

April 18, 2012

Milkiland

Cheese war is over

Russia's consumer rights watchdog and Ukraine's Economy Ministry agreed to end their cheese trade tiff yesterday, following Russian inspections of three key banned plants, one of which was Milkiland's. We believe Milkiland will resume cheese exports in 1-4 weeks, earlier than we previously expected. As a result, we raise our 2012 earnings projection for Milkiland and eliminate 1 pp from our equity risk premium due to decreased risk of a repeat trade war. We confirm our BUY rating for Milkiland and increase our target price from PLN 27.2 to PLN 30.5.

Russia, Ukraine agree on resolution to cheese conflict

We believe yesterday's announcement indicates the end of the cheese trade war as both sides appeared constructive and since it came after Rospotrebnadzor, Russia's consumer rights watchdog, completed inspections of all three key Ukrainian cheese plants it banned. The inspections, in our view, should have been used as a basis for dragging out the conflict, if Rospotrebnadzor wanted.

We raise Milkiland's earnings forecasts for 2012-13

We expect export deliveries to actually resume in 1-4 weeks, which is earlier than we previously expected (July 2012); thus we upgrade our earnings forecasts for Milkiland slightly.

Key forecast revisions

	2012 old	2012 new	Difference	2013 old	2013 new	Difference
Revenue, EUR mln	292.8	296.0	1%	333.2	336.7	1%
EBITDA, EUR mln	34.8	37.7	8%	42.5	43.1	1%
EBITDA Margin	11.9%	12.7%	1 pp	12.7%	12.8%	0 pp
Net Income, EUR mln	16.3	19.3	18%	22.5	23.5	4%
Net Margin	5.6%	6.5%	1 pp	6.8%	7.0%	0 pp

Source: Concorde Capital

Risk of new trade war drops significantly

Importantly, both sides agreed on a long-term solution: to set up a laboratory in Ukraine responsible for cheese certification according to Russian standards. This, in our view, limits the chance of a repeat cheese war; we accordingly eliminate the 1 pp we added to our equity risk premium to account for the conflict with Russia.

We upgrade our target price to PLN 30.5/share, confirming BUY

We believe the resumption of exports to Russia will be the positive price catalyst Milkiland shares have been lacked, backed by renewed state subsidies for the dairy sector, strong consumer demand in Russia and an election-related boost in Ukrainian consumer demand. We confirm our BUY recommendation and increase our target price from PLN 27.2/share to PLN 30.5/share.

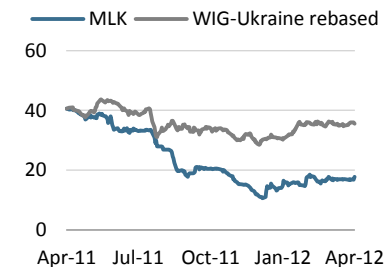
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Bloomberg	MLK PW
Reuters	MLK=PW
Recommendation	BUY
Price, PLN	16.8
12M target, PLN	30.5
Upside	82%
No of shares, mln	31.25
Market Cap, PLN mln	525.0
52-week performance	-58%
52-week range, PLN	10.6/40.6
ADT, 12M, PLN mln	0.32
Free float, %	22.40%
Free float, PLN mln	117.6

Prices as of Apr. 17, 2012

Price performance, PLN per share



Source: Bloomberg

DCF

We set our target price at PLN 30.5 (EUR 6.8) based on DCF.

DCF output, EUR mln

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	35	38	43	49	56	60	62	65	68	70
EBIT	25	27	32	38	45	48	51	53	56	58
Effective Tax Rate	5%	5%	10%	10%	15%	15%	16%	16%	16%	16%
Taxed EBIT	23	25	29	34	38	41	43	45	47	49
Plus D&A	10	11	11	11	11	11	11	11	12	12
Less CapEx	(28)	(25)	(12)	(12)	(10)	(11)	(12)	(11)	(12)	(12)
Less change in OWC	(10)	0	(2)	(5)	(8)	(5)	(3)	(3)	(3)	(3)
FCFF	-	-	26	28	31	36	39	42	44	46
WACC	15%	15%	16%	16%	16%	15%	15%	15%	15%	16%
Sum of disc't'd CF's			150							
Terminal Value										362
Disc't'd TV			119							
Firm value			269		Portion due to TV					44.2%
Less Net Debt			(41)							
Equity Value as of 18 April 2013			228		Implied exit EBITDA Multiple					5.2 x
Perpetuity Growth Rate										2.5%
Fair price of ord. share			EUR 7.3		PLN 30.5*					

