



CONCORDE CAPITAL

Ukraine / Trading strategies

# Novomoskovsk Pipe

## Opportunity for share issue arbitrage

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PFTS	NVTR
GDR (Frankfurt/Xetra)	n/a

Recommendation	HOLD
12M target price, USD	36.80
(fully diluted)	2.28

### Market information

Market price, USD	30.00
MCap, USD mln	360.0
Chg YTD	-24%
Hi/Lo 52wk, USD	45.94/17.44
Curr No of shares, mln	12.0
New No of shares, mln	200.0

Avg mon trd vol T6M, USD mln	1.1
Free float	13.5%
Free float, USD mln	47.6
Expected FF post-issue	13.2%

Prices as of March 4, 2008

### Corporate Governance

Concorde Rating	U/R
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### Shareholders

Interpipe	86.5%
Other	13.5%

- Yesterday at their AGM, Novomoskovsk Pipe shareholders voted on a new share issue at a deep discount to market
- Capital increase: 16.7 times; subscription discount: 99.8%; required correction in the market price: 94%
- The issue's parameters suggest high chance of an arbitrage profit<sup>(1)</sup> for subscribing shareholders

### Sixteen-fold charter fund increase approved at AGM yesterday

According to official filings, yesterday Novomoskovsk Pipe shareholders approved a 16.7x charter fund increase via new share issue at par value. The number of shares will increase from 12.0 mln to 200.0 mln. Subscription will be two-staged: (1) June 9 to June 23 and (2) June 24 to June 26. The ex-rights date is June 6, 2008.

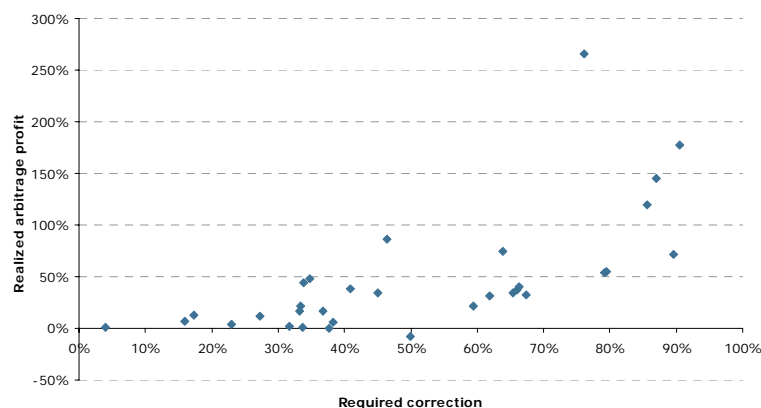
### Cost of staying undiluted is less than 3%

During the first stage of subscription, each shareholder is entitled to subscribe on a *pro-rata* basis at par value, USD 0.05: a 99.8% discount to the market. To keep an existing position in the stock undiluted, just a 2.6% additional investment to the current market value of the position would be required. We estimate free float contraction due to non-subscribing shareholders will not exceed 0.3%. Based on the current market price of USD 30.00, the required adjustment to a fully diluted basis (USD 1.85) on the ex-rights date is 94%.

### 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<sup>(1)</sup>.

### Arbitrage profit captured in share issues at par, 2006-2007



Source: PFTS, Concorde Capital research

We estimate risks related to the issue as low due to improving corporate governance standards driven by the upcoming IPO of its parent, Interpipe.

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

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