

PLN 13.25

Buy

Target price: PLN 18.00
(Previously PLN 17.50)**WIG index**

56,289

of shares

51.6m

MCAP

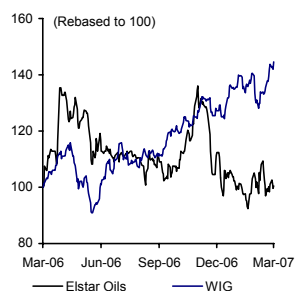
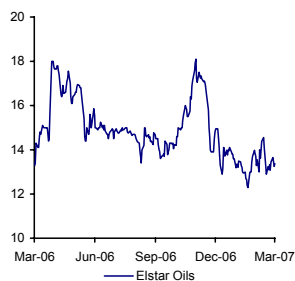
PLN 684m

US\$ 235m

Free float

PLN 336m

US\$ 115m

**Analyst**

Łukasz Wachelko

Tel. +48 22 520 9965

wachelkol@ca-ib.com.pl

<http://research.ca-ib.com>

30 March 2007

Elstar Oils

Food Products

Poland

Company Update

Self-defence of bio-fuels. BUY reiterated

	2005	2006	2007E	2008E	2009E
Revenues (PLNm)	139.9	208.9	402.7	531.6	778.7
EBITDA (PLNm)	13.9	18.9	44.5	69.6	103.9
EBIT (PLNm)	11.0	13.8	39.1	60.8	92.2
Net profit (PLNm)	7.1	8.7	25.3	41.7	68.2
EPS (PLN)	0.16	0.17	0.49	0.81	1.32
CEPS (PLN)	0.23	0.27	0.60	0.98	1.55
BVPS (PLN)	2.01	2.94	3.75	4.88	6.71
P/E (x)	82.0	79.0	27.1	16.4	10.0
P/CE (x)	57.9	49.7	22.3	13.6	8.6
P/BV (x)	6.6	4.5	3.5	2.7	2.0
EV/Sales (x)	4.2	3.4	1.6	1.3	0.9
EV/EBITDA (x)	42.5	37.5	14.3	9.7	7.0

Shareholder structure: S. Rosnowski 50.9%

Following our meeting with the Deputy Prime Minister and Minister of Agriculture Mr. Andrzej Lepper who is responsible for the regulations governing the biofuels market, we believe that that our constructive stance on Elstar Oils will soon find support in new legislation. Both projects currently under parliamentary discussion include a hike in tax relief of up to PLN 1.97-2.2/litre from the current PLN 1.0/litre. Timing? In the light of the 15 May deadline for EU subsidies for farmers related to energy plants growing, we believe that the new legislation should be voted already in April 2007. Following the recent underperformance of the stock, provoked by cuts in tax reliefs by the Ministry of Finance (from PLN 1.5-2.2/litre), Elstar Oils is trading at our P/E of 16x for 2008 and 10x for 2009, a respective 7% above and 12% below its Western European peers. Our updated target price of PLN 18.0/share offers 36% upside potential. We reiterate our BUY recommendation for the stock.

Self-defence ("SD") proposed changes to the include: 1) zero excise tax on bio-components used for the production of bio-fuels, which effectively results in PLN 1.882/l excise tax relief and 2) a waiver of the PLN 0.092/l fuel surcharge. The resulting overall reduction of tax expenses should total PLN 1.97/l vs. the current relief of PLN 1.00/l.

Polish Peasant Party ("PSL") proposal means, in effect, a return to the pre-22 December 2006 regulations which would provide excise tax relief in the range of PLN 1.50-2.20/l. Importantly, both SD and PSL have submitted legal opinions that put forth that the MoF argument as to an EU-imposed limit on tax reliefs (to not exceed PLN 1.0/litre) does not hold.

In addition to the two aforementioned proposals, the **Ministry of the Economy** has presented its "**Long-term programme for the promotion of biofuels in 2008-2014**", which includes: 1) National Indicatory Target growth path from 2.30% in 2007 to 7.55% in 2014 (implying ca. 220,000t-875,000t of diesel bio-components), 2) CIT reduction by 19% of the difference between the cost of manufacturing bio-components vis-à-vis that of fossil fuel, and 3) EU-supported subsidies of up to EUR 77m.

Following its recent underperformance, Elstar Oils is trading at a P/E of 16.4x and 10.0x for 2008 and 2009, implying a 6.8% premium and 12.1% discount to European peers' average, respectively. We have rolled our 12-month target price for Elstar Oils from PLN 17.5 to **PLN 18.0, offering 35.8% upside potential**. We reiterate our BUY rating on the stock.

Please note that the information at the back forms an integral part of this report.

