

Something BIG in the making

The acquisition of Kauno Grudai (KG) creates Nasdaq Baltic's biggest company in terms of sales, and builds the critical mass needed to boost margins. We believe the market has yet to re-price the "new" Linus Agro Group (LNA)

Acquisition approved

On 5 July 2021, the Lithuanian competition authority (CA) approved the KGA acquisition. All relevant CAs have now given their approval (Polish, Russian, Estonian, Latvian). We include KG's figures from mid-Aug, which is in the middle of LNA's FY Q1-21/22E. This means KG figures are consolidated for 10.5 months in FY 21/22E and for 12 months in FY 22/23E when we forecast sales above EUR 1.6bn.

Critical mass to boost margins

We believe the significantly larger post-acquisition size could boost margins through (a) vertical integration to consumer products, and (b) synergies in production, purchasing, and staffing. We forecast the EBITDA margin to increase from 3.7% in 2020/21E to 4.7% in 2022/23E which has a big profit impact given the substantial sales.

Valuation

Our estimated KG EV/EBITDA acquisition multiple is 4.7x, which is lower than LNA's current multiple of 9.8x. Our estimated LNA+KG EV/EBITDA multiple is 7.3x i.e., the acquisition is beneficial for LNA's shareholders. The new LNA is trading at a 20% discount to peers. Our Base case DCF Fair value is EUR 1.00, indicating a 14% upside.

Key figures (MEUR)

	18/19	19/20	20/21E	21/22E	22/23E
Net sales	742.5	657.7	920.4	1,495.3	1,604.6
Net sales growth	17.0%	-11.4%	39.9%	62.5%	7.3%
EBITDA	8.0	25.9	33.7	65.5	75.7
EBITDA margin	1.1%	3.9%	3.7%	4.4%	4.7%
EBIT	-3.3	13.9	17.2	33.2	40.4
EBIT margin	-0.5%	2.1%	1.9%	2.2%	2.5%
EV/Sales	0.3	0.3	0.5	0.3	0.2
EV/EBITDA	28.9	8.6	13.1	6.3	5.1
EV/EBIT	n.a.	16.1	25.7	12.4	9.6
P/E adj.	n.a.	10.2	11.8	5.5	4.6
P/BV	0.5	0.5	0.6	0.5	0.5
EPS adj.	-0.03	0.06	0.07	0.16	0.19
EPS growth adj.	n.a.	n.a.	35.67%	113.36%	20.97%
Div. per share	0.00	0.00	0.01	0.02	0.02
Dividend yield	0.00%	0.00%	1.14%	2.27%	2.27%

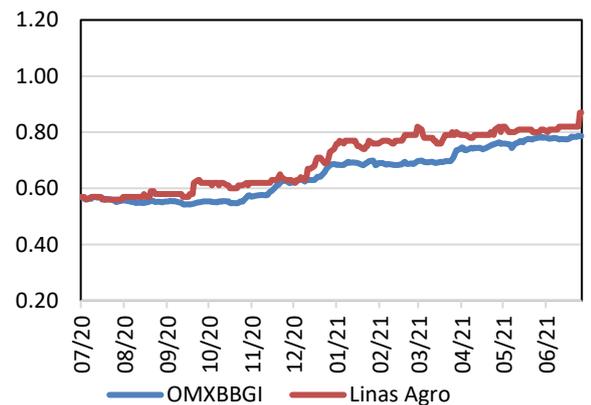
Source: Company data, Enlight Research estimates

Fair value range (EUR)

Bull (term. EBIT marg. 3.0%)	1.20
Base (term. EBIT marg. 2.5%)	1.00
Bear (term. EBIT marg. 2.0%)	0.80

Key Data

Price (EUR)	0.88
Ticker	LNA1L
Country	Lithuania
Listed	Vilnius (Lithuania)
Market Cap (EURm)	139
Net debt (EURm)*	159
Shares (m)	158
Free float	20%



Price range

52-week high	0.88
52-week low	0.56

Analyst

ResearchTeam@enlightresearch.net

Key Investment Factors

Acquisition builds critical mass

Combining Linas Agro (LNA) and Kauno Grudai (KG) creates a Company with EUR 1.4bn in pro-forma 2020 calendar year sales, which makes it the biggest company on the Nasdaq Baltic Stock Exchange in terms of sales. Perhaps more important, we expect the larger size to enable the Company to compete on a European scale as well as boost the margins through vertical integration and synergies. The poultry segment is a good example of how the KG acquisition builds critical mass and enables synergies. We expect the poultry production to increase 3.8x from 31K to 151K tons with EUR 2m in production and cost synergies (the acquisition makes LNA the leading poultry producer in Lithuania and Latvia).

Linus Agro + Kauno Grudai

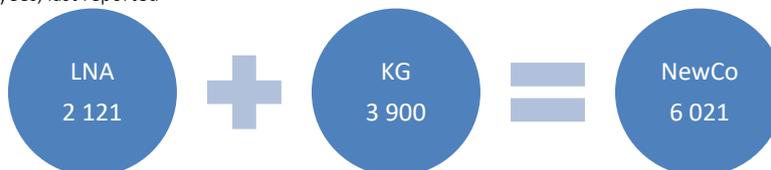
Revenues Calendar year 2020 (EURm)



EBITDA Calendar year 2020 (EURm)



Employees, last reported



Poultry sales per year, LNA (FY 2019/20), KG (Calendar year 2019)



Traded commodities per year, LNA (FY 2019/20), KG*



Source: Linas Agro (LNA) 2019/20 Annual report, Kauno Grudai (KG) 2020 Annual report

*KG figure Enlight Research estimate based on reported grain storage capacity

Vertical integration boost margins

We believe the KG acquisition will enhance vertical integration from the commodities segment into the higher margin consumer products segment i.e., a positive sales mix shift. For example, by adding KG's poultry operations, we estimate consumer products to increase from ~11% (LNA today) of Group sales to at least ~28% (LNA + KG) as we forecast the Poultry segment to increase sales by 3.8x (in line with expected tonnes increase) from EUR 74m to EUR 282m. In addition to poultry, KG adds consumer products sales from its instant food (noodles, porridges) and its pet food operations (own one of the leading Baltic pet food brands, QUATTRO) i.e., the likely post-merger consumer products sales are above one third. According to a KPMG study, the EBIT margin for consumer food companies is 10-20% compared to 2-5% for agri traders (see table below).

Another advantage of the vertical integration is traceability (from farm to fork) which is becoming more important in a market with increasingly informed consumers. Both Linas Agro and Kauno Grudai have a full-cycle poultry operation starting from egg incubation → hatching of chickens → broiler breeding → production of fresh poultry (ready-to-cook) → processing of poultry (ready-to-eat) → logistics.

We forecast a positive post-merger Group EBITDA impact of EUR 31m by 2022/23 from KG's sales and KG's higher-margin consumer products (vertical integration). This corresponds to an EBITDA margin improvement of 78 basis points from 3.7% to 4.5%. We expect an additional 28 basis point margin improvement from synergies (see next section).

