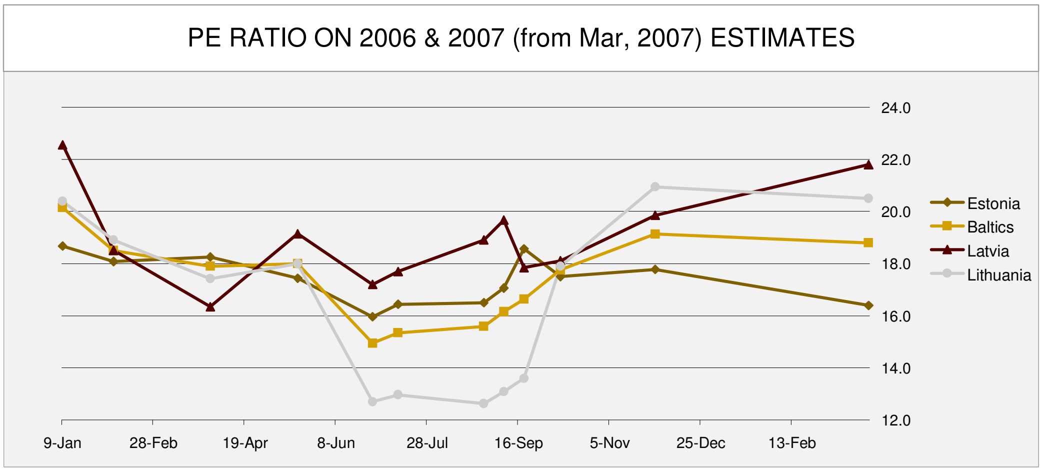
Q4 slightly above expectations, valuation looks reasonable

Analysts: Erki Kert, Rait Maasikas
Contact: erki.kert@lhv.ee



- The sharp correction in February brought many of the companies back to interesting fundamental levels. Tallinn market lost 22% during the correction and is now up ca 4% ytd. Hence, Tallinn's valuation seems also the most interesting to us at the moment out of three Baltic markets. Since our last quarterly reports follow-up, we downgraded all our Buy cases before the sharp correction due to booming valuations. Now that valuation is back to interesting levels, we are once again upgrading some of the stocks.

- Most of the companies we cover reported Q4 in-line or slightly above the forecast. Out of 23 companies, 7 reported sales above our forecast, 14 in-line and 1 below. In terms of Pre-tax profit, 9 companies reported above our forecast, 6 in-line and 7 below. It is quite difficult to say whether the reports were also in-line with the market's expectation, since the sharp moves were mainly influenced by the negative sentiment on world markets.

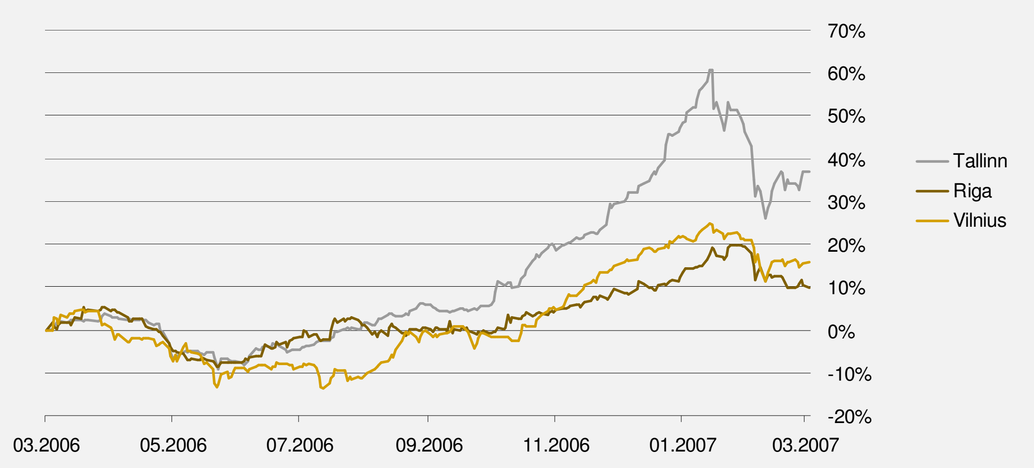
- Out of three Baltic markets, Tallinn looks the most interesting with 2007 PE of 16.4x and forecasted EPS growth of 15%. This is followed by Lithuania with PE and EPS growth of 20.5x and 16%, respectively. Our sample of Latvian companies is relatively small. Hence, the average ratios have to be taken with some level of caution.

- We upgrade Tallinna Kaubamaja to Buy. The company was one of the biggest decliners during the correction which brought the valuation to very interesting levels. The company is trading at 14.1x 2007 PE with forecasted EPS growth of 29% and 12% for 2007 and 2008, respectively. Kaubamaja is also in a good position to roll out its supermarket concept in Latvia. Companies with Accumulate recommendation are: Apranga, Baltika, Eesti Ehitus, Eesti Telekom, Saku, Tallinna Vesi and TEO LT.

