



DniproAzot

Initiating Coverage

BUY

9 Dec 2004

USD 0.0022

12m Target

USD 0.0036

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Market Information

PFTS OTC	DNAZ
No of Shares, bn	35.2
MCap, USD mn	77.3
Free Float, %	15.6%

Stock Ownership

Privat Group	84.4%
Inst. & ind.	15.6%

Ratios

EBITDA Margin	24.2%
EBIT Margin	20.7%
Net Margin	13.1%
Net Debt/Equity	15.7%

A major nitrogen fertilizer producer, investing capital in the upgrade of its ammonia capacity (by 15-25%) and streamlining ammonia transportation. Margins are growing on favorable nitrogen fertilizer market prices. The additional USD 66 mn share issue is economically motivated, justified and value adding.

DniproAzot is a financially sound company. 2004e sales will grow 42% yoy and net income 53%. DNAZ 04 net margin is expected almost 70% higher than as Russian peers. On the cost side, DNAZ has a sustainable competitive logistical advantage due to its proximity to Black Sea ports and planned connection to the transnational Togliatti-Yuzhnyy ammonia pipeline.

Strategic shareholder Privat Group increased its stake to 84.4% (as of 1 October 2004). DniproAzot's new share issue of 35 bn shares at USD 66 mn is economically motivated, whereas several other Ukrainian blue chip new share issues were essentially dilutive. Approximately USD 50 mn of the proceeds will be used to refurbish an idle ammonia machine and to build a link to the Togliatti-Yuzhnyy ammonia pipeline. This will add 15-25% in ammonia capacities and save approximately USD 4 mn annually in transportation costs.

DniproAzot is exposed to the growing nitrogen fertilizer market where global demand exceeds supply and prices are increasing. This situation is likely to be preserved at least until 2006.

DNAZ was delisted from PFTS for illiquidity in June 2003. Its thin trading OTC by local brokers make DNAZ a neglected stock for international financial markets.

WATCH:

- The acquisition of a 20% stake in Azot Berezniki was reported in the Summer of 2004 (to be confirmed). This acquisition will enhance DniproAzot's access to the Russian market.

KEY FINANCIAL DATA, USD mn

	Net Revenue	EBITDA	Net Income	DPS, cents
2003	126.6	31.9	16.6	n/a
2004E	157.9	37.6	17.9	0.001
2005E	185.5	44.9	22.0	0.002
Spot Exch Rate		5.31		

KEY RATIOS

	P/S	P/E	EV/EBITDA	Div Yield
2003	0.61	4.66	3.31	n/a
2004E	0.49	4.33	1.25	0.3%
2005E	0.42	3.52	1.12	1.1%

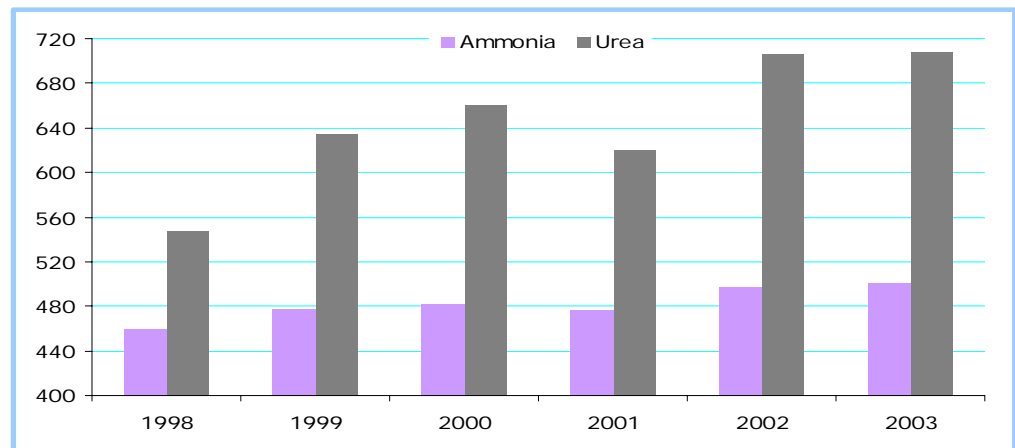
Nitrogen Fertilizers

DniproAzot is a major nitrogen fertilizer producer and exporter, controlled by one of Ukraine's largest business groups - Privatbank. DniproAzot's produces nitrogen fertilizers (ammonia and urea), liquid chlorine, caustic soda and hydrochloric acid. The smaller product lines include plastic disposable dishware and bleach and toilet cleaner products.

DniproAzot's prospective product options include manganese dioxide, for use in power batteries, and sodium carboxymethyl cellulose (Na-CMC), which is used in textiles, detergent manufacturing, the mining sector, pharmaceuticals, etc.

The company intends to develop the manganese product line in 2005. Presently, urea and ammonia are DniproAzot's key products. Historically, urea production exhibited higher growth trends, while ammonia output was less upward, but also less volatile in volumes.

DniproAzot Historical Nitrogen Fertilizer Production (ths tons)

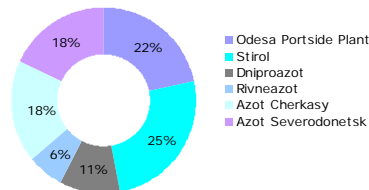


Stable Market Share

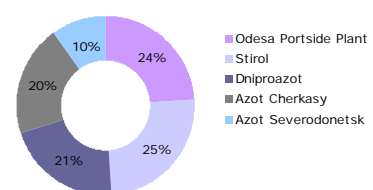
The company increased their market share of ammonia to 11% in 10M04 from a previously stable 10%.

DniproAzot has a stable 11% market share in ammonia and 21% in urea production

Ammonia Output 10M04



Urea Output 10M 2004



Source: Ukrainian News

DniproAzot increased the output of ammonia 1.3% yoy in 10M04, exhibiting very positive dynamics compared to the overall Ukrainian decline of 1.5%.

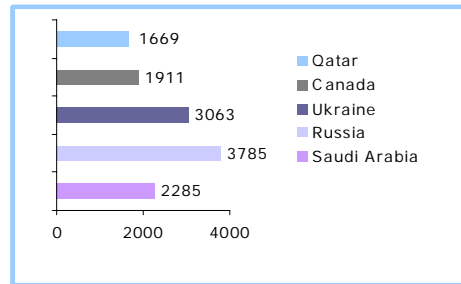
Urea is produced from ammonia with a ~0.55 feedstock ratio. Ammonia is also sold separately as a fertilizer commodity. DNAZ increased their share of the Urea market to 21% in 10M04.

