



## Flash Note

## Metinvest finances, USD bln\*

	2006A	2007E	YoY
Net Sales	5.650	7.463	+32%
EBITDA	1.713	2.438	+42%
Net Income	1.026	1.465	+43%

\*For 2006 Metinvest composition. Source: Company data, Sokrat estimates. 2007 losses due to one-off events (formal acquisition of stakes in Group members) not included.

Metinvest+Smart finances, USD bln<sup>†</sup>

	2006E	2007E	YoY
Net Sales	6.541	8.783	+34%
EBITDA	1.792	2.696	+50%
Net Income	1.023	1.612	+58%

<sup>†</sup>Source: Company data, Sokrat estimates. 2007 losses due to one-off events (formal acquisition of stakes in Group members) not included.

## Metinvest Group Top Picks

## Avdiivka Coke [AVDK UZ]

Current rating	<b>Strong BUY</b>
Target price, USD	<b>10.90</b>
Current price, USD	<b>4.60</b>
Upside	<b>137%</b>

## Enakievo ISW group [ENMZ UZ]

Current rating	<b>BUY</b>
Target price, <sup>§</sup> USD	<b>100.0</b>
Target price, <sup>‡</sup> USD	<b>145.5</b>
Current price, USD	<b>79.4</b>
Upside <sup>§</sup>	<b>26%</b>
Upside <sup>‡</sup>	<b>83%</b>

<sup>§</sup>Conservative. <sup>‡</sup>Optimistic

## Azovstal [AZST UZ]

Current rating	<b>BUY</b>
Target price, USD	<b>1.37</b>
Current price, USD	<b>1.13</b>
Upside	<b>21%</b>

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## Ukrainian Metallurgy &amp; Mining

## Metinvest birthday party on June 06: a catalyst

PFTS AVDK, AZST, ENMZ; Bloomberg AVDK UZ, AZST UZ, DZ8 GR, ENMZ UZ

On June 06, Metinvest Holding will likely hold its annual press conference. We expect good news to be presented, and markets to react. There is only a week left for buying promising Metinvest Group members before their likely appreciation after the press conference.

## Executive Summary

- **The birth.** On June 06, 2006, Metinvest Holding held its first press conference. It was announced that metallurgy and mining assets of the SCM group have been organized into Metinvest Group, with Metinvest Holding directing in all strategic aspects.
- **Year 1: the path of the leader.** On June 06, 2007, at its second press conference, Metinvest Holding made several important announcements. **A USD 4.1 bln 2008–2012 CapEx program** was revealed, and a cooperation with Smart Group in a brownfield project (Makiivka ISW) was declared.
- **Year 2: between the leaps.** On June 06, 2008, the third press conference is to take place. During Metinvest's second year, the merger with Smart Group took place, and interest in two European rolling facilities has been acquired. The Group has become **an undisputable Ukrainian leader** (10.8 mln mt of steel, 39.8 mln mt of iron ore concentrate), and now formulates its **strategic goal as becoming a leader on European and world scales.**
- **Prediction: 2007 finances.** We estimate that in 2007 Metinvest and Smart together achieved an **EBITDA of USD 2.7 bln (+50% YoY)** and **net income of USD 1.6 bln (+58%)**. Uncertainty in the choice of consolidation basis (we leave out Pivdennyi GOK and two European rolling assets) leaves much room for deviation. However, the **original business of Metinvest (as it was in 2006)** performed quite well: we predict **EBITDA of 2.4 bln (+42%)** and **net income of USD 1.5 bln (+43%)**. Notably, in 2007, ownership in Metinvest Group members had been formally transferred from SCM to the Group's holding companies, which may depress substantially unadjusted consolidated finances.
- **Prediction: growth announcements.** At the press conference, Metinvest will clarify its growth plans, providing its friends (minority shareholders of the Group members) with nice surprises: **the members will grow organically, and the minority investments will appreciate.**
- **Top Picks.** Our favorite Metinvest Group member shares may appreciate following the press conference on waves of **good news regarding their organic growth.**
  - **The Enakievo ISW group [ENMZ UZ, BUY, 26% / 83%].** Metinvest may affirm construction of two rolling mills at Enakievo ISW within the 2008–2012 USD 1.2 bln CapEx program, in which case our **optimistic target price (USD 145.5, 83% upside) will become the base case scenario** (currently, USD 100, 26% upside).
  - **Azovstal [AZST UZ, BUY, 21%].** Azovstal has quietly launched many a facility recently. **We expect a culmination of the 2003–2008 USD 826 mln program, launches of concaster No 6 and a vacuum vessel, to be highlighted on June 06.** A 2008–2012 program (at least USD 1.3 bln) foresees construction of third converter and a 5.6 mln mt HRC mill.
  - **Avdiivka Coke [AVDK UZ, Strong BUY, 137%].** Although unlikely to be mentioned at the press conference, this company is providing the Metinvest's growing Iron & Steel division with coke. **In 2008, Avdiivka Coke will boost volume by 35% on top of 74% increase in coke prices, working with strong margins.**

