

BUY

TARGET PRICE : UNDER REVIEW  NS

2018 RESULTS + COMPANY CONTACT

DIFFICULT WEATHER CONDITIONS IN 2018 BUT SOLID OUTLOOK

Poor weather conditions weighed on the 2018 results, which were below our estimates with EBITDA of €5.6m (-39%, €9.8m est.) and an EBIT loss of -€2.5m (vs. €0.8m in 2017 and €3.6m est.). Even if smaller, the net loss equaled -€8.2m (-€13.2m in 2017) on revenues of €60m (+11%). The outlook for FY 2019 is better given 1) the elimination of the structural debt (redemption of the OSRANE convertible bond and repayment of the ERDB loan), 2) the reinforcement of the balance sheet following the sale of rights to farmland (37k ha for €25m) and 3) a 2019 crop year that has begun under good conditions with favorable weather. BUY rating, target price under review.

Johann Carrier
+33 1 44 88 77 88
jcarrier@invest-securities.com

As expected, weather conditions weighed on the 2018 results

The 2018 growing season was affected by unfavorable weather conditions for the early crops (wheat, barley), with the good yields seen for the late harvests (sunflowers, corn) insufficient to offset these shortfalls. In this context, 2018 production of cereals and oilseed plants fell -9% to 328,100 tons.

2018 EBITDA (excluding IFRS 5 and 16) was lower than our estimate at €5.6m (vs. €9.1m in 2017 and €9.8m estimated) on revenues in line at €60m. Higher than expected depreciation led to a larger operating loss of -€2.5m (vs. €0.8m in 2017 and €3.6m est.). The net loss was lower compared to 2017 (-€13.2m) at -€8.2m (vs. -€2.0m est.).

AgroGeneration: reported 2018 results vs. estimates

| AgroGeneration | 2017 | 2018 | | | % chge |
|---|-----------|-----------|---------------------|---------|--------|
| | published | published | without IFRS 5 & 16 | att. IS | |
| Revenue | 54,2 | 41,0 | 60,0 | 60,1 | -0,2% |
| <i>chg.</i> | -10% | | 11% | | |
| EBITDA | 9,1 | 10,2 | 5,6 | 9,8 | -43,4% |
| <i>chg.</i> | -53% | | -39% | | |
| <i>EBITDA margin</i> | 17% | 25% | 9% | 16% | |
| EBIT | 0,8 | 1,5 | -2,5 | 3,6 | ns |
| <i>chg.</i> | -93% | | ns | | |
| Résultats activités en cours de cession | | -2,3 | | | |
| Net Profit | -13,2 | -8,5 | -8,2 | -2,0 | ns |
| <i>chg.</i> | ns | | ns | | |

Source : company, Invest Securities

Accounting changes with the application of IFRS 5 and 16

The company has provided a double presentation of its 2018 accounts based on its historical accounting practices and after application of the IFRS 5 and 16 standards.

• IFRS 16: lease contracts

The IFRS 16 standard relating to leases has been applied since January 1, 2019. In the case of AgroGeneration, this standard principally concerns long-term (five to ten-year)

| in € / share | 2018e | 2019e | 2020e |
|-----------------------|-------|-------|--------|
| Adjusted EPS | 0,00 | 0,06 | 0,10 |
| <i>chg.</i> | n.s. | n.s. | +71,5% |
| <i>estimates chg.</i> | +0,0% | +0,0% | +0,0% |
| au 31/12 | 2018e | 2019e | 2020e |
| PE | n.s. | 2,7x | 1,5x |
| EV/Sales | 1,35x | 1,00x | 0,65x |
| EV/EBITDA | 8,3x | 3,4x | 1,8x |
| EV/EBITA | 22,3x | 4,6x | 2,2x |
| FCF yield* | 9,6% | 25,1% | 49,9% |
| Div. yield (%) | n.s. | n.s. | n.s. |

* After tax op. FCF before WCR

| key points | 1m | 3m | Ytd |
|----------------------|--------|--------|--------------------|
| Share price (€) | | | 0,16 |
| Number of Shares (m) | | | 219,4 |
| Market cap. (€m) | | | 34 |
| Free float (€m) | | | 35 |
| ISIN | | | FR0010641449 |
| Ticker | | | ALAGR-FR |
| DJ Sector | | | Process Industries |
| Absolute perf. | +14,2% | +28,4% | +31,6% |
| Relative perf. | +7,8% | +14,0% | +12,7% |