Performance

The Baltic market took a sharp plunge in February and has slightly recovered since. Tallinn had lost the most by the beginning of March (-22%), followed by Vilnius (-11%) and Riga (-7%). However, this is not surprising since Tallinn had also experienced the strongest run in the end of 2006/beginning of 2007. By now, Tallinn is up 9% from the bottom and Vilnius has gained 4%. Riga at the same time has extended the fall by another 2%. Year to date, Tallinn is up 3.9% and Riga is up 2.1%, while Vilnius is more or less flat (-0.9%). Although the sharp fall has once again brought Baltic markets to relatively interesting fundamental levels, the future movements will be heavily influenced by the sentiment on world markets. Interesting to note that Tallinn and Hong Kong (index Hang Seng) have shown pretty tight correlation lately. Hence, the future of Baltic markets is a lot up to the sentiment on world markets.

INDEX PERFORMANCE (6 MONTHS)



The top performers list is once again dominated by Estonian companies benefiting from strong consumer spending and construction activity. The strongest gainer is the brewery Saku, (up 22.6% ytd), who announced bigger than expected dividends for 2006. Saku is followed by Estonian casino operator Olympic Entertainment Group that went public in the end of 2006. The share is up 118% since the IPO. The 3rd and 4th place are occupied by Estonian construction companies Merko and Eesti Ehitus. They are followed by the cableTV provider Starman, which is up 9.1% ytd. The Latvian telecom equipment maker SAF Tehnika is on top of the worst performers list. The sharp fall can at least partly be attributed to somewhat disappointing Q4 results. Kaubamaja, which has taken the 2nd place in the list can be considered the biggest surprise. On the other hand, the sharp fall has brought the valuation down to interesting level again.

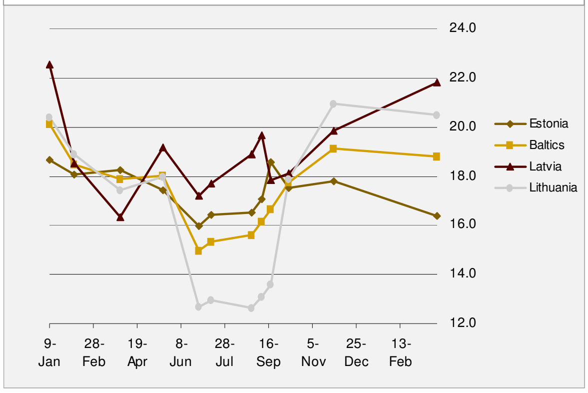
10 best performers, year-to-date	
Saku	22.6%
Olympic Casino	15.2%
Merko	13.7%
Eesti Ehitus	12.7%
Starman	9.1%
PTA	8.9%
Rokiskio Suris	7.3%
Tallinna Vesi	6.9%
Baltika	6.5%
LASCO	5.9%

10 worst performers, year-to-date	
SAF Tehnika	-27.5%
Tallinna Kaubamaja	-14.8%
Harju Elekter	-10.8%
Pieno Zvaigzdes	-3.8%
Klaipedos Nafta	-3.0%
Eesti Telekom	-1.2%
Ventspils Nafta	-0.3%
Tallink	1.0%
TEO LT	1.3%
Norma	1.4%

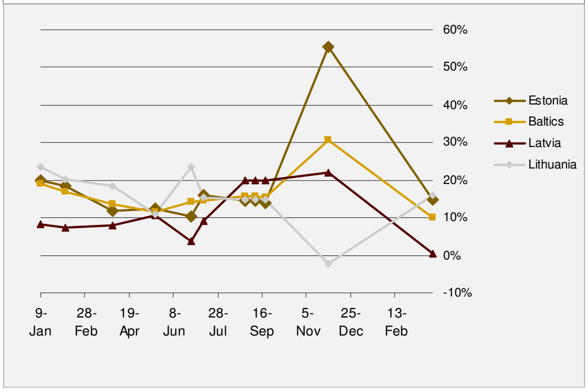
Valuation

The Baltic market is trading at PE 2007 of 18.8x. Hence, the average valuation for the whole market has not changed significantly in the last quarter. Following the Q4 reports, Estonian market seems the most interesting with average estimated PE of 16.4x for 2007. Both the upward change in our estimates as well as sharp correction have contributed to the fall in valuation level. At the same time, the estimated EPS growth for Latvian and Lithuanian markets has been decreased, which resulted in increase of valuation level. At the moment, Lithuanian market seems the most expensive with estimated PE of 20.5x for 2007. Latvia is trading between Lithuania and Baltic average at PE 2007 of 21.8x. The average expected EPS growth for Baltic markets is ca 10%, led by Estonia and Lithuania with 15% and 16% growth, respectively. We expect flat EPS growth for Latvia due to margin pressure in Latvijas Gaze and SAF Tehnika. It should be noted that our Latvian sample is quite small and hence it may not reflect the overall market situation properly.

