

6 October 2011

MHP

Covenant concern is overblown

- **We believe concern that MHP could breach its Eurobond covenants is overblown. The stock has dropped 26% in the last two days (vs. MSCI EM -6%). Our analysis of the Eurobond prospectus indicates the company is not in danger of breaching the covenants**
- **We lower our 12M target price from USD 22.6 per share to USD 14.0 per share (upside of 70%) based exclusively on prices implied by peers 2011E EV/EBITDA and 2011E P/E, as we do not believe the market will currently price in future growth**
- **MHP's Eurobonds have remained 430-520 bps above the sovereign curve, where it has been for the last three weeks, implying fixed income investors are not pricing in additional risk**

Shares have dropped 26% since loan announcement. On Tuesday, MHP said it attracted a USD 70 mln loan from ING to purchase sunflower oilseed, a usual practice, as procurement is typically done in September-November, while processing to oil is evenly distributed over 10-11 months. MHP shares have shed 26% in the last two days (vs. MSCI EM -6%) on concern total net debt could breach MHP's Eurobond covenant of 2.5x 12M trailing EBITDA.

We believe the concern has been overblown. MHP's net debt to 12M EBITDA was 2.10x in 2Q11; the new loan bumps that to 2.34x, by our calculations, shy of the covenant threshold. Moreover, according to MHP's Eurobond prospectus, the company has the right to increase its leverage by up to USD 100 mln above the 2.5x of 12M trailing EBITDA for working capital and capital lease purposes. MHP told us today it estimated its Net Debt to EBITDA at 2.2x at yearend. Moreover, the company has at least two ways (see page 2), in our view, to decrease leverage by yearend.

Devaluation expectations also not a realistic covenant trigger. As 75% of revenues are hryvnya-denominated, but most debt is USD-denominated, MHP is exposed to currency risk. We estimate that for a percent of hryvnya depreciation, EBITDA would fall by 0.75% when translated into USD terms, other things equal. This implies that it would take depreciation in the order of 40% by yearend to trigger a covenant breach, even under a conservative assumption of USD 750 mln in net debt at 4Q11E, even leaving a cushion of USD 100 mln. Our house view, in our pessimistic scenario, is only 5% hryvnya depreciation by yearend.

Valuation. We lower our 12M target price from USD 22.6 per share to USD 14.0 per share (upside of 70%). We based our new target price exclusively on an average of prices implied by peers 2011E EV/EBITDA and 2011E P/E, as we do not believe the market will currently price in future growth, which historically has accounted for the bulk of MHP's value.

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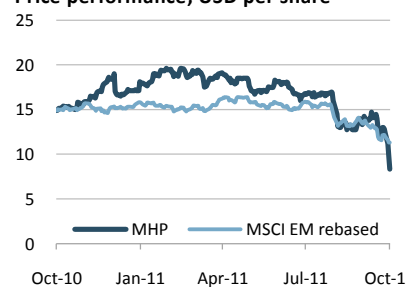
Bloomberg	MHPC LI
Reuters	MHPCq.L
Recommendation	BUY
Price (05 Oct 11), USD	8.35
12M price target, USD	14.00
Upside	68%
No of shares, mln	107.9
DRs per ord share	1:1
Market Cap, USD mln	900.6
52-week performance	-44%
52-week range, USD	19.6/8.35
ADT, 12M, USD mln	2.4
Free float, %	19.3
Free float, USD mln	173.8

Prices as of Oct. 5, 2011

Key financials, USD mln

	2010	2011	2012
Revenue	944	1,115	1,182
y-o-y	33%	18%	6%
EBITDA	325	360	390
EBITDA margin	34%	32%	33%
Net Income	205	203	210
Net margin	22%	18%	18%
Net Debt, USD mln	658	750	820
Net Debt to EBITDA	2.0	2.1	2.1

Source: Company data, Concorde Capital projections

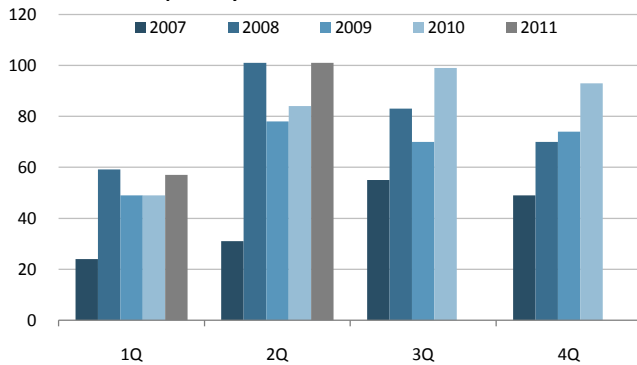
Price performance, USD per share


Source: Bloomberg, UX

Our EBITDA forecast implies MHP could take on up to USD 950 mln in debt.