Source : Factset, Invest Securities estimates

commercial farmland leases (the company does not own its farmland). In concrete terms, AgroGeneration lists these commercial leases on its balance sheet with 1) on the assets side, the rights of use amortized over the life of the leases and 2) on the liabilities side, the debts relating to these leases (i.e. future payments). Applied to FY 2018, the lease debt totaled €20.2m, lifting total gross debt to €64m (vs. €43.8m). On the level of the P&L statement, IFRS 16 changes the nature of the charges, as the lease operating charges are replaced by financial charges.

- **IFRS 5: non-current assets held for sale**

Following a strategic review, AgroGeneration sold in Q1 2019 (see below) lease rights (37,700 ha) that had been reclassified as assets held for sale under the IFRS 5 standard. In this case, the company deconsolidated €19m in revenues (€41m vs. €60m) at the same time the earnings for these assets were separated out as earnings from discontinued operations (-€2.2m).

- **Principal impacts of the IFRS 5 and 16 standards**

The application of the IFRS 5, and most importantly, IFRS 16 standards led to a mechanical improvement in EBITDA (€10.2m vs. €5.6m) and EBIT (€1.5m vs. -€2.5m) but higher financial charges (-€7.8m vs. -€5.8m). In the end, the impact on net earnings was very limited (-€8.5m vs. -€8,2m). The adoption of these standards had no impact on cash.

Elimination of structural debt and reduction in financial charges

Last April 1, AgroGeneration redeemed all the OSRANE convertible bonds issued in March 2015 and made the interest payments for the final quarter. On the completion of this operation, the number of outstanding shares totaled 221.6 million (+112 million). This operation along with the repayment of the loan from the EBRD have enabled a significantly reduction in the company's structural debt, which fell from €9.8m at the end of 2017 to €2.2m at the end of 2018 (virtually zero at present). The company should consequently save around €4.5m in financial charges on a full year basis.

Reinforcement of the balance sheet through the sale of farmland

In Q1 2019, the company announced the sale of its lease rights to farmland totaling 37,700 ha (35% of 2018 acreage), with $\frac{3}{4}$ located in western Ukraine (Zhytomyr and Ternopil regions) and the remaining $\frac{1}{4}$ in the east (Sumy region). The valuation of these assets (lease rights + biological assets) equals €25m, corresponding to €660 per ha. Additionally, the company indicated that the agricultural equipment and inventories will be sold separately. After the completion of these sales, AgroGeneration will farm a total of 70,000 ha located in eastern Ukraine.

These sales are designed to reinforce the company's cash position and reduce the financial costs relating to its operations. As such, the required financing for the 2019 crop year obtained from its bank partner Alfa-Bank Ukraine is limited to \$20m (vs. \$35m previously).

Solid outlook for 2019

The elimination of the structural debt and the reinforcement of the balance sheet are enabling the company to enter FY 2019 with greater serenity. Additionally, the 2019 crop year has begun under good conditions with 31,000 ha planted (wheat) out of a total of 70,000 ha.

What conclusions can be drawn from the asset sales in terms of the valuation?

While waiting for the publication of the 2018 annual report (April 30) and a complete updating of our model (IFRS 5 and 16 + reduction in farmed acreage), we are suspending our target price.

Nevertheless, based on the prices seen in the sales made in Q1 2019, the value of the land being farmed (70,000 ha x €660) equals €46.2m, corresponding to €0.21 per share. The value of the agricultural equipment and inventories (€58m on the balance sheet at the end of 2017) should be added to this amount. Assuming a proportional share of 65% (70,000 ha vs. 107,700 ha), agricultural equipment and inventories can be estimated at €37.1m, corresponding to €0.17 per share. In order to determine the equity valuation, we subtract from the enterprise value (€83.9m) the estimated current net debt of €19.7m (net debt as of end 2018 of €41.7m - €22m received from the sale of the farmland).

Based on this approach, we arrive at an approximate valuation for AgroGeneration of €0.29 per share.

