CONCORDE CAPITAL

Ukraine / Coke

Avdiyivka Coke

Increasing loaded capacity

December 04, 2007

Current price: USD 3.92
12M Target: USD 6.20

BUY

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Tickers

Bloomberg	AVDK UZ

Market information

Market price, USD	3.92
MCap, USD mln	759.8
52Wk Hi/Lo, USD	4.41/1.68
No of shares, mln	193.6
Free float	3.2%
Free float, USD mln	24.3

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.*

Shareholders

Metinvest	90.9%
MMK Illicha Steel	5.9%
Other	3.2%

Ratios 2007E

EBITDA margin	8.5%
Net margin	-8.5%
Net debt/equity	0.14

- **The company's plan to commence production at two more coke batteries in the next two years supports our long-term forecast of output growth at 6.7% 5Y CAGR**
- **9M sales and EBITDA were in line with our expectations; net income dropped apparently due to one-off non-cash losses from the transfer of its stake in Pavlohrad Coal**
- **Target price unchanged**

Production forecasts supported

Our forecasts of Avdiyivka boosting production to 4.7 mln mt per annum in 2012, or 48% more than its level in 2006 (see our October 18 report) was substantiated by yesterday's news in trade publication Metal Courier:

- Avdiyivka Coke plans to launch coke battery #3, currently in standby mode, to meet additional demand. The battery is expected to reach full capacity (690 ths mt annually) by mid-2008
- The company will also overhaul coke battery #4 to double the oven's capacity to 690 ths mt annually. It expects to launch the battery in 2009

9M07 sales, EBITDA as expected, net income distorted

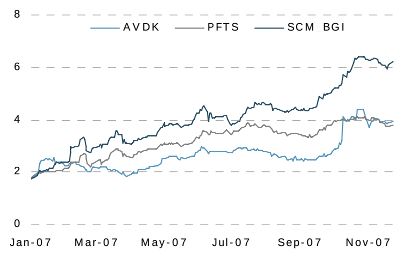
- Sales grew 27.2% yoy to USD 581.3 mln (vs. our 2007 forecast of 28.5% yoy), EBITDA margin was 8.3% (close to our full year forecast of 8.5%)
- Net income dropped in 3Q07 due to 'other expenses' of USD 61.7 mln, which we attribute to one-off non-cash losses. In August 2007 Avdiyivka transferred its 92.1% stake in Pavlohrad Coal to DTEK, SCM's energy wing, apparently at a lower price than paid at privatization in 2004
- Normalized net income in 3Q07 amounted USD 0.7 mln vs USD -8.7 mln in 2Q07. We expect normalized net income of USD 10 mln in 3Q07 and negative USD 2.6 mln in 2007, less than our previous 2007 projection of USD 9.1 mln due to higher D&A and interest expenses. We forecast a reported net loss of USD 70.6 mln in 2007
- We update our 2007 forecasts, and maintain our long-term projections

	2Q07	3Q07	*QoQ*	9M06	9M07	*YoY*	new 2007E	old 2007E
Sales	214.4	203.0	*-5.3%*	457.0	581.3	*27.2%*	830.0	830.0
EBITDA	11.1	26.6	*139.5%*	61.4	48.0	*-21.9%*	70.7	70.7
margin, %	*5.2%*	*13.1%*	*7.9p.p.*	*13.4%*	*8.3%*	*-5.1 p.p.*	8.5%	8.5%
Net income	-8.7	-60.9	*n/m*	16.8	-80.6	*n/m*	-70.6	9.1
margin, %	*-4.0%*	*-30.0%*	*-26.0p.p.*	*3.7%*	*-13.9%*	*-17.6 p.p.*	-8.5%	1.1%

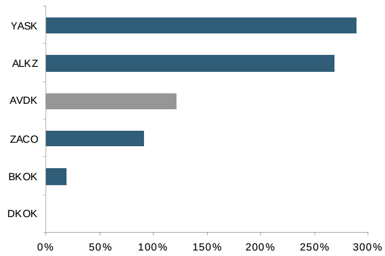
Recent correction revealed more upside

- During November's market correction, AVDK's price dropped 11% from USD 4.41 per share to USD 3.92
- We reiterate 12M target price of USD 6.20 (58% upside). We maintain BUY

