



CONCORDE CAPITAL

Ukraine / Power Engineering

# Sumy Nasosenergomash

Pumping up its 2008 order book

July 22, 2008

Current price: USD 0.6  
12M Target: USD 1.7

**BUY**

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### Tickers

Bloomberg SNEM UZ

### Market information

Market price, USD	0.6
MCap, USD mln	18.1
52 Wk H/L, USD	1.6/0.4
No of shares, mln	30.9
Free float	18.0%
Free float, USD mln	3.3

### Corporate Governance

Concorde 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.

### Shareholders

Hydraulic Machines Ltd	83.0%
Other	17.0%

- In a telephone conversation with us last week, Sumy Nasosenergomash's management told us it had already contracted USD 40 mln in orders for 2008 (17% more than 2007 sales)
- 1Q08 financials are well on track: sales +37% yoy; EBITDA margin was 10.2% vs. 5.9% in 1Q07
- We reiterate BUY. Despite its 27% rally over the last year, our new 12M target price of USD 1.7 per share, based on peer valuation, offers 188% upside

### 2008 & 2009 order book

Sumy Nasosenergomash booked USD 39.7 mln in orders for 2008 as of the beginning of July, headlined by a USD 7.2 mln contract for pumps to Russia's Rostov Nuclear Power Plant, management told us in a telephone conversation last week. They estimated next year's order book at USD 45.5 mln, including pumps to three other Russian NPPs; it is currently negotiating with Chinese, Indian and Bulgarian generation companies for further orders.

### Financial results beat our expectations

The company's 1Q08 sales were USD 8.8 mln (+37% yoy), EBITDA margin was 10.2% while its net margin was 4.2% - its highest 1Q margins in the last three years.

These results carried over the company's momentum from 2007, when sales were USD 33.9 mln (7% more than our forecast, which were based on management guidance) and EBITDA of USD 4 mln turned out 45% higher than we expected.

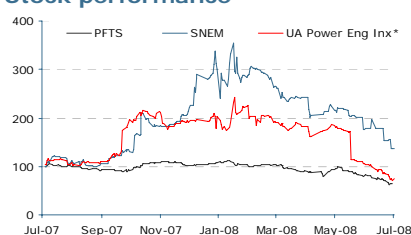
### Forecast revisions

Based on the newly received information, we upgrade our financial forecasts for Sumy Nasosenergomash.

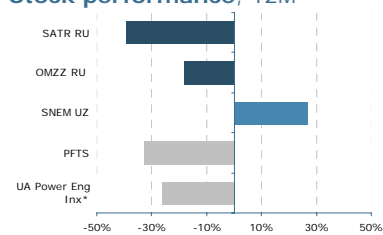
### 2008-2009 financial forecast revisions

	Sales, USD mln		EBITDA Mgn		Net Mgn	
	2008E	2009E	2008E	2009E	2008E	2009E
Old	33.3	-	9.0%	-	4.0%	-
New	42.4	48.8	12.2%	12.6%	7.2%	7.8%

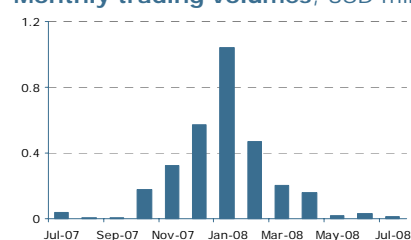
### Stock performance



### Stock performance, 12M



### Monthly trading volumes, USD mln



\* Concorde Capital's Ukrainian Power Engineering Index is MCap weighted, free float adjusted; it includes SMASH UZ, TATM UZ, ZATR UZ, SNEM UZ, KNST UZ, PTMZ UZ  
Source: PFTS, Bloomberg, Concorde Capital

### Key financials & ratios

	Sales, USD mln	EBITDA Margin	Net Margin	EV/S	EV/EBITDA	P/E
2007	33.9	12.0%	6.1%	0.7	5.8	8.8
2008E	42.4	12.2%	7.2%	0.6	4.5	5.9
2009E	48.8	12.6%	7.8%	0.5	3.8	4.8

