Coverage initiation

analiza@brk.ro

June 30, 2023

DN Agrar Group (DN RO)

BUY

Modern agriculture

Target price (Return %):	RON 0.91 (27%)
Price:	RON 0.72
Market Cap.:	RON 115 mil.
Avg. daily turnover (RON/EUR)	37,740/7,609

- **We initiate coverage with a buy recommendation and a target price of RON0.91 per share, calculated using the discounted cash flow method. The upside potential is 27% from the closing price on Thursday, June 29, 2023 of RON0.72 per share.** DN Agrar Group is the largest integrated livestock farm in Romania, which is engaged in cow milk production and crop production.
- **In 2022, DN Agrar recorded a consolidated net turnover of RON 151 million,** 3.2 times higher than in 2021. In 2022, the company became the largest cow's milk producer in Romania, following the acquisition of Lacto Agrar and Apold farms. The company reported an operating result of RON 24 million in 2022, i.e. an EBIT margin of around 16%. The net result recorded in 2022 of RON 14 million was 1.6 times higher than in 2021. For 2023 we estimate a net result of RON 16.7 million, thus an increase of 19.5% compared to 2022.
- In terms of milk production, **in 2022, DN Agrar produced and delivered approximately 50 million liters of milk**, up by more than 9% compared to 2021. For the forecast period 2023-2027, we are counting on an average increase of 16% in milk production, based on the increase in capacity of the Apold and Cut farms and the construction of the new Straja farm, which will have 3,600 dairy cows.
- Taking into account the report published by the European Commission, a move towards more sustainable milk production in the EU with a focus on quality and diversification is highlighted. However, a slight decrease in production is expected, while demand for high quality products and exports remain strong in this forecast.
- **Potential risks to our recommendation** are related to unfavorable weather conditions, fluctuating global dairy and agricultural prices, higher operating costs, animal diseases that may negatively impact the company's revenues and lead to lower profitability.

Share data

52-week price low/high (RON/share)	0.62 – 0.82
Shares outstanding (million)	159.1

Shareholders

A.M. ADVIES B.V. loc. Koekange NL	74.09%
Others	29.91%

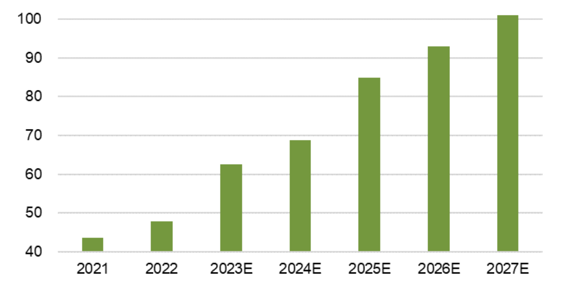
Share performance (%)

	1w	YTD	6m	1y
Variation	-0.28	-1.37	-1.37	10.46
Relative to BET	-5.03	-9.13	-9.13	8.23

DN – share price evolution (February 2022 - June 2023)

Source: Bloomberg

DN – Estimated milk production (mil. liters)



Source: Company data, BRK estimates

Key indicators (RON million)	2021	2022	2023E	2024E	2025E
Net sales	47	151	169	195	238
EBITDA	17	44	46	55	68
EBITDA margin (%)	36%	29%	27%	28%	29%
EBIT	11	24	24	28	35
EBIT margin (%)	23%	16%	14%	14%	15%
Net profit margin (%)	19%	9.47%	10%	10%	11%
EPS	0.06	0.09	0.10	0.12	0.16
P/E	12.9	8.1	6.9	5.8	4.4

Source: Company data, BRK estimates

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Company valuation

We initiate coverage with a buy recommendation and a target price of RON 0.91/share, calculated using the discounted cash flow method. The upside potential is 27% from the closing price on Thursday, June 29, 2023 of RON 0.72/share.

DN Agrar Group SA is the largest integrated livestock farm in Romania, which deals with cow milk production and vegetable production. The dairy cattle breeding and milk production segment has the largest share in the revenue structure. The company's valuation takes into account both current milk production and expansion and development plans. The increase in capacity of the Apold and Cut farms and the construction of the new Straja farm, which will have 3,600 dairy cows, suggest an estimated average increase of 16% in milk production between 2023 and 2027. Income from agricultural services, crop production, logistics and other income is also forecast to increase.

The discount rate (WACC) used to estimate the present value of DN Agrar's future cash flows, is 10.6%.

Price (Thursday 29, 2023) **RON 0.72**
Target price **RON 0.91**

With an estimated additional number of more than 5,000 dairy cows, the company's milk production and therefore revenues would follow an upward trend, in line with an optimization of operational expenses.

Best case **RON 1.95**

Continued and growing demand for dairy and agricultural products, dairy prices, favorable weather conditions, innovation process and new technologies could have a stronger favorable impact on the company's profitability.

Worst case **RON 0.41**

As weather is a significant factor in agriculture, drought could reduce production and higher operating costs could negatively affect profitability.

Figure 1: DCF

RON		2023E	2024E	2025E	2026E	2027E
Operating profit after tax		20,105,076	23,462,342	29,798,475	33,172,950	36,592,061
Plus: Depreciation and amortization		22,231,821	26,920,184	32,505,598	38,977,738	46,115,475
Minus: Capital Expenditures (Investments)		(34,799,003)	(40,214,811)	(49,151,813)	(54,402,423)	(59,801,374)
Minus increase/Plus decrease in working capital		(1,147,914)	(1,923,368)	(3,173,883)	(1,864,699)	(1,917,381)
FCFF		6,389,979	8,244,347	9,978,377	15,883,566	20,988,781
Discount rate	10.6%					
Present Value Factor		1.00	0.90	0.82	0.74	0.67
Discounted Net Cash Flow		6,389,979	7,451,560	8,151,580	11,727,915	14,007,187
Sum of Discounted Net Cash Flow		47,728,221				
Terminal Value		249,000,375				
FMV of Operating Capital Structure		296,728,596				
Plus: Cash		1,586,295				
Minus: Total debt		152,582,048				
Less: Non-controlling interests		685,158				
FMV of Capital Structure		145,047,685				
Number of shares		159,094,224				
Price/share		0.91				
Current price		0.72				
Potential upside		27%				

Source: BRK estimates

Figure 2: Sensitivity analysis and terminal value calculation

		Residual growth rate				
		1.0%	1.5%	**2.0%**	2.5%	3.0%
	8.6%	1.26	1.39	1.55	1.73	1.95
	9.6%	0.97	1.07	1.19	1.32	1.47
WACC	**10.6%**	0.74	0.82	$\boxed{0.91}$	1.01	1.12
	11.6%	0.56	0.62	0.69	0.77	0.86
	12.6%	0.41	0.46	0.52	0.58	0.64

Net Operating Profit	36,592,061
x (1+ Long-term growth)	1.020
Equals: Terminal Net Oper. Profit	37,323,902
Add: Normalized Depreciation	47,037,785
Less: Normalized Capital Expenditure	51,741,563
Minus: Incremental Working Capital	386,409
Equals: Terminal Cash Flow	32,233,715
/ Capitalization rate	11.58
x PV factor	0.6674
Equals: Terminal value	249,000,375

Source: BRK

Relative valuation

In terms of relative valuation, we looked at trading multiples of other companies that we consider comparable to DN Agrar Group's business and with a similar market capitalization. We should point out that these companies do not perfectly match DN Agrar Group's business due to diversity within the agricultural sector and differences in business strategies, company size, product portfolio, geography of operations and other relevant factors.