Figure 1. Metinvest Group top picks\*

Top Pick	Ticker	Price, USD	Target price, USD	Upside	MCap, USD mln	Free Float, USD mln	EV/S		EV/EBITDA		P/E	
							07	08F	07	08F	07	08F
Azovstal	AZST UZ	1.13	1.37	21%	4,742	166	1.5	1.0	7.7	4.8	11.3	7.2
Enakievo ISW group	ENMZ UZ	79.4	100.0	26%	1,277	64	0.8	0.4	11.0	3.6	32.3	6.7
Avdiivka Coke	AVDK UZ	4.60	10.90	137%	890	35	1.0	0.4	8.9	2.4	64.6	3.6

Source: Company data, Sokrat estimates. Prices as of May 30, 2008. UAH/USD: 4.785

\*EBITDA and net income of Avdiivka Coke have been adjusted for one-off events

Figure 2. The Metinvest Group at 2

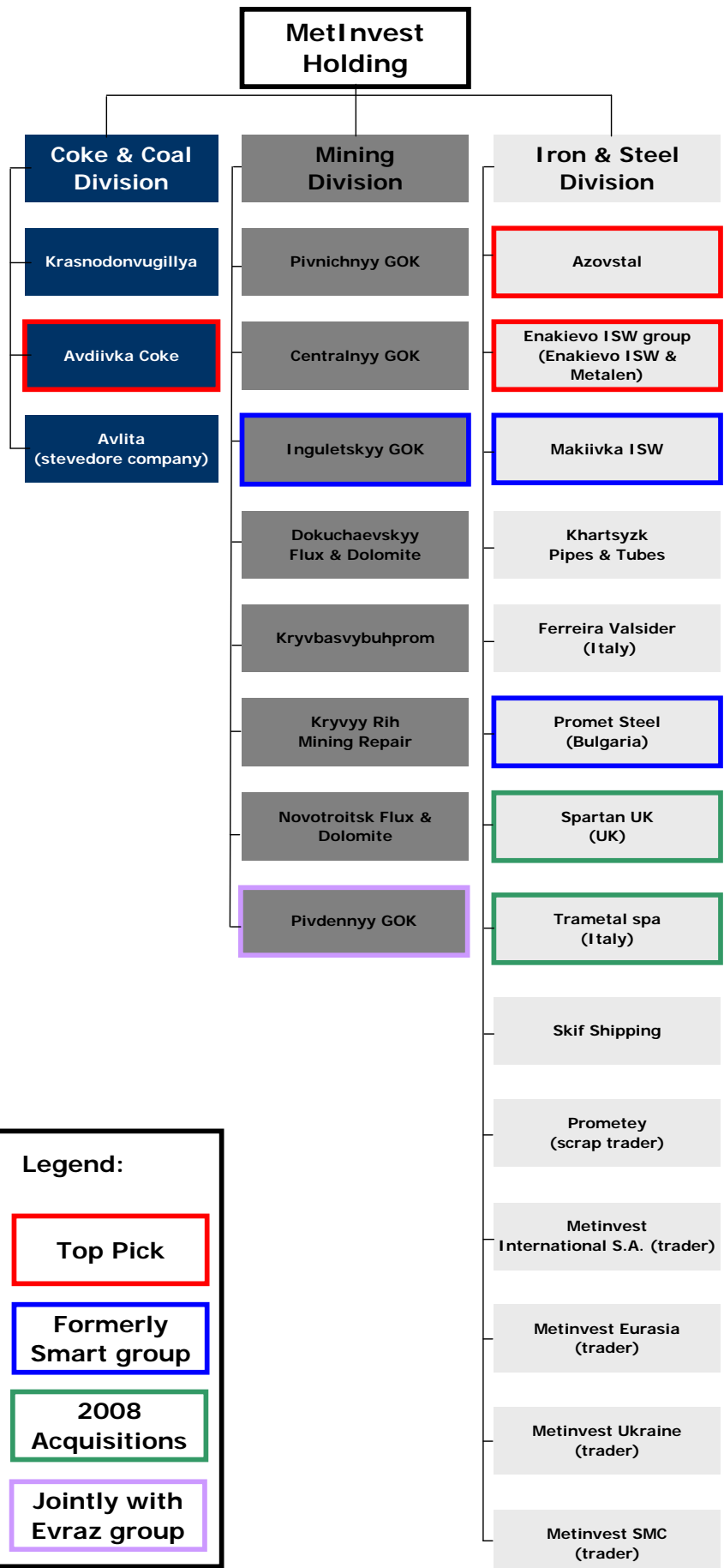
The anniversary snapshot:  
Metinvest at 2

Has grown substantially,  
and much more is yet to come



Friends (minority shareholders  
of member companies) are  
invited!

