

# ACRON

## Meeting with Management: Wrap-Up

### BUY

**12M Target price**  
**Upside potential**

**\$57.4**  
**42%**

Bloomberg code	AKRN RU
Reuters code	AKRN.RTS
Price (local), \$	40.3
Price (GDR), \$	4.0
Upside potential (local)	42%
Upside potential (GDR)	42%
Share: GDR ratio	1:10

#### Share data

No. of ordinary shares (mn)	40.5
Daily t/o (\$mn)	0.43
Free float (%)	15.5%
Market capitalisation (\$mn)	1,635
Enterprise value (\$mn)	2,671

#### Major shareholder

Vyacheslav Kantor	84.5%
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FINANCIALS (\$mn)	2011	2012E	2013E
Revenue	2,226	2,185	2,248
EBITDA	698	597	597
Net income	692	341	337
EPS (\$)	17.1	8.4	8.3
DPS (\$)	4.4	2.5	2.5

#### VALUATION

P/E (x)	2.4	4.8	4.9
EV/EBITDA (x)	3.8	4.5	4.5
EV/Sales (x)	1.2	1.2	1.2
P/B (x)	0.9	0.8	0.7

#### PERFORMANCE

1 month	-1%
3 month	-11%
12 month	-16%
52-week high on 29/11/2011	5.1
52-week low on 06/06/2012	3.4

#### Upcoming events

2012 trading update	Jan 2012
3Q12 IFRS financial results	Jan 2012

Source: Bloomberg, Aton estimates

Aton hosted a meeting with Acron on 26 Nov. The company was represented by its Chairman of the Board Alexander Popov and his top lieutenants. We summarise the key takeaways from the meeting below.

- Acron conceded that over the past few months it has been relatively uncommunicative and has failed to properly address certain shareholder concerns.** The company noted that this was partly due to the distraction caused by certain housekeeping issues. Among these matters they noted the elimination of the cross-shareholding structure, resolution of the company's dispute with PhosAgro and raising funds for the development of the Talitsky potash project. With these and other issues now seemingly resolved Acron can focus on revitalising its relations with shareholders, they said.
- Acron acknowledges that its limited free float is by far the company's greatest challenge.** This problem restricts the share price performance and results in a considerable discount to peers. Popov commented that the company's major shareholder, Vyatcheslav Kantor, understands the issue and may consider selling 10-15% of Acron's shares in an attempt to improve liquidity. Although we acknowledge that this may raise concerns of a short-term overhang risk, we argue that an improved free float could attract additional fund flows into the stock, supporting its price in the long run. The timing of the potential sale has not yet been determined.
- With respect to its investments held for sale** (2.8% of Uralkali and 12% of Azoty Tarnow), Popov said that Acron may issue bonds convertible into Uralkali shares if it fails to sell the latter on the open market. A decision is likely to be made in 2Q13 once the situation in the potash industry becomes clearer.
- Concerning its stake in Polish fertiliser producer Azoty Tarnow (ATT),** Acron said that it has put its acquisition plans on hold due to the ongoing merger of ATT and Pulawy Azot. Nevertheless, Acron has engaged in active talks with the Polish company's management on possible cooperation going forward. Acron mentioned that it could potentially supply ATT with excess phosphate concentrate from its Oleny Ruchey project and the additional ammonia which should appear when Acron launches 700,000 tonnes/year of new production capacity in 2015.
- Acron said that production of phosphate concentrate (first stage) at Oleny Ruchey will ramp up in mid-2013,** with phosphate rock mining already underway at healthy levels. Acron is due to supply 700,000 tonnes of phosphate rock from this deposit to Apatit by the end of 2012. The company noted that mining costs are expected to reach around \$100/tonne with cash costs at \$70/tonne.
- Touching on its Talitsky potash project the company said that construction of the mine would start in early December.** What is most notable is that Acron has VEB committed to providing a credit line of \$1.1bn, which means the project is almost fully funded. The company said the project's feasibility study is due next year. Finally, Acron is committed to selling its Canadian potash exploration permits and a decision on the matter is likely to be made in 2Q13.
- Acron plans to formalise its dividend policy** at a 30% payout ratio to IFRS net profit (vs RAS now).

**We were deeply impressed by the openness of management's answers to questions and their deep understanding of the company's business and the industry overall. We argue that the market has yet to realise Acron's potential to become a vertically integrated fertiliser producer and that its discount to peers should narrow over time. Meanwhile, we think that Acron's potential dividends could surprise on the upside once it sells its Canadian exploration permits or monetises its investments held for sale. We reiterate our BUY rating on the stock with a 12-month target price of \$57.4/share, offering potential upside of 42%.**

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