

Agro sector
Ukraine

Sector report
Equity Research

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Renaissance
Capital

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Ukrainian agriculture

The breadbasket of Europe



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Ukrainian agriculture

The bread basket of Europe

We identify two ways to play Ukrainian agriculture – land appreciation and operating profits from agricultural production.

- Fertile land: Value appreciation.** Agricultural land in Ukraine is owned by individuals, and leased to agricultural companies on a three- to five-year basis. Strong global grain prices have triggered demand for arable land, and lease rates in Ukraine have doubled to \$60-80/ha/year since 2006. We forecast a further increase to \$120/ha/year in 2012, and see strong potential for land to become tradeable in late 2008, with current leaseholders having a pre-emptive right to buy.
- Capacity to export.** Ukraine has produced 33-35mn tpa of grain in recent years, exceeding domestic consumption of 25-26mn tpa. We believe Ukraine's potential to export grain is substantially higher than 6-7mn tpa, but, in our view, such potential will only be realised through investments in agro technology aimed at improving yields. Current yields are at about 35% of the EU-15 average. Ukrainian agro producers that undertake such investments will, in our view, be best positioned to benefit from strong export prices through high efficiency and consequent lower input costs.
- Government regulation will subside.** We believe the government is unlikely to reintroduce its restrictions on exports of key commodities in the future, which are not supported by WTO rules. This will, in our view, create a more transparent and predictable environment for commodities exporters.
- Eight listed agro companies, \$3.2bn market cap.** Since 2006, Ukrainian agro companies have raised \$0.63bn in equity capital to fund capex and land leases. Among these companies, we like Kernel (\$20.5 target price, 32% upside potential) and Astarta (EUR17.5 target price, 23% upside potential). We expect at least four listings in 2008, with the aim of raising about \$550-650mn, and think permission to trade agro land will likely drive a further round of equity placements to fund land buy-outs, in 2009.

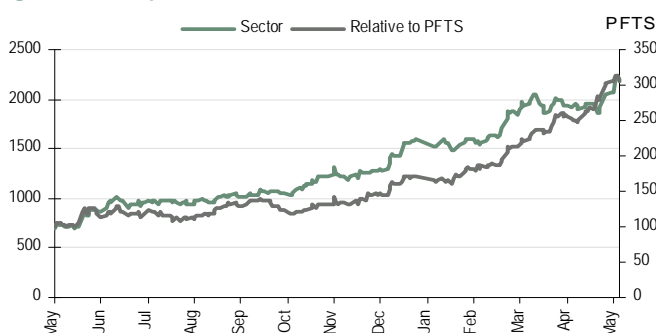
Report date:	12 May 2008
Total sector MktCap, \$mn	3,184
Target MktCap, \$mn	3,681
Weight In MSCI, %	na
RenCap Index high	2,563
RenCap Index low	1,003
Average sector P/E	14.6
Average sector P/S	1.14
Average sector EV/EBITDA	13.5
Average sector P/B	2.6

Summary sector ratings

Ticker	Company	Current price, \$	Target price, \$	Rating	Upside	MktCap, \$mn	EV, \$mn	Listed since
KER PW	Kernel Group	15.5	20.5	BUY	32%	1,065	1,098	2007
AST PW	Astarta	EUR 14.2	EUR17.5	BUY	23%	EUR 356	EUR414	2006

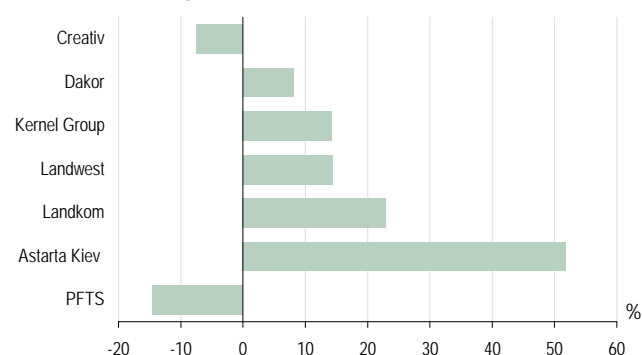
Source: Company data, Renaissance Capital estimates

Figure 1: Price performance – 52 weeks



Source: MSCI, Bloomberg

Figure 2: Sector stock performance – three months



Source: MSCI, Bloomberg

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Executive summary

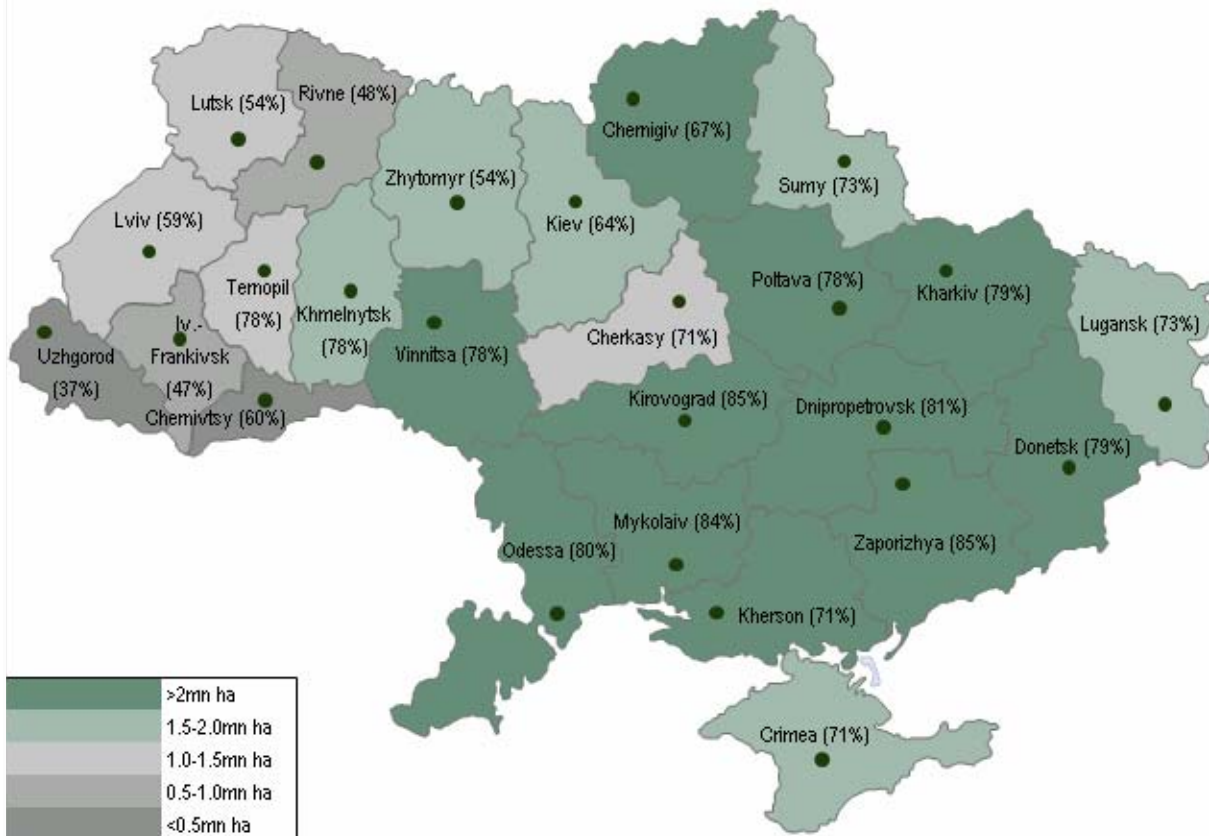
This is an introductory report on the agricultural sector in Ukraine, in which we analyse the agricultural land market, Ukraine's capacity to produce and trade soft commodities, and the largest agricultural producers. We also include profiles of Kernel, Astarta, MCB Agricole and Creativ Group, which we rank highly among Ukrainian agricultural companies, based on their business models, management quality and growth potential.

Land market

Ukraine has 42.9mn ha of arable land, of which 75% is used to harvest crops.

Individuals own land, and can use it to grow crops themselves or lease it to agro companies on a long-term basis (three-to-five years). We consider this type of relationship as transparent and price-driven, which has been reflected in increased lease prices in recent years.

Figure 3: Ukraine: Arable land by region
(% of total arable land indicated in brackets)



Source: Ukrstat

Agricultural land ownership is not permitted in Ukraine, and we believe this situation is likely to change only in late 2008 at the earliest. For land to become tradeable, two primary legislative acts are required: *Law on Land Market* and *Law on Land Registry*, both of which must be passed by the Rada. In the meantime,

there is ongoing activity to develop a single land registry and draft amendments to the other legislative acts.

We believe **lease rate inflation** and the **absence of a guaranteed right to buy** leased land are the two biggest concerns for Ukraine's agro companies. Over the past year, lease rates have almost doubled to \$60-80/ha/year, and we expect them to reach \$110-120/ha/year by 2012. Expensive soft commodities are contributing to increasing interest in arable land by both domestic and international producers/investors, which we think will stand behind future lease rates growth.

Land lease contracts are usually very simple and include only basic terms, like lease period, lease rate and the pre-emptive right to buy land when it becomes tradeable. However, such contracts give no guarantee to the lessee to buy land, as the owner is free to sell its land to the highest bidder.

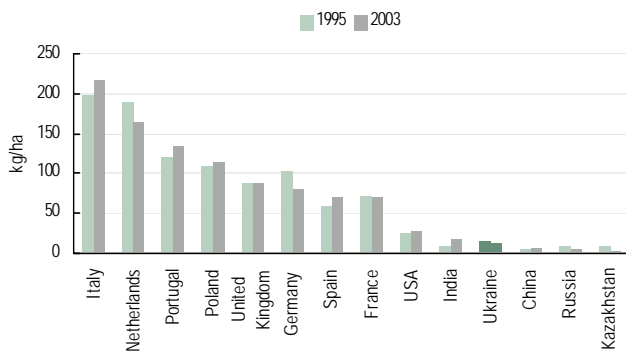
Agricultural production

Over the 2006/2007 season, Ukraine produced 33.5mnt of grain, of which 4.2mnt was accounted for by oil grain. This is a **rather modest crop, given the country's potential to produce up to 60mn tpa.**

With the right quality of soils in place, **Ukrainian agro business lacks the financial resources** to replace its 90%-depreciated machinery and spend the required working capital (on items such as quality seeds and fertilisers) to ensure high yields. At present, Ukraine's average yield is less than 35% of the corresponding yields in Europe, which we believe is due to insufficient spending on agro infrastructure, fertilisers and quality seeds.

We believe current soft commodity prices allow Ukrainian agro producers to earn somewhat higher margins, thereby increasing their own capacity to generate working capital. In addition, we expect higher investments in the sector by capital investors, as evidenced by eight recent equity placements in the sector, worth \$0.63bn.

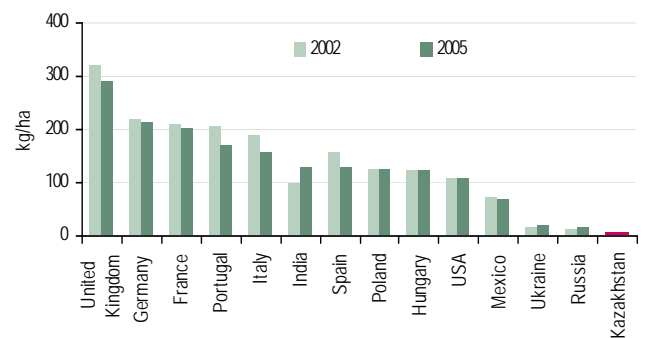
Figure 4: Farming machinery in use: Ukraine vs peers, units per 1,000 ha



Source: FAO

Figure 5: Fertiliser use: Ukraine vs peers (2002, 2005)

Includes all fertilisers: nitrogen + phosphor + potash



Source: Ukrstat, FAO

Reasons to invest in Ukrainian agriculture

Fertile soils across the country, which are suitable for growing both non-oil grains and sunflower and rape seeds.

Labour intensity is high in the sector, but labour costs are low. We see room for improvement in this regard, using more capital-intensive techniques.

Ukraine has **access to Black Sea ports and a good rail network** that connects to Western Europe. This provides a competitive advantage for exports.

Land lease is a viable scheme for agro companies focused on production, rather than betting on land value appreciation. Moreover, the current scheme of leasing from individuals is rather straightforward, in our view.

Ukrainian agro companies are large-scale operations with a 50,000 ha-plus land bank, which can bring **economies of scale**.

Stock picks

Figure 6: Agro companies in Ukraine: Current trading details
Kernel's multiples are based on 2007/2008 fiscal year

Company/deal	Current trading					
	Price, \$	MCap, \$mn	Ha in lease	2007 EV/ EBITDA	P/ha, \$	YtD
Astarta	21.2	530	143,000	21.4	3,706	70.4%
Kernel	15.5	1,065	56,000	10.8	19,018	12.3%
Landkom	1.9	388	67,000	Neg.	5,791	59.2%
Landwest	23.4	292	164,000	n/a	1,781	21.1%
MCB Agricole	17.1	295	104,000	51.5	2,837	28.0%
Creativ Group	15.4	158	10,000	19.5	15,733	14.0%
Ukrros	25.8	274	75,000	8.9	3,653	-1.5%
Dakor	32.0	182	78,000	11.9	2,333	14.0%

Source: Bloomberg, company data, Renaissance Capital estimates

There are eight listed Ukrainian agro companies, of which we like Kernel (\$20.5 target price, **BUY**) and Astarta (EUR17.5 target price, **BUY**).

Kernel (\$20.5 target price, BUY) is a vegetable oil producer and grain trader with its own 25-silo network for grain storage and 0.73mn tpa of seed crushing capacity. It operates three crushing plants, and a new multi-seed plant is under construction (due for completion in 2009). The company's advantage is the economies of scale it can achieve on large trading volumes, and own production of sunflower oil which allows cost control. Furthermore, the company controls 35% of the retail sunflower oil market in Ukraine with its four-brand portfolio. Kernel plans to increase its leased land bank fivefold, from 0.056mn ha to 0.25mn ha by YE09. Its **profit drivers** are an increasing volume of trading, and cost control in oil production after completing capacity upgrades.

Astarta (EUR17.5 target price, BUY) is a large sugar producer in Ukraine, with an 8% market share by output. The company is one of the largest operators, with an agro land bank of 0.14mn ha of arable land in use, and supplies 70% of its sugar beet needs internally. Its **profit drivers** are growth in sugar output, due to the

acquisition of two sugar plants (+22% capacity) and an increasing land bank in operation (a 0.2mn ha target for 2010) with consequently higher volume output.

We expect at least three-to-four **new listings (estimated range \$550-650mn)** this year, seeking to raise capital for equipment capex and land bank expansion. The second round of listings is likely as land trading approaches. Practically **none of the currently operating agro companies is prepared for land buy-outs** in terms of arranged credit lines or cash reserves. We estimate the capital needs by all listed agro companies **to buy out land at no less than \$1.5bn**.

