

15 September 2011

Mriya Agro Holding

It's time to switch out of overvalued Eurobonds

- We view the premium at which Mriya Agro Holding's Eurobonds are trading to its peers as unjustified and believe the bonds have the potential to appreciate by 220-300 bps in the near term
- Mriya '16 has maintained a spread of ~400-450 bps over sovereigns since placement in March, while its peers' spreads have risen by ~150-300 bps since August, despite, in our view, similar vulnerability to commodity prices and external shocks

Too expensive compared to peers. We view Mriya Agro Holding's Eurobonds as overvalued, with the potential to widen by 220-300 bps in the near term. Mriya '16 has maintained a spread of ~400-450 bps over the sovereign curve since placement in March, while its peers' spreads have risen by ~150-300 bps since August, despite, in our view, similar vulnerability to commodity prices and external shocks. MHP '15, Mriya's closest peer on the yield map, which has a superior credit profile in our opinion, narrowed its premium to Mriya '16 to just 50-60 bps vs. 250-280 bps in March-August.

Grain yield premium to Ukrainian average is declining. Mriya announced preliminary early grain harvest yields (4.0 mt/ha for wheat, 3.0 mt/ha for barley and 2.0 mt/ha for rapeseed), during a conference call this week. Mriya's yield premium to the Ukrainian average declined in wheat (15% in 2011 vs. 52% in 2008-2010) and in barley (39% in 2011 vs. 66% in 2008-2010), but remained steady in rapeseed (16% in 2011 vs. 19% in 2008-2010).

Mriya Agro Holding grain harvest mt/ha*

	2008	2009	2010	2011*	y-o-y	Premium to Ukraine's average		Share in crop mix, 2011	Estimated share in revenues from farming, 2011
						2008-10 avg	2011		
Wheat	5.8	5.0	3.7	4.0	9%	52%	15%	57%	35%
Barley	4.6	3.5	2.4	3.0	25%	66%	39%	0%	0%
Rapeseed	2.8	2.3	1.7	2.0	20%	19%	16%	15%	10%

* Preliminary data. Source: Company data, Concorde Capital estimations

As of 1H11, Mriya's debt was USD 330 mln, including USD 65.0 mln in short-term debt. According to our calculations, debt/EBITDA10 was ~1.8x as of June 30, 2011. Also, Mriya had USD 195.0 mln in short-term bank deposits and cash (+51% YTD), equal to ~22% of total assets. According to Mriya's management, the company is not planning to use its liquidity cushion to buy back bonds.

Transfer pricing risk remains. Mriya's majority shareholders do not plan to consolidate sugar plants in its financials until late 2013, the company said during the call yesterday. The plants earn zero margin, according to Mriya, which, in our view means, that all the profit is left on Mriya's income statement. For comparison, vertically integrated Astarta earned 45% gross margin in 2010/11 on its sugar production segment.

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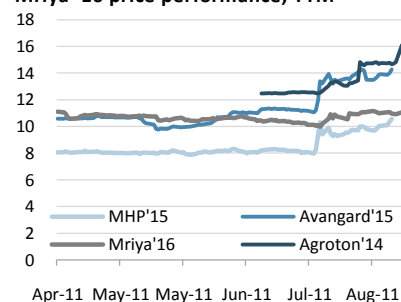
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Bloomberg	Mriya 10.95 03/16
ISIN	XS0559140875
Ratings (S/M/F)	B/-/B-
Price	98.81
YTM	11.1%, s.a.

Maturity date	April 30, 2016
Type	Bullet
Amount outstanding	USD 250 mln
Coupon	10.95%
Frequency	S.a.

