

30 September 2011

Khlibprom

1H11 financials update

Khlibprom posted a net loss of UAH 26.1 mln in 1H11 due to rising costs for wheat (+27%) and utilities (+16%) while selling prices were capped by the government. We see the situation turning around in 2H11, with full-year profit of UAH 5.0 mln as Khlibprom agreed with the state to gradually increase bread prices and the good harvest will likely push down input material costs. We expect Net debt/EBITDA to stay at 4.6x at end-2011 (vs. 4.5x as of 2010). Given current improvements in earnings and a new UAH 100 mln credit line opened in September, we expect the company to be able to execute put options in 2012. We view Khlibprom's bonds as attractive with yield to put of 17%-18%.

1H11 financials: loss of UAH 26 mln due to a jump in wheat prices

Khlibprom posted a net loss of 26.1 mln in 1H11 (vs. net profit of UAH 1.8 mln in 1H10). EBITDA margin declined to 4.1% (vs. 13.1% in 2010). The loss was driven by a 27% increase in wheat prices (47% of costs of sale) and a 16% utility tariff hike (11% of costs of sale), while the selling prices of basic bread (~50% of revenues) were flat due to government regulation. We see the situation turning around in 2H11 and full-year profit of UAH 5.0 bln as Khlibprom agreed with local authorities to gradually increase social bread prices by 20% and this year's plentiful harvest should decrease input material costs.

Leverage: Net debt/EBITDA to stay at 4.6x at end-2011

Khlibprom's total debt was UAH 332.5 mln (USD 41.6 mln) in 1H11 and should increase to UAH 405.4 mln (USD 50.7 mln) at yearend, by our estimates. We expect net debt/EBITDA to stay at 4.6x at yearend, almost the same level as in 2010 (4.5x) and decline to 3.7x in 2012E. Interest coverage should amount to 1.3x in 2011F and 1.6x in 2012E.

Risks

- Regulatory risk.** Prices for basic bread (so-called 'social' bread) are closely monitored and regulated by local authorities, with a maximum allowed operating margin of ~4.8%. Given that 'social' bread accounts ~50% of revenues and ~35% of EBITDA, we deem regulatory risk to be high for the company. Khlibprom is actively developing 'improved', packaged and frozen bread products, which are less disposed to state regulation, aiming to cut its share of 'social' bread in total EBITDA to 25% by end-2012.
- Input materials price volatility.** Of Khlibprom's costs of sales, 45-50% is wheat and another 20% additional input materials, predominantly bought on the domestic agricultural market. Input materials prices are subject to considerable fluctuations from seasonal factors and government regulation.

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Offer details

Series E

ISIN	UA4000111462
Issue volume	UAH 50 mln
Issue date	March 01, 2011
Nearest put option	February 28, 2012
Coupon rate*	17.5%, quart.
Put option frequency	1Y

**This rate is set for the first 4 coupon periods*

Series F

ISIN	UA4000111470
Issue volume	UAH 50 mln
Issue date	June 01, 2011
Nearest put option	November 28, 2012
Coupon rate	18.5%, quart.
Put option frequency	1.5Y

Key financials, UAH mln

	2010E	2011F	2012F
Revenues	522	633	722
EBITDA	68	81	103
Net income	6	5	14
Net Debt	303	373	377
Book equity	230	235	249

Source: Company data, Concorde Capital estimates
Leverage

	2010E	2011F	2012F
Debt/EBITDA	4.5x	5.0x	3.9x
Net Debt/EBITDA	4.4x	4.6x	3.7x
Net debt/Assets	0.5x	0.5x	0.5x
EBIT Int. Coverage	1.2x	1.3x	1.6x

