln



Source: Bloomberg, Concorde Capital

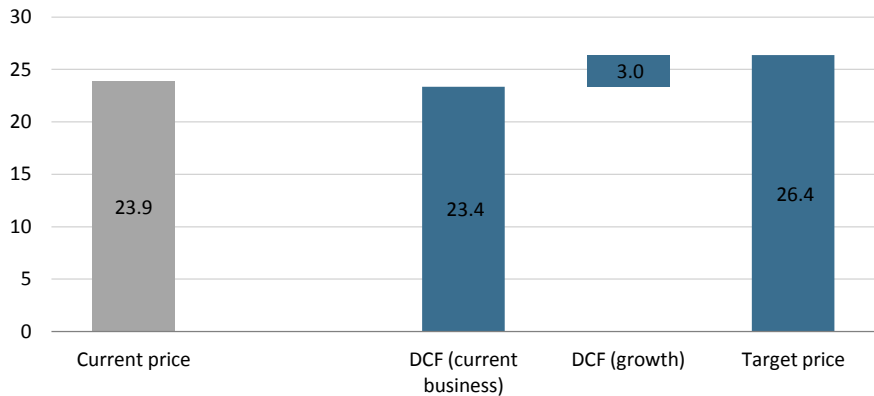
VALUATION SUMMARY

Target price set by DCF

We set our 12M target price for Kernel at USD 26.4 per share (PLN 82.8) based on DCF. In our valuation approach, we model separately:

- Kernel's current business with no non-organic growth assumed;
- its inorganic growth opportunities.

Valuation summary, USD per share

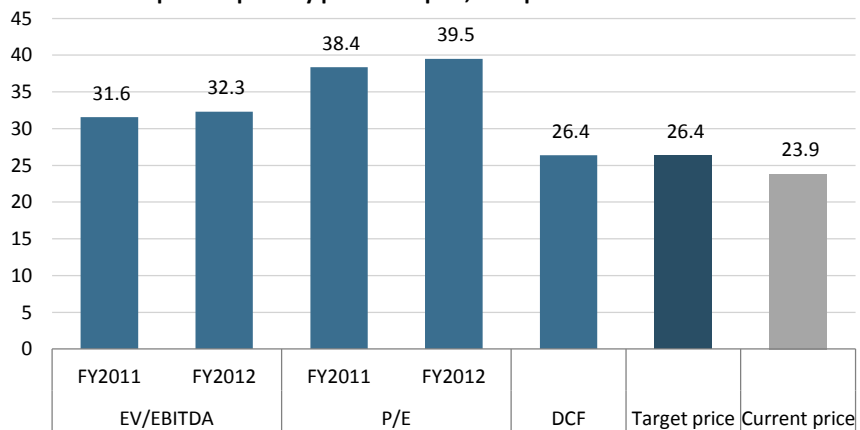


Source: Concorde Capital, Bloomberg

Peer comparison

We include comparison to peer multiples below to check the validity of our valuation. The price implied by EV/EBITDA is a slight premium to our target, which we largely attribute to the higher cost of sovereign debt for Ukraine now compared to its peers, which inflates the cost of equity for Kernel. On P/E, Kernel looks significantly underpriced, thanks to its lower leverage and virtually zero income tax.

Kernel's share price implied by peer multiples, USD per share



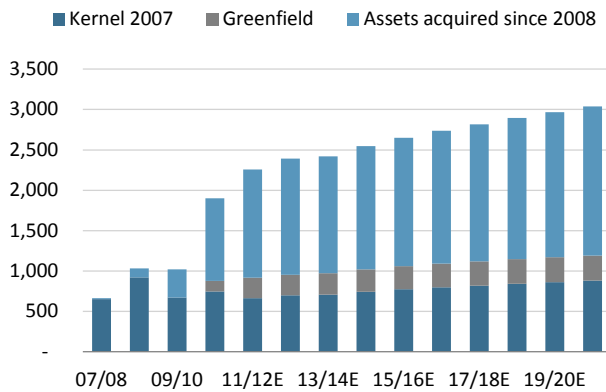
Source: Concorde Capital, Bloomberg

ACQUISITIONS REVIEW AND OUTLOOK

Growth driven by acquisitions

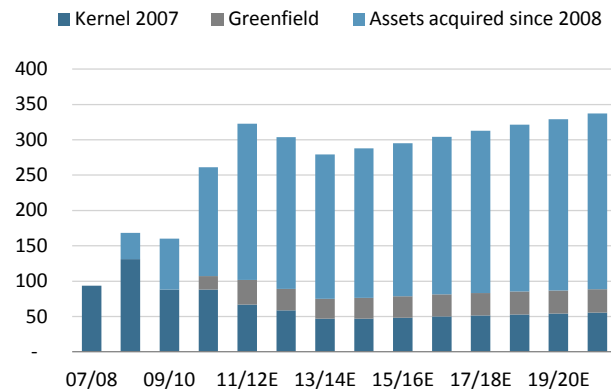
Most of Kernel's 5x growth in sales over last four years has come from M&A. In 2011 alone, Kernel completed four acquisitions for a cumulative EV of USD 410 mln.

Kernel revenue breakdown, USD mln



Source: Concorde Capital estimates

EBIT breakdown, USD mln



Source: Concorde Capital estimates

Kernel completed four acquisitions in 2011: sugar maker and farmer Ukrros, one sunflower oilseed processing facility in Ukraine (18% of Kernel's current capacity) and three in Russia (15%), and the Enselco farm (14% of current landbank). Kernel's access to cheap credit (at rates of 7%-10% vs. 15%-25% for most Ukrainian farmers) and low leverage (Net Debt/EBITDA of 0.9x at FY2012E end) puts the company in a position to continue being a sector consolidator.

Kernel's acquisitions summary

Name	Date	Brief overview of assets	Notes	Cash paid, USD mln	Net Debt, USD mln	EV, USD mln	Est. EBITDA contribution, USD mln
Ukrros	March30	- 22 ths t daily sugar processing capacity - 93 ths ha landbank - 87 ths t storage capacity	Though Kernel's primary goal in the acquisition was landbank expansion, we like sugar business fundamentals as well, and especially at the price Kernel paid.	42	100	160	46
Black Sea Industries	June27	-1,500 t daily sunflower oilseed crushing plant	One of only three greenfield plants built in the last decade and that it is located border-to-border to Kernel's transshipment terminal. The negative is the fact Kernel will have to pay more for sunflower seed transportation since there is little sunflower grown in Odesa region. We view the price paid for the plant as less than fair value if synergies with Kernel are taken into account.	140	0	140	30
Russian Oils	August 15	- 3 oilseed crushing plants in Russia with daily processing capacity of 1,400 t	Though Kernel is yet to prove its ability to build a business in Russia, the entrance price was really cheap, in our view. We do not expect significant profits this year due to scale and integration, but see a huge room for further sector consolidation in Russia.	15	45	60	12
Enselco farm	September 9	- 29.3 ths ha landbank	While the deal multiple seems to be one of the highest in the sector, Kernel cites the high quality of land and machinery as rationale. We see some synergies with Kernel's sugar plant but have a neutral view on this acquisition.	52	-	5	10

Source: Company data, Concorde Capital estimates

At multiples of 3-5x FY2012E EV/EBITDA, we view three of the four completed acquisitions as value accretive for the company with only Enselco farm acquisition being neutral.

As Kernel has access to some of the cheapest credit in the Ukrainian agriculture sector, we see the company as a clear sector consolidator. The company is far from completing its acquisition pipeline as its leverage is still low and annual operating cash flow exceeds CapEx by almost four times.

Russia is a key market for expansion

With the aim of becoming a leading soft commodities player in the Black Sea region, Kernel slipped into Russia in the summer of 2011 by acquiring the small company Russian Oils. We see sound consolidation opportunities in Russian sunflower oilseed processing and grain trading, as the Russian market seems to be in an earlier stage of development compared to Ukraine. With Kernel's track record in Ukraine, full with competitors like ADM, Bunge, Cargill and Louis Dreyfus, we see the company as the best candidate for consolidation of Black Sea soft commodities market.

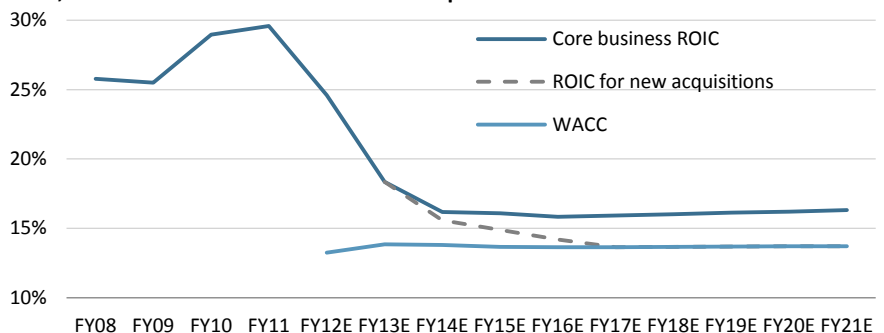
We expect further acquisitions in the following segments:

- **Sunflower oilseed processing and grain trading in Russia**, where only Yug Rusi is a player of significant size, while bunch of smaller players are clear acquisition targets.
- **Sugar in Ukraine**, where the domestic market is fragmented with the top-5 domestic players accounting for only 40% of output. We believe this season's high output will force small competitors exit the business, as they are likely to be unable to cope with high working capital demands in order to keep high inventories.
- **Farming in Ukraine**, one of the most sensitive sectors to cost of capital and where Kernel could easily leverage its access to financing. Kernel can increase its self-sufficiency in sugar beets for sugar production via land expansion.
- **Black Sea ports**, as a deficit of transshipping capacity still allows for earning fat margins in this business. Unlike other segments we expect Kernel to pay a fair price or premium here, since ownership of the port will have a positive spillover effect on grain trading business.

Prime M&A opportunities are being exhausted

We conservatively do not expect Kernel to grow as fast inorganically as it has over the last four years. Given that Kernel has already picked thin prime targets in its core segments, new acquisitions are likely to be less value accretive. We assume Kernel will continue spending roughly 70% of its profits on non-organic expansion, and model diminishing return on invested capital in future deals (ROIC of 18%-14% for new acquisitions vs. 26%-30% in the last three years). That said, we foresee another 3-4 years of new acquisitions, which should allow ROIC to remain above the company's cost of funding. After that, we expect the company to mature and increase organically.

ROIC, core business vs. assumed for new acquisitions



Source: Concorde Capital estimates

FY2011 REVIEW AND FY2012 OUTLOOK

FY2011: Allseed merger in sunflower oil, trade barriers in grain

Sunflower oil sales grow 2.9x yoy on Allseeds merger, 42% price increase

FY2011 (ended June 30, 2011) was a record year in terms of volume growth in Kernel's oilseed processing segment; the company doubled its sunflower oil sales to 928 kt of sunflower oil. The key drivers were full integration of Allseeds' processing facility (consolidated since FY4Q10), and the launch of the greenfield Bandurka plant (at full capacity since FY3Q11). Combined with a 42% increase in average bulk sunflower oil prices, revenue from bulk sunflower oil and its by-products grew 2.9x yoy to USD 1.16 bln.

Kernel earned a 14% EBIT margin in its bulk oil segment (down 4 pp yoy), which we deem modest for a year when sunflower oil prices were growing. Despite 42% average sunflower oil price growth, Kernel earned USD 202/t on bulk oil, in line with the previous season, when oil prices were generally flat, and the USD 244/t and USD 312/t it earned in FY2009 and FY2008, respectively.

Grain trading benefits from quotas and commodity price recovery

Kernel benefited from export quotas instituted by the government following the draught in 2010, having been allocated a sufficient export quota until end of the 2010/11 season. The quotas restricted competition among traders and forced farmers to sell grain to traders with quotas at lower prices. Thus, even though Kernel's volume of grain traded fell 19% yoy last season, its EBIT was an impressive USD 36/t (vs. USD 18-25/t in the two preceding years). Global growth in grain prices also drove sales, with Kernel's grain trading segment revenue increasing 22% yoy and EBIT rising 63% yoy.

Sunflower oil segment summary

	FY2010	FY 2011	yoy, %
Crushing capacity, kt per year	1,269	2,041	61%
Capacity utilization, %	95%	97%	3%
Sunflower oilseeds processed, kt	1,200	1,989	66%
Bulk oil sales, ths t	365.9	820.0	124%
Bottled oil sales, ths t	101.1	108.5	7%
Average sunflower oil price, USD per t	844	1,204	43%
Revenue, USD mln	513	1,310	155%
Bulk	401	1,158	189%
Bottled	113	152	35%
EBIT, USD mln	94.0	190.3	102%
Bulk	71.8	165.8	131%
Bottled	22.2	24.5	10%
EBIT margin, %	18%	15%	-4%
Bulk	18%	14%	-4%
Bottled	20%	16%	-4%
EBIT margin, USD per t of oil			
Bulk	\$ 196	\$ 202	3%
Bottled	\$ 220	\$ 226	3%

Source: Company data, Concorde Capital

Grain trading segment summary

	FY2010	FY 2011	yoy, %
Grain trading volumes, kt	2,225	1,810	-19%
Storage capacity turnover	97%	76%	-23pp
Average price, USD per t	210	316	51%
Revenue, USD mln	466	571	22%
EBIT, USD mln	40	65	63%
EBIT per t, USD	18.0	36.1	100%
EBIT margin, %	9%	11%	3pp

Source: Company data, Concorde Capital

FY2012: Facing lower soft commodity prices

We expect Kernel to earn USD 2.26 bln in revenues and USD 368 mln in EBITDA in FY2012, generally in line with management guidance, with key drivers being consolidation of acquired oilseed processing plants and farming enterprises.

Revenue and EBIT composition	Revenue						Our projections vs. consensus		
	Revenue			EBIT			Sales FY2012, USD mln	EBITDA FY2012, USD mln	
	FY2010	FY2011	FY2012E	FY2010	FY2011	FY2012E			
Sunflower oil	47%	66%	63%	54%	68%	59%	Maximum	2,370	385
Ukraine	47%	66%	57%	54%	68%	56%	Minimum	1,467	270
Russia	0%	0%	6%	0%	0%	3%	Average	2,119	349
Grain trading	42%	29%	23%	23%	23%	13%	Concorde	2,258	368
Farming	4%	3%	6%	4%	2%	13%	Company guidance	2,300	370
Storage and shipping	7%	3%	3%	19%	7%	7%			
Sugar	0%	0%	6%	0%	0%	8%			
Total, USD mln	1,020	1,899	2,258	160	261	323			

Note: Biological revaluation (IAS 41) excluded. Source: Company data, Concorde Capital

Source: Company data, Concorde Capital

*** Kernel reports its EBITDA with biological revaluation, while we exclude it. In FY2011, biological revaluation accounted for 5% of EBITDA.*

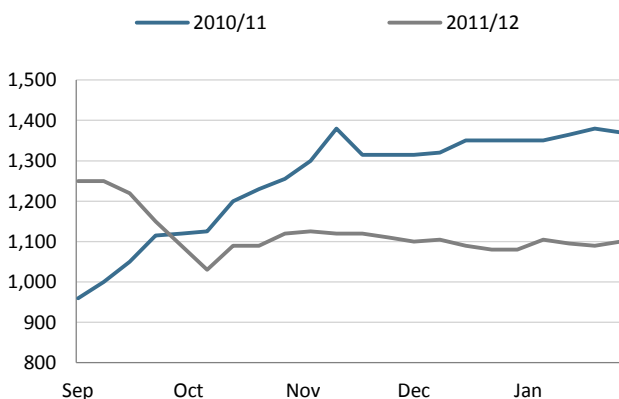
** Guidance as of August 2011*

Soft commodity prices are 10%-20% lower since the marketing year started

Kernel claims it does not have soft commodities price risk in buying and selling sunflower oilseeds and sunflower oil, and grains at the same time. The company limits value at risk for open commodity positions to 1% of equity (3% of annual EBITDA). We believe commodity price moves still affect the business, as the sunflower oil margin is a percentage of the selling price and sunflower oil accounts for 2/3 of Kernel's business. In the first half of FY2012, sunflower oil prices are 15%-20% lower yoy and we project the full year average selling price for Kernel to fall 9% yoy. Thus, the decline of 1H of FY2012 should be offset in 2H, as the supply shock caused by higher-than-anticipated carry-over inventories of vegetable oils disappears.

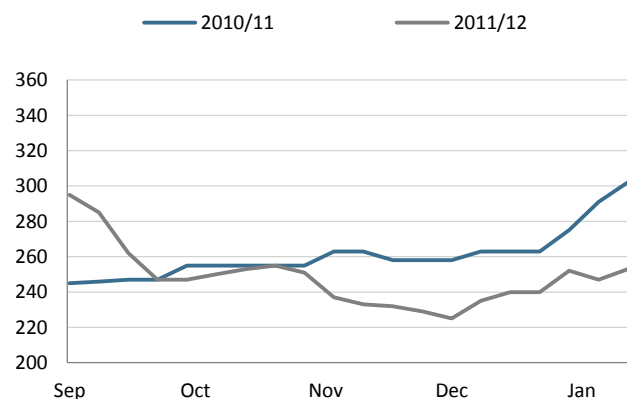
The trend in grain prices is less straightforward: corn prices are on average about 10% lower yoy since the start of the marketing year, while wheat and barley are not comparable due to the quotas in place a year ago. Nevertheless, the decline in grain prices should have a less visible effect on the business, as traders here usually try to lock in a fixed dollar margin, not a percentage.

Sunflower oil, Ukraine export, Black Sea, FOB, USD/t



Source: APK-Inform

Corn, Ukraine export, Black Sea, FOB, USD/t



Source: APK-Inform

Consolidation of acquired assets and record sunflower harvest will drive oil volumes up by 27%

2011's record sunflower harvest in Ukraine and Russia should provide Kernel with a solid resource base for oil production, which should ensure close-to-full capacity utilization of Ukrainian sunflower oil plants and strong, as for Russia, 60% utilization of Russian plants. We expect Kernel to process close to 2.6 mmt of sunflower oilseed in FY2012 (91% in Ukraine with rest in Russia), up 32% yoy, driven mainly by the addition of the BSI plant in Ukraine and Russian Oils in Russia (35% increase in capacities).