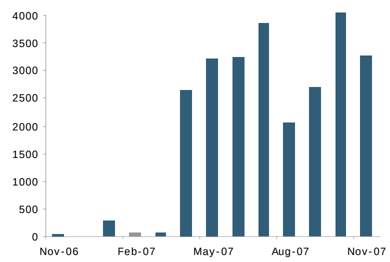
Stock performance, *12M**



Sector Performance, *YTD*



PFTS Trading Volumes, *USD ths*



*Source: PFTS, Bloomberg. * PFTS index, SCM BGI rebased to AVDK's price*

Key financials & ratios, *USD mln*

	Revenue	EBITDA margin	Net margin	EV/S	EV/EBITDA	P/E
2006	647.7	12.3%	1.6%	1.4	11.4	73.1
2007E	832.2	8.5%	-8.5%	1.1	12.7	n/m
2008E	930.8	13.5%	6.0%	0.9	7.0	13.7

Spot exchange rate: 5.05 UAH/USD

Quarterly Financial Statements

Income statement summary, USD mln

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
Net Revenues	**458.4**	**272.3**	**178.5**	**210.6**	**116.6**	**170.1**	**170.3**	**190.7**	**163.8**	**214.4**	**203.0**
Cost Of Sales	(378.0)	(225.0)	(148.8)	(178.9)	(94.7)	(143.0)	(134.6)	(168.2)	(147.3)	(194.8)	(169.2)
Gross Profit	80.4	47.4	29.7	31.7	21.9	27.1	35.8	22.4	16.5	19.6	33.8
Gross margin	*17.5%*	*17.4%*	*16.7%*	*15.1%*	*18.8%*	*15.9%*	*21.0%*	*11.8%*	*10.1%*	*9.2%*	16.7%
Other Operating Income/Costs, net	(0.8)	(1.1)	16.4	8.4	(1.0)	(5.4)	(1.0)	1.2	(1.2)	(3.1)	(2.1)
SG&A	(4.5)	(6.5)	(4.3)	(7.8)	(5.0)	(6.0)	(4.9)	(5.4)	(5.1)	(5.4)	(5.2)
EBITDA	**75.1**	**39.8**	**41.8**	**32.3**	**16.0**	**15.6**	**29.8**	**18.3**	**10.3**	**11.1**	**26.6**
EBITDA margin	*16.4%*	*14.6%*	*23.4%*	*15.3%*	*13.7%*	*9.2%*	*17.5%*	*9.6%*	*6.3%*	*5.2%*	13.1%
Depreciation	(4.1)	(4.2)	(4.3)	(4.3)	(4.1)	(4.2)	(4.3)	(4.6)	(13.9)	(14.7)	(15.3)
EBIT	**70.9**	**35.6**	**37.5**	**27.9**	**11.9**	**11.5**	**25.6**	**13.7**	**(3.6)**	**(3.6)**	**11.3**
EBIT margin	*15.5%*	*13.1%*	*21.0%*	*13.3%*	*10.2%*	*6.7%*	*15.0%*	*7.2%*	*-2.2%*	*-1.7%*	5.6%
Interest Expense	(12.4)	(12.0)	(12.5)	(12.4)	(7.5)	(5.8)	(4.8)	(3.6)	(3.6)	(3.1)	(4.0)
Financial income/(expense)	-	0.0	-	(32.2)	-	-	-	(9.4)	0.0	0.0	0.0
Other income/(expense)	2.8	21.3	0.7	0.1	(1.1)	0.4	(3.2)	(3.6)	0.3	1.1	(61.7)
PBT	**61.3**	**44.9**	**25.8**	**(16.6)**	**3.3**	**6.0**	**17.6**	**(2.8)**	**(7.0)**	**(5.6)**	**(54.4)**
Tax	(14.7)	(12.6)	(4.7)	(11.3)	(2.0)	(3.5)	(4.3)	(3.6)	(4.0)	(3.1)	(6.5)
Net Income	**46.6**	**32.5**	**21.3**	**(28.0)**	**1.1**	**2.4**	**13.2**	**(6.4)**	**(11.0)**	**(8.7)**	**(60.9)**
Net Margin	*10.2%*	*11.9%*	*11.9%*	*-13.3%*	*1.0%*	*1.4%*	*7.8%*	*-3.4%*	*-6.7%*	*-4.0%*	-30.0%

