

Central Iron Ore

Earnings grow 5x in 2010; dividend vote coming in March

Event: 2010 net income rises 5x, falls short of our expectations

Central Iron Ore released its 2010 earnings on Friday: net income jumped 4.9 times y-o-y to UAH 1.29 bln (USD 162 mln), 10.5% below our expectations of UAH 1.44 bln. (USD 180 mln). We attribute this to the repairs in late October that suspended pellet production for approximately 15 days.

Dividends: March AGM should approve at least UAH 1.1/share

Company shareholders will decide at an AGM on March 25 on the distribution of 2010 net income and previous years' retained earnings. We expect Central Iron Ore to pay out its entire 2010 net income as dividends, corresponding to UAH 1.1 per share, dividend yield of 13% based on the current market price. If shareholders also direct retained earnings (UAH 544 mln), then the payout rises to UAH 1.57 per share and dividend yield to 19%.

Valuation: Target upgraded to UAH 13.4/share; BUY

We recommend Central Iron Ore as a BUY on dividend expectations, rising global iron ore prices, and solid fundamentals. We believe the stock has the potential to rally 30% ahead of the dividend decision at its AGM at the end of March. Moreover, we maintain our view that the stock is fundamentally strong in the long-term (for more details see our report as of October 2010); we upgrade our 12M target price to UAH 13.4 per share; upside 60%.

Report date	7 Feb 2011
Bloomberg	CGOK UK
Reuters	CGOK=UA
Recommendation	BUY
Price (07 Feb 11), USD	1.06
12M price target, USD	1.7
No of shares, mln	1171.8
Market Cap, USD mln	1,242
Free float, %	0.7%
Free float, USD mln	8.7

Central Iron Ore financials, USD mln

	2009	2010E	2011E
Sales	285	490	640
EBITDA	102	275	320
margin, %	36%	56%	50%
Net income	31	162*	191
margin, %	12%	34%	30%

* Actual

Source: Interfax, Concorde Capital estimates

Peer valuation

	MCap USD mln	EV/S		EV/EBITDA		P/E		
		10E	11E	10E	11E	10E	11E	
UKRAINE								
Central Iron Ore	1,242	2.6	1.9	4.6	3.9	7.7	6.5	
DEVELOPED MARKETS								
BHP BILLITON PLC	242,788	3.6	3.1	6.4	5.4	11.5	10.0	
VALE DO RIO DOCE	186,216	4.5	3.3	7.7	5.3	12.3	8.1	
RIO TINTO PLC	145,961	2.9	2.6	6.3	5.3	10.9	9.5	
ANGLO AMERICAN PLC	69,224	2.7	2.4	7.0	5.4	13.5	10.3	
FERREXPO	23,870	5.2	3.4	8.3	5.1	21.6	14.6	
Average		3.8	3.0	7.3	5.5	13.4	10.3	
Median		3.6	3.2	7.4	5.4	11.9	9.8	
CGOK price								
Implied by developed peers avg, USD/share		1.6	1.6	1.7	1.5	1.9	1.7	
Upside/Downside to Developed med		46%	54%	60%	42%	74%	58%	

Sources: Bloomberg, Concorde Capital

Disclosures

Analyst certification

I, Andriy Gerus, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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.

Contacts

CONCORDE CAPITAL

2 Mechnikova Street, 16th Floor
Parus Business Centre
Kyiv 01601, Ukraine
Tel.: +380 44 391 5577
Fax: +380 44 391 5571
www.concorde.ua
Bloomberg: TYPE CONR <GO>

CEO

Igor Mazepa im@concorde.com.ua

SALES

International Sales & Trading

Anastasiya Nazarenko an@concorde.com.ua
Marina Martirosyan mm@concorde.com.ua
Rostyslav Shmanenko rs@concorde.com.ua
Dasha Vasilieva vd@concorde.com.ua

