CONCORDE CAPITAL

Ukraine / Steel

Enakievo Steel

Unlocking Value on Metinvest Cleanup

October 26, 2007

Current Price: USD 72.0

12M Target: USD 120.0

BUY

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Bloomberg	ENMZ UZ

Market information

No of Shares, mln	10
Reg S GDR to Ord.	n/a
Market Price, USD	72.0
52Wk H/L, USD	72.0/5.28
MCap, USD mln	747.5
Free float	13.8%
Free float, USD	103.2

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.*

Ownership

Metinvest	86.3%
Other	13.7%

Ratios 2007E

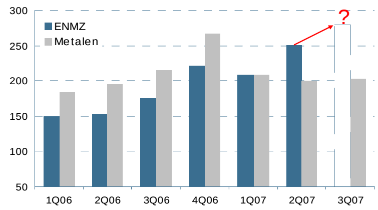
EBITDA Margin	15.0%
Net Margin	8.0%
Net Debt/ Equity	0.14

The decline in Metalen's 9M07 financials, released yesterday, confirms the emergence of Enakievo Steel as the profit center of the two and reinforces our expectations of stronger 9M results from ENMZ. Consolidation of these assets remains a mid-term value driver. We maintain our financial forecasts and target price of USD 120 per share, which still offers the largest upside in the steel stock universe (67%).

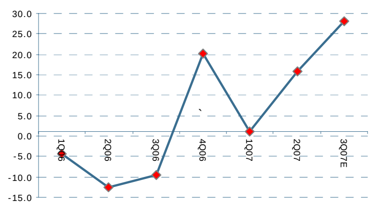
Metalen financials down, Enakievo up?

Yesterday Metalen, part of the Enakievo-Metalen group, reported a 60% yoy drop in 9M07 net income, and sales growth of a meager 3% yoy, extending the decrease in key financials for a third straight quarter. At the same time, Enakievo Steel, which owns capacities at the same site but has been a separate legal entity since 2000, has improved results over past quarters and we expect them to be even stronger in 3Q07.

Sales, *USD mln*



ENMZ-Metalen net income gap, *USD mln*



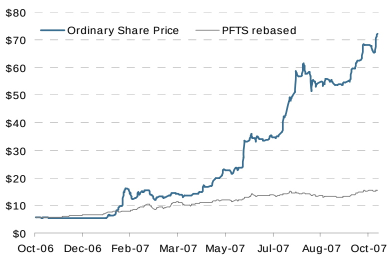
Source: Company data

We expect Enakievo's 9M07 financial statements, to be available to the market in one-two weeks, as a powerful price catalyst for the stock. ENMZ has re-emerged on investors' radars (up 11% in just the last four days) – and remains the cheapest in the sector.

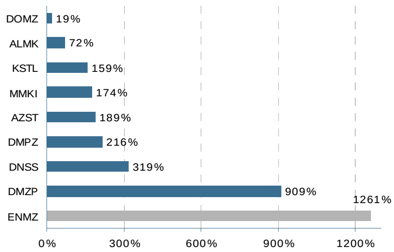
Mid-term watch: Enakievo/Metalen consolidation

The turnaround in Metalen's reported numbers and Metinvest's replacement of SCM as controlling shareholder of Enakievo Steel at its September AGM, reinforce our belief that ENMZ is the key asset of the ENMZ-Metalen group. Metinvest said it would merge the two by the end of 2008. Consolidation would increase Enakievo's top line by 50%, EBITDA margin to 20-23% and net margin to 10-15%; roughly adding up to 100% to Enakievo's fair value. We continue to conservatively evaluate Enakievo without Metalen (see our Oct. 19 sector update).

