Ukraine / Machine Building

Zaporizhtransformator

Top line growth warrants upgrade

CONCORDE CAPITAL

February 01, 2008

Current price: USD 0.7
12M Target: USD 0.9

BUY

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Tickers

Bloomberg	ZATR UZ

Market information

Market price, USD	0.7
MCap, USD mln	1,547.2
Chg 12M	191%
No of shares, mln	2,210.3
Free float*	1%
Free float, USD mln	11.5

** We caution about the limited amount of shares on the market.*

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

Energy Standard Group	99%
Other	1%

Source: Bloomberg, Company data, Concorde Capital estimates

This Tuesday Zaporizhtransformator released preliminary financial results for 2007: its top line rose twofold since 2006, while its net margin beat our forecast and is again the highest in the sector. Financial targets for 2008 disclosed on the same day promise 87% yoy sales growth. We upgrade our target price, based on peer valuation, from USD 0.4 to USD 0.9 per share. BUY.

2007 results exceed our expectations

Zaporizhtransformator announced its preliminary results for 2007: sales of USD 412 mln (up 2x yoy, 15.1% higher than our projections) and net income of USD 79.02 mln (net margin of 19.2% vs. our estimate 13.3%). The company's reported net margin was a positive surprise and is 3x higher than its international peers' average (vs. a twofold difference in 2006).

Sales and production targets imply double-digit yoy growth

Management announced plans to raise sales to USD 770 mln in 2008 (+86.7% yoy) while targeting the production of more than 50 GVA in total capacity of transformers (vs. 37.6 GVA in 2007). Earlier, the company stated plans to increase production capacities to 60 GVA by 2010.

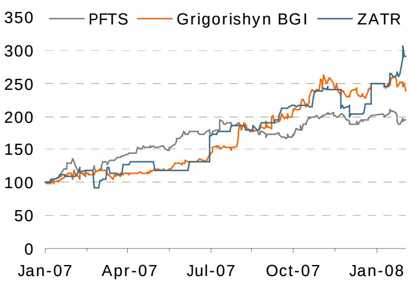
We revise our 2008 forecasts upward

We find the management's plans feasible and make corresponding changes to our forecasts. Management said they have already received orders accounting for 41% of planned sales, a typical situation for the company (by March 2007 it locked up orders for 50% of its full-year sales target). A 25-30% hike in the price per GVA of transformers implied by the sales target looks realistic in light of the expected 3x increase in demand by 2011 for transformers in Zaporizhtransformator's key markets, Russia and Ukraine (see our Oct. 2007 Power Engineering report).

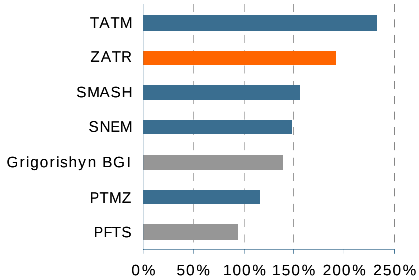
2008 forecast revisions, USD mln

	Sales	EBITDA	Net Income
Old	447.5	104.1	69.3
New	770.0	231.8	150.2
Change	*72%*	*123%*	*117%*

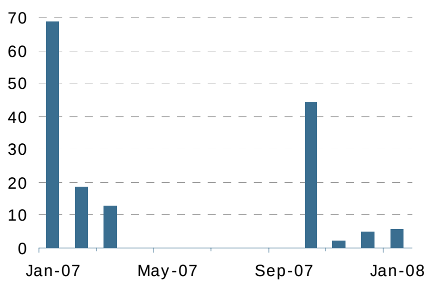
Stock performance, 12M



Sector Performance, 12M



PFTS Trading Volumes, USD ths



Source: PFTS, Concorde Capital

Key financials, USD mln

	Sales	EBITDA margin	Net margin	EV/Sales	EV/EBITDA	P/E
2006	245	18%	11%	7.8	41.8	67.7
2007E	412	29%	19%	3.9	13.2	19.6
2008E	770	30%	20%	2.1	6.8	10.3

