

AGRIA GROUP HOLDING

INDUSTRY: AGRICULTURAL PRODUCERS

ON THE RISING TREND

THE EXCELLENT HARVEST OF WHEAT WILL SUPPORT REVENUES OF AGRIA GROUP HOLDING DESPITE THE DECLINE OF GRAIN PRICES. THE TURNOVER WILL INCREASE DUE TO THE EXPANDED STORAGE CAPACITY, WHILE THE RISING AGRICULTURAL PRODUCTION WILL CONTRIBUTE TO THE PROFITABILITY.

2Q'15 SALES IN LINE WITH THE POSITIVE TREND

Agria reported BGN 15.6m sales during the second quarter, which is 7% higher than the previous quarter but almost two times better as compared to year ago. This volatility is not an exception in the past few years. The seasonally strongest period for Agria is the second half of the year. The profit jumped 15% in 2Q'15 y-o-y but remains lower since the beginning of the year due to the mediocre performance in 1Q'15.

LOWER GRAIN PRICES THREATEN THE STRONG REVENUE GROWTH OF AGRIA

The decline of wheat prices on the domestic market corresponds to the overall weakness on the largest bourses due to the good harvest this year. The levels on latest deals correspond to the last year's lowest prices. The hot weather affected the harvest of corn and sunflower in Bulgaria and Romania negatively. Their prices remain above last year's bottoms as demand of seeds and the reluctance of producers to sell outpace the negative influence of excess stock. The 15% decline of wheat prices will decrease the revenues of Agria but we expect it to be compensated by the larger volumes.

AGRIA FORECASTED DOUBLE-DIGIT GROWTH

The Holding forecasted 13% annual growth of revenues for the period 2015-2017, based on its investments in capacity increase and bigger agricultural production of the holding's subsidiaries. We expect that the stalling price of wheat will have a negative impact on growth prospects but sales targets look achievable. Agria will gradually increase its sales to domestic consumers from its current level of 30% of turnover due to the growing demand from processing facilities in Bulgaria. At the same time, demand of exported grains is stable on the main markets, which include Italy, Spain, Portugal and Turkey and are not risky when considering the escalation of violation in Middle East.

MULTIPLES SUGGEST MORE UPSIDE FOR THE STOCK

Agria is cheap stock and has very low multiples. It trades at P/E of 5, while the P/B marginally exceeds 1. Its profit is supported by the agricultural subsidies in EU. Considering the expected increase of revenues, the stock represents an attractive long-term investment.

VALUATION: We maintain our price target at BGN 15.11 per share. The valuation is based on a DCF model that assumes a growth of revenues due to acquisitions of smaller agricultural producers and the investment program in expansion of storage capacity that will improve profit margins and revenues.

RESULTS ANALYSIS

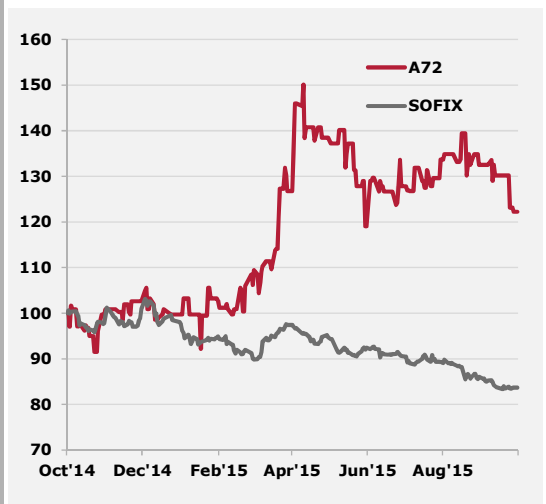
PREVIOUS RATING: BUY
ONE YEAR PRICE TARGET: BGN 15.11
 (NOVEMBER 13, 2014)
CURRENT PRICE: BGN 10.42

EXCHANGE RATES
EUR/BGN (FIXED): 1.95583
USD/BGN: 1.74

MARKET DATA

Shares Outstanding:	6.8m
Share Capital:	BGN 6.8m
Free-float:	20%
Treasury Shares	0%
Market Cap.:	BGN 70.9m
Avg. Daily Vol.:	BGN 5,000
52 Weeks Range:	BGN 7.80-12.95
BSE Ticker	A72
Bloomberg	A72 BU

