



CONCORDE CAPITAL

Ukraine / Machinery

# Motor Sich

Solid order book breeds strong sales

July 31, 2009

Current price: USD 87.3

Fair price: USD 150

**BUY**

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#### Tickers

Bloomberg MSICH UZ

#### Market information

Market price, USD	87.34
MCap, USD mln*	173.0
52Wk Hi/Lo, USD	190.44/24.17
No of shares, mln*	2.0
Free float	25.5%
Free float, USD mln*	44.1

\*Excluding treasury shares

#### Corporate Governance

Concorde Rating\*\* AA

\*\* 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

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
2007	346.5	79.0	41.0
2008	387.7	69.2	0.7
2009E	383.9	68.6	31.2
2010E	438.3	87.7	46.9

- Motor Sich's management said yesterday they estimated sales in 1H09 to have grown 20% yoy and were targeting 50% yoy growth in 2009 in UAH terms. They also said 1H09 net income should be ~50% higher than Interfax reported last week
- Motor Sich's order book looks strong in the mid-term backed by contracts from the Russian, Chinese and India military forces
- We grade MSICH as a BUY estimating the stock's fair value per share at USD 150 on EV/EBITDA 2009E, upside effective of 65%.

#### Management is targeting 50% yoy growth in sales in 2009

Yesterday, in conversation with us, Motor Sich's management said it expects the company to report 20% yoy growth in 1H09 sales in UAH terms, to UAH 1 bln. For 2009E, the company is targeting a 50% yoy increase in sales, to UAH 3.07 bln (the same revenue as last year in USD sales).

Motor Sich's management indicated its 1H09 net income was above UAH 50 mln (~10x yoy), with exact figure to be published in early August when accounting statements are finalized. This is at least 50% higher than the recently reported UAH 39.9 mln by Interfax, which we believe confused the figure with 1Q09 results.

Management estimates that if the UAH/USD exchange rate remains around 8, Motor Sich would earn a bottom line close to UAH 100 mln in 2009, implying a 3% net margin.

We believe company's sales target is achievable. As for profitability, we project an EBITDA margin of 18% this year, at the same level as in 2008, although the company could actually improve the margin thanks to hryvnya depreciation (to UAH/USD 8 on average in 2009E vs. 5.28 last year). This is due to the fact that Motor Sich derives a higher share of sales in foreign currency than it has in costs. We do not expect any significant forex or other non-recurring losses for Motor Sich this year and estimate the company's normalized net margin at 8%.

#### Mid-term view: Stable orders from abroad

With its main customers in the Russian, Chinese and Indian military defense sectors, where state budget financing remains strong, we see stability in sales.

A positive trigger for the stock would be the renewal of serial production of the An-124 Ruslan airplane. Talk of this project returned to vogue in July when Russian President Dmitriy Medvedev asked for documents to be drawn up to its effect, but the project is still uncertain. For reference, each new Ruslan airplane is outfitted with four Motor Sich D-436-148 engines, worth around USD 14 mln for the set.

Also underpinning the strength of Motor Sich's order book were the recent announcement of a USD 150 mln five-year contract with the Indian Air Force for engine repairs. Additionally, the Antonov Design Bureau said it had orders for 50 An-148 plans, implying 100 orders for D-436-148 engines (total estimated value of USD 350 mln, distributed over five years).

#### Valuation

We base our valuation on the 2009E EV/EBITDA multiple. Considering pure aircraft engine manufacturers and broad aerospace sector peers, we estimate MSICH's fair value to be USD 150 per share, close to the EV/EBITDA '09E implied price by the aerospace sector group. Respective upside is 72% and upside effective (6m avg spread on PFTS equal to 4%) is 65%.

