CONCORDE CAPITAL

Railcar Producers

Strong demand and rising prices keep profits on track

Event: Demand for railcars exceeds pre-crisis level

As the global economy continues its upward climb toward recovery, demand for railcars has increased sharply, leading to an almost 300% y-o-y increase in Ukrainian production over the first half of 2010. Economic recovery and rising commodity prices have resulted in growing transportation volumes, which coupled with significant replacement needs based on aging Russian rolling stock, should boost total demand for railcars to nearly 600,000 units over the 2010-2015 period and keep Ukrainian manufacturers working close to full capacity.

Implications: Strong demand facilitates an attractive pricing environment and growing profitability

With demand picking up so robustly, manufacturers have been able to boost railcar prices by approximately 85% y-o-y, with the average railcar price rising from USD 33,000 in August 2009 to the current USD 62,000. Quarter-on-quarter, prices have risen by 13%. Based on revised output projections, we have upgraded our revenue and EBITDA forecasts for both Kryukiv and Stakhaniv Wagon, estimating 2010 revenues at USD 539 mln and USD 360 mln, respectively. In the first half of this year, both companies saw cumulative EBITDA nearly triple over the yearend 2009 level, and we expect EBITDA margins for yearend 2010 to be in the 10%-14% range.

Risks: Steel price volatility could disrupt demand or impact profitability if higher costs are not passed on

The price of steel is the principal determinant of railcar prices, and an extremely sharp increase could have a dampening impact on demand. On the other hand, extremely low steel prices could lead to reduced output and transportation of steel-related commodities, idling rolling stock and have a similar negative output on demand for railcars. Moreover, should input prices begin to rise steeply, railcar manufacturers could experience increasing difficulty in passing on higher costs (in particular, higher costs from steel casting) to customers. However, we do not believe the risk of price volatility is high.

Valuation: BUY recommendations on KVBZ and SVGZ

We valued KVBZ and SVGZ based on averaging the results of a DCF analysis and a comparative valuation based on EV/EBITDA using the Ukrainian peer universe. With a yearend target price of USD 5.80, Kryukiv Wagon offers potential upside of 64%. Stakhaniv, with a yearend target price of USD 1.20, offers potential upside of 64%.

Valuation summary, USD per share

	EV/EBITDA		P/E		EV/EBITDA Implied Price		Target	Upside
	2010E	2011E	2010E	2011E	2010E	DCF	USD	%
Azovzahalmash	5.0	4.1	6.7	4.0	5.2	n/a		
Dniprovahonmash	4.3	3.2	6.3	4.6	13.5	n/a		
Kryukiv Wagon	5.4	4.7	7.8	7.0	5.7	5.6	5.6	64%
Mariupol Heavy Mach.	8.7	5.6	n/m	9.6	2.6	n/a		
Stakhaniv Wagon	5.9	5.1	9.9	8.8	1.2	1.3	1.3	51%
Peer median	**8.5**	**7.1**	**14.6**	**16.1**				

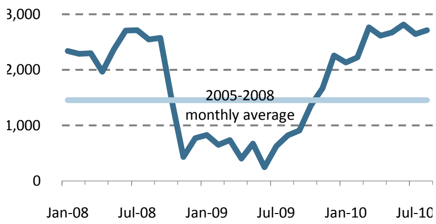
Source: Bloomberg, Concorde Capital

Report date	**9 Sept 2010**

Kryukiv Wagon	
Bloomberg	KVBZ UK
Recommendation	**BUY**
Price (8 Sept 10), USD	3.54
12M price target, USD	5.80
Market Cap, USD mln	406.0
52-week performance	142%
52-week range, USD	1.47 – 4.22
ADT, 6M, USD ths	67
Free float, %	4.7%
Free float, USD mln	19.1

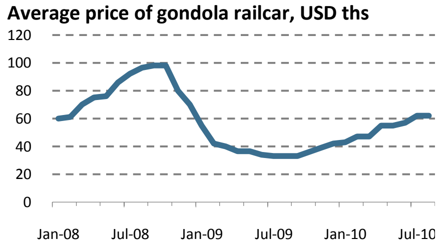
Stakhaniv Wagon	
Bloomberg	SVGZ UK
Recommendation	**BUY**
Price (8 Sept 10), USD	0.80
12M price target, USD	1.20
Market Cap, USD mln	181.1
52-week performance	402%
52-week range, USD	0.16 – 0.97
ADT, 6M, USD ths	171
Free float, %	8%
Free float, USD mln	14.5

Monthly freight railcar output by Ukrainian manufacturers



Source: Company data

Average price of gondola railcar, USD ths



Source: Company data

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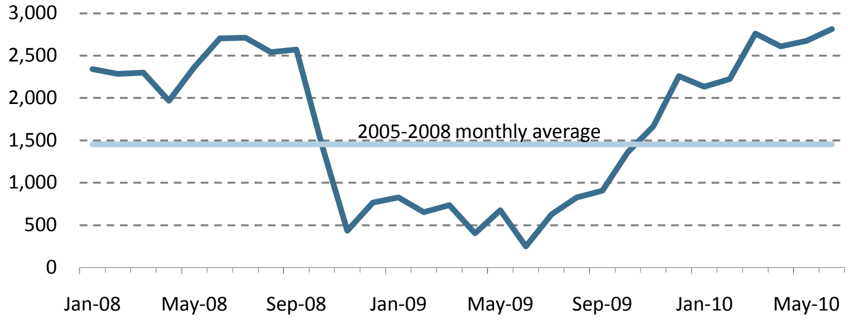
INVESTMENT DRIVERS

Railcar demand already exceeds pre-crisis level

As the global economy continues to recover, growing transportation volumes in Russia (up by 12.9% y-o-y in 1H10) have led to renewed purchases of rolling stock by both Russian Railways (RZD) and private rail companies. During the first half of 2010, Ukrainian railcar manufacturers, which export approximately 90% of output to Russia, produced 15,000 railcars, a threefold increase y-o-y and 1.2 times the historical high of 2007-2008. Ukrainian manufacturers are currently working at 80%-100% capacity utilization, and we estimate that between 2010 and 2015, total demand for railcars should reach nearly 600,000, ensuring close to full capacity utilization by Ukrainian producers.

Ukrainian railcar monthly output*

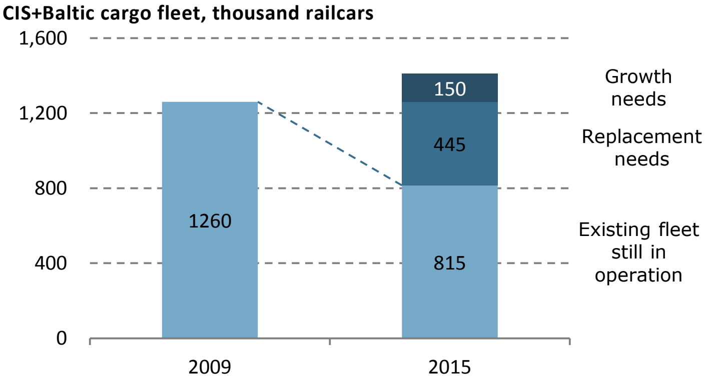


**Includes the five biggest producers: Azovzahalmash, Kryukiv Wagon, Stakhaniv Wagon, Mariupol Heavy Machinery, Dniprovahonmash*
Source: Promishlenniye Gruzi, Concorde Capital calculations

Replacement of aging rolling stock drives demand

Russia's need to replace aging rolling stock is the strongest driver of demand for Ukrainian railcars: the country's fleet has been in service for more than 20 years on average. The average fleet age for RZD and its subsidiaries, which together own 54% of the railcars operating in the Russian Federation, is 21 years. The Ukrainian fleet average is higher at 22 years. The majority of railcars have a useful life of 22-26 years, and consequently both Russian and Ukrainian operators will have to replace about a third of the cars currently in use between 2010 and 2015. Given the level of depreciation, Russia would need to replace about 335,000 railcars over the period while Ukraine would need to replace about 60,000.

