

Komsomolets Donbasa

Order Driven Market to increase liquidity

March 16, 2010

 Current price*: UAH 8.4
 12M target price: UAH 12.0

BUY
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Tickers

Bloomberg SHKD UK

Market information*

Market price, UAH	8.4
MCap, UAH mln	2,813
52Wk Hi/Lo, UAH	9.00/3.00
No of shares, mln	335
Free float	4.5%
Free float, UAH mln	126.6

* As of March 15, 2010

Shareholders

DTEK	95.5%
Others	4.5%

Komsomolets Donbasa began trading on the UX's order-driven market Friday, making it available for Internet trading. This move should improve the stock's liquidity and trigger its price growth. Given the mine's strong financials in 2009 and favorable business outlook in 2010, we recommend BUY.

4Q09 EBITDA rose 36% qoq, EBITDA margin by 8 pp to 40%

Komsomolets Donbasa's 2009 financials became available on Friday: although it took a USD 8.9 mln loss last year (vs. USD 8.7 mln in profit in 2008), the company turned things around in 4Q09. The coal mine recorded a USD 0.9 mln net profit in 4Q09 and its EBITDA rose 36.4% qoq in 4Q09 to USD 15.4 mln.

USD mln	3Q09	4Q09	Chg, yoy	2008	2009	Chg, yoy
Net revenue	35,4	38,9	10.1%	208,7	139,9	-33,0%
EBITDA	11,3	15,4	36.4%	73,4	42,0	-42,8%
Margin, %	32.0%	39.6%	7.7 pp	35.2%	30.0%	-5.2 pp
Net profit	-0.1	0,9	-	8,7	-8,9	-
margin, %	-0.3%	2.3%	2.6 pp	4.2%	-6.4%	10.6 pp

We forecast the company to increase sales by 25% in 2010 to USD 174.5 mln, EBITDA to grow by 2x to USD 83.3 mln.

Our target price implies 43% upside. BUY.

Also on Friday, Komsomolets Donbasa was added to the Ukrainian Exchange's order-driven market. This move should improve the stock's liquidity and trigger its price growth. The company's turnaround in 4Q09 is another catalyst. Komsomolets Donbasa is trading at a 26% discount on EV/EBITDA'10 to its peers. For investors ready to look at undervalued, less liquid stocks, we recommend BUY on SHKD, with the target price of UAH 12.0, upside of 43%.

