

BUY

Current MCap: USD 66.5 mln

February 26, 2007

12M target MCap: 92.5*

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Bloomberg SVGZ UZ
Warrants STAKHA07

Market data

Market price, USD 57.9
52 Wk H/L, USD 6.9 / 63.8

Shares, mln 1.15
MCap, USD mln 66.5

Free float, shares 22.2%
FF MCap, USD mln 14.8

12M target*

Price, USD 80.5
12M MCap, USD mln 92.5

Ownership

Finance & Credit 77.8%
Other 22.2%

* According to our March 2006 report; currently under revision

The ambitious 2006 development plan of Stakhaniv Wagon's new owner was completely fulfilled with railcar sales almost doubling and operating margin improving significantly. Finance & Credit's revitalization of SVGZ coincided with booming demand for freight cars in Russia and newfound demand in Ukraine. The group's broad contacts in machinery markets in the CIS brought new orders, which leads management to expect another double in sales in 2007. We support our BUY recommendation on SVGZ and are currently revising our target price to account for all the positive changes.

Management Meets Shareholders Expectations

Stakhaniv Wagon almost doubled its revenues in 2006 and improved its EBITDA margin from 5.8% in 2005 to 7.5%, exploring new markets for railcars. AvtoKrAZ group's extensive connections in the CIS allowed Stakhaniv Wagon to fully benefit from booming freight car demand. In addition to 66% growth of exports to Russia, Stakhaniv Wagon delivered 40% of its 2006 output to new markets.

Booming Demand in the Mid-term

With demand from Russia expected to skyrocket in the next three years, Stakhaniv Wagon has reason to re-direct its sales so that it can benefit from premium pricing of export contracts.

More Growth In The Pipeline

During a meeting with Stakhaniv Wagon's management, they shared with us even more aggressive plans for 2007 and 2008. Stakhaniv Wagon started producing 400-550 units in each of the last couple of months and is going to increase monthly production to 1,000 units by the end of 2007. The management's 2007 revenue forecast exceeds USD 200 mln, which if implemented would mean more than a 100% yoy increase.

Based on our conversation with management, we are preparing a detailed report on Stakhaniv Wagon to be issued on February 27.

Additional Share Issue

February 28 is the ex-rights date for the subscription for an additional share issue of Stakhaniv Wagon, which will increase the company's charter fund 9.9 times. The subscription is at par value: USD 0.208 per share. It will take place on March 1-23, 2007 (first stage) and March 26-30 (second stage).

Key Financials, USD mln

	Net Revenue	EBITDA	Net Income
2005	50.3	2.9	0.5
2006E	96.2	7.2	2.2
2007E	161.6	14.5	7.5

Key Ratios

EV/S	EV/ EBITDA	P/E
1.18	20.48	117.33
0.68	9.10	27.64
0.43	4.74	7.91

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