

Renaissance
Capital

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Ukrproduct Group
Site visit notes

- **Site visit: Starkon factory.** On 22 Feb, we visited Ukrproduct's main production site, in Starokonstyantyniv, in the Khmelnytsk region. The company produces high-margin butter and skimmed milk powder at an old factory on site, and hard cheese products at a new factory alongside. Daily processing capacity is 420 tonnes of raw milk, of which 100 tonnes is used for hard cheese.
- **Asset quality: Modernisation ongoing.** Ukrproduct uses modern technology (supplied by Dutch-based specialist C van 't Riet) for its hard cheese, which complies with European standards for dairy factories. In 2006, a new milk dryer from Vzdukhotorg (Slovakia) was installed, allowing the company to produce export-quality skimmed milk powder. The milk pasteurisation station at the old factory site requires a GBP2.0-2.5mn upgrade in 2008, which we expect to be funded from operating cash flow and bank loans.
- **Hard cheese: Ukrproduct has achieved 30% utilisation** of its 3,600 tpa installed hard cheese capacity at Starokonstyantyniv, which is in line with our full-year expectations. The company's Nash Molochnik Gollandsky and Rosiysky brands are inventoried to push into retail chains, while the Nash Molochnik Gauda and Molendam premium brands are at the initial testing stage, with plans to expand production later this year. Ukrproduct plans to launch its hard cheese products in major retail chains in Mar 2008, actively supported by marketing events and promotions. We estimate an extra GBP4.5mn in sales and GBP0.8mn in marketing costs in 2008.
- **Conclusions:** Ukrproduct's high quality factory, which complies with international food production standards, places it on an equal footing with imports following Ukraine's WTO accession. In our view, the superiority of its hard cheese quality vs rival products justifies the targeted \$8-9/kg price. Following the retail launch of the product, we will likely revise our current \$4.6/kg forecast price upward for 2008 and beyond.

Report date:	25 February 2008
Rating	BUY
Target price (comm), GBP	1.07
Target price (pref), GBP	n/a
Current price (comm), GBP	0.78
Current price (pref), GBP	n/a
MktCap, GBPmn	32.4
EV, GBPmn	35.6
Reuters	UKR.L
Bloomberg	UKR LN Equity
ADRs/GDRs since	n/a
ADRs/GDRs per common share	n/a
Common shares outstanding, mn	41.77
Change from 52-week high:	-17.9%
Date of 52-week high:	03/08/2007
Change from 52-week low:	97.5%
Date of 52-week low:	12/10/2007
Web:	www.ukrproduct.com
Free float in GBPmn	10
Major shareholder A. Slipchuk with shareholding	35.15%
Average daily traded volume in GBPmn	0.25
Share price performance over the last	
	1 month 2.63%
	3 months -12.36%
	12 months 75.28%

Summary valuation and financials, GBPmn

	Revenue	EBITDA	Net income	EPS, GBP	EBITDA margin, %	EV	Net debt	EV/Sales	EV/CF	EV/EBITDA	P/E	P/CE	EV/IC	ROIC/WACC
2006	35.05	2.79	1.08	0.026	8.0%	23.88	4.25	0.68	1.49	8.55	18.20	1.23	1.48	0.48
2007E	42.28	5.56	2.59	0.063	13.2%	36.99	4.85	0.88	1.98	6.65	12.42	1.72	1.87	0.99
2008E	47.14	6.19	2.81	0.068	13.1%	35.61	3.46	0.76	1.81	5.75	11.43	1.64	1.63	0.98
2009E	50.28	7.51	3.61	0.087	14.9%	32.24	0.09	0.64	1.67	4.29	8.92	1.67	1.36	1.16

Source: Renaissance Capital estimates

Figure 1: Price performance – 52 weeks

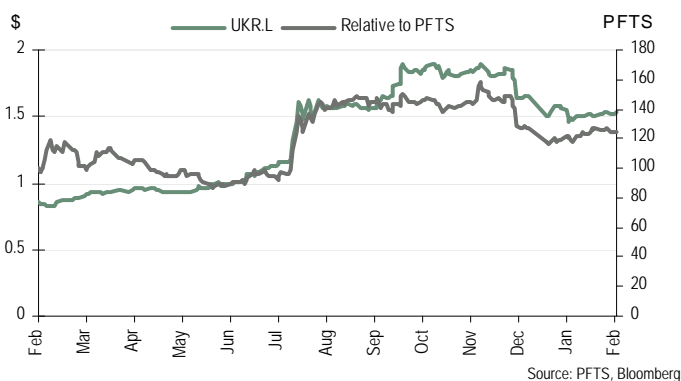
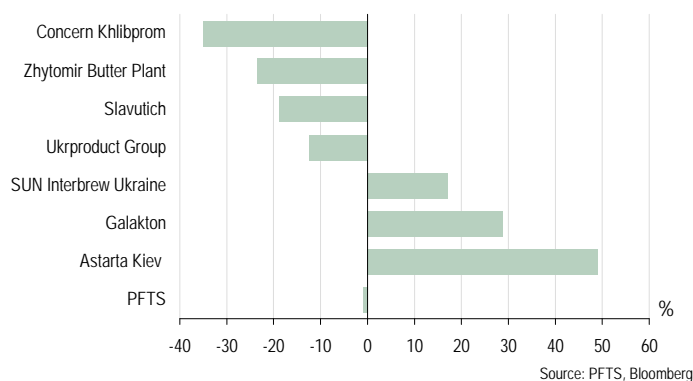


Figure 2: Sector stock performance – three months



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Renaissance Capital Research			Consumer goods and retail		
Buy	135	33%	Buy	16	59%
Hold	86	21%	Hold	5	19%
Sell	45	11%	Sell	0	0%
UR	16	4%	UR	0	0%
NR	132	32%	NR	6	22%
414			27		

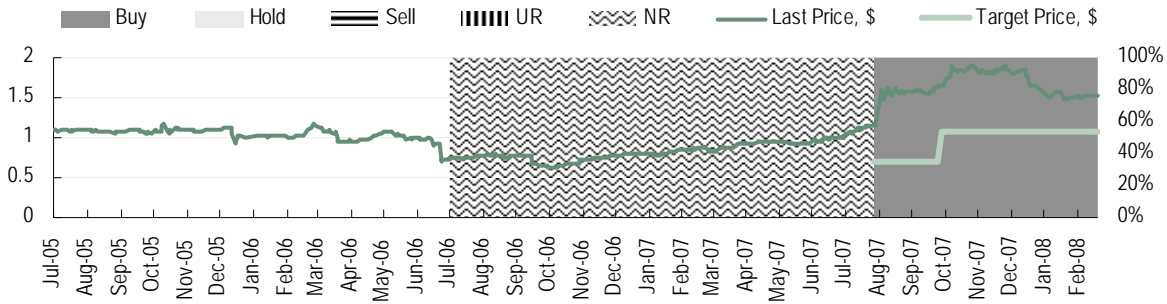
Investment Banking Relationships*

Renaissance Capital Research			Consumer goods and retail		
Buy	9	82%	Buy	4	100%
Hold	2	18%	Hold	0	0%
Sell	0	0%	Sell	0	0%
UR	0	0%	UR	0	0%
NR	0	0%	NR	0	0%
11			4		

*Companies from which RenCap has received compensation within the past 12 months.

NR – Not Rated
UR – Under Review

Ukrproduct Group share price, target price and rating history



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