

RECOMMENDATION:

BUY: €10.625% 2017

This is a case recommendation. The company will be included in our research universe as long as it holds price potential justifying a BUY recommendation. Basically we shall discontinue our coverage of the company if our recommendation changes to SELL.

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Q1 2012 trading statement from Kerling

We maintain our recommendation for Kerling's bond issue after a trading statement with encouraging trends

Kerling has presented a short trading statement for Q1 2012 and as usual there are only few details and figures.

Operating earnings were EUR 40m against EUR 46m in Q4 2011 and EUR 37m in Q1 2011. Financial net debt was EUR 865m which is EUR 22m higher than at the end of 2011. The financial leverage was 4.2x against 4.4x at the end of 2011.

The liquidity position remains very strong at EUR 112m (EUR 83m at the end of 2011) and with access to another EUR 100m in the company's credit facilities as well as EUR 83m available under the company's securitisation facility.

Within ChlorVinyls Kerling recorded a more favourable trend than in Q4 2011 but a decline relative to Q1 2011. This was mainly due to an increase in the margins against Q4 2011, although they are still lower than in Q1 2011.

For caustic soda, there was a rise in demand and prices against both Q1 2011 and Q4 2011.

We maintain our BUY recommendation for Kerling €10.625% 2017 since we still assess that the bond issue is trading at attractive levels relative to the risk.

Investment case

- Leading low-cost manufacturer in Europe enjoying significant economies of scale;
- Leading market position and broadly segmented geographically;
- Vertically integrated supply chain – both up- and downstream;
- Still focus on cost reductions;
- Strong operational performance may lead to upgrades by the rating agencies.

Price / spread chart



Issue	€10.625% 2017
Recommendation	BUY
Risk	High
Bid / Offer	97.5 / 99
Yield	11.3% / 10.9%
Spread	1076 / 1055
Spread target	1000
Price target	100.125
Expected 12 months return	11.9%
Moody's	B3 (Stable)
S&P	B (Stable)
Isin	XS0480857415

See the following pages for further information on the structure and the covenants.

Overview

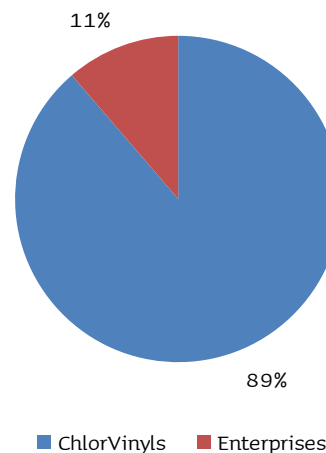
Company profile

Kerling Plc is the leading manufacturer of Polyvinyl chloride (PVC) and caustic soda in Europe, which are used in many industries, both as raw materials and as finished products.

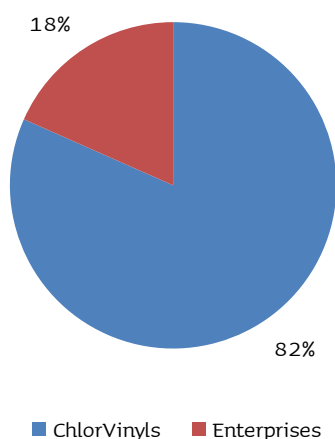
Kerling is the largest manufacturer of PVC in Europe and the second-largest manufacturer of caustic soda in Europe with a market share of 23% and 13%, respectively.

Kerling Plc consists of a number of subsidiaries, and Ineos Limited owns a controlling stake in Kerling.

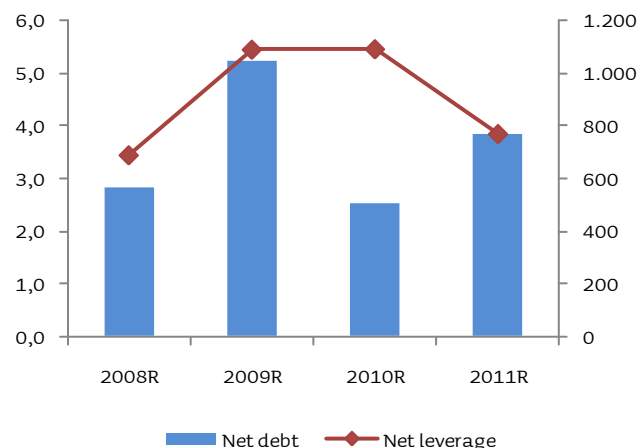
Revenue by segment



Earnings by segment (EBITDA)



Net debt and net leverage



Fundamental valuation

- Trading at low multiples relative to rating and financial leverage.

