INVEST
SECURITIES

BIENS DE CONSOMMATION

AGROGENERATION

ACHAT

OBJECTIF : 0,69€ (vs 0,71€) +82%

UPDATE REPORT

RISING LEVERAGE

While the situation in Ukraine is gradually returning to normal, thereby favoring an improvement in conditions in the banking system, agricultural commodity prices remain low (even if they have stabilized). In this context, AgroGeneration's 2016 results confirmed those of 2015 and demonstrated the group's ability to generate largely positive EBITDA. The decline in financial charges should contribute to a return to net profit from 2017. Starting in 2018, the leverage effect linked to strict cost controls should favor a sharp rebound in earnings when agricultural commodity prices rise. BUY rating maintained with a target price of €0.69 (vs. €0.71).

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While the situation in the Ukraine has stabilized ….

Economic conditions in Ukraine rapidly deteriorated in 2014/2015 following the ousting of the pro-Russian president Yanukovych, which led to the annexation of Crimea and the conflict in the Donbass region. The situation has calmed since 2016 thanks to fiscal and anti-corruption reforms and the resumption of IMF financing in September. GDP is rising, inflation is falling and the local currency (hryvnia) is stabilizing. Conditions in the banking sector are improving and the banks are beginning to make loans again.

… agricultural commodity prices are not recovering

Looking beyond the impact of these eroded economic conditions, AgroGeneration has been penalized since 2013 by the continued fall in agricultural commodity prices. While this decline continued at the beginning of 2016, prices have since stabilized. The recovery in prices should remain limited in 2017 due to substantial global cereal inventories. The recovery should be more significant in 2018, supported by fundamental demand trends. We estimate that prices could return to their 2013 levels in 2025. Furthermore, the leasing of additional hectares should contribute to business growth.

Progressively rising earnings leverage over the long term

The continuation of low agricultural commodity prices and economic conditions that are increasing the cost of crop financing have pushed group management to optimize the entire range of costs in order to reach an EBITDA margin around 30%. Cost rationalization will provide a significant leverage effect and an increase in the EBITDA margin when agricultural commodity prices recover. The fall in financial charges linked to the improvement in economic conditions should enable the group to report a net profit starting in 2017.

A valuation that remains attractive

We have revised downward our 2017/2018 forecasts to reflect a slower than anticipated recovery in agricultural commodity prices (EBITDA of €21.5m/25.7m vs. €25.5m/33.5m). We have lowered our target price to €0.69 vs. €0.71, with the downward revision in our forecasts being partially offset by a lower WACC (16.24% vs. 20.42%).

in € / share	2017e	2018e	2019e
Adjusted EPS	0,04	0,06	0,11
chg.	*+0,0%*	*+51,2%*	*+66,4%*
estimates chg.	*-53,5%*	*-47,3%*	*-38,1%*

au 31/12	2017e	2018e	2019e
PE	7,9x	5,2x	3,1x
EV/Sales	1,55x	1,25x	0,88x
EV/EBITDA	5,2x	4,0x	2,5x
EV/EBITA	8,2x	5,8x	3,2x
FCF yield*	21,7%	37,0%	64,1%
Div. yield (%)	n.s.	n.s.	n.s.

* After tax op. FCF before WCR

key points	
Share price (€)	0,38
Number of Shares (m)	100,2
Market cap. (€m)	38
Free float (€m)	12
ISIN	FR0010641449
Ticker	ALAGR-FR
DJ Sector	Process Industries

	1m	3m	Ytd
Absolute perf.	+5,6%	+0,0%	+11,8%
Relative perf.	+0,8%	-10,3%	+0,9%

Source : Factset, Invest Securities estimates

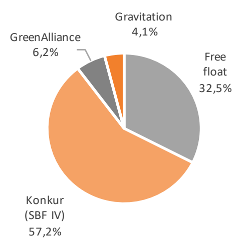
22 mai 2017

INVESTMENT CASE

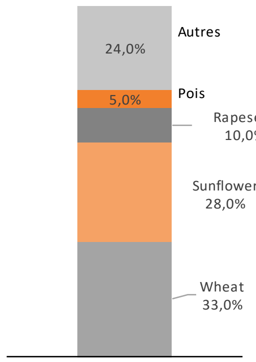
The merger of AgroGeneration and Harmelia in 2013 led to the creation of an entity with critical mass at 120,000 hectares of farmland cultivated in Ukraine. This land is located in fertile zones benefiting from favorable hydrometric conditions. The financial restructuring completed at the beginning of 2015 resolved the group's debt problems linked to the economic situation in Ukraine and the rapid fall in commodity prices since mid-2013. While not all risks have been eliminated, we estimate that with agricultural commodity prices having bottomed out, the wager on the creation of a leading agricultural producer in Ukraine with good operating performances is worth making at present.

DONNÉES FINANCIÈRES

Shareholders



Crops breakdown



Next events
n.a.

Share information	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Published EPS (€)	-0,09	-0,03	-0,08	-0,01	0,07	0,12	0,22	0,28
Adjusted EPS (€)	**-0,09**	**-0,03**	**-0,03**	**0,00**	**0,04**	**0,06**	**0,11**	**0,13**
Diff. I.S. vs Consensus	*n.s*	*n.s*	*n.s*	*n.s*	*n.s*	*n.s*	*n.s*	*n.s*
Dividend	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00

Valuation ratios	2013	2014	2015	2016	2017e	2018e	2019e	2020e
P/E	n.s.	n.s.	n.s.	71,7x	7,9x	5,2x	3,1x	2,6x
EV/Sales	3,18x	2,50x	2,21x	1,87x	1,55x	1,25x	0,88x	0,54x
VE/EBITDA	n.s.	7,9x	6,5x	5,8x	5,2x	4,0x	2,5x	1,4x
VE/EBITA	n.s.	12,3x	11,4x	9,6x	8,2x	5,8x	3,2x	1,8x
Op. FCF bef. WCR yield	n.s.	11,2%	14,1%	15,3%	17,4%	21,7%	37,0%	64,1%
Op. FCF yield	n.s.	11,7%	10,9%	9,3%	12,4%	16,4%	29,9%	57,6%
Div. yield (%)		n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.

NB : valuation based on annual average price for past exercise

Entreprise Value (€m)	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Share price in €	*1,5*	*0,9*	*0,4*	*0,3*	*0,3*	*0,3*	*0,3*	*0,3*
Market cap.	98,3	84,2	94,3	72,3	72,3	72,3	72,3	72,3
Net Debt	71,6	77,2	35,5	39,8	38,9	31,0	12,2	-16,5
Minorities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Provisions/ near-debt	0,7	0,0	0,0	0,5	0,5	0,5	0,5	0,5
+/- Adjustments	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Entreprise Value (EV)	**170,6**	**161,3**	**129,8**	**112,6**	**111,7**	**103,8**	**84,9**	**56,3**

Income statement (€m)	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Sales	53,7	64,6	58,9	60,3	71,8	83,3	96,0	103,5
chg.		*+20,3%*	*-8,9%*	*+2,4%*	*+19,2%*	*+16,0%*	*+15,2%*	*+7,9%*
EBITDA	-9,8	20,4	20,0	19,4	21,5	25,7	34,7	39,3
EBITA	**-16,8**	**13,1**	**11,4**	**11,8**	**13,7**	**17,8**	**26,6**	**31,0**
chg.		***n.s.***	***-13,1%***	***+3,2%***	***+16,4%***	***+30,0%***	***+49,2%***	***+16,7%***
EBIT	-16,8	13,1	11,4	11,8	13,7	17,8	26,6	31,0
Financial result	-3,5	-36,2	-19,6	-12,5	-6,4	-5,9	-4,5	-3,1
Corp. tax	-0,2	0,0	0,2	-0,2	0,0	0,0	0,0	0,0
Minorities+affiliates	-2,0	1,4	0,0	0,0	0,0	0,0	0,0	0,0
Net attributable profit	-22,6	-21,7	-7,9	-0,9	7,3	11,9	22,1	27,9
Adjusted net att. profi	**-22,6**	**-21,7**	**-7,9**	**-0,9**	**7,3**	**11,9**	**22,1**	**27,9**
chg.		***n.s.***	***n.s.***	***n.s.***	***n.s.***	***+64,6%***	***+85,0%***	***+26,4%***

