

September 24, 2012

# Ferrexpo

## Downgrade on weaker iron ore and higher investment needs

Ferrexpo's license for its key growth project, Yeristovo Mining (FYM), was extended for 20 years at the end of August, according to the company. This, in our view, removes the uncertainty with finalizing the construction and launch of FYM. On the other hand, iron ore spot prices plunged at the beginning of September and the overall outlook for the market has worsened. We cut our projection for Ferrexpo's selling prices, which combined with our revised, higher net debt estimate in 2013 prompts us to slash our 12M target price from USD 3.79/share (GBP 244) to USD 2.37 (GBP 146), implying 29% downside. We downgrade our recommendation from HOLD to SELL.

- Ferrexpo, with its FYM license extension in hand, will be capable of increasing its annual mining capacity by 5 mmt to 35 mmt in 2013. We raise our forecast for the company's pellet output next year by 10% to 10 mmt and in 2014 by 16% yoy to 11.6 mmt (supported by the extension of the operating GPL open pit). The extension allows us to price-in cash flows from FYM in our valuation of Ferrexpo. FYM comprises 24% of our current estimate of Ferrexpo's DCF-derived fair equity value of USD 1,306 mln.
- Following recent global iron ore market trends, we cut our projection of Ferrexpo's selling price by 8% to USD 127/t in 2012, and reduce our forecast by 15% to USD 120/t in 2013 and by 6% to USD 133/t in 2014. We leave our projections thereafter untouched.
- Ferrexpo reported a 40% yoy decrease in EBITDA to USD 240 mln in 1H12. We downgrade our full-year projections for EBITDA by more than 1/3 in both 2012 to USD 361 mln (-55% yoy) and in 2013 to USD 373 mln (+3% yoy), on lower prices and higher costs. The company ended 1H12 with USD 251 mln in net debt, which suggests our previous estimates for 2012-2013 net debt is unachievable. Our increased estimates of net debt for 2013 of USD 462 mln (which was influenced by revised, higher CapEx and working capital outflow, and lower operating cash flow) is the key factor behind the decrease in the company's equity value in 12M.
- Hryvnya devaluation and a natural gas price decline represent potential upside drivers for Ferrexpo shares. At not unrealistic assumptions of devaluation to UAH/USD 10 (vs. our base forecast of UAH/USD 8.5) and a 30% yoy lower natural gas price, our forecast of Ferrexpo's EBITDA in 2013 would rise 13% to USD 420 mln.

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Bloomberg	FXPO LN
<b>Recommendation</b>	<b>SELL</b>
Current price, USD	3.35
Target price, USD	2.37
Upside	-29%

Common shares outstanding, mln	588.6
MCap, USD mln	1,973
Free float, %	22.96%
Free float, USD mln	453
Net Debt 1H12, USD mln	251
EV, USD mln	2,224
Implied annual div. yield, 2012E	2%

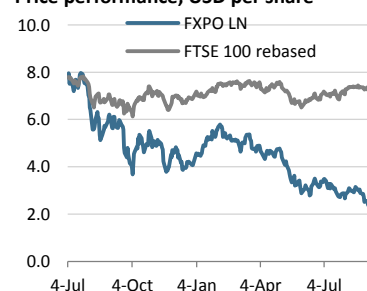
Source: Company data, Bloomberg

### Ownership structure

Kostyantyn Zhevago	51%
BXR Group Limited	13%
Wigmore Street	13%
Other	23%

Source: Company data, Bloomberg

### Price performance, USD per share



Source: Bloomberg

### Key forecast revisions

	2012E			2013E			2014E		
	old	new	chg	old	new	chg	old	new	chg
Pellet sales, mmt	9.3	9.2	-1%	9.1	10.0	10%	9.1	11.6	28%
China import fines 63.5% price, CFR, USD/t	142.0	132.4	-7%	149.0	136.7	-8%	149.0	143.5	-4%
Ferrexpo average selling price, USD/t	138.0	126.6	-8%	141.0	120.1	-15%	141.0	133.2	-6%
Production C1 cost, USD/t	59.7	61.3	3%	59.2	62.0	5%	59.2	62.4	5%
CapEx, USD mln	245.0	415.2	69%	173.0	215.8	25%	103.0	122.8	19%
EBITDA, USD mln	513.0	361.1	-30%	550.0	372.6	-32%	606.0	567.3	-6%
Net debt, USD mln	12.0	403.4	391.4	-122.0	462.4	584.4	-389.0	250.0	639.0

