



June 11, 2009

HOLD

Alexander Paraschiy
ap@concorde.com.ua
+380 44 391 5577

Today in the conversation with us, Luhanskteplovoz management confirmed their plan to decrease output in 2009 by 49% yoy, as announced in the company's annual report. LTPL's output for 2H09 depends on still unconfirmed orders from its main customers – Russian and Ukrainian state railways. We believe the 2009 orders, however tiny they are, will allow the company to survive during the crisis and we remain positive on the company's mid-term prospects. Based on relative valuation, we assign a HOLD recommendation on the stock.

Bloomberg	LTPL UZ
Shares, mln	219.18
Price, UAH	2.60
Price, USD	0.33
MCap, USD mln	74.5
Free float, %	24%
Free float, USD mln	17.9

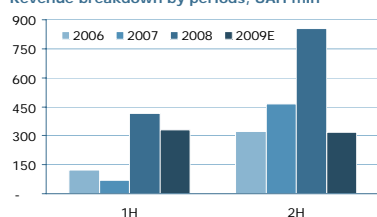
Shareholder structure

Bryansk Machinery (Transmashholding)	76.0%
Other	24.0%

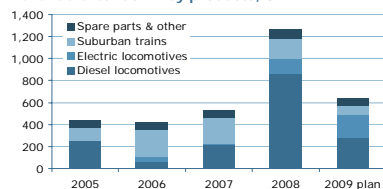
Key financials, USD mln

	2008	2009E
Net revenue	237.7	80.6
EBITDA	15.7	2.4
Net debt	20.9	20.1

Source: Company data, Concorde Capital estimates

Revenue breakdown by periods, UAH mln

Source: Company data, Concorde Capital estimates

Revenue breakdown by products, UAH mln

Source: Company data, Concorde Capital calculations

Working on last year's orders, so far

Luhanskteplovoz' plan for 2009 foresees a 49% yoy drop in sales. All this year, the company plans to make 47 locomotives and three electric passenger trains, 2x less than in 2008. Over 4M08, the company managed to increase its sales by 12.8% yoy, mainly by finishing orders concluded in mid-2008. Notably, the company's 4M09 sales are 44% of its full-year plan, while its 4M08 sales represented only 20% of FY08 revenue.

Sales by products, UAH mln

	2007	2008	2009 (plan)	yoy (plan)
Diesel locomotives	210.1	867.5	279.2	-68%
Electric locomotives	17.3	129.1	205.0	+59%
Electric/diesel trains	233.5	187.6	91.9	-51%
Spare parts & components	64.0	87.8	68.7	-22%
Total	524.9	1,271.9	644.8	-49%

Source: Company data, Concorde Capital calculations

New orders have yet to be concluded

The manufacturer's 2H09 order book is certain to be smaller than last year's. Currently Ukraine's Ukrzaliznytsya (UZ) is in negotiations to acquire from LTPL seven locomotives (4x decrease vs. 2H08 orders) and six suburban trains (+50% yoy). Meanwhile, Russia's RZD reduced its total purchasing in 2009 by about 22% yoy, and according to Russian press, it is planning to buy only 11 locomotives from LTPL in 2H09 (more than a 3x drop yoy).

TMH to facilitate order book increase?

It is important for Transmashholding (TMH), which bought 76% of Luhanskteplovoz at a questionable privatization tender in 2007, to prove it is an efficient owner of the Ukrainian enterprise. We expect TMH will facilitate an increase in orders at the company from RZD, or at least boost cooperation between Luhanskteplovoz and TMH's Russian subsidiaries to raise the Ukrainian plant's production of spare parts and components in 2009.

Post-crisis outlook is positive

We are optimistic on the company's mid-term outlook, taking into account Luhanskteplovoz' monopolistic position in the CIS main-line locomotives market and its support from parent TMH. With the company's current capacity utilization of about 25%, and RZD's and UZ's high pent-up demand for locomotives, we see a possibility for the company to raise production by up to 3x over the next 2-3 years.

Fair valued stock

The stock is overpriced based on 2009 peer multiples and underpriced on historical 2008 multiples. We assign a HOLD recommendation on LTPL, taking into account that in the mid-term the company's results should return to at least their 2008 level.

