

Don Agro International Limited

Date: 7 December 2020

Non-Rated

DAG SP

Price: S\$0.310 (as at 7 December 2020)



Share price	1M	3M	6M	1Y
Don Agro	0.0%	+55.0%	+26.5%	N.A.
Catalist Index	-2.8%	-2.1%	+26.2%	+16.8%

Market capitalisation	S\$46.6 million
Current price	S\$0.310
Shares outstanding	150,272,700
Free Float	16.8%
Major shareholders	Evgeny Tugolukov 78.2%
Recommendation of other brokers	N/A

Source: Company data, Bloomberg, SAC Advisors

Analyst

Lam Wang Kwan +65 6232 3237
lamwk@saccapital.com.sg

Note: This version of the report contains editorial changes following Management's comments.

A Russian Agriculture Play

A leading agriculture business in Russia. Don Agro International Limited and its subsidiaries (collectively the "Group" or "Don Agro") are one of the largest agricultural companies in the Rostov region in Russia that focus on crops and milk production. The Group operates a controlled land bank of over 53,000 hectares (approximately 41,000 hectares are arable land). Of this landbank, more than 15,000 hectares are owned. It also owns more than 4,000 head of dairy cattle (approximately 2,000 are milking cows) across 3 production divisions. Strategically located in one of the most fertile regions of Russia and situated in close proximity to major international ports, Don Agro is able to produce quality and better yielding agricultural products and milk while achieving cost advantage through lower transportation costs.

Rising importance of the agricultural sector in Russia. The agriculture sector is paramount to the Russian economy. According to the Russian Ministry of Agriculture, a long-term grain industry development program was adopted in 2019. Russia is expected to be harvesting an average of 140 million tonnes of grain per year until 2035. The Ministry also announced that approximately 281 billion Russian Rubles or US\$4.3 billion will be invested into various infrastructure projects to improve logistics in the Russian grain and feed industries. The anticipated grain production increase is expected to drive the value of Russia's agricultural exports to US\$45 billion in 2030.

Strong and growing demand for Don Agro's products. According to a report by the United States Department of Agriculture (the "USDA") in 2019, demand for wheat is experiencing major growth. In particular, Southeast Asia has become the world's top wheat importing region as a result of a shift in consumption habits to wheat as diets diversify. The lack of domestic production of wheat (less than 1% of demand requirements) and the growth in consumption has led directly to higher import demand for wheat. Don Agro is well-positioned to capture the growth of the market. Domestically, demand for Don Agro's products remains high owing to the import ban on EU food and agriculture produce and cheaper local goods relative to imported goods, as a result of the depreciation of the Russian Ruble.

Key risks: Crops and livestock are vulnerable to biological disasters and unfavourable climate conditions. Effects of exchange rate fluctuations.

Key Historical Financials

Year ended 31 December (S\$'000)	FY2016	FY2017	FY2018	FY2019
Revenue	30,979	23,193	24,375	35,431
% Growth	N/A	-25.13%	5.10%	45.36%
Gain from change in fair value of biological assets and agricultural produce	6,602	5,049	6,704	6,512
Operating Cash Flow / Revenue	46.9%	-16.6%	13.7%	28.4%
Free Cash Flow / Revenue	36.6%	-35.3%	13.6%	17.5%
Profit/(loss) before tax	4,335	4,174	6,442	5,526
Profit/(loss) before tax margin	14.0%	18.0%	26.4%	15.6%
Profit/(loss) attributable to owners	4,237	4,101	6,389	5,209
EPS (Singapore cents)	3.33	3.22	5.11	4.17
P/E (x)	11.0	11.4	7.3	8.9
P/B (x)	2.4	1.7	1.6	1.2
Net Debt/Equity	48.0%	34.9%	19.1%	2.7%

EPS is computed based on pre-Placement share capital of 125m shares

N/A: Not Applicable

Investment Highlights

A leading Russian agriculture business. Don Agro is one of the largest agricultural companies in the Rostov region in Russia that focuses on crops and milk production. The Group currently has a large controlled land bank of over 53,000 hectares (approximately 41,000 hectares are arable land). Of this landbank, more than 15,000 hectares are owned. Controlled land bank refers to land that is either owned or leased, both of which allow them to utilise the land. The Group owns more than 4,000 head of dairy cattle (approximately 2,000 of them are milking cows) across its 3 production divisions. Strategically located in one of the most fertile regions of Russia and situated in close proximity to the major international ports, Don Agro is able to produce higher quality and better yielding agricultural products and milk while achieving cost advantage through savings on transportation costs.

Led by a strong management team, Don Agro's success is a testament to the effective implementation of different strategies, which are tailored to the various aspects of its business. From the adoption of no-till farming technique, to the employment of modern machinery and equipment, to the purchase of high quality pregnant heifers and high yielding seeds, these decisions have helped the Group to become more efficient, effective and productive.

Rising importance of the agricultural sector in Russia. The agriculture sector is paramount to the Russian economy. In 2019, Russia was the world's largest exporter of wheat, the second-largest producer of sunflower seeds and the fourth-largest producer of milk. The Russian government views the agriculture sector as a strategic industry to further the country's long-term growth. According to the Russian Ministry of Agriculture, a long-term grain industry development program was adopted in 2019. Russia is expected to be harvesting an average of 140 million tonnes of grain per year until 2035, a 24% increase as compared to the 2018 level. The Ministry also announced that approximately 281 billion Russian Rubles or US\$4.3 billion will be invested into various infrastructure projects to improve logistics in the Russian grain and feed industries. These projects include the building of grain terminals in Russian seaports as well as grain and feed storage facilities. Higher grain output is expected to drive the value of Russia's agricultural exports to US\$45 billion in 2030, double that of 2018.

At the same time, favourable climate conditions in Russia are also going to benefit the agricultural sector. According to the NOAA 2019 Global Climate Summary, there is a general increase in temperature globally. Climate changes can be beneficial for agriculture and farming as they translate into longer growing seasons and higher crop yields.

