

# Railcar manufacturers

## Sale price exceeds input cost growth

### Railcar prices grew to USD 70 ths in February vs. USD 60 ths in December

Since our latest update on railcar manufacturers, prices for freight railcars have risen by 15% (USD 70 ths per gondola, the most popular model, from USD 60 ths in December 2010), an increase unmatched by input price growth. Drivers have been a combination of continued strong demand in Russia and emerging orders in Ukraine, where state-owned railway monopoly Ukrzaliznytsya upped freight transportation tariffs by 24% in 2011, making purchases more enticing. At the same, inputs remained fixed last quarter, with minor growth for wheels and rolled steel. Steel casting, the key margin eater in 2010, has been stable after the launch of a steel casting production line at Azovmash in late 2010.

### Targets upgraded on improved outlook; BUY ratings maintained

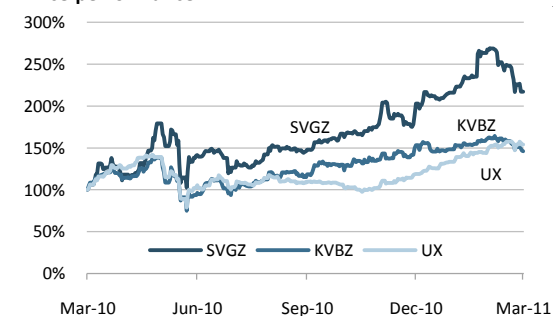
- Incorporating the assumption railcar prices remain at USD 65-68 ths per gondola in 2011 (contract prices on large orders are a bit lower than open market rates), we improve our view on the profitability for both Kryukiv Wagon and Stakhaniv Wagon (though as the latter reported higher-than-expected margins for 2010, our view is more upbeat). In the long-term, we expect the companies to return to 10-14% EBITDA margins
- We increase our DCF-based targets for Kryukiv Wagon by 16% and Stakhaniv Wagon by 61%, which reflects our expectations of higher margins, accelerated top line growth and slightly lower cost of equity

Target revisions						Key multiples						
	Old Target, USD	New Target, USD	Upgrade	Curr. price USD	Upside %	Rec.	EV/Sales		EV/EBITDA		P/E	
							2010E	2011E	2010E	2011E	2010E	2011E
Kryukiv Wagon	5.00	5.79	16%	4.38	32%	BUY	0.87	0.73	8.7	4.0	12.8	5.4
Stakhaniv Wagon	1.00	1.61	61%	1.17	38%	BUY	0.60	0.44	4.8	2.9	8.0	4.8
<b>Average</b>							<b>0.73</b>	<b>0.58</b>	<b>6.7</b>	<b>3.4</b>	<b>10.4</b>	<b>5.1</b>

Report date	11 Mar 2011	
Bloomberg	SVGZ UK	KVBZ UK
Reuters	SVGZ=UA	KVBZ=UA
<b>Recommendation</b>	<b>BUY</b>	<b>BUY</b>
Price (10 Mar 11), USD	1.17	4.38
12M price target, USD	1.61	5.79
Upside	38%	32%
No of shares, mln	226.4	114.7
Market Cap, USD mln	264.0	502.0
52-week performance	117%	46%
52-week range, USD	0.54/1.45	2.26/4.97
ADT, 12M, USD mln	0.23	0.07
Free float, %	8.0%	4.7%
Free float, USD mln	21.1	23.6

