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June 27, 2007
 12M Target: U/R

U/R

Market information

Bloomberg	ALMK UZ
No of Shares*, mln	10,775.4
No of Shares**, mln	25,775.4
Market price, USD	0.07
52Wk H/L, USD	0.11/0.04
MCap, USD mln	754.3
Free float	5.0%
FF MCap, USD mln	37.7

Stock ownership

IUD	95.0%
Other	5.0%

Ratios, 2006

EBITDA Margin	11.1%
Net Margin	4.0%
Net Debt/Equity	0.94

Note:

* N^o of shares outstanding

** N^o of shares after the additional share issue

We think that last Friday's announcement of Alchevsk Iron & Steel's delay of subscription for its new share issue indirectly leads to questions about the issue as a whole. This reveals an opportunity for risk-seekers to score a hefty one-off return if the issue is cancelled altogether, as on an undiluted basis the stock looks cheap. On a diluted basis, the stock seems to be fairly valued compared to its peers. Given the uncertainty, we keep the stock U/R.

Postponement of subscription suspicious

Last week the company announced it had postponed the first stage of subscription for its additional share issue, scheduled to start June 25. The issue would have brought the total number of shares from 10.8 bln to 25.8 bln. The official reasoning for the delay looks suspicious - the company's failed to publish an announcement as required by law, which is usually just a technicality.

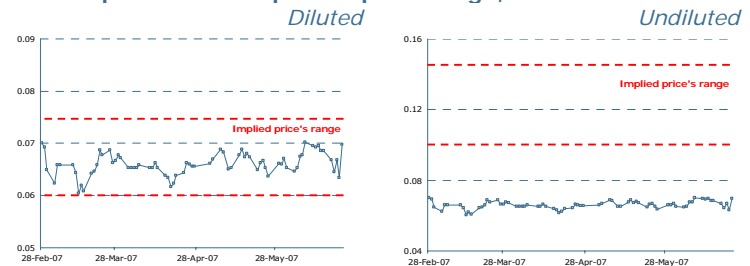
Why might the share issue be cancelled?

Although it could really be a technical delay, it is probable that management doubts whether to go ahead with the additional issue. This is likely to be the case if the company's owner, Industrial Union of Donbas, has found another source of financing for the steel maker, instead of 300 USD mln cash injection from the owner's own pocket.

Valuation yields a mixed bag

Our back-of-the-envelope calculations show that the stock trades within the narrow range of implied multiples-based prices on a diluted basis (USD 0.06-0.07), while it is undervalued on an undiluted basis.

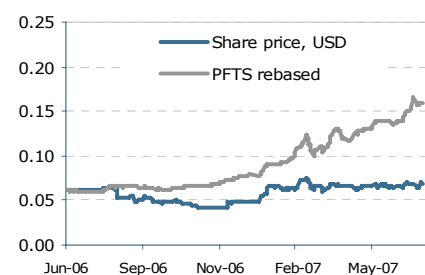
Market price vs. multiples-implied range, USD/share*



* News about the additional share issue was published February 28, 2007

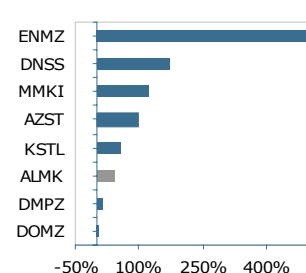
The range indicates the bounds of value for ALMK implied by relative valuation on EV/S, EV/EBITDA and EV/Output. The upper bound assigns more weight to output and sales-based multiples, while the lower - to profitability-based multiples.

