

Company Update

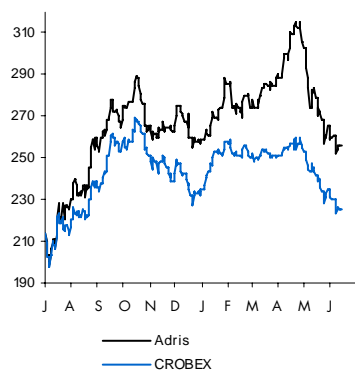
June 14, 2010

Consumer, non-cyclical/Croatia

Adris

Hold

Price 13.06.10	256
Price target	303
Volatility risk	high
Year high/low	315/199
Currency	HRK
HRK/EUR	7.23
ADR rate	n.a.
Market capitalisation in EUR mn	574.3
Free float	55.6%
Free float in EUR mn	319.1
Avg. daily turnover (12 m) in EUR mn	0.1
Index	CROBEX
ISIN code	HRADRSPA0009
Bloomberg	ADRSPA CZ
Reuters	ADGR_p.ZA
Datastream	CR:ARS
www.adris.hr	



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Serious acquisitions are welcome

We keep our previous recommendation since the share's negative momentum already captured most of the poor performance reported in 1Q 10. The main profit provider is still the tobacco segment which faces a downward trend and numerous challenges but new businesses make their contributions to the revenues increase. We estimate that the main growth potential in the tobacco segment is in the Western European market and production for private label brands on these markets which should offset the decline on the domestic market in the mid-term. As for the shares themselves, both securities, preferred and common, are more liquid. Potential acquisition rumours constantly circulate on the market, the most recent being in the energy sector.

Outlook: On the domestic market, we calculate with a further drop in sticks sold and prices stemming from downtrading, competition and changing habits. Growth potential which could partially offset the trend is seen on Western European markets and in the sale of private label products. Tourism is seen as stable with a positive tilt towards higher occupancy when golf tourism is introduced and new capacities are brought in. Investments in the fish business planned at EUR 21 mn are estimated to lift production gradually after 2012e - up to 4,000 t of fish produced annually in the final projection year. For the retail segment we estimate operations close to zero profitability.

Valuation: Our DCF-derived price amounts to HRK 346 and peer valuation points to HRK 327 per share. Due to the lack of voting rights we assigned a 10% discount to the price of preferred shares and no discount to the common shares as both liquidity and the free float portion have improved. This leads us to the 12M TP of HRK 336 per regular share which implies a 5% upside and a 12M TP of HRK 303 per preferred share which implies a 19% upside. Therefore, we issue a "hold" recommendation for both types of Adris's shares.

Key ratios

HRK	12/2008	12/2009	12/2010e	12/2011e	12/2012e
EPS reported	30.8	31.7	22.8	23.7	30.0
PE reported	6.2	8.2	11.2	10.8	8.5
Adjusted EPS diluted	30.7	31.5	22.8	23.7	30.0
Adjusted PE diluted	6.3	8.2	11.2	10.8	8.5
Operating cash flow per share	28.8	62.5	43.7	39.1	35.4
Price cash flow	6.7	4.1	5.9	6.6	7.2
Book value per share	366.7	391.4	398.1	414.3	399.2
Price book value	0.5	0.7	0.6	0.6	0.6
Dividend per share	7.0	7.0	7.5	8.0	8.5
Dividend yield	3.6%	2.7%	2.9%	3.1%	3.3%
EV/adjusted EBITDA	1.7	3.0	3.8	3.4	3.5

Source: Adris, Raiffeisen Centrobank estimates

Share price triggers

Trigger	Momentum	Explanation
Excise tax change	negative	<ul style="list-style-type: none"> No further excise taxes changes are expected on the domestic market in the short run We might still see some excise tax changes in the SEE markets
Expansion of multinationals	negative	<ul style="list-style-type: none"> After the new excise tax put TDR and multinational companies under the same tax brackets, competition is encouraged to increase the market share in Croatia TDR's most popular brand is priced close to premium brands; switch becomes more likely than before
Financial assets	positive	<ul style="list-style-type: none"> Decreasing operating result is compensated for by strong financial income
Law on golf courses	positive	<ul style="list-style-type: none"> The Government is determined to introduce a special law for golf courses which gives priority to the development of this business and is a part of the national strategy County of Istria seems very supportive in realisation of this idea Maistra is also developing project ideas for golf course construction which would prolong the season in hotels benefiting not only from own golf courses but also from sites alongside Istria
Acquisitions	positive	<ul style="list-style-type: none"> Holding the large deposits in a bank is not perceived as positive, hence, the market would welcome any acquisition announcements

Source: Raiffeisen Centrobank

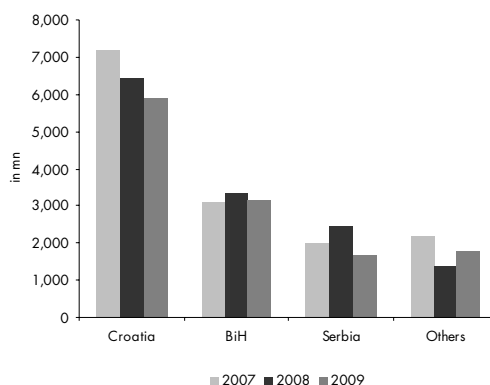
Looking back in detail: FY 09

In the audited report, more detailed data on segments was provided than in previous years and the retail business has been separated from tobacco. Hence, we observe that the tobacco segment decline (-12.8% yoy) was partially offset by consolidation of Opresa in the retail segment (+37% yoy). Opresa's contribution to sales was HRK 93.6 mn, hence, organic growth of the retail segment was around 6% yoy. The tourism business (which includes fish production) posted 1.7% growth yoy.

