

BUY

TARGET PRICE : 0,59€ (vs 0,6€) **** +50%

ORNANE CONVERTIBLE BOND ISSUE – COMPANY CONTACT

MINIMAL DILUTION FOR RENEWED FLEXIBILITY

The issue of €20m of ORNANE convertible bonds with attached warrants announced on June 6 should have a limited or even zero dilutive impact on AgroGeneration's EPS. This will be all the more true if the group does not issue all 29 tranches. In this regard, AgroGeneration will decide whether to proceed with the issue of the optional tranches. Given the expected good harvests in 2018, a beginning of a recovery in agricultural commodity prices and the positive impact on earnings of the reimbursement of the 2015 OSRANE convertible bonds in March 2019, we estimate that the 26 optional tranches will not all be issued. We have marginally revised our target price to €0.59 (vs. €0.60 previously). BUY opinion maintained.

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Potential issue of 23% supplemental shares...

The proceeds from the issue of ORNANE convertible bonds with attached warrants announced on June 6 and reserved to a Luxembourg fund (European High Growth Opportunities Securitisation) could reach €20m. A maximum total of 64.8 million shares could be issued, corresponding to 23% supplemental shares. The maximum equity injection will be €25.75m (€20m linked to the subscription to the ORNANE and €5.75m linked to the exercise of the warrants).

... with a limited dilutive impact on EPS

AgroGeneration will provide an update after the issue of the first 3 tranches and before proceeding with the 26 optional tranches. We have drawn up 3 scenarios in order to estimate the dilution. The first assumes that all the tranches are issued. The second assumes a halt to the operation after the three initial tranches. The third is between the first 2 and is based on a total issue amount close to €10m. In the first scenario, the dilutive impact reaches 9.8%. However, in the 2 others, the dilution is limited or even zero. AgroGeneration will decide whether to proceed with the issue of the new tranches. Given the expected good harvests in 2018, a beginning of a recovery in agricultural commodity prices and the reimbursement of the 2015 OSRANE in March 2019 (savings of €4.7m), we estimate that the ORNANE will not all be issued, thereby limiting the dilution.

... in return for renewed financial flexibility

This convertible bond issue will boost AgroGeneration's financial independence by:

- ✓ giving it renewed ability to negotiate with its suppliers. The impact of the drought at the end of 2017 led to longer delays in supplier payments, corresponding to a cost of around €2.5m (inability to negotiate prices).
- ✓ reducing its dependence on a single bank, Alfabank Ukraine, which supplies around 93% of its crop loans (\$35m),
- ✓ enabling it to cope, if necessary, with new climatic hazards,
- ✓ facilitating new acquisitions that would act to boost growth.

Limited adjustment in our valuation

Our target price, which is based on the scenario in which all the tranches are issued, has been adjusted slightly to €0.59 (vs. €0.60). The positive impact of the operation over the long term and the reduction in the debt offsets the dilution. BUY opinion maintained.

in € / share	2018e	2019e	2020e
Adjusted EPS	0,04	0,09	0,12
chg.	n.s.	+99,3%	+39,0%
estimates chg.	+0,0%	+0,0%	+0,0%
au 31/12	2018e	2019e	2020e
PE	8,8x	4,4x	3,2x
EV/Sales	1,82x	1,39x	0,98x
EV/EBITDA	6,5x	3,9x	2,5x
EV/EBITA	9,5x	5,0x	3,0x
FCF yield*	13,8%	22,4%	36,9%
Div. yield (%)	n.s.	n.s.	n.s.