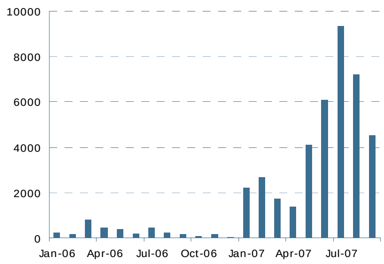
Stock performance*, 12M



Sector performance*, YTD



PFTS Trading Volumes, USD ths



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

Key financials, USD mln

	Sales	EBITDA	Net Income	EV/S	EV/EBITDA	P/E
2006	701.9	40.6	31.0	1.1	18.4	24.1
2007E	920.2	139.9	74.5	0.8	5.6	10.0
2008E	1 171.0	192.1	108.9	0.7	4.0	6.9

UAH/USD Spot exchange rate is 5.05

Enakievo Steel financials, UAS

INCOME STATEMENT SUMMARY, USD mln

	1H04	2H04	1H05	2H05	1H06	2H06	1H07
Net Revenues	**203.9**	**593.0**	**310.7**	**603.2**	**304.2**	**701.9**	**460.1**
Change y-o-y	*56.6%*	*105.1%*	*52.3%*	*1.7%*	*-2.1%*	*16.4%*	*51.2%*
Gross Profit	3.1	15.3	7.0	28.1	23.8	54.4	70.6
EBITDA	**(3.8)**	**(7.9)**	**(9.1)**	**(16.3)**	**17.5**	**40.6**	**55.0**
margin, %	-1.9%	-1.3%	-2.9%	-2.7%	5.8%	5.8%	12.0%
Depreciation	(2.0)	(3.9)	(2.6)	(6.0)	(7.0)	(14.2)	(7.6)
EBIT	**(5.8)**	**(11.8)**	**(11.7)**	**(22.3)**	**10.5**	**26.4**	**47.5**
margin, %	-2.9%	-2.0%	-3.8%	-3.7%	3.4%	3.8%	10.3%
Interest Expense	(0.0)	(0.2)	(0.1)	(0.4)	(0.3)	(0.4)	(0.8)
Other income/(expense)	0.0	(0.3)	(0.7)	(1.8)	(0.0)	(0.2)	0.1
PBT	**(5.8)**	**(6.9)**	**(12.5)**	**(11.9)**	**10.3**	**40.0**	**46.9**
Tax	(0.2)	0.0	(0.1)	0.0	(3.3)	(9.0)	(17.9)
Effective tax rate	*-3.1%*	*0.0%*	*-0.8%*	*0.0%*	*31.8%*	*22.5%*	*38.1%*
Net Income	**(6.0)**	**(6.9)**	**(12.6)**	**(11.9)**	**7.0**	**31.0**	**29.0**
Net Margin, %	-2.9%	-1.2%	-4.1%	-2.0%	2.3%	4.4%	6.3%

BALANCE SHEET SUMMARY, USD mln

	1H04	2H04	1H05	2H05	1H06	2H06	1H07
Current Assets	**101.8**	**161.4**	**137.2**	**261.4**	**171.3**	**236.7**	**207.5**
Cash & Equivalents	0.3	0.0	3.6	0.3	0.9	2.3	3.0
Trade Receivables	61.0	112.9	67.5	188.7	65.4	133.4	81.2
Inventories	29.6	28.2	43.8	39.9	36.0	35.5	57.8
Other	10.9	20.2	22.3	32.5	69.0	65.5	65.5
Fixed Assets	**58.9**	**74.8**	**106.1**	**160.2**	**158.0**	**179.2**	**174.8**
PP&E, net	29.0	28.2	37.8	62.0	56.8	57.1	57.0
Other	29.9	46.6	68.2	98.1	101.1	122.0	117.8
Total Assets	**160.7**	**236.2**	**243.2**	**421.6**	**329.3**	**415.9**	**382.3**
Shareholders' Equity	**35.3**	**36.5**	**34.2**	**110.1**	**116.9**	**144.4**	**173.3**
Share Capital	29.7	29.8	31.3	31.3	31.3	31.3	31.3
Retained Earnings	1.2	1.8	10.7	29.7	29.5	32.0	33.2
Other	4.3	4.9	(7.8)	49.1	56.1	81.1	108.8
Current Liabilities	**123.1**	**197.9**	**206.6**	**278.9**	**209.0**	**269.3**	**206.8**
ST Interest Bearing Debt	1.7	1.7	5.1	5.1	5.1	-	26.5
Trade Payables	114.7	87.3	117.6	242.1	165.4	206.1	26.5
Other	5.6	107.1	82.4	30.0	36.7	61.7	144.3
LT Liabilities	**2.2**	**1.8**	**2.4**	**32.5**	**3.4**	**2.1**	**2.1**
LT Interest Bearing Debt	1.7	1.6	2.2	31.1	2.0	2.0	2.0
Other	0.6	0.2	0.2	1.4	1.4	0.2	0.2
Total Liabilities & Equity	**160.7**	**236.2**	**243.2**	**421.6**	**329.3**	**415.9**	**382.3**

