

December 5, 2013

Ferrexpo

No concentrator yet — good for bonds, neutral for stock

Ferrexpo's board of directors cautiously refrained from approving a USD 600-700 mln project to build a 10 mmt concentrator in October, shifting the decision to 2014. Only a portion of the project, the site infrastructure worth USD 40 mln, obtained a green light. We think the approval of a full project might be rescheduled again in coming quarters. Having adjusted our projections for prices, costs and other inputs, we are increasing the 12M target for FXPO to GBP 177/share from GBP 144/share, upgrading the recommendation for the stock from SELL to HOLD.

No concentrator yet — good for bonds, neutral for equity. Management has been kicking the project of a 10 mmt concentrator down the road since 2011. Thus, the driver for the equity, having a 22% upside to the current stock price, hasn't been triggered yet. It benefits the Ferrexpo's Eurobonds story, since it will help to keep the gross debt/EBITDA ratio below the covenant of 2.5x. CapEx of USD 40 mln approved in October 2013 for building the concentrator's infrastructure doesn't necessarily mean that additional investment may follow in next quarters.

Ferrexpo to reach full pelletizing capacity in 2014. The company is extending iron ore extraction at Yeristovo to an annualized rate of 8 mmt (the equivalent of 2.5 mmt of pellets), compared to the previous guidance of the pit's capacity of 5 mmt p.a. Additionally in 2014, the company will be able to increase the capacity of its Poltava Mine by another 5 mmt (the equivalent of 1.5 mmt of pellets), following the completion of its USD 168 mln Northern Pushback project. Both upstream projects will enable the company to fully load its pelletizing capacities to 11.8 mmt in 2014, +8% yoy, in our projections.

We are cutting our 2014 EBITDA projections by 22%. Global iron ore producers are going to add 162 mmt of additional iron ore supply in 2014 yoy, which isn't likely to be smoothly digested by the market. We are cutting our forecast of Ferrexpo's selling price next year by 8% – to USD 123/t from USD 133/t. On the other hand, Ferrexpo reported C1 costs in 3Q13 at \$58.2/t, which is a 1% yoy improvement. We've reviewed our production costs model, having scaled down our projection of C1. Average costs in our 2014-20E estimate declined to \$65.4/t versus our previous forecast of \$66.3/t.

No immediate threat from local court case. A lawsuit regarding Ferrexpo's key subsidiary, Poltava Mine (FPM), in local courts no longer looks like a pirate raid. At the current pace, the hearings can continue for an undefined period, meaning that risk of losing a 40% interest in FPM, is lower than a year before.

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Bloomberg	FXPO LN
Recommendation	HOLD
Current price, GBP	173
Target price, GBP	177
Upside / (downside)	2%

Common shares outstanding, mln	588.6
MCap, USD mln	1 670
Free float, %	24.01%
Free float, USD mln	401
Net Debt 1H13, USD mln	566
EV, USD mln	2 236
Implied annual div. yield, 2013E	2.3%

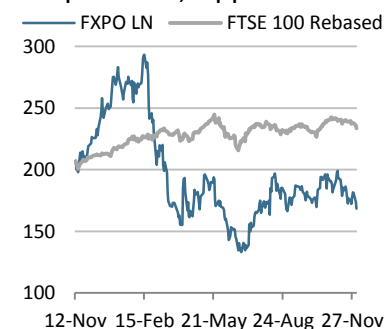
Source: Company data, Bloomberg

Ownership structure

Fevamotinic S.a.r.l	51.0%
BXR Group Limited	25.0%
Other	24.0%

Source: Company data, Bloomberg

Price performance, GBP per share



Source: Bloomberg

Key forecast revisions	2013E			2014E			2015E		
	old	new	chg	old	new	chg	old	new	chg
Pellet sales, mmt	10.0	11.0	10%	11.6	11.8	2%	11.9	11.9	0%
Ferrexpo average selling price, USD/t	120.1	128.0	7%	133.2	122.7	-8%	125.0	122.7	-2%
Production C1 cost, USD/t	62.0	60.4	-3%	62.4	61.0	-2%	64.1	62.6	-2%
CapEx, USD mln	215.8	216.8	0%	122.8	169.6	38%	56.0	55.8	0%
Net debt, USD mln	462.4	624.4	162.0	250.0	531.2	281.2	8.0	335.7	327.7
EBITDA, USD mln	372.6	473.0	27%	567.3	441.0	-22%	457.0	423.1	-7%
EPS, USD/share	0.33	0.40	23%	0.60	0.35	-41%	0.44	0.33	-24%

