



CONCORDE CAPITAL

Ukraine / Steel

# Enakievo Steel

## Metinvest's 2009 IPO sets catalysts in motion

December 04, 2007

Current price: USD 79.60  
12M Target: USD 120.00

**BUY**

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### Tickers

Bloomberg ENMZ UZ

### Market information

Market price, USD	79.6
MCap, USD mln	825.5
52Wk Hi/Low, USD	87.2/5.28
No of shares, mln	10
Free float	13.8%
Free float, USD mln	113.9

### Corporate Governance

Concorde Rating\* BA

\* 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

Metinvest	86.3%
Other	13.7%

### Ratios 2007E

EBITDA margin	12.0%
Net margin	6.0%
Net debt/equity	0.14

- Metinvest's IPO, preliminarily set by management for 2009, reinforces our belief of consolidation of Enakievo Steel and Metalen. Conservatively, we continue to evaluate Enakievo on a stand-alone basis
- 9M07 reported financials give mixed results: EBITDA and bottom line below our previous forecast, sales growth as expected. We revise our 2007 projections accordingly, but keep 2008 estimates
- We stick to target price of USD 120 per share, upside 51%

### Consolidation more certain

During a recent meeting with Enakievo Steel's managing company, Metinvest, management told us that the group is preliminarily planning an IPO in 2009 and that its restructuring (including the merger of Enakievo Steel and Metalen) would be finalized by the end of 2008. We estimate consolidation with Metalen would increase Enakievo's top line by 50%, and boost its EBITDA margin to ~23% and net margin to ~15%; adding ~50% to Enakievo's fair value. We continue to conservatively evaluate Enakievo without Metalen (see our Oct. 19 sector update), until the company discloses terms of consolidation.

### Forecasts: 2007 EBITDA & NI downgraded; 2008 holds

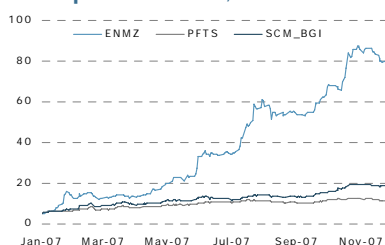
Although Enakievo Steel improved financials in 9M07, we expected profitability to be higher (see our note of Oct. 26) that indicates slower than expected progress in elimination of related party transactions. Accordingly, we downgrade our 2007 forecasts, but stay with our 2008 projections.

	9M06	9M07	YoY	2007E old	2007E new	2008E
Sales, USD mln	479.9	707.5	47.4%	920.2	920.2	1,171.0
EBITDA, USD mln	31.8	65.7	106.9%	139.9	96.0	192.1
margin, %	6.6%	9.3%	+2.7 p.p.	15.2%	10.4%	16.4%
Net income, USD mln	7.6	33.6	339.9%	74.5	46.0	108.9
margin, %	1.6%	4.7%	+3.2 p.p.	8.1%	5.0%	9.3%

### Target price unchanged

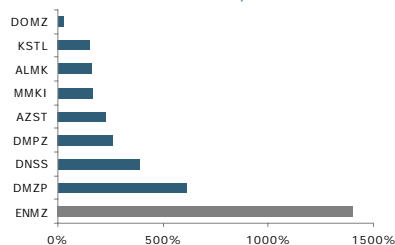
We stick with our previous 12M target price of USD 120 per share based on forward looking multiples. Upside to the current market price is 51% - the highest among liquid steel stocks on the PFTS.

### Stock performance, 12M\*

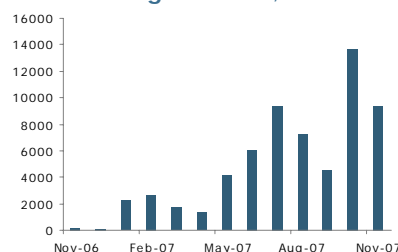


Source: PFTS, Bloomberg; Note: PFTS mid-price

### Sector Performance, YTD



### PFTS Trading Volumes, USD ths



### Key financials & ratios, USD mln

	Revenue	EBITDA margin	Net margin	EV/S	EV/EBITDA	P/E
2006	702	6%	4%	1.2	20.4	26.7
2007E	920	10%	5%	0.9	8.9	18.0
2008E	1,171	16%	9%	0.7	4.5	7.6