Prices as of Mar. 10, 2011

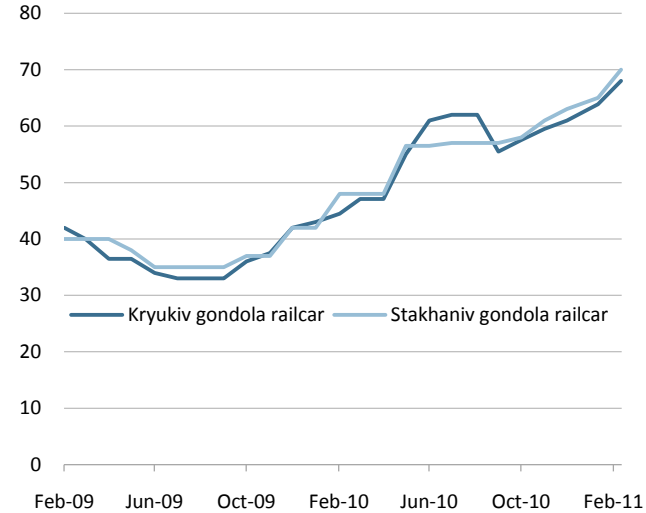
### Price performance



Source: Bloomberg, UX

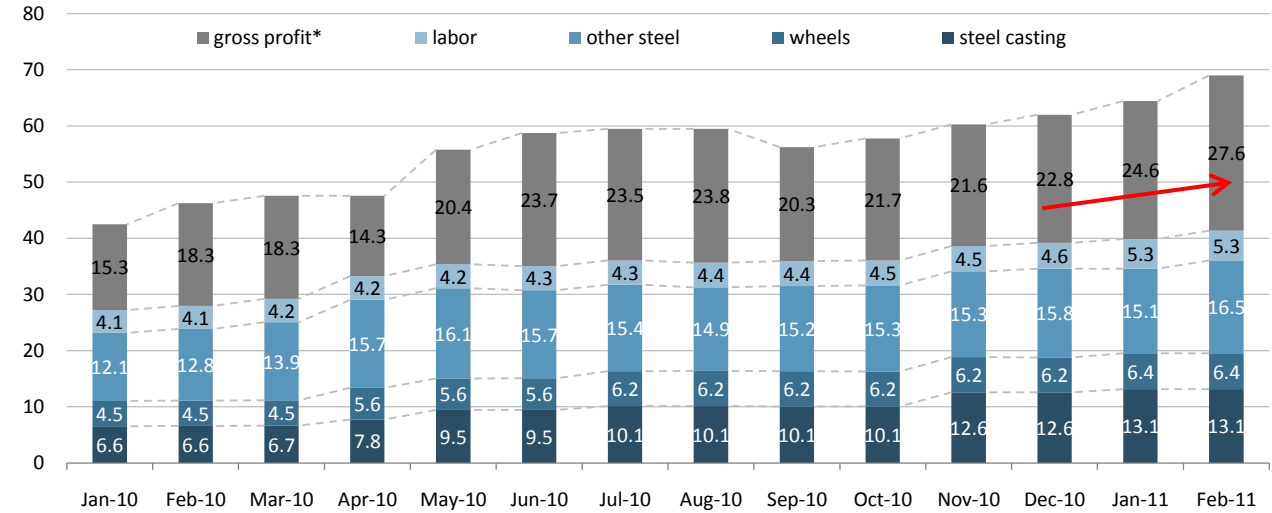
## Price dynamics

Gondola railcar price, USD '000



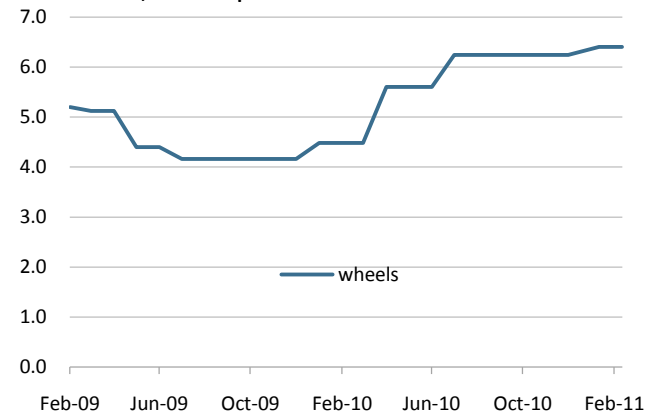
Source: Promishlenniye Gruzi

Railcar cost decomposition, USD '000 per railcar



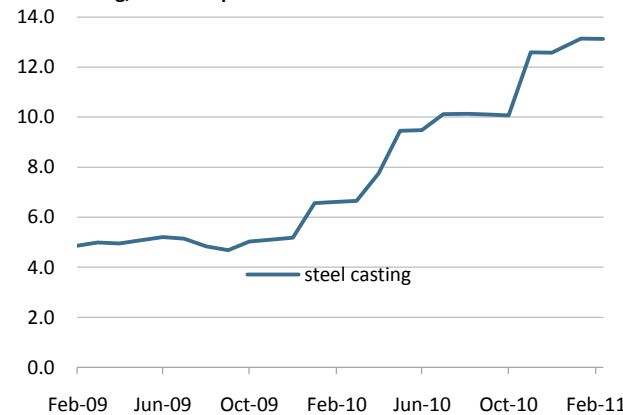
\*Concorde Capital estimate Source: Promishlenniye Gruzi, Metal Courier, Concorde Capital

Railcar wheels, USD '000 per kit



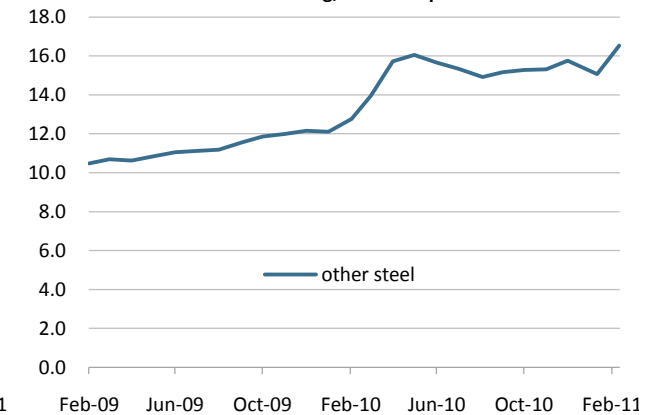
Source: Promishlenniye Gruzi, Concorde Capital

Steel casting, USD '000 per kit



Source: Promishlenniye Gruzi, Concorde Capital

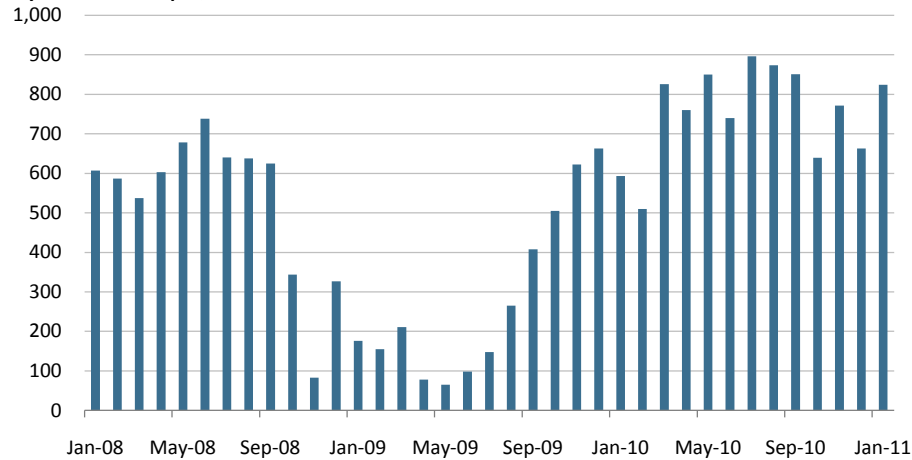
Rolled steel and small steel casting, USD '000 per kit



