



CONCORDE CAPITAL

Ukraine / Steel

Alchevsk Iron & Steel

Doubling Capacity Ahead of Schedule

November 1, 2007

Current Price: USD 0.08

12M Target*: USD 0.11

BUY

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Bloomberg ALMK UZ

Market information

No of Shares, mln**	25 775
Market Price, USD	0.08
52Wk H/L, USD	0.09/0.04
MCap, USD mln	2 139.4
Free float	5%
Free float, USD	107.0

* Based on diluted number of shares

** Number of shares after additional share issue. Subscription took place in two stages: (1) July 16 to August 3, 2007 which was open to shareholders with pre-emptive rights (the ex-rights date was July 16), and (2) from August 4, 2007 to June 25, 2008 on a first-come first-serve basis. Shareholders approved plans for the additional share issue at their April 17 AGM.

Corporate governance

Concorde Rating*** P

*** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

Ownership

IUD	95.0%
Other	5.0%

Ratios 2007E

EBITDA Margin	14.5%
Net Margin	6.0%
Net Debt/ Equity	0.6

Alchevsk Iron & Steel announced that it will complete two key projects of its modernization program in 2H07-1H08 that will double capacity, a full year earlier than we expected. This will support the steel mill's plans to boost production of pig iron 70% yoy in 2008, leading us to upgrade our forecasts. Our new 12M target price is USD 0.11 per share, yields a 33% upside. We raise the stock to BUY.

Capacity increase to be completed earlier than we projected

Last Friday, Metal Courier released news that Alchevsk Iron & Steel's new blast oxygen converter with an annual crude steel capacity of 3 mln mt will come on stream in late November and another converter of similar size - in spring 2008. Annual production capacity of the mill will more than double to 9 mln mt. We had expected the capacities increase would only be commissioned in 2H08-1H09.

Forecasts revised upward

According to the Metal Courier article, in 2008 Alchevsk is targeting 5.1 mln mt production of pig iron (up 70% yoy), implying rolled steel production of 5.5-5.7 mln mt. Our revised forecasts are below:

	Old '08E	New '08E	Chg, %
Rolled steel production, mln mt	3.4	5.1	+50%
Sales, USD bln	1.7	2.4	+40%
EBITDA, USD mln	250	350	+40%
Net income, USD mln	100	145	+40%

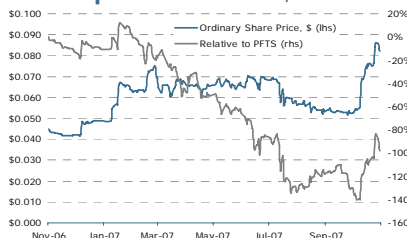
IUD hedges ½ of raw material deliveries

On Monday, IUD, the parent of Alchevsk Iron & Steel, announced plans to increase iron ore purchases in 2008 and disclosed current agreements with iron ore producers (see Appendix 1). According to our rough calculations, the volumes would be enough to cover nearly half of what the group needs to produce nearly 8.4 mln mt of pig iron as it plans to in 2008, or fully meet Alchevsk Iron & Steel's demand for next year. Earlier, IUD contracted 1.5 mln mt of coking coal in 2008 (30% of the group's needs) from the USA.

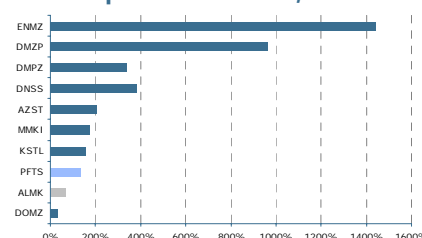
Valuation

The stock trades at a 50%-80% discount to its international and local peers on forward looking EV/S based on our new forecasts, while profitability multiples imply 8%-33% premiums. We set our 12M target price of USD 0.11 per share as a weighted average of implied prices based on (1) reported financials (USD 0.09/share; 70% weight) and (2) true financials (USD 0.15/share; 30% weight).