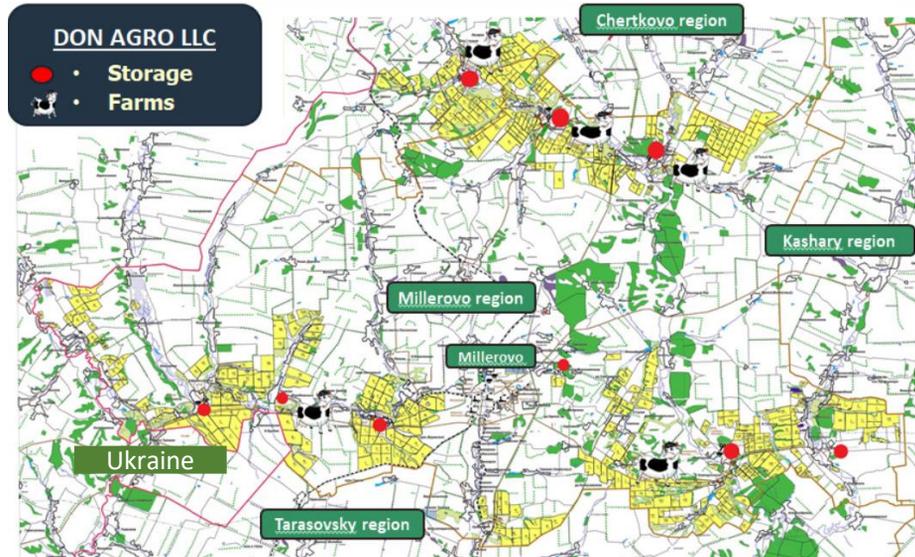
Strong and growing demand for Don Agro's products. The Group has chosen to focus on growing wheat, sunflower and corn as these products are in higher demand and more commercially viable. According to a report by the USDA in 2019, demand for wheat was experiencing major growth. In particular, Southeast Asia has become the world's top wheat importing region as a result of a shift in consumption habits to wheat as diets diversify. Insufficient domestic wheat production (less than 1% of demand requirements) and a hike in consumption have driven higher import demand for wheat. Don Agro is well-positioned to capture the growth of the market. In its home market, demand for its products remains high owing to the import ban on EU food and agriculture produce and cheaper local goods relative to imported goods, as a result of the depreciation of the Russian Ruble.

Business Overview:

Don Agro International Limited and its subsidiaries (collectively the "Group" or "Don Agro") are one of the largest agricultural companies in the Rostov region in Russia. The Group's core business includes the cultivation of agricultural crops and the production of raw milk in Russia. The key agricultural crops are winter wheat, sunflower and corn. It also breeds dairy cows for milk production and for sale.

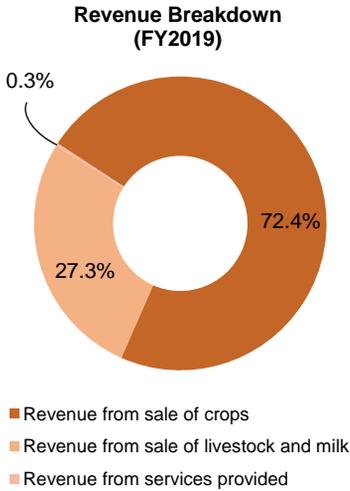
Company Background

- Don Agro is one of the largest agricultural companies in the Rostov region in Russia. The Group currently has a controlled land bank of over 53,000 hectares, of which approximately 41,000 hectares are arable land. These lands are located across the Group's three production areas in the Rostov region, namely the Northern production division, the Western production division and the Eastern production division. As at 30 June 2020, the Group owns more than 15,000 hectares of its controlled land bank.



Source: Company data

- The Group's core business includes the cultivation of agricultural crops and the production of raw milk in Russia. Under the crop production segment, Don Agro focuses on the farming and sale of commercial crops including winter wheat, sunflower and corn. Under the livestock segment, the Group engages in the breeding of dairy cows for the production of milk and the sale of livestock. Currently, the Group owns more than 4,000 head of dairy cattle, of which approximately 2,000 are milking cows. Don Agro is one of the top producers of milk in the Rostov region.



Source: Company data, SAC Capital

Corporate History

History

Don Agro International Limited was incorporated on 16 October 2018 in Singapore and was later listed on the Singapore Stock Exchange (SGX) on 14 February 2020.

Don Agro LLC, the operating company of the Group, was founded in October 2009 following a reorganisation exercise from the statutory merger of five (5) privatised state collective farms acquired by LLC Razgulyai-Agro. These five agricultural companies were in the Millerovo district of the Rostov region of Russia and were involved in the cultivation of agricultural crops and dairy farming business and owned approximately 3,500 hectares of land.

In 2012, Vallerd Investments, an investment holding company owned by Evgeny Tugolukov, acquired Don Agro LLC from LLC Razgulyai-Agro through a newly-established entity Tetra JSC and appointed ProdAlliance, a management company founded by Evgeny Tugolukov, to manage the operations of Don Agro LLC. As part of the listing, Tetra JSC has taken over the operations of the Group.

Over the years, the Group has made significant improvement to its business through the acquisition of new equipment, implementation of new agricultural techniques, purchase of high quality heifers and high yielding seeds as well as enhancement of its operational processes. These efforts have helped Don Agro to be more efficient and effective and to become one of the largest agricultural companies in the Rostov region of Russia.

Business Overview

Don Agro’s business can be categorised into two main business segments, namely Crops and Livestock.

Crops Segment

Under the crops segment, the Group produces and sells agricultural products in Russia, which include winter wheat, sunflower, corn, sorghum and flax. In recent years, the Group has chosen to concentrate on the production of winter wheat, sunflower and corn as the Group believes that these crops are commercially more viable.