Investment case

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Price triggers

- Upgrades by rating agencies.

Risk factors

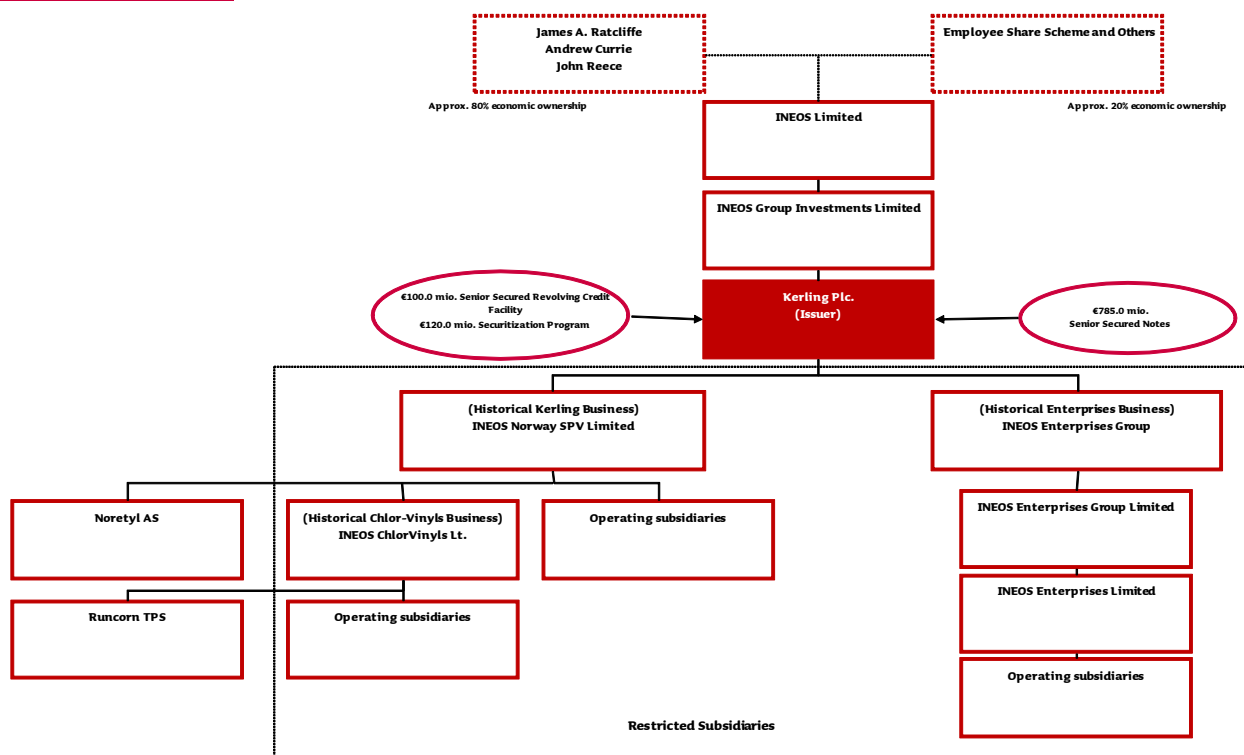
- Cyclical sector. Dependent on underlying business trends;
- Vulnerable to volatile commodity prices;
- High degree of public regulation;
- Keen competition within PVC.

Capital structure (EUR m)	Q3-11	Net leverage	Debt maturity profile Q3-11
Secured	116	0.2x	
Sr. Secured	860	4.2x	
Other debt	-	4.2x	
Senior unsec.	-	4.2x	
Senior unsub.	-	4.2x	
Subordineret	-	4.2x	
Junior sub.	-	4.2x	
Total debt	976		
Liquidity	71		
Net debt	906		

Liquidity (EUR m)	Q3-11
Liquidity	71
Undrawn Committed Revolver	184
Undrawn Uncommitted Revolver	0
Total liquidity	254
Short-term debt	0

Source: Jyske Bank & Kerling.

