

Ukrainian large farmers

Efficient farmers, aggressive accountants



July 18, 2012

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INVESTMENT CONCLUSIONS

While we believe there is tremendous value growth potential in Ukrainian farmers, still unproven management credibility is the main encumbrance for minority shareholders. Our broad conclusion is Ukrainian food producers that farm as a secondary activity – Astarta, Kernel and MHP – look preferable for investors compared to pure farmers on better liquidity and lower execution risks backed by the proven sustainability of their business models. We initiate coverage of six Ukrainian pure farming companies with two BUY recommendations.

Ukraine makes up a significant portion of the publicly investable agro universe

Large-scale crop farming has emerged in only a handful of countries where crops producers can operate without a dependence on state subsidies. Pure farmers with landbanks of more than 60 ths ha exist in just four countries: Ukraine, Brazil, Russia and Argentina (UBRA for short). Ukraine, representing half of this pool by number of companies, cumulatively accounts for 27% of the universe measured by landbank, 18% by MCap and just 4% by equity turnover.

Just farming operations, no land speculation

The key feature that differentiates Ukraine from the rest of the investable farming universe is that land can only be leased here. That has shaped local players into pure operating companies, in a sharp contrast with the “land developer/speculator” model inherent in Russia, Argentina and Brazil.

Costs lower, profit per hectare comparable with peers

Ukraine’s key advantages over LatAm – lower land lease and labour costs and better soil quality – are generally balanced by the key disadvantage: a historical focus on lower value-added crops that prevents from earning as much revenue per hectare as in Brazil and Argentina. On the other hand, the low-cost farming model, widespread in Ukraine, has proved to work sustainably only in this country.

Location and efficiency of land use determine fundamental value potential

Despite being treated as a single land cluster from a global standpoint, land is quite different across Ukraine: the fundamental value of agroland can vary by as much as 4 times. Within the country, location determines the feasible crop mix and crop yields.

Management credibility: the key factor minorities should be worried about

Due to the inherent dispersion of crop production over time and space, it is impossible to verify the veracity of key operating data presented by management. Transparency/consistency of reported crop yields, prices and costs, grounding of non-operating and capital expenditures and degree of (mis)use of revaluation opportunities are the key things to check. As few Ukrainian agro-businesses follow good practices, we recommend being selective while investing in Ukrainian farmers.

2 BUYS, 2 HOLDS, 1 SELL

Of the six stock recommendations we assign in this report, only two are BUYs: Industrial Milk Company and KSG Agro. The others are either over- or fairly valued (Mriya, SELL; Agroton, HOLD), or have stock-specific risks that trump upsides (Sintal Agriculture, HOLD). We do not rate MCB Agricole as we see high risk for minorities related to possible majority shareholder exit.

Recommendation summary

Company	Ticker	Price, USD	Mcap, USD mln	EV / ha 2012E, USD	EV / EBITDA 2012	12M Tagret, USD	Upside	Rec
Agroton	AGT PW	2.7	59	559	5.1	3.4	23%	HOLD
Industrial Milk Company	IMC PW	3.5	109	1829	4.3	6.1	75%	BUY
KSG Agro	KSG PW	5.2	78	1022	4.3	11.3	117%	BUY
MCB Agricole	4GW1 GF	0.4	7	178	5.3	n.a.	n/m	N/R
Mriya	MAYA GF	5.7	609	2811	6.0	5.4	-7%	SELL
Sintal Agriculture	SNPS GF	1.0	34	356	3.2	1.5	53%	HOLD

Source: Company data, Bloomberg, Concorde Capital research

Valuation summary

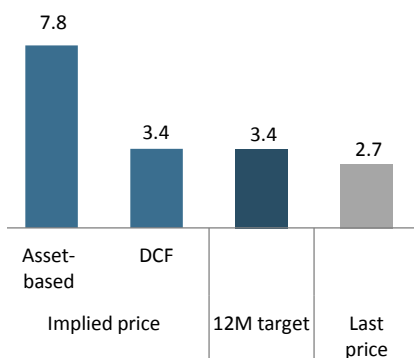
We assign target prices for Ukrainian farming companies favouring DCF valuation, which accounts for their farming specifics (crop mix, costs, yields), marketing practices (timing of sales, relative prices of crops) and growth strategies.

We separately provide our valuation results based on an asset-based approach that captures specifics of a company's land location and its farming efficiency. This approach is better suited for strategic owners and shows value potential assuming transparent pricing and excellent reporting practices.

We note that for some companies our DCF model yields higher valuations than the asset-based approach, which is explained either by superior output pricing or high non-organic growth potential (both are not captured in an asset-based valuation). We assign our 12M targets for such companies based on a mix of DCF and asset-based implied prices.

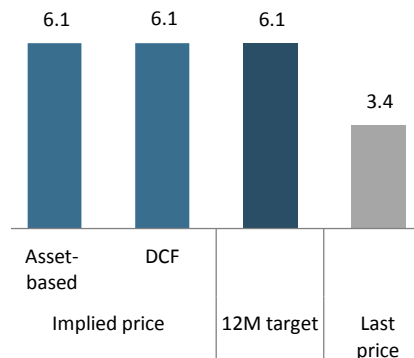
We initiate coverage of Ukrainian farming companies with two BUY recommendations (Industrial Milk Company and KSG Agro), two HOLD recommendations (Agroton, and Sintal) and one SELL (Mriya). While we deem MCB Agricole is cheap at the moment, we do not rate the stock due to high risk of minority-unfriendly acquisition.

Agroton (USD/share): HOLD



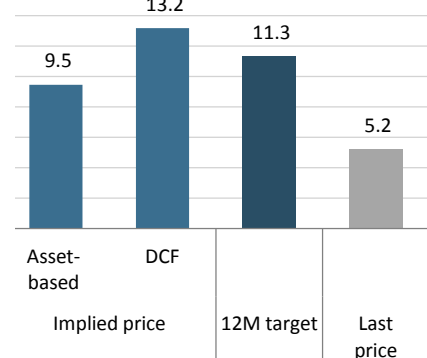
Source: Concorde Capital research

Industrial Milk Co (USD/share): BUY



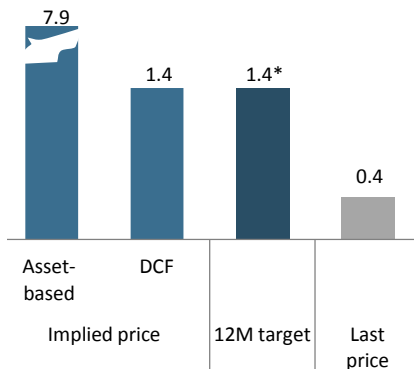
Source: Concorde Capital research

KSG Agro (USD/share): BUY



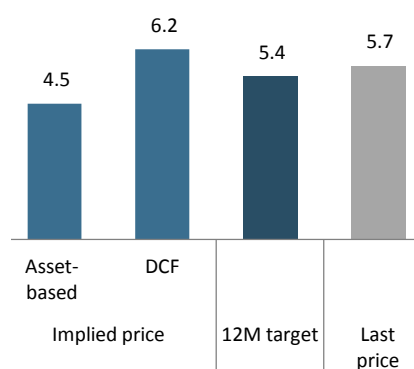
Source: Concorde Capital research

MCB Agricole (USD/GDR): N/R



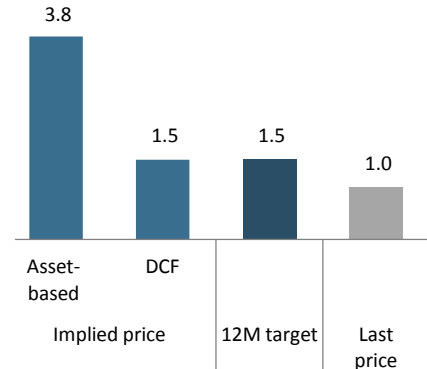
* A theoretical target based on our methodology applied for other farming companies in this report
Source: Concorde Capital research

Mriya Agroholding (USD/GDR): SELL



Source: Concorde Capital research

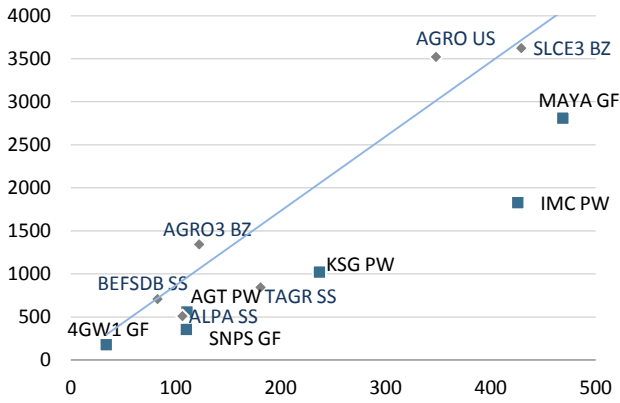
Sintal Agriculture (USD/GDR): HOLD



Source: Concorde Capital research

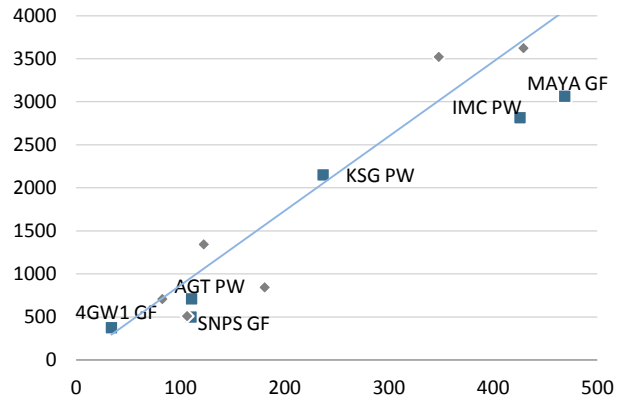
Ukrainian farmers vs. global peers: EBITDA/ha vs. EV/ha, USD, based on 2012E numbers

At current market price



Source: Bloomberg, Concorde Capital research

At 12M target



Source: Bloomberg, Concorde Capital research

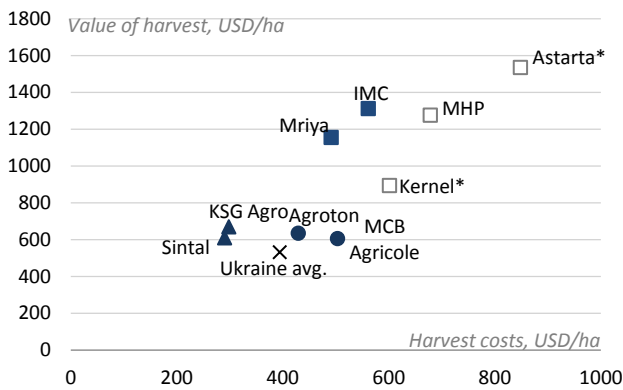
UKRAINIAN AGRO MAPPING

Three business models

Ukrainian farming companies can be divided into three groups in terms of their farming efforts and results demonstrated so far:

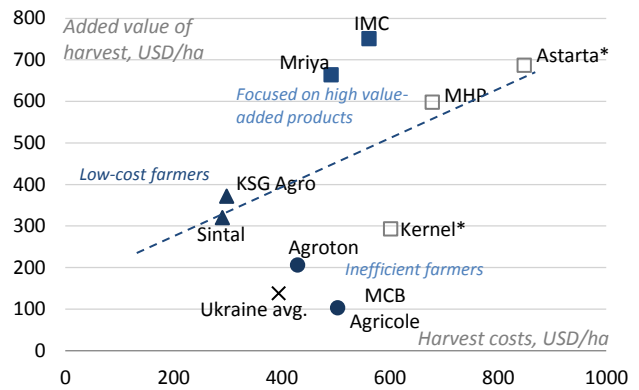
- Most efficient pool of companies that have achieved higher profits on better yields and a more profitable crop mix at higher than average costs. Industrial Milk Company and Mriya, as well as the farming divisions of MHP and Astarta (the food producers) are here
- Low-cost and low value-added farmers, whose reported costs were smaller or comparable to the Ukrainian average while yields and thus gross profits were higher. Includes Sintal and KSG Agro
- Inefficient producers whose costs were above the country average, while harvest values are comparable: Agroton, MCB Agricole and farming division of Kernel.

Companies by 2011 harvest value*



* Harvest value is calculated as crop sales plus the book value of agricultural produce at yearend minus the book value of agricultural produce at year start
 **For Kernel and Astarta, sugar beet value is estimated at the same prices as Mriya reports for comparison purposes. Based on harvested landbank size.
 Source: Company data, Concorde Capital estimates

Companies by returns on harvest, 2011



* Added value of harvest is calculated as the value of harvest less costs
 Source: Company data, Concorde Capital estimates

Management credibility: it can spoil everything

Long production cycle inherent to farmers and dispersion of assets over space makes it impossible to check key operating data, yields and costs applied. The possibility to partially account for future harvests in today's profit – an opportunity for manipulations – can make a company's financial statements fully irrelevant. This increases investors' (and auditors) reliance on figures provided by management and thus makes credibility a critical issue. Auditors' qualified opinions on financials (refer to the table below), Agroton's change of cost reporting practices (page 45), and the failure of KSG Agro to release audited 2011 financials on time illustrate this well.

As none of Ukraine's pure farmers have so far proved to demonstrate high reporting standards (and actually some of them failed to prove), the reliance of investors on management numbers is the key factor that affects market valuation.

We attempt to assess management credibility by evaluating several key issues related to disclosure, its timing and consistency. As is clearly seen from the table below, integrated food producers with long history of listing (Astarta, MHP, Kernel) look much better from this angle.

Qualitative characteristics of management credibility

	Agroton	IMC	KSG Agro	Mriya	MCB Agricole	Sintal	Astarta	kernel	MHP
Negative indicators									
Non-acquisition CapEx is significant and not disclosed/executed according to plan	☹☹	-	-	☹☹	-	-	-	-	-
Selling prices are not transparent – either from sales to related parties or unclear premiums/discounts to Ukraine's averages	-	-	-	☹☹	☹☹	☹☹	-	-	-
Sales to related parties are significant	☹	-	-	☹☹	-	-	-	-	-
Qualifications by/outstanding issues with auditors	☹☹	-	☹	-	-	☹☹	-	-	-
Annual financials are reported with a more than 4-month delay	-	-	☹	-	☹☹	☹☹	-	-	-
Responses to IR requests take more than a week	☹	☹	☹	-	☹	☹	-	-	-
Management uses biological asset revaluation aggressively, boosting accounting EBITDA figures	-	☹	☹	☹	☹	☹	-	-	☹**
Management provides financial guidance that includes biological revaluation*	-	☹	☹	-	-	-	-	☹**	☹**
Positive indicators									
Growth strategy is consistent	-	☺	-	☺	☺	-	☺	☺	☺
Historical financials audited by "Big-4"	-	-	-	☺	-	☺	☺	☺	☺
Both revenues and COGS sides of biological revaluation are disclosed in audited financial statements	☺	-	☺	-	☺	☺	☺	☺	☺
Key operating data is reported transparently and consistently: yields and costs per ha	-	-	-	☺☺	-	☺☺	☺☺	☺☺	-
Landbank acquisition costs are reported with a breakdown to landlease rights and other assets	-	-	-	☺	-	☺	-	☺	-
Balanced score	5*☹	2*☹	4*☹	2*☹	4*☹	3*☹	5*☺	5*☺	1*☺

* Which implies management is not only forecasting such parameters as weather conditions but also forecasts the amount of future revaluations

** Farming makes up a relatively small share of the business thus the overall contribution of biological revaluation is less important

Source: Concorde Capital research

Among pure farmers, we found all companies except Industrial Milk Company have critical concerns from a minority shareholder's perspective.

Critical concerns from the minority shareholder point of view

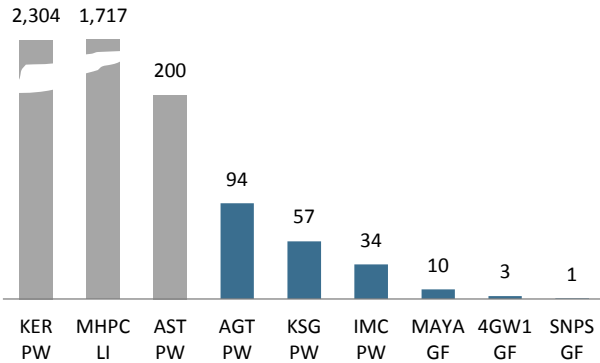
<i>Key concerns</i>	
Agroton	<ul style="list-style-type: none"> Auditors failed to find adequate evidence for USD 66.2 mln in revenues in 2011, or 2/3 of the total, issuing a qualified opinion The company suddenly re-positioned itself from low-cost (2009-2010) to high-cost producer (2011) without any clarification Failed to meet its pre-placement promises
KSG Agro	<ul style="list-style-type: none"> Reported low-cost operating model is yet to be proved by time Growth strategy is sporadic and does not match its balance sheet
Mriya	<ul style="list-style-type: none"> 42% of revenues and 45% of EBITDA in 2011 derived through the sales of sugar beets to related parties at USD 73/t vs. our estimate of the fair price of USD 45/t Overly aggressive CapEx without visible payback
MCB Agricole	<ul style="list-style-type: none"> Not a core business for majority owner Failed to list on the Warsaw Stock Exchange (December 2011) - we see the company as a clear acquisition target. The track record of acquisitions of public companies in Ukraine is not inspiring for minority shareholders
Sintal	<ul style="list-style-type: none"> Not a core business for majority owner Failed to meet its pre-placement promises

Source: Concorde Capital research

Stock performance and liquidity

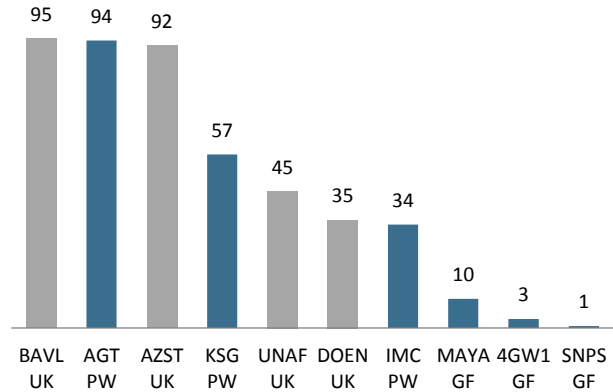
Ukrainian pure farming companies are less liquid than integrated farming and food peers who are much larger by size. However, the average turnover of some pure Ukrainian farmers is comparable to the top-10 locally listed Ukrainian stocks (UX index components). Were Agroton and KSG Agro listed locally (other things being equal) they would be candidates for inclusion into the UX index where the most liquid local stocks are traded.

6M ADT: farmers vs. integrated food co's, USD ths



Source: Bloomberg

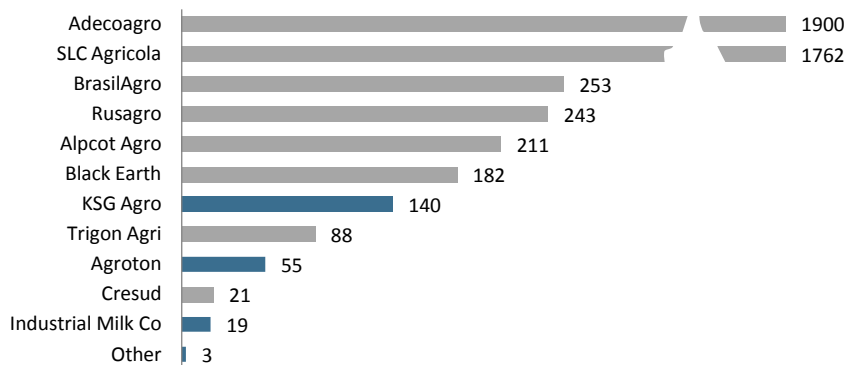
6M ADT: farmers vs. least liquid UX index components, USD ths



Source: Bloomberg

Notably, three farming companies listed on Warsaw Stock Exchange account for more than 90% of Ukrainian pure farming's turnover. The three companies listed on the unregulated floor in Frankfurt are apparently illiquid, as most of their deals are OTC. In global context Ukrainians are among the least traded farmers: just 4% of total turnover.

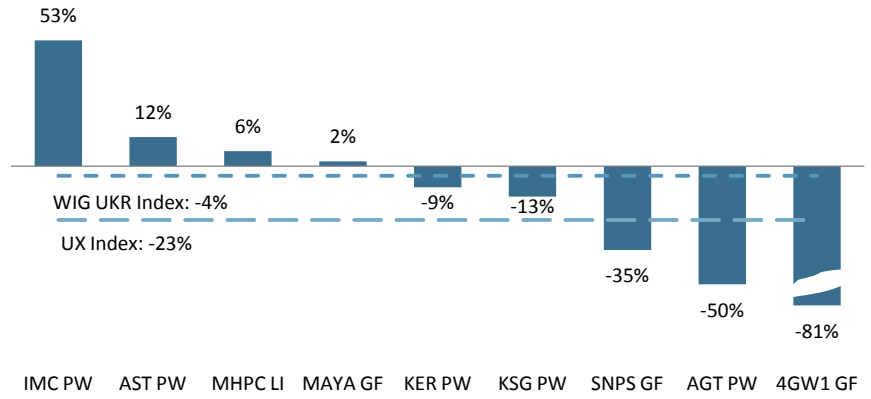
6M ADT: Ukrainian farmers vs. international peers, USD ths



Source: Bloomberg

Most Ukrainian farming companies outperformed the Ukrainian Exchange index, with three exceptions: Agroton (who suffered from an auditor's qualified opinion and credit rating downgrade by S&P), Sintal and MCB Agricole (which demonstrated poor communications with investors).

YTD performance



Source: Bloomberg

UKRAINE IN THE GLOBAL INVESTABLE FARMING UNIVERSE

Ukrainian farmers: “farming-focused,” low cost

Of the top-10 largest countries by arable land, large-scale farming exists as a business whose viability is not dependent on state subsidies in only four: Ukraine, Brazil, Russia and Argentina (UBRA for short). Consequently, the investable equity universe of farming businesses is limited to UBRA, with roughly half of the names rooted in Ukraine.

We analyze Ukrainian agriculture using primarily Brazil, Russia, and Argentina as a comparison base, referring to other countries only to assess long-term growth potential, i.e. in yields or fertilizer application levels.

We find that all UBRA countries:

- have high yield growth potential
- are more or less similar in terms of prices for key inputs: fertilizers, labor and fuel costs, with only Russian producers enjoying better input prices

Ukraine is the only UBRA country where agricultural land trading is banned (though a legislative change has been discussed for much of the last decade). This limitation has mixed investment implications:

- On one hand, this limits the investor base by excluding those who desire to own the assets they operate
- On the other hand, this creates an incentive for Ukrainian farmers to focus on operating efficiency, while most international peers’ business models are more akin to land developers, with farming as a secondary activity

Ukrainian farmers’ competitive advantages are:

- Lower land lease and labor costs than in Brazil or Argentina
- Superior land quality that allows for a low-cost low-yield model to be profitable unlike in Brazil, Argentina and the majority of Russia.

The key Ukrainian disadvantage lies in the inability to achieve higher revenues per hectare (compared to LatAm peers), since Ukraine has historically focused on either low-priced grains or low-yield sunflower seeds. Brazilian farmers, instead, cultivate soybeans (yields are 1.5x-2.0x higher than in Ukraine), cotton, and sugar cane which provides ~2x higher revenues per hectare (high cost - high revenue model).

Listed Ukrainian farmers, in general, outperform the Ukrainian average indicators as well as those of Brazilian, Russian and Argentinean listed peers in the following:

- Higher utilization of controlled land: 79%-96% in Ukraine vs. 39%-75% for listed peers in other UBRA countries
- Higher yields for key crops (grains, sunflower) compared to both the Ukrainian average (in most cases) and global peers. This is however not the case for soybeans (where Brazilians and Argentineans are the undisputable leaders) and corn (where SLC Agricola is the leader)
- More profitable crop mix compared to the Ukrainian average and Russian peers. This however differs from LatAm peers that devote more than 3/4 of their landbank to the three most profitable crops.

UBRA overview summary

	<i>Ukraine</i>	<i>Russia</i>	<i>Brazil</i>	<i>Argentina</i>
Land trade	Not allowed, discussed	Allowed	Allowed	Allowed
Business model for listed companies	Farming, mixed with processing or cattle breeding Low costs low yields	Farming, mixed with land speculation Low costs low yields	Land developers, farming is secondary High costs high yields	Land developers, farming is secondary High costs high yields
Share of land planted, average for public companies	89%	57%	57%	50%
Key crops	Wheat, sunflower, barley	Wheat, barley, potatoes	Soybean, corn, cottonseed, cane sugar, coffee	Soybean, corn, cottonseed, cane sugar
Secondary crops	Corn, rapeseed, sugar beets, potatoes, soybean	Sunflower, rye, corn, sugar beets	Wheat, rice, beans	Wheat, sunflower
GMO	Not allowed	Partially allowed	Partially allowed	Allowed
Railway shipment costs to port, USD/t	~USD 10-20	USD 10-70, railway bottlenecks	USD 10-60, railway bottlenecks	USD 15-60
Regulatory risks	Export quotas introduced in bad harvest years, export duties possible	Export ban in bad harvest years, local price regulations; restrictions on foreign land ownership	Requirements to keep land as reserves; limitation on size of land ownership by foreigners	Export taxes on agricultural products. Quotas and price regulations possible. Restrictions on foreign land ownership
State support	Zero VAT on agricultural produce; negligible income tax	Direct subsidies of USD 4.5-9 bln annually; interest rate subsidies	Preferential credit to farmers, tax-incentives	Negligible
Land price, USD/ha	n/a	USD 500-1,000	Undeveloped land USD 1,500 – 4,500; developed land USD 6,500 – 14,500	USD 4,000-10,000
Lease costs, USD/ha	USD 35-90, average close to USD 60	USD 30-60	USD 250	USD 350

Sources: FAO, Margenes Agropecuarias, USDA, CARD, Black Rock, World Bank, Rusagrotrans, FIDA, OECD, Agroton, Sintal Agriculture, MCB Agricole, Mriya, Industrial Milk Company, KSG Agro, Astarta, Kernel, MHP, Alpcot Agro, Black Earth Farming, Trigon Agri, SLC Agricola, Brasilagro, Cresud, Adecoagro, Concorde Capital

Farming stock universe

	Ticker	Landbank, end-2011, ths ha	Owned	Planted in 2011	Cropped as % of total land	Share of farming in revenues	MCap, USD mln	ADT, 4-week, USD ths
<u>Ukraine, pure farmers</u>								
Agroton	AGT PW	171	-	109	81%	72%	59	56
Industrial Milk Company	IMC PW	60	-	33	79%	74%	109	33
KSG Agro	KSG PW	61	-	.6	75%	70%	78	146
MCB Agricole	4GW1 GR	90	-	82	92%	100%	7	1
Mriya	MAYA GR	297	-	240	94%	100%	609	2
Sintal Agriculture	SNPS GR	145	-	83	84%	100%	34	1
<u>Ukraine, processors involved in farming</u>								
Astarta	AST PW	247	-	197	96%	42%	426	164
Kernel	KER PW	210	-	183	87%	7%	1470	3032
MHP	MHPC LI	280	-	250	89%	18%	1188	1941
<u>Russia</u>								
Alpcot Agro*	ALPA SS	281	100	142	51%	84%	142	103
Black Earth Farming	BEFSDB SS	318	260	228	72%	94%	170	194
Trigon Agri*	TAGR SS	194	118	88	50%	76%	112	65
<u>Brasil</u>								
SLC Agricola SA	SLCE3 BZ	332	257	250	75%	84%	1029	1643
Brasilagro	AGRO3 BZ	180	180	71	39%	100%	230	340
<u>Argentina</u>								
Cresud	CRES AR	681	484	338	50%	50%	592	34
Adecoagro	AGRO US	431	296	220	51%	72%	1188	1226

*Has some operations in Ukraine

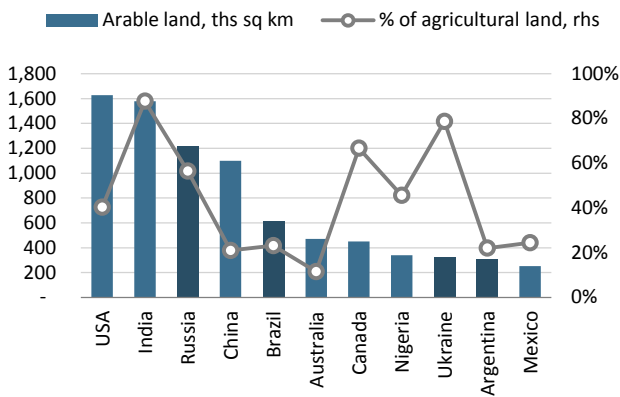
Source: Company data, Bloomberg, Concorde Capital research

Ukraine is #8 in arable land globally

Ukraine has 41.3 mln ha of agricultural area, according to FAO, which equals to 68% of the total country's surface - one of the highest shares globally. Of Ukraine's total agricultural area, 79% is arable (32.5 mln ha), which gives Ukraine the #8 largest arable land bank in the world. 95% of Ukraine's surface is essentially flat.

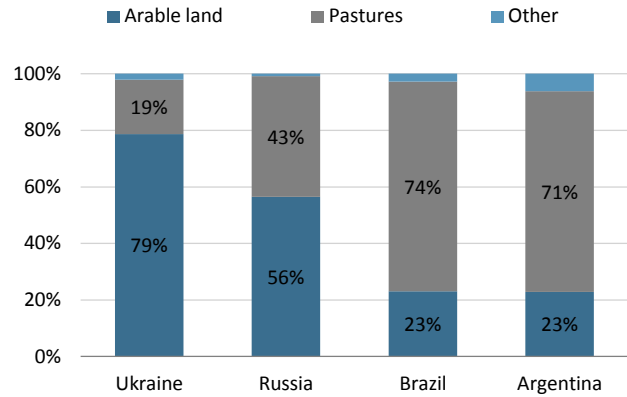
Unlike in peer regions, most Ukrainian agricultural land is already arable. While the conversion of pastures to arable land is feasible (and is a key growth area in Brazil), CapEx associated with that is significant and the total economic effect of conversion is positive only at high soft commodity prices.

Countries with the largest arable landbank, ths sq km



Source: FAO

Agricultural land structure



Source: FAO

Sunflower oil, corn, wheat are key export items

For the last five years, Ukraine has harvested 29-56 mmt of grains per season, out of which 25-26 mmt was consumed locally, with the remaining going for export. Corn, wheat and barley are key grains to export.

Ukraine's production and exports, mmt

Wheat



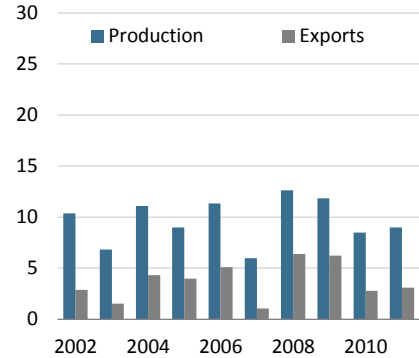
Source: USDA

Corn



Source: USDA

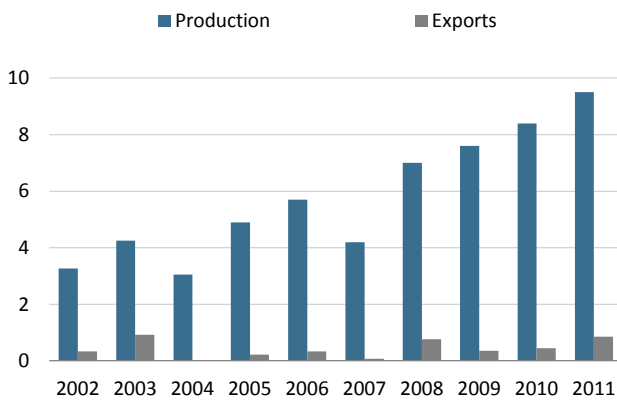
Barley



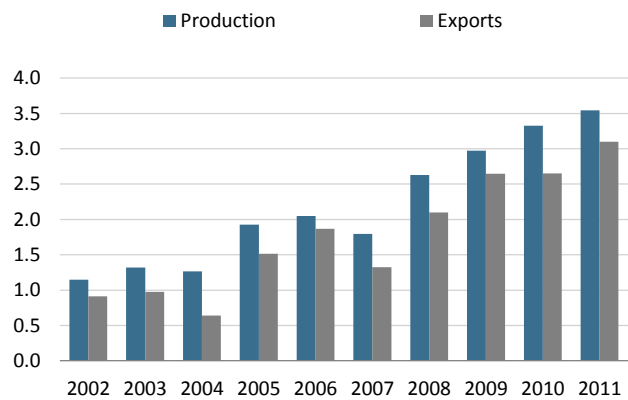
Source: USDA

In oilseeds, Ukraine's focus is on producing sunflower (7-9 mmt p.a.), 90%-95% of which is processed domestically and exported in oil & meal form – Ukraine accounts for about half of the global trade in sunflower oil. Rapeseed is the second most important oilseed, with 1-2 mmt directed for export in seed form; and soybean is third, with 1-2 mmt in annual output, utilized both locally and for export.

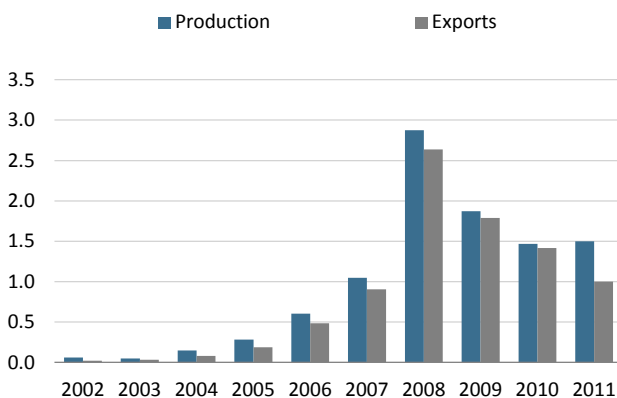
Sunflower oilseed, mmt



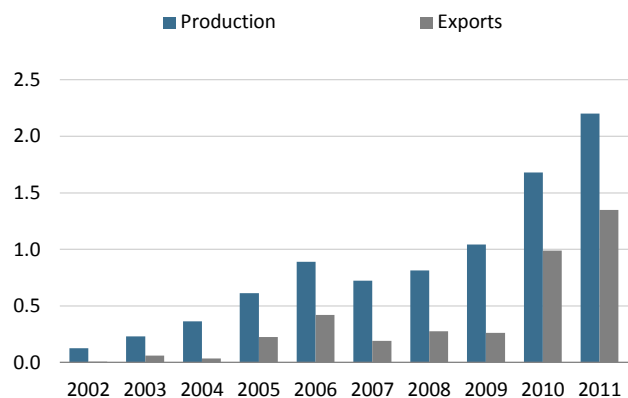
Sunflower oil, mmt



Rapeseed, mmt



Soybean, mmt

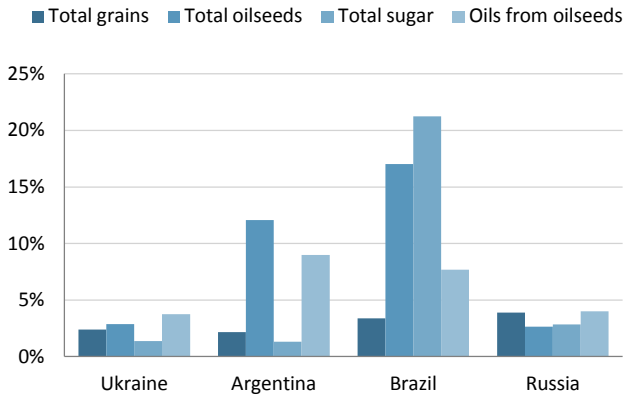


Source: USDA

3% of world soft commodities output

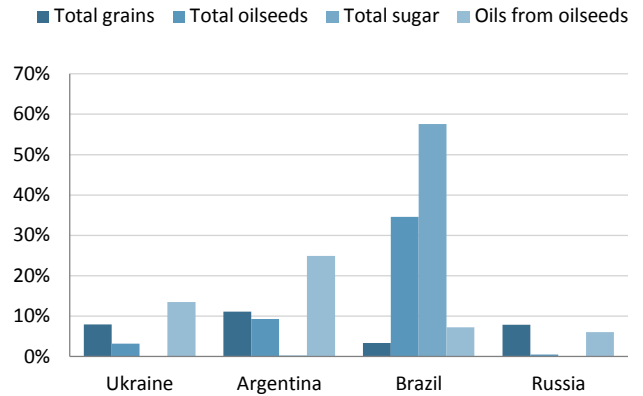
Ukraine is an important global player in the soft commodities market, responsible for 2.4% of grain and 2.9% of oilseed production. Ukraine's share in global trade is higher: the country is expected to export 8.0% of total grains in 2011/12, 3.2% of oilseeds, and 13.5% of oil made from oilseeds (all based on USDA projections).

Share in global production, 2011/12 marketing year (MY)



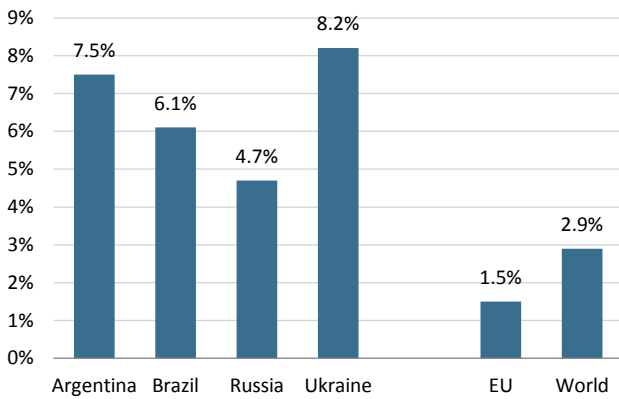
Source: USDA projections for 2011/12, Concorde Capital calculations

Share in global export, 2011/12 MY



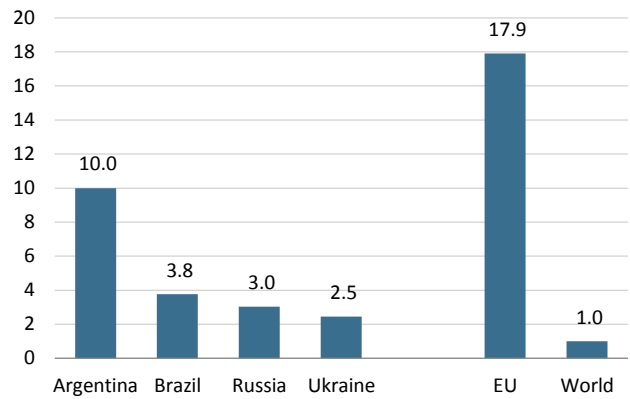
Source: USDA projections for 2011/12, Concorde Capital calculations

Agriculture value added as % of GDP, 2009



Source: FAO

Agriculture value added, USD' 000/worker, 2009



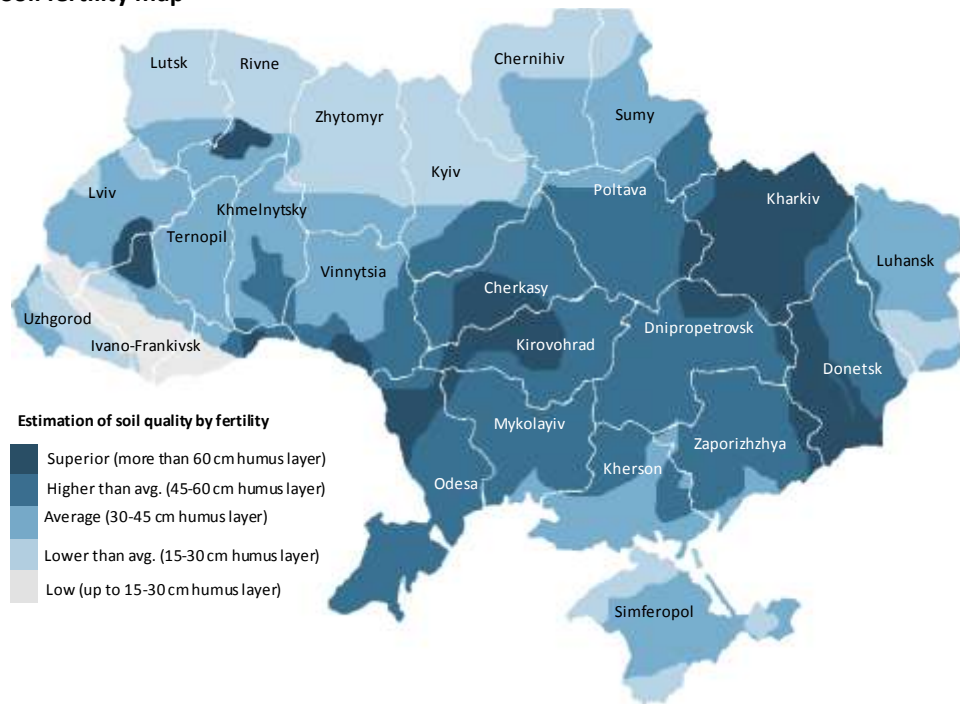
Source: FAO

KEY INPUTS USED IN CROP FARMING

Ukraine`s location favorable for low-cost agriculture

Ukraine has a temperate continental climate on most of its territory, with annual precipitation of 500 mm, 300 mm of which falls during the growing season (April to October). 62% of Ukraine`s agricultural land is covered by superior quality black soil, which contains an enriched humus layer (40-60 cm vs. 10-30 cm in neighboring EU countries).