Type of crops	Descriptions
Winter wheat	<p>Winter wheat is planted in the autumn to germinate and develop into young plants that remain in the vegetative state during the winter. The wheat will then resume growth in early spring.</p> <p>Winter wheat is mainly used in food and animal fodder production and has high yield potential.</p>
Sunflower	<p>Sunflower is usually used as a raw material in the production of sunflower oil for the food industry.</p>
Corn	<p>Corn is an annual cereal grass plant. Corn can be sorted into various commercial classifications based on the texture of the kernel, which includes dent corn, flour corn, sweet corn, flint corn and popcorn.</p> <p>Corn can be used as livestock feed, biofuel, staple food and raw materials.</p>
Sorghum	<p>Sorghum is a cereal grain plant that is also known as milo. Sorghum grain is gluten-free and can be used as a substitute for wheat.</p> <p>Sorghum can be classified into different varieties, of which each has its own use. For example, grain sorghums are used for food, grass sorghums are used for hay and fodder and broomcorn is used to make brooms and brushes.</p>
Flax	<p>Flax is an annual herbaceous plant that is cultivated for its fibre and seeds.</p> <p>The fibre of the plant can be made into linen yarn and fabric while the seed is regarded as a health food globally due to its high dietary fibre and omega-3 fatty acid content, which can be used for direct human consumption or be processed into cooking oil.</p>

Source: Company data, SAC Capital

Don Agro’s production areas are located in one of the most fertile regions of Russia and are situated 220 km away from the Azov Sea and the Don River which house major international ports. Being situated close to the ports allows the Group’s customers, primarily grain traders and exporters, to save on transportation costs. This cost-saving translates into higher prices paid for the Group’s crops.

The Group currently owns 8 storage facilities with a total grain storage capacity of up to 95,000 tonnes, following the completion of additional storage facilities in October 2020 which raised capacity by 30,000 tonnes. The Group also employs modern farming machinery and equipment to boost productivity and improve overall efficiency.

Don Agro operates an integrated farming process which consists of the following stages:



Source: Company data

Business Overview

Tillage/Spraying

Tillage is an agricultural process to prepare soil for growing crops, which includes the removal of weeds, mixing in of soil additives such as fertilisers, shaping soil into rows and preparing the land for seeding. Don Agro utilises both deep soil tillage and no-till farming techniques. As compared to deep soil tillage, the use of no-till farming can improve the soil's biological fertility without disturbing the soil through tillage, thus reducing costs such as labour, machinery and fuel. No-till farming also improves the overall crop yield as arable land no longer needs to be fallowed for 1 year. As such, the Group is planning to convert most of the arable land to no-till farming land. As of November 2020, no-till farming is used in approximately 12% of the Group's 40,000 hectares of arable land.

Sowing

The sowing process involves preparative actions such as calibration of seeds and treating them with plant protectors, following which the seeds are sown with seeder machines. Don Agro uses seeds from both the current crops and those purchased from local producers or sellers. Before sowing the seeds, the Group's chief agronomist will assess and check the suitability of the seeds.

Plant cultivation

Controlling plant nutrition is an important component of the plant cultivation process, which includes fertilisation, application of plant protectors and performing additional land processing. Before the plant cultivation process, the Group's chief agronomist will recommend different fertilisers for different crops. The fertilisers and plant protectors to be used will also be sent to third party professionals for safety tests. Under the tillage method, cultivators will be used to till the land to prepare a proper seedbed for the crop to be planted. Subsequently, fertilisers and seeds are mixed into the soil to ensure that the growing crops can grow well during the season. Under the no-till farming technique, decay resulting from crop residues left on the surface will leach into the soil, enriching it for the process of plant cultivation.

Harvesting

The harvesting process includes the control of stubble to be remained in the land in order to maintain the moisture levels of the soil after harvesting. The harvest is transported to storage facilities and after cleaning and sorting the harvested crops are placed for storage.

Schedule of farming process

Type of crops	Tillage/Spraying	Sowing	Plant cultivation	Harvesting
Winter wheat	August	September	September to June	July
Sunflower	October / May to June	April to May	April to May	September to October
Corn	October / May to June	May	May	September to October
Sorghum	October / May to June	April to May	April to May	September to October
Flax	October	April to May	April to May	August

Source: Company data, SAC Capital

Business Overview

Livestock Segment

Under the livestock segment, the Group mainly breeds dairy cows for milk production and is also involved in the sale of livestock including dairy cows, heifers and calves.

The Group produces and sells raw milk to dairy processing companies for the production of fresh milk and other processed dairy products. For any given year, Don Agro will typically enter into a general supply agreement with a single large dairy processing company to supply milk for the year. Such arrangements allow for price revisions on a regular basis according to market conditions.

As at 30 June 2020, Don Agro owns 5 dairy farms across its 3 production divisions. Each farm has facilities to house the dairy cows, heifers and calves as well as its own fodder storage.

Dairy Farm	No. of milking cows	Total no. of cattle
Northern production division		
Degtevo	580	1,092
Kudinovka	356	746
Novoselovka	556	1,153
Western production division		
Grekovo	377	695
Eastern production division		
Kamenka	240	413
Total	2,109	4,099

Source: Company data, SAC Capital

Don Agro operates an integrated farming process which consists of the following stages:

Pre-milking sterilisation and cleaning

Before milking, the udders and teats of the milking cows are sanitised by the spraying of sanitising fluids and the teat cups to be attached to the udder are also cleaned and sterilised. Cows will be checked for any signs of illness, including mastitis. Healthy cows will proceed to the milking stage while any unhealthy cows will be quarantined and checked by the Group's veterinarian.

Milking

The cows are milked twice a day using automatic milking systems and each cow takes approximately 2 to 5 minutes to be milked. Following which, the cows' udders are treated with ointments to assist in recovery. Approximately 96% of the raw milk produced is sold while the rest is used for feeding calves or disposed due to its antibiotic content.

Cooling and collection

Raw milk is piped from the milk lines to tank coolers and cooled to 3 degrees Celsius. The cooled milk is then pumped directly into the customer's trucks daily and these trucks will be sealed before dispatching. The Group will send milk samples for quality analysis. These samples are also sealed and stored in case any quality disputes arise from customers.

