





Crop Production in Russia as Investment Target

Round Table








June, 2017





















Russian agricultural sectors (1/3)

Sector	 Crop Production	 Sugar	 Oil and Fat	 Vegetables
Key Market Tendencies	<ul style="list-style-type: none"> ✓ High demand for and limited supply of high-quality and large-scale assets ✓ Major transactions –key market player expand their land assets ✓ Volatile prices in the international market 	<ul style="list-style-type: none"> ✓ Stable demand for sugar in the Russian and CIS markets ✓ Volatile sugar prices in the international market 	<ul style="list-style-type: none"> ✓ Saturation of the Russian market ✓ Highly volatile prices for low value-added products: oilseed meal, seed, oil 	<ul style="list-style-type: none"> ✓ Highly volatile prices and gross yield due to the seasonal nature of harvesting in the Russian Federation and the fluctuations in the cost of imported products
Opportunities	<ul style="list-style-type: none"> ✓ The sector is not consolidated ✓ The attractive aspects in the sector are trading, the export of products, the substitution of imported products ✓ Planted areas can be expanded 	<ul style="list-style-type: none"> ✓ Development of the domestic sales market 	<ul style="list-style-type: none"> ✓ The sector is not consolidated ✓ The attractive aspect in the sector is the export of products 	<ul style="list-style-type: none"> ✓ The sector is not consolidated ✓ High potential for import substitution if there is operational efficiency in production
Threats	<ul style="list-style-type: none"> ✓ Significant impact of natural and climatic conditions and geographical factors 	<ul style="list-style-type: none"> ✓ The sector is mainly consolidated by large companies ✓ Overproduction and, as a result, falling prices 	<ul style="list-style-type: none"> ✓ Increase in import of palm oil for use in the food industry 	<ul style="list-style-type: none"> ✓ Capital-intensive industry with a long ROR period (greenhouses) ✓ Weak competitiveness of Russian products ✓ Significant share of import for most items

Russian agricultural sectors (2/3)

Sector	 Milk and Dairy	 Poultry	 Eggs	 Pork	 Cattle
Key Market Tendencies	<ul style="list-style-type: none"> ✓ Stable consumption of dairy products in the Russian Federation 	<ul style="list-style-type: none"> ✓ Vertical integration of production processes (through feed and raw materials) ✓ Current correction of prices for poultry meat 	<ul style="list-style-type: none"> ✓ Stable demand for edible eggs in the Russian Federation ✓ High interest of industrial and financial investors in the industry 	<ul style="list-style-type: none"> ✓ Correction of prices for pork ✓ Growing production of semi-finished products and decreasing production of sausages ✓ Growing sales of chilled products in relation to frozen 	<ul style="list-style-type: none"> ✓ 2–3% increase in the volume of beef production by agricultural companies ✓ Decreasing production in private households
Opportunities	<ul style="list-style-type: none"> ✓ The sector is not consolidated ✓ High potential for import substitution if there is operational efficiency in production 	<ul style="list-style-type: none"> ✓ The sector is poorly consolidated ✓ Shift in consumer demand towards poultry meat as a cheaper product ✓ High potential for export 	<ul style="list-style-type: none"> ✓ The sector is not consolidated ✓ Potential for growth in deep processing 	<ul style="list-style-type: none"> ✓ Expansion of export to the markets of the Middle East and Asia 	<ul style="list-style-type: none"> ✓ The sector is not consolidated ✓ High potential for import substitution if there is operational efficiency in production
Threats	<ul style="list-style-type: none"> ✓ High share of import of milk powder and finished dairy products ✓ Capital-intensive industry with a long ROR period 	<ul style="list-style-type: none"> ✓ Overproduction due to excessive production capacities 	<ul style="list-style-type: none"> ✓ Growth retardation of the market for edible eggs due to saturation and growing costs of production 	<ul style="list-style-type: none"> ✓ The sector is largely consolidated 	<ul style="list-style-type: none"> ✓ Beef makes up 50 % of imported meat and by-products ✓ Replacement of beef with cheap meat such as chicken and pork

