

# AGRO-INVEST **UAIndex**

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**Weekly Issue #5 (85), February 6<sup>th</sup> (January 30<sup>th</sup> – February 3<sup>rd</sup>), 2012**

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### 1. THE WEEK.

Last week was fairly quiet, with the exception of fraud charges against the owner of Uklandfarming, Mr. Bakhmatiuk. Uklandfarming, which is a private company, has full control of Avangard. The fraud charges relate to government subsidies that Avangard used starting in 2005 to obtain discounted bank loans. (See our report below)

The news caused concerns in European bond and stock markets, which hold the majority of Ukrainian agro holding shares and bonds. Fortunately there was no collapse of Ukrainian agro holding stock and bond prices. Instead we saw continued strengthening of both stocks and bonds.

However there are two larger issues. The most pressing is whether Mr. Bakhmatiuk is being raided by the government to ensure that some or all of his holding is transferred to others. Since the new government came to office 22 months ago the number of incidents where government authorities have found cause to harass ongoing businesses and force them out of business has increased dramatically. Very often this harassment ends when control and ownership transfers to someone closer to the government.

The most visible incident of this kind concerns Ukraine's largest agricultural trading company, Nibulon. The owner Mr. Vatatsky publicly stated he was being harassed by government authorities to force him to cede control of the company to others. Mr. Vatatsky fought off these inspections and remains in control of the company he founded. However, we have no reason to believe that the inspections of Nibulon were justified as no one from the government came forward after Mr. Vatatsky made those statements to sue him.

There exists a very real possibility that the government is trying to force Mr. Bakhmatiuk to give up ownership of the company he created. This of course is a huge problem which may deter future investment.

There is another large issue. There are a number of questions which remain unanswered regarding Ukrlandfarming's finances. These questions exist because the company is privately owned and is not required to disclose its financials. However the company's dramatic growth from 0 hectares in 2009 to 500,000 hectares in 2012 is amazing. Questions remain where Mr. Bakhmatiuk found the money to create Ukraine's largest agro holding.

Given that the government has charged Mr. Bakhmatiuk with financial manipulations that cost Ukrainian taxpayers 140 million hryvnia or 10,8 million United States Dollars, we can rest assured that Mr. Bakhmatiuk did not get the money from the government.

***Best Regards, Executive Advisor, Bohdan Chomiak***

## 2. AGROHOLDING SECTION

### 2.1. Ukraine Aggregated Index

#### UAIndex: Monthly Performance



**Analytical comment:** Strong positive growth trend continued this week as several companies released information regarding their financial performance in 2011. Due to the fact that those reports have shown positive results (even better than forecasted) investors' confidence was boosted. Several other positive results regarding Ukrainian agro holdings contributed to the positive performance of the Ukrainian Agrarian Index.

#### Best Performing Companies

Company	Ticker	Last	Weekly $\delta$	Volume
Ukrproduct	UKR	7,37	23,23%	88 627
Alpcot Agro	ALPA	94,18	11,09%	1 646 025
Avangard	AVGR	384,47	11,04%	1 136 383

**Analytical comment:** Ukrproduct has shown largest growth last week with our new member Alpcot Agro ranked 2<sup>nd</sup> and Avangard (despite scandal news towards the end of the week) in 3<sup>rd</sup>.

#### Worst Performing Companies

Company	Ticker	Last	Weekly $\delta$	Volume
Mriya	MAYA	487,69	-2,34%	2 420
Ovostar	OVO	133,18	-0,74%	8 321
Sintal	SNPS	14,69	0,00%	0

**Analytical comment:** Mriya has shown largest decline, followed by Ovostar and Sintal. Insubstantial decline of these stocks did not notably affect overall UAIndex performance.

#### Volume Leaders

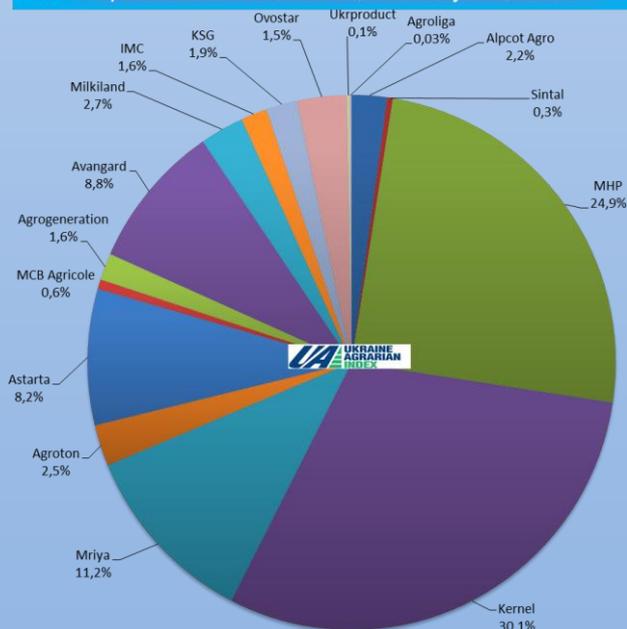
Company	Ticker	Last	Weekly $\delta$	Volume
Alpcot Agro	ALPA	94,18	11,09%	1 646 025
Avangard	AVGR	384,47	11,04%	1 136 383
MHP	MHPC	1 084,31	3,61%	675 082

