



CONCORDE CAPITAL

Ukraine / Steel

MMK Ilicha

Boyko selling MMK Ilicha to Metinvest?

January 31, 2008

Current price: USD 1.29
12M Target: USD 1.70

BUY

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Tickers

PFTS	MMKI
GDR (Frankfurt/Xetra)	IWD

Market information

Market price, USD	1.29
MCap, USD mln	4,320.7
Chg 12M	116.9%
Hi/Lo YTD, USD	1.45/0.59
DRs per common share	1:20
No of shares, mln	3,351.7
Avg Mon Tr Vol YTD, USD mln	1.1
Free float	2%
Free float, USD mln	76.4

Corporate Governance

Concorde Rating*	P
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* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

Shareholders

Illych Stal	91%
SCM	7%
Other	2%

Today local media reported a rumor that MMK Ilicha will be acquired by Metinvest. MMK Ilicha's integration into resource-rich Metinvest would be just what the doctor ordered. Although none of the parties have confirmed the news, we treat the possibility of this deal as high and upgrade our 2008 financial projections (almost +20% for EBITDA and net income). Our new target price of USD 1.7 per share suggests 32% upside. We reiterate BUY.

We assign high probability to acquisition

Despite both parties maintaining silence, media reports strengthen our belief that Illych Stal's owner, Vladimir Boyko, is considering options to exit his non-integrated steel business. SCM, Metinvest's parent, has long shown interest in bidding for MMK Ilicha and has already accumulated a 7% stake in the company. Last year, Metinvest announced a merger with Smart Group, thus separating MMK Ilicha from its major independent iron ore supplier (above 50% of total supply). Immediately afterward, Boyko responded by saying that he was seeking a new partner.

Takeover secures brighter future

We believe the takeover could be MMK Ilicha's long-awaited positive due to numerous synergies it would find within Metinvest: strengthening upstream integration (Metinvest would cover 100% of its needs in iron ore and fortify coke supplies), speeding up its EUR 800 mln modernization program (construction of steel converters) and improving managerial efficiency. Additionally, MMK Ilicha would be part of Metinvest's IPO planned in 2009.

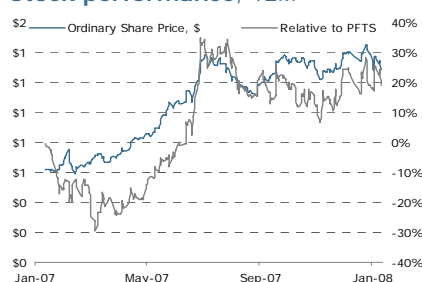
We upgrade financial forecasts for 2008

Given the high probability of acquisition by Metinvest, which would bring about better financial disclosure and a firmed up supply picture, we update our 2008 financial forecasts for the company. While leaving 2008 revenues almost unchanged, we raise our EBITDA forecast to USD 742 mln (+25%) and net income projection to USD 541 mln (+14%).

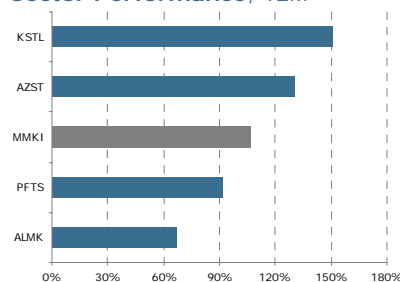
Valuation suggests 32% upside

The recent market correction (-11% YTD) created a buying opportunity; overall the stock now trades at a 10-50% discount to its global and local peers on key multiples. Our new target price of USD 1.7 per share on MMKI, derived using a scenario method, yields 32% upside.

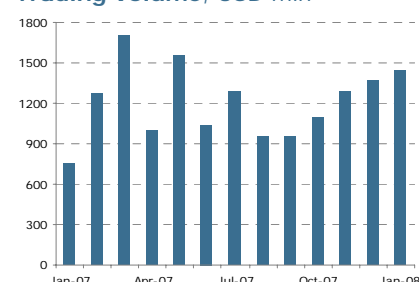
Stock performance, 12M



Sector Performance, 12M



Trading volume, USD mln



Key financials & ratios, USD mln

	Revenue	EBITDA	Net Income	EV/S	EV/EBITDA	P/E
2006	2 850.1	387.6	179.6	1.6	11.4	25.4
2007E	3 534.1	600.8	417.0	1.2	7.0	10.4
2008E	3 867.5	812.2	522.1	1.1	5.2	8.3
2009E	4 060.8	852.8	548.2	1.0	4.9	7.9

