



CONCORDE CAPITAL

Ukraine / Steel

Azovstal

USD 1.1 bln in dividends expected

October 13, 2008

Current price: USD 0.22
12M Target: U/R

BUY

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At their October 25 AGM, Azovstal shareholders will vote on the allocation of the company's 2002-2007 net income of USD 1.1 bln. If approved, the dividend yield could be up to 115% (assuming a 100% payout). We see high probability that the dividend payout will be approved by major shareholder Metinvest.

Reasons for the dividend payout to be approved:

- In our view, Metinvest sees cash from dividends as source for financing acquisitions/expansion. The rising cost of debt and stiff borrowing conditions on the market is making debt raising increasingly difficult
- Metinvest's vertically integrated business model allows it to withstand falling steel prices and generate sustainable cash flow due to strong margins in its iron ore & coal/coke divisions. We view Metinvest as likely to purchase new metals & mining assets in near future
- Azovstal's dividend would be ~90% of the total paid out by Metinvest-controlled companies this year. In our view, this USD 1.1 bln contribution is vital to Metinvest's acquisition plans
- Metinvest's share in Azovstal implies it would receive roughly 98% of the dividend payout
- So far in 2008, four other Metinvest-related companies (SGOK, CGOK, IGOK, HRTR) decided to pay dividends (USD 155 mln in total). Only two have not – Avdiyivka, which reported losses in 2007, and Enakievo Steel, whose net income totaled only USD 30 mln in 2007
- In September, controlling shareholder Metinvest revised the AGM's agenda to include allocation of Azovstal's 2002-2006 net income; initially only net income for 2007 was planned to be voted on
- Unusual share issues at Metinvest companies that baffled the market in early 2008 can be explained as steps to avoid double taxation if dividends are paid. In particular, in 1H08, Azovstal's charter fund was raised 0.23%, of which Metinvest B.V. (70.5% shareholder) invested USD 339 ths. Under a bilateral agreement, dividends are not double taxed if a Netherlands-registered shareholder owns at least 50% and invests at least USD 300 ths in a Ukrainian-registered company

The ex-dividend date and disbursement schedule will be decided by shareholders at the AGM. Typically, the ex-dividend date coincides with the AGM or another date within 45 days of the AGM, while the payout period could be over 1-3 years. In order to receive the dividends, investors must hold common stock, not depositary receipts, according to custodian rules.

Tickers

Bloomberg AZST UZ

Market information

Market price, USD	0.22
MCap, USD mln	916.5
52Wk Hi/Lo, USD	1.23/0.22
No of shares, mln	4,194.3
Free float	2.3%
Free float, USD mln	21.1

Corporate Governance

Concorde Rating* AA

* 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.

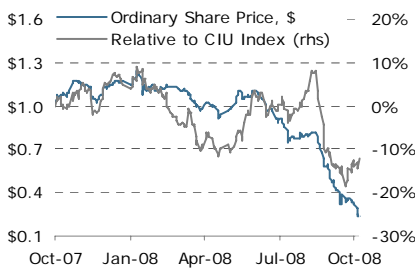
Shareholders

Metinvest	97.7%
Other	2.3%

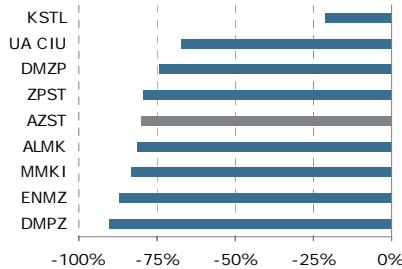
Ratios 2008E

EBITDA margin	20.5%
Net margin	12.0%

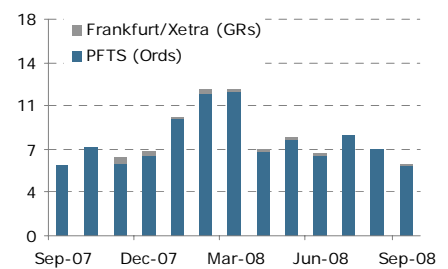
Stock performance, 12M



Sector performance, YTD



Trading volumes, USD mln



Note: The Concorde Investable Universe Index (UA CIU) is free float weighted and includes the 57 most liquid Ukrainian stocks listed on the PFTS, London, Warsaw and Frankfurt stock exchanges. Source: PFTS, FSE, Bloomberg, Concorde Capital

Key financials & ratios, USD mln

	Revenue	EBITDA	Net income	EV/S	EV/EBITDA	P/E
2007	3,243	595	420	0.3	1.8	2.2
2008E	4,724	969	567	0.2	1.1	1.6
2009E	5,209	1,042	599	0.2	1.0	1.5

NBU official exchange rate: 4.92 UAH/USD as of October 13

FLASH NOTE

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Appendix - Disclosures

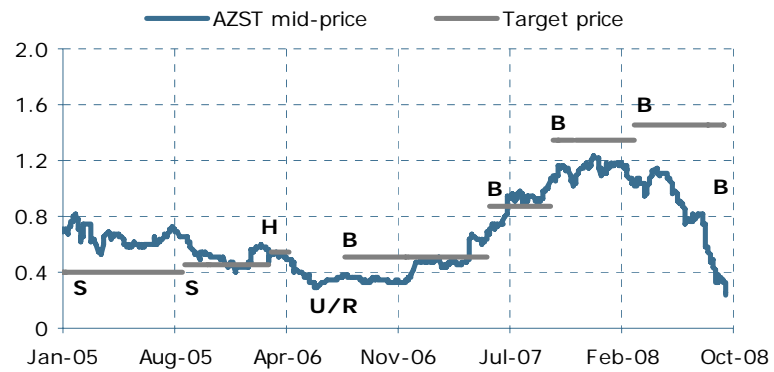
Analyst certification

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.

AZST ratings history

Date	12M target price, USD	Market price, USD	Rating	Action
04-Jan-05	0.40	0.55	SELL	Initiating
23-Sep-05	0.45	0.65	SELL	Maintain
22-Mar-06	0.55	0.59	HOLD	Upgrade
05-May-06	U/R	0.47	U/R	Suspend
18-Aug-06	0.51	0.47	BUY	Upgrade
14-Jun-07	0.87	0.72	BUY	Maintain
19-Oct-07	1.35	1.09	BUY	Maintain
05-Dec-07	1.35	1.07	BUY	Maintain
04-Apr-07	1.45	0.97	BUY	Maintain
13-Oct-08	U/R	0.22	BUY	Maintain

AZST target price 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	90	74%
Hold	18	15%
Sell	7	6%
Under Review	7	6%
Total	122	100%

Investment banking clients*

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

* Within the last twelve month period, Concorde Capital has obtained compensation from these companies for investment banking services.

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