Soil fertility map



Source: Agriculture Ministry of Ukraine

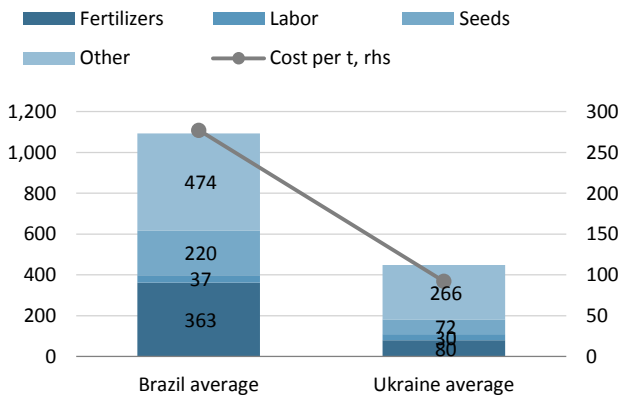
As in Russia, crops in Ukraine are harvested once per year with a normal growing season from April to October. This is different from Argentina and Brazil, where about 15% of fields can deliver crops twice per year (usually soybean first, corn second). Southern regions of Ukraine also fit into the double-harvest model, providing they have irrigation. In post-Soviet history, however, we did not find a successful example of this model in Ukraine, but we admit that there is a decent potential for it here.

Low-cost model works well only in Ukraine

Higher-quality soil allows Ukrainian producers to implement a low-cost business model using lower amounts of fertilizers and crop protectors. Both low-cost/low-yield and high-cost/high-yield models can work in Ukraine.

In corn planting, average cost/ha in Ukraine is less than half of that in Brazil, and so is the cost/ton. For soybeans, Ukraine's benefit in terms of cost/ha is more than offset by smaller yield/ha.

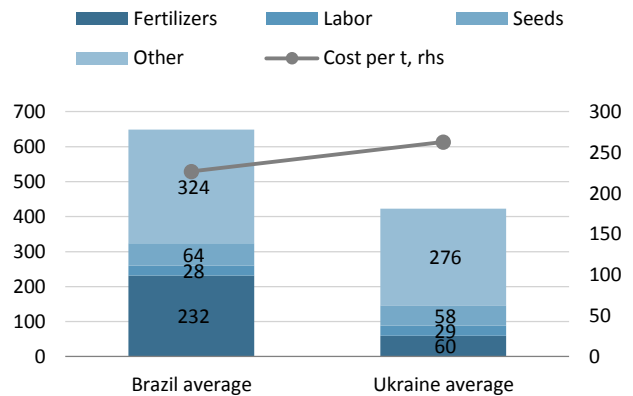
Corn production costs, USD/ha, lhs, and USD/t, rhs



Note: 2010/11 costs taken for reference. In calculating cost per t, five year average yields were taken as a reference.

Source: State Statistics Committee of Ukraine, SLC Agricola

Soybean production costs, USD/ha, lhs, and USD/t, rhs



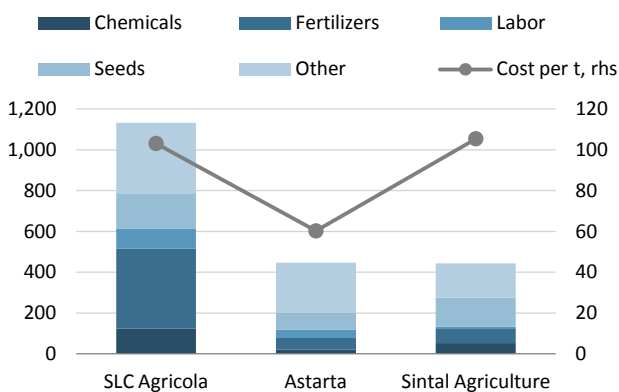
Note: 2010/11 costs taken for reference. In calculating cost per t, five year average yields were taken as a reference.

Source: State Statistics Committee of Ukraine, SLC Agricola

If public companies' data is taken into account, Brazilian SLC Agricola (the most efficient LatAm producer) spends slightly more per hectare than the country's average in order to achieve superior yields. For any company in Ukraine, costs/ha are ~2x less than those of SLC Agricola, while costs/t are comparable or smaller.

Astarta's approach resembles that of SLC Agricola: higher yields at slightly more than average costs. Sintal Agriculture and KSG Agro are located at the other extreme: average yields at lower costs.

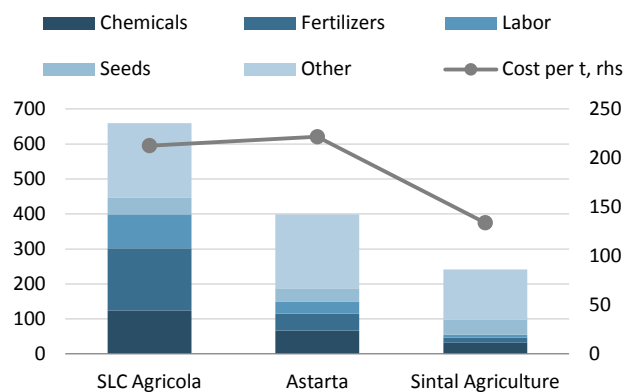
Corn production costs, USD/ha, lhs, and USD/t, rhs



Note: 2010/11 costs taken for reference. In calculating cost per t, five year average yields were taken for SLC Agricola, two-three years average for Ukrainian companies.

Source: State Statistics Committee of Ukraine, SLC Agricola

Soybean production costs, USD/ha, lhs, and USD/t, rhs



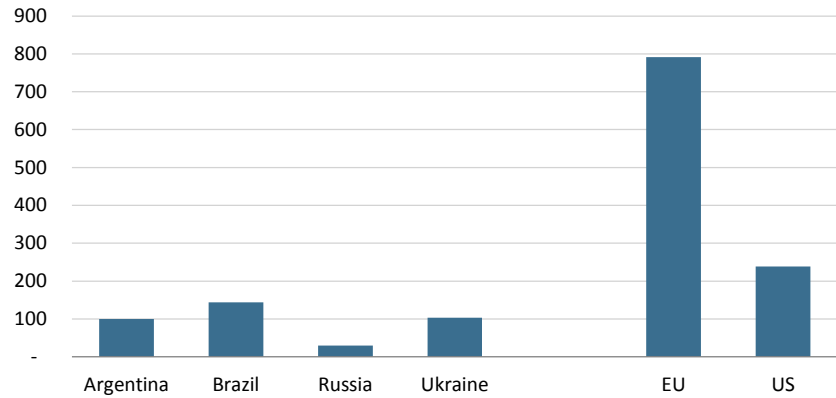
Note: 2010/11 costs taken for reference. In calculating cost per t, five year average yields were taken for SLC Agricola, two-three years average for Ukrainian companies.

Source: State Statistics Committee of Ukraine, SLC Agricola

Machinery use is far below developed countries

Tractor use in Ukraine is generally on par with Brazil and Argentina, but better than in Russia. Comparison to the EU and US averages shows significant underutilization of machinery by all four UBRA countries. Some part of the gap to the EU figure can be explained by its historical focus on low-scale business models and usage of smaller tractors.

Tractors per 100 sq km of arable land



Source: FAO Statistical Yearbook 2012

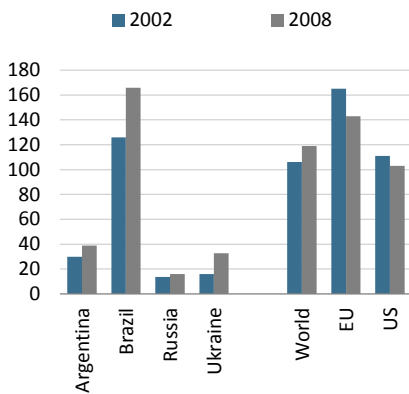
Fertilizers: at global standards only in oilseeds

Ukraine's average fertilizer use per hectare is among the lowest in the world (superior only to Russia), mostly due to a historical focus on crops with a lower sensitivity to fertilizer application.

If compared by crops, Ukrainian farmers use a similar amount of fertilizers for corn as Argentinean, Brazilian and Russian peers, but twice less than peers in the EU and US. For wheat and barley, key grains in Ukraine, fertilizer application is ~2x below that in Argentina and Brazil, 3x below in the US and 5x below EU levels.

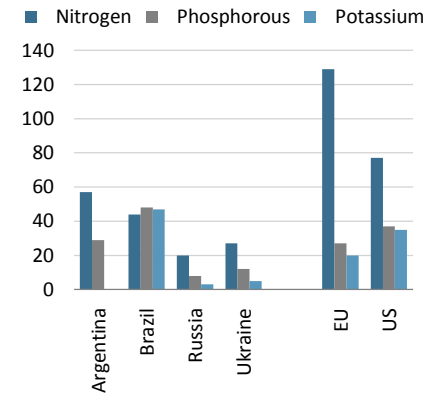
Ukrainians apply roughly the same amount of fertilizers on sunflower (the most land-deteriorating crop which demands high fertilizer use) and rapeseed (a new crop for Ukraine farming technology for which was imported recently) as in the EU.

Total fertilizer consumption, kg per ha of arable land



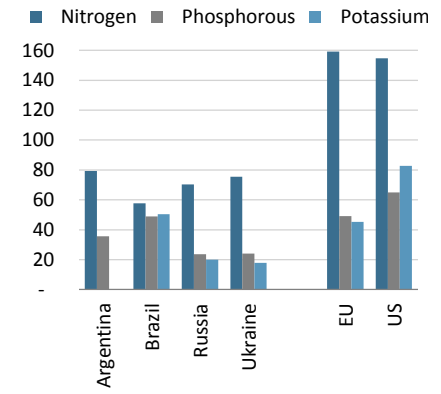
Source: FAO

Fertilizer application by nutrient, kg/ha Wheat



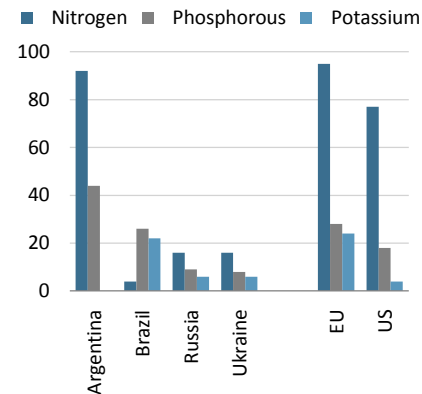
Source: FAPRI

Fertilizer application by nutrient, kg/ha Corn



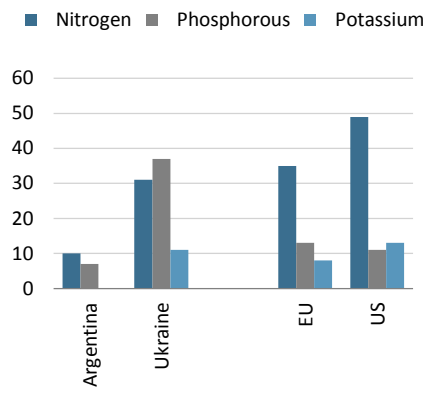
Source: FAPRI

Fertilizer application by nutrient, kg/ha Barley



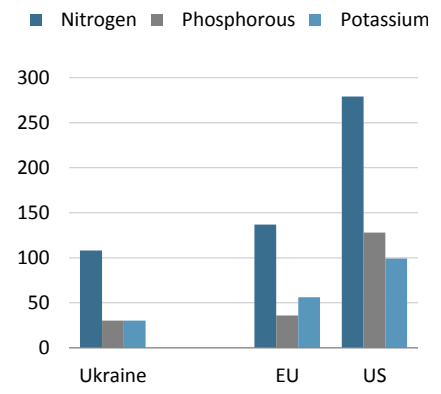
Source: FAPRI

Sunflower



Source: FAPRI

Rapeseed



Source: FAPRI

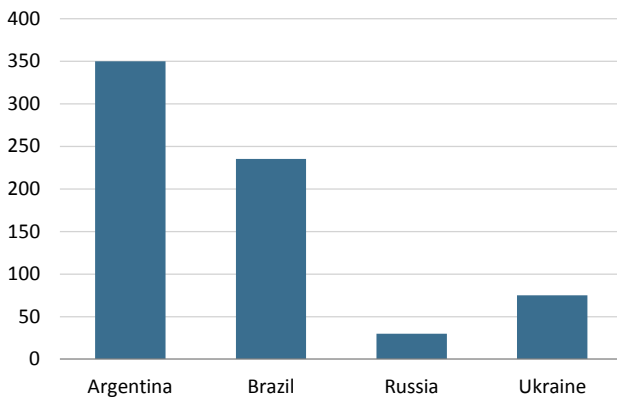
Lease and labor costs are Ukraine’s advantages

Ukrainians’ key cost advantage to Latin American peers is low lease payments: USD 35-90/ha vs. USD 250-400/ha in Latin America. Another advantage is the lowest labor costs.

The cost of fertilizers (if urea is taken as a reference), are similar in Ukraine and Latin America, even though Ukrainian farmers consume mainly domestic products: recent industry consolidation in Ukraine allowed its producer, Ostchem, to price locally sold products at a premium to export prices. Fuel costs are similar between Ukraine and Argentina; Brazilian farmers pay up to a 50% premium.

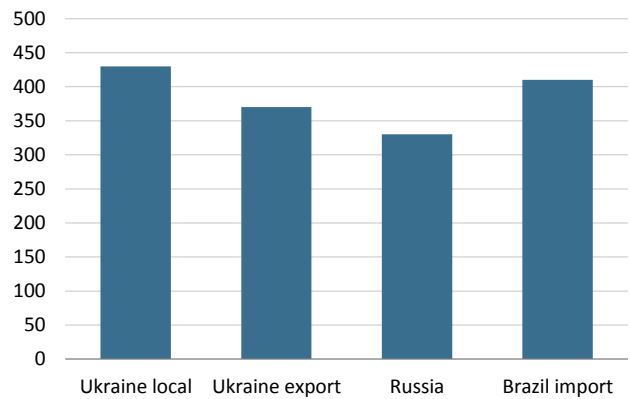
Russian farmers have the lowest costs among their peers: they enjoy up to 20% cheaper fertilizers, the lowest lease costs and 10%-50% cheaper fuel. On the flipside, Russian companies’ cost advantage is usually fully offset by their farming inefficiency.

Lease costs, USD/ha, 2010



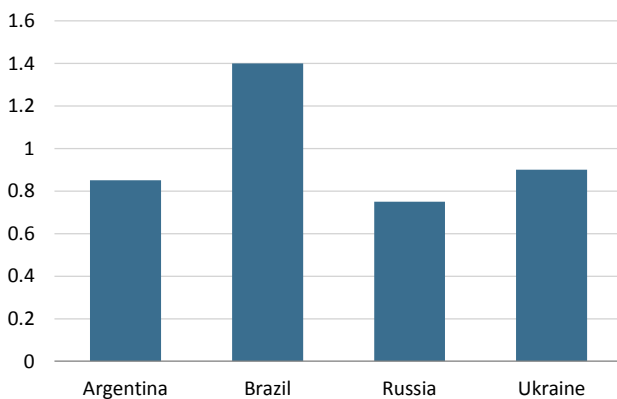
Source: Concorde Capital estimates

Fertilizer costs, urea price, USD/t 2012



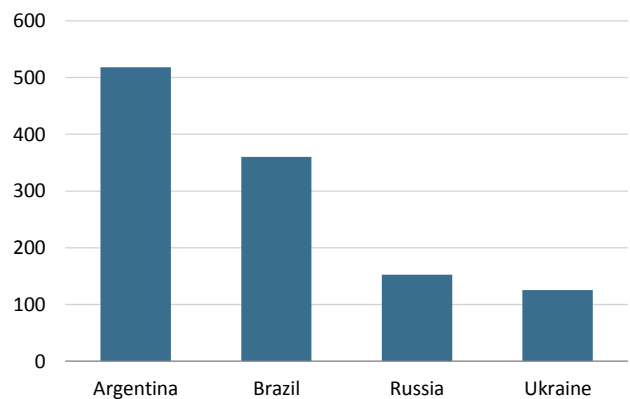
Source: ICIS, Allua.biz, Eurochem

Fuel costs, unleaded gasoline, EUR/l 2012



Source: Concorde Capital estimates

Labor costs, minimum wage, USD/month, 2011



Source: State Statistics Services of Ukraine and Russia, Wageindicator, Brazilian president’s official website

Land trade moratorium makes more benefits

Agricultural land is not tradable in Ukraine, unlike in Russia, Brazil and Argentina. The moratorium on the sale of agricultural land was set by parliament more than a decade ago. Since then, the ban has been prolonged on an annual basis, even though the market has been flooded with rumors the moratorium would be abolished for at least the last five years.

Farming companies lease land, primarily from individuals, in small plot sizes (1.5 ha on average) at a cost of USD 35-90/ha, with standard lease tenors of three to ten years. Should land become tradable, current leaseholders have a preemptive purchase right.

Without exception, all public companies we have talked to have said they prefer the current framework where all companies lease land. There are several reasons why we agree with the companies:

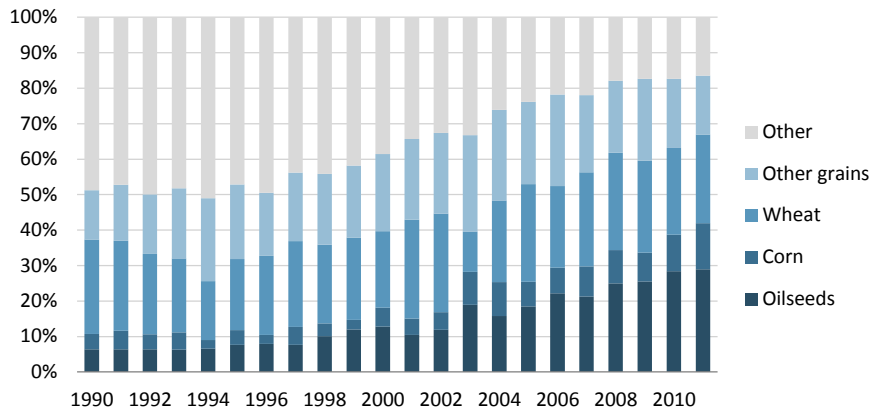
- Lower entry barriers, with only USD 500-1,500/ha needed for operations on leased land, while its buyout could require additional USD 2,000-10,000/ha. This in turn implies farming companies can expand their operations at low costs
- Farmers are focusing on operating efficiencies rather than landbank appreciation. This is in sharp contrast to listed Brazil and Argentinean farming companies that are more developers rather than farmers: they plant only 40%-75% of their landbank and derive around 3/4 of their ROE from landbank appreciation
- Lifting of the moratorium, as well as any other radical changes, adds additional risks to farmers' operating models, which in this case is exaggerated by the non-transparent lawmaking process visible in Ukraine over the last two years. In fact, not all the valuable suggestions of farmers to the land legislation changes could be taken into account.

FARMING EFFICIENCY

Crop structure is gradually shifting to more profitable cultures in Ukraine

Ukraine’s climate, soil quality and habits have made wheat and barley the most popular crops, with sunflower, potatoes and sugar beets second order cultures. Within the last decade, farmers have started to increase the share of more profitable crops: corn and sunflower shares have grown while soybeans and rapeseeds have been introduced.

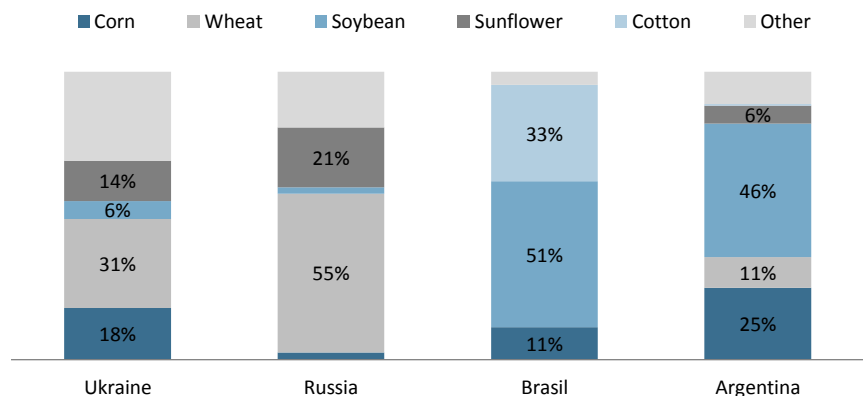
Ukraine’s harvest area structure



Source: State Statistics Committee of Ukraine, USDA, Concorde Capital calculations

The crop mix of listed Ukrainian companies has shifted faster toward more profitable crops, but it is still far from the structure of Brazilian and Argentinean peers. Corn accounted for 18% of the combined area harvested by listed Ukrainian companies (above the 11% for Ukraine’s average, but below the 25% for Argentinean peers); oilseeds accounted for 29% of Ukrainian listed companies’ acreage (above Ukraine’s 24% average, but below Brazilian listed companies’ 51%).

Combined crop structure of listed companies, 2010-2011



Note: Based on reports of Agroton, Sintal Agriculture, MCB Agricole, Mriya, Industrial Milk Company, KSG Agro, Astarta, Kernel, MHP, Alpcot Agro, Black Earth Farming, Trigon Agri, SLC Agricola, Brasilagro, Cresud, Adecoagro.
Source: Company data, Concorde Capital calculations

Crop yields lag DM, on par with LatAm, above Russia's

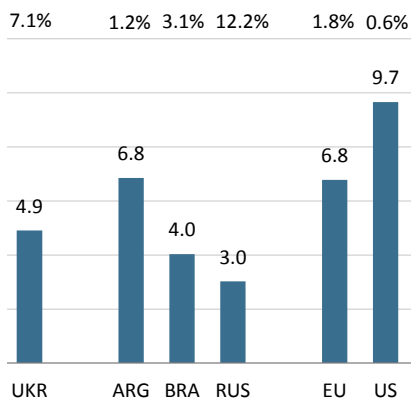
For all crops except sunflower, Ukraine's yields are far below of those posted in the EU and US, for three key reasons:

- Lower application of fertilizers
- Poor state of agricultural machinery, 70%-80% of which is fully depreciated and yield-harming
- Poor land management practices

Compared to Argentina and Brazil, Ukraine's yields are generally on par, with soybean (LatAm's key crop), the only underperformer. Russian farmers lag on yields for all key crops.

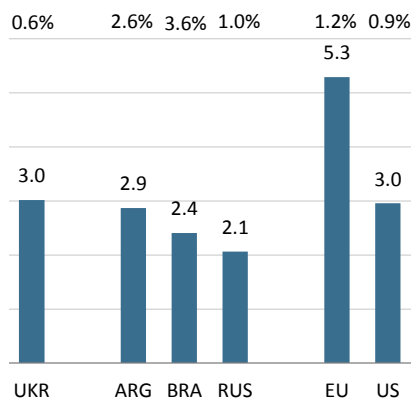
5Y average yields, t/ha and their respective 10Y CAGRs

Corn



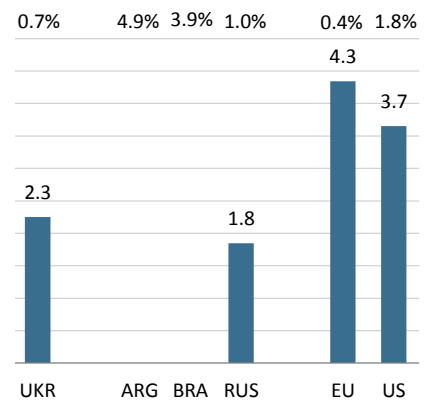
Source: USDA

Wheat



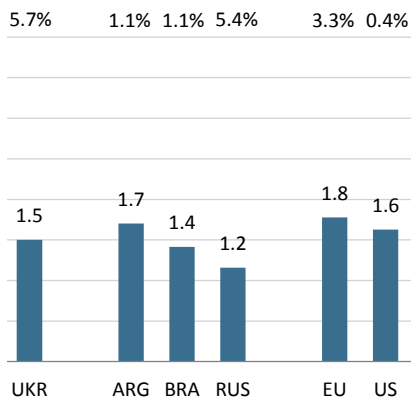
Source: USDA

Barley



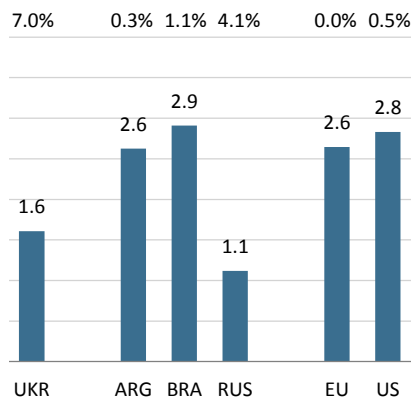
Note: Barley planting in Argentina and Brazil is negligible. Source: USDA

Sunflower



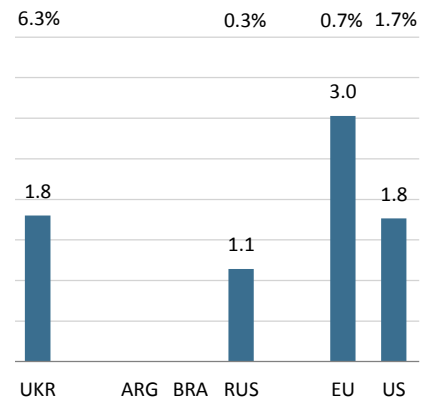
Source: USDA

Soybean



Source: USDA

Rapeseed

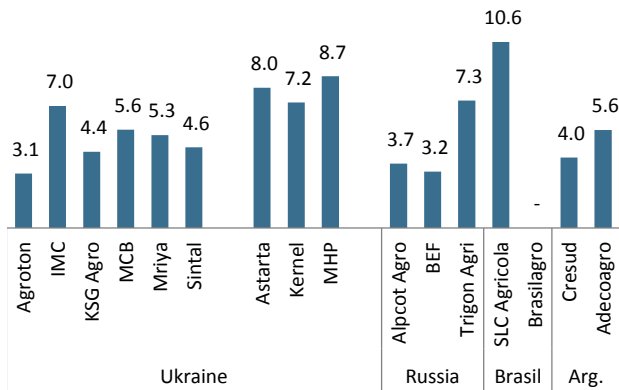


Note: Rapeseed is not planted in Brazil and its planting in Argentina is negligible. Source: USDA

Listed companies deliver better yields in Ukraine

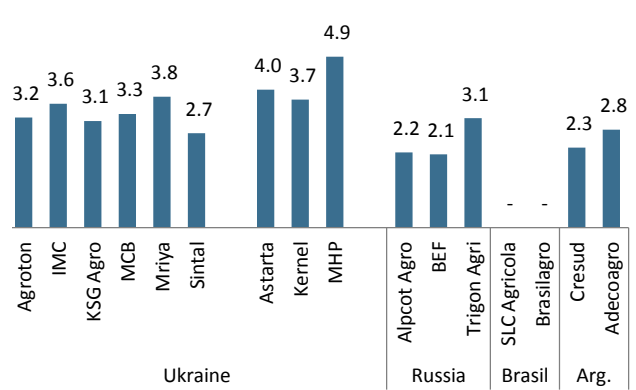
Unlike on the country-average comparison, Ukrainian publicly listed farmers broadly outperform their Brazilian, Russian and Argentinean peers on yields for all crops except soybean.

Corn yield, t/ha, 2010-11 avg



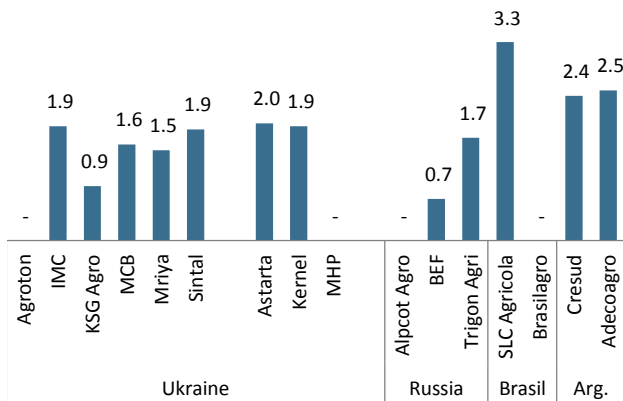
Source: Company data, Concorde Capital estimates

Wheat yield, t/ha, 2010-11 avg



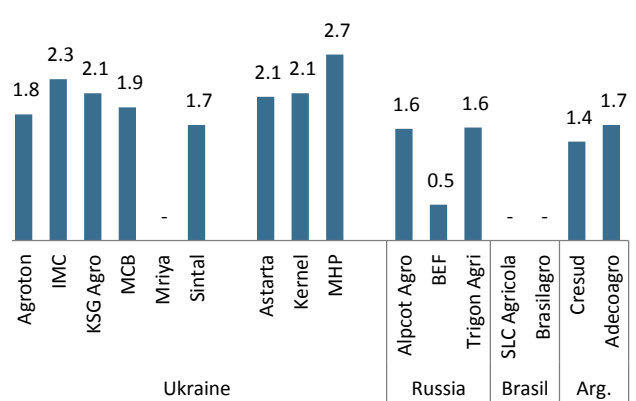
Source: Company data, Concorde Capital estimates

Soybean yield, t/ha, 2010-11 avg



Source: Company data, Concorde Capital estimates

Sunflower yield, t/ha, 2010-11 avg



Source: Company data, Concorde Capital estimates

GROWTH FACTORS: YIELDS & CROP MIX

We see four key long-term drivers of farming in Ukraine, ranked by importance:

- An increase in yields could be substantial, up to 2x in grains and 1.5x in oilseeds, as the experience of the top performers (MHP and Astarta) suggests. This could be achieved by the usage of modern machinery and improvements in fertilizer treatment - both are conditional on the availability of financing, a major problem for the average Ukrainian farmer
- A reshuffle of crop structure toward more profitable crops. Ukraine's historical crop mix is slanted toward low-yield grains like barley and wheat, which if gradually replaced with corn, soybean, rapeseed and sunflower could increase profit per hectare. Though currently farmers refer to crop rotation rules to ground their large share of wheat and barley sown, industry standards are changing globally and in a decade we could see a much larger share of profitable oilseeds and corn in Ukraine
- An acreage increase in Ukraine, driven by pasture conversion and the integration of non-farmed land, could increase arable land by 1/4 in the long-term. Market players estimate that non-farmed land requires about USD 300-500/ha in CapEx for most of areas (vs. USD 1,200-1,700/ha in Brazil's Cerrado region), and USD 1,500/ha for those requiring irrigation
- Irrigation systems, which can be efficiently used in southern regions, can allow some farmers to shift to a double-harvest business model and increase the value of harvest from land operated. So far, however, we did not find any example in Ukraine where this system has worked efficiently.

VALUATION

Valuation approach

We use two alternative metrics to value Ukrainian farmers:

- DCF approach that accounts for all the company's specifics derived from historical reporting (farming efficiency, costs, prices, operating cycle), and growth prospects
- Asset-Based approach that allows guessing how much value the company's currently controlled assets can deliver. This approach captures well the company's potential based on its location, crop mix and farming efficiency, to some extent captures its cost advantages, while does not account for the company's output pricing, operating cycle and non-organic growth prospects.

The key metric we rely on is DCF-derived value. We stick to DCF if it provides smaller value than asset-based approach (i.e. if company-specific inefficiencies do not allow it to reach the value potential prompted by the quality of operated assets).

In case DCF-implied price is higher than asset-based one (it mostly appeals to a company's inorganic growth prospects or some output pricing advantages), we derive our target as an average of asset-based and DCF-implied prices. The intuition behind this is we account for a risk that current superior output pricing is not sustainable or a planned growth strategy may not work out.

All in, our 12M target for Ukrainian farmers is derived as

minimum of:

{DCF-implied price; average between DCF and asset-based value}.

Valuation summary table, USD per share (DR)

	DCF-implied value	Asset-based value	12M target	Market	Upside
Agroton	3.4	7.8	3.4	2.7	23%
Industrial Milk Company	6.1	6.1	6.1	3.5	75%
KSG Agro	13.2	9.5	11.3	5.2	117%
MCB Agricole	1.4	7.9	1.4*	0.4	255%*
Mriya	6.2	4.5	5.4	5.7	-7%
Sintal Agriculture	1.5	3.8	1.5	1.0	53%

* A theoretical target (upside) based on methodology we applied for farming companies in this report

Source: Concorde Capital research

DCF valuation

Key assumptions employed in DCF modelling are presented below. Detailed operating models and company-specific assumptions are provided in the company profiles section.

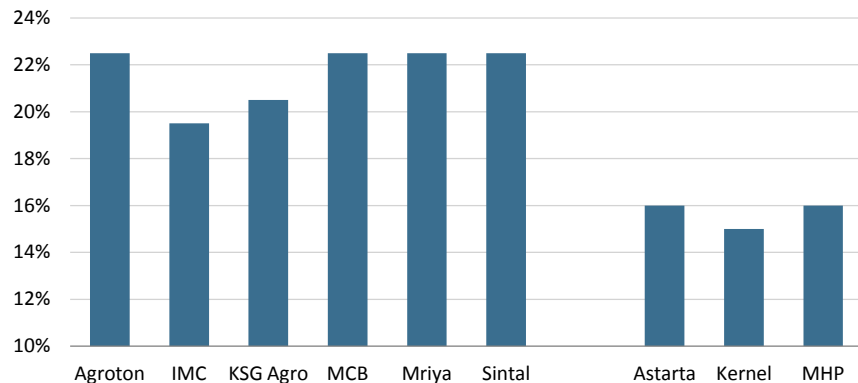
Cost of equity assumptions

We apply our house approach to cost of equity calculation, summing up country risk (10Y government bond yield of 9.5%), an equity risk premium of 6% and company/sector-specific premiums.

The sector-specific premium we apply for all the farming companies is 3 pp. The reasons are: 1) farming is a classic commodity business with output prices more volatile than inputs; and 2) farming stock are not very liquid. Additionally, we add:

- 1 pp risk premium for Industrial Milk Company related to its short track record as a public company
- 2 pp premium for KSG Agro (short track record, risky growth strategy)
- 4 pp premiums to other companies covered in this report: Agroton (very poor track record); Sintal Agriculture (poor track record and illiquidity); MCB Agricole (risk of the majority shareholder change and illiquidity); and Mriya (heavy reliance on related parties and illiquidity).

Cost of equity by company: farmers vs. food companies involved in farming



Source: Concorde Capital research

General operating model assumptions

Below are details of our approach to forecasting key operating parameters.

Landbank growth: capped at 30%

For those companies that have ambitious growth plans (IMC, KSG Agro, Mriya), we cap landbank expansion at 30% from targeted 2012 levels. We assume no land bank growth for those who did not explicitly reveal their expansion plans: MCB Agricole and Sintal. Agroton is assumed to expand between the two extremes.

We assume USD 450/ha cost of lease rights acquisition for all the farmers except Mriya: here we use USD 1,500/ha, the average figure the company showed in 2011.

Crop prices

We base our 2012 crop price forecasts on current market levels and apply 2% dollar inflation for 2013-2017 and 1.5% yoy afterward.

Crop price base assumptions, USD/t

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Wheat	100	142	158	175	179	182	186	189	193	196	199	202
Corn	117	150	142	167	170	173	177	180	184	187	190	192
Barley	79	158	154	167	170	173	177	180	184	187	190	192
Rapeseed	285	358	429	486	496	505	516	526	536	544	553	561
Soy	350	333	317	398	405	414	422	430	439	445	452	459
Sunflower	288	442	358	442	451	460	469	478	488	495	502	510
Sugar beet	36	57	73	55	56	57	58	60	61	62	63	63

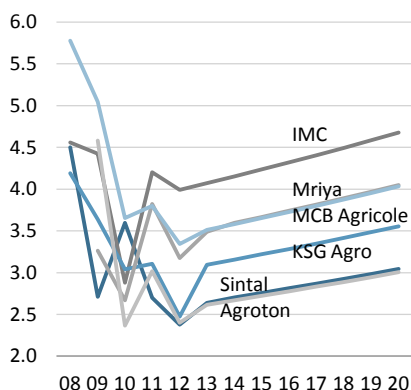
Source: APK-Inform, Concorde Capital estimates

To these prices, we apply company-specific premiums/discounts, largely based on historical selling prices in order to account for advantages due to ownership of storage facilities, crop quality and established selling practices.

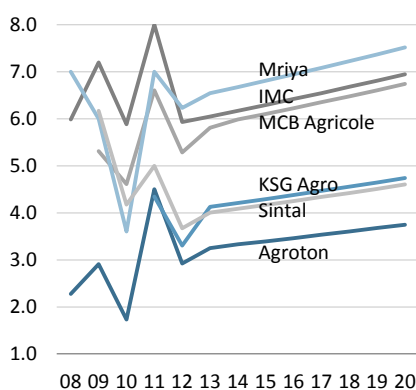
Crop yield growth

We assume a 15%-25% yoy decline in crop yields in 2012, as the weather effect changed from favourable in 2011 to adverse this year, and 10%-20% growth in 2013 (except somewhat lower figures for rapeseed, sunflower and barley). For latter periods, we assume 2% growth per annum. The latter assumption is somewhat conservative, as it suggests Ukrainian farmers will not be able to reach EU benchmarks by yields even in one decade.

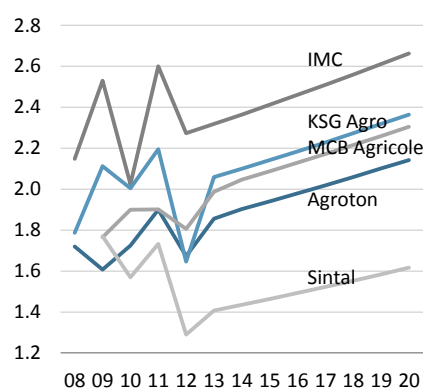
Yield, t/ha Wheat



Corn



Sunflower

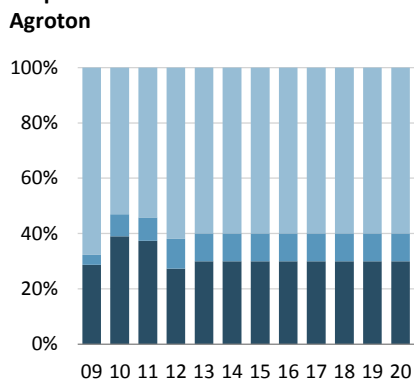


Source: Company data for 2008-11, Concorde Capital research

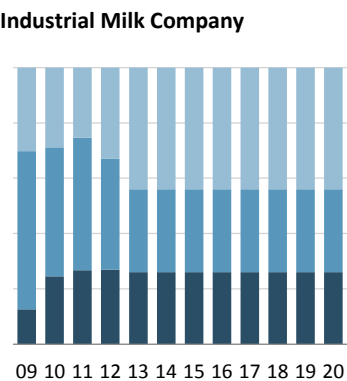
Crop structure

We base our forecasts for crop rotation on historical specializations, correcting in time the abnormally high shares of some crops (usually sunflower) and keeping (oilseeds + sugar beets)/grains ratio at 40%/60%.

