

# First Impression

July 30, 2010

Consumer goods, non-cyclical/Croatia

## Podravka

### Last recommend.: Hold

Last price target	326.00
Close (29.04.10)	287.80
Market Cap. (EUR mn)	202
Free float	29.8%
Reuters	PODR.ZA
Bloomberg	PODRRA CZ

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### Improvement of profitability

- Top line figure deviates from our estimates in domestic Pharma sales mostly
- Operating profits higher than estimated due to improvement in gross margin by 151 bp yoy and SGA savings by over HRK 20 mn
- We stick to our target price and recommendation but will upgrade our estimates

The consolidated top line surprised negatively mostly in domestic pharma sales due to orders withheld from big customers, which await announced lower drug prices demanded by the regulator. However, this will catch up to our FY 10 estimates in 3Q 10e. Profitability showed a nice improvement with the most surprising drop in COGS/sales despite higher energy costs. SGA savings were also better than expected yoy and management announced further cost cutting on this side. The net financial result was three times lower yoy but close to our estimates. Net income more than doubled yoy.

**Sales:** The top line figure was 4% lower yoy and 3.7% lower than expected. The main reason for the drop was the domestic market where the F&B and Pharma segments posted an 11% decrease yoy. This trend will reverse in 3Q 10e and pharma sales quantities will catch up.

**Profitability:** The biggest surprising in the positive development of operating profitability was material expenses cuts lifting the gross margin by 151 bp yoy, especially since energy costs went up by over 10% yoy. We expected +50 bp in COGS/sales ratio. This was probably the result of focusing on a more profitable product mix, which was not the case in 1Q 10. However, the effect of recent floods and food input scarcity on the market was not captured in 1H 10 but might show up in the next period. Savings on SGA expenses were also by over HRK 20 mn higher than we expected. One-offs were related to securities' marked-to-market value. Bond value did not move significantly in 2Q 10. The bond matures in May 2011 and is reclassified as ST debt. Management informed about restructuring negotiations.

**Outlook and recommendation:** The management announced that the group will continue to cut SGA costs. Also, in 2H 10e gas price will be lowered by 6%- 10% according to new local regulation. Hence, we will adjust the profitability upward. However, higher F&B input prices in 2H 10 might offset the positive development achieved. Management said it will revise the FY 10e guidance in terms of both sales and profitability. Hence, we stick to our recommendation and price target but we will adjust profitability estimates upwards.

### Podravka 2Q 2010 result

in HRK mn	1H 10	2Q 09	2Q 10	+/- %	RCB est.	+/- %	1Q 10
Sales	1,662.7	939.5	880.9	-6.2	915.0	-3.7	781.8
EBITDA	152.4	60.7	84.78	39.6	70.5	20.3	67.7
EBIT	74.7	20.4	45.83	124.6	31.5	45.7	28.9
EBT	39.8	15.4	29.1	89.1	13.5	116.0	10.8
Net profit	31.2	11.1	23.6	112.1	10.8	118.8	7.6
One offs	-25.9	-13.6	-1.90	-86.0	0.0		-24.0
EPS	5.94	2.1	4.5	112.1	2.1	118.8	1.5
EBITDA margin	9.2%	6.5%	9.6%	48.9	7.7%	25.0	8.7%
EBIT margin	4.5%	2.2%	5.2%	139.5	3.4%	51.3	3.7%
EBT margin	2.4%	1.6%	3.3%	101.7	1.5%	124.4	1.4%
Net profit margin	1.9%	1.2%	2.7%	126.2	1.2%	127.3	1.0%

Source: Podravka, Raiffeisen Centrobank

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