



Analyst's Notebook

Ukraine/Machine Building
 April 27 2006

Ukrzaliznytsya Has LTPL Waiting By The Phone

Bloomberg	LTPL UZ	Current MCap	USD 109.6 mln
Current Price	USD 0.5	Number of shares	219.2 mln
6-mo Target Price	USD 0.5	Free float	24%
Recommendation	HOLD	State-owned stake	76%

Ukrzaliznytsya's Orders Less Than Expected

At the company's AGM on April 21, the management of Luganskteplovov announced that 2006 orders from Ukrzaliznytsya (UZ), Ukraine's monopolistic railway carrier and LTPL's largest customer, would be less than half of what was announced by UZ representatives in January. The government was late in adopting Ukrzaliznytsya's financial plan for 2006. The government's final decision is expected in June 2006. This means that USD 137 mln of UZ's planned orders from Luganskteplovov, announced in January 2006, will be cut by more than half. In 1H06 Ukrzaliznytsya will work according to its old financial plan, which foresees ~5 times lower expenditures for the renovation of railway equipment.

UZ orders have become more important, as LTPL deliveries to Russia are declining. Only about 20 locomotives are scheduled to be delivered to private Russian carriers in 2006 – last year the number was 47. The number is decreasing, as Russia has started producing locomotives at the Bryansk machine building plant (member of Transmashholding). However, Russia does not possess enough capacity to satisfy all of its internal demand.

Luganskteplovov's management announced plans to increase sales by 22% in 2006 to USD 94.3 mln, based on expected orders from UZ's for 94 carriages for electrical and diesel trains, instead of 220, as was initially announced. If UZ's budget is adopted in 2H06, we believe the planned sales level will be reached. Currently UZ has confirmed the purchase of only 27 carriages.

Production

	2004	2005	2006E*
Locomotives, units	37	52	20
Carriages, units	54	51	94
Spare parts, USD mln	10.4	11.0	11.8
Production, USD mln	79.5	85.2	95.3

*Management's plans

KEY FINANCIAL DATA, USD mln

	Net Revenue	EBITDA	Net Income
2004	76.9	6.3	0.0
2005E	77.5	4.9	-0.1
2006E	94.3	7.7	0.2

Spot Exchange Rate 5.05

KEY RATIOS

	P/S	P/E	EV/EBITDA
2004	1.4	19.8	-
2005E	1.4	25.5	neg
2006E	1.2	16.1	521.9

In 2005 Luganskteplovov sales were similar to what the company had in 2004 (a 3% yoy decrease, if measured in UAH terms, but a 1% increase in USD terms due to UAH appreciation), and LTPL's profitability margins decreased. In 1Q06 LTPL increased production by 17% yoy to USD 13.8 mln (1Q05 was also poor for orders due to the political instability connected to the presidential elections), which constitutes only 15% of the total production planned for 2006.

Due to a lack of orders, starting from April 1 2006, Luganskteplovoy switched to a 3-day working week, which is expected to return to normal in June, when Ukrzaliznytsya's financial plan for 2006 is adopted.

Privatization As Value Catalyst

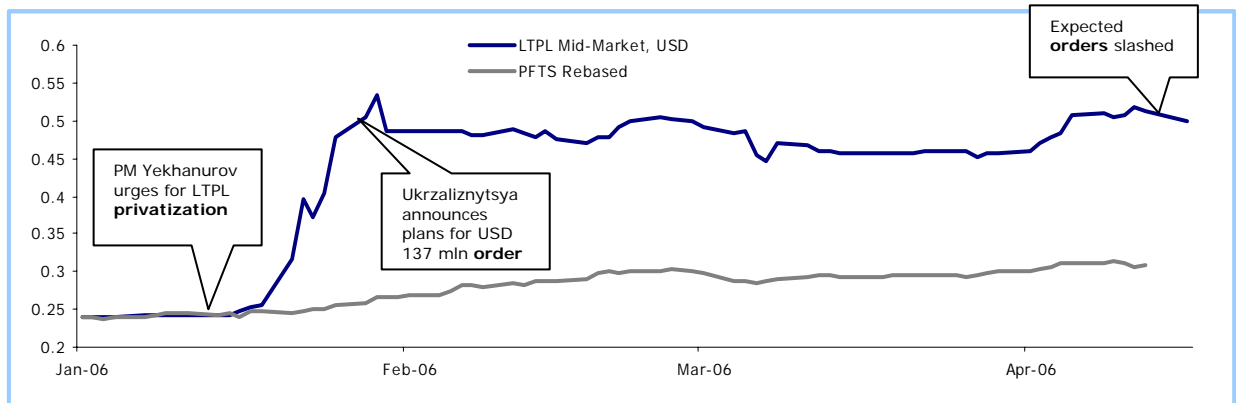
LTPL's share price started growing in mid-January, when Prime Minister Yuriy Yekhanurov announced intention to speed up the privatization process of Luganskteplovoy, and ordered Cabinet of Ministers to prepare all the necessary papers until mid-February.

