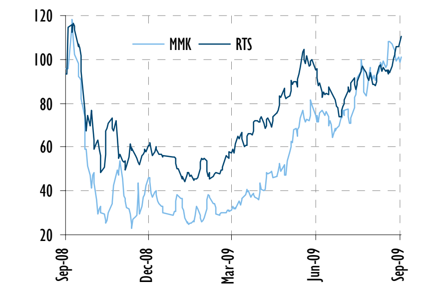
MMK: Skimming cream

GAZPROMBANK

TP	10.94
Upside	16%
Recommendation	BUY

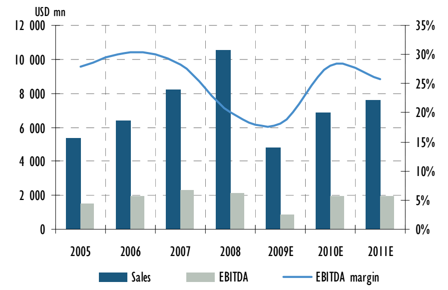
MMK	
Ticker	MMK LI
Number of GDRs, mn	859.6
Current price, USD (09/15/09)	9.38
Mcap, USD mn	6 833
Free-float, %	10%

MMK relative stock performance



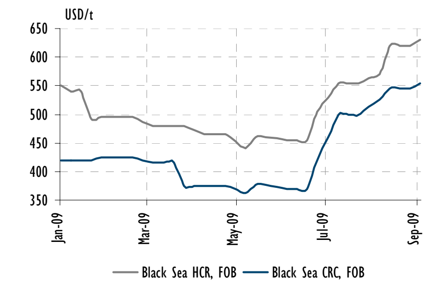
Source: Bloomberg

MMK sales, EBITDA and EBITDA margin



Source: MMK, GPB estimates

Steel price dynamics



Source: SBBS

We initiate coverage of the Russian metals and mining sector with the series of pieces on the domestic steelmakers.

In June – August signs of fragile relief appeared on the steel market making possible the upward movement in prices in 3-4Qs globally, propelling the whole sector. The slight bounce back on Asian market fuels expectations on further price improvement. However, it's far from the steady demand.

Steel pries have surpassed their lows this year and the overall situation is getting better. However, the price sentiment varies in different regions. Russian steelmakers prefer now Asian markets where the demand is stronger than anywhere across the globe (e.g. Chinese steel consumption will shrink by 5% y-o-y vs. 15% in the ROW). This demand maintains and pushes up steel prices.

The changed environment in steel business is now more favorable for companies less integrated in mining businesses, costs of which today might rather dilute value of steelmakers. Among Russian players, MMK is the least vertically integrated. Moreover, the prices on raw materials have changed dramatically since their climax in Summer 2008, allowing MMK to show relatively low costs.

MMK keeps its way in the long-run strategy: to increase value added product mix. However, because of the recession, the player has had to change its Capex program focusing on its most important projects. In the mid of July the company **launched Mill-5000** producing thick steel plates for large diameter pipes, machinery and boiler building etc. Upon recovery of the pipe market, MMK will become an absolute leader in production of this expensive product. In 2010 the plates will add USD 1 bn. on top (or 15% of revenue), according to our estimates.

We expect that MMK will considerably improve its financials in 2010 thanks to the growing demand on steel worldwide, pushing the prices up. We project that MMK would more than double its 2010E EBITDA to USD 1921 mn. improving its EBITDA margin from 18% in 2009E to 28% in 2010E. On the bottom line, the results should be even more impressive: 2010E net income will expectedly increase by 11.5 times to USD 967 mn. with net income margin of 14% vs. 2% in 2009E.

On relative valuation approach MMK looks now attractive vs. comparisons. Given our financials forecasts, MMK now trades at 2010E P/E of 8.4x, implying a 38% discount to emerging markets (EM) and a 46% discount to developed markets (DM). The company's 2010E EV/EBTIDA multiple stands at 4.5x, leading to a 39% discount to EM and 61% to DM. MMK also looks cheap vs. Russian peers: it trades with a 33% discount on 2010E P/E basis and with a 32% discount on 2010E EV/EBITDA basis.

