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Analyst's Notebook

Ukraine / Metallurgy
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Azovstal: Sharp Contrast To Zaporizhstal

Azovstal Announces Buy-Back Offer ...

The company's (**AZST: Susp**) supervisory board announced today that it had approved a buy-back price for AZST stock of USD 0.36 per share. Minority shareholders who did not vote for AZST's dilutive share issue at the EGM on May 19 have the right to sell their shares back to AZST at this price until September 1. The price approved is exactly equal to the current market ask quote and is 15% above the bid quote of USD 0.31. However, the offer is about 25% lower than the USD 0.48 market price that prevailed before Azovstal's share issue plan was announced.

... Not Great, but Better Than Zaporizhstal's Offer

Although it is less than what the market was hoping for, AZST's buy-back offer is much better than what Zaporizhstal (**ZPST: Susp**) offered to its minority shareholders last week. ZPST's offer was more than three times lower than the market price prior to its share issue announcement.

Offer Likely Be Accepted

On the other hand, we believe a fair buy-back price for Azovstal would have to be slightly less than USD 0.48, as the PFTS index has slipped by some 13% in the past two months. Moreover, steel companies' weak 5M06 financials (AZST was no exception) brought steel stocks down further than the general market (e.g., MMKI's mid-market price fell 23% after low 1Q06 and 5M06 earnings were reported). We believe a reduction of at least 15% in AZST's price could justifiably be attributed to market conditions and the company's impaired financials, separate from the news of the dilutive share issue. That would leave us with a fair buy-back price of about USD 0.42 per share, 16% higher than what AZST offered. We think minority investors who want to sell out of AZST will accept the offer of USD 0.37. However, given the metallurgy sector's ongoing recovery and the likelihood that the company's results will improve throughout the rest of the year, we think it would be wiser to hold the stock and look for a market turnaround.

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