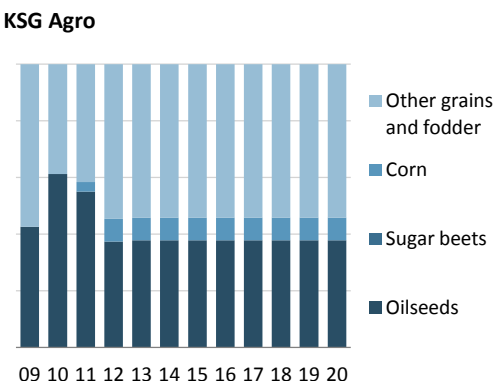
Crop mix
Agroton



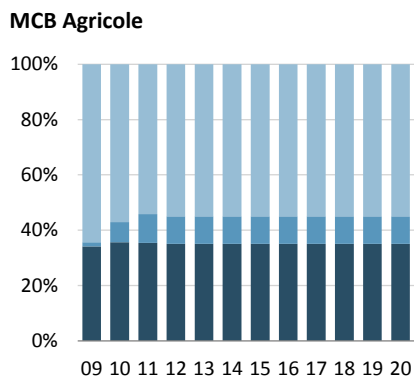
Industrial Milk Company



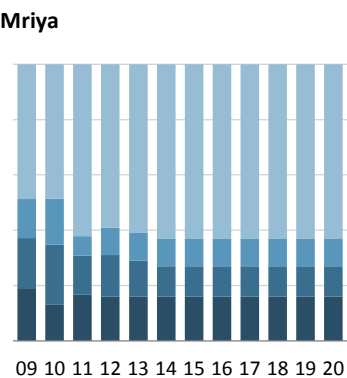
KSG Agro



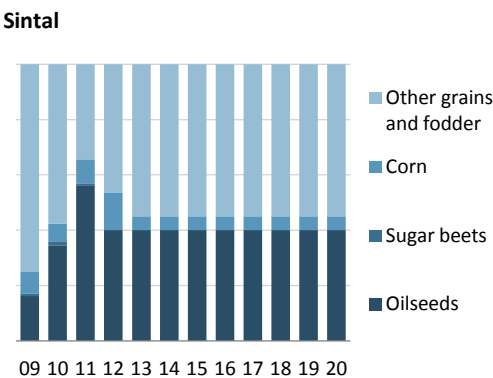
MCB Agricole



Mriya



Sintal



Source: Company data for 2008-11, Concorde Capital research

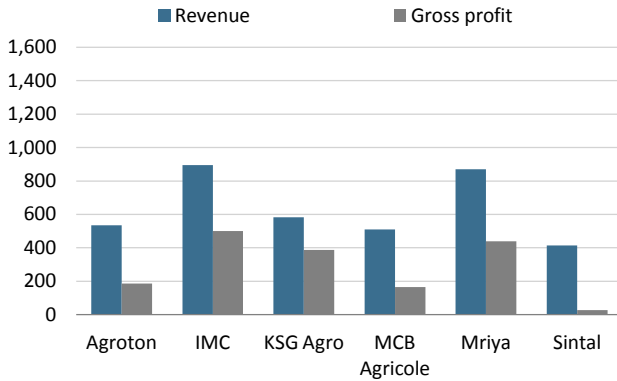
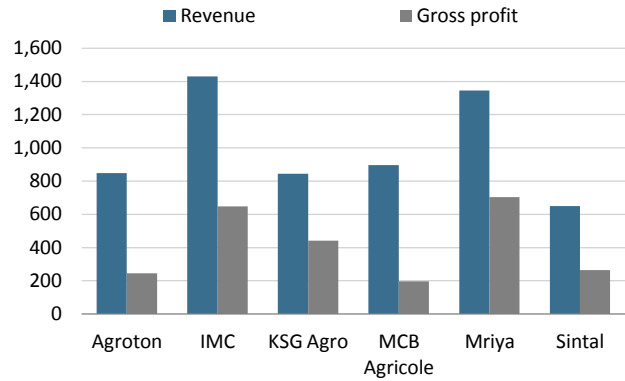
Costs

We rely on company figures for historical costs/ha and apply the same dollar-based cost inflation to all companies. We see land lease expenses being the key cost driver in the nearest three years.

Cost growth assumptions, by component, in USD terms

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Fertilizers	5%	-5%	-5%	4%	4%	4%	4%	4%	4%
Plant protection	2%	2%	2%	2%	2%	2%	2%	2%	2%
Fuel	2%	2%	2%	2%	2%	2%	2%	2%	2%
Seeds	2%	2%	2%	2%	2%	2%	2%	2%	2%
Labor cost	10%	4%	4%	4%	4%	4%	4%	4%	4%
Land lease expense	33%	20%	17%	7%	3%	3%	3%	3%	3%
Other	4%	4%	4%	4%	4%	4%	4%	4%	4%
Weighted average	7%	4%	4%	4%	3%	3%	3%	3%	3%

Source: Concorde Capital research

Revenue and gross profit, USD/ha, 2010

2020E


Note: Revenue based on marketing years, gross profit based on company figures for cost/ha
 Source: Company data, Concorde Capital research

Government subsidies and taxes

We assume no change in the current zero VAT treatment of agricultural companies. VAT subsidies are reported as other operating income and its ratio to sales varies from company to company (the more the profitable company, the more the subsidy size). We use an average of historical VAT subsidy/Sales ratios for projections.

Biological revaluation (IAS 41) excluded

We adjust historical financial statements to exclude biological asset revaluation and remeasurement of agricultural produce (IAS 41). To accomplish this, we subtract revaluation components from both the top line (given in financial statements) and COGS (provided by companies on request, if not given in audited financials).

Asset based valuation

We introduce asset-based valuation for Ukrainian farmers to assess the value potential that they might reach on their land (and other assets employed) with their inherent farming practices. This method does not account for their output pricing, operating cycle and growth plans, and only partially accounts for their cost efficiency.

For asset-based valuation, we use the following sum-of-the-parts approach:

- Evaluate land holdings (lease rights) as of end-2011 based on our understanding of their intrinsic value (depending on location) and adjusting for the company's farming performance (crop mix, yields, costs, diversification)
- Evaluate a company's new acquisitions (made in 2012) solely based on our estimates of land lease value in a particular region
- If a company is engaged in non-farming activities, we add the values of its non-core businesses based on exit multiples or replacement costs.

Asset-based valuation summary

	End-2011 land value			Value of newly acquired land			FV of other assets, USD mln	Total FV, USD mln
	ths ha	Fair EV/ha, USD	FV, USD mln	ths ha	Fair EV/ha, USD	FV, USD mln		
Agroton	171	1,098	188				29	217
Industrial Milk Company	60	2,231	133	23.1	2025	46.8	57	236
KSG Agro	61	1,903	116	22.8	1116	25.5	40	181
MCB Agricole	90	1,613	145				0	145
Mriya	297	2,118	629				92	721
Sintal	145	989	143				10	153

Source: Company data, Concorde Capital research

Estimating value potential of farming business

To estimate the value of land the companies currently operate (lease), we calculate the implied value of land in each region the companies operate, and further adjust it to account for company-specific farming practices and possible related risks.

- We start from an assumption for Ukraine’s average value for leasing rights of USD 1,600/ha. See details for how we arrive at this figure in Appendix III
- We adjust the average value of land to account for value differences that stem from its geographic location (land fertility, historical focus on crops in the specific region, weather risks, etc.)

The resulting number is our estimate of the average land value in the specific region. This result we use to value newly acquired land.

We further adjust the derived value by company-specific risks and farming specifics:

- company’s geographical diversification
- cluster size
- yield advantages to region’s average
- cost advantages to Ukraine’s average

By doing these adjustments, we derive the value potential of a company’s owned land, and apply this metric to all the land that a company controlled as of end-2011.

Valuation premium/discount summary

	Factor	Description	Max discount	Max premium
Location	(1) Location profitability	Region’s 5Y crop mix and yields and Ukraine’s mean crop cost are used to calculate profits per hectare achievable in each region	-37%	54%
	(2) Yield stability in region	Coefficient of yield variation in the last 5Y for each crop and region weighted by the crop’s share in the region’s crop mix. Bottom quartile by variation gets a 10% premium for yield stability, upper quartile gets 10% discount for instability	-10%	+10%
Company-specific location	(3) Weather diversification	+10% premium if significant share of land is in at least 2 regions with different weather patterns	0%	+10%
	(4) Company cluster size	-25% discount to land in less than 5 ths ha clusters or fallow	-6%	0%
Company’s efficiency	(5) Crop yield compared to region’s average	Yield premium (last 2Y) to location is calculated, weighted by the company’s crop mix	-5%	+37%
	(6) Costs per ha compared to Ukraine’s average	Individual crop costs per hectare vs. Ukraine’s 2010 average. Max. discount (for high-cost) & premium (for low-cost) is limited to 20%.	-20%	+20%

Source: Concorde Capital research

Below is a detailed breakdown of the premiums & discounts we applied to each company.

Valuation of end-2011 land bank

	Land value based on region of operation			Land value adjustment based on company's specifics				Implied value of operated land, USD/ha
	Value based on regions' profitability, USD/ha	Yield stability adjustment	Resulting location value, USD/ha	Weather diversification premium	Low cluster size discount	Yield efficiency premium	Cost efficiency premium	
Agroton	1,077	0%	1,077	0%	0%	27%	-20%	1,098
Industrial Milk Company	1,946	0%	1,946	0%	0%	21%	-5%	2,231
KSG Agro	1,635	-10%	1,476	0%	-3%	10%	20%	1,903
MCB Agricole	1,513	-3%	1,473	10%	-6%	9%	-3%	1,613
Mriya	1,653	1%	1,667	0%	0%	11%	15%	2,118
Sintal	1,004	-10%	904	10%	0%	0%	0%	989
Astarta	2,466	0%	2,466	10%	0%	22%	-10%	2,967
Kernel	2,289	-2%	2,236	10%	-1%	-2%	-10%	2,156
MHP	2,087	0%	2,091	10%	-1%	35%	-20%	2,471

Source: Company data, Concorde Capital research

The subsequent pages provide more details on our methodology.

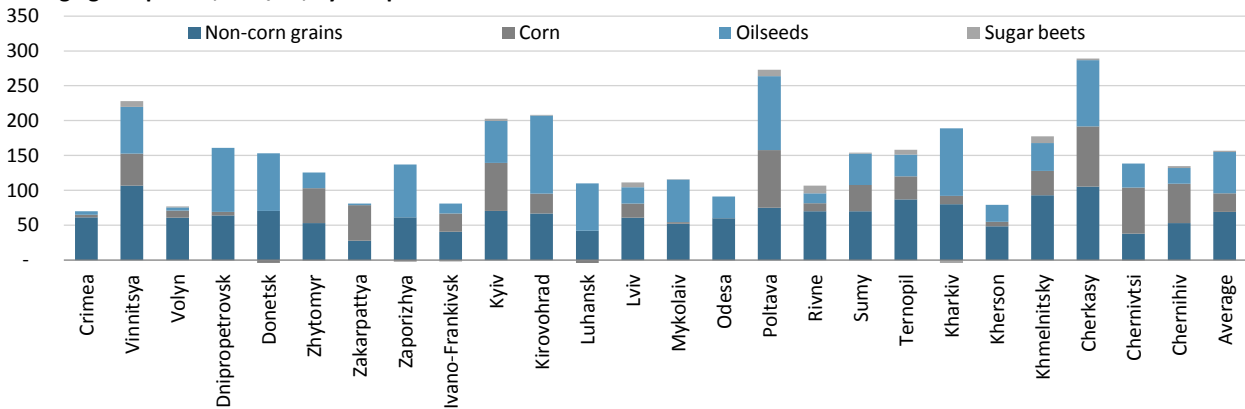
Location matters: Value of land by region

We attempt to capture differences in land location, probably the most important factor for farming businesses anywhere in the world. We work with region-level data (for Ukraine’s 25 regions, average size of 24.1 sq km), assuming land is identical within the region.

We find the two most important factors that determine profitability of location:

- The ability to achieve higher-than-average yields. Based on five-year average data on yields for each region, data on costs per ha in 2010 (both State Statistics Committee of Ukraine) and APK-Inform crop prices for 2010, we calculate each region’s average profits per ha for key crops: corn, sunflower, wheat and sugar beets.
- The ability to focus on more profitable crops: sugar beets, oilseeds, corn. We calculate the weighted average profit per hectare for each region, dividing all crops in four groups: corn, sugar beets, oilseeds (using sunflower stats as a reference) and non-corn grains (using wheat stats as a reference).

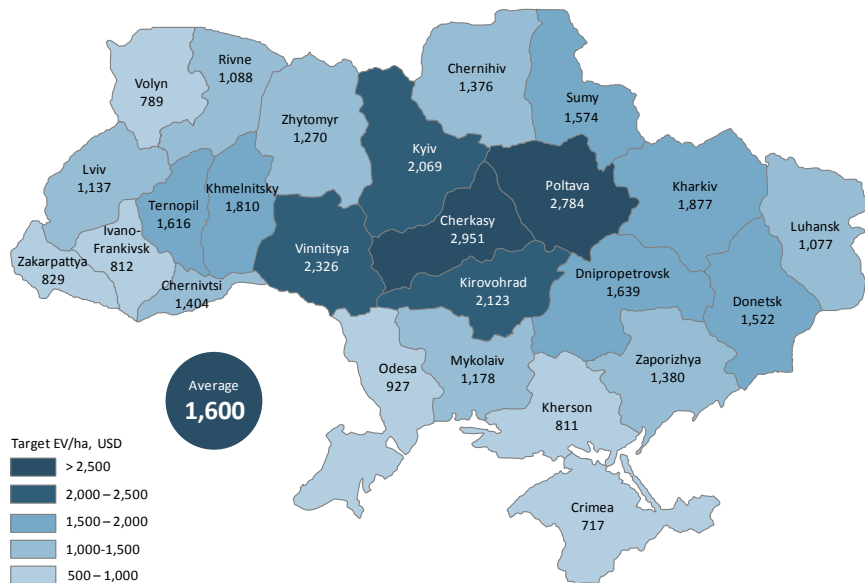
Average gross profit*, USD/ha, by components



*Based on 5Y average yields for region, average costs/ha and selling prices for 2010. Source: State Statistics Committee of Ukraine, Concorde Capital estimates

Dividing each region’s average gross profit/ha to Ukraine’s average, we arrive to a premium/discount for each region. We apply this premium to the benchmark USD 1,600/ha (see details for how we arrive at this figure in Appendix III).

Implied hectare value per region, USD



Source: UkrStat, Concorde Capital research

Company's yield efficiency vs. benchmark region

A company's crop yield premium to Ukraine's average is rather a function of farmers' location. Since we capture the value of location separately, to account for company-specific efficiency, we compare their yields to the benchmark. The benchmark is calculated for each company as the weighted average yield in regions of operations, with weights being the share of the regions' land in the total company's landbank as of end-2011.

We then compare each company's yields to the benchmarks and calculate an average premium, weighting for crop mix (average for 2010-11) and relative crop importance for profitability (2.0 for sugar beets, 1.5 for corn and oilseeds, 1.0 for wheat, 0.5 for barley).

Yield premiums/discounts to benchmark region averages, 2010-11

	<i>Corn</i>	<i>Soybean</i>	<i>Sunflower</i>	<i>Rapeseed</i>	<i>Barley</i>	<i>Wheat</i>	<i>Sugar beets</i>	<i>Weighted average</i>
Agroton	10%		36%	-18%	-5%	24%		27%
Astarta	30%	8%	3%		22%	21%	30%	22%
Industrial Milk Company	22%	16%	20%	-34%	-50%	26%		21%
Kernel	1%	-6%	-1%	-4%	-7%	-3%	-20%	-5%
KSG Agro	-6%	-11%	16%	-26%	4%	2%		10%
MCB Agricole	-2%	-11%	16%	18%	19%	2%		9%
MHP	28%		45%	59%		40%		35%
Mriya	-10%	-57%		-4%	-21%	11%	33%	11%
Sintal	-9%	-34%	18%	28%	6%	1%	17%	5%

Source: Company data, UkrStat, Concorde Capital calculations

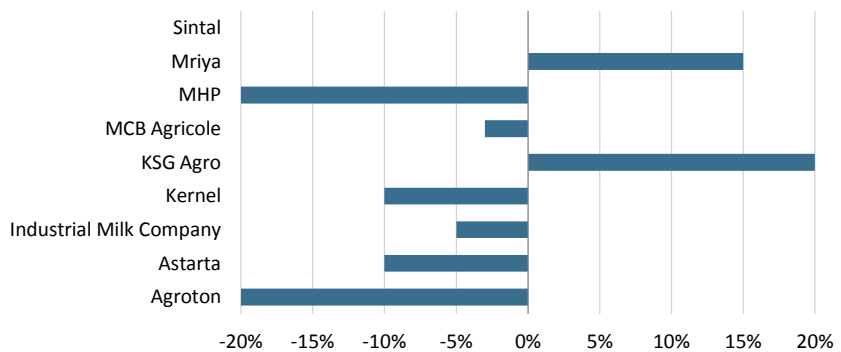
Our approach indicates Agroton, Astarta, Industrial Milk Company and MHP are the most efficient in terms of delivering higher yields vs. their location, while Kernel is least efficient and the only underperformer.

Cost efficiency

To compensate for the obvious fact that higher yields could be achieved simply by higher costs applied to the land (as we find in the case of Agroton and MHP), we also compare companies` costs per ha vs. the Ukrainian average, taken from the State Statistics Committee of Ukraine for 2010, and average among listed companies for 2011.

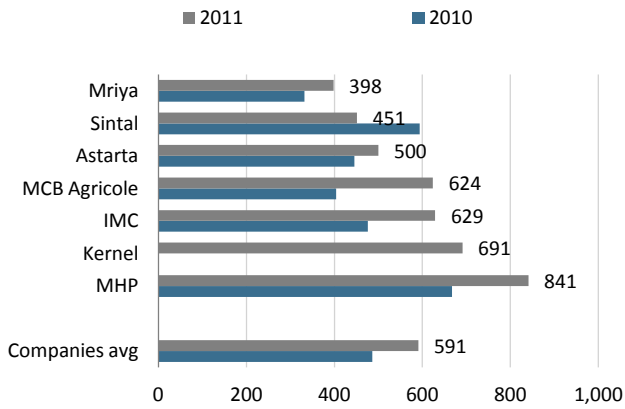
As companies do not report costs for all cultures, we focus on key crops for companies, weighting them according to their importance. For companies whose costs exceed the average, we apply discounts of up to 20%, for those below – premiums of up to 20%.

Premium/discount due to cost efficiency

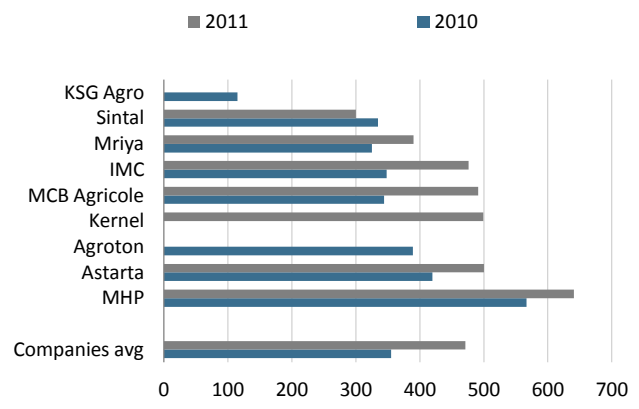


Source: Company data, Concorde Capital estimates

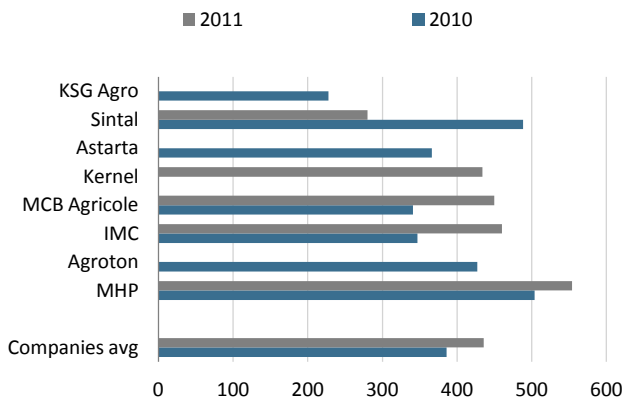
Costs, USD/ha Corn



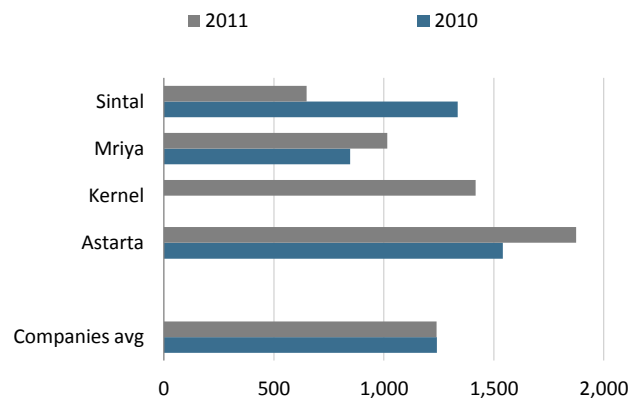
Wheat



Sunflower



Sugar beets



Source: Company data

Adding supplementary businesses

To arrive at the fair value for listed Ukrainian companies, we add the value of supplementary and non-core businesses. For most companies, this is a grain storage business, which we value at:

- USD 100/kt for silos built during Soviet times
- USD 200/kt (or construction costs) for new silos
- USD 50/kt for granaries
- USD 200/kt for potato storage

For companies involved in livestock and food processing, we value those businesses based on an EV/EBITDA multiple of 6.0x, the average for Ukrainian consumer goods companies.

Valuation summary for other assets

	<i>Business overview</i>	<i>Capacity, kt</i>	<i>Est. EBITDA 2012, USD mln</i>	<i>Multiple</i>	<i>Est. value, USD mln</i>
Agroton	Owned grain silos	105	x	USD 100/t	11
	Leased grain silos	180	x	USD 50/t	9
	Food processing		0	6x	0
	Livestock		1.6	6x	10
	Total				
Industrial Milk Company	Grain silos	257	x	USD 100/t	26
	Grain granaries	46	x	USD 50/t	2
	Potato storage	23	x	USD 200/t	5
	Livestock		4	6x	24
	Total				
KSG Agro	Food processing		3	6x	18
	Pork production		1	6x	6
	Pellets production (60-90 kt capacity)		2	6x	12
	Grain granaries	76	x	USD 50/t	4
	Total				
MCB Agricole	-				0
Mriya	Greenfield grain silos	160	x	USD 200/t	32
	Granaries	250	x	USD 50/t	13
	Greenfield seed silo	60	x	USD 600/t	36
	Potato storages	56	x	USD 200/t	11
	Total				
Sintal	Owned grain silo	100	x	USD 100/t	10
	Total				10

Source: Company data, Concorde Capital research

Peer comparison

While we found out that Ukrainian farmers are unique in terms of their “pure farming” model, we do not rely on peer comparison to value them. Peer multiples are provided for illustration purposes only.

Peer comparison summary

	Country	Ticker	Share price		EV/Sales			EV/EBITDA			P/E		
			USD	USD mln	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E
Agroton	Ukraine	AGT PW	2.7	59	0.9	1.1	1.1	3.8	5.1	5.1	4.9	8.8	7.1
IMC	Ukraine	IMC PW	3.5	109	4.4	2.5	1.8	n/m	4.3	3.6	neg	4.9	4.0
KSG Agro	Ukraine	KSG PW	5.2	78	2.7	2.0	1.6	6.6	4.3	3.2	2.9	4.8	3.0
MCB Agricole	Ukraine	4GW1 GR	0.4	7	0.3	0.3	0.3	2.3	5.4	2.1	2.0	neg	1.8
Mriya Agroholding	Ukraine	MAYA GR	5.7	609	2.9	3.4	2.9	4.5	6.0	5.1	3.9	8.0	5.8
Sintal Agriculture	Ukraine	SNPS GR	1.0	34	1.1	1.1	1.0	4.9	3.2	3.6	5.0	3.2	3.7
Harmonic mean					0.9	1.0	0.9	3.9	4.5	3.4	3.3	5.2	3.5
Ukrainian food names													
Astarta	Ukraine	AST PW	17.02	426	1.4	1.6	1.2	4.2	5.4	4.3	4.1	5.5	4.3
Kernel Group	Ukraine	KER PW	18.45	1,470	0.9	0.8	0.7	5.9	5.8	5.2	7.0	7.0	6.4
MHP	Ukraine	MHPC LI	11.40	1,188	1.6	1.5	1.3	5.2	4.5	4.1	5.0	4.4	4.2
Harmonic mean					1.2	1.2	1.0	5.0	5.2	4.5	5.1	5.4	4.8
Global farming names													
Alpcot Agro	Russia	ALPA SS	1.02	142	3.7	1.6	1.1	neg	4.8	2.7	neg	7.3	3.7
BEF	Russia	BEFSDB SS	1.36	170	3.5	1.7	1.3	neg	9.0	4.9	neg	n/m	11.4
Trigon Agri	Russia	TAGR SS	0.87	112	2.5	1.2	0.9	8.1	4.6	3.0	n/m	6.9	3.6
SLC Agricola	Brasil	SLCE3 BZ	10.41	1,029	2.4	2.2	2.1	7.3	8.6	9.7	21.0	18.1	22.5
Brasilagro	Brasil	AGRO3 BZ	3.93	230	3.2	3.0	3.0	8.8	11.0	14.6	14.3	19.7	30.2
Adecoagro	Argentina	AGRO US	9.86	1,188	1.9	2.4	2.1	6.4	10.0	7.8	21.2	21.5	13.8
Harmonic mean					2.7	1.8	1.5	7.6	7.1	5.0	18.2	11.5	7.6

Source: Bloomberg, Company data, Concorde Capital research

RISKS

Management credibility/Corporate governance

The inherent high dispersion in production processes in Ukrainian farming businesses over both space and time makes it hard to check the veracity of key operating data provided by management, including yields and costs. This increases investors' (and auditors) reliance on management figures and thus makes credibility an important issue. So far, listed pure farmers lack of consistent and/or time-proven track records.

Commodity price volatility

As pure commodity producers, farmers are price-takers at the output level with fluctuations in price directly affecting their margins. Though around half of inputs, namely seeds, fertilizer and plant protectors, correlate with crop prices, we note a significant time lag between input use and crop harvesting. To the best of our knowledge, the use of forward sale and/or commodity price hedging is very limited among listed farmers in Ukraine.

Land ownership

Due to the moratorium on agricultural land trade in Ukraine, all agricultural companies lease the land they operate. There have been discussions about abolishing the land trade moratorium in parliament for the last decade with numerous law drafts and respective implications. We do not see any of the current drafts close to getting passed and expect the discussion to resume following the parliamentary elections in October 2012. If the moratorium is removed, this would add some uncertainty to farmers' businesses, thus this risk should not be ruled out.

Tax benefits discontinuation

Under Ukrainian law, agro producers are permitted to benefit from two special taxation regimes: (1) they are allowed to retain VAT on agricultural produce and (2) they pay a negligible fixed agricultural tax instead of corporate income tax (21% currently). We calculate that VAT benefits amounted to 2%-9% of revenues for listed Ukrainian farmers in 2010. We do not expect a change in either taxation regimes in the foreseeable future.

Export quotas/ban

Ukraine's government might introduce export quotas/ban on selected crops, with motivation usually driven by an expected shortage of the crop on the local market. Quotas lead to the lowering of local selling prices. We find wheat and barley to be the most sensitive to potential export limits.

Export duties

An export duty on selected crops could appear from time to time (currently present for barley since June 2012, and for sunflower seeds since 2003). While the usual reasoning behind duties is the intention to limit local inflation, the discussion of last summer's duties shows that the government might be interested in profiting if global soft commodity prices grow significantly.

Acquisition risk

We stress the additional risk for minorities of stocks listed on the Frankfurt Stock Exchange: MCB Agricole, Mriya and Sintal Agriculture. In case majority shareholders sell their stakes (which could be the case for MCB Agricole, in our opinion), there is no guarantee of fair treatment for minorities; examples of Ukrros, Land West and Dakor shows minorities were offered little to nothing.

COMPANY PROFILES: PURE FARMERS

Agroton

A high cost producer

- Low margin producer (9% and 25% EBITDA margins in 2010 and 2011, respective) on a relatively small revenue per ha
- Location allows for high share of profitable sunflowers (~1/3 of total crops vs. Ukraine's average of 1/6) but requires higher costs
- Overly aggressive CapEx plans for storage facilities: +260 kt over three years that seems value-destructive, in our view
- Little visibility on where IPO and bond placement proceeds have gone: usage of only 30% is clear and many pre-placement promises remain unfulfilled
- 2/3 of 2011 sales were not proved by auditors, 1/3 of 2011 revenues are still in receivables as of end-May2012
- The market seems to have priced in most of the company's opportunities - HOLD

Watch list:

- 1H12 financials; collection of USD 31 mln in outstanding receivables: August 2012
- Construction pace of its greenfield grain silo which should be commissioned in 2012
- 2012 harvest results: July-October 2012

Company description

Large-scale farming company that operates 171 ths ha concentrated in Luhansk region (Eastern Ukraine). Focus on the cultivation of high-margin sunflower: 36%-37% of acreage vs. 36% for the region and 17% for Ukraine. Crop yields are 34% more than the region's average for sunflower (5Y average is taken into account), 10%-67% more for other crops, achieved through larger-than-average costs per ha. Owns elevators with a total capacity of 105 kt and leases another 180 kt from the state. Involved in cattle farming (17% of 2011 revenues) and food processing (3%).

Selected financials, USD mln, and ratios

	2010	2011	yoy	2012E	yoy
Net revenue	57.3	99.7	74%	90.6	-9%
Gross margin, %	28%	47%	19pp	31%	-16pp
EBITDA	5.0	24.5	389%	18.9	-23%
EBITDA margin, %	9%	25%	16pp	21%	-4pp
Net income	-14.6	12.0	-182%	6.7	-44%
Net margin, %	-25%	12%	38pp	7%	-5pp
PP&E, net	38.3	31.2	-19%	58.4	87%
Shareholder equity	122.1	119.8	-2%	126.5	6%
LT debt	2.8	47.9	1610%	50.0	4%
ST debt	13.6	3.8	-72%	0.0	-100%
Total liabilities & equity	144.3	179.9	25%	184.7	3%
Operating Cash Flow	-1.8	-2.5	37%	30.6	-1348%
CapEx	-11.6	-25.5	120%	-32.9	29%
Working Capital	75.8	95.5	26%	77.3	-19%
Revenues, USD/ha	534	635	19%	536	-16%
Gross profit, USD/ha	186	206	11%	93	-55%
ROA	-10%	7%	17pp	4%	-3pp
ROE	-12%	10%	22pp	5%	-5pp
ROIC	0%	10%	11pp	5%	-5pp

Source: Company Data, Concorde Capital estimates

AGT PW	Current: PLN 9.4	HOLD
	Target: PLN 11.6	

Market data

Bloomberg	AGT PW
Reuters	AGT=PW
Recommendation	HOLD
Price, PLN	PLN 9.4
12M target, PLN	PLN 11.6
Upside	23%
No of shares, mln	21.7
Market Cap, PLN mln	202.8
52-week performance	-66%
52-week range, PLN	7.7/31.1
ADT, 6M, PLN mln	0.32
Free float, %	48.6%
Free float, PLN mln	98.6

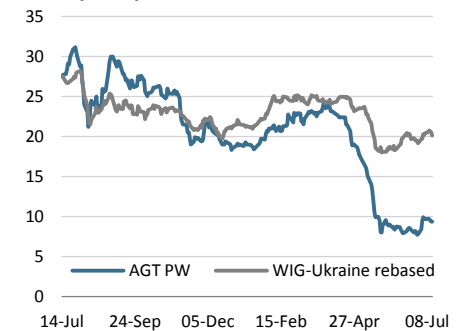
Source: Bloomberg

Ownership structure

Iurii Zhuravlov	51.4%
Free float	48.6%

Source: Company data

Share price performance, PLN



Source: Bloomberg

Multiples

	2011	2012E	2013E
EV/Sales	0.9	1.0	1.1
EV/EBITDA	3.8	5.1	5.1
P/E	4.9	8.8	7.1

P/E of global peers 18.2 11.5 7.6

Source: Bloomberg, Company data, Concorde Capital estimates

Company's landbank, ths ha



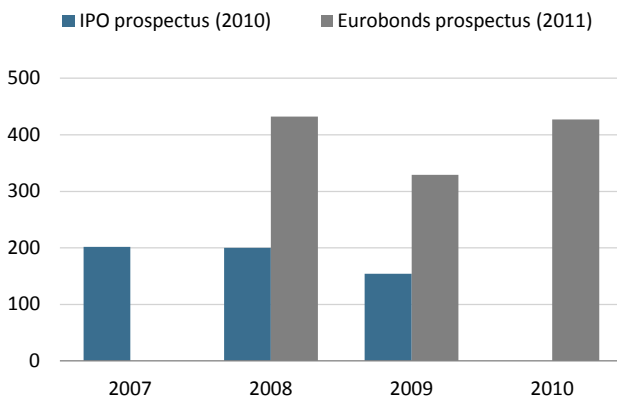
Source: Company data

We initiate coverage of Agroton with a HOLD recommendation (target price of PLN 11.6/share, upside of 23%) prompted by the low profitability of its farming operations and high corporate governance risk. The latter was manifested in two events over the last year: questionable export operations not supported by auditors which resulted in large receivables; and an abrupt change in their cost reporting in 2011. Though its location allows Agroton to have a higher-than-average share of highly-profitable sunflowers, this advantage is eaten out by high costs/ha and close-to-zero profitability on other crops.

Once known as a low cost producer, Agroton turned out to be a high-cost one
Agroton's management provided different figures on cost per ha for its key crops (sunflower and wheat) in 2010 (IPO prospectus) and 2011 (Eurobonds prospectus), turning from a low-cost producer into a high-cost one without any clarification. This is perhaps the rudest example of how Ukrainian agro companies can manipulate their figures.

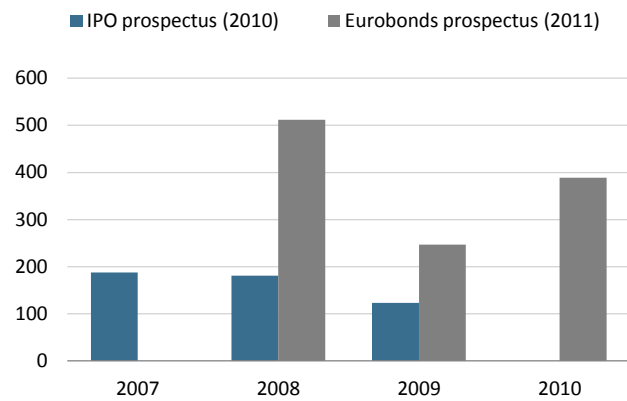
Emotions aside, we base our analysis on cost figures provided in the Eurobond prospectus, the higher ones.

Agroton's sunflower production costs, USD/ha



Source: Company data

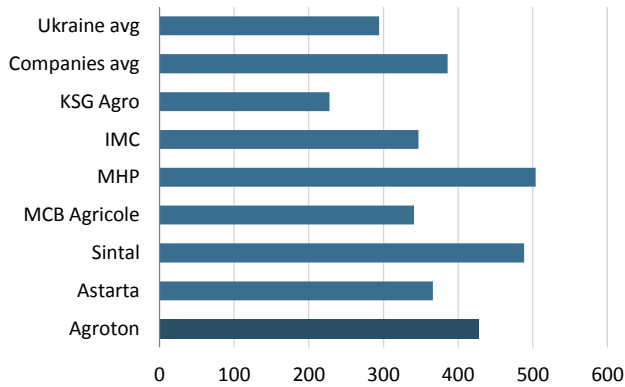
Agroton's wheat production costs, USD/ha



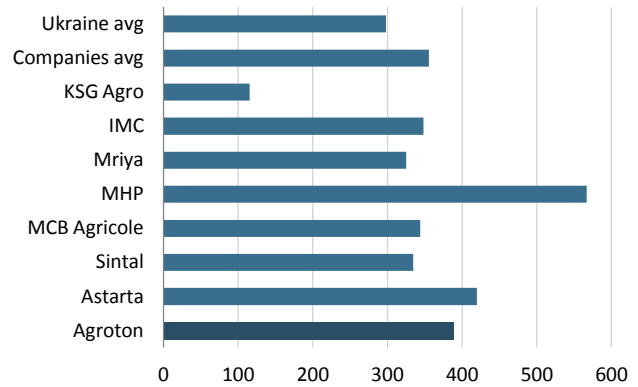
Source: Company data

Business model: sunflower is king - other crops for rotation purposes only

Agroton's 171 ths ha landbank is located in Luhansk region in Eastern Ukraine. This region, with its climate close to continental (vs. moderate in other regions), is known for its focus on sunflowers, one of the most profitable crops in Ukraine. The region's average share of acreage under sunflower has been 33%-34% in the last five years. Agroton's ability to grow more sunflowers is counterbalanced by: (1) high sunflower costs per hectare and (2) close to zero profitability of other crops on their poor yields – other crops are grown primarily for rotation purposes. In addition, ~15% of Agroton's landbank usually remains fallow.

Sunflower production costs, USD/ha, 2010


Source: Company data, State Statistics Committee of Ukraine

Wheat production costs, USD/ha, 2010


Source: Company data, State Statistics Committee of Ukraine

A low margin producer

Agroton earned a gross margin of 28% in 2010 and 47% in weather-favourable 2011, net of biological revaluations. SG&A ate out 15 pp from the gross margin in 2010 (7 pp in 2011) and other operating loss 4 pp in 2010 (15 pp in 2011), resulting in a 9% EBITDA margin in 2010 and 25% in 2011. We expect Agroton's EBITDA margin will increase to 30% over the next ten years, mainly on scale effect.

Overly aggressive CapEx plans do not seem value accretive

Apart from landbank expansion plans, which we conservatively expect to stop at 200 ths ha, from the current 171 ths ha, key investment projects are greenfield storage facilities: 82 kt in 2012 (with CapEx estimated at USD 8.5 mln or USD 104/t) and another 180 kt in 2013-14. We believe Agroton's heavy investments in storage facilities do not match its cost of capital, as payback for these kinds of projects typically exceeds ten years.

Little visibility on where IPO and bond proceeds have gone

Agroton completed a PLN 153 mln IPO in October 2010 (net proceeds of USD 50.2 mln) and a USD 50 mln bond placement in July 2011. To date, progress on fulfilling pre-IPO and pre-bond commitments has been poor.

Proceeds utilization

Intended use of proceeds	USD mln	Status
Net IPO proceeds	51.4	
Silos capacity expansion by 82 kt	8.5	No progress visible
Landbank increase by 16 ths ha	4.0	Landbank increase by 20 ths ha for USD 15 mln
Machinery purchase for 32 ths ha	16.0	No progress visible
Acquisition of 130 kt of storage facilities	13.0	Facilities continue to be leased from the state, the same as pre-IPO. The company paid USD 10 mln for "the right to secure use of this elevator".
Eurobonds placement proceeds (2011)	50.0	
Repayment of other loans	19	USD 4 mln repaid
Landbank increase, machinery purchase, general corporate needs	31	No progress visible

Source: Company data, Concorde Capital

2/3 of 2011 revenues were not proved by auditors

The company's auditor failed to find adequate evidence for sales of goods for USD 66.2 mln in 2011 or 2/3 of the company's total revenue for the last year. Of its doubtful sales, USD 44.9 mln stood as receivables at the end of 2011 and USD 30.1 mln were still outstanding as of end-May 2012.

The company explains the auditors' concern by lack of shipment documentation for export sales made by the company last year. To our knowledge, the company attempted to export to its foreign subsidiary in 2011 as it believed that a higher share of dollar-denominated revenues would secure a higher

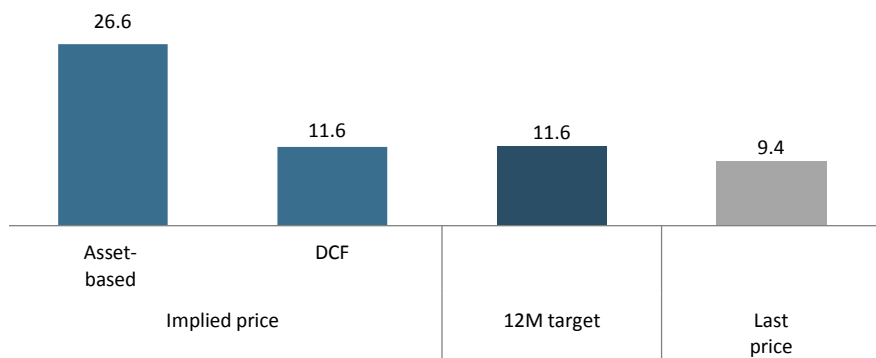
credit rating for bonds that they planned to place in mid-2011 and provide for better bond yield (yet another example of an attempt to manipulate with numbers). The company was reportedly unable to obtain shipment documentation for export, as export restrictions were in place in 1H11.

If the company collects all the receivables it promises by the end of 1H12, this will nullify the importance of auditors' qualified opinion and will result in reversal impairment losses of USD 9 mln.

Fairly priced: HOLD

While our feeling is that the company's assets are worth more than currently priced by the market, we do not see management willing/able to achieve its asset-based value. Our 12M target of PLN 11.6/share is based on DCF valuation. HOLD, upside 23%.

Valuation summary, PLN per share



Source: Concorde Capital research

Key factors that generate the notable difference between DCF and asset-based approaches are high farming costs (that are only partially accounted for in asset-based valuation) and the company's announced aggressive CapEx which looks value-destructive.

Risks

Agroton's key operating risk is decline in sunflower yields due to its high share in the crop rotation. We also note a high sensitivity to general weather conditions and crop prices, as higher costs per ha make the company more sensitive to top line variability. A history of poor financing disclosure and aggressive ill-grounded CapEx are other causes for concern.

