Valores Bancolombia
Comisionista de Bolsa

September 15, 2009

Equity Research

Grupo Nacional de Chocolates: Stable operational growth and positive adjustments in EBITDA margin favors target Price for 2010E

Prepared by:

Juan Nicolás Pardo Ayala
1 607 8090
jnpardo@valoresbancolombia.com

52-Week Low (COP)	$ 12,000
52-Week High (COP)	$ 20,000
Market Price as of 11-Sep'09 (COP)	$ 20,000
YTD (%)	28.2%
Total Shares Outstanding (mm)	435.12
Market Cap (COP million)	8,702,469
Target Price 2010E	**$21,500**
Upside	7.5%

Table 2. WACC 2010E

Exchange Rate Depreciation	3.0%
Kd	**10.3%**
Kd (1-t)	8.0%
Risk Free Rate	4.0%
Country Risk Premium	2.5%
Market Premium	6.0%
Leveraged Beta	0.94
Ke COP	15.5%
WACC	**14.1%**

Source: Valores Bancolombia

Table 3. Valuation Summary
(COP Million)

= Value of Operating Assets	**7,154,392**
+ Cash & Equivalents	372,862
+ Non – Operational Portfolio	3,298,952
+ Other Non – Oper. Assets	228,504
- Debt	-1,044,623
- Other Non – Oper. Liabilities	-664,057
- Minority Interest	-4,700
= Equity Value	**9,341,329**
Shares Outstanding	435.12
= Target Price 2010E	**$ 21,500**

Source: Valores Bancolombia

Base Case Scenario

- We are setting our new target price (end date December 2010) for Grupo Nacional de Chocolates at COP**21,500,** derived from Discounted Free Cash Flow exercise. The upside implied by this target price incorporates a lower discount rate of 14.1%, given a 2.5% country risk premium and a perpetuity growth rate of 6.5%.

- Additionally, non operational portfolio valuation also favored the target price, taking into account that positions in Grupo de Inversiones Suramericana e Inversiones Argos equal 35% of total equity and that the individual prices of each were also reviewed. Risk reward scenarios were proposed sensitizing only operational drivers, while portfolio base prices were kept unchanged at COP28,000 and COP16,800 respectively.

- High budget execution and low income statement volatility have been two remarking characteristics regarding the firm's corporate profile, derived from high product and geographical diversification. Our valuation exercise is based on these assumptions throughout the explicit forecast period between 2010 and 2015.

- Base case scenario main assumptions are:

- **During 2010 total operational income will reach COP 5.2 trillion, registering a 9% annual variation.** In line with the company's long term goals, GNCH must reach COP 8.4 trillion income in 2015, registering a CAGR of 10.2%.

- Recent political and commercial upsets observed within the region are one of the greatest concerns regarding GNCH future operational performance. According to the company, its exposition to Venezuela's market was eased by a corporate reorganization within the group, by which the shareholder ownership of *Hermo* was transferred to other affiliates located in Costa Rica, country with which Venezuela has a Foreign Direct Investment protection treaty. Consequently, under the base case scenario Venezuela's share in the total operational income was kept unchanged, based on the adequate legal protection given by this transfer. Hermo is a GNCH affiliate focused on the production and commercialization of processed meet.

- **During 2009, the EBITDA margin was affected by the unfavorable price performance of specific commodities . Stabilization of such products is expected to lead this indicator up to 13.0% adding 110 bps to the expected 2009 EBITDA margin**. For the mid and long term a progressive improvement in this profitability margin is expected to reach a maximum level of 15.4% in 2015.

- GNCH growth has been obtained trough permanent acquisitions. However, during the valuation exercise non-expansion CAPEX was assumed, while a **maintenance and vegetative growth CAPEX was established at 2.6% as proportion of total sales.**

- The final target price obtained under this scenario was set at COP **21,.500,** for which a subjective occurrence probability was established at 70%.

Optimistic Scenario

▪ Food industry sets a natural growth limit to its players, given by consumption and inflation in those markets in which each company operates. Hence, an optimistic scenario must take into consideration a reasonable deviation of the company's performance related with those elements in order to obtain macroeconomic consistency. So, in GNCH case, even though greater sales forecasts favor valuation, they do not have a significant impact given macroeconomic restrictions.

▪ Optimistic scenario main assumptions are::

- At the end of 1H09 macroeconomic global conditions seemed to ease, favoring the short and midterm growth outlook. In this scenario the company's commercial performance could overcome its management's estimations. Taking this into consideration, operational income could face a CAGR of 12.2%, reaching total sales of COP 9.4 trillion in 2015.

- Food industry profitability ratios move within a narrow range. However, a better income performance and a rapid cost stabilization, incorporating better commodities evolution, might be translated into a positive performance of the company, pushing up its profitability to the upper side of this range. In this sense, the company is expected to reach an EBITDA margin above 15% in the near term.

- A faster and greater growth of operational income might represent bigger CAPEX requirements without deviating significantly from the base case needs. Thus, between 2010 and 2015 a 3.3% CAPEX / Sales ratio is expected, once again excluding any potential acquisition.