Spot exchange rate: 5.05 UAH/USD

# Financial Statements, UAS

## Income Statement Summary, USD mln

	1Q06	1H06	9M06	2006	1Q07	1H07	9M07
<b>Net Revenues</b>	<b>150.1</b>	<b>304.2</b>	<b>479.9</b>	<b>701.9</b>	<b>209.0</b>	<b>460.1</b>	<b>707.5</b>
Change y-o-y	-15.5%	-2.1%	6.2%	16.4%	39.3%	51.2%	47.4%
Gross Profit	11.1	23.8	36.9	54.4	20.3	70.6	93.0
<b>EBITDA</b>	<b>6.1</b>	<b>17.5</b>	<b>31.8</b>	<b>40.6</b>	<b>12.6</b>	<b>55.0</b>	<b>65.7</b>
margin, %	4.1%	5.8%	6.6%	5.8%	6.0%	12.0%	9.3%
Depreciation	(3.5)	(7.0)	(10.6)	(14.2)	(3.8)	(8)	(11)
<b>EBIT</b>	<b>2.6</b>	<b>10.5</b>	<b>21.2</b>	<b>26.4</b>	<b>8.8</b>	<b>47</b>	<b>55</b>
margin, %	1.7%	3.4%	4.4%	3.8%	4.2%	10.3%	7.7%
Interest Expense	(0.1)	(0.3)	(0.4)	(0.4)	(0.1)	(0.8)	(1.7)
Other income/(expense)	(0.0)	(0.0)	0.0	(0.2)	0.1	0	0
<b>PBT</b>	<b>2.5</b>	<b>10.3</b>	<b>20.9</b>	<b>40.0</b>	<b>8.8</b>	<b>46.9</b>	<b>53.0</b>
Tax	(0.5)	(3.3)	(13.3)	(9.0)	(4.0)	(18)	(19)
Effective tax rate	19.2%	31.8%	63.4%	22.5%	45.8%	38.1%	36.6%
<b>Net Income</b>	<b>2.0</b>	<b>7.0</b>	<b>7.6</b>	<b>31.0</b>	<b>4.8</b>	<b>29.0</b>	<b>33.6</b>
Net Margin, %	1.4%	2.3%	1.6%	4.4%	2.3%	6.3%	4.7%

## Balance Sheet Summary, USD mln

	1Q06	1H06	9M06	2006	1Q07	1H07	9M07
<b>Current Assets</b>	<b>293.5</b>	<b>171.3</b>	<b>214.9</b>	<b>236.7</b>	<b>226.9</b>	<b>207.5</b>	<b>294.4</b>
Cash & Equivalents	1.7	0.9	8.0	2.3	1.3	3.0	4.4
Trade Receivables	201.6	65.4	103.3	133.4	97.0	81.2	173.5
Inventories	35.5	36.0	44.5	35.5	45.6	57.8	44.3
Other	54.7	69.0	59.1	65.5	82.9	65.5	72.2
<b>Fixed Assets</b>	<b>158.6</b>	<b>158.0</b>	<b>159.4</b>	<b>179.2</b>	<b>177.5</b>	<b>174.8</b>	<b>179.2</b>
PP&E, net	58.8	56.8	57.8	57.1	54.6	57.0	56.2
Other	99.8	101.1	101.6	122.0	123.0	117.8	123.0
<b>Total Assets</b>	<b>452.1</b>	<b>329.3</b>	<b>374.3</b>	<b>415.9</b>	<b>404.4</b>	<b>382.3</b>	<b>473.6</b>
<b>Shareholders' Equity</b>	<b>112.0</b>	<b>116.9</b>	<b>121.9</b>	<b>144.4</b>	<b>149.2</b>	<b>173.3</b>	<b>177.9</b>
Share Capital	31.3	31.3	31.3	31.3	31.3	31.3	31.3
Retained Earnings	51.2	56.1	57.8	81.1	85.8	108.8	113.4
Other	29.5	29.5	32.8	32.0	32.0	33.2	33.2
<b>Current Liabilities</b>	<b>336.6</b>	<b>209.0</b>	<b>249.0</b>	<b>269.3</b>	<b>253.1</b>	<b>206.8</b>	<b>293.6</b>
ST Interest Bearing Debt	5.1	5.1	5.1	-	26.5	26.5	30.0
Trade Payables	276.1	165.4	176.7	206.1	64.0	26.5	114.5
Other	55.4	38.5	67.2	63.2	162.5	153.8	149.1
<b>LT Liabilities</b>	<b>3.5</b>	<b>3.4</b>	<b>3.4</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>
LT Interest Bearing Debt	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Other	1.4	1.4	1.4	0.2	0.2	0.2	0.2
<b>Total Liabilities &amp; Equity</b>	<b>452.1</b>	<b>329.3</b>	<b>374.3</b>	<b>415.9</b>	<b>404.4</b>	<b>382.3</b>	<b>473.6</b>