We expect Kernel to earn a 14% EBIT margin in Ukraine (in line with the previous year) and 8% in Russia, as sunflower oil production in Russia is less lucrative than in Ukraine. We do not expect Kernel to earn an above market average margin in the short-term.

Key sunflower oil production projections

	FY2010	FY2011	FY2012E
Oilseed processed, kt	1,200	1,989	2,634
Ukraine	1,200	1,989	2,387
Russia			248
Sunflower oil produced, kt	532	885	1,166
Ukraine	532	885	1,062
Russia			104
Bulk oil sales, kt	366	820	1019
Bottled oil sales, kt	101	109	163
Avg bulk oil price, kt	807	1,149	1,050
EBIT margin	18%	15%	14%
Ukraine	18%	15%	14%
Russia	-	-	8%

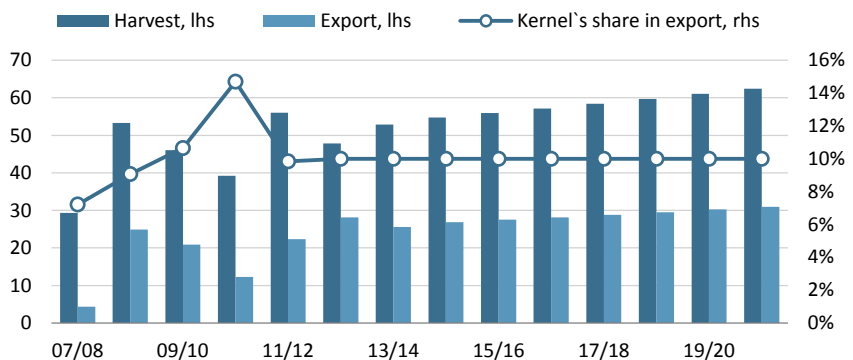
Source: Company data, Concorde Capital

Grain trading to reach 2.2 mmt on Ukraine's record harvest

Ukraine's record grain harvest in 2011 will help Kernel to increase its grain trading volumes to 2.2 mmt in FY2012 (up 22% yoy), according to our estimates. We expect the company's EBIT margin, however to decline 3 pp yoy to 8% on increased competition following the cancellation of export quotas.

We note unusual seasonality in grain exports from Ukraine this marketing year: only 40% of estimated grains available for export were shipped in the first half of the season, while normal seasonality is skewed significantly to July-October. We attribute the delay to grain export duties existent at the start of the season and market expectations of their removal. With the abolition of these duties, we thus expect solid volumes in FY 3Q-4Q12. With Ukraine's grain exports estimated by market players this year at 22-25 mmt, we believe Kernel will export 2.2 mmt in FY2012.

Ukraine's total grain harvest and export (mmt, lhs) and Kernel's share in export (rhs)



Source: APK-Inform, Company data, Concorde Capital projections

Crop yields at slight premium to Ukraine's average except sugar beets

Kernel expanded its harvested landbank by 2x yoy to 180 ths ha in 2011, mainly thanks to the acquisition of Ukrros. Management figures on crop yields and costs are quite impressive, in our view, with sugar beets the only underperformer. We expect Kernel to increase revenue from the segment by 2.8x to USD 152 mln in FY2012 with a strong 30% EBIT margin, net of revaluation.

Kernel farming operating figures, 2011*

	Kernel's yield, t/ha	Ukrainian average yield, t/ha	Kernel vs. Ukraine	Share in Kernel's acreage
Wheat	3.67	3.35	+9%	29%
Corn	7.16	6.43	+11%	15%
Barley	2.47	2.47	0%	7%
Sunflower	2.09	1.84	+14%	15%
Rapeseed	1.80	1.73	+4%	4%
Soy	1.89	2.04	-8%	16%
Sugar beets	28.06	36.31	-23%	10%

*Will be reflected in FY2012

Source: Concorde Capital estimates

Sugar to show moderate 20% EBITDA due to low beet supplies

FY2012 will be the first year Kernel will operate a sugar business, which it acquired in March 2011 with Ukrros. Ukrros' previous owners underinvested in sugar this spring, which resulted in an extremely poor sugar beet yield of 28 t/ha (vs. Ukraine's average of 36 t/ha and Astarta's 50 t/ha). According to our estimates, this will result in Kernel posting 20% EBIT margin in sugar segment this year, moderate as for sugar business.

Kernel sugar segment operating figures

	FY2012E	FY2013E
Sugar beets processed, kt	1,200	1,320
Capacity utilization	44%	48%
Sugar beet to sugar extraction ratio	13.0%	13.0%
Sugar output, kt	156	172
Average selling price, USD/t	833	650
Revenue from sugar segment, USD mln	135	118
EBIT, USD mln	27	26
EBIT, %	20%	22%

Source: Concorde Capital estimates

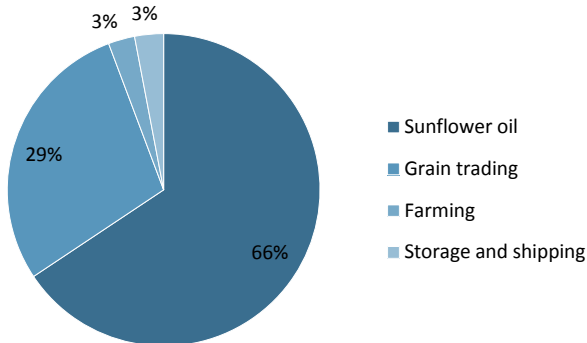
COMPANY OVERVIEW

Report date	9 Feb 2012
Bloomberg	KER PW
Reuters	KERN.WA
Recommendation	BUY
Price (07 Feb 12), USD	23.9
12M price target, USD	26.4
Price (07 Feb 12), PLN	75.0
12M price target, PLN	82.8
Upside	10%
No of shares, mln	79.683
Market Cap, USD mln	1,902
52-week performance	-20%
52-week range, USD	17.8/31.1
ADT, 12M, USD mln	3.5
Free float, %	62.4%
Free float, USD mln	1,187
Shareholder structure	
Andriy Verevsky	37.6%
Comgest	6.0%
Other	56.4%

Kernel is Ukraine's largest diversified agricultural company. Its main businesses are:

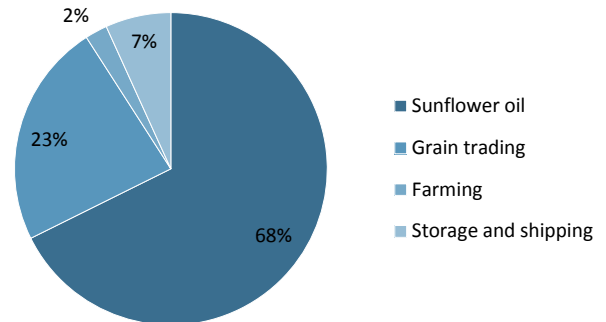
- **Sunflower oil:** Production in FY2011 was 945 kt of sunflower oil, which represented 8.3% of global output (based on USDA data). #1 sunflower oil maker in Ukraine. Controls seven oilseed processing plants in Ukraine and three in Russia with an aggregate capacity of 3.0 mmt of oilseed p.a. (equivalent of 1.32 mmt of sunflower oil p.a.).
- **Grain trading:** Exported 1.8 mmt of grain in 2010/11 (15% of Ukraine's total, #1-3 in Ukraine over the last two years).
- **Storage:** Silo network with 2.3 mmt capacity in grain equivalent (8% of Ukraine's total, #3 in Ukraine).
- **Export terminal:** Grain terminal capacity of 4.0 mmt p.a. (#2 in Ukraine, 10% of total) and vegetable oil terminal with capacity of 0.5 mmt p.a. Both located on the Black Sea.
- **Farming:** Leased landbank of 210,000 ha (0.7% of Ukraine's total, top-5 leaseholder).
- **Sugar production:** Four sugar plants with total processing capacity of 22 kt per day (#2 in Ukraine), acquired with Ukrros in March 2011. Kernel' market share in domestic sugar production was 7% in 2011/12.

Revenue structure, FY2011



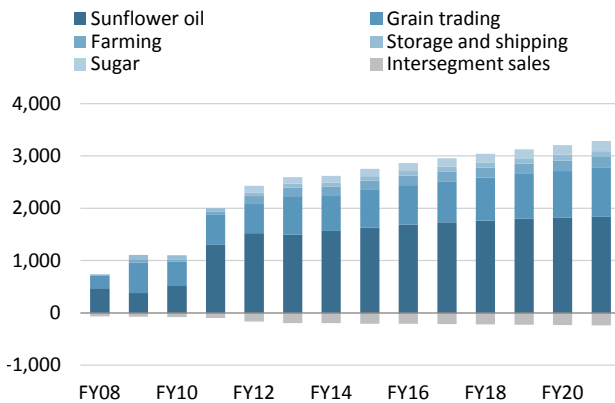
Source: Company data

EBIT by segment, FY2011



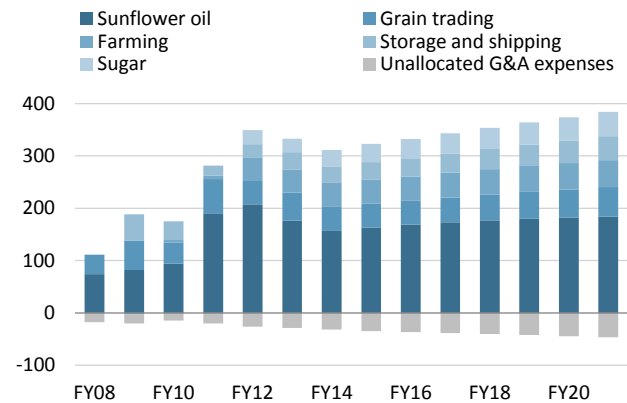
Source: Company data

Revenue, USD mln



Source: Company data, Concorde Capital

EBIT, USD mln



Source: Company data, Concorde Capital

Sunflower oil production

Kernel is Ukraine’s largest sunflower oil producer, with seven oilseed crushing plants across Ukraine’s sunflower belt. Kernel took over three plants in Russia with its August 2011 acquisition of Russian Oils, Russia’s #10 sunflower oil producer. Oilseed crushing accounted for 66% of Kernel’s revenue and 68% of EBIT in FY2011.

Kernel’s oilseed crushing plants

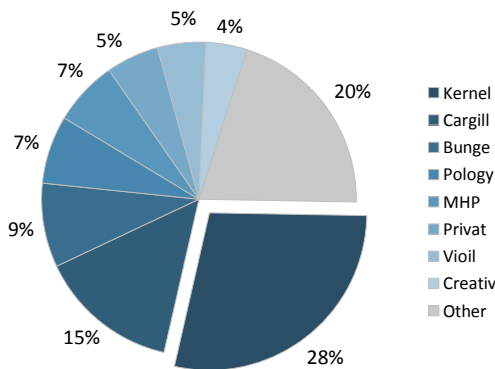
	Country	Daily capacity, t of sunflower seed	Annual capacity, ths t	% of total capacity
Bandurka	Ukraine	1,500	495	16.7%
BSI	Ukraine	1,500	495	16.7%
Kirovogradoliya	Ukraine	1,300	429	14.5%
Poltava plant	Ukraine	1,300	429	14.5%
Vovchansky plant	Ukraine	1,100	363	12.2%
Prykolotnjansky plant	Ukraine	600	198	6.7%
Ekotrans	Ukraine	439	145	4.9%
Maslo Stavropolya	Russia	450	149	5.0%
Florentina	Russia	400	132	4.4%
Nevinnomissky plant	Russia	400	132	4.4%
Total		8,989	2,966	

*Based on 330 working days per year
Source: Company data, Concorde Capital

Three pillars of sunflower oilseed processing

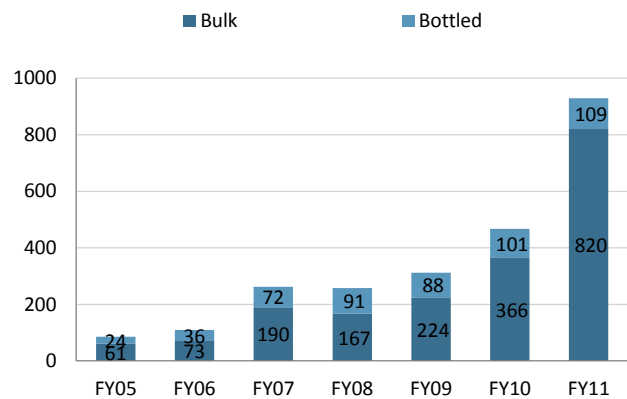
- Procurement: Kernel has an efficient oilseed procurement system, organic to grain trading, which assured 97% capacity utilization in FY2011 vs. estimated 75% on average in Ukraine
- Location: Most of Kernel’s plants are located either in regions where sunflower oilseed production is concentrated or close to export terminals
- Working capital: Kernel has access to cheap and ample financing, which is crucial for the business, as most oilseed purchases are done within the harvest period while revenue from oil sales comes evenly over the year

Top sunflower oil producers, 2010



Source: Company data

Kernel’s oil sales, ths t



Source: Company data

Most oil is exported

Kernel sold 88% of sunflower oil produced in FY2011 in bulk, mostly for export. Remaining sunflower oil is bottled and sold domestically; Kernel is #3 seller of bottled sunflower oil in Ukraine, based on FY2011 results.

Export duties defend crushers’ margins in Ukraine

While domestic oilseed crushing is historically strong and has a logistics cost advantage behind it, we think the bulk of processors’ margins lie in the 10% export duty on sunflower seeds (vs. 0% for oil), which effectively reduces seed prices, the key cost component for crushers.

The key logic behind the duty is to counter-balance higher duties on sunflower oil imports than on oilseeds in key consumer countries. Though for a long time the EU and Ukraine have discussed the abolition of Ukraine’s export duty on sunflower seeds, we believe this, if it ever happens, will take place in combination with a symmetrical abolition of import duties on sunflower oil in the EU, which will have little effect on Ukrainian crushers’ margins.

Import duties on sunflower oil and oilseeds of key Ukraine counterparties

	Sunflower oil imports from Ukraine, 2010, kt	Import duty on sunflower oil	Import duty on sunflower oilseeds	Difference
India	667.9	13%	4%	9%
EU	538.5	6.4%	0%	6%
Egypt	365.4	0%	2%	-2%
Turkey	175.7	36%	27%	9%
Russia	112.9	15%	5%	10%
Algeria	96.3	15%	5%	10%
Belarus	74.3	15%	5%	10%
Ukraine export duty on sunflower oilseeds				10%

Source: TARIC, CBEC, Customs services of the respective states

Russia: Moving into a less stable market

Kernel bought Russian Oils, which owns three oilseed processing plants in Russia, in August 2011. The acquisition boosted Kernel’s processing capacities by 16%. While we expect the margins of acquired operations will be less than those in Ukraine, we deem this acquisition value accretive due to the low price. See the Acquisition section on page 7 for details.

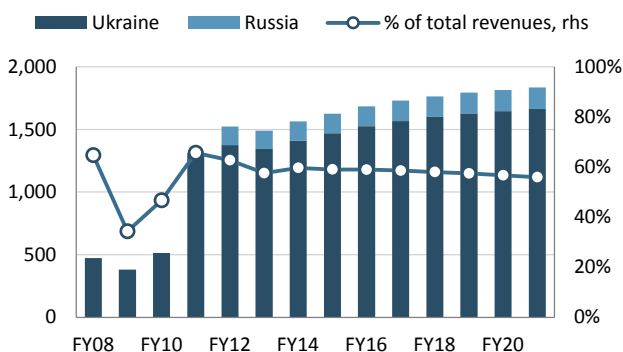
Long-term outlook: EBIT margin will decline to 10%

We expect Kernel’s margin on sunflower oil to decline from 15%-22% in the last four years to 10% within three years due to growing competition. We think processors will expand capacity (via modernization) slightly faster than sunflower oilseed supplies increase. Sunflowers already account for 15% of total crops planted by acreage, close to the limits crop rotation practices allow. Thus we see little room for acreage growth and sunflower yield improvement limited to a 2% in the mid-term, and 1% in the long-term.

In Russia, sunflower oilseed processing margins have historically been more volatile and on average lower than in Ukraine due to higher competition among processors for oilseed. We model this segment’s long-term EBIT margin at 8%, 2pp below our projection for Ukraine.

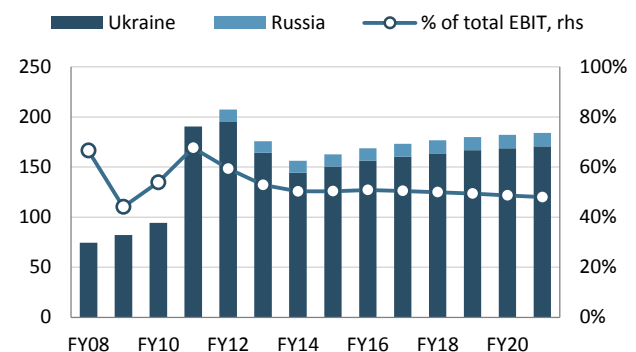
We do not model a change in oil crushing capacity as the company says it already modernized its Ukrainian plants and there is no plan to modernize its Russian ones yet. We note the significant consolidation opportunities in the Russian sunflower oil processing sector and expect Kernel to acquire small players there, though we do not explicitly include such deals in our model.

