Focus
Ukraine

Scope
Equity markets

Analyst
Bogdan Vorotilin

Kernel

Outlook update

Recommendation	**Buy**
Price target	**PLN 48**
Upside	**56%**

THURSDAY, 26 FEBRUARY 2015

We believe Kernel shares are poised for a rally toward PLN 50-60 region in the view of dramatic turnaround in fundamentals. After a long slump, EBITDA should surge to US$ 350m this year (+ 44% y/y), bolstered by i) a successful turnaround of ailing farming business, and ii) lower operating expenses reduced by the local currency devaluation. Results should improve further in the following years as the full benefits of the strategic overhaul and weak currency are realized. Given that, we think Kernel is a remarkable buying opportunity in low 30s.

The farming business, which put the largest drag on profits in the past, is slated to dramatically improve its results in the near-term. Successful changes implemented by Yevhen Osipov prompted yields to rise by up to 30% this year and they should improve further going forward. Meanwhile, the continued hryvnia depreciation is massively eroding production costs which could decline as much as 30-40% over the next two years. As a result, the farming business could rebound and achieve a large profit this year and potentially fully recover in FY2016.

Other business units should maintain a steady performance, thus supporting a favorable outlook. The crushing business can slightly raise its profit in FY2015 on weak comps, while the grain arm should benefit from record high grain production allowing it to nearly match the result of the previous year. Minor patches of weakness are expected in bottled oil and silos being subject to FX headwinds.

The 2Q15 report due on 28-Feb is set to conclusively demonstrate the full strength of the current operating momentum at Kernel. We estimate pro-forma EBITDA at US$ 129m, an 84% jump year-on-year, mostly driven by a surge in farming profits. Notably, if our profit forecast is realized, this will be the largest quarterly EBITDA for Kernel on record.

While we maintain our NAV-based price target of PLN 48 for the time being, we see long-term upside as EBITDA multiples indicate the price could exceed PLN 70.

While we acknowledge existing geopolitical risks, we believe the situation is gradually improving compared to where things stood last spring. Meanwhile, Ukraine's challenging macro situation is of minor importance for Kernel. The company is more focused on the international market with limited exposure to local demand.

Key data on company's shares

Current price (PLN)	30
3m ADT (US$ 000)	991
52-week price range (PLN)	22-38
Mkt Cap (US$m)	643
Enterprise value (US$m)	1,333
Shares out (m)	79.7
Free float	61%
Exchange	Warsaw

Market exchange rate PLN3.67 per US$.
Source: Company, Bloomberg

Key ratios

	LTM	2015E	2016F
EV/EBITDA	4.3	3.8	3.8
P/E	8.4	4.0	3.4
EV/Sales	0.5	0.6	0.6

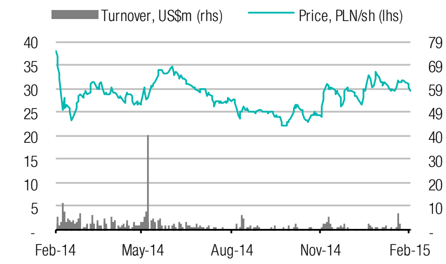
Source: Bloomberg, ICU

Key financial figures

(US$m)	2014	2015E	2016F
Sales	2,393	2,282	2,247
Pro-forma EBITDA	240	346	354
Pro-forma Net profit	10	162	187

Source: Company, ICU

Share price performance
Trailing 12 months



Source: Bloomberg.

Investment thesis

We believe Kernel shares are poised for a rally toward PLN 50-60 region in the view of dramatic turnaround in fundamentals. After a long slump, EBITDA should surge to US$ 350m this year (+ 44% y/y), bolstered by i) a successful turnaround of ailing farming business, and i) lower operating expenses reduced by the local currency devaluation. Results should improve further in the following years as the full benefits of the strategic overhaul and weak currency are realized. Given that, we think Kernel is a remarkable buying opportunity in low 30s.

With respect to catalysts, we look forward to a strong second-quarter report due on 28-Feb that will conclusively demonstrate the full strength of the current momentum and give sufficient comfort to the market to firmly set Kernel's share price on an upward trend.

While we maintain our NAV-based price target of PLN 48 for the time being, we see long-term upside as EBITDA multiples indicate the price could exceed PLN 70.

Table 1. Valuation summary

	Price					Rating		
	PT new	PT old	Current	Upside	Horizon	New	Old	Action
$/share	**15.8**	15.8	8.4	56%	Dec-15	**Buy**	Neutral	Upgrade
PLN/share	48	48	30					

Sources: ICU

While we acknowledge existing geopolitical risks, we believe the situation is gradually improving compared to where things stood last spring. The war in the East is tolerable for Kernel as long as it does not engulf the southern regions where the key gateways for Ukrainian grain and bulk oil exports are located. Fortunately, Ukraine's situation in that particular region has greatly improved over the past 12 months. It is highly improbable that the region will fall to Russians without a full-scale ground invasion.