We valued the stock with the DCF modeling and multiple valuation, combining two approaches through utilization of weighs for both methods. **We rate MMK a BUY with a TP of USD 10.94/GDR, implying a 16% upside.** Given the recent spurt among the steel stock across the board, we think they might pull back by 15-20%, which will be an attractive opportunity to acquire MMK.

Key Financials

	2005	2006	2007	2008	2009E	2010E	2011E
Sales, USD mn.	5 380	6 424	8 197	10 550	4 786	6 865	7 615
EBIT, USD mn.	1 323	1 765	1 453	1 174	282	1 300	1 326
EBIT margin	25%	27%	18%	11%	6%	19%	17%
EBITDA, USD mn.	1 496	1 953	2 310	2 119	871	1 921	1 964
EBITDA margin	28%	30%	28%	20%	18%	28%	26%
Net income, USD mn.	947	1 426	1 308	1 075	83	967	1 056
Net income margin	18%	22%	16%	10%	2%	14%	14%
P/E	8.6	5.7	6.2	7.6	n/m	8.4	7.7
EV/EBITDA	5.8	4.5	3.8	4.1	10.0	4.5	4.4

Source: MMK, GPB

Sergei Kanin
+7 (495) 988 24 06
Sergei.Kanin@Gazprombank.ru

Investment Summary

Although the landscape of the steel universe hasn't evidently changed and the recent main players remain the trendsetters, the investor's focus now is apparently shifting toward different business models - to the companies still having ability to create value in the new sluggish environment.

The steel market has begun bottoming out. However, the big picture on steel prices still remains ambiguous: impressive growth in Asia, moderate in US and EU while almost flat in Russia. In Asia, China remains the main driver of steel prices underpinned by apparent steel use which would expectedly decrease by only 5% y-o-y, while the total global consumption would shrink by 15% y-o-y. In China over the last four months the domestic prices increased on average by 11% to USD 535/t on hot rolled steel (HRC) and by 20% to USD 710 on cold rolled steel (CRC). We see the same positive trend in overall East Asian region where over the same period the prices went up by 35% to USD 565/t on HRC and by 46% to USD 715/t on CRC. This dynamics attracts Russian producers switching theirs sales to the Asian market.

In Russia, we expect, economy would reach its bottom in the mid of 2H09 and then we will see its gradual bounce back within the next two years. This increase would come along with the improvement of the domestic steel prices which we expect in 2010: hot rolled steel, the main benchmark, will go up by 20% y-o-y to USD 477/t; cold rolled steel will go up by 13% y-o-y to USD 592/t; and rebar will stood at USD 467/t, or up by 14%. What could undermine the steel prices is overcapacity all around the world - steelmakers might spill over new production volumes on the market, leading to downward pressure on prices.

Today, less integrated companies turned out to be in a better shape and players, as MMK, benefit from low prices on the relevant raw material markets. The main reason behind this is that buyers now have wider choices in terms of prices than they had a year ago. This new framework, we expect, will exist till the end of 1Q10 when the prices might begin their climbing, thus, improving the sentiment for vertically integrated steelmakers. However, the increasing steel prices and product mixes will allow MMK to maintain its profitability in 2010 and after, competing against players with different business models.

In 2009, we expect, MMK will make 8.7 mn. tonnes of finished products (20% y-o-y down) with the subsequent production bounce back to 10 mn tonnes in 2010. This output translates to the revenue of USD 4.7 bn. and USD 6.8 bn. (up by 41% y-o-y) in 2009 and 2010, respectively. The focus on more value-added products remains the cornerstone of MMK strategy. It has recently launched Mill-5000 to produce 1.5 mn. tonnes pa of thick plate for large diameter pipes, machinery and boiler building etc. We expect this will boost revenue by USD 1 bn. in 2010.

