

July 4, 2012

Kryukiv Wagon

23% stake buyback prompts TP upgrade

Kryukiv Wagon bought back 23.3% of its outstanding shares from Teko-Dniprometiz to treasury, we conclude based on Kryukiv's regulatory filing and our talks with Kryukiv representatives. We believe the treasury shares will be cancelled, which creates additional value for Kryukiv's minorities, as the estimated buyback price was 1.8x below our fair value estimate for the company. As a result, we upgrade our 12M price target for Kryukiv Wagon to USD 5.98 (post-buyback), retaining our BUY recommendation.

Large stakeholder is out

Teko-Dniprometiz (TD) exercised an option to sell its 23.3% stake in Kryukiv Wagon to the issuer - we conclude based on available information: a) TD gained a put option after voting against "significant deals" at Kryukiv's AGM on April 12; b) Kryukiv's representative confirmed to us that TD approached the company to strike its put; and c) TD's stake decreased to below 10% according to a regulatory filing available this week. We estimate the buyback price at UAH 21.4/share (8.2% premium to current market).

Increase in leverage to slightly harm the company's bottom line

The total volume of transaction was USD 70.8 mln, by our estimates. Kryukiv will economize USD 3.9 mln by not distributing dividends for the acquired stake, making the total effect on the company's cash outflow USD 66.9 mln. Having USD 28.8 mln in net cash as of end-2011, the company will increase its net debt to USD 25.6 mln at yearend, by our estimates. The debt burden will be minor – we estimate 2012 EBIT/interest coverage at 23x. With our top line and EBITDA projections unchanged, the increased financing costs slightly worsen our outlook for the company's earnings to USD 90.9 mln for 2012 (vs. USD 94.0 previously).

Effect for minorities: value-accretive, but governance risk emerges

After the buyback, Kryukiv has 12 months to either sell its treasury shares or cancel them, with the latter option most probable, in our view. The company has scheduled an EGM for August 2 to amend its charter documents, which might result in a decrease in share capital. To account for this option, we estimate Kryukiv Wagon's post-buyback price target at USD 6.05. On the flipside, the exit of the large minority shareholder will decrease the plurality of the company's board, which might impact Kryukiv's corporate governance practices. We believe the company will most likely also stop paying dividends in future periods (div. yield was 5.4% this year).

Key forecast revisions, USD mln, unless otherwise stated

	2012 old	2012 new	Diff.	2013 old	2013 new	Diff.
Net income	94	91	-3.4%	94	87	-7.4%
Net margin	11.1%	10.8%	-0.3pp	11.3%	10.6%	-0.7%
Net debt	-46	26	+72	-73	0	+73
Shareholder equity	296	224	-24.1%	324	250	-22.8%

Source: Company data, Concorde Capital estimates

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Bloomberg	KVBZ UK
Recommendation	BUY (Maintain)
Price, USD	2.44
12M target, USD*	5.98

Shares outstanding, mln*	87.9
MCap, USD mln*	214.7
52-week performance	-18%
52-week range, USD	1.91/3.20
ADT, 12M, USD tns	24.1
Free float, %*	6.1%
Free float, USD mln	13.1

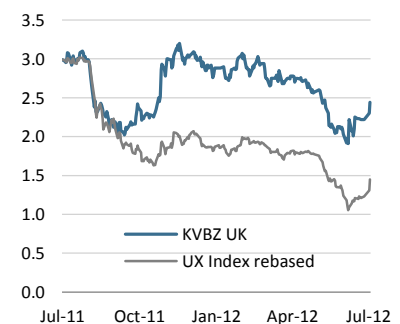
*After buyback of 23.3% shares to treasury.
 Prices as of Jul. 3, 2012

Ownership structure*

AS Skinest Finants	32.8%
Transbuilding Service Limited	32.5%
Osauhing Divinta	18.9%
Other	9.7%
Free-float	6.1%

*After buyback of 23.3% shares to treasury.
 Source: Company data, Concorde Capital