The drop in sticks sold is steady- 1 bn less for the third year in a row

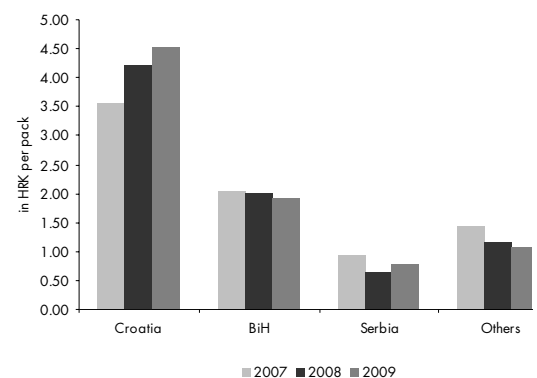
Annual tobacco sales volume is reported at 12.53 bn sticks (1 bn lower yoy or 7.8% down yoy) with the export share unchanged (official statistics data) implying that the volume drop was evenly distributed. The revenue drop of 12.8% yoy implies that average prices also decreased due to downtrading and lower growth of retail prices in relation to excise tax growth. In order to offset this trend, expansion on the German, Spanish and Slovenian markets resulted in higher volumes yoy. The main export markets remain B&H and Serbia which together account for almost 40% of volumes sold. Hrvatski duhani, the supplier of tobacco leaf, reported 30% lower sales yoy, but the drop was entirely attributable to intra-group sales to TDR which is now buyer of 52% of HD's output (2008: 65%).

Tobacco sales volumes



Source: Adris, CBS, RCB calculations

Tobacco average net retail price

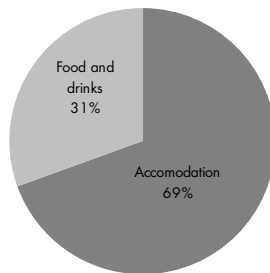


Source: Adris, CBS, RCB calculations

The top line in tourism posted a yoy growth of 1.7% due to an increase in capacities (hotel Monte Mulini with 113 rooms which accounts for approx. 8% of the group's hotel capacities) and a 1% increase in average prices since the new hotel is a five-star rated capacity. However, growth of only 1.7% comes after 2% yoy lower

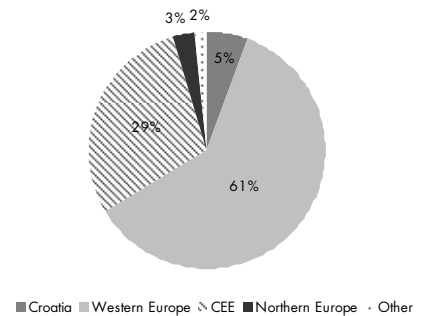
overnight figures and a significant drop in occupancy (we estimate the drop in high season occupancy from 96% to 91.8%). After adjusting operating earnings for HRK 43.3 mn for litigation reserves and one-offs, EBITDA and EBITDA margin remained flat yoy. Higher depreciation charges caused by the new hotel resulted in a much lower EBIT margin yoy. The tourism segment as reported in FY 09 notes includes fish producing companies. Hence, we estimate that the operating result of the fish business did not improve much yoy and still yields significant losses. Also, on annual level, sales were a lot lower yoy.

Tourism revenues structure



Source: Adris, Raiffeisen Centrobank

Tourists' home regions



Source: Adris, Raiffeisen Centrobank

The retail unit consists of two kiosk chains, one in Croatia and the other in B&H, and comprises some 600 units. The segment result is shown positive on EBITDA and the bottom line loss is much lower yoy.

Tobacco segment is still the sole operating earnings provider

Overall, on the profitability side, EBITDA and EBT margin are flat yoy but the latter was a result of offsetting between higher depreciation and higher net financial income. The tobacco segment recorded an EBITDA margin drop of 72bp most probably due to a drop in average price. The retail and other business segments managed to improve results. However, the sole earnings provider on operating level remains the tobacco segment. Significant improvements of the net financial result yoy and a lower effective tax rate have helped the bottom line to remain almost flat yoy.

Asset trends: The group continues with its passive cash management and piles up the deposit account in the bank which, together with cash, totalled HRK 1,740 mn as of 31.12.2009. In addition, HRK 404 mn is invested in bonds (70%) and the rest in shares and CPs. Investments in shares were halved yoy. All this accounts for 28% of the total assets. PPE is 43% of total assets reported. The assets are financed mainly from shareholders' equity (83%).

Cash flow: Operating cash flow more than doubled and served to cover extensive investment activities (CFI: HRK 899.22 mn) whereas dividends remained flat yoy, at HRK 7 per share. At the year-end, a notable increase in inventory by HRK 50 mn in the Hrvatski duhani report decreased operating cash flow.

Share of COGS in sales increased from 45% to 65%

Looking back 1Q 10

Traditionally, the report does not provide any explanation about operating performance. Instead, only 1.9% lower yoy volumes of cigarettes sold and satisfactory bookings in the tourism units are cited. What is particularly striking is the increase of COGS whose share in sales increased from 45% to 65%. This could be attributable to the increase in energy costs as TDR is dependant on gas. Another reason for this is surely the transition to cheaper cigarette brands. Also, the newly acquired fish production business could contribute to the gross margin deterioration. The group reported HRK 25.5 mn of positive inventory revaluation (1Q 09: HRK -4 mn) which significantly helped the operating margin not to end up below 5%.