Sunflower oil segment revenue, USD mln



Source: Company data, Concorde Capital projections

Sunflower oil segment EBIT, USD mln



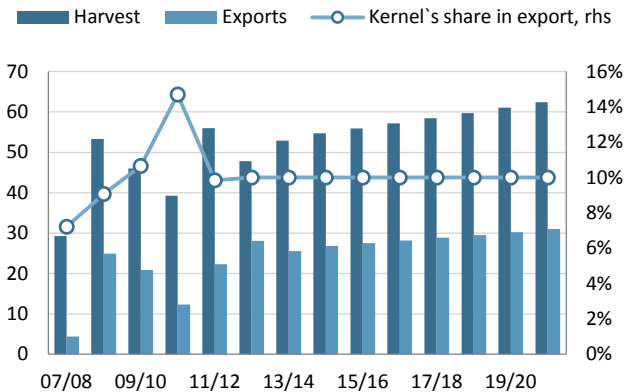
Source: Company data, Concorde Capital projections

Grain trading

Grain trading is Kernel's second largest contributor to revenues (30% in FY2011) and EBIT (25% in FY2011). In our view, Kernel is efficient in the three main aspects of the grain trading business:

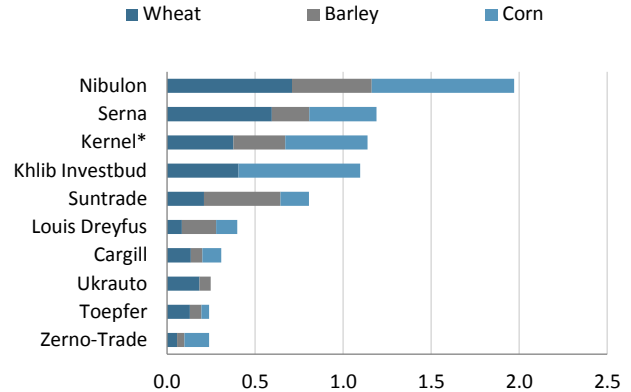
- access to low cost financing for working capital (Kernel pays 7-10% interest rates for short-term loans vs. other farmers' average of ~25%)
- developed grain procurement system
- infrastructure (Kernel has its own network of silos with 2.3 mmt capacity in wheat equivalent and 4.0 mmt grain export terminal)

Ukraine's grain production and exports, mmt



Source: Company data, Concorde Capital projections

Largest grain exporters, mmt, 2010/11 MY



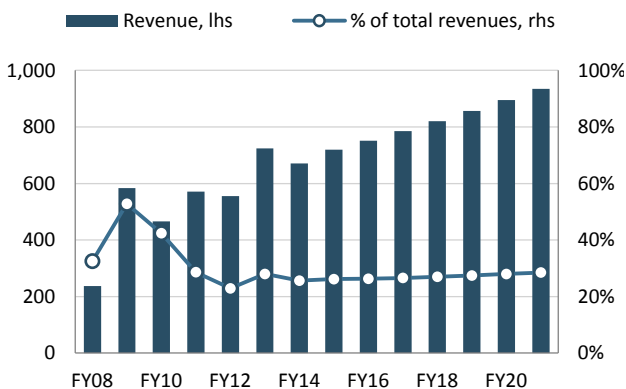
* Kernel provides a figure of 1.8 mmt of grain traded in 2010/11
Source: APK-Inform

Long-term outlook: EBIT margin will decline from 11% last year to 6%

We believe Kernel's impressive margin in grain trading in recent years is made by exploiting market inefficiencies such as taking advantage of quotas or farmers' low access to capital. Kernel's EBIT margin from grain trading was 9%-15% in 2007-11 vs. 3-4% EBIT margins for ADM, Bunge and Cargill, the largest traders in the world. We expect Kernel's grain trading margin to decline to 6% in the long term, as farmers gain access to cheaper capital and increase their bargaining power over local traders.

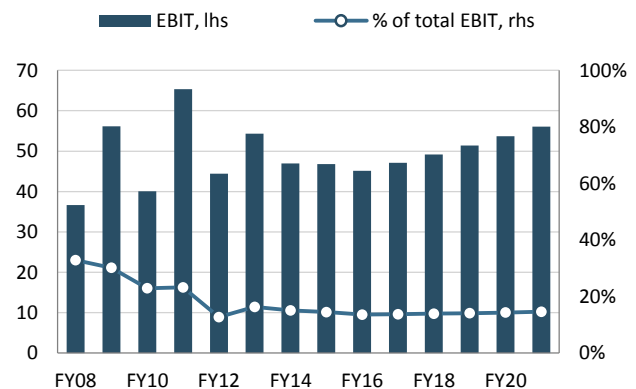
We assume Kernel's share in Ukrainian grain exports will remain at 10% in the long-term.

Grain trading segment revenue, USD mln



Source: Company data, Concorde Capital projections

Grain trading segment EBIT, USD mln



Source: Company data, Concorde Capital projections

Grain storage

Largest silo network in Ukraine

Kernel operates Ukraine’s 3rd largest network of grain storage facilities, with an aggregate capacity of 2.3 mmt in wheat equivalent, or 8% of Ukraine’s total. Kernel’s silos are mostly located in regions where Kernel’s oilseed crushing plants are located. Kernel does use third-party silos for trading and provides storage services to third-party grain as well.

The company has earned a significant 35%-57% EBIT margin in the segment in the last three years, with higher figures in good harvest years when (1) more crops are competing for the same amount of storage facilities and (2) crops are stored for a longer period of time. The segment’s high margin is mainly because of the high entry cost (mainly due to high cost of construction) and the lack of storage facilities to meet demand, which increases storage operators’ bargaining power.

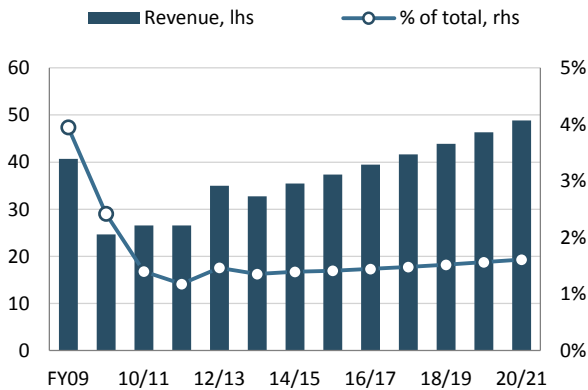
17% increase in capacity planned via greenfield project

Kernel plans to construct six new silos in FY2012-FY2013, with an aggregate grain storage capacity of 400 kt in wheat equivalent, a 17% increase to current capacity. The company estimates its CapEx at USD 150/t of storage capacity (implying USD 60 mln in total), generally at the lower bound of what peers report a new facility costs (USD 150-250/t). We explicitly account for the effect of this project in our model.

Long-term outlook: EBIT margin to stay around 40%

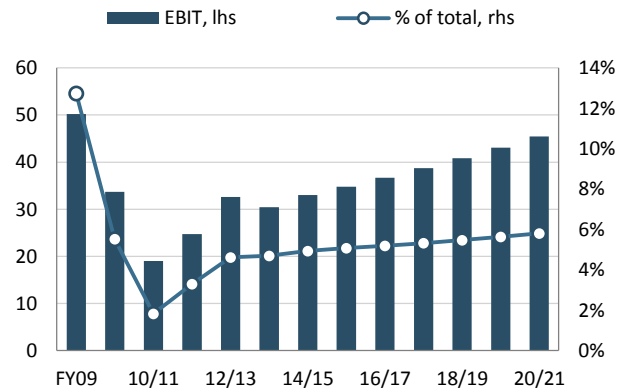
We believe Kernel will keep its EBIT margin at 40% (EBIT of USD 5/t in FY2012E prices) in its storage segment over the long-term, a level that secures a reasonable payback for silo construction project.

Storage segment revenue, USD mln



Source: Concorde Capital estimates

Storage segment EBIT, USD mln



Source: Concorde Capital estimates

Export terminal

Kernel operates two export terminals on the Black Sea, Transbulkterminal for grain in Illichivsk and Oiltransterminal for vegetable oil in Mykolaiv. While the Oiltransterminal mostly handles internally-produced sunflower oil, Transbulkterminal serves both Kernel's own and third-party grain export operations. The historical EBIT margin for Kernel's export terminal segment has been 43%-54% thanks to the deficit of terminal facilities in Ukraine.

Kernel's export terminals overview

	<i>Transbulkterminal</i>	<i>Oiltransterminal</i>
Annual throughput capacity	4.0 mmt	0.5 mmt
Annual throughput, FY2011	1.6 mmt	0.5 mmt
Storage capacity	0.2 mmt	0.03 mmt
Commodity	Grains	Sunflower oil

Source: Company data

Ukraine's largest grain export terminals

<i>Terminal</i>	<i>Location</i>	<i>Storage capacity, ths t</i>	<i>Throughput capacity, mmt per annum</i>
Nibulon	Mykolaiv	132	4.5
<i>Transbulkterminal (Kernel)</i>	<i>Illichivsk</i>	<i>210</i>	<i>4.0</i>
Bunge	Mykolaiv	140	4.0
TIS	Yuzhne	380	3.5
Grintur	Mykolaiv	150	3.0
Nika-Tera	Mykolaiv	40	3.0
Ukrelevatorprom	Odesa	210	2.5
Ilyichivsk Grain Terminal	Illichivsk	200	2.0
Olimpex Coupe International	Odesa	78	2.0
Borivage	Yuzhne	126	2.0
Inzerneexport	Odesa	50	1.5
Total Ukraine			40.8

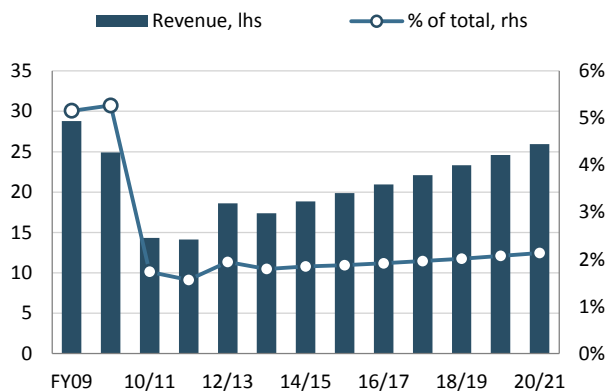
Note: Italics indicates Kernel's terminal

Source: Concorde Capital

Long-term outlook: EBIT margin to stay around 40%

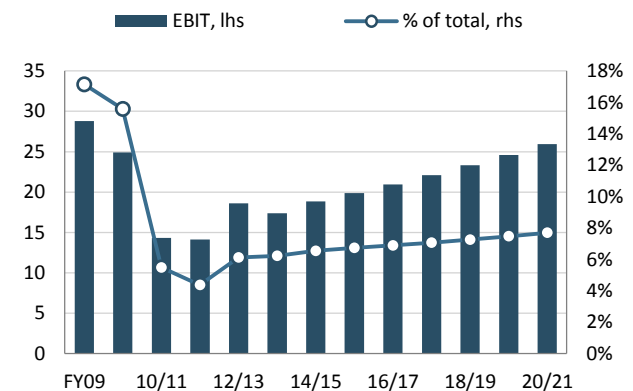
Transshipping is a very seasonal business: when the harvest is plentiful, both margins and volumes are high as excess harvest is exported. Transshipping is expensive in Ukraine (~USD 15/t vs. costs of USD 7-8/t) because there are no sufficient facilities to meet demand for exports. Like with its grain storage business, Kernel's high operating profit from transshipping is just for securing normal payback of capital investments, thus we expect a 40% EBIT margin in the segment in the long-term.

Transshipping revenue, USD mln



Source: Concorde Capital estimates

Transshipping EBIT, USD mln



Source: Concorde Capital estimates

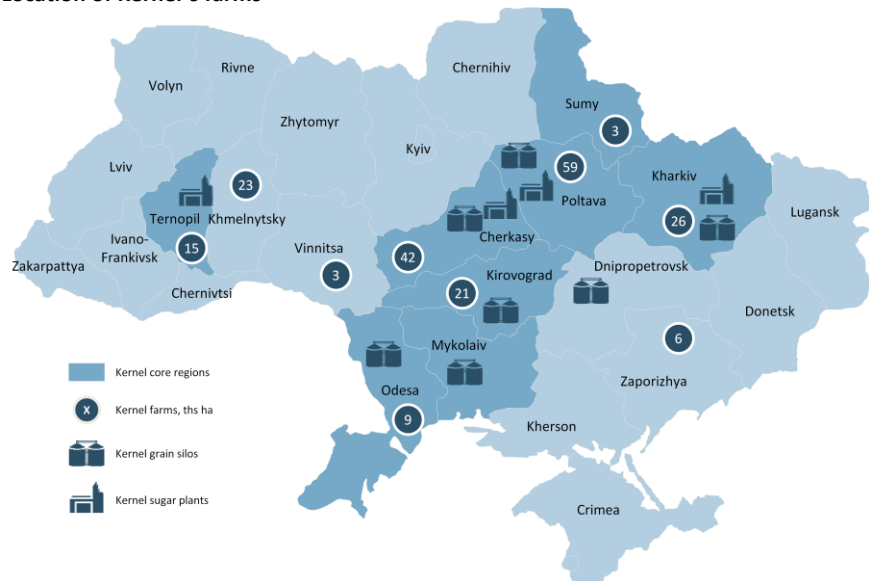
Farming

Landbank expanded 2.4x over 2011

The acquisitions of Ukrros (March 2011) and Enselco (September 2011) expanded Kernel's landbank 2.4x yoy to 210,000 ha at the end of 2011, which makes it Ukraine's top-5 farmer. As with all farming companies in Ukraine, Kernel holds lease rights for its land that give it preemptive purchase rights if the government makes land tradable.

Despite Kernel's sizable landbank, farming makes up a relatively small portion of Kernel's operations (we expect the segment to contribute 13% of EBIT since FY2012) due to the size of its other businesses.

Location of Kernel's farms



Source: Company data

Long-term outlook: EBIT margin of 25%

Kernel's crop yields in 2011 (to be reflected in FY2012 financials) were mixed: while corn and sunflower showed premiums to Ukraine's average, sugar beets strongly underperformed. At the same time, management accounts on costs per ton impressed us: in our view, they will allow the company to earn a 30% EBIT margin in the segment in FY2012. Most of Kernel's landbank was added in the last calendar year, suggesting little track record in the business and still high execution risk. To account for the risk, we project a conservative 25% EBIT margin for the segment in the long-term, though we acknowledge the potential for an upward review should the company show operating efficiency in the next season.

Kernel crop yields, 2011*

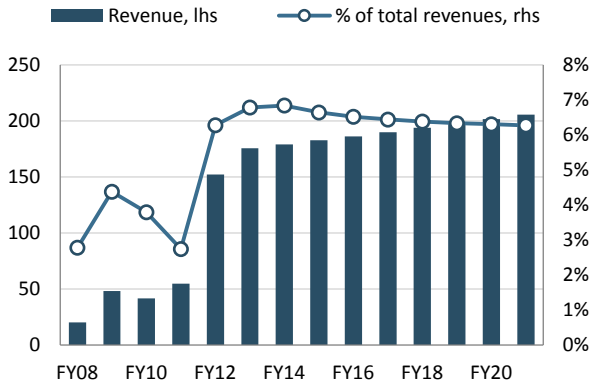
	Kernel's yield, t/ha	Ukrainian average yield, t/ha	Kernel vs. Ukraine	Share in Kernel's acreage
Wheat	3.67	3.35	+9%	29%
Corn	7.16	6.43	+11%	15%
Barley	2.47	2.47	0%	7%
Sunflower	2.09	1.84	+14%	15%
Rapeseed	1.80	1.73	+4%	4%
Soy	1.89	2.04	-8%	16%
Sugar beets	28.06	36.31	-23%	10%

*Harvested in July-December 2011, to be reflected in FY2012 financials

Source: Concorde Capital estimates

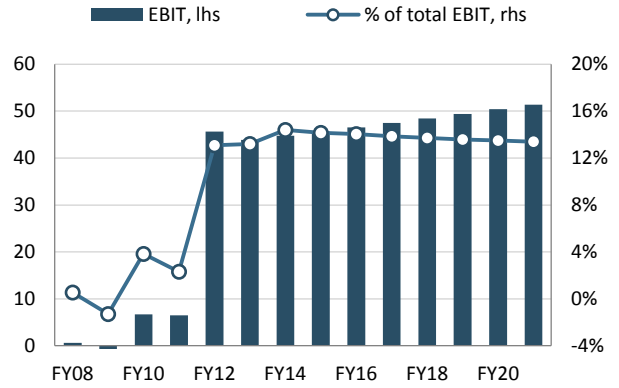
Kernel positions its farming segment as a key area for growth and so we expect the company to expand its landbank further, with a focus on land close to its sugar plants in order to increase self-sufficiency in sugar beets. We do not explicitly forecast this growth in our model, as we value all the Kernel's potential (undisclosed) inorganic separately (see Valuation section on page 22 for details).

Farming segment revenue, USD mln



Source: Concorde Capital estimates

Farming segment EBIT*, USD mln



*Net of biological revaluation (IAS 41)

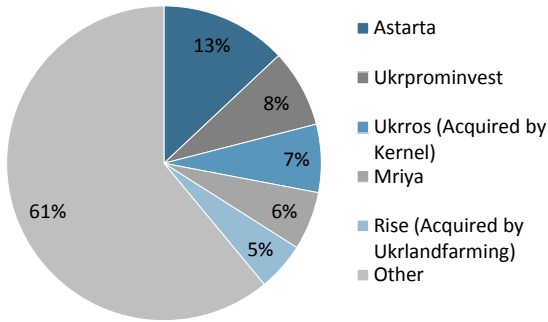
Source: Concorde Capital estimates

Sugar production

Ukrros acquisition gives Kernel a sugar business

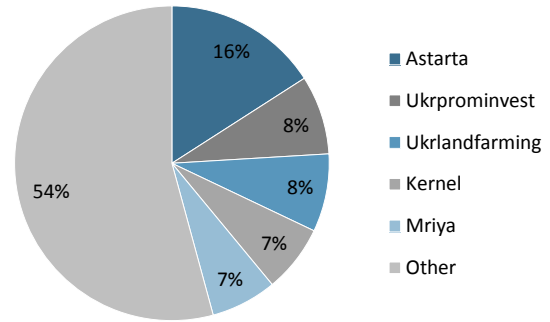
When Kernel bought Ukrros in March 2011, it acquired its four sugar plants with a total capacity of 22 ths t per day. With 162 kt of sugar produced in FY2012 (the production season ended in early January), Kernel accounted for 7% of Ukraine`s production in 2011.

