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LHV bank
Institutional Equities

Company Update

Premia Foods (PRF1T ET)

One Year On

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Approaching the first anniversary of Premia Foods' IPO

Premia Foods (hereinafter referred to as Premia) has finished the first year of its listing on the Tallinn Stock Exchange and has so far fulfilled most of the short-term targets set out during the IPO. The financial results also gave something to cheer about with the company some way ahead of the expectations we set out a year ago. In this report, we have brought out the key developments and changes in the company's business environment, structure and financials over the last year:

1. Expansion to Russia – Premia finalised its acquisition of Hladokombinat No1's assets in Russia and has been consolidating the business since May 2010. The Russian business added EUR 2.6m to gross profit in its first year of inclusion.

2. Restructuring of financing – The cash raised from the IPO was used for the abovementioned acquisition as well as the repayment of more expensive loans. In September the company refinanced many of its outstanding loans, which decreased the interest margin to 1.62% over the Euribor (2.8pp lower margin).

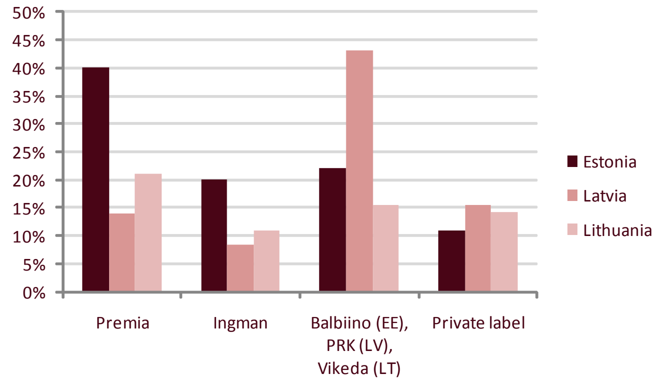
3. Raw material price increases – FY 2010 saw constant pressure from increasing prices of raw materials on the world market, which the company had to pass onto its end customers. The delay in adjusting prices weighed down on profit margins in the fish and ice-cream segments.

4. Fire in a fish processing factory – In May a fire broke out in the fish processing unit in Uusikaupunki, Finland. The damages were fully covered by insurance, but the event resulted in lower sales volumes for the rest of the year. The company eventually decided to relocate production from Uusikaupunki to its other sites.

5. Sustained, strong market position – Premia continued to be a leading producer of both ice-cream, retaining the number one position in Estonia and Lithuania, and frozen foods in the Baltics. The Russian acquisition handed Premia the second largest market share in St. Petersburg, while the company sustained its 25% market share in the Finnish chilled fish market, despite the fire. Constant innovation and marketing activities have further strengthened Premia's position in the region's food industry.

6. Extraordinary summer weather – Summer temperatures in July and August were well above the long-term average in the Baltics and Russia, which contributed to record sales of ice-cream. As this segment has the highest gross margins of all the operating units, then the positive effect at the group level was notable.

Ice-Cream Market Share by Country in 2010



Source: AC Nielsen, Premia

Overview of the Finances for 2010

2010 was a successful year for Premia, with the company showing improved revenues and profits over the previous year. Sales revenue in 2010 reached EUR 77.3m, growing 12.5% y-o-y, most of which can be attributed to the strong performance of the ice cream business. The unit increased its revenues by 64.3% y-o-y, or EUR 10.3m in absolute value. Of this the Russian Hladokombinat business contributed EUR 9.2m. This took Russia's share of all Premia group's sales to 11.7%, with ice-cream accounting for 34.2% of total sales.

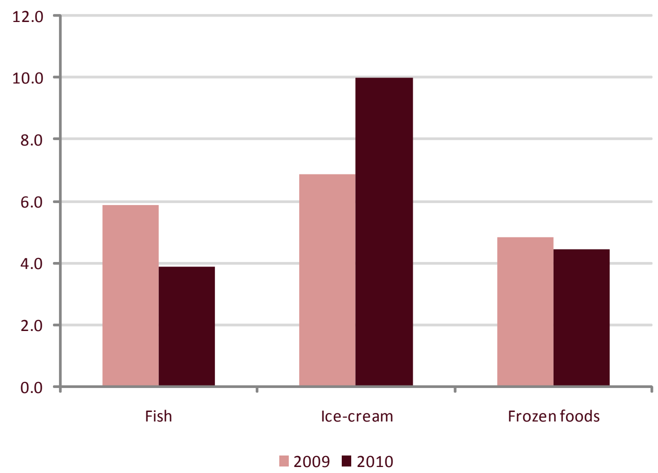
The ice-cream business continues to earn the largest gross margins (37.7% in 2010) of all the operating segments, therefore (as mentioned above) last summer's strong sales had a strong effect on the group's profitability. The segment's gross profit increased by EUR 3.1m during the year, though this was boosted by the results of the acquired Russian unit.

The fish unit is still the largest single contributor on the sales front, with 38.5% of sales coming from this segment and 33.2% from Finland alone. Sales growth in 2010, at just 1.6% y-o-y, was negatively affected by the fire at the production facilities. This incident also makes comparing the segment's profitability across different periods difficult. Gross margins slipped to 13.1%, compared to the 18-20% shown historically. This decrease is partly explained by the time it took for increased prices of raw materials to feed through to retailers, while lower production volumes and a fixed cost base had an effect as well. Including the gain from the insurance payout, the fish segment reported EBIT of EUR 3.0m, which is significantly more than the EUR 1.0m reported in 2009. The profitability of the segment under normal operating conditions will be seen only in 2011.

% of total sales	Finland	Estonia	Latvia	Lithuania	Russia
Ice-cream	0.6%	9.7%	4.6%	7.5%	11.7%
Frozen food		12.1%	9.3%	4.1%	0.1%
Fish	33.2%	5.0%	0.1%	0.1%	
Other	0.1%	1.1%		0.3%	

Source: Premia Foods

Gross Profit of Units, EURm



Source: Premia Foods

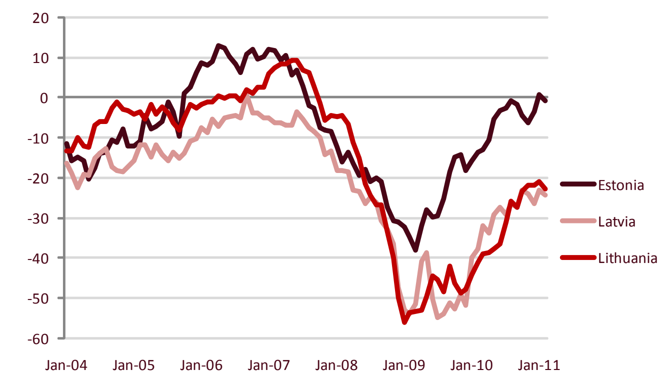
During the year, the frozen foods unit was still suffering from falling consumption, with revenues decreasing 11.6% to EUR 19.8m. Therefore the overall share of the segment in terms of total sales has decreased by 7pp during the year to 25.7%. Gross profits improved as margins rose 0.9pp to 22.4%. At the same time it should be mentioned that margins were stable throughout the year, while in other segments there was more evidence of seasonality.

