



CONCORDE CAPITAL

Ukraine / Coke

Avdiyivka Coke

Looking ahead to 2Q08 results

July 30, 2008

Current price: USD 3.70
12M Target: USD 7.62

BUY

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We believe now is a good juncture to buy into Avdiyivka Coke, in anticipation of the release of strong 1H08 financials; 1Q08 numbers served as a catalyst in May. A mix of higher than expected coke output by Avdiyivka in 1H08 (+39% yoy) and stronger than estimated market prices for coke (+200% yoy in July) supports our bullish view on the stock. Our 12M TP of USD 7.6 offers 105% upside to the current market price.

Tickers

Bloomberg AVDK UZ

Market information

Market price, USD	3.70
MCap, USD mln	716.3
52Wk Hi/Low, USD	4.69/2.53
No of shares, mln	193.6
Free float	3.2%
Free float, USD mln	22.9

Corporate Governance

Concorde Rating* A

* 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	5.9%
Other	3.2%

Ratios 2008E

EBITDA margin	18.0%
Net margin	9.8%

Strong interim financials anticipated

We expect Avdiyivka to post strong 2Q08 financials due to solid fundamentals.

Revenues

We project revenues, driven by output and price growth, will increase to USD 480 mln in 2Q08 (+125% yoy or +15% qoq). In 2Q08, Avdiyivka's coke production totaled 1.2 mln mt (+43.2% yoy or +5.6% qoq). Output growth in 1H08 (+39% yoy) is almost 7 pp above our 2008 forecast. In July 2008 domestic coke prices rallied 200% yoy to a new historical high of USD 537/mt.

Profits

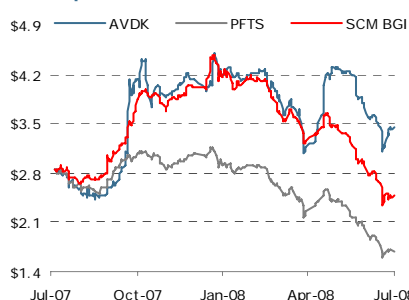
We estimate that the company's profits will be propelled by a widening cost/price difference: prices for coke jumped 200% yoy in July while prices for its main raw material, coking coal, rose only about 150% yoy. We forecast EBITDA of USD 100 mln in 2Q08 (9x higher than in 2Q07 and up 17% from 1Q08) and net income of USD 65 mln in 2Q08 (vs. USD 56 mln in 1Q08).

Half-year financial results expected to be price catalyst

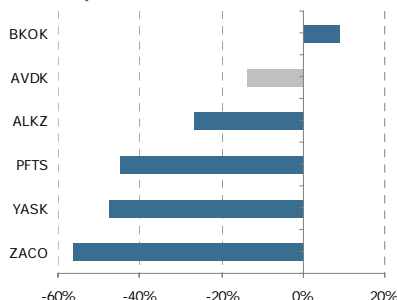
In May, the stock rose as much as 20% following release of positive 1Q08 financials (see Appendix 2). We think 1H08 figures, which are usually available in August, will be a catalyst for the stock. After a two month long correction, AVDK only recently rebounded (+15% over the last ten trading days).

Our target price of USD 7.62 offers 105% upside to the current market price. We will revise our DCF model assumptions following reported 1H financials.

