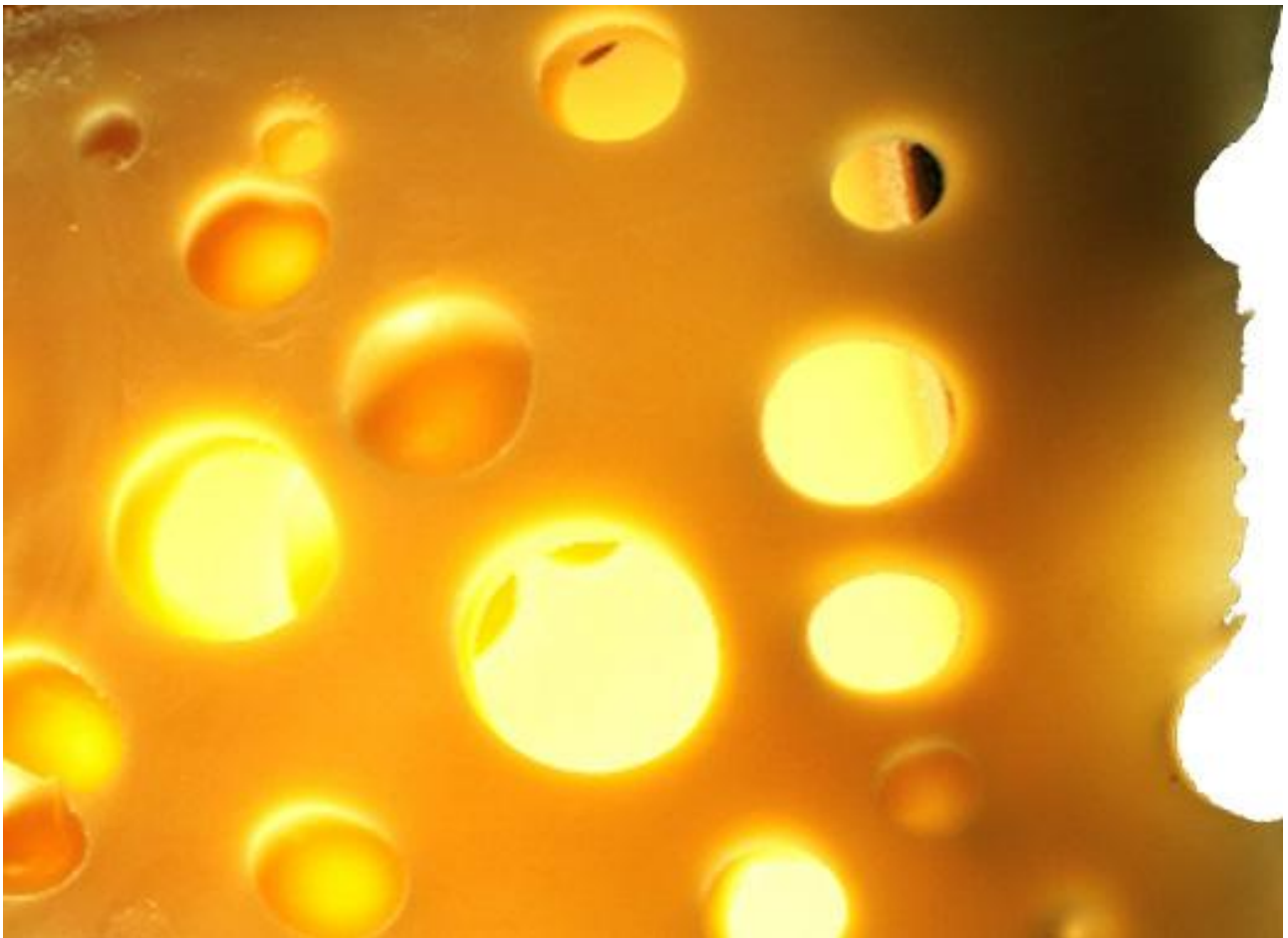


# Milkiland

A Dairy Spectrum



April 11, 2011

## Investment Summary

Milkiland benefits from low cost cheese production in Ukraine and strong sales in Russia to post some of the best margins in the sector. A rare ticket to play the resurging consumer story in Russia and Ukraine, we initiate coverage of Milkiland with a 12M target price of EUR 14.8 per share, upside of 44%.

### Leader in high margin cheese exports to Russia

Milkiland's EBITDA margin of 17% in 2010 is the result of its focus on high margin cheese exports to Russia from Ukraine, which accounts for 2/5 of revenue. We view cheese exports as a cash cow for Milkiland in the long-term given Russia's long-term dependence on dairy imports.

### Key Russian, Ukrainian markets set to outpace global average

Russia is Milkiland's key core market; Russia is the world's largest importer of dairy products and third largest country in terms of total dairy consumption. Ukraine, meanwhile, is the world's eighth largest milk producer. Both markets are set to grow faster than the world: we expect 11% and 13% CAGR over 2010-14 for these dairy markets, respectively.

### Revenue to grow at a 14% CAGR over 2010-14

In line with the overall consumer sector, Milkiland's top line growth benefits from a recovery in GDP per capita in Russia (64% of 2009 sales) and Ukraine (31% of 2009 sales) and related growth in consumer spending. Evidenced by the positive correlation between cheese consumption and GDP per capita growth, we anticipate 4% CAGR in Russian cheese consumption over 2010-14 and 7-8% for Ukraine. This, combined with rising price, should result in revenue growth for Milkiland at a 14% CAGR over the same period.

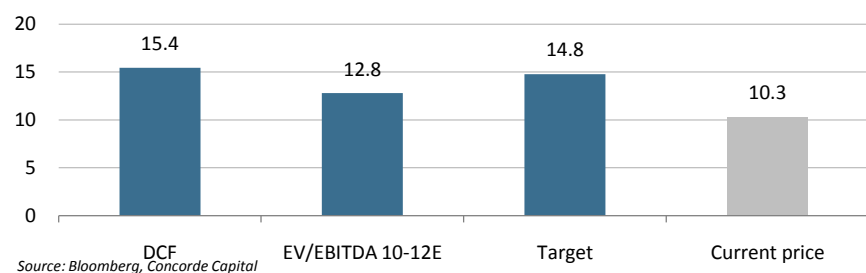
### IPO proceeds to support growth plans

Milkiland plans to utilize EUR 49.4 mln in proceeds from its December 2010 IPO to modernize and expand current capacity in its cheese and whole milk product divisions. CapEx in 2011-15 is estimated at EUR 46 mln.

### Valuation

We valued Milkiland using both DCF and peer comparison on EV/EBITDA '10-12E, yielding a target of EUR 14.8 per share, upside of 44%. We relied more on DCF (weight of 75%) as it better captures the company's growth prospects while peer valuation (average of implied prices by EV/EBITDA '10-12E, weight of 25%) does not fully reflect the CIS' higher growth prospects than other markets. Milkiland's only CIS-based dairy peer, Wimm-Bill-Dann, trades at 16.2x on EV/EBITDA '11E vs. its peers' median of 10.0x and Milkiland's 8.4x. BUY.

#### Valuation range, EUR per share



### Key risks

Upside: Russian ruble appreciation, raw milk price decline

Downside: raw milk shortage, ruble depreciation, cheese import barriers

## Company Snapshot

<b>Report date</b>	<b>11 Apr 2011</b>
Bloomberg	MLK PW
<b>Recommendation</b>	<b>BUY</b>
Price (08 Apr 11), EUR	10.3
12M price target, EUR	14.8
Upside	44%

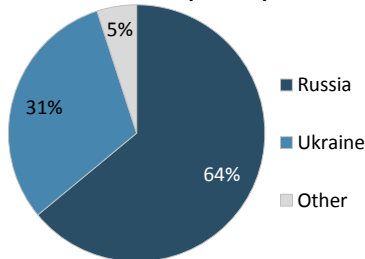
No of shares, mln	31.25
Market Cap, EUR mln	322.6
4M performance	15%
4M range, EUR	9.2/12.3
ADT, 4M, EUR mln	0.12
Free float, %	22.4%
Free float, EUR mln	72.3

Prices as of Apr. 08, 2011

### Shareholders

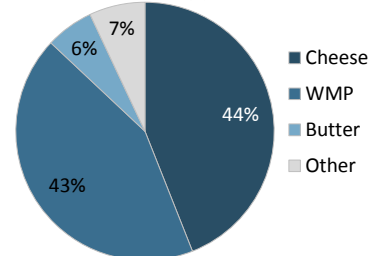
Anatoliy and Olga Yurkevich	72.8%
Vyacheslav Rekov, CEO	4.8%
Free float	22.4%

### Revenue structure by country, 2009



Source: Company data

### Revenue structure by product, 000 mt



Source: Company data

Milkiland is the CIS' fourth largest milk processor, responsible for 550,000 mt or approximately 2.4% of combined Ukrainian and Russian annual processed raw milk volume as of 2009. Key products included cheese (44% of sales as of 2009), whole milk products (43%), butter (6%) and dry milk products (5%). The company operates ten production facilities in Ukraine and one in Russia, with a total milk processing capacity of 1.1 mln mt per year.

### Milkiland's plants overview

Capacity by facility/product	Milk intake, ths mt p.a.	WMP	Hard Cheese	Processed Cheese	Butter	DMP	Dry Whey
Ostankino (RU)	175	170.0	-	-	-	-	-
Mena Cheese (UA)	175	-	15.8	-	3.5	-	5.3
Myrhorod Cheese (UA)	98	-	8.1	2.5	3.5	-	4.2
Oktyrsky Cheese (UA)	98	-	8.8	-	3.5	-	4.2
Lviv Dairy (UA)	35	24.5	-	-	1.8	-	-
Slavuta Butter (UA)	105	-	5.3	-	2.5	3.5	2.5
Laktis Cheese (UA)	42	-	1.4	-	2.1	2.5	1.8
Sumy Dairy (UA)	53	28.0	-	-	2.8	2.5	-
Romny Dairy (UA)	245	10.5	1.4	-	10.5	17.5	-
Agrolite (UA)	42	17.5	-	-	1.8	-	-
Chernihiv Dairy (UA)	42	17.5	-	-	1.8	1.8	-
<b>TOTAL</b>	<b>1,110</b>	<b>268.0</b>	<b>40.8</b>	<b>2.5</b>	<b>33.8</b>	<b>27.8</b>	<b>18.0</b>

Source: Company data

### Income statement summary, EUR mln

	2008	2009	2010E	2011E	2012E	2013E	2014E
<b>Net Revenues</b>	<b>270</b>	<b>200</b>	<b>275</b>	<b>319</b>	<b>361</b>	<b>399</b>	<b>435</b>
Change, y-o-y		-26.0%	37.4%	15.9%	13.2%	10.7%	9.1%
<b>EBITDA</b>	<b>27</b>	<b>30</b>	<b>39</b>	<b>43</b>	<b>48</b>	<b>55</b>	<b>62</b>
EBITDA margin, %	10.0%	14.9%	14.4%	13.4%	13.4%	13.8%	14.3%
<b>Net Income</b>	<b>(16)</b>	<b>8</b>	<b>20</b>	<b>26</b>	<b>30</b>	<b>38</b>	<b>43</b>
Net Margin, %	-5.9%	4.1%	7.1%	8.2%	8.3%	9.4%	10.0%

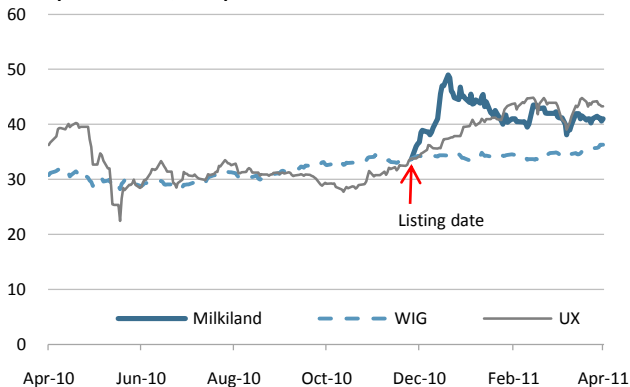
### Balance sheet summary, EUR mln

	2008	2009	2010E	2011E	2012E	2013E	2014E
Current Assets	52	56	77	91	103	113	144
Fixed Assets	121	128	141	154	166	164	163
<b>Total Assets</b>	<b>174</b>	<b>184</b>	<b>218</b>	<b>245</b>	<b>269</b>	<b>278</b>	<b>306</b>
Shareholders' Equity	20	38	113	132	157	188	225
Current Liabilities	89	45	33	39	44	43	33
LT Liabilities	65	101	72	74	68	46	49
<b>Total Liabilities &amp; Equity</b>	<b>174</b>	<b>184</b>	<b>218</b>	<b>245</b>	<b>269</b>	<b>278</b>	<b>306</b>

### Selected financial ratios

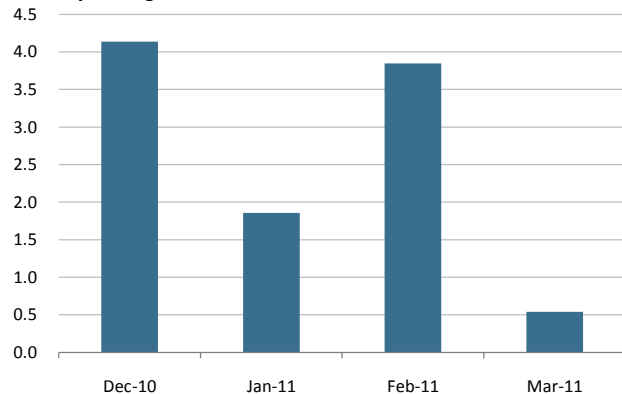
	2008	2009	2010E	2011E	2012E	2013E	2014E
Net Debt/EBITDA	353%	289%	105%	91%	61%	-1%	-55%
EBIT interest coverage	1.2	1.6	3.6	7.0	9.4	20.1	970.1
ROA	-9%	4%	10%	11%	12%	14%	15%
ROE	-80%	22%	26%	21%	21%	22%	21%