Income Statement Summary (Ukrainian Accounting Standards), UAH mln

	2004	2005	2006	2007	2008
Net Revenue	409.1	395.2	442.2	532.7	1,271.9
<i>Change y-o-y</i>		-3%	12%	20%	139%
Gross Profit	103.0	77.6	85.2	100.7	209.2
SG&A	(82.4)	(44.9)	(50.9)	(70.4)	(101.6)
EBITDA	33.7	24.8	28.8	25.0	83.1
<i>EBITDA margin, %</i>	8.2%	6.3%	6.5%	4.7%	6.5%
EBIT	19.7	13.9	16.8	12.0	69.1
Interest Expense	(12.0)	(10.7)	(11.8)	(14.7)	(36.0)
PBT	8.7	5.9	(9.3)	(17.9)	27.9
Net Income	0.2	(0.5)	(15.8)	(17.9)	1.1
<i>Net Margin, %</i>	0.1%	-0.1%	-3.6%	-3.4%	0.1%

Balance Sheet Summary (UAS), UAH mln

	2004	2005	2006	2007	2008
Current Assets	207.1	247.9	219.4	404.6	456.5
Cash & Equivalents	3.7	1.0	1.2	18.5	11.6
Trade Receivables	51.5	14.0	28.0	32.6	24.2
Inventories	115.3	173.9	159.3	232.4	206.9
Other current assets	36.7	59.0	30.8	121.1	213.8
Fixed Assets	180.7	185.5	174.5	210.8	284.6
PP&E, net	152.8	161.5	150.8	146.6	158.5
Other Fixed Assets	27.8	24.0	23.7	64.2	126.1
Total Assets	387.8	433.4	393.8	615.4	741.1
Shareholders' Equity	150.8	155.0	141.8	140.2	141.1
Share Capital	54.8	54.8	54.8	54.8	54.8
Reserves and Other	153.4	158.2	144.2	131.7	131.6
Retained Earnings	(57.4)	(57.9)	(57.2)	(46.3)	(45.3)
Current Liabilities	237.0	236.3	159.3	436.9	550.3
ST Interest Bearing Debt	47.8	78.7	60.4	94.9	179.0
Trade Payables	28.9	68.7	25.9	21.8	239.0
Accrued Wages	4.5	5.5	7.5	11.7	11.3
Accrued Taxes	3.8	0.7	0.9	28.4	1.8
Other Current Liabilities	152.0	82.8	64.6	280.1	119.2
LT Liabilities	0.0	42.1	92.8	38.3	49.7
LT Interest Bearing Debt	-	-	44.4	-	-
Other LT	0.0	42.1	48.3	38.3	49.7
Total Liabilities & Equity	387.8	433.4	393.8	615.4	741.1
Net Debt	44.0	77.7	103.7	76.4	167.4

Source: Company data

Peer multiples

	EV/S		EV/EBITDA	
	2008	2009E	2008	2009E
Alstom (FR)	0.7	0.6	7.3	5.9
Downer EDI (NZ)	0.3	0.4	5.0	4.8
Kinki Sharyo (JP)	0.6	0.7	4.4	7.4
Siemens (DE)	0.8	0.8	11.6	7.3
Vossloh (DE)	1.0	1.0	7.1	7.5
Average	0.7	0.7	7.1	6.6
Luhanskteplovoz (UA)	0.4	1.2	6.1	40.2
Premium/discount to peers	-41%	70%	-14%	509%

Source: Bloomberg, Company data, Concorde capital estimates

Concorde Capital, Head office

2 Mechnikova Street, 16th Floor
Parus Business Centre
Kyiv 01601, Ukraine
Tel.: +380 44 391 5577
Fax: +380 44 391 5571

www.concorde.ua

Concorde Capital

4 Fourth Lesnoy Pereulok, 5th Floor
Capital Plaza
Moscow 125047, Russia
Tel.: +7 495 642 87 15
Fax: +7 495 225 85 00

office@concorde.com.ua

CEO

Igor Mazepa im@concorde.com.ua

Managing Director

Roman Nasirov rn@concorde.com.ua

Head of Sales & Trading

Alexander Shnir ash@concorde.com.ua

International Sales & Trading

Anastasiya Nazarenko an@concorde.com.ua
Marina Martirosyan mm@concorde.com.ua
Andriy Supranonok sap@concorde.com.ua
Marina Cherednichenko cmg@concorde.com.ua