Source: Metal Courier, Concorde Capital

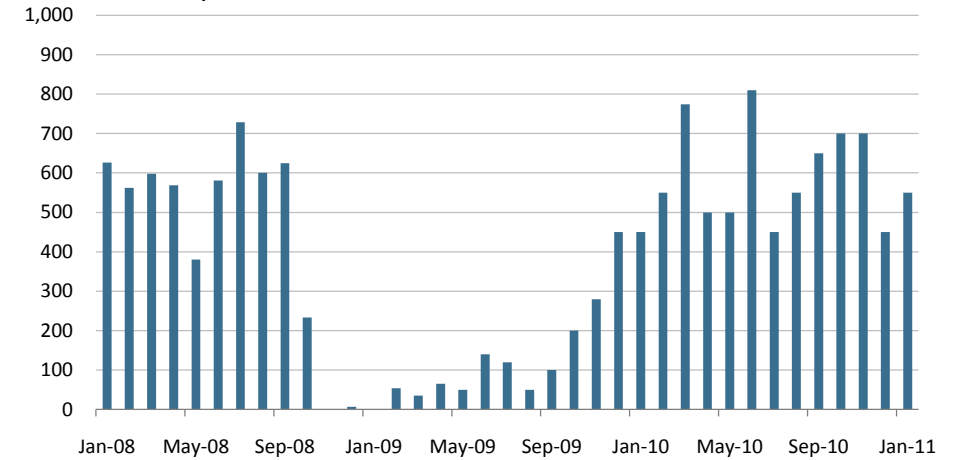
## Output dynamics

**Kryukiv railcar output, units**



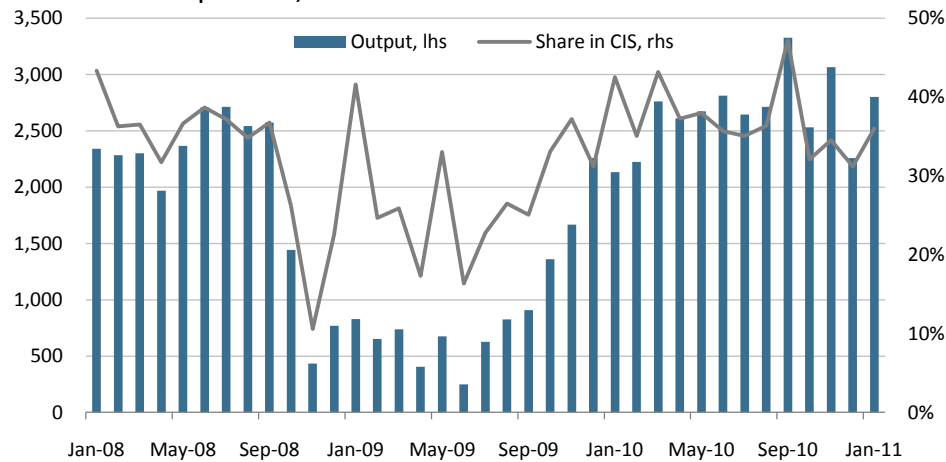
Source: Promishlenniye Gruzi

**Stakhaniv railcar output, units**



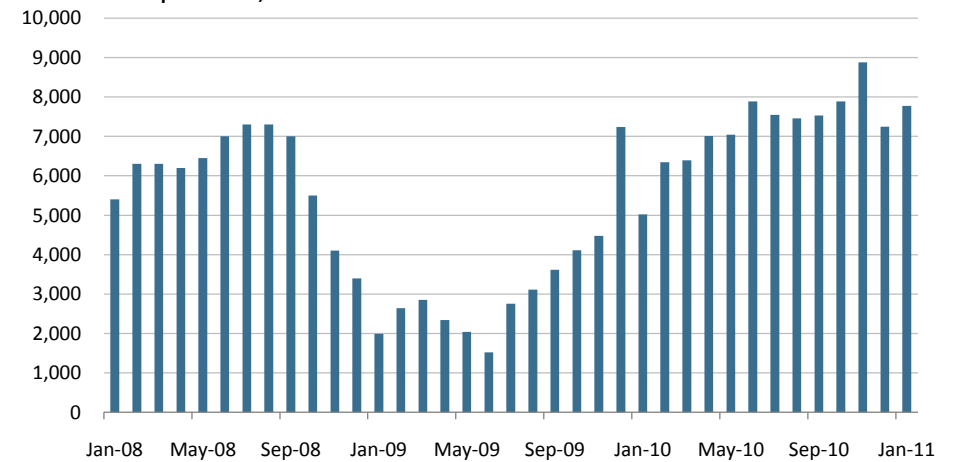
Source: Promishlenniye Gruzi

**Total Ukraine railcar production, units**



Source: Promishlenniye Gruzi

**Total CIS railcar production, units**

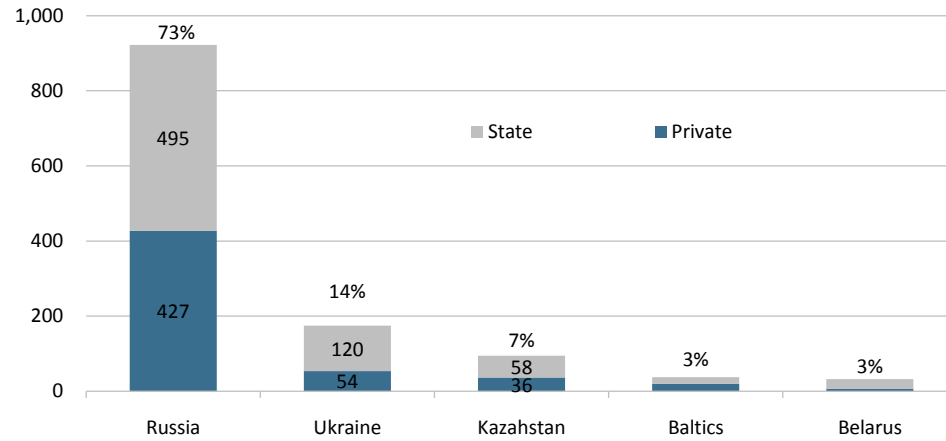


Source: Promishlenniye Gruzi

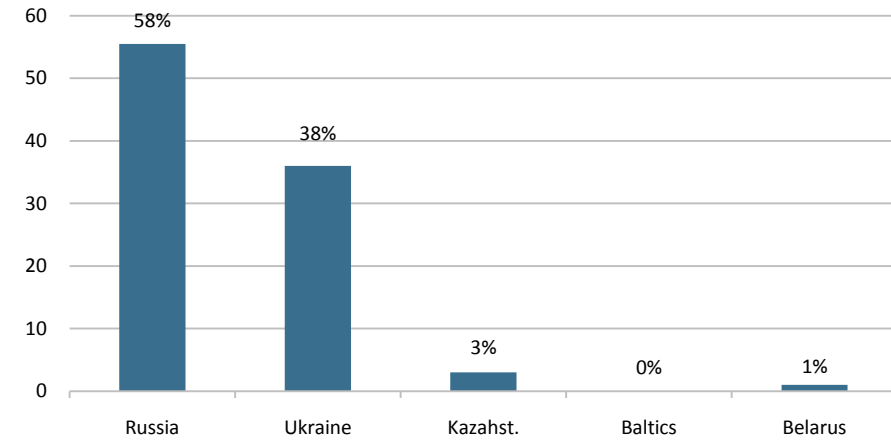
## Ukraine railcar manufacturers

	Stakhaniv Wagon			Kryukiv Wagon			Mariupol Heavy Machinery			Azovzahalmash			Dniprovahonmash		
<b>Key operating data</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Nominal capacity, cargo cars per year	8,000	8,000	8,000	8,000	8,000	8,000	n/a	n/a	n/a	n/a	n/a	n/a	5,000	5,000	5,000
Output, cargo cars per year	5,510	1,544	7,084	6,407	3,314	9,079	4,700	185	3,370	4,606	5,163	8,000	3,205	904	4,315
	<b>2008</b>	<b>2009</b>	<b>9M10</b>	<b>2008</b>	<b>2009</b>	<b>9M10</b>	<b>2008</b>	<b>2009</b>	<b>9M10</b>	<b>2008</b>	<b>2009</b>	<b>9M10</b>	<b>2008</b>	<b>2009</b>	<b>9M10</b>
Revenue per car, USD ths	64.2	38.0	47.2	99.4	54.9	56.5	n/m	n/m	82.0	147.7	55.4	81.0	66.3	46.0	49.2
EBITDA per car, USD ths	5.9	3.6	4.2	18.7	5.5	7.6	n/m	n/m	3.1	-3.1	-0.4	4.1	12.9	-5.8	9.2
<b>Key financials</b>	<b>2008</b>	<b>2009</b>	<b>9M10</b>	<b>2008</b>	<b>2009</b>	<b>9M10</b>	<b>2008</b>	<b>2009</b>	<b>9M10</b>	<b>2008</b>	<b>2009</b>	<b>9M10</b>	<b>2008</b>	<b>2009</b>	<b>9M10</b>
Revenue, USD mln	353.6	58.6	246.9	637.0	182.0	389.8	137.4	239.6	248.7	680.2	286.2	455.8	212.4	41.6	152.5
EBITDA, USD mln	32.5	5.5	21.9	119.8	18.2	52.6	-3.0	14.4	9.3	-14.5	-2.2	23.3	41.4	-5.2	28.3
Net Income, USD mln	22.6	-7.2	19.4	79.9	9.2	33.8	-4.6	-25.1	-15.7	-42.7	-45.4	-6.0	34.2	-11.5	19.1
Net Debt, USD mln	56.3	(10.8)	(11.6)	4.0	(2.2)	4.9	169.8	162.8	136.5	72.8	82.2	165.9	34.8	23.2	21.1
<b>Key ratios</b>	<b>2008</b>	<b>2009</b>	<b>9M10</b>	<b>2008</b>	<b>2009</b>	<b>9M10</b>	<b>2008</b>	<b>2009</b>	<b>9M10</b>	<b>2008</b>	<b>2009</b>	<b>9M10</b>	<b>2008</b>	<b>2009</b>	<b>9M10</b>
EBITDA margin, %	9%	9%	9%	19%	10%	13%	-2%	6%	4%	-2%	-1%	5%	20%	-13%	19%
Net Margin, %	6%	-12%	8%	13%	5%	9%	-3%	-10%	-6%	-6%	-16%	-1%	16%	-28%	13%
# shares, mln		226.4			114.7			15.4			46.5			16.6	
Last price, USD per share		1.17			4.38			1.39			1.70			8.81	
MCap, USD mln		264.0			502.3			21.4			79.0			146.5	
EV, USD mln		252.4			507.4			157.9			244.9			167.6	