Price performance, USD per share



Source: Bloomberg

Discounted cash flow model

USD mln, unless other specified

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
EBIT	120.4	116.8	105.0	110.2	110.0	111.2	112.7	114.3	115.5	117.3
- Tax expense	-24.2	-20.5	-15.5	-16.5	-16.7	-17.0	-17.3	-17.6	-17.9	-18.2
Effective tax rate, %	24%	21%	19%	16%	16%	16%	16%	16%	16%	16%
- Tax shield on interests	-1.1	-1.7	-1.3	-1.1	-0.9	-0.8	-0.7	-0.7	-0.6	-0.5
+ D&A	7.1	8.3	9.7	11.0	12.1	13.1	14.0	14.7	15.3	15.5
- CapEx	-24.2	-25.0	-25.0	-22.0	-20.0	-18.0	-16.0	-15.0	-15.4	-15.5
- Increase in working capital	-3.4	16.4	16.2	9.2	3.7	-2.1	-2.2	-2.2	-2.4	-2.4
FCFF	74.5	94.3	89.0	90.7	88.3	86.4	90.4	93.5	94.6	96.1
WACC		18.7%	18.8%	18.9%	18.8%	18.9%	19.0%	19.0%	19.1%	19.1%
Discount factor		0.92	0.77	0.65	0.55	0.46	0.39	0.33	0.27	0.23
Discounted FCFF @ 03-Jul-2013		86.6	68.8	59.0	48.3	39.8	35.0	30.4	25.8	22.0
Terminal value (TV)										539
							Implied exit EBITDA multiple			4.1 x
							TV as % of EV			23%
Sum of discounted FCFFs		415.7								
TV @ 03-Jul-2013		123.5								
Enterprise value		539.2								
Less net debt		-12.9								
Equity value		526.4								
Value per share, USD		5.98								

Terminal value assumptions:

Perpetuity growth rate

1.0%

WACC in perpetuity

19.0%

Source: Concorde Capital

WACC decomposition

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Gov't eurobond yield	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Equity premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Company-specific premium	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Cost of equity	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%	19.5%
Cost of debt (after tax)	11.4%	14.2%	14.6%	14.7%	14.3%	13.4%	13.4%	13.4%	13.4%	13.4%
D/E	0.0	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Share of equity	0.97	0.81	0.84	0.86	0.88	0.89	0.90	0.91	0.92	0.93
WACC	19.3%	18.5%	18.7%	18.8%	18.9%	18.8%	18.9%	19.0%	19.0%	19.1%
WACC To Perpetuity	19.0%									

Source: Concorde Capital

Sensitivity tables, USD per share

WACC	Perpetuity Growth Rate					Exit Multiple (EBITDA)					
	0.0%	0.5%	1.0%	1.5%	2.0%	3.1 x	3.6 x	4.1 x	4.6 x	5.1 x	
17.0%	6.05	6.10	6.16	6.22	6.28	-2.0%	6.09	6.29	6.49	6.69	6.88
18.0%	5.97	6.02	6.07	6.12	6.17	-1.0%	5.85	6.04	6.23	6.41	6.60
19.0%	5.90	5.94	5.98	6.03	6.08	0.0%	5.64	5.81	5.98	6.16	6.33
20.0%	5.83	5.87	5.91	5.95	6.00	1.0%	5.43	5.59	5.76	5.92	6.08
21.0%	5.77	5.81	5.84	5.88	5.92	2.0%	5.24	5.39	5.54	5.69	5.84

Source: Concorde Capital

Financials

Income statement, USD mln

	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Net revenue	617.3	182.2	550.6	770.3	844.4	826.0	765.6	745.0
Gross profit	146.1	23.9	99.1	164.2	163.0	151.7	135.6	141.4
Gross margin	23.7%	13.1%	18.0%	21.3%	19.3%	18.4%	17.7%	19.0%
EBITDA	113.1	18.3	73.2	117.9	127.4	125.1	114.7	121.2
EBITDA margin	18.3%	10.0%	13.3%	15.3%	15.1%	15.1%	15.0%	16.3%
D&A	-5.7	-4.3	-5.0	-5.9	-7.1	-8.3	-9.7	-11.0
EBIT	107.4	14.0	68.2	112.0	120.4	116.8	105.0	110.2
EBIT margin	17.4%	7.7%	12.4%	14.5%	14.3%	14.1%	13.7%	14.8%
Financial expenses	-1.4	-1.9	-8.7	-1.1	-5.4	-8.9	-7.8	-6.8
Non-operating income/costs	-2.3	-0.3	-1.8	1.1	0.0	0.0	0.0	0.0
PBT	103.7	11.7	57.7	112.0	115.0	107.8	97.2	103.3
Tax expense	-27.8	-2.6	-20.1	-27.2	-24.2	-20.5	-15.5	-16.5
Net income	75.9	9.2	37.6	84.9	90.9	87.4	81.6	86.8
Net margin	12.3%	5.0%	6.8%	11.0%	10.8%	10.6%	10.7%	11.7%