PRICE PERFORMANCE



in kBGN, excl. ratios	4Q 2013	1Q 2014	2Q 2014	3Q 2014	4Q 2014	1Q 2015	2Q 2015
REVENUES	44,196	15,689	7,933	52,958	46,249	14,523	15,593
EBITDA	4,828	3,184	3,174	5,892	9,196	2,016	3,342
EBIT	5,689	1,741	2,213	4,922	8,211	454	2,449
NET PROFIT	4,237	1,741	1,490	4,143	7,455	454	1,714
EQUITY	60,739	62,486	64,042	63,586	70,989	70,586	72,300
ROE	16.66%	15.09%	14.96%	18.51%	22.72%	20.12%	19.85%
ROA	15.73%	15.30%	15.13%	19.22%	25.09%	22.51%	23.34%
EBITDA MARGIN	10.97%	10.97%	12.50%	14.14%	17.46%	16.67%	15.81%
NET PROFIT MARGIN	6.41%	6.45%	7.60%	9.61%	12.07%	11.13%	10.64%
EPS	0.13	0.03	0.03	0.07	0.13	0.01	0.02
DEBT/EQUITY	1.03	0.94	1.13	1.25	0.91	1.04	1.17
P/E	3.58	6.23	5.97	5.12	3.90	5.65	5.15
P/B	0.60	0.94	0.89	0.95	0.89	1.14	1.02
EV/EBITDA	5.88	7.43	8.31	7.92	5.54	7.24	7.34

*Ratios and multiples are on ttm basis

ANALYST'S COMMENT

Our previous expectations after the first quarter report were influenced by the growth of grain prices in the middle of the year that proved to be short-lived. This spike of prices were most likely influenced by speculative demand due to the hot weather in USA. The total grain production for this year is estimated at 1.99 billion tons or slightly lower than the previous harvest of 2.02 billion tons, based on data from the International Grain Council. The latter forecasts slightly better harvests of wheat and corn.

The stable growth of production in Russia and the good harvest in Ukraine will undermine the prices of large tenders in the Mediterranean region. Bulgaria is a large exporter to the region with main competitors Romania, Ukraine and Russia. Last year the country managed to become the second biggest exporter of corn in EU after Romania. The increase was 86% and the destinations included Turkey, Egypt, South Korea and China. Bulgaria is not exporting wheat to Egypt, where the tenders are won by large suppliers backed by governments. Nevertheless, the sales to other Mediterranean countries are growing and Bulgarian exporters have positive prospects.

Agria's turnover will benefit further from the better position of Bulgaria as supplier of grains. Its ongoing investment program for 2015-16 exceeds BGN 39m, compared to the twice-lower investments for the past three years. It includes the 26% increase of grain silos that will support a corresponding growth of grain trade along with investments in transportation vehicles and logistic infrastructure. These investments should increase the turnover and the nominal profits from the main activities. However, the largest funds are planned into the agricultural production, where margins are higher. More than 70% of investments will be used in acquisitions of owned arable land that is expected to increase to 7,000 ha from the current 5,600 ha. Thus the management will ensure the stability of agricultural production and the income from EU agricultural subsidies.

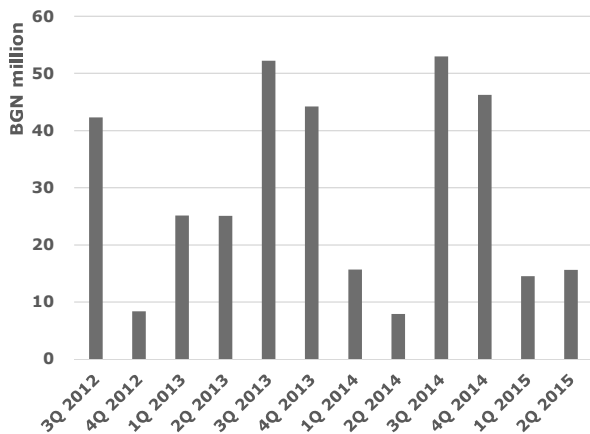
Domestic prices of wheat were under pressure from the over-production and current stocks. A BGN 280 per ton corresponds to the lowest price in the past three years. The reluctance of producers to sell at current prices might limit the further decline. This, however, will have only limited impact on the quarterly revenues of Agria. Volumes are expected to increase following the bigger storage capacity. When calculating in local prices, the third quarter consolidated revenues of Agria should be lower by single-digit percentage on yearly basis, excluding the effect of the larger volumes. The dollar prices of wheat also are lower than the second half of 2014 but the currency effect will support the revenues in BGN for the sales abroad.