Source: Company data, Concorde Capital estimates

Earnings: losses derived from input costs hike

Revenues grow 27.4% y-o-y in 1H11

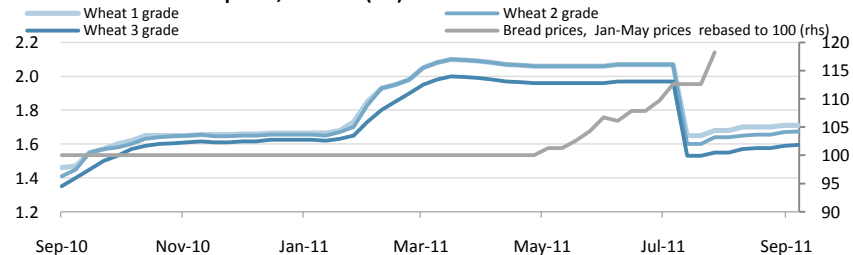
In 1H11, Khlibprom's revenues grew by 27.4% y-o-y to UAH 302.7 mln (USD 37.8 mln). In 2011-2012, we foresee Khlibprom's sales adding 17.5% annually, with total revenues reaching UAH 720 mln (USD 90 mln) in 2012. We estimate 55%-60% of sales by 2012 will be derived from higher-margin products ('improved' bread, confectionery and frozen products) vs. ~50% in 1H11.

Margins decline in 1H11, but should recover in 2H11-2012

Gross and EBITDA margins in 1H11 were 22.8% and 4.1%, respectively, down from 32.6% and 13.0% in 2010. The margin squeeze was driven by rapid growth in costs of sale due to wheat and other input price growth (~20-30% in 1H11, 66% of total costs of sale) and utilities (+16%, 10% of costs of sale).

Despite considerable growth in input costs, 'social' bread prices (~50% of revenues) remained flat during January-May. In May, Khlibprom agreed with local authorities on an individual plan to gradually increase bread prices over May-August by ~20% (2-5% each month), which should add UAH 39.0 mln (according to Khlibprom) to 2H11 revenues and fully cover the company's loss of UAH 26.0 mln accrued in 1H11.

Wheat and social bread prices, UAH ths (lhs)

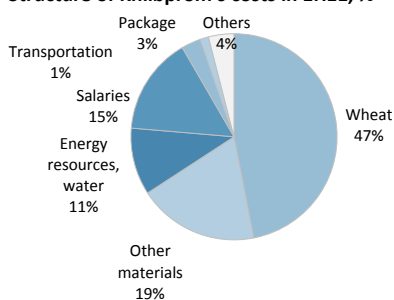


Source: Apk-Inform, Company data, Concorde Capital estimates

We see Khlibprom's EBITDA margin of 12.8% in 2011E and 14.3% in 2012E, and EBITDA of UAH 80.8 mln in 2011E and UAH 102.9 mln in 2012E. The EBITDA growth will come from increased selling prices and lower input material costs due to Ukraine's plentiful grain harvest this year (est. +32% y-o-y) and imposed export duties (9-13%, since July 1, 2011 which are likely to be in place until June 30, 2012).

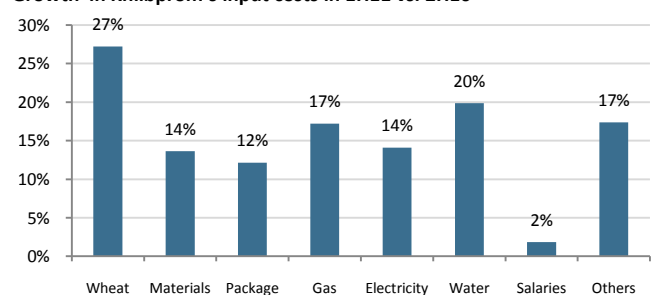
Khlibprom's focus on developing higher-margin premium products should raise their contribution to Khlibprom's EBITDA from ~65% in 2010 to ~75% in 2012. In 1H11, Khlibprom has increased branded and packaged products output by 17% y-o-y to 21.1 mln mt, with its share in total sales up by 2% pp. The increase is partially attributed to the expansion of its regional retail network from 600 in 2010 to 966 in 1H11.