**Analytical comment:** Alpcot Agro was the most traded company this week with over 1.6 M shares traded. Second was Avangard and MHP was third.

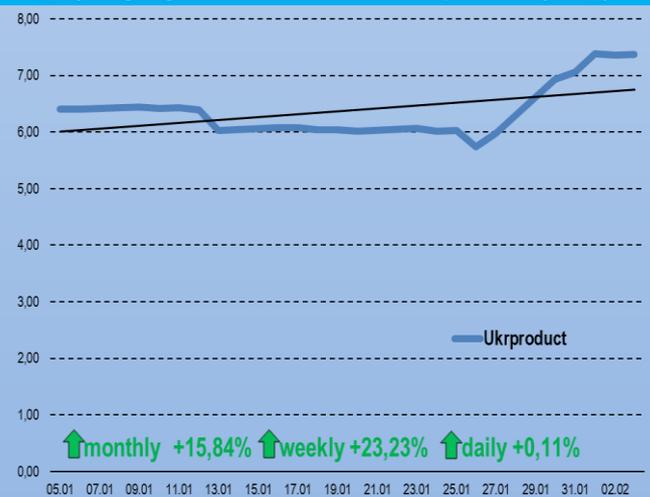
## Dynamics of Capitalization

Parameter	Ticker	Last (03.02.2012)	Daily change	Weekly change	Monthly Change
<b>UAIndex</b>	<b>UAI</b>	<b>4 354,47</b>	<b>0,85%</b>	<b>4,58%</b>	<b>13,41%</b>
Agrogeneration	ALAGR	70,88	-0,49%	0,50%	29,13%
Agroliga	AGLP	4,44	0,00%	2,90%	17,06%
Agroton	AGT	108,62	1,94%	7,70%	18,38%
Astarta	AST	358,02	2,73%	9,00%	25,03%
Avangard	AVGR	384,47	2,38%	11,04%	17,35%
IMC	IMC	69,78	0,43%	8,38%	24,32%
Kernel	KER	1 311,75	1,02%	4,99%	2,62%
KSG	KSG	82,89	1,08%	8,96%	13,15%
Alpcot Agro	ALPA	94,18	0,15%	11,09%	556,03%
MCB Agricole	4GW1	25,11	0,00%	3,55%	-19,34%
MHP	MHPC	1 084,31	0,43%	3,61%	22,88%
Milkiland	MLK	117,10	-1,20%	3,02%	12,20%
Mriya	MAYA	487,69	0,00%	-2,34%	0,00%
Ovostar	OVO	133,18	-1,07%	-0,74%	33,83%
Sintal	SNPS	14,69	0,00%	0,00%	-64,89%
Ukrproduct	UKR	7,37	0,11%	23,23%	15,84%

Total Capitalization Break-Down, February 3rd, 2012



Weekly Highlight: Growth Leader: Ukrproduct (UKR)



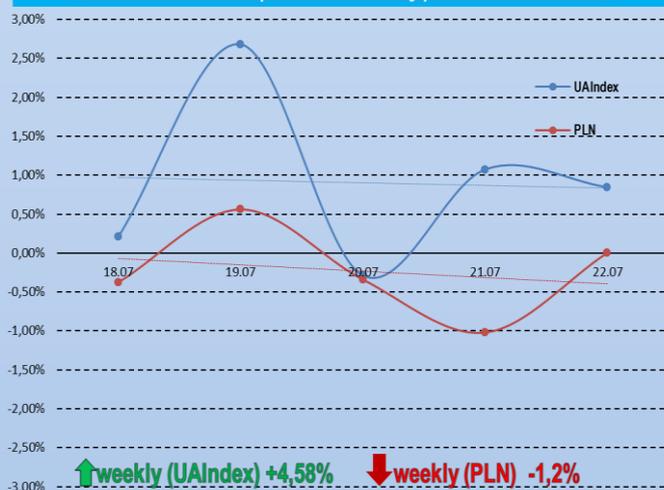
**Analytical comment:** Two out of sixteen companies have indicated decline in capitalization this week (Mriya and Ovostar) with Ukrproduct showing record growth for the week of 23.23%.