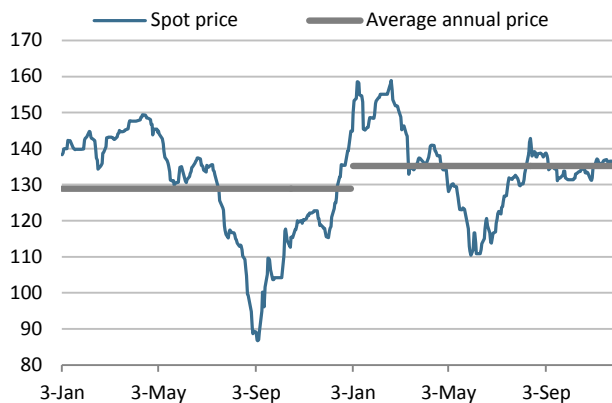
Source: Concorde Capital estimates

Iron ore prices to come under pressure in 2014

Ore pricing in 2013 is close to our expectations

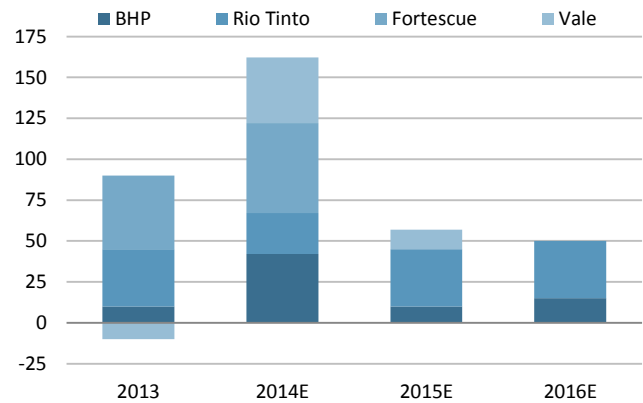
The key valuation determinant for iron ore producers, the spot price of fines in Chinese ports, averaged at USD 136/t in 11M13 (+5% yoy). The number comes close to our expectations of a price at USD 137/t in 2013, meaning that the risk of a significant plunge in prices in 2H13, expected by some market participants, didn't materialize. Spot prices remain stable, balancing around USD 136/t, and are going to remain so by the year end, according to comments from traders in the media.

Iron ore price, USD/t*



* 62% fines, CFR, Chinese port
Source: Bloomberg, Concorde Capital estimates

Contribution of major miners to supply increase in 2013-14E*



* In mmt p.a.
Source: Company data, Concorde Capital estimates

We explain this stability by an increase in Chinese steel production, which is likely to reach 780 mmt this year (+10% yoy, increase by 72 mmt). Thus, China has been absorbing the incremental supply of iron ore that has been appearing on the market in 2013. Chinese steel production implies additional demand for 103 mmt of iron ore in 2013 annualized. Three major iron ore producers (BHP, Rio Tinto, Fortescue) are contributing 90 mmt to the 2013 production increase. The world's largest iron ore miner, Vale, on the contrary, is on track to cut output by 10 mmt this year to 310 mmt, due to adverse weather conditions in 1H13.

Oversupply may emerge in 2014

Vale has launched an "additional 40 mtpy" project that will produce 40 more mmt by the end of next year. BHP already operates at full capacity of 212 mmt annually in September 2013 (+25% yoy). Rio Tinto will build up production to 290 mmt in 2014 from 265 mmt this year. Fortescue will be ramping up its 50 mmt project to full capacity from the start of 2014 till March.

The additional supply from the four mentioned major iron miners alone adds up to 162 mmt per year, and a ramp up of these capacities will occur in 1Q14-2Q14, which will require incremental steel production of 113 mmt. China isn't likely to provide such an increase in steel output in 2014 as its economic growth is expected to slow to 7.4% yoy in 2014 from 7.6% in 2013 (according to consensus estimates compiled by Bloomberg). At the end of October, an official of China Iron and Steel Association cautiously forecasted that Chinese steel production will surpass 800 mmt in 2014.