Structure of Khlibprom's costs in 1H11, %



Source: Company data, Concorde Capital estimates

Growth in Khlibprom's input costs in 1H11 vs. 2H10



Source: Company data, Concorde Capital estimates

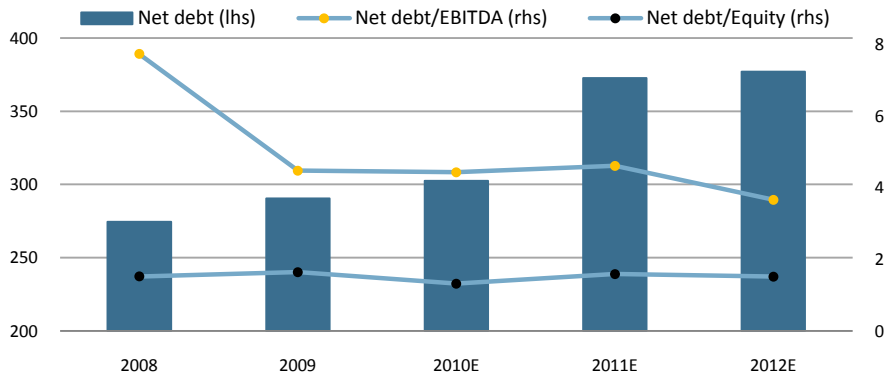
Leverage: Net debt/EBITDA at 4.6x in 2011-end

As of 1H11, Khlibprom’s total debt equaled UAH 332.5 mln (USD 41.6 mln). In September Khlibprom opened a revolving three-year credit line for UAH ~100 mln. The new facility will be directed at purchases of input materials at seasonably lower prices and partially cover financial gaps.

In 2012, Khlibprom faces UAH 29.4 mln in scheduled loan repayments and up to UAH 100.0 mln in UAH bonds under an extreme scenario where all bondholders execute their put option. Khlibprom has a well balanced debt repayment schedule for 2012, in our view, with its largest payments at the beginning and at the end of the year.

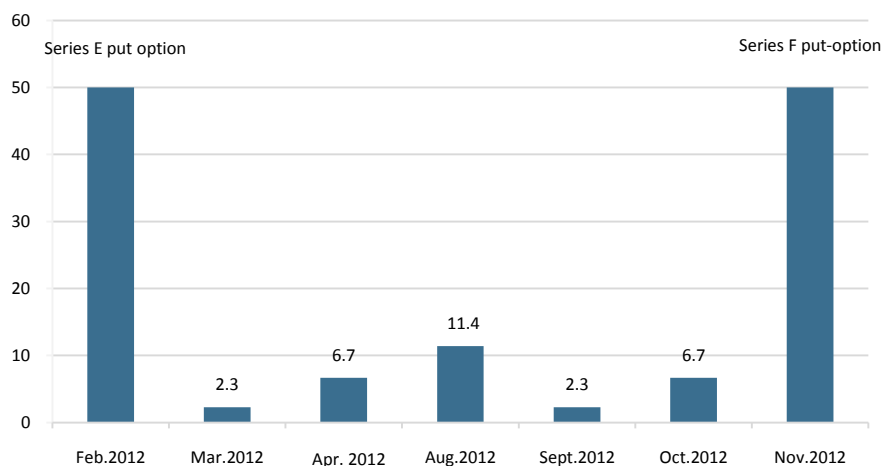
The maturing debt will be partially repaid from EBITDA, which we project at UAH 102.9 mln in 2012, with the new credit line backing up the potential bond redemption. We expect net debt/EBITDA to be 4.6x in 2011E, roughly the same as at end-2010 (4.5x) and to decline to 3.7x in 2012. We see Khlibprom’s interest coverage ratio staying at 1.3x in 2011E and growing to 1.6x in 2012E.

