



CONCORDE CAPITAL

Ukraine / Engineering & Construction Dnipropetrovsk Babushkin Steelwork Plant (DZMK)

AGM flash note

September 16, 2008

Current price: UAH 1.5 / USD 0.30
12M Target: UAH 3.8 / USD 0.79

BUY

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Market information

Market price*, UAH	1.5
USD	0.30
MCAp, UAH mln	145.0
USD mln	29.9
No of shares, mln	99.6
Free float	10%
Free float, GBP mln	14.5
USD mln	3.0

* DZMK is available OTC

Corporate Governance

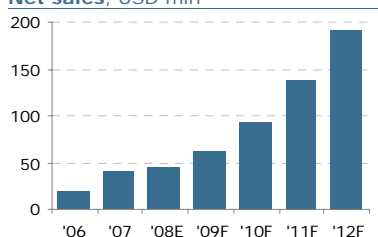
Concorde Rating** n/a

** 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

Fercon Holding	81.6%
Other	18.4%

Net sales, USD mln



Source: Company data, Concorde Capital estimates

- Last week at the company's AGM, Dnipropetrovsk Babushkin management announced they were targeting tripling output to 55-60 ths mt p.a. by 2010
- To support rapid production growth, the company will invest USD 32 mln on modernization, mostly to be financed by domestic debt
- In a conversation with us, management of the parent company confirmed intentions to go public or sell out to a strategic buyer; an audit of the holding's 3Y consolidated financial statements is currently underway

Output to triple by 2010, according to the management

At the company's AGM last week, management announced plans to triple output from ~23 ths mt of steelwork p.a. currently (up 87% yoy in 2007) to 55-60 ths mt p.a. by 2011. The company based its target on contracts to supply structured steelwork for ongoing reconstruction projects in Ukraine. In particular, the company's major current clients, Azovstal and ArcelorMittal Kryviy Rih, both announced modernization programs this year, envisaging CapEx of USD 8 bln and USD 2 bln, respectively, in 2014-15. We think there is a high probability of the company boosting sales and confirm our projections for cumulative revenues of USD ~200 mln over 2008-2010.

CapEx program to be backed by debt financing

In order to support the rapid growth in output, Dnipropetrovsk Babushkin is going to invest USD 32 mln into modernization of its production facilities over 2008-10. This week, the company is planning to finalize a EUR 1 mln contract with French Vernet Behringer for new steelwork assembly equipment. In order to fulfill its CapEx program, Babushkin intends to attract debt financing from local banks. As the company is currently substantially underleveraged with debt below USD 1 mln, we consider its debt-backed CapEx program to be feasible.

M&A / IPO – likely mid-term price catalysts

Confirming our hypotheses from our initiating coverage report of May 2008, the management of Dnipropetrovsk Babushkin's parent company, Fercon Holding, in a conversation with us revealed that the holding is planning to go public in 2010. At the same time, the management told us they may consider sale to a strategic buyer as an alternative option: Fercon received an offer from an undisclosed Australian company to buy a stake in the holding at an indicative multiple of 10x EV/EBITDA (a 37% premium to the current peer group average). Currently, the holding is undergoing an audit of consolidated financials for the past three years. We remain positive about the company's prospects and maintain our BUY recommendation.

Key financials & ratios, USD mln

	Revenue	EBITDA	Net Income	Book Value	Debt/Equity
2006	20	2	2	11	0.10
2007	41	3	2	15	0.00
2008E	45	5	3	18	0.04

Source: Company data, Concorde Capital estimates

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DZMK Income Statement Summary, USD mln