Figure 7: Agro companies in Ukraine: Placement details

EV/EBITDA multiple is based on the latest reported financial year results

Company/deal	Date	Equity raised, \$mn	At the time of placement			
			Free float	EV/EBITDA	P/ha	Return since IPO/ placement
Astarta	Aug 2006	31.5	20%	15.88	2,159	236%
Ukrros	July 2007	42	20%	5.18	5,250	31%
Dakor	July 2007	21	24%	6.92	1,122	108%
Creativ Group	Oct 2007	30	24%	17.18	17,857	23%
Kernel primary	Nov 2007	220	36%	16.69	10,943	60%
Landkom primary	Nov 2007	110	55%	neg.	3,740	49%
Landwest	Dec 2007	42.6	20%	n/a	1,299	37%
Kernel secondary	Mar 2008	84	8%	22.21	19,083	3%
Landkom secondary	Mar 2008	21.4	5.40%	neg.	5,911	-2%
MCB Agricole	Mar 2008	56.1	24%	40.9	3,247	28%

Source: Bloomberg, company data, Renaissance Capital estimates

Price assumptions

Figure 8: Key price assumptions

Commodity prices, \$/t

	2003	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	Growth, 2007-2012	Source
Sugar	405	411	514	543	443	454	477	501	526	552	4.0%	Ukr stat, Rencap est
Sunflower												
Seeds	84	82	88	92	116	548	596	601	604	596	1.7%	Bloomberg, FAPRI (CIF Rhine)
Oil bulk	850	880	850	1,270	1,100	1,543	1,424	1,464	1,508	1,521	-0.3%	Bloomberg, FAPRI (FOB EU)
Bottled oil	1,158	1,158	1,287	1,683	1,599	1,679	1,827	1,843	1,852	1,827	1.7%	Ukr stat, RC est
Non-oil grains												
Wheat	332	273	356	400	552	481	270	252	239	236	-13.3%	Bloomberg, FAPRI (EU mkt)
Corn				97	122	148	195	194	188	191	5.3%	FAPRI
Barley						174	146	146	144	147	-3.3%	FAPRI
Price change		2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E		
Sugar		1%	25%	6%	-18%	2%	5%	5%	5%	5%		
Seeds domestic		0%	31%	41%	33%	78%	9%	1%	0%	-1%		
Wheat		-18%	30%	69%	-8%	-13%	-44%	-7%	-5%	-1%		
Corn					25%	21%	32%	-1%	-3%	2%		
Sunflower seeds		-2%	7%	4%	27%	371%	9%	1%	0%	-1%		
Sunflower oil bulk		4%	-3%	49%	-13%	40%	-8%	3%	3%	1%		
Sunflower bottled oil		0%	11%	31%	-5%	5%	9%	1%	0%	-1%		
Land lease and price, \$/ha												
Land lease, \$/ha	10	15	20	25	40	60	80	100	110	120	14.9%	Company data
Land acquisition, \$/ha	0	0	0	200	300	400	520	580	650	750	13.4%	Company data
Price change		2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E		
Land lease		50%	33%	25%	60%	50%	33%	25%	10%	9%		
Land acquisition					50%	33%	30%	12%	12%	15%		

Source: FAPRI, Ukrstat, Renaissance Capital estimates

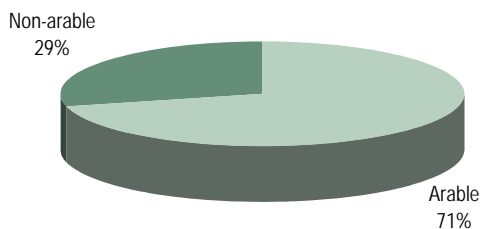
Land market 101

Classes of land

Ukraine has a total of 60.4mn ha of land, of which 42.9 mn ha is arable, and 17.5mn ha is dedicated to residential and industrial properties and infrastructure. Almost all arable land (97% of the total) has been used for agricultural production in recent years. Further, of the 42.9mn ha of arable land, 75% is used to grow crops (grains, sugar beets).

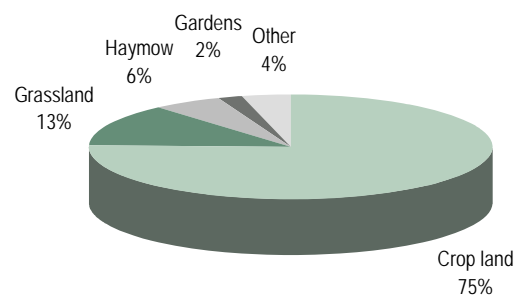
Figure 9 identifies the types and origin of land that are available today.

Figure 9: Land structure, % total



Source: Ukrstat

Figure 10: Arable land structure, % total arable



Source: Ukrstat

Figure 11: Classes of land in Ukraine

Land class	Origin and owners	Primary use	Rezoning options	Authority to rezone	Potential interest from
Agricultural land					
Arable	Allocated to individuals at the farms' liquidation; state reserve	Growth of crops	Prohibited	Regional administration, the Rada	Agro producers
Other	Allocated to individuals at the farms' liquidation; state reserve	Growth of crops, farm infrastructure	Prohibited	Regional administration, the Rada	Agro producers
Non-agricultural land					
Municipal land	Allocated by the state. Administered by local authorities	New residential, industrial construction, infrastructure (local and national)	Allowed	Local or regional administration	Real estate developers
Private individual	Allocated to individuals at the farms' liquidation, or from municipal land reserves	Individual residential construction and household	Allowed	Local or regional administration	Agro producers, real estate developers
Private industrial	Land under a company's production facilities, privatised by the current owners	Production facilities, expansion of capacity via new construction	Allowed	Local or regional administration	Real estate developers
Municipal in permanent use	Land under a company's production facilities, leased for permanent use	Production facilities, expansion of capacity via new construction	Allowed after privatisation by current owners	Regional administration, the Rada	Real estate developers
National	Unused land, land under national infrastructure properties	National infrastructure, allocation to commercial properties	Allowed	Regional administration, the Rada	Real estate developers

Source: Land code, Decree on land rezoning

Commercial users of land

Apart from individuals and the state, agro business and real estate developers are the primary parties seeking to acquire land for their businesses.

Agro companies have a primary interest in arable land as the key instrument for their business operations. At this stage, the only existing option to obtain rights on such land is to lease it from individuals who are the legal owners of land plots.

Real estate developers consider any type of land, as long as it is, or could be, zoned for residential and/or commercial development. We believe the current, poor legislation on land allocation is preventing the development of a secondary market for land plots for development (see *Land market regulation*). We expect the new Law on Land to set out a more straightforward procedure for land allocation and zoning. This, in our view, will help the development of the secondary land market in Ukraine.

Land market regulation

Two primary legal acts, the Land Code and the Decree on Land Allocation, regulate most land issues in Ukraine. However, a single Land Registry and a new Law on Land are required to resolve outstanding issues on land zoning and trading. Among the key issues are:

Agro land trading. Agro land belongs to individuals who inherited it when the farms were dissolved. This land is not legally tradeable.

Single registry of all lands in Ukraine. Because various schemes to buy land were used in the past, the structure of the land bank in Ukraine has changed, especially around the large cities. However, Ukraine does not have a single electronic land registry, where all land transactions could be registered and updated in real time.

Allocation of land for infrastructure. The lack of a single registry raises the issue of allocating land to infrastructure projects. The state, which initiates these projects, may run into a situation when the municipal land that is registered as reserve is already privately owned (for example, the second Kiev ring road). As a result, the government faces the need to buy-out this land at market price from its new owners, thus increasing the project costs.

Secondary market for non-agro land. A new Law on Land is expected to regulate allocation of land for industrial/commercial property development. This could lead to the development of the secondary land market and land bank owners, and reduce bureaucracy and corruption in the real estate development business.

Land moratorium

As of this report date, **agricultural land has been restricted from open trading in Ukraine.** However, the land moratorium that was intact since 2002 was changed to a conditional permission to trade land upon passing of a new Law on Land and Land

Registry by the Rada in early 2008. This, in essence, makes the land moratorium valid indefinitely.

We believe discussions on land trading restriction will be actively pursued by all political parties ahead of the 2010 presidential elections. The party lobbying for this will seek to generate strong support for its candidate at the elections. We believe there is strong potential for the land to become tradeable in late 2008.

We identify two primary consequences of such a delay: 1) **the agro companies remain deprived from an important asset class**, which could have been a leverage tool to fund their capital needs; and 2) the **land lease rates will grow at 30-50%/year on the back of high demand**, driven by agro producers seeking to consolidate market share as early as possible. All in all, this puts Ukrainian agro producers at a disadvantage to their WTO peers.

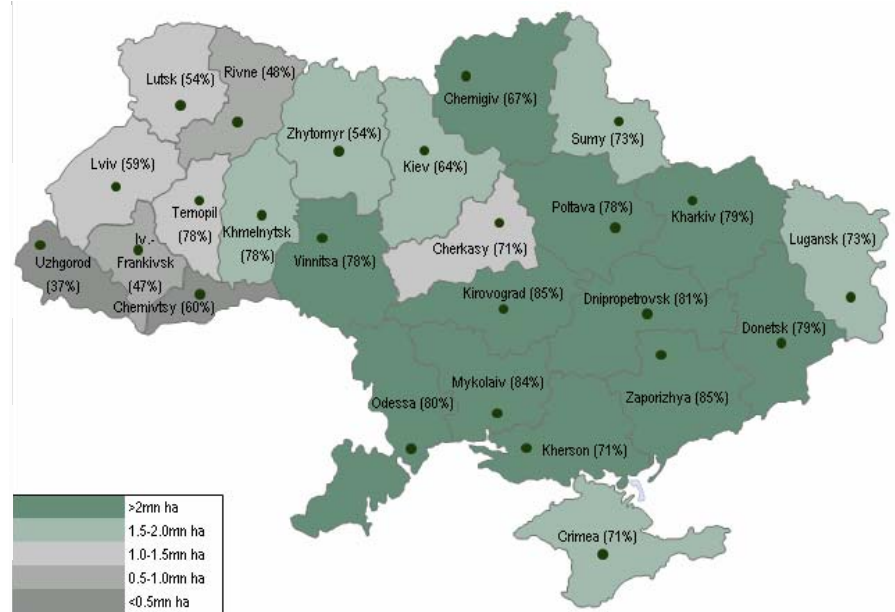
Agricultural land

Distribution of arable land

From this point, we focus on the issues pertaining to agricultural land and its use by soft commodities producers.

Ukraine is rather evenly covered with arable land. In Figure 12, we exhibit the areas with the largest arable land resource, which are the focus of agro companies to consolidate their land banks. We estimate less than 10% of arable land is controlled by large agro companies (land bank operators) as of YE07.

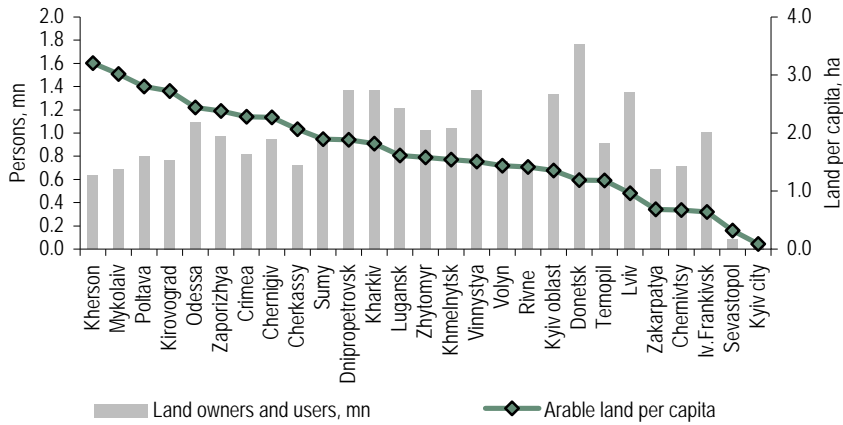
Figure 12: Ukraine: Arable land by region
(arable as % of total land in brackets)



Source: Ukrstat

However, availability of land per capita is obviously higher in the central and western regions of Ukraine – traditionally the country's agricultural regions.

Figure 13: Agro land distribution by region of Ukraine



Source: Company data

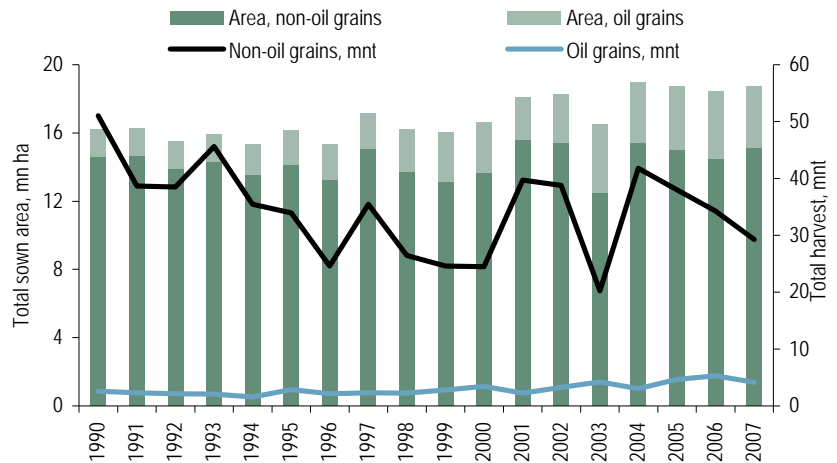
There are 6.9mn individual owners of arable land, with an average size of land plot of 4.1 ha. Individuals own 28.6mn ha of arable land (67% of total arable land in Ukraine). The remaining arable land belongs to state and municipal arable land reserve funds, according to the State Agency on Land.

Agro companies build up their land banks by leasing land from individuals, and aim to consolidate 10,000-40,000 ha land clusters to optimise the usage of agricultural machinery and management resources. The average size of a farm in Ukraine exceeds 5,000 ha, vs less than 1,000 ha in most of Europe.

Production capacity

Ukraine has historically been a significant soft commodities producer globally. However, in the past two decades, following the break-up of the Soviet Union, agriculture has received little or no support from the government, while the old functional units like farms have dissolved. As a result, agricultural production volumes in Ukraine have dropped dramatically, from just under 60mnt in 1990 to 33mnt in 2007.

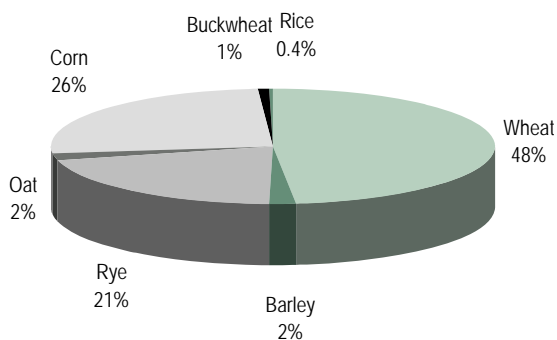
Figure 14: Agricultural production in Ukraine, 1990-2007



Source: Ministry of Agriculture

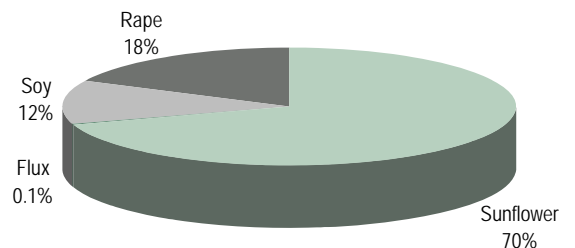
Ukraine produces both oil and non-oil crops. The latter are consumed domestically and the surplus exported, while oil crops are primarily processed into unrefined vegetable oil for export, which makes up 70% of output.

Figure 15: Non-oil grain: Production by type, % total (2007)



Source: Ukrstat

Figure 16: Oil grains: Production structure, % total (2007)



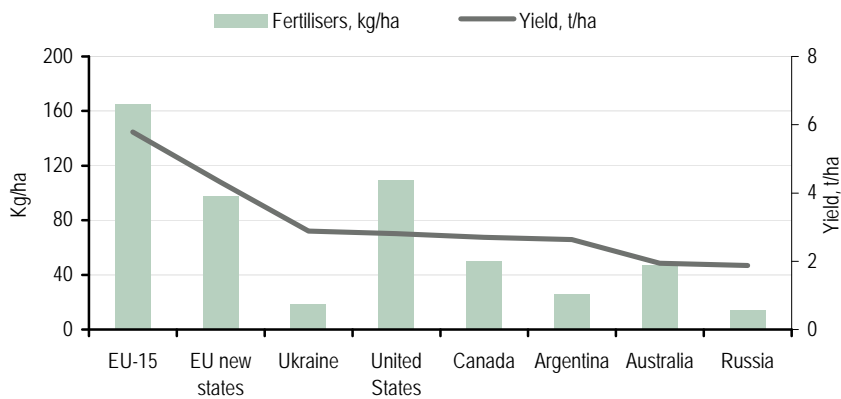
Source: Ukrstat

Non-oil grains

Ukraine produces wheat, barley, rye and corn grains, which account for 97% of crops volume (see Figure 15). The rest is spread between various edible grains like buckwheat and rice used purely for domestic consumption.