Happy Birthday, Metinvest!



Source: Company data, Sokrat estimates

Figure 3. Selected Ukrainian Metinvest Group members: 2006 and 2007 finances, USD mln\*

Division	Company	Ticker	Recommendation	Upside	2006				2007			
					Net Sales	OIBDA	EBITDA	Net Income	Net Sales	OIBDA	EBITDA	Net Income
Coke & Coal	Krasnodonvugillya				259.3	15.1	11.3	10.7	307.7	38.7	37.1	17.6
	<b>Avdiivka Coke</b>	<b>AVDK UZ</b>	<b>Strong BUY</b>	<b>137%</b>	<b>647.7</b>	<b>79.7</b>	<b>62.8</b>	<b>10.4</b>	<b>963.9</b>	<b>111.0</b>	<b>51.3</b>	<b>-41.0</b>
	Avlita CJSC				20.4	8.2	8.6	1.0	18.8	7.5	7.1	1.5
Mining	Pivnichnyy GOK	SGOK UZ	N/R		810.2	250.4	244.4	156.1	1,466.8	524.5	531.2	364.0
	Centralnyy GOK	CGOK UZ	N/R		376.1	87.1	88.0	55.8	535.9	176.3	176.4	116.1
	Inguletskyy GOK	IGOK UZ	N/R		412.9	76.5	84.5	37.1	593.7	217.8	221.9	143.3
	Pivdenny GOK	PGZK UZ	N/R		305.5	38.0	38.3	1.1	571.0	199.7	199.7	119.6
	Kryvbasvybuhprom	KVPR UZ	N/R		78.0	13.3	12.9	8.0	88.1	15.0	15.1	9.3
	Kryvyy Rih Mining Repair CJSC				56.3	5.1	5.1	2.8	91.9	12.6	12.8	10.2
	Dokuchaevskyy Flux & Dolomite				57.3	8.0	8.1	2.9	83.6	22.0	20.6	10.3
Iron & Steel	<b>Azovstal</b>	<b>AZST UZ</b>	<b>BUY</b>	<b>21%</b>	<b>2,479.9</b>	<b>390.2</b>	<b>400.0</b>	<b>218.4</b>	<b>3,243.0</b>	<b>595.1</b>	<b>630.6</b>	<b>420.3</b>
	<b>Enakievo ISW OJSC</b>	<b>ENMZ UZ</b>	<b>BUY</b>	<b>26% / 83%</b>	<b>701.9</b>	<b>40.6</b>	<b>54.7</b>	<b>31.0</b>	<b>1,015.0</b>	<b>55.7</b>	<b>59.0</b>	<b>29.9</b>
	Metalen LLC				861.9	66.3	66.5	37.1	901.4	26.2	26.2	8.5
	Makiivka ISW CJSC				575.2	-45.7	-45.2	-50.3	865.9	-14.4	-13.7	-26.3
	Khartsyzsk Pipes & Tubes	HRTR UZ	N/R		624.3	136.7	135.4	77.9	612.9	112.6	113.7	64.0

Source: Company data, Sokrat estimates.

\*Net income and EBITDA of Avdiivka Coke not adjusted

## List of relevant Sokrat reports

Company	Date	Title
Azovstal	May 25, 2007	AZOVSTAL CapEx Party: Taste the Coming Treats
	June 26, 2007	Azovstal AGM: an understatement
	April 4, 2008	Ukrainian Iron & Steel: Don't Use Your Illusions
	April 24, 2008	Ukrainian ISWs: Use Your Opportunities
Enakievo ISW group	November 9, 2007	Enakievo ISW: Dilution Ahead? Be Warned. A UAH 5.53 Metinvest hint on its intentions?
	December 2, 2007	Enakievo ISW: from Metalen to Metinvest. 2008: the transition period
	April 4, 2008	Ukrainian Iron & Steel: Don't Use Your Illusions
	April 24, 2008	Ukrainian ISWs: Use Your Opportunities
Avdiivka Coke	May 20, 2008	Avdiivka Coke: Metinvest affiliation benefits, strong prices

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