PE RATIO ON 2006 & 2007 (from Mar, 2007) ESTIMATES

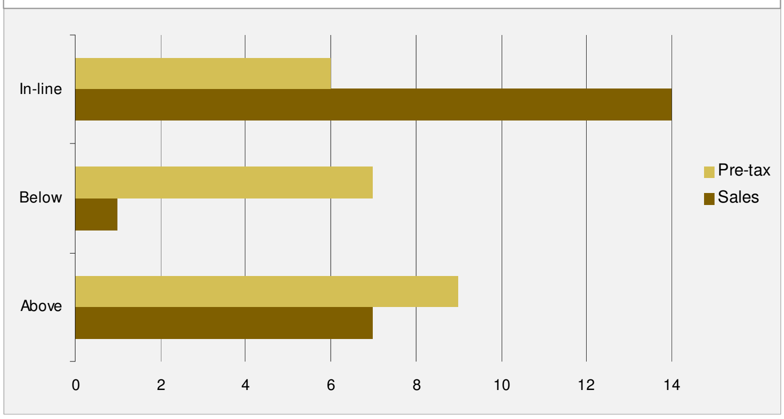


EPS GROWTH 2006 & 2007 (from Mar, 2007) ESTIMATES



The quick look on Q4 results reveals that most of the reports came in in-line or slightly above. Out of 23 companies we cover, 7 reported sales above our forecast, 14 in-line and 1 below (Rokiskio Suris). In terms of Pre-tax profit, 9 companies reported above our forecast, 6 in-line and 7 below. Ventspils Nafta, SAF Tehnika and Rokiskio Suris were the biggest disappointments while Merko, Vilniaus Baldai, Tallink and Baltika made the most pleasant surprise. Among sectors, the deviations were distributed quite evenly.

Q4 DEVIATION



Recommendation performance

Following the Q4 reports, we downgraded our Buy cases to Accumulate or Neutral. Pieno Zvaigzdes was downgraded on Mar 1 from Buy to Neutral due to high valuation. Also, we believe further upside could be limited due to toughening pressure on margins. The case yielded 30% from the upgrade to Buy in Aug, 2006. Both Eesti Telekom and Tallinna Vesi were dividend cases and were downgraded due to rapid price increase which brought down the expected dividend yield. Eesti Telekom's performance since the initiation with Buy amounted to 28.5% (including dividend) and Tallinna Vesi posted return of 36.8% (including dividend).

	Recommendation	Release date	Close date	Recommendation performance*	BALTIX performance	Outperformance
Pieno Zvaigzdes	Buy	Aug 22, 2006	Mar 1, 2007	29.3%	28.5%	0.7%
Eesti Telekom	Buy	Dec 9, 2005	Jan 12, 2007	15.1%	18.7%	-3.5%
Tallinn Water	Buy	Dec 9, 2005	Feb 8, 2007	26.2%	18.7%	7.6%
Apranga	Accumulate	Jan 9, 2006	open	67.0%	12.3%	54.7%
Saku	Accumulate	Jan 9, 2006	open	83.5%	12.3%	71.2%
Eesti Ehitus	Accumulate	Mar 9, 2007	open	3.0%	2.3%	0.7%
TEO	Accumulate	Jan 9, 2006	open	6.5%	12.3%	-5.8%
		Average:		**33.0%**	**15.0%**	**17.9%**

** - adjusted to dividends*

Recommendation: Buy

Tallinna Kaubamaja (Buy) – attractively valued retail case, upgrade to Buy

The Estonian department store and supermarket operator, Tallinna Kaubamaja, reported both sales and profits in-line. The Q4 sales came in at EEK 1278m, equal to a yoy growth of 31.7%. The Q4 gross profit totalled EEK 367m (forecast: 385m), corresponding to a margin of 28.3% (forecast: 27.8%). The Q4 Pre-Tax profit amounted to EEK 98m, equal to a margin of 7.6%. Our Pre-Tax profit forecast was EEK 96m, equal to a margin of 6.9%. The share is attractive due to both valuation and its ambitious expansion plans. The share is down 22.6% from its January's high, and although it has bounced nicely from the bottom, the current PE 2007 of 14.1x still leaves room for further upside. We haven't yet dared to count in the successful roll-out of its Selver supermarket concept in Latvia. However, we believe that Latvia's food retail market is less mature compared to Estonia, i.e. there should still be room for another player. The company plans to open 15 supermarkets in Latvia, which would increase the number of supermarkets from current 21 to 36 by the end of 2009. In our view, Tallinna Kaubamaja is one of the Baltic top picks at the moment, and hence we upgrade the share to Buy.