Domestic Sales & Trading

Yuriy Pilipenko up@concorde.com.ua
Alisa Tikhomirova at@concorde.com.ua

Director of Research

Andriy Gostik, CFA ag@concorde.com.ua

RESEARCH

Strategy

Konstantin Fisun, CFA kf@concorde.com.ua
Andriy Gostik, CFA ag@concorde.com.ua

Metals & Mining

Andriy Gerus ga@concorde.com.ua

**Utilities (Telecom, Energy),
Financial services, Machinery**

Alexander Paraschiy ap@concorde.com.ua

Oil & Gas

Andriy Gerus ga@concorde.com.ua

Real Estate, Consumer-related

Andriy Gostik, CFA ag@concorde.com.ua

Economics, Financial services

Andrii Parkhomenko pav@concorde.com.ua

Fixed Income

Oleksandr Klymchuk ok@concorde.com.ua

Editor

Brad Wells bw@concorde.com.ua

Disclaimer

THIS REPORT HAS BEEN PREPARED BY CONCORDE CAPITAL INVESTMENT BANK INDEPENDENTLY OF THE RESPECTIVE COMPANIES MENTIONED HEREIN FOR INFORMATIONAL PURPOSES ONLY. CONCORDE CAPITAL DOES AND SEEKS TO DO BUSINESS WITH COMPANIES COVERED IN ITS RESEARCH REPORTS. AS A RESULT, INVESTORS SHOULD BE AWARE THAT CONCORDE CAPITAL MIGHT HAVE A CONFLICT OF INTEREST THAT COULD AFFECT THE OBJECTIVITY OF THIS REPORT.

THE INFORMATION GIVEN AND OPINIONS EXPRESSED IN THIS DOCUMENT ARE SOLELY THOSE OF CONCORDE CAPITAL AS PART OF ITS INTERNAL RESEARCH COVERAGE. THIS DOCUMENT DOES NOT CONSTITUTE OR CONTAIN AN OFFER OF OR AN INVITATION TO SUBSCRIBE FOR OR ACQUIRE ANY SECURITIES. THIS DOCUMENT IS CONFIDENTIAL TO CLIENTS OF CONCORDE CAPITAL AND IS NOT TO BE REPRODUCED OR DISTRIBUTED OR GIVEN TO ANY OTHER PERSON.

CONCORDE CAPITAL, ITS DIRECTORS AND EMPLOYEES OR CLIENTS MIGHT HAVE OR HAVE HAD INTERESTS OR LONG/SHORT POSITIONS IN THE SECURITIES REFERRED TO HEREIN, AND MIGHT AT ANY TIME MAKE PURCHASES AND/OR SALES IN THEM AS A PRINCIPAL OR AN AGENT. CONCORDE CAPITAL MIGHT ACT OR HAS ACTED AS A MARKET-MAKER IN THE SECURITIES DISCUSSED IN THIS REPORT. THE RESEARCH ANALYSTS AND/OR CORPORATE BANKING ASSOCIATES PRINCIPALLY RESPONSIBLE FOR THE PREPARATION OF THIS REPORT RECEIVE COMPENSATION BASED UPON VARIOUS FACTORS, INCLUDING QUALITY OF RESEARCH, INVESTOR/CLIENT FEEDBACK, STOCK PICKING, COMPETITIVE FACTORS, FIRM REVENUES AND INVESTMENT BANKING REVENUES.

PRICES OF LISTED SECURITIES REFERRED TO IN THIS REPORT ARE DENOTED IN THE CURRENCY OF THE RESPECTIVE EXCHANGES. INVESTORS IN FINANCIAL INSTRUMENTS SUCH AS DEPOSITORY RECEIPTS, THE VALUES OR PRICES OF WHICH ARE INFLUENCED BY CURRENCY VOLATILITY, EFFECTIVELY ASSUME CURRENCY RISK.

DUE TO THE TIMELY NATURE OF THIS REPORT, THE INFORMATION CONTAINED MIGHT NOT HAVE BEEN VERIFIED AND IS BASED ON THE OPINION OF THE ANALYST. WE DO NOT PURPORT THIS DOCUMENT TO BE ENTIRELY ACCURATE AND DO NOT GUARANTEE IT TO BE A COMPLETE STATEMENT OR SUMMARY OF AVAILABLE DATA. ANY OPINIONS EXPRESSED HEREIN ARE STATEMENTS OF OUR JUDGMENTS AS OF THE DATE OF PUBLICATION AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART WITHOUT PRIOR PERMISSION IS PROHIBITED.

NEITHER THIS DOCUMENT NOR ANY COPY HEREOF MAY BE TAKEN OR TRANSMITTED INTO THE UNITED STATES OR DISTRIBUTED IN THE UNITED STATES OR TO ANY U.S. PERSON (WITHIN THE MEANING OF REGULATIONS UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")), OTHER THAN TO A LIMITED NUMBER OF "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) SELECTED BY CONCORDE CAPITAL.

THIS DOCUMENT MAY ONLY BE DELIVERED WITHIN THE UNITED KINGDOM TO PERSONS WHO ARE AUTHORIZED OR EXEMPT WITHIN THE MEANING OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 ("FSMA") OR TO PERSONS WHO ARE OTHERWISE ENTITLED TO RECEIVE THIS DOCUMENT UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, OR ANY OTHER ORDER MADE UNDER THE FSMA.