- The final target price obtained under this scenario was set at COP **22,200,** for which a subjective occurrence probability was established at 20%.

Pessimistic Scenario

▪ Demand elasticity of the food industry is lower compared with other sectors, protecting operational results during economic contraction. Accordingly, a pessimistic scenario for GNCH must include positive but low growth rates during that part of the cycle, and slow and progressive recovery once the expansion phase has been reached.

▪ Additionally, GNCH leading market position in a great variety of categories, except in milk modifiers and instant coffee, in which occupies second place behind Nestlè, grants to this group's income statement a great sustainability during an economic slowdown.

▪ Pessimistic scenario main assumptions are:

- Current political dynamic with major commercial and regional partners such as Ecuador and Venezuela may harm financial performance, given the fact that at the end of 1H09, sales in these countries represented 16% of total operational income of the group[1]. Moreover, **general weakening of consumption in Mexico**

[1] In the midterm an eventual reduction of operational income from Venezuela can imply a destination sales mix adjustment, which at the same time could positively affect net profitability of the group. However, in order to design a pessimistic scenario a direct affectation of the operational income and profitability margins was assumed.

and the U.S. might contribute to a slower growth of consolidated sales, which under the current scenario are supposed to reach a CAGR of 6.9% between 2010 y 2015. Consequently in 2015 total operational income must rise to only COP 7.0 trillion, 17% below the expected goal under the base case scenario.

- Consequently, **EBITDA margin recovery might be moderate over time, assuming an 11.9% level for 2010**, aligned with data observed in 1H09, after which it should evolve to 14.1% in 2015. This slighter profitability recovery can be also justified by a potential supply shock that might negatively affect commodities' prices and due to global speculation that the US dollar will continue to weaken.

- Considering a lower commercial activity under this scenario maintenance CAPEX shall by also adjusted, which was calculated at 2.0% as proportion of total sales.

- The final target price obtained under this scenario was set at COP **18,800,** for which a subjective occurrence probability was established at 10%.

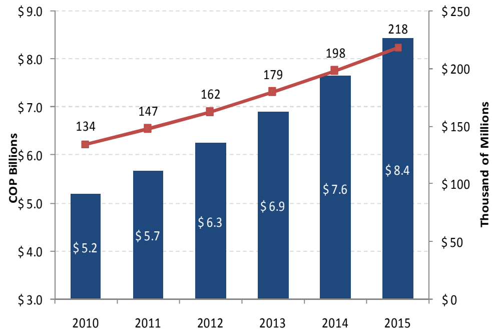
Graph 1. Risk – Reward Scenarios

	Date	Target Price	Closing Price
1	13-Ago-07	$17.960	$16.100
2	13-Mar-09	$16.400	$15.020
3	11-Sep-09	$21.500	$20.000

Source: Valores Bancolombia

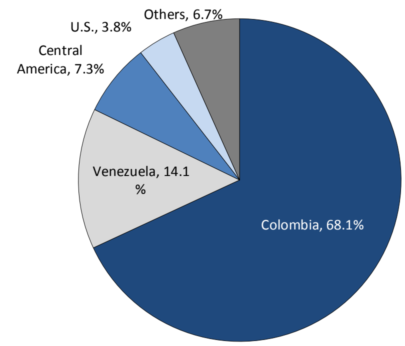
APPENDIX I

Operational Income & Expected CAPEX



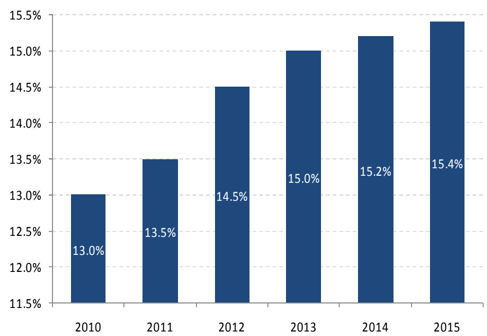
Source: Valores Bancolombia

Operational Income Geographical Composition June'09



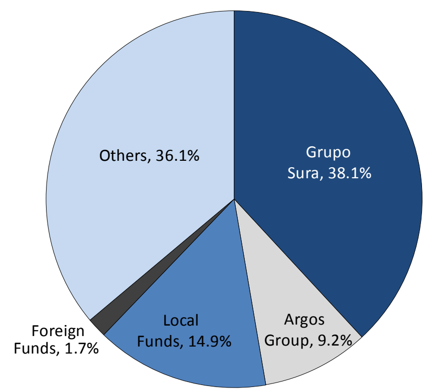
Source: Grupo Nacional de Chocolates

Expected EBITDA Margin



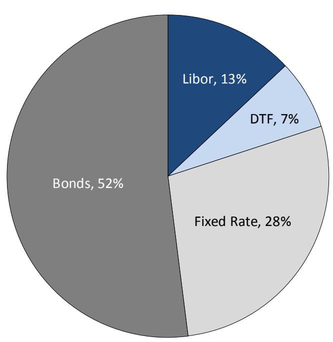
Source: Valores Bancolombia

Shareholder Composition – June 2009



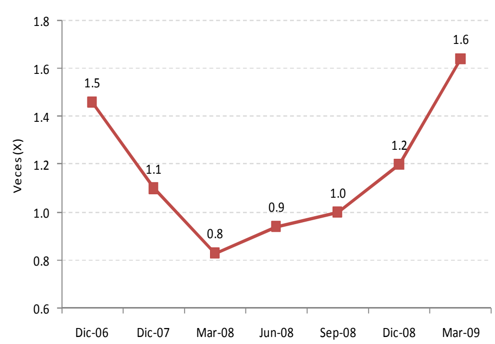
Source: Grupo Nacional de Chocolates

Interest Rate Debt Breakdown
(After Currency Coverage)



