

Sojaprotein

16 March 2010

Sales slump

Food		Current price	RSD 1,000	Hold
Serbia		Fair value	RSD 1,055	Rating downgraded
Performance over	1M	3M	12M	
Absolute	-8%	0%	99%	
Relative to BELEXline	-7%	-2%	27%	
12M Hi/Lo	RSD 1,295/470			
Reuters	SJPT.BEL			
Bloomberg	SJPT SG			
Market cap	€ 79.8m			
Next corporate event	1Q10 non-consolidated results in May 2010			
FY/e 31.12	2008	2009F	2010F	2011F
Sales (RSD m)	20,997.3	18,855.6	12,878.6	13,688.0
EBITDA (RSD m)	2,332.6	1,902.3	1,869.6	2,206.2
Pre-tax (RSD m)	450.2	757.0	1,000.9	1,431.3
Net income (RSD m)	416.8	661.5	820.7	1,173.6
EPS (RSD)	54.7	86.8	107.7	154.0
P/E (x)	18.3	11.5	9.3	6.5
DPS (RSD)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	10.2	10.9	9.7	8.2

Source: KBC Securities

*Applies to COB 15 March 2010

We are downgrading our rating on Sojaprotein from Buy to Hold. Our consolidated net earnings forecasts have been revised down by an average 33% to reflect worse-than-expected 4Q09 non-consolidated results, further dinar depreciation in 2010, and delayed capacity expansion of the profitable TSP line. We have lowered our forecast consolidated net profit by 38.8% to RSD 820.7m (+24.1% y/y) for 2010, 38.3% to RSD 1,173.6m (+43.0% y/y) for 2011 and 23.2% to RSD 1,499.5m (+27.8% y/y) for 2012. These revisions have lowered our fair value estimate by 25.5% to RSD 1,055 per share, which implies 5.5% upside potential.

Rating downgraded to Hold

- Sales slump to continue in 2010:** Sojaprotein started to transfer soft commodity trading to Victoria Group during 2009, thus this item should be absent from sales in 2010. As a result, we expect the firm's sales to fall 31.7% y/y in 2010 before returning to growth from 2011, on the back of higher final product prices and a shift towards more expensive soybean applications.
- EBIT margin recovery ahead:** After a sharp EBIT margin erosion (-1.3 pp to 8.7%) in 2009, attributable to losses in soft commodity trading, lower total sales, and delayed expansion of the profitable TSP line, an improving sales mix with higher TSP production is expected to drive a recovery by 3.8 pp to 12.5% in 2010 and 0.9 pp to 13.4% in 2011.
- TSP production to increase:** The new TSP lines installed in 2009 are not yet operational but should come on line this year. Sojaprotein should gradually increase TSP production from the current 12k tonnes to 30k tonnes a year in 2012, improving the sales mix in favour of this more profitable product. TSP's share in the firm's total sales should jump from 11% in 2009 to 18% in 2012.
- Unfavourable dinar cross-rate remains a problem:** The weaker dinar could trigger high FX losses in 2010 as the company has substantial euro-denominated debt. We see this as a threat to net profit growth although we still expect the cross-rate to stabilize at RSD 100 to €1 in 2010, which should not erode the bottom line as much as in 2008 and 2009.
- ISP benefits only in 2011:** Sojaprotein announced that the ISP project might be restarted this year although we believe the first positive impacts on sales and profitability are only likely to arrive in 2011 at the earliest. We expect ISP sales to gradually rise in the overall sales structure, from 9% in 2011 to 23% in 2013.
- Fully valued:** On a 2010F P/E of 9.3x, Sojaprotein trades at a 14.8% discount to peers, which we believe is warranted by the company's high cost of capital, corporate governance concerns (i.e. the firm's connections with Victoria Group) and potentially volatile net earnings (ie. due to FX rates).

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Important Polish Disclosure

Belgian Banking and Finance Commission is exercising the Supervision over KBC Securities NV Branch in Poland.

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The definitions of terms applied in the publication:

EBITDA = EBIT + amortization and depreciation
EPS = Net profit / No of shares outstanding

DPS = Dividend per Share

NBV per share = Net Book Value / No of shares outstanding

EBITDA margin = EBITDA / Revenue

EBIT margin = EBIT / Revenue

CFPS = Cash flow / No of shares outstanding

Net Financial Debt = Financial debt – Cash equivalents

ROE = Net profit / Average Equity

EV = Market Capitalization + Net Financial Debt

P/E = Stock Price / EPS

P/CF = Stock Price / (Net Profit + amortization and depreciation)

P/BV = Stock Price / NBV per share

P/S = Market Capitalization / Revenue

Gross Dividend Yield = Dividend per share / Stock

List of recommendations concerning Sojaprotein issued by KBC Securities NV Branch in Poland during the last 6 months

	Valuation	Market price	Recommendation	Date of issue
Sojaprotein	16,026	21,250	Sell	22 October 2007
Sojaprotein	3,343	3,114	Hold	14 February 2008
Sojaprotein	3,596	3,050	Buy	10 March 2008
Sojaprotein	3,133	3,100	Hold	03 June 2008
Sojaprotein	3,133	2,664	Buy	10 July 2008
Sojaprotein	3,287	1,040	Buy	14 November 2008
Sojaprotein	596	513	Buy	13 March 2009
Sojaprotein	1,415	1,052	Buy	28 August 2009
Sojaprotein	1,055	1,000	Hold	16 March 2010

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21 BUY	48%
15 HOLD	34%
8 SELL	18%

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