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Analyst's Notebook

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****Editor's Note:** In order to keep our coverage of the Ukrainian market as up to date as possible Concorde Capital is launching a new product – Analyst's Notebook. Unlike our more in-depth desk notes and reports, Analyst's Notebook provides rapid feedback on breaking news in the Ukrainian market. Analyst's Notebook gives you our analysts' first impressions of a situation and may set the table for further investigation. Our analysts will use their experience in their sectors to take a look at the situation and provide insight or speculate on possible scenarios. We want to emphasize however, this product consists mostly of the analyst's intuition and may require further analysis.

MMK Ilicha: A Pawn In The Struggle Between Arcelor & Mittal?

Rumor has it that the world's second largest steel company has made an offer to MMK Ilicha's shareholders for the purchase of a controlling stake in the Ukrainian steel mill. The management (mainly the CEO Volodymyr Boyko) allegedly controls ~93% of MMK Ilicha's shares, and a block of around 3-4% is believed to belong to SCM-related companies. However, Boyko has refused to comment on the rumor.

Shark Repellent?

Apparently, Arcelor's interest in MMKI was spurred by Mittal Steel's recent announcement that it plans to acquire Arcelor for EUR 18.6 bln. The management of the latter immediately reacted by stating that it would resist any hostile takeover attempt. To this end, the company said it planned to over take Mittal by doubling its production to 100 mln mt. Arcelor's global steel acquisitions reflect this new strategy.

Let's Get Serious

Despite the rumor and Arcelor's aggressive plans, any deal with MMKI seems a long way off. Arcelor is very likely to consider other options both in Ukraine and abroad first. The other Ukrainian steel mill that may catch Arcelor's eye is Zaporizhstal. However, were Arcelor to buy a Ukrainian steel company, it would have to invest in new equipment and modern technologies, in particular, to eliminate the risk of rising gas prices and this will reduce the price Arcelor would be willing to pay for any Ukrainian mill.

Implications For Mariupol Ilicha's Stock

MMKI's current MCAP is ~USD 2 bln. If the negotiations are successful, we think the premium for the control would be USD 0.5–0.8 bln making the total price for MMKI around USD 2.5-2.8 bln. The lower range of this price range suggests a premium of 6% on average EV/EBITDA-2006 and 11% on P/E-2006 to a group of Russian peers that includes Evraz Group, Mechel, Severstal, NLMK and NTMk.

We do not believe that the premium for MMKI would be as high as Kryvorizhstal, as the former does not have its own iron ore and coke production. In our view, the acquisition would be beneficial for MMKI's stock price. Although our target (USD 0.56) is marginally below the market price per share (USD 0.60), we upgrade our recommendation from **SELL** to **HOLD** based on the positive sentiments stemming from the takeover talk.

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