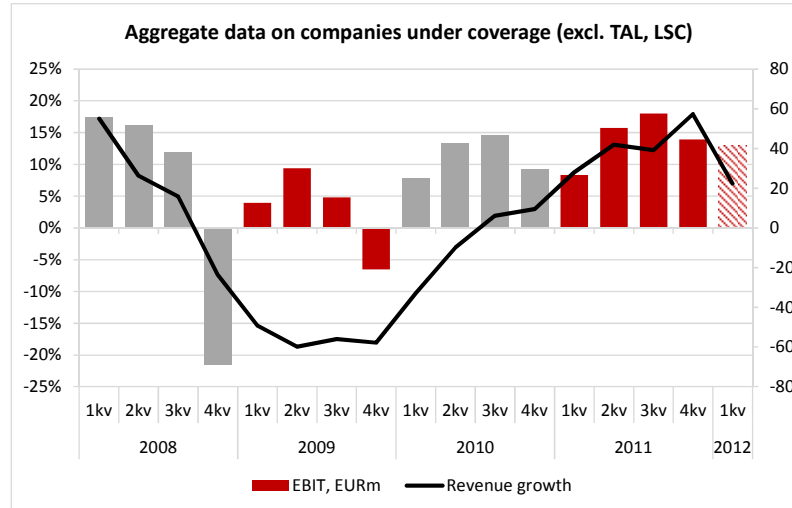


Baltic companies first quarter expectations

On Tuesday, April 17, the first quarter financial results reporting season started for the Baltic companies that will end on May 31. The first company to announce the results was TEO LT, while Olainfarm and City Service will be the last ones to release their quarterly financials. The strong beginning of the year in stock markets in Europe and in the USA has also been apparent in the Baltic States. OMX Tallinn index has risen 17% year to date, while Riga and Vilnius stock indices have seen gains of 6-7%. Still there is plenty of room to return to the levels seen at the beginning of 2011. The world stock markets went through a correction phase in the second half of March and at the beginning of April, but the Baltic markets have shown resilience and positive sentiment, so that the stock indices are near 6-months' highs.

Surely, the overall financial results of the companies from 2011 have played an important part to support the surge in stock prices. The listed companies that we follow showed on average 10-15% increase in sales revenue throughout the year, while Q4/2011 saw aggregated revenue of companies growing 18% y-o-y. This figure was 5.4 percentage points above our forecast. This was partly due to favorable weather conditions and strong revenue growth from construction companies. Snow came down just in January and this made possible carrying out construction preparation works for a longer period of time than we have seen normally during the last months of the year. Despite of strong revenue growth, the operating profit of the companies was not as strong as we had expected and was nearly a fifth lower. Operating profit was most severely hit by asset write-downs and one off cost items from various firms (Merko, Baltika, Olympic, Ekspress Grupp).



Seasonality has a great role in the first quarter financial results, as the sales revenue and profitability of retail and construction companies are usually at their weakest levels compared to other quarters. Usually consumers have been quite modest and conservative at the beginning of the year after Christmas shopping sprees, but still the first quarter sales figures of Apranga, Baltika and Tallinna Kaubamaja have shown decent growth.

We expect the aggregated sales revenue growth for companies under coverage to reach 7.0% (excluding Tallink and Latvian Shipping Company) compared to last year's first quarter. Though, we are more positive on

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the EBIT forecasts, which we expect to reach EUR 41.3m in aggregate and that represents a respectable 54.9% increase y-o-y. Behind this are of course improving sales and gross margins, but then again cost cutting measures have been successful among companies recently.

Quite a few companies have already released their first quarter sales figures:

- Olainfarm has shown proper growth as revenue in the first quarter soared 47%. Partly the improvement can be traced back to buying the pharmacy business at the end of last year. On the other hand, the profitability margins in the pharmacy business are lower than those of production activities and therefore we do not expect a big boost to the bottom line at the moment.
- Ekspress Grupp revenues saw an increase of 8.2% during the first three months of the year. Here we have to keep in mind that a year ago the net profit included EUR 1.54m that was related to the acquisition of Eesti Päevaleht due to financial reporting standards and this is the reason for our profit expectations being lower than last year.
- Biggest positive surprises in the sales figures section have been the abovementioned Apranga and Tallinna Kaubamaja, which sales grew 25.1% and 10.3% y-o-y respectively. For Tallinna Kaubamaja the beginning of 2012 has been the best the company has ever seen in terms of sales revenue, but Apranga has still some way to go to the historic levels of 2008.
- Although Olympic's gaming revenues saw ca 17% increase in the Baltic countries, we expect the total revenue to fall slightly to EUR 30.9m, because the Rumanian casinos that generated EUR 0.9m in revenue, have been divested. In addition, other income line amounted to EUR 2m a year ago, which makes comparisons complicated.
- For Tallink the beginning of the year has always been weak, both in terms of passenger numbers and profits. This year will be the first time that Tallink will report the results from the weakest months (January-March) of the year together in the same period. The number of passengers rose by a minimal 0.2%, while bunker costs have been constantly on the rise. Therefore we expect a net loss of EUR 10.7m for Tallink in the first quarter.
- Tallinna Vesi received court protection in February against the Competition Authority's prescription, which means the water and wastewater tariffs will be maintained at current levels until the court makes the final judgment. So we expect the main operating activities to show small profit growth. Again we have to take into account the changes in the fair value of swap agreements and therefore we expect the net profit to fall y-o-y.

