



Razgulay Group

**Flash
Note**

Meeting with management

**Upside: under review
Target Price: under review****Analyst: Pavel Zhavoronkov**

zhavoronkov@sovlink.ru

Stock data

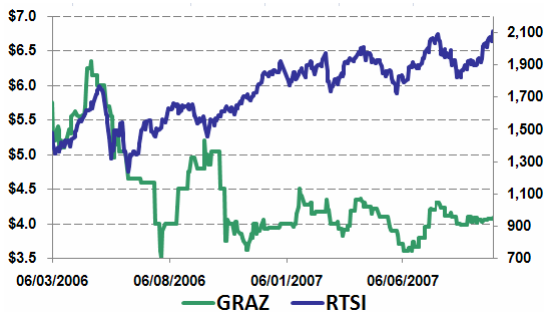
Ticker	GRAZ	M.Cap, \$ mn	487.60
Share Ords.	106,000,000	Free Float, %	28
Share Prefs.	-	Free Float, \$ mn	134
Bid Ords, \$	4.6	Offer Ords, \$	4.64

Market performance

		1 month	6 months
Absolute	Ords.	-0.37%	-2.27%
Relative to RTSI	Ords.	-10.19%	-10.81%
Price range, \$			
High	Ords.	4.10	4.36
Low	Ords.	4.01	3.60

Financials 2006

Assets, \$ mn	872	P/S	0.51
EBITDA, \$ mn	119	EV/EBITDA	6.88
Net income \$ mn	34	P/E	13.66

Razgulay Group – Relative performance

Source: RTS, Sovlink

- A recent meeting of the Razgulay Group's management with analysts was combined with a trip to the Otradinskiy sugar plant in the Orlov region.

- The Otradinskiy sugar plant was purchased by the Razgulay Group in 2005. The plant is located in the Mtsensk district and has a production capacity equal to 12% of the Group's total production capacity.

- Currently, the plant is being reconstructed and renovated. The plant is capable of processing 5,000 tonnes of sugar beet and 750 tonnes of raw sugar per day. Upon completion of the reconstruction it will be able to process 6,000 tonnes of sugar beet per day.

- Management are using this plant as an example of the way in which they will implement new technologies at enterprises belonging to the holding and also to demonstrate how the company's strategy aims to develop agricultural areas.

- So far, the plant has been used at 76% of its capacity. The company plans not only to increase this rate, but to increase output using production from their own farms.

- The Razgulay Group intends to use the central location of the plant (close to the Moscow-Belgorod highway) to boost its market share in the very profitable Moscow consumer market. The Group will not only purchase new sugar processing equipment, but also install retail packing lines for its finished products. It is also planning to start production of refined sugar, which will enable the company to increase its profits by circumventing the wholesale segment.

- We believe that the company's plans to expand its farms as well as its potentially higher profitability as a result of the modernisation of its processing capacities are not fully reflected in the company's price. We view the company's prospects positively and are in the process of preparing **a more detailed report.**



Company strategy

During the meeting, management reiterated that acquisition of cultivated areas was central to the Group's future development and required for the establishment of a vertically-integrated structure.

1H07 figures show that the Group increased its land (both owned and leased) by a factor of five times to 212,000 ha in 1H07 from 40,000 ha in 1H06. The Group owns 10% of the 212,000 ha, with the rest of the land being leased on a long-term basis – 90% of the contracts provide for leases ranging from 10 to 49 years. Furthermore, the Group intends to continue acquiring/leasing land. For instance, Razgulay owns 32,000 ha in the Orlov region, which it plans to increase to 40,000 ha over the next two years. In turn, this will allow the Group to increase the proportion of its own raw materials in the total volume processed, and thereby reduce production costs.

At the moment, the Group has negotiated quite favourable terms for expanding the land leased by the company on a long-term basis:

- The value of the land (if purchased) is RUR 5-6,000 per ha.
- At the same time, the cadastral value of the same land plot is RUR 30,000 per ha
- The long-term lease rates amount to one third of the sales price.

Achieving a higher yield from its lands under cultivation is another area, which is central to the company's development strategy. Currently, its yield on sugar beet crop amounts to 25-35 tonnes per ha. In Europe the yield is 1.5-2 times greater. In order to achieve European yield levels, the Group's agricultural branch will need to expand at a rapid rate over the next few years. However, in addition to achieving higher productivity from its lands, the company also needs to reduce losses incurred during processing. Thus, processing loss in Europe accounts for 2-3%, in comparison to 5-6% in Russia. This means that the current production rate of 13 kg of sugar from 100 kg of sugar beet could be increased to 15 kg of sugar at the same cost. According to management, this would increase their profit by 15%.



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STRONG BUY:	Upside over 25%; confidence level – high / upside over 100%; confidence level - low
BUY:	Upside between 15 and 25%; confidence level – high / upside between 25% and 100%; confidence level – low
HOLD:	Upside of less than 15%; confidence level – high / upside of less than 25%; confidence level – low
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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