Andriy Gostik ag@con-cap.com +380 44 206 8370

### Companies Covered:

NPR	(NITR)
Khartsyzk Tube	(HRTR)
Novomoskovsk Pipe	(NVTR
Dnipropetrovsk Pipe	(DPTR



# Ukraine's Steel Pipe Industry

# Cost Competitive Global Player

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# **Global Market Overview**

# The demand-supply side:

Global demand for pipes is generally pegged to the pace of global economic development.

Pipes are not a commodity. They are used in a variety of unrelated industries and have different applications even within the same industry, which makes it difficult to aggregate demand and price factors for the pipe industry as a whole.

Booming oil & gas industry comprises the largest and most promising pipe market segment at present.

Region-wise, China's economic powerhouse is both the largest pipe consumer and producer.

# The cost side:

The key cost component in pipe production is steel comprising 60-75% of total cost. Steel price surge in 2003 – 2004 hurt pipe producers' profits, but for many was offset by favorable markets.

Labor is usually the second largest cost item in pipe making.

For pipe exporters, transportation costs and logisticsrelated costs/ benefits are an important competitive factor.

Intensified cost and logistics competition forces pipe makers' consolidation.

Vertically integrated producers are cost-competitive usually due to being subsidiaries of steel companies, and horizontally integrated pipe makers mainly benefit from financial strength and distribution networks of their holding companies.



# **Ukrainian Pipe Industry Overview**

# Ukraine's competitive advantages:

Labor cost is amongst the lowest in the world.

Proximity to large markets (Russia, Central Asia, Middle East).

Proximity to suppliers of relatively cheap steel (domestic and Russian).

Vertical/ horizontal integration benefits.

# Industry specifics:

Exports account for lion's share of revenues. Russia is by far the largest market.

'Controlling stake' of the industry belongs to a powerful business group Interpipe, who currently is facing huge political risks and may dispose of its assets.

Another strong player in the Ukrainian pipe industry is System Capital Management (SCM). Its target segment is high valueadded large diameter pipes catered mostly to Russia (Gazprom).

Corporate governance is poor.

Significant transfer pricing undercuts reported sales and erodes profitability of pipe makers.

Determined stance of the new government in regard to untoward practices by current pipe asset owners should put an end to this in the medium term.



	Liquidity	Current Price, USD	12-Month Target Price, USD	Upside/ (Downside)	Recommendation
NITR	Blue chip	6.25	8.34	33.5%	BUY
HRTR	Medium	0.15	0.09	-38.0%	SELL
NVTR	Low	5.75	8.82	53.4%	BUY
DPTR	Not traded	N/A_	86.65_	N/M	<u>N/R</u>

# Trading

Out of more than 35 Ukrainian pipe makers only five are traded.

Four companies are large enough to pose an interest to portfolio investors.

Liquidity differs significantly stock by stock.

# Valuation

Reported financials bear low relevancy to the true economics of pipe business, which complicates valuation.

All pipe stocks are massively overpriced based on reported financials.

Nonetheless, three out of the four stocks in consideration offer a considerable upside if true financials are considered.

Our target prices are based on DCF analysis under the assumption that true financials will be reported starting from 2007.

We recommend NITR and NVTR. Recommendation on DPTR, which is not traded, would depend on the offering price.



# Introduction To Pipe Making



# **Pipe Types By Production Process**

There are two principal types of pipes/tubes by production process:

Welded pipes are made from skelp (strip) of hot-rolled plate steel which are passed through forming rolls and welded. Either electric resistance welding (ERW) or butt (continuous) welding is employed.

Skelp is coiled strips of plate steel used to produce welded seam pipe

- Longitudinally welded pipes: the weld seam runs along the axis of the pipe.
- Spiral-welded pipes: the weld seam spirals around the circumference of the pipe.

**Seamless pipes** are made from a solid billet, which is heated, then rotated under extreme pressure. This rotational pressure creates an opening in the center of the billet, which is then shaped by a mandrel to form a hollow body. The latter is usually drawn to its final dimensions by **cold drawing**.

*Cold drawing* is the process of reducing the cross sectional area of tube by drawing the material through a die without any pre-heating. It changes the mechanical properties of the steel and the finished product is accurate to size, free from scale with a bright surface finish.

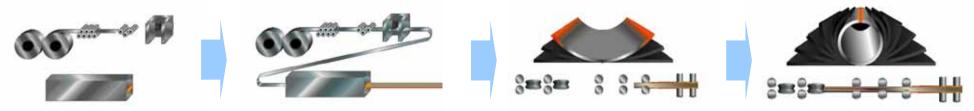
Seamless pipe is traditionally stronger and more expensive than comparable welded pipe.

Yet, ERW technology is improving and it now accounts for approximately 48% of OCTG (see next slide for definition) shipments by tonnage.



# **Basics Of Pipe Making Technology**

### Butt (Continuous) Welding



The continuous process produces a full range of pipe sizes from only a few different widths of skelp. The coils of skelp, or strip, are fed into the mill and their ends welded together to provide a continuous flow. The strip passes through a pre-heater and into a furnace. The heated strip is shaped into an arc of about 270° in a forming stand before passing into the welding stand.

### Electric Resistance Welding



Strip is unwound from coils and side-trimmed to control width and condition the edges for welding. The strip then passes through a series of contoured rolls which progressively cold-form it into a circular shape. The edges are forced together under pressure and welded by heating the steel to temperatures between 2200° F and 2600° F.



Steel billet is heated to about 2250° F. The red-hot billet is then rotated and drawn by rolls over a piercing rod, or mandrel. The action of the rolls causes the metal to flow over and about the mandrel to create a hollow pipe shell. After reheating, the shell is moved forward over a support bar and is hot-rolled in several reducing/sizing stands to the desired wall thickness and diameter.

# **Pipe Types By Application**

Pipes are classified by the consuming industry. The following industries are principal pipe consumers:

- > Oil & gas (pipes referred to as OCTG)
- Machine building
- Power generation
- > Chemical & petrochemical
- Construction
- > Water & gas utilities

Drill pipe is used in the drilling of an oil or gas well. Drill pipe is the conduit between the wellhead motor and the drill bit. Drilling mud is pumped down the center of the pipe during drilling, to lubricate the drill bit and transmit the drilled core to the surface. Because of the high stress, torque and temperature associated with well drilling, drill pipe is a seamless product.

**Tubing** (when referring to OCTG) is a separate pipe used within the casing to conduct the oil or gas to the surface. It is always made by seamless process. Depending on conditions and well life, tubing may have to be replaced during the operational life of a well. **OCTG (Oil Country Tubular Goods)** 

Pipe products used by oil exploration and transportation customers.

Includes oil & gas line, casing, drill pipe and oil well tubing, which, depending on their use, may be formed through welded or seamless processes.

Oil & gas line pipe is used in the surface transmission of oil, natural gas and other fluids and can be either welded or seamless.

Casing pipe is the structural retainer for the walls of oil and gas wells, and accounts for 75% (by weight) of OCTG shipments. Casing is used to prevent contamination of both the surrounding water table and the well itself. Casing lasts the life of a well and is not usually removed when a well is closed. Can be made either by seamless or welded process.

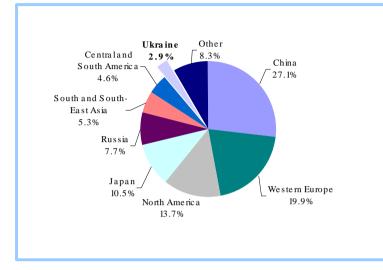


**Global Environment** 

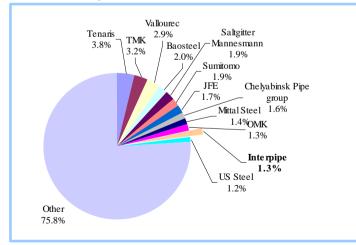


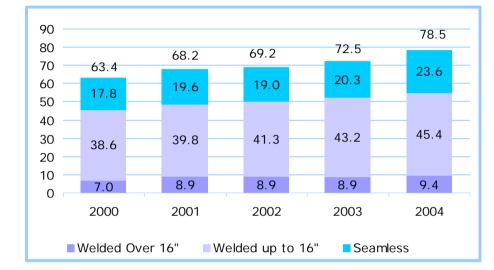
# Demand Is Up, Competition Is Strong

### Pipe Output 2004 By Region, '000 mt



### Global Steel Pipe Makers, 2004\*





### Global Steel Pipe Production, '000 mt

Due to cyclicity, global pipe industry is geared to the pace of global economy. **China's** economic upsurge (27.1% of global pipe output in 2004) and demand from **oil & gas industry** were the key drivers of recent increase in pipe production.

Intense competition and growing input prices necessitate **consolidation of pipe industry worldwide**. Tenaris, TMK and Vallourec are the three world's largest **horizontally integrated** pipe holdings.

**Vertically integrated** pipe makers are steel mills with pipe making capacities whose access to cheap steel makes them **cost-competitive**. The largest players in this group are Baosteel, Salzgitter Mannesmann, Sumitomo, JFE and US Steel.

**Interpipe**, Ukraine's largest pipe corporation, **ranked #11** in the world by output in 2004.

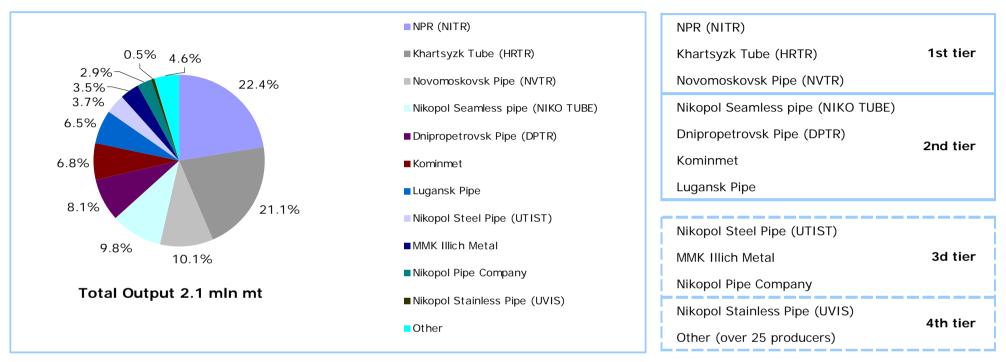
\* Other large players (second and third tier) whose share is difficult to accurately estimate are Condesa, Corus, Marcegaglia, Maverick Tube, Rautaruuki, Riva Group, SIT Group, Arvedi

Source: Wirtschaftsvereinigung Stahlrohre; OMK; Xinhua News Agency; Borusan Mannesmann



# **Ukrainian Pipe Industry At A Glance**

### Ukraine's Pipe Output By Producer, 2004



Highly concentrated: seven producers account for 84.7% of the industry's output and three producers comprise 53.6% of the market.

Estimated design capacity of the seven largest pipe makers is over 5 mln mt of pipes annually.

Overall industry's design capacity is over 7 mln mt of pipes annually.

Large pipe producers are associated with powerful business groups with easier access to raw materials and established distribution chains.

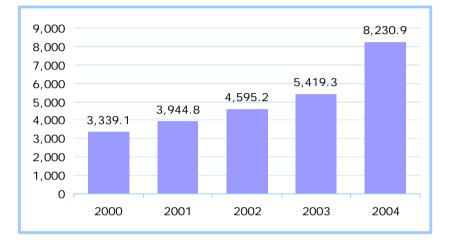
Most smaller plants are closely held.

Smaller pipe producers (mini mills) are mostly focused on low value water & gas line pipes for utilities and construction industry.

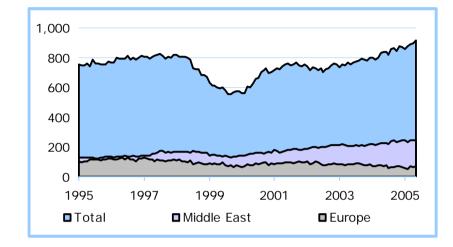
Share of mini mills in total pipe output has diminished from 9% in 2002 to 5% in 2004.



# **Demand Drivers**

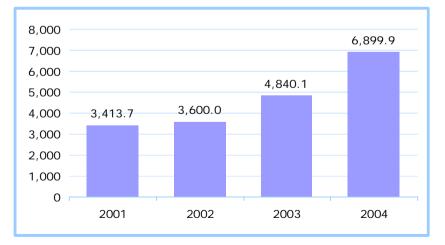


### Ukrainian Machine Building Output, USD mln



### International Oil & Gas Rig Count

### Ukrainian Construction Volume, USD mln



Pipe industry prospects are determined by needs of a number of unrelated industries and specific projects.

Ukrainian pipe makers traditionally catered for domestic machine building as well as oil & gas industry of the entire FSU, construction and water & gas utilities.

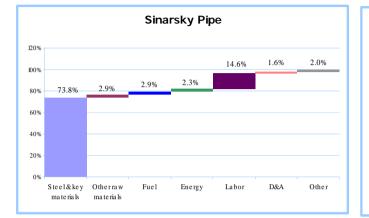
Ukraine's economic collapse in the 1990s changed the **focus** of Ukrainian pipe industry to **exports of OCTG**.

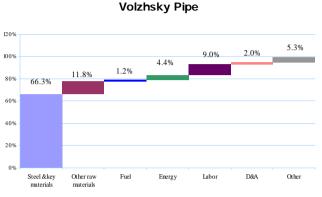
Rising demand and prices for hydrocarbon fuel have driven demand for OCTG in the past three years.

Apart from OCTG segment, reviving Ukraine's machine building and construction buttress domestic demand for pipes.



# Pipe Makers' Cost Structure 2004\*





Due to **poor disclosure** and low reliability of official financials for Ukrainian pipe makers, we **use peer data for cost structure**.

The cost structure of Russian companies is a good proxy due to similar economic environment and technology of Russian and Ukrainian pipe companies.

**Russian pipe makers** are **main competitors** of Ukrainian pipe producers because their key market is also Russia.

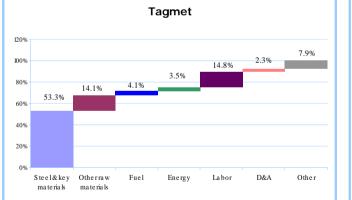
The cost structure of Tenaris, the world's largest pipe producer, is similar to that of Russian pipe manufacturers.

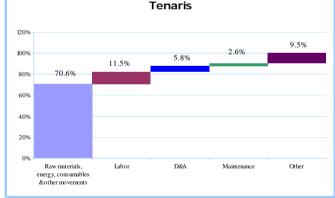
**Similarity** of different companies' cost profiles **assures reliability** of the cost analysis.

The largest cost items in pipe making:

Cost of steel

Cost of labor



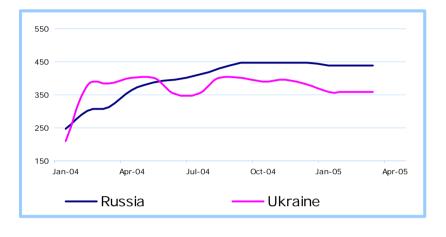


\*Sinarsky Pipe, Volzhsky Pipe and Tagmet are Russian pipe producers controlled by TMK. Tenaris is a multinational pipe holding incorporated in Luxembourg.