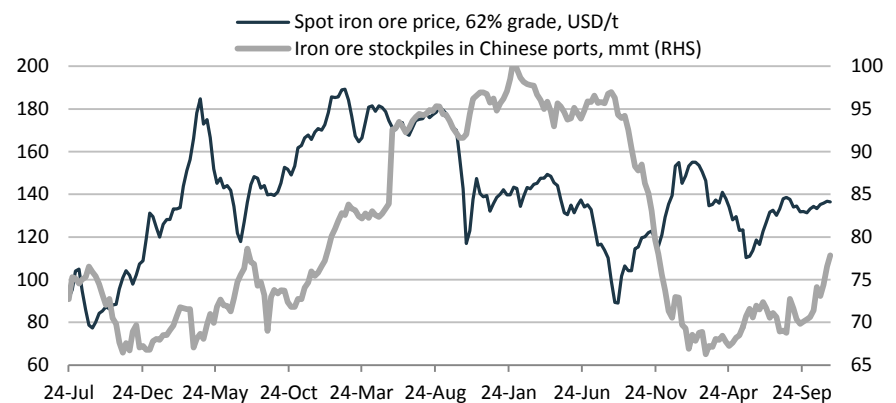
Major iron ore miners aren't taming the pace of their expansion in order to preserve the market balance and price stability at current levels. On the contrary, they behave as if preparing for tough competition, cutting production costs. Vale decreased the FOB cost of its iron ore to USD 22/t in 3Q13 (-8% qoq), while Fortescue cut its C1 cost to USD 33/t (-8% qoq). BHP and Rio don't disclose their numbers, but also report that they are working on improving cost efficiency. Combined with their announced production boosts, the majors will be able to keep CFR costs not higher than USD 70/t in a Chinese port, thus remaining profitable even with market prices below USD 90/t.

We reduce 2014 price forecast

We don't expect average annual spot prices for iron ore to decline so sharply, or below USD 90/t in 2014-15, but our previous forecast of a 5% yoy increase in Chinese prices in 2014 to USD 144/t seems too optimistic. Anticipating that an increase in Chinese steel output will lag behind additional iron ore to the seaborne market, we forecast a 4% yoy decrease in the average price for 62% grade fines in Chinese port to USD 131/t in 2014 and flat in 2015-17. Respectively, we are cutting our forecast of the selling price for Ferrexpo's pellets to USD 123/t in 2014 (-4% yoy).

Another sign of a possible correction in iron ore prices in the coming quarters is stockpiles of ore in Chinese ports rising after reaching a three-year low of 68 mmt (0.76x of monthly Chinese demand in iron ore) in February 2013, and balancing at that level through the year. Further growth of stockpiles above the three-year average of 81 mmt (0.87x of monthly Chinese demand) could be a precursor of spot price declines that happened in autumn 2011.

Iron ore price vs. stockpiles in Chinese ports



Source: Bloomberg

Interestingly, market participants voiced expectations of stable iron ore prices in 2014 during their last earnings calls in October-November 2013.

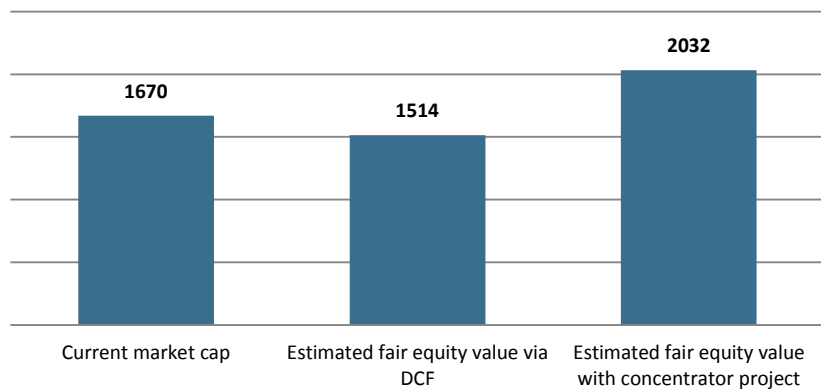
Company	View on iron ore prices in 2014
Posco	Low USD 130/t in 1H14, and mid USD 125/t in 2H14
Arcelor Mittal	Some tension in the iron ore price, around USD 130/t on average
US Steel	Selling prices flat yoy in 2014
Hyundai Steel	Stable at USD 120-130/t
Cliff Natural Resources	Stable yoy

Source: Company data

Decision on new concentrator to be shifted till the end of 2014

Ferrexpo will increase pellet production 9% yoy to almost 12 mmt in 2014, fully loading its capacities with new ore from Yeristovo and from extending its GPL pit. But these factors are largely priced in by the market. The only driver left for Ferrexpo, besides iron ore pricing, is approval for the construction of a 10 mmt concentrator by the company's board. Once approved in 2014, the project may add USD 518 mln in NPV, which would add 34% to our DCF estimate of Ferrexpo's fair value (+22% to the current stock price). However, we don't expect that management will approve a USD 600-700 mln project in 1Q14-2Q14, most probably waiting to look at how the market is going to digest additional iron ore coming to the market in 2014.

