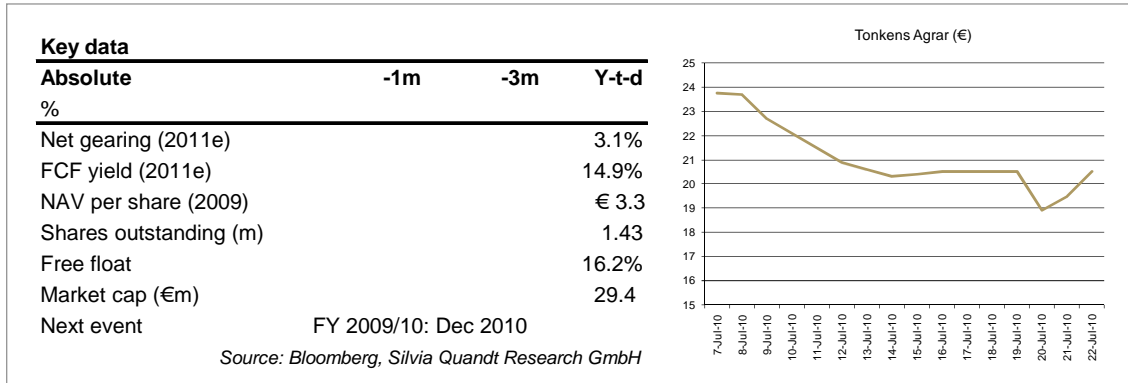




SILVIA QUANDT
RESEARCH GMBH

Tonkens Agrar AG

Post IPO, initiation of coverage – Buy rating, target price €24.5, prices soar for potatoes, onions



Rating: Buy	Target price: €24.5	Close 22/07/10: €205	RIC: GTKG.DE
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- We initiate coverage of Tonkens Agrar AG, rating the stock "Buy" and setting a target price of €24.5. This allows for post-IPO shares outstanding, i.e. 1.432m compared to 1.2m share pre IPO.
- Compared to numbers forecasted at the IPO we have upgraded our earnings model due to significant improvements in prices for Tonkens' core product, potatoes and onions. Potato prices in Germany have soared lately on the back of extended drought spreading across Europe. This has led to output cuts of up to 30% versus last year and subsequently pushed prices up. Tonkens Agrar currently sells 100 kilograms of potatoes for €18 against €11 last year. Management says that current conditions are exceptional and usually occur every ten years. Forward agreements for delivery of potatoes are done at even higher prices, at some €22.3 per 100 kg. As for onions, prices have also risen for the same reason, to €15 per 100kg relative to €13 last year.
- Fully diluted, ie based on post-IPO share capital, we previously forecasted €1.68 for EPS FY 2010/11. We now assume €2.53. Relative to the peer group, ie K+S, KWS, KTG Agrar, the stock currently trades at some 38% discount in terms of EV/EBITDA 2011e (average 7.9x for peer group). We argue that a 25% discount would be justified (although Tonkens boasts vastly superior EBIT ROS versus peers (we forecast 27-30% in 2011-2013). At a target price of €24.5 implied EV/EBITDA 2011e is 6.0x.

Year end	Sales	EBIT	EPS	P/E	EV/ EBITDA	Yield
June	(€m)	(€m)	(€)	(x)	(x)	(%)
2009	17.7	1.3	0.19	n/a	n/a	n/a
2010e	17.0	2.8	1.04	19.7	10.5	0.0%
2011e	20.8	5.5	2.53	8.1	5.1	0.0%
2012e	23.8	6.9	3.29	6.2	3.6	0.0%

Source: Company data, Silvia Quandt Research GmbH

Tonkens Agrar AG

	Year end 30 June, in €m			
	2009	2010e	2011e	2012e
Price target				
€ 24.50				
Up/downside				
19.5%				
Rating				
Buy				
Current price				
€ 20.50				
Headquarter				
Tonkens Agrar AG				
Sülzetal				
Germany				
IR				
Gerrit Tonkens				
mail@tonkens-agrar.de				
+ 49 392 0541 74 10				
Stock data				
Main market				
Entry Standard				
Market cap (m):				
€ 29.4				
No. of shares (m)				
1.432				
Daily volume (shares m)				
0.0015				
Indices				
DAX All Food & Beverages				
Next event				
FY 2009/10: Dec 2010				
Profit loss				
Sales	17.7	17.0	20.8	23.8
y-o-y in %		-3.7%	22.2%	14.6%
EBITDA	2.1	3.7	6.6	8.3
EBIT	1.3	2.8	5.5	6.9
EBIT margin in %	7.5%	16.5%	26.5%	29.0%
Net income	0.2	1.5	3.6	4.7
EPS SQR (€)	0.19	1.04	2.53	3.29
y-o-y in %		438.8%	143.0%	30.0%
EPS consensus (€)				
DPS (€)		0.00	0.00	0.00
Payout ratio %		0.0%	0.0%	0.0%
Dividend yield %		n/a	n/a	n/a
Cash flow				
Net income	0.2	1.5	3.6	4.7
Depreciation/Amortisation	0.8	0.9	1.1	1.4
Working capital movements	-10.8	-1.7	-1.0	-1.0
Operating cash flow	-3.4	0.8	4.2	5.5
Net capex	-0.2	-0.2	-1.7	-5.2
Free cash flow	-3.7	0.6	2.5	0.3
Free cash flow yield	-71.3%	7.1%	14.9%	1.4%
Balance sheet/Key ratios				
Total Assets	28.3	29.7	39.2	44.3
Closing net debt (cash)	-10.5	-8.5	-0.7	-0.5
Gearing	247.8%	137.1%	36.0%	3.1%
Capex ratio (tangible)	1.9%	2.0%	14.1%	32.8%
ROE	6.1%	22.8%	29.1%	24.4%
ROCE	15.0%	15.3%	28.0%	30.4%
ROA	17.5%	18.9%	37.2%	40.5%
Valuation				
Enterprise value		38.9	34.0	30.0
Book value		8.4	17.4	22.1
Market cap		29.4	29.4	29.4
EV/Sales		229%	163.6%	125.9%
EV/EBITDA		10.5	5.1	3.6
PER		19.7	8.1	6.2
PBV		4.2	2.3	1.5

- While most of the farmers suffer from severe shortfall in potato harvest, Tonkens boast superior land which is rich in nutrition and keep water in the ground for longer time than others. Management stresses that at IPO the planning for potato output (and onions) was very conservative, hence they don't have to cut back projections for 2010/11 due to the current drought. Hence, the company can cash in the full benefits of surging product prices.



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Disclaimer

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Number of recommendations from Silvia Quandt Research GmbH in 2010	Thereof recommendations for issuers to which investment banking services were provided during the preceding twelve months
Buys: 52	29
Neutral: 20	3
Avoid: 6	1

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- (b) has **lead managed or co-lead managed** a public offering of the securities of the company or companies in the previous 12 months;
- (c) has provided **investment banking services** for the company or companies analysed during the last 12 months for which a compensation has been or will be paid;
- (d) is serving as a liquidity provider for the company's securities by issuing buy and sell orders;
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