



NATIONAL INVESTMENTS AUTHORITY
UNDER THE PRESIDENT
OF THE KYRGYZ REPUBLIC



Organization for Security and
Co-operation in Europe
Programme Office in Bishkek

DAIRY CLUSTER PROJECT

«ALAIKU ORGANICS LIMITED LIABILITY COMPANY





Name of the company:

"Alaiku Organics" LLC

Brief description of the Project:

The project involves the construction of a dairy cluster in the Osh Region, including a cattle farm of up to 2,000 head, dairy shop, veterinary pharmacy and a fodder production base.

This complex will control the whole process starting from fodder preparation for imported high-yielding cows to production of high quality milk. The produced milk will be sent to "Alaiku Organics" plants for further production of dairy products. Dried skim milk production will also be started.

Description of the Project Initiator:

The Project Initiator is "Alaiku Organics" LLC. Established in 2014, the Company produces traditional national Kyrgyz drinks from dairy products in southern Kyrgyzstan. The Company's plants have modern equipment to produce standardized dairy and national Kyrgyz products. The range of products under the "Alaiku" brand includes more than 50 SKUs.

The Company has a permanent market both domestically and abroad.

In 2020, the Company produced 1,187 tons of milk of different fat content, 230 tons of different cheeses, 97 tons of butter, 194 tons of sour cream, 381 tons of kefir and 175 tons of cottage cheese.

Head of the enterprise Askarbek Mametzhonov

More than 25 years of experience in food processing technology

More than 20 years of management experience in the food industry

Project cost - \$6,830,000

- ✓ Purchase of high-yielding cows - \$2,000,000
- ✓ Construction - \$1,500,000
- ✓ Purchase of a land plot - \$100,000
- ✓ Equipment and agricultural equipment - \$2,430,000
- ✓ Working assets and other expenses - \$800,000

Amount of investments - \$6,830,000

Payback period - 3.76 years

DESCRIPTION OF THE PROJECT

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The main objectives of the project are:

- ✓ Raising the number of permanent cattle up to 2,000 head;
- ✓ Increasing daily milk yield up to 25,000 liters;



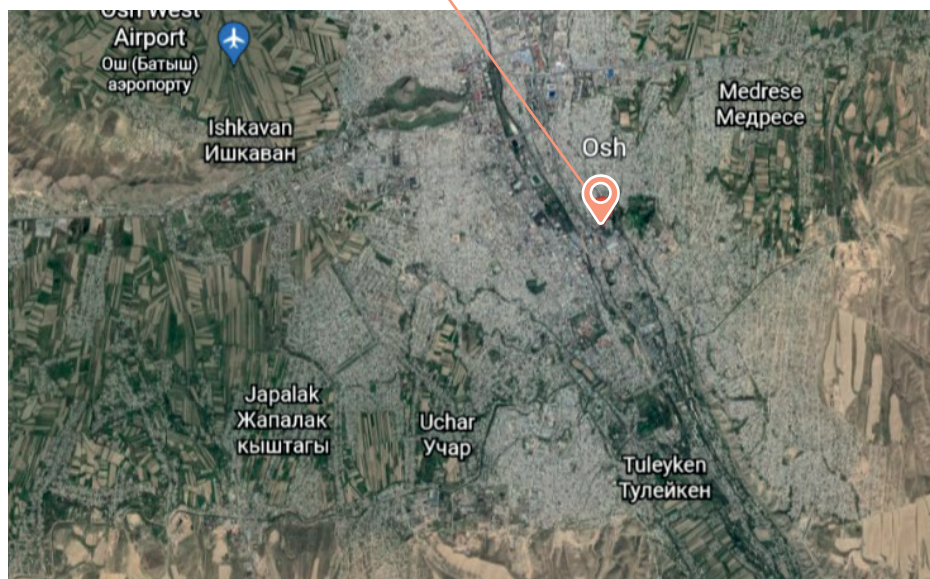
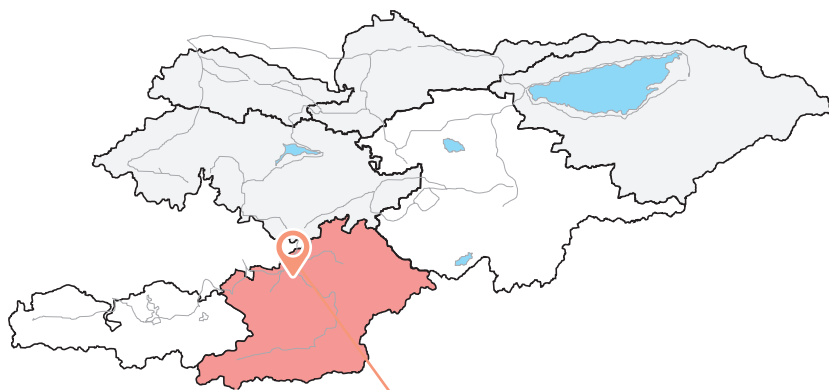
The company plans to buy high-yielding cows of Dutch Holstein and Jersey breeds:

- Holstein cows are highly productive, yielding 8,000 liters of milk per year.
- The Jersey cows have a high fat content of 7-8%. Excellent butter is produced from this milk, with a rich yellow color. Furthermore, this milk also gives cheese a unique creamy taste.

