

Company Update

ELARG Agricultural Land Opportunity Fund

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Agriculture

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ELARG Agricultural Land Opportunity Fund REIT (Bloomberg: 4EC BU) released its 9M'2010 financials and disclosed additional information regarding activities after 30 Sep 2010.

The main points:

A. Improving operating performance – the management is delivering a good growth in both per-Ha average rent levels and share of the portfolio rented out. Rent revenues are up 21% for the 9M YoY. Adjusted operating costs remain under control (3% increase YoY).

A. Early partial repayment of the bond issue – the Management announced ELARG has repaid €2.86m of the bond issue and the respective bonds have been cancelled.

A. Learning by doing – ELARG's first farming season is so far generating expenses rather than revenues, both in terms of cash outlays and booked losses from impairment. With the 2009/2010 season practically over, profitability should improve as the harvest is being sold and subsidies received.

A. Land portfolio optimization – ELARG has continued to optimize its land portfolio, selling 1748Ha and acquiring 718Ha. This is a fairly large adjustment – the net effect is a 3.5% decrease in the acreage of the total portfolio. The management's evaluation is positive but no pricing information is available yet and some transactions are not completed.

We continue to put a BUY recommendation on ELARG, with a target price of €0.66 per share and 125% upside potential.

In the following months, stock triggers include (i) the company's ability to sell the harvest at a profit, (ii) the ongoing policy work at the EU level on the post-2013 structure and size of subsidies to agriculture and (iii) the outcome of the litigation with the previous management company.

BUY

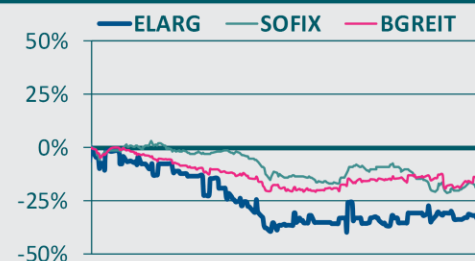
Est. Share Price:	€ 0.66
Current Market Price:	€ 0.29
Upside Potential:	125%
CoE:	14.19%

Tickers:	BSE: 4EC; BBG: 4EC BU
Mkt. Cap. (MM):	€ 17.40
Avg. Daily T/o Last 12m:	€ 5,312

12M High:	€ 0.47
12M Low:	€ 0.27
12M Average:	€ 0.33
Abs. Performance 3m:	4%
Abs. Performance 6m:	3%
Abs. Performance 12m:	-34%

€MM	09	10e	11e
Total Revenue	2.0	3.0	4.0
EBITDA	(1.0)	0.7	1.5
EBIT	(1.0)	0.7	1.5
Net Income	(1.6)	0.0	0.9
Total Assets	45.8	43.3	43.9
Total Liabilities	11.1	8.6	8.3
Equity	34.7	34.7	35.6
RoA (%)	(3.5)	0.1	2.0
RoE (%)	(4.7)	0.1	2.5
Net Income Mgn. (%)	(79.7)	1.1	22.1
BVPS (€)	0.58	0.58	0.60

ELARG vs. Sofix vs. BG REIT (12m)



Source: BSE, ACP

CORE BUSINESS DEVELOPMENTS

A news release of the company's management (2 Dec 2010) states ELARG has made progress in the optimization of the land portfolio – a total of 1,748Ha have been sold, and 718Ha have been acquired, bringing the total land portfolio to 28,273Ha (at end-November 2010, a net decrease of 1,030Ha or 3.5% of the total acreage of the portfolio). The optimization process has reduced the total number of individual properties held by the fund to 37,792 (from 39,218) and while the average plot size has remained unchanged at 0.75Ha the concentration has been improved as neighboring plots have been acquired.

Most of these sales/acquisitions are not finalized and consequently not yet on the books, and no pricing information has been released. Data for 30 Sep 2010 indicates ELARG has sold 176.4ha in Q3 at an implied price of approximately €2,000/Ha (a profit of €965/Ha) but this may not be representative for the other transactions.

Progress has been made also regarding renting out the land portfolio. For the 2010/2011 season, ELARG has already rented out 78% of its land at €108/Ha, significantly better than the previous season (59% rented out at an average €95/Ha). The collection process has also improved, as at end-November 2010 ELARG has collected 71% of the rents due, compared to 43% the previous year.

With respect to the farming business, ELARG is planning to concentrate activities in fewer but more fertile plots in Yambol (5 compared to the previous 16), and to expand into the Vidin region where it has idle land.

