



CONCORDE CAPITAL

Ukraine / Coal Machinery New sector catalyst

Tymoshenko's call for transparency

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Inna Perepelytsya

pi@concorde.com.ua

+380 44 391 5577

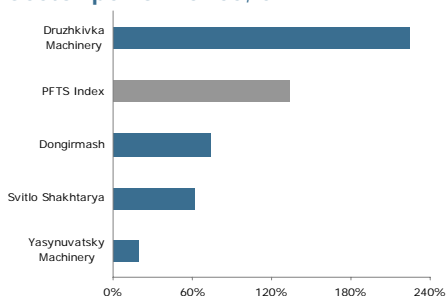
	Price	12M TP	Upside	Rec.
DRMZ	0.88	1.30	48%	BUY
DGRM	0.59	n/a	n/a	N/R
YAMZ	2.80	3.10	11%	BUY
HMBZ	0.36	n/a	n/a	N/R

	# of sh., mln	MCap, USD mln	Free float % USD mln	
DRMZ	207	182.6	12	21.9
DGRM	45	26.8	20	5.4
YAMZ	23	63.8	24	15.3
HMBZ	335	120.7	25	30.2

Key financials, USD mln, 9M07

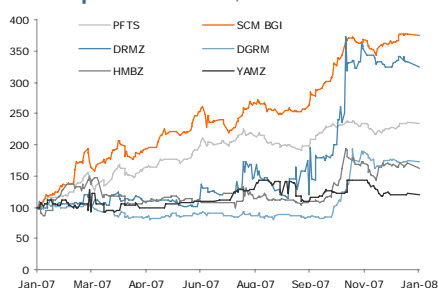
	Sales	EBITDA	Net income
DRMZ	108.6	15.1	9.9
DGRM	36.5	-3.7	-5.5
YAMZ	18.9	1.6	0.03
HMBZ	40.6	9.3	3.9

Sector performance, 52wk



Source: PFTS

Stock performance, 12M



Source: PFTS, Concorde Capital

Yesterday, Yulia Tymoshenko initiated an inspection of the coal industry, with the aim of a dramatic sector clean-up. Among other things, she pointed out non-transparent tender procedures for equipment purchases by state coal mines. Restoring fair tender conditions may as much as double demand for domestic coal machinery and put an end to the discrimination of Yasynuvatsky Machinery, the only local producer not related to SCM.

Tymoshenko crusading against inefficiencies in the coal sector

On Jan 8, Yulia Tymoshenko initiated a program to clean up the coal industry. She mentioned main impediments to the coal sector's development: misuse of funds from the state budget directed to support the industry, manipulations with coal selling prices, non-transparent procedures for purchasing mining equipment. She directed Vice-PM Alexander Turchinov to draft a plan for a large-scale inspection in the industry. The Government will consider the issue of sector reform in a week's time.

Equipment tenders: Tymoshenko's concerns

As we see it, revision of the tender procedure for mining equipment purchases will be one of the main items of sector reforms. In 2007, tenders for the purchase of coal machinery by state mines were controlled by the Coal Ministry. SCM's domination (controlling more than 2/3 of the market for mining equipment) led to: (1) discrimination against independent producers at tenders (they were only able to sell on leftovers) and (2) artificially inflated prices at tenders (up to three times), with extraordinary profits bypassing producers' P&L statements via intermediaries.

Reform will boost P&L in the coal machinery sector

We expect the abolishing of shady tenders for coal machinery will effectively halve prices on mining equipment for coal mines. This will lead to a doubling in demand for mining equipment from state coal mines within the bounds of the existing budget. Coal machinery producers will see a substantial increase in physical output, which will also have a positive effect on margins.

YAMZ will benefit the most

Equal access to tenders must benefit Yasynuvatsky Machinery, which was under-loaded in 2007 due to discrimination at tenders. We expect a more uniform split of the local market for mining equipment between the main producers if tender reform is implemented. Yasynuvatsky, the only producer of highly in-demand heading machines in the country, could see an additional 15-20% rise in revenues, above what we forecasted.

Chances for implementation - high

It was Tymoshenko's government back in 2005 who initiated the Energy strategy until 2030, which puts the coal sector in focus. Now that she is back as PM, we expect her to set the implementation of this program as a high-priority task, including putting end to stealing in the coal sector and abolishing shadow tender schemes. Macro is supportive of Tymoshenko's plans to urge coal sector reform: coal extraction fell 6% last year, while import of coal surged 36% - on the back of Russia's 38% increase in gas prices to Ukraine since January 1.