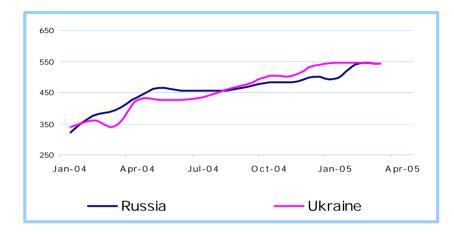


Source: Company data

# **Key Input Price Dynamics**



### Tubular Billet Mid-Market Prices In Ukraine/ Russia, USD/mt



### Hot Rolled Coil Mid-Market Prices In Ukraine/ Russia, USD/mt



### Hot Rolled Coil Global Mid-Market Prices, USD/mt

**Steel** is the major input in the steel pipe production comprising **60% - 75% of pipe cost**. Tubular billet is used for production of seamless pipes and hot rolled coil (HRC) is the feedstock for welded pipe.

Managing 'delta' (pipe price less steel price) is the key to success in pipe making business.

Surge of steel prices in 2004 due to a strong demand from China adversely affected pipe makers worldwide, since **demand for pipes is more elastic than demand for steel**.

**Current downward trend in steel prices** coupled with a strong demand for pipes **bodes well for pipe industry** in 2005.

Ukrainian pipe makers enjoy lower steel prices than pipe manufacturers in the EU and US, but do not have this advantage over their Russian rivals.



# **Labor Cost**

			<u> </u>				<u> </u>
		Headcount,	Output,	Labor cost,	Labor cost,	Labor cost per	Output per
	Country	'000	'000 mt	USD mln	USD/mt	capita, USD '000	capita, mt
			Internati	onal Peers			
Tenaris	Luxembourg	16.4	2,997.0	369.7	123.4	22.5	182.2
Vallourec	France	17.5	2,275.1	763.9	335.8	43.8	130.3
Maverick Tube	USA	2.8	1,253.9	N/A	N/A	N/A	443.1
			Russia	an Peers			
Vyksa Steel Works	s Russia	14.9	867.6	51.5	59.3	3.5	58.4
Volzhsky Pipe	Russia	11.0	786.6	40.8	51.9	3.7	71.7
Cheliabinsk Pipe	Russia	8.9	749.6	43.8	58.4	4.9	84.5
Seversky Pipe	Russia	10.3	525.1	37.0	70.4	3.6	50.9
Tagmet	Russia	12.3	607.7	41.6	68.5	3.4	49.3
Sinarsky Pipe	Russia	12.3	580.6	50.7	87.4	4.1	47.3
		l	Jkrainian	<b>Pipe Makers</b>			
NITR	Ukraine	9.6	476.3	26.7	56.0	2.8	49.6
HRTR	Ukraine	6.6	448.2	16.7	37.3	2.5	67.8
NVTR	Ukraine	3.6	213.8	8.3	38.9	2.3	58.9
DPTR	Ukraine	4.4	172.8	9.6	55.5	2.2	39.5

> Labor is the second largest constituent of pipe cost.

> Ukrainian pipe makers possess an advantage of low per capita labor cost.

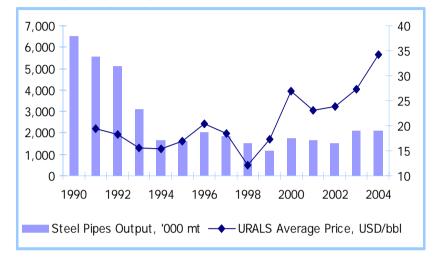
> In terms of labor cost per tonne of pipe, Ukrainian pipe producers are comparable to their Russian peers



# Major Markets: Need For Diversification

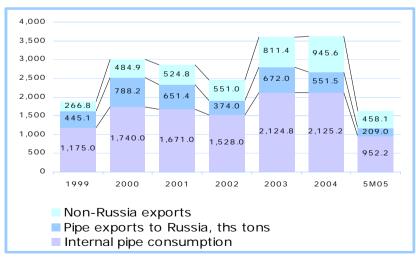


# **Importance Of The Russian Market**

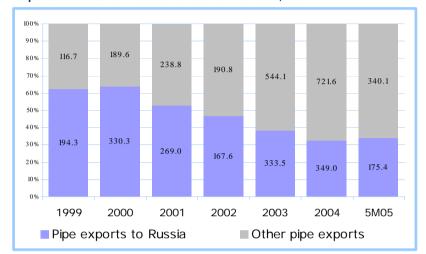


### Steel Pipe Output Responsiveness To URALS Price

### Industry Sales Structure, '000 mt



Source: State Statistics Committee; Ukrainian News; Bloomberg



Exports Structure: Russia Vs. Other Markets, USD mln

Ukrainian pipe makers are highly exportdependent due to Ukraine's excess capacities.

**Russia** is by far **the largest single export market** for Ukrainian pipe mills and its **oil & gas industry is the key pipe consumer**.

Volume of Russian pipe market comprised 5.7 mln mt in 2004 and is projected to grow to 6.4 mln in 2006, 7.0 mln mt in 2007 and 7.5-8 mln mt in 2008.

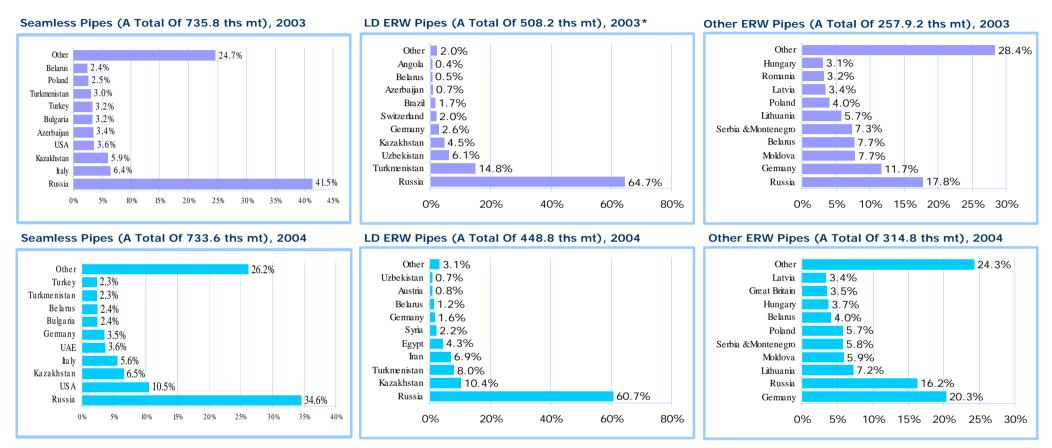
Since 2002, non-Russia pipe exports have been exceeding exports to Russia.

**Russia's share has been diminishing since 2000** in terms of export sales proceeds, which suggests **increasing diversification** of Ukrainian pipe exports.

**Domestic demand for pipes grew significantly** after 2002.



# **Growing Pipe Export Diversification**



\*LD stands for 'large diameter' pipes defined as pipes with an outer diameter in excess of 508 mm and used in construction of oil- and gas-main pipelines

ERW pipes are electric resistance welded ones

- Seamless pipes comprised 49%, and LD ERW pipes accounted for 30% of total Ukrainian pipe exports in 2004.
- Primary markets for Ukrainian pipes alternative to Russia are those of the EU, Middle East/Persian Gulf and Central Asia.
- LD pipes continue to be the segment most dependent on the Russian market and thus most vulnerable to the risk of being ousted from it.



# **Free Trade Restrictions**

	May - Dec 2001	2002	2003	2004
	All pipe categories			
Annual quota	413.3	620	740	715
Completion	80.9%	60.3%	91.9%	97.8%
	Ø1,450 mm pipes			
Annual quota	90	135	255	230
Completion	49.5%	92.4%	119.5%	99.3%
	Stainless pipes			
Annual quota	-	-	-	4.2
Completion	-	-	-	99.8%
	Other pipes			
Annual quota	323.3	485	485	480.8
Completion	89.6%	51.4%	77.4%	97.0%
Quota is in '000 mt				
	2000	2001	2002 200	03 2004

	2000	2001	2002	2005	2004
Pipe consumption in Russia, ths mt	5,321	5,564	4,927	6,086	5,698
Ukrainian exports, ths mt	788	651	374	672	552
Share, %	14.8%	11.7%	7.6%	11.0%	9.7%

### **Regulations On Other Markets**

**2002:** In March, the U.S. introduced duties on Ukrainian pipes (reduced from 15% in 2002 to 9% in 2005). Expired in March 2005.

**2002**: In September, the EU imposed exports duty on Ukrainian pipe exports of 30.9% for NITR and 44.1% for others.

**2002**: Hungary and Poland imposed duties and set quotas on Ukrainian pipe exports. In May 2004, EU's export duties on Ukrainian pipes were adopted by all EU's new members.

**2004:** In August, Belarus started an antidumping investigation into Ukrainian pipe exports.

### **Russian Quota: Finally Over**

**2001:** In May, Russia introduced export quota on Ukrainian pipes at 620 ths mt annually (413.3 ths mt for eight months). In July, a 20% VAT charge on goods imported to Russia introduced which was more detrimental than the quota.

**2003:** The quota was raised by 19.35%, to 740 ths mt, due to the increased allotment for Ø 1,420 mm pipe exports from 135 ths mt to 255 ths mt to meet Gazprom's growing needs. Only HRTR benefited from this.

**2004**: Russia cut the quota for LD Ø 1,420 mm pipes to 230 ths mt per year and introduced a separate quota on stainless pipes of 4.2 ths mt to protect Volzhsky and Sinarsky Pipe plants.

**2005:** Quota system was abolished due to a free trade agreement between Russia and Ukraine

## Not So Easy: Russia's Antidumping Investigations

**2004:** In July, Russia initiated a new antidumping investigation into Ukrainian pipe exports.

**2005**, **January:** Five pipe plants associated with Interpipe (NITR, NVTR, NIKO Tube, Nikopol Pipe Company and Nikopol Stainless Pipe Plant) signed a voluntary export restriction agreement with Russia fixing their combined exports to Russia at 395 ths mt in 2005, on par with the 2004 quota. The agreement allowed them to avoid antidumping investigations.

**2005**, **July**: Four other Ukrainian pipe makers filed for voluntary self-restriction of small and medium diameter pipe exports to Russia. These are Dnipropetrovsk Pipe, MMK Illich Metal, Nikopol Steel Pipe and HRTR. There offer is yet to be accepted by Russian regulators.

**Meanwhile**, HRTR continues unrestricted exports of LD pipes to Russia. Russian competition will likely result in HRTR's share in the Russian market diminishing significantly in the medium term.



**Surviving Competition** 



# **Pipe Makers Within Business Groups**

Business Groups											
Interpipe	De SCM IUD Privat Zaporizhstal Group										
Steel Producers Controlled/ Owned By Business Group											
NPR (has in-house steel making capacities)	<ul> <li>&gt; Azovstal</li> <li>&gt; Yenakiyevo Iron</li> <li>&amp; Steel</li> <li>&gt; Metalen</li> <li>&gt; Kerch Steel</li> </ul>	<ul> <li>&gt; Alchevsk Steel</li> <li>&gt; DMK Dzerzhynskoge</li> <li>&gt; DAM Steel</li> <li>&gt; Huta Chestochowa</li> <li>&gt; Dunaferr</li> <li>&gt; Kramatorsk Iron &amp; Steel</li> </ul>	0	DMK Petrovskogo	Zaporizhstal	MMKI					
	F	Pipe Makers Control	lled/	Owned By Business	Group						
<ul> <li>&gt; NPR</li> <li>&gt; Novomoskovsk</li> <li>Pipe</li> <li>&gt; NIKO TUBE</li> <li>&gt; Nikopol Pipe</li> <li>Company</li> <li>&gt; Mogilev Metal</li> <li>Works (Belarus)</li> </ul>	Khartsyzk Tube	Dnipropetrovsk Pipe		Kominmet	Lugansk Pipe (closely held)	MMKI (has in- house pipe making capacities)					
Pipe plants of major distribution chains ar					ion with steel mills is typical of Ukrainian business groups.	pipe					
Interpipe is Ukraine's holding who accounts for	largest horizontall	y integrated pipe	Khartsyzk Tube's primary supplier of wide strip as well as one of the traders in its pipes is Azovstal.								
Interpipe's pipe plants Ukrainian and Russian			<b>MMKI</b> is a steel maker with significant pipe making capacities, and is a <b>vertically integrated</b> player in the pipe market.								
NPR's steel needs a production.	re partially met b	by in-house steel			ommonly found along the cr >Pipe Producer=>Trader.	nain:					

# **Ukrainian Pipe Makers Vs. Russian Peers**

Factor Relative Importance	Location 10%	Price 30%	Quality 30%	Delivery Speed 25%	After-Sales Servicing 5%	Total Score 100%
Vyksa Steel Works Volzhsky Pipe Cheliabinsk Pipe Sinarsky Pipe Tagmet Seversky Pipe Pervouralsky Pipe	5 5 4 5 4 4	4 4 4 4 4 4 4	5 5 4 5 4 3	4 3 4 3 3 3 3 3	3 3 3 3 3 3 3 3	4.35 4.10 4.05 4.00 3.80 3.70 3.40
HRTR NITR NVTR DPTR	5 5 5 5	5 4 4 4	5 5 4 4	4 4 4 3	3 3 3 3	4.65 4.35 4.05 3.80

Each factor is quantified within a range [1;5]; higher score indicates higher competitiveness.

As a result of a **massive tax bail-out in 1999 – 2001**, Ukrainian pipe makers entrenched themselves in the Russian market.

Despite current competitive advantages, Ukrainian pipe makers will face an intensified competition from their Russian rivals.

Russian pipe makers have embarked upon massive investment programs to be completed in 2007 - 2008. These projects aim at construction of steel making capacities, broadening product assortment and quality improvements. In 2003 - 2004, Ukrainian pipe companies invested a total of ~USD 55 mln in CapEx (~**USD 13.2 per mt of output**), while CapEx of their Russian peers comprised ~USD 300 mln (~**USD 24.7 per mt of output**).

Due to availability of excess capacities, owners of Ukrainian pipe plants until recently deemed large CapEx inappropriate and invested primarily in ancillary equipment and energy saving technologies. **Investment sluggishness may cost Ukrainian producers a large share of the Russian market**.

Protectionist measures taken by Russia pose another risk.



