

# HOLD

December 04, 2006  
12M Target: USD 8.8

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#### Market Information

Bloomberg Ticker	PGOK UZ
No of Shares, mln	115.4
Market price*, USD	9.7
<b>MCap, USD mln</b>	<b>1,119.4</b>
Free float	4%
FF MCap, USD mln	44.8

\* Market price as of Dec. 1, 2006

#### Stock Ownership

Ferrexpo AG	85.8%
Other	14.2%

#### Ratios, 2005

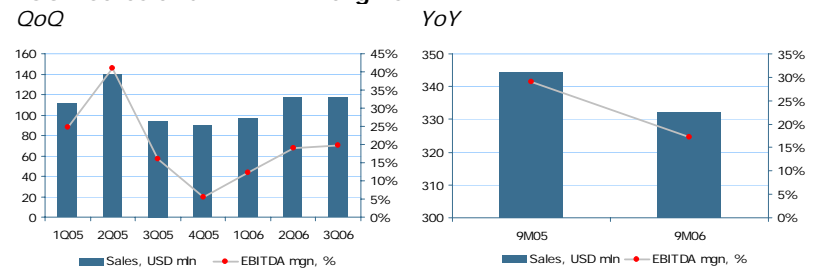
EBITDA Margin	24%
Net Margin	13%
Net Debt/ Equity	0.74

**Poltava Iron Ore released its preliminary 3Q06 results, which indicate no significant improvements in financial reporting in 9M06. We stick to our prior forecasts as well as our target price of USD 8.8 per share (a 10% downside). We also maintain our HOLD recommendation.**

**Strong Fundamentals.** In 9M06, Poltava Iron Ore increased pellet output to 6.2 mln mt (up 6% yoy, which is in line with our forecasts for 2006E). According to the company, it has developed further long-term relationships on China's growing market, notably with Shaoguan Iron and Steel. Earlier in August, Ferrexpo AG (PGOK's trader and major shareholder) inked a three year contract with another Chinese steel smelter, Fujian San Steel. Poltava Iron Ore's management plans for sales to China in 2006 of USD 43-44 mln (or 10% of total sales in 2005).

**Slow Improvements in Financial Reporting.** The released 3Q06 financials show a slight improvement compared to 2Q06. However, on an annual basis, the 9M06 results are weaker (see the charts below).

#### PGOK Sales and EBITDA margins QoQ

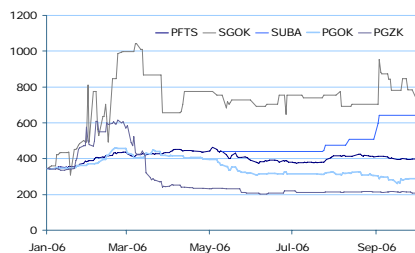


Source: Company Data

Given a top line of USD ~332 mln (a 4% drop yoy) in 9M06, we estimate that PGOK still underreports nearly 30% of its revenues, transferring them to Ferrexpo AG.

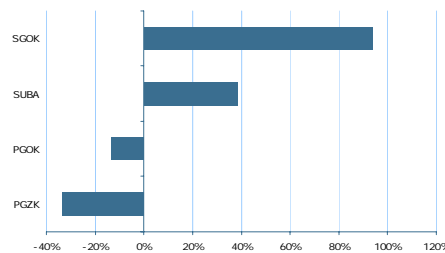
**Low Liquidity.** PGOK's trading volumes on the PFTS have been decreasing since the beginning of the year and dropped from a maximum USD 6.5 mln in February to USD 0.6 mln in November. Despite growth in PGOK's price from USD 8.6/share to USD 9.7/share over the last week, it is hard to find large deals at the current price.

#### Sector Performance

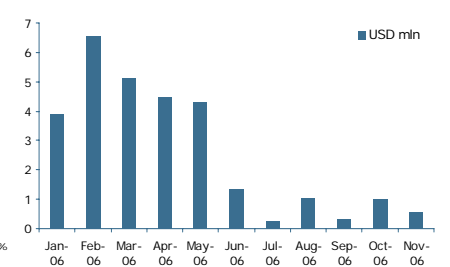


Source: PFTS

#### Price Performance, YTD



#### PGOK Trading Volumes (PFTS)



#### Key Financials & Ratios

	Sales, USD mln	EBITDA Margin	Net Margin
2005	435.0	24%	13%
2006E	451.7	22%	7%
2007E	564.8	24%	9%