FINANCIAL DEVELOPMENTS IN Q3

The company posted a consolidated loss for the 9M'2010 amounting to €28 thousand, compared to a profit of €320 thousand for the half-year. The bottom line of the current report is strongly influenced by one-off items and as such should not be seen as indicative of the company's performance without adjustment.

The loss is almost entirely due to the expenses incurred in relation to the company's farming business during the third quarter (harvesting, paying rent and impairment of produce). In 3Q'2010 ELARG paid close to half a million euro direct farming costs (rents paid to land owners and for farming services), and in addition recorded a similar amount of impairment of this year's harvest. The company has not published data on yields and the overall size of the harvest but as the management starts to sell the produce (€420 thousand worth of wheat and €16 thousand worth of sunflower seeds in terms of value on the books) we should see a decrease of the loss.

An additional source of income from the farming activities, even if maybe a few months away, are the European subsidies and the complementary national direct payments (CNDPs) for the season. ELARG has so far booked €175 thousand as

subsidies receivables, estimated conservatively using last year's EU subsidies (approx. €83/Ha) and not including the CNDP. We estimate these are around 60% of the total subsidies to be received for the season for the 2,106.8Ha of eligible land of the fund.

The rental business of ELARG seems to be well on track. Rental revenues grew 21% YoY to €2.4m, driven by both increased rent levels and percentage of the land bank rented out as discussed in the previous section.

Operating costs (unrelated to farming) have remained largely under control, increasing only 3% YoY (ELARG estimate after removing the farming-related cost items).

EARLY PARTIAL BOND REPAYMENT

The Management of ELARG announced on 10 Dec 2010 that the fund has repaid the full amount of the €2.85m put option granted to bondholders at the rescheduling in August'2010. In addition, €2.86m worth of bonds (those repaid under the option plus 10 more) have been cancelled, leaving the outstanding bonds at €7.14m. The repayment (a total of €2.913m, including principal and accrued interest) was funded with cash from the ordinary operations (rents, sale of harvest, optimizing of the land portfolio).

We see this as good news for ELARG, since it will reduce the interest burden of the company as ELARG cannot earn 8.5% (the interest rate of the bond) on cash, and the cash is probably not needed for expansion at the moment as the focus is on optimization of the portfolio rather than acquisitions. On the other hand, some questions remain, and may affect the valuation. First, the source of the cash is unclear other than that it is not coming from the sale of non-agricultural property. The 9M'2010 consolidated financials show only slightly more than €1.5m in cash and equivalents. To the extent that at least some cash must have been generated by selling agricultural land (a net sale of 1,030Ha, discussed above), the pricing of the sale and acquisition deals would be key in determining the impact on valuation.

COMPARISON TO PEERS

Advantage to peers – ELARG is traded at a circa 25% discount in terms of TEV-to-Land compared to peers' average.

Table 1: Peers Summary

Issuer	Ticker	Portfolio (Ha)	Rented	Avg. Rent (€/Ha)	TEV / Land (€/Ha)	P/NAV
ELARG	4EC	29,133	83.0	95	886	0.51 x
ATERA	6A6	33,358	74.8	105	1,098	0.59 x
AgroFinance	6AG	13,096	88.0	102	1,298	1.34 x

Source: Companies, BSE, ACP estimates

SECTOR NEWS

The European Commission published on 18 November a communication outlining blueprint options for the Common Agricultural Policy after 2013. The changes are likely to affect direct payments but the overall direction of the change (in terms of amounts) is not yet clear as expressed intentions to cut subsidies for the next budgeting period clash with entrenched interests.

Bulgarian officials have already expressed views supporting higher subsidies, and have said they will work towards equalizing subsidies to Bulgarian agriculture before the currently planned 2016.

Concrete legislative proposals at the EU level are expected by mid-2011, and the timeline of phasing in of any new measures is not well defined. A new direct payments (subsidies) structure – either in terms of per-Ha amounts or new distribution rules – would have an effect on the valuation of agricultural companies along two lines. First, they will affect current income, as rent dynamics in recent years are closely related to the European subsidies. Second, the prospects of long-term subsidizing of the sector will clearly affect the value of the land bank.

VALUATION SUMMARY AND FINANCIAL PROJECTIONS

We have updated the valuation of ELARG to reflect the new information discussed above. More specifically:

- A. We have adjusted the size of the bond and related payments, assuming the transaction has happened on November 1st, the first working day after October 31st. This is almost certainly not true (as the put options accompanying the rescheduling of the bond were for repayment of €1m on October 31st 2010 and another €1.85m on December 31st 2010) but the exact dates should only affect what is reflected on the books in Q4'2010 and Q1'2011 rather than the overall valuation.
- A. We have made some assumptions regarding the prices at which the sale of the (net) 1,030Ha assuming completion and booking of the transactions before 31 Dec 2010.
- A. The available information on the farming activities, incl. subsidies.
- A. We have also raised the risk-free rate to 6% from the 4.5% in our previous model, which brings total CoE to 14.19% (from 12.69%).

