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# Ukrainian Ferroalloys

Empowered by  
Privat's makeover

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## Investment Summary

Company	Bloomberg
Stakhaniv Ferroalloy	SFER UZ
Nikopol Ferroalloy	NFER UZ
Zaporizhya Ferroalloy	ZFER UZ

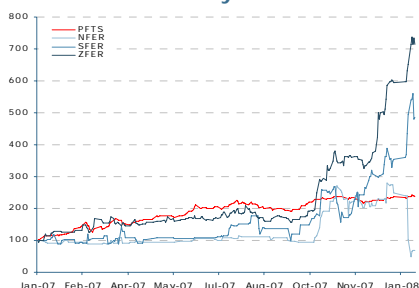
	Price	12M TP	Upside	Rec.
	USD	USD		
SFER	0.032	0.024	33%	BUY
NFER*	0.79/2.97	1.35	-	HOLD
ZFER	0.47	0.51	-8%	HOLD

\* NFER price: bid/ask, pending share issue resulted in spreads widening up to 70%

	# of sh.,	MCap,	Free Float
	mln USD	mln	% USD mln
SFER	14,356.9	345.4	2% 6.9
NFER	1,551.5	1,225.7	2% 24.5
ZFER	2,279.6	1,162.3	8% 93.0

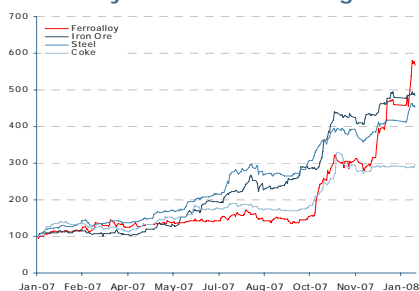
Note: NFER market info based on a fully diluted basis

### Ukrainian ferroalloys vs PFTS



Note: NFER's recent drop is due to a fivefold charter fund increase via an additional share issue  
Source: PFTS, Concorde Capital

### Ferroalloys vs Metals & Mining indices



Source: PFTS, Concorde Capital

Ticker	Target Price	Change	Rec	Change
SFER	0.030	Upgraded	BUY	Maintained
NFER	(diluted) 1.35	Reinstated	HOLD	Reinstated
	(undiluted) 6.88	Reinstated		Reinstated
ZFER	0.47	Upgraded	HOLD	Downgraded

### Privat alloys: Vertical integration completed, Eye on going public

Acquisition of an Australian manganese ore mine in late 2007 completed the vertical integration of Privat's ferroalloy business, with Nikopol, Zaporizhya and Stakhaniv downstream. We expect Privat will focus on strengthening its alloys arm further as it recently divested its non-core steel assets. Additionally, Hennadiy Bogolyubov, a major Privat shareholder, said last week that the group views their metals & mining wing as a public business in the long run – as we predicted a year ago (see our update of February 2007).

### Nikopol's current owners will be retained: Our view

We believe Privat and Interpipe will succeed in retaining control over Nikopol Ferroalloy (see our note of January 15), even though the PM raised the issue of reprivatization again this month. Moreover, Privat will do its best, in our view, to increase its stake to more than 50% from the current 23%. A change in Nikopol's ownership in favor of Privat will be a strong value driver due to the completion of the producer's integration into the global heavyweight.

### Sellers' market: Prices will remain strong

Last year the top-4 manufacturers of manganese products, including Privat, raised spot prices for ferroalloys: up 100% yoy, manganese alloy prices soared to a new record, and ferrosilicon grew by 30%. We expect prices will remain strong in 2008-09 (growing 2-5% annually) supported by a bullish steel sector.

### Production growth beat our forecasts

The 2007 growth leaders in production were Stakhaniv and Nikopol with 23.5% yoy and 17.0% yoy, respectively (vs. our forecasts of +16.1% and +15.4%). Zaporizhya increased output a modest 1.4% and its mid-term growth will be restricted by high utilization (~90% in 2007) and modernization in 2008-2011.

### Financials 9M07: Surprisingly improved

Driven by strong fundamentals and progress in disclosure, the sector's financials surprised positively in 9M07. The sector's aggregate sales grew 55% yoy, while its EBITDA margin rose 9.7 pp to 11.8%. The highest profitability growth was at Stakhaniv, which lifted its EBITDA margin 15.1 pp to 22.9%. With the end of its corporate dispute, we expect improvement at Nikopol, which only reported a 6.2% EBITDA margin in 9M07.

### Stock recommendations mixed

Strong market momentum carried Ukrainian alloy makers to the top of the Metals & Mining rally: our Ferroalloy index surged 98.9% mom in January. The sector's liquidity improved dramatically, with spreads shrinking from 30-70% to 10%. We see upside in Stakhaniv (+40%), while we recommend holding Zaporizhya (-8%), after its 625% yoy jump. We set recommendation HOLD on Nikopol; watch for strong catalyst - end of its corporate dispute.

### Key Ratios

	EV/S			EV/EBITDA			P/E		
	2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E	2009E
Stakhaniv Ferroalloy	1.97	1.35	1.08	7.95	5.37	4.25	13.25	8.61	5.95
Nikopol Ferroalloy	1.90	1.19	1.05	25.93	7.77	3.64	61.29	12.64	6.24
Zaporizhya Ferroalloy	2.78	2.10	1.72	13.13	9.09	5.86	24.74	15.71	8.73

### Key Financials, USD mln

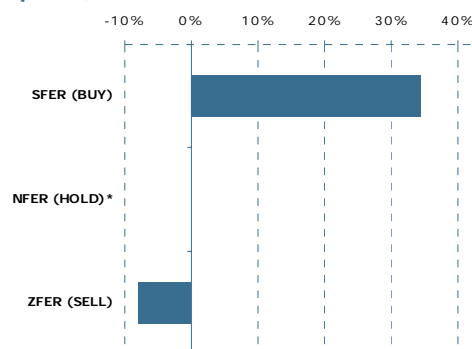
	Sales			EBITDA			Net Income		
	2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E	2009E
Stakhaniv Ferroalloy	190.4	254.9	287.3	47.6	66.3	82.9	27.2	42.6	55.2
Nikopol Ferroalloy	805.0	979.0	1,145.8	49.9	148.8	290.9	20.2	96.2	205.9
Zaporizhya Ferroalloy	434.7	605.0	682.2	91.7	139.8	200.6	53.3	89.2	133.2

Source: PFTS, Concorde Capital

## Investment Opportunities

- SFER**
- Highest profitability growth within the sector in 9M07: EBITDA margin sky-rocketed to 22.6%, net margin surged to 15.4% (from 7.5% and 2.0%, respectively in 9M06)
  - Sector growth leader by output (+23.5% yoy in 2007)
  - Product mix broadened with completion of Stakhaniv's ~USD 19 mln 2005-2007 investment program; modernization of electric furnaces allows it to make less electricity-intensive products
  - Secured supplies insulate it from global price hikes in raw materials
  - Markets for FeSi in Europe will be more accessible in September 2008 thanks to EU-imposed antidumping duties against Chinese and Russian producers coming into effect
- NFER**
- Nov. 22 EGM voted to conduct a fivefold charter fund increase at par value (USD 0.05 per share). Subscription is running from Jan. 14 to Feb. 1. Pending share issue resulted in spreads widening up to 70%. Typically, after approval of the issue, trading resumes close to the bids
  - Although the PM again raised the reprivatization issue in January, we believe Privat and Interpipe will retain control by diluting the disputed stake to 10% via additional share issue
  - In the mid-term, we think Privat will do its best to increase a stake in Nikopol to more than 50% from its current 23%. Interpipe seems ready to sell its stake in this non-core asset
  - Output grew by 17.0% yoy to 1.0 mln mt in 2007
  - Market prospects in Russia and the EU improved after they decided not to impose duties on FeMn/SiMn in November 2007
  - Supply of high quality manganese strengthened after Privat acquired Australian manganese producer CSM in late 2007
  - Profitability margins grew in 9M07: EBITDA to 6.2% vs 0.3% in 9M06; net margin to 2.7% (up 4.5 pp). However, they stayed below the sector average due to transfer pricing
- ZFER**
- Financials improved in 9M07: reported EBITDA margin of 18.2% (vs 5.9% in 9M06), net margin 13.9% (up 12.3 pp from 9M06)
  - Secured supplies insulate it from global price hikes in raw materials
  - Output growth is limited by high utilization rate (90% in 2007) and overhaul/modernization of key facilities in 2008-2011 (planned CapEx is USD 139 mln)

### Upside, %

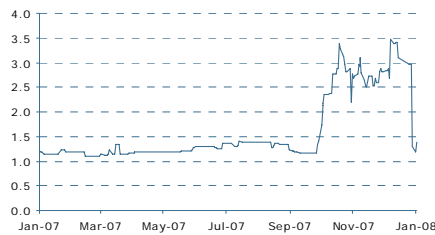


\* For NFER, it is impossible to define its current market price: up to 70% wide spreads since its ex-rights date (Jan. 13) have been trading prohibitive. Typically, after completing a subscription conducted at below market price, a stock resumes trading close to the bids.

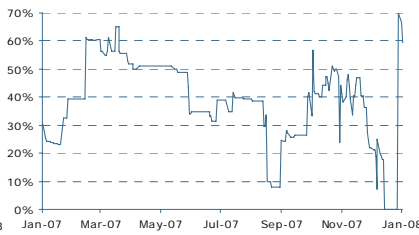
# Stock market monitor

## Nikopol Ferroalloy\*

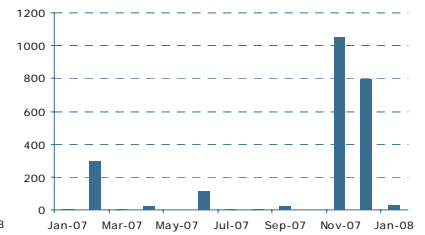
Price



Spread, %



Trading volumes, USD ths

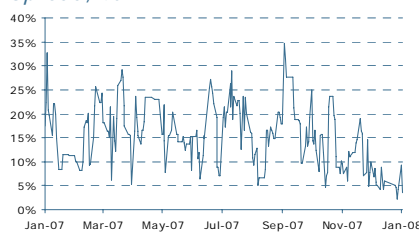


## Zaporizhya Ferroalloy

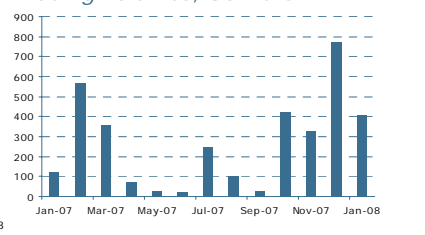
Price



Spread, %



Trading volumes, USD ths

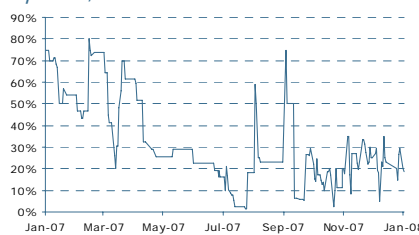


## Stakhaniv Ferroalloy

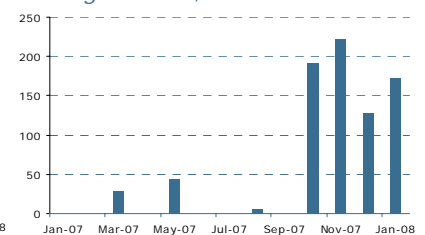
Price



Spread, %



Trading volumes, USD ths



Note: NFER's recent drop is due to a fivefold charter fund increase via an additional share issue  
 Source: PFTS, Concorde Capital

## Privat alloys: Strengthening global presence

### The group's recent developments: Focus switched to ferroalloy wing

Since our February 2007 report, Privat's ferroalloy business received a makeover: strengthening integration through acquisitions of upstream assets; setting operational control over Nikopol Ferroalloy; and becoming the sole metals & mining business of Privat after divestiture of its non-core steel assets.