* After tax op. FCF before WCR

key points	
Share price (€)	0,39
Number of Shares (m)	101,2
Market cap. (€m)	40
Free float (€m)	13
ISIN	FR0010641449
Ticker	ALAGR-FR
DJ Sector	Process Industries

	1m	3m	Ytd
Absolute perf.	+0,0%	+0,3%	+3,7%
Relative perf.	+3,1%	-0,6%	+4,8%

Source : Factset, Invest Securities estimates

Principal characteristics of the operation

The principal characteristics of the issue of ORNANE convertible bonds with attached warrants are:

- ✓ An issue program by tranches separated by at least 20 days over a maximum period of 36 months.
- ✓ Each ORNANE convertible bond has a face value of €10,000 and will be reimbursed either in shares on the basis of 95% of the lowest share price of AgroGeneration over the seven trading days preceding the reimbursement date or in cash based on the AgroGeneration share price the day of the request for reimbursement.
- ✓ Each ORNANE convertible bond will come with an attached warrant giving the right to one AgroGeneration share (exercise price: 130% of the lowest average weighted daily share price over the ten trading days preceding the date of issue of a tranche).
- ✓ Three initial tranches of 100 ORNANE convertible bonds will be issued July 3, July 31 and August 28, 2018 (assuming shareholder approval is obtained).
- ✓ 26 optional tranches (one made up of 100 bonds and the others of 64 bonds), with AgroGeneration having the power to decide whether to pursue the issue program between each tranche with the exception of one tranche that can be issued on the demand of the investor.
- ✓ For the first three tranches, a commitment fee of 5% paid in ORNANE convertible bonds will be paid. While this fee has not been set for the following tranches, it should be the same magnitude or slightly lower. The ORNANE convertible bonds do not pay interest and have a maturity of one year, at which time they must be converted.

A maximum of 64.8 million shares could be created

In total, 64.8 million supplemental shares could be issued compared to a previous total of 216.2 million shares (including the dilution linked to the 2015 OSRANE convertible bonds), corresponding to 23.1% supplemental shares (integrating all the shares linked to the OSRANE convertible bonds). These calculations have been made using a reference share price of €0.39. The objective is for the issued bonds to be converted rather than reimbursed in cash.

AgroGeneration can receive €25.75m (€20m linked to the subscription to ORNANE convertible bonds and €5.75m from the exercise of the warrants).

Maximum number of shares to be issued	
Issue	Number of potential shares
First tranche of 100 ORNANE	2 782 935
Warrants attached to the first tranche	992 038
Issue linked to the two following tranches (200 ORNANE)	5 565 870
Warrants attached to the two following tranches	1 984 076
26 following tranches	45 057 044
Warrants attached to the 26 following tranches	8 432 322
Maximum number of shares to be issued issued	64 814 285
Number of shares before the issue	216 150 516
Total number of shares after the issue	280 964 801

Source : company, Invest Securities

Dilution that will depend on the number of tranches issued

The dilution will depend on the number of tranches issued. We have established three scenarios:

- ✓ **First scenario: fully diluted** with all the ORNANE convertible bonds issued. We have assumed that:
 - Four optional tranches will be issued in 2018 and 2021 while nine tranches are issued in 2019 and 2020, corresponding to an issue program spread out over time.
 - The commitment fee (paid in ORNANE convertible bonds) will equal 5% over the entire issue program, even if this fee could be lower for the 26 optional tranches.
 - €5m of the cash proceeds will be used to strengthen the bargaining position with suppliers (reduction in additional financial costs starting in 2018 and cost savings of €2.5m starting in 2019), with the remaining cash used to reduce debt and therefore interest charges.

Dilution if all tranches are issued and all warrants are exercised

	2018e	2019e	2020e	2021e
Number of optional tranches to be issued	4	9	9	4
Number of ORNANE issued	622	605	605	269
Cash generated (€m)	5,9	5,8	5,8	2,6
Shares from the warrant conversion	0	0	2 976 114	8 432 322
Cash generated (€m)	0	0	1,2	3,4
Estimated cost savings	1,2	3,9	4,9	5,5
Estimated net profit before the ORNANE issue	7,8	18,3	26,8	31,7
Estimated net profit after the ORNANE issue	9,0	22,2	31,7	37,2
EPS before issue	0,04	0,09	0,12	0,15
EPS after issue	0,04	0,09	0,12	0,13
Dilutive impact of the issue	-13,4%	0,9%	-3,9%	-9,8%

Source : Invest Securities

The dilution is substantial in 2018 to the extent that the issue will take place at the time of the 2017/2018 crop year harvests. The dilution is lower in the following fiscal years, even if it becomes greater at the end of the period in connection with the exercise of the warrants. This is the case in all our three scenarios.