Cash flow statement (€m	2013	2014	2015	2016	2017e	2018e	2019e	2020e
EBITDA	-9,8	20,4	20,0	19,4	21,5	25,7	34,7	39,3
Theoretical Tax / EBITA	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Capex	-4,1	-2,4	-1,6	-2,1	-2,0	-3,2	-3,2	-3,2
Operating FCF bef. WCR	**-13,9**	**18,0**	**18,4**	**17,3**	**19,5**	**22,5**	**31,5**	**36,1**
Change in WCR	13,5	0,9	-4,2	-6,8	-5,6	-5,5	-6,1	-3,6
Operating FCF	**-0,4**	**18,9**	**14,2**	**10,4**	**13,9**	**17,0**	**25,4**	**32,4**
Acquisitions/disposals	-0,2	-0,6	-1,0	-1,0	-1,5	0,0	0,0	0,0
Capital increase/decrea	12,9	41,7	33,8	21,0	0,0	0,0	0,0	0,0
Dividends paid	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other adjustments	-13,8	-65,8	-51,7	-35,6	-9,6	-9,1	-6,5	-3,8
Published FreeCash Flow	**-1,5**	**-5,8**	**-4,7**	**-5,2**	**2,8**	**7,9**	**18,9**	**28,6**

Balance Sheet (€m)	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Assets	94,3	63,6	81,4	77,0	72,9	68,5	64,2	59,8
Intangible assets/GW	48,6	40,9	37,9	39,9	41,4	41,4	41,4	41,4
WCR	28,4	20,2	38,8	30,9	36,5	42,0	48,1	51,8
Group equity capital	51,1	6,6	69,5	65,4	69,8	78,8	99,5	127,4
Minority shareholders	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Provisions	0,7	0,0	0,2	0,7	0,7	0,7	0,7	0,7
Net financial debt	**71,6**	**77,2**	**50,6**	**41,8**	**38,9**	**31,0**	**12,2**	**-16,5**
hors dépots de garantie								

Financial ratios	2013	2014	2015	2016	2017e	2018e	2019e	2020e
EBITDA margin	n.s.	31,6%	34,0%	32,2%	29,9%	30,9%	36,1%	37,9%
EBITA margin	n.s.	20,3%	19,4%	19,5%	19,1%	21,4%	27,7%	30,0%
Adjusted Net Profit/Sal	n.s.	n.s.	n.s.	n.s.	10,1%	14,3%	23,0%	27,0%
ROCE	n.s.	15,7%	9,5%	10,9%	12,5%	16,1%	23,7%	27,8%
ROE adjusted	n.s.	n.s.	n.s.	n.s.	10,4%	15,1%	22,2%	21,9%
Gearing	140,2%	1175,0%	72,9%	63,8%	55,8%	39,4%	12,2%	n.s.
ND/EBITDA (in x)	n.s.	3,8x	2,5x	2,2x	1,8x	1,2x	0,4x	-0,4x

Source : company, Invest Securities Estimates

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SOMMAIRE

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1- …RISKS ARE NOW LIMITED

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1 – Risks are now limited

Two exogenous factors continued to weigh on AgroGeneration in 2016, albeit to a more limited extent than in 2015. On the one hand, the still difficult economic conditions led to a renewed weakening in the local currency at the beginning of the year and a continued credit crunch. On the other hand, agricultural commodity prices continued to fall at the beginning of 2016. These two factors stabilized in H2 2016. While economic conditions should continue to improve during the current year, a recovery in agricultural commodity prices should not be seen before the end of 2018 due to substantial inventories that should only decline gradually.

1.1 Better oriented economic indicators

The political and economic situations in Ukraine are tightly linked. The steep economic downturn in 2013 at a time when the level of corruption was high led to the ousting of the pro-Russian president Yanukovych. This led to the annexation of Crimea by Russia and the conflict in the Donbass region, which aggravated the economic downturn in 2015. 2016 saw a continued status quo in the relations between Russia and Ukraine that currently appears likely to be maintained. Despite a renewed weakening in the local currency at the beginning of 2016 and continued strained conditions in the financial sector, the end of 2016 saw a gradual improvement in the situation with the continuation of IMF assistance. This gradual recovery should continue in 2017 and 2018.

1.1.1 Renewed GDP growth and a fall in inflation

The political changes and the deterioration in relations with Russia in particular have weighted heavily on the Ukrainian economy, with GDP falling -6.6% in 2014 and -9.9% in 2015.

However, Ukraine put into place austerity measures in order to improve the situation starting at the end of 2015. Fiscal reforms were adopted in order to boost revenues, pensions were frozen and the number of civil servants was reduced. The government is seeking to reduce corruption through the creation of an anti-corruption bureau and the bureaucracy has been cut back, with notably a reduction in administrative procedures required to found a company.

The IMF has resumed its financing. The $1.7bn tranche planned for September 2015 was reduced to $1bn and paid out in September 2016. The deficit should equal 3.7% in 2016 and is forecast to fall to 3% in 2017.

The GDP grew +2.2% in 2016 and could rise +3% in 2017 and +4% in 2018 and 2019.

In parallel, inflation, which had reached +43% in 2015, fell significantly to +12% in 2016 and should be around +9% in 2017.

GDP in Ukraine rose +2.2% in 2016

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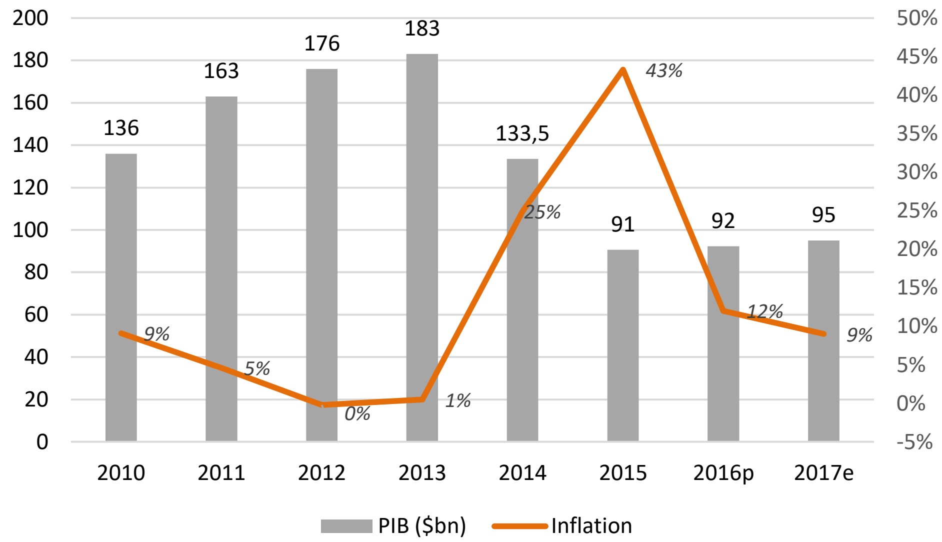
1 – Risks are now limited

GDP and inflation in Ukraine



Source : index.minfin.com.ua, BNU

1.1.2 Stabilization of the local currency

The hryvnia stabilized at the end of 2016

The local currency (the hryvnia) has been hit hard by the political and economic situation in Ukraine, falling -49% against the dollar in 2014, -25% in 2015 and -10% in January 2016. The hryvnia has now stabilized, benefiting from the improved economic conditions.

Dollar / hryvnia exchange rate in 2017

Source : Exchange rates

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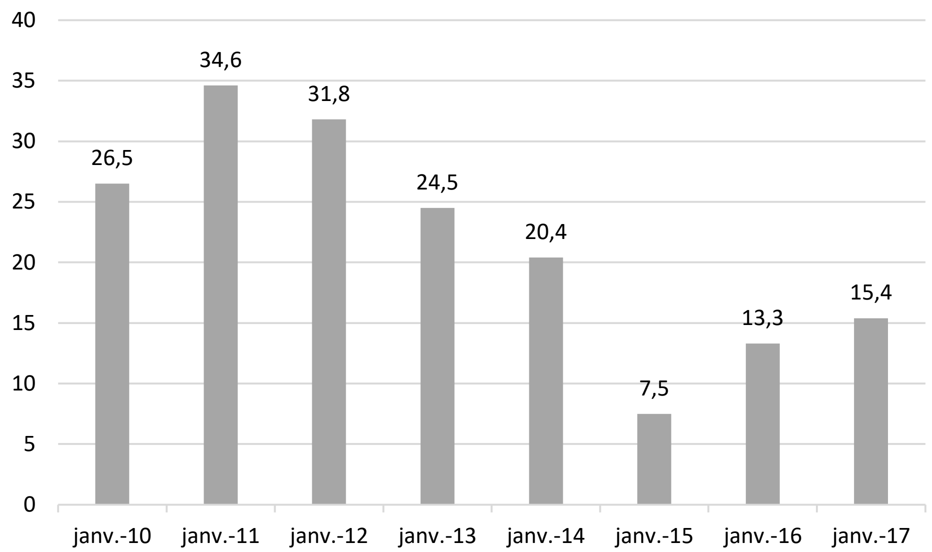
The Ukrainian banks are beginning to grant loans again

1.1.3 Improved conditions in the financial sector

The Ukrainian national bank imposed restrictions on the purchase of foreign currencies on the interbank market in 2014 and made mandatory the conversion of foreign currency revenues into hryvnias. The international rating agencies lowered their Ukrainian sovereign debt ratings. The combination of these two factors led to erosion in liquidity and tighter credit conditions (when credit was available).

