

14 June 2010

Landkom International

Year End	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/08	10.6	(57.4)	(29.1)	0.0	N/A	N/A
10/09	14.6	(27.5)	(11.9)	0.0	N/A	N/A
10/10e	28.0	(7.4)	(1.8)	0.0	N/A	N/A
10/11e	34.6	(4.8)	(1.1)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Investment summary: New shoots from restructure

A new management team, constructed over the past nine months, has acted aggressively to bring Landkom back on track after its shaky start as a public company in 2007. Costs have been cut significantly; the land bank is being tuned and its quality improved; inappropriate investments in machinery are being replaced; and the quality of its expertise in agronomics has been greatly enhanced. The initial indicators of progress should begin to show through in the return on the current year's harvest. This will be a significant step in the process of rebuilding confidence in an investment opportunity that has considerable potential in the large and highly fertile market of Ukrainian arable farming.

Getting the basics right

The positive shift in the quality of Landkom's agricultural expertise should lead to improved yields in the current year, compared to a relatively weak result for Ukrainian rapeseed as a whole. More importantly it is also laying the foundations for a rapid and viable increase in the exploitation of the existing under-utilised land bank. This will underpin increasing confidence in expanding the total size of the bank.

Cash is still a constraint in the short term

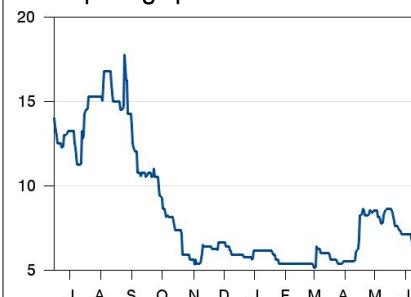
The expansion of farmed land and investment in infrastructure is capital intensive. Landkom is therefore being extremely careful with its cash resources during this key phase of re-establishing the business model. The \$16m raised in November 2009 is expected to be sufficient to cover the working capital requirements of the annual cropping cycle, but has led to a short-term moratorium on capex. This will not be a significant constraint at this level of activity as the existing asset base, combined with contracted outside providers, is easily sufficient for the expected level of activity. As the business grows in the medium term, this constraint may have to be addressed.

Valuation: Growth in yields will highlight potential

The value of the region's largest quoted player suggests that there is substantial upside for Landkom, as it begins to get full value out of its asset base. In the shorter term, the ratings of other players suggest that Landkom is not over-valued at the current level.

Price 6.62p
Market Cap £29m

Share price graph



Share details

Code LKI
Listing AIM
Sector Food Producers
Shares in issue 435.01m

Price

52 week High 17.75p Low 5.00p

Balance Sheet as at 31 December 2009

Debt/equity (%) 1.7
NAV per share (p) 17.8
Net debt (£m) 0.7

Business

Landkom International is involved in arable farming in Ukraine.

Valuation

	2009	2010e	2011e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	2.9	1.5	1.2
ROE	N/A	N/A	N/A

Revenues by geographic area

UK 0% Ukraine 100%

Analysts

Guy Bell 020 3077 5700
Neil Shah 020 3077 5715
industrials@edisoninvestmentresearch.co.uk

Investment summary: New shoots from restructure

Company description: Large scale Ukrainian arable farming

Landkom is a relatively new company (established in 2007) created to exploit rich arable land in Ukraine. The theoretical opportunity – to take ample fertile soil, and low local costs, and produce crops to service the growing demands of the world's food and bio-fuels industry – is a good one, but was tarnished by the initial management team. Costs ran out of control, yields were poor and losses were high. The new management team, introduced over the last 18 months, has taken the basics of the infrastructure that had been put in place and attempted to put the strategy back on track. Local management has been introduced; the agricultural skills base has been greatly increased; the land bank has been rationalised and is being tuned to be both more efficient and of higher quality; the vehicle fleet is being re-shaped to suit the needs of a large area agricultural operation; and costs have been substantially cut. The end result is a farming business with 39.9k hectares under cultivation (of a total land bank of over 70k hectares), growing rapeseed, wheat, maize and soya. This is a critical period for the management as it is about to show that it can obtain a solid combination of prices and yields and that, through tight control of costs, the Ukrainian financial opportunity does indeed make good commercial sense.

