



CONCORDE CAPITAL

Ukraine / Iron & Steel

# Mittal Steel Kryvy Rig

Reaching Fair Value

## HOLD

December 22, 2006  
12M Target: USD 1.22

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### Market Information

Bloomberg	KSTL UZ
No of Shares, mln	<b>3,859.5</b>
Market price, USD	1.22
<b>MCap, USD mln</b>	<b>4708.6</b>
Free float	1.08%
FF MCap, USD mln	50.9

### Stock Ownership

Mittal Steel	94.01%
Invest. & Met. Union	4.47%
SPFU	0.44%
Other	1.08%

### Ratios, 2006E

EBITDA Margin	31.0%
Net Margin	22.0%
Net Debt/ Equity	-0.03

An abrupt rise in KSTL's stock price following the last privatization auction on December 20, 2006 resulted in the upside for the stock shrinking to zero. Although we are looking forward to a subsequent correction, we do not think it will result in the upside sufficient to restore KSTL's investment appeal. We believe the market already priced in KSTL's strong current and expected fundamentals and downgrade the stock to HOLD.

**Upside Eaten Up By Post-Auction Hysteria.** After on Dec. 20, 2006 the State Property Fund auctioned the last 0.32% portion of KSTL's 1.3% stake that it put up for privatization this year, the price for the stock surged to USD 1.22 per share and met our 12-month target. We explain the frenzy by the stock's limited supply, strong interest from investment funds and Ukrainian stock market operators, which bought out most of the recently privatized shares, pushing the prices up. We expect a correction to follow soon, but - at the same time - we think the upside after the correction will not exceed 15%.

**Free Float Increases Only Marginally.** According to our estimates, only ~0.32% out of the 1.3% stake sold at auctions will add to the free float. The balance, a 0.98% stake, has been apparently consolidated by Arcelor Mittal Steel. According to Valentyna Semenyuk, Chairman of the State Property Fund, the state will retain the remaining un-privatized 0.44% stake it owns. We estimate that at current prices, KSTL's free float in dollar terms amounts to USD 51 mln.

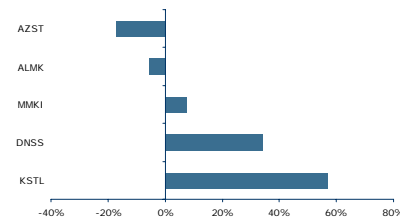
### KSTL's Performance, 12M



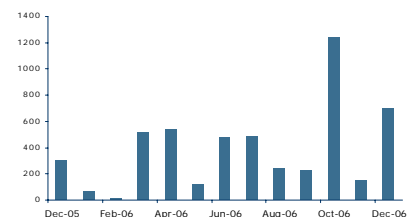
Source: PFTS

\*Bid is used, as the mid-market price was misleading for a number of steel stocks due to large bid-ask spreads

### Sector Performance\*, YTD



### Trading Volumes, USD ths



### Key Financials & Ratios

(in USD mln)	Sales	EBITDA	Net Income	EV/S	EV/EBITDA	P/E
<b>2005</b>	2,156.3	484.2	313.2	2.11	9.40	15.04
<b>2006E</b>	2,846.1	882.3	626.6	1.63	5.25	7.51
<b>2007E</b>	3,156.8	915.5	631.4	1.47	5.06	7.46