1Q 10 figures

Consolidated (in HRK mn)	1Q 09	1Q 10	yoy	1Q 09	1Q 10	yoy
Sales	586.5	508.6	-13%	margins		
EBITDA	190.5	108.7	-43%	32.5%	21%	-34%
EBIT	135.4	48.9	-64%	23.1%	10%	-58%
EBT	141.7	74.5	-47%	24.2%	15%	-39%
Net a.m.	106.9	41.4	-61%	18.2%	8%	-55%

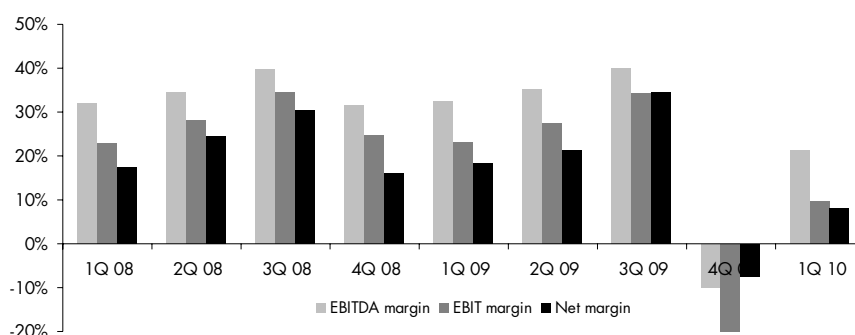
Source: Adris, Raiffeisen Centrobank calculations

Operating expenses: Apart from the COGS deterioration mentioned above, depreciation charge increased by 8.7% yoy and 16% qoq. Staff expenses remain flat yoy. Other operating expenses managed to yield some savings and decreased from HRK 82 mn to HRK 37 mn.

Net margin declined by 1000bp

Financial result: The financial result was significantly lower yoy. Net financial and FX income decreased from HRK 43.3 mn in 1Q 09 to HRK 25.6 mn in 1Q 10. This difference could be explained by unfavourable FX movements. In addition to that, last year's result was lowered by unrealized losses on the stock markets of HRK 37.2 mn. Altogether, the financial result helped the pre-tax margin to recover slightly; nevertheless, bottom-line net margin dropped by 1000bp.

Quarterly margins



Source: Adris, Raiffeisen Centrobank calculations

Tobacco segment's challenges:

- decreasing consumption,
 - orientation on cheaper brands
- increasing competition in Croatia

Outlook

Tobacco sales: Since Croatia, B&H and Serbia together account for almost 86% of volumes sold, in making forecasts, we construct our model on the growth potential of these markets. The remaining growth in the model is expected from selling private label products on the EU markets. Due to the significant trade-off between higher prices and a drop in volumes on the Serbian market, combined with the expected economic recovery, we expect a further drop in sticks sold by 10% yoy. In the B&H market we forecast volumes to continue dropping by 6% yoy. On the other hand, the competition on the domestic market is heating up and new entrants have announced their intentions to expand in Croatia. As a result of the orientation towards cheaper brands, we expect a further decline of tobacco sales. This effect is likely to emerge especially on the SEE markets, where the excise tax still has a solid upside potential but the retail prices are less elastic. This is the next big challenge for TDR which saw a steady drop in volumes sold of 1 bn sticks annually in the past three years since they opened a new factory with 20 bn sticks capacity. Because of the changing smoking habits in the SEE region we do not see tobacco as a resilient product and the growth outlook is losing steam. The only offsetting element could emerge from expansion to the Western European and other new markets, where we calculate with both an increase in volumes and prices. Finally, since tobacco is a main earnings provider we expect the management to place most of the efforts in expansion and in the mid-term to keep tobacco revenues nearly flat.

Economic outlook

Croatia	2008	2009	2010e	2011e
Real GDP (% yoy)	2.4	-5.8	-1.0	2.0
Consumer Prices %, avg	6.1	2.4	1.8	3.5
Retail, % real chng	-0.5	-15.3	-2.8	3.6
Tourism – overnight stays, % chng	2.0	-1.3	2.5	3.0
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B&H, real GDP (% yoy)	5.4	-4.0	1.0	3.0
B&H, consumer prices (avg, % yoy)	7.4	-0.4	2.0	2.5
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Serbia, real GDP (% yoy)	5.5	-3.0	1.5	2.5
Serbia, consumer prices (avg, % yoy)	11.7	8.4	6.5	6.0

Source: CBS, RZB

For FY 10 we expect +1.4% yoy in overnight stays

Tourism sales: Although official low season figures show a drop of 4.9% in foreign visits in 1-4M yoy, mainly due to poor weather conditions and volcano dust, we estimate much better figures for the main season resulting in +1.4% yoy in FY 10e overnight stays and +2.3% yoy in FY 11e. However, the prices are estimated flat yoy in FY 10e and to increase after the recession squeeze eases. All in all, our main positive view on the tourist segment stems from increased occupancy after the construction of golf courses. The fish business currently comprises seven shops and they plan to open another 13 shops by 2012. Other investments in the fish business amount to EUR 21 mn out of which EUR 6.8 mn is already contracted for the supply of equipment to be delivered by 2012e. Therefore, we increase volumes gradually after 2012e, up to 4,000 t of fish produced annually in the final projection year.

