Ukraine / Non-Ferrous Metals

ZALK

An Overlooked Opportunity

Buy

06 Sep 2005 — **USD 0.17**

12m Target — **USD 0.30**

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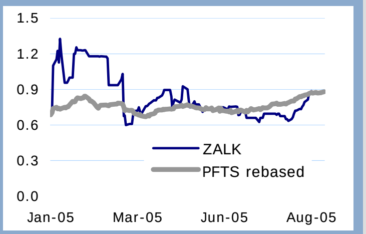
ZALK Mid-Market, UAH



Market Information	
PFTS	ZALK
No of Shares, mln	**622.7**
Market price, USD	**0.17**
YTD H/L, USD	0.11/0.25
MCap, USD mln	**105.9**
Free Float, %	**2.5%**

Stock Ownership	
SUAL	97.5%
Minorities	2.5%

Ratios 2004	
EBITDA Margin	12.7%
EBIT Margin	10.8%
Net Margin	4.4%
Net Debt/Equity	0.42

The Zaporizhzhya Aluminum Mill (ZALK) has long been neglected by investors due to its ambiguous ownership status. However, ownership issues surrounding ZALK have been resolved and the company no longer faces any risk of re-privatization. We believe that the end of this conflict will lead to a further reduction of ZALK's electricity tariffs in 2006, which will offset a tariff increase introduced by the government in February'05. We view the stock as an overlooked opportunity and initiate its coverage with a 12-month target price of USD 0.30 per share, a 76.5% upside. BUY.

A Domestic Monopoly Owned By A Global Player. ZALK is the only full-cycle aluminum producer in Ukraine, and has no domestic competition. The company derives most of its revenues from export markets, where its competition is global aluminum majors. The company has been able to capitalize on its historical ties with a number of Russian consumers in machine building and also benefits from being able to use the distribution network of its controlling shareholder, Russia's second largest aluminum producer SUAL.

Riding A Global Price Wave. A surge in aluminum prices (20% in 2004 on the LME) boosted ZALK's sales in 2004 by 27.3%. A 7% yoy increase in average prices in 7M05 and further growth projected until the end of the year means the company's sales should increase by no less than 8% this year. In addition, unlike many other metal companies, **ZALK does not seem to practice price transferring schemes**.

Ownership Issue Resolved Successfully. In our opinion, ZALK no longer faces any threat of re-privatization. A long-standing dispute between the government and ZALK's owners over the validity of the privatization of a 68% stake in the company in 2001 was reconciled in June. ZALK's move to dissociate itself from Interpipe was key in helping resolve the company's ownership issue. Interpipe, had been in the company's management structure and on Supervisory Board.

Electricity Price Still A Concern, But Outlook Optimistic. The government ended ZALK's preferential treatment in terms of electricity supply in February 2005 by canceling differentiated tariffs and putting the company on regular tariffs (a 34.4% mom tariff increase). However, when the conflict between ZALK and the government ended, its tariffs in July 2005 were reduced by 15.5% mom, to US¢ 3.4 per 1 kWh. ZALK is currently negotiating with the government to be placed back on the differentiated tariff scheme. This would hedge the company against any aluminum price drops. We are optimistic that in 2006, ZALK will reach an agreement with the government on lower electricity tariffs.

KEY FINANCIAL DATA, USD mln

	Net Revenue	EBITDA	Net Income	DPS, USD
2004	218.0	27.8	9.7	0.000
2005E	235.0	9.4	1.2	0.000
2006E	230.5	26.5	12.0	0.000
Spot Exchange Rate		5.05		

KEY RATIOS

	EV/S	P/E	EV/EBITDA	Div Yield
2004	0.63	10.94	4.94	0.0%
2005E	0.79	89.96	19.67	0.0%
2006E	0.70	8.81	6.08	0.0%

Ownership Issues: Conflict Resolved

History Of Privatization

AvtoKRAZ's failed bid for ZALK's privatization tender set the stage for ownership conflict.

AvtoVAZ-Invest, a company associated with ZALK's largest customer, the Russian car maker AvtoVAZ, privatized a 68.01% in ZALK in early 2001. The stake was initially put up for sale by the state in 2000. The two major contenders for it were an AvtoKrAZ subsidiary KrAZ (controlled by the local business group Finance & Credit) and Russia's AvtoVAZ-Invest. KrAZ offered the highest price, but was unable to confirm that it actually had the funds needed. Thus, after some red tape AvtoVAZ-Invest was awarded the tender. AvtoVAZ-Invest paid USD 69.1 mln for the 68.01% stake in the mill.