The corn price in Bulgaria is relatively stable in 2015. It is higher than the average price registered during the second half of 2014 due to the lower harvest this year and the large export. Up to 30% decline of corn production is probable for several regions in Bulgaria that we expect to decrease the volumes traded of Agria by low double-digit percentage.

The sunflower harvest also is lower this year. Larger part of the domestically produced sunflower is processed in the country, which will limit further the export volumes. The impact on Agria's turnover will be limited by the 20% increase of sunflower price on the domestic market.

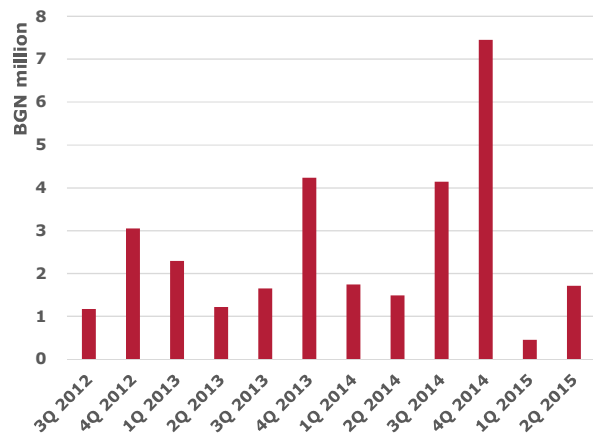
Our forecasts for 12% growth of revenues of Agria are conservative at the back of the expanded storage capacity and bigger agricultural production of the holding. Prices of wheat, however, will remain subdued due to the overproduction. Therefore, we maintain our previous forecasts, which result to an intrinsic value of Agria's share above BGN 15. We rate Agria a BUY as it is one of the few Bulgarian stocks with very low P/E ratio and improving financial performance.

QUARTERLY REVENUES



Source: Company data

QUARTERLY PROFITS



Source: Company data

QUARTERLY DATA (UNAUDITED)