Ukraine's international currency reserves rapidly fell as a result of the economic crisis before beginning to recover at the beginning of 2016, thanks notably to the $1bn IMF loan, keeping in mind that $9.7bn in assistance remains to be paid out over the coming years as a function of the measures taken by Ukraine in favor of the fight against corruption and the turnaround of the country. Fitch has raised its rating for Ukraine from CCC to B-.

Ukrainian international currency reserves ($bn)



Source: National Bank of Ukraine

Systemic risk in the Ukrainian financial sector fell over 2016. The Ukrainians, who had massively withdrawn their money from the banks out of fear that they would fail, are gradually beginning to make deposits again, as are companies. These trends should continue in 2017. In parallel, the National Bank of Ukraine should recapitalize the principal banks.

Even if only very gradually, the banks are beginning to lend again and the cost of credit should fall. The National Bank of Ukraine hopes that the banks will be able to report profits starting in 2017 after three years of losses.

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1.2 Agricultural commodity prices have bottomed out

While the long-term fundamentals argue in favor of a rise in agricultural commodity prices due to a strong increase in demand (world population growth, urbanization), agricultural commodity prices have fallen sharply since 2013 as a result of excess supply linked to good harvests throughout the world. Prices fell again at the beginning of 2016 but have since stabilized at their lows. Agricultural commodity prices should gradually recover. We have assumed in our forecasts a rebound starting in 2018 with a return to 2013 prices at the end of 2025.

1.2.1 Fundamentals argue in favor of higher prices ….

In a long-term perspective, all the fundamentals continue to argue in favor of an increase in demand for agricultural commodities and therefore an increase in their prices, as current supply is not sufficient to meet this future demand.

The principal trends supporting an increase in demand are:

The demand for agricultural commodities should increase …..

- ✓ The growth in the world population, which should reach nine billion in 2050 compared to seven billion at present
- ✓ An increase in per capita income that should lead to an increased demand for meat, dairy products and vegetables, which require more intensive land use
- ✓ An urban population that should grow 20% over the next decades due to the expansion of cities in the developing nations

At the same time, supply should fall due to:

- ✓ The worldwide shortage of arable land linked to population growth and urbanization
- ✓ A slowdown in the growth in agricultural productivity due to the lack of fertile land, increased competition for water and climate change
- ✓ Environmental degradation due to pollution and erosion

… while supply falls

1.2.2 … but short-term trends remain unfavorable

Over the short term, prices correspond to an equilibrium between supply and demand on narrow markets, with only a very limited portion of commodities being traded on world markets (20% of cereal production, with the rest being consumed by the producing nations). Prices fluctuate sharply in case of the slightest incident leading to a minimal variation in supply (King's law).

That said, prices have been penalized over the short term by:

- ✓ Weak worldwide economic growth. According to the IMF, growth fell from -5.5% in 2010 to -3.1% in 2016.
- ✓ Sizeable inventories linked to abundant production that will only be worked down gradually

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- ✓ Substantial production in all the producing nations thanks to favorable weather conditions. The exporting nations had anticipated strong demand growth that was not seen due to the economic slowdown.

This explains the steep drop in agricultural commodity prices since 2013.

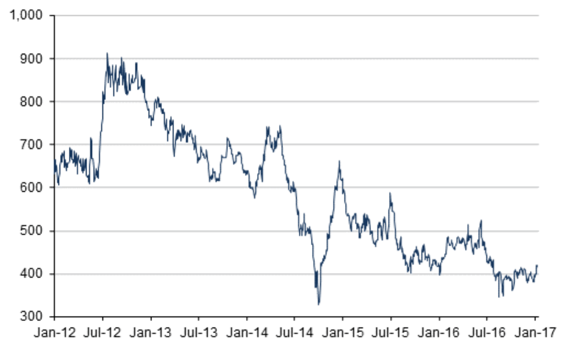
This decline has affected all crops, as shown by the prices of corn, soybeans and wheat, even if we saw a slight uptick in soybean prices in 2016 linked to smaller harvests in Brazil, the United States, Uruguay and China and a sharp rise in prices of palm oil (affected by El Niño) that favored oilseed products.

Price declines seen in all crops

Corn prices

Soybean prices

Wheat prices



Source: Finances.net

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1 – Risks are now limited

1.3 What impact on AgroGeneration?

The stabilization of the situation in Ukraine and, most importantly, the gradual improvement in the banking sector here will have a positive impact on AgroGeneration's financing risk and financing conditions. In contrast, the continued low agricultural commodity prices, even if they do not put into question the group's satisfactory level of operating profitability, are forcing it to exercise strict control over costs, as we will see in 2.1.

1.3.1 Improved financial conditions for AgroGeneration

Agricultural production is characterized by its seasonal nature. Costs and the working capital requirement peak in the spring, ahead of the harvest. Cash entries are concentrated in H2, after the harvest. AgroGeneration needs around $35m in crop loans. The problems in the Ukrainian financial sector weighed on this type of financing and its costs given that only one Ukrainian bank (Alfa-Bank) continued to supply the bulk of the company's crop loans, paid out in a series of tranches at 15% through a revolving credit agreement.

AgroGeneration has sought to limit this risk by:

- ✓ Reinforcing its equity funds through the gradual conversion of the OSRANE convertible bond, keeping in mind that these conversions will be completed in March 2019. Additionally, the return to net profit that we anticipate starting this year will favor the retaining of a portion of these bonds.
- ✓ Increasing its export sales, allowing it to make forward sales. Ukraine's subsidies (through the VAT) for non-exported crops will end completely in 2017, also explaining this desire to boost exports. AgroGeneration sold 45% of its 2016 production through export sales vs. 35% in 2015 and this percentage should increase in 2017.

The financing risk should fall significantly

Looking beyond these factors, the improved conditions in the Ukrainian banking sector will also have a favorable impact on AgroGeneration's financing conditions. It will act to increase the number of banks that the group will be able to work with. This will not only limit the risk linked to having only one bank, but will also favor a reduction in interest rates, which still equaled around 15% for the 2015/2016 season.

1.3.2 A proactive strategy to compensate for low prices

AgroGeneration was essentially hit by the fall in commodity prices at the time of its merger with Harmelia in 2013, when the rapidity of the prices decline prevented it from adjusting its costs accordingly. The steady fall in commodity prices since then has continued to weigh on group revenues, even if the impact was more limited in 2016. However, costs have been systematically adjusted, thereby enabling the group to generate satisfactory EBITDA margins.

While the recovery in agricultural commodity prices should not be seen before H2 2018, prices now appear to have bottomed out, as shown by their increased volatility in reaction to the slightest bit of good news (outlook for smaller harvests in the United States, recovery in orders from Middle Eastern countries etc.).

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1 – Risks are now limited

In order to protect itself against fluctuations in commodity prices, AgroGeneration hedges a portion of its production through forward sales. The objective is to cover 30-40% of the production prior to harvest by selling at a price above budget. AgroGeneration's trading teams take advantage of any uptick in prices. AgroGeneration presold \$12.5m of its 2015/2016 crop and \$12m of the current crop to Quadra Commodities.

French farmers hedge 70-80% of their crops, but with different tools featuring greater correlation to the financial markets. Agricultural commodity prices are set on either the CBOT in Chicago or the MATIF in Paris, markets offering futures and options.

Agricultural commodity price trends led the company to avoid building up inventories over previous years. In 2014 and 2015, a large portion of the harvest was sold, even if a portion was retained in 2015 for the company's own seed requirements. In 2016, larger inventories were retained that could be sold as a function of temporary price rallies.

