



CONCORDE CAPITAL

Ukraine / Coke

# Ukrainian Coke

Riding the favorable market to a strong 1Q08

June 12, 2008

Andriy Gerus

ga@concorde.com.ua

+380 44 391 5577

Benefiting from benign market conditions, for the third straight quarter, Ukrainian coke producers posted strong financial results again in 1Q08. We confirm our bullish view on the sector and reiterate our recommendations. Our top picks are Yasynivsky, Avdiyivka and Bagliy.

Company	Rec	Bloomberg
Avdiyivka Coke	BUY	AVDK UZ
Yasynivsky Coke	BUY	YASK UZ
Bagliy Coke	BUY	BKOK UZ
Alchevsk Coke	BUY	ALKZ UZ
ZaporizhCoke	HOLD	ZACO UZ

Yasnivsky Coke boosted its net income threefold yoy to USD 15.9 mln (net margin of 12.2%). As we expected (see our Note of March 05), Bagliy Coke returned to profitability with new owner Evraz Group in the driver's seat: its net income reached USD 7.4 mln (margin of 12.3%) vs. losses of USD 18.6 mln in 2007. Avdiyivka Coke recorded sales of USD 418 mln (155% yoy growth), and an EBITDA margin of 20.7%, the highest in the sector.

	shares, mln	MCap, USD mln	Free Float % USD mln
AVDK	193.6	849.4	3.2%
YASK	273.6	331.3	9.0%
BKOK	687.7	138.2	6.3%
ALKZ	3,012.0	626.7	2.0%
ZACO	119.0	144.7	7.2%

While Alchevsk Coke grew sales by 79.1% yoy to USD 247.5 mln, its net income increased by a mere 8.5% to USD 14.4 mln (margin of 5.8%), which we attribute to its exports of steel products and IUD's tax optimization schemes. ZaporizhCoke reported a net margin of 1.2% vs. 1.6% in FY07, its sales were up 52.4% yoy to USD 131.0 mln; its results confirm our view that the company suffers from the absence of a controlling owner and outdated capacities (see our Coke Update of May 28).

## Key financials '08E, USD mln

	Sales	EBITDA	Net Income
AVDK	1,668.8	300.4	163.5
YASK	628.5	92.4	59.9
BKOK	244.8	33.8	21.4
ALKZ	1,289.1	180.5	111.3
ZACO	641.4	43.0	26.0

## Key ratios '08

	EV/S	EV/EBITDA	P/E
AVDK	0.5	3.1	5.2
YASK	0.5	3.3	5.5
BKOK	0.6	4.1	6.4
ALKZ	0.5	3.2	5.5
ZACO	0.2	3.1	5.6

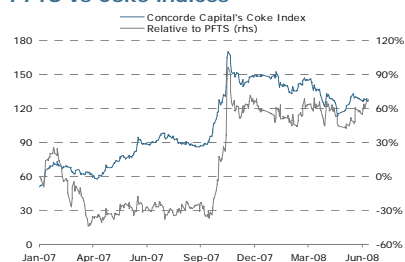
	Sales, USD mln			EBITDA margin, %			Net margin, %		
	1Q07	1Q08	chg, %	1Q07	1Q08	chg, pp	1Q07	1Q08	chg, pp
AVDK	163.8	417.9	155.2%	6.3%	20.7%	14.4	-6.7%	13.5%	20.2
YASK	78.8	130.4	65.6%	11.6%	17.7%	6.1	6.7%	12.2%	5.4
BKOK	29.1	59.7	104.8%	-12.8%	13.0%	25.8	-14.3%	12.3%	26.6
ALKZ	138.2	247.5	79.1%	15.1%	10.2%	-4.9	9.6%	5.8%	-3.8
ZACO	85.8	131.0	52.4%	2.8%	2.7%	-0.1	1.1%	1.2%	0.1

## Recommendation summary

	Price, USD	12M Target, USD	Upside	Rec
AVDK	4.39	7.62	74%	BUY
YASK	1.21	2.00	65%	BUY
BKOK	0.20	0.30	50%	BUY
ALKZ	0.20	0.28	40%	BUY
ZACO	1.35	1.80	33%	HOLD

We maintain our financial forecasts (see our May 28 report).