By failing to fulfill their Investment commitments, ZALK's new owners found themselves at odds with the government.

Interpipe used some obscure arrangements to engaged in ZALK's management.

When it acquired ZALK, AvtoVAZ-Invest also assumed investment commitments of USD 200 mln to be fulfilled within five-year time frame (see previous page). However, the new owners used a dubious court ruling to avoid fulfilling their investment requirements. At that time, AvtoVAZ-Invest's position was strong due to its cooperation with Interpipe group who had an influential lobby in the government. An Interpipe representative was elected to ZALK's Supervisory Board in 2001, and Interpipe was one of ZALK's gas suppliers. It was also rumored Interpipe had an option for 17.6% of ZALK's shares within the 68.01% privatized stake. This provided the company's owners with strong political backing, which kept the state from canceling the privatization despite the unfulfilled investment commitments.

SUAL assumed ownership of ZALK in 2004.

In 1H04, the Russian aluminum major SUAL acquired 95% of AvtoVAZ-Invest and obtained control of ZALK. In July 2004, SUAL representatives occupied three seats on ZALK's Supervisory Board. Three other seats were given to Interpipe representatives. ZALK's CEO was also replaced by a SUAL representative, and Interpipe appointed a number of key managers. In September 2004, two companies, Arlan-Met and Zaporizhalumintorg, both related to AvtoVAZ-Invest, acquired a 25% stake in ZALK from the state for USD 7.3 mln. The remaining 4.5% of the shares were bought from minorities. This gave SUAL/ Interpipe control of 97.5% in the company.

In early 2005, ZALK ran into political risk due to its privatization issues and ties with Interpipe.

The company entered 2005 facing a huge political risk due to the change in the political climate in Ukraine. With the arrival of Ukraine's new authorities, SUAL's strategic alliance with Interpipe proved dangerous instead of useful, and the issue of investment commitments resurfaced. In addition, a long-time rival Finance & Credit group reignited its legal suits against SUAL's ownership of ZALK.

To secure control over ZALK even if the state were to take back SUAL's 68.01% stake in the company, ZALK's new owners decided to conduct an additional share issue in February 2005 that would have increased the company's charter fund two-fold. This would have allowed them to kill two birds with one stone: first, retain a 50%+1 controlling stake in the company by subscribing for the additionally issued shares, and second, finance the investment program the state had been insisting on since 2001 with the issue proceeds.

By July 2005, SUAL resolved its conflict with the government.

In the end however, SUAL's shareholders managed to come to terms with Ukraine's new government, and the share issue became unnecessary. Subscription for the new shares did not take place formally due to a court ruling, and the issue was not registered. The company publicly dissociated itself from Interpipe by replacing Interpipe's representatives on its Supervisory Board with SUAL representatives in July 2005.

The fact that ZALK received a green light from the new government barely registered on the market's radar. The company's share price was not affected by the news of ZALK's additional share issue cancellation. Although the restraining factor was a jump in electricity tariffs for ZALK as discussed below, the market participants apparently did not factor in high likelihood of the return of preferential electricity tariffs already in 2006. This in our view, signifies that **the stock has been clearly overlooked**. Although future additional share issues by ZALK are quite possible in light of the company's investment needs, we do not see any threats of intentional minority holding dilutions by SUAL. With the major ownership conflict resolved, ZALK's corporate governance is set for improvements.

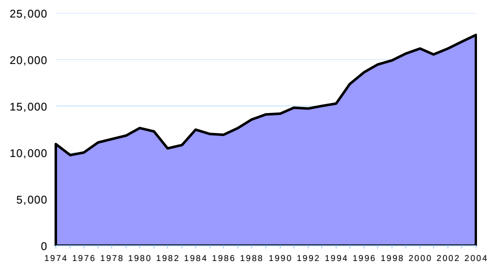
Aluminum Industry Booming Worldwide

The global aluminum industry is on the rise…

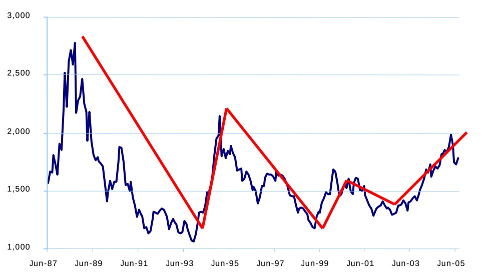
The global aluminum industry is currently gaining momentum due to high demand, especially from China. Despite high production volumes, accelerating aluminum consumption continues to drive prices, which are now near their peak. In 2004, average aluminum prices on the LME grew 20%.