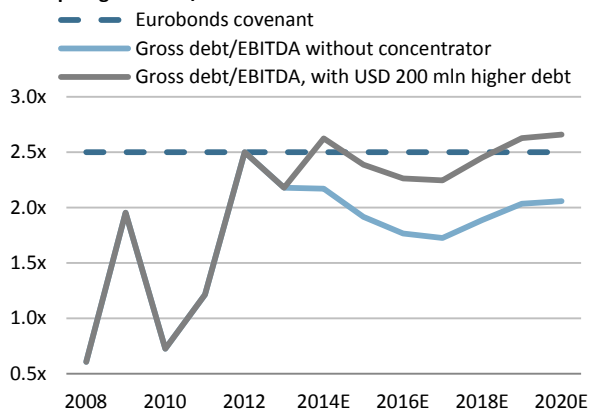
Contribution of concentrator project to valuation of Ferrexpo's equity, USD mln



Source: Concorde Capital estimates

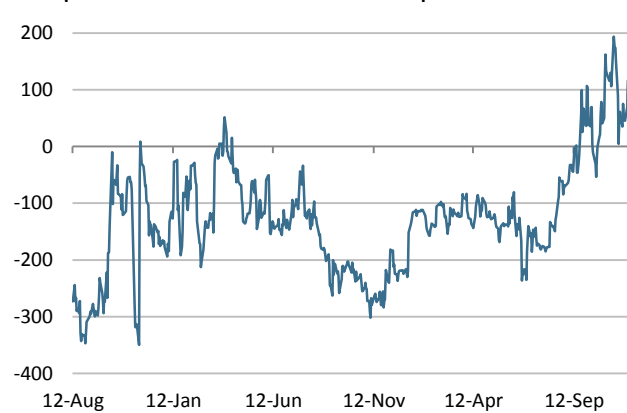
On the debt side, the pause with the concentrator project will maintain Gross Debt/EBITDA below the Ferrexpo 2016 Eurobond covenant of 2.5x. The cash of balance sheet stood at USD 446 mln, as of end 1H13. Without working capital release (primarily from USD 305 mln overdue VAT receivables, which isn't expected to occur), the company will have to raise new debt to fund the concentrator project. Even the modest USD 200 mln increase in debt puts total debt/EBITDA ratio much closer to the covenant.

Ferrexpo's gross debt/EBITDA vs. Eurobond covenant



Source: Company data, Concorde Capital estimates

YTM spread between Ukraine 2016 and Ferrexpo 2016



Source: Bloomberg

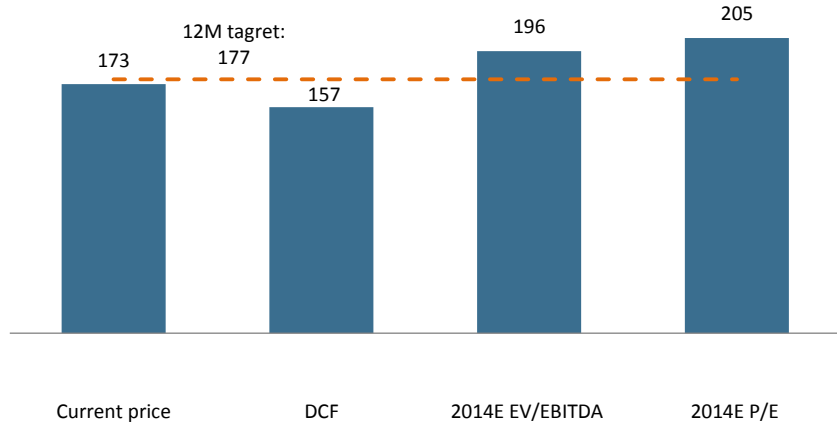
Since September 2013, the bond has been trading below the sovereign curve, with an average positive spread of 67 (currently at 116). We are labelling this the new normal since Ferrexpo may benefit from expected hryvnia devaluation, contrary to Ukraine's capacity, as an issuer.