Income Statement ('000 BGN)	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Revenue	25,121	25,070	52,220	44,196	15,689	7,933	52,958	46,249	14,523	15,593
Operating Expenses	24,030	24,849	51,354	40,566	14,932	8,121	50,818	40,288	15,194	15,164
Change in Inventories	(3,695)	(4,585)	10,553	(4,511)	(1,662)	(7,415)	12,872	(2,792)	(4,156)	(6,814)
Cost of Material	3,921	8,310	4,586	3,897	2,465	8,572	8,694	4,532	4,983	8,052
Cost of Labor	516	555	577	578	585	693	1,491	1,079	1,153	1,619
Cost of External Services	930	1,603	2,636	6,286	846	1,062	2,942	8,318	1,367	1,386
Depreciation and Amortization	1,182	1,265	1,365	(861)	765	961	970	985	954	893
Net Book Value of Assets Sold	21,066	17,633	31,611	35,105	11,919	4,196	23,798	27,953	10,862	9,997
Other Costs	(3,695)	(4,585)	10,553	(4,511)	(1,662)	(7,415)	12,872	(2,792)	(4,156)	(6,814)
Operating Income	3,031	1,955	2,452	5,689	2,419	2,213	4,922	8,211	1,062	2,449
Interest Expense	737	740	801	854	678	723	779	774	620	766
NET INCOME	2,294	1,219	1,651	4,237	1,741	1,490	4,143	7,455	454	1,714
Balance Sheet ('000 BGN)	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Cash & Near Cash Items	1,696	2,286	1,592	2,008	2,208	1,811	3,519	3,261	3,313	5,615
Accounts & Notes Receivable	22,529	31,464	36,659	40,638	36,775	50,058	43,867	36,622	40,964	48,552
Inventories	54,445	44,207	41,709	36,100	34,883	39,389	28,610	36,923	36,299	39,545
Total Current Assets	79,049	78,365	80,402	78,883	74,058	91,439	76,288	77,009	80,861	93,956
Net Fixed Assets	48,757	49,399	49,365	51,501	51,822	54,185	62,412	63,278	66,645	73,046
Other Long-Term Assets	12,871	12,934	12,921	12,905	13,716	13,733	15,559	13,022	12,817	12,802
Total Long-Term Assets	61,628	62,333	62,286	64,406	65,538	67,918	77,971	76,300	79,462	85,848
Total Assets	140,677	140,698	142,688	143,289	139,596	159,357	154,259	153,309	160,323	179,804
Accounts Payable	10,976	10,645	7,858	12,313	10,949	15,597	5,352	12,783	10,703	12,763
Short-Term Borrowings	51,630	47,487	50,757	45,699	42,708	52,073	53,119	39,712	47,889	50,207
Other Short-Term Liabilities	87	437	431	736	1,228	705	1,128	1,027	599	623
Total Current Liabilities	62,693	58,569	59,046	58,748	54,885	68,375	59,599	53,522	59,191	63,593
Long-Term Borrowings	17,789	19,357	19,227	17,135	16,180	20,057	26,076	24,646	25,832	34,641
Other Long-Term Liabilities	6,564	7,922	7,914	6,667	6,045	6,883	4,998	4,152	4,714	9,270
Total Long-Term Liabilities	24,353	27,279	27,141	23,802	22,225	26,940	31,074	28,798	30,546	43,911
Total Liabilities	87,046	85,848	86,187	82,550	77,110	95,315	90,673	82,320	89,737	107,504
Total Equity	53,631	54,850	56,501	60,739	62,486	64,042	63,586	70,989	70,586	72,300
Total Liabilities & Equity	140,677	140,698	142,688	143,289	139,596	159,357	154,259	153,309	160,323	179,804
Cash Flow Statement ('000 BGN)	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Cash From Operations	6,540	13,060	11,714	36,815	7,630	1,890	7,705	26,486	6,128	(2,818)
Cash From Investing Activities	(4,344)	(6,092)	(6,723)	(8,280)	(665)	(1,491)	(13,369)	(15,992)	(1,419)	(4,140)
Cash from Financing Activities	(1,174)	(5,356)	(4,073)	(27,201)	(6,765)	(596)	7,175	(9,241)	(4,657)	9,312
Net Changes in Cash	1,022	1,612	918	1,334	200	(197)	1,511	1,253	52	2,354
End-of-period cash	1,696	2,286	1,592	2,008	2,208	1,811	3,519	3,261	3,313	5,615

COMPANY OVERVIEW

COMPANY PROFILE

Agria Group is a holding that includes companies in the field of agricultural production and grain trade and processing. The grain trade and export contribute to the majority of consolidated revenues. Agria has developed an effective full service grain trading structure from providing of raw materials to delivering ready grain to the Constanta, Varna and Burgas Ports' cargo terminals at the Black Sea. The assets of the Group include grain storage capacity of 150,000 tons and a mill with 30,000 tons annual capacity.

The agricultural production is the second largest segment in the Group. The main cultures grown are wheat, barley, corn, sunflower and rapeseed. The cultivated area in 2014 were 20,000 ha, of which 5,300 ha own land.

Agria's subsidiaries trade with nutrients, chemicals for plant protection, fuels and lubricants. The Holding's operations include import of sowing-seeds made by global plant breeding companies like Monsanto and KWS SAAT as a partnership to finance the production of rapeseed and wheat for the region of Northeast Bulgaria. Agria is a GMO-free producer.

FUNDAMENTAL STORY

Bulgaria is a traditional producer of grains and Agria is a sizable player on the market with its storage capacity and export operations. Its main advantages are the large scale of operations and the very good location and capacity of storage facilities.

The prices of grains are at multi-year lows due to the ample supplies after two years of excess production. Demand of grains rises steadily, which could provide a boost to prices in case of weak harvest. Additional increase to the top line of Agria should come from acquisitions of small agricultural producers.