Export to the Global Market

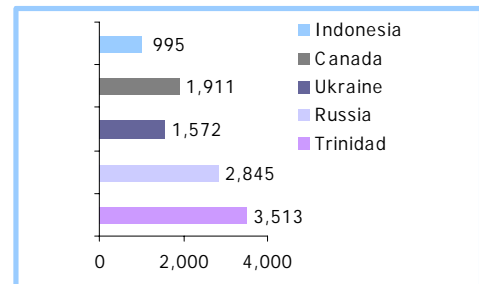
Ukraine and Russia have become the world's leading exporters of nitrogen fertilizers. In the economic crisis of the post-Soviet Union domestic application rates of nitrogen fertilizers reduced significantly in Ukraine and the country became net exporter of ammonia and urea.

World's Largest Nitrogen Exporters (mn tons, avg 2000-2002)

Urea



Ammonia



Source: EFMA, Fertecon

DniproAzot's exports were over 50% of their 2003 production

DniproAzot's 2003 exports were over 50% of overall production. From urea produced in 2003, ~90% was exported.

Largest Recipients of Ukrainian Nitrogen Exports, 2003

	Volume (ths tons)	Amount (USD mn)
Ammonia		
Europe	395.6	68.8
Turkey	379.4	60.0
USA	346.2	54.1
Morocco	267.4	42.0
Urea		
Brazil	1,017.3	130.9
Turkey	320.5	40.2
Vietnam	249.5	29.4
Mexico	222.0	27.2
Egypt	156.6	18.8
Europe	59.6	7.7

Source: State Statistics Committee

Possibility of increasing export revenues share from 2005 due to VAT refunding improvement

From official export data, DniproAzot's 2003 exports constituted 44% of net revenues. The reduction of the export share in DniproAzot's 2003 revenues (as shown on the graph below) is explained by the export of ~36% urea produced by DniproAzot through another member of Privat Group, Ukrnafta (UNAF). As Dniproazot's management explained to us, the decision to export urea through UNAF was used to optimize export VAT refunding. Poor government VAT repayment practices were to a large extent streamlined in 2004 and thus there is no longer any need to utilize UNAF as an export agent. Therefore, we concur with Dniproazot management that exports through Ukrnafta will decrease in 2005. Dniproazot will receive higher export revenues in subsequent years and save on VAT refunding.

DniproAzot Exports in the Structure of Revenues (USD mn)

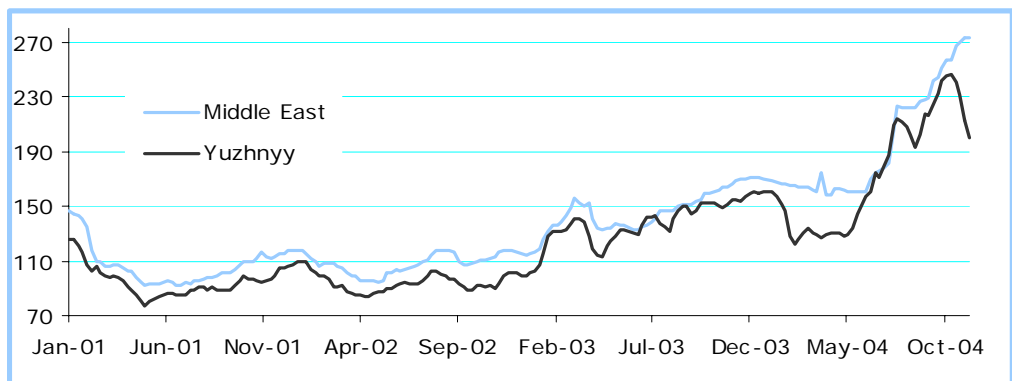


Source: State Statistics Committee, Concorde Capital estimates.

DniproAzot is an exporter of urea and has especially benefited from the upward urea price trend in international markets.

Urea and ammonia prices moved upward in 2003

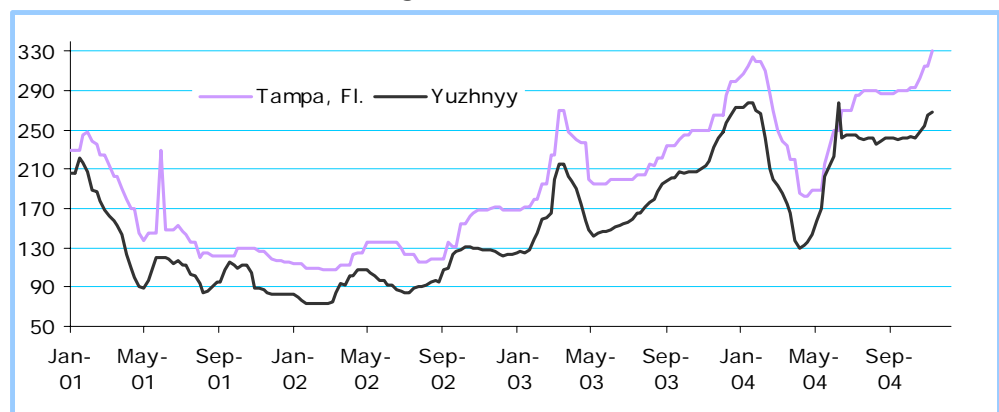
World Prilled Urea Prices through 12 Nov 04



Source: Bloomberg

DniproAzot exported ~83.5 ths tons of ammonia in 2003, including ~70 ths tons of anhydrous ammonia. International pricing trends for ammonia are favorable for the company and prices are likely to stay high in 2005.

World Ammonia Prices through 12 Nov 04



Source: Bloomberg

Fertilizer Supply-Demand Trends

Increases in nitrogen fertilizer prices through 2003 are simply explained by world market supply-demand conditions. The US is a major consumer of nitrogen fertilizers. Current market fundamentals in the US, explained by the rising price of natural gas – the most costly input in the production of ammonia, are driving world fertilizer prices higher.

Rising natural gas prices caused a shutdown of nitrogen capacity and led to increased ammonia prices

Rising natural gas prices largely explain the shortage of capacity in the US where, by various estimates, 40-50% of ammonia capacities were mothballed until recently. US Department of Energy data confirms that natural gas prices rose in 2003 by more than 40%, whereas average Tampa ammonia prices rose 64% yoy.