CIS+Baltic cargo fleet, thousand railcars



Source: Promishlenniye Gruzi, RZD, Ukrzaliznytsya, Concorde Capital estimates

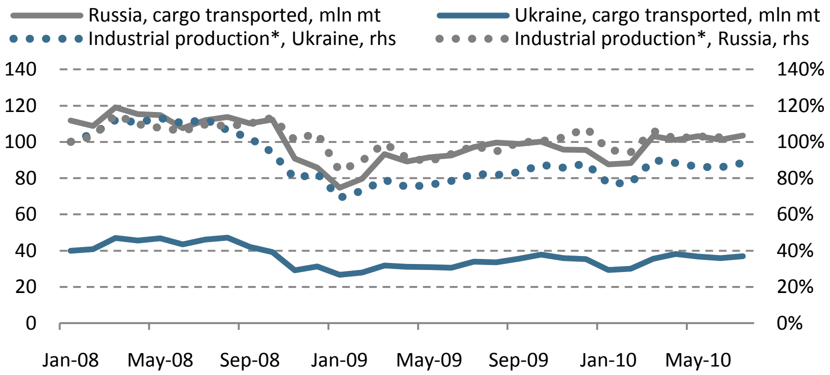
Recovering industrial output to push cargo volumes up

Following the global economic crisis, industrial production contracted sharply in both Ukraine and Russia: in 2009, output fell by almost 22% y-o-y in Ukraine and 9% in Russia. Now, as the global economy is beginning to show improvement, both countries are set to see a sharp uptick in production. Russia and Ukraine are both commodities-based economies, with commodities shipments accounting for approximately two thirds of aggregate cargo transportation volume in each country.

As the global economy strengthens, demand for commodities will continue to rise. Moreover, industrial output is projected to increase by 6% in Russia and 7% in Ukraine this year, and by 3% and 8% respectively in 2011. Consequently, cargo transportation volumes should also rise in both countries. In 2009, the cargo transport volume totaled 391 mln mt in Ukraine and 1,108 mln mt in Russia. We expect volumes to increase by 7% and 9% respectively in 2010, and grow at a 3% CAGR over 2011-2015. Increasing cargo transport volumes should have a significant impact on the demand for new rolling stock across the CIS.

We estimate fleet expansion in the CIS to show a 2% CAGR over 2010-2015, which suggests that an additional 150,000 railcars will be needed to satisfy the demand generated from higher transport volumes.

Industrial production and cargo transportation volume



**Rebased on Jan 2008*
Source: Ukrstat, Rosstat, Concorde Capital calculations

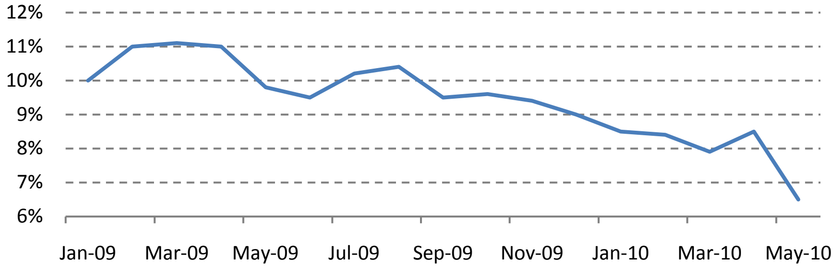
Multiple factors will drive demand in Russia

Russia accounts for 79% of the total railcar market in the CIS and Baltics, and several factors will continue to drive replacement purchases in Russia over the next five years.

Financing costs are falling

Interest rates on USD-denominated loans fell to 6-7% in the second quarter of this year compared to 10-11% in 2009. Since most companies that buy Ukrainian railcars rely on debt financing, borrowing will become more affordable and companies will be increasingly willing to fund investment in rolling stock with debt.

Interest rates on USD-denominated commercial loans in Russia

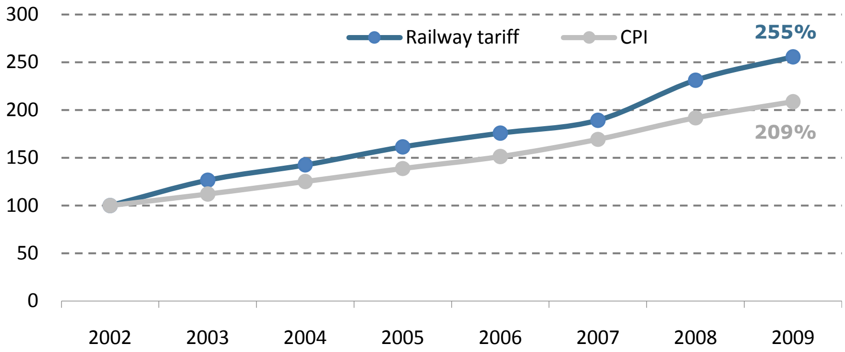


Source: Central Bank of Russia

RZD tariff increase leads to higher revenues in the industry

The Russian government approved a 14% increase in RZD tariffs in 2010, 3 percentage points above expected PPI. Given RZD's dominance in the industry, private operators can compete only by offering lower tariffs. Consequently, RZD's tariffs serve as an industry-wide cap and any increase in RZD's tariff would see private rolling stock operators follow suit by increasing their tariffs as well, which in turn would boost their revenues and increase their ability to purchase new rolling stock.

Regulated rail freight tariff vs. CPI in Russia

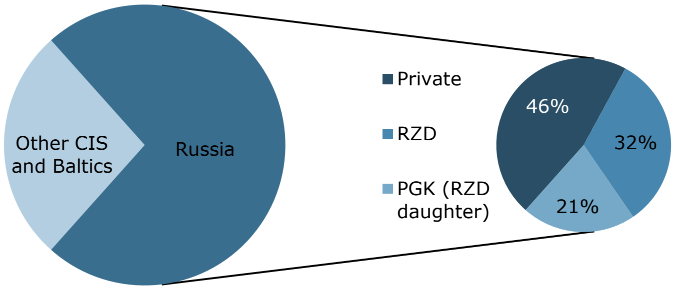


Source: Rosstat, Globaltrans

Reforms increasing private ownership should boost demand

The ongoing reforms affecting RZD in Russia stipulate the transfer of all freight cars to private ownership (RZD currently owns 46% of all railcars, down from 70% in 2008). As private operators have greater access to financing than state-owned monopolies and a lower level of national bias in purchasing, Ukrainian manufacturers should see an uptick in demand.

Freight railcar fleet structure in the CIS & Baltics*



** Due to track gauge (1520 mm), the CIS & Baltic market is effectively closed to outside producers*
Source: Promishlenniye Gruzi

Buyers of new rolling stock to receive preferential tariffs

In late June, RZD CEO Vladimir Yakunin suggested that owners of new rolling stock in Russia receive preferential tariffs for infrastructure usage. Should the proposed plan go forward, private railcar operators would be incentivized to purchase new railcars rather than refurbish existing stock.

Currently, the total cargo transportation tariff paid by the customer includes three components: a payment for the railcar (approximately 15% of the total tariff is paid to the railcar owner), for the locomotive (approximately 30% of the total is paid to RZD) and for infrastructure usage (approximately 55%, also paid to RZD). Even a moderate 5% discount on infrastructure services would allow operators of new railcars to increase their earnings by 20%, with additional revenues available to purchase new rolling stock.

Demand likely to remain sluggish in Ukraine

We do not include strong demand from Ukraine in our model and assume that only 5,000 railcars will be purchased annually between 2010-15 (mostly by commodities producers that face a shortage of Ukrzaliznytsya-owned railcars), compared to the approximately 10,000 that we estimate will be taken out of service annually.

Weak domestic demand

Domestic demand for freight cars is expected to remain weak over the medium term given two principal factors:

- **Ukrzaliznytsya's lack of financing.** Given the low tariffs charged on cargo shipments, the company is unable to fund capital expenditures from operating cash flow. Moreover, the company has limited scope for borrowing following its default on a USD 500 mln syndicated loan last winter. Ukrzaliznytsya currently operates 69% of all railcars in Ukraine.

- **Lack of industry reform** limits incentives for the active development of the private sector. Cargo transportation tariffs are currently low, regulated and unpredictable, given that the government could be tempted to use tariffs to achieve political ends. During the downturn, the government slashed railway tariffs as one method of subsidizing commodity producers.