Industry Overview

The agriculture sector is paramount to the Russian economy. In 2019, Russia was the world's largest exporter of wheat, the second-largest producer of sunflower seeds and the fourth-largest producer of milk. The Russian government views the agriculture sector as a strategic one to further the country's long-term growth. According to the Russian Ministry of Agriculture, a long-term grain industry development program was developed in 2019. Russia is expected to be harvesting an average of 140 million tonnes of grain per year until 2035, a 24% increase as compared to the 2018 level. The Ministry also announced that approximately 281 billion Russian Rubles or US\$4.3 billion will be invested into various infrastructure projects to improve logistics in the Russian grain and feed industries. These projects include the building of grain terminals in Russian seaports as well as grain and feed storage facilities. The anticipated increase in grain production is expected to drive the value of Russian agricultural exports to US\$45 billion in 2025, which is double the 2018 value.

Climatic and geographic factors limit Russia's agricultural activity to about 10% of the country's total land area. Don Agro's operations are principally located in the Rostov region which is situated in the south of Russia and close to the border of south-east Ukraine. The Rostov region is also one of the most productive and fertile lands found in Russia. Additionally, the Rostov region is also where key international traders such as Cargill, Bunge, Glencore and Louis Dreyfus are located and operate.

On the demand front, the global agricultural products market saw a Compounded Annual Growth Rate of 3.5% between 2014-2018. Revenue for global agricultural products is expected to reach \$2,877.9 billion by 2023, an increase of 28.1% since 2018. According to the United Nations, the global population is forecasted to increase from 7.3 billion people to 9.7 billion people by 2050. This growth coupled with increasing income levels of developing countries are factors that will keep the demand for agricultural products strong.

Wheat Export by Nation in 2019 (US\$ billions)

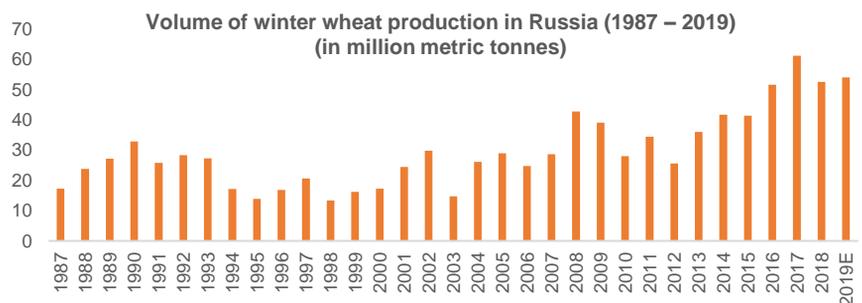


Source: International Trade Center, SAC Capital

Wheat

The volume of winter wheat produced in Russia in 2019 was estimated at 54 million metric tonnes, making it the world's largest exporter of wheat in 2019. This is an increase of nearly 3% from 2018. The highest production number recorded between 1987 to 2019 was at over 61 million metric tonnes in 2017.

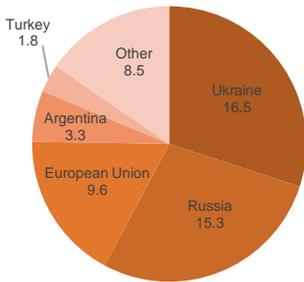
It is forecasted that Russia would harvest more than 80 million tonnes of wheat in 2020. According to Igor Pavensky, the Head of the Analytical Center at Rusagrotrans JSC, the average yield of Russian wheat could reach 2.75 tonnes per hectare ("t/ha") in 2020, an increase of 4% compared to 2.65 t/ha recorded in 2019. The strong harvest of wheat in 2020 is attributable to the growth in harvest yields and an increase in planted areas of wheat which is standing at a record 29.4 million hectares.



Source: USDA Foreign Agricultural Service, Statista, SAC Capital

Industry Overview

Sunflower seed production in major countries 2019/2020 (in million metric tonnes)



Source: US Department of Agriculture, SAC Capital

Sunflower

With a total production volume of 15.3 million metric tonnes, Russia was the second-largest producer of sunflower seeds in 2019, which was an increase of 23% year-on-year. The 2019 figure also marked a record production for the country.

The Ministry of Agriculture of Russia forecasted the yield of sunflower seed crop to be at 13 million tonnes in 2020. The decline was mainly due to the unfavourable weather condition Russia suffered for the year. However, the First Deputy Minister of Agriculture, Dzhambulat Khatuov projected that the sunflower seed crop would grow to reach up to 17.4 million tonnes by 2024. More favourable weather conditions as well as improvements in agricultural technologies of sunflower seed cultivation, such as the application of the optimum rates of mineral fertilisers and the observance of crop rotation, are expected to contribute to the increase in yield of sunflower seed crop.

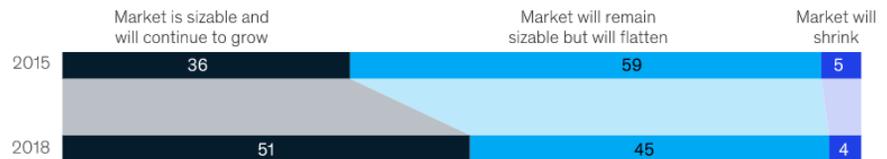
Dairy

According to IMARC, the global dairy market was valued at approximately US\$718.9 billion in 2019 and is projected to grow to US\$1032.7 billion by 2024. Global demand for dairy is expected to continue to increase largely due to population growth, rising incomes, urbanisation and westernisation of diets in countries such as China and India. This has led to a rise in export value of dairy products worldwide.

However, growth is expected to slow as consumer trends shift towards non-dairy alternatives. According to McKinsey, the shift to non-dairy alternatives is perpetuated by the “millennial effect”. Millennials are more inclined to purchase products that are sourced more ethically such as those from plant-based alternatives. In addition, non-dairy options are considered as healthier choices. The emergence of plant-based milk, such as the likes of oat milk and almond milk are solving many issues of consumers who shun dairy. Some reasons consumers try non-dairy alternatives include lactose intolerance, vegan diet and lifestyle as well as concerns about inflammation caused by dairy products. The growing popularity of non-dairy alternatives comes at the expense of dairy demand.