Spot exchange rate: 4.85 UAH/USD

## Peer valuation

### Peer summary, USD mln

	Country	Mcap USD mln	Net Revenues		EBITDA Mgn		Net Mgn	
			2008E	2009E	2008E	2009E	2008E	2009E
<b>Sumy Nasosenergomash</b>	<b>Ukraine</b>	<b>18</b>	<b>42</b>	<b>49</b>	<b>12.2%</b>	<b>12.6%</b>	<b>7.2%</b>	<b>7.8%</b>
Sumy Frunze	Ukraine	592	495	487	15.0%	17.8%	8.0%	10.7%
Lufkin Industries Inc	USA	1,286	632	676	20.4%	22.8%	12.2%	13.2%
Gardner Denver Inc	USA	2,915	1,988	2,055	18.0%	19.0%	10.1%	10.1%
Weir Group	UK	3,774	2,441	2,585	14.9%	15.6%	8.3%	8.7%
Pfeiffer Vacuum Technology AG	Germany	853	325	345	28.6%	28.6%	18.8%	18.7%
Sulzer	Switzerland	4,463	3,769	4,046	14.4%	14.2%	8.1%	8.1%
Schoeller-Bleckmann AG	Austria	1,537	575	659	29.0%	29.0%	15.5%	15.5%
Teikoku Electric MC	Japan	174	172	186	13.2%	14.2%	6.6%	7.1%
Kawasaki Heavy Industries Ltd	Japan	4,710	13,857	14,689	7.0%	7.4%	2.1%	2.2%
IHI Corporation	Japan	2,869	13,491	13,319	5.8%	6.7%	1.2%	1.6%
Torishima Pump MC	Japan	625	463	485	8.5%	9.3%	4.5%	5.2%
Shandong Molong PM	China	316	372	456	17.7%	18.1%	10.9%	10.3%
United Heavy Machinery	Russia	266	746	739	9.5%	5.8%	4.0%	1.1%
Saturn Research & Production Co	Russia	319	380	526	13.1%	18.4%	5.4%	5.6%
<b>Average</b>			<b>2836</b>	<b>2947</b>	<b>15.4%</b>	<b>16.2%</b>	<b>8.3%</b>	<b>8.4%</b>

### Peer multiples

	Country	Mcap USD mln	EV/Sales		EV/EBITDA		P/E	
			2008E	2009E	2008E	2009E	2008E	2009E
<b>Sumy Nasosenergomash</b>	<b>Ukraine</b>	<b>18</b>	<b>0.6</b>	<b>0.5</b>	<b>4.5</b>	<b>3.8</b>	<b>5.9</b>	<b>4.8</b>
Sumy Frunze	Ukraine	592	1.3	1.3	8.5	7.3	14.9	11.4
Lufkin Industries Inc	USA	1,286	1.9	1.8	9.2	7.7	16.7	14.5
Gardner Denver Inc	USA	2,915	1.5	1.4	8.5	7.4	14.6	14.0
Weir Group	UK	3,774	1.7	1.6	11.4	10.0	18.6	16.7
Pfeiffer Vacuum Technology AG	Germany	853	2.2	2.0	7.7	7.1	14.0	13.2
Sulzer	Switzerland	4,463	1.1	1.0	7.7	7.0	14.7	13.6
Schoeller-Bleckmann AG	Austria	1,537	2.9	2.5	9.8	8.5	17.3	15.1
Teikoku Electric MC	Japan	174	1.0	0.9	7.5	6.5	15.3	13.2
Kawasaki Heavy Industries Ltd	Japan	4,710	0.5	0.5	7.2	6.6	15.9	14.3
IHI Corporation	Japan	2,869	0.4	0.4	7.0	5.8	17.5	13.1
Torishima Pump MC	Japan	625	1.5	1.4	18.0	15.4	30.3	24.8
Shandong Molong PM	China	316	1.1	1.0	6.3	5.7	7.8	6.7
United Heavy Machinery	Russia	266	0.7	0.7	6.9	11.2	9.0	32.0
Saturn Research & Production	Russia	319	1.8	1.3	13.8	7.2	15.5	10.8
<b>Average</b>			<b>1.4</b>	<b>1.3</b>	<b>9.3</b>	<b>8.1</b>	<b>15.9</b>	<b>15.2</b>
<b>SNEM implied share price, USD</b>			<b>1.75</b>	<b>1.83</b>	<b>1.38</b>	<b>1.44</b>	<b>1.57</b>	<b>1.88</b>
<b>Upside (downside)</b>			<b>198%</b>	<b>212%</b>	<b>135%</b>	<b>145%</b>	<b>167%</b>	<b>220%</b>

