

Motor Sich

Target upgraded to USD 509 on 10-year tax break

Event: New tax code sets zero income tax for MSICH

Ukraine's new tax code, signed into law by President Viktor Yanukovich earlier this month, included an income tax break for the aerospace industry, which includes locally traded Motor Sich (MSICH UK), until 2020. Motor Sich shares have risen 12% growth over the last two days.

Implication: additional USD 86 to DCF target

We estimate the income tax vacation, from 25% under the previous tax code, will allow Motor Sich to increase its FCF by USD 180 mln at present value (or USD 86.5 per share). Accounting for the tax break in our DCF model increases the fair value of the stock by 36% to USD 481.

Action: Target upgraded to USD 509, confirming BUY

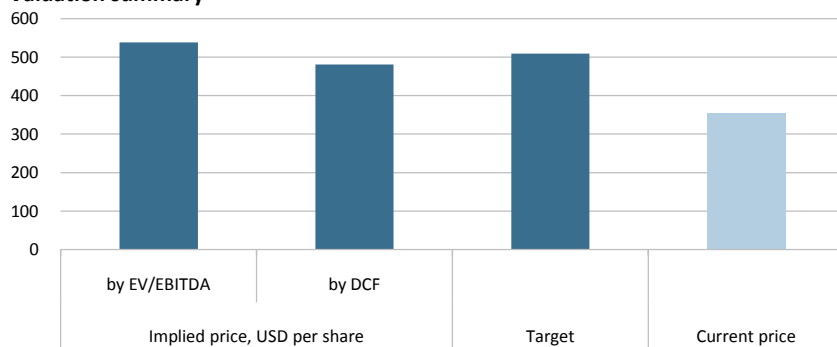
We continue to value Motor Sich by averaging the results of a DCF analysis and a comparative valuation based on EV/EBITDA using global peers. Given the changes to our DCF model, we increase our target by 34% to USD 509 (44% upside), confirming our BUY recommendation.

Valuation summary

	Implied price, USD per share		Target USD	Current price USD	Upside
	by EV/EBITDA	by DCF			
MSICH	538	481	509	354	44%

Source: Concorde Capital, Bloomberg, Company data

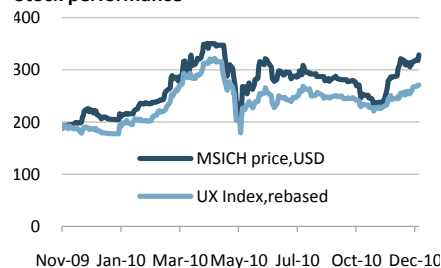
Valuation summary



Source: Concorde Capital, Bloomberg, Company data

Report date	9 Dec 2010
Bloomberg	MSICH UK
Reuters	MSICH=UA
Recommendation	BUY
Price (9 Dec10), USD	354
12M price target, USD	509
No of shares, mln	2.08
Market Cap, USD mln	734.3
52-week performance	89%
52-week range, USD	187/353
ADT, 12M, USD mln	0.43
Free float, %	24%
Free float, USD mln	176.24

Stock performance



Source: Concorde Capital, Bloomberg

Financial statements

Income statement summary, USD mln

	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Net Revenues	388	480	566	651	716	752	790	829	870	914	960	1,008
<i>Change y-o-y</i>	<i>N/M</i>	<i>23.5%</i>	<i>18.0%</i>	<i>15.0%</i>	<i>10.0%</i>	<i>5.0%</i>	<i>5.0%</i>	<i>5.0%</i>	<i>5.0%</i>	<i>5.0%</i>	<i>5.0%</i>	<i>5.0%</i>
Cost Of Sales	(230)	(259)	(323)	(395)	(456)	(479)	(503)	(528)	(554)	(582)	(611)	(642)
Gross Profit	159	221	243	256	260	273	287	301	316	332	348	366
Other Operating Income/Costs net	(8)	5	-	-	-	-	-	-	-	-	-	-
SG&A	(81)	(68)	(81)	(93)	(102)	(107)	(113)	(118)	(124)	(130)	(137)	(144)
EBITDA	69	157	163	163	158	166	174	183	192	202	212	222
<i>EBITDA Margin %</i>	<i>17.8%</i>	<i>32.7%</i>	<i>28.7%</i>	<i>25.0%</i>	<i>22.0%</i>	<i>22.0%</i>	<i>22.0%</i>	<i>22.0%</i>	<i>22.0%</i>	<i>22.0%</i>	<i>22.0%</i>	<i>22.0%</i>
Depreciation	(20)	(15)	(18)	(22)	(28)	(31)	(33)	(34)	(36)	(38)	(41)	(43)
EBIT	49	142	145	141	130	135	141	149	156	163	171	179
<i>EBIT Margin %</i>	<i>12.6%</i>	<i>29.5%</i>	<i>25.6%</i>	<i>21.7%</i>	<i>18.1%</i>	<i>17.9%</i>	<i>17.9%</i>	<i>17.9%</i>	<i>17.9%</i>	<i>17.9%</i>	<i>17.8%</i>	<i>17.8%</i>
Interest Expense	(10)	(11)	(8)	(5)	(4)	(3)	(2)	(1)	(1)	(0)	(0)	(1)
Financial Income	3	(0)	-	-	-	-	-	-	-	-	-	-
Other Income/(Expense)	(39)	(3)	-	-	-	-	-	-	-	-	-	-
PBT	3	128	137	136	126	132	140	148	155	163	171	178
Tax	(2)	(33)	(34)	-	-	-	-	-	-	-	-	-
<i>Effective Tax Rate</i>	<i>73%</i>	<i>26%</i>	<i>25%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>
Net Income	0.7	95.1	103.0	135.9	125.8	131.6	139.7	148.0	155.3	162.9	170.5	178.3
<i>Net Margin %</i>	<i>0.2%</i>	<i>19.8%</i>	<i>18.2%</i>	<i>20.9%</i>	<i>17.6%</i>	<i>17.5%</i>	<i>17.7%</i>	<i>17.9%</i>	<i>17.8%</i>	<i>17.8%</i>	<i>17.8%</i>	<i>17.7%</i>

