

ElstarOils

18 August 2006

Robust 2Q06 results

Hotels & Leisure		Current price	PLN 148.0*	Buy		
Poland		Fair Value	PLN 170.0	Rating maintained		
Performance over	1m	3m	12m			
Absolute	26%	39%	155%			
Rel. WIG	21%	42%	90%			
12m Hi/Lo	PLN 187.5 / 36.6					
Reuters	ELSA.WA					
Bloomberg	ELS.PW					
Market Cap	PLN 649m					
Next corporate event	3Q06 report on 14 November 2006					
PLN / €	3.87					
	FY/e 31.12	PLN m	2005	2006F	2007F	2008F
Sales			139.9	231.2	407.8	602.8
EBITDA			14.2	24.5	57.6	83.2
Pre-Tax			8.7	17.5	35.9	53.6
Attributable profit			7.1	14.2	35.9	53.6
EPS (PLN)			1.62	2.94	7.44	11.12
DPS (PLN)			0.00	0.00	0.00	0.00
P/E (x)			91.58	50.27	19.89	13.31
Yield (%)			0.00	0.00	0.00	0.00
EV/EBITDA (x)			51.94	33.86	14.82	10.29

Source: KBC Securities

*Applies to a close on August 17th

ElstarOils reported stronger-than-expected results for 2Q06, driven by accelerating revenues from its traditional business line of vegetable oils and fats, following recent production capacity expansion. The net profit of PLN 3.2m in 2Q06, up 144% y/y and 5% q/q, came in above our forecast of PLN 2.7m, by 19%. The operating profit came in at PLN 4.7m for 2Q06, up 115% y/y but down 1% q/q, above our forecast of PLN 4.4m. The total revenues of PLN 48.5m in 2Q06, were up 61% y/y but down 4% q/q. In 2H06, we expect an acceleration of earnings, due to the launch of a biodiesel production unit. We leave our earnings forecast unchanged, following the release of 2Q06 results, and reiterate our Buy rating for the stock. Our estimated fair value of PLN 170.0 per share implies 15% upside.

Buy rating maintained

We view ElstarOils 2Q06 financial results, as a positive trigger for the stock price. We reiterate our Buy rating for ElstarOils and a fair-value estimate of PLN 170.0 per share, unchanged. This implies 15% upside from the current share price.

- **New opportunity in renewable energy:** A new bill, promoting the use of biodiesel as a motor fuel, is expected to create an entirely new market segment in Poland, starting from the beginning of 2007. Full compliance, with the EU directive on 5.75% energy content by 2010, would require Poland to produce 900 thousand tons of biofuel, a more than 20-fold increase from present levels.
- **Solid track record in traditional business:** ElstarOils has consistently and rapidly built market share in the traditional vegetable oils and fats industry. We view ElstarOils chances of establishing itself as a successful biofuel market player as high, based on company's proven technological and marketing competence.
- **Early-mover advantage:** ElstarOils is near to putting on stream its first biocomponent plant, while many of its rivals are only starting the construction of their installations. The company is also ahead of its competitors in securing feedstock for production, which we believe should be a differentiating factor, during the critical start-up phase of the market.
- **Attractive growth profile:** Whilst the stock trades at a lofty 2006F P/E of 50.3x, we believe this is warranted by the company's strong growth potential. Biodiesel production to expected to generate a surge in earnings in 2007 and we forecast a 4-year earnings CAGR for 2007-2010 of 46%.

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 July 2006	170.0	147.0	Buy
18 August 2006	170.0	148.0	Buy

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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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During the last quarter KBC Securities NV Branch in Poland issued 30 recommendations:

11 BUY	37%
13 HOLD	43%
6 SELL	20%

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