On the group level, operating profits reached EUR 3.1m in 2010, 22.4% more than in 2009. However the base period had been affected by gains from the revaluation of real estate, making comparisons difficult. Net profit for the period came to EUR 1.3m, double that of the previous year.

Macro Overview

Since our initiation of coverage on Premia, the macroeconomic climate in the Baltic states has improved faster than expected, while in Finland certain sectors are even entering something of a boom. During Q4 2010 the GDP of Estonia, Latvia and Lithuania increased 6.6%, 3.7% and 4.6% respectively. The outlook remains favourable for the next few years as well. Even though growth has been driven by the export sectors so far, local consumers have slowly reawakened. Higher employment and increasing wages have helped consumer confidence reach levels last seen in 2008. These trends should favour Premia. Nevertheless we do not expect a rapid improvement in local retail sales, as consumers feel the pinch from higher inflation.

Consumer Confidence Indicator



Source: Eurostat

The suffering of Finnish consumers during the crisis was relatively light. Spending there has also recovered strongly: in the second half of 2010, retail sales consistently grew by more than 5.0%. This was also reflected in the country's overall economic performance, with GDP increasing 5.0% in Q4. The Russian economy also fared quite well in 2010: GDP expanded 4.0% y-o-y and retail sales were up 4.4%. The outlook for the country this year remains favourable, with analysts predicting that growth should be in the region of 4.35%.

Estonian Retail Market Trends

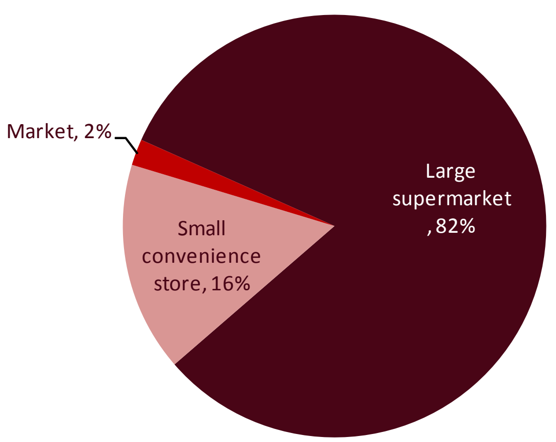
In this section we will take a look inside the food industry and consider the trends that can be spotted in surveys recently carried out in Estonia. Premia Foods' sales in Estonia formed 27.9% of all its sales revenue in 2010. As the company is present there in all its forms (fish, ice cream, frozen foods), we believe that any lessons that can be drawn from observing the local market are equally applicable elsewhere in the Baltics.

The two main trends we would like to emphasise are the increasing market power of large retail chains in the region and the increased price sensitivity of consumers. The latter, in particular, is a result of the recent economic crisis and reflects a smaller overall shopping basket.

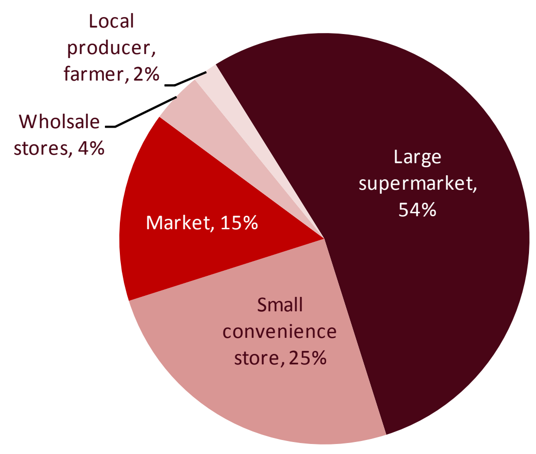
According to a survey conducted by the Estonian Institute of Economic Research in 2009, 82% of respondents indicated that they bought most of their food from large supermarkets, while in 2003 the share had been just 54%. This trend is consistent with the complaints of local producers, who say that the supermarkets are driving too hard a bargain. The concentration of the retail sector is more evident in Finland, where the two largest retail chains hold more than 80% of the market.

The consolidation of the retail sector in the Baltics in the hands of a few large players could be negative for Premia Foods. Firstly, if a large retail chains decides to stop selling Premia's products, then the company's revenues would take a hit. The other key risk is the constant pressure on margins as the retail chains increase their negotiating strength and demand lower prices. Even though we acknowledge this risk, we believe that Premia has a certain degree of protection as it is the market leader in a majority of the products it sells. As consumers like Premia's products, the retail chains would find it difficult to ignore them completely. In addition, Premia's product portfolio is well diversified and the company would be able to tolerate increased competition or price pressure in some of its product groups.

Main Places of Purchase, 2009



Main Places of Purchase, 2003



Source: Estonian Institute of Economic Research.

The second main trend to emerge over the last few years is the increased price sensitivity of local consumers, whose purchasing habits have moved towards buying cheaper products. In 2009 roughly 64% of consumers stated that they were checking the prices of products more often, while 49% said they were purchasing cheaper items. 36% of those questioned were more inclined to cook from scratch, rather than purchasing ready-made meals, with 34% saying they had reduced the amount of food they bought. It is all too clear that higher unemployment and falling wages have increased the sensitivity of consumers to price.

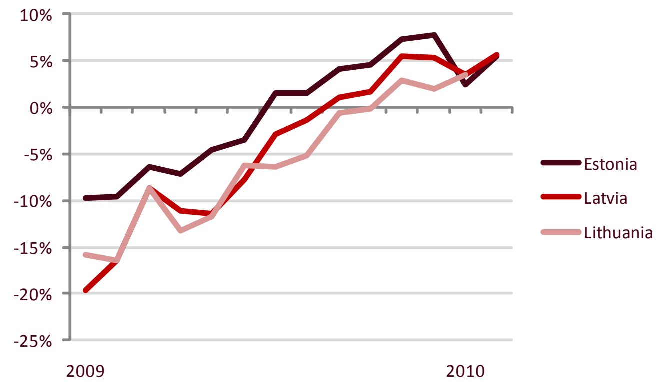
Overall, the main factors determining the choices made by consumers have remained broadly unchanged. These are freshness, quality and flavour, with close to 90% of consumers regarding these qualities as very important. However, as an indication of the increased sensitivity to prices, 56% of those questioned regarded special discount offers as important when choosing what to buy. On the other hand the importance of brand recognition, which should count in Premia's favour, has increased as well, with 37% of consumers taking this into account.

Main Factors Affecting Purchases:	2009	2004
Freshness	91%	95%
Quality	89%	93%
Cheap price	62%	65%
Special price offers	56%	30%
Known brand	37%	27%
Local product	37%	60%

Source: Estonian Institute of Economic Research

One interesting feature highlighted by the survey was the declining importance of local produce to consumers, although 70% of respondents still indicated that, when possible, they prefer to buy local products. This trend helps us to understand why it is quite difficult to expand into new markets with just a greenfield investment or by launching a new product. It also highlights the protective nature of the Scandinavian retail market.