Stock performance vs. PFTS

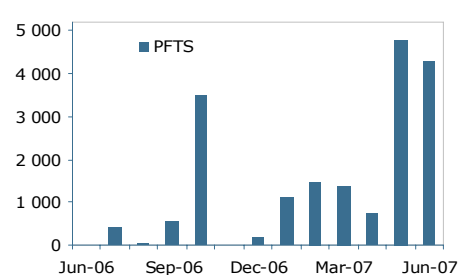


Source: PFTS, Bloomberg

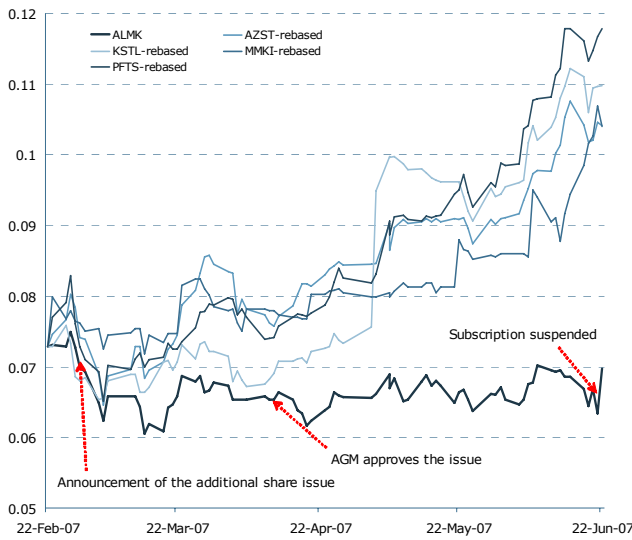
Sector performance, YTD



Trading volume, USD ths



ALMK vs Steel stocks, USD/share



Source: PFTS, Concorde Capital calculations

It is striking that since the announcement of an additional share issue at Alchevsk Iron & Steel, the stock has been in a sideways market, while all its Ukrainian peers entered a stage of sheer growth in late March (posting 40-60% since then).

Our hypothesis is that prior to the announcement the market felt the stock was worth more, but lacked catalysts. Almost overnight, the new share issue made the stock undervalued on a fully diluted basis. The fact that the downward price adjustment after the announcement was only 14%, rather than the technically required 40%, is equal to the scenario where the adjustment is made in full and is followed by buying activity. Had the stock price adjusted fully (by falling 40%), the return until June 25 would have been 70% -- in line with other peers.

Peer comparison

	MCap, USD mln	EV/S		EV/EBITDA		P/E		EV/Output, USD/mt
		2007E	2008E	2007E	2008E	2007E	2008E	
Alchevsk Iron & Steel*	1 804.3	1.31	1.14	11.9	9.5	23.9	17.3	616.1
Alchevsk Iron & Steel**	754.3	0.81	0.70	7.37	5.87	10.01	7.25	381.7
International peers								
INI Steel	4 763.9	0.96	1.03	7.34	7.81	9.01	8.97	1 143.2
Bluescope Steel	6 420.5	0.99	0.95	6.57	6.72	11.23	12.54	803.1
Maanshan	5 869.4	1.31	1.01	8.18	5.70	13.62	9.96	421.8
IPSCO	7 473.6	1.83	1.63	7.78	6.87	14.26	11.06	n/a
Arcelor Brazil	18 034.9	2.36	2.09	7.39	6.33	12.69	10.32	1 677.8
SSAB	9 680.5	1.90	1.78	7.38	7.21	12.34	12.84	627.1
Average		1.56	1.42	7.44	6.77	12.19	10.95	934.6
Russian peers								
Severstal	13 755.1	2.88	2.96	12.01	14.95	18.76	24.21	1 917.4
NLMK	18 129.5	1.46	1.37	5.59	5.44	11.72	11.78	2 575.1
NTMK	2 751.0	0.16	0.02	0.36	0.04	1.46	1.52	267.0
Mechel	5 224.2	1.61	1.51	4.31	4.44	8.67	9.62	578.0
MMK	12 548.3	1.82	1.54	5.39	4.82	8.53	8.07	1 112.7
Evrast Group	14 659.8	1.76	1.61	6.03	5.81	9.29	9.98	1 267.1
Average		1.61	1.50	5.61	5.92	9.74	10.87	1 334.4
Ukrainian peers								
MMK Illicha	3 590.6	1.06	1.04	7.56	7.41	22.03	21.60	494.2
Azovstal	3 108.8	1.08	0.95	5.83	4.53	9.25	7.63	548.9
Arcelor Mittal Kryviy Rih	7 069.4	2.19	2.04	8.09	7.56	11.79	11.02	908.8
Average		1.44	1.34	7.16	6.50	14.36	13.42	650.6