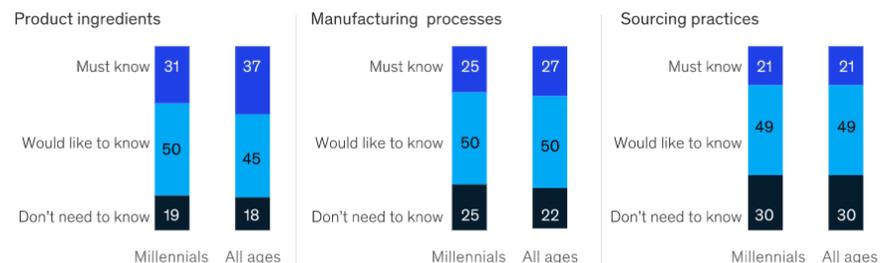
Plant-based competition for dairy is on the rise compared with 2015.

Prospects for the nondairy-alternative market, % of respondents¹



¹Question answered by 56 dairy CEOs: Which statement best describes your sentiment on the prospects for the nondairy-alternative market?

Information requirements before dairy purchase, % of respondents¹



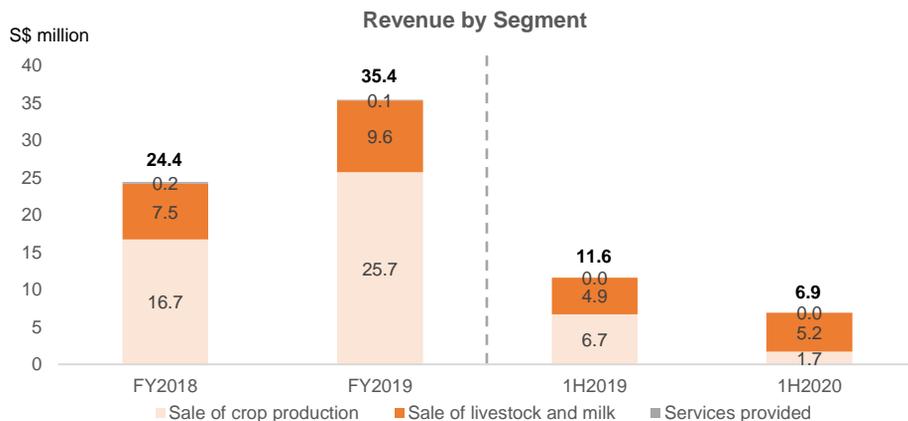
Note: Figures may not sum to 100%, because of rounding.

¹Question answered by 1,139 consumers: What are your main information requirements prior to purchase?

Source: McKinsey, SAC Capital

Financial Summary

Don Agro generates revenue mainly from the sale of crop production and sale of livestock and milk. Revenue is only recognised when the crops, livestock and milk are delivered to or collected by the customers.



Source: Company data, SAC Capital

Revenue is the function of volume of sales and the price of the product. In FY2019, revenue from crop production increased by 53.5% y-o-y to S\$25.7 million due to a higher volume of sales as a result of a higher yield per hectare of land and a higher market price for sunflower. The revenue from milk production also saw an increase of 29.1% y-o-y to S\$9.6 million due to an increase in milk yield per cow and an increase in price of raw milk. As a result, overall revenue increased by 45.3% y-o-y to S\$35.4 million for FY2019.

Comparatively, the Group witnessed a fall in revenue from S\$11.6 million in 1H2019 to S\$6.9 million for 1H2020. This was mainly due to a fall in revenue from the crop production segment attributable to a higher volume of sales of sunflower recorded in 1H2019 in which the Group sold a significant portion of its FY2018 sunflower harvest. The fall was partially offset by an increase in revenue from the milk production segment which saw an increase in milk yield and slightly higher raw milk price for 1H2020.

Biological Assets (\$'000)	FY2018	FY2019
Livestock	7,854	9,808
Permanent Grass	145	181
Non- Current	7,999	9,989
Winter wheat	5,647	6,502
Sunflower	0	227
Corn	0	18
Current-Crops	5,647	6,747

Source: Company data, SAC Capital

An important metric of an agricultural company is its biological assets. For Don Agro, biological assets consist of unharvested crops (grain crops and other plant crops), permanent grasses and livestock (dairy cows, heifers and calves). Unharvested crops are classified as current assets while livestock and permanent grasses are classified as non-current assets.

Unharvested crops are measured at fair value less costs to sell. Fair value of unharvested crops is a function of planted area, expected yield, market price and future cost to grow and sell. Upon harvest, agricultural produce is recognised at fair value and accounted for under inventories. Subsequent to the transfer from biological assets to inventories, agricultural produce is not revalued any further for any fair value changes.

Livestock is measured at fair value less estimated costs to sell. Fair value of livestock is based on factors such as length of lactation period, milk yield and market price of milk. Permanent grass is measured at cost less accumulated depreciation and accumulated impairment losses.

Financial Summary

The difference between the initial recognition of biological assets and changes in fair value less costs to sell biological assets are included as a line item “Gain/(loss) from change in fair value of biological assets” in the profit and loss statement.

Type of Assets	Factors Affecting Fair Value	Change to Factor	Change to Fair Value
Unharvested Crops	Market prices for crops in the same region	Increase	Increase
		(Decrease)	(Decrease)
	Expected yield	Increase	Increase
		(Decrease)	(Decrease)
	Future cost to grow and sell	Increase	(Decrease)
		(Decrease)	Increase
Risk-adjusted discount rate	Increase	(Decrease)	
	(Decrease)	Increase	
Agricultural Produce	Market price for crops in the same region	Increase	Increase
		(Decrease)	(Decrease)
Livestock	Length of lactation period	Increase	Increase
		(Decrease)	(Decrease)
	Herd average daily milk yield	Increase	Increase
		(Decrease)	(Decrease)
	Market prices for milk in the same region	Increase	Increase
		(Decrease)	(Decrease)
Risk-adjusted discount rate	Increase	(Decrease)	
	(Decrease)	Increase	

Source: Company data, SAC Capital

For FY2019, Don Agro recorded a 3.0% y-o-y decrease in gain from change in fair value of biological assets and agricultural produce to S\$6.5 million. The decline was mainly due to a smaller gain in the fair value of crops with a drop in market prices of agricultural produce in line with global trends. This was partially offset by a bigger gain in fair value of livestock as a result of an increase in milk yield and raw milk price.

