

# Ukraine Agriculture Strategy

Move to processors from farmers

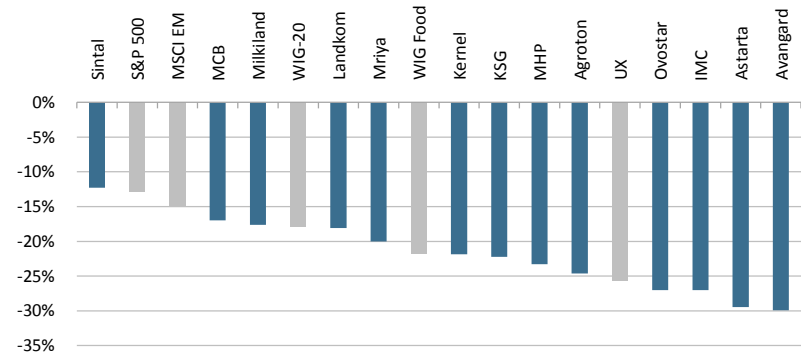
# Pick processors in turbulence

- Ukrainian agri stocks fell by 12%-30% in the last two weeks, generally in line with the WIG-20 and UX
- From a 52-week perspective, Ukrainian agri stocks have fallen more than S&P and WIG-20, but in line with UX as investors have been moving funds out of frontier markets

While we think that all Ukrainian agri names will slide further should the global bearish trend continue, we note that processors should perform better than farmers. For those willing to keep exposure to Ukrainian agri and believing the bottom is close, we recommend in risk-ascending order:

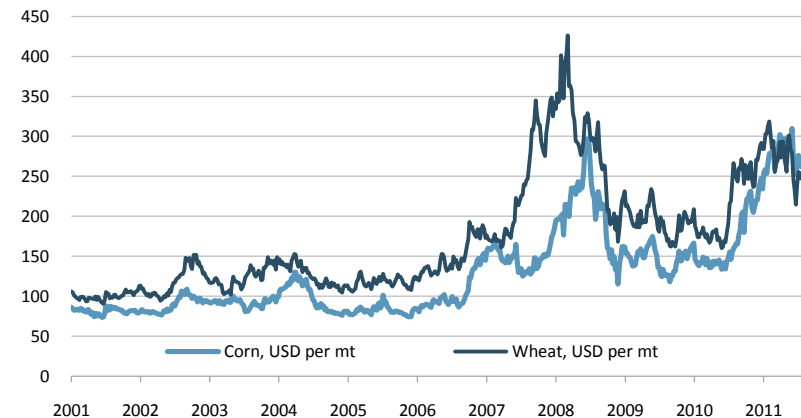
- Liquid Warsaw-listed names: Kernel and Astarta, though we deem latter relatively expensive
- Processors, whose margins are safer if soft commodities collapse: we like MHP, Milkiland and Ovostar
- In the farming universe, focus on efficiency more than landbank growth: Landkom, Sintal Agriculture, MCB Agricole; though exposure to farming through processors is more favorable in current circumstances, in our view