Undiluted

<i>International</i>								
<u>Implied price by Avg, USD</u>		<u>0.17</u>	<u>0.18</u>	<u>0.07</u>	<u>0.09</u>	<u>0.09</u>	<u>0.11</u>	<u>0.23</u>
<i>Upside/Downside</i>		150%	163%	2%	25%	22%	51%	235%
<i>Russian</i>								
<u>Implied price by Avg, USD</u>		<u>0.14</u>	<u>0.15</u>	<u>0.03</u>	<u>0.06</u>	<u>0.06</u>	<u>0.09</u>	<u>0.35</u>
<i>Upside/Downside</i>		106%	120%	-55%	-21%	-16%	30%	404%
<i>Ukrainian</i>								
<u>Implied price by Avg, USD</u>		<u>0.16</u>	<u>0.17</u>	<u>0.07</u>	<u>0.08</u>	<u>0.10</u>	<u>0.13</u>	<u>0.19</u>
<i>Upside/Downside</i>		126%	147%	-5%	17%	43%	85%	176%

Diluted

<i>International</i>								
<u>Implied price by Avg, USD</u>		<u>0.08</u>	<u>0.09</u>	<u>0.04</u>	<u>0.05</u>	<u>0.04</u>	<u>0.04</u>	<u>0.11</u>
<i>Upside/Downside</i>		21%	27%	-41%	-31%	-49%	-37%	56%
<i>Russian</i>								
<u>Implied price by Avg, USD</u>		<u>0.09</u>	<u>0.09</u>	<u>0.03</u>	<u>0.04</u>	<u>0.03</u>	<u>0.04</u>	<u>0.17</u>
<i>Upside/Downside</i>		26%	35%	-58%	-41%	-59%	-37%	137%
<i>Ukrainian</i>								
<u>Implied price by Avg, USD</u>		<u>0.08</u>	<u>0.08</u>	<u>0.04</u>	<u>0.05</u>	<u>0.04</u>	<u>0.05</u>	<u>0.08</u>
<i>Upside/Downside</i>		11%	20%	-43%	-34%	-40%	-23%	15%

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

* Based on a diluted number of shares

** Based on a undiluted number of shares

Note: The company practices transfer pricing, thus we rely more on EV/S and EV/Output metrics

Appendix 1: Key peer financials

in USD mln, unless otherwise stated

	Sales		EBITDA mgn, %		Net mgn, %	
	2007E	2008E	2007E	2008E	2007E	2008E
Alchevsk Iron & Steel	1 507.6	1 733.7	11.0%	12.0%	5.0%	6.0%
International Peers	<i>2007E</i>	<i>2008E</i>	<i>2007E</i>	<i>2008E</i>	<i>2007E</i>	<i>2008E</i>
INI Steel	6 610.5	7 394.0	16.5%	13.1%	7.7%	7.2%
Bluescope Steel	5 953.0	7 853.2	8.5%	15.1%	4.2%	7.3%
Maanshan	4 397.1	5 986.1	15.7%	16.0%	7.0%	7.2%
IPSCO	4 267.9	4 340.8	25.1%	23.5%	17.0%	12.1%
Arcelor Brazil	6 584.9	7 806.4	32.8%	32.0%	16.1%	18.2%
SSAB	4 538.1	4 863.5	22.1%	25.7%	13.7%	16.1%
Russian Peers	<i>2007E</i>	<i>2008E</i>	<i>2007E</i>	<i>2008E</i>	<i>2007E</i>	<i>2008E</i>
Severstal	4 369.5	4 796.1	22.4%	24.0%	13.9%	15.3%
NLMK	12 760.5	11 849.2	23.8%	26.0%	9.5%	13.1%
NTMK	6 045.6	6 522.1	43.0%	45.3%	31.2%	28.8%
Mechel	2 849.6	2 879.0	28.9%	37.3%	16.3%	20.9%
MMK	6 424.0	6 123.8	31.2%	33.7%	22.2%	24.0%
Evrast Group	8 292.0	10 166.8	31.4%	29.2%	16.7%	15.5%
Ukrainian peers	<i>2007E</i>	<i>2008E</i>	<i>2007E</i>	<i>2008E</i>	<i>2007E</i>	<i>2008E</i>
MMK Ilicha	3 260	3 325	14.0%	14.0%	5.0%	5.0%
Azovstal	3 055	3 422	18.5%	21.0%	11.0%	11.9%
Arcelor Mittal Kriviy Rih	3 157	3 378	27.0%	27.0%	19.0%	19.0%