As price dynamics for primary aluminum suggests, prices have been fluctuating in increasingly narrower ranges. In addition, the most recent cycle suggests that an upward trend in prices is likely to be longer than before, which is due to China's growth effect, as explained below.

Aluminum Production*, ths mt



Aluminum Cash Prices On The LME, USD/mt



**Production data does not include data for China, South Korea, North Korea, Azerbaijan, Iran, Herzegovina, Croatia, Poland or Romania*

Source: The International Aluminum Institute; LME

Global aluminum production increased by ~6% last year, to 29.8 mln mt. Excluding China, production growth last year totaled 3%, and global aluminum output was 22.6 mln mt.

…with China in the driver's seat.

Over the last 31 years, world aluminum output, excluding China, has grown at the 2.7% CAGR, but during the last five years this growth slowed down to a low of 1.8% per year. However, including China, five-year CAGR of global aluminum production was an impressive 4.6% thanks to China's average annual growth of 20.5% for the period.

In 2004, the global market for primary aluminum reached USD 52.2 bln. In monetary terms, it posted a CAGR of 8.5% in 2000 – 2004 primarily due to a rebound in 2003-2004. Consumption volumes posted a CAGR of 5.7% between 2000 – 2004 and reached 30.3 mln mt in 2004, on the back of demand from the Asia-Pacific region, which was expanding at double-digit rates.

Worldwide growth will continue in the medium term due to expansion in the Asia-Pacific region.

In the medium term, global growth is expected to be between 3.5% - 5% due to the depletion of existing bauxite deposits. Coupled with growing demand, this should keep prices high for the next two years. Due to the fact that primary aluminum reserves on exchanges fell to a low of 553.5 ths mt recently, aluminum prices may reach USD 1,980 per mt by the end of the year. However, after two years the market should stabilize and prices will return to the sustainable levels of USD 1,500 – 1,600 per mt. According to Datamonitor, the primary aluminum market is projected to reach USD 60.9 bln in 2009 growing at a CAGR of 3.2% in 2004 – 2009, and global consumption will comprise 37.8 mln mt, a CAGR of 4.5%.

Domestic Aluminum Monopoly

A strategically located domestic aluminum monopoly…

The Zaporizhzhya Aluminum Mill (ZALK) is the only aluminum smelter in Ukraine. It is a full-cycle producer able to meet its aluminum production needs with in-house alumina. The mill is conveniently located near major rail, motor and water (The Dnieper River – The Black Sea) transportation links.

In addition to ZALK, there are three other large players on the Ukrainian aluminum market: The Mykolayiv Alumina Plant (MAP) owned by Russian aluminum major RUSAL, JV Intersplav and JV Obimet. MAP produces alumina and competes with ZALK in this segment, but this competition is not significant. Intersplav makes aluminum alloys from scrap and slag and its capacities (90 ths mt of alloys annually) are only 30% loaded due to its lack of feedstock. Obimet engages in the same business as Intersplav producing aluminum alloys from scrap.

…set to preserve its market position in the foreseeable future…

We do not envision any new competion on Ukraine's primary aluminum market in the foreseeable future. It is doubtful RUSAL will construct an aluminum plant in Kharkiv oblast to fulfill its investment commitments assumed at MAP's privatization. The plant would have a capacity of 200 ths mt of aluminum annually (twice as much as ZALK's design capacity) and cost RUSAL ~USD 500 mln. However, RUSAL was only ready to engage in this project if the Ukrainian government would set preferential electricity tariffs for the newly constructed smelter, which is highly unlikely. Moreover, RUSAL negotiated with both the old and the new governments to increase Map's alumina capacities (from 1.3 mln mt to 1.6 mln mt per year by 2008) instead of constructing an aluminum plant Therefore, we believe ZALK will preserve its domestic monopoly status.

…under the umbrella of SUAL Group.

In export markets, ZALK's competition is global aluminum majors from Russia, Europe, the USA and China, whose production levels range from 100 ths mt to over 600 ths mt annually. Its affiliation with SUAL Group gives the company the additional competitive advantages of an established distribution network and a regular supply of raw materials.