In this scenario, AgroGeneration would turn significantly cash positive starting at the end of 2020 (€7m est.). This would enable it to buy additional land or storage capacities and would contribute to boosting EPS growth. We have not integrated this factor, which would limit the dilution, into our estimates as it is impossible to model the potential acquisitions.

- ✓ **Second scenario: only the three initial tranches are issued**

Dilution if only the initial 3 tranches are issued, with the attached warrants exercised

	2018e	2019e	2020e	2021e
Number of optional tranches to be issued	0	0	0	0
Number of ORNANE issued	315	0	0	0
Cash generated (€m)	3,0	0,0	0,0	0,0
Shares from the warrant conversion	0	0	2 976 114	0
Cash generated (€m)	0	0	1,2	0,0
Estimated cost savings	1,1	2,2	2,3	2,3
Estimated net profit before the ORNANE issue	7,8	18,3	26,8	31,7
Estimated net profit after the ORNANE issue	8,8	20,5	29,1	34,0
EPS before issue	0,04	0,09	0,12	0,15
EPS after issue	0,04	0,09	0,13	0,15
Dilutive impact of the issue	-12,2%	2,5%	3,2%	2,0%

Source : Invest Securities

The dilution should be limited

It would appear that the dilution is greatest at the end of the period in the scenario in which all the tranches are issued. This comes from the fact that the cost savings linked to improved relations with the suppliers have a greater impact than those linked to the reduction in financial charges due to the lower amount of crop loans. Consequently, if we do not integrate acquisitions, the only impact of the final tranches would be to lower the financial charges.

If only the initial three tranches are issued, cost savings with the suppliers will not be fully realized. We assume that €5m would be needed for this. However, issue proceeds would only equal €3m in this scenario.

✓ **Third scenario: a total issue close to €10m**

The scenario involving the issue of only the initial three tranches would limit the financial flexibility that AgroGeneration is seeking to recover. We have therefore estimated that a median scenario close to €10m would enable AgroGeneration to deal with potential hazards while at the same time limiting the dilution.

Dilution for a total issue close to €10m

	2018e	2019e	2020e	2021e
Number of optional tranches to be issued	4	7	0	0
Number of ORNANE issued	622	470	0	0
Cash generated (€m)	5,9	4,5	0,0	0,0
Shares from the warrant conversion	0	0	2 976 114	3 567 521
Cash generated (€m)	0	0	1,2	1,4
Estimated cost savings	1,2	3,7	4,2	4,3
Estimated net profit before the ORNANE issue	7,8	18,3	26,8	31,7
Estimated net profit after the ORNANE issue	9,0	22,0	31,0	36,0
EPS before issue	0,04	0,09	0,12	0,15
EPS after issue	0,04	0,09	0,12	0,14
Dilutive impact of the issue	-10,7%	0,7%	0,6%	-2,5%

Source: Invest Securities

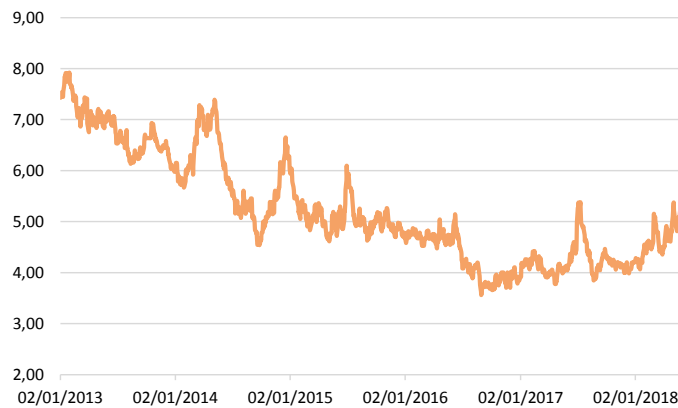
Based on our assumptions, these scenarios show that if AgroGeneration wants to limit the dilution to the maximum extent possible, an issue limited to the initial three tranches would be the best option. However, if the group also wishes to boost its financial flexibility, the third scenario would be preferable.