### Price performance, EUR per share



Source: Bloomberg

### Monthly trading volumes, EUR mln



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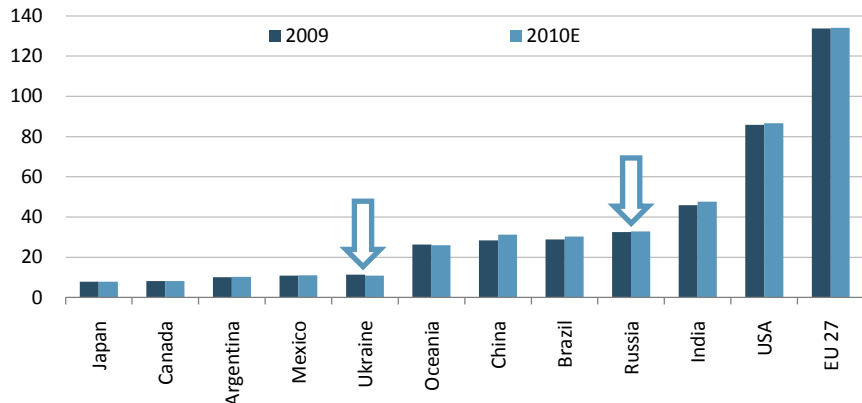
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## Russian Dairy Market Overview

### Russia is world's largest dairy importer

Russian raw milk output totaled 31.9 mln mt in 2010, making it the world's #3 largest raw milk producer after the US and India. Despite the volume, Russia is nonetheless a net importer of processed dairy products.

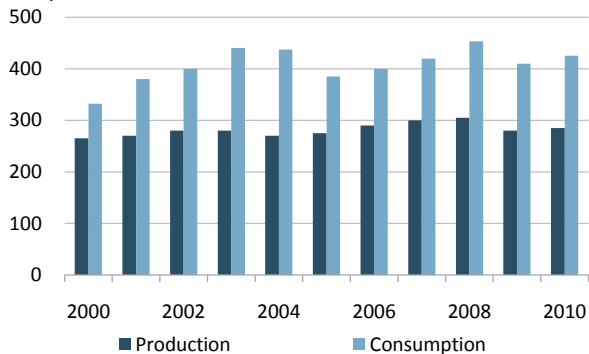
Global raw milk production for select countries, mln mt



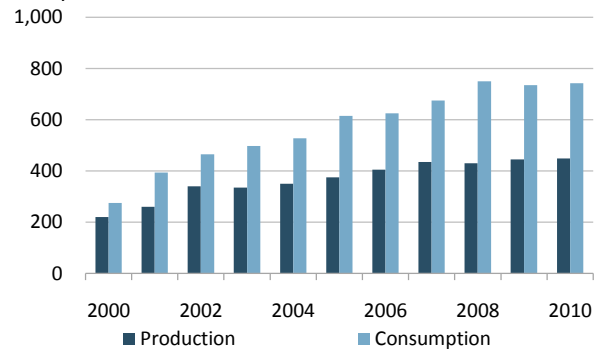
Source: US Department of Agriculture

### Russian dairy supply and demand

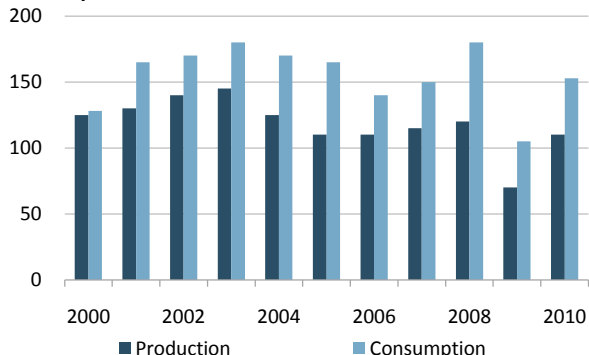
Butter, 000 mt



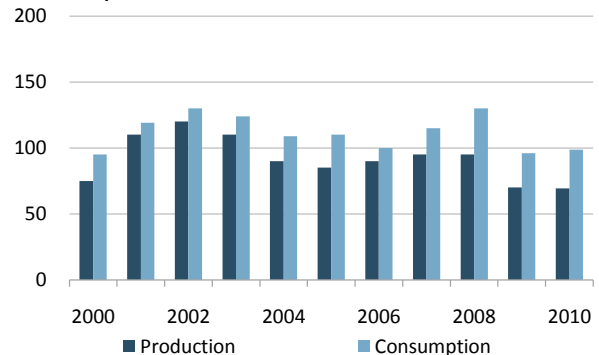
Cheese, 000 mt



Nonfat dry milk, 000 mt



Whole milk powder, 000 mt



Source: FAPRI

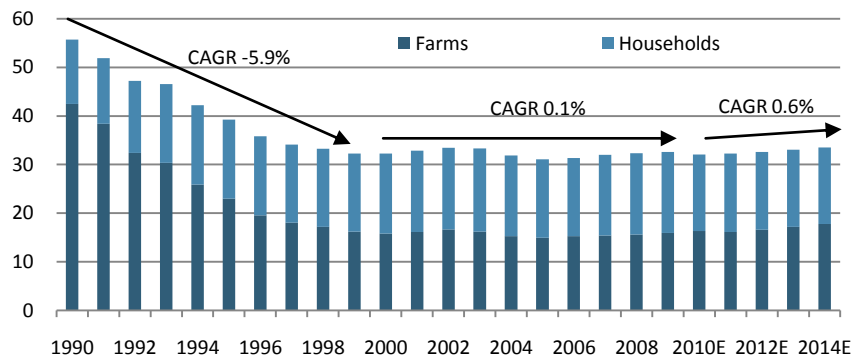
## Output fell sharply after collapse of USSR

Milk production & processing in Russia fell sharply during the 1990s. We attribute the decline to: (1) a 60% drop in industrial raw milk output to 17.2 mln over 1990-98 due to structural changes in the Russian economy; (2) a lack of tangible state support; (3) rising feed costs; and (4) outdated agricultural equipment. An aging population and increasing urbanization cut the number of dairy farmers, which led to culling Russia's dairy herd. These factors resulted in milk production dropping from 55.7 mln mt in 1990 to 31.9 mt in 2010.

We expect Russia's raw milk output to increase at a 0.6% CAGR over 2010-14E vs. 0.1% in 2000-09 as a result of a recovery in industrial raw milk, spurred by demand from processors. Furthermore, the increasing prevalence of Western agricultural practices is likely to have a positive effect on Russia's milk output, supported by per cow improvements in yield.

In 2000, the industry processed 41% of Russia's raw milk output and 44% in 2009. We forecast the share of milk processed to reach 55% in 2014E, supported by higher demand from processors over the period.

Russian raw milk production, mln mt

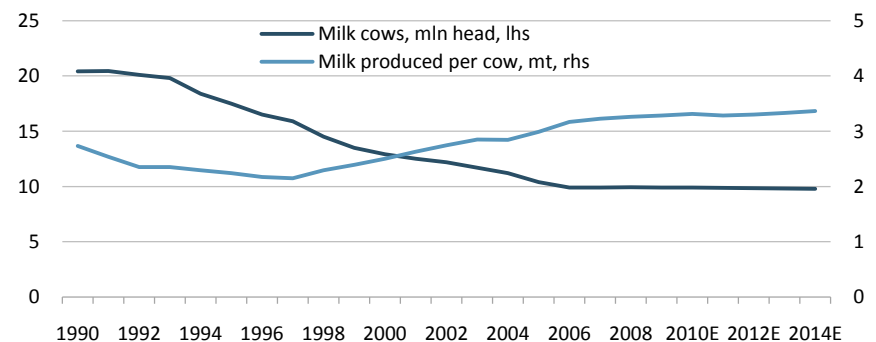


Source: Rosstat, Concorde Capital

## Rising yield per cow to support production

Between 1990 and 1998, Russia's cattle population fell by over 30%, with the decline reaching 50% by 2009 due to a variety of factors including poor management, obsolete equipment, and inefficient animal husbandry practices. Yield per cow also fell steadily throughout the 90s, by between 4-5% annually through 1996. However, yield per cow grew at a 3.1% CAGR during 2000-09, and we expect the yield to increase at a 0.5% CAGR in 2010-14E.

Cattle population and yield per cow, Russia

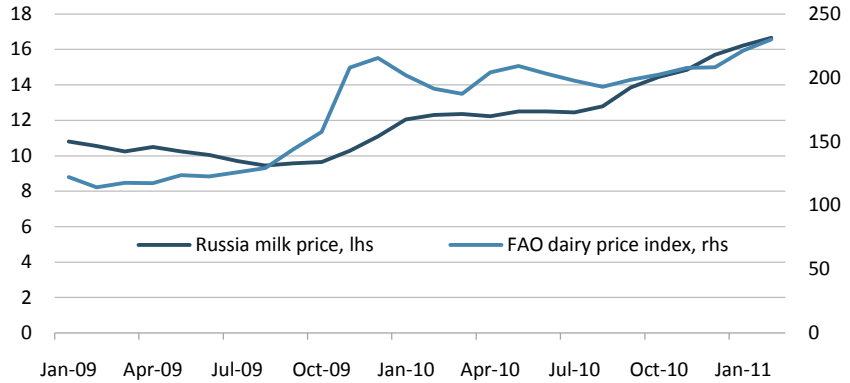


Source: FAPRI

## Milk prices up, mimicking global market

Since August 2010, raw milk prices are up 35%-50% y-o-y and reached 17 RUB/kg in March 2011 as a result of crop price growth (key inputs for industrial milk farms).

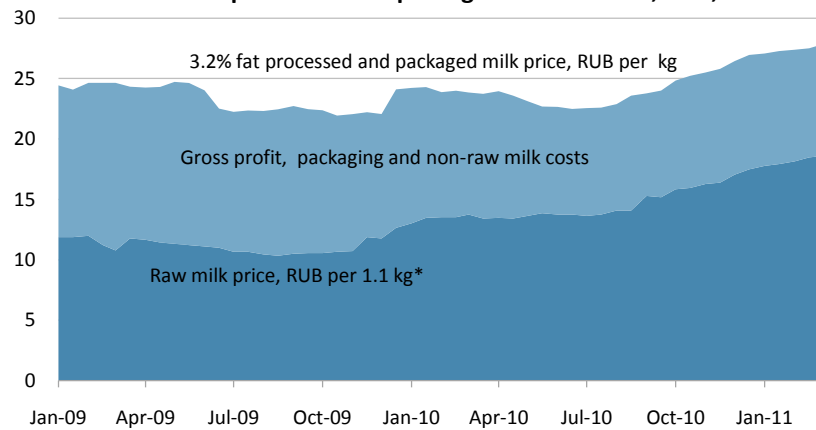
**Raw milk price in Russia (RUB per kg, lhs) and global dairy price index**



Source: Rosstat, FAO

Though raw milk price growth created pressure on processors' margins, most of the increase was passed on to consumers.

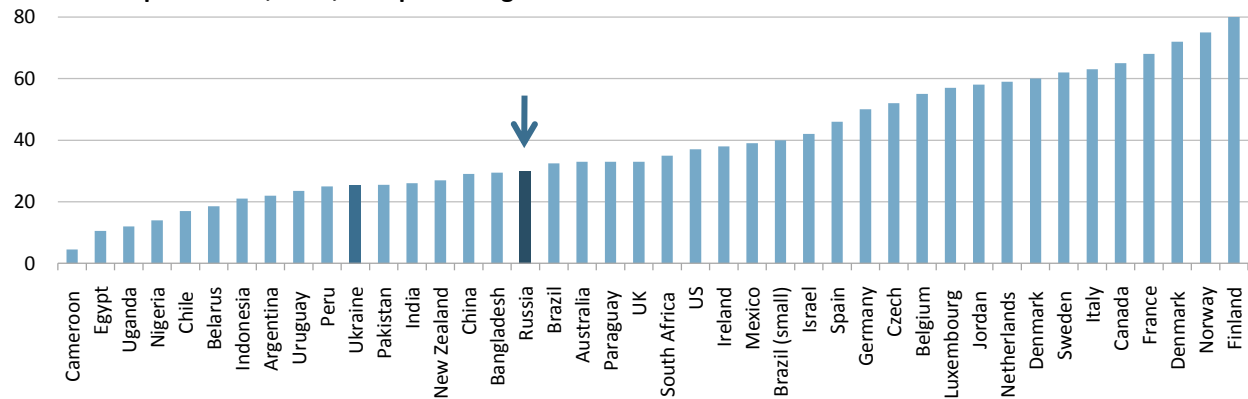
**Price breakdown of processed and packaged 3.2% fat milk, RUB, EXW**



\*Price of 1.1 kg of raw milk taken into account conversion ratio  
Source: Rosstat, Minselkhoz, Concorde Capital calculations

Globally, Russia is located in the middle of the milk cost curve.