The product mix as well as the regional sales pattern has been changed: decrease in the sales of semis coupled with boosting delivery to Middle East and Asia. The main reason behind this strategy is the thin Russian market on which MMK sold more than 60% of its output in pre-recession time. The results of 2Q09 showed the conspicuously different situation: MMK sold up to 45% of its products abroad with Asian dominance in this part of the revenue: 29% of export revenue falls on Asian markets vs. 7% in 2008.

MMK costs will expectedly increase by 19% y-o-y in 2010 to USD 4.4 bn. from USD 3.7 bn. in 2009. This derives from our expectations of the coking coal 23% y-o-y growth to USD 82/t in 2010 and 10% y-o-y increase in iron to USD 63/t (resulting in growth of sinter and pellets as well) in 2010. Under this scenario, MMK will be able to keep its 2010E EBITDA margin at 28%, improving it from 2009E's 18%. MMK has changed its Capex: some projects have been either frozen (such as the Ohio plant, US) or postponed (such as Atakash). In 2009 the company plans to invest about USD 1.2 bn., while in 2010 we put a preliminary figure of USD 600 mn. because none of the capex projects has been confirmed yet. Upon stabilization of the steel market, MMK will give more details about future capex cash injections.

We prefer MMK as the most attractive stock among Russian steel players: it now trades at 2010E EV/EBITDA of 4.5x, and 2010E P/E of 8.4x. Our valuation approach gives a TP of USD 10.94/GDR, implying a 16% upside to the current price of USD 9.4. On 2010E EV/EBITDA and P/E basis MMK now trades with 39% and 36% discounts, respectively, to emerging peers and with 61% and 46% discounts respectively to developed comparisons. What makes this company more attractive is that it also looks underestimated on the Russian steel universe: on 2010E EV/EBITDA it trades with a 32% discount and on P/E basis with a 33% discount.

Steel market: Global aspect and Russian corner

Global steel sentiment is improving but still is too fragile

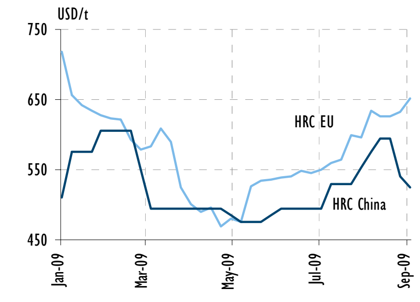
Bounce back in steel prices gives some relief to steel makers, but the whole situation is still shaky

It's supposed to be that for the steel universe the worst had been in the past. Based on the indicative steel prices on the different regional markets the bottom level was reached in 2Q09 and now the prices either stabilized or begin their gradual upward movement. However, it's too early to make final conclusions regarding the roots of this bounce. Over the first months of 2009 there was large-scale de-stocking on the market from steel traders trying to dump their inventories and pushing the prices deeply down. The uncertainties around the future demand, lack of borrowings and increased interest rates were the main causes of this slump. Still, today the situation looks different: shrunk inventories and seasonality maintain the prices on their current levels or even push them up.

Better benefits in China/Asia vs. other regions

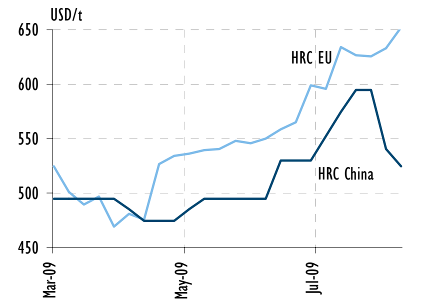
The apparent bounce back began in April on both European and Chinese markets, which are now the key ones for the Russian steel producers, including MMK. As it follows from the charts below, the decline on the Chinese market was less dramatic, but the prices there reached the same levels as in the end-of-March Europe. In April and later, the situation became improving and the growth in Europe was faster than in Asia: the prices have risen by 6% to USD 525 per tonne of HRC on the Chinese market and by 33% to USD 652 per tonne of HRC on the EU market.