Approximate valuation based on recent asset sales

| Valuation | in €m | €/share* |
|---|-------|----------|
| 70,000 hectares of farmland | 46,2 | 0,21 |
| Materials & stocks (balance sheet 2017) | 37,7 | 0,17 |
| Entreprise Value | 83,9 | 0,38 |
| Net debt Q1 2019 | 19,7 | 0,09 |
| Valuation | 64,2 | 0,29 |

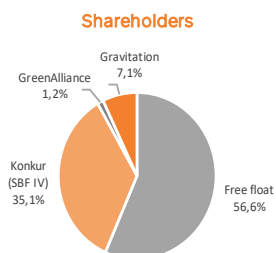
*221,5m shares

Source : AgroGeneration, Invest Securities

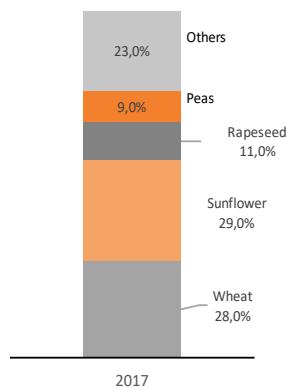
INVESTMENT CASE

The merger of AgroGeneration and Harmelia in 2013 led to the creation of a large entity (110,000 hectares of farmland in Ukraine and 70 000 hectares today). These are in fertile areas with favourable hydrometry. The financial restructuring completed in early 2015 made it possible to resolve the Group's debt problems linked to Ukraine's economic situation and the rapid fall in commodity prices since mid-2013. While all risks are not ruled out, we believe that today's wager on the creation of a leading agricultural enterprise in Ukraine with excellent operational performance is justified since the price of agricultural commodities has hit a low point.

FINANCIALS



Crops breakdown



| Share information | 2013 | 2014 | 2015 | 2016 | 2017 | 2018e | 2019e | 2020e |
|-------------------------|--------------|--------------|--------------|-------------|--------------|-------------|-------------|-------------|
| Published EPS (€) | -0,09 | -0,03 | -0,08 | -0,01 | -0,12 | -0,02 | 0,11 | 0,21 |
| Adjusted EPS (€) | -0,09 | -0,03 | -0,03 | 0,00 | -0,05 | 0,00 | 0,06 | 0,10 |
| Diff. I.S. vs Consensus | n.s | n.s | n.s | n.s | n.s | n.s | n.s | n.s |
| Dividend | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 |

| Valuation ratios | 2013 | 2014 | 2015 | 2016 | 2017 | 2018e | 2019e | 2020e |
|------------------------|-------|-------|-------|-------|--------|-------|-------|-------|
| P/E | n.s. | n.s. | n.s. | 69,3x | n.s. | n.s. | 2,7x | 1,5x |
| EV/Sales | 3,18x | 2,50x | 2,21x | 1,84x | 2,50x | 1,35x | 1,00x | 0,65x |
| VE/EBITDA | n.s. | 7,9x | 6,5x | 5,7x | 14,9x | 8,3x | 3,4x | 1,8x |
| VE/EBITA | n.s. | 12,3x | 11,4x | 9,4x | 165,3x | 22,3x | 4,6x | 2,2x |
| Op. FCF bef. WCR yield | n.s. | 11,2% | 14,1% | 15,6% | 1,5% | 9,6% | 25,1% | 49,9% |
| Op. FCF yield | n.s. | 11,7% | 10,9% | 9,4% | 0,2% | 8,9% | 14,6% | 40,7% |
| Div. yield (%) | n.s. | n.s. | n.s. | n.s. | n.s. | n.s. | n.s. | n.s. |

