

March 26, 2010

 Current price: USD 302
 Fair price: USD 350

HOLD
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- Yesterday, Motor Sich shareholders convened for an AGM and approved a 2009 dividend of only UAH 3.0 per share
- Based on the management's new projections for revenue in 2010, we upgrade our target price for the stock to USD 350 per share, implying an upside of 16%. HOLD

Tickers

PFTS/UX MSICH

Market information

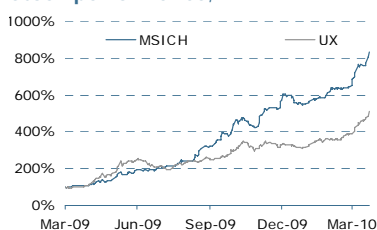
Market price, USD	302
MCap, USD mln	628
52Wk Hi/Low, USD	316/40.4
No of shares, mln	2.0
Free float	35.8%
Free float, USD mln	224.8

Shareholders

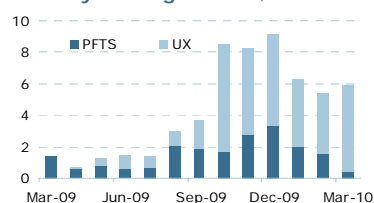
Management	61.3%
Treasury stock	4.7%
Bartence Alliance	9.7%
Other	24.3%

Key financials and ratios

	Sales, USD mln	EBITDA, USD mln	Net income, USD mln
2008	387.7	69.2	0.7
2009	479.5	156.8	95.0
2010E	555.4	166.6	100.0
2011E	611.0	122.2	73.3

Stock performance, 12M


Source: Bloomberg, Concorde Capital

Monthly trading volume, USD mln


Source: Bloomberg, Concorde Capital

Dividends only 3 UAH per share

Motor Sich shareholders, at an AGM yesterday, approved a dividend of only UAH 3.0 per share, for a total of UAH 5.9 mln (less than 1% of 2009 net income). Motor Sich's 2009 net income was UAH 741.2 mln (UAH 363.2 per share). We expect a negative reaction to the dividend; the market was expecting more given that Motor Sich's 2009 net income equaled its cumulative income for the preceding ten years.

2009 financial results exceed our expectations

Yesterday Motor Sich published its 2009 financials:

- Net revenues grew 23.7% yoy to USD 479.5 mln (vs. our projection of 11.7% yoy growth)
- EBITDA grew 2.3x yoy, margin was at a historical high of 33% (up 15 pp yoy, 2 pp below our projections). Net income amounted to USD 95 mln (19.8% net margin, 2 pp above our expectations)

19% sales growth projected in 2010

Management expects 2010 revenues to increase 18.8% yoy (15.8% yoy in USD terms, assuming an average annual UAH/USD exchange rate of 8 in 2010). Motor Sich's CFO clarified to us that the main source of growth would come from a three-year USD 110 mln Indian contract for engine modernization that the company plans to deliver on 1.5x faster than scheduled. We improved our projections for 2010 based on better than expected 2009 sales growth and the management's outlook for 2010.

Estimate revisions, USD mln

	2009E		2010E		2011E
	our forecasts	reported figures	old forecast	new forecast	
Net revenue	433.3	479.5	476.9	555.4	611.0
<i>yoy</i>	11.7%	23.7%	10.1%	15.8%	10.0%
EBITDA	151.7	156.8	104.9	166.6	122.2
<i>mgn</i>	35.0%	32.7%	22.0%	30.0%	20.0%
Net income	76.7	95.0	61.2	100.0	73.3
<i>mgn</i>	17.7%	19.8%	12.8%	18.0%	12.0%

Source: Company data, Concorde Capital

Valuation: target price upgraded

We upgrade our target for Motor Sich to USD 350 per share from USD 220, upside of 16%, and rate the stock HOLD. The stock is trading at EV/EBITDA '11E of 5.4x. We base the target on the average EV/EBITDA '11E for two peer groups, aircraft engine manufacturers and aerospace companies (currently 6.2x). We argue that projected margins in 2010 are not sustainable in the long-term and expect normalization in 2011.