## INCOME STATEMENT SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007	1Q08
<b>Net Revenues</b>	<b>12.3</b>	<b>11.7</b>	<b>17.5</b>	<b>20.3</b>	<b>29.7</b>	<b>33.9</b>	<b>8.8</b>
<i>Change y-o-y</i>	<i>N/M</i>	<i>-4.9%</i>	<i>49.5%</i>	<i>16.4%</i>	<i>46.3%</i>	<i>14.0%</i>	<i>37.0%</i>
Gross Profit	2.5	2.5	6.5	7.3	7.4	9.7	2.3
<b>EBITDA</b>	<b>0.5</b>	<b>0.5</b>	<b>3.7</b>	<b>3.6</b>	<b>2.4</b>	<b>4.1</b>	<b>0.9</b>
<i>EBITDA margin, %</i>	<i>3.7%</i>	<i>4.3%</i>	<i>21.0%</i>	<i>17.5%</i>	<i>8.2%</i>	<i>12.0%</i>	<i>10.2%</i>
Depreciation	(0.5)	(0.5)	(0.4)	(0.4)	(0.5)	(0.5)	(0.1)
<b>EBIT</b>	<b>0.0</b>	<b>0.0</b>	<b>3.2</b>	<b>3.1</b>	<b>2.0</b>	<b>3.6</b>	<b>0.8</b>
<i>EBIT margin, %</i>	<i>0.0%</i>	<i>0.4%</i>	<i>18.4%</i>	<i>15.3%</i>	<i>6.7%</i>	<i>10.6%</i>	<i>8.7%</i>
Interest Expense	(0.1)	(0.2)	(0.2)	(0.7)	(0.6)	(0.6)	(0.1)
Other income/(expense)	0.0	(0.1)	(0.1)	0.3	(0.1)	0.0	0.0
<b>PBT</b>	<b>(0.4)</b>	<b>(0.3)</b>	<b>2.9</b>	<b>2.6</b>	<b>1.3</b>	<b>3.0</b>	<b>0.6</b>
Tax	(0.1)	(0.2)	(0.7)	(0.8)	(0.8)	(0.9)	(0.2)
<i>Effective tax rate</i>	<i>-25.6%</i>	<i>-68.0%</i>	<i>22.6%</i>	<i>29.2%</i>	<i>61.2%</i>	<i>31.5%</i>	<i>40.1%</i>
<b>Net Income</b>	<b>(0.5)</b>	<b>(0.5)</b>	<b>2.3</b>	<b>1.9</b>	<b>0.5</b>	<b>2.1</b>	<b>0.4</b>
Net Margin, %	<b>-4.4%</b>	<b>-4.1%</b>	<b>13.0%</b>	<b>9.2%</b>	<b>1.7%</b>	<b>6.1%</b>	<b>4.2%</b>