**Cost of milk production, 2009, USD per 100 kg milk**

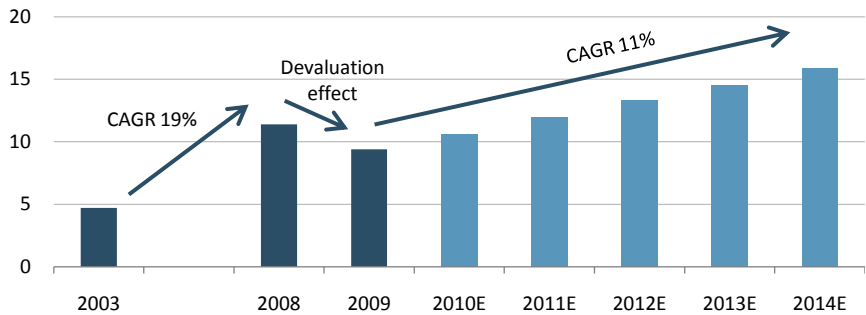


Source: IFCN Dairy Research

## Russian market set to expand at 11% CAGR in 2010-14

In 2003, Russia's dairy market had an estimated value of EUR 4.7 bln. By 2008, the market value had climbed to EUR 11.4 bln, up at a 19% CAGR for the period. Dairy consumption increased by an average of 6% annually, as raw milk inflation accounted for the remaining increase in market value.

Change in aggregate market value 2003-2014E, EUR bln



Source: Rosstat, Amico, UN Comtrade, Concorde Capital estimates

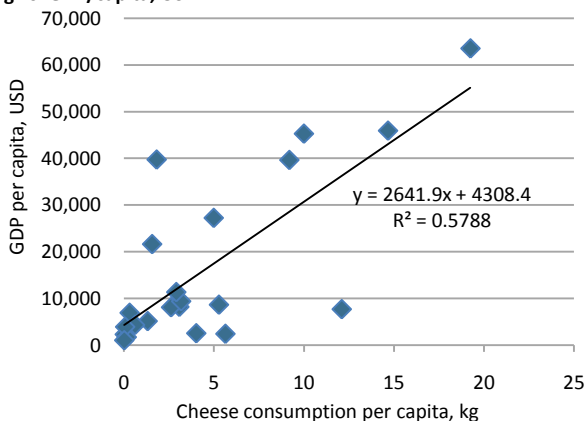
Despite dairy consumption rising to 7.18 mt in 2009 (+3% y-o-y), aggregate market value dropped by 18%. Ruble devaluation connected with the global financial crisis was behind the sharp decline. Going forward, we estimate the market value to rise at an 11% CAGR over 2010-14, based on annual forecasted consumption growth of 3%, with the rest provided by raw milk price inflation.

## Cheese & WMP consumption to grow the most

From 2000 to 2009, of Russian dairy products, consumption of cheese and whole milk grew the most, increasing at 9.0% and 5.5% CAGRs respectively, stimulated by estimated 4.9% growth in real GDP (rebased at 100 in 2000). Our analysis of emerging and EU markets suggests an existing correlation between growing GDP/capita and WMP as well as cheese consumption, clearly seen from relative consumption dynamics of key dairy categories in Russia over 2000-09.

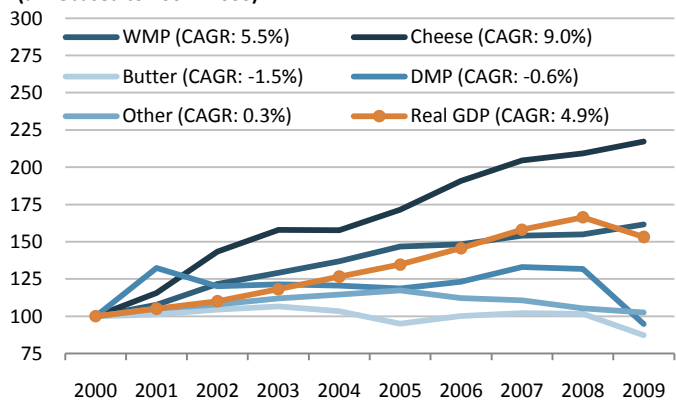
Based on nominal GDP per capita growth forecasted at a 13.5% CAGR in 2010-14, we project Russia's cheese and WMP intake to expand at 4% and 3.5% CAGRs, respectively.

Correlation between EU and emerging market cheese consumption, kg vs. GDP/capita, USD



Source: Rosstat, Concorde Capital estimates

Relative intake dynamics of Russia's key dairy categories vs. real GDP, % (all rebased to 100 in 2000)

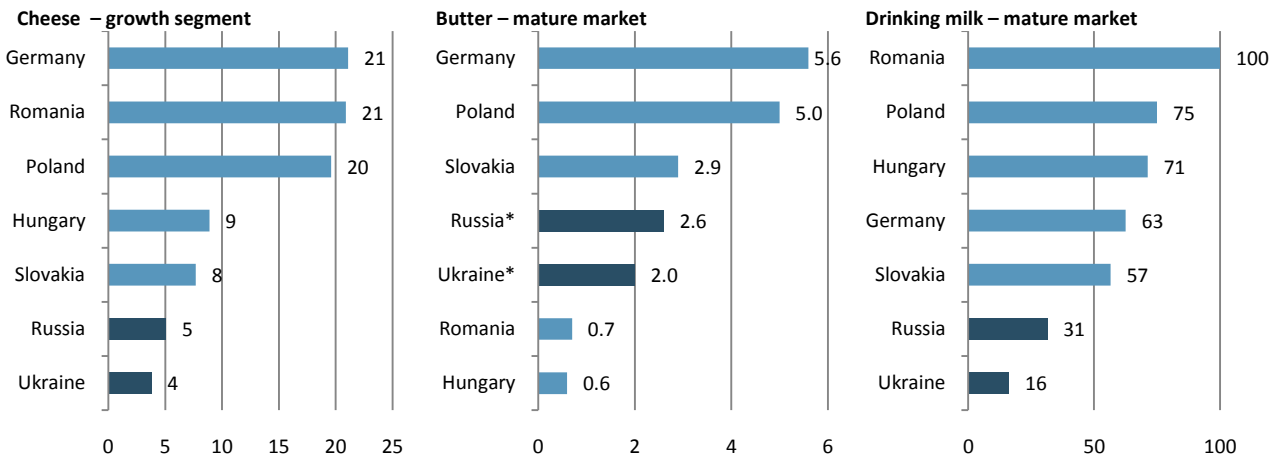




## Lower intake versus EU suggests room for growth

Russian dairy consumption is low compared to most European countries and is characterized by two features: (1) a comparatively mature market for drinking milk and butter; as well as (2) a growth segment for cheese and fermented WMP.

Per capita consumption, kg, 2009



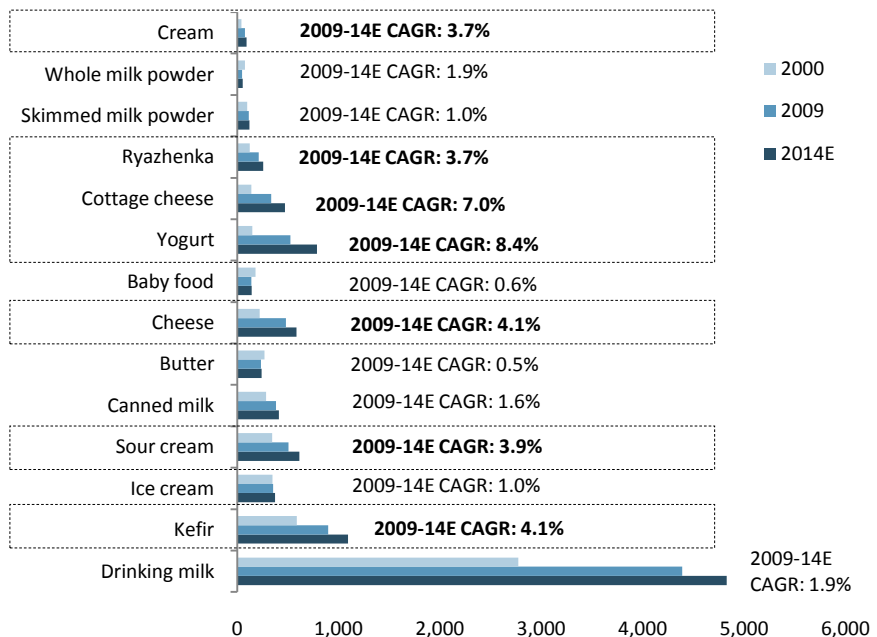
\* Spreads are not included

Source: Eurostat, State Statistical Committee, Rosstat, Concorde Capital estimates

Based on our forecasted 13.5% CAGR growth in Russia’s nominal GDP per capita in 2009-14E, we project the highest growth to occur in WMP and cheese consumption. As we have already outlined, we expect Russia’s cheese and WMP intake to increase at CAGRs of 4% and 3.5% in 2009-14, followed by dry milk products (1.0-1.9% CAGR), drinking milk (1.9% CAGR) and butter (0.5% CAGR).

In our view, Milkiland is favorably positioned, as WMP and cheese are the company’s core revenue generating segments in both the Russian and Ukrainian markets.

Historical and forecasted growth of key dairy products in Russia, 000 mt



Source: Rosstat, Concorde Capital estimates

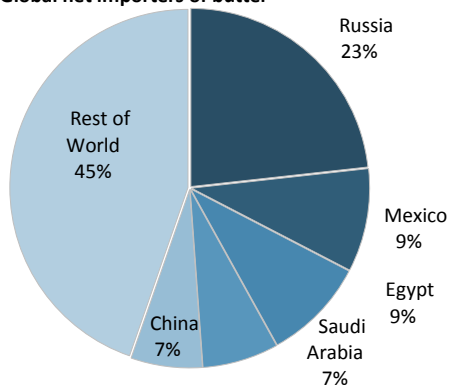
## Leading global importer of cheese and butter

We estimate Russia's dairy production covers only 84% of domestic consumption (in milk equivalent terms), which makes it the world's largest importer of cheese and butter. As of 2010, Russia was responsible for 293,000 mt (+5% y-o-y) or 30% of global net cheese imports and accounted for 121,000 mt (-11% y-o-y) or 23% of the global net butter & spreads import volume.

Several factors act in concert to keep the country reliant on dairy imports to meet demand: (1) one third of its milk is produced in seven of the country's 89 regions; (2) Russia's vast distances, coupled with the short shelf life of unpasteurized raw milk, preclude convenient transport for processing; and (3) the fragmented milk supply base, dominated by individual households, which were responsible for 44% of domestic milk output as of 2009.

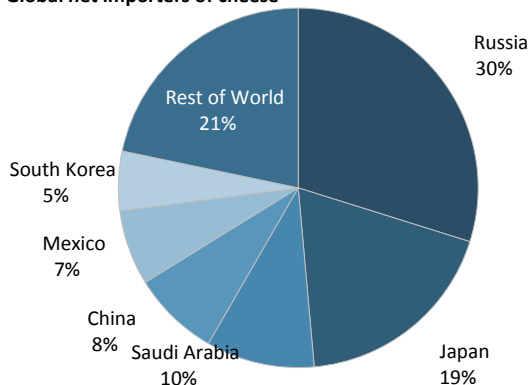
It is also notable that cheese imports, the largest dairy import category (by volume), have grown consistently in recent years. Ukraine and Belarus were the largest suppliers, providing 20% and 31% of Russia's cheese imports (by volume) respectively as of 2010.

Global net importers of butter



Source: USDA

Global net importers of cheese

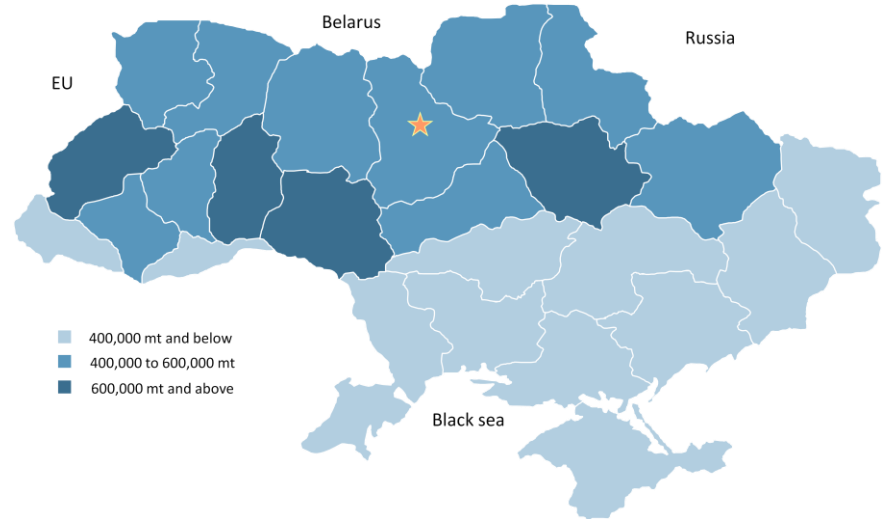


## UKRAINE DAIRY MARKET OVERVIEW

### Net exporter of cheese and dry dairy products

Ukraine is the world's eighth largest milk producer, accounting for 11.3 mln mt or 2.5% of the global raw milk supply in 2010, according to a USDA estimate. The domestic environment is favorable for milk producers given abundant grain harvests (46 mln mt in 2009), which provide stable and low-cost cattle feed. On average, 65% of Ukraine's milk is produced in the northern and western regions.