Source: Concorde Capital estimates

## Iron ore prices have bounced back, but Chinese stimulus is overestimated

Spot prices for iron ore fines have recovered somewhat after a plunge in early September from a bottom of USD 95/t (63.5% grade, China port, CFR), which was spurred by declining steel prices in August-early September. We believe the key drivers behind the bounce-back in iron ore prices are:

- *Restocking.* Steel makers in China are replenishing their iron ore inventories after tapering purchases during the acute market uncertainty in August and early September.
- *High costs for ore miners.* According to media reports, at prices below USD 120/t, some Chinese iron ore producers with the highest marginal costs were forced to reduce operations in September.
- *Chinese infrastructure investments.* The Chinese National Development and Reform Commission approved of 60 public works projects, worth USD 158 bln in total. This announcement was perceived by the market as a long-awaited move by the Chinese government to speed economy growth and as a positive driver for the flagging steel industry.

Prices for iron ore fines in China, 63.5% Fe grade, USD/t



Total iron ore inventory in Chinese ports, mmt



Source: Bloomberg

We believe that the market has overestimated the significance of China's infrastructure investments and that the psychological effect will wane unless new larger projects are approved soon. Assuming the implementation of the already announced projects take on average four years, on an annual basis it equals only 1% of China's total fixed asset investments in 2011 and 5% of infrastructure investments, according to our estimates.

On the other hand, China's real estate market, which represents a third of its domestic steel consumption, remains weak. Overall property sales declined 4.1% yoy to 547 mln m2 in 8M12, while residential sales slid 4.8% yoy to 510 mln m2. Meanwhile, total fixed investment growth slowed 20.2% yoy in August - the lowest level in the last decade - after a slight rebound in previous months.

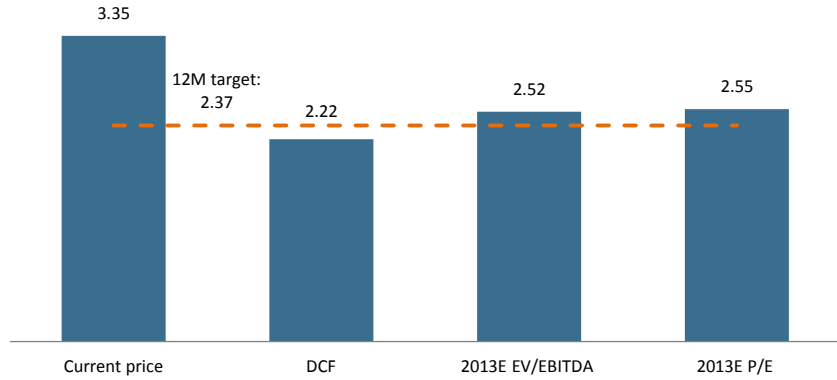
We model iron ore spot prices in China (63.5% fines) to recover to USD 130/t on restocking, and stabilise at that level through yearend. We trim our projections by 16% in 2013 and 6% in 2014, and note that both figures still up on a yoy basis, mainly driven by a possible reduction in supply from miners. We forecast Ferrexpo's average selling price in 2013 at USD 120/t (down 5% yoy) since just a third of the company's contracts are based on spot pricing. Ferrexpo's selling price has been fallen less than the spot market (-12% vs. -16% yoy in 1H12).

## Valuation summary

We slash our 12M target price from USD 3.79 (GBp 244) to USD 2.37 (GBp 146), which implies 29% downside. We revise our recommendation from HOLD to SELL.

Our target price for Ferrexpo is a 50/50 blend of prices implied by DCF valuation and benchmarked to peers on 2013E EV/EBITDA.

### Valuation summary, USD/share



Source: Concorde Capital estimates

## DCF model summary

Our DCF model suggests a 12M price of USD 2.22/share (GBP 137/share), which is 34% lower than the current market.

Since Ferrexpo obtained a license extension for the Yeristovo deposit, we revise our assumption of a limited operating horizon to treat Ferrexpo as a going concern. The assumed perpetuity growth rate and WACC in perpetuity are 1.5% and 14.6%, respectively.