Global Nitrogen Supply/Demand Balance (mn tons)

	2002	2003	2004
Ammonia Demand	84.1	86.5	88.0
Capability	98.3	96.7	97.3
Global Balance	14.2	10.2	9.3
Urea Demand	42.5	44.0	45.0
Capability	46.3	46.6	49.8
Global Balance	3.8	2.6	4.8

Source: IFA, December 2003. "Global Fertilizer Supply and Trade, 2003-2004"

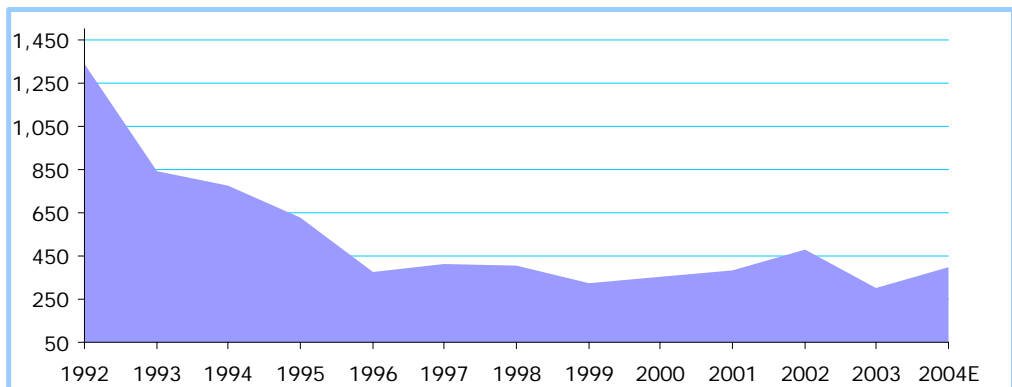
Nitrogen fertilizer supply-demand trends show that the international market will have increased demand fundamentals at least until 2006. Fertilizer producers currently invest in new capacities, including a new plant in Trinidad to be commissioned in 2005 and capacities in Iran to be launched in 2005-2006. Indian and Omani projects that could boost Asia's capacity by 1 mn tons and a Qatari project could increase the capacity of Middle Eastern producers by another 1 mn tons between 2005 and 2007. In addition, China is also expected to bolster its capacities. The Saudi Arabian Fertilizer Company is reported to have commissioned a 300t/day ammonia plant for 2005 and Austrian Barrap fertilizers is building 726 ths tons of ammonia capacity for shipments to India.

Domestic Market Potential

The Ukrainian market presents significant expansion potential for nitrogen fertilizer manufacturers

Significant expansion potential for DniproAzot is provided by the domestic market. While agricultural specialists foresee reduced grain prices in Ukraine, this does not automatically translate into reduced fertilizer consumption. Ukraine is historically behind many other countries in fertilizer application, explained by the country's economic decline after the breakup of the FSU.

Nitrogen Fertilizer Consumption in Ukraine (mn tons)



Source: FAOSTAT, Concorde Capital Estimates

Currently, the higher Ukrainian grain yields are, the more resources domestic agriculture has available to restore fertilizer application rates. The Ukrainian government assisted farmers in 2004 and successfully implemented its subsidy-and-pressure policy for farmers to increase domestic consumption of fertilizers.

The Ukrainian government subsidized domestic consumption of fertilizers by farmers in 2004

Fertilizers were sold to farmers for Spring planting at fixed prices that were below market prices (USD 129.5 per ton of prilled urea and USD 42.2 per ton of liquid ammonia), but encouraged local demand. Independent industry specialists thus forecasted the increase in nitrogen fertilizer consumption as exhibited on the above graph.

Local producers negotiated Spring 2004 domestic sales of subsidized nitrogen fertilizers with fixed supply quotas, thereby limiting competition among suppliers. DniproAzot will benefit from increased domestic sales of urea, liquid ammonia fertilizer solutions and ammonia substance used for the production of nitrogen nutrients. The affect of the fixed prices and supply quotas on Dniproazot's sales was insignificant, whereas their customer base expanded.

In the long-term, local demand will occupy a significant share of domestic fertilizer output

In the long-term, Ukrainian demand for nitrogen fertilizers will be significant and make use of a large share of domestic fertilizer output. Ukraine currently applies 30 kg of nitrogen fertilizers per hectare (compared to 121 kg/hectare in 1990), whereas the rate of fertilizer consumption is 621 kg per hectare in the Netherlands, 254 kg in China, 98 kg in India and 60-80 kg in Poland and Czech Republic.

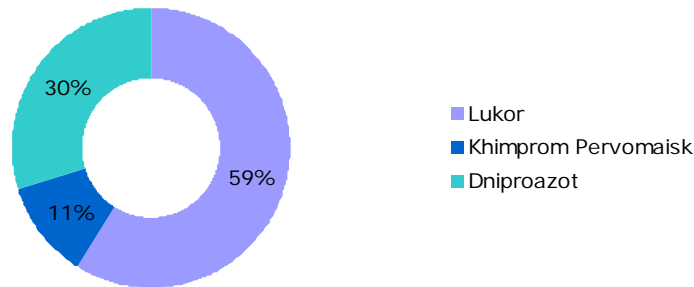
Chlorine and Caustic Soda

Dniproazot has 30% market share in domestic caustic soda production

DniproAzot is not presently expanding chlorine production, while its major Ukrainian rival Lukor (JV between Oriana and LUKOIL) is developing a chlorine products business.

In 2003, DniproAzot's share of caustic soda was 34% and Lukor's 53%, but their share declined to 30% in 10M04, while Lukor's expanded to almost 60% of Ukraine's total production.

Ukraine Caustic Soda Output 10M04



Source: Ukrainian News

Chlorine products represent less than 10% of DniproAzot sales. Privat decided to develop the caustic soda business at DniproAzot and modernization of production is planned for 2007.

Capacities and Modernization Plans

While the urea capacity is 100% utilized...

DniproAzot's sole production facility in Dniprodzerzhynsk has two ammonia machines, two urea units, caustic soda equipment and liquid chlorine & hydrochloric acid production facilities. While urea capacity utilization is almost 100%, it is still technically possible for DniproAzot to slightly upgrade their urea machine without major equipment refurbishments. Ammonia capacities are underutilized.

Dniproazot Capacity Utilization

	Capacity (ths tons)	Capacity Utilization (%)
Ammonia	900.0	56%
Urea	706.2	100%
Caustic Soda	68.0	76%
Liquid Chlorine	40.4	88%

Sources: DniproAzot, Ukrainian News

...DniproAzot is focused on increasing ammonia capacities

Management has firmly decided to concentrate on the expansion of the ammonia business as the company's strategic priority. The key rationale behind the expansion is that in today's favorable market conditions, DniproAzot can cheaply revitalize its idle ammonia capacities, and is able to streamline transportation of liquid ammonia products, and thus most easily maximize profit.

