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Market Information

Bloomberg*	AVTO UZ
No of Shares, mln	6.3
Bid/Ask, USD	39.6/128.7
MCap**, USD mln	250.7
Free float	22%

Stock Ownership

Carlson Industries Ltd	24.7%
Holms Ventures Ltd	24.7%
Individuals	20.3%
Other	30.2%

Ratios, 9M06

EBITDA Margin	4.8%
EBIT Margin	3.9%
Net Margin	2.3%
Net Debt/Equity	3.1

* Shares added to Bloomberg Feb. 21

** Calculated by bid price

On February 14, shares of the Ukrainian Automobile Corporation (aka UkrAVTO) were listed on the PFTS. UkrAVTO is one of Ukraine's largest automobile dealers and indirectly controls ZAZ, the largest car producer in Ukraine. No trades have been posted on the PFTS so far, the bid/ask spread is 225%.

UkrAVTO Business Overview

UkrAVTO is the major distributor of automobiles produced by CJSC ZAZ. UkrAVTO owns one of the biggest networks of dealers and service companies in the country. The UkrAVTO group also includes insurance companies and a network of filling stations, which it does not directly own.

ZAZ is Ukraine's largest car maker, accounting for over 50% of car production in the country, with an annual capacity of 150 ths cars. It is the only company in Ukraine with the capacity for full-cycle car production. The company makes its own Tavria and Slavuta models, VAZ cars and cars under licensing agreements with General Motors and DaimlerChrysler.

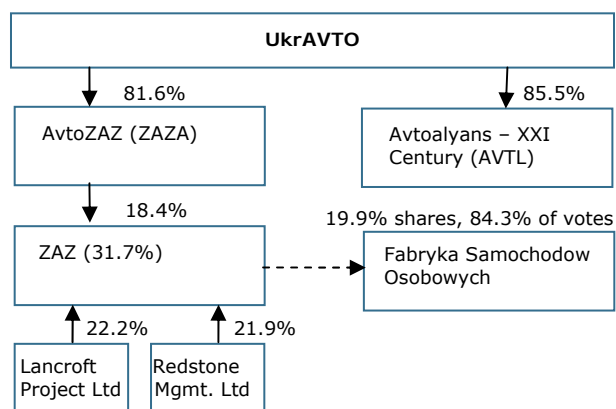
Ownership Structure

UkrAVTO is controlled by Taniel Vasadze, MP from the Yulia Tymoshenko bloc.

In 2002 UkrAVTO bought 82% of OJSC AvtoZAZ at a privatization tender. At that time, AvtoZAZ owned a 50% stake in the Ukrainian-Korean JV AvtoZAZ-Daewoo (it was later renamed CJSC ZAZ).

In October 2006 ZAZ bought 31.7% of its own shares from AvtoZAZ, which it currently keeps as treasury stock. According to Ukrainian legislation, the company must either sell or cancel the treasury stock within a twelve month period. UkrAVTO has two options – transfer the shares to an affiliated company or sell them to a strategic investor this year. General Motors was rumoured to be interested.

UkrAVTO also indirectly owns a majority stake in the Polish car producer Fabryka Samochodow Osobowych, which produces assembly parts for ZAZ-made cars.



Operational Structure

The group's production assets are concentrated in ZAZ. They have been moved from the balance sheet of AvtoZAZ in exchange for ownership rights, which are reflected in the *Financial Investments* section of AvtoZAZ's balance sheet. AvtoZAZ is an empty shell – the group's sales generators and profit centers are ZAZ and UkrAVTO.

UkrAVTO has the highest leverage out of the three companies in the group, with a D/E ratio reaching 3.2, compared to 0.4 and 0.6 for ZAZ and AvtoZAZ respectively. UkrAVTO's debt started growing in summer 2006 – we believe they were assumed to finance the construction of a new plant in Russia.

Income Statement Summary, 9M06, USD mln

	AVTO	CJSC ZAZ	ZAZA
Net Revenues	453.4	952.0	0.02
EBITDA	21.8	43.8	(0.35)
Margin, %	4.8%	4.6%	neg
Net Income	10.2	11.1	(0.72)
Net Margin, %	2.3%	1.2%	neg

Balance Sheet Summary, 9M06, USD mln

	AVTO	CJSC ZAZ	ZAZA
Current Assets, including:	391.9	445.9	2.5
Trade Receivables	49.9	153.7	1.7
Inventories	52.9	64.6	0.03
Other, including:	284.8	212.4	0.6
Current financial investments	172.5	0.0	0.9
Fixed Assets	182.3	225.3	148.4
PP&E, net	41.3	200.5	1.2
Other, including:	141.0	24.7	147.3
Financial investments	59.7	7.8	143.5
Total Assets	574.1	671.1	150.9
Shareholders' Equity	110.3	395.1	81.2
Current Liabilities, including:	338.5	226.2	24.4
ST Interest Bearing Debt	226.4	125.4	0.0
Trade Payables	102.7	87.4	1.8
LT Liabilities, including:	125.4	49.9	45.3
LT Interest Bearing Debt	122.9	49.2	45.3
Total Liabilities & Equity	574.1	671.1	150.9
Net Debt	345.1	159.4	45.1

Source: Company data

Expansion Plans

In January, UkrAVTO announced intentions to buy a 51% stake in Daewoo Automobile Romania (DWAR), which has an annual capacity of 100 ths cars. Last year it produced 30 ths units. We nevertheless estimate that UkrAvto's chances are rather low, as Ford, General Motors and Tata seem to be stronger-positioned bidders.

In the end of 2006, UkrAVTO and Bohdan Corporation, Ukraine's other major automobile-production holding that includes Bohdan Automobile Plant (previously Lutsk Automobile aka LuAZ) and Cherkasy Bus, announced they will jointly construct a new car plant in Russia, with an annual capacity of 160 ths cars. The project will require investments of USD 470 mln and is expected to be split 50/50 between the two parties. The new plant is expected to be launched in 2009.

Market Multiples

	AVTO*	Intl. Peers**	LUAZ	KRAZ
2006				
EV/Sales	1.0	0.4	1.0	1.2
EV/EBITDA	16.6	9.0	13.6	7.4
P/E	13.9	15.0	16.7	32.3
2007E				
EV/Sales	0.8	0.3	0.7	1.0
EV/EBITDA	11.8	8.1	9.3	5.7
P/E	8.7	12.3	10.9	13.5

* Calculated by bid price

** Average international automobile dealers companies

Source: Company data, PFTS, Thomson Financial

The high leverage of UkrAVTO makes it overvalued on EV/Sales and EV/EBITDA multiples compared to international peers.

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