



CONCORDE CAPITAL

Ukraine / Pipes NITR & NVTR

Upgrade on Interpipe's 1H07 IFRS

October 25, 2007

12M targets

NITR: USD 46.5

HOLD

NVTR: USD 36.8

HOLD

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NITR

Market information

Bloomberg	NITR UZ
Frankfurt/Xetra	NYZ
No of shares, mln	53.9
Market price, USD	42.1
Target price, USD	46.5
52Wk H/L, USD	46.7/13.2
MCap, USD mln	2246.1
Free float	9.3%
Free float, USD mln	211.8
Corporate governance rating*	AA

Ownership

Interpipe	86.9%
Management	3.8%
Other	9.3%

NVTR

Market information

Bloomberg	NVTR UZ
No of shares, mln	12.0
Market price, USD	32.6
Target price, USD	36.8
52Wk H/L, USD	33.7/6.39
MCap, USD mln	387.3
Free float	13.5%
Free float, USD mln	52.8
Corporate governance rating*	BA

Ownership

Interpipe	86.5%
Other	13.5%

* Rating based on Concorde's corporate governance survey. Q denotes quality standards, AA – above average standards, A – average, BA – below average, P – poor.

On Monday, Interpipe group, parent of Nyzhnyodniprovsk and Novomoskovsk Pipe, released its 1H07 IFRS financials. The reported consolidated margins are materially higher than the profitability of NITR and NVTR on their stand-alone UAS statements. In the run-up to Interpipe's IPO, we believe it's feasible to apply real-world profitability, as gauged from IFRS accounts, in valuing group's core assets. We upgrade our targets for NITR and NVTR to USD 46.5 and USD 36.8 respectively, while recommending HOLD on both stocks.

Interpipe reported the group's 1H07 IFRS financial results on Monday, posting strong sales growth of 28.8% yoy, an EBITDA margin of 25.8% and net margin of 16%.

Given that two weeks earlier Interpipe's main shareholder, Viktor Pinchuk, announced that the group's IPO will take place a half year ahead of when it was previously expected – as early as 1H08, we feel justified in now starting to apply IFRS numbers as a benchmark to gauge the real profitability of the Interpipe's two traded pipe assets, Nyzhnyodniprovsk and Novomoskovsk Pipe, which is notably distorted in their public UAS statements. We believe that on the eve of IPO, the market will be more eager to see valuations based on true financials.

We estimate true EBITDA margin of 26-27% for Nyzhnyodniprovsk Pipe with its more value-added product mix, and 22% for Novomoskovsk, who unlike NITR lacks its own steel capacities. We also revise our 2007E sales up 10% and 7%, respectively, to remove the effects of transfer pricing. Valuations based on true profitability suggest a target price of USD 46.5 for NITR and USD 36.8 for NVTR.

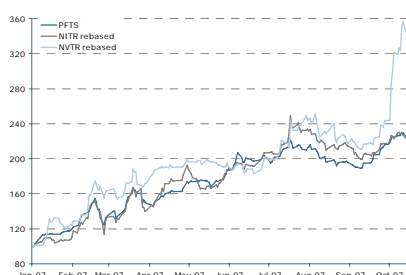
2007E	Based on reported financials	Based on adjusted financials
Nyzhnyodniprovsk Pipe		
Sales	953.3	1,039.1
EBITDA margin	22.3%	27.0%
Novomoskovsk Pipe		
Sales	236.6	253.1
EBITDA margin	14.9%	22.0%

Source: Company data, Concorde Capital estimates

Upsides of 13% and 11% only justify HOLDs on both stocks (maintain for NITR and downgrade for NVTR). Spurred on by the Ukrainian equity rally and Pinchuk's announcement that he expects the group's MCap to be USD 6 bln at IPO, NVTR has soared 60% since our latest sector update (Sept. 21), almost completely eliminating its discount to NITR.

We feel Pinchuk's USD 6 bln value for the group is reasonable, implying an 11% premium to our rough calculations if all Interpipe's other assets are part of the IPO. *Ceteris paribus*, the difference could be explained by a discrepancy in valuing a smelter, which is under construction and scheduled to launch in May 2008. At the moment, NITR and NVTR comprise 65-70% of the group's pipe business.

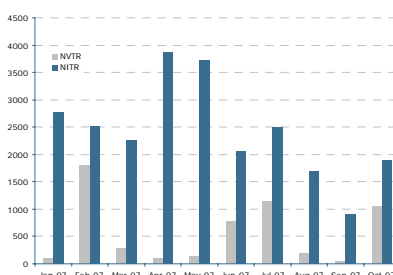
Stock performance, YTD



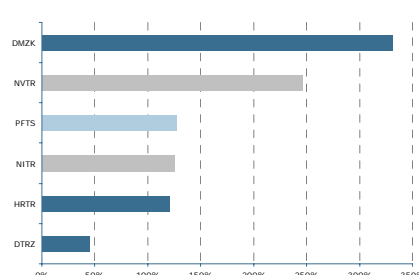
Note: PFTS Mid Price

Source: PFTS, Concorde Capital estimates

Trading volumes, USD ths



Sector performance, YTD



Financial revision

		2006	1H07	2007E	2008E
Interpipe*					
Sales		1,441.5	838.4	1,849.4	2,378.5
change			28.8%	28.3%	28.6%
EBITDA margin		25.3%	25.8%	25.5%	26.0%
NITR					
Sales**	Old	754.3	454.2	953.3	1,280.9
Sales	New	-	-	1,039.1	1,344.9
EBITDA margin**	Old	21.8%	19.7%	22.3%	20.2%
EBITDA margin	New	-	-	27.0%	26.5%
NVTR					
Sales**	Old	173.4	111.5	236.6	249.4
Sales	New	-	-	253.1	264.4
EBITDA margin**	Old	8.8%	17.6%	14.9%	16.2%
EBITDA margin	New	-	-	22.0%	22.0%

