



CONCORDE CAPITAL

Ukraine / Steel pipes

Kominmet

Management sets targets for 2008

January 29, 2008

Current price: USD 0.80
12M Target: USD 0.76

HOLD

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Tickers

PFTS DMZK

Market information*

Market price, USD	0.80
MCap, USD mln	159.6
Chg 12M	388%
Hi/Lo YTD, USD	2.57/0.178
No of shares, mln	199.5
Avg Mon Tr Vol YTD, USD mln	0.64
Free float	19.8%
Free float, USD mln	31.6

* At the company's September 26 AGM, shareholders voted on a 24.5% charter fund increase via an additional share issue (see our September 27 flash note)

Corporate Governance

Concorde Rating* N/R

* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

Shareholders

Energopromresurs	80.2%
Other	19.8%

Production targets disclosed by Kominmet management yesterday for 2008 are 30-40% higher than we forecasted. We believe that a new pipe production line, which came onstream in late 2007, will allow the company to increase production by 25% yoy in 2008 (we add 21% to our previous projection). The stock gained 390% last year and now looks fairly priced. We downgrade the stock to HOLD, with a new target price of USD 0.76 per share.

Management is targeting 1.3x-1.5x production increase in 2008

Yesterday Kominmet's management disclosed their production targets for 2008: +35-46% yoy growth to 250-270 ths mt, of which 30% will be round seamless pipes, the rest will be shaped pipes, according to trade publication Metal Courier. Kominmet plans to reach its targets by broadening its product mix. In October 2007, the plant launched a mid-diameter pipe production line (up to 219 mm). In November it began producing 159 mm pipes and expanded its portfolio of shaped pipes; in March Kominmet plans to start making 219 mm pipes.

We add 21% to our production forecasts

The management's targets look a bit too optimistic. We forecast Kominmet will produce 230 ths mt of pipes in 2008 (or 25% yoy growth). According to preliminary data from management, the plant will produce 18.5 ths mt of pipes in January (or +20% above its average monthly volume in 2007), while in February the company plans to increase production to 19 ths mt. We project Kominmet's average monthly production at 19-20 ths mt in 2008.

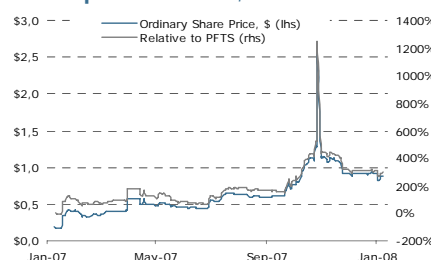
2007 results are in line with our forecasts

Last year the company produced 185 ths mt of pipes, which is exactly what we forecasted (see our September 2007 note). So far, financials are only available for 9M07: sales growth of 42% yoy was close to our projection of 46% yoy, while EBITDA and net margins were slightly below our forecasts (4.6% vs. 5.5%; and 2.1% vs. 3.0%, respectively).

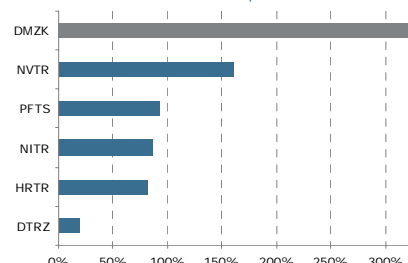
Stock downgraded to HOLD

The stock currently trades at a 30-60% discount to its peers in Russia and developed markets based on forward-looking EV/S multiples; while valuation on profitability-based multiples is mixed due to Kominmet's artificially low profitability. We set our target based on a DCF valuation. Our new scenario-weighted target price is USD 0.76 per share (6% downside). We downgrade the stock from BUY to HOLD.