Steel price dynamics Jan – Sep 2009



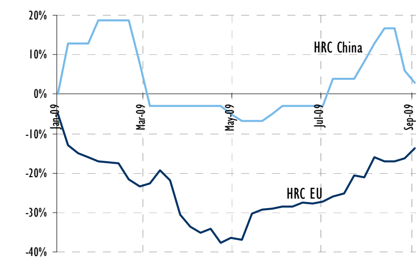
Source: SBBS, GPB estimates

Steel price dynamics Mar – Sep 2009



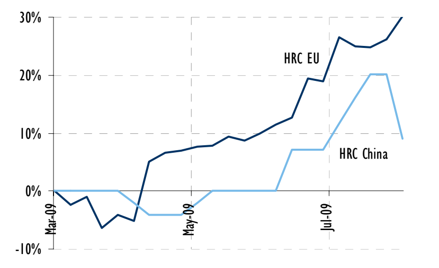
Source: SBBS, GPB estimates

Relative movement of steel price (Jan=0%)



Source: SBBS, GPB estimates

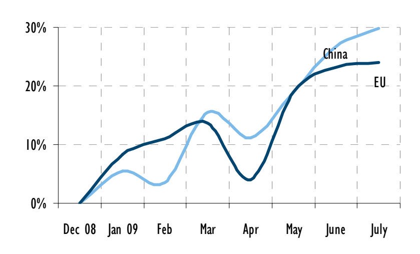
Relative movement of steel price (Mar=0%)



Source: SBBS, GPB estimates

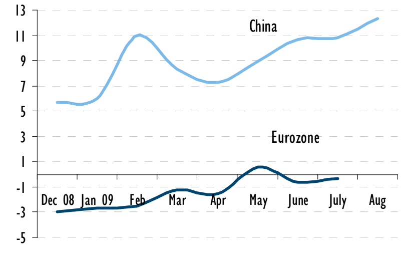
Based on the steel price performance since April, the EU pricing looks higher than that in China. Moreover, there was a premium of the EU steel price over the Chinese price all over the recent months starting from April. According to our estimates, the premium is about USD 35/t on average over the period. From our point of view, it wasn't crucial for Russian companies to pursue this premium trying to sell more steel products on the EU market than on the Chinese one. We think that the better demand in China and more favorable trading policy for international companies were those elements that attract the Russian steelmakers onto this market. The charts below show that the bounce back on the steel market in China was faster than in Europe. Moreover, industrial production growth on the annualized basis showed that Chinese economy was in a much better shape then those of Eurozone. This supports our idea that China has been more attractive for the Russian steelmakers.

Steel production change over 7M09 (Dec. 08=0%)



Source: Bloomberg, GPB estimates

Industrial production growth in China and Euro-zone, y-o-y, %



Source: Bloomberg

Metcoal and iron ore prices provide some support to steel prices

Another factor in favor of price flattening is the settlement between iron ore miners and Asian steelmakers, who have set the price on pellets and iron ore fines at USD 75/t (down by 48% y-o-y) and USD 62/t (down by 28% y-o-y), respectively. These benchmark prices make the cash cost base for steel makers more predictable and allowing to forecast better their financial flows. Moreover, it's likely (however, maybe early to finalize) that the iron ore fines price will go down by 15% in 2010, because the steel industry will be more self-sufficient in terms of iron ore delivery and which output will be well below the 2008 highs. If this trend goes live, then the iron ore prices for MMK will be even lower than today's levels.

China is the main driver of the steel demand in the world because of its apparent steel use decline by only 5% y-o-y in 2009 and…

All eyes now are on the Chinese market where the full year steel demand, according to World Steel Association, should dip by only 5% y-o-y while the total world's will expectedly get down by 15% y-o-y. The total Chinese consumption is dominant in the world with 39% share, which increased from 34% and 35% in 2007 and 2008, respectively.

