

March 1, 2012

Metinvest-related stocks

Put options create speculative opportunity

Legislative changes that went into effect in 2011 give minority shareholders a put option if they vote against a specific AGM item, which Metinvest has included on all of its subsidiaries' AGM agendas in 2011 and so far has done this year. We believe this will create short-term speculative opportunities in the next 1-2 months in all Metinvest-controlled stocks, which could be especially pronounced in less liquid dividend-yielding names: Northern Iron Ore (SGOK), Central Iron Ore (CGOK) and Khartsyzk Pipe (HRTR).

We introduce a notion of temporary embedded put option (TEPO). The TEPO opportunity arises from amendments to the Law on Joint Stock Companies, which went into effect in mid-2011. The law requires a public joint-stock company to offer a share buyback to minorities who vote against an item titled "significant deals" at an AGM. According to the law, the strike price shall be the market price on the day before the issuer announced its AGM. In recent years, all Metinvest-controlled companies have included the item "significant deals" on their AGM agendas – and this year they seem to be continuing the tradition, as we have already seen with Yenakieve Steel and unlisted Inguletsky Iron Ore. We expect the agendas of other Metinvest companies to also contain this item. We expect Metinvest's other businesses to announce AGMs over the next 2-4 weeks, and conduct shareholder meetings within a month of announcement (according to legislation).

We expect a speculative rally in Metinvest stocks ahead of AGMs. With the TEPO effectively on the table, we believe minority shareholders looking to sell their shares in Metinvest-related stocks will be inclined to sell to the issuer after the respective AGM rather than sell on the open market. This exit opportunity is especially attractive for less liquid stocks, like SGOK, CGOK and HRTR, as it removes price risk during exit. As a result, we believe this will limit selling pressure on these stocks in the interim, thus leaving room only for buyers.

Recommended long-term and short-term opportunities. We confirm our BUY ratings on Northern Iron Ore, Southern Iron Ore and Khartsyzk Pipe; current prices imply 24-113% upsides to our 12M target prices. At the same time, we expect sizable dividends from these three names and recommend, in particular, the iron ore stocks as long-term dividend paying instruments, both generating an IRR of 26%. We estimate the dividend yield to be paid for SGOK's stock in 2012 at 24%, for CGOK's equity at 26%, and around 23% for HRTR. In addition to our fundamental buys, we believe the market might reward the stocks' TEPO opportunities in the short-term. The same opportunity, while to a lesser extent, should be available in other Metinvest-related stocks: Azovstal, Yenakieve Steel, Avdiivka Coke and MMK Ilicha Steel.

Roman Topolyuk
 rt@concorde.com.ua

Alexander Paraschiy
 ap@concorde.com.ua

Metinvest's dividend paying stocks

Northern Iron Ore (SGOK)	
Metinvest ownership*	63.3%
Target price, USD	1.79
Upside	26%
Expected dividend yield, 2012	24%

Central Iron Ore (CGOK)	
Metinvest ownership*	75.96%
Target price, USD	1.23
Upside	24%
Expected dividend yield	26%

Khartsyzk Pipe (HRTR)	
Metinvest ownship	91.79%
Target price, USD	0.32
Upside	113%
Expected dividend yield, 2012	23%

Other Metinvest stocks

Azovstal (AZST)	
Metinvest ownship	95.65%
Avdiivka Coke (AVDK)	
Metinvest ownship	85.98%
Yenakieve Steel (ENM2)	
Metinvest ownship	85.63%
MMK Ilicha Steel (MMKI)	
Metinvest ownship	99.15%

* Stakes of 36.15% in SGOK and 23.52% in CGOK are owned by SCM, bypassing Metinvest
 Note: upsides and dividend yields calculated based on February 29 prices
 Source: Bloomberg, Concorde Capital estimates

Contacts

CONCORDE CAPITAL

2 Mechnikova Street, 16th Floor
 Parus Business Centre
 Kyiv 01601, Ukraine
 Tel.: +380 44 391 5577
 Fax: +380 44 391 5571
 www.concorde.ua
 Bloomberg: TYPE CONR <GO>

CEO

Igor Mazepa im@concorde.com.ua

SALES

Head of Sales & Trading

Luba Yurchyk ly@concorde.com.ua

International Sales & Trading

Katerina Shevchenko ksh@concorde.com.ua
 Marina Martirosyan mm@concorde.com.ua
 Rostyslav Shmanenko rs@concorde.com.ua

RESEARCH

Head of Research

Alexander Paraschiy ap@concorde.com.ua

Agriculture, Consumer

Yegor Samusenko syg@concorde.com.ua

Economics

Svetlana Rekrut sr@concorde.com.ua

Machinery

Roman Dmytrenko rd@concorde.com.ua

Utilities, Telecommunications

Aleksander Parashchiy ap@concorde.com.ua

Fixed income, Energy

Vitaliy Vavryshchuk vv@concorde.com.ua

Metals & Mining

Roman Topolyuk rt@concorde.com.ua

Financials

Olena Zuikova olz@concorde.com.ua

Corporate governance, Politics

Brad Wells bw@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.