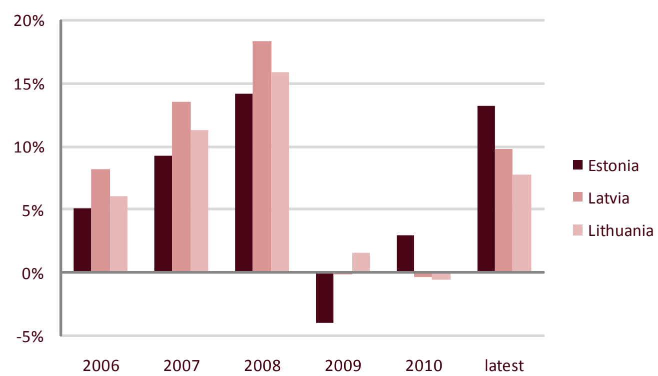
Retail Sales of Food, Tobacco and Beverages, Growth %



Source: Statistic Estonia, Central Statistical Bureau of Latvia, Statistic Lithuania

One more point we need to bring out is the clear turnaround that has taken place in the local retail markets. Retail sales of food in Estonia started growing again in June 2010 and, by the end of the year, Latvia and Lithuania saw increases too. We still have quite conservative expectations on the improvement of the consumption side, but we still expect the market to grow next year, especially with GDP forecast to expand 4-5% across the Baltics in 2011. Grocery retailers, which sell essential products, are expected to recover more rapidly than non-grocery retailers, which should be positive for Premia.

Food CPI, y-o-y



Source: Statistic Estonia, Central Statistical Bureau of Latvia, Statistics Lithuania

Food Prices

The increasing sensitivity of local consumers to food prices can also be explained by the large share of the average consumer basket it accounts for. For example in Estonia, Latvia and Lithuania, food and non-alcoholic drinks make up 24.2%, 25.4% and 26.6% of their respective baskets. By comparison, in Germany the level is just 10.3%. This shows how low the purchasing power of Baltic consumers is compared to those in the developed West and helps explain why the volumes of local producers, such as Premia, suffered in 2008-2010.

During the past few months we have seen another wave of food-price inflation, brought on by increasing prices for raw materials on the world market. As mentioned earlier, though the financial situation of consumers is improving, budgets remain tight and the increase in food prices could support further moves by consumers towards cheaper, discounted products. This could make it more difficult for producers to pass the extra costs onto consumers. In Premia's case we saw temporary falls in the fish segment's margins in mid-2010 (also caused by the fire) and for those of the ice-cream division in Q4/2010. However the company believes these effects are temporary as there is usually a 3-6 months delay in adjusting product prices in retail chains.

Private Label

Another factor that could shape the future of local food retailing is the stronger foothold attained by private label products. In Estonia these are still only a small proportion of all products – around 8% according to 2010 data, but this can vary widely among different categories of product. In western Europe, they make up on average 20-30% of the product assortment, being highest in Switzerland (above 45%), the UK (above 35%) and Germany (above 30%). Despite accounting for only a small proportion of the market, the growth of private label products in Estonia has been quite rapid - in 2002 they made up less than 1% of the market. In the Baltics, private labels have emerged mainly as the “store brands” of retail chains.

Private Label Share in Global Retail Chains	
Wal-Mart	39%
Carrefour	36%
Metro Group	18%
Tesco	50%
Schwartz Group	60%
Aldi	89%

Source: CIAA

With discount stores, such as Aldi (see table above), accounting much of their growth, private label products have been mostly associated with lower prices. For retail chains, these goods generate extra revenue and make it simple to launch new products with low marketing costs. Lower promotion costs and other expenses (packaging, R&D etc) allow the supermarkets to offer better prices. As the importance of prices has increased for Baltic consumers, then the increasing relevance of private labels is well founded.

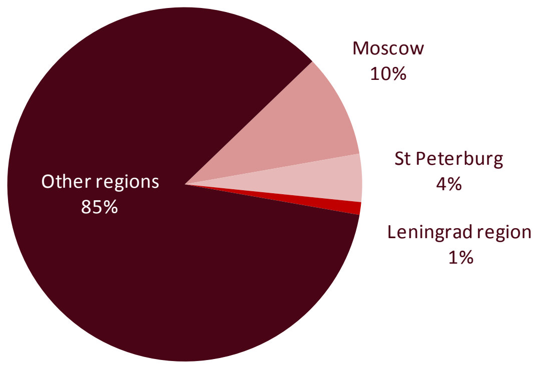
However it should be added that while private label goods apply pressure to food producers, it is the market leaders in each of the product groups that are least affected. The stronger the brand recognition, the lower the threat from private labels. Therefore we feel that the short-term effect on Premia should be limited due its market leader status in most of its product range. Nevertheless the brand producers still need to continue investing in R&D, innovation and marketing in order to guarantee the differentiation of their goods. It is also important to remember that Premia itself produces private label items for retail chains in the fish and ice-cream segments, but that the value of this activity is not meaningful on a group level.

Ice Cream

The near-term growth prospects of Premia’s ice-cream division rest on the Russian market. In 2010 the company acquired the assets of Hladokombinat No1 in St. Petersburg, after previously holding only the company’s trademarks. This move gave Premia full control of the operations, allowing it to consolidate the Russian business from May. During the eight months that remained of 2010, the Russian operations contributed EUR 9.2m in revenue and EUR 2.6m in gross profit. Therefore a large share of the increase in gross profit last year resulted from the acquisition. However as the Hladokombinat business has a lower gross margin (28.3% during 8 months/2010), than the segment as a whole, it brought down the margins of the ice-cream production unit by 5pp. At the same time, Premia’s Baltic units kept their gross profitability at the previous year’s levels.

The Russian ice-cream market generates a great deal of potential for Premia. The company estimates that St. Petersburg’s wholesale market is worth EUR 57m, while the total value of the three Baltic markets is EUR 73m. According to the Russian Federal Statistics Service, the value of ice-cream retail sales in 2010 reached EUR 1.5bn, from which sales in Moscow made up 9.4% of the total market (EUR 141m), with St.Petersburg and the Leningrad region together accounting for 5.6% (EUR 82.8m). In all, the market grew 26.2% in 2010 (in local currency), which corresponds with the figure for St. Petersburg. However it must be remembered that this rapid growth resulted from good summer sales as well as food price inflation.

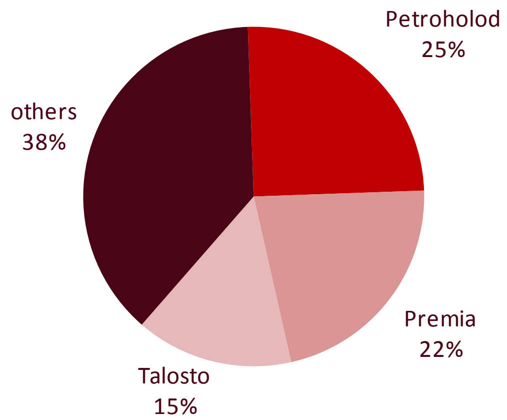
Russian Ice-Cream Retail Market, 2010



Source: Federal State Statistics Service

Russian ice-cream manufacturing is quite fragmented, with roughly 250 players jockeying for position, according to the Union of Russian ice-cream producers. The market is mostly dominated by local players, with imports forming just a few percent of the total market. Another feature of the market is that the market leaders differ wildly from region to region, probably because the large market size and historical consumption patterns promote loyalty towards local brands. Total production volume is around 360,000-400,000 tonnes per year. The largest player in the Federal market, Inmarko (owned by Unilever), has c.a. 12-13% of the market and is followed closely by Talosto (10-11%), Russian Holod (10%) and Nestle (5%). In the St. Petersburg region, the market is divided up among other players with Petroholod holding the largest single share (25%) and Premia's Hladokombinat accounting for 22%.

