

# Elstar Oils

03 August 2009

## Biodiesel: launched but hurdles remain

**Metals and minerals**
**Current price** PLN 6.58\*

**Buy**
**Poland**
**Fair value** PLN 8.10

Rating maintained

Performance over	1M	3M	12M
<b>Absolute</b>	23%	0%	82%
<b>Rel. WIG20</b>	5%	26%	39%
<b>12M Hi/Lo</b>	PLN 6.83 / 3.50		
<b>Reuters</b>	ELSA.WA		
<b>Bloomberg</b>	ELS.PW		
<b>Market cap</b>	EUR 76m		
<b>Next corporate event</b>	2Q09 results on 31 August 2009		
<b>PLN / EUR</b>	4.16		

PLN m	2008	2009F	2010F	2011F
<b>Sales</b>	576.3	692.7	812.8	935.8
<b>EBITDA</b>	44.9	54.7	64.5	76.3
<b>EBIT</b>	36.3	43.0	52.3	63.6
<b>Net profit</b>	13.8	19.2	28.3	38.1
<b>EPS (PLN)</b>	0.3	0.4	0.6	0.8
<b>P/E (x)</b>	23.0	16.5	11.2	8.3
<b>DPS (PLN)</b>	0.0	0.0	0.0	0.0
<b>Dividend Yield (%)</b>	0.0%	0.0%	0.0%	0.0%
<b>EV/EBITDA (x)</b>	12.2	10.1	8.6	7.1

Source: KBC Securities

\* Priced at COB 31 July 2009

**We maintain our Buy rating on Elstar Oils. The firm's biofuel segment is now running at full speed and this should lead to significant earnings growth over the next few years. To reflect the new macro environment, we have revised our net profit forecasts down 30% to PLN 19.2m (+39.2% y/y) for 2009, down 7% to PLN 28.3m (+47.2% y/y) for 2010 but up 9% to PLN 38.1m (+34.8% y/y) for 2011. Our fair value estimate is up 1.3% at PLN 8.10 per share, which implies 23.0% upside.**

### Buy rating maintained

- **Near-term biodiesel outlook positive...**: Elstar Oils is well positioned to prolong its contract with PKN Orlen beyond 2009 and to win new business (e.g. Lotos). We forecast revenues from biodiesel to grow at a 2009-2011 CAGR of 37% on the back of growing volumes, while higher prices (derived from our diesel price forecast) should be only slightly offset by the strengthening PLN. The position of the biodiesel sector within the EU has strengthened, despite existing overcapacity, after duties being imposed on imports from the US.
- **...but regulations under scrutiny**: Growing criticism of first generation biofuels, which have been blamed for contributing to rising food prices, has already triggered downward revisions of the targets laid down for the share of biofuel energy in the total energy bill of some EU countries. While we have not factored this potential risk into our projections for Elstar Oils, we nevertheless flag it as a potential concern.
- **Stable outlook for food segment**: Elstar Oils has an established position in the industrial fats and oils segment. We expect revenues to grow at a high single-digit pace over the next few years, mainly due to the winning of market share from importers and the diversification of sales channels. The share of this business in the firm's total sales should remain above 50% in 2012.
- **Robust net profit growth**: We forecast Elstar Oils' net earnings at a robust 2009-2011 CAGR of 40% on the back of sales growth, operating margin improvement and stable financial costs. The margin uptick should materialize primarily in the biofuel segment, along with growing capacity utilization and bargaining power from suppliers. However, our projections are more than 20% below existing consensus estimates.
- **High financial leverage**: Elstar is highly leveraged due to recent biodiesel investments. With growing earnings we forecast net debt-to-EBITDA to fall from 4.3x at the end of 2009 to 3.7x in 2010 and 2.9x in 2011. We do not expect the firm to experience any problems with financing or rolling over short-term facilities.
- **Undervalued**: Despite gaining 75% year-to-date and vastly outperforming the WIG20 index, on a 2009F P/E of 16.5x, Elstar trades in line with the median multiple of international biofuel and vegetable oil producing peers. We believe the premium is justified by the prospects for the company's nascent biofuel business, driving higher-than-average earnings growth over the next few years.

Leszek Iwaszko, CFA

+48 22 581 08 08

leszek.iwaszko@kbcsecurities.pl

Robert Maj

+48 22 581 08 24

robert.maj@kbcsecurities.pl

**Refer to important disclosures, disclaimers and analyst certifications at the end of the body of this research.**

#### Important Polish Disclosure

Belgian Banking and Finance Commission is exercising the Supervision over KBC Securities NV Branch in Poland.

This publication is made public immediately after its completion. This publication has been prepared for KBC Securities NV Branch in Poland clients; yet, it may be sent to other persons and the mass media. No part of this publication may be reproduced in any manner without the prior written consent of KBC Securities NV Branch in Poland.

