



CONCORDE CAPITAL

November 26, 2007

Ukraine / Machinery Diversified Sumy Frunze

Grigorishyn Fixes Operational Control

Current Price: USD 9.4
12M Target: USD 11.0

BUY

Inna Perepelytsya
pi@concorde.com.ua

+380 44 391 5577

PFTS SMASH
DR (Frankfurt/Xetra) M9Y1 GR
DR Ratio 1:20

Market information

No of Shares, mln 71
Market price*, USD 9.4
** PFTS mid-market*
52Wk H/L, USD 10.10/3.21
MCap, USD mln 668.2
Free float, % 7.0%
USD 46.8

Corporate Governance Rating** BA

** 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

Ownership

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

Ratios 2006

EBITDA Margin 9.8%
Net Margin 4.7%

- A change in top management at Sumy Frunze's November 23 AGM strengthens Grigorishyn's power in the company and lays the foundation for improvement in fundamentals;
- We increase our multiples-based target price to USD 11.0 per share, on a 15% higher sales forecast for 2008, confirm BUY.

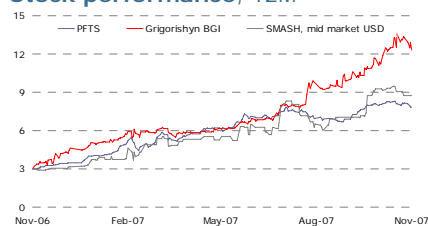
The company's CEO, Volodymyr Lukyanenko (labeled by many as a "red director"), resigned at the AGM on Friday. He was elected head of the supervisory board and also appointed to the position of President of Sumy Frunze, which was specially designed for him. Viktor Choban (a man close to Grigorishyn, ex-member of the supervisory board, boosted Zaporizhtransformator's profitability over 2002-2005) was elected as the new CEO. With the change in management, we expect more aggressive entrance into new markets and improved financial disclosure (refer to our Oct. 10 report).

No dividends will be paid out from the USD 13.9 mln net income of 2006. After last year's 50% payout, this year's 100% retention implies a focus on expansion, which requires an aggressive sales strategy and significant boost in working capital.

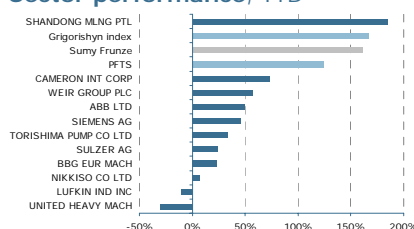
Management provided 2007 forecasts for sales of USD 350.5 mln (4% lower than ours) and PBT of USD 31.7 mln (1% higher than ours). We stick to our 2007 forecasts in recognition of the company's practice of being on the safe side and underestimating projections. Planned revenues for 2008 are USD 495 mln (based on the current order book), 15% above our previous forecast.

We increase our 2008 revenue forecast to USD 495 mln and adjust EBITDA and net income accordingly. Comparative valuation provides a new target of USD 11.0. With a 17% upside, we confirm our BUY recommendation.

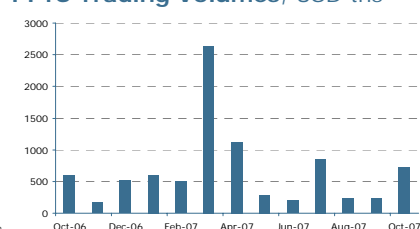
Stock performance, 12M



Sector performance, YTD



PFTS Trading Volumes, USD ths



* Indices rebased to SMASH's price
Source: PFTS, Bloomberg

Key financials, USD mln

	Sales	EBITDA	Net Income
2006	306.0	30.0	14.5
2007E	367.0	46.6	22.0
2008E	495.0	74.3	40.6

	EV/S	EV/EBITDA	P/E
2006	2.3	23.4	45.3
2007E	1.9	15.3	30.3
2008E	1.4	9.5	16.5

UAH/USD Spot exchange rate is 5.05 Source: PFTS, PFTS mid-market prices

Peer valuation

	Country	MCap	EV/Sales		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
Sumy Frunze	Ukraine	668	1.9	1.4	15.3	9.5	30.3	16.5
Lufkin Industries	USA	763	1.1	1.0	5.5	4.8	10.5	9.0
Cameron International	USA	10,039	2.2	1.8	12.2	9.6	21.8	18.0
ABB	USA	61,968	2.2	1.9	15.1	12.6	27.5	23.2
Weir Group	UK	3,438	1.8	1.7	15.3	13.6	46.8	41.7
Sulzer	Switzerland	5,212	1.8	1.6	13.7	11.9	25.0	21.9
Siemens	Germany	133,954	1.3	1.2	14.2	12.2	26.7	22.0
Nikkiso	Japan	603	n/a	n/a	n/a	n/a	16.7	15.5
Torishima Pump Manufacturing	Japan	333	n/a	n/a	n/a	n/a	33.3	20.8
Shandong Molong Petroleum	China	666	2.9	2.5	17.2	15.1	27.4	23.0
United Heavy Machinery	Russia	283	0.6	0.6	7.1	6.7	10.3	9.5
Average			1.8	1.5	12.5	10.8	24.6	20.5
SMASH implied share price			8.4	10.2	7.6	10.7	7.6	11.7
Upside (downside)			-10%	9%	-19%	14%	-19%	24%