Ammonia machine overhaul would cost DniproAzot USD 40-50 mn and raise capacity by 15-25%

The priority CapEx project for DniproAzot is the renovation and launch of one of the two 450 ths tons ammonia machines that is currently idle. The overall cost of the project, according to independent industry specialists, is USD 80-100 mn. With a USD 40 mn investment, the idle ammonia machine could be partially refurbished and launched within a year. The renovated machine would increase overall ammonia capacity by ~15-25%.

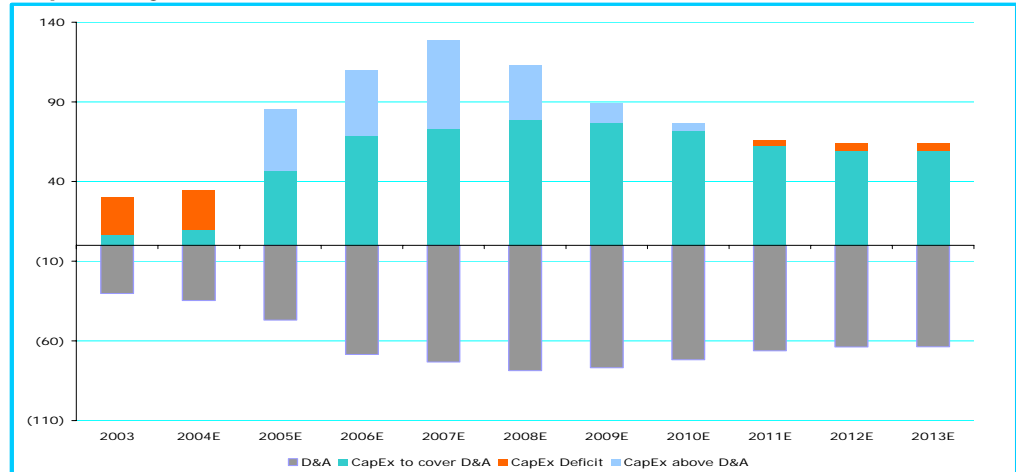
An ammonia pipeline section is designed to connect DniproAzot with the major transnational Togliatti - Yuzhnyy ammonia pipeline currently used by Ukrainian peers Stirol and Azot Severodonetsk for transportation of liquid ammonia to the Black Sea terminal. DniproAzot management calculated that the ammonia pipeline alone would save the company USD 4.0 mn in transportation costs annually.

Construction of ammonia pipeline costs USD 20 mn and will save USD 4 mn in transportation costs annually

The cost of the pipeline construction was initially estimated at USD 15.0 mn. Recently, the cost was increased to approximately USD 20 mn to meet additional construction requirements set forth by Ukrtransammiak – the operator of the Ukrainian route of the pipeline. DniproAzot will build the pipeline by 2006.

DniproAzot's third CapEx project relates to entering a new line of manganese dioxide products which are used in metallurgy, production of power batteries, etc. Presently, Ukrainian market demand in these products is met exclusively by imports. The market is small (approximately 7 ths tons), but could bring DNAZ several million dollars in additional annual revenues. The modernization would cost USD 2 – 3 mn and is earmarked for 2005.

CapEx Projections (USD mn)



Source: Company data, Concorde Capital forecast

The project to modernize the second ammonia machine, likely to be implemented in 2006-07, would boost the unit's capacity by 30-50% and reduce the consumption of natural gas by 15-20% -- translating into a decrease in ammonia production costs by 10% p/a.

The modernization of caustic soda production (2007-08) will introduce progressive technology and reduce the consumption of electric power (constitutes 60-70% of COGS). Alongside, DNAZ and probably Lukor, would lobby for antidumping duties against substitute, low-tech caustic products.

Modernization of urea production, to be performed in 2007-08, will create the only Ukrainian granulated urea (a more value-added product than prilled urea). Such modernization would cost USD 20-40 mn.

Competitive Advantages in Transportation Costs

The key cost driver in nitrogen fertilizer production is natural gas, which accounts for ~73% of COGS per ton. Logistic costs account for over 20% of the end price.

Currently, the low domestic natural gas price in Russia (USD 0.69/MMBtu in 2003) gives Russian companies a clear cost advantage over competitors. Ukraine does not produce enough natural gas on its own to meet industrial demand. Ukrainian gas balance: domestic 18 bn cm, Turkmenistan imports 36 bn cm and Russian imports 26 bn cm. The current regulated price is ~USD 1.64/MMBtu, but Naftogaz lobbies for higher natural gas prices, as the current price does not offset production and delivery costs.

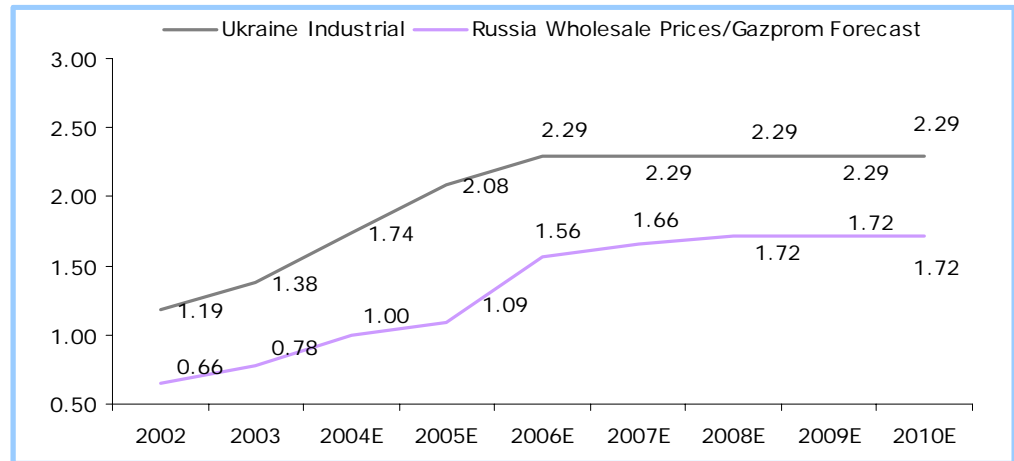
Proximity to Yuzhnyy ports gives DniproAzot an unbeatable advantage over Russian competitors

The competitive advantage of Ukrainian nitrogen fertilizer producers lies in lower logistic costs. DniproAzot's geographical proximity to Yuzhnyy and other Black Sea ports creates a sustainable cost advantage over Russian competitors. This advantage will be of special importance when Russia gradually increases its domestic natural gas prices to 2010 as part of WTO accession requirements.