Spot exchange rate is 5.05

	EV/S	EV/EBITDA	P/E
2005	3.0	12.5	19.8
2006E	2.9	13.5	33.3
2007E	2.3	10.3	21.4

## Financial Statements\*

All financial statements according to Ukrainian Accounting Standards

### Income Statement Summary, USD mln

	2005	2006E	2007E	2008E
<b>Net Revenues</b>	<b>435</b>	<b>452</b>	<b>565</b>	<b>663</b>
<i>Change y-o-y</i>	59%	4%	25%	17%
Cost Of Sales	(256)	(267)	(341)	(392)
Gross Profit	179	185	224	272
Other Operating Income/Costs, net	(6)	(6)	(6)	(6)
SG&A	(69)	(81)	(85)	(86)
<b>EBITDA</b>	<b>105</b>	<b>98</b>	<b>134</b>	<b>180</b>
<i>EBITDA margin, %</i>	24%	22%	24%	27%
Depreciation	(18)	(20)	(26)	(31)
<b>EBIT</b>	<b>87</b>	<b>78</b>	<b>108</b>	<b>149</b>
<i>EBIT margin, %</i>	20%	17%	19%	22%
Interest Expense	(15)	(34)	(39)	(45)
Financial income/(expense)	2	2	2	2
Other income/(expense)	(0)	(1)	(1)	(1)
<b>PBT</b>	<b>73</b>	<b>45</b>	<b>70</b>	<b>105</b>
Tax	(17)	(11)	(17)	(26)
<i>Effective tax rate</i>	23%	25%	25%	25%
<b>Net Income</b>	<b>57</b>	<b>34</b>	<b>52</b>	<b>79</b>
<i>Net Margin, %</i>	13%	7%	9%	12%
<b>Dividend Declared</b>	-	-	-	-

### Balance Sheet Summary, USD mln

	2005	2006E	2007E	2008E
<b>Current Assets</b>	<b>148</b>	<b>165</b>	<b>192</b>	<b>189</b>
Cash & Equivalents	13	14	17	20
Trade Receivables	16	32	34	36
Inventories	55	56	62	60
Other current assets	63	63	79	73
<b>Fixed Assets</b>	<b>369</b>	<b>404</b>	<b>509</b>	<b>604</b>
PP&E, net	202	238	340	433
Other Fixed Assets	167	167	169	171
<b>Total Assets</b>	<b>517</b>	<b>569</b>	<b>701</b>	<b>793</b>
<b>Shareholders' Equity</b>	<b>267</b>	<b>300</b>	<b>352</b>	<b>431</b>
Share Capital	207	217	217	217
Reserves and Other	61	83	135	214
<b>Current Liabilities</b>	<b>174</b>	<b>172</b>	<b>221</b>	<b>229</b>
ST Interest Bearing Debt	137	138	178	182
Trade Payables	25	25	31	33
Accrued Wages	1	1	2	2
Accrued Taxes	2	1	2	2
Other Current Liabilities	8	7	8	10
<b>LT Liabilities</b>	<b>75</b>	<b>97</b>	<b>127</b>	<b>132</b>
LT Interest Bearing Debt	75	75	99	99
Other LT	1	23	28	33
<b>Total Liabilities &amp; Equity</b>	<b>517</b>	<b>569</b>	<b>701</b>	<b>793</b>

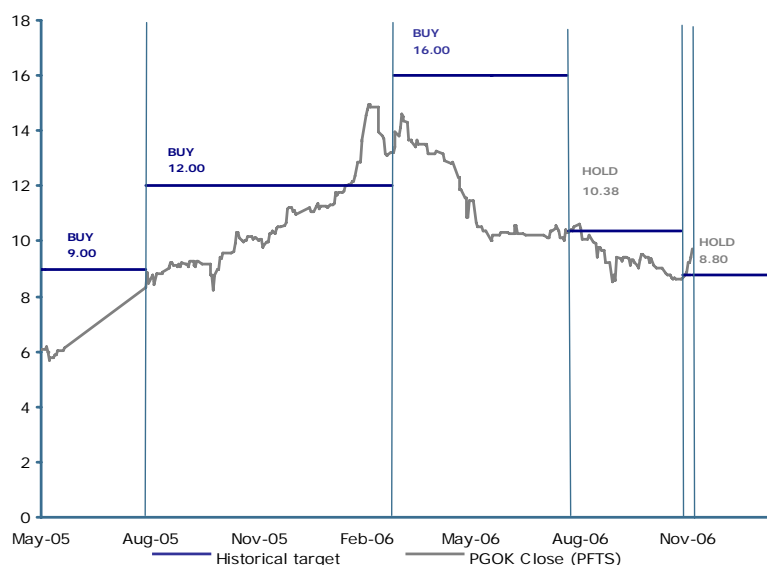
\* non-consolidated with Ferrexpo AG

## Analyst Certification

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

### Poltava Iron Ore (PGOK)

Date	Target price, USD	Market price, USD	Recommendation	Action
27 May 05	9.00	6.70	BUY	Initiate
16 June 05	9.00	6.25	BUY	Maintain
07 July 05	12.00	6.93	BUY	Maintain
22 Mar 06	16.00	13.20	BUY	Maintain
18 Aug 06	10.38	10.40	HOLD	Downgrade
23 Nov 06	8.8	8.6	HOLD	Maintain
01 Dec 06	8.8	9.7	HOLD	Maintain



From May 2005 to October 2006 this company was covered by other analysts, Viktor Koval and Andriy Gostik. In November 2006, Eugene Cherviachenko took over coverage.

### Concorde Capital Coverage Universe

Buy	33	47%
Hold	10	14%
Sell	7	10%
Pending/Suspended	13	19%
Not Rated	7	10%
<b>Total</b>	<b>70</b>	<b>100%</b>

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