



CONCORDE CAPITAL

# Ukraine / Railway Machinery

## Luhanskteplovoy

Fattening Up On Transmashholding Orders

July 31, 2007

12M Target: USD 1.1

**BUY**

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### Market information

Bloomberg	LTPL UZ
No of Shares, mln	219.2
Market price, USD	0.87
52Wk H/L, USD	0.91/0.37
MCap, USD mln	190.7
Free float	15.0%
FF MCap, USD mln	28.6

### 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

Source: PFTS

Last week's announcement by Luhanskteplovoy' CEO that sales would expand to USD 376 mln in 2008 (almost four-times 2006 sales) as well as our recent discussion with management reassures us that the new owner (Transmashholding subsidiary Bryansk Heavy Machinery) is serious about investing in and loading the company's capacities. We revise our financial forecast for 2008, and upgrade the 12 month target price from USD 0.72 to USD 1.10, which implies a 26% upside. **BUY**.

Last week Luhanskteplovoy' CEO announced the company's 2008 revenue target, USD 376 mln (3.9 times larger than 2006), and disclosed some details about their order book. We conducted our own back-of-the-envelope verification and came to a slightly more conservative 2008 sales forecast of USD 321 mln:

- Orders from RZD: USD 135 mln - preliminary agreement for 90 diesel locomotives (based on management information); USD 20 mln (part of a two-year USD 40 mln contract for spare parts);
- Orders from Ukrzaliznytsya: USD 110 mln (our estimation);
- Other orders: USD 56 mln – since we were not able to explicitly refer to specific contracts this is our conservative view of the management forecast, which leaves plenty of room for positive surprises.

From our recent discussion with management, we learned that:

- Luhanskteplovoy' workforce has increased 10% since privatization in March;
- CapEx in the amount of USD 24 mln is budgeted for 2007 to reconstruct and install new equipment, while the privatization conditions require investments of USD 60 mln over three years.

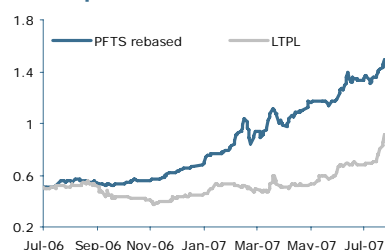
Transmashholding looks quite confident the court cases over Luhanskteplovoy' privatization will confirm its legal ownership. It is relying on the company to implement its recently announced goals for 2010 of gaining 8% of the global market for rolling-stock and doubling sales to more than USD 4 bln (making it #5 in the world). We tend to share their optimism.

### Sales forecast revision for 2008, USD mln

Concorde Capital	Old	222
	New	321
Management		376

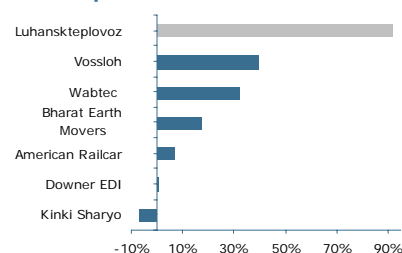
Source: Company data, Concorde Capital estimates

### Stock performance, 52 Wk

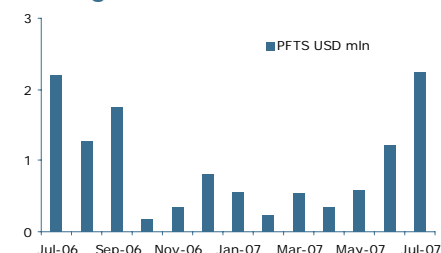


Source: Bloomberg, PFTS

### Sector performance YTD



### Trading volumes, USD



### 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	320.5	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
<b>Luganskteplovoy</b>	<b>Ukraine</b>	<b>188</b>	<b>87.6</b>	<b>164.7</b>	<b>320.5</b>	<b>6.5%</b>	<b>9.5%</b>	<b>10.0%</b>	<b>neg</b>	<b>5.0%</b>	<b>5.5%</b>
Downer EDI	Australia	2034	3432	4480	4961	1.1%	7.7%	7.7%	neg	3.2%	3.3%
Vossloh	Germany	1633	1339	1560	1719	10.8%	12.4%	13.0%	4.3%	5.8%	6.4%
Kinki Sharyo	Japan	282	255	356	534	7.6%	5.1%	8.5%	3.6%	2.0%	4.4%
Bharat Earth Movers	India	1094	462	568	611	15.8%	14.5%	14.9%	9.1%	10.1%	10.5%
American Railcar	United States	859	646	775	996	10.6%	12.1%	12.2%	5.4%	6.2%	6.3%
Wabtec	United States	1996	1088	1277	1411	14.2%	15.6%	16.6%	8.0%	8.5%	9.1%
<b>Average</b>						<b>10.0%</b>	<b>11.2%</b>	<b>12.1%</b>	<b>6.1%</b>	<b>6.0%</b>	<b>6.7%</b>

