



CONCORDE CAPITAL

Ukraine / Machine Building Stakhaniv Wagon

New Puzzle: Casting Inputs

September 20, 2007

Current price: USD 15.3
12M Target: USD 15.8 **HOLD**

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Market information

Bloomberg	SVGZ UZ
No of Shares, mln	12.6
Market price, USD	15.3
Fully diluted price, USD*	6.1
12M target diluted, USD*	5.4
52Wk H/L, USD	57.9/14.5
MCap, USD mln	193.1
Free float	12.0%
FF MCap, USD mln	23.2
Corporate Govern. Rating**	P

Stock ownership

Finance&Credit	88%
Other	12%

Ratios, 2006

EBITDA Margin	7.5%
Net Margin	2.4%
Net Debt/Equity	0.47

* Based on the additional share issue approved of the company's EGM on September 17.

** 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.

Despite an additional share issue next quarter to finance capacity upgrades, limited casting supplies have softened our growth expectations for Stakhaniv Wagon, an otherwise fundamentally strong company. We reduce 2007 forecasts and downgrade our target to USD 15.8 per share and recommendation to HOLD. The next few months will reveal how management will tackle the issue; they already proved themselves once by staging a remarkable recovery in 2006.

Additional share issue to finance CapEx

The main item on the agenda of Stakhaniv Wagon's EGM Monday was to approve a threefold share capital increase to USD 7.85 mln. Proceeds will be used to finance the management's three-year USD 52 mln CapEx program, which will increase railcar output 2.5 times by 2010.

The share capital increase will be held in two stages; during the first stage shareholders will be entitled to subscribe on a pro-rata basis at USD 0.4158 per share. The ex-rights date is November 19. For those that wish to subscribe, we recommend doing so by December 4 to be within the timeframe suggested by Ukrainian regulations.

Growth forecasts softened

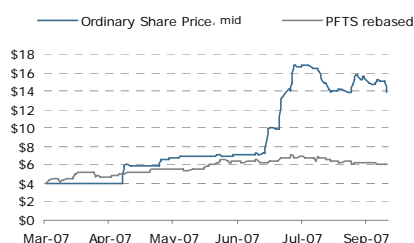
In a conversation with management following the EGM, they confirmed our concerns about decreasing production in the last two months and the casting shortage in the CIS. Based on new information, we:

- downgrade our forecasts for wagon production during 2007-2008 due to insufficient casting spare parts in the last couple of months.
- shift our forecast for metal construction output of 5 ths tons in 2007, to 2008, as the company has not yet launched production.
- downgrade our EBITDA forecast based on 1H07 results and lower expectations for 2H07 wagon production.

Valuation results

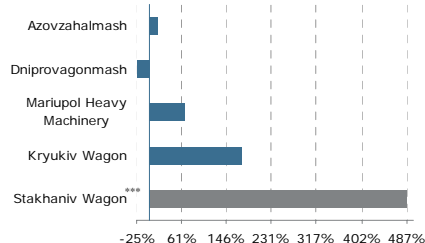
While a peer valuation yields mixed results, we continue to rely on our DCF model, which captures the mid-term boom in wagon production. Our 12M target price is USD 15.8 per share.

Stock performance



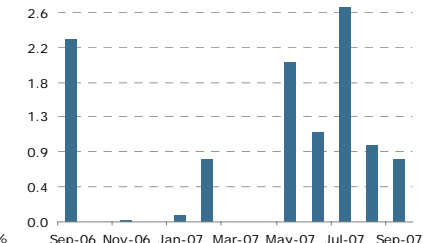
Source: PFTS

Sector performance YTD



*** Adjusted for SVGZ' additional share issue

Trading volumes, USD mln, monthly



Key financials & ratios

(in USD mln)	Sales	EBITDA Margin	Net Margin	EV/S	EV/EBITDA	P/E
2006	91	7.5%	2.4%	2.5	34.0	101.8
2007E	217	7.1%	3.8%	1.0	13.4	23.4
2008E	320	8.6%	4.4%	0.7	8.0	13.7

Spot exchange rate: 5.05

Casting – the company's temporary weakness

Production levelling off in 2H07

Since the beginning of 2007, Stakhaniv Wagon started increasing output along with production capacity. Output peaked in June at about 520 wagons production per month (bringing growth to 3.2 times yoy in 1H07), and then tapered off to 380 wagons in August. We conservatively forecast 350 wagons per month until the end of 2007, which implies total 2007 output of 5,200 units (up 2.2 times yoy).