Valuation: Potential under the new management will begin to show

The Ukrainian agricultural sector has generated considerable international interest and investment over the last five years. As a consequence there are several reasonably comparable companies quoted on European markets. Of these, Mriya stands out as the fastest growing and the most highly rated, offering a potential upside of around 5x, if looking at market cap per hectare, or c 2x in terms of FY10 EV/sales. However, given that Landkom is in the process of getting back on track under a new management, in practical terms such an uplift is a long-term goal. In the shorter term, the positive progress to date and the valuations of other players in the segment suggest that the shares are not over-valued at their current level.

Sensitivities: Ukrainian operations, but now with local management

The agricultural industry is an international market and Landkom is exposed to fluctuations in commodity prices that are beyond its control. Locally, it is vulnerable to climatic variations and it is developing operations in an emerging market (legally and financially). This also means that it presents a degree of exchange risk – largely of the pound vs the dollar. New management is taking steps to mitigate as many of these sensitivities as possible: by taking advantage of forward selling, where appropriate; by recruiting local management with solid connections in Ukraine; and by greatly enhancing the agronomic expertise applied, so that crop yields are maximised for any given conditions.

Financials: Improving yields will ease cash flow constraints

Our estimates assume that improved agricultural management is leading to higher crop returns and sales prices achieved. Landkom raised \$16m in November 2009 to ensure that it had the working capital to achieve this. As the business moves from losses to cash flow neutral and then onwards, this will allow a return to spending on important infrastructure projects, such as storage, and a continued expansion of the utilisation of the un-harvested land bank.

Company description: Large scale Ukrainian arable farm

Landkom is a relatively recently created enterprise aiming to exploit the rich but underutilised arable farm lands of Ukraine. It has a potential land bank of 74,220 hectares, of which approximately 40k will be productive in 2010. The business is locally managed on the basis of farm modules connected to 18 bases, predominantly in Western Ukraine. It is focused on improving its agricultural efficiency on the land already planted; enhancing the operating efficiency and quality of the total land bank; and, in combination, building yields per hectare and gross margins over an expanding productive land area.

History

Since being a start-up in April 2007, Landkom has raised over \$160m to fund the aggressive accumulation and exploitation of Ukrainian arable land, reaching a peak of around 115k ha under contract to the company. However, an apparent lack of agricultural and local experience in the original management team resulted in huge losses – the land was underutilised and huge amounts were expended on inappropriate equipment. The management team was dramatically re-shaped during 2009 with a shift in emphasis towards local agricultural expertise.

Current management

Vitaliy Skotsyk, CEO, aged 38: Vitaliy Skotsyk became a director of Landkom in September 2009, having previously been general manager of Amaco, one of the largest agricultural equipment and input suppliers in the CIS. He has a PhD in Agriculture, a Doctorate in Strategic Management and has developed several farming businesses including one in Southern England.

Stephen Pickup, CFO, aged 35: Stephen Pickup was brought into the group in September 2008, having previously been part of the advisory team. He has an MBA and 10 years' experience in investment banking and M&A, much of it gained in emerging markets.

Non-execs: As part of the cost reduction process the board has also been rationalised. Of the original team, only Neil Balfour (chairman) remains. He has considerable experience of international financial markets. In January 2010 he was joined by Tom Morrison, who has over 35 years' experience in the agricultural sector and particular exposure to investments in Eastern European farming, and John Mapplebeck, who was previously global head of project finance at Nat West and has experience of the Ukrainian business market, having been a non-exec at the successful JKX Oil and Gas plc.

Land

Landkom currently has agreements to be able to farm 74k ha. The majority of this is in Western Ukraine, with 13k ha in Central Ukraine and 6k ha in the Crimea (South). Under existing Ukrainian law it is not possible to purchase this land so it is all leased, but with options to buy at market prices, should that law be changed. In the post communist era, land ownership became extremely fragmented and as a consequence the land bank is made up of many parcels of land on 15-year leases, from private individuals, or one- to five-year leases if via local authorities. The average lease length is around 10 years. Most of the leases are automatically renewable at Landkom's option and are rented at a rate of \$26 per hectare. The total available land bank is not in production, partly

because of working capital constraints, but also because much of it had been fallow for some time and therefore takes some effort to bring back into condition. Having been accumulated as a patchwork of parcels there is further scope to improve both quality and location and the new management has sought to tune the ‘bank’ via swaps and other deals. As a consequence, nearly 40% of the hectares have now been exchanged. The land has a good average fertility level, particularly when compared to Northern Europe, and this should to continue to rise through the enhanced agricultural management.