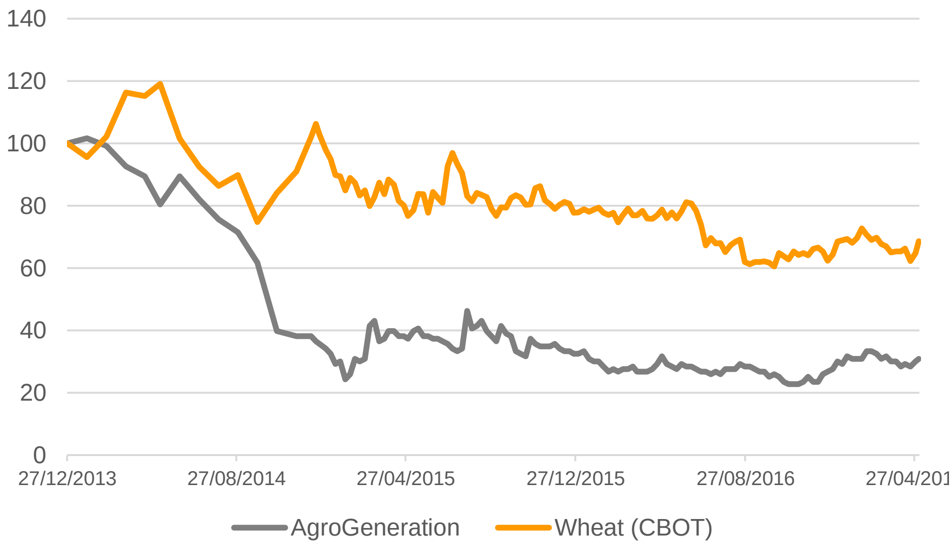
AgroGeneration is taking all possible steps to avoid being penalized by low prices

The principal measures taken by AgroGeneration in order to compensate for these low prices nevertheless remain cost control and the allocation of crops in order to optimize EBITDA per hectare (cf. 2.1)

1.3.3 High correlation between the share prices and agricultural commodity prices

AgroGeneration's share price has fallen more than agricultural commodity prices since 2014. This has been logical, as it takes into account the impact of the Ukrainian crisis on AgroGeneration's financial situation, thereby explaining the sharp fall starting in mid-2014.

AgroGeneration share price vs. wheat prices since January 2014



Source : Factset

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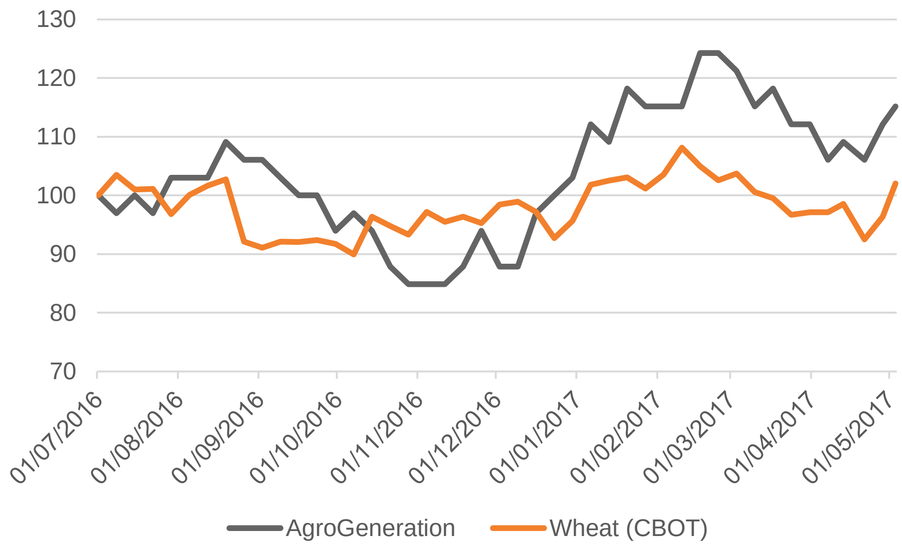
1 – Risks are now limited

In contrast, it is interesting to note that, with the uncertainties regarding the situation in the Ukraine beginning to be lifted and the financial situation of AgroGeneration having improved significantly following the OSRANE convertible bond issue in 2015, AgroGeneration's share price has been much more correlated to agricultural commodity price trends since July 2016.

AgroGeneration's share price is now correlated to agricultural commodity prices

This is logical to the extent that, as we will see in section 2 of this report, earnings growth will be largely linked to the rebound in agricultural commodity prices.

AgroGeneration share price vs. wheat prices since July 2016



Source : Factset

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2- A SUBSTANTIAL LEVERAGE EFFECT ON FUTURE EARNINGS

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2 - A substantial leverage effect on future earnings

2015 provided confirmation of the wisdom of AgroGeneration's cost reduction strategy in a context of continued low agricultural commodity prices and with the economic situation in the Ukraine continuing to weigh on financial charges. The continuation of this strategy in 2016 once again enabled the group to report satisfactory operating performances despite the renewed falls in agricultural commodity prices and the hryvnia at the beginning of the year. The situation should stabilize starting in 2017, with agricultural commodity prices and the hryvnia having bottomed out. We are nevertheless more cautious than in our previous report concerning the outlook for a recovery in agricultural commodity prices and have very prudently assumed that prices should only return to their 2013 levels in 2025. The financial leverage linked to the drastic cost reductions should progressively play a role in improved performances at the same time financial charges should gradually fall. These factors should lead to positive cash flow generation that will enable AgroGeneration to accelerate its development through acquisitions.

2.1 Increasingly rigorous cost management

AgroGeneration is a large scale agricultural commodities producer that plants, treats, harvests and sells its crops. The company's organization is based on large farms of over 10,000 hectares, a larger size than farms located in the United States and Canada. This model had been initially developed by the kolkhozes.

Its principal costs are:

- ✓ **Land rentals**
  AgroGeneration cultivates land rented from individual owners and, to a lesser extent, the Ukrainian government. The fields are very large and can be owned by 100 individuals. AgroGeneration has signed a little under 35,000 leases running from one to 20 years for land rented from individuals and one to 40 years for land rented from the Ukrainian government. These leases have fixed rents. Leases expire and are renewed on a regular basis. In connection with this, AgroGeneration relies on teams dedicated to the management of leases using a database made up of their characteristics.
  AgroGeneration optimizes its leases by combining its farms into clusters that can be operated in the form of a single operating entity. This makes it possible to reduce operating costs and optimize storage.
  The cost of these leases is an exogenous factor that should evolve at the same rhythm as inflation. In contrast, the organization by clusters allows the rationalization of operating costs. It is in this framework that AgroGeneration plans to drop 3,800 hectares in 2017 in favor of other land better situated in terms of the existing clusters.

AgroGeneration rents the land that it cultivates

- ✓ **Personnel costs**
  AgroGeneration had 1,487 employees at year end 2016. This number is more or less stable at a high level compared to what can be seen in the US and in Western Europe. This is due to the fact that AgroGeneration uses auxiliary personal due to the complexity of its business (security staff, accountants and people managing the leases).
  Salaries should continue to rise over the coming years as inflation is still high in Ukraine.

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✓ **Inputs**

Inputs include everything used for the harvests, be it the grains themselves or all the products needed to growth them, i.e. seeds, phytosanitary products (herbicides, insecticides, fungicides) and fertilizers designed to provide plants with nutritional supplements in order to improve their growth. Input costs at AgroGeneration depend on:

- the number of hectares cultivated
- agricultural commodity prices, keeping in mind that there is a high correlation between agricultural commodity and input prices, with producers of phytosanitary products and fertilizers adjusting their prices to their customers' revenues
- AgroGeneration's decision to privilege gross profit and EBITDA per hectare over yields. The company therefore optimizes the cost of its inputs and could prefer lower yields with fewer inputs if an increase in yields would entail substantial input costs. AgroGeneration's input costs rose in connection with the 2015/2016 crop (+6% vs. -18% in 2015) after having been extremely limited in previous years.

✓ **Other costs**

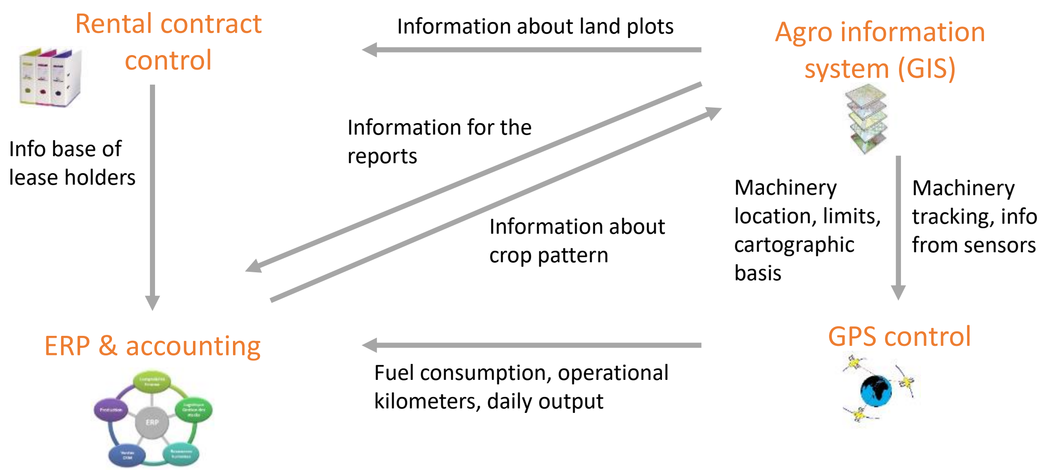
Other costs essentially involve fuel costs, which are linked to changes in oil prices, exchange rates and the number of hectares cultivated, and maintenance costs, which are correlated to the number of hectares cultivated and the hryvnia exchange rate trend.