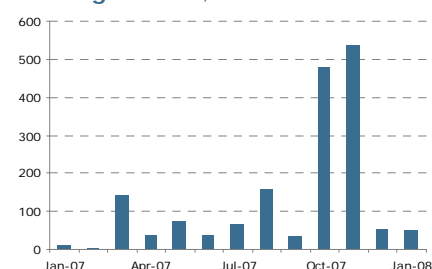
Stock performance, 12M



Sector Performance, 12M



Trading volume, USD mln



Key financials & ratios, USD mln

	Revenue	EBITDA	Net Income	EV/S	EV/EBITDA	P/E
2006	106.2	-0.2	-2.2	1.50	n/m	neg
2007E	155.4	8.5	4.6	1.06	19.21	34.84
2008E	217.3	28.7	19.1	0.70	5.31	8.34
2009E	221.9	30.2	20.0	0.69	4.96	7.99

Spot exchange rate: 5.05 UAH/USD

Key forecast revisions

		2005	2006	2007E	2008E	2009E	2010E	2011E
Pipe output, ths mt	<i>Old</i>	127.6	160.0	184.0	189.5	183.8	180.2	178.4
	<i>New</i>	-	-	184.0	230.0	223.1	218.6	216.5
Avg pipe price, USD/mt	<i>Old</i>	615.0	685.0	822.0	863.1	906.3	951.6	980.1
	<i>New</i>	-	-	822.0	863.1	906.3	951.6	980.1
True sales	<i>Old</i>	480.3	637.2	857.1	930.0	950.3	979.9	1 000.3
	<i>New</i>	-	-	857.1	1 108.2	1 131.7	1 166.7	1 190.7

SCENARIO 1 (70% probability)

"Improvement in financial disclosure"

in UAH mln unless otherwise stated

		2005	2006	2007E	2008E	2009E	2010E	2011E
Sales	<i>Old</i>	396.0	536.2	788.5	930.0	950.3	979.9	1 000.3
	<i>New</i>	-	-	788.5	1 108.2	1 131.7	1 166.7	1 190.7
Transfer pricing as % of sales	<i>Old</i>	17.5%	15.9%	20.0%	17.0%	15.0%	13.0%	10.0%
	<i>New</i>	-	-	8.0%	0.0%	0.0%	0.0%	0.0%
EBITDA mgn	<i>Old</i>	10.2%	-0.2%	5.5%	13.2%	13.6%	13.6%	13.2%
	<i>New</i>	-	-	5.5%	13.2%	13.6%	13.6%	13.2%
Net mgn	<i>Old</i>	4.1%	-2.1%	2.9%	8.6%	8.8%	8.8%	8.4%
	<i>New</i>	-	-	2.9%	8.6%	8.8%	8.8%	8.4%

SCENARIO 2 (30% probability)

"Little improvement in financial disclosure"

in UAH mln unless otherwise stated

		2005	2006	2007E	2008E	2009E	2010E	2011E
Sales	<i>Old</i>	396.0	536.2	720.8	744.0	807.7	832.9	850.3
	<i>New</i>	-	-	720.8	886.6	962.0	991.7	1 012.1
Transfer pricing as % of sales	<i>Old</i>	17.5%	15.9%	24.4%	22.7%	21.7%	20.3%	17.1%
	<i>New</i>	-	-	15.9%	20.0%	15.0%	15.0%	15.0%
EBITDA mgn	<i>Old</i>	10.2%	-0.2%	2.0%	2.0%	2.0%	2.0%	2.0%
	<i>New</i>	-	-	5.5%	5.4%	6.0%	5.5%	5.5%
Net mgn	<i>Old</i>	4.1%	-2.1%	0.4%	0.4%	0.4%	0.5%	0.6%
	<i>New</i>	-	-	2.8%	2.5%	2.9%	2.6%	2.5%

DCF model (Scenario 1)

As of January

For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	43	146	154	159	157	158	156	153	150	150
EBIT	33	133	139	143	139	139	136	132	127	126
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	24	100	104	107.0	104.4	104.2	101.8	99.1	95.4	94.5
Plus D&A	11	13	15	16	18	19	20	21	22	24
Less CapEx	(39)	(44)	(23)	(23)	(21)	(22)	(23)	(24)	(25)	(26)
Less Change in OWC	(51)	20	27	1	(2)	7	(5)	6	0	-
FCFF	(56)	89	124	101	100	108	93	103	93	92
WACC	14.5%	15.4%	14.9%	13.1%	12.1%	11.3%	11.3%	11.3%	11.3%	11.3%
WACC to Perpetuity										11.0%
Perpetuity Growth Rate										2.0%
Impl. Exit EBITDA Multiple										7.0x
Terminal Value										1 045
Disc. Terminal Value			425							
Firm Value			932							
Portion Due To TV			45.6%							
Less Net Debt			38							
Equity Value, UAH mln			970							
Implied Share Price, USD			0.95							