## 2.2. Currency Fluctuations (Euro)

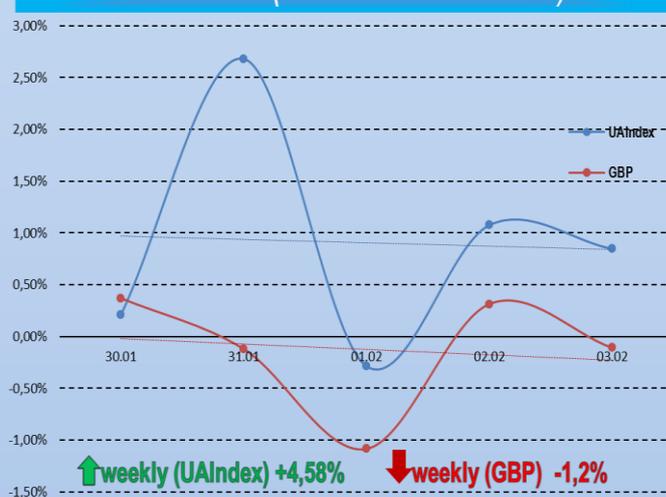
### Currency Rates, EUR

	Last	Daily	Weekly	Monthly	Annual
PLN	4,17	-0,4%	-1,2%	-7,3%	8,3%
GBP	0,83	-0,2%	-1,2%	0,3%	-1,4%
USD	1,31	-0,3%	-0,8%	1,6%	-3,8%
SEK	8,79	-0,7%	-1,5%	-0,7%	-

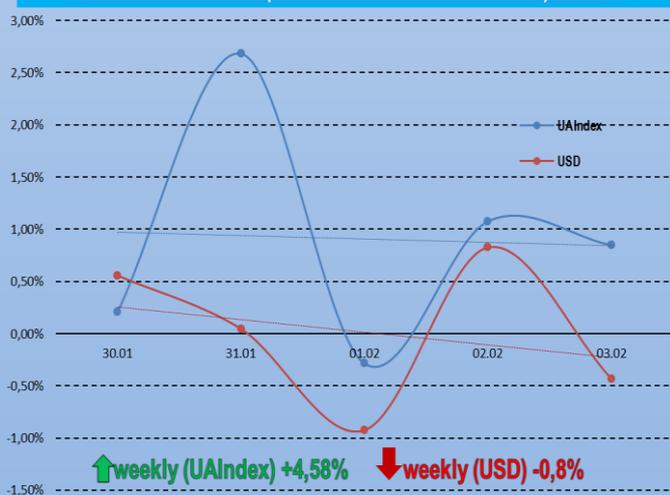
#### UAIndex vs PLN (Polish Zloty)



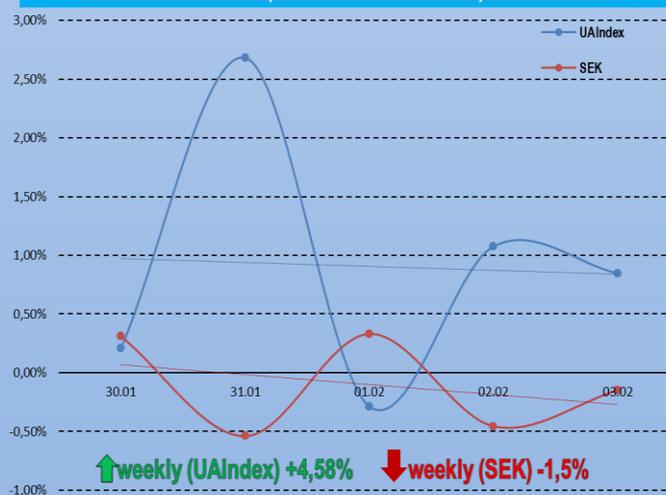
#### UAIndex vs GBP (Great Britain Pound)