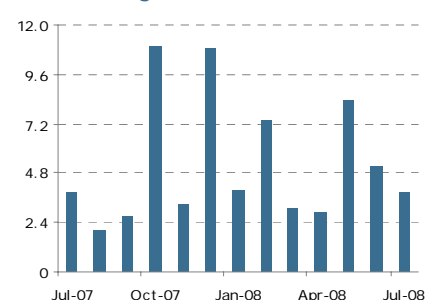
Stock performance, 12M*



Sector performance, YTD



PFTS trading volumes, USD mln



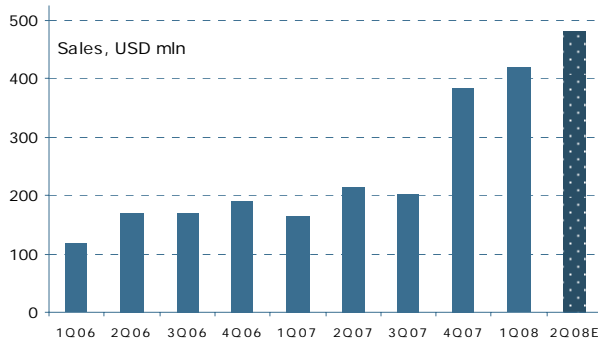
Source: PFTS, Bloomberg, Concorde Capital. * PFTS, SCM BGI rebased to AVDK's price

Key financials & ratios, USD mln

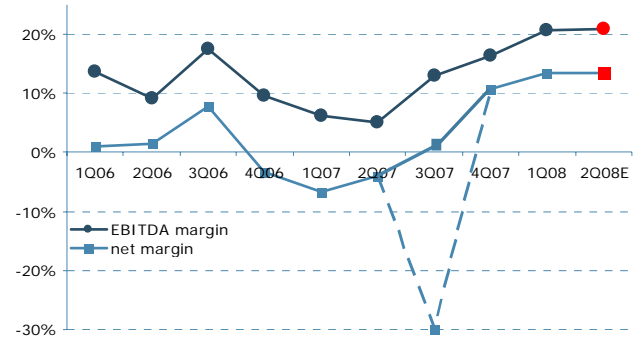
	Revenue	EBITDA margin	Net margin	EV/S	EV/EBITDA	P/E
2007	963.9	11.5%	-4.3%	0.8	7.3	n/m
2008E	1,669.6	18.0%	9.8%	0.5	2.6	4.4
2009E	1,712.0	17.5%	9.9%	0.4	2.3	4.2

Appendix 1

Avdiyivka financials (quarterly) *



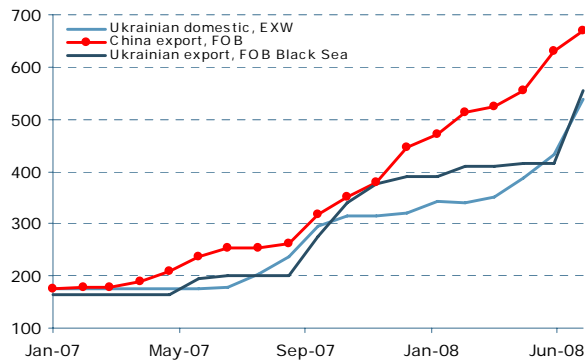
Source: Company data, Concorde Capital estimations



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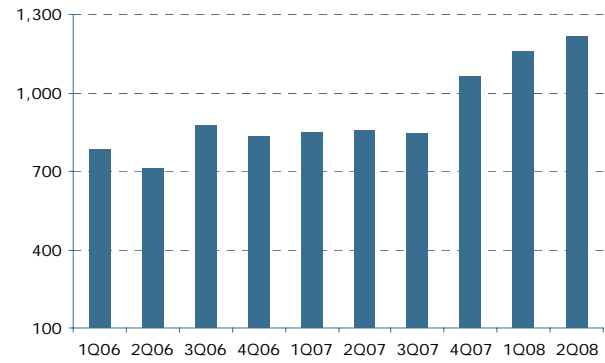
* 3Q07 net margin is adjusted for Avdiyivka Coke's one-off non-operating losses (Avdiyivka transferred a 92% stake in Pavlohrad Coal to DTEK in August 2007 at a lower price than paid at its 2004 privatization); dashed line indicates net margin without this adjustment