**Consolidated Minerals.** In December Privat-related Palmary Enterprises acquired Australian manganese ore producer Consolidated Minerals (CSM) for USD 1 bln. With the purchase, Privat filled a missing link in the production of value-added low carbon ferromanganese (75%-80% Mn content). We think Nikopol Ferroalloy, producer of 80% of domestic FeMn, will be the major beneficiary, as it needs 20% of its input mix to be high quality Mn ore.

**Nikopol Ferroalloy.** Although Ukraine's Prime Minister Yulia Tymoshenko has returned to her decision to reprivatize Nikopol, we believe the owners of the company, Privat and Viktor Pinchuk, have enough power to protect their ownership (see our note of January 15). In November 2007, the owners agreed to a fivefold charter fund increase. We believe the issue is a mechanism to reduce the disputed 50%+1 stake to ~10%. Additionally, Privat recently confirmed in local mass media that the group has operational control over Nikopol and we think that the group will do its best to increase its stake in the company to more than 50% from the current 23%.

**Privat-Evraz deal.** In December Privat group sold its steel assets to Evraz owner Lanebrook for 34.5 mln in Evraz GDRs and USD 1 bln cash, for a total consideration of USD 3.7 bln (see our Dec. 13 report). We consider the divestiture to be Privat's signal that it is focusing on ferroalloys. Moreover, the released funds might be directed to finance further ferroalloy expansion.

### Vertical integration completed

Privat has transformed into a vertically integrated ferroalloy powerhouse (~13% of world manganese ore extraction, ~19% of global ferroalloy output). Its key ferroalloy facilities (77% of total) are located in Ukraine and benefit from close proximity to capacious domestic, EU and Russian markets. 65% of the need for Mn is covered by local extraction, the rest is imported from related producers in Africa and Australia.

### Privat's bulk alloy business on the map



● – ferroalloy production; ★ – manganese ore mines

#### Downstream – Ferroalloy production

	Country	Annual production, ths mt	%	Capacity, ths mt	%
Nikopol Ferroalloy	Ukraine	907	40%	1,200	46%
Zaporizhya Ferroalloy	Ukraine	542	24%	600	23%
Stakhaniv Ferroalloy	Ukraine	244	11%	250	10%
Zastafonsky Ferroalloy	Georgia	150	11%	250	10%
Alapaevsk Ferroalloy	Russia	n/a	2%	40	2%
Feral	Romania	n/a	3%	60	2%
Stalmag	Poland	n/a	2%	50	2%
Felman Production	USA	150	7%	150	6%
<b>Total</b>		<b>2,093</b>		<b>2,600</b>	

#### Upstream – Manganese ore extraction

	Country	Annual extraction, ths mt	%	Reserves, ths mt	%
Ordzonikidze GOK	Ukraine	1,300	25%	310,000	36%
Marganets' GOK	Ukraine	1,000	19%	280,000	33%
Chiaturmanganese	Georgia	500	9%	160,000	19%
Ghana manganese	Ghana	1,000	19%	60,000	7%
Nsuta Gold	Gabon	600	11%	30,000	4%
CSM	Australia	900	17%	15,426	2%
<b>Total</b>		<b>5,300</b>			

**Manganese needs** 3,950

**Manganese Surplus/Deficit** 1,350

Source: Company data, Concorde Capital estimates

## Bulk alloys is a sellers' market

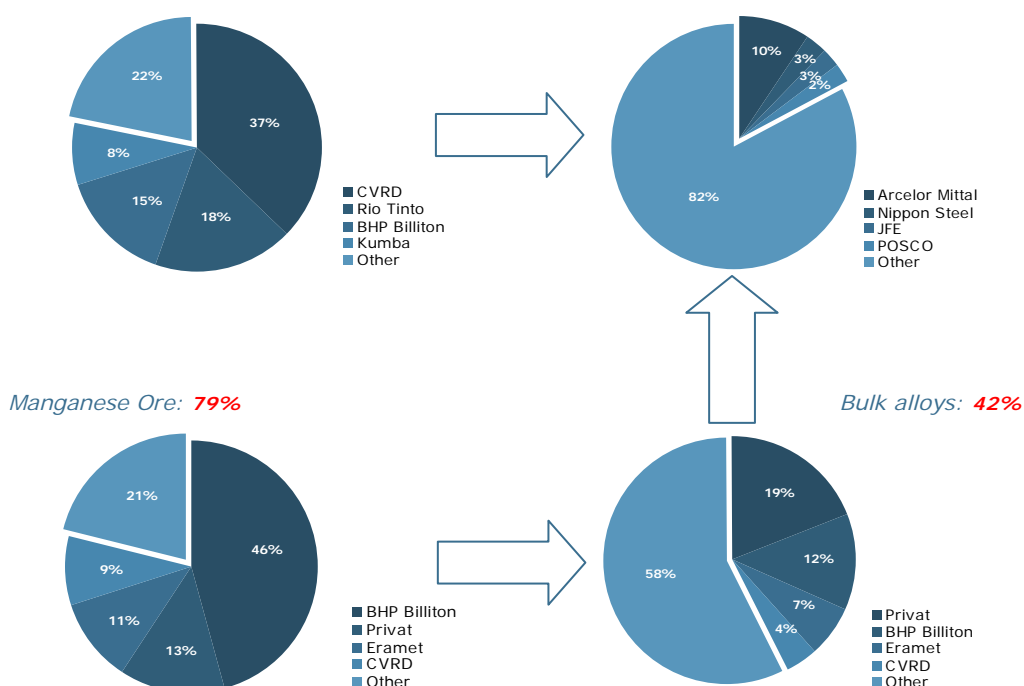
### Suppliers' concentration is high

Manganese product suppliers enjoy extensive bargaining power over their highly dispersed consumer – the steel sector – by keeping their fingers on the entire ferroalloy production chain. Moreover, two of the top-4, CVRD and BHP Billiton, also dominate in iron ore, underpinning the power of suppliers in the metals & mining sector. Privat, with 13% and 19% market shares in global manganese ore and ferroalloy output, respectively, is among the top-4 manganese market heavyweights.

### Global Top-4 concentration by value chain, %

Iron Ore: **78%**

Steel: **17%**



Source: Companies' data, Concorde Capital estimations

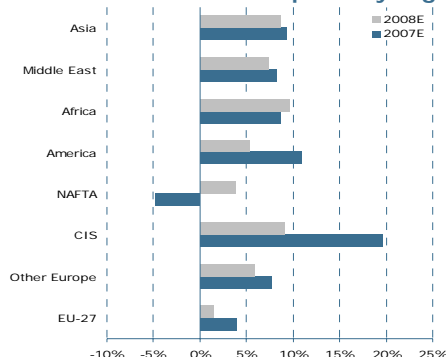
Note: Manganese ore has to be processed into ferroalloy to be used in the steel smelting process

In the mid-term, we expect concentration in the manganese alloy sector to increase. In particular, the Chinese government announced in October that it will shut down small ferroalloy plants in order to consolidate the industry and improve environmental conditions. The plan envisages a decrease in producers' capacities by 3 mln mt (23% of 2007E global production) to 17 mln mt of alloys annually. Specifically, 1.2 mln mt of capacities will be halted in 2008 and another 1.8 mln mt will be closed by 2010.

## Rise in demand favors producers

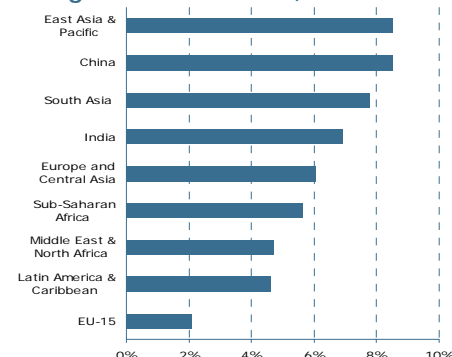
According to the International Iron & Steel Institute (IISI), 2007 and 2008 will again be strong years for the global steel industry, with consumption set to rise 6.8% in 2007 and a further 6.8% in 2008. We forecast this will translate into similar growth in demand for bulk alloys in the mid-term.

### Growth in steel consumption by region



Source: IISI, World Bank

### GDP growth 2006-2010, % CAGR

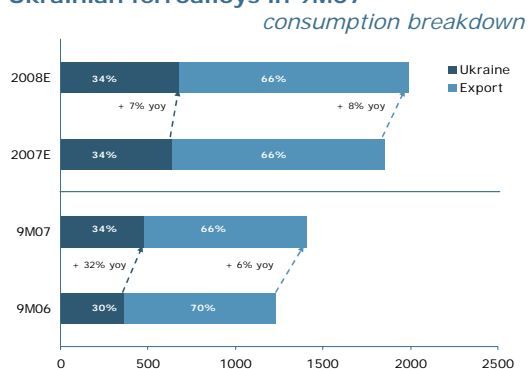


## UKRAINIAN PRODUCERS ENJOY SOFTENING EXPORT BARRIERS

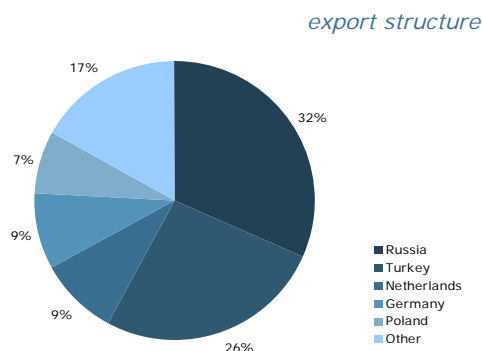
A shortage of ferroalloys forced Russia and the European Union to change their antidumping policies with respect to Ukraine in November:

- After an initial investigation into the introduction of antidumping duties in early 2007 (a 7% duty for Nikopol Ferroalloy and 25% for Zaporizhya Ferroalloy), Russia decided not to impose such duties in December 2007. Ukraine exported ~16.5% of high-carbon ferromanganese that it produced to Russia in 9M07
- In November 2007 the European Union decided not to impose an antidumping duty on Ukrainian silicomanganese after its investigation. Ukrainian producers exported around 35% of silicomanganese to the EU in 9M07. Simultaneously, the EU decided to impose five-year duties starting Sept. 2008 on Ukraine's major competitors, China and Kazakhstan, of 6.5% and 8.2%, respectively.
- In August 2007 the EU imposed antidumping duties on the Chinese and Russian imports of ferrosilicon, generating strong demand for Ukrainian FeSi (output grew 68.0% yoy in 2007; Ukraine exports ~20% of FeSi produced to the EU)

## Ukrainian ferroalloys in 9M07



Source: Metal Courier



## UKRAINIAN DEMAND SOARS

Domestic steel smelters increased consumption of Ukrainian ferroalloys by 32% in 9M07. We expect consumption will remain strong in the mid-term (3Y CAGR of 6%) backed by robust growth in steel production, which we project will grow 26% by 2012 to 50 mln mt. Steel sector modernization is another strong driver: demand might additionally grow by 9% after replacing existing open-hearth furnaces for steel converters, leading to an increase in the needs of ferroalloys by 16% per 1 mt of produced steel (see our Stakhaniv Ferroalloy report of April 19).