The Crimean land requires irrigation and had previously been considered non-core. However, under the new management it has been identified as having potential for fruit and vegetables. This will be investigated and, if successful, could provide another balance to the existing crop profile.

Facilities

Bases: The land is grouped around 18 bases, most of which have workshops, fuel and crop storage, weigh bridges and offices. The land bank is broadly organised to locate each of the bases towards the centre of each module. The average radius of land around a base is 60km. Part of the process of ‘tuning’ the land bank is designed to improve this clustering as well as making more of the land parcels co-terminus, because the quality of Ukrainian roads is not high. This is also a critical issue because the crops are high bulk, relatively low value product and therefore best suited to rail or sea transport. Given the bias of the group’s operations towards the west, rail is the only feasible transport option and therefore bases are located within an average of 11km of a rail hub.

Storage: All harvested crop has to be dried and stored, if only temporarily in the case of rapeseed. Facilities for such processing had been in relatively short supply in Ukraine and so companies like Landkom initially believed that they had to build their own. This is very expensive a 20k tonne facility (in two silos) near Lviv cost Landkom \$4m and is capable of supporting around 10k ha of crop. The company does have the parts for an identical facility, but this will not begin assembly until the autumn as cash resources are more carefully husbanded. In the meantime sufficient storage has been organised for the current year, being a mix of: the existing silos; contracted third-party facilities; 35k tonnes of in-house flat storage (cheaper, but needs a lot of land, which Landkom has at its bases); and also heavy duty plastic sleeves, which allow large quantities of dried crop to be stored for as little as \$1 per tonne. The in-house facilities will be used several times during the year as the various crop cycles are completed.

Crops

The current crop mix is based on a four-year crop cycle with rapeseed, wheat, maize and soya being rotated in roughly equal quantities. Sunflower and barley will also be used, where the conditions are locally not ideal for one of the main crops. This crop mix spreads the planting and harvesting loads allowing better utilisation of equipment and management resources (see Exhibit 1).

Exhibit 1: Crop cycle

	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
OSR					Fert/ Chemicals				Harvest	Drilling		
Winter Wheat					Fert/ Chemicals					Harvest	Drilling	
Soya					Fert/ Chemicals	Drilling	Fert/ Chemicals				Fert/ Chemicals	Harvest
Maize	Fert/ Chemicals					Drilling	Fert/ Chemicals					Harvest
Sunflower					Fert/ Chemicals	Drilling	Fert/ Chemicals			Fert/ Chemicals	Harvest	

Source: Landkom International

Gross margins

The margin is a factor of sales price per tonne, yield per hectare and direct costs per hectare.

Sales: The sale price of crops is set by national and international commodity markets. Due to local conditions and logistics in Ukraine, prices achieved for sales into the home markets tend to be 15-25% lower than quoted prices on MATIF, for example. The advantage of selling in Ukraine is that the 20% sales VAT is allowed to be retained by farming enterprises, which compensates, to an extent. The market for rapeseed, however, is currently predominantly in northern Europe, where environmental regulations have enforced the partial use of bio-diesel in fuel. This provides a good market for rapeseed, but, as there is no existing Ukrainian processing capacity, it means that Landkom loses the VAT advantage. Since the change of management, Landkom has put considerably more thought into how to maximise sales revenues. Improvements will be achieved by using a more sophisticated blend of forward and spot selling so that prices are not sought when the market is flooded with product just after the harvest. This relies on Landkom making a reasonably prudent judgment on its potential harvest so that it avoids having to fill in over sold contracts, which could be costly; selling product for export via businesses that pay a lot of import VAT, so that both enterprises can gain from offsetting; and being more creative, such as selling direct to livestock farmers who do not need the crop dried, hence saving on processing costs. Some of these changes will take time to reach material financial potential, but they demonstrate a positive approach.

Yield and input costs: Yield and input costs have a close relationship as, although yield can be significantly affected by weather, a considerable proportion of the eventual outcome is the result of preparing the soil properly, using seed of the appropriate quality, planting it well and in a timely manner, using the right amounts of supplements and pesticides and properly monitoring the entire process. Yields will always be well below those of intensively farmed regions such as the UK, but do have scope for considerable improvement. For example, winter rapeseed is expected to yield around 2.8t/ha and should move up towards the UK average of around 3.5t/ha, in the medium term. Winter wheat should yield around 4.5t/ha this year compared to around 9t/ha in the UK.