Prices as of Sept. 14, 2011

Mriya '16 price performance, YTM



Source: Bloomberg

Ukrainian agriculture Eurobonds profile

Issuer	Maturity	Issue size, EBITDA10		Total Debt/EBITDA10
		USD mln	USD mln	
MHP	29.04.15	585	325	2.4
Mriya	30.03.16	250	158	0.7
Avangard	29.10.15	200	171	1.5
Agrotion	14.07.14	50	35	0.5

Source: Bloomberg, Company data

Ukrainian agriculture Eurobonds yields

Issuer	YTM, %	Credit spread*		Rating S&P/M/F
		July 14	Sept. 14	
MHP	10.6	248	397	-/B3/B-
Mriya	11.1	432	434	B/-/B-
Avangard	14.4	523	766	-/-/B
Agrotion	16.1	703	953	B/-/B-

* Spread over Ukrainian sovereigns

Source: Bloomberg

Conference call notes

Our notes from Mriya's conference call yesterday on its 1H11 financial and operating results, released on September 9:

- Sales grew by 9x y-o-y to USD 45.3 mln in 1H11, reflecting the sale of grain stock in 1H11 due to export quotas in Ukraine last season
- Preliminary yields on wheat were 4 mt/ha (vs. 3.7 in 2010), on barley were 3 mt/ha (vs. 2.4 in 2010), and on rapeseed 2 mt/ha (vs. 1.7 in 2010)
- Sugar yields should be higher than previous year
- CapEx amounted to USD 86 mln in 1H11. Of this amount, USD 16.6 mln was paid for a 11 ths ha farming company and another USD 33.9 mln as prepayment for a 30 ths ha farming company
- Capex guidance for 2011-12: USD 120-130 mln per annum
- No additional financing will be sought until 2H12
- Landbank size target maintained at 500 ths ha in 2014 (compared to 240 ths ha now)
- Land lease payments are expected to increase by 15% y-o-y in 2012 due to legal amendments that raised the minimum cadastre value of land, implying an increase in minimum land lease payments from USD 38/ha to USD 75/ha
- The company is doing feasibility studies on investing in processing

Risks

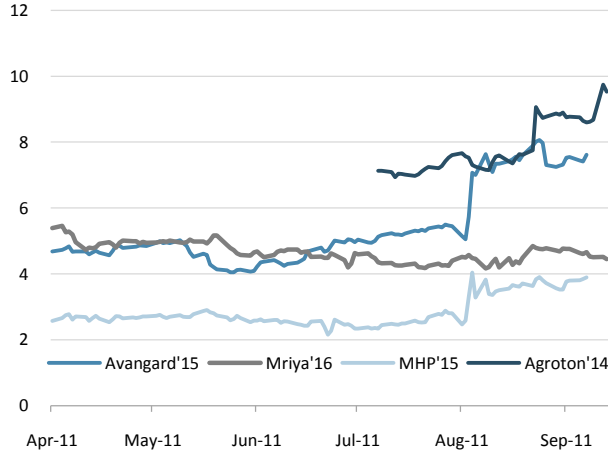
Transfer pricing risk

Given that 66% of Mriya's revenues in 2010 came from related parties, we deem transfer pricing risk to be high for the company. Mriya sells its sugar beets, its largest agricultural commodity in terms of revenues, to sugar plants controlled by its majority shareholder, the Huta family (owner of 80% of Mriya's share capital). The majority shareholders plan to consolidate the sugar plants on Mriya's financial accounts, but not earlier than late 2013.

Commodity price risk

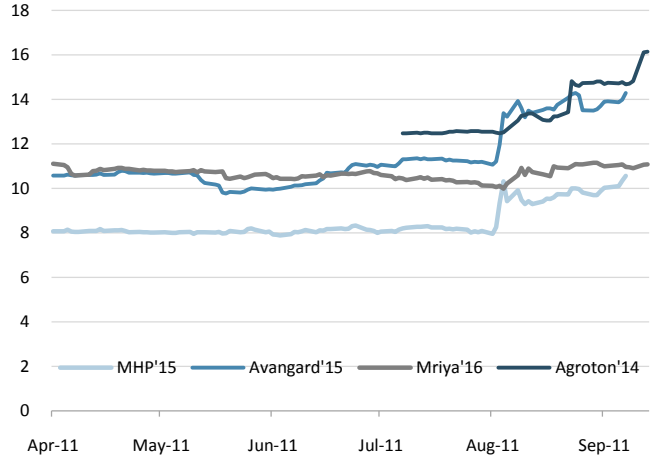
As a pure soft commodity producer, Mriya faces general soft commodity price risk. Compared to other farmers, Mriya is more self-sufficient in storage facilities, thus the company is able to store harvested commodities if the management expects higher prices later. Given that management revealed to us plans to store rapeseed and part of its grain until the next year, we think this increases the company's exposure to commodity prices.