## BALANCE SHEET SUMMARY, USD mln

	2002	2003	2004	2005	2006	2007	1Q08
<b>Current Assets</b>	<b>10.4</b>	<b>8.5</b>	<b>14.3</b>	<b>18.8</b>	<b>19.1</b>	<b>25.5</b>	<b>27.1</b>
Cash & Equivalents	0.0	0.1	0.6	0.2	0.0	0.1	0.0
Trade Receivables	1.6	0.2	0.2	0.5	2.5	2.5	2.2
Inventories	7.2	6.9	10.2	15.7	12.7	16.2	18.7
Other current assets	1.6	1.3	3.2	2.4	3.8	6.7	6.1
<b>Fixed Assets</b>	<b>6.7</b>	<b>6.4</b>	<b>6.3</b>	<b>5.3</b>	<b>4.8</b>	<b>5.8</b>	<b>6.9</b>
PP&E, net	4.5	4.3	4.4	4.4	3.9	4.2	4.3
Other Fixed Assets	2.2	2.2	1.9	0.8	0.9	1.6	2.7
<b>Total Assets</b>	<b>17.1</b>	<b>14.9</b>	<b>20.6</b>	<b>24.1</b>	<b>23.9</b>	<b>31.3</b>	<b>34.0</b>
<b>Shareholders' Equity</b>	<b>8.1</b>	<b>10.5</b>	<b>12.8</b>	<b>14.0</b>	<b>14.5</b>	<b>16.5</b>	<b>16.9</b>
Share Capital	4.6	4.6	4.6	4.6	4.9	4.9	4.9
Reserves and Other	3.4	3.9	3.9	3.1	2.9	2.9	2.9
Retained Earnings	-	2.0	4.3	6.3	6.7	8.7	9.1
<b>Current Liabilities</b>	<b>9.0</b>	<b>4.4</b>	<b>7.8</b>	<b>8.0</b>	<b>9.4</b>	<b>12.4</b>	<b>13.7</b>
ST Interest Bearing Debt	3.7	0.9	4.6	3.8	4.7	3.1	2.1
Trade Payables	0.6	1.7	0.7	0.3	0.5	0.7	0.9
Other	4.7	1.7	2.5	4.0	4.2	8.6	10.7
<b>LT Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2.0</b>	<b>-</b>	<b>2.4</b>	<b>3.4</b>
LT Interest Bearing Debt	-	-	-	2.0	-	2.4	3.4
Other LT	-	-	-	-	-	-	-
<b>Total Liabilities &amp; Equity</b>	<b>17.1</b>	<b>14.9</b>	<b>20.6</b>	<b>24.1</b>	<b>23.9</b>	<b>31.3</b>	<b>34.0</b>

## QUARTERLY ANALYSIS, USD mln

	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08
<b>Net Revenues</b>	<b>8.4</b>	<b>9.8</b>	<b>6.4</b>	<b>7.4</b>	<b>11.0</b>	<b>9.1</b>	<b>8.8</b>
<i>Change y-o-y</i>	<i>-41.0%</i>	<i>84.6%</i>	<i>22.8%</i>	<i>16.4%</i>	<i>30.9%</i>	<i>-6.6%</i>	<i>37.0%</i>
<b>EBITDA</b>	<b>0.6</b>	<b>2.1</b>	<b>0.4</b>	<b>1.1</b>	<b>1.4</b>	<b>1.2</b>	<b>0.9</b>
<i>EBITDA margin, %</i>	<i>6.9%</i>	<i>21.4%</i>	<i>5.9%</i>	<i>15.5%</i>	<i>12.6%</i>	<i>12.6%</i>	<i>10.2%</i>
<b>EBIT</b>	<b>0.5</b>	<b>2.0</b>	<b>0.3</b>	<b>1.0</b>	<b>1.3</b>	<b>1.0</b>	<b>0.8</b>
<i>EBIT margin, %</i>	<i>5.4%</i>	<i>20.2%</i>	<i>4.2%</i>	<i>14.1%</i>	<i>11.5%</i>	<i>11.3%</i>	<i>8.7%</i>
<b>Net Income</b>	<b>0.3</b>	<b>1.5</b>	<b>0.2</b>	<b>0.6</b>	<b>0.8</b>	<b>0.5</b>	<b>0.4</b>
<i>Net Margin, %</i>	<i>3.6%</i>	<i>15.6%</i>	<i>2.6%</i>	<i>8.6%</i>	<i>6.8%</i>	<i>5.5%</i>	<i>4.2%</i>

## Analyst certification

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

### Sumy Nasosenergomash rating history

Date	Target price USD	Market Price USD	Rec	Action
10-Oct-07	0.80	0.42	BUY	Initiate
22-Jul-08	1.70	0.59	BUY	Maintain



## 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. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

### Concorde Capital ratings distribution

Buy	77	68%
Hold	20	18%
Sell	7	6%
Under Review	10	9%
Total	114	100%

### Investment banking clients\*

Buy	7	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
Total	7	100%

\* Within the last twelve month period, Concorde Capital has obtained compensation from these companies for investment banking services.

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