Food products share of Group sales

(EURm)	2019/20 LNA	KG 2020	NewCo est.
Food products sales	74	282*	356
Group sales	658	605**	1,263
Pct of Food products sales	11%	47%	28%

Source: Company reports (LNA 2019/20, KG 2020), Enlight Research (*estimate based on last reported sales in tons)

KPMG study: Key profitability metrics for the agribusiness value chain

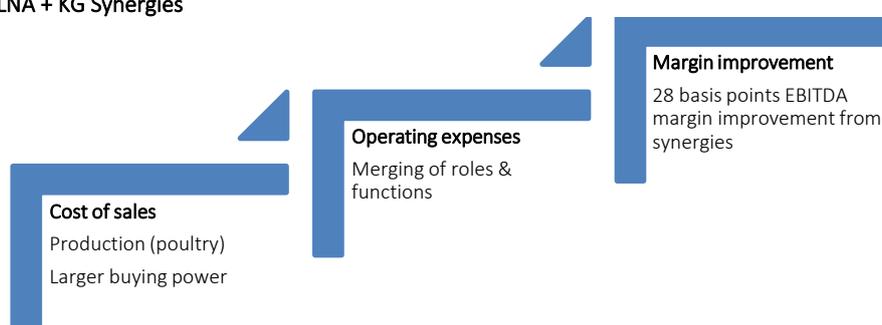
Sector	Input	Farmers	Traders	Food companies	Retailers
Sales: US\$bn (approx.)	400	3,000	1,000	3,500	5,400
Number of players	100s	450 million	Tens	Thousands	Millions
EBIT %	15%	Variable	2–5%	10–20%	5%
R&D % sales	<1% (fertilizers) – 10% (seeds)	0%	<1%	1–2%	<1%
R&D spend: US\$bn	10	–	Low	8	Low
Composition/ Sub-sectors	<ul style="list-style-type: none"> Seed Fertilizer Crop protection Machinery Animal health and nutrition Crop insurance Food ingredients 	<ul style="list-style-type: none"> Grains Fruit and vegetables Meat Dairy 	<ul style="list-style-type: none"> Handling Primary processing Secondary processing 	<ul style="list-style-type: none"> Bakery Meat Dairy Snacks Ready meals Beverages 	<ul style="list-style-type: none"> Multiples Discounters Wholesalers Independents
Range	R&D-based majors to generic manufacturers	Smallholders to agrohholdings	Global agribusinesses to local middlemen	SMEs to multinationals	Corner shops to hypermarkets

Source: KPMG International

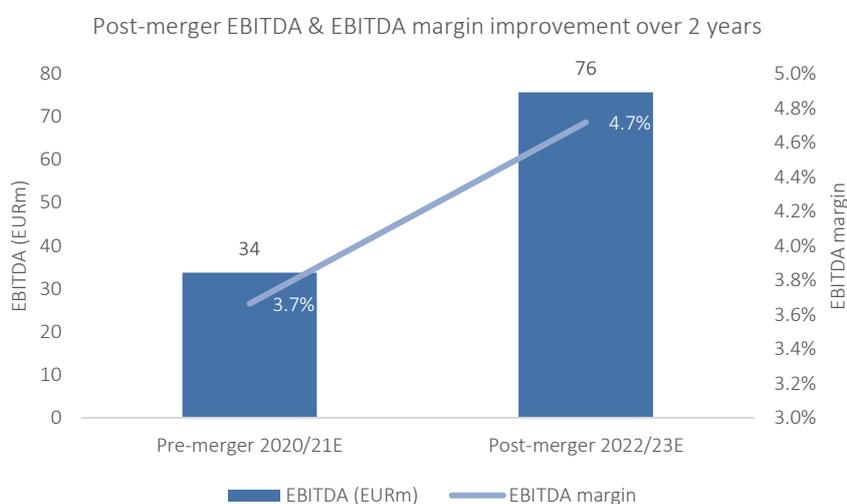
Synergies increase margins

In addition to the margin improvement from the vertical integration (positive sales mix shift), we foresee synergies to boost margins further. We estimate EUR 11m in synergies within two years (by 2022/23) to be realized from the KG acquisition. Our estimated synergies are roughly split equally between Cost of Sales (purchasing, production) and Operating expenses (merging of roles). The EUR 11m EBITDA improvement from expected synergies corresponds to a margin improvement of 28 basis points on top of the 78 basis points improvement from the vertical integration. To Summarize, our total forecast post-merger EBITDA improvement is EUR 42m by 2022/23 whereof EUR 31m comes from vertical integration, and EUR 11m comes from synergies. This means our forecast EBITDA improves from EUR 34m in 2020/21 to EUR 76m in 2022/23 (within 2 years) while the EBITDA margin improve from 3.7% to 4.7% over the same time.

LNA + KG Synergies



Source: Enlight Research



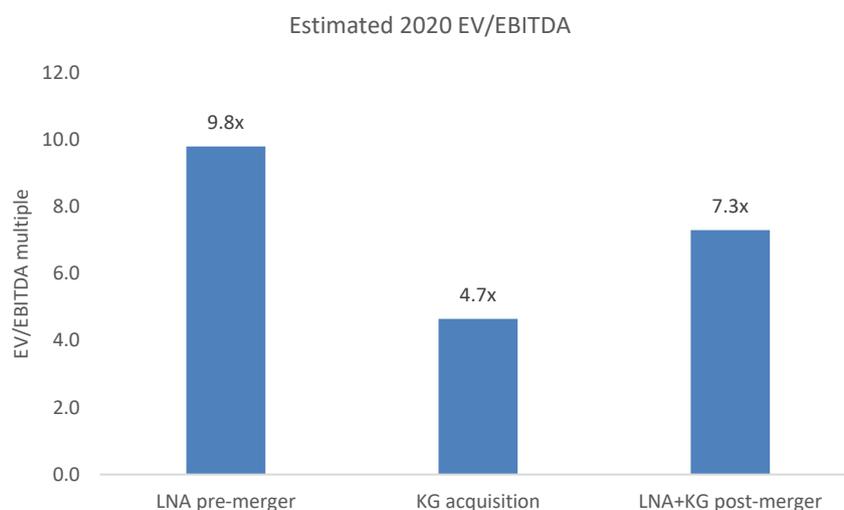
Source: Enlight Research

Forecast Post-merger EBITDA improvement by 2022/23	EBITDA (EURm)	EBITDA margin (bps)
Post-merger EBITDA improvement	42	105
whereof		
Vertical integration (Sales increase & Sales mix)	31	78
Synergies	11	28

Source: Enlight Research

Transaction price good for all shareholders

The KG purchase price has not been announced, but Enlight Research estimate it to be EUR 70m on a debt free basis (equity value) calculated as the KG 2020 reported Net profit of EUR 6.7m times our assumed PE multiple of 10.5x. Assuming a Net debt level of EUR 69m which is in line with KG's 5-year 2016-20 reported average, the transaction Enterprise Value (EV) would be EUR 139m, which implies an EV/EBITDA transaction multiple of 4.7x on reported 2020 KG EBITDA, and 5.2x on the 5-year average (2016-20) KG reported EBITDA. Given that Linas Agro is currently trading at an EV/EBITDA multiple of 9.8x on reported calendar year 2020 EBITDA, we believe the merger is beneficial for both majority and minority Linas Agro shareholders. Our estimated post-merger EV/EBITDA pro-forma 2020 multiple is 7.3x.



Source: Enlight Research (KG estimated acquisition EV of EUR 139m), LNA 2020 calendar year reported EBITDA of EUR 30m, KG 2020 calendar year reported EBITDA of EUR 30m, LNA+KG 2020 combined calendar year reported EBITDA of EUR 71m including EUR 11m in synergies

Forecast

Kauno Grudai (KG) forecast

KG's 2020 report was recently published. Sales increased by 7.5% in 2020 to EUR 605m, which is the second year in a row with a 7.5% sales increase. The 2020 EBITDA improved to EUR 29.9m from EUR 21.3m in 2019, corresponding to an EBITDA margin improvement to 4.9% from 3.8% during the same time. We believe profits are back to long-term historical levels after a slightly weak 2019. In the forecast period 2021-23E, we assume a KG sales growth of 3% per annum, which could be considered conservative given last years' (2016-20) annual growth rate of 8-12%. In-line with being conservative, we forecast profits to stay at around the 2020 level in the forecast period.