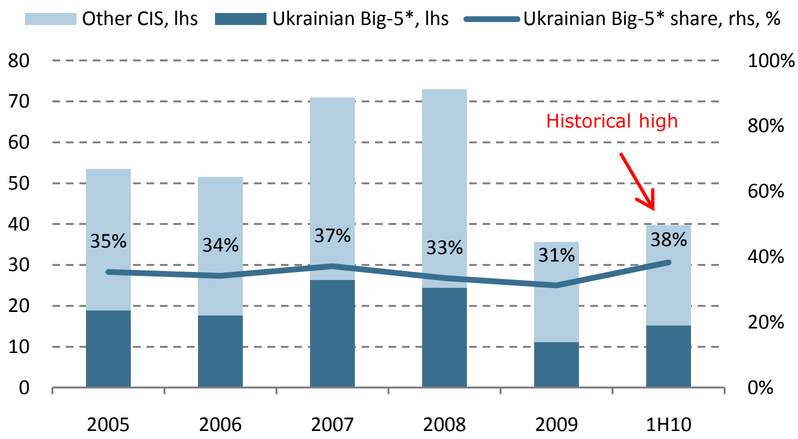
Russian private operators plan expansion into Ukraine

As a lack of domestic capital is impeding the replacement of Ukraine's aging railcar cargo fleet, Russian fleet operators smell an opportunity and have designs on the Ukrainian market. In May, PGK Ukraine, a subsidiary of Russian state-owned PGK, announced plans to increase its cargo fleet in Ukraine to 26,000 railcars by 2015, which would constitute 15% of the country's total fleet. Meanwhile, the company said it would purchase 1,150 railcars from Ukrainian manufacturers in 2010 and 5,000 in 2011.

Ukrainian market share increases

Based on the recent surge in demand, Ukrainian manufacturers increased their market share in the CIS and Baltic regions to 43% in 1H10 from a low of 31% in 2009 (note that the market is limited to CIS and Baltic manufacturers given the difference in rail gauge between these countries and the rest of the world). We attribute the increased market share primarily to the greater role of private fleet operators in Russia. Private operators typically are able to avoid national bias in their purchasing programs, unlike state-owned operators such as RZD and Ukrzaliznytsya that come under heavy government pressure to patronize domestic producers.

Freight car output, thousand units



**Includes the five biggest producers: Azovzahalmash, Kryukiv Wagon, Stakhaniv Wagon, Mariupol Heavy Machinery, Dniprovahonmash*
Source: Promishlenniye Gruzi, Concorde Capital calculations

Output projections revised upward

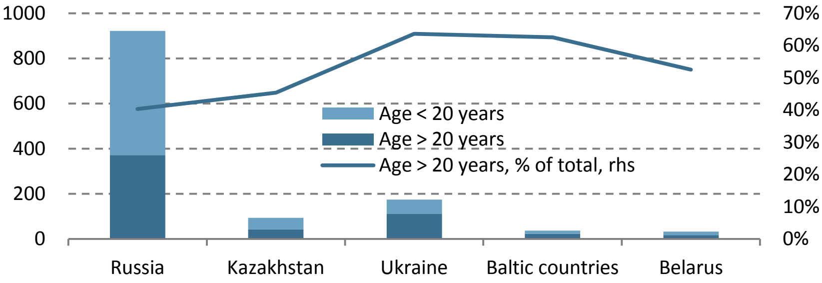
Given the recovery in output over the past nine months, we have revised our projections for Ukrainian railcar manufacturers upward. Nonetheless, our projections account only for demand from outside Ukraine: any revival in purchasing by Ukrzaliznytsya or active development by private operators in Ukraine would increase upside potential.

Freight car output projections

	2010E Revised	2010E Previous	Change	1H10	% of 2010E
Azovzahalmash	8,000	5,000	60%	4,100	51%
Dniprovahonmash	4,000	1,500	167%	2,030	51%
Kryukiv Wagon	8,500	5,000	70%	4,279	50%
Mariupol Heavy Machinery*	2,500	3,000	-17%	1,200	48%
Stakhaniv Wagon	6,500	2,500	160%	3,584	55%

** Contrary to our expectations, Azovmash has not increased its output of gondola cars as have other players, concentrating instead on tank cars. In the holding, Mariupol Heavy Machinery is responsible for gondola railcars.*
Source: Concorde Capital

Cargo railcar fleet in the CIS+Baltics by age* (thousand railcars)



**Service life is 22 years for gondola cars (37% of total fleet), 32 years for tank cars (25% of total fleet) and 26 for other types of cars*
Source: Promishlenniye Gruzi

Based on revised output projections, we also upgrade our financial forecasts for Ukrainian railcar manufacturers. We assume the 2010 gondola car price to average USD 55,000 (the current price is USD 60,000 and the 1H10 average is USD 48,000 per gondola car).

Revenue projections, USD mln

	Revenue, USD mln		
	2010E Revised	2010E Previous	Change
Azovzahalmash	577	478	21%
Dniprovahonmash	176	70	151%
Kryukiv Wagon	539	312	73%
Mariupol Heavy Machinery	240	398	-40%
Stakhaniv Wagon	360	110	227%

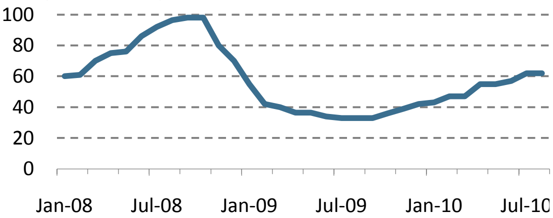
Source: Concorde Capital

EBITDA projections, USD mln

	EBITDA, USD mln			
	2010E Revised	Margin	2010E Previous	Margin
Azovzahalmash	46.1	8%	23.9	5%
Dniprovahonmash	28.2	16%	6.9	10%
Kryukiv Wagon	76.8	14%	43.7	14%
Mariupol Heavy Machinery	14.4	6%	19.9	5%
Stakhaniv Wagon	36.0	10%	13.2	12%

Source: Concorde Capital

Gongola rail car price, USD ths



Source: Concorde Capital

Financials: strong margins in 1H10

As demand for railcars has increased, manufacturers have seen profitability begin to rise. Kryukiv Wagon and Stakhaniv Wagon both increased their EBITDA margin to 12-13% in the first half of this year from 7-12% at the end of 2009 and close to zero in the first half of 2009. Accompanied by 15% q-o-q growth in railcar prices (associated with both rising steel prices and increasing margins), both companies saw cumulative EBITDA grew nearly triple over the end-2009 figure in the first half of this year.

EBITDA margin

	2H09	1H10
Azovzahalmash	-2%	4%
Dniprovahonmash	-8%	15%
Kryukiv Wagon	9%	13%
Mariupol Heavy Machinery	-6%	6%
Stakhaniv Wagon	13%	12%

** We believe the margins of Azovzahalmash and Mariupol Heavy Machinery suffer due to transfer pricing within the Azovmash group.*
Source: Company data

Revenue has increased significantly with rising output, growing by triple-digits y-o-y in 1H10. However, as 1H10 results are not yet widely available, we believe that the market has not priced in the positive results.

