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## Investing in Ukraine: Top 10 picks of 2010

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Avangardco is the country's leading egg producer, and raised just over \$200 million in April from a 22 percent stake placed in London. (UNIAN)

Kyiv Post | 24 June 2010 | excerpt

The Kyiv Post has teamed up with five of Ukraine's leading investment banks – Renaissance Capital, Sokrat, Foyil Securities, Phoenix Capital and ART-Capital – to pick out 10 of the best Ukrainian companies to invest in this year.

The choices were made not simply on the basis of upside potential, but in terms of long-term growth potential, transparency and the possibility of entering and exiting the investment.

Given the huge upside in the sector and the flurry of investment activity under way, the list is unsurprisingly dominated by agriculture companies. Some have recently completed – or are targeting – initial public offerings (IPOs) or secondary public offerings (SPOs) in 2010.

Disclaimer: The Kyiv Post bears no responsibility for any choices made by investors using this or other material prepared by the paper. The findings of this report represent subjective decisions made by analysts and are merely intended to provide a general overview for the reader.

## **Sintal**

Sintal is one of Ukraine's leading grain cultivators and traders which, in the middle of the crisis in October 2009, raised \$13 million for land bank and storage expansion in an SPO on the Frankfurt Stock Exchange (FSE). Sintal is planning to join Ukraine's most liquid agriculture stocks on the Warsaw Stock Exchange (WSE) by the end of 2010, which we believe will significantly boost the name's liquidity. The current holders of Sintal's depository receipts traded on the FSE will be likely offered a swap.

The company controls 100,000 hectares of land in fertile regions of Ukraine and intends to increase its land bank to 180,000 by the end of 2013. Grain yields outperform Ukraine's average, with 40 percent of the company's land covered by irrigation systems. Three quarters of Sintal's land bank is located in Kherson Oblast, which means that Sintal's fields are 50 kilometers to 170 kilometers away from the country's main sea ports in Odesa, Kherson, and Mykolayiv. This makes the company's port transportations costs some of the lowest in the country.

Shareholder structure: Mykola Tolmachev – 52.9 percent; management – 10.8 percent; free float – 36.3 percent.

*Sources: Renaissance Capital, ART-Capital and Sokrat*

## **Creativ Group**

Creativ Group is one of the most dynamic agricultural holding company in Ukraine and a leading manufacturer of oils and fats. A threefold increase in capacity in the third quarter of 2009 should drive sales up by 44 percent in 2010. Creativ has a 25 percent share of the Ukrainian vegetable fat market, 8 percent of the refined oil market, and in 2010 it should achieve an 18 percent market share for soy products. The group offers growth potential in terms of sales and profitability, due to the higher margins earned on soy products.

Creativ has built a strong, vertically integrated business model, starting with cultivation and harvesting and extending to processing. In 2009, sales grew 38.3 percent on the year due to the launch of its new oil extracting plant and soy processing plant in the second half of the year. The plant has almost tripled the group's capacity in terms of final product output.

In 2009, almost 70 percent of group sales were directed towards the business-to-business sector, ensuring stable prices and constant demand for end-products. Key clients include international and domestic food industry leaders such as Nestlé and Kraft Foods. Domestic sales are balanced by an increasing share of exports, which are forecast to account for 54 percent of total sales in 2010, compared to 39 percent in 2009.

Shareholder structure: Management – 34.1 percent, Creativ Group (Cyprus) – 42.5 percent; free float – 23.4 percent.

*Source: Sokrat*

## **Mriya**

Mriya is an agricultural holding company that controls a land bank of close to 200,000 hectares in four regions in western Ukraine. The company has a well-diversified crop portfolio and in addition to its main activity – grain crop cultivation – it also grows sugar beet and potatoes, posting yields that outperform its peers.

Mriya raised 58 million euros in a 20 percent placement on the Frankfurt Stock Exchange in June 2008.

The company has announced grand, aggressive expansion plans for the coming years. It plans to increase its land bank by 165,000 hectares in 2010 and by a further 515,000 hectares by 2013. Considering Mriya's track record for successfully increasing its land bank under cultivation, analysts foresee most of its plans being successfully realized. In the past, the firm has achieved high yields on newly acquired land; initial yields are generally in line with Ukrainian averages, but the company's high levels will be attained within 2–3 years. Mriya has secured a \$75 million credit from the International Finance Corporation for its expansion plans, including build grain silos, purchasing new farm machinery, acquiring land lease rights and producing grain.

Shareholder structure: Management (Huta family) – 80 percent; free float – 20 percent.

*Sources: Renaissance Capital, Sokrat*

## **Astarta**

Astarta was the first agricultural company in Ukraine to go public, completing a 2006 listing on the Warsaw Stock Exchange. The firm is the largest sugar producer in Ukraine with an 18 percent share of the market. It benefits from the current growth in the global sugar price, which recently reached a 28-year high. ART-Capital estimates revenues will grow 52 percent in dollar terms in 2010.