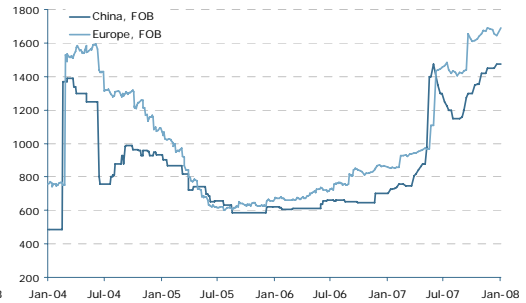
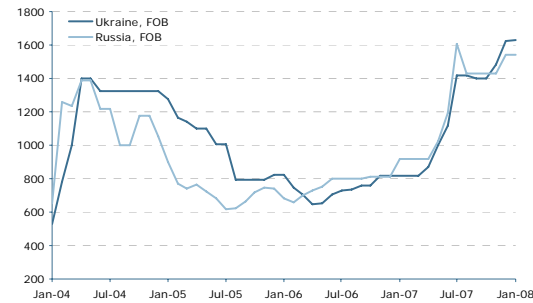


### Price outlook: Strong

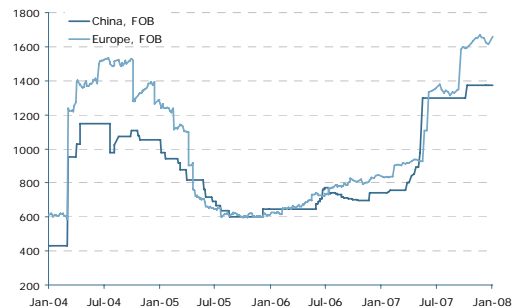
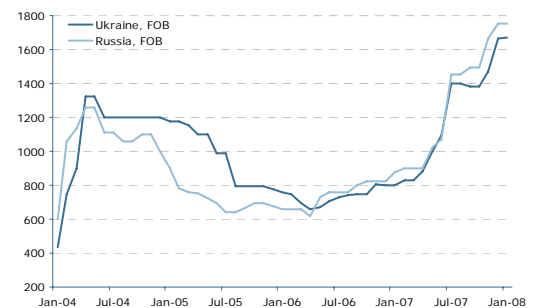
Sharp growth in bulk alloy prices, which reached their historical maximum in 2007 driven by a bull market in metals & mining, disproved our previous conservative forecast. Growth was detected in all major markets and products without exception. Specifically, prices for manganese alloys soared 90-110% during 2007, while FeSi prices grew 30-40%.

#### Spot alloys prices, USD/mt

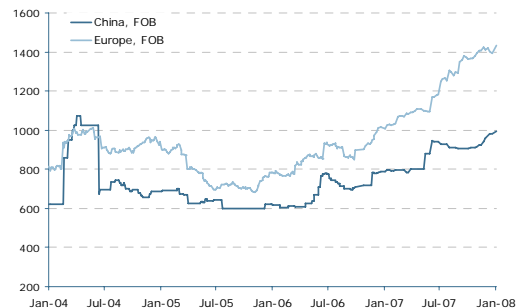
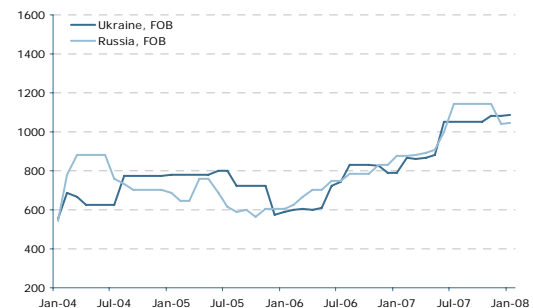
##### SiMn



##### FeMn



##### FeSi



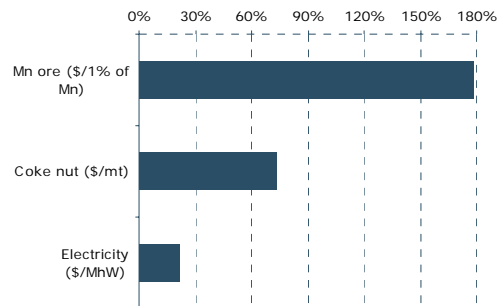
Source: Metal Courier, Metal Bulletin, Bloomberg

We think the growth of manganese alloys observed in 2007 had a different origin than the jump in early 2004, when a permanent shortage of manganese ore caused a jump in Chinese consumption, which translated into soaring prices for alloys. Last year the major driver of prices was suppliers' bargaining power, which effectively passed the cost increase on to consumers.

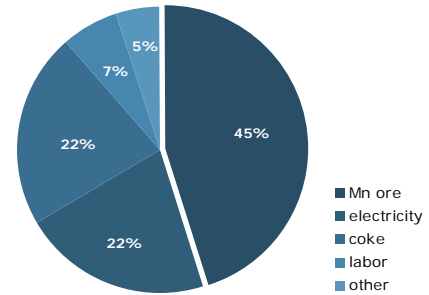
While China (nearly 40% of global supply) depressed global alloys prices through its increase in exports in 2005-2006, it will have less influence over the price in 2008. China is going to shut down its inefficient facilities and has imposed export duties to keep the local market balanced (in January 2007 export duties grew from 15% to 25% for FeSi and from 10% to 20% for SiMn and FeMn).

**HIGHER INPUT COSTS MEAN HIGHER LONG-TERM PRICING**

Strong long-term pricing for ferroalloys will be supported by the ability of producers to pass their growing costs on to consumers, in our view, given the high demand for bulk alloys worldwide. Last year prices for key components in manganese-based alloys grew 30-180%, pushing up local producers' costs up 40-60% yoy on average. The major cost driver was the price for manganese ore, which soared almost 180% yoy. In the long run, the top-4 vertically integrated players on the manganese product market will keep prices for manganese alloys high due to strong demand.

**Price growth for key inputs, % YTD (Ukraine)**


Source: Metal Courier, Bloomberg, Concorde Capital estimates

**Manganese alloys cost structure, % (Ukraine)**


Ukrainian ferroalloys producers are 65% supplied from domestic sources and will enjoy an additional cost advantage over their rivals in China, Europe and Russia.

We upgrade our price outlook for ferroalloys:

**Prices forecast revision, USD/mt**

	2007	2008E		2009E		2010-2012	
	Fact	Old	New	Old	New	Old	New
FeSi	974	715	1,750	723	1,194	730	1,075
SiMn	1,182	674	1,706	681	1,792	688	1,612
FeMn	1,178	708	1,138	715	1,836	729	1,654

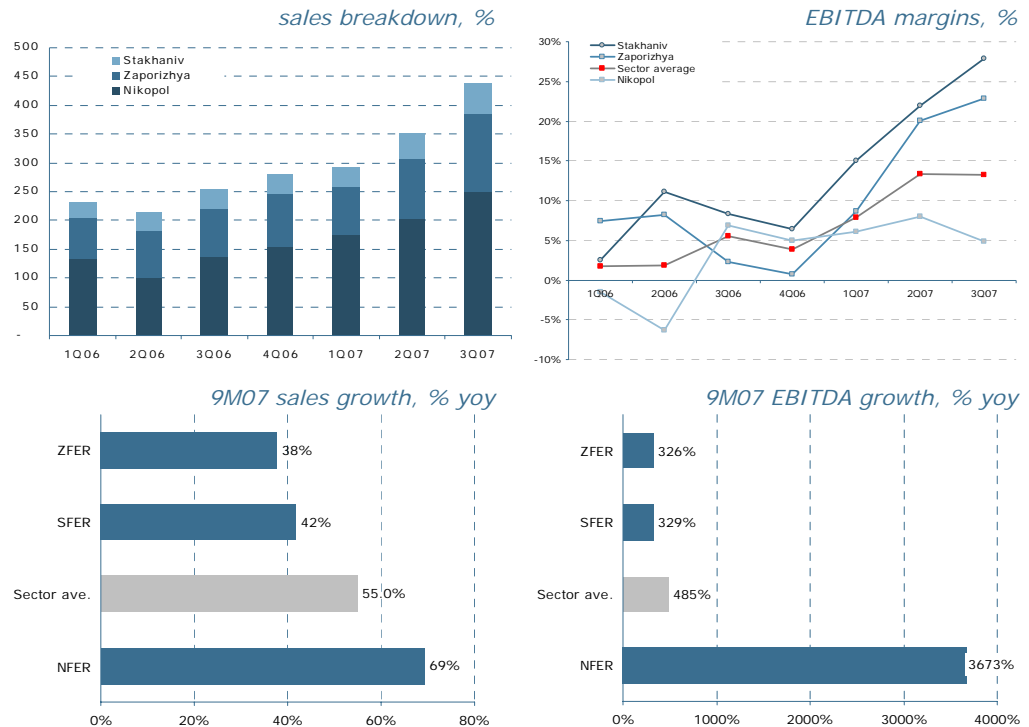
Source: Metal Expert, Concorde Capital estimates

# Solid 2007 results beat our projections

## Reporting practices improved earlier than expected

Driven by strong market fundamentals and surprising progress in reporting practices at Privat-owned Zaporizhyya and Stakhaniv Ferroalloys, the sector's performance drastically improved in 9M07, while we expected the turnaround no earlier than 2009 (see our report of February 9). While Nikopol Ferroalloy, jointly owned by Privat and Viktor Pinchuk, reported the highest growth, it still underreports its sales more than other companies in the sector. We estimate that underreporting comprises 25-35% of Nikopol Ferroalloy's sales and ~15% at Stakhaniv and Zaporizhyya ferroalloys.