According to Bloomberg data, selected companies trade at an EV/EBITDA multiple of 5.5x and a P/E multiple of 8.7x (median values). The EV/EBITDA multiple for DN is 6.1x, above the median value of the companies, and the P/E multiple is 8.3x, below the median value of the selected companies.

Figure 3: Relative valuation

Company	Ticker	Market Cap. (mil. EUR)	P/E	EV/EBITDA	P/BV
ACOMO NV	ACOMO NA	631	10.4	8.9	1.5
ORIGIN ENTERPRISES PLC	OGN ID	373	6.6	5.1	1.2
FORFARMERS NV	FFARM NA	257	8.4	4.7	0.8
LINAS AGRO GROUP AB	LNA1L LH	222	7.3	7.1	0.8
WYNNSTAY GROUP PLC	WYN LN	131	12.3	6.0	0.9
CENTRALE DEL LATTE D'ITALIA	CLI IM	38	8.9	3.8	0.6
Median		**240**	**8.7**	**5.5**	**0.8**
DN AGRAR GROUP SA	DN RO	23	8.3	6.1	1.4

Source: Bloomberg, BRK

DN Agrar Group Presentation

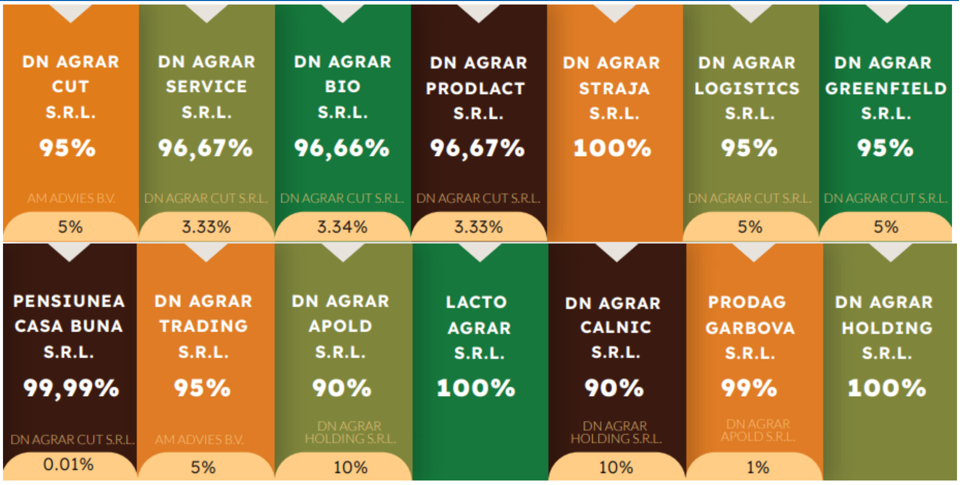
DN Agrar Group SA is the largest integrated livestock farm in Romania, which deals with cow milk production and vegetable production. The group operates in the central part of Transylvania, in the counties of Alba, Sibiu and Hunedoara. The company was founded in 2008 by Jan Gijsbertus de Boer and is listed on the Bucharest Stock Exchange on the AeRO market. DN AGRAR Group's debut on the capital market was marked by the successful completion of an initial public offering of shares in June 2021, attracting RON24.8 million from investors.

The group includes 15 companies, including four farms whose main activities are cattle breeding for milk production (Prodlact Farm) and cow milk production (Cut, Lacto Agrar and Apold Farms).

DN Agrar manages over 7,000 hectares of land located in Alba, Sibiu and Hunedoara counties, and aims to reach a cultivated area of 10,000 hectares by acquiring other farms with vegetable and/or animal agricultural production. The company's secondary activities include cereal production, which is part of the circular economy as most of the production is used as feed for the farm's animals.

The chart below shows the percentage of capital that DN Agrar Group SA holds in each of its portfolio companies.

Figure 4: DN Agrar Group SA Structure



Source: DN Agrar

ESG Strategy

DN AGRAR's strategy is based on promoting sustainable and regenerative farming practices, aiming to maximize productivity and minimize environmental impact while ensuring long-term profitability. The company aims to build a resilient and sustainable food system by investing in farms, communities and protecting the planet. It implements procedures to maintain responsible and sustainable practices in cow's milk production, farming and management. DN AGRAR Group companies are committed to complying with applicable laws and regulations to minimize risks, avoid negative consequences and ensure efficient and integrated business management. From 2023, the group aims to align with the EU taxonomy and implement the necessary measures to develop a sustainability strategy.

Key aspects in company valuation

Milk production

The milk production segment includes Apold Farm, Lacto Agrar Farm, Cut Farm, Prodlact Farm and Straja Farm.

DN AGRAR APOLD Farm – located in Gârbova, Alba, is part of the DN AGRAR group, whose main activity is the production of cow's milk and feed grains. The farm houses more than 3,000 dairy cattle and has a production capacity of 45,000 liters of milk per day. In addition, it has a feed mill, grain warehouse and manure storage facilities. Its target is to double milk production by the end of next year.

LACTO AGRAR Farm – located in Vaidei, Hunedoara, officially became a member of DN Agrar Group SA, but has been part of DN AGRAR since March 2011, has benefited from considerable investment for development and restructuring. It is known for housing a large number of dairy cows and for the largest milking parlor in Romania. The farm is committed to sustainable practices, providing animals with proper living conditions and using advanced technology to monitor and optimize processes.

DN Agrar Group SA positions itself as a strong player in the Romanian milk production industry. Ambitious expansion plans and significant investments in development and restructuring reflect the company's forward-looking vision.

DN AGRAR CUT Farm – opened in 2021 in Câlnic, Alba, produces cow's milk and grows cereals and oilseeds. It houses more than 1,800 dairy cows, has modern equipment and produces 40,000 liters of milk daily. The farm has manure and grain storage facilities.