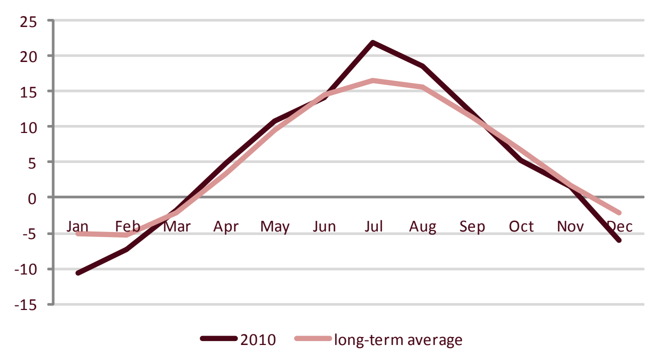
St Petersburg Ice-Cream Market, 2010



Source: Premia Foods

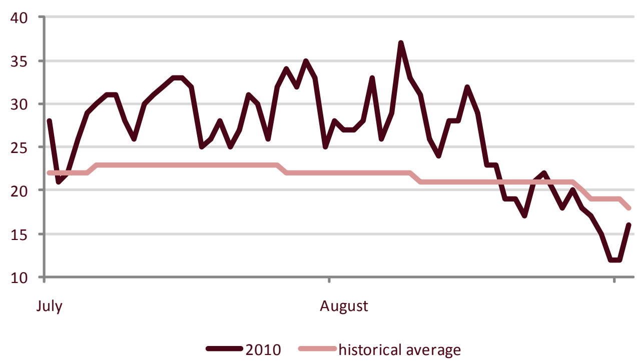
Last year, the financials of the ice-cream segment were boosted by an exceptionally warm summer, the main sales period for the product. For example, in Estonia the average temperature in July was more than 5C, and for August 3C, above the long-term averages for both months. In Russia temperatures were even more extreme, with July the hottest month ever recorded. This helped Premia to reach a new all-time sales record in July. Therefore it is necessary to highlight that the base period sales figures are exceptionally strong, meaning that the summer sales of 2011 might not look so good by comparison. On the other hand, the figures for 2011 will be supported by the inclusion of an extra four months of Hladokombinat's sales. The company's management has indicated plans to expand its activities in Russia, which should be the segment's main long-term growth driver. The potential of the Russian market is huge considering its size, but we do not believe that accruing market share in other regions will be an easy task.

Average Monthly Temperatures for Estonia, Centigrade



Source: EMHI

Daily Maximum Temperatures for St. Petersburg, Centigrade

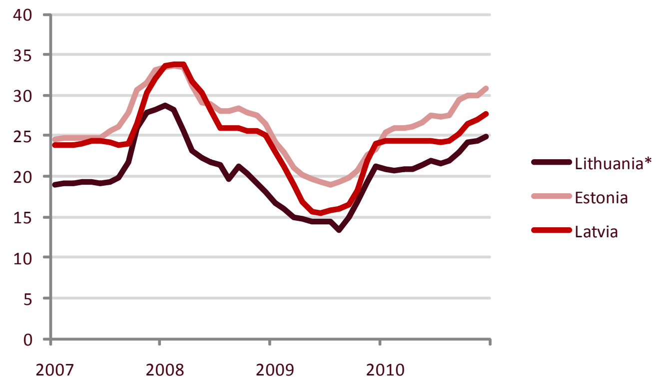


Source: Weather Underground

During 2010, Premia retained its leadership position in the Baltic ice-cream market. The company continued with 40% market share in Estonia, also taking the leader's mantle in Lithuania with 21.1% of the total market. Only in Latvia did the company's share of sales decrease to 14%, trailing significantly behind the market leader, Rigas Piena Kombinats (43% share). The still limited purchasing power of consumers brought lower sales levels during the first half of the year, but the good summer weather turned fortunes around. As we have already mentioned, prices have become more important for consumers and this could be the reason for the strong performance of private label products in the segment, especially in Latvia and Lithuania. The branded producers therefore have to come out with new sales hits and product innovations, something Premia achieved last year with the launch of its "Eriti Rammus" brand in Estonia. New product launches offer better profitability margins for the company, but the other part of the portfolio has to follow current market trends and offer discounts just as the competition does.

The ice-cream segment has not been left untouched by the increase in the prices of raw materials. The effect was clearly seen in Q4 profitability when the gross margin of the segment fell to 13.3%, from 21.0% a year ago. The fall was caused by the delay in increasing the prices of end products in the retail chains, which takes three to six months. Premia believes that it can carry out the necessary adjustments by the end of Q1/2011, when profitability margins are expected to recover. There is no single input that makes up a significantly large share of the segment's cost base. The company itself follows the price changes using a basket of raw material inputs. That said, we would still like to highlight the recent changes of raw milk prices in the market to indicate the pressures being felt from the surge in costs. For example farm gate raw milk prices increased an average 32-39% in the Baltics during 2010 and were just 10% below their peak levels at the beginning of 2008.

Farm Gate Raw Milk Prices, EUR per 100kg



*Source: clal.it; *Lithuanian data based on EUR per 100l*

In 2011 the bottom line of the ice-cream segment is expected to improve mainly on the back of efficiency gains made at the company's operations in St Petersburg, at the same time we expect the financials for the Baltic markets to remain stable. Premia has also initiated the transfer of production lines to new premises in Russia, which is expected to support the bottom line by EUR 0.1m in 2011 and EUR 0.5m in 2012. Profitability during the start of the year will be affected negatively by the increase in raw material prices, which was also the case in Q4/10. We do expect profit margins to recover their normal levels in Q2.

Fish

The main event affecting the fish segment in 2010 was the fire at the Uusikaupunki (Finland) plant in May, which caused lower production volumes for many months. The losses stemming from the accident, EUR 2.9m, were covered by insurance. However the Q4 sales figures confirmed that the company is back on track after revenues grew 7.7%. The prospects for 2011 are further boosted by the segment's low base period sales figures and also the increase in world market fish prices.

Following the fire, Premia also reviewed all of its fish processing activity and decided to close the Uusikaupunki facility completely. The company will increase production volumes at two other production sites in Hämeenlinna (Finland) and Saaremaa (Estonia). The total investments required are in the range of EUR 1m, but the cost savings in terms of lease expenses will be EUR 0.2m per annum. By the end of the year, Premia had already returned to previous processing volumes.