Spot exchange rate: 5.05 UAH/USD

FLASH NOTE

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Valuation

We derived our 12M target price for MMKI using a scenario method. The scenario of acquisition by Metinvest (prob. 70%) implies a USD 1.8 price per share. The underlying assumption is that MMK Illicha will benefit from secured raw materials' supply and better reporting practice. The stand-alone scenario (prob. 30%), assuming no changes to our previous forecasts, implies a price of USD 1.5 per share.

	MCap, USD mln	EV/S			EV/EBITDA			P/E		
		2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E	2009E
MMKI (acquired)	4 320.7	1.2	1.1	1.0	7.0	5.2	4.9	10.4	8.3	7.9
MMKI (stand-alone)	4 320.7	1.2	1.1	1.0	7.0	6.5	7.5	10.4	9.5	12.0
International Peers		2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E	2009E
Gerdau	16,230.5	1.2	1.0	0.8	5.7	4.5	3.5	9.1	8.2	7.5
Usinas Sider Minas	15,551.4	2.0	1.9	1.9	5.5	5.3	5.3	9.0	8.6	8.7
Cia Siderurgica Nacional	24,385.4	4.4	3.7	3.5	10.5	8.0	7.3	14.6	14.9	12.8
Posco	46,452.9	1.8	1.7	1.7	6.4	6.1	6.5	10.7	10.3	10.8
Nippon Steel Corp	41,229.4	1.1	1.0	1.0	6.4	6.2	6.1	12.0	12.2	11.7
Tata Steel Limited	13,297.2	0.8	0.9	0.7	5.2	4.8	4.5	5.8	5.6	5.1
China Steel Corp	15,558.4	2.4	2.2	2.1	7.3	6.9	6.8	9.9	9.5	9.5
Baoshan Iron & Steel	36,777.0	1.6	1.4	1.3	8.2	7.2	6.2	17.8	14.0	13.2
Angang Steel	18,203.8	2.2	1.7	1.4	8.2	6.4	5.4	16.0	13.1	10.4
Maanshan Iron & Steel	5,790.6	1.3	1.3	0.5	8.9	7.9	2.9	15.6	11.3	9.9
Hyundai Steel	6,172.3	1.1	1.1	1.2	8.7	8.9	9.4	11.0	10.1	10.4
Nucor Corp	16,764.8	1.0	0.9	0.7	5.7	4.9	3.9	11.5	10.2	9.6
Average		1.8	1.6	1.4	7.2	6.4	5.7	11.9	10.7	10.0
Russian Peers		2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E	2009E
Severstal	22,522.12	1.5	1.3	1.1	5.6	5.0	4.2	11.6	10.0	9.5
Novolipetsk steel	22,774.26	3.0	2.9	2.4	6.7	6.5	5.3	10.3	10.5	9.6
Mechel	8,325.42	1.5	1.3	1.2	8.9	10.0	3.8	9.0	9.9	19.2
Magnitogors spon	11,690.07	1.4	1.2	1.1	4.4	4.4	4.0	15.0	6.5	6.2
Evrast group	27,436.01	2.7	2.2	2.0	7.6	6.6	6.8	11.8	10.4	11.6
Average		2.0	1.8	1.6	6.6	6.5	4.8	11.6	9.5	11.2
Ukrainian Peers		2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E	2009E
Arcelor Mittal Kriviy Rih	12,041.7	3.2	2.9	2.7	11.0	10.3	8.6	15.1	15.5	11.5
Azovstal	4,023.6	1.4	1.1	1.0	6.2	5.0	4.6	9.3	7.9	7.2
Alchevsk Iron & Steel	1,142.2	0.9	0.7	0.5	6.9	4.8	3.4	14.7	7.9	5.6
Average		1.8	1.6	1.4	8.0	6.7	5.5	13.0	10.4	8.1
MMKI price (acquired)										
Implied by Intern. Peers avg, USD/share		1.9	1.8	1.7	1.3	1.6	1.5	1.5	1.7	1.6
Implied by Russian peers avg, USD/share		2.1	2.1	1.9	1.2	1.6	1.3	1.4	1.5	1.8
Implied by Ukrainian peers avg, USD/share		2.0	1.9	1.7	1.5	1.7	1.4	1.6	1.6	1.3
Upside/Downside to Intern. avg		46%	43%	34%	3%	24%	15%	15%	29%	26%
Upside/Downside to Russian avg		66%	64%	51%	-5%	24%	-2%	11%	14%	42%
Upside/Downside to Ukrainian avg		54%	45%	34%	14%	29%	12%	26%	26%	3%
MMKI price (stand-alone)										
Implied by Intern. Peers avg, USD/share		1.9	1.8	1.7	1.3	1.3	1.0	1.5	1.5	1.1
Implied by Russian peers avg, USD/share		2.1	2.1	1.9	1.2	1.3	0.8	1.4	1.3	1.2
Implied by Ukrainian peers avg, USD/share		2.0	1.8	1.7	1.5	1.3	1.0	1.6	1.4	0.9
Upside/Downside to Intern. avg		46%	41%	32%	3%	-1%	-24%	15%	13%	-17%
Upside/Downside to Russian avg		66%	61%	48%	-5%	0%	-35%	11%	0%	-7%
Upside/Downside to Ukrainian avg		54%	42%	32%	14%	3%	-26%	26%	10%	-33%

