

Back in the saddle

June 14, 2007
12M Target: 0.87

BUY

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Market information

Bloomberg	AZST UZ
No of Shares, mln	
current	5,621.8
after cancellation	4,194.4
Market price, USD	0.72
52Wk H/L, USD	0.72/0.30
MCap, USD mln ⁽¹⁾	3,885.2
Free float	1.53%
FF MCap, USD mln	114.7

Stock ownership ⁽¹⁾

SCM	73.08%
Treasury stock	25.39%
Other	1.53%

Corporate governance ⁽²⁾

Rating	A
Score	5.0

Ratios, 2006

EBITDA Margin	15.7%
Net Margin	8.8%
Net Debt/Equity	0.13

⁽¹⁾ based on the current # of shares

⁽²⁾ rating methodology is described in our report from Feb. 6, 2007

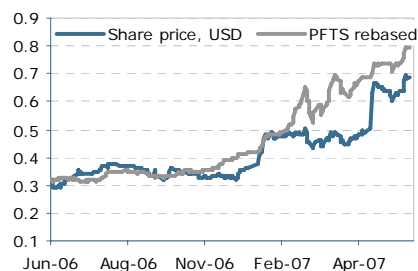
Azovstal's AGM next week (scheduled for June 23) is likely to approve the cancellation of 1.4 bln treasury stock (25.4% of the charter fund). This will bring last year's dilution story to an end and mark a milestone in the corporate governance transformation of Metinvest, Azovstal's parent.

The market was fast to adjust to the positive surprise. In two days since the announcement of the AGM's agenda, Azovstal's stock price jumped 32% to USD 0.66 (USD 0.65 is the adjusted pre-announcement price).

Reassured by Metinvest's about-face in favor of minorities, the market moved on, eager to price in remarkable 1Q operating results: 52.4% yoy top-line growth, EBITDA margin of 20.6% (vs 9.7% in FY06); net margin of 11.9% (up from 2.2% in FY06).

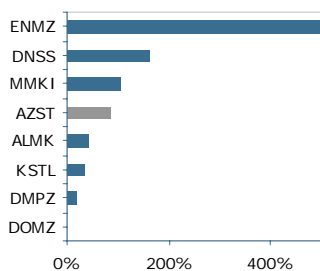
Better disclosure makes us more comfortable in applying profitability-based multiples for valuation purposes - Azovstal trades at a 4%-25% discount to its peers, while Metinvest's expected IPO will remain a carrot for the market. We recommend BUY, with a target of USD 0.87 and a 21% upside.

Stock performance vs. PFTS

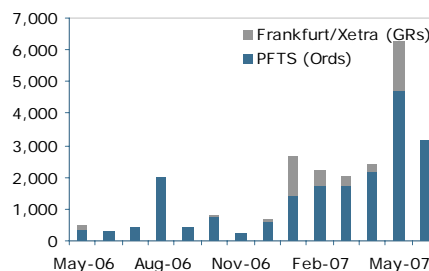


Source: PFTS, Bloomberg

Sector performance, YTD



Trading volume, USD ths



Key financials & ratios

(in USD mln)	Sales	EBITDA Margin	Net Margin	EV/S	EV/EBITDA	P/E
2006	2,479.9	15.7%	8.8%	1.3	8.2	13.8
2007E	3,055.2	18.5%	11.0%	1.0	5.7	9.0
2008E	3,421.9	21.0%	11.9%	0.9	4.4	7.4

Spot exchange rate: 5.05

Peer Valuation

	MCap, USD mln	EV/S		EV/EBITDA		P/E	
		2007E	2008E	2007E	2008E	2007E	2008E
International peers							
INI Steel	4,813.7	0.97	1.04	7.39	7.85	9.10	9.07
Bluescope Steel	6,486.5	0.96	0.96	6.63	6.78	11.34	12.67
Tangshan	3,794.3	n/a	n/a	n/a	n/a	16.00	12.85
Maanshan	4,955.9	1.16	0.88	7.23	4.99	11.50	8.41
IPSCO	7,435.8	1.82	1.62	7.74	6.83	14.18	11.00
SSAB	8,960.5	1.75	1.63	6.80	6.61	11.43	11.88
Severstal	4,268.5	0.90	0.90	3.76	4.56	5.82	7.51
Mechel	2,751.0	0.78	0.69	2.10	2.02	4.57	5.07
Average		1,20	1,10	5,95	5,66	10,49	9,81
Azovstal	3,015.7*	1.0	0.9	5.7	4.4	9.0	7.4
Implied price, USD		0.83	0.86	0.76	0.93	0.84	0.96
<i>Upside/Downside</i>		<i>15.3%</i>	<i>19.4%</i>	<i>5.6%</i>	<i>29.2%</i>	<i>16.7%</i>	<i>33.3%</i>