Finland still forms the majority of Premia's fish unit sales. The country's consumption levels have also shown signs of growing recently as well. In 2008 the consumption of fish products decreased 6% y-o-y, stabilising at that level before increasing slightly during 2009. Data from the Food and Agriculture Organisation of the United Nations show that Finns are among the biggest consumers of fish products in Europe, consuming 50% more than the European average.

Finnish Per Capita Fish Consumption, Filleted Weight, kg	2005	2006	2007	2008	2009
Domestic fish consumption	5.2	5.0	4.9	4.4	4.5
Import fish consumption	8.7	9.3	11.7	11.2	11.2
Total consumption	**13.9**	**14.3**	**16.6**	**15.6**	**15.7**
of which rainbow trout	2.2	2.0	1.9	2.2	2.1
of which salmon	2.1	2.1	2.9	2.8	3.2

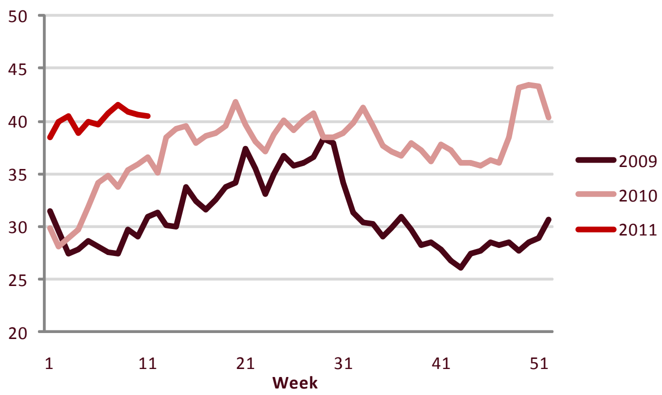
Source: Finnish Game and Fisheries Research Institute

Finland's fish retail market is characterised by high entry barriers and rather fixed market shares. Therefore

Premia, which is the second largest player in the country's chilled fish market, could be expected to grow in line with the sector as a whole and perhaps faster if its increasing promotional and innovative efforts succeed. The segment's untapped potential also includes expansion to other Baltic markets. In 2010 Premia sold EUR 3.9m of fish products in Estonia, while sales to Latvia and Lithuania were at very low levels. Premia's strong distribution network in the Baltics would clearly offer plenty of cross-selling opportunities. A recent Data Food Networking (DAFNE) survey of consumption trends shows that, historically, fish consumption per capita in Estonia is lower than in Latvia and Lithuania, which would support the argument in favour of expanding to those markets. Premia Foods has already launched certain product ranges in both countries and therefore an increased contribution can be expected from Latvia and Lithuania.

The upward march of salmon prices does not look like stopping, with Norwegian export prices recently touching NOK 40.4 per kg - a year ago, prices stood at NOK 36.65. During the first eleven weeks of the year, salmon prices have been an average 23.8% above 2010 levels. This trend has been supported by production problems in Chile, however the expected growth in volumes during 2011-12 in both Chile and in Norway, due to the issue of new licenses, should provide some drag on prices. The effect of rising market prices is twofold for Premia. As the company breeds 40% of the fish used for production in its farms, then increasing prices support the financials of the fish farming unit. At the same time, for the remainder of its production, Premia buys fish on the world market, opening itself to the risks associated with price fluctuations as it can take 3-6 months for changes to feed through to the retail level.

Norwegian Salmon Export Prices, NOK per kg



Source: Statistics Norway

The hike in fish prices on the world market has brought about a consolidation phase in the fish farming industry, with multiple transactions taking place in Norway and Scotland over the last 12 months. One of the most active participants in all this was the Polish fish producer, Morpol, who saw owning its own fish farms as the perfect hedge against the surge in raw material prices. In the sense of increased M&A activity, Premia's own fish farms in Sweden and Finland appear to be a valuable asset for the group. These farms mainly produce rainbow trout, a type of salmonoid, and have a total production capacity of 2,600 tonnes, according to issued licences. Therefore, considering the prices of recent transactions (price/production multiple of more than EUR 5,000 per tonne), Premia's fish farming assets could be worth more than EUR 10m.

Date	Acquirer	Target	Price, EURm	Production, metric tonnes (capacity*)
Jan-11	Leroy	Jokisen Eväät (Finland)	-	-
Jan-11	Morpol	Jøkelfjord Laks AS	62,0m	7000
Sep-10	Leroy	Sjøtroll Havbruk AS	67,7m (50,71%)	26,000
Sep-10	Grieg Seafood	2 Scottish farms	2,9m	3,000
Aug-10	Morpol	Mainstream	44,2m	6,500
Aug-10	Morpol	Westray Scotland	4,0m	500 (2500*)
Aug-10	Morpol	Rysa Salmon	2,38m	450 (750*)
Mar-10	SalMar	Bringsvor Laks AS	17,8m	1,800

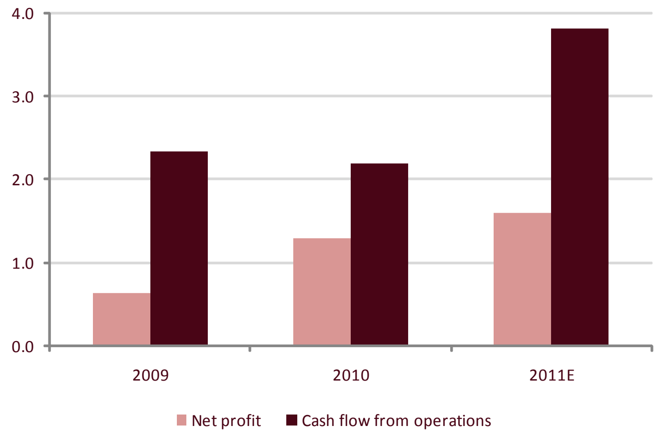
Source: Seafoodsource.com

Financial Position

The cash raised from the IPO (gross proceeds EUR 12.5m) has enabled Premia Foods to lower its balance sheet risk. The proceeds have been partly used to pay back more expensive loans, which has reduced the net debt by EUR 7.3m during the year to EUR 11.2m. Therefore the debt-to-equity ratio has fallen to a quite conservative 27%.

The improved capital structure allowed Premia to refinance the rest of the loan portfolio at better terms. The company has a loan limit of EUR 15.55m, with an average risk margin of 1.62% over the Euribor. Therefore the risk margin decreased by 2.8pp which, together with the overall loan balance, should reduce financial expenses by more than EUR 0.5m in 2011. It should be added that Premia was using just EUR 11.9m of the loan facility at the end of 2010.

Net Profit and Cash Flow, EURm



Source: Premia Foods, LHV

When we add to the unused facility Premia's ability to generate cash flow, then the company has already developed a small war chest for further acquisitions. According to our expectations, Premia Foods will generate EUR 3.8m of cash flow from its operations in 2011, while capex needs are still quite low – c.a. EUR 1.2-1.3m in 2011. Therefore the expected free cash flow of EUR 2.5m from operations can be used either to pay dividends or for further M&A transactions. The company has already proposed dividend payments for FY 2010 and will pay out 30% of the net profit. The total payment comes to EUR 0.39m, which can be easily financed from the operating cash flow.

