

ElstarOils

30 July 2006

Favourite in the Starting Blocks

Oil & gas

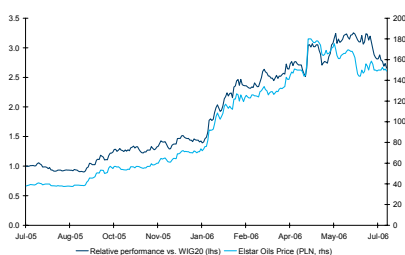
Poland

Current price PLN 145.0

Target price PLN 170.0

Buy

Initiating coverage



FY/e 31.12	2005	2006F	2007F	2008F
Sales (PLN m)	139.9	231.2	407.8	602.8
EBITDA	14.2	24.5	57.6	83.2
EBIT	8.7	17.5	35.9	53.6
Net 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)	89.73	49.25	19.49	13.04
Yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA	51.02	33.27	14.57	10.11

Source: KBC Securities

* Historic multiples are based on annual average prices

Reuters ELSA.WA

Bloomberg ELS PW

www.elstaroils.pl

Market Cap PLN 704m

Shares 4.82m

Volume PLN 0.8m

Free float 50.0%

Next corporate event

2Q06 results on 14 August 2006

Performance over	1m	3m	12m
Absolute	-8%	-18%	274%
Relative to WIG	-18%	-17%	157%
12-m Hi/Lo	PLN 187.5 / 36.6		
US\$/PLN	3.08		
€/PLN	3.92		

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Elstar Oils produces vegetable oils and fats from rapeseed and is going to expand into biodiesel production.

We initiate our coverage of ElstarOils with a Buy rating and a fair-value estimate of PLN 170.0 per share. This implies 17% upside from the current share price.

- New opportunity in renewable energy market:** 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 49.2x, 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 an earnings CAGR for 2007-2010F 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 issued by KBC Securities NV Branch in Poland during the last 6 months

	Valuation	Market price	Recommendation	The date of issuing
ElstarOils	170.0	147.0	Buy	30 July 2006

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 Warsaw issued 30 recommendations:

14 BUY	47%
12 HOLD	40%
4 SELL	13%

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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