Valuation summary

The stock reached our previous target price of GBp 144/share in mid-summer and floated a bit higher afterwards. Having adjusted our DCF and comparative valuation, we are increasing our 12M target price to GBp 177 (upside of 2%, as of December 5). We upgrade our recommendation for Ferrexpo to HOLD.

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

Valuation summary, GBp/share



Source: Concorde Capital estimates

DCF model summary

Our DCF model suggests a 12M price of GBp 157/share (downside of 9%).

The fair value of FXPO, estimated by its DCF, grew 15% from a year before due to a number of somewhat counterbalancing adjustments to the model:

- forecast of average selling price in 2014-20 downgraded by 3% to USD 122/t;
- projections for average C1 costs for the period decreased 3.8% to USD 65.5/t;
- we project now, Ferrexpo will roll over its LT debt maturing in 2015-16, compared to its previous model of a full redemption of its facilities that decreased average WACC in 2015-20 to 13.4% from 14.8%.

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

	2013	2014	2015	2016	2017	2018	2019	2020
EBIT	382	345	322	304	287	263	246	242
Tax expense on EBIT	-65	-55	-52	-49	-46	-42	-39	-39
effective tax rate, %	17%	16%	16%	16%	16%	16%	16%	16%
D&A	91	96	101	98	95	93	90	91
CapEx	-217	-170	-56	-60	-55	-56	-95	-91
Change in working capital	-180	-3	-6	-9	-3	-2	-5	0
FCFF	11	213	310	284	278	256	197	203
WACC, %		13.0%	13.4%	13.7%	13.8%	13.4%	13.3%	13.3%
Discount factor		0.99	0.87	0.77	0.68	0.60	0.53	0.46
Discounted FCFF for 2014-20E @ December-5-2014		211.3	270.5	217.9	188.0	152.2	103.5	94.0

Sum of discounted FCF	1237
TV @ December-5-2014	807
Enterprise value (EV)	2045
Less net debt 2014E	531
Fair equity value	1514
Implied value per share, USD	2.57
USD/GBP	1.64
Implied value per share, GBp	157
Current share price, GBp	173
Implied upside, %	-9%

Terminal value assumptions

Perpetuity growth rate	1.5%
WACC in perpetuity	13.3%

WACC calculation

	2013	2014	2015	2016	2017	2018	2019	2020
Gov't Eurobond yield	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%
Company-specific risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Cost of equity	15.5%	15.5%	15.5%	15.5%	15.5%	15.0%	15.0%	15.0%
Cost of debt (after tax)	7.9%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
D/E	0.58	0.49	0.39	0.32	0.29	0.30	0.31	0.32
WACC	12.7%	13.0%	13.4%	13.7%	13.8%	13.4%	13.3%	13.3%

Source: Concorde Capital estimates

Sensitivity of DCF-implied price per share, GBp/share

		Perpetuity growth rate				
		0.5%	1.0%	1.5%	2.0%	2.5%
WACC in perpetuity	12.3%	150	154	158	162	166
	12.8%	150	153	157	161	166
	13.3%	150	153	157	161	165
	13.8%	149	153	156	161	165
	14.3%	149	152	156	160	165

Source: Concorde Capital estimates

Peer comparison

Ferrexpo is currently trading at 5.1x EV/EBITDA and 8.0x P/E for 2014, which implies discounts to peer medians of 7% and 16%, respectively.

Relative valuation returns fair prices of GBP 196-205/share, which indicates a 13-19% upside potential.

Company	EV, USD mln	MCap, USD mln	EV/EBITDA				P/E			
			2012	2013E	2014E	Average for last 3 years, year+1	2012	2013	2014	Average for last 3 years, year+1
Vale	100 366	76 520	5.7	4.8	5.0	4.7	7.5	6.6	6.6	6.44
BHP Billiton	200 424	170 107	8.4	6.4	6.0	5.4	13.5	11.3	10.7	9.9
Rio Tinto	134 673	101 759	8.5	6.9	6.2	4.8	10.7	10.5	9.6	7.88
Fortescue	26 535	16 002	8.1	4.4	4.4	4.7	9.2	5.2	5.4	8.89
Cliffs Natural Resources	8 812	3 897	7.0	6.3	7.4	5.3	7.38	8.2	12.9	7.9
Kumba	12 202	11 845	4.0	4.2	4.8	5.2	7.9	8.39	9.34	10
Median			7.5	5.4	5.5	5.0	8.6	8.3	9.5	8.4
Ferrexpo	2 252	1 665	5.7	4.9	5.1	4.6	7.6	6.9	8.0	6.4
<i>Premium (discount) to peer median</i>			-25%	-9%	-7%	-8%	-11%	-17%	-16%	-24%
Peer-implied FXPO price, GBP					196				205	
<i>Implied upside</i>					13%				19%	