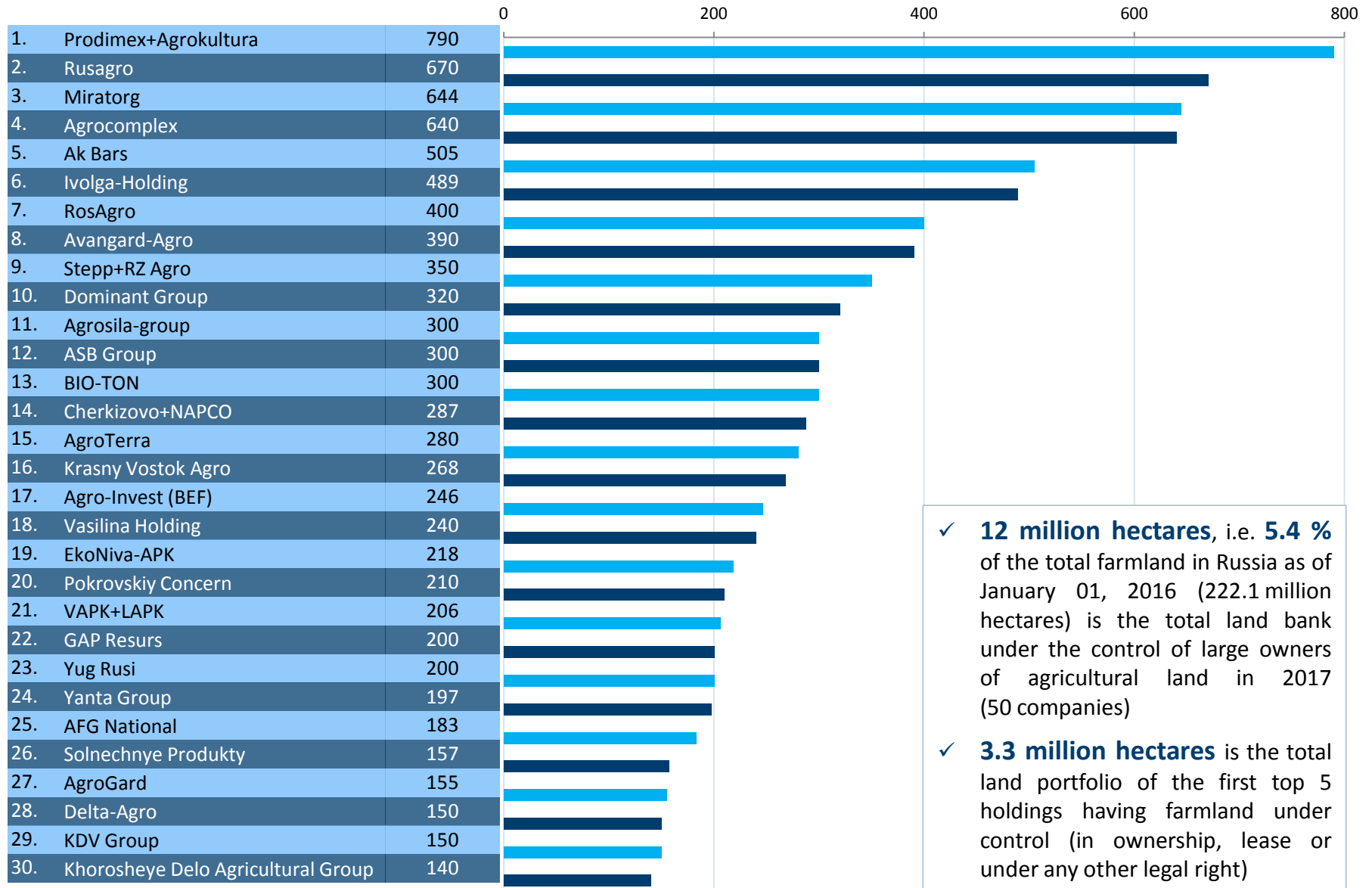
Russian agricultural sectors (3/3)

	Crop Production	Sugar	Oil and Fat	Vegetables	Milk and Dairy	Poultry	Eggs	Pork	Cattle
Lack of consolidation									
Potential for export									
Potential for market growth due to import substitution									
Opportunities for small farms									

Crop production is one of the most promising areas of agriculture in Russia for investment, since this market:

