

March 30, 2012

# Milkiland

## Cheese war lengthens; still a top pick

**We trim our earnings forecasts for Milkiland based on today's statement issued by Rospotrebnadzor, which indicates the cheese war will not be as short-lived as we previously expected. We lower our target price by 19% to PLN 27/share, which still implies 60% upside. We reiterate our BUY recommendation and keep it as our top Ukrainian consumer goods pick.**

### Russian regulator finds violations at banned Ukrainian cheese plant

Rospotrebnadzor, Russia's consumer rights protection agency, found significant deficiencies at Ukraine's Gadyachsy cheese plant, the regulator said today. Gadyachsy is one of the several cheese makers whose exports to Russia were banned and the only one so far that has been inspected. Rospotrebnadzor did not reveal its plan to inspect other Ukrainian producers, including Milkiland's one plant that was affected by the ban.

### Expectation of cheese export renewal moved to 3Q12

We believe Rospotrebnadzor's announcement is negative for Milkiland, as it indicates a resolution to the cheese war between Russia and Ukraine might still be a long way off. Regardless of the true reasoning behind the conflict, changes in technological processes that the Russian regulator required of the first inspected plant could take several months. We change our expectation the renewal of Ukrainian cheese exports to Russia from April 2012 to July 2012.

### 2012 EBITDA forecast trimmed to EUR 35 mln

We cut our estimate for Milkiland's EBITDA in 2012 from EUR 44 mln to EUR 35 mln, which is mostly the result of a loss due to lower cheese sales.

### Target price lowered to PLN 27, BUY confirmed

We decrease our target price for Milkiland from PLN 34/share to PLN 27/share, incorporating our revised projections and a 1 pp increase in our company-specific risk premium in the cost of equity. Our new target price implies 60% upside to the current price. We reiterate our BUY recommendation and keep it as our top Ukrainian consumer goods pick.

### Worst case scenario

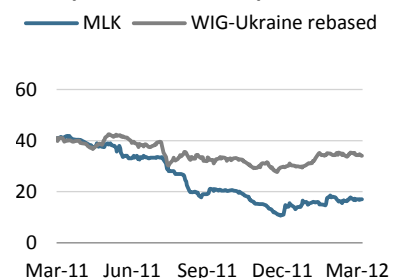
We see little chance of the worst case scenario, a full ban on all Ukrainian cheese exports to Russia for a longer term, as Russia remains the largest cheese importer in the world and it will find it difficult to replace Ukrainian cheese, which accounted for 70 kt of Russia's total 420 kt imported in 2011. In the worst case scenario, we estimate Milkiland's EBITDA will decline to EUR 26 mln in 2012 while it would prompt a complete strategy overhaul for Milkiland.

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Bloomberg	MLK PW
Reuters	MLK=PW
<b>Recommendation</b>	<b>BUY</b>
Price, PLN	17.0
12M target, PLN	27.2
Upside	60%
No of shares, mln	31.25
Market Cap, PLN mln	531.3
52-week performance	-59%
52-week range, PLN	10.6/41.8
ADT, 12M, PLN mln	0.32
Free float, %	22.4%
Free float, PLN mln	119.0

Prices as of Mar. 29, 2012

### Price performance, PLN per share



Source: Bloomberg

### Earnings forecast revision, EUR mln

	2012 old	2012 new	Diff.
Revenue	313.7	292.8	-7%
EBITDA	42.1	34.8	-17%
EBITDA Margin	13.4%	11.9%	-1.5pp
Net Income	23.5	16.3	-31%
Net Margin	7.5%	5.6%	-1.9pp

Source: Concorde Capital

## DCF

We set our target price aty PLN 27.2 (EUR 6.5) based on DCF model.

### DCF output, EUR mln

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>EBITDA</b>	<b>35</b>	<b>35</b>	<b>42</b>	<b>49</b>	<b>55</b>	<b>59</b>	<b>61</b>	<b>64</b>	<b>67</b>	<b>69</b>
EBIT	25	24	31	38	44	48	50	53	55	58
Effective Tax Rate	5%	5%	10%	10%	15%	15%	16%	16%	16%	16%
Taxed EBIT	23	23	28	34	37	40	42	44	46	48
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)	1	(2)	(5)	(8)	(5)	(3)	(3)	(3)	(3)
<b>FCFF</b>	<b>-</b>	<b>-</b>	<b>26</b>	<b>28</b>	<b>31</b>	<b>36</b>	<b>38</b>	<b>41</b>	<b>43</b>	<b>45</b>
<b>WACC</b>	<b>15%</b>	<b>16%</b>	<b>16%</b>	<b>16%</b>	<b>16%</b>	<b>16%</b>	<b>16%</b>	<b>16%</b>	<b>16%</b>	<b>16%</b>
Sum of disc't'd CF's			144							
Terminal Value										<b>338</b>
Disc't'd TV			105							
<b>Firm value</b>			<b>249</b>		<b>Portion due to TV</b>					<b>42.1%</b>
Less Net Debt			(45)							
<b>Equity Value as of 30 March 2013</b>			<b>204</b>		<b>Implied exit EBITDA Multiple</b>					<b>4.9 x</b>
<b>Perpetuity Growth Rate</b>										<b>2.5%</b>
<b>Fair price of ord. share</b>			EUR 6.5		PLN 27.2*					