#### UAIndex vs USD (United States Dollar)



#### UAIndex vs SEK (Swedish Krona)



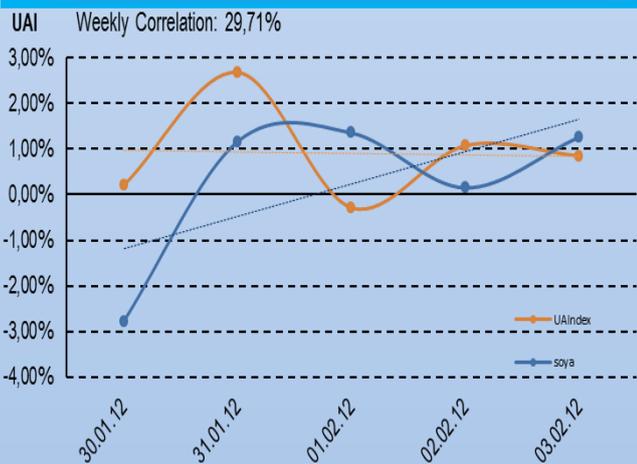
**Analytical comment:** This week Euro currency has weakened against all 4 currencies: GBP, USD, PLN and SEK. WE connect such trend to uncertainty that is still prevailing in the Eurozone.

## 2.3. Commodity Prices

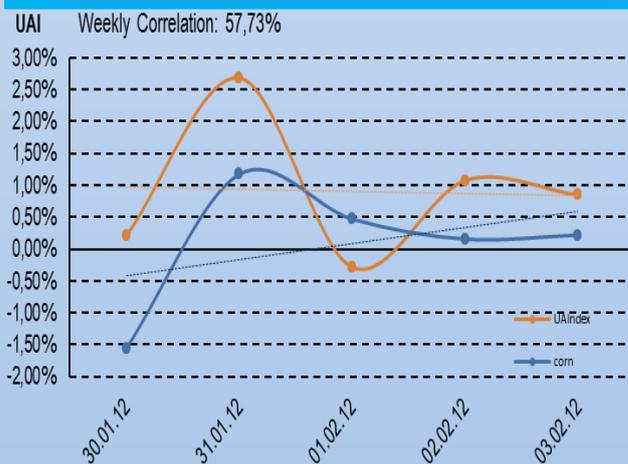
### Commodity Prices

	Last	Daily	Weekly	Monthly	Annual
<b>Crude oil</b>	97,84	1,5%	-1,7%	-5,0%	12,5%
<b>Wheat</b>	660,6	-0,3%	2,1%	0,5%	-24,4%
<b>Corn</b>	644,4	0,2%	0,4%	-2,1%	-4,3%
<b>Soya</b>	1232,4	1,3%	1,1%	1,2%	-14,1%
<b>Sugar</b>	619,9	1,2%	-2,8%	-1,6%	-19,4%