Recommendation: Accumulate

Apranga (Accumulate) – report below expectations, while rapid expansion continues

The Lithuanian clothing retailer, Apranga, posted Q4 sales in-line (reported on monthly basis), while profits came in below our forecast. The Q4 sales increased 52.6% yoy to LTL 81.5m. The preliminary Q4 Pre-Tax profit was LTL 7.6m, corresponding to a margin of 9.3% - we expected a Pre-Tax profit of LTL 9.7m at a margin of 11.9%. The company stated its ambitious expansion plans for the coming years. In 2007, the company plans to increase the number of stores by 20. The sales guidance for 2007 is LTL 415m (incl. VAT), corresponding to an increase of 40%, while Pre-Tax profit is expected to total LTL 31m, equal to a growth of 50%. Our forecast is basically in-line with the outlook, although we expect somewhat lower bottom-line (LTL 30.4m). The company's longer term goal is to reach turnover of LTL 1b in 2010, which is 3.3 times more than in 2006. Given the rapid growth (EPS expected to increase 40% in 2007 and 2008), the PE 2007 22.9x and PE 2008 of 17.2x can be considered attractive. We reiterate Accumulate.

Baltika (Accumulate) – rapid growth and attractive valuation, upgrad to Accumulate

The Estonian clothing retailer Baltika posted strong Q4 with sales in-line (reported on monthly basis) and earnings above our forecast. The Q4 sales increased 23.3% yoy to EUR 17.970m. The Q4 gross profit totalled EUR 10.308m (forecast: EUR 9.506m), corresponding to a margin of 57.4% (forecast: 53.0%). This is also a solid improvement from year ago, when the company posted Q4 gross margin of 53.2%. The Q4 Pre-Tax profit came in 59% above our forecast at EUR 2.022m, corresponding to a margin of 11.3% vs. forecasted profit at EUR 1.274m and a margin of 7.1%. Most of the outperformance can be attributed to better intake margins (COGS in Q4/06 made up 42.6% of sales vs. 46.8% a year ago). For 2007, we expect sales growth of 39% (company's forecast 40%) with EPS growth of 41%. Having lost 10.7% from its peak at the beginning of

February, the PE 2007 of 19.4x and PE 2008 of 15.7x is attractive. We believe the company should trade at least 22x forecasted profit and hence upgrade the share to Accumulate.

Eesti Ehitus (Accumulate) – strong quarter, upgrade to Accumulate

The Estonian construction company, Eesti Ehitus, posted strong Q4 figures. The Q4 sales increased 88.6% yoy to EEK 776m. The growth is especially impressive when comparing it with growth figures in previous months, when it has been below 60%. The Q4 gross profit was EEK 115m, corresponding to a margin of 15.5% (15.3% in Q4/05). The Q4 Pre-tax profit totalled EEK 71m, equal to a margin of 9.6%. Compared to Merko, Eesti Ehitus has more diversified product portfolio, and thus it is less exposed to the residential real estate market. The planned increase in EU structure fund resources inflow will enable the government to start with several large-scale infrastructure projects (Tallinn-Tartu highway for example). We believe the company is in a good position to benefit from that. The PE 2007 of 14.9x and PE 2008 of 13.5x is not overly cheap, but there is still room for some upside given the positive outlook. We rate the share Accumulate.

Eesti Telekom (Accumulate) – Downgrade to Accumulate due to valuation

The Q4 report was solid as expected. Both sales and earnings were more or less in-line with our expectations. Group Q4 sales increased by 11.3% y-on-y to EUR 99.1m, slightly above our forecast at EUR 95.3m. Operating profit came in at EUR 25.2m, corresponding to a margin of 25.4% – vs. our expectation of EUR 26.2m and 27.5%, respectively. Pre-tax profit was also in-line at EUR 25.8m, vs. our expectation at EUR 26.6m. It is important to note that some changes in accounting policy increased the company's sales and had a minor negative effect on bottom line (digiTV equipment is accounted as financial lease instead of operational lease from now on). Excluding the policy effect, sales would have amounted to EUR 95.2m (0.1% below our forecast) and net income to EUR 27.9m (5.0% above our forecast). During the correction on Baltic markets, Eesti Telekom has lost 17% and is now trading at 2007E and 2008E EV/EBITDA of 7.5x and 7.4x, respectively – slightly higher than its European peers. At the same time, the higher ratio is compensated by above average dividend yield (7.5% for 2007E and 7.7% for 2008E and 2009E). The high yield is supported by steady cash flow, which makes Eesti Telekom a nice case for lower risk investment. We rate the share Accumulate.