Revenue, USD mln

	1H10	y-o-y	1H09	1H08
Azovzahalmash	261	117%	120	348
Dniprovahonmash	90	778%	10	107
Kryukiv Wagon	230	306%	57	324
Mariupol Heavy Machinery	100	24%	81	324
Stakhaniv Wagon	161	1012%	14	183

Source: Company data

Key 1H10 financials, USD mln

	Sales	*y-o-y*	EBITDA	*Margin*	Net Income	*Margin*	Net Debt	*y-o-y*
AZGM	261	*117%*	11.2	*4%*	-10.8	*-4%*	164.5	*1%*
DNVM	90	*778%*	13.6	*15%*	10.0	*11%*	84.3	*18%*
KVBZ	230	*306%*	31.0	*13%*	22.5	*10%*	28.3	*-60%*
MZVM	100	*24%*	5.8	*6%*	-12.7	*-13%*	9.1	*740%*
SVGZ	161	*1012%*	19.6	*12%*	17.7	*11%*	-7.4	*-114%*
Total	**843**	***199%***						

Source: Company data

Key industry risks

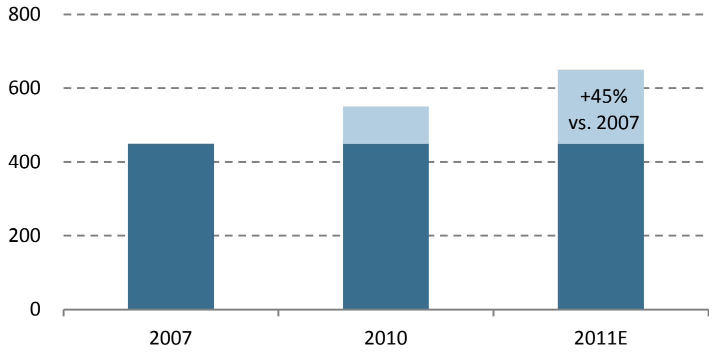
Steel price volatility: moderate

The price of steel is the principal determinant of railcar prices, and a sharp increase, for example to more than USD 1,000 per ton, could lead to reduced demand. If steel prices are extremely low, for example below USD 400 per ton, output and transportation of steel-related commodities (>17% of total) could decline, thus idling a large number of freight cars and depressing demand for new rolling stock (as in 2009). However, we believe Ukrainian railcar manufacturers will be able to fully pass any changes in input prices on to the customer.

Steel casting costs reduce margin: moderate

The shortage of steel casting capacity in 2008 (responsible for half of the railcar manufacturing cost) led to the concentration of a considerable part of the overall profit of the manufacturing value chain in the hands of casters. EBITDA margin at the Kremenchug Steel Casting Plant exceeded 40% in 2008 (but fell to 11% in 1H10), while the EBITDA margin at the most profitable Ukrainian rail car producer was only 16-23% (15% in 1H10). We believe the market has reacted by installing new steel casting facilities, with aggregate capacity expected to increase by a total of 150% between 2007 and 2011. Currently, as a cast metal shortage is again being rumored, margins at steel casting plants remain in line with those of railcar manufacturers at 15% in the first half of 2010 compared to the 13% average for railcar manufacturers.

Railway steel casting capacities in the CIS, thousand mt p.a.



Source: Company data, Concorde Capital

Cap on domestic steel prices in Russia: low

There is a moderate risk that domestic steel prices in Russia could be kept artificially low. “A 25% to 30% one-time price hike for domestic consumers is beyond normal economic logic,” Prime Minister Vladimir Putin said in May when Russian steelmakers adjusted domestic prices upward in accordance with price increases on the global market. Should the Russian government impose price controls on steel sold domestically, Russian producers would benefit from lower production costs than Ukrainian manufacturers. We note, however, that the Russian domestic steel market has never been regulated, and no intervention was observed even when the domestic price reached USD 1,200 per ton in 2008, which is twice the current level.

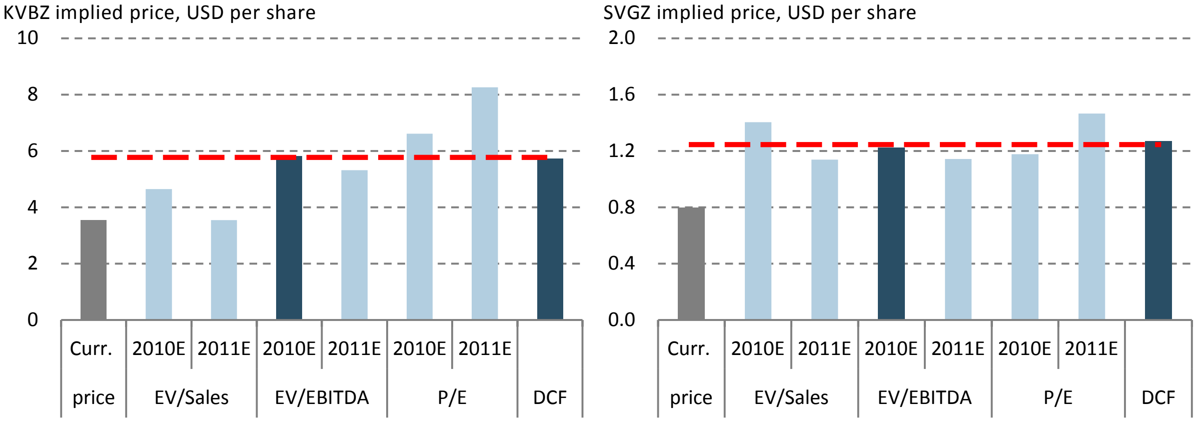
Protectionist measures from the Russian government: low

Since approximately 80% of Ukrainian railcars are exported, protectionist regulation in export markets remains a risk. Russia, the largest market for Ukrainian railcars, is also the only other country with significant railcar production capacity. However, Russia has only 58% of total CIS manufacturing capacity but operates 73% of all railcars. Given our expectations that annual demand for railcars in the CIS and Baltic states will match production capacities (100,000 vs. 95,000 railcars p.a. correspondingly), we do not think protectionist measures are a likely threat.

Valuation

We valued KVBZ and SVGZ by averaging the results from a DCF analysis and a comparative valuation. Among the range of multiples, we prefer the EV/EBITDA multiple to EV/S since it better captures the companies' higher profitability relative to peers. We consider the P/E ratio less illustrative due to differences in accounting standards in determining earnings. Both on a comparative and DCF basis, the results were similar. We calculated a target price of USD 1.2 for SVGZ, suggesting a potential upside of 51% from the current price. Our target price for KVBZ is USD 5.8, suggesting 64% potential upside.

Valuation summary

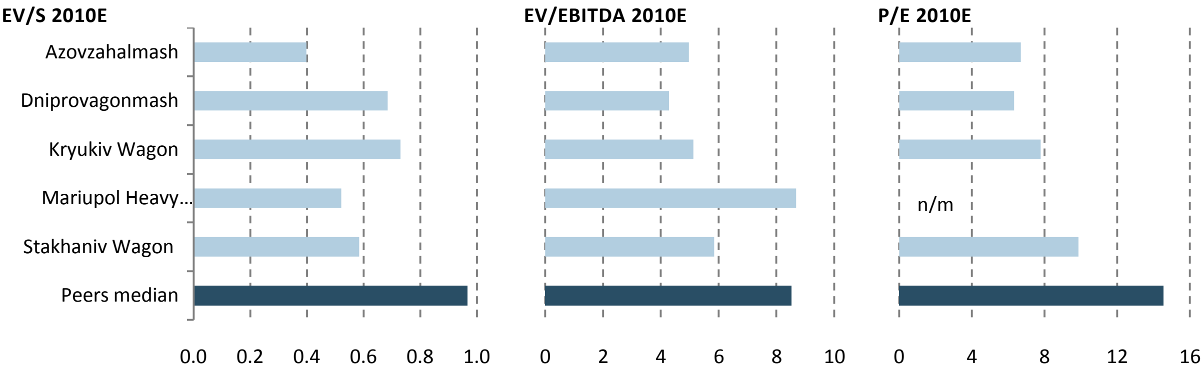


Source: Bloomberg, Concorde Capital calculation

DNVM, MZVM and AZGM unrated

We do not issue any recommendation on Dniprovahonmash given that the free float is around 0.7%. We also issue no recommendation on Mariupol Heavy Machinery or Azovzahalmash, both part of the Azovmash group. These companies continue to engage in transfer pricing schemes that lead to significantly under-reported profits. While Azovmash is likely to improve corporate governance standards prior to a planned IPO, it is unclear what position the listed stocks would occupy in the final holding structure.