Major Products

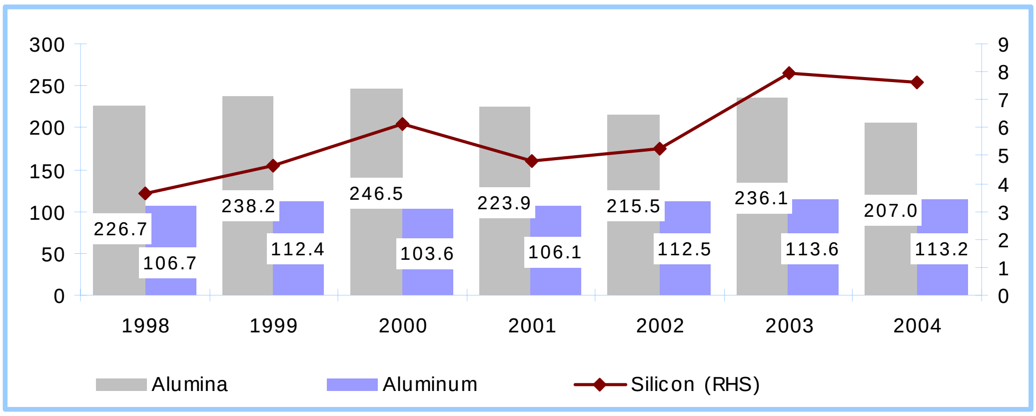
Primarily aluminum and alloys for machine building…

The company's main products are primary aluminum (cylindrical ingots and bars) used in manufacturing car engines, and alumina used in aluminum production, the chemical industry, and abrasives. In addition, ZALK produces aluminum alloys for engineering and value-added aluminum products such as aluminum wire rods, strip and profiles. The mill is the sole producer of crystal silicon in Ukraine. In November 2003, the company started manufacturing ferrosilicon under an agreement with Nikopol Ferroalloy.

…as well as the feedstock for its production, alumina,…

The mill has a design capacity of 110 ths mt of primary aluminum annually, and has been operating with a nearly 100% capacity load for the past several years. It takes approximately two tons of alumina to smelt one ton of aluminum metal, and ZALK has been keeping its alumina output at a level sufficient to cover its smelting needs. The company is able to produce ~265 ths mt of alumina a year.

ZALK's Output, ths mt



Source: Company data

…coupled with value added products such as strip…

ZALK's rolled aluminum strip workshop has a capacity of 30.4 ths mt a year. The strip is a semi-finished product that can be used as a feedstock in the manufacturing of value-added flat aluminum products such as sheet or foil.

…and wire rods are all in the product basket.

ZALK's wire rod capacities can produce 15 ths mt annually and are operated by the Zakal company, in which ZALK owns a 51.8% stake. ZALK co-founded Zakal with Zaporizhtransformator in 1999. Aluminum wire rod is a value-added product used as electrotechnical material by domestic and foreign cable companies.

In addition to its core capacities, ZALK also possesses ancillary units that complement its primary aluminum production. One of them is Prydniprovsky department (located in Svitlovodsk, Kirovograd oblast, more than 200 km from Zaporizhzhya) which manufactures aluminum profiles and industrial goods made of profiles for the construction industry. The other is Glukhiv open quartzite pit (Sumy oblast, ~440 km from Zaporizhzhya) whose quartzite is used for silicon and silicon alloy production.

Case Study: Aluminum Foil Plant

The state owned ZALK prior to 2001 and planned to develop full cycle foil production at ZALK's capacities. In 1993 it signed a contract with Fata (Italy) to create an aluminum foil plant. As part of the first stage of this project, in 2000 ZALK launched an aluminum strip workshop. Its construction cost the company USD 11.5 mln. Yet, due to a drop in demand the workshop was mothballed and did not resume production until March 2004.

ZALK invested ~USD 25-30 mln from its earnings into the aluminum foil plant, the construction of which, has never been completed. Additional equipment needed to complete the construction was purchased on credit from Fata for USD 76.45 mln. The state guaranteed this credit. After ZALK's privatization in 2001, disputes between ZALK's new owners and the state took place as to who had to repay the debt assumed to purchase the foil production equipment. In 2004, a court ruled that the equipment belonged to the state. Thus, the credit and the respective assets do not appear on ZALK's balance sheet.

The aluminum foil market is a new opportunity for ZALK.

Although ZALK's capacity would surpass domestic needs, foil production is an attractive business with promising export opportunities. The plant would target European aluminum foil market and cater to packaging companies servicing confectionery and tobacco industries.

ZALK's owners and the state are now discussing the creation of a JV on the basis of the semi-constructed foil plant. Should they agree, the state would contribute the equipment it purchased from Fata, and ZALK would complete the construction and operate the plant. ZALK's owner, SUAL, would likely receive favorable treatment from the government were it to engage in this project. This would significantly mitigate the political risk ZALK has been facing since early 2005. Therefore, we anticipate the launch of the JV by 2007.