Exchange rate of PLN 4.16 per EUR used

Source: Concorde Capital estimates

### Sensitivity analysis, PLN per share

	Perpetuity Growth Rate						Exit Multiple (EBITDA)				
	1.5%	2.0%	2.5%	3.0%	3.5%		2.9 x	3.9 x	4.9 x	5.9 x	6.9 x
<b>WACC</b>						<b>WACC</b>					
<b>-3.0%</b>	31.2	31.9	32.5	33.3	34.1	<b>-3.0%</b>	25.5	29.0	32.5	36.0	39.5
<b>-2.0%</b>	29.4	30.0	30.6	31.3	32.1	<b>-2.0%</b>	24.1	27.4	30.6	33.9	37.2
<b>-1.0%</b>	27.7	28.3	28.9	29.5	30.2	<b>-1.0%</b>	22.8	25.8	28.9	31.9	35.0
<b>+0.0%</b>	26.1	26.7	<b>27.2</b>	27.8	28.5	<b>+0.0%</b>	21.5	24.4	<b>27.2</b>	30.1	32.9
<b>+1.0%</b>	24.7	25.1	25.7	26.2	26.8	<b>+1.0%</b>	20.3	23.0	25.7	28.3	31.0
<b>+2.0%</b>	23.3	23.7	24.2	24.7	25.3	<b>+2.0%</b>	19.2	21.7	24.2	26.7	29.2
<b>+3.0%</b>	22.0	22.4	22.9	23.3	23.9	<b>+3.0%</b>	18.2	20.5	22.9	25.2	27.5

### WACC decomposition

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Debt-to-Equity	0.47	0.39	0.30	0.26	0.28	0.29	0.29	0.29	0.29	0.28
<b>Avg. after-tax Interest Rate</b>	<b>10.6%</b>	<b>11.4%</b>	<b>12.5%</b>	<b>11.8%</b>	<b>12.0%</b>	<b>11.7%</b>	<b>11.8%</b>	<b>11.8%</b>	<b>11.8%</b>	<b>11.8%</b>
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.	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
<b>Cost of Equity</b>	<b>18.0%</b>	<b>18.0%</b>	<b>18.0%</b>	<b>18.0%</b>	<b>18.0%</b>	<b>18.0%</b>	<b>18.0%</b>	<b>18.0%</b>	<b>18.0%</b>	<b>18.0%</b>
<b>WACC</b>	<b>15.5%</b>	<b>16.0%</b>	<b>16.5%</b>	<b>16.5%</b>	<b>16.3%</b>	<b>16.2%</b>	<b>16.2%</b>	<b>16.2%</b>	<b>16.2%</b>	<b>16.2%</b>
<b>WACC to Perpetuity</b>	<b>16.2%</b>									

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	170	0.6	0.6	0.5	5.0	5.1	4.2	8.0	7.7	5.6
Danone	44,780	2.1	1.9	1.8	11.8	10.8	10.0	19.3	17.3	15.7
Saputo	8,631	1.5	1.3	1.3	11.2	10.8	10.2	18.2	16.7	15.5
Fraser and Neave	7,568	2.1	2.1	1.8	10.2	10.1	9.0	14.7	13.9	12.1
China Mengniu Dairy	5,179	0.7	0.6	0.5	9.6	8.7	6.9	19.8	18.2	14.2
Glanbia	2,224	0.9	0.8	0.7	10.4	9.1	8.4	13.0	11.7	10.6
Bongrain	1,056	0.3	0.3	0.3	5.2	4.9	4.6	10.4	11.8	10.4
Pinar Sut Mamulleri Sanayii	471	1.3	1.2	1.1	11.1	10.8	9.1	12.6	11.1	9.3
<b>Peer harmonic mean</b>		<b>0.9</b>	<b>0.8</b>	<b>0.8</b>	<b>9.3</b>	<b>8.7</b>	<b>7.8</b>	<b>14.6</b>	<b>13.9</b>	<b>12.1</b>