In order to best rationalize its costs, AgroGeneration pilots them with an objective of optimizing EBITDA per hectare. To this end, an information system has been developed to enable the company to very precisely analyse all the parameters on an interconnected basis. The company centralizes certain administrative functions and deploys on-site technical specialists and agronomists. 5-year crop rotation has been adopted at AgroGeneration's farms based on calculations of potential crop yields and hoped-for profitability.

Cost control is AgroGeneration's key focus

The entire cost control process on all levels explains AgroGeneration's good EBITDA margin performance starting in 2014 despite the sharp drop in agricultural commodity prices. A significant leverage effect should be seen as soon as agricultural commodity prices begin to turn back up again.

AgroGeneration information system



Source : Company

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2.2 Essentially flat revenues over the short term

AgroGeneration's revenues depend on its production of agricultural commodities, which in turn depends on several elements:

- ✓ The total number of hectares exploited by AgroGeneration, keeping in mind that the total surface is not cultivated given fallow land (less than 10% of surfaces). Additionally, the group can sign new leases whose principal impact on the financial statements is found in the change in the WCR and the capex. In 2017, AgroGeneration plans to exchange 3,800 hectares for around 5,000. We estimate additions of 8,000 hectares/year starting in 2018.
- ✓ Crop allocations on cultivated land, keeping in mind that rotation is effectuated each year in order to avoid impoverishing the soil (notably after the cultivation of sunflowers). This depends on the choices of AgroGeneration, which seeks to optimize its margins. After having favored sunflowers in 2016, the greatest growth in 2017 will be in the cultivation of corn.
- ✓ Yields per hectare, which have risen over recent years but are not being overly pushed in order to avoid substantial additional input costs. This factor depends partly on AgroGeneration's choices, but also varies with the weather. Once again, the company privileges gross profit and EBITDA per hectare over yields.
- ✓ The average price per metric ton by crop, which is set by the market and over which AgroGeneration has no influence. In contrast, thanks to its trading teams, the company can optimize its sale prices by profiting from temporary price rises.

The principal assumptions in our model are:

Prices should gradually recover starting in 2018

- ✓ After a renewed decline in 2016, agricultural commodity prices should not rise much in 2017. Cereals should continue to be penalized by high world supply. At the same time oilseed prices should see a slight recovery. Starting in 2018, we estimate that prices should rise steadily over seven years and return to their 2013 levels.
- ✓ No significant change in the crop mix in 2017 compared to 2016 except for an increase in corn compared to the other crops. Over the following years, we estimate that there will be little rotation except for an increase in sunflowers (which are highly profitable but impoverish soils) every three years.
- ✓ Stable yields compared to 2016 given that AgroGeneration privileges EBITDA per hectare over yields
- ✓ A stable hryvnia/dollar exchange rate compared to current levels, with prices quoted in dollars. This reflects the stabilization in the hryvnia/dollar exchange rate over the last few months (cf. 1.1.2).

In 2017, we anticipate an increase in revenues (+6.1%) linked to a slight increase in oilseed prices and a higher percentage of sales on the export market, where prices are higher.

Starting in 2018, we assume an uptick in agricultural commodity prices that, when combined with an increase in cultivated land thanks to the signing of new leases (estimated at 8,000 hectares/year), should favor a steady rise in revenues.

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Our forecasts for production and revenues based on these assumptions are set out in the following table:

Estimated AgroGeneration revenues

	2014	2015	2016p	2017e	2018e	2019e	2020e	2021e
Hectares controlled	120 000	120 000	120 000	122 000	130 000	138 000	146 000	154 000
Growth	*0%*	*0%*	*0%*	*2%*	*7%*	*6%*	*6%*	*5%*
Hectares harvested	103 366	108 000	108 985	109 000	119 600	126 960	134 320	140 140
Split/crop (ha)								
Wheat	27 144	45 360	36 479	30 520	39 468	38 088	36 818	36 818
Rapeseed	6 485	8 640	4 876	4 360	4 784	5 078	5 078	5 078
Barley	12 729	10 800	11 228	10 900	11 960	12 696	12 696	12 696
Corn	8 400	5 400	5 437	10 900	11 960	12 696	12 696	12 696
Sunflower	32 043	19 440	29 988	31 610	26 312	33 010	36 818	36 818
Peas	11 452	9 720	11 587	13 080	15 548	13 966	13 966	13 966
Soybean	4 018	7 560	8 354	6 540	8 372	10 157	7 618	7 618
Others	1 094	1 080	1 036	1 090	1 196	1 270	1 270	1 270
In percentage								
Wheat	26%	42%	33%	28%	33%	30%	29%	29%
Rapeseed	6%	8%	4%	4%	4%	4%	4%	4%
Barley	12%	10%	10%	10%	10%	10%	10%	10%
Corn	8%	5%	5%	10%	10%	10%	10%	10%
Sunflower	31%	18%	28%	29%	22%	26%	29%	29%
Peas	11%	9%	11%	12%	13%	11%	11%	11%
Soybean	4%	7%	8%	6%	7%	8%	6%	6%
Others	1%	1%	1%	1%	1%	1%	1%	1%
Yields (t/ha)								
Wheat	5,2	4,1	4,3	4,3	4,3	4,3	4,3	4,3
Rapeseed	2,9	2,6	2,0	2,5	2,7	2,7	2,7	2,7
Barley	4,7	4,2	4,1	4,1	4,1	4,1	4,1	4,1
Corn	6,5	4,9	6,8	7,0	7,0	7,0	7,0	7,0
Sunflower	2,5	2,5	2,5	2,5	2,5	2,5	2,5	2,5
Peas	2,2	1,9	3,0	3,0	3,0	3,0	3,0	3,0
Soybean	1,8	1,5	1,8	1,8	1,8	1,9	1,9	1,9
Others	11,6	13,9	13,9	13,9	13,9	13,9	13,9	13,9
Average	3,9	3,5	3,6	3,7	3,8	3,8	3,8	3,8
Production (tons)								
Wheat	142 054	188 000	155 948	130 473	168 726	162 826	157 399	157 399
Rapeseed	18 682	22 560	9 752	10 900	12 917	13 712	13 712	13 712
Barley	60 248	45 120	45 882	44 542	48 873	51 881	51 881	51 881
Corn	54 571	26 320	36 972	76 300	83 720	88 872	88 872	88 872
Sunflower	79 840	48 880	74 970	79 025	65 780	82 524	92 046	92 046
Peas	25 640	18 800	34 213	39 240	46 644	41 897	41 897	41 897
Soybean	7 287	11 280	15 037	11 772	15 070	19 298	14 473	14 473
Others	12 642	15 040	14 427	15 179	16 655	17 680	17 680	17 680
Total	400 964	376 000	387 200	407 431	458 385	478 690	477 960	477 960
Average price (inc VAT)								
Wheat	164	130	124	126	136	148	160	173
Rapeseed	322	310	330	337	352	367	383	400
Barley	145	115	101	103	114	127	141	156
Corn	135	110	101	103	113	124	135	148
Sunflower	312	385	272	277	302	328	357	389
Peas	200	254	249	254	267	280	294	309
Soybean	416	400	400	408	419	431	442	455
Others	200	200	100	102	104	106	108	110
Production value (Inc VAT)								
Wheat	23,3	24,4	19,3	16,4	23,0	24,0	25,1	27,2
Rapeseed	6,0	7,0	3,2	3,7	4,5	5,0	5,3	5,5
Barley	8,8	5,2	4,6	4,6	5,6	6,6	7,3	8,1
Corn	7,4	2,9	3,7	7,9	9,5	11,0	12,0	13,2
Sunflower	24,9	18,8	20,4	21,9	19,9	27,1	32,9	35,8
Peas	5,1	4,8	8,5	10,0	12,5	11,7	12,3	13,0
Soybean	3,0	4,5	6,0	4,8	6,3	8,3	6,4	6,6
Others	2,5	3,0	1,4	1,5	1,7	1,9	1,9	2,0
Production (inc VAT)	**81,1**	**70,6**	**80,7**	**85,0**	**99,5**	**114,8**	**123,9**	**133,5**
Production (excl VAT)	**64,6**	**58,9**	**67,2**	**70,8**	**83,0**	**95,7**	**103,3**	**111,2**
VAT (20%)	16,5	11,8	13,4	14,2	16,6	19,1	20,7	22,2
Inventories								
In tons			78 000	80 340	82 750	85 233	87 790	90 423
In value			11,5	12,1	13,4	14,8	16,4	18,2
Sales of agricultural produce of the year			55,7	58,7	69,6	80,8	86,8	93,0
Inventories sales			3,5	12,0	12,6	13,9	15,4	17,1
Services and others			1,1	1,1	1,2	1,2	1,3	1,3
Total revenues			60,3	71,8	83,3	96,0	103,5	111,4