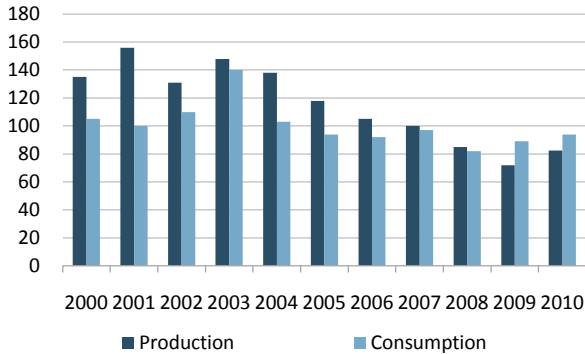
Ukraine's raw milk production by region, January-July 2010, 000 mt



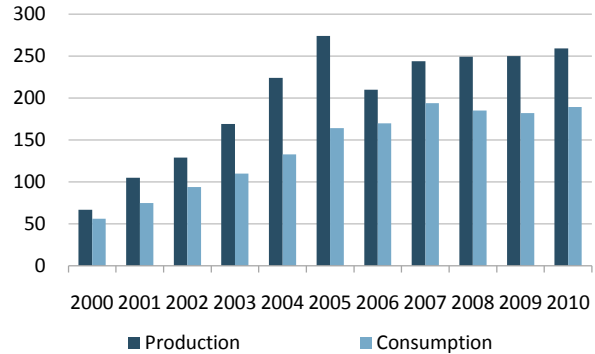
Source: Ukrainian Ministry of Agriculture, Concorde Capital estimates

### Ukrainian dairy supply and demand

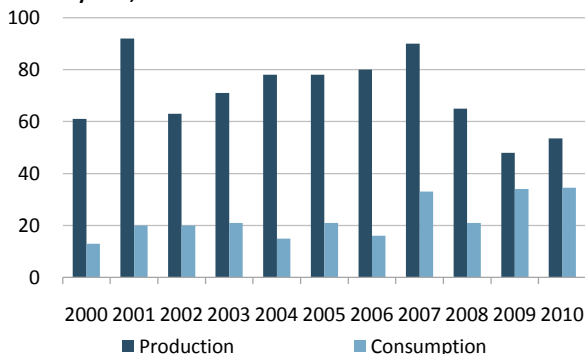
Butter, 000 mt



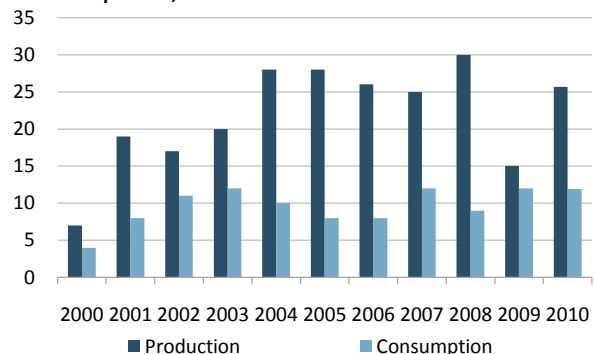
Cheese, 000 mt



Nonfat dry milk, 000 mt



Whole milk powder, 000 mt



Source: FAPRI

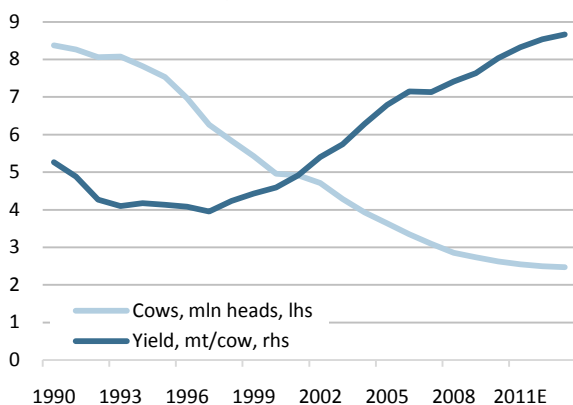
## Raw milk supply flat

Much like in Russia, Ukraine's dairy cattle population dropped 67% to 2.74 mln heads over 1990-09 and domestic raw milk output halved to 11.6 mln mt as of last year due to a lack of state support, outdated equipment and a highly fragmented raw milk supply base.

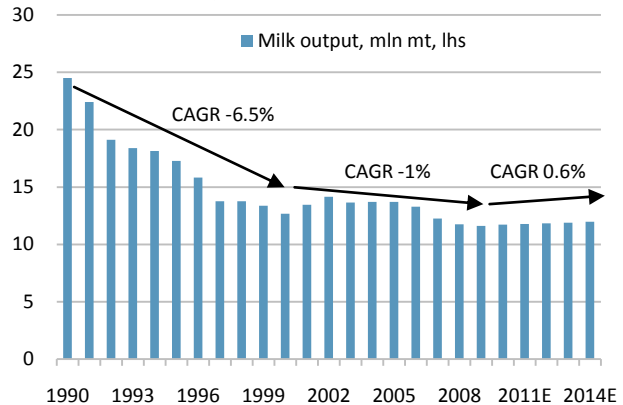
However, the country's decline in raw milk output was partially offset by rising milk yields, which grew by 45% to 4.2 mt per cow p.a. between 1990 and 2009. The recovery in yield per cow was stimulated by expanding industrial milk production, which reached 19% (+1 pp y-o-y) in 2009, as well as the adoption of Western agricultural practices and the use of more modern equipment.

We project the share of industrial raw milk production to reach 27% in 2014, driven by processor demand that is set to increase Ukraine's milk output at a 0.6% CAGR in 2010-14E (vs. a 1% CAGR decline from 2000-09).

Raw milk output, lhs, vs. yield per cow, rhs, in Ukraine



Ukraine's raw milk output, mln mt

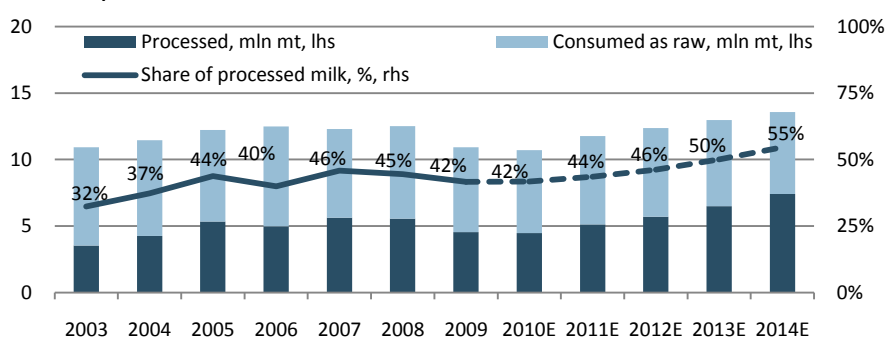


Source: State Statistics Committee, USDA, Concorde Capital estimates

We see both the increase in domestic raw milk output as well as the rising share of industrial milk production as fundamentally positive for milk processors and for Milkiland in particular as:

- a greater supply of processing-quality milk will slow growth in raw milk prices, forecasted to increase by a 6% CAGR over 2010-14 vs. 14% in 2005-09, capped by less competition among processors
- the opportunity to buy large quantities of milk from industrial producers in one location will optimize logistics and lower costs compared to purchases from individual farmers, thus increasing profitability of milk processing on the whole
- higher raw milk quality should allow the processors to penetrate new markets (i.e. EU), an option currently unavailable due to quality requirements

Ukraine's processed vs. consumed as raw milk distribution

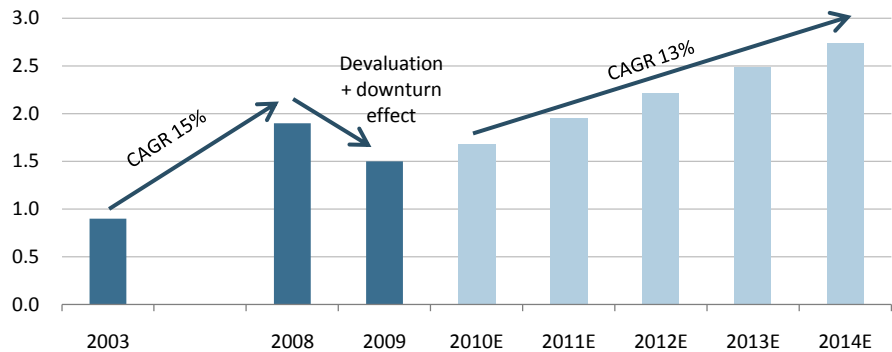


Source: State Statistics Committee, USDA, MilkUA.info, Concorde Capital estimates

## Market to increase at a 13% CAGR over five years

In 2009, Ukraine's dairy market lost 21% of its value y-o-y, falling to EUR 1.5 bln after rising at an 8.5% CAGR from 2004-09. We attribute the decline to the 60% devaluation of the local currency and a market shift toward cheaper products, as Ukrainian consumers suffered from an 8.5% y-o-y decline in real disposable income.

Dairy market volume in Ukraine, EUR bln



Source: State Statistics Committee, USDA, Concorde Capital estimates

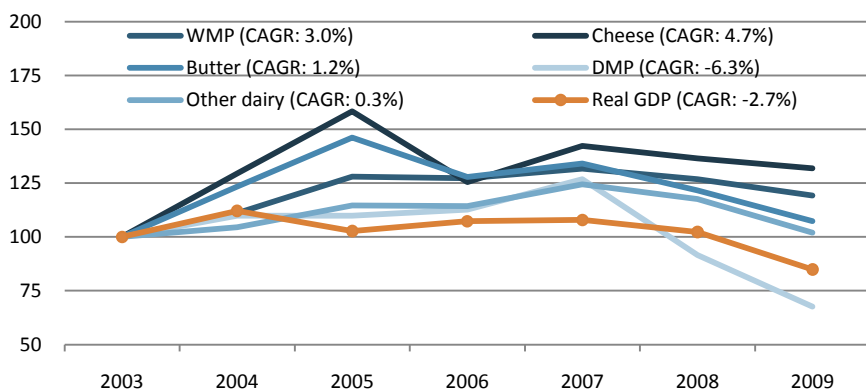
Given our forecast of a 12% increase in Ukraine's nominal GDP per capita over 2010-2014, which supports a rise at a 4.5% CAGR in local dairy consumption per capita over the period and raw milk price inflation, we project market growth at a 13% CAGR.

## GDP growth to drive dairy consumption

As in Russia, Ukraine's dairy consumption is closely correlated to GDP dynamics, while cheese and whole milk products are the categories with the highest consumption growth of 4.7% and 3% CAGRs over 2003-09, respectively. Based on our forecast of growth at 12% CAGR in Ukraine's nominal GDP over 2010-14, we anticipate these products to continue exhibiting high consumption growth and project the domestic cheese consumption rate to grow at a 7-8% CAGR and WMP to follow with a 5-6% CAGR increase over the next five years.

This said, we conservatively forecast growth at a 0.5% CAGR in Ukraine's butter intake over 2010-14E vs. 1.2% CAGR in 2003-09 due to the growing number of cheap vegetable substitutes.

Dairy consumption vs. real GDP, % (rebased to 100 in 2003)



Source: State Statistics Committee, USDA, Concorde Capital estimates

At the same time, Ukrainian cheese consumption per capita is approximately

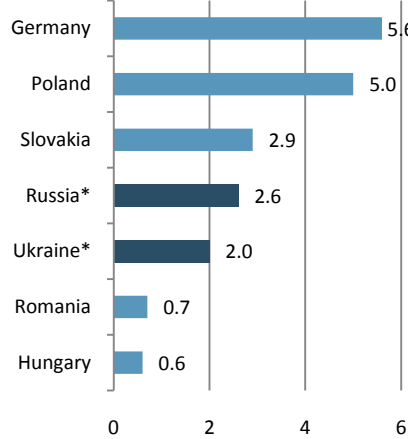
70% below the European average rate, which provides substantial room for local consumption expansion, backed by a favorable outlook for GDP growth over the next five years.

Per capita consumption, kg, 2009

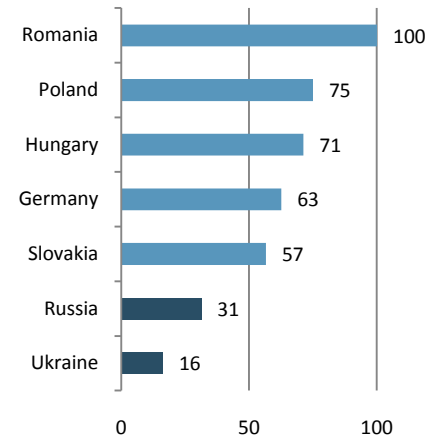
Cheese – growth segment



Butter – mature market



Drinking milk – mature market

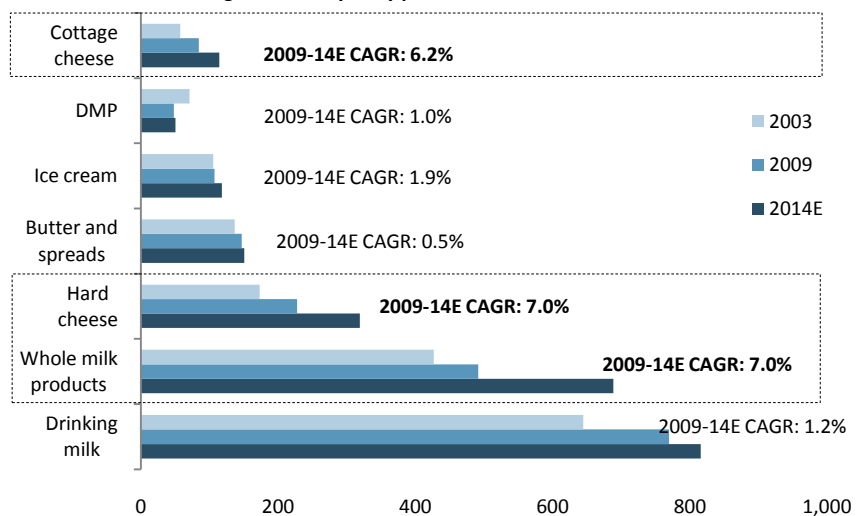


\* Spreads not included

Source: Eurostat, State Statistical Committee, Rosstat, Concorde Capital estimates

We project both Ukraine’s WMP (including cottage cheese) and hard cheese per capita consumption to increase at a 7% CAGR over 2009-14, followed by ice cream (1.9% CAGR), drinking milk (1.2% CAGR) and DMP (1.0% CAGR) over the period.