### Sector financials



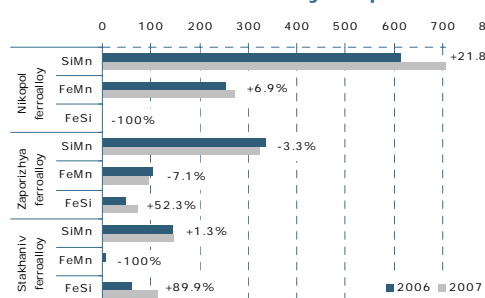
Source: Company data

We expect further progress in financial disclosure will be driven by Privat's cross-border M&A activity and the overall improvement of corporate governance in Ukraine, as well as by Tymoshenko's government putting pressure on tax avoiders.

## Production 2007: Above our forecasts

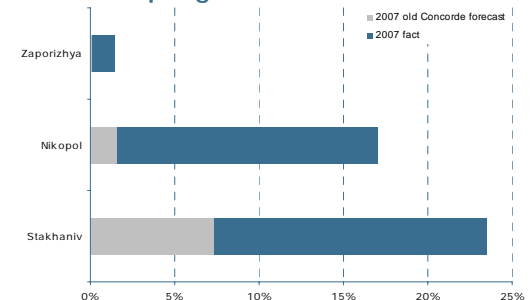
Ukrainian ferroalloy production increased by 13.2% yoy to almost 1.8 mln mt in 2007 driven by Stakhaniv Ferroalloy and Nikopol Ferroalloy, which disproved our forecasts.

### Ukrainian 9M07 ferroalloy output



Source: Ukrainian Ferroalloy Producers Association, Concorde Capital calculations

### Factual output growth vs Concorde forecast



## Forecast revisions

### 9M07 financials and production

	Sales, USD mln			EBITDA margin, %			Net margin, %			Output, ths mt		
	9M06	9M07	YoY	9M06	9M07	chg, p.p.	9M06	9M07	chg, p.p.	2006	2007	YoY
SFER	94.1	133.4	41.8%	7.5%	22.6%	15.1	2.0%	15.4%	13.4%	213.2	263.2	23.5%
NFER	370.8	627.6	69.3%	0.3%	6.2%	5.9	-1.8%	2.7%	4.5%	871.8	1,019.6	17.0%
ZFER	234.9	323.5	37.7%	5.9%	18.2%	12.3	1.6%	13.9%	12.3%	488.1	494.8	1.4%

 best in class     worst in class

Source: Company data

### Financial revisions

		Sales, USD mln			EBITDA margin, %			Net margin, %		
		Old	new	chg, %	old	new	chg, p.p.	old	new	chg, p.p.
NFER	2007F	567	805	42.0%	7.5%	6.3%	-1.2	3.4%	2.7%	-0.7
	2008E	603	979	62.4%	9.5%	15.2%	5.7	5.1%	9.8%	4.7
ZFER	2007F	348	435	25.0%	11.5%	21.1%	9.6	4.7%	12.3%	7.6
	2008E	356	605	69.9%	14.5%	23.1%	8.6	7.0%	14.7%	7.7
SFER	2007F	130	190	46.2%	11.0%	25.0%	13.5	3.0%	14.3%	10.9
	2008E	133	250	88.0%	12.0%	26.0%	13.0	3.8%	16.7%	12.1

Source: Concorde Capital estimates

## Valuation

### Comparative valuation

Relative valuation has limited applicability as most global producers of bulk alloys are broadly diversified businesses or privately held companies, making direct comparison by multiples inappropriate. We rely on DCF modeling to derive the fair value of Ukrainian ferroalloy stocks. Comparison to global alloy producers and Ukrainian metals & mining companies are given for reference.

	MCap, USD mln	EV/S		EV/EBITDA		P/E	
		2007E	2008E	2007E	2008E	2007E	2008E
<b>Ukraine</b>							
SFER	344.6	1.97	1.35	7.95	5.37	13.25	8.61
NFER	1,225.7	1.90	1.19	25.93	7.77	61.29	12.64
ZFER	1,162.6	2.78	2.10	13.13	9.09	24.74	15.71
<b>Average</b>		<b>2.22</b>	<b>1.55</b>	<b>15.67</b>	<b>7.41</b>	<b>33.09</b>	<b>12.32</b>
<b>Ukr. steel companies</b>							
Alchevsk Iron & Steel	3,350.8	2.56	1.64	18.99	11.30	45.31	23.15
Azovstal	5,075.1	1.71	1.38	7.75	6.28	11.92	9.94
DMK Petrovskogo	906.2	1.70	1.44	8.08	6.84	8.39	7.10
Enakievo Steel	1,036.6	1.16	0.91	7.63	5.55	13.91	9.52
MMK Illicha Steel	4,658.9	1.28	1.22	7.54	7.20	11.17	10.20
Arcelor Mittal Kryviy Rih	12,157.5	3.26	2.74	11.04	9.63	16.29	15.64
<b>Average</b>		<b>1.94</b>	<b>1.56</b>	<b>10.17</b>	<b>7.80</b>	<b>17.83</b>	<b>12.59</b>
<b>Ukr. mining &amp; coke companies</b>							
Chervonoarmiyska Zakhidna	1,926.2	6.80	4.28	32.39	17.12	226.72	61.15
Alchevsk Coke	692.8	0.91	0.74	6.72	5.78	10.66	9.21
Avdiyivka Coke	871.2	1.21	1.06	14.29	7.88	96.80	15.67
Yasynivsky Coke	372.1	0.98	0.81	8.53	6.50	14.88	11.59
ZaporizhCoke	227.9	0.54	0.62	7.74	8.90	13.90	16.05
Poltava Iron Ore	1,862.6	4.13	3.90	18.34	16.67	35.34	33.02
Pivdenny Iron Ore	2,936.8	7.62	7.15	56.99	49.31	149.99	116.78
Sukha Balka	865.5	11.69	12.08	73.06	70.49	173.09	138.01
<b>Median*</b>		<b>2.67</b>	<b>2.48</b>	<b>16.31</b>	<b>12.79</b>	<b>66.07</b>	<b>25.54</b>
<b>SFER price, USD/share</b>							
Implied by steel companies avg		0.024	0.028	0.031	0.036	0.032	0.038
Implied by mining & coke companies med		0.033	0.044	0.051	0.059	0.120	0.073
Upside/Downside to steel companies avg		-1.2%	16.0%	30.3%	50.3%	34.5%	57.1%
Upside/Downside to mining & coke companies med		38.8%	84.6%	114.1%	145.8%	398.6%	206.2%
<b>NFER price, USD/share</b>							
Implied by steel companies avg		0.98	1.01	0.30	0.78	0.23	0.56
Implied by mining & coke companies med		1.36	1.60	0.50	1.26	0.85	1.09
Upside/Downside to steel companies avg		24.5%	27.9%	-61.7%	-1.5%	-70.9%	-29.1%
Upside/Downside to mining & coke companies med		72.2%	102.0%	-36.6%	59.1%	7.8%	38.1%
<b>ZFER price, USD/share</b>							
Implied by steel companies avg		0.37	0.41	0.41	0.48	0.41	0.49
Implied by mining & coke companies med,		0.51	0.66	0.66	0.78	1.54	0.96
Upside/Downside to steel companies avg		-26.7%	-19.6%	-18.9%	-6.7%	-18.7%	-3.6%
Upside/Downside to mining & coke companies med		0.5%	28.6%	29.7%	53.4%	201.2%	87.8%
<b>International peers</b>							
BHP Billiton	162,792.4	3.52	3.21	6.66	5.97	10.72	9.20
CVRD	137,628.7	4.81	4.03	9.39	7.17	12.10	10.20
Eramet	10,738.7	1.83	1.62	5.23	4.62	15.02	13.01
<b>Average</b>		<b>3.39</b>	<b>2.95</b>	<b>7.09</b>	<b>5.92</b>	<b>12.61</b>	<b>10.80</b>
<b>SFER price, USD/share</b>							
Implied by international peers avg		0.043	0.052	0.021	0.026	0.023	0.030
Upside/Downside to steel companies avg		125.3%	173.7%	11.6%	38.9%	20.2%	58.4%
<b>NFER price, USD/share</b>							
Implied by international peers avg		7.01	9.68	0.97	2.98	0.83	3.45
Upside/Downside to steel companies avg		136.2%	226.0%	-67.3%	0.4%	-72.0%	16.3%
<b>ZFER price, USD/share</b>							
Implied by international peers avg		0.62	0.81	0.28	0.34	0.26	0.35
Upside/Downside to steel companies avg		48.6%	94.0%	-33.6%	-18.7%	-37.6%	-15.9%

## DCF

### Stakhaniv Ferroalloy

Valuation as of January

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	240	331	411	385	367	353	349	345	345
EBIT	222	313	393	368	351	337	334	331	331
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	166	235	295	276	263	253	250	248	248
Plus D&A	18	18	17	17	16	16	15	15	14
Less CapEx	(19)	(19)	(21)			(19)	(18)	(17)	(16)
Less change in OWC	44	(7)	6	1		0	(0)	(0)	-
FCFF	-	-	297	273	257	250	247	245	246
WACC	12.6%	13.0%	12.9%	12.3%	12.0%	11.2%	11.2%	11.2%	11.2%
Sum of discounted CFs		1,299							WACC To Perpetuity
PV of Terminal Value		973							Terminal Value
Firm Value		2,273							Perpetuity Growth Rate
Portion due to TV		42.8%							Implied Exit EBITDA Multiple
Less Net Debt		23							
Equity Value		2,296							
Implied share price		0.032							

10-Year Discount Rates	Perpetuity Growth Rate				
	-0.5%	0.0%	0.5%	1.0%	1.5%
WACC-1.0%	2,308	2,358	2,412	2,473	2,540
WACC-0.5%	2,252	2,300	2,353	2,411	2,476
WACC+0.0%	2,198	2,245	<b>2,296</b>	2,352	2,414
WACC+0.5%	2,146	2,191	2,240	2,295	2,355
WACC+1.0%	2,096	2,139	2,187	2,239	2,297

WACC to perpetuity	Perpetuity Growth Rate				
	-0.5%	0.0%	0.5%	1.0%	1.5%
10.0%	2,285	2,341	2,403	2,472	2,550
10.5%	2,240	2,290	2,346	2,409	2,478
11.0%	2,198	2,245	<b>2,296</b>	2,352	2,414
11.5%	2,161	2,203	2,250	2,301	2,357
12.0%	2,126	2,165	2,208	2,255	2,306