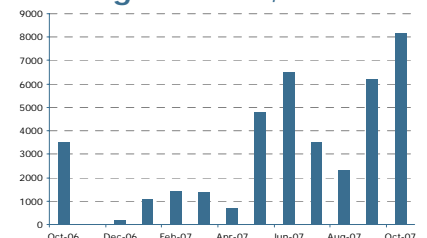
Stock performance*, 12M



Sector performance*, YTD



Trading Volumes, USD ths



Source: PFTS, Concorde Capital estimates. PFTS mid price

Key financials, USD mln

	Sales		EBITDA mgn		Net mgn	
	True	Reported	True	Reported	True	Reported
2006	-	1 223	-	11%	-	4%
2007E	1 695	1 540	27%	15%	13%	6%
2008E	2 760	2 412	25%	15%	13%	6%

UAH/USD Spot exchange rate is 5.05

	EV/S		EV/EBITDA		P/E	
	True	Reported	True	Reported	True	Reported
2006	-	2.0	-	18.4	-	43.7
2007E	1.6	1.8	6.0	13.2	10.1	28.9
2008E	1.0	1.1	4.0	7.8	6.2	14.8

Valuation

	MCap, USD mln	EV/S		EV/EBITDA		P/E	
		2007E	2008E	2007E	2008E	2007E	2008E
Ukraine							
ALMK (1)	2 139.3	1.8	1.1	13.2	7.8	28.9	14.8
ALMK (2)	2 139.3	1.8	1.0	13.2	4.0	28.9	6.2
International peers							
		2007E	2008E	2007E	2008E	2007E	2008E
Gerdau	19 931.7	1.6	1.4	7.0	6.0	11.9	10.5
Usinas Sider Minas	16 068.3	2.1	2.0	5.8	5.6	9.5	9.4
Cia Siderurgica Nacional	20 244.6	3.8	3.4	9.0	7.4	15.2	14.0
Posco	63 105.8	2.6	2.5	9.0	8.4	14.7	14.0
Nippon Steel Corp	42 301.9	1.2	1.1	6.7	6.3	13.1	12.7
Tata Steel Limited	15 303.3	1.0	0.8	5.9	5.2	6.9	6.3
China Steel Corp	17 518.5	2.8	2.7	8.1	8.0	11.1	11.2
Baoshan Iron & Steel	41 825.9	1.9	1.7	9.1	7.9	19.3	15.8
Angang Steel	24 600.9	3.0	2.6	11.1	9.7	19.8	16.4
Maanshan Iron & Steel	6 372.2	1.4	1.1	9.4	6.5	17.3	12.1
Hyundai Steel	7 965.9	1.3	1.3	9.9	10.1	13.0	12.6
Nucor Corp	18 993.4	1.1	1.0	6.5	5.8	13.1	11.6
Average		2.0	1.8	8.1	7.2	13.7	12.2
Russian peers							
		2007E	2008E	2007E	2008E	2007E	2008E
Severstal	23 880.1	1.7	1.5	6.5	5.7	13.2	11.9
Novolipetsk steel	23 790.7	3.2	3.1	7.2	7.3	11.5	12.6
Nizhny Tagil ferrous met	3 016.6	0.9	0.8	3.3	2.3	6.5	5.0
Mechel	9 406.8	1.7	1.6	7.0	6.6	11.3	10.8
Magnitogors spon	14 706.3	1.7	1.5	5.7	5.2	9.1	9.1
Evrast group	29 207.7	3.0	2.6	9.3	8.7	16.0	16.2
Average		2.0	1.9	6.5	5.9	11.3	10.9
Ukrainian peers							
		2007E	2008E	2007E	2008E	2007E	2008E
Arcelor Mittal Kriviy Rih	12 022.3	3.5	2.9	11.8	10.3	16.1	15.5
Azovstal	4 865.4	1.6	1.3	7.4	6.0	11.4	9.5
Enakievo Steel	860.8	1.0	0.8	6.4	4.6	11.5	7.9
DMP Petrovskogo	864.6	1.6	1.4	7.7	6.6	8.0	6.8
MMK Illicha Steel	4 558.3	1.3	1.2	7.4	7.0	10.9	10.0
Average		1.8	1.5	8.1	6.9	11.6	9.9
International peers							
ALMK price (1)							
Implied by Avg, USD		-	0.17	-	0.17	-	0.16
Upside/Downside by Avg		-	104.3%	-	105.4%	-	97.1%
ALMK price (2)							
Implied by Avg, USD		0.10	0.15	0.04	0.07	0.04	0.07
Upside/Downside by Avg		15.9%	75.0%	-49.1%	-9.7%	-52.5%	-17.3%
Russian peers							
ALMK price (1)							
Implied by Avg, USD		-	0.18	-	0.14	-	0.15
Upside/Downside by Avg		-	113.2%	-	63.8%	-	76.4%
ALMK price (2)							
Implied by Avg, USD		0.10	0.15	0.03	0.06	0.03	0.06
Upside/Downside by Avg		18.8%	82.7%	-65.1%	-30.8%	-61.1%	-26.0%
Ukrainian peers							
ALMK price (1)							
Implied by Avg, USD		-	0.12	-	0.16	-	0.13
Upside/Downside by Avg		-	46.3%	-	92.5%	-	56.5%
ALMK price (2)							
Implied by Avg, USD		0.08	0.11	0.05	0.08	0.04	0.06
Upside/Downside by Avg		-6.7%	26.6%	-37.7%	-7.2%	-50.0%	-26.1%