Exchange rate of PLN 4.18 per EUR used

Source: Concorde Capital estimates

Sensitivity analysis, PLN per share

WACC	Perpetuity Growth Rate					WACC	Exit Multiple (EBITDA)				
	1.5%	2.0%	2.5%	3.0%	3.5%		3.2 x	4.2 x	5.2 x	6.2 x	7.2 x
-3.0%	34.8	35.5	36.3	37.2	38.1	-3.0%	28.8	32.6	36.3	40.1	43.8
-2.0%	32.8	33.5	34.2	35.0	35.9	-2.0%	27.2	30.7	34.2	37.7	41.3
-1.0%	30.9	31.6	32.3	33.0	33.9	-1.0%	25.7	29.0	32.3	35.6	38.8
+0.0%	29.2	29.8	30.5	31.2	31.9	+0.0%	24.3	27.4	30.5	33.5	36.6
+1.0%	27.5	28.1	28.7	29.4	30.1	+1.0%	23.0	25.9	28.7	31.6	34.5
+2.0%	26.0	26.6	27.1	27.8	28.5	+2.0%	21.8	24.5	27.1	29.8	32.5
+3.0%	24.6	25.1	25.6	26.2	26.9	+3.0%	20.6	23.1	25.6	28.2	30.7

WACC decomposition

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Debt-to-Equity	0.47	0.37	0.27	0.24	0.25	0.26	0.27	0.26	0.26	0.26
Avg. after-tax Interest Rate	10.6%	11.2%	12.3%	11.6%	11.8%	11.5%	11.6%	11.6%	11.6%	11.6%
Ukr. Eurobonds YTM	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
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.	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Cost of Equity	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
WACC	14.8%	15.3%	15.7%	15.7%	15.6%	15.5%	15.5%	15.5%	15.5%	15.5%
WACC to Perpetuity	15.5%									

Source: Company data, Concorde Capital estimates

Peer comparison

Peer multiples

	MCap USD mln	EV/Sales			EV/EBITDA			P/E		
		2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Milkiland NV	176	0.6	0.6	0.5	5.1	4.7	3.8	8.3	6.8	5.6
Danone	44,493	2.1	1.9	1.7	11.7	10.5	9.5	19.1	17.2	15.6
Saputo	9,001	1.5	1.4	1.3	11.6	11.2	10.3	18.9	17.4	16.1
Fraser and Neave	7,645	2.0	1.9	1.6	9.7	9.3	7.9	14.8	14.0	12.3
China Mengniu Dairy	5,477	0.7	0.7	0.5	9.8	8.9	6.7	20.9	19.2	15.0
Glanbia	2,312	0.9	0.8	0.7	10.8	9.0	8.0	13.5	12.2	11.1
Bongrain	1,002	0.3	0.3	0.3	4.4	4.3	3.9	9.9	11.2	9.8
Pinar Sut Mamulleri Sanayii	464	1.3	1.2	1.0	10.9	10.2	8.5	12.4	10.9	9.1
Peer harmonic mean		0.8	0.8	0.7	8.9	8.3	7.2	14.7	14.0	12.2

Source: Bloomberg, Concorde Capital

Financials

Income statement, EUR mln

	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Net Revenues	200	258	284	296	337	384	429	458	475	494	513	530
Change y-o-y	N/M	29.2%	9.9%	4.2%	13.8%	14.1%	11.7%	6.6%	3.8%	3.9%	3.9%	3.4%
Cost Of Sales	(124)	(153)	(187)	(193)	(220)	(250)	(279)	(297)	(309)	(320)	(332)	(344)
Gross Profit	76	106	97	103	117	134	150	160	167	173	180	187
Other Operating Income/Costs. net	(3)	(10)	(6)	(6)	(7)	(8)	(9)	(9)	(10)	(10)	(10)	(11)
SG&A	(44)	(51)	(57)	(59)	(67)	(77)	(86)	(92)	(95)	(99)	(103)	(106)
EBITDA	30	44	35	38	43	49	56	60	62	65	68	70
EBITDA margin. %	14.9%	17.2%	12.3%	12.7%	12.8%	12.9%	13.1%	13.0%	13.1%	13.1%	13.2%	13.2%
Depreciation	(8)	(10)	(10)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(12)	(12)
EBIT	22	35	25	27	32	38	45	48	51	53	56	58
Interest Expense	(14)	(15)	(8)	(6)	(6)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Financial income	1	1	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	(1)	0	-	-	-	-	-	-	-	-	-	-
PBT	8	22	16	20	26	33	40	43	45	48	51	53
Tax	0	0	(1)	(1)	(3)	(3)	(6)	(6)	(7)	(8)	(8)	(8)
Net Income	8	22	16	19	23	30	34	37	38	40	42	44
Net Margin. %	4.1%	8.5%	5.5%	6.5%	7.0%	7.8%	7.9%	8.0%	8.0%	8.2%	8.3%	8.4%
Dividend Declared	-	-	-	-	12	22	32	35	36	38	40	42

