



CONCORDE CAPITAL

Ukraine / Steel pipes

# Khartsyzk Pipe

## Akhmetov Selling Out To Russians?

January 28, 2008

Current price:  
12M Target

USD 0.66  
USD 0.44

**SELL**

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**Tickers**

Bloomberg HRTR UZ  
GDR (Frankfurt/Xetra) LBY GR

**Market information\***

Market price, USD	0.66
MCap, USD mln	1,673.1
Chg YTD	120%
52 Wk Hi/Lo YTD, USD	0.76/0.30
DRs per common share	1:50
No of shares, mln	2,548.8
No of shares new, mln	2,598.5
Avg Mon Tr Vol 2007, USD mln	0.71
Free float	2.0%
Free float, USD mln	33.4

\* At the company's March 14 AGM, shareholders are scheduled to vote on a 2% charter fund increase via an additional share issue (see our January 10 flash note)

**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%

**Rumor: Akhmetov to sell his pipe business**

Today Russian newspaper *New Region*, citing an undisclosed source in Metinvest (Rinat Akhmetov's steel wing), announced that Metinvest was considering the divestiture of Khartsyzk Pipe to Russian senator Andriy Komarov, a major shareholder of CHTPZ group (includes Chelyabinsk Pipe and Pervouralsky Pipe). According to the article, this decision was made in autumn 2007, after the Party of Regions failed to get a majority in the parliamentary elections. Metinvest's press service responded immediately by rejecting the rumors.

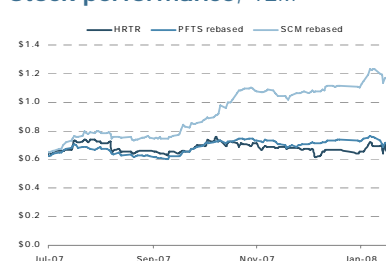
**We see chances for the deal as high**

The news strengthens our belief in the high probability of takeover (first expressed in our Nov. 2006 report). Acquisition by CHTPZ could improve Khartsyzk's prospects on the Russian market, in our view. Under Ukrainian ownership, the company's outlook does not look bright as Russian Gazprom, its major consumer, relies on domestically-produced pipes: in 2003 the share of domestic orders in Gazprom's purchases was 45%; in 2004 - 63%; in 2005 - 69%; in 2006 - 75%. Starting in Dec. 2006, Russia imposed an 8% duty on LD pipes. Khartsyzk failed to meet its 2007 production targets and the company's CEO was sacked (see our report of December 2007).

**Forecasts unchanged, 33% downside remains**

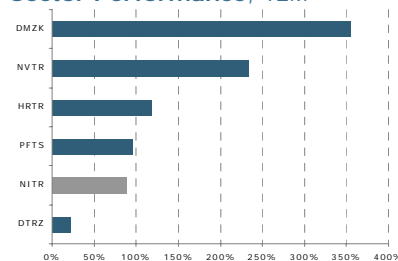
As long as acquisition remains just a rumor, we keep our key forecasts for the company unchanged. Our target price of USD 0.44 per share implies a 33% downside. We reiterate SELL.

**Stock performance, 12M**

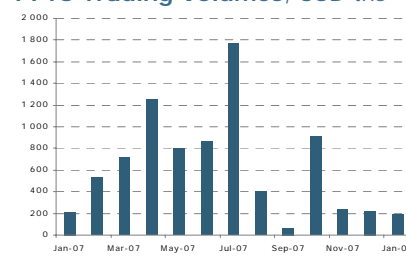


Source: PFTS Note: PFTS-mid price

**Sector Performance, 12M**



**PFTS Trading Volumes, USD ths**



**Key financials & ratios, USD mln**

	Sales	EBITDA Margin	Net Margin	EV/S	EV/EBITDA	P/E
2006	624	21.9%	2.9%	2.7	12.2	21.5
2007E	692	20.5%	6.0%	2.4	11.6	19.5
2008E	749	21.6%	7.9%	2.2	10.0	16.6
2009E	645	21.9%	14.4%	2.6	11.4	19.2

Spot exchange rate: 5.05 UAH/USD

FLASH NOTE

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## 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	36%
Hold	29	28%
Sell	14	13%
Under Review	24	23%
<b>Total</b>	<b>105</b>	<b>100%</b>

### Investment banking clients\*

Buy	7	78%
Hold	1	11%
Sell	0	0%
Under Review	1	11%
<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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