Ukrainian sugar producers, 2010



Source: Ukrtsukor

Ukrainian sugar producers, 2011



Source: Ukrtsukor

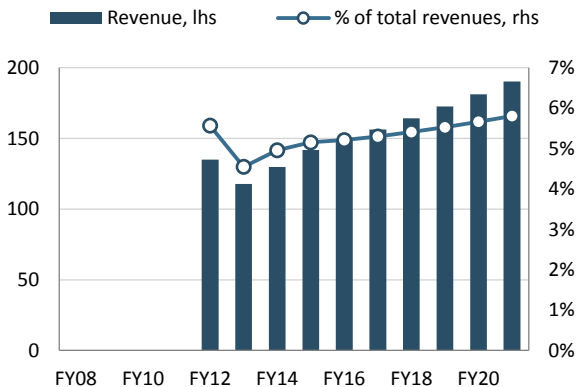
Room for consolidation

We see Kernel as a candidate to consolidate the fragmented domestic sugar industry. After the large sugar beet harvest last fall, producers are faced with the need to keep large inventories (at season end, we expect a 37% stock-to-use ratio, the highest in the latest decade) which should force smaller producers that lack access to capital to exit the business in 2012. Like with other potential areas of expansion that are not disclosed by the company, we do not model these opportunities explicitly and include them into a separate simplified valuation of new acquisitions (see Valuation section on page 22).

Long-term outlook: EBIT margin of 25%

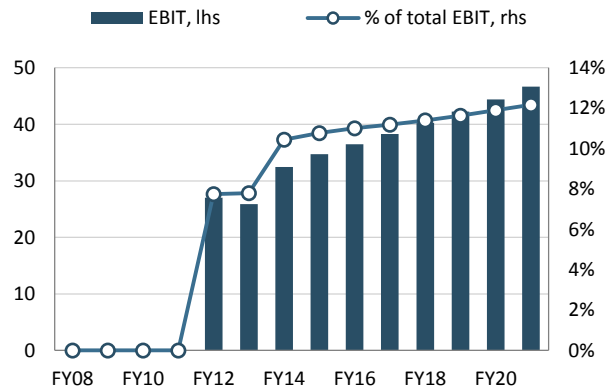
We expect Kernel to improve efficiency at Ukrros' plants within 2-3 years and push earnings closer to Astarta's levels (38%-46% EBITDA margin in 2009-10). For now, we stay cautious with a 25% long-term EBIT margin forecast, as Kernel's management does not sound optimistic on its sugar business.

Sugar segment revenue, USD mln



Source: Concorde Capital estimates

Sugar segment EBIT, USD mln



Source: Concorde Capital estimates

VALUATION

We set our 12M target price for Kernel shares at USD 26.4 per share (PLN 82.8), upside of 10%. We separately model Kernel's current business (89% of total value) with no non-organic growth assumed, and its growth opportunities to account for Kernel's ability to execute business combinations at low multiples.

Current business fairly valued by the market

Our DCF valuation of Kernel's current (organic) business yields a fair equity value of USD 1,863 mln (USD 23.4 / PLN 73.4 per share), very close to the current market price of PLN 75 per share.

We present detailed operating assumptions in Appendices 2-3 on pages 43-45. These are our key assumptions for the current business:

Sunflower oil

- Sunflower oilseed crushing volume growth at 32% in FY2012 (mainly thanks to consolidation of new processing facilities in Ukraine and Russia), a 2% decline in FY2013 as the effect of last year's positive weather disappears, and 1%-2% growth afterward. We base all growth estimates only on yield growth, as we think Kernel is close to its procurement maximum in regions close to its plants, while oilseed transportation from other regions is not economically efficient
- Capacity utilization at 92-100% over the modeled period (vs. 91%-97% in the last four years)
- Average bulk sunflower oil price drop 9% yoy in FY2012 to USD 1,050/t, further projections based on FAPRI forecast (1.8% 10Y CAGR)
- Bulk oil EBIT margin modeled as a percentage in Ukraine: 14% in FY2012, 12% in FY2013 and 10% after FY2014, as we expect competition among crushers to grow faster than oilseed supplies in the region, lowering margins as a result. Bottled oil EBIT margin 2 pp higher than the bulk level for the entire forecast period
- Capacity utilization at Russian oil plants at 60%; EBIT margin of 7% in bulk oil and 9% in bottled oil sales

Grain trading

- Grain trading volumes as 10% of Ukraine's projected grain exports: 2.2 mln t in FY2012, 2.8 mmt in FY2013, 2.6 mmt in FY2014, 2% growth afterward. Average grain prices down 20% yoy in FY2012, 2% growth afterward
- Trading EBIT margin declining from 8% in FY2012 to 6% over five years as farmers' bargaining power increases, staying at 6% afterwards

Other

- Landbank fixed at the current level of 210 ths ha. Yields down 10% in 2012 year as the positive weather shock in 2011 disappears, and 3% growth afterward
- Farming EBIT margin at 30% in FY2012 and flat 25% afterwards (margin without gain from biological revaluation, IAS 41)
- Storage and export terminal revenues linked to grain trading volumes
- 400 kt new grain storage facilities constructed in FY2012- FY2013 for CapEx of USD 60 mln
- Storage services and export terminal EBIT margins flat at 40% over the long-term
- Increase in Ukrros' sugar capacity utilization to 55% over ten years from 44% in FY2012 thanks to higher self-sufficiency in sugar beets. EBIT margin of 20% in FY2012, increasing to 25% in two years thanks to an increase in beet self-sufficiency, then flat afterward

DCF output (current business), USD mln

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	
EBITDA	368	351	328	339	348	360	371	381	392	402	
EBIT	323	304	279	288	295	304	313	321	329	337	
Tax Rate	2%	2%	4%	6%	7%	7%	7%	7%	7%	7%	
Taxed EBIT	316	298	268	271	274	283	291	299	306	313	
Plus D&A	45	47	49	51	53	55	58	60	63	65	
Less CapEx	(277)	(60)	(60)	(62)	(64)	(66)	(68)	(70)	(70)	(70)	
Less change in OWC	(111)	(42)	(12)	(38)	(30)	(26)	(24)	(23)	(21)	(22)	
FCFF	-	242	245	222	233	247	257	266	278	287	
WACC	13%	14%	14%	14%	14%	14%	14%	14%	14%	14%	
Sum of discounted CFs		1,201									
Terminal Value										2,621	
Disct'd TV		890									
Firm value		2,091					Portion due to TV			42.6%	
Less Net Debt		(228)									
Equity Value as of 09 February 2013		1,863					Implied exit EBITDA Multiple			6.5 x	
Perpetuity Growth Rate		2.5%									
Fair price of ord. share						PLN 73.4			USD 23.4		

Source: Concorde Capital

Sensitivity tables, USD per share (current business)

	Perpetuity Growth Rate					WACC	Exit Multiple (EBITDA)				
	1.5%	2.0%	2.5%	3.0%	3.5%		4.5 x	5.5 x	6.5 x	7.5 x	8.5 x
WACC											
-3.0%	26.7	27.3	28.0	28.7	29.5	-3.0%	23.7	25.8	28.0	30.1	32.3
-2.0%	25.1	25.7	26.3	27.0	27.7	-2.0%	22.3	24.3	26.3	28.3	30.3
-1.0%	23.7	24.2	24.8	25.4	26.1	-1.0%	21.1	23.0	24.8	26.6	28.5
+0.0%	22.4	22.8	23.4	24.0	24.6	+0.0%	20.0	21.7	23.4	25.1	26.8
+1.0%	21.1	21.6	22.1	22.6	23.2	+1.0%	18.9	20.5	22.1	23.6	25.2
+2.0%	20.0	20.4	20.8	21.3	21.9	+2.0%	17.9	19.4	20.8	22.3	23.8
+3.0%	18.9	19.3	19.7	20.2	20.7	+3.0%	16.9	18.3	19.7	21.1	22.4

Source: Concorde Capital

WACC decomposition

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Debt-to-Equity	0.39	0.19	0.20	0.23	0.24	0.24	0.23	0.23	0.23	0.23
Avg. Interest Rate	8.9%	8.1%	8.2%	8.4%	8.5%	8.6%	8.6%	8.6%	8.6%	8.6%
Ukr Eurobonds YTM	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Equity premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Comp.-specif. prem	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost Of Equity	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
WACC	13.3%	13.8%	13.8%	13.7%	13.6%	13.6%	13.7%	13.7%	13.7%	13.7%
WACC To Perpetuity	13.7%									

Source: Company data, Concorde Capital projections

Note: Kernel's financial year starts ends on June 30 (e.g. FY2012 ends June 30, 2012)

Business expansion offers potential upside

We intentionally separate the valuation of Kernel's current business (with no non-organic growth assumed) and its growth opportunities in Russia and Ukraine.

In the last four years, Kernel's business growth came through acquisitions: the company made six significant acquisitions for an aggregate USD 420 mln in cash. We estimate these companies accounted for half of FY2011 EBIT and will be responsible for 3/5 of EBIT in 10 years, while the cash paid for them is only about 25% of current MCap.

Normally we would not assume Kernel to continue multiplying value at the same speed – we assume a diminishing return on new acquisitions in the future. That said, we model:

- Kernel's ROIC on new acquisitions will be in line with the company's ROIC in FY2013 and will gradually decline to WACC within five years
- In the period when ROIC on new investments exceeds WACC (i.e. till 2017) Kernel will continue to direct 70% of its net income to acquisitions

This implies a USD 239 mln (USD 3.0 / PLN 9.4 per share) premium for business expansion for Kernel, based on our simplified DCF/NPV model.

Simplified NPV of future acquisitions, USD mln

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	Notes
Cash outflow for acquisitions	(179)	(168)	(153)	(153)	(153)						70% of previous year net income Working Capital to Invested Capital assumed at 39%, average for last two years
Less change in OWC	(69)	(65)	(59)	(59)	(59)	-	-	-	-	-	Sum of CF for acquisitions and change in OWC
Invested capital	248	481	693	905	1,117	1,117	1,117	1,117	1,117	1,117	
Core business ROIC	18%	16%	16%	16%	16%	16%	16%	16%	16%	16%	Equal to core ROIC in the first year, declining to WACC within five years
ROIC for new acquisitions	18%	16%	15%	14%	14%	14%	14%	14%	14%	14%	ROIC * Invested Capital
NOPAT	45	75	103	128	152	153	153	153	153	153	CapEx equal D&A
Plus D&A less CapEx	-	-	-	-	-	-	-	-	-	-	
FCFF	(202)	(158)	(109)	(84)	(60)	153	153	153	153	153	
WACC	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	
Sum of disc't'd CF's	(237)										
Terminal Value										1,400	
Disc't'd TV	475										
NPV	239										

Source: Concorde Capital

Peer comparison shows significant discount on P/E

We include comparison by peer multiples only to check the validity of our DCF valuation. We compare Kernel with EM vegetable oil producers and food processors, which have similar growth profiles in the next two years, taking Bloomberg consensus into account.

Emerging market peers

Company	Share price	MCap USD m	EV/Sales			EV/EBITDA			P/E		
			2011	2012	2013	2011	2012	2013	2011	2012	2013
Kernel	23.9	1,902	1.1	1.0	0.9	7.4	6.1	5.8	9.1	7.4	7.9
China Agri-Ind.Holdings	0.87	3,500	0.7	0.6	0.6	11.4	10.4	10.0	9.6	8.1	6.8
IOI Corporation Berhad	1.82	11,702	2.2	2.1	2.1	12.5	11.6	11.4	16.8	15.6	15.4
China Foods Ltd	0.77	2,161	0.6	0.5	0.4	11.1	8.8	7.2	25.1	19.3	15.1
Thai Vegetable Oil	0.63	498	0.8	0.7	0.6	12.5	9.9	8.3	17.6	13.4	11.6
Mewah International	0.50	752	0.2	0.2	0.2	13.3	9.5	9.2	16.5	12.3	11.5
Indofood Agri Resources	1.29	1,858	1.5	1.4	1.2	4.6	3.9	3.4	11.0	10.9	9.9
Harmonic mean			0.6	0.6	0.5	9.5	7.9	7.0	14.6	12.3	10.9
Implied share price, USD						31.6	32.3	29.1	38.4	39.5	32.8
Upside/(downside)						32%	35%	22%	61%	66%	38%

Source: Bloomberg, Concorde Capital

The price implied by EV/EBITDA is a slight premium to our target price, which we largely attribute to the higher cost of sovereign debt for Ukraine now compared to its peers (which effectively warrants higher the cost of equity for Kernel). On P/E, Kernel looks significantly undervalued, thanks to its lower leverage and virtually zero income tax.

For reference, we also provide multiples for developed market peers. They could indicate, in our view, levels at which Kernel should trade at after it matures.

Developed market peers

Company	Share price	MCap USD m	EV/Sales			EV/EBITDA			P/E		
			2011	2012	2013	2011	2012	2013	2011	2012	2013
Bunge	58.47	8,510	0.2	0.2	0.2	7.6	6.9	5.7	9.6	8.5	7.7
ADM	29.80	19,906	0.3	0.3	0.3	8.0	6.8	7.3	11.3	10.1	9.2
Viterra	10.36	3,851	0.4	0.4	0.4	6.8	6.3	5.6	15.3	13.1	13.0
Andersons	43.19	799							8.7	9.4	8.5
Grain Corp	8.41	1,668	0.7	0.7	0.7	5.6	6.3	6.7	9.6	12.1	13.6
Harmonic mean			0.3	0.3	0.3	6.9	6.6	6.3	10.5	10.4	9.9

Source: Bloomberg

In the Ukrainian agricultural stock universe, we do not see any suitable peers, as farmers have higher commodity risk priced in, while processors have either high vertical integration (MHP, Astarta) or are exposed to the protein sector with completely different fundamentals (Milkiland, Ovostar, Avangard, MHP).

RISKS

Vegetable oil & grain price volatility could have a material impact on margins

Vegetable oil price volatility affects Kernel's earnings; historically its processing margin has been linked to the sunflower oil price rather than a fixed dollar amount per t. Grain price volatility would have a lesser effect on its grain trading business, as traders historically try to lock in a fixed dollar amount.

Ability to smoothly integrate acquired companies

Kernel's growth story is built on acquisitions, thus its ability to integrate these businesses without harming its profitability margins poses a significant risk.

Change in export duties for oilseeds

A decrease in the export duty for sunflower oilseeds would likely decrease Kernel's processing margin significantly. We do not believe the government will cut the export duty on sunflower oilseeds below 10% (effective duty since 2012), because (1) this duty counterbalances import duties in key consumer countries, (2) this duty has been in place for the last decade, and (3) the government appears set on supporting the domestic value chain via the recent tax on grain exports, in line with its policy on taxing oilseeds.

Change in export duties for sunflower oil

The imposition of a new export duty on sunflower oil would likely decrease Kernel's processing margin by a corresponding amount. There were talks of a possible duty during summer 2011, but they never turned into anything concrete. We see the likelihood of a duty imposition as tiny, arguing the same logic as for a change in the duty on sunflower oilseeds.

Quotas/duties for grain exports

Imposing quotas and/or duties on grain exports could have both positive and negative effects on Kernel's grain trading business. Though domestic prices for grains normally correspond to global levels adjusted for duties, the introduction of duties/quotas is normally unexpected, which could lead Kernel to overstock or mismatch buying and selling prices in its trading business segment.

Overly aggressive capacity expansion by competitors

Overly aggressive growth in sunflower processing capacity by competitors could squeeze the sector's currently high processing margins if oilseed output does not match capacity growth. While we do not have information on the growth plans of all market players, we note that the increase in crushing capacity by 2x over the last decade was in line with increases in sunflower seed output. We also note that all recently launched plants are multi-seed, which means processors are able to switch to rapeseed/soybean crushing in case of an undersupply of sunflower seeds in order to avoid squeezing margins sector-wide.

Weather risk

Adverse weather could impact Ukraine's grains and oilseeds harvest, which could affect Kernel through: (1) lower margins in sunflower oil production, as lower supply of oilseed will increase competition for inputs, (2) lower profitability in its farming segment, (3) a lower domestic harvest will decrease availability of grain for export, affecting volumes in grain trading.

MARKET OVERVIEW

Global vegetable oil market

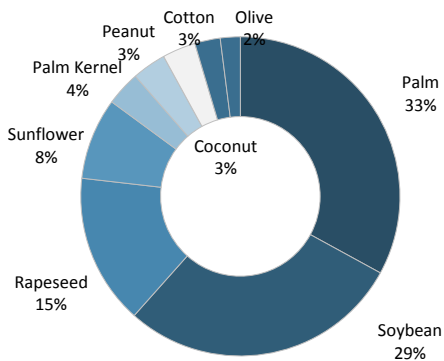
Vegetable oils are primarily produced from palm, palm kernel, soybean, sunflower, and rapeseed using mechanical crushing or chemical extraction for bulk oil with the option of further refining; meal is a by-product of vegetable oil processing (with the exception of soybean where meal is a key product). Bulk non-refined oil is the key traded product for all (except soybean) as countries commonly stimulate domestic crushing via the imposition of duties.

Consumption

10Y CAGR of 5% in oil consumption driven by food

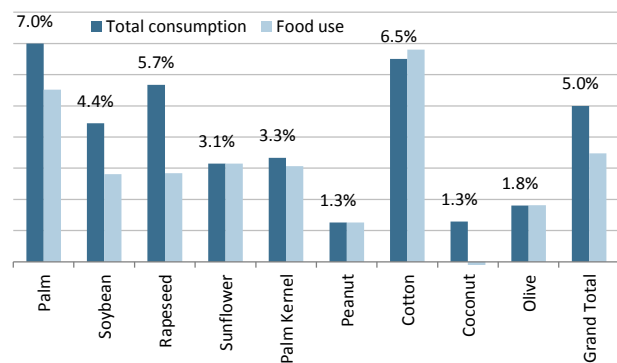
Vegetable oils are mainly used for food (77%), with industrial use (chemicals, biofuel) being the lesser (23%) but faster-growing segment, according to USDA. In the last decade, global consumption of vegetable oils grew at a 5.0% CAGR to 145 mmt in 2010/11 (vs. 1.1% for wheat and 3.3% for corn). 2/3 of growth came from increased food consumption, though this is increased demand from industrial segments, which is responsible for the fact that vegetable oils consumption has been growing faster than wheat and corn.