Income statement	2016	2017	2018	2019	2020	2021E	2022E	2023E
Sales	454.0	467.0	523.7	562.7	604.8	622.9	641.6	660.9
Cost of sales	-400.5	-412.7	-460.0	-508.0	-546.1	-562.5	-579.4	-596.7
Gross profit	53.5	54.2	63.7	54.7	58.7	60.4	62.2	64.1
Selling expenses	-25.9	-27.9	-32.2	-29.5	-27.2	-28.0	-28.9	-29.7
General & Admin. Expenses	-13.2	-14.9	-18.9	-22.7	-22.6	-24.0	-24.8	-25.6
Other income/expenses	-2.0	0.4	-1.0	0.6	1.4	0.0	0.0	0.0
EBIT	12.4	11.8	11.6	3.1	10.3	8.4	8.5	8.7
Income from associates	0.3	0.2	0.8	0.7	0.4	0.7	0.7	0.7
Income from other LT inv. & loans		0.1		0.1	-0.2	0.1	0.1	0.1
Other interest & similar income	4.4	2.7	5.0	4.1	3.7	4.1	4.1	4.1
Change in value of financial assets			0.0	0.0	0.0	0.0	0.0	0.0
Interest expenses	-2.3	-4.9	-8.0	-5.8	-7.7	-5.8	-5.8	-5.8
<i>Financial net</i>	<i>2.4</i>	<i>-2.0</i>	<i>-2.2</i>	<i>-0.9</i>	<i>-3.9</i>	<i>-0.9</i>	<i>-0.9</i>	<i>-0.9</i>
Pre-tax profit	14.9	9.8	9.4	2.2	6.4	7.5	7.6	7.8
Tax	-1.9	-1.3	-1.5	-0.6	-1.6	-1.8	-1.9	-1.9
Net profit before minorities	13.0	8.5	7.9	1.6	4.9	5.7	5.8	5.9
Minority	-1.4	-1.7	-0.2	3.7	1.8	1.0	1.0	1.0
Net profit to shr holders	11.6	6.8	7.6	5.4	6.7	6.7	6.8	6.9
Depreciation & Amortization	14.1	16.6	17.1	18.2	19.6	20.0	20.5	21.0
EBITDA	26.6	28.4	28.7	21.3	29.9	28.4	29.0	29.7
Sales growth	2016	2017	2018	2019	2020	2021E	2022E	2023E
Sales growth Y-on-Y	n.a.	2.8%	12.1%	7.5%	7.5%	3.0%	3.0%	3.0%
Margins	2016	2017	2018	2019	2020	2021E	2022E	2023E
Gross margin	11.8%	11.6%	12.2%	9.7%	9.7%	9.7%	9.7%	9.7%
EBITDA margin	5.9%	6.1%	5.5%	3.8%	4.9%	4.6%	4.5%	4.5%
Operating margin	2.7%	2.5%	2.2%	0.6%	1.7%	1.4%	1.3%	1.3%
PTP margin	3.3%	2.1%	1.8%	0.4%	1.1%	1.2%	1.2%	1.2%
Net profit margin	2.6%	1.5%	1.5%	1.0%	1.1%	1.1%	1.1%	1.0%

Source: Company reports, Enlight Research (estimates)

LNA+KG Income statement

Linus Agro (LNA) fiscal year starts on 1 Jul and ends on 30 Jun, while Kauno Grudai (KG) reports according to calendar year (1 Jan – 31 Dec). Therefore, the reporting periods must be harmonized to get accurate combined figures. As we do not have quarterly reports for KG, we have adjusted LNA's figures to a calendar year i.e., taken LNA's Q3-19/20 (starts 1 Jan 2020) to Q2-20/21 (ends 31 Dec 2020), to get the reported full-year 2020 figures. Worth noting is that KG recently reported 2020 figures, so the combined numbers are actual reported numbers.

By simply adding LNA's and KG's actual reported 2020 Sales, we get a total Sales of EUR 1.4bn, which means LNA's post-merger sales is set to increase by 74% from EUR 816m to EUR 1.4bn on a calendar year basis. Assuming our estimated synergies of EUR 11m, the EBITDA will increase by 134% to EUR 71m (98% to EUR 60m excluding synergies).

LNA+KG Income statement		LNA	KG	LNA+KG	Estimated synergies (percent)	Estimated synergies (EURm)	LNA+KG NewCo
P&L (EURm)	2020	2020	2020E				
Sales	815.5	604.8	1,420.3				1,420.3
Cost of sales	-770.3	-546.1	-1,316.4	0.5%	6.7		-1,309.7
Gross profit	45.2	58.7	103.9				110.6
Operating expenses	-34.9	-49.8	-84.7	5.0%	4.2		-80.5
Other income	7.9	1.4	9.4				9.4
Other expenses	-2.2	0.0	-2.2				-2.2
Operating profit	16.0	10.3	26.3				37.3
Income from fin activities	0.8	3.5	4.3				4.3
Expenses from financing activities	-3.6	-7.7	-11.3				-11.3
Share of profit associates	0.0	0.4	0.4				0.4
Share of JV	0.0	0.0	0.0				0.0
<i>Financial net</i>	<i>-2.8</i>	<i>-3.9</i>	<i>-6.7</i>				<i>-6.7</i>
Pre-tax profit	13.2	6.4	19.6				30.6
Tax	-2.1	-1.6	-3.7				-3.7
Net profit	11.1	4.9	16.0				26.9
Other adjustments	0.0	0.0	0.0				0.0
Net profit after adj.	11.1	4.9	16.0				26.9
Minority	-0.2	1.8	1.7				1.7
Net profit to share holders	11.0	6.7	17.6				28.6
Deprecation	14.3	19.6	33.9				33.9
EBITDA	30.4	29.9	60.3				71.2
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Sales growth		LNA	KG	LNA+KG			LNA+KG NewCo
		2020	2020				
Sales growth Y-on-Y		11.1%	7.5%	8.8%			8.8%
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Margins		LNA	KG	LNA+KG			LNA+KG NewCo
		2020	2020				
Gross margin		5.5%	9.7%	7.3%			7.8%
EBITDA margin		3.7%	4.9%	4.2%			5.0%
Operating margin		2.0%	1.7%	1.9%			2.6%
PTP margin		1.6%	1.1%	1.4%			2.2%
Net profit margin		1.3%	1.1%	1.2%			2.0%

Source: Enlight Research (synergies), LNA (Company reports)

Linas Agro Forecast including Kauno Grudai

To make a Linas Agro forecast including Kauno Grudai (KG), we must distribute KG's full-year figures into quarterly figures. As we do not have KG's quarterly figures, we have made a simple assumption that each quarter has the same share of full-year revenues, costs, and profits i.e., 25% of the full-year figure. Then, we allocate KG's quarterly figures into LNA's fiscal year (1 Jul to 30 Jun). We also make an assumption of when the KG figures will be incorporated into LNA's figures which we believe will happen in sometime in August i.e., sometime in the middle of LNA's Q1-21/22. This means that KG figures will be included for 10.5 months in the upcoming LNA fiscal-year 2021/22E, and for 12 months for the LNA fiscal-year 2022/23.

LNA and KG reporting periods

LNA reporting periods	2019/20	Q3-20/21	Q4-20/21E	2020/21E	Q1-21/22E	Q2-21/22E	Q3-21/22E	Q4-21/22E	2021/22E	2022/23E
KG reporting periods	Q3/19-Q2/20	Q1/21	Q2/21E	Q3/20-Q2/21	Q3/21E	Q4/21E	Q1/22E	Q2/22E	Q3/21-Q2/22	Q3/22-Q2/23
LNA last reported fiscal-year		LNA last reported quarter	LNA upcoming quarter is last quarter of their fiscal-year		Projected KG consolidation				KG included for 10.5 months	KG included for full fiscal-year

Source: Enlight Research

We forecast LNA's 2020/21 Sales to increase by 40% y-on-y to EUR 920m driven by a 60% y-on-y increase for the largest segment, Grains & Feedstuffs (72% of group sales). This growth estimate appears less aggressive given the reported 9M-20/21 Sales growth of 50% y-on-y. Worth noting is that this does not include any KG Sales i.e., LNA is expected to post a solid year on a stand-alone basis. For the year 2021/22, we forecast Sales to increase by 62.5% y-on-y driven by the additional 10.5 months sales from KG (assumes consolidation in Aug). Our estimated 2021/22 pre-merger LNA Sales growth is 2.0%. For 2022/23, we forecast group sales to increase 7.3%, mainly driven by a 16% sales increase for KG, which in turn is driven by the fact that it is included for 12 months compared to 10.5 months in the previous year (the like-for-like estimated growth for KG is 3.0%).