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

Note: Valuation done both on ALMK (1) estimated true and (2) reported financials

Appendix 1: IUD's iron ore contracts

Supplier	Tonnage*	Product	Period	Consumer	Details
CVRD (Brazil)	250 ths mt	Sinter feed	2007-2010	Alchevsk Iron & Steel, DMK Dzerzhinskogo	Deliveries to Ukraine by railroad from seaport Konstanca (Romania), price revision annual
Kovdorsky Iron Ore (Russia)	80 ths mt	Sinter feed	2007-2010	Alchevsk Iron & Steel, DMK Dzerzhinskogo	Potentially can increase to 100 ths mt
Metalinvest (Russia)	150-160 ths mt	Pellets	April 2008	Alchevsk Iron & Steel	
Poltava Iron Ore (Ukraine)	160 ths mt	Pellets	Three years	Alchevsk Iron & Steel	
Severnii Iron Ore (Ukraine)	115 ths mt	Pellets	2007	DMK Dzerzhinskogo	Negotiations to extend the contact are in process
Stoilenky Iron Ore (Russia)		Sinter feed			Negotiations to extend the contact are in process
Inguletsky Iron Ore (Ukraine)		Sinter feed			Decision not made, last year bought via spot market
Pivdenny Iron Ore (Ukraine)		Agglomerate			Negotiations are in process
Kriviy Rih Iron Ore (Ukraine)		Lump ore			Negotiations are in process

Source: Metal Courier
* monthly volumes

Appendix 2: Key financials

in USD mln, unless otherwise stated

	Sales		EBITDA mgn, %		Net mgn, %	
	2007E	2008E	2007E	2008E	2007E	2008E
Ukraine						
ALMK (1)	-	2 760.3	13.5%	25.0%	4.8%	12.5%
ALMK (2)	1 540.8	2 412.1	13.5%	14.5%	4.8%	6.0%
International peers						
Gerdau	14 143.0	15 692.5	22.5%	22.8%	11.8%	12.1%
Usinas Sider Minas	7 454.0	7 727.5	36.0%	35.7%	22.6%	22.2%
Cia Siderurgica Nacional	6 145.5	7 053.1	42.4%	45.5%	21.7%	20.4%
Posco	24 336.3	25 274.4	28.7%	29.4%	17.7%	17.8%
Nippon Steel Corp	40 655.0	42 945.8	18.3%	18.0%	7.9%	7.7%
Tata Steel Limited	23 911.3	30 702.0	17.0%	16.4%	9.3%	7.9%
China Steel Corp	6 120.5	6 345.0	35.2%	34.1%	25.8%	24.7%
Baoshan Iron & Steel	23 914.7	26 602.7	21.3%	21.4%	9.1%	9.9%
Angang Steel	8 731.1	10 135.7	27.2%	26.6%	14.2%	14.8%
Maanshan Iron & Steel	6 072.1	7 761.7	15.4%	16.7%	6.1%	6.8%
Hyundai Steel	7 919.9	8 615.6	13.2%	13.1%	7.7%	7.3%
Nucor Corp	16 199.8	17 043.7	17.5%	17.9%	9.0%	9.6%
Russian Peers						
Severstal	13 902.5	14 686.7	25.9%	27.0%	13.0%	13.7%
Novolipetsk steel	6 990.1	7 035.3	44.9%	42.2%	29.5%	26.8%
Nizhny Tagil ferrous met	2 849.6	2 879.0	28.9%	37.3%	16.3%	20.9%
Mechel	5 610.4	5 942.9	24.1%	24.1%	14.9%	14.6%
Magnitogors spon	7 718.4	8 135.7	30.2%	29.6%	21.0%	19.9%
Evrast group	10 866.8	11 776.4	32.4%	30.5%	16.8%	15.4%
Ukrainian peers						
Arcelor Mittal Kriviy Rih	3 640.0	4 319.2	29.5%	28.5%	20.5%	18.0%
Azovstal	3 063.2	3 781.5	22.0%	22.0%	13.9%	13.5%
Enakievo Steel	920.2	1 171.0	15.2%	16.4%	8.1%	9.3%
DMP Petrovskogo	600.2	708.8	21.0%	21.0%	18.0%	18.0%
MMK Illicha Steel	3 534.1	3 807.5	17.0%	17.0%	11.8%	12.0%