#### 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 recent recommendations concerning KGHM shares issued by KBC Securities NV Branch in Poland

Date of issue	Valuation	Market price	Recommendation
03 August 2009	8.10	6.58	Buy
21 August 2008	7.99	5.00	Buy
12 February 2008	9.93	7.24	Buy
20 August 2007	11.47	8.15	Buy

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

With the aim of assuring the highest standards of reliability and eliminating of the inaccuracies in its publications, KBC Securities NV Branch in Poland sends a publication to the issuer concerned in advance so as to enable the issuer to check the information included in the publication.

#### 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.

At the time of making the publication, KBC Securities NV Branch in Poland does not know about any connections with the issuer, and no other circumstances exist which could influence the objectivity of the recommendation (e.g. agreement with the issuer, capital and personal connections). At the time of preparing the recommendation, KBC Securities NV Branch in Poland will not consign the offer of services pointing at the issuer, within the upcoming three months.

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 Poland issued 42 recommendations:

13 BUY	31%
14 HOLD	33%
15 SELL	36%

The views expressed in this publication accurately reflect the personal view of the authors, in accordance with the state in time of the preparation.

This publication was prepared in accordance with the principles of methodological correctness and objectivity, based upon public information, including the information from the issuer, in particular, including information from the last 6 months, which KBC Securities NV Branch in Poland finds reliable.

KBC Securities NV Branch in Poland does not guarantee, however, either accuracy or complexity of the publication; in particular, in case when the base information proves to be inaccurate, incomplete, or does not fully reflect the actual state.

KBC Securities NV Branch in Poland is not responsible either for investment decisions taken on the basis of this publication, or damages caused by investment decisions taken on the basis of this publication.

Copyright © 2009 KBC Securities

Analyst certification: The analysts identified in this report each certify, with respect to the companies or securities that the individual analyses cover, that (i) the views expressed in this publication reflect his or her personal views about the subject companies and securities, and (ii) he or she receives compensation that is based upon various factors, including his or her employer's total revenues, a portion of which are generated by his or her employer's investment banking activities, but not in exchange for expressing the specific recommendation(s) in this report.

This publication has been prepared by KBC Securities N.V. Polish Branch, K&H Equities (Hungary) Rt., and Patria Finance a.s. (Czech Republic) and is distributed through KBC Securities NV or one of its subsidiaries (together "KBC Securities"). This publication is provided for informational purposes only and is not intended to be an offer, or the solicitation of any offer, to buy or sell the securities referred to herein. No part of this publication may be reproduced in any manner without the prior written consent of KBC Securities. The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable, but neither KBC Securities N.V. Polish Branch Kredyt Bank S.A., K&H Equities (Hungary) Rt., Patria Finance a.s., KBC Securities nor its affiliates represent that it is accurate or complete, and it should not be relied upon as such. All opinions, forecasts, and estimates herein reflect our judgement on the date of this publication and are subject to change without notice. From time to time, KBC Securities N.V. Polish Branch Kredyt Bank S.A., K&H Equities (Hungary) Rt., Patria Finance a.s. or KBC Securities, their principals or employees may have a position in the securities referred to herein or hold options, warrants or rights with respect thereto or other securities of such issuers and may make a market or otherwise act as principal in transactions in any of these securities. Any such persons may have purchased securities referred to herein for their own account in advance of the release of this publication. KBC Securities N.V. Polish Branch Kredyt Bank S.A., K&H Equities (Hungary) Rt., Patria Finance a.s. or KBC Securities and their principals or employees may from time to time provide investment banking or consulting services to, or serve as a director of a company being reported on herein. This publication is provided solely for the information and use of professional investors who are expected to make their own investment decisions without undue reliance on this publication. Investors must make their own determination of the appropriateness of an investment in any securities referred to herein based on the merits and risks involved, their own investment strategy and their legal, fiscal and financial position. Past performance is no guarantee for future results. By virtue of this publication, none of KBC Securities N.V. Polish Branch Kredyt Bank S.A., K&H Equities (Hungary) Rt., Patria Finance a.s. or KBC Securities nor any of their employees shall be responsible for any investment decision. In the United States this publication is being distributed to U.S. Persons by KBC Securities, Inc., which accepts responsibility for its contents. Orders in any securities referred to herein by any U.S. investor should be placed with KBC Securities, Inc. and not with any of its foreign affiliates. This publication is for distribution in or from the United Kingdom only to persons who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom or any order made thereunder or to investment professionals as defined in Section 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This publication is for distribution in Canada only to pension funds, mutual funds, banks, asset managers and insurance companies. The distribution of this publication in other jurisdictions may be restricted by law, and persons into whose possession this publication comes should inform themselves about, and observe, any such restrictions. In particular this publication may not be sent into or distributed, directly or indirectly, in Japan or to any resident thereof.

Copyright © 2009 KBC Securities

[www.kbcsecurities.com](http://www.kbcsecurities.com)

Brussels  
+32 2 417 44 04

London  
+44 20 7283 9666

New York  
+1 212 845 22 89

Paris  
+33 1 53 05 35 55