We forecast LNA's 2020/21 EBITDA to increase by 29% y-on-y to EUR 33.7m equal to a margin of 3.7% (this is before consolidation of KG which we expect to happen after 2020/21). For the year 2021/22, we forecast the EBITDA to increase by 94% y-on-y to EUR 65.5m equal to a margin of 4.4%. This includes 10.5 months of EBITDA from KG (assumes consolidation in Aug). For 2022/23, we forecast the EBITDA to increase by 16% y-on-y to EUR 75.7m, equal to a margin of 4.7%. The EBITDA growth in the coming years is driven by the KG acquisition (including EUR 11m in synergies in the coming 2 years).

See next page for detailed Income statement forecast.

LNA Forecast including KG

(EURm)	jul-sep Q1-21/22E	oct-dec Q2-21/22E	jan-mar Q3-21/22E	apr-jun Q4-21/22E	1 jul-30 jun 2019/20	1 jul-30 jun 2020/21E	1 jul-30 jun 2021/22E	1 jul-30 jun 2022/23E
LNA pre-merger Sales	243.015	239.137	240.167	216.739	657.744	920.363	939.058	958.146
KG Sales	103.819	155.729	160.401	136.262			556.211	646.416
Total Sales	346.835	394.866	400.568	353.001	657.744	920.363	1,495.269	1,604.562
Cost of sales	-322.556	-367.226	-372.528	-335.767	-612.726	-864.221	-1,398.077	-1,495.452
Gross profit	24.278	27.641	28.040	17.234	45.018	56.142	97.193	109.110
Operating expense	-19.076	-21.718	-22.031	-7.453	-35.098	-42.842	-70.278	-75.414
Other income	1.734	1.974	2.003	5.503	5.662	6.903	11.215	12.034
Other expenses	-1.387	-1.579	-1.602	-0.365	-1.720	-3.037	-4.934	-5.295
Operating profit	5.549	6.318	6.409	14.919	13.862	17.165	33.195	40.435
Financial net	-0.800	-0.800	-0.800	-0.800	-2.897	-2.911	-3.200	-3.469
Pre-tax profit	4.749	5.518	5.609	14.119	10.965	14.254	29.995	36.966
Tax	-0.601	0.400	-0.828	-4.437	-1.998	-2.485	-5.466	-6.736
Net profit	4.148	5.918	4.781	9.682	8.967	11.769	24.529	30.230
Minority	0.043	0.023	0.000	-0.366	-0.263	0.040	-0.300	-0.300
Net profit to shr holders	4.191	5.941	4.781	9.316	8.704	11.809	24.229	29.930
Deprecation	7.433	8.100	8.225	8.539	12.280	16.547	32.297	35.260
EBITDA	12.983	14.418	14.634	23.457	26.142	33.712	65.492	75.695
Sales growth	Q1-21/22E	Q2-21/22E	Q3-21/22E	Q4-21/22E	2019/20	2020/21E	2021/22E	2022/23E
LNA pre-merger	16.4%	-1.6%	0.4%	-9.8%	-11.4%	39.9%	2.0%	2.0%
KG Sales	na	na	na	na	na	na	na	16.2%
Total Sales	44.9%	67.6%	69.2%	69.1%	-11.4%	39.9%	62.5%	7.3%
Margins	Q1-21/22E	Q2-21/22E	Q3-21/22E	Q4-21/22E	2019/20	2020/21E	2021/22E	2022/23E
EBITDA margin	3.7%	3.7%	3.7%	6.6%	4.0%	3.7%	4.4%	4.7%
Gross margin	7.0%	7.0%	7.0%	4.9%	6.8%	6.1%	6.5%	6.8%
Operating margin	1.6%	1.6%	1.6%	4.2%	2.1%	1.9%	2.2%	2.5%
PTP margin	1.4%	1.4%	1.4%	4.0%	1.7%	1.5%	2.0%	2.3%
Net profit margin	1.2%	1.5%	1.2%	2.6%	1.3%	1.3%	1.6%	1.9%
Tax rate	12.7%	-7.2%	14.8%	31.4%	18.2%	17.4%	18.2%	18.2%

Source: Company reports, Enlight Research (estimates)

Valuation

Pre- and post- merger valuation

Given the current (pre-merger) Market cap and Enterprise Value (EV) of Linas Agro (LNA) of EUR 139m, and 298m, respectively, the calendar year* 2020 EV/EBITDA multiple is 9.8x. We estimate the KG acquisition to be done at an EV/EBITDA 2020 multiple of 4.7x, which is based on a KG market cap (equity value) of EUR 70m plus Net debt of EUR 69m i.e., an EV of EUR 139m. The KG market cap of EUR 70m is calculated as the reported KG 2020 Net profit of EUR 6.7m times our assumed PE multiple of 10.5x. The Net debt of EUR 69m is the reported 5-year average 2016-20 Net debt. Including our estimated synergies of EUR 11m and additional acquisition debt of 49m, our forecast post-merger 2020 EV/EBITDA multiple is 7.3x (8.5x excluding synergies). Worth noting is that both the KG acquisition multiple and the post-merger NewCo (LNA+KG) multiple is lower than the current pre-merger LNA multiple, which indicates that the merger is beneficial for LNA shareholders.

Motivated multiple	LNA 2020*	KG 2020E	Acquisition debt (EURm)	LNA+KG	Synergies	LNA+KG NewCo
Market value	139	70		264		272
Net debt	159	69	49	248		248
EV	298	139		512		520
EBITDA	30	30		60	11	71
Implied EV/EBITDA	9.8	4.7		8.5		7.3

Source: Company reports (LNA 2020, KG 2020), Enlight Research (Acquisition debt, LNA + KG NewCo).

*LNA's 2019/20-2020/21 quarters adjusted into Calendar year

Peer valuation

Our Linas Agro peer group is trading at a 2020 EV/EBITDA of 10.6x, implying that Linas Agro is trading at an 8% discount (9.8x vs. 10.6x) on a pre-merger basis and a 20% discount (8.5x vs. 10.6x) on a post-merger basis. Applying the peer 2023 EV/EBITDA average of 7.0x to our estimated fully consolidated (12 months) combined (LNA+KG) calendar year 2023 EBITDA of EUR 72m indicates a share price of EUR 1.62. We recognise the significant upside implicated by the peer valuation but our Base case Fair value per share is EUR 1.00, according to our DCF valuation. (see below DCF Valuation section)

Linus Agro peer valuation

Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (last)	EV/EBITDA 2020	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBITDA 2023E
FirstFarms A/S	FFARMS	DKK	70.40	532	1,001	16.2	13.4	12.5	12.2
Auga	AUG1L	EUR	0.57	90	214	10.3	9.2	7.8	7.1
Kernel	KER	USD	14.72	1,237	2,217	5.0	3.3	3.7	4.4
Orior AG	ORON	CHF	83.50	544	709	13.4	11.7	11.0	10.5
Fodelia	FODA OYJ	EUR	8.00	56	63	36.9	16.9	12.3	10.4
Podravka D.D.	PODR	HRK	580	4055	4622	8.5	8.5	8.4	8.4
Agroton Public	AGT	USD	2.13	46	36	1.1	4.0	4.0	3.6
ASTARTA Holding NV	AST	EUR	10.48	255	395	3.5	2.8	3.1	3.8
Adecoagro	AGRO	USD	9.34	1,084	1,719	5.0	4.3	4.4	4.3
Bonduelle	BON	EUR	21.05	673	715	6.2	6.6	6.1	5.8
Average						10.6	8.1	7.3	7.0

Source: MarketScreener, Enlight Research (Auga)

DCF Valuation

Our Base case DCF Fair value per share is EUR 1.00, equal to an upside of 14%. This assumes a terminal Sales growth and EBIT margin of 2.0%, and 2.5%, respectively. Our Bear and Bull case DCF Fair values per share are EUR 0.80, and EUR 1.20, respectively. The only difference between our Bear and Bull cases is the assumed terminal EBIT margin that is 2.0% in our Bear case and 3.0% in our Bull case. See below tables for the DCF Fair value at our different scenarios.