Key Markets

Companies in the machine building or automotive segment are key consumers of ZALK's products.

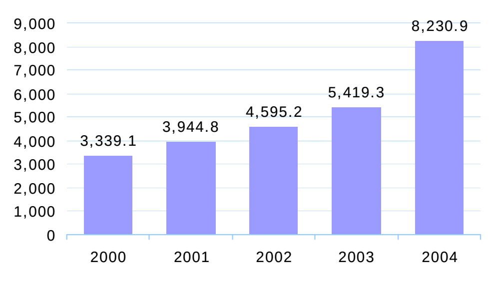
The company's products enjoy a stable demand due to high quality and attractive pricing. ZALK's order book is filled by domestic and foreign companies who either operate in or cater to the machine building, transport or chemical industries. The Russian car maker AvtoVAZ is ZALK's key consumer. Other companies that use ZALK's products include: the Russian automotive majors Gorky Motor Works (GAZ), Moscow Motor Works (ZIL) and the Ukrainian companies AvtoZAZ, Avtramat, Vinnytsia Automotive & Tractor Assembly Plant, Lviv Bus Plant, Kharkiv Malyshev Plant, Brovary Aluminum Construction Plant, Azovkabel and Pivdenkabel.

Exports dominate sales.

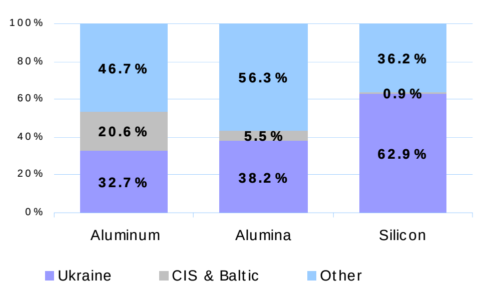
Transfer pricing is not detected.

ZALK exports the lion's share of its products (63% in 2004), and Russia is its major export market. The mill benefits from SUAL's strong distribution channels in Russia and overseas. It sells its products abroad through the trading companies Rul Ansnalt (Lichtenstein), Hareth Marketing (Lichtenstein), Industrial Commodities Inc. (USA), Vespasian GmBh (Germany), Konstroy-K (Russia) and Mirlis (Russia) and has a full-fledged domestic distribution network represented by the traders Zaporizhalumintorg and Zaporizhaluminzbut. In 2004, ZALK's export traders purchased primary aluminum from ZALK at prices just 5.3% below the LME offer price, which, in our view, indicates an absence of transfer pricing schemes.

Ukraine Machine Building Output, USD mln



ZALK's Sales By Region In 2004



Source: State Statistics Committee; Company data

Domestic demand has been bolstered by the revival of machine building.

The domestic consumption of aluminum is growing thanks to the revival of Ukraine's machine building industry. This led to an increase in ZALK's domestic aluminum sales from 18% in 2000 to ~33% in 2004.

Fixed Assets And Investments

ZALK's fixed assets are obsolete…

The company's fixed assets are badly out of date. Aluminum production at ZALK was launched in 1932, and in 1934 the company started to make alumina. In 1949, the plant underwent a major reconstruction. For the most part, key assets and technology have not been updated since. On average it takes international companies ~15.7 MWh to produce one tonne of aluminum, and the most efficient smelters use only 13-14 MWh. ZALK uses nearly 17 MWh.

…and CapEx into their modernization are needed…

In 2000, Kaiser Aluminum International (KAI) conducted a feasibility study to find out what it would take to rehabilitate ZALK's electrolytic facilities. The company developed a five-year investment program with a total cost of USD 200 mln. The project would result in a 60% aluminum capacity expansion and a 20% reduction in electricity consumption.

…but investment flow started only in 2004, with the arrival of SUAL.