Forecasts 2011

The company's management has published its own predictions for 2011, which include a revenue forecast of EUR 85m and an expected net profit of EUR 1.6m. Thus the company expects revenues to grow 10% and net profit to expand c.a. 30%. The profit figure corresponds exactly with our own expectations. At the same time, we have moved our revenue forecast (upwards) closer to the company's level.

The stronger than expected revenue guidance probably stands on two pillars – firstly the expansion of the frozen foods business and, secondly, the ongoing inflation in food prices. In a recent stock exchange announcement, the company outlined its expansion plans to St Petersburg and to Finland's frozen foods market. In addition, we believe that both the ice-cream and fish segments could see higher than expected nominal growth because of the high prices of food in the world market. The company has also stated that, in recent months, the fish segment's sales have grown more quickly than they had expected.

As mentioned previously, compared to the base period, the group will be benefit from an extra four months of ice-cream sales in St. Petersburg in 2011 and sales in the fish segment will no longer be hindered by the effects of the fire in 2010. These two factors will give an extra boost to the company's revenues in 2011.

Our net profit forecast of EUR 1.6m is in line with management's guidance. The improvement comes mainly from higher sales and a recovery in gross margins. During 2010 margins suffered from the fire and increases in the fish segment's raw material prices. We now expect that segment's gross margins to return their historical norm, i.e. around 18%, in 2011 - a major contribution to the expected improvement overall. In addition, the beneficial effects of transferring production in the fish and ice-cream segments, from Uusikaupunki to St. Petersburg, and the further integration of the Russian operations will add to the bottom line. The refinancing of the loan portfolio will also contribute more than EUR 0.5m. Therefore the total improvement in profitability is balanced evenly between increases in revenues and cost side improvements.

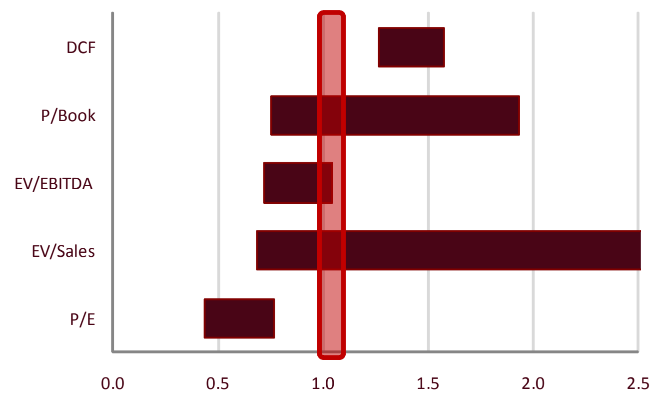
Valuation

To calculate our valuation range, we have used a sum-of-the-parts model for different segments as well as the peer comparison valuation ratios. The sum-of-the-parts model shows that the ice-cream segment has attained the largest enterprise value of EUR 63m, through the DCF methodology. However this segment's value should be looked at together with the frozen foods distribution business, which helps to share the fixed cost burden of the ice-cream division. Without the frozen foods segment, the cost base of the ice-cream unit would be larger and therefore the value achieved in the DCF model lower. Thus the total value of the ice-cream and frozen foods segment comes to EUR 43m. Our DCF model valued the fish production segment at EUR 24m. As we had already stated, fish farming accounts for much of this segment's activity, which could make up even half of the unit's value. Adjusting for net debt, the equity value for Premia comes to EUR 54m or EUR 1.38 per share. This is considerably more than the current market price implies, but the valuation method is clearly supported by Premia's unquestioned ability to generate cash and its low capex needs. We also expect the company's long-term profitability to improve through further cost optimisation.

Sum-of-the-Parts	EURm
Enterprise value: Fish	24
Enterprise value: Ice cream	63
Enterprise value: Frozen Foods	-20
Enterprise value: Other/unallocated income/expense	-2
Total Enterprise Value	**65**
Less net debt	11
Equity value	54
Value per share, EUR	1.38

Source: LHV

LHV Fair Value Range: EUR 1.00-1.10



Source: LHV

When looking at the peer-comparison, at the group level, Premia has upside on its sales multiple, with a median peer multiple of 0.65x for 2011E EV/sales, compared to Premia's 0.52x. Considering Premia's position in all of its key markets, then a premium on the peer group is probably merited. At the same time, the recent bout of lower profits would suggest that the company is fairly valued. The 2011-2012E profitability multiples of the peer-group are lower than those of Premia, but its P/E ratio is negatively affected by high depreciation expenses, which are expected to decrease due to low capex needs. Overall we arrived at a fair value range of EUR 1.00-1.10 per share.

Peer Comparison	P/E (x)			EV/sales (x)			P/Book (x)			EV/EBITDA (X)		
	2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2012E
Premia Foods	**28.4**	**20.9**	**13.9**	**0.6**	**0.5**	**0.4**	**0.9**	**0.8**	**0.8**	**6.8**	**7.4**	**6.1**
Median	**10.6**	**10.2**	**9.4**	**0.7**	**0.6**	**0.6**	**1.1**	**0.9**	**0.9**	**7.1**	**6.2**	**6.1**
AKER SEAFOODS ASA	19.8	10.0	8.7	0.62	0.56	0.56	0.7	0.6	0.6	7.4	6.2	5.9
ATRIA PLC	25.1	12.2	8.0	0.50	0.48	0.45	0.6	0.6	0.5	9.2	7.5	6.4
AUSTEVOLL SEAFOOD ASA	9.5	7.8	9.4	1.13	0.97	0.90	1.4	1.2	1.1	5.9	5.2	6.1
BONDUELLE SCA	10.4	15.6	11.0	0.71	0.65	0.62	1.4	1.2	1.1	6.8	7.7	6.6
COPEINCA ASA	14.1	10.7	10.1	2.73	2.32	2.20	1.7	1.6	1.5	8.2	6.2	6.1
DOMSTEIN ASA	na	11.6	9.7	0.13	0.14	0.21	0.5	0.5	0.5	7.7	7.0	6.6
GRIEG SEAFOOD ASA	5.0	5.7	8.3	1.28	1.32	1.30	1.1	1.0	1.0	4.5	4.7	5.9
GRAAL SA	10.5	8.4	6.8	0.49	0.45	0.41	0.4	0.4	0.4	6.9	6.0	5.6
HKSCAN OYJ-A SHS	12.5	8.9	7.6	0.37	0.34	0.31	1.0	0.9	0.8	7.2	6.0	5.6
LANNEN TEHTAAT	16.2	15.5	14.5	0.32	0.30	0.29	0.8	0.8	0.8	7.8	7.4	7.2

