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Financials update: 2011q1 and Audited 2010 cons.

Elarg Agricultural Land Opportunity Fund REIT

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Agriculture

Elarg Agricultural Land Opportunity Fund REIT has just released its audited consolidated financials for 2010 and the interim financials for 2011q1. The main takeaways:

- The audited 2010 consolidated financials, as expected, for the most part reflect what we already know from the standalone financials discussed in our previous report (8 April 2011). The additional information presented does not influence our valuation in a material way.
- There is still **no statement from Elarg on the likelihood of a dividend payment** from the 2010 (adjusted) profit. Our valuation assumes a dividend will be paid out.
- In Feb'2011 the Board of Directors of Elarg has voted to **allow sale of agricultural land in order to reduce the debt burden** of the company. In 2011q1 Elarg has sold a total of 374.23Ha for €0.76m (€2032/Ha), making a profit of €0.36m, and has bought three plots totaling 5.4Ha at €1152/Ha. As of 31 March 2011 the total agricultural land portfolio stands at 28,139.9Ha with a book value of €31.8m (€1130/Ha).
- Project Vetrino has been officially cancelled (in January) due to the uncertainties of the regulatory environment for wind power generation. This decision has no impact on our valuation – the project has been idling since 2009, and Vetrino has been included in the agricultural land bank.
- There will be a **hearing in the arbitration court on the case against Elana Property Management (EPM) on May 12th**, which may generate some news flow next week.

We maintain our BUY recommendation and target price of €0.67/share, offering 89% upside.

BUY

Est. Share Price:	€ 0.67
Current Market Price:	€ 0.36
Upside Potential:	89%
CoE:	14.00%

Tickers:	BSE: 4EC; BBG: 4EC BU
Mkt. Cap. (€ million):	€ 21.3
Turnover last 12m (€ m):	€ 0.654

12M High:	€ 0.42
12M Low:	€ 0.27
12M Average:	€ 0.32
Abs. Performance 3m:	0%
Abs. Performance 6m:	17%
Abs. Performance 12m:	11%

€ 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

OVERVIEW OF THE 2011Q1 INTERIM FINANCIALS

In the first quarter of 2011 Elarg posts an almost double increase of net income compared to 2010q1 (95.3% up), practically entirely due to the sale of (agricultural) land during the quarter rather than improvement in the renting of agricultural land business. There was an increase (7.6% YoY) in rent revenues but the rise in costs outweighed it. We are seeing an increase in lawyer and court fees (amounting to €101 thousand and €24.5 thousand respectively for the quarter) and a more than doubling of management and personnel expenses (€51 thousand for the quarter). The sale of agricultural land has led to an increase in the management company fee (35.6% YoY).

Elarg Agro and Elarg Wind 2011q1 financials

Elarg has also released interim financials for its two subsidiaries, Elarg Wind and Elarg Agro.

There was no activity in Elarg Wind during the quarter. With the decision to cancel project Vetrino, it seems likely to remain so in the near future as well.

Elarg Agro posts a loss for the quarter (€18.4 thousand), reporting only administrative (personnel) and depreciation expenses. It has, however, seen the cash flow from operations turn positive due to the receipt of a portion of the agricultural subsidies (€122.7 thousand of the €175 thousand recorded as revenue in 2010). The activities of the company continue to be partly financed by the parent company with total liabilities to related parties amounting to €1.236m as of 31 March 2011. Most of these are current liabilities with maturity between 6m and 12m.

OVERVIEW OF THE AUDITED 2010 CONSOLIDATED FINANCIALS

The audited consolidated financials for 2010 do not reveal new information with substantial impact on our valuation of the company. The main new pieces of information cover the impairment expenses, which apply to the parent company and were discussed in our previous report dated 8 April 2011.