Coke prices, USD/mt



Source: Metal Expert

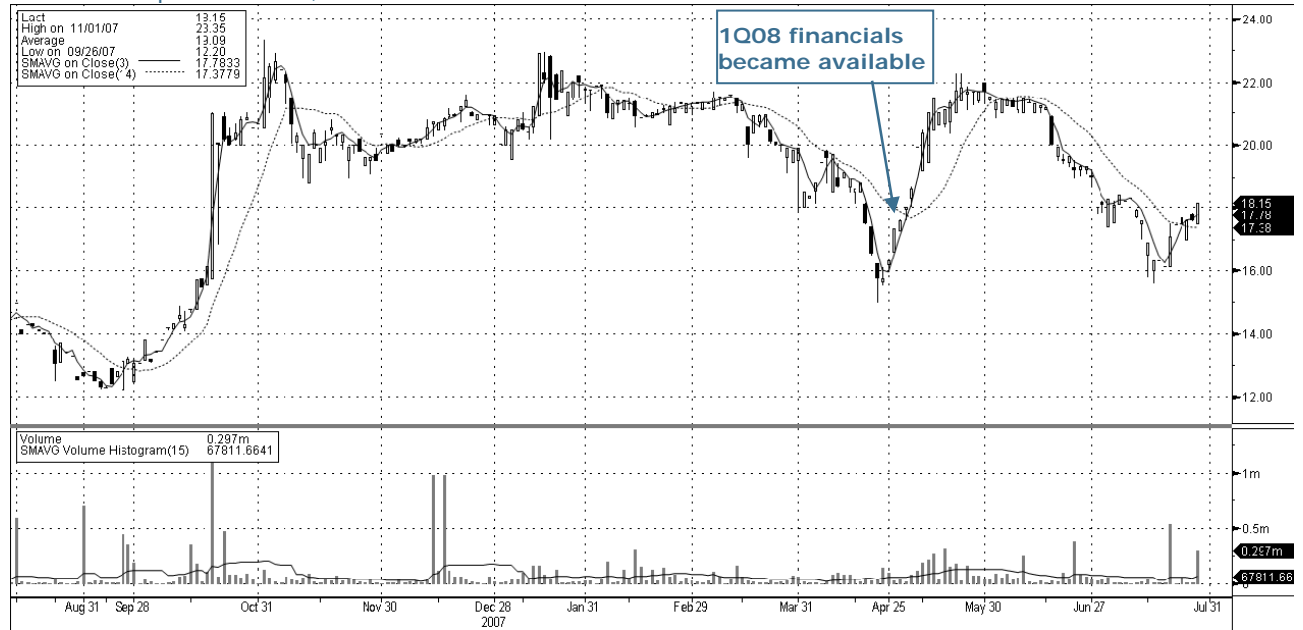
Avdiyivka Coke quarterly production, ths mt



Source: Metal Expert

Appendix 2

AVDK stock performance, UAH



Source: Bloomberg

DCF valuation

Valuation as of May

UAH mln

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	1,502	1,483	1,358	1,303	1,261	1,261	1,224	1,224	1,162	1,162
EBIT	1,240	1,223	1,101	1,049	1,012	1,016	982	987	929	935
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	930	917	825	786.7	758.8	761.8	736.8	740.2	697.1	701.1
Plus D&A	262	260	257	254	250	246	241	237	232	227
Less CapEx	(317)	(305)	(267)	(264)	(255)	(252)	(248)	(244)	(235)	(227)
Less change in OWC	(187)	213	180	127	123	105	77	-	5	-
FCFF	-	1,085	996	903	876	861	808	733	699	701
WACC	13.3%	13.3%	13.2%	13.0%	12.2%	11.2%	11.3%	11.3%	11.4%	11.4%
Sum of discounted CFs		4,847					WACC To Perpetuity			11.0%
PV of Terminal Value		2,527					Terminal Value			6,707
Firm Value		7,374					Perpetuity Growth Rate			0.5%
Portion due to TV		34.3%					Implied Exit EBITDA Multiple			5.8x
Less Net Debt		(218)								
Equity Value		7,157								
Implied share price, UAH		36.97								
Implied share price, USD		7.32								

