



CONCORDE CAPITAL

Ukraine / Iron & Steel

# Alchevsk Iron & Steel

## Remarkable 3Q06 Financials

# BUY

December 13, 2006  
12M Target: USD 0.07

**Andriy Gostik**

+380 44 207 5030  
ag@concorde.com.ua

### Market Information

Bloomberg	ALMK UZ
No of Shares, mln	<b>10,755.3</b>
Market price, USD	0.04
<b>MCap, USD mln</b>	<b>453.3</b>
Free float	5%
FF MCap, USD mln	22.7
Avg Mo Tr Volume, 6M Trailing, mln USD	0.76

### Stock Ownership

IUD	95%
Other	5%

### Ratios, 2006E

EBITDA Margin	12.1%
Net Margin	4.9%
Net Debt/ Equity	0.61

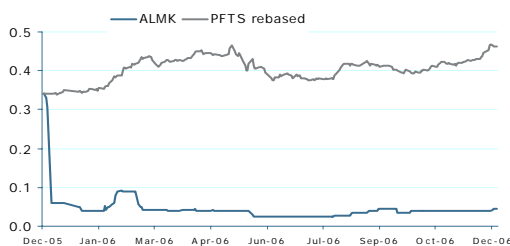
With a USD 150 mln loan from the EBRD now approved, Alchevsk Iron & Steel's (ALMK) cost-cutting project to construct a combined power & heat unit is starting to materialize. This, coupled with strong 3Q06 financials confirms our positive view of the stock. Our 12-month target remains at USD 0.07/share, yielding a 63% upside.

**3Q06 Financials Suggest 2006 Will Be a Good Year.** In January-September 2006, ALMK posted a 23% yoy increase in sales, and in 3Q06 alone its revenue experienced impressive growth of 46% yoy. The company's EBITDA margin rose to 12.1% in 9M06 (from 8.1% in 1H06) thanks to a profitable 3Q06, which saw EBITDA margin climb to 18.7%. At the same time, ALMK's net margin was 4.8% in 9M06 (9.8% in 3Q06 alone), a sizable step up compared to 1.7% in 1H06. We believe progress in the company's reported financials was due to the favorable steel market in May-August 2006 and also to ALMK cutting down transfer pricing in 3Q06, which was long awaited by the market. We expect, however, that 4Q06 will be weaker than 3Q06 and transfer pricing will not be fully eliminated in 2007-2008.

**Financing Ready for a Combined Heat & Power Project.** In early December 2006, EBRD's Board of Directors approved a USD 150 mln loan for the construction of a combined heat & power (CHP) unit at ALMK. The loan will be given to Ekoenergiya, a JV created by IUD (51%) and ALMK (49%) specifically for the purpose of the CHP project. With an estimated project cost of USD 363.1 mln and nameplate capacity of 294 MWt, the unit is expected to be launched in 2009. By that time, ALMK hopes to raise its steel making capacity by 88% to 7.5 mln mt p.a. The CHP plant would slash ALMK's production costs by ~5% and make ALMK and its coke supplier, Alchevsk Coke (ALKZ), fully self-sufficient in electricity. Operating the CHP system will not require an external fuel supply and will utilize ALMK's and ALKZ's by-products, such as blast furnace, basic oxygen furnace (BOF) and coke gas.

**Attractively Valued Growth.** Our updated relative valuation suggests a fair value range of USD 0.04-USD 0.12 per ALMK's share. We re-iterate our 12-month target price of USD 0.07/share, implying an upside of 63% and maintain BUY recommendation for the stock.

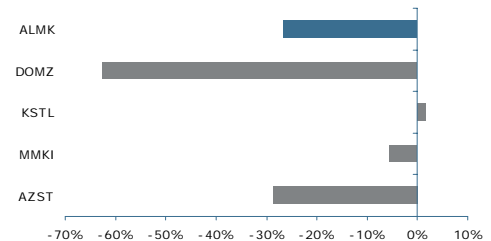
ALMK's Performance\*, 12M



Source: PFTS

\*Bid is used, as the mid-market price was misleading due to large bid-ask spreads following the new share issues