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	Buy	Hold	Sell	Coverage In Transition	Restricted
Count	54	45	20	8	2
% of total	41.9	34.9	15.5	6.2	1.6

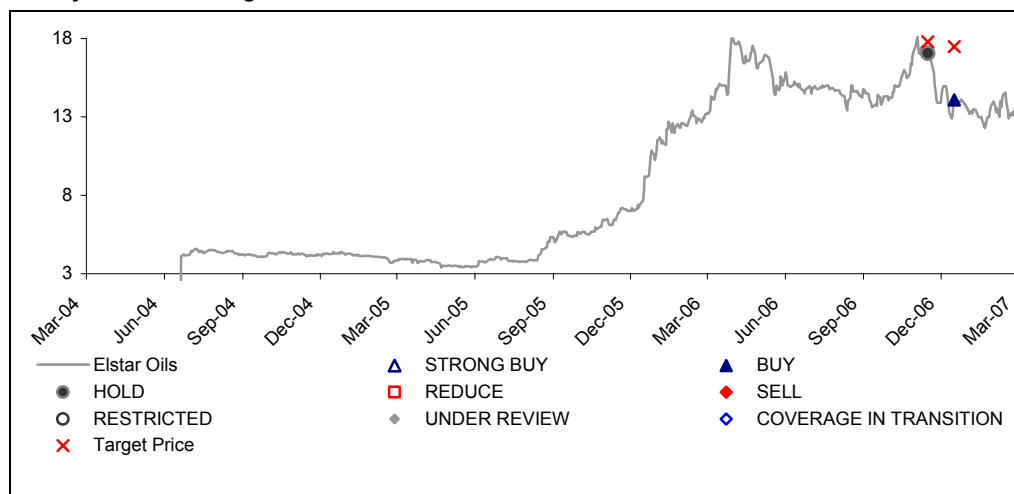
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	Buy	Hold	Sell	Coverage In Transition	Restricted
Count	3	4	0	1	2
% of total	30.0	40.0	0.0	10.0	20.0

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History of CA IB's rating of Elstar Oils



Source: Datastream, CA IB

Other regulatory disclosures

	1	2	3	4	5	6
Elstar Oils	Yes	No	No	No	No	No

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ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

Equity Research

Head of Equity Research

Mark Robinson
+44 20 7309 7873

Deputy Head of Research

Tomasz Bardziłowski
+48 22 520 9979

Sector Analysts

Banks

Marcin Jabłczyński +48 22 520 9962
Katalin Dani +36 1 374 7930
Milena Ivanova +44 20 7309 6510
Adriana Marin +40 21 206 4698
Marion Swoboda-Brachvogel
+43 50505 82351
Paul Wessely +43 50505 82331
Selim Yazici +44 20 7309 6512

Insurance

Marion Swoboda-Brachvogel
+43 50505 82351
Paul Wessely +43 50505 82331

IT

Przemysław Sawala-Uryasz
+48 22 520 9960

Metals & Mining

Alfred Reisenberger +43 50505 82367
Roger Monson +44 20 7309 7844

Oil & Gas

Róbert Réthy +36 1 374 7934

Pharmaceuticals

Katalin Dani +36 1 374 7930

Real Estate

Patrick Berger +44 20 7309 7843
Alexander Hodosi +43 50505 82359
Milena Ivanova +44 20 7309 6510
Hanzade Kılıçkiran +44 20 7309 7854
Marcin Szortyka +48 22 520 9972

Telecoms

Anna Bossong +44 20 7309 7840

Strategists

Equity

Mark Robinson +44 20 7309 7873
Roger Monson +44 20 7309 7844
Patrick Berger +44 20 7309 7843
Piotr Dzieciolowski +44 20 7309 7855

Fixed Income & FX

Martin Blum +43 50505 82363
+43 664 313 46 02

Head of Sales

Europe

Fritz Schweiger
+44 20 7972 0208

US

Gyula Schuch
+1 212 672 6140

Regional Research

Bulgaria

Peter Stoyanov +359 2 9269 112
Simon Quijano-Evans +43 50505 82364

Croatia

Goran Šaravanja +385 1 4897 809

Czech Republic

Dan Karpisek +420 22 111 2570
Pavel Sobišek +420 22 111 2504

Hungary

Katalin Dani +36 1 374 7930
Róbert Réthy +36 1 374 7934
Gyula Toth +43 50505 82362

Poland

Tomasz Bardziłowski +48 22 520 9979
Marcin Jabłczyński +48 22 520 9962
Tomasz Krukowski +48 22 520 9859
Przemysław Sawala-Uryasz 520 9960
Marcin Szortyka +48 22 520 9972
Łukasz Wachelko +48 22 520 9965
Piotr Chwiejczak +43 50505 82361

Romania

Adriana Marin +40 21 206 4698
Carmen Arsene +40 21 206 4697
Simon Quijano-Evans +43 50505 82364

Russia

Roger Monson +44 20 7309 7844

Slovenia

Katalin Dani +36 1 374 7930
Piotr Dzieciolowski +44 20 7309 7855
Goran Šaravanja +385 1 489 7809

Turkey

Hanzade Kılıçkiran +44 20 7309 7854
Selim Yazici +44 20 7309 6512
Simon Quijano-Evans +43 50505 82364

Head of Sales – Trading

Michel Danechi
+44 20 7309 7810

Sales – Europe

+44 20 7972 0208

Sales – US

+1 212 672 6140