Comparative valuation



Source: Bloomberg, Concorde Capital calculation

Comparative valuation

	Price	MCap	EV/Sales		EV/EBITDA		P/E	
	USD	USD mln	2010E	2011E	2010E	2011E	2010E	2011E
Azovzahalmash	1.65	77	0.40	0.33	5.0	4.1	6.7	4.0
Dniprovahonmash	6.30	105	0.69	0.52	4.3	3.2	6.3	4.6
Kryukiv Wagon	3.54	406	0.73	0.71	5.1	4.7	7.8	6.9
Mariupol Heavy Machinery	2.76	42	0.52	0.34	8.7	5.6	n/m	9.6
Stakhaniv Wagon	0.80	180	0.58	0.51	5.8	5.1	9.9	8.8
Average			**0.58**	**0.48**	**5.8**	**4.6**	**7.7**	**6.8**
Global peers			2010E	2011E	2010E	2011E	2010E	2011E
American Railcar Industries		263	0.80	0.54	13.6	4.8	n/m	256.7
Freightcar America		286	1.01	0.57	n/m	11.9	n/m	45.1
Greenbrier Companies		267	0.92	0.75	8.5	6.8	n/m	18.4
Trinity Industries		1,444	1.76	1.44	8.2	7.1	25.4	14.8
Const Y Auxiliar De Ferr		1,530	0.62	0.55	5.2	4.7	10.1	9.6
United Group		2,208	0.57	0.52	8.5	7.7	14.5	13.0
China Motor Corp		854	0.72	0.67	9.7	8.6	22.8	17.4
Jinxi Axle Company Ltd		533	1.72	1.46	22.9	17.3	59.9	39.6
Iochpe Maxion		1,061	1.08	0.92	7.3	6.2	12.4	10.6
Taiyuan Heavy Industry		1,448	1.08	0.92	9.9	n/m	14.6	12.3
Peer median			**0.97**	**0.71**	**8.5**	**7.1**	**14.6**	**16.1**
AZGM price, USD per share								
Implied by global peer median			8.69	7.38	5.16	5.30	3.58	6.63
Upside/Downside to peer average			428%	349%	214%	222%	118%	303%
DNVM price, USD per share								
Implied by global peer median			9.27	8.71	13.47	14.19	14.50	22.11
Upside/Downside to peer average			47%	38%	114%	125%	130%	251%
KVBZ price, USD per share								
Implied by global peer median			4.65	3.55	5.81	5.31	6.61	8.26
Upside/Downside to peer average			31%	0%	64%	50%	87%	134%
MZVM price, USD per share								
Implied by global peer median			9.70	11.75	2.61	4.96	-1.42	4.64
Upside/Downside to peer average			251%	326%	n/m	80%	n/m	68%
SVGZ price, USD per share								
Implied by global peer median			1.40	1.14	1.22	1.14	1.18	1.47
Upside/Downside to peer average			76%	43%	53%	43%	48%	84%

Source: Bloomberg, Concorde Capital calculation

COMPANY PROFILES

Kryukiv Wagon

BUY

Bloomberg: KVBZ UK | Reuters: KVBZ=UA

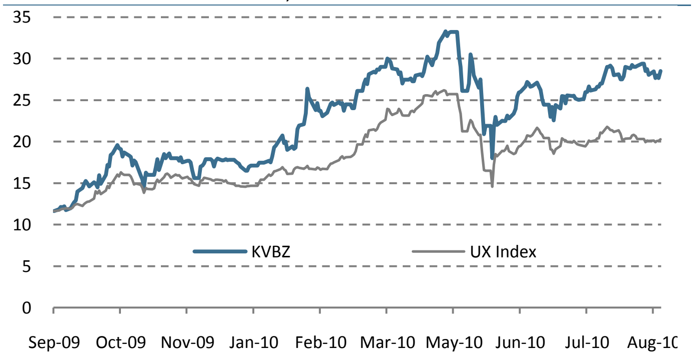
http://www.kvsz.com/

12M target (USD)	5.8
Upside	64%

INVESTMENT CASE

- Railcar output increased by 5.6 times y-o-y in 7M10, and over the past five months output of freight railcars was higher than the historical monthly maximum
- EBITDA margin was 13% in 1H10, lower than the 19-23% in 2008 but up from 2-7% in 1Q-3Q09
- Sales increased fourfold y-o-y to USD 230 mln in 1H10
- Only producer of passenger railcars in Ukraine with idle capacity; renewal of purchases from Ukrzalyznytsya or new orders from CIS could boost output by up to 1.5 times by 2015
- Entered the subway car market in 2H09; first order of 30 cars from Kyiv Metro accounted for 15% of 2009 sales. The segment could increase to almost 25% of sales in two to five years, subject to debt issuance by the city of Kyiv

SHARE PRICE PERFORMANCE, 12M

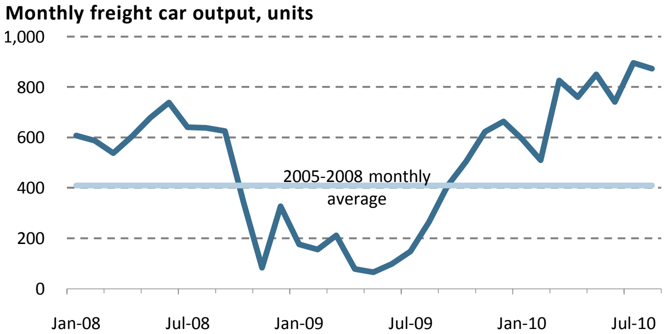


Source: Bloomberg

BUSINESS OVERVIEW

Only manufacturer in Ukraine that makes both passenger and freight railcars and recently started serial subway car production. Production capacity: 200 passenger and 8,000 freight cars p.a. Exports 85% of its output to the CIS and Baltics. Pursuing strategy of diversifying its product line (cargo freight cars, passenger cars, subway cars, escalators).

Monthly freight car output, units



Source: Promishlenniye Gruzi, Concorde Capital calculations

MARKET INFORMATION

Market price, USD	3.54
52 Wk H/L USD	4.22/1.47
Chg 3m/6m/52w	23%/15% / 142%
Avg M Tr Vol 12M, USD mln	1.4
MCap**, USD mln	406.0
Free float**	4.7%
FF MCap**, USD mln	19.1
Oustanding shares, mln	114.68
Par Value, UAH	0.75

MARKET MULTIPLES

	2009	2010E	2011E
EV/S	2.22	0.73	0.71
EV/EBITDA	22.1	5.1	4.7
P/E	44.3	7.8	6.9

KEY FINANCIALS, USD mln

	2009	2010E	2011E
Net Revenues	182	539	568
EBITDA	18	77	85
Net Income	9	52	59
Net Debt	-2	-12	-5

KEY RATIOS

	2009	2010E	2011E
EBITDA Margin	10%	14%	15%
Net Margin	5%	10%	10%
ROE	6%	35%	37%
Net Debt to Equity	0.0	-0.1	0.0

STOCK OWNERSHIP

AS Skinest Finants	25%
TAS Group	25%
Transbuilding Service Ltd	25%
Individuals	14.5%
Other	10.5%

***Based on auction starting price*

Financial statements

Income statement summary, USD mln

	2008	2009	2010E	2011E	2012E	2013E
Net Revenues	**617**	**182**	**539**	**568**	**634**	**680**
Change y-o-y	*N/M*	*-70.5%*	*195.9%*	*5.3%*	*11.7%*	*7.3%*
Cost Of Sales	(471)	(158)	(430)	(449)	(500)	(535)
Gross Profit	146	24	109	119	134	145
Other Operating Income/Costs net	(18)	5	(13)	(14)	(16)	(17)
SG&A	(16)	(10)	(19)	(20)	(22)	(24)
EBITDA	**113**	**18**	**77**	**85**	**96**	**104**
EBITDA Margin %	*18.3%*	*10.0%*	*14.3%*	*15.0%*	*15.1%*	*15.3%*
Depreciation	(6)	(4)	(5)	(5)	(5)	(6)
EBIT	**107**	**14**	**72**	**80**	**90**	**98**
EBIT margin. %	*17.4%*	*7.7%*	*13.4%*	*14.1%*	*14.2%*	*14.4%*
Interest Expense	(1)	(2)	(3)	(3)	(2)	(2)
Financial Income	1	1	-	-	-	-
Other Income/(Expense)	(3)	(1)	-	-	-	-
PBT	**104**	**12**	**69**	**77**	**88**	**96**
Tax	(28)	(3)	(17)	(19)	(22)	(24)
Effective Tax Rate	*27%*	*22%*	*25%*	*25%*	*25%*	*25%*
Net Income	**75.9**	**9.2**	**52.1**	**57.7**	**66.2**	**72.3**
Net Margin %	*12.3%*	*5.0%*	*9.7%*	*10.2%*	*10.5%*	*10.6%*