Apparent Steel Use

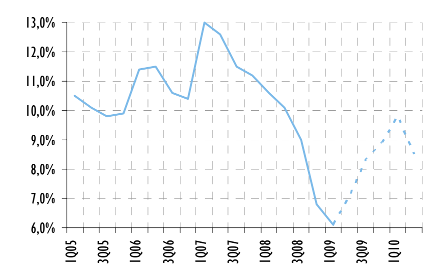
millon tonnes	2007	2008	y-o-y	2009E	y-o-y
EU (27)	198	182	-8%	129	-29%
Other Europe	32	29	-8%	22	-26%
CIS including	57	50	-12%	38	-23%
Russia	*40*	*35*	*-12%*	*28*	*-22%*
North America	141	130	-8%	88	-32%
USA	*108*	*98*	*-10%*	*62*	*-37%*
Central & Southern America	42	44	6%	38	-14%
Africa	25	26	4%	26	0%
Middle East	40	43	7%	40	-8%
Asia & Oceania	680	694	2%	637	-8%
China	*414*	*426*	*3%*	*404*	*-5%*
Total	1 215	1 198	-1%	1 019	-15%

Source: WSA

… while the economic growth will maintain steel consumption in 2009–2010

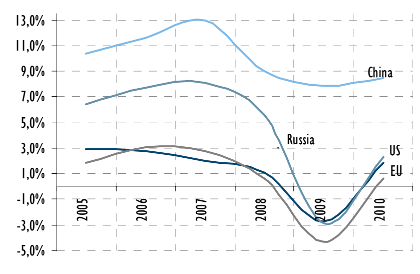
China will show 2009 GDP growth, reflecting the positive sentiment around the internal consumption, including steel. According to Chinese Statistical Bureau, the real GDP growth by 4Q09 might reach 9.5% y-o-y (on a quarterly basis), while other countries will show the positive Real GDP presumably only in the mid 2010.

China Real GDP Growth (quarterly)



Source: Bloomberg

Real GDP dynamics (yearly)

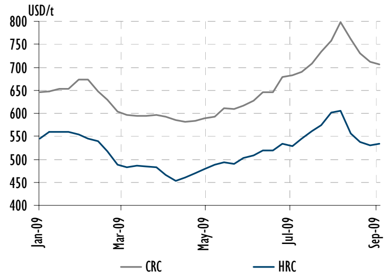


Source: Bloomberg

It's early to make any conclusions regarding the roots of these positive movements and their longevity, but almost all main types of steel across the Chinese market as well as the East Asia's show either stabilization or the slight growth. Specifically, since the beginning of May prices on the Chinese market have risen by 11% to USD 534/t on HRC and by 20% to USD 707 t on CRC.

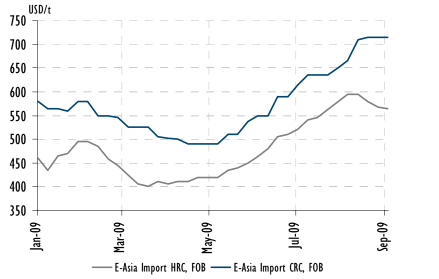
The overall situation on the East Asian market also looks promising for steelmakers: the price on HRC has increased by 35% to USD 565/t since the beginning of May, while the price on CRC has gone up by 46% to USD 715/t over the same period.

China's domestic prices, FOB



Source: SBBS

East Asia's Import



Source: SBBS

US stimulus plan will hopefully have its effect on the national steel demand as we see now in China

We do believe that the Chinese stimulus plan (USD 900 bn.) was one of the main factors supporting steel consumption in the country, making it possible to maintain the steel prices. We also don't exclude that the gradual increase of some types of steel products in US reflects cash injections made by the Obama's Stimulus plan (USD 787 bn.). At the same time, the outlook on car production as well as new constructions remains bleak at least by the end of 2009. It makes the observed positive movements on the production sites and prices rather unsteady. The uncertainties all around the globe will be the main factor depressing further strengthening of production volumes and steel prices.