The upward revision of sales related to the inclusion of the FYM project was offset by the downgraded outlook for iron ore prices, and led us to cut our forecast of EBITDA in 2013 by 32% to USD 373 mln. The operating profit decline, coupled with increased investment into CapEx and working capital made us raise our expectations for the company's net debt in 2013 by USD 584 mln to USD 462 mln, which was the main driver for the decrease in fair equity value.

### Discounted cash flow model, USD mln (unless other specified)

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBIT	313	305	492	379	339	303	262	233	223
- Tax expense on EBIT	-53	-52	-79	-61	-54	-49	-42	-37	-36
<i>effective tax rate</i>	17%	17%	16%	16%	16%	16%	16%	16%	16%
+ D&A	48	68	75	78	77	76	75	75	74
- CapEx	-415	-216	-123	-56	-60	-65	-69	-61	-61
- Change in working capital	-48	-64	-53	-3	-12	-5	-4	-8	0
<b>FCFF</b>	<b>-155</b>	<b>41</b>	<b>313</b>	<b>337</b>	<b>289</b>	<b>261</b>	<b>222</b>	<b>201</b>	<b>201</b>
WACC		12.3%	12.8%	13.3%	15.1%	15.1%	14.6%	14.6%	14.6%
Discount factor		0.97	0.86	0.76	0.66	0.57	0.50	0.44	0.38
<b>Discounted FCFF for 2013-20E @ September-24-2013</b>		<b>39.3</b>	<b>268.6</b>	<b>255.6</b>	<b>190.3</b>	<b>149.3</b>	<b>110.5</b>	<b>87.7</b>	<b>76.3</b>

Sum of discounted FCF	1,178
TV @ September-24-2013	591
Enterprise value (EV)	1,768
Less net debt 2013E	462
Fair equity value	1,306
Implied price, USD	2.22
Current share price, USD	3.35
Upside to the implied share price	-34%

### Terminal value assumptions

Perpetuity growth rate	1.5%
WACC in perpetuity	14.6%

### WACC calculation

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Gov't Eurobond yield	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.0%	9.0%	9.0%
Equity premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Company-specific risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Cost of equity	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%	14.0%	14.0%	14.0%
Cost of debt (after tax)	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
D/E	0.62	0.57	0.44	0.33	0.04	0.04	0.05	0.05	0.05
<b>WACC</b>	<b>12.1%</b>	<b>12.3%</b>	<b>12.8%</b>	<b>13.3%</b>	<b>15.1%</b>	<b>15.1%</b>	<b>14.6%</b>	<b>14.6%</b>	<b>14.6%</b>

Source: Concorde Capital estimates

### Sensitivity of DCF-implied price per share, USD

	Perpetuity growth rate					
	0.5%	1.0%	1.5%	2.0%	2.5%	
WACC in perpetuity	13.6%	2.21	2.25	2.30	2.35	2.41
	14.1%	2.17	2.21	2.26	2.31	2.36
	14.6%	2.14	2.18	2.22	2.26	2.31
	15.1%	2.11	2.14	2.18	2.22	2.27
	15.6%	2.08	2.11	2.15	2.19	2.23

Source: Concorde Capital estimates

### Peer comparison

Ferrexpo is currently trading at 6.0x EV/EBITDA and 10.3x P/E for 2013, which implies premiums to peer medians of 15% and 31%, respectively.

Relative valuation returns implied prices of USD 2.5-2.6/share, which indicates a 24-25% downside.