Source: Cheliabinsk Pipe 1Q05 report; Business World - Ukrainian Metal Magazine; www.metaltorg.ru; Concorde Capital estimates

# **International Financial Comparison**

Company		<b>NI TR*</b> Ukraine	<b>HRTR</b> Ukraine	<b>NVTR</b> Ukraine	<b>DPTR</b> Ukraine	<b>Tenaris</b> Luxembourg	<b>Vallourec</b> France	<b>US Steel</b> USA	<b>Maverick Tube</b> USA	<b>Sumitomo Pipe &amp; Tube</b> Japan	<b>Vyksa Steel</b> Works * Russia	<b>Volzhsky Pipe</b> Russia	<b>Cheliabinsk</b> <b>Pipe</b> Russia	<b>Seversk Pipe</b> Russia	<b>Tagmet</b> Russia
Pipe Output, '000 mt	2003	546.5	455.5	224.6	177.7	2 633.0	2 391.2	900.0	1 281.6	1 449.2	884.7	756.3	822.5	565.0	560.6
	2004	476.3	448.2	213.8	172.8	2 997.0	2 275.1	1 100.0	1 253.9	1 490.6	867.6	786.6	749.6	525.1	607.7
Sales, USD mln	2004 2003 2004	470.3 315.7 493.7	75.0 109.1	84.5 121.3	47.6	2 997.0 3 179.7 4 136.1	2 683.5 3 773.4	8 354.0 12 930.0	884.3 1 456.3	315.1 386.5	612.4 924.0	434.1 631.5	451.0 563.1	276.7 367.2	267.5 370.5
Sales, USD per mt	2003	577.7	164.6	376.1	267.8	1 207.6	1 122.3	9 282.2	690.0	217.4	692.2	573.9	548.4	489.8	477.1
	2004	1 036.7	243.3	567.5	492.9	1 380.1	1 658.6	11 754.5	1 161.4	259.3	1 065.0	802.8	751.2	699.4	609.6
EBITDA, USD mln	2003 2004	13.9 42.5	15.1 8.8	2.2 5.4	0.6	602.0 899.0	253.6 542.4	-367.0 1 962.0	67.8 351.8	9.4 33.5	119.5 145.4	22.5 43.5	32.9 35.2	N/A N/A	N/A N/A
EBITDA per mt	2003	25.5	33.2	9.9	3.5	228.6	106.1	-407.8	52.9	6.5	135.1	29.7	40.0	N/A	N/A
	2004	89.2	19.6	25.3	14.8	300.0	238.4	1 783.6	280.5	22.5	167.6	55.3	47.0	N/A	N/A
EBITDA Margin, %	2003	4.4%	20.2%	2.6%	1.3%	18.9%	9.5%	-4.4%	7.7%	3.0%	19.5%	5.2%	7.3%	N/A	N/A
	2004	8.6%	8.0%	4.5%	3.0%	21.7%	14.4%	15.2%	24.2%	8.7%	15.7%	6.9%	6.3%	N/A	N/A
	2003	6.6	10.2	0.5	-1.0	288.2	133.9	-730.0	45.3	-2.0	95.0	13.7	20.4	10.0	14.9
EBIT, USD mln	2004	35.2	3.8	3.5	0.9	813.5	409.8	1 580.0	324.1	21.2	119.8	31.5	22.0	38.6	-1.3
EBIT per mt	2003	12.0	22.4	2.3	-5.9	109.5	56.0	-811.1	35.4	-1.4	107.4	18.1	24.8	17.8	26.6
	2004	73.9	8.6	16.2	5.2	271.4	180.1	1 436.4	258.4	14.2	138.1	40.0	29.4	73.6	-2.2
EBIT Margin, %	2003	2.1%	13.6%	0.6%	-2.2%	9.1%	5.0%	-8.7%	5.1%	-0.6%	15.5%	3.2%	4.5%	3.6%	5.6%
	2004	7.1%	3.5%	2.9%	1.1%	19.7%	10.9%	12.2%	22.3%	5.5%	13.0%	5.0%	3.9%	10.5%	-0.4%
Net Income, USD min	2003	3.3	2.1	0.1	-1.1	210.0	86.9	-463.0	23.0	20.7	59.6	2.4	7.7	1.8	4.0
	2004	19.3	0.4	2.2	0.4	785.0	312.8	1 091.0	193.8	10.8	70.3	10.2	1.8	18.5	16.0
Net Income per mt	2003	6.1	4.6	0.6	-6.1	79.8	36.4	-514.4	17.9	14.3	67.4	3.1	9.4	3.2	7.2
	2004	40.4	0.9	10.3	2.1	261.9	137.5	991.8	154.6	7.3	81.1	13.0	2.4	35.3	26.4
Net Income Margin, %	2003	1.1%	2.8%	0.2%	-2.3%	6.6%	3.2%	-5.5%	2.6%	6.6%	9.7%	0.5%	1.7%	0.7%	1.5%
	2004	3.9%	0.4%	1.8%	0.4%	19.0%	8.3%	8.4%	13.3%	2.8%	7.6%	1.6%	0.3%	5.0%	4.3%
Gross PP&E, USD min	2003	228.4	135.8	58.5	53.5	5 546.8	1 613.6	10 371.0	340.8	217.8	690.7	58.9	372.3	N/A	N/A
	2004	234.5	137.7	58.7	54.3	5 973.8	1 816.0	10 864.0	391.3	225.6	867.3	87.8	459.6	N/A	N/A
D&A, USD min	2003	7.4	4.9	1.7	1.7	208.1	119.7	363.0	22.4	11.5	24.4	8.8	12.5	N/A	N/A
	2004	7.3	4.9	1.9	1.7	199.8	132.7	382.0	27.7	12.3	25.6	12.0	13.2	N/A	N/A
Net CAPEX, USD mIn	2003	6.3	2.7	0.6	0.5	156.7	81.6	222.0	20.8	N/A	23.1	15.4	39.6	N/A	N/A
	2004	2.8	5.5	1.4	1.4	168.9	109.3	484.0	29.0	N/A	134.1	26.3	46.4	N/A	N/A
Working Capital, USD mln	2003	52.3	8.2	8.3	-18.0	707.2	1 042.4	979.0	253.7	125.8	184.0	32.3	76.8	21.8	67.2
	2004	42.6	5.2	13.5	-17.4	1 012.2	1 327.1	1 712.0	471.1	147.4	126.5	35.6	77.1	16.2	77.5
Total Assets, USD mln	2003	257.3	93.0	47.6	53.6	4 309.5	2 797.7	7 837.0	670.7	426.6	466.7	193.4	355.3	139.6	280.4
	2004	460.5	96.3	53.0	61.7	5 662.3	3 544.3	10 956.0	1 002.4	433.4	742.5	252.7	680.6	186.4	283.7
Total Fin. Debt, USD mln	2003	3.2	9.6	2.7	8.2	833.7	626.4	1 938.0	178.0	0.0	83.0	89.5	73.1	0.0	90.8
	2004	36.5	8.0	2.6	3.0	1 259.3	587.1	1 449.0	180.9	0.0	182.9	98.7	363.2	0.0	95.7
LT Fin. Debt, USD mln	2003	0.0	0.0	2.7	0.1	458.9	369.8	1 890.0	174.4	0.0	29.7	16.4	33.3	0.0	16.9
	2004	0.0	0.0	2.6	0.0	838.6	285.4	1 363.0	177.6	0.0	141.7	35.8	232.0	0.0	45.9
LT Fin. Debt to Equity	2003 2004	0.0 0.0	0.0 0.0	0.1 0.1	0.0	0.2 0.2	0.8 0.6	1.7 0.3	0.5 0.3	0.0 0.0	0.1 0.4	0.3 0.6	0.1 1.0	0.0 0.0	0.1 0.3
ST Fin. Debt, USD mln	2003	3.2	9.6	0.0	8.1	374.8	256.6	48.0	3.5	0.0	53.3	73.1	39.8	0.0	73.9
	2004	36.5	8.0	0.0	3.0	420.8	301.7	86.0	3.3	0.0	41.2	62.9	131.2	0.0	49.8
ROA	2003	1.3%	2.2%	0.3%	-2.0%	4.9%	3.1%	-5.9%	3.4%	4.9%	12.8%	1.2%	2.2%	1.3%	1.4%
	2004	4.2%	0.4%	4.2%	0.6%	13.9%	8.8%	10.0%	19.3%	2.5%	9.5%	4.0%	0.3%	9.9%	5.7%
ROE	2003	2.0%	3.4%	0.4%	NEG	11.4%	11.2%	-42.4%	6.0%	8.4%	19.0%	4.4%	3.4%	2.7%	2.4%
	2004	10.4%	0.6%	5.7%	15.1%	31.5%	31.4%	27.5%	32.5%	4.1%	17.4%	17.5%	0.8%	22.2%	10.1%

### Ukrainian pipe mills have the following common characteristics:

- ▹ Low reported margins, ROA and ROE
- Low leverage
- Low CapEx

Source: Company data; Bloomberg

- > Top-line numbers are low (sales per tonne are lower than for Russian peers despite significant overlap of markets and similar pricing)
  - related party transactions with traders undercut sales



\* Significant portion of NITR's and Vyksa Steel Works' sales is railroad wheels & rims

Stock Market & Valuations



# Trading



### Performance Of Pipe Stocks Relative to the PFTS (mid-market, re-based)\*

	Liquidity		t. Spread	Free	FF MCap	Avg. PFTS Tradi	•	Annualized FF Turnover
		12-mo ago	Current	Float U	USD mln	shares mln	USD mln	USD mln
NITR**	Blue chip	525%	12%	15.0%	50.5	0.27	1.01	24%
HRTR	Medium	36%	400%	2.0%	7.6	0.05	0.01	2%
NVTR	Low	650%	11%	36.5%	25.2	0.08	0.49	23%

\* DPTR is not listed on the PFTS

\*\* NITR's wide spread 12 months ago was due to share issue expectations

Source: PFTS; Concorde Capital estimates



	Current Price, USD	Multiple-	Based Value, USD	DCF-Based 12-Mo Value, USD Scenario 2 Scenario 3 (Target)		Upside/ (Downside)	Recom.
			F73 2003L				
NITR	6.25	9.17	7.73	9.69	8.34	33.5%	BUY
HRTR	0.15	0.12	0.11	0.11	0.09	-38.0%	SELL
NVTR	5.75	12.50	8.40	9.86	8.82	53.4%	BUY
DPTR	N/A	114.85	81.31	95.68	86.65	N/M_	N/R

Given a wide range of stock value estimates by comparison method, **we rely more on our DCF analysis**.

In our cash flow projections we assumed that in the future **pipe makers** will abstain from transfer pricing schemes due to both pressure from the new government and improving corporate governance.

DCF analysis assuming no transfer pricing to estimate a true value of pipe businesses is given on the page over. It corresponds to our **Scenario 1** when pipe makers start to report their **true financials already in 2005**.

However, with portfolio investors in mind, the **major issue** for our DCF analysis is **the timing** when Ukrainian pipe makers will start reporting their **true cash flows**.

**Scenario 2** refers to the case when pipe companies start reporting their **true financials in 2006**.

Scenario 3 considers the case when true financials are reported from 2007 going forward.

We base our 12-month target prices on a more conservative Scenario 3.



# **DCF Valuation**

Valuatio	n date	10-Aua-05

NITR	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
ipe Output, ths mt	547.7	553.2	553.2	553.2	547.6	542.2	536.7	531.4	526.1	520.8
vg. Pipe Price, USD/mt	875.0	896.9	919.3	942.3	965.8	990.0	1 014.7	1 040.1	1 066.1	1 092.8
ailroad Wheels & Rings Output	209.8	220.2	229.1	235.9	240.6	245.5	245.5	245.5	245.5	245.5
vg. Wheel Price, USD/mt	1 400.0	1 421.0	1 442.3	1 463.9	1 485.9	1 508.2	1 530.8	1 553.8	1 577.1	1 600.7
BITDA	888	722	640	564	577	590	599	608	617	626
BIT	848	679	595	518	529	541	548	555	563	571
ax Rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
axed EBIT	593	475	417	362	370	378	384	389	394	399
lus D&A	41	43	45	47	48	50	51	53	54	56
ess CapEx	(107)	(94)	(83)	(73)	(73)	(73)	(72)	(72)	(72)	(71)
ess change in OWC	(351)	(274)	(91)	(132)	(127)	(91)	(83)	(170)	(183)	(27)
CFF	177	150	288	204	218	265	280	200	193	358
VACC	19.0%	18.1%	17.0%	15.6%	14.9%	14.0%	13.6%	13.2%	12.9%	13.2%
VACC To Perpetuity										12.5%
erminal Value										3 878
irm value	2 206					I	Portion du	e to TV		47.5%
ess Net Debt	(488)						Perpetuity	Growth Ra	ate	3%
	722									
lus Non-Operating Assets value							Implied exit			

NVTR	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014
Pipe Output, ths mt	213.8	216.0	216.0	216.0	213.8	211.7	209.5	207.4	205.4	203.3
Avg. Pipe Price, USD/mt	875.0	896.9	914.8	928.5	937.8	937.8	937.8	937.8	937.8	937.8
EBITDA	199	183	174	170	156	137	129	120	117	114
EBIT	187	170	161	156	142	122	113	105	101	98
Tax Rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Taxed EBIT	131	119	112	109	99	86	79	73	71	68
Plus D&A	12	13	13	14	14	15	15	15	15	16
Less CapEx	(28)	(26)	(24)	(22)	(20)	(18)	(17)	(16)	(16)	(16)
Less change in OWC	(54)	(34)	(44)	(46)	(24)	(17)	(15)	(6)	(6)	3
FCFF	61	73	57	55	70	65	62	67	65	71
WACC	20.8%	18.4%	16.9%	15.3%	14.6%	13.7%	13.2%	13.0%	13.0%	13.2%
WACC To Perpetuity										12.5%
Terminal Value										774
Firm value	544						Portion d	ue to TV		38.6%
Less Net Debt	(1)					1	Perpetuit	y Growth	n Rate	3%
Equity Value	543						mplied ex	t EBITDA	Multiple	6.8 x
Fair Value Per Share	\$8.96						12 Mo Fa	ir Value I	Per Shar	\$9.86