<b>Liquidity</b>		<b>high</b>			<b>average</b>			<b>average</b>			<b>low</b>			<b>low</b>	
Free float, %		8.0%			4.7%			26.8%			3.4%			0.7%	
Free float, USD mln		21.1			24.1			5.7			2.7			1.0	
Avg monthly 12M trading volumes, USD mln		4.55			1.54			1.42			0.03			0	
<b>Strategy details</b>	Plans to increase capacity from 8,000 to 12,000 freight railcars per year			Diversified in higher-margin but lower demand passenger and subway car production			Parent group Azovmash is restructuring pre-IPO			Parent group Azovmash is restructuring pre-IPO					
<b>Upside risks</b>	Actual upgrade in capacity to 12 ths			Higher CapEx for passenger fleet from Ukrzaliznytsya						Could be the basis for Azovmash asset consolidation			n/a		
<b>Downside risks</b>	Higher transfer pricing												n/a		
<b>Transfer pricing</b>	moderate			no			high			high			no		

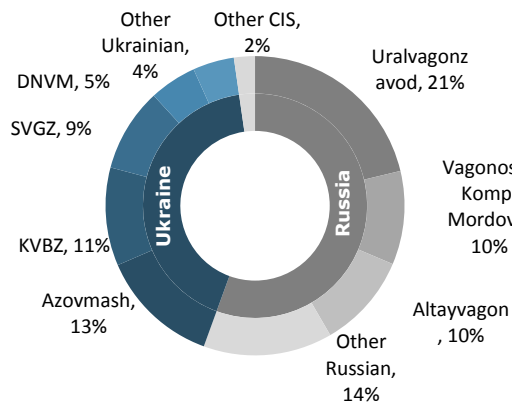
## CIS railcar market structure

**Cargo fleet, '000 railcars**


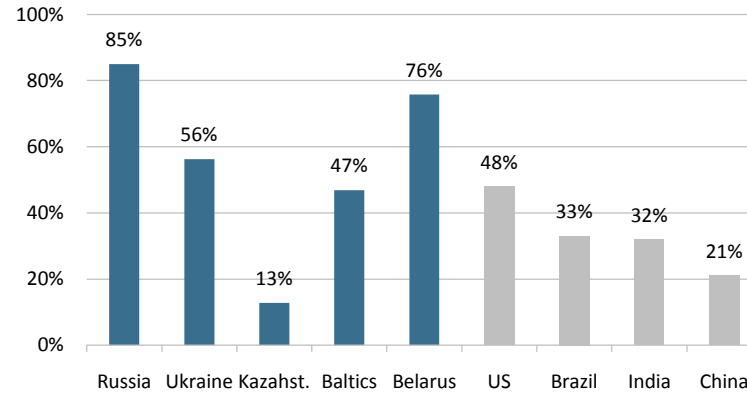
Source: Promishlenniye Gruzi

**Manufacturing capacity, '000 freight cars per year**


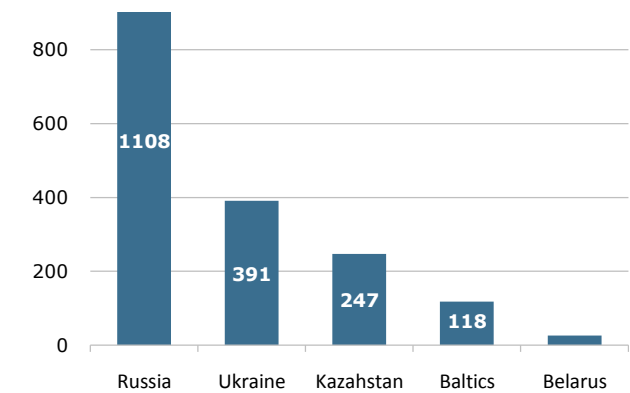
Source: Promishlenniye Gruzi

**Freight car output, 1H10**


Source: Promishlenniye Gruzi

**Rail transport as % of total shipments**


Source: Promishlenniye Gruzi

**Freight transport volumes, mln mt, 2009**


## Kryukiv Wagon

## KVBZ UK

**12M target (USD):** 5.79  
**Upside:** 32%

### Investment Case

- Most profitable railcar producer in Ukraine among listed: EBITDA margin of 13% in 9M10 vs. 9% for Stakhaniv Wagon
- Produced a historic high of 9,079 freight railcars in 2010; we estimate 3.2x revenue growth in 2010E to USD 585 mln
- Revenue to grow another 19% in 2011E thanks to price growth for railcars
- Diversified into passenger (5% of revenue in 2010E) and subway car production (2% of revenue in 2010E)
- Second liquid Ukrainian railcar manufacturer with avg. monthly turnover of USD 1.5 mln

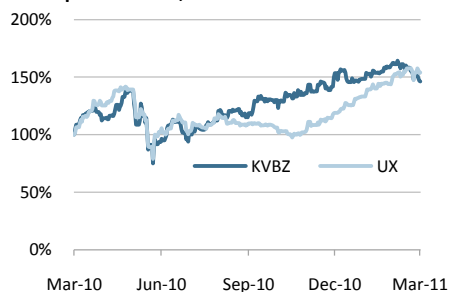
Bloomberg Reuters	KVBZ UK KVBZ=UA
<b>Recommendation</b>	<b>BUY</b>
Price (10 Mar 11), USD	4.38
No of shares, mln	114.7
Market Cap, USD mln	502.3
52-week performance	46%
52-week range, USD	2.26/4.97
ADT, 12M, USD mln	0.07
Free float, %	4.7%
Free float, USD mln	23.6

**Overview:** Only manufacturer in Ukraine that makes both passenger and freight railcars; started serial subway car production. Production capacity: 200 passenger and 8 ths freight railcars p.a. Exports ~85% of its output to the CIS and Baltics.