Spot exchange rate is 5.05

## Reported Net Quarterly Financials, UAS

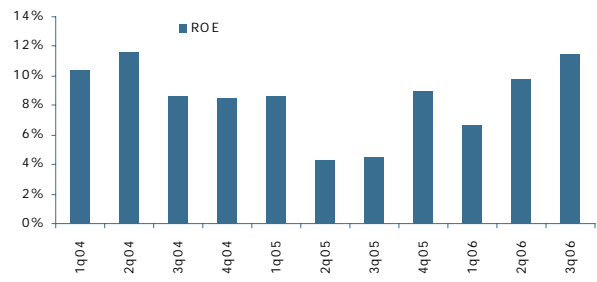
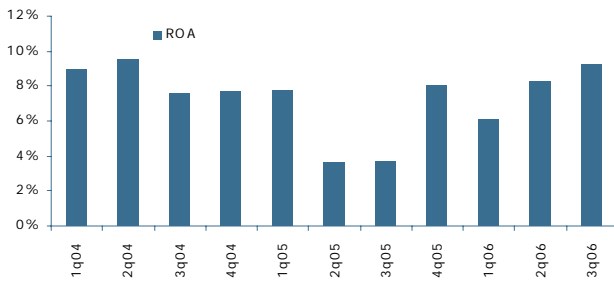
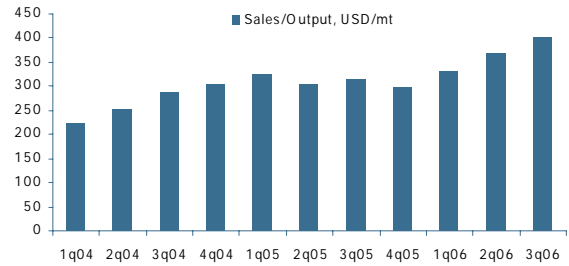
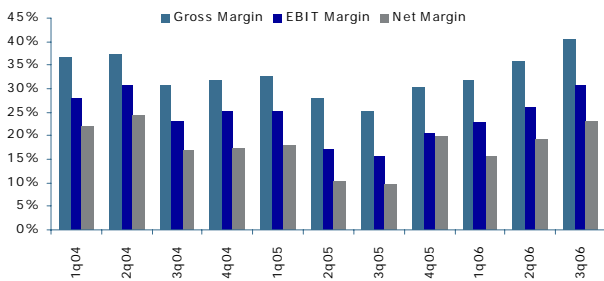
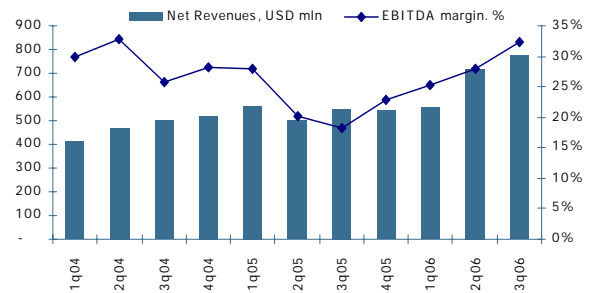
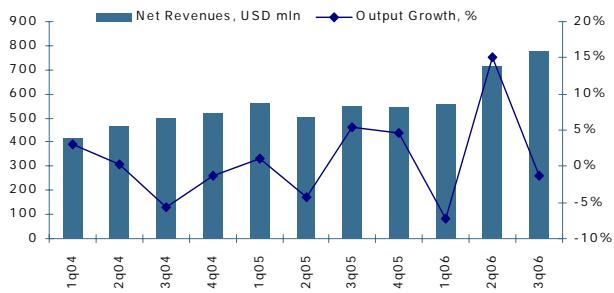
### Income Statement Summary, USD mln

	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06
<b>Net Revenues</b>	<b>413</b>	<b>466</b>	<b>500</b>	<b>521</b>	<b>560</b>	<b>501</b>	<b>549</b>	<b>546</b>	<b>559</b>	<b>718</b>	<b>773</b>
Cost Of Sales	(262)	(292)	(347)	(355)	(377)	(362)	(410)	(381)	(382)	(461)	(459)
Gross Profit	151	174	152	166	183	140	139	165	177	257	314
Other Operating Income/Costs, net	(11)	(3)	(2)	2	(6)	(13)	(9)	(12)	(2)	(7)	(14)
SG&A	(16)	(18)	(21)	(21)	(21)	(26)	(30)	(28)	(34)	(49)	(49)
<b>EBITDA</b>	<b>123</b>	<b>153</b>	<b>129</b>	<b>147</b>	<b>156</b>	<b>101</b>	<b>100</b>	<b>125</b>	<b>141</b>	<b>200</b>	<b>251</b>
<i>EBITDA margin, %</i>	<i>30%</i>	<i>33%</i>	<i>26%</i>	<i>28%</i>	<i>28%</i>	<i>20%</i>	<i>18%</i>	<i>23%</i>	<i>25%</i>	<i>28%</i>	<i>32%</i>
Depreciation	(7)	(10)	(13)	(16)	(15)	(16)	(15)	(13)	(13)	(14)	(13)
<b>EBIT</b>	<b>116</b>	<b>143</b>	<b>116</b>	<b>131</b>	<b>141</b>	<b>85</b>	<b>85</b>	<b>111</b>	<b>128</b>	<b>187</b>	<b>237</b>
<i>EBIT margin, %</i>	<i>28%</i>	<i>31%</i>	<i>23%</i>	<i>25%</i>	<i>25%</i>	<i>17%</i>	<i>15%</i>	<i>20%</i>	<i>23%</i>	<i>26%</i>	<i>31%</i>
InterestExpense	(0)	-	-	-	-	-	-	-	(1)	(2)	(3)
FinancialIncome/(expense)	-	-	-	-	2	7	4	5	-	1	3
Other income/(expense)	(1)	0	(3)	(2)	(7)	(2)	(5)	(16)	(2)	(3)	4
<b>PBT</b>	<b>114</b>	<b>143</b>	<b>113</b>	<b>129</b>	<b>136</b>	<b>90</b>	<b>83</b>	<b>101</b>	<b>125</b>	<b>184</b>	<b>242</b>
Tax	(24)	(30)	(28)	(38)	(36)	(39)	(31)	8	(37)	(45)	(62)
<i>Effective tax rate</i>	<i>21%</i>	<i>21%</i>	<i>25%</i>	<i>30%</i>	<i>27%</i>	<i>43%</i>	<i>37%</i>	<i>-8%</i>	<i>30%</i>	<i>24%</i>	<i>26%</i>
<b>Net Income</b>	<b>90</b>	<b>113</b>	<b>85</b>	<b>91</b>	<b>100</b>	<b>51</b>	<b>52</b>	<b>109</b>	<b>88</b>	<b>139</b>	<b>179</b>
<i>Net Margin, %</i>	<i>22%</i>	<i>24%</i>	<i>17%</i>	<i>17%</i>	<i>18%</i>	<i>10%</i>	<i>10%</i>	<i>20%</i>	<i>16%</i>	<i>19%</i>	<i>23%</i>

