



CONCORDE CAPITAL

Ukraine/ Machine Building AvtoKrAZ

Taking a break

HOLD

18 Oct 2006

USD 0.097

12m Target

USD 0.110

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KRAZ Mid-Market, USD



Market Information

Bloomberg KRAZ UZ
Frankfurt/Xetra A6X1

No of Shares, mln 2,226.3
DR Ratio 1:100

Market price, USD 0.097
52Wk H/L, USD 0.18/0.07
MCap, USD mln 216.0
Free Float, % 7%

Stock Ownership

Finance & Credit 95.8%
Employees 4.2%

Ratios 2005*

EBITDA Margin 16%
EBIT Margin 14%
Net Margin 12%

Net Debt/Equity 0.12

*Based on adjusted sales

The current price for KRAZ leaves room for a 13% upside, in spite of the fact that the company's 2006 truck sales may fall 31% below initial projections because it failed to get the Iraqi contract in 1H06. Still, in the long-term we remain optimistic about AvtoKrAZ's strategy of diversifying exports. In the mid-term a more important driver is demand on the domestic market which is building up stronger than expected. We confirm our HOLD recommendation while reducing the target price to USD 0.11.

Sales improve in August-September. KRAZ's sales increased by 6.1% in August and another 24.4% yoy in September, mainly due to increased deliveries on the domestic market. The improvements follow monthly sales in January-July that lagged behind last year's numbers.

Growth takes a break in 2006. Sales increases in 4Q06 will be triggered by the planned delivery of 300 trucks to Russia, as agreed at the Moscow International Automobile Show in September, and growing demand from the domestic market. We expect the company's unit sales to come in slightly below the 2005 level of 3,346 trucks, with a top-line 10% higher than in 2005 due to an increase in the average price of a truck (which is a result of complying with EURO-2 requirements, introduced in Ukraine in 2H06).

Optimism about new markets. Even though we lowered our 2006 sales projections, we nevertheless believe that AvtoKrAZ will more than double truck sales in ten years because of its efforts in new markets. KRAZ announced plans to start assembly in Egypt and made its first deliveries to Libya and Ghana in September. Daimler Chrysler, which also recently expressed an interest in placing orders with KRAZ is also a potential trigger for increased sales. Our growth projections are therefore shifted from 2006 to the near future.

KrAZ Industries holding is up in the air. We expect the structure of KrAZ Industries to be finalized in mid-2007, instead of in autumn 2006. The delay in expected benefits resulting from the new holding does not have a significant impact on our target price. We expect by the time of the announcement it will be clear if the holding will include Luhanskteplovov. The Higher Administrative Court recently ruled in favor of KRAZ as the winner of the privatization tender in 2001 (the SPF did not recognize the result of that tender). We expect the SPF to protest and see a new privatization tender as the most likely outcome.

KEY FINANCIAL DATA (Restated), USD mln

	Net Revenue	EBITDA	Net Income	DPS, USD
2005	137.1	21.9	16.4	-
2006E	149.1	24.1	5.9	0.001
2007E	198.5	35.7	14.1	0.002

Spot Exchange Rate 5.05

KEY RATIOS

	P/S	P/E	EV/EBITDA	Div Yield
2005	1.6	13.2	11.4	-
2006E	1.4	36.6	11.4	1.3%
2007E	1.1	15.3	7.6	2.7%