Source: Bloomberg, Concorde Capital estimates

Financial statements, IFRS

Income statement, USD mln (unless other stated)

	2010	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Net revenue	1 295	1 788	1 424	1 580	1 639	1 653	1 655	1 657	1 651	1 653	1 655
COGS	-482	-650	-761	-795	-841	-874	-894	-911	-927	-943	-947
Gross profit	813	1 138	663	785	798	780	762	747	724	709	707
<i>Gross margin, %</i>	63%	64%	47%	50%	49%	47%	46%	45%	44%	43%	43%
SG&A	-261	-370	-358	-395	-443	-448	-449	-450	-451	-454	-456
Other op. inc./exp.	-1	-10	-8	-9	-9	-9	-9	-9	-9	-9	-9
EBITDA	585	800	402	473	441	423	401	382	356	337	332
<i>EBITDA margin, %</i>	45%	45%	28%	30%	27%	26%	24%	23%	22%	20%	20%
D&A	-30	-41	-48	-91	-96	-101	-98	-95	-93	-90	-91
EBIT	542	759	296	382	345	322	304	287	263	246	242
<i>EBIT margin, %</i>	42%	42%	21%	24%	21%	20%	18%	17%	16%	15%	15%
Financial expenses	-43	-68	-88	-98	-99	-92	-78	-68	-63	-64	-66
Non-op. inc./exp.	-1	1	3	3	2	2	2	3	3	3	3
PBT	498	691	262	287	248	233	228	222	203	185	179
Tax	-73	-116	-45	-49	-40	-37	-37	-36	-32	-30	-29
<i>Effective tax rate, %</i>	-15%	-17%	-17%	-17%	-16%	-16%	-16%	-16%	-16%	-16%	-16%
Net income	425	575	216	238	209	196	192	186	170	155	150
<i>Net margin, %</i>	33%	32%	15%	15%	13%	12%	12%	11%	10%	9%	9%
EPS, USD	0.72	0.98	0.37	0.40	0.35	0.33	0.33	0.32	0.29	0.26	0.26
DPS, USD	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.27	0.38	0.34	0.24
Div. payout ratio, %	9%	7%	18%	16%	19%	20%	20%	85%	130%	130%	95%

Balance sheet, USD mln

	2010	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Non-current assets	816	1 165	1 653	1 873	1 947	1 902	1 864	1 823	1 787	1 792	1 792
Net PP&E	647	925	1 342	1 468	1 541	1 496	1 459	1 418	1 382	1 387	1 387
Other	169	241	311	405	405	405	405	405	405	405	405
Current assets	659	1 332	1 101	1 054	1 083	1 141	1 231	1 253	1 251	1 215	1 221
Cash & equivalents	319	890	597	406	427	475	555	571	566	523	529
Receivables	131	152	153	203	197	199	203	204	203	204	203
Taxes prepaid	104	173	212	252	261	261	261	261	261	261	261
Inventories	105	117	140	193	198	205	212	216	220	227	227
Total assets	1 478	2 499	2 754	2 927	3 030	3 043	3 095	3 076	3 039	3 007	3 013
Shareholder equity	861	1 393	1 570	1 769	1 939	2 096	2 249	2 277	2 225	2 179	2 186
Share capital	122	122	122	122	122	122	122	122	122	122	122
Reserves and other	-146	-143	-142	-142	-142	-142	-142	-142	-142	-142	-142
Retained earnings	885	1 415	1 590	1 789	1 959	2 116	2 269	2 297	2 246	2 199	2 207
Non-current liabilities	424	970	1 022	1 027	952	812	712	662	672	682	692
LT interest bearing debt	401	951	993	998	923	783	683	633	643	653	663
Other	23	19	28	28	28	28	28	28	28	28	28
Current liabilities	192	136	163	132	139	135	135	138	141	146	135
ST interest bearing debt	23	19	27	32	35	28	26	27	29	32	21
Payables & prepayments	88	72	114	78	82	85	87	89	91	92	92
Other	81	45	22	22	22	22	22	22	22	22	22
Total liabilities & equity	1 478	2 499	2 754	2 927	3 030	3 043	3 095	3 076	3 039	3 007	3 013

