



CONCORDE CAPITAL

Ukraine/ Steel Pipe & Tube

Dnipropetrovsk Pipe

Sales Revised Up, Margins Down

BUY

23 Dec 2005

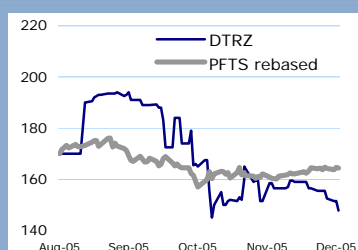
USD 32.00

12m Target

USD 86.65

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DTRZ Mid-Market, UAH



Market Information

Bloomberg DTRZ.UZ
Reuters DTRZ.PFT

No of Shares, mln 1.06

Market price, USD 32.00
52Wk H/L, USD 28.71/38.42
MCap, USD mln 33.8
Free Float, % 5%

Stock Ownership

IUD group (est.) 95%
Minorities 5%

Ratios 2004

EBITDA Margin 3.0%
EBIT Margin 1.1%
Net Margin 0.4%

Net Debt/Equity 1.01

We revised our forecasts for Dnipropetrovsk Pipe's 2005 financials based on its 9M05 results. Although the company's sales will likely beat our estimates for 2005, its profitability margins will be much lower than our projections. We believe this is because the company has not reduced transfer pricing to the extent we anticipated. However, in our opinion improvements in corporate governance are inevitable. Thus, we have not changed our forecasts for 2006 onward and are sticking with our initial DCF-based target price. A four month trading history has established a market price for the stock implying a 170% upside to our target. This enables us to issue a BUY recommendation for DTRZ.

Our Revised 2005 Projections:

	2005E new	2005E old
Net Revenues	138.2	130.8
EBITDA	3.1	19.4
Net Income	0.3	11.6

Margins Fall Short Of Expectations In 2005. Dnipropetrovsk Pipe reported low margins in 9H05 and showed even weaker profitability in 3Q05, which runs counter to the favorable market conditions for pipes this year. We ascribe this apparent contradiction to the company underreporting its margins and transferring profits to its holding business group, the Industrial Union of Donbas (IUD). Yet, IUD's ultimate goal of going public should lead to a sizable scaling back of shady transaction schemes in 2006, and we expect them to be fully phased out after 2007.

	1Q05	2Q05	3Q05	9M05
Net Revenues	32.5	33.5	36.1	102.1
EBITDA	0.5	1.1	0.8	2.3
EBITDA margin, %	1.5%	3.3%	2.1%	2.3%
EBIT	0.1	0.6	0.2	0.9
EBIT margin, %	0.2%	1.9%	0.7%	0.9%
PBT	(0.1)	0.4	(0.1)	0.3
Tax	-	(0.1)	(0.1)	(0.2)
Effective tax rate	nm	30%	nm	71%
Net Income	(0.1)	0.3	(0.2)	0.1
Net Margin, %	-0.2%	0.9%	-0.4%	0.1%

KEY FINANCIAL DATA, USD mln

	Net Revenue	EBITDA	Net Income	DPS, USD
2004	85.2	2.6	0.4	0.0
2005E	138.2	3.1	0.3	0.0
2006E	135.4	15.3	8.1	0.0
Spot Exchange Rate		5.05		

KEY RATIOS

	P/S	P/E	EV/EBITDA	Div Yield
2004	0.40	93.80	14.19	0.0%
2005E	0.24	123.75	14.94	0.0%
2006E	0.25	4.19	3.06	0.0%

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