Sector Performance\*, YTD



### Key Financials & Ratios

(in USD mln)	Sales	EBITDA	Net Income	EV/S	EV/EBITDA	P/E
<b>2005</b>	992.7	136.5	78.4	0.64	4.62	5.79
<b>2006E</b>	1,198.0	145.3	46.5	0.58	4.77	7.71
<b>2007E</b>	1,281.9	169.2	58.8	0.57	4.31	5.90

Spot exchange rate is 5.05

## Financial Projection Revisions

(in USD mln)	Sales		EBITDA		Net Income		Net Debt	
	2006E	2007E	2006E	2007E	2006E	2007E	2006E	2007E
Old	1,161.5	1277.6	127.8	153.3	46.5	76.7	200	200
New	1,198.0	1281.9	145.3	169.2	58.8	76.9	240	275
<i>Change</i>	<i>3.1%</i>	<i>0.3%</i>	<i>13.7%</i>	<i>10.4%</i>	<i>26.6%</i>	<i>0.3%</i>	<i>20.0%</i>	<i>37.8%</i>

Source: Company data, Concorde Capital estimates

## Peer Valuation

	MCap, USD mln	EV/S		EV/EBITDA		P/E	
		2006E	2007E	2006E	2007E	2006E	2007E
<b>Ukraine</b>							
ALMK	453.6	0.58	0.57	4.77	4.31	7.71	5.90
<b>International Peers</b>							
INI Steel	3 068	0.84	0.81	6.04	6.01	5.98	6.15
Bluescope Steel	4 656	0.64	0.56	6.73	5.83	10.82	9.64
Tangshan	1 499	1.21	1.08	4.39	6.43	8.81	7.91
Maanshan	3 564	1.50	1.26	7.40	5.99	12.88	9.82
IPSCO	4 918	0.59	0.57	5.03	4.83	7.38	6.93
CSN	210	2.19	2.25	1.26	1.24	0.23	0.23
Arcelor Brazil	12 918	1.32	1.30	5.79	6.40	8.47	10.45
SSAB	5 655	1.14	1.07	5.86	5.95	9.24	9.60
<b>Average</b>		<b>1.02</b>	<b>0.95</b>	<b>5.35</b>	<b>5.41</b>	<b>8.06</b>	<b>7.69</b>
<b>Median</b>		<b>0.81</b>	<b>0.75</b>	<b>5.83</b>	<b>5.97</b>	<b>8.64</b>	<b>8.76</b>

### ALMK price

Implied by Avg, USD	0.10	0.10	0.05	0.06	0.04	0.05
<u>Implied by Median, USD</u>	<u>0.09</u>	<u>0.09</u>	<u>0.06</u>	<u>0.07</u>	<u>0.05</u>	<u>0.06</u>
<i>Upside/Downside by Avg</i>	<i>148%</i>	<i>143%</i>	<i>19%</i>	<i>41%</i>	<i>5%</i>	<i>30%</i>
<i>Upside/Downside by Median</i>	<i>118%</i>	<i>107%</i>	<i>34%</i>	<i>62%</i>	<i>12%</i>	<i>48%</i>

<b>Russian Peers</b>		<b>2006E</b>	<b>2007E</b>	<b>2006E</b>	<b>2007E</b>	<b>2006E</b>	<b>2007E</b>
Severstal	10 247	1.03	0.94	3.75	3.70	7.81	7.96
NLMK	13 904	2.25	2.07	5.13	5.00	8.00	9.44
NTMK	3 209	0.97	0.83	2.98	2.85	6.91	8.00
Mechel	3 538	0.96	0.97	5.76	8.46	9.75	17.60
<b>Average</b>		<b>1.30</b>	<b>1.20</b>	<b>4.40</b>	<b>5.00</b>	<b>8.12</b>	<b>10.75</b>
<b>Median</b>		<b>1.00</b>	<b>0.95</b>	<b>4.44</b>	<b>4.35</b>	<b>7.91</b>	<b>8.72</b>

