



CONCORDE CAPITAL

Ukraine / Railway Machinery

Luhanskteplovoy

Hitching up to Russia

BUY

May 25, 2007

Market price: USD 0.59

12M Target: USD 0.72

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Market information

Bloomberg	LTPL UZ
No of Shares, mln	219.2
Market price, USD	0.59
52Wk H/L, USD	0.60/0.37
MCap, USD mln	128.3
Free float	15.0%
FF MCap, USD mln	19.2

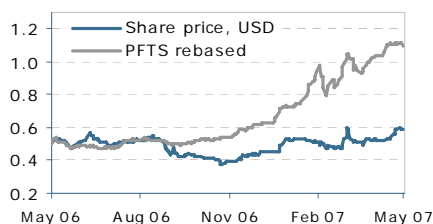
Stock ownership

Bryansk Heavy Machinery	76%
Individuals	8%
Other	16%

Ratios, 2006

EBITDA Margin	6.5%
Net Margin	-3.6%
Net Debt/Equity	0.6

LTPL stock performance



Source: PFTS

Fresh positive signals have caught the market's attention, strengthening arguments that the controversial privatization of Luhanskteplovoy will be upheld. Closer integration with Russian Railways (through their acquisition of Transmashholding) will secure increased locomotive orders, leading us to revise the company's sales forecasts upward. We upgrade our investment recommendation to BUY, with the new target implying a 22% upside.

Russian Railways effectively buys Luhanskteplovoy's owner

- Yesterday Russian Railways (RZD), the state-owned railway operator, announced the acquisition of a blocking stake of Transmashholding (TMH), whose subsidiary, Bryansk Heavy Machinery, bought 76% of Luhanskteplovoy on March 23.
- Indirect ownership of Luhanskteplovoy by RZD strengthens TMH's position against attempts to revise the results of the Luhanskteplovoy privatization tender. TMH has already spent about USD 10 mln to clear wage arrears, payables and increase working capital, which we interpret as a sign that they do not consider re-privatization a material threat.
- Russian Railways' USD 4 bln program for purchase of rolling stock by 2010 provides a stable source to fill Luhanskteplovoy's order book. According to Luhanskteplovoy's management, RZD is ready to buy as many locomotives as the company can produce.
- RZD orders will help to diversify sales away from about 80% domestic orders in 2006.

Estimated order book for 2007

- Orders from Ukrzaliznytsya: est. at between USD 110-130 mln (as expected by management and recently approved as part of Ukrzaliznytsya's 2007 financial plan).
- Orders from RZD: est. USD 35 mln (signed contract for 20 diesel locomotives), plus USD 20 mln (part of a two-year USD 40 mln contract being negotiated).
- We consider the management's projection for +34% yoy sales growth in 2007 that they announced at their AGM three weeks ago to be overly cautious. Our expectation for top line growth in 2007 is 88%.

Key financials & ratios

(in USD mln)	Sales	EBITDA Margin	Net Margin	EV/S	EV/EBITDA	P/E
2006	87.6	6.5%	-3.6%	1.7	26.3	neg
2007E	164.7	9.5%	5.0%	0.9	9.5	15.7
2008E	222.3	10.0%	5.5%	0.7	6.7	10.6

Spot exchange rate: 5.05

Peer summary, USD mln

	Country	Market Cap	Net Revenues			EBITDA Mgn			Net Mgn		
			2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
Luganskteplovoz	UKRAINE	128.3	87.6	164.7	222.3	6.5%	9.5%	10.0%	neg	5.0%	5.5%
Downer EDI	AUSTRALIA	2002.9	3431.9	4636.0	5038.9	1.1%	7.7%	7.6%	neg	3.2%	3.3%
Vossloh	GERMANY	1619.9	1338.7	1547.7	1679.1	10.8%	12.5%	13.1%	4.3%	5.8%	6.4%
Kinki Sharyo Company Limited	JAPAN	265.0	254.7	350.1	512.4	7.6%	5.0%	7.8%	3.6%	2.0%	3.6%
Bharat Earth Movers Limited	INDIA	941.9	462.1	568.2	610.5	15.8%	14.5%	14.9%	9.1%	10.1%	10.5%
American Railcar Industries Inc	UNITED STATES	834.6	646.1	754.6	951.7	10.6%	11.9%	12.0%	5.4%	6.1%	6.2%
Wabtec Corp.	UNITED STATES	1859.7	1087.6	1239.5	1374.2	14.2%	15.8%	16.3%	8.0%	8.6%	9.2%
Average						10.0%	11.2%	11.9%	6.1%	6.0%	6.5%

Source: Bloomberg, Company data, Concorde Capital estimates

Peer multiples

	Country	Market Cap	EV/Sales		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
Luganskteplovoz	UKRAINE	128.3	0.9	0.7	9.5	6.7	15.7	10.6
Downer EDI	AUSTRALIA	2002.9	0.5	0.5	7.0	6.4	13.3	12.1
Vossloh	GERMANY	1619.9	1.1	1.0	9.1	7.7	18.1	15.1
Kinki Sharyo Company Limited	JAPAN	265.0	0.6	0.5	11.9	6.1	37.9	14.3
Bharat Earth Movers Limited	INDIA	941.9	1.5	1.5	10.6	9.8	16.5	14.6
American Railcar Industries Inc	UNITED STATES	834.6	1.1	0.9	9.1	7.2	18.2	14.2
Wabtec Corp.	UNITED STATES	1859.7	1.4	1.2	8.9	7.2	17.5	14.6
Average			1.0	0.9	9.4	7.4	20.2	14.2
LTPL implied price, USD			0.70	0.83	0.58	0.66	0.76	0.79
Upside (downside)			18.1%	41.1%	-1.3%	11.7%	28.8%	33.9%

Source: Bloomberg, Company data, Concorde Capital estimates

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