Balance sheet, USD mln

	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Non-current assets	48.1	51.7	67.7	80.6	98.0	115.2	130.4	142.3
Net PP&E	38.9	38.0	40.8	56.6	73.5	90.3	107.2	119.4
Other	9.2	13.7	26.9	24.0	24.5	24.9	23.2	22.8
Current assets	148.7	144.5	191.6	281.6	264.7	256.4	237.7	214.1
Cash & equivalents	7.1	8.2	45.7	36.0	26.6	46.7	59.3	56.7
Receivables & prepayments	50.2	40.1	26.6	31.9	37.9	36.2	33.0	31.4
Inventories	74.0	66.1	74.1	136.8	131.0	115.7	99.6	88.8
Other	17.3	30.1	45.2	77.0	69.2	57.8	45.9	37.2
Total assets	196.8	196.1	259.3	362.2	362.7	371.6	368.2	356.4
Shareholder equity	154.3	150.6	188.5	257.9	224.3	250.5	266.8	271.1
Non-current liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	42.5	45.5	70.7	0.0	0.0	0.0	0.0	0.0
Current liabilities	11.2	6.0	7.5	104.3	138.4	121.1	101.4	85.3
ST loans	48.1	51.7	67.7	7.2	52.2	47.0	42.3	38.1
Trade payables & prepayments	20.5	24.2	44.8	63.9	54.5	47.2	37.8	30.2
Other	10.8	15.4	18.5	33.1	31.7	26.9	21.3	17.1
Total liabilities & equity	196.8	196.1	259.3	362.2	362.7	371.6	368.2	356.4

Financial ratios

	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Profitability								
ROE	49.2%	6.1%	20.0%	32.9%	40.5%	34.9%	30.6%	32.0%
ROA	38.6%	4.7%	14.5%	23.4%	25.1%	23.5%	22.2%	24.4%
ROIC	50.3%	7.7%	32.0%	37.0%	38.5%	38.4%	35.8%	37.1%
Liquidity								
Current ratio	3.5	3.2	2.7	2.7	1.9	2.1	2.3	2.5
Quick ratio	1.4	1.1	1.0	0.7	0.5	0.7	0.9	1.0
Cash ratio	0.2	0.2	0.6	0.3	0.2	0.4	0.6	0.7
Turnover								
Days receivable	30	80	18	15	16	16	16	15
Days inventory	57	152	60	82	70	63	58	54
Days payable	16	56	36	39	29	26	22	18
Cash conversion cycle	71	177	41	59	57	53	52	51
Solvency								
LT debt/Equity	0	0	0	0	0	0	0	0
Net debt/Equity	0.03	-0.01	-0.20	-0.11	0.11	0.00	-0.06	-0.07
Financial leverage	0.07	0.04	0.04	0.03	0.23	0.19	0.16	0.14
Interest coverage	76.3	7.3	7.8	100.9	22.5	13.1	13.4	16.1
Per share								
EPS	0.66	0.08	0.33	0.96	1.03	0.99	0.93	0.99
DPS	0.09	0.01	0.07	0.15	0.62	0.70	0.74	0.94

Source: Company data, Concorde Capital

APPENDICES

Analyst certification

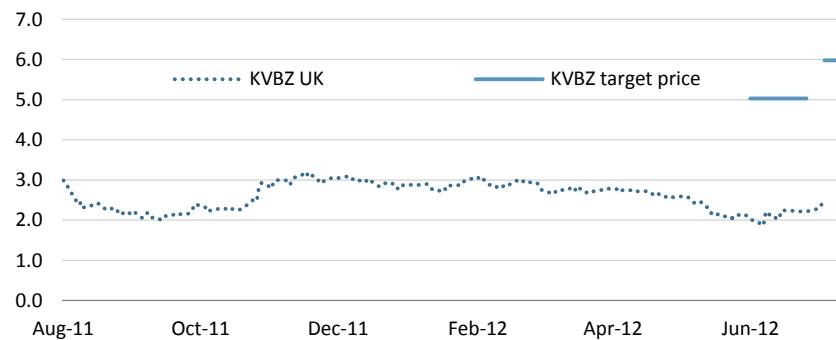
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Kryukiv Wagon: Rating history

Date	12M target price, USD	Market price, USD	Rating	Action
01-June-2012	5.03	2.10	Buy	Initiate
04-July-2012	5.98	2.44	Buy	Maintain

Source: Concorde Capital

Kryukiv Wagon: Target price vs. share performance, USD per share



Source: Bloomberg, Concorde Capital

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