Retail has limited growth in sales but some potential for profitability improvement

Retail sales: This segment contains iNovine and Opresa, the two kiosk chains. Main products sold in kiosks are: newspapers, tobacco and pre-paid SIM cards. None of these groups has growth potential. Hence, the sale of pocket books, media products, public transport tickets and consumer goods on the go (beverages, sweets, etc.) provides some support for maintaining the top line. The consumption and price

growth is fully linked to the overall economy and inflation growth. We see further potential in profitability improvement, but Opresa consolidation and restructuring might drag down the overall result of the company's segment. Given the early stage of the company's existence we see lots of room for improvement of sales figures both measured as sales per kiosk and sales per employee if compared by the benchmark competitor. However, since this is not a main business orientation of the group we do not believe that a market share increase will be targeted. On the other hand, previously planned synergies from advertising tobacco products on kiosk displays windows and banisters failed since the law forbids any kind of tobacco marketing. All previously installed flash signs and billboards have to be removed and written off which will additionally burden the result.

Planning model

Main changes in our planning model have been introduced due to the changed segmental reporting. Hence, we can now extract the retail business from tobacco and only a minor portion of revenues, less than 2%, is left grouped under "other segments". Cromaris, the fish production business, is included in the tourism segment and Opresa, the acquired kiosk chain in B&H, is consolidated in the retail segment. This company was consolidated in 2H 09, hence the higher top line figure in this segment in FY 10e.

Revenue by segments

(currency in HRK mn)	2007	2008	2009	2010e	2011e	2012e	2013e	2014e
TDR total volumes	14,520	13,599	12,533	11,622	11,405	11,427	11,482	11,531
TDR total revenues	1,849	1,867	1,666	1,511	1,465	1,469	1,481	1,492
Hrvatski duhani sales	142.1	169.4	118.2	114.9	114.3	115.5	116.9	118.0
Istragrafika	141.6	148.6	103.7	100.7	100.2	101.3	102.5	103.5
Retail	-	321.50	440.94	487.70	482.77	493.35	506.63	519.30
Occupancy of tourism capacities								
Out of season	25%	22%	19%	20%	20%	21%	24%	27%
Low season	45%	44%	35%	30%	32%	32%	35%	40%
High season	96.0%	96.0%	91.8%	90.0%	87.0%	87.5%	87.5%	87.5%
Prices change yoy		4.50%	3.20%	0%	2.0%	2.5%	2.5%	2.0%
Revenues from hotels	162	175	190	182	214	220	229	268
Revenues from settlements	132	143	126	125	129	135	141	144
Revenues from camps	132	143	139	144	148	153	157	160
Revenues from Cromaris	-	76.85	92.88	86.00	105.27	122.88	163.79	245.39

Source: Adris, Raiffeisen Centrobank estimates

Note: Most of the figures are RCB estimates even in historical years

Changes to forecasts

	old			new			comment
	2010e	2011e	2012e	2010e	2011e	2012e	
Cigarette production (in mn sticks)	11,205	11,257	11,487	11,622	11,405	11,427	adjustments for FY 09 sales report
Sales growth (in %)	-1.1%	5.2%	5.3%	-3.1%	0.3%	0.8%	adjustments for price elasticity and downtrading
Sales (in HRK mn)	2,878	3,026	3,187	2,697.9	2,706.8	2,757.6	
Gross margin (in %)	53.5%	53.8%	49.6%	50.2%	50.5%	50.6%	adjustment for poor 1Q 10 performance
EBITDA margin (in %)	26.0%	24.8%	24.6%	22.0%	22.7%	26.6%	... and higher restructuring costs
Net financial result (in HRK mn)	127	127	111	119	120	116	less positive outlook on the stock market
Net income	514	505	524	370	385	486	

Source: Raiffeisen Centrobank estimates

Risks to our planning model: Except for the market risk, we see the main risks to our expectations in the deterioration of margins, a lower than anticipated occupancy rate of tourism accommodation capacities as well as pressure to decrease prices in the wake of the crisis. The model assumes introduction of new hotel capacities which might be subject to delays. The same applies to fish production, where investments are expected to yield an increase in output volumes. Also, tobacco sales volumes will be highly impacted by a further drop in consumption due to changing habits and price elasticity and fiercer competition. Potential acquisitions have not been taken into account. These changes influence the DCF valuation considerably.

Our target price is HRK 303 per preferred share and HRK 336 per common share

Valuation

For the WACC calculation we assume a risk-free rate of 4% in 10e, and increasing to 5.2% in the terminal value. This rate has decreased since our last report. Also, we calculate with a risk premium of 6% for the entire projection timeframe and in perpetuity. We estimate a leveraged beta of 1.0, the targeted capital structure of 100% and finally derive WACC of 9.9% for 10e declining to 11.2% in the TV. Based on the DCF valuation we estimate a fair value of equity of HRK 346 per share.

For the peer valuation, we assigned different weightings to the tobacco peer group, newspaper retail and tourism group multiples, 66%, 15% and 19%, respectively. We used P/E, dividend yield and EV/EBITDA multiples. We assign equal weightings to all three multiples for calculation of our derived target price. This way we derived the price per share of HRK 327. For DCF and peer valuation derived prices we also assign equal weightings. Due to the lack of voting rights we assigned a 10% discount to the price of preferred shares and a 0% discount to the common shares as both liquidity and free float have improved. This leads us to the 12M target price of HRK 336 per regular share which implies a 5% upside and a 12M target price of HRK 303 per preferred share which implies a 19% upside. Therefore, we reiterate our "hold" recommendation for both types of Adris's shares.