Motor Sich peer valuation

	MCap			EV/S			EV/EBITDA			P/E		
	USD mln	09	10E	11E	09	10E	11E	09	10E	11E		
Motor Sich	628	1.4	1.2	1.1	4.4	4.1	5.4	6.6	6.3	0.0		
Aircraft engine peers												
IHI Corporation	2,626	0.4	0.4	0.4	9.4	7.2	6.5	n/m	28.0	18.2		
Ufimskiye Motors	160	n/a	1.2	0.9	n/a	7.9	6.2	n/a	20.0	5.5		
Magellan Aerospace Corp	33	0.5	0.4	0.4	5.4	3.5	3.8	6.1	n/a	n/a		
Sichuan Chengfa	538	5.0	3.8	4.2	n/a	19.7	24.5	62.5	40.0	50.4		
MTU Aero Engines	2,914	0.9	0.9	0.8	6.7	6.5	5.9	14.1	14.1	12.7		
Median		0.71	0.91	0.85	6.7	7.2	6.2	14.1	24.0	15.5		

Implied price, USD per share

by peer median	134.1	220.4	233.5	477.5	552.2	346.5	643.8	1153.4	545.9
<i>Upside/Downside</i>	<i>-56%</i>	<i>-27%</i>	<i>-23%</i>	<i>58%</i>	<i>83%</i>	<i>15%</i>	<i>113%</i>	<i>282%</i>	<i>81%</i>

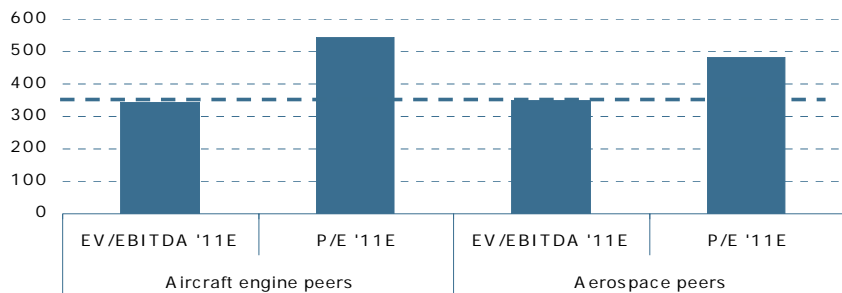
Aerospace peers

Boeing Co	54,922	0.9	0.9	0.9	17.7	9.3	8.4	52.7	18.9	16.9
Lockheed Martin	31,360	0.8	0.7	0.7	6.5	6.5	6.3	10.6	11.2	11.0
Cobham	4,510	1.8	1.6	1.4	8.6	7.8	7.1	14.4	14.1	13.0
EADS	16,722	0.1	0.2	0.2	2.7	2.6	2.4	173.4	20.2	15.2
Finmeccanica	7,728	0.5	0.5	0.5	4.2	4.2	3.9	8.0	8.2	7.5
Meggitt PLC	3,193	2.5	2.5	2.3	8.8	8.2	7.4	14.2	13.7	12.3
Safran SA	10,980	0.9	0.8	0.7	8.5	7.0	5.7	19.9	18.0	13.1
Dassault Aviation	7,796	0.9	0.9	0.8	6.1	6.5	4.9	20.7	18.0	14.7
Textron	5,935	0.9	0.8	0.7	13.3	10.6	6.2	139.3	45.4	14.4
Zodiac SA	2,811	1.2	1.3	1.2	8.2	10.7	8.8	12.2	19.3	15.0
Median		0.91	0.86	0.78	8.4	7.4	6.2	17.2	18.0	13.8

Implied price, USD per share

by peer median	179.3	206.4	212.9	600.8	569.5	350.8	784.5	864.9	485.5
<i>Upside/Downside</i>	<i>-41%</i>	<i>-32%</i>	<i>-30%</i>	<i>99%</i>	<i>88%</i>	<i>16%</i>	<i>160%</i>	<i>186%</i>	<i>61%</i>

Source: Bloomberg, Concorde Capital

MSICH price implied by peer median and target price, USD


Source: Bloomberg, Concorde Capital

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