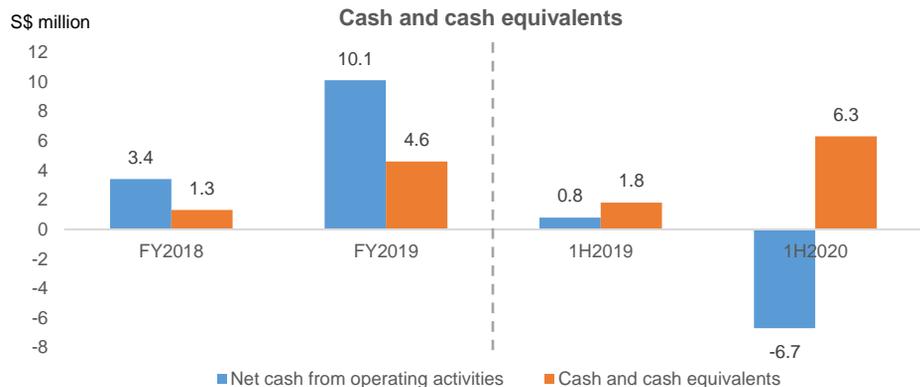
On the other hand, for 1H2020, the Group booked higher fair value gain of biological assets, which rose by 69.6% y-o-y to S\$5.4 million due to higher prices for crops and livestock. The former was due to the global increase in agricultural prices, while the latter was a result of higher milk yield and raw milk prices.

(\$'000)	FY2018	FY2019	1H2019	1H2020
Revenue	24,375	35,431	11,640	6,916
Cost of Sales	(22,017)	(33,354)	(9,624)	(5,137)
Gain from change in fair value of biological assets and agricultural produce	6,704	6,512	3,226	5,470
Gross Profit	9,062	8,589	5,242	7,249
Net Profit	6,388	5,223	4,282	4,401

Source: Company data, SAC Capital

Financial Summary

Despite posting lower revenue for 1H2020 as compared to 1H2019, the Group was able to report a higher gross profit and higher net profit due to an increase in the gain from change in fair value of biological assets and agricultural produce as a result of higher market prices of both crops and milk.



Source: Company data, SAC Capital

For the majority of years, the Group was able to generate positive cash flows from operations and record a net increase in cash position. However, in 1H2020, with the absence of harvest in spite of an increase in the value of biological assets, it booked negative operating cash flows of S\$6.7 million.

However, this is expected to be a one-time blip as the majority of the crops are expected to be harvested and sold in 2H2020. During this period, the cash flow shortfall was covered by a S\$4.7 million increase in borrowings and S\$5.1 million in placement proceeds from the IPO.

According to the Management, the Group typically suffers from negative operating cashflow in the first half of the year due to the nature of the business. The positive S\$0.8 million operating cashflow generated in 1H2019 was an exception, which was attributable to the shift in sunflower sales for that period.

Future Plans and Growth Strategy

Since its IPO, Don Agro has invested to increase its overall storage facilities from 65,000 tonnes to 95,000 tonnes. The Group has plans to store more agricultural produce, particularly winter wheat and sunflower, for longer periods in order to sell more during periods where market prices for the crops increase. Additionally, the Group had also invested in the latest John Deere R4023 Self-Propelled Sprayer to boost its farming productivity and efficiency. According to the management, Don Agro is continuously working towards its growth plans as stated in its IPO Offer Document which include:

Expansion of arable land bank

Don Agro plans to expand its arable land bank through the acquisition of other agricultural companies and/or the direct acquisition of arable land. The Group will focus on acquiring land which is near to the current area of operations and/or nearer the ports in the Rostov region. The Group will acquire land through different methods such as distressed asset sales, land brokers and personal connections.

Acquisition of new equipment and machinery

To improve efficiency, productivity and crop yield, the Group will periodically acquire new equipment and machinery to replace older machines. The Group may also acquire new equipment as it expands its operations. Some examples of such equipment and machinery include seeders, tractors and harvesters.

Expansion outside of Rostov region

The Group is planning to expand both domestically and internationally beyond the current area of operations. Domestically, Don Agro is intending to expand into other high growth regional markets including other districts within the Rostov region as well as the Krasnodar region. Internationally, the Group is looking for new trade opportunities in Southeast Asia and the Middle East. These expansion plans will be executed through mergers and acquisitions, joint ventures and strategic alliances with domestic and foreign partners.

Key Risks

Crops and livestock are vulnerable to biological disasters and extreme climate conditions

Natural phenomena including unfavourable and unpredictable weather conditions, such as drought, crop diseases and pest infestations can affect both the quantity and quality of crops produced by the Group. Similarly, a major outbreak of livestock diseases can also adversely affect the Group's milk production capacity and volume. The Group may even be required to destroy one or more of its herds.

Effects of exchange rate fluctuations

The currencies in which transactions are primarily denominated are the EUR and USD. The changes in the exchange rates at the reporting date would not significantly affect profit or loss and equity. However, there may be foreign currency translation differences arising from the difference in functional and presentation currencies, as financial statements are presented in the Singapore Dollar (SGD), whereas the functional currency is the Russian Ruble (RUB).

Management

Evgeny Tugolukov is the Executive Chairman and is responsible for setting and executing the strategic direction and expansion plans for the growth and development of the Group. He has over 20 years of top management experience in various financial and industrial institutions, including private Russian bank MDM Bank, engineering company EMAlliance Public JSC and Singapore investment company Strongbow Investments Pte Ltd. Evgeny Tugolukov served as a Member of Parliament of the State Duma of the Russian Federation and the Chairman of the State Duma Committee on Natural Resources from 2007 to 2011 and was also an honorary business representative with Enterprise Singapore between 2014 and 2018. Evgeny Tugolukov graduated from the Ural Federal University with a Diploma in Economics and Management.