## Fall from last month's high



Prices as of close on 11 August 2011. Source: Bloomberg

## Soft commodities still high

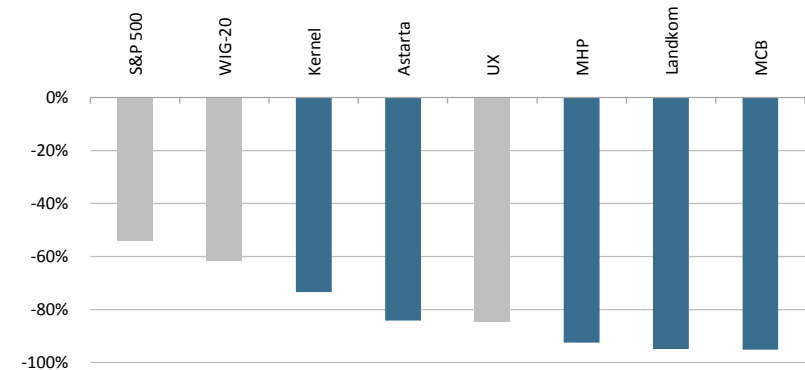


Source: Bloomberg

# Remember 2008-09

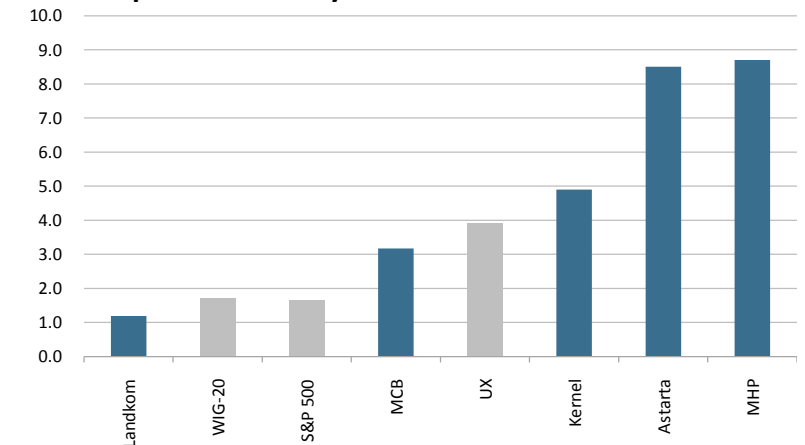
- Foreign-listed agri stocks fell by 73%-95% in 2008-09 from their highs in 2007-08; the UX dropped by 85% and WIG-20 by 62%
- The market punished farming stocks more than processors. In our view, their lower liquidity was more of a concern than their higher business risk
- London-listed MHP was punished more than Warsaw-listed Kernel and Astarta, without a clear fundamental reason
- Processing stocks rebounded 4.5-8.3x from their lows in 2008-09 to current levels, outperforming the UX and their own pre-crisis highs
- For farmers, whose value was more rooted in growth opportunities, the rebounds were smaller (1.2x-3.2x)