Sensitivity of Avdiyivka Coke's 12M equity value, USD mln

10-Year Discount Rates	Perpetuity Growth Rate				
	-0.5%	0.0%	0.5%	1.0%	1.5%
WACC-1.0%	7,256	7,381	7,518	7,669	7,835
WACC-0.5%	7,082	7,202	7,334	7,479	7,639
WACC+0.0%	6,914	7,030	7,157	7,296	7,450
WACC+0.5%	6,752	6,864	6,986	7,120	7,268
WACC+1.0%	6,596	6,703	6,821	6,950	7,093

WACC to perpetuity	Perpetuity Growth Rate				
	-0.5%	0.0%	0.5%	1.0%	1.5%
10.0%	7,108	7,246	7,398	7,568	7,757
10.5%	7,006	7,132	7,271	7,424	7,595
11.0%	6,914	7,030	7,157	7,296	7,450
11.5%	6,830	6,937	7,053	7,181	7,321
12.0%	6,753	6,852	6,959	7,077	7,205

Source: Concorde Capital estimates

Quarterly financial statements

Income statement summary, USD mln

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08
Net Revenues	116.6	170.1	170.3	190.7	163.8	214.4	203.0	382.7	417.9
Cost Of Sales	(94.7)	(143.0)	(134.6)	(168.2)	(147.3)	(194.8)	(169.2)	(298.0)	(323.9)
Gross Profit	21.9	27.1	35.8	22.4	16.5	19.6	33.8	84.7	94.0
<i>Gross margin</i>	<i>18.8%</i>	<i>15.9%</i>	<i>21.0%</i>	<i>11.8%</i>	<i>10.1%</i>	<i>9.2%</i>	<i>16.7%</i>	<i>22.1%</i>	<i>22.5%</i>
Other Operating Income/Costs, net	(1.0)	(5.4)	(1.0)	1.2	(1.2)	(3.1)	(2.1)	(15.5)	(1.0)
SG&A	(5.0)	(6.0)	(4.9)	(5.4)	(5.1)	(5.4)	(5.2)	(6.1)	(6.5)
EBITDA	16.0	15.6	29.8	18.3	10.3	11.1	26.6	63.1	86.4
<i>EBITDA margin</i>	<i>13.7%</i>	<i>9.2%</i>	<i>17.5%</i>	<i>9.6%</i>	<i>6.3%</i>	<i>5.2%</i>	<i>13.1%</i>	<i>16.5%</i>	<i>20.7%</i>
Depreciation	(4.1)	(4.2)	(4.3)	(4.6)	(13.9)	(14.7)	(15.3)	(14.8)	(11.9)
EBIT	11.9	11.5	25.6	13.7	(3.6)	(3.6)	11.3	48.3	74.5
<i>EBIT margin</i>	<i>10.2%</i>	<i>6.7%</i>	<i>15.0%</i>	<i>7.2%</i>	<i>-2.2%</i>	<i>-1.7%</i>	<i>5.6%</i>	<i>12.6%</i>	<i>17.8%</i>
Interest Expense	(7.5)	(5.8)	(4.8)	(3.6)	(3.6)	(3.1)	(4.0)	(3.4)	(4.0)
Financial income/(expense)	-	-	-	(9.4)	0.0	0.0	0.0	1.0	8.3
Other income/(expense)	(1.1)	0.4	(3.2)	(3.6)	0.3	1.1	(61.7)	(0.4)	0.7
PBT	3.3	6.0	17.6	(2.8)	(7.0)	(5.6)	(54.4)	45.5	79.5
Tax	(2.0)	(3.5)	(4.3)	(3.6)	(4.0)	(3.1)	(6.5)	(9.6)	(23.2)
Net Income	1.1	2.4	13.2	(6.4)	(11.0)	(8.7)	(60.9)	39.6	56.4
<i>Net Margin</i>	<i>1.0%</i>	<i>1.4%</i>	<i>7.8%</i>	<i>-3.4%</i>	<i>-6.7%</i>	<i>-4.0%</i>	<i>-30.0%</i>	<i>10.4%</i>	<i>13.5%</i>