## Nikopol Ferroalloy

### Valuation as of January

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	
EBITDA	252	744	1,440	1,594	1,767	1,793	1,658	1,643	1,627	
EBIT	212	703	1,400	1,552	1,726	1,753	1,618	1,603	1,587	
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	
Taxed EBIT	159	527	1,050	1,164	1,294	1,315	1,214	1,202	1,190	
Plus D&A	40	41	41	41	41	41	40	40	40	
Less CapEx	(53)	(44)	(43)	(43)	(45)	(45)	(44)	(44)	(44)	
Less change in OWC	(91)	(230)	(114)	(7)	(21)	(4)	10	(1)	(1)	
FCFF	-	-	933	1,155	1,269	1,306	1,220	1,197	1,185	
WACC	13.3%	14.0%	13.5%	12.8%	12.4%	11.4%	11.4%	11.5%	11.5%	
Sum of discounted CFs		5,719							WACC To Perpetuity	11.0%
PV of Terminal Value		4,587							Terminal Value	11,296
Firm Value		10,306							Perpetuity Growth Rate	1.0%
Portion due to TV		44.5%							Implied Exit EBITDA Multiple	7.4x
Less Net Debt		238								
Equity Value		10,544								
Implied share price (diluted)		6.88								
(undiluted)		1.35								

10-Year Discount Rates	Perpetuity Growth Rate				
	-0.5%	0.0%	0.5%	1.0%	1.5%
WACC-1.0%	10,600	10,835	11,092	11,377	11,694
WACC-0.5%	10,339	10,565	10,813	11,088	11,394
WACC+0.0%	10,086	10,304	<b>10,544</b>	10,810	11,104
WACC+0.5%	9,842	10,053	10,284	10,540	10,825
WACC+1.0%	9,607	9,810	10,033	10,281	10,555

WACC to perpetuity	Perpetuity Growth Rate				
	-0.5%	0.0%	0.5%	1.0%	1.5%
10.0%	10,495	10,758	11,050	11,377	11,744
10.5%	10,281	10,520	10,784	11,077	11,405
11.0%	10,086	10,304	<b>10,544</b>	10,810	11,104
11.5%	9,908	10,108	10,328	10,569	10,835
12.0%	9,745	9,930	10,131	10,351	10,593

## Zaporizhya Ferroalloy

Valuation as of January

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	463	699	993	959	951	949	951	933	916
EBIT	423	655	945	905	893	887	888	870	852
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	317	491	709	679	669	666	666	652	639
Plus D&A	41	44	47	54	58	62	63	63	64
Less CapEx	(55)	(136)	(142)	(148)	(150)	(145)	(65)	(65)	(65)
Less change in OWC	(59)	(129)	(40)	(8)	4	2	4	-	-
FCFF	-	-	574	577	581	584	668	651	637
WACC	13.9%	13.8%	13.5%	12.8%	12.3%	11.4%	11.4%	11.4%	11.4%
Sum of discounted CFs		2,973				WACC To Perpetuity			11.0%
PV of Terminal Value		2,443				Terminal Value			5,986
Firm Value		5,416				Perpetuity Growth Rate			1.0%
Portion due to TV		45.1%				Implied Exit EBITDA Multiple			6.9x
Less Net Debt		(35)							
Equity Value		5,380							
Implied share price		0.47							

10-Year Discount Rates	Perpetuity Growth Rate				
	-0.5%	0.0%	0.5%	1.0%	1.5%
WACC-1.0%	5,407	5,532	5,669	5,821	5,990
WACC-0.5%	5,269	5,390	5,522	5,669	5,831
WACC+0.0%	5,136	5,253	<b>5,380</b>	5,522	5,679
WACC+0.5%	5,008	5,120	5,243	5,380	5,531
WACC+1.0%	4,884	4,992	5,111	5,243	5,389

WACC to perpetuity	Perpetuity Growth Rate				
	-0.5%	0.0%	0.5%	1.0%	1.5%
10.0%	5,354	5,494	5,650	5,824	6,019
10.5%	5,240	5,367	5,508	5,664	5,839
11.0%	5,136	5,253	<b>5,380</b>	5,522	5,679
11.5%	5,042	5,148	5,265	5,393	5,535
12.0%	4,955	5,053	5,160	5,278	5,407



# Company profiles

# Stakhaniv Ferroalloy (SFER UZ)

**Ferroalloys**

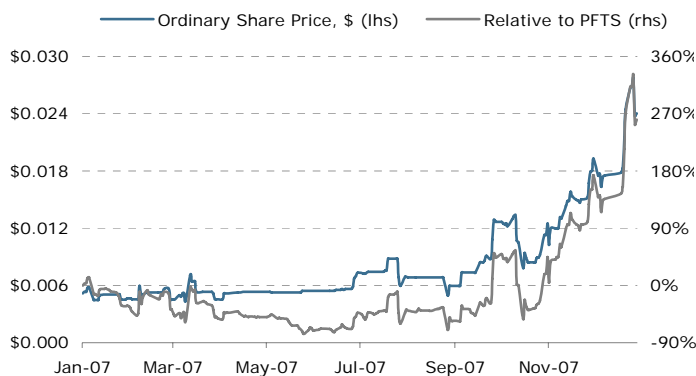
12M target (USD)	0.032
Upside	34%

**BUY**

## INVESTMENT CASE

- Highest profitability growth within the sector in 9M07: EBITDA margin sky-rocketed to 22.6%, net margin surged to 15.4% (from 7.5% and 2.0%, respectively in 9M06)
- Sector growth leader by output (+23.5% yoy in 2007)
- Product mix broadened with completion of Stakhaniv's ~USD 19 mln 2005-2007 investment program; modernization of electric furnaces allows it to make less electricity-intensive products
- Secured supplies insulate it from global price hikes in raw materials
- Markets for FeSi in Europe will be more accessible in September 2008 thanks to EU-imposed antidumping duties against Chinese and Russian producers coming into effect

## SHARE PRICE PERFORMANCE\*



## BUSINESS OVERVIEW

Smallest bulk ferroalloy producer in Ukraine. Capacity: 0.3 mln mt of FeSi, SiMn, and FeMn p.a. Exports 70% of output. Controlled by Privat Group, which supplies the plant with manganese ore, sinter and coke.

In 2007, output increased by 23.5% yoy to 263.2 ths mt, production of FeSi grew by 89.9% yoy to 115.1 ths mt, SiMn increased by 1.3% yoy to 148.1 ths mt. In 9M07 net revenues increased by 41.8% yoy to USD 133.4 mln, EBITDA margin improved to 22.6% from 7.5% in 9M06, net margin rose to 15.4% vs 2.0% in 1H06.

## MARKET INFORMATION

<b>Market Price*</b> , USD	0.023
Price impact**	3
52 Wk H/L USD	0.03/0.004
Chg 3m/6m/52w	90%/231%/367%
Chg vs PFTS 3m/6m/52w	85%/220%/261%
Chg YTD	37%
Avg M Tr Vol 6M, USD ths	124.3

<b>MCap</b> , USD mln	287.1
Free float	2%
FF Mcap, USD mln	5.7

<b>No of shares</b> , mln	14356.9
Par Value, UAH	0.01

<b>XETRA</b>	S5Z1
DR Ratio	1:100
Avg M Tr Vol 6M, USD ths	n/a

## STOCK OWNERSHIP

Privat Group	98.7%
Other	1.3%

## CORPORATE GOVERNANCE

Concorde Rating***	P
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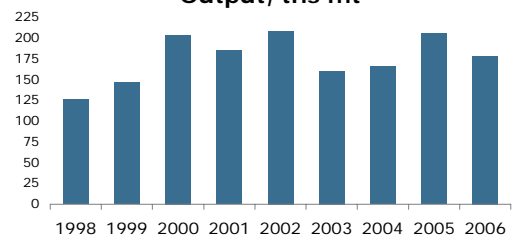
## MARKET MULTIPLES

	2007E	2008E
EV/Sales	2.0	1.3
EV/EBITDA	7.8	5.2
P/E	12.7	8.1
P/B	7.2	4.3
P/CF	11.5	7.6

## KEY RATIOS

	2006	2007E	2008E
EBITDA margin	7%	25%	26%
Net Margin	1%	14%	17%
ROE	4%	79%	66%
Net Debt/Equity	3.00	0.60	-0.04

## Output, ths mt



\*Market information as of Jan 18, 2008, based on PFTS Mid prices

\*\* Price "impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size  
 2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size  
 3: All other stocks (quoted)

\*\*\* 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.

INCOME STATEMENT SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
<b>Net Revenues</b>	<b>46.6</b>	<b>43.1</b>	<b>61.0</b>	<b>94.0</b>	<b>129.0</b>	<b>190.4</b>	<b>254.9</b>
<i>Change yoy</i>	<i>N/M</i>	<i>-7.5%</i>	<i>41.7%</i>	<i>54.1%</i>	<i>37.2%</i>	<i>47.6%</i>	<i>33.9%</i>
Gross Profit	4.3	5.6	3.8	4.3	18.1	57.1	77.7
<b>EBITDA</b>	<b>0.2</b>	<b>3.7</b>	<b>1.6</b>	<b>(1.1)</b>	<b>9.3</b>	<b>47.6</b>	<b>66.3</b>
<i>margin</i>	<i>0.5%</i>	<i>8.5%</i>	<i>2.6%</i>	<i>-1.1%</i>	<i>7.2%</i>	<i>25.0%</i>	<i>26.0%</i>
Depreciation	(2.0)	(2.0)	(2.2)	(2.8)	(3.5)	(3.6)	(3.6)
<b>EBIT</b>	<b>(1.7)</b>	<b>1.6</b>	<b>(0.6)</b>	<b>(3.9)</b>	<b>5.7</b>	<b>44.0</b>	<b>62.7</b>
<i>margin</i>	<i>-3.7%</i>	<i>3.8%</i>	<i>-1.0%</i>	<i>-4.1%</i>	<i>4.4%</i>	<i>23.1%</i>	<i>24.6%</i>
Financial Expense, net	(1.6)	(2.4)	(2.5)	(2.1)	(3.7)	(7.6)	(5.9)
Other income/(expense)	0.0	(0.6)	(2.4)	0.2	(0.9)	0.0	-
<b>PBT</b>	<b>(3.3)</b>	<b>(1.3)</b>	<b>(5.6)</b>	<b>(5.8)</b>	<b>1.1</b>	<b>36.3</b>	<b>56.8</b>
Tax	-	-	-	-	-	(9)	(14)
<i>Effective tax rate</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>25.0%</i>	<i>25.0%</i>
<b>Net Income</b>	<b>(3.3)</b>	<b>(1.3)</b>	<b>(5.6)</b>	<b>(5.8)</b>	<b>0.8</b>	<b>27.2</b>	<b>42.6</b>
<i>Net Margin</i>	<i>-7.1%</i>	<i>-3.1%</i>	<i>-9.1%</i>	<i>-6.2%</i>	<i>0.6%</i>	<i>14.3%</i>	<i>16.7%</i>