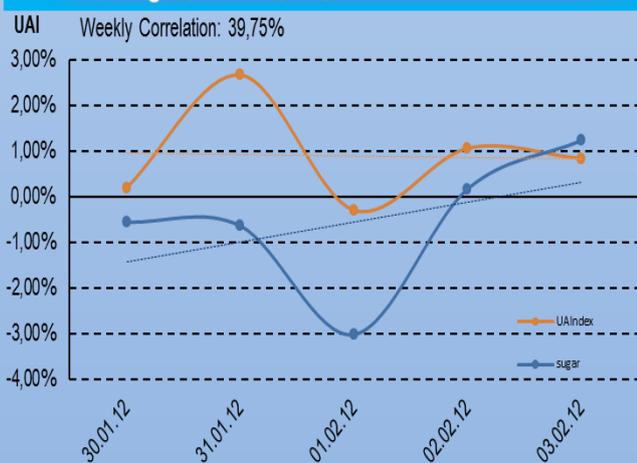
#### UAI vs soya, CME, c/bu, %



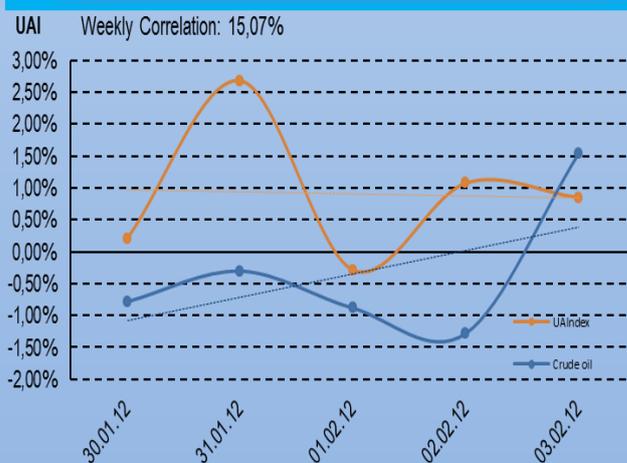
#### UAI vs corn, CME, c/bu, %



#### UAI vs sugar, LIFFE, \$/t, %

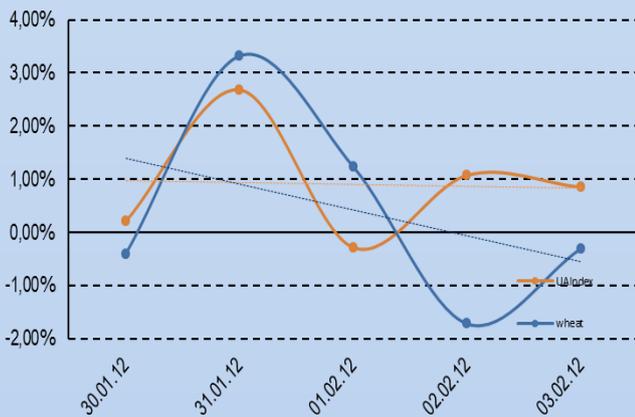


#### UAI vs Crude oil, CME, \$/bbl, %



## UAI vs wheat, CME, c/bu, %

UAI Weekly Correlation: 51,04%



**Analytical comment:** Prices for Crude Oil and Sugar declined in weekly terms, while wheat, corn and soya prices went up. UAIindex was most correlated with wheat and corn this week, although it was only average positive correlation.

## 2.4. Global Indices

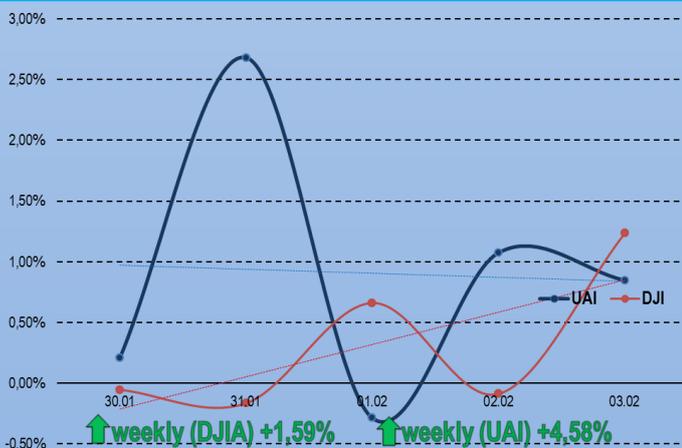
### Global Indices

	Last	Daily	Weekly	Monthly
<b>UAIindex</b>	4354,47	0,85%	4,58%	13,41%
<b>DJI</b>	12862,23	1,23%	1,59%	3,57%
<b>WIG</b>	41732,30	0,31%	3,12%	9,30%
<b>PFTS</b>	580,99	0,33%	5,09%	6,28%
<b>FTSE-100</b>	5786,46	0,00%	-0,12%	3,84%
<b>DAX</b>	6506,18	0,00%	-0,51%	5,51%
<b>China-AFF</b>	2319,12	0,00%	0,00%	5,44%

### Weekly Correlations with UAI

Index	Correlation
<b>DJI</b>	-40,9%
<b>WIG</b>	-12,7%
<b>PFTS</b>	-6,7%
<b>FTSE-100</b>	34,5%
<b>DAX</b>	34,5%
<b>China-AFF</b>	0,00%

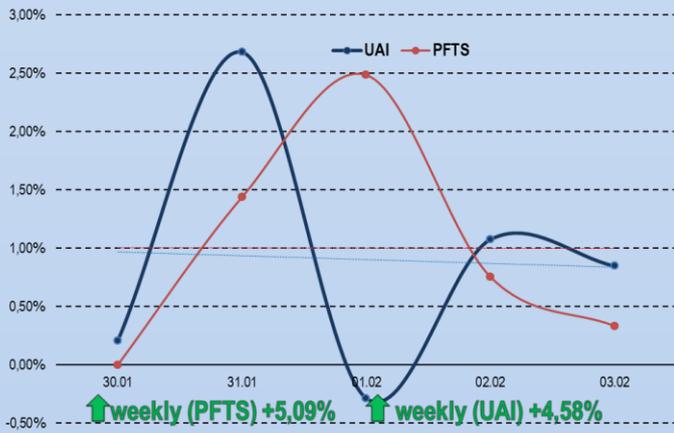
### UAIindex vs Dow Jones Industrial Average Index