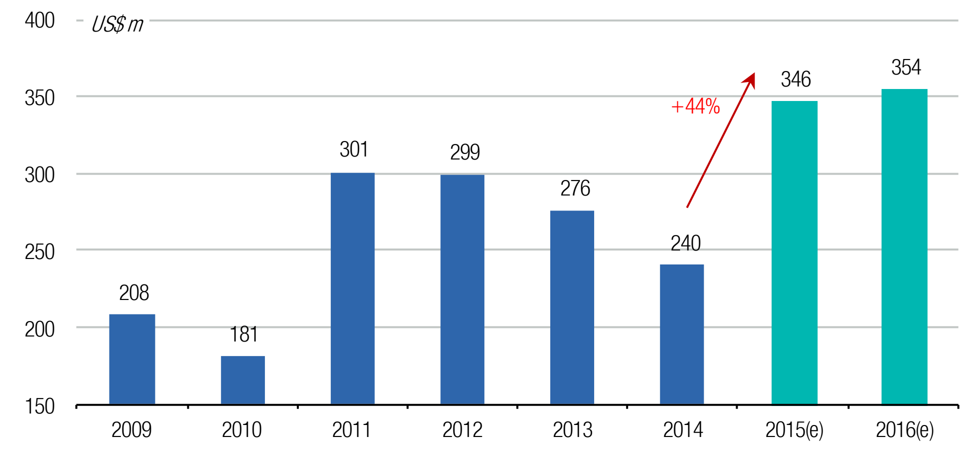
Likewise, Ukraine's challenging macro situation is of minor importance for Kernel. The company is principally focused on the international market as a key source of revenue. In fact, the massive hryvnia depreciation which has been decimating local consumers for over a year now is highly beneficial for Kernel given its high portion of UAH-linked costs.

Key developments and outlook

In all likelihood, Kernel will undergo a dramatic turnaround this year, reversing the protracted slump in earnings that has plagued the company since FY2011. We expect headline EBITDA to soar by 44% year-on-year and reach about US$ 350m in FY2015, bolstered by a sharp recovery in the farming business. Following the initial surge, results can further improve (or at least hold at new levels) in the following years driven by continued progress in farming and substantially lower costs due to the massive hryvnia depreciation.

Chart 1. EBITDA is set to surge by almost half this year

EBITDA dynamics



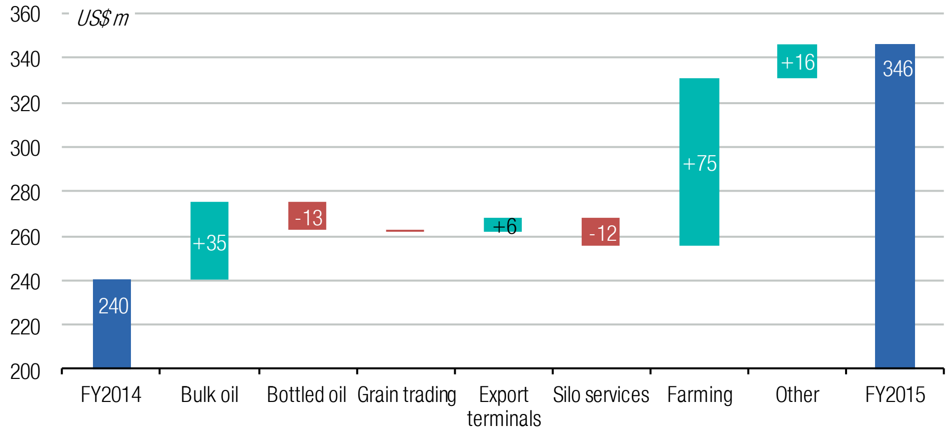
Source: Company, ICU

The revival in farming operations will underpin the earnings rebound at Kernel. Driven by improved execution and a sharp drop in production costs, farming is set to raise its result by US$ 75m this year. This would account for three quarters of the projected increase in total EBITDA (US$ 106m). The fast recovery will likely continue in FY2016 as costs absorb the full impact of the recent hryvnia depreciation while crop yields keep rising. Eventually, farming profits could converge to a normal run-rate as soon as next year if dynamics remain favorable.

Other business units should maintain steady performance propping up a favorable outlook. The crushing business can slightly improve the full-year result in FY2015 following the return to normal performance in the first fiscal quarter. On top of that, head office expenses are set to tumble in dollar terms as a result of a four-fold jump in the USD/UAH exchange rate. Finally, the record grain crop harvested in 2014 should help the grain business match the result achieved last year. Minor patches of weakness are expected in bottled oil and silos whose earnings are tied to the hryvnia and as such are bound to suffer after the latest surge in the exchange rate.

Chart 2. Profit growth is driven by farming and bulk oil

EBITDA bridge



Source: ICU

Farming

The farming business is fully on track to return soon to normal profits driven by improved execution and favorable cost dynamics. Successful changes implemented by Yevhen Osipov prompted yields to rise by up to 30% this year and they should improve further going forward. Meanwhile, the continued hryvnia depreciation is massively eroding production costs, which could decline as much as 30-40% over the next two years. As a result, the farming business is supposed to swing to a large profit this year and potentially fully recover in FY2016 once the full impact of the weak hryvnia is realized.

The farming unit significantly improved its operational performance after Yevhen Osipov was appointed to be its head. This year, after only one full season under his lead, Kernel has increased yields by 17-28% for all key crops, mostly removing our initial concerns. Most of the original targets were hit and exceeded, with soybeans being the only exception. Corn yields, the single most important indicator, jumped by 28%, outstripping the country average after years of mediocre results. Looking further, we expect progress to continue albeit at a slower pace. In particular, we factor in a 10% increase in corn and soybean yields for the coming season.