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

Appendix 2: Alchevsk Iron & Steel financials, UAS

Income Statement Summary, USD mln

	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07
Net Revenues	152.5	192.5	0.2	458.1	222.1	272.1	233.8	265.6	188.1	367.1	341.7	326.7	315.5
Cost Of Sales	(144.2)	(179.5)	n/m	(440.3)	(185.9)	(213.9)	(192.9)	(219.4)	(161.4)	(310.5)	(269.7)	(271.4)	(274.9)
Gross Profit	8.2	13.0	10.0	17.8	36.2	58.2	40.9	46.2	26.7	56.6	72.1	55.3	40.6
Gross margin	5.4%	6.8%	n/m	3.9%	16.3%	21.4%	17.5%	17.4%	14.2%	15.4%	21.1%	16.9%	12.9%
Other Operating Income/Costs, net	9.2	(1.1)	(14.2)	20.6	(1.0)	(2.1)	(2.6)	(3.8)	0.5	(7.4)	7.7	(9.6)	2.2
SG&A	(5.2)	(5.9)	(4.4)	(7.4)	(6.2)	(7.6)	(12.0)	(9.6)	(14.8)	(16.9)	(15.9)	(18.5)	(15.6)
EBITDA	12.3	6.1	(8.6)	31.0	28.9	48.5	26.3	32.8	12.5	32.3	63.8	27.2	27.2
EBITDA margin	8.1%	3.2%	n/m	6.8%	13.0%	17.8%	11.3%	12.4%	6.6%	8.8%	18.7%	8.3%	8.6%
Depreciation	(4.0)	(4.7)	(4.4)	(4.4)	(4.1)	(4.9)	(5.3)	(6.3)	(7.6)	(7.0)	(7.6)	(7.8)	(7.7)
EBIT	8.3	1.5	(13.1)	26.6	24.9	43.6	21.0	26.5	4.9	25.3	56.3	19.3	19.5
EBIT margin	5.4%	0.8%	n/m	5.8%	11.2%	16.0%	9.0%	10.0%	2.6%	6.9%	16.5%	5.9%	6.2%
Interest Expense	(0.3)	(0.3)	(0.5)	0.1	(0.2)	(0.2)	(0.9)	(4.5)	(4.0)	(4.2)	(7.7)	(6.0)	(4.6)
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	0.0	0.0
Other income/(expense)	(0.7)	(0.1)	0.6	(0.7)	(0.4)	(0.3)	(0.5)	(0.2)	(0.1)	(0.5)	(1.4)	(3.0)	(0.3)
PBT	7.4	1.1	(13.0)	26.0	24.3	43.1	19.6	22.2	0.8	20.7	47.2	10.3	14.7
Tax	(3.8)	(2.4)	2.4	(9.2)	(5.7)	(11.5)	(7.8)	(6.0)	(1.8)	(10.4)	(14.8)	(3.5)	(6.1)
Net Income	3.5	(1.3)	(10.6)	16.8	18.6	31.6	11.8	16.3	(1.0)	10.2	32.5	6.9	8.6
Net Margin	2.3%	-0.7%	n/m	3.7%	8.4%	11.6%	5.0%	6.1%	-0.5%	2.8%	9.5%	2.1%	2.7%