### ALMK price

Implied by Avg, USD	0.12	0.12	0.04	0.05	0.04	0.08
<u>Implied by Median, USD</u>	<u>0.09</u>	<u>0.09</u>	<u>0.04</u>	<u>0.04</u>	<u>0.04</u>	<u>0.06</u>
<i>Upside/Downside by Avg</i>	<i>191%</i>	<i>179%</i>	<i>-12%</i>	<i>26%</i>	<i>5%</i>	<i>82%</i>
<i>Upside/Downside by Median</i>	<i>111%</i>	<i>109%</i>	<i>-11%</i>	<i>2%</i>	<i>2%</i>	<i>48%</i>

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

## Reported Net Quarterly Financials, UAS

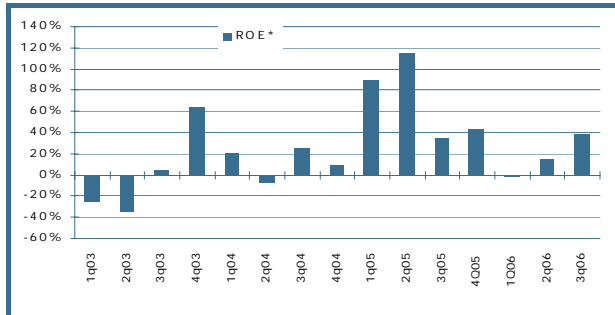
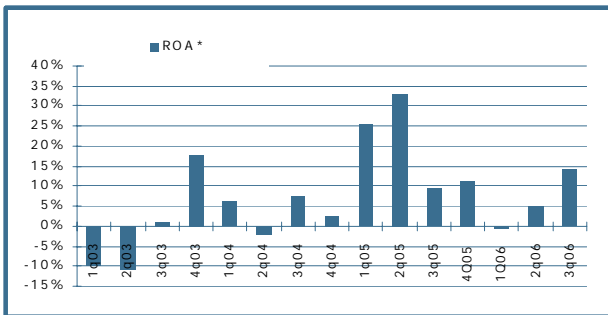
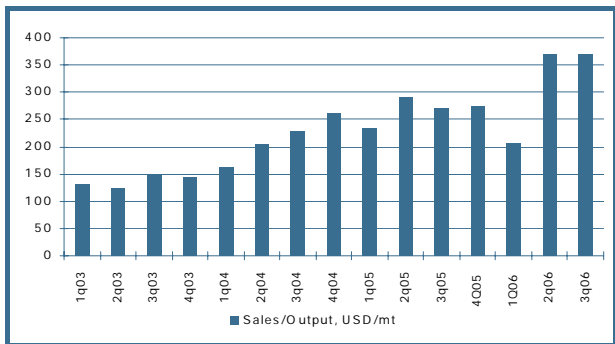
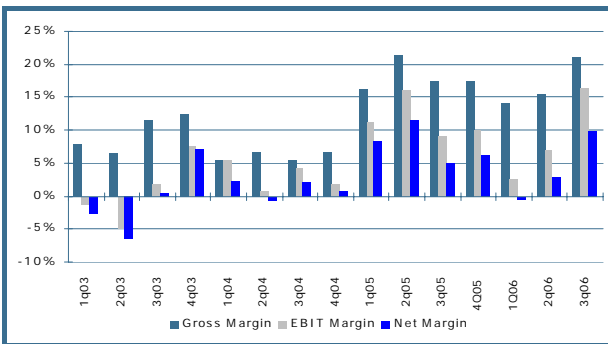
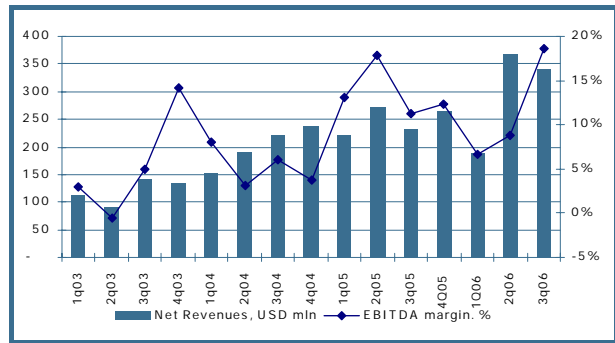
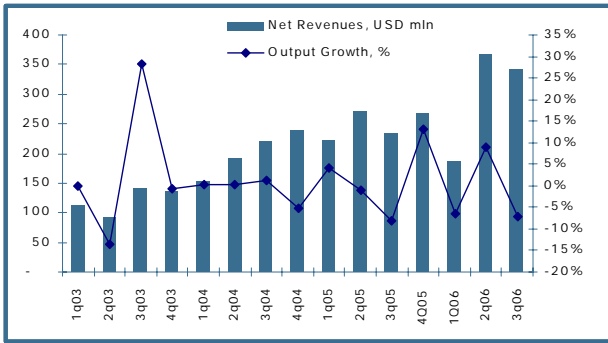
### Income Statement Summary, USD mln