Among positive risks we outline the possible collection of receivables from doubtful export operations in 2011, which could improve the company's cash position and its image. For instance, an upgrade of the company's credit rating by S&P, following the successful resolution of the outstanding receivables issue, could have a positive effect on Agroton stock in the short-term.

DCF valuation

Our DCF valuation of Agroton yields a fair price of USD 3.4 per share (PLN 11.6). For detailed operating assumptions, please refer to the next page.

DCF output, USD mln

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
EBITDA	19	23	34	37	40	42	44	46	47	49
EBIT	13	17	27	30	33	35	37	38	40	41
Effective Tax Rate	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Taxed EBIT	13	16	26	29	32	34	36	37	39	40
Plus D&A	6	7	7	7	7	7	8	8	8	8
Less CapEx	(33)	(29)	(15)	(10)	(10)	(9)	(9)	(8)	(8)	(8)
Less change in OWC	18	(9)	(12)	(7)	(5)	(4)	(4)	(4)	(4)	(4)
FCFF	-	(15)	6	20	25	28	31	33	35	36
WACC	20%	20%	20%	20%	20%	20%	20%	19%	19%	19%
Sum of disc't'd CF's		76								
Terminal Value										208
Disc't'd TV		46								
Firm value		122			Portion due to TV					37.6%
Less Net Debt		(49)								
Equity Value as of 07 March 2013		73			Implied exit EBITDA Multiple					4.3x
Perpetuity Growth Rate										2.0%
Fair price of ord. share		USD 3.4								
		PLN 11.6*								

* At PLN/USD rate of 3.43 as of July 13

Source: Concorde Capital research

Sensitivity analysis, USD per share

	Perpetuity Growth Rate					Exit Multiple (EBITDA)				
	1.0%	1.5%	2.0%	2.5%	3.0%	2.3 x	3.3 x	4.3 x	5.3 x	6.3 x
WACC						WACC				
-3.0%	4.2	4.3	4.4	4.5	4.6	-3.0%	3.2	3.8	4.4	5.0
-2.0%	3.9	3.9	4.0	4.1	4.2	-2.0%	2.9	3.5	4.0	4.6
-1.0%	3.5	3.6	3.7	3.8	3.8	-1.0%	2.6	3.2	3.7	4.2
+0.0%	3.2	3.3	3.4	3.4	3.5	+0.0%	2.4	2.9	3.4	3.9
+1.0%	3.0	3.0	3.1	3.1	3.2	+1.0%	2.2	2.6	3.1	3.5
+2.0%	2.7	2.7	2.8	2.9	2.9	+2.0%	1.9	2.4	2.8	3.2
+3.0%	2.4	2.5	2.5	2.6	2.7	+3.0%	1.7	2.1	2.5	2.9

Source: Concorde Capital research

WACC decomposition

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Debt-to-Equity	0.40	0.50	0.46	0.46	0.50	0.53	0.55	0.58	0.59	0.58
Avg. after-tax Interest Rate	13.0%	14.4%	14.3%	14.3%	14.4%	14.4%	14.5%	14.5%	14.5%	14.5%
Ukr. Eurobonds YTM	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
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.	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Cost of Equity	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
WACC	19.7%	19.6%	19.7%	19.7%	19.6%	19.5%	19.4%	19.4%	19.3%	19.4%
WACC to Perpetuity	19.4%									

Source: Company data, Concorde Capital research

Operating assumptions

Crops segment assumptions

	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Total landbank, ths ha	154	134	171	180	200	200	200	200	200	200	200	200
Planted, ths ha	145	109	149	151	168	168	168	168	168	168	168	168
<i>% of total</i>	94%	81%	87%	84%	84%	84%	84%	84%	84%	84%	84%	84%
Acreage breakdown												
Wheat	22%	41%	46%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Corn	8%	9%	11%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Barley	1%	2%	1%									
Rye	0%	1%	1%									
Rapeseed	2%	2%										
Sunflower	37%	36%	27%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Other	8%	10%	14%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Crop yields, t/ha												
Wheat	3.6	2.7	2.4	2.6	2.7	2.8	2.8	2.9	2.9	3.0	3.0	3.1
Corn	1.7	4.5	2.9	3.2	3.3	3.4	3.5	3.5	3.6	3.7	3.7	3.8
Barley	3.1		2.5									
Rye	3.2											
Rapeseed	2.3		1.5									
Sunflower	1.7	1.9	1.7	1.9	1.9	1.9	2.0	2.0	2.1	2.1	2.1	2.2
Marketing year data												
Revenue, USD/ha	534	635	536	650	679	707	735	765	792	820	849	879
Costs, USD/ha	348	429	443	479	496	515	532	549	567	585	604	623
Gross profit, USD/ha	186	206	93	171	183	191	203	216	225	235	245	256
Gross margin, MY	35%	32%	17%	26%	27%	27%	28%	28%	28%	29%	29%	29%
Calendar year figures, USD mln												
Revenue (excl. inter-segment sales)	35	79	70	83	98	106	112	117	122	126	131	136
Gross profit	12	42	19	20	28	31	33	35	37	39	40	42
Gross margin, %	34%	52%	27%	24%	29%	29%	29%	30%	30%	31%	31%	31%
Inventories balance, USD mln												
Agricultural produce at year start	25	56	39	41	49	57	62	65	68	70	73	75
Value of harvest	77	69	80	98	114	119	124	129	133	138	143	148
Sales	46	86	77	91	106	114	120	126	130	135	140	145
<i>old year sales</i>	53%	65%	50%	46%	46%	50%	51%	52%	52%	52%	52%	52%
<i>new year sales</i>	47%	35%	50%	54%	54%	50%	49%	48%	48%	48%	48%	48%
<i>Sales as % of supply</i>	45%	69%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%
Agricultural produce at year end	56	39	41	49	57	62	65	68	70	73	75	78

Source: Company data, Concorde Capital research

Other segments assumptions

	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Livestock												
Revenues, USD mln	13.7	17.4	17.4	18.7	19.5	20.1	20.7	21.3	21.9	22.6	23.3	24.0
Gross profit, USD mln	0.5	-0.5	2.6	2.8	2.9	3.0	3.1	3.2	3.3	3.4	3.5	3.6
Gross margin, %	4%	-3%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Other												
Revenues, USD mln	8.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Gross profit, USD mln	-0.1	1.1	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Gross margin, %	-2%	36%	20%	27%	27%	27%	27%	27%	27%	27%	27%	27%

Source: Company data, Concorde Capital research

Financials

Income statement*, USD mln

	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Net Revenues	57	100	91	105	121	129	136	142	147	152	157	163
Change y-o-y	4%	74%	-9%	16%	15%	7%	5%	4%	4%	4%	3%	3%
Cost Of Sales	(41)	(53)	(62)	(75)	(82)	(88)	(92)	(95)	(98)	(102)	(105)	(109)
Gross Profit	16	47	28	30	39	42	44	46	48	50	52	54
SG&A	(9)	(7)	(8)	(9)	(10)	(11)	(12)	(12)	(13)	(13)	(14)	(14)
Other Operating Income, net	(2)	(15)	(1)	2	5	6	8	8	9	9	9	10
EBITDA	5	24	19	23	34	37	40	42	44	46	47	49
EBITDA margin. %	9%	25%	21%	22%	28%	29%	30%	30%	30%	30%	30%	30%
Depreciation	(6)	(4)	(6)	(7)	(7)	(7)	(7)	(7)	(8)	(8)	(8)	(8)
EBIT	(1)	20	13	17	27	30	33	35	37	38	40	41
EBIT margin. %	-1%	20%	15%	16%	22%	23%	24%	25%	25%	25%	25%	25%
Finance Expense	(14)	(5)	(6)	(8)	(10)	(10)	(11)	(12)	(13)	(13)	(14)	(14)
Other income/(expense)	-	-	-	-	-	-	-	-	-	-	-	-
PBT	(14)	15	7	8	17	20	22	23	24	25	26	27
Tax	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(1)	(1)
Effective tax rate	-1%	0%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Extraordinary Income/(Loss)	(0)	(3)	-	-	-	-	-	-	-	-	-	-
Net Income	(15)	12	7	8	17	19	22	23	24	24	26	27
Net Margin. %	-25%	12%	7%	8%	14%	15%	16%	16%	16%	16%	16%	16%
Dividend Declared	-	-	-	-	-	13	21	21	22	24	24	23

*All figures are net of remeasurement of agricultural produce and revaluation of biological assets

Source: Company data, Concorde Capital research

Balance sheet, USD mln

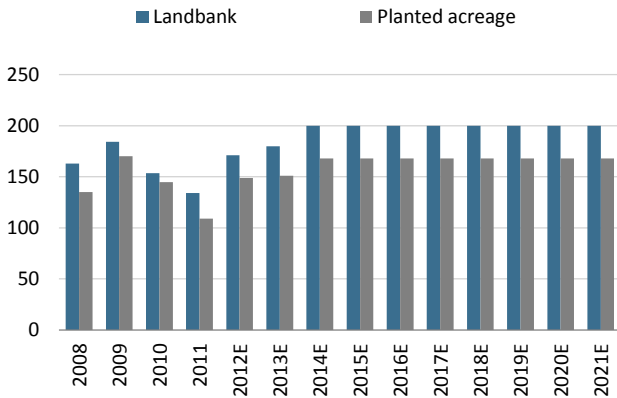
	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Current Assets	95	122	99	105	117	125	131	136	141	146	150	155
Cash & Equivalents	14	18	14	8	7	8	8	8	9	9	9	10
Trade Receivables	8	40	20	21	24	26	27	28	29	30	31	33
Inventories and biological assets	73	63	64	74	84	90	94	98	101	104	107	111
Other current assets	1	1	1	1	2	2	2	2	2	2	2	2
Fixed Assets	49	58	86	108	115	118	120	122	123	123	124	124
PP&E. net	38	31	58	80	88	91	93	95	96	96	96	97
Other Fixed Assets	11	27	27	27	27	27	27	27	27	27	27	27
Total Assets	144	180	185	212	232	243	251	258	264	269	274	280
Shareholders' Equity	122	120	127	135	151	158	159	160	162	162	163	167
Share Capital	89	89	89	89	89	89	89	89	89	89	89	89
Reserves and Other	33	31	37	46	62	69	70	71	72	73	74	78
Current Liabilities	19	12	8	27	56	60	67	73	77	82	86	87
ST Interest Bearing Debt	14	4	-	18	45	48	55	60	64	68	72	73
Trade Payables	1	2	2	3	3	3	3	3	4	4	4	4
Other Current Liabilities	5	6	6	7	8	8	9	9	10	10	10	11
LT Liabilities	3	48	50	50	25	25	25	25	25	25	25	25
LT Interest Bearing Debt	3	48	50	50	25	25	25	25	25	25	25	25
Other LT	-	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities & Equity	144	180	185	212	232	243	251	258	264	269	274	280
Net Debt	3	34	36	59	63	66	72	76	80	84	87	88

*For forecasted periods, does not include the effect of remeasurement of agricultural produce and revaluation of biological assets

Source: Company data, Concorde Capital research

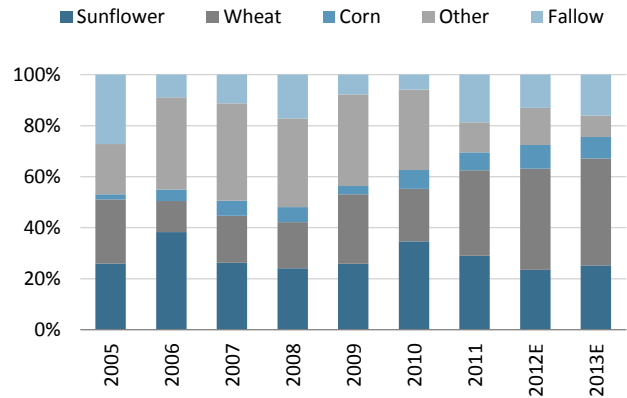
Agroton in six charts

Land bank, ths ha



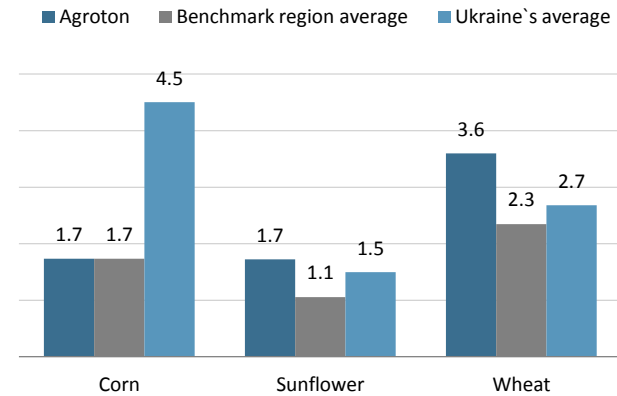
Source: Company data, Concorde Capital research

Crop structure, by ha



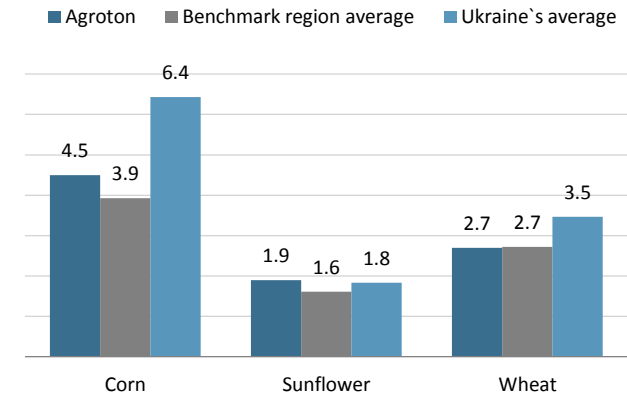
Source: Company data, Concorde Capital research

Crop yields, 2010



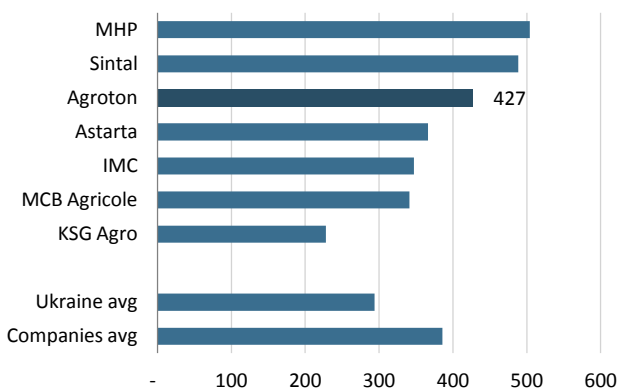
Source: Company data, State Statistics Committee of Ukraine

Crop yields, 2011



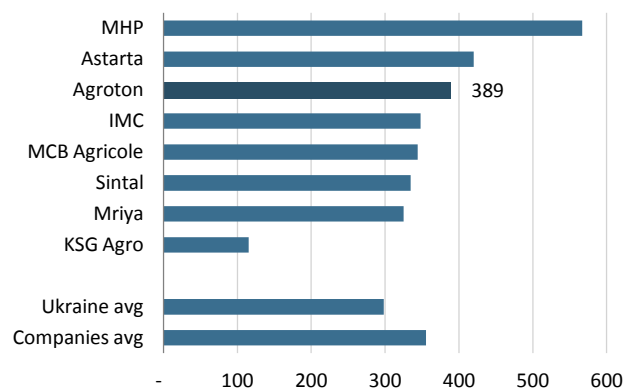
Source: Company data, State Statistics Committee of Ukraine

Sunflower production costs, USD/ha, 2010



Source: Company data, State Statistics Committee of Ukraine

Wheat production costs, USD/ha, 2010



Source: Company data, State Statistics Committee of Ukraine

Industrial Milk Company

Corn story

- With land roughly equally split among Poltava, Chernihiv and Sumy regions, we find the company's location to be the best among listed pure farmers, measured by gross profit per ha for the average farmer in region
- One of the most efficient farmers. Delivered 19%-27% yield premiums to its benchmark region for its key crops in 2010-11: corn, wheat, sunflower and soybean
- Expanded landbank from 38 ths ha as of IPO in May 2011 to 83 ths ha in May 2012
- Self-sufficient in storage with 303 kt capacity, second-largest in the sector after Mriya
- BUY with TP of PLN 20.9/share, upside of 75%. Undervalued both on DCF and asset-based models

Watch list:

- 1H12 financials: August 2012
- 2012 harvest figures: August – October 2012

Company description

Large-scale farming company that operates 83 ths ha split in clusters in Poltava, Chernihiv and Sumy regions. Focus on the cultivation of corn: 48%-63% of acreage in 2008-12 vs. 8%-15% on average for Ukraine. Crop yields are 27% more than the region's average for corn for 2010-11, 24% for sunflower and 27% for wheat, achieved through larger-than-average costs per ha. Owns elevators with a total grain storage capacity of 303 kt. Involved in cattle farming (20% of 2010 and 33% of 2011 revenues). Raised USD 24.4 mln through IPO in April 2011, floating 24% of share capital.

Selected financials, USD mln, and ratios

	2010	2011	yoy	2012E	yoy
Net revenue	34.8	29.1	-16%	62.6	115%
Gross margin, %	50%	46%	-4pp	59%	13pp
EBITDA	15.6	5.7	-63%	35.8	528%
EBITDA margin, %	45%	20%	-25pp	57%	38pp
Net income	16.6	-1.6	-109%	22.2	-1517%
Net margin, %	48%	-5%	-53pp	35%	41pp
PP&E, net	54.0	61.6	14%	85.7	39%
Shareholder equity	67.2	109.0	62%	131.1	20%
LT debt	8.7	14.1	62%	25.0	78%
ST debt	3.5	8.0	126%	30.1	279%
Total liabilities & equity	87.4	138.7	59%	194.4	40%
Operating Cash Flow	12.3	-10.1	-182%	4.5	-144%
CapEx	3.0	7.9	163%	31.5	299%
Working Capital	21.3	54.7	156%	79.8	46%
Revenues, USD/ha	895	1,312	47%	1,128	-14%
Gross profit, USD/ha	500	751	50%	529	-30%
ROA	19%	-1%	-20pp	13%	14pp
ROE	25%	-1%	-26pp	18%	20pp
ROIC	0%	1%	1pp	15%	15pp

Source: Company Data, Concorde Capital research

IMC PW	Current: PLN 12.0	BUY
	Target: PLN 20.9	

Market data

Bloomberg	IMC PW
Reuters	IMC=PW
Recommendation	BUY
Price, PLN	12.0
12M target, PLN	20.9
Upside	75%
No of shares, mln	31.3
Market Cap, PLN mln	374.3
52-week performance	+17%
52-week range, PLN	7.3/13.1
ADT, 6M, PLN mln	0.12
Free float, %	23.9%
Free float, PLN mln	89.5

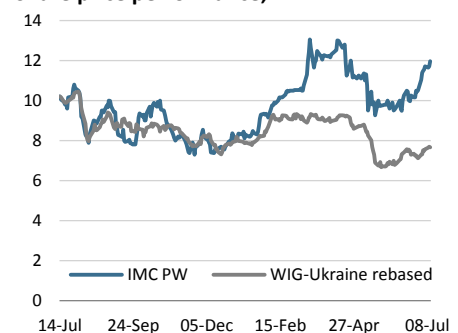
Source: Bloomberg

Ownership structure

Alexander Petrov	68.2%
Management	7.9%
Free float	23.9%

Source: Company data

Share price performance, PLN



Source: Bloomberg

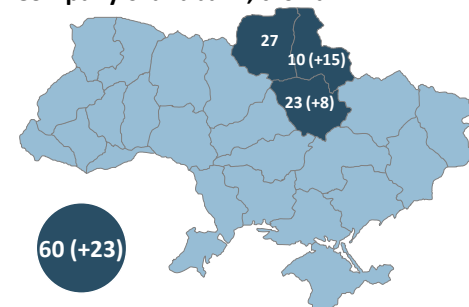
Multiples

	2011	2012E	2013E
EV/Sales	4.4	2.5	1.8
EV/EBITDA	n/m	4.3	3.6
P/E	neg	4.9	4.0

P/E of global peers 18.2 11.5 7.6

Source: Bloomberg, Company data, Concorde Capital estimates

Company's landbank, ths ha



Source: Company data

Note: Numbers in brackets represent acquisitions in 2012

We initiate coverage on Industrial Milk Company with a BUY recommendation and 12M target price of PLN 20.9 per share, implying an upside of 75%. We like the company's location, operating efficiency, focus on higher-margin corn and execution of IPO commitments, while at the same time we are concerned about its future ability to achieve selling price premiums for corn seen in 2011.

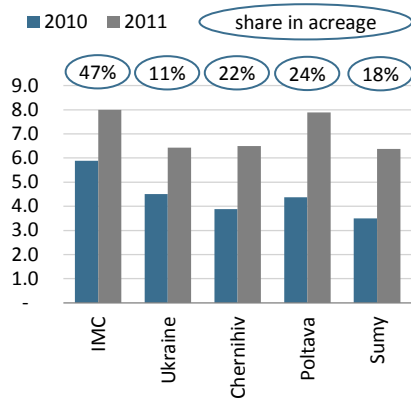
Focus on corn explains the high margins

Around half of Industrial Milk Company's acreage was devoted to the corn cultivation during the last four years and the company planted 54% of its land in 2012 with this crop. A focus on corn pays back: prices for corn are comparable to wheat, but yields per ha are 1.6x higher (Ukraine's average for five years), more than compensating for the higher required costs. Industrial Milk Company posted the highest corn yields among listed pure farmers: 5.9 t/ha in 2010 and 8.0 t/ha in 2011. Thanks to that, the company earned USD 750/ha gross profit – the highest number among listed peers, by our estimate.

Location favourable for corn

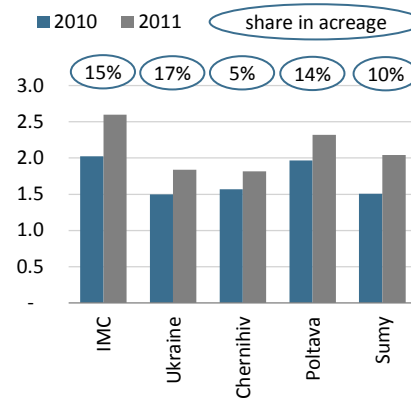
We find the location of IMC's landbank (roughly equally split over Poltava, Chernihiv and Sumy regions) to be the best among listed pure farmers if measured by average profit per ha (see page 37 for more details). While Poltava region delivers premium yields for most crops grown in Ukraine, Chernihiv region is favourable for corn and potatoes. Sumy region's yields are similar to Ukraine's averages, but its crop structure is slightly shifted to profitable corn.

Corn yields, mt/ha



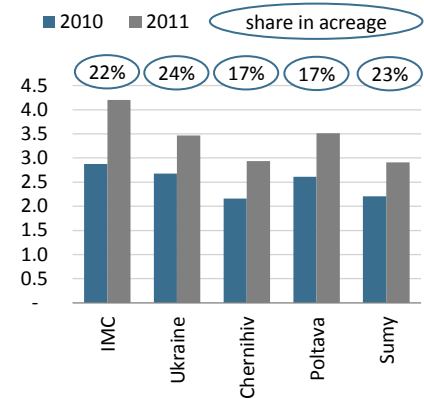
Source: Concorde Capital estimates

Sunflower yields, mt/ha



Source: Concorde Capital estimates

Wheat yields, mt/ha



Source: Concorde Capital estimates

A high-cost-high-yield producer

Industrial Milk Company applies the highest per hectare costs among Ukrainian listed pure farmers, achieving the highest revenues per hectare. This is a well-paid strategy with an estimated gross margin of 56%-57% in 2010-11.

Self-sufficient in storage

The company's storage facilities amount to 303 kt, 1.1x above the total crops we expect the company to harvest this year and the second-highest absolute figure among listed Ukrainian farmers.

High corn selling prices does not look sustainable

Industrial Milk derived 3/5 of its revenues in 2011 from the sale of corn, which the company was able to deliver at an average price of USD 263/t, or 1.9x higher than what we calculate was the selling price for the average farmer. The company explains the premium by the fact that corn contract terms were agreed on a forward basis and the company executed delivery to the port. We treat this price as a one-off and expect sale terms to converge to market averages plus 10% (premium justified by the presence of its own storage facilities).

The ability to keep efficiency is yet to be proven

The company expanded its landbank from 38 ths ha at IPO in April 2011 to 83 ths ha as of May 2012, one of the fastest 12M-post-IPO growth among Ukrainian companies. We have not yet seen whether the company will be able to show the similarly high crop yields on newly acquired land.

Well on track with IPO proceeds

We deem Industrial Milk Company's post-IPO development as one of the most successful among Ukrainian farming companies and most consistent with its pre-IPO commitments.

Pre-IPO intentions

Targeted USD 83.4 mln in proceeds at the maximum price

Intended use of proceeds

88 ths ha landbank increase
 Construction of 80 kt potato storage facilities
 Construction of 130 kt grain storage facilities
 Investments in machinery & equipment

Working capital

Source: Company data, Concorde Capital

Post IPO

Net proceeds of USD 24.4 mln

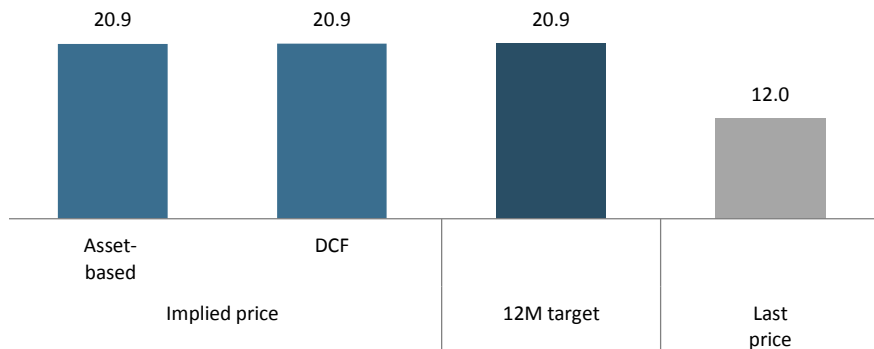
Post-IPO developments

45 ths ha landbank increase
 13.5 kt potato storage constructed
 131 kt grain storage facilities acquired
 USD 9.1 mln cash outflow in PP&E within 2Q11 – 1Q12 (includes potato storages)
 n/a

Valuation

We rate Industrial Milk Company as a BUY with a 12M target price of PLN 20.9/share, upside of 75%. Asset-based approach and DCF deliver the same results for the company.

Valuation summary, PLN per share



Source: Concorde Capital research

Risks

The ability to integrate its doubled landbank without margin destruction is a key challenge for the company. Other risks include ones applicable to all companies in the universe: low liquidity, reliance on commodity prices, regulatory changes.

DCF valuation

Our DCF model shows a 12M fair price of USD 6.1 per share (PLN 20.9); upside of 75%. For detailed operating assumptions, please refer to the next page.

DCF output, USD mln

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
EBITDA	36	44	49	57	58	60	62	64	66	69
EBIT	28	36	41	49	50	52	54	56	58	60
Effective Tax Rate	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Taxed EBIT	28	35	40	48	49	51	53	55	57	59
Plus D&A	7	8	8	8	8	8	8	8	8	8
Less CapEx	(31)	(24)	(14)	(12)	(10)	(9)	(9)	(9)	(9)	(9)
Less change in OWC	(25)	(13)	(15)	(0)	(2)	(3)	(3)	(4)	(4)	(4)
FCFF	-	5	19	44	46	47	48	50	52	55
WACC		18%	19%	19%	19%	19%	19%	19%	19%	19%
Sum of disc't'd CF's		157								
Terminal Value										335
Disc't'd TV		79								
Firm value		237				Portion due to TV				33.6%
Less Net Debt		(46)								
Equity Value as of 28 May 2013		191				Implied exit EBITDA Multiple				4.9 x
Perpetuity Growth Rate										2.0%
Fair price of ord. share		USD 6.1								
		PLN 20.9*								

* At PLN/USD rate of 3.43 as of July 13

Source: Concorde Capital research

Sensitivity analysis, USD per share

WACC	Perpetuity Growth Rate					WACC	Exit Multiple (EBITDA)				
	1.0%	1.5%	2.0%	2.5%	3.0%		2.9 x	3.9 x	4.9 x	5.9 x	6.9 x
-3.0%	7.1	7.2	7.3	7.5	7.6	-3.0%	6.0	6.7	7.3	8.0	8.6
-2.0%	6.7	6.8	6.9	7.0	7.1	-2.0%	5.7	6.3	6.9	7.5	8.1
-1.0%	6.3	6.4	6.5	6.6	6.7	-1.0%	5.4	5.9	6.5	7.0	7.6
+0.0%	5.9	6.0	6.1	6.2	6.3	+0.0%	5.1	5.6	6.1	6.6	7.1
+1.0%	5.6	5.7	5.7	5.8	5.9	+1.0%	4.8	5.2	5.7	6.2	6.7
+2.0%	5.2	5.3	5.4	5.5	5.6	+2.0%	4.5	4.9	5.4	5.8	6.3
+3.0%	4.9	5.0	5.1	5.2	5.2	+3.0%	4.2	4.7	5.1	5.5	5.9

Source: Concorde Capital research

WACC decomposition

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Debt-to-Equity	0.42	0.33	0.21	0.22	0.23	0.24	0.24	0.24	0.23	0.24
Avg. after-tax Interest Rate	15.3%	15.1%	14.3%	14.5%	14.7%	14.8%	14.9%	14.9%	14.9%	15.0%
Ukr. Eurobonds YTM	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
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.	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Cost of Equity	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%
WACC	18.2%	18.3%	18.5%	18.5%	18.5%	18.5%	18.5%	18.6%	18.6%	18.6%
WACC to Perpetuity	18.6%									

Source: Company data, Concorde Capital research

Operating assumptions

Crops segment assumptions

	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Total landbank, ths ha	33	57	84	96	110	110	110	110	110	110	110	110
Planted, ths ha	29	33	63	77	88	88	88	88	88	88	88	88
Acreage breakdown												
Wheat	22%	22%	14%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Corn	47%	48%	54%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Barley	1%											
Rapeseed	1%	2%										
Soy	10%	8%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Sunflower	14%	17%	20%	17%	17%	17%	17%	17%	17%	17%	17%	17%
Potatoes	1%	2%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Other	4%	1%										
Crop yields, t/ha												
Wheat	2.9	4.2	4.0	4.1	4.2	4.2	4.3	4.4	4.5	4.6	4.7	4.8
Corn	5.9	8.0	5.9	6.0	6.2	6.3	6.4	6.5	6.7	6.8	6.9	7.1
Barley	2.1											
Soy	2.0	1.8										
Sunflower	2.0	2.6	2.3	2.3	2.4	2.4	2.5	2.5	2.6	2.6	2.7	2.7
Potatoes	16	30	23	23	24	24	25	25	26	26	27	27
Marketing year data												
Revenue, USD/ha	895	1,312	1,128	1,100	1,144	1,190	1,238	1,288	1,334	1,381	1,430	1,480
Costs, USD/ha	395	561	599	620	643	667	689	711	734	757	782	807
Gross profit, USD/ha	500	751	529	479	501	523	550	578	600	624	648	673
Gross margin, MY	56%	57%	47%	44%	44%	44%	44%	45%	45%	45%	45%	45%
Calendar year figures, USD mln												
Revenue	27.8	19.6	52.4	75.3	89.3	106.7	108.0	111.2	114.9	118.9	123.0	127.4
Gross profit	0.0	11.1	28.1	34.5	39.0	46.8	47.6	49.6	51.6	53.6	55.6	57.8
Gross margin, %	0%	57%	54%	46%	44%	44%	44%	45%	45%	45%	45%	45%
Inventories balance, USD mln												
Agricultural produce at year start	11.7	10.0	33.8	52.4	61.6	73.0	71.1	72.0	74.2	76.6	79.3	82.0
Value of harvest	26.2	43.4	71.1	84.5	100.7	104.7	109.0	113.4	117.4	121.5	125.8	130.3
Sales	27.8	19.6	52.4	75.3	89.3	106.7	108.0	111.2	114.9	118.9	123.0	127.4
old year sales	42%	51%	65%	70%	69%	68%	66%	65%	65%	64%	64%	64%
new year sales	58%	49%	35%	30%	31%	32%	34%	35%	35%	36%	36%	36%
Sales as % of supply	74%	37%	50%	55%	55%	60%	60%	60%	60%	60%	60%	60%
Agricultural produce at year end	10.0	33.8	52.4	61.6	73.0	71.1	72.0	74.2	76.6	79.3	82.0	84.9

Source: Company data, Concorde Capital research

Financials

Income statement*, USD mln

	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Net Revenues	35	29	63	86	101	119	121	125	130	134	140	145
Change y-o-y	72%	-16%	115%	38%	17.0%	18.0%	1.8%	3.3%	3.6%	3.7%	3.8%	3.8%
Cost Of Sales	(17)	(16)	(26)	(42)	(52)	(62)	(63)	(65)	(68)	(70)	(73)	(76)
Gross Profit	17	13	37	44	49	57	58	60	62	64	66	69
SG&A	(3)	(3)	(3)	(4)	(4)	(4)	(5)	(5)	(5)	(5)	(5)	(6)
Other Operating Income, net	1	(5)	2	3	4	5	5	5	5	5	5	5
EBITDA	16	6	36	44	49	57	58	60	62	64	66	69
EBITDA margin. %	45%	20%	57%	51%	48.3%	48.1%	47.9%	47.9%	47.9%	47.7%	47.5%	47.4%
Depreciation	(4)	(5)	(7)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
EBIT	12	1	28	36	41	49	50	52	54	56	58	60
EBIT margin. %	35%	2%	45%	41%	40%	41%	41%	41%	41%	41%	42%	42%
Finance Expense	(2)	(2)	(6)	(8)	(7)	(6)	(6)	(7)	(7)	(7)	(7)	(7)
Other income/(expense)	-	-	-	-	-	-	-	-	-	-	-	-
PBT	10	(1)	23	28	34	43	43	45	47	49	51	53
Tax	2	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Effective tax rate	-21%	-6%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Extraordinary Income/(Loss)	4	(0)	-	-	-	-	-	-	-	-	-	-
Net Income	17	(2)	22	27	33	42	42	44	46	48	50	52
Net Margin. %	48%	-5%	35%	31%	33%	35%	35%	35%	35%	35%	36%	36%
Dividend Declared	-	-	-	-	-	40	42	42	42	44	45	48

*All figures are net of remeasurement of agricultural produce and revaluation of biological assets

Source: Company data, Concorde Capital research

Balance sheet, USD mln

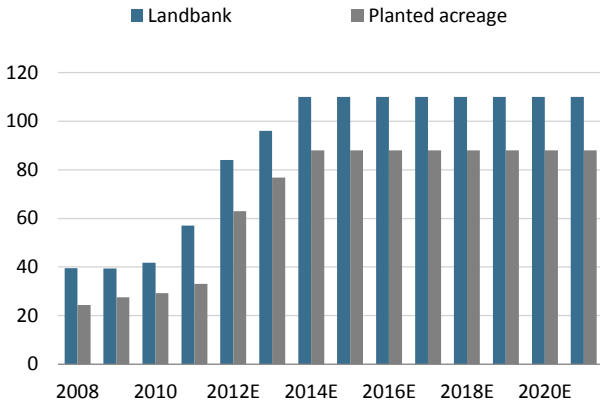
	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Current Assets	28	64	95	105	122	125	127	131	135	139	144	148
Cash & Equivalents	2	5	11	5	6	7	7	8	8	8	8	9
Trade Receivables	4	1	4	6	7	8	8	9	9	9	10	10
Inventories and biological assets	19	52	73	84	97	95	97	99	102	106	109	112
Other current assets	3	6	8	10	12	14	15	15	16	16	17	17
Fixed Assets	59	75	99	115	121	124	126	127	128	128	129	130
PP&E. net	54	62	86	102	108	111	113	114	115	115	116	116
Other Fixed Assets	5	13	13	13	13	13	13	13	13	13	13	13
Total Assets	87	139	194	221	243	250	253	257	263	268	273	278
Shareholders' Equity	67	109	131	158	191	193	194	196	200	204	209	212
Share Capital	0	24	24	24	24	24	24	24	24	24	24	24
Reserves and Other	67	85	107	134	167	169	170	172	176	179	184	188
Current Liabilities	8	13	35	34	24	28	31	33	34	36	36	38
ST Interest Bearing Debt	4	8	30	27	15	18	20	22	23	24	24	25
Trade Payables	1	1	1	2	3	3	3	3	3	4	4	4
Other Current Liabilities	4	3	4	5	6	7	7	8	8	8	8	9
LT Liabilities	12	17	28	28	28	28	28	28	28	28	28	28
LT Interest Bearing Debt	9	14	25	25	25	25	25	25	25	25	25	25
Other LT	3	3	3	3	3	3	3	3	3	3	3	3
Total Liabilities & Equity	87	139	194	221	243	250	253	257	263	268	273	278
Net Debt	10	17	44	47	34	36	38	40	41	41	41	42

*For forecasted periods, does not include the effect of remeasurement of agricultural produce and revaluation of biological assets

Source: Company data, Concorde Capital research

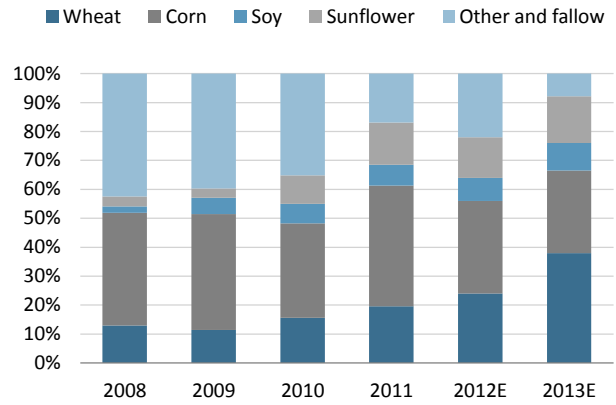
Industrial Milk Company in six charts

Land bank, ths ha



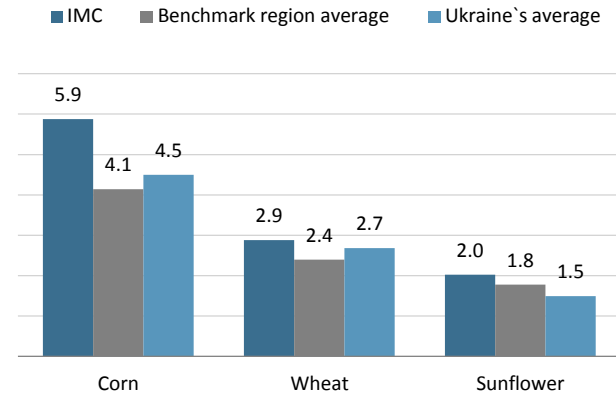
Source: Company data, State Statistics Committee of Ukraine

Crop structure, by ha



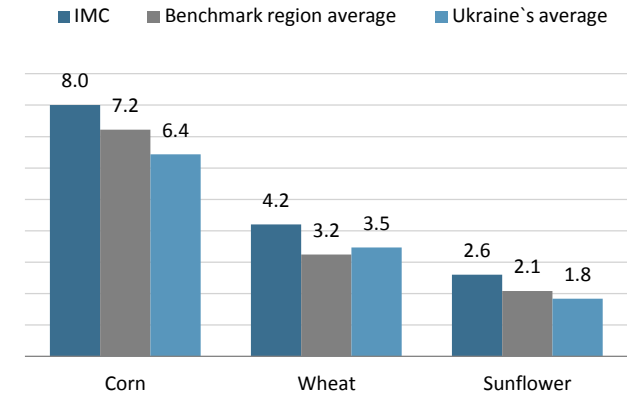
Source: Company data, State Statistics Committee of Ukraine

Crop yields, 2010



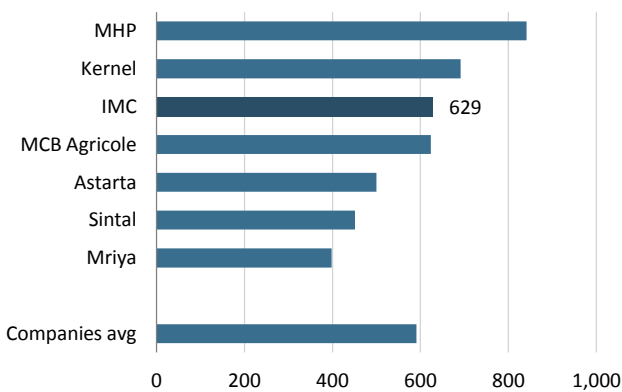
Source: Company data, State Statistics Committee of Ukraine

Crop yields, 2011



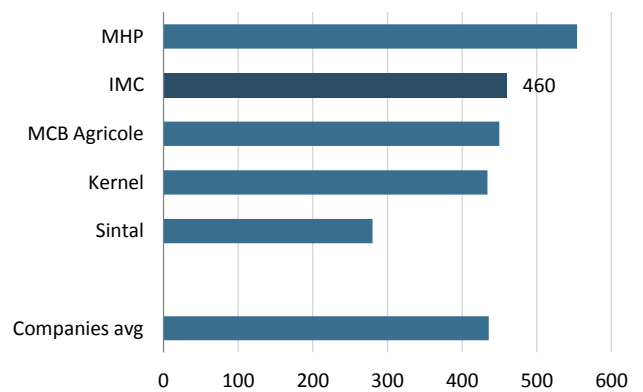
Source: Company data, State Statistics Committee of Ukraine

Corn production costs, USD/ha, 2011



Source: Company data

Sunflower production costs, USD/ha, 2011



Source: Company data

KSG Agro

A new business model or “young Agroton”?