Cash flow statement, USD mln

	2010	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Profit before tax	498	691	262	287	248	233	228	222	203	185	179
Depreciation	30	41	48	91	96	101	98	95	93	90	91
Changes in working capital	-137	-111	-21	-180	-3	-6	-9	-3	-2	-5	0
Income tax paid	-38	-132	-45	-49	-40	-37	-37	-36	-32	-30	-29
Other	26	14	-70	-14	0	0	0	0	0	0	0
Operating cash flow	380	503	119	135	302	290	280	278	261	240	241
Capital expenditures	-167	-378	-415	-217	-170	-56	-60	-55	-56	-95	-91
Other	-8	-35	0	-80	0	0	0	0	0	0	0
Investing cash flow	-175	-414	-419	-297	-170	-56	-60	-55	-56	-95	-91
Borrowings/repayments	163	542	-5	10	-72	-147	-102	-49	12	13	-1
Dividends paid	-42	-39	-39	-39	-39	-39	-39	-159	-221	-202	-143
Other	-21	-22	0	0	0	0	0	0	0	0	0
Financing cash flow	101	482	-44	-29	-111	-186	-141	-208	-209	-189	-144
Net cash flow	305	571	-345	-191	21	48	79	16	-4	-43	6
Net debt	104	80	423	624	531	336	154	89	106	162	155
Net debt/EBITDA	0.2	0.1	1.1	1.3	1.2	0.8	0.4	0.2	0.3	0.5	0.5
Total debt	424	970	1020	1030	958	811	709	660	672	685	684
Total debt/EBITDA	0.7	1.2	2.5	2.2	2.2	1.9	1.8	1.7	1.9	2.0	2.1

Source: Company data, Concorde Capital estimates

Ferrexpo operating model assumptions

	2010	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Production assumptions, mmt											
Ore extraction	29.1	29.6	29.8	38.2	41.5	41.9	41.9	41.9	41.9	41.9	41.9
Concentrate production	11.2	11.5	11.7	13.3	14.7	14.8	14.8	14.8	14.8	14.8	14.8
Third-party concentrate purchases	1.1	0.9	0.4	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total pellet production	10.0	9.8	9.7	10.9	11.8	11.9	11.9	11.9	11.9	11.9	11.9
Pellet production from own ore	9.0	9.1	9.3	10.5	11.8	11.9	11.9	11.9	11.9	11.9	11.9
Pelletizing capacity	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Pelletizing capacity utilization	84%	82%	81%	91%	98%	99%	99%	99%	99%	99%	99%
Total pellet sales	9.7	9.9	9.7	11.0	11.8	11.9	11.9	11.9	11.9	11.9	11.9
yoy	8%	2%	-2%	13%	8%	1%	0%	0%	0%	0%	0%
Pellet selling price calculation, USD/t											
Selling price of pellets	125	157	135	128	123	123	123	123	122	122	122
yoy	87%	25%	-13%	-5%	-4%	0%	0%	0%	-1%	0%	0%
Total revenue, USD mln, including											
Revenue from sales of pellets	1289	1700	1328	1513	1587	1601	1602	1604	1597	1599	1600
Revenue from services	1	4	3	1	1	1	1	1	1	1	1
Other sales	5	11	9	8	8	8	8	8	8	8	8
Logistics and bunker business	0	73	82	59	44	44	44	45	45	46	46
Key cost components											
Natural gas price (at the plant), USD/tcm	307.8	385.2	487.0	487.7	488.5	489.2	490.0	490.8	491.6	492.5	493.3
yoy	11%	25%	26%	0%	0%	0%	0%	0%	0%	0%	0%
Electricity tariff, USD/KWh	0.060	0.069	0.091	0.098	0.101	0.104	0.107	0.109	0.111	0.114	0.116
Change, yoy	21%	15%	32%	8%	3%	3%	3%	2%	2%	2%	2%
Diesel fuel, USD/t	767	1231	1268	1293	1319	1346	1373	1386	1400	1414	1428
Change, yoy	36%	61%	3%	2%	2%	2%	2%	1%	1%	1%	1%
C1 cash costs, USD/t	39.7	50.7	59.6	60.4	61.0	62.6	64.3	65.7	67.1	68.6	68.9
Change, yoy	15%	28%	18%	1%	1%	3%	3%	2%	2%	2%	0%
Total production costs, USD/t, including											
Materials	7.0	7.7	9.2	10.3	10.5	10.7	10.9	11.0	11.1	11.2	11.4
Purchased concentrate & other items	10.4	10.5	3.0	3.3							
Electricity	10.4	12.4	14.7	15.1	15.5	16.0	16.4	16.8	17.1	17.4	17.8
Personnel costs	4.9	5.3	7.5	6.7	6.7	6.7	6.8	6.9	6.9	7.0	7.1
Spare parts and consumables	1.7	2.1	2.7	1.7	1.8	1.8	1.8	1.9	1.9	2.0	2.0
Fuel	3.2	4.8	5.8	6.9	6.6	6.7	6.9	6.9	7.0	7.1	7.1
Gas	5.0	6.5	8.2	7.5	8.5	8.5	8.5	8.5	8.6	8.6	8.6
Repairs and maintenance	4.7	6.5	8.1	6.5	8.6	9.2	9.9	10.6	11.3	12.0	11.8
Royalties and levies	0.9	1.1	1.3	1.8	1.4	1.3	1.3	1.3	1.2	1.2	1.2
Depreciation	2.5	2.9	4.1	6.6	6.6	7.0	6.9	6.7	6.5	6.3	6.3
Other	0.8	1.6	2.8	3.4	2.8	3.0	3.2	3.5	3.7	3.9	3.9
Capital expenditures, USD mln, including											
Yeristovo mine	-	129	102	10							
North Pushback (GPL mine extension)	-	49	42	24	13	13	13	3	0		
Pellets quality upgrade (to Fe 65%)	-	2	70	73	97						
Concentrator and crusher upgrade	-	14	57	0							
Sustaining CapEx (mining machinery etc.)	-	88	40	90							
Maintenance CapEx	-	40	40	0	40	43	47	52	56	95	91
Logistics infrastructure		58	64								
10 mmt concentrator				20	20						
Pre-tax cost of debt	10.1%	7.7%	7.7%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%
Effective tax rate	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