Over the past eight months the new management has concentrated more resources into the inputs (seed/chemicals/fertiliser) and has invested in supervisory agronomists and monitoring technology. As a consequence, despite some additional investment, it is anticipated that overall, during the current year, there will be a saving of at least 35% in direct costs, including inputs, fuel, labour, harvesting, maintenance, etc. Under the old regime costs were so high that making a return at the gross level was impractical; this will no longer be the case as yields improve and costs fall. The success of this approach is also demonstrated by market estimates, which suggest that as much as 30% of the Ukrainian winter rapeseed crop has been lost, while Landkom suffered virtually no damage.

The less intensive nature of the farming means that, compared to countries like the UK, input costs should be less. Under the old regime this was not the case, particularly for winter rapeseed – Landkom \$621 per hectare, vs UK \$500. But in 2010 this should fall to \$420 per hectare.

Equipment

During its start-up phase, Landkom purchased much of its equipment from the UK and not only suffered import duties but also ended up with a significant proportion of the wrong sort of

equipment for the Ukrainian style of farming (in 2009 a \$2m impairment charge was taken to reflect this). Over the last 12 months it has started an exercise of trading in tractors, for example, on a three-for-one basis for larger ones. This process is not being rushed to ensure that Landkom gets fair value. In addition, in future, a three-year replacement cycle will be operated to reduce running costs as items will remain under warranty. The company believes that this will be financially efficient because of the scale of bulk discounts achievable on purchases, and savings on maintenance/repairs.

Currently Landkom has sufficient equipment to carry out the base workload for 50k ha, although the efficiency will undoubtedly improve as the fleet is fine tuned. At peak times, however, there is still a need to hire in contractors and equipment, particularly when harvesting rapeseed as it needs to be completed in around two weeks. Thus the fleet of 20 combines is supplemented by 30-40 contractors during that intensive period, and this would be a similar story for the lorry fleet. This should not prove to be a problem as the capacity in Ukraine increased dramatically from 2008 after inward investment into the farming industry boomed. These are either contracted, or in the process of being contracted.

All equipment is fitted with GPS trackers and some with video equipment, so that agronomists can monitor that planting and chemical applications are carried out at the correct rate, for example. Naturally, the ongoing process of tuning the land bank is also vital here as it will reduce travel time (fuel and non-productive wear) for plant between fields.

Strategy: Sustainably exploit a natural asset

The long-term strategy of exploiting the potential of the high quality 'black earth' of Ukraine to become a profitable player in the world food and bio-fuels markets remains unchanged. The management restructuring of the past nine months now makes it a more realistic possibility. In the short term, the objective is to maximise product revenues, build yields and contain costs, while steadily bringing more of the existing land bank on line. This will demonstrate the company's ability to generate viable returns and thereby facilitate the next step, where the profitable extension of the land bank can resume.

Market

The markets for food and biofuel products are international and prices are set on major commodity exchanges. Naturally, there are local variances based on logistics, taxation and/or quality issues. For food, prices are based on demand, which is fairly consistent, and supply, which can fluctuate quite significantly due to climate variations.

The bio-fuels market is currently largely driven by legislation relating to greenhouse gases. Landkom is targeting this market with its rapeseed crop as this is the major source for bio-diesel in Germany, the biggest producer in Europe at 55m litres in 2009. Legislation helps stabilise demand but there are other factors such as the price of crude oil, the success of crops of rapeseed (expected to be weak for Ukraine, apart from Landkom, but better for the EU) and the availability of alternatives such as large soya crops in the US and Latin America.

Ideally, for Landkom, there would be a local market for bio-fuel production, but, although legislation has recently come into force suggesting that it should make up a minimum of 1% of fuel, there is currently no Ukrainian processing capacity.