Balance Sheet Summary, USD mln

	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07
Current Assets	124.2	121.2	102.9	102.3	177.8	233.6	349.2	292.3	431.3	549.2	445.1	313.7	357.0
Cash & Equivalents	0.1	3.4	0.1	3.6	5.3	4.6	92.4	3.1	4.3	6.2	2.2	7.1	5.9
Trade Receivables	58.2	29.6	35.2	22.5	29.2	67.4	37.8	42.1	57.7	135.8	108.1	37.0	56.1
Inventories	46.5	60.8	46.6	42.4	74.8	79.0	87.7	88.4	151.3	113.9	116.9	123.4	169.5
Other current assets	19.4	27.4	21.0	33.7	68.5	82.7	131.3	158.7	218.0	293.3	217.9	146.2	125.5
Fixed Assets	122.3	123.9	120.4	141.5	159.0	195.9	240.8	263.1	301.8	351.8	535.6	754.8	852.1
PP&E, net	111.2	109.1	110.8	108.8	112.9	117.2	121.3	177.4	175.0	174.9	182.4	288.6	293.9
Other Fixed Assets	11.0	14.8	9.6	32.7	46.1	78.7	119.5	85.7	126.8	176.9	353.2	466.2	558.3
Total Assets	246.5	245.1	223.3	243.8	336.8	429.5	590.0	555.4	733.1	901.0	980.6	1068.5	1209.1
Shareholders' Equity	69.7	68.3	55.9	73.5	92.3	128.3	140.2	157.6	239.6	321.0	377.6	388.7	397.1
Share Capital	23.3	23.3	23.4	23.4	23.5	24.5	24.6	24.6	24.6	188.6	218.5	222.6	222.6
Reserves and Other	102.7	102.6	103.1	95.5	95.8	100.0	100.5	99.1	190.7	96.3	99.9	97.9	97.4
Retained Earnings	(56.2)	(57.6)	(70.6)	(45.4)	(27.0)	3.8	15.1	33.9	24.3	36.1	59.2	68.2	77.1
Current Liabilities	176.7	176.8	167.4	170.3	244.5	301.2	274.8	222.8	293.7	373.5	403.8	339.4	381.3
ST Interest Bearing Debt	6.7	6.3	8.5	4.9	5.1	5.1	5.1	5.1	5.1	12.6	34.7	33.3	42.4
Trade Payables	145.5	143.1	140.4	131.8	186.1	221.1	240.5	194.6	230.8	263.2	303.8	253.8	262.7
Accrued Wages	1.8	1.8	1.3	1.9	2.1	2.3	2.7	2.7	2.6	2.9	3.2	3.0	3.9
Accrued Taxes	2.8	2.3	1.4	0.8	3.7	10.6	6.5	2.4	1.1	1.2	1.3	1.0	1.3
Other Current Liabilities	20.0	23.4	15.8	30.9	47.4	61.9	19.9	18.0	54.0	93.6	60.8	48.2	71.0
LT Liabilities	-	-	-	-	-	-	175.0	175.0	199.8	206.5	199.3	340.4	430.7
LT Interest Bearing Debt	-	-	-	-	-	-	175.0	175.0	198.7	205.4	198.2	340.4	430.7
Other LT	-	-	-	-	-	-	-	-	1.1	1.1	1.1	-	-
Total Liabilities & Equity	246.5	245.1	223.3	243.8	336.8	429.5	590.0	555.4	733.1	901.0	980.6	1068.5	1209.1

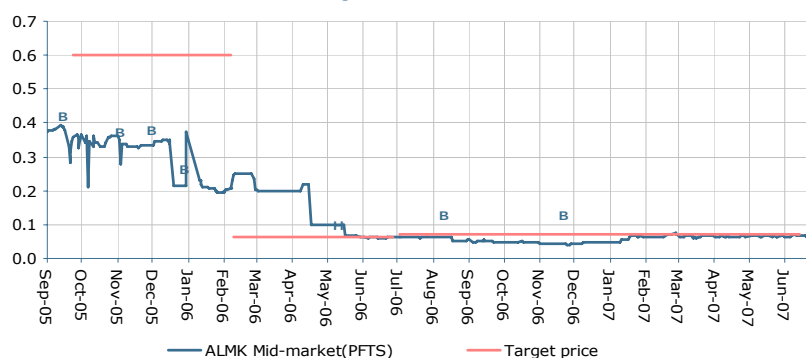
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Alchevsk Iron & Steel

Date	Target price, USD	Market Price, USD	Rec'	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
08-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
09-Jun-07	0.04	0.04	BUY	Maintain
27-Jun-07	U/R	0.07	U/R	U/R

Recommendations history



Concorde Capital Rating Universe

Buy	32	38.1%
Hold	11	13.1%
Sell	5	6.0%
Pending/Suspended	25	29.8%
Not Rated	11	13.1%
Total	84	100%

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