Sensitivity analysis: Implied share price, USD

WACC to perpetuity	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
10.0%	0.95	0.98	1.00	1.04	1.08
10.5%	0.93	0.95	0.98	1.01	1.04
11.0%	0.91	0.93	0.95	0.98	1.01
11.5%	0.89	0.91	0.93	0.96	0.98
12.0%	0.87	0.89	0.91	0.93	0.96

DCF model (Scenario 2)

As of January

For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	40	48	58	55	56	57	58	58	58	58
EBIT	29	35	44	40	39	39	39	38	37	36
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	22	27	33	29.7	29.1	29.5	29.2	28.6	27.8	27.0
Plus D&A	11	13	14	15	17	18	19	20	21	22
Less CapEx	(36)	(35)	(19)	(20)	(20)	(21)	(22)	(23)	(23)	(24)
Less Change in OWC	(47)	27	25	7	9	12	1	6	-	-
FCFF	(51)	30	52	32	34	39	27	32	25	25
WACC	14.4%	14.9%	14.5%	12.9%	12.0%	11.2%	11.2%	11.3%	11.3%	11.3%
WACC to Perpetuity										11.0%
Perpetuity Growth Rate										2.0%
Impl. Exit EBITDA Multiple										4.8x
Terminal Value										281
Disc. Terminal Value			115							
Firm Value			287							
Portion Due To TV			40.0%							
Less Net Debt			18							
Equity Value, UAH mln			304							
Implied Share Price, USD			0.30							

Sensitivity analysis: Implied share price, USD

WACC to perpetuity	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
10.0%	0.30	0.31	0.31	0.32	0.33
10.5%	0.29	0.30	0.31	0.31	0.32
11.0%	0.29	0.29	0.30	0.31	0.31
11.5%	0.28	0.29	0.29	0.30	0.31
12.0%	0.28	0.28	0.29	0.29	0.30