Information by business line in 2010, EUR'000	Renting of agricultural land	Buy/Sell investment assets	Farming	Group positions, Corrections and Eliminations	Consolidated
Revenues					
Sales to external clients	2,437	2,766	481	-	5,684
Financing revenues (subsidiaries)	-	-	175	-	175
Total revenues	2,437	2,766	655	-	5,858
BV of sold assets	-	(1,516)	-	-	(1,516)
BV of sold produce	-	-	(907)	-	(907)
Management company fee	(695)	(191)	-	(156)	(1,043)
Administrative and other expenses	-	-	(116)	-	(116)
Impairment expenses	(1,204)	-	-	(1,325)	(2,529)
Depreciation	(17)	-	(11)	-	(28)
Total for the business line	520	1,058	(378)	(1,481)	(280)
Other income	52	-	-	28	79
Indirect administrative expenses	-	-	-	(973)	(973)
Other expenses	-	-	(93)	-	(93)
Financial expenses	-	-	-	(736)	(736)
Financial income	-	-	-	29	29
Income before tax	572	1,058	(471)	(3,134)	(1,974)

Source: 2010 audited consolidated report

Financials (standalone, €'000, IFRS)	2008	2009	2010	2011e	2012e	2013e	2010q1	2011q1
Revenues	1,732	2,028	2,585	2,678	3,003	3,117	613	660
Rent of agricultural land	1,696	2,026	2,505	2,678	2,741	2,775	605	650
Other revenues (incl. from Elarg Agro)	35	2	80	-	262	342	8	10
Operating and administrative expenses	(2,166)	(1,305)	(2,052)	(1,222)	(1,287)	(1,674)	(298)	(568)
Servicing company fee	(1,603)	(787)	(1,054)	(764)	(800)	(1,073)	(169)	(230)
Employees and management	(84)	(82)	(157)	(173)	(190)	(209)	(21)	(51)
Depreciation	(14)	(14)	(17)	(17)	(17)	(17)	(5)	(4)
Other	(465)	(422)	(824)	(268)	(280)	(375)	(103)	(284)
Investment portfolio	3,296	8	584	184	433	2,507	-	358
Revenues from sale of inv. properties	7,758	14	2,766	461	987	5,276	-	760
BV of inv. properties sold	(4,462)	(6)	(1,490)	(277)	(554)	(2,769)	-	(402)
Revaluation of investment portfolio, net	-	-	(691)	-	-	-	-	-
Financial income, net	(691)	(575)	(706)	(671)	(571)	(570)	(162)	(151)
Financial income	109	124	29	6	35	37	(174)	(152)
Financial expenses	(800)	(699)	(734)	(678)	(607)	(607)	12	1
Impairment of claims	(8)	(328)	(521)	-	-	-	-	-
Impairment of assets available for sale	-	(1,416)	(1,325)	-	-	-	-	-
Income before tax	2,163	(1,589)	(1,434)	969	1,577	3,379	153	299
Income tax expense	-	-	-	-	-	-	-	-
Net income	2,163	(1,589)	(1,434)	969	1,577	3,379	153	299
TOTAL ASSETS	46,971	45,782	41,813	41,942	42,686	37,681	45,565	42,032
Non-current assets	32,141	32,896	31,838	31,561	31,007	28,238	32,939	31,217
Investment properties	32,131	32,850	31,546	31,269	30,716	27,947	32,850	31,156
Intangible assets	1	29	7	7	7	7	10	7
PP&E	9	12	7	7	7	7	28	4
Other non-current assets	-	5	278	278	278	278	51	51
Current assets	3,845	3,891	2,305	2,711	4,009	1,773	3,630	3,145
Commercial receivables	725	1,258	1,176	1,247	1,359	1,424	1,550	1,678
Advance payments	318	16	-	-	-	-	14	-
Cash and cash equivalents	2,790	1,722	23	294	1,480	349	1,073	83
Other current assets (incl. claims on related parties)	13	895	1,106	1,170	1,170	-	993	1,385
Properties available for sale	10,985	8,995	7,670	7,670	7,670	7,670	8,995	7,670
TOTAL LIABILITIES	10,682	11,082	8,547	8,231	8,269	1,305	10,712	8,468
Non-current liabilities	10,002	-	7,140	7,140	-	-	-	7,140
Bonds issued (LT part)	10,000	-	7,140	7,140	-	-	-	7,140
Debt (LT)	-	-	-	-	-	-	-	-
Other non-current liabilities	3	-	-	-	-	-	-	-
Current liabilities	680	11,082	1,407	1,090	8,269	1,305	10,712	1,327
Commercial liabilities	369	727	1,060	841	880	1,180	549	1,020
Bonds (current part)	-	10,000	-	-	7,140	-	10,000	-
Bonds (interest)	288	287	233	249	249	125	107	86
Debt (ST)	-	-	-	-	-	-	-	-
Advance payment received	4	47	-	-	-	-	37	-
Other current liabilities	18	21	114	-	-	-	19	221
EQUITY	36,289	34,700	33,266	33,711	34,416	36,376	34,853	33,565
Share capital	30,532	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	6,878
Retained earnings	(3,285)	(1,121)	(2,710)	(4,669)	(4,572)	(4,414)	(2,710)	(4,145)
Current period net income	2,163	(1,589)	(1,434)	969	1,577	3,379	153	299