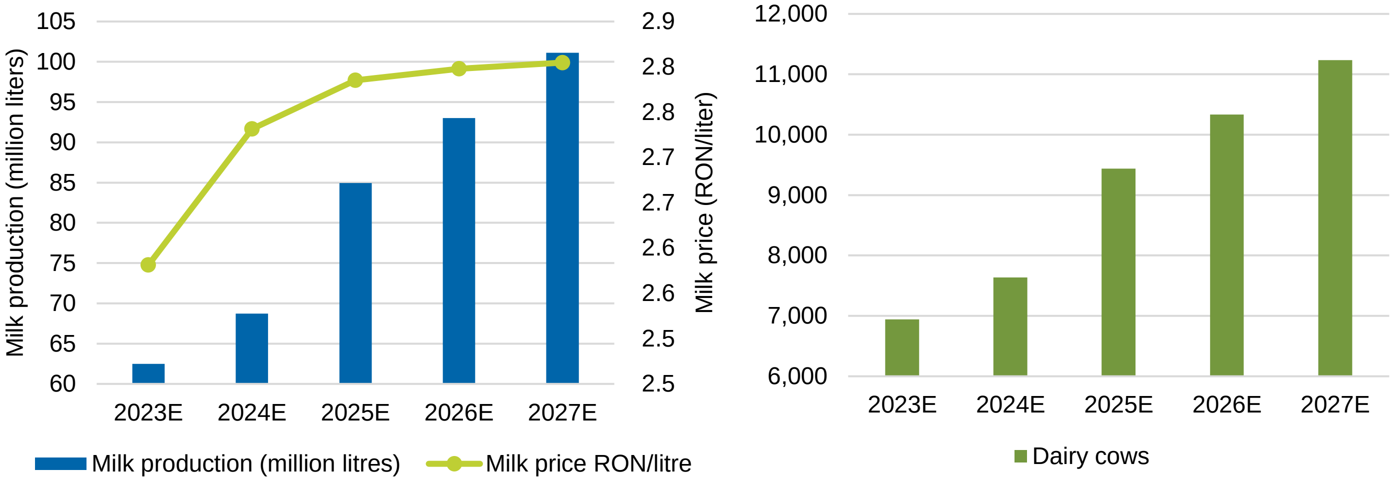
DN AGRAR PRODLACT Farm – located in Pianu de Jos, Alba, is home to young cattle destined for the other farms in the group, i.e. more than 2,900 head.

Figure 5: The company's farms

Source: DN Agrar

The company currently owns a total of 11,000 dairy and young cattle, and the company's goal is to reach up to 12,500 dairy and young cattle in the near future. Taking into account the increased capacity of the Apold and Cut farms and the new Straja farm to be built, which will have 3,600 dairy cows, we estimate an average annual increase of 16% in milk production between 2023 and 2027. Thus, the estimate is based on an average production of 30l/day/cow and a price between RON 2.58/liter and RON 2.8/liter (based on Euromonitor estimated data for Romania).

Figure 6: Estimated milk production, average price and number of dairy cows



Source: Euromonitor, BRK estimates

Crop production

DN AGRAR combines milk production with the secondary activity of cereal production, facilitating a circular economy through in-house feed production. DN AGRAR HOLDING SRL, part of the group, manages the exploitation of agricultural land, focusing on the cultivation of cereals, legumes and oilseeds. It provides the forage base for the Apold farm and the other two dairy farms within DN AGRAR.

The Group works about 7,000 hectares in the counties of Alba, Sibiu and Hunedoara, with the aim of expanding to 10,000 hectares. The crops grown are used both for animal feed and to pay grain rent.

DN AGRAR produces and sells cereals (wheat, corn, barley) and oilseed crops (soybeans, sunflowers). On all its farms, the company implements modern soil conservation technology, called "minimum tillage", which is environmentally friendly.

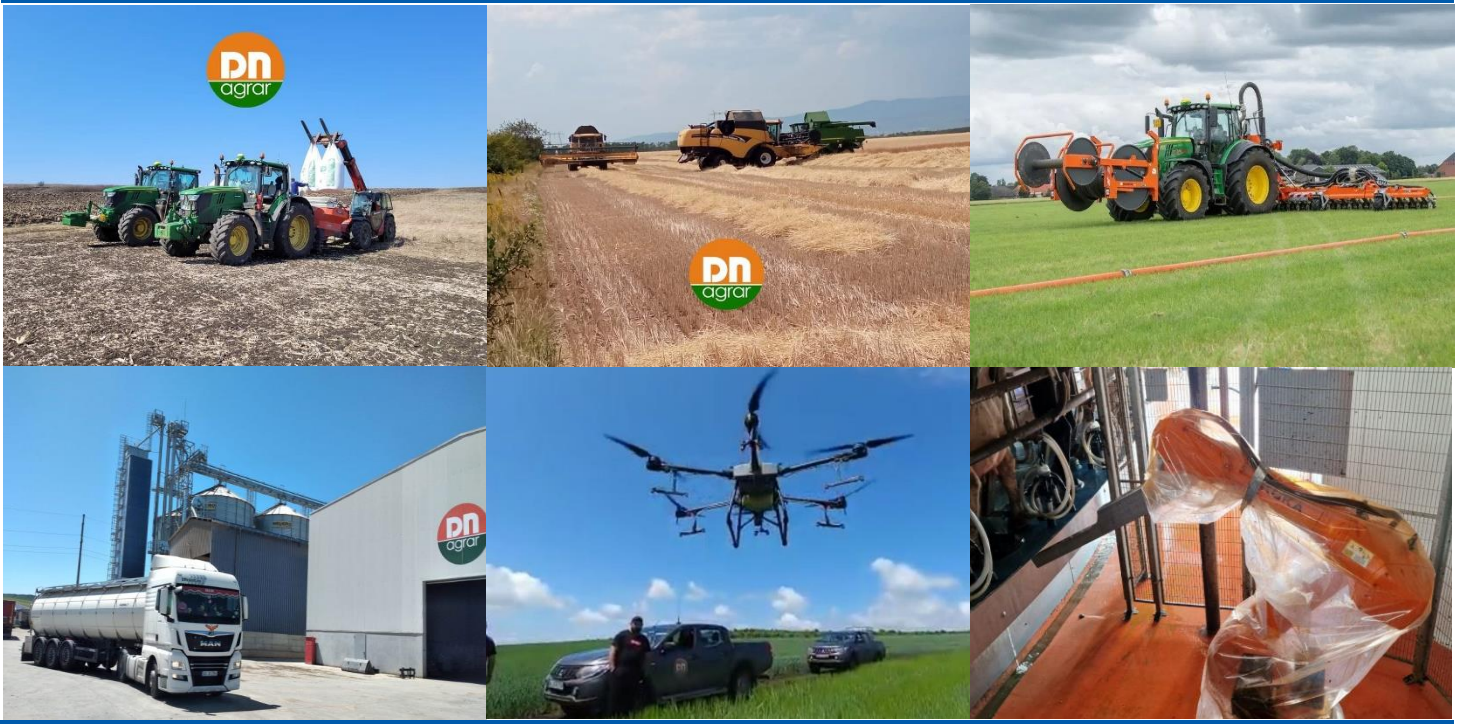
Logistics

DN AGRAR Logistics is a provider of transport and logistics services, specializing in the transport of grain and cow's milk on a national and European level. Using advanced GPS tracking technology to manage its fleet of specialized vehicles, the company ensures the safe and efficient transport of goods. The team of transport coordinators uses modern technology for efficient planning and management of operations. With an extensive network of collaborators and partners, DN AGRAR Logistics can provide fast and efficient transport services, regardless of the customer's location or destination. The company concentrates its efforts to provide high quality services with a focus on safety, efficiency and customer satisfaction.