Source : Invest Securities

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2.3 Margins that should rise with agricultural commodity prices

The principal factors affecting AgroGeneration's margins are:

- ✓ The trend in commodity prices taken into account in our revenues forecasts
- ✓ The trend in costs as discussed in 2.1, principally linked to the change in the number of hectares cultivated, the exchange rate and the changes in agricultural commodity prices
- ✓ The valuation of biological assets (IFRS 41), which are plants cultivated in anticipation of future sale, i.e. plants in the ground to be accounted for at their fair value. These assets are valued up until their harvest. As such, at the end of each reporting period, the biological assets (in this case essentially the winter plantings) are recorded at their fair value less the costs to sell through the date of the harvest. The value of biological assets varies as a function of weather conditions, potential yields and prices. Any change in these parameters has a significant impact on the P&L statement. At the end of 2016, a 10% variation in assumptions used in the calculation of the fair value of biological assets would have had an impact of +/- €2.3m on gross profit.
- ✓ The end of operating subsidies linked to the VAT. Up until 2014, the VAT received by the company was retained to allow payment of the VAT charged by its suppliers. The company then retained the remaining balance. This mechanism has been eliminated as part of the austerity measures required by the IMF. In 2014, AgroGeneration received €6.4m in subsidies. This amount fell to €3.4m in 2015 and €1m in 2016 and will disappear in 2017. AgroGeneration is partially offsetting these lost subsidies through increased export sales, which offer higher sale prices.

✓ The other factors affecting the P&L statement are:

Cost control leading to higher margins

- ✓ The fixed agricultural tax: the tax is not based on the company's profit before tax, but on a very small percentage (around 0.45% starting 1 January 2015) of the cadastral value of rented land. In reality, AgroGeneration does not pay corporate income tax.
- ✓ The exchange rate losses linked to the fall in the hryvnia, with the debt being principally denominated in dollars and euros. These losses were very high in 2014 and 2015, even if a large portion of them did not have a cash impact. These losses were much smaller in 2016, with the fall in the hryvnia having been limited to -8.5% compared to the euro (-11.4% compared to the dollar). As AgroGeneration's financial situation has improved significantly, the exchange rate losses will essentially involve the Alfa-Bank loan ($35m) if it is no longer renewed as a revolving credit. Exchange rate losses should fall very significantly starting in 2017, as the hryvnia has virtually stabilized.

AgroGeneration exchange rate losses

€k	2014	2015	2016
Realised foreign exchange losses	14 860	10 859	2 982
Unrealised foreign exchange losses	12 316	2 491	1 752
Foreign exchange gains and losses	27 176	13 350	4 734

Source : company

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These elements have led us to the following forecast P&L statement:

AgroGeneration earnings forecasts

€m	2015	2016	2017e	2018e	2019e	2020e	2021e
REVENUE	**58,9**	**60,3**	**71,8**	**83,3**	**96,0**	**103,5**	**111,4**
Change in fair value of finished goods and fair value adjustment at the harvest date	1,2	3,7	0,5	0,5	0,5	0,5	0,5
Change of fair value of biological assets	4,8	1,0	1,1	1,1	1,2	1,1	1,1
Raw materials, purchases services and leasing	-35,2	-37,2	-41,6	-47,6	-50,3	-53,0	-55,4
VALUE ADDED	**29,7**	**27,7**	**31,9**	**37,3**	**47,4**	**52,1**	**57,6**
VA margin	*50,5%*	*46,0%*	*44,3%*	*44,8%*	*49,3%*	*50,3%*	*51,7%*
Personnel costs	-6,6	-6,6	-7,0	-7,9	-8,6	-9,3	-10,0
Operating subsidies	3,4	1,0	0,0	0,0	0,0	0,0	0,0
Other expenses	-6,4	-2,7	-3,4	-3,7	-4,1	-4,5	-5,1
EBITDA	**20,0**	**19,4**	**21,5**	**25,7**	**34,7**	**39,3**	**43,5**
EBITDA margin	*34,0%*	*32,2%*	*29,9%*	*30,9%*	*36,1%*	*37,9%*	*39,0%*
Depreciations	-8,6	-7,6	-7,8	-7,9	-8,1	-8,2	-8,4
Total depreciations and provisions	-8,6	-7,6	-7,8	-7,9	-8,1	-8,2	-8,4
EBIT	**11,4**	**11,8**	**13,7**	**17,8**	**26,6**	**31,0**	**35,1**
EBIT margin	*19,4%*	*19,5%*	*19,1%*	*21,4%*	*27,7%*	*30,0%*	*31,5%*
Financial income	0,0	0,0	0,0	0,0	0,0	0,0	1,0
Financial expenses	-7,9	-7,4	-6,4	-5,9	-4,5	-3,1	-3,1
Other financial expenses and exchange impact	-11,7	-5,1	0,0	0,0	0,0	0,0	1,0
Financial net expenses	-19,6	-12,5	-6,4	-5,9	-4,5	-3,1	-1,1
CURRENT INCOME	**-8,2**	**-0,7**	**7,3**	**11,9**	**22,1**	**27,9**	**34,0**
Income Tax	0,2	-0,2	0,0	0,0	0,0	0,0	0,0
NET INCOME	**-7,9**	**-0,9**	**7,3**	**11,9**	**22,1**	**27,9**	**35,0**
Net margin	*-13,5%*	*-1,5%*	*10,1%*	*14,3%*	*23,0%*	*27,0%*	*31,4%*

Source : Invest Securities

We anticipate an EBITDA margin of 39% in 2021

We estimate that the EBITDA margin should rise starting in 2018 thanks to the increase in agricultural commodity prices and reach 39% in 2021. The slight fall forecast in 2017 is linked to a less favorable crop mix in EBITDA margin terms (more corn / less sunflowers). The good cost control should lead to a substantial leverage effect on margins as soon as prices turn up.

2.4 Cash generation that should lead to an improvement in the financial situation

2.3.1 Positive cash generation starting in 2017

If we include all the financial charges, FCF was negative in 2016. In contrast, if we only include financial charges linked to the financing of the WCR (crop loans principally from Alfa-Bank), corresponding to around €4m, the FCF would have equaled positive €5.6m.

The good operating performances should favor renewed positive free cash flow generation starting in 2017 thanks to:

- ✓ An increase in cash flow, with positive earnings and smaller exchange rate losses than in 2016

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- ✓ A variation in the WCR that should be smaller than in 2016, which was marked by a substantial increase in inventories (€11m). While inventories will probably reach higher levels in the future, the variation in inventories was the greatest in 2016.
- ✓ Investments essentially linked to new leases, which should be limited over the short term to 5,000 hectares in 2017 and 8,000 hectares/year starting in 2018.
- ✓ The conversion of the OSRANE convertible bonds in March 2019, which will contribute to the reduction in financial charges (by around €4.8m/year).