	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06
<b>Net Revenues</b>	<b>152.5</b>	<b>192.5</b>	<b>219.9</b>	<b>238.1</b>	<b>222.1</b>	<b>272.1</b>	<b>233.8</b>	<b>265.6</b>	<b>188.1</b>	<b>367.1</b>	<b>341.7</b>
Cost Of Sales	(144.2)	(179.5)	(207.9)	(222.3)	(185.9)	(213.9)	(192.9)	(219.4)	(161.4)	(310.5)	(269.7)
Gross Profit	8.2	13.0	11.9	15.8	36.2	58.2	40.9	46.2	26.7	56.6	72.1
Other Operating Income/Costs, net	9.2	(1.1)	7.7	(1.3)	(1.0)	(2.1)	(2.6)	(3.8)	0.5	(7.4)	7.7
SG&A	(5.2)	(5.9)	(6.2)	(5.6)	(6.2)	(7.6)	(12.0)	(9.6)	(14.8)	(16.9)	(15.9)
<b>EBITDA</b>	<b>12.3</b>	<b>6.1</b>	<b>13.4</b>	<b>8.9</b>	<b>28.9</b>	<b>48.5</b>	<b>26.3</b>	<b>32.8</b>	<b>12.5</b>	<b>32.3</b>	<b>63.8</b>
<i>EBITDA margin, %</i>	<i>8%</i>	<i>3%</i>	<i>6%</i>	<i>4%</i>	<i>13%</i>	<i>18%</i>	<i>11%</i>	<i>12%</i>	<i>7%</i>	<i>9%</i>	<i>19%</i>
Depreciation	(4.0)	(4.7)	(4.2)	(4.6)	(4.1)	(4.9)	(5.3)	(6.3)	(7.6)	(7.0)	(7.6)
<b>EBIT</b>	<b>8.3</b>	<b>1.5</b>	<b>9.3</b>	<b>4.2</b>	<b>24.9</b>	<b>43.6</b>	<b>21.0</b>	<b>26.5</b>	<b>4.9</b>	<b>25.3</b>	<b>56.3</b>
<i>EBIT margin, %</i>	<i>5%</i>	<i>1%</i>	<i>4%</i>	<i>2%</i>	<i>11%</i>	<i>16%</i>	<i>9%</i>	<i>10%</i>	<i>3%</i>	<i>7%</i>	<i>16%</i>
Interest Expense	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.9)	(4.5)	(4.0)	(4.2)	(7.7)
Financial income/(expense)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0
Other income/(expense)	(0.7)	(0.1)	0.2	(0.3)	(0.4)	(0.3)	(0.5)	(0.2)	(0.1)	(0.5)	(1.4)
<b>PBT</b>	<b>7.4</b>	<b>1.1</b>	<b>9.2</b>	<b>3.7</b>	<b>24.3</b>	<b>43.1</b>	<b>19.6</b>	<b>22.2</b>	<b>0.8</b>	<b>20.7</b>	<b>47.2</b>
Tax	(3.8)	(2.4)	(4.6)	(2.1)	(5.7)	(11.5)	(7.8)	(6.0)	(1.8)	(10.4)	(14.8)
<b>Net Income</b>	<b>3.5</b>	<b>(1.3)</b>	<b>4.6</b>	<b>1.6</b>	<b>18.6</b>	<b>31.6</b>	<b>11.8</b>	<b>16.3</b>	<b>(1.0)</b>	<b>10.2</b>	<b>33.5</b>
<i>Net Margin, %</i>	<i>2%</i>	<i>-1%</i>	<i>2%</i>	<i>1%</i>	<i>8%</i>	<i>12%</i>	<i>5%</i>	<i>6%</i>	<i>-1%</i>	<i>3%</i>	<i>10%</i>