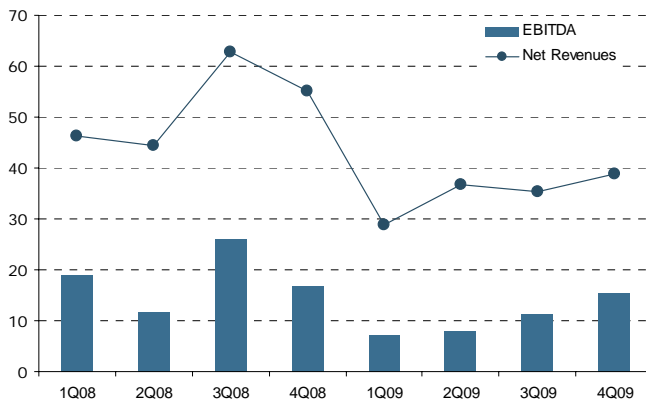
Peer valuation

	MCap, USD mln	EV/S			EV/EBITDA		
		2009	2010E	2011E	2009	2010E	2011E
Komsomolets Donbasa Coal Mine	351.6	0.8	2.2	1.6	1.8	5.2	3.7
Developed Market Peers		2009	2010E	2011E	2009	2010E	2011E
Peabody Energy Corp	12,961	2.5	2.1	1.7	11.8	8.6	6.3
Consol Energy Inc	9,737	2.4	2.1	1.8	8.4	7.3	5.6
Alpha Natural Resources Inc	6,068	2.3	1.6	1.3	11.2	6.4	4.7
Massey Energy Co	4,292	1.9	1.6	1.3	10.5	7.1	4.8
Arch Coal Inc	4,174	2.1	1.9	1.5	11.9	8.6	6.2
Macarthur Coal Ltd	2,763	4.3	4.5	3.1	11.6	13.9	7.2
Centennial Coal Company Ltd	1,427	2.2	2.2	1.8	8.9	9.3	5.5
Gloucester Coal Ltd	735	2.8	3.5	2.5	6.1	11.6	6.4
Average		2.3	2.1	1.8	10.8	8.6	5.9
Emerging Market Peers		2009	2010E	2011E	2009	2010E	2011E
China Shenhua Energy Co	84,955	4.9	4.1	3.6	9.9	8.2	7.1
China Coal Energy Co	22,386	2.6	2.1	1.8	9.9	7.5	6.0
Peabody Energy Corp	12,960	2.1	1.7	1.4	8.6	6.3	5.0
Yanzhou Coal Mining Co	12,882	4.0	3.1	2.6	11.2	7.9	6.6
Shanxi Xishan Coal & Elec	11,870	6.7	4.5	3.8	17.9	12.1	10.1
Bumi resources tbk pt	5,334	2.2	2.0	1.6	6.5	5.9	4.4
Shanxi Guoyang New Energy	5,139	1.9	1.7	1.5	10.5	8.7	7.9
Banpu Public Co Ltd	4,861	2.8	2.2	2.0	9.3	7.0	6.5
Tambang Batubara Bukit Asam	4,026	3.4	2.7	2.4	8.7	6.3	6.0
Shanxi Lanhua Sci-Tech	3,231	4.2	3.6	3.3	11.4	10.0	8.8
Shanghai Datun Energy	2,256	2.3	2.0	1.6	8.4	7.0	6.8
Straits Asia Resources Ltd	1,696	2.7	1.8	1.3	8.4	4.8	3.1
Southern Kuzbass Coal Co-Brd	1,444	2.9	2.3	2.0	11.7	6.5	5.4
Semirara Mining Corp	361	1.3	1.4	1.4	6.8	5.2	4.6
Average		2.7	2.2	1.9	9.6	7.0	6.3
SHKD price							
Implied by DM Peers avg, USD/share		0.69	0.87	0.87	1.07	1.90	1.50
UAH/share		5.49	6.91	6.96	8.51	15.14	11.97
Upside/Downside to DM avg		-34%	-18%	-17%	2%	81%	43%
SHKD price							
Implied by EM Peers avg, USD/share		0.84	0.90	0.95	0.91	1.50	1.62
UAH/share		6.72	7.15	7.57	7.24	11.98	12.92
Upside/Downside to EM avg		-20%	-15%	-10%	-14%	43%	54%

Source: Company data; Bloomberg, Concorde Capital estimates

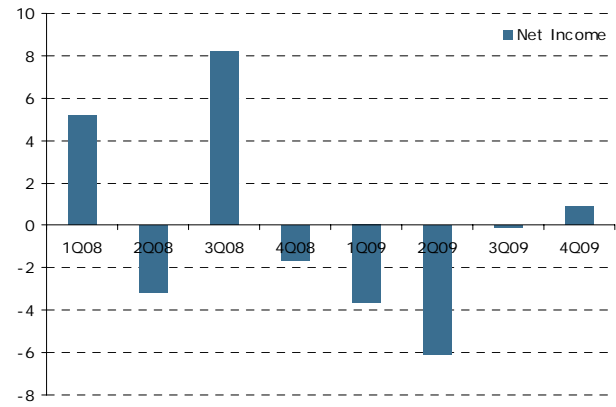
Quarterly financials, Ukrainian Accounting Standards

Quarterly sales and EBITDA, UAH, mln.



Source: Company data; Bloomberg, Concorde Capital estimates

Quarterly net profit (loss), UAH, mln.



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