- Lowest cost Ukrainian agro producer: only USD 228 applied per ha of sunflower in 2010 vs. USD 386 on average for listed peers; USD 115/ha of wheat vs. USD 355/ha on average for listed peers. The low-cost model is yet to be proved by time
- One of the highest margins thanks to its reportedly low-cost operations and heavy bias toward sunflowers
- Located in sunflower-favorable Dnipropetrovsk region, resulting in a high risk - high return operation
- The company’s recent non-organic growth is yet to be rewarded by the market
- Risks: ability to keep costs low, management accountability, high concentration in one region and on one crop, execution risk related to its growth promises

Watch list:

- Completing of announced acquisitions of 23 ths ha
- 2012 harvest results: July-October 2012

Company description

Low-cost mid-sized farming company located in sunflower-favorable Dnipropetrovsk region. Landbank has grown from 33 ths ha at IPO in May 2010 to 84 ths ha as of July 2012, with further growth plans still the most ambitious among listed names. Owns 16 kt grain storage facilities with more 60 kt being in the process of acquisition. Acquired 50% stake in a pork farm in the same region in October 2011. Announced plans in January 2012 to construct a 60-90 kt pellet production plant.

Selected financials, USD mln, and ratios

	2010	2011E	yoy	2012E	yoy
Net revenue	34.7	55.5	60%	76.6	38%
Gross margin, %	45%	50%	5pp	52%	1pp
EBITDA	14.4	26.0	81%	38.3	47%
EBITDA margin, %	41%	47%	6pp	50%	3pp
Net income	27.2	16.1	-41%	26.0	61%
Net margin, %	79%	29%	-49pp	34%	5pp
PP&E, net	54.0	94.5	75%	121.7	29%
Shareholder equity	90.8	106.9	18%	132.9	24%
LT debt	5.2	25.0	381%	35.0	40%
ST debt	17.2	12.3	-28%	14.1	15%
Total liabilities & equity	122.7	153.4	25%	194.5	27%
Operating Cash Flow	4.3	32.4	661%	22.3	-31%
CapEx	-23.4	-45.7	95%	-33.0	-28%
Working Capital	34.3	29.2	-15%	39.4	35%
Harvest value, USD/ha	583	668	15%	503	-25%
Gross profit, USD/ha	388	393	1%	199	-49%
ROA	22%	12%	-11pp	15%	3pp
ROE	30%	16%	-14pp	22%	5pp
ROIC	46%	13%	-33pp	17%	4pp

Source: Company Data, Concorde Capital research

KSG PW	Current: PLN 17.9	BUY
	Target: PLN 38.8	

Market data

Bloomberg	KSG PW
Reuters	KSG=PW
Recommendation	BUY
Price, PLN	17.9
12M target, PLN	38.8
Upside	117%
No of shares, mln	14.9
Market Cap, PLN mln	267.2
52-week performance	-19%
52-week range, PLN	16.2/25.0
ADT, 6M, PLN mln	0.19
Free float, %	33
Free float, PLN mln	88.1

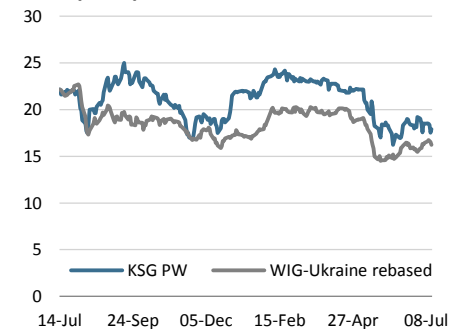
Source: Bloomberg

Ownership structure

Sergiy Kasianov	67%
Free float	33%

Source: Company data, Concorde Capital estimates

Share price performance, PLN



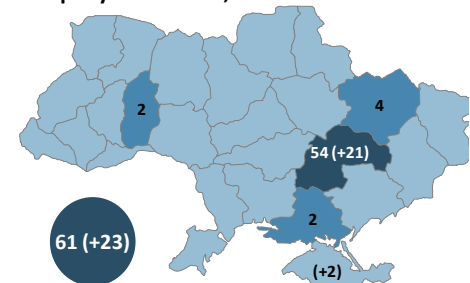
Source: Bloomberg

Multiples

	2011	2012E	2013E
EV/Sales	2.7	2.0	1.6
EV/EBITDA	6.6	4.3	3.2
P/E	2.9	4.8	3.0
P/E of global peers	18.2	11.5	7.6

Source: Bloomberg, Company data, Concorde Capital estimates

Company’s landbank, ths ha



Source: Company data, Concorde Capital

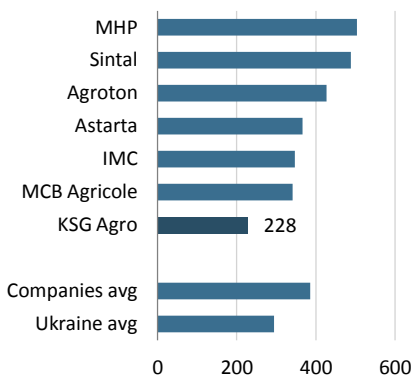
Note: Numbers in brackets represent acquisitions in 2012

We initiate coverage of KSG Agro with a BUY recommendation and target price of PLN 38.8/share, upside of 117%. The company's weakened 2011 profitability added some frustration to the market, while its already achieved non-organic growth in 2012 is not yet priced in. Investors should be careful with the company's presented aggressive growth story with attempts to expand "everywhere", while we believe the stock's implied upside more than outweighs the embedded execution risk.

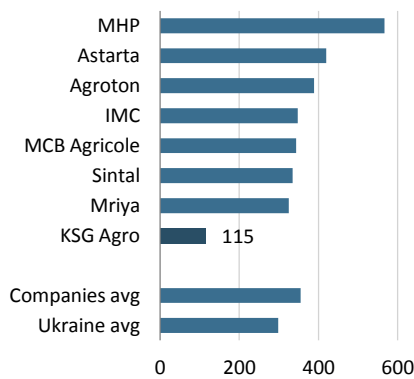
Lowest cost producer or "young Agroton"?

With an average USD 270 spent per ha in 2011 (according to our estimates), KSG Agro was one the lowest cost producer among Ukrainian agriculture names. Though there is inherently no way to check KSG Agro's production costs, we note that the story of low pre-IPO costs resembles the IPO wrapping of Agroton, which showed low production costs in its IPO prospectus that in later years changed to some of the highest in the sector. So far do not have enough reasons to question the company's reported numbers, but we warn of the risk.

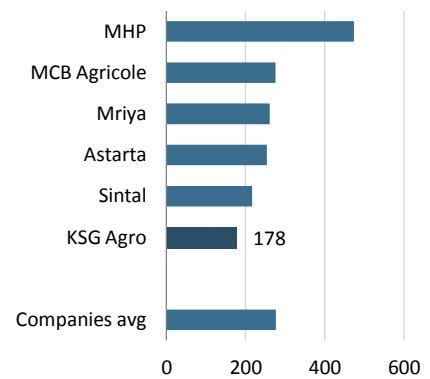
Production costs, USD/ha, 2010
Sunflower



Wheat



Barley



Source: Company data, State Statistics Committee of Ukraine

KSG Agro has other similarities to Agroton:

- A focus on profitable but land-exhaustive sunflower (which Agroton is gradually stepping away from)
- An attempt to diversify into related segments like storage, bakery (the latter Agroton has already exited) and food production (Agroton was trying to focus on poultry, while KSG Agro is betting on pig farming)

So far, however, KSG Agro has been not caught for any of the severe reporting manipulations Agroton has, and therefore the company has a chance of being much better positioned among investors. The similarity in the two companies' profiles stems from the fact that both operate in similar regions (southern areas that have historically been focused on oilseeds and spend little in costs for planting). Another difference is that KSG Agro is attempting new opportunities which may pay off better, like straw pellet production.

Located in sunflower-favourable region: high-risk high-return operations

77% of the company's 84 ths ha are located in Dnipropetrovsk region, which has the highest share of sunflower in its crop structure (29% vs. Ukraine's average of 16%). Sunflower is one of the top-3 profitable crops grown in Ukraine. The region's yields are generally on par with Ukraine's average for sunflower, wheat and rapeseed, but 33% lower for corn and soybean. KSG Agro has had a heavy bias toward sunflower: over the last two seasons it had the largest share of this culture among Ukrainian peers: 62% and 52%, respectively. This level is well above the region's average and normal crop rotation practices. We attribute

this to the company's focus on profitability ahead of its IPO in May 2011 and expect a decrease of sunflower in its crop structure to 25% in future periods. Otherwise, we should naturally expect a loss of soil fertility, increase of operating costs (on much more use of fertilizers), or decrease in crop yields.

This year the company may suffer from adverse weather (droughts) in the southern regions of Ukraine (including the company's core, Dnipropetrovsk region). To account for this risk, we model 20%-25% smaller crop yields this season vs. the company's guidance.

The fastest growing agro company in trailing 12M

The company expanded its landbank from 33 ths ha at IPO in April 2011 to 84 ths ha as of July 2012 - the fastest 1-year growth among Ukrainian companies. Unlike IMC, which was growing over the year at nearly the same pace, KSG Agro's growth looks less risky for sustainability of its business model (low cost – average yields).

A 11x yoy boost in fixed assets in 2011 looks strange to us

56% of the company's 2011 bottom line is explained by revaluation of fixed assets the company has acquired. KSG Agro's fixed assets increased to USD 54 mln at the end of 2011 from just USD 5 mln a year ago, mostly due reported goodwill from acquisitions. We believe this asset growth hardly represents a real growth in the company's size over period (landbank growth was 2x yoy and non-acquisition CapEx were minor). So far, we question an ability of KSG Agro to generate enough return on its acquired assets to ground such revaluation.

Risky growth strategy

The company has a large acquisition pipeline in many areas related to farming and food production. The ambitious project flow imposes not only execution risk, in our view, but also solvency risk, as this kind of growth demands building up high leverage. Given our expectation of a much worse 2012 harvest than the company initially planned, the company's postponement of some growth plans would be a natural decision.

KSG Agro announced bold plans to grow its landbank 5x within five years at IPO in May 2011: from 33 ths to 150 ths ha (and to 110 ths ha by end-2012). As of July 2012, KSG Agro had announced an increase in its landbank to 84 ths ha, making its full-year plan achievable.

Notably only in the half year following its IPO, KSG Agro added chaos to its already aggressive growth strategy: the company acquired a 50% stake in a pig-farm (that required extra CapEx of USD 100 mln) in October 2011 and initiated construction of a 60-90 kt pellet production plant in January 2012. The latter project indeed seems to be value-accretive, and we will closely monitor its progress.

KSG's pre-announced acquisition of three large bakeries in Dnipropetrovsk region a month ago looks like other extreme. The bakery business, due to over-regulation, is mostly loss-making in Ukraine: the three bread producers in KSG's acquisition pipeline generated both operating and net losses in 2011 (about USD 0.6 aggregately). We treat this kind of acquisition as a way to secure demand for KSG's farming produce rather than as an attempt to bring more value to the company.

KSG's announced projects

Business directions	CapEx required, (our estimate)		Status
Landbank expansion from 33 ths ha to 160 ths ha within three years	USD 50 - 130 mln		51 ths ha acquired 40% of the plan)
Acquisition of the pork production facility	USD 40-100 mln		A 50% stake in old facility acquired in October 2011
Pellet production plant	USD 5 - 20 mln		Signed a letter of intent with Polish Energy Partners, secured EUR 17.6 mln financing guarantee, production to commence in 2012
Silo construction/acquisition	USD 4 - 25 mln		Elevator for 60 kt is being acquired
Machinery purchase	USD 25 mln within three years		Attracted USD 10.9 mln loan from Deer Credit
Vegetables production	USD 1 - 10 mln		n.a.

Source: Company data, Concorde Capital

High share of non-farming revenue

The company was able to boost its share non-farming operations in total revenue from 13% in 2010 to 30% in 2011, and is going to keep this share in the future. The share of non-farming revenue is the largest among local peers at the moment.

Only listed company to invest in pork

After the purchase of a 50% stake in a large underutilized Soviet-era pig farm in Dnipropetrovsk region, KSG Agro became the first listed Ukrainian company to invest in pork. While we generally believe the pork story is the next "it" thing for Ukraine, we see this farm requires a complete renovation, with CapEx estimated by the company at up to USD 100 mln (3x and 7.0x larger than KSG Agro's revenues and EBITDA in 2011, respectively). At this point, we do not account for this project in our valuation.

Secured PLN 75 mln in new equity financing

KSG Agro announced on April 26 that it agreed on equity financing from GEM Global Yield Fund Limited for a total amount of up to PLN 75 mln.

KSG Agro has an option to issue new equity to offer to GEM via separate drawdowns. The company can offer GEM shares equal to its 15-day ADT multiplied by 10x each 20 trading days within a three-year horizon. In the current environment, KSG can increase its share capital by about 2% each month. The subscription price is 90% of the market average for the preceding 20 days, but not less than PLN 22 (i.e. at least 23% premium to the current market price).

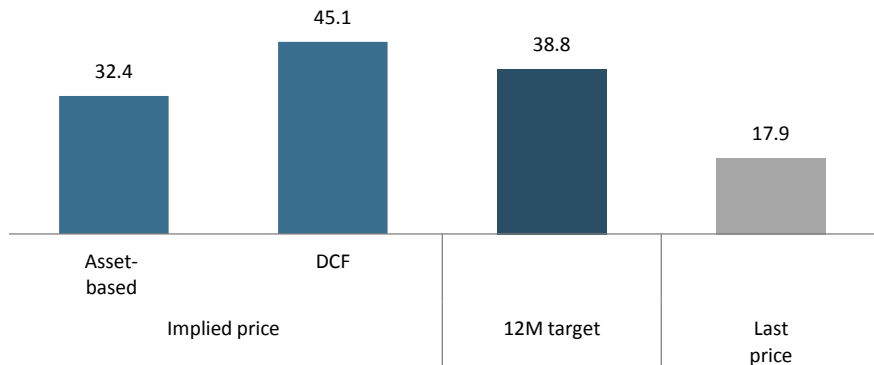
Under the deal, the company also has to issue 1.5 mln warrants convertible into shares with a PLN 35 conversion price for 0.75 mln and PLN 40 for the rest.

This financing option clearly adds flexibility for possible acquisitions. Dilution is the only risk, but at the current market price, the deal is value-accretive for minorities.

High upside rewards for embedded risk: BUY

We set our 12M target price for KSG Agro at PLN 38.8 per share. With upside of 117%, we assign a BUY recommendation to the stock.

Valuation summary, PLN per share



Source: Concorde Capital research

Note that our DCF-implied price yields a higher valuation than the asset-based approach. The difference stems mainly from expected non-organic growth that is not captured by asset-based valuation.

Risks: Ability to keep costs low, execution risk

KSG Agro’s ability to keep costs low (a core assumption for our DCF model) is crucial. Management accountability is the second most important risk, as its growth plans look beyond the company’s current financial capabilities, in our view. The company’s high concentration in one region also adds some weather risk, which is especially important for the fast growing company. Poor land treatment, visible in the especially high share of sunflower in its crop rotation poses a risk for future harvests (costs and/or yields).

DCF valuation

We use DCF approach to value the company. Our model shows a fair stock price at USD 13.2 per share (PLN 45.1); upside of 152%. For detailed operating assumptions, please refer to the next page.

DCF output, USD mln

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
EBITDA	26	38	52	60	64	67	69	71	74	75
EBIT	21	33	46	54	58	61	63	65	68	69
<i>Effective Tax Rate</i>	0	0	0	0	0	0	0	0	0	0
Taxed EBIT	21	32	45	53	57	59	62	64	66	68
Plus D&A	5	6	6	6	6	6	6	6	6	6
Less CapEx	(46)	(33)	(22)	(9)	(7)	(6)	(7)	(6)	(6)	(6)
Less change in OWC	5	(10)	(14)	(14)	(9)	(5)	(3)	(3)	(3)	(3)
FCFF	-	(6)	15	36	47	55	58	61	63	65
WACC	19%	19%	19%	19%	20%	20%	20%	20%	20%	20%
Sum of disc't'd CF's										
Terminal Value										372
Disc't'd TV			82							
Firm value		237					Portion due to TV			34.5%
Less Net Debt		(40)								
Equity Value as of 25 May 2013		196					Implied exit EBITDA Multiple			4.9 x
Perpetuity Growth Rate										2.0%
Fair price of ord. share										
										USD 13.2 PLN 45.1*

* At PLN/USD rate of 3.43 as of July 13

Source: Concorde Capital research

Sensitivity analysis, USD per share

	Perpetuity Growth Rate					WACC	Exit Multiple (EBITDA)				
	1.0%	1.5%	2.0%	2.5%	3.0%		2.9 x	3.9 x	4.9 x	5.9 x	6.9 x
WACC						WACC					
-3.0%	15.5	15.7	15.9	16.1	16.4	-3.0%	13.1	14.5	15.9	17.2	18.6
-2.0%	14.5	14.7	14.9	15.1	15.4	-2.0%	12.4	13.6	14.9	16.2	17.5
-1.0%	13.6	13.8	14.0	14.2	14.4	-1.0%	11.6	12.8	14.0	15.2	16.4
+0.0%	12.8	13.0	13.2	13.4	13.5	+0.0%	11.0	12.1	13.2	14.3	15.4
+1.0%	12.1	12.2	12.4	12.5	12.7	+1.0%	10.3	11.3	12.4	13.4	14.4
+2.0%	11.3	11.5	11.6	11.8	12.0	+2.0%	9.7	10.7	11.6	12.6	13.6
+3.0%	10.7	10.8	10.9	11.1	11.3	+3.0%	9.2	10.1	10.9	11.8	12.7

Source: Concorde Capital research

WACC decomposition

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Debt-to-Equity	0.39	0.48	0.36	0.27	0.18	0.15	0.16	0.16	0.16	0.16
Avg. after-tax Interest Rate	14.3%	14.5%	13.4%	13.5%	13.3%	13.1%	13.2%	13.3%	13.3%	13.3%
Ukr. Eurobonds YTM	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
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.	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Cost of Equity	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
WACC	18.7%	18.4%	18.5%	18.9%	19.4%	19.5%	19.5%	19.5%	19.5%	19.5%
WACC to Perpetuity	19.5%									

Source: Company data, Concorde Capital research

Operating assumptions

Crops segment assumptions

	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Total landbank, ths ha	26.0	44.8	61.0	110.0	130.0	143.0	143.0	143.0	143.0	143.0	143.0	143.0
Planted, ths ha	24.5	24.5	44.8	80.0	93.5	123.5	135.9	135.9	135.9	135.9	135.9	135.9
% of total	94%	55%	74%	73%	72%	86%	95%	95%	95%	95%	95%	95%
Acreage breakdown												
Wheat	34%	23%	26%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Barley	23%	13%	12%	14%	15%	15%	15%	15%	15%	15%	15%	15%
Rapeseed	5%		3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Corn			3%	8%	8%	8%	8%	8%	8%	8%	8%	8%
Soy		2%	2%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Sunflower	38%	61%	52%	35%	35%	35%	35%	35%	35%	35%	35%	35%
Crop yields, t/ha												
Wheat	3.6	3.0	3.1	2.5	3.1	3.2	3.2	3.3	3.3	3.4	3.5	3.6
Barley	3.2	2.2	1.9	2.0	2.5	2.6	2.6	2.7	2.7	2.8	2.9	2.9
Corn	0.0	0.0	4.3	3.3	4.1	4.2	4.3	4.4	4.5	4.6	4.6	4.7
Rapeseed	1.3	0.0	1.2	0.9	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.3
Soy	0.0	1.2	0.6	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Sunflower	2.1	2.0	2.2	1.6	2.1	2.1	2.1	2.2	2.2	2.3	2.3	2.4
Marketing year data												
Revenue, USD/ha	584	583	668	503	649	676	703	731	761	788	816	844
Costs, USD/ha	278	195	275	304	320	332	344	355	367	379	391	403
Gross profit, USD/ha	307	388	393	199	329	344	359	376	394	409	425	441
Gross margin, MY	52%	67%	59%	40%	51%	51%	51%	51%	52%	52%	52%	52%
Calendar year figures, USD mln												
Revenue	13.5	14.6	23.6	35.7	54.0	75.5	90.1	96.9	101.6	105.6	109.4	113.3
Gross profit	6.1	8.4	10.5	15.8	25.9	38.4	45.9	49.6	52.5	54.8	56.9	59.1
Gross margin, %	46%	58%	45%	44%	48%	51%	51%	51%	52%	52%	52%	52%
Inventories balance, USD mln												
Agricultural produce at year start	1.9	2.7	2.4	8.7	13.2	20.0	27.9	33.3	35.8	37.6	39.0	40.5
Value of harvest	14.3	14.3	30.0	40.2	60.7	83.4	95.5	99.4	103.4	107.0	110.8	114.7
Sales	13.5	14.6	23.6	35.7	54.0	75.5	90.1	96.9	101.6	105.6	109.4	113.3
old year sales	14%	19%	10%	24%	24%	26%	31%	34%	35%	36%	36%	36%
new year sales	86%	81%	90%	76%	76%	74%	69%	66%	65%	64%	64%	64%
Sales as % of supply	83%	86%	73%	73%	73%	73%	73%	73%	73%	73%	73%	73%
Agricultural produce at year end	2.7	2.4	8.7	13.2	20.0	27.9	33.3	35.8	37.6	39.0	40.5	41.9

Source: Company data, Concorde Capital research

	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Other operations, USD mln												
Revenues, USD mln	0.3	2.0	11.1	19.7	22.7	23.8	24.3	24.8	25.3	25.8	26.3	26.8
Gross profit, USD mln	0.0	0.0	5.1	6.9	7.9	8.3	8.5	8.7	8.8	9.0	9.2	9.4
Gross margin, %	0%	0%	46%	35%	35%	35%	35%	35%	35%	35%	35%	35%

Source: Company data, Concorde Capital research

Financials

Income statement*, USD mln

	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Net Revenues	16	34.7	55.5	77	99	114	122	127	131	136	140	143
<i>Change y-o-y</i>	<i>N/M</i>	<i>122%</i>	<i>60%</i>	<i>38%</i>	<i>30%</i>	<i>15%</i>	<i>6%</i>	<i>4%</i>	<i>4%</i>	<i>3%</i>	<i>3%</i>	<i>2%</i>
Cost Of Sales	(7)	(19)	(27.6)	(37)	(46)	(54)	(57)	(59)	(61)	(63)	(65)	(67)
Gross Profit	9	16	28	40	53	61	65	68	70	72	75	76
SG&A	(1)	(4)	(5)	(5)	(6)	(6)	(7)	(7)	(7)	(8)	(8)	(8)
Other Operating Income, net	0	3	3	4	5	6	6	6	7	7	7	7
EBITDA	9	14	26	38	52	60	64	67	69	71	74	75
<i>EBITDA margin. %</i>	<i>55%</i>	<i>41%</i>	<i>47%</i>	<i>50%</i>	<i>53%</i>	<i>53%</i>	<i>53%</i>	<i>53%</i>	<i>53%</i>	<i>53%</i>	<i>53%</i>	<i>53%</i>
Depreciation	(1)	(2)	(5)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
EBIT	8	13	21	33	46	54	58	61	63	65	68	69
<i>EBIT margin. %</i>	<i>51%</i>	<i>37%</i>	<i>38%</i>	<i>42%</i>	<i>46%</i>	<i>47%</i>	<i>48%</i>	<i>48%</i>	<i>48%</i>	<i>48%</i>	<i>48%</i>	<i>48%</i>
Finance Expense, net	(2)	(1)	(4)	(6)	(6)	(4)	(3)	(2)	(2)	(2)	(2)	(2)
Other Income/(Expense)	-	16	-	-	-	-	-	-	-	-	-	-
PBT	6	27	16	27	40	50	55	58	61	63	65	67
Tax	(0)	0	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
<i>Effective tax rate</i>	<i>0%</i>	<i>0%</i>	<i>2%</i>	<i>2%</i>	<i>2%</i>	<i>2%</i>	<i>2%</i>	<i>2%</i>	<i>2%</i>	<i>2%</i>	<i>2%</i>	<i>2%</i>
Extraordinary Income/(Loss)	(0)	(0)	-	-	-	-	-	-	-	-	-	-
Net Income	6	27	16	26	40	49	54	57	59	62	64	65
<i>Net Margin. %</i>	<i>41%</i>	<i>79%</i>	<i>29%</i>	<i>34%</i>	<i>40%</i>	<i>43%</i>	<i>44%</i>	<i>45%</i>	<i>45%</i>	<i>45%</i>	<i>46%</i>	<i>46%</i>
Dividend Declared	-	-	-	-	-	20	27	54	56	59	61	62

*All figures are net of remeasurement of agricultural produce and revaluation of biological assets

Source: Company data, Concorde Capital research

Balance sheet, USD mln

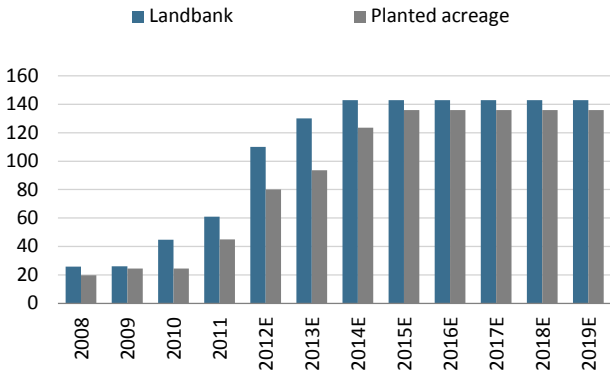
	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Current Assets	15	49	39	53	71	88	108	118	121	124	128	131
Cash & Equivalents	0	6	3	4	5	6	16	21	20	20	20	20
Trade Receivables	2	14	14	19	25	29	30	32	33	34	35	36
Inventories and biological assets	13	28	21	27	37	49	57	60	63	65	67	69
Other current assets	1	1	2	3	4	5	5	5	5	5	6	6
Fixed Assets	11	74	114	141	157	160	160	154	155	155	155	156
PP&E, net	5	54	95	122	138	140	141	141	141	141	141	141
Other Fixed Assets	6	20	20	20	20	20	20	13	13	14	14	14
Total Assets	26	123	153	194	228	248	268	272	275	279	283	287
Shareholders' Equity	12	91	107	133	172	202	229	232	235	238	241	244
Share Capital	3	37	37	37	37	37	37	37	37	37	37	37
Reserves and Other*	9	54	70	96	135	165	192	195	198	201	204	207
Current Liabilities	12	26	20	24	22	17	15	16	17	17	18	18
ST Interest Bearing Debt	5	17	12	14	10	3	-	-	-	-	-	-
Trade Payables	7	8	7	9	12	13	14	15	15	16	16	17
Other Current Liabilities	0	0	1	1	1	1	1	1	1	1	1	1
LT Liabilities	2.37	6.35	27	38	33	29	24	24	24	24	25	25
LT Interest Bearing Debt	2.37	5.20	25	35	30	25	20	20	20	20	20	20
Other LT	-	1	2	3	3	4	4	4	4	4	5	5
Total Liabilities & Equity	26	123	153	194	228	248	268	272	275	279	283	287
Net Debt, USD mln	8	17	35	45	35	22	4	(1)	0	0	0	(0)

*For forecasted periods, does not include the effect of remeasurement of agricultural produce and revaluation of biological assets

Source: Company data, Concorde Capital research

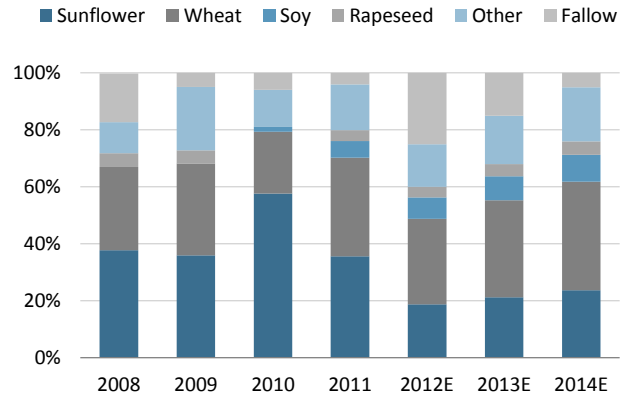
KSG Agro in six charts

Land bank, ths ha



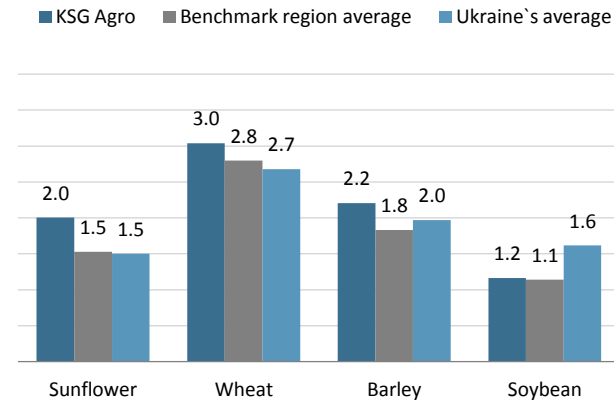
Source: Company data, Concorde Capital

Crop structure, by ha



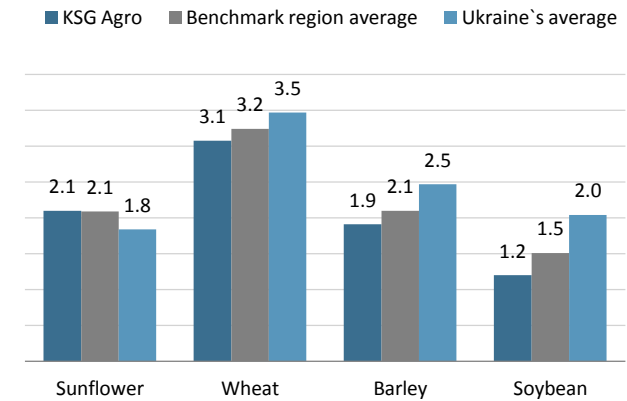
Source: Company data, Concorde Capital

Crop yields, 2010



Source: Company data, State Statistics Committee of Ukraine

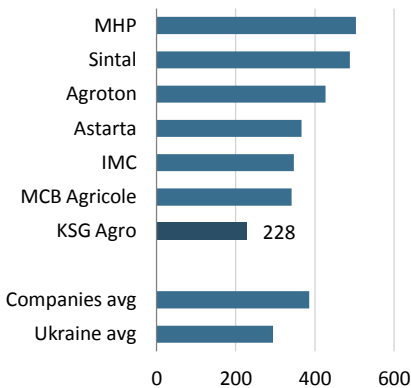
Crop yields, 2011



Source: Company data, State Statistics Committee of Ukraine

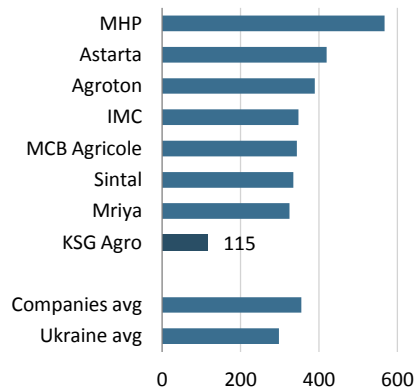
Production costs, USD/ha, 2010

Sunflower



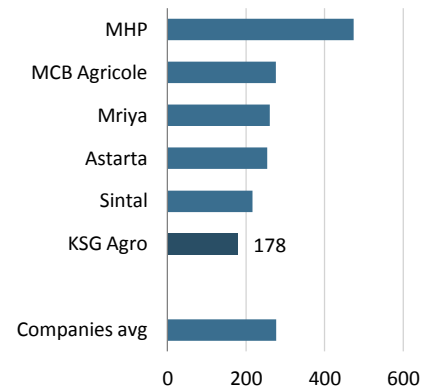
Source: Company data, State Statistics Committee of Ukraine

Wheat



Source: Company data, State Statistics Committee of Ukraine

Barley



Source: Company data

MCB Agricole

Target for a minority-unfriendly acquisition

- The company's profit underperforms the sector due to lower achieved crop prices, despite grain costs and yields close to the industry average
- High SG&A costs, at 18-20% of sales, erase gross profit, resulting in a 9% EBITDA margin in 2008, -6% in 2009 and 16% in 2010 – some of the lowest figures among listed agricultural companies
- Low profitability, failure to list on the WSE last year and low majority shareholder commitment to the business makes MCB Agricole a clear acquisition target. With one of the least inspiring acquisition track records among listed Ukrainian agricultural companies, we see possible unfair treatment of minority shareholders as a major risk
- Delisting from the FSE is another risk for institutional investors

Watch:

- Management decision on whether to delist from the Frankfurt Stock Exchange or to move to another listing level
- News on exit of current shareholders
- 2012 harvest results: June-November 2012
- 2011 annual financials: December 2012

Company description:

Operates 90 ths ha dispersed in 13 regions across Ukraine. Does not own storage assets. Unsuccessfully attempted to place a 25% stake via an IPO in December 2011 to finance construction of a rapeseed processing plant. DRs listed in Frankfurt.

Selected financials, USD mln, and ratios

	2010	2011	yoy	2012E	yoy
Net revenue	34.4	50.8	48%	50.4	-1%
Gross margin, %	34%	21%	-12pp	16%	-6pp
EBITDA	5.3	6.4	20%	3.0	-53%
EBITDA margin, %	15%	13%	-3pp	6%	-7pp
Net income	3.8	3.4	-9%	-0.4	-112%
Net margin, %	11%	7%	-4pp	-1%	-8pp
PP&E, net	10.6	11.7	10%	12.7	8%
Shareholder equity	50.0	53.4	7%	53.0	-1%
LT debt	0.1	0.0	-100%	0.0	n/m
ST debt	5.8	9.4	62%	10.7	13%
Total liabilities & equity	9.7	16.0	65%	17.4	9%
Operating Cash Flow	-4.5	0.6	-113%	1.6	170%
CapEx	0.2	2.8	1289%	2.8	2%
Working Capital	41.4	44.2	7%	44.2	0%
Harvest value, USD/ha	510	606	19%	609	0%
Gross profit, USD/ha	165	103	-37%	72	-30%
ROA	6%	5%	-1pp	-1%	-6pp
ROE	8%	7%	-1pp	-1%	-7pp
ROIC	8%	6%	-2pp	1%	-5pp

Source: Company data, Concorde Capital research

4GW1 GF	Current: EUR 0.3	N/R
	Target: n.a.	

Market data

Bloomberg	4GW1 GF
Reuters	4GW1=GF
Recommendation	HOLD
Price, EUR	0.3
12M target, EUR	1.2
Upside	255%
No of GDRs, mln	17.2
Market Cap, EUR mln	5.6
52-week performance	-84%
52-week range, EUR	0.3/2.7
ADT, 6M, EUR mln	0.002
Free float, %	29.4%
Free float, EUR mln	1.6

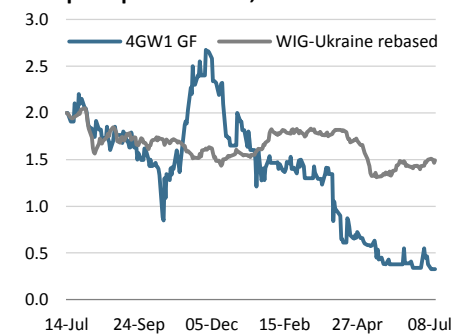
Source: Bloomberg

Ownership structure

Anton Shyshkin	27.7%
Kirill Sincov	27.7%
Yevgeniy Leng	7.6%
Mikhail Golubitskiy	7.6%
Free float	29.4%

Source: Company data, Concorde Capital estimates

GDR price performance, EUR



Source: Bloomberg

Multiples

	2011E	2012E	2013E
EV/Sales	0.3	0.3	0.3
EV/EBITDA	2.3	5.4	2.1
P/E	2.0	neg	1.8

P/E of global peers 18.2 11.5 7.6

Source: Bloomberg, Company data, Concorde Capital

Company's landbank, ths ha



Source: Company data

We do not rate MCB Agricole in the current report. Though our asset-based valuation shows a significant value growth potential for the stock, we believe the current management is not willing or able to realize it. The company has had low profits for a long period and we have not seen an effort to turn things around. This makes MCB Agricole a clear acquisition target, with correspondingly high risks for minorities.

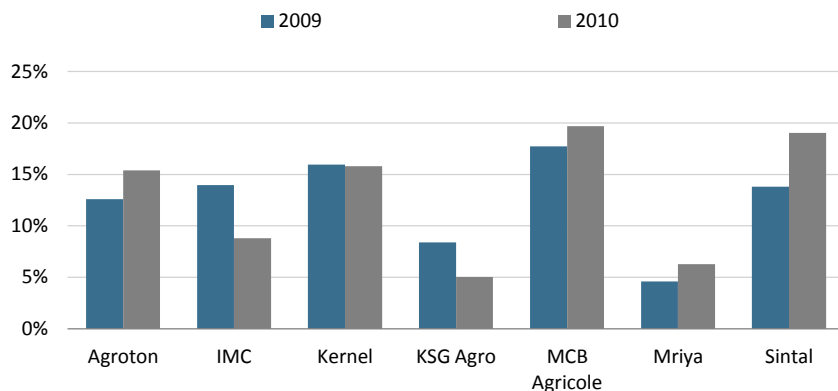
A typical Ukrainian agro company

With 90 ths ha spread across 13 regions of Ukraine, MCB Agricole is a close approximate to the average Ukrainian agricultural company in terms of operating efficiency. We find its land's average profitability per ha is very close to that of all Ukraine, while it posts a slight 9% crop yield premium to comparable region averages on slightly higher costs.

Gross profit erased by SG&A

MCB Agricole delivered 6%-34% gross margins in 2008-10, net of IAS 41 revaluations. Further 18-20pp erosion of margin by the SG&A line, slightly compensated by VAT grants, resulted in EBITDA margins of 9% in 2008, -6% in 2009 and 16% in 2010 – low figures by any means. With management guidance of 32%-60% costs/ha increases in 2011, we estimate the company's gross margin to decline to 21% in 2011 despite a record harvest. Over the next decade, we see the company barely breaking even: a gross margin in the 18%-22% range should be eaten away by high SG&A costs.

SG&A as % of sales



Source: Company data, Concorde Capital calculations

One of the lowest realized crop prices

We calculated that the company's average selling prices were 6%-10% below our estimate of Ukrainian average prices provided by APK-Inform, unlike for most listed agricultural companies, which report 5%-20% premiums.

Inventories balance, USD mln

	2009	2010
Agricultural produce at year start	2.9	0.7
Sales of agricultural produce	24.9	33.5
Agricultural produce at year end	0.7	3.6
Implied value of harvest	22.7	36.3
Value of harvest estimated at APK-Inform prices	25.1	38.9
Discount of average selling prices to APK-Inform	-10%	-6%

Source: Company data, Concorde Capital estimates

Acquisition target

After the company failed to list on the Warsaw Stock Exchange (December 2011), we see it as a clear acquisition target. We see two key reasons behind that:

- Low profitability and no growth. This is the only listed company that has been in a steady-state in terms of landbank size over the last three years
- The company is a non-core business for its major shareholders, who are focused on the real estate business.

Though the company is the largest in Ukraine in terms of landbank size among those on sale, the pool of candidates to acquire it is limited due to its land dispersion. Sale by parts looks like the most logical exit for majorities, though in that case we expect little value for minorities. Moreover, the track record of acquisitions of public agro companies in Ukraine is not inspiring for minority shareholders.

Overview of acquisitions of public farming companies in Ukraine

<i>Acquirer</i>	<i>Target</i>	<i>Listing venue of the target</i>	<i>Acquisition price offered to minorities, USD/ha</i>	<i>Notes</i>
Alpcot Agro	Landkom	LSE	420	Estimate based on share swap ratio and market price at acquisition date
Kernel	Ukrros	FSE	0-600	It is not clear whether Kernel will buy out minority stakes at all
Ukrlandfarming	Dakor/ Land West	FSE	0	Ukrlandfarming was not willing to buy out minority shares, to the best of our knowledge

Source: Company data, Concorde Capital

Risks

A change in majority shareholder is the key risk for minorities given the track record of M&A in the Ukrainian farming universe. Delisting is a risk for the stock, as the company has not yet changed its listing status on the Frankfurt Stock Exchange and its current listing level is being eliminated. The company's corporate governance in general is a concern for us, and liquidity in the stock is hardly seen.