Khlibprom’s debt burden (UAH mln)



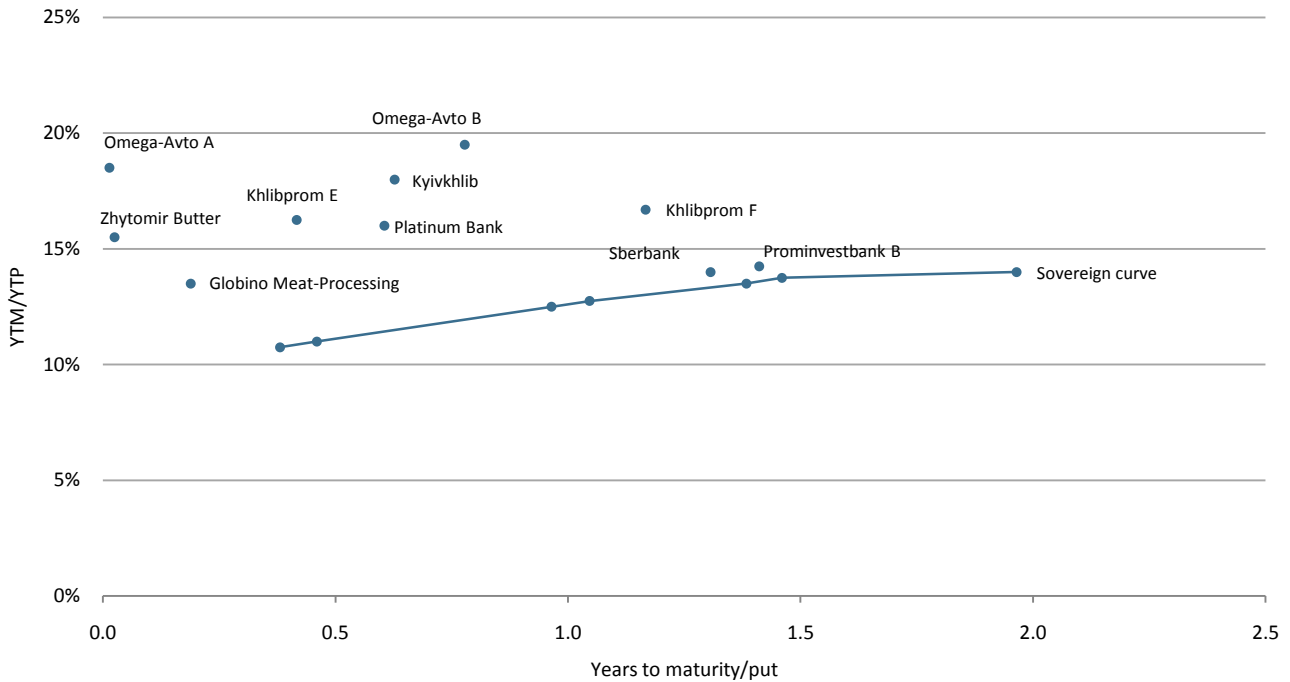
Source: Company data, Concorde Capital projections

Khlibprom’s loan maturity profile for 2012 (face value), UAH mln



Source: Company data, Concorde Capital estimates

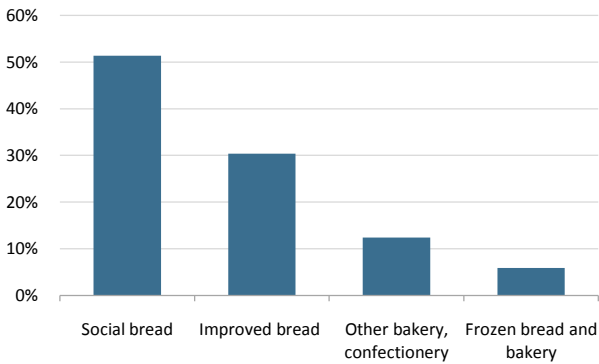
UAH local bonds yield map



source: Bloomberg, Concorde Capital estimates

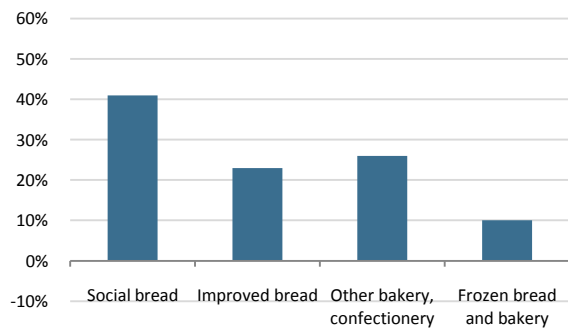
Khlibprom's financials and market position

