



Wednesday, May 07, 2014 | update

## Astarta: buy (reiterated)

AST PW; ASTH.WA | Food Producers, Ukraine

### AST Share Price Goes Off Sugar

Ukrainian crushing plants produced 1.2 million tons of sugar in 2013, a quantity 46% lower than produced in 2012 and well below the country's annual consumption of 1.8-2.0mmt. We estimate that Ukraine's sugar inventory at the beginning of 2014 was about 1.9mmt, indicating a need to resume imports later in the year after two years of demand being fully met with domestic production. Prices of sugar surged 76% year on year to UAH 7500/t in the four months through April, and they spiked to nearly UAH 9000 at the end of the month – the highest level since 2011. Historically, Astarta's share price always displayed a close correlation with local sugar prices. We believe the current price trends can drive Astarta's per-ton sales profits from an average of ca. UAH 1000 in the last two years to as much as UAH 2380 in 2014 (previous highs include UAH 3,180 in 2010 and UAH 2,610 in 2011). We have raised our sugar price forecast for 2014 while lowering the price projections for grains, and we adjusted our financial forecasts for Astarta to include the new soy oil plant launched this year. Consequently, we are lowering our price target for AST shares from PLN 78.50 to PLN 48.60 (an effect of lowered grain prices and UAH depreciation), with the investment rating intact at buy.

### Gas hikes not necessarily a profit killer

Even as gas costs between 2011 and 2013 went up by 50%, Astarta's unit cost of production in the period edged up by just 3%. This was owed to a 14% higher beet harvest combined with 15% lower gas usage and a 2% improvement in sugar yield per root. In the future, costs will be mitigated by the implementation of new energy-efficient solutions (biogas plants). We assume that the Ukrainian gas price average in 2014 will increase to \$485/1000m<sup>3</sup>. Higher fuel costs are bound to drive sales prices of sugar, and for Astarta, which uses 40% less natural gas on average than the industry, this is a positive development.

### Debt rises on FX losses

Due to the hryvnia's depreciation vis-à-vis other currencies, we anticipate that Astarta's net debt as of 31 December 2014 will increase to an estimated UAH 3,756m (2.1x 2014E EBITDA), driven by annual FX losses projected at UAH 603m. At the end of 2013, interest-bearing debt totaled UAH 3,103.3m, of which 46% were current loans due in 2014 secured against accounts receivable and inventories. More than half (53%) of the bank debt had due dates after 2015. Of the total borrowings, 41.4% are with Ukrainian banks (which issued most of the short-term loans), and the rest are with foreign banks (responsible for most of the long-term facilities). Astarta has no bonds outstanding at this time.

(UAH m)	2012	2013	2014F	2015F	2016F
Revenue	3,701.6	4,008.9	4,956.3	4,972.3	4,972.7
EBITDA	880.3	670.4	1,549.5	1,473.4	1,362.4
EBITDA margin	23.8%	16.7%	31.3%	29.6%	27.4%
EBIT	616.9	376.6	1,236.8	1,164.9	1,065.6
Net profit	467.4	244.0	309.7	867.4	818.7
Dyield	0.0%	0.0%	0.0%	1.2%	9.2%
P/E	8.1	15.4	12.2	4.3	4.6
P/E (ex revaluation)	10.1	-	10.9	4.2	4.5
P/CE	5.2	7.0	6.1	3.2	3.4
P/BV	1.0	0.8	0.8	0.7	0.6
EV/EBITDA	7.3	10.2	4.5	4.2	4.1
EV/EBITDA (ex revaluation)	7.4	-	4.3	4.0	4.0

\* Incl. UAH 603m FX losses; \*\*UAH/PLN at 0.3344 (6M average)

Current Price	PLN 38.99
Target Price	PLN 48.60*
MCap	PLN 1.0bn
Free Float	PLN 0.3bn
ADTV (3M)	PLN 1.31m

\*\*UAH/PLN at 0.3344 (6M average)

### Ownership

Viktor Ivanchyk	36.99%
Valery Korotkov	25.99%
Amplico PTE	6.02%

Others	31.00%
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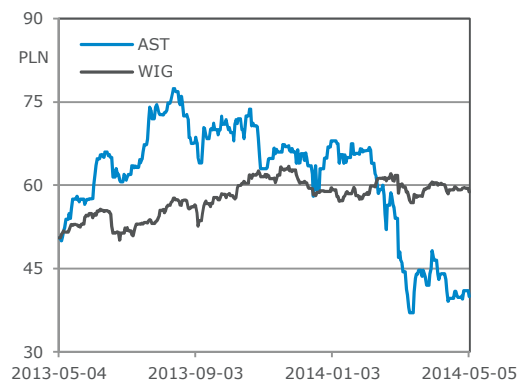
### Sector Outlook

The profitability of sugar and grain production depends on the weather and global price trends in agricultural commodities. Prices of sugar are on a sharp upward trajectory in 2014 thanks to lower volumes produced last year, and they are expected to remain high throughout the year as Ukraine falls into a sugar shortage later in the year.

### Company Profile

Astarta is a Ukrainian sugar producer and grain exporter. The Company operates six beet sugar refineries, and it leases 230,000 hectares of land used for extensive cultivation of grains, oilseed crops, and sugar beets. Moreover, Astarta's other operations include production of milk and soybean oil.

### AST vs. WIG



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**List of abbreviations and ratios contained in the report:****EV** – net debt + market value**EBIT** – Earnings Before Interest and Taxes**EBITDA** – EBIT + Depreciation and Amortisation**P/CE** – price to earnings with amortisation**MC/S** – market capitalisation to sales**EBIT/EV** – operating profit to economic value**P/E** – (Price/Earnings) – price divided by annual net profit per share**ROE** – (Return on Equity) – annual net profit divided by average equity**P/BV** – (Price/Book Value) – price divided by book value per share**Net debt** – credits + debt papers + interest bearing loans – cash and cash equivalents**EBITDA margin** – EBITDA/Sales**Recommendations of Dom Maklerski mBanku:**

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**BUY** – we expect that the rate of return from an investment will be at least 15%**ACCUMULATE** – we expect that the rate of return from an investment will range from 5% to 15%**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%**REDUCE** – we expect that the rate of return from an investment will range from -5% to -15%**SELL** – we expect that an investment will bear a loss greater than 15%

Recommendations are updated at least once every nine months.

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**Previous ratings issued for Astarta**

rating	Accumulate	Hold	Buy
rating day	2013-09-09	2013-10-04	2014-01-15
price on rating day	64.01	70.38	65.50
WIG on rating day	46717.04	50982.03	50605.74

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