BALANCE SHEET SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
<b>Current Assets</b>	<b>20.9</b>	<b>13.0</b>	<b>26.2</b>	<b>29.9</b>	<b>62.8</b>	<b>63.0</b>	<b>96.9</b>
Cash & Equivalents	0.0	0.0	0.0	1.0	0.0	11.2	41.3
Trade Receivables	6.3	1.5	5.4	7.7	5.5	8.6	11.5
Inventories	4.8	3.5	15.1	14.9	13.7	14.7	18.6
Other	9.8	7.9	5.8	6.2	43.6	28.6	25.5
<b>Fixed Assets</b>	<b>16.1</b>	<b>15.7</b>	<b>20.3</b>	<b>30.4</b>	<b>32.1</b>	<b>32.6</b>	<b>33.2</b>
PP&E, net	12.2	11.3	15.5	21.5	28.2	28.1	29.4
Other	4.0	4.4	4.8	8.9	3.9	4.4	3.7
<b>Total Assets</b>	<b>37.0</b>	<b>28.7</b>	<b>46.6</b>	<b>60.3</b>	<b>94.9</b>	<b>95.6</b>	<b>130.0</b>
<b>Shareholders' Equity</b>	<b>8.9</b>	<b>7.8</b>	<b>2.2</b>	<b>20.1</b>	<b>21.0</b>	<b>48.2</b>	<b>80.6</b>
Share Capital	4.4	4.4	4.4	28.4	28.4	28.4	28.7
Other	4.6	3.4	(2.2)	(8.3)	(7.5)	19.8	51.9
<b>Current Liabilities</b>	<b>27.3</b>	<b>9.4</b>	<b>36.7</b>	<b>32.0</b>	<b>65.8</b>	<b>47.4</b>	<b>49.4</b>
ST Interest Bearing Debt	12.5	5.4	9.9	16.3	54.2	38.1	38.2
Trade Payables	5.8	2.0	0.9	2.1	2.0	2.7	3.5
Other	9.0	2.0	25.8	13.5	9.7	6.7	7.6
<b>LT Liabilities</b>	<b>0.8</b>	<b>11.6</b>	<b>7.8</b>	<b>8.1</b>	<b>8.1</b>	-	-
LT Interest Bearing Debt	-	11.6	7.8	8.1	8.1	-	-
Other	0.8	-	-	-	-	-	-
<b>Total Liabilities &amp; Equity</b>	<b>37.0</b>	<b>28.7</b>	<b>46.6</b>	<b>60.3</b>	<b>94.9</b>	<b>95.6</b>	<b>130.0</b>

QUARTERLY ANALYSIS, USD mln

	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
<b>Net Revenues</b>	<b>23.7</b>	<b>20.2</b>	<b>27.7</b>	<b>28.6</b>	<b>32.1</b>	<b>33.4</b>	<b>34.9</b>	<b>34.6</b>	<b>43.9</b>	<b>54.9</b>
<i>Change yoy</i>	<i>45.6%</i>	<i>-1.1%</i>	<i>23.8%</i>	<i>27.3%</i>	<i>35.6%</i>	<i>65.8%</i>	<i>25.8%</i>	<i>21.1%</i>	<i>36.8%</i>	<i>25.1%</i>
<b>EBITDA</b>	<b>(0.9)</b>	<b>0.7</b>	<b>0.3</b>	<b>0.7</b>	<b>3.6</b>	<b>2.8</b>	<b>2.2</b>	<b>5.2</b>	<b>9.6</b>	<b>15.3</b>
<i>margin</i>	<i>-3.6%</i>	<i>3.6%</i>	<i>1.0%</i>	<i>2.5%</i>	<i>11.1%</i>	<i>8.3%</i>	<i>6.4%</i>	<i>15.0%</i>	<i>22.0%</i>	<i>27.9%</i>
<b>EBIT</b>	<b>(1.5)</b>	<b>0.0</b>	<b>(0.5)</b>	<b>(0.1)</b>	<b>2.7</b>	<b>1.8</b>	<b>1.3</b>	<b>4.2</b>	<b>8.7</b>	<b>14.3</b>
<i>margin</i>	<i>-6.5%</i>	<i>0.1%</i>	<i>-1.8%</i>	<i>-0.3%</i>	<i>8.4%</i>	<i>5.5%</i>	<i>3.6%</i>	<i>12.2%</i>	<i>19.8%</i>	<i>0.3%</i>
<b>Net Income</b>	<b>(2.1)</b>	<b>0.0</b>	<b>(1.7)</b>	<b>(0.8)</b>	<b>1.8</b>	<b>0.9</b>	<b>(1.0)</b>	<b>1.8</b>	<b>6.7</b>	<b>11.9</b>
<i>Net Margin</i>	<i>-8.7%</i>	<i>0.2%</i>	<i>-6.0%</i>	<i>-2.8%</i>	<i>5.6%</i>	<i>2.6%</i>	<i>-3.0%</i>	<i>5.3%</i>	<i>15.3%</i>	<i>21.7%</i>

# Nikopol Ferroalloy (NFER UZ)

**Ferroalloys**

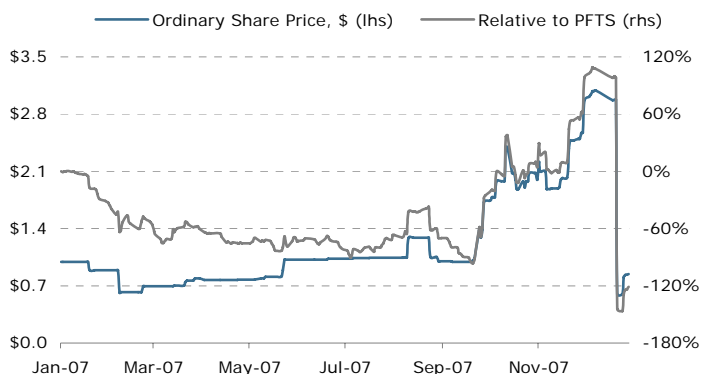
 12M target (USD) 1.35  
 Upside\* 40%

**HOLD**

## INVESTMENT CASE

- Nov. 22 EGM voted to conduct a fivefold charter fund increase at par value (USD 0.05 per share). Subscription is running from Jan. 14 to Feb. 1. Pending share issue resulted in spreads widening up to 70%. Typically, after approval of the issue, trading resumes close to the bids
- Although the PM again raised the reprivatization issue in January, we believe Privat and Interpipe will retain control by diluting the disputed stake to 10% via additional share issue
- In the mid-term, we think Privat will do its best to increase a stake in Nikopol to more than 50% from its current 23%. Interpipe seems ready to sell its stake in this non-core asset
- Output grew by 17.0% yoy to 1.0 mln mt in 2007
- Market prospects in Russia and the EU improved after they decided not to impose duties on FeMn/SiMn in Nov. 2007
- Supply of high quality manganese strengthened after Privat acquired Australian manganese producer CSM in late 2007
- Profitability margins grew in 9M07: EBITDA to 6.2% vs 0.3% in 9M06; net margin to 2.7% (up 4.5 pp). However, they stayed below the sector average due to transfer pricing

## SHARE PRICE PERFORMANCE\*



## BUSINESS OVERVIEW

The largest bulk (manganese-based) ferroalloy producer in the world. Produces 55% of Ukraine's ferroalloys. Possesses modern equipment. Operates 16 electric furnaces, put into operation in the late 60s (capacity 1.2 mln mt p.a.). Exports 70% of its output, mainly to Russia. Imports ~ 30% of raw materials from Ghana, Gabon and Australia. Implemented an energy-saving program to decrease the impact of higher electricity prices (accounts for 30% of total costs).

In 2007, produced ferromanganese of 272.5 ths mt (up 6.9% yoy) and silicomanganese of 747.1 ths mt (up 21.8% yoy). Net income increased to USD 17.0 mln in 9M07 (from the negative USD 6.5 mln in 9M06).

\*Market information as of Jan 18, 2008, based on PFTS Bid prices

\*\* Price "impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

- Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
- Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
- All other stocks (quoted)

\*\*\* 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.

## MARKET INFORMATION

**Market Price\***, USD 0.84  
 Price impact\*\* 3  
 52 Wk H/L USD 3.09/0.59  
 Chg 3m/6m/52w -52%/-18%/-15%  
 Chg vs PFTS 3m/6m/52w -56%/-29%/-121%  
 Chg YTD -73%  
 Avg M Tr Vol 6M, USD ths 318.2

**MCap**, USD mln 1303.3  
 Free float 2%  
 FF Mcap, USD mln 26.1

**No of shares**, mln 1551.5  
 Par Value, UAH 0.25

**XETRA** N4AA  
 DR Ratio 1:25  
 Avg M Tr Vol 6M, USD ths n/a

## STOCK OWNERSHIP

State/Interpipe 71.0%  
 Privat Group 27.0%  
 Other 2.0%

## CORPORATE GOVERNANCE

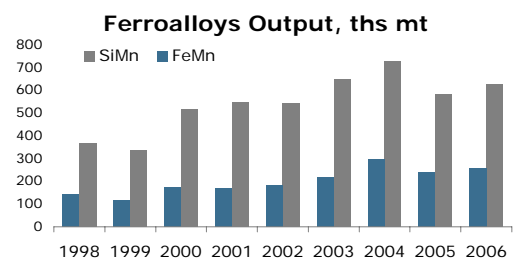
Concorde Rating\*\*\* P

## MARKET MULTIPLES

	2007E	2008E
EV/Sales	1.7	1.3
EV/EBITDA	27.5	27.5
P/E	64.8	13.6
P/B	9.7	4.4
P/CF	49.3	12.3

## KEY RATIOS

	2006	2007E	2008E
EBITDA margin	2%	6%	15%
Net Margin	0.04%	3%	10%
ROE	0.2%	16%	45%
Net Debt/Equity	0.60	0.50	-0.10