Revenues breakdown of Khlibprom 1H11, % of total



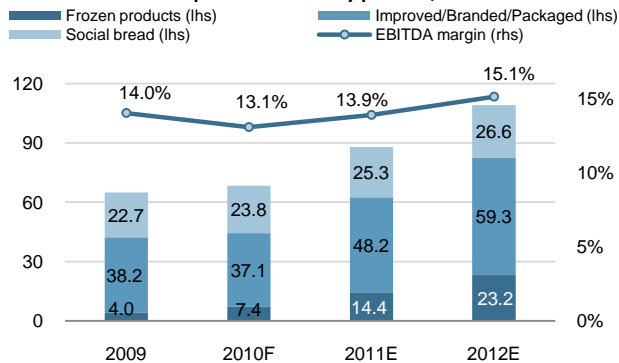
Source: Company data, Concorde Capital estimates

Revenues breakdown of Khlibprom 2012F, % of total revenues



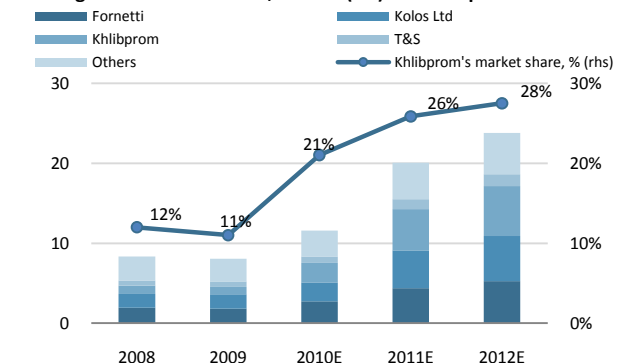
Source: Company data, Concorde Capital estimates

Contribution to Khlibprom's EBITDA by product, UAH mln



Source: Company data, Concorde Capital estimates

Frozen goods market volume, mts mt (lhs) vs. Khlibprom share



Source: Company data, Concorde Capital estimates

Key financial indicators, 2008-2012F

Key financial indicators

	2008	2009	2010	2011F	2012F
Net sales, UAH mln	425.4	463.4	522.3	632.7	722.2
EBITDA, UAH mln	35.5	64.9	68.2	80.8	102.9
Net income, UAH mln	(88.3)	(11.6)	5.9	4.9	13.7

Profit margins

EBITDA margin, %	8.3%	14.0%	13.1%	12.8%	14.3%
Net margin, %	-20.7%	-2.5%	1.1%	0.8%	1.9%

Debt

Gross debt	277.0	295.8	310.4	405.4	405.0
Net debt	274.4	290.6	302.5	372.6	377.0

Leverage ratios

Net debt-to-EBITDA, times	7.7	4.5	4.4	4.6	3.7
Net debt-to-Assets, times	0.5	0.4	0.5	0.5	0.5
Net debt-to-Equity, times	1.5	1.7	1.4	1.7	1.6

Interest coverage ratios

EBITDA/Interest expense, times	1.4	1.8	2.2	2.3	2.5
EBIT/Interest expense, times	n/a	1.0	1.2	1.3	1.6

