



CONCORDE CAPITAL

Ukraine/Iron Ore Mining Poltava GOK

Pre-IPO Jitters

BUY

7 Jul 2005

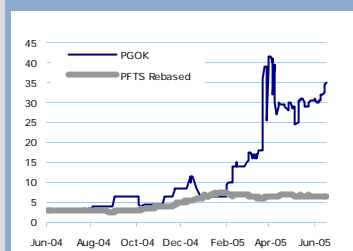
USD 6.93

12m Target

USD 12.00

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PGOK Mid-Market, UAH



Market Information

Bloomberg PGOK UZ
Reuters PGOK.PFT

No of Shares, mln* **81.6**
Reg S GDR to Ord. 1:50

Market price, USD **6.93**
52Wk H/L, USD 2.00/41.75
MCap, USD mln **566**
Free Float, % **4%**
FF MCap, USD mln **27**

Stock Ownership

Finance & Credit 77%
Dem DECOMetal 15%
Private Individuals 8%

Ratios 2004

EBITDA Margin 17%
EBIT Margin 12%
Net Margin 3%

Net Debt/Equity 0.96

**Shareholders voted in favor of an additional issue of 28.5 mln shares at the April 22 AGM. The issue is expected to be approved at one of the company's upcoming EGMs.*

A rumored upcoming IPO for PGOK will move the company towards transparency. The EGM, held on June 29, approved restructuring plans for the company, thus simplifying its organizational structure. By using data from consolidated P&L statements from a trader affiliated to PGOK we have established a higher target price for PGOK. The structure of PGOK's contracts will protect it from falling steel prices for the remainder of the year and its new target price suggests that its dilemma to select between Russian supplier or Russian consumer will not hurt the company's valuations. **BUY**

Short EGM, Big Strides Towards Transparency. The EGM held on June 29 lasted only 20 minutes, but the decision to divest almost all of PGOK's affiliated companies, except Ferrotrans, simplified the company's management structure. This move makes the company more transparent and is part of a plan to tap international capital to finance its goal of doubling capacity in the next five years. Ferrotrans is a strategic asset for PGOK, it controls the Nova iron ore mine and specializes in transportation, which helps PGOK hedge against hikes in transportation tariffs set by Ukrainian Transportation Ministry.

Steel Price Slump Will Not Hurt PGOK This Year. Though iron ore producers are under pressure from steel producers to lower prices, PGOK's price levels will remain the same as in 1H05. The company uses annual contracts, with prices fixed for twelve months and revision is possible only once a year.

Between A Rock And A Hard Place. After entering the Russian market to supply Magnitogorsk Iron and Steel (MMK) PGOK found itself in direct competition with one of its suppliers, Lebedinsky GOK (LGOK). The company previously had been one of MMK's main suppliers. LGOK immediately suspended deliveries to PGOK. LGOK provided PGOK with 15% of its iron ore concentrate. In our 2005 forecasts we conducted a simulation to estimate the impact of two scenarios: scenario A, PGOK stops deliveries to MMK and scenario B, LGOK halts concentrate supplies to PGOK. Our analysis shows that the impact on valuations would be more significant with the loss of LGOK's concentrate supply.

P&L Estimates. FerrExpo, an affiliated trader, is expected to be consolidated with PGOK for IPO purposes. We were able to make estimates on their consolidated P&L. The items were adjusted as follows:

	Net Revenue	EBITDA	Net Income
2005E	+31%	+105%	+143%
2006E	+15%	+62%	+95%

After examining this data we raised valuations for PGOK, with a new target of USD 12.0, implying a MCap of **USD 979 mln.**

KEY FINANCIAL DATA (consolidated), USD mln

	Net Revenue	EBITDA	Net Income	**DPS, USD
2005E	700.0	329.3	205.0	0.016
2006E	642.5	230.4	135.0	0.026

Spot exchange rate: 5.05

**Number of shares before additional shares issue is used for DPS and Yield calculations

KEY RATIOS (based on consolidated data)

	P/S	P/E	EV/EBITDA	**Div Yield
2005E	0.8	2.8	2.1	0.224%
2006E	0.9	4.2	3.3	0.370%

"The Russian dilemma:" Possible scenarios for PGOK's operations

	Basic scenario	MMK lost	LGOK lost
Sales 2005, USD mln	700	678	605
EBITDA 2005, USD mln	329	319	306
<i>EBITDA Margin</i>	47%	47%	51%
Net Income 2005, USD mln	205	199	190
<i>Net Margin</i>	29%	29%	32%

(Consolidated data)

Peer Comparison

Company	Market Price USD	MCap USD mln	P/S 05	P/E 05	EV/EBITDA 05
PGOK (Basic scenario)	6.93	565	0.81	2.8	2.1
International Peers					
BHP Billiton		48 970	1.7	7.7	4.3
CVRD		32 560	3.0	7.5	5.5
Rio Tinto		15 547	0.9	3.6	2.0
Kumba Resources		2 703	1.4	7.3	3.9
Cleveland-Cliffs		1 269	0.7	3.8	2.4
Portman		495	1.8	5.5	3.6
Assmang		1 449	n/a	n/a	n/a
AVG			1.6	5.9	3.6
Median			1.5	6.4	3.8
Premium/ (Discount) (current to average)			-49%	-53%	-43%
Implied Price, USD			13.7	14.9	13.2
Upside (Downside)			97%	115%	91%

Scenario analysis. PGOK's implied price, USD

	P/S	P/E	EV/EBITDA
MMK Lost	13.2	14.4	12.7
LGOK Lost	11.8	13.8	12.2

To account for uncertainty over the "Russian dilemma," we have set our target price at USD 12.0.

Financial Statements

All financial statements according to Ukrainian Accounting Standards.
Trading company **not consolidated**

Income Statement Summary, USD mln	2003	2004	2005E	2006E
Net Revenues	206	273	534	557
Cost Of Sales	(135)	(173)	(315)	(346)
Gross Profit	71	100	219	212
EBITDA	35	47	160	142
<i>EBITDA margin, %</i>	17%	17%	30%	26%
EBIT	21	32	139	115
<i>EBIT margin, %</i>	10.1%	11.8%	26%	21%
PBT	7	16	130	107
Net Income	3.4	7	84	70
<i>Net Margin, %</i>	2%	3%	16%	13%
Dividend Declared	0.7	1.2	1.3	2.1

Balance Sheet Summary, USD mln	2003	2004	2005E	2006E
Current Assets	81	119	169	178
Fixed Assets	167	182	282	348
Total Assets	248	301	451	526
Shareholders' Equity	110	130	297	365
Current Liabilities	110	108	101	107
LT Liabilities	28	62	53	55
Total Liabilities & Equity	248	301	451	526

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