HRTR	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	DPTR	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Pipe Output, ths mt	515.4	412.3	400.0	400.0	396.0	392.0	392.0	392.0	392.0	392.0	Pipe Output, ths mt	207.3	209.4	211.5	211.5	209.4	207.3	205.2	203.2	203.2	203.2
Avg. Pipe Price, USD/mt	1 035.0	1 060.9	1 087.4	1 114.6	1 142.4	1 171.0	1 200.3	1 230.3	1 261.0	1 292.6	Avg. Pipe Price, USD/mt	768.0	787.2	802.9	815.0	823.1	823.1	823.1	823.1	823.1	823.1
EBITDA	445	352	326	328	329	313	321	329	337	345	EBITDA	170	149	148	147	135	128	121	114	114	114
EBIT	419	324	298	299	299	282	290	297	305	313	EBIT	162	140	138	137	125	117	110	102	102	102
Tax Rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	Tax Rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Taxed EBIT	293	227	208	209	209	198	203	208	213	219	Taxed EBIT	113	98	97	96	87	82	77	72	71	71
Plus D&A	27	28	29	29	30	31	31	32	32	33	Plus D&A	8	9	10	10	11	11	11	11	12	12
Less CapEx	(62)	(49)	(46)	(43)	(43)	(41)	(38)	(39)	(39)	(38)	Less CapEx	(24)	(21)	(18)	(18)	(16)	(15)	(13)	(12)	(12)	(12)
Less change in OWC	(415)	5	(96)	(95)	(72)	(73)	(63)	(44)	(23)	(24)	Less change in OWC	(106)	(38)	(64)	(33)	(23)	(21)	(13)	(5)	(8)	-
FCFF	(157)	210	95	101	125	114	132	156	184	190	FCFF	(9)	48	25	55	59	57	61	66	64	71
WACC	19.1%	18.1%	16.6%	15.2%	14.4%	13.4%	13.0%	12.9%	13.0%	13.3%	WACC	16.3%	15.3%	14.2%	13.7%	12.9%	12.2%	12.0%	12.1%	12.3%	12.6%
WACC To Perpetuity										12.5%	WACC To Perpetuity										12.5%
Terminal Value										2 061	Terminal Value										775
Firm value	1 047						Portion du	e to TV		54.5%	Firm value	484						Portion d	lue to TV		50.0%
Less Net Debt	(86)					1	Perpetuity	Growth Ra	ate	3%	Less Net Debt	(41)					1	Perpetuit	ty Growth	h Rate	3%
Equity Value	960						Implied exit	EBITDA MU	Itiple	6.0 x	Equity Value	442						Implied ex	kit EBITDA	Multiple	6.8 x
Fair Value Per Share	\$0.075						12 Mo Fair	Value Per	Share	\$0.106	Fair Value Per Share	\$82.88						12 Mo Fa	ir Value I	Per Shar	\$95.68

- Ukrainian pipe plants are used as Variable Interest Entities (VIE) by their controlling business groups. This mostly concerns HRTR and NITR, to a little extent concerns NVTR and does not concern DPTR.
- HRTR's reported top-line is irrelevant to the true economics of its business, as the company operates under tolling agreement with Azovstal (AZST) (HRTR receives 80-90% of needed strip from AZST, and AZST sells over 80% of HRTR's pipe output). Also, HRTR sells steel and railcars produced by companies owned by SCM group. According to the company's management, in 2005 HRTR will decrease usage of tolling schemes substantially.
- NITR's reported top line is distorted, as a large portion of its sales was ferroalloys produced by Nikopol Ferroalloy (NFER) and steel made by Dniprospetstal (DPST). NITR has a 13% stake in NFER, a 51% stake in Prydniprovya Consortium who acquired a 50%+1 share stake in NFER and a 10% stake in Investment & Metallurgical Union who purchased a 93.02% stake in Kryvorizhstal. NITR financed these investments mainly by interest-free loans from Interpipe. We value them at par (which applies to the case when the assets are taken back by the state and the money paid is returned) and include loans from Interpipe into net debt.
- > We project the pipe companies' financials in the DCF analysis above to reflect the true economics of their businesses. This analysis assumes that the companies will start reporting their true financials in 2005.



Source: Company Data; Concorde Capital calculations

# **Comparison Valuation**

### **Russian Peers**

Company	Mcap, USD mln	Price, USD	EV/Output (USD/mt)
			2004
DPTR	N/A	N/A	N/A
NVTR	69.0	5.75	335.0
HRTR	382.3	0.15	868.9
NITR	336.8	6.25	419.7
Median			419.7
Average			541.2
Tagmet	265.9	0.6	522.6
Vyksa Steel Works	781.1	415.0	701.9
Chelyabinsk Pipe	374.4	0.8	826.7
Seversky Pipe	346.5	7.2	755.9
Median			728.9
Peer Average			701.8
DPTR			
Premium/ (Discount)			N/M
Implied Price, USD			114.85
Upside (Downside)			N/M
NVTR			
Premium/ (Discount)			-52%
Implied Price, USD			12.50
Upside (Downside)			117%
HRTR			
Premium/ (Discount)			24%
Implied Price, USD			0.12
Upside (Downside)			- 18%
NITR			
Premium/ (Discount)			- 40%
Implied Price, USD			9.17
Upside (Downside)			47%

As both Ukrainian and Russian pipe makers sell most of their products through intermediaries who accumulate a lion's portion of profits, **EV/Output** is, in our view, the **most appropriate multiple for valuation by comparison with Russian pipe companies**.

We included railroad wheels and rims in outputs of NITR and Vyksa Steel Works.

### International Peers

Company	Mcap, USD mln	Price, USD	P/S	6	EV/EB	ITDA	P/	E
			2004	2005E	2004	2005E	2004	2005E
DPTR	N/A	N/A	N/M	N/M	N/M	N/M	N/M	N/M
NVTR	69.0	5.75	0.6	0.4	13.2	1.7	31.4	2.7
HRTR	382.3	0.15	3.5	0.8	44.4	4.7	979.7	6.9
NITR	336.8	6.25	0.7	0.5	6.9	1.7	17.4	3.0
Median			0.7	0.5	13.2	1.7	31.4	3.0
Average			1.6	0.6	21.5	2.7	342.8	4.2
Borusan	280.1	8.2	0.8	0.6	7.4	6.6	8.8	10.4
Tubacex	312.6	2.4	0.7	0.5	9.2	5.5	18.6	8.6
Median			0.7	0.6	8.3	6.1	13.7	9.5
Peer Averag	e		0.7	0.6	8.3	6.1	13.7	9.5
DPTR								
Premium/ (Dis	count)		N/M	N/M	N/M	N/M	N/M	N/M
Implied Price	e, USD		101.57	81.31	17.83	181.11	4.67	191.48
Upside (Down	side)		N/M	N/M	N/M	N/M	N/M	N/M
NVTR								
Premium/ (Dis	count)		-23%	- 32%	59%	-72%	129%	- 71%
Implied Price	e, USD		7.49	8.40	3.54	19.85	2.51	20.13
Upside (Down	side)		30%	46%	- 38%	245%	- 56%	250%
HRTR								
Premium/ (Dis	count)		373%	33%	433%	-23%	7055%	- 28%
Implied Price	e, USD		0.03	0.11	0.03	0.20	0.00	0.21
Upside (Down	side)		- 79%	- 25%	-83%	32%	- 99%	38%
NITR								
Premium/ (Dis	count)		-8%	-19%	-17%	- 73%	27%	- 69%
Implied Price	e, USD		6.80	7.73	7.34	20.54	4.90	19.99
Upside (Down	side)		9%	24%	18%	229%	-22%	220%

While comparing to other international peers, we focus on **forward-looking 2005E multiples based on projected true financials** of Ukrainian pipe makers rather than reported figures.



**Company Profiles** 



# **Historical Financials**

Income Statement Summary, USD mln	NITR		HRTR		NVTR		DPTR	
Income statement summary, osb min	2003	2004	2003	2004	2003	2004	2003	2004
Net Revenues	316	495	75	109	84	121	48	85
Change y-o-y	26%	57%	71%	45%	77%	44%	158%	79%
Gross Profit	48	75	25	20	12	13	2	8
% of Net Revenues	15%	15%	33%	19%	14%	11%	4%	9%
Other Operating Income/Costs, net	(1)	(1)	(1)	(2)	(1)	(1)	1	1
SG&A	(33)	(32)	(8)	(10)	(8)	(7)	(2)	(6)
% of Net Revenues	10%	6%	11%	9%	10%	6%	5%	7%
EBITDA	14	43	15	9	2	5	1	3
EBITDA margin, % EBIT	4.4%	8.6% 35	20.2% 10	8.0% 4	2.6%	4.5%	1.3%	3.0% 1
EBIT margin, %	2.1%	7.1%	13.6%	3.5%	0.6%	3 2.9%	(1) -2.2%	1.1%
Interest Expense	(1)	(2)	(2)	(1)	(0)	(0)	-2.278 (0)	(0)
Financial income/(expense)	0	(2)	(2)	(1)	(0)	-	(0)	-
Other income/(expense)	(0)	(3)	(2)	(1)				
PBT	6	30	7	2	0	3	(1)	0
Tax	(3)	(11)	(5)	(2)	(0)	(1)	-	
Effective tax rate	46%	36%	68%	79%	72%	36%	0%	0%
Net Income	3	19	2	0	0.1	2	(1)	0
Net Margin, %	1.1%	3.9%	2.8%	0.4%	0.2%	1.8%	-2.3%	0.4%
Dividend Declared	0.6	-	-	-	-	-	-	-
Balance Sheet Summary, USD min								
Current Assets	2003 104	2004 185	2003 35	2004 38	2003 18	2004 25	2003 33	2004
Cash & Equivalents	104	26	35	30	18	25	33 0	42
Trade Receivables	48	34	7	15	8	14	20	19
Inventories	40	52	11	11	7	8	10	17
Other current assets	15	73	16	11	4	3	4	5
Non-Current Assets	153	278	58	58	29	28	20	20
PP&E, net	81	80	54	53	23	24	16	16
Other Fixed Assets	72	198	5	6	6	4	4	4
Total Assets	257	463	93	96	48	53	54	62
Shareholders' Equity	166	186	61	62	34	39	2	2
Share Capital	10	10	5	5	0	3	16	16
Retained Earnings and Other	157	176	56	57	34	36	(14)	(14)
Current Liabilities	52	141	27	33	10	11	51	59
ST Interest Bearing Debt	3	37	10	8	0	0	8	3
Trade Payables	44	97	13	21	8	11	39	19
Other Current Liabilities	6	8	4	4	2	1	5	38
LT Liabilities	39	135	5	1	3	3	0	0
LT Interest Bearing Debt	-	-	-	-	3	3	0	-
Other LT Total Liabilities & Equity	39 257	135 463	5 93	1 <b>96</b>	1 <b>48</b>	0 53	0 54	0 62
Total Liabilities & Equity	237	403	73	70	40	53	34	02
Cash Flow Statement Summary, USD mln								
	2003	2004	2003	2004	2003	2004	2003	2004
Net Income	3	19	2	0	0	2	(1)	0
Depreciation	7	7	5	5	2	2	2	2
Non-operating and non-cash items Changes in working capital	2 44	11	1	(0) 5	0	(0)	(0) (1)	0
Operating Cash Flow	56	(11) 26	16	10	(2) (0)	(5) (2)	(1)	5
Operating cash Flow	50	20	10	10	(0)	(2)	(1)	/
Capital Expenditures, net	(6)	(3)	(3)	(6)	(1)	(1)	(0)	(1)
Other Investments, net	(50)	(128)	2	(0)	0	(0)	0	0
Investing Cash Flow	(56)	(131)	(1)	(6)	(0)	(2)	(0)	(1)
Net Deservings //servinesks)	(0)	100	(2)	(2)	(4)			(5)
Net Borrowings/(repayments)	(0)	130	(3)	(2)	(1)	-	1	(5)
Dividends Paid Other	(0)	(1) (0)	- (12)	- (2)	(0)	(0) 3	- (0)	- (0)
Financing Cash Flow	- (0)	(0)	(12)	(2) (4)	2	3	(0)	(0)
	(0)	127	(13)	(4)	1	3	1	(5)
Net Cash Inflows/Outflows	(0)	25	0	1	0	(0)	(0)	1

In the company profiles, we address the transfer pricing issue that distorts official financial statements.

To this end, we show:

the key financials that the companies reported in 2004 and are likely to report in 2005 - 2006;

our estimates of true financials that reflect the economics of respective businesses.



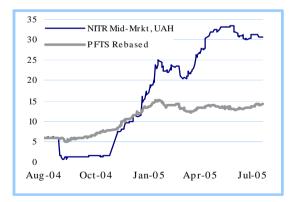
# Nyzhnyodniprovsky Pipe Rolling (NITR)

# BUY

Target price	USD 8.34
Market Information	
No of Shares, mln	53.9
Par Value, USD	0.05
Market price, USD	6.25
MCap, USD mIn	351.9
Free Float, %	15%
FF MCap, USD mIn	50.5

Stock Ownership	
Interpipe & management	85%
Minorities	15%

# of employees



**Profile:** Ukraine's largest pipe maker by output (22.4% share in 2004) and #3 by design capacity (900 ths mt p.a.). The only producer of railroad wheels, tires & rings in Ukraine and one of three in the CIS able to make up to 256 ths mt of wheels and 70 ths mt of tires and rings p.a. The company's pipe business is focused on high quality seamless OCTG pipes. Welded pipes are also present in product assortment. NPR possesses open hearth steel making capacities that enable it to both save on raw material costs and produce customized railroad wheels & tires from in-house steel. Designed steel capacity is 700 ths mt p.a. NPR's location in industrialized Dnipropetrovsk oblast endows the plant with logistical benefits – proximity to raw material suppliers (mainly DMK Dzerdzhynskogo) and transportation links.

**Products & Markets:** The company exports over 70% of its pipes, and 50% of pipe sales (in terms of tonnage) are to non-CIS markets. NPR's railroad wheels sales are shifting from domestic markets to abroad (in 2003, 56% of wheels & tires were sold in Ukraine, while in 10M04 over 60% of wheels & tires were sold to Russia). The plant's 12—377 mm OD product range includes:

> casing and production pipes and couplings, heavy-weight drill pipes

- hot-rolled and cold-drawn general purpose tubes, boiler plant pipes and tubing
- bearing tubes

9 609

- high precision tubes
- electric-welded round and shaped tubes

NPR's pipes are in conformity to local UkrSEPRO and GOST systems, certified by the API and the TÜV NORD Certification Center.

**Transfer pricing:** NITR's top-line is undercut by transfer pricing schemes (at least by 15 - 20%), as the company's export operations are carried out through Interpipe-related traders. We do not see any evidence of artificial cost inflation, though.

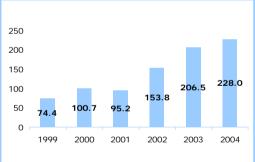
**Ownership issues:** Intended sale of Interpipe by current owners may be an additional driver of the stock's future appreciation.

