



CONCORDE CAPITAL

Ukraine / Pipes

Khartsyzk Pipe

2007 production targets missed

December 12, 2007

Current price: USD 0.67
12M Target: USD 0.45

SELL

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Tickers

Bloomberg HRTR UZ

Market information

Market price, USD	0.67
MCap, USD mln	1,716.0
52Wk Hi/Lo, USD	0.76/0.31
No of shares, mln	2,548.8
Free float	2.0%
Free float, USD mln	34.3

Corporate Governance

Concorde Rating* A

* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

Shareholders

Metinvest	98.0%
Other	2.0%

Ratios 2007E

EBITDA margin	20.5
Net margin	12.4%
Net debt/equity	-0.15

- Today Metinvest sacked Khartsyzk Pipe's CEO due to the company's disappointing operating performance. Over 11M07, output fell 9%, short of the company's +25% target
- Metinvest is now projecting zero output growth for the year and +20% in 2008
- We see two key risks for the 2008 target: volatility in Russian orders and uncertain overseas prospects (see our Pipes update of Sept. 21)
- We lower our key model assumptions and downgrade our target price to USD 0.45 per share, downside 33%

2007 targets not met, growth rescheduled to 2008

According a Metinvest announcement on Tuesday, Khartsyzk will produce around 580 ths mt of pipes in 2007, or zero growth yoy. Previously the company said it was targeting a 25% yoy increase. Now Metinvest expects 20% yoy growth in 2008, mainly on deliveries from the Nord Stream pipeline. So far, the company has failed to win tenders for the underwater part of the project, which, in our opinion, is due to the insufficient quality of its pipes. With Nord Stream work focusing on the underwater segment next year, we question whether this will be possible. However, Metinvest recently confirmed to us that Khartsyzk will continue to seek overseas orders in South America, although no further details were disclosed.

Forecast revision

	9M06	9M07	YoY	2007E		2008F	
				old	new	old	new
Sales, USD mln	409.0	546.3	33.6%	863.4	692.2	906.6	749.3
EBITDA, USD mln	94.9	112.2	18.2%	177.0	141.9	195.8	161.8
Margin, %	23.2%	20.5	-2.7 p.p.	20.5%	20.5%	21.6%	21.6%
NI, USD mln	57.7	72.0	25.0%	106.2	86.0	125.1	101.5
Margin, %	14.1%	13.2	-0.9 p.p.	12.3%	12.4%	13.8%	13.6%
Production*, ths mt	519.1	470.8	-9.1%	700.8	561.8	700.8	579.2

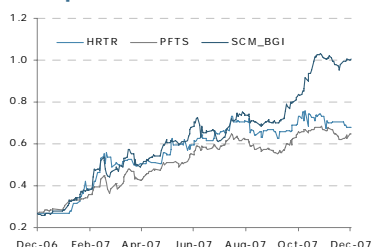
Source: Company data, Concorde Capital estimates

* 11M07 data

Valuation prompts SELL

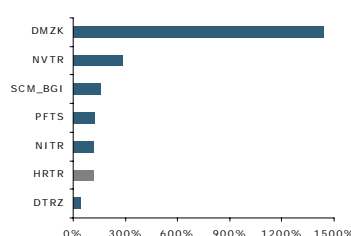
The stock trades at premium to its peers on any multiple, which is unwarranted given its poor operating results. Our scenario-based DCF valuation yields USD 0.45 per price target, 33% downside.

Stock performance, 12M*

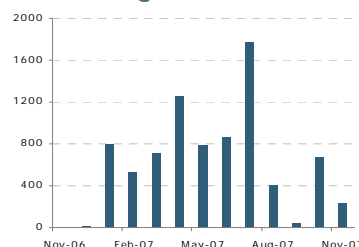


Source: PFTS, Bloomberg; Note: PFTS mid-price

Sector Performance, YTD



PFTS Trading Volumes, USD ths



Key financials & ratios, USD mln

	Revenue	EBITDA margin	Net margin	EV/S	EV/EBITDA	P/E
2006	624	21.9%	12.5%	2.72	12.40	21.93
2007E	692	20.5%	12.4%	2.43	11.85	19.86
2008E	749	21.6%	13.6%	2.21	10.25	16.82

Spot exchange rate: 5.05 UAH/USD

Key forecast revisions

SCENARIO 1 (40% probability)