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Market multiples

	Market Cap USD mln	EV/S		EV/EBITDA		P/E	
		2007E	2008E	2007E	2008E	2007E	2008E
Dongirmash	27	0.9	0.8	23.5	18.2	29.8	18.5
Druzhkivka Machinery	183	1.4	1.2	10.0	8.0	15.5	12.2
Svitlo shakhtarya	121	1.9	1.7	8.3	11.0	21.7	17.2
Yasynuvatsky Machinery	64	2.0	1.6	9.4	7.8	22.6	20.0
Average		1.6	1.3	12.8	11.2	22.4	17.0
International							
		2007E	2008E	2007E	2008E	2007E	2008E
Bucyrus International Inc	3,304	2.4	1.7	15.4	10.5	26.6	19.0
JOY Global Inc	6,591	2.7	2.4	13.5	11.6	22.1	19.0
United Tractors	3,550	2.1	1.9	11.2	9.6	24.9	20.5
Anhui Heli Company	1,806	3.8	2.8	26.1	20.8	41.6	31.2
Sandvik AB	17,670	1.6	1.4	7.4	6.3	11.5	10.1
Shantui Construction Machinery	1,869	n/a	n/a	n/a	n/a	28.9	22.3
Peer average		2.5	2.0	14.7	11.8	25.9	20.3
Ukrainian Machine-Building							
		2007E	2008E	2007E	2008E	2007E	2008E
Mariupol Heavy Machinery	425	0.9	0.8	n/m	n/m	n/m	n/m
Azovzahalmarsh	503	1.3	1.2	n/m	n/m	n/m	n/m
Stakhaniv Wagon	381	1.8	1.3	25.5	14.8	46.2	27.1
Kryukiv Wagon	817	2.0	1.9	15.3	13.7	24.9	22.1
Dniprovahonmarsh	124	1.1	0.9	10.9	7.0	18.1	10.8
Luhanskteplovov	335	2.2	1.1	22.7	11.1	40.7	19.0
Sumy Frunze	762	2.2	1.6	17.3	10.8	34.6	19.2
Motor Sich	700	2.1	1.8	9.2	7.9	23.4	16.8
Peer average		1.7	1.3	16.8	10.9	31.3	19.2

Source: Bloomberg, Concorde Capital estimates

Concorde Capital
2 Mechnikova Street
21st Floor
Kyiv 01601, UKRAINE

Tel.: +380 44 391 5577
Fax: +380 44 391 5571
www.concorde.com.ua
office@concorde.com.ua

CEO

Igor Mazepa

im@concorde.com.ua

RESEARCH COVERAGE BY SECTOR

Equity Sales

Anastasiya Nazarenko
Duff Kovacs, CFA
Zack Watson
Marina Martirosyan

an@concorde.com.ua
dk@concorde.com.ua
zw@concorde.com.ua
mm@concorde.com.ua

Strategy

Konstantin Fisun
Oleksandr Klymchuk

kf@concorde.com.ua
ok@concorde.com.ua

Metals & Mining

Eugene Cherviachenko
Andriy Gerus

ec@concorde.com.ua
ga@concorde.com.ua

Director of Research

Konstantin Fisun, CFA

kf@concorde.com.ua

Utilities (Telecom, Energy)

Alexander Paraschiy

ap@concorde.com.ua

Oil & Gas, Chemicals

Vladimir Nesterenko

vn@concorde.com.ua

Consumer/Real Estate Group

Andriy Gostik, CFA
Olha Pankiv
Alexander Romanov
Anna Dudchenko

ag@concorde.com.ua
op@concorde.com.ua
ar@concorde.com.ua
ad@concorde.com.ua

Machinery

Eugene Cherviachenko
Inna Perepelytsya

ec@concorde.com.ua
pi@concorde.com.ua

Financial Services, Retail

Alexander Viktorov

av@concorde.com.ua

Macroeconomics

Polina Khomenko

pk@concorde.com.ua

Fixed Income

Oleksandr Klymchuk

ok@concorde.com.ua

Corporate Governance

Nick Piazza

np@concorde.com.ua

News/Production

Nick Piazza
Polina Khomenko

np@concorde.com.ua
pk@concorde.com.ua

Editor

Brad Wells

bw@concorde.com.ua

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