



Analyst's Notebook

Ukraine / Metallurgy
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****Editor's Note:** The Analyst's Notebook is Concorde Capital's fast response tool for keeping our coverage of the Ukrainian market as up to date as possible. Unlike our more in-depth desk notes and reports, Analyst's Notebook provides rapid feedback on breaking news in the Ukrainian market. Analyst's Notebook gives you our analysts' first impressions of a situation and may set the table for further investigation. Our analysts will use their experience in their sectors to take a look at the situation and provide insight or speculate on possible scenarios. We want to emphasize however, this product consists mostly of the analyst's intuition and may require further analysis.

Altai-Koks's Acquisition: A Road Map For Ukrainian Coke Makers?

The End Of Independent Coking?

On March 29, 2006 Russia's Novolipetsk Steel (NLMK) announced that it had signed an agreement with Altai-Koks's shareholders for the purchase of 82% shares in Altai-Koks. In addition to Altai-Koks, NLMK also purchased a 100% in a holding company Kuzbass Asset Holdings Limited which owns 100% of the coal company ProkopyevskUgol. The two assets will cost NLMK USD 750 mln.

This event puts the last independent coke maker in Russia in the hands of a steel major. We believe that a similar fate awaits many of its Ukrainian peers in the not so distant future. The merger of Markokhim and Azovstal in 2H05 and the long term lease of Yasinovsky Coke's capacities by Mariupol Illica starting from January 2006 support this belief. We feel that minority shareholders in Ukrainian coke producers are likely to benefit from M&A activity in the sector, as it is expected to increase liquidity and prices for neglected coke stocks.

Valuation Implications For Ukrainian Coke Makers

If we assume that Altai-Koks's stake was to be purchased at current market prices, the stake's value would amount to ~USD 462, which is probably a bit higher than the price NLMK has actually agreed upon. We believe that NLMK negotiated for the purchase price with Altai-Koks's shareholders some time in 2H05, when the latter's MCap was lower than it is now. This resulted in the total amount to be paid for the coke and the coal companies coming out to only USD 750 mln. We argue, however, that to value Ukrainian coke companies as potential takeover targets now, Altai-Koks's current MCap would be a more appropriate yardstick. The table below compares only output based valuation metrics for Altai-Koks and its Ukrainian peers leaving all other factors that may affect valuation aside.

	Production in 2005, mln mt	MCap	MCap/mt
Avdiyivka Coke (AVDK: BUY)	3.6	824.8	227.6
Alchevsk Coke (ALKZ: SELL)	2.6	210.8	80.2
ZaporizhCoke (ZACO: BUY)	2.6	190.9	72.6
Yasynivsky Coke (YASK: HOLD)	1.4	128.6	93.5
Donetsk Coke (DKOK: HOLD)	1.0	67.3	67.7
Bagliy Coke (BKOK: SELL)	0.8	136.9	164.7
Altai-Coks	2.0	563.2	281.6

Based on the numbers above, Ukrainian coke stocks posed to appreciate the most due to a possible acquisition are Donetsk Coke, ZaporizhCoke and Yasynivsky Coke. We are not so certain about Alchevsk Coke and Bagliy Coke because their current market prices are very unreliable due to extremely low liquidity. Avdiyivka Coke is the most liquid among Ukrainian coke stocks and on the production metric its value approaches that of Altai-Koks.

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