

April 14, 2010

Current price: USD 9.8
Fair price: USD 7.9

SELL

Yegor Samusenko
syg@concorde.com.ua
+380 44 391 5577

- Sumy Frunze released its 2009 financial results at its AGM on April 9: net revenue fell 9% yoy to USD 424.1 mln, while net income amounted to USD 51.9 mln
- We adjust our top line projections for Sumy Frunze downward and bottom line upward
- Based on the revised estimates, we upgrade our target price for the stock to USD 7.9 per share, implying 20% downside. SELL

Tickers

PFTS/UX SMASH

Market information

Market price, USD	9.78
MCap, USD mln	694.9
52Wk Hi/Low, USD	11.16/2.88
No of shares, mln	71.1
Free float	5.1%
Free float, USD mln	35.4

Shareholders

Energy Standard Group	81.5%
Prosceno Trading	13.4%
Other	5.1%

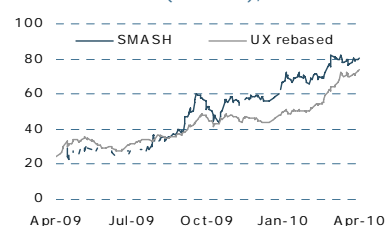
Source: Smida, Concorde Capital estimation

Key financials and ratios

	Sales, USD mln	EBITDA, USD mln	Net income, USD mln
2008	466.8	24.7	-40.1
2009	424.1	86.4	51.9
2010E	425.0	77.9	40.2
2011E	445.3	86.3	46.0

Source: Bloomberg, Concorde Capital

SMASH vs. UX (rebased), USD



Source: Bloomberg

Key multiples

	EV/S	EV/EBITDA	P/E
2009	1.95	9.6	13.4
2010E	1.91	10.4	17.3
2011E	1.74	9.0	15.1

Source: Bloomberg, Concorde Capital

Sumy Frunze reports sales decline of 9% yoy in 2009

Sumy Frunze published key 2009 financial results at its AGM on April 9:

- Net revenue fell 9% yoy to USD 424.1 mln (vs. our projection of 10% yoy growth)
- Net income amounted to USD 51.9 mln, margin of 12% (vs. our net margin projection of 6%)

Sales projections revised downward, margins upward

We downgrade our top line projections for Sumy Frunze based on revenues in 2009, which were reported 17% below our estimates, and limited growth potential. In talks with us, management said its manufacturing lines for gas compression units, 3/5 of its products manufactured last year, were fully loaded in 2009. Among its other segments, we expect only growth in pump production, which accounted for 8% of its 2009 output (we expect this segment to double by 2014E). Demand from the oil & gas and chemicals sectors is not anticipated in the mid-term. We project net revenue to grow at 4% CAGR in 2010-2014.

In the bottom line, we expect the company's EBITDA margin to slightly decrease to 18% in 2010 due to wage growth and to gradually improve to 20% in the mid-term thanks to cost optimization.

Estimate revisions, USD mln

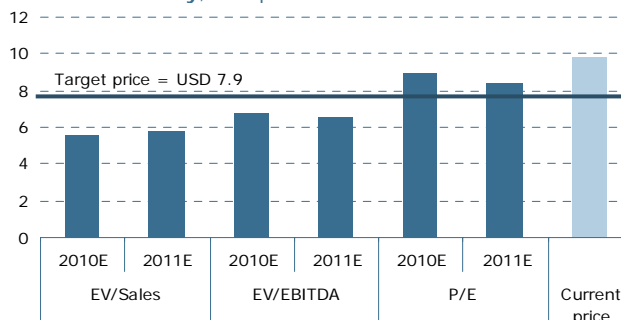
	2009			2010E		
	previous forecast	reported figures	difference	previous forecast	new forecast	difference
Net revenue	512.3	424.1	-17%	492.8	425.0	-14%
EBITDA	76.8	86.4*	13%	61.6	77.9	27%
<i>mgn</i>	15%	20%*	5pp	13%	18%	5pp
Net income	30.8	51.9	69%	24.3	40.2	65%
<i>mgn</i>	6%	12%	6pp	5%	9%	4pp

* Estimated based on available data. Source: Company data, Concorde Capital

Valuation revision on updated forecast

Based on revised EBITDA and net income projections, we upgrade our target for Sumy Frunze by 34% to USD 7.9 per share. Our target is a blend of prices implied by EV/EBITDA '10E and P/E '10E multiples. SMASH trades at EV/EBITDA '10E of 10.4x and P/E of 17.3x, premiums of 30% and 9%, respectively to its global peers' median. Despite the target upgrade, it still implies downside of 20%, SELL.