Peer valuation

	P/E			Dividend yield			EV/EBITDA		
	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e
Tobacco (weighted 66%)									
Imperial Tobacco	10.64	9.79	9.02	4.43	4.96	5.48	9.45	9.00	8.54
British American Tobacco	12.60	11.62	10.66	5.16	5.60	6.11	9.66	9.00	8.61
Swedish Match	16.00	14.50	13.32	3.02	3.34	3.70	11.92	11.32	10.65
Japan Tobacco	21.10	17.17	12.10	1.90	2.00	2.36	n.a.	n.a.	n.a.
Reynolds	10.56	10.08	9.60	6.97	7.26	7.60	6.22	5.97	5.83
Philip Morris	11.83	10.75	9.66	5.52	6.00	6.75	8.27	7.83	7.29
Median	12.60	11.62	10.66	4.43	4.96	5.48	9.56	9.00	8.58
Tourism (weighted 19%)									
Accor	29.11	22.86	17.40	2.55	2.83	3.31	10.16	9.15	7.88
SOL	37.96	16.89	11.01	0.50	1.02	1.54	n.a.	n.a.	n.a.
NH Hotels	n.a.	84.90	14.18	0.22	0.52	2.40	16.30	11.00	8.50
Millenium&Copthorne	18.90	15.94	13.86	1.55	1.76	2.26	11.43	10.17	9.36
Median	29.11	19.88	14.02	1.03	1.39	2.33	11.43	10.17	8.50
Retail (weighted 15%)									
WH Smith	9.79	9.04	8.60	4.28	4.70	5.06	4.76	4.72	4.36
Arnoldo Mondadori	11.73	9.20	8.30	5.91	7.03	8.30	7.14	6.16	6.16
Median	10.76	9.12	8.45	5.10	5.87	6.68	5.95	5.44	5.26
Weighted median multiple	15.46	12.81	10.97	3.88	4.42	5.06	9.37	8.69	8.06
EPS Adris	22.82	23.75	29.99						
Derived price	352.82	304.28	328.88						
DPS Adris				7.50	8.00	8.50			
Derived price				193.19	180.99	167.84			
EBITDA Adris							593.2	614.1	732.8
NIBD							-2,073.7	-2,261.1	-1,790.8
Equity value							7,632.1	7,596.5	7,699.7
Derived price							471.19	468.99	475.36

Source: Bloomberg, Raiffeisen Centrobank estimates

DCF valuation

FCF projection (HRK mn)	2010e	2011e	2012e	2013e	2014e	2015e	TV CF
NOPLAT	225.1	248.2	360.3	364.4	408.3	437.1	442.6
Adj. NOPLAT	225.1	248.2	360.3	364.4	408.3	437.1	442.6
Depreciation of PPE & intangibles	242.6	246.6	250.3	253.8	257.0	260.0	260.0
Gross investment in PPE & intangibles	-321.0	-321.0	-321.0	-320.0	-320.0	-260.0	-293.4
Change in working capital	148.2	-3.8	-156.4	-6.0	35.6	-29.7	-25.5
NWC/Sales	31.9%	31.9%	37.0%	36.0%	33.0%	33.0%	33.0%
Change in LT provisions other than tax	-85.5	0.0	0.0	0.0	-40.0		
Net acquisitions & disposals	0.0	0.0	0.0	0.0	0.0	0.0	
Free cash flow to firm	209.4	170.0	133.2	292.2	341.0	407.4	383.7
Adj. free cash flow to firm	209.4	170.0	133.2	292.2	341.0	407.4	383.7
EV DCF, mid-year assumption		3,518.1	3,733.3				
MV of non-operating assets		61.7	61.7				
MV of net debt		-2,071.1	-2,256.0				
MV of minorities		228.2	228.2				
Adjustments to EV		0.0	0.0				
Fair value of equity		5,422.8	5,822.9				
Shares outstanding (mn)		16.2	16.2				
Price target per share per 01/01 (in HRK)		334.8	359.5				

Value drivers	2010e	2011e	2012e	2013e	2014e	2015e	TV CF
Consolidated sales yoy	-4.6%	0.3%	1.9%	3.4%	5.3%	3.0%	2.5%
EBITDA margin	22.0%	22.7%	26.6%	26.0%	26.2%	26.3%	26.3%
Rate of taxes paid	-35.8%	-32.5%	-25.3%	-25.2%	-23.0%	-21.0%	-20.0%
Working capital/sales	31.9%	31.9%	37.0%	36.0%	33.0%	33.0%	33.0%
Capex/depreciation	132.3%	130.2%	128.2%	126.1%	124.5%	100.0%	112.8%
Free cash flow margin	7.8%	6.3%	4.8%	10.2%	11.4%	13.2%	12.4%

WACC	2010e	2011e	2012e	2013e	2014e	2015e	TV CF
Target capital structure (at MV)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Debt/equity ratio (at MV)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk free rate (local)	4.0%	5.1%	6.1%	6.6%	6.5%	6.1%	5.2%
Equity market premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Levered beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	9.9%	11.0%	12.0%	12.5%	12.4%	12.0%	11.2%
Cost of debt	7.0%	6.5%	6.0%	6.5%	6.5%	6.5%	6.5%
Tax rate	-35.8%	-32.5%	-25.3%	-25.2%	-23.0%	-21.0%	-20.0%
WACC	9.9%	11.0%	12.0%	12.5%	12.4%	12.0%	11.2%

Sensitivity analysis

Growth sensitivity (HRK)	Terminal growth rate						
	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%
WACC							
9.7%	346.1	357.2	369.9	384.2	400.7	419.9	442.5
10.2%	332.4	342.2	353.2	365.6	379.7	395.9	414.8
10.7%	320.3	328.9	338.5	349.2	361.4	375.3	391.2
11.2%	309.3	316.9	325.4	334.8	345.4	357.3	371.0
11.7%	299.3	306.1	313.6	321.9	331.2	341.6	353.4
12.2%	290.3	296.4	303.1	310.4	318.6	327.7	337.9
12.7%	282.0	287.5	293.5	300.0	307.3	315.3	324.3