Saku (Accumulate) – another solid report

The Estonian brewery, Saku, posted solid Q4 with both sales and profits above forecast. The Q4 sales increased 20.3% yoy to EEK 175m, while we expected sales of EEK 170m, equal to an increase of 15.7%. The Q4 EBITDA totalled EEK 36 (forecast EEK 34m), corresponding to a margin of 20.2% (forecast: 19.9%). The Q4 Pre-Tax profit was EEK 21m, while our forecast was EEK 16m at a margin of 9.6%. The proposed dividend was EEK 25 per share (payout ratio 169%), corresponding to a yield of 9.7%. Although the beer market seems to have stabilized, there is still plenty of growth potential in other beverage segments. While the beer market grew only 3% in 2006, other alcoholic beverages and mineral waters posted significantly higher growth rates (cider market +12%, long-drink market + 35%, water market +26%). The agreement with Finnish beverage producer Sinebrychoff to distribute its production in Estonia will also lift sales and profits (estimated increase in profits around 10%). For 2007, we are looking for sales growth of 18% and a Pre-Tax profit growth of 21.6%. At a PER 2007 of 18.3x the share looks fairly valued. At the same time, when looking at the forecasted yield of 9.4% in 2006 and 5.6% in 2007, the share looks attractive. We reiterate Accumulate.

Tallinna Vesi Q4 (Accumulate) – report in-line, upgrade to Accumulate

The water utility Tallinna Vesi posted Q4 sales above our forecast, mainly thanks to large connection revenues, while bottom-line was in-line. The Q4 total sales increased 37.2% y-o-y to EUR 13.263m; we expected a growth of 2.9% yoy to EUR 9.952m. The deviation was almost fully due to large one-off connection revenues. The sales from main operating activities grew by 6.1% yoy to EUR 9.517m, more or less in-line with our forecast of EUR 9.656m (growth 7.7% yoy). The Q4 gross profit came in at EUR 5.967m (margin 60.8%), also in-line with our forecast of EUR 5.932m (margin 61.3%). The Q4 pre-tax profit of EUR 4.034m was in-line with the forecast of EUR 4.108m. Since inflation is expected to remain high, the company benefits directly through the tariff agreement. For example, in 2007 the total tariff increase was 10.5%, whereof the base increase made up 6.5% and the average annual inflation added another 4.0%. For 2008, we are looking for a tariff increase at the same level, i.e. above 10%. Although the PE 2007 of 17.8x and PE 2008 16.4x cannot be considered cheap, the forecasted dividend yield of ca 5% in coming years looks attractive in the light of the great visibility. The share price has fallen to pre-boom level, and thus we upgrade the share to Accumulate.

TEO (Accumulate) – All earnings paid out, yield close to 10% for 2006.

Top and bottom line were more or less in-line with our estimates, while EBITDA came in significantly below. Total Q4 sales increased 0.6% y-on-y to LTL 188.2m (4.6% excluding Comliet), slightly above our forecast of LTL 186.1m. The Q4 EBITDA came in at LTL 78.5m, corresponding to a margin of 41.7% - this was significantly below our EBITDA forecast of LTL 85.0m, corresponding to a margin of 45.7%. Although long term margin erosion was expected, the pace of it in Q4 was a bit surprising. In comparison, EBITDA margin was 45.4% in Q4/05 and 46.9% in Q3/06. The Q4 Pre-tax profit was LTL 37.6m, which was 4.3% below our forecast of LTL 39.3m. The outperformance below the EBITDA line was due to lower than expected depreciation. Q4 depreciation was LTL 43.4m vs. our forecast of LTL 46.2m. On March 15, TEO announced the dividend of LTL 0.26 per share, which corresponds to a yield of 9.6% and payout ratio of 155%. Given that the TEO paid out all of the parent company’s retained earnings, the payout ratio should be approximately 100% for the coming years. Hence, we did not have to adjust our dividend forecast and the expected yield for 2007 and 2008 remains at 6.9% and 7.6%. Although EBITDA margin erosion was faster than we had anticipated, we keep our Accumulate recommendation on back of decent dividend yield and future potential of Internet services.

Recommendation: Neutral

Grindeks (Neutral) – solid figures, highly dependant on one region and one product

The Latvian pharmaceutical manufacturer, Grindeks, posted another solid report. The Q4 sales came in at LVL 11.52m (our forecast LVL 9.99m), equal to a y-o-y growth of 14.1%. Sales to Russia and CIS increased by 18%, and made up 81% of the total sales (Russia 51%, CIS 30%). The Q4 operating profit was LVL 1.70m, equal to a margin of 14.7% vs. our forecasted profit of 1.86m at a margin of 18.6%. The deviation in operating expenses was mainly caused by higher than predicted selling expenses (advertising costs up 2x associated with setup costs of Russian subsidiary). The Q4 Pre-Tax profit was LVL 1.73m, corresponding to a margin of

15.0% – we expected Pre-Tax profit of LVL 1.68m at a margin of 16.8%. Grindeks is trading at a PER 2007 of 10.1x with EPS growth of 19%, and it is one of the cheapest stocks in the Baltics. However, when having a closer look, there are some factors which make us cautious. The company is highly dependant on its main product, cardiovascular Mildronate, which makes up 73% (2006) of total sales. The patent protection ended in April 2006. The main sales driver is exposure to the rapidly growing Russian pharmaceutical market (+38% in 2006). Given the vulnerable business model, the low valuation is probably justified. Hence we remain with Neutral.

