



## Analyst's Notebook

Ukraine/Machine Building  
 May, 16 2006

### Ukrzaliznitsya's Budget: Winners & Losers

According to a press release from the Ministry of Transport and Communications, the government has approved the 2006 financial plan for Ukraine's railway monopoly, Ukrzaliznytsya (UZ), at a meeting on May 11. The plan calls for UZ to increase capital expenditures by five times yoy to USD 1.06 bln, about 41% of this amount will be directed to investment into rolling stock modernization.

#### Carriage Producers

The plan, which Ukraine's railway machine-building companies have been waiting for a long time, in its adopted version is a big boost for Kryukivsky Wagon which has already received the lion share of UZ orders. The other companies will compete for the rest.

Earlier, Kryukivsky Wagon was announced the winner of a tender for 100 passenger and 2.5 thousand freight carriages by UZ. This caused protests by Stakhanovsky Wagon Works (**SVGZ: BUY**), Azovmash and Dniprovagonmash, which claimed that UZ had been biased in choosing Kryukivsky. We believe that the order for the other 1,000 freight carriages will go to one of the companies that lost the first tender.

#### Planned UZ Carriage Purchases

	Units	USD mln
Freight carriages	3,450	135.3
Passenger carriages	100	75.5

Source: press service of The Ministry of Transport and Communications

#### Locomotive and Train Producers

UZ's 2006 plan confirmed disappointing news from Luganskteplovoz's management at the company's recent AGM. Initially Luganskteplovoz (**LTPL: HOLD**) planned to have its order book filled with purchases by Ukrzalitsa for 220 carriages for diesel and electrical trains. However, the order for these carriages, announced in late January and meant for Luganskteplovoz exclusively, ended up being split between LTPL and Dnipropetrovsk NVO "Elektrovobuduvannya" (a maker of electric trains).

#### Planned UZ Train Purchases

	Units	USD mln
Mainline electric	17	
Carriages for diesel & electric trains	99	133

Source: press service of The Ministry of Transport and Communications

\* LTPL currently is unable to produce carriages for electric trains

UZ's plan has not been officially published yet, and the news circulating in the mass media seems to underestimate the number of carriages for diesel and electric trains which are to be purchased. On Friday, LTPL's management told us that UZ confirmed an order for 16 diesel and electric trains with eight carriages in each, implying 128 carriages.

If the official version of UZ plan turns out as LTPL's management says, this will increase LTPL's top line by ~USD 12-20 mln to around USD 106 – 110 mln, up 13 – 21% from the revenues we estimated before.

### *Railroad Switch Producers*

Additionally UZ's plan foresees capital expenditures of around USD 260 mln for repair/modernization of groundwork and capital construction. This implies new orders for Ukraine's monopoly railroad switch producer, Dniproswitch (**DSTR: BUY**). On Tuesday, the company's management told us that DSTR gets orders from Ukrzaliznitsya on a monthly basis. They expect UZ to confirm new orders for this year no earlier than July.

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