



CONCORDE CAPITAL

Ukraine/Steel Kryvorizhstal

AGM: 35% Dividend Payout

Hold

6 Jul 2005

USD 0.48

12m Target

Pending

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Market Information

No of Shares, mln 3 859.5

Market price, USD 0.48
MCap, USD mln 1 853
Free Float, % 5%
FF MCap, USD mn 93

Stock Ownership

SPFU 93%
Other 7%

Ratios 2004

EBITDA Margin 29%
EBIT Margin 27%
Net Margin 20%

Net Debt/Equity -0.19

The State Property Fund of Ukraine (SPFU) recently restored its control over KRST and held the first ever AGM on June 30. The new owners dominated the AGM and the shareholders voted for a 35% dividend payout. In anticipation of the new tender for 93% stake in the company in October, the state tightened its grip on Kryvorizhstal by placing its representatives on the Supervisory Board and Audit Commission. Market multiples suggest that KRST's stock valuation will decline, as demand for global steel is down. We have downgraded our recommendation to HOLD, while our target price is pending.

First ever AGM – A Dividend Jackpot. The SPFU, the main shareholder of KRST, set the dividend payout at 35% for 2004, or USD 139.4 mln, one of the largest dividend payments among Ukrainian enterprises. The payout is comparable to that of Russian steel mills. The dividends will be disbursed until Aug 1, 2005 for legal entities, and until Dec 1, 2005 for private individuals. The AGM also approved a 35% dividend payout rate for 2005, as well.

Dividends for Ukrainian Companies in 2004

Company	Industry	Dividends USD mln	% Payout
UNAF	Oil	267	100%
UTEL	Telecom	143	83%
KRST	Steel	139	35%
SGOK	Mining	97	95%
CGOK	Mining	38	60%
ZPST	Steel	3	2%
Russian Peers			
Mechel Group	Steel, Mining	203	15%
MMK	Steel	510	43%
Severstal	Steel	350	26%
NLMK	Steel	390	27%

Government Takes Control Of KRST. The new supervisory board and audit committee consist primarily of government representatives, regional administrators and representatives of the tax authorities. However, despite the changes, the AGM decided not to sack the current management on the eve of the privatization tender.

Tender Schedule:

4 August: The starting price will be announced. **10 Aug-17 Oct:** Applications will be accepted. **24 Oct:** The winner will be announced. **28 Oct:** The contract will be signed. **10 Nov:** Payment to be completed.

We updated our forecast in response to the sharp drop in steel prices:

	Net Revenues		EBITDA		Net Income	
	USD mn	USD mn	margin %	USD mn	margin %	
New						
2005	1 866.6	466.6	25%	205.3	11%	
2006	1 679.9	336.0	20%	151.2	9%	
Previous						
2005	1 722.6	585.7	34%	258.4	15%	
2006	1 479.0	488.0	33%	162.7	11%	

KEY FINANCIAL DATA, USD mln

	Net Revenue	EBITDA	Net Income	DPS, USD
2004	1 894.6	550.5	377.5	0.034
2005E	1 866.6	466.6	205.3	0.023
2006E	1 680.0	336.0	151.2	0.015
Spot Exch Rate	5.05			

KEY RATIOS

	P/S	P/E	EV/EBITDA	Div Yield
2004	1.0	4.9	3.3	7.1%
2005E	1.0	9.0	4.0	4.9%
2006E	1.1	12.3	5.6	3.1%

Peer Comparison Suggests Downgrade. However the forthcoming privatization and auction for a minority block of shares, about 1.7% may stir up interest in the stock.

Company	Mkt Price USD	MCap USD mln	P/S		P/E		EV/EBITDA*		MCap/ Output	
			2004	2005E	2004	2005E	2004	2005E	2003	2004
KRST	0.48	1 853	1.0	0.99	4.9	9.0	3.4	4.0	260.9	260.9
International Peers										
INI Steel		1 281	0.3	0.2	3.0	0.9	3.7	n/a	168.5	177.9
Bluescope Steel		7 707	1.9	1.2	18.6	9.5	11.2	0.6	1 185.8	1 150.4
Tangshan		848	0.3	0.3	5.3	5.0	2.8	n/a	257.0	212.0
Maanshan		2 281	0.7	0.6	5.3	6.0	n/a	3.3	373.9	285.1
Anyang		612	0.4	n/a	6.9	n/a	2.5	n/a	133.1	117.7
IPSCO		2 121	0.9	0.8	4.8	4.0	3.0	2.5	n/a	n/a
CSN		4 679	1.4	1.1	6.9	4.4	4.1	2.2	882.8	850.7
CST		2 473	1.4	1.0	4.5	4.3	3.5	2.2	650.9	515.3
SSAB		2 278	0.7	0.6	4.7	7.9	3.4	3.6	584.1	555.6
Average			0.7	0.6	7.3	5.1	4.6	2.1	423.6	388.6
Median			0.5	0.6	5.3	5.0	3.0	2.5	257.0	212.0
Premium/ (Discount) to average			32%	59%	-33%	78%	-26%	90%	-38%	-33%
Implied Price, USD			0.36	0.30	0.72	0.29	0.65	0.25	0.78	0.71
Upside (Downside)			-24%	-37%	49%	-44%	36%	-47%	62%	49%

Source: Bloomberg, IBES Estimates, IISI, Concorde Capital Estimates; for 2005 -- P/EBITDA

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