Agricultural services

DN AGRAR Service offers high quality agricultural services on approximately 8,000 hectares with a modern machinery fleet. The company uses advanced technology for GPS monitoring and efficient operations management, with a strong commitment to optimized production and sustainable practices.

Figure 7: Company's activity



Source: DN Agrar

Income estimation

The following table shows revenue forecasts for DN Agrar Group in the coming years, broken down by business segment. The largest share of revenue is generated by dairy cattle breeding and milk production, with an estimated increase from RON 155.2 million in 2022 to RON 289.8 million in 2027. This development is based on the company's objectives for this segment which mainly include: increasing the capacity of Apold and Cut farms, but also the construction of Straja farm for which an estimated 3,600 dairy cattle are expected.

Figure 8: Breakdown of forecast revenue by segment

RON million	2022	2023E	2024E	2025E	2026E	2027E
Dairy cattle breeding and milk production	155.2	166.2	193.0	242.1	266.2	289.8
Agricultural services	22.4	25.7	29.6	34.0	39.1	45.0
Crop production	12.2	14.0	16.1	18.5	21.3	24.5
Logistics	8.7	9.7	10.7	11.5	12.4	13.4
Other income	7.9	9.4	10.7	11.7	12.8	14.0
Consolidation adjustments	(55.6)	(56.3)	(65.0)	(79.5)	(88.0)	(96.7)
Net sales	**150.8**	**168.8**	**195.0**	**238.4**	**263.9**	**290.0**

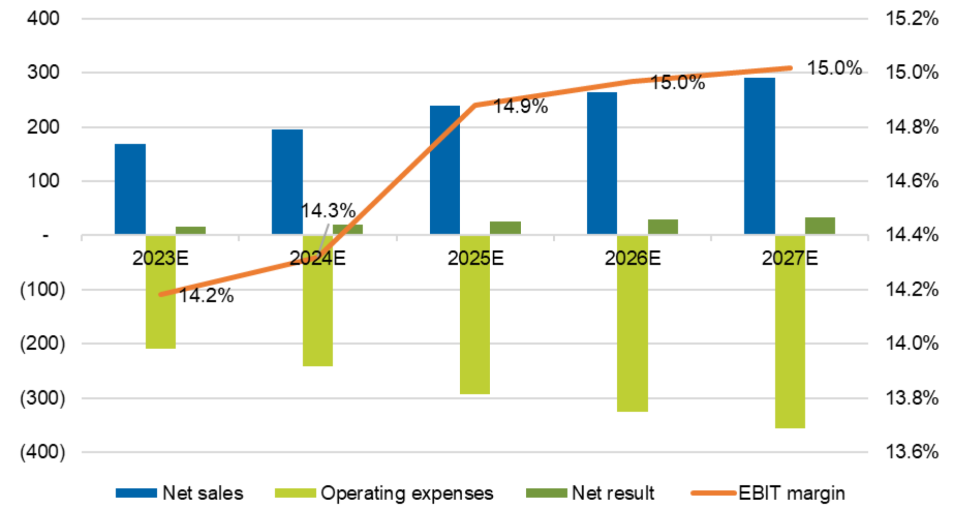
Source: Company data, BRK estimates

Figure 9: Estimated profit and loss statement

RON	2022	2023E	2024E	2025E	2026E	2027E
Net sales	150,789,463	168,778,573	195,045,774	238,391,110	263,857,082	290,042,524
Other operating income	54,632,231	64,135,858	74,117,394	90,588,622	100,265,691	110,216,159
Total operating income	205,421,694	232,914,431	269,163,168	328,979,731	364,122,773	400,258,683
Operating expenses	(181,579,817)	(208,979,817)	(241,231,809)	(293,505,356)	(324,631,165)	(356,696,705)
EBITDA	43,898,760	46,166,434	54,851,544	67,979,973	78,469,345	89,677,453
EBITDA margin	*29%*	*27%*	*28%*	*29%*	*30%*	*31%*
EBIT	23,841,877	23,934,614	27,931,360	35,474,375	39,491,608	43,561,978
EBIT margin	*15.8%*	*14.2%*	*14.3%*	*14.9%*	*15.0%*	*15.0%*
Financial result	(6,313,623)	(4,097,659)	(4,302,542)	(4,517,669)	(4,743,552)	(4,980,730)
Gross profit	17,528,254	19,836,955	23,628,818	30,956,706	34,748,055	38,581,247
Income tax	(3,255,288)	(3,173,913)	(3,780,611)	(4,953,073)	(5,559,689)	(6,173,000)
Net result	14,272,966	16,663,042	19,848,207	26,003,633	29,188,366	32,408,248
Net margin	*9.5%*	*9.9%*	*10.2%*	*10.9%*	*11.1%*	*11.2%*

Source: Company data, BRK estimates

Figure 10: Estimated evolution of net sales, operating expenses, net profit (RON million) and EBIT margin



Source: BRK estimates

The company's projects

Further on, we have presented some of the projects that the company has in mind for the coming period.

The Straja project, set to start in 2023, involves the construction of a new farm with a total capacity of 5,000 animals, of which 3,600 will be dairy cows and 1,400 young cattle. The farm will have 2 milking rotors and an area of about 4,000 square meters for buildings.

The project will be implemented in two phases, each involving the addition of 1,800 dairy cows and 700 young cattle. The majority of the cows will be provided internally from the Prodlact farm through the young cattle program, which is run on the company's other farms.

DN Agrar aims to **implement industrial robots** on two farms, LACTO AGRAR and CUT, with the aim of improving efficiency and reducing manual labour by 50%. This will be achieved by using two types of robots: an automatic sprayer for udder disinfection after the milking process and a robot for pre-cleaning and stimulation of udder and milking. Implementation of these robots is planned to start in June 2023 and is expected to reduce manual labour by 25%. After installation and commissioning of these robots in Lacto Agrar and Cut farms, a 50% reduction in manual labor in the milking process is estimated in both farms.

DN Agrar plans to build a **composting plant** next to the Apold farm in 2023. This project is an important initiative that incorporates the principles of circular farming into their operations, reducing costs and creating a new source of income.