Possible problem children could be Silvano and Grindeks:

- Silvano's revenue growth in the last quarter of 2011 showed signs of slowdown and according to management there were some problems in production facilities in Belarus. In addition, the management of the company has lowered growth expectations for this year as well and therefore we expect a 7.7% y-o-y rise in revenue in Q1 that is quite modest compared to growth rates achieved previously.
- As for Grindeks, the main problem is the transparency of operations. Despite of proper growth in sales in the second half of 2011, the company was not able to show improvement in earnings due to 'other costs', for which we have not received any explanation so far. For the first quarter we expect sales to rise 12.9%, but net income should stay near levels seen a year ago.

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Company	Date	Revenue		Net profit		Rating	Fair value range
		Q1/12E	y-o-y growth	Q1/12E	Q1/11		
Estonia, EURm							
Arco Vara	-	7,7	-42,0%	-0,9	-1,3	Neutral	-
Baltika	10-May	12,6	7,3%	-1,3	-2,4	Buy	EUR 0.45-0.50
Ekspress Grupp	week 30-Apr	14,2	8,2%	0,3	1,4	Buy	EUR 1.50-1.65
Merko Ehitus	-	31,1	19,0%	-2,3	-4,1	Neutral	EUR 6.20-6.90
Nordecon	10-May	21,3	20,0%	-1,0	-1,2	Buy	EUR 1.50-1.65
Olympic Entertainment	30-Apr	30,8	-0,7%	3,1	0,2	Buy	EUR 1.50-1.70
Premia Foods	week 14-May	17,1	2,7%	-1,2	-2,0	Buy	EUR 0.90-1.00
Silvano Fashion Group	-	27,4	7,7%	5,7	5,1	Buy	EUR 4.60-5.10
Tallink	16-May	196,0	n.a.	-10,7	n.a.	Buy	EUR 1.05-1.15
Tallinna Kaubamaja	25-Apr	106,0	10,3%	5,0	1,7	Buy	EUR 6.10-6.70
Tallinna Vesi	27-Apr	12,8	2,8%	5,8	8,0	Buy	EUR 7.50-8.30
Latvia, LVLm							
Grindeks	week 21-May	15,8	12,9%	1,5	1,5	Buy	LVL 7.50-8.20
LSC Group	week 24-May	13,1	8,7%	-1,4	-1,2	Buy	LVL 0.55-0.60
Olainfarm	31-May	12,1	44,8%	2,2	1,7	Buy	LVL 3.50-3.80
Lithuania, LTLm							
Apranga	15-May	85,0	25,1%	4,8	1,1	Buy	EUR 2.05-2.25
City Service	31-May	135,3	-4,7%	4,5	6,0	Neutral	EUR 2.75-3.05
TEO LT*	17-Apr	190,5	2,5%	37,1	37,7	Neutral	EUR 0.60-0.67

KRISTO OIDERMAA, RASMUS NOORMÄGI

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Recommendation structure

1/Buy	Expected return of more than 15% within 6-12 months (including dividends)
2/Accumulate	Expected return between 5-15% within 6-12 months (including dividends)
3/Neutral	Expected return 0% to <5% within 6-12 months (including dividends)
4/Sell	Expected return less than 0% within 6-12 months (including dividends)
Not rated	No recommendation
Under review	Recommendation is under review due to specific event

KRISTO OIDERMAA, RASMUS NOORMÄGI

LHV
Tartu mnt 2
Tallinn, 10145
Estonia
Phone: +372 6 800 400
Fax: +372 6 800 402

LHV
Duntes Street 6
Riga, LV-1013
Latvia
Phone: +371 6 750 2100
Fax: +371 6 750 2102

LHV
Gyneju 16
Vilnius, LT-01109
Lithuania
Phone: +370 5 204 7 204
Fax: +370 5 204 7 207

KRISTO OIDERMAA, RASMUS NOORMÄGI