Company	MCap, USD mln	EV/EBITDA				P/E			
		2010	2011	2012E	2013E	2010	2011	2012E	2013E
Vale	98,528	7.9	3.4	5.2	4.3	10.0	4.0	7.2	6.2
BHP Billiton	178,029	5.1	6.0	6.2	5.9	8.2	9.0	11.2	10.8
Rio Tinto	92,841	6.5	4.2	5.8	4.8	9.0	6.0	8.7	7.8
Kumba Iron Ore	20,043	6.0	4.7	5.6	5.1	8.3	8.6	11.0	10.0
Fortescue	11,658	10.3	6.2	6.0	5.4	18.7	7.2	7.5	7.1
Cliffs Natural Resources	5,832	6.8	4.0	6.3	5.2	10.4	3.7	7.5	6.4
Mmx Mineracao	1,656	32.0	20.3	23.6	7.7	87.0	neg.	(12)	19.4
<b>Median</b>		<b>6.8</b>	<b>4.7</b>	<b>6.0</b>	<b>5.2</b>	<b>10.0</b>	<b>6.6</b>	<b>7.5</b>	<b>7.8</b>
<b>Ferrexpo</b>	<b>1,973</b>	<b>6.9</b>	<b>3.2</b>	<b>6.2</b>	<b>6.0</b>	<b>9.0</b>	<b>4.3</b>	<b>9.9</b>	<b>10.3</b>
<i>Premium (discount) to peer median</i>		2%	-32%	4%	15%	-10%	-35%	31%	31%
<b>Peer-implied FXPO price</b>					2.52				2.55
<b>Upside</b>					-25%				-24%

Source: Bloomberg, Concorde Capital estimates

## Financial statements, IFRS

### Income statement, USD mln (unless other stated)

	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Net revenue</b>	<b>1,117</b>	<b>649</b>	<b>1,295</b>	<b>1,788</b>	<b>1,392</b>	<b>1,483</b>	<b>1,879</b>	<b>1,842</b>	<b>1,846</b>	<b>1,844</b>	<b>1,844</b>	<b>1,847</b>	<b>1,849</b>
COGS	-434	-341	-482	-650	-678	-726	-839	-886	-918	-942	-969	-1000	-1004
<b>Gross profit</b>	<b>683</b>	<b>308</b>	<b>813</b>	<b>1138</b>	<b>714</b>	<b>757</b>	<b>1040</b>	<b>955</b>	<b>929</b>	<b>901</b>	<b>875</b>	<b>846</b>	<b>845</b>
<i>Gross margin, %</i>	61%	47%	63%	64%	51%	51%	55%	52%	50%	49%	47%	46%	46%
SG&A	-220	-205	-261	-370	-394	-444	-538	-566	-579	-588	-603	-603	-612
Other op. inc./exp.	-32	1	-1	-10	-8	-8	-11	-10	-10	-10	-10	-10	-10
<b>EBITDA</b>	<b>503.9</b>	<b>138.1</b>	<b>585</b>	<b>800</b>	<b>361</b>	<b>373</b>	<b>567</b>	<b>457</b>	<b>415</b>	<b>379</b>	<b>337</b>	<b>308</b>	<b>297</b>
<i>EBITDA margin, %</i>	45%	21%	45%	45%	26%	25%	30%	25%	22%	21%	18%	17%	16%
D&A	-34	-28	-30	-41	-48	-68	-75	-78	-77	-76	-75	-75	-74
<b>EBIT</b>	<b>467</b>	<b>104</b>	<b>542</b>	<b>759</b>	<b>313</b>	<b>305</b>	<b>492</b>	<b>379</b>	<b>339</b>	<b>303</b>	<b>262</b>	<b>233</b>	<b>223</b>
<i>EBIT margin, %</i>	42%	16%	42%	42%	22%	21%	26%	21%	18%	16%	14%	13%	12%
Financial expenses	-21	-24	-43	-68	-75	-75	-75	-69	-58	-8	-9	-10	-11
Non-op. income/expenses	-70	0	-1	1	3	2	1	2	2	1	1	1	1
<b>PBT</b>	<b>376</b>	<b>81</b>	<b>498</b>	<b>691</b>	<b>240</b>	<b>232</b>	<b>419</b>	<b>312</b>	<b>283</b>	<b>296</b>	<b>254</b>	<b>225</b>	<b>213</b>
Tax	-63	-10	-73	-116	-41	-40	-67	-50	-45	-47	-41	-36	-34
<i>Effective tax rate, %</i>	-17%	-12%	-15%	-17%	-17%	-17%	-16%	-16%	-16%	-16%	-16%	-16%	-16%
<b>Net income</b>	<b>313</b>	<b>71</b>	<b>425</b>	<b>575</b>	<b>199</b>	<b>192</b>	<b>352</b>	<b>262</b>	<b>238</b>	<b>249</b>	<b>214</b>	<b>189</b>	<b>179</b>
<i>Net margin, %</i>	28%	11%	33%	32%	14%	13%	19%	14%	13%	13%	12%	10%	10%
EPS, USD	0.53	0.12	0.72	0.98	0.34	0.33	0.60	0.44	0.40	0.42	0.36	0.32	0.30
DPS, USD	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.42	0.38	0.07
Dividend payout ratio, %	12%	55%	9%	7%	20%	20%	11%	15%	16%	16%	115%	120%	22%