Ukrainian agricultural sector Eurobond spreads over sovereigns , bps



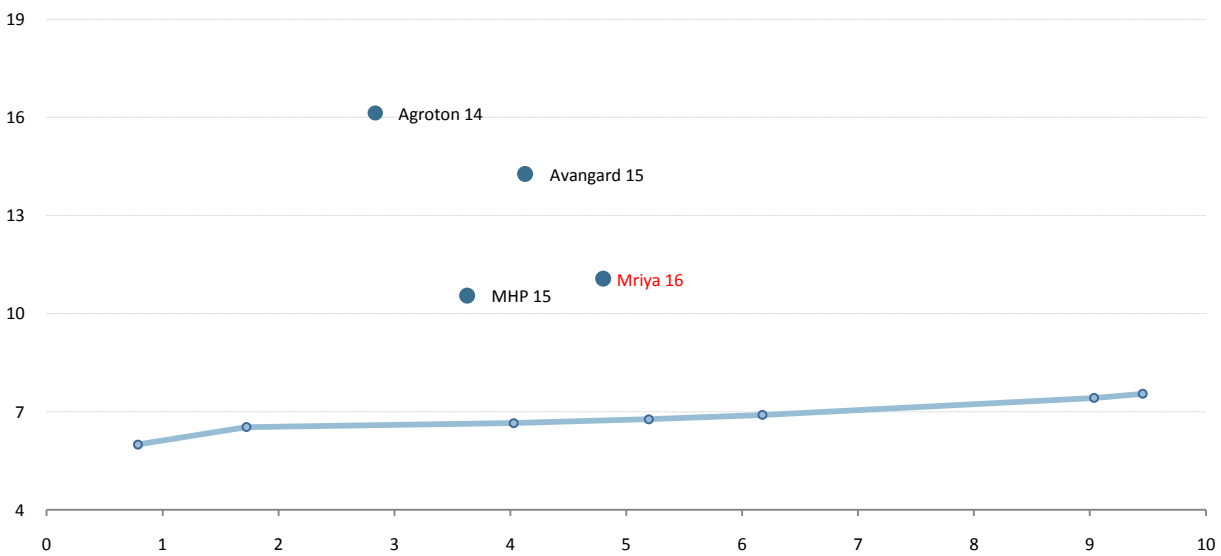
Source: Bloomberg, Concorde Capital estimates

Ukrainian agricultural sector Eurobond yields, YTM %



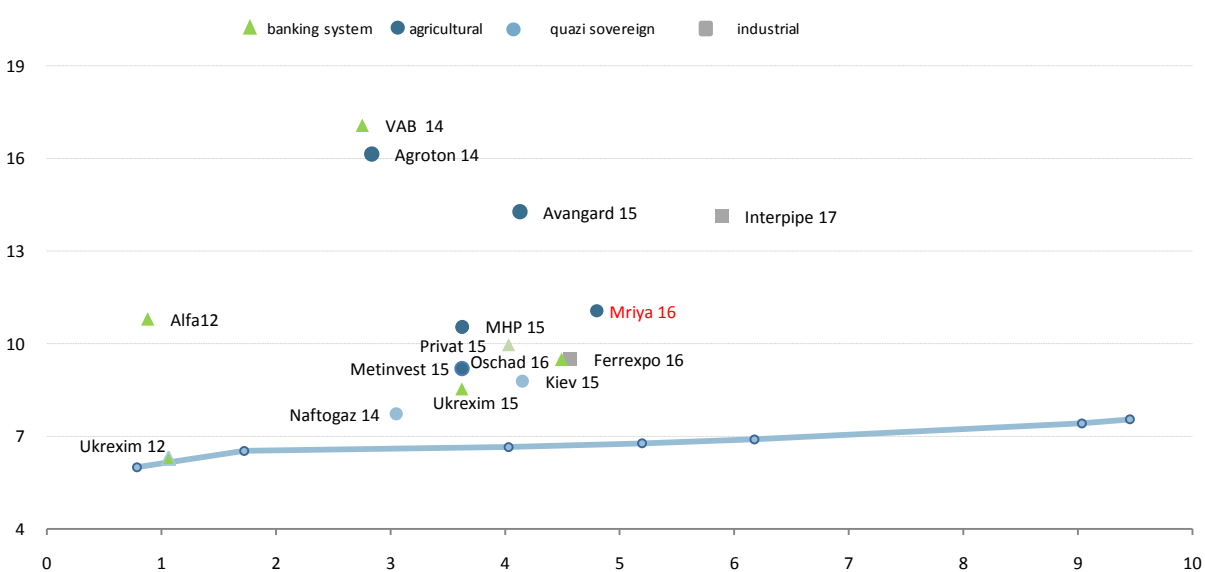
Source: Bloomberg, Concorde Capital estimates