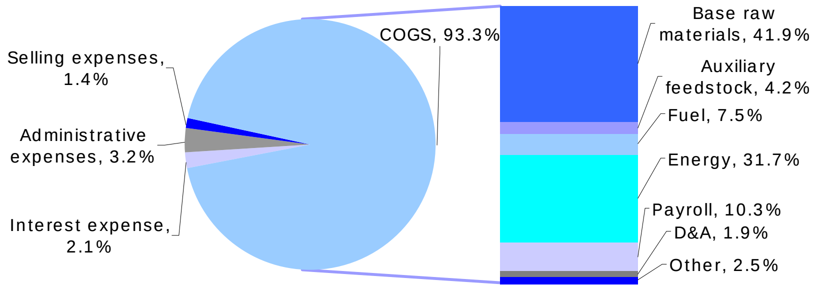
The state stipulated that ZALK's new owner which privatized the company in early 2001, adopt the CapEx plan outlined by KAI. Yet, the program was never implemented, formally as a result of a court ruling, but in fact due to ZALK's investor being reluctant to do so. Since 2001, the company has invested ~USD 53 mln into CapEx, and most of this money was invested in 2004 when SUAL took over control of ZALK. During this period, ZALK's major CapEx objectives were ecological and labor safety improvements along with the implementation of cost cutting technologies. Modernizing existing capacities remains a strategic goal for the mill.

ZALK's management has revised its investment plans several times, depending on the political situation. In December 2004, the company voiced its intention to invest USD 50 mln over the following five years financed through an additional share issue to be approved in February 2005. However, at the AGM in February, the volume of planned investments was raised to USD 136 mln, with USD 96 mln to be invested in 2005 alone. We believe these volatile investment plans were ZALK's attempts to avoid the revision of it privatization (see next page). We anticipate that actual investments will be much more gradual than declared.

Cost Structure

Raw materials and electricity are ZALK;s major cost components.

ZALK's major cost items are raw materials and electricity. In 2004, the company imported bauxites mostly from India and Greece. It takes two-three tons of bauxites to produce one ton of alumina, which is the feedstock for primary aluminum production. The trading companies Rul Ansnalt, Stradex Trading Establishment and China's Million Link Investment Ltd (all apparently associated with SUAL) are ZALK's raw material suppliers.



Source: Company data

Electricity costs comprise 32% of ZALK's COGS.

In terms of raw material costs the company is on par with many other market players who do not have in-house resource bases. However, a lack of electricity generating capacities and energy-inefficient technologies make ZALK very vulnerable to increases in electricity tariffs. In 2004, electricity comprised ~32% of ZALK's COGS.

Electricity tariffs are beyond the company's control.

Throughout the world, aluminum production is usually integrated with electricity generation. ZALK consumes up to 50% of the electricity produced by Zaporizhzhya's hydro-generating utility DniproGES. Historically, the mill and DniproGES were constructed to operate as a single complex, but in the early 1990s electricity generation and smelting were divided into separate industries. After the split ZALK had to face electricity supply irregularities and uncertainty in regard to electricity prices. While power outages are now in the past, the company's operations still depend heavily on electricity market regulators and the tariffs they set for aluminum production.

The cost of hydro-generated electricity is low compared to thermally generated electricity. However, electricity in Ukraine is sold to end-users by regional distribution companies whose tariffs are based on the average cost of electricity generated by different utilities. Yet, in 2002 ZALK was able to purchase cheap electricity directly from the Zaporizhzhya Nuclear Power Plant, by-passing the wholesale market and its regional distributor Zaporizhzhyaoblenergo. Potentially, this scheme could be used again in the future. In addition, we expect that in the long run Ukraine's power industry will be re-shaped to switch to direct contacts between electricity sellers and consumers and current scheme 'generators – wholesale market - distributors' will phase out.

Differentiated tariffs in Aug 2002 – Feb 2005 reduced ZALK's production cost significantly.

In August 2002 – February 2005, ZALK enjoyed differentiated electricity tariffs. Electricity prices for ZALK's aluminum production were pegged to aluminum prices on the LME. If the benchmark aluminum price fell within USD 1,200 – 1,250 per ton, the electricity tariff was US¢ 1.34 per 1 kWh. For every aluminum price increase by USD 50 per tonne above USD 1,250, electricity tariffs grew by ~US¢ 0.1 per 1 kWh. Apart from aluminum smelting, the company's other production lines received electricity at regular tariffs (class II). During this period, ZALK's quarterly margins followed the dynamics of the company's electricity tariffs, as the latter in turn followed aluminum prices (see the chart below).