### Balance sheet, USD mln

	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Non-current assets</b>	<b>563</b>	<b>599</b>	<b>816</b>	<b>1,165</b>	<b>1,601</b>	<b>1,749</b>	<b>1,797</b>	<b>1,775</b>	<b>1,758</b>	<b>1,747</b>	<b>1,741</b>	<b>1,727</b>	<b>1,714</b>
Net PP&E	412	452	647	925	1,291	1,440	1,487	1,465	1,449	1,438	1,432	1,418	1,405
Other	151	147	169	241	309	309	309	309	309	309	309	309	309
<b>Current assets</b>	<b>291</b>	<b>221</b>	<b>662</b>	<b>1,334</b>	<b>1,029</b>	<b>1,036</b>	<b>1,238</b>	<b>1,339</b>	<b>915</b>	<b>1,148</b>	<b>1,136</b>	<b>1,127</b>	<b>1,280</b>
Cash & equivalents	88	12	319	890	562	502	642	737	299	526	508	489	641
Receivables & prepayments	78	58	131	152	156	179	211	207	212	212	212	212	217
Taxes prepaid	63	91	104	173	153	183	192	192	192	192	192	192	192
Inventories	61	60	105	117	156	171	190	201	210	216	222	232	227
Other	1	1	3	2	2	2	2	2	2	2	2	2	2
<b>Total assets</b>	<b>854</b>	<b>820</b>	<b>1,478</b>	<b>2,499</b>	<b>2,630</b>	<b>2,785</b>	<b>3,034</b>	<b>3,114</b>	<b>2,673</b>	<b>2,895</b>	<b>2,877</b>	<b>2,855</b>	<b>2,994</b>
<b>Shareholder equity</b>	<b>458</b>	<b>471</b>	<b>861</b>	<b>1,393</b>	<b>1,553</b>	<b>1,707</b>	<b>2,020</b>	<b>2,243</b>	<b>2,442</b>	<b>2,651</b>	<b>2,619</b>	<b>2,581</b>	<b>2,722</b>
Share capital	122	122	122	122	122	122	122	122	122	122	122	122	122
Reserves and other	-134	-151	-146	-143	-143	-143	-143	-143	-143	-143	-143	-143	-143
Retained earnings	470	501	885	1,415	1,575	1,728	2,041	2,264	2,463	2,673	2,641	2,603	2,743
<b>Non-current liabilities</b>	<b>251</b>	<b>38</b>	<b>424</b>	<b>970</b>	<b>963</b>	<b>957</b>	<b>882</b>	<b>742</b>	<b>102</b>	<b>112</b>	<b>122</b>	<b>132</b>	<b>142</b>
LT interest bearing debt	231	18	401	951	944	938	863	723	83	93	103	113	123
Other	20	20	23	19	19	19	19	19	19	19	19	19	19
<b>Current liabilities</b>	<b>145</b>	<b>310</b>	<b>192</b>	<b>136</b>	<b>113</b>	<b>122</b>	<b>133</b>	<b>129</b>	<b>129</b>	<b>132</b>	<b>136</b>	<b>141</b>	<b>130</b>
ST interest bearing debt	75	251	23	19	21	26	29	22	20	21	23	26	15
Payables & prepayments	35	28	88	72	48	51	59	62	64	66	68	70	70
Other	35	31	81	45	45	45	45	45	45	45	45	45	45
<b>Total liabilities &amp; equity</b>	<b>854</b>	<b>820</b>	<b>1,478</b>	<b>2,499</b>	<b>2,630</b>	<b>2,785</b>	<b>3,034</b>	<b>3,114</b>	<b>2,673</b>	<b>2,895</b>	<b>2,877</b>	<b>2,855</b>	<b>2,994</b>
Net debt	218	258	104	80	403	462	250	8	-195	-412	-381	-349	-503

