

23 July 2010

## Landkom International

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	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: Interims on track

The first interim results announcement under the new management team confirms that the changes they have made are beginning to have an impact – costs are being contained and solid prices have already been achieved for the majority of the winter rape crop. The harvest is now under way and yields should be in line with expectations, outperforming the rain-damaged yields of much of the Ukrainian arable sector. This is a key period for the new management and the newsflow continues to support our view that the potential of this company will begin to show through in the full year numbers.

#### Crop management pays off

Although it is too early to determine accurate yields, early indications would suggest that the company has avoided most of the losses suffered by other operators in Ukraine. In addition, it has already forward sold around 80% of the expected rapeseed crop at prices 17% higher than those achieved last year. These factors demonstrate that management is beginning to deliver on its key objectives.

#### Careful budget and cash management is a new hallmark

As promised the new management has avoided the profligacy of the previous team. Assuming the harvest continues as it has started, Landkom has the cash resources to complete both it and the re-planting cycle this year, within existing resources.

#### Upside potential

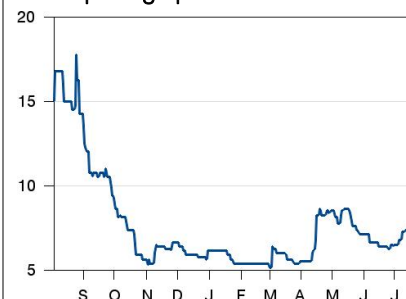
We have taken a cautious view and maintained our existing estimates, but will review this at the time of the announcement of more details on the harvest in August. We believe that there may well be potential for a positive revision on the basis of prices, yield and VAT income – which are all interrelated.

#### Valuation: Positive trend justifies recent uplift

The continued newsflow suggests that Landkom is heading in the direction its new management promised. It is still relatively early days but the valuation is not demanding and the recent share price rise has not undermined this view.

Price 7.75p  
Market Cap £34m

#### 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 October 2009

Debt/equity (%) 1.7  
NAV per share (p) 10.0  
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	1.8	1.5	1.3
ROE	N/A	N/A	N/A

#### Geography based on revenues

UK 0% Ukraine 100%

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## Interim results

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The interim results are for the six months to April compared to June in 2009 and cover a period of relatively low activity, particularly in revenue terms. Turnover therefore only represents the sale of the remnants of the prior year's harvest. The numbers and the statements do, however, contain sufficient information, which, when extracted, supports our view of the outturn for the full year.

The costs of the first half planting activity and the subsequent inputs is rolled into the 'Biological asset' on the balance sheet. On a conservative basis this shows up as a small positive in the P&L, indicating, encouragingly, that the company anticipates making a gross profit on the assets in the ground, as opposed to a substantial loss last time. As a rough guide to the costs incurred in getting to this stage in the crop cycle the balance sheet value also gives a broad positive indication. Despite the significant increase in the cultivated land, from 26k ha to nearly 40k ha, and taking into account the anticipated loss last time, the costs invested in the crops are substantially down on last year. These numbers will be distorted by the differing period ends, but they do suggest that the efforts to reduce direct costs per hectare by more than 35% are not unrealistic.

Admin expenses were reduced significantly compared to the prior period. The trend is now slightly upwards, from a significantly smaller base, as the costs of the strengthened local management team flow through. Even so, they will remain below those of 2009, on an annualised basis.

A significant foreign exchange gain (\$1.9m) is a reflection of the relative weakness of the pound over the period on the international treasury structure of the group. The pound appears to have stabilised for now which, if sustained, would mean that this gain would be taken to the full year figures.

As expected, cash was absorbed during the period as the first half requires investment in planting, fertilising and monitoring, with little potential for generating income. Thus the \$16m raised in November 2009 had been reduced to a cash balance of \$2.2m by the end of April. This balance has fallen further since, as a consequence of spring planting and ongoing operations. However, through careful management including a moratorium on capex, the company has remained in a positive cash position and will continue to do so as the income stream from the winter rape harvest begins to flow through, from now onwards.

## The second half and beyond

Crop prices on international markets have begun to make progress recently through a mixture of steady demand and fears surrounding harvests in major producing countries such as Russia and Ukraine. As part of the strategy of the new management, Landkom has sought to maximise its potential returns and to lock in income when it sees an opportunity at the right sort of level. The first indication of success in this objective was the announcement in June that it had sold forward 35k tonnes of rapeseed at a price of \$337 per tonne including \$19 of transport costs payable by Landkom. This represents a 17% uplift on the prices achieved in 2009 and if the recent trend in prices is maintained the balance of the crop (approximately 20%) should be sold at similarly solid prices on the spot market.

The harvest of rapeseed has now started and all deliveries will be completed before the end of August. Very early indications have raised no concerns about the anticipated yields, which is extremely encouraging given rumours of underperformance in yields of the wider Ukrainian rape market as a whole. The company will announce details of the actual performance and costs in August.