Vegetable oil consumption by oil type, 2010/11



Source: USDA

Vegetable oil consumption CAGR, 2000/01-2010/11

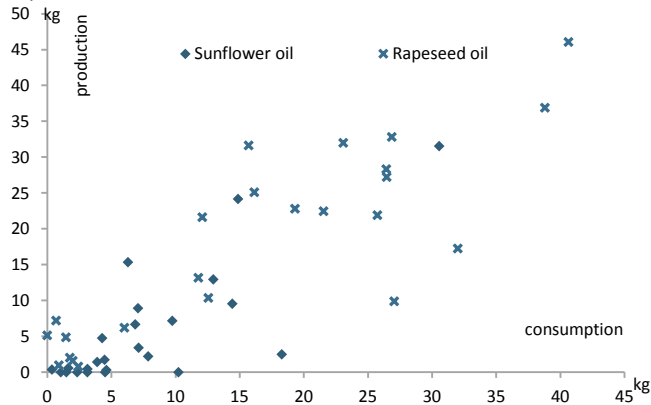


Source: USDA

Oils are interchangeable, with food preferences highly country specific

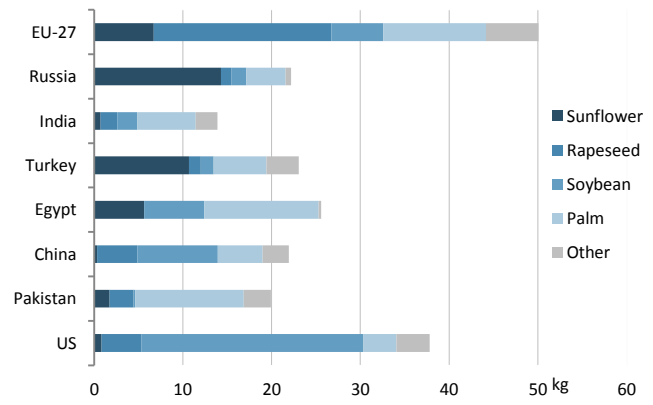
Oils are generally interchangeable, differentiated mainly by consumer preference and to a lesser extent specific uses. Historically, country-producers of a specific seed are locked into consumption of the respective oil for food use, while industry tends to use the cheapest oil. Except for the regional preference for food, per capita volumes also vary significantly among regions with 1) country-producers consuming more per capita; 2) warmer-climate countries consuming more; and 3) higher income country-producers consuming more through increased demand for processed food, which implies higher per food vegetable oil utilization, though this effect is less important.

Vegetable oil consumption vs. production by country, EU, per capita, 2009



Source: EU Oil & Protein meal industry

Per capita consumption by oil type, top sunflower oil consuming countries

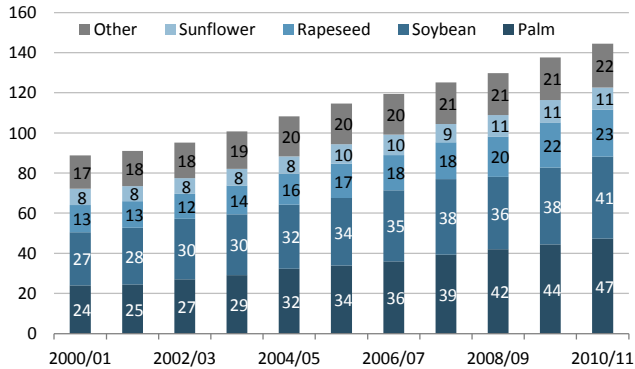


Source: USDA

Palm oil consumption growth fastest due to its lowest price

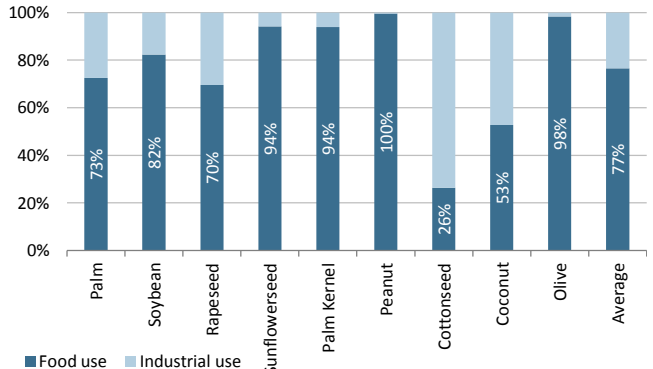
For the last decade, among key oils, the fastest growing consumption was in palm and palm kernel oil, which have the cheapest production costs, and rapeseed oil, driven by the emerging biofuel industry.

Global consumption of vegetable oils, mmt



Source: USDA

Food/Industrial use of vegetable oils, 2010/11



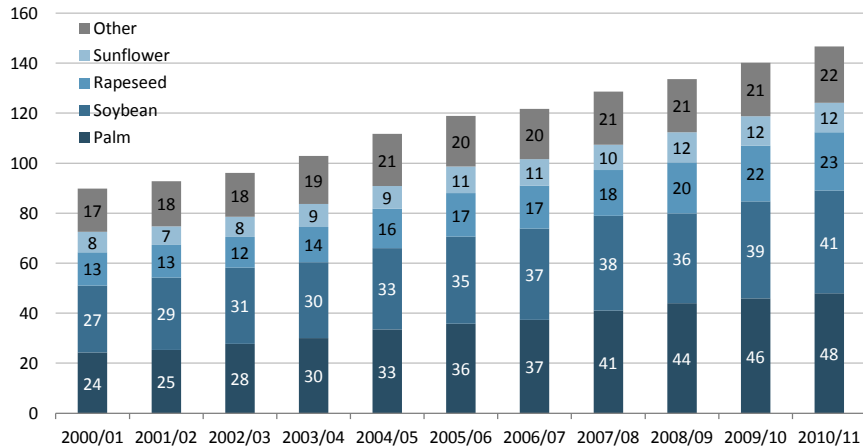
Source: USDA, Concorde Capital calculations

Supply and trade

5% CAGR supply growth over the last decade, led by palm oil

Global vegetable oil production grew at a 5.0% CAGR over the last decade, according to USDA, while sowed acreage increased at only a 2.0% CAGR to 212 mln ha over the period, with remaining growth attributable to higher yields.

Global vegetable oil production, mmt



Source: USDA

Indonesia and Malaysia, the world’s first and second largest key palm oil producers, accounted respectively for 19% and 14% of total vegetable oil supply globally in 2010/11, according to USDA. Though palm oil accounted for almost half of the production growth over the last decade, further supply increases are limited due to acreage constraints in Indonesia and Malaysia. Production of soybean oil, second by output, is dependent on soy meal demand, as this is the only oilseed where oil is a second-order product after meal.

2011/12 outlook: Stocks to fall to 30Y lows

USDA projects the global vegetable oil stock-to-use ratio to fall to 8.1% at the end of 2011/12, down 0.6 pp from year ago and lowest figure in the last 30 years. FAO, which calculates its stocks including the oil content in oilseeds, also projects the stock-to-use ratio decline, but to 15.1% at the end of 2011/12 from 18.1% at the end of 2010/11. The low soybean harvest will be the key reason for declining stocks, as global increases in palm kernel, sunflower seed and cotton seed will not compensate for the decline, and total production of oil is projected to grow by 1.5% vs. demand growth of 4.8%, according to FAO.

USDA 2011/12 projections

	2010/11	2011/12*	yoy, absolute	Share in absolute yoy	Share in absolute yoy change
Oil Production					
Palm	47.93	50.57	2.64	5.5%	46%
Soybean	41.23	42.73	1.5	3.6%	26%
Rapeseed	23.33	22.82	-0.51	-2.2%	-9%
Sunflower	12.19	13.82	1.63	13.4%	29%
Palm Kernel	5.66	5.7	0.04	0.7%	1%
Cotton	5	5.35	0.35	7.0%	6%
Peanut	5.14	5.16	0.02	0.4%	0%
Coconut	3.68	3.68	0	0.0%	0%
Olive	3.01	3.02	0.01	0.3%	0%
Total Production	147.17	152.85	5.68	3.9%	100%
Total Imports	57.19	60.15	2.96	5.2%	
Total Exports	60.25	62.72	2.47	4.1%	
Total Consumption	144.88	150.7	5.82	4.0%	
Ending Stocks	12.67	12.24	-0.43	-3.4%	
Stocks-to-Use	8.75%	8.12%			-0.6pp

*January 2012 projections

Source: USDA

FAO 2011/12 projections

Oils and Fats*	2009/10	2010/11	2011/12E	yoy
Production	172.7	178.6	181.3	1.5%
Supply**	196.1	204.9	209.8	2.4%
Utilization***	169.9	175.2	183.6	4.8%
Trade****	89.4	90.7	94.4	4.1%
Stock-to-utilization, %	17.6%	18.1%	15.1%	-16.6%

*Includes oils and fats of vegetables, animal and marine origin.

** Production plus opening stocks

*** Residual of the balance

**** Trade data refers to exports based on a common

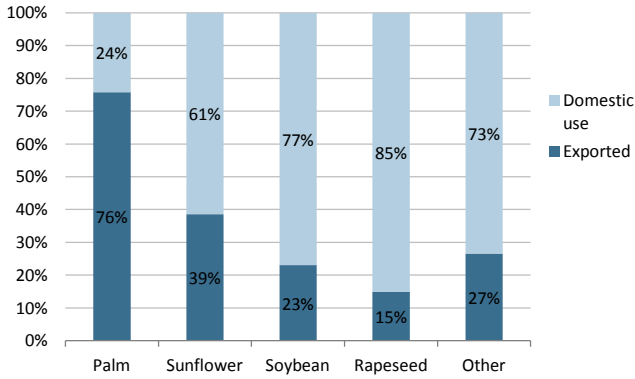
October/September marketing season

Source: FAO Food Outlook, November 2011

2/5 of vegetable oils are traded internationally

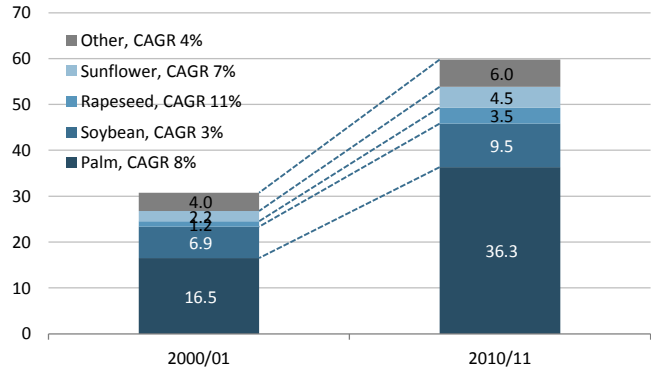
Of the total global vegetable oil output, 41% was traded internationally in 2010/11, up from 34% a decade ago, according to USDA. 3/5 of the volumes were attributed to palm oil, while sunflower oil accounted for 8% of global trade, roughly proportional to its share in global production.

Export vs. domestic use of key vegetable oils, 2010/11



Source: USDA; *Trade between EU-27 countries is considered as intraregional

International vegetable oils export, mmt and CAGR 2000/0: 2010/11



Source: USDA

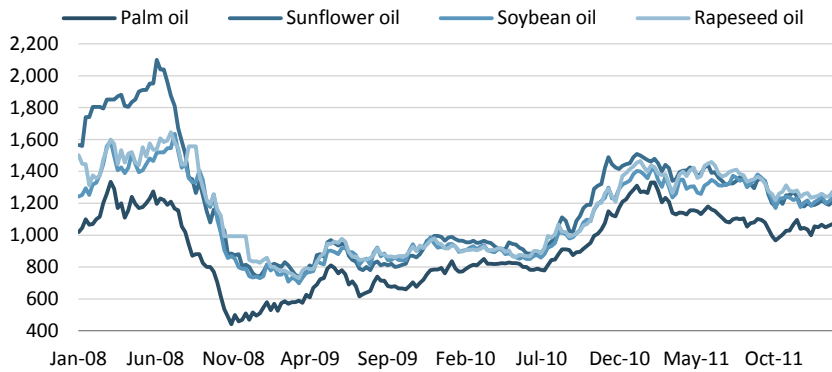
Prices: high as all soft commodities and oil

As almost half of vegetable oils output is traded internationally, their prices are generally set at the global level. Transportation costs are responsible for less than 10% of the price variation between countries, while other transnational differences are the result of local duties and in-country logistics.

Spike in 2010/11 driven by production downgrades

In the 2010/11 marketing season, prices for most vegetable oils rose to close to their 2008 peaks around February 2011. Key drivers behind the price appreciation were a series of downward corrections in production forecasts, price spill-over effects from tight grain markets and continued strong demand for vegetable oils. However, after that vegetable oil prices moved downward and by end of January 2012 were down 13%-20% from their last year peaks. A larger than expected soybean harvest in South America and palm production in South Asia coincided with lower than expected global imports, which resulted in an unexpected rise in inventories at the end of 2011/12.

Vegetable oil prices, USD/t



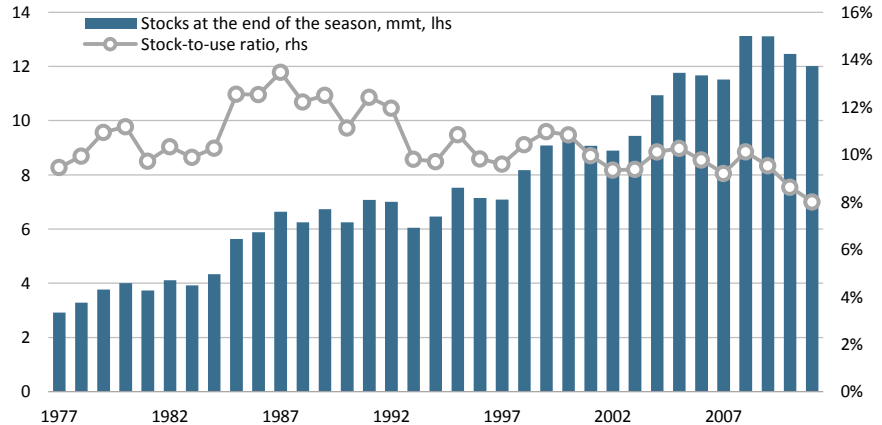
Source: APK-Inform

Vegetable oils are currently 1.9-2.2x above their averages for 1980-2010, which puts its rally between those of wheat and crude oil (1.7x and 3.1x above their 30-year averages, respectively).

Historically low stocks should keep prices high in 2011/12

Based on the FAO's November forecasts, the prospects of reduced output of soybean and rapeseed output will tighten the global supply and demand balance at the end of 2011/12. To date, the market has not reacted to this signal due to the availability of high carry-over stocks and price weakness prevailing in grain markets.

Global vegetable oil stocks, mmt, lhs and stock-to-use ratio, rhs

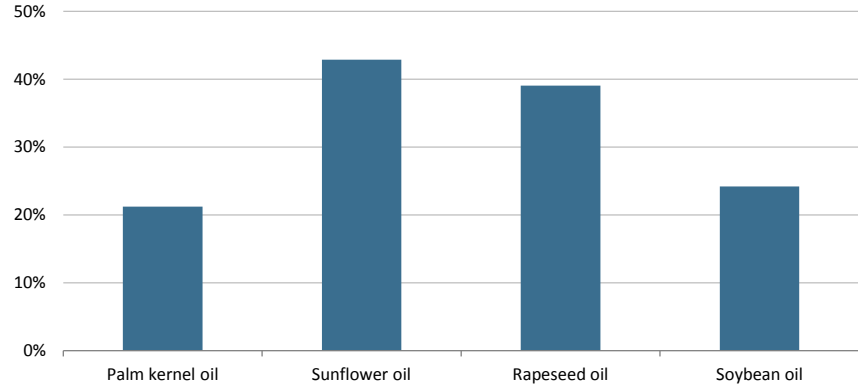


Source: USDA

Sunflower is traditionally the most expensive key oil

Among the four key traded oils, sunflower is historically the most expensive due to its considered premium quality for food use (because of its high level of unsaturated fatty acids and lack of linoleic acid), while palm oil is the least expensive and its use dominated by industrial consumption. Though since vegetable oils became around 2x more expensive than historical levels – the ten-year premium of sunflower oil prices to palm oil has declined to 31%, according to our calculations.

Vegetable oil premiums to palm oil, average for 2001-2010

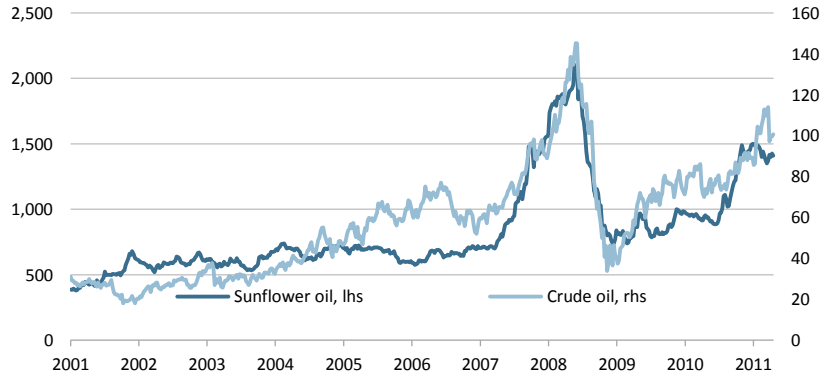


Source: APK-Inform, Concorde Capital calculations

Emerging correlation between vegetable & crude oil prices

Since the mid-2000s when biodiesel production went large-scale, the correlation between vegetable oil and mineral oil has increased, though only 7.5% of vegetable oils were consumed for biodiesel production in 2010 (vs. 0% in 2000), according to FAPRI. The pass-through mechanism works through increased demand for rapeseed and soybean oil, the key vegetable oils used to make biodiesel.