Source: Grupo Nacional de Chocolates

Leverage: Net Debt / EBITDA



Source: Grupo Nacional de Chocolates

APPENDIX II

Target Price 2010E – Sensitivity Analysis
(Continuity Value vs. Unleveraged Beta)

Continuity Value	Unleveraged Beta						
	0.65	0.70	0.75	0.80	0.85	0.90	0.95
5.5%	21,800	21,100	20,500	20,000	19,500	19,000	18,500
6.0%	22,700	22,000	21,300	20,700	20,100	19,600	19,100
6.5%	23,700	22,900	22,200	21,500	20,800	20,200	19,700
7.0%	24,900	24,000	23,100	22,400	21,700	21,000	20,400
7.5%	26,300	25,200	24,300	23,400	22,600	21,900	21,200

Source: Valores Bancolombia

Target Price 2010E – Sensitivity Analysis
(CAPEX / Sales vs. WACC)

Average CAPEX / Sales	WACC						
	11.1%	12.1%	13.1%	14.1%	15.1%	16.1%	17.1%
1.6%	35,400	29,900	26,100	23,300	21,200	19,400	18,100
2.1%	33,900	28,700	25,100	22,400	20,300	18,700	17,400
2.6%	32,400	27,500	24,000	21,500	19,500	18,000	16,700
3.1%	30,900	26,200	23,000	20,500	18,700	17,200	16,000
3.6%	29,400	25,000	21,900	19,600	17,900	16,500	15,300

Source: Valores Bancolombia

APPENDIX III

Consolidated Financial Statements Grupo Nacional de Chocolates
(COP Thousand Million)

Income Statement	2007	2008	2009E	2010E	2011E	2012E	2013E
Operational Income	3,450	4,010	4,761	5,189	5,682	6,250	6,907
Operational Expenses	981	1,160	4,295	5,132	5,613	6,171	6,815
EBIT	433	466	465	556	632	747	854
EBIT Margin	12.5%	11.6%	9.8%	10.7%	11.1%	11.9%	12.4%
Net Non-Operational Income	(85)	(93)	(41)	(93)	(77)	(58)	(36)
EBITDA	529	570	565	675	767	906	1,036
EBITDA Margin	15.3%	14.2%	11.9%	13.0%	13.5%	14.5%	15.0%
Net Profit	247	299	174	320	436	539	638
Net Margin	7.2%	7.5%	3.7%	6.2%	7.7%	8.6%	9.2%

Balance Sheet	2007	2008	2009E	2010E	2011E	2012E	2013E
Assets	5,348	5,337	6,051	6,136	6,430	6,779	7,200
Cash and Equivalents	134	200	116	116	272	475	733
Inventories	435	528	592	647	707	774	852
Liabilities	1,216	1,469	1,483	1,547	1,569	1,603	1,665
Short Term Debt	248	350	156	101	93	76	29
Other Short Term Liabilities	451	521	471	527	619	708	801
Long Term Debt	470	535	640	681	588	513	484
Other Long Term Liabilities	47	63	217	237	270	307	351
Equity	4,129	3,864	4,302	4,586	4,857	5,172	5,532
Minority Interest	2,964	2,751	3,122	3,130	3,139	3,150	3,161

Source: Valores Bancolombia

Estimated Multiples Grupo Nacional de Chocolates

Multiples	2007	2008	2009E	2010E	2011E	2012E
P/E	29.0	22.7	40.9	25.6	18.9	15.3
P/VL	1.7	1.8	1.66	1.81	1.71	1.61
EV/EBITDA	14.7	13.1	13.8	13.3	11.4	9.3
EPS	568	687	400.6	746.0	1,012.3	1,249.5

Source: Valores Bancolombia

Valores Bancolombia | Equity and Portfolio Analysis | (571) 607 80 90 | Bogotá – Colombia

NAME	POSITION	E-MAIL ADDRESS
Luisa Fernanda Charry	Director of Equity and Portfolio Analysis	lfcharry@valoresbancolombia.com
Juan Nicolás Pardo Ayala	Retail & Financial Sector Analyst	jnpardo@valoresbancolombia.com
Eduardo Sánchez	Commodities and Industrial Sector Analyst	edusanch@valoresbancolombia.com
Mauricio Amador Pilonieta	International Markets Analyst	mpilonie@valoresbancolombia.com
Sergio Díaz	Local Markets Analyst	seadiaz@valoresbancolombia.com
Lucas Madriñán	Intern	lumadrin@valoresbancolombia.com