	2010	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
PPI	21%	12%	12%	12%	11%	11%	10%	10%	9%	9%	8%
CPI	9%	5%	9%	9%	8%	8%	8%	7%	7%	7%	6%
USD / UAH exchange rate, avg	7.95	8.00	8.08	8.11	8.40	8.60	8.80	9.00	9.20	9.40	9.60

Source: Concorde Capital estimates

Analyst certification

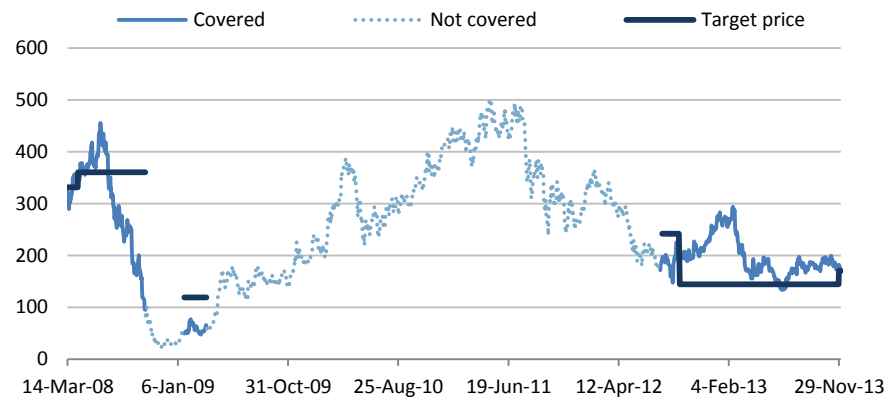
I, Roman Topolyuk, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Ferrexpo: Rating history

Date	12M target price, GBP	Market price, GBP	Rating	Action
07-08-2012	242	193	HOLD	Reinitiate
24-09-2012	144	210	SELL	Downgrade
04-12-2013	177	168	HOLD	Upgrade

Source: Concorde Capital

Ferrexpo: Target price vs. share performance, GBP



Covered by Roman Topolyuk since August 7, 2012

Source: Bloomberg, Concorde Capital

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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 20% 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 20%. 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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