### Cash flow statement, USD mln

	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Profit before tax	376	81	498	691	240	232	419	312	283	296	254	225	213
Depreciation	34	28	30	41	48	68	75	78	77	76	75	75	74
Changes in working capital	-34	-14	-137	-111	-48	-64	-53	-3	-12	-5	-4	-8	0
Income tax paid	-67	-19	-38	-132	-41	-40	-67	-50	-45	-47	-41	-36	-34
Other	62	1	26	14	-69	0	0	0	0	0	0	0	0
<b>Operating cash flow</b>	<b>371</b>	<b>77</b>	<b>380</b>	<b>503</b>	<b>131</b>	<b>196</b>	<b>374</b>	<b>337</b>	<b>302</b>	<b>320</b>	<b>285</b>	<b>256</b>	<b>254</b>
Capital expenditures	-274	-86	-167	-378	-415	-216	-123	-56	-60	-65	-69	-61	-61
Other	-3	8	-8	0	0	0	0	0	0	0	0	0	0
<b>Investing cash flow</b>	<b>-278</b>	<b>-78</b>	<b>-175</b>	<b>-414</b>	<b>-415</b>	<b>-216</b>	<b>-123</b>	<b>-56</b>	<b>-60</b>	<b>-65</b>	<b>-69</b>	<b>-61</b>	<b>-61</b>
Borrowings/repayments	103	-38	163	542	-7	-6	-75	-140	-640	10	10	10	10
Dividends paid	-40	-37	-42	-39	-39	-39	-39	-39	-39	-39	-246	-227	-39
Other	-86	0	-21	-22	0	0	0	0	0	0	0	0	0
<b>Financing cash flow</b>	<b>-24</b>	<b>-74</b>	<b>101</b>	<b>482</b>	<b>-44</b>	<b>-40</b>	<b>-111</b>	<b>-186</b>	<b>-681</b>	<b>-28</b>	<b>-234</b>	<b>-214</b>	<b>-40</b>
<b>Net cash flow</b>	<b>70</b>	<b>-75</b>	<b>305</b>	<b>571</b>	<b>-328</b>	<b>-60</b>	<b>140</b>	<b>95</b>	<b>-439</b>	<b>227</b>	<b>-18</b>	<b>-19</b>	<b>153</b>