The company will install **solar panels** on 50 hectares on the Apold farm, following a partnership that brings financial benefits and electricity to the entire farm. The project has three phases: actual preparation to be completed in 2023, installation of the panels in 2024 and the start of electricity production in the last quarter of 2024.

DN Agrar started in 2021 to use animal waste as a natural fertilizer instead of chemical fertilizers. In 2022, it purchased a **machine that incorporates organic fertilizer directly into the soil**, reducing nutrient loss and chemical fertilizer costs while minimizing odor nuisance.

Figure 11: The company's projects

Source: DN Agrar

Market background

Milk and dairy products at EU level

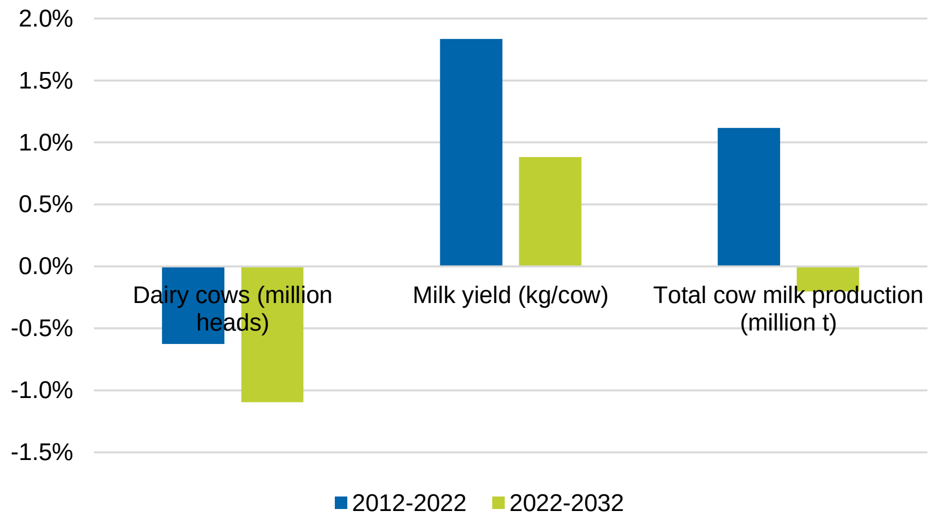
The report published by the European Commission outlines anticipated changes in European Union (EU) milk production up to 2032, taking into account increasing sustainability, developments in international trade and consumption trends. Below we present the main directions resulting from this report.

Sustainable Production and Alternative Systems - Milk production in the EU is expected to move towards a more sustainable approach by adopting sustainable farming practices and maintaining high quality standards. Alternative production systems, such as organic, are expected to grow and gain market share.

A major trend in the EU has been the intensification and specialization of milk production. In 2020, around 80% of EU milk was produced in intensive systems, with over 93% coming from farms specializing in dairy production. Specialization and intensification have led to higher productivity, with EU milk yields in 2020-2022 above 7500 kg per cow, a 20% increase compared to 2010-2012. The average number of cows per farm has increased from 38 in 2010 to 58 in 2020. This increase is accompanied by the adoption of computerised feeding systems, milking robots and measures to monitor the performance and health of individual cows.

There is a trend towards more sustainable milk production in the EU, with a focus on quality and diversification. However, production is expected to decrease slightly, while demand for high quality products and exports remain strong.

Figure 12: Annual growth rate of milk production, milk production/cow and number of dairy cows



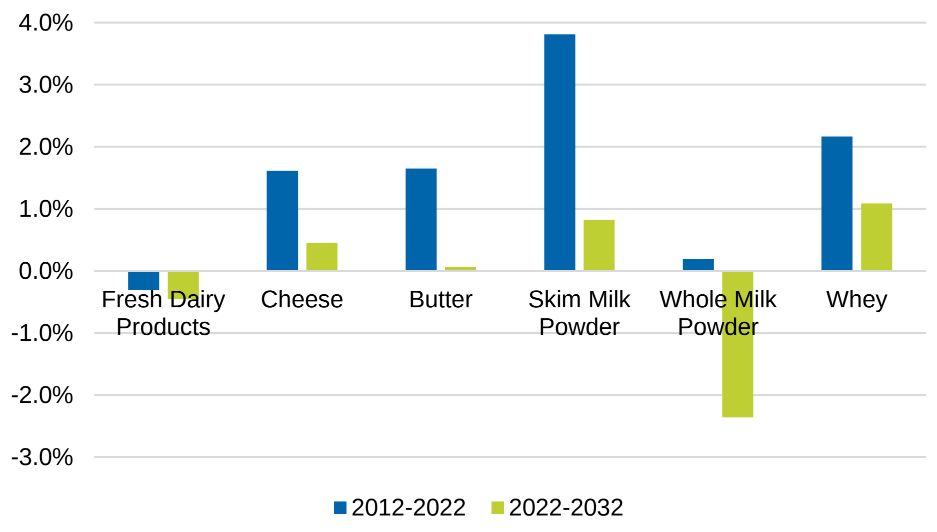
Source: European Commission

EU Milk Production and Trade - While improvements in animal welfare and efficient feeding strategies could help increase production, they may not compensate for the reduction in livestock numbers, which could lead to an annual decline in EU milk production of 0.2% by 2032. However, the EU will remain the largest global supplier of dairy products, accounting for 24% of global dairy trade in 2032, data from the report published by the European Commission show. Global dairy exports are expected to decline as many traditional importers improve their self-sufficiency.

Quality and Diversification in Exports - In the context of an increase in quality and a trend towards premium products, combined with a growing importance of the food service sector, it is anticipated that the dairy sector will be stimulated to focus on exports of higher quality products.

Processing Capacity and Consumer Demand - Although milk production in the EU will decrease, processing capacity will not decrease proportionally due to improvements in protein and fat content. Cheese and whey production will benefit most from the milk produced. Production of skimmed milk powder and butter could increase marginally, while production of other dairy products such as whole milk powder and drinking milk could decline for various reasons, including competition, reduced consumption in the EU and lower global demand. Consumer preferences for nutrition and functionality will boost demand for dairy products in the EU, especially among younger consumers (aged 18-35), who show a preference for lower fat, low sugar and allergen-free dairy products. In addition, there is a growing demand for dairy products fortified with added vitamins or minerals as well as dairy products for specialized nutritional needs. Thus, the dairy industry must adapt to meet these changing demands in an environment where per capita consumption is expected to decline slightly.