	P/S	P/S True	P/E	P/E True	EV/ EBITDA	EV/ BITDA		Reported Sales	<b>True Sales</b> USD mln		TDA rgin		et rgin
				nuo	LBITER	True		USD mln	000 11111	Reported	True	Reported	True
2004	0.7	0.5	17.5	2.8	11.3	2.6	2004	494.8	641.2	8.6%	29.5%	3.9%	19.8%
2005E	0.6	0.5	8.6	3.0	5.8	2.3	2005E	596.5	702.6	11.4%	24.8%	6.6%	16.2%
2006E	0.5	0.5	21.2	3.6	10.4	2.4	2006E	624.4	735.5	5.3%	19.6%	2.5%	13.7%





### Rail Wheels & Rims Output, '000 mt





# **NPR Fin. Statements\***

### Income Statement Summary, USD mIn

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues	703	736	763	788	806	824	837	849	862	875
Change y-o-y	-	5%	4%	3%	2%	2%	1%	1%	1%	1%
Cost Of Sales	(486)	(547)	(589)	(628)	(642)	(657)	(667)	(677)	(687)	(697)
Gross Profit	216	188	174	160	164	168	170	173	175	178
Other Operating Income/Costs, net	-	-	-	-	-	-	-	-	-	-
SG&A	(42)	(44)	(46)	(47)	(48)	(49)	(50)	(51)	(52)	(52)
EBITDA	174	144	128	113	115	118	120	122	123	125
EBITDA margin, %	24.8%	19.6%	16.8%	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%	14.3%
Depreciation	(8)	(9)	(9)	(9)	(10)	(10)	(10)	(11)	(11)	(11)
EBIT	166	136	119	104	106	108	110	111	113	114
EBIT margin, %	23.7%	18.5%	15.6%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%
Interest Expense	(4)	(2)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)
Financial income/(expense)	-		-	-	-	-	-	-	-	-
Other income/(expense)	-	-	-	-	-	-	-	-	-	-
PBT	162	134	118	102	104	106	108	109	110	112
Tax	(49)	(40)	(35)	(31)	(31)	(32)	(32)	(33)	(33)	(34)
Effective tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Net Income	114	94	82	71	73	74	76	77	77	78
Net Margin, %	16.2%	12.7%	10.8%	9.1%	9.0%	9.0%	9.0%	9.0%	8.9%	9.0%
Dividend Declared	22.7	46.8	49.5	42.8	43.6	44.6	45.4	45.9	46.2	47.1

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Current Assets	226	287	313	344	367	389	403	435	473	483
Cash & Equivalents	11	15	19	21	24	26	27	27	28	31
Trade Receivables	86	88	95	102	109	115	121	127	134	136
Inventories	86	96	107	118	129	140	142	161	190	192
Other current assets	43	88	92	102	105	107	113	119	122	124
Non-Current Assets	220	164	172	178	183	188	192	196	200	203
PP&E, net	94	103	111	117	123	128	132	136	140	143
Other Fixed Assets	125	61	61	60	60	60	60	60	60	60
Total Assets	445	451	485	522	550	577	596	631	673	686
Shareholders' Equity	290	337	370	398	428	457	488	518	549	580
Share Capital	10	10	10	10	10	10	10	10	10	10
Retained Earnings and Other	281	327	360	389	418	448	478	509	539	571
Current Liabilities	105	102	103	112	114	112	108	113	124	106
ST Interest Bearing Debt	18	12	10	15	24	19	18	26	36	16
Trade Payables	79	81	84	87	81	82	79	76	78	79
Accrued Wages	2	2	2	2	2	2	2	2	2	3
Accrued Taxes	1	1	1	1	1	1	1	1	1	1
Other Current Liabilities	6	6	6	6	6	7	7	7	7	7
LT Liabilities	50	12	12	12	8	8	-	-	-	-
LT Interest Bearing Debt	-	-	-	-	-	-	-	-	-	-
Other LT	50	12	12	12	8	8	-	-	-	-
Total Liabilities & Equity	445	451	485	522	550	577	596	631	673	686
UAH/USD Exchange Rates										
	2005E		2007E			2010E		2012E	2013E	2014E
Average	5.10	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Year-end	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00

### Cash Flow Statement Summary, USD mln

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	114	94	82	71	73	74	76	77	77	78
Depreciation	8	9	9	9	10	10	10	11	11	11
Non-operating and non-cash items	(4)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Changes in working capital	(69)	(55)	(18)	(26)	(25)	(18)	(17)	(34)	(37)	(5)
Operating Cash Flow	49	47	73	54	57	66	69	53	51	84
Capital Expenditures, net	(21)	(19)	(17)	(15)	(15)	(15)	(14)	(14)	(14)	(14)
Other Investments, net	91	66	-	-	-	-	-	-	-	-
Investing Cash Flow	70	47	(17)	(15)	(15)	(15)	(14)	(14)	(14)	(14)
Net Borrowings/(repayments)	(113)	(44)	(2)	6	4	(4)	(9)	8	10	(20)
Dividends Paid	(23)	(47)	(49)	(43)	(44)	(45)	(45)	(46)	(46)	(47)
Other	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	(135)	(90)	(52)	(37)	(39)	(49)	(54)	(38)	(36)	(67)
Beginning Cash Balance	27	11	15	19	21	24	26	27	27	28
Ending Cash Balance	11	15	19	21	24	26	27	27	28	31
Net Cash Inflows/Outflows	(17)	4	4	2	3	2	0	0	0	3

### Ratio Analysis and Per Share Da

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014
Liquidity Ratios										
Current Ratio	2.15	2.81	3.04	3.08	3.21	3.48	3.73	3.85	3.81	4.5
Receivables Collection DOH (est.)	31	43	44	46	48	50	52	53	55	5
Inventories Processing DOH (est.)	51	60	62	64	69	74	76	81	92	9
Payment Period (est.)	67	53	51	50	48	45	44	42	41	4
Cash Conversion Cycle	15	50	55	61	69	78	83	92	106	11
Operating Efficiency Ratios										
Total Asset Turnover	1.55	1.64	1.63	1.56	1.50	1.46	1.43	1.38	1.32	1.29
Non-Current Asset Turnover	2.82	3.83	4.54	4.50	4.46	4.44	4.40	4.37	4.35	4.34
Operating Profitability Ratios										
Operating Profit Margin	23.7%	18.5%	15.6%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.19
Net Income Margin	16.2%	12.7%	10.8%	9.1%	9.0%	9.0%	9.0%	9.0%	8.9%	9.09
ROE	47.7%	29.9%	23.3%	18.6%	17.6%	16.8%	16.0%	15.2%	14.4%	13.99
Financial Risk Ratios										
Debt-to-Equity Ratio	0.23	0.07	0.06	0.07	0.07	0.06	0.04	0.05	0.07	0.0
Total Debt-to-Assets Ratio	0.35	0.25	0.24	0.24	0.22	0.21	0.18	0.18	0.18	0.1
Interest Coverage	42.9	70.8	92.1	69.5	54.2	55.9	73.0	62.6	45.4	54.
Du Pont Analysis										
Net Income Margin	16.2%	12.7%	10.8%	9.1%	9.0%	9.0%	9.0%	9.0%	8.9%	9.09
Asset Turnover	1.55	1.64	1.63	1.56	1.50	1.46	1.43	1.38	1.32	1.29
ROA	25.0%	20.9%	17.6%	14.2%	13.6%	13.2%	12.9%	12.5%	11.8%	11.59
Leverage Multiplier	1.91	1.43	1.32	1.31	1.30	1.27	1.24	1.22	1.22	1.2
ROE	47.7%	29.9%	23.3%	18.6%	17.6%	16.8%	16.0%	15.2%	14.4%	13.99
Per Share Data, USD										
Avg # of Shares, mIn	53.89	53.89	53.89	53.89	53.89	53.89	53.89	53.89	53.89	53.8
EPS	2.109	1.739	1.530	1.325	1.349	1.380	1.404	1.420	1.430	1.45
DPS	0.422	0.869	0.918	0.795	0.809	0.828	0.842	0.852	0.858	0.87
BPS	5.383	6.253	6.865	7.395	7.934	8.486	9.048	9.616	10.188	10.77

\* All numbers are projected to reflect true economics of the company.

Financials are prepared according to Ukrainian Accounting Standards



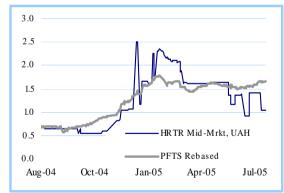
# Khartsyzk Tube (HRTR)

# SELL

Target price	USD 0.09
Market Information	
No of Shares, mIn	2,548.8
Par Value, USD	0.01
Market price, USD	0.15
MCap, USD mln	382.3
Free Float, %	2%
FF MCap, USD mIn	7.6

Stock Ownership	
SCM	98%
Minorities	2%
	6.613

# of employees



**Profile:** The largest Ukrainian pipe maker in terms of installed capacity (1.6 mln mt of pipes annually) and second largest by output (21.1% share in 2004). Its product assortment encompasses over 500 items.

# **Products & Markets:** HRTR's core product is large diameter steel pipes, with corrosion-proof coating, used for construction of oil and gas-main pipelines. Its pipes were used in construction of trunk oil & gas pipelines in Russia, Turkmenistan, Azerbaijan, Uzbekistan, Kazakhstan as well as in the construction of international trunk oil pipelines Druzhba and Urengoy–Pomary-Uzhgorod. Current demand for pipes manufactured in Khartsyzk stems chiefly from the new needs of the reviving oil & gas sector in the CIS and from previously constructed pipelines repair & maintenance. The key consumer of HRTR's pipes is Gazprom accounting for ~60% of HRTR's tonnage sales. Gazprom buys mostly Ø1,420 mm pipes.

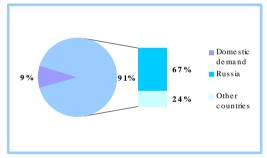
**Transfer pricing:** The company heavily engages in transfer pricing, selling nearly all of its pipes through operators related with its key shareholder, SCM, such as Leman Pipe and Azovstal. We estimate that its sales are undercut by at least 70%. On the other hand, cost of raw materials reported on HRTR's P&L is also severely understated due to a tolling scheme HRTR is involved in with its main strip supplier, Azovstal. In addition, HRTR's reported top line includes revenue from sales of steel and railcars produced by plants under SCM's control.

**Share issue**: In early 2005, HRTR increased its charter fund 4.6 times raising USD 19.8 mln. The proceeds will be used to construct a new production line for manufacturing single-weld pipes with an outer diameter of 711 – 1,420 mm. Project cost is estimated at USD 18.5 mln and its completion is expected in 2006. Single-weld large diameter pipes are superior in quality to double-weld pipes HRTR was able to make before and enjoy a strong demand from Gazprom.

### Pipe Output, '000 mt



### HRTR's Export Structure, 2003



	P/S	P/S True	P/E	P/E True	EV/ EBITDA	EV/ BITDA		Reported Sales	<b>True Sales</b> USD mln		I TDA argin		et rgin
						True		USD mln	000	Reported	True	Reported	True
2004	3.5	1.0	N/M	8.3	44.4	5.4	2004	109.1	403.4	8.0%	18.0%	0.4%	11.5%
2005E	2.7	0.8	N/M	6.9	20.0	4.7	2005E	144.2	485.0	14.1%	18.0%	1.6%	11.5%
2006E	3.2	1.0	N/M	8.8	23.3	5.5	2006E	118.3	397.7	14.1%	17.7%	1.6%	11.0%



# Khartsyzk Tube Fin. Statements\*

### Income Statement Summary. USD mln

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues	485	398	395	405	411	417	428	438	449	461
Change y-o-y	-	-18%	-1%	2%	1%	1%	2%	2%	2%	3%
Cost Of Sales	(359)	(294)	(297)	(304)	(308)	(317)	(325)	(333)	(342)	(350)
Gross Profit	126	103	99	101	103	100	103	105	108	111
Other Operating Income/Costs. net	-	-	-	-	-	-	-	-	-	-
SG&A	(39)	(33)	(34)	(36)	(37)	(38)	(38)	(39)	(40)	(41)
EBITDA	87	70	65	66	66	63	64	66	67	69
EBITDA margin. %	18.0%	17.7%	16.5%	16.2%	16.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Depreciation	(5)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(7)
EBIT	82	65	60	60	60	56	58	59	61	63
EBIT margin. %	16.9%	16.3%	15.1%	14.8%	14.5%	13.5%	13.5%	13.6%	13.6%	13.6%
Interest Expense	(2)	(2)	(2)	(3)	(3)	(3)	(2)	(2)	(2)	(1)
Financial income	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	-	-	-	-	-	-	-	-	-	-
PBT	80	62	58	57	57	54	55	57	59	62
Tax	(24)	(19)	(17)	(17)	(17)	(16)	(17)	(17)	(18)	(19)
Effective tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Net Income	56	44	40	40	40	38	39	40	42	43
Net Margin. %	11.5%	11.0%	10.2%	9.9%	9.7%	9.0%	9.1%	9.1%	9.2%	9.4%
Dividend Declared	6	22	24	24	24	23	23	24	25	26

