

8 September 2011

# Top Picks

## Return of the 3x-4x EV/EBITDA multiples

### Concorde's September top picks

Company	Ticker	Sector	MCap, USD mln	FF, USD mln	Target, USD	Upside
1 Motor Sich	MSICH UK	Industrial	550	143	680	157%
2 Milkiland	MLK PW	Consumer	208	47	15.3	131%
3 Centrenergy	CEEN UK	Utilities	420	91	2.2	91%
4 Northern Iron Ore	SGOK UK	Basic Materials	2,735	19	2.4	102%
5 Khartsyzsk Pipe	HRTR UK	Industrial	315	6	0.31	158%
6 Kryukiv Wagon	KVBZ UK	Industrial	249	12	5.79	167%
7 Donbasenergo	DOEN UK	Utilities	80	11	12.1	248%
8 Central Iron Ore	CGOK UK	Basic Materials	1,020	7	1.7	95%

Source: Bloomberg, Concorde Capital estimates

**Summary:** Our September top picks are anchored by producers tied into Russian expansion (Motor Sich, Milkiland, Khartsyzsk Pipe and Kryukiv Wagon). We remain positive on utilities (Centrenergy and Donbasenergo) with privatization looming as a catalyst and strong fundamental commodity-linked stories (Northern Iron Ore and Central Iron Ore).

**Vitaly Gorovoy**  
vg@concorde.com.ua

**Comment:** Ukraine's equity market has been hit harder than global benchmarks during the last three months, UX -33% vs. MSCI EM -12%. Individual stories have been irrelevant as global risk aversion has driven foreign money from frontier markets in spades. Notably, Ukrainian businesses are accustomed to adverse market conditions, the economy is chugging along (GDP +4.7% in 2011F in our base case), key commodities are still high (Steel Black Sea FOB +14% YTD) and EM demand for local exports, particularly from Russia, continues to underpin our company-level views. Welcome back to multiples of 3x-4x EV/EBITDA for Ukrainian names.

#### Exclusions:

- **Avdiivka Coke:** 2Q11 financials were impaired by transfer pricing within Metinvest: recorded a net loss of USD 0.62 mln despite sales of USD 397 mln. We do not see reason for the practice to reverse in the short-term
- **Stakhaniv Wagon:** political risk increased substantially due to government pressure on key beneficiary Konstantin Zhevago. The plant was forced to stop production for four days in August due to inspections
- **Galnaftogaz:** the stock's recent performance, +10% since our last top picks report in June, has left just 16% upside. Moreover, the resumption of talk about import duties on oil products poses downside risk to margins

## Motor Sich

### Key investment points

- Net revenue grew by 21% y-o-y to USD 301 mln in 1H11, EBITDA by 52% y-o-y to USD 112 mln and net income by 67% y-o-y to USD 89 mln, according to UAS financials. Given historically better results in 2H, our estimates for 2011E are net revenue of USD 772 mln, EBITDA of USD 264 mln and net income of USD 226 mln
- Russian President Dmitriy Medvedev called on his country to replace its aging Tu-134 and An-24 aircraft following recent accidents; Russia has about 100 An-24s and 90 Tu-134s, according to our estimates. The An-148 is a potential candidate to replace the Tu-134s and An-140 for the An-24s, both of which Motor Sich supplies engines for. We forecast Motor Sich to earn USD 2.4 bln in 2011-20E from An-148/158 engine sales
- Following possible creation of a joint venture in 2H11-2012 by Russia's United Aircraft Corporation and Ukraine's Antonov, we expect renewal of serial production of the An-124 cargo plane within four years, which uses Motor Sich's D-18T engines. We estimate this to bring in USD 3.4 bln in sales in 2011-20E

### Key risks

- Dependence on demand from Russian helicopter producers (70% of production in 2010). United Engine-Making Corporation (Russia) announced plans to double the capacity of its subsidiary Klimov to 450 helicopter engines p.a. Vnesheconombank opened a USD 180 mln credit line to fund the project. We expect the plans to evolve slowly and contribute about 50% of engines required for the Russian military by 2020: *High Risk*
- Russia's Omsk Engine Union might start producing the AI-222-25 engine, which is currently made exclusively by Motor Sich. In our DCF model, we assume revenues from AI-222-25 engines sales of USD 360 mln in 2011-20E (~6% of total aircraft engine sales): *Medium Risk*
- Competition from rival Sukhoi Superjet 100. Motor Sich's CEO Vyacheslav Boguslayev said at a July 15 press conference he expected only 4-5 An-148/158 aircraft to be built in 2011, vs. the previously expected 10. We project sales of USD 2.3 bln from An-148/158 engines in 2011-20E: *Medium Risk*

### Business overview

One of the world's largest producers of aircraft and helicopter engines and the only one in Ukraine. Product mix consists of up to 50 different types of aircraft engines for small and mid-size planes, along with engines for the world's largest aircraft, Mriya and Ruslan. Non-aircraft related products: gas turbines, gas pumping equipment, motor cultivators, separators and board engines (13-17% of sales).

### Peer multiples

	Price	MCap	EV/S			EV/EBITDA			P/E		
	USD	USD mln	10	11E	12F	10	11E	12F	10	11E	12F
<b>Motor Sich</b>	<b>265</b>	<b>550</b>	<b>1.3</b>	<b>1.2</b>	<b>1.0</b>	<b>3.8</b>	<b>3.3</b>	<b>3.1</b>	<b>5.3</b>	<b>3.4</b>	<b>3.2</b>
<b>Aircraft engine peers</b>											
IHI Corporation	2.3	3,398	0.5	0.4	0.4	5.2	5.3	4.7	9.8	10.2	8.7
Magellan Aerospace Corporation	3.4	63	0.4	0.2	0.2	3.2	1.8	1.7	2.5	2.9	1.9
Sichuan Chengfa Aero-Science & Technology	3.3	600	4.0	3.3	3.0	30.3	35.3	31.7	86.4	55.4	45.0
MTU Aero Engines Holding	62.5	2,309	0.7	0.6	0.5	4.5	3.8	3.2	12.2	8.8	7.5
SIA Engineering Company	3.3	3,578	3.7	3.2	3.0	23.2	21.1	19.8	18.4	15.6	14.6
<b>Median</b>			<b>0.7</b>	<b>0.6</b>	<b>0.5</b>	<b>5.2</b>	<b>5.3</b>	<b>4.7</b>	<b>12.2</b>	<b>10.2</b>	<b>8.7</b>

Source: Bloomberg, Concorde Capital estimates

### Vitaly Gorovoy

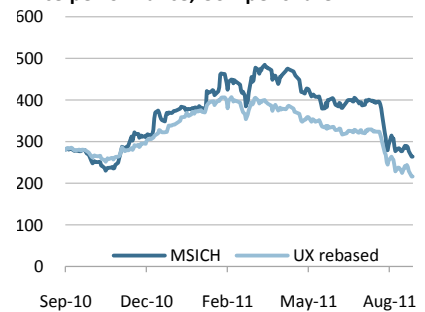
vg@concorde.com.ua

### Market information

	MSICH UK
Bloomberg	
<b>Recommendation</b>	<b>BUY</b>
Price, USD	265
12M price target, USD	680
Upside	157%
No of shares, mln	2.0
Market Cap, USD mln	550
52-week performance	-6%
ADT, 12M, USD mln	1.73
Free float, %	26.0%
Free float, USD mln	143