Comparative valuation

	MCap, USD mln	EV/S		EV/EBITDA		P/E	
		2007E	2008E	2007E	2008E	2007E	2008E
DMZK (scenario 1)	159.6	1.1	0.7	19.2	5.6	34.8	8.4
DMZK (scenario 2)	159.6	1.2	0.9	21.0	17.1	39.5	33.8
DEM Peers		2007E	2008E	2007E	2008E	2007E	2008E
Tubacex SA	1 050.2	1.3	1.3	8.7	7.4	12.3	10.4
Maruichi Steel Tube	2 697.7	2.0	1.9	10.7	10.7	24.3	25.6
Grant Prideco Inc	6 476.7	3.0	2.7	7.5	6.8	12.1	11.6
Tenaris SA	22 536.8	2.5	2.1	7.1	6.0	11.6	10.1
Vallourec SA	10 192.3	1.1	1.1	3.9	4.0	7.0	7.2
Average		2.0	1.8	7.6	7.0	13.5	13.0
GEM Peers		2007E	2008E	2007E	2008E	2007E	2008E
Borusan AS	210.1	0.4	0.3	8.6	6.6	5.9	5.4
Maharashtra Seamless Ltd	755.7	1.5	1.1	6.7	6.6	11.5	9.3
Jindal Saw Limited	1 118.9	1.0	0.7	7.2	5.5	14.9	12.4
Average		0.9	0.7	7.5	6.2	10.8	9.0
Russian Peers		2007E	2008E	2007E	2008E	2007E	2008E
Seversky Tube Works	770.1	1.2	1.3	5.3	3.3	7.2	9.3
Sinarksy Tube Works	755.5	1.1	1.0	3.4	3.3	7.5	8.4
Chelyabinsk Tube	1 870.6	1.0	0.9	5.3	3.7	7.8	7.2
Taganrog Metal Plant	636.4	1.4	1.3	5.4	3.1	8.2	6.2
Vyksa Steel Works	3 915.0	1.5	1.3	6.3	5.9	9.4	9.9
TMK	8 274.7	2.3	1.8	8.5	6.4	13.8	10.4
Average		1.4	1.3	5.7	4.3	9.0	8.6
Ukrainian Peers		2007E	2008E	2007E	2008E	2007E	2008E
Nyzhnyodniprovsk Pipe	1 972.2	2.3	1.7	10.3	8.4	17.5	14.2
Khartsyzk Pipes	1 656.7	2.4	2.1	11.5	9.9	19.3	16.3
Novomoskovsk Pipe	384.0	1.7	1.5	11.1	9.5	18.9	15.4
Dnipropetrovsk Pipe	151.0	1.0	0.9	20.3	11.4	66.2	24.6
Average		1.8	1.6	13.3	9.8	30.5	17.6
DMZK price (scenario 1)							
Implied by DEM Peers avg, USD/share		1.53	1.97	0.30	0.99	0.31	1.24
Implied by GEM Peers avg, USD/share		0.71	0.78	0.30	0.89	0.25	0.86
Implied by Russian peers avg, USD/share		1.08	1.37	0.22	0.61	0.21	0.82
Implied by Ukrainian peers avg, USD/share		1.41	1.70	0.55	1.41	0.70	1.69
Upside/Downside to DEM avg		91%	146%	-62%	24%	-61%	55%
Upside/Downside to GEM avg		-12%	-3%	-63%	11%	-69%	8%
Upside/Downside to Russian avg		35%	72%	-72%	-24%	-74%	2%
Upside/Downside to Ukrainian avg		76%	112%	-32%	76%	-74%	2%
DMZK price (scenario 2)							
Implied by DEM Peers avg, USD/share		1.39	1.57	0.27	0.32	0.27	0.31
Implied by GEM Peers avg, USD/share		0.64	0.62	0.27	0.29	0.22	0.21
Implied by Russian peers avg, USD/share		0.98	1.10	0.20	0.19	0.18	0.20
Implied by Ukrainian peers avg, USD/share		1.28	1.35	0.50	0.46	0.62	0.42
Upside/Downside to DEM avg		74%	97%	-66%	-60%	-66%	-62%
Upside/Downside to GEM avg		-20%	-23%	-66%	-64%	-73%	-73%
Upside/Downside to Russian avg		23%	37%	-75%	-76%	-77%	-75%
Upside/Downside to Ukrainian avg		61%	69%	-38%	-43%	-77%	-75%

Financial Statements, UAS

Income Statement Summary, USD mln

	1Q06	1H06	9M06	2006	1Q07	1H07	9M07
Net Revenues	20.3	43.3	74.3	106.2	33.7	69.1	105.5
<i>Change y-o-y</i>	10.3%	18.0%	31.7%	37.3%	65.8%	59.7%	42.0%
Gross Profit	2.1	2.1	3.3	6.1	3.7	6.3	10.2
EBITDA	0.9	(0.3)	(0.6)	(0.2)	1.8	2.3	4.5
<i>margin, %</i>	4.7%	-0.6%	-0.8%	-0.2%	5.3%	3.4%	4.2%
Depreciation	(0.3)	(0.6)	(0.9)	(1.4)	(0.5)	(1.7)	(2.8)
EBIT	0.7	(0.9)	(1.4)	(1.6)	1.2	0.7	1.6
<i>margin, %</i>	3.2%	-2.0%	-1.9%	-1.5%	3.7%	1.0%	1.6%
Interest Expense	(0.1)	(0.1)	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)
Financial income/(expense)	0.0	0.0	0.0	0.0	0.0	(0.1)	(0.1)
Other income/(expense)	0.0	0.1	0.1	0.1	(0.0)	(0.0)	0.7
PBT	0.5	(0.9)	(1.5)	(1.6)	1.2	0.5	2.2
Tax	(0.0)	(0.1)	(0.2)	(0.6)	(0.2)	(0.3)	(0.6)
<i>Effective tax rate</i>	9.1%	-11.2%	-11.1%	-35.1%	13.2%	63.0%	26.1%
Net Income	0.5	(1.0)	(1.6)	(2.2)	1.1	0.2	1.6
<i>margin, %</i>	2.5%	-2.3%	-2.2%	-2.1%	3.1%	0.3%	1.5%