Source: Company data, Thomson Financial, Bloomberg, Concorde Capital estimates
 Note: ALMK (1) estimated true and (2) reported financials

Appendix 3: Half year financials, UAS

INCOME STATEMENT SUMMARY, USD mln

	1H04	2H04	1H05	2H05	1H06	2H06	1H07
Net Revenues	345.0	803.3	494.2	993.6	555.2	1 223.7	770.4
<i>Change y-o-y</i>	69.4%	67.0%	43.2%	23.7%	12.4%	23.2%	38.8%
Gross Profit	21.3	49.0	94.4	181.6	83.3	210.7	142.9
EBITDA	18.4	40.8	77.5	136.6	44.8	135.8	102.0
<i>margin, %</i>	5.3%	5.1%	15.7%	13.7%	8.1%	11.1%	13.2%
Depreciation	(8.7)	(17.5)	(8.9)	(20.6)	(14.6)	(30.0)	(25.2)
EBIT	9.8	23.3	68.5	116.0	30.2	105.8	76.7
<i>margin, %</i>	2.8%	2.9%	13.9%	11.7%	5.4%	8.6%	10.0%
Interest Expense	(0.5)	(1.0)	(0.4)	(5.8)	(8.1)	(21.8)	(18.2)
Other income/(expense)	(0.7)	(0.8)	(0.7)	(1.4)	(0.6)	(5.0)	(0.7)
PBT	8.5	21.5	67.4	109.2	21.5	79.0	57.9
Tax	(6.2)	(13.0)	(17.2)	(30.9)	(12.3)	(30.5)	(22.9)
<i>Effective tax rate</i>	73.4%	60.4%	25.5%	28.3%	57.1%	38.6%	39.6%
Net Income	2.3	8.5	50.2	78.3	9.2	48.5	35.0
<i>Net Margin, %</i>	0.7%	1.1%	10.2%	7.9%	1.7%	4.0%	4.5%

BALANCE SHEET SUMMARY, USD mln

	1H04	2H04	1H05	2H05	1H06	2H06	1H07
Current Assets	121.2	102.3	233.6	292.3	549.2	313.7	474.6
Cash & Equivalents	3.4	3.6	4.6	3.1	6.2	7.1	4.0
Trade Receivables	29.6	22.5	67.4	42.1	135.8	37.0	123.7
Inventories	60.8	42.4	79.0	88.4	113.9	123.4	186.2
Other	27.4	33.7	82.7	158.7	293.3	146.2	160.8
Fixed Assets	123.9	141.5	195.9	263.1	351.8	754.8	943.3
PP&E, net	109.1	108.8	117.2	177.4	174.9	288.6	388.3
Other	14.8	32.7	78.7	85.7	176.9	466.2	555.0
Total Assets	245.1	243.8	429.5	555.4	901.0	1 068.5	1 417.9
Shareholders' Equity	68.3	73.5	128.3	157.6	321.0	388.7	423.5
Share Capital	23.3	23.4	24.5	24.6	188.6	222.6	222.6
Retained Earnings	102.6	95.5	100.0	99.1	96.3	97.9	99.3
Other	(57.6)	(45.4)	3.8	33.9	36.1	68.2	101.6
Current Liabilities	176.8	170.3	301.2	222.8	373.5	339.4	549.3
ST Interest Bearing Debt	6.3	4.9	5.1	5.1	12.6	33.3	140.1
Trade Payables	143.1	131.8	221.1	194.6	263.2	253.8	287.8
Other	23.4	30.9	61.9	18.0	93.6	48.2	111.8
LT Liabilities	-	-	-	175.0	206.5	340.4	445.1
LT Interest Bearing Debt	-	-	-	175.0	205.4	340.4	445.1
Other	-	-	-	-	1.1	-	-
Total Liabilities & Equity	245.1	243.8	429.5	555.4	901.0	1 068.5	1 417.9