Source: Bloomberg, Company data, Concorde Capital estimates

### Peer multiples

	Country	Market Cap	EV/Sales		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
<b>Luganskteplovoy</b>	<b>Ukraine</b>	<b>188</b>	<b>1.3</b>	<b>0.7</b>	<b>13.3</b>	<b>6.5</b>	<b>22.9</b>	<b>10.7</b>
Downer EDI	Australia	2034	0.6	0.5	7.4	7.4	14.0	12.6
Vossloh	Germany	1633	1.2	1.0	9.3	9.3	17.9	14.9
Kinki Sharyo	Japan	282	0.6	0.5	11.8	11.8	39.8	11.9
Bharat Earth Movers	India	1094	1.8	1.7	12.4	12.4	19.1	17.0
American Railcar	United States	859	1.1	0.8	9.1	9.1	17.9	13.6
Wabtec	United States	1996	1.5	1.3	9.4	9.4	18.5	15.5
<b>Average</b>			<b>1.1</b>	<b>1.0</b>	<b>9.9</b>	<b>7.8</b>	<b>21.2</b>	<b>14.2</b>
<b>LTPL implied price, USD</b>			<b>0.75</b>	<b>1.34</b>	<b>0.62</b>	<b>1.04</b>	<b>0.80</b>	<b>1.15</b>
<b>Upside (downside)</b>			<b>-13.2%</b>	<b>55.4%</b>	<b>-28.4%</b>	<b>21.3%</b>	<b>-7.4%</b>	<b>33.2%</b>

Source: Bloomberg, Company data, Concorde Capital estimates

### Luhanskteplovoy P&L quarterly summary, USD mln

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07*
<b>Net Revenues</b>	<b>11.3</b>	<b>13.5</b>	<b>20.7</b>	<b>32.1</b>	<b>11.5</b>	<b>12.6</b>	<b>25.9</b>	<b>37.5</b>	<b>7.1</b>
Change y-o-y	-48%	17%	-266%	-43%	2%	-7%	25%	17%	-39%
<b>EBITDA</b>	<b>(0.2)</b>	<b>0.9</b>	<b>1.7</b>	<b>2.5</b>	<b>0.1</b>	<b>(0.4)</b>	<b>2.2</b>	<b>3.8</b>	<b>(1.2)</b>
EBITDA margin, %	-1.9%	6.7%	8.4%	7.7%	0.8%	-2.9%	8.5%	10.1%	-17.2%
<b>EBIT</b>	<b>(0.6)</b>	<b>0.4</b>	<b>1.2</b>	<b>1.8</b>	<b>(0.4)</b>	<b>(0.9)</b>	<b>1.4</b>	<b>3.2</b>	<b>(1.7)</b>
EBIT margin, %	-6%	3%	6%	6%	-4%	-7%	6%	9%	-25%
<b>Net Income</b>	<b>(1.0)</b>	<b>0.2</b>	<b>0.7</b>	<b>0.0</b>	<b>(0.9)</b>	<b>(1.3)</b>	<b>0.3</b>	<b>(1.2)</b>	<b>(2.4)</b>
Net Margin, %	-9%	1%	3%	0%	-8%	-10%	1%	-3%	-34%

Source: Company data

\* We attribute the company's poor financial results in 1Q07 to pre-privatization manipulation of the company's price.

## Analyst certification

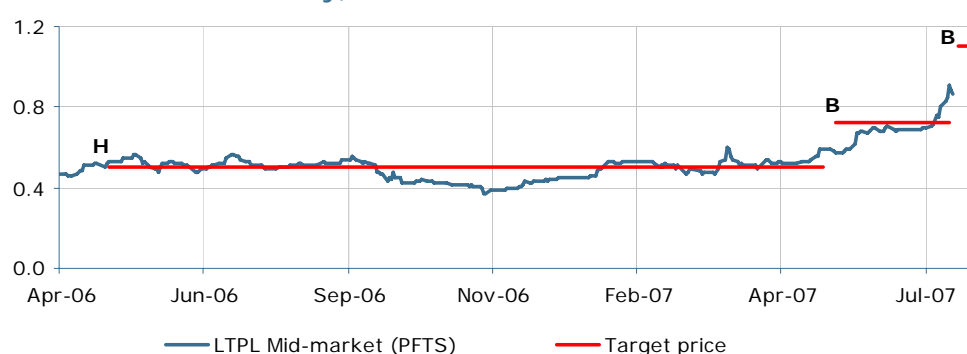
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### Luhanskteplovoz

Date	Target price, USD	Market Price, USD	Rec'	Action
27-Apr-06	0.50	0.50	HOLD	Initiating
25-May-07*	0.72	0.59	BUY	Upgrade
30-Jul-07	1.10	0.86	BUY	Maintain

\* Until March 2007 the company was covered by Olha Pankiv, who now focuses on another sector. In May 2007, Inna Perepelytsya took over coverage.

### Recommendation history, USD



### Concorde Capital Coverage Universe

Buy	36	47%
Hold	11	14%
Sell	5	7%
Under Review	24	32%
<b>Total</b>	<b>76</b>	<b>100%</b>

### Investment Banking Clients

Buy	7	78%
Hold	1	11%
Sell	1	11%
Under Review	0	0%
<b>Total</b>	<b>9</b>	<b>100%</b>

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