Prices as of September 6, 2011

### Price performance, USD per share



Source: Bloomberg, UX

### Key financials, USD mln

	2010	2011E	2012F
Net revenue	627.6	772.3	884.4
EBITDA	218.9	264.5	285.2
EBITDA margin	34.9%	34.2%	32.2%
Net income	156.6	226.3	240.2
Net margin	24.9%	29.3%	27.2%
Net debt	13.1	(15.9)	(49.5)

Source: Company data, Concorde Capital

## Milkiland

### Key investment points

- Cost pressure behind the margin squeeze by 6pp y-o-y in 1H11 should ease in 2012 as we expect the Ukrainian government to reinstate subsidies for milk producers
- One-off expenses on legal and consulting services, which accounted for a 2pp EBITDA margin drop in 1H11, are not likely to repeat
- Cost base in Ukraine is an advantage, as dairy prices are higher in Russia where the company sells 3/5 of its output. This helps Milkiland to earn the highest EBITDA margin in sector among CIS peers: 17% in 2010
- Russian and Ukrainian dairy markets are set to outpace global growth at forecasted CAGRs of 11% and 13% in 2010-14, respectively

### Key risks

- Tight raw milk supply, caused by country-wide underinvestment in cattle stock, could limit Milkiland growth ambitions: *Medium Risk*
- As an exporter from Ukraine to Russia, Milkiland bears exchange rate risk. While the company benefited from Russian ruble appreciation in 1H11, recent correction and possible further depreciation should oil price deteriorate, could undermine the company's earnings
- A cheese import ban in Russia, if introduced, would undermine ~20% of sales. Though Russia instituted a ban for a half of the year in 2006, we see it unlikely to happen in the mid-term given Russia imports about a quarter of cheese it consumes and Ukrainian cheese is the second cheapest and second by volume of imports after Belarusian: *Low Risk*

### Business overview

Milkiland is the fourth largest milk processor in CIS, responsible for approximately 2.4% of combined Ukrainian and Russian annual processed raw milk volume as of 2010. Key products included cheese and butter (55% of sales as of 2010), whole milk products (37%) and ingredients (8%). The company operates ten production facilities in Ukraine and one in Russia, with a total milk processing capacity of 1.1 mln mt per year. Milkiland is #1 Ukrainian cheese exporter to Russia which is the largest dairy importer in the world.

### Yegor Samusenko

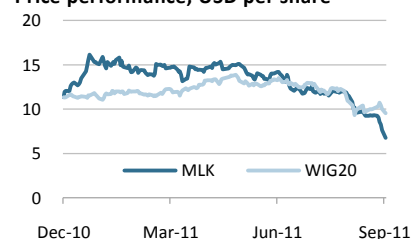
syg@concorde.com.ua

### Market information

Bloomberg	MLK PW
<b>Recommendation</b>	<b>BUY</b>
Price, USD	6.6
12M price target, USD	15.3
Upside	131%
No of shares, mln	31.3
Market Cap, USD mln	208
6M performance	-40%
ADT, 4M, USD mln	0.17
Free float, %	22.4%
Free float, USD mln	47

Prices as of September 6, 2011

### Price performance, USD per share



Source: Bloomberg, UX

### Key financials, USD mln

	2010	2011E	2012F
Net revenue	342.7	389.0	457.8
EBITDA	59.0	52.3	61.5
EBITDA margin	17.2%	13.4%	13.4%
Net income	29.2	31.8	38.0
Net margin	8.5%	8.2%	8.3%
Net debt	56.2	54.5	42.8

Source: Company data, Concorde Capital

### Peer multiples

	Price		EV/S			EV/EBITDA			P/E		
	USD	MCap USD mln	10	11E	12F	10	11E	12F	10	11E	12F
<b>Milkiland</b>	<b>6.6</b>	<b>208</b>	<b>0.8</b>	<b>0.7</b>	<b>0.5</b>	<b>4.5</b>	<b>5.0</b>	<b>4.1</b>	<b>7.1</b>	<b>6.5</b>	<b>5.5</b>
<b>EM Dairy Peers</b>											
Danone	65.4	42,464	2.2	1.9	1.7	12.0	10.5	9.4	18.8	16.5	14.7
Saputo	38.6	7,867	1.3	1.2	1.1	10.2	9.3	8.5	16.6	14.7	13.6
Fraser and Neave	4.7	6,638	2.1	1.7	1.6	10.0	8.6	7.9	13.4	11.9	11.5
China Mengniu Dairy	3.5	6,088	1.1	0.8	0.7	16.6	11.5	8.8	30.2	23.0	18.2
Bongrain	6.1	1,802	0.9	0.7	0.7	9.8	8.5	7.7	12.8	10.4	9.4
Morinaga Milk Industry	81.5	1,258	0.3	0.3	0.3	4.9	4.7	4.1	12.1	10.7	9.3
Pinar Sut Mamulleri Sanayii	4.2	1,071	0.3	n/a	n/a	5.4	n/a	n/a	14.0	11.4	9.3
<b>Harmonic mean</b>			<b>0.7</b>	<b>0.8</b>	<b>0.7</b>	<b>8.4</b>	<b>8.1</b>	<b>7.2</b>	<b>15.4</b>	<b>13.1</b>	<b>11.6</b>

Source: Bloomberg, Concorde Capital estimates

## Centrenerg

### Key investment points

- As it is most liquid electricity stock, it should be the first to react to privatization-related news in the sector. We expect the government to announce first two privatizations this month and sales to take place in 4Q11
- We forecast revenue to grow by 30% y-o-y to USD 926 mln in 2011E on the back of an expected 8% output increase and 20% electricity price growth
- Most likely target for foreign bidder during privatization expected in 2012-13
- Electricity sector reform after privatization of Dniproenergo and Zakhidenergo privatization, should increase profitability twofold in 2012-13 and allow for utilization of unused gas-fired power units through tolling schemes with Gazprom
- Output poised to grow at an 8% CAGR in 2010-14, according to our estimates, on the back of 4% CAGR in electricity consumption and limited growth potential from nuclear and hydro producers which are working close to full capacity utilization

### Key risks

- Lag in electricity reform could limit the list of potential bidders for the state's stake and deter foreign players: *High Risk*
- Privatization delays mean insufficient CapEx to modernize assets at relatively cheap prices for equipment and keep the company from returning to double digit margins: *Medium Risk*
- Delayed or nontransparent privatization of Dniproenergo/Zakhidenergo could undermine sentiment toward the sector: *High Risk*
- Regulatory intervention like price caps in 2008 could harm sector-wide profitability and sentiment toward the sector: *Medium Risk*

### Business overview

Operates three power units located in different regions of Ukraine: Trypillia TPP near Kyiv (installed capacity 1.8 GW, 0.6 GW is gas-fired); Zmiiv TPP near Kharkiv (2.18 GW) and Uglegorsk TPP in Donetsk region (3.6 GW, 2.4 GW is gas-fired). Has the largest share of gas-fired power units among Ukrainian electricity generators (almost 40%). Zmiiv TPP's unit #8 is the only fully reconstructed modern unit among Ukrainian electricity generators. In 2010, produced 15.6 TW of electricity (23.1% of total TPP generation and 8.7% of all electricity generation).