The “fully diluted” scenario without acquisitions only makes sense if new climatic hazards disrupt the harvests. This is currently not the case for 2018. By generating cash flow, a good year in 2018 would consequently reduce the need to issue all the tranches.

The tranches should not
all be issued

These calculations show that issuing all the tranches is not the optimal solution for AgroGeneration in the absence of an acquisition project offering high profitability. The issue of the final tranches will probably be unnecessary given that (i) the group should generate positive cash flow starting in 2018, (ii) the 2018 harvests should be good, (iii) agricultural commodity prices are beginning to turn up and (iv) the reimbursement of the 2015 OSRANE convertible bonds in 2019 will reduce financial charges by €4.7m.

Wheat price trend

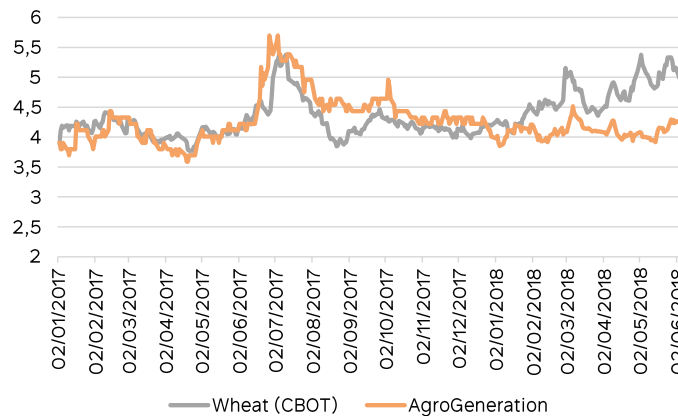


Source : FactSet

Nevertheless, having €25m at the group's disposal remains a safety net in case of renewed climatic hazards, which by nature are unpredictable.

As we had noted in our report dated May 22, the AgroGeneration share price has been correlated to agricultural commodity price trends since the beginning of 2017. The drought at the end of 2017 and this ORNANE convertible bond issue have resulted in de-correlation that should only be temporary, all the more if the ORNANE convertible bond issue program is not fully realized and the dilution is limited.

AgroGeneration share price vs. wheat price

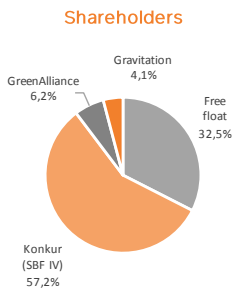


Source : FactSet

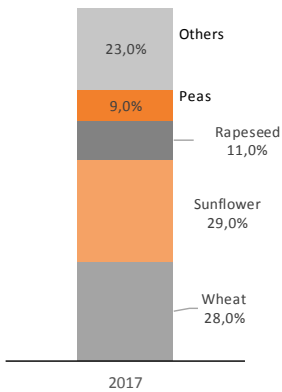
INVESTMENT THESIS

The merger of AgroGeneration and Harmelia in 2013 led to the creation of a large entity (110,000 hectares of farmland in Ukraine). These are in fertile areas with favourable hydrometry. The financial restructuring completed in early 2015 made it possible to resolve the Group's debt problems linked to Ukraine's economic situation and the rapid fall in commodity prices since mid-2013. While all risks are not ruled out, we believe that today's wager on the creation of a leading agricultural enterprise in Ukraine with excellent operational performance is justified since the price of agricultural commodities has hit a low point.