Continued Overleaf

Peer Comparison	P/E (x)			EV/sales (x)			P/Book (x)			EV/EBITDA (X)		
	2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2012E
LEROY SEAFOOD GROUP ASA	8.5	8.2	11.1	1.29	1.14	1.13	1.9	1.7	1.7	6.7	5.9	7.8
MARINE HARVEST	9.2	8.6	11.1	1.77	1.69	1.72	1.8	1.8	1.8	6.8	6.4	7.5
NORTHERN FOODS PLC	9.9	9.9	8.5	0.49	0.50	0.48	4.5	na	na	5.5	5.7	5.3
NESTLE SA-REG	16.8	15.6	14.1	1.82	1.80	1.72	3.1	3.0	2.8	12.5	12.1	11.3
NORWAY PELAGIC ASA	7.6	7.7	7.4	0.43	0.45	0.41	0.7	0.7	0.7	7.1	6.8	6.6
PESCANOVA SA	10.6	8.5	6.5	0.73	0.63	0.55	1.1	0.9	0.8	6.5	5.9	5.0
PINGUINLUTOSA	92.1	19.1	13.2	0.45	0.39	0.34	0.8	0.8	0.8	na	na	na
RIEBER & SON ASA	12.0	10.7	9.2	0.90	0.87	0.77	1.8	1.7	1.5	6.5	6.1	5.5
TASSAL GROUP LTD	10.5	10.5	9.4	1.54	1.35	1.23	1.0	0.9	0.9	7.3	6.7	6.0
WIMM-BILL-DANN FOODS-ADR	39.9	30.2	22.3	2.38	2.01	1.70	10.4	8.1	6.4	20.4	16.2	13.7

Source: LHV, Bloomberg

Financial Summary (sums may not add up exactly due to rounding. All tables sourced from LHV and Premia Foods).

Key Numbers	2007	2008	2009	2010	2011E*	2012E*
Sales (EURm)	63.6	77.3	68.7	77.3	84.8	88.8
Sales growth (%)	na	21.6	-11.2	12.5	9.8	4.6
Net profit (EURm)	2.8	-1.6	0.6	1.3	1.6	2.4
EPS (EUR)	0.07	-0.04	0.02	0.03	0.04	0.06
P/E (x)	12.6	-21.4	54.2	28.4	20.9	13.9
DPS (EUR)	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	1.1	1.4	2.2
P/B (x)	2.0	1.3	1.3	0.9	0.8	0.8
EV/Sales (x)	0.9	0.7	0.8	0.6	0.5	0.4
EV/EBITDA (x)	8.0	11.3	8.6	6.8	7.4	6.1
EV/EBIT (x)	13.0	83.6	21.1	15.6	18.9	12.1
ROE (%)	16.1	-6.0	2.3	3.1	3.8	5.4

*Source: Premia Foods, LHV *2011-12 multiples are based on current share price of EUR 0.868 per share*

Financials

Annual Income Statement, EURm	2008	2009	2010	2011E	2012E	2013E
Sales	77.3	68.7	77.3	84.8	88.8	93.5
Cost of goods sold	-58.6	-50.9	-58.6	-63.1	-65.8	-69.1
Gross profit	**18.8**	**17.8**	**18.7**	**21.7**	**23.0**	**24.3**
Selling and distribution expenses	-16.0	-13.6	-15.3	-15.9	-16.0	-16.6
Adminsitrative expenses	-5.0	-4.0	-4.0	-4.0	-4.1	-4.3
Other income/expense	2.8	2.0	2.5	0.0	0.0	0.0
Fair value adjustment on biological assets	0.1	0.3	1.0	0.5	0.5	0.5
Operating profit	**0.6**	**2.5**	**3.1**	**2.3**	**3.3**	**4.0**
Financial income		0.1	0.1	0.0	0.0	0.0
Financial expense	-2.6	-1.9	-1.5	-0.4	-0.5	-0.3
Pre-tax profit	**-2.0**	**0.7**	**1.7**	**1.9**	**2.8**	**3.7**
Income tax	0.4	0.0	-0.4	-0.3	-0.4	-0.6
Minority interest	-0.1	-0.1	-0.0	0.0	0.0	0.0
Profit for the period	**-1.6**	**0.6**	**1.3**	**1.6**	**2.4**	**3.1**

Quarterly Income statement, EURm	Q1/10	Q2/10	Q3/10	Q4/10	Q1/11E	Q2/11E	Q3/11E	Q4/11E
Sales	15.0	21.3	23.2	17.8	16.4	24.2	25.3	18.9
Cost of goods sold	-12.0	-16.1	-16.4	-14.1	-12.7	-17.4	-17.8	-15.3
Gross profit	**3.0**	**5.2**	**6.8**	**3.7**	**3.7**	**6.9**	**7.5**	**3.7**
Selling and distribution expenses	-3.0	-4.2	-4.9	-3.3	-3.2	-4.5	-4.7	-3.6
Adminsitrative expenses	-0.8	-1.0	-0.7	-1.4	-0.9	-1.0	-1.0	-1.1
Other income	0.2	3.0	-0.0	-0.6	0.0	0.0	0.0	0.0
Other expense								
Fair value adjustment on biological assets	-0.4	0.4	1.3	-0.3	-0.3	0.3	1.0	-0.5
Operating profit	**-0.9**	**3.5**	**2.5**	**-2.0**	**-0.6**	**1.6**	**2.8**	**-1.5**
Financial income	0.1	-0.0	0.2	-0.2	0.0	0.0	0.0	0.0
Financial expense	-0.5	-0.3	-0.6	-0.1	-0.1	-0.1	-0.1	-0.1
Pre-tax profit	**-1.3**	**3.2**	**2.1**	**-2.4**	**-0.7**	**1.5**	**2.7**	**-1.6**
Income tax	0.1	-0.2	-0.3	0.0	0.1	-0.2	-0.4	0.2
Minorities	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit for the period	**-1.2**	**3.0**	**1.8**	**-2.3**	**-0.6**	**1.3**	**2.3**	**-1.3**

Balance Sheet, EURm	2008	2009	2010	2011E	2012E	2013E
Cash and equivalents	1.3	1.3	0.7	0.8	1.4	2.1
Receivables and prepayments	10.2	8.6	9.7	11.0	11.5	12.2
Inventories	13.3	13.1	16.9	17.8	17.8	18.7
Fixed assets held for sale	1.6	1.7	0.0	0.0	0.0	0.0
Total current assets	**26.4**	**24.6**	**27.4**	**29.7**	**30.7**	**32.9**
Deferred income tax asset	0.4	0.4	0.5	0.5	0.5	0.5
Long-term financial investments	0.1	0.1	0.1	0.1	0.1	0.1
Investment property	0.2	2.1	2.1	2.1	2.1	2.1
Tangible fixed assets	18.1	15.5	15.1	13.3	12.0	11.2
Intangible ssets	20.6	20.2	23.6	23.1	22.7	22.2
Total fixed assets	**39.3**	**38.2**	**41.3**	**39.0**	**37.3**	**36.1**
TOTAL ASSETS	**65.7**	**62.8**	**68.7**	**68.7**	**68.0**	**69.0**
Loans and borrowings	11.8	10.2	2.4	2.5	2.2	1.9
Factoring payables	2.0	2.7	2.8	2.5	2.2	1.9
Supplier payables	7.3	4.9	9.3	9.8	10.2	10.7
Other payables	4.0	3.5				
Total current liabilities	**25.0**	**21.3**	**14.5**	**14.8**	**14.6**	**14.5**
Loans and borrowings	9.2	9.6	9.5	8.0	5.5	4.3
Long-term payables to shareholders	1.0	1.1				
Deferred tax liabilities	1.4	1.4	1.6	1.6	1.6	1.6
Target financing	1.9	1.7	1.7	1.7	1.7	1.7
Total noncurrent liabilities	**13.5**	**13.7**	**12.8**	**11.3**	**8.8**	**7.6**
Share capital	1.5	1.5	24.7	24.7	24.7	24.7
Share premium	25.5	25.5	14.5	14.5	14.5	14.5
Treasury shares	0.0	-0.3	-0.0	-0.0	-0.0	-0.0
Currency translation reserve	0.0	0.1	0.3	0.3	0.3	0.3
Retained earnings	0.0	0.6	1.8	3.1	5.0	7.4
Shareholders equity	**27.0**	**27.5**	**41.4**	**42.6**	**44.5**	**46.9**
Minority interest	0.2	0.2	0.0	0.0	0.0	0.0
TOTAL EQUITY & LIABILITIES	**65.7**	**62.8**	**68.7**	**68.7**	**68.0**	**69.0**