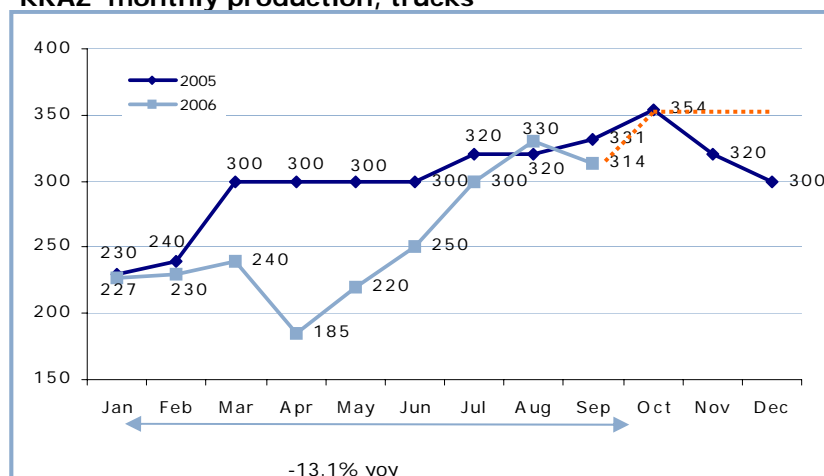
Valuation

KRAZ P&L: Actual and Forecasts

	1H05	1H06	2005	2006E	
	reported		restated	previous	new
Net Revenues, USD mln	47.8	33.8	137.1	252.3	149.1
% growth, yoy	160%	-29%	93%	92%	9%
EBITDA, USD mln	4.0	-4.9	21.9	43.3	24.1
EBITDA margin, %	8%	-14%	16%	17%	16%
Net Income, USD mln	3.7	4.4	16.4	8.1	5.9
Net margin	8%	13%	12%	11%	4%

Source: Company Data, Concorde Capital projections

KRAZ' monthly production, trucks



Source: Company Data, Concorde Capital projections

While KRAZ continues to be overvalued according to peer multiples, we consider the DCF valuation better at capturing the company's growth potential and rely on it in setting our target price.

DCF valuation

Valuation Date: October 17, 2007

For the purpose of forecasting local currency is used

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	
EBITDA	122	179	219	248	277	300	322	331	332	342	
EBIT	66	122	162	192	221	246	269	279	280	290	
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	
Taxed EBIT	49	91	122	144	166	185	202	209	210	218	
Plus D&A	56	57	57	56	55	54	53	52	53	52	
Less CapEx	(46)	(63)	(61)	(50)	(51)	(45)	(58)	(56)	(57)	(55)	
Less change in OWC	(186)	(22)	(71)	(39)	(47)	(41)	(37)	(5)	(21)	(18)	
FCFF	-	64	46	111	123	152	160	200	185	197	
WACC	15.8%	15.7%	14.3%	13.6%	12.9%	12.5%	11.7%	11.4%	11.5%	11.6%	
WACC to Perpetuity		12.0%									
Firm Value		1,545								857	
Less Net Debt		-297								55.5%	
Equity Value		1,247								3.0%	
Implied 12-Mo share price		USD 0.11								Implied Exit EBITDA Multiple	x6.6

WACC to perpetuity	Implied Share Price, US\$					WACC	Implied Share Price, US\$				
	Perpetuity Growth Rate						Perpetuity Growth Rate				
	1.0%	2.0%	3.0%	4.0%	5.0%		1.0%	2.0%	3.0%	4.0%	5.0%
10.5%	0.104	0.112	0.124	0.139	0.159	-1.5%	0.106	0.114	0.123	0.134	0.149
11.0%	0.100	0.109	0.119	0.132	0.149	-1.0%	0.102	0.110	0.118	0.130	0.144
11.5%	0.098	0.105	0.114	0.126	0.141	-0.5%	0.099	0.106	0.114	0.125	0.139
12.0%	0.095	0.102	0.110	0.121	0.134	+0.0%	0.095	0.102	0.110	0.121	0.134
12.5%	0.093	0.099	0.107	0.116	0.128	+0.5%	0.092	0.098	0.106	0.116	0.129
13.0%	0.091	0.097	0.104	0.112	0.122	+1.0%	0.089	0.095	0.103	0.112	0.124
13.5%	0.089	0.094	0.101	0.108	0.118	+1.5%	0.086	0.092	0.099	0.108	0.120