## 2008-09 fall from 2007-08 highs

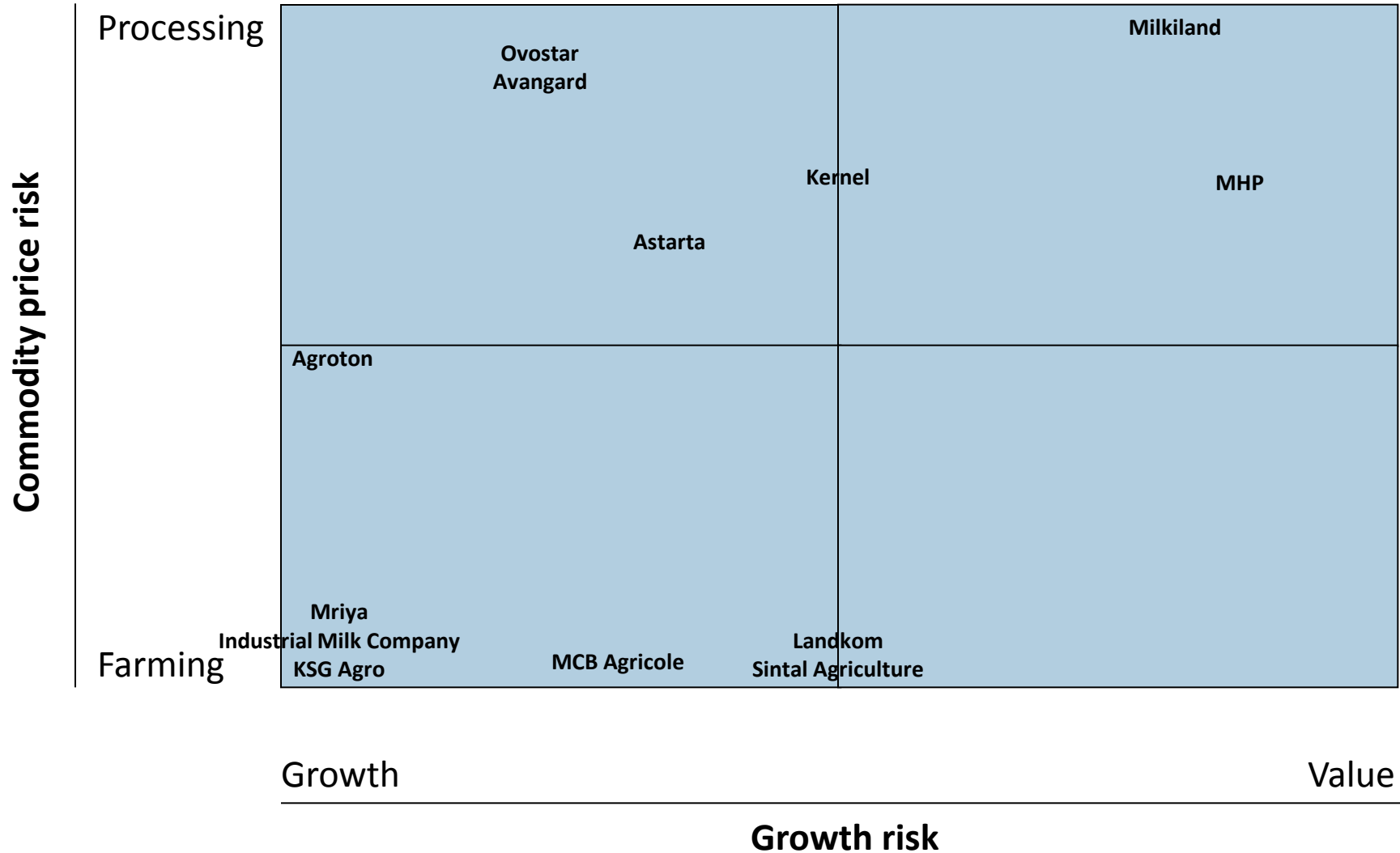


Source: Company data, Concorde Capital projections

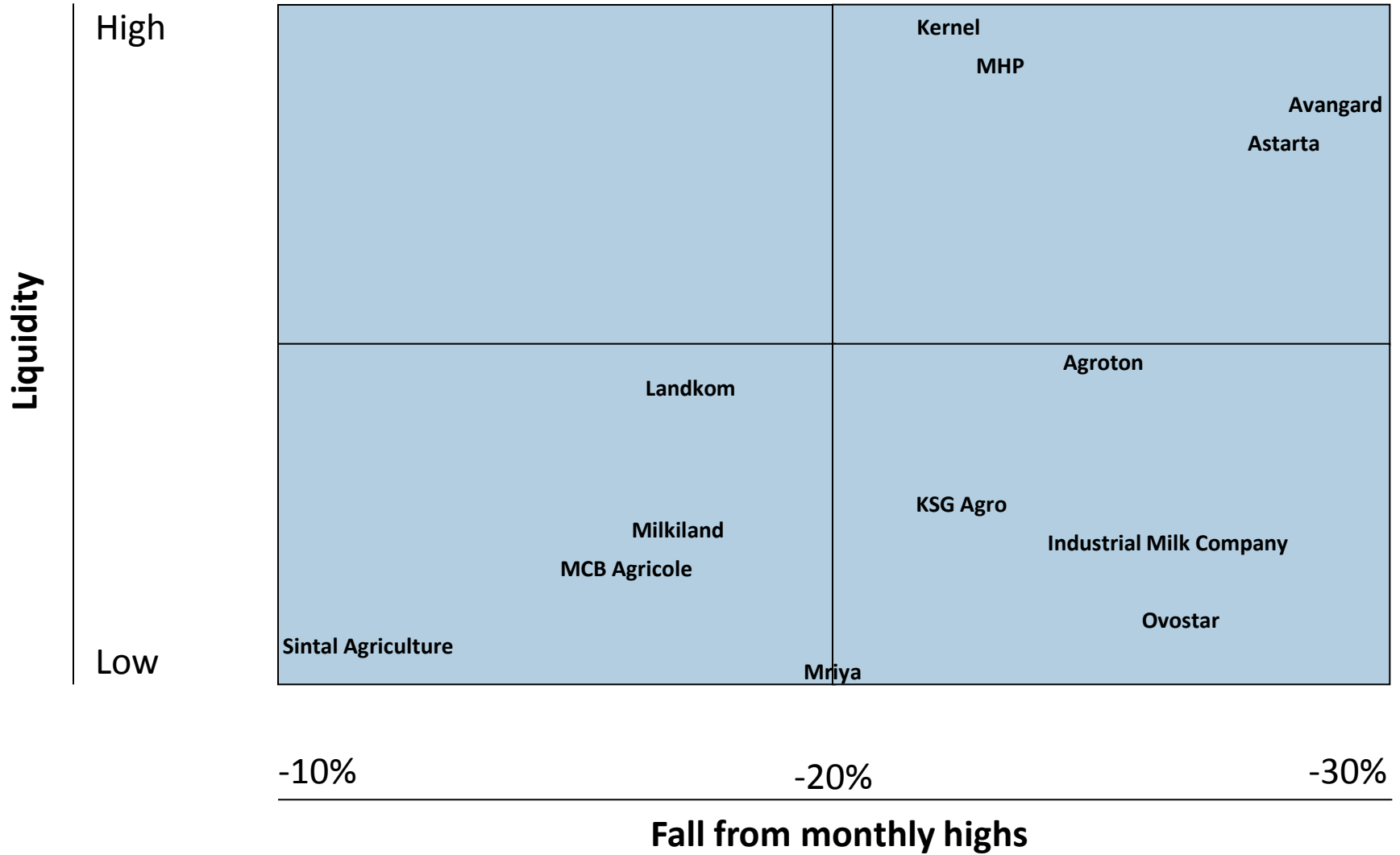
## Current price divided by bottom in 2008-09



Prices as of close on 11 August 2011. Source: Bloomberg, Concorde Capital projections



Source: Concorde Capital



Prices as of close on 11 August 2011. Source: Bloomberg, Concorde Capital

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