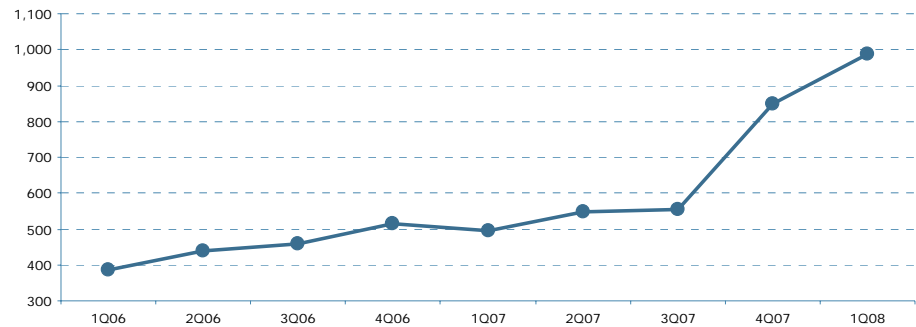
## PFTS vs Coke indices



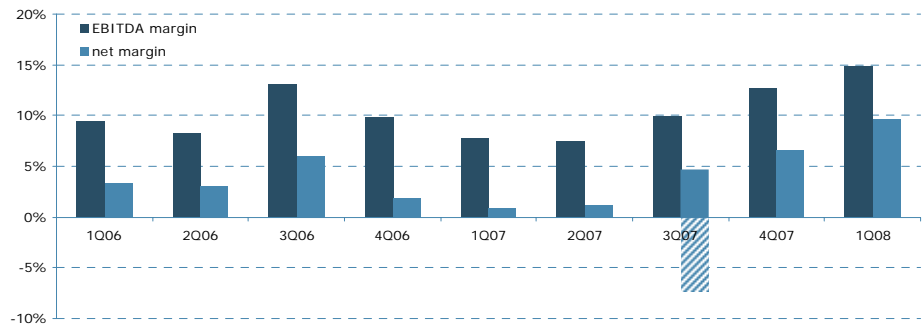
Concorde's Coke Index includes AVDK, ALKZ, ZACO, YASK

## Coke sector: Financial overview

Aggregate coke sector net revenue, USD mln



Aggregate coke sector margins\*



\* 3Q07 net margin is adjusted for Avdiivka Coke's one-off non-operating losses (Avdiivka transferred a 92% stake in Pavlohrad Coal to DTEK in August 2007 at a lower price than paid at its 2004 privatization); shaded bar indicates aggregate sector net margin without this adjustment

### Quarterly financials by company

#### AVDK

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08
Net revenue	116.6	170.1	170.3	190.7	163.8	214.4	203.0	382.7	417.9
EBITDA	16.0	15.6	29.8	18.3	10.3	11.1	26.6	63.1	86.4
EBITDA margin, %	13.7%	9.2%	17.5%	9.6%	6.3%	5.2%	13.1%	16.5%	20.7%
Net Income	1.1	2.4	13.2	-6.4	-11.0	-8.7	-60.9	40.9	56.4
Net margin, %	1.0%	1.4%	7.8%	-3.4%	-6.7%	-4.0%	-30.0%	10.7%	13.5%

#### YASK

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08
Net revenue	62.6	57.5	72.7	75.3	78.8	77.4	87.6	122.9	130.4
EBITDA	3.8	5.9	10.5	10.0	9.1	8.2	11.3	21.8	23.1
EBITDA margin, %	6.0%	10.2%	14.5%	13.2%	11.6%	10.6%	12.9%	17.8%	17.7%
Net Income	1.5	2.9	5.6	5.8	5.3	4.2	6.6	13.8	15.9
Net margin, %	2.4%	5.1%	7.8%	7.7%	6.7%	5.5%	7.5%	11.2%	12.2%

#### BKOK

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08
Net revenue	37.0	38.6	31.4	30.4	29.1	28.8	17.1	15.7	59.7
EBITDA	2.7	3.4	-1.3	0.9	-3.7	0.0	0.1	-11.4	7.8
EBITDA margin, %	7.4%	8.8%	-4.2%	2.8%	-12.8%	0.2%	0.6%	-72.3%	13.0%
Net Income	2.4	3.0	-1.7	-2.9	-4.2	-0.3	-0.3	-11.6	7.4
Net margin, %	6.4%	7.8%	-5.4%	-9.6%	-14.3%	-1.2%	-1.6%	-73.6%	12.3%

#### ALKZ

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08
Net revenue	92.7	94.2	103.2	133.0	138.2	138.3	157.1	210.8	247.5
EBITDA	8.3	6.2	13.1	21.0	20.8	18.0	14.2	29.7	25.3
EBITDA margin, %	9.0%	6.6%	12.7%	15.8%	15.1%	13.0%	9.0%	14.1%	10.2%
Net Income	4.1	2.3	6.1	13.3	13.3	8.9	12.6	10.6	14.4
Net margin, %	4.4%	2.5%	5.9%	10.0%	9.6%	6.5%	8.0%	5.1%	5.8%

#### ZACO

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08
Net revenue	76.9	79.8	80.1	84.6	85.9	87.8	89.9	116.9	131.0
EBITDA	5.5	5.1	7.6	0.4	2.4	3.5	3.0	5.3	3.5
EBITDA margin, %	7.1%	6.4%	9.5%	0.4%	2.8%	4.0%	3.4%	4.6%	2.7%
Net Income	3.9	2.3	4.5	-0.3	1.0	1.8	1.2	3.1	1.6
Net margin, %	5.1%	2.9%	5.6%	-0.4%	1.1%	2.1%	1.4%	2.7%	1.2%

## 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	56	49%
Hold	22	19%
Sell	19	17%
Under Review	18	16%
Total	115	100%

### Investment banking clients\*

Buy	6	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
Total	6	100%

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

**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

#### Head of Equity Sales

Roman Nasirov

rn@concorde.com.ua

#### Equity Sales

Anastasiya Nazarenko  
 Duff Kovacs, CFA  
 Marina Martirosyan  
 Andriy Supranonok

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

#### Director of Research

Konstantin Fisun, CFA

kf@concorde.com.ua

#### RESEARCH COVERAGE BY SECTOR

##### 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

##### Utilities (Telecom, Energy)

Alexander Paraschiy

ap@concorde.com.ua

##### Oil & Gas, Chemicals

Vladimir Nesterenko

vn@concorde.com.ua

##### Real Estate/Construction

Andriy Gostik, CFA  
 Alexander Romanov

ag@concorde.com.ua  
 ar@concorde.com.ua

##### Consumer-related

Olha Pankiv  
 Anna Dudchenko

op@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

##### 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.