Table 2. Yields jumped by up to 30% for key crops

		2014 crop					2013 crop	
		Actual	Guidance	Diff	Ukraine	Diff	Actual	Diff
Corn	t/ha	**7.1**	7.0	1%	6.2	15%	5.6	28%
Wheat	t/ha	**5.4**	4.5	20%	4.0	34%	4.4	23%
Sunflower seeds	t/ha	**2.5**	2.3	7%	1.9	27%	2.1	17%
Soybeans	t/ha	**1.8**	2.2	-16%	2.2	-15%	1.4	28%

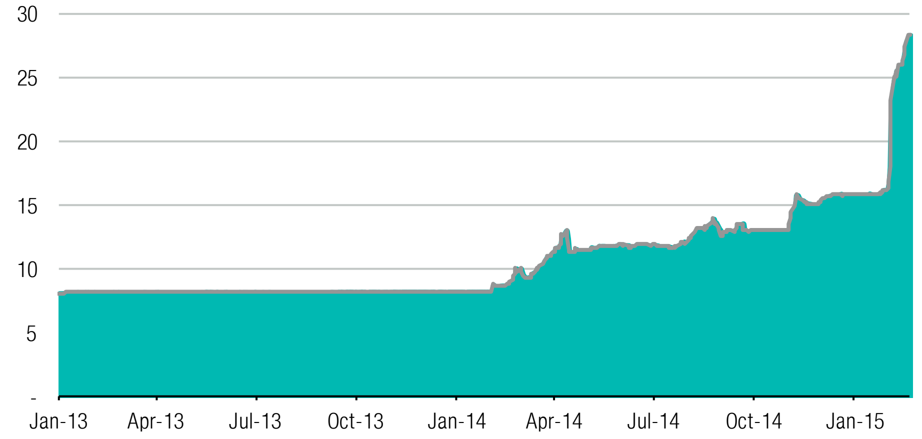
Sources: Company, ICU

Meanwhile, profits are boosted from reduced costs which are expected to contract by 30-40% in the near-term. The single most important factor here is the dramatic depreciation of the local currency that occurred over the last twelve months. During that period, the exchange rate dropped from 8 hryvnias per US dollar to above 30 observed at present. For the farming division, where 40-50% of expenses are linked to the hryvnia, this means a tremendous reduction in the dollar value of production costs. This year, cost savings could exceed US$ 100 per hectare even though the exchange rate averaged below 13 for the bulk of the season. Next year, cost savings should be even higher as the average exchange rate should exceed 20 or even 30 if the situation does not change dramatically. Ultimately, as the full benefits of the weak hryvnia are realized, production costs may drop by 30-40% versus the 2013 crop.

Unfortunately, a portion of incremental earnings will be lost due to continued erosion in grain prices. The surge in global corn and soybean production continues to pressure prices down. Since Jul-14, local grain values have dropped by approximately 10% on average compared to the last year, driven by developments on the global markets. Next year, price declines may continue and even be significant in some areas, like oilseeds, but the pace will likely be marginal for corn and wheat as the global market slowly moves into balance.

Chart 3. Hryvnia is collapsing amid war and economic troubles

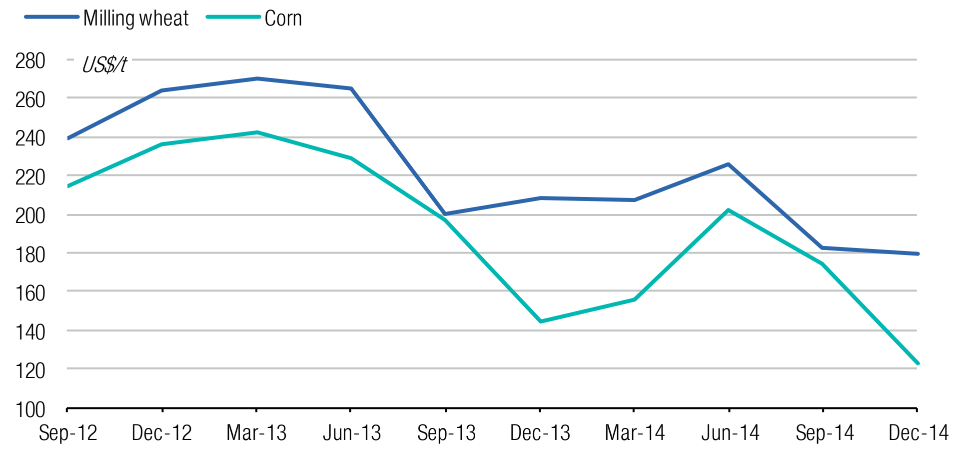
USD / UAH exchange rate



Source: NBU

Chart 4. Grain prices continue to decline

Domestic grain prices, exw VAT incl



Source: APK-Inform

Bottom line, we expect farming EBITDA to surge to US$ 48m this year (after US$ 27m loss in FY2014) and then double in FY2016 potentially hitting US$ 100m. In relative terms, that would represent 128 and 265 US dollars per hectare farmed, which is broadly in line with results produced in the best years. Overall, the outlook for farming is particularly strong at present with very limited risks to the downside and fairly good upside instead. The latter will be realized if the current exchange rate of near 30 persists going forward.

