



## Alchevsk Coke Recommendation Alert

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**28 Sept 2005**  
**Pre-Issue Price**  
Market: USD 0.28  
Target: USD 0.55

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**Post-Issue Price**  
Equivalent Market: USD 0.066  
Target: USD 0.0855

The decision of Alchevsk Coke's (**ALKZ: BUY**) shareholders on September 23 to increase the company's charter fund by 14.2 times has led us to revise our target for the stock.

The issuance of 2.8 mln in ordinary shares at the subscription price of USD 0.05 will amount to proceeds of USD 138.6 mln, which, the company claims, will be used to finance the construction of a new coke battery with a capacity of 1 mln mt. The project's total cost is estimated at USD 215 mln. Alchevsk Coke's holding company, IUD, is intent on investing to expand capacity and improve cost efficiency. We believe that group-wise, the project is economically justified, as the addition of the new battery will enable Alchevsk Coke to fully meet the coke needs of IUD's another asset, Alchevsk Iron & Steel, and allow the latter to replace natural gas with coke gas. Also, the increase in coke capacity will lead to the growth of Alchevsk Coke's sales.

We have made a technical adjustment to our target to account for the number new of shares the company will have. The new target, USD 0.0855, provides for an upside of 29%, although the pre-issue upside was 98%. Our adjustment does not factor in the additional value (NPV) from the investment project, as it is not clear yet how much of the value will be transferred to IUD as a group and how much will be retained by Alchevsk Coke itself. Be ready to see the target upgraded when we possess more specific information. We maintain our BUY recommendation.

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