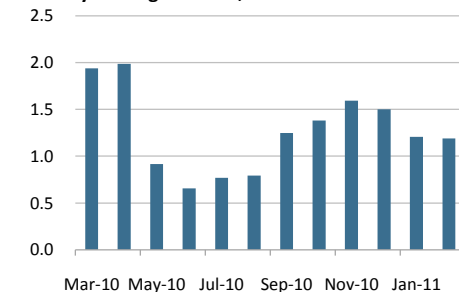
### Key multiples

	Price		EV/Sales		EV/EBITDA		P/E	
	USD	USD mln	2010E	2011E	2010E	2011E	2010E	2011E
Kryukiv Wagon	4.38	502	0.87	0.73	8.7	4.0	12.8	5.4
<b>Global peers harmonic mean</b>			<b>0.96</b>	<b>0.80</b>	<b>9.4</b>	<b>7.1</b>	<b>18.1</b>	<b>15.3</b>

### Stock performance, 12M



### Monthly trading volumes, USD mln



Source: UX

## Financial statements, UAS

### Income statement summary, USD mln

	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
<b>Net Revenues</b>	<b>617</b>	<b>182</b>	<b>585</b>	<b>695</b>	<b>686</b>	<b>721</b>	<b>701</b>	<b>739</b>
<i>Change y-o-y</i>	<i>N/M</i>	<i>-70.5%</i>	<i>221.4%</i>	<i>18.7%</i>	<i>-1.2%</i>	<i>5.0%</i>	<i>-2.7%</i>	<i>5.5%</i>
Cost Of Sales	(471)	(158)	(492)	(525)	(517)	(562)	(562)	(591)
Gross Profit	146	24	94	170	169	159	139	149
Other Operating Income/Costs. net	(18)	5	(15)	(17)	(17)	(18)	(18)	(18)
SG&A	(16)	(10)	(20)	(24)	(24)	(25)	(25)	(26)
<b>EBITDA</b>	<b>113</b>	<b>18</b>	<b>58</b>	<b>128</b>	<b>127</b>	<b>115</b>	<b>97</b>	<b>105</b>
<i>EBITDA margin. %</i>	<i>18.3%</i>	<i>10.0%</i>	<i>10.0%</i>	<i>18.5%</i>	<i>18.6%</i>	<i>16.0%</i>	<i>13.8%</i>	<i>14.1%</i>
Depreciation	(6)	(4)	(5)	(5)	(5)	(6)	(6)	(6)
<b>EBIT</b>	<b>107</b>	<b>14</b>	<b>54</b>	<b>123</b>	<b>122</b>	<b>110</b>	<b>91</b>	<b>98</b>
<i>EBIT margin. %</i>	<i>17.4%</i>	<i>7.7%</i>	<i>9.2%</i>	<i>17.8%</i>	<i>17.8%</i>	<i>15.2%</i>	<i>13.0%</i>	<i>13.3%</i>
Interest Expense	(1)	(2)	(2)	(2)	(1)	(1)	(1)	(0)
Financial income	1	1	-	-	-	-	-	-
Other income/(expense)	(3)	(1)	-	-	-	-	-	-
<b>PBT</b>	<b>104</b>	<b>12</b>	<b>52</b>	<b>121</b>	<b>121</b>	<b>109</b>	<b>90</b>	<b>98</b>
Tax	(28)	(3)	(13)	(29)	(25)	(21)	(14)	(16)
<b>Net Income</b>	<b>75.9</b>	<b>9.2</b>	<b>39.1</b>	<b>92.8</b>	<b>95.3</b>	<b>88.1</b>	<b>75.7</b>	<b>82.2</b>
<i>Net Margin. %</i>	<i>12.3%</i>	<i>5.0%</i>	<i>6.7%</i>	<i>13.4%</i>	<i>13.9%</i>	<i>12.2%</i>	<i>10.8%</i>	<i>11.1%</i>

### Balance sheet summary, USD mln

	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
<b>Current Assets</b>	<b>149</b>	<b>144</b>	<b>167</b>	<b>183</b>	<b>174</b>	<b>178</b>	<b>175</b>	<b>185</b>
Cash & Equivalents	7	8	6	7	7	7	7	7
Trade Receivables	46	26	12	14	14	14	14	15
Inventories	74	66	74	79	78	84	84	89
Other current assets	22	44	76	83	75	72	70	74
<b>Fixed Assets</b>	<b>48</b>	<b>52</b>	<b>59</b>	<b>63</b>	<b>64</b>	<b>65</b>	<b>65</b>	<b>65</b>
PP&E, net	39	38	42	45	46	47	47	47
Other Fixed Assets	9	14	17	18	17	18	17	18
<b>Total Assets</b>	<b>197</b>	<b>196</b>	<b>226</b>	<b>246</b>	<b>237</b>	<b>243</b>	<b>240</b>	<b>250</b>
<b>Shareholders' Equity</b>	<b>154</b>	<b>151</b>	<b>182</b>	<b>193</b>	<b>193</b>	<b>193</b>	<b>197</b>	<b>205</b>
Share Capital	11	11	11	11	11	11	11	11
Reserves and Other	143	139	170	182	182	182	186	194
<b>Current Liabilities</b>	<b>42</b>	<b>46</b>	<b>45</b>	<b>53</b>	<b>44</b>	<b>50</b>	<b>43</b>	<b>45</b>
ST Interest Bearing Debt	11	6	11	13	5	8	3	3
Trade Payables	19	7	5	5	5	6	6	6
Accrued Wages	1	1	4	5	5	5	5	5
Accrued Taxes	0	0	2	2	2	2	2	2
Other Current Liabilities	12	31	23	28	27	29	28	30
<b>LT Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
LT Interest Bearing Debt	-	-	-	-	-	-	-	-
Other LT	-	-	-	-	-	-	-	-
<b>Total Liabilities &amp; Equity</b>	<b>197</b>	<b>196</b>	<b>226</b>	<b>246</b>	<b>237</b>	<b>243</b>	<b>240</b>	<b>250</b>

## Kryukiv Wagon: DCF valuation

We base our valuation on DCF. In its key freight railcar segment, we conservatively assume no further growth in railcar prices in 2011 (2.5% CAGR afterward) and a 6% decline in output in order to account for the risk of demand deceleration.