Yield map of Ukrainian agricultural sector Eurobonds, YTM, %



Source: Bloomberg, Concorde Capital estimates

Yield map of Ukrainian Eurobonds, as of September 13, 2011

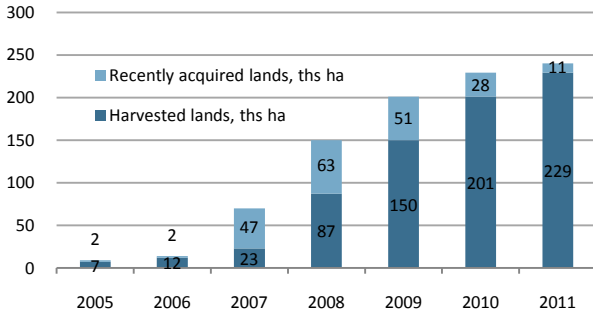


Source: Bloomberg, Concorde Capital estimates

Company overview

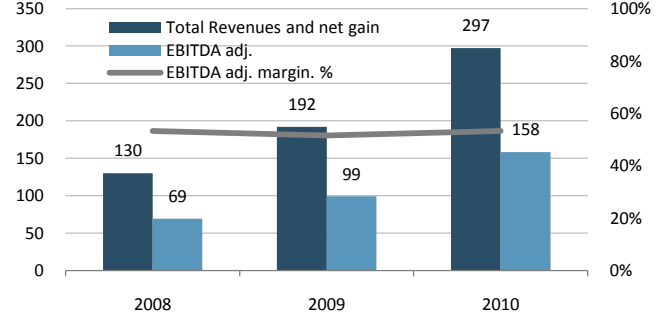
Mriya Agro Holding is one of the largest agricultural producers in Ukraine, with a land bank of about 240 ths ha concentrated in Western Ukraine. Located within 150 km from its headquarters, the land is concentrated in clusters of 11-27 ths ha. Mriya's storage facilities could hold an equivalent of 410 ths mt of grain, as of June 2011.