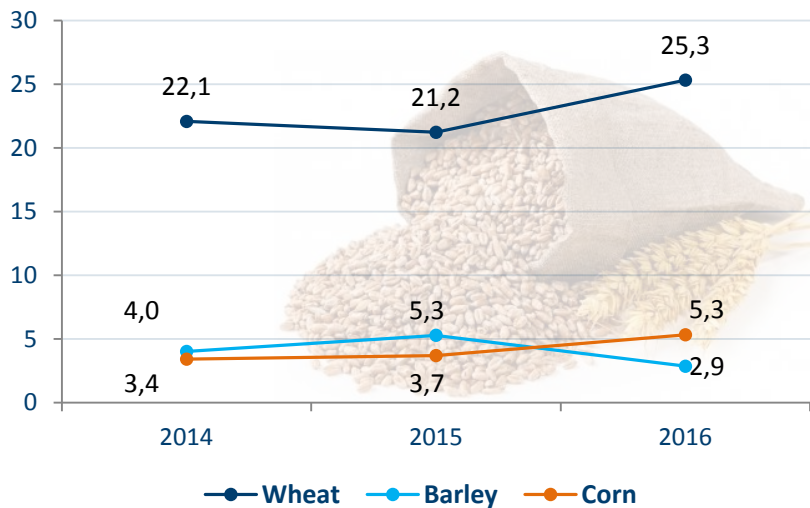
- ✓ has not yet been divided between the major holdings and there is the opportunity for an “easy entrance”
- ✓ has the potential for growth
- ✓ is the supplier of products for other sectors