Cargo segment assumptions	2010	2011E	2012E	2013E	2014E	2015E	2016E
Avg cargo railcar price, 000 USD	56	70	72	74	76	78	79
Cargo railcar output	9,079	8,500	8,000	8,000	7,200	7,200	7,200
Revenue from cargo segment, USD m	507.8	592.0	573.9	591.2	548.0	559.0	570.1

Demand for passenger railcars remains a function of Ukrzaliznytsya's investment program; with no clarity, we assume here moderate order flow recovery to 150 units per year in 2016. High fleet depletion and Kryukiv's annual capacity of 200 passenger railcars are an upside risk for this segment.

Passenger segment assumptions	2010	2011E	2012E	2013E	2014E	2015E	2016E
Avg passenger railcar price, 000 USD	725	819	844	869	895	913	931
Passenger railcar output	38	50	60	75	100	125	150
Revenue from passenger segment, USD m	27.6	40.9	50.6	65.2	89.5	114.1	139.7

We assume the status-quo in the subway segment – order flow of 25 cars p.a.

Subway segment assumptions	2010	2011E	2012E	2013E	2014E	2015E	2016E
Avg subway railcar price, 000 USD	550	621	640	659	679	692	706
Subway railcar output	20	25	25	25	25	25	25
Revenue from subway segment, USD m	11.0	15.5	16.0	16.5	17.0	17.3	17.7

In terms of spare parts, we model it fixed at 6.6% of revenue, based on 2008 figures.

Spare parts	2010	2011E	2012E	2013E	2014E	2015E	2016E
Revenue from spare parts, USD m	38.9	46.1	45.6	47.9	46.6	49.1	51.8
Total revenue, USD mln	585	695	686	721	701	739	779
Spare parts as % of total revenue	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%

During high-demand in 2011-14, we assume strong margins and then normalize them down by 3 pp in the long-term.

Gross margin	2010	2011E	2012E	2013E	2014E	2015E	2016E
Cargo railcars	15%	24%	24%	21%	18%	18%	18%
Passenger wagons	30%	30%	30%	30%	30%	30%	30%
Subway wagons	30%	30%	30%	30%	30%	30%	30%
Spare parts	15%	24%	24%	21%	18%	18%	18%

## DCF output, UAH mln

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
<b>EBITDA</b>	<b>468</b>	<b>1,015</b>	<b>1,007</b>	<b>912</b>	<b>766</b>	<b>826</b>	<b>888</b>	<b>906</b>	<b>924</b>	<b>942</b>
EBIT	430	974	964	867	718	776	836	851	866	881
Tax Rate	25%	24%	21%	19%	16%	16%	16%	16%	16%	16%
Taxed EBIT	322	745	762	702	603	652	702	715	727	740
Plus D&A	38	40	43	45	47	50	52	55	58	61
Less CapEx	(50)	(50)	(50)	(50)	(50)	(50)	(54)	(55)	(65)	(65)
Less Δ in OWC	(249)	(56)	68	(14)	11	(53)	(55)	(22)	(23)	(23)
<b>FCFF</b>	<b>-</b>	<b>680</b>	<b>823</b>	<b>683</b>	<b>611</b>	<b>598</b>	<b>645</b>	<b>692</b>	<b>697</b>	<b>713</b>
<b>WACC</b>	<b>13%</b>	<b>13%</b>	<b>14%</b>	<b>15%</b>	<b>15%</b>	<b>15%</b>	<b>15%</b>	<b>15%</b>	<b>15%</b>	<b>15%</b>
Sum of DCF's		3,266								
Terminal Value										6,661
Discounted TV		2,054								
<b>Firm Value</b>		<b>5,321</b>						<b>Portion due to TV</b>		<b>38.6%</b>
Less Net Debt		(44)								
<b>Equity Value</b>		<b>5,277</b>						<b>Implied exit EBITDA Multiple</b>		<b>7.0x</b>
<b>Perpetuity Growth Rate</b>			<b>2.0%</b>							

## Sensitivity tables

WACC	Perpetuity Growth Rate					WACC	Exit Multiple (EBITDA)				
	1.0%	1.5%	2.0%	2.5%	3.0%		5.0x	6.0x	7.0x	8.0x	9.0x
<b>-3.0%</b>	6.5	6.7	6.8	6.9	7.1	<b>-3.0%</b>	6.0	6.4	6.8	7.2	7.6
<b>-2.0%</b>	6.2	3.8	3.8	3.8	3.8	<b>-2.0%</b>	5.7	6.1	6.4	6.8	7.2
<b>-1.0%</b>	5.9	6.0	6.1	6.3	6.4	<b>-1.0%</b>	5.4	5.8	6.1	6.5	6.8
<b>+0.0%</b>	5.6	5.7	<b>5.8</b>	5.9	6.1	<b>+0.0%</b>	5.2	5.5	<b>5.8</b>	6.1	6.5
<b>+1.0%</b>	5.4	5.4	5.5	5.7	5.8	<b>+1.0%</b>	4.9	5.2	5.5	5.8	6.1
<b>+2.0%</b>	5.1	5.2	5.3	5.4	5.5	<b>+2.0%</b>	4.7	5.0	5.3	5.6	5.8
<b>+3.0%</b>	4.9	5.0	5.0	5.1	5.2	<b>+3.0%</b>	4.5	4.8	5.0	5.3	5.6

## WACC decomposition

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Debt-to-Equity	0.06	0.07	0.03	0.04	0.02	0.01	0.03	0.02	0.02	0.02
<b>Avg. Interest Rate</b>	<b>19.0%</b>	<b>17.0%</b>	<b>16.0%</b>	<b>14.0%</b>	<b>14.0%</b>	<b>14.0%</b>	<b>14.0%</b>	<b>13.0%</b>	<b>13.0%</b>	<b>13.0%</b>
Ukr Eurobonds YTM	5.0%	5.0%	6.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Equity premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Comp.-specif. prem	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
<b>Cost Of Equity</b>	<b>13.0%</b>	<b>13.0%</b>	<b>14.0%</b>	<b>15.0%</b>	<b>15.0%</b>	<b>15.0%</b>	<b>15.0%</b>	<b>15.0%</b>	<b>15.0%</b>	<b>15.0%</b>
<b>WACC</b>	<b>13.1%</b>	<b>13.0%</b>	<b>14.0%</b>	<b>14.8%</b>	<b>15.0%</b>	<b>15.0%</b>	<b>14.9%</b>	<b>14.9%</b>	<b>14.9%</b>	<b>14.9%</b>