Historical and forecast growth of key dairy products in Ukraine, %



Source: State Statistics Committee, USDA, Concorde Capital estimates

## Ukraine: a large cheese exporter to the CIS

As the world's #10 largest dairy producer in 2009, Ukraine had a 3.9% share of the international cheese market and exported 31% or 79,000 mt (+5% y-o-y) of total cheese output and 13% or 14,000 mt (-70% y-o-y) of dry milk products. Russia and Kazakhstan are the principal consumers of Ukrainian cheese with Algeria, Syria, Turkey and Egypt the major importers of Ukraine's DMP.

### Ukraine's dairy exports in 2007-2010, 000 mt

	Exports, 000 mt				Imports, ths mt			
	2007	2008	2009	2010	2007	2008	2009	2010
WMP	6	19	22	42	42	32	12	14
Cheese	61	76	75	79	5	6	4	11
Butter & spreads	4	6	1	1	1	7	16	6
DMP	101	82	46	14	3	3	13	2
Other	16	19	20	20	1	1	0	0
<b>Total</b>	<b>188</b>	<b>202</b>	<b>164</b>	<b>156</b>	<b>52</b>	<b>49</b>	<b>45</b>	<b>33</b>
<i>Change y-o-y, %</i>	<i>n/a</i>	<i>7.4%</i>	<i>-18.8%</i>	<i>-5%</i>	<i>n/a</i>	<i>-5.8%</i>	<i>-8.2%</i>	<i>-27%</i>

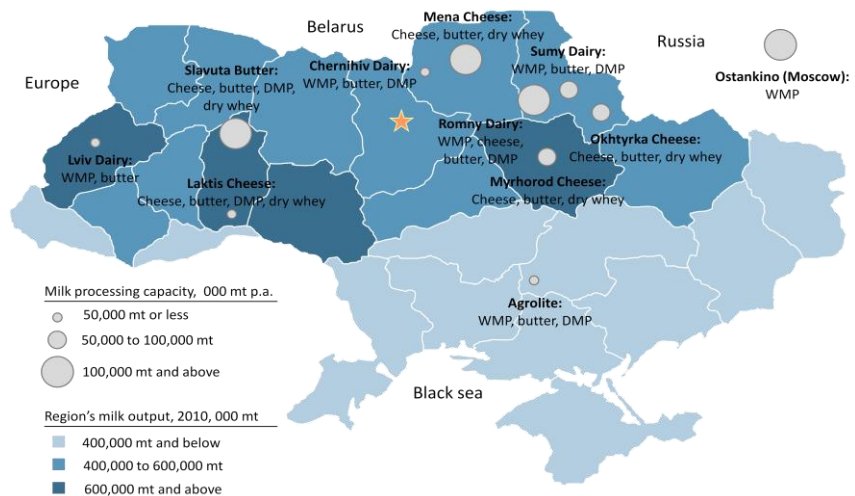
Source: State Statistics Committee, USDA, Concorde Capital estimates

## MILKILAND PROFILE & STRATEGY

### CIS' fourth largest integrated dairy producer

Milkiland is Ukraine's #2 largest milk processor and the CIS' #4 largest, responsible for 550,000 mt, or about 2.4% of Ukraine's and Russia's combined annual processed raw milk volume as of 2009. Key products include cheese (44% of sales as of 2009), whole milk products (43%), butter (6%) and dry milk products (5%). The company operates ten production facilities in Ukraine and one in Moscow, with a total milk processing capacity of 1.1 mln mt p.a. Five of its plants are ISO 9001 certified, with three certified by Russian regulators for cheese exports. Another two will be certified under ISO 22000 by yearend.

#### Capacity & location of Milkiland operating facilities vs. regional milk output in 2010

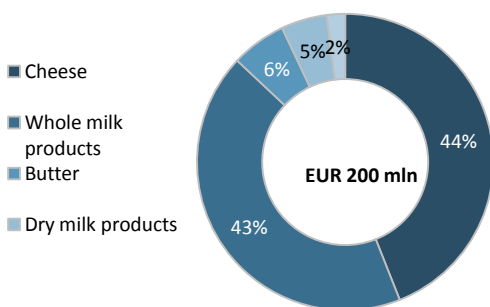


Source: Company data, Ukrainian Ministry of Agriculture

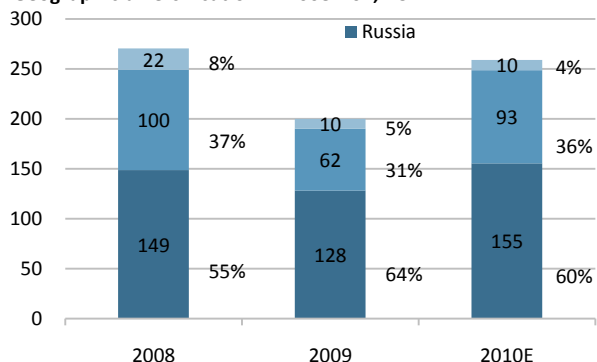
Milkiland's key markets are Russia (64% of sales in 2009) and Ukraine (31%), both of which are enjoying stable increases in dairy consumption. In our view, this positions Milkiland to benefit from an estimated 3% increase in Russian and 4.5% gain in Ukrainian dairy consumption per capita over 2010-2014.

Hard, specialty and processed cheeses constituted 44% of Milkiland's revenues in 2009, and among product lines contributed the highest percentage of sales. WMP sales, including drinking milk, fermented drinks (yoghurt, ryazhenka and kefir) and curd cheese accounted for 43% of the company's FY2009 revenues.

#### Milkiland sales breakdown in 2009 (monetary value), %



#### Geographic diversification in 2008-10E, EUR mln



Source: Company data, Concorde Capital estimates



## Company history: an extensive growth story

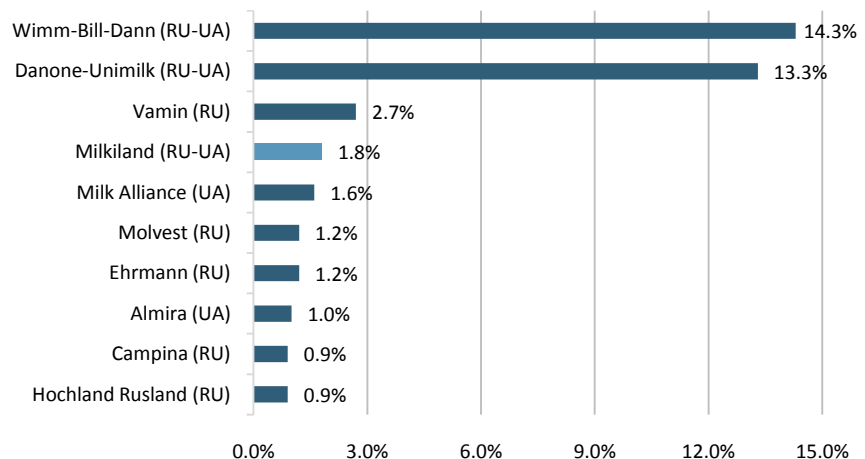
Milkiland was established in 1994. It acquired its first small dairy plants and the Sumy Dairy facility between 1997 and 2001. During that period, the core management team came together, including Vyacheslav Rekov (current Group CEO) and Olga Yurkevych (currently Milkiland's COO).

From 2002 to 2005, the company aggressively increased its asset base, acquiring Mena Cheese (2002), Konotop Dairy, Lviv Dairy, Romny Dairy and Okhtyrsky Cheese (all between 2003 and 2005). The acquisitions significantly enhanced cheese and whole milk product operations, and increased the company's ability to benefit from lucrative cheese exports to Russia.

Russia banned cheese imports in 2006, in response to which Milkiland shifted its focus to dry milk production and continued to develop WMP operations, acquiring Chernihiv Dairy and Agrolight in 2007. Milkiland acquired Ostankino Dairy, the third largest dairy producer in Moscow region, in 2008.

As a result of the aggressive M&A strategy led to significant top line growth, with revenues increasing by a factor of ten since 2001, reaching EUR 200 mln in 2009. Milkiland became number two dairy company in Ukraine and number four in Russia and the CIS after Danone-Unimilk, Wimm-Bill-Dann and Vamin.

### Milkiland share of the CIS dairy market in 2009, %



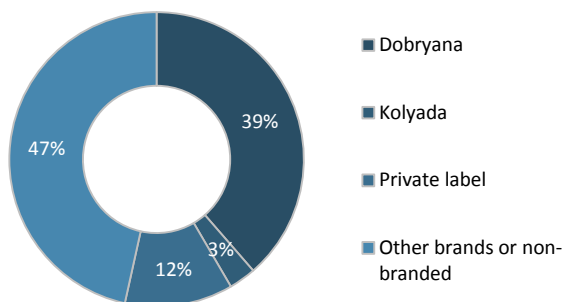
Source: Company data, Astarta-Tanit, Interfax Russia, Concorde Capital estimates

## Balanced portfolio focused on strong brands

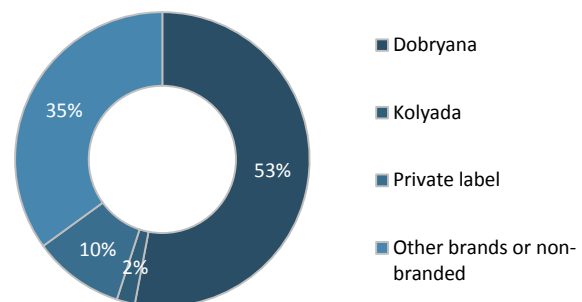
Milkiland pursues an umbrella branding approach to its product line with its flagship brands Dobryana, Kolyada in the Ukrainian market and Ostankinskaya in the Russian market. As of 2009, the company focused on pushing its Dobryana and Kolyada brands internationally, which are positioned within the mid-range and low cost segments, respectively.

Russian operations produce the Dobryana and Kolyada international brands as well as the Ostankinskaya regional brand, with high consumer recognition in Moscow region.

Shares of Milkiland brands in its B2C sales in 2009, %



Shares of Milkiland brands in its B2C sales in 1H10, %



Source: Company data, Concorde Capital estimates

Milkiland group's product range included about 500 SKUs in 2009, which were culled to approximately 400 SKUs by end-2010 to focus on its most profitable products. The optimization was already visible looking at FY 2009 and 1H10 brand distribution within B2C sales. Dobryana's share grew by 14 pp, while other brands and non-branded products declined 9 pp.

### Dobryana brand to retain key role in sales growth




Dobryana, the company's major international brand, responsible for 53% of Milkiland's B2C sales, should retain its key role in delivering sustainable top line growth in 2010-14E, in our view. Designed to appeal to Ukrainian traditions of family values and hospitality, the brand contributes the highest value added benefit to the company, accounting for 29% of B2C dairy product output in absolute terms vs. 53% of revenues in monetary value based on 1H10 results.

Given Milkiland's strong focus on the cheese segment as a major driver of profitability, we expect Dobryana branded products to contribute at least 50% to B2C revenues over 2010-14E.

### Milkiland brand portfolio: well positioned in all segments

Milkiland boasts a diversified portfolio of both regional and international brands and cooperates with large retail chains in the private label segment. We see a strong selection of brands across the range of price segments as beneficial for the company, since this allows Milkiland to adjust its output to rapid changes in consumer preferences via broad access to various target groups in Ukraine and Russia.