Crushing business

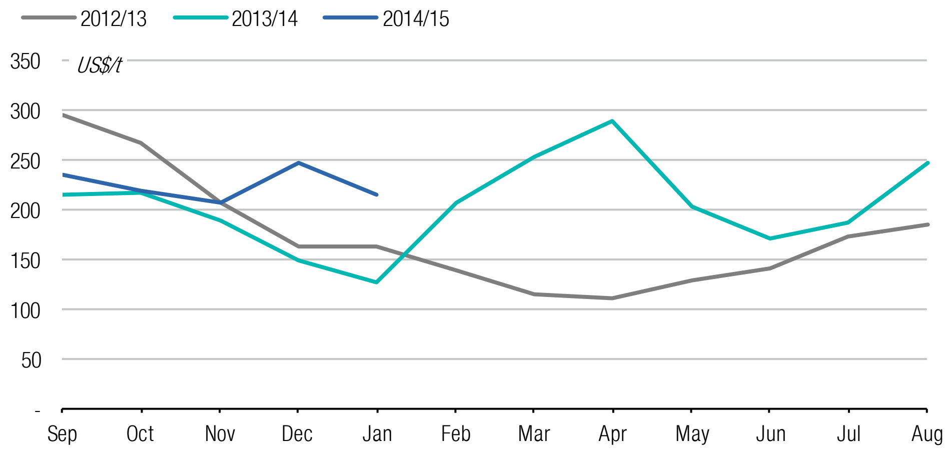
The crushing profits may marginally improve in FY2015 on the back of a return to the normal seasonal pattern in the first quarter. We expect full-year crushing EBITDA of roughly US$ 200m, up from US$ 178m reported last year, as the first quarter bulk oil contribution rises from US$ 1m in FY2014 to US$ 41m this year. Meanwhile, results through the rest of the year should be consistent with FY2014 as a stronger crush margin is offset by weaker crush volumes. Bottled oil could be a drag this year due to lags in price adjustments in response to the massive hryvnia depreciation.

The low comparison base should make it relatively easy for Kernel to improve bulk oil results compared to last year. In FY2014, first quarter profits were heavily depressed by low carry-over stocks and late harvesting which starved the unit for feedstock and resulted in capacity utilization of just 38%. In contrast, the situation this year was exact opposite with ample stocks and a normal start to the harvesting campaign. As a result, utilization jumped to 86%, raising bulk oil EBITDA to US$ 41m from less than US$ 1m in FY2014.

Earnings for the remainder of the year should generally match the result of FY2014 as the stronger crush margin is offset by weaker crush volumes. Market conditions this year are expected to be challenging. With reduced yields nationwide and some crop destruction in the East, the sunflower seed supply is expected to be drastically lower this year. Although we would normally expect higher competition among crushers and lower margins in such circumstances, this year is different as demand apparently took a leg down amid war-driven capacity closures and less working capital available to crushers. Therefore, the crush margin is actually tracking above the previous year so far, in contrast to our initial expectations. Moreover, the outlook seems to be fairly strong for the rest of the year. For Kernel, it means higher profits on each ton of oil sold, although crush volumes may fall short due to reduced availability. At this point, we project total bulk oil EBITDA for the 2Q-4Q period to come at US$ 145m, which is generally in line with the previous year's result of US$ 150m.

Chart 5. Crush margin is tracking above the previous year

Estimated operating margin per ton of oil produced



Source: APK-Inform, ICU

The prolonged slump in farmer selling poses a downside risk to the outlook for the second half of the year. Industry sources are reporting that the pace of seed procurement significantly declined since mid-Nov compared to normal as farmers decided to withhold sales amid massive exchange rate fluctuations. Sales are widely expected to pick up in March as farmers rush to raise cash for the upcoming spring planting. If this does not happen, crushers may soon see a double-blow from low crush volumes and weaker margins as they start turning to the spot market after depleting their inventories of sunflower seeds. The ongoing drop in the value of the hryvnia that started in early February is adding to the likelihood of such an outcome.

Another factor of weakness is bottled oil which is suffering from the effects of ongoing sharp hryvnia depreciation. Kernel sells its bottled oil predominantly to domestic retail outlets where prices are linked to the hryvnia. Thus, sharp upward moves in the exchange rate typically tend to depress local prices in dollar terms for some period of time until producers are able to raise hryvnia prices sufficiently to offset the original currency impact. In the meantime, margins are suffering because of the dollar-linked cost base. With the exchange rate up almost fourfold year-on-year and twofold over the past four months, bottled oil is facing hard times with its outlook being particularly weak for the second half of FY2015 when the full effect from the latest ex-rate hike will start being felt. Preliminarily, we expect segment EBITDA to drop by half this year to US$ 14m but with potential for an even larger decline if the current exchange rate persists.

Grain business

The large domestic grain crop should underpin good results in the grain business this year. Volumes should continue rising across the entire supply chain while relaxed competition should allow the grain trading arm to earn a fair margin. Recent moves in FX will have a mixed effect in raising the profits in the port business but reducing the profits in the silo business. Overall, we expect EBITDA of US$ 119m from the grain in FY2015.