## Stakhaniv Wagon SVGZ UK

**12M target (USD):** 1.61  
**Upside:** 38%

- Investment Case**
- Produced a historic high of 7,084 cargo railcars in 2010, management targets 9,000 in 2011
  - Management targets revenue of USD 500 mln in 2011, growth of 30% y-o-y
  - Focus on gondolas allows for higher than nominal capacity utilization and personnel cost minimalization
  - Plans to increase production capacities to 12 ths railcars per year until 2012
  - Most liquid railcar manufacturer with monthly trading volumes of USD 4.5 mln over last year

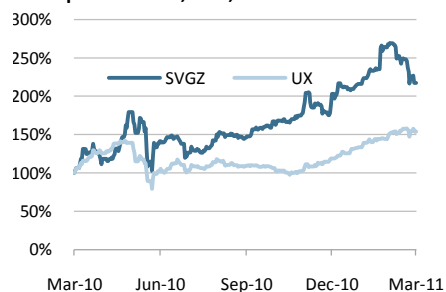
Bloomberg	SVGZ UK
Reuters	SVGZ=UA
<b>Recommendation</b>	<b>BUY</b>
Price (10 Mar 11), USD	1.17
No of shares, mln	226.4
Market Cap, USD mln	264.0
52-week performance	117%
52-week range, USD	0.54/1.45
ADT, 12M, USD mln	0.23
Free float, %	8.0%
Free float, USD mln	21.1

**Overview:** Specializes in the production of freight railcars (gondolas, hoppers, platforms and dumpcars). Production capacity: 8 ths freight railcars p.a. Export 70-95% of its output to Russia, Kazakhstan and the Baltics.

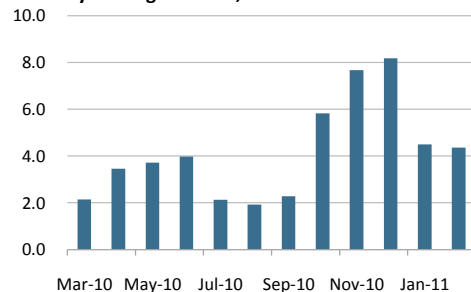
### Key multiples

	Price		MCap		EV/Sales		EV/EBITDA		P/E	
	USD	USD mln	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
Stakhaniv Wagon	1.17	265	0.60	0.44	4.8	2.9	8.0	4.8		
<b>Global peers harmonic mean</b>			<b>0.96</b>	<b>0.80</b>	<b>9.4</b>	<b>7.1</b>	<b>18.1</b>	<b>15.3</b>		

### Stock performance, USD, 12M



### Monthly trading volumes, USD mln



Source: UX

## Financial statements, UAS

### Income statement summary, USD mln

	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
<b>Net Revenues</b>	<b>336</b>	<b>59</b>	<b>381</b>	<b>524</b>	<b>540</b>	<b>556</b>	<b>496</b>	<b>506</b>
<i>Change y-o-y</i>	<i>N/M</i>	<i>-82.5%</i>	<i>549.8%</i>	<i>37.6%</i>	<i>3.0%</i>	<i>3.0%</i>	<i>-10.7%</i>	<i>2.0%</i>
Cost Of Sales	(277)	(51)	(316)	(409)	(421)	(445)	(412)	(420)
Gross Profit	59	8	65	115	119	111	84	86
Other Operating Income/Costs. net	(7)	4	9.7	-	-	-	-	-
SG&A	(24)	(6)	(27)	(37)	(38)	(39)	(35)	(35)
<b>EBITDA</b>	<b>28</b>	<b>6</b>	<b>48</b>	<b>79</b>	<b>81</b>	<b>72</b>	<b>50</b>	<b>51</b>
<i>EBITDA margin. %</i>	<i>8.4%</i>	<i>9.4%</i>	<i>12.6%</i>	<i>15.0%</i>	<i>15.0%</i>	<i>13.0%</i>	<i>10.0%</i>	<i>10.0%</i>
Depreciation	(3)	(3)	(3)	(4)	(5)	(6)	(6)	(7)
<b>EBIT</b>	<b>25</b>	<b>3</b>	<b>45</b>	<b>75</b>	<b>76</b>	<b>66</b>	<b>43</b>	<b>44</b>
<i>EBIT margin. %</i>	<i>7.4%</i>	<i>4.8%</i>	<i>11.7%</i>	<i>14.3%</i>	<i>14.1%</i>	<i>12.0%</i>	<i>8.7%</i>	<i>8.7%</i>
Interest Expense	(9)	(11)	(9)	(6)	(1)	(0)	(0)	(0)
Financial income	-	1	9	3	-	-	-	-
Other income/(expense)	2	(0)	-	-	-	-	-	-
<b>PBT</b>	<b>18</b>	<b>(7)</b>	<b>44</b>	<b>72</b>	<b>75</b>	<b>66</b>	<b>43</b>	<b>44</b>
Tax	-	-	(11)	(17)	(16)	(13)	(7)	(7)
<b>Net Income</b>	<b>18.1</b>	<b>(7.2)</b>	<b>33.2</b>	<b>55.3</b>	<b>59.1</b>	<b>53.7</b>	<b>36</b>	<b>37</b>
<i>Net Margin. %</i>	<i>5.4%</i>	<i>-12.3%</i>	<i>8.7%</i>	<i>10.6%</i>	<i>10.9%</i>	<i>9.7%</i>	<i>7.3%</i>	<i>7.2%</i>

### Balance sheet summary, USD mln

	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
<b>Current Assets</b>	<b>114</b>	<b>136</b>	<b>327</b>	<b>294</b>	<b>232</b>	<b>235</b>	<b>207</b>	<b>205</b>
Cash & Equivalents	2	60	96	52	22	22	21	20
Trade Receivables	5	2	11	21	22	22	20	20
Inventories	20	13	28	37	38	40	37	38
Other current assets	87	60	190	183	151	150	129	127
<b>Fixed Assets</b>	<b>30</b>	<b>31</b>	<b>35</b>	<b>43</b>	<b>51</b>	<b>58</b>	<b>58</b>	<b>58</b>
PP&E, net	28	26	31	37	47	53	56	56
Other Fixed Assets	3	5	4	7	5	5	2	3
<b>Total Assets</b>	<b>145</b>	<b>167</b>	<b>361</b>	<b>337</b>	<b>283</b>	<b>293</b>	<b>265</b>	<b>263</b>
<b>Shareholders' Equity</b>	<b>37</b>	<b>48</b>	<b>72</b>	<b>86</b>	<b>80</b>	<b>85</b>	<b>85</b>	<b>81</b>
Share Capital	10	31	31	31	31	31	31	31
Reserves and Other	27	18	41	55	49	54	54	50
<b>Current Liabilities</b>	<b>108</b>	<b>69</b>	<b>251</b>	<b>251</b>	<b>204</b>	<b>208</b>	<b>180</b>	<b>182</b>
ST Interest Bearing Debt	58	11	22	17	1	3	-	3
Trade Payables	7	4	38	49	51	53	49	50
Accrued Wages	0	1	1	1	1	1	1	1
Accrued Taxes	0	0	0	1	1	1	0	1
Other Current Liabilities	42	53	190	183	151	150	129	127
<b>LT Liabilities</b>	<b>-</b>	<b>50</b>	<b>38</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
LT Interest Bearing Debt	-	50	38	-	-	-	-	-
Other LT	-	-	-	-	-	-	-	-
<b>Total Liabilities &amp; Equity</b>	<b>145</b>	<b>167</b>	<b>361</b>	<b>337</b>	<b>283</b>	<b>293</b>	<b>265</b>	<b>263</b>



