

First Impression

July 29, 2010

Consumer, non-cyclical/Croatia

Viro

Last recommend.: Hold

Last price target	416.00
Close (28.07.10)	299.99
Market Cap. (EUR mn)	57
Free float	31.5%
Reuters	VIRO.ZA
Bloomberg	VIORA.CZ

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Authority

Low material expenses lifted profitability

- **23.9% lower export sales**
- **Cane sugar campaign postponed to 3Q 10e**
- **We put our target price and estimates under review, but stick to "hold" recommendation**

The 2Q 10 reported top line was lower than we forecasted due to a drop in exports of 23.9%. The biggest surprise are definitely material expenses of only 23.2% of sales due to raw sugar campaign postponement to 3Q 10e, which improved operating result, despite the significant loss on inventory changes. Although management expects only moderate impact of floods on sugar beet yields, we believe the damage will be significant.

Sales: Posted top line was yoy and qoq lower and below our expectations, as the 12.9% yoy higher domestic sales was outweighed by 23.9% yoy drop in export revenues. The company revised its production plans for the FY 10e and plans to refine additional 50.000t of sugar beet and produce further 7.400t of sugar. Moreover, Viro informed on only 10-20% lower expected yields of sugar beet due to the above average rainfalls and floods in May and June, which is in our opinion overly optimistic. Therefore, we are not very confident with the FY 10e guidance.

Extremely low material expenses: Due to further postponement of the raw sugar refinement campaign to 3Q 10e, 2Q 10 material expenses were extremely low, at only 23.2% of sales (RCB est.: 85% of sales). As the company was selling the sugar produced last year (at higher prices) during the 2Q 10, negative change in inventory of HRK 54.1 mn was recorded. Personnel expenses came in pretty close to our expectations, at 5.3% of sales (RCB est.: 5.9% of sales), and are yoy lower due to decreased working hours. Altogether, low material expenses lifted the EBITDA margin to 23.2%, well above our expectations.

Outlook and recommendation: Reported figures diverge from our forecasts at all levels. Furthermore, negative impact from the floods in sowing season should be taken into account. Until the end of 2010e Viro should start publishing consolidated reports (Sladorana); therefore our recommendation and target price are based on consolidated figures. For the time being, we put our target price and estimates under review, but stick to our "hold" recommendation.

Viro 2Q 2010 result

in HRK mn	2Q 10	2Q 09	+/- %	RCB est.	+/- %	1Q 10	+/- %
Sales	114.6	131.34	-12.8	125.9	-9.0	131.2	-12.7
EBITDA	26.6	13.86	91.8	18.1	47.0	17.6	51.5
EBIT	18.7	7.50	149.2	11.1	67.9	10.6	76.7
EBT	15.7	19.1	-18.0	11.4	37.2	10.6	47.5
Net profit a.m.	15.7	19.1	-18.0	11.4	37.2	10.6	47.5
EPS	11.37	13.86	-18.0	8.29	37.2	7.71	47.5
EBITDA margin	23.2%	10.6%		14.4%		13.4%	
EBIT margin	16.3%	5.7%		8.8%		8.1%	
EBT margin	13.7%	14.6%		9.1%		8.1%	
Net margin	13.7%	14.6%		9.1%		8.1%	

Source: Viro, Raiffeisen Centrobank

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