Harju Elekter (Neutral) – Pleasent surprise from Estonian market.

The Estonian electrical equipment maker Harju Elekter posted Q4 sales of EUR 10.7m, vs. our expectation of EUR 9.3m. Both Estonian and Finnish markets were stronger than we expected (Lithuania in-line). Estonian market benefited from warmer than average weather, which resulted in active construction activities during the quarter. Pre-tax profit also came in above our expectations at EUR 0.68m (we expected EUR 0.46m). However, since minority interest and income tax expenses exceeded our forecast, the bottom line was in line with our estimates. Going forward, we expect more or less flat sales on Estonian market while the biggest potential is seen in Finland. However, since the company is already trading at 16.7x 2007E PE, we reiterate Neutral.

Latvijas Gaze (Neutral) – watch the tariff project

The Q4 sales of Latvijas Gaze (LG) increased 26% yoy to LVL 57.1m. The top line was already announced in the beginning of February, so no surprise there. At the same time, Pre-tax profit came in at LVL 12.7m, corresponding to a margin of 22.2%. We expected LVL 9.8m and 17.0%, respectively. However, it should be noted that some of the profit came from the fluctuations of USD and heavy fuel price. The most important factor concerning LG is the tariff increase, which is decided by Public Utilities Commission (PUC). On Mar 12, LG sent a new updated tariff increase project to PUC, asking to increase tariffs by 30% at heavy fuel price of 260 USD/t and by 37% at heavy fuel price of 300 USD/t. Previously they asked a 40% increase. Now it is largely up to PUC to decide the future margins of LG. LG want's to go on with the new tariffs from May 1, 2007. We reiterate Neutral.

Latvijas Kugnieciba (Neutral) – Going on with fleet renewal

The Latvian Shipping Company (LASCO) posted Q4 sales of USD 57.2m, vs. our expectation of USD 51.4m. The Q4 sales increased 14% yoy, which makes it the strongest quarter in 2006. Thanks to lower than expected voyage costs, margins were stronger as well. Excluding the gain from sale of vessels, LASCO's bottom line amounted to USD 5.7m while we expected USD 3.7m. Tanker segment is the largest revenue and profit source for the company, accounting for 83% of revenue and 72% of vessel operating profit in 2006. Although tanker revenues were up 10.7% in 2006 and the average freight rates also increased, the operating profit was down 25.6%. This was due to several factors: (1) costs of Asari type tankers modernization to Category 3 tankers, and (2) the sale of 5 aged tankers which decreased the number of total days in operation. The company goes on with its fleet renewal program. Due to relatively high valuation, we reiterate Neutral.

Merko (Neutral) – development activities to boost profits

The Estonian construction company Merko posted strong Q4 with both sales and profits above forecast. The Q4 sales came in at EUR 85.9m, corresponding to a yoy increase of 75.7% - we expected somewhat lower sales at EUR 68.7m, equal to a yoy growth of 40.7%. The Q4 gross profit came in at EUR 13.6m, corresponding to a margin of 15.8%. Our forecast was EUR 8.4m, corresponding to a margin of 12.2%. The Q4 Pre-Tax profit amounted to EUR 17.5m, equal to a margin of 20.2%. Adjusted for one-off items, the Q4 Pre-Tax profit was EUR 9.1m at a margin of 10.6% - we expected EUR 4.1m at a margin of 6.0%. Despite warnings about overheating, the construction market still seems to hold up, and the short-term outlook is rather positive. We expect significant extraordinary revenues also in Q1, when the proceeds from Tornimäe apartment building (Merko holds 50% of the JV with EKE Invest) should come in. However, one should keep in mind that core construction activities make up less than 30% of profits, i.e. the possible contraction in residential real estate market could hit painfully. On the other hand, the PE 2007 of 11.3x is not too demanding either. We prefer to remain cautious on the company and thus reiterate Neutral.

Norma (Neutral) – Russia finally picking up

The Estonian automotive sub-supplier, Norma, reported solid results with both sales and profits above our forecast. The Q4 sales came in at EUR 18.335m, equal to a yoy growth of 20% - our forecast was set lower at EUR 15.588m, equal to a yoy growth of 2%. Sales to Russian customers (mainly AvtoVaz and GAZ) increased 36% yoy to EUR 6.86m, while sales to Autoliv grew by 23% yoy to EUR 11m. The Q4 pre-tax profit came in at EUR 1.919m (forecast: EUR 1.523m), corresponding to a pre-tax margin of 10.5% (forecast: 9.8%). It was the second sequential quarter when Russia posted promising figures, i.e. it seems that sales to Russia have finally started to pick up. The Russian car market grew by 20% in 2006, however it should be noted that sales of Russian brands increased only by 5%. The PE 2007 of 11.7x seems fair given the high uncertainty regarding to its Russian operations.

