

December 23, 2011

# Milkiland

## Return of milk VAT subsidy could raise EBITDA by 18% in 2012

Yesterday Ukraine's parliament amended the Tax Code to partially restore VAT subsidies for milk producers. If the president signs the law, we estimate Milkiland, whose 9M11 financials suffered due to the absence of the benefit, could raise its 2012 EBITDA by 18% to EUR 47 mln as a result of the subsidy's return.

- The approved amendments stipulate processors will retain 70% of VAT on raw milk procured from households in 2012 (60% in 2013, 50% in 2014) vs. 100% in 1998-2010 and 0% in 2011. Raw milk procured from households accounted for 55% of milk Milkiland purchased this year.
- We estimate removal of the VAT subsidy was responsible for 5 pp of Milkiland's 11 pp yoy gross margin decline to 27% in 9M11. Milkiland's total raw milk costs in 9M11 equalled 60% of revenue (vs. 48% in 9M10).
- We expect the raw milk cash price to remain the same in 2012, but now Milkiland will retain the VAT on raw milk purchased from households and redirect it to pay for milk, effectively reducing COGS. We estimate this will result in an increase in Milkiland's EBITDA margin of 2.5 pp or of 18% to the absolute value of EBITDA to up to EUR 47 mln in 2012.
- We reiterate our BUY recommendation on Milkiland and confirm our target price of EUR 7.6/share (PLN 33.7 at the current exchange rate), which implies 206% upside. We see the 58% decline in Milkiland shares since August 30 as a reaction to weak 1H11-9M11 results spoiled by the removal of the subsidy, and view yesterday's news of its return as a perfect reason to enter a long position in the stock.

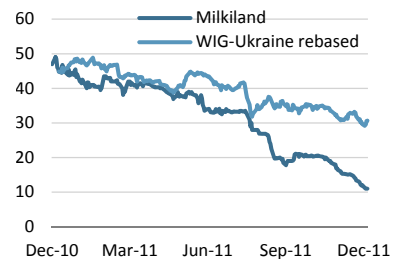
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Bloomberg	MLK PW
Reuters	MLK=PW
<b>Recommendation</b>	<b>BUY</b>
Price, EUR	2.48
12M target, EUR	7.60
Price, PLN	11.0
12M target, PLN	33.7
Upside	206%
No of shares, mln	31.25
Market Cap, EUR mln	77.4
52-week performance	-77%
52-week range, EUR	2.5/12.3
ADT, 12M, EUR mln	0.07
Free float, %	22.4%
Free float, EUR mln	17.3

Prices as of Dec. 22, 2011

### Share performance, PLN



Source: Bloomberg

### Peer multiples

	MCap		EV		EV/Sales		EV/EBITDA		P/E	
	USD mln	USD mln	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E
Milkiland NV	101	170	0.4	0.4	3.3	2.7	4.5	2.8		
Danone	39,516	50,768	2.0	1.9	11.3	10.5	17.1	15.7		
Saputo	7,643	8,115	1.3	1.2	10.0	9.9	16.1	15.4		
Fraser and Neave	6,880	9,336	2.0	1.9	9.6	9.5	13.4	12.9		
China Mengniu Dairy	5,972	5,118	0.9	0.7	11.5	9.1	22.7	18.1		
Glanbia	1,752	2,588	0.7	0.7	9.3	8.7	10.1	9.4		
Bongrain	947	1,753	0.3	0.3	5.1	4.8	8.6	7.8		
Pinar Sut Mamulleri Sanayii	377	390	1.1	1.0	8.5	8.6	9.2	8.6		
Ukrproduct	8	11	0.1	0.1	2.6	1.6	7.2	3.7		
<b>Peers harmonic mean</b>			<b>0.5</b>	<b>0.5</b>	<b>6.7</b>	<b>5.4</b>	<b>11.4</b>	<b>9.1</b>		

Source: Bloomberg, Concorde Capital

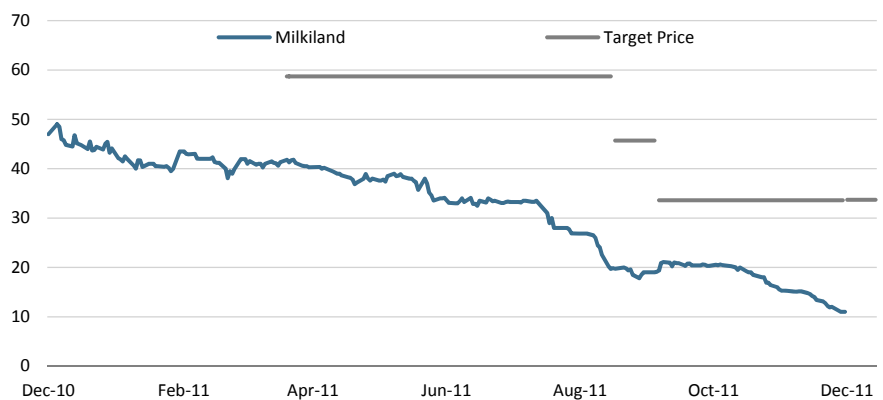
## APPENDICES

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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.

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

### Company: Target price vs. share performance, PLN per share



Source: Bloomberg, Concorde Capital

### Investment ratings

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