### Peer multiples

	Price		EV/EBITDA			EV/Capacity, USD per kW		EV/Output, USD per MWh		
	USD	USD mln	10	11E	12F	Coal-fired	Total	11E		
<b>Centrenerg</b>	1.16	428	18.0	11.1	5.6	112	67.6	33.2		
<b>Ukrainian GenCos</b>										
Dniproenergo	72.25	431	6.6	3.9	2.2	93	65	34.5		
Donbasenergo	3.48	82	n/m	25.8	4.3	45	45	14.1		
Zakhidenergo	25.32	324	36.1	11.9	5.3	90	90	37.4		
<b>Harmonic mean</b>			<b>11.1</b>	<b>7.9</b>	<b>3.4</b>	<b>68</b>	<b>62</b>	<b>23.6</b>		
<b>Russian GenCos</b>										
OGK-1	0.026	1,723	4.9	3.8	3.6		147	44.4		
OGK-2	0.039	1,287	7.7	5.1	4.9		177	31.0		
OGK-3	0.036	1,723	12.6	8.1	4.0		117	33.2		
OGK-4	0.077	4,886	20.2	9.8	6.0		552	88.3		
Enel OGK-5	0.071	2,515	9.5	6.3	5.1		382	80.7		
OGK-6	0.032	1,049	8.9	7.8	4.9		155	48.3		
<b>Harmonic mean</b>			<b>8.8</b>	<b>6.2</b>	<b>4.6</b>		<b>188</b>	<b>46.4</b>		

Source: Bloomberg, Concorde Capital estimates

### Yegor Samusenko

syg@concorde.com.ua

### Antonina Davydenko

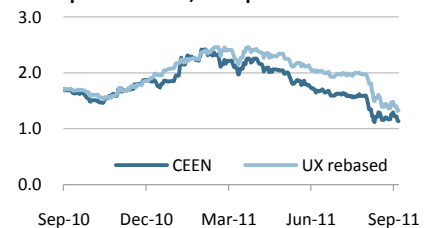
ada@concorde.com.ua

### Market information

Bloomberg	CEEN UK
<b>Recommendation</b>	<b>BUY</b>
Price, USD	1.16
12M price target, USD	2.20
Upside	91%
No of shares, mln	369.4
Market Cap, USD mln	428
52-week performance	-33%
ADT, 12M, USD mln	0.99
Free float, %	21.7%
Free float, USD mln	93

Prices as of September 6, 2011

### Price performance, USD per share



Source: Bloomberg, UX

### Key financials, USD mln

	2010	2011E	2012F
Net revenue	714.3	925.7	1,140.4
EBITDA	28.5	46.3	91.2
EBITDA margin	4.0%	5.0%	8.0%
Net income	1.2	8.6	31.6
Net margin	0.2%	0.9%	2.8%
Net debt	99.3	208.8	295.6

Source: Concorde Capital

## Northern Iron Ore

### Key investment points

- Net revenues increased by 46.1% y-o-y to USD 900 mln, EBITDA by 68.7% y-o-y up to USD 579 mln, and net income by almost 2x y-o-y to USD 393.2 mln in 1H11. We forecast net revenues of USD 1,732 mln (+40% y-o-y) in 2011E, EBITDA of USD 1,088 mln (+45% y-o-y), and net income of USD 700 mln (vs. USD 333 mln in 2010)
- In October 2009, Metinvest launched deliveries to China, which amounted for 6.5 mln mt in 2009 and 10.0 mln mt in 2010. We expect it will increase such deliveries in 2011 by 10% y-o-y to 11 mln mt due to the substantial net price premium in China of USD 30 mt over the local market (total premium USD 60-70/mt, transportation cost USD 30-40/mt)
- Put in into operation concentrating mill sections 15 and 16, which have a combined annual capacity of 870 ths mt of iron ore concentrate. This increases the company's concentrate (66% Fe) capacity by 6.3% to 14.6 mln mt p.a.
- Targets raising quality of iron ore concentrate to Fe 66%, which has a current price premium of USD 40-50/mt (25-30%) over Fe 64%

### Key risk

- Iron ore contract (62% Fe grade) prices averaged USD 175.6 per mt in July-August including cost and freight, down only slightly from a record of USD 179.2 per mt in 2Q11 (+20% q-o-q): *Medium Risk*
- Emerging market demand slows below consensus growth projections, which remain mostly unchanged. We expect stable growth in export sales, especially to China: *Low Risk*

### Business overview

Largest producer of pellets in Ukraine. Capacity: 25 mln mt of iron ore, 15 mln mt of sinter feed, and 9.6 mln mt of pellets. Main domestic customers are MMK Illich Steel, Azovstal, Yenakiieve Steel, Donetsk Steel and DMK Dzerzhinskogo. Major export markets: Poland, China, Slovakia. In 8M11, produced 6.7 mln mt of pellets (down 3.8% y-o-y, 45.6% of Ukrainian production), and 9.5 mln mt of iron ore concentrate (down 2% y-o-y, 21.8% of Ukrainian production).

### Peer multiples

	Price		MCap			EV/S			EV/EBITDA			P/E		
	USD	USD mln	10	11E	12F	10	11E	12F	10	11E	12F	10	11E	12F
<b>Northern Iron Ore</b>	<b>1.2</b>	<b>2,735</b>	<b>2.1</b>	<b>1.6</b>	<b>1.5</b>	<b>3.4</b>	<b>2.5</b>	<b>2.3</b>	<b>8.2</b>	<b>4.6</b>	<b>4.2</b>			
<b>Iron Ore Peers</b>														
BHP Billiton	32.2	194,571	3.3	3.8	2.8	8.0	5.4	4.5	15.3	8.2	7.7			
Vale Do Rio Doce	24.0	136,143	4.0	3.1	2.1	5.9	3.6	3.4	8.0	5.0	5.4			
Rio Tinto	57.7	114,819	2.2	2.1	1.8	5.2	3.9	3.6	8.0	6.5	6.2			
Antofagasta	20.1	19,581	7.9	5.2	3.1	9.2	5.3	3.9	18.6	11.7	9.1			
Ferrexpo	5.7	3,319	3.8	4.1	5.6	7.3	6.4	11.7	7.8	5.4	5.4			
<b>Median</b>			<b>3.8</b>	<b>3.8</b>	<b>2.8</b>	<b>7.1</b>	<b>4.9</b>	<b>5.4</b>	<b>8.0</b>	<b>6.5</b>	<b>6.2</b>			

Source: Bloomberg, Concorde Capital estimates

### Andriy Gerus

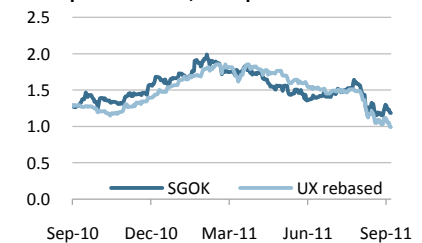
ga@concorde.com.ua

### Market information

Bloomberg	SGOK UK
<b>Recommendation</b>	<b>BUY</b>
Price, USD	1.19
12M price target, USD	2.40
Upside	102%
No of shares, mln	2,304.1
Market Cap, USD mln	2,735
52-week performance	-7%
ADT, 12M, USD mln	0.05
Free float, %	0.7%
Free float, USD mln	19

Prices as of September 6, 2011

### Price performance, USD per share



Source: Bloomberg, UX

### Key financials, USD mln

	2010	2011E	2012F
Net revenue	1,302.0	1,732.1	1,882.3
EBITDA	805.3	1,088.6	1,175.7
EBITDA margin	56.3%	62.8%	60.2%
Net income	333.3	600.6	648.6
Net margin	25.6%	40.4%	34.4%
Net debt	(6.5)	116.7	55.1