Source: Bloomberg, Thomson Financial, PFTS, Concorde Capital estimates

Financial Statements, UAS

Income Statement Summary, USD mln

	1Q06	1H06	9M06	2006	1Q07	1H07	9M07
Net Revenues	550.0	1 239.1	2 000.5	2 850.1	814.9	1 700.6	2 591.2
<i>Change y-o-y</i>	-29.2%	-20.1%	-6.4%	2.1%	48.2%	37.2%	29.5%
Gross Profit	83.5	265.5	505.8	722.3	204.4	457.2	678.4
EBITDA	14.3	111.9	260.8	388.7	115.6	291.9	417.6
<i>EBITDA margin, %</i>	2.6%	9.0%	13.0%	13.6%	14.2%	17.2%	16.1%
Depreciation	(17.7)	(35.5)	(57.6)	(75.9)	(24.4)	(48.8)	(74.1)
EBIT	(3.5)	76.4	203.2	312.8	91.2	243.0	343.5
<i>EBIT margin, %</i>	-0.6%	6.2%	10.2%	11.0%	11.2%	14.3%	13.3%
Interest Expense	(0.0)	(0.2)	(0.5)	(1.0)	(0.5)	(0.8)	(1.0)
Other income/(expense)	1.1	4.8	5.7	(26.4)	3.7	2.8	1.3
PBT	(1.0)	83.9	213.0	291.8	96.3	248.6	348.9
Tax	(11.2)	(46.0)	(84.4)	(111.3)	(51.8)	(47.9)	(78.4)
<i>Effective tax rate</i>	-1133.2%	54.9%	39.6%	38.2%	53.9%	19.3%	22.5%
Net Income	(12.2)	37.7	128.5	180.3	44.4	200.7	270.6
<i>Net Margin, %</i>	-2.2%	3.0%	6.4%	6.3%	5.5%	11.8%	10.4%

