



CONCORDE CAPITAL

Ukraine / Coke

Bagliy Coke

Making a U-turn

March 05, 2008

Current price: USD 0.15
12M Target: USD 0.28

BUY

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Yesterday in Metal Expert, Evraz Group clarified its vision for Bagliy Coke, which it acquired in December 2007. Mid-term plans include launching a coke battery in 3Q08 that will help boost overall output by 78% to 1.2 mln mt by 2010, and supplying the plant with high quality coal from its Russian mines. We resume our coverage with a BUY (TP of USD 0.28, 87% upside).

Tickers

PFTS BKOK

Market information

Market price, USD 0.15

MCap, USD mln 102.9

Chg 12M 5.71%

Hi/Low 12M, USD 0.15/0.030

No of shares, mln 686.2

Avg Mon Tr Vol 12M, USD mln 0.0048

Free float 6.26%

Free float, USD mln 6.4

Corporate Governance

Concorde Rating U/R

Shareholders

Evraz Group 93.74%

Other 6.26%

Output will surge 78% by 2010

A representative of Evraz said yesterday in a Metal Expert article that in 3Q08 Bagliy Coke will resurrect an idled coke battery with an annual capacity of 0.5 mln mt of coke. We expect the battery to be fully loaded by the end of 2008 and boost the plant's overall annual output by 78% to 1.2 mln mt of coke by 2010.

Coal supplies will be ensured by parent Evraz

While most of its Ukrainian peers are limited in increasing production due to insufficient inputs, Bagliy Coke will benefit from synergies with its new parent Evraz. The Evraz representative said Bagliy's increased capacity will be loaded by its coal from Russia. Though demand from domestic steelmakers will be robust in the coming two-three years, major destination for incremental output will be export deliveries.

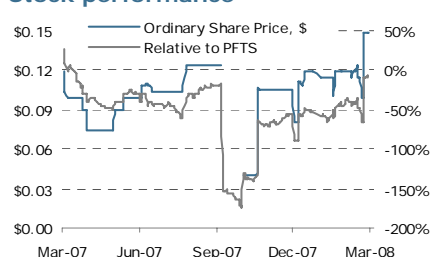
High quality Russian coal will open up export markets

Evraz' coal is high quality and thus will enable production of export-grade coke at Bagliy. According to the article, Bagliy Coke will step up exports as early as this year, though specific targets were not disclosed. The task looks realizable, given strong global demand and restrictions on coke exports from China, the world's main coke producer. Chinese export duties rose from 5% to 15% in June 2007 and to 25% in January 1, 2008.

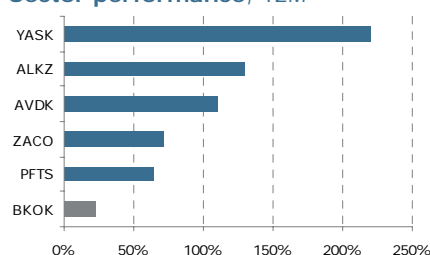
Coverage resumed, BUY

More clarity in Evraz's vision for Bagliy Coke, which it acquired in December 2007, resolves any trepidation we had about Bagliy Coke's investment case under its previous owner. We resume coverage of the stock and set a target price of USD 0.28, based on our DCF valuation, which implies upside of 87%.

Stock performance



Sector performance, 12M



Trading volumes, USD ths



Key financials & ratios, USD mln

	Revenue	EBITDA	Net Income	EBITDA Mgn	Net Mgn	EV/S	EV/EBITDA	P/E
2006	137.4	5.7	0.8	4.1%	0.6%	0.8	17.2	102.9
2007E	111.6	(1.1)	(-4.7)	-1.0%	-4.2%	0.9	n/m	n/m
2008E	243.5	24.4	16.4	10.0%	6.7%	0.4	4.4	6.4

Source: Company data, Concorde Capital estimates

FLASH NOTE

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DCF valuation

Valuation as of March

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	(6)	122	198	189	170	168	168	168	162
EBIT	(16)	111	187	177	158	156	156	156	149
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	(12)	83	140	133.1	118.8	117.3	117.2	117.0	112.1
Plus D&A	11	11	11	12	12	12	12	12	12
Less CapEx	(10)	(16)	(16)	(15)	(13)	(13)	(13)	(13)	(13)
Less change in OWC	(33)	(202)	(78)	9	7	1	-	-	36
FCFF	(44)	(124)	57	139	124	117	116	116	148
WACC	16.1%	15.6%	14.5%	13.3%	12.4%	11.4%	11.4%	11.4%	11.4%
Sum of discounted CFs		557							
PV of Terminal Value		434							
Firm Value		991							
Portion due to TV		43.8%							
Less Net Debt		(15)							
Equity Value		976							
Implied share price		0.28							

10-Year Discount Rates	Perpetuity Growth Rate				
	-0.5%	0.0%	0.5%	1.0%	1.5%
WACC-1.0%	981	1,003	1,028	1,055	1,085
WACC-0.5%	956	978	1,001	1,027	1,056
WACC+0.0%	932	953	976	1,001	1,029
WACC+0.5%	909	929	951	975	1,002
WACC+1.0%	887	906	927	951	977

WACC to perpetuity	Perpetuity Growth Rate				
	-0.5%	0.0%	0.5%	1.0%	1.5%
	970	995	1,022	1,053	1,088
	950	973	998	1,026	1,057
	932	953	976	1,001	1,029
	916	935	956	979	1,004
	901	919	938	958	981

Investment Ratings

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Buy	47	44%
Hold	28	26%
Sell	13	12%
Under Review	18	17%
Total	106	100%

Investment banking clients*

Buy	8	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
Total	8	100%

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

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