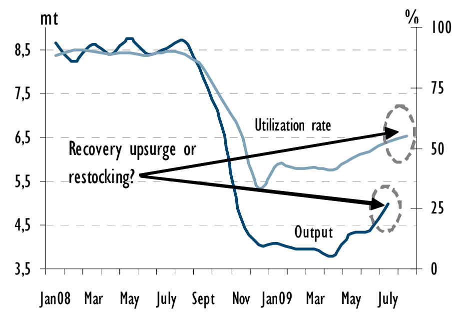
Overcapacity might be the main risk clipping the steel prices

Overcapacity is the main global risk now for further steel price growth

At the same time, the main risk now for steelmakers is overcapacity over the whole universe. Upon further improvement of the sentiment around steel prices, the steelmakers will begin to increase utilization rate of their capacities spilling over new steel volumes on the market, and, thus, constraining the upward price pacing. We already see that some Russian steelmakers (Evraz and Mechel) have been increasing the production of their facilities starting from the beginning of 2009.

Over the world the situation looks differently in terms of available capacities. In Russia the environment becomes better, however in other countries it's not promising. For example, in the US now the capacity utilization rate is below 50% over the last few months. Moreover, we don't expect any positive shifts given the economy slowdown and the negative trends now in home-building and car industry, one of the main steel consumers. At the same time, ongoing de-stocking on the regional market supports steel prices or even pushes them slightly up. We do believe that the Stimulus Plan money will flow into the market in 2H09 making it possible to create the fundamentals for demand recovery and move the prices up.

US crude steel output (mt) and capacity utilization rate (%)



Source: Bloomberg

According to Ternium, the leading Latin American steel producer, there will be 51 mt of overcapacity in US, 22 mt in Latin America, 116 mt in Europe, 68 mt in Japan, and, finally, 286 mt in China.

Russian steel universe: benefits from export, but competence in business models

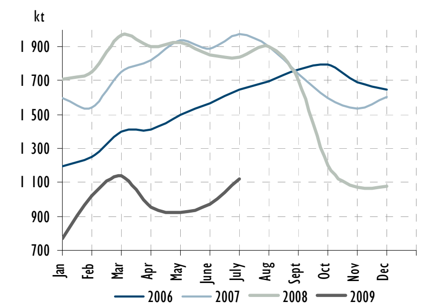
All Russian steel players noticed that the export market has become a crucial element in their today's strategy to go through the current trough in steel universe.

Because of the ruble depreciation (by more than 30% over the year), the Russian steel producers received the cost competitive advantage and switched the delivery of steel produced on the Russian subs from the Russian market to export ones.

Steel consumption in Russia has declined significantly since January 2009

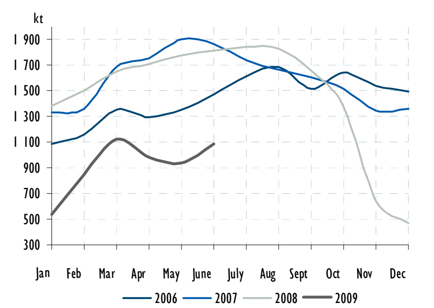
The global meltdown has significantly changed the economical landscape which now the steel companies have to work on. Specifically, the economic crisis in Russia made the domestic steel consumers either postpone or freeze various plans leading to the decline in steel demand. This negative consequence refers to both main segments of steel production: long and flat steel. According to information we have, over 7M2009 the consumption of long steel dropped by 47% y-o-y to 6.8 mt, while the consumption of flat steel tumbled by 44% to 6.5 mt.

Domestic consumption of long steel



Source: MetalExpert, GPB

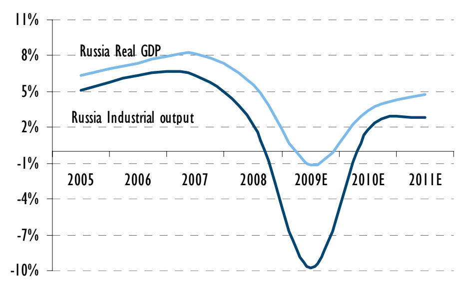
Domestic consumption of flat steel



Source: MetalExpert, GPB

Because of the negative GPD dynamics as well as industrial output starting from the end of 2008, today steel companies have to change their marketing policies to seek new customers on the international markets. According to our estimates, in 2009 the Russian economy will show a 6% y-o-y decline and will be recovering for the next two years. This should increase demand on steel products from various industries and, thus, support or drive up the steel prices on the domestic market.