Beneficial weather has allowed Ukrainian farmers to produce a massive grain crop this season. In total, 64 mt of grain was harvested in 2014 which exceeds the previous year's crop in comparable terms. As a result, large grain supplies have become available for export, which should ultimately secure ample volumes for Kernel's supply chain.

Earnings of the grain trading arm will likely be on par with the previous year. We project EBITDA of US$ 59m (-1%) on a volume of 4.6 mt (+9%) and a margin of US$ 13 per ton. 1H volumes are tracking at +18% y/y. Meanwhile, our margin projections are rather conservative as we expect a decline to US$ 10/t in the second half of the year while 1Q15 margin was a solid US$ 14/t.

The port terminal segment is potentially a source of significant upside due to the hryvnia-linked cost base. We conservatively project EBITDA of US$ 33m (+23%) on a volume of 3.2 mt (+15%) and an average margin of US$ 10/t (+6%). However, this does not account for the cost savings from the latest move in FX. With operating expenses mostly linked to hryvnia, the dollar value of costs should drop by more than half going forward if the current exchange rate holds. Given that handling fees are set in US dollars, this may result in margin expanding by a few US dollars on volumes handled in the second half of the year.

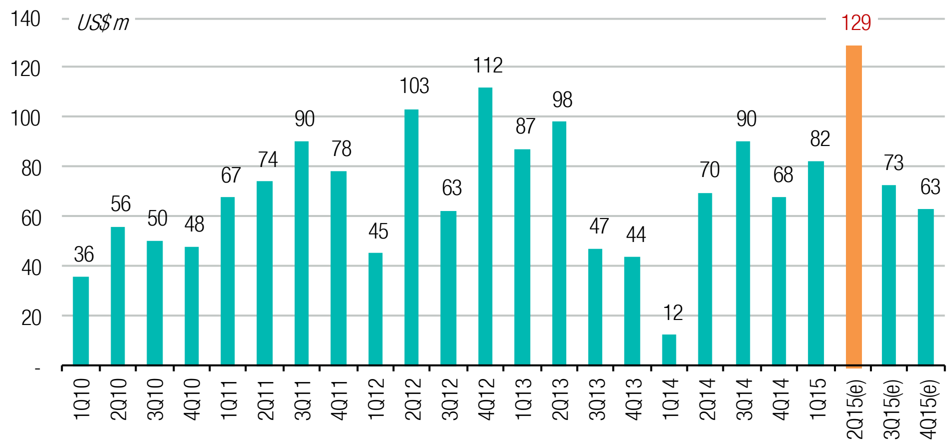
Meanwhile, the silo segment's profit is set to drop, driven by i) the massive hryvnia depreciation affecting hryvnia-linked profits; and ii) reduced demand for drying services as a result of normalized weather conditions. We expect the segment's EBITDA to drop to US$ 27m (-32%) on flat volumes and a sharply lower margin of US$ 10/t (-33%).

2Q15 preview

The 2Q15 report due on 28-Feb is set to conclusively demonstrate the full strength of the current operating momentum at Kernel. We estimate pro-forma EBITDA at US$ 129m, an 84% jump year-on-year, mostly driven by a surge in the farming segment's contribution. Last year, the farming division reported a US$ 30m loss in the second quarter amid a plunge in grain prices, while this year we expect a profit to the tune of US$ 20m on sharply improved unit costs. The grain and crushing businesses should also give a marginal boost to the headline result. Notably, if our profit forecast is realized, this will be the largest quarterly EBITDA for Kernel on record.

Chart 6. 2Q15 may set a new record in terms of EBITDA reported

Quarterly EBITDA dynamics



Source: Company, ICU

We expect US$ 63m EBITDA in the crushing business (+3% y/y) where FX-driven weakness in the bottled oil segment will be countered by improved volumes (+6% y/y) and margins (+13% y/y to US$210/t) in bulk oil.

EBITDA in the grain business should rise to US$ 49m (+14% y/y), driven by the grain trading arm. The latter will benefit from weak comps in 2Q14 when the company earned a margin of a mere US$ 3 per ton of grain sold. This year, the margin is expected in the mid double digits. Meanwhile, FX headwinds and low demand for drying services will likely slash the silo segment's contribution by half to US$ 17m.

Farming is forecast to be the main contributor of growth in the headline result. We project segment EBITDA of US$ 20m as the new crop is booked at significantly lower unit costs, which ensures a solid margin on grain sales. Moreover, during the quarter, Kernel has been taking advantage of a temporary tax regime on crop export sales which presumably allowed it to earn excess profits to the tune of US$ 15 per ton of grain sold.

Table 3. 2Q15 EBITDA preview

Quarter Month ending		**2Q15 (e)** Dec-14	**Y/Y**	**Q/Q**	**2Q14** Dec-13	**1Q15** Sep-14
Bulk sunflower oil	US$ m	58	20%	43%	49	41
Bottled sunflower oil	US$ m	5	-61%	34%	13	4
Oilseed crushing	US$ m	**63**	**3%**	**42%**	**62**	**45**
Grain	US$ m	21	455%	19%	4	18
Export terminals	US$ m	11	15%	59%	9	7
Silo services	US$ m	17	-43%	281%	30	4
Grain	US$ m	**49**	**14%**	**69%**	**43**	**29**
Farming	US$ m	**20**	**n/m**	**61%**	**(30)**	**12**
Sugar	US$ m	-	n/m	n/m	0	3
Other	US$ m	(3)	-30%	-50%	(5)	(7)
Other	US$ m	**(3)**	**-28%**	**-12%**	**(5)**	**(4)**
Consolidated	US$ m	**129**	**84%**	**57%**	**70**	**82**