Our recommendation remains a BUY, with a target price of €0.66 per share, offering 125% upside from current trading levels.

ELARG ALOF REIT – Valuation summary

€'000	2010e	2011e	2012e	2013e	EXIT
Dividend	-	-	-	-	1,873
Terminal sale	-	-	-	-	65,228
NPV	39,165				
*PV of dividend	1,093				
*PV of terminal sale	38,072				
Est. Share Price	0.66				
Market Price	0.29				
Upside	125%				
Recommendation	BUY				
CoE	14.19%				
RF	6.00%				
Beta	0.82				
ERP	10.00%				

Source: ACP estimates

ELARG ALOF REIT – Valuation summary

Land Sell Price (€ per Ha)	Equity Discount Rate									
	10%	11%	12%	13%	14.19%	15%	16%	17%	18%	
1,800	0.67	0.64	0.62	0.60	0.57	0.56	0.54	0.52	0.50	
1,900	0.70	0.67	0.65	0.63	0.60	0.58	0.56	0.54	0.53	
2,000	0.73	0.70	0.68	0.66	0.63	0.61	0.59	0.57	0.55	
2,100	0.76	0.74	0.71	0.68	0.66	0.64	0.62	0.59	0.57	
2,200	0.80	0.77	0.74	0.71	0.68	0.66	0.64	0.62	0.60	
2,300	0.83	0.80	0.77	0.74	0.71	0.69	0.67	0.64	0.62	
2,400	0.86	0.83	0.80	0.77	0.74	0.72	0.69	0.67	0.65	

Source: ACP estimates

ELARG ALOF REIT – Financial Performance Projection

€'000, IFRS	2007	2008	2009	2010e	2011e	2012e	2013e
Operating Revenue	321	1,732	2,028	3,000	3,955	4,929	6,021
*rent	321	1,696	2,026	2,272	2,593	3,280	4,052
*farming (incl. subsidies)	-	-	-	728	1,362	1,649	1,968
*other	-	35	2	-	-	-	-
Operating Costs	(2,471)	(2,174)	(3,075)	(2,762)	(2,480)	(2,877)	(3,141)
*materials	(19)	(7)	(273)	(345)	(489)	(395)	(471)
*external services	(2,347)	(2,058)	(1,248)	(2,386)	(1,851)	(1,935)	(2,187)
*personnel	(56)	(84)	(107)	6	(198)	(246)	(301)
*depreciation / amortization	(15)	(14)	(15)	(27)	(36)	(44)	(54)
*others	(33)	(11)	(1,432)	(10)	94	(256)	(128)
Portfolio operations	190	3,296	8	423	-	-	-
*sale of properties	496	7,758	14	3,128	-	-	-
*BV of sold properties	(307)	(4,462)	(6)	(1,787)	-	-	-
* unfinished production	-	-	-	(918)	-	-	-
Net Financial Income (Cost)	72	(691)	(576)	(627)	(603)	(542)	(478)
*interest expense	(288)	(800)	(700)	(731)	(678)	(607)	(607)
*interest revenue	360	109	124	103	74	65	129
EBITDA	(1,945)	2,868	(1,024)	688	1,511	2,097	2,934
EBIT	(1,960)	2,854	(1,039)	661	1,475	2,052	2,879
Net Income	(1,888)	2,163	(1,615)	34	872	1,511	2,401
Dividend Due	-	-	-	-	-	-	(1,873)
Total Assets	45,773	46,971	45,780	43,291	43,895	45,448	47,975
Non-Current Assets	39,851	32,141	32,926	30,737	30,744	30,752	30,760
*of which investment properties	39,828	32,131	32,850	30,640	30,640	30,640	30,640
Current Assets	5,922	3,845	3,859	3,559	4,155	5,701	8,220
*inventories	-	-	496	639	937	937	1,065
*trade and other receivables	502	1,056	1,639	1,679	2,131	2,618	3,164
*cash and equivalents	5,420	2,790	1,724	1,241	1,087	2,145	3,991
Properties available for sale	-	10,985	8,995	8,995	8,995	8,995	8,995
Total Liabilities	11,647	10,682	11,105	8,583	8,314	8,357	8,483
Non-Current Liabilities	10,005	10,002	10	7,140	7,140	-	7,140
*of which bond issue	10,000	10,000	-	7,140	7,140	-	7,140
Current Liabilities	1,642	680	11,096	1,443	1,174	8,357	1,343
*bond issue – current part	-	-	10,000	-	-	7,140	-
*bond issue - interest	287	288	287	250	249	249	249
*trade liabilities	1,323	369	736	1,193	926	968	1,094
Shareholders' Equity	34,126	36,289	34,674	34,708	35,580	37,091	39,492
*common stock	30,532	30,532	30,532	30,532	30,532	30,532	30,532
*reserves	6,878	6,878	6,878	6,878	6,878	6,878	6,878
*retained earnings	(3,285)	(1,121)	(2,736)	(2,703)	(1,831)	(320)	2,081
Equity and Liabilities	45,773	46,971	45,780	43,291	43,895	45,448	47,975