Definition

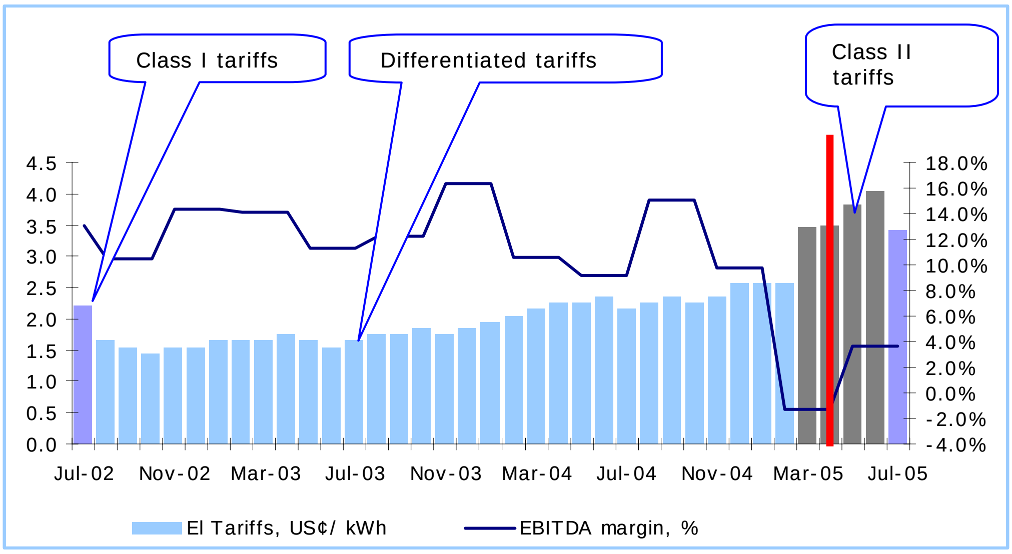
Class I electricity consumers are:
1) those companies with an average monthly electricity consumption in excess of 150 mln KWh,

or

2) those who receive electricity from HV grids with a voltage of over 27.5 KW.

Other industrial consumers are classified as **Class II**.

ZALK's Electricity Tariffs And Profitability Dynamics*



*EBITDA margin is quarterly and plotted against electricity tariffs with a two-month lag which corresponds to ZALK's inventory turnover period;
EBITDA margins to the right of the red line are projections
Source: Company data

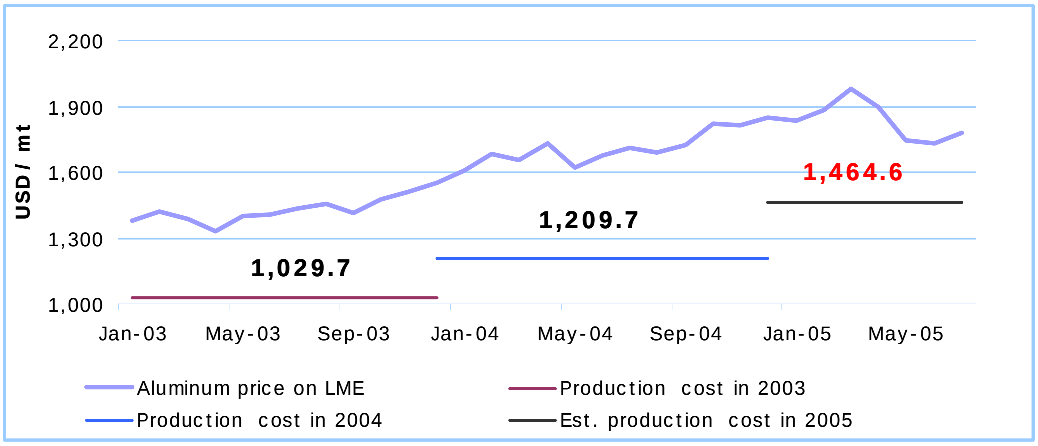
Cancellation of differentiated tariffs in February 2005 hurt ZALK's 1H05 margins badly.

However, in February 2005 the government cancelled all preferential tariff arrangements and starting in March ZALK was reclassified as a class II electricity consumer. This effectively raised its electricity tariff by 34.4%, to US¢ 3.45 per 1 kWh. Meanwhile, the average electricity price for aluminum producers worldwide was US¢ 2 – 5 per 1 kWh, and Russian smelters enjoyed a low US¢ 1.5 per 1 kWh tariff. According to the company's management, a US¢ 1 increase in electricity tariffs per 1 kWh results in ZALK's COGS growing by USD 2 mln per month. Thus, the company's margins were crushed (1H05 EBITDA margin was 4.1% and projected 2005 EBITDA margin is 4.0%) and its competitiveness was hurt.

Reconciliation with the government resulted in ZALK's tariff reduction in July 2005 and makes up for positive outlook.