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	56	44	40	40	40	38	39	40	42	43
Depreciation	5	6	6	6	6	6	6	6	6	7
Non-operating and non-cash items	2	(1)	(0)	0	0	0	0	0	0	C
Changes in working capital	(81)	1	(19)	(19)	(14)	(15)	(13)	(9)	(5)	(5)
Operating Cash Flow	(18)	49	27	27	32	29	33	38	43	45
Capital Expenditures. net	(12)	(10)	(9)	(9)	(9)	(8)	(8)	(8)	(8)	(8)
Other Investments. net	(0)				-	-		-	-	-
Investing Cash Flow	(12)	(10)	(9)	(9)	(9)	(8)	(8)	(8)	(8)	(8
Net Borrowings/(repayments)	19	(17)	8	7	2	3	(0)	(5)	(10)	(11
Dividends Paid	(6)	(22)	(24)	(24)	(24)	(23)	(23)	(24)	(25)	(26
Other	20	-	-	-	-	-	-	-	-	-
Financing Cash Flow	33	(39)	(16)	(17)	(22)	(20)	(24)	(29)	(35)	(37
Beginning Cash Balance	1	3	4	6	7	8	10	11	12	12
Ending Cash Balance	3	4	6	7	8	10	11	12	12	12
Net Cash Inflows/Outflows	2	1	2	1	1	1	1	1	0	
	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014
	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014
iquidity Ratios	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014
Liquidity Ratios										
Current Ratio	1.53	2.02	2.23	2.32	2.50	2.66	2.80	3.05	3.50	4.1
Current Ratio Receivables Collection DOH (est.)										4.1
Current Ratio Receivables Collection DOH (est.) Inventories Processing DOH (est.)	1.53 31	2.02 57	2.23 51	2.32 52	2.50 54	2.66 54	2.80 54	3.05 54	3.50 54	4.1 5 11
Current Ratio Receivables Collection DOH (est.)	1.53 31 47	2.02 57 97	2.23 51 96	2.32 52 104	2.50 54 114	2.66 54 117	2.80 54 116	3.05 54 116	3.50 54 116	4.1 5 11 5
Current Ratio Receivables Collection DOH (est.) Inventories Processing DOH (est.) Payment Period (est.)	1.53 31 47 54	2.02 57 97 91	2.23 51 96 68	2.32 52 104 60	2.50 54 114 56	2.66 54 117 52	2.80 54 116 52	3.05 54 116 52	3.50 54 116 52	4.14 54 110 51 111
Current Ratio Receivables Collection DOH (est.) Inventories Processing DOH (est.) Payment Period (est.) Cash Conversion Cycle	1.53 31 47 54	2.02 57 97 91	2.23 51 96 68	2.32 52 104 60	2.50 54 114 56	2.66 54 117 52	2.80 54 116 52	3.05 54 116 52	3.50 54 116 52	4.1 5 11 5 11
Current Ratio Receivables Collection DOH (est.) Inventories Processing DOH (est.) Payment Period (est.) Cash Conversion Cycle Operating Efficiency Ratios	1.53 31 47 54 25	2.02 57 97 91 64	2.23 51 96 68 79	2.32 52 104 60 96	2.50 54 114 56 113	2.66 54 117 52 119	2.80 54 116 52 118	3.05 54 116 52 118	3.50 54 116 52 118	4.1 5 11 5 11
Current Ratio Receivables Collection DOH (est.) Inventories Processing DOH (est.) Payment Period (est.) Cash Conversion Cycle Operating Efficiency Ratios Total Asset Turnover Fixed Asset Turnover Operating Profitability Ratios	1.53 31 47 54 25 2.60 7.56	2.02 57 97 91 64 1.51 5.51	2.23 51 96 68 79 1.55 5.21	2.32 52 104 60 96 1.49 5.13	2.50 54 114 56 113 1.42 5.04	2.66 54 117 52 119 1.37 4.97	2.80 54 116 52 118 1.34 4.99	3.05 54 116 52 118 1.31 5.03	3.50 54 116 52 118 1.30 5.07	4.1 5 11 5 11 1.31 5.12
Current Ratio Receivables Collection DOH (est.) Inventories Processing DOH (est.) Payment Period (est.) Cash Conversion Cycle Operating Efficiency Ratios Total Asset Turnover Rixed Asset Turnover Operating Profitability Ratios Operating Profit Margin	1.53 31 47 54 25 2.60 7.56 17%	2.02 57 97 91 64 1.51 5.51	2.23 51 96 68 79 1.55 5.21	2.32 52 104 60 96 1.49 5.13	2.50 54 114 56 113 1.42 5.04	2.66 54 117 52 119 1.37 4.97	2.80 54 116 52 118 1.34 4.99 14%	3.05 54 116 52 118 1.31 5.03	3.50 54 116 52 118 1.30 5.07	4.1 5 11 5 11 1.31 5.12
Current Řatio Receivables Collection DOH (est.) Inventories Processing DOH (est.) Payment Period (est.) Cash Conversion Cycle Operating Efficiency Ratios Total Asset Turnover Fixed Asset Turnover Operating Profitability Ratios Operating Profitability Ratios Net Income Margin	1.53 31 47 54 25 2.60 7.56 17% 11%	2.02 57 97 91 64 1.51 5.51 16% 11%	2.23 51 96 68 79 1.55 5.21 15% 10%	2.32 52 104 60 96 1.49 5.13 15% 10%	2.50 54 114 56 113 1.42 5.04 15% 10%	2.66 54 117 52 119 1.37 4.97 14% 9%	2.80 54 116 52 118 1.34 4.99 14% 9%	3.05 54 116 52 118 1.31 5.03	3.50 54 116 52 118 1.30 5.07 14% 9%	4.1 5 11 5 11 5.12 14% 99
Current Ratio Receivables Collection DOH (est.) Inventories Processing DOH (est.) Payment Period (est.) Cash Conversion Cycle Operating Efficiency Ratios Total Asset Turnover Rixed Asset Turnover Operating Profitability Ratios Operating Profit Margin	1.53 31 47 54 25 2.60 7.56 17%	2.02 57 97 91 64 1.51 5.51	2.23 51 96 68 79 1.55 5.21	2.32 52 104 60 96 1.49 5.13	2.50 54 114 56 113 1.42 5.04	2.66 54 117 52 119 1.37 4.97	2.80 54 116 52 118 1.34 4.99 14%	3.05 54 116 52 118 1.31 5.03	3.50 54 116 52 118 1.30 5.07	4.1 5 11 5 11 5.12 14% 99
Current Řatio Receivables Collection DOH (est.) Inventories Processing DOH (est.) Payment Period (est.) Cash Conversion Cycle Operating Efficiency Ratios Total Asset Turnover Fixed Asset Turnover Operating Profitability Ratios Operating Profitability Ratios Net Income Margin	1.53 31 47 54 25 2.60 7.56 17% 11%	2.02 57 97 91 64 1.51 5.51 16% 11%	2.23 51 96 68 79 1.55 5.21 15% 10%	2.32 52 104 60 96 1.49 5.13 15% 10%	2.50 54 114 56 113 1.42 5.04 15% 10%	2.66 54 117 52 119 1.37 4.97 14% 9%	2.80 54 116 52 118 1.34 4.99 14% 9%	3.05 54 116 52 118 1.31 5.03 14% 9%	3.50 54 116 52 118 1.30 5.07 14% 9%	4.1 5 11 5 11 5.12 14% 99
Current Řatio Receivables Collection DOH (est.) Inventories Processing DOH (est.) Payment Period (est.) Cash Conversion Cycle <b>Operating Efficiency Ratios</b> Total Asset Turnover Exed Asset Turnover <b>Operating Profitability Ratios</b> Operating Profit Margin Vet Income Margin ROE	1.53 31 47 54 25 2.60 7.56 17% 11%	2.02 57 97 91 64 1.51 5.51 16% 11%	2.23 51 96 68 79 1.55 5.21 15% 10% 24% 0.11	2.32 52 104 60 96 1.49 5.13 15% 10%	2.50 54 114 56 113 1.42 5.04 15% 10%	2.66 54 117 52 119 1.37 4.97 14% 9% 18% 0.14	2.80 54 116 52 118 1.34 4.99 14% 9% 17% 0.13	3.05 54 116 52 118 1.31 5.03 14% 9%	3.50 54 116 52 118 1.30 5.07 14% 9%	4.1 5 11 1.31 5.12 149 99 169
Current Ratio Receivables Collection DOH (est.) Inventories Processing DOH (est.) Payment Period (est.) Cash Conversion Cycle Operating Efficiency Ratios Total Asset Turnover Fixed Asset Turnover Operating Profitability Ratios Operating Profit Margin Net Income Margin ROE Financial Risk Ratios	1.53 31 47 54 25 2.60 7.56 17% 11% 56%	2.02 57 91 64 1.51 5.51 16% 11% 30%	2.23 51 96 68 79 1.55 5.21 15% 10% 24%	2.32 52 104 60 96 1.49 5.13 15% 10% 22%	2.50 54 114 56 113 1.42 5.04 15% 10% 20%	2.66 54 117 52 119 1.37 4.97 14% 9% 18%	2.80 54 116 52 118 1.34 4.99 14% 9% 17%	3.05 54 116 52 118 1.31 5.03 14% 9% 16%	3.50 54 116 52 118 1.30 5.07 14% 9% 16%	4.1 5 11 5.11 1.31 5.12 149 99 169 0.0
Current Ratio Receivables Collection DOH (est.) Inventories Processing DOH (est.) Payment Period (est.) Cash Conversion Cycle Operating Efficiency Ratios Total Asset Turnover Operating Profitability Ratios Operating Profit Margin Net Income Margin ROE Financial Risk Ratios Debt-to-Equity Ratio	1.53 31 47 54 25 2.60 7.56 17% 11% 56% 0.20	2.02 57 97 64 1.51 5.51 16% 11% 30%	2.23 51 96 68 79 1.55 5.21 15% 10% 24% 0.11	2.32 52 104 60 96 1.49 5.13 15% 10% 22% 0.13	2.50 54 114 56 113 1.42 5.04 15% 10% 20% 0.13	2.66 54 117 52 119 1.37 4.97 14% 9% 18% 0.14	2.80 54 116 52 118 1.34 4.99 14% 9% 17% 0.13	3.05 54 116 52 118 1.31 5.03 14% 9% 16% 0.10	3.50 54 116 52 118 1.30 5.07 14% 9% 16% 0.06	4.1- 5- 11- 5:
Current Řatio Receivables Collection DOH (est.) Receivables Collection DOH (est.) Payment Period (est.) Cash Conversion Cycle Operating Efficiency Ratios Total Asset Turnover Fixed Asset Turnover Operating Profit Margin Net Income Margin ROE Financial Risk Ratios Debt-to-Equity Ratio Total Debt-to-Assets Ratio Interest Coverage Du Pont Analysis	1.53 31 47 54 25 2.60 7.56 11% 56% 0.20 0.50 33.0	2.02 57 97 91 64 1.51 5.51 16% 11% 30% 0.07 0.36 26.1	2.23 51 96 68 79 1.55 5.21 15% 10% 24% 0.11 0.33 33.8	2.32 52 104 60 96 1.49 5.13 15% 22% 0.13 0.32 22.4	2.50 54 114 56 113 1.42 5.04 15% 20% 0.13 0.30 22.5	2.66 54 117 52 119 1.37 4.97 14% 9% 18% 0.14 0.29 21.5	2.80 54 116 52 118 1.34 4.99 14% 9% 17% 0.13 0.28 23.8	3.05 54 116 52 118 1.31 5.03 14% 9% 16% 0.10 0.26 26.6	3.50 54 116 52 118 1.30 5.07 14% 9% 16% 0.06 0.23 37.4	4.1 5 11 5.12 1.31 5.12 149 99 169 0.0 0.1 82.
Current Ratio Receivables Collection DOH (est.) Inventories Processing DOH (est.) Payment Period (est.) Cash Conversion Cycle Operating Efficiency Ratios Total Asset Turnover Operating Profitability Ratios Operating Profit Margin Vet Income Margin ROE Financial Risk Ratios Debt-to-Equity Ratio Total Debt-to-Assets Ratio Interest Coverage DU Pont Analysis Vet Income Margin	1.53 31 47 54 25 2.60 7.56 17% 11% 56% 0.20 0.50 33.0	2.02 57 97 91 64 1.51 5.51 16% 11% 30% 0.07 0.36 26.1 11.0%	2.23 51 96 68 79 1.55 5.21 15% 10% 24% 0.11 0.33 33.8	2.32 52 104 60 96 1.49 5.13 15% 10% 22% 0.13 0.32 22.4 9.9%	2.50 54 114 56 113 1.42 5.04 15% 10% 20% 0.13 0.30 22.5 9.7%	2.66 54 117 52 119 1.37 4.97 14% 9% 18% 0.14 0.29 21.5	2.80 54 116 52 118 1.34 4.99 14% 9% 17% 0.13 0.28 23.8 9.1%	3.05 54 116 52 118 1.31 5.03 14% 9% 16% 0.10 0.26 26.6 9.1%	3.50 54 116 52 118 1.30 5.07 14% 9% 16% 0.06 0.23 37.4 9.2%	4.1 5 11 5.12 149 99 169 0.0 0.1 82.
Current Řatio Receivables Collection DOH (est.) Receivables Collection DOH (est.) Payment Period (est.) Cash Conversion Cycle Operating Efficiency Ratios Total Asset Turnover Fixed Asset Turnover Operating Profitability Ratios Operating Profit Margin Net Income Margin ROE Financial Risk Ratios Debt-to-Equity Ratio Interest Coverage Du Pont Analysis Net Income Margin Net Net Net NetNetNetNetNetNetNetNetNetNetNetNetNetN	1.53 31 47 54 25 2.60 7.56 17% 11% 56% 0.20 0.50 33.0 11.5% 2.60	2.02 57 97 91 64 1.51 5.51 16% 11% 30% 0.07 0.36 26.1 11.0% 1.51	2.23 51 96 68 79 1.55 5.21 15% 10% 24% 0.11 0.33 33.8 10.2% 1.55	2.32 52 104 60 96 1.49 5.13 15% 10% 22% 0.13 0.32 22.4 9.9% 1.49	2.50 54 114 56 113 1.42 5.04 15% 10% 20% 0.13 0.30 22.5 9.7% 1.42	2.66 54 117 52 119 1.37 4.97 14% 9% 18% 0.14 0.29 21.5 9.0% 1.37	2.80 54 116 52 118 1.34 4.99 14% 9% 17% 0.13 0.28 23.8 9.1% 1.34	3.05 54 116 52 118 1.31 5.03 14% 9% 16% 0.10 0.26 26.6 9.1% 1.31	3.50 54 116 52 118 1.30 5.07 14% 9% 16% 0.06 0.23 37.4 9.2% 1.30	4.1 5 11 1.31 5.12 149 99 169 0.0 0.1 82. 9.49 1.31
Current Řatio Receivables Collection DOH (est.) Receivables Collection DOH (est.) Payment Period (est.) Cash Conversion Cycle Operating Efficiency Ratios Total Asset Turnover Operating Profit Margin Net Income Margin ROE Financial Risk Ratios Debt-to-Assets Ratio Interest Coverage Du Pont Analysis Net Income Margin Asset Turnover ROA	1.53 31 47 54 25 2.60 7.56 17% 11% 56% 0.20 0.50 33.0 11.5% 2.60 30%	2.02 57 97 91 64 1.51 5.51 16% 11% 30% 0.07 0.36 26.1 11.0% 1.51	2.23 51 96 68 79 1.55 5.21 15% 10% 24% 0.11 0.33 3.3.8 10.2% 1.55	2.32 52 104 60 96 1.49 5.13 15% 22% 0.13 0.32 2.2.4 9.9% 1.49 15%	2.50 54 114 56 113 1.42 5.04 15% 20% 0.13 0.30 22.5 9.7% 1.42 14%	2.66 54 117 52 119 1.37 4.97 14% 9% 18% 0.14 0.29 21.5 9.0% 1.37 12%	2.80 54 116 52 118 1.34 4.99 14% 9% 17% 0.13 0.28 23.8 9.1% 1.34 12%	3.05 54 116 52 118 1.31 5.03 14% 9% 9% 16% 0.10 0.266 2.6.6 9.1% 1.31	3.50 54 116 52 118 1.30 5.07 14% 9% 16% 0.06 0.23 37.4 9.2% 1.30 12%	4.1. 5 11: 1.31 5.12 149 99 169 0.0 0.1' 82.' 9.49 1.31 129
Current Řatio Receivables Collection DOH (est.) Receivables Collection DOH (est.) Payment Period (est.) Cash Conversion Cycle Operating Efficiency Ratios Total Asset Turnover Fixed Asset Turnover Operating Profitability Ratios Operating Profitability Ratio ROE Financial Risk Ratios Debt-to-Equity Ratio Interest Coverage Du Pont Analysis Nest Incower State St	1.53 31 47 54 25 2.60 7.56 17% 11% 56% 0.20 0.50 33.0 11.5% 2.60	2.02 57 97 91 64 1.51 5.51 16% 11% 30% 0.07 0.36 26.1 11.0% 1.51	2.23 51 96 68 79 1.55 5.21 15% 10% 24% 0.11 0.33 33.8 10.2% 1.55	2.32 52 104 60 96 1.49 5.13 15% 10% 22% 0.13 0.32 22.4 9.9% 1.49	2.50 54 114 56 113 1.42 5.04 15% 10% 20% 0.13 0.30 22.5 9.7% 1.42	2.66 54 117 52 119 1.37 4.97 14% 9% 18% 0.14 0.29 21.5 9.0% 1.37	2.80 54 116 52 118 1.34 4.99 14% 9% 17% 0.13 0.28 23.8 9.1% 1.34	3.05 54 116 52 118 1.31 5.03 14% 9% 16% 0.10 0.26 26.6 9.1% 1.31	3.50 54 116 52 118 1.30 5.07 14% 9% 16% 0.06 0.23 37.4 9.2% 1.30	4.1 5 11 1.31 5.12 149 99 169 0.0 0.1 82. 9.49 1.31