Financials

Cash Flow Statement	2008	2009	2010	2011E	2012E	2013E
Profit		2.5	1.3	2.3	3.3	4.0
Depreciation of fixed assets		3.7	4.0	3.6	3.3	3.1
Loss from sale of fixed assets		0.1	-0.1			
revaluation of in properties		-1.9				
Other non-cash charges			-1.3			
Cash flow before change in working capital		4.3	4.0	5.9	6.6	7.1
Change in receivables		0.9	0.8	-1.3	-0.5	-0.6
Change in inventories		0.1	-1.8	-0.9	0.1	-0.9
Change in payables and prepayments		-3.0	-0.7	0.5	0.5	0.5
target financing		-0.3		0.0	0.0	0.0
prepaid income		0.1				
tax paid			-0.1	-0.3	-0.4	-0.6
exchange losses		0.2	0.0			
Cash flow from operations	**1.4**	**2.3**	**2.2**	**3.8**	**6.1**	**5.5**
sale of tangible and intangible assets		0.1	0.1			
purchase of tangible and intangibles	-2.2	-0.7	-1.9	-1.3	-1.5	-1.9
acquisition of subsidiaries		-0.0	-3.5			
loans granted		-0.3	-0.0			
repayments of loans granted		0.4	0.0			
interest received		0.1	0.0	0.0	0.0	0.0
other financial income		0.0	0.0			
Cash flow from investments	**5.4**	**-0.3**	**-5.2**	**-1.3**	**-1.5**	**-1.8**
Cash flow before financing	**6.8**	**2.0**	**-3.0**	**2.5**	**4.6**	**3.7**
change in overdraft		0.0	-2.3			
repayment of loans		-7.0	-14.2	-1.4	-2.8	-1.6
loans raised		6.6	8.4			
change in factored receivables		0.8	0.0	-0.2	-0.3	-0.3
target financing received		0.1	0.4	0.0	0.0	0.0
capital lease repayments		-0.9	-0.9			
issue of shares			12.2			
dividends paid				-0.4	-0.5	-0.7
interest paid		-1.3	-1.0	-0.4	-0.5	-0.3
other financial expenses		-0.1	-0.2			
Cash flow from financing	**-6.9**	**-1.8**	**2.5**	**-2.4**	**-4.0**	**-3.0**
CHANGE IN CASH	**-0.1**	**0.2**	**-0.5**	**0.1**	**0.6**	**0.6**
Cash at the beginning of the year	**1.4**	**1.3**	**1.3**	**0.7**	**0.8**	**1.4**
change in cash	-0.1	0.2	-0.5	0.1	0.6	0.6
FX revaluation		-0.2	-0.0	0.0		
Cash at the end of the year	**1.3**	**1.3**	**0.7**	**0.8**	**1.4**	**2.1**

Financials

Key Multiples	2008	2009	2010	2011E	2012E	2013E
Year end no of shares, '000	38.7	38.7	38.7	38.7	38.7	38.7
Weighted avg no of shares, '000	38.7	38.7	38.7	38.7	38.7	38.7
Financials, EURm						
Sales	77.3	68.7	77.3	84.8	88.8	93.5
EBITDA	4.8	6.2	7.1	5.9	6.6	7.1
EBIT	0.6	2.5	3.1	2.3	3.3	4.0
Net profit	-1.6	0.6	1.3	1.6	2.4	3.1
EV values						
Net debt	19.7	18.5	11.2	9.7	6.3	4.1
Market cap, '000, EURm	34.6	34.6	36.7	33.6	33.6	33.6
EV, at current capitalisation	53.3	52.1	44.8	43.3	39.9	37.7
EV, at closing market capitalisation of corresponding period	54.3	53.1	48.0	43.3	39.9	37.7
EV/ Sales (X)						
- at current market capitalisation	0.7	0.8	0.6	0.5	0.4	0.4
- at closing market capitalisation of corresponding period	0.7	0.8	0.6	0.5	0.4	0.4
EV/ EBITDA (X)						
- at current market capitalisation	11.1	8.4	6.3	7.4	6.1	5.3
- at closing market capitalisation of corresponding period	11.3	8.6	6.8	7.4	6.1	5.3
EV/ EBIT (X)						
- at current market capitalisation	82.0	20.7	14.5	18.9	12.1	9.4
- at closing market capitalisation of corresponding period	83.6	21.1	15.6	18.9	12.1	9.4
Margins						
Sales growth (%)	21.6	-11.2	12.5	9.8	4.6	5.3
EBITDA margin (%)	6.2	9.0	9.2	6.9	7.4	7.6
EBIT margin (%)	0.8	3.7	4.0	2.7	3.7	4.3
Net margin (%)	-2.1	0.9	1.7	1.9	2.7	3.3
ROE (%)	-6.0	2.3	3.1	3.8	5.4	6.7
Current ratio	1.1	1.2	1.9	2.0	2.1	2.3
Quick ratio	0.5	0.5	0.7	0.8	0.9	1.0
Debt/ Equity (%)	77.6	71.9	28.8	24.7	17.4	13.1
Net gearing (%)	42.2	40.2	21.3	18.5	12.5	8.1
Per share values						
EPS net profit	-0.04	0.02	0.03	0.04	0.06	0.08
DPS	0.00	0.00	0.01	0.01	0.02	0.02
Dividend yield, current share price (%)	0.0	0.0	1.2	1.4	2.2	2.8
Dividend yield, closing share price of corresponding period (%)	0.0	0.0	1.1	1.4	2.2	2.8
BV per share	0.7	0.7	1.1	1.1	1.2	1.2

Continued Overleaf

Key Multiples	2008	2009	2010	2011E	2012E	2013E
Equity multiples						
P/ E (x)						
- current share price	-20.8	52.5	25.9	20.9	13.9	10.7
- closing share price of the corresponding period	-21.4	54.2	28.4	20.9	13.9	10.7
P/ B (X)						
- current share price	1.2	1.2	0.8	0.8	0.8	0.7
- closing share price of the corresponding period	1.3	1.3	0.9	0.8	0.8	0.7

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