Peer fundamentals, USD mln

	Country	MCap	Net Revenues		EBITDA Mgn		Net Mgn	
			2007E	2008E	2007E	2008E	2007E	2008E
Sumy Frunze	Ukraine	668	367	495	12.7%	15.0%	6.0%	8.2%
Lufkin Industries	USA	763	601	654	20.3%	21.7%	12.1%	13.0%
Cameron International	USA	10,039	4,425	5,104	18.2%	19.2%	10.4%	10.9%
ABB	USA	61,968	26,709	30,466	14.6%	14.9%	8.4%	8.8%
Weir Group	UK	3,438	1,907	2,004	11.9%	12.7%	3.8%	4.1%
Sulzer	Switzerland	5,212	2,737	3,013	13.3%	13.7%	7.6%	7.9%
Siemens	Germany	133,954	110,522	117,832	8.9%	9.6%	4.5%	5.2%
Nikkiso	Japan	603	568	587	n/a	n/a	6.3%	6.6%
Torishima Pump Manufacturing	Japan	333	345	370	n/a	n/a	2.9%	4.3%
Shandong Molong Petroleum	China	666	226	261	17.0%	16.7%	10.8%	11.1%
United Heavy Machinery	Russia	283	781	825	9.1%	9.0%	3.5%	3.6%
Average			14,882	16,111	14.2%	14.7%	7.1%	7.6%

Source: Bloomberg, Concorde Capital estimates

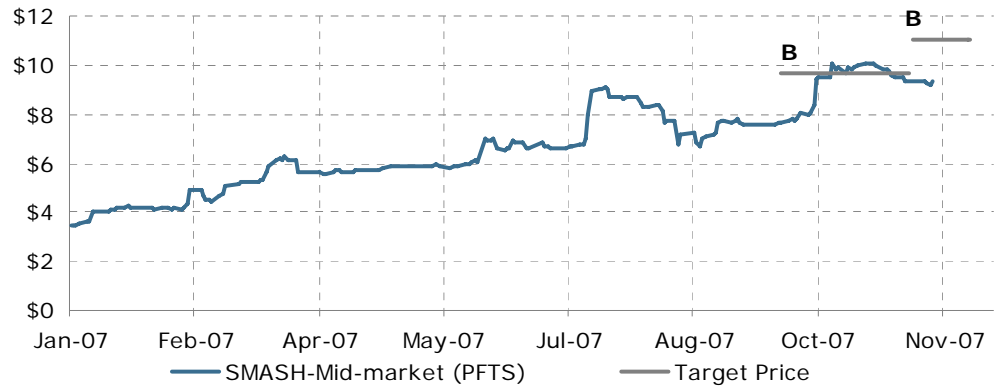
Analyst Certification

I, Inna Perepelytsya, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Sumy Frunze

Date	Target price, USD	Market Price, USD	Rating	Action
10-Oct-07	9.70	8.38	BUY	Initiating
26-Nov-07	11.0	9.40	BUY	Maintain

SMASH recommendation history, USD per share



Investment Ratings

The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 15% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 15%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations.

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Concorde Capital Rating Universe

Buy	38	45%
Hold	28	33%
Sell	7	8%
Under Review	11	13%
Total	84	100%

Investment Banking Clients

Buy	9	82%
Hold	2	18%
Sell	0	0%
Under Review	0	0%
Total	78	100%

Concorde Capital
 2 Mechnikova Street
 21st Floor
 Kyiv 01601, UKRAINE

Tel.: +380 44 391 5577
Fax: +380 44 391 5571
www.concorde.com.ua
office@concorde.com.ua

CEO

Igor Mazepa

im@concorde.com.ua

RESEARCH COVERAGE BY SECTOR

Equity Sales

Anastasiya Nazarenko
 Duff Kovacs, CFA
 Zack Watson
 Marina Martirosyan

an@concorde.com.ua
 dk@concorde.com.ua
 zw@concorde.com.ua
 mm@concorde.com.ua

Strategy

Konstantin Fisun
 Oleksandr Klymchuk

kf@concorde.com.ua
 ok@concorde.com.ua

Metals & Mining

Eugene Cherviachenko
 Andriy Gerus

ec@concorde.com.ua
 ga@concorde.com.ua

Director of Research

Konstantin Fisun, CFA

kf@concorde.com.ua

Utilities (Telecom, Energy)

Alexander Paraschiy

ap@concorde.com.ua

Oil & Gas, Chemicals

Vladimir Nesterenko

vn@concorde.com.ua

Consumer/Real Estate Group

Andriy Gostik, CFA
 Olha Pankiv
 Alexander Romanov
 Anna Dudchenko

ag@concorde.com.ua
 op@concorde.com.ua
 ar@concorde.com.ua
 ad@concorde.com.ua

Machinery

Eugene Cherviachenko
 Inna Perelytsya

ec@concorde.com.ua
 pi@concorde.com.ua

Financial Services, Retail

Alexander Viktorov

av@concorde.com.ua

Macroeconomics

Polina Khomenko

pk@concorde.com.ua

Fixed Income

Oleksandr Klymchuk

ok@concorde.com.ua

Corporate Governance

Nick Piazza

np@concorde.com.ua

News/Production

Nick Piazza
 Polina Khomenko

np@concorde.com.ua
 pk@concorde.com.ua

Editor

Brad Wells

bw@concorde.com.ua

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