**Milkiland key brands overview**

Brand	Price segmentation	Geography	Overview
	Medium	International	<ul style="list-style-type: none"> <li>• Key brand, initially introduced for hard cheese and later used as an umbrella brand</li> <li>• Actively substituting Dobryana for older brands</li> <li>• Appeals to Ukrainian traditions of family values and hospitality</li> </ul>
	Economy	International	<ul style="list-style-type: none"> <li>• Relatively new, expected to overtake current regional economy brands and non-branded products</li> <li>• Kolyada is the name of traditional Christmas songs in Ukrainian and appeals to national heritage</li> </ul>
	Medium	Regional	<ul style="list-style-type: none"> <li>• Historical brand of Ostankino Dairy, high consumer awareness in Moscow and surrounding areas</li> </ul>
<b>Private label</b>			<ul style="list-style-type: none"> <li>• Private labeling with X5 (Russia), Metro, Fozzy and Velyka Kyshenya (all in Ukraine)</li> </ul>
<b>Other brands and non-branded</b>			<ul style="list-style-type: none"> <li>• Nesquik chocolate milk produced at Ostankino Dairy</li> <li>• Local brands and non-branded products compete in the economy segments; being transitioned to Kolyada and Dobryana brands in the future</li> </ul>

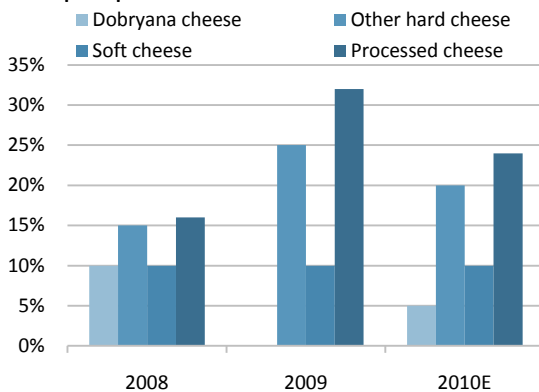
\* Sales to B2C consumers only

Source: Company data, Concorde Capital estimates

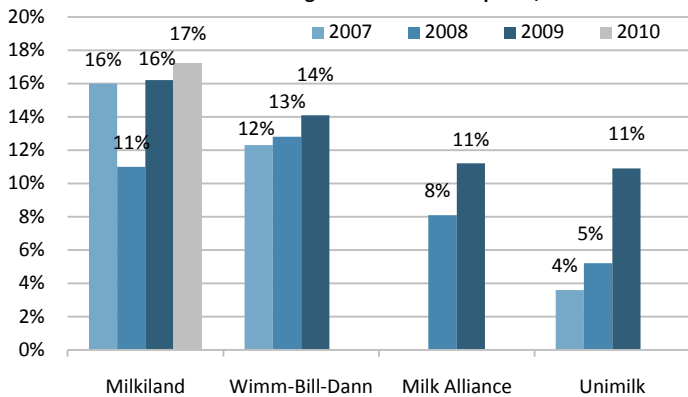
## Exports and low cost base support high margins

Milkiland exhibited the sector's highest EBITDA margin over the past four years, a healthy average of 15%. The margin remained above 10% throughout the period despite the ban on Russian cheese imports in 2006 and the global crisis of 2008. In 1H10, the group's EBITDA margin grew by 4.9 pp y-o-y to 18% due to a favorable operating environment, which compares well with Wimm-Bill-Dann's EBITDA margin of 13% in the same period. Preliminary unaudited results for 2010 show EBITDA margin improved by 1 pp y-o-y to 17.2%.

**Cheese price premium in Russia to Ukraine**



**Milkiland's historic EBITDA margins in 2007-10 vs. peers, %**

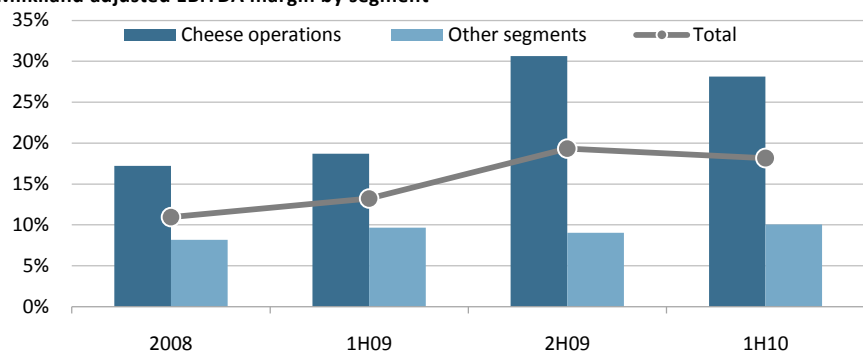


Source: Company data, Concorde Capital estimates

We attribute Milkiland's strong, sustainable financial performance to:

- 60-65% of sales generated from cheese exports and WMP sales in Russia, where the company benefits from 5-25% higher export prices for cheese compared to domestic Ukrainian prices
- close proximity of cheese production facilities to the Russian border, which keeps transportation costs low versus peers Unimilk and Milk Alliance
- origination prices for raw milk that are on average 50% lower in Ukraine vs. Russia due to specifics of collection and subsidies, which provides greater operating cost flexibility

**Milkiland adjusted EBITDA margin by segment**



\* EBITDA adjusted to exclude effects of non-recurring expenditures from the operating segments such as restructuring costs, legal expenses, non-current assets impairments and other income and expenses resulted from an isolated, non-recurring event.

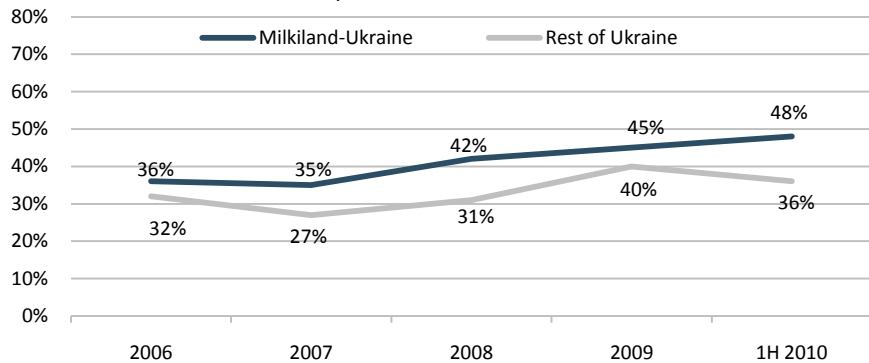
Source: Company data

In the mid-term, we see upside potential in non-cheese dairy margins as the company upgrades its packaging lines as a part of CapEx financed with its December 2010 IPO proceeds.

## Superior raw milk supply system

Milkiland's cost-efficiency in operations is supported by the high share of raw milk supply from farms (48% of milk processed vs. 36% for peers) and is beneficial for the company as it: (1) reduces milk collection-associated expenses, given that farms sell milk in larger quantities than individuals; (2) allows for higher product quality, crucial for export sales; and (3) provides longer shelf-life from origination to pasteurization due to less bacterial contamination.

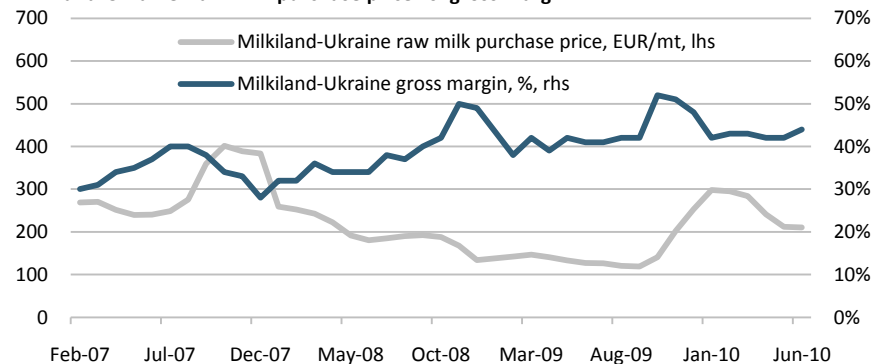
**% of raw milk collected from farms, 2007-1H10**



Source: Company data, Ukrainian Ministry of Agriculture

Moreover, the company showed a high pass-through ability of the rising raw milk prices: though margins declined when its cost base grew, the decline has not been harmful.

**Milkiland-Ukraine: raw milk purchase price vs. gross margin**

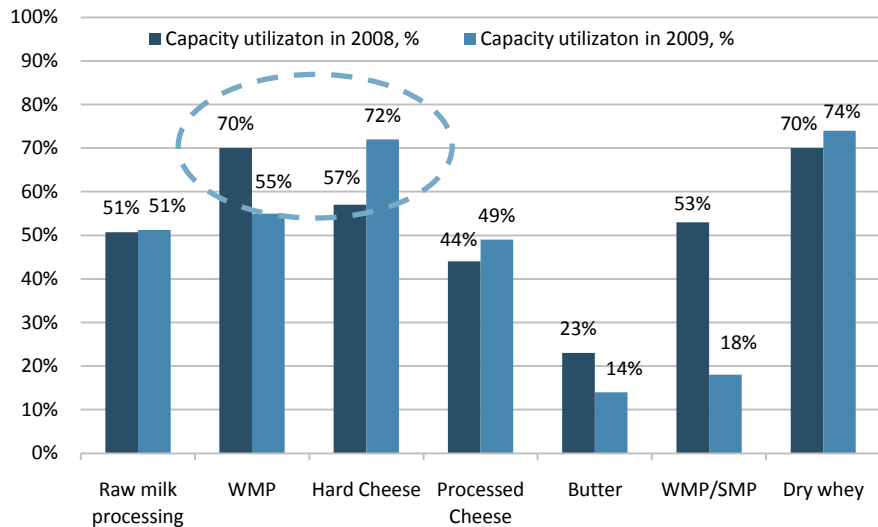


Source: Company data

## IPO proceeds support 2011-14 sales growth

Given Milkiland's active asset base growth over 2001-10, management plans to focus on sales growth over 2011-14 and improve operating efficiency by enhancing vertical integration and modernizing capacity. As Milkiland's cheese segment operated at 72% capacity utilization in 2009, further capacity extension in this segment via acquisitions or investments is still on the agenda. With 2009 capacity utilization in the WMP segment estimated at 63%, we see a high likelihood that the company will follow the same path for this division in 2012-15.

### Production modernization and capacity utilization



Source: Company data, Concorde Capital estimates

The company plans to utilize EUR 49.4 mln in proceeds from its December 2010 IPO to modernize and expand capacity in its cheese and whole milk divisions, invest in whey refining and strengthen its raw milk sufficiency via upgrades to existing dairy farms. The CapEx scheduled for 2011-15 requires a EUR 46 mln investment in upgrades as well as capacity expansion and modernization. In addition, the planned acquisition or investment into a cheese plant in Russia should also be funded from the IPO, as specified in the table below.

### Production modernization and capacity expansion plans for 2011-15, EUR mln

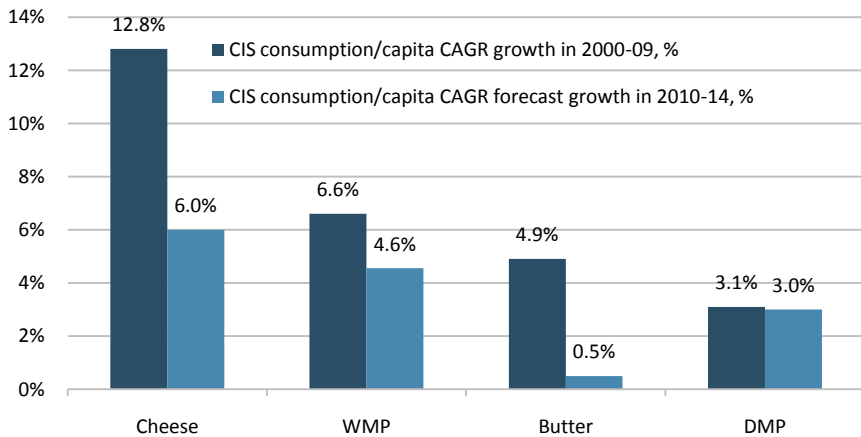
Segment	Year	EUR mln	Overview and key projections
Cheese	2011-12	10	Modernization of Okhtyrski Cheese to increase efficiency and extend capacity by 7% or 7,000 mt
	2011-12	TBA	Acquire or make a Greenfield investment into a cheese plant in Russia with a target capacity of 10-15,000 mt p.a.
	2011-15	4	Ongoing modernization, upgrade and maintenance
Whole milk products	2011-12	10-13	Ostankino modernization
	2011-15	7	Modernization of Ukrainian WMP facilities with upgrades to packaging lines and harmonization of capacities across plants
Dry milk products	2012-15	TBA	Possible investments into whey refining to produce value added products (protein)
Farms	2011-12	8	Upgrade existing farms to house 3,500 heads of cattle with target raw milk production of 20,000 mt p.a.
	2011-15	TBA	Further capacity expansion (acquisition possible) to achieve 50,000 mt of own milk production by 2015
Corporate	2011	4	Consolidation of 14% of remaining minority shareholders in Ostankino according to Milkiland's contractual obligation
<b>Total</b>	<b>2015</b>	<b>43-46</b>	

Source: Company data, Concorde Capital estimates

## Organic growth by gaining share from small producers

Benefiting from its presence in the growing Russian and Ukrainian dairy markets, which are forecasted to expand by 11% and 13% CAGRs respectively over 2010-14, Milkiland aims to achieve organic growth by focusing on high growth segments – cheese, WMP and dry milk products. In addition, further expansion into the cheese segment, the product line with the highest value-added in Milkiland’s product mix, should favor overall growth in profitability per mt of milk equivalent, though we expect EBITDA margin to contract to 14% on average for 2011-14 vs. 16-17% in 2009-10.

**CIS dairy market segment historic and forecasted growth, 2000-14E, %**



Source: State Statistics Committee of Ukraine, Rosstat, Amico, UN Comtrade, FAPRI, Concorde Capital estimates

We project the company’s cheese and butter output (excluding potential acquisition effects) to grow with the market at 6% and 0.5-1% CAGRs respectively over 2010-14, and forecast Milkiland’s WMP segment to grow at a 5-6% CAGR vs. a 4.6% CAGR for the market, gaining share from small producers. Given the fragmented CIS market, with over 1,000 players and no company, other than Danone-Unimilk and Wimm-Bill-Dann, controlling more than 4% of the CIS market, we see this plan as highly realistic.

