

Belorechenskoye (RTS: BLRE, BLREP)

Investment summary

The Russian Trading System gave an RTS Board listing to common and preferred shares of the Siberian farming company, Belorechenskoye. The company is based in Irkutsk Region and is one of the largest Russian agricultural producers.

The company has no published financials for periods later than the first quarter of 2005. Revenue in the first quarter of 2005 was \$12.4m (10.7% higher y-o-y), net income was \$3.7m (15.6% higher than in the same period of 2005), and EBIT in the first quarter was over 30% higher y-o-y. However, first quarter results in agriculture and food production are not indicative of the whole year, because of large seasonal dependence of this business. We therefore assumed (conservatively) that rates of growth of main accounting lines in 2005 were the same as in 2004 in order to estimate full-year results

We valued the company by comparison with peers on emerging markets, mostly specializing in poultry and grain production. We used EV/S and EV/EBITDA multiples, giving them respective weights of 70% and 30%. We applied 30% discount for Belorechenskoye, mostly due to lack of transparency. Our multiples valuation suggests fair market cap of \$60m.

Our fair prices for common shares are \$193 based on EV/S and \$514 based on EV/EBITDA. Fair prices for preferred shares are \$135 (EV/S) and \$360 (EV/EBITDA). Fair prices based on our multiple weights are \$290 per common share and \$203 per preferred share. There are no bid or offer quotes on the RTS to date.

Financials (RAS) and share info

	2003	2004	2005E
Revenues, \$m	32.6	44.2	59.9
EBITDA, \$m	12.3	14.1	14.1
Net income, \$m	10.75	10.15	9.6
Total assets, \$m	45.1	55.4	63.0
Equity, \$m	38.1	44.9	54.5
# common shares	205 827		90%
# preferred shares	2 250		10%
Estimated free float, %	36.8%		

Profitability ratios and multiples

	2005E	Peers
EBITDA margin, %	23.6%	6.3%
ROA, %	15.2%	3.2%
ROE, %	17.6%	12.2%
ROIC, %	19.0%	6%
Debt/Assets ratio	0.04	1.13
Implied EV/S	0.8	1.1
Implied EV/EBITDA	8.1	11.5

Share capital structure and ownership

According to disclosure from January 10, 2005, 24.41% of Belorechenskoye share capital is owned by Gavriil Frantenko, who is the CEO of Belorechenskoye and the BoD chairman of a banking institution, Greencombank (GCB). Frantenko is also deputy speaker of the Irkutsk regional parliament. Another 17.39% stake is owned by Sergei Frantenko, the CEO's son; 14.11% belongs to Tatyana Pukhmakhtyorova (deputy CEO of Belorechenskoye's animal feed subsidiary, Usolkhleproduct); and another 7.24% belongs to Nikolai Tarasenko (another deputy CEO of Usolkhleproduct). All these individual shareholders are members of Belorechenskoye's supervisory board.

Based on these figures, free float of Belorechenskoye cannot exceed 36.8%. There is no government stake or golden share in Belorechenskoye.

Business description

Belorechenskoye is a leading supplier of agricultural production in Russia. Data for 2006 rate the company as the third biggest agricultural concern in the country.

The company produces a wide variety of foodstuffs including chicken eggs, poultry, milk products, semi-prepared meat products, grain, potatoes and other vegetables.

The Russian meat and poultry market is protected against imports by government quotas (set through 2009) and import duties. Domestic producers also benefit from government subsidies. The poultry market is growing particularly fast: according to the Russian Meat Union, annual poultry consumption per capita will rise from 21kg in 2005 to 26kg in 2010 (total meat consumption will increase from 57kg to 70kg over the same period).

Belorechenskoye owns more than 70 000 hectares of agricultural land and more than 10 000 cattle. Animal feed is grown and supplied by the company's sole subsidiary, Usolkhleproduct (90% owned).

The main market for Belorechenskoye is in Irkutsk Region. The company has a monopoly on sales of chicken eggs in the Region, and eggs are more expensive there than elsewhere in Russia. Belorechenskoye produces more than 1.3m eggs daily.

Plans for the future include application of new grain-growing technologies, launch of semi-prepared products (particularly egg products), expanding production and processing of chicken meat and grain, and breeding of goats, which can give relatively high milk yields in the Siberian climate.

We take a very positive view of the company due to high growth rates on the Russian meat and poultry market, protection from imports and subsidies to producers, strong product yields by Belorechenskoye, expansion of its land ownership and willingness to try new technologies.

We recommend the stock as Speculative BUY, although we are concerned about shortcomings in reporting and transparency.

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