Farming in Ukraine: The black soil, with a deep humus layer, combines with a favourable climate in much of the country to make the 32m available hectares of arable land an attractive proposition. Lack of investment in contemporary, best practice, agricultural techniques and the historic split of land ownership, means that this land has been underutilised. This situation was recognised towards the end of the last decade and, although the market is still dominated by small players, a number of larger operators such as Landkom and Mriya have begun the process of accumulating and exploiting large arable land banks. The scale of the opportunity is so large that there is plenty of scope for these players and although they may put some pressure on the infrastructure, such as storage, they will also provide a stimulus for local investment in such facilities. In the short term, Landkom will ensure the integrity of its production line by having effective contracts with the suppliers that provide the peak time overflow capacity for harvesting/storage/transport.

Sensitivities

Weather

Over the last 10 years the climate of North and Western Ukraine has warmed significantly and improved the growing environment. It is anticipated that this is a long-term shift, but changes in short-term weather patterns will continue to have an important impact on crop yields. Landkom has introduced rigorous agronomic disciplines to maximise the potential yield for any given set of conditions and believes it has thereby reduced the climate risk to around 20%. It cannot be eliminated entirely, but, given that Landkom managed to produce decent yields in 2009, despite a prolonged drought, and appears to have avoided the significant failure of the winter rapeseed crop in Ukraine this year, there is positive evidence to suggest that its efforts are indeed having an impact.

Commodity markets

The local weather affects local yields, but global commodity prices are set by global trends in demand, production and climate. Landkom cannot influence such trends, but can maximise its return by careful use of forward selling. This will be done conservatively to ensure that the margin for error in final crop yields is not exceeded, but should ensure that sales pricing is more firmly under the control of management. Input prices are effectively commodity based and out of Landkom's control – for example, fertiliser and chemicals are largely based on the price of gas and oil – but at least it can use its growing scale to maximise bulk discounts and thereby enhance its competitive advantage against smaller operators. In addition, local conditions mean that the pricing of gas from Russia is currently falling and therefore fertiliser will follow.

Exchange

Landkom is a UK-quoted company that trades principally Ukrainian hryvnia, although about 80% of those costs are closely linked to movements in the US dollar. In addition, the structure of the company means that there are inter-company loans in these currencies that are also affected by the relative rates. As such, its results in earnings per share will be vulnerable to swings in the £/\$

rate and its operations will be partially exposed to swings in the \$/UAH rate. Exchange rates have been particularly volatile recently, with the former fluctuating between £1/\$1.4 and £1/\$1.65 over the last 12 months, and the latter between \$1/UAH7.5 and \$1/UAH9.4. Until the current state-level deficit crisis calms down, such volatility is likely to continue. In general, if the pound strengthens against the dollar/hryvnia then Landkom suffers a loss, as in 2009, and vice versa.

Ukraine: An emerging market

Ukraine is one of the countries emerging from the shadow of the Soviet era. As such, it has made huge progress in terms of opening up to international markets and practices. The country is now relatively stable, but has significant budgetary problems and its prospects are still closely tied to those of its neighbour Russia. The legal framework is not yet comparable to Western Europe, there remains a relatively high level of corruption/crime and the freedom to move funds internationally is uncertain. Landkom has done its best to compensate for many of these risks by recruiting well connected local management and its own specialist local security experts.

Valuation

Exhibit 2: Peer comparison

Landkom's share price is in £, others in euros and have been converted at £1=€1.2 ; \$ have been converted at £1=\$1.45

	Share price p	Market cap €m	Land Bank		Turnover \$m	Mkt Cap/ha £	EV/Sales		
			Hectares	% harvested			2009	2010e	2011e
Landkom	6.62	28.8	70,000	56	28.0	411	2.9	1.5	1.2
Mriya	1,886	400.7	180,000	70-80	148.3	2,290	4.2	3.3	N/A
Sintal	245	80.5	98,000	82	54.0	822	2.1	1.7	N/A
MCB	169	29.2	97,900	70-80	26.9	298	1.8	1.3	N/A

Source: Edison Investment Research, Thomson Reuters

The potential of the Ukrainian arable market has attracted considerable interest over the last five years and there are now several fairly significant operators established in the market with public quotations on various exchanges throughout Europe. Those most comparable to Landkom, on the basis that they are predominantly arable farmers, are included in the table above.

Given that Landkom is moving from a start-up loss-making position to one of profitability over the next few years, a normal comparative evaluation of forward P/E ratios is not feasible. All the other businesses are currently profitable, although MCB is only marginally so.

