

Agromanage buys QVT stake

Elarg Agricultural Land Opportunity Fund REIT

1 July 2011

Agriculture

The last couple of days saw a major restructuring in Elarg's shareholder and bondholder structure:

- **Agromanage AD, Elarg's management company, has acquired directly 49.5% of the shares of Elarg** via a stock exchange transaction. The purchase was done on 28 June, settlement 30 June, in a single transaction **at €0.348/share**.
- **€5m of the outstanding €7.14m bonds issued by Elarg changed hands** at face value shortly after the shares transaction, and
- The General Shareholders Meeting (scheduled for June 28th) was postponed due to lack of quorum.

Please refer to the main body for details.

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BUY

Est. Share Price:	€ 0.67
Current Market Price:	€ 0.39
Upside Potential:	74%
CoE:	14.00%

Tickers:	BSE: 4EC; BBG: 4EC BU
Mkt. Cap. (€ million):	€ 23.1
	€ 10.9
Turnover Last 12m:	(incl. QVT sale)

12M High:	€ 0.42
12M Low:	€ 0.27
12M Average:	€ 0.32
Abs. Performance 3m:	1%
Abs. Performance 6m:	31%
Abs. Performance 12m:	28%

€ million	09	10	11e
Revenues	2.0	2.6	2.7
Oper. & adm.exp.	(1.3)	(2.1)	(1.2)
Inv. Portfolio income	0.0	0.6	0.2
Net Income	(1.6)	(1.4)	1.0
Total Assets	45.8	41.8	41.9
Total Liabilities	11.1	8.5	8.2
Equity	34.7	33.3	33.7
RoA (%)	(4.0)	(3.6)	2.3
RoE (%)	(4.5)	(4.1)	2.9
BVPS (€)	0.58	0.56	0.56

12-month performance



Source: BSE, ACP

Sale of the largest stake: While there has been no official confirmation from QVT, it is practically certain that it was QVT Fund LP who sold their stake in Elarg, as the number of shares sold corresponds directly to the number of shares held by QVT as reported in the latest financials (29,560,880 shares, 49.5% of the capital). The transaction was done at €0.348/share (7.8% above the weighted average price for the previous 30 days and 7.1% above the previous day closing price), valuing the stake at €10.28m (and the whole company at €20.7m). According to the regulatory statement issued yesterday late afternoon, the total stake of Agromanage AD is 49.5%, held directly. Agromanage was selected as a servicing company of Elarg in 2009, as part of the efforts of Elarg's management to streamline the operations of the Fund after the relationship with the previous servicing company (Elana Property Management) went sour. Agromanage is 2/3 owned by its management and 1/3 by Industrial Holding Bulgaria AD, a Bulgarian industrial conglomerate listed on Sofia stock exchange (BBG: 4ID BU, BSE: 4ID).

Additionally, it is also very likely that QVT was also the seller in the bonds transactions and not a result of an internal restructuring of QVT. There were two transactions (€1mm + €4mm), which corresponds exactly to QVT's ownership (€5mm with Allianz holding the rest of the €7.14mm). **The identity of the buyer of the bonds has not been disclosed yet but it would be logical to assume that the buyer is Allianz pension and insurance funds** as the Bulgarian pension and insurance funds market is hungry for quality issuers to invest into, and Allianz has shown commitment to Elarg as one of the largest shareholders (16.8% as of 31 March 2011).

The **General Shareholders Meeting**, scheduled for 28 June, was **postponed** (to 15 July 2011) due to lack of quorum. Only 17.85% of the capital were represented, meaning QVT's representative did not show. The meeting has been rescheduled to the backup date (15 July 2011, same place and time), and will be carried out regardless of number of shares represented.

We think the developments of the last days are very positive for the company and its shares and bonds as they clearly align the interests of the management with that of its shareholders thus eliminating the fundamental problem of a fund structure where the management company is not directly interested in the share price performance unless the fund comes to the market for money raising.

The newsflow has sparked high activity on the position, with a turnover of approx. 830k shares (1.4% of Elarg's capital) in the last three days (excluding the large transaction). The price was pushed up to €0.39.

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Stock Rating

Buy – the stock is expected to bring in total return* greater than the company's cost of equity +5%;

Hold – the stock is expected to bring in total return between +/-5% of the company's cost of equity;

Sell – the stock is expected to bring in total return less than the company's cost of equity -5%.

*Total Return – The return on an investment, including income from dividends and interest, as well as appreciation or depreciation in the price of the security, over a given time period, usually one year.

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