Balance Sheet Summary. USD min											Current Ratio	1.53	2.02	2.23	2.32	2.50	2.66	2.80	3.05	3.50	4.14
balance sheet summary. USD mill											Receivables Collection DOH (est.)	31	57	51	52	54	54	54	54	54	54
	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	Inventories Processing DOH (est.)	47	97	96	104	114	117	116	116	116	116
Current Assets	206	175	184	201	214	227	242	252	250	2//	Payment Period (est.)	54	91	68	60	56	52	52	52	52	52
	206	1/5	184	201	214			253	259	<b>266</b> 12	Cash Conversion Cycle	25	64	79	96	113	119	118	118	118	118
Cash & Equivalents	3	4	6	/	8	10	11	12	12												
Trade Receivables	69	56	55	61	62	63	64	66	67	69	Operating Efficiency Ratios										
Inventories	84	76	83	93	103	104	107	110	112	115	Total Asset Turnover	2.60	1.51	1.55	1.49	1.42	1.37	1.34	1.31	1.30	1.31
Other current assets	49	40	40	41	41	50	60	66	67	69	Fixed Asset Turnover	7.56	5.51	5.21	5.13	5.04	4.97	4.99	5.03	5.07	5.12
Fixed Assets	70	74	78	80	83	85	86	88	89	90	Operating Profitability Ratios										
PP&E. net	62	67	71	74	76	79	80	82	84	85	Operating Profit Margin	17%	16%	15%	15%	15%	14%	14%	14%	14%	14%
Other Fixed Assets	8	7	7	7	7	6	6	6	6	6	Net Income Margin	11%	11%	10%	10%	10%	9%	9%	9%	9%	9%
											ROE	56%	30%	24%	22%	20%	18%	17%	16%	16%	16%
Total Assets	276	249	261	282	297	312	328	341	349	356											
											Financial Risk Ratios										
Shareholders' Equity	137	159	175	191	207	222	238	254	270	287	Debt-to-Equity Ratio	0.20	0.07	0.11	0.13	0.13	0.14	0.13	0.10	0.06	0.01
Share Capital	25	25	25	25	25	25	25	25	25	25	Total Debt-to-Assets Ratio	0.50	0.36	0.33	0.32	0.30	0.29	0.28	0.26	0.23	0.19
Retained Eranings and Other	111	133	149	165	181	197	212	228	245	262	Interest Coverage	33.0	26.1	33.8	22.4	22.5	21.5	23.8	26.6	37.4	82.5
Current Liabilities	135	86	83	87	86	85	86	83	74	64	Du Pont Analysis										
ST Interest Bearing Debt	28	10	19	26	28	31	30	26	15	4	Net Income Margin	11.5%	11.0%	10.2%	9.9%	9.7%	9.0%	9.1%	9.1%	9.2%	9.4%
Trade Payables	87	60	51	49	45	46	47	48	49	51	Asset Turnover	2.60	1.51	1.55	1.49	1.42	1.37	1.34	1.31	1.30	1.31
Accrued Wages	2	2	2	2	2	2	2	2	2	2	ROA	30%	17%	16%	15%	14%	12%	12%	12%	12%	12%
Accrued Taxes	3	2	2	2	2	3	3	3	3	3	Leverage Multiplier	1.87	1.78	1.53	1.48	1.45	1.42	1.39	1.36	1.32	1.26
Other Current Liabilities	15	12	- 8	- 8	8	4	4	4	4	5	ROE	56.0%	29.5%	24.2%	21.9%	20.1%	17.6%	16.9%	16.3%	15.9%	15.5%
other our ent Elabilities	15	12	0	0	0	-	-	-	-	5											
LT Liabilities	5	4	4	4	4	4	4	4	4	5	Per Share Data. USD EPS	0.022	0.017	0.016	0.016	0.016	0.015	0.015	0.016	0.016	0.017
LT Interest Bearing Debt	-	-	-	-	-	-	-	-	-	-	DPS	0.022	0.017	0.016	0.016	0.009	0.015	0.015	0.018	0.016	0.017
Other LT	5	4	4	4	4	4	4	4	4	5	BPS	0.002	0.062	0.069	0.075	0.081	0.009	0.009	0.009	0.106	0.113
Total Liabilities & Equity	276	249	261	282	297	312	328	341	349	356											

### UAH/USD Exchange Rates

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average	5.10	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Year-end	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00

\* All numbers are projected to reflect true economics of the company.

Financials are prepared according to Ukrainian Accounting Standards



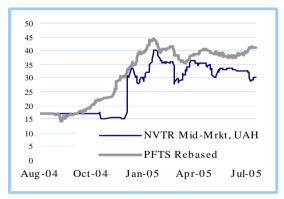
# Novomoskovsk Pipe (NVTR)

# BUY

Target price	USD 8.82
Market Information	
No of Shares, mIn	12.0
Par Value, USD	0.05
Market price, USD	5.75
MCap, USD mIn	69.0
Free Float, %	36.5%
FF MCap, USD mln	25.2

Stock Ownership	
Interpipe	63.5%
Minorities	36.5%
// _ <b>f</b>	3,632

# of employees

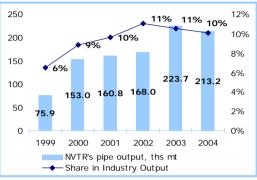


Profile: One of the largest producers of welded pipes for oil- and gas-

main pipelines in the CIS. Its pipes were used in the construction of the Odesa–Brody oil pipeline, the Druzhba gas-main pipeline and pipelines in Siberia and Turkmenistan. NVTR ranks #2 in Ukraine by pipe capacity (1,337 ths mt pipes annually). It also ranks 3<sup>rd</sup> by pipe output (10.1% share in 2004). NVTR purchases around 70% of strip for its pipes from domestic suppliers (Azovstal, Illich Metal, Zaporizhstal). Russian Novolipetsk Iron & Steel Mill and Severstal provide most of the balance.

**Products & Markets:** NVTR's core product is large-diameter (Ø1,020 mm) and middle-diameter (Ø159 - 529 mm) welded pipes for oil & gas and general purpose pipelines. Russian Transneft traditionally places orders for this type of pipe. Apart from Russia, the company's largest consumer is Turkmenistan. NVTR also supplies other CIS countries, specifically, Uzbekistan and Kazakhstan. Plant's installed capacity for manufacturing of large- & middle-diameter pipes comprises 98% of its total installed capacity. In addition, the plant produces welded pipes for water and gas steam communications, food and machine building industries. These are mostly small-diameter pipes (Ø20-75 mm).





NVTR is a monopoly producer of middle-diameter welded pipes in the CIS, as its competition focuses mostly on seamless middle-diameter pipes, which are more expensive. NVTR's pipes are certified according to UkrSEPRO and GOST systems as well as by the API and the TÜV NORD CERT Certifying Body.

In addition to pipes, NVTR produces enamelled and galvanized dishware which accounts for a minor portion of its revenues.

**Transfer pricing:** Like NITR, NVTR practices related-party transactions when a large share of profits is accumulated by trading companies associated with NVTR's controlling shareholder, Interpipe. We estimate that NVTR's reported sales are underestimated by at least 10%. Possible sale of Interpipe talked about vastly since year beginning should result in a substantial improvement of NVTR's reported financials to reflect its true sales and earnings.

	P/S	P/S True	P/E	P/E True	EV/ EBITDA	EV/ BITDA		Reported Sales	<b>True Sales</b> USD mln		TDA Irgin		let rgin
					LBITBA	True		USD mln	000 11111	Reported	True	Reported	True
2004	0.6	0.5	31.4	5.5	13.2	3.6	2004	121.3	136.1	4.5%	14.8%	1.8%	9.2%
2005E	0.5	0.4	5.5	2.7	3.3	1.7	2005E	151.7	170.1	13.6%	22.9%	8.3%	15.0%
2006E	0.4	0.4	6.6	2.9	3.8	1.8	2006E	157.0	176.1	11.2%	20.8%	6.6%	13.5%



# Novomoskovsk Pipe Fin. Statements\*

### Income Statement Summary, USD mIn

Balance Sheet Summary, USD mIn

Current Assets

Cash & Equivalents

Other current assets

Non-Current Assets

Shareholders' Equity

**Current Liabilities** 

Trade Payables

Accrued Wages

Accrued Taxes

LT Liabilities

Other LT

ST Interest Bearing Debt

Other Current Liabilities

LT Interest Bearing Debt

**Total Liabilities & Equity** 

Retained Earnings and Other

Other Fixed Assets

Trade Receivables

Inventories

PP&E, net

**Total Assets** 

Share Capital

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues	170	176	180	182	182	180	179	177	175	173
Change y-o-y	-	4%	2%	2%	0%	-1%	-1%	-1%	-1%	-1%
Cost Of Sales	(121)	(129)	(134)	(137)	(140)	(142)	(142)	(142)	(141)	(140)
Gross Profit	49	47	46	45	42	38	36	35	34	33
Other Operating Income/Costs, net	-	-	-	-	-	-	-	-	-	-
SG&A	(10)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(10)
EBITDA	39	37	35	34	31	27	26	24	23	23
EBITDA margin, %	22.9%	20.8%	19.4%	18.6%	17.1%	15.2%	14.4%	13.6%	13.3%	13.1%
Depreciation	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
EBIT	37	34	32	31	28	24	23	21	20	20
EBIT margin, %	21.5%	19.3%	17.9%	17.1%	15.5%	13.6%	12.7%	11.9%	11.6%	11.3%
Interest Expense	(0)	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(0)
Financial income/(expense)	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	-	-	-	-	-	-	-	-	-	-
PBT	36	34	32	30	27	24	22	20	20	19
Тах	(11)	(10)	(10)	(9)	(8)	(7)	(7)	(6)	(6)	(6)
Effective tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Net Income	25	24	22	21	19	17	15	14	14	13
Net Margin, %	15.0%	13.5%	12.4%	11.7%	10.5%	9.2%	8.6%	8.0%	7.9%	7.8%
Dividend Declared	7.6	14.3	13.4	12.8	12.5	11.6	11.5	10.9	10.6	10.4

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	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	25	24	22	21	19	17	15	14	14	13
Depreciation	2	3	3	3	3	3	3	3	3	3
Non-operating and non-cash items	0	0	(0)	0	(0)	0	0	0	(0)	0
Changes in working capital	(11)	(7)	(9)	(9)	(5)	(3)	(3)	(1)	(1)	1
Operating Cash Flow	17	20	16	15	17	16	15	16	16	17
Capital Expenditures, net	(5)	(5)	(5)	(4)	(4)	(4)	(3)	(3)	(3)	(3)
Other Investments, net	0	-	-	(2)	(0)	(0)	(1)	(1)	-	-
Investing Cash Flow	(5)	(5)	(5)	(6)	(4)	(4)	(4)	(4)	(3)	(3)
Net Borrowings/(repayments)	(2)	1	3	5	Ō	(0)	0	(1)	(2)	(3)
Dividends Paid	(8)	(14)	(13)	(13)	(12)	(12)	(12)	(11)	(11)	(10)
Other	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	(9)	(14)	(10)	(8)	(12)	(12)	(11)	(12)	(13)	(14)
Beginning Cash Balance	0	3	4	4	5	5	6	6	6	6
Ending Cash Balance	3	4	4	5	5	6	6	6	6	6
Net Cash Inflows/Outflows	3	1	1	0	1	0	(0)	(0)	(0)	0

### Ratio Analysis and Per Share Da

Cash Flow Statement Summary, USD mln

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Liquidity Ratios										
Current Ratio	2.65	3.08	3.29	3.08	3.30	3.53	3.66	3.97	4.48	5.44
Receivables Collection DOH (est.)	39	49	52	56	58	59	59	59	59	59
Inventories Processing DOH (est.)	32	44	55	68	79	87	95	100	105	106
Payment Period (est.)	39	43	41	40	39	38	37	36	36	36
Cash Conversion Cycle	32	50	66	84	98	108	117	123	127	129
Operating Efficiency Ratios										
Total Asset Turnover	2.62	2.14	1.92	1.72	1.57	1.49	1.42	1.38	1.35	1.33
Non-Current Asset Turnover	5.58	5.16	4.92	4.64	4.36	4.18	4.04	3.91	3.84	3.80
Operating Profitability Ratios										
Operating Profit Margin	21.5%	19.3%	17.9%	17.1%	15.5%	13.6%	12.7%	11.9%	11.6%	11.3%
Net Income Margin	15.0%	13.5%	12.4%	11.7%	10.5%	9.2%	8.6%	8.0%	7.9%	7.8%
ROE	51.8%	37.0%	30.3%	25.9%	21.4%	17.3%	15.4%	13.7%	12.9%	12.3%
Financial Risk Ratios										
Debt-to-Equity Ratio	0.02	0.02	0.06	0.11	0.10	0.10	0.09	0.08	0.06	0.03
Total Debt-to-Assets Ratio	0.23	0.21	0.22	0.23	0.22	0.21	0.20	0.18	0.17	0.14
Interest Coverage	195.8	252.5	100.9	41.3	31.1	29.9	29.9	30.9	37.5	59.2
Du Pont Analysis										
Net Income Margin	15.0%	13.5%	12.4%	11.7%	10.5%	9.2%	8.6%	8.0%	7.9%	7.8%
Asset Turnover	2.62	2.14	1.92	1.72	1.57	1.49	1.42	1.38	1.35	1.33
ROA	39.2%	28.9%	23.8%	20.1%	16.6%	13.6%	12.2%	11.1%	10.7%	10.4%
Leverage Multiplier	1.32	1.28	1.27	1.29	1.29	1.27	1.25	1.24	1.21	1.18
ROE	51.8%	37.0%	30.3%	25.9%	21.4%	17.3%	15.4%	13.7%	12.9%	12.3%
Per Share Data, USD										
Avg # of Shares, mln	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
EPS	2.123	1.980	1.854	1.775	1.600	1.379	1.280	1.184	1.151	1.122
DPS	0.637	1.188	1.113	1.065	1.040	0.965	0.960	0.912	0.886	0.864
BPS	4.959	5.751	6.493	7.203	7.763	8.176	8.496	8.768	9.033	9.291

### UAH/USD Exchange Rates

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Average	5.10	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Year-end	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00

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\* All numbers are projected to reflect true economics of the company.