FINANCIAL DATA



Crops breakdown



Share information	2013	2014	2015	2016	2017	2018e	2019e	2020e
Published EPS (€)	-0,09	-0,03	-0,08	-0,01	-0,12	0,08	0,18	0,26
Adjusted EPS (€)	-0,09	-0,03	-0,03	0,00	-0,05	0,04	0,09	0,12
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	2017	2018e	2019e	2020e
P/E	n.s.	n.s.	n.s.	69,3x	n.s.	8,8x	4,4x	3,2x
EV/Sales	3,18x	2,50x	2,21x	1,84x	2,50x	1,82x	1,39x	0,98x
VE/EBITDA	n.s.	7,9x	6,5x	5,7x	14,9x	6,5x	3,9x	2,5x
VE/EBITA	n.s.	12,3x	11,4x	9,4x	165,3x	9,5x	5,0x	3,0x
Op. FCF bef. WCR yield	n.s.	11,2%	14,1%	15,6%	1,5%	13,8%	22,4%	36,9%
Op. FCF yield	n.s.	11,7%	10,9%	9,4%	0,2%	9,4%	16,9%	32,0%
Div. yield (%)	n.s.	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	2017	2018e	2019e	2020e
Share price in €	1,52	0,92	0,44	0,33	0,41	0,39	0,39	0,39
Market cap.	98,3	84,2	94,3	70,6	90,0	85,2	85,2	85,2
Net Debt	71,6	77,2	35,5	39,8	45,4	42,0	28,6	3,3
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	0,0	0,0	0,0	0,0
+/- 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	110,9	135,5	127,1	113,7	88,5

Income statement (€m)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Sales	53,7	64,6	58,9	60,3	54,2	69,9	82,1	90,5
chg.	+63,7%	+20,3%	-8,9%	+2,4%	-10,1%	+29,0%	+17,4%	+10,2%
EBITDA	-9,8	20,4	20,0	19,4	9,1	19,5	28,8	36,0
EBITA	-16,8	13,1	11,4	11,8	0,8	13,4	22,7	29,9
chg.	n.s.	n.s.	-13,1%	+3,3%	-93,0%	+1535,1%	+69,4%	+31,8%
EBIT	-16,8	13,1	11,4	11,8	0,8	13,4	22,7	29,9
Financial result	-3,5	-36,2	-19,6	-12,5	-14,1	-5,6	-4,4	-3,1
Corp. tax	-0,2	0,0	0,2	-0,2	0,1	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	-13,2	7,8	18,3	26,8
Adjusted net att. profit	-22,6	-21,7	-7,9	-0,9	-11,8	7,8	18,3	26,8
chg.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	+135,7%	+46,2%

Cash flow statement (€m)	2013	2014	2015	2016	2017	2018e	2019e	2020e
EBITDA	-9,8	20,4	20,0	19,4	9,1	19,5	28,8	36,0
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	-7,1	-2,0	-3,4	-3,4
Operating FCF bef. WCR	-13,9	18,0	18,4	17,3	2,0	17,5	25,4	32,6
Change in WCR	13,5	0,9	-4,2	-6,8	-1,7	-5,5	-6,2	-4,3
Operating FCF	-0,4	18,9	14,2	10,4	0,3	12,0	19,2	28,3
Acquisitions/disposals	-0,2	-0,6	-1,0	-1,0	0,6	0,0	0,0	0,0
Capital increase/decrease	12,9	41,7	33,8	21,0	13,4	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	-65,7	-20,5	-21,6	-17,9	-8,5	-5,8	-3,1
Published FreeCash Flow	-1,5	-5,6	26,6	8,9	-3,7	3,5	13,4	25,2

Balance Sheet (€m)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Assets	94,3	63,6	81,4	77,0	71,5	67,3	64,6	61,9
Intangible assets/GW	48,6	40,9	37,9	39,9	37,8	37,8	37,8	37,8
WCR	28,4	20,2	38,8	30,9	30,2	35,8	42,0	46,3
Group equity capital	51,1	6,6	69,5	65,4	56,1	61,0	77,9	104,7
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	0,2	0,2	0,2	0,2
Net financial debt	71,6	77,2	50,6	41,8	45,4	42,0	28,6	3,3

hors dépôts de garantie

Financial ratios	2013	2014	2015	2016	2017	2018e	2019e	2020e
EBITDA margin	n.s.	31,6%	34,0%	32,2%	16,7%	27,9%	35,1%	39,8%
EBITA margin	n.s.	20,3%	19,4%	19,6%	1,5%	19,2%	27,7%	33,1%
Adjusted Net Profit/Sales	n.s.	n.s.	n.s.	n.s.	n.s.	11,1%	22,4%	29,6%
ROCE	n.s.	15,7%	9,5%	10,9%	0,8%	13,0%	21,3%	27,7%
ROE adjusted	n.s.	n.s.	n.s.	n.s.	n.s.	12,8%	23,6%	25,6%
Gearing	140,2%	1175,0%	72,9%	63,8%	81,0%	68,8%	36,7%	3,2%
ND/EBITDA (in x)	n.s.	3,8x	2,5x	2,2x	5,0x	2,1x	1,0x	0,1x