DCF Valuation Scenarios	Bear	Base	Bull
WACC	6.7%	6.7%	6.7%
Avg. sales growth 2020-26	1.9%	1.9%	1.9%
Terminal sales growth	2.0%	2.0%	2.0%
Avg. EBIT margin 2020-26	2.3%	2.3%	2.3%
Terminal EBIT margin	2.0%	2.5%	3.0%
Fair Value per share	0.80	1.00	1.20

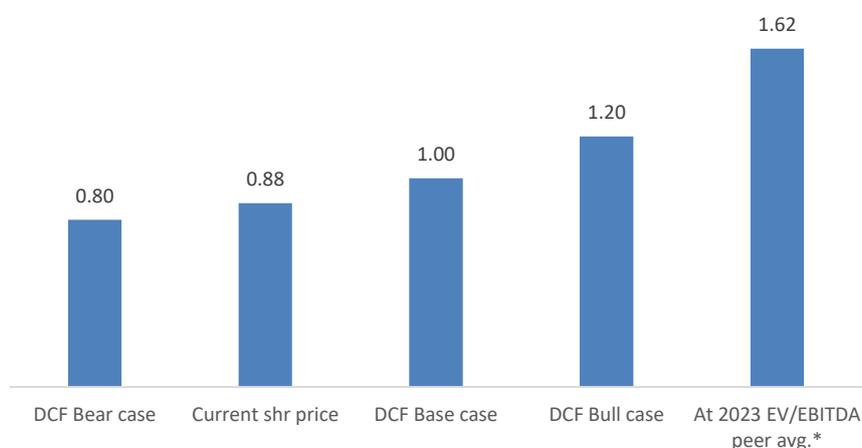
Source: Enlight Research

Below table shows the sensitivity of our DCF valuation to assumed Equity beta, Target debt ratio, and Risk free interest rate. Like all DCF valuations, our Fair value per share is highly sensitive to changes in aforementioned factors. For example, increasing the Target debt ratio from 50% to 52% would result in a Fair value per share increase of 12% (but it would also increase the risk). A change in the assumed Risk free interest rate would also affect the Fair value per share significantly.

Sensitivity parameters	Base case	Step	Test values & Results										
			0.05	0.95	1.00	1.05	1.10	1.15	1.20	1.25	1.30	1.35	1.40
Equity beta	1.20	0.05	0.95	1.00	1.05	1.10	1.15	1.20	1.25	1.30	1.35	1.40	1.45
Fair value (DCF)	1.00		1.45	1.35	1.25	1.16	1.08	1.00	0.92	0.85	0.78	0.71	0.64
Target debt ratio (D/D+E)	50.0 %	2.0 %	40%	42%	44%	46%	48%	50%	52%	54%	56%	58%	60%
Fair value (DCF)	1.00		0.50	0.58	0.68	0.78	0.88	1.00	1.12	1.25	1.39	1.55	1.71
Risk free interest rate	2.5 %	0.2 %	1.5 %	1.7 %	1.9 %	2.1 %	2.3 %	2.5 %	2.7 %	2.9 %	3.1 %	3.3 %	3.5 %
Fair value (DCF)	1.00		1.39	1.31	1.22	1.15	1.07	1.00	0.93	0.86	0.80	0.74	0.68

Source: Enlight Research

Indicative Share price (EUR)



Source: Enlight Research

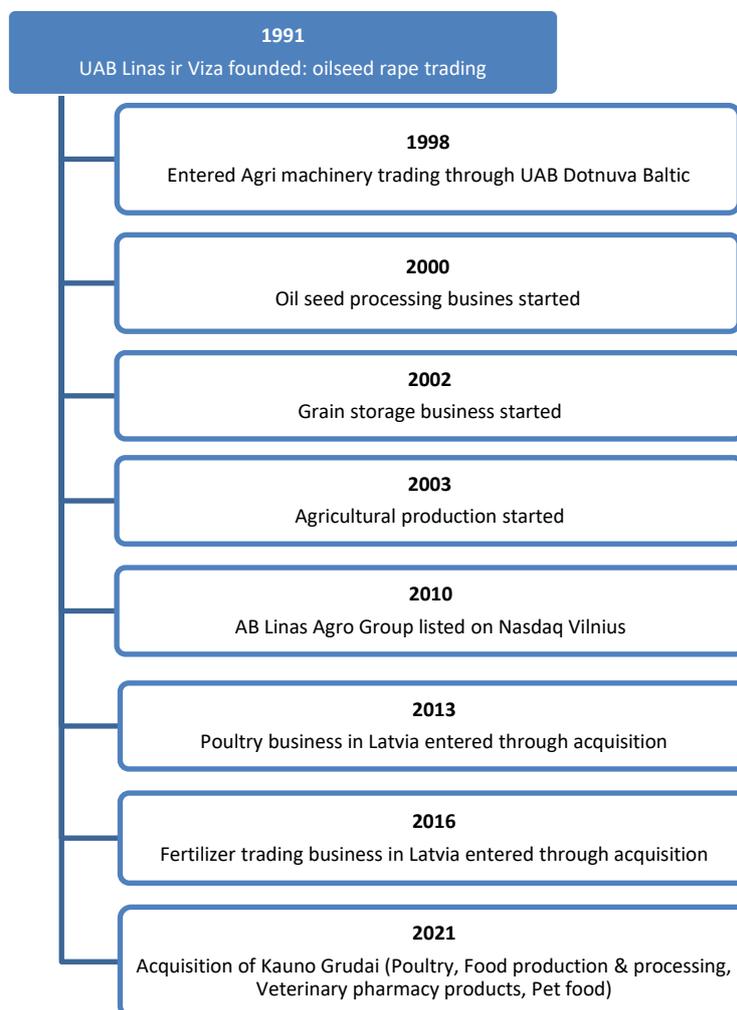
*If valued in-line with 2023 peer average of 7.0x

Company description

History

Linus Agro was founded in 1991 with the creation of UAB Linas ir Viza, a commodity trading company with focus on oilseed rape export to Western Europe. Since foundation, the Group has expanded organically and through acquisitions to new segments such as e.g., machinery trading, grain storage, crop growing, and poultry production. In 2010, AB Linas Agro Group was listed on the Nasdaq Vilnius Stock Exchange at a price of EUR 0.59 (LTL 2.05), raising EUR 28m (LTL 97m). Through the acquisition of Kauno Grudai in 2021, Linus Agro almost doubled its size in terms of sales and is currently one of the largest companies listed on the Nasdaq Baltic Stock Exchange with over 6,000 employees.

Linus Agro historic milestones



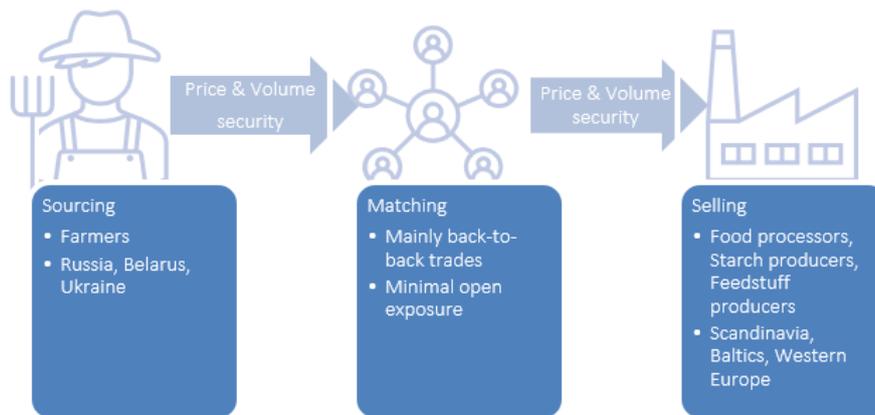
Source: Company website

Grains & Feedstuffs segment

The Grains & Feedstuffs segment's aim is to source grains & feedstuffs from farmers at attractive prices and sell it on to large clients making a margin in between. Examples of large clients are food processors, starch producers, and feedstuff producers. Rather than setting up their own trading operations, these clients prefer to purchase from traders as it enables them to focus on their core business (e.g., food processing) while having a secured raw materials volume and price. The farmer also benefits from a

secured sales volume and price i.e., Linas Agro provide volume and price security to both the sellers (farmers) and the buyers (e.g., food processor companies). Given that both the seller and the buyer is known when making a trade (minimal directional exposure is taken), there is no direct correlation between the world grain prices and the segment’s profitability. Historically, a good harvest in terms of tons has been good for the segment as it gives traders more time/flexibility to source supply. There is no official statistic, but we estimate around 70-80% of Lithuania’s grain sales goes through traders. Linas Agro’s competitive edge is its ability to source grains from Baltics, Russia, Belarus, Ukraine and sell it to clients in Western Europe at lower prices compared to other major Western European trading venues like e.g., Amsterdam.