Source: Company data, Concorde Capital

## Khartsyzsk Pipe

### Key investment points

- Net revenues grew by 3.3x y-o-y to USD 335 mln in 1H11, EBITDA by 3.8x y-o-y up to USD 36 mln, and net income to USD 24.5 in 1H11 vs. a net loss of USD 1.1 mln in 1H10. We expect net revenues of USD 659 mln, EBITDA of USD 120 mln, and net income of USD 87 mln in 2011E
- We expect production to increase by 2x y-o-y in 2011 due to contracts with Transneft and demand from EU and Asia pipeline projects
- Received order in August for 155 ths mt of large diameter pipes (25% of 2011E production) for the Vostok-Zapad gas pipeline that will run from the Caspian sea to the east through Turkmenistan
- Ukraine's Minister of Energy Yuriy Boyko said Ukraine will start modernization of its gas transportation system in 2H11 at an overall cost of USD 9 bln (over 7 years), including ~USD 2.5 bln in pipes. Khartsyzsk Pipe is the only producer of large-diameter pipes in Ukraine

### Key risks

- The Belarus, Kazakhstan and Russia Customs Union extends duties beyond 880 mm diameter pipes: the current duty does not affect most LD pipes supplied by Khartsyzsk Pipe to Transneft: *Medium Risk*
- Dependences on large contracts from pipeline project, mainly from Russian Oil & Gas companies: *Medium Risk*

### Business overview

Ukraine's third largest pipe maker in terms of production volume, with 397.9 ths mt of pipes in 8M11 (up 2.7x yoy, share in Ukrainian production: 26.5%). Capacity: 1.5 mln mt of pipes p.a. Part of Metinvest Group, stable supply of inputs from Metinvest-related MMK Illicha and Azovstal. Product portfolio consists of over 500 items. Core product - large diameter steel pipes with corrosion-proof coating used for the construction of oil and gas-main pipelines. Pipes are locally and API-certified. Exports over 80% of its total output, mainly to Russia.

### Peer multiples

	Price		EV/S			EV/EBITDA			P/E		
	USD	MCap USD mln	10	11E	12F	10	11E	12F	10	11E	12F
<b>Khartsyzsk Pipe</b>	<b>0.1</b>	<b>315</b>	<b>1.0</b>	<b>0.5</b>	<b>0.5</b>	<b>6.2</b>	<b>2.3</b>	<b>2.4</b>	<b>13.2</b>	<b>3.2</b>	<b>3.4</b>
<b>Global Peers</b>											
Tenaris	31.5	18,576	2.4	2.0	1.6	8.8	8.0	5.9	16.5	13.6	10.4
National Oilwell Varco	63.6	26,963	2.0	1.7	1.3	8.3	6.9	5.2	16.2	14.2	11.1
Vallourec	81.5	9,788	1.7	1.5	1.2	8.4	8.0	5.8	18.0	16.0	10.6
TMK	13.1	3,059	0.5	0.9	0.8	7.5	5.4	4.5	29.3	7.4	5.4
Maruichi Steel Tube	21.6	2,033	1.3	1.0	1.3	8.4	5.2	7.5	25.6	17.0	14.5
Tubacex	2.7	358	1.4	1.0	0.9	38.8	10.0	7.4	n/m	17.5	8.1
<b>Median</b>			<b>1.5</b>	<b>1.2</b>	<b>1.2</b>	<b>8.4</b>	<b>7.5</b>	<b>5.9</b>	<b>18.0</b>	<b>15.1</b>	<b>10.6</b>

Source: Bloomberg, Concorde Capital estimates

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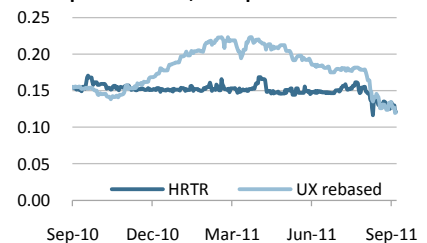
ga@concorde.com.ua

### Market information

Bloomberg	HRTR UK
<b>Recommendation</b>	<b>BUY</b>
Price, USD	0.12
12M price target, USD	0.31
Upside	156%
No of shares, mln	2,598.5
Market Cap, USD mln	315
52-week performance	-21%
ADT, 12M, USD mln	0.01
Free float, %	2.0%
Free float, USD mln	6

Prices as of September 6, 2011

### Price performance, USD per share



Source: Bloomberg, UX

### Key financials, USD mln

	2010	2011E	2012F
Net revenue	327.0	659.0	626.0
EBITDA	50.2	136.0	129.2
EBITDA margin	15.3%	20.6%	20.6%
Net income	23.9	98.6	93.67
Net margin	7.3%	14.9%	14.9%
Net debt	24.9	42.2	33.6

Source: Company data, Concorde Capital

## Kryukiv Wagon

### Key investment points

- Net revenue grew by 59% to USD 365 mln y-o-y in 1H11, EBITDA by 99% y-o-y to USD 64 mln and net income by 2.5x y-o-y to USD 55 mln, according to UAS financials. In line with our estimates for 2011E: net revenue of USD 695 mln, EBITDA of USD 128 mln and net income of USD 93 mln
- Produced 6,167 freight railcars in 7M11, up 18% y-o-y. Exports accounted for 85% of output. We estimate 2011E output at 8,500 freight railcars, which is more conservative than management's target of 9,000
- Kryukiv Wagon shares will be added to the UX Index basket, with a 6.5% weight (as of September 16). Average daily turnover was USD 0.06 mln in 1Q11, USD 0.08 mln in 2Q11 and UAH 0.05 mln over the last two months. We expect limited improvement in liquidity solely due to index fund purchases following inclusion in the UX basket

### Key risks

- We expect the casting deficit to continue until at the least the beginning of 2012. When Russian plants launch their own casting production facilities. But high price of castings will reduce margins from the railcar sales in mid-term: *High Risk*
- Ukrzaliznytsya decides to buy high-speed passenger trains (unit costs estimated at USD 20-25 mln) for Euro-2012 from Kryukiv Wagon, which would force it to finance a planned prototype at its own cost: *Medium Risk*
- Increased competition in Russia from Chinese railcars if they are certified for operation there. Loss of the Russian market could significantly decrease revenues. We expect Russia to protect its domestic producers from Chinese competition: *Low Risk*

### Business overview

Only manufacturer in Ukraine that makes both passenger and freight wagons. Production capacity: 200 passenger and 8 ths freight wagons p.a. Exports ~70% of its output to the CIS and Iran. Pursuing a strategy of diversifying its product line (into cargo wagons, passenger wagons, subway cars, escalators). In 2010, produced a total of 9,090 (up 2.7x y-o-y) railcars of 11 different types, including 38 passenger cars (up 52% y-o-y).