Olympic Casino (Neutral) – Margins getting weaker, but acquisition compensates

Olympic Casino's Q4 sales increased 75.6% yoy to EUR 32.49m. Operating profit came in at EUR 7.9m (EUR 5.87m in Q4/05), corresponding to a margin of 24.5% (31.7% in Q4/05 and 32.4% in Q3/06). Net margin came down as well to 21.7% (30.2% in Q4/05 and 30.5% in Q3/06). The sharp drop in margins was the biggest disappointment for us. 1/3 of the margin drop can be attributed to bigger than expected personnel expenses (partly due to year end bonuses), 1/3 to higher than expected depreciation (slot machine depreciation rates were changed in Lithuania) and 1/3 to higher income tax costs (from Latvia). Hence, following the report, we cut margins on most of the foreign markets and slightly increased in Estonia, which posted strong margins for the second quarter in a row. In the beginning of March, Olympic announced the acquisition of Estonian casino operator Kristiine Kasiino. After the adjustments, Olympic trades at 2007E PE of 21.5x and 2008E PE of 18.0x. With an estimated EPS growth of 42% and 19% for 2007 and 2008, we argue the share is fully valued and reiterate Neutral.

Pieno Zvaigzdes (Neutral) – results below expectations, downgrade to Neutral

The Lithuanian dairy company, Pieno Zvaigzdes, posted Q4 below our expectations. The Q4 sales increased 17.6% yoy to LTL 152.3m. We expected Q4 sales of LTL 157.3m, equal to a growth of 21.5%. The bottom line was also below forecast. The Q4 Pre-Tax profit came in at LTL 4.4m at a margin of 2.9% - we expected Q4 Pre-Tax profit of LTL 6.9m at a margin of 4.4%. In comparison, the Pre-Tax margin in Q4/05 was 4.1%. The announced dividend was LTL 0.20 per share (yield 3.9%) vs. our forecast of LTL 0.21 (yield 4.0%). For 2007, the company's guidance for sales is LTL 595m, equal to an increase of 9.2% (in-line with our forecast). For bottom-line, the company expects a net profit of LTL 23.8 at a margin of 4.0% (our forecast LTL 22.3m at a margin of 3.8%). The PE 2007 of 12.7x with the average EPS growth of 13% in the coming two years looks fair. We rate the share with Neutral recommendation.

Rokiskio Suris (Neutral) – below expectations

The Lithuanian dairy company, Rokiskio Suris, posted Q4 below expectations. The Q4 sales were flat at LTL 140.1m, while we forecasted a yoy growth of 9.7% to LTL 154.4m. The reported preliminary Q4 net profit was also below our forecast at LTL 3.0, corresponding to a margin of 2.2%. We expected Q4 net profit of LTL 6.3% at a margin of 4.1%. The company is quite optimistic about 2007 with sales guidance of LTL 610m, equal to an increase of 17.8%. Our view is more conservative at sales of LTL 558m, equal to a growth of 7.8%. For bottom line, we are looking for Pre-Tax profit of LTL 19m, equal to a margin of 4.2%. The share trades at a PE 2007 of 14.7x, which we believe is fair. Hence we remain Neutral.

SAF Tehnika (Neutral) – wages pressuring the margins

Sales for Q2/06-07 increased by 6.7% y-on-y to LVL 3.83m, very much in line with our forecast at LVL 3.84m. However, EBITDA came in at LVL 0.495m, corresponding to a margin of 12.9% - vs. our expectation of LVL 0.711m and 18.5%, respectively. The main reason behind lower than expected profit was the robust increase in salary expenses which, according to the company, was caused by increased production and sales capacities. In addition to higher number of employees, we think that tough wage pressure is obvious, since the number of employees increased only 7% from Q1 but wage expenses were up 38%. Also, the new high capacity SDH product line has not fully picked up yet – it made up 10% of total sales in Q1 (LVL 404k), but just 7% in Q2 (LVL 268k). Worldwide, SDH represents 12% of the total microwave radio market. Going forward, investors should continuously keep an eye on the development SDH product line. Also, personnel expenses should be watched closely, since FQ2 probably included some year-end bonuses and hence Q3 will give a better picture of the normal level of wage expenses. We made some downward adjustments to the margins and reiterate Neutral. The share is down close to 30% from the beginning of February.

Starman (Neutral) – Keep an eye on DTT.