The average yield on non-oil grains is still relatively low compared with neighbouring countries that are large exporters of grain. We believe this is due to poor agricultural practices and low usage of fertilisers. Ukraine's average yield is about 2.9 tonnes/ha, vs the EU-15 average of about 5.8 tonnes/ha, and the new EU states average of about 4.8 tonnes/ha.

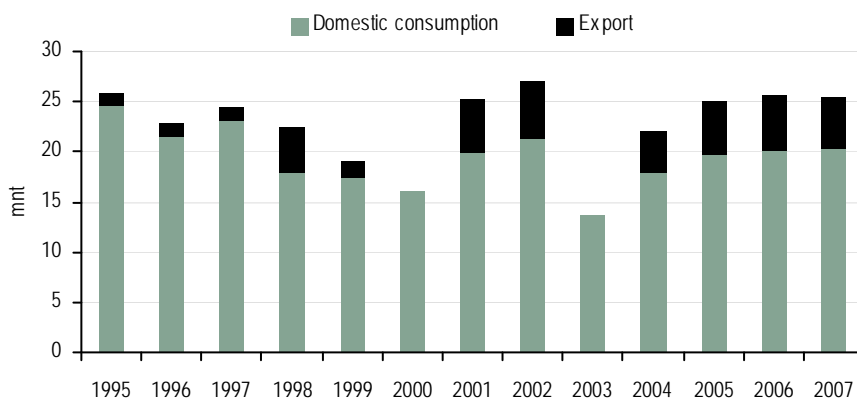
Figure 17: Average yield (t/ha) vs fertiliser usage (kg/ha) by largest wheat exporters, 2006/2007



Source: FAPRI, World Resource Institute

We estimate domestic consumption at 18-19mnt of wheat, and 3-4mnt of barley and rye, with the rest of the harvest suitable for export.

Figure 18: Non-oil grains in Ukraine: Domestic consumption vs export

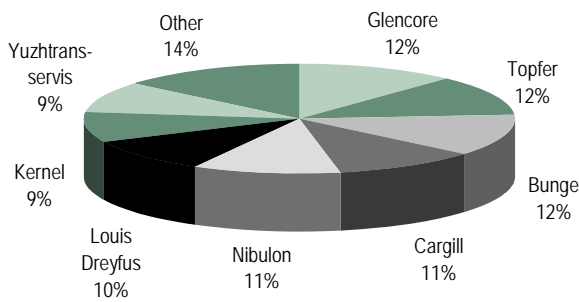


Source: FAPRI, Ukrstat, Renaissance Capital estimates

Going forward, we think Ukraine will seek to expand grain production to increase export supply capacity. This will be primarily driven by large agro land bank operators, in our view. We expect about 38-42mnt of total grain production in the coming two years, of which 5-6mnt will be accounted for by oil grains.

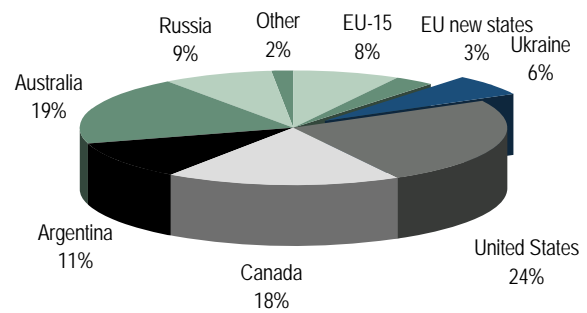
Production of non-oil grains is dominated by the Ukrainian agro producers and small farms, while grain exports are controlled by the largest foreign commodity traders, with only Kernel and Nibulon remaining among the largest domestic producers/traders.

Figure 19: Largest wheat exporters from Ukraine, 2006/07



Source: APK-Inform, Kernel

Figure 20: Largest wheat exporters (countries), 2006/2007

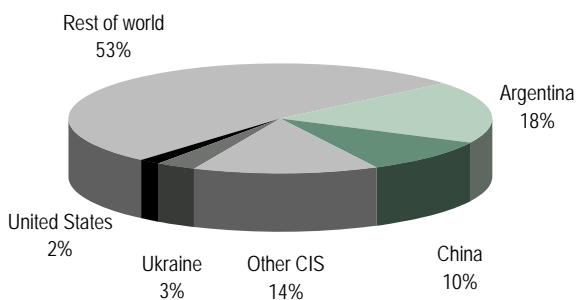


Source: FAPRI

Oil grains

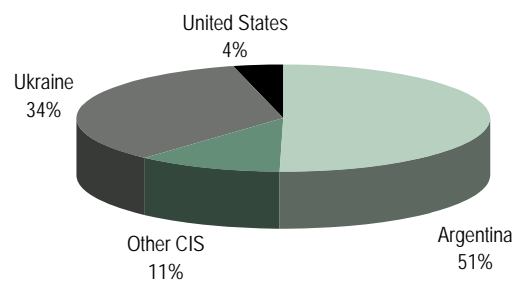
Ukraine primarily produces sunflower and rape seed in industrial quantities. Soy and other oil crops are produced in minor quantities by individual farms. Ukraine is the third-largest exporter of sunflower oil globally, which explains the interest in operational presence in the country by the largest global oil producers and traders.

Figure 21: Largest sunflower seed exporters, 2007/08



Source: FAPRI

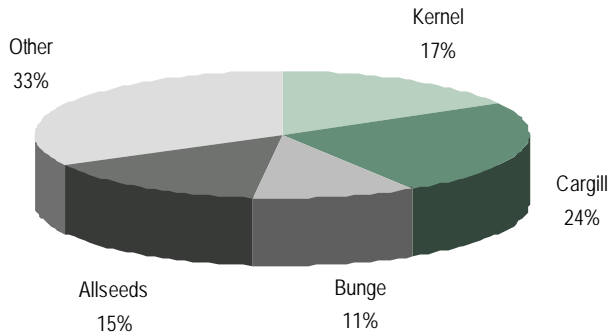
Figure 22: Largest sunflower oil exporters, 2007/08



Source: FAPRI

As a result, 35% of total sunflower seed crushing capacity in Ukraine is controlled by large international commodity traders.

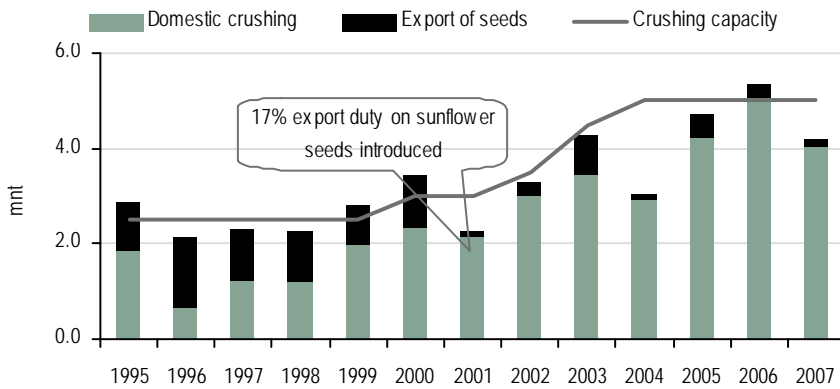
Figure 23: Oil seed crushing capacity in Ukraine, % total



Source: Company data

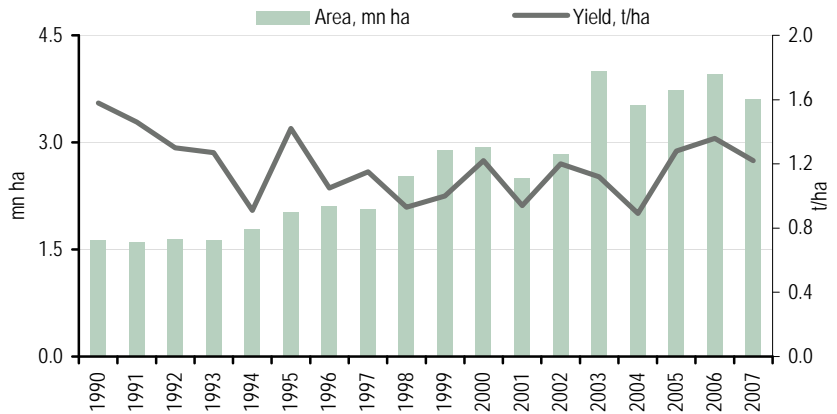
Ukraine has increased production of sunflower seeds mostly by expanding its sowing area for sunflowers over recent years.

Figure 24: Sunflower seed production vs crushing capacity, 1995-2007



Source: Ukrstat, Company data, Renaissance Capital estimates

Figure 25: Sunflower seeds: Area vs yield, 1990-2007



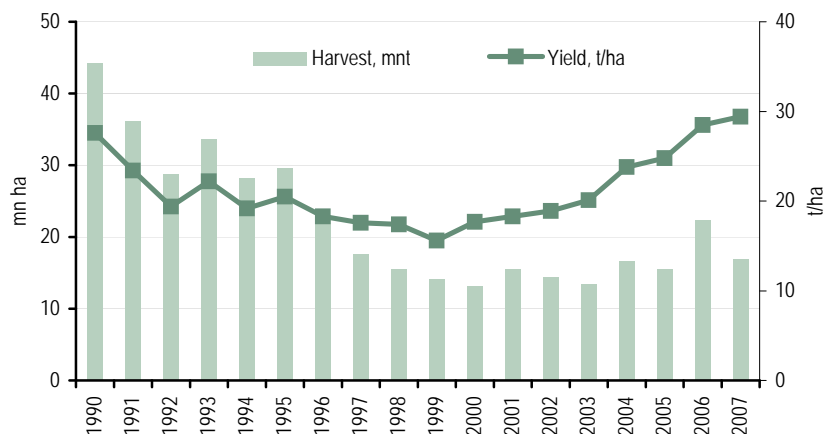
Source: Ukrstat

Going forward, Ukraine's capacity to increase sunflower seeds production and sunflower oil export is tied to its ability to implement proper crop rotation, together with modern agro practices that will expectedly prevent soil quality deterioration and lead to higher yields.

Sugar beet

Ukraine has historically produced sugar from beet, with no more than 15 sugar plants having capacity to process raw cane sugar. Output dropped from 44mnt of sugar beet in 1990 to 17mnt in 2007, on the back of marginal growth in domestic consumption and the phasing-out of the state's production plans for sugar in the mid-1990s.

Figure 26: Sugar beets production vs average yield, 1990-2007

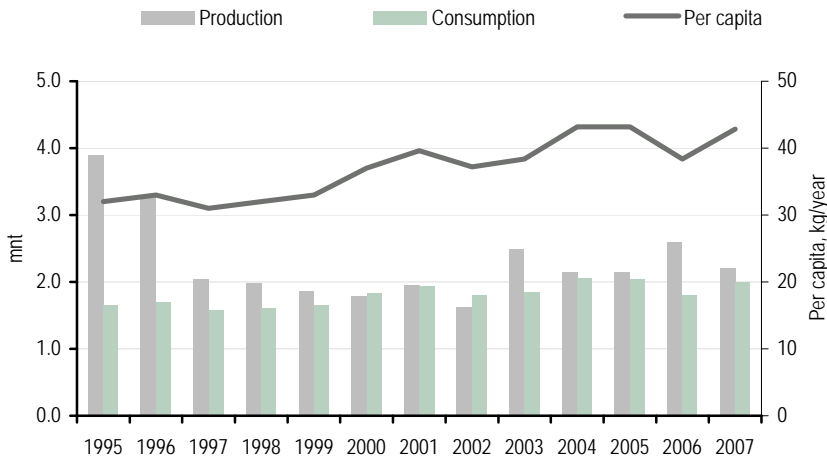


Source: Ukrstat

Domestic consumption of sugar has remained flat over the past five years, at an estimated 1.9-2.0mnt. We expect minor growth in consumption of 2%/year over the

next five years, which will be driven by industrial users such as confectionary and

Figure 27: Sugar consumption in Ukraine, 1995-2007



Source: Ukrstat

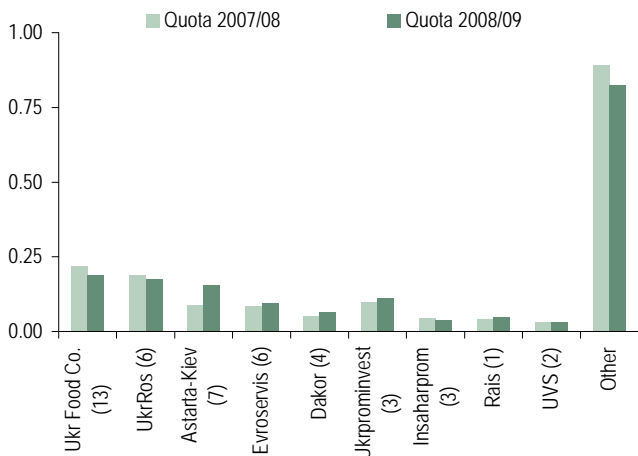
beverage producers.

The number of sugar plants has fallen from 196 in the late 1990s to 120 as at YE07. The production quota for 2007/2008 was allocated to 109 sugar plants, and for 2008/2009 it has been allocated to 104 sugar plants. We believe the closure of sugar plants, due to loss-making operations, is not over yet, and expect that in three years time only about 40 sugar plants will remain operational.

We believe this rationalisation will reflect the following factors:

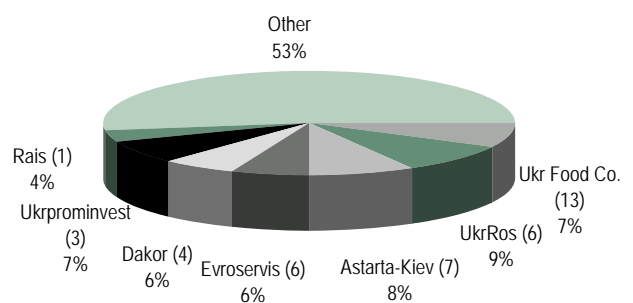
- 1) Energy inefficiency, leading to high production costs vs modernised sugar plants (usually owned by the largest sugar holdings)
- 2) Large sugar holdings, due to their strong negotiating position, being able to acquire required volumes of sugar beet at competitive prices. In addition, some large producers source sugar beets internally which are at least 15-20% less

Figure 28: Sugar quota distribution 2007-2008, mnt



Source: Cabinet of Ministers

Figure 29: Sugar quota distribution 2007-2008, mnt



Source: Ukrainian Sugar association

expensive.

Currently, sugar production is regulated by the government via the annual allocation of a sugar output quota. Only plants that have invested in improving efficiency and have been operational for the past three years qualify for this quota. This supports our expectation of the closure of more small sugar plants in the future due to zero quota allocated to them.

We are also likely to experience a shortage of sugar beet in 2008. As at 1 Apr 2008, 14,000 ha of land had been sown with sugar beet. This represents only 3% of the planned sown area for sugar beet this year, and 6% of the land sown over the corresponding period in 2007. We believe that for 2008, the total sugar beet sown area will be at least 20% less than in 2007.

Infrastructure

Grain storage capacity

Ukraine has about 35mnt of grain storage capacity, spread across the country, with 1.4mnt of daily capacity to accept new grain. This is spread between 700 companies, only 573 of which are licensed for commercial grain storage.