### Balance Sheet Summary, USD mln

	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06
<b>Current Assets</b>	<b>124.2</b>	<b>121.2</b>	<b>116.9</b>	<b>102.3</b>	<b>177.8</b>	<b>233.6</b>	<b>349.2</b>	<b>292.3</b>	<b>431.3</b>	<b>549.2</b>	<b>445.1</b>
Cash & Equivalents	0.1	3.4	3.2	3.6	5.3	4.6	92.4	3.1	4.3	6.2	2.2
Trade Receivables	58.2	29.6	23.4	22.5	29.2	67.4	37.8	42.1	57.7	135.8	108.1
Inventories	46.5	60.8	56.8	42.4	74.8	79.0	87.7	88.4	151.3	113.9	116.9
Other current assets	19.4	27.4	33.6	33.7	68.5	82.7	131.3	158.7	218.0	293.3	217.9
<b>Fixed Assets</b>	<b>122.3</b>	<b>123.9</b>	<b>130.0</b>	<b>141.5</b>	<b>159.0</b>	<b>195.9</b>	<b>240.8</b>	<b>263.1</b>	<b>301.8</b>	<b>351.8</b>	<b>535.6</b>
PP&E, net	111.2	109.1	108.5	108.8	112.9	117.2	121.3	177.4	175.0	174.9	182.4
Other Fixed Assets	11.0	14.8	21.4	32.7	46.1	78.7	119.5	85.7	126.8	176.9	353.2
<b>Total Assets</b>	<b>246.5</b>	<b>245.1</b>	<b>246.9</b>	<b>243.8</b>	<b>336.8</b>	<b>429.5</b>	<b>590.0</b>	<b>555.4</b>	<b>733.1</b>	<b>901.0</b>	<b>980.6</b>
<b>Shareholders' Equity</b>	<b>69.7</b>	<b>68.3</b>	<b>73.0</b>	<b>73.5</b>	<b>92.3</b>	<b>128.3</b>	<b>140.2</b>	<b>157.6</b>	<b>239.6</b>	<b>321.0</b>	<b>377.6</b>
Share Capital	23.3	23.3	23.4	23.4	23.5	24.5	24.6	24.6	24.6	188.6	218.5
Reserves and Other	102.7	102.6	102.0	95.5	95.8	100.0	100.5	99.1	190.7	96.3	99.9
Retained Earnings	(56.2)	(57.6)	(52.4)	(45.4)	(27.0)	3.8	15.1	33.9	24.3	36.1	59.2
<b>Current Liabilities</b>	<b>176.7</b>	<b>176.8</b>	<b>173.8</b>	<b>170.3</b>	<b>244.5</b>	<b>301.2</b>	<b>274.8</b>	<b>222.8</b>	<b>293.7</b>	<b>373.5</b>	<b>403.8</b>
ST Interest Bearing Debt	6.7	6.3	5.6	4.9	5.1	5.1	5.1	5.1	5.1	12.6	34.7
Trade Payables	145.5	143.1	133.6	131.8	186.1	221.1	240.5	194.6	230.8	263.2	303.8
Accrued Wages	1.8	1.8	1.9	1.9	2.1	2.3	2.7	2.7	2.6	2.9	3.2
Accrued Taxes	2.8	2.3	4.8	0.8	3.7	10.6	6.5	2.4	1.1	1.2	1.3
Other Current Liabilities	20.0	23.4	28.0	30.9	47.4	61.9	19.9	18.0	54.0	93.6	60.8
<b>LT Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>175.0</b>	<b>175.0</b>	<b>199.8</b>	<b>206.5</b>	<b>199.3</b>
LT Interest Bearing Debt	-	-	-	-	-	-	175.0	175.0	198.7	205.4	198.2
Other LT	-	-	-	-	-	-	-	-	1.1	1.1	1.1
<b>Total Liabilities &amp; Equity</b>	<b>246.5</b>	<b>245.1</b>	<b>246.9</b>	<b>243.8</b>	<b>336.8</b>	<b>429.5</b>	<b>590.0</b>	<b>555.4</b>	<b>733.1</b>	<b>901.0</b>	<b>980.6</b>