Corporate structure



Comments:

Issues

Kerling €10.625% 2017

ISIN	XS0480857415
Issuer	KERLING PLC
Amt. outstanding	785 m
Priority	Senior unsecured
Rating (S&P/Moody's)	B/B3
Next Call	01-02-2014 @ 105.313
Make Whole	Yes @ 50 bp.
Equity Claw	Yes - 35% @ 110,625 prior to 01-02-2013
Change of Control	Yes @ 101
Negative Pledge	Yes
Limit of Indebtedness	Yes
Restricted Payments	Yes
Restrictions on Sales of Assets	Yes

Income statement (EUR m)	2009R	2010R	2011R	2012E	2013E
Revenue	2,335	891	1,950	2,349	2,490
EBITDA	193	93	199	193	219
EBIT	16	44	112	117	144
Net finance costs	120	72	88	45	87
Net income	-86	-40	17	58	46

Balance Sheet (EUR m)	2009R	2010R	2011R	2012E	2013E
Short term debt	700	499	0	0	0
Log term debt	406	36	815	931	931
Total debt	1,105	535	815	931	931
Liquidity	58	28	50	83	242
Net debt	1,047	508	765	848	689
Tangible assets	956	458	949	928	913
Intangible assets	-54	-51	-183	-183	-183
Equity	8	-187	-132	-111	45
Share of equity	0.5%	-31.3%	-10.5%	-7.6%	2.7%
Total assets	1,732	597	1,267	1,461	1,643

Cash Flow (EUR m)	2009R	2010R	2011R	2012E	2013E
Funds From Operations (FFO)	193	93	199	178	206
Cash flow from operations (CFO)	241	134	117	148	196
CAPEX	80	26	45	55	60
Free cash flow before interests expenses (FCF)	161	107	72	93	136
Net finance costs	59	53	48	44	86
Free cash flow after net finance costs	102	55	24	49	50
Redemption / amortization of debt					

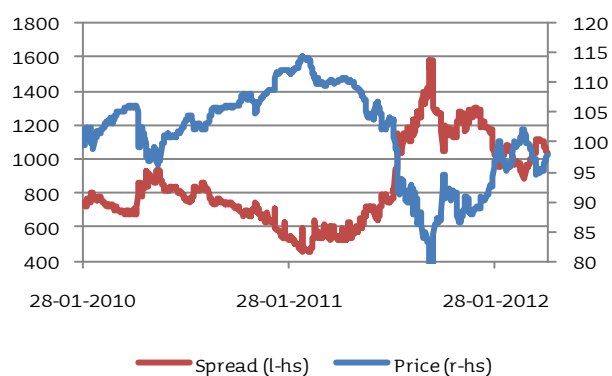
Credit metrics	2009R	2010R	2011R	2012E	2013E
EBITDA-Margin	8.2%	10.5%	10.2%	8.2%	8.8%
Adjusted EBITDA-Margin	8.6%	11.5%	10.7%	8.6%	9.1%
EBIT-Margin	0.7%	4.9%	5.7%	5.0%	5.8%
Adjusted EBIT-margin	0.7%	5.0%	5.8%	5.0%	5.8%
EBITDA/Financial expenses	1.6	1.2	2.3	4.4	2.6
Adjusted EBITDA/Financial expenses	1.6	1.3	2.4	4.6	2.7
CFO/Financial expenses	2.0	1.7	1.3	3.3	2.3
Adjusted CFO/Financial expenses	2.0	1.8	1.4	3.5	2.4
FCF/Financial expenses	1.3	1.4	0.8	2.1	1.6
Total debt/EBITDA	5.7	5.7	4.1	4.8	4.3
Net debt/EBITDA	5.4	5.4	3.8	4.4	3.2
Adjusted net debt/EBITDA	6.2	5.3	4.8	5.3	4.0
CFO/Total debt	18.7%	23.8%	11.3%	12.8%	17.0%
Adjusted CFO/Total debt	22.6%	26.6%	15.5%	16.8%	21.9%
FCF/Total debt	14.6%	20.1%	8.8%	10.0%	14.6%
Net debt/Equity	124.7	-2.7	-5.8	-7.7	15.3
CFO/Revenue	10.3%	15.0%	6.0%	6.3%	7.9%
FCF/Revenue	6.9%	12.1%	3.7%	4.0%	5.4%
Capex/Revenue	3.4%	2.9%	2.3%	2.3%	2.4%

Quarterly expectations	Q4-11R	Q4-12E	Change (%)
Revenue	#I/T	658	#I/T
EBITDA	#I/T	54	#I/T
Net debt	#I/T	843	#I/T
EBITDA-margin	#I/T	8.2%	#I/T
Net leverage	#I/T	4.4x	#I/T

Source: Jyske Bank & Kerling.

