



Lebedyansky

**FLASH
NOTE**

BUY

Target price: \$91

Upside potential: 25%

Conquering regional markets

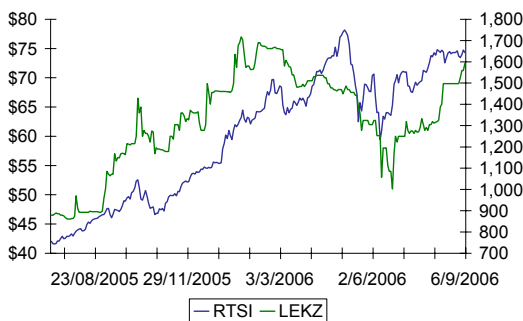
Analyst:
Nikolay Saperov
saperovn@sovlink.ru

STOCK DATA			
Ticker	LEKZ	MCap (\$ mn)	1,410
Shares Ords	20,411,300	Free Float, %	16
Shares Pref	-	Free Float (\$ mn)	225.6
Bid Ords (\$)	69.0	Offer Ords (\$)	72.5
Bid Prefs (\$)	-	Offer Prefs (\$)	-

MARKET PERFORMANCE			
Absolute	Ords	1 month	16.9%
	Prefs	6 months	-3%
Relative to RTSI	Ords		16%
	Prefs		-14%
Price range (US\$)	Ords	High	74.8
		Low	51.0
	Prefs	High	72.5
		Low	62.0

PERFORMANCE 2005			
Revenue (\$ mn)	514	P/S	2.7
EBITDA(\$ mn)	115	EV/EBITDA	18.8
Net Income (\$ mn)	74	P/E	11.3

LEKZ RELATIVE PERFORMANCE



Lebedyansky announced that it intends to buy Troya-Ultra, a regional producer of juice that operates mostly in St. Petersburg and the Leningrad oblast. Troya-Ultra has a c4% market share of the St. Petersburg juice market, and about 2% of the national juice market. Lebedyansky controls 18% of the St. Petersburg market and 30% of the national market. Although a leader on the national level, Lebedyansky has a weak position in St. Petersburg. Its closest competitor—Multon—controls 46% of this region. Taking into consideration that the Moscow juice market is saturated and the best strategy for juice producers is regional expansion, we see this purchase as very lucrative for Lebedyansky. This deal strengthens Lebedyansky's position in the Northwest of Russia, and comes at a rather cheap price.

Troya-Ultra produces juices, nectars, fruit drinks and cold tea. Its 2005 production was about 83 mn liters. Lebedyansky's juice production was 680 mn liters in 2005, thus this purchase enables the company to increase juice production by 12%. We emphasize that Troya-Ultra has good production capacities and Lebedyansky has a great opportunity to take advantage of this.

Lebedyansky—which trades at a 2006E P/S of 2.0, bought Troya-Ultra at a P/S multiple of 0.7.

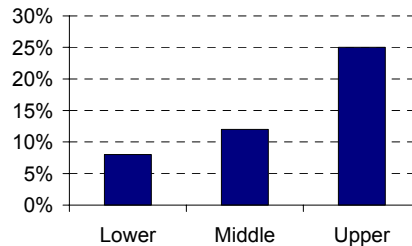
Lebedyansky 2006 forecasts

	Sales, \$ mn	Net profit, \$ mn	P/S
Lebedyansky	690	110	2.0
Troya-Ultra	58	1	0.7

Source: Sovlink estimates

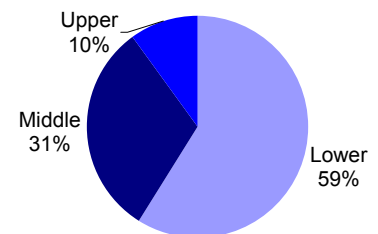
Troya-Ultra operates mostly in the lower price segment, which is strategic for Lebedyansky, as it makes up 57% of its revenues. Moreover, the low-price segment covers about 60% of the Russian juice market and has shown the highest growth rates.

Juice market growth rates by price segment, 2005, % chg. y-o-y



Source: Sovlink estimates

Market share of different price segments, 2005



Based on the P/S multiples for Lebedyansky and Troya-Ultra, we estimate the positive impact of this purchase for Lebedyansky's capitalization at 5%.





We expect Lebedyansky to improve its financial results in 2006. The company's 1H06 results show that it continues to increase its sales, EBITDA and net profit due to effectively implemented regional expansion.

Lebedyansky 1H06 results

	1H05	1H06	% chg. y-o-y
Sales, \$ mn	261	345	32%
Juice production, mn liters	345	414	20%
Baby food production, mn liters	20	27	36%
Sales from juices, \$ mn	236	302	28%
Sales from baby food, \$ mn	25	40	63%

Source: Company data

We consider the company's strategy of buying regional juice producers with developed business to be more effective than building own production capacities. Troya-Ultra has high-quality production capacities of 180 mn liters per year. We expect that Lebedyansky will capitalize on this to improve its performance on Russia's second-largest market—St. Petersburg—and forecast the following full-year financial results for the company.

Lebedyansky forecasts, \$ mn

	2005	2006E
Sales, \$ mn	514	690
EBITDA, \$ mn	115	166
Net income, \$ mn	75	110
EBITDA margin	22%	24%
Net margin	15%	16%

Source: Sovlink estimates

Lebedyansky valuation

		P/S	P/E	EV/EBITDA
Cott Corporation	Canada	0.7	48.5	8.3
National Beverage	USA	1.1	32.7	5.5
Pepsi Bottlinn Co.	USA	0.7	17.3	7.1
Nichola Plc	Britian	1.8	22.7	8.8
Coca-Cola West	Japan	1.3	29.8	8.0
Kagome Co	Japan	1.0	50.2	9.1
Jones Soda Co	USA	6.0	159.9	75.7
Toma	Czech	2.0	7.5	7.2
Hey Song Corp	Taiwan	1.6	64.4	15.5
Yantai North Andre Juice	China	1.8	16.1	9.4
China Haisheng Juice	Hong Kong	1.4	7.6	9.8
	Average	1.8	41.5	14.9
Lebedyansky		2.7	18.9	11.3
Upside/downside, %		-36.0%	119.6%	31.8%
Weights		40%	20%	40%
	Final upside			22.2%
	Target price, \$			87
	Premium (Troya-Ultra purchase)			5%
	Target price, \$			91

Source: Bloomberg, Sovlink estimates

We estimate the fair value of Lebedyansky at \$87 without Troya-Ultra. In our view, the purchase adds 5% to the company's fair value, giving us a price target of \$91 per share. Lebedyansky has \$300 mn investment program through 2010. We think that the company's investment attractiveness will increase with further regional expansion and new acquisitions.



SOVLINK

YOUR FIRST CALL – FOR THE SECOND TIER

September 6, 2006

STOCK RATING POLICY

STRONG BUY:	Target price offers upside of over 100%; confidence level – high
STRONG BUY (SPEC):	Target price offers upside of over 100%; confidence level – low
BUY:	Target price offers upside of between 25% and 100%; confidence level – high
BUY (SPEC):	Target price offers upside of between 25% and 100%; confidence level – low
HOLD:	Target price offers upside of less than 25%
SELL:	Target price at or below current price levels

SOVLINK LLC

Tel.: +7 495 967 1300

Fax: +7 495 967 1311

Kremlin Embankment 1, building 2,

Moscow 119019, Russia

www.sovlink.ru

research@sovlink.ru

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Tel.: +7 495 967 1300

Fax: +7 495 967 1311



research@sovlink.ru