

# Dniproazot

## Preparing To Sell Out?

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12M Target: N/A

## SELL

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### Market Information

Bloomberg	DNAZ UZ
Frankfurt/Xetra	UZB GR
No of Shares, mln	35158.4
Reg S GDR to Ord.	1:2500

Market price, USD	0.0043
52Wk H/L, USD	0.0056/0.0030
MCap, USD mln	149.8
Free float*	10%
* pre-buyback	
FF MCap, USD mln	15.0

Mo avg trd volume*, USD mln	1.2
* 6M trailing, PFTS & Frankfurt	

### Stock Ownership

Privat Group	86%
Other	14%

### Ratios, 9M06

EBITDA Margin	16.7%
EBIT Margin	13.8%
Net Margin	10.6%
Net Debt/Equity	0.10

Indications are that Dniproazot's owner, Privat Group, which has recently been active in accumulating DNAZ's free float, intends to sell out. Most likely, Privat is seeking to sell off Dniproazot's assets rather than shares. Given increasing uncertainty about Dniproazot's future, we withhold our target price while reiterating SELL recommendation.

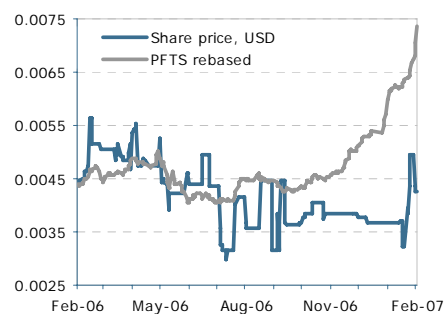
**Privat Is Buying DNAZ Shares Off The Market.** To the best of our knowledge, Dniproazot's owner, Privat Group, has recently started buying back shares from the market. At the current market price, the company's free-float is worth about USD 15 mln, and we do not think it will take long for Privat Group to accumulate most of it.

**An Acquisition To Follow?** Although the company has neither confirmed nor denied it, the share buyback most likely points to the owner's intention to sell out, which is exactly what we have been expecting to happen (see our report from March 2006). We still believe that the most probable candidates to acquire Dniproazot are companies engaged in the gas business.

**Privat Seems To Be Offering a Premium.** It looks like Privat is offering a premium to the stock's fair price: despite fundamental negatives, DNAZ's current market price is almost at the same level as a year ago, 43% higher than our target. If a divestiture indeed takes place, there is high risk that Privat will sell Dniproazot's assets rather than shares. The bitter pill for shareholders will be somewhat sweetened by a substantial buyout premium.

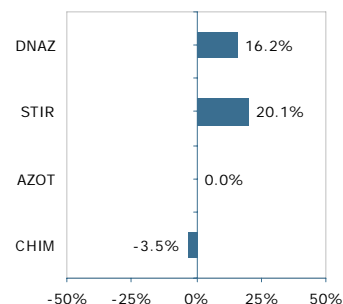
**Reiterating SELL, Valuation Suspended.** Given the risk of Dniproazot's asset disposal, we reiterate our SELL recommendation for DNAZ, while withholding our target price. Our previous 12M target was USD 0.0030 per share (see our report from Sept. 2006).

### DNAZ Stock Performance

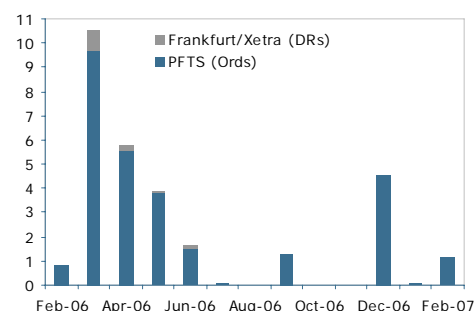


Source: PFTS, Bloomberg

### Sector Performance, YTD



### Trading volume, USD mln



### Key Financials & Ratios

(in USD mln)	Sales	EBITDA Margin	Net Margin	EV/S	EV/EBITDA	P/E
2005	186.4	26.3%	15.9%	0.96	3.70	5.27
2006E	204.4	20.3%	12.6%	0.83	4.11	5.59
2007E	200.4	7.7%	3.2%	0.85	10.98	22.78

Spot exchange rate: 5.05

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