Sunflower oil, USD/t, lhs and crude oil, USD per bbl, rhs



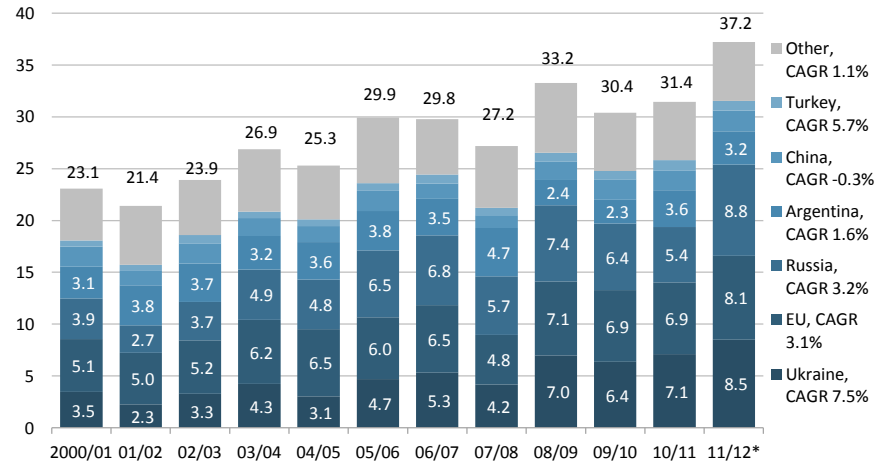
Source: APK-Inform, Bloomberg

Global sunflower oil & oilseed market

Supply concentrated in Europe and Argentina

Sunflower oilseed is the second most concentrated oil among the top five oilseed crops globally, with the top four producers, EU-27, Ukraine, Russia and Argentina, producing 73% of global output in 2010/11, according to USDA. Over the last decade, global production grew at a 3.0% CAGR, with Ukraine posting the fastest growth at a 6.9% CAGR, according to USDA. With a record harvest in northern hemisphere in 2011/12, global production should grow another 18%, and Ukraine by 20%, based on a USDA forecast.

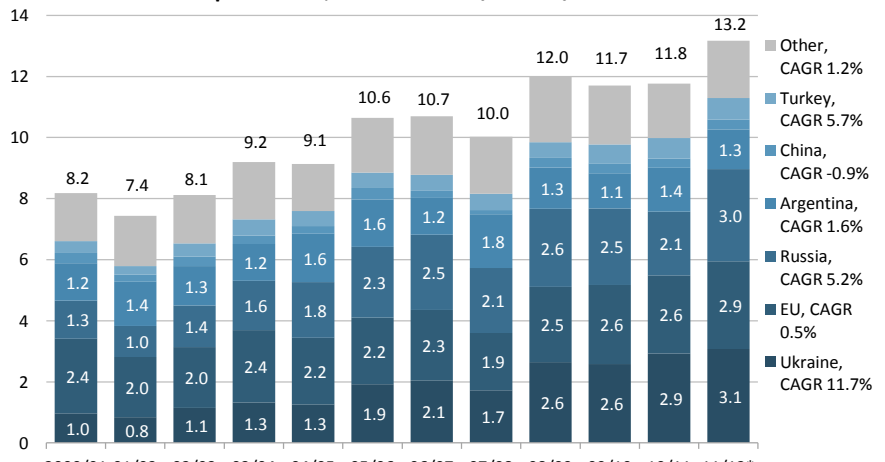
Global sunflower oilseed production, mmt and 2000/01 – 10/11 GAGR



Note: 2011/12 figures for Ukraine, Russia, EU, Turkey are estimates, for other producers – forecasts.
Source: USDA

90% of all sunflower oilseeds are crushed domestically, since country-producers facilitate in-country processing through higher export duties on seeds. A total of 11.8 mmt of sunflower oil was produced in the 2010/11 marketing year globally, according to USDA.

Global sunflower oil production, mmt and 2000/01 – 10/11 GAGR

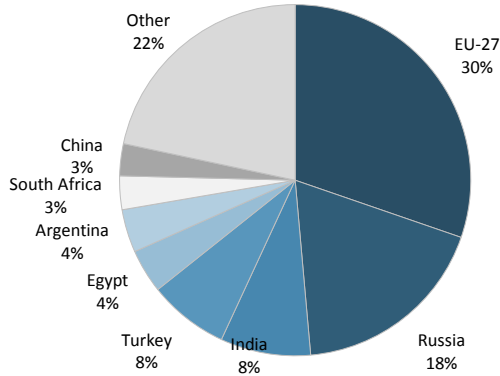


Source: USDA

Demand has grown at a 3.1% CAGR over 2000/01-2010/11

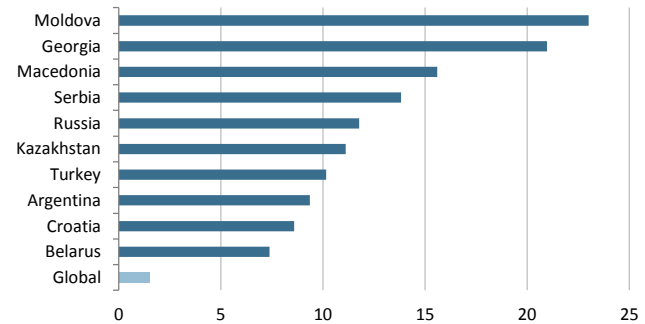
The EU and Russia are the largest consumers of sunflower oil, jointly accounting for half of global demand, according to USDA. 97% of sunflower oil is used for food, based on USDA figures, the highest share among vegetable oils after olive oil, connecting sunflower oil to the rise in global demand for food. Over 2000/01-2010/11, world demand for sunflower oil has grown at a 3.1% CAGR.

Sunflower oil consumption by country, 2010/11



Source: USDA

Top-10 countries by per capita consumption of sunflower oil, 2010/11

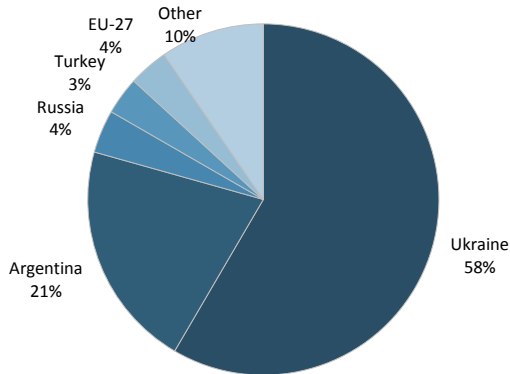


Source: USDA

Ukraine supplies half of global trade

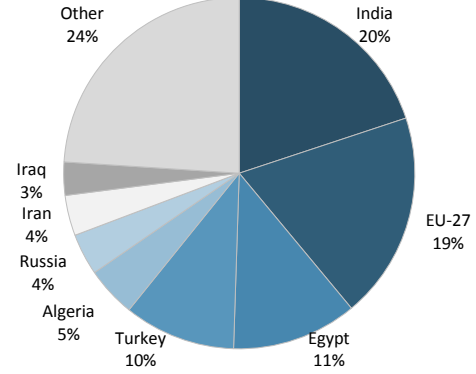
39% of sunflower oil is traded internationally, according to USDA, lower than the respective shares of palm and palm kernel oils (79% and 58%) but more than for soybean and rapeseed oils (19% and 9%). Global trade in sunflower oils grew at a 7% CAGR over 2000-2010 vs. 3% CAGR in global production, based on USDA figures. Ukraine was responsible for more than half of global sunflower trade in 2010/11 vs. a third 10 years ago, according to USDA.

Key sunflower oil exporters, 2010/11



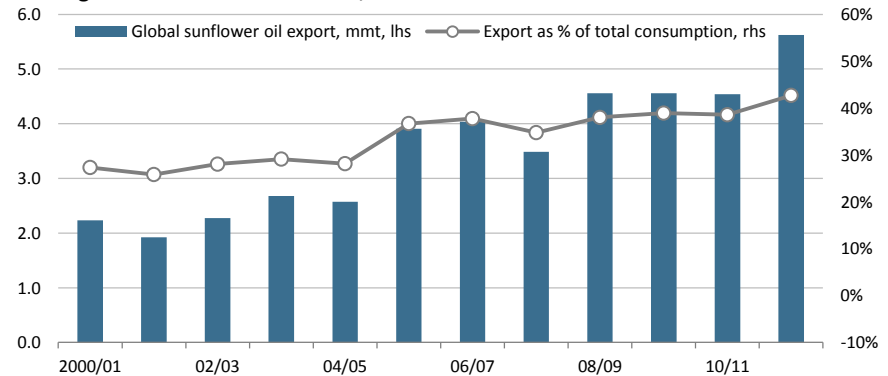
Source: USDA

Key sunflower oil importers, 2010/11



Source: USDA

Interregional trade of sunflower oil, mmt

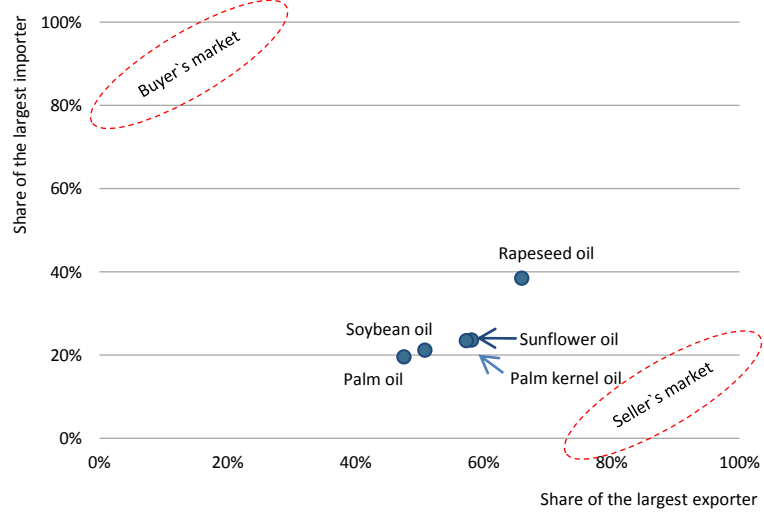


Note: Trade inside the EU-27 is treated as intraregional. Data for 2011/12 is a forecast. Source: USDA

Suppliers are more concentrated than buyers

As with other vegetable oils, the international trade in sunflower oil is more dependent on a key exporter, Ukraine (58% of global export), rather than a key importer, India (20%), which favorably positions the largest exporter and, in our view, somewhat mitigates the global weather risk for this country.

Largest exporter and importer shares in global trade, 2009/10, key vegetable oils



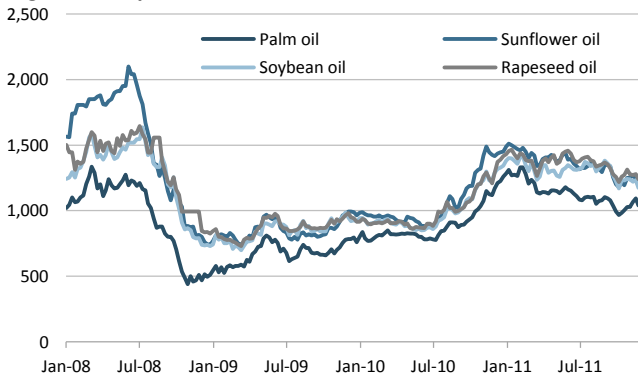
Source: USDA, Concorde Capital calculations

Prices depend on the aggregate oilseeds market

Sunflower oil has generally been trading in line with rapeseed and soybean oils over the last three years, using Rotterdam prices as a guide. Looking at a longer horizon, we found periods when sunflower oil was traded at a premium to soybean and rapeseed and another period when sunflower was cheaper than rapeseed (biodiesel boom). This year sunflower oil has been trading at a single digit discount to rapeseed and soybean oil, as sunflower oil supply to the global market this season is expected to grow by 13% yoy, while soybean oil only by 4% and in rapeseed oil a decline of 2% is expected.

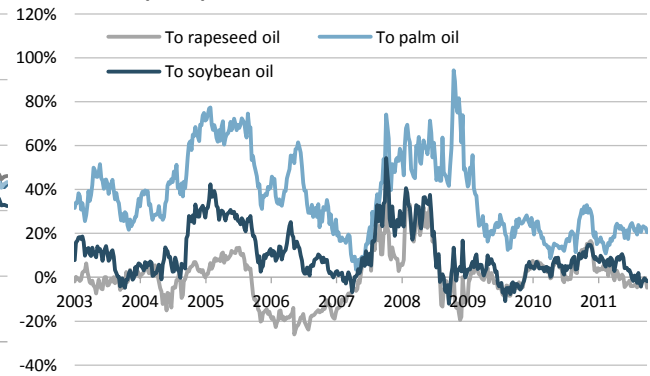
The 3Y average spread between Ukraine's Black Sea FOB price and Rotterdam stands at USD 100/t.

Vegetable oil prices, USD/t



Note: Rotterdam/European ports, FOB prices are taken. Source: APK-Inform

Sunflower oil price premium to other oils



Source: APK-Inform, Concorde Capital calculations

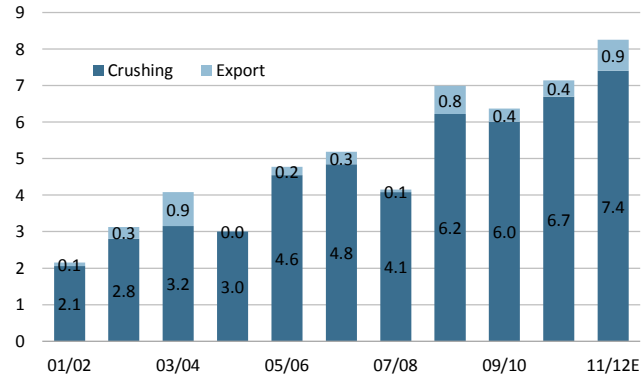
Ukraine's oilseed crushing market

Sunflower crushing has grown 3x over decade

Sunflower is the key oil crop grown in Ukraine, with more than 90% of sunflower seed crushed domestically. Rapeseed and soybean are far behind sunflower seed, with rapeseed almost all exported to crushing facilities in the EU and soybean partially processed domestically.

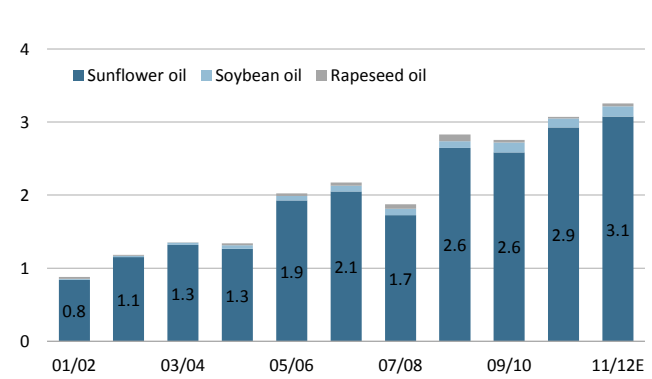
Following the introduction of the 17% export duty for sunflower oilseeds in 2002 (vs. 0% for sunflower oil), the domestic crushing industry ballooned, with twofold growth in crushing volumes to 6.7 mmt in 2010/11, according to USDA.

Sunflower oilseed use, mmt



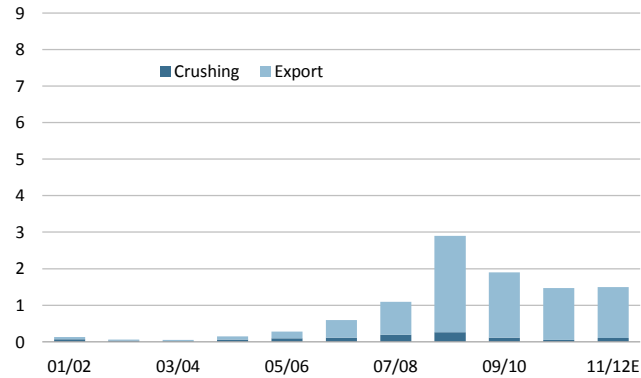
Source: USDA

Vegetable oil production in Ukraine, mmt



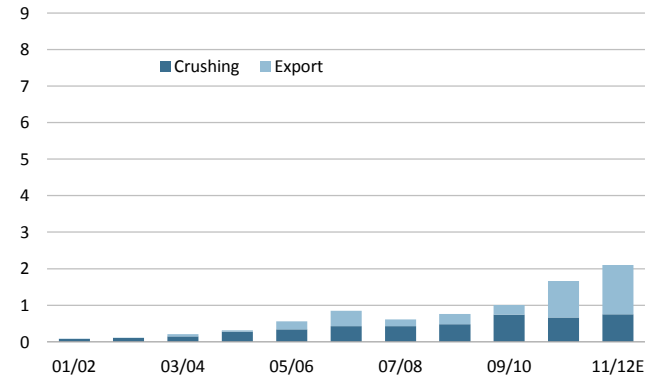
Source: USDA

Rapeseed oilseed use, mmt



Source: USDA

Soybean oilseed use, mmt



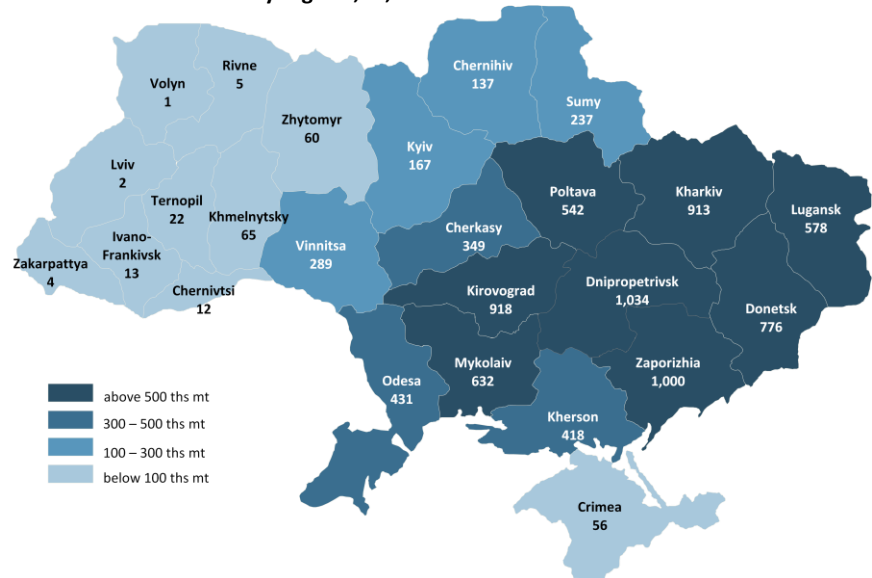
Source: USDA

Almost all sunflower seeds are crushed domestically

94% of sunflower oilseeds are being crushed domestically, according to the USDA, with only 6% of oilseeds exported, primarily to Turkey (which has ample crushing facilities and counterbalances Ukrainian export duties for sunflower seeds with import duties on oil). We see three key reasons that most of the crushing is done domestically:

- inefficiency in transportation of oilseeds compared to oil, because of the low density of sunflower seeds. Compared to rapeseed, the same volume of sunflower seeds weighs 60% less. In addition, oilseed is simply cheaper compared to oil – if oil costs roughly USD 1,200/t, oilseed is about USD 500/t. We estimate oil transportation costs are 2.3x lower than for the corresponding amount of sunflower oilseeds (most of sunflower meal is consumed domestically).
- well-developed domestic sunflower oilseed processing sector with ~8 t p.a. cumulative capacity, according to Ukroliaprom
- 10% export duty on sunflower seeds vs. 0% for oil, which counterbalances higher import duties for oil in most consuming countries vs. meal

Sunflower seeds harvest by regions, kt, 2011



Source: State Statistics Committee of Ukraine

Unlike with sunflower oilseeds, domestic rapeseed crushing volumes are moderate, in our view, because:

- there is no export duty on either rapeseed or rapeseed oil in Ukraine, while most consumer countries set import duties on rapeseed oil higher than for rapeseed
- the higher density of rapeseed makes its transportation cost per t cheaper than for sunflower oilseeds
- most Ukrainian crushing facilities have no experience in rapeseed processing
- rapeseed harvest areas are located at equal distances to the border with Poland and to the majority of Ukrainian crushing plants

As a result, rapeseed crushing is only done by a limited number of crushers in Ukraine. Of those that do it, most prefer runs in July-September, after the old sunflower oilseeds harvest is finished but before the new harvest (rapeseed harvest is typically two months earlier than for sunflowers).