Sources: Company, ICU

Table 4. Summary of operations

Fiscal year		2009	2010	2011	2012	2013	2014	2015(e)	2016(f)	2017(f)	2018(f)
Month ending		Jun-09	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
OPERATIONS											
Bulk oil											
Crushing capacity	kt	797	1,213	2,394	3,094	3,172	3,098	3,034	3,001	3,001	3,001
Utilization	%	92%	98%	83%	81%	73%	75%	82%	75%	75%	75%
Oilseed crush	kt	730	1,184	1,989	2,493	2,315	2,335	2,502	2,251	2,251	2,251
Bulk oil sales	kt	224	366	821	828	1,040	920	993	864	864	864
EBITDA margin	$/t	258	210	214	201	167	164	188	170	170	170
Bottled oil											
Bottling capacity	kt	134	134	134	159	134	134	134	134	134	134
Utilization	%	69%	78%	79%	79%	75%	65%	75%	75%	75%	75%
Bottled oil sales	kt	90	103	109	121	100	87	94	101	101	101
EBITDA margin	$/t	351	237	244	263	259	307	147	230	230	230
Grain trading											
Volumes	kt	2,260	2,225	1,810	2,123	3,022	4,245	4,638	5,476	6,052	6,132
EBITDA margin	$/t	25	18	37	13	4	14	13	8	8	8
Export terminals											
Volumes handled	kt	3,409	3,274	2,141	1,809	2,910	2,782	3,203	3,600	3,600	3,600
EBITDA margin	$/t	9	9	8	8	9	10	10	10	10	9
Silos											
Receivals	kt	1,924	1,261	1,254	2,059	1,737	2,584	2,651	2,790	2,790	2,790
EBITDA margin	$/t	12	9	7	9	11	15	10	7	7	7
Farming											
Farmland planted	k ha	78	85	85	181	245	387	373	388	388	388
Crop production	kt	-	268	218	550	614	1,375	1,785	1,953	2,025	2,038
Cash EBITDA margin	$/ha	318	167	266	276	214	(70)	128	265	258	278
SEGMENTS											
Revenue											
Oilseed crushing	$ mn	379	513	1,310	1,395	1,710	1,212	1,173	1,017	989	1,010
Grain handling and marketing	$ mn	643	503	585	638	1,003	1,084	1,014	1,180	1,282	1,321
Farming	$ mn	9	4	4	26	54	62	71	50	52	56
Other	$ mn	17	-	-	13	29	35	24	-	-	-
Total	$ mn	**1,047**	**1,020**	**1,899**	**2,072**	**2,797**	**2,393**	**2,282**	**2,247**	**2,323**	**2,386**
EBITDA											
Oilseed crushing	$ mn	89	101	202	198	199	178	200	170	170	170
Grain handling and marketing	$ mn	112	80	94	59	59	126	119	103	106	107
Farming	$ mn	25	14	23	50	52	(27)	48	103	100	108
Other	$ mn	(18)	(14)	(18)	(8)	(35)	(36)	(21)	(21)	(24)	(25)
Total	$ mn	**208**	**181**	**301**	**299**	**276**	**240**	**346**	**354**	**352**	**360**
EBITDA margin											
Oilseed crushing	%	23.6%	19.7%	15.4%	14.2%	11.7%	14.7%	17.1%	16.7%	17.2%	16.8%
Grain handling and marketing	%	16.5%	14.6%	14.8%	8.7%	5.5%	10.7%	10.8%	8.2%	7.8%	7.6%
Farming	%	51.6%	34.1%	41.5%	29.2%	27.2%	-9.4%	16.1%	37.0%	35.0%	35.0%
Total	%	**19.9%**	**17.8%**	**15.8%**	**14.4%**	**9.9%**	**10.0%**	**15.2%**	**15.8%**	**15.2%**	**15.1%**