Overview of the Largest Agricultural Landholders, April 2017

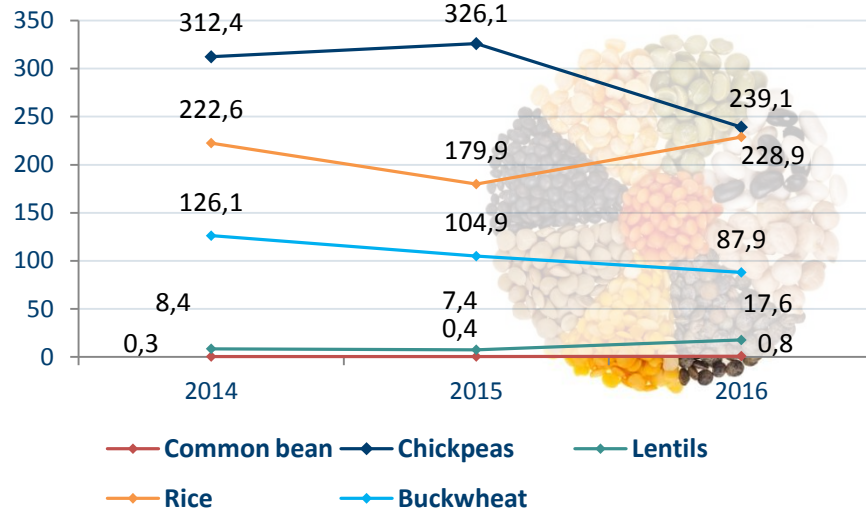


Export / import of crop production in Russia

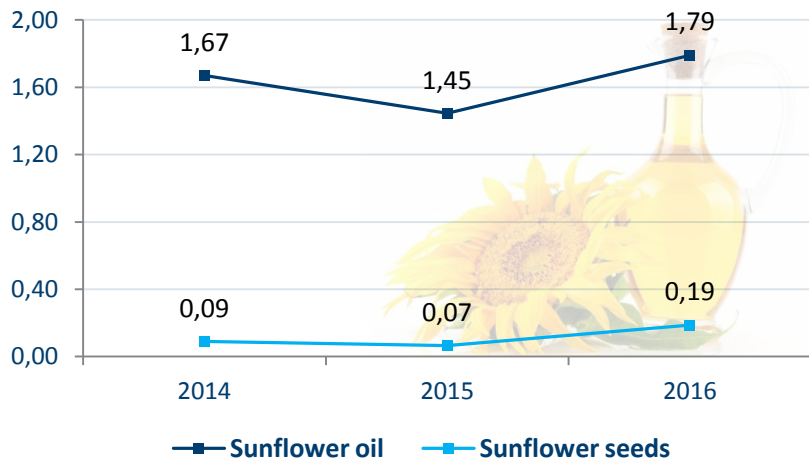
Export of key grain crops, mln tons



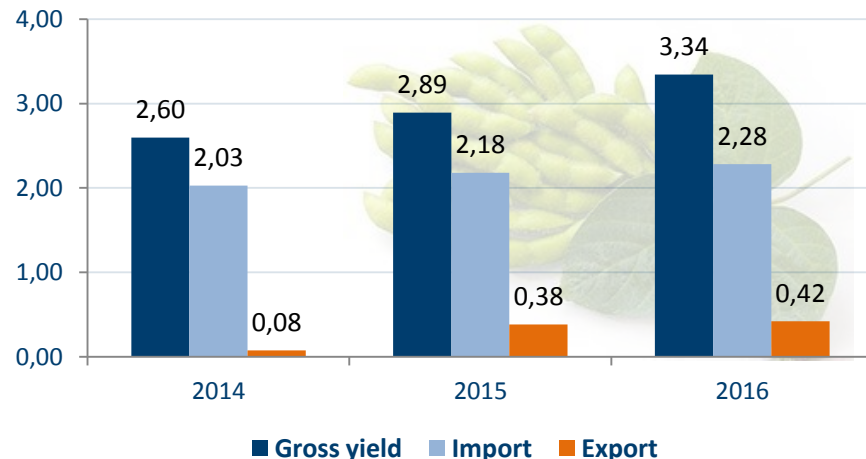
Export of alternative crops, '000 tons



Export of sunflower seeds and sunflower oil, mln tons



Import / export and domestic production of soybean in Russia, mln tons



Data provided by: Federal Customs Service, Russian State Statistics Office (Rosstat)

Prices for agricultural land in regions, 2016 – 1st half of 2017, RUB/ha



Large M&As in agriculture at the beginning of 2017



+ 147 000 ha

Lipetsk, Tambov, Penza regions

Object of acquisition: NAPCO



+ 80 000 ha

Orel region

*Object of acquisition:
assets of Bely Fregat Group*



СТЕПЬ
АГРОХОЛДИНГ



+ 30 000 ha

Stavropol krai, Rostov region

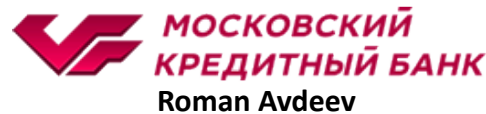
*Object of acquisition :
Kolomiytsevskoye LLC, Tsimlyanskoye LLC*



+ 3 500 ha

Krasnodar krai

*Object of acquisition : Mingrelskaya
farm*



+ 70 000 ha

Lipetsk, Tambov regions

*Object of acquisition :
Agronova-L LLC*



**BLACK
EARTH
FARMING LTD.**



- 256 000 ha

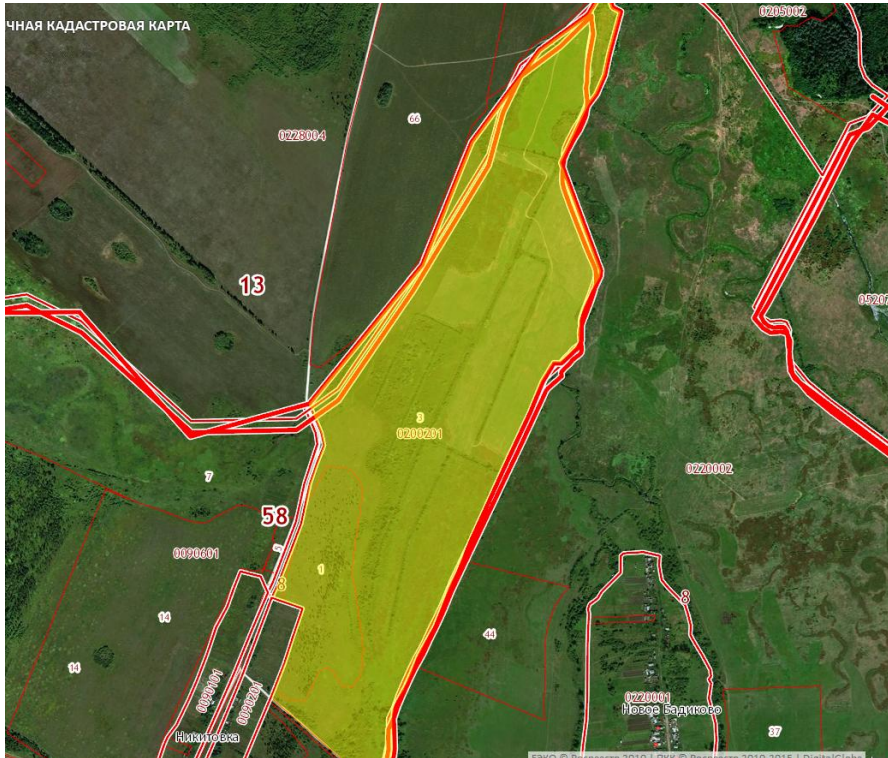
*Kursk, Lipetsk, Voronezh, Tambov, Samara,
Kaliningrad regions*