Export/import duties defend crushers' margins

While domestic oilseed crushing is historically strong and has a logistics cost advantage behind it, we think the bulk of processors' margins lie in the 10% export duty on sunflower seeds (vs. 0% for oil), which effectively reduces seed prices, the key cost component for crushers.

The key logic behind the duty is to counter-balance higher duties on sunflower oil imports than on oilseeds in key consumer countries. Though for a long time the EU and Ukraine have discussed the abolition of Ukraine's export duty on sunflower seeds, we believe this, if it ever happens, will take place in combination with a symmetrical abolition of import duties on sunflower oil in the EU, which will have little effect on Ukrainian crushers' margins.

Import duties on sunflower oil and oilseeds of key Ukraine counterparties

	<i>Sunflower oil imports from Ukraine, 2010, kt</i>	<i>Import duty on sunflower oil</i>	<i>Import duty on sunflower oilseeds</i>	<i>Difference</i>
India	667.9	13%	4%	9%
EU	538.5	6.4%	0%	6%
Egypt	365.4	0%	2%	-2%
Turkey	175.7	36%	27%	9%
Russia	112.9	15%	5%	10%
Algeria	96.3	15%	5%	10%
Belarus	74.3	15%	5%	10%
Georgia	61.6	0%	0%	0%
Armenia	11.0	10%	10%	0%

Ukraine export duty on sunflower oilseeds **10%**

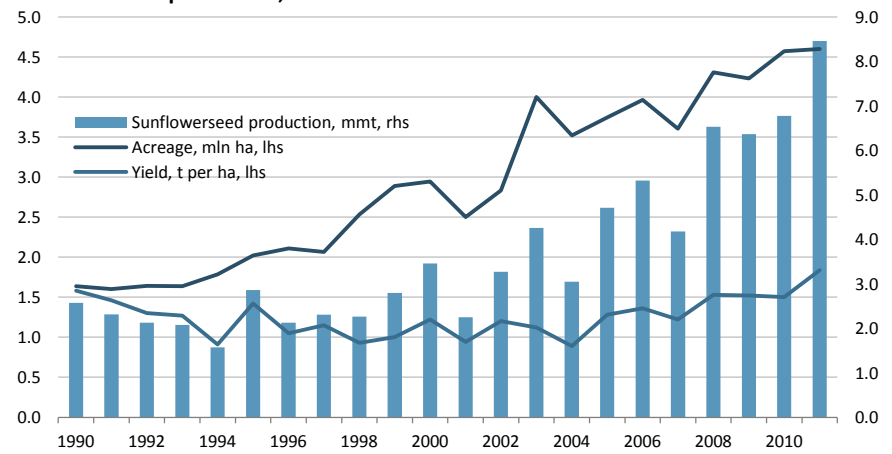
Source: TARIC, CBEC, Customs services of the respective states

Seed supplies: limit in acreage, potential in yields

A record 8.7 mmt of sunflower oilseeds were harvested in 2011, according to the State Statistics Committee of Ukraine, 4x growth compared to 10 years ago and 6x over 20 years ago.

We expect sunflower seed production to grow at a 2% CAGR in Ukraine over the next 10 years, primarily driven by yield increases, with fallow land inclusion a secondary driver. The average yield of sunflowers in Ukraine was 1.8 t per ha in 2011, according to the State Statistics Committee, vs. the EU average of 2.0 and efficient Ukrainian agro producers’ 2.8-3.0. We believe an increase in fertilizer use and better agriculture practices should bring Ukraine’s yields beyond EU levels, as Ukraine is generally believed to have among the best conditions for sunflower growth in the world.

Sunflower seed production, Ukraine



Source: State Statistics Committee of Ukraine

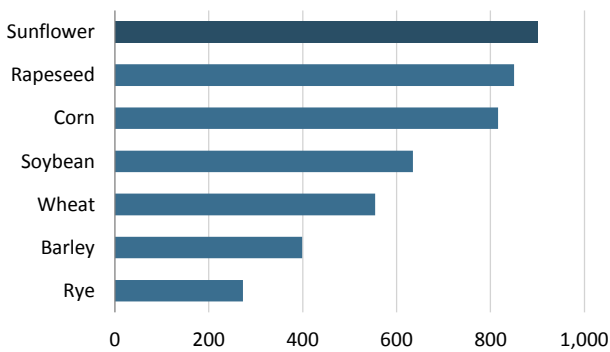
While over the last two decades, sunflower seed production growth was mainly driven by increases in acreage, we believe the current share of land sown with sunflower has nearly reached its maximum in the crop rotation. We see growth at a 0.6% CAGR in 2010-20 in acreage sown with sunflowers in Ukraine vs. overall 2% growth in total acreage for agricultural use.

Seed economics: among the best from the farmer’s point of view

Higher revenue and profit per ha is a key reason behind the solid growth in sunflower acreage over the last decade, in our view. Though sunflower growth has drawbacks in terms of soil fertility, we think sunflower’s share in crops will remain high, as:

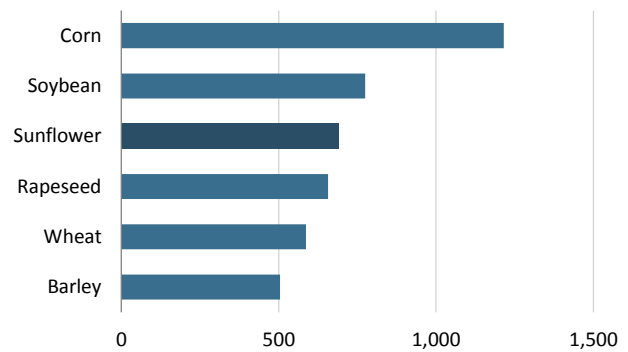
- farmers continue to prefer fast cash to long-term soil fertility
- sunflowers are less vulnerable to droughts, which lowers weather risks (vs. rapeseed which has high yields only when planted in winter and bears freezing risk, and grains whose yields are subject to summer droughts)
- export duties on corn introduced as of June 2011 should decrease expectations for corn prices and thus direct farmers toward growing oilseeds, including sunflowers (corn/oilseeds are close in terms of profitability and usually are competitive in rotation)

Revenue, USD per ha, 2010



Note: Calculated at average prices for Sept-Nov 2010 and Ukraine average yields for 2010. Source: APK-Inform, Concorde Capital calculations

Revenue, USD per ha, 2011



Note: Calculated at average prices for Sept-Nov 2011 and Ukraine average yields for 2011. Source: APK-Inform, Concorde Capital calculations

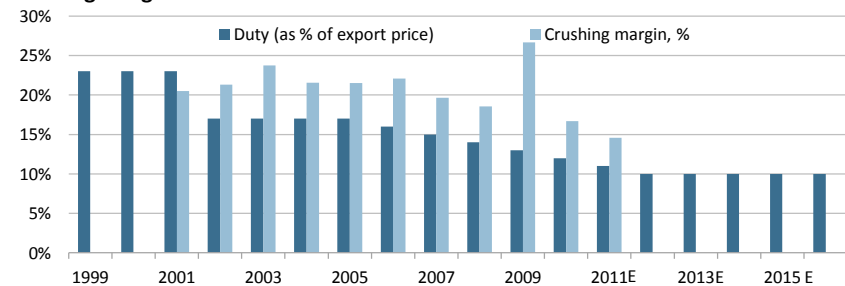
Crushing margin correlated with export duty on oilseeds

As Ukraine produces sunflower oil for the global market, both export sunflower oil prices and domestic sunflower seed prices are tightly connected to global trends, which keeps processors’ margins relatively stable over the long-term (unlike in Russia, for example, where oil production roughly equals or is less than consumption, and thus oilseed pricing is subject to local demand).

Calculating the crushing margin as the difference between the value of sunflower oil and meal that could be received from one ton of oilseed minus the price of oilseed (both prices are taken EXW, eliminating traders and transportation margins), we found:

- the sector-wide crushing margin is largely explained by the export duty on oilseeds
- Over the last ten years, the crushing margin has steadily been 4-5pp above the export duty on oilseeds, with 2009 an exception (due to price volatility)

Crushing margins* in Ukraine



*Calculated as the difference between the value of 44% of sunflower oil and 39% of sunflower meal minus 100% of oilseeds
Source: APK-Inform, Concorde Capital calculations

Key producers: top-3 is the half of the market

The top-3 producers of sunflower oil account for roughly half of output in Ukraine.

Crushing capacity, Ukraine

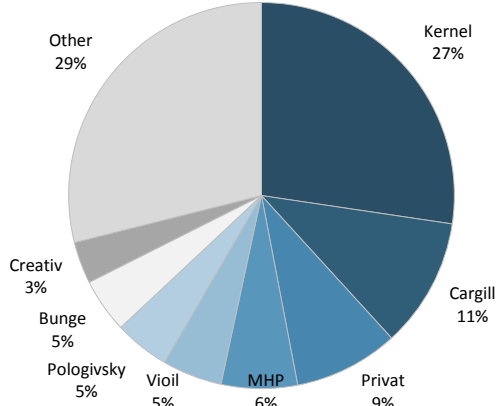
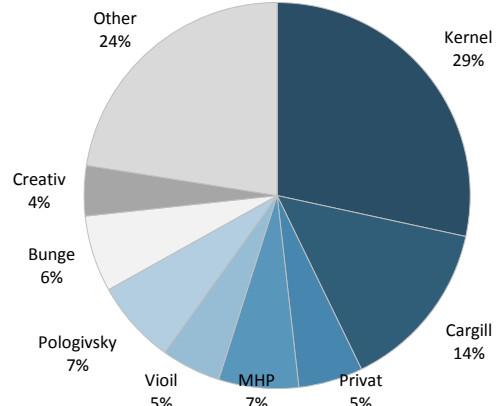


Figure for Kernel accounts for Black Sea Industries acquired from Bunge in 2011
Source: Ukrainian Fats and Oil Research Institute

Key producers, 2010 calendar, Ukraine

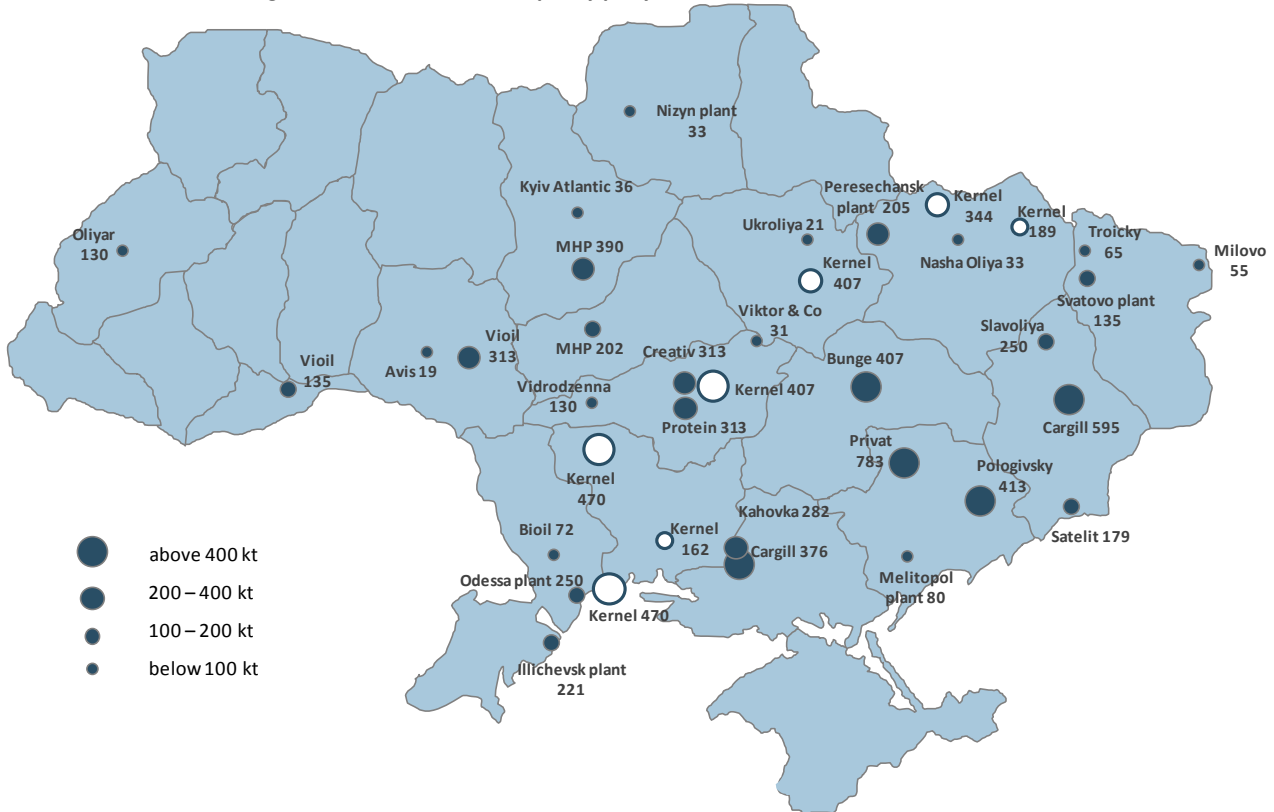


Note that Kernel's Bandurka plant (18% of its capacities in Ukraine) has started production only in late 2010. Source: Ukrainian Fats and Oil Research Institute

Total sunflower oilseed crushing capacity in Ukraine is 9.5 mmt p.a., according to the Ukrainian Fats and Oil Research Institute, with roughly 1.5 mmt multi-seed capable.

Average Ukrainian capacity utilization was 75% for oil extraction plants and 74% for oil pressing plants in 2010 (the key difference between them – oil yields, ~44% for extraction, ~38% for pressing), again according to the Ukrainian Fats and Oil Research Institute.