## Dairy farms to enhance Milkiland’s vertical integration

Addressing the challenge of quality raw milk supply, Milkiland plans to expand its in-house raw-milk production 10x from 5,000 mt in 2009 to 50,000 mt in 2015E, growing the share of its own milk from 1% in 2009 to 7% in 2015E. Although this should have a marginally positive effect on Milkiland’s costs in 2010-15E, we see this as fundamentally positive for the company’s premium products, which require high quality milk. In addition, higher quality should help Milkiland’s exports to eventually be EU-certified, allowing for additional revenue streams in the post-projection period.

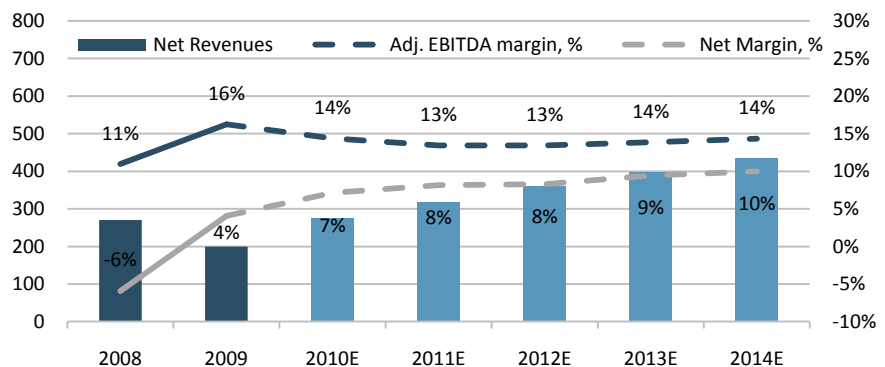
## Sales poised to grow at 14% CAGR over 2010-14

In our view, the positive fundamentals of the Russian and Ukrainian dairy markets, both significantly lagging EU markets in terms of per capita consumption and rising consumer incomes, position Milkiland for future sales growth. We project Milkiland to increase sales by 23% y-o-y to EUR 319 mln in 2011, triggered by continued price growth in products and a 4-8% rise in sales volumes. We estimate sales growth in 2010-2014E at a 14% CAGR.

We see the following key sales drivers in 2010-14:

- Nominal GDP per capital is projected to rise at an estimated 13% CAGR over 2010-14E in Russia and at a 12% CAGR in Ukraine over the same period, which should drive Russian and Ukrainian dairy consumption closer to EU levels
- Growing demand for milk from processors should favor an increase in the shares of processed milk from the current 41% in Ukraine and 52% in Russia closer to 85% in EU-27. This should hold raw milk price increases to a 11% CAGR over 2010-14E vs. 18% CAGR in 2004-09 in Ukraine and keep Russia's milk prices rising at a moderate 8% in 2010-14E CAGR, preventing excessive dairy inflation and supporting intake growth

Milkiland forecast sales growth, EUR mln, lhs vs. profit margins, %, rhs



Source: Company data, Concorde Capital estimates

## 2010 financials reveal pass-through of rising raw milk costs

Milkiland's preliminary financials for 2010 indicated it was able to sustain its EBITDA margin at 17.2% in a milk price growth environment. The company's revenue grew by 30% to EUR 259 mln, spurred by rising dairy prices.

Milkiland key financials, EUR mln	1H09	1H10	2009	2010*
Revenues	100.4	121.1	200.0	259
Gross profit	33.6	46.1	77.7	n/a
Gross margin, %	33.5%	38.1%	38.8%	n/a
Adj. EBITDA	13.3	22.0	32.5	44.6
Adj. EBITDA margin, %	13.2%	18.2%	16.2%	17.2%
Net income	0.3	11.7	8.2	n/a
Net margin, %	0.3%	9.7%	4.1%	n/a

\*Preliminary non-audited figures

Source: Company data



## Ruble appreciation benefits cheese exports

Since summer 2010, the Russian ruble appreciated by 8% versus the Ukrainian hryvnya, which benefits Milkiland as it relies on a hryvnya-denominated cost base (approximately half of its costs originated in Ukraine in 2010) and ruble-denominated revenues (61% of revenues originated from Russia in 1H10).

**Ukrainian hryvnya per one Russian ruble**



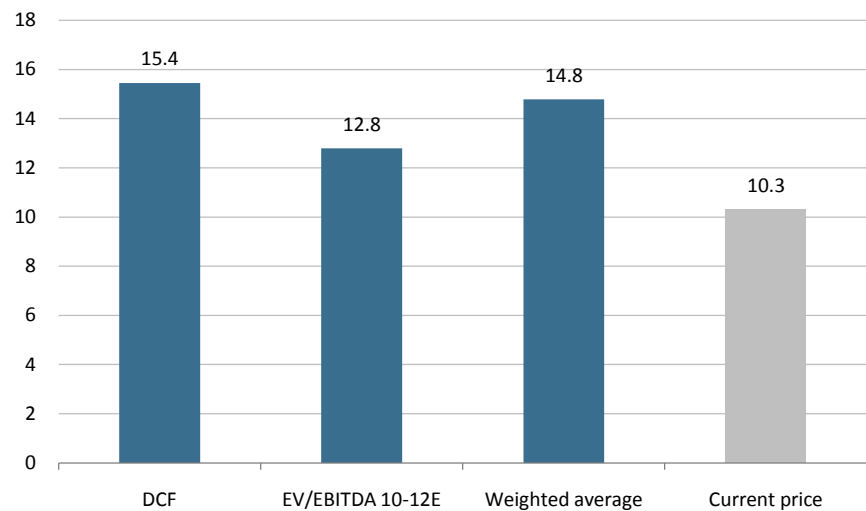
Source: Bloomberg

## Valuation

We valued Milkiland using both DCF and peer comparison on EV/EBITDA 10-12E, yielding a target of EUR 14.8 per share, upside of 44%.

In determining our target, we relied more on DCF (weight of 75%) as it better captures the company's growth prospects while peer valuation (average of implied prices by EV/EBITDA '10-12E, weight of 25%) does not fully reflect the CIS' higher growth prospects than other markets. Notably, the only CIS-based dairy peer Wimm-Bill-Dann trades at 16.2x on EV/EBITDA '11E vs. its peer median of 10.0x and Milkiland's 8.4x. BUY.

**Milkiland price per share, EUR**



Source: Bloomberg, Concorde Capital

## DCF valuation

We valued Milkiland's equity using DCF and peer valuation methods based on the following assumptions.

### Raw milk price assumptions 2008-14E, EUR/mt

	2008	2009	2010E	2011E	2012E	2013E	2014E
Ukrainian raw milk price, EUR/mt	153	100	144	183	202	210	218
Russian raw milk price, EUR/mt	288	263	337	378	385	392	400

Source: Interfax-Ukraine, Concorde Capital estimates

### Finished product pricing assumptions

Average selling prices, EUR/kg	2008	2009	2010E	2011E	2012E	2013E	2014E
<b>Dobryana cheese</b>							
Ukraine	3.4	2.8	3.6	4.0	4.3	4.4	4.6
Exports	4.5	3.4	4.7	5.2	5.5	5.8	6.0
Exports over Ukrainian price, %	33%	20%	30%	30%	30%	30%	30%
<b>Other brands or non-branded hard cheese</b>							
Ukraine	3.2	2.5	3.1	3.2	3.4	3.5	3.6
Exports	3.6	3.2	4.0	4.1	4.2	4.4	4.6
Exports over Ukrainian price, %	15%	26%	26%	26%	26%	26%	26%
<b>Soft cheese</b>							
Ukraine	8.3	6.3	7.8	8.1	8.4	8.7	9.0
Exports	9.2	7.0	8.6	8.9	9.2	9.6	9.9
Exports over Ukrainian price, %	10%	10%	10%	10%	10%	10%	10%
<b>Processed cheese</b>							
Ukraine	2.0	1.5	1.9	2.2	2.3	2.4	2.5
Exports	2.3	2.0	2.4	2.7	2.9	3.0	3.1
Exports over Ukrainian price, %	16%	33%	24%	24%	24%	24%	24%

Source: Interfax-Ukraine, Concorde Capital estimates

Average WMP prices in Russia, EUR/mt	2008	2009	2010E	2011E	2012E	2013E	2014E
Drinking milk	533	460	535	594	629	647	659
Change y-o-y, %		-13.6%	6.0%	11.0%	10.0%	7.0%	6.0%
Sour cream and yoghurts	878	742	895	985	1,041	1,071	1,092
Change y-o-y, %		-15.6%	10.0%	10.0%	10.0%	7.0%	6.0%
Cottage cheese	2,490	2,161	2,608	2,868	2,979	3,065	3,153
Change y-o-y, %		-13.2%	10.0%	10.0%	8.0%	7.0%	7.0%
Condensed milk	2,221	1,993	2,405	2,597	2,697	2,775	2,855
Change y-o-y, %		-10.3%	10.0%	8.0%	8.0%	7.0%	7.0%

Source: Interfax-Ukraine, Concorde Capital estimates

Average WMP prices in Ukraine, EUR/mt	2008	2009	2010E	2011E	2012E	2013E	2014E
Drinking milk	385	326	421	433	458	476	494
Change y-o-y, %		(15.2%)	6.0%	11.0%	10.0%	7.0%	6.0%
Sour cream and yoghurts	697	538	704	778	861	910	963
Change y-o-y, %		(22.8%)	6.0%	11.0%	10.0%	7.0%	6.0%
Cottage cheese	2,287	1,701	2,193	2,320	2,566	2,788	3,002
Change y-o-y, %		(25.6%)	6.0%	11.0%	10.0%	7.0%	6.0%

Source: Interfax-Ukraine, Concorde Capital estimates

### Exchange rates

	2008	2009	2010E	2011E	2012E	2013E	2014E
RUB/EUR avg.	36.4	44.1	40.2	40.2	41.8	43.5	45.2
RUB/EUR eop	41.4	43.4	40.3	40.2	41.8	43.5	45.2
UAH/EUR avg.	7.71	10.87	10.53	11.25	11.70	12.17	12.65
UAH/EUR eop.	10.86	11.45	10.57	11.25	11.70	12.17	12.65

Source: Bloomberg, Concorde Capital estimates

## DCF yields fair price of EUR 15.4 per share price

Based on our assumptions for the DCF model, we estimate the fair value of Milkiland shares at EUR 15.4 per share, upside of 50%. Our sensitivity analysis shows that a 0.5% increase in the terminal growth rate increases Milkiland's equity value by 3.8%, as a 1% increase to the base WACC decreases equity value by 5.8%.

### DCF model output

For forecasting purposes Ukrainian hryvnya is used

All amounts in UAH mln except otherwise stated

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
<b>EBITDA</b>	<b>416</b>	<b>481</b>	<b>567</b>	<b>673</b>	<b>789</b>	<b>921</b>	<b>1,071</b>	<b>1,227</b>	<b>1,393</b>	<b>1,595</b>
EBIT	332	387	463	566	679	808	955	1,107	1,271	1,470
Tax Rate	5%	5%	10%	10%	15%	15%	16%	16%	16%	16%
Taxed EBIT	315	368	417	510	577	687	803	930	1,068	1,234
Plus D&A	84	94	103	106	110	112	116	120	122	125
Less CapEx	(84)	(315)	(293)	(146)	(152)	(132)	(151)	(157)	(133)	(139)
Less change in OWC	(94)	(121)	(110)	(109)	(112)	(121)	(129)	(138)	(153)	(170)
<b>FCFF</b>	<b>-</b>	<b>-</b>	<b>118</b>	<b>360</b>	<b>423</b>	<b>547</b>	<b>639</b>	<b>755</b>	<b>904</b>	<b>1,051</b>
<b>WACC</b>	<b>12%</b>	<b>13%</b>	<b>14%</b>	<b>15%</b>	<b>14%</b>	<b>15%</b>	<b>14%</b>	<b>14%</b>	<b>14%</b>	<b>14%</b>
Sum of DCF's			2,432							
Terminal Value										10,258
Discounted TV			3,689							
<b>Firm Value</b>			<b>6,122</b>							<b>59.8%</b>
Less Net Debt			411							
<b>Equity Value</b>			<b>5,711</b>							<b>6.3 x</b>
<b>Perpetuity Growth Rate</b>			<b>2.5%</b>							

### Sensitivity Analysis

WACC	Implied Share Price USD					Implied Share Price USD					
	Perpetuity Growth Rate					Exit Multiple (EBITDA)					
	1.5%	2.0%	2.5%	3.0%	3.5%	4.4 x	5.4 x	6.4 x	7.4 x	8.4 x	
-3.0%	17.5	18.0	18.6	19.3	20.1	-3.0%	14.8	16.7	18.6	20.5	22.4
-2.0%	16.4	16.9	17.5	18.1	18.8	-2.0%	13.9	15.7	17.5	19.3	21.0
-1.0%	15.4	15.9	16.4	17.0	17.7	-1.0%	13.1	14.8	16.4	18.1	19.8
+0.0%	14.5	14.9	15.4	16.0	16.6	+0.0%	12.3	13.9	15.4	17.0	18.6
+1.0%	13.6	14.1	14.5	15.0	15.6	+1.0%	11.6	13.1	14.5	16.0	17.4
+2.0%	12.8	13.2	13.7	14.2	14.7	+2.0%	11.0	12.3	13.7	15.0	16.4
+3.0%	12.1	12.5	12.9	13.3	13.8	+3.0%	10.3	11.6	12.9	14.1	15.4

### WACC calculation

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
<b>Avg. Interest Rate</b>	<b>11.3%</b>	<b>10.2%</b>	<b>9.6%</b>	<b>9.8%</b>	<b>7.0%</b>	<b>7.0%</b>	<b>7.0%</b>	<b>7.0%</b>	<b>7.0%</b>	<b>7.0%</b>
Ukr Eurobonds YTM	5.0%	6.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Equity premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Comp.-specif. Prem/Disc	2.0%	2.0%	2.0%	2.0%	1.5%	1.5%	1.0%	1.0%	1.0%	1.0%
<b>Cost Of Equity</b>	<b>13.0%</b>	<b>14.0%</b>	<b>15.0%</b>	<b>15.0%</b>	<b>14.5%</b>	<b>14.5%</b>	<b>14.0%</b>	<b>14.0%</b>	<b>14.0%</b>	<b>14.0%</b>
<b>WACC</b>	<b>12.3%</b>	<b>12.8%</b>	<b>13.6%</b>	<b>14.6%</b>	<b>14.5%</b>	<b>14.5%</b>	<b>14.0%</b>	<b>14.0%</b>	<b>14.0%</b>	<b>14.0%</b>
<b>WACC To Perpetuity</b>	<b>13.0%</b>									

## Comparative valuation: EUR 12.4-13.4 per share

Comparative valuation using emerging market dairy peers' median suggests a value of EUR 12.4-13.4 per share on EV/EBITDA multiples. We use the average for 2010-12 of EUR 12.8 per share as the 25% input in our valuation. Notably, Milkiland's only CIS-based dairy peer, Wimm Bill Dann, trades at 16.2x on EV/EBITDA '11E vs. the EM peer median of 10.0x, which reflects higher growth perspectives for the CIS dairy market. In our view, this premium should be reflected in Milkiland valuation as well.