### Balance Sheet Summary, USD mln

	1Q04	2Q04	3Q04	2004	1Q05	2Q05	3Q05	2005	1Q06	2Q06	3Q06
<b>Current Assets</b>	<b>381</b>	<b>449</b>	<b>513</b>	<b>593</b>	<b>700</b>	<b>808</b>	<b>621</b>	<b>647</b>	<b>762</b>	<b>1 097</b>	<b>1 274</b>
Cash & Equivalents	120	128	167	207	315	413	282	258	156	277	326
Trade Receivables	0	7	10	25	32	15	12	68	316	388	317
Inventories	137	200	201	227	202	252	211	230	203	184	191
Other current assets	124	114	134	133	152	127	116	91	87	247	440
<b>Fixed Assets</b>	<b>671</b>	<b>624</b>	<b>629</b>	<b>637</b>	<b>640</b>	<b>680</b>	<b>703</b>	<b>744</b>	<b>742</b>	<b>753</b>	<b>772</b>
PP&E, net	515	492	497	496	498	505	492	486	479	474	466
Other Fixed Assets	156	133	132	141	142	175	211	258	262	279	306
<b>Total Assets</b>	<b>1 052</b>	<b>1 073</b>	<b>1 141</b>	<b>1 230</b>	<b>1 340</b>	<b>1 488</b>	<b>1 323</b>	<b>1 391</b>	<b>1 503</b>	<b>1 850</b>	<b>2 046</b>
<b>Shareholders' Equity</b>	<b>888</b>	<b>941</b>	<b>1 019</b>	<b>1 107</b>	<b>1 212</b>	<b>1 177</b>	<b>1 153</b>	<b>1 271</b>	<b>1 359</b>	<b>1 479</b>	<b>1 654</b>
Share Capital	673	725	727	727	731	764	764	764	764	764	764
Reserves and Other	17	31	31	28	28	50	49	49	49	65	60
Retained Earnings	199	184	261	351	453	363	340	458	545	650	829
<b>Current Liabilities</b>	<b>164</b>	<b>132</b>	<b>122</b>	<b>121</b>	<b>126</b>	<b>311</b>	<b>170</b>	<b>120</b>	<b>145</b>	<b>169</b>	<b>188</b>
STInterestBearingDebt	12	1	0	-	-	-	-	-	-	-	-
Trade Payables	50	25	28	29	28	31	34	45	34	41	45
Accrued Wages	9	9	10	11	11	13	13	14	14	16	16
Accrued Taxes	18	7	3	8	21	17	13	27	39	36	45
Other Current Liabilities	76	89	81	72	67	251	109	35	57	76	82
<b>LTLiabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>202</b>	<b>204</b>
LTInterestBearingDebt	-	-	-	-	-	-	-	-	-	200	200
Other LT	-	-	-	2	2	-	-	-	-	2	4
<b>Total Liabilities &amp; Equity</b>	<b>1 052</b>	<b>1 073</b>	<b>1 141</b>	<b>1 230</b>	<b>1 340</b>	<b>1 488</b>	<b>1 323</b>	<b>1 391</b>	<b>1 503</b>	<b>1 850</b>	<b>2 046</b>

# KSTL's Quarterly Analysis



\*Quarterly ROE and ROA are annualized

## Analyst Certification

I, Andriy Gostik, 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.

### Company Report History

Date	Closing Price	Target	Recommendation	Action
4-Jan-05	0.35	0.45	BUY	Initiating
6-Jul-05	0.48	Pending	HOLD	Downgrade
23-Sep-05	0.65	0.58	SELL	Downgrade
7-Nov-05	0.76	0.93	BUY	Upgrade
22-Mar-06	0.78	0.93	BUY	Maintain
18-Aug-06	0.76	0.91	BUY	Maintain
20-Nov-06	0.94	1.22	BUY	Maintain
22-Dec-06	1.22	1.22	HOLD	Downgrade



From January 2005 to September 2005 the company was covered by another analyst, Viktor Koval. In November 2005, Andriy Gostik assumed coverage the company. Koval is no longer an analyst with Concorde Capital.

### Concorde Rating Universe

Buy	34	49%
Hold	12	17%
Sell	9	13%
Under Review/Suspended	15	21%
<b>Total</b>	<b>70</b>	<b>100%</b>

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