Buyer: Volgo-Donselkhozinvest

Analysis of a land plot (1/2)

**Total land plot area –
119.96 ha**


**Arable land –
82.60 ha**




The shown amount of arable land is approximate and based on a satellite image tracing the outlines of arable land and those parts of the land plot which are located within the boundaries of the cadastral land plot but most likely not cultivated or have severe limitations. In order to identify the exact figure, the land plot must be inspected on site.

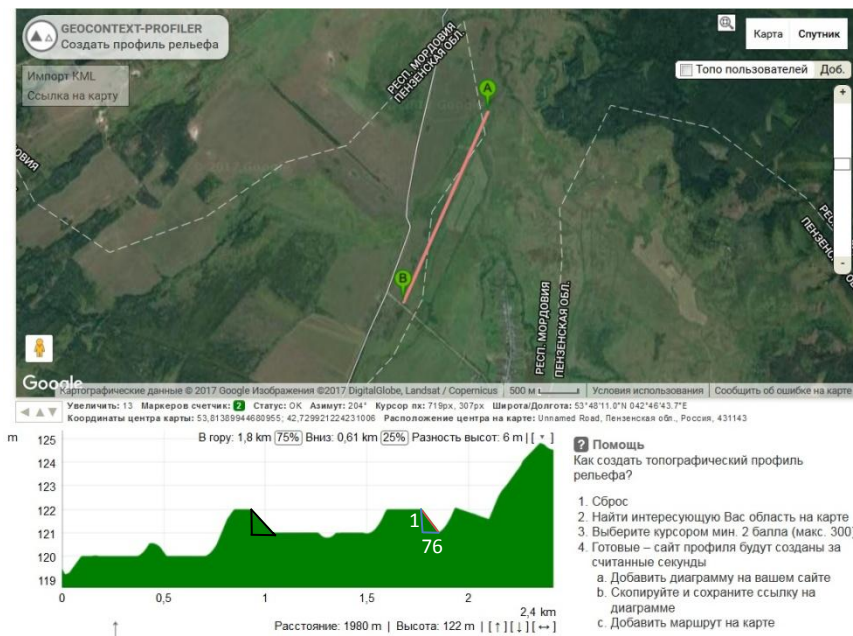
Analysis of a land plot (2/2)