Balance sheet summary, USD mln

	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Current Assets	299	352	428	490	532	558	561	589	618	649	682	716
Cash & Equivalents	6	23	28	33	36	38	40	42	44	46	48	50
Trade Receivables	25	18	21	24	27	28	30	31	33	34	36	38
Inventories	198	199	242	277	297	311	302	317	333	349	367	385
Other Current Assets	69	113	136	157	172	181	190	199	209	220	231	242
Fixed Assets	161	175	197	239	274	268	261	252	248	243	236	231
PP&E net	110	115	141	173	218	225	218	209	202	197	190	183
Other Fixed Assets	51	60	56	65	56	43	43	43	45	46	47	48
Total Assets	460	527	625	729	805	826	822	841	866	892	918	947
Shareholder Equity	234	319	415	517	580	593	600	607	623	639	648	666
Share Capital	59	59	59	59	59	59	59	59	59	59	59	59
Reserves and Other	175	260	356	458	520	534	541	548	564	580	588	606
Current Liabilities	209	179	172	191	203	209	196	207	215	223	239	249
ST Interest Bearing Debt	77	67	36	34	29	27	5	6	4	2	7	5
Trade Payables	33	12	15	19	22	23	24	25	26	28	29	31
Accrued Wages	4	5	6	7	7	8	8	9	9	9	10	10
Accrued Taxes	1	6	7	9	9	10	10	11	11	12	13	13
Other Current Liabilities	95	88	107	123	135	142	149	157	164	173	181	190
LT Liabilities	16	30	38	21	23	24	25	27	28	29	31	32
LT Interest Bearing Debt	9	14	20	-	-	-	-	-	-	-	-	-
Other LT	7	15	18	21	23	24	25	27	28	29	31	32
Total Liabilities & Equity	460	527	625	729	805	826	822	841	866	892	918	947
Net Debt	79.0	58.4	28.1	1.6	(7.0)	(11)	(35)	(36)	(39)	(44)	(41)	(46)

DCF model output

DCF model output

For forecasting purposes local currency is used

All amounts in UAH except otherwise stated

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
EBITDA	1,286	1,288	1,247	1,310	1,375	1,444	1,516	1,592	1,672	1,755
EBIT	1,146	1,114	1,023	1,063	1,117	1,174	1,231	1,290	1,351	1,414
Tax Rate	25%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Taxed EBIT	859	1,114	1,023	1,063	1,117	1,174	1,231	1,290	1,351	1,414
Plus D&A	140	175	224	246	258	270	285	302	321	342
Less CapEx	(300)	(500)	(500)	(200)	(200)	(200)	(250)	(260)	(270)	(300)
Less change in OWC	(350)	(290)	(168)	(127)	65	(130)	(137)	(144)	(151)	(158)
FCFF	-	498	579	983	1,240	1,114	1,129	1,188	1,251	1,297
WACC	16%	16%	16%	15%	15%	15%	14%	14%	14%	14%
Sum of DCF's	4,657									
Terminal Value										9,928
Discounted TV	3,276									
Firm Value	7,933									
Less Net Debt	(43)									
Equity Value	7,890									
										41.3%
										5.7 x
Perpetuity Growth Rate			2.0%							

Sensitivity Analysis

WACC to perpetuity	Implied Share Price USD					WACC to perpetuity	Implied Share Price USD				
	Perpetuity Growth Rate						Exit Multiple (EBITDA)				
	1.0%	1.5%	2.0%	2.5%	3.0%		4.9 x	5.9 x	6.9 x	7.9 x	8.9 x
10.0%	540.6	551.5	563.5	576.5	590.9	9.0%	475.9	519.7	563.5	607.3	651.0
11.0%	512.6	522.8	533.9	546.0	559.4	10.0%	452.4	493.1	533.9	574.6	615.3
12.0%	486.5	496.0	506.3	517.6	530.0	11.0%	430.5	468.4	506.3	544.2	582.1
13.0%	462.2	471.0	480.6	491.1	502.7	12.0%	410.1	445.3	480.6	515.9	551.2
14.0%	439.5	447.7	456.7	466.5	477.3	13.0%	390.9	423.8	456.7	489.5	522.4
15.0%	418.3	426.0	434.3	443.4	453.5	14.0%	373.0	403.7	434.3	464.9	495.6
16.0%	398.5	405.6	413.4	421.9	431.3	15.0%	356.2	384.8	413.4	442.0	470.6

WACC calculation

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Avg. Interest Rate	10.6%	12.0%	12.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Ukr Eurobonds YTM	8.0%	7.0%	7.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Equity premium	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Comp.-specif. Prem/Disc	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	1.0%	1.0%	1.0%	1.0%
Cost Of Equity	17.0%	16.0%	16.0%	15.0%	15.0%	15.0%	14.0%	14.0%	14.0%	14.0%
WACC	15.9%	15.8%	15.8%	14.8%	15.0%	15.0%	14.0%	14.0%	14.0%	14.0%
WACC To Perpetuity	13.0%									

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