Source : company, Invest Securities Estimates

Next events

Shareholders' meeting : 26 June 2018

SWOT ANALYSIS

STRENGTHS

- ❑ Significant size with 110,000 hectares under control
- ❑ Sound financial situation thanks to the OSRANE and ORNANE
- ❑ Significant cost savings that create high operating leverage

OPPORTUNITIES

- ❑ Significant operating leverage as soon as agricultural commodity prices recover
- ❑ Increase in world population and decrease in agricultural land area worldwide
- ❑ Consolidation of the sector

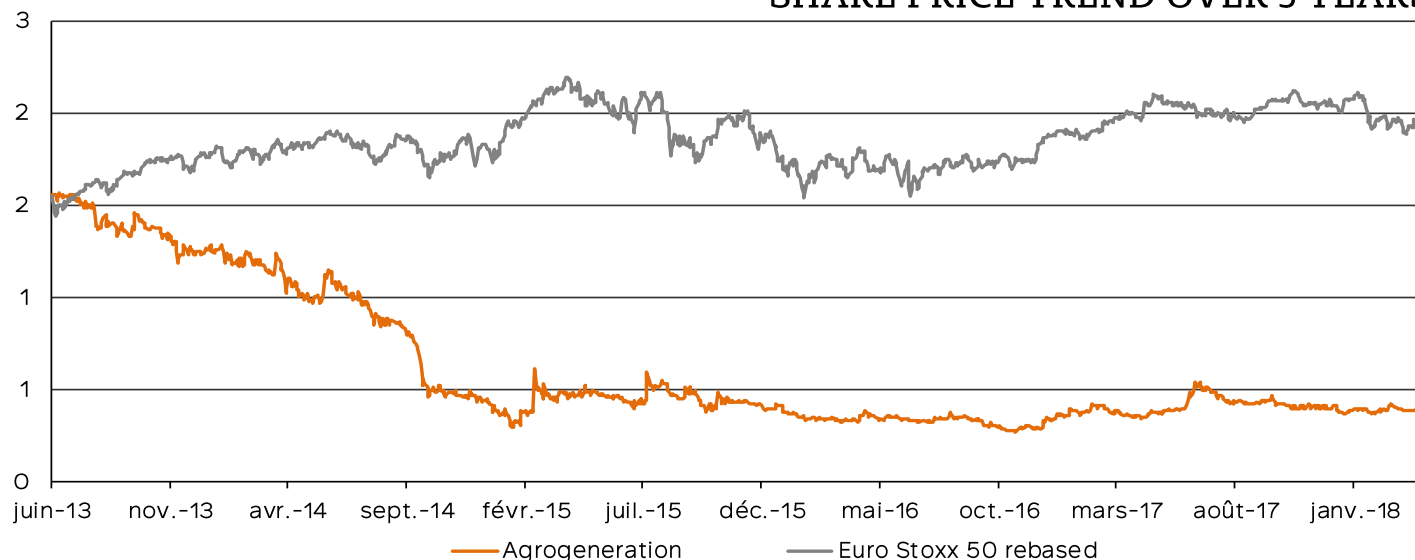
WEAKNESSES

- ❑ High financial costs and high reliance on a single bank
- ❑ High WCR
- ❑ Impact of trends in the price of agricultural commodities

THREATS

- ❑ Spread of conflict in the Donbass
- ❑ Adverse weather conditions that would reduce the quantities harvested
- ❑ Continued good harvests in other regions of the world

SHARE PRICE TREND OVER 5 YEARS



IDENTIFICATION OF CONFLICTS OF INTEREST

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

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