Source: Company data, Concorde Capital estimates

## Ferrexpo operating model assumptions

	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Production assumptions, mmt</b>													
Ore extraction	27.6	27.7	29.1	29.6	29.3	32.8	37.9	38.9	39.0	38.9	38.9	38.9	39.0
Concentrate production	10.5	10.6	11.2	11.5	11.3	12.7	14.7	15.1	15.1	15.1	15.1	15.1	15.1
Third-party concentrate purchases	0.4	0.2	1.1	0.9	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total pellet production	9.0	8.8	10.0	9.8	9.3	10.0	11.6	11.9	11.9	11.9	11.9	11.9	11.9
<i>Pellet production from own ore</i>	8.6	8.6	9.0	9.1	10.1	10.0	11.6	11.9	11.9	11.9	11.9	11.9	11.9
Pelletizing capacity	12	12	12	12	12	12	12	12	12	12	12	12	12
Pelletizing capacity utilization	75%	73%	84%	82%	78%	84%	97%	99%	99%	99%	99%	99%	99%
<b>Total pellet sales</b>	<b>8.7</b>	<b>9.0</b>	<b>9.7</b>	<b>9.9</b>	<b>9.2</b>	<b>10.0</b>	<b>11.6</b>	<b>11.9</b>	<b>11.9</b>	<b>11.9</b>	<b>11.9</b>	<b>11.9</b>	<b>11.9</b>
<i>yoy</i>	-	3%	8%	2%	-7%	9%	16%	3%	0%	0%	0%	0%	0%
<b>Pellet selling price calculation, USD/t</b>													
China import fines 63.5% price, CFR	150	86	153	175	132	137	144	134	134	134	134	134	134
<i>yoy</i>	-	-43%	78%	15%	-25%	3%	5%	-7%	0%	0%	0%	0%	0%
Pellet premium	53	17	15	15	19	20	24	26	26	26	26	26	26
<i>yoy</i>	-	-69%	-8%	-2%	22%	8%	20%	8%	0%	0%	0%	0%	0%
China import pellet price, CFR	204	103	168	191	151	157	168	160	160	160	160	160	160
<i>yoy</i>	-	-50%	64%	13%	-21%	4%	7%	-4%	0%	0%	0%	0%	0%
Freight from China to Ukraine	79	36	43	34	33	33	34	34	35	35	35	35	36
<i>yoy</i>	-	-55%	20%	-21%	-3%	1%	1%	1%	1%	0%	1%	0%	3%
Ukraine's implied FOB price for pellets	125	67	125	157	118	123	134	126	126	126	125	125	124
<i>yoy</i>	-	-46%	87%	25%	-25%	5%	8%	-6%	0%	0%	0%	0%	-1%
Ukraine's DAF price for pellets	129	64	119	148	126	115	132	124	124	124	123	123	122
<i>yoy</i>	-	-50%	85%	25%	-15%	-9%	14%	-6%	0%	0%	0%	0%	-1%
Portion of Asian (FOB) sales	21%	50%	34%	46%	56%	58%	64%	65%	65%	65%	65%	65%	65%
<b>Selling price of pellets</b>	<b>125</b>	<b>67</b>	<b>125</b>	<b>157</b>	<b>127</b>	<b>120</b>	<b>133</b>	<b>125</b>	<b>125</b>	<b>125</b>	<b>124</b>	<b>124</b>	<b>123</b>
<i>yoy</i>	-	-46%	87%	25%	-19%	-5%	11%	-6%	0%	0%	0%	0%	-1%
<b>Total revenue, USD mln, including</b>													
Revenue from sales of pellets	1108	647	1289	1700	1304	1401	1795	1755	1758	1753	1751	1751	1751
Revenue from services	1	1	1	4	3	3	3	3	3	3	3	3	3
Other sales	8	1	5	11	11	11	11	11	11	11	11	11	11
Logistics and bunker business	0	0	0	73	71	68	70	72	74	77	79	81	84
<b>Key cost components</b>													
Natural gas price (at the plant), USD/tcm	243.4	278.3	307.8	385.2	487.0	487.7	488.5	489.2	490.0	490.8	491.6	492.5	493.3
<i>yoy</i>	-	14%	11%	25%	26%	0%	0%	0%	0%	0%	0%	0%	0%
Electricity tariff, USD/KWh	0.060	0.049	0.060	0.069	0.091	0.089	0.090	0.091	0.092	0.091	0.091	0.091	0.091
<i>Change, yoy</i>	-	-18%	21%	15%	32%	-2%	2%	1%	1%	0%	0%	0%	0%
Diesel fuel, USD/t	1059	566	767	1231	1268	1268	1268	1268	1293	1319	1346	1373	1400
<i>Change, yoy</i>	-	-47%	36%	61%	3%	0%	0%	0%	2%	2%	2%	2%	2%
<b>C1 cash costs, USD/t</b>	<b>42.3</b>	<b>34.4</b>	<b>39.7</b>	<b>50.7</b>	<b>61.3</b>	<b>62.0</b>	<b>62.4</b>	<b>64.1</b>	<b>66.3</b>	<b>68.2</b>	<b>70.3</b>	<b>72.6</b>	<b>72.7</b>
<i>Change, yoy</i>	-	-19%	15%	28%	21%	1%	1%	3%	3%	3%	3%	3%	0%
<b>Total production costs, USD/t, including</b>													
Materials	9.9	7.0	7.0	7.7	10.2	10.2	10.2	10.6	11.3	11.9	12.6	13.4	13.6
Purchased concentrate & other items	5.5	1.0	10.4	10.5	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Electricity	10.6	9.0	10.4	12.4	16.0	16.3	15.9	16.0	16.1	16.1	16.0	16.0	16.0
Personnel costs	7.9	4.6	4.9	5.3	7.6	7.0	6.8	6.8	6.9	7.1	7.2	7.3	7.5
Spare parts and consumables	2.0	1.4	1.7	2.1	2.8	2.8	3.0	3.3	3.6	3.9	4.3	4.7	4.7
Fuel	4.8	2.7	3.2	4.8	5.5	5.2	5.2	5.2	5.3	5.4	5.5	5.6	5.7
Gas	3.9	3.2	5.0	6.5	8.5	8.5	8.5	8.5	8.5	8.5	8.6	8.6	8.6
Repairs and maintenance	3.8	4.3	4.7	6.5	7.7	7.9	8.6	9.3	10.0	10.7	11.4	12.1	11.9
Royalties and levies	0.8	0.7	0.9	1.1	1.4	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.1
Depreciation	3.3	2.6	2.5	2.9	3.9	5.5	5.6	5.9	6.0	6.0	5.9	5.9	5.8
Other	0.5	0.4	0.8	1.6	2.3	2.5	2.7	2.9	3.1	3.3	3.6	3.8	3.7
<b>COGS, USD mln, including</b>													
Cost of pellets sold	434	341	482	601	628	675	787	832	862	885	910	939	942
Costs of logistics and bunker business	-	-	-	49	50	51	53	54	56	57	59	61	63
<b>Total COGS</b>	<b>434</b>	<b>341</b>	<b>482</b>	<b>650</b>	<b>678</b>	<b>726</b>	<b>839</b>	<b>886</b>	<b>918</b>	<b>942</b>	<b>969</b>	<b>1000</b>	<b>1004</b>
<b>Capital expenditures, USD mln, including</b>													
Yeristovo mine	-	-	-	37	102	0	-	-	-	-	-	-	-
North Pushback (GPL mine extension)	-	-	-	21	42	13	13	13	13	13	13	-	-
Pellets quality upgrade (to Fe 65%)	-	-	-	51	70	70	70	-	-	-	-	-	-
Concentrator and crusher upgrade	-	-	-	21	57	63	-	-	-	-	-	-	-
Sustaining CapEx (mining machinery etc.)	-	-	-	15	40	30	-	-	-	-	-	-	-
Maintenance CapEx	-	-	-	15	40	40	40	43	47	52	56	61	66
Logistics infrastructure	-	-	-	58	64	-	-	-	-	-	-	-	-
Pre-tax cost of debt	6.8%	8.8%	10.1%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%
Effective tax rate	16.6%	12.2%	14.7%	17.1%	17.1%	17.1%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%