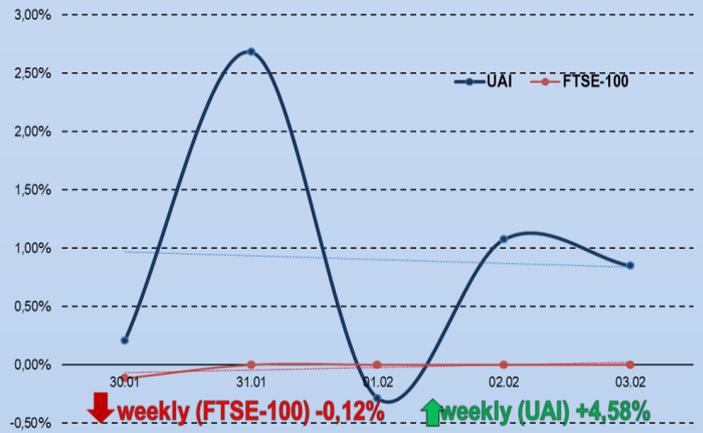
### UAIindex vs Warsaw Stock Exchange WIG Index



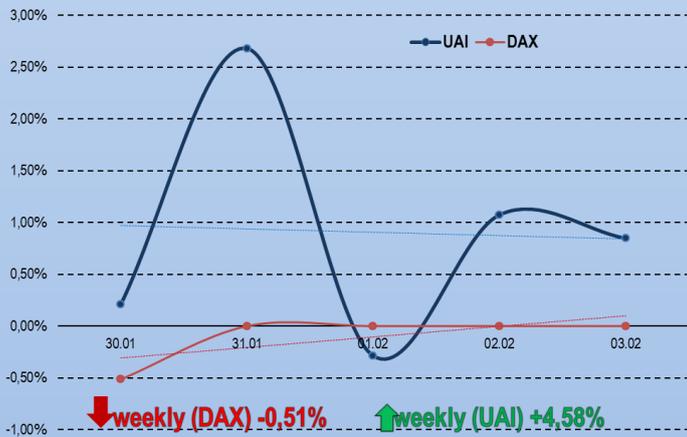
### UAIndex vs PFTS Stock Exchange Index



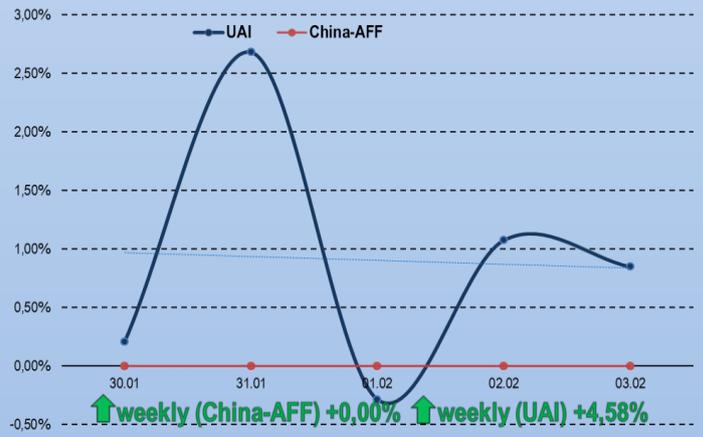
### UAIndex vs FTSE-100 Index



### UAIndex vs Deutsche Aktien Index



### UAIndex vs China-AFF Index



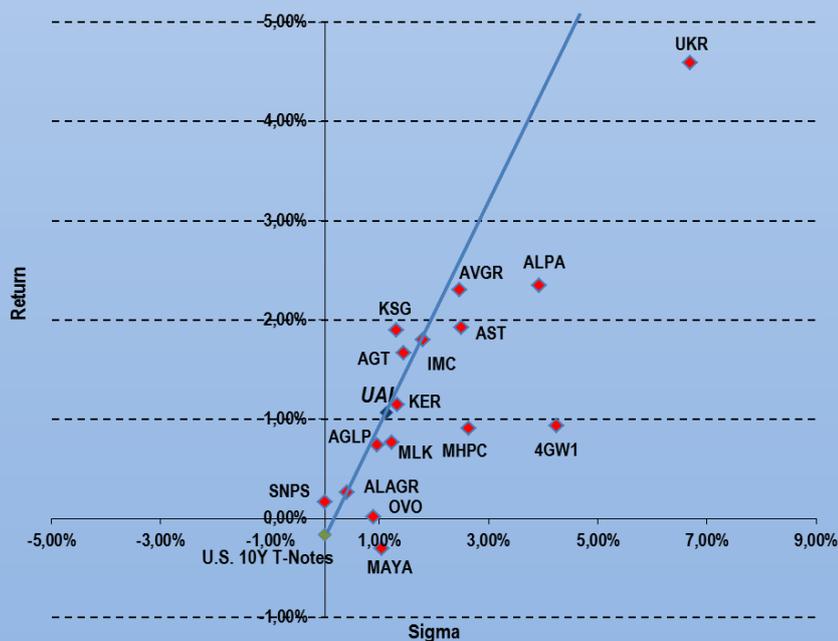
**Analytical comment:** All but European indices FTSE-100 and DAX have indicated growth, while those two have declined. UAIndex was only weakly correlated with those two European indices. As U.S. government report came out today, indicating growth of the economy, we expect certain improvement in the performance of the markets for the next week. Ukrainian agro holdings continue strong performance, which is reflected in UAIndex trend.