Valuation summary, USD per share



Source: Bloomberg, UX, Concorde calculations

Peer comparison

Sumy Frunze peer multiples

	MCap	EV/Sales			EV/EBITDA			P/E		
		2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E
Sumy Frunze	694.9	2.0	1.9	1.7	9.6	10.4	9.0	13.4	17.3	15.1
Global peers										
Cameron International	11,162	1.7	1.5	1.2	10.4	8.4	6.2	20.5	16.4	12.9
ABB	52,270	1.5	1.3	n/a	9.8	7.9	n/a	18.9	15.7	n/a
Weir Group	3,111	1.6	1.4	1.3	9.1	8.2	7.4	15.2	13.7	12.7
Sulzer	3,451	1.0	0.9	0.9	7.3	6.4	6.4	17.8	15.8	14.0
Siemens	92,497	1.1	1.0	0.9	8.7	7.4	6.7	17.4	14.2	12.7
Torishima Pump Manufacturing	633	n/a	n/a	n/a	n/a	n/a	n/a	24.5	25.8	21.0
Shandong Molong Petroleum Mach.	456	1.3	1.1	1.1	8.1	7.0	6.3	8.1	6.9	7.7
Dril-Quip Inc	2,569	n/a	n/a	n/a	n/a	n/a	n/a	22.1	18.5	14.3
KNM Group Berhad	907	1.7	1.4	1.4	8.3	6.8	6.9	12.9	10.1	9.8
Smith International Inc	11,109	1.4	1.2	1.0	11.3	8.2	5.9	41.9	24.0	17.4
Mean		1.4	1.2	1.1	8.9	7.7	6.4	18.3	15.8	12.9
SMASH implied price, USD		6.6	5.6	5.8	8.9	6.8	6.6	13.4	8.9	8.4
<i>Upside/downside</i>		-32%	-43%	-41%	-9%	-30%	-33%	37%	-9%	-14%

Source: Bloomberg, Concorde Capital

Financial Statements, UAS

Income Statement Summary, USD mln

	2007	2008	2009E	2010F	2011F	2012F	2013F
Net Revenues	323	467	424	425	445	468	491
<i>Change y-o-y</i>	6%	44%	-9%	0%	5%	5%	5%
Cost Of Sales	(220)	(278)	(225)	(233)	(240)	(251)	(262)
Gross Profit	103	188	199	191	205	217	229
Other Operating							
Income/Costs, net	0	(39)	-	-	-	-	-
SG&A	(72)	(124)	(113)	(113)	(119)	(124)	(131)
EBITDA	31	25	86	78	86	92	98
<i>EBITDA margin, %</i>	9.6%	5.3%	20.4%	18.4%	19.4%	19.8%	20.0%
Depreciation	(10)	(11)	(8)	(8)	(8)	(9)	(9)
EBIT	21	14	79	70	78	84	89
<i>EBIT margin, %</i>	6.4%	3.0%	18.6%	16.5%	17.5%	17.9%	18.1%
Interest Expense	(7.5)	(14)	(14)	(17)	(17)	(11)	(8)
Financial inc./(exp.)	4	(0)	-	-	-	-	-
Other inc./(exp.)	(3)	(30)	4	-	-	-	-
PBT	15	(31)	69	54	61	72	81
Tax	(13)	(10)	(17)	(13)	(15)	(18)	(20)
<i>Effective tax rate</i>	89%	-31%	25%	25%	25%	25%	25%
Extraord. inc./(loss)	-	(0.0)	-	-	-	-	-
Net Income	2	(40)	52	40	46	54	61
<i>Net Margin, %</i>	1%	-9%	12%	9%	10%	12%	12%