Balance sheet, EUR mln

	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Current Assets	56	108	94	95	101	112	125	133	138	143	149	154
Cash & Equivalents	7	38	10	10	12	13	15	16	17	17	18	19
Trade Receivables	22	22	28	30	34	38	43	46	48	49	51	53
Inventories	19	27	33	34	39	45	50	53	55	57	59	61
Other current assets	9	21	23	21	17	15	17	18	19	20	21	21
Fixed Assets	128	160	180	196	202	209	213	217	220	221	224	226
PP&E. net	120	126	144	158	159	159	158	158	158	158	158	158
Other Fixed Assets	8	33	36	38	43	49	55	59	61	63	66	68
Total Assets	184	268	275	291	303	321	338	350	358	365	373	380
Shareholders' Equity	38	117	132	152	163	171	173	174	176	178	180	183
Share Capital	3	3	3	3	3	3	3	3	3	3	3	3
Reserves and Other	35	114	129	149	160	168	169	171	173	175	177	180
Current Liabilities	45	61	38	42	49	49	55	59	61	63	65	66
ST Interest Bearing Debt	31	44	17	20	25	21	24	26	27	27	27	27
Trade Payables	14	16	20	20	23	26	29	31	32	34	35	36
Other Current Liabilities	1	1	1	1	2	2	2	2	2	2	2	3
LT Liabilities	101	90	105	97	91	101	110	116	120	124	128	131
LT Interest Bearing Debt	62	36	45	35	20	20	20	20	20	20	20	20
Other LT	39	54	60	62	71	81	90	96	100	104	108	111
Total Liabilities & Equity	184	268	275	291	303	321	338	350	358	365	373	380

Cash flow statement, EUR mln

	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Net Income	8	22	16	19	23	30	34	37	38	40	42	44
Depreciation	8	10	10	11	11	11	11	11	11	11	12	12
Non-operating and non-cash items	3	9	2	1	3	4	4	2	1	2	2	1
Changes in working capital	(11)	(25)	(10)	0	(2)	(5)	(8)	(5)	(3)	(3)	(3)	(3)
Operating Cash Flow	9	15	18	32	36	40	41	45	48	50	52	54
Capital Expenditures. net	(2)	(14)	(28)	(25)	(12)	(12)	(10)	(11)	(12)	(11)	(12)	(12)
Investing Cash Flow	(2)	(14)	(28)	(25)	(12)	(12)	(10)	(11)	(12)	(11)	(12)	(12)
Net Borrowings/(repayments)	(3)	(20)	(18)	(6)	(11)	(4)	3	2	1	0	0	0
Dividends Paid/Share Buybacks	-	-	-	-	(12)	(22)	(32)	(35)	(36)	(38)	(40)	(42)
Other	-	50	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	(3)	30	(18)	(6)	(23)	(26)	(29)	(33)	(35)	(38)	(40)	(42)
Beginning Cash Balance	3	7	38	10	10	12	13	15	16	17	17	18
Ending Cash Balance	7	38	10	10	12	13	15	16	17	17	18	19
Net Cash Inflows/Outflows	3	31	(28)	0	1	2	2	1	1	1	1	1

Source: Company data, Concorde Capital

APPENDICES

Analyst certification

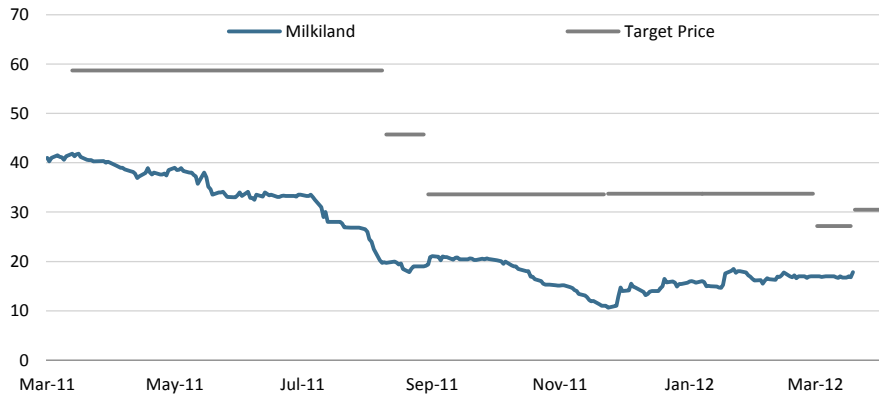
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Rating history: Milkiland (MLK PW)

Date	12M target price, PLN	Market price, PLN	Rating	Action
11-Apr-11	58.7	25.0	BUY	Initiate
08-Sep-11	45.7	19.7	BUY	Maintain
28-Sep-11	33.6	19.2	BUY	Maintain
23-Dec-11	33.7	11.0	BUY	Maintain
30-Mar-12	27.0	17.0	BUY	Maintain
18-Apr-12	30.5	16.8	BUY	Maintain

Source: Concorde Capital

Milkiland: Target price vs. share performance, PLN per share



Source: Bloomberg, Concorde Capital

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