DCF valuation

Our DCF approach prompts USD 1.42 fair price per GDR (EUR 1.16), 255% above the latest deal price. For detailed operating assumptions, please refer to the next page.

DCF output, USD mln

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	6	3	8	9	10	11	12	13	14	15
EBIT	5	1	6	7	8	8	9	10	11	11
<i>Effective Tax Rate</i>	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Taxed EBIT	5	1	6	7	7	8	9	10	10	11
Plus D&A	2	2	2	2	2	3	3	3	3	3
Less CapEx	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Less change in OWC	(3)	0	(3)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
FCFF	-	-	2	5	6	7	8	9	9	10
WACC	21%	21%	21%	22%	22%	22%	22%	22%	22%	22%
Sum of disc't'd CF's				23						
Terminal Value										50
Disc't'd TV				11						
Firm value				34			Portion due to TV			33.2%
Less Net Debt				(9)						
Equity Value as of 25 May 2013				24			Implied exit EBITDA Multiple			3.4 x
Perpetuity Growth Rate										2.0%
Fair price of GDR										USD 1.42 EUR 1.16*

* At USD/EUR rate of 1.22 as of July13

Source: Concorde Capital research

Sensitivity analysis, USD per GDR

	Perpetuity Growth Rate					Exit Multiple (EBITDA)				
	1.0%	1.5%	2.0%	2.5%	3.0%	1.4 x	2.4 x	3.4 x	4.4 x	5.4 x
WACC						WACC				
-3.0%	1.6	1.7	1.7	1.7	1.7	-3.0%	1.2	1.5	1.7	1.9
-2.0%	1.6	1.6	1.6	1.6	1.6	-2.0%	1.2	1.4	1.6	1.8
-1.0%	1.5	1.5	1.5	1.5	1.5	-1.0%	1.1	1.3	1.5	1.7
+0.0%	1.4	1.4	1.4	1.4	1.5	+0.0%	1.0	1.2	1.4	1.6
+1.0%	1.3	1.3	1.3	1.4	1.4	+1.0%	1.0	1.2	1.3	1.5
+2.0%	1.2	1.2	1.3	1.3	1.3	+2.0%	0.9	1.1	1.3	1.4
+3.0%	1.2	1.2	1.2	1.2	1.2	+3.0%	0.9	1.0	1.2	1.4

Source: Concorde Capital estimates

WACC decomposition

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Debt-to-Equity	0.18	0.20	0.20	0.13	0.05	0.01	0.01	0.01	0.01	0.01
Avg. after-tax Interest Rate	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
Ukr. Eurobonds YTM	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
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.	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Cost of Equity	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
WACC	21.5%	21.4%	21.4%	21.7%	22.2%	22.4%	22.4%	22.4%	22.4%	22.4%
WACC to Perpetuity	22.4%									

Source: Company data, Concorde Capital research

Operating assumptions

Crops segment assumptions

	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Total landbank, ths ha	90	90	90	90	90	90	90	90	90	90	90	90
Planted, ths ha	70	71	82	83	85	85	85	85	85	85	85	85
% of total	78%	79%	92%	92%	95%	95%	95%	95%	95%	95%	95%	95%
Acreage breakdown												
<i>Wheat</i>	48%	37%	34%	40%	40%	40%	40%	40%	40%	40%	40%	40%
<i>Corn</i>	1%	7%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
<i>Barley</i>	12%	16%	16%	15%	15%	15%	15%	15%	15%	15%	15%	15%
<i>Rye</i>	5%	0%	1%									
<i>Buckwheat</i>			2%									
<i>Rapeseed</i>	25%	14%	13%	15%	15%	15%	15%	15%	15%	15%	15%	15%
<i>Soy</i>			7%	5%	5%	5%	5%	5%	5%	5%	5%	5%
<i>Sunflower</i>	9%	21%	16%	15%	15%	15%	15%	15%	15%	15%	15%	15%
<i>Other</i>		3%										
Crop yields, t/ha												
<i>Wheat</i>	3.3	2.7	3.8	3.2	3.5	3.6	3.7	3.7	3.8	3.9	4.0	4.0
<i>Corn</i>	5.3	4.6	6.6	5.3	5.8	6.0	6.1	6.2	6.3	6.5	6.6	6.7
<i>Barley</i>	2.9	2.5	3.1	2.7	2.9	3.0	3.1	3.1	3.2	3.3	3.3	3.4
<i>Rye</i>	2.7	1.9	2.3									
<i>Buckwheat</i>	0.0	0.0	1.3									
<i>Rapeseed</i>	1.7	2.1	1.7	1.6	1.8	1.8	1.9	1.9	1.9	2.0	2.0	2.1
<i>Soy</i>			1.6	1.4	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.7
<i>Sunflower</i>	1.8	1.9	1.9	1.8	2.0	2.0	2.1	2.1	2.2	2.2	2.3	2.3
Marketing year data												
<i>Revenue, USD/ha</i>	322	510	606	609	683	718	747	777	809	837	867	897
<i>Costs, USD/ha</i>	334	345	503	537	556	576	598	617	637	657	678	700
<i>Gross profit, USD/ha</i>	-12	165	103	72	128	142	149	160	172	180	188	197
<i>Gross margin, MY</i>	-4%	32%	17%	12%	19%	20%	20%	21%	21%	22%	22%	22%
Calendar year figures, USD mln												
<i>Revenue</i>	24.9	33.5	50.8	50.4	58.0	61.1	63.7	66.2	68.9	71.4	73.9	76.5
<i>Gross profit</i>	-0.8	10.6	9.2	6.1	10.7	12.1	12.7	13.6	14.6	15.3	16.1	16.8
<i>Gross margin, %</i>	-3%	32%	18%	12%	18%	20%	20%	21%	21%	21%	22%	22%
Inventories balance, USD mln												
<i>Agricultural produce at year start</i>	2.9	0.7	3.6	2.7	2.7	3.1	3.2	3.4	3.5	3.6	3.8	3.9
<i>Value of harvest</i>	22.7	36.3	50.0	50.4	58.4	61.3	63.8	66.4	69.1	71.5	74.0	76.6
<i>Sales</i>	24.9	33.5	50.8	50.4	58.0	61.1	63.7	66.2	68.9	71.4	73.9	76.5
<i>old year sales, %</i>	12%	2%	7%	5%	5%	5%	5%	5%	5%	5%	5%	5%
<i>new year sales, %</i>	88%	98%	93%	95%	95%	95%	95%	95%	95%	95%	95%	95%
<i>Sales as % of supply</i>	97%	90%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%
<i>Agricultural produce at year end</i>	0.7	3.6	2.7	2.7	3.1	3.2	3.4	3.5	3.6	3.8	3.9	4.0

Source: Company data, Concorde Capital research

Financials

Income statement, USD mln*

	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Net Revenues	26	34	51	50	58	61	64	66	69	71	74	76
Change y-o-y	-12%	32%	48%	-1%	15%	5%	4%	4%	4%	4%	4%	4%
Cost Of Sales	(25)	(23)	(40)	(42)	(45)	(47)	(49)	(50)	(52)	(53)	(55)	(56)
Gross Profit	1	12	11	8	13	14	15	16.2	17.4	18.3	19.2	20.2
SG&A	(5)	(7)	(8)	(8)	(8)	(9)	(9)	(9)	(9)	(10)	(10)	(10)
Other Operating Income, net	2	0	3	3	3	4	4	4	4	4	4	5
EBITDA	(2)	5	6	3	8	9	10	11	12	13	14	15
EBITDA margin. %	-6%	15%	13%	6%	13%	15%	16%	17%	18%	18%	19%	19%
Depreciation	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)
EBIT	(3)	4	5	1	6	7	8	8	9	10	11	11
EBIT margin. %	-13%	11%	9%	2%	10%	12%	12%	13%	14%	14%	14%	15%
Finance Expense	(0)	(1)	(1)	(2)	(2)	(2)	(1)	(0)	(0)	(0)	(0)	(0)
Other income/(expense)	(1)	1	-	-	-	-	-	-	-	-	-	-
PBT	(4)	3	4	(0)	4	5	7	8	9	10	10	11
Tax	(0)	1	(0)	-	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Effective tax rate	-2%	-19%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Extraordinary Income/(Loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	(4)	4	3	(0)	4	5	6	8	9	10	10	11
Net Margin. %	-16%	11%	7%	-1%	7%	9%	10%	12%	13%	13%	14%	14%
Dividend Declared									3	9	10	10

*Net of remeasurement of agricultural produce and revaluation of biological assets
Source: Company data, Concorde Capital research

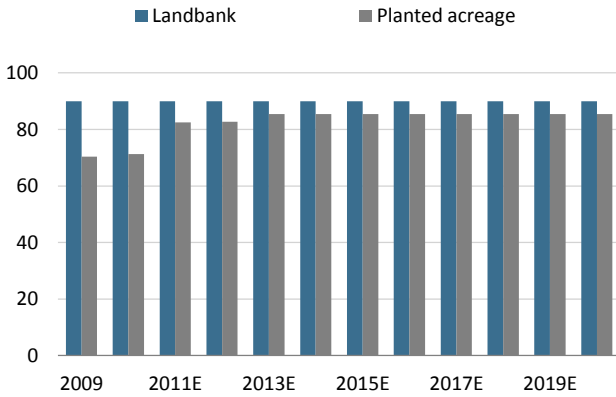
Balance sheet, USD mln

	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Current Assets	26	45	52	52	56	57	58	63	69	70	71	71
Cash & Equivalents	2	0	2	2	2	2	2	6	10	10	9	8
Trade Receivables	5	6	9	9	10	11	11	12	12	13	13	14
Inventories and biological assets	12	32	32	32	32	33	33	33	34	34	34	34
Other current assets	6	7	10	10	11	12	12	13	13	13	14	14
Fixed Assets	11	15	18	18	20	21	22	23	24	24	24	25
PP&E, net	11	11	12	13	14	14	15	15	16	16	16	16
Other Fixed Assets	1	4	6	6	7	7	7	8	8	8	8	9
Total Assets	37	60	69	70	76	78	81	86	93	94	95	96
Shareholders' Equity	33	50	53	53	57	62	69	77	83	84	85	85
Share Capital	28	28	28	28	28	28	28	28	28	28	28	28
Reserves and Other	6	22	26	25	29	35	41	49	55	56	57	57
Current Liabilities	3	9	16	17	18	16	10	8	8	8	9	9
ST Interest Bearing Debt	-	6	9	11	11	8	3	-	-	-	-	-
Trade Payables	2	2	3	3	4	4	4	4	4	4	4	5
Other Current Liabilities	1	2	3	3	3	4	4	4	4	4	4	4
LT Liabilities	0	0	0	0	0	1	2	2	2	2	2	2
LT Interest Bearing Debt	-	0	-	-	-	-	1	1	1	1	1	1
Other LT	0	0	0	0	0	1	1	1	1	1	1	1
Total Liabilities & Equity	37	60	69	70	76	78	81	86	93	94	95	96
Net Debt	(2)	6	8	9	10	6	2	(5)	(9)	(9)	(8)	(7)

*For forecasted periods, does not include the effect of remeasurement of agricultural produce and revaluation of biological assets
Source: Company data, Concorde Capital research

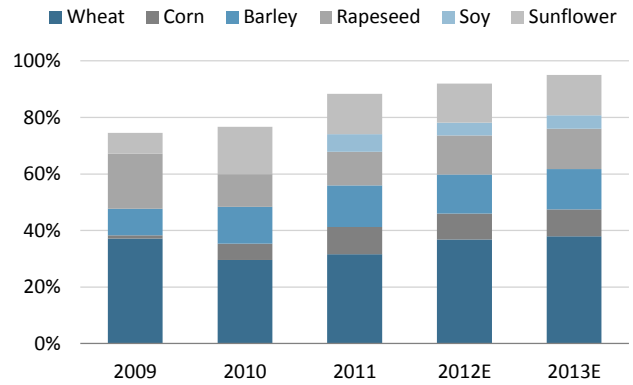
MCB Agricole in six charts

Land bank, ths ha



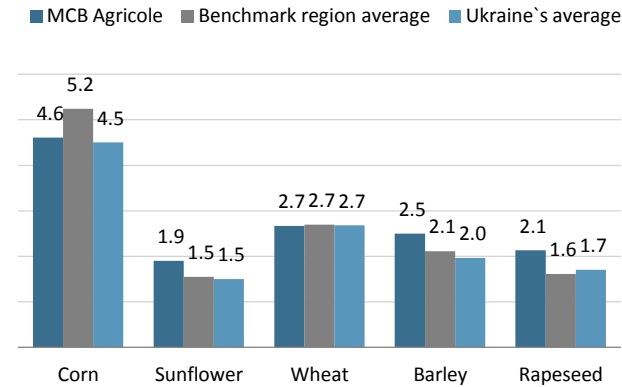
Source: Company data, Concorde Capital

Crop structure, by ha



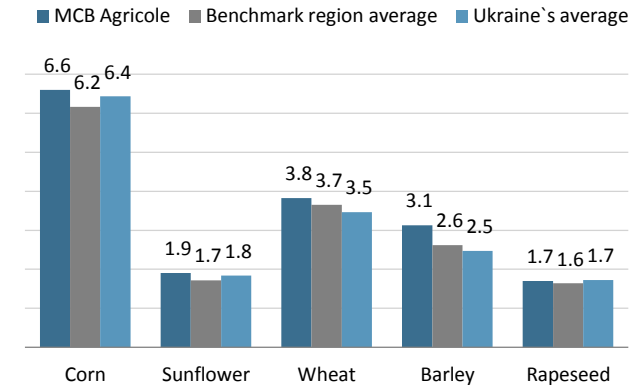
Source: Company data, Concorde Capital

Crop yields, 2010



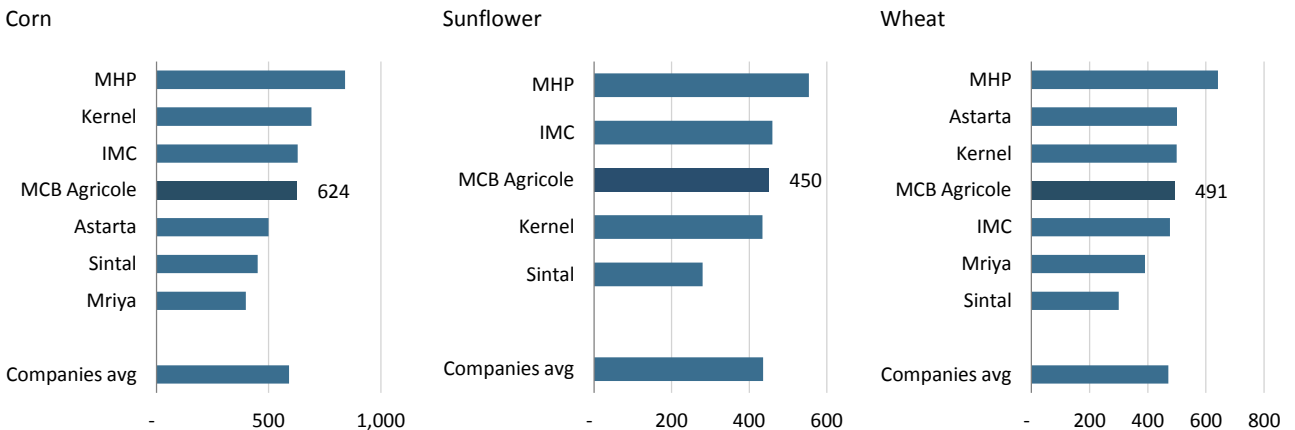
Source: Company data, State Statistics Committee of Ukraine

Crop yields, 2011



Source: Company data, State Statistics Committee of Ukraine

Production costs, USD/ha, 2011



Source: Company data

Mriya Agroholding

Sweet story should have its end

- Low quality of earnings: 42% of revenues and 45% of EBITDA in 2011 came from sugar beet sales to related parties at USD 73/t vs. our calculation of the average market price of USD 45/t. Sugar beet costs per ha were 1.8x below those Astarta reports, which we find hard to believe. We expect the history of high achieved sugar beet prices will eventually finish sometime in the future
- The sugar price drop in 2011/12 vs. 2010/11 (USD 525-660 vs. USD 830-1,000) should lead to lower earnings from sugar beets in 2012, unless the company sells to related parties at some unbelievable price
- Overly aggressive CapEx in greenfield silos does not pay back, in our view: at the reported premiums to crop selling prices (the main reason for owning storage) Mriya's investments in storage will pay back in more than 20 years
- Highest land lease right acquisition costs among public farmers: USD 1,500/ha in 2011 vs. USD 250-1,050/ha disclosed by peers

Watch list:

- 2012 harvest: July-October 2012

Company description

Second largest listed farming company with operations on 297 ths ha as of end of 2011. Operates primarily in Ternopil region with involvement in neighboring Khmelnytsk, Chernivtsi and Ivano-Frankivsk regions. Derives 2/3 of revenues from sales of sugar beets (14%-22% in crop rotation) to related parties. Yields are at a premium to region's average for sugar beets (33% on average for 2010-11) and wheat (11%), key crops for the company, but 4%-57% below for remaining crops. Invests heavily in related infrastructure.

Selected financials, USD mln, and ratios

	2010	2011	yoy	2012E	yoy
Net revenue	161.5	268.3	66%	245.9	-8%
Gross margin, %	62%	67%	5pp	61%	-6pp
EBITDA	102.1	172.6	69%	139.2	-19%
EBITDA margin, %	63%	64%	1pp	57%	-8pp
Net income	109.2	155.5	42%	76.2	-51%
Net margin, %	68%	58%	-10pp	31%	-27pp
PP&E, net	181.0	381.3	111%	523.2	37%
Shareholder equity	424.3	595.4	40%	671.6	13%
LT debt	26.7	238.0	791%	250.0	5%
ST debt	84.1	113.0	34%	50.1	-56%
Total liabilities & equity	591.3	1052.9	78%	1075.7	2%
Operating Cash Flow	-4.3	125.1	-2999%	108.5	-13%
CapEx	-59.8	-142.4	138%	-168.2	18%
Working Capital	246.6	278.3	13%	268.0	-4%
Harvest value, USD/ha	870	1166	34%	959	-18%
Gross profit, USD/ha	438	675	54%	451	-33%
ROA	18%	15%	-4pp	7%	-8pp
ROE	26%	26%	0pp	12%	-14pp
ROIC	24%	20%	-4pp	8%	-12pp

Source: Company Data, Concorde Capital research

MAYA GF	Current:	EUR 4.7	SELL
	Target:	EUR 4.4	

Market data

Bloomberg	MAYA GF
Reuters	MAYA=GF
Recommendation	SELL
Price, EUR	4.7
12M target, EUR	4.4
Upside	-7%
No of GDRs, mln	106.3
Market Cap, EUR mln	497.6
52-week performance	-37%
52-week range, EUR	4.1 / 7.4
ADT, 6M, EUR mln	0.008
Free float, %	20%
Free float, EUR mln	99.5

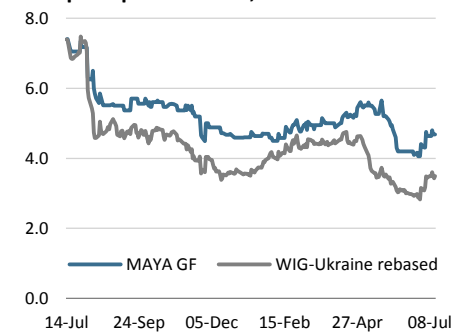
Source: Bloomberg

Ownership structure

Guta family (management)	80.0%
Free float	20.0%

Source: Company data, Concorde Capital estimates

GDR price performance, EUR



Source: Bloomberg

Multiples

	2011	2012E	2013E
EV/Sales	2.9	3.4	2.9
EV/EBITDA	4.5	6.0	5.1
P/E	3.9	8.0	5.8
P/E of global peers	18.2	11.5	7.6

Source: Bloomberg, Company data, Concorde Capital estimates

Company's landbank, ths ha



Source: Company data

We initiate coverage of Mriya Agroholding with a SELL recommendation, prompted by high trading multiples that are at risk due to worsening fundamentals: a sugar price decline (from which the company derives most of its margin) and crop yields converging down to the average figures for regions where it operates.

Sugar price drop to harm Mriya’s margins in 2012

The sugar price decline in 2011/12 vs. 2010/11 (USD 525-660 vs. USD 830-1,000) should lead to lower earnings from sugar beets in 2012, unless the company sells to related parties at some unrealistic price.

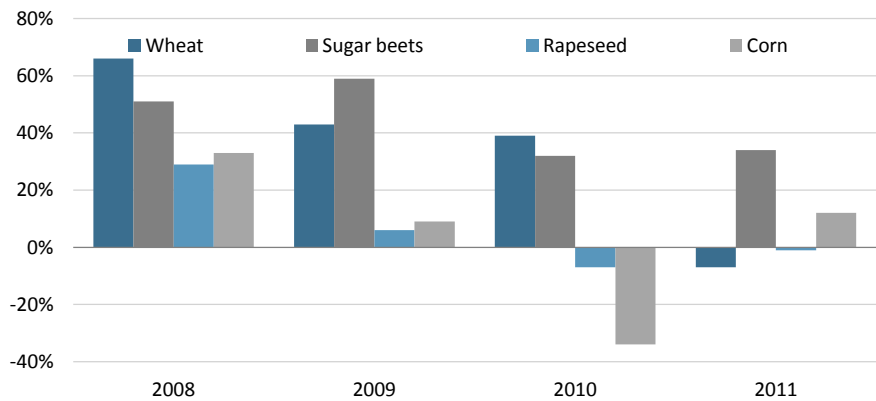
Low quality of earnings

Sugar beet sales to related parties, which accounted for 42% of revenues and 45% of EBITDA in 2011, was executed at USD 73/t vs. our calculations of the average market price of USD 45/t. At the same time, Mriya’s sugar beet production costs per ha were 1.8x below those Astarta reports, which we find hard to believe.

Crop yield premium is disappearing

Once known as a farmer that could deliver 50%+ yield premiums to its location, Mriya’s yield in grains shrank in 2010 and 2011. For sugar beets, the key crop for Mriya, yields were still 32%-34% above the region average in 2010-11, but less than the 51%-59% in the two preceding years. For wheat, its second most important crop, yields were 7% below the region average in 2011, vs. 39%-66% premiums in the three preceding years.

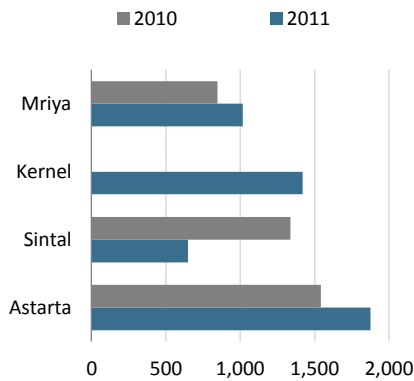
Yield premiums to benchmark region average



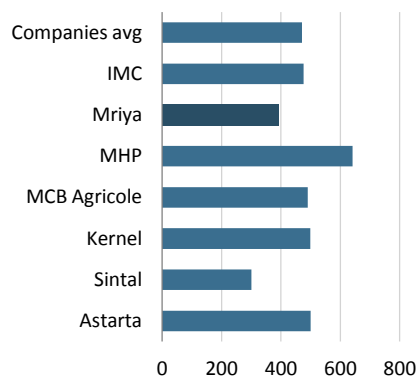
Source: Concorde Capital estimates

Low costs still an advantage, though hardly explained

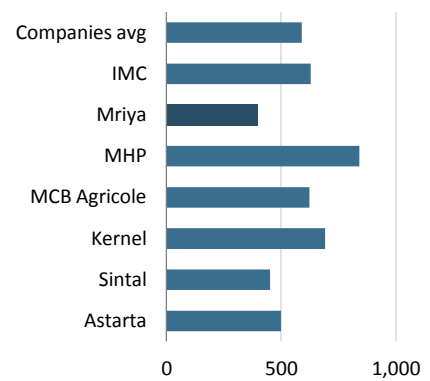
Mriya continues to report one of the lowest costs per ha among listed Ukrainian farmers. Its costs per ha for sugar beets were 28% below of those of Kernel and almost twice below those of Astarta, which is strange to us given that (1) Mriya’s yields are comparable to those of Astarta and (2) we do not see any technology advantages. For other crops, Mriya’s costs per ha were also below most of its listed peers, with only Sintal Agriculture and KSG Agro reporting lower costs per ha for some crops in 2010-11.

Production costs, USD/ha, sugar beets


Source: Concorde Capital estimates

Wheat


Source: Concorde Capital estimates

Corn


Source: Concorde Capital estimates

Too aggressive CapEx on infrastructure, in our view

Mriya has the highest capital expenditure program among local farmers: its guidance is USD 120-130 mln per annum in 2012-13. Unlike other farmers, Mriya is actively investing in greenfield storage facilities, with CapEx of USD 250/t, at the upper side of the range that starts from USD 150/t reported by peers, and far above the cost of brownfield facilities, USD 50-150/t.

Overly aggressive CapEx in greenfield silos will not pay back, in our view. The key reason for farmers to possess their own storage infrastructure is the ability to control the quality of produce and timing of sales, both of which should result in the higher than market average selling prices. However, we estimate that Mriya's selling prices were only 5% above Ukraine's average in 2011 and 12% below in 2010, sugar beets excluded. A 5% premium implies a payback period of 23 years, if 2011 is taken as a reference.

	2010				2011				
	Volume, kt	Avg market price, USD/t	Market value, USD mln	Book value**, USD mln	Premium/Volume, (discount) kt	Avg market price, USD/t	Market value, USD mln	Book value	Premium/ (discount)
Wheat	277.1	142	39.3		516.9	158	81.8		
Corn	130.0	150	19.5		118.3	142	16.8		
Barley	26.0	158	4.1		4.3	154	0.7		
Buckwheat	11.0	333	3.7		4.5	458	2.1		
Rapeseed total	45.3	358	16.2		74.0	429	31.8		
Soy	3.7	333	1.2		4.8	317	1.5		
Potatoes	87.6	250	21.9		135.0	200	27.0		
Total, ex-sugar beets			105.9	89.7	-15%		161.6	169.2	5%
Sugar beets	1,700	57	96.9		1,480.7	73	108.1		
Total, with sugar beets			202.8	186.6			269.7	277.3	

* Average for the post-harvest period, except for sugar beets where Mriya's reported price is taken as the market one.

** Calculated as the book value of agricultural produce at the year end plus sales of agricultural produce minus book value of the agricultural produce at the year start

Source: Company data, Concorde Capital estimates

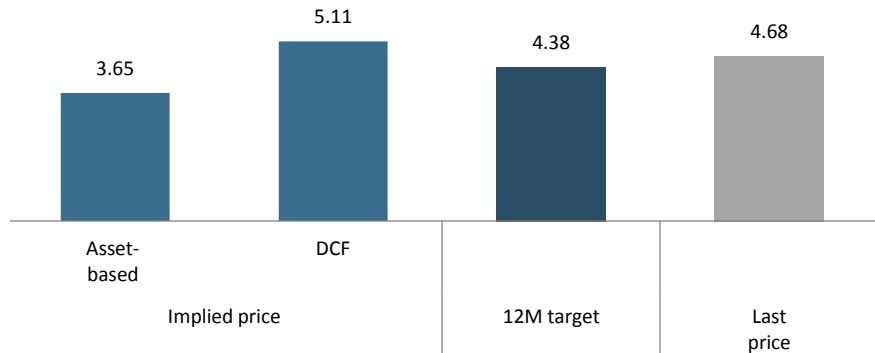
Highest land acquisition costs

Mriya pays the highest land lease right acquisition costs among public farmers: USD 1,500/ha in 2011 vs. USD 250-1,050/ha. Though the company explains that it pays a premium for the high quality of acquired land (a statement that is yet to be proven), we still find the price excessive for Ukraine.

The stock looks too expensive: SELL

We set our 12M target price for Mriya shares at USD 5.4 (EUR 4.4) per GDR, averaging an asset base approach and DCF. A downside of 7% prompts us to initiate coverage with a SELL recommendation.

Valuation summary, EUR / GDR



Source: Concorde Capital research

The bulk of difference between asset-based and DCF approaches lies on overly inflated selling prices for sugar beet, which we assumed to continue in our modelling.

Liquidity, corporate governance are the key risks

As with other Ukrainian stocks listed in Frankfurt, liquidity is low. Though an IPO on WSE/LSE, discussed for many years, is likely to improve liquidity, the timing is unclear: weak sugar prices will undermine profits in 2011-12, while the company's ambitious CapEx for 2012 can be covered by its strong cash position. Corporate governance is an issue: the company is still heavily reliant on sales to third-party sugar plants (2/3 in 2010, 2/5 in 2011) at higher prices than seen elsewhere on the market. So far, for the majority shareholder it has been important for Mriya to be a profit centre, but there is a risk that this incentive will fade in the future.

DCF valuation

Our DCF valuation of Mriya yields a fair price of USD 6.2 per GDR (EUR 5.1). For detailed operating assumptions, please refer to the next page.

DCF output, USD mln

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
EBITDA	139	171	195	224	237	248	258	268	277	287
EBIT	113	141	162	191	204	214	224	233	242	251
<i>Effective Tax Rate</i>	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Taxed EBIT	111	138	159	187	200	210	219	228	237	246
Plus D&A	26	31	33	33	33	34	35	35	36	36
Less CapEx	(168)	(150)	(76)	(33)	(33)	(34)	(35)	(35)	(36)	(36)
Less change in OWC	10	(35)	(26)	(33)	(15)	(12)	(10)	(10)	(11)	(11)
FCFF	-	(17)	90	154	185	198	209	218	226	235
WACC	19%	19%	19%	19%	19%	20%	20%	20%	20%	20%
Sum of disc't'd CF's		611								
Terminal Value										1,355
Disc't'd TV		299								
Firm value		911			Portion due to TV					32.9%
Less Net Debt		(247)								
Equity Value as of 25 May 2013		663			Implied exit EBITDA Multiple					4.7 x
Perpetuity Growth Rate										2.0%
Fair price of GDR		USD 6.2								
		EUR 5.1*								

* At USD/EUR rate of 1.22 as of July 13

Source: Concorde Capital research

Sensitivity analysis, USD per GDR

	Perpetuity Growth Rate					WACC	Exit Multiple (EBITDA)				
	1.0%	1.5%	2.0%	2.5%	3.0%		2.7 x	3.7 x	4.7 x	5.7 x	6.7 x
WACC						WACC					
-3.0%	7.4	7.5	7.7	7.8	7.9	-3.0%	5.4	6.0	6.7	7.4	8.0
-2.0%	6.9	7.0	7.2	7.3	7.4	-2.0%	5.0	5.6	6.2	6.8	7.5
-1.0%	6.5	6.6	6.7	6.8	6.9	-1.0%	4.6	5.2	5.8	6.3	6.9
+0.0%	6.1	6.2	6.2	6.3	6.4	+0.0%	4.3	4.8	5.3	5.9	6.4
+1.0%	5.7	5.7	5.8	5.9	6.0	+1.0%	4.0	4.5	5.0	5.5	6.0
+2.0%	5.3	5.4	5.4	5.5	5.6	+2.0%	3.7	4.1	4.6	5.1	5.5
+3.0%	4.9	5.0	5.1	5.2	5.2	+3.0%	3.4	3.8	4.3	4.7	5.1

Source: Concorde Capital research

WACC decomposition

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Debt-to-Equity	0.45	0.40	0.40	0.42	0.42	0.42	0.41	0.39	0.38	0.38
Avg. after-tax Interest Rate	11.6%	11.7%	11.8%	12.0%	12.0%	12.6%	12.6%	12.6%	12.5%	12.5%
Ukr. Eurobonds YTM	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
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.	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Cost of Equity	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
WACC	19.1%	19.4%	19.4%	19.3%	19.3%	19.5%	19.6%	19.6%	19.7%	19.7%
WACC to Perpetuity	19.7%									

Source: Company data, Concorde Capital research

Operating assumptions

Crops segment assumptions

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Land bank	150	201	229	240	297	350	390	390	390	390	390	390	390	390
Planted acreage (th ha)	84	146	217	240	248	298	332	371	371	371	371	371	371	371

Acreage breakdown

Wheat	23%	32%	35%	57%	56%	54%	56%	56%	56%	56%	56%	56%	56%	56%
Corn	13%	14%	17%	7%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Barley	9%	5%	5%	1%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Buckwheat	13%	5%	6%	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Rapeseed total	23%	19%	12%	15%	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%
Soy	0%	0%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Sugar beet	12%	18%	22%	14%	11%	13%	11%	11%	11%	11%	11%	11%	11%	11%
Potatoes	2%	2%	1%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Other	4%	4%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Crop yields, t/ha

Wheat	5.8	5.0	3.7	3.8	3.3	3.5	3.6	3.7	3.7	3.8	3.9	4.0	4.0	4.1
Corn	7.0	6.0	3.6	7.0	6.2	6.5	6.7	6.8	6.9	7.1	7.2	7.4	7.5	7.7
Barley	4.6	3.5	2.4	1.8	1.6	1.7	1.7	1.7	1.8	1.8	1.8	1.9	1.9	1.9
Rapeseed	2.8	2.3	1.7	2.0	1.9	2.0	2.0	2.1	2.1	2.2	2.2	2.2	2.3	2.3
Soy	2.7	1.7	1.5	1.5										
Sugar beet	54	48	36	44	44	46	47	48	49	50	51	52	53	54
Potatoes	28	26	28	28	22	24	24	24	25	25	26	26	27	28

Marketing year data

Revenue, USD/ha		974	870	1,166	959	1,073	1,076	1,119	1,165	1,212	1,254	1,299	1,344	1,392
Costs, USD/ha		405	432	491	508	543	548	569	587	606	625	645	666	688
Gross profit, USD/ha		569	438	675	451	531	528	551	578	606	629	653	678	704
Gross margin, MY		58%	50%	58%	47%	49%	49%	49%	50%	50%	50%	50%	50%	51%

Calendar year figures, USD mln

Revenue	88.7	137.6	142.9	254.7	245.9	304.7	346.2	401.0	425.4	444.2	460.6	477.0	493.9	511.3
Gross profit	61.8	85.0	99.0	143.9	123.2	149.2	170.2	197.1	210.6	221.7	230.9	239.8	249.0	258.6
Gross margin	0%	57%	51%	56%	50%	49%	49%	49%	49%	50%	50%	50%	50%	51%

Inventories balance, USD mln

Agricultural produce at year start		4.4	3.3	47.0	69.6	61.5	76.2	86.6	100.3	106.3	111.0	115.2	119.3	123.5
Value of harvest		136.6	186.6	277.3	237.8	319.3	356.6	414.7	431.5	448.9	464.7	481.1	498.1	515.7
Sales		137.6	142.9	254.7	245.9	304.7	346.2	401.0	425.4	444.2	460.6	477.0	493.9	511.3
old year sales		3%	2%	18%	28%	20%	22%	22%	24%	24%	24%	24%	24%	24%
new year sales		97%	98%	82%	72%	80%	78%	78%	76%	76%	76%	76%	76%	76%
Sales as % of supply		98%	75%	79%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
Agricultural produce at year end		3.3	47.0	69.6	61.5	76.2	86.6	100.3	106.3	111.0	115.2	119.3	123.5	127.8

Source: Company data, Concorde Capital research

Financials

Income statement*, USD mln

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Net Revenues	91	148	162	268	246	305	346	401	425	444	461	477	494	511
Change y-o-y	N/M	64%	9%	66%	-8%	24%	14%	16%	6%	4%	4%	4%	4%	4%
Cost Of Sales	(28)	(62)	(61)	(89)	(97)	(125)	(144)	(171)	(181)	(189)	(195)	(202)	(209)	(216)
Gross Profit	63	86	100	179	149	180	203	230	244	256	265	275	285	295
SG&A	(11)	(7)	(9)	(24)	(26)	(28)	(30)	(32)	(34)	(36)	(37)	(38)	(39)	(40)
Other Operating Income, net	8	8	10	17	16	20	22	26	27	29	30	31	32	33
EBITDA	60	88	102	173	139	171	195	224	237	248	258	268	277	287
EBITDA margin. %	67%	59%	63%	64%	57%	56%	56%	56%	56%	56%	56%	56%	56%	56%
Depreciation	(1)	(2)	(8)	(17)	(26)	(31)	(33)	(33)	(33)	(34)	(35)	(35)	(36)	(36)
EBIT	59	85	94	155	113	141	162	191	204	214	224	233	242	251
EBIT margin. %	65%	57%	58%	58%	46%	46%	47%	48%	48%	48%	49%	49%	49%	49%
Finance expenses	(8)	(13)	(26)	(51)	(39)	(36)	(37)	(39)	(41)	(42)	(42)	(42)	(41)	(40)
Financial income	3	7	18	29	4	2	-	-	-	-	-	-	-	-
Other income/(expense)	12	(2)	(0)	1	-	-	-	-	-	-	-	-	-	-
PBT	66	77	86	135	78	107	125	152	163	173	181	191	201	211
Tax	(0)	(0)	(0)	(1)	(2)	(2)	(2)	(3)	(3)	(3)	(4)	(4)	(4)	(4)
Effective tax rate	0%	0%	0%	0%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Extraordinary Income/(loss)	(43)	(7)	24	21	-	-	-	-	-	-	-	-	-	-
Net Income	23	70	109	155	76	105	122	148	160	169	177	187	197	206
Net margin. %	25%	47%	68%	58%	31%	34%	35%	37%	38%	38%	39%	39%	40%	40%
Dividend Declared	-	-	-	-	-	-	98	141	153	161	169	168	187	196

*All figures are net of remeasurement of agricultural produce and revaluation of biological assets

Source: Company data, Concorde Capital research

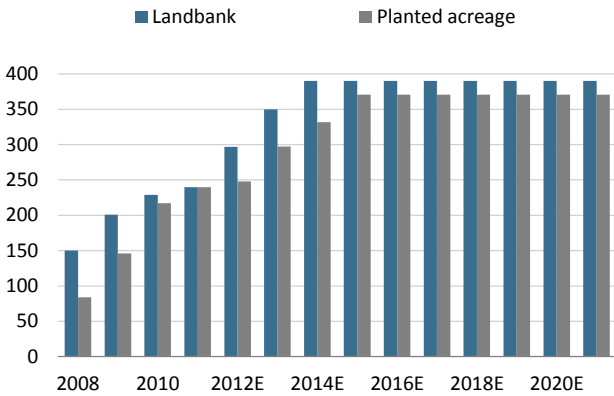
Balance sheet, USD mln

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Current Assets	154	236	378	519	400	423	431	482	504	521	537	552	567	583
Cash & Equivalents	72	105	95	184	74	46	17	20	21	22	23	24	25	26
Trade Receivables	51	51	100	108	111	137	156	180	191	200	207	215	222	230
Inventories and biological assets	26	64	168	200	191	210	223	241	249	255	260	265	271	276
Other current assets	5	16	15	27	25	31	35	40	43	45	46	48	50	52
Fixed Assets	52	72	213	534	676	795	838	838	838	838	838	838	837	838
PP&E, net	50	47	181	381	523	643	686	686	685	685	685	685	685	685
Other Fixed Assets	2	25	32	152	152	152	152	152	152	152	152	152	152	152
Total Assets	206	309	591	1,053	1,076	1,219	1,270	1,320	1,342	1,359	1,374	1,389	1,405	1,421
Shareholders' Equity	147	222	424	595	672	777	801	808	815	823	832	851	861	871
Share Capital	86	86	120	120	120	120	120	120	120	120	120	120	120	120
Reserves and Other*	61	136	304	475	552	657	681	688	695	703	712	731	741	751
Current Liabilities	29	63	121	170	109	136	154	187	198	253	257	250	252	255
ST Interest Bearing Debt	21	34	84	113	50	61	69	87	92	143	142	131	130	128
Trade Payables	4	26	17	38	34	44	50	60	63	66	68	71	73	76
Other Current Liabilities	4	4	19	18	25	30	35	40	43	44	46	48	49	51
LT Liabilities	29	23	46	288	296	307	314	324	329	282	285	288	292	295
LT Interest Bearing Debt	24	19	27	238	250	250	250	250	250	200	200	200	200	200
Other LT	5	4	20	50	46	57	64	74	79	82	85	88	92	95
Total Liabilities & Equity	206	309	591	1,053	1,076	1,219	1,270	1,320	1,342	1,359	1,374	1,389	1,405	1,421
Net Debt, USD mln	(26)	(52)	16	167	226	266	302	317	321	321	319	308	305	303

Source: Company data, Concorde Capital research

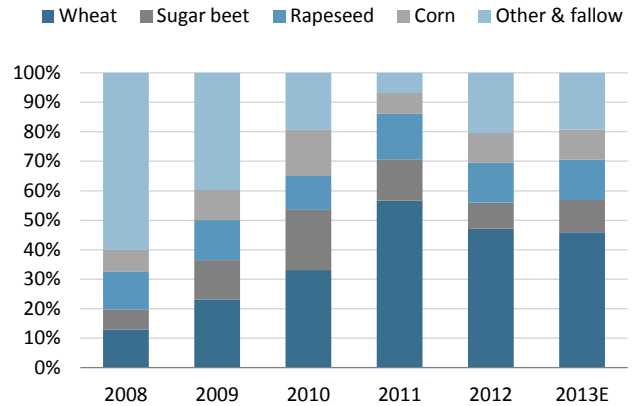
Mriya in six charts

Land bank, ths ha



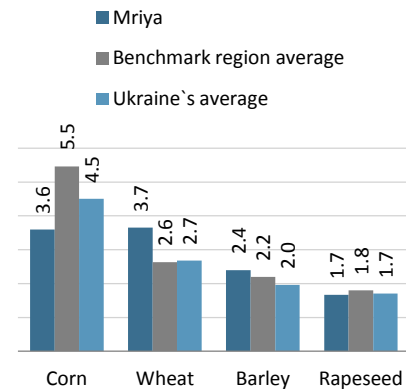
Source: Company data, State Statistics Committee of Ukraine

Crop structure, by ha



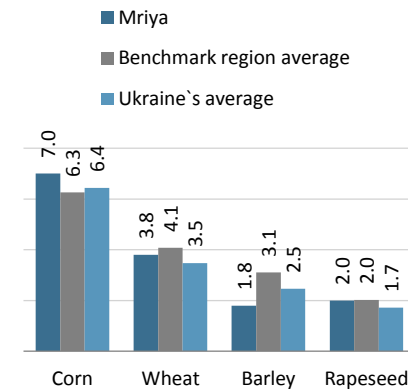
Source: Company data, State Statistics Committee of Ukraine

Crop yields, 2010



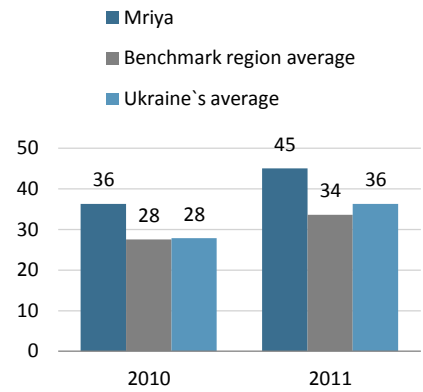
Source: Company data

Crop yields, 2011



Source: Company data

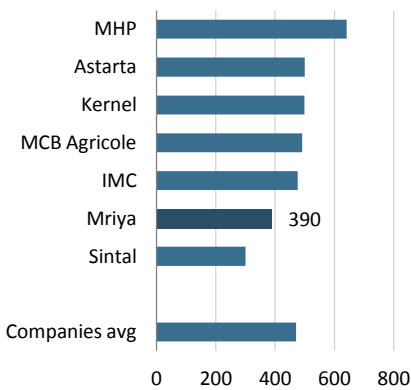
Sugar beet yields, 2010-11



Source: Company data

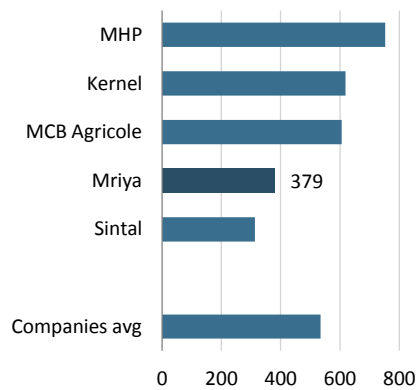
Production costs, USD/ha, 2011

Wheat



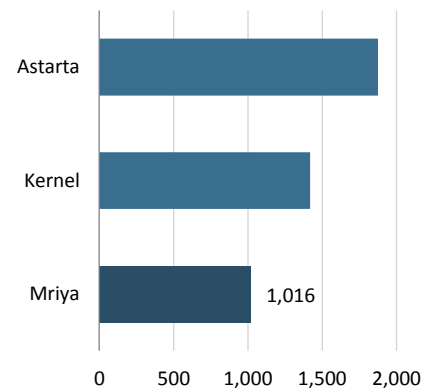
Source: Company data

Rapeseed



Source: Company data

Sugar beets



Source: Company data

Sintal Agriculture

Another non-core business

- A reduction in costs per ha by 25% yoy in 2011, as guided by management, should improve EBITDA margin from 5% in 2010 to 22% in 2011. 2011 financials are not available at the moment, however
- Landbank is mostly (119 of 145 ths ha) located in Kherson region in Southern Ukraine, a relatively dry and hot region. Crop yields in the region are way below the Ukrainian average, and our research suggests Sintal's land is valued the lowest among its peers
- This year's draught focused around Kherson region is a key short-term concern
- A 1.5x landbank increase through the acquisition of Agri&Ca in autumn 2011 was a value-accretive deal, in our view. The deal was completed at a multiple of USD 210/ha of lease rights, the lowest among its sector peers, and embedded lease terms of 49 years are the longest possible in Ukraine
- We fail to see current management working to create value for all minorities, as evident from the company's selling prices being below the market average and EBITDA margins being relatively low (15% in 2009 and 5% in 2010)

Company description

Farming company with operations on 145 ths ha as of end of 2011. Operates in Kherson and Kharkiv regions. Owns a 100 kt grain silo in the northern part of Crimea.