The profitability of Agria should improve due to the investments in irrigation of plots near water sources, the modern machines for cost-efficient agriculture and the usage of hybrid seeds from leading brands that increase crop yields.

The EU agricultural subsidies in Bulgaria contribute substantially to the financial results of Agria. The payments depend on the arable land and the investments in machine and equipment. Expected payments for 2015 are 10% higher y-o-y.

STRENGTHS AND OPPORTUNITIES

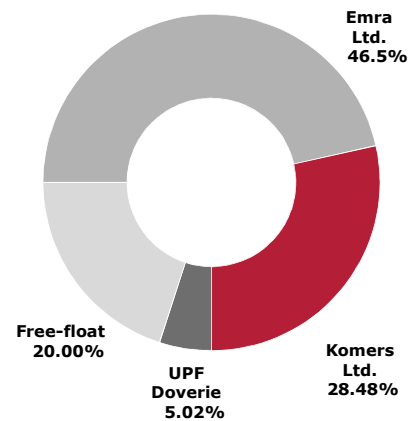
- Large scale of operations in the lucrative agricultural sector that receives sizable government support in the EU. Agria receives subsidies for arable land and for investments in machines and equipment.
- Gradual increase of operations and acquisitions of smaller agricultural producers. One of the biggest Bulgarian companies in the sector.
- Value of owned land corresponds to two-thirds of the current market capitalization. Undervalued when comparing to net assets and profits.
- Synergies between different segments.
- Stable increase of demand of grains worldwide and favorable conditions for Bulgarian producers.

WEAKNESSES AND THREADS

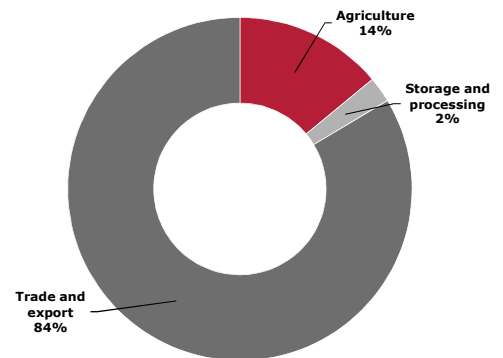
- Low prices of grains due to ample supplies
- Strong rivalry among domestic players, mainly on the international trade
- Possible changes in the subsidizing of agricultural producers

SHAREHOLDERS' STRUCTURE

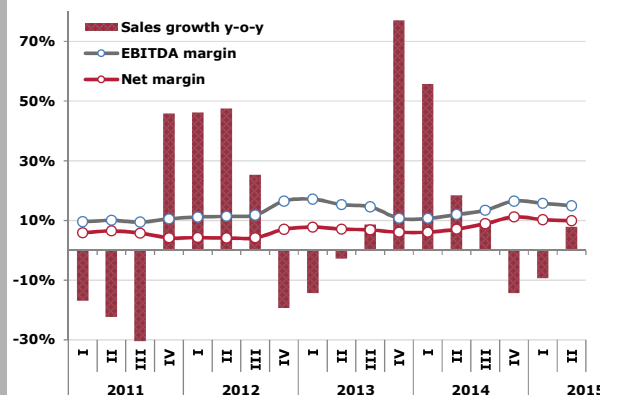
Shareholders' structure



SALES BREAKDOWN



MARGINS



Source: Company data; 12 months trailing data

PRICE TRIGGERS

- Recovery of Bulgarian stock market
- Increase of grain prices
- Dividend announcement
- Forthcoming acquisitions of smaller companies