"Stable Russian Orders & Entrance in South America "

in UAH mln unless otherwise stated

		2005	2006	2007E	2008E	2009E	2010E	2011E
Pipe output, ths mt	<i>Old</i>	543.6	579.2	700.8	700.8	700.8	700.8	700.8
	<i>New</i>	-	-	561.8	695.0	695.0	695.0	695.0
Avg pipe price, USD/mt	<i>Old</i>	1170.0	1400.0	1540.0	1617.0	1697.9	1748.8	1801.2
	<i>New</i>	-	-	1540.0	1617.0	1697.9	1748.8	1801.2
True sales	<i>Old</i>	3259.3	4094.9	5477.4	5779.6	6068.5	6250.6	6438.1
	<i>New</i>	-	-	4 390.9	5 731.8	6 018.4	6 198.9	6 384.9
Reported sales	<i>Old</i>	1526.6	3152.9	4381.9	4623.6	4976.2	5313.0	5472.4
	<i>New</i>	-	-	3 512.7	4 585.4	4 935.1	5 269.1	5 427.2
Transfer pricing as % of sales	<i>Old</i>	53.2%	23.0%	20.0%	20.0%	18.0%	15.0%	15.0%
	<i>New</i>	-	-	20.0%	20.0%	18.0%	15.0%	15.0%
Reported EBITDA mgn	<i>Old</i>	17.2%	21.9%	20.5%	21.6%	21.9%	22.1%	22.4%
	<i>New</i>	-	-	20.5%	21.6%	21.9%	22.1%	22.4%
Reported net mgn	<i>Old</i>	8.9%	12.5%	12.9%	13.8%	14.4%	14.9%	15.2%
	<i>New</i>	-	-	12.4%	13.9%	14.4%	14.9%	15.3%

SCENARIO 2 (60% probability)

"Orders Dry Up"

in UAH mln unless otherwise stated

		2005	2006	2007E	2008E	2009E	2010E	2011E
Pipe output, ths mt	<i>Old</i>	543.6	579.2	622.4	659.7	527.8	475.0	427.5
	<i>New</i>	-	-	561.8	579.2	463.4	417.0	375.3
Avg pipe price, USD/mt	<i>Old</i>	1170.0	1400.0	1540.0	1617.0	1697.9	1748.8	1801.2
	<i>New</i>	-	-	1540.0	1617.0	1697.9	1748.8	1801.2
True sales	<i>Old</i>	3259.3	4094.9	3983.5	4455.5	3836.2	3686.3	3417.2
	<i>New</i>	-	-	4 390.9	4 776.5	4 012.3	3 719.4	3 447.8
Reported sales	<i>Old</i>	1526.6	3152.9	3983.5	4455.5	3836.2	3686.3	3417.2
	<i>New</i>	-	-	3 512.7	3 821.2	3 290.0	3 161.5	2 930.7
Transfer pricing as % of sales	<i>Old</i>	53.2%	23.0%	20.0%	20.0%	18.0%	15.0%	15.0%
	<i>New</i>	-	-	20.0%	20.0%	18.0%	15.0%	15.0%
Reported EBITDA mgn	<i>Old</i>	17.2%	21.9%	20.5%	21.6%	21.9%	22.1%	22.9%
	<i>New</i>	-	-	20.5%	21.6%	21.9%	22.1%	22.9%
Reported net mgn	<i>Old</i>	8.9%	12.5%	15.0%	15.5%	16.4%	16.5%	18.0%
	<i>New</i>	-	-	12.4%	13.6%	13.6%	13.8%	14.4%

DCF model (Scenario 1)

As of December

For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	720	990	1081	1164	1216	1203	1155	1106	1075	1070
EBIT	604	882	983	1076	1132	1130	1094	1056	1022	1014
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	453	662	737	806.7	849.4	847.9	820.3	792.0	766.6	760.3
Plus D&A	116	108	98	89	83	73	62	50	53	56
Less CapEx	(123)	(115)	(98)	(89)	(83)	(73)	(62)	(50)	(53)	(56)
Less Change in OWC	44	(47)	(35)	(83)	(8)	(19)	14	(26)	(1)	(0)
FCFF	490	609	702	723	841	829	834	766	765	760
WACC	14.9%	14.5%	13.7%	12.4%	12.5%	11.5%	11.5%	11.5%	11.5%	11.5%
WACC to Perpetuity										11.0%
Perpetuity Growth Rate										2.0%
Impl. Exit EBITDA Multiple										8.1x
Terminal Value										8 614
Disc. Terminal Value		3 455								
Firm Value		7 823								
Portion Due To TV		44.2%								
Less Net Debt		262								
Equity Value, UAH mln		8 085								
Implied Share Price, USD		0.62								