QUARTERLY ANALYSIS, USD mln

	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
Net Revenues	265.6	188.1	367.1	341.7	326.7	315.5	454.9
<i>Change y-o-y</i>	-42.0%	-15.3%	34.9%	46.1%	23.0%	67.7%	23.9%
EBITDA	32.8	12.5	32.3	63.8	27.2	27.2	74.8
<i>margin, %</i>	12.4%	6.6%	8.8%	18.7%	8.3%	8.6%	16.4%
EBIT	26.5	4.9	25.3	56.3	19.3	19.5	57.2
<i>margin, %</i>	10.0%	2.6%	6.9%	16.5%	5.9%	6.2%	12.6%
Net Income	16.3	(1.0)	10.2	32.4	6.9	8.6	26.3
<i>Net Margin, %</i>	6.1%	-0.5%	2.8%	9.5%	2.1%	2.7%	5.8%

Analyst Certification

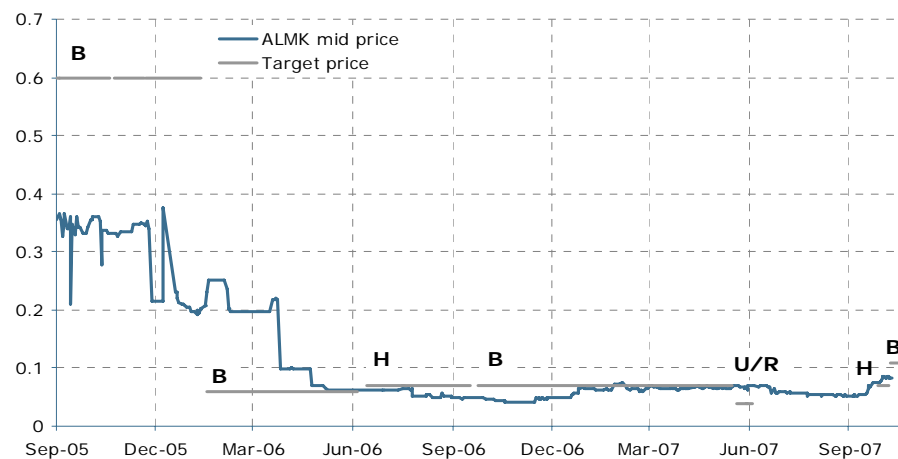
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Alchevsk Iron & Steel

Date	12M target price, USD	Market price, USD	Recommendation	Action
23-Sep-05	0.60	0.38	BUY	Initiating
15-Nov-05	0.60	0.32	BUY	Maintain
14-Dec-05	0.60	0.35	BUY	Maintain
8-Feb-06	0.06	0.03	BUY	Maintain
30-Jun-06	0.07	0.10	HOLD	Downgrade
11-Oct-06	0.07	0.05	BUY	Upgrade
28-Feb-07	0.07	0.04	BUY	Maintain
9-Jun-07	0.04	0.04	BUY	Maintain
27-Jun-07	U/R	0.07	U/R	U/R
19-Oct-07	0.07	0.08	HOLD	Downgrade
01-Nov-07	0.11	0.08	BUY	Upgrade

* Until March 2007 the company was covered by Andriy Gostik, who now focuses on another sector. In April 2007, Eugene Cherviachenko took over coverage.

ALMK Recommendation history, USD per share



Concorde Capital coverage universe

Buy	37	46%
Hold	25	31%
Sell	7	9%
Under Review/Suspended	12	15%
Total	81	100%

Investment Banking clients

Buy	8	73%
Hold	3	27%
Sell	0	0%
Under Review/Suspended	0	0%
Total	11	100%

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