



CONCORDE CAPITAL

Ukraine / Railway Machinery

Kryukiv Wagon

Heading for TAS' machinery holding

July 28, 2008

Current price: USD 3.8
12M Target: USD 8.0

BUY

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Tickers

Bloomberg KVBZ UZ

Market information

Market price, USD	3.8
MCap, USD mln	435.7
52 Wk H/L, USD	8.5/3.2
No of shares, mln	114.7
Free float	2%
Free float, USD mln	8.7

Corporate Governance

Concorde Rating* BA

* 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

Management	50%
TAS	30%
Other	20%

- Last week, TAS Group said that HSBC was chosen to structure a holding of its railway machinery assets, including Kryukiv
- Kryukiv Wagon's press office told us that the company signed contracts with Ukrzaliznytsya and Belarus Railways for 130 passenger wagons in 2008 (63% more than we expected)
- 1Q08 financials: sales +39% yoy; EBITDA margin was 22.3% vs. 12.9% in 1Q07
- We upgrade our recommendation to BUY, with a new 12M target price of USD 8.0 per share

Part of holding: casting deliveries more secure

Last week TAS Group announced that HSBC was chosen to structure a holding of its railway machinery assets, including Kryukiv, Dniprovahonmash and Kremenchuk Steel Casting. In May, TAS announced plans to structure its railcar manufacturing assets into a single holding, with a view toward an IPO on the LSE in 2-3 years. We believe the company will benefit from closer ties to Kremenchuk Steel Casting, the largest CIS producer of casting, which, as we highlighted in our January report, is scarce on the market.

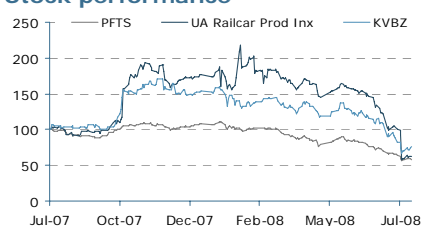
More sales of passenger wagons

In telephone conversation with us last week, a company representative informed us that Kryukiv Wagon signed contracts for 110 passenger wagons with Ukrzaliznytsya (for which it has received a down payment) and 20 more to Belarus Railways. The company also told us about plans to increase its production capacity of passenger wagons from 200 units p.a. to 500 units p.a. in the mid-term. Theoretically, Ukrzaliznytsya could order up to 500 p.a., as it says 40% of its passenger fleet (3 ths units) need replacement. Overall, we conservatively assume that by 2017 Kryukiv Wagon will sell 270 passenger wagons annually.

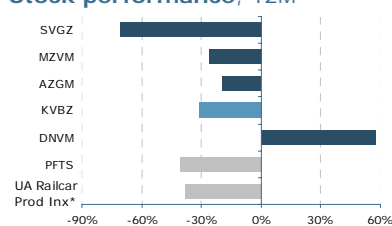
1Q08 financial improvements

Though 1H08 financials are not yet available, the company's 1Q08 margins were the best among the five Ukrainian railcar producers: its EBITDA margin was 22.3% (12.9% in 1Q07), and net margin was 14.9% (11.2% in 1Q07). We believe improved margins were the result of the company's efforts to optimize costs, in addition to setting higher prices for passenger wagons to Ukrzaliznytsya. In 2008, the price for a Kryukiv passenger railcar grew by 31% (to USD 868 ths) vs. our expectation of 5% growth.

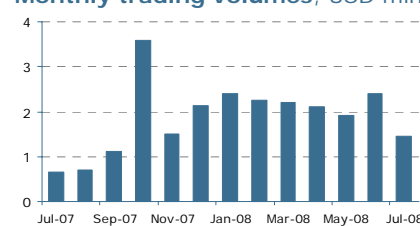
Stock performance



Stock performance, 12M



Monthly trading volumes, USD mln



Source: PFTS, Bloomberg, Concorde Capital

* Concorde Capital's Ukrainian Railcar Producers Index is MCap weighted, free float adjusted; it includes KVBZ UZ, DNVM UZ, AZGM UZ, MZVM UZ, SVGZ UZ

Key financials & ratios

	Sales, USD mln	EBITDA Margin	Net Margin	EV/S	EV/EBITDA	P/E
2007	408.9	14.7%	9.7%	1.1	7.3	11.0
2008E	578.9	22.0%	15.3%	0.8	3.4	4.9
2009E	636.9	21.8%	15.3%	0.7	3.2	4.5

Spot exchange rate: 4.85 UAH/USD

Forecast revisions

Based on new information from management, we upgrade our forecasts for Kryukiv Wagon. We maintain our revenue estimates from the company's non-passenger railcar business (80-90% of sales in the last two years) unchanged.