Source: Company data, Concorde Capital estimates

## Key macro assumptions

	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
PPI	36%	7%	21%	12%	12%	12%	11%	11%	10%	10%	9%	9%	8%
CPI	25%	16%	9%	5%	9%	9%	8%	8%	8%	7%	7%	7%	6%
USD / UAH exchange rate, avg	5.27	7.79	7.95	8.00	8.08	8.50	8.70	8.90	9.10	9.30	9.50	9.70	9.90

Source: Concorde Capital estimates



### Analyst certification

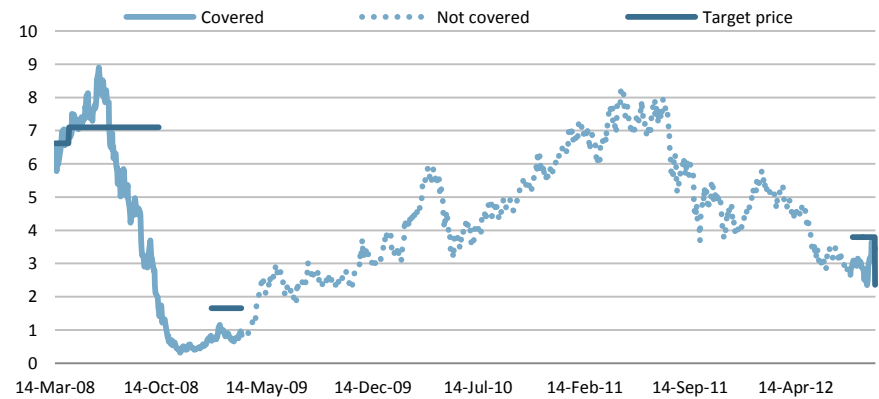
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#### Ferrexpo: Rating history

Date	12M target price, USD	Market price, USD	Rating	Action
07-08-2012	3.79	2.93	HOLD	Reinitiate
24-09-2012	2.37	3.35	SELL	Downgrade

Source: Concorde Capital

#### Ferrexpo: Target price vs. share performance, USD per share



Covered by Roman Topolyuk since August 7, 2012

Source: Bloomberg, Concorde Capital

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