Source: Company data

Balance sheet summary, USD mln

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08
Current Assets	231.5	163.8	164.4	162.7	303.8	220.3	581.4	675.7	778.8
Cash & Equivalents	13.1	8.8	3.2	3.7	2.8	2.1	3.5	102.5	56.9
Trade Receivables	40.0	52.2	69.1	31.0	130.1	53.6	128.4	105.3	236.7
Inventories	35.4	31.2	31.6	44.2	43.4	41.4	39.9	52.2	58.0
Other current assets	143.1	71.5	60.5	83.8	127.4	123.2	409.6	415.9	427.1
Fixed Assets	789.3	791.8	780.2	1,177.7	1,126.3	1,111.4	760.8	787.3	781.8
PP&E, net	131.1	137.6	135.3	434.6	428.0	417.2	408.3	395.3	410.5
Other Fixed Assets	658.2	654.2	644.9	743.1	698.3	694.2	352.5	392.0	371.2
Total Assets	1,020.8	955.6	944.6	1,340.4	1,430.1	1,331.7	1,342.2	1,463.0	1,560.5
Shareholders' Equity	580.0	582.4	594.9	846.5	840.7	834.5	773.4	822.4	878.7
Share Capital	67.5	67.5	67.5	67.5	67.5	67.5	67.5	67.5	67.5
Reserves and Other	122.2	122.0	121.5	341.9	332.6	322.9	290.3	286.5	273.9
Retained Earnings	390.4	392.9	405.9	437.1	440.5	444.1	415.6	468.4	537.3
Current Liabilities	239.3	342.1	193.2	252.2	349.4	309.8	404.6	394.7	486.0
ST Interest Bearing Debt	108.9	205.0	24.5	-	-	-	-	-	-
Trade Payables	55.8	60.5	51.9	140.4	237.5	203.8	273.0	275.3	349.1
Accrued Wages	1.2	1.2	1.2	1.2	1.3	1.3	1.5	1.8	1.7
Accrued Taxes	0.5	0.4	0.4	0.4	0.5	0.5	6.7	6.9	23.9
Other Current Liabilities	73.0	75.0	115.2	110.2	110.1	104.3	123.3	110.7	111.3
LT Liabilities	201.5	31.0	156.5	241.7	240.1	187.4	164.2	245.8	195.9
LT Interest Bearing Debt	177.9	7.5	133.0	150.0	150.0	99.6	100.0	200.0	150.0
Other LT	23.6	23.6	23.6	91.7	90.1	87.8	64.2	45.8	45.9
Total Liabilities & Equity	1,020.8	955.6	944.6	1,340.4	1,430.1	1,331.7	1,342.2	1,463.0	1,560.5

Source: Company data

Projected financials

Income statement summary, USD mln

	2006	2007	2008E	2009E	2010E	2011E	2012E
Net Revenues	648	964	1,669	1,712	1,618	1,599	1,564
<i>Change, yoy</i>	-42.6%	48.8%	73.1%	2.6%	-5.5%	-1.2%	-2.2%
Cost Of Sales	(540)	(809)	(1,293)	(1,335)	(1,270)	(1,263)	(1,236)
Gross Profit	107	155	375	377	348	336	328
Other Operating Income/Costs, net	(6)	(22)	(33)	(26)	(16)	(16)	(16)
SG&A	(21)	(22)	(42)	(51)	(52)	(51)	(50)
EBITDA	80	111	300	300	280	269	263
<i>EBITDA margin</i>	12.3%	11.5%	18.0%	17.5%	17.3%	16.8%	16.8%
Depreciation	(17)	(59)	(52)	(53)	(53)	(52)	(52)
EBIT	63	52	248	247	227	216	211
<i>EBIT margin</i>	9.7%	5.4%	14.9%	14.4%	14.0%	13.5%	13.5%
Interest Expense	(22)	(14)	(30)	(21)	(16)	(14)	(12)
Financial income/(expense)	(9)	1	-	-	-	-	-
Other income/(expense)	(8)	(61)	-	-	-	-	-
PBT	24	(22)	218	226	211	202	199
Tax	(13)	(23)	(54)	(57)	(53)	(51)	(50)
Net Income	10	(41)	163	170	158	152	149
<i>Net Margin</i>	1.6%	-4.3%	9.8%	9.9%	9.8%	9.5%	9.5%