Kryukiv Wagon passenger wagon sales forecast revisions

		2008E	2009E	2010E
Unit sales	new	130	135	150
	old	80	100	130
Price, USD ths	new	868	894	921
	old	716	738	760

Source: Concorde Capital estimates

Kryukiv Wagon financial forecast revisions

		2008E	2009E	2010E
Revenues, USD mln	new	578.6	636.9	683.8
	old	523.0	608.1	653.0
EBITDA margin	new	22.0%	21.8%	20.6%
	old	15.8%	16.1%	16.6%
Net margin	new	15.3%	15.3%	14.4%
	old	11.1%	11.2%	11.6%

Source: Concorde Capital estimates

Peer valuation

Peer summary, USD mln

	Country	MCap USD mln	Net Revenue		EBITDA Mgn		Net Mgn	
			2008E	2009E	2008E	2009E	2008E	2009E
Kryukiv Wagon	Ukraine	436	578.6	636.9	22.0%	21.8%	15.3%	15.3%
Emerging Markets								
China Motor Corp	China	872	919.5	1000.3	7.6%	8.1%	4.9%	5.5%
Jinxi Axle Company Ltd	China	225	198.7	248.9	9.4%	8.7%	5.7%	6.0%
Iochepe-Maxion SA	Brazil	976	1030.9	1157.3	14.7%	14.7%	8.1%	7.9%
Altay Wagon	Russia	170	473.1	567.7	12.0%	12.0%	8.2%	8.2%
Tverskoy Vagonostroitelnij	Russia	326	730.3	612.9	6.6%	7.2%	1.9%	3.5%
Average			670.5	717.4	10.0%	10.2%	5.8%	6.2%

Peer multiples

	Country	MCap USD mln	EV/Sales		EV/EBITDA		P/E	
			2008E	2009E	2008E	2009E	2008E	2009E
Kryukiv Wagon	Ukraine	436	0.8	0.7	3.4	3.2	4.9	4.5
Emerging Markets								
China Motor Corp	China	872	0.9	0.8	11.8	10.2	19.2	15.9
Jinxi Axle Company Ltd	China	225	1.0	0.8	11.1	9.3	19.8	15.0
Iochepe-Maxion SA	Brazil	976	1.0	0.9	7.1	6.0	11.7	10.7
Altay Wagon	Russia	170	0.4	0.3	3.4	2.8	25.3	21.1
Tverskoy Vagonostroitelnij	Russia	326	0.6	0.7	8.9	9.6	68.5*	44.0*
Average			0.8	0.7	8.4	7.6	19.0	15.7
Implied KVBZ price, USD			4.0	3.9	9.4	9.2	14.7	13.3
Implied/Upside			6%	4%	147%	141%	286%	249%

DCF valuation

DCF output, UAH mln, as of July 28

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	634	687	696	709	703	654	662	659	667	673
EBIT	616	666	671	682	676	626	633	630	638	643
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	462	499	503	512	507	470	475	473	478	482
Plus D&A	18	22	25	26	27	27	28	29	29	30
Less CapEx	(90)	(100)	(70)	(50)	(28)	(28)	(28)	(29)	(29)	(30)
Less change in OWC	(102)	(33)	(28)	(35)	(16)	(11)	(10)	(7)	(5)	(4)
FCFF	288	387	430	453	490	458	465	466	473	478
WACC	16.2%	15.9%	14.8%	12.9%	12.0%	11.1%	11.2%	11.2%	11.3%	11.5%
Discounted cash flow	270	364	351	328	317	267	243	219	200	181
Sum of discounted CF	2,470									
								Perpetuity growth rate		1.0%
								WACC to perpetuity		11.0%
Terminal value		1,831								4,830
								Implied exit EBITDA multiple		7.2 x
Firm value		4,301								
Portion due to TV		43%								
Less net debt		(3)								
Equity value		4,298								
Implied 12M price, USD		7.6								

