



CONCORDE CAPITAL

Ukraine / Iron Ore

Pivnichny Iron Ore

2009 financials reveal fat margins

February 12, 2010

Current price: UAH 5.7 / USD 0.7
12M Target: UAH 10.5 / USD 1.3

BUY

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Tickers

Bloomberg SGOK UK

Market information

Market price, USD 0.71
MCap, USD mln 1,631
52Wk Hi/Lo, USD 0.77/0.25
No of shares, mln 2,304.1
Free float 0.55%
Free float, USD mln 9.0

Shareholders

Metinvest Holding 99.45%
Other 0.55%

Pivnichny Iron Ore's 2009 financials became available this week: net sales were UAH 6.1 bln (down 41% yoy), but margins remained reassuringly fat, with an EBITDA margin of 42% (44.6% in 2008) and net margin of 22% (down 11 pp yoy). Despite a decline in the top-line, the company by far outperformed the sector in terms of profitability: we estimate the average EBITDA margins in Ukraine's steel and iron ore industries were ~10% and ~30%, respectively, in 2009. Our 12M target price implies a solid 84% upside. **BUY.**

Pivnichny's iron ore output grew 9% yoy in 2009

Despite weak demand from domestic steelmakers, Pivnichny's iron ore production rose 9% yoy to 13.8 mln mt in 2009, while pellet output was up 0.2%. Given Pivnichny's newly started deliveries to China (began in November 2009), which adds 5-10% to its annual sales, we believe production will be up 6-8% yoy in 2010.

High profitability: EBITDA margin 42%, net margin 22% in 2009

Pivnichny Iron Ore's sales fell 47.6% yoy to UAH 6.1 bln in 2009, dragged down by declines in selling prices in 1Q09-2Q09. At the same time, its EBITDA margin decreased only 2.6 pp yoy to 41.8%, and net margin by 11.9 pp to 21.7%, according to UAS. Pivnichny's 2009 financial results were markedly stronger than those of other metallurgical companies: we estimate that last year average EBITDA margins in Ukraine's steel and iron ore sectors were ~10% and ~30%, respectively.

in UAH ths	2008	2009	2010E
Sales	10,419	6,147	8,195
EBITDA	4,646	2,582	3,688
margin, %	44.6%	42.0%	45.0%
Net income	3,504	1,335	2,049
margin, %	33.6%	21.7%	25.0%

Source: Company data, Concorde Capital

We forecast sales to bounce back 33% yoy to UAH 8.2 bln in 2010 on the back of expected 25% price growth and a 6% increase in production. We expect the company's EBITDA margin to grow 3.0 pp to 45.0% and net margin by 3.3 pp to 25.0%.

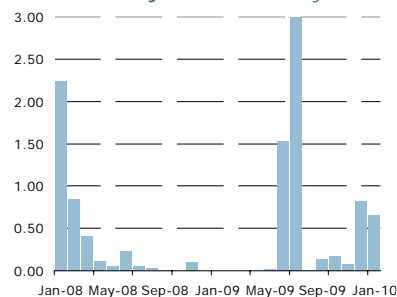
UAH 1.5-2.0 bln dividend payout expected in 2010

Metinvest, Pivnichny's majority shareholder, has a history of making dividend payouts; last year Pivnichny paid UAH 1.13 bln or UAH 0.49 per share (dividend yield of 25%). We expect the company to allocate UAH 1.5-2.0 bln for dividends this year: UAH 0.65-0.87 per share (dividend yield of 12%-15% as of February 11).

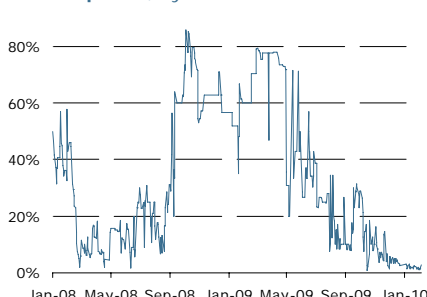
Trading volumes increased 15x, spread squeezed to 1-3%

In the last three months, liquidity in Pivnichny Iron Ore has improved significantly: monthly trading volumes rose from UAH 0.5 mln to UAH 6-9 mln; and its spread narrowed from 10-15% to 1-3%. After its 11% correction in the last three days, we see high probability of another rally following release of Pivnichny's strong 2009 financials and on market expectation of dividends, which can be approved at an AGM in April-May. Comparative valuation indicates 90-130% upside potential, we recommend BUY with a target of UAH 10.5 (USD 1.31) per share, an upside of 84%.

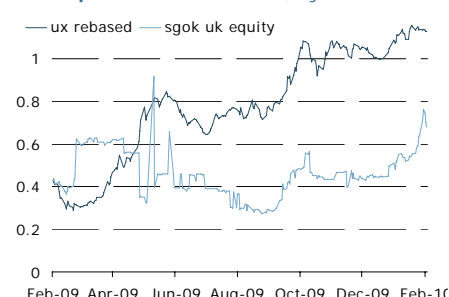
SGOK monthly trd. volume, 2y, USD mln



SGOK spread, 2y



SGOK performance vs. UX, 1y



Sources: Bloomberg

Key financials & multiples, USD mln

	Revenue	EBITDA margin	Net margin	EV/S	EV/EBITDA	P/E
2008	10,419	45%	34%	0.8	1.8	2.4
2009E	6,147	42%	22%	2.2	5.2	10.0
2010E	8,195	45%	25%	1.6	3.7	6.9

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Peer valuation

	MCap, USD mln	EV/S			EV/EBITDA			P/E		
		2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
SGOK	1,631.0	0.8	2.2	1.6	1.8	5.2	3.7	2.4	10.0	6.9
International Peers		2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
BHP Billiton Plc	210,024.8	4.3	4.4	3.6	9.9	9.9	7.2	24.0	19.1	13.7
Vale Do Rio Doce	154,406.4	4.7	6.2	5.0	8.7	14.9	10.5	12.7	25.1	18.4
Rio Tinto Plc	134,165.8	3.1	3.8	3.2	8.3	12.1	8.4	13.6	23.9	15.9
Xstrata Plc	57,698.2	2.5	3.2	2.4	7.3	10.5	6.5	12.7	23.6	12.0
Anglo American Plc	59,128.3	2.3	3.1	2.6	5.9	10.8	7.4	9.8	21.9	14.6
Vedanta Resources	12,093.6	2.0	2.1	1.4	8.5	7.2	4.1	38.6	22.1	9.7
Antofagasta Plc	16,622.5	3.9	5.5	3.6	6.6	9.8	5.6	16.9	25.0	14.6
Average		3.3	4.0	3.1	7.9	10.7	7.1	18.3	22.9	14.1
SGOK price										
Implied by Intern. Peers avg, USD/share		2.92	1.31	1.34	3.15	1.47	1.37	4.04	1.63	1.46
Upside/Downside to Intern. avg		312%	85%	90%	345%	107%	94%	470%	130%	106%

Source: Company data; Bloomberg

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