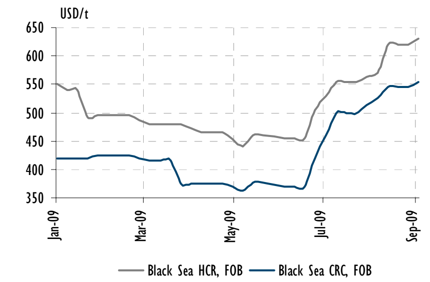
Comparative real GDP and industrial output dynamics



Source: GPB estimates

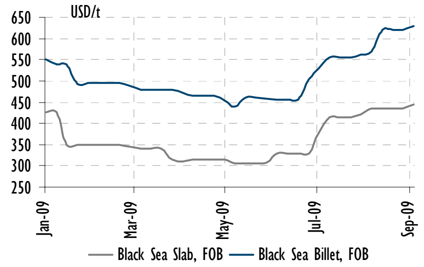
In our model we put the price forecasts on different steel products implying that the situation in the 2H 2009 will show some signs of relief on the domestic market, making it possible to maintain the steel prices and create the platform for further gradual growth. The recent statistics from the international steel markets show roots favorable for the Russian steel makers having exposure on the export. At least for now we can be sure that the third quarter financials will be stronger than the 1Q-2Q results at least on the above of/at EBITDA level.

Flat Steel Export Price Dynamics



Source: Steel Business Briefing

Semis Export Price dynamics



Source: Steel Business Briefing

Our base case scenario for steel prices: impressive growth in 2010 and its moderate sequel in 2011

Our base-case scenario envisages the slight price upward movement throughout the rest months of 2009 and then more intensive rise in 2010, when not only the Russian economy, but also the global one begins recovery across the board. At the same time there are a lot of uncertainties on the global markets regarding the future demand, which is the essential element of the next year's rehabilitation of the steel industry. It might turn out that our expectations are too bullish and will lead us to considerably change our price expectations. However, we do believe that the steel prices at least have already reached their lows in 2Q2009 and now they look rather upward. The main risk for the steel prices both domestic and international is overcapacity, which might slow them down in 2009-2010.

USD/t	2008	2009E	2010E	2011E
Semis				
Slab, export	734	367	422	443
change, y-o-y		*-50%*	*15%*	*5%*
Billet	759	397	417	438
change, y-o-y		*-48%*	*5%*	*5%*
Long steel				
Rebar, export	862	431	474	512
change, y-o-y		*-50%*	*10%*	*8%*
Rebar, domestic	773	410	467	519
change, y-o-y		*-47%*	*14%*	*11%*
Flat steel				
Hot rolled coil, export	787	457	532	543
change, y-o-y		*-42%*	*16%*	*2%*
Hot rolled coil, domestic	826	397	477	498
change, y-o-y		*-52%*	*20%*	*4%*
Cold rolled coil, export	884	542	612	628
change, y-o-y		*-39%*	*13%*	*3%*
Cold rolled coil, domestic	819	512	592	613
change, y-o-y		*-37%*	*16%*	*4%*

Source: GPB estimates

The overall situation for the Russian steel players doesn't look good in 2009 not only because of the poor demand, but also because of the financial condition formed by the end of 2008 and which will have its negative influence throughout 2009-2010.

Export markets become the main source of cash for the Russian makers

To receive somehow the financial relief all Russian steel players have changed their marketing strategies seeking opportunities on new markets where it's possible to take advantage of low cost base and higher steel prices than those on the domestic market. Because of the ruble depreciation, the Russian steel producers received some cost competitive advantages making it possible to benefit more from the export markets (mostly Asian) with their better demand and higher steel prices.