Source: Annual data: 2007-2010 audited reports, 2011-2013 ACP estimates; Quarterly data: Interim reports

Financials (consolidated, €'000, IFRS)	2007	2008	2009	2010
Revenues	321	1,732	2,028	2,265
Rent of agricultural land	321	1,696	2,026	2,437
Revenues from agro produce	-	-	-	481
Cost of agro produce	-	-	-	(907)
Other revenues	-	35	2	254
Operating and administrative expenses	(2,471)	(2,174)	(1,391)	(2,252)
Servicing company fee	(1,603)	(1,603)	(778)	(1,043)
Employees and management	(56)	(84)	(107)	(206)
Depreciation	(15)	(14)	(15)	(28)
Other	(796)	(473)	(490)	(976)
Investment portfolio	190	3,296	8	558
Revenues from sale of inv. properties	496	7,758	14	2,766
BV of inv. properties sold	(307)	(4,462)	(6)	(1,516)
Revaluation of investment portfolio, net	-	-	-	(691)
Financial income, net	72	(691)	(576)	(707)
Financial income	360	109	124	29
Financial expenses	(288)	(800)	(700)	(736)
Impairment of claims	-	-	(267)	(512)
Impairment of assets available for sale	-	-	(1,416)	(1,325)
Income before tax	(1,888)	2,163	(1,615)	(1,974)
Income tax expense	-	-	-	26
Net income	(1,888)	2,163	(1,615)	(1,948)
TOTAL ASSETS	45,773	46,971	45,780	41,490
Non-current assets	39,851	32,141	32,926	31,874
Investment properties	39,828	32,131	32,850	31,546
Intangible assets	3	1	34	9
PP&E	20	9	42	66
Other non-current assets	-	-	-	253
Current assets	5,922	3,845	3,859	1,946
Commercial receivables	110	725	1,258	1,193
Inventories	-	-	496	426
Cash and cash equivalents	5,420	2,790	1,724	25
Other current assets	392	331	876	302
Properties available for sale	-	10,985	8,995	7,670
TOTAL LIABILITIES	11,647	10,682	11,105	8,764
Non-current liabilities	10,005	10,002	10	7,148
Bonds issued (LT part)	10,000	10,000	-	7,140
Debt (LT)	-	-	-	-
Other non-current liabilities	5	3	10	8
Current liabilities	1,642	680	11,096	1,616
Commercial liabilities	1,323	369	736	1,219
Bonds (current part)	-	-	10,000	-
Bonds (interest)	287	288	287	233
Debt (ST)	-	-	-	-
Other current liabilities	32	22	73	165
EQUITY	34,126	36,289	34,674	32,726
Share capital	30,532	30,532	30,532	30,532
Reserves	6,878	6,878	6,878	6,878
Retained earnings	(1,396)	(3,285)	(1,121)	(2,736)
Current period net income	(1,888)	2,163	(1,615)	(1,948)

Source: 2007-2010 audited consolidated reports

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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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