Comparative valuation

	Country	MCap USD mln	Sales 2007E	Sales 2008E	EBITDA margin 2007E	EBITDA margin 2008E	Net margin 2007E	Net margin 2008E
Zaporizhtransformator	**Ukraine**	**1,547**	**412.0**	**770.0**	**29.4%**	**30.1%**	**19.2%**	**19.5%**
Emco Ltd	India	304	250.8	350.5	13.3%	13.2%	6.3%	6.7%
Crompton Greaves Ltd	India	3,324	1 818	2 234	9.5%	10.2%	5.6%	6.3%
Daihem Corp	Japan	591	918.2	955.5	13.2%	13.4%	5.8%	6.0%
Fortune Electric Co Ltd	Taiwan	302	191.8	230.3	19.0%	18.5%	12.9%	12.4%
Takaoka Electric MFG Co Ltd	Japan	122	407.0	426.0	n/a	n/a	1.6%	0.7%
Avearage					**13.7%**	**13.8%**	**6.5%**	**6.4%**

	Country	MCap USD mln	EV/Sales 2007E	EV/Sales 2008E	EV/EBITDA 2007E	EV/EBITDA 2008E	P/E 2007E	P/E 2008E
Zaporizhtransformator	**Ukraine**	**1,547**	**3.9**	**2.1**	**13.2**	**6.8**	**19.6**	**10.3**
Emco Ltd	India	304	1.4	1.0	10.8	7.8	19.1	13.0
Crompton Greaves Ltd	India	3,324	1.9	1.5	19.8	14.9	32.7	23.4
Daihem Corp	Japan	591	0.8	0.7	5.7	5.0	11.1	10.4
Fortune Electric Co Ltd	Taiwan	302	1.8	1.5	9.4	7.9	12.2	10.6
Takaoka Electric MFG Co Ltd	Japan	122	0.4	n/a	n/a	n/a	18.8	42.0
Average			**1.2**	**1.1**	**11.4**	**8.9**	**18.8**	**19.9**
ZATR implied price			**0.21**	**0.39**	**0.61**	**0.92**	**0.67**	**1.35**
Upside/downside			**-70%**	**-44%**	**-13%**	**31%**	**-4%**	**93%**

Source: Bloomberg, Company data, Concorde Capital estimates

Analyst Certification

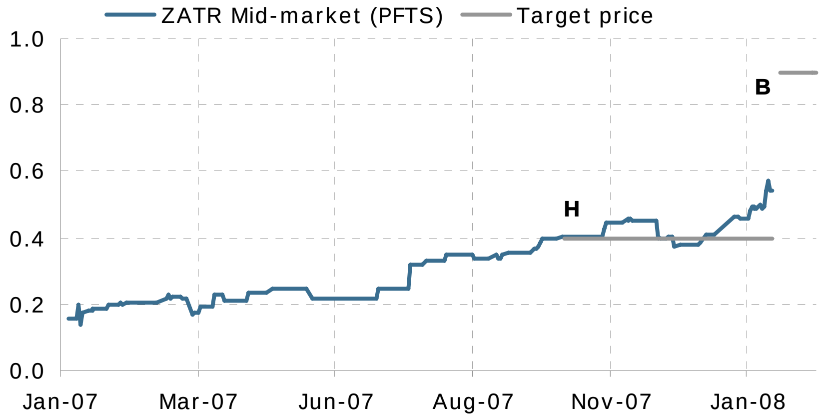
We, Inna Perepelytsya and Elena Sergeyeva, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific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

Zaporizhtransformator

Date	Target price, USD	Market price, USD	Rec'	Action
10-Oct-08	0.40	0.40	HOLD	Initiating
01-Feb-08	0.90	0.70*	BUY	Upgrade

** Ask price*

Recommendation history, USD



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	39	*37%*
Hold	30	*28%*
Sell	13	*12%*
Under Review	24	*23%*
Total	**106**	***100%***

Investment banking clients*

Buy	7	*78%*
Hold	1	*11%*
Sell	0	*0%*
Under Review	1	*11%*
Total	**9**	***100%***

**Within the last twelve month period, Concorde Capital has obtained compensation from these companies.*

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