Source: Company data, Concorde Capital estimates

Financial statements, UAS, 2008-2012F

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, UAH mln

	2008	2009	2010	1H10	1H11	2011E	2012E
Net Revenues	425.4	463.4	522.3	237.5	302.7	632.7	722.2
Change y-o-y	n/a	8.9%	12.7%	n/a	27.4%	21.1%	14.1%
Cost Of Sales (net of depr.)	(277.2)	(304.0)	(352.1)	(152.7)	(233.7)	(417.1)	(467.8)
Gross Profit	148.3	159.4	170.2	84.9	69.1	215.6	254.3
Other Operating Income/Costs. net	(5.4)	7.6	4.8	(4.6)	7.2	3.2	3.6
SG&A	(107.4)	(102.0)	(106.7)	(53.6)	(63.9)	(138.0)	(155.0)
EBITDA	35.5	64.9	68.2	26.6	12.4	80.8	102.9
EBITDA margin. %	8.3%	14.0%	13.1%	11.2%	4.1%	12.8%	14.3%
Depreciation	(30.1)	(28.7)	(29.4)	(13.8)	(18.3)	(36.1)	(36.8)
EBIT	5.4	36.3	38.8	12.8	(5.9)	44.7	66.2
EBIT margin. %	1.3%	7.8%	7.4%	5.4%	-1.9%	7.1%	9.2%
Interest Expense	(24.8)	(35.9)	(31.7)	(15.8)	(15.8)	(35.0)	(40.7)
Other Income/(Expense)	(65.5)	(6.5)	0.4	8.7	(3.4)	(3.2)	(7.2)
PBT	(84.9)	(6.1)	7.5	5.7	(26.0)	6.6	18.2
Tax	(3.3)	(5.5)	(1.6)	(1.2)	-	(1.6)	(4.6)
Net Income	(88.3)	(11.6)	5.9	1.8	(26.1)	4.9	13.7
Net Margin. %	-20.7%	-2.5%	1.1%	0.8%	-8.6%	0.8%	1.9%

Balance Sheet Summary, UAH mln

	2008	2009	2010E	1H10	1H11	2011E	2012E
Current Assets	201.5	269.7	180.4	218.8	195.5	278.9	303.1
Cash & Equivalents	2.6	5.3	7.9	5.5	9.0	32.7	28.0
Trade Receivables	54.8	62.6	65.0	49.6	76.2	75.2	80.0
Inventories	27.2	26.2	53.0	21.1	36.0	72.0	95.1
Other Current Assets	116.9	175.7	54.5	142.6	74.3	99.0	100.1
Fixed Assets	397.2	442.3	461.7	433.0	442.7	488.5	487.6
PP&E. net	337.2	320.1	374.2	368.4	374.6	386.9	394.0
Other Fixed Assets	60.0	122.2	87.5	64.7	68.0	101.6	93.7
Total Assets	598.7	712.0	642.2	651.8	638.1	767.4	790.7
Current Liabilities	205.0	313.8	193.2	235.1	196.5	317.4	346.6
ST Interest Bearing Debt	59.2	66.3	41.1	43.1	17.8	90.0	110.0
Bonds Issued	5.0	8.4	50.0	60.3	90.3	100.0	100.0
Trade Payables	26.0	36.6	37.8	32.3	32.5	43.4	44.9
Other Current Liabilities	114.8	202.4	64.3	99.5	55.2	84.0	91.7
LT Liabilities	212.9	221.2	219.4	235.4	224.4	215.4	195.0
LT Interest Bearing Debt	212.8	221.1	219.3	235.3	224.4	215.4	195.0
Other LT	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Shareholders' Equity	180.8	177.1	229.7	181.3	217.1	234.6	249.1
Share Capital	150.0	159.3	159.3	159.3	159.3	159.3	159.3
Reserves and Other	30.8	17.7	70.4	22.0	57.8	75.3	89.8
Total Liabilities & Equity	598.7	712.0	642.2	651.8	638.1	767.4	790.7