Astarta plans to increase its land under cultivation to 300,000 hectares by 2015, concentrating on yields and gross profit improvement per crop. Its crop rotation should remain 20 percent sugar beet-based. In sugar production, the company will continue working to cut production losses through the modernization of its sugar mills, and further increasing vertical integration.

Astarta's strategy is not solely sugar-based: A planned increase in the number of milking cows and milk yields, as well as the start of grain and oilseeds trading operations, are additional strategic priorities for the company.

The company has reliable business clients, with over 80 percent of its sugar sold to big industrial consumers such as Coca-Cola, Kraft Foods, Nestle, Vitmark, Slavutych, Wimm-Bill-Dann, AVK, Danone and Sandora.

Astarta also benefits from a good reputation, which has enabled it to secure financing to improve energy efficiency.

Shareholder structure: Viktor Ivanchyk – 40 percent; Aleksei Korotkov – 35 percent; Aviva Investors Poland – 5 percent; free float – 20 percent.

*Sources: ART-Capital, Phoenix Capital, Renaissance Capital*

## **Dakor**

Dakor is a vertically integrated, closed-cycle sugar refiner, which allows the company to greatly reduce costs and sell a higher added value product, as opposed to low-margin sugar beets. Moreover, should sugar prices drop again this year, Dakor is well hedged since it has diversified into grain cultivation

One of the competitive advantages Dakor has is that it owns grain and sugar storage capacities. Dakor operates 130,000 tons of grain storage, which represents about 80 percent of last year's harvest by the company, and 95,000 tons of refined sugar storage, which fully covers 2010 production plans. This allows the company to benefit from price growth during the off-season instead of having to unload it at the low prices offered at harvest time.

Last year, Dakor announced that it was merging with Landwest, a western Ukraine farming group, to form Dakor Agro Holding (DAH). According to the management, the plan is to offer a 20 percent equity stake in DAH for \$50 million, which should result in an aggregate market capitalization of \$250 million

The company is projecting a 36 percent gain in revenues in 2010.

Shareholder structure: Danylo Korylkevych – 77 percent; free float – 23 percent.

*Sources: Foyil Securities, Renaissance Capital*

## **Avangardco**

Avangardco is the largest producer of eggs and egg products in Ukraine. In April the company placed a 22 percent stake on the London Stock Exchange, raising just over \$200 million.

According to the company's initial public offering prospect, the firm's net profit before tax has more than quadrupled over the last three years, from \$31.5 million in 2007 to \$135 million in 2009. It holds a 39 percent share in Ukraine's egg market and 53 percent in the egg product market.

The company will use the proceeds to upgrade its facilities with a view toward exporting to the European Union. The world is facing a huge deficit of protein products, which Avangardco should benefit from as eggs are the cheapest source of protein. Worldwide production of chicken eggs rose almost 10 percent from 2005 to 2009.

Avangardco is also expanding into the production of pedigree cattle.

Shareholder structure: Businessman Oleh Bakhmatyuk – 77 percent; free float – 22-23 percent.

*Source: ART-Capital*

## **Kernel**

Kernel is one of the the largest sunflower oil producers in Ukraine, with a 35 percent share of the domestic bottled oil market. It also trades grain (10 percent share in Ukrainian grain export) and bulk sunflower oil on export (11 percent share). Kernel has the highest free-float in the agriculture sector at \$729 million and the lowest debt-to-income ratio.

At an SPO in Warsaw in April, Kernel placed a 5.9 percent stake, raising \$81 million. The company will use part of the proceeds to fund its acquisition of Allseeds, the second-largest bulk sunflower oil exporter in Ukraine with a 13 percent market share.

The Allseeds acquisition, agreed in June, will increase Kernel's oil crushing capacity, making the company a market leader, competing with international majors such as Cargill. It will also contribute additional storage capacities, along with an oil transshipment terminal in Mykolayiv, strengthening Kernel's position across the whole value chain.

Shareholder structure: Lawmaker Andriy Verevsky – 41.23 percent; ING Bank – 9 percent; free float – 49.77 percent.

*Source: Renaissance Capital*

## **MHP**

Mironovskiy Hlibproduct (MHP) is the largest vertically integrated poultry meat producer in Ukraine, with a 25 percent market share. It also grows grains and sells other meat products, such as bacon. The company went public in London in 2008.

MHP's market share expanded from 39 percent of domestic industrial poultry production in 2008 to 43 percent in 2009.

MHP is fully self-sufficient in corn and sunflower, which are used for fodder in poultry production. Given that corn and sunflower prices in Ukraine nearly doubled in 2009, self-sufficiency in these crops has allowed the company not only to sustain margins, but also to generate additional revenue.

MHP confirmed that it will undertake a large capacity expansion project, which should increase poultry capacity by one-third by 2013, and double it by 2015.

Shareholder structure: Top executive Yury Kosyuk and partners have controlling stake of nearly 78 percent; free float – 22.32 percent. *Source: Renaissance Capital*

-  [Kyiv Post](#)
- 24 Jun 2010

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