

Thursday, September 05, 2019 | special comment

## Astarta – About To Hit the Sweet Spot

Rating: overweight | current price: 23.00 PLN

**AST PW; ASTH.WA | Agricultural Production, Ukraine**

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After planting the lowest-ever recorded area to sugar beets, Ukraine faces a sugar shortage in the second half of 2019 for the first time in three years. Sugar prices are already rising in anticipation of the deficit, and, underpinned by a 50% duty on imports, by 2020 they are expected to rise 24% to an average UAH 12,762 per tonne.

For Astarta, the outlook for the coming year is additionally boosted by falling costs of natural gas, expected to generate savings of approximately UAH 130m over 12 months from autumn 2019. If we add to this the rising prices of milk and improving margins on the production of soybean oil, Astarta has potential to grow 2020 EBITDA by as much as 60% to UAH 2.9 billion.

The upward trend in Ukrainian sugar prices might continue in 2021 looking at the low profitability of sugar beet production and the decreasing number of sugar processing facilities.

On our 2020 and 2021 earnings estimates, Astarta is expected to generate free cash flow yield of 40% in the 2019-2021 period, with the FCF/market cap ratio at a projected 130%. We assume further that Astarta will reduce net debt by UAH 1.0 billion by the end of 2020 to a target leverage ratio of 2.9x (2.4x ex. IFRS16 effects).

Looking at the robust growth prospects, we initiate coverage of Astarta with an overweight recommendation.

### P&L

(UAH m)	2017	2018	2019E	2020E	2021E
<b>Revenue</b>	<b>13,717</b>	<b>11,966</b>	<b>13,645</b>	<b>13,983</b>	<b>14,248</b>
Sugar	5,999	3,840	3,795	4,145	4,233
Crops	4,215	4,075	5,968	5,943	6,137
Soybean crushing	2,175	2,388	2,137	2,109	2,067
Dairy Farming	951	942	1,025	1,065	1,090
Biological asset chg.	1,326	1,607	1,495	2,282	2,516
<b>Gross profit</b>	<b>3,057</b>	<b>1,556</b>	<b>1,603</b>	<b>2,204</b>	<b>2,374</b>
Sugar	2,071	504	495	1,076	1,144
Crops	457	483	422	444	591
Soybean crushing	248	310	394	387	354
Dairy Farming	251	143	206	211	198
Admin. expenses	727	775	729	752	785
Selling expenses	1,042	1,376	1,579	1,628	1,723
Other income / expens	-241	-330	-252	-350	-358
<b>EBIT</b>	<b>2,372</b>	<b>398</b>	<b>539</b>	<b>1,755</b>	<b>2,024</b>
margin	17%	3%	4%	13%	14%
<b>EBITDA</b>	<b>3,473</b>	<b>1,679</b>	<b>1,866</b>	<b>2,940</b>	<b>3,077</b>
margin	25%	14%	14%	21%	22%
Financing activity	-547	-924	-921	-878	-843
Interest expenses	-280	-421	-428	-383	-347
Lease costs	0	-497	-497	-497	-497
Pre-tax profit	1,782	-554	-382	876	1,181
<b>Net profit</b>	<b>1,759</b>	<b>-687</b>	<b>-384</b>	<b>860</b>	<b>1,162</b>

Source: Astarta, projection by Dom Maklerski mBanku

### Key Ratios

	2017	2018	2019E	2020E	2021E
P/E	2.1	-	-	4.3	3.2
P/CE	1.3	6.2	3.9	1.8	1.7
P/B	0.3	0.3	0.3	0.3	0.3
P/S	0.3	0.3	0.3	0.3	0.3
FCF/EV	16%	-22%	7%	16%	17%
FCF/MC	34%	-78%	25%	52%	51%
EV/EBITDA	2.3	7.8	7.0	4.1	3.7
EV/EBIT	3.4	32.8	24.2	6.9	5.6
EV/S	0.6	1.1	1.0	0.9	0.8
CFO/EBITDA	58%	17%	57%	74%	77%
DYield	0.0%	0.0%	0.0%	0.0%	7.0%
Price (PLN)	23.0	23.0	23.0	23.0	23.0
Price (UAH)	146.8	146.8	146.8	146.8	146.8
Million shares outstand	25	25	25	25	25
MC (UAH m)	3,669	3,669	3,669	3,669	3,669
EV (UAH m)	8,106	13,057	13,070	12,068	11,304

### Diluted ratios

	2017	2018	2019E	2020E	2021E
P/E	2.0	-	-	4.2	3.1
EV/EBITDA	2.3	7.7	7.0	4.1	3.6
FCF/EV	16%	-22%	7%	16%	17%
P/B	0.3	0.3	0.3	0.3	0.3
DYield	0.0%	0.7%	0.0%	0.0%	7.2%
adj. ND/EBITDA	1.3	5.9	5.1	2.4	2.0
Net debt / EBITDA	1.3	5.6	5.0	2.9	2.5

#### 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

**OVERWEIGHT (OW)** – a rating which indicates that we expect a stock to outperform the broad market  
**NEUTRAL (N)** – a rating which indicates that we expect the stock to perform in line with the broad market  
**UNDERWEIGHT (UW)** – a rating which indicates that we expect the stock to underperform the broad market

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**NAV** – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank S.A. did not issue any recommendations for Astarta in the last 12 months.

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