INCOME STATEMENT SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
<b>Net Revenues</b>	<b>272.6</b>	<b>288.1</b>	<b>414.9</b>	<b>480.8</b>	<b>525.0</b>	<b>805.0</b>	<b>979.0</b>
<i>Change yoy</i>	<i>N/M</i>	<i>5.7%</i>	<i>44.0%</i>	<i>15.9%</i>	<i>9.2%</i>	<i>53.3%</i>	<i>21.6%</i>
Gross Profit	56.6	49.6	50.8	41.1	36.8	88.5	195.8
<b>EBITDA</b>	<b>14.3</b>	<b>14.6</b>	<b>26.1</b>	<b>6.3</b>	<b>8.8</b>	<b>49.9</b>	<b>148.8</b>
<i>margin</i>	<i>5.3%</i>	<i>5.1%</i>	<i>6.3%</i>	<i>1.3%</i>	<i>1.7%</i>	<i>6.2%</i>	<i>15.2%</i>
Depreciation	(4.8)	(5.1)	(5.1)	(6.4)	(6.8)	(7.9)	(8.2)
<b>EBIT</b>	<b>9.6</b>	<b>9.5</b>	<b>21.0</b>	<b>(0.1)</b>	<b>2.0</b>	<b>42.0</b>	<b>140.6</b>
<i>margin</i>	<i>3.5%</i>	<i>3.3%</i>	<i>5.1%</i>	<i>0.0%</i>	<i>0.4%</i>	<i>5.2%</i>	<i>14.4%</i>
Financial Expense, net	(2.7)	(0.7)	(0.9)	(1.1)	(5.4)	(15.1)	(12.4)
Other income/(expense)	(0.1)	(0.4)	0.1	0.2	4.8	-	-
<b>PBT</b>	<b>6.7</b>	<b>8.4</b>	<b>20.1</b>	<b>(0.9)</b>	<b>1.3</b>	<b>26.9</b>	<b>128.2</b>
Tax	(3.3)	(4.5)	(6.9)	(3.3)	-	(6.7)	(32.1)
<i>Effective tax rate</i>	<i>48.5%</i>	<i>53.7%</i>	<i>34.0%</i>	<i>-356.9%</i>	<i>0.0%</i>	<i>25.0%</i>	<i>25.0%</i>
<b>Net Income</b>	<b>3.5</b>	<b>3.9</b>	<b>13.3</b>	<b>(4.2)</b>	<b>0.2</b>	<b>20.2</b>	<b>96.2</b>
<i>Net Margin</i>	<i>1.3%</i>	<i>1.4%</i>	<i>3.2%</i>	<i>-0.9%</i>	<i>0.0%</i>	<i>2.5%</i>	<i>9.8%</i>

BALANCE SHEET SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
<b>Current Assets</b>	<b>74.0</b>	<b>74.3</b>	<b>91.7</b>	<b>91.2</b>	<b>134.4</b>	<b>181.6</b>	<b>287.8</b>
Cash & Equivalents	0.1	0.5	2.4	0.5	0.4	6.6	84.6
Trade Receivables	18.6	25.3	48.7	43.9	60.3	85	103
Inventories	33.5	23.2	23.2	29.0	35.3	50.2	56.4
Other	21.8	25.4	17.4	17.8	38.4	40.2	44.1
<b>Fixed Assets</b>	<b>81.8</b>	<b>78.7</b>	<b>83.7</b>	<b>95.7</b>	<b>94.9</b>	<b>92.8</b>	<b>94.4</b>
PP&E, net	74.4	76.4	76.9	84.5	86.0	80.8	89.5
Other	7.4	2.4	6.8	11.2	8.9	12.0	4.9
<b>Total Assets</b>	<b>155.8</b>	<b>153.0</b>	<b>175.3</b>	<b>186.9</b>	<b>229.4</b>	<b>274.4</b>	<b>382.2</b>
<b>Shareholders' Equity</b>	<b>99.3</b>	<b>103.3</b>	<b>117.4</b>	<b>119.3</b>	<b>114.0</b>	<b>134.2</b>	<b>294.1</b>
Share Capital	14.2	14.2	14.3	15.0	15.0	15.0	77.6
Other	85.0	89.1	103.1	104.3	99.0	119.1	216.5
<b>Current Liabilities</b>	<b>51.1</b>	<b>41.1</b>	<b>49.7</b>	<b>58.2</b>	<b>113.3</b>	<b>138.2</b>	<b>86.2</b>
ST Interest Bearing Debt	26.0	5.6	15.0	7.0	70.4	72.4	39.2
Trade Payables	14.5	25.1	28.7	18.2	12.1	21.5	27.4
Other	10.6	10.4	5.9	33.0	30.9	44.3	19.6
<b>LT Liabilities</b>	<b>5.3</b>	<b>8.6</b>	<b>8.3</b>	<b>9.4</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
LT Interest Bearing Debt	-	-	-	-	-	-	-
Other	5.3	8.6	8.3	9.4	2.0	2.0	2.0
<b>Total Liabilities &amp; Equity</b>	<b>155.8</b>	<b>153.0</b>	<b>175.3</b>	<b>186.9</b>	<b>229.4</b>	<b>274.4</b>	<b>382.2</b>

QUARTERLY ANALYSIS, USD mln

	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
<b>Net Revenues</b>	<b>124.6</b>	<b>107.1</b>	<b>119.0</b>	<b>133.4</b>	<b>100.6</b>	<b>136.7</b>	<b>154.2</b>	<b>174.2</b>	<b>202.9</b>	<b>250.6</b>
<i>Change yoy</i>	<i>20.9%</i>	<i>-1.2%</i>	<i>-0.7%</i>	<i>2.5%</i>	<i>-19.2%</i>	<i>27.7%</i>	<i>29.6%</i>	<i>30.5%</i>	<i>101.6%</i>	<i>83.3%</i>
<b>EBITDA</b>	<b>8.4</b>	<b>(6.7)</b>	<b>(5.0)</b>	<b>(2.0)</b>	<b>(6.3)</b>	<b>9.4</b>	<b>7.7</b>	<b>10.5</b>	<b>16.2</b>	<b>12.2</b>
<i>margin</i>	<i>6.8%</i>	<i>-6.3%</i>	<i>-4.2%</i>	<i>-1.5%</i>	<i>-6.3%</i>	<i>6.9%</i>	<i>5.0%</i>	<i>6.0%</i>	<i>8.0%</i>	<i>4.9%</i>
<b>EBIT</b>	<b>6.8</b>	<b>(8.4)</b>	<b>(6.7)</b>	<b>(3.6)</b>	<b>(7.9)</b>	<b>7.8</b>	<b>5.7</b>	<b>8.6</b>	<b>14.2</b>	<b>10.3</b>
<i>margin</i>	<i>5.4%</i>	<i>-7.9%</i>	<i>-5.6%</i>	<i>-2.7%</i>	<i>-7.9%</i>	<i>5.7%</i>	<i>3.7%</i>	<i>5.0%</i>	<i>7.0%</i>	<i>4.1%</i>
<b>Net Income</b>	<b>3.7</b>	<b>(12.0)</b>	<b>(3.8)</b>	<b>(3.9)</b>	<b>(8.7)</b>	<b>6.0</b>	<b>6.7</b>	<b>5.1</b>	<b>7.4</b>	<b>4.6</b>
<i>Net Margin</i>	<i>2.9%</i>	<i>-11.2%</i>	<i>-3.2%</i>	<i>-2.9%</i>	<i>-8.6%</i>	<i>4.4%</i>	<i>4.4%</i>	<i>2.9%</i>	<i>3.6%</i>	<i>1.8%</i>

# Zaporizhya Ferroalloy (ZFER UZ)

<http://www.zfz.com.ua>

Ferroalloys

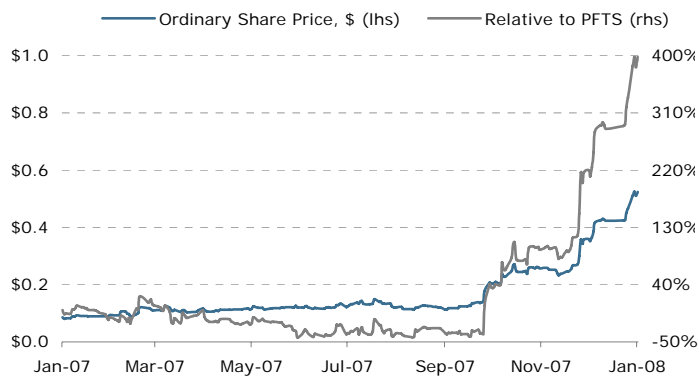
12M target (USD) 0.47  
Upside -8%

**HOLD**

## INVESTMENT CASE

- Financials improved in 9M07: reported EBITDA margin of 18.2% (vs 5.9% in 9M06), net margin 13.9% (up 12.3 pp from 9M06)
- Secured supplies insulate it from global price hikes in raw materials
- Output growth is limited by high utilization rate (90% in 2007) and overhaul/modernization of key facilities in 2008-2011 (planned CapEx is USD 139 mln)

## SHARE PRICE PERFORMANCE



## BUSINESS OVERVIEW

Second largest producer of bulk ferroalloys in Ukraine (28% share of domestic market) and the third largest in Europe. Has the widest product range among Ukrainian competitors. Produces SiMn, FeSi, FeMn and metallic Mn. Held 26% of share of Mn alloys in 2007. Exports ~70% of total output, targeting Russian, European and Asian markets. Products ISO 9001:2000 certified.

In 2007, increased production by 1.4% yoy to 494.8 ths mt. Net revenues increased in 9M07 by 37.7% yoy to USD 323.5 mln, net income climbed up ~ 12 times yoy to USD 44.8 mln, EBITDA and net margins improved by 12.3% yoy to 18.2% and 13.9% respectively.

## MARKET INFORMATION

**Market Price\***, USD 0.51  
Price impact\*\* 3  
52 Wk H/L USD 0.53/0.08  
Chg 3m/6m/52w 148%/271%/520%  
Chg vs PFTS 3m/6m/52w 144%/260%/414%  
Chg YTD 21%  
Avg M Tr Vol 6M, USD ths 357.2

**MCap**, USD mln 1162.6  
Free float 8%  
FF Mcap, USD mln 93.0

**No of shares**, mln 2279.6  
Par Value, UAH 0.1

**XETRA** ZL3  
DR Ratio 1:100  
Avg M Tr Vol 6M, USD ths n/a

## STOCK OWNERSHIP

Privat Group 90.0%  
Other 10.0%

## CORPORATE GOVERNANCE

Concorde Rating\*\*\* P

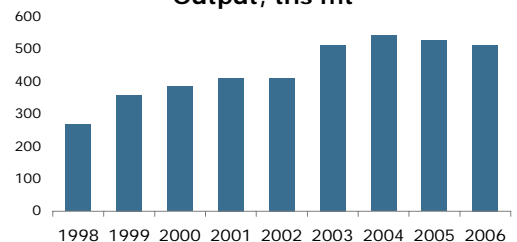
## MARKET MULTIPLES

	2007E	2008E
EV/Sales	2.9	2.1
EV/EBITDA	13.6	8.9
P/E	21.8	13.0
P/B	8.5	6.3
P/CF	19.7	12.2

## KEY RATIOS

	2006	2007E	2008E
EBITDA margin	4%	21%	23%
Net Margin	0.1%	12%	15%
ROE	0.5%	48%	56%
Net Debt/Equity	0.80	0.60	0.50

## Output, ths mt



\*Market information as of Jan 18, 2008, based on PFTS Mid prices

\*\* Price "impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

1: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size  
2: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size  
3: All other stocks (quoted)

\*\*\* 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.