## Quarterly Analysis, USD mln

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
<b>Net Revenues</b>	<b>150.1</b>	<b>154.1</b>	<b>175.6</b>	<b>222.0</b>	<b>209.0</b>	<b>251.0</b>	<b>247.4</b>
Change y-o-y	N/M	N/M	N/M	46.7%	N/M	N/M	N/M
<b>EBITDA</b>	<b>6.1</b>	<b>11.4</b>	<b>14.2</b>	<b>8.8</b>	<b>12.6</b>	<b>42.4</b>	<b>10.7</b>
margin, %	4.1%	7.4%	8.1%	4.0%	6.0%	16.9%	4.3%
<b>EBIT</b>	<b>2.6</b>	<b>7.9</b>	<b>10.7</b>	<b>5.2</b>	<b>8.8</b>	<b>38.7</b>	<b>7.0</b>
margin, %	1.7%	5.1%	6.1%	2.4%	4.2%	15.4%	2.8%
<b>Net Income</b>	<b>2.0</b>	<b>5.0</b>	<b>0.6</b>	<b>23.4</b>	<b>4.8</b>	<b>24.3</b>	<b>4.6</b>
Net Margin, %	1.4%	3.2%	0.4%	10.5%	2.3%	9.7%	1.9%

## Appendix - Disclosures

### Analyst certification

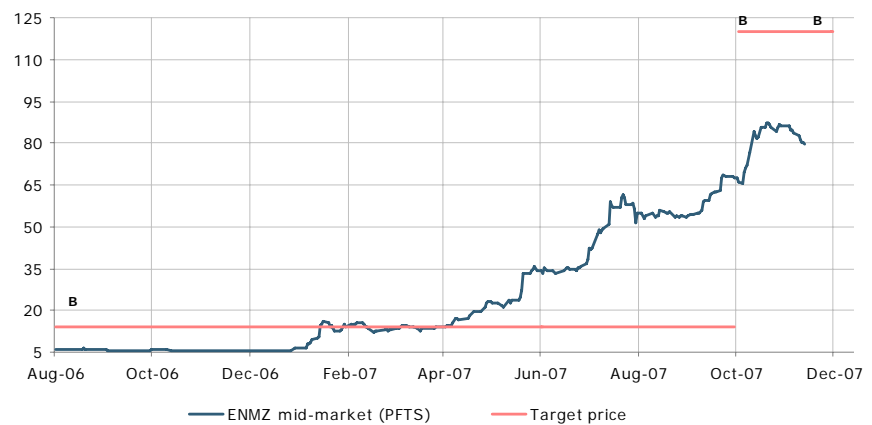
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#### Enakievo Steel

Date	12M target price, USD	Market price, USD	Rating	Action
18-Aug-06	14.00	5.59	Spec BUY	Initiate
19-Oct-07	120.00	67.70	BUY	Maintain
26-Oct-07	120.00	72.08	BUY	Maintain
04-Dec-07	120.00	79.60	BUY	Maintain

\* Until March 2007 the company was covered by Andriy Gostik, who now focuses on another sector. In February 2007, Eugene Cherviachenko took over coverage; in October 2007, he was joined by Andriy Gerus.

#### ENMZ Recommendation history, USD per share



## Investment Ratings

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### Concorde Capital ratings distribution

Buy	37	41%
Hold	29	32%
Sell	12	13%
Under Review	12	13%
Total	90	100%

### Investment banking clients\*

Buy	8	73%
Hold	3	27%
Sell	0	0%
Under Review	0	0%
Total	11	100%

\* Concorde Capital provided investment banking services to the company within the past 12 months.

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