Sources: Company, ICU

Table 5. Summary of financials

Fiscal year		**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015(e)**	**2016(f)**	**2017(f)**	**2018(f)**
Month ending		Jun-09	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
INCOME STATEMENT											
Net revenue	$ mn	**1,047**	**1,020**	**1,899**	**2,072**	**2,797**	**2,393**	**2,282**	**2,247**	**2,323**	**2,386**
Cost of sales	$ mn	(714)	(711)	(1,432)	(1,597)	(2,361)	(1,968)	(1,792)	(1,738)	(1,802)	(1,852)
Gross profit	$ mn	333	310	467	475	436	425	490	509	521	534
SG&A	$ mn	(167)	(161)	(208)	(266)	(316)	(340)	(251)	(261)	(274)	(282)
Other operating income, net	$ mn	18	10	10	24	67	60	32	35	35	38
D&A	$ mn	23	23	32	66	90	94	75	72	70	70
EBITDA	$ mn	**208**	**181**	**301**	**299**	**276**	**240**	**346**	**354**	**352**	**360**
Other income, net	$ mn	(8)	7	(26)	7	(15)	(52)	(1)	11	15	15
EBIT	$ mn	177	166	242	241	171	94	270	294	297	305
Interest expense, net	$ mn	(32)	(23)	(42)	(63)	(75)	(72)	(80)	(80)	(61)	(61)
PBT	$ mn	145	143	200	178	97	22	190	214	236	244
Income tax expense	$ mn	5	0	18	9	(6)	(11)	(28)	(27)	(31)	(31)
Net profit	$ mn	**150**	**143**	**217**	**187**	**90**	**10**	**162**	**187**	**205**	**214**
Unusual items	$ mn	-	-	-	-	-	(101)	(67)	-	-	-
IAS41 gains	$ mn	(18)	9	9	24	15	(17)	(2)	-	-	-
Net profit, after unusuals and gains	$ mn	132	152	226	211	105	(107)	93	187	205	214
BALANCE SHEET											
Cash and equivalents	$ mn	129	59	116	83	79	65	68	67	235	402
Accounts receivable	$ mn	32	65	112	146	151	100	125	123	127	131
Inventories	$ mn	99	148	184	410	270	300	295	286	296	304
Biological assets	$ mn	19	26	96	153	247	183	145	151	160	160
Other current assets	$ mn	99	300	303	326	343	225	264	215	179	183
Current assets	$ mn	**378**	**599**	**810**	**1,118**	**1,090**	**873**	**896**	**841**	**998**	**1,180**
Fixed assets	$ mn	222	379	503	728	763	643	650	663	678	695
Intangibles	$ mn	81	118	152	228	321	233	218	206	197	189
Investments in associates	$ mn	-	-	-	-	94	98	103	114	129	144
Other long-term assets	$ mn	19	29	109	41	93	72	67	67	67	67
Long-term assets	$ mn	**321**	**526**	**763**	**998**	**1,272**	**1,046**	**1,038**	**1,050**	**1,071**	**1,095**
Total assets	$ mn	**700**	**1,125**	**1,573**	**2,116**	**2,362**	**1,919**	**1,934**	**1,892**	**2,068**	**2,275**
Short-term borrowings	$ mn	162	210	266	266	450	483	474	330	321	328
Accounts payable	$ mn	8	11	27	25	47	33	39	38	39	41
Other short-term liabilities	$ mn	26	131	102	155	203	81	81	78	81	83
Current liabilities	$ mn	**195**	**352**	**395**	**446**	**700**	**597**	**594**	**446**	**442**	**452**
Long-term borrowings	$ mn	133	135	156	427	276	260	203	141	138	141
Other long-term liabilities	$ mn	14	32	24	33	34	31	31	31	31	31
Long-term liabilities	$ mn	**147**	**168**	**180**	**460**	**309**	**291**	**234**	**172**	**169**	**172**
Total liabilities	$ mn	**342**	**520**	**575**	**906**	**1,009**	**888**	**829**	**619**	**611**	**623**
Share capital	$ mn	278	360	501	506	506	506	506	506	506	506
Retained earnings	$ mn	240	392	618	825	947	849	924	1,091	1,276	1,470
Reserves	$ mn	(162)	(149)	(147)	(151)	(118)	(325)	(325)	(325)	(325)	(325)
Treasury shares	$ mn	-	-	-	-	-	-	-	-	-	-
Non-controlling interest	$ mn	2	3	26	31	17	1	1	1	1	1
Equity	$ mn	**357**	**605**	**997**	**1,211**	**1,352**	**1,031**	**1,106**	**1,273**	**1,458**	**1,652**
Total liabilities & equity	$ mn	**700**	**1,125**	**1,573**	**2,116**	**2,362**	**1,919**	**1,934**	**1,892**	**2,068**	**2,275**

Sources: Company, ICU

Table 6. Summary of financials (cont)