Source: Bloomberg, Concorde Capital

## Financials

### Income statement, EUR mln

	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Net Revenues</b>	<b>200</b>	<b>258</b>	<b>284</b>	<b>293</b>	<b>333</b>	<b>381</b>	<b>425</b>	<b>454</b>	<b>471</b>	<b>489</b>	<b>508</b>	<b>525</b>
Change y-o-y	N/M	29.2%	9.9%	3.1%	13.8%	14.2%	11.7%	6.7%	3.8%	3.8%	3.9%	3.4%
Cost Of Sales	(124)	(153)	(187)	(194)	(217)	(248)	(276)	(295)	(306)	(318)	(330)	(341)
Gross Profit	76	106	97	99	116	133	149	159	165	172	178	185
Other Operating Income/Costs. net	(3)	(10)	(6)	(6)	(7)	(8)	(9)	(9)	(9)	(10)	(10)	(11)
SG&A	(44)	(51)	(57)	(59)	(67)	(76)	(85)	(91)	(94)	(98)	(102)	(105)
<b>EBITDA</b>	<b>30</b>	<b>44</b>	<b>35</b>	<b>35</b>	<b>42</b>	<b>49</b>	<b>55</b>	<b>59</b>	<b>61</b>	<b>64</b>	<b>67</b>	<b>69</b>
EBITDA margin. %	14.9%	17.2%	12.3%	11.9%	12.7%	12.8%	13.0%	13.0%	13.0%	13.1%	13.1%	13.2%
Depreciation	(8)	(10)	(10)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(12)	(12)
<b>EBIT</b>	<b>22</b>	<b>35</b>	<b>25</b>	<b>24</b>	<b>31</b>	<b>38</b>	<b>44</b>	<b>48</b>	<b>50</b>	<b>53</b>	<b>55</b>	<b>58</b>
Interest Expense	(14)	(15)	(8)	(7)	(6)	(5)	(5)	(6)	(6)	(6)	(6)	(6)
Financial income	1	1	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	(1)	0	-	-	-	-	-	-	-	-	-	-
<b>PBT</b>	<b>8</b>	<b>22</b>	<b>16</b>	<b>17</b>	<b>25</b>	<b>32</b>	<b>39</b>	<b>42</b>	<b>44</b>	<b>47</b>	<b>49</b>	<b>52</b>
Tax	0	0	(1)	(1)	(3)	(3)	(6)	(6)	(7)	(7)	(8)	(8)
<b>Net Income</b>	<b>8</b>	<b>22</b>	<b>16</b>	<b>16</b>	<b>23</b>	<b>29</b>	<b>33</b>	<b>36</b>	<b>37</b>	<b>39</b>	<b>41</b>	<b>43</b>
Net Margin. %	4.1%	8.5%	5.5%	5.6%	6.8%	7.6%	7.7%	7.9%	7.9%	8.0%	8.1%	8.2%
<b>Dividend Declared</b>	-	-	-	-	<b>11</b>	<b>22</b>	<b>31</b>	<b>34</b>	<b>35</b>	<b>37</b>	<b>39</b>	<b>41</b>

### Balance sheet, EUR mln

	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Current Assets</b>	<b>56</b>	<b>108</b>	<b>94</b>	<b>94</b>	<b>100</b>	<b>111</b>	<b>124</b>	<b>132</b>	<b>137</b>	<b>142</b>	<b>148</b>	<b>153</b>
Cash & Equivalents	7	38	10	10	12	13	15	16	16	17	18	18
Trade Receivables	22	22	28	29	33	38	43	45	47	49	51	53
Inventories	19	27	33	34	39	44	49	53	54	57	59	61
Other current assets	9	21	23	20	17	15	17	18	19	20	20	21
<b>Fixed Assets</b>	<b>128</b>	<b>160</b>	<b>180</b>	<b>195</b>	<b>201</b>	<b>208</b>	<b>213</b>	<b>216</b>	<b>219</b>	<b>221</b>	<b>223</b>	<b>225</b>
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	58	60	63	65	67
<b>Total Assets</b>	<b>184</b>	<b>268</b>	<b>275</b>	<b>290</b>	<b>302</b>	<b>319</b>	<b>336</b>	<b>348</b>	<b>356</b>	<b>363</b>	<b>371</b>	<b>378</b>
<b>Shareholders' Equity</b>	<b>38</b>	<b>117</b>	<b>132</b>	<b>149</b>	<b>160</b>	<b>167</b>	<b>169</b>	<b>171</b>	<b>172</b>	<b>174</b>	<b>177</b>	<b>179</b>
Share Capital	3	3	3	3	3	3	3	3	3	3	3	3
Reserves and Other	35	114	129	146	157	164	166	167	169	171	173	176
<b>Current Liabilities</b>	<b>45</b>	<b>61</b>	<b>38</b>	<b>45</b>	<b>52</b>	<b>52</b>	<b>58</b>	<b>62</b>	<b>64</b>	<b>66</b>	<b>68</b>	<b>69</b>
ST Interest Bearing Debt	31	44	17	23	27	24	27	29	30	30	30	31
Trade Payables	14	16	20	20	23	26	29	31	32	33	35	36
Other Current Liabilities	1	1	1	1	2	2	2	2	2	2	2	2
<b>LT Liabilities</b>	<b>101</b>	<b>90</b>	<b>105</b>	<b>97</b>	<b>90</b>	<b>100</b>	<b>109</b>	<b>115</b>	<b>119</b>	<b>123</b>	<b>127</b>	<b>130</b>
LT Interest Bearing Debt	62	36	45	35	20	20	20	20	20	20	20	20
Other LT	39	54	60	62	70	80	89	95	99	103	107	110
<b>Total Liabilities &amp; Equity</b>	<b>184</b>	<b>268</b>	<b>275</b>	<b>290</b>	<b>302</b>	<b>319</b>	<b>336</b>	<b>348</b>	<b>356</b>	<b>363</b>	<b>371</b>	<b>378</b>