Later in January the head of Ukraine's State Property Fund, the management of Ukrzaliznytsya and Transmashholding (Russia), which plans to bid for the state-owned 76% stake in LTPL, visited Luganskteplovoy. The visit was followed by three simultaneous public announcements: UZ's plans to order carriages for USD 137 mln from LTPL in 2006, the SPF including LTPL in the list of the companies to be privatized in 2006, and the presentation of the first 2EL5 electrical locomotive, designed by LTPL jointly with the Novocherkassky Electrical Locomotive Production Plant, a member of Transmashholding.

The privatization plans for 2006 were clearly announced in connection with the large order from UZ for 2006, the size of which was double LTPL's 2005 sales. The two announcements sounded more like a PR stunt in order to stimulate interest from the market.

LTPL share price reacted by doubling by the end of January.

LTPL Mid-Market, USD



Source: PFTS, Concorde calculations. PFTS index rebased

After LTPL's disappointing announcement at its AGM a week ago concerning the company's reduced plans for 2006, the price was reluctant to adjust downwards. It remains at around USD 0.50. Those buying in January were buying a growth story. Though the story has been put on hold for now, the market is expecting privatization to bring a new owner who will fill the company's order book and for this reason it is unfazed by the company's current lethargic pace of development.

Peer Comparison

	Country	Market Cap	Net Revenues		EBITDA Mgn		Net Mgn		EV/Sales		EV/EBITDA		P/E	
			2005	2006E	2005E	2006E	2005E	2006E	2005E	2006E	2005E	2006E	2005E	2006E
Luganskteplovoy		109.6	77.5	94.3	6%	8%	0%	0%	1.6	1.3	25.5	16.2	neg	548.0
Downer EDI	AUSTRALIA	1,883.504	2,839.362	3,888.845	8%	8%	3%	3%	0.7	0.6	9.4	7.3	23.8	14.4
Vossloh	GERMANY	758.935	1,175.332	1,306.480	12%	12%	5%	5%	0.8	0.7	6.9	5.9	14.1	11.7
Kinki Sharyo Company Limited	JAPAN	333.189	384.536	#N/A	11%	n/a	5%	n/a	0.7	n/a	6.5	n/a	17.1	n/a
Nippon Sharyo Limited	JAPAN	371.113	911.331	#N/A	4%	n/a	1%	n/a	0.4	n/a	9.9	n/a	31.3	n/a
Bharat Earth Movers Limited	INDIA	1,167.664	396.553	#N/A	19%	n/a	10%	n/a	2.8	n/a	14.8	n/a	29.1	n/a
American Railcar Industries Inc	USA	821.046	608.160	766.199	6%	n/a	0%	5%	1.3	1.0	22.7	9.5	541.2	19.7
Average					10%	10%	4%	5%	1.1	0.8	11.7	7.6	23.1	15.3
Median					9%	10%	4%	5%	0.8	0.7	9.6	7.3	26.4	14.4
Target Price by Average, USD									0.3	0.3	0.2	0.2		0.0
Target Price by Median, USD									0.2	0.2	0.1	0.2		0.0

Source: Thomson Banker, Luganskteplovoy, Concorde Capital

Privatization: Transmashholding, AvtoKrAZ and Others

Transmashholding, Russia's largest producer of rolling-stock, announced its interest in bidding for Luganskteplovoy and would be able to increase the inflow of Russian orders for Luganskteplovoy, as Russia's unwillingness to rely on Ukraine-made freight rolling stock is mostly political in nature.

AvtoKrAZ wants to acquire LTPL to make it a part of Ukraine's largest machine building holding, based on AvtoKrAZ. LTPL's management does not exclude the possibility of foreign producers, like Siemens and Bombardier to be interested in making LTPL their assembly point due to production capacities available and favorable geographic positioning. In our opinion, whoever wins, the effect for the company will fatten the company's order book.

We believe in the short term the market will be waiting for positive news and stick to the current LTPL price levels. Our six-month target is USD 0.50.

WATCH for news on LTPL privatization and adoption of UZ financial plan.

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