YEARLY DATA

STATEMENT OF INCOME (IN '000 BGN)	2011	2012	2013	2014	2015F	2016F
SALES	108,085	87,220	153,754	132,340	148,221	170,454
OPERATING EXPENSES	99,796	76,753	140,079	114,159	128,952	148,295
CHANGE IN INVENTORIES	(4,219)	(4,192)	(2,791)	1,003	(1,482)	(1,705)
COST OF MATERIAL	17,562	17,967	20,806	24,263	22,974	26,420
COST OF LABOUR	1,477	1,890	2,236	3,848	2,964	2,557
COST OF EXTERNAL SERVICES	7,371	9,097	11,444	13,168	13,340	13,636
DEPRECIATION AND AMORTIZATION	3,138	3,926	2,951	3,681	4,728	5,484
NET BOOK VALUE OF ASSETS SOLD	73,749	47,983	104,678	67,866	85,227	102,272
OTHER COSTS	718	82	755	330	1,201	(371)
OPERATING INCOME	8,289	10,467	13,675	18,181	19,269	22,159
INTEREST EXPENSE	2,187	2,726	3,123	2,954	3,721	4,499
FOREIGN EXCHANGE LOSSES (GAINS)	366	91	(37)	22	(148)	(170)
NET NON-OPERATING LOSSES (GAINS)	672	709	597	376	148	170
PRETAX INCOME	5,064	6,941	9,992	14,829	15,548	17,661
INCOME TAX EXPENSE	502	776	598	0	1,555	1,766
INCOME BEFORE XO ITEMS	4,562	6,165	9,394	14,829	13,993	15,894
EXTRAORDINARY LOSS NET OF TAX	0	0	0	0	0	0
MINORITY INTEREST	0	0	0	0	0	0
NET INCOME	4,562	6,165	9,394	14,829	13,993	15,894
EARNINGS PER SHARE IN BGN	0.67	0.91	1.38	2.18	2.06	2.34
BALANCE SHEET (IN '000 BGN)	2011	2012	2013	2014	2015F	2016F
CASH AND NEAR CASH ITEMS	578	674	2,008	3,261	1,677	2,349
SHORT-TERM INVESTMENTS	0	0	0	0	0	0
ACCOUNTS AND NOTES RECEIVABLE	17,039	20,073	40,522	36,622	37,055	40,909
INVENTORIES	32,585	58,208	36,106	36,923	40,020	44,318
OTHER CURRENT ASSETS	213	115	236	203	741	852
TOTAL CURRENT ASSETS	50,415	79,070	78,872	77,009	79,493	88,428
LT INVESTMENTS AND LT RECEIVABLES	5	5	5	5	5	5
NET FIXED ASSETS	39,152	45,871	51,501	63,278	85,968	99,716
OTHER LONG-TERM ASSETS	4,853	7,251	12,900	13,017	23,715	28,977
TOTAL LONG-TERM ASSETS	44,010	53,127	64,406	76,300	109,688	128,698
TOTAL ASSETS	94,425	132,197	143,278	153,309	189,181	217,126
ACCOUNTS PAYABLE	2,230	7,677	12,316	12,783	13,043	14,829
SHORT-TERM BORROWINGS	25,413	53,822	51,317	39,712	40,761	46,023
OTHER SHORT-TERM LIABILITIES	272	21	735	1,027	741	852
TOTAL CURRENT LIABILITIES	27,915	61,520	64,368	53,522	54,545	61,704
LONG-TERM BORROWINGS	19,272	14,631	13,144	24,646	43,725	49,432
OTHER LONG-TERM LIABILITIES	1,051	4,411	5,021	4,152	5,929	5,114
TOTAL LONG-TERM LIABILITIES	20,323	19,042	18,165	28,798	49,654	54,545
TOTAL LIABILITIES	48,238	80,562	82,533	82,320	104,199	116,250
TOTAL PREFERRED EQUITY	0	0	0	0	0	0
MINORITY INTEREST	0	0	0	0	0	0
SHARE CAPITAL & APIC	6,800	6,800	6,800	6,800	6,800	6,800
RETAINED EARNINGS & OTHER EQUITY	39,387	44,835	53,945	64,189	78,182	94,076
TOTAL EQUITY	46,187	51,635	60,745	70,989	84,982	100,876
WORKING CAPITAL	21,922	16,876	12,496	20,226	23,271	24,375
NUMBER OF SHARES:	6,800,000	6,800,000	6,800,000	6,800,000	6,800,000	6,800,000
PRICE IN BGN - PERIOD END:	3.05	3.15	4.95	8.50	10.42	10.42
MARKET CAP IN '000 BGN - PERIOD END:	20,747	21,413	33,653	57,800	70,856	70,856