* Based on the number of share after cancellation
 Source: Company data, Thomson Financial, Bloomberg, Concorde Capital estimates

Key financials

in USD mln, unless otherwise stated

	Sales		EBITDA mgn, %		Net mgn, %		
	2007E	2008E	2007E	2008E	2007E	2008E	
Azovstal	3,055.2	3,421.9	18.5%	21.0%	11.0%	11.9%	
International Peers							
	2007E	2008E	2007E	2008E	2007E	2008E	
INI Steel	7,394.0	7,855.0	13.1%	13.3%	7.2%	6.8%	
Bluescope Steel	7,853.2	7,930.6	15.1%	14.1%	7.3%	6.5%	
Tangshan	n/a	n/a	n/a	n/a	n/a	n/a	
Maanshan	5,986.1	7,239.3	16.0%	17.7%	7.2%	8.1%	
IPSCO	4,340.8	4,564.4	23.5%	23.7%	12.1%	14.8%	
Arcelor Brazil	7,806.4	8,668.6	32.0%	33.0%	18.2%	20.2%	
SSAB	4,863.5	4,886.5	25.7%	24.7%	16.1%	15.4%	
Severstal	4,796.1	4,611.0	24.0%	19.8%	15.3%	12.3%	
Mechel	2,879.0	2,854.1	37.3%	34.0%	20.9%	19.0%	

Source: Company data, Thomson Financial, Bloomberg, Concorde Capital estimates

Azovstal reported financials, UAS

Income statement summary, USD mln

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07
Net Revenues	570.7	707.9	535.4	603.9	481.7	553.7	723.9	720.6	734.0
Cost Of Sales	(453.5)	(563.4)	(477.6)	(327.5)	(396.6)	(419.5)	(543.0)	(575.4)	(550.6)
Gross Profit	117.3	144.5	57.8	276.4	85.0	134.2	180.9	145.2	183.5
<i>Gross margin</i>	<i>20.5%</i>	<i>20.4%</i>	<i>10.8%</i>	<i>45.8%</i>	<i>17.7%</i>	<i>24.2%</i>	<i>25.0%</i>	<i>20.1%</i>	<i>25.0%</i>
Other Operating Income/Costs, net	(2.3)	20.5	(4.2)	(112.2)	(8.0)	(6.0)	(5.2)	(9.1)	(3.2)
SG&A	(21.0)	(32.3)	(28.0)	(38.5)	(30.3)	(29.8)	(32.0)	(34.8)	(28.9)
EBITDA	94.0	132.6	25.6	125.7	46.7	98.5	143.7	101.3	151.4
<i>EBITDA margin</i>	<i>16.5%</i>	<i>18.7%</i>	<i>4.8%</i>	<i>20.8%</i>	<i>9.7%</i>	<i>17.8%</i>	<i>19.8%</i>	<i>14.1%</i>	<i>20.6%</i>
Depreciation	(7.7)	(9.0)	(10.1)	(10.4)	(11.9)	(12.6)	(13.8)	(12.5)	(13.4)
EBIT	86.2	123.5	15.5	115.3	34.8	85.9	129.9	88.8	138.0
<i>EBIT margin</i>	<i>15.1%</i>	<i>17.5%</i>	<i>2.9%</i>	<i>19.1%</i>	<i>7.2%</i>	<i>15.5%</i>	<i>17.9%</i>	<i>12.3%</i>	<i>18.8%</i>
Interest Expense	(2.2)	(2.9)	(6.1)	(6.5)	(6.5)	(6.4)	(8.1)	(7.6)	(7.1)
Financial income/(expense)	0.3	0.1	0.9	1.4	1.8	1.8	4.0	4.5	3.0
Other income/(expense)	(0.1)	(16.2)	1.0	(0.5)	(1.1)	0.3	(0.2)	(1.4)	0.3
PBT	84.3	104.6	11.3	109.7	29.1	81.6	125.7	84.3	134.2
Tax	(29.5)	(20.7)	(18.0)	(15.3)	(18.6)	(19.5)	(57.8)	(6.3)	(47.2)
Net Income	54.8	83.9	(6.7)	94.4	10.5	62.1	67.9	78.0	87.1
<i>Net Margin</i>	<i>9.6%</i>	<i>11.8%</i>	<i>-1.2%</i>	<i>15.6%</i>	<i>2.2%</i>	<i>11.2%</i>	<i>9.4%</i>	<i>10.8%</i>	<i>11.9%</i>