Domestic Sales & Trading

Yuriy Pilipenko up@concorde.com.ua
Alisa Tykhomirova at@concorde.com.ua

RESEARCH

Director of Research

Andriy Gerus ga@concorde.com.ua

Utilities, Machinery

Yegor Samusenko syg@concorde.com.ua

Metals & Mining, Oil & Gas

Andriy Gerus ga@concorde.com.ua

Economics, Financial services

Mykyta Mykhaylychenko, CFA mms@concorde.com.ua

Fixed income

Andriy Gerus ga@concorde.com.ua
Mykyta Mykhaylychenko, CFA mms@concorde.com.ua

Politics

Brad Wells bw@concorde.com.ua

Editor

Brad Wells bw@concorde.com.ua

DISCLAIMER

THIS REPORT HAS BEEN PREPARED BY CONCORDE CAPITAL INVESTMENT BANK INDEPENDENTLY OF THE RESPECTIVE COMPANIES MENTIONED HEREIN FOR INFORMATIONAL PURPOSES ONLY. CONCORDE CAPITAL DOES AND SEEKS TO DO BUSINESS WITH COMPANIES COVERED IN ITS RESEARCH REPORTS. AS A RESULT, INVESTORS SHOULD BE AWARE THAT CONCORDE CAPITAL MIGHT HAVE A CONFLICT OF INTEREST THAT COULD AFFECT THE OBJECTIVITY OF THIS REPORT.

THE INFORMATION GIVEN AND OPINIONS EXPRESSED IN THIS DOCUMENT ARE SOLELY THOSE OF CONCORDE CAPITAL AS PART OF ITS INTERNAL RESEARCH COVERAGE. THIS DOCUMENT DOES NOT CONSTITUTE OR CONTAIN AN OFFER OF OR AN INVITATION TO SUBSCRIBE FOR OR ACQUIRE ANY SECURITIES. THIS DOCUMENT IS CONFIDENTIAL TO CLIENTS OF CONCORDE CAPITAL AND IS NOT TO BE REPRODUCED OR DISTRIBUTED OR GIVEN TO ANY OTHER PERSON.

CONCORDE CAPITAL, ITS DIRECTORS AND EMPLOYEES OR CLIENTS MIGHT HAVE OR HAVE HAD INTERESTS OR LONG/SHORT POSITIONS IN THE SECURITIES REFERRED TO HEREIN, AND MIGHT AT ANY TIME MAKE PURCHASES AND/OR SALES IN THEM AS A PRINCIPAL OR AN AGENT. CONCORDE CAPITAL MIGHT ACT OR HAS ACTED AS A MARKET-MAKER IN THE SECURITIES DISCUSSED IN THIS REPORT. THE RESEARCH ANALYSTS AND/OR CORPORATE BANKING ASSOCIATES PRINCIPALLY RESPONSIBLE FOR THE PREPARATION OF THIS REPORT RECEIVE COMPENSATION BASED UPON VARIOUS FACTORS, INCLUDING QUALITY OF RESEARCH, INVESTOR/CLIENT FEEDBACK, STOCK PICKING, COMPETITIVE FACTORS, FIRM REVENUES AND INVESTMENT BANKING REVENUES.

PRICES OF LISTED SECURITIES REFERRED TO IN THIS REPORT ARE DENOTED IN THE CURRENCY OF THE RESPECTIVE EXCHANGES. INVESTORS IN FINANCIAL INSTRUMENTS SUCH AS DEPOSITORY RECEIPTS, THE VALUES OR PRICES OF WHICH ARE INFLUENCED BY CURRENCY VOLATILITY, EFFECTIVELY ASSUME CURRENCY RISK.

DUE TO THE TIMELY NATURE OF THIS REPORT, THE INFORMATION CONTAINED MIGHT NOT HAVE BEEN VERIFIED AND IS BASED ON THE OPINION OF THE ANALYST. WE DO NOT PURPORT THIS DOCUMENT TO BE ENTIRELY ACCURATE AND DO NOT GUARANTEE IT TO BE A COMPLETE STATEMENT OR SUMMARY OF AVAILABLE DATA. ANY OPINIONS EXPRESSED HEREIN ARE STATEMENTS OF OUR JUDGMENTS AS OF THE DATE OF PUBLICATION AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART WITHOUT PRIOR PERMISSION IS PROHIBITED.

NEITHER THIS DOCUMENT NOR ANY COPY HEREOF MAY BE TAKEN OR TRANSMITTED INTO THE UNITED STATES OR DISTRIBUTED IN THE UNITED STATES OR TO ANY U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")), OTHER THAN TO A LIMITED NUMBER OF "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) SELECTED BY CONCORDE CAPITAL.

THIS DOCUMENT MAY ONLY BE DELIVERED WITHIN THE UNITED KINGDOM TO PERSONS WHO ARE AUTHORIZED OR EXEMPT WITHIN THE MEANING OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 ("FSMA") OR TO PERSONS WHO ARE OTHERWISE ENTITLED TO RECEIVE THIS DOCUMENT UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, OR ANY OTHER ORDER MADE UNDER THE FSMA.