Balance sheet summary, USD mln

	2008	2009	2010E	2011E	2012E	2013E
Current Assets	**149**	**144**	**240**	**237**	**242**	**247**
Cash & Equivalents	7	8	16	17	19	20
Trade Receivables	46	26	32	34	38	41
Inventories	74	66	116	112	115	118
Other Current Assets	22	44	75	74	70	68
Fixed Assets	**48**	**52**	**58**	**61**	**63**	**64**
PP&E net	39	38	42	45	46	47
Other Fixed Assets	9	14	16	16	16	17
Total Assets	**197**	**196**	**298**	**297**	**304**	**311**
Shareholder Equity	**154**	**151**	**150**	**158**	**161**	**161**
Share Capital	11	11	11	11	11	11
Reserves and Other	143	139	139	147	150	150
Current Liabilities	**42**	**46**	**148**	**140**	**143**	**150**
ST Interest Bearing Debt	11	6	22	12	11	14
Trade Payables	19	7	56	54	50	48
Accrued Wages	1	1	4	4	4	5
Accrued Taxes	0	0	1	2	2	2
Other Current Liabilities	12	31	65	68	76	82
LT Liabilities	**-**	**-**	**-**	**-**	**-**	**-**
LT Interest Bearing Debt	-	-	-	-	-	-
Other LT	-	-	-	-	-	-
Total Liabilities & Equity	**197**	**196**	**298**	**297**	**304**	**311**

DCF model

Key model assumptions

Output	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Cargo freight cars, units	6,407	3,314	8,500	7,500	7,500	7,500	7,200	7,200	7,200	7,200	7,200	7,200
Passenger cars, units	107	21	0	50	60	75	100	125	150	150	150	150
Subway cars, units	-	5	25	25	25	25	25	25	25	25	25	25

Price per wagon	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Cargo freight cars, avg	80	45	58	63	70	73	75	77	78	80	82	83
Passenger cars, avg	n/a	725	725	798	877	921	949	968	987	1,007	1,027	1,047
Subway cars, avg	n/a	550	550	605	666	699	720	734	749	764	779	795

	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenue, USD mln	617	182	539	568	634	680	702	742	783	799	815	831
EBITDA, USD mln	113	18	77	85	96	104	110	118	126	129	131	134
EBITDA margin	18.3%	10.0%	*14.3%*	*15.0%*	*15.1%*	*15.3%*	*15.6%*	*15.9%*	*16.1%*	*16.1%*	*16.1%*	*16.1%*

DCF model output

For forecasting purposes local currency is used *All amounts in UAH except otherwise stated*

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
EBITDA	**614**	**671**	**756**	**821**	**865**	**930**	**998**	**1,018**	**1,038**	**1,059**
EBIT	577	631	712	775	818	881	946	963	980	998
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	433	473	534	582	613	661	709	722	735	748
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 change in OWC	(13)	53	16	2	(64)	(42)	5	(16)	33	(16)
FCFF	**-**	**517**	**543**	**579**	**547**	**618**	**712**	**706**	**761**	**728**
WACC	18%	17%	15%	15%	14%	14%	13%	13%	13%	13%
Sum of DCF's	*2,908*									
Terminal Value										**7,119**
Discounted TV	2,207									

Firm Value	**5,116**	**Portion due to TV**	**43.1%**
Less Net Debt	(8)		
Equity Value	**5,108**	**Implied exit EBITDA Multiple**	**6.4 x**
Perpetuity Growth Rate	**2.0%**		

Sensitivity Analysis

Implied Share Price USD — Perpetuity Growth Rate

WACC to perpetuity	*1.0%*	*1.5%*	*2.0%*	*2.5%*	*3.0%*
10.0%	6.08	6.26	6.47	6.71	6.98
11.0%	5.81	5.96	6.13	6.32	6.53
12.0%	5.59	5.72	5.86	6.01	6.18
13.0%	5.41	5.52	**5.64**	5.77	5.91
14.0%	5.26	5.36	5.46	5.57	5.68
15.0%	5.14	5.22	5.31	5.40	5.50
16.0%	5.03	5.10	5.18	5.26	5.35

Implied Share Price USD — Exit Multiple (EBITDA)

WACC to perpetuity	*4.4 x*	*5.4 x*	*6.4 x*	*7.4 x*	*8.4 x*
10.0%	5.70	6.17	6.65	7.13	7.61
11.0%	5.40	5.85	6.29	6.73	7.18
12.0%	5.13	5.54	5.95	6.36	6.78
13.0%	4.87	5.26	**5.64**	6.02	6.40
14.0%	4.64	4.99	5.35	5.70	6.06
15.0%	4.42	4.75	5.08	5.40	5.73
16.0%	4.21	4.52	4.82	5.13	5.44

Stakhaniv Wagon

Machinery

Bloomberg: SVGZ UK | Reuters: SVGZ=UA

http://stakhanovvz.com/

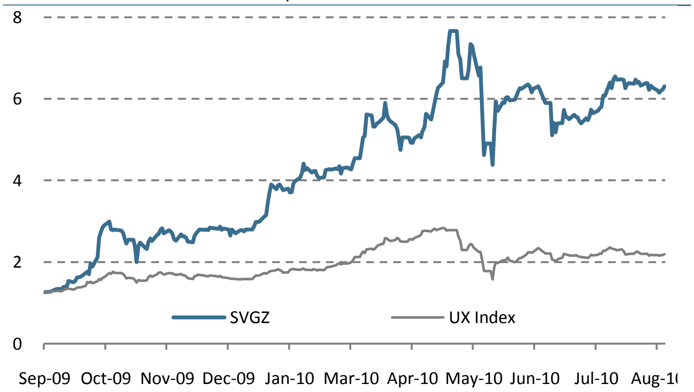
12M target (USD)	1.2
Upside	64%

BUY

INVESTMENT CASE

- Output of freight cars increased tenfold y-o-y in 1H10; monthly output in 2010 has returned to pre-crisis highs of 2008
- EBITDA margin was 12% in 1H10, in line with highs posted in 2008
- Likely to receive an order for approximately 5,000 railcars from Brunswick Rail (about 90% of 2010E output). The latter is planning to place an order for about 7,000 railcars with Ukrainian plants in 2010-12
- Most liquid stock among Ukrainian railcar makers: average monthly trading volume was USD 3.6 mln over the last 6M
- SVGZ was included in the UX basket as of September 15, 2010

SHARE PRICE PERFORMANCE, 12M

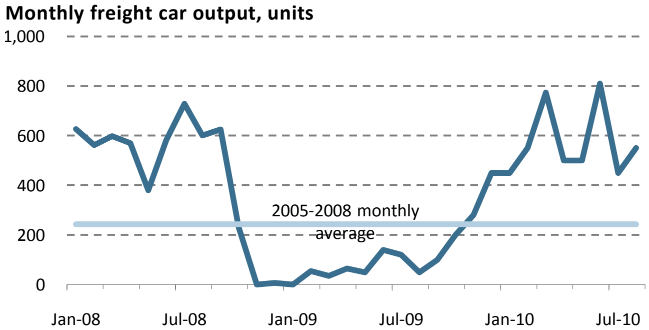


Source: Bloomberg

BUSINESS OVERVIEW

Specializes in the production of cargo railcars (gondola, hopper, platforms and dumpcars). Production capacity: 8,000 freight railcars p.a. Exports 70-95% of its output to Russia, Kazakhstan and the Baltics.