Balance Sheet Summary, USD mln

	1Q06	1H06	9M06	2006	1Q07	1H07	9M07
Current Assets	13.3	16.0	18.3	19.6	19.7	18.9	23.1
Cash & Equivalents	0.0	0.2	0.4	0.2	0.1	0.1	0.1
Trade Receivables	0.9	1.5	8.1	5.7	3.7	4.6	5.9
Inventories	7.2	8.6	6.1	8.5	8.6	7.7	6.9
Other current assets	5.2	5.7	3.7	5.2	7.3	6.5	10.2
Fixed Assets	20.0	20.3	32.9	34.3	49.7	57.8	56.7
PP&E, net	12.7	12.8	25.2	26.4	39.9	40.8	51.5
Other Fixed Assets	7.3	7.6	7.6	7.9	9.7	17.0	5.2
Total Assets	33.4	36.3	51.1	53.9	69.3	76.7	79.8
Shareholders' Equity	(5.1)	(6.5)	5.1	5.8	18.5	17.6	20.6
Share Capital	5.1	5.1	5.1	6.4	6.4	6.4	7.9
Reserves and Other	14.1	14.0	26.1	25.8	37.2	37.2	37.1
Retained Earnings	(24.2)	(25.7)	(26.1)	(26.4)	(25.1)	(26.0)	(24.4)
Current Liabilities	36.1	42.6	27.1	28.9	31.6	39.9	40.0
ST Interest Bearing Debt	0.9	2.0	-	-	1.6	-	-
Trade Payables	12.9	17.1	14.7	18.4	17.8	27.5	27.7
Accrued Wages	0.3	0.3	0.3	0.4	0.4	0.4	0.5
Accrued Taxes	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Other Current Liabilities	22.0	23.1	11.9	10.0	11.7	11.8	11.7
LT Liabilities	2.3	0.3	18.9	19.2	19.2	19.2	19.2
LT Interest Bearing Debt	2.0	-	-	-	-	-	-
Other LT	0.3	0.3	18.9	19.2	19.2	19.2	19.2
Total Liabilities & Equity	33.4	36.3	51.1	53.9	69.3	76.7	79.8

Quarterly analysis, USD mln

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
Net Revenues	20.3	22.9	31.0	31.9	33.7	35.4	36.4
<i>Change y-o-y</i>	N/M	N/M	N/M	52.4%	N/M	N/M	N/M
EBITDA	0.9	(1.2)	(0.3)	0.3	1.8	0.6	2.1
<i>margin, %</i>	4.7%	-5.3%	-1.0%	1.0%	5.3%	1.6%	5.8%
EBIT	0.7	(1.5)	(0.6)	(0.2)	1.2	(0.6)	1.0
<i>margin, %</i>	3.2%	-6.6%	-1.9%	-0.6%	3.7%	-1.6%	2.6%
Net Income	0.5	(1.5)	(0.7)	(0.6)	1.1	(0.9)	1.4
<i>Net margin, %</i>	2.5%	-6.5%	-2.1%	-1.8%	3.1%	-2.4%	3.9%

Appendix - Disclosures

Analyst certification

I, Eugene Cherviachenko, 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.

DMZK

Date	Target price, USD	Market price, USD	Reccomen- dation	Action
27-Nov-06	0.18	0.18	HOLD	Upgrade
21-Sep-07	0.75	0.60	BUY	Upgrade
27-Sep-07*	0.59	0.60	BUY	Maintain
29-Jan-08	0.76	0.80	HOLD	Downgrade

* For details, see our Sept. 27 report.

Note: Until February 2006 the company was covered by Andriy Gostik, who now focuses on another sector. In February 2006, Eugene Cherviachenko took over coverage.

DMZK Recommendation history, USD per share



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	38	36%
Hold	29	28%
Sell	14	13%
Under Review	24	23%
Total	105	100%

Investment banking clients*

Buy	7	78%
Hold	1	11%
Sell	0	0%
Under Review	1	11%
Total	9	100%

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

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