



CONCORDE CAPITAL

Ukraine/ Ferroalloy Stakhanov Ferroalloy

Enjoying A Manganese Rush

BUY

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0.0045 USD

12M Target

0.0070 USD

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SFER Mid-Market, USD



Market Information

Bloomberg SFER UZ
Xetra S5Z1

No of Shares, mln 14,356.9
Reg S GDR to Ord. 1:100

Market price, USD 0.0045
52Wk H/L, USD 0.0142
MCap, USD mln 64.6
Free Float 2%

Stock Ownership

Privat group (est.) 98%
Minorities 2%

Ratios 2005e (reported)

EBITDA mgn -2%
EBIT mgn -5%
Net mgn -9%

Net Debt/Equity 1.7

We believe the market has overlooked Stakhanov's transformation into a bigwig due to its focus on a new product –silicomanganese (SiMn). This product will help to improve SFER's financials as it is in higher demand and is less electricity intensive than the product the company used to specialize in, ferrosilicium (FeSi). We upgrade our recommendation to BUY with a 12M target price of 0.007, implying a 55% upside.

New Product – New Impulse. Last year Stakhanov Ferroalloy, launched a new product - silicomanganese which comprised almost 50% of output (the company's other product is ferrosilicium). The new product combines the positive features of FeSi and FeMn and is in higher demand worldwide than FeSi. We believe that SFER will continue to replace FeSi in its product mix in the mid-term. In our view, the new product will allow the company to increase output by 6% yoy in 2006 (69% SiMn) to satisfy growing domestic and internal demand for ferroalloys.

Cost Cutting. Production costs for SiMn are 9% lower than for FeSi as it uses less electricity, even though this product requires a new input, manganese ore, which the company gets from related manganese GOKs. SFER's costs might drop even further if the government passes privileged electricity tariffs which would lower electricity costs by 10%. Irregardless, Stakhanov Ferroalloy will construct its own electricity generator in the mid-term to be less dependent on government energy policy.

Getting On The Transparency Bandwagon. We are convinced that Yulia Tymoshenko, who bullwhipped Ukrainian companies into showing greater disclosure during her Premiership in 1H05, is now a long term political factor whether she becomes PM now or not. So far, the actions of Tymoshenko's government have already had an effect - while in the past SFER underreported 50-55% of its total revenues, in 3Q05 this number fell to 33%. We believe that impetus set in motion by the Tymoshenko government will continue and Stakhanov will report financials that better represent its true business. We expect transfer pricing to be fully eliminated by 2008.

KEY FINANCIAL DATA, USD mln

	Net Revenue	EBITDA	Net Income
2004	61.0	1.6	-5.6
2005E	87.6	-1.8	-8.2
2006E*	127.1	9.1	0.5
Spot Exchange Rate		5.05	

* 2006E

KEY RATIOS

	P/S	P/E	EV/EBITDA
2004	1.4	neg	64.7
2005E	1.0	neg	neg
2006E	0.7	165.2	13.4