	2006	2007	2008F	2009F	2010F	2011F	2012F
Net Revenues	20	41	45	61	94	138	192
Cost of Sales	(15)	(36)	(37)	(50)	(77)	(113)	(158)
Gross Profit	5	5	8	11	17	25	35
Other Operating Income/Costs, net	(1)	(0)	(0)	(0)	(0)	(1)	(1)
SG&A	(2)	(2)	(3)	(4)	(7)	(10)	(13)
EBITDA	2	3	5	6	10	14	20
<i>EBITDA margin, %</i>	12.2%	6.8%	10.5%	10.5%	10.5%	10.5%	10.5%
Depreciation	(1)	(1)	(1)	(1)	(1)	(1)	(1)
EBIT	2	2	4	6	9	13	19
<i>EBIT margin, %</i>	9.1%	4.9%	8.7%	9.0%	9.4%	9.6%	9.8%
Interest Expense	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Financial Income	0	-	-	-	-	-	-
Other Income/(Expense)	2	0	0	0	0	0	0
PBT	3	2	4	6	9	13	19
Tax	(1)	-	(1)	(1)	(2)	(3)	(5)
Net Income	2	2	3	4	7	10	14
<i>Net Margin, %</i>	11.2%	4.8%	6.7%	6.8%	7.0%	7.2%	7.3%

DZMK Balance Sheet Summary, USD mln

	2006	2007	2008F	2009F	2010F	2011F	2012F
Current Assets	14	17	24	29	36	50	70
Cash & Equivalents	0	0	0	0	0	0	0
Trade Receivables	2	2	5	6	9	14	19
Inventories	8	6	9	12	15	23	32
Other Current Assets	4	9	10	11	11	14	19
Fixed Assets	15	14	16	18	22	24	27
PP&E, net	10	11	12	14	17	20	23
Investment Property & Other Fixed Assets	4	4	4	4	4	4	4
Total Assets	28	31	40	47	58	75	97
Shareholders' Equity	11	15	18	23	29	39	53
Share Capital	4	5	5	5	5	5	5
Reserves and Other	8	10	13	18	24	34	48
Current Liabilities	16	16	19	23	27	27	30
ST Interest Bearing Debt	1	0	1	1	1	2	3
Trade Payables	10	7	9	9	12	11	16
Accrued Taxes	0	0	0	0	0	0	0
Other Current Liabilities	5	9	9	12	14	14	12
LT Liabilities	1	0	2	2	1	8	13
LT Interest Bearing Debt	-	-	-	-	-	-	-
Other LT	1	0	1	1	1	1	1
Total Liabilities & Equity	28	31	40	47	58	75	97

DZMK Cash Flow Statement Summary, USD mln

	2006	2007	2008F	2009F	2010F	2011F	2012F
Net Income	2	2	3	4	7	10	14
D&A	1	1	1	1	1	1	1
Non-operating and Non-cash Items	(1)	(1)	2	(1)	(0)	7	5
Changes in Working Capital	3	(2)	(4)	(2)	(3)	(15)	(18)
Operating Cash Flow	5	(0)	2	3	4	3	3
Capital Expenditures, net	(6)	(2)	(3)	(3)	(4)	(4)	(4)
Other Investments, net	2	5	-	-	-	-	-
Investing Cash Flow	(3)	3	(3)	(3)	(4)	(4)	(4)
Net Borrowings/(Repayments)	(2)	(1)	1	0	0	1	1
Dividends Paid	-	-	-	-	-	-	-
Equity Financing & Other	0	(2)	-	-	-	-	-
Financing Cash Flow	(1)	(3)	1	0	0	1	1
Beginning Cash Balance	-	0	0	0	0	0	0
Ending Cash Balance	0	0	0	0	0	0	0
Net Cash Inflows/Outflows	(0)	(0)	0	0	0	(0)	0

UAH/USD Exchange Rates

	2006	2007	2008F	2009F	2010F	2011F	2012F
Average	5.05	5.05	4.99	4.93	4.90	4.90	4.90
Year-end	5.05	5.05	4.95	4.90	4.90	4.90	4.90

Source: Company data, Concorde Capital estimate

Disclosures

Analyst certification

We, Alexander Romanov and Andriy Gostik, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

DZMK's ratings history

Date	Target price, USD	Market Price, USD	Rating	Action
14-May-08	0.79	0.30	Buy	Initiating
16-Sep-08	0.79	0.30	Buy	Maintained

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.

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Buy	94	76%
Hold	19	15%
Sell	7	6%
Under Review	4	3%
Total	124	100%

Investment banking clients*

Buy	7	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
Total	7	100%

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

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