Monthly freight car output, units



Source: Metal Courier, Concorde Capital calculations

MARKET INFORMATION

Market price, USD	0.80
52 Wk H/L USD	0.97/0.16
Chg 3m/6m/52w	4%/ 48% / 402%
Avg M Tr Vol 6M, USD mln	3.6
MCap, USD mln	181.1
Free float**	8%
FF MCap**, USD mln	14.5
Outstanding shares, mln	226.4
Par Value, UAH	1.05

MARKET MULTIPLES

	2009	2010E	2011E
EV/S	2.90	0.58	0.51
EV/EBITDA	30.7	5.8	5.1
P/E	-25.1	9.9	8.8

KEY FINANCIALS, USD mln

	2009	2010E	2011E
Net Revenues	59	360	396
EBITDA	6	36	40
Net Income	-7	18	21
Net Debt	-11	30	23

KEY RATIOS

	2009	2010E	2011E
EBITDA Margin	9%	10%	10%
Net Margin	-12%	5%	5%
ROE	-15%	29%	26%
Net Debt to Equity	-0.2	0.5	0.3

STOCK OWNERSHIP

Finance & Credit	92%
Other	8%

Financial statements

Income statement summary, USD mln

	2008	2009	2010E	2011E	2012E	2013E
Net Revenues	**336**	**59**	**360**	**396**	**469**	**493**
Change y-o-y	*N/M*	*-82.5%*	*514.3%*	*10.0%*	*18.5%*	*5.0%*
Cost Of Sales	(277)	(51)	(299)	(329)	(385)	(404)
Gross Profit	59	8	61	67	84	89
Other Operating Income/Costs net	(7)	4	-	-	-	-
SG&A	(24)	(6)	(25)	(28)	(33)	(34)
EBITDA	**28**	**6**	**36**	**40**	**52**	**54**
EBITDA Margin %	*8.4%*	*9.4%*	*10.0%*	*10.0%*	*11.0%*	*11.0%*
Depreciation	(3)	(3)	(3)	(4)	(5)	(5)
EBIT	**25**	**3**	**33**	**35**	**47**	**49**
EBIT Margin %	*7.4%*	*4.8%*	*9.1%*	*8.9%*	*9.9%*	*9.9%*
Interest Expense	(9)	(11)	(8)	(8)	(4)	(2)
Financial Income	-	1	-	-	-	-
Other Income/(Expense)	2	(0)	-	-	-	-
PBT	**18**	**(7)**	**24**	**27**	**42**	**47**
Tax	-	-	(6)	(7)	(11)	(12)
Effective Tax Rate	*0%*	*0%*	*25%*	*25%*	*25%*	*25%*
Net Income	**18.1**	**(7.2)**	**18.3**	**20.6**	**31.6**	**35.4**
Net Margin %	*5.4%*	*-12.3%*	*5.1%*	*5.2%*	*6.7%*	*7.2%*

Balance sheet summary, USD mln

	2008	2009	2010E	2011E	2012E	2013E
Current Assets	**114**	**136**	**178**	**180**	**204**	**209**
Cash & Equivalents	2	60	14	16	19	20
Trade Receivables	5	2	11	16	19	20
Inventories	20	13	27	30	35	36
Other Current Assets	87	60	126	119	131	133
Fixed Assets	**30**	**31**	**40**	**49**	**50**	**51**
PP&E net	28	26	33	43	48	49
Other Fixed Assets	3	5	8	7	2	2
Total Assets	**145**	**167**	**218**	**229**	**254**	**260**
Shareholder Equity	**37**	**48**	**62**	**78**	**102**	**120**
Share Capital	10	31	31	31	31	31
Reserves and Other	27	18	31	47	71	89
Current Liabilities	**108**	**69**	**107**	**151**	**152**	**140**
ST Interest Bearing Debt	58	11	(2)	39	20	2
Trade Payables	7	4	36	39	46	48
Accrued Wages	0	1	1	1	1	1
Accrued Taxes	0	0	0	0	0	0
Other Current Liabilities	42	53	72	71	84	89
LT Liabilities	**-**	**50**	**50**	**-**	**-**	**-**
LT Interest Bearing Debt	-	50	50	-	-	-
Other LT	-	-	-	-	-	-
Total Liabilities & Equity	**145**	**167**	**218**	**229**	**254**	**260**

DCF model

Key model assumptions

Output	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Cargo freight cars, units	5,510	1,544	6,500	6,500	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000

Price per car	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Cargo freight cars, avg	80	45	52	57	62	65	67	69	70	72	73	74

	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenue, USD mln	336	59	360	396	469	493	507	518	528	539	549	560
EBITDA, USD mln	28	6	36	40	52	54	56	57	58	59	60	62
EBITDA margin	*8.4%*	*9.4%*	*10.0%*	*10.0%*	*11.0%*	*11.0%*	*11.0%*	*11.0%*	*11.0%*	*11.0%*	*11.0%*	*11.0%*

DCF model output

For forecasting purposes local currency is used *All amounts in UAH mln except otherwise stated*

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
EBITDA	**288**	**313**	**408**	**428**	**441**	**450**	**459**	**468**	**477**	**487**
EBIT	262	279	368	385	395	401	406	412	417	423
Tax Rate	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
Taxed EBIT	196	209	276	289	296	300	305	309	313	317
Plus D&A	26	34	40	43	46	49	53	56	60	64
Less CapEx	(100)	(100)	(50)	(50)	(50)	(50)	(55)	(60)	(60)	(65)
Less change in OWC	(301)	25	(3)	18	28	33	35	37	38	40
FCFF	**-**	**168**	**263**	**300**	**320**	**333**	**337**	**342**	**351**	**356**
WACC	16%	15%	14%	15%	15%	15%	14%	14%	14%	14%
Sum of DCF's	*1,431*									
Terminal Value										**3,601**
Discounted TV	1,086									

Firm Value	**2,518**	**Portion due to TV** **43.1%**
Less Net Debt	(208)	
Equity Value	**2,310**	**Implied exit EBITDA Multiple** **6.8 x**
Perpetuity Growth Rate	**2.0%**	

Sensitivity Analysis

Implied Share Price USD — **Perpetuity Growth Rate**

WACC to perpetuity	*1.0%*	*1.5%*	*2.0%*	*2.5%*	*3.0%*
10.0%	1.47	1.50	1.54	1.58	1.62
11.0%	1.38	0.75	0.75	0.75	0.75
12.0%	1.31	1.34	1.37	1.40	1.44
13.0%	1.24	1.26	**1.29**	1.32	1.36
14.0%	1.17	1.19	1.22	1.25	1.28
15.0%	1.11	1.13	1.15	1.18	1.21
16.0%	1.05	1.07	1.09	1.12	1.15

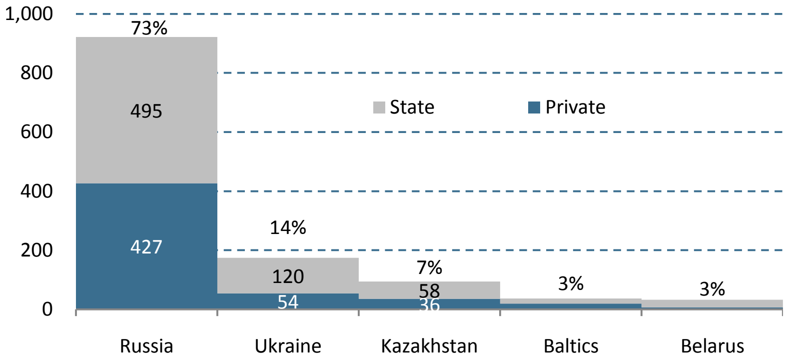
Implied Share Price USD — **Exit Multiple (EBITDA)**

WACC to perpetuity	*4.8 x*	*5.8 x*	*6.8 x*	*7.8 x*	*8.8 x*
10.0%	1.31	1.43	1.54	1.65	1.76
11.0%	1.24	1.35	1.45	1.55	1.66
12.0%	1.17	1.27	1.37	1.46	1.56
13.0%	1.11	1.20	**1.29**	1.38	1.47
14.0%	1.05	1.14	1.22	1.30	1.39
15.0%	1.00	1.08	1.15	1.23	1.31
16.0%	0.95	1.02	1.09	1.16	1.24

Appendix 1: Market structure

The railcar market for Ukrainian manufacturers includes the CIS and Baltic countries, as all track in the former Soviet Union is 1520 mm gauge. Given stringent certification procedures in both the former Soviet Union and internationally, the scope for imports is limited between markets.