Marat Devlet-Kildeev is the Chief Executive Officer and has been with the Group since 2012. He is responsible for directing and controlling the Group's operations, mergers and acquisitions, as well as strategy formulation and implementation. He started his career as deputy treasury manager and head of leasing with Barclays Bank of Canada and, after its acquisition by HongKong Bank of Canada, worked for HSBC Group before joining Renaissance Capital Limited as head of risk management and subsequently chief financial officer and later on becoming first deputy general director of the Renaissance Insurance Group LLC. Between 2001 and 2012, he held different director roles at several companies including media company Afisha Industries CJSC, investment holding company Rinaco JSC, engineering company TKZ-Management LLC, EMAlliance, power and energy company ESN JSC, media company O.K. Solutions LLC and CTC Media. In 2013, he joined ProdAlliance Limited, which was managing Don Agro, as the head of representative office. Marat Devlet-Kildeev graduated from the Leningrad State University with a Diploma in Russian Linguistics and Teaching Russian for Foreigners in 1987 and received his Master of Business Administration degree from the University of Toronto in 1993.

Artur Nazaryan is the Chief Financial Officer and has been with the Group since 2014. He is responsible for the finance, accounting and taxation matters of the Group. He began his career as an accountant in Zaslon LLC before moving to CJSC KPMG as an auditor and audit supervisor and subsequently joined float glass production company Guardian Glass Rostov LLC as the head of finance. In 2014, he joined ProdAlliance Limited as the chief financial officer. Artur Nazaryan graduated from the Southern Federal University with a Specialist Diploma in Organisation Management in 2008 and has been a member of the Association of Chartered Certified Accountants since 2015.

Vadim Novikov is the Chief Operating Officer and is responsible for overseeing the entire operations of the Group. He began his career as a legal counsel at a Russian law firm JSC Jurcon before joining investment company JSC Rinaco as a legal counsel. Prior to joining ProdAlliance Limited as legal counsel in 2013, he was a legal counsel at EMAlliance as the head of corporate and deputy head of tax and legal. Vadim Novikov obtained his Diploma with Honours in Law from the Ural State Law University in 2001.

Income Statement (S\$'000)

	Fiscal Year Ended 31 December			
	2016	2017	2018	2019
Revenue	30,979	23,193	24,375	35,431
Cost of sales	(31,668)	(21,495)	(22,017)	(33,354)
Gain from change in fair value of biological assets and agricultural produce	6,602	5,049	6,704	6,512
Gross profit	5,913	6,747	9,062	8,589
Administrative expenses	(954)	(1,482)	(1,291)	(2,122)
Other operating expenses, net	1,004	(522)	(1,005)	(282)
Results from operating activities	5,963	4,743	6,766	6,185
Finance income	168	182	158	249
Finance costs	(1,796)	(751)	(482)	(908)
Profit before tax	4,335	4,174	6,442	5,526
Tax expense	(132)	(78)	(54)	(303)
Profit for the year	4,203	4,096	6,388	5,223
Profit attributable to:				
Owners of the Company	4,237	4,101	6,389	5,209
Non-controlling interests	(34)	(5)	(1)	14
Earnings per share⁽¹⁾				
(Singapore Cents)	3.33⁽¹⁾	3.22⁽¹⁾	5.11	4.17

⁽¹⁾Computed based on pre-Placement share capital of 125m Shares

Cash Flow Statement (S\$'000)

	Fiscal Year Ended 31 December			
	2016	2017	2018	2019
Profit for the year	4,203	4,096	6,388	5,223
Depreciation & amortisation	1,671	1,703	1,662	2,283
Gain from change in fair value of biological assets and agricultural produce	(6,602)	(5,049)	(6,704)	(6,512)
Change in working capital	4,944	(10,345)	(414)	302
Others	10,310	5,740	2,419	8,770
Net Cash from / (used in) operations	14,526	(3,855)	3,351	10,066
Purchase of PPE	(1,448)	(2,283)	(2,109)	(1,742)
Others	(1,729)	(2,050)	2,062	(2,113)
Net Cash from / (used in) investing	(3,177)	(4,333)	(47)	(3,855)
Net increase in equity	0	0	0	0
Net decrease in debt	(10,917)	8,607	(3,664)	(2,294)
Dividend paid	0	0	0	(601)
Others	1	(64)	(69)	(150)
Net Cash from / (used in) financing	(10,916)	8,543	(3,733)	(3,045)
Net increase/(decrease) in cash and cash equivalents	433	355	(429)	3,166
Cash at the beginning of the year	935	1,636	1,952	1,263
Effect of exchange rate fluctuations on cash held	268	(39)	(260)	217
Cash at the end of the year	1,636	1,952	1,263	4,646

Balance Sheet (S\$'000)

At 31 December	Fiscal Year Ended 31 December			
	2016	2017	2018	2019
PPE	12,714	12,255	10,794	11,890
Biological assets	5,369	8,875	7,999	9,989
Right-of-use assets	0	0	0	4,584
Other non-current assets	20	8	31	26
Non-current assets	18,103	21,138	18,824	26,489
Biological assets	5,498	4,359	5,647	6,747
Current tax assets	20	28	25	24
Inventories	5,582	10,293	12,363	6,555
Investments	2,384	2,339	0	3,162
Trade and other receivables	1,492	1,724	688	3,744
Cash and cash equivalents	1,636	1,952	1,263	4,646
Current assets	16,612	20,695	19,986	24,878
Total assets	34,715	41,833	38,810	51,367
Share capital	14,007	14,007	14,007	35,741
Capital reserves	6,456	10,687	11,024	(10,450)
Foreign currency translation reserve	1,319	772	(3,989)	(826)
Accumulated profits/(losses)	(2,106)	1,995	8,384	12,992
Equity attributable to the owners of the Company	19,676	27,461	29,426	37,457
Non-controlling interests	24	19	18	32
Total equity	19,700	27,480	29,444	37,489
Loans and borrowings	11,090	4	1,002	988
Lease liabilities	520	189	128	4,425
Deferred income	66	126	168	358
Non-current liabilities	11,676	319	1,298	5,771
Loans and borrowings	1	11,549	5,877	4,679
Lease liabilities	166	95	30	549
Current tax liabilities	51	2	2	109
Trade and other payables	2,001	1,138	1,226	1,728
Deferred income	16	33	52	106
Provisions	1,104	1,217	881	936
Current liabilities	3,339	14,034	8,068	8,107
Total liabilities	15,015	14,353	9,366	13,878
Total equity and liabilities	34,715	41,833	38,810	51,367