Figure 30 Ukraine: licensed grain silos by region

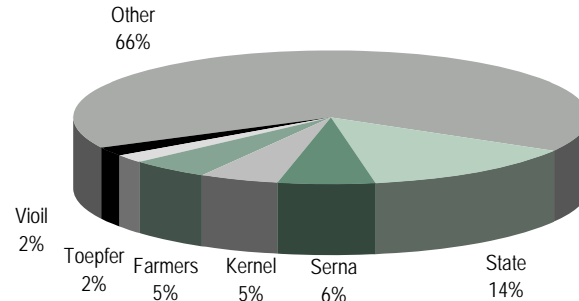
In brackets: number of silos; in green italics: grain transhipment terminals able to service Panamax vessels



Source: Derzhreestr Ukraine, Kernel

Specialised grain silos make up only 40% of total storage capacity, with the rest spread between storage facilities on the sites of grain producers/processors. The state owns 79 silos through Khib Ukrainy, and 21 silos through its State Reserve Fund. Companies with their own grain storage facilities have the advantage of tighter control of storage conditions, and therefore the quality of product.

Figure 31: Largest owners of grain silos, % total capacity (2007)



Source: Kernel, operator's data

Vegetable oil storage capacity

Ukraine has 0.15mnt of storage capacity for vegetable oils. Vioil is the largest operator of storage tanks for vegetable oil with more than 21,300 tonnes of capacity (14.2% of the country's capacity). The remaining capacity is distributed between sunflower oil producers, and is located at their production sites (an average of three-to-four days' output, or up to 2,000 tonnes of capacity).

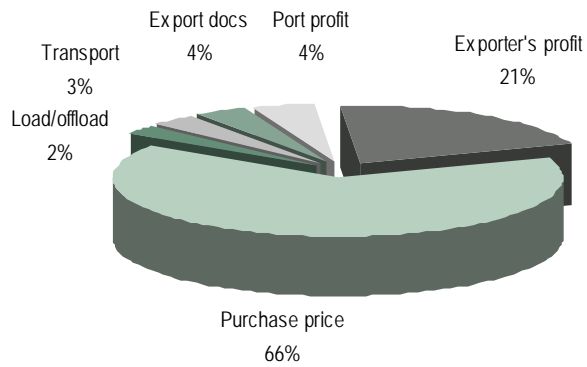
Transport capacity

Rail transport is used for 70% of grain deliveries, with 27% of deliveries undertaken using trucks and 3% using river vessels. Most of the large soft commodity traders have their own park of rail wagons; sunflower oil exporters usually own or subcontract tankers on a long-term basis to transport oil. Selected companies exporting to Poland, Romania and other neighbouring countries use rail tanks to deliver vegetable oil to buyers.

Ukraine has a **26mn tpa of port transshipment capacity** for grain, split between the 18 state-owned ports (17mn tpa) and seven privately owned ports (9mn tpa). Furthermore, these ports have a total of 1.6mnt of grain storage capacity. Three ports in the Odessa region – Odessa, Illichivsk, and Yuzhny with a total of 8.05mn tpa of transshipment capacity – are the most heavily used for soft commodities trading, primarily because of their capacity to service large vessels (see Figure 32).

Economics of grain export trading

Figure 32: Cost of wheat for export (FOB), % total (2007)



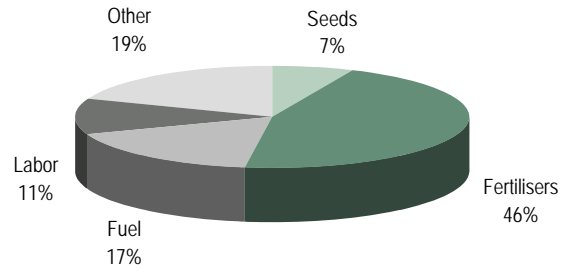
Source: Ukrstat, operators' data, Renaissance Capital estimates

Port charges are regulated by the government, and are limited to covering the costs of grain processing/storage and maintenance of facilities.

High commodity prices clearly favour exporters, while Ukraine, with its access to sea ports, provides cost effective opportunities to export. However, farmers are not sharing these profits, therefore they are receiving no extra funds for capex.

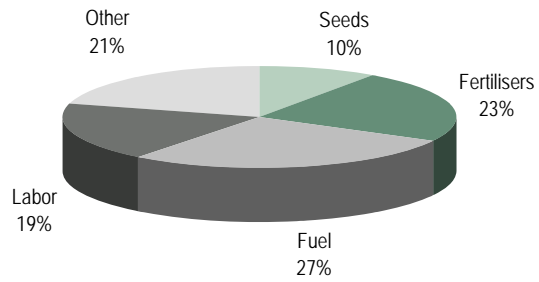
Cost of production: Breakdown by key expenses

Figure 33: Cost of production of wheat
Other includes land lease and overhead



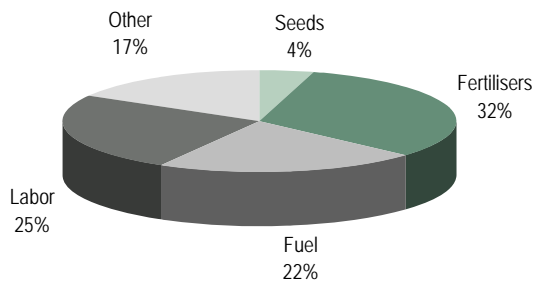
Source: Ukrstat, Renaissance Capital estimates

Figure 34: Cost of production of sunflower seeds
Other includes land lease and overhead



Source: Ukrstat, Renaissance Capital estimates

Figure 35: Cost of production of sugar beets
Other includes land lease and overhead



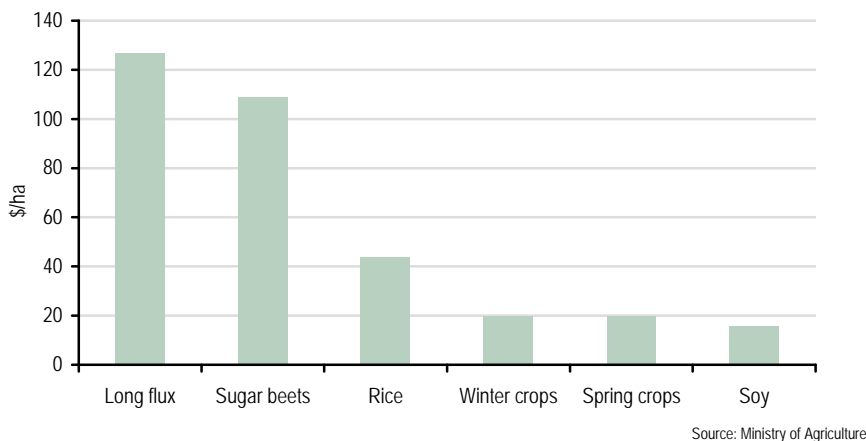
Source: Ukrstat, Renaissance Capital estimates

Agro sector regulations

Government subsidies

The government runs a **crop subsidy programme**, using funds from the state budget. All agro producers, except those declared bankrupt, are eligible to participate in the programme. Moreover, producers that insured their crops through the state insurance programme have a right to participate. These subsidies are based on the number of hectares sown with each culture. Sugar beets are limited by the production quota, which is set annually.

Figure 36: State subsidies to crop producers, UAH/ha/year (2008/09 MY)



However, in exchange for such government support, agro producers are obliged to sell an agreed quantity of commodities to the State Reserve Fund, at a price decided by the local reserve fund administration.

The State Reserve Fund provides a way for the government to intervene in the market, and influence domestic prices. The fund also acts as a mandatory reserve that can be used in the event of an emergency.

Figure 37: Regulated prices for key grain commodities, \$/tonne 2008/09 MY



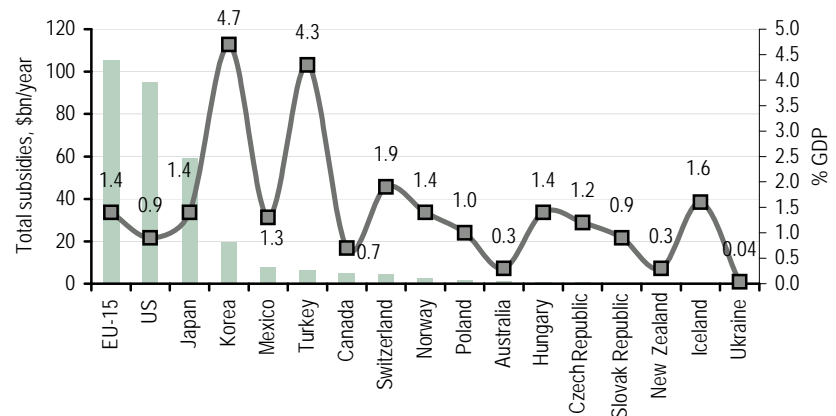
Secondly, the government **compensates 50% of interest payments on loans taken from a domestic bank and 30% of the price of new agricultural machinery**, provided the machinery is bought from a domestic producer. The

government spent \$24mn on these programmes in 2007, and has budgeted \$65mn for 2008.

Finally, **agro producers** (including farms supplying livestock and milk for processing) pay **zero VAT**. They also receive an indirect subsidy as they are allowed to **keep the VAT** paid to them by their customers.

Ukraine's subsidies to agro business are rather modest vs its peer countries, both in nominal terms and as a proportion of GDP.

Figure 38: Agro subsidies: Total (\$bn) vs subsidy/GDP (%), 2002



Source: OECD, Agricultural Policies in OECD Countries: Monitoring and Evaluation, Paris, 2002, pp. 176-7, Ukrstat

Insurance in the agro sector

All agro producers that sell their commodities at exchange, receive state subsidies, or apply for bank loans or state-guaranteed loans, must insure their fixed assets and their crops against the risks of weather or loss of harvest. Apart from this, insurance is barely used.

We understand that domestic insurers are not ready to underwrite agro risks, due to the lack of understanding and experience in the segment.

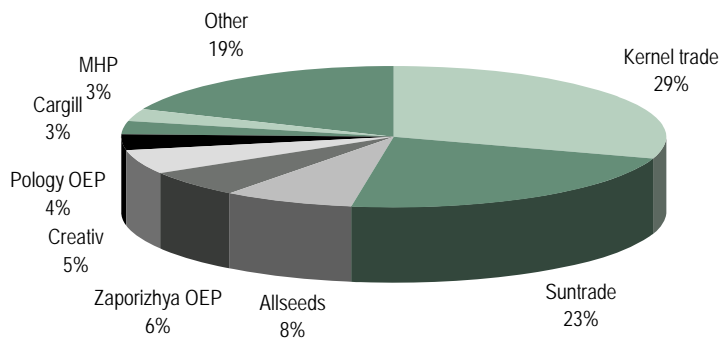
Export restrictions

In the past, the Ukrainian government has issued a number of restrictions on the export of soft commodities from Ukraine, primarily in response to increasing prices or high export volumes early in the season. New limits were imposed on export for the period 22 Mar-July 2008.

Sunflower oil and seeds: 500,000 tonnes of sunflower oil and 220,000 tonnes of sunflower seeds can be exported from Ukraine by 1 Jul 2008. This is expected to result in a 10-25% drop in sunflower oil prices domestically (+40% YoY in 2007). The quota has been allocated between producers and the traders (see Figure 39),

based on the application and the amount of production/export in the past three years.

Figure 39: Sunflower oil export quota allocation, % total



Source: Kabinet of Ministers

Restrictions on the export of **non-oil grains** were revised in Apr 2008. Currently, there is no restriction on corn exports, while 1.2mnt of wheat and 0.9mnt of barley can be exported by July 2008. We believe these restrictions are unlikely to be reintroduced in the foreseeable future, unless there is a shortage of supply for domestic consumption.

Conclusions

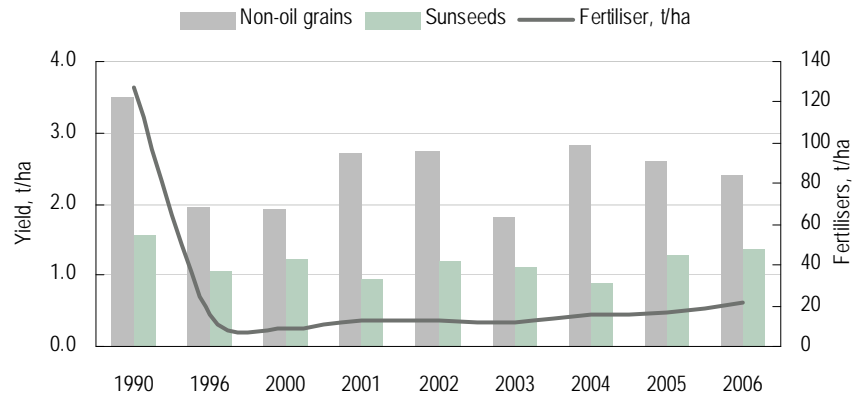
At this stage, we regard Ukrainian agro sector regulation as moderate, but lacking clear procedures and predictability. We believe the government support provided to agro firms in Ukraine is inadequate for the sector's needs.

The zero VAT tax regime is the most transparent and useful. Going forward, we expect changes in government regulation of the sector, with a move towards subsidising capex and agro technology implementation, and the elimination of export restrictions.

Agro market outlook

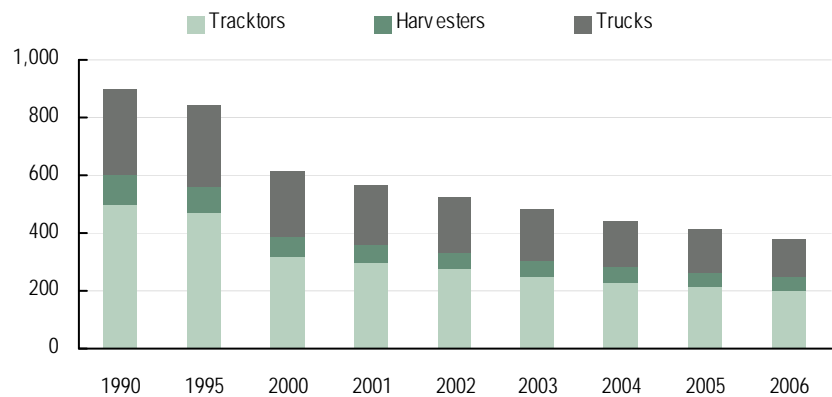
In our view, Ukrainian agriculture has been substantially underfinanced, which has resulted in a lower application of fertilisers, and agricultural machinery becoming obsolete. As a result, yields are low compared with peer countries.

Figure 40: Average yield vs fertiliser use per ha, Ukraine



Source: Ukrstat, FAO

Figure 41: Farming machinery in use, '000 units, Ukraine



Source: Ukrstat

The focus of future efforts to expand agricultural production is likely to be on:

Sufficient funding to increase the application of fertilisers and crop-protection chemicals

Investments in agricultural machines to improve efficiency and increase crop collection

Tight control over crop rotation to improve land quality and maximise its effectiveness

Funding for such programmes will come from a combination of sources, in our view:

Private investments in agro business by domestic and foreign investors

A state programme to fund agro-machine purchases, which is a potentially strong source of support for small producers

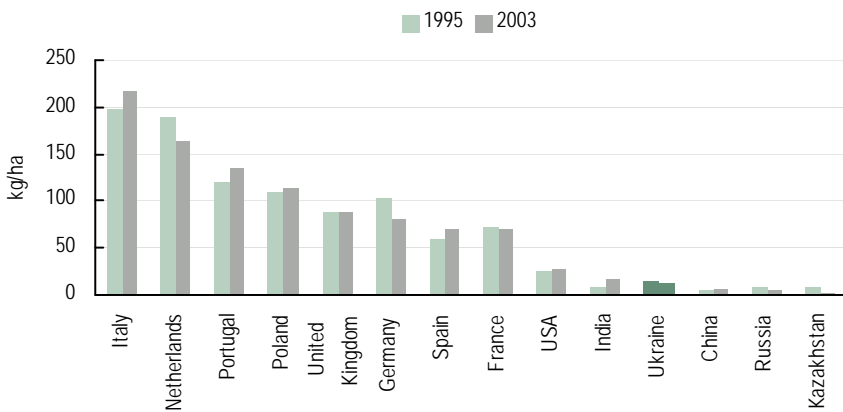
Leasing programmes for machines purchases, including those administered by the government as part of agro sector funding

The liberalisation of the agro land market to enable the use of land as a collateral asset

The active use of crop insurance to increase bank borrowings

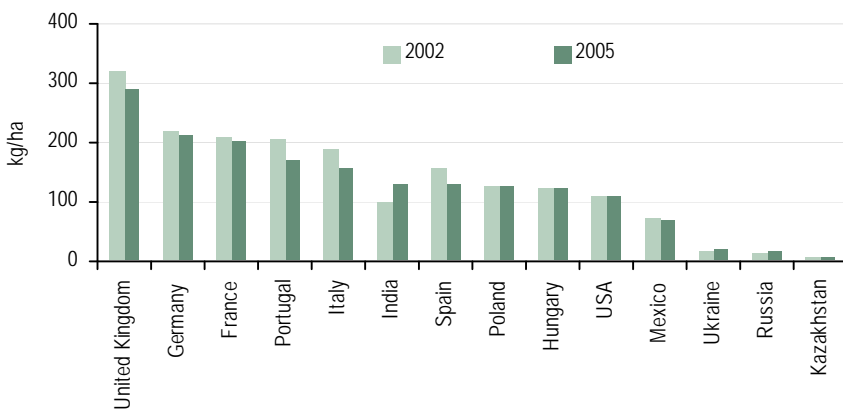
All in all, we believe material positive improvements in the agro sector will take place only as a result of private investment and a reduced reliance on government support. We estimate it will take at least five-to-seven years for such investment to bear fruit.

