



CONCORDE CAPITAL

Ukraine / Trading strategies

Nyzhnyodniprovsk Pipe

Opportunity for share issue arbitrage

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Oleksandr Klymchuk

ok@concorde.com.ua

+380 44 391 5577

PFTS	NITR
GDR (Frankfurt/Xetra)	NYZ
Recommendation	HOLD
12M target price, USD	46.50
(fully diluted)	6.31

Market information

Market price, USD	32.75
MCap, USD mln	1,764.8
Chg YTD	-19.1%
Hi/Lo 52wk, USD	53.5/27.9
DRs per common share	1:6
Curr No of shares, mln	53.9
New No of shares, mln	400.0

Avg mon trd vol T6M, USD mln	4.7
Free float	9.3%
Free float, USD mln	164.8
Expected FF post-issue	9.0%

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

Interpipe	86.9%
Management	3.8%
Other	9.3%

- Five days remain to seize the chance for an arbitrage in Nyzhnyodniprovsk Pipe's share issue, ex-rights date is May 16
- As a reminder, at their AGM on March 18, shareholders voted on a new share issue at a deep discount to the market
- Capital increase: 7.42 times; discount to market: 99%; required market price correction: 86%
- The issue's parameters suggest a high chance for an arbitrage profit⁽¹⁾

Subscription to new shares starts May 19, effective ex-rights: May 16

Nyzhnyodniprovsk Pipe's AGM on March 18 approved 7.42x charter fund increase via share issue at par value. The issue will raise the total number of shares from 53.9 mln to 400.0 mln. Subscription will be two-staged: (1) May 19 to June 2 and (2) June 3 to June 5.

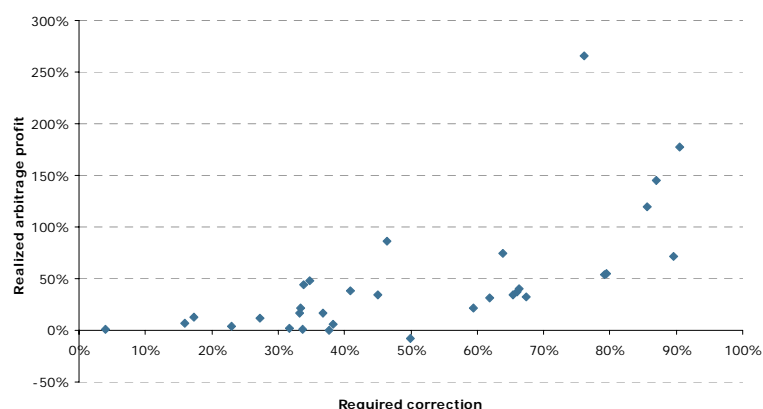
Cost of staying undiluted is less than 1%

During the first stage of subscription, each shareholder is entitled to subscribe on a *pro-rata* basis at par value, USD 0.0495: a 99.8% discount to the market. To keep an existing position in the stock undiluted, a mere 0.97% additional investment to the current market value of the position is required. We estimate free float contraction due to non-subscribing *babushkas* will be insignificant, not exceeding 0.3%. Based on the current market price of USD 32.75, the required adjustment to a fully diluted basis (USD 4.46) on the ex-rights date is 86%.

Arbitrage profit could be double-digit over 3 months

Historically, additional share issues with a required price correction of this magnitude have tended to generate an arbitrage profit of 50% or more over an average lock-in period of 108 days⁽¹⁾.

Arbitrage profit captured in share issues at par, 2006-2008



Source: PFTS, Concorde Capital research

We view risks related to the issue as low due to hefty liquidity, high corporate governance standards and the upcoming IPO of the company's parent holding, Interpipe expected in 2H08.

(1) See our February 21, 2008 report for a comprehensive analysis

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Concorde Capital
2 Mechnikova Street
21st Floor
Kyiv 01601, UKRAINE

Tel.: +380 44 391 5577
Fax: +380 44 391 5571
www.concorde.com.ua
office@concorde.com.ua

CEO

Igor Mazepa

im@concorde.com.ua

Head of Equity Sales

Roman Nasirov

rn@concorde.com.ua

Equity Sales

Anastasiya Nazarenko

Duff Kovacs, CFA

Marina Martirosyan

Andriy Supranonok

an@concorde.com.ua

dk@concorde.com.ua

mm@concorde.com.ua

sap@concorde.com.ua

Director of Research

Konstantin Fisun, CFA

kf@concorde.com.ua

RESEARCH COVERAGE BY SECTOR
Strategy

Konstantin Fisun

Oleksandr Klymchuk

kf@concorde.com.ua

ok@concorde.com.ua

Metals & Mining

Eugene Cherviachenko

Andriy Gerus

ec@concorde.com.ua

ga@concorde.com.ua

Utilities (Telecom, Energy)

Alexander Paraschiiy

ap@concorde.com.ua

Oil & Gas, Chemicals

Vladimir Nesterenko

vn@concorde.com.ua

Consumer/Real Estate Group

Andriy Gostik, CFA

Olha Pankiv

Alexander Romanov

Anna Dudchenko

ag@concorde.com.ua

op@concorde.com.ua

ar@concorde.com.ua

ad@concorde.com.ua

Machinery

Eugene Cherviachenko

Inna Perepelytsya

ec@concorde.com.ua

pi@concorde.com.ua

Financial Services, Retail

Alexander Viktorov

av@concorde.com.ua

Macroeconomics

Polina Khomenko

pk@concorde.com.ua

Fixed Income

Oleksandr Klymchuk

ok@concorde.com.ua

News/Production

Polina Khomenko

pk@concorde.com.ua

Editor

Brad Wells

bw@concorde.com.ua

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