AgroGeneration sources and uses of funds

Cash Flow Statement (EURm)	2015	2016	2017e	2018e	2019e	2020e	2021e
Net earnings	(7,9)	(0,9)	7,3	11,9	22,1	27,9	35,0
Depr. & Prov.	(7,0)	(7,6)	(7,6)	(7,6)	(7,6)	(7,6)	(7,6)
Other non cash impacts	6,5	(0,2)	(2,9)	(2,9)	(1,5)	0,0	0,0
Declared Cash Flow	**5,6**	**6,5**	**11,9**	**16,6**	**28,2**	**35,5**	**42,5**
Change in WCR	(4,2)	(6,8)	(5,6)	(5,5)	(6,1)	(3,6)	(3,8)
Operating Cash Flow	**1,4**	**(0,4)**	**6,3**	**11,1**	**22,1**	**31,8**	**38,7**
Capital Expenditure	(1,6)	(2,1)	(2,0)	(3,2)	(3,2)	(3,2)	(3,2)
o/w maintenance	*(1,6)*	*(2,1)*	*(2,0)*	*(3,2)*	*(3,2)*	*(3,2)*	*(3,2)*
Financial Investments	(1,1)	(1,1)	(1,5)	0,0	0,0	0,0	0,0
Assets sales	0,2	0,1	0,0	0,0	0,0	0,0	0,0
Investing Cash Flow	**(2,6)**	**(3,1)**	**(3,5)**	**(3,2)**	**(3,2)**	**(3,2)**	**(3,2)**
Dividends	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Rights' issue	1,9	0,0	0,0	0,0	0,0	0,0	0,0
Others	32,0	21,0	0,0	0,0	0,0	0,0	0,0
Debt repayment	(30,6)	(16,5)	(1,3)	(1,3)	(1,3)	(1,3)	0,0
Exchange rate gains/losses	(3,5)	(1,7)	0,0	0,0	0,0	0,0	0,0
Financing Cash Flow	**(0,3)**	**2,8**	**(1,3)**	**(1,3)**	**(1,3)**	**(1,3)**	**0,0**
Change in cash	**(1,5)**	**(0,7)**	**1,6**	**6,6**	**17,6**	**27,4**	**35,5**

Source : Invest Securities

We anticipate positive cash generation starting in 2017

Taking into account these different elements, we arrive at positive cash generation (including the financial cash flow) of €1.6m in 2017.

Cash generation should increase over the following years, thereby enabling the company to finance its crop loans without high levels of short-term debt and to begin to make acquisitions in a context in which numerous opportunities should present themselves, with many of AgroGeneration's competitors having been hit by the deterioration in the economic situation and the continued low prices of agricultural commodities.

2.3.2 Rapid debt reduction

Note that following the merger of Harmelia and AgroGeneration at the end of 2013, debt totaled €78.8m, corresponding to gearing of 154%. This was partially linked to the fact that Konkur (SBF IV) had accepted $40m in debt from the new structure in order to balance the parities at the time of the merger. Additionally, the earlier AgroGeneration had financed its growth through debt and had net debt of €14.3m at the end of 2012.

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The sharp deterioration in the economic situation and the steep fall in hryvnia contributed to a massive decline in equity funds from €51m at yearend 2013 to €6.6m at yearend 2014, corresponding to a gearing of 1,175%.

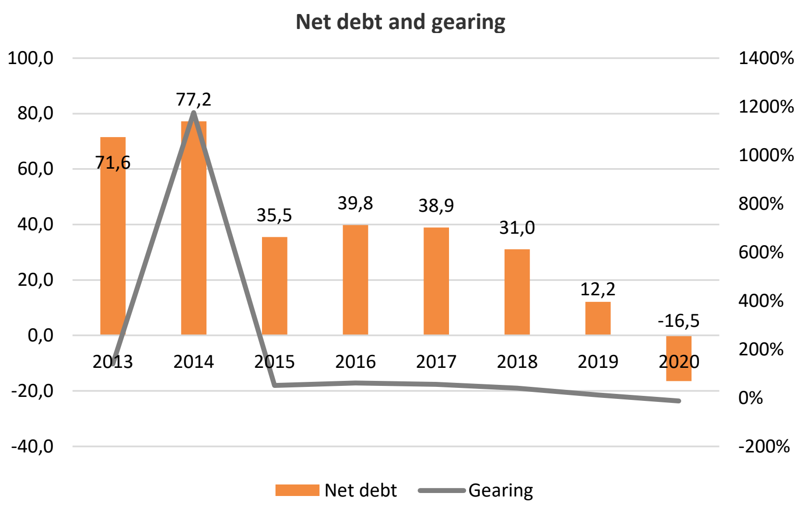
As this situation was untenable, AgroGeneration undertook a financial restructuring by issuing €59.8m of OSRANE convertible bonds. The interest paid on this bond is listed as debt while the principal is listed as equity.

Additionally, the company's real estate assets were written down by €44.9m in 2013 and €22.2m in 2014, with an impact on equity funds. In 2015, an independent expert lifted the valuation of the company's tangible assets by €38.2m, divided between a €39.9m increase in the fair value of certain long-term assets (notably the agricultural machinery), an amount directly reinforcing the equity funds, and a €1.6m reduction in the value of other long-term assets, subtracted directly from earnings.

AgroGeneration should show positive net cash starting in 2020

These two actions led to a significant reduction in the gearing, which equaled only 61% at year end 2016.

The debt owed to the EBRD (€6.3m) was also renegotiated at the time of the financial restructuring, with repayments spread out in time starting in 2016 but with an interest rate rising from Libor+8% to Libor+8.5%.



Source : Invest Securities

The balance sheet should show a positive net cash position starting in 2020 excluding acquisitions.

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3- VALUATION OF €0.69/SHARE

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3 – Valuation of €0.69/share

Our valuation is based on a DCF approach. It is difficult to find companies similar to AgroGeneration given that the majority of companies with similar activities operate in other countries or are vertically integrated. Our valuation is based on a scenario that integrates agricultural commodity prices that should return in 2025 to their level prior to the steep falls in 2013. On this basis (more cautious that our previous scenario), we have only marginally adjusted our valuation to €0.69 (vs. €0.71), with the reduction in the WACC from 20.42% to 16.12% partially offsetting the slower than initially expected growth in cash flows.

3.1 DCF valuation of €0.69/share

3.1.1 WACC of 16.15%

Our principal assumptions in the calculation of the WACC are:

- ✓ A “risk-free” rate equal to the long-term interest rate in Ukraine (15.2%), down compared to our previous report (16.5%). In reality, the country risk, the principal risk weighing on AgroGeneration, is integrated into this rate.
- ✓ It is impossible to find a realistic measurement of the market risk premium in Ukraine. We have therefore used the market risk premium in France, a realistic and even prudent assumption in our view given the high “risk-free” rate. This figure is more or less stable compared to our previous report (6.43% vs. 6.47%).
- ✓ A beta of 1.2 reflecting the share price’s higher volatility compared to the market. As we indicated in 1.3.3, AgroGeneration’s share price is now highly correlated to agricultural commodity prices, which themselves are highly volatile.

The Ukrainian risk-free rate remains very high

These elements give us a WACC of 16.15%, down compared to our previous report (20.42%) thanks to the easing in long-term Ukrainian rates reflecting the gradual normalization of economic conditions here. This easing will probably continue over the coming months and would consequently contribute to an upward revaluation of the stock in a context in which agricultural commodity prices should no longer fall.

WACC Calculation	
Market premium	6,43%
Risk free rate	15,20%
Beta	1,20
Cost of equity	**22,92%**
Cost of debt	11,80%
Income tax rate	0,00%
Net cost of debt	**11,80%**
Discount rate	**16,15%**

Source : Invest Securities

3.1 2. Assumptions

Our calculations are based on our forecasts through 2026.

In order to calculate the terminal value, we have used the 2026 revenues and assumed an operating margin of 31.5% equal to that reached in 2021.

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3 – Valuation of €0.69/share

The assumed perpetual growth rate is 1%.

This leads us to the following forecasts:

€m	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
Revenue	71,8	83,3	96,0	103,5	111,4	118,1	122,8	125,3	127,2	128,4
Growth	*+17,5%*	*+16,0%*	*+15,2%*	*+7,9%*	*+7,6%*	*+6,0%*	*+4,0%*	*+2,0%*	*+1,5%*	*+1,0%*
EBIT	13,7	17,8	26,6	31,0	35,1	37,2	38,7	39,5	40,0	40,4
Ebit margin	*19,1%*	*21,4%*	*27,7%*	*30,0%*	*31,5%*	*31,5%*	*31,5%*	*31,5%*	*31,5%*	*31,5%*
Depreciations and provisions	-7,8	-7,9	-8,1	-8,2	-3,5	-4,4	-5,1	-5,8	-7,3	-6,3
EBITDA	21,5	25,7	34,7	39,3	38,6	41,6	43,7	45,3	47,3	46,7
Income tax rate	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*
Theoretical income tax	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net operating CF	**21,5**	**25,7**	**34,7**	**39,3**	**38,6**	**41,6**	**43,7**	**45,3**	**47,3**	**46,7**
WCR change	-5,6	-5,5	-6,1	-3,6	-3,9	-4,1	-4,3	-4,4	-4,5	-4,5
% of revenue	*7,8%*	*6,6%*	*6,4%*	*3,5%*	*3,5%*	*3,5%*	*3,5%*	*3,5%*	*3,5%*	*3,5%*
Investments	-2,0	-3,2	-3,2	-3,2	-6,0	-6,3	-6,6	-6,9	-7,3	-7,7
Operating free cash flow	**14,0**	**17,1**	**25,4**	**32,5**	**28,7**	**31,2**	**32,9**	**34,0**	**35,6**	**34,6**
Discount coefficient	0,91	0,78	0,67	0,58	0,50	0,43	0,37	0,32	0,27	0,24
Discounted operating free cash flows	**12,6**	**13,3**	**17,1**	**18,8**	**14,3**	**13,3**	**12,1**	**10,8**	**9,7**	**8,1**

Source : Invest Securities

3.1.3 Valuation of €0.69/share

DCF valuation of €0.69/share

Based on these different assumptions and factoring in the dilution coming from the future conversion of the OSRANE convertible bonds, our valuation equals €0.69/share.