Mriya clearly stands out against the others on all of the metrics. It has a strong recent record of growth in turnover and profitability and has also just raised a \$75m loan note to fund its aggressive land expansion. It is anticipated that this is likely to lead to an equity placing in the next 12 months.

MCB's low market cap per hectare probably reflects its more modest expansion plans, its low yields and its lack of in-house storage capacity. All of these are almost certainly related to cash constraints.

In relative terms, Landkom's more modest valuation is an indicator of the market's view of the problems it had in the 18 months after start-up, which are highlighted in the fact that it is well below its competitors in terms of exploiting its own land bank. These are being addressed by the new management regime, through a combination of better agricultural practices and smarter selling, and these should see yield, revenues and utilisation make solid progress over the next three years.

The valuation of Mriya is a clear guide of the potential up-side available to Landkom as the results of the changes come through in concrete results. In the shorter term, the valuations of the other

comparators and the international interest in the Ukrainian agricultural sector in general provide considerable comfort that the recent progress in the share price is not overdone.

Financials

Profit and loss

Landkom made a cumulative pre-tax loss of just under \$100m in the period between its start up in 2007 and the year ended October 2009. This demonstrates the waste of the initial management team, but masks the dramatic changes that have been developing since late 2008. The 2009 period was only 10 months long to bring it more into line with the cropping cycle, but the transformation far outweighs the impact of the shorter time period. Direct costs fell by nearly 20% despite a 70% increase in land harvested; significant savings were made in fuel, staffing, harvesting, maintenance and transport. Despite this, yields were maintained – albeit that sales prices were substantially lower than in 2008, a year when prices were driven up by speculators. At the operating level, admin expenses were cut by over 70%, largely from staff and office costs as the number of expats was significantly reduced, being replaced by local management. In the current year this trend is expected to continue, with direct costs per hectare falling by a further 35% and admin costs falling only marginally.

Other: Other operating income relates to VAT on product sold in Ukraine which is allowed to be kept by agricultural businesses as part of government incentives to the sector. VAT is chargeable at 20%.

FX: In 2008 and 2009, Landkom suffered P&L losses of \$4.6m and \$2.0m, respectively. These were generated partly as a result of translation differences on the outstanding VAT claimed by the company (which has now been written off). However, the largest element arises from the treatment of inter company loans between pound, dollar and hryvnia companies. These are designed to assist in the flow of funds internationally within the group, but also can lead to significant swings in this P&L line. This may remain material until group profitability is considerably higher. In general if the pound weakens vs the dollar/hryvnia then the FX line will benefit, as is expected in the current year.

Exceptional items: In 2009 a substantial review of group operations was undertaken. This resulted in prudent impairment charges being taken against overvalued or unrecoverable assets. Of the total of \$14.5m the bulk was the write-down of inappropriate equipment (\$2m) and the write-off of VAT (\$10.2m), which was thought to be recoverable on imported agricultural machinery, but is not.

Balance sheet

Despite the company having raised approximately \$140m, at prices between 12-100p per share, since flotation in 2007, the balance sheet at 31 October 2009 showed a net asset value of \$42m, largely as a consequence of the accumulated losses over the period. The bulk of the asset value is represented by buildings, plant and equipment which were written down by fair value impairment charges in 2009. Other assets include stock of biological assets and spare parts for the equipment base. The latter will be wound down as parts can now be largely purchased, just-in-time, locally.

Biological assets: These represent winter crops already in the ground by the new year end. In the past these have been re-valued using somewhat quirky and complex accounting calculations to reflect their progress in the crop cycle. The rules state that if there has been little 'biological

transformation' by the period end, then cost can be used as an approximation. Given the change of year end this should mean that this rule should increasingly come into force and reduce any P&L volatility. Indeed in 2009 the net impact at the gross margin level was immaterial.

Cash

The cash flow reflects the capital raised being used for asset investments and losses. As a consequence the company finished the last period end with a net debt of \$0.7m. Since then a further \$16m was raised in November 2009 at 5p per share. Future cash flows now depend on the ability of the management to maintain the trend towards positive gross margins and to use the operational gearing to turn this into positive net cash inflows.

In terms of investment in fixed assets, Landkom is currently well covered for vehicles and equipment and in the short term believes it has adequate storage and drying facilities, in-house or contracted. In the medium term it would look to invest further in-house, particularly given it has an unassembled grain silo awaiting construction. However, it will not rush to over extend its cash flow until the positive operational trends are established.