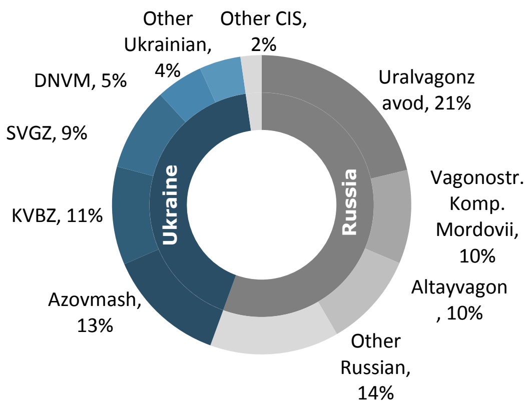
Cargo fleet, thousand railcars



Source: Promishlenniye Gruzi

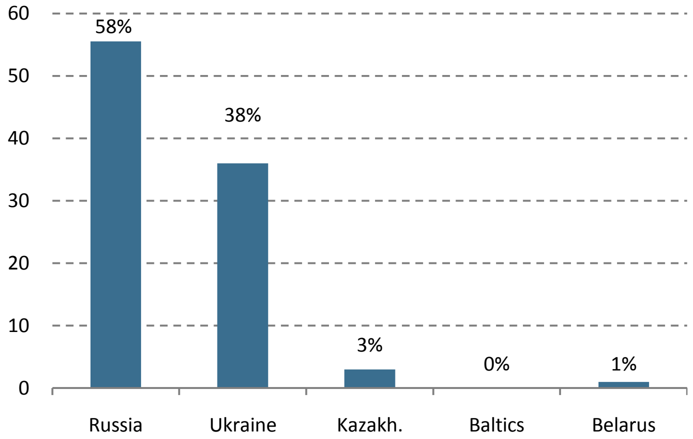
Ukrainian railcar manufacturers provide 38% of total capacity in the 1520 mm gauge space, while their share in actual output reached 42% in 1H10.

Freight transport volumes, mln mt, 2009



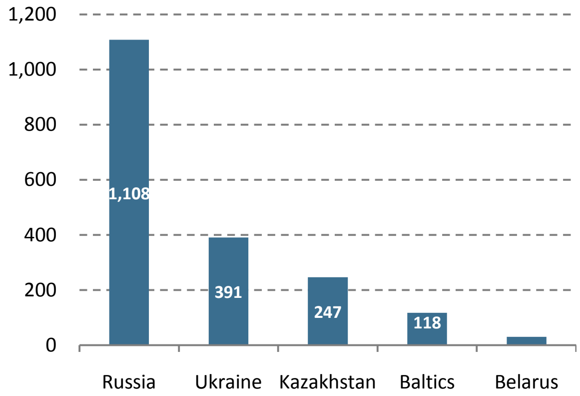
Source: Company data, Promishlenniye Gruzi

Manufacturing capacity, thousand freight railcars per year



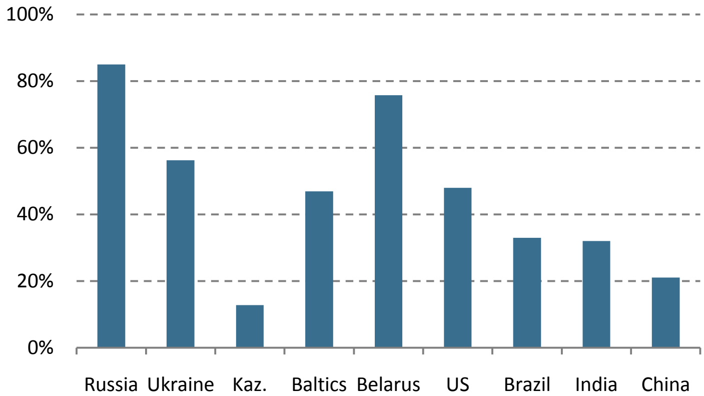
Source: Company data, Promishlenniye Gruzi

Freight transport volumes, mln mt, 2009



Source: National Statistics Committees

Rail transport as % of total*



** Excluding pipelines*
Source: National Statistics Committee, Globaltrans

Appendix 2: Disclosures

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.

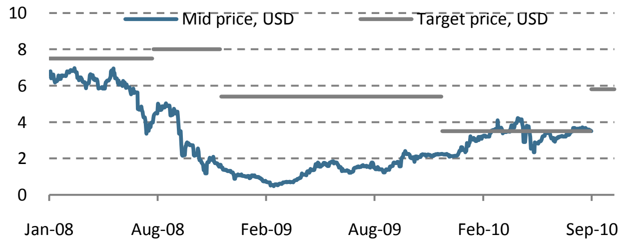
Ratings history

Date	**KVBZ price,** USD		**MZVM price,** USD		**AZGM price,** USD		**SVGZ price,** USD		**DNVM price,** USD	
	Closing	Target	Closing	Target	Closing	Target	Closing	Target	Closing	Target
21-Sep-05			10	20.7	3.3	5.4				
3-Mar-06							35.6	80.5		
12-May-06							61.4	80.5		
23-Nov-06							25.3	80.5		
6-Dec-06			8.9	12.1	2.5	2.1				
28-Feb-07							5.6	8		
17-Jul-07			15.7	20.3	4.3	6.1				
2-Aug-07							17.8	22		
20-Sep-07							15.3	15.8		
28-Jan-08	6.9	7.5	27.1	40	10.5	13	10	12.5	4.8	20
28-May-08							4.7	6.4		
28-Jul-08	4.1	8								
25-Aug-08			10.8	40	5	13				
24-Nov-08	1.5	5.4	2.2	28.2	1.1	9.3	0.4	4.1		
15-Dec-09	2.2	3.5	3.3	7.7	1.83	1.7	0.3	0.3	4.9	2.2
20-Jan-10	2.52	3.5	3.51	7.7	1.83	1.7	0.44	0.26	6.25	2.2
07-Sep-10		5.8		N/R		N/R		1.2		N/R

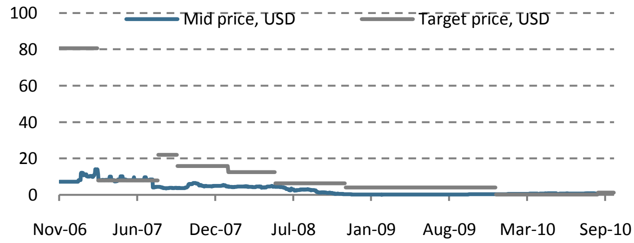
** In July 2009, Yegor Samusenko took over coverage; prior to that point, it was covered by other Concorde analysts.*

Target price history

KVBZ

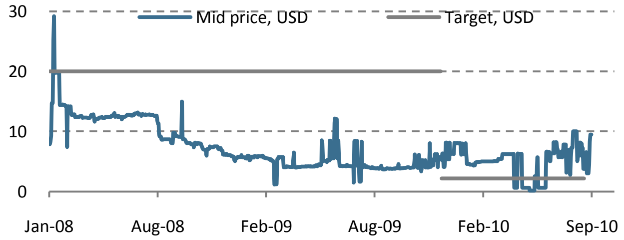


SVGZ

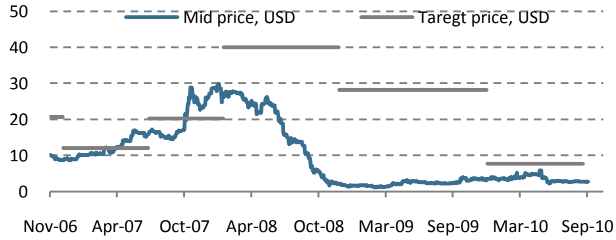


Note: SVGZ conducted two additional share issues in 2007, one in 2008 and one in 2009

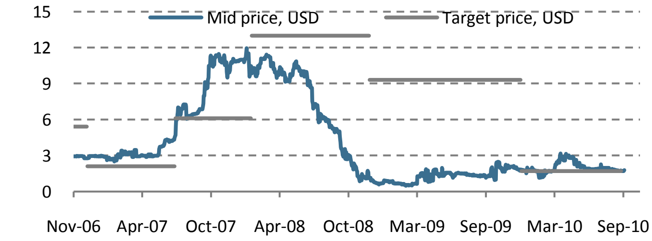
DNVM



MZVM



AZGM



Source: Bloomberg, Concorde Capital

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The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 15% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 15%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

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