NB : valuation based on annual average price for past exercise

| Enterprise Value (€m) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018e | 2019e | 2020e |
|-----------------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|-------------|
| Share price in € | 1,52 | 0,92 | 0,44 | 0,33 | 0,41 | 0,16 | 0,16 | 0,16 |
| Market cap. | 98,3 | 84,2 | 94,3 | 70,6 | 90,0 | 34,2 | 34,2 | 34,2 |
| Net Debt | 71,6 | 77,2 | 35,5 | 39,8 | 45,4 | 46,7 | 41,5 | 21,8 |
| Minorities | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Provisions/ near-debt | 0,7 | 0,0 | 0,0 | 0,5 | 0,0 | 0,0 | 0,0 | 0,0 |
| +/- Adjustments | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Enterprise Value (EV) | 170,6 | 161,3 | 129,8 | 110,9 | 135,5 | 81,0 | 75,7 | 56,0 |

| Income statement (€m) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018e | 2019e | 2020e |
|--------------------------|--------------|--------------|-------------|-------------|--------------|-------------|-------------|-------------|
| Sales | 53,7 | 64,6 | 58,9 | 60,3 | 54,2 | 60,1 | 75,7 | 85,8 |
| chg. | +63,7% | +20,3% | -8,9% | +2,4% | -10,1% | +11,0% | +25,8% | +13,4% |
| EBITDA | -9,8 | 20,4 | 20,0 | 19,4 | 9,1 | 9,8 | 22,4 | 31,3 |
| EBITA | -16,8 | 13,1 | 11,4 | 11,8 | 0,8 | 3,6 | 16,3 | 25,2 |
| chg. | n.s. | n.s. | -13,1% | +3,3% | -93,0% | +343,6% | +348,5% | +54,7% |
| EBIT | -16,8 | 13,1 | 11,4 | 11,8 | 0,8 | 3,6 | 16,3 | 25,2 |
| Financial result | -3,5 | -36,2 | -19,6 | -12,5 | -14,1 | -5,6 | -4,4 | -3,1 |
| Corp. tax | -0,2 | 0,0 | 0,2 | -0,2 | 0,1 | 0,0 | 0,0 | 0,0 |
| Minorities+affiliates | -2,0 | 1,4 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Net attributable profit | -22,6 | -21,7 | -7,9 | -0,9 | -13,2 | -2,0 | 11,9 | 22,1 |
| Adjusted net att. profit | -22,6 | -21,7 | -7,9 | -0,9 | -11,8 | -2,0 | 11,9 | 22,1 |
| chg. | n.s. | n.s. | n.s. | n.s. | n.s. | n.s. | n.s. | +85,2% |

| Cash flow statement (€m) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018e | 2019e | 2020e |
|---------------------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| EBITDA | -9,8 | 20,4 | 20,0 | 19,4 | 9,1 | 9,8 | 22,4 | 31,3 |
| Theoretical Tax / EBITA | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Capex | -4,1 | -2,4 | -1,6 | -2,1 | -7,1 | -2,0 | -3,4 | -3,4 |
| Operating FCF bef. WCR | -13,9 | 18,0 | 18,4 | 17,3 | 2,0 | 7,8 | 19,0 | 27,9 |
| Change in WCR | 13,5 | 0,9 | -4,2 | -6,8 | -1,7 | -0,5 | -7,9 | -5,2 |
| Operating FCF | -0,4 | 18,9 | 14,2 | 10,4 | 0,3 | 7,2 | 11,1 | 22,8 |
| Acquisitions/disposals | -0,2 | -0,6 | -1,0 | -1,0 | 0,6 | 0,0 | 0,0 | 0,0 |
| Capital increase/decrease | 12,9 | 41,7 | 33,8 | 21,0 | 13,4 | 0,0 | 0,0 | 0,0 |
| Dividends paid | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Other adjustments | -13,8 | -65,7 | -20,5 | -21,6 | -17,9 | -8,5 | -5,8 | -3,1 |
| Published FreeCash Flow | -1,5 | -5,6 | 26,6 | 8,9 | -3,7 | -1,3 | 5,3 | 19,7 |

| Balance Sheet (€m) | 2 013,00 € | 2 014,00 € | 2 015,00 € | 2 016,00 € | 2 017,00 € | 2018e | 2019e | 2020e |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Assets | 94,3 | 63,6 | 81,4 | 77,0 | 71,5 | 67,3 | 64,6 | 61,9 |
| Intangible assets/GW | 48,6 | 40,9 | 37,9 | 39,9 | 37,8 | 37,8 | 37,8 | 37,8 |
| WCR | 28,4 | 20,2 | 38,8 | 30,9 | 30,2 | 30,8 | 38,7 | 43,9 |
| Group equity capital | 51,1 | 6,6 | 69,5 | 65,4 | 56,1 | 51,2 | 61,7 | 83,8 |
| Minority shareholders | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Provisions | 0,7 | 0,0 | 0,2 | 0,7 | 0,2 | 0,2 | 0,2 | 0,2 |
| Net financial debt | 71,6 | 77,2 | 50,6 | 41,8 | 45,4 | 46,7 | 41,5 | 21,8 |

