

# Bogdan Motors

## Revenues expected to double with new Hyundai sales

### Catalyst: Restructuring adds a new segment at no cost

Bogdan Corporation, Ukraine's second largest automotive producer and dealer, announced this week that from 2011, all Hyundai models sold in Ukraine will be distributed through Bogdan Motors (UX: LUAZ UK). To date, Bogdan Motors has produced and sold only two models from the Hyundai line while the remaining 90% of Hyundais were imported and sold by another Bogdan Corporation entity. According to the company, the extension of Bogdan Motors' product line to include imports will add UAH 1.5 billion to the top line (0.9x 2011E sales) and UAH 200 mln to 2011 EBIT. Company estimates assume 2011 Hyundai import sales of 13,500 units, an 8% increase over our forecast, at an average price of USD 14k with a 13% EBIT margin.

### Fundamentals: automotive market remains depressed

New car sales in Ukraine are still only at 26% of the 2008 level, depressed by lower disposable income and extremely tight consumer lending. As a result, the Bogdan Motors assembly facility is operating at only 15% capacity utilization, while the company has a heavy debt burden associated with approximately USD 400 mln in capex invested in modernizing production facilities in 2006-2008. We don't anticipate a revival in the automotive market in the short-term, but note that there are signs of upcoming pickup in consumer lending, a key driver of demand.

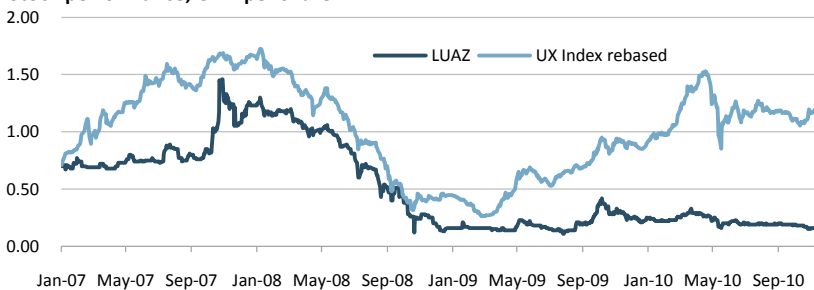
### Implication: new segment revenues ease the pressure

We see the pressure from Bogdan Motors debt easing given that the new import segment will bring UAH 200 mln in EBIT, which should cover 2/3 of the interest payments due on the outstanding UAH 3,045 mln in debt.

### Action: price in new business and reduced solvency risk

We estimate the new segment could add at least UAH 80 mln to the bottom line from 2011, or UAH 0.018 in EPS (12% of the current stock price). Though we have no formal rating on the stock yet, we expect the market to react positively given addition of the new business and reduced insolvency risk. The stock is currently trading close to its historical lows.

#### Stock performance, UAH per share



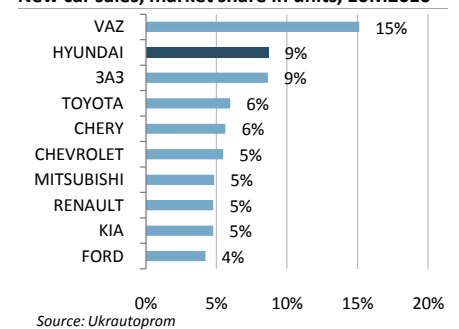
Source: Bloomberg, Concorde Capital. \*UX Index exists since 26 Mar 2009, historically

### Risks: speed of car market revival

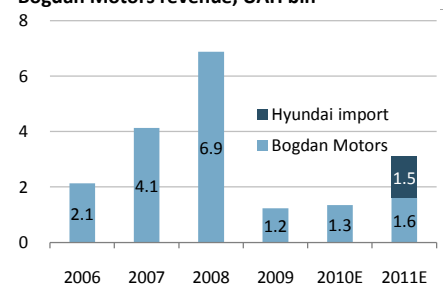
Though we see potential for the automotive market to expand by as much as a multiple of five, there is no certainty regarding the timing of this revival. This uncertainty is the key risk factor for Bogdan Motors. The stock is also relatively illiquid.

<b>Report date</b>	<b>26 Nov 2010</b>
Bloomberg	LUAZ UK
Reuters	LUAZ=UA
<b>Recommendation</b>	<b>U/R</b>
Price (26 Nov 10), USD	0.019
12M price target, UAH	U/R
No of shares, mln	4,326.9
Market Cap, USD mln	86.5
52-week performance	-57%
52-week range, USD	0.018/0.041
ADT, 12M, USD mln	0.027
Free float, %	7.7%
Free float, USD mln	6.7

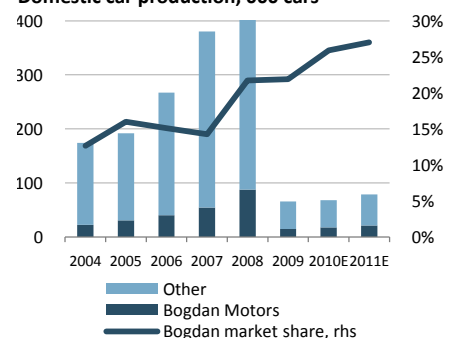
#### New car sales, market share in units, 10M2010



#### Bogdan Motors revenue, UAH bln



#### Domestic car production, 000 cars



## Disclosures

### Analyst certification

I, Yegor Samusenko, 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.

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