The timing of the crop cycle and the expansion of use of the existing land-bank will put demands on the cash flow both throughout the year and between one year and the next. For example the winter crops, rapeseed and wheat, are both planted prior to the year end to be harvested in the summer of the following financial year. With a growing area under cultivation that is stable this working capital requirement will stabilise also. However, Landkom expects to grow and, as a very rough guide, 10k hectares of additional planted winter crops could cost an estimated \$1.7m in seed and initial chemicals. Once profitable, such expansion should be comfortably covered from operating cash flow.

However, the cropping pattern also puts some strain on short-term cash flow, with crops being in the ground for between five and 11 months. The investment of between \$245 and \$420 per hectare in direct inputs suggests a cash investment of \$10-15m, before general operating costs, which must be financed until harvest time and sale. The company does not have any overdraft facilities but, in anticipation of this consumption of short-term working capital, it raised the extra funds in November. These should combine with extended payment schedules on seed and chemicals, and a moratorium on capex, to ensure that overdraft facilities are not required.

Exhibit 3: Base parameters for our 2010 estimates

	Rapeseed	Wheat	Maize	Winter Wheat	Other	Soya
Hectares, 000's	15.13	3.52	7.88	5.66	4.32	2.98
Yield, t/ha	2.8	3.5	6.0	4.5	2.0	2.0
Price per tonne, \$	310	121	135	121	229	318

Source: Edison Investment Research

Exhibit 4: Financials

Note: Year end changed to October from December in 2009. Therefore 2009 is a 10-month period.

	US\$'000s	2007 IFRS	2008 IFRS	2009 IFRS	2010e IFRS	2011e IFRS
Year end 31 October						
PROFIT & LOSS						
Revenue		1,567	10,645	14,553	27,982	34,634
Cost of Sales		2,786	(47,354)	(36,613)	(33,341)	(36,667)
Gross Profit		4,353	(36,709)	(22,060)	(5,359)	(2,034)
EBITDA		(1,426)	(56,123)	(20,891)	(1,019)	2,246
Operating Profit (before GW and except.)		(1,913)	(57,071)	(27,445)	(7,519)	(4,754)
Intangible Amortisation		0	0	0	0	0
Exceptionals		0	0	(14,505)	0	0
Other		0	0	0	0	0
Operating Profit		(1,913)	(57,071)	(41,950)	(7,519)	(4,754)
Net Interest		589	(369)	(66)	150	0
Profit Before Tax (norm)		(1,324)	(57,440)	(27,511)	(7,369)	(4,754)
Profit Before Tax (FRS 3)		(1,324)	(57,440)	(42,016)	(7,369)	(4,754)
Tax		0	(236)	(20)	0	0
Profit After Tax (norm)		(1,324)	(57,676)	(27,531)	(7,369)	(4,754)
Profit After Tax (FRS 3)		(1,324)	(57,676)	(42,036)	(7,369)	(4,754)
Average Number of Shares Outstanding (m)		101.0	197.7	230.8	418.8	435.0
EPS - normalised (c)		(1.3)	(29.1)	(11.9)	(1.8)	(1.1)
EPS - FRS 3 (c)		(1.3)	(29.1)	(18.2)	(1.8)	(1.1)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
BALANCE SHEET						
Fixed Assets		13,515	48,829	40,546	35,046	31,046
Intangible Assets		169	492	27	27	27
Tangible Assets		13,346	48,337	40,519	35,019	31,019
Investments		0	0	0	0	0
Current Assets		103,323	35,979	10,171	22,695	24,441
Stocks		8,573	20,625	9,264	10,190	11,719
Debtors		2	390	401	7,000	9,000
Cash		87,646	4,230	222	5,204	3,222
Other		7,102	10,734	284	300	500
Current Liabilities		(3,630)	(8,562)	(7,537)	(7,000)	(9,500)
Creditors		(3,567)	(7,716)	(6,665)	(7,000)	(9,500)
Short term borrowings		(63)	(846)	(872)	0	0
Long Term Liabilities		(125)	(156)	(350)	(280)	(280)
Long term borrowings		(125)	(156)	(66)	0	0
Other long term liabilities		0	0	(284)	(280)	(280)
Net Assets		113,083	76,090	42,830	50,461	45,707
CASH FLOW						
Operating Cash Flow		(16,178)	(68,318)	(9,622)	(8,230)	1,017
Net Interest		589	1,528	(913)	150	0
Tax		0	0	0	0	0
Capex		(14,505)	(40,041)	(967)	(1,000)	(3,000)
Acquisitions/disposals		0	(465)	266	0	0
Financing		117,552	23,066	7,292	15,000	0
Dividends		0	0	0	0	0
Net Cash Flow		87,458	(84,230)	(3,944)	5,920	(1,983)
Opening net debt/(cash)		0	(87,458)	(3,228)	716	(5,204)
HP finance leases initiated		0	0	0	0	0
Other		0	0	0	0	0
Closing net debt/(cash)		(87,458)	(3,228)	716	(5,204)	(3,222)