Margin sensitivity (HRK)	FCF margin TV						
	10.9%	11.4%	11.9%	12.4%	12.9%	13.4%	13.9%
WACC							
9.7%	359.2	367.6	375.9	384.2	392.6	400.9	409.2
10.2%	342.7	350.4	358.0	365.6	373.2	380.8	388.4
10.7%	328.3	335.3	342.3	349.2	356.2	363.2	370.2
11.2%	315.5	321.9	328.4	334.8	341.2	347.7	354.1
11.7%	304.1	310.0	316.0	321.9	327.9	333.9	339.8
12.2%	293.8	299.4	304.9	310.4	316.0	321.5	327.0
12.7%	284.6	289.8	294.9	300.0	305.2	310.3	315.5

Source: Raiffeisen Centrobank estimates

Financial statements (IFRS)

<i>Income statement (HRK mn)</i>	<i>12/2007</i>	<i>12/2008</i>	<i>12/2009</i>	<i>12/2010e</i>	<i>12/2011e</i>	<i>12/2012e</i>
Consolidated sales	2,750.5	2,978.3	2,829.4	2,697.9	2,706.8	2,757.6
Changes in inventories	17.5	0.0	0.0	0.0	0.0	0.0
Own work capitalised	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	426.6	25.9	29.3	30.0	30.0	30.0
Total revenues	3,194.6	3,004.3	2,858.7	2,727.9	2,736.8	2,787.6
Material costs	-1,293.4	-1,344.7	-1,345.0	-1,344.2	-1,340.0	-1,362.5
Personnel expenses	-439.7	-504.6	-477.8	-458.6	-466.3	-477.7
Other operating expenses	-579.3	-173.7	-266.9	-331.9	-316.4	-214.7
EBITDA	882.2	981.3	769.1	593.2	614.1	732.8
Depreciation of PPE and intangibles	-196.8	-212.0	-241.2	-242.6	-246.6	-250.3
EBITA	685.4	769.3	527.9	350.6	367.5	482.5
Amortisation, impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	685.4	769.3	527.9	350.6	367.5	482.5
Investment income	0.0	11.4	14.8	0.0	0.0	0.0
Net interest income	177.4	105.0	135.3	118.7	120.2	116.0
Other financial result	10.8	-211.4	-37.2	0.0	0.0	0.0
Financial result	188.2	-95.1	112.9	118.7	120.2	116.0
Earnings before taxes	873.6	674.2	640.8	469.3	487.7	598.5
Taxes on income	-203.8	-170.6	-139.1	-93.9	-97.5	-119.7
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	669.8	503.7	501.7	375.5	390.2	478.8
Minority interests	-2.1	-4.6	11.3	-5.8	-5.5	6.9
Net profit after minorities	667.7	499.0	513.0	369.6	384.6	485.7

<i>Balance sheet (HRK mn)</i>	<i>12/2007</i>	<i>12/2008</i>	<i>12/2009</i>	<i>12/2010e</i>	<i>12/2011e</i>	<i>12/2012e</i>
Current assets	3,321.3	3,529.2	3,889.0	4,009.4	4,225.5	3,691.3
Liquid funds	2,203.3	1,536.6	2,143.5	2,255.8	2,466.1	2,009.2
Receivables	624.4	1,194.4	935.9	944.3	974.4	937.6
Inventories	493.5	768.3	781.2	809.4	785.0	744.6
Other assets	0.0	29.9	28.5	0.0	0.0	0.0
Fixed assets	3,607.1	3,682.8	3,650.1	3,728.5	3,802.9	3,873.6
Property, plant & equipment	2,915.8	3,303.6	3,315.2	3,372.6	3,426.1	3,475.7
Intangible assets	122.2	35.4	37.5	58.5	79.5	100.5
Goodwill	0.0	143.4	143.4	143.4	143.4	143.4
Financial assets	569.1	200.4	153.9	153.9	153.9	153.9
Deferred tax assets	0.0	32.3	63.1	63.1	63.1	63.1
Total assets	6,928.4	7,244.3	7,602.2	7,801.0	8,091.5	7,628.0
Current liabilities	1,128.7	982.8	819.2	1,002.1	993.2	769.3
Long-term liabilities	61.4	93.6	185.2	123.0	159.3	165.2
Shareholders' equity	5,520.4	5,940.5	6,339.6	6,447.8	6,710.9	6,465.3
Minority interests	217.8	227.3	258.1	228.2	228.2	228.2
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	6,928.4	7,244.3	7,602.2	7,801.0	8,091.5	7,628.0

<i>Cash flow statement (HRK mn)</i>	<i>12/2007</i>	<i>12/2008</i>	<i>12/2009</i>	<i>12/2010e</i>	<i>12/2011e</i>	<i>12/2012e</i>
Earnings before taxes	873.6	674.3	640.8	469.3	487.7	598.5
Taxes paid	-203.8	-210.1	-170.5	-93.9	-97.5	-119.7
Amortisation and depreciation	196.8	-212.0	241.2	242.6	246.6	250.3
Other non-cash items	0.0	0.0	0.0	-85.5	0.0	0.0
Cash flow from result	866.6	252.2	711.5	532.6	636.8	729.1
Change in working capital	-240.0	214.3	300.9	174.8	-3.8	-156.4
Operating cash flow	626.5	466.5	1,012.5	707.4	632.9	572.7
Capex PPE and intangible assets	-279.0	-457.6	-198.9	-321.0	-321.0	-321.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Disposal of fixed assets (total)	0.0	-60.4	-64.6	0.0	0.0	0.0
Other items (investments)	-63.2	796.4	-590.5	-126.5	-34.5	-36.7
Investing cash flow	-342.1	278.4	-854.0	-447.5	-355.5	-357.7
Dividend payments	-89.0	-112.3	-115.5	-113.4	-121.5	-129.5
Other changes in equity	0.0	-1.5	-0.4	-183.9	-5.5	-594.9
Change in interest-bearing financial assets	-304.5	-1,826.8	-63.7	133.3	34.5	36.7
Other items	-2.1	843.6	573.8	-18.3	0.0	0.0
Change in NIBD	-111.2	-352.1	552.7	77.7	184.9	-472.7

