

Elstar Oils

12 February 2008

Promises coming true

Oils		Current price	PLN 7.26*	Buy
Poland		Fair value	PLN 9.93	Rating maintained
Performance over	1M 3M 12M	FY/e 31.12	PLN m	2006 2007F 2008F 2009F
Absolute	-28% -5% -48%	Sales	208.9	391.0 490.9 604.6
Rel. WIG	-15% +23% -36%	EBITDA	18.9	5.6 45.3 60.4
12M Hi/Lo	PLN 15.8 / 4.8	Pre-tax	10.8	-4.1 24.8 36.9
Reuters	ELSA.WA	Attributable profit	8.7	-3.8 23.8 32.5
Bloomberg	ELS PW	EPS (PLN)	0.18	-0.08 0.49 0.67
Market cap	PLN 349m	DPS (PLN)	0.00	0.00 0.00 0.00
Next corporate event		P/E (x)	40.31	- 15.31 10.77
4Q07 report on 14 February 2008		Yield (%)	0.00	0.00 0.00 0.00
PLN / €	3.60	EV/EBITDA (x)	32.37	111.29 14.59 11.29

Source: KBC Securities **Applies to COB on 11 February 2008*

Elstar Oils is scheduled to report its 4Q07 results on Thursday, February 14. Elstar Oils' earnings should pick up now that the necessary regulations for bio-diesel use in Poland are in place. Having completed its investment programme and safeguarded rapeseed stocks for 2008, Elstar Oils remains the frontrunner among Poland's potential bio-fuel producers. Meanwhile, we forecast Elstar Oils to deliver the last in a series of weak quarterly results. We forecast a 4Q07 net loss of PLN 2.3m, although this should be neutral for the stock price, as it already appears to have been priced in. On the back of the delayed start of the biodiesel market in Poland, and the poor outlook for 4Q07, we have cut our earnings forecast for Elstar Oils from a PLN 0.3m profit to a PLN 3.8m loss for 2007. We have also cut our forecasts by 22.5% to PLN 23.8m for 2008 and 5.1% to PLN 32.5m (up 36% y/y) for 2009. Our fair-value estimate is 13.4% lower at PLN 9.93 per share. As this still implies 36.8% upside, following a 28.0% decline in the stock's price over the past month, we reiterate our Buy rating.

Buy rating maintained

- New opportunity in renewable energy market:** A new regulation promoting the use of biodiesel as a motor fuel is set to create an entirely new market segment in Poland, starting from the beginning of 2008. Full compliance with the National Target Indicator (3.45% energy content in 2008) will require Poland to produce nearly 340,000 tonnes of bio-diesel, a more than 20-fold increase from present levels.
- Delay in bio-diesel market launch factored in:** We believe that the bad news about a delay (from 2007 to 2008) in the launch of the bio-fuel market in Poland has already been factored-in to Elstar Oils' price. While the bio-diesel industry has finally been given the green light, we expect Elstar Oils to produce 55,100 bio-components for deliveries to Poland's oil majors and independent blenders.
- Early-mover advantage still valid:** Elstar Oils has completed its investment programme and safeguarded the rapeseed stocks for its production needs by entering long-term contracts with farmers. Elstar Oils has put its installation on-stream and the company remains the front-runner among prospective bio-fuel producers for the Polish market.
- Strong growth profile:** On a 2008F EV/EBITDA multiple of 14.6x, Elstar Oils trades at a premium to its international bio-fuel and vegetable oils producing peers on a median multiple of 13.0x, but we believe this is justified by the prospect of increasing bio-diesel production at Elstar Oils. We forecast an EBITDA CAGR for 2008-2011 of 15.6% for Elstar Oils.

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

List of recommendations concerning Elstar Oils' shares issued by KBC Securities NV Branch in Poland during the last six months

Date of issue	Valuation	Market price	Recommendation
12 February 2008	9.93	7.24	Buy
20 August 2007	11.47	8.15	Buy

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26 BUY	64%
11 HOLD	28%
3 SELL	8%

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www.kbcsecurities.com

Brussels
+32 2 417 44 04

London
+44 20 7283 9666

New York
+1 212 489 20 40

Paris
+33 1 53 05 35 55