The entire production process and products will be certified to the ISO 22000 international food safety standard and the Halal standard.



GEOGRAPHICAL LOCATION OF THE PROJECT



DESCRIPTION OF THE PROJECT INITIATOR

The Project Initiator is “Alaiku Organics” LLC. Established in 2014, the Company produces traditional national Kyrgyz drinks from dairy products in southern Kyrgyzstan.

It was the first company to develop a unique production technology and is the leader in selling the national beverage liquid qurut and sorbet soft drink around the country. The raw materials for the national drinks are collected from the people of the high-mountain Alaikuu valley. In addition, the Company collects kymyz, sary mai (clarified butter), honey, etc. from local residents. All raw materials are processed and packaged in the company’s workshops and sold on the domestic and foreign markets.

In 2018, the Company expanded its production by constructing a milk processing and dairy product manufacturing plant in the Osh Region of Kyrgyzstan. The Company’s plants have modern equipment to produce standardized dairy and national Kyrgyz products. The Company has storage facilities at different temperature regimes for storing raw materials, semi-finished and finished products, and is also developing its own network of farm shops.

The range of products under the “Alaiku” brand includes more than 50 SKUs. The Company has a permanent market both domestically and abroad.

In 2020, the Company produced 1,187 tons of milk of different fat content, 230 tons of different cheeses, 97 tons of butter, 194 tons of sour cream, 381 tons of kefir and 175 tons of cottage cheese.



SUSTAINABLE COMPETITIVE ADVANTAGES



✓ **Low competitive environment.**

Currently, there is a relatively free market for dried skim milk production in the south of the Kyrgyz Republic. Most dairy processing plants are located in the Chüy, Issyk-Kul and Naryn Regions. There is a high potential for sales both within the region and to neighboring countries Uzbekistan, Tajikistan and China.

✓ **Compliance with standards.**

International standard ISO 22000 will be implemented in order to increase competitiveness of dairy products both within the republic and on the international market. Moreover, taking into account specifics of the region, the Halal certificate will be introduced.

✓ **Export orientation.**

Dairy products of the Kyrgyz Republic are valued for their quality both in neighboring and far-abroad countries. Key products such as dried skim milk produced in this investment project will allow to recover costs in a short time at the expense of low distribution costs for export.

✓ **High quality products and stable production.**

The availability of the company's own raw material base will allow it to obtain homogeneous and high-quality raw materials (milk), thereby eliminating dependence on possible shortages of raw materials and price swings.

✓ **Cluster approach.**

“Alaiiku Organics” will introduce a full production cycle of dairy products, starting from cattle fodder production and ending with the production of finished dairy products.





MANAGEMENT TEAM



Askarbek Mametzhonov

General Director

- ✓ Graduate of the Saint Petersburg Institute of Technology (Technical University)
- ✓ Doctoral studies in “Food Technology” at KSTU named after I. Razzakov
- ✓ More than 25 years of experience in food processing technology.
- ✓ More than 20 years of management experience in the food industry



HISTORIC PRODUCTION AND FINANCIAL INDICATORS OF THE PROJECT

Number of products produced, tons/year	2018	2019	2020
Milk of different fat content	1 144	1 228	1 187
Dried milk	-	-	-
Different cheeses	222	238	230
Butter	94	100	97
Sour cream	187	201	194
Kefir	367	394	381
Cottage cheese	168	181	175



Key Financial Indicators, USD	2018	2019	2020
Sales revenue	1 548 960	1 400 681	1 215 277
EBITDA	464 688	420 204	364 583



PROJECTED PRODUCTION AND FINANCIAL INDICATORS OF THE PROJECT

Production volumes, tons	Year 1	Year 2	Year 3	Year 4	Year 5
Milk of different fat content	2 547	2 887	3 176	3 494	3 843
Dried milk	50	85	93	103	113
Different cheeses	494	560	617	678	746
Butter	208	236	259	285	314
Sour cream	466	528	581	639	703
Kefir	817	926	1 019	1 121	1 233
Cottage cheese	375	425	467	514	565

Key Financial Indicators, USD	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	5 791 600	6 564 638	7 221 102	7 943 212	8 737 533
EBITDA	637 076	1 312 928	1 805 275	2 541 828	2 796 011