CASH FLOW STATEMENT (IN '000 BGN)	2011	2012	2013	2014	2015F	2016F
NET INCOME	8,283	15,676	14,067	9,128	13,993	15,894
DEPRECIATION & AMORTIZATION	16,636	15,256	14,413	13,968	4,728	5,484
OTHER NON-CASH ADJUSTMENTS	7,399	4,239	(3,570)	(2,997)	510	(4,254)
CHANGES IN NON-CASH CAPITAL	(4,368)	(4,577)	5,823	3,975	(3,045)	(1,104)
CASH FROM OPERATIONS	27,950	30,594	30,733	24,074	16,186	16,021
DISPOSAL OF FIXED ASSETS	40	247	819	0	0	0
CAPITAL EXPENDITURES	(10,970)	(7,876)	(21,185)	(45,890)	(27,418)	(19,232)
INCREASE IN INVESTMENTS	(206)	(14)	(88)	0	0	0
DECREASE IN INVESTMENTS	13	21	15	19	0	0
OTHER INVESTING ACTIVITIES	52	79	41	(41)	(10,698)	(5,262)
CASH FROM INVESTING ACTIVITIES	(11,071)	(7,543)	(20,398)	(45,911)	(38,117)	(24,494)
DIVIDENDS PAID	(1,622)	(1,280)	(2,575)	(1,600)	0	0
CHANGE IN SHORT-TERM BORROWINGS	(6,477)	(670)	4,698	92	1,049	5,262
CHANGE IN LONG-TERM BORROWINGS	(16,467)	(14,870)	(8,834)	12,974	19,079	5,707
INCREASE IN CAPITAL STOCKS	0	0	641	0	0	0
DECREASE IN CAPITAL STOCKS	0	0	0	0	0	0
OTHER FINANCIAL ACTIVITIES	1,451	(3,670)	(4,332)	10,733	218	(1,823)
CASH FROM FINANCING ACTIVITIES	(23,115)	(20,490)	(10,402)	22,199	20,346	9,145
NET CHANGES IN CASH	(6,236)	2,561	(67)	362	(1,584)	672
END-OF-PERIOD CASH	894	3,455	3,385	3,747	1,677	2,349
CASH PER SHARE	0.22	0.83	0.82	0.90	0.25	0.35

FINANCIAL AND PERFORMANCE INDICATORS	2011	2012	2013	2014	2015F	2016F
VALUATION						
PRICE/EARNINGS (P/E)	4.55	3.47	3.58	3.90	5.06	4.46
PRICE/BOOK (P/B)	0.45	0.41	0.55	0.81	0.83	0.70
PRICE/SALES (P/S)	0.19	0.25	0.22	0.44	0.48	0.42
EV (IN '000 BGN)	64,854	89,192	96,106	118,897	153,665	163,961
EV/EBITDA	5.67	6.20	5.78	5.44	6.40	5.93
PROFITABILITY						
RETURN ON COMMON EQUITY	10.59%	12.60%	16.72%	24.19%	17.94%	17.10%
RETURN ON ASSETS	5.28%	5.44%	6.82%	10.39%	8.17%	7.82%
RETURN ON INVESTED CAPITAL	8.02%	8.14%	10.05%	13.92%	11.38%	10.90%
EBITDA MARGIN	10.57%	16.50%	10.81%	16.52%	16.19%	16.22%
OPERATING MARGIN	7.67%	12.00%	8.89%	13.74%	13.00%	13.00%
NET INCOME MARGIN	4.22%	7.07%	6.11%	11.21%	9.44%	9.32%
DIVIDEND						
DIVIDEND YIELD						
DIVIDEND PER SHARE						
LIQUIDITY						
CURRENT RATIO	1.81	1.29	1.23	1.44	1.46	1.43
QUICK RATIO	0.63	0.34	0.66	0.75	0.71	0.70
CREDIT						
LT DEBT/EQUITY	0.42	0.28	0.22	0.35	0.51	0.49
TOTAL DEBT/EQUITY	0.97	1.33	1.06	0.91	0.99	0.95
TOTAL DEBT/TOTAL ASSETS	0.47	0.52	0.45	0.42	0.45	0.44
EBIT/INTEREST EXPENSE	3.79	3.84	4.38	6.15	6.45	6.15

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HOLD	Target price in +/-10% range of the current quotes
SELL	Target price is more than 10% below the current quotes

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