Casting becomes scarce

No Ukrainian wagon producer can fully satisfy its demand for casting products. Stakhaniv Wagon is one of two that do not have in-house casting production at all. Currently, the company has two sources of casting inputs:

- Kremenchuk Steel Casting - the biggest plant of casting for the railway industry in CIS; currently exports 60% of products to Russia. All Ukrainian companies buy casting from the Kremenchuk Steel Casting (Stakhaniv Wagon depends on it for about 90% of supplies).
- Three Russian casting producers, which are currently working at full capacity.

With railcar demand booming in 2007, Russian and Ukrainian casting producers became unable to satisfy all of the wagon producers' demand.

Possible solutions to input shortage

We see two ways for Stakhaniv Wagon to resolve its casting supply dilemma:

- Russia certifying Chinese casting in the coming months and increasing domestic casting capacity by 30-50% by the end of 2008. Russian market saturation of casting will force Kremenchuk Steel Casting to increase domestic sales. We believe this scenario has a high probability.
- Launching in-house casting production (some Russian and Ukrainian wagon producers satisfy ~20-80% of their own needs for casting by themselves). The management studied this opportunity, which would become feasible if strong demand persists.

Forecast revision

In the absence of a clear vision from management about how they plant to find new casting deliveries, we revise our forecasts for wagon production for 2007-2008.

We did not change forecasts for 2009-2016 as we believe the casting will be resolved by then.

Forecast revisions for Stakhaniv Wagon

		2007E	2008E
Wagon production, units	New	5,200	6,800
	Old	6,300	8,000
Metal construction, ths mt	New	0	15
	Old	5	10
Sales, mln USD	New	217	320
	Old	255	343
EBITDA margin	New	7.1%	8.6%
	Old	10.7%	12.2%

Source: Concorde Capital estimates

DCF valuation

As of September 20

For the purposes of forecasting local currency is used (UAH mln)

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	78	139	209	274	234	225	183	172	170	168
EBIT	64	123	191	256	215	206	164	153	151	150
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	64	92	143	192	161	155	123	115	113	112
Plus D&A	14	16	18	19	19	19	19	19	19	19
Less CapEx	(70)	(80)	(85)	(28)	(19)	(19)	(19)	(19)	(19)	(19)
Less change in OWC	(20)	(59)	(15)	(16)	5	(1)	7	(7)	(5)	(6)
FCFF	-	(31)	62	166	167	154	130	108	108	107
WACC	16.6%	13.1%	12.3%	11.8%	11.4%	10.6%	10.8%	10.9%	10.9%	10.9%
Discounted cash flow		-	(30)	53	128	115	96	73	55	50
Sum of discounted CF		584								
							Perpetuity growth rate			1.0%
							WACC to perpetuity			11.0%
Terminal value		446								1,079
							Implied exit EBITDA multiple			6.4 x
Firm value		1,030								
Portion due to TV		43%								
Less net debt		(115)								
Equity value		915								
Implied 12M price, USD		15.8								

Implied Share Price. US\$					
WACC Y1-10	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
-1.5%	18.2	18.6	19.1	19.7	20.3
-1.0%	17.1	17.5	18.0	18.5	19.0
-0.5%	16.0	16.4	16.9	17.3	17.9
+0.0%	15.1	15.4	15.8	16.3	16.8
0.5%	14.2	14.5	14.9	15.3	15.8
1.0%	13.4	13.7	14.0	14.4	14.8
1.5%	12.6	12.9	13.2	13.6	14.0

Implied Share Price, USD					
WACC to perpetuity	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
9.5%	16.0	16.5	17.0	17.6	18.3
10.0%	15.7	16.1	16.6	17.1	17.7
10.5%	15.4	15.8	16.2	16.7	17.2
11.0%	15.1	15.4	15.8	16.3	16.8
11.5%	14.8	15.2	15.5	15.9	16.4
12.0%	14.6	14.9	15.3	15.6	16.0
12.5%	14.4	14.7	15.0	15.3	15.7