The Estonian CableTV provider Starman reported mixed Q4. Although sales came in 5.6% above our expectations, the Pre-tax was weaker than we had anticipated. The Q4 sales amounted to EUR 3.8m and Pre-tax profit totalled EUR 0.4m, corresponding to a margin of 13.1%. As usual, phone segment exceeded our expectations, which contributed most to the sales forecast deviation. Internet and TV revenue was in-line with our estimates. On cost side, higher marketing expenses as well as goods, services & materials were behind lower than expected margins. Since Q4 has historically been quite weak on profitability's side, the Pre-tax margin is expected to come in at 17.6% in 2007E. However, despite the expected pick-up in margins from Q4 levels, Starman is trading at 21.5x 2007E PE and 20.1x 2008E PE. With an average forecasted EPS growth of ca 10% for the coming years, we see limited upside for the share and reiterate Neutral. However, we suggest keeping an eye on the new DTT service (operated together with Levira), which could boost both the top and bottom line and bring changes to our forecast.

Ventspils Nafta (Neutral) – can Vitol turn the company around?

Ventspils Nafta's Q4 was weaker than we expected. Sales came in at LVL 16.7m, vs. our expectation of LVL 18.5m. The biggest surprise was the negative gross profit line, but everything below that was also weaker than we expected, except for two lines. Those were Gains from Subsidiaries and Income Tax, which both amounted to ca LVL 2.5m. Hence, the bottom line was actually positive again at LVL 2.1m. However, the most important factor concerning Ventspils is not the historical performance. It is the new 35% owner Vitol, who is making big efforts to improve the situation. Ventspils Nafta Terminals, a subsidiary of Ventspils Nafta, handled almost 2 million tons of cargo in first two months of the year. This is almost 2/3 more than in the same period of 2006, when the company handled 1.2 million tons of crude oil and petroleum products. The main reason for the increase in transhipment amounts is activities of Vitol. Hence, 2007 will give an answer whether Vitol can turn around Ventspils. At the moment, we reiterate Neutral.

Coverage terminated – Vilniaus Baldai, Utenos Trikotazas

Disclaimer

LHV is a full service investment bank with focus on the Baltic region. LHV is a member of the Tallinn, Riga, and Vilnius stock exchanges, and is under the supervision of the Estonian Financial Supervisory Authority (Eesti Finantsinspektsioon; see also www.fi.ee).

Readers of this report should be aware of that LHV and LHV affiliated companies (hereinafter LHV Group) is constantly seeking to do investment banking business with companies (hereinafter, Company) mentioned in research reports. LHV Group may be the arranger or one of the arrangers of an offering of securities of the Company. LHV Group may have been the arranger or one of the arrangers of an offering of securities of the Company preceding the publication of the Recommendation. LHV Group may have preceding the publication of the Recommendation made an arrangement with the objective of offering investment banking services to the Company and LHV Group may have received or may have been promised a one-time or a continual fee according to such an arrangement.

LHV Group may act as a market maker, or act as principal or agent, buying or selling securities or derivatives of the companies mentioned in the report.

All reports are produced by LHV Group research department which is separated from investment banking by a “Chinese Wall”. The research analysts receive remuneration based on among others, the overall group revenues of LHV, including investment banking revenues. However, no compensation is based on a specific investment banking transaction.

The author or authors of this report certify that the opinions expressed in this report accurately reflect our personal opinions about the company. The analyst or analysts responsible for this report owns stocks in the following companies mentioned in this report: Eesti Telekom, Olympic Entertainment Group. LHV Group or its directors, officers or employees may have financial interest in the companies mentioned in this report, including long or short positions in their securities, and/or options, futures, or other derivative instruments. Any company mentioned in this report may have a position in LHV Group.

Investing in stocks involves risks. Investors should regard this report as only a single factor in their investment decision process. The shares in this report may not be suitable for all types of investors. No consideration has been taken for the individual investor’s specific needs with regard to financial circumstances and objectives. This report is not an offer to buy or sell any security, but provided for general information purposes only. Information in this report is taken from sources believed to be reliable. However, LHV Group cannot guarantee that the information contained in this report is accurate and complete. LHV Group assume no responsibility for any investment losses.

Where possible, LHV has sent the report to the companies prior to publication. The main valuation method used is PE (price/earnings), and earnings growth. Our aim is to at least once a year, write a report on the companies included in this report.

This document is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. In particular, neither this document nor any copy hereof may be taken or retransmitted in or into the United Sates or redistributed, directly or indirectly in or into the United States. Any failure to comply with this restriction may constitute a violation of US Securities laws.

The distribution of this document in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restriction. Any failure to comply with these restrictions may constitute a violation of the laws of any such other jurisdiction.

By the receipt of the Recommendation the user of this document agrees to be bound with all and any possible restrictions and circumstances as stated above.

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

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

LHV
Brivibas iela 40-31
Riga, LV-1050
Latvia
Phone: +371 7 502 000
Fax: +371 7 502 001

LHV
Tilto st 35/4
Vilnius, LT-01101
Lithuania
Phone: +370 52 685 179
Fax: +370 52 791 598