Financials are prepared according to Ukrainian Accounting Standards

2005E 2006E 2007E 2008E 2009E 2010E 2011E 2012E 2013E 2014E

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# **Dnipropetrovsk Pipe (DPTR)**

# **Not Rated**

Target price	USD 86.65
Market Information	
No of Shares, mIn	1.06
Par Value, USD	16.28
Market price, USD	N/A
MCap, USD mln	N/A
Free Float (est.), %	5%
FF MCap, USD mln	N/M

Stock Ownership		
IUD group (est.)	95%	
Minorities	5%	
# of employees	4,371	

**Profile:** Ranks 4<sup>th</sup> in Ukraine by design capacity (583 ths mt of pipes annually) and 5<sup>th</sup> by output (8.1% share in 2004).

Most steel feedstock (strip for welded pipes and billets for seamless pipes) is purchased from domestic suppliers (strip from Zaporizhstal and MMK Illich Metal, tubular billets from DMK Dzerzhynskogo and DMK Petrovskogo).

**Products & Markets:** The company has a lesser exposure to OCTG segment than its peers NITR, NVTR and HRTR. Therefore, its pipes are relatively cheaper and markets are more diversified industry-wise. DPTR caters to construction industry, agriculture and utilities (boiler, water & gas pipes), machine building and petrochemical industry. Although also export-driven, it sells a larger portion of its pipes domestically than NITR, HRTR and NVTR. DPTR's product range includes:

### hot-rolled seamless steel pipes

for oil refining and petrochemical industry; for gas tube lines of gas lift systems; for steam-boilers and conduits

welded pipes

general purpose and water and gas steel pipes

Cold-drawn seamless steel pipes

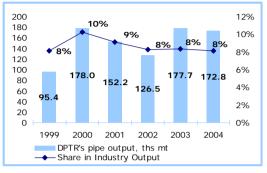
for oil refining and petrochemical industry; for shipbuilding; precision steel pipes; square and rectangular profile seamless steel pipes; bimetallic tubes for bearings and machine parts.

**Transfer pricing:** DPTR sells a portion of its output through a number of traders associated with its holding company, IUD. We estimate that DPTR's sales are under-reported by ~10%, a significantly lower percentage than that for HRTR or NITR.

**CapEx**: DPTR embarked on a major technical re-equipment in 2004 with a total cost of USD 2.6 mln. It will be completed in 2005, to which end USD 1.0 mln will be spent this year. In addition, in 2005-2006 the company will reconstruct its rolling and reduction mills, which will allow DPTR to expand its product assortment. These works will be primarily financed by debt. DPTR plans to raise EUR 6-8 mln in loans to accomplish this project.

	Reported Sales	<b>True Sales</b> USD mln		ITDA argin		et rgin
	USD mln	000 11111	Reported	True	Reported	True
2004	85.2	103.7	1.1%	20.3%	0.4%	12.8%
2005E	130.8	144.8	14.8%	21.9%	8.8%	14.7%
2006E	135.4	149.9	11.3%	18.7%	6.0%	12.1%







# **Dnipropetrovsk Pipe Fin. Statements\***

### Income Statement Summary, USD mIn

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Revenues	145	150	154	157	157	155	154	152	152	152
Change y-o-y	-	4%	3%	1%	0%	-1%	-1%	-1%	0%	0%
Cost Of Sales	(103)	(111)	(116)	(118)	(120)	(120)	(120)	(120)	(120)	(120)
Gross Profit	42	39	39	39	36	35	33	32	32	32
Other Operating Income/Costs, net	-	-	-	-	-	-	-	-	-	-
SG&A	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
EBITDA	33	30	30	29	27	26	24	23	23	23
EBITDA margin, %	23.0%	19.9%	19.2%	18.8%	17.3%	16.5%	15.7%	14.9%	14.9%	14.9%
Depreciation	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
EBIT	32	28	28	27	25	23	22	20	20	20
EBIT margin, %	21.9%	18.7%	17.9%	17.5%	16.0%	15.1%	14.3%	13.4%	13.4%	13.4%
Interest Expense	(1)	(2)	(2)	(3)	(2)	(2)	(2)	(1)	(1)	(1)
Financial income/(expense)	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	-	-	-	-	-	-	-	-	-	-
PBT	30	26	25	25	23	21	20	19	19	20
Тах	(9)	(8)	(8)	(7)	(7)	(6)	(6)	(6)	(6)	(6)
Effective tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Net Income	21	18	18	17	16	15	14	13	13	14
Net Margin, %	14.7%	12.1%	11.5%	11.0%	10.1%	9.7%	9.2%	8.8%	8.9%	9.0%
Dividend Declared	6.4	9.1	8.9	8.6	9.5	9.0	8.5	8.6	8.8	8.9

	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Current Assets	63	67	69	71	73	72	72	73	74	74
Cash & Equivalents	2	3	4	4	5	5	5	5	5	5
Trade Receivables	22	22	23	24	25	25	25	24	24	24
Inventories	31	33	34	34	34	34	34	35	36	36
Other current assets	8	8	8	9	9	9	8	8	8	8
Non-Current Assets	25	27	29	31	32	33	33	33	33	33
PP&E, net	20	23	25	27	28	29	30	30	30	30
Other Fixed Assets	4	4	4	4	4	4	4	3	3	3
Total Assets	88	94	98	102	105	105	105	106	107	108
Shareholders' Equity	18	27	36	44	51	57	62	67	72	77
Share Capital	16	16	16	16	16	16	16	16	16	16
Retained Earnings and Other	1	11	19	28	34	40	46	51	55	60
Current Liabilities	69	65	60	54	50	44	38	33	30	25
ST Interest Bearing Debt	13	14	20	20	19	18	15	11	7	2
Trade Payables	25	24	23	20	17	14	12	12	12	12
Accrued Wages	1	1	1	1	1	1	1	1	1	1
Accrued Taxes	0	0	0	0	0	0	0	0	0	0
Other Current Liabilities	30	25	15	13	13	11	9	9	9	9
LT Liabilities	-	-	-	-	-	-	-	-	-	-
LT Interest Bearing Debt	-	-	-	-	-	-	-	-	-	-
Other LT	-	-	-	-	-	-	-	-	-	-
Total Liabilities & Equity	88	94	98	102	105	105	105	106	107	108
UAH/USD Exchange Rates										
	2005E				2009E			2012E	2013E	2014E
Average	5.10	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Year-end	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00

\* All numbers are projected to reflect true economics of the company.

Financials are prepared according to Ukrainian Accounting Standards

### Cash Flow Statement Summary, USD min

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	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Income	21	18	18	17	16	15	14	13	13	14
Depreciation	2	2	2	2	2	2	2	2	2	2
Non-operating and non-cash items	(0)	(0)	(0)	(0)	0	0	0	0	0	0
Changes in working capital	(21)	(8)	(13)	(7)	(5)	(4)	(3)	(1)	(2)	-
Operating Cash Flow	2	12	7	13	13	13	14	15	14	16
Capital Expenditures, net	(5)	(4)	(4)	(4)	(3)	(3)	(3)	(2)	(2)	(2)
Other Investments, net	(1)	-	-	(1)	-	-	-	-	-	-
Investing Cash Flow	(5)	(4)	(4)	(4)	(3)	(3)	(3)	(2)	(2)	(2)
Net Borrowings/(repayments)	11	2	6	1	(0)	(1)	(3)	(4)	(3)	(4)
Dividends Paid	(6)	(9)	(9)	(9)	(10)	(9)	(9)	(9)	(9)	(9)
Other	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	5	(7)	(3)	(8)	(10)	(10)	(11)	(12)	(12)	(13)
Beginning Cash Balance	1	2	3	4	4	5	5	5	5	5
Ending Cash Balance	2	3	4	4	5	5	5	5	5	5
Net Cash Inflows/Outflows	1	ĩ	1	0	Ō	Ō	(0)	(0)		Ō

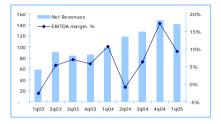
### Ratio Analysis and Per Share Da

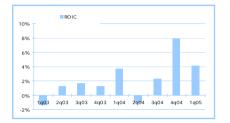
	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Liquidity Ratios										
Current Ratio	0.90	1.00	1.11	1.23	1.34	1.49	1.69	1.87	2.08	2.38
Receivables Collection DOH (est.)	52	54	54	54	57	59	59	59	58	58
Inventories Processing DOH (est.)	85	103	104	104	103	102	101	102	106	109
Payment Period (est.)	78	81	74	67	57	47	40	37	37	37
Cash Conversion Cycle	58	77	83	91	102	114	120	124	128	130
Operating Efficiency Ratios										
Total Asset Turnover	1.93	1.65	1.61	1.57	1.52	1.48	1.46	1.44	1.43	1.41
Non-Current Asset Turnover	6.51	5.80	5.55	5.26	4.97	4.79	4.66	4.57	4.56	4.56
Operating Profitability Ratios										
Operating Profit Margin	21.9%	18.7%	17.9%	17.5%	16.0%	15.1%	14.3%	13.4%	13.4%	13.4%
Net Income Margin	14.7%	12.1%	11.5%	11.0%	10.1%	9.7%	9.2%	8.8%	8.9%	9.0%
ROE	211.9%	81.5%		43.2%	33.4%	27.9%	23.8%	20.6%	19.4%	18.4%
NOE	211.770	01.570	50.770	40.270	55.470	27.770	23.070	20.070	17.470	10.470
Financial Risk Ratios										
Debt-to-Equity Ratio	0.82	0.60	0.63	0.52	0.46	0.39	0.32	0.24	0.18	0.11
Total Debt-to-Assets Ratio	0.80	0.71	0.64	0.56	0.52	0.46	0.41	0.37	0.33	0.29
Interest Coverage	26.0	14.0	11.9	10.0	10.8	11.5	13.0	14.2	17.4	23.4
Du Pont Analysis										
Net Income Margin	14.7%	12.1%	11.5%	11.0%	10.1%	9.7%	9.2%	8.8%	8.9%	9.0%
Asset Turnover	1.93	1.65	1.61	1.57	1.52	1.48	1.46	1.44	1.43	1.41
ROA	28.5%	20.0%	18.5%	17.3%	15.4%	14.3%	13.5%	12.6%	12.6%	12.7%
Leverage Multiplier	7.44	4.08	3.07	2.50	2.17	1.96	1.76	1.63	1.54	1.45
ROE	211.9%	81.5%	56.7%	43.2%	33.4%	27.9%	23.8%	20.6%	19.4%	18.4%
Per Share Data, USD										
Avg # of Shares, mln	1.06	1.06	1.06	1.06	1.06	1.06	1.06	1.06	1.06	1.06
EPS	20.199	17.222	16.811	16.379	15.037	14.194	13.427	12.604	12.755	12.931
DPS	6.060	8.611	8.406	8.189	9.022	8.516	8.056	8.193	8.291	8.405
BPS	16.814	25.425	33.831	42.020	48.035	53.712	59.083	63.495	67.959	72.485



# **Ratio Analysis Quarter By Quarter**

### NITR: profitability improved, debt grew in 2004





Revenue, margins and ROIC grew in 2004. We attribute this to two factors:

- Interpipe's attempt to reduce transfer pricing and make its business more transparent;

-High ferroalloy prices, as NITR exported ferroalloys produced by Interpipe's another company, Nikopol Ferroalloy.





Despite a general growing trend, profitability measures were volatile in 2003 - 2004

Debt / Assets ratio kept growing throughout 2003 – 2004, as NITR borrowed funds from its holding company Interpipe to engage in acquisitions of Nikopol Ferroalloy and Kryvorizhstal as a Variable Interest Entity

# 40% Gross Margin 30% EBIT Margin 20% 10% 10% 100 10% 2004 10% 2004 10% 2004 10% 2004 20% 2004 10% 2004 20% 2004 20% 2004



Debt / Assets ratio fluctuated around the level of 30%, which indicates the company's financial stability.

In 3Q04 - 1Q05, Debt / Assets ratio exhibited a declining pattern, but we believe it will grow by year end due to new financial debt HRTR will assume in 2005 to finance its CaPEx.



share of HRTR's profits. finan

### Financials according to Ukrainian Accounting Standards; quarterly ROIC is not annualized

## HRTR: profitability and debt/assets volatile



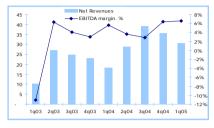


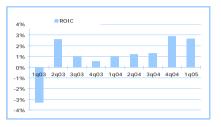
Despite growing quarterly revenues, in 2004 profitability measures were vastly volatile and generally lower than in 2003.

Lower profitability has to do with HRTR operating under tolling with Azovstal, its key strip supplier, who accumulated a large share of HRTR's profits

# Ratio Analysis Quarter By Quarter(Cont-ed)

### NVTR: profitability volatile, debt flat





In 2004, the company's revenue grew and profitability improved. On a quarterly base, however, profitability was highly volatile in 2003 – 2004.

In our view, top-line improvement was due more to Interpipe cutting its transfer pricing than just to favorable market for pipes.

### DPTR: profitability on the upward trend, debt/assets ratio high and volatile





Revenue exhibited a clear upward trend on the back of a favorable market situation in 2004. Profitability metrics slightly improved.

Apparently, efforts by the company's owner, IUD group, to recover the company from its previously near-to-bankrupt state are starting to pay off.

Positive market outlook in 2005 should result in both top-line and bottom-line improvements this year.



Gross Margin

EBIT Margin

2q03 3q03 4q03 1q04 2q04 3q04

Net Margir

20%

15%

10%

5%

0%

-5%

-10%

-15%

-20%



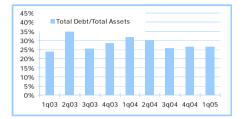
The company's Debt / Assets ratio is enormously high.

This is explained by the fact that the company bore losses up until 2004, which resulted in a negative equity.

We expect DPTR's financial debt to increase in 2005, as the company will borrow to finance its CapEx.



Financials according to Ukrainian Accounting Standards; quarterly ROIC is not annualized



The company appears financially stable, as indicated by its flat Debt / Assets ratio.

# **Concorde Capital**

Concorde Capital 72 Chervonoarmiyska St. 2nd entry, 6th floor Kiev 03150, UKRAINE	Tel +380 44 206 8370 Fax: +380 44 206 8366 www.concorde.com.ua office@con-cap.com
CEO Igor Mazepa	im@con-cap.com
Chief Operating Officer John David Suggitt	js@con-cap.com
<b>Director, International Equity Sales</b> Peter Bobrinsky	pb@con-cap.com
Equity Sales Marina Martirosyan Lucas Romriell Alexis Stenbock-Fermor	mm@con-cap.com lr@con-cap.com asf@con-cap.com
<b>Director of Research</b> Konstantin Fisun, CFA	kf@con-cap.com
Utilities (Telecoms, Energy) Alexander Paraschiy	ap@con-cap.com
<b>Oil &amp; Gas, Pipes, Non-Ferrous Metals</b> Andriy Gostik	ag@con-cap.com
Ferrous Metals Viktor Koval	vk@con-cap.com
<b>Machine Building, Chemicals</b> Olga Pankiv	op@con-cap.com
Banking & Macroeconomics Alexander Viktorov	av@con-cap.com