### Comparative valuation

	Price		EV/S			EV/EBITDA			P/E		
	EUR	MCap EUR mln	10	11E	12E	10	11E	12E	10E	11E	12E
<b>Milkiland</b>	10.3	322	1.4	1.1	1.0	8.1	8.4	7.3	16.4	12.4	10.8
<b>EM Dairy peers</b>											
Danone	46.6	30,183	2.2	1.9	1.7	12.0	10.7	9.8	16.1	16.5	14.8
Saputo	31.7	6,589	1.8	1.6	1.4	9.4	11.7	10.4	26.5	19.7	17.5
Fraser and Neave	3.4	4,824	2.1	1.8	1.7	10.6	9.4	8.6	11.0	13.0	12.4
China Mengniu Dairy	2.1	3,713	0.9	0.8	0.7	11.8	11.1	8.9	26.9	21.0	16.5
Wimm Bill Dann Foods	23.6	4,147	2.3	1.9	n/a	19.6	16.2	n/a	41.5	29.9	n/a
Glanbia	4.4	1,278	0.8	0.8	0.7	8.8	8.1	7.7	n/a	11.8	10.3
Bongrain	67.7	1,045	0.4	0.4	0.3	6.2	6.3	6.0	n/a	13.1	11.6
Pinar Sut Mamulleri Sanayii	6.5	292	1.0	1.0	0.8	10.1	8.5	7.4	9.7	8.0	n/a
<b>Median</b>			<b>0.7</b>	<b>1.0</b>	<b>0.8</b>	<b>10.4</b>	<b>10.0</b>	<b>8.6</b>	<b>16.1</b>	<b>14.8</b>	<b>13.6</b>
Milkiland price implied by peers median			<b>4.6</b>	<b>8.7</b>	<b>8.0</b>	<b>13.4</b>	<b>12.5</b>	<b>12.4</b>	<b>10.1</b>	<b>12.3</b>	<b>13.0</b>
<i>Upside (downside)</i>			-55%	-15%	-22%	31%	21%	21%	-1%	20%	26%

Source: Bloomberg, Concorde Capital estimates

## Risks

We see the following risks that could have a material effect on our valuation:

**Growth in raw milk prices or shortage of raw milk:** based on rising demand from processors, the anticipated development of industrial producers of high-quality milk over the projected period should mitigate significant shortages of raw milk. In addition, we see Milkiland's milk origination system and planned dairy farm development as an efficient system, reducing the potential for milk shortage or exposure to growth in raw milk prices. **Probability: Medium**

**Risk of Russia's cheese import ban being reintroduced:** we see this risk as insignificant; given Russia's strong dependence on cheese imports and recently improved political relations between Russia and Ukraine since the election of a new Ukrainian President in early 2010. Moreover, the availability of Ostankino Dairy production capacity, as well as the planned acquisition of a cheese production facility in Russia should greatly mitigate this risk for Milkiland. **Probability: Low**

**Risk of decrease in state support for agricultural production in Ukraine and Russia:** we see the risk of a decrease in direct subsidies to agricultural producers as moderate given the scope of macroeconomic challenges the Ukrainian government currently faces. However, we believe that this should be mitigated by the availability of other tax benefits and subsidies from the state as the special taxation regime (agricultural producers are allowed to retain the difference between VAT charged on their products and VAT paid on raw materials), VAT refunds to exporters, and the Fixed Agricultural Tax (FAT). **Probability: Moderate**

**Ruble depreciation/appreciation to Ukrainian hryvnya:** as the company's key cheese segment is based on lower Ukrainian hryvnya-denominated raw milk prices on the cost side and higher Russian ruble-denominated output prices, the company's business is directly influenced by exchange rate fluctuations. Ruble appreciation is beneficial for the company, while depreciation is margin-destructive. See page 27 for our exchange-rate assumptions.

# Appendices

## Financial statements, IFRS

### Income statement summary, EUR mln

	2008	2009	2010E	2011E	2012E	2013E	2014E
<b>Net Revenues</b>	<b>270</b>	<b>200</b>	<b>275</b>	<b>319</b>	<b>361</b>	<b>399</b>	<b>435</b>
Change y-o-y	N/M	-26.0%	37.4%	15.9%	13.2%	10.7%	9.1%
Cost Of Sales	(178)	(122)	(175.7)	(210)	(238)	(262)	(285)
Gross Profit	93	78	99	108	123	137	151
Other Operating Income/Costs. net	(5)	(3)	(8)	(6)	(6)	(6)	(7)
SG&A	(60)	(45)	(52)	(60)	(68)	(75)	(82)
<b>EBITDA</b>	<b>27</b>	<b>30</b>	<b>39</b>	<b>43</b>	<b>48</b>	<b>55</b>	<b>62</b>
EBITDA margin, %	10.0%	14.9%	14.4%	13.4%	13.4%	13.8%	14.3%
<b>Adjusted EBITDA</b>	<b>30</b>	<b>32</b>	<b>39</b>	<b>43</b>	<b>48</b>	<b>55</b>	<b>62</b>
Adj. EBITDA margin, %	10.9%	16.2%	14.4%	13.4%	13.4%	13.8%	14.3%
Depreciation	(10)	(8)	(8)	(8)	(9)	(9)	(9)
<b>EBIT</b>	<b>17</b>	<b>22</b>	<b>31</b>	<b>34</b>	<b>40</b>	<b>47</b>	<b>54</b>
Interest Expense	(15)	(14)	(9)	(5)	(4)	(2)	(0)
Financial income	0	1	(1)	(1)	(1)	(1)	(1)
Other income/(expense)	(16)	(1)	(1)	(1)	(1)	(1)	(1)
<b>PBT</b>	<b>(14)</b>	<b>8</b>	<b>21</b>	<b>27</b>	<b>33</b>	<b>42</b>	<b>51</b>
Tax	(2)	0	(1)	(1)	(3)	(4)	(8)
<b>Net Income</b>	<b>(16)</b>	<b>8</b>	<b>20</b>	<b>26</b>	<b>30</b>	<b>38</b>	<b>43</b>
Net Margin, %	-5.9%	4.1%	7.1%	8.2%	8.3%	9.4%	10.0%

### Balance sheet summary, EUR mln

	2008	2009	2010E	2011E	2012E	2013E	2014E
<b>Current Assets</b>	<b>52</b>	<b>56</b>	<b>77</b>	<b>91</b>	<b>103</b>	<b>113</b>	<b>144</b>
Cash & Equivalents	3	7	10	11	13	14	35
Trade Receivables	27	22	30	35	40	44	48
Inventories	17	19	26	32	36	39	43
Other current assets	5	9	11	13	14	16	17
<b>Fixed Assets</b>	<b>121</b>	<b>128</b>	<b>141</b>	<b>154</b>	<b>166</b>	<b>164</b>	<b>163</b>
PP&E. net	112	120	130	142	152	150	147
Other Fixed Assets	9	8	11	12	14	15	16
<b>Total Assets</b>	<b>174</b>	<b>184</b>	<b>218</b>	<b>245</b>	<b>269</b>	<b>278</b>	<b>306</b>
<b>Shareholders' Equity</b>	<b>20</b>	<b>38</b>	<b>113</b>	<b>132</b>	<b>157</b>	<b>188</b>	<b>225</b>
Share Capital	3	3	3	3	3	3	3
Reserves and Other	18	35	110	129	154	186	222
<b>Current Liabilities</b>	<b>89</b>	<b>45</b>	<b>33</b>	<b>39</b>	<b>44</b>	<b>43</b>	<b>33</b>
ST Interest Bearing Debt	68	31	13	14	16	13	-
Trade Payables	19	14	19	23	26	29	31
Other Current Liabilities	2	1	1	1	1	2	2
<b>LT Liabilities</b>	<b>65</b>	<b>101</b>	<b>72</b>	<b>74</b>	<b>68</b>	<b>46</b>	<b>49</b>
LT Interest Bearing Debt	30	62	38	36	26	1	1
Other LT	34	39	34	38	42	45	48
<b>Total Liabilities &amp; Equity</b>	<b>174</b>	<b>184</b>	<b>218</b>	<b>245</b>	<b>269</b>	<b>278</b>	<b>306</b>

### Cash flow statement summary, EUR mln

	2008	2009	2010E	2011E	2012E	2013E	2014E
Net Income	(16)	8	20	26	30	38	43
Depreciation	10	8	8	8	9	9	9
Non-operating and non-cash items	18	6	42	4	4	3	3
Changes in working capital	(8)	(13)	(9)	(11)	(9)	(9)	(9)
<b>Operating Cash Flow</b>	<b>3</b>	<b>9</b>	<b>60</b>	<b>28</b>	<b>33</b>	<b>41</b>	<b>46</b>
Capital Expenditures. net	(33)	(2)	(8)	(28)	(25)	(12)	(12)
<b>Investing Cash Flow</b>	<b>(33)</b>	<b>(2)</b>	<b>(8)</b>	<b>(28)</b>	<b>(25)</b>	<b>(12)</b>	<b>(12)</b>
Net Borrowings/(repayments)	8	(0)	(50)	2	(6)	(27)	(12)
Other	-	(2)	-	-	-	-	-
<b>Financing Cash Flow</b>	<b>8</b>	<b>(3)</b>	<b>(50)</b>	<b>2</b>	<b>(6)</b>	<b>(27)</b>	<b>(12)</b>
Beginning Cash Balance		3	7	9	11	12	13
Ending Cash Balance	4	7	10	11	13	14	35
<b>Net Cash Inflows/Outflows</b>	<b>(21)</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>22</b>

### Selected financial ratios

	2008	2009	2010E	2011E	2012E	2013E	2014E
Net Debt/EBITDA	353%	289%	105%	91%	61%	-1%	-55%
EBIT interest coverage	1.2	1.6	3.6	7.0	9.4	20.1	970.1
ROA	-9%	4%	10%	11%	12%	14%	15%
ROE	-80%	22%	26%	21%	21%	22%	21%

### Exchange rates, UAH/EUR

	2008	2009	2010E	2011E	2012E	2013E	2014E
Average exchange rate	7.71	10.87	10.53	11.25	11.70	12.17	12.65
Year-end exchange rate	10.86	11.45	10.57	11.25	11.70	12.17	12.65

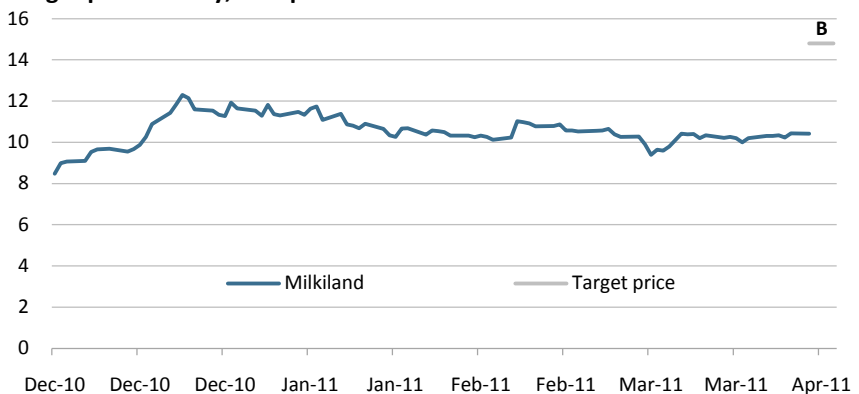
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I, Yegor Samusenko, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly,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

### MLK ratings history

Date	12M target price, EUR	Market price, USD	Rating	Action
11-Apr-11	14.8	10.3	BUY	Initiate

### Target price history, EUR per share



Source: Bloomberg, Concorde Capital

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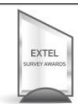
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