Balance Sheet Summary, USD mln

	2007	2008	2009E	2010F	2011F	2012F	2013F
Current Assets	271	362	399	406	396	387	392
Cash & Equivalents	12	14	15	15	16	16	17
Trade Receivables	17	90	85	85	67	51	54
Inventories	168	118	133	136	134	131	123
Other current assets	75	140	167	171	180	189	198
Fixed Assets	154	94	65	69	68	73	77
PP&E, net	110	71	52	56	58	62	65
Other Fixed Assets	44	23	13	13	10	12	12
Total Assets	426	456	464	476	464	461	469
Shareholders' Equity	190	102	137	164	184	208	229
Share Capital	141	141	141	141	141	141	141
Reserves and Other	28	18	18	18	18	18	18
Retained Earnings	21	(5)	30	58	78	102	123
Current Liabilities	171	296	242	228	196	169	156
ST Interest Bearing Debt	92	158	149	130	97	65	47
Trade Payables	14	43	34	38	36	37	39
Accrued Wages	5	4	4	4	5	5	5
Accrued Taxes	2	2	2	2	2	2	2
Other Current Liabilities	57	89	53	54	57	59	62
LT Liabilities	65	57	85	84	84	84	84
LT Interest Bearing Debt	0	0	-	-	-	-	-
Other LT	65	57	85	84	84	84	84
Total Liabilities&Equity	426	456	464	476	464	461	469

Source: Company data, Concorde Capital estimates

Concorde Capital, Head office

2 Mechnikova Street, 16th Floor
 Parus Business Centre
 Kyiv 01601, Ukraine
 Tel.: +380 44 391 5577
 Fax: +380 44 391 5571

www.concorde.ua

Concorde Capital

4 Fourth Lesnoy Pereulok, 5th Floor
 Capital Plaza
 Moscow 125047, Russia
 Tel.: +7 495 642 87 15
 Fax: +7 495 225 85 00

office@concorde.com.ua

CEO

Igor Mazepa im@concorde.com.ua

Head of Sales & Trading

Alexander Shnir ash@concorde.com.ua

International Sales & Trading

Anastasiya Nazarenko an@concorde.com.ua
 Marina Martirosyan mm@concorde.com.ua
 Rostyslav Shmanenko rs@concorde.com.ua
 Marina Damaskina md@concorde.com.ua

Domestic Sales & Trading

Yuriy Pilipenko up@concorde.com.ua
 Alisa Tikhomirova at@concorde.com.ua

Director of Research

Andriy Gostik, CFA ag@concorde.com.ua

RESEARCH
Strategy

Andriy Gostik, CFA ag@concorde.com.ua

Metals & Mining

Andriy Gerus ga@concorde.com.ua

**Utilities (Telecom, Energy),
 Machinery**

Yegor Samusenko syg@concorde.com.ua

Oil & Gas

Andriy Gerus ga@concorde.com.ua
 Ruslan Patlavskyy rp@concorde.com.ua

Real Estate, Consumer-related

Andriy Gostik, CFA ag@concorde.com.ua

Agriculture

Andriy Gostik, CFA ag@concorde.com.ua
 Ruslan Patlavskyy rp@concorde.com.ua

Economics, Financial services

Mykyta Mykhaylychenko ga@concorde.com.ua
 mms@concorde.com.ua

Fixed Income

Andriy Gerus
 Mykyta Mykhaylychenko bw@concorde.com.ua

Politics

Brad Wells bw@concorde.com.ua

Editor

Brad Wells

Disclaimer

THIS REPORT HAS BEEN PREPARED BY CONCORDE CAPITAL INVESTMENT BANK INDEPENDENTLY OF THE RESPECTIVE COMPANIES MENTIONED HEREIN FOR INFORMATIONAL PURPOSES ONLY. CONCORDE CAPITAL DOES AND SEEKS TO DO BUSINESS WITH COMPANIES COVERED IN ITS RESEARCH REPORTS. AS A RESULT, INVESTORS SHOULD BE AWARE THAT CONCORDE CAPITAL MIGHT HAVE A CONFLICT OF INTEREST THAT COULD AFFECT THE OBJECTIVITY OF THIS REPORT.