QUARTERLY ANALYSIS, USD mln

	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
Net Revenues	**151.3**	**150.1**	**154.1**	**175.6**	**222.0**	**209.0**	**251.0**
Change y-o-y	*-60.9%*	*-15.5%*	*15.9%*	*24.4%*	*46.7%*	*39.3%*	*62.9%*
EBITDA	**0.1**	**6.1**	**11.4**	**14.2**	**8.8**	**12.6**	**42.4**
margin, %	*0.1%*	*4.1%*	*7.4%*	*8.1%*	*4.0%*	*6.0%*	*16.9%*
EBIT	**(1.5)**	**2.6**	**7.9**	**10.7**	**5.2**	**8.8**	**38.7**
margin, %	*-1.0%*	*1.7%*	*5.1%*	*6.1%*	*2.4%*	*4.2%*	*15.4%*
Net Income	**11.1**	**2.0**	**5.0**	**0.6**	**23.4**	**4.8**	**24.3**
Net Margin, %	*7.4%*	*1.4%*	*3.2%*	*0.4%*	*10.5%*	*2.3%*	*9.7%*

Analyst Certification

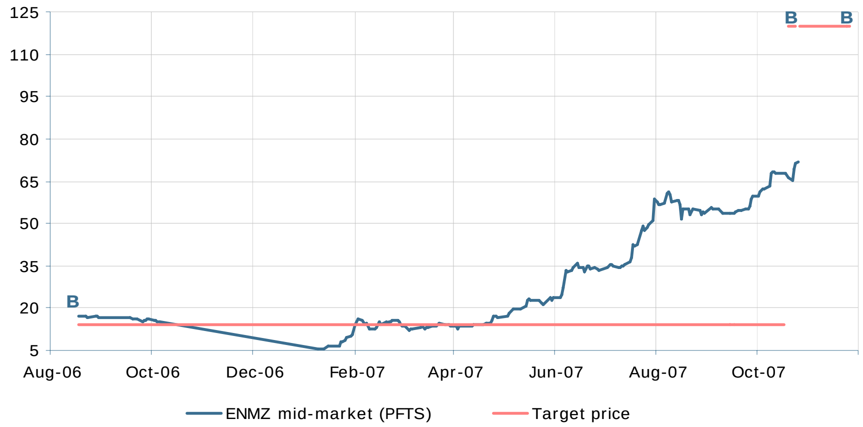
We, Eugene Cherviachenko and Andriy Gerus, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific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

Enakievo Steel

Date	**Target price**, USD	**Market Price**, USD	**Rec'**	**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

** 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.*

Recommendation history, *USD*



Concorde Rating Universe		
Buy	37	*46%*
Hold	25	*31%*
Sell	7	*9%*
Under Review/Suspended	12	*15%*
Total	**81**	***100%***

Investment Banking Clients		
Buy	9	*75%*
Hold	3	*25%*
Sell	0	*0%*
Under Review/Suspended	0	*0%*
Total	**12**	***100%***

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