Source: Adris, Raiffeisen Centrobank estimates

Financial ratios

Changes yoy	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Consolidated sales yoy	8.8%	8.3%	-5.0%	-4.6%	0.3%	1.9%
EBITDA yoy	24.6%	11.2%	-21.6%	-22.9%	3.5%	19.3%
EBITA yoy	22.7%	12.2%	-31.4%	-33.6%	4.8%	31.3%
EBIT yoy	22.7%	12.2%	-31.4%	-33.6%	4.8%	31.3%
EBT yoy	13.3%	-22.8%	-5.0%	-26.8%	3.9%	22.7%
Net profit after minorities yoy	9.2%	-25.3%	2.8%	-28.0%	4.1%	26.3%

Margins	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Material costs margin	-47.0%	-45.2%	-47.5%	-49.8%	-49.5%	-49.4%
EBITDA margin	32.1%	32.9%	27.2%	22.0%	22.7%	26.6%
EBITA margin	24.9%	25.8%	18.7%	13.0%	13.6%	17.5%
EBIT margin	24.9%	25.8%	18.7%	13.0%	13.6%	17.5%
EBT margin	31.8%	22.6%	22.6%	17.4%	18.0%	21.7%
Net margin	24.3%	16.8%	18.1%	13.7%	14.2%	17.6%

Balance sheet (HRK mn)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Net working capital	506.7	1,063.3	1,034.9	860.1	863.9	1,020.3
Net interest-bearing debt	-1,792.8	-1,440.8	-1,993.4	-2,071.1	-2,256.0	-1,783.3
Capital employed	6,277.4	6,263.6	6,747.8	6,867.5	7,156.1	6,926.2
Market capitalisation	9,397.6	3,118.2	4,195.0	4,150.5	4,150.5	4,150.5
Enterprise value	7,649.1	1,712.2	2,305.8	2,245.8	2,060.9	2,533.6

Financing (x)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Interest cover	23.3	44.8	105.2	53.1	48.9	51.3
Internal financing ratio	2.2	1.0	5.1	2.2	2.0	1.8
Net gearing	-31.2%	-23.4%	-30.2%	-31.0%	-32.5%	-26.6%
Quick ratio	2.5	2.8	3.8	3.2	3.5	3.8
Fixed assets cover	1.6	1.7	1.9	1.8	1.9	1.8
Capex / depreciation	1.4	2.9	1.0	1.3	1.3	1.3
Equity ratio	82.8%	85.1%	86.8%	85.6%	85.8%	87.7%

Profitability	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Return on assets	10.3%	7.4%	6.9%	5.0%	5.1%	6.3%
Return on equity	12.8%	8.7%	8.4%	5.8%	5.8%	7.4%
Return on capital employed	11.6%	8.3%	7.8%	5.7%	5.7%	7.0%

Per share data (HRK)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Weighted avg. no. of shares (mn)	16.2	16.2	16.2	16.2	16.2	16.2
EPS reported	41.21	30.80	31.67	22.82	23.75	29.99
EPS pre-goodwill	41.21	30.80	31.67	22.82	23.75	29.99
Adjusted EPS diluted	41.21	30.72	31.55	22.82	23.75	29.99
Operating cash flow per share	38.67	28.79	62.51	43.67	39.08	35.36
Book value per share	340.71	366.73	391.40	398.07	414.32	399.15
Dividend per share	7.00	7.00	7.00	7.50	8.00	8.50
Payout ratio	17.0%	22.7%	22.1%	32.9%	33.7%	28.3%

Valuation (x)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
PE reported	14.1	6.2	8.2	11.2	10.8	8.5
PE pre-goodwill	14.1	6.2	8.2	11.2	10.8	8.5
Adjusted PE diluted	14.1	6.3	8.2	11.2	10.8	8.5
Price cash flow	15.0	6.7	4.1	5.9	6.6	7.2
Price book value	1.7	0.5	0.7	0.6	0.6	0.6
Dividend yield	1.2%	3.6%	2.7%	2.9%	3.1%	3.3%
Free cash flow yield	3.6%	0.5%	18.3%	8.8%	7.1%	5.7%
EV/sales	2.8	0.6	0.8	0.8	0.8	0.9
EV/EBITDA	8.7	1.7	3.0	3.8	3.4	3.5
EV/EBIT	11.2	2.2	4.4	6.4	5.6	5.3
EV/operating cash flow	12.2	3.7	2.3	3.2	3.3	4.4
Adjusted EV/CE	1.6	0.5	0.7	0.7	0.6	0.7
Adjusted EV/CE vs. ROCE/WACC				1.2	1.2	1.1

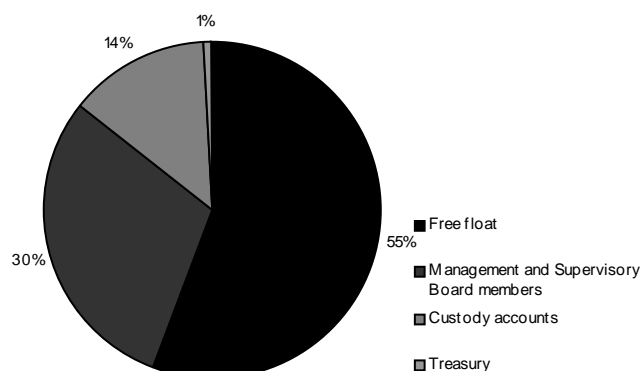
Source: Adris, Raiffeisen Centrobank estimates