Grains & Feedstuffs Business Model

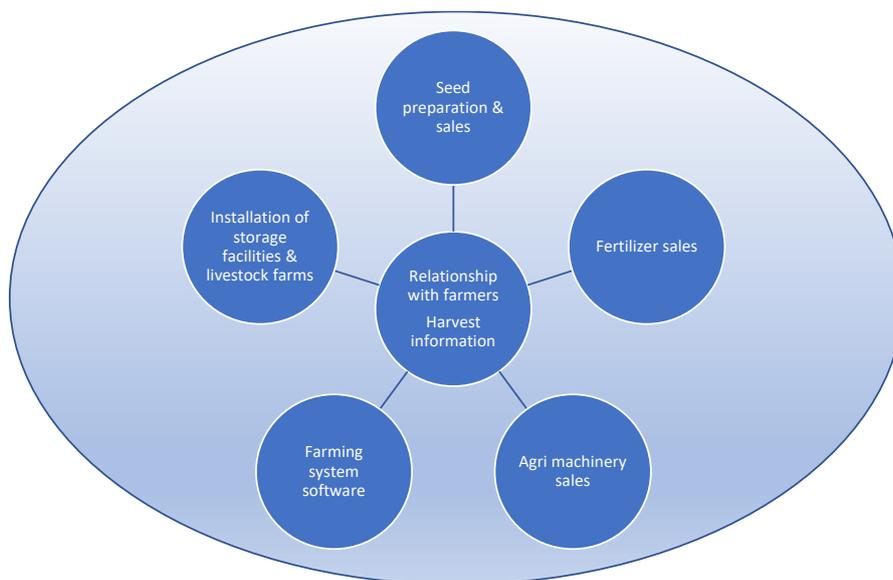


Source: Enlight Research

Product & Services for Farming segment

The Products & Services for Farming segment’s aim is to help farmers optimize their food production by providing everything from agri machinery (e.g., tractors) to seed and plant care products (e.g., fertilizers). Besides being profitable in itself, this segment is very much related to the Grains & Feedstuffs segment as it helps to build relationships with the farmers and gives valuable insight into the harvest supply/quality – both very important factors for doing profitable grain trades.

Products & Services for Farming Business Model

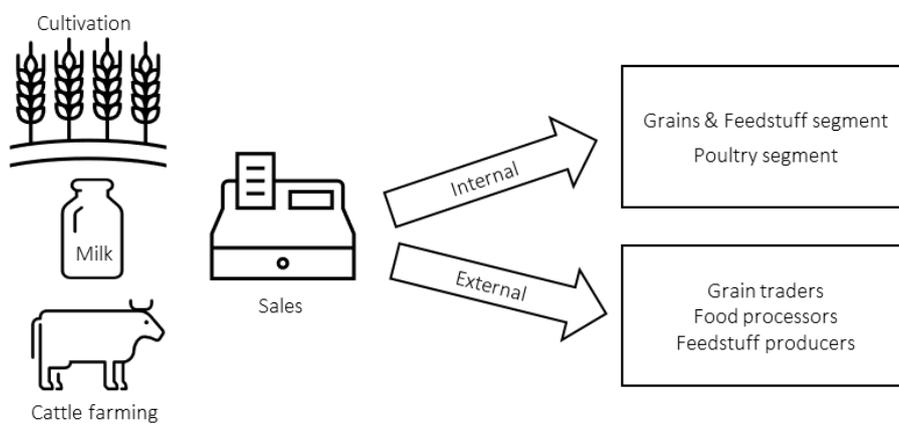


Source: Enlight Research

Agricultural Production segment

The Agricultural Production segment’s aim is to cultivate crops, produce milk, farm beef cattle, and sell these products when prices are attractive (involves market timing, especially for crops). The crops are sold both internally and externally. In 2018/19, about 59% of this segment’s products were sold internally and 41% externally. For the 9M-2020/21, the segment cultivated 18,300 ha of land and harvested 110K tons of crops. This can be compared to the 2.38m tons of crops traded by the Grains & Feedstuffs segment during the same period i.e., own crop production is small relative to the volume traded. Like the Products & Services for Farmers segment, the Agricultural Production segment provides valuable insight into the state of the harvest to the Grains & Feedstuffs segment (trading).

Agricultural Production Business Model

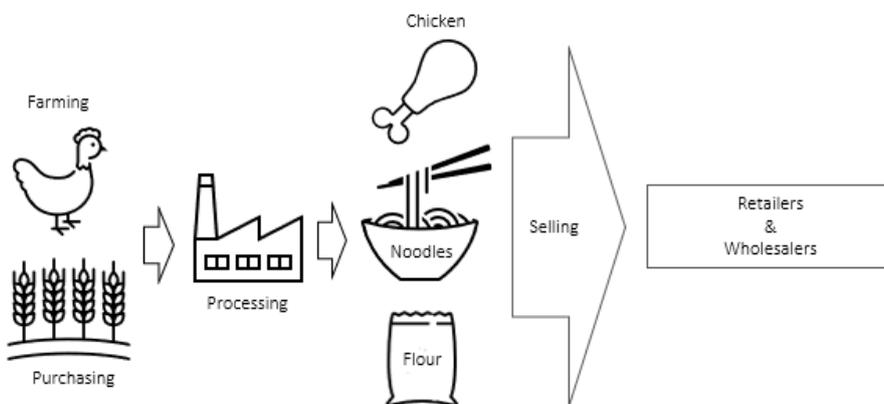


Source: Enlight Research

Food Products segment

The Food Products segment’s aim is to produce healthy food in a responsible way and sell to retail chains/wholesalers, achieving a higher margin compared to selling commodities i.e., a vertical integration towards higher margin products. The main operation of this segment is a full-cycle poultry production/processing (from egg incubation to fresh and processed poultry). The Kauno Grudai acquisition will add Lithuanian poultry operations (to the existing Latvian poultry operation), as well as instant food products (porridges, noodles), and Flour products.

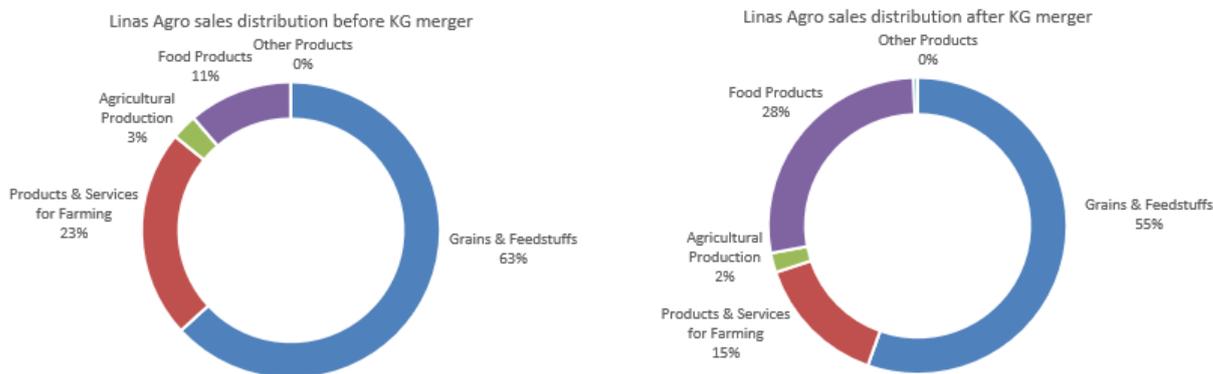
Food Products Business Model



Source: Enlight Research

Sales distribution

As we do not know the acquired company Kauno Grudai’s sales split per segment, below charts show Linas Agro’s pre-merger segment distribution and our estimated segment distribution following the consolidation of KG. Our Grains & Feedstuffs share of sales is based on the KG storage capacity which is around 75% of Linas Agro’s capacity, while our poultry share of sales is estimated based on KG’s poultry sales in tons which is about 3.8x more than Linas Agro’s. The remaining segments sales are rough estimations based on the residual sales left after the Grain & Feedstuffs and the Food Products segments sales have been estimated. The main change from the KG merger is that the Food Products segment is increasing its share of group sales from 11% to around 28% i.e., the company is moving higher up the value chain through vertical integration into food products.