Ratios

	Fiscal Year Ended 31 December			
	2016	2017	2018	2019
Profitability				
Gross Margin	19.1%	29.1%	37.2%	24.2%
Profit Before Tax Margin	14.0%	18.0%	26.4%	15.6%
Net Margin	13.6%	17.7%	26.2%	14.7%
Liquidity (x)				
Current Ratio	5.0	1.5	2.5	3.1
Quick Ratio	1.7	0.4	0.2	1.4
Interest Coverage Ratio	3.3	6.3	14.0	6.8
Net Debt to Equity	48.0%	34.9%	19.1%	2.7%
Valuation (x)				
P/E	11.0	11.4	7.3	8.9
P/B	2.4	1.7	1.6	1.2
Cash Conversion Cycle				
Inventory Turnover (Days)	N/A	124.9	169.6	97.4
Receivable Turnover (Days)	N/A	25.3	18.1	22.8
Payable Turnover (Days)	N/A	26.7	19.6	16.2
Cash Conversion Cycle (Days)	N/A	123.6	168.1	104.1
Returns				
Return on Equity	N/A	17.4%	22.5%	15.6%
Return on Assets	N/A	10.7%	15.8%	11.6%
Dividend payout ratio	N/A	N/A	N/A	16.6%
Cash Flow				
Operating Cash Flow / Revenue	46.9%	-16.6%	13.7%	28.4%
Free Cash Flow / Revenue	36.6%	-35.3%	13.6%	17.5%

N/A: Not Applicable

DISCLAIMERS AND DISCLOSURES

This report has been prepared and distributed by SAC Capital Private Limited (“**SAC Capital**”) which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report has been prepared for the purpose of general circulation, we have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual person or any specific group of persons and does not purport to be comprehensive or contain all necessary information which a prospective investor may require in arriving at an investment decision. Any prospective purchaser should make his own investigation of the securities and all information provided. Advice should be sought from a financial adviser regarding suitability, taking into account the specific investment objectives, financial situation or particular needs of the person in receipt of the recommendation, before a commitment to purchase is entered into.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities. This report is confidential and the information in this report shall not be copied or reproduced in part or in whole, and save for the recipient of this report, shall not be disclosed to any other person without the prior written consent of SAC Capital. The distribution of this report outside the jurisdiction of Singapore is also strictly prohibited.

Whereas SAC Capital has not independently verified all the information set out in this report, all reasonable care and effort has been taken to ensure that the facts stated herein are accurate, this report might contain certain forward looking statements and forward looking financial information which are based on certain assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the subject company to be materially different from those expressed herein. Predictions, projections or forecasts of the economy or market trends are not indicative of the future performance of the subject company. The inclusion of such statements and information should not be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions of the subject company or that the forecast results will or are likely to be achieved.

Our opinion and facts set out in this report are based on the market, economic, industry and other applicable conditions prevailing as at the date of the preparation of this report. Such conditions may change significantly over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report, that may or may not have affected our opinion contained herein.

This report contains forward-looking statement which are based on assumptions or forecasts and are subject to uncertainties which may result in the actual result or performance to be materially different from the opinion or facts set out herein. Caution should be exercised in placing undue reliance on such statements. such assumptions or forecasts may change over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report.

No representation or warranty, expressed or implied, is made and no responsibility is accepted by the company, SAC Capital, or any of their affiliates, advisers or representatives as to the fairness, accuracy, completeness or adequacy of such information or facts, in this report or any other written or oral information made available to any interested party or its advisers and any liability therefore is hereby expressly disclaimed.

SAC Capital and its associates, directors, and/or employees may have positions in the securities covered in the report and may also perform or seek to perform other corporate finance and/or capital markets related services for the company whose securities are covered in the report. SAC Capital and its related companies may from time to time perform advisory services or solicit such advisory services from the entity mentioned in this report (“**Other Services**”). This report is therefore classified as a non-independent report. However, the research professionals involved in the preparation of this report are independent of those possible or actual business relationships as they have not and will not participate in the solicitation or provision of such business.

As at the date of this report, SAC Capital does not have proprietary positions or interests in the subject company, except for:

Party	Quantum of position
Nil	Nil

As at the date of this report, SAC Capital, has had business relations with the subject company within the past 12 months, as disclosed hereunder:

Nature of Business Relation	Date of Business Relation
Nil	Nil

As at the date of this report, none of the analysts who covered the securities in this report have any proprietary position or material interest in the subject companies covered here in, except for:

Analyst name	Quantum of position
Nil	Nil

For services rendered in the production and distribution of this Research report, SAC Capital will receive monetary compensation payable by the subject company. The quantum of which was pre-determined prior to the writing and publication of the report and is not dependent on or affected by the recommendation made herein. The future performance of the security will not have a bearing on compensation payable for the purpose of the production of this report either.

ANALYST CERTIFICATION/REGULATION AC

As noted above, research analyst(s) of SAC Capital who produced this report hereby certify that

- (i) The views expressed in this report accurately reflect his/her personal views about the subject corporation(s);
- (ii) The report was produced independently by him/her;
- (iii) He/she does not on behalf of SAC Capital or any other person carry out Other Services involving any of the subject corporation(s) or securities referred to in this report; and
- (iv) He/she has not received and will not receive any compensation directly or indirectly related to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. He/she has not and will not receive any compensation directly or indirectly linked to the performance of the securities of the subject corporation(s) from the time of the publication of this report either.