Charts

Price/Spread - €10.625% 2017



Source: Jyske Bank and Bloomberg

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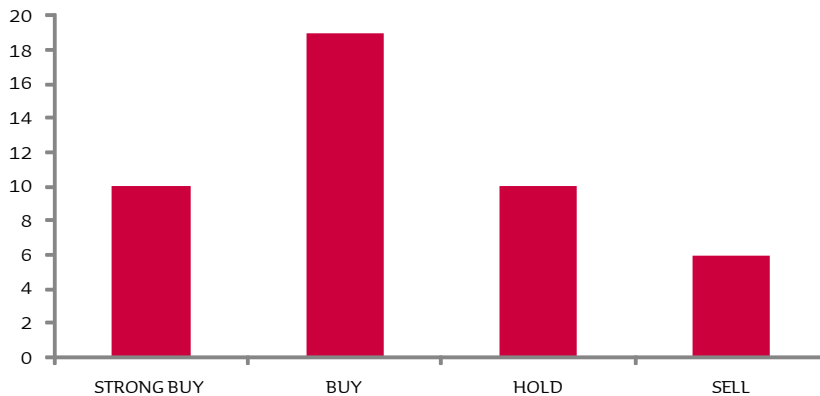
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Jyske Bank's corporate bond recommendations – current breakdown

Breakdown of recommendations, corporate bonds (number)



Source: Jyske Bank

Financial models

Jyske Bank models the expected development of the analysed company's income statement and balance sheet. A number of key figures for the company is calculated on the basis of these models, and the key figures are compared with those of comparable companies and the company's past performance. From this we infer the spread at which the bonds will trade for the period ahead. The recommendation and the price target are moreover adjusted for the expected news flow and the market sentiment based on knowledge of the industry and company-specific circumstances. Jyske Bank's recommendations take into account the expected development in the corporate-bond market, the various sectors and company-specific circumstances.

Risk

Investment in this corporate bond is associated with risk. The risk can be measured directly via the spread at which the bond trades relative to a 'risk free' investment with the same maturity. The spread reflects the probability of default, the recovery rate, and the liquidity of the corporate bond. Movements in the credit market, the sector and / or news flows, etc. regarding the company may affect the price of the bond. See the front page of the research report for our view of the risk associated with the corporate bond. The risk on the corporate bond is stated as Very Low, Low, Medium, High or Very High and is relative to the high-yield market for corporate bonds. The risk factors stated and / or calculations of sensitivities in the research report are not to be considered all-encompassing.

If the corporate bond is denominated in a currency other than the investor's base currency, the investor accepts an FX risk.

Update of the research report

The planned update of the report will be prepared immediately upon the release of the company's financial statements. In addition, there may be prepared research reports on special themes specifically for the company or research reports where the company is part of the special theme. These research reports are published on an ad-hoc basis.

See the front page for the initial date of publication of the report.

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Our recommendations are based on market developments and an assessment of the expected return within the next twelve months. A BUY recommendation or a Strong BUY recommendation is based on expectations that investment in the bond will generate a return above that of the general corporate-bond market. On the other hand, a SELL recommendation implies that we expect investment in the bond to generate a return below that of the general corporate-bond market.

Since our recommendations are relative and risk-adjusted, it is possible to compare our recommendations across sectors and risk categories. In addition, the potential is stated in absolute terms via our return target.

The future and historical returns estimated in the research report are stated as returns before costs since returns after costs depend on a number of factors relating to individual customer relations, custodian charges, volume of trade as well as market-, currency- and product-specific factors. It is not certain that the bond will yield the stated expected future return/s. The stated expected future returns exclusively express our best assessment.