hors dépôts de garantie

| Financial ratios | 2013 | 2014 | 2015 | 2016 | 2017 | 2018e | 2019e | 2020e |
|---------------------------|--------|---------|-------|-------|-------|-------|-------|-------|
| EBITDA margin | n.s. | 31,6% | 34,0% | 32,2% | 16,7% | 16,2% | 29,6% | 36,5% |
| EBITA margin | n.s. | 20,3% | 19,4% | 19,6% | 1,5% | 6,0% | 21,5% | 29,4% |
| Adjusted Net Profit/Sales | n.s. | n.s. | n.s. | n.s. | n.s. | n.s. | 15,8% | 25,8% |
| ROCE | n.s. | 15,7% | 9,5% | 10,9% | 0,8% | 3,7% | 15,8% | 23,8% |
| ROE adjusted | n.s. | n.s. | n.s. | n.s. | n.s. | n.s. | 19,4% | 26,4% |
| Gearing | 140,2% | 1175,0% | 72,9% | 63,8% | 81,0% | 91,3% | 67,2% | 26,0% |
| ND/EBITDA (in x) | n.s. | 3,8x | 2,5x | 2,2x | 5,0x | 4,8x | 1,8x | 0,7x |

Source : company, Invest Securities Estimates

Next events

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73, bd Haussmann - 75008 Paris

T : +33 (0)1 80 97 22 01

invest-securities.com

SWOT ANALYSIS

STRENGTHS

- ❑ Significant size with 70,000 hectares under control
- ❑ Sound financial situation thanks to the OSRANE
- ❑ Significant cost savings that create high operating leverage

WEAKNESSES

- ❑ High financial costs and high reliance on a single bank
- ❑ High WCR
- ❑ Impact of trends in the price of agricultural commodities