Figure 13: Annual growth rate of production of selected dairy products



Source: European Commission

Price Outlook - By 2032, cheese and whey prices in the EU are expected to rise the most relative to 2020-2022 levels, by 0.7% and 2.4% per year respectively. EU raw milk prices are expected to be around €45/100kg by 2032

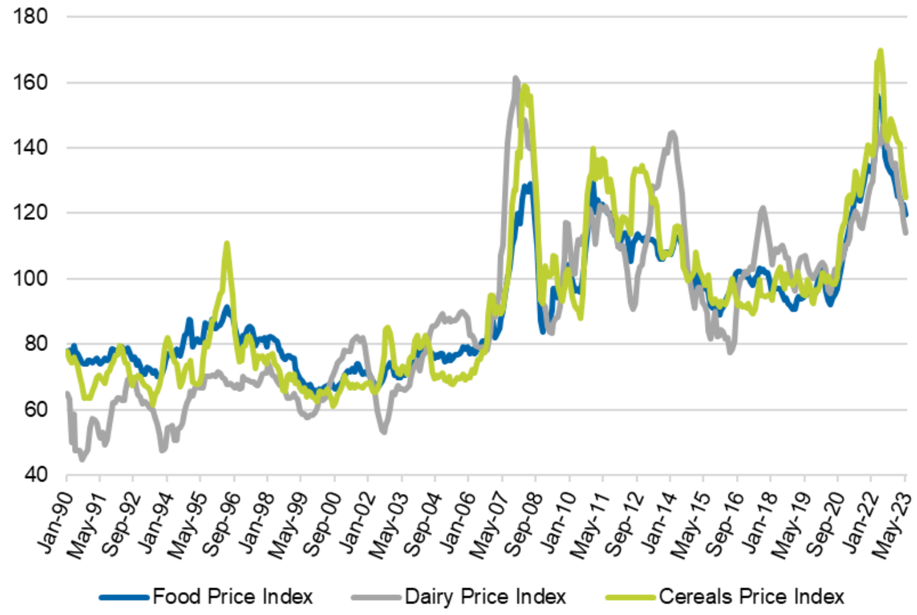
The FAO Food Price Index, which tracks monthly changes in international prices of commonly traded food commodities, averaged 124.3 points in May 2023, down 2.6% from April and 22.1% below the historical high reached in March 2022

In May, the FAO Dairy Index fell by 3.2% compared to April and by 17.7% year-on-year to 118.7 points. This was due to the sharp drop in international cheese prices, amplified by high milk production in the northern hemisphere and high export availabilities. On the other hand, milk powder prices recovered due to demand from North Asia, while butter prices increased slightly, balancing the variations between regions.

We believe it is essential for any company in the dairy sector, such as DN Agrar Group, to closely monitor price trends and adapt accordingly in order to maximize operational efficiency and profitability.

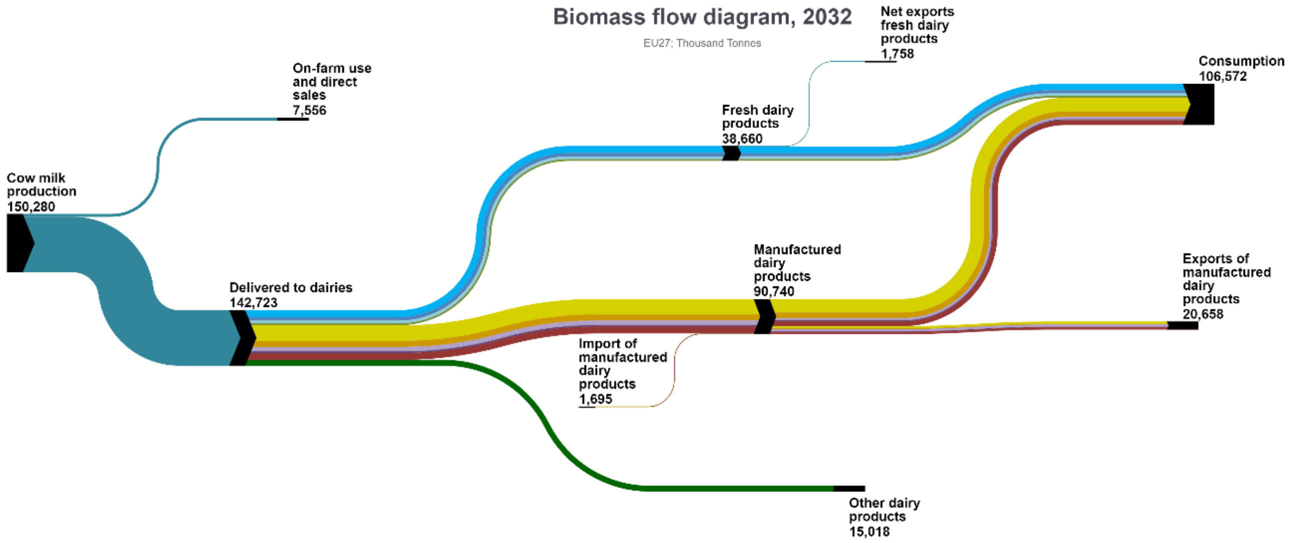
The FAO Cereal Price Index fell by 4.8% in May 2023 compared to April, as a result of the broad outlook for global wheat supplies for the 2023/24 season and the Ukraine grain initiative. World maize prices also saw a significant decline of 9.8% amid higher anticipated production in Brazil and the US and a slow pace of US exports. Prices of other cereals, such as barley and sorghum, fell similarly, influenced by lower maize and wheat prices. In contrast, international rice prices rose in May 2023, due to deals struck with Asian buyers and limited supplies from exporters such as Vietnam and Pakistan.

Figure 14: Evolution of FAO food, dairy and cereals price indices



Source: Food and Agriculture Organization of the United Nations

Figure 15: Milk and dairy products in thousand tonnes milk equivalent for EU 27, 2032



Source: European Commission

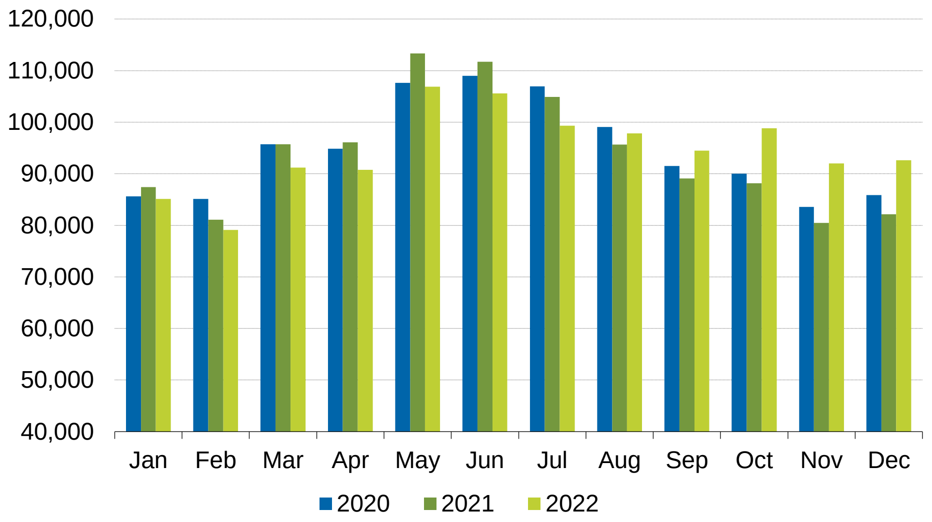
Milk and dairy products in Romania

According to data published by the NSI, in 2022, the quantity of cow's milk collected from farms and collection centres by processing units increased by 0.7% or 8,138 tonnes to 1,133,799 tonnes compared to 2021. Cheese production increased by 3,458 tonnes or 3.5% over the same period. Decreases in production were recorded in the following dairy products: butter by 715 tonnes (-6.4%), drinking milk by 17,088 tonnes (-4.4%), drinking cream by 2,773 tonnes (-4.1%) and sour milk (yoghurt, drinking yoghurt, buttermilk and similar dairy products) by 7,801 tonnes (-3.5%).