Higher natural gas prices in Russia will reduce current competitive advantages of Russian producers

In spring 2004, Russia agreed to EU demands to raise gas prices by 2006 to between USD1.02/MMBtu and USD 1.17/MMBtu and by 2010 to between USD 1.36 – 1.58/MMBtu. Bottom line: Higher natural gas prices will mitigate the current competitive advantage of Russian fertilizer producers.

Ukraine versus Russia Natural Gas Prices (USD/MMBtu)



Source: Ukrainian News, EFMA, Gazprom, Concorde Capital Forecast

Russia will also likely liberalize its low domestic railroad transportation tariffs under European fertilizer manufacturer pressure. According to EFMA, in 2003, rail transport tariffs per 1,100 miles were: Russian domestic tariff: USD 18/sT, Canadian comparable tariff: USD 34/sT, and EU average tariff: USD 56/sT. The EFMA states that most Russian fertilizer manufacturing plants are located at considerable distances from primary exporting ports and therefore are subsidized by the government. Russia may abolish these subsidies in the course of its WTO accession.

Ukraine applies high transit tariffs to Russian producers' use of the ammonia pipeline

Unlike Ukrainian ammonia producers, Russian exporters pay a Ukrainian transit tariff for the use of the 804 km section of the Togliatti-Odesa ammonia pipeline. Ukraine also influences transit quotas for Russian producers. Russian quotas for 2003 were 1.75 mn tons.

Over the last 5 years, and in 2004, tariffs were USD 2 per 1 ton of ammonia per 100 km or USD 16.08 per ton (Ukrainian border – port Yuzhnyy). During 2003-2004, Yuzhnyy FOB ammonia prices ranged from USD 125 to USD 275 per ton, and thus Russian exporters were exposed to an extra 6%-13% of transportation costs compared to Ukrainian producers.

Additionally, DniproAzot plans to buy its own railroad car fleet for the delivery of chlorine products. The cost of the fleet is estimated at USD 5-6 mn. While there currently seems to be no cost advantage compared to railcar lease, DniproAzot's management would like to hedge the risk that lease rates may increase in the future.

Privat Group – Key Shareholder

Privat Group consolidated its holdings in DniproAzot to 84.4% stake

Privat Group, one of the major Ukrainian business groups, diversified in several sectors, consolidated its holdings in DniproAzot in 2003. Currently, it owns a combined 84.4% stake in DniproAzot. The consolidation of holdings streamlines management. The center of Privat Group is Privatbank and thus the group can provide beneficial financing to DniproAzot.

Synergies are possible with the recently acquired 20% stake in Russian company Berezniki Azot by Privat Group. As the result, DniproAzot can be provided direct access to the Russian market.

New Share Issue

The new share issue is directed to finance equipment upgrade

DniproAzot's 1 October 2004 EGM decided to issue 35 bn new ordinary shares with a face value of USD¢ 0.00188. The proceeds of USD 66 mn raised by the new share issue will be used to finance construction of the ammonia pipeline (USD 20 mn), refurbishment of the ammonia machine (USD 40 mn) and purchase of the railroad car fleet (USD 6 mn). The subscription, at par, will take place in two stages: Dec 6-20 and Dec 21-23. Ex-rights was 1 October 2004.

We assess the share issue as positive for the company as it will be used to finance equipment upgrades that will increase Dniproazot's ammonia capacity and reduce logistical costs.

Valuation

Peer comparison

For purpose of peer comparison, we use the current DNAZ OTC price of USD0.0022. Our peer group includes the only traded Ukrainian nitrogen fertilizer company (Stirol) and Russian fertilizer producers. Our international peer group includes US/Canada and Asia/South America fertilizer producers. All prices as of 7 December 2004.

Russia/Ukraine Fertilizer Producers Comparison

	MCap, USD mn	P/E (03)	P/E (04E)	P/S (03)	P/S (04E)	EV/ EBITDA 03	EV/ EBITDA 04E	ROE 03	ROE 04 E	NI Margin 03	NI Margin 04E
DniproAzot	77.3	4.7	3.0	0.6	0.6	3.3	2.8	13%	10%	13%	11%
Stirol	305.2	8.6	6.7	1.2	1.1	4.3	4.2	20%	20%	14%	16%
Akron	330.9	36.8	30.1	0.9	0.9	6.8	6.7	6%	9%	3%	3%
Azot Novomoskovsk	177.9	neg	25.4	0.8	0.6	neg	4.6	neg	18%	neg	3%
Azot Nevinomyssk	80.2	40.1	4.7	0.5	0.3	3.8	2.2	1%	9%	1%	6%
Azot Kemerovo	50.1	16.7	6.6	0.5	0.4	7.3	6.6	4%	10%	3%	6%
Peer average		25.5	14.7	0.8	0.7	5.5	4.9	8%	13%	5%	7%
Peer median		28.4	6.6	0.9	0.6	4.3	4.6	5%	10%	3%	6%
Prem/discnt to avg		-82%	-79%	-26%	-11%	-40%	-42%				
Prem/discnt to med		-84%	-54%	-35%	-2%	-23%	-39%				

Sources: Bloomberg, company data, Renaissance Capital, ConCap estimates

International Fertilizer Producers Comparison

	MCap, USD mn	P/E (03)	P/E (04E)	P/S (03)	P/S (04E)
Agrium	2,499	20.1	n/a	n/a	0.8
Potash	6,936.7	59.3	n/a	n/a	1.8
US/CAN Peer Avg		39.7			1.3
Prem/discount to avg		-88%			-58%
Abou Kir Fert & Chem	647.6	6.1	7.4	2.1	2.1
Bunge Brasil	n/a	5.1	n/a	0.3	n/a
Chambal Fertilizers	231.0	6.3	9.7	0.3	0.3
Coromandel Fertilizers	90.4	4.5	6.0	0.2	0.2
E.I.D. Parry (India)	150.5	3.2	5.6	0.2	0.1
Engro Chem Pak	286.6	8.9	n/a	n/a	1.2
Fauji Fertilizer Comp	616.8	7.9	n/a	1.3	n/a
Gujarat Narmada	217.1	4.3	6.2	0.5	0.3
Gujarat State Fertil	n/a	n/a	2.7	0.2	0.1
Hind Lever Chem	101.0	6.7	n/a	n/a	0.2
National Fertilizers	413.9	5.1	20.5	0.5	0.4
Rashtriya Chem	445.9	n/a	14.4	1.1	0.4
Taiwan Fertilizer Co	984.5	21.8	n/a	n/a	2.5
Hubei Yihua Chemical	260.6	21.0	n/a	n/a	1.4
Yunnan Yuntianhua	555.3	18.7	n/a	n/a	2.8
Asia/South Am Avg		9.2	9.1	0.7	0.9
Premium/disc to avg		-49%	-66%	-11%	-35%