## Stakhaniv Wagon: DCF valuation

We base our valuation on DCF. As with Kryukiv Wagon, we model no further growth in railcar prices in 2011 and a 2.5% CAGR afterward. We note that Stakhaniv Wagon in 2010 recorded 5% less revenue per car than it reported on its price list, and we account for this discount in our model. In output, we assume 6% growth in 2011, flat growth in 2012-13 and a stabilization in output at 6.5 ths railcars afterward; we do not account for announced capacity additions because the project has not entered the construction stage.

Cargo segment assumptions	2010	2011E	2012E	2013E	2014E	2015E	2016E
Avg cargo railcar price, 000 USD	50	65	67	69	71	72	74
Cargo railcar output	7,084	7,500	7,500	7,500	6,500	6,500	6,500
Revenue from cargo segment, USD m	354.3	487.5	502.1	517.2	461.7	470.9	480.3

In terms of spare parts, we model it fixed at 7% of revenue, based on 2008 figures.

Spare parts	2010	2011E	2012E	2013E	2014E	2015E	2016E
Revenue from spare parts, USD m	26.7	36.7	37.8	38.9	34.7	35.4	36.2
Total revenue, USD mln	381	524	540	556	496	506	516
Spare parts as % of total revenue	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%

During high-demand in 2011-14, we assume strong margins and then normalize them down by 3 pp in the long-term.

Gross margin	2010	2011E	2012E	2013E	2014E	2015E	2016E
Cargo wagons	17%	22%	22%	20%	17%	17%	17%
Spare parts	17%	22%	22%	20%	17%	17%	17%

## WACC decomposition

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Debt-to-Equity	0.82	0.20	0.01	0.03	0.00	0.04	0.10	0.16	0.26	0.34
<b>Avg. Interest Rate</b>	<b>15.5%</b>	<b>15.5%</b>	<b>15.5%</b>	<b>15.0%</b>	<b>0.0%</b>	<b>13.5%</b>	<b>12.5%</b>	<b>11.5%</b>	<b>10.5%</b>	<b>10.5%</b>
Ukr Eurobonds YTM	5.0%	5.0%	6.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Equity premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Comp.-specif. prem	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	0.0%
<b>Cost Of Equity</b>	<b>12.0%</b>	<b>12.0%</b>	<b>13.0%</b>	<b>14.0%</b>	<b>14.0%</b>	<b>14.0%</b>	<b>14.0%</b>	<b>14.0%</b>	<b>14.0%</b>	<b>13.0%</b>
<b>WACC</b>	<b>11.8%</b>	<b>12.0%</b>	<b>13.0%</b>	<b>13.9%</b>	<b>14.0%</b>	<b>13.9%</b>	<b>13.7%</b>	<b>13.4%</b>	<b>12.9%</b>	<b>11.9%</b>

## DCF output, UAH mln

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
<b>EBITDA</b>	<b>378</b>	<b>621</b>	<b>640</b>	<b>571</b>	<b>392</b>	<b>400</b>	<b>408</b>	<b>416</b>	<b>425</b>	<b>433</b>
EBIT	353	591	601	525	342	346	351	355	359	363
Tax Rate	25%	24%	21%	19%	16%	16%	16%	16%	16%	16%
Taxed EBIT	265	452	475	425	287	291	294	298	302	305
Plus D&A	25	30	39	46	50	54	57	61	65	70
Less CapEx	(50)	(100)	(100)	(100)	(50)	(55)	(60)	(60)	(65)	(70)
Less Δ in OWC	131	(50)	(2)	1	10	(1)	(1)	(1)	(1)	(1)
<b>FCFF</b>	<b>-</b>	<b>332</b>	<b>412</b>	<b>372</b>	<b>297</b>	<b>289</b>	<b>291</b>	<b>298</b>	<b>301</b>	<b>304</b>
<b>WACC</b>	<b>12%</b>	<b>12%</b>	<b>13%</b>	<b>14%</b>	<b>14%</b>	<b>14%</b>	<b>14%</b>	<b>13%</b>	<b>13%</b>	<b>12%</b>
Sum of DCF's										1,671
Terminal Value										2,818
Discounted TV										937
<b>Firm Value</b>										<b>2,608</b>
Less Net Debt										290
<b>Equity Value</b>										<b>2,898</b>
Portion due to TV										35.9%
Implied exit EBITDA Multiple										6.5x

Perpetuity Growth Rate 2.0%

## Sensitivity tables

WACC	Perpetuity Growth Rate					WACC	Exit Multiple (EBITDA)				
	1.0%	1.5%	2.0%	2.5%	3.0%		4.5 x	5.5 x	6.5 x	7.5 x	8.5 x
<b>-3.0%</b>	1.81	1.84	1.87	1.90	1.94	<b>-3.0%</b>	1.66	1.77	1.87	1.97	2.07
<b>-2.0%</b>	1.72	1.17	1.17	1.17	1.17	<b>-2.0%</b>	1.59	1.68	1.78	1.87	1.97
<b>-1.0%</b>	1.64	1.67	1.70	1.73	1.76	<b>-1.0%</b>	1.52	1.61	1.70	1.78	1.87
<b>+0.0%</b>	1.57	1.60	<b>1.62</b>	1.65	1.68	<b>+0.0%</b>	1.46	1.54	<b>1.62</b>	1.70	1.78
<b>+1.0%</b>	1.51	1.53	1.55	1.58	1.60	<b>+1.0%</b>	1.40	1.48	1.55	1.62	1.70
<b>+2.0%</b>	1.44	1.46	1.48	1.51	1.53	<b>+2.0%</b>	1.35	1.42	1.48	1.55	1.62
<b>+3.0%</b>	1.38	1.40	1.42	1.44	1.47	<b>+3.0%</b>	1.30	1.36	1.42	1.49	1.55

## Appendices

### Analyst certification

I, Yegor Samusenko, 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.

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