

Daily News

MHP swaps Russian land for Agrokultura's Ukrainian assets

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Ukrainian farmer and leading poultry producer MHP (MHPC LI, MHPSA) reported in a June 9 press release that it finalized a deal to exchange its Russian asset, VoronezhAgro, for the Ukrainian assets of Agrokultura (AGRA SS), an internationally owned company that has all its farming assets in Russia and Ukraine. The deal is a pure swap of assets with no cash adjustments and is based on equal working capital, the press release said.

MHP's VoronezhAgro consists of a 40,000 ha land bank and grain storage of 0.15 mmt capacity in the Voronezh region of Russia. Agrokultura's Ukrainian subsidiary consists of a 60,000 ha land bank and grain storage of 0.09 mmt in three western regions of Ukraine, according to MHP's release. In its annual report, Agrokultura stated it controlled 70,800 ha in western Ukraine as of end-2014. These assets generated USD 6.8 mln in EBITDA (USD 152/ha) and USD 0.1 mln in before-tax losses in 2014, their most successful year. To compare, MHP's farming business generated USD 294 in EBITDA per hectare in 2014 (the company did not report separate results for its Russian assets).

Alexander Paraschiy: The swap deal was logical for both companies, given that MHP's Russian assets (comprising 11% of its land bank) and Agrokultura's Ukrainian assets (29% of its land bank) were non-core assets. Moreover, the deterioration of economic relations between the two countries add risk for cross-border operations and makes impossible any synergies from owning the assets in two countries.

The deal looks more beneficial for Agrokultura, in our view: firstly, it obtained assets that perfectly fit its geographic focus (40% of its Russian land bank, before the deal, was in the Voronezh region); secondly, it got rid of poor-performing assets, which historically suffered from high operating costs and were never profitable.

For MHP, the deal will play towards geographic diversification (the company has low exposure to western Ukrainian regions) while it will be a challenge for the company to make its newly acquired assets profitable. The previous owners of these assets (Landkom, Alpcot/Agrokultura) were not capable of doing it.

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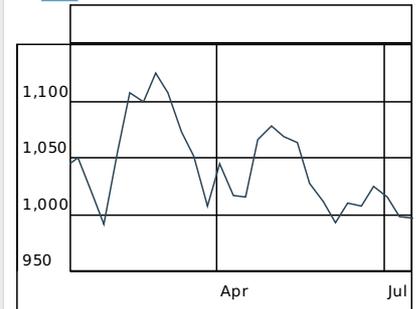
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