Sensitivity analysis: Implied share price, USD

WACC to perpetuity	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
10.0%	0.57	0.59	0.61	0.62	0.65
10.5%	0.56	0.58	0.59	0.61	0.63
11.0%	0.56	0.57	0.58	0.60	0.61
11.5%	0.55	0.56	0.57	0.59	0.60
12.0%	0.54	0.55	0.56	0.57	0.59

DCF model (Scenario 2)

As of December

For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	720	825	721	699	671	629	573	548	533	531
EBIT	604	717	622	609	587	556	510	497	479	473
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	453	537	466	456.8	440.3	416.8	382.6	373.1	359.5	355.1
Plus D&A	116	109	99	90	84	74	63	51	54	57
Less CapEx	(135)	(115)	(99)	(90)	(84)	(74)	(63)	(51)	(54)	(57)
Less Change in OWC	17	10	122	(16)	47	27	49	(11)	(1)	(0)
FCFF	451	541	588	441	487	444	432	362	359	355
WACC	14.9%	14.5%	13.7%	12.4%	12.5%	11.5%	11.5%	11.5%	11.5%	11.5%
WACC to Perpetuity										11.0%
Perpetuity Growth Rate										0.0%
Impl. Exit EBITDA Multiple										6.1x
Terminal Value										3 227
Disc. Terminal Value		1 294								
Firm Value		4 022								
Portion Due To TV		32.2%								
Less Net Debt		242								
Equity Value, UAH mln		4 265								
Implied Share Price, USD		0.33								

Sensitivity analysis: Implied share price, USD

WACC to perpetuity	Perpetuity Growth Rate				
	-1.0%	-0.5%	0.0%	0.5%	1.0%
10.0%	0.32	0.33	0.34	0.34	0.35
10.5%	0.32	0.33	0.33	0.34	0.34
11.0%	0.32	0.32	0.33	0.33	0.34
11.5%	0.32	0.32	0.33	0.33	0.34
12.0%	0.31	0.32	0.32	0.33	0.33

Comparison valuation

	MCap, USD mln	EV/S		EV/EBITDA		P/E	
		2007E	2008E	2007E	2008E	2007E	2008E
Ukraine							
HRTR	1,716.0	2.4	2.2	11.8	10.3	19.9	16.8
GEM Peers							
		2007E	2008E	2007E	2008E	2007E	2008E
Borusan AS	264.9	0.4	0.4	8.6	6.6	11.3	8.6
Maharashtra Seamless Ltd	1,028.4	2.5	1.9	9.0	6.9	17.1	17.1
Jindal Saw Limited	1,106.1	3.0	1.7	7.4	4.3	7.1	4.4
Average		2.0	1.3	8.4	5.9	11.8	10.0
Developed Market Peers							
		2007E	2008E	2007E	2008E	2007E	2008E
Tubacex SA	1,423.2	1.6	1.7	10.8	9.9	16.5	14.2
Maruichi Steel Tube	2,914.4	2.2	2.1	12.2	12.6	25.1	25.7
Grant Prideco Inc	6,192.2	3.0	2.7	8.0	6.7	11.6	10.8
Tenaris SA	27,396.1	2.9	2.7	8.2	7.6	14.1	12.3
Vallourec	14,942.4	1.7	1.6	5.8	5.8	10.3	10.6
Average		2.3	2.2	9.0	8.5	15.5	14.7
TMK as a benchmark							
		2007E	2008E	2007E	2008E	2007E	2008E
TMK	8,118.9	2.2	1.8	8.3	6.3	13.5	10.2
Implied HRTR price, USD							
GEM Peers		0.55	0.41	0.48	0.39	0.40	0.40
Upside/Downside		-18%	-39%	-29%	-41%	-40%	-41%
Developed Market Peers		0.65	0.63	0.51	0.56	0.52	0.59
Upside/Downside		-6%	-3%	-24%	-16%	-22%	-12%
TMK as a benchmark		0.62	0.55	0.47	0.42	0.46	0.41
Upside/Downside		-7%	-18%	-29%	-38%	-32%	-39%