Fact Sheet

Company description

Adris Group mainly operates in three segments: tobacco, tourism and retail. The tobacco segment unites Hrvatski duhani, a tobacco producing company, TDR, the cigarette producing company, Istragrafika, the carton package company and Adista, a distribution company. Production capacities are a lot higher and allow production of some 18 billion sticks working in three shifts. Currently, the company sells 12.53 mn sticks. TDR holds a market share near 80% of the Croatian cigarette market and is an important player in the region exporting 53% of its annual production. Croatian iNovine and Opresa (B&H) kiosk chains make a retail unit. Adris also holds shares of other kiosk chain companies: 25.9% of Tisak shares and 25% in Veletabak (Serbia). iNovine manages around 400 selling units across the country and Opresa has 260 selling units in B&H. The tourism segment is organised in Adria Resorts which holds Maistra, whose shares are listed on ZSE (16% FF). The accommodation portfolio consists of 8 hotels (1534 rooms), 8 tourist settlements (2062 rooms) and 6 camps (7300 lots). These units are located in Istria and some 65% of the capacities is categorised as 4* and 5*. In addition, the Group recently acquired fish producing companies Marimirna, Cenmar, Marikultura and Bisage, now holding around 60-70% of the market.

Shareholder structure



Strengths/Opportunities

- Vertical integration in tobacco encompassing all activities from contracting with farmers to distribution of cigarettes
- Brand loyalty in cigarettes and moderate buyer power
- All brands of cigarettes produced are own brands
- High barriers for new entrants and low bargaining power of farmers delivering tobacco leaf
- Good geographical position of tourist capacities offering stable growth rates
- The great deal of the accommodation portfolio is renewed and targets high-end customers enabling the company to increase profitability

Weaknesses/Threats

- Cigarettes are restricted from advertising; excise taxes changes can lead to profitability drop and loss of market share
- Smoking bans on public places and price increase following the excise tax increase will lead to lower sales volume
- Required expansion on EU and UAE countries is uncertain; building a brand in new markets takes many years
- High-end customers in the premium hotel segment are very demanding
- Wide range of new entrants in tourism increases the competition
- Drop in occupancy rates can affect tourism results

Income statement (HRK mn)	12/2009	12/2010e	12/2011e	12/2012e
Consolidated sales	2,829.4	2,697.9	2,706.8	2,757.6
EBITDA	769.1	593.2	614.1	732.8
EBIT	527.9	350.6	367.5	482.5
EBT	640.8	469.3	487.7	598.5
Net profit bef. min.	501.7	375.5	390.2	478.8
Net profit after min.	513.0	369.6	384.6	485.7

Balance sheet

Total assets	7,602.2	7,801.0	8,091.5	7,628.0
Shareholders' equity	6,339.6	6,447.8	6,710.9	6,465.3
Goodwill	143.4	143.4	143.4	143.4
NIBD	-1,993.4	-2,071.1	-2,256.0	-1,783.3

Cash flow statement

Operating cash flow	1,012.5	707.4	632.9	572.7
Investing cash flow	-854.0	-447.5	-355.5	-357.7
Change NIBD	552.7	77.7	184.9	-472.7

Source: Adris, Raiffeisen Centrobank estimates

Per share data (HRK)	12/2009	12/2010e	12/2011e	12/2012e
EPS pre-goodwill	31.67	22.82	23.75	29.99
Adj. EPS diluted	31.55	22.82	23.75	29.99
Operating cash flow	62.51	43.67	39.08	35.36
Book value	391.40	398.07	414.32	399.15
Dividend	7.00	7.50	8.00	8.50
Payout ratio	22.1%	32.9%	33.7%	28.3%

Valuation (x)

PE pre-goodwill	8.2	11.2	10.8	8.5
Adj. PE diluted	8.2	11.2	10.8	8.5
Price cash flow	4.1	5.9	6.6	7.2
Price book value	0.7	0.6	0.6	0.6
Dividend yield	2.7%	2.9%	3.1%	3.3%
FCF yield	18.3%	8.8%	7.1%	5.7%
EV/EBITDA	3.0	3.8	3.4	3.5
EV/EBIT	4.4	6.4	5.6	5.3
EV/operating CF	2.3	3.2	3.3	4.4

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Risk ratings take into account volatility. Fundamental criteria might lead to a change in the risk classification. Also, the classification may change over the course of time.

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Buy: Buy stocks are expected to have a total return of at least 15% (20% for shares with a high volatility risk) and are the most attractive stocks in our coverage universe on a 12 month horizon.

Hold: Hold stocks are expected to deliver a positive total return of up to 15% (20% for shares with a high volatility risk) within a 12-month period.

Reduce: Reduce stocks are expected to achieve a negative total return up to -10% within a 12-month period.

Sell: Sell stocks are expected to post a negative total return of more than -10% within a 12-month period.

Price targets are determined by the fair value derived from a peer group comparison and/or our DCF model. Other fundamental factors (M&A activities, capital markets transactions, share buybacks, sector sentiment etc.) are taken into account as well.

Upon the release of a research paper, investment ratings are determined by the ranges described above. Interim deviations from the above mentioned ranges will not cause a change in the recommendation automatically but will become subject to review.

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