INCOME STATEMENT SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
<b>Net Revenues</b>	<b>135.9</b>	<b>190.9</b>	<b>328.3</b>	<b>316.4</b>	<b>325.8</b>	<b>434.7</b>	<b>605.0</b>
<i>Change yoy</i>	<i>N/M</i>	<i>40.5%</i>	<i>71.9%</i>	<i>-3.6%</i>	<i>2.9%</i>	<i>33.4%</i>	<i>39.2%</i>
Gross Profit	16.0	21.3	(10.7)	20.1	28.8	108.7	163.4
<b>EBITDA</b>	<b>10.5</b>	<b>14.9</b>	<b>(20.1)</b>	<b>6.0</b>	<b>14.5</b>	<b>91.7</b>	<b>139.8</b>
<i>margin</i>	<i>7.7%</i>	<i>7.8%</i>	<i>-6.1%</i>	<i>1.9%</i>	<i>4.5%</i>	<i>21.1%</i>	<i>23.1%</i>
Depreciation	(4.0)	(4.0)	(4.3)	(4.9)	(5.5)	(8.0)	(8.8)
<b>EBIT</b>	<b>6.5</b>	<b>11.0</b>	<b>(24.4)</b>	<b>1.1</b>	<b>9.1</b>	<b>83.7</b>	<b>131.0</b>
<i>margin</i>	<i>4.8%</i>	<i>5.7%</i>	<i>-7.4%</i>	<i>0.3%</i>	<i>2.8%</i>	<i>19.2%</i>	<i>21.7%</i>
Financial Expense, net	(4.5)	(2.8)	(4.4)	(3.6)	(4.7)	(12.5)	(12.1)
Other income/(expense)	(1.7)	(1.7)	(0.8)	3.1	(0.0)	-	-
<b>PBT</b>	<b>0.3</b>	<b>6.4</b>	<b>(29.6)</b>	<b>0.6</b>	<b>4.3</b>	<b>71.1</b>	<b>118.9</b>
Tax	(0.2)	(6.3)	-	(2.2)	-	(17.8)	(29.7)
<i>Effective tax rate</i>	<i>70.8%</i>	<i>98.2%</i>	<i>0.0%</i>	<i>361.5%</i>	<i>0.0%</i>	<i>25.0%</i>	<i>25.0%</i>
<b>Net Income</b>	<b>0.1</b>	<b>0.1</b>	<b>(29.6)</b>	<b>(1.7)</b>	<b>0.4</b>	<b>53.3</b>	<b>89.2</b>
<i>Net Margin</i>	<i>0.1%</i>	<i>0.1%</i>	<i>-9.0%</i>	<i>-0.5%</i>	<i>0.1%</i>	<i>12.3%</i>	<i>14.7%</i>

BALANCE SHEET SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
<b>Current Assets</b>	<b>126.6</b>	<b>210.1</b>	<b>137.0</b>	<b>143.2</b>	<b>160.7</b>	<b>197.9</b>	<b>270.5</b>
Cash & Equivalents	2.2	2.9	3.2	3.9	3.1	10.8	23.4
Trade Receivables	14.6	23.4	8.0	26.6	18.0	28.7	36.3
Inventories	12.8	17.4	31.6	36.4	20.5	28.0	35.3
Other	97.0	166.5	94.2	76.3	119.1	130.4	175.5
<b>Fixed Assets</b>	<b>73.0</b>	<b>80.5</b>	<b>80.0</b>	<b>109.4</b>	<b>117.4</b>	<b>110.2</b>	<b>129.7</b>
PP&E, net	49.3	58.2	57.5	80.8	82.6	89.0	106.8
Other	23.7	22.3	22.6	28.6	34.8	21.2	22.9
<b>Total Assets</b>	<b>199.6</b>	<b>290.6</b>	<b>217.0</b>	<b>252.6</b>	<b>278.1</b>	<b>308.1</b>	<b>400.3</b>
<b>Shareholders' Equity</b>	<b>62.4</b>	<b>62.3</b>	<b>37.2</b>	<b>83.3</b>	<b>84.1</b>	<b>137.4</b>	<b>183.4</b>
Share Capital	19.9	19.9	20.0	45.1	45.1	45.1	45.6
Other	42.5	42.4	17.2	38.2	39.0	92.3	137.8
<b>Current Liabilities</b>	<b>93.1</b>	<b>162.5</b>	<b>116.6</b>	<b>105.2</b>	<b>115.3</b>	<b>105.4</b>	<b>138.2</b>
ST Interest Bearing Debt	23.5	34.7	9.6	15.4	58.2	30.4	30.3
Trade Payables	27.9	22.6	27.7	0.7	20.3	22.8	35.3
Other	41.8	105.3	79.3	89.1	36.7	52.2	72.6
<b>LT Liabilities</b>	<b>44.1</b>	<b>65.8</b>	<b>63.2</b>	<b>64.1</b>	<b>78.7</b>	<b>65.2</b>	<b>78.7</b>
LT Interest Bearing Debt	-	-	-	-	14.8	-	-
Other	44.1	65.8	63.2	64.1	63.8	65.2	78.7
<b>Total Liabilities &amp; Equity</b>	<b>199.6</b>	<b>290.6</b>	<b>217.0</b>	<b>252.6</b>	<b>278.1</b>	<b>308.1</b>	<b>400.3</b>

QUARTERLY ANALYSIS, USD mln

	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
<b>Net Revenues</b>	<b>82.2</b>	<b>71.8</b>	<b>85.6</b>	<b>71.1</b>	<b>80.6</b>	<b>83.2</b>	<b>90.8</b>	<b>84.5</b>	<b>105.6</b>	<b>133.3</b>
<i>Change yoy</i>	<i>-7.2%</i>	<i>-23.8%</i>	<i>-6.2%</i>	<i>-7.5%</i>	<i>-1.9%</i>	<i>15.9%</i>	<i>6.2%</i>	<i>18.8%</i>	<i>31.0%</i>	<i>26.2%</i>
<b>EBITDA</b>	<b>0.0</b>	<b>5.7</b>	<b>11.0</b>	<b>5.3</b>	<b>6.6</b>	<b>1.9</b>	<b>0.7</b>	<b>7.3</b>	<b>21.2</b>	<b>30.5</b>
<i>margin</i>	<i>0.0%</i>	<i>7.9%</i>	<i>12.9%</i>	<i>7.4%</i>	<i>8.2%</i>	<i>2.3%</i>	<i>0.8%</i>	<i>8.7%</i>	<i>20.0%</i>	<i>22.9%</i>
<b>EBIT</b>	<b>(1.1)</b>	<b>4.3</b>	<b>9.7</b>	<b>4.0</b>	<b>5.3</b>	<b>0.5</b>	<b>(0.7)</b>	<b>5.9</b>	<b>19.7</b>	<b>29.0</b>
<i>margin</i>	<i>-1.3%</i>	<i>6.0%</i>	<i>11.3%</i>	<i>5.6%</i>	<i>6.6%</i>	<i>0.6%</i>	<i>-0.8%</i>	<i>7.0%</i>	<i>18.7%</i>	<i>21.8%</i>
<b>Net Income</b>	<b>0.1</b>	<b>3.4</b>	<b>6.9</b>	<b>3.5</b>	<b>3.4</b>	<b>(3.2)</b>	<b>(3.3)</b>	<b>2.2</b>	<b>15.8</b>	<b>26.9</b>
<i>Net Margin</i>	<i>0.1%</i>	<i>4.7%</i>	<i>8.1%</i>	<i>4.9%</i>	<i>4.3%</i>	<i>-3.9%</i>	<i>-3.6%</i>	<i>2.6%</i>	<i>14.9%</i>	<i>20.2%</i>

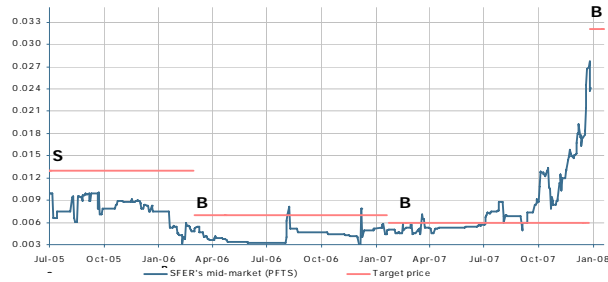
# Appendix – Disclosures

## Analyst Certification

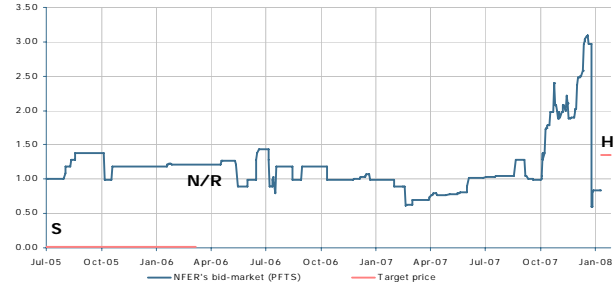
We, Andriy Gerus and Eugene Cherviachenko, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific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

### Recommendation history

#### SFER



#### NFER



#### ZFER



#### SFER

Date	Target price, USD	Market Price, USD	Recommendation	Action
10-Jun-05	0.013	0.010	SELL	Initiate
22-Mar-06	0.007	0.003	BUY	Upgrade
19-Mar-06	0.007	0.0045	BUY	Maintain
30-Jun-06	0.007	0.003	BUY	Maintain
18-Aug-06	0.007	0.100	BUY	Maintain
01-Sep-06	0.007	0.003	BUY	Maintain
09-Feb-07	0.006	0.003	BUY	Maintain
21-Jan-08	0.032	0.024	BUY	Maintain

#### NFER

Date	Target price, USD	Market Price, USD	Recommendation	Action
10-Jun-05	0.013	0.010	SELL	Initiate
22-Mar-06			N/R	
18-Aug-06			N/R	
09-Feb-07			N/R	
21-Jan-08	2.20	1.35	HOLD	Reinstated

#### ZFER

Date	Target price, USD	Market Price, USD	Recommendation	Action
10-Jun-05	0.13	0.10	SELL	Initiate
02-Feb-06	0.16	0.13	BUY	Upgrade
22-Mar-06	0.16	0.13	BUY	Maintain
30-Jun-06	0.16	0.13	BUY	Maintain
18-Aug-06	0.16	0.10	BUY	Maintain
01-Sep-06	0.16	0.10	BUY	Maintain
09-Feb-07	0.16	0.09	BUY	Maintain
21-Jan-08	0.47	0.51	HOLD	Downgrade



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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 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.

Buy	37	30%
Hold	27	22%
Sell	13	10%
Under Review	21	17%
Suspended / Not Rated	26	21%
<b>Total</b>	<b>124</b>	<b>100%</b>

Buy	7	78%
Hold	1	11%
Sell	0	0%
Under Review	1	11%
Suspended / Not Rated	0	0%
<b>Total</b>	<b>9</b>	<b>100%</b>

*\*Within the last twelve month period, Concorde Capital has obtained compensation from these companies.*

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