Source: Thomson Financial, Concorde Capital estimates

Key projected financials, UAS

INCOME STATEMENT SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Net Revenues	44.0	75.0	109.1	300.4	624.3	692.2	749.3
<i>Change yoy</i>	-	70.4%	45.5%	175.4%	107.8%	10.9%	8.2%
Gross Profit	13.4	24.6	20.4	80.0	158.8	166.8	188.8
EBITDA	6.1	15.1	8.8	51.5	136.7	141.9	161.8
<i>margin</i>	13.8%	20.2%	8.0%	17.1%	21.9%	20.5%	21.6%
Depreciation	(4.6)	(5.0)	(4.9)	(6.3)	(22.8)	(22.9)	(21.3)
EBIT	1.5	10.2	3.8	45.2	113.9	119.0	140.5
<i>margin</i>	3.4%	13.6%	3.5%	15.0%	18.2%	17.2%	18.8%
Financial Expense, net	(1.6)	(1.8)	(0.9)	(1.3)	(3.1)	(4.4)	(5.1)
Other income/(expense)	(0.8)	(1.7)	(0.5)	(3.7)	(1.3)	-	-
PBT	(1.0)	6.6	2.4	40.1	109.5	114.6	135.4
Tax	(1.4)	(4.5)	(1.9)	(13.2)	(5.8)	(29)	(34)
<i>Effective tax rate</i>	-144.3%	68.5%	79.5%	32.9%	5.3%	25.0%	25.0%
Net Income	(2.3)	2.1	0.4	26.8	77.9	86.0	101.5
<i>margin</i>	-5.3%	2.8%	0.4%	8.9%	12.5%	10.4%	18.1%

BALANCE SHEET SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007E	2008E
Current Assets	43.8	36.6	38.2	89.7	145.9	177.2	195.2
Cash & Equivalents	0.2	0.3	0.9	11.3	13.5	28.1	50.2
Trade Receivables	19.6	16.7	14.9	10.3	5.9	19.3	18.7
Inventories	13.0	11.1	11.2	42.4	49.5	57.5	58.8
Other	11.0	8.4	11.2	25.6	77.1	72.3	67.4
Fixed Assets	61.7	58.4	58.1	69.1	137.0	138.3	139.4
PP&E, net	57.6	54.9	52.5	52.4	104.9	125.0	128.2
Other	4.1	3.5	5.6	16.6	32.1	13.3	11.2
Total Assets	105.4	95.0	96.3	158.7	282.9	315.5	334.6
Shareholders' Equity	63.7	63.3	62.0	111.9	213.6	228.6	248.9
Share Capital	5.1	5.1	5.2	25.2	25.2	25.0	25.0
Retained Earnings & Other	58.6	58.1	56.8	86.7	188.4	203.6	223.9
Current Liabilities	25.3	26.6	32.9	42.4	52.9	73.7	71.5
ST Interest Bearing Debt	12.4	9.6	8.0	27.8	-	-	-
Trade Payables	6.9	13.2	20.5	2.3	28.0	34.0	34.7
Other	6.1	3.8	4.4	12.3	24.8	39.7	36.7
LT Liabilities	16.3	5.1	1.4	4.4	16.4	13.2	14.2
LT Interest Bearing Debt	-	-	-	3.5	1.6	1.5	1.5
Other	16.3	5.1	1.4	1.0	14.8	11.7	12.7
Total Liabilities & Equity	105.4	95.0	96.3	158.7	282.9	315.5	334.6