### Peer multiples

	Price		EV/S			EV/EBITDA			P/E		
	USD	MCap USD mln	10	11E	12F	10	11E	12F	10	11E	12F
<b>Kryukiv Wagon</b>	<b>2.2</b>	<b>249</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>2.9</b>	<b>2.0</b>	<b>1.9</b>	<b>6.6</b>	<b>2.7</b>	<b>2.6</b>
<b>Railcar peers</b>											
American Railcar Industries	15.8	337	1.1	0.6	0.4	42.2	6.1	3.3	n/m	207.0	12.6
Freightcar America	16.3	194	0.9	0.3	0.2	n/m	30.4	3.8	n/m	311.1	13.8
Greenbrier Companies Inc	15.0	378	1.0	0.6	0.5	10.0	8.1	5.1	88.4	28.3	7.2
Construcc y Aux de Ferrocarr	493	1,693	0.8	0.6	0.5	5.8	4.9	4.2	9.8	8.5	7.7
UGL Ltd	12.7	2,103	0.5	0.5	0.4	7.8	6.7	6.0	13.4	11.3	10.2
<b>Median</b>			<b>0.9</b>	<b>0.6</b>	<b>0.4</b>	<b>7.8</b>	<b>6.7</b>	<b>4.2</b>	<b>9.8</b>	<b>28.3</b>	<b>10.2</b>

Source: Bloomberg, Concorde Capital estimates

### Vitaly Gorovoy

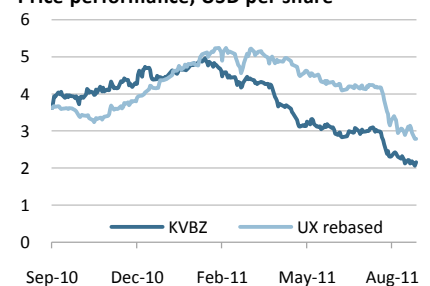
vg@concorde.com.ua

### Market information

Bloomberg	KVBZ UX
<b>Recommendation</b>	<b>BUY</b>
Price, USD	2.17
12M price target, USD	5.79
Upside	167%
No of shares, mln	114.7
Market Cap, USD mln	249
52-week performance	-40%
ADT, 12M, USD mln	0.06
Free float, %	4.7%
Free float, USD mln	12

Prices as of September 6, 2011

### Price performance, USD per share



Source: Bloomberg, UX

### Key financials, USD mln

	2010	2011E	2012F
Net revenue	548.2	694.7	686.1
EBITDA	72.9	128.4	127.5
EBITDA margin	13.3%	18.5%	18.5%
Net income	37.5	92.8	95.3
Net margin	6.8%	13.4%	13.9%
Net debt	(38.1)	6.0	(1.9)

Source: Company data, Concorde Capital

## Donbasenergo

### Key investment points

- We forecast revenue to grow by 26% y-o-y to USD 482 mln in 2011E on the back of expected 5% output increase and 20% electricity price appreciation
- Likely target for foreign bidder during upcoming privatization expected in 2012-13
- Output poised to grow at a 6% CAGR in 2010-14, according to our estimates, on the back of 4% CAGR in electricity consumption and capped supply of electricity from nuclear and hydro producers which are working close to full capacity
- Located in close proximity to coal mines, which allows for 7-9% cheaper coal supplies than to Dniproenergo and Zakhidenergo
- Cheapest electricity generating company by EV/Capacity: trades at 45 USD per kW vs. 97 average for Ukrainian peers and 188 for Russian companies

### Key risks

- Lag in electricity reform could limit the list of potential bidders for the state's stake and deter foreign players: *High Risk*
- Privatization delays mean insufficient CapEx to modernize assets at relatively cheap prices for equipment and keep the company from returning to double digit margins: *Medium Risk*
- Delayed or nontransparent privatization of Dniproenergo/Zakhidenergo could undermine sentiment toward the sector: *High Risk*
- Regulatory intervention like price caps in 2008 could harm sector-wide profitability and sentiment toward the sector: *Medium Risk*
- The relatively small size of its plants and technological uniqueness could deter strategic investors at privatization: *Medium Risk*

### Business overview

Smallest thermal generation company - operates two power units located in Donetsk region: Starobeshev TPP (installed capacity 1.78 GW) and Slaviansk TPP (0.88 GW, a single working power unit). Launched reconstructed power unit #4 at Starobeshev – this is the first unit in Ukraine to use CFB technology and burn low quality coal and coal refuse. Produced 8 TWh of electricity in 2010 (11.9% of total TPP generation and 4.5% of all electricity generation).

### Peer multiples

	Price		EV/EBITDA			EV/Capacity, USD per kW		EV/Output, USD per MWh		
	USD	USD mln	10	11E	12F	Coal-fired	Total	11E		
<b>Donbasenergo</b>	3.48	82	n/m	25.8	4.3	45	45	33.2		
<b>Ukrainian GenCos</b>										
Centrenergo	1.16	428	18.0	11.1	5.6	112	68	33.2		
Dniproenergo	72.25	431	6.6	3.9	2.2	93	65	34.5		
Zakhidenergo	25.32	324	36.1	11.9	5.3	90	90	37.4		
<b>Harmonic mean</b>			<b>12.8</b>	<b>6.9</b>	<b>3.6</b>	<b>97</b>	<b>73</b>	<b>34.9</b>		
<b>Russian GenCos</b>										
OGK-1	0.026	1,723	4.9	3.8	3.6		147	44.4		
OGK-2	0.039	1,287	7.7	5.1	4.9		177	31.0		
OGK-3	0.036	1,723	12.6	8.1	4.0		117	33.2		
OGK-4	0.077	4,886	20.2	9.8	6.0		552	88.3		
Enel OGK-5	0.071	2,515	9.5	6.3	5.1		382	80.7		
OGK-6	0.032	1,049	8.9	7.8	4.9		155	48.3		
<b>Harmonic mean</b>			<b>8.8</b>	<b>6.2</b>	<b>4.6</b>		<b>188</b>	<b>46.4</b>		

Source: Bloomberg, Concorde Capital estimates

### Yegor Samusenko

syg@concorde.com.ua

### Antonina Davydenko

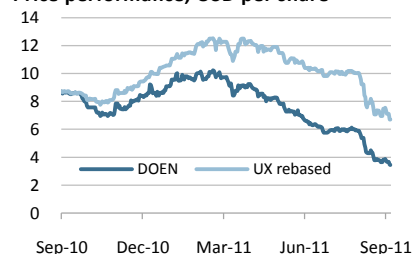
ada@concorde.com.ua

### Market information

	DOEN UK
<b>Recommendation</b>	<b>BUY</b>
Price, USD	3.5
12M price target, USD	12.1
Upside	248%
No of shares, mln	23.6
Market Cap, USD mln	82
52-week performance	-61%
ADT, 12M, USD mln	0.2
Free float, %	14.2%
Free float, USD mln	12

Prices as of September 6, 2011

### Price performance, USD per share



Source: Bloomberg, UX

### Key financials, USD mln

	2010	2011E	2012F
Net revenue	382.3	481.7	577.3
EBITDA	(1.3)	4.8	28.9
EBITDA margin	-0.3%	1.0%	5.0%
Net income	(16.4)	(13.8)	(10.4)
Net margin	-4.3%	-2.0%	-1.8%
Net debt	44.1	102.3	202.4

Source: Company data, Concorde Capital



## Central Iron Ore

### Key investment points

- Net revenues grew by 2x y-o-y to USD 393 mln in 1H11, EBITDA by 82% y-o-y to USD 237 mln, and net income by 2x y-o-y to USD 158.4 mln. We expect net sales of USD 768 mln in 2011E, EBITDA of USD 406 mln, and net income of USD 280 mln
- In October 2009, Metinvest launched deliveries to China, which amounted for 6.5 mln mt in 2009 and 10.0 mln mt in 2010. We expect it will increase such deliveries in 2011 by 10% y-o-y to 11 mln mt due to substantial net price premium in China of USD 30 mt (30%-35%) over local market (total premium USD 60-70/mt, transportation cost USD 30-40/mt).