On a positive note, as we explained previously (chapter 'Ownership Issues: Conflict Resolved'), by July ZALK's owner, SUAL, managed to smooth over its conflict with the government. As a result, from July the company began to receive electricity as a class I consumer which reduced its electricity tariff by 15.5%, to US¢ 3.4% per 1 kWh. The company's next target is lobbying for the return of differentiated tariffs. We believe the chances are high that in 2006 ZALK will purchase electricity at the differentiated tariff rate again. In the meantime, we project a 21% increase in ZALK's aluminum production costs in 2005, which leaves the company's aluminum production above the break-even point given current level of global aluminum prices.

Aluminum Price Vs. Production Cost Per Ton



Source: Company data; LME; Concorde Capital's estimates

Valuation

After investigating ZALK's export data, we found no evidence of price transferring. The traders distributing ZALK's products on external markets purchased the company's aluminum at average prices only 5.3% below the offer prices on the LME in 2004. This enables us to estimate ZALK's fair stock value by peer comparison.

	Country	Share Price USD	MCap	P/S 2004	P/S 2005E	P/S 2006E	P/EBITDA 2004	P/EBITDA 2005E	P/EBITDA 2006E	P/E 2004	P/E 2005E	P/E 2006E
ZALK	**UA**	**0.17**	**105.9**	**0.49**	**0.45**	**0.46**	**3.81**	**11.26**	**3.99**	**10.94**	**89.96**	**8.81**
Century Aluminum Company	US	29.91	629.8	0.59	0.55	0.51	3.12	2.84	2.39	22.49	6.30	4.47
Alcoa Inc	US	33.40	28,215.9	1.20	1.08	1.04	8.31	7.09	6.13	21.54	16.86	14.36
Aluminium Corp of China	CN	0.55	5,743.7	1.47	1.28	1.20	4.22	3.78	4.10	7.64	7.08	7.74
Alcan Inc	CA	33.33	10,715.7	0.43	0.52	0.52	3.79	4.13	3.85	41.53	12.59	11.37
National Aluminium Co Ltd	IN	3.77	2,426.2	3.55	2.54	2.51	7.76	4.91	4.81	15.12	8.75	8.59
Average				**1.45**	**1.19**	**1.16**	**5.44**	**4.55**	**4.26**	**21.66**	**10.31**	**9.30**
Implied price				**0.51**	**0.45**	**0.43**	**0.24**	**0.07**	**0.18**	**0.34**	**0.02**	**0.18**
Upside (Downside)				198.3%	164.6%	151.6%	42.7%	-59.6%	6.6%	98.0%	-88.5%	5.6%

Source: Company data; Bloomberg; Thomson Financial; Concorde Capital estimates

ZALK's 2005 projected margins were slashed by electricity tariff price hikes in March 2005 causing a valuation controversy based on a P/S multiple as opposed to P/EBITDA and P/E-based valuations. Stock value range on the base of 2004 multiples spans from USD 0.24 to USD 0.51 per share, while the value range on the base of 2005 multiples is USD 0.02 – USD 0.45 per share. We put more weight on the valuation by a P/S multiple, as ZALK is likely to improve its EBITDA and net income in 2006 by re-negotiating a differential tariff arrangement with the government again. Our 12-month target is USD 0.30 per share implying a 76.5% upside. **BUY**

Income Statement Summary, USD mln	2003	2004	2005E	2006E
Net Revenues	**171.3**	**218.0**	**235.0**	**230.5**
Gross Profit	38.6	45.2	26.8	43.9
EBITDA	**22.2**	**27.8**	**9.4**	**26.5**
EBITDA margin, %	13.0%	12.7%	4.0%	11.5%
EBIT	**17.0**	**23.5**	**4.7**	**22.0**
EBIT margin, %	9.9%	10.8%	2.0%	9.5%
PBT	**11.0**	**16.7**	**1.7**	**19.0**
Net Income	**3.8**	**9.7**	**1.2**	**12.0**
Net Margin, %	*2%*	*4%*	*1%*	*5%*
Dividend Declared	**0.00**	**0.00**	**0.00**	**0.00**

Balance Sheet Summary, USD mln	2003	2004	2005E	2006E
Current Assets	102.3	75.5	81.4	79.9
Fixed Assets	105.9	68.9	74.3	77.5
Total Assets	**208.3**	**144.4**	**155.8**	**157.4**
Shareholders' Equity	26.5	74.5	75.7	87.7
Current Liabilities	94.9	53.1	57.3	56.1
LT Liabilities	86.9	16.9	22.8	13.5
Total Liabilities & Equity	**208.3**	**144.4**	**155.8**	**157.4**

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