Pro forma statements

P&L summary, USD mln

	2007E	2008E	2009E	2010E	2011E	2012E
Net Revenues	217	320	433	515	438	422
Gross Profit	36	54	76	93	79	76
<i>Gross margin</i>	<i>16.5%</i>	<i>17.0%</i>	<i>17.5%</i>	<i>18.0%</i>	<i>18.0%</i>	<i>18.0%</i>
EBITDA	15.5	27.5	41.5	54	46	45
<i>EBITDA margin</i>	<i>7.1%</i>	<i>8.6%</i>	<i>9.6%</i>	<i>10.6%</i>	<i>10.6%</i>	<i>10.6%</i>
Depreciation	(3)	(3)	(4)	(4)	(4)	(4)
EBIT	13	24	38	51	43	41
<i>EBIT margin</i>	<i>5.9%</i>	<i>7.6%</i>	<i>8.7%</i>	<i>9.8%</i>	<i>9.7%</i>	<i>9.7%</i>
Interest Expense	(4)	(6)	(7)	(7)	(5)	(3)
PBT	8	19	31	44	37	38
Tax	-	(5)	(8)	(11)	(9)	(9)
<i>Effective tax rate</i>	<i>-</i>	<i>25.0%</i>	<i>25.0%</i>	<i>25.0%</i>	<i>25.0%</i>	<i>25.0%</i>
Net Income	8	14	23	33	28	28
<i>Net Margin</i>	<i>3.8%</i>	<i>4.4%</i>	<i>5.4%</i>	<i>6.3%</i>	<i>6.4%</i>	<i>6.7%</i>

Balance sheet summary, USD mln

	2007E	2008E	2009E	2010E	2011E	2012E
Current Assets	86	91	108	123	104	104
Cash & Equivalents	20	19	26	31	26	25
Trade Receivables	4	14	19	23	20	19
Inventories	22	27	32	34	29	28
Other current assets	41	30	30	36	30	32
Fixed Assets	37	52	65	67	67	67
PP&E, net	35	48	62	65	65	65
Other Fixed Assets	3	4	4	2	2	2
Total Assets	124	143	173	190	171	171
Shareholders' Equity	23	36	48	63	74	82
Share Capital	3	8	8	8	8	8
Reserves and Other	21	28	40	55	66	74
Current Liabilities	97	92	114	117	91	81
ST Interest Bearing Debt	31	34	48	44	31	21
Trade Payables	9	13	18	21	18	17
Other Current Liabilities	57	45	49	53	42	43
LT Liabilities	3	14	11	10	6	7
LT Interest Bearing Debt	1	12	10	9	5	5
Other LT	2	2	2	2	2	2
Total Liabilities & Equity	124	142	173	190	171	171

Peer valuation

Peer summary, USD mln

	Country	Market Cap	Net Revenues			EBITDA margin			Net Margin		
			2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
Stakhaniv Wagon		193	91	217	320	7.5%	7.1%	8.6%	2.4%	3.8%	4.4%
International											
American Railcar Industries	USA	583	646	775	974	10.6%	11.5%	12.1%	5.4%	5.8%	6.0%
China Motor Corp	China	1216	1203	1033	1081	4.3%	11.1%	11.8%	8.2%	8.6%	8.8%
Freightcar America	USA	554	1445	806	581	14.5%	8.6%	6.8%	8.9%	5.8%	4.5%
Greenbrier Companies	USA	480	954	1213	1269	11.7%	10.3%	11.5%	4.2%	1.6%	3.5%
Trinity Industries	USA	2933	3219	3710	3984	15.5%	15.2%	15.6%	6.7%	7.2%	7.6%
Const Y Auxiliar De Ferr	Spain	1043	1062	1212	1302	7.9%	7.6%	7.7%	4.3%	3.6%	3.8%
Kinki Sharyo Company Ltd	Japan	238	255	369	554	7.6%	5.1%	8.5%	3.6%	2.0%	4.4%
Bharat Earth Movers Limited	India	1049	462	717	839	15.8%	13.0%	13.3%	9.1%	9.0%	9.0%
Baotou Beifang Chuangye	China	267	160	186	239	3.5%	4.3%	n/a	0.8%	2.9%	2.8%
Iochp-Maxion SA	Brazil	794	584	651	817	10.9%	13.7%	14.1%	4.6%	5.1%	6.5%
Average						10.2%	10.0%	11.3%	5.6%	5.2%	5.7%
Ukrainian and Russian											
Mariupol Heavy Machinery	Ukraine	248	502	521	536	2.1%	1.8%	1.8%	0.02%	0.02%	0.02%
Azovzagalmash	Ukraine	301	325	429	472	3.0%	3.2%	3.3%	0.06%	0.20%	0.20%
Dniprovagonmash	Ukraine	124	96	137	164	7.4%	10.0%	13.0%	2.81%	4.99%	7.00%
Kryukiv Wagon	Ukraine	534	225	400	440	13.1%	13.3%	13.5%	8.10%	8.20%	8.40%
Altay Vagon	Russia	139	315	376	n/a	4.9%	5.9%	n/a	2.00%	3.03%	n/a
Average						6.1%	6.8%	7.9%	2.6%	3.3%	3.9%