### Key risk

- Iron ore contract (62% Fe grade) prices averaged USD 175.63 per mt in July-August including cost and freight, down only slightly from a record of USD 179.24 per mt in 2Q11 (+20% q-o-q): *Medium Risk*
- Emerging market demand slows below consensus growth projections, which remain mostly unchanged. We expect stable growth in export sales, especially to China: *Low Risk*

### Business overview

Medium-sized Ukrainian producer of iron ore sinter feed and pellets. Owns the rights to four deposits of iron ore (three exploited). Ore from the Petrovsk mine has 68% iron content – the highest of any Ukrainian deposit. Supplies products to steel mills Azovstal and Yenakiiye/Metalen (Metinvest), Alchevsk Iron & Steel, DMK Dzerzhinskogo (both IUD group). In 8M11, produced 1.5 mln mt of pellets (down 2.1% y-o-y, 10% of Ukrainian production), and 4.1 mln mt of iron ore concentrate (up 1.2% y-o-y, 9.4% of Ukrainian production).

### Andriy Gerus

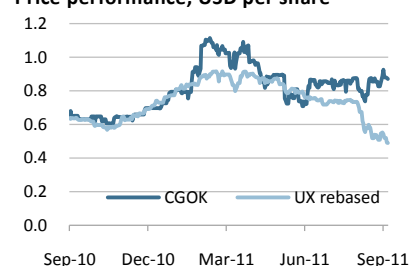
ga@concorde.com.ua

### Market information

Bloomberg	CGOK UK
<b>Recommendation</b>	<b>BUY</b>
Price, USD	0.87
12M price target, USD	1.70
Upside	95%
No of shares, mln	1,171.8
Market Cap, USD mln	1,020
52-week performance	38%
ADT, 12M, USD mln	0.02
Free float, %	0.7%
Free float, USD mln	7

Prices as of September 6, 2011

### Price performance, USD per share



Source: Bloomberg, UX

### Key financials, USD mln

	2010	2011E	2012F
Net revenue	542.0	735.6	772.4
EBITDA	305.0	320.6	336.0
EBITDA margin	56.3%	52.9%	43.5
Net income	182.0	191.5	200.6
Net margin	33.6%	36.5%	25.9%
Net debt	(3.7)	(4.6)	(4.2)

Source: Company data, Concorde Capital

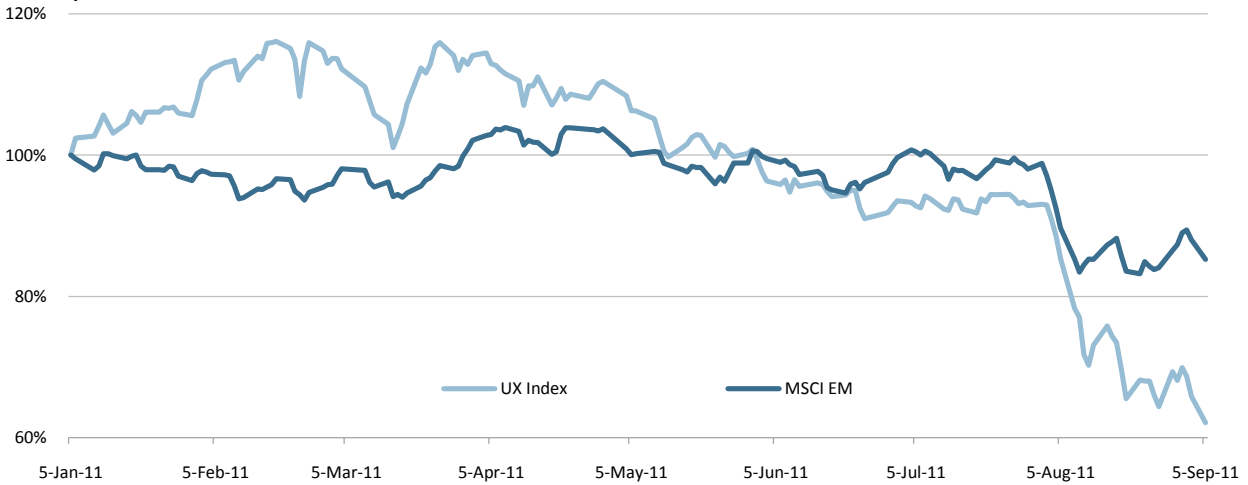
### Peer multiples

	Price		EV/S			EV/EBITDA			P/E		
	USD	MCap USD mln	10	11E	12F	10	11E	12F	10	11E	12F
<b>Central Iron Ore</b>	<b>0.9</b>	<b>1,025</b>	<b>1.9</b>	<b>1.4</b>	<b>1.3</b>	<b>3.4</b>	<b>3.2</b>	<b>3.0</b>	<b>5.6</b>	<b>5.4</b>	<b>5.1</b>
<b>Iron Ore Peers</b>											
BHP Billiton	32.2	194,571	3.3	3.8	2.8	8.0	5.4	4.5	15.3	8.2	7.7
Vale Do Rio Doce	24.0	136,143	4.0	3.1	2.1	5.9	3.6	3.4	8.0	5.0	5.4
Rio Tinto	57.7	114,819	2.2	2.1	1.8	5.2	3.9	3.6	8.0	6.5	6.2
Antofagasta	20.1	19,581	7.9	5.2	3.1	9.2	5.3	3.9	18.6	11.7	9.1
Ferrexpo	5.7	3,319	3.8	4.1	5.6	7.3	6.4	11.7	7.8	5.4	5.4
<b>Median</b>			<b>3.8</b>	<b>3.8</b>	<b>2.8</b>	<b>7.1</b>	<b>4.9</b>	<b>5.4</b>	<b>8.0</b>	<b>6.5</b>	<b>6.2</b>