ELARG ALOF REIT – Financial Performance Projection (cont.)							
€'000	2007	2008	2009	2010e	2011e	2012e	2013e
CFO	(1,863)	(1,625)	(198)	574	568	1,717	2,515
*rent and cropping	266	1,081	1,314	2,639	3,205	4,442	5,347
*intermediaries and brokers	(2,088)	(2,665)	(1,487)	(2,274)	(2,608)	(2,288)	(2,532)
* personnel & social assurance	(29)	(103)	(95)	(7)	(198)	(246)	(301)
*taxes	-	(51)	(50)	129	-	-	-
*interests received	7	122	114	103	74	65	129
*others	(19)	(10)	7	(17)	94	(256)	(128)
CFI	(16,068)	(292)	(217)	2,585	(43)	(52)	(62)
*acquisition of investment properties	(16,057)	(7,750)	(162)	(495)	-	-	-
*sale of investment properties	-	7,458	12	3,128	-	-	-
* acquisition of PP&E	(11)	(1)	(27)	(36)	(41)	(49)	(59)
* acquisition of intangible assets	-	-	(40)	(12)	(3)	(3)	(3)
CFF	13,970	(713)	(651)	(3,642)	(679)	(606)	(607)
*bonds and loans received	10,000	4,000	-	7,140	-	(7,140)	7,140
*bonds and loans paid	-	(4,000)	-	(10,000)	-	7,140	(7,140)
*financial leasing	-	(1)	(1)	(14)	-	-	-
*interests paid	393	(712)	(650)	(767)	(679)	(606)	(607)
*dividend paid	-	-	-	-	-	-	-
NCF	(3,961)	(2,630)	(1,066)	(483)	(154)	1,059	1,846
Cash at Beginning	9,381	5,420	2,790	1,724	1,241	1,087	2,145
Cash at End	5,420	2,790	1,724	1,241	1,087	2,145	3,991
RoA	-4.1%	4.6%	-3.5%	0.1%	2.0%	3.3%	5.0%
RoE	-5.5%	6.0%	-4.7%	0.1%	2.5%	4.1%	6.1%
EBITDA Margin	-606.7%	165.6%	-50.5%	22.9%	38.2%	42.5%	48.7%
EBIT Margin	-611.5%	164.8%	-51.3%	22.0%	37.3%	41.6%	47.8%
Net Income Margin	-589.0%	124.9%	-79.7%	1.1%	22.1%	30.6%	39.9%
Equity / Assets	74.6%	77.3%	75.7%	80.2%	81.1%	81.6%	82.3%
Liabilities / Assets	25.4%	22.7%	24.3%	19.8%	18.9%	18.4%	17.7%
Interest Coverage Ratio	(5.56)	3.71	(1.31)	1.05	2.29	3.49	4.96

Source: ELARG ALOF REIT, ACP estimates

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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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GLOSSARY

AGM – Annual General Meeting

BoD – Board of Directors

CIS – Commonwealth of Independent States

CMEA - Council for Mutual Economic Assistance

EM – Emerging Markets

TEV – Total Enterprise Value

EOOD – Sole-owner Limited Liability Company

FAO – Food and Agriculture Organization of the United Nations

Ha – 1 Hectare = 10 Decares = 10,000 sq m

(H)CPI – (Harmonized) Consumer Price Index

MT – 1 Metric Ton = 1,000 kg = 2,204.6 lb

OECD – Organization for Economic Co-operation and Development

OOD – Limited Liability Company

REIT – Real Estate Investment Trust

SAPARD – Special accession program for agriculture and rural development

UAA – Utilized Agricultural Area

WWII – Second World War