### Cash flow statement, EUR mln

	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Net Income	8	22	16	16	23	29	33	36	37	39	41	43
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	1	2	1
Changes in working capital	(11)	(25)	(10)	1	(2)	(5)	(8)	(5)	(3)	(3)	(3)	(3)
<b>Operating Cash Flow</b>	<b>9</b>	<b>15</b>	<b>18</b>	<b>29</b>	<b>35</b>	<b>39</b>	<b>40</b>	<b>44</b>	<b>47</b>	<b>49</b>	<b>51</b>	<b>53</b>
Capital Expenditures. net	(2)	(14)	(28)	(25)	(12)	(12)	(10)	(11)	(12)	(11)	(12)	(12)
<b>Investing Cash Flow</b>	<b>(2)</b>	<b>(14)</b>	<b>(28)</b>	<b>(25)</b>	<b>(12)</b>	<b>(12)</b>	<b>(10)</b>	<b>(11)</b>	<b>(12)</b>	<b>(11)</b>	<b>(12)</b>	<b>(12)</b>
Net Borrowings/(repayments)	(3)	(20)	(18)	(4)	(11)	(3)	3	2	1	0	0	0
Dividends Paid/Share Buybacks	-	-	-	-	(11)	(22)	(31)	(34)	(35)	(37)	(39)	(41)
Other	-	50	-	-	-	-	-	-	-	-	-	-
<b>Financing Cash Flow</b>	<b>(3)</b>	<b>30</b>	<b>(18)</b>	<b>(4)</b>	<b>(22)</b>	<b>(25)</b>	<b>(28)</b>	<b>(32)</b>	<b>(34)</b>	<b>(37)</b>	<b>(39)</b>	<b>(41)</b>
Beginning Cash Balance	3	7	38	10	10	12	13	15	16	16	17	18
Ending Cash Balance	7	38	10	10	12	13	15	16	16	17	18	18
<b>Net Cash Inflows/Outflows</b>	<b>3</b>	<b>31</b>	<b>(28)</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>

Source: Company data, Concorde Capital

## APPENDICES

### Analyst certification

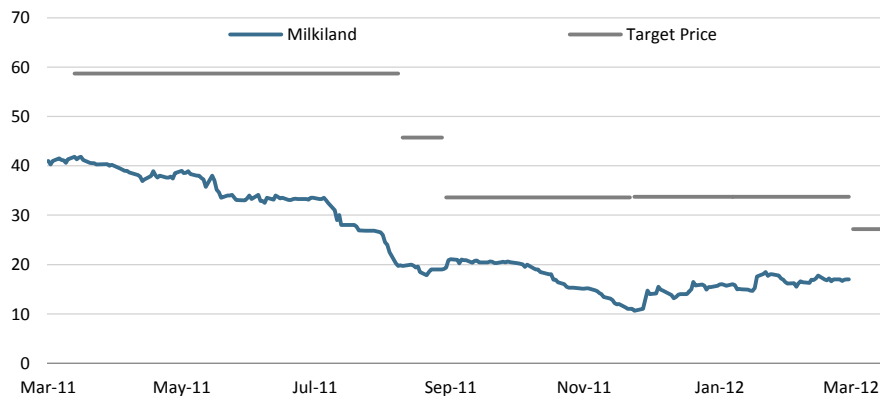
I, Yegor Samusenko, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views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

### 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

Source: Concorde Capital

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



Source: Bloomberg, Concorde Capital

### Investment ratings

The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 20% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 20%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

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