* According to IFRS

** According to UAS

Source: Company data, Concorde Capital estimates

Peer comparison

	Mkt price, USD	MCap, USD mln	EV/S		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
Nyzhnyodniprovsk Pipe*	42.1	2,267.5	2.6	2.0	10.2	8.0	14.9	11.6
Novomoskovsk Pipe*	32.6	391.0	1.7	1.3	9.0	6.5	10.3	8.1
Nyzhnyodniprovsk Pipe**	42.1	2,267.5	2.4	1.8	8.9	7.0	13.2	10.2
Novomoskovsk Pipe**	32.6	391.0	1.6	1.5	7.1	6.7	11.4	11.0
International peers								
Tubacex SA		1,363.7	1.7	1.6	11.1	9.7	16.4	14.3
Maruichi Steel Tube		2,389.8	1.8	1.7	9.8	9.2	20.9	21.0
Grant Prideco Inc		6,939.4	3.2	2.7	8.1	6.8	12.7	11.0
Tenaris SA		31,603.6	3.3	2.9	9.4	8.1	15.3	13.8
Vallourec SA		16,356.4	1.9	1.8	6.5	6.1	11.7	11.3
Borusan AS		284.5	0.4	0.4	8.6	6.6	11.9	9.5
Maharashtra Seamless Ltd		1,077.7	2.3	1.8	9.5	7.3	14.3	12.1
Jindal Saw Limited		770.2	0.9	0.7	7.0	5.8	11.1	8.1
TMK		8118.9	2.2	1.8	8.3	6.3	13.5	10.2
Average			2.0	1.7	8.7	7.3	14.2	12.4
Implied price, USD								
Nyzhnyodniprovsk Pipe*	42.1		30.6	36.9	30.2	31.2	29.6	31.8
Upside (Downside)			-27.3%	-12.3%	-28.2%	-25.9%	-29.7%	-24.4%
Novomoskovsk Pipe*	32.6		38.2	35.5	25.0	24.5	24.0	25.7
Upside (Downside)			17.2%	9.0%	-23.3%	-24.8%	-26.3%	-21.1%
Nyzhnyodniprovsk Pipe**	42.1		41.0	47.2	42.5	46.5	47.6	55.1
Upside (Downside)			-2.5%	12.1%	1.0%	10.6%	13.2%	31.1%
Novomoskovsk Pipe**	32.6		48.8	44.9	41.0	36.8	42.6	39.8
Upside (Downside)			49.9%	37.9%	25.8%	13.0%	30.9%	22.3%

* Based on reported financials

** Based on adjusted financials

Source: Company data, Thomson Financial, Bloomberg, Concorde Capital estimates

Concorde's estimation of Interpipe's value

	Fair value of equity, USD bln	% of total
Interpipe Group	5.4	100.0%
Nyzhnyodniprovsk Pipe	2.5	46.3%
Novomoskovsk Pipe	0.4	7.4%
Interpipe Nikopol & Niko Tube	1.5	29.6%
Interpipe Steel (under construction)	0.9	16.7%

Analyst Certification

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

Nyzhnyodniprovsk Pipe

Date	Target price, USD	Market Price, USD	Rec'	Action
31-Jan-05	3.00	3.80	BUY	Initiating
10-Aug-05	8.34	6.25	BUY	Maintain
22-Mar-06	18.00	11.73	BUY	Maintain
18-Aug-06	18.00	12.90	BUY	Maintain
22-Nov-06	21.88	15.24	BUY	Maintain
21-Sept-07	36.40	38.40	HOLD	Downgrade
25-Oct-07	46.50	42.08	HOLD	Maintain

* Until March 2007 the company was covered by Andriy Gostik, who now focuses on another sector. In February 2007, Eugene Cherviachenko took over coverage; in October 2007, he was joined by Andriy Gerus.

Recommendation history, USD



Novomoskovsk Pipe

Date	Target price, USD	Market Price, USD	Rec'	Action
31-Jan-05	5.00	6.50	BUY	Initiate
10-Aug-05	8.82	5.75	BUY	Maintain
22-Mar-06	11.00	6.60	BUY	Maintain
18-Aug-06	8.50	6.63	BUY	Maintain
22-Nov-06	10.12	7.61	BUY	Maintain
21-Sept-07	24.90	20.50	BUY	Maintain
25-Oct-07	36.80	32.58	HOLD	Downgrade

* Until March 2007 the company was covered by Andriy Gostik, who now focuses on another sector. In February 2007, Eugene Cherviachenko took over coverage; in October 2007, he was joined by Andriy Gerus.

Recommendation history, USD



Concorde Capital rating universe

BUY	37	46%
HOLD	25	31%
SELL	7	9%
U/R	12	15%
Total	81	100%

Investment banking clients

BUY	9	75%
HOLD	3	25%
SELL	0	0%
U/R	0	0%
Total	12	100%

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