Selected financials, USD mln, and ratios

	2010	2011E	yoy	2012E	yoy
Net revenue	31.8	46.5	46%	47.1	1%
Gross margin, %	25%	35%	10pp	49%	14pp
EBITDA	1.6	10.2	556%	16.0	57%
EBITDA margin, %	5%	22%	17pp	34%	12pp
Net income	-1.6	6.8	-517%	10.6	57%
Net margin, %	-5%	15%	20pp	23%	8pp
PP&E, net	11.1	16.2	46%	25.6	58%
Shareholder equity	56.3	72.0	28%	82.7	15%
LT debt	0.0	0.0	n/m	5.0	n/m
ST debt	5.6	17.2	205%	14.7	-15%
Total liabilities & equity	15.9	27.5	73%	29.2	6%
Operating Cash Flow	-3.8	-2.7	-30%	9.7	-463%
CapEx	4.4	3.0	-31%	11.7	286%
Working Capital	44.7	51.8	16%	55.0	6%
Harvest value, USD/ha	415	610	47%	468	-23%
Gross profit, USD/ha	27	321	1074%	159	-50%
ROA	-2%	7%	9pp	9%	3pp
ROE	-3%	9%	12pp	13%	3pp
ROIC	0%	9%	8pp	14%	5pp

Source: Company Data, Concorde Capital research

SNPS GF	Current: EUR 0.8	HOLD
	Target: EUR 1.2	

Market data

Bloomberg	SNPS GF
Reuters	SNPS=GF
Recommendation	HOLD
Price, EUR	0.8
12M target, EUR	1.2
Upside	53%
No of GDRs, mln	35.1
Market Cap, EUR mln	28.0
52-week performance	-73%
52-week range, EUR	0.4/3.1
ADT, 6M, EUR mln	0.001
Free float, %	34%
Free float, EUR mln	9.5

Source: Bloomberg

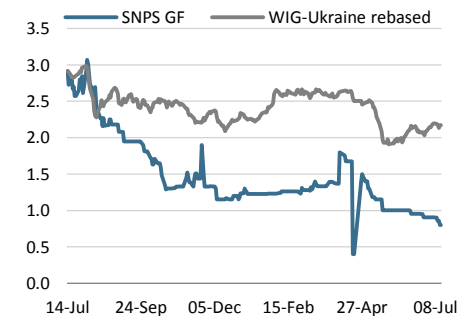
Ownership structure

Nikolay Tolmachev	50%
Management	10%
Icon Private Equity*	6%
Free float	34%

*Holds an option for another 4.8% shares with strike price at USD 4.25/GDR.

Source: Company data, Concorde Capital estimates

GDR price performance, EUR



Source: Bloomberg

Multiples and per-share data

	2011E	2012E	2013E
EV/Sales	1.1	1.1	1.0
EV/EBITDA	4.9	3.2	3.6
P/E	5.0	3.2	3.7
P/E of global peers	18.2	11.5	7.6

Source: Bloomberg, Company data, Concorde Capital estimates

Company's operations, ths ha



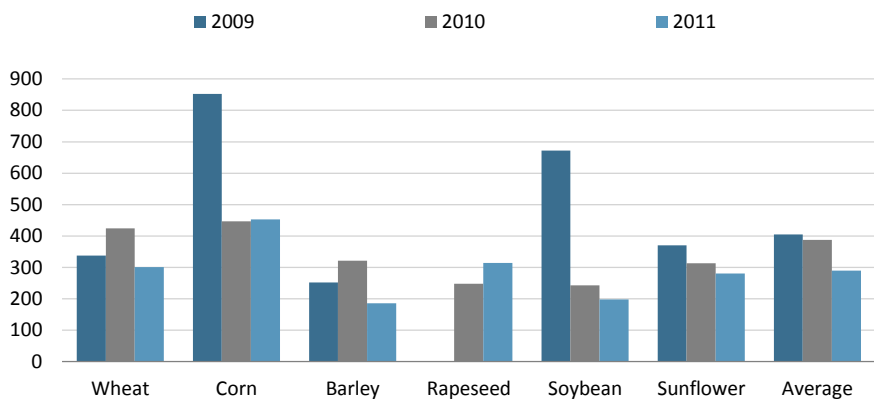
Source: Company data

We initiate coverage of Sintal Agriculture with a HOLD recommendation. While management guidance for 2011 indicates a 25% yoy cost reduction and the Agri&Ca acquisition in 2011 was definitely value-accretive, we are not confident management is committed to value creation for all shareholders. An implied 53% upside to our 12M target is not enough to ground a buy recommendation.

25% yoy cost reduction in 2011 should improve margins

A significant cost reduction in 2011, by 25% on average per ha, as guided by management, should lead to a significant improvement in profitability: from 5% in 2010 to an estimated 21% EBITDA margin in 2011. At the same time, we note that we have not got an explanation from the company about why its costs decreased in 2011 vs. 2010 (all other companies reported an increase) and find it hard to believe Sintal's costs per ha were lower than for the majority of its peers - we do not see any technological advantages for the company.

Sintal's production costs, USD/ha



Source: Company data

Most of land is located in drought-risky region

Most of Sintal's land bank (119 of 145 ths ha) is located in Kherson region in Southern Ukraine, with the rest in Kharkiv region in the east. Kherson region is dry and hot in the summer, and delivers below-average yields for all key crops, except soybean. Nonetheless, Sintal's track record shows profitable low-cost, low-yield operations are possible in the region. Wheat, sunflower and barley are Sintal's key crops by area planted.

This year's harvest can be significantly spoiled by adverse weather conditions (droughts) where Kherson region reportedly fell in the epicenter.

Irrigation is a growth option

The weather in Kherson region is well suited for irrigation-based farming, with possible yields 2x-3x above current averages and selective application of two crop harvests per year. A significant network of Soviet era irrigation channels is present in the region though additional CapEx would be required to utilize it, estimated at USD 1,500-2,500/ha. Though we view this capital-intensive model well suited to farmers with access to cheap capital, we do not see evidence that Sintal would be one of the front-runners in this field under current management. The company has been operating in the region for quite a while and has done little in terms of irrigation-based farming.

Landbank increased 1.5x in 2011 through non-cash acquisition

Sintal acquired a 100% stake in Agri&Ca, an agriculture enterprise with 49-year lease rights to a 46 ths ha landbank in Kherson region, in return for a 6% equity stake in the company. In addition, a former owner of Agri&Ca, Icon Private Equity, granted a USD 8 mln loan to Sintal, which is convertible into a 4.8% stake in Sintal Agriculture. The 6% stake for 1/3 of its combined landbank seems like a bargain for Sintal, even accounting for a low quality of acquired land. Agri&Ca's lease rights were priced at USD 210/ha (USD 418/ha for the whole company), lower than USD 440-1,500/ha range paid by other listed companies in 2011.

The dark side of recent land acquisition lies in the poor quality of acquired land (in terms of both land fertility and weather conditions). We therefore expect Sintal will experience a significant decline in crop yields this season on an average decrease of land quality (in addition to a weather-related decline).

A non-core asset for majority shareholder

A key risk for minorities is the fact that Sintal Agriculture remains a non-core asset for its majority shareholder, whose core business is in real estate. In almost four years as a public company, Sintal has done little by way of value creation for minorities, beset by low margins, strangely high production costs in 2009-10 and extremely poor financial disclosure.

One of the lowest realized selling prices

We calculate the company's average selling prices at 7%-9% below our estimate for Ukrainian average prices provided by APK-Inform, unlike most listed agricultural companies, which report 5%-20% premiums to the same set of prices.

Inventory balance, USD mln

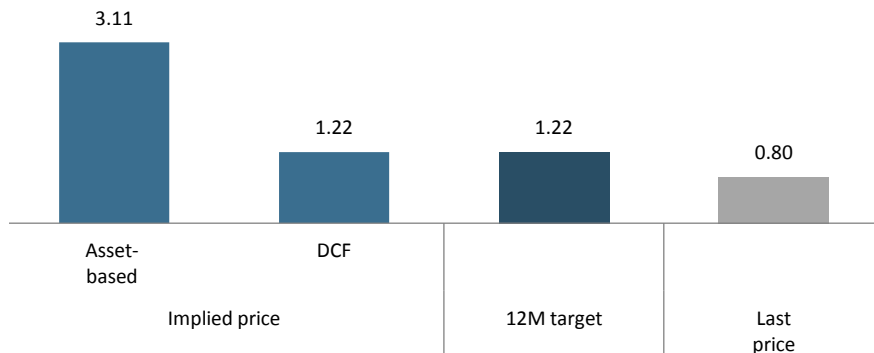
	2009	2010
Agricultural produce at year start	3.3	13.2
Sales of agricultural produce	24.9	25.7
Agricultural produce at year end	13.2	20.8
Implied value of harvest	34.8	33.2
Value of harvest estimated at APK-Inform prices	37.6	36.5
Discount of average selling prices to APK-Inform	-7%	-9%

Source: Company data, Concorde Capital research

Valuation

We set our target price based on DCF: USD 1.5 per GDR (EUR 1.2). Note that DCF-implied value lags significantly to that indicated by the asset-based approach. Sintal's low output pricing is the key factor preventing the company from realizing the maximum value from its assets. We assign a HOLD recommendation: poor accountability and illiquidity fully outweigh the 53% implied upside, in our view.

Valuation summary, EUR / DR



Source: Concorde Capital research

Risks

A key risk for minorities is the fact that Sintal Agriculture remains a non-core asset for its majority shareholder: resulting accountability risk, evident by high costs in 2009-10, is significant for minorities. Delisting is also a risk for the stock, as the company has not yet moved to a new listing level on the Frankfurt Stock Exchange (though Sintal promises to do so); its current listing level is being phased out. Poor liquidity, common for FSE-listed Ukrainian stocks, is also a risk.

DCF valuation

Our DCF valuation of Sintal yields a fair price of USD 1.5 per GDR (EUR 1.2). For detailed operating assumptions, please refer to the next page.

DCF output, USD mln

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	10.2	16.0	16.0	19.5	21.1	22.4	23.8	25.2	26.5	27.8
EBIT	8.7	13.7	12.9	16.2	17.4	18.4	19.5	20.6	21.6	22.5
<i>Effective Tax Rate</i>	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Taxed EBIT	8.6	13.4	12.7	15.8	17.1	18.1	19.1	20.2	21.1	22.1
Plus D&A	1.5	2.3	3.1	3.4	3.7	4.0	4.3	4.6	4.9	5.2
Less CapEx	(3.0)	(11.7)	(11.9)	(4.7)	(4.8)	(4.9)	(5.0)	(5.1)	(5.2)	(5.3)
Less change in OWC	(7)	(3)	(5)	(4)	(2)	(2)	(2)	(2)	(2)	(2)
FCFF	-	-	(1)	11	14	15	16	18	19	20
WACC	22%	22%	21%	21%	21%	21%	21%	22%	22%	22%
<i>Sum of disc't'd CF's</i>				47						
Terminal Value										105
Disc't'd TV				25						
Firm value				72		Portion due to TV				34.5%
Less Net Debt				(20)						
Equity Value as of 25 May 2013				52		Implied exit EBITDA Multiple				3.8 x
Perpetuity Growth Rate										2.0%
Fair price of GDR					USD 1.5					
					EUR 1.2*					

* At USD/EUR rate of 1.22 as of July 13

Source: Concorde Capital research

Sensitivity analysis, USD per GDR

WACC	Perpetuity Growth Rate					WACC	Exit Multiple (EBITDA)				
	1.0%	1.5%	2.0%	2.5%	3.0%		1.8 x	2.8 x	3.8 x	4.8 x	5.8 x
-3.0%	1.7	1.8	1.8	1.8	1.8	-3.0%	1.3	1.6	1.8	2.0	2.2
-2.0%	1.6	1.7	1.7	1.7	1.7	-2.0%	1.3	1.5	1.7	1.9	2.1
-1.0%	1.5	1.6	1.6	1.6	1.6	-1.0%	1.2	1.4	1.6	1.8	2.0
+0.0%	1.5	1.5	1.5	1.5	1.5	+0.0%	1.1	1.3	1.5	1.7	1.9
+1.0%	1.4	1.4	1.4	1.4	1.4	+1.0%	1.1	1.2	1.4	1.6	1.8
+2.0%	1.3	1.3	1.3	1.3	1.4	+2.0%	1.0	1.2	1.3	1.5	1.7
+3.0%	1.2	1.2	1.2	1.3	1.3	+3.0%	0.9	1.1	1.2	1.4	1.6

Source: Concorde Capital research

WACC decomposition

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Debt-to-Equity	0.11	0.10	0.24	0.24	0.28	0.22	0.15	0.14	0.14	0.14
Avg. after-tax Interest Rate	16.0%	15.0%	15.2%	15.1%	14.7%	14.7%	14.8%	14.8%	14.9%	15.0%
Ukr. Eurobonds YTM	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
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.	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Cost of Equity	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
WACC	21.8%	21.8%	21.0%	21.0%	20.7%	21.1%	21.5%	21.5%	21.5%	21.5%
WACC to Perpetuity	21.5%									

Source: Company data, Concorde Capital research

Operating assumptions

Crops segment assumptions

	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Land bank		99	99	145	145	145	145	145	145	145	145	145
Planted acreage (ths ha)	79	80	83	102	123	128	128	128	128	128	128	128
		81%	84%	70%	85%	88%	88%	88%	88%	88%	88%	88%
Acreage breakdown												
Wheat	60%	45%	23%	31%	40%	40%	40%	40%	40%	40%	40%	40%
Corn	8%	6%	9%	14%	5%	5%	5%	5%	5%	5%	5%	5%
Barley	11%	10%	11%	16%	15%	15%	15%	15%	15%	15%	15%	15%
Rapeseed		7%	20%	9%	5%	5%	5%	5%	5%	5%	5%	5%
Soy	9%	10%	12%	11%	10%	10%	10%	10%	10%	10%	10%	10%
Sunflower	7%	18%	25%	20%	25%	25%	25%	25%	25%	25%	25%	25%
Other	5%	4%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Crop yields, t/ha												
Wheat	4.6	2.4	3.0	2.4	2.6	2.7	2.7	2.8	2.8	2.9	2.9	3.0
Corn	6.2	4.2	5.0	3.7	4.0	4.1	4.2	4.2	4.3	4.4	4.5	4.6
Barley	3.1	1.9	2.6	2.1	2.3	2.4	2.4	2.5	2.5	2.6	2.6	2.7
Rapeseed	0.0	1.5	2.6	1.4	1.5	1.6	1.6	1.6	1.7	1.7	1.7	1.8
Soy	2.2	2.0	1.7	1.5	1.6	1.7	1.7	1.7	1.8	1.8	1.8	1.9
Sunflower	1.8	1.6	1.7	1.3	1.4	1.4	1.5	1.5	1.5	1.6	1.6	1.6
Marketing year data												
Revenue, USD/ha	442	415	610	468	499	519	540	562	585	605	627	649
Costs, USD/ha	405	387	290	309	306	317	329	340	351	362	374	386
Gross profit, USD/ha	37	27	321	159	193	202	211	222	234	244	253	263
Gross margin, MY	8%	7%	53%	34%	39%	39%	39%	40%	40%	40%	40%	41%
Calendar year figures, USD mln												
Revenue	24.9	25.7	46.5	47.1	56.5	62.8	66.8	70.0	73.0	75.8	78.5	81.3
Gross profit	7.6	8.1	14.9	20.7	20.7	24.4	26.1	27.5	29.0	30.4	31.6	32.9
Gross margin	31%	32%	32%	44%	37%	39%	39%	39%	40%	40%	40%	40%
Inventories balance, USD mln												
Agricultural produce at year start	3.3	13.2	20.8	25.0	25.4	30.4	33.8	36.0	37.7	39.3	40.8	42.3
Value of harvest	34.8	33.2	50.7	47.5	61.5	66.3	68.9	71.7	74.6	77.3	80.0	82.8
Sales	24.9	25.7	46.5	47.1	56.5	62.8	66.8	70.0	73.0	75.8	78.5	81.3
old year sales	13%	52%	45%	53%	45%	48%	51%	51%	52%	52%	52%	52%
new year sales	87%	48%	55%	47%	55%	52%	49%	49%	48%	48%	48%	48%
Sales as % of supply	65%	55%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%
Agricultural produce at year end	13.2	20.8	25.0	25.4	30.4	33.8	36.0	37.7	39.3	40.8	42.3	43.8

Source: Company data, Concorde Capital research

Financials

Income statement, USD mln*

	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Net Revenues	30	32	46	47	56	63	67	70	73	76	79	81
Change y-o-y	N/M	4%	46%	1%	20%	11%	6%	5%	4%	4%	4%	4%
Cost Of Sales	(23)	(24)	(30)	(24)	(33)	(35)	(37)	(39)	(40)	(41)	(42)	(43)
Gross Profit	7.6	8.0	16	23	24	28	30	31	33	35	37	38
SG&A	(4)	(6)	(7)	(8)	(9)	(9)	(10)	(10)	(11)	(11)	(12)	(12)
Other Operating Income, net	1	(0)	1	1	1	1	1	1	1	2	2	2
EBITDA	5	2	10	16	16	20	21	22	24	25	26	28
EBITDA margin. %	15%	5%	22%	34%	28%	31%	32%	32%	33%	33%	34%	34%
Depreciation	(2)	(1)	(1)	(2)	(3)	(3)	(4)	(4)	(4)	(5)	(5)	(5)
EBIT	3	0	9	14	13	16	17	18	20	21	22	23
EBIT margin. %	9%	1%	19%	29%	23%	26%	26%	26%	27%	27%	27%	28%
Finance expenses	(2)	(1)	(2)	(3)	(3)	(4)	(3)	(2)	(2)	(2)	(3)	(3)
Other income/(expense)			-	-	-	-	-	-	-	-	-	-
PBT	1	(1)	7	11	10	13	15	16	17	18	19	20
Tax	1	(1)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Effective tax rate	-74%	-62%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Extraordinary Income/(loss)	(0.7)	0.4	-	-	-	-	-	-	-	-	-	-
Net Income	1	(2)	7	11	9	12	14	16	17	18	19	19
Net margin. %	2%	-5%	15%	23%	17%	20%	21%	23%	23%	23%	24%	24%
Dividend Declared	-	-	-	-	1	3	5	13	14	16	18	18

*All figures are net of remeasurement of agricultural produce and revaluation of biological assets

Source: Company data, Concorde Capital research

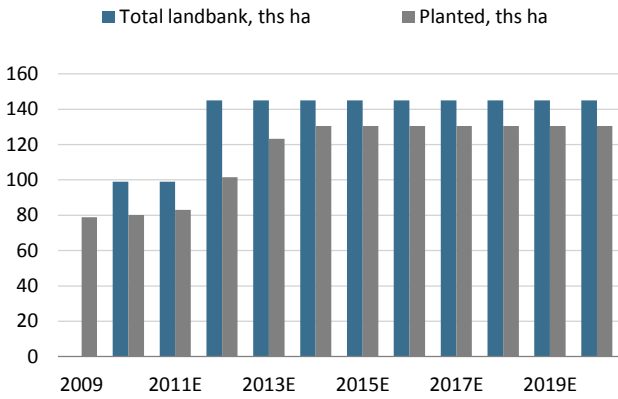
Balance sheet, USD mln

	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Current Assets	44	55	64	67	75	80	83	86	89	91	94	96
Cash & Equivalents	8	0	2	2	3	3	3	3	4	4	4	4
Trade Receivables	1	4	4	4	5	5	5	6	6	6	6	7
Inventories and biological assets	30	48	55	57	63	67	69	71	73	75	77	79
Other current assets	5	2	4	4	4	5	5	5	6	6	6	6
Fixed Assets	16	17	36	45	54	55	56	57	58	58	59	59
PP&E, net	8	11	16	26	34	36	37	38	39	39	39	39
Other Fixed Assets	7	6	19	19	19	19	19	19	19	19	19	19
Total Assets	59	72	100	112	128	135	139	143	147	150	152	155
Shareholders' Equity	46	56	72	83	91	100	110	113	115	117	118	119
Share Capital	37	37	46	46	46	46	46	46	46	46	46	46
Reserves and Other*	10	20	27	37	46	55	64	67	70	72	72	73
Current Liabilities	12	16	28	24	32	30	25	25	26	28	29	31
ST Interest Bearing Debt	5	6	17	15	20	17	11	11	11	12	13	14
Trade Payables	4	4	5	4	5	5	6	6	6	6	6	6
Other Current Liabilities	3	6	6	6	7	8	8	9	9	9	10	10
LT Liabilities	1	0	-	5	5	5	5	5	5	5	5	5
LT Interest Bearing Debt	0	-	-	5	5	5	5	5	5	5	5	5
Other LT	1	0	-	-	-	-	-	-	-	-	-	-
Total Liabilities & Equity	59	72	100	112	128	135	139	143	147	150	152	155
Net Debt, USD mln	(2)	6	15	17	23	18	13	12	13	13	14	15

Source: Company data, Concorde Capital research

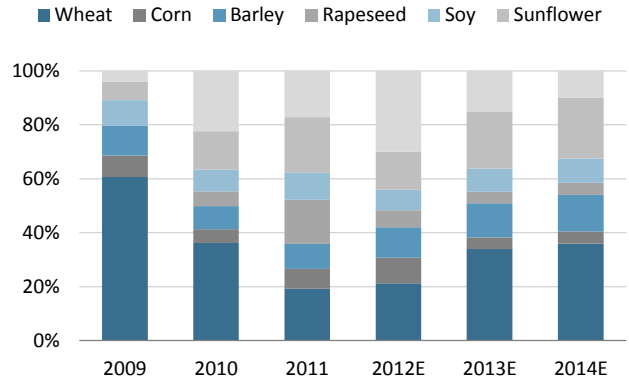
Sintal Agriculture in six charts

Land bank, ths ha



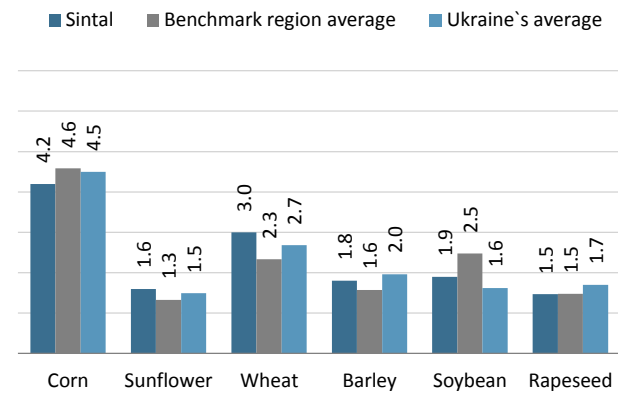
Source: Company data, Concorde Capital

Crop structure, by ha



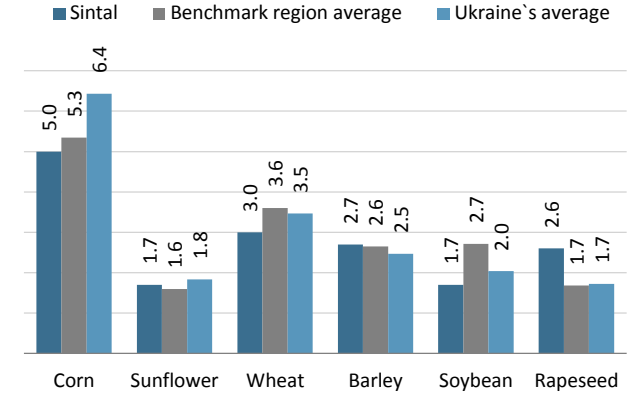
Source: Company data, Concorde Capital

Crop yields, 2010



Source: Company data, State Statistics Committee of Ukraine

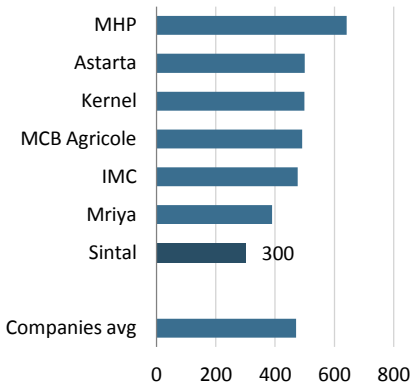
Crop yields, 2011



Source: Company data, State Statistics Committee of Ukraine

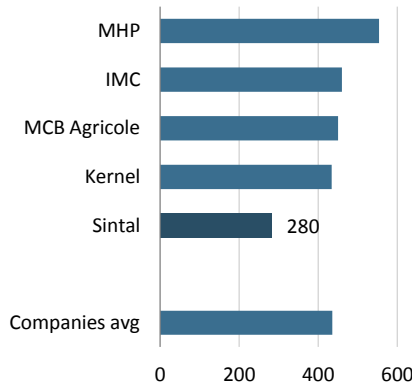
Production costs, USD/ha, 2011

Wheat



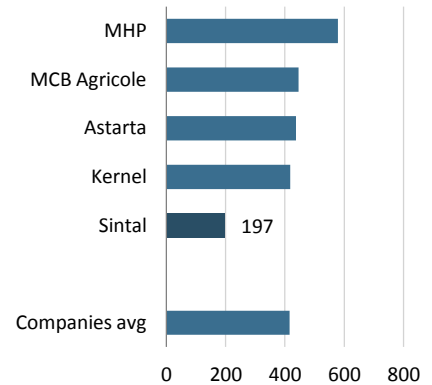
Source: Company data

Sunflower



Source: Company data

Soybean



Source: Company data

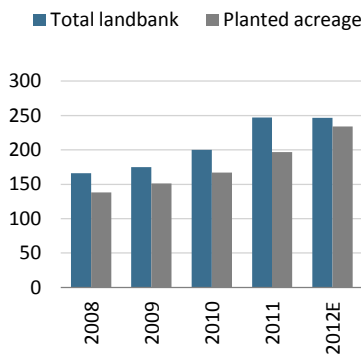
BRIEF PROFILES: INTEGRATED FARMING AND FOOD COMPANIES

Astarta

Leading sugar maker

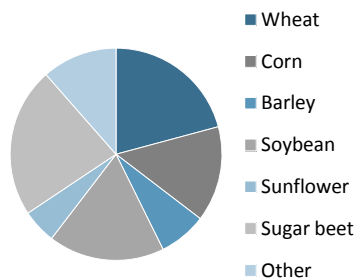
- Farming segment's core focus is to produce sugar beets for its sugar processing plant
- Superior landbank location: we estimate the fair value of its land at USD 2466/ha vs. USD 904-2226/ha for other listed companies
- Able to achieve some of the highest crop yields premiums to the average for its benchmark region: 30% for corn and sugar beets, 21% and 22% for wheat and barley respectively on average in 2010-11
- Plans to acquire cheap low quality land and develop it into high quality within five years

Landbank, ths ha



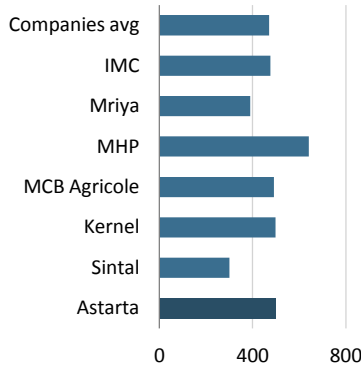
Source: Company data

Crop structure, by ha, 2011



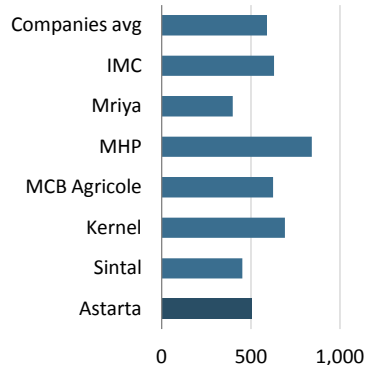
Source: Company data

Production costs, USD/ha, 2011 Wheat



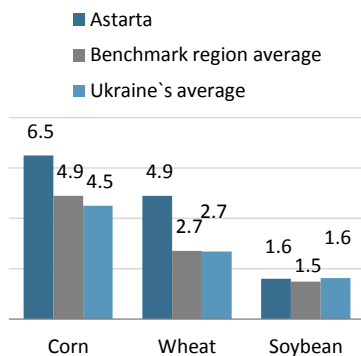
Source: Company data

Production costs, USD/ha, 2011 Corn



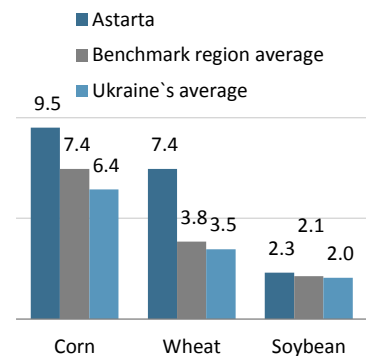
Source: Company data

Crop yields, t/ha, 2010



Source: Company data, State Statistics Committee of Ukraine

2011



Market data

Bloomberg	AST PW
Reuters	AST=PW
Recommendation*	BUY
Price, PLN	58.4
12M target, PLN*	94.5
Upside	62%
No of shares, mln	25.0
Market Cap, PLN mln	1460
52-week performance	-33%
52-week range, PLN	44.4/94.9
ADT, 6M, PLN mln	0.68
Free float, %	37%
Free float, PLN mln	540.2

Source: Bloomberg

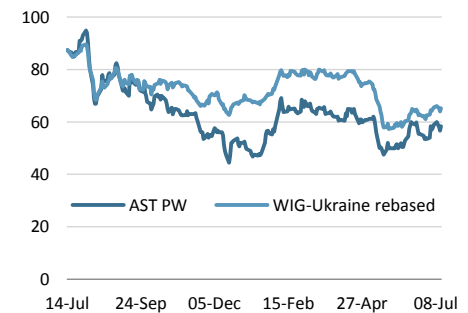
*See our latest note from March 7 for details

Ownership structure

Victor Ivanchyk	37%
Valery Korotkov	26%
Free float	37%

Source: Company data

Share price performance, PLN



Source: Bloomberg

Company description

Largest sugar producer in Ukraine with a 16% market share in 2011. Derives 64% of revenues from sugar (60% of gross profit), 26% from farming (ex sugar beets; 32% of gross profit) and the remaining from cattle farming.

Company's landbank, ths ha



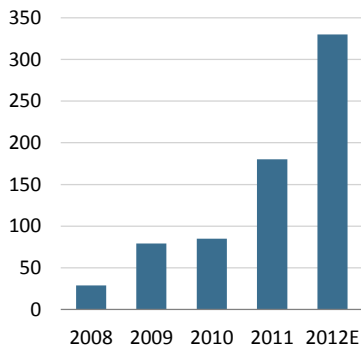
Source: Company data

Kernel

Grain trader actively integrating upstream

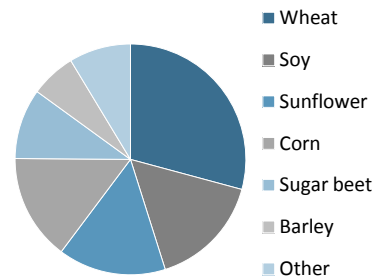
- Rapid growth in landbank through acquisitions: almost 100 ths ha added in 2011, another 119 ths ha added in April 2012 to a total of 330 ths ha, the largest among listed companies
- One of the best landbank locations: we estimate Kernel's land delivers 50% more in gross profit per ha than Ukraine's average
- Farming segment is among least efficient, with yields lagging to regional benchmarks

Landbank dynamics, ths ha



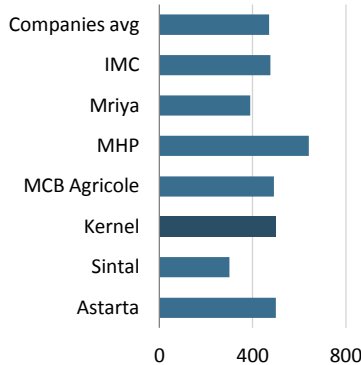
Source: Company data

Crop structure, by ha, 2011



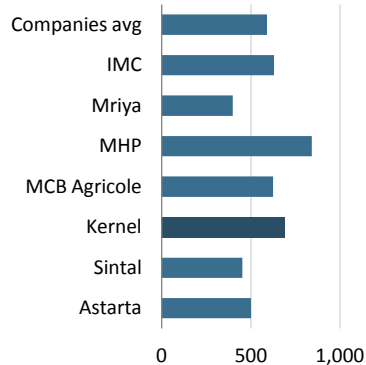
Source: Company data

Production costs, USD/ha, 2011 Wheat



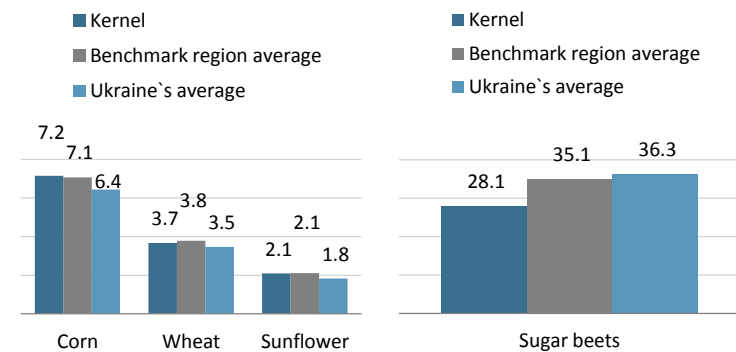
Source: Company data

Production costs, USD/ha, 2011 Corn



Source: Company data

Crop yields, t/ha, 2011



Source: Company data, State Statistics Committee of Ukraine

Market data

Bloomberg	KER PW
Reuters	KER=PW
Recommendation*	BUY
Price, PLN	63.3
12M target, PLN*	91.6
Upside	45%
No of shares, mln	79.7
Market Cap, PLN mln	5,045
52-week performance	-15%
52-week range, PLN	51.5/75.3
ADT, 6M, PLN mln	7.9
Free float, %	62.0
Free float, PLN mln	3,128

Source: Bloomberg

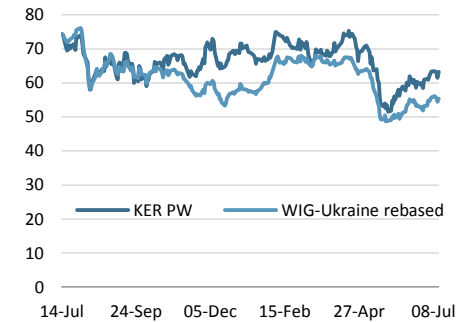
*See our latest note from May 17 for details

Ownership structure

Andrii Verevskyy	38%
Free float	62%

Source: Company data

Share price performance, PLN

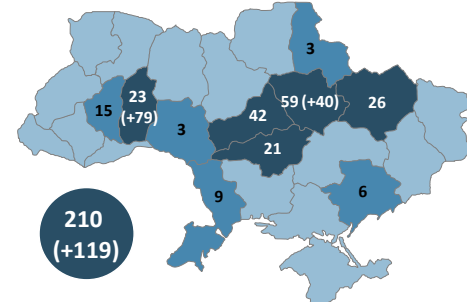


Source: Bloomberg

Company description

Ukraine's largest diversified agricultural and food company with sunflower oil production and grain trading as core activities (66% and 29% of revenues in FY 2011 respectively). Aggressively expanded in farming by adding a total 240 ths ha via acquisitions over the last 1.5 years.