Source: Bloomberg, Concorde Capital estimates

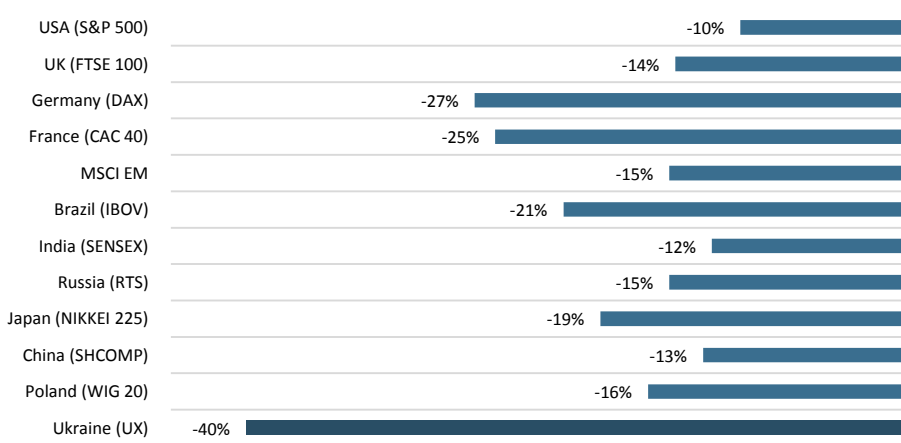
# Appendix 1

## UX index performance vs. MSCI EM



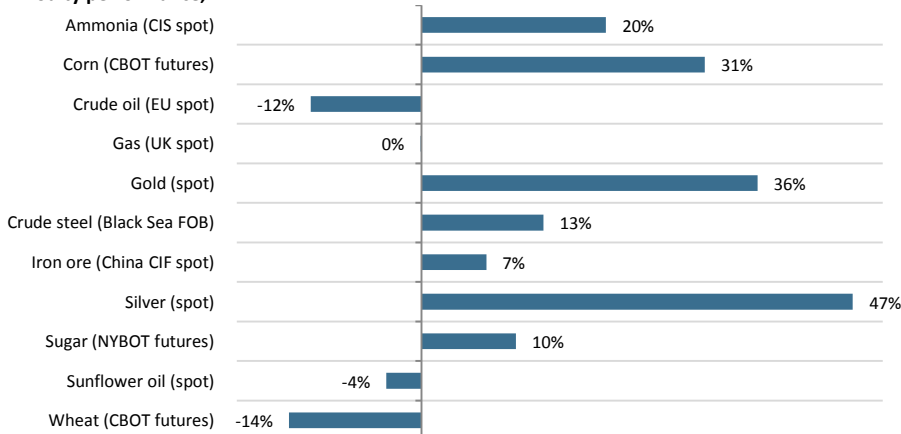
Source: Bloomberg, UX, Concorde Capital

## Global indices performance, YTD



Source: Bloomberg, Concorde Capital

## Commodity performance, YTD



Source: Bloomberg, UX, Concorde Capital

## Appendix 2

### Analyst certification

The investment analysts responsible for the preparation and content of this report hereby certify that the views expressed in this research report accurately reflect their personal views about the subject securities and issuers. They also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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## Appendix 3

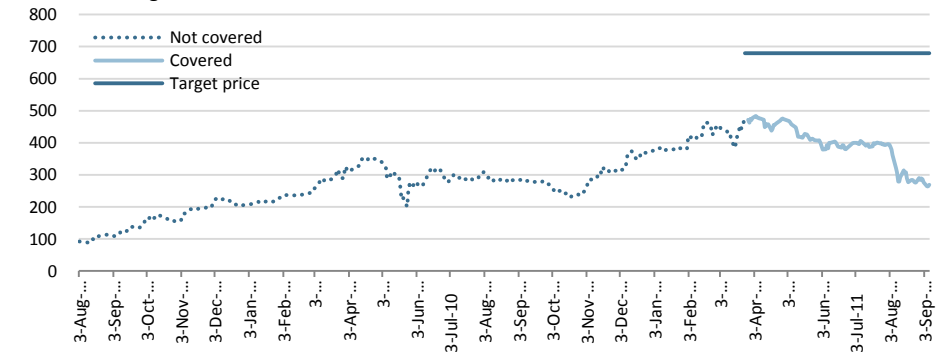
### Motor Sich (MSICH UK)

Analyst: Vitaly Gorovoy  
 Covered since April 2011  
 Target price issued on March 2011  
 by Yegor Samusenko

#### Target Price History

Date	Target Price, USD
March 25, 2011	680

#### Motor Sich: Target Price vs. Share Performance



Source: Bloomberg, UX, Concorde Capital

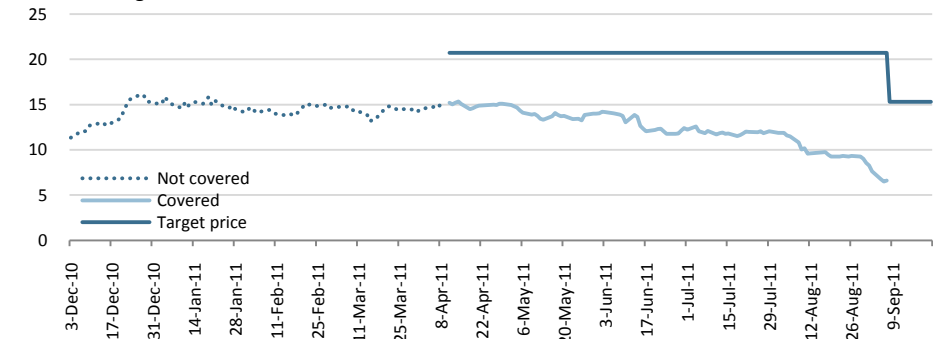
### Milkiland (MLK PW)

Analyst: Yegor Samusenko  
 Covered since April 2011

#### Target Price History

Date	Target Price, USD
April 11, 2011	20.7
September 08, 2011	15.3

#### Milkiland: Target Price vs. Share Performance



Source: Bloomberg, UX, Concorde Capital

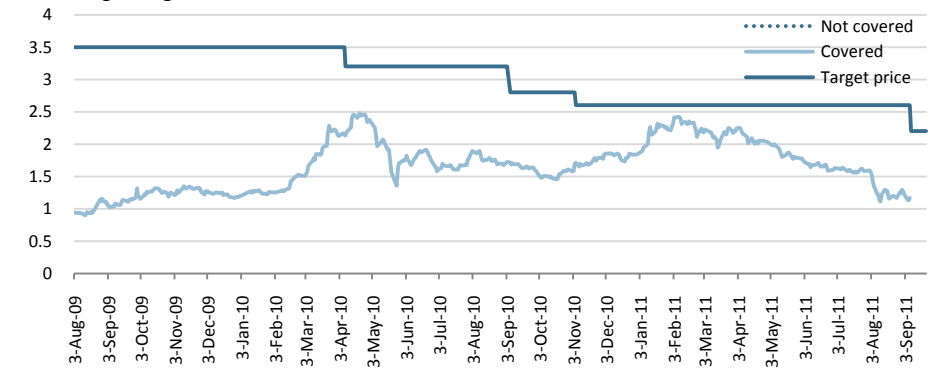
### Centrengo (CEEN UK)

Analysts: Yegor Samusenko,  
 Antonina Davydenko  
 Covered since July 2009

#### Target Price History

Date	Target Price, USD
February 03, 2009	3.5
April 08, 2010	3.2
September 06, 2010	2.8
November 10, 2010	2.6
August 02, 2011	2.6
September 08, 2011	2.2

#### Centrengo: Target Price vs. Share Performance



Source: Bloomberg, UX, Concorde Capital

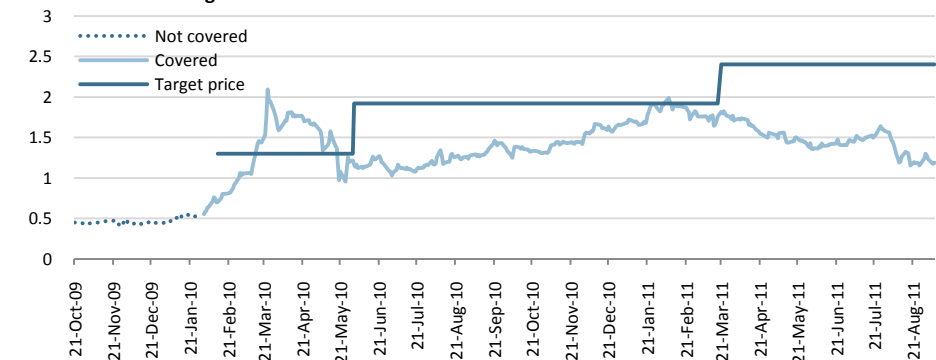
### Northern Iron Ore (SGOK UK)

Analyst: Andriy Gerus  
 Covered since February 2010

#### Target Price History

Date	Target Price, USD
February 13, 2010	1.3
June 01, 2010	1.92
March 21, 2011	2.4