Source: Bloomberg

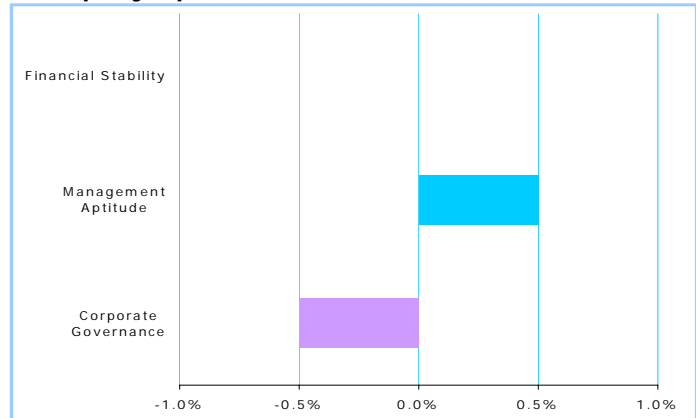
DCF model

DCF calculations are based on DniproAzot's financial statements and our operational model for a ten-year period. All company financial reports are based on Ukrainian accounting standards. WACC is calculated for each forecasted period. 2014 to perpetuity WACC is set at 12%. The basic outputs and assumptions of our model are presented below.

WACC calculation for 2004:

Debt/Equity eop	0.18
Weight of debt	0.105
Weight of equity	0.850
Average Interest Rate	14.9%
Ukr Eurobonds YTM	8.3%
Corp. bond premium	9.6%
Equity premium	5.5%
Company-specific Premium/Discount	0%
Cost Of Equity	23.4%
WACC	21.5%

Company-Specific Risk Breakdown:



Financial Model

For the purposes of forecasting local currency is used

	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	CAGR 5Y	CAGR 10Y
GDP growth	9.0%	7.0%	6.0%	5.0%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	5.3%	4.6%
Industrial production growth	14.0%	9.0%	6.5%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	6.2%	5.6%
Nitr Fert Output Growth	7.5%	10.0%	8.0%	6.0%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%		
Ammonia Output growth	0.0%	1.0%	2.0%	5.0%	5.0%	5.0%	4.0%	3.0%	1.5%	1.0%	1.0%	3.6%	2.8%
Amm output, ths tons	91	92	93	98	103	108	113	116	118	119	120		
Price Change	55.0%	30.0%	27.0%	25.0%	15.0%	10.0%	5.0%	2.0%	1.5%	1.0%	1.0%		
Amm revenue growth	55.0%	31.3%	29.5%	31.3%	20.8%	15.5%	9.2%	5.1%	3.0%	2.0%	2.0%	25.5%	14.4%
Urea Output growth	14.0%	2.5%	1.0%	1.0%	1.0%	1.0%	1.0%	2.0%	0.7%	0.5%	0.5%		
Urea Output ths tons	706	724	731	738	746	753	761	776	781	785	789		
Urea revenue growth	67.6%	33.3%	21.2%	16.2%	11.1%	6.1%	6.1%	4.5%	2.5%	1.5%	1.5%	17.2%	10.0%
Chlorine Output growth	15.0%	20.0%	15.0%	12.5%	10.0%	5.0%	1.0%	1.0%	0.8%	0.5%	0.5%		
Chlor output ths tons	135	52	68	77	84	88	89	90	91	91	92		
Chlorine rev growth	20.8%	23.6%	17.3%	14.8%	11.1%	6.1%	2.0%	1.7%	1.3%	0.8%	0.8%	14.4%	7.7%
Share of Ammonia Segment	12.0%	12.5%	13.6%	15.4%	16.8%	18.1%	18.7%	18.8%	18.9%	18.9%	19.0%		
Share of Urea Segment	60.0%	63.4%	64.7%	64.9%	64.8%	64.2%	64.3%	64.5%	64.4%	64.3%	64.2%		
Share of Chlorine Segment	5.0%	4.9%	4.8%	4.8%	4.8%	4.7%	4.6%	4.5%	4.4%	4.4%	6.0%		
Share of Other Segment	23.0%	19.2%	16.8%	14.9%	13.7%	13.0%	12.5%	12.2%	12.3%	12.4%	12.5%		
Growth in other segment	5.0%	5.0%	4.0%	3.0%	2.0%	2.0%	1.5%	2.0%	3.0%	2.5%	2.5%	3.2%	2.7%
Total revenue growth	53.7%	26.0%	18.8%	15.9%	11.2%	7.1%	5.8%	4.2%	2.6%	1.7%	1.7%	15.6%	9.2%
Net revenues	675	851	1,011	1,172	1,304	1,396	1,477	1,539	1,580	1,606	1,633		
Gross margin, %	39.5%	37.0%	37.0%	36.0%	35.0%	33.0%	31.0%	30.0%	30.0%	30.0%	30.0%		
EBITDA margin, %	25.2%	23.8%	24.2%	23.4%	20.6%	19.3%	17.2%	15.5%	15.0%	14.8%	14.5%		
EBITDA, UAH mn	170	203	245	274	269	269	255	239	237	237	236	9.6%	3.3%
EBIT margin, %	20.7%	20%	20%	18%	15%	14%	12%	11%	11%	11%	11%		
EBIT, UAH mn	140	168	198	206	195	191	178	167	171	173	172	6.4%	2.1%
NI margin, %	13.1%	11.3%	11.8%	11.2%	9.2%	8.0%	7.0%	6.5%	6.5%	6.3%	6.1%		
Net Income	89	96	120	131	120	112	104	101	103	102	100	3.0%	0.4%
Dividend declared, USD mn	-	0.5	0.5	1.7	0.5	1.0	2.0	3.0	3.0	3.0	3.0		