Note


 → Part of the land plot with the steepest slope

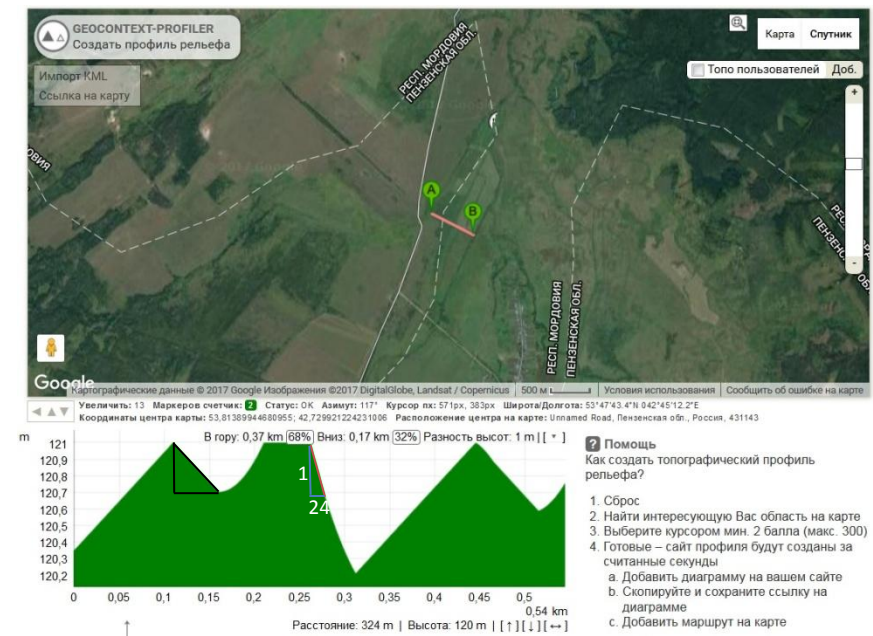

 → Example of the land plot portion with a slope which is not the steepest of the other ones in the plot

Angle measured in % shows the ratio of the height change to the distance (negative angle - "downhill" slope)



Inclination angle = -0.75° (1.32 %)

When moving along the part marked in red, the change in height by 1 m corresponds to the distance of 76 m



Inclination angle = -2.39° (4.17 %)

When moving along the part marked in red, the change in height by 1 m corresponds to the distance of 24 m

Crop production

Arable land	265,000 ha	21,000 ha	18,000 ha	4,300 ha
Region	Voronezh, Penza, Saratov regions	Stavropol krai	Rostov region	Kursk region
Key advantages	large high-quality land portfolio, machinery, infrastructure	irrigation on 6,000 hectares, machinery, infrastructure, vegetable warehouse under construction	standard crops: sunflower, corn, grain crops, machinery, infrastructure	standard grain crops, corn, soybean, machinery, new warehouse
EBITDA, RUB	2,500,000,000	400,000,000	140,000,000	28,000,000
EBITDA/ha, RUB	9,434	19,048	7,778	6,512
Expected price, RUB	17,000,000,000	4,000,000,000	900,000,000	533,000,000
Price/ha, RUB	64,151	190,476	50,000	123,953
EV/EBITDA	6.80	10.00	6.43	19.04

Crop production

Arable land	3,000 ha	2,500 ha	2,300 ha	1,900 ha
Region	Tula region	Tula region	Voronezh region	Ryazan region
Key advantages	standard grain crops, machinery, infrastructure	specializing on brewing barley growing, machinery, infrastructure	standard crops, located in the sugar factory zone, machinery, infrastructure	standard crops, located in the sugar factory zone, machinery
EBITDA, RUB	15,000,000	58,000,000	20,000,000	17,500,000
EBITDA/ha, RUB	5,000	23,200	8,696	9,211
Expected price, RUB	130,000,000	260,000,000	135,000,000	73,000,000
Price/ha, RUB	43,333	104,000	58,696	38,421
EV/EBITDA	8.67	4.48	6.75	4.17

Livestock + crop production

Arable land	80,000 ha	8,300 ha	5,000 ha
Region	Voronezh, Orel regions	Lipetsk region	Tula region
Assets	44,605 dairy cows; 1,554 beef cows, machinery, infrastructure	1,700 dairy cows, machinery, infrastructure	pig farm for 15,000 animals, machinery, warehouse, infrastructure, current assets
Key advantages	standard crops, part of the land is located in the sugar factory zone	specializing in sugar beet growing	farm specialized in the production of pork meat, own processing, small retail, independent production of feed
EBITDA, RUB	400,000,000	100,000,000	150,000,000
EBITDA/ha, RUB	5,000	12,048	30,000
Expected price, RUB	3,500,000,000	750,000,000	650,000,000
Price/ha, RUB	43,750	90,361	130,000
EV/EBITDA	8.75	7.50	4.33

Thank you!



+7 (495) 649 81 55



v.novoselov@befl.ru