In the first four months of 2023 the quantity of cow's milk collected from farms and collection centres by processing establishments increased by 13.6% compared to the same period last year. The highest increase in production was recorded for drinking cream (+0.6%).

The quantity of raw milk imported by processing establishments increased by 1,329 tonnes (+0.9%) in 2022 compared to the previous year.

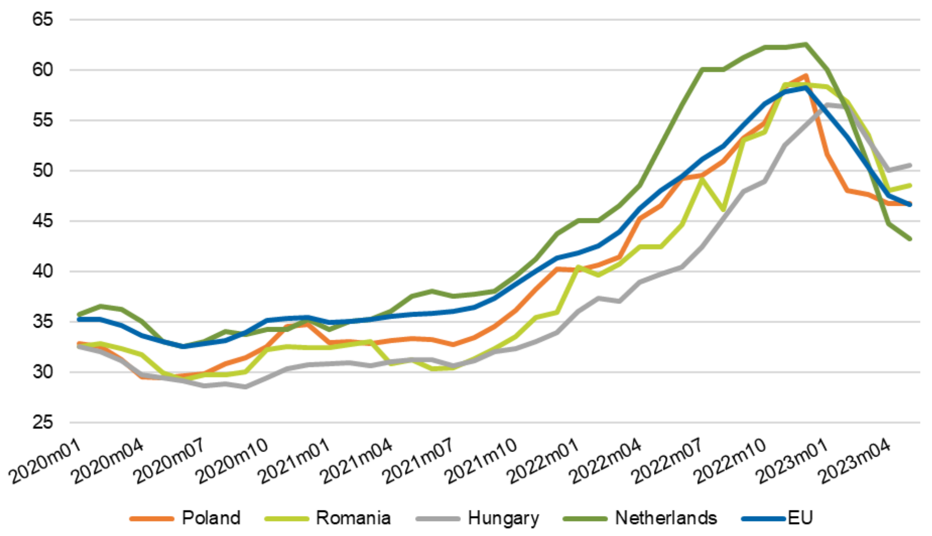
Figure 16: Evolution of the quantity of cow's milk collected by processing units (tonnes)



Source: INS

Milk prices in Romania were somewhat volatile, but generally followed the upward trend observed in the European Union. Romanian prices were similar to those in Poland, usually lower than in the Netherlands, and fluctuated around prices in Hungary. The Netherlands had consistently higher milk prices compared to Romania over the period. In addition, the Netherlands has shown relatively more stable growth, especially since mid-2021, during which time Romania has shown some fluctuations. Romanian milk prices peaked around November and December 2022 and then started to decline. In addition, it is important to note that in recent months, the price of milk in Romania has been above the EU average, which could indicate a change in price dynamics.

Figure 17: Price trend for raw cow's milk in EUR/100 kg



Source: European Commission

Macroeconomic background

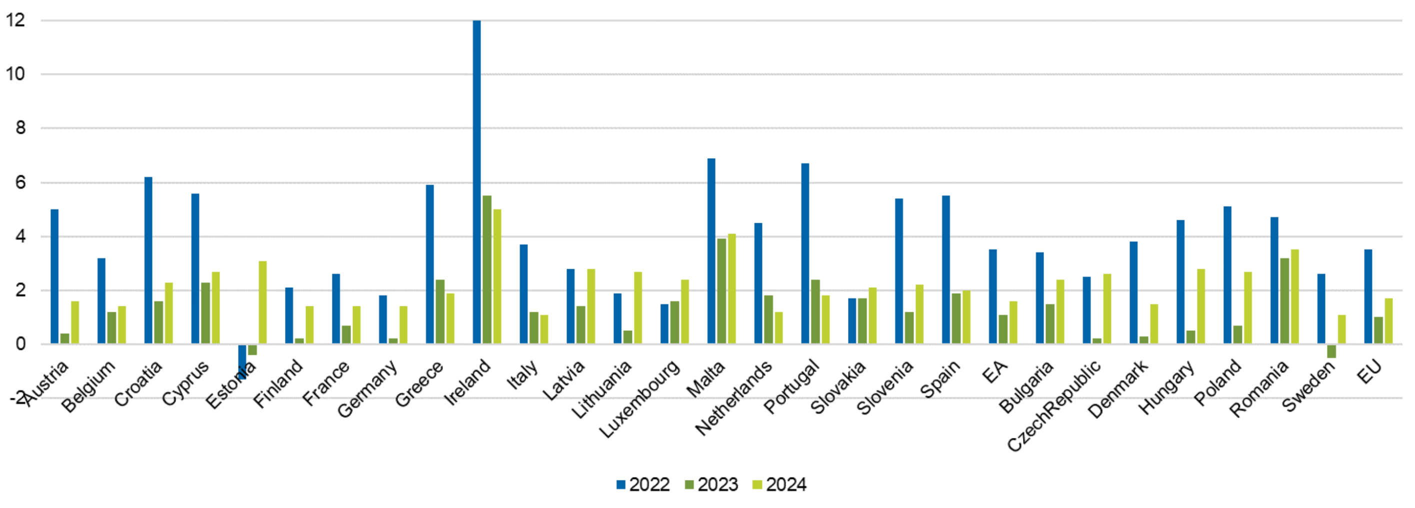
According to the report published by the European Commission, the EU's macroeconomic outlook for 2023 has improved, as factors such as a mild winter, reduced demand for energy, changes in consumer behaviour and regulatory measures such as strategic energy reserves and price caps have contributed to lower energy prices and prevented rationalisation measures. However, efforts are still needed to bring inflation to lower levels in 2023.

Input price pressure for farmers is projected to decrease in 2023. The expected lower cereal prices could stabilize feed demand and the affordability and availability of fertilisers would improve as energy prices fall and imports increase. However, input costs are still expected to be higher than the long-term average, which could continue to put pressure on farmers' margins. Due to high food price inflation, consumers are shifting towards cheaper staple foods and changing their preferences between different types of food. This consumer behaviour could remain an important factor shaping demand in the EU in 2023.