Sunflower oilseeds crushing facilities*, kt of oilseed capacity per year



* Some of the facilities are multi-seeds
Source: Ukrainian Fats and Oil Research Institute

APPENDICES

Appendix 1: Financial statements, IFRS

Income statement, USD mln

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Net Revenues	1,020	1,899	2,258	2,390	2,419	2,545	2,647	2,735	2,815	2,894	2,964	3,038
<i>Change y-o-y</i>	<i>N/M</i>	<i>86.1%</i>	<i>18.9%</i>	<i>5.8%</i>	<i>1.2%</i>	<i>5.2%</i>	<i>4.0%</i>	<i>3.3%</i>	<i>2.9%</i>	<i>2.8%</i>	<i>2.4%</i>	<i>2.5%</i>
Cost Of Sales	(687)	(1,407)	(1,676)	(1,815)	(1,868)	(1,976)	(2,063)	(2,136)	(2,202)	(2,268)	(2,327)	(2,388)
Gross Profit	334	492	583	574	551	569	584	599	613	626	638	649
Other Operating Income/Costs. net	10	10	11	12	12	13	13	14	14	14	15	15
SG&A	(161)	(208)	(226)	(235)	(235)	(243)	(249)	(253)	(256)	(259)	(261)	(263)
EBITDA	183	293	368	351	328	339	348	360	371	381	392	402
<i>EBITDA margin, %</i>	<i>17.9%</i>	<i>15.4%</i>	<i>16.3%</i>	<i>14.7%</i>	<i>13.6%</i>	<i>13.3%</i>	<i>13.2%</i>	<i>13.2%</i>	<i>13.2%</i>	<i>13.2%</i>	<i>13.2%</i>	<i>13.2%</i>
Depreciation	(23)	(32)	(45)	(47)	(49)	(51)	(53)	(55)	(58)	(60)	(63)	(65)
EBIT	160	261	323	304	279	288	295	304	313	321	329	337
<i>EBIT margin, %</i>	<i>15.7%</i>	<i>13.7%</i>	<i>14.3%</i>	<i>12.7%</i>	<i>11.5%</i>	<i>11.3%</i>	<i>11.1%</i>	<i>11.1%</i>	<i>11.1%</i>	<i>11.1%</i>	<i>11.1%</i>	<i>11.1%</i>
Interest Expense	(23)	(42)	(62)	(58)	(51)	(55)	(59)	(62)	(32)	(32)	(33)	(33)
Financial income	-	-	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	7	(26)	-	-	-	-	-	-	-	-	-	-
PBT	144	192	261	245	228	233	236	242	280	289	296	304
Tax	0	18	(5)	(5)	(9)	(14)	(16)	(17)	(20)	(20)	(21)	(21)
Net Income	145	210	256	241	219	219	219	225	261	269	275	282
<i>Net Margin, %</i>	<i>14.2%</i>	<i>11.1%</i>	<i>11.3%</i>	<i>10.1%</i>	<i>9.0%</i>	<i>8.6%</i>	<i>8.3%</i>	<i>8.2%</i>	<i>9.3%</i>	<i>9.3%</i>	<i>9.3%</i>	<i>9.3%</i>
Dividend Declared	-	-	-	-	208	208	186	192	222	228	248	254

Balance sheet, USD mln

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Current Assets	599	810	968	1,029	1,046	1,102	1,147	1,186	1,221	1,256	1,287	1,319
Cash & Equivalents	59	116	138	146	148	155	162	167	172	177	181	185
Trade Receivables	65	112	136	143	145	153	159	164	169	174	178	182
Inventories	148	184	220	239	246	260	271	281	290	298	306	314
Other current assets	326	399	474	502	508	534	556	574	591	607	622	638
Fixed Assets	526	752	977	971	983	997	1,011	1,025	1,037	1,049	1,059	1,066
PP&E. net	379	503	735	748	759	770	780	791	801	811	818	824
Other Fixed Assets	147	249	242	223	224	228	231	234	236	238	240	243
Total Assets	1,125	1,562	1,944	2,000	2,029	2,099	2,159	2,210	2,258	2,305	2,346	2,385
Shareholders' Equity	605	997	1,253	1,494	1,504	1,515	1,548	1,582	1,621	1,661	1,689	1,717
Share Capital	360	501	501	501	501	501	501	501	501	501	501	501
Reserves and Other	245	496	752	993	1,004	1,015	1,047	1,081	1,120	1,161	1,188	1,216
Current Liabilities	352	395	472	286	303	362	387	404	412	418	431	441
ST Interest Bearing Debt	169	235	286	89	103	151	168	178	179	179	185	190
Trade Payables	11	27	27	29	30	32	33	34	35	36	37	38
Other Current Liabilities	172	133	159	168	170	179	186	192	198	203	208	213
LT Liabilities	168	169	220	221	221	222	223	224	225	226	226	227
LT Interest Bearing Debt	127	153	200	200	200	200	200	200	200	200	200	200
Other LT	40	17	20	21	21	22	23	24	25	26	26	27
Total Liabilities & Equity	1,125	1,562	1,944	2,000	2,029	2,099	2,159	2,210	2,258	2,305	2,346	2,385

Cash flow statement, USD mln

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Profit before tax	152	205	261	245	228	233	236	242	280	289	296	304
Depreciation	23	32	45	47	49	51	53	55	58	60	63	65
Non-operating and non-cash items	23	65	40	78	51	52	57	60	31	31	31	32
Changes in working capital	(97)	(188)	(111)	(42)	(12)	(38)	(30)	(26)	(24)	(23)	(21)	(22)
Interest paid	(23)	(42)	(62)	(58)	(51)	(55)	(59)	(62)	(32)	(32)	(33)	(33)
Income tax paid	(1)	(3)	(5)	(5)	(9)	(14)	(16)	(17)	(20)	(20)	(21)	(21)
Operating Cash Flow	76	69	168	265	255	230	240	253	293	304	316	324
Capital Expenditures. net	(56)	(41)	(277)	(60)	(60)	(62)	(64)	(66)	(68)	(70)	(70)	(70)
Investing Cash Flow	(56)	(41)	(277)	(60)	(60)	(62)	(64)	(66)	(68)	(70)	(70)	(70)
Net Borrowings/(repayments)	(75)	(34)	82	(197)	14	48	17	10	1	(1)	7	5
Dividends Paid	-	-	-	-	(208)	(208)	(186)	(192)	(222)	(228)	(248)	(254)
Other	-	137	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	(75)	104	82	(197)	(194)	(160)	(169)	(182)	(220)	(229)	(241)	(250)
Beginning Cash Balance	89	33	165	138	146	148	155	162	167	172	177	181
Ending Cash Balance	33	165	138	146	148	155	162	167	172	177	181	185
Net Cash Inflows/Outflows	(55)	132	(28)	8	2	8	6	5	5	5	4	4

Selected financial ratios

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Net Debt/EBITDA	1.3	0.9	0.9	0.4	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.5
EBIT interest coverage	7.0	6.1	5.2	5.2	5.4	5.2	5.0	4.9	9.7	9.9	10.0	10.1
ROA	13%	13%	15%	12%	11%	11%	10%	10%	12%	12%	12%	12%
ROE	24%	21%	23%	18%	15%	14%	14%	14%	16%	16%	16%	17%

Note: Kernel's financial year starts ends on June 30 (e.g. FY2012 ends June 30, 2012)

Source: Historical company data, Concorde Capital projections

Appendix 2. Revenue and EBITDA breakdown

REVENUE, USD mln	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Sunflower oil	472	379	513	1,310	1,522	1,489	1,562	1,624	1,685	1,728	1,762	1,794	1,814	1,835
Ukraine	472	379	513	1,310	1,375	1,342	1,411	1,469	1,526	1,566	1,598	1,627	1,645	1,663
Russia	-	-	-	-	147	147	151	155	158	162	164	167	169	172
Grain trading	237	583	466	571	555	724	671	719	752	785	820	857	895	935
Farming	20	48	42	55	152	176	179	183	186	190	194	198	202	206
Storage and shipping	-	94	78	60	62	82	76	83	87	92	97	102	108	114
Sugar	-	-	-	-	135	118	130	142	149	156	164	173	181	190
Intersegment sales	(67)	(74)	(79)	(96)	(168)	(199)	(199)	(206)	(211)	(217)	(223)	(229)	(235)	(242)
Total Revenue, USD mln	663	1,030	1,020	1,899	2,258	2,390	2,419	2,545	2,647	2,735	2,815	2,894	2,964	3,038
Change yoy, %		55%	-1%	86%	19%	6%	1%	5%	4%	3%	3%	3%	2%	2%
Share in total revenue	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Sunflower oil	65%	34%	47%	66%	63%	58%	60%	59%	59%	59%	58%	57%	57%	56%
Ukraine	65%	34%	47%	66%	57%	52%	54%	53%	53%	53%	53%	52%	51%	51%
Russia					6%	6%	6%	6%	6%	5%	5%	5%	5%	5%
Grain trading	33%	53%	42%	29%	23%	28%	26%	26%	26%	27%	27%	27%	28%	29%
Farming	3%	4%	4%	3%	6%	7%	7%	7%	7%	6%	6%	6%	6%	6%
Storage and shipping		8%	7%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Sugar					6%	5%	5%	5%	5%	5%	5%	6%	6%	6%
Growth	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Sunflower oil		-20%	36%	155%	16%	-2%	5%	4%	4%	3%	2%	2%	1%	1%
Ukraine		-20%	36%	155%	5%	-2%	5%	4%	4%	3%	2%	2%	1%	1%
Russia						0%	3%	2%	2%	2%	2%	1%	2%	2%
Grain trading		146%	-20%	22%	-3%	30%	-7%	7%	4%	4%	4%	4%	4%	4%
Farming		138%	-14%	31%	179%	15%	2%	2%	2%	2%	2%	2%	2%	2%
Storage and shipping			-16%	-24%	4%	32%	-6%	8%	5%	5%	5%	5%	5%	5%
Sugar						-13%	10%	9%	5%	5%	5%	5%	5%	5%
EBIT, USD mln	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Sunflower oil	74	82	94	190	207	176	156	163	169	173	177	180	182	184
Ukraine	74	82	94	190	196	164	144	150	156	160	164	167	168	170
Russia	-	-	-	-	12	12	12	12	13	13	13	13	13	14
Grain trading	37	56	40	65	44	54	47	47	45	47	49	51	54	56
Farming	1	(2)	7	6	46	44	45	46	47	48	48	49	50	51
Storage and shipping	-	50	34	19	25	33	30	33	35	37	39	41	43	45
Sugar	-	-	-	-	27	26	32	35	36	38	40	42	44	47
Unallocated G&A expenses	(18)	(18)	(15)	(20)	(26)	(29)	(32)	(35)	(37)	(38)	(40)	(42)	(45)	(47)
Total EBIT, USD mln	93	168	160	261	323	304	279	288	295	304	313	321	329	337
Change yoy, %		80%	-5%	63%	24%	-6%	-8%	3%	2%	3%	3%	3%	2%	2%
EBIT margin	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Sunflower oil	16%	22%	18%	15%	14%	12%	10%	10%	10%	10%	10%	10%	10%	10%
Ukraine	16%	22%	18%	15%	14%	12%	10%	10%	10%	10%	10%	10%	10%	10%
Russia					8%	8%	8%	8%	8%	8%	8%	8%	8%	8%
Grain trading	15%	10%	9%	11%	8%	8%	7%	7%	6%	6%	6%	6%	6%	6%
Farming	3%	-5%	16%	12%	30%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Storage and shipping		54%	43%	32%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Sugar					20%	22%	25%	25%	25%	25%	25%	25%	25%	25%
Total EBIT margin	14%	16%	16%	14%	14%	13%	12%	11%	11%	11%	11%	11%	11%	11%

Source: Historical company data, Concorde Capital projections

Appendix 3. Operating assumptions

Sunflower oil segment

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
UKRAINE														
Crushing capacity, t per day	2,250	2,350	3,846	6,185	7,739	7,739	7,739	7,739	7,739	7,739	7,739	7,739	7,739	7,739
Poltava oil crushing plant	750	750	1,025	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Vovchansky OEP PJSC	1,000	1,000	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100
Prykolotnjansky OEP LLC	500	600	600	600	600	600	600	600	600	600	600	600	600	600
Kirovogradoliya JSC	-	-	325	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Ekotrans LLC	-	-	100	439	439	439	439	439	439	439	439	439	439	439
Bandurskiy oil crushing plant LLC	-	-	-	750	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
BSI	-	-	696	696	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Crushing capacity at 330 days, ths t per year	743	776	1,269	2,041	2,554	2,554	2,554	2,554	2,554	2,554	2,554	2,554	2,554	2,554
Capacity utilization, %	91%	92%	95%	97%	93%	92%	93%	95%	97%	98%	99%	100%	100%	100%
Sunflower oilseeds processed, ths t	675	714	1,200	1,989	2,387	2,339	2,386	2,433	2,482	2,507	2,532	2,557	2,557	2,557
Change yoy, %		6%	68%	66%	20%	-2%	2%	2%	2%	1%	1%	1%	0%	0%
Conversion rates														
Oil, %	44.0%	44.0%	44.3%	44.5%	44.5%	44.5%	44.5%	44.5%	44.5%	44.5%	44.5%	44.5%	44.5%	44.5%
Meal, %	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%
Hulls, %	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Sunflower oil production, ths t	297	314	532	945	1,062	1,041	1,062	1,083	1,105	1,116	1,127	1,138	1,138	1,138
Change yoy, %		6%	69%	78%	12%	-2%	2%	2%	2%	1%	1%	1%	0%	0%
RUSSIA														
Crushing capacity, t per day				1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250
Florentina				400	400	400	400	400	400	400	400	400	400	400
Maslo Stavropolya				450	450	450	450	450	450	450	450	450	450	450
Nevinnomissky				400	400	400	400	400	400	400	400	400	400	400
Crushing capacity, ths t per year	-	-	-	413	413	413	413	413	413	413	413	413	413	413
Capacity utilization, %				53%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Sunflower oil production, ths t				59.0	104.0	104.0	104.0	104.0	104.0	104.0	104.0	104.0	104.0	104.0
Change yoy, %					76%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Season average prices, USD per t														
Sunflower oil	1,470	870	844	1,150	1,050	1,049	1,084	1,110	1,135	1,159	1,176	1,191	1,210	1,230
Change yoy, %		-40.8%	-3.1%	36.3%	-8.7%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Sunflower meal	291	167	190	245	190	194	198	202	206	210	214	218	223	227
Change yoy, %		-42.8%	13.9%	29.2%	-22.4%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Bottled Oil	1,667	1,244	1,152	1,300	1,319	1,318	1,362	1,395	1,426	1,456	1,478	1,497	1,520	1,545
Change yoy, %		-25.3%	-7.4%	12.8%	1.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

Source: Historical company data, Concorde Capital estimates and projections

Other segment operating assumptions

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Grain trading														
Ukraine grain export, mmt	4.4	24.9	20.9	12.3	22.3	28.1	25.5	26.9	27.5	28.2	28.8	29.5	30.3	31.0
Kernel's grain trading volumes, kt	316	2,259	2,225	1,810	2,200	2,813	2,554	2,686	2,750	2,817	2,885	2,955	3,026	3,099
Change yoy, %		615%	-2%	-19%	22%	28%	-9%	5%	2%	2%	2%	2%	2%	2%
Market share	7%	9%	11%	15%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Average price, USD per t	751	258	210	316	252	257	263	268	273	279	284	290	296	302
Change yoy, %		-66%	-19%	51%	-20%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Revenue, USD mln	237	583	466	571	555	724	671	719	752	785	820	857	895	935
EBIT, USD mln	37	56	40	65	44	54	47	47	45	47	49	51	54	56
EBIT per t, USD	115.9	24.8	18.0	36.1	20.2	19.3	18.4	17.4	16.4	16.7	17.1	17.4	17.7	18.1
EBIT margin	15.4%	9.6%	8.6%	11.4%	8.0%	7.5%	7.0%	6.5%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Farming														
Landbank, ths ha	78	85	85	90	180	210	210	210	210	210	210	210	210	210
Revenue per ha, USD					846	836	853	870	887	905	923	941	960	980
Change yoy, %						-1%	2%	2%	2%	2%	2%	2%	2%	2%
Avg yield, t/ha		3.1	3.2	2.4	2.8	2.5	2.6	2.7	2.7	2.8	2.9	3.0	3.1	3.2
Change yoy, %			2%	-23%	15%	-10%	3%	3%	3%	3%	3%	3%	3%	3%
Revenue, USD mln	20	48	42	55	152	176	179	183	186	190	194	198	202	206
Change yoy, %		138%	-14%	31%	179%	15%	2%	2%	2%	2%	2%	2%	2%	2%
EBIT w/o IAS 41 gain, USD mln	0.6	(2.4)	6.7	6.5	46	44	45	46	47	48	48	49	50	51
EBIT margin	3%	-5%	16%	12%	30%	25%	25%	25%	25%	25%	25%	25%	25%	25%
IAS 41 gain, USD mln	18.1	(1.4)	7.5	16.3	-	-	-	-	-	-	-	-	-	-
Storage and export terminal														
Revenue, USD mln		94	78	60	62	82	76	83	87	92	97	102	108	114
Change yoy, %			-16%	-24%	4%	32%	-6%	8%	5%	5%	5%	5%	5%	5%
Storage services		41	25	27	27	35	33	35	37	39	42	44	46	49
Change yoy, %			-39%	8%	0%	32%	-6%	8%	5%	5%	5%	5%	5%	5%
Export terminal		53	54	33	35	46	43	47	50	52	55	58	61	65
Change yoy, %			1%	-39%	7%	32%	-6%	8%	5%	5%	5%	5%	5%	5%
EBIT, USD mln		50	34	19	25	33	30	33	35	37	39	41	43	45
margin		54%	43%	32%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Storage services margin		53%	36%	18%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Export terminal margin		54%	46%	43%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Sugar														
Total capacity per day, kt of sugar beets					22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
Total capacity per season, kt of sugar beets				-	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750
Capacity utilization, %					44%	48%	50%	53%	53%	54%	55%	55%	56%	56%
Total beets processed, kt					1,200	1,320	1,386	1,455	1,470	1,485	1,499	1,514	1,530	1,545
Sugar produced, kt					156	172	180	189	191	193	195	197	199	201
Avg domestic wholesale sugar price, USD/t					833	650	683	710	738	768	798	830	864	898
Change yoy (%)						-22%	5%	4%	4%	4%	4%	4%	4%	4%
Revenue, USD mln					135	118	130	142	149	156	164	173	181	190
EBIT, USD mln					27	26	32	35	36	38	40	42	44	47
EBIT margin, %					20%	22%	25%	25%	25%	25%	25%	25%	25%	25%

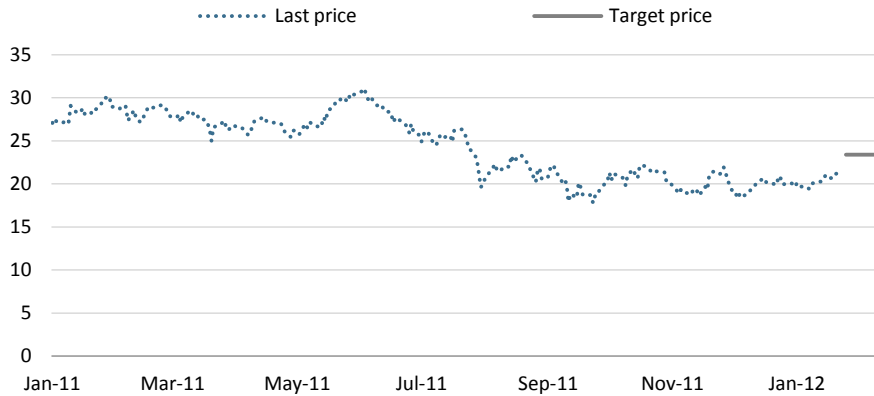
Source: Historical company data, Concorde Capital projections

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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.

Date	12M target price, USD	Market price, USD	Rating	Action
09-Feb-2012	26.7	23.9	HOLD	Initiating

Company: Target price vs. share performance, USD per share



Source: Bloomberg, Concorde Capital

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