



CONCORDE CAPITAL

Ukraine / Aerospace

Motor Sich

2007 bottom line beats our expectations

January 30, 2008

Current price: USD 322
12M Target: USD 375

BUY

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Yesterday Motor Sich published preliminary 2007 financial results, revealing net income that is 1.2x higher than our expectations. We stick to our previous forecast for 2008 and target price, while watch list opens the door for positive surprises this year.

Ticker

Bloomberg	MSICH UZ
GDR (Frankfurt/Xetra)	BC21 GR

Market information

No of shares, mln	2.07
Market price, USD	322.2
MCap, USD mln	669.5
52 Wk H/L, USD	350.4/101.2
Free float	24.3%
Free float, USD mln	162.7

Corporate governance

Concorde Rating* AA

* The rating is based on Concorde capital's corporation governance survey. Q denotes quality corporate governance standards, AA – above average standards, A – average, BA – below average, P – for poor

Shareholders

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

2007 net income exceeds our expectations by 20%

Motor Sich announced its preliminary net income results for 2007 yesterday: USD 46.8 mln (up 6.2x yoy), beating our projections by 20%. According to management, the company's 2007 sales could be about USD 320 mln (in line with our forecast of USD 333 mln), which would imply a net margin of 14.0% vs. our estimate of 11.8%.

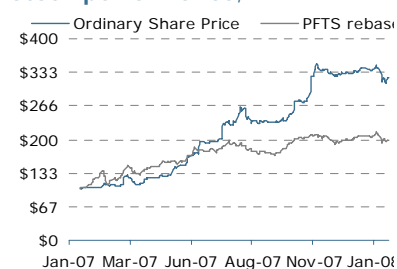
What contributed to surprisingly high net income?

We see two reasons for the Motor Sich's net margin increase from 3.0% in 2006 to 14.0% in 2007. The first is connected to make-up related to management plans to float additional 5% stake this year. The other is realization of the company's CapEx program. Newly installed equipment (financed from the equity placements in June 2007) contributed to improvement in efficiency and productivity, according to company representatives.

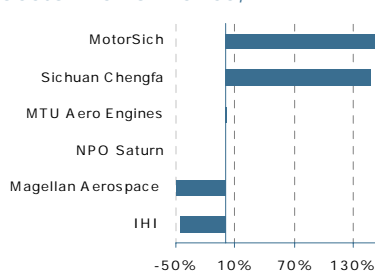
Watch list:

2007 financial results – end of February
Plans for 2008 – AGM on March 20
Announcement on 4% equity placement – 1H08
MTA (Russian-Indian passenger aircraft) engine tender results – 1H08

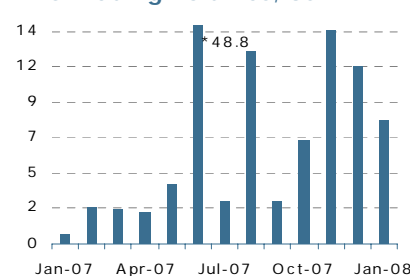
Stock performance, 12M



Sector Performance, 12M



PFTS Trading Volumes, USD mln



Note: June trading volume of USD 48.8 mln included the placement of an 11% stake. Source: PFTS, Bloomberg

Key financials, USD mln

	Sales	EBITDA margin	Net margin	EV/Sales	EV/EBITDA	P/E
2006	245	16%	3%	3.0	18.1	89.3
2007E	333	23%	12%	2.4	9.0	21.9
2008E	379	23%	13%	2.1	7.5	15.9

FLASH NOTE

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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 rating universe

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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