



CONCORDE CAPITAL

Ukraine / Machinery
Sumy Frunze

Positioned to grow with gas networks

October 06, 2009

Current price: USD 6.00
 Fair price: USD 5.90

HOLD

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Sumy Frunze's management said last week the company would raise sales 10% yoy in 2009 in US dollar terms. Though we view the company as one of the fundamentally strongest in its sector, as its shares have made 37% over the last month and 238% YTD, we consider SMASH fairly priced and rate it HOLD.

Tickers

PFTS/UX SMASH

Market information

Market price, USD	6.00
MCap, USD mln	426.3
52Wk Hi/Lo, USD	6.22/1.36
No of shares, mln	71.1
Free float	11.3%
Free float, USD mln	48.2

Corporate Governance

Concorde Rating** A

** The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

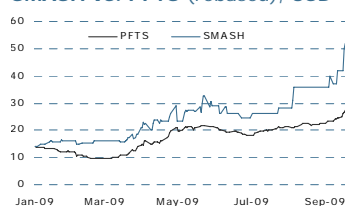
Shareholders

Energy Standard Group	71.4%
Ogres Komertsbank	9.8%
V.Lukyanenko (CEO)	7.5%
Other	11.3%

Key financials and ratios

	Sales, USD mln	EBITDA, USD mln	Net income, USD mln
2007	323.2	41.3	15.3
2008	465.9	35.2	-29.2
2009E	512.3	76.8	30.8
2010E	492.8	61.6	24.3

SMASH vs. PFTS (rebased), USD



Source: Bloomberg

Key multiples

	EV/S	EV/EBITDA	P/E
2008	1.24	16.4	n/m
2009E	1.17	7.8	14.2
2010E	1.08	8.7	16.6

Fundamentals set to improve despite economic downturn

In an interview last week with daily Kommersant, Sumy Frunze's management said they were targeting increasing 2009 sales by 10% in US dollar terms, implying USD 512 mln.

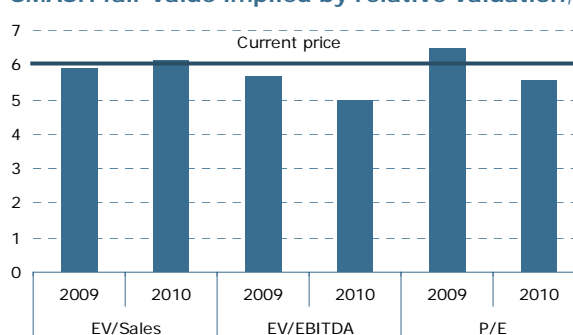
Thanks to long-term contracts for gas transportation projects, Sumy Frunze has not seen the lack of demand that other machine builders have due to the economic downturn. Gazprom, Sumy Frunze's primary customer, recently revised its 2009 investment program, cutting CapEx on gas transportation projects by just 2% and overall investments by 17%.

We revised our projections for 2009 sales based on management guidance to 10% growth, from a 30% decrease. We expect Sumy Frunze to increase its EBITDA margin in 2009 to 15%, comparable to its global peers; its EBITDA margin was 7.5% in 2008. This growth will be supported by the fact that as an exporter, Sumy Frunze gets revenue in foreign currency, while a significant part of its costs are UAH-denominated, allowing the company to benefit from hryvnya devaluation.

SMASH fairly valued after 238% gain YTD

Sumy Frunze's stock has almost matched its historical high, after posting 37% growth in the last month and 238% YTD. Currently, it trades close to 7.8x on EV/EBITDA '09.

SMASH fair value implied by relative valuation, USD per share



Source: Bloomberg, UX, Concorde calculations

At the current price level, we do not recommend entering a long position in SMASH. However, we continue to view the stock as one of the most fundamentally strong in its sector and rate it HOLD.

Watch list

- Gazprom's 2010 investment program, expected in early December. If Gazprom reduces investments in gas transportation projects by not more than 10% yoy, we would see that as positive
- A significant order from a chemical plant under construction in Uzbekistan. In the same interview in Kommersant, the company's management said they are in talks to participate in the project

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Sumy Frunze peer multiples

	MCap	EV/Sales			EV/EBITDA			P/E		
		2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Sumy Frunze	426.3	1.27	1.17	1.12	16.8	7.8	8.9	-15.1	14.3	18.2
Global peers										
Cameron International	8,207	1.4	1.5	1.4	7.8	8.5	8.9	13.4	16.7	18.3
ABB	45,599	1.2	1.3	1.4	7.8	9.3	9.3	14.8	18.0	18.4
Weir Group	2,247	1.4	1.2	1.2	9.1	7.7	8.8	12.7	11.5	14.2
Sulzer	2,903	0.8	0.8	0.8	5.4	5.5	6.4	10.5	12.2	15.9
Siemens	82,430	1.0	0.9	0.9	9.8	7.3	7.7	12.0	13.4	14.3
Torishima Pump Manufacturing	479	n/a	n/a	n/a	n/a	n/a	n/a	25.0	18.7	19.0
Shandong Molong Petroleum Mach.	349	n/a	1.2	1.0	n/a	7.3	6.0	6.6	9.0	6.5
Dril-Quip Inc	1,890	n/a	n/a	n/a	n/a	n/a	n/a	17.4	18.0	16.2
KNM Group Berhad	853	1.7	1.4	1.3	7.5	5.9	5.6	8.0	8.5	8.7
Smith International Inc	6,129	0.8	0.9	0.9	4.8	8.0	7.1	7.7	27.9	22.0
Mean		1.2	1.2	1.1	7.4	7.4	7.5	12.8	15.4	15.3
SMASH implied price, USD		5.6	6.1	6.1	1.6	5.9	5.0	n/m	6.7	5.2
<i>Upside/downside</i>		-6%	-2%	3%	-74%	-6%	-17%	n/m	8%	-8%
<i>Source: Bloomberg, Concorde Capital</i>										

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