Mriya's landbank



Source: Company data

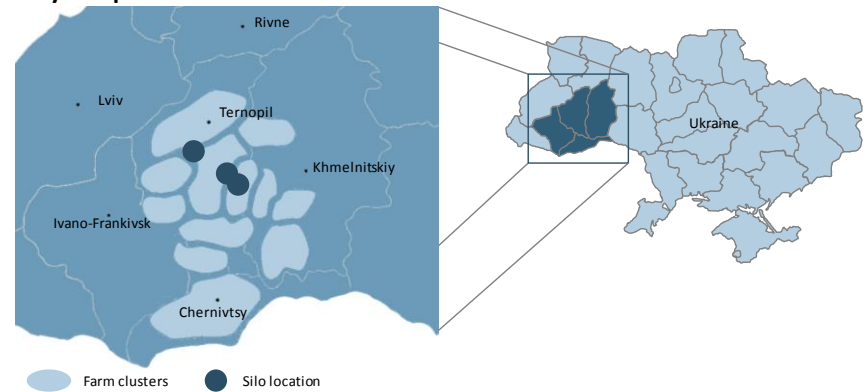
Mriya's financial highlights, USD mln



Source: Company data

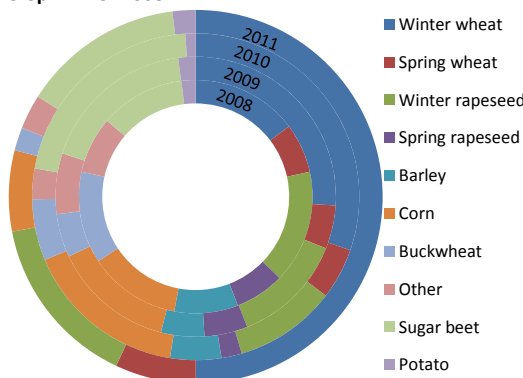
Mriya owns silos, granaries, potato and seed storage facilities with an aggregate capacity of 410 ths mt as of June 2011. Construction is under way on two additional greenfield silos (up to 100 ths mt each), one seed silo (up to 60 ths mt) and capacity expansion at its Derenivka silo (up to 100 ths mt from 60 ths mt currently).

Mriya's operations



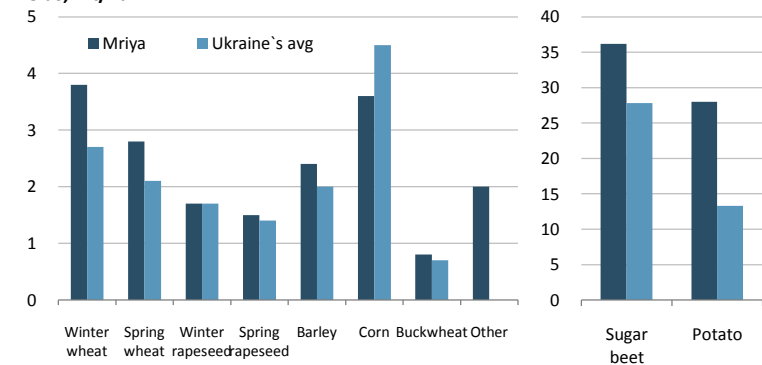
Source: Company data

Crop mix for 2008-11



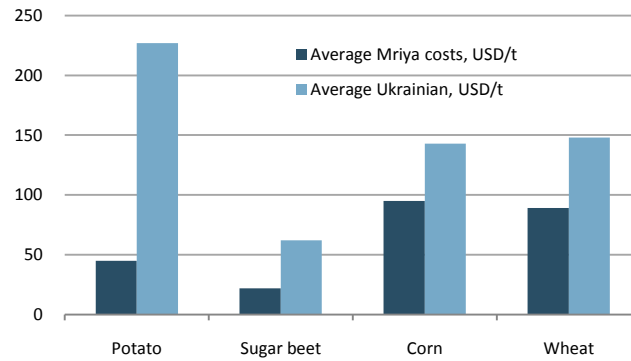
Source: Company data

Yields, mt/ha



Mriya has lower production costs per ha than the Ukrainian average.

Mriya's production costs vs. Ukrainian average, 2010



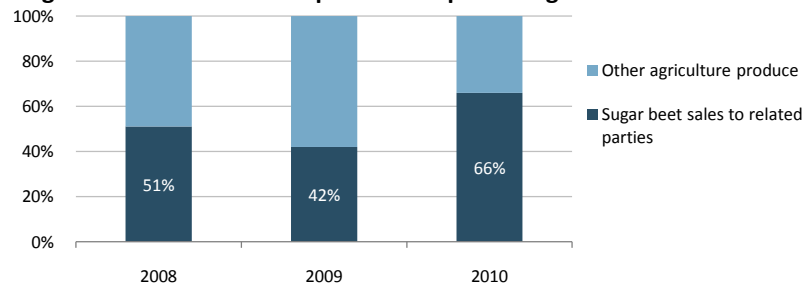
Source: Company data

Related parties: Sugar plants

Mriya sells its sugar beets, its largest agricultural commodity in terms of revenues, to sugar plants controlled by its majority shareholder, the Huta family (owns 80% of Mriya's share capital). In 2010, sales of sugar beets to related parties accounted for 66% of total sales of agricultural produce.

