Flash

ElstarOils

30 January 2007

One year delay

Oils

Poland

Current price	PLN 13.18*	**Hold**
Fair Value	PLN 12.98	Rating maintained

Performance over	1m	3m	12m
Absolute	-4%	-5%	23%
Rel. WIG	-8%	-11%	6%
12m Hi/Lo	PLN 18.7 / 10.3		

Reuters	ELSA.WA
Bloomberg	ELS PW
Market Cap	PLN 635m
Next corporate event	
4Q06 report in February 2007	
PLN / €	3.92

FY/e 31.12 PLN m	2005	2006F	2007F	2008F
Sales	139.9	220.1	376.9	595.3
EBITDA	14.2	19.2	31.5	64.5
Pre-Tax	8.7	12.3	14.8	41.5
Attributable profit	7.1	10.0	14.8	41.5
EPS (PLN)	0.16	0.21	0.31	0.86
DPS (PLN)	0.00	0.00	0.00	0.00
P/E (x)	81.56	63.68	42.97	15.31
Yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA (x)	46.94	39.36	23.69	11.57

Source: KBC Securities **Applies to a close on January 29, 2007*

We are cutting our earnings estimates for ElstarOils, following another delay in the launch of the biofuel market in Poland, which is now expected to take-off by the beginning of 2008, one year later than previously expected. The necessary legislation supporting the use of renewable energy has been slow in coming, leaving ElstarOils new biodiesel capacity underutilized. We now assume that ElstarOils will export its 2007 biodiesel output, at a lower profit margin than originally planned. We have also cut our margin assumptions for 2008, following a cut in the excise tax break for using biofuels and the introduction of obligatory blending of biofuels by motor fuels producers and importers. As a result, we have cut our forecast for net earnings by 48.8% to PLN 14.8m (up 48% y/y) for 2007, and 21.8% to PLN 41.5m (up 181% y/y) for 2008. Our fair value estimate has been cut by 22.3% to PLN 13.0 per share, implying 1.5% downside. Our Hold rating for the stock is maintained.

Hold rating maintained

- **Weaker margins and delay in biodiesel market launch:** We have lowered our margin assumptions for ElstarOils, following the introduction of a new incentive system, supporting the use of renewable energy sources, which reduced the excise tax allowance and introduced obligatory blending of biofuels into standard motor fuels, in line with National Indicator Target. Our profit estimates have also been trimmed for 2008 to account for the stronger negotiating power of traditional oil companies, which could opt to pay fines instead of complying with National Indicator Target.
- **Early-mover advantage still valid:** ElstarOils has completed its investment program and has safeguarded rapeseed stocks for its production needs. Meanwhile, the recent changes in the regulatory framework have prompted many prospective rival producers to put their investment plans on hold. Whilst ElstarOils will likely need to export in the short-term, the company remains the front runner among prospective biofuel producers for the Polish market.
- **Strong growth profile factored in valuation:** Whilst the stock trades at a lofty 2007F P/E of 43.0x, compared with a median multiple of 14.9x for the peer group of international vegetable oil producers, and 13.8x for the peer group of international biofuel producers, we believe this fairly reflects the company's strong growth potential. Biodiesel production is expected to generate a surge in earnings starting from 2008, and we forecast a 3-year earnings CAGR of 52% for the period of 2008-2010.

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Important Polish Disclosure

Belgian Banking and Finance Commission is exercising the Supervision over KBC Securities NV Branch in Poland.

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The definitions of terms applied in the publication:

EBITDA = EBIT + amortization and depreciation EPS = Net profit / No of shares outstanding

DPS = Dividend per Share

NBV per share = Net Book Value / No of shares outstanding

EBITDA margin = EBITDA / Revenue

EBIT margin = EBIT / Revenue

CFPS = Cash flow / No of shares outstanding

Net Financial Debt = Financial debt – Cash equivalents

ROE = Net profit / Average Equity

EV = Market Capitalization + Net Financial Debt

P/E = Stock Price / EPS

P/CF = Stock Price / (Net Profit + amortization and depreciation)

P/BV = Stock Price / NBV per share

P/S = Market Capitalization / Revenue

Gross Dividend Yield = Dividend per share / Stock

The list of recommendations concerning ElstarOils shares issued by KBC Securities NV Branch in Poland during the last 6 months

The date of issuing	Valuation	Market price	Recommendation
30 January 2007	12.98	13.18	Hold
07 December 2006	16.7	17.3	Hold
18 August 2006	17.0	14.8	Buy
30 July 2006	17.0	14.7	Buy

The recommendations published by KBC Securities NV Branch in Poland are valid for 12 months, unless it changed earlier. We predict a possibility of preparing a quarter actualization of the recommendation.

While preparing the publication and issuing the recommendation, KBC Securities NV Branch in Poland used the following valuation methods: Discounted Cash Flow (DCF) and peer group comparison. The advantage of DCF method is that future financial results are calculated; on the other hand, the disadvantage of the model is that prognoses for the future financial results are influenced by analyst judgment. Peer group comparison is more independent of analyst judgment but it is usually based on current financial results which may differ from the future performance

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Interpretation of the recommendation:

BUY – total return is expected to appreciate 10% or more **HOLD** – total return is expected to be between 10% and –10% **SELL** – total return is expected to depreciate 10% or more

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During the last 12 months KBC Securities NV Branch in Poland did not provide services in the field of investment banking for the companies covered in its research reports over the last quarter.

During the last quarter KBC Securities NV Branch in Poland issued 33 recommendations:

13 BUY	39%
11 HOLD	33%
9 SELL	27%

The views expressed in this publication accurately reflect the personal view of the authors, in accordance with the state in time of the preparation.

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