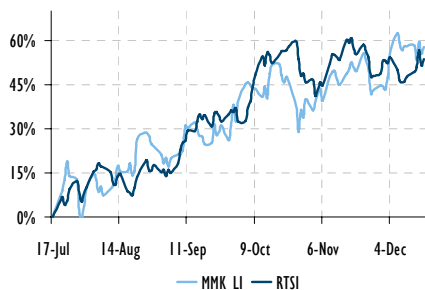


## MMK: 3Q09 results show tactical weakness, but outlook is positive



MMK relative share performance, 6M



Source: Bloomberg

MMK has released its 3Q09 figures, which turned out worse than consensus, but, as we expected, stronger than 2Q09 results: revenue increased by 35% q/q to \$1.4 bn, operating profit jumped 4.5x times to \$82 mn. EBITDA (GPB calculation) increased by 33% q/q to \$268 mn, while EBITDA margin remained flat at 19%. Net income went up by 29% q/q to \$76.

The company accumulated cash and cash equivalents of \$575 mn, gross debt stood at \$1.5 bn, cash generated from operating activities amounted to \$657 mn.

At first glance, the results look rather disappointing – weaker than the market consensus. However, the figures of the parent company are strikingly strong.

We think that the negative surprise is attributed to the increase in SG&A expenses and less than expected pace of revenue growth. Specifically, although MMK increased the top line, it could not meet the market consensus of \$1.5 bn. Moreover, SG&A expenses were up by 35% q/q, which is the same as q/q revenue change. As a result, EBITDA (GPB) was \$309 mn, worse than the consensus of \$361 mn, which translated into weaker bottom line performance and net income profitability.

Importantly, the results declined mostly due to less effective work of MMK's subsidiaries – the results of the parent company definitely look strong: EBITDA (MMK) increased by 87% q/q, EBITDA margin jumped to 28% from 23% in 2Q09, net profit tripled to \$152 mn with net income margin of 11%.

Our outlook on the company remains positive for two main reasons that will drive the company value in 2010:

- ▶ MMK is going to consolidate Belon's financials starting from 4Q09, though the consolidated EBITDA profitability will remain the same because of the miner's less healthy financials, which might have a temporary negative effect on MMK.
- ▶ MMK keeps its strategy that stresses organic growth, which includes development of Mill 5000, construction of cold-rolling Mill 2000 (automotive steel) and carrying out the MMK-Atakas project in 2010.

We continue to consider MMK the cheapest steel player in the Russian universe, looking very attractive compared to its international peers – MMK's FY10E EV/EBITDA is 5.6x, P/E – 10.1x. We think that the value of the company's subs takes a relatively small part (10–12%) in the company's overall valuation, i.e. the results of the parent company should be awarded by the market – it obviously has very impressive value creation ability. We reiterate our positive view on the company.

MMK: 3Q09 consolidated financial results, \$ mn

	1Q09	2Q09	3Q09	3Q/2Q	3Q09C	3Q/3QA
Revenue	965	1 038	1,404	35%	1,505	7%
COGS	853	859	1,061	24%		
Gross profit	112	179	343	92%		
SG&A	158	164	221	35%		
Operating profit	-45	17	82	382%		
EBITDA (MMK)	99	207	309	49%	361	17%
EBITDA (GBP)	115	202	268	33%		
Net income/loss	-110	59	76	29%	138	82%
Gross margin	12%	17%	24%	42%		
EBITDA margin (MMK), %	10%	20%	22%	10%	24%	
EBITDA margin (GBP), %	12%	19%	19%			
Net income margin, %	negative	6%	5%		9%	
Operating results						
Salable products, mln t	1.92	1.92	2.60	36%		

C – consensus, A – actual  
Source: company, Interfax

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