Quarterly financial statements, UAS

INCOME STATEMENT SUMMARY, USD mln

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
Net Revenues	106.7	138.6	163.7	215.4	232.1	190.4	123.7
Cost Of Sales	(78.7)	(102.6)	(120.3)	(164.0)	(176.2)	(143.1)	(96.1)
Gross Profit	28.0	35.9	43.4	51.4	55.9	47.4	27.6
<i>Gross Margin, %</i>	<i>26.3%</i>	<i>25.9%</i>	<i>26.5%</i>	<i>23.9%</i>	<i>24.1%</i>	<i>24.9%</i>	<i>22.3%</i>
Other Operating Income/Costs, net	0.8	(0.3)	1.0	(2.4)	(0.1)	(2.2)	(1.7)
SG&A	(3.8)	(4.8)	(5.5)	(7.2)	(5.7)	(5.1)	(3.8)
EBITDA	25.0	30.9	38.9	41.8	50.1	40.0	22.1
<i>EBITDA margin, %</i>	<i>23.5%</i>	<i>22.3%</i>	<i>23.8%</i>	<i>19.4%</i>	<i>21.6%</i>	<i>21.0%</i>	<i>17.8%</i>
Depreciation	(1.7)	(1.5)	(6.5)	(13.1)	(4.8)	(5.0)	(5.5)
EBIT	23.4	29.4	32.4	28.7	45.3	35.0	16.6
<i>EBIT margin, %</i>	<i>21.9%</i>	<i>21.2%</i>	<i>19.8%</i>	<i>13.3%</i>	<i>19.5%</i>	<i>18.4%</i>	<i>13.4%</i>
Interest Expense	(0.6)	(0.4)	(0.3)	(1.7)	(0.0)	(0.0)	-
Financial income/(expense)	0.0	0.3	0.3	0.8	0.1	0.1	0.2
Other income/(expense)	(0.4)	(0.5)	(4.6)	2.7	(0.1)	(0.2)	0.5
PBT	22.4	28.8	27.8	30.5	45.3	34.9	17.2
Tax	(5.8)	(7.1)	(8.4)	(10.3)	(12.4)	(7.6)	(5.3)
Net Income	16.6	21.7	19.4	20.2	32.9	27.3	11.9
<i>Net Margin, %</i>	<i>15.5%</i>	<i>15.7%</i>	<i>11.9%</i>	<i>9.4%</i>	<i>14.2%</i>	<i>14.3%</i>	<i>9.6%</i>

BALANCE SHEET SUMMARY, USD mln

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
Current Assets	105.8	127.0	135.8	145.9	192.7	230.4	177.0
Cash & Equivalents	21.6	18.2	15.5	13.5	3.0	15.7	2.9
Trade Receivables	0.9	28.9	5.7	5.9	81.6	117.3	87.8
Inventories	38.8	54.7	52.0	49.5	48.8	44.7	43.6
Other current assets	44.5	25.2	62.6	77.1	59.4	52.6	42.7
Fixed Assets	71.2	74.1	141.1	137.0	135.9	135.5	141.6
PP&E, net	51.5	51.0	120.7	104.9	100.9	119.5	123.7
Other Fixed Assets	19.7	23.1	20.3	32.1	35.0	16.0	18.0
Total Assets	177.0	201.1	276.9	282.9	328.6	365.9	318.6
Shareholders' Equity	128.5	150.2	230.3	213.6	247.2	200.2	218.4
Share Capital	25.2	25.2	25.2	25.2	25.2	25.2	25.2
Reserves and Other	0.2	0.2	60.9	63.7	64.4	68.6	74.9
Retained Earnings	103.0	124.7	144.1	124.7	157.5	106.3	118.3
Current Liabilities	39.7	41.9	21.6	52.9	68.1	155.7	89.8
ST Interest Bearing Debt	13.4	14.1	-	-	-	-	-
Trade Payables	8.3	15.5	9.8	28.0	48.6	113.4	64.4
Accrued Wages	0.6	0.8	0.8	1.0	1.0	0.7	0.8
Accrued Taxes	3.4	3.7	6.1	1.0	5.9	1.5	0.2
Other Current Liabilities	14.0	7.8	4.8	22.8	12.7	40.0	24.4
LT Liabilities	8.8	9.0	25.0	16.4	13.3	10.0	10.4
LT Interest Bearing Debt	8.8	9.0	9.1	1.6	1.6	1.6	1.6
Other LT	0.0	0.0	15.8	14.8	11.7	8.4	8.8
Total Liabilities & Equity	177.0	201.1	276.9	282.9	328.6	365.9	318.6

Appendix - Disclosures

Analyst certification

I, Eugene Cherviachenko, 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.

Khartsyzk Pipe

Date	12M target price, USD	Market price, USD	Rating	Action
31-Jan-05	0.23	0.50	SELL	Initiate
10-Aug-05	0.09	0.15	SELL	Maintain
22-Mar-06	0.16	0.23	SELL	Maintain
18-Aug-06	0.30	0.20	BUY	Upgrade
27-Nov-06	0.33	0.25	BUY	Maintain
21-Sep-07	0.52	0.65	SELL	Downgrade
12-Dec-07	0.45	0.67	SELL	Maintain

HRTR Recommendation history, USD per share



Investment Ratings

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.

Concorde Capital ratings distribution

Buy	38	45%
Hold	29	34%
Sell	8	9%
Under Review	10	12%
Total	85	100%

Investment banking clients*

Buy	8	80%
Hold	2	20%
Sell	0	0%
Under Review	0	0%
Total	10	100%

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

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