

# Northern Iron Ore

## Dividend approval expected at Friday AGM

### AGM on Friday to distribute retained earnings of UAH 1.6/share

Northern Iron Ore shareholders are due to meet this Friday, March 25, for an AGM, the agenda for which includes the distribution of UAH 2.6 bln in 2010 net income and UAH 1.1 bln in retained earnings. Northern Iron Ore has paid dividends for the last five years and we expect this year to be no different. If shareholders pay all of 2010 net income as dividends, the payout would correspond to UAH 1.1 per share and a dividend yield of 8% based on the current market price. If shareholders also direct retained earnings into dividends, the payout rises to UAH 1.6 per share and dividend yield to 11%.

### Iron ore prices still up 16% y-o-y despite 2-week correction

Following the floods in Australia in February and strong demand from steelmakers, iron ore spot prices reached a new record of USD 198 per mt in early March. Despite a 14% correction over the last two weeks, iron ore is still trading at USD 170.5 per mt, +15.5% y-o-y. We expect contract prices for April-May, based on spot prices in January-March, to grow 15%-20% q-o-q to USD 180-185 per mt, the highest levels since mid-2008. We upgrade our forecast for iron ore price growth from 5% to 15% y-o-y on average in 2011.

### Output of iron ore to rise 5% yoy in 2011 by our estimates

In 2M11, Northern Iron Ore increased iron ore concentrate output by 0.6% y-o-y to 2.3 mln mt and decreased pellet output by 16% y-o-y to 1.4 mln mt. The drop in pellet production was due to the planned overhaul of its largest of four pelletizing machines (annual capacity of 333 ths mt), which was stopped for 17 days. Now that it is back online, Northern Iron Ore is planning to boost pellet output in March by 19% m-o-m to 900 ths mt. In 2011, we expect the company to boost its production of iron ore concentrate by 5% y-o-y to 15 mln mt and pellets by 5% y-o-y to 10.4 mln mt.

### Valuation: Target upgraded to UAH 19/share; BUY

Supported by our more bullish iron ore price forecast in 2011, we upgrade our 12M target price for Northern Iron Ore to UAH 19 or USD 2.4 per share (average of EV/EBITDA'12 and P/E'12); upside 32%.

<b>Report date</b>	<b>22 Mar 2011</b>
Bloomberg	SGOK UK
Reuters	SGOK=UA
<b>Recommendation</b>	<b>BUY</b>
Price (21 March 11), USD	1.8
12M price target, USD	2.4
Upside	32%
No of shares, mln	2,304.1
Market Cap, USD mln	4,173.4
Free float, %	0.7%
Free float, USD mln	29.2

#### Northern Iron Ore financials, USD mln

	2009	2010E	2011E
Sales	844	1,233	1,743
EBITDA	322	650	1,089
margin, %	38%	53%	62%
Net income	164	332*	601
margin, %	19%	27%	34%

\* Actual

Source: Interfax, Concorde Capital estimates

## Peer valuation

	MCap USD mln	EV/S		EV/EBITDA		P/E		
		11E	12E	11E	12E	11E	12E	
<b>UKRAINE</b>								
Northern Iron Ore	4,185	2.4	2.2	5.2	3.6	7.0	6.5	
<b>DEVELOPED MARKETS</b>								
BHP BILLITON PLC	232,055	3.3	2.9	6.1	5.3	10.9	9.3	
VALE DO RIO DOCE	165,910	3.0	2.9	4.8	4.7	6.4	6.3	
RIO TINTO PLC	136,774	2.2	2.2	4.4	4.5	6.7	6.6	
ANTOFAGASTA PLC	22,428	2.8	2.8	4.1	4.0	9.5	9.3	
FERREXPO	3,861	3.4	2.8	7.4	5.5	9.3	6.9	
<b>Average</b>		<b>2.9</b>	<b>2.7</b>	<b>5.4</b>	<b>4.8</b>	<b>8.6</b>	<b>7.8</b>	
<b>Median</b>		<b>3.0</b>	<b>2.8</b>	<b>4.8</b>	<b>4.7</b>	<b>9.3</b>	<b>6.9</b>	
<b>SGOK price</b>								
Implied by developed peers avg, USD/share		2.1	2.1	2.5	2.4	2.2	2.3	
Upside/Downside to Developed med		19%	16%	41%	36%	25%	28%	

Sources: Bloomberg, Concorde Capital

## Disclosures

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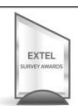
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