FLASH NOTE

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**Motor Sich peer multiples**

	EV/Sales			EV/EBITDA			P/E		
	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
<b>Motor Sich</b>	0.64	0.63	0.49	3.6	3.5	2.4	255.1	5.5	3.7
<b>Aircraft engine manufacturers</b>									
Magellan Aerospace Corp	0.5	0.4	0.4	5.3	3.6	3.9	5.2	2.8	10.7
Sichuan Chengfa	4.6	3.4	3.0	55.9	19.1	17.5	57.9	38.8	32.2
MTU Aero Engines	0.6	0.6	0.6	4.3	4.6	4.5	7.6	9.1	9.8
<b>Median</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>5.3</b>	<b>4.6</b>	<b>4.5</b>	<b>7.6</b>	<b>9.1</b>	<b>10.7</b>
<b>MSICH implied price, USD</b>	<b>71</b>	<b>62</b>	<b>86</b>	<b>129</b>	<b>108</b>	<b>164</b>	<b>3</b>	<b>144</b>	<b>254</b>
Upside/downside	-19%	-29%	-2%	47%	23%	88%	-97%	65%	191%
<b>Aerospace sector</b>									
Boeing Co	0.6	0.5	0.6	5.6	5.4	5.7	9.8	9.6	10.1
Lockheed Martin	0.7	0.7	0.6	5.2	5.5	5.0	9.2	10.0	9.2
Cobham	2.0	1.3	1.2	9.7	6.7	6.0	14.7	10.4	9.6
EADS	0.1	0.2	0.3	1.4	3.1	3.6	9.9	12.3	13.1
Finmeccanica	0.6	0.5	0.5	5.3	4.3	4.0	10.5	7.9	7.2
Meggitt PLC	2.2	1.8	1.8	7.6	6.3	6.3	9.1	7.7	7.7
Safran SA	0.5	0.5	0.5	4.8	4.9	4.8	15.7	12.6	12.3
Dassault Aviation	n/m	n/m	n/m	0.0	0.8	0.1	13.6	12.4	11.9
Textron	0.4	0.5	0.4	3.3	7.4	5.0	5.3	44.9	12.3
Zodiac SA	1.2	1.0	1.0	7.8	6.4	6.9	12.0	8.8	10.1
<b>Median</b>	<b>0.6</b>	<b>0.5</b>	<b>0.6</b>	<b>5.3</b>	<b>5.5</b>	<b>5.0</b>	<b>10.2</b>	<b>10.2</b>	<b>10.1</b>
<b>MSICH implied price, USD</b>	<b>89</b>	<b>71</b>	<b>104</b>	<b>146</b>	<b>156</b>	<b>199</b>	<b>3</b>	<b>161</b>	<b>239</b>
Upside/downside	2%	-18%	19%	67%	78%	127%	-96%	84%	174%

Source: Bloomberg, Concorde Capital

**Motor Sich peers' key financials**

	Country	MCap	Sales			EBITDA			Net income		
			2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
<b>Motor Sich</b>	<b>Ukraine</b>	173	387.7	383.9	438.3	69.2	68.6	87.7	0.7	31.2	46.9
<b>Aircraft engine manufacturers</b>											
Magellan Aerospace Corp	Canada	28	529	623	601	47	68	62	5.4	10.0	2.6
Sichuan Chengfa	China	499	121	172	200	10	31	34	8.6	12.9	15.5
MTU Aero Engines	Germany	1,850	3,611	3,942	3,901	546	514	492	243.0	202.7	189.0
<b>Aerospace sector</b>											
Boeing Co	USA	31,999	61,435	67,958	65,904	6,363	6,832	6,481	3,270	3,324	3,160
Lockheed Martin	USA	28,838	42,679	45,243	48,040	5,843	5,345	5,820	3,149	2,879	3,140
Cobham	UK	3,401	1,990	3,221	3,379	414	636	671	231	327	353
EADS	France	15,453	52,443	59,866	57,610	4,924	4,411	4,527	1,564	1,257	1,178
Finmeccanica	Finland	8,549	18,698	24,877	25,791	2,286	3,075	3,246	811	1,089	1,186
Meggitt PLC	UK	1,966	1,517	2,007	1,937	437	558	547	216	255	254
Safran SA	France	5,847	12,927	14,649	14,438	1,343	1,506	1,480	372	464	475
Dassault Aviation		5,627	4,789	5,245	4,908	768	723	684	413	455	471
Textron		3,633	14,232	10,622	10,321	1,609	704	904	686	81	295
Zodiac SA	France	2,025	2,365	3,196	3,044	356	481	431	169	230	201

Source: Bloomberg, Concorde Capital

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