Peer Comparison

	Country	Market Cap, mln USD	EBITDA Mgn			Net Mgn		
			2005	2006E	2007E	2005	2006E	2007E
KRAZ	Ukraine	216.0	16%	16%	18%	12%	4%	7%
Developed								
Volvo AB	Sweden	23,786.4	12%	12%	11%	5%	6%	5%
Scania AB	Sweden	12,583.1	18%	15%	15%	7%	8%	8%
Hino Motors	Japan	3,113.3	6%	6%	7%	2%	2%	2%
Nissan Diesel	Japan	1,137.6	10%	9%	9%	6%	5%	4%
Manitou	France	1,627.4	13%	13%	13%	7%	8%	8%
Man AG	Germany	12,565.1	7%	11%	11%	3%	5%	5%
Average			11%	11%	11%	5%	6%	5%
Median			11%	11%	11%	6%	6%	5%
Developing								
Anadolu Isuzu	Turkey	160.3	12%	14%	11%	8%	9%	7%
Ford Otomotive	Turkey	2,236.6	9%	12%	11%	7%	7%	6%
Mahindra & Mahindra	India	3,603.3	15%	12%	13%	7%	8%	9%
Qingling Motors	China	357.1	10%	10%	10%	1%	2%	3%
Tata Motors	India	7,522.4	14%	13%	13%	7%	7%	8%
Average			12%	12%	12%	6%	7%	6%
Median			12%	12%	11%	7%	7%	7%

	EV/Sales			EV/EBITDA			P/E		
	2005E	2006E	2007E	2005	2006E	2007E	2005	2006E	2007E
KRAZ	1.8	1.8	1.4	11.4	11.4	7.6	13.2	36.6	15.3
Developed									
Volvo AB	0.8	0.9	0.9	6.8	7.2	7.9	14.5	11.5	13.7
Scania AB	1.7	1.7	1.7	9.8	10.8	11.2	21.5	16.8	17.0
Hino Motors	0.3	0.5	0.5	5.0	7.9	7.2	18.8	13.1	14.0
Nissan Diesel	0.4	0.6	0.4	3.5	7.3	4.9	4.3	5.5	6.9
Manitou	1.2	1.0	0.9	9.6	7.7	6.8	18.7	15.1	13.4
Man AG	0.7	0.7	0.6	9.7	6.0	5.5	23.8	13.5	13.1
Average	0.9	0.9	0.8	7.4	7.8	7.2	16.9	12.6	13.0
Median	0.7	0.8	0.7	8.2	7.5	7.0	18.8	13.3	13.6
Implied share price, USD									
by average	0.04	0.03	0.05	0.06	0.06	0.09	0.12	0.03	0.08
by median	0.03	0.02	0.04	0.07	0.06	0.09	0.14	0.04	0.09
Developing									
Anadolu Isuzu	0.5	0.5	0.4	3.7	3.3	3.7	6.6	7.0	8.5
Ford Otomotive	0.5	0.4	0.4	5.3	3.5	3.8	7.6	7.5	7.7
Mahindra & Mahindra	2.0	1.5	1.2	13.0	12.2	8.8	23.3	16.5	12.7
Qingling Motors	0.3	0.6	0.5	2.7	5.7	4.5	73.3	43.1	29.0
Tata Motors	1.7	1.2	1.0	12.7	9.7	8.0	23.7	17.8	14.7
Average	1.0	0.8	0.7	7.5	6.9	5.8	26.9	18.4	14.5
Median	0.5	0.6	0.5	5.3	5.7	4.5	23.3	16.5	12.7
Implied share price, USD									
by average	0.05	0.03	0.04	0.06	0.05	0.07	0.20	0.05	0.09
by median	0.02	0.01	0.01	0.04	0.04	0.05	0.17	0.04	0.08

Financial statement peculiarities

PP&E Revaluation

In 4Q05 the management conducted a revaluation of fixed assets. As a result, the net PP&E on AvtoKraz's books increased by 3.6 times. We believe this move brings the assets closer to their fair value and captures the assets' future economic benefits. A side effect of this revaluation is a reduction in turnover ratios:

Asset Efficiency. Peer Comparison, 2005

	Total Assets Turnover	Fixed assets Turnover
KRAZ assets not revalued	0.4	*3.6
KRAZ assets revalued	0.3	*1.0
Volvo	1.0	4.6
Scania	0.9	2.5
Hino Motors	1.6	5.6
Nissan Diesel	0.9	3.8
Terex Corp	1.5	19.3
Manitou	1.3	14.3
Man AG	1.1	3.6
Ford Otomotiv	2.3	5.0
Mahindra&Mahindra	1.0	4.7
Swaraj Mazda	1.9	29.2
Qingling Motors	0.4	0.9
Tata Motors	1.3	4.2
Comparison group median	1.2	4.6

Source: Bloomberg, Concorde Capital estimates and calculations

(*) We used the end-2005PP&E as an approximation of fixed assets and restated 2005 sales to calculate these ratios. Please see our report "AvtoKraz Still Growing" from January 2006 for more details on the peculiarities of KRAZ's financial statements.

Without the revaluation, KRAZ fixed assets turnover in 2005 would have been 3.6. If we substitute the revalued PP&E into the formula, the ratio falls to 1.0, much lower than its peers. With an annual capacity of 7,000 trucks, KRAZ is currently running at less than 50% capacity. In the mid-term, KRAZ's turnover ratios will return to above 2, and relatively small incremental investments will allow KRAZ to increase capacity to 10,000 trucks, bringing the fixed assets turnover ratio to 3.5-3.9 in the long-term (assuming a capacity load of 80%).

Top line understated

We continue to restate P&L reports based on suggestions from KRAZ's management which understates net revenues in favor of "Other income." This practice is a result of the export regime with Russia.

Tax irregularity

KRAZ's management confirmed that the company did not pay taxes in 2005. A substantial amount, USD 6.6 mln, was officially reported as income from tax in 2005. We consider this an extraordinary one-time amount to correct the accumulated accounting differences between the financial and tax reports.

IFRS still wanted

The Big-4 audit, started in 2005, has not been released yet. We expect it to be released in the beginning of 2007 and to give a clearer picture of KRAZ's financials. The delay is a result of personnel changes in the audit team.



All financial statements according to Ukrainian Accounting Standards

Restated Income Statement Summary, USD mln

	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	137	149	199	257	292	335	364	390	408	423	436
<i>Change y-o-y</i>	93%	9%	33%	30%	14%	15%	9%	7%	5%	4%	3%
Cost Of Sales	(106)	(114)	(146)	(189)	(215)	(246)	(268)	(287)	(300)	(313)	(323)
Gross Profit	31	35	53	68	77	89	96	103	108	110	113
Other Operating Income/Costs, net	1	-	-	-	-	-	-	-	-	-	-
SG&A	(10)	(11)	(17)	(24)	(28)	(34)	(36)	(39)	(42)	(44)	(45)
EBITDA	22	24	36	44	50	55	60	64	66	66	68
<i>EBITDA margin, %</i>	16%	16%	18%	17%	17%	17%	17%	17%	16%	16%	16%
Depreciation	(3)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(10)	(11)	(10)
EBIT	19	13	24	32	38	44	49	54	56	56	58
<i>EBIT margin, %</i>	14.0%	8.7%	12.3%	12.6%	13.2%	13.2%	13.5%	13.8%	13.7%	13.2%	13.3%
Interest Expense	(4.8)	(6.7)	(7.2)	(6.9)	(7.1)	(6.6)	(7.1)	(7.1)	(6.7)	(6.0)	(5.1)
<i>Financial income/(expense)</i>	1	2	2	2	2	2	2	2	2	2	2
<i>Other income/(expense)</i>	(6)	-	-	-	-	-	-	-	-	-	-
PBT	10	8	19	27	33	39	44	48	51	52	55
Tax	-	(2)	(5)	(7)	(8)	(10)	(11)	(12)	(13)	(13)	(14)
<i>Effective tax rate</i>	0%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Extraordinary Income/(loss)	6.6	-	-	-	-	-	-	-	-	-	-
Net Income	16.4	5.9	14.1	20.3	24.7	29.5	32.8	36.3	38.0	38.7	40.9
<i>Net Margin, %</i>	12%	4%	7%	8%	8%	9%	9%	9%	9%	9%	9%
Dividend Declared	-	1	4	10	14	18	21	24	25	25	27