Fiscal year		2009	2010	2011	2012	2013	2014	2015(e)	2016(f)	2017(f)	2018(f)
Month ending		Jun-09	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
CASH FLOW STATEMENT											
Profit before tax	$ mn	145	143	200	178	97	22	190	214	236	244
Non-cash adjustments	$ mn	11	40	40	47	115	102	3	61	55	55
Change in working capital	$ mn	(25)	(97)	(180)	(242)	135	(1)	6	50	17	(13)
Income tax expense	$ mn	(2)	(1)	(3)	(7)	(43)	(40)	(33)	(27)	(31)	(31)
Cash from operating activities	$ mn	**129**	**85**	**56**	**(24)**	**304**	**82**	**166**	**298**	**277**	**256**
Capital expenditures	$ mn	(89)	(56)	(48)	(93)	(91)	(42)	(67)	(73)	(76)	(79)
Acquisitions	$ mn	(7)	(69)	(78)	(137)	(175)	(41)	(16)	-	-	-
Other investing activities	$ mn	-	-	-	1	(2)	-	5	-	-	-
Cash from investing activities	$ mn	**(95)**	**(126)**	**(126)**	**(229)**	**(268)**	**(83)**	**(79)**	**(73)**	**(76)**	**(79)**
Change in borrowings	$ mn	36	(77)	(18)	220	(45)	7	(65)	(206)	(13)	10
Shares sale	$ mn	-	81	141	5	-	-	-	-	-	-
Dividends paid	$ mn	-	-	-	-	-	-	(20)	(20)	(20)	(20)
Other financing activities	$ mn	-	-	-	-	-	-	-	-	-	-
Cash from financing activities	$ mn	**36**	**4**	**124**	**225**	**(45)**	**7**	**(85)**	**(226)**	**(32)**	**(10)**
Net changes in cash	$ mn	70	(37)	54	(28)	(10)	6	2	(1)	169	166
Cash and equivalents (bop)	$ mn	59	98	58	110	83	73	65	68	67	235
Translation difference	$ mn	(30)	(3)	(1)	0	0	(13)	-	-	-	-
Cash and equivalents (eop)	$ mn	**98**	**58**	**110**	**83**	**73**	**65**	**68**	**67**	**235**	**402**
Cash restricted	$ mn	31	2	6	-	6	(0)	(0)	(0)	(0)	(0)
RATIOS											
Per share											
Earnings	$/sh	2.18	1.93	2.87	2.35	1.13	0.13	2.03	2.34	2.56	2.68
Dividends	$/sh	-	-	-	-	-	-	0.25	0.25	0.25	0.25
Book value	$/sh	5.2	8.2	13.2	15.2	16.9	12.9	13.8	15.9	18.3	20.7
EBITDA	$/sh	3.03	2.45	3.98	3.76	3.45	3.01	4.34	4.44	4.41	4.50
Net debt	$/sh	2.55	4.07	6.54	7.69	11.47	10.34	9.96	7.48	7.40	7.38
Growth											
Sales	%	58%	-3%	86%	9%	35%	-14%	-5%	-2%	3%	3%
Gross profit	%	102%	-7%	51%	2%	-8%	-2%	15%	4%	2%	3%
EBITDA	%	86%	-13%	66%	-1%	-8%	-13%	44%	2%	-1%	2%
Net profit	%	111%	-5%	52%	-14%	-52%	-89%	1477%	15%	9%	4%
Margins											
Gross	%	31.8%	30.3%	24.6%	22.9%	15.6%	17.8%	21.5%	22.7%	22.4%	22.4%
EBITDA	%	19.9%	17.8%	15.8%	14.4%	9.9%	10.0%	15.2%	15.8%	15.2%	15.1%
Net	%	14.3%	14.0%	11.4%	9.0%	3.2%	0.4%	7.1%	8.3%	8.8%	9.0%
Net profit margin	%	14.3%	14.0%	11.4%	9.0%	3.2%	0.4%	7.1%	8.3%	8.8%	9.0%
Total asset turnover	x	1.44	1.02	1.19	1.05	1.10	1.03	1.07	1.07	1.06	1.00
ROA	%	**20.6%**	**14.3%**	**13.7%**	**9.5%**	**3.5%**	**0.4%**	**7.6%**	**8.9%**	**9.4%**	**9.0%**
Equity multiplier	x	1.82	2.07	1.98	1.78	1.99	1.95	2.00	1.76	1.60	1.53
ROE	%	**37.6%**	**29.7%**	**27.1%**	**16.9%**	**7.1%**	**0.9%**	**15.2%**	**15.7%**	**15.0%**	**13.7%**
NOPAT	$ mn	139	127	190	198	145	77	227	259	260	268
Invested capital	$ mn	537	923	1,328	1,854	2,032	1,739	1,747	1,709	1,712	1,749
NOPAT margin	%	13.2%	12.4%	10.0%	9.6%	5.2%	3.2%	9.9%	11.5%	11.2%	11.2%
Capital turnover	x	1.95	1.11	1.43	1.12	1.38	1.38	1.31	1.31	1.36	1.36
ROIC	%	25.8%	13.7%	14.3%	10.7%	7.1%	4.4%	13.0%	15.1%	15.2%	15.3%

Table 6. Summary of financials (cont)

Fiscal year		**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015(e)**	**2016(f)**	**2017(f)**	**2018(f)**
Month ending		Jun-09	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
FCF	$ mn	41	29	8	(117)	213	41	99	225	201	177
FCF conversion	%	27%	20%	4%	n/m	236%	396%	61%	120%	98%	83%
Net debt	$ mn	165	286	306	610	646	678	610	405	224	67
D/E	x	0.82	0.57	0.42	0.57	0.54	0.72	0.61	0.37	0.31	0.28
ND/EBITDA	x	0.79	1.58	1.02	2.04	2.34	2.82	1.76	1.14	0.63	0.19
Interest coverage	x	6.45	7.95	7.09	4.74	3.68	3.31	4.30	4.45	5.74	5.93

Sources: Company, ICU

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Disclosures

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This research publication has been prepared by the analyst(s), whose name(s) appear on the front page of this publication. The analyst(s) hereby certifies that the views expressed within this publication accurately reflect her/his own views about the subject financial instruments or issuers and no part of her/his compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views within this research publication.

EQUITY RATING DEFINITIONS

Buy: Forecasted 12-month total return greater than 20%

Hold: Forecasted 12-month total return 0% to 20%

Sell: Forecasted 12-month total return less than 0%

Note: total return is share price appreciation to a target price in relative terms plus forecasted dividend yield.

DEBT RATING DEFINITIONS

Buy: Forecasted 12-month total return significantly greater than that of relevant benchmark

Hold: Forecasted 12-month total return is in line with or modestly deviates from relevant benchmark

Sell: Forecasted 12-month total return significantly less than that of relevant benchmark

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