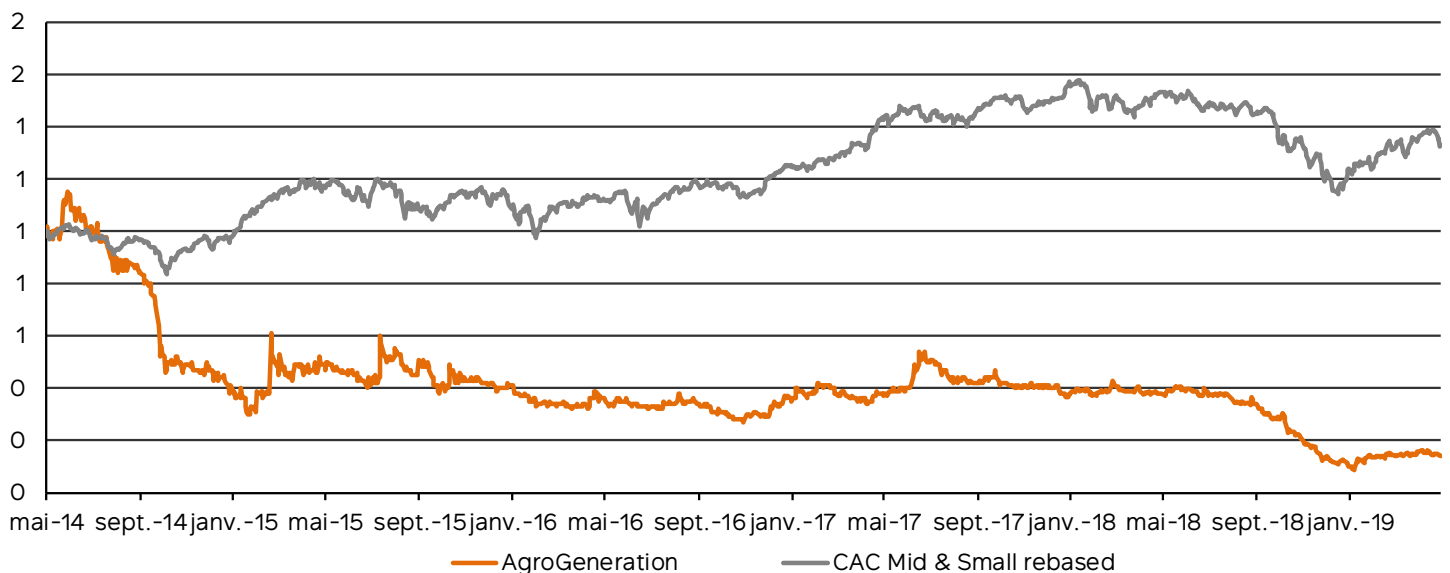
OPPORTUNITIES

- ❑ Significant operating leverage as soon as agricultural commodity prices recover
- ❑ Increase in world population and decrease in agricultural land area worldwide
- ❑ Consolidation of the sector

THREATS

- ❑ Spread of conflict in the Donbass
- ❑ Adverse weather conditions that would reduce the quantities harvested
- ❑ Continued good harvests in other regions of the world

SHARE PRICE CHANGE FOR 5 YEARS



DETECTION OF CONFLICTS OF INTEREST

| | Corporate Finance | Treasury stocks holding | Prior communication to company | Analyst's personal interest | Liquidity contract | Listing Sponsor | Research Contract |
|-----------------------|-------------------|-------------------------|--------------------------------|-----------------------------|--------------------|-----------------|-------------------|
| AgroGeneration | No | No | Yes | No | No | No | Yes |

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MANAGEMENT

Marc-Antoine Guillen
CEO

+33 1 44 88 77 80
maguillen@invest-securities.com

Jean-Emmanuel Vernay
Managing Director

+33 1 44 88 77 82
jevernay@invest-securities.com

Anne Bellavoine
Managing Director

+33 1 55 35 55 75
abellavoine@invest-securities.com

Pascal Hadjedj
Deputy Managing Director

+33 1 55 35 55 61
phadjedj@invest-securities.com

EQUITY RESEARCH

Maxime Dubreil
Head of Equity Research

+33 1 44 88 77 98
mdubreil@invest-securities.com

Johann Carrier
Stock-Picking

+33 1 44 88 77 88
jcarrier@invest-securities.com

Bruno Duclos
Real Estate

+33 1 73 73 90 25
bduclos@invest-securities.com

Benoit Faure-Jarrosson
Real Estate

+33 1 44 88 77 88
bfaure-jarrosson@invest-securities.com

Christian Guyot
Consumer Goods

+33 1 80 97 22 01
cguyot@invest-securities.com

Matthieu Lavillunière, CFA
Technology

+33 1 73 73 90 34
mlavilluniere@invest-securities.com

Vladimir Minot
Real Estate

+33 1 73 73 90 25
vminot@invest-securities.com

Jean-Louis Sempé
Automotive

+33 1 73 73 90 35
jlsampe@invest-securities.com

Olga Smolentseva
Biotechs

+33 1 44 88 88 09
osmolentseva@invest-securities.com

Thibaut Voglimacci
Medtechs / Biotechs

+33 1 44 88 77 95
tvoglimacci@invest-securities.com

TRADING FLOOR

François Habrias
Institutional Sales

+33 1 55 35 55 70
fhabrias@invest-securities.com

Dominique Humbert
Sales trading

+33 1 55 35 55 64
dhumbert@invest-securities.com

Bertrand Le Mollé-Montanguon
Institutional Sales

+33 1 55 35 55 74
blmm@invest-securities.com

Ralph Olmos
Institutional Sales

+33 1 55 35 55 72
rolmos@invest-securities.com

Kaspar Stuart
Institutional Sales

+33 1 55 35 55 65
kstuart@invest-securities.com

Renaud Vallette Viallard
Institutional Sales

+33 1 72 38 26 32
rvv@invest-securities.com

Frédéric Vals
Institutional Sales

+33 1 55 35 55 71
fvals@invest-securities.com

CORPORATE BROKING & ISSUER MARKETING

Thierry Roussilhe
Head

+33 1 55 35 55 66
troussilhe@invest-securities.com

Claude Bouyer
Senior Advisor

+33 1 44 88 88 02
cbouyer@invest-securities.com