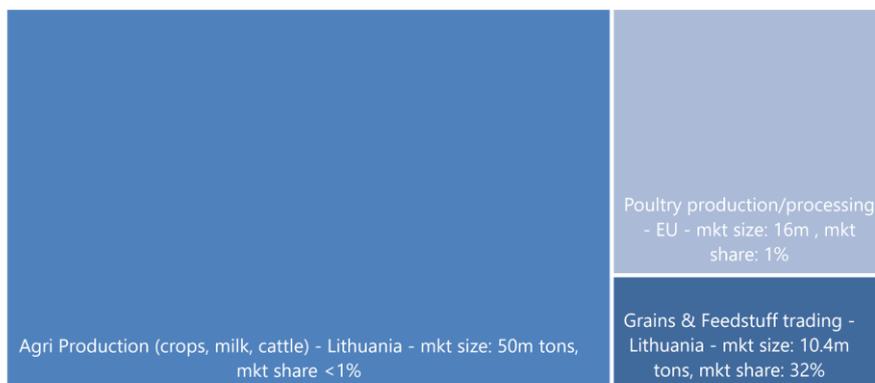


Source: Enlight Research

Market size & Market share

Based on statistics from the Lithuanian Statistics Center and CLAL.it, we estimate Linas Agro’s addressable **Agri production market** (crops, milk, cattle) to be around 50m tons per annum. Given Linas Agro’s reported sales in tonnes of 116, Linas Agro’s Agri production segment has a market share of less than 1% in Lithuania. Our estimated addressable **Grains & Feedstuff market size** is around 10m tons. Given Linas Agro’s reported trading volume of 2.2m tons, the market share in Lithuania and Latvia is around 21%, while it is around one third in Lithuania alone. We regard the addressable **poultry market** to be European. According to AVEC, the EU poultry market size is around 16m tons. Given Linas Agro’s poultry production including KG of around 151K tons, Linas Agro’s European poultry market share is about 1%. It is hard to find reliable market size statistics for the Products & Services for Farming segment, but we estimate Linas Agro’s market share to be around 15-20% of the Baltic fertilizer and agri-machinery market.

Selected Linas Agro post-merger addressable Market size (tons) & Market share (%)



Source: Statistics Centers, AVEC, Enlight Research (mkt share)

Main owners

The largest owner of Linus Agro is Akola ApS (69.15%), which is owned by the founders of Linus Agro. The second largest owner of Linus Agro is Darius Zubas (10.73%) who is the main founder of the Company (also owner in Akola ApS). Mr. Zubas is also the Chairman of the Management Board, and the Company Managing Director. We believe Mr. Zubas is the largest shareholder of the Company if the direct ownership and the indirect ownership (Akola ApS) is added together. The third largest owner is INVL Asset Management, which is one of Lithuania's largest asset management group. The free float including INVL Asset Management's holding of the company is 20.12% equal to 32m shares or EUR 26m based on the current share price of EUR 0.82.

Shareholders as of 31 March 2021

	No. of shares	Pct of shares
Akola ApS (Denmark)	109,909,167	69.15%
Darius Zubas	17,049,995	10.73%
UAB INVL Asset Management	9,047,369	5.69%
Other shareholders (private and institutional investors)	22,933,867	14.43%
Total	158,940,398	100%

Source: Company report

Management Board

The Management Board can consist of up to seven members elected for a period of four years. The Management Board is the highest operative body of the Company, while the General Meeting of Shareholders is the Supreme body of the Company. The Company does not have a Supervisory Board. The Chairman of the Management Board, Mr. Darius Zubas, is also the Managing Director (Head of the Company). Mr. Zubas is the Company's main founder and largest owner with 10.73% of the shares owned directly plus additional ownership through Akola ApS (entity who owns 69.15% of the Company shares). Currently, there are six members of the Management Board whereof no one is classified as independent (see below for member profiles). In addition to the Management Board, the Company has an Audit Committee (3 people), and a Finance Director (CFO), Mr. Mazvydas Sileika.

Supervisory structure



Source: Company reports

Darius Zubas, Chairman of the Management Board, Managing Director, main founder. Graduated from Veterinary Academy of Lithuanian University of Health Sciences in 1988.

Andrius Pranckevicius, Deputy Chairman of the Management Board. Bachelor's degree in Business Administration in 1998, Master's degree in Marketing Management in 2000 at Kaunas University of Technology.

Arunas Zubas, Member of the Management Board. Master's degree in Chemical Technology (Kaunas University of Technology, 1985).

Dainius Pilkauskas Member of the Management Board. Master's degree in Animal Science at Veterinary Academy of Lithuanian University of Health Sciences in 1991.

Jonas Baksys, Member of the Management Board. Bachelor's degree in International Economics at Concordia University (USA) in 1997, Master's degree in Business Administration at University of Surrey (UK) in 2003.

Tomas Tumenas, Member of the Management Board. Master's degree in Economics at Vilnius University; Master's degree in Business Administration at Manchester Business School, The University of Manchester in 2011.

Mazvydas Sileika, Finance Director. Bachelor's degree in Management at University of Leeds in 2012. Master's degree in Shipping, Trade and Finance at Cass Business School in 2013.

Risk factors

Below risk factors are not a complete list of risks related to Linas Agro, but rather a list of risks that we view as the most important to highlight given the current environment. For examples of additional risks, we recommend reading the Company's Annual Reports.

Large acquisition

Large acquisitions entail challenges such as e.g., merging operations and corporate culture. There is no guarantee that the Kauno Grudai acquisition will be successful. If unsuccessful, our forecast is most likely too optimistic.

Financial leverage

Following the Kauno Grudai acquisition, our estimated Net debt to EBITDA multiple is above 4x, which could be regarded as high, although not uncommon following an acquisition. Worth noting is that LNA's pre-acquisition Net debt to EBITDA multiple has been higher than 4x so from this perspective it might be regarded as less of a risk factor.

Dividend policy

The company does not have an official dividend policy. This does not mean that dividends cannot be paid out. However, we believe a stated dividend policy increases the confidence that dividends will be paid when there are funds available.

Third COVID-19 wave

A severe COVID-19 third wave/mutation and subsequent lock-downs of hotels and restaurants could affect the poultry segment negatively.

Supervisory structure

The absence of a Supervisory Board and lack of independent Management Board Members might result in a worsened corporate governance compared to companies who have a Supervisory Board and independent members on their board.

Counterparty risk

The Group enters forward contracts with farmers who commit the delivery of production under terms and conditions of the contract. As the prices of products increase, the risk of breach of forward contracts and non-delivery of production by counterparties emerges. The bigger the difference between the contract price and the current market price on the day of delivery, the higher is the risk.

Livestock

The risk of a severe animal disease is not factored into our estimates. If one of Linas Agro's poultry or dairy farms is hit by a severe animal disease, our estimates will most likely have to be adjusted downwards.

Liquidity

The 12-month average daily trading volume is 20K shares equal to EUR 13.7K i.e., the liquidity is relatively low compared to similar sized companies in Baltics and Western European markets. One reason for the low liquidity is the low free float. We would welcome a distribution from the main shareholders in order to increase the share liquidity and thereby lower the risk in the share.