## 2.5. Weekly Risk Assessment

### Risk-Return Analysis

Company	Ticker	Sigma	Average Daily Return	CV
<b>UAIIndex</b>	<b>UAI</b>	<b>1,13%</b>	<b>1,07%</b>	<b>1,06</b>
Sintal Agriculture PLC	SNPS	0,00%	0,16%	0,00
KSG	KSG	1,31%	1,90%	0,69
Agroton Public Ltd.	AGT	1,45%	1,67%	0,87
IMC	IMC	1,80%	1,80%	1,00
Avangard Ltd.	AVGR	2,46%	2,30%	1,07
Kernel Holding SA	KER	1,32%	1,15%	1,15
Astarta Holding HB	AST	2,50%	1,93%	1,30
Agroliga	AGLP	0,97%	0,74%	1,31
Ukrproduct	UKR	6,69%	4,59%	1,46
Agrogeneration SA	ALAGR	0,41%	0,26%	1,57
Milkiland	MLK	1,23%	0,77%	1,61
Alpcot Agro	ALCA	3,93%	2,35%	1,67
Mironyvskiy Khliloproduct	MHPC	2,64%	0,90%	2,92
MCB Agricole Holding AG	4GW1	4,24%	0,93%	4,54
Ovostar	OVO	0,90%	0,02%	48,89
Mriya Agroholding Public Ltd.	MAYA	1,05%	-0,31%	-3,43
Risk-free asset (U.S. 10 -year Treasury Notes) 2011, mean daily return	T-notes	0	-0,16%	0

### Capital Allocation Line Analysis (UAIIndex)



**Analytical comment:** Despite Sintal ending the week with the lowest coefficient of variation, we consider KSG Agro safest investment choice this week and Ukrproduct the best investors' choice, despite high volatility of the stock. Mriya was the only company stock to finish the week in the red, naturally is seen as poor investment tool. Alpcot Agro, have shown average, yet stable performance for the week with the daily average return of 2.35% and volatility of 3.93%.

### 3. AGRINEWS

#### 3.1. UKRAINIAN COMPANY NEWS

##### Kernel attracted USD 100 M

Kernel Group, more precisely "Kernel-Trade", a subsidiary based in Kiev attracted USD 100 M on Friday according to the statement made by the Kernel Holding S.A. The medium-term funds will be used for the purchase of Ukrainian "Black Sea Industries" company. Details of the transaction, which still has to be approved by Ukrainian National Bank, have not yet been made public. Names of the European banks are also incognito as well. This deal makes a total of USD 260.9 M funds attracted via credit agreements in January 2012. We see this as a positive sign towards development of Ukrainian agricultural sector and expect further increase in funds inflow next month.

##### KSG Agro released financial data report for 2011 and forecasts for 2012

The data release include the following points:

1. As of December, 31 2011 the Group's total Indebtedness and cash position amounted to USD 20 mln and USD 5.5 mln, respectively, which resulted in net debt position of USD 14.5 M
2. The Group plans to achieve the following results in 2012: land bank under control of 110 K hectares by the end of the year (including 80 K ha of harvested land), storage capacities of 76 K tonnes and total grain harvest of 228 K tonnes. The company expects 2012: Revenue, EBITDA and Net Income of USD 66.7 M, USD 42.3 M and USD 31.8 M, respectively;
3. In line with the groups diversification strategy, forecasted sales of fuel agro-pellets and pig breeding segments, in aggregate, are expected to reach 30% of total Group's revenue, by 2015
4. The Group's management envisages following operational results for the year 2014: land bank of 160 K ha by the end of the year (95% of which will be harvested), pork output of 12.5 K tonnes and fuel agro-pellets output of 130 K tonnes

We believe the company can attain these results as long as diversification does not threaten its core business of crop production.