Balance Sheet Summary, USD mln

	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Current Assets	136	178	183	219	219	243	246	252	247	256	264
Cash & Equivalents	0	0	1	1	1	10	18	20	25	25	26
Trade Receivables	29	33	39	50	57	65	71	76	80	83	85
Inventories	30	40	50	64	73	84	91	98	102	106	109
Other current assets	77	104	93	103	88	84	66	59	41	42	44
Fixed Assets	284	244	248	250	249	248	248	249	250	252	252
PP&E, net	119	117	124	126	127	126	124	119	121	127	128
Other Fixed Assets	165	127	124	124	122	122	123	129	129	125	125
Total Assets	420	422	430	469	469	492	493	501	497	508	516
Shareholders' Equity	265	244	257	267	278	290	301	314	327	341	355
Share Capital	106	106	106	106	106	106	106	106	106	106	106
Reserves and Other	141	115	116	116	116	116	116	116	116	116	116
Retained Earnings	12	18	28	38	49	61	72	85	98	112	126
Current Liabilities	138	165	161	189	176	187	172	168	157	156	153
ST Interest Bearing Debt	28	47	45	51	46	50	49	48	47	43	36
Trade Payables	8	10	20	31	38	47	51	55	61	64	65
Accrued Wages	1	2	3	4	4	5	5	6	6	6	7
Accrued Taxes	0	0	0	1	1	1	1	1	1	1	1
Other Current Liabilities	102	104	93	103	88	84	66	59	41	42	44
LT Liabilities	17	13	13	12	14	15	20	18	13	11	8
LT Interest Bearing Debt	5	11	11	11	13	14	19	17	11	9	6
Other LT	12	2	2	2	2	2	2	2	2	2	2
Total Liabilities & Equity	420	422	430	469	469	492	493	501	497	508	516

Cash Flow Statement Summary, USD mln

	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Income	10	6	14	20	25	29	33	36	38	39	41
Depreciation	3	11	11	11	11	11	11	11	10	11	10
Non-operating and non-cash item	(26)	4	(0)	(1)	(1)	0	(1)	(0)	(0)	(1)	(0)
Changes in working capital	15	(37)	(4)	(14)	(8)	(9)	(8)	(7)	(1)	(4)	(4)
Operating Cash Flow	1	(16)	21	16	27	31	34	39	47	44	48
Capital Expenditures, net	(2)	(9)	(13)	(12)	(10)	(10)	(9)	(12)	(11)	(11)	(11)
Other Investments, net	(6)	-	-	-	-	-	-	-	-	-	-
Investing Cash Flow	(8)	(9)	(13)	(12)	(10)	(10)	(9)	(12)	(11)	(11)	(11)
Net Borrowings/(repayments)	11	26	(4)	6	(4)	5	4	(3)	(6)	(7)	(9)
Dividends Paid	-	(1)	(4)	(10)	(14)	(18)	(21)	(24)	(25)	(25)	(27)
Other	(5)	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	6	25	(8)	(4)	(17)	(12)	(17)	(26)	(31)	(32)	(36)
Beginning Cash Balance	0	0	0	1	1	1	10	18	20	25	25
Ending Cash Balance	0	0	1	1	1	10	18	20	25	25	26
Net Cash Inflows/Outflows	(0)	0	1	0	0	9	8	1	5	1	1

UAH/USD Exchange Rates

	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Average	5.12	5.05	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Year-end	5.05	5.05	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00

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