Figure 42: Farming machines in use: Ukraine vs peers, units per 1,000 ha



Source: FAO

Figure 43: Fertiliser use: Ukraine vs peers (2002, 2005)
Includes all fertilisers: Nitrogen + phosphor + potash



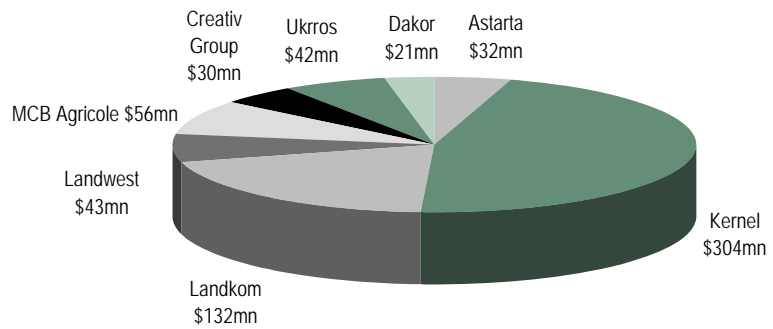
Source: FAO

Funding agro business

Recent equity placements

The government plays a minor role in funding agro business's capex and working capital requirements. In the past year, Ukrainian agro producers have turned to the stock markets for the first time, seeking equity capital to fund their growth. A total of \$628mn in new equity was raised by Ukrainian agro producers since Aug 2006, of which \$162mn was raised in 2008 (see Figure 44)

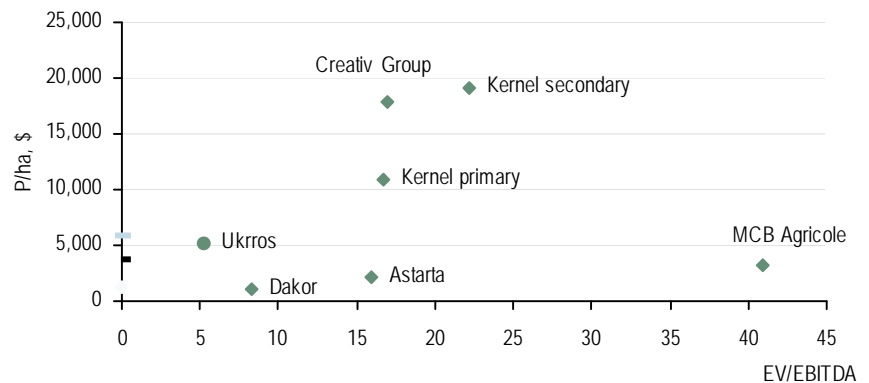
Figure 44: Agro sector: capital raised, 2006-2008
Values represent gross proceeds from the placement(s)



Source: Company data

Apart from Astarta and Kernel and Landkom, the rest were private equity placements. We believe the private equity format will prevail in 2008, although we expect the larger agro companies to seek public listings. The valuations of past deals vary substantially, giving no consistent basis for future comparison or valuations.

Figure 45: Equity deals: valuation multiples at the time of placement
This multiples are based on the latest published accounts

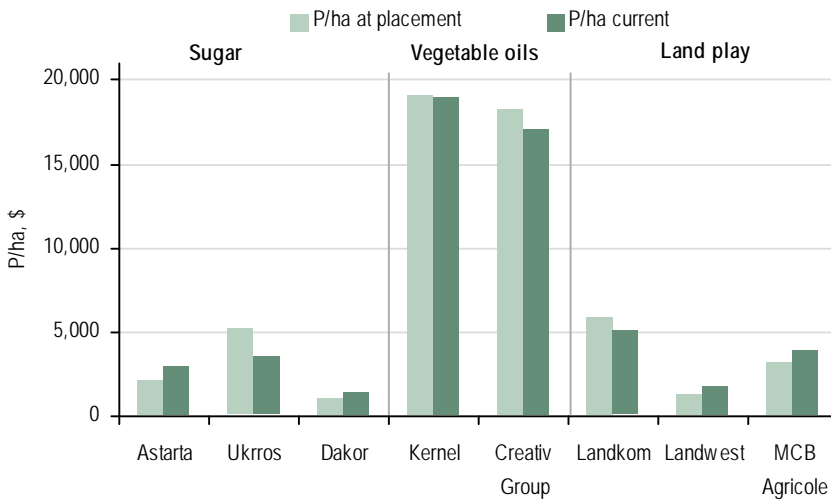


Source: Company data, Renaissance Capital estimates

Valuation principles

The Ukrainian agro companies that completed equity placements in the past year have primarily sought to raise capital for land acquisition ahead of expected land market liberalisation and for capex on machinery. Many of these cannot yet demonstrate any material results of agro production activity, which essentially makes them land bank operators. Accordingly, we choose to value them on land-based (P/ha), rather than earnings multiples.

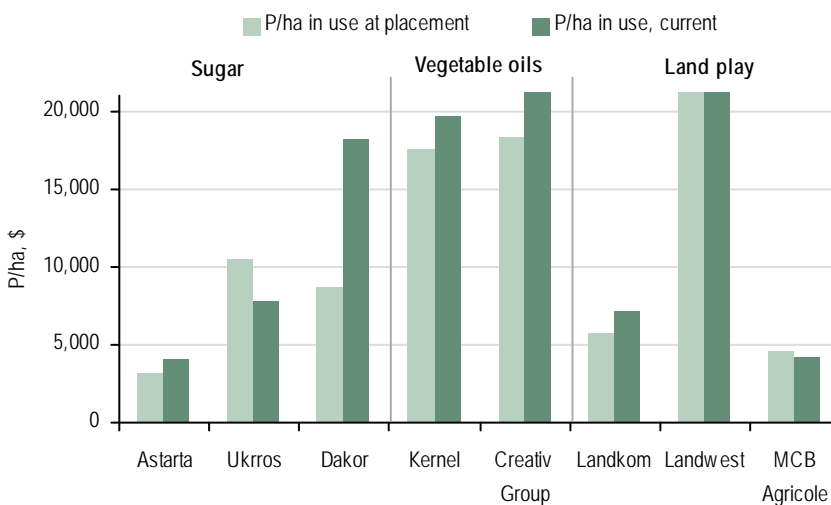
Figure 46: Agro companies: P/ha multiple at placement vs current



Source: Company data, Bloomberg, Renaissance Capital estimates

Furthermore, we believe it is more appropriate to value such companies based on the number of hectares of land actually used to produce agro commodities, rather than their total land banks (see Figure 47). One might regard the non-producing land as a call option.

Figure 47: Agro companies: P/ha multiple at placement vs current based on land in use



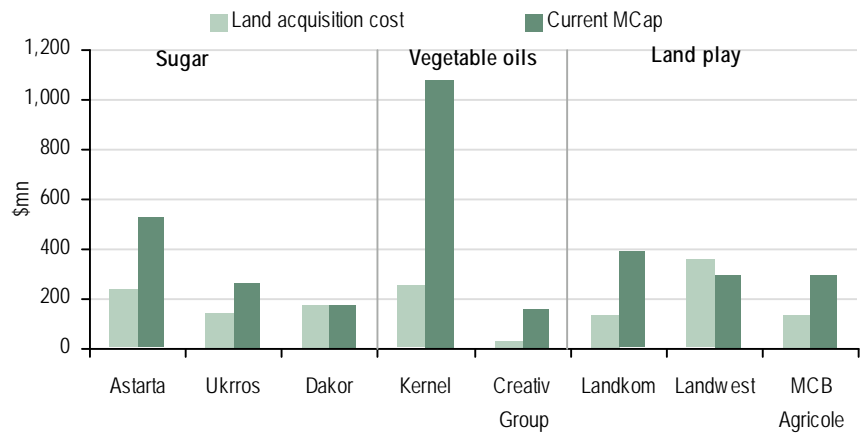
Source: Company data, Bloomberg, Renaissance Capital estimates

Future capex needs

Companies seeking to increase their land banks usually **purchase corporate rights in a farm**, which already has land lease agreements with the individuals. Acquisition costs vary substantially, depending on the quality of land, intensity of its use in the past three-to-four years, and the presence of machinery fleets and buildings/storage facilities required for the farm's operation. At present, acquisition costs range from \$100 to \$1,000 when recalculated per hectare of acquired, leased land.

Ultimately, we expect **land acquisition costs** to be at 10-15x multiples of an annual lease at the time of acquisition, at the initial stages. Land lease rates have almost doubled in the past year, due to high demand for land, from \$30-50/ha in 1Q07 to \$60-80/ha in early 2008. At present rates, we expect the currently listed agro companies to require a total of \$1.5bn in cash to acquire land that they currently lease.

Figure 48: Cost of buying out land in lease vs current MktCap, \$mn
Based on a \$1,200/ha purchase price

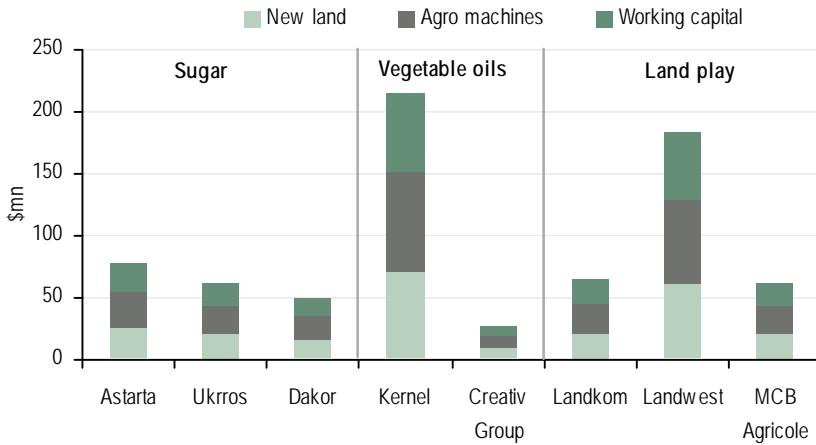


Source: Bloomberg, company data, Renaissance Capital estimates

Larger land banks require investments in **agricultural machinery** to support their operational usage. Spending on machinery varies substantially between companies, and depends on the existing park, the types of commodity produced, and the concentration of land plots in a single area. High concentration allows for shared use of machinery by nearby farms. We estimate that for every 10,000 ha of land, a company needs to spend, on average, \$5-6mn on agricultural machinery.

Finally, agro companies that continue to accumulate land banks will need additional capital to fund their increased **working capital** to grow commodities. The average working capital requirement is \$380-550/ha/year, depending on the type of crops, and it covers full operational cost of production (2007). We estimate an expected increase in fertiliser prices will drive this figure up by at least 5-10%/year.

Figure 49: Expansion costs: Working capital and new land acquisition, \$mn



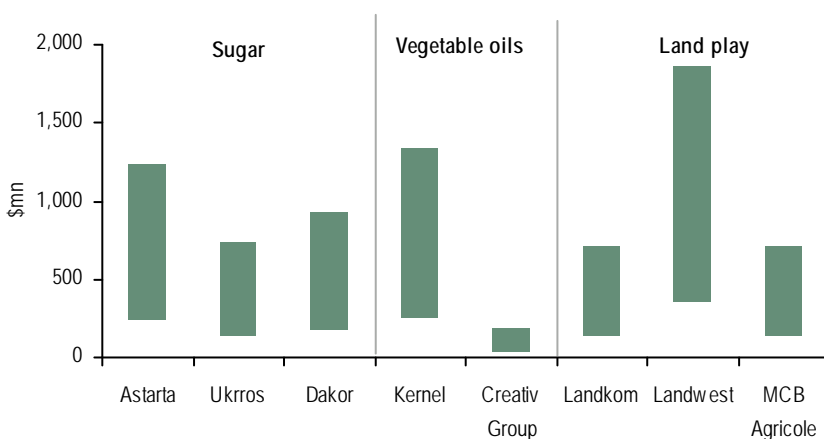
Source: Company data, Renaissance Capital estimates

Future equity placements: An estimate

We estimate a total of \$1.74bn of future capex for land and land lease acquisition, and a \$0.49bn working capital requirement for the companies we discuss in this report, based on current lease and working capital rates.

We think debt funding and leasing will be the primary **sources of working capital**, and we expect land acquisition to be funded with equity placement proceeds. Moreover, we believe these potential equity placement deals will take place in the next 12-18 months, in order for companies to benefit from first-mover advantage.

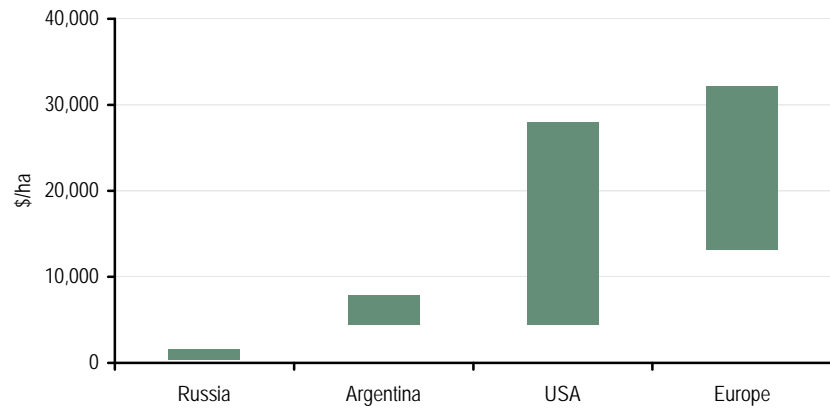
Figure 50: Land acquisition: Estimated capital requirements to buy out land
Lower end at \$1,200 per ha, higher end at \$5,000 per ha



Source: Company data, Renaissance Capital estimates

We expect land values to approach the averages of neighbouring countries (roughly \$4,000-5,500/ha) within three years of trading. This will substantially increase the requirements for **capital to acquire leased land** (see Figure 50).

Figure 51: Arable land prices by country, \$/ha



Source: USDA, Eurostat, Cresud, Federal Statistical Office Germany

Finally, we believe future capital raising activity in the segment will not be limited to secondary placements by companies that are already listed. **We expect at least four new deals in the sector this year, aiming to raise an estimated \$550-650mn in new capital.** The top-15 land bank operators are the primary candidates for this, with only six of these having tapped the equity capital market.

