



KRI KRI MILK INDUSTRY SA

We upgrade KRI KRI SA fair estimated price from €5.00 to €6.50 per share, taking into consideration the solid performance of dairy division, the accelerated revenue contribution of the foreign markets and the improved operating margins due to production efficiencies.

Q1-2019A Performance at a Glance:

- Total revenues stood at €21.58mn, recording a 17.5% yoy increase.
- EBITDA amounted to €4.01mn, up 39% yoy.
- Bottom line profitability improved by 44% yoy.
- The Board of Directors decided to propose at the forthcoming AGM the distribution of €0,15 per share as dividend for the fiscal year 2018.

Outlook

We expect double digit earnings growth by 2020F, taking into account the following key assumptions:

I) The strong demand for Greek yogurt in UK and Italy remains robust and these two markets absorb almost 70% of the total yogurt exports of KRI KRI.

II) The agreement with ALDI UK for the expansion of PL portfolio of ice-cream products, fuels the ice-cream export activity of the company. The management forecasts 50% growth in ice cream exports for 2019E on y-o-y basis.

III) Past investments of €18mn have been included in the investment law. This will result in the firm receiving approximately €6mn subsidies in the form of tax exemptions in the next 5 years, which will be deducted from the taxes paid.

IV) KRI KRI expects a further increase in turnover through its ongoing cooperation with the supermarket chain Lidl Hellas in the yogurt category. In our view, this cooperation could be expanded to other European countries where the discount retailer is active.

Date	30/5/2019
Fair Estimated Price (€)	6.50
Investment Thesis	UV1

Stock Data

Bloomberg Ticker	KRI: GA
Reuters Ticker	KRIr.AT
Price	5,46
Low / High price 52w	3,73 / 5,58
Market Cap (€mn)	181
EPS (ttm)	0,33
P/E (x)	16,7
DPS (2019e)	0,15
Dividend Yield	2,75%

**N. CHRYSOCHOIDIS
STOCK BROKERAGE**

Equity Research Department

+30 210 3213913

www.chryssochoidis.gr



V) Recently KRI KRI has started exporting its ice cream products to Canada and China. The firm participated in the food exhibition SIAL CHINA 2019, in order to promote its product portfolio and also has started to cooperate with the local import company Jongjia. China is one of the largest consumers across the globe and its ice cream market is expected to reach \$23.00bn by 2025. Furthermore, there is strong demand for premium quality ice cream products, as Chinese consumers are willing to pay more for high-end ice cream products. A successful entrance of KRI KRI's ice cream products in Chinese market could significantly boost its revenues and profitability.

VI) During the period 2019-2021, the firm plans to invest €27mn in order to increase its production and storage capacity, to construct a biogas plant and also to modernize further its existing facilities. The implementation of the investment plan will bring results in the increase of production and storage capacity in the dairy plant and at the same time reduce industrial cost due to efficiencies and economies of scales. In addition, the new investment plan is an indication that the management is positive for the future prospects of the company.

Financial Results Q1-2019

Group sales rose 17.5% to €21.58mn, EBITDA to €4.01mn, with margin improvement of 290bps and net income 44% to €2.23mn. Top line growth was mainly driven by the dairy division due to strong export activity and improved market presence in domestic market, and partially by the ice cream division due to the expansion of ice cream distribution network and the launch of new products. EBITDA growth was driven by the dairy division due to increased sales of yogurt products, operating leverage, and the production efficiencies of the dairy plant. Gross Profit increased by almost 17% from €7.01mn to €8.26mn.

Opportunities / Risks

The Greek dairy sector is expected to transform the next years. The market demands larger and more sustainable companies in order to negotiate better deals with the domestic retailers and to grow more effectively the key dairy export products of Greece in foreign markets. We believe that KRI KRI has the resources to get involved in the expected round of consolidation of dairy sector in Greece. In our view we do not rule out an acquisition of rival company by KRI KRI.

A disorderly Brexit is the biggest risk for the company, in case of hard Brexit there is a possibility for the UK government to impose 40% tariffs on dairy products. This will significantly affect the profitability as the UK is the most important export market for KRI KRI both in ice cream and yogurt.

Products such as the skyr or yogurt from almond milk could be a future threat to the Greek / Greek style yogurt market, which could lead to the reduction of its sales in the countries that KRI KRI exports its products.

Valuation

We value KRI KRI through a DCF exercise, under the assumptions of a WACC 10,1% and a terminal growth rate of 2.5%. This exercise derives a fair value price of **€6.50** per share or an upside of 19% from current levels.



Summary Financials				
(€mn)	FY2017a	FY2018a	FY2019e	FY2020f
Profit & Loss Items				
Total Net Revenues	79,25	94,24	107,75	122,82
EBIT	9,93	14,48	17,66	21,43
Net Income	7,34	10,12	13,58	16,65
Balance Sheet Items				
Total Assets	82,42	90,01	102,26	113,05
Cash at Hand	10,14	14,28	22,45	28,39
Total Equity	49,52	55,83	65,16	75,99
Cash Flow Items				
Operating Cash Flow	8,07	16,24	17,39	19,77
Free Cash Flow	4,55	8,61	9,39	11,77
Key Financial Ratios				
Revenue Growth	19,0%	18,9%	14,3%	14,0%
EBIT margin %	12,5%	15,4%	16,4%	17,4%
EPS	0,22	0,31	0,41	0,50
DPS	0,09	0,11	0,15	0,20
Dividend Yield	3,0%	2,6%	2,7%	3,7%
ROE	14,8%	18,1%	20,8%	21,9%
P/E (x)	13,6	13,9	13,3	10,8



31/5/2019

Πήτρα Περιορισμού Ευθύνης:

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Σημειώσεις/Notes

P:	Τρέχουσα Τιμή	Market Price
MCAP:	Κεφαλαιοποίηση	Capitalization
EPS:	Καθαρά Κέρδη Ανά Μετοχή	Earnings per Share
P/E:	Λόγος Τιμής προς Κέρδη	Price/Earnings Ratio
P/S:	Λόγος Τιμής προς Πωλήσεις	Price/Sales Ratio
D/A:	Συνολικός Δανεισμός προς Παθητικό	Total Debt/Assets Ratio
DY:	Απόδοση Μερίσματος	Dividend Yield
ROE:	Απόδοση Ιδίων Κεφαλαίων	Return on Equity
FV:	Τιμή Σωστής Αποτίμησης	Fair Value Price

Οδηγός Συστάσεων/Ratings

UV	Χαμηλή Αποτίμηση/ Χαμηλός Κίνδυνος	Underpriced/ Small Risk Stock Price < 20% of Fair
UV1	Χαμηλή Αποτίμηση/ Κίνδυνος	Underpriced/ Risk Stock Price < 10% of Fair
FV	Σωστή Αποτίμηση/ Χαμηλός Κίνδυνος	Fairly Priced/ Small Risk 10% < Stock Price < 10%
OV1	Σωστή Αποτίμηση/ Κίνδυνος	Fairly Priced/ Risk Stock Price > 10% of Fair
OV	Υπερτιμημένη Μετοχή	Overvalued Stock Price > 20% of Fair
N/R	Μη Αποτιμημένη Μετοχή	Not Rated