Sensitivity analysis

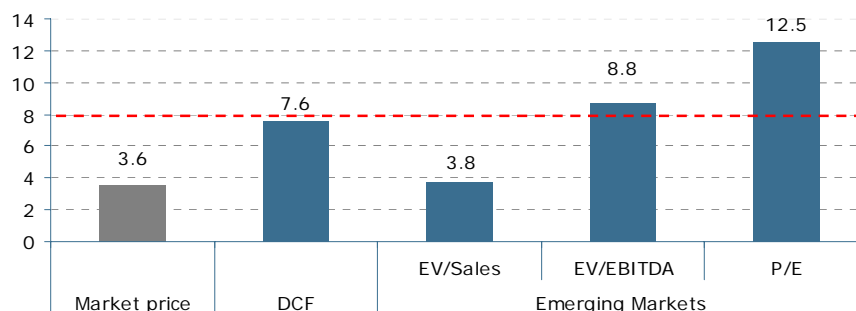
Implied Share Price, USD					
WACC Y1-10	Perpetuity Growth Rate				
	0.0%	0.5%	1.0%	1.5%	2.0%
-1.5%	7.8	8.0	8.2	8.4	8.6
-1.0%	7.6	7.8	8.0	8.2	8.4
-0.5%	7.4	7.6	7.8	8.0	8.2
0.0%	7.2	7.4	7.6	7.8	8.0
+0.5%	7.1	7.2	7.4	7.6	7.8
+1.0%	6.9	7.0	7.2	7.4	7.6
+1.5%	6.7	6.9	7.0	7.2	7.4

Implied Share Price, USD					
WACC to perpetuity	Perpetuity Growth Rate				
	0.0%	0.5%	1.0%	1.5%	2.0%
9.5%	7.7	7.9	8.1	8.3	8.6
10.0%	7.5	7.7	7.9	8.1	8.4
10.5%	7.4	7.5	7.7	7.9	8.2
11.0%	7.2	7.4	7.6	7.8	8.0
11.5%	7.1	7.3	7.4	7.6	7.8
12.0%	7.0	7.2	7.3	7.5	7.6
12.5%	7.0	7.1	7.2	7.3	7.5

Valuation summary

We continue to give a higher weight to multiples-implied prices and set our 12M target for Kryukiv Wagon at USD 8.0 per share.

Valuation results, USD per share



Note: Red line – target price. Source: PFTS, Concorde Capital estimates

Financial Statements, UAS

Income Statement Summary, USD mln

	2007	2008E	2009E	2010E	2011E	2012E	2013E
Net Revenues	409	579	637	684	738	764	782
Gross Profit	75	150	161	162	165	165	155
<i>Gross margin</i>	18.4%	26.0%	25.3%	23.7%	22.4%	21.6%	19.9%
EBITDA	60	127	139	141	143	142	132
<i>EBITDA margin</i>	14.7%	22.0%	21.8%	20.6%	19.4%	18.6%	16.9%
Depreciation	(3)	(4)	(4)	(5)	(5)	(5)	(6)
EBIT	57	124	134	136	138	137	126
<i>EBIT margin</i>	13.9%	21.3%	21.1%	19.8%	18.7%	17.9%	16.2%
Interest Expense	(1)	(2)	(2)	(3)	(3)	(3)	(2)
PBT	53	118	130	131	134	134	124
Tax	(13)	(30)	(32)	(33)	(34)	(33)	(31)
<i>Effective tax rate</i>	25%	25%	25%	25%	25%	25%	25%
Net Income	40	89	97	98	101	100	93
<i>Net Margin</i>	9.7%	15.3%	15.3%	14.4%	13.6%	13.1%	11.9%

Balance sheet Summary, USD mln

	2007	2008E	2009E	2010E	2011E	2012E	2013E
Current Assets	145	174	189	198	210	215	219
Cash & Equivalents	9	14	19	21	22	23	24
Trade Receivables	8	12	13	14	15	15	16
Inventories	75	81	86	94	100	105	108
Other current assets	53	67	71	70	72	72	72
Fixed Assets	51	65	81	90	94	95	95
PP&E, net	45	56	73	87	93	93	93
Other Fixed Assets	6	10	8	3	2	2	1
Total Assets	197	239	270	288	304	309	313
Shareholders' Equity	158	196	217	227	237	247	252
Share Capital	17	17	8	8	8	8	8
Reserves and Other	141	179	209	219	229	239	244
Current Liabilities	38	40	42	45	48	47	48
ST Interest Bearing Debt	10	10	10	11	11	9	9
Trade Payables	6	9	10	10	11	12	13
Other Current Liabilities	22	21	23	24	25	26	27
LT Liabilities	0	4	11	16	19	15	13
LT Interest Bearing Debt	-	4	11	16	19	15	13
Other LT	-	-	-	-	-	-	-
Total Liabilities & Equity	197	239	270	288	304	309	313

Source: Company data, Concorde Capital estimates

Analyst certification

I, Inna Perepelytsya, 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 our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Kryukiv Wagon rating history

Date	Target price USD	Market Price USD	Rec	Action
28-Jan-08	7.5	6.9	HOLD	Initiate
28-Jul-08	8.0	3.8	BUY	Upgrade



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	77	68%
Hold	21	18%
Sell	7	6%
Under Review	9	8%
Total	114	100%

Investment banking clients*

Buy	7	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
Total	7	100%

* Within the last twelve month period, Concorde Capital has obtained compensation from these companies for investment banking services.

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