Company profiles

Kernel Group

Soft commodities trader

- The largest domestic soft commodities trader in Ukraine.** Kernel is the leading domestic exporter of grains and sunflower oil, competing directly with major internationals such as Cargill, Bunge and Toepfer. Its assets include the biggest privately owned silo network in Ukraine, with 25 silos in the country's key grain-sourcing regions, and 1.7mnt of storage capacity, which has been modernised over the past few years.
- Sunflower oil: 35% retail market share.** Kernel operates three sunflower-seed crushing facilities, with 0.73mn tpa of capacity (17% of the country's total). It plans to double this to 1.6mn tpa by 2011, by upgrading its current plants and establishing a new multi-seed plant in Nikolaev (0.5mn tpa capacity). It will be funded from secondary placement proceeds (\$84mn, in Mar 2008). Kernel has consolidated a four-brand retail portfolio which controls a total 35% retail sunflower-oil market share in all price segments, allowing pricing flexibility.
- Farming: 0.25mn ha target land bank.** Kernel leases 56,000 ha of arable land in Ukraine, but plans to expand this to 0.25mn ha by YE09. The company views this as an opportunistic expansion, from which the growth of its crushing and trading operations is largely independent.
- Undervalued growth story.** We believe Kernel is well positioned to benefit from strong soft commodity prices through the expansion of its crushing capacity and higher export volumes. Over a three-year period, we forecast revenues and EBITDA doubling from \$648mn to \$1,272mn, and from \$102mn to \$264mn, respectively. We use a DCF model to derive a \$20.5/share target price (32% potential upside), and rate the stock **BUY**.

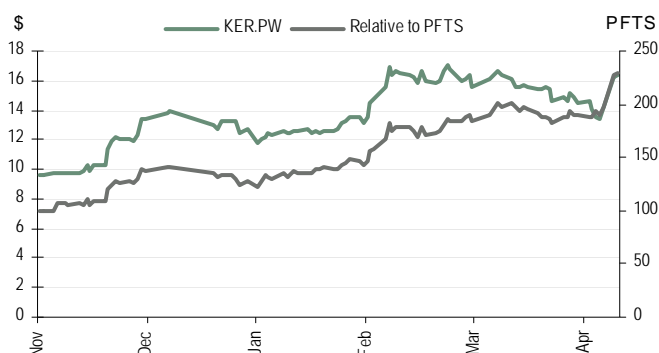
Report date:	12 May 2008
Rating	BUY
Target price (comm), \$	20.5
Target price (pref), \$	n/a
Current price (comm), \$	15.5
Current price (pref), \$	n/a
MktCap, \$mn	1,065
EV, \$mn	1,098
Reuters	KERN.WA
Bloomberg	KER PW Equity
ADRs/GDRs since	n/a
ADRs/GDRs per common share	n/a
Common shares outstanding, mn	68.74
Change from 52-week high:	-14.3%
Date of 52-week high:	26/02/2008
Change from 52-week low:	46.8%
Date of 52-week low:	23/11/2007
Web:	www.kernel.ua
Free float in \$mn	389
Major shareholder with shareholding	A. Verevsky 64.1%
Average daily traded volume in \$mn	28.8
Share price performance over the last	
	1 month 1.13%
	3 months 14.39%
	12 months

Summary valuation and financials, \$mn

	Revenue	EBITDA	Net income	EPS, \$	EBITDA margin, %	EV	Net debt+ minorities	EV/Sales	EV/CF	EV/EBITDA	P/E	P/ICE	EV/IC	ROIC/WACC
2006/07	350.4	46.4	17.7	0.26	13.2%	1,215	136	3.1	87.5	23.7	60.4	42.0	4.60	1.28
2007/08E	648.4	101.8	68.8	1.00	15.7%	1,098	33	1.7	59.4	10.8	15.49	13.1	2.15	1.26
2008/09E	990.2	166.7	90.2	1.31	16.8%	1,226	161	1.1	39.3	6.6	11.82	8.2	1.71	1.43
2009/10E	1,162.2	210.7	88.2	1.28	18.1%	1,302	237	0.9	13.0	5.2	12.08	6.7	1.35	1.25

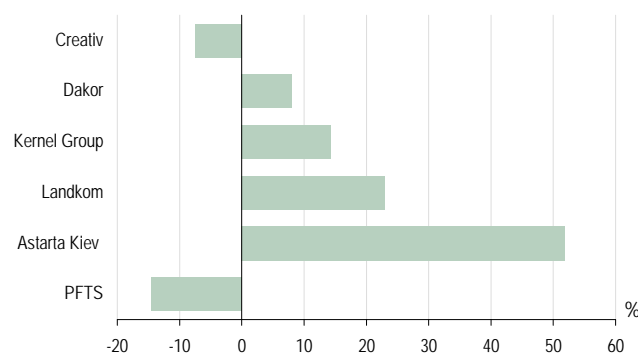
Source: Renaissance Capital estimates

Figure 1: Price performance – 52 weeks



Source: PFTS, Bloomberg

Figure 2: Sector stock performance – three months



Source: PFTS, Bloomberg

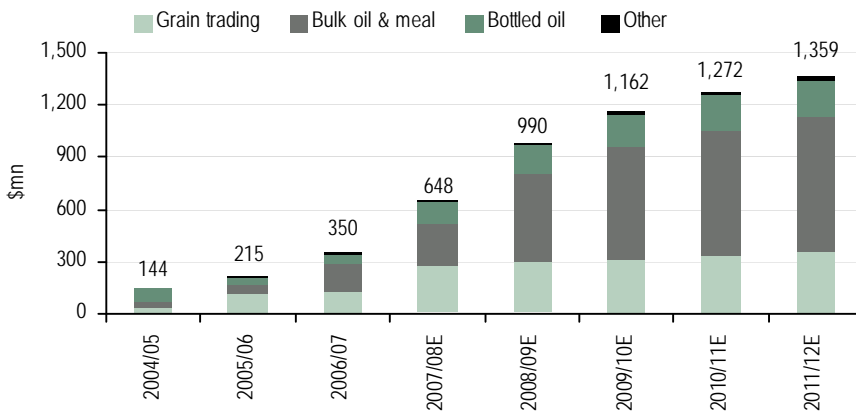
Investment thesis

Figure 3: Kernel SWOT analysis

Strengths	Weaknesses
Largest domestic exporter of soft commodities	Large foreign competitors are more aggressive
Largest market share in the domestic bottled oil market	Bottled oil consumption in Ukraine grows at below 2% p.a.
Largest privately owned silo network	High seasonality of business
Vertical integration	Marginal control over input costs (grain purchase prices)
Diversified revenue stream	High inflation in land acquisition costs
Diversified supplier base	
Proven management team with strong track record	
Opportunities	Threats
Structural changes in the Ukrainian agro production, productivity gains	Volatility of agricultural markets (yield and price volatility)
Increasing vertical integration	Regulatory pressure on soft commodities export and domestic oil pricing
Economies of scale should enhance margins	Vertical integration into agricultural production is capital intensive
Increasing share in bottled oil segment at the expense of small crushers	Strengthening competition from foreign soft commodity traders
Increase in land bank to gain price negotiation power	No land ownership permitted
Land value appreciation	

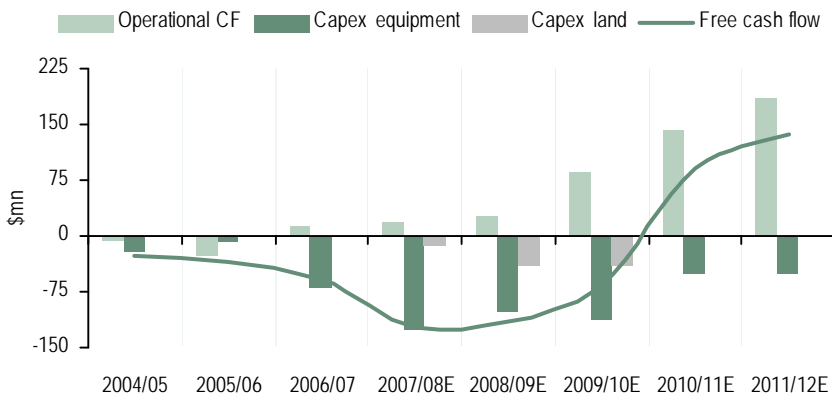
Source: Renaissance Capital estimates

Figure 4: Revenue structure, \$mn



Source: Company data, Renaissance Capital estimates

Figure 5: Free cash flow vs capex, \$mn



Source: Company data, Renaissance Capital estimates

Financials

Figure 6: Kernel IFRS income statement (2005-2012E), \$mn

	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008E	2008/ 2009E	2009/ 2010E	2010/ 2011E	2011/ 2012E	CAGR 2006-2012E
Revenues	143.8	215.2	350.4	648.4	990.2	1,162.2	1,272.2	1,358.9	31.1%
Cost of sales	(120.6)	(173.4)	(267.4)	(492.3)	(804)	(922)	(992)	(1,054)	31.6%
Gross profit	23.2	41.8	83.0	156.1	186.0	239.8	280.2	304.4	29.7%
Distribution expenses	(11.4)	(20.3)	(39.0)	(66.4)	(64.5)	(77.4)	(84.9)	(91.5)	18.6%
Administrative expenses	(7.1)	(10.7)	(13.3)	(15.2)	(17.5)	(23.3)	(26.1)	(29.4)	17.2%
Other operating income, net	0.3	1.2	7.9	14.6	22.2	0.0	0.0	0.0	-100.0%
EBIT	5.0	12.0	38.6	89.0	126.3	139.2	169.2	183.6	36.6%
EBITDA	4.3	6.2	46.4	101.8	166.7	210.7	264.0	301.8	45.5%
Other income	0.9								
Other expenses		(1.8)	(2.3)	(4.5)	(14.0)	(25.0)	(27.5)	(30.0)	67.0%
Foreign exchange gain, net	1.1	(0.9)	(0.8)						#DIV/0!
Financial income and expenses	(6.6)	(9.3)	(18.9)	(8.2)	(12.3)	(16.4)	(18.3)	(14.8)	-4.7%
PBT	0.3	(0.0)	16.7	76.3	100.0	97.8	123.4	138.7	52.7%
Income (tax) benefit	0.3	0.1	1.9	(3.8)	(5.0)	(4.9)	(6.2)	(6.9)	-229.5%
PAT	0.6	0.0	18.6	72.4	95.0	92.9	117.2	131.8	47.9%
Minority interest	(0.13)	1.24	(0.94)	(3.67)	(4.82)	(4.71)	(5.95)	(6.68)	47.9%
Net profit	0.46	1.29	17.65	68.77	90.18	88.18	111.29	125.11	47.9%
Margins									
Gross	16.1%	19.4%	23.7%	24.1%	18.8%	20.6%	22.0%	22.4%	
EBIT	3.4%	5.6%	11.0%	13.7%	12.8%	12.0%	13.3%	13.5%	
EBITDA	3.0%	2.9%	13.2%	15.7%	16.8%	18.1%	20.8%	22.2%	
Net	0.3%	0.6%	5.0%	10.6%	9.1%	7.6%	8.7%	9.2%	
Effective tax rate	82.7%	-241.9%	11.4%	5.0%	5.0%	5.0%	5.0%	5.0%	

Source: Company data, Renaissance Capital estimates

Figure 7: Kernel IFRS balance sheet, \$mn

	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008E	2008/ 2009E	2009/ 2010E	2010/ 2011E	2011/ 2012E	CAGR 2006-2012E
ASSETS									
Property, plant and equipment	68	72	128	281	422	577	644	712	41.0%
Intangible assets	7	7	17	17	18	19	19	19	3.0%
Other non-current assets	8	8	14	15	36	20	1	2	-32.7%
Total non-current assets	84	88	159	313	476	616	665	734	35.8%
Inventories	11	32	40	74	121	139	149	158	31.6%
Bio assets	2	3	10	18	27	32	35	38	31.1%
Trade and other receivables	16	26	41	75	113	131	141	149	29.6%
Cash	10	6	25	100	13	20	18	75	24.3%
Total current assets	39	68	116	267	274	321	343	420	29.4%
Total assets	123	156	275	579	750	937	1,008	1,154	33.2%
EQUITY AND LIABILITIES									
Share capital	1.0	1.0	1.2	1.2	1.2	1.2	1.2	1.2	0.0%
Additional paid-in capital	32	39	40	285	285	285	285	285	48.1%
Retained earnings	0	1	21	90	180	268	379	504	89.2%
Share premium reserve			2.6	2.6	2.6	2.6	2.6	3.6	6.7%
Minority interest	16	6	13	16	25	29	32	68	38.9%
Total equity	48	48	78	395	493	586	700	862	61.8%
LT loans and borrowings	35	60	117	55	75	140	75	40	-19.3%
Deferred tax liabilities	11	14	21	40	61	71	78	83	31.1%
Total non-current liabilities	46	74	138	95	136	211	153	123	-2.3%
ST loans and borrowings	21	29	44	62	74	87	95	102	18.1%
Trade and other payables	7	6	15	28	46	53	60	66	35.1%
Total current liabilities	28	35	59	90	121	140	155	168	23.3%
Total equity and liabilities	123	156	275	579	750	937	1,008	1,154	33.2%
Other ratios									
Net debt	46	82	136	17	136	208	153	67	
Gross debt	56	89	161	117	149	227	170	142	
Debt/Equity	1.16	1.87	2.07	0.30	0.30	0.39	0.24	0.16	
Debt/EBITDA	13.01	14.33	3.48	1.15	0.90	1.08	0.65	0.47	

Source: Company data, Renaissance Capital estimates

Astarta Kiev More than sugar

- Diversified revenue stream.** We expect Astarta's sugar business to continue contributing more than 60% of its revenues, as the company seeks a 10% market share by volume from YE09. We forecast the share of revenues from grain production and farming will increase from 23% in 2006 to 31% in 2012, with growth rates of 10%/year and 26%/year, respectively. We think this will be achieved through a larger land bank in operation, increasing yields and equipment upgrades Astarta's milk farms.
- Land bank: 90% operated.** Astarta leases 0.14mn ha of land, and will grow crops on 90% of this in the current season. It plans to increase its leasehold 43%, to 0.2mn ha, by YE09. At present, Astarta supplies 70% of its sugar beet needs internally. Moreover, the yields on its grain crops exceed the country's average by at least 15%, due to the use of advanced agro technology and capex.
- High prices, high margins.** We expect 12% p.a. higher volume of grain trading to help increase Astarta's operating margin to above 30% from in 2008. We expect soft-commodity prices to stay high, and believe this profitability margin is sustainable, supported by the company's high level of cost control through its own production of grains/sugar beet on its leased land.
- Valuation: 23% upside potential.** We value Astarta at a DCF-derived price of EUR17.5/share, which implies 23% potential upside. Astarta trades at a 42% discount to its international peers on 2008E EV/EBITDA, which we believe is unjustified for a company with such a large land bank (most of which is in operation), and that exercises a high degree of control over its production costs. We upgrade the stock to **BUY**.