Though the Huta family announced they made a principal decision to the consolidate sugar plants on Mriya's financial accounts, it will not be completed until late 2013, per management during yesterday's conference call. The sugar plants are breaking even with zero margins, Mriya's management said. For comparison, Astarta, Ukraine's leading sugar producer, showed a 45% gross profit margin in its sugar production segment in 2010, which makes us believe that most of the profit in the sugar value chain is on Mriya's income statement so far.

Sugar beet sales to related parties as a percentage of revenues



Source: Company data

Financial statements, IFRS

Income statement summary, USD mln

	2008	2009	2010	1H2010	1H2011
Total Revenues	91	148	162	2	45
Change in fair value of biological assets	40	43	136	137	135
Total Revenues and net gain	130	192	297	139	180
Cost Of Sales	-60	-103	-145	-4	-37
Gross Profit	71	89	153	137	143
Other Operating Income/Costs. net	8	8	10	-8	-1
SG&A	-11	-7	-10	-6	-10
EBIT	68	91	153	122	132
<i>EBIT margin. %</i>	<i>52.3%</i>	<i>47.2%</i>	<i>51.4%</i>	<i>87.7%</i>	<i>73.3%</i>
Finance costs	-8	-13	-26	-7	-17
Financial income	3	7	18	9	10
Other income/(expense)	12	-2	0	0	-2
PBT	75	82	145	125	123
Tax	0	0	0	0	0
Other income net of tax	-43	-7	24	3	-1
Total Net Income	32	75	168	128	122
<i>Net Margin. %</i>	<i>24.3%</i>	<i>39.1%</i>	<i>56.6%</i>	<i>92.0%</i>	<i>67.7%</i>

Balance sheet summary, USD mln

	2008	2009	2010	1H2011
Current Assets	154	236	378	610
Cash	32	2	92	121
Short-term bank deposits	39	103	3	74
Trade Receivables	51	51	100	60
Inventories	10	27	58	19
Other current assets	21	53	126	336
Fixed Assets	52	72	213	292
PP&E, net	50	47	181	217
Other Fixed Assets	2	25	32	75
Total Assets	206	309	591	901
Shareholders' Equity	147	222	424	546
Share Capital	0	0	0	0
Retained Earnings	100	182	327	450
Reserves and Other	47	40	97	94
Current Liabilities	29	63	121	87
ST Interest Bearing Debt	21	34	84	26
Trade Payables	4	26	17	39
Share purchase warrant	-	-	10	11
Finance lease liability	3	2	5	7
Other Current Liabilities	1	2	4	5
LT Liabilities	29	23	46	268
LT Interest Bearing Debt	24	19	27	240
Finance lease liability	5	4	8	17
Other LT	0	0	12	11
Total Liabilities & Equity	206	309	591	901

Cash flow statement summary, USD mln

	2008	2009	2010	1H2010	1H2011
Cash receipts from customers	63	163	153	28	121
Cash payments to suppliers and employees	-46	-103	-158	-61	-70
Government grants (other than int. exp)	2	0	2	0	0
Cash generated from operations	18	61	-3	-33	51
Government reimbursement of interest expense	1	0	0	0	0
Net interest and income tax paid	-5	-5	-1	0	-4
Operating Cash Flow	14	55	4	-33	47
Capital Expenditures. net	-23	-27	-64	-14	-35
Other	-51	-60	7	35	-87
Investing Cash Flow	-74	-87	-57	21	-122
Net Borrowings/(repayments)	22	3	62	15	151
Other	86	0	0	-3	-5
Financing Cash Flow	108	3	62	12	146
Net increase in cash and cash equivalents	49	-29	1	-1	71
Net foreign exchange difference	-17	-5	0	1	0
Cash and cash equivalents at the beginning of period	0	32	2	2	3
Cash and cash equivalents at the end of period	32	2	3	2	74
EBITDA*	69	99	158		
<i>EBITDA margin. %</i>	<i>53.2%</i>	<i>51.5%</i>	<i>53.3%</i>		

*Reported EBITDA is based on management calculations. Notes to 1H11, 1H10 financial statements were not provided by the company.

Appendices

Analyst certification

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

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