The company has also done a deal with an 'importer' to ensure that it maximises its price including VAT and is also able to recover as much VAT as possible. This income should represent around 18% of the gross margin and given the potential price and yield combination could be well above last year. We have already factored in an increase in our numbers, but now anticipate that this may be exceeded.

At this stage we are maintaining our existing estimates which suggest a small EBITDA loss. We believe this to be a cautious approach given the number of variables yet to be firmed up. However, there are sufficient positive trends in the announcement to suggest that we may be able to review this in the light of the harvest data in August. In addition to the potential uplift from the yield/price combination there is also scope for a knock on effect into the other operating income line (net VAT income).

Plans for the year ahead, remain in line with expectations. Land under cultivation will be expanded above 50k ha and kept within the working capital constraints created by self generated cashflow. In addition the company may be able to ease its constraints on capex slightly, enabling it to erect its second 20k tonnes storage silos and boosting its in-house storage capacity to 75k tonnes.

## Exhibit 1: Financials

	US\$'000s	2007	2008	2009	2010e	2011e
Year end 31 October		IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>						
<b>Revenue</b>		<b>1,567</b>	<b>10,645</b>	<b>14,553</b>	<b>27,982</b>	<b>34,634</b>
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)
<b>EBITDA</b>		<b>(1,426)</b>	<b>(56,123)</b>	<b>(20,891)</b>	<b>(1,019)</b>	<b>2,246</b>
<b>Operating Profit (before GW and except.)</b>		<b>(1,913)</b>	<b>(57,071)</b>	<b>(27,445)</b>	<b>(7,519)</b>	<b>(4,754)</b>
Intangible Amortisation		0	0	0	0	0
Exceptionals		0	0	(14,505)	0	0
Other		0	0	0	0	0
<b>Operating Profit</b>		<b>(1,913)</b>	<b>(57,071)</b>	<b>(41,950)</b>	<b>(7,519)</b>	<b>(4,754)</b>
Net Interest		589	(369)	(66)	150	0
<b>Profit Before Tax (norm)</b>		<b>(1,324)</b>	<b>(57,440)</b>	<b>(27,511)</b>	<b>(7,369)</b>	<b>(4,754)</b>
<b>Profit Before Tax (FRS 3)</b>		<b>(1,324)</b>	<b>(57,440)</b>	<b>(42,016)</b>	<b>(7,369)</b>	<b>(4,754)</b>
Tax		0	(236)	(20)	0	0
<b>Profit After Tax (norm)</b>		<b>(1,324)</b>	<b>(57,676)</b>	<b>(27,531)</b>	<b>(7,369)</b>	<b>(4,754)</b>
<b>Profit After Tax (FRS 3)</b>		<b>(1,324)</b>	<b>(57,676)</b>	<b>(42,036)</b>	<b>(7,369)</b>	<b>(4,754)</b>
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
<b>BALANCE SHEET</b>						
<b>Fixed Assets</b>		<b>13,515</b>	<b>48,829</b>	<b>40,546</b>	<b>35,046</b>	<b>31,046</b>
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
<b>Current Assets</b>		<b>103,323</b>	<b>35,979</b>	<b>10,171</b>	<b>22,695</b>	<b>24,441</b>
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
<b>Current Liabilities</b>		<b>(3,630)</b>	<b>(8,562)</b>	<b>(7,537)</b>	<b>(7,000)</b>	<b>(9,500)</b>
Creditors		(3,567)	(7,716)	(6,665)	(7,000)	(9,500)
Short term borrowings		(63)	(846)	(872)	0	0
<b>Long Term Liabilities</b>		<b>(125)</b>	<b>(156)</b>	<b>(350)</b>	<b>(280)</b>	<b>(280)</b>
Long term borrowings		(125)	(156)	(66)	0	0
Other long term liabilities		0	0	(284)	(280)	(280)
<b>Net Assets</b>		<b>113,083</b>	<b>76,090</b>	<b>42,830</b>	<b>50,461</b>	<b>45,707</b>
<b>CASH FLOW</b>						
<b>Operating Cash Flow</b>		<b>(16,178)</b>	<b>(68,318)</b>	<b>(9,622)</b>	<b>(8,230)</b>	<b>1,017</b>
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)
<b>Opening net debt/(cash)</b>		<b>0</b>	<b>(87,458)</b>	<b>(3,228)</b>	<b>716</b>	<b>(5,204)</b>
HP finance leases initiated		0	0	0	0	0
Other		0	0	0	0	0
<b>Closing net debt/(cash)</b>		<b>(87,458)</b>	<b>(3,228)</b>	<b>716</b>	<b>(5,204)</b>	<b>(3,222)</b>

Source: Edison Investment Research, Landkom International accounts

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