Report date:	12 May 2008
Rating	BUY
Target price (comm), EUR	17.5
Target price (pref), EUR	n/a
Current price (comm), EUR	14.2
Current price (pref), EUR	n/a
MktCap, EURmn	356
EV, EURmn	414
Reuters	ASTH.WA
Bloomberg	AST PW Equity
ADRs/GDRs since	2006
ADRs/GDRs per common share	1.00
Common shares outstanding, mn	25.00
Change from 52-week high:	-3.3%
Date of 52-week high:	29/04/2008
Change from 52-week low:	290.1%
Date of 52-week low:	11/05/2007
Web:	www.astartakiev.kiev.ua
Free float in EURmn	106
Major shareholder with shareholding	V. Ivanchyk 40%
Average daily traded volume in EURmn	0.15
Share price performance over the last	
	1 month 14.98%
	3 months 43.03%
	12 months 251.45%

Summary valuation and financials, EURmn

	Revenue	EBITDA	Net income	EPS (\$)	EBITDA margin (%)	EV	Net Debt + minorities	EV/Sales	EV/CF	EV/EBITDA	P/E	P/CE	EV/IC	ROIC/WACC
2007	88	18	21	0.85	20.6%	405	49	4.6	neg	22.4	16.7	13.2	2.74	0.65
2008E	150	50	29	1.17	33.0%	414	58	2.8	neg	8.3	12.2	9.4	1.90	1.40
2009E	173	59	32	1.28	33.9%	405	49	2.4	12.8	7.1	11.1	7.9	1.71	1.42
2010E	203	81	48	1.92	39.8%	385	29	2.0	7.7	5.1	7.4	5.5	1.44	1.65

Source: Renaissance Capital estimates

Figure 1: Price performance – 52 weeks

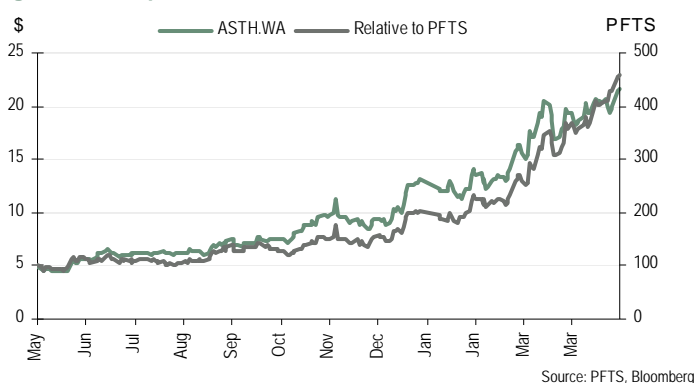
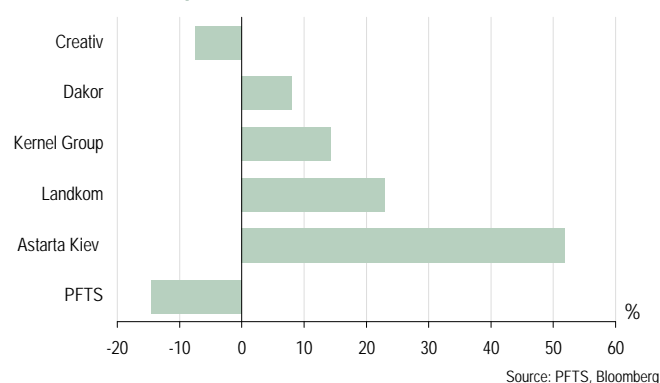


Figure 2: Sector stock performance – three months



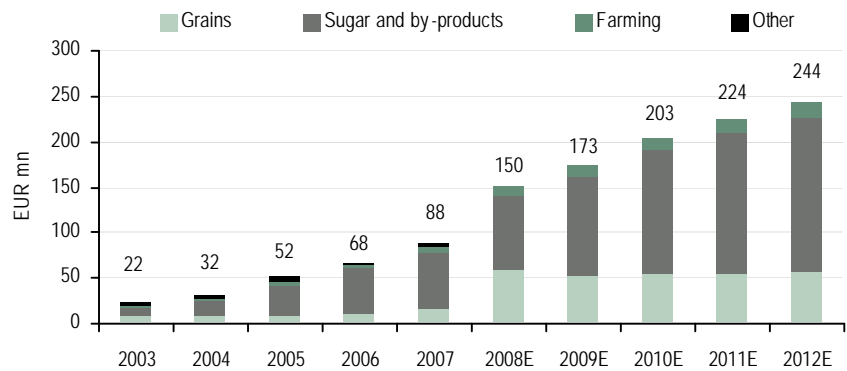
Investment thesis

Figure 3: Astarta SWOT analysis

Strengths	Weaknesses
Strong top-five position in sugar segment	Large competitors are more aggressive
Modernised sugar production sites	Sugar consumption in Ukraine is flat, thus future growth is limited
One of the largest land banks among the peers (>0.1mn ha)	High seasonality of the business stresses the balance sheet
High proportion of own produced sugar beets in total processing	Grain and dairy are not big enough to offset shortfall in sugar revenues
Vertical integration	Funding for future capex is scarce
Diversified revenue model	
Proven management team with strong track record	
Opportunities	Threats
Structural changes in the Ukrainian agro production, productivity gains	Volatility of agricultural markets (yield and price volatility)
Increasing vertical integration in grain and sugar divisions	Regulatory pressure on sugar production and grain exports
Economies of scale should enhance margins	Vertical integration into agricultural production is capital intensive
Increasing share of own-produced sugar beets	Competition from domestic and international grain and sugar producers/traders
Reduce share of independent traders in grain and sugar sales	No land ownership permitted
Growth of grain export	
Increase the landbank to grow grain export capacity	

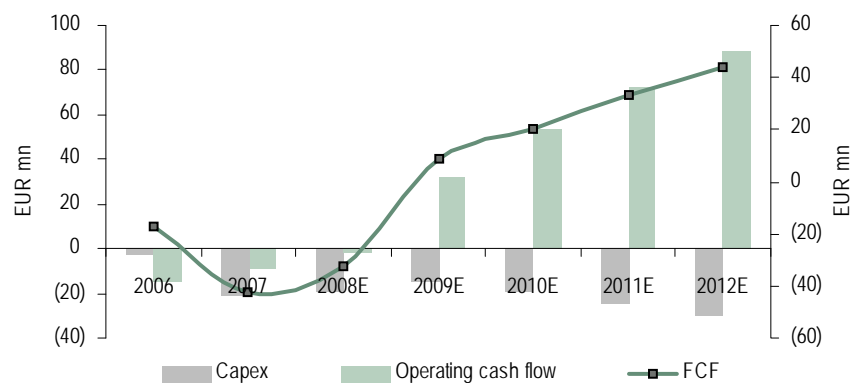
Source: Renaissance Capital estimates

Figure 4: Revenue structure, EURmn



Source: Company data, Renaissance Capital estimates

Figure 5: Free cash flow vs capex, EURmn



Source: Company data, Renaissance Capital estimates

Financials

Figure 9: Astarta IFRS income statement (2003-2012E), EURmn

	2003	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	CAGR 07-12E
Revenues	22.3	31.9	51.8	68.1	87.7	150.4	173.1	203.5	223.9	243.9	29.1%
Cost of sales	(14.2)	(23.0)	(36.4)	(54.0)	(67.3)	(94.6)	(108.7)	(119.9)	(129.5)	(138.2)	19.7%
Gross profit	8.1	8.9	15.4	14.1	20.5	55.8	64.4	83.6	94.4	105.8	50.8%
Distribution expenses	(4.4)	(2.6)	(3.3)	(3.1)	(4.2)	(6.3)	(7.8)	(8.5)	(9.4)	(10.3)	25.2%
Administrative and other ops expenses			(3.3)	(3.5)	(7.6)	(8.5)	(10.5)	(11.3)	(12.4)	(13.4)	15.2%
Other operating income, net					3.9						
EBIT	3.6	6.2	8.7	7.5	12.6	41.0	46.0	63.9	72.6	82.0	59.9%
EBITDA	7.4	7.5	12.4	8.3	18.1	49.7	58.7	81.0	94.7	109.6	56.9%
Bio assets revaluation, net					13.2	2.1	2.8	3.7	4.4	5.1	
Other expenses					(0.4)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	
Gain/loss on acquisitions				3.6	5.1	0.0	0.0	0.0	0.0	0.0	
Financial income and expenses	(0.3)	(1.3)	0.5	(2.0)	(7.4)	(9.3)	(11.7)	(12.6)	(13.1)	(13.0)	15.2%
PBT	3.3	5.0	9.3	5.5	23.0	32.8	36.2	54.0	62.9	73.2	33.6%
Income (tax) benefit	(0.2)	0.3	0.4	0.3	(0.1)	(1.6)	(1.8)	(2.7)	(3.1)	(3.7)	
PAT	3.2	5.3	9.7	6.4	22.8	31.2	34.4	51.3	59.7	69.5	32.1%
Minority interest			(1.5)	(0.6)	(1.5)	(2.0)	(2.2)	(3.3)	(3.9)	(4.5)	
Net profit to equity holders	3.2	5.3	8.2	5.8	21.3	29.1	32.1	47.9	55.9	65.0	32.1%
Margins											
Gross	36.2%	27.8%	29.7%	20.7%	23.3%	37.1%	37.2%	41.1%	42.1%	43.4%	36.2%
EBIT	16.2%	19.5%	16.9%	11.0%	14.3%	27.3%	26.6%	31.4%	32.4%	33.6%	16.2%
EBITDA	33.0%	23.4%	24.0%	12.1%	20.6%	33.0%	33.9%	39.8%	42.3%	45.0%	33.0%
Net	14.2%	16.5%	15.7%	8.5%	24.3%	19.4%	18.6%	23.6%	24.9%	26.6%	14.2%
Effective tax rate	-5.2%	6.0%	4.2%	4.6%	0.5%	5.0%	5.0%	5.0%	5.0%	5.0%	-5.2%

Source: Company data, Renaissance Capital estimates

Figure 10: Astarta IFRS balance sheet, EURmn

	2003	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	CAGR 07-12E
ASSETS											
Property, plant and equipment	15.8	16.5	25.4	31.5	77.8	92.0	98.8	106.0	113.6	121.8	11.9%
Intangible assets	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.7%
Other non-current assets	1.3	1.8	3.3	1.1	1.1	3.3	0.1	4.5	5.4	34.5	136.3%
Bio assets, LT				3.7	6.4	7.0	7.7	8.9	10.2	11.8	16.5%
Total non-current assets	17.1	18.4	28.8	36.4	85.4	102.5	106.8	119.5	129.4	168.2	18.5%
Short-term investments	0.1	0.4	0.5	0.2	0.8	0.8	0.8	0.8	0.8	0.8	0.0%
Inventories	12.8	18.5	29.9	45.9	52.0	76.8	88.3	97.3	105.2	112.2	21.2%
Bio assets	0.8	1.0	1.9	7.2	15.3	16.7	18.8	21.3	24.4	27.9	16.2%
Trade and other receivables	6.4	9.6	14.8	26.4	18.3	30.9	35.1	40.7	44.1	47.4	26.9%
Cash	0.2	0.1	0.5	3.0	1.1	20.4	24.9	42.7	71.2	80.2	194.4%
Total current assets	20.3	29.5	47.5	82.7	87.4	145.6	167.9	202.8	245.7	268.4	32.4%
Total assets	37.5	47.9	76.3	119.1	172.8	248.1	274.6	322.3	375.0	436.6	26.1%
EQUITY AND LIABILITIES											
Share capital	0.0	0.0	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	
Additional paid-in capital	0.8	0.9	1.3	55.8	55.8	55.8	55.8	55.8	55.8	55.8	
P,P&E revaluation reserve	0.0	0.0	0.0	(0.0)	22.7	22.7	22.7	22.7	22.7	22.7	
Retained earnings	18.8	21.9	29.4	6.3	27.9	57.1	89.2	137.1	193.0	258.0	74.3%
Currency translation adjustment	(3.1)	(4.7)	(0.3)	(0.4)	(8.8)	3.9	0.0	0.0	0.0	0.0	
Minority interest	4.3	6.0	8.7	0.0	1.1	1.1	1.1	1.1	1.1	1.1	
Total equity	20.8	24.2	39.1	61.8	99.0	140.8	169.0	216.9	272.8	337.8	35.9%
LT loans and borrowings	3.6	5.1	10.1	8.1	4.1	40.0	30.0	20.0	10.0	0.0	-100.0%
Other LT liabilities	0.7	0.4	1.7	3.3	12.2	12.0	12.0	12.0	12.0	12.0	-0.4%
Total non-current liabilities	4.2	5.5	11.8	11.4	16.3	52.0	42.0	32.0	22.0	12.0	-7.4%
ST loans and borrowings	6.1	8.9	11.9	27.7	44.9	37.6	43.3	50.9	56.0	61.0	7.9%
Trade and other payables	6.3	9.3	13.4	18.2	12.6	17.7	20.4	22.4	24.3	25.9	19.7%
Total current liabilities	12.4	18.2	25.3	45.9	57.5	55.3	63.6	73.3	80.2	86.8	10.8%
Total equity and liabilities	37.5	47.9	76.3	119.1	172.8	248.1	274.6	322.3	375.0	436.6	26.1%

Source: Company data, Renaissance Capital estimates

MCB Agricole

Ambitious land play

- Land focus.** MCB Agricole focuses on agro production on its leased land, for domestic and export trading. The company leases more than 0.1mn ha of land, and will operate about 0.07mn ha this season. It has the capacity to service 0.04mn ha of land with its current agro machines, but is in the processing of expanding it to 0.1mn ha by mid-2008. MCB has been in the agro business for over nine years, but started to actively expand its land bank only in 2006. It plans to lease 0.4mn ha of arable land by YE10.
- Competitive advantages.** We believe the company's ability to deliver on its growth objectives lies in the following: 1) its use of modern agro technology, with a fixed crop plan and a diversified crop mix; 2) strong management expertise; and 3) its focus on high-margin crops and tight cost controls. The company leases land directly from individual owners, and avoids the acquisition of lease contracts via corporate rights, thereby optimising its land expenses.
- Private placement completed.** In Mar 2008, MCB sold a 24% equity stake, for \$56mn (gross), to fund the land bank expansion, the purchase of agricultural machinery for its farms and working capital. The company plans an IPO in 2010-2011 on completion of its land accumulation plan, and on achieving sustainably high yields and margins. In the meantime, it plans to fund its operating and capex needs with bank loans and operating cash flows.

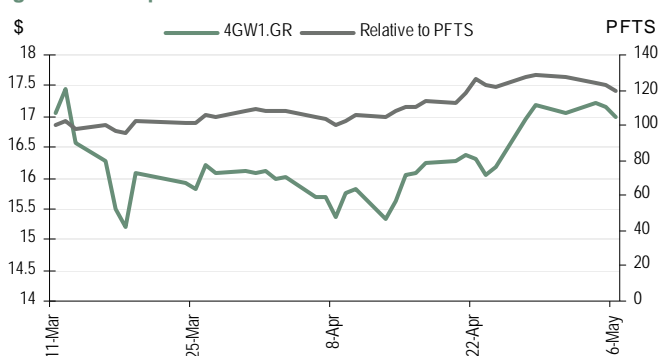
Report date:	4 May 2008
Rating	UR
Target price (comm), \$	UR
Target price (pref), \$	n/a
Current price (comm), \$	17.1
Current price (pref), \$	n/a
MktCap, \$mn	295
EV, \$mn	311
Reuters	4GW1.GR
Bloomberg	4GW1 GR Equity
ADRs/GDRs since	n/a
ADRs/GDRs per common share	n/a
Common shares outstanding, mn	17.20
Change from 52-week high:	n/a
Date of 52-week high:	3/12/2008
Change from 52-week low:	18%
Date of 52-week low:	4/10/2008
Web:	www.uzp-agro.com.ua
Free float in \$mn	71
Major shareholder with shareholding	A. Shyshkin 15.12%
Average daily traded volume in \$mn	0.13
Share price performance over the last	1 month 11%
	3 months n/a
	12 months n/a

Summary valuation and financials, \$mn

	Revenue	EBITDA	Net income	EPS, \$	EBITDA margin, %	EV	Net debt+ minorities	EV/ Sales	EV/ CF	EV/ EBITDA	P/E	P/ICE	EV/IC	ROIC/ WACC
2006	10.3	2.6	1.7	0.10	25.5%	n/a	7.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2007	15.7	6.0	4.3	0.25	38.4%	n/a	15.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a

