

May 16, 2014

# MHP

## Strong underlying results for 1Q14, upbeat guidance for 2014

Ukraine's largest poultry producer MHP (MHPSA, MHPC LI) reported a set of strong underlying financial results in 1Q14 on May 14, though the bottom line was negatively impacted by one-off foreign exchange losses. The core operating segment of MHP will continue to grow organically, driving EBITDA, on back of gradual commissioning of the new Vinnitsa production complex. The complex will reach full capacity load by the year end, as MHP plans. The company reiterated its guidance of 20% yoy EBITDA growth in 2014 (to about USD 470 mln), assuming the 11.0/USD hryvnia average exchange rate. The result for 1Q14 and the outlook for full year lay ground for the company to remain in compliance with its leverage covenant of 3.0x, making MHPSA less risky compared to local peers, and attractive in the case of yields widening.

The on-going ramp-up of the Vinnitsa poultry complex, as well as low grain and sunflower costs have positively impacted the top line and EBITDA of MHP in 1Q14. An increase in poultry sales by 22% yoy to 112 kt have led to counterbalance a yoy lower average selling price, bringing total revenue up by 2% yoy to USD 309 mln in 1Q14. EBITDA jumped 45% yoy to USD 106 mln in 1Q14, and the EBITDA margin improved to 34% from 24% in 1Q13. Net income before foreign exchange losses grew 64% yoy to USD 51 mln. However, UAH devaluation and large foreign currency denominated loans has caused FX losses of USD 366 mln during the quarter, which pushed MHP's bottom line under the water to a net loss of USD 316 mln.

MHP sees strong improvement in EBITDA of its grain growing segments, at the rather optimistic level of USD 400/ha (compared to USD 136/t in 2013). Poultry production will increase 16% yoy to around 550 kt, on the back of reaching full capacity in 2H14.

Completion of the bulk of the investment program, related to the Vinnitsa complex, will cause CapEx in 2014 to decrease to USD 100-120 mln, according to company projections, compared to USD 264 mln last year. We estimate this will increase the company's free cash flow three fold yoy, to USD 375 mln, in 2014.

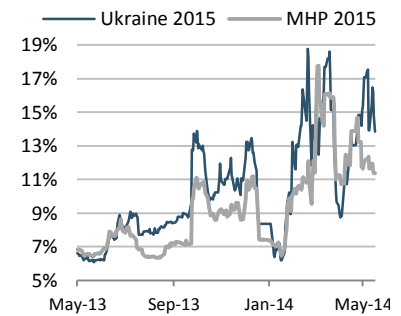
Total debt and net debt stood basically at the same level YTD, of USD 1.3 bln and USD 1.1 bln respectively, as of March 2014. This caused a decline in net debt to EBITDA from 2.89x to 2.62x (against the Eurobond covenant of 3x). We do not expect net debt to increase substantially by the year end, and project net debt to EBITDA to reach an attractive level of around 2.4-2.5x as of end-2014. The nearest large repayment by MHP, redemption of 2015 Eurobonds worth USD 235 mln is covered by a preliminarily agreed credit line with IFC of USD 250 mln, which serves as another safety guard for MHP's public debt.

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Bloomberg ticker	MHPSA
Outstanding, USD mln	235
Maturity	29 April 2015
Coupon	10.25%
Fitch / Moody's / S&P	CCC / Caa2 / na

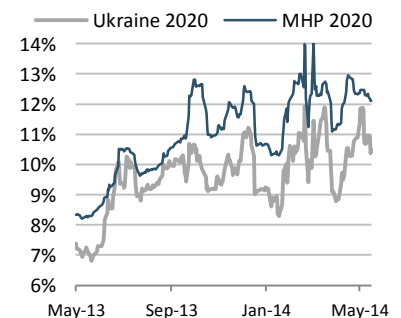
Outstanding, USD mln	750
Maturity	2 April 2020
Coupon	8.25%
Fitch / Moody's / S&P	CCC / na / CCC

### YTM



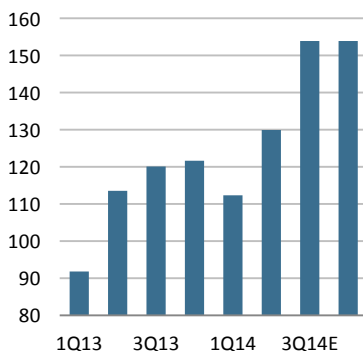
Source: Bloomberg

### YTM



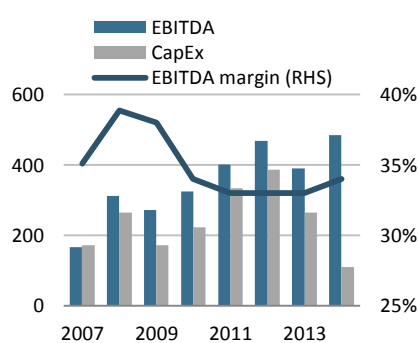
Source: Bloomberg

### Quarterly poultry production, kt



Source: Company data, Concorde Capital estimates

### Selected financials, USD mln



Source: Company data, Concorde Capital estimates

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