THE INFORMATION GIVEN AND OPINIONS EXPRESSED IN THIS DOCUMENT ARE SOLELY THOSE OF CONCORDE CAPITAL AS PART OF ITS INTERNAL RESEARCH COVERAGE. THIS DOCUMENT DOES NOT CONSTITUTE OR CONTAIN AN OFFER OF OR AN INVITATION TO SUBSCRIBE FOR OR ACQUIRE ANY SECURITIES. THIS DOCUMENT IS CONFIDENTIAL TO CLIENTS OF CONCORDE CAPITAL AND IS NOT TO BE REPRODUCED OR DISTRIBUTED OR GIVEN TO ANY OTHER PERSON.

CONCORDE CAPITAL, ITS DIRECTORS AND EMPLOYEES OR CLIENTS MIGHT HAVE OR HAVE HAD INTERESTS OR LONG/SHORT POSITIONS IN THE SECURITIES REFERRED TO HEREIN, AND MIGHT AT ANY TIME MAKE PURCHASES AND/OR SALES IN THEM AS A PRINCIPAL OR AN AGENT. CONCORDE CAPITAL MIGHT ACT OR HAS ACTED AS A MARKET-MAKER IN THE SECURITIES DISCUSSED IN THIS REPORT. THE RESEARCH ANALYSTS AND/OR CORPORATE BANKING ASSOCIATES PRINCIPALLY RESPONSIBLE FOR THE PREPARATION OF THIS REPORT RECEIVE COMPENSATION BASED UPON VARIOUS FACTORS, INCLUDING QUALITY OF RESEARCH, INVESTOR/CLIENT FEEDBACK, STOCK PICKING, COMPETITIVE FACTORS, FIRM REVENUES AND INVESTMENT BANKING REVENUES.

PRICES OF LISTED SECURITIES REFERRED TO IN THIS REPORT ARE DENOTED IN THE CURRENCY OF THE RESPECTIVE EXCHANGES. INVESTORS IN FINANCIAL INSTRUMENTS SUCH AS DEPOSITORY RECEIPTS, THE VALUES OR PRICES OF WHICH ARE INFLUENCED BY CURRENCY VOLATILITY, EFFECTIVELY ASSUME CURRENCY RISK.

DUE TO THE TIMELY NATURE OF THIS REPORT, THE INFORMATION CONTAINED MIGHT NOT HAVE BEEN VERIFIED AND IS BASED ON THE OPINION OF THE ANALYST. WE DO NOT PURPORT THIS DOCUMENT TO BE ENTIRELY ACCURATE AND DO NOT GUARANTEE IT TO BE A COMPLETE STATEMENT OR SUMMARY OF AVAILABLE DATA. ANY OPINIONS EXPRESSED HEREIN ARE STATEMENTS OF OUR JUDGMENTS AS OF THE DATE OF PUBLICATION AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART WITHOUT PRIOR PERMISSION IS PROHIBITED.

NEITHER THIS DOCUMENT NOR ANY COPY HEREOF MAY BE TAKEN OR TRANSMITTED INTO THE UNITED STATES OR DISTRIBUTED IN THE UNITED STATES OR TO ANY U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")), OTHER THAN TO A LIMITED NUMBER OF "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) SELECTED BY CONCORDE CAPITAL.

THIS DOCUMENT MAY ONLY BE DELIVERED WITHIN THE UNITED KINGDOM TO PERSONS WHO ARE AUTHORIZED OR EXEMPT WITHIN THE MEANING OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 ("FSMA") OR TO PERSONS WHO ARE OTHERWISE ENTITLED TO RECEIVE THIS DOCUMENT UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, OR ANY OTHER ORDER MADE UNDER THE FSMA.