Balance Sheet Summary, USD mln

	1Q06	1H06	9M06	2006	1Q07	1H07	9M07
Current Assets	770.7	838.6	874.2	945.9	799.7	818.8	828.3
Cash & Equivalents	150.9	157.3	162.0	159.6	162.0	145.8	152.4
Trade Receivables	85.7	110.7	124.8	152.6	143.5	152.1	155.3
Inventories	290.9	316.8	354.9	262.8	265.6	264.5	277.0
Other	243.3	253.7	232.5	370.9	228.5	256.4	243.6
Fixed Assets	1 015.3	1 037.6	1 083.8	1 471.9	1 474.4	1 541.2	1 579.3
PP&E, net	583.4	607.8	638.0	723.3	713.5	715.8	743.7
Other	431.9	429.8	445.9	748.6	761.0	825.4	835.6
Total Assets	1 786.0	1 876.2	1 958.1	2 417.8	2 274.1	2 360.0	2 407.6
Shareholders' Equity	1 503.7	1 554.3	1 652.7	1 712.2	1 767.1	1 933.0	2 002.2
Share Capital	165.9	165.9	165.9	165.9	165.9	165.9	165.9
Retained Earnings	238.3	289.4	129.6	181.1	232.7	398.6	286.6
Other	1 099.4	1 099.0	1 357.2	1 365.2	1 368.5	1 368.5	1 549.6
Current Liabilities	279.1	318.9	302.6	700.0	499.1	419.4	399.8
ST Interest Bearing Debt	2.9	-	15.8	35.3	21.1	19.1	32.1
Trade Payables	128.7	122.9	113.6	116.1	128.1	121.4	116.3
Accrued Wages	11.4	14.1	13.7	12.1	12.4	14.2	14.5
Accrued Taxes	11.4	19.4	8.7	9.1	35.0	5.6	2.9
Other	124.7	162.5	150.8	527.4	302.4	259.0	233.9
LT Liabilities	3.1	3.0	2.7	5.6	5.4	5.3	5.0
LT Interest Bearing Debt	0.0	0.0	0.0	0.0	0.0	-	-
Other	3.1	3.0	2.7	5.6	5.4	5.3	5.0
Total Liabilities & Equity	1 786.0	1 876.2	1 958.1	2 417.8	2 271.7	2 357.7	2 406.9

Quarterly Analysis, USD mln

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07
Net Revenues	550.0	689.1	761.4	849.6	814.9	885.7	890.6
<i>Change y-o-y</i>	N/M	N/M	N/M	29.7%	N/M	N/M	N/M
EBITDA	14.3	97.7	148.9	127.9	115.6	176.3	125.7
<i>margin, %</i>	2.6%	14.2%	19.6%	15.1%	14.2%	19.9%	14.1%
EBIT	(3.5)	79.9	126.8	109.6	91.2	151.8	100.4
<i>EBIT margin, %</i>	-0.6%	11.6%	16.7%	12.9%	11.2%	17.1%	11.3%
Net Income	(12.2)	49.9	90.9	51.8	44.4	156.3	69.9
<i>Net Margin, %</i>	-2.2%	7.2%	11.9%	6.1%	5.5%	17.6%	7.8%

Appendix - Disclosures

Analyst certification

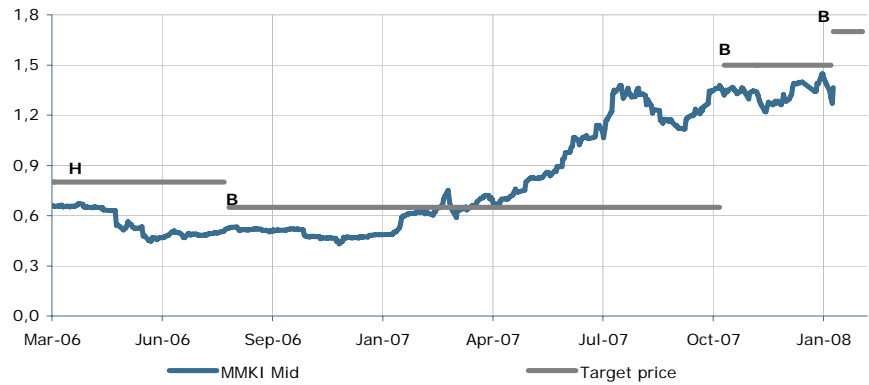
I, Eugene Cherviachenko, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

MMKI

Date	Target price, USD	Market price, USD	Reccomen- dation	Action
22 Mar 06	0.80	0.72	HOLD	Initiating
18 Aug 06	0.65	0.49	BUY	Upgrade
19 Oct 07	1.50	1.36	HOLD	Downgrade
23 Nov 07	1.50	1.27	BUY	Maintain
04 Dec 07	1.50	1.26	BUY	Maintain
31 Jan 08	1.70	1.29	BUY	Maintain

** Until February 2006 the company was covered by Andriy Gostik, who now focuses on another sector. In February 2006, Eugene Cherviachenko took over coverage*

MMKI Recommendation history, USD per share



Investment Ratings

The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 15% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 15%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

Concorde Capital ratings distribution

Buy	39	37%
Hold	30	28%
Sell	13	12%
Under Review	24	23%
Total	106	100%

Investment banking clients*

Buy	7	78%
Hold	1	11%
Sell	0	0%
Under Review	1	11%
Total	9	100%

**Within the last twelve month period, Concorde Capital has obtained compensation from these companies.*

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