



CONCORDE CAPITAL

Ukraine / Metals & mining

Privat-Evraz deal

Pivdenny Iron Ore in the bargain

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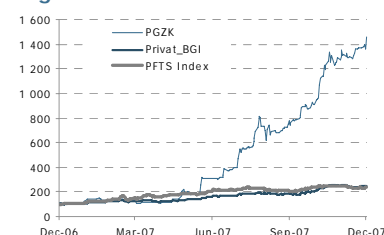
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Company	Bloomberg
Pivdenny Iron Ore	PGZK UZ
Sukha Balka	SUBA UZ
Kriviy Rih Iron Ore	N/A
DMZ Petrovskogo	DMZP UZ
Kominmet	DMZK UZ
Bagliy Coke	BKOK UZ
DniproCoke	N/A
Dniprodzerzhinsk Coke	N/A
Nikopol Ferroalloy	NFER UZ
Zaporizhya Ferroalloy	ZFER UZ
Stakhaniv Ferroalloy	SFER UZ

	Price USD	12M TP USD	Upside	Rec.
PGZK	1.27	U/R	N/A	U/R
SUBA	1.18	U/R	N/A	U/R
DMZP	0.47	0.50	8%	HOLD
DMZK	1.06	0.75	-30%	SELL
BKOK	0.11	N/R	N/A	N/R
NFER	2.86	U/R	N/A	U/R
ZFER	0.37	U/R	N/A	U/R
SFER	0.01	U/R	N/A	U/R

	MCap, USD mln	Free Float %	Free Float USD mln
PGZK	2,725.0	5.5%	149.8
SUBA	986.6	0.8%	7.4
DMZP	860.1	4.4%	38.1
DMZK	136.5	19.8%	27.0
BKOK	76.1	6.3%	4.8
NFER	868.5	2.0%	17.4
ZFER	832.8	8.0%	66.6
SFER	210.9	2.0%	4.2

Oligarch Indices



Source: Concorde Capital

¹ Privat_BGI is a member of Concorde's Oligarch series of MCap-weighted and FF-adjusted indices (see our Nov. 9 report).

- Today's press release by Evraz's owner shed more light on the acquisition of Privat's metallurgy assets
- Along with the five companies listed in Evraz's original announcement two days ago, Privat sold its 50% stake in Pivdenny Iron Ore. Our calculations imply that the stake was sold for USD 1.5-1.7 bln
- For the six assets, Privat will get about USD 1 billion in cash and 34.5 million Evraz GDRs, implying a total consideration of USD 3.7 bln
- DMZP and BKOK responded heavily yesterday (+28.1%, +38.3%), prompting us to downgrade DMZP to HOLD. PGZK, in turn, advanced 7.7% today
- Divestiture forces PGZK's exclusion from our Privat_BG Index¹

Divestiture of Pivdenny Iron Ore – we thought as much

Evraz's owner, Lanebrook, announced today that a 50% stake in Pivdenny Iron Ore is among the metallurgy assets it is acquiring from Privat; the sale of PGZK met our expectations (see our June 22 and December 11 reports). Still, one small surprise popped up in the release: we had Privat's stake at 48% and now lower our estimate of Pivdenny Iron Ore's free float to 5.5% from 7.5%.

Pivdenny's future not clear for the moment

Unlike the other five assets that will be transferred on to Evraz Group, the 50% interest in Pivdenny Iron Ore will stay with Lanebrook – the deal's *de facto* intermediary. The release reads: "Lanebrook will review and define its investment strategies with respect to this asset at a later stage." We do not exclude a scenario where the stake could be sold to Smart/Metinvest.

Acquisition priced at premium to the market

According to Evraz Group, the expected size of consideration for the five assets ex PGZK is USD 2.0-2.2 bln, implying that Lanebrook will pay around USD 1.5-1.7 bln for the 50% stake in PGZK, which puts the iron ore producer's acquisition MCap at USD 3.0-3.4 bln (11%-25% premium to the market).

Privat_BG Index sheds more weight

With the Privat giving up ownership in Pivdenny Iron Ore, we exclude the stock from our Privat_BG Index, effective today. With its USD 2.5 bln MCap and USD 191 mln free float, PGZK was the second largest constituent in the index (21% weight). All in all, the effect of the deal on Privat_BG index is: three stocks left the basket, the index MCap fell from USD 12.7 bln to USD 9.3 bln, and index free float shrunk from USD 986 mln to USD 712 mln.

Stocks in the Privat_BG Index basket

Ticker	Name	MCap, \$mn	Group's ownership share	mkt value, \$mn	FF, \$mn	Index weight before	Index weight after
UNAF	Ukrnafta	4 124	42%	1 732	330	37%	46%
DNSS	Dniprospeksstal	1 077	35%	377	62	7%	9%
NFER	Nikopol Ferroalloy	872	27%	235	17	2%	2%
ZFER	Zaporizhya Ferroalloy	815	90%	733	65	7%	9%
POON	Poltavaoblenergo	543	45%	244	43	5%	6%
LVON	Lvivoblenergo	399	42%	167	84	9%	12%
CHEON	Chernihivoblenergo	336	45%	151	33	4%	5%
PREN	Prykarpatooblenergo	240	44%	106	17	2%	2%
SFER	Stakhaniv Ferroalloy	210	98%	206	4	0%	1%
HANZ	Galychyna Refinery	153	73%	111	3	0%	0%
TOEN	Ternopiloblenergo	155	20%	31	14	2%	2%
DNAZ	Dniproazot	125	99%	124	1	0%	0%
NAFP	Naftokhimik Prykarpattya	130	63%	82	14	2%	2%
DMZK*	Kominmet	110	80%	88	22	2%	3%
ZCPK	Zhydachiv Pulp & Paper	33	43%	14	1	0%	0%
PGZK	Pivdenny Iron Ore	2 547	48%	1 223	191	21%	0%
TOTAL		9 321		4 403	712		
TOTAL before excl.		11 868		5 625	903		

Source: PFTS, Concorde Capital. * On watch for exclusion, the general perception is that Kominmet has already been sold; we are awaiting official confirmation. Red denotes excluded stocks

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Concorde Capital ratings distribution

Buy	36	33%
Hold	30	28%
Sell	13	12%
Pending/Suspended	12	11%
Not rated	18	17%
Total	109	100%

Investment banking clients*

Buy	8	80%
Hold	2	20%
Sell	0	0%
Pending/Suspended	0	0%
Not rated	0	0%
Total	10	100%

**Within the last twelve month period, Concorde Capital has obtained compensation from these companies*

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