Valuation (€m)	
Sum of discounted free cash flows	130,2
Terminal value	56,4
Enterprise value	186,5
Net debt	39,8
Provisions	0,5
	0,0
Equity value	**146,2**
Number of shares	212 071 388
Value/share (€)	**0,69**

Source : Invest Securities

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3 – Valuation of €0.69/share

3.1.4 Sensitivity analysis

A sensitivity analysis using values in the range of 0.5% below and above the WACC and the perpetual growth rate gives valuations ranging between €0.58 and €0.85 per share. This rather high sensitivity is due to AgroGeneration's strong growth, with more substantial flows at the end of the period.

	Perpetual growth rate							
		-0,50%	0,00%	0,50%	1,00%	1,50%	2,00%	2,50%
	14,62%	0,76	0,77	0,79	0,80	0,81	0,83	0,85
W	15,12%	0,73	0,74	0,75	0,76	0,77	0,79	0,80
A	15,62%	0,69	0,70	0,71	0,73	0,74	0,75	0,76
C	16,12%	0,66	0,67	0,68	**0,69**	0,70	0,71	0,73
C	16,62%	0,64	0,64	0,65	0,66	0,67	0,68	0,69
	17,12%	0,61	0,62	0,62	0,63	0,64	0,65	0,66
	17,62%	0,58	0,59	0,60	0,60	0,61	0,62	0,63

Source : Invest Securities

3.2 Valuation of €0.84/share based on peer comparisons

We have also calculated a valuation using the peer comparisons method. We have attempted to find comparable companies whose business is centered around the cultivation of farmland. Many companies are vertically integrated, either in livestock or poultry farming (Linas), the production of sunflower oil (Kernel) or food products (Linas). They can also be present in the logistics area, like Linas. Additionally, certain companies operate in several countries (Linas).

We eliminated Black Earth from our sample given that the company is in liquidation. Black Earth was in the same business as AgroGeneration, but in Russia, where it owned the land instead of leasing it. We have also excluded from our sample those Ukrainian companies only involved in poultry farming, as their business model is not identical to that of cereals and oilseed production.

There is no truly comparable company to AgroGeneration

Our valuation is based on three types of multiples: EBIT, EBITDA and P/E. The different valuations obtained are listed in the following table:

	EV/EBITDA		EV/EBIT		PE	
	2017	2018	2017	2018	2017	2018
AdecoAgro	9,3 x	6,1 x	7,9 x	7,4 x	11,4 x	10,6 x
Linas Agrogroup AB	10,5 x	7,8 x	20,7 x	12,9 x	21,7 x	10,8 x
Kernel	4,2 x	0,5 x	5,6 x	5,6 x	6,4 x	6,3 x
Astarta	1,2 x	1,3 x	4,2 x		4,0 x	
Median	**6,8 x**	**3,7 x**	**6,8 x**	**7,4 x**	**8,9 x**	**10,6 x**
EV AgroGénération (€m)	416,0	552,3	92,8	131,3		
Equity Value (€m)	375,7	512,0	52,5	91,0	64,8	126,5
Average (€m)	203,8					
Value/Share (€)	0,96					

Source : Invest securities

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3 – Valuation of €0.69/share

Even after applying a size discount of 12% to reflect the fact that these peer comparisons have higher stock market capitalizations, the valuation equals €0.84/share.

However, the business models of these peer comparisons are not identical to that of AgroGeneration, as being integrated limits the risk linked to fluctuations in agricultural commodity prices. It is for this reason that we do not use this method.

3.3 Valuation of €0.69/share

Of the two methods used, we continue to prefer the intrinsic DCF method, as it better reflects the specific characteristics of AgroGeneration that the comparable companies do not share.

We are maintaining our BUY rating with a target price revised slightly downward to €0.69/share (vs. €0.71 previously).

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SWOT ANALYSIS

STRENGTHS

- Critical mass reached with 120,000 hectares
- Healthy financial situation thanks to the OSRANE convertible bond issue
- Substantial cost savings leading the sizeable operating leverage

WEAKNESSES

- High financial charges and highly dependent on one bank
- Substantial WCR
- Subject to fluctuations in agricultural commodity prices

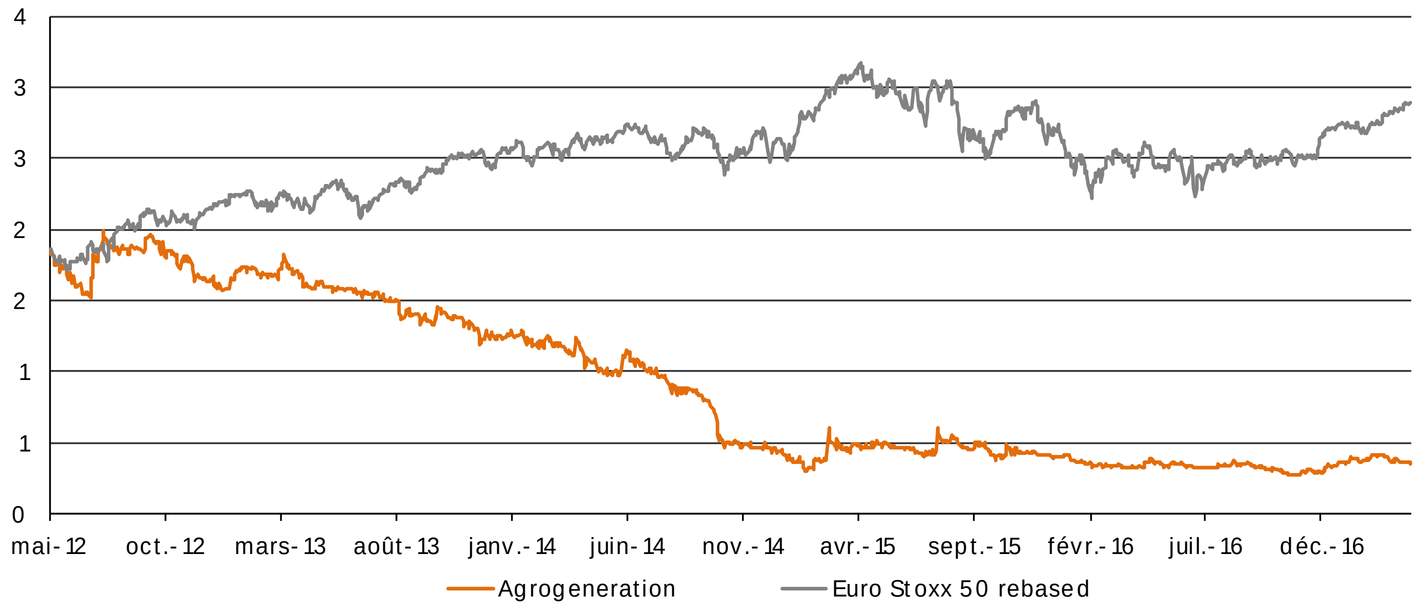
OPPORTUNITIES

- Sizeable operating leverage as soon as agricultural commodity prices turn up again
- Growth in the world population and reduction in land devoted to agriculture
- Sector consolidation

THREATS

- Renewed fighting in the Donbass region
- Unfavorable weather conditions that would reduce harvests
- Continued good harvests in the other regions of the world

5 YEARS SHARE PRICE CHANGE



CONFLICT OF INTEREST DETECTION

	Corporate Finance	Treasury stocks holding	Prior communication to company	Analyst's personal interest	Liquidity contract	Listing Sponsor	Research Contract
Agrogeneration	Yes	No	Yes	No	No	No	Yes

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