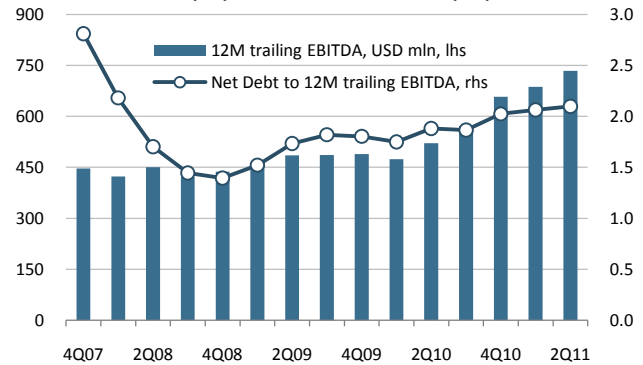
We project MHP's 12M trailing EBITDA to increase to USD 360 mln in 2011E from USD 350 mln in 2Q11. Bloomberg estimates range from USD 341 mln to USD 390 mln, implying MHP could assume up to USD 950 mln in debt under the most conservative estimate. We note upside risk to our EBITDA projection stemming from a higher-than-expected harvest due to favorable weather conditions in 3Q11.

MHP's historical quarterly EBITDA, USD mln



Source: Company data

MHP's 12M EBITDA (lhs) and Net Debt to EBITDA (rhs)



Source: Company data, Concorde Capital calculations

We note a few ways MHP could decrease leverage by yearend. If need be, the company could:

- Sell excess agricultural produce. It has USD 80 mln worth according to our estimates (Inventories + Biological assets + Agricultural produce stood at 58% of 12M COGS, up 10 pp y-o-y); and up to USD 210 mln in total marketable crops: USD 50 mln in agricultural produce and USD 162 mln in crops in fields, which should be harvested by the end of October
- Decrease CapEx for its Vinnitsa poultry farm (USD 138 mln in 1H11, scheduled USD 80-100 mln in 2H11)

MHP's liquid current assets, USD mln

	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11
Inventories	42.2	38.8	92.3	107.6	78.4	68.6	113.5	140.8	116.0
Biological assets	152.5	120.7	113.0	125.8	174.9	150.9	135.4	163.0	273.3
Agricultural produce	25.2	57.2	66.2	46.7	35.2	86.5	113.9	92.4	50.4
Total liquid current assets	219.9	216.7	271.5	280.1	288.5	306.0	362.8	396.2	439.7
Ratio of total liquid current assets to 12M COGS	43%	47%	54%	50%	48%	48%	53%	56%	58%

Source: Company data

Comparative valuation

Peer multiples

Company name	MCap, USD mln	EV, USD mln	EV/Sales		EV/EBITDA		P/E	
			2011E	2012E	2011E	2012E	2011E	2012E
MHP SA	901	1,619	1.5	1.4	4.5	4.1	4.3	4.0
Avangard	620	707	1.2	1.1	3.6	3.1	4.3	3.5
Ovostar	108	115	2.2	1.2	5.1	4.6	5.4	5.0
Brazil Foods	14,768	17,149	1.2	1.2	9.6	9.1	16.9	15.3
China Yurun Food Group	1,875	1,613	0.4	0.3	3.7	3.1	5.4	4.6
Charoen Pokphand Foods	6,156	7,523	1.1	1.0	10.2	9.5	11.9	10.9
Universal Robina	1,951	1,880	1.3	1.1	7.3	6.6	13.0	11.2
Cherkizovo Group	720	1,465	1.0	0.8	6.1	4.3	4.7	3.3
Rainbow Chicken	703	629			6.6	6.8		14.3
KFC Holdings Malaysia	797	819	1.0	0.9	7.6	7.0	15.5	13.9
Sovereign Foods	40	66						
GFPT Public	338	435	0.9	0.8	5.9	5.4	7.7	6.6
Astral Foods	615	626	0.4	0.4	6.0	5.8	10.4	9.8
Marfig Alimentos	1,254	6,064	0.5	0.5	7.9	6.5		
Peers harmonic mean			0.8	0.7	6.0	5.3	6.7	7.3

Note: Prices as of Oct 5 market close

Source: Bloomberg, Concorde Capital

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