#### Northern Iron Ore: Target Price vs. Share Performance

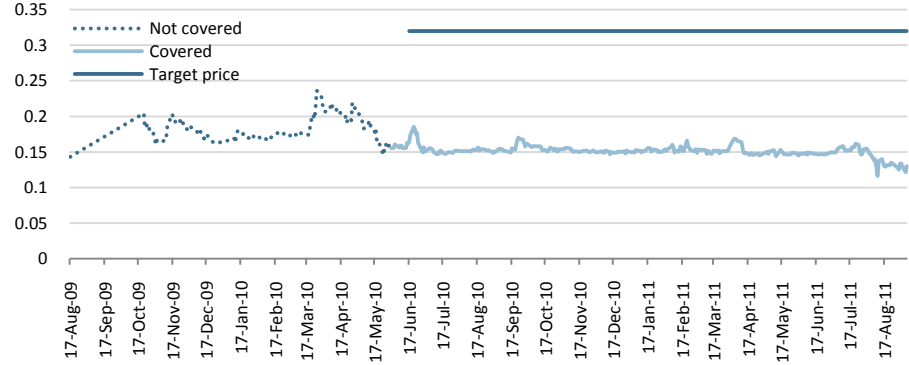


Source: Bloomberg, UX, Concorde Capital

### Khartsyzsk Pipe (HRTR UK)

Analyst: Andriy Gerus  
Covered since June 2010

#### Khartsyzsk Pipe: Target Price vs. Share Performance



Source: Bloomberg, UX, Concorde Capital

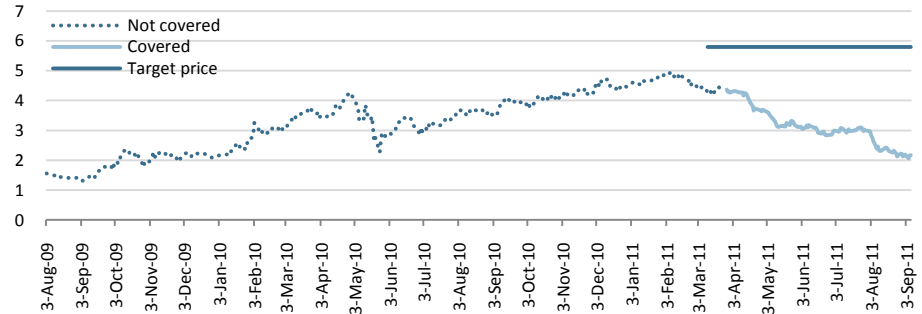
#### Target Price History

Date	Target Price, USD
June 17, 2010	0.32
June 10, 2011	0.32

### Kryukiv Wagon (KVBZ UK)

Analyst: Vitaly Gorovoy  
Covered since April 2011  
Target price issued on March 2011  
by Yegor Samusenko

#### Kryukiv Wagon: Target Price vs. Share Performance



Source: Bloomberg, UX, Concorde Capital

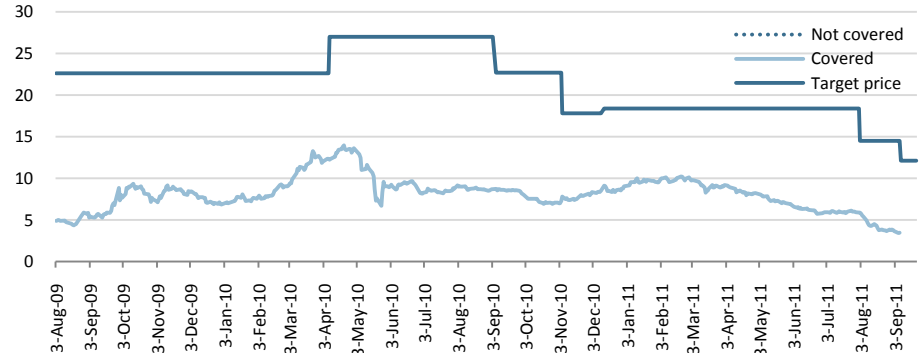
#### Target Price History

Date	Target Price, USD
March 11, 2011	5.79

### Donbasenergo (DOEN UK)

Analysts: Yegor Samusenko,  
Antonina Davydenko  
Covered since July 2009

#### Donbasenergo: Target Price vs. Share Performance



Source: Bloomberg, UX, Concorde Capital

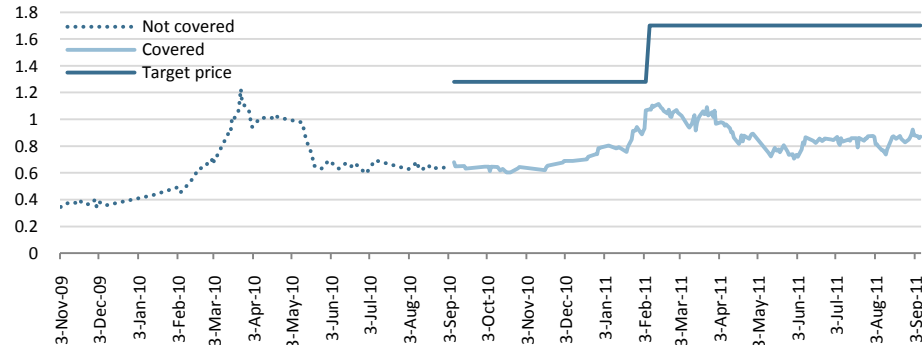
#### Target Price History

Date	Target Price, USD
February 03, 2009	22.6
April 08, 2010	27.0
September 06, 2010	22.7
November 05, 2010	17.8
December 13, 2010	18.4
August 02, 2011	14.5
September 08, 2011	12.1

### Central Iron Ore (CGOK UK)

Analyst: Andriy Gerus  
Covered since September 2010

#### Central Iron Ore: Target Price vs. Share Performance



Source: Bloomberg, UX, Concorde Capital

#### Target Price History

Date	Target Price, USD
September 07, 2010 2	1.28
February 07, 2011	1.70

## Contacts

### CONCORDE CAPITAL

2 Mechnikova Street, 16th Floor  
 Parus Business Centre  
 Kyiv 01601, Ukraine  
 Tel.: +380 44 391 5577  
 Fax: +380 44 391 5571  
 www.concorde.ua  
 Bloomberg: TYPE CONR <GO>

### CEO

Igor Mazepa im@concorde.com.ua

### SALES

#### Head of Sales & Trading

Luba Yurchyk ly@concorde.com.ua

#### International Sales & Trading

Anastasiya Nazarenko an@concorde.com.ua  
 Marina Martirosyan mm@concorde.com.ua  
 Rostyslav Shmanenko rs@concorde.com.ua  
 Dasha Vasilieva vd@concorde.com.ua

### RESEARCH

#### Head of Research

Andriy Gerus ga@concorde.com.ua

#### Utilities, Agriculture, Consumer

Yegor Samusenko syg@concorde.com.ua

#### Basic materials

Andriy Gerus ga@concorde.com.ua

#### Energy, Chemicals

Antonina Davydenko ada@concorde.com.ua

#### Equity strategy, Industrial machinery

Vitaly Gorovoy vg@concorde.com.ua

#### Economics, Financials

Svetlana Rekrut sr@concorde.com.ua

#### Fixed income

Andriy Gerus ga@concorde.com.ua  
 Svetlana Rekrut sr@concorde.com.ua

#### Politics

Brad Wells bw@concorde.com.ua

#### Editor

Brad Wells bw@concorde.com.ua

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