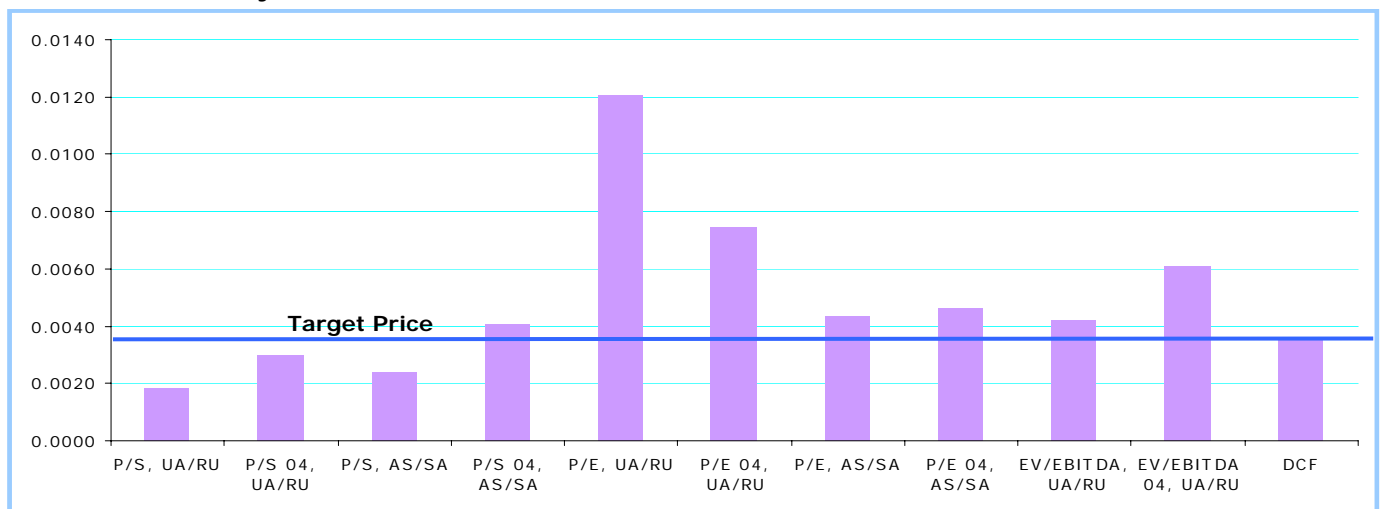
Source: ConCap forecast

Discounted Cash Flow Valuation
For the purposes of forecasting local currency is used

	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
EBITDA	203	245	274	269	269	255	239	237	237	236
EBIT	168	198	206	195	191	178	167	171	173	172
Tax Rate	30%	30%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	118	138	154	147	143	133	125	128	130	129
Plus D&A	35	47	69	73	79	77	72	66	64	64
Less CapEx	(10)	(86)	(110)	(129)	(113)	(89)	(76)	(63)	(59)	(59)
Less change in OWC	(94)	(72)	(117)	(179)	(81)	(3)	49	(26)	(1)	(18)
FCFF	-	27	(4)	(88)	27	118	170	106	133	116
WACC	21.5%	19.3%	18.0%	16.6%	15.8%	15.3%	15.0%	14.3%	13.3%	12.9%
Discounted CF's	-	27	(4)	(64)	17	64	79	43	48	37
Sum of disc't'd CF's	248									
Terminal Value										1,117
Disc't'd TV	358									
Firm value		606								
Less Net Debt		84								
Equity Value	690									
Share price @ val. Date, USD		0.0038								0.0036
										12-Month target price, USD
										1.5%
										Perpetuity Growth Rate

Sensitivity Analysis – Share Value, USD

WACC	Perpetuity Growth Rate				
	0.5%	1.0%	1.5%	2.0%	2.5%
-1.5%	0.0037	0.0038	0.0039	0.0040	0.0042
-1.0%	0.0036	0.0037	0.0038	0.0039	0.0040
-0.5%	0.0035	0.0036	0.0037	0.0038	0.0039
+0.0%	0.0034	0.0035	0.0036	0.0037	0.0038
+0.5%	0.0033	0.0034	0.0035	0.0036	0.0037
+1.0%	0.0032	0.0033	0.0034	0.0035	0.0036
+1.5%	0.0032	0.0032	0.0033	0.0034	0.0035

Valuation Summary, USD


Although DNAZ's market valuation of USD 0.0022 is close to its Russian peers based on P/S multiples, its NI margin points to the higher profitability of DNAZ. We conservatively determine DNAZ 12-month target price of **USD 0.0036**, giving more weight to DCF approach.

Financial statements are reported according to Ukrainian Accounting Standards

Income Statement Summary, USD mn

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Net Revenues*	82	127	158	185	215	239	256	271	282	290	295	300
Change y-o-y	N/M	54%	25%	17%	16%	11%	7%	6%	4%	3%	2%	2%
Cost Of Sales*	(59)	(77)	(99)	(117)	(138)	(155)	(172)	(187)	(198)	(203)	(206)	(210)
Gross Profit*	23	50	58	69	77	84	85	84	85	87	88	90
Other Operating Income/Expenses, net	(5)	(2)	(2)	(1)	(1)	(1)	(1)	(0)	-	-	-	-
SG&A	(14)	(16)	(19)	(22)	(26)	(33)	(35)	(37)	(41)	(43)	(45)	(47)
EBITDA*	4.4	31.9	37.6	44.9	50.3	49.3	49.4	46.7	43.8	43.5	43.5	43.3
EBITDA margin, %	5.3%	25.2%	23.8%	24.2%	23.4%	20.6%	19.3%	17.2%	15.5%	15.0%	14.8%	14.5%
Depreciation	(6)	(6)	(6)	(9)	(13)	(13)	(14)	(14)	(13)	(12)	(12)	(12)
EBIT*	(2)	26	31	36	38	36	35	33	31	31	32	32
EBIT margin, %	-2.0%	20.7%	19.7%	19.6%	17.6%	15.0%	13.6%	12.0%	10.8%	10.8%	10.8%	10.5%
Interest Expense	(1)	(1.4)	(5)	(4)	(3)	(4)	(6)	(5)	(4)	(4)	(5)	(5)
Financial Income												
PBT	(3)	25	26	32	34	32	29	27	26	27	27	26
Tax	(0)	(8)	(8)	(10)	(10)	(9)	(9)	(8)	(8)	(8)	(8)	(8)
Effective tax rate	-17%	33%	32%	31%	30%	30%	30%	30%	30%	30%	30%	30%
Net Income	(3.1)	17	18	22	24	22	21	19	18	19	19	18
Net Margin, %	-4%	13.1%	11.3%	11.8%	11.2%	9.2%	8.0%	7.0%	6.5%	6.5%	6.3%	6.1%
Dividend Declared	-	-	0.3	0.9	1.7	2.0	2.5	5.7	9.2	14.2	14.9	14.7