Bonds event calendar

Series E Bonds timetable

Dates	Coupon payments / announc.	Coupon rate (annual)*	Put option events / Maturity
29/11/2011-30/11/2011	Coupon payment	17.5%	
30/01/2012	New coupon rate announcement		
13/02/2012-22/02/2012			Notification by the holder if put option will be exercised
28/02/2012-29/02/2012	Coupon payment	17.5%	Put option exercise by the issuer
29/05/2012-30/05/2012	Coupon payment	Set on 30/01/2012	
28/08/2012-29/08/2012	Coupon payment	Set on 30/01/2012	
27/11/2012-28/11/2012	Coupon payment	Set on 30/01/2012	
28/01/2013	New coupon rate announcement		
11/02/2013-20/02/2013			Notification by the holder if put option will be exercised
26/02/2013-27/02/2013	Coupon payment	Set on 30/01/2012	Put option exercise by the issuer
28/05/2013-29/05/2013	Coupon payment	Set on 28/01/2013	
27/08/2013-28/08/2013	Coupon payment	Set on 28/01/2013	
26/11/2013-27/11/2013	Coupon payment	Set on 28/01/2013	
27/01/2014	New coupon rate announcement		
10/02/2014-19/02/2014			Notification by the holder if put option will be exercised
25/02/2014-26/02/2014	Coupon payment	Set on 28/01/2013	Put option exercise by the issuer
27/05/2014-28/05/2014	Coupon payment	Set on 27/01/2014	
26/08/2014-27/08/2014	Coupon payment	Set on 27/01/2014	
25/11/2014-26/11/2014	Coupon payment	Set on 27/01/2014	
26/01/2015	New coupon rate announcement		
09/02/2015-18/02/2015			Notification by the holder if put option will be exercised
24/02/2015-25/02/2015	Coupon payment	Set on 27/01/2014	Put option exercise by the issuer
26/05/2015-27/05/2015	Coupon payment	Set on 26/01/2015	
25/08/2015-26/08/2015	Coupon payment	Set on 26/01/2015	
24/11/2015-25/11/2015	Coupon payment	Set on 26/01/2015	
23/02/2016-24/02/2016	Coupon payment	Set on 26/01/2015	Maturity

* Each coupon period equals 91 days; 365 days in a year assumption is used

Series F Bonds timetable

Dates	Coupon payments / announc.	Coupon rate (annual)*	Put option events / Maturity
30/11/2011-01/12/2011	Coupon payment	18.5%	
29/02/2012-01/03/2012	Coupon payment	18.5%	
30/05/2012-31/05/2012	Coupon payment	18.5%	
29/08/2012-30/08/2012	Coupon payment	18.5%	
29/10/2012	New coupon rate announcement		
13/11/2012-22/11/2012			Notification by the holder if put option will be exercised
28/11/2012-29/11/2012	Coupon payment	18.5%	Put option exercise by the issuer
27/02/2013-28/02/2013	Coupon payment	Set on 29/10/2012	
29/05/2013-30/05/2013	Coupon payment	Set on 29/10/2012	
28/08/2013-29/08/2013	Coupon payment	Set on 29/10/2012	
27/11/2013-28/11/2013	Coupon payment	Set on 29/10/2012	
26/02/2014-27/02/2014	Coupon payment	Set on 29/10/2012	
28/04/2014	New coupon rate announcement		
13/05/2014-22/05/2014			Notification by the holder if put option will be exercised
28/05/2014-29/05/2014	Coupon payment	Set on 29/10/2012	Put option exercise by the issuer
27/08/2014-28/08/2014	Coupon payment	Set on 28/04/2014	
26/11/2014-27/11/2014	Coupon payment	Set on 28/04/2014	
25/02/2015-26/02/2015	Coupon payment	Set on 28/04/2014	
27/05/2015-28/05/2015	Coupon payment	Set on 28/04/2014	
26/08/2015-27/08/2015	Coupon payment	Set on 28/04/2014	
26/10/2015	New coupon rate announcement		
10/11/2015-19/11/2015			Notification by the holder if put option will be exercised
25/11/2015-26/11/2015	Coupon payment	Set on 28/04/2014	Put option exercise by the issuer
24/02/2016-25/02/2016	Coupon payment	Set on 26/10/2015	
25/05/2016-26/05/2016	Coupon payment	Set on 26/10/2015	
24/08/2016-25/08/2016	Coupon payment	Set on 26/10/2015	
23/11/2016-24/11/2016	Coupon payment	Set on 26/10/2015	
22/02/2017-23/02/2017	Coupon payment	Set on 26/10/2015	
24/05/2017-25/05/2017	Coupon payment	Set on 26/10/2015	Maturity

* Each coupon period equals 91 days; 365 days in a year assumption is used

Appendices

Analyst certification

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