



Ingulets GOK

Recommendation Alert

BUY

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Market Price
USD 0.28

Target Price
USD 0.90

At their EGM On October 4, 2005, Ingulets GOK's (**IGOK: BUY**) shareholders decided to annul the decision of a previous AGM, held on April 12, 2005, and not transform the company into a Limited Liability Company. This move will return Ingulets GOK to the traded universe. Therefore, we reinstate our BUY recommendation for this stock.

Profile: Ingulets GOK is Ukraine's largest producer of iron ore concentrate. It operates cost-efficient open-pit mines. The company is located in Ukraine's largest iron ore basin – Kryvyi Rig. IGOK's designed capacity is 34 mln mt of crude ore and 14 mln mt of concentrate. Its capacities are loaded at almost 100%. The company has no pelletizing or agglomerating capacities and mostly delivers its concentrate to Ukrainian steel mills with their own agglomerating factories: Mariupol Steel, (**MMKI: SELL**), Azovstal (**AZST: SELL**) and Zaporizhstal (**ZPST: SELL**).

Financials: Despite growing prices for iron ore, IGOK did not improve its profitability in 2004. We believe this is because the company engages in transfer pricing, which significantly distorts its actual profitability.

CapEx: The company invested USD 41.8 mln in 2004 and plans to increase its capital expenditures to USD 56.5 mln in 2005. In 2003, IGOK opened first production line for finishing iron ore concentrate, with a capacity of 3 mln mt, which enabled it to increase iron content 69-70%. The introduction of a second production line with a similar capacity is planned for 2006. The company is considering installing its own electric arc furnaces for steel production. IGOK also plans to produce direct reduced iron, which will be used as a feedstock for its electric furnaces.

Please find more on Ukrainian iron ore mines in our report from May 27, 2005.

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