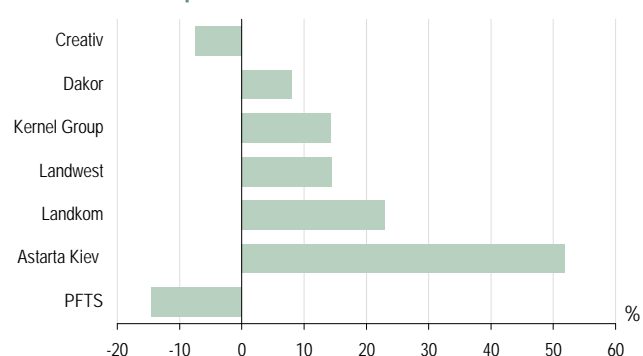
Source: Renaissance Capital estimates

Figure 1: Price performance – 52 weeks



Source: MSCI, Bloomberg

Figure 2: Sector stock performance – three months



Source: RTS, Bloomberg

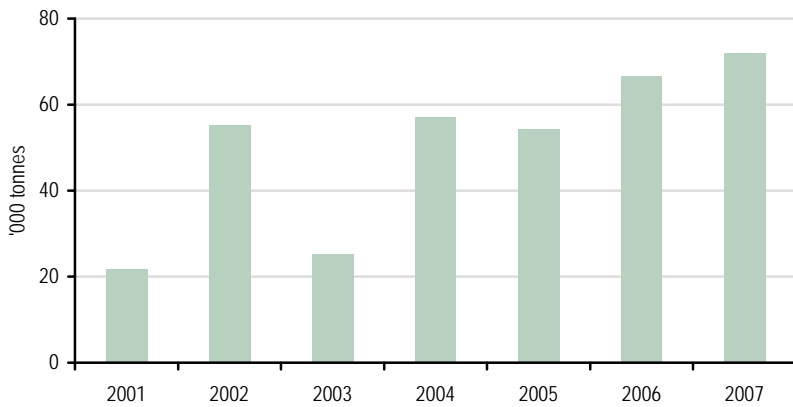
Investment thesis

Figure 3: MCB Agricole SWOT analysis

Strengths	Weaknesses
long term experience in agriculture (nine years)	Competes with large companies for control over land
Yields exceed the country average by 20%	Exposed to agro risks
Proven management team, with a strong track record	Funding for future capex is scarce
Quality land in areas favourable for agriculture	
Modern machine park with capacity to service 40,000 ha	
Opportunities	Threats
Structural changes in the Ukrainian agro production, productivity gains	Volatility of agricultural markets (yield and price volatility)
Increasing yields using modern technology	Regulatory pressure on pricing and production volumes
Economies of scale should enhance margins	Vertical integration into agricultural production is capital intensive
Increase in land bank to gain economies of scale	No land ownership permitted

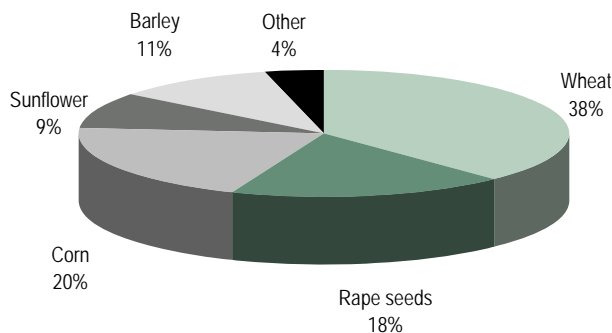
Source: Renaissance Capital estimates

Figure 4: Volume of production, '000 tonnes of grain



Source: Company data

Figure 5: Crop rotation plan, % total area (2008)



Source: Company data

Financials

Figure 6: MCB Agricole income statement, \$mn*

	2006	2007
Revenues	10.33	15.68
Cost of sales	(6.90)	(8.32)
Gross profit	3.43	7.36
Distribution expenses		
Administrative and other ops expenses	(0.80)	(1.34)
Other operating income, net		
EBIT	2.01	5.31
EBITDA	2.63	6.02
Financial income and expenses	(0.32)	(1.03)
PBT	1.70	4.28
Income (tax) benefit	0.00	0.00
PAT	1.70	4.28
Margins		
Gross	33.2%	46.9%
EBIT	25.5%	33.9%
EBITDA	25.5%	38.4%
Net	16.4%	27.3%
Effective tax rate	0.0%	0.0%

*This is a pro-forma statement, based on management accounts provided by the company

Source: Company data

Figure 7: MCB Agricole IFRS balance sheet, \$mn*

	2006	2007
Assets		
Property, plant and equipment	5.62	8.19
Other non-current assets	0.48	0.50
Total non-current assets	6.10	8.69
Inventories	6.34	15.63
Other current assets	1.97	3.91
Trade and other receivables	4.31	3.50
Cash	0.06	0.34
Total current assets	12.67	23.38
Total assets	18.77	32.07
Equity and liabilities		
Share capital	4.57	4.57
Property, plant and equipment revaluation reserve	0.37	0.37
Retained earnings	5.15	9.43
Total equity	10.09	14.37
LT loans and borrowings	1.93	4.90
Total non-current liabilities	1.93	4.90
ST loans and borrowings	5.75	11.03
Trade and other payables	0.64	0.70
Other current liabilities	0.364	1.072
Total current liabilities	6.76	12.81
Total equity and liabilities	18.77	32.07
Other ratios		
Net debt	7.62	15.59
Gross debt	7.68	15.93
Debt/Equity	0.76	1.11
Debt/EBITDA	2.92	2.65

*This is a pro-forma statement, based on management accounts provided by the company

Source: Company data

Creativ Group

Vegetable oil and fats producer

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- Expanding fats and margarine capacity.** In mid-2007, Creativ launched its second modified fats and margarine plant, in Kirovograd, and doubled its capacity to 0.14mn tpa. Its utilisation rate was 65% in 2007, and the company forecasts it at 85% in 2008, on the back of strong demand for its products from domestic food producers. Creativ is a segment leader, with a 31% share of the edible fats market in Ukraine.
- Two greenfield crushing plants due in 2008.** A new soybean crushing plant, with 82k tpa capacity is due in mid-2008, and will produce high-protein products and oil. The plant has been fully financed through a joint venture with a Russian financial partner, of which Creativ controls 51%. Creativ is set to launch a new multi-seed crushing plant in Kirovograd, with 0.245mn tpa capacity, in Nov 2008, in addition to the 0.1mn tpa plant it already operates in the city. Outstanding capex of \$18.5mn will be financed with debt. We think these new, modern plants will give the company an advantage in terms of high product quality.
- Land bank: Aim to supply 50% of seeds internally.** Creativ leases 10.5k ha of arable land in the Kirovograd region, and plans for 0.1mn ha by YE10. The company will grow sunflower, rape and soy beans, aiming to ensure stable seed supplies to its crushing plants.
- Funding strategy:** Creativ completed a private equity placement in Oct 2007, raising \$30mn for a 24% stake, with a consequent listing in Frankfurt. For current capex, the company is considering foreign debt of at least \$60mn. It is also considering other projects to diversify into value-added products and increase its vertical integration.

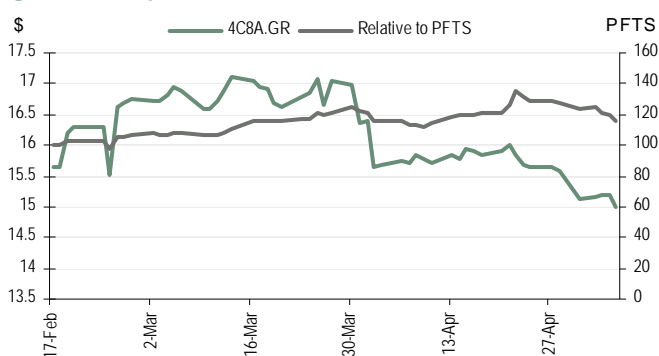
Report date:	12 May 2008
Rating	UR
Target price (comm), \$	UR
Target price (pref), \$	n/a
Current price (comm), \$	15.35
Current price (pref), \$	n/a
MktCap, \$mn	157
EV, \$mn	261
Reuters	4C8A.GR
Bloomberg	4C8A GR Equity
ADRs/GDRs since	n/a
ADRs/GDRs per common share	n/a
Common shares outstanding, mn	10.25
Change from 52-week high:	n/a
Date of 52-week high:	1/31/2008
Change from 52-week low:	25%
Date of 52-week low:	10/16/2007
Web:	www.creativ-group.com.ua
Free float in \$mn	36.3
Major shareholder with shareholding	S. Berezkin 38%
Average daily traded volume in \$mn	0.0016
Share price performance over the last	
	1 month -2.00%
	3 months -7.55%
	12 months n/a

Summary valuation and financials, \$mn

	Revenue	EBITDA	Net income	EPS, \$	EBITDA margin, %	EV	Net debt + minorities	EV/Sales	EV/CF	EV/EBITDA	P/E	P/CE	EV/IC	ROIC/WACC
2005	44.35	5.01	2.06	0.20	11.3%	n/a	34.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2006	66.02	9.85	0.50	0.05	14.9%	n/a	45.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2007	112.1	13.47	1.34	0.13	12.0%	n/a	104	n/a	n/a	n/a	n/a	n/a	n/a	n/a

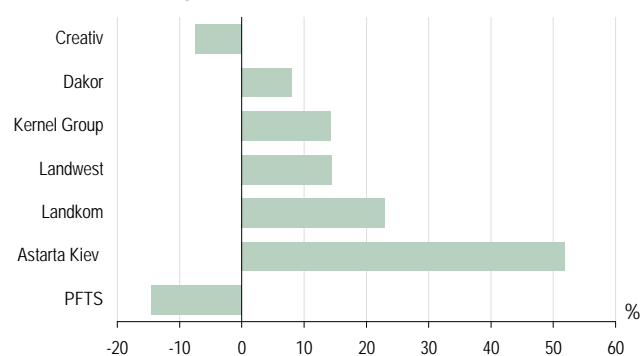
Source: Company data

Figure 1: Price performance – 52 weeks



Source: MSCI, Bloomberg

Figure 2: Sector stock performance – three months



Source: RTS, Bloomberg

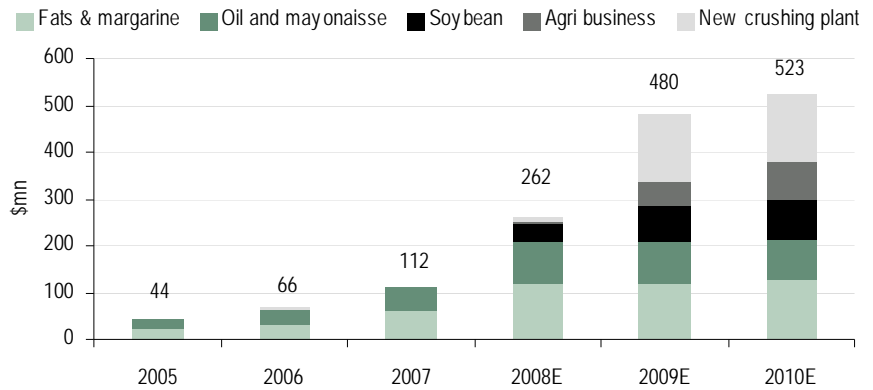
Investment thesis

Figure 3: Creativ Group SWOT analysis

Strengths	Weaknesses
Leading domestic producer of edible fats	Large foreign competitors are more aggressive
Located in a region rich in sunflower seeds (9.5% of the country's output)	Competition for oil seeds increasing from close-by competitors
Own grain storage capacity	Marginal control over input costs
Modern multi-seed crushing plant under construction	High inflation in land acquisition costs
New fat and margarine plant launched in mid-2007	Funding for capex is scarce
Diversified revenues in B2B and retail segments	
Edible fats market grows at 5%+ p.a. in volume terms	
Opportunities	Threats
Diversification into other value added oil & fat products	Volatility of agricultural markets (yield and price volatility)
Increasing vertical integration	Regulatory pressure on soft commodities export and domestic oil pricing
Increasing share in retail market at the expense of small producers	Vertical integration into agricultural production is capital intensive
Increase in land bank to have better input costs controls	Strengthening competition from foreign soft commodity traders
Land value appreciation	No land ownership permitted

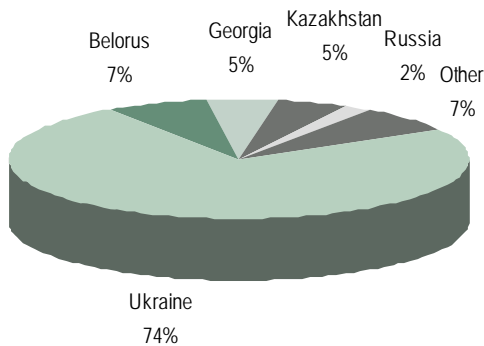
Source: Renaissance Capital estimates

Figure 4: Revenue structure, \$mn



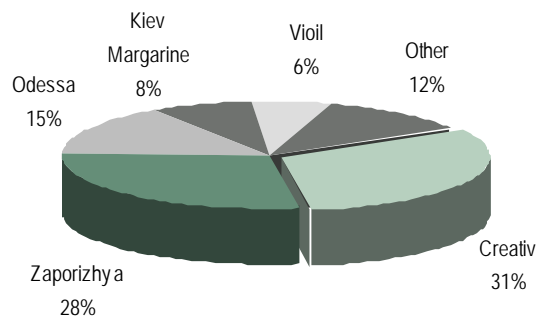
Source: Company data

Figure 5: Revenue breakdown by country, % total 2007



Source: APK-Info, Company data

Figure 6: Largest edible fats producers, % total output 2007



Source: APK-Info, Company data

Financials

Figure 7: Creativ Group income statement, \$mn

	2005	2006	2007
Sales	44.4	66.0	112.1
Cost of Sales	(36.1)	(53.9)	(93.8)
Gross Profit	8.3	12.1	18.3
Selling & distribution	(1.4)	(3.0)	(3.0)
General & administrative	(2.3)	(2.7)	(3.1)
Other ops income/expense	0.4	3.4	(1.0)
EBITDA	5.0	9.8	13.5
Depreciation & amortisation	(1.5)	(2.0)	(2.3)
EBIT	3.5	7.8	11.2
Other income/expense	2.1	(0.9)	(3.1)
Interest expense, net	(3.2)	(5.7)	(6.1)
Profit before tax	2.4	1.3	1.9
Income tax	(0.3)	(0.8)	(0.6)
Net Income	2.1	0.5	1.3
Margins			
Gross margin	18.7%	18.4%	16.3%
EBITDA margin	11.3%	14.9%	12.0%
EBIT margin	7.9%	11.9%	10.0%
Net margin	4.6%	0.8%	1.2%

Source: Company data

Figure 8: Creativ Group balance sheet, \$mn

	2005	2006	2007
Intangible assets	0.03	0.02	0.05
PPE	28.3	44.2	62.5
Investment property	0.23	0.23	0.22
Goodwill	4.78	4.78	2.92
Deferred tax assets	0.22	0.67	2.87
Total non-current assets	33.6	49.9	68.6
Receivables	7.11	7.12	37.58
Income tax prepaid	0.00	0.14	0.16
Inventories	6.54	6.70	8.84
Other taxes prepaid	2.70	6.09	12.65
Cash & equivalents	0.24	0.36	12.63
Total current assets	16.6	20.4	71.9
Total assets	50.2	70.3	140.5
Share capital	0.32	0.32	0.4
Retained earnings	0.18	0.30	1.57
Exchange difference	(0.06)	(0.05)	(0.05)
Equity	0.44	0.56	1.9
Minority interest	-	0.14	(0.07)
Long-term debt	19.1	37.6	68.0
Provision	-	0.90	1.16
Deferred tax liabilities	0.58	1.69	4.28
Current portion of long-term debt	5.63	15.7	11.9
Short-term debt	15.7	8.05	48.8
Accounts payable	8.26	5.51	4.2
Other taxes payable	0.29	0.13	0.20
Income tax liability	0.01	0.03	-
Other payables	0.08	0.00	-
Total current liabilities	30.0	29.4	65.1
Total liabilities	49.7	69.6	138.5
Total liabilities and equity	50.2	70.3	140.3
Ratios			
Net debt	35	45	104
Debt/Equity	79.40	80.95	61.00
ROE	468.2%	89.2%	68.6%

Source: Company data

Disclosures appendix

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Hold	72	18%	Hold	5	19%
Sell	41	10%	Sell	0	0%
UR	17	4%	UR	0	0%
NR	140	34%	NR	6	22%
407			27		

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UR	0	0%	UR	0	0%
NR	0	0%	NR	0	0%
12			4		

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