Balance sheet summary, USD mln

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q06	2Q07	3Q07
Current Assets	**349.5**	**230.1**	**167.7**	**200.3**	**231.5**	**163.8**	**164.4**	**162.7**	**303.8**	**220.3**	**581.4**
Cash & Equivalents	13.8	6.5	10.1	36.1	13.1	8.8	3.2	3.7	2.8	2.1	3.5
Trade Receivables	117.5	113.2	89.3	46.3	40.0	52.2	69.1	31.0	130.1	53.6	128.4
Inventories	38.1	54.8	33.6	35.1	35.4	31.2	31.6	44.2	43.4	41.4	39.9
Other current assets	180.0	55.5	34.7	82.7	143.1	71.5	60.5	83.8	127.4	123.2	409.6
Fixed Assets	**954.1**	**1,095.0**	**1,098.7**	**844.1**	**789.3**	**791.8**	**780.2**	**1,177.7**	**1,126.3**	**1,111.4**	**760.8**
PP&E, net	129.3	134.2	133.4	134.6	131.1	137.6	135.3	434.6	428.0	417.2	408.3
Other Fixed Assets	824.8	960.9	965.3	709.5	658.2	654.2	644.9	743.1	698.3	694.2	352.5
Total Assets	**1,303.6**	**1,325.1**	**1,266.3**	**1,044.3**	**1,020.8**	**955.6**	**944.6**	**1,340.4**	**1,430.1**	**1,331.7**	**1,342.2**
Shareholders' Equity	**519.6**	**575.5**	**597.4**	**578.8**	**580.0**	**582.4**	**594.9**	**846.5**	**840.7**	**834.5**	**773.4**
Share Capital	64.5	67.4	67.5	67.5	67.5	67.5	67.5	67.5	67.5	67.5	67.5
Reserves and Other	107.1	111.8	111.9	122.3	122.2	122.0	121.5	341.9	332.6	322.9	290.3
Retained Earnings	348.0	396.3	418.1	389.0	390.4	392.9	405.9	437.1	440.5	444.1	415.6
Current Liabilities	**278.0**	**245.9**	**172.5**	**144.3**	**239.3**	**342.1**	**193.2**	**252.2**	**349.4**	**309.8**	**404.6**
ST Interest Bearing Debt	-	-	-	-	108.9	205.0	24.5	-	-	-	-
Trade Payables	169.1	141.7	73.1	94.3	55.8	60.5	51.9	140.4	237.5	203.8	273.0
Accrued Wages	1.0	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.5
Accrued Taxes	14.6	10.0	2.1	0.4	0.5	0.4	0.4	0.4	0.5	0.5	6.7
Other Current Liabilities	93.3	93.1	96.3	48.4	73.0	75.0	115.2	110.2	110.1	104.3	123.3
LT Liabilities	**506.0**	**503.7**	**496.4**	**321.2**	**201.5**	**31.0**	**156.5**	**241.7**	**240.1**	**187.4**	**164.2**
LT Interest Bearing Debt	479.0	472.1	472.1	297.7	177.9	7.5	133.0	150.0	150.0	99.6	100.0
Other LT	27.0	31.5	24.3	23.6	23.6	23.6	23.6	91.7	90.1	87.8	64.2
Total Liabilities & Equity	**1,303.6**	**1,325.1**	**1,266.3**	**1,044.3**	**1,020.8**	**955.6**	**944.6**	**1,340.4**	**1,430.1**	**1,331.7**	**1,342.2**