Source: Landkom International accounts, Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
N/A	N/A		Litigation/regulatory	○
			Pensions	○
			Currency	●
			Stock overhang	○
			Interest rates	○
			Oil/commodity prices	●

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 07-11e	N/A	ROCE 10e	N/A	Gearing 10e	N/A	Address:	
EPS CAGR 09-11e	N/A	Avg ROCE 07-11e	N/A	Interest cover 10e	50.1	81 Rivington Street	
EBITDA CAGR 07-11e	N/A	ROE 10e	N/A	CA/CL 10e	3.2	London	
EBITDA CAGR 09-11e	N/A	Gross margin 10e	N/A	Stock turn 10e	133	Phone	020 3170 5682
Sales CAGR 07-11e	117	Operating margin 10e	N/A	Debtor days 10e	91.3	Fax	020 3178 2975
Sales CAGR 09-11e	54.3	Gr mgn / Op mgn 10e	0.7	Creditor days 10e	91.3	www.landkom.com	

Principal shareholders		%	Management team
Hunter Hall		18.0	CEO: Vitaliy Skotsyk
Invesco		13.7	Vitaliy Skotsyk became a director of Landkom in September 2009, having previously been general manager of Amaco, one of the largest agricultural equipment and input suppliers in the CIS. He has a PhD in Agriculture, and a Doctorate in Strategic Management.
JP Morgan		11.5	
Odey Ass Mgmt		11.0	
Kairos		6.9	
Directors and associates		1.0	CFO: Stephen Pickup
			Stephen Pickup was brought into the group in September 2008, having previously been part of the advisory team. He has an MBA and 10 years' experience in investment banking and M&A, much of it gained in emerging markets.
Forthcoming announcements/catalysts		Date *	
Interim results		July 2010*	
Preliminary Results		January 2011*	Chairman: Neil Balfour
AGM		April 2011*	Neil Balfour is a UK and international investment banker and a Euro MP (1979-84). He has latterly focused on private equity in Eastern Europe, and in particular Poland. He joined Landkom in 2007.
<i>Note: * = estimated</i>			
Companies mentioned in this report:			
Mriya, Sintal, MCB			

EDISON INVESTMENT RESEARCH LIMITED

Edison is Europe's leading investment research company. It has won industry recognition, with awards in both the UK and internationally. The team of more than 50 includes over 30 analysts supported by a department of supervisory analysts, editors and assistants. Edison writes on more than 250 companies across every sector and works directly with corporates, investment banks, brokers and fund managers. Edison's research is read by major institutional investors in the UK and abroad, as well as by the private client broker and international investor communities. Edison was founded in 2003 and is authorised and regulated by the Financial Services Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584).

DISCLAIMER

Copyright 2010 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Landkom International and prepared and issued by Edison Investment Research Limited for publication in the United Kingdom. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison Investment Research Limited at the time of publication. The research in this document is intended for professional advisers in the United Kingdom for use in their roles as advisers. It is not intended for retail investors. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment. A marketing communication under FSA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison Investment Research Limited has a restrictive policy relating to personal dealing. Edison Investment Research Limited is authorised and regulated by the Financial Services Authority for the conduct of investment business. The company does not hold any positions in the securities mentioned in this report. However, its directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. Edison Investment Research Limited or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. This communication is intended for professional clients as defined in the FSA's Conduct of Business rules (COBs 3.5).

Edison Investment Research

Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk
Registered in England, number 4794244. Edison Investment Research is authorised and regulated by the Financial Services Authority.