Balance Sheet Summary, USD mn

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Current Assets	43	107	190	203	217	227	240	243	237	246	248	252
Cash & Equivalents	0	1	67	56	43	29	26	22	20	20	21	21
Trade Receivables	6	6	7	8	11	14	17	19	23	26	27	27
Inventories	13	12	14	19	24	29	36	39	40	41	41	42
Other current assets	23	88	102	121	140	155	161	163	155	159	159	162
Fixed Assets	136	134	127	134	142	152	159	161	162	161	160	159
PP&E, net	110	109	107	115	122	131	137	139	140	141	140	140
Other Fixed Assets	26	25	20	20	20	21	21	21	21	20	20	19
Total Assets	179	242	317	337	359	379	399	403	399	407	408	411
Shareholders' Equity**	118	134	210	227	244	255	264	268	268	264	258	262
Share Capital	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Reserves and Other**	107	107	101	97	92	83	73	64	55	46	37	37
Retained Earnings	10	28	44	65	88	108	126	139	148	153	157	161
Current Liabilities*	61	71	75	92	105	98	100	104	104	103	100	100
ST Interest Bearing Debt	19	1	5	11	18	20	21	19	13	8	4	4
Trade Payables	37	33	39	45	52	56	59	61	62	62	62	62
Accrued Wages	0	1	1	1	2	2	3	4	5	5	5	5
Accrued Taxes	3	0	1	1	1	1	1	1	1	1	1	1
Other Current Liabilities**	2	36	29	34	32	18	16	19	23	26	27	27
LT Liabilities	0	36	32	18	10	26	35	31	27	41	50	49
LT Interest Bearing Debt	-	28	32	18	10	26	35	31	27	41	50	49
Other LT	0	8	-	-	-	-	-	-	-	-	-	-
Total Liabilities & Equity	179	242	317	337	359	379	399	403	399	407	408	411

UAH/USD Exchange Rates

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Average	5.33	5.33	5.39	5.45	5.45	5.45	5.45	5.45	5.45	5.45	5.45	5.45
Year-end	5.33	5.33	5.45	5.45	5.45	5.45	5.45	5.45	5.45	5.45	5.45	5.45

*

Financial statements are reported according to Ukrainian Accounting Standards

Cash Flow Statement Summary, USD mn

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Net Income	(3)	17	18	22	24	22	21	19	18	19	19	18
Depreciation	6	6	6	9	13	13	14	14	13	12	12	12
Non-operating and non-cash items	1	9	54	(4)	(6)	(9)	(9)	(9)	(9)	(9)	(9)	(0)
Less Changes in working capital	80	122	(17)	(13)	(22)	(33)	(15)	(0)	9	(5)	(0)	(3)
Operating Cash Flow	84	154	61	14	9	(7)	11	23	32	17	21	27
Capital Expenditures, net	(2)	(1)	(2)	(16)	(20)	(24)	(21)	(16)	(14)	(12)	(11)	(11)
Other Investments, net	(0)	(2)										
Investing Cash Flow	(2)	(3)	(2)	(16)	(20)	(24)	(21)	(16)	(14)	(12)	(11)	(11)
Net Borrowings/(repayments)	(82)	11	8	(8)	(0)	18	9	(5)	(10)	9	5	(1)
Dividends Paid	(0)		(0)	(1)	(2)	(2)	(2)	(6)	(9)	(14)	(15)	(15)
Other	0	(161)										
Financing Cash Flow	(82)	(150)	8	(9)	(2)	16	7	(11)	(20)	(5)	(10)	(15)
Beginning Cash Balance	N/A	0	1	67	56	43	29	26	22	20	20	21
Ending Cash Balance	0	1	68	56	43	29	26	22	20	20	21	21
Net Cash Inflows/Outflows	(0)	1	67	(12)	(13)	(14)	(3)	(4)	(2)	1	0	0

Ratio Analysis and Per Share Data

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Liquidity Ratios												
Current Ratio	0.71	1.51	2.55	2.20	2.07	2.32	2.41	2.32	2.29	2.40	2.49	2.52
Receivables Collection DOH (est.)		18	16	15	16	19	22	24	27	31	33	33
Inventories Processing DOH (est.)		56	45	47	51	57	63	68	68	68	69	69
Payment Period (est.)		168	132	132	129	127	122	117	114	112	110	108
Cash Conversion Cycle		(93)	(72)	(69)	(61)	(51)	(37)	(24)	(19)	(13)	(9)	(7)
Operating Efficiency Ratios												
Total Asset Turnover	0.46	0.60	0.57	0.57	0.62	0.65	0.66	0.68	0.70	0.72	0.72	0.73
Fixed Asset Turnover	0.61	0.94	1.21	1.42	1.56	1.63	1.65	1.70	1.75	1.80	1.84	1.88
Operating Profitability Ratios												
Operating Profit Margin	-2%	21%	20%	20%	18%	15%	14%	12%	11%	11%	11%	11%
Net Margin	-4%	13%	11%	12%	11%	9%	8%	7%	7%	7%	6%	6%
ROE	-3%	13%	10%	10%	10%	9%	8%	7%	7%	7%	7%	7%
Financial Risk Ratios												
Debt-to-Equity Ratio	0.16	0.22	0.18	0.13	0.12	0.18	0.21	0.19	0.15	0.19	0.21	0.20
Total Debt-to-Assets Ratio	0.11	0.15	0.12	0.08	0.08	0.12	0.14	0.12	0.10	0.12	0.13	0.13
Interest Coverage	-1.6	19.2	6.3	8.1	11.0	8.2	6.2	6.1	7.2	7.3	6.2	5.9
Du Pont Analysis												
Net Margin	-3.8%	13.1%	11.3%	11.8%	11.2%	9.2%	8.0%	7.0%	6.5%	6.5%	6.3%	6.1%
Total Asset Turnover												
Fin Leverage Multiplier	-2%	8%	6%	7%	7%	6%	5%	5%	5%	5%	5%	4%
ROE = NM x TAT x FLM	1.52	1.67	1.62	1.50	1.48	1.48	1.50	1.51	1.50	1.52	1.56	1.57
Per Share Data, USD												
EPS	-0.020	0.105	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001
DPS	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
BPS	0.743	0.849	0.006	0.006	0.007	0.007	0.008	0.008	0.008	0.007	0.007	0.007

Exchange Rates, UAH/USD

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Average exchange rate	5.33	5.33	5.39	5.45	5.45	5.45	5.45	5.45	5.45	5.45	5.45	5.45
Year-end exchange rate	5.33	5.33	5.45	5.45	5.45	5.45	5.45	5.45	5.45	5.45	5.45	5.45

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