



CONCORDE CAPITAL

Ukraine / Steel

Zaporizhstal

Friday's EGM spells restructuring

December 25, 2007

DR price: USD 7.9
12M Target: N/R

N/R

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+380 44 391 5577**Tickers**PFTS N/A
GDR (Frankfurt/Xetra) UWP GR**Market information**

DR price, USD	7.9
MCap, USD mln*	
diluted	2,088.4
undiluted	666.5
Chg YTD (DR)	-0.18%
Hi/Lo YTD (DR), USD	34.9/3.0
DRs per common share	1:10
No of shares, mln	
new	2,643.6
old	843.7
Free float	4%
Free float, USD mln	83.5

*based on DR price

Corporate Governance

Concorde Rating** P

** 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

Zakhid-Reserv	28.5%
Global Steel Investment	44.8%
Airol Beteiligungen	14.9%
Other	11.9%

- Merger of five trading houses completed, Russian coal mine & processing plant merged, a daughter enterprise to be created "to protect foreign shareholders' rights" – all the news from the EGM strengthening our belief that Zaporizhstal is being prepared for sale
- Fundamentals are disappointing: at the EGM, CFO disclosed bottom line target for 2007, which is USD 56 mln (a 61% yoy drop). CEO confirmed that steel converters are only planned to replace open hearth furnaces by 2013
- Zaporizhstal trades in Frankfurt @ USD 7.9 per DR – at 23% discount to peers on EV/S '08, a 25% premium on EV/EBITDA '08. No listing on the PFTS. We keep the stock not rated

Dilutive share issue approved

At their EGM on Monday Zaporizhstal (ZPST: N/R) shareholders approved results of the charter fund increase from UAH 450 mln (USD 89.1 mln) to UAH 660.9 mln (USD 130.9 mln). It is that scandalous dilutive increase through a merger of Zaporizhstal's five trading houses initiated in April 2006, where minorities were not given the right to participate (see our alert of April 20, 2006). The action resulted in the stock being delisted from the PFTS. New number of shares outstanding is 2,643.6 mln versus previous 843.7 mln.

Russian coal mining complex consolidated

According to management, part of the capital increase was directed to acquire a mining complex in Russia: Bystryanskaya mine and Sholokhovska processing plant. No details were disclosed. According to media reports, Rostovsky Coal Company, related to Zaporizhstal's owners, bought a license for coal mining at Bytryansky coal deposit at tender in the summer 2006; plans were announced to invest 120-130 USD mln to construct a mine during four years. The status of the project is not clear at the moment.

ZS Inform AG

At the EGM, shareholders voted for creation of ZS Inform AG (Switzerland) as well. According to management, the new entity's major function is "to protect rights of Zaporizhstal's international subsidiaries". Actual purpose of the company is not clear, but we attribute it to the owners' pre-sale arrangements.

Disappointing bottom line projection by CFO

According to Zaporizhstal's CFO, the company target for 2007 is net income of USD 55.9 mln (down 61% yoy), of which USD 1 mln will be paid as dividends (0.0004 per share, dividend yield 0.05%). In 9M07 the company reported NI of USD 99.9 mln, which implies a loss of USD 43.9 mln planned for 4Q07. The announcement underlines the fact that the company has the lowest reporting standards in our steel coverage universe.

Zaporizhstal 9M07 financials

	9M06	9M07	Chg, yoy
Sales, USD mln	1 151.3	1 386.9	20.5%
EBITDA, USD mln	214.3	189.6	-11.5%
EBITDA mgn, %	18.6%	13.7%	-4.9 p.p.
Sector avg EBITDA mgn, %	16.8%	19.3%	2.5 p.p.
Net income, USD mln	123.4	99.9	-19.1%
Net mgn, %	10.7%	7.2%	-3.5 p.p.
Sector avg Net mgn, %	9.5%	12.6%	3.2 p.p.

Source: company data

Note: see our note of December 4

EGM FLASH NOTE

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Buy	37	38%
Hold	28	39%
Sell	13	13%
Under Review	19	20%
Total	97	100%

Investment banking clients*

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

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

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