As of autumn 2022, a downward trend in prices has been observed for several commodities, including natural gas and fertilizers. The sharp drop in natural gas prices from their record high in August 2022 has also led to a reduction in fertilizer prices, particularly nitrogen-based fertilizers. However, despite these positive developments, fertiliser, energy and agricultural commodity prices are still significantly higher than in early 2020.

According to the European Commission's spring 2023 updated economic forecasts, the growth outlook for the EU economy in 2023 and marginally in 2024 has improved compared to the winter interim forecast. Thus, EU GDP growth has been revised upwards to 1.0% in 2023 (from 0.8%) and 1.7% in 2024 (from 1.6%). The upward revisions for the euro area are of a similar magnitude, with GDP growth now expected at 1.1% and 1.6% in 2023 and 2024 respectively. Also, amid persistent pressures on core prices, inflation has been revised upwards and is now expected at 5.8% in 2023 and 2.8% in 2024 in the euro area, 0.2% and 0.3% higher than in the winter respectively. At EU level, inflation is expected to fall from 9.2% in 2022 to 6.7% in 2023 and 3.1% in 2024. For Romania as a whole, real GDP is projected to grow by 3.2% in 2023 and 3.5% in 2024, while inflation is expected to fall to 9.7% in 2023 and 4.6% in 2024.

Figure 18: GDP forecast EU (%)

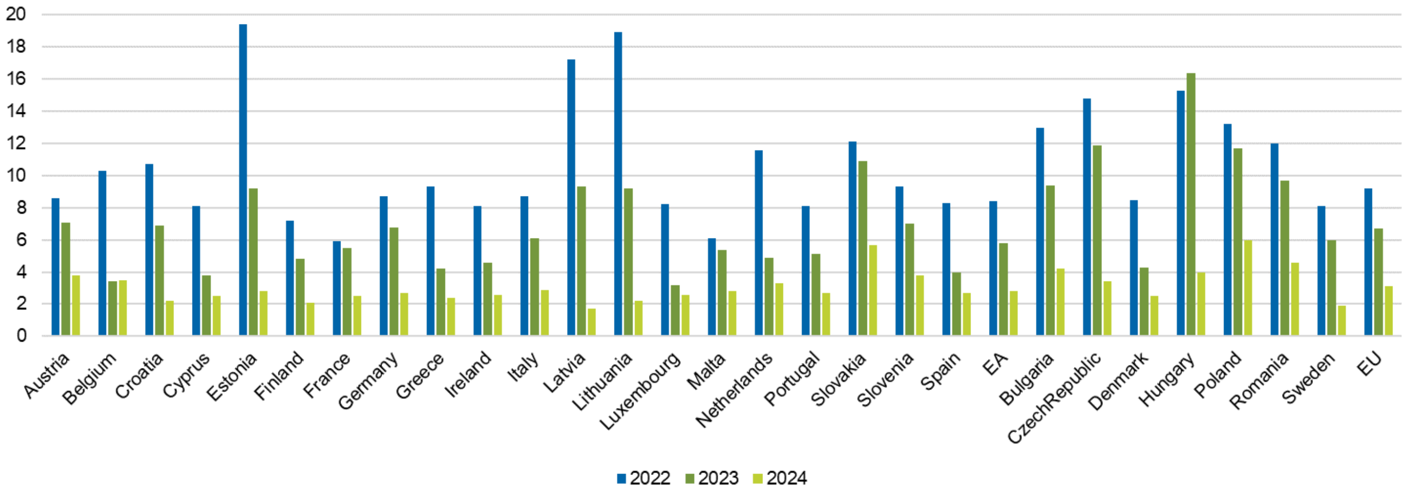


Source: European Commission

According to data published by Eurostat, the annual inflation rate at EU level in April 2023 was 8.1%, down from 8.3% in March. In the same period of the previous year the annual inflation rate was 8.1%.

In April, the largest contribution to the annual inflation rate in the euro area came from food, alcohol and tobacco (+2.75 percentage points, pp), followed by services (+2.21 pp), non-energy industrial goods (+1.62 pp) and energy (+0.38 pp).

Figure 19: Inflation rate forecast EU (%)



Source: European Commission

According to the latest EU macroeconomic outlook, DN Agrar's activity could be affected in several ways. The improved economic outlook, lower inflation forecasts and lower energy prices could lead to an improvement in operating costs.

Also, an anticipated fall in cereal prices could affect feed demand, but could be offset by better availability of fertiliser as energy prices fall. However, it is important to consider that despite the reduction in prices for some commodities such as natural gas and fertilisers, they still remain higher than at the beginning of 2020. Moreover, consumer behaviour has changed due to high food price inflation, with consumers shifting towards cheaper staple foods.

At the macroeconomic level, the economic growth anticipated for Romania in 2023 and 2024 could support DN Agrar's activity, but high inflation rates remain a challenge. It is therefore vital for DN Agrar to continue to monitor these trends and adapt its strategies accordingly.

Appendix

To better understand how the company operates and its trend, we also analysed historical data, which is required in order to forecast the company's evolution. These are presented in the following tables.

Figure 20: Simplified balance sheet - consolidated

RON	**2020**	**2021**	**2022**
Fixed assets	57,557,888	96,416,465	160,654,418
Current assets	22,362,883	49,426,260	72,472,451
Prepaid expenses	770,173	1,133,043	1,428,834
Total assets	80,690,944	146,975,768	234,555,703
Current liabilities	23,430,660	41,793,980	59,675,569
Long-term liabilities	27,273,458	39,325,133	92,906,479
Provisions	142,636	200,465	305,969
Investment subsidies	-	198,172	2,006,257
Deferred income	-	198,172	2,006,257
Capital	36,100	10,606,282	31,818,845
Share premium	-	21,946,567	734,004
Reserves	50,940	142,826	406,683
Ow n shares	-	21,760	65,280
Retained profit/loss	23,923,490	23,584,202	32,364,362
Profit/loss of the year	5,464,045	8,888,910	13,940,230
Profit allocation	9,000	91,886	222,572
Minority interests	378,615	402,877	685,158
Shareholders' equity	29,844,190	65,458,018	79,661,430

Source: Company data

Figure 21: Simplified income statement - consolidated

RON	**2020**	**2021**	**2022**
Net sales	38,220,407	46,951,665	150,789,463
Other operating income	16,464,718	17,710,009	54,632,231
Total operating income	54,685,127	64,661,674	205,421,694
Operating expenses	(46,945,266)	(53,808,826)	(181,579,817)
EBIT	7,739,861	10,852,848	23,841,877
Financial result	(1,375,498)	(1,078,108)	(6,313,623)
Gross profit	6,364,363	9,774,740	17,528,254
Income tax	(798,116)	(847,654)	(3,255,288)
Net result	5,566,247	8,927,086	14,272,966

Source: Company data

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