# ALMK's Quarterly Analysis



\*Quarterly ROE and ROA are annualized

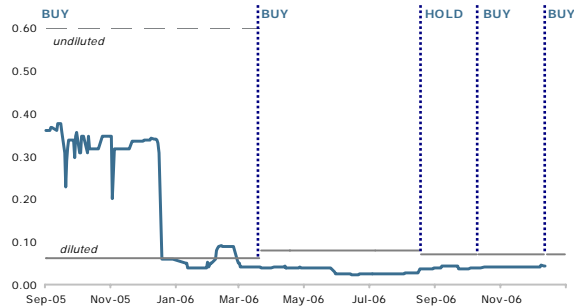
## Analyst Certification

I, Andriy Gostik, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

### Company Report History

Date	Target price, USD	Market price, USD	Recommendation	Action
13 Dec 2006	0.07	0.04	BUY	Maintain
11 Oct 2006	0.07	0.05	BUY	Upgrade
18 Aug 2006	0.07	0.07	HOLD	Downgrade
22 Mar 2006	0.08	0.04	BUY	Maintain
15 Nov 2005*	0.60/0.06	0.04	BUY	Maintain
23 Sep 2005*	0.60/0.06	0.38	BUY	Initiating

\* Due to a lag in market reaction to ALMK's additional share issue and delays with the subscription for additional shares, we reported both diluted and undiluted target prices from September 2005 to March 2006.



From January 2005 to September 2005 the companies were covered by another analyst, Viktor Koval. In November 2005, Andriy Gostik assumed coverage of these companies. Koval is no longer an analyst with Concorde Capital.

### Concorde Rating Universe

Buy	39	53%
Hold	16	22%
Sell	13	18%
Under Review/Suspended	6	8%
<b>Total</b>	<b>74</b>	<b>100%</b>

**Concorde Capital**  
**3V Sportyvna Square**  
**2nd entrance, 3rd floor**  
**Kyiv 01023, UKRAINE**

Tel: +380 44 207 5030  
Fax: +380 44 206 8366  
www.concorde.com.ua  
office@concorde.com.ua

**CEO**

Igor Mazepa

im@concorde.com.ua

**Equity Sales**

Marina Martirosyan  
Lucas Romriel  
Anastasiya Nazarenko

mm@concorde.com.ua  
lr@concorde.com.ua  
an@concorde.com.ua

**Director of Research**

Konstantin Fisun, CFA

kf@concorde.com.ua

**Chief Strategist**

Tom Warner

tw@concorde.com.ua

**Utilities (Telecom, Energy)**

Alexander Paraschiy

ap@concorde.com.ua

**Metals & Mining**

Andriy Gostik  
Eugene Cherviachenko

ag@concorde.com.ua  
ec@concorde.com.ua

**Machine Building, Construction, Consumer Goods**

Olha Pankiv

op@concorde.com.ua

**Financial Services & Macroeconomics**

Alexander Viktorov

av@concorde.com.ua

**Oil & Gas, Chemicals**

Vladimir Nesterenko

vn@concorde.com.ua

**Fixed Income**

Oleksandr Klymchuk

ok@concorde.com.ua

**News/Production**

Nick Piazza  
Polina Khomenko

np@concorde.com.ua  
pk@concorde.com.ua

**Editor**

Brad Wells

bw@concorde.com.ua

---

**Disclaimer**

This report has been prepared by Concorde Capital investment bank for informational purposes only. Concorde Capital does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that Concorde Capital may have a conflict of interest that could affect the objectivity of this report.

Concorde Capital, its directors and employees or clients may have or have had interests or long or short positions in the securities referred to herein, and may at any time make purchases and/or sales in them as principal or agent. Concorde Capital may act or have acted as market-maker in the securities discussed in this report. The research analysts, and/or corporate banking associates principally responsible for the preparation of this report receive compensations based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and investment banking revenues.

The information contained herein is based on sources which we believe to be reliable but is not guaranteed by us as being accurate and does not purport to be a complete statement or summary of the available data. Any opinions expressed herein are statements of our judgments as of the date of publication and are subject to change without notice. Reproduction without prior permission is prohibited. © 2006 Concorde Capital