Balance sheet summary, USD mln

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07
Current Assets	850.0	1,047.6	958.4	962.2	893.5	854.5	1,102.3	1,102.6	1,209.0
Cash & Equivalents	69.8	31.3	137.6	246.4	229.3	167.6	256.0	149.4	237.4
Trade Receivables	332.2	485.2	341.4	236.9	185.9	207.4	331.3	437.8	456.8
Inventories	260.3	307.1	273.8	275.0	276.2	277.1	277.6	297.8	303.0
Other current assets	187.7	223.9	205.7	203.9	202.0	202.4	237.4	217.6	211.8
Fixed Assets	828.8	867.5	925.6	804.4	824.7	867.6	896.4	955.9	968.5
PP&E, net	321.6	329.9	337.1	396.1	397.3	445.7	433.8	436.3	440.7
Other Fixed Assets	507.2	537.7	588.6	408.3	427.5	421.9	462.6	519.6	527.9
Total Assets	1,678.8	1,915.1	1,884.0	1,766.6	1,718.2	1,722.0	1,998.7	2,058.5	2,177.5
Shareholders' Equity	876.0	999.4	993.6	1,187.1	1,192.5	1,255.2	1,323.0	1,427.9	1,513.3
Share Capital	150.3	157.0	157.1	181.1	181.1	181.1	181.1	206.7	206.7
Reserves and Other	206.8	215.2	215.2	252.0	251.3	251.1	252.2	265.5	265.1
Retained Earnings	518.9	627.3	621.3	754.0	760.1	823.1	889.8	955.7	1,041.5
Current Liabilities	707.0	836.6	625.7	402.8	233.5	213.4	319.0	290.6	340.9
ST Interest Bearing Debt	-	99.0	90.5	46.0	0.3	5.9	0.0	0.0	0.0
Trade Payables	350.2	243.4	150.6	73.8	63.8	49.8	49.8	67.0	50.6
Accrued Wages	5.0	5.3	5.5	6.7	6.6	6.0	6.4	7.0	6.5
Accrued Taxes	17.9	17.4	1.5	1.7	2.4	2.0	44.4	6.5	27.6
Other Current Liabilities	334.1	471.6	377.6	274.5	160.4	149.7	218.3	210.2	256.2
LT Liabilities	95.7	79.0	264.8	176.7	292.2	253.4	356.7	340.0	323.3
LT Interest Bearing Debt	88.9	72.2	155.6	138.9	286.1	247.2	350.6	333.9	317.2
Other LT	6.8	6.8	109.2	37.8	6.1	6.1	6.1	6.1	6.1
Total Liabilities & Equity	1,678.8	1,915.1	1,884.0	1,766.6	1,718.2	1,722.0	1,998.7	2,058.5	2,177.5

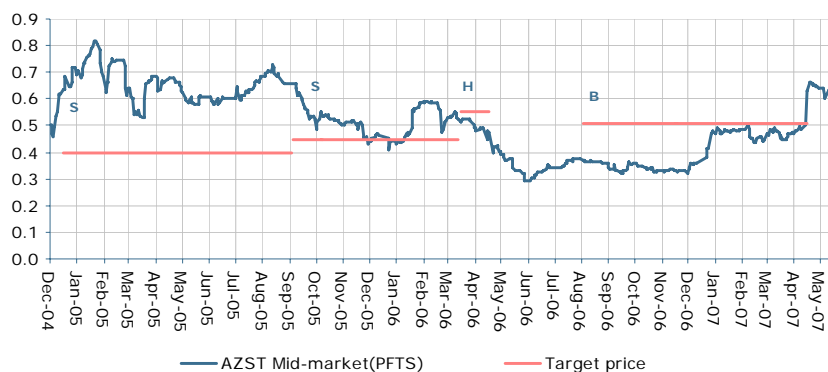
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Azovstal

Date	Target price, USD	Market Price, USD	Rec'	Action
04-Jan-05	0.40	0.55	SELL	Initiating
23-Sept-06	0.45	0.65	SELL	Maintain
22-Mar-06	0.55	0.59	HOLD	Update
05-May-06	U/R	0.47	U/R	Suspend
18-Aug-06	0.51	0.47	BUY	Maintain
14-June-07	0.87	0.72	BUY	Maintain

Recommendation history, USD



Concorde Capital Rating Universe

Buy	32	38.1%
Hold	11	13.1%
Sell	5	6.0%
Pending/Suspended	26	31.0%
Not Rated	10	11.9%
Total	84	100%

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