Source: Concorde Capital estimates

Balance sheet summary, USD mln

	2006	2007	2008E	2009E	2010E	2011E	2012E
Current Assets	163	676	568	519	481	474	470
Cash & Equivalents	4	102	103	140	175	195	219
Trade Receivables	31	105	150	156	146	144	141
Inventories	44	52	65	67	64	63	56
Other current assets	84	416	250	156	97	72	55
Fixed Assets	1,178	787	806	832	842	844	854
PP&E, net	435	395	462	481	488	490	496
Other Fixed Assets	743	392	344	351	355	355	358
Total Assets	1,340	1,463	1,374	1,350	1,323	1,318	1,325
Shareholders' Equity	846	822	950	1,021	1,047	1,062	1,088
Share Capital	67	67	73	75	76	76	76
Reserves and Retained Earnings	779	755	877	946	972	987	1,012
Current Liabilities	252	395	264	217	179	177	174
ST Interest Bearing Debt	-	-	17	17	16	16	16
Trade Payables	140	275	194	162	127	126	124
Accrued Wages	1	2	2	2	2	2	2
Accrued Taxes	0	7	2	2	2	2	2
Other Current Liabilities	110	111	50	35	32	32	31
LT Liabilities	242	246	160	112	97	78	63
LT Interest Bearing Debt	150	200	160	112	97	78	63
Other LT	92	46	-	-	-	-	-
Total Liabilities & Equity	1,340	1,463	1,374	1,350	1,323	1,318	1,325

Source: Concorde Capital estimates

Appendix - Disclosures

Analyst Certification

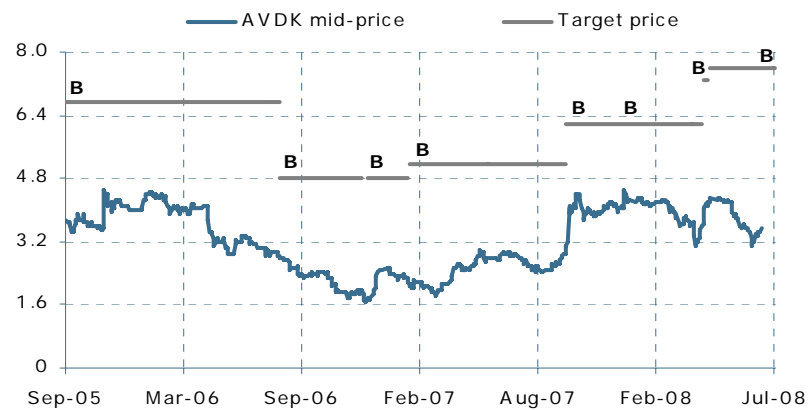
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Avdiyivka Coke*

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
14-May-08	7.31	3.91	BUY	Maintain
26-May-08	7.62	4.50	BUY	Maintain
18-Jun-08	7.62	4.12	BUY	Maintain
30-Jul-08	7.62	3.70	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, Andriy Gerus joined the metals & mining group.

AVDK Recommendation history, USD per share



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Hold	20	18%
Sell	7	6%
Under Review	8	7%
Total	114	100%

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Buy	7	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
Total	7	100%

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