Projected Financials

Income statement summary, USD mln

	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
Net Revenues	**1,128**	**648**	**830.0**	**928**	**996**	**1,053**	**1,145**	**1,168**
Change, yoy	*N/M*	*-42.6%*	*28.1%*	*11.8%*	*7.3%*	*5.7%*	*8.8%*	*2.1%*
Cost Of Sales	(938)	(540)	(735)	(770)	(822)	(868)	(944)	(964)
Gross Profit	191	107	95	158	174	184	200	204
Other Operating Income/Costs, net	23	(6)	-	-	-	-	-	-
SG&A	(23)	(21)	(25)	(32)	(35)	(37)	(40)	(41)
EBITDA	**190**	**80**	**71**	**125**	**139**	**147**	**160**	**164**
EBITDA margin	*16.9%*	*12.3%*	*8.5%*	*13.5%*	*14.0%*	*14.0%*	*14.0%*	*14.0%*
Depreciation	(17)	(17)	(35)	(35)	(35)	(35)	(35)	(35)
EBIT	**173**	**63**	**36**	**91**	**105**	**113**	**125**	**129**
EBIT margin	*15.4%*	*9.7%*	*4.3%*	*9.8%*	*10.5%*	*10.7%*	*11.0%*	*11.0%*
Interest Expense	(49)	(22)	(24)	(17)	(15)	(13)	(11)	(10)
Financial income/(expense)	(32)	(9)	-	-	-	-	-	-
Other income/(expense)	25	(8)	(60.3)	-	-	-	-	-
PBT	**117**	**24**	**(53.7)**	**74**	**90**	**100**	**114**	**118**
Tax	(44)	(13)	(17)	(19)	(23)	(25)	(29)	(30)
Net Income	**74**	**10**	**(70.6)**	**56**	**68**	**75**	**86**	**89**
Net Margin	*6.6%*	*1.6%*	*-8.5%*	*6.0%*	*6.8%*	*7.1%*	*7.5%*	*7.6%*

Balance sheet summary, USD mln

	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
Current Assets	**200**	**163**	**174**	**193**	**206**	**214**	**222**	**220**
Cash & Equivalents	36	4	5	6	6	6	7	7
Trade Receivables	46	31	74	84	90	95	103	105
Inventories	35	44	37	39	41	43	42	39
Other current assets	83	84	58	65	70	70	70	70
Fixed Assets	**844**	**1,178**	**900**	**899**	**899**	**900**	**899**	**899**
PP&E, net	135	435	468	467	467	467	467	467
Other Fixed Assets	710	743	432	432	432	432	432	432
Total Assets	**1,044**	**1,340**	**1,074**	**1,092**	**1,106**	**1,114**	**1,121**	**1,120**
Shareholders' Equity	**579**	**846**	**785**	**821**	**841**	**863**	**881**	**898**
Share Capital	67	67	67	67	67	67	67	67
Reserves and Other	511	779	718	754	774	797	814	831
Retained Earnings	**144**	**252**	**119**	**126**	**132**	**137**	**147**	**150**
Current Liabilities	-	-	12	14	12	11	11	12
ST Interest Bearing Debt	94	140	80	83	89	94	99	101
Trade Payables	1	1	1	1	1	1	1	1
Accrued Wages	0	0	0	0	0	0	0	0
Accrued Taxes	48	110	25	28	30	32	34	35
Other Current Liabilities	**321**	**242**	**127**	**108**	**92**	**75**	**59**	**59**
LT Liabilities	298	150	127	108	92	75	59	59
LT Interest Bearing Debt	24	92	-	-	-	-	-	-
Other LT	**1,044**	**1,340**	**1,074**	**1,092**	**1,106**	**1,114**	**1,121**	**1,120**
Total Liabilities & Equity	**579**	**846**	**785**	**821**	**841**	**863**	**881**	**898**

Appendix - Disclosures

Analyst Certification

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

Avdiyivka Coke

Date	**Target price**, USD	**Market Price**, USD	**Rec'**	**Action**
23-Sept-05	6.74	3.56	BUY	Initiating
23-Aug-06	4.79	2.96	BUY	Upgrade
29-Dec-06	4.79	2.00	BUY	Maintain
28-Feb-07	5.14	2.13	BUY	Maintain
17-Oct-07	6.20	3.08	BUY	Maintain
04-Dec-07	6.20	3.92	BUY	Maintain

** Until March 2007 the company was covered by Andriy Gostik, who now focuses on another sector. In February 2007, Eugene Cherviachenko took over coverage; in October 2007, he was joined by Andriy Gerus.*

AVDK Recommendation history, *USD per share*

Investment Ratings

The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 15% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 15%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

Concorde Capital ratings distribution		
Buy	37	44%
Hold	29	35%
Sell	7	8%
Under Review	11	13%
Total	84	100%

Investment banking clients*		
Buy	8	80%
Hold	2	20%
Sell	0	0%
Under Review	0	0%
Total	10	100%

* *Concorde Capital provided investment banking services to the company within the past 12 months.*

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