



CONCORDE CAPITAL

Ukraine / Steel pipes

**Kominmet**

**Share Issue to Support Production Rise**

September 27, 2007

Market Price: USD 0.60

12M Target: Diluted USD 0.59  
Undiluted USD 0.75

**BUY**

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Bloomberg DMZK UZ

**Market information**

No of Shares, mln	160.0
Market Price, USD	0.60
52Wk H/L, USD	0.66/0.14
MCap, USD mln*	96.1
Free float	19.8%
Free float, USD	19.0
Corporate Governance Rating**	N/R

\* Based on undiluted number of shares outstanding  
\*\* 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.

**Ownership**

Energopromresurs	80.2%
Other	19.8%

**Ratios 2007E**

EBITDA Margin	6%
Net Margin	3%
Net Debt/ Equity	0.45

- **Additional share issue will increase charter fund 24.5% and finance working capital**
- **Pipe production line will come on stream in mid-October, boosting operating capacity 33%**
- **The management's production target for 2007 is 8.7% above our forecast**

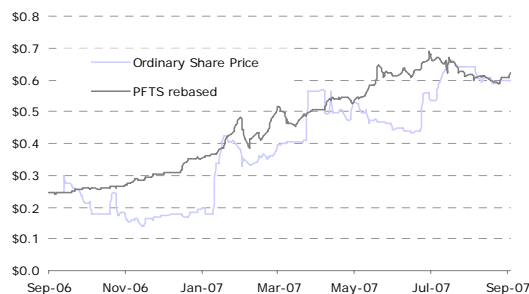
At Kominmet's AGM yesterday, shareholders voted to increase the company's charter fund by 24.5% to USD 9.9 mln. Subscription will be held in two stages: (1) December 17 to December 20; and (2) on December 21. The ex-rights date coincides with the first day of subscription.

Management told us the proceeds will be used to finance additional working capital needs for a new pipe workshop. Management envisages that a new pipe production line, due to come on stream in mid-October, will allow the company to increase monthly production capacity by 33% to 20 ths mt and output in 2007 by 25%, to 200 ths mt.

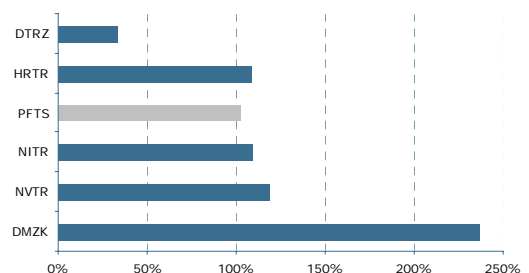
We believe the production line will operate in testing mode during October-December, and forecast it could be fully utilized starting in 1H08. Our production projection for 2007 remains 184 ths mt (+15.0% yoy), 8.7% less than the management's estimate. We may revise upward Kominmet's production numbers for 2008 going forward after a more careful examination of market prospects for the company's pipes given its expanded capacities.

Our diluted target price is USD 0.59 per share (vs. undiluted USD 0.75 per share), suggesting a 25% upside for those who will subscribe. We maintain our BUY recommendation.

**Stock performance, 12M**



**Sector performance, YTD**



**Key financials, USD mln**

(in USD mln)	Sales	EBITDA	Net Income	EV/S	EV/EBITDA	P/E
2006	106.2	(0.2)	(2.2)	0.9	neg	neg
2007E	155.4	8.5	4.6	0.6	11.9	20.9
2008E	182.4	24.1	15.7	0.5	4.0	6.1

UAH/USD Spot exchange rate is 5.05

Note: PFTS mid-market price  
Source: PFTS, Concorde Capital estimates

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