Company's landbank, ths ha



Source: Company data

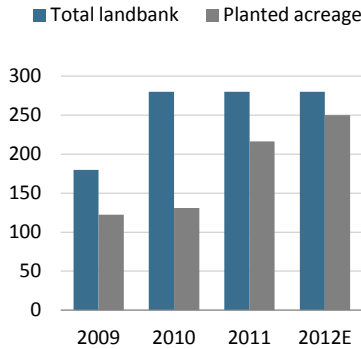
Note: Numbers in brackets represent acquisitions in 2012

MHP

Leading poultry producer

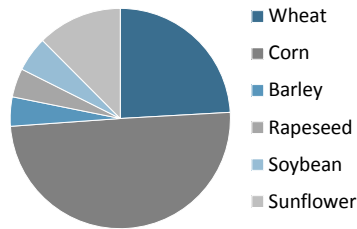
- Farming segment provides feedstock for poultry farming, a key segment for the company. Extra crops are sold to third parties
- We calculate that farming accounted for 18% of revenues and 30% of EBITDA in 2011
- The most efficient farmer: achieves the largest crop yield premiums to its benchmark region averages, which more than compensate for the industry's highest costs applied per ha

Landbank dynamics, ths ha



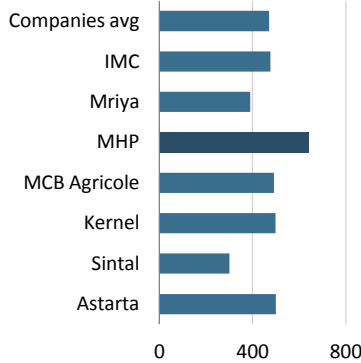
Source: Company data

Crop structure, by ha, 2011



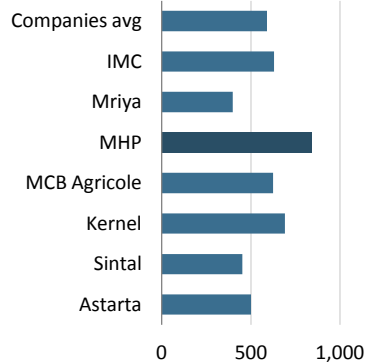
Source: Company data

Production costs, USD/ha, 2011 Wheat



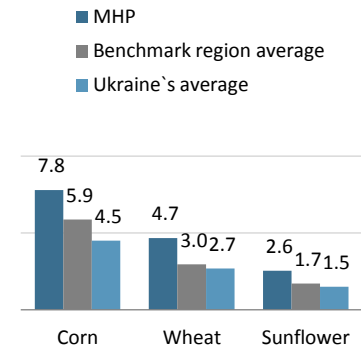
Source: Company data

Production costs, USD/ha, 2011 Corn



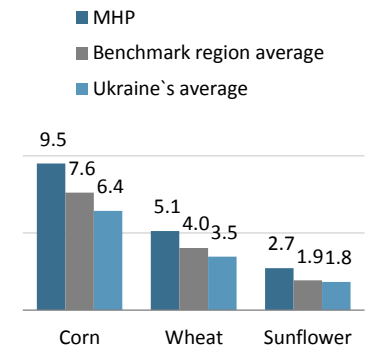
Source: Company data

Crop yields, t/ha, 2010



Source: Company data, State Statistics Committee of Ukraine

2011



Market data

Bloomberg	MHPC LI
Reuters	MHPC=LI
Recommendation*	BUY
Price, USD	11.4
12M target, USD*	19.3
Upside	69%
No of shares, mln	107.9
Market Cap, USD mln	1,230
52-week performance	-33%
52-week range, USD	8.4/17.0
ADT, 6M, USD mln	1.7
Free float, %	18.1%
Free float, USD mln	223

Source: Bloomberg

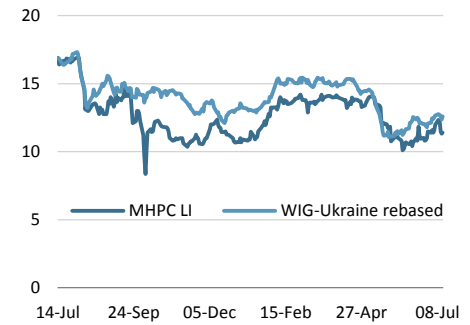
*See our latest note from March 21 for details

Ownership structure

Yury Kosyuk	81.9%
Free float	18.1%

Source: Company data

DR price performance, USD



Source: Bloomberg

Company description

Largest poultry producer in Ukraine, with a market share of 50% of industrially produced chicken. Also cultivates 280 ths ha. Owns a sunflower oilseed pressing plant with a total capacity of 590 kt p.a. In 2011, produced 384 kt of poultry working at full capacity, 174 kt of sunflower oil and 1.7 mln mt of crops. Key investment project is Vinnytsia poultry facility: total target production capacity of 440 kt of chicken meat per year, first stage with 220 kt to be launched in 1Q13.

Company's landbank, ths ha

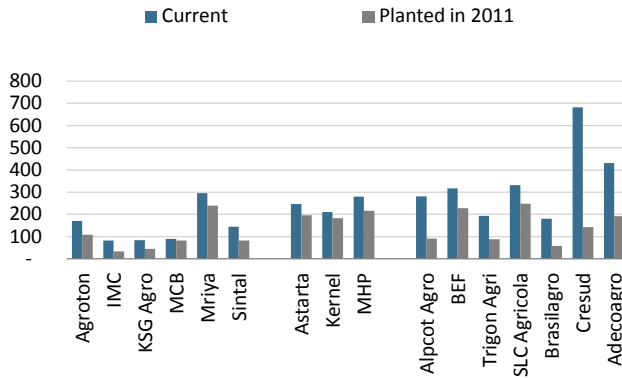


Source: Company data

APPENDICES

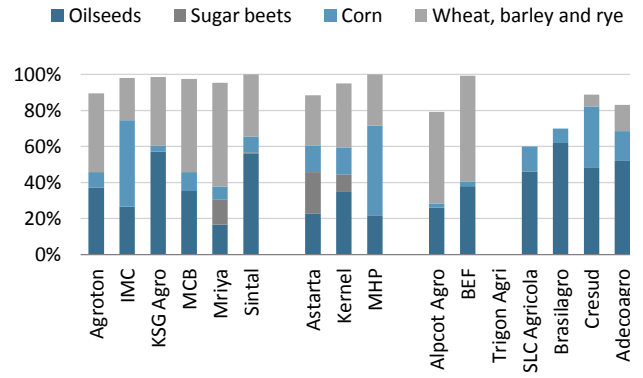
I. Ukrainian farmers vs. global peers: key stats

Landbank size, ths ha



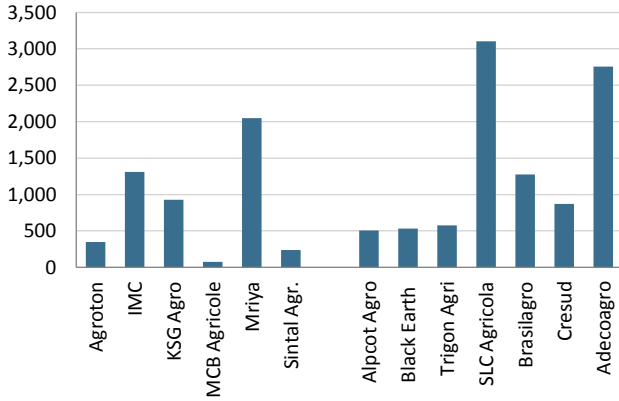
Source: Company data

Crop harvest structure by hectare, 2011



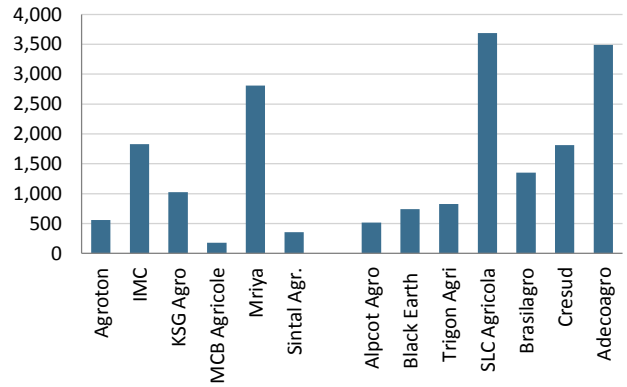
Source: Company data

Market-implied price/land (current), USD/ha



Source: Bloomberg

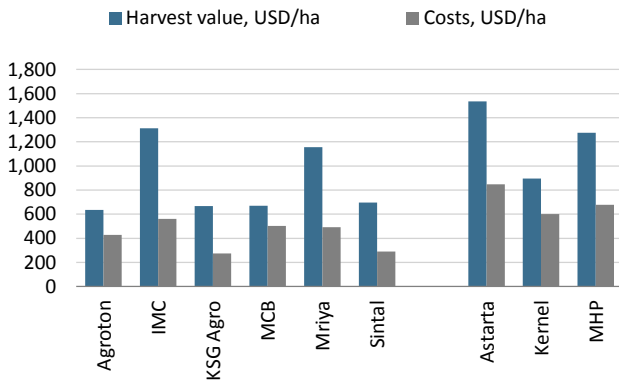
Market-implied EV/land (2012E), USD/ha



Source: Company data, Bloomberg, Concorde Capital

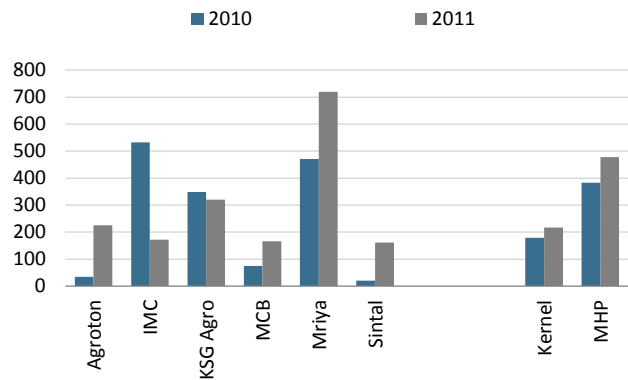
II. Ukrainian farmers: per hectare comparison

Harvest value and production costs, 2011



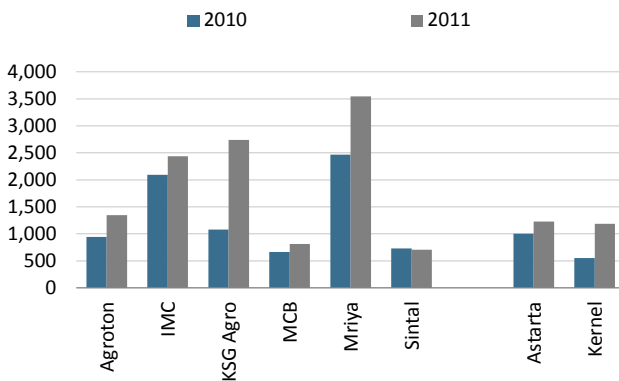
Note: Harvest value is calculated as crop sales plus the book value of agricultural produce at yearend minus the book value of agricultural produce at year start. For Kernel and Astarta, sugar beet value is estimated at the same prices as Mriya reports, for comparison purposes. Based on harvested landbank size. Source: Company data, Concorde Capital calculations

Adjusted EBITDA, USD/ha



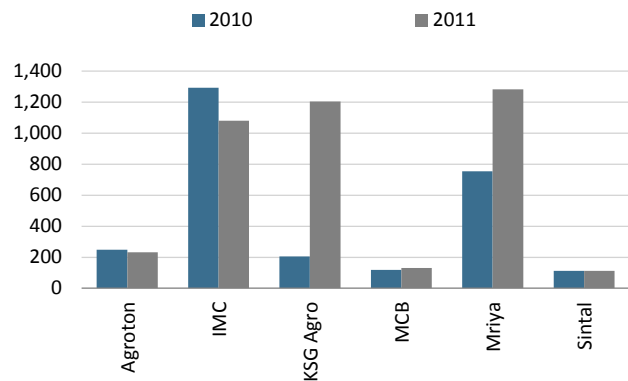
Note: EBITDA figures adjusted for the revaluation of biological assets. See Appendix V for details on methodology. Based on harvested area. Source: Company data, Concorde Capital

Total assets, USD/ha



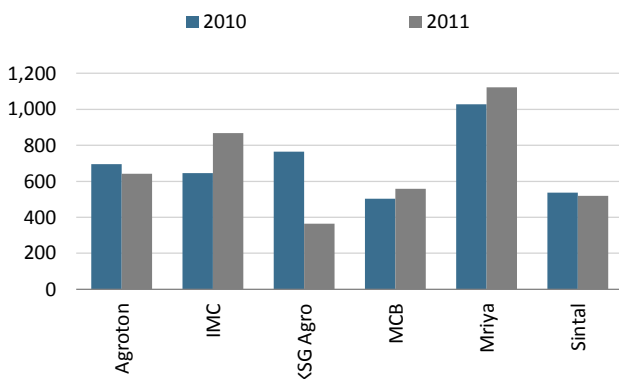
Note: Based on landbank size at yearend and total assets attributable to the agricultural segment. Source: Company data, Concorde Capital

PP&E, USD/ha



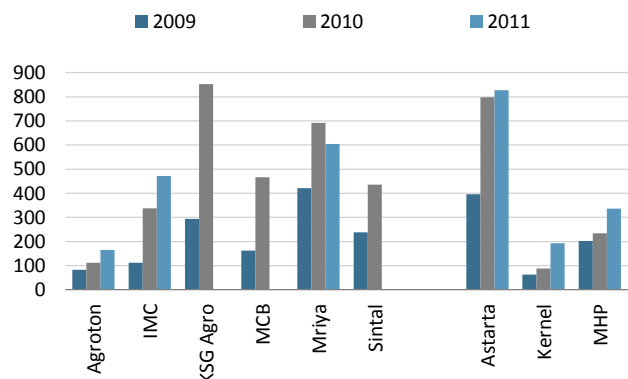
Note: Based on landbank size at yearend. Source: Company data, Concorde Capital

Working capital, USD/ha, eop



Note: Based on landbank size at yearend. Source: Company data, Concorde Capital

Current biological assets, USD/ha of winter sowings, eop



Note: Based on land under winter crops at yearend. Source: Company data, Concorde Capital

III. Land value

All agricultural enterprises in Ukraine lease the land they operate. A moratorium on the sale of agricultural land was set by parliament more than a decade ago and has been prolonged every year since.

The average size of a leased plot is 1.5 ha, which implies a 100 ths ha landbank requires around 60k lease contracts. To expand their landholdings, large agricultural companies usually purchase small leased landbanks of 5-30 ths ha, paying USD 250-1,500 per ha for lease rights (we estimate the current average at USD 500/ha).

Benchmark EV/ha

We estimate Ukraine's average value for lease rights at USD 1,600/ha, which is a result of three components (all Concorde Capital estimates):

- **Value of lease rights:** USD 1,200/ha
- **Machinery:** USD 200/ha
- **Working capital:** USD 200/ha at year end

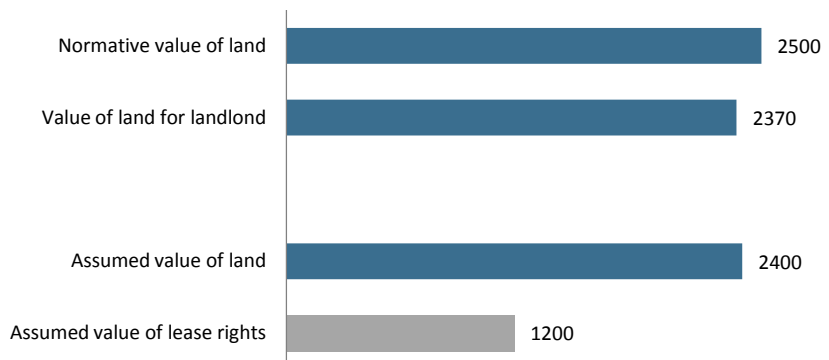
To arrive at our estimate for the value of lease rights of USD 1,200/ha, we make two principal assumptions:

- Current leaseholders, as holders of pre-emptive purchase rights, will be able to buy land at 50% of the fair value, because of negotiating power and the difference in fair value for a large-scale company and a small farmer, caused by differences in access to capital, machinery and management practices
- The current fair value of average Ukrainian agricultural land is USD 2,400/ha (assuming large-scale operations)

Assumed value of land

We arrive at a fair value for agricultural land of USD 2,400/ha via different methods that yield similar results:

Farmland value, USD/ha



Source: Concorde Capital estimates

Current landlord income capitalization model

Landlord, typically an individual with 1.5 ha plots, has two options: let its land for lease or farm it by himself. We deem leasing preferable as we do not think farming such small land plots can be profitable. Should land become tradable, a landowner will have an option to sell the land, thus his opportunity cost will amount to the deposit rate on proceeds from the sale of the land. We take the average deposit rate for USD denominated deposits of 7.5% in Ukraine as an opportunity cost and consequently a discount rate for current landowners. Applying our view on average annual lease payments, we calculate NPV of USD 2,370/ha for current landowners.

NPV, USD/ha

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Cash flow (lease income), USD	75	90	105	113	116	120	123	127	131	135
Yoy	33%	20%	17%	7%	3%	3%	3%	3%	3%	3%
Discount rate (USD deposit rate)	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Sum of disc't'd CF's	810									
Terminal Value										2,990
Perpetuity Growth Rate										3.0%
Disc't'd TV	1,559									
NPV	2,370									

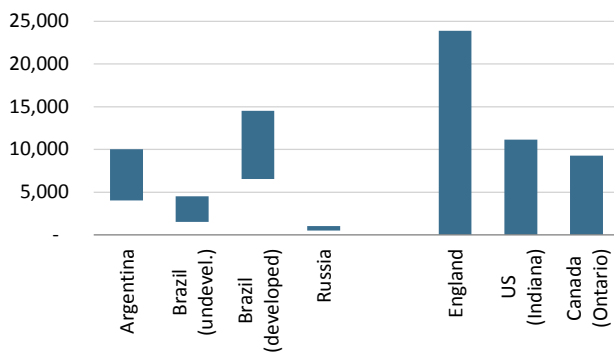
Source: Concorde Capital estimates

Normative value

We use the normative value of land currently set by the government as our second reference. While the figure varies by plot, the average value is known to be around UAH 20,000/ha or USD 2,500/ha.

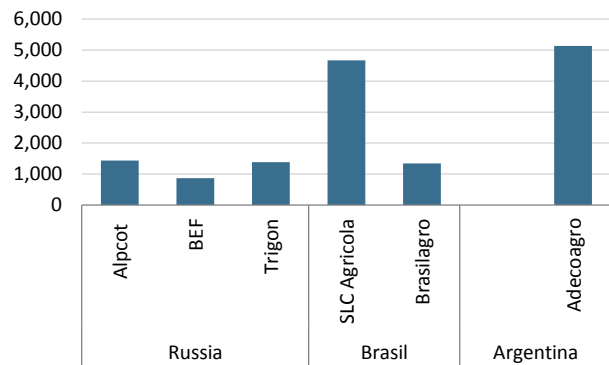
As a reality check, below we provide land value in other countries and EV/ha multiples for listed companies.

Land price by country, USD/ha



Sources: FAO, Margenes Agropecuarias, CARD, Black Rock, Company data

Listed farming companies, EV/ha owned, USD

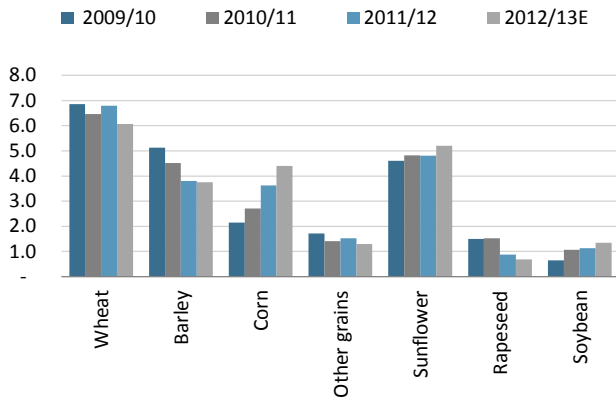


Source: Concorde Capital estimates

IV. Ukraine's 2012 harvest outlook

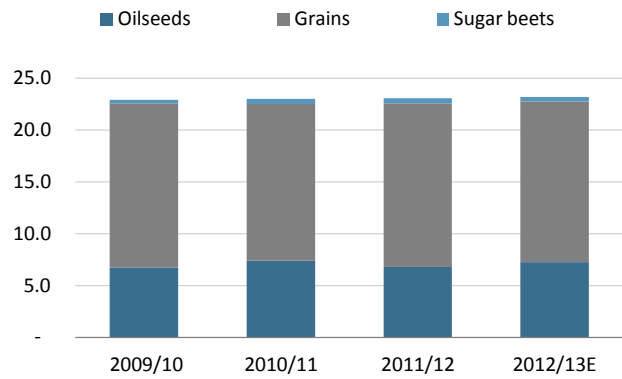
We estimate crop yields will decrease by 5-25% yoy in 2012 – the decline prompted by a bumper 2011 harvest and current year's weather shocks (winter kills and draught). We expect total grain production in Ukraine at 45 mmt, down 21% yoy and oilseed production at 12 mmt, down 8% yoy.

Area under crop, mln ha



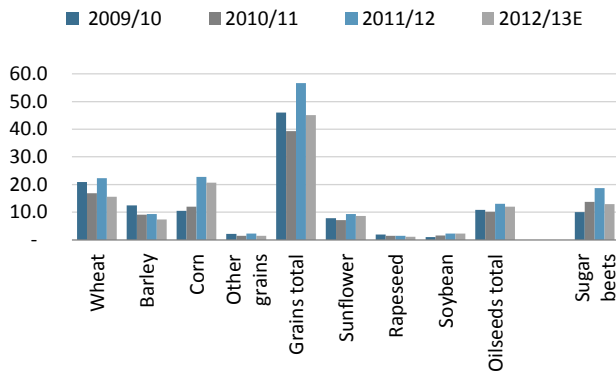
Source: APK-Inform, Concorde Capital projections

Area sown, ths ha



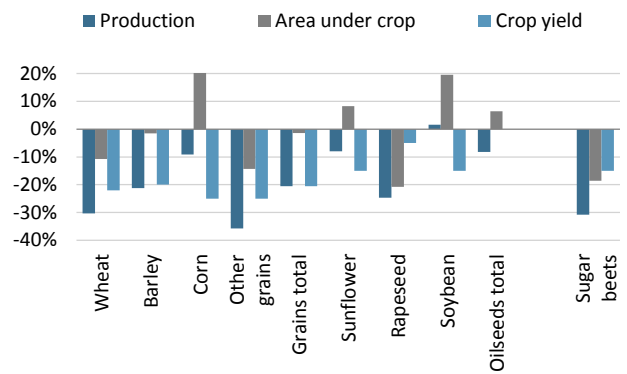
Source: APK-Inform, State Statistics Committee of Ukraine, Concorde Capital projections

Production, mmt



Source: APK-Inform, Concorde Capital research

2012 vs. 2011, yoy



Source: APK-Inform, State Statistics Committee of Ukraine, Concorde Capital research

V. Biological asset revaluation

IAS 41 standard, effective since 2003 for all agricultural companies reporting under IFRS, requires companies to book agricultural produce and biological assets at “fair value less estimated cost to sell”, not at cost. Resulting revaluation gains or losses are recognized on the income statement; affecting all lines starting from COGS. Given that IFRS allows for a significant amount of freedom in estimating fair value and its amount could exceed total sales for farmers, we believe the elimination of revaluation components (effectively adjusting accounting to a cost-basis) is required for (1) the assessment of true operating performance and (2) cross-company comparison.

How do we adjust the income statement to be on a cost basis?

To restate the income statement on a cost basis, we deduct two elements from the gross profit line:

(1) *net change in fair value of biological assets and agricultural produce*. Usually it is reported on the income statement just below revenues.

(2) *the difference between fair value of agricultural produce sold and cash costs incurred during the production of agricultural produce*. This is the revaluation part of the COGS line and could be reported either in COGS composition in the notes or not reported on the financial statements at all. If not reported, we requested the figure from management.

Where does revaluation come from?

Ukrainian farmers’ typical biological assets include crops in the ground and living animals. Typical agricultural produce are harvested crops.

IAS 41 application summary

Timing	Assets	Income statement	Notes on revaluation	Quarterly revaluation
Prior “significant transformation occurred”	Sowing costs are booked as <i>inventories</i>	No effect	At cost	
When “significant transformation of the biological asset has occurred”	<i>Inventories</i> reclassified to <i>biological assets</i> with revaluation to the <i>fair value less estimated cost to sell</i>	<i>Fair value less estimated cost to sell</i> is recognized as the <i>net change in the fair value of biological assets and agricultural produce</i> in the income statement just below the revenue line. It is included in the gross profit line and all subsequent lines	Fair value is estimated using a cash flow model. Management decides: (1) when transformation is <i>significant</i> and (2) expected yields, costs, and discount rate Current market prices for crops are taken from a third-party	Revalued quarterly with the change in the <i>fair value less estimated cost to sell</i> appearing in the same income statement line
Harvesting	<i>Biological assets</i> revalued and reclassified to <i>agricultural produce</i> at the moment of harvesting	The net effect from revaluation is recognised in the income statement’s line usually named the <i>net change in fair value of biological assets and agricultural produce</i>	Actual yields and production costs are used. Market prices at the moment of harvesting are used, selling costs are estimated	Agricultural produce is not revalued
Sale	Inventory sold is deducted from the <i>agricultural produce</i> line in the asset part of the balance sheet	(1) Actual revenue reported as <i>revenue</i> (2) The value of <i>agricultural produce</i> sold is recognised in COGS	COGS includes both (1) cash production costs and (2) the difference between fair value of <i>agricultural produce</i> and cash costs	n/a

Note: See Appendix VI for crop production schedule for different crops

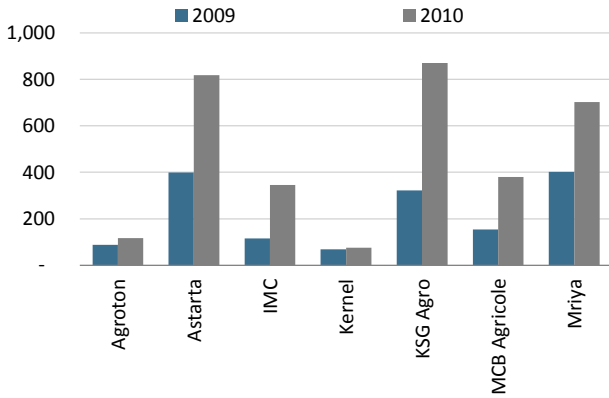
Source: Concorde Capital

Companies are not identical in their approaches to revalue

We also find that companies in this report have different approaches to biological asset revaluation, which makes us believe cross-company comparison is meaningless on unadjusted figures. Though companies are not required to disclose all assumptions used in estimating the fair value of biological assets, many of them disclose their fair value structure per crop and hectares sown.

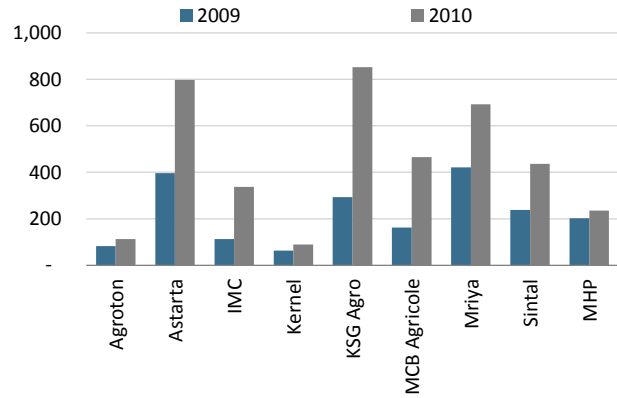
Book value of one hectare at yearend, USD/ha

Wheat



Source: Concorde Capital estimates

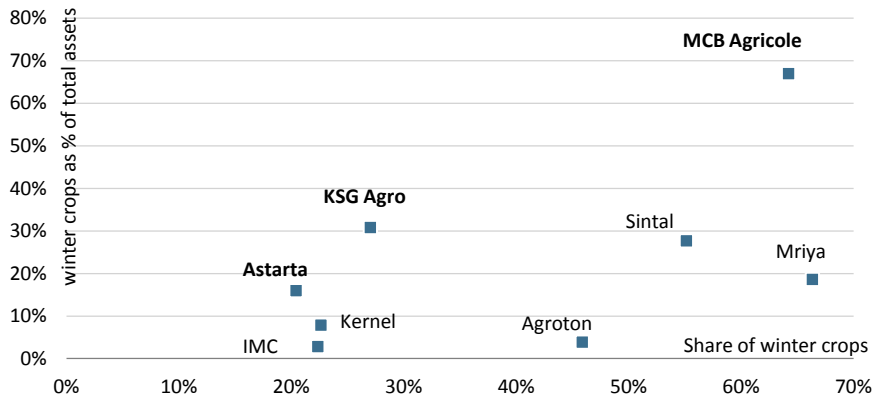
All winter crops



Source: Concorde Capital estimates

We also look at the relative size of biological assets to total assets, which basically shows how management estimates the value of winter crops in the ground as a percentage of total assets. For all companies except Agroton, IMC and Kernel, the value of winter crops in the ground represents a significant part of total assets, with the share varying significantly among companies.

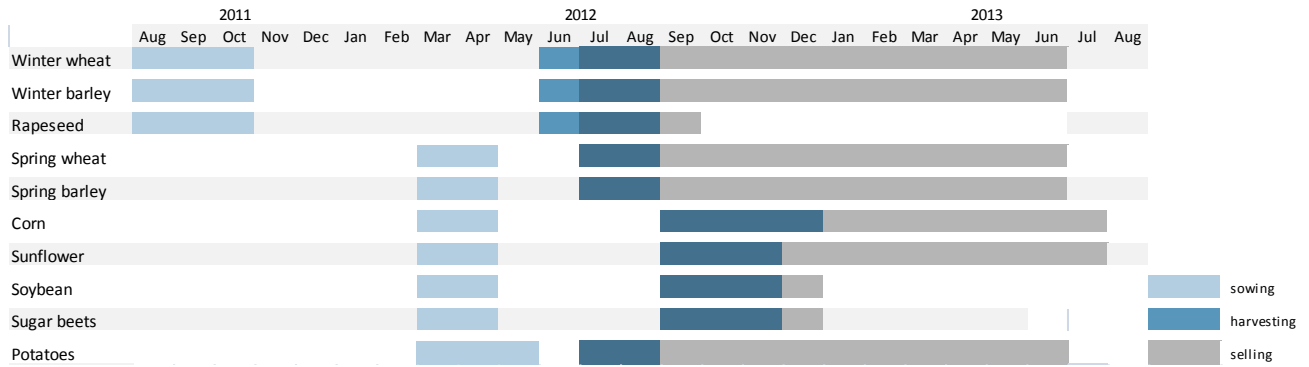
Biological assets (mostly winter crops) as a % of total assets, end-2010 vs. share of winter crops in the total harvest structure of the next year



Note: Bold marks those companies that use revaluation aggressively, in our view. MHP was excluded from this dataset as the company does not provide asset figures for its agriculture operations separately
Source: Concorde Capital estimates

VI. Crop production schedule

Crop schedule, based on 2012 harvesting year



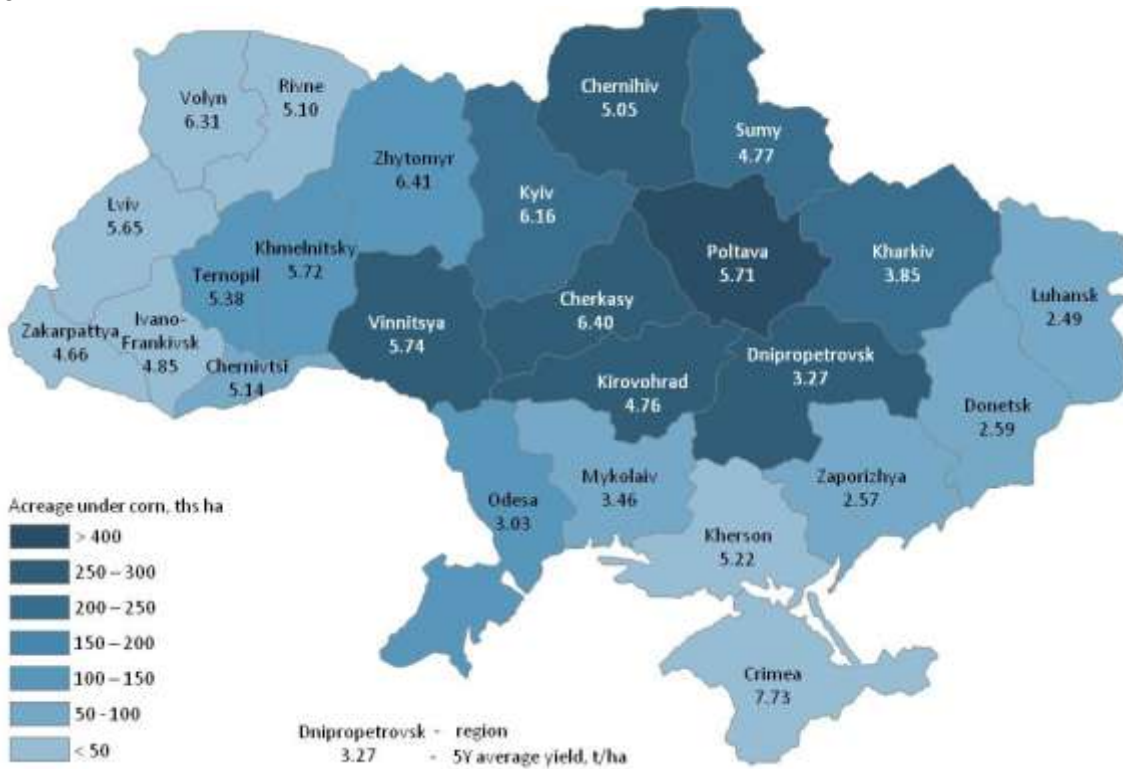
Source: Concorde Capital

VII. Ukraine by regions

Arable land, net of fallow



Corn

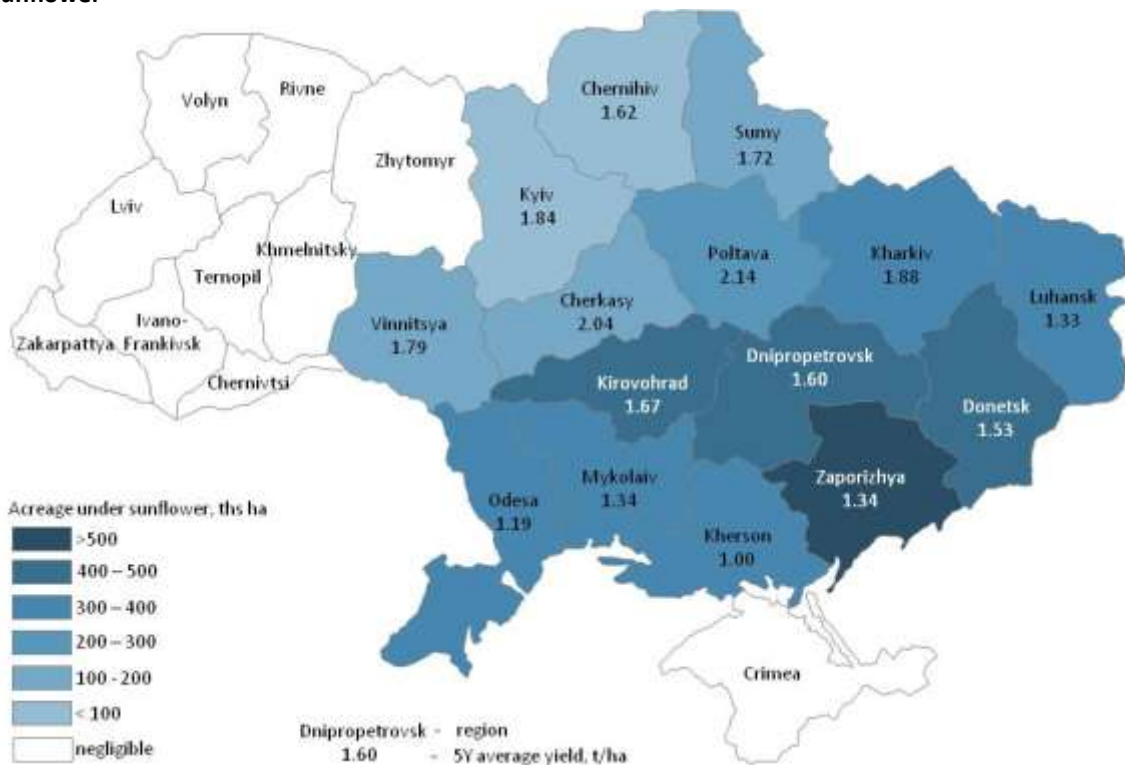


Source: State Statistics Committee of Ukraine

Wheat

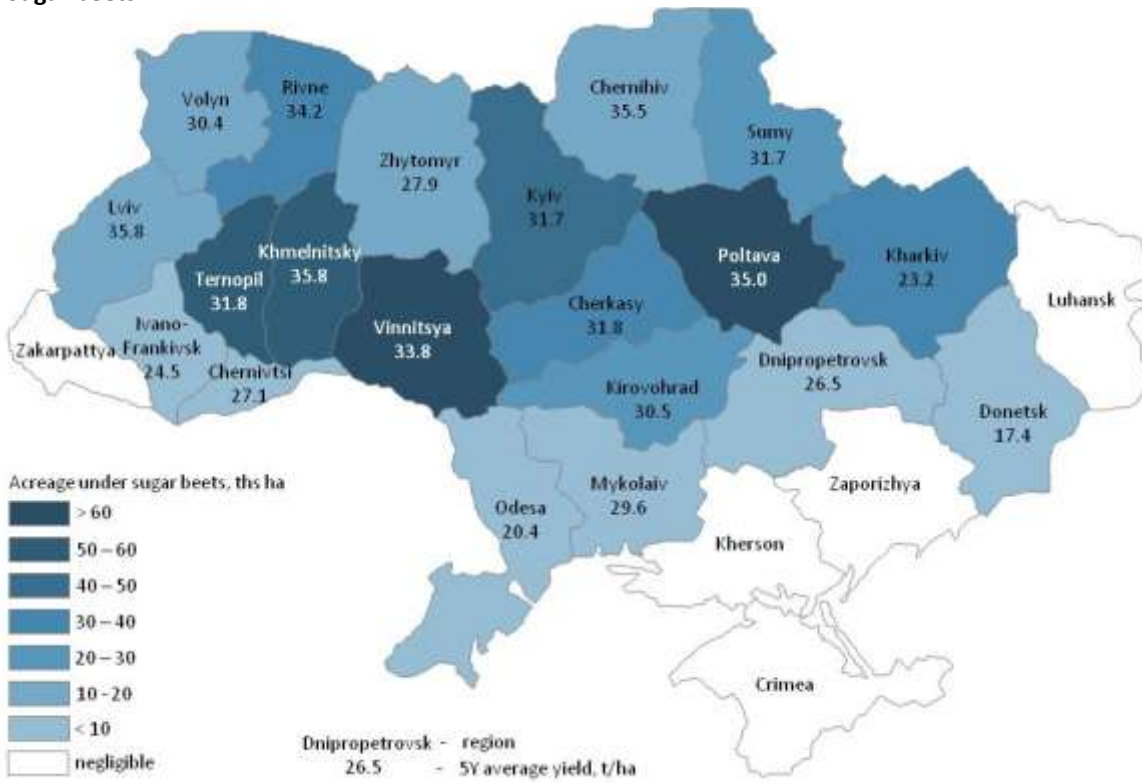


Sunflower



Source: State Statistics Committee of Ukraine

Sugar beets



Source: State Statistics Committee of Ukraine

Analyst certification

We, Alexander Paraschiy and Yegor Samusenko, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Rating history

<i>Company</i>	<i>12M target price, USD</i>	<i>Market price, USD</i>	<i>Rating</i>	<i>Action</i>	<i>Date</i>
Agroton	3.4	2.7	HOLD	Initiate	16-Jul-12
Industrial Milk Company	6.1	3.5	BUY	Initiate	16-Jul-12
KSG Agro	11.3	5.2	BUY	Initiate	16-Jul-12
MCB Agricole	1.4	0.4	HOLD	Initiate	16-Jul-12
Mriya Agroholding	5.4	5.7	SELL	Initiate	16-Jul-12
Sintal Agriculture	1.5	1.0	HOLD	Initiate	16-Jul-12

Source: Bloomberg, Concorde Capital

Investment ratings

The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 20% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 20%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

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