##### MHP released its report for 4Q 2011 and final update for the year ended December 31, 2011

According to the company's statement:

- In 2011 MHP increased its poultry productions volumes by 7% and produced 384,000 tons of poultry meat (2010: 360,000 tons of poultry meat).
- Annual MHP's poultry sales volumes to third parties increased by 12% to 370,900 tons (including sales from stocks) compared to 331,400 tons in 2010.
- In 2011 foreign currency income from export sales of sunflower oil constituted US\$ 216 million compared to US\$ 180 million in 2010, demonstrated 20% growth.
- At the end of 2011 MHP's total land bank constituted 280,000 hectares of which 250,200 hectares were cultivated and harvested in 2011 in grain growing segment, which is 67% more than in 2010 (2010: 150,000 hectares were cultivated in grain growing segment out of total 180,000 hectares).
- Total harvest of MHP accounted over 1.7 million tons of grains and oilseeds in 2011, which is 88% more than the harvest of 2010.
- In 2011 MHP continued to increase its production of processed meat products. The sales volumes went up by 12% to 37,000 tons in 2011 compared to 32,900 tons in 2010. In Q4 2011 sausage and cooked meat production volumes remained stable at 8,800 tons compared to Q4 2010. Managements expect further growth of production of meat processing products in 2012.
- Average sausage and cooked meat prices during 2011 increased greatly by 14% to UAH 20.01 per kg (excluding VAT) compared to UAH 17.59 per kg in 2010. The average price in Q4 2011 was UAH 21.44 per kg, which is 16% more than in Q4 2010.
- MHP is a market leader in meat processing in Ukraine; its current market share is about 10%. Management expects further increase of the market share in forthcoming year. More than 50% of the raw materials required for the Company's meat processing operations are internally produced chicken meat.

We assume further growth of the company despite inconveniences caused by any further complications in the Eurozone. Strong management and clear operational structure allows company to constantly improve and develop over time.

##### Ovostar Union increased its income by 36% in 2011

Agro holding Ovostar Union released an official statement yesterday where it announced that the company's income rose by 36% compared to 2010, up to UAH 400 M. Company sold 439 M eggs which is 25% increase compared to the previous year. Group also exported 79 M eggs, which is 74% increase compared to 2010. Poultry count increased by 28% to 3.1 M heads in 2011 compared to 2.4 M in 2010. Company stated a 14% growth of the retail price of its products. Company also sold 1 423 K tons of sunflower oil.

### **Kernel completed the purchase of Black Sea Industry Group**

US 100 M attracted from European banks (the names of which were kept anonymous) by Kernel as well as well as an earlier loan received from Citibank and OPIC were used to purchase 100% of the Black Sea Industry Group. Acquisition was expected as it was announced by the company earlier this month.

### **EBRD announces USD 50 M leasing project**

EBRD announced that it has approved in principle project financing of \$50 million for a joint leasing program of RaiffeisenAval and John Deere. If the project is approved this will enable greater access of credit worthy farmers to John Deere equipment. One of the difficulties facing the agriculture production industry has been lack of long term finance for new or replacement farm equipment. However to put the potential project in perspective two weeks ago Astarta announced it had received a \$25 million line of credit from Citibank guaranteed by US OPIC - a US government export credit guarantee. Astarta farms roughly 250,000 hectares and was looking to replace approximately 25% of its farm equipment. If the full \$50 million is eventually approved it would provide long term credit resources to fully equip an area of 125,000 hectares. Given that Ukraine has 40 million hectares of farm land, the project will not have significant impact except for the lucky few. Although not much, John Deere appears to be doing better this year in Ukraine than last.

### **MHP accounts for 50% of the industrially produced chicken meat**

It has been stated by various sources that MHP produced 50% of the industrial chicken in Ukraine in 2011. Sales of the product account for 80% of the company's annual revenues. The company has shares listed on the London Stock Exchange and \$585 million in Eurobonds maturing in 2015. As reported above, company finished 2011 with strong positive financial results.

## **3.2. GOVERNMENT NEWS**

### **Avangard is blamed for financial fraud**

Ukraine's financial inspection service blamed Avangard for illegally obtaining additional UAH 137 M since 2005. According to the official note released by the inspection, funds were provided by the Ministry of Agriculture as a part of development program for the agricultural sector with the help of cheaper credits. Inspection also accused owners and management of Avangard, including major owner Oleg Bahmatyuk of entering into secret agreements with government officials and bank employees, which helped Bahmatyuk receive those credits. It was stated in the official note that received funds were either paid back or transferred to offshore companies. As the result Avangard is obligated to pay USD 90 M to the government as a compensation for the illegally attracted funds. Investigation continues at this moment.

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