- ✓ IRR at the end of Year 5 is 8.41%
- ✓ Project payback period is 3.76 years, discounted payback period is 4.47 years

SOURCES OF FINANCING AND APPLICATION OF FUNDS

Source of financing	Amount, USD
Financial investor	6 830 000
Total:	6 830 000

Application of funds	Amount, USD
Purchase of a land plot	100 000
Construction	1 500 000
Purchase of high-yielding cows	2 000 000
Purchase of equipment	2 200 000
Purchase of agricultural equipment	230 000
Working assets	600 000
Other expenses	200 000
Total:	6 830 000

A BRIEF OVERVIEW OF DAIRY PRODUCTS MARKET IN KYRGYZSTAN

Annual milk production in Kyrgyzstan is more than 1.6 million tons. More than 98% of raw milk for processing is still produced on private farm households, which sell raw milk either through small wholesalers or directly through milk-processing plants.

The livestock of the Kyrgyz Republic numbers 1.71 million head, most of which are low-yielding cows with 2-4 liters of milk per day each. Due to insufficient industrial processing, a significant part of the products on the market - yoghurt, cheese, butter and other products - are imported from Russia or Kazakhstan.



In 2020, 1,668,000 tons of raw milk were produced in all of Kyrgyzstan. The largest volume of milk was produced in the Chüy Region (422,900 tons), and the lowest - in Talas Region (75,900 tons).

In some countries of the Eurasian Economic Union, more milk is consumed than is produced domestically. For example, Russia covers 82% of its domestic needs. A similar situation is observed in Armenia and Kazakhstan, where the demand for milk is satisfied by 90% (according to the data provided by the Eurasian Economic Commission). At the same time, production volumes in Belarus and Kyrgyzstan exceed domestic demand (2.5 times in Belarus and 1.2 times in Kyrgyzstan), thus providing these countries with an opportunity to increase milk exports both within the EAEU and to elsewhere.

DAIRY PRODUCTS

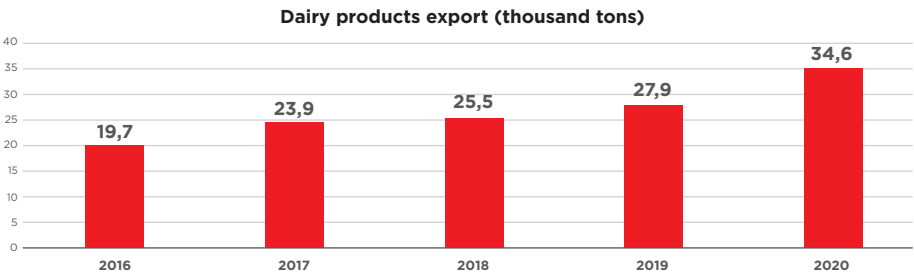
EXPORT POTENTIAL

The potential markets for milk and dairy products are Central Asian countries (Kazakhstan, Uzbekistan, Tajikistan) and Russia.

According to information from the National Statistics Committee of the Kyrgyz Republic, exports of milk and dairy products have grown 1.8 times in the last five years. Thus, in 2020 compared to 2016, its export volume reached a total of almost 35,000 tons amounting to USD 46 million.

Dairy products currently exported include butter (37% of the marketable volume), cheese and cottage cheese (21%), condensed and dried milk and cream (17%), as well as non-condensed milk and cream (13%) and curdled dairy products (around 11%).

Mostly, the dairy products have been exported to Kazakhstan (USD 24.1 million in 2020, or over 52 percent of total export volume) and Russia (USD 21.0 million, or about 46 percent). Dairy products are also exported to Uzbekistan (USD 705,000) and Tajikistan (USD 217,000).



Export of milk and dairy products of the Kyrgyz Republic (thousand USD)

Partner country	2016	2017	2018	2019	2020
Kazakhstan	10 862,5	20 922,6	15 875,5	16 057,0	24 084,0
Russia	11 717,5	12 965,5	14 889,9	28 889,7	21 043,4
Uzbekistan	-	0,2	596,8	298,5	704,5
Tajikistan	29,4	78,0	286,0	143,6	217,1
Total:	22 610,2	33 971,1	31 663,4	45 404,1	46 086,7

OFFER FOR INVESTOR

LEGAL MECHANISM	✓ Limited liability company
TYPE OF FINANCING	✓ Direct investment in capital/ borrowings
AMOUNT	✓ USD 6,830,000
FINANCING TERM	✓ 5-7 years
NUMBER OF TRANCHES	✓ Tranche No. 1 – construction of the farm and procurement of equipment ✓ Tranche No. 2 – purchase of high- yielding cows
FINANCIAL SUPPORT	✓ Company share/hard pledge (fixed assets)