Source: Bloomberg, Company data, Concorde Capital estimates

Peer multiples

	Country	Market Cap	EV/Sales		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
Stakhaniv Wagon		193	1.0	0.7	13.4	8.0	23.4	13.7
International								
American Railcar Industries	USA	583	0.8	0.6	7.1	5.3	13.1	10.0
China Motor Corp	China	1216	1.1	1.1	9.7	9.1	13.6	12.8
Freightcar America	USA	554	0.4	0.5	5.0	7.9	11.8	21.4
Greenbrier Companies	USA	480	0.8	0.7	7.7	6.5	25.1	10.7
Trinity Industries	USA	2933	1.2	1.2	7.7	7.7	10.9	9.7
Const Y Auxiliar De Ferr	Spain	1043	0.7	0.6	9.3	8.2	23.8	21.1
Kinki Sharyo Company Ltd	Japan	238	0.4	0.4	8.9	5.0	32.4	9.7
Bharat Earth Movers Limited	India	1049	1.4	1.0	10.6	7.9	16.2	13.9
Baotou Beifang Chuangye	China	267	n/a	n/a	n/a	n/a	49.1	39.3
Iochp-Maxion SA	Brazil	794	1.4	1.1	10.1	7.6	23.9	15.0
Average			0.9	0.8	8.5	7.2	22.0	16.4
Implied SVGZ price, USD			14.7	18.8	9.3	13.8	14.4	18.3
Implied Upside (downside)			-4%	22%	-39%	-10%	-6%	19%
Ukrainian and Russian								
Mariupol Heavy Machinery	Ukraine	248	0.5	0.5	n/m	n/m	n/m	n/m
Azovzagalmash	Ukraine	301	0.8	0.8	n/m	n/m	n/m	n/m
Dniprovagonmash	Ukraine	124	1.1	0.9	10.9	7.0	18.1	10.8
Kryukiv Wagon	Ukraine	534	1.3	1.2	10.0	8.9	16.3	14.4
Altay Vagon	Russia	139	0.4	n/a	6.5	n/a	12.2	n/a
Average			0.8	0.8	9.1	8.0	15.5	12.6
Implied SVGZ price, USD			13.3	19.5	10.1	15.3	10.2	14.1
Implied Upside (downside)			-13%	27%	-34%	0%	-34%	-8%

Source: Bloomberg, Company data, Concorde Capital estimates

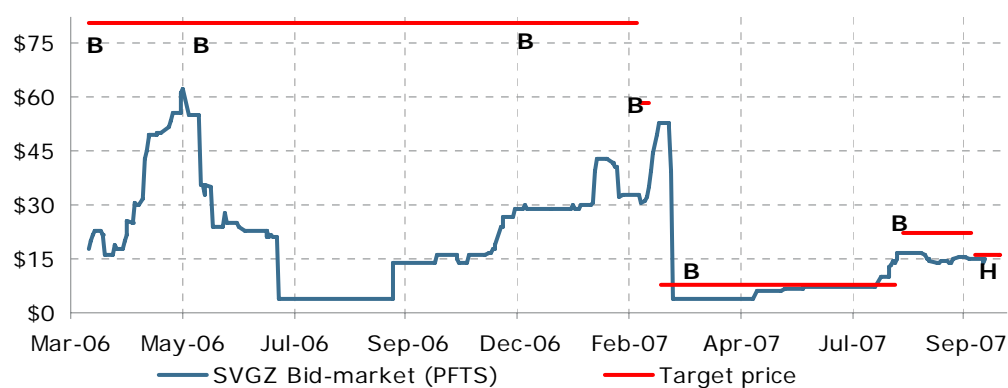
Analyst certification

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Date	Target price, USD	Market Price, USD	Rec'	Action
03-Mar-06	80.5	35.6	BUY	Initiating
12-May-06	80.5	61.4	BUY	Maintain
23-Nov-06	80.5	25.3	BUY	Maintain
26-Feb-07*	57.9	80.5	BUY	Maintain
28-Feb-07	7.9	5.6**	BUY	Maintain
02-Aug-07	22.0	17.8	BUY	Maintain
20-Sep-07	15.8	15.3	HOLD	Downgrade

* Until January 2007 the company was covered by Olha Pankiv, who now focuses on another sector. In February 2007, Inna Perepelytsya took over coverage.

** Diluted price.



Concorde Capital Coverage Universe

Buy	39	50%
Hold	16	21%
Sell	5	6%
Under Review	18	23%
Total	78	100%

Investment Banking Clients

Buy	8	80%
Hold	2	20%
Sell	0	0%
Under Review	0	0%
Total	10	100%

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