

# Kalina

**Flash  
Note**

**BUY**

**Upside: 31%**  
**Target Price: \$47.2**

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## Stock data

|              |           |                   |       |
|--------------|-----------|-------------------|-------|
| Ticker       | KLNA      | M.Cap, \$ mn      | 352   |
| Shares Ords  | 9,752,311 | Free float, %     | 33%   |
| Shares Prefs | -         | Free float, \$ mn | 116.2 |
| Bid Ords, \$ | 35.0      | Offer Ords, \$    | 36.1  |

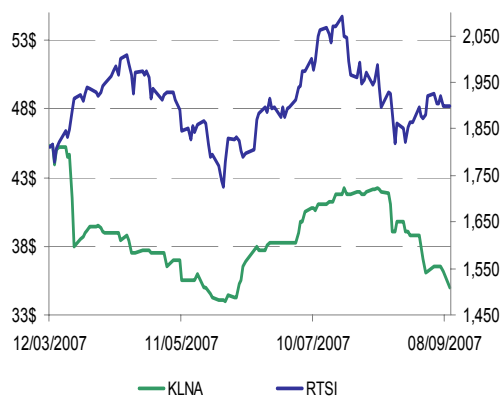
## Market performance

|                  |      | 1 month | 6 months |
|------------------|------|---------|----------|
| Absolute         | Ords | -15.6%  | -21.8%   |
| Relative to RTSI | Ords | -15.7%  | -26.6%   |
| Price range, \$  |      |         |          |
| High             | Ords | 42.7    | 46.0     |
| Low              | Ords | 36.2    | 34.3     |

## Financials, 2007E

|                   |       |           |      |
|-------------------|-------|-----------|------|
| Revenue, \$ mn    | 388.8 | P/S       | 0.9  |
| EBITDA, \$ mn     | 45.8  | EV/EBITDA | 9.26 |
| Net income, \$ mn | 18.9  | P/E       | 18.6 |

## Kalina – Relative performance



Source: RTS, Sovlink

## 1H07 IFRS review

- Kalina reported unaudited 1H07 IFRS results yesterday, 10 September. Revenue increased by 4.4% y-o-y to \$188 mn – in line with our estimates. Consequently, we confirm our full year 2007 revenue forecast at \$388.8 mn.
- The improvement in gross margin is amongst the more positive features in Kalina's report. Gross margin, increased by 15.5% due to the conclusion of the restructuring process of Kalina's German-based subsidiary – Dr Scheller – and the closure of its low-yielding plant in Omsk in the 4<sup>th</sup> quarter of 2006.
- EBITDA rose by 11.7% to \$27.5 mn, outperforming the EBITDA margin estimate used in our DCF model – 11.8% vs. actual margin figures of 14.6%. Consequently, we intend to reconsider our DCF model for Kalina by using actual 2007 figures and margins.
- At the same time, 1H07 net income dropped by 8.2% in comparison with 1H06 to \$13.9 mn, which is close to our full year net income expectations (\$18.9), based on Kalina's significant ad spend in 4Q06. However, we assume the company will increase ad spend in 2H07 in order to improve sales figures. We therefore do not have high expectations for the company's full year net income results. We believe that there is room for the company to exceed our net income estimates.
- The company's effective tax rate increased from 13.9% in 1H06 to 25.9% in 1H07 due to deferred tax. Nevertheless, we expect the full year effective tax rate to be around 24% (as assumed in our model).
- We are confident that Kalina is on the way to recovery after a poor performance in 2006. Management has undertaken a number of significant measures, such as the sale of Pallada-Vostok and the company's low-yielding detergent plant in Omsk. In addition, the company's Dr Scheller business was restructured and production of its skin care products was moved to Russia in the beginning of 2007, which will improve margins.
- The company's interim results support our 2007 forecasts and it is quite possible that the company's full-year figures will be better than our forecasts. Thus, we maintain our **BUY** recommendation on Kalina, with a target price of \$47.2, which gives potential upside of 31% from the current price.

## STOCK RATING POLICY

|                    |  |
|--------------------|--|
| <b>STRONG BUY:</b> | Upside over 25%; confidence level – high / upside over 100%; confidence level - low                      |
| <b>BUY:</b>        | Upside between 15 and 25%; confidence level – high / upside between 25% and 100%; confidence level – low |
| <b>HOLD:</b>       | Upside of less than 15%; confidence level – high / upside of less than 25%; confidence level – low       |
| <b>SELL:</b>       | Fair value at or below current price levels  |

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