KBC Securities

Flash

Elstar Oils

20 August 2007

Waiting for the green light

Oils	Current price	PLN 8.15*	Buy
Poland	Fair Value	PLN 11.47	Rating upgraded

Performance over	1M	3M	12M
Absolute	-37%	-35%	-45%
Rel. WIG	-30%	-34%	-53%
12M Hi/Lo	PLN 18.2 / 8.8		

Reuters	ELSA.WA
Bloomberg	ELS PW
Market Cap	PLN 394m
Next corporate event	3Q07 report on 14 November 2007
PLN / €	3.78

FY/e 31.12 PLN m	2006	2007F	2008F	2009F
Sales	208.9	354.7	667.8	826.6
EBITDA	18.9	16.4	55.4	66.8
Pre-Tax	10.8	0.3	30.7	34.2
Attributable profit	8.7	0.3	30.7	34.2
EPS (PLN)	0.18	0.01	0.64	0.71
DPS (PLN)	0.00	0.00	0.00	0.00
P/E (x)	45.48	1143.67	12.84	11.53
Yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA (x)	34.74	40.54	12.43	10.59

Source: KBC Securities **Applies to COB on 17 August 2007*

Elstar Oils reported weaker-than-expected results for 2Q07, driven by the cost of the idle bio-diesel production line and a deterioration of margins in traditional business lines of vegetable oils and fats. The net loss of PLN 1.0m in 2Q07 versus the net profit of PLN 3.2m in 2Q06 came in below our forecast of a PLN 0.7m profit. The operating loss came in at PLN 1.0m versus a PLN 4.7m profit in 2Q06, below our forecast of a PLN 0.4m loss, driven by bio-diesel division losses of PLN 3.0m. Total revenues of PLN 114.5m in 2Q07 were up 136% y/y and 18% q/q, driven by reselling of rapeseed and exports of raw vegetable oil. The first commercial sales from Elstar Oils new bio-diesel production line will only be seen in 4Q07 or 2008, following a delay in the implementation of the necessary tax regulations, supporting the use of renewable energy in Poland. We believe the company's earnings are bound to pick up as soon as the necessary regulations are in place. On the back of the poor outlook for 2H07 results and a deterioration of margins in the vegetable oils business (the result of rapeseed oil oversupply), we have cut our earnings forecasts for Elstar Oils by 97.4% to PLN 0.3m (–96.0% y/y) for 2007, by 20.4% to PLN 30.7m (+8,810% y/y) for 2008, and by 15.2% to PLN 34.2m (+11% y/y) for 2009. We have cut our fair-value estimate by 10.3% to PLN 11.47 per share. As this implies 40.4% upside following a 37% decline in the stock's price over the past month, we upgrade our rating to Buy.

Rating upgraded to Buy

- **Weaker margins and a further delay in the 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. While the bio-diesel industry is still waiting for the green light, there have been some positive developments recently, including a new fiscal incentive system for bio-fuels (to be introduced from 2008), a bigger excise tax allowance for pure bio-fuel production, a higher National Indicator Target (NIT) on obligatory blending of bio-fuels into standard motor fuels, and higher fines for not complying with the NIT.
- **Early-mover advantage still valid:** Elstar Oils has completed its investment programme and safeguarded the rapeseed stocks for its production needs. While Elstar Oils will probably need to keep its installation idle in the short term, the company remains the front-runner among prospective bio-fuel producers for the Polish market.
- **Strong growth profile factored-in to valuation:** Although the stock trades at a lofty 2007F P/E, we expect the multiple to fall to a 2008 P/E of 12.8x, compared with a median multiple 12.9x for the international bio-fuel producer peers. Bio-diesel production is expected to generate a surge in Elstar Oils earnings starting from next year, as necessary regulations supporting the use of renewable energy are finally introduced.

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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

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
20 August 2007	11.47	8.15	Buy
19 February 2007	12.78	12.29	Hold
30 January 2007	12.98	13.18	Hold

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 quarter KBC Securities NV Branch in Poland issued 33 recommendations:

15 BUY	43%
12 HOLD	34%
8 SELL	23%

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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