Income Statement	18/1	19/20	20/21	21/22	22/23
Net sales	743	658	920	1495	1605
Total operating costs	-735	-632	-887	-1430	-1529
EBITDA	8	26	34	65	76
Depr. & Amort.	-11	-12	-17	-32	-35
One-off EBIT items	0	0	0	0	0
EBIT	-3	14	17	33	40
Financial net	-3	-3	-3	-3	-3
Pre-tax profit	-6	11	14	30	37
Taxes	2	-2	-2	-5	-6
Minority interest	0	0	0	0	-1
Other items	0	0	0	0	0
Net profit	-4	9	12	25	30

Balance Sheet	18/19	19/20	20/21E	21/22E	22/23E
Cash and cash equivalent	9	10	17	28	30
Receivables	111	116	267	254	273
Inventories	90	79	184	179	193
Other current assets	33	28	28	28	28
Total current assets	242	233	497	491	524
Tangible assets	138	152	328	321	310
Goodwill & Intangible assets	2	5	5	5	5
Lease & Investment properties	0	0	2	7	11
Long-term Investments	10	3	3	3	3
Associated companies	0	0	2	2	2
Other long-term assets	0	11	19	19	19
Total fixed assets	149	172	360	358	351
Total assets	391	405	857	848	876
Accounts payable	42	48	212	194	209
Short-term IB debt	125	106	185	171	158
Other current liabilities	25	24	45	45	45
Total current liabilities	192	178	442	410	412
Long-term IB debt	23	19	79	73	68
Convertibles & Lease liab.	0	20	2	7	11
Deferred tax liab.	0	1	2	2	2
Provisions	0	0	0	0	0
Other long-term liab.	6	8	8	8	8
Total long-term liab	29	47	94	93	92
Total liabilities	221	225	536	504	504
Minority interest	0	0	88	88	88
Shareholders' equity	170	180	233	257	284
Total liabilities and Equity	391	405	857	848	876

DCF valuation		Cash flow, mEUR	
WACC (%)	6.72 %	NPV FCF (2020-2022)	-174
Assumptions 2020-2026 (%)		NPV FCF (2023-2029)	183
Average sales growth	11.35 %	NPV FCF (2030-)	336
EBIT margin	2.37 %	Non-operating assets	-43
Fair value per share (EUR)	1.00	Interest-bearing debt	-144
Share price (EUR)	0.88	Fair value estimate	158

Free Cash Flow	18/19	19/20	20/21E	21/22E	22/23E
Operating profit	-3	14	17	33	40
Depreciation	11	12	17	32	35
Working capital chg	19	15	-71	0	-17
Other operating CF items	-7	-2	-2	-5	-6
Operating Cash Flow	20	39	-40	61	52
Net investments	-13	-11	-200	-25	-25
Other items	2	5	3	0	0
Free Cash Flow	9	33	-237	36	27

Capital structure	18/19	19/20	20/21	21/22	22/23
Equity ratio	43.5%	44.5%	37.5%	40.6%	42.5%
Debt/Equity ratio	87.2%	80.0%	114.2%	98.0%	83.6%
Net debt/Equity ratio	82.1%	74.7%	77.5%	64.7%	55.6%
Net debt/EBITDA ratio	0.0	0.0	0.0	0.0	0.0

Profitability	18/19	19/20	20/21E	21/22E	22/23E
ROE	-2.4%	5.0%	5.7%	10.3%	11.3%
FCF yield	0.1	0.1	-1.7	0.3	0.2
EBITDA margin	1.1%	3.9%	3.7%	4.4%	4.7%
EBIT margin	-0.5%	2.1%	1.9%	2.2%	2.5%
PTP margin	0.0	0.0	0.0	0.0	0.0
Net margin	-0.6%	1.3%	1.3%	1.7%	1.9%

Valuation	18/19	19/20	20/21E	21/22E	22/23E
P/E	-21.8	10.2	11.8	5.5	4.6
P/E adjusted	-21.8	10.2	11.8	5.5	4.6
P/Sales	0.1	0.1	0.2	0.1	0.1
EV/Sales	0.3	0.3	0.5	0.3	0.2
EV/EBITDA	28.9	8.6	13.1	6.3	5.1
EV/EBIT	-69.3	16.1	25.7	12.4	9.6
P/BV	0.5	0.5	0.6	0.5	0.5
P/BV tangible	0.5	0.5	0.6	0.6	0.5

Per share ratios	18/19	19/20	20/21E	21/22E	22/23E
EPS	-0.03	0.06	0.07	0.16	0.19
EPS, adjusted	-0.03	0.06	0.07	0.16	0.19
Operating CF/share	0.18	0.23	-0.25	0.38	0.33
Free Cash Flow/share	0.05	0.04	-1.50	0.22	0.17
BV/share	1.08	1.14	1.47	1.62	1.79
Tangible BV/share	1.06	1.13	1.46	1.61	1.78
Div. per share	0.00	0.00	0.01	0.02	0.02
Div. payout ratio	0.0%	0.0%	13.4%	12.6%	10.4%
Dividend yield	0.0%	0.0%	1.1%	2.3%	2.3%

Shareholders	Capital	Votes
Akola ApS (Denmark)	96.248	69.15 %
Darius Zubas	14.935	10.73 %
UAB INVL Asset Management	7.920	5.69 %

Key people	
CEO	Darius Zubas
CFO	Mazvydas Sileika
IR	Dovile Jakucione

P/E $\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS $\frac{\text{Profit before extraordinary items and taxes – income taxes + minority interest}}{\text{Number of shares}}$
P/Sales $\frac{\text{Market cap}}{\text{Sales}}$	DPS Dividend for financial period per share
P/BV $\frac{\text{Price per share}}{\text{Shareholders' equity + taxed provisions per share}}$	CEPS $\frac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
P/CF $\frac{\text{Price per share}}{\text{Operating cash flow per share}}$	EV/Share $\frac{\text{Enterprise value}}{\text{Number of shares}}$
EV (Enterprise value) Market cap + Net debt + Minority interest at market value – share of associated companies at market value	Sales/Share $\frac{\text{Sales}}{\text{Number of shares}}$
Net debt Interest-bearing debt – financial assets	EBITDA/Share $\frac{\text{Earnings before interest, tax, depreciation and amortization}}{\text{Number of shares}}$
EV/Sales $\frac{\text{Enterprise value}}{\text{Sales}}$	EBIT/Share $\frac{\text{Operating profit}}{\text{Number of shares}}$
EV/EBITDA $\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	EAFI/Share $\frac{\text{Pre-tax profit}}{\text{Number of shares}}$
EV/EBIT $\frac{\text{Enterprise value}}{\text{Operating profit}}$	Capital employed/Share $\frac{\text{Total assets – non-interest-bearing debt}}{\text{Number of shares}}$
Div yield, % $\frac{\text{Dividend per share}}{\text{Price per share}}$	Total assets Balance sheet total
Payout ratio, % $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes – income taxes + minority interest}}$	Interest coverage (x) $\frac{\text{Operating profit}}{\text{Financial items}}$
Net cash/Share $\frac{\text{Financial assets – interest-bearing debt}}{\text{Number of shares}}$	Asset turnover (x) $\frac{\text{Turnover}}{\text{Balance sheet total (average)}}$
ROA, % $\frac{\text{Operating profit + financial income + extraordinary items}}{\text{Balance sheet total – interest-free short-term debt – long-term advances received and accounts payable (average)}}$	Debt/Equity, % $\frac{\text{Interest-bearing debt}}{\text{Shareholders' equity + minority interest + taxed provisions}}$
ROCE, % $\frac{\text{Profit before extraordinary items + interest expenses + other financial costs}}{\text{Balance sheet total – non-interest-bearing debt (average)}}$	Equity ratio, % $\frac{\text{Shareholders' equity + minority interest + taxed provisions}}{\text{Total assets – interest-free loans}}$
ROE, % $\frac{\text{Profit before extraordinary items – income taxes}}{\text{Shareholders' equity + minority interest + taxed provisions (average)}}$	CAGR, % Cumulative annual growth rate = Average growth rate per year

Disclaimer

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