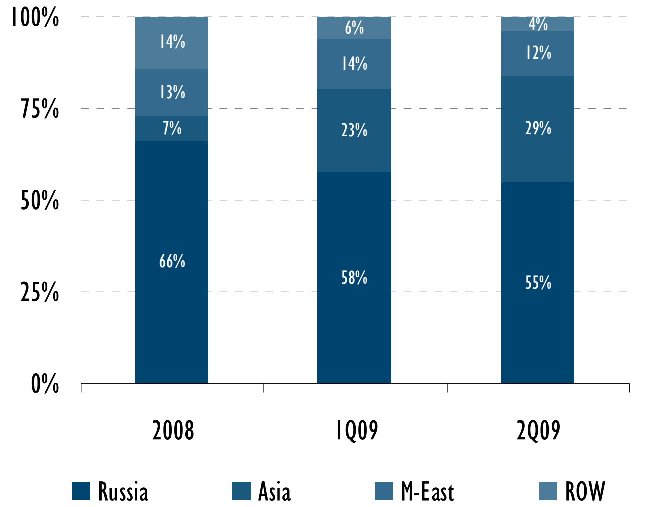
As a clear example of this effectiveness, we considered the price on slab as a benchmark showing the deferential between cost per tonne of slab and the export price of slab. We found out that the Russian average cash cost per tonne of slab production is about USD 214/t in the mid 2009, while the price of slab on the Chinese market in 2Q09 was about USD 450. Given the delivery cost of USD 70-100/t of slab and freight fee of USD 8-11/t, the final cash costs would be at USD 272-284/t, meaning that the a Russian player may make from USD 166 to USD 178 per ton of slab. The table below summaries these calculations:

Reference example	
Average cash cost, USD/t	214
Delivery cost, USD/t	70-100
Freight cost, USD/t	9-11
Final delivery price, USD/t	293-325
Current price on the Chinese market, USD/t	450
Profit of Russian steel players, USD/t	125-157

Source: MetalExpert, Bloomberg, GPB estimates

We have recently talked to MMK which confirmed that its mid year cash cost per ton is about USD 205, one of the lowest on the Russian market and 5% below the average Russian value of USD 217/t. It means that in 2Q09 MMK hypothetically could make up to USD 125-157/t given the shipment and freight costs showed above. However, MMK has intentionally tried to switch from low-value added products to more expensive and, consequently, more profitable ones. As a result of this strategy the company decreased to minimum production of slabs in 1Q-2Q 09 and boosted the output of HRC and CRC steel. Moreover, because of the Russian thin market, MMK has considerably increased its export sales over 1-2Qs of 2009. The chart below features regional breakdown of steel delivery throughout 2008 and over the first two quarters of 2009. It's clear that the Asian course prevails now in the company's export shipment: it jumped from 7% in 2008 to 23-29% in 2009.

Export: regional breakdown



Source: MMK

The main financial risk now comes from the debt burden of some Russian steel players.

From this point of view we prefer MMK which is in the best financial shape: by the end of 2Q09 its total debt stood at 1.6 bn. and net debt was at USD 865 mn. Moreover, in the mid of July the company repaid USD 174 mn. and MMK plans to repay loans (USD 722 mn.) from Sberbank and VTB ahead of schedule, leading to the decrease of total debt at least by USD 896 mn. to USD 762 mn. If this scenario is put in practice, MMK will be the company with the minimum total debt position among other Russian steel plants. There are no doubts that MMK will meet compulsory payments under the remaining part of the debt even if the situation with steel prices gets worse.

2009 is not good for all Russian makers, but…

Below we present the table with total debt and net debt position by the end of 1Q09, supporting our thesis that MMK now looks better compare with other Russian steelmakers.

USD mn	Severstal	NLMK	Evraz	Mechel	MMK
	FY09E	FY09E	FY09E	FY09E	FY09E
Net Debt	4 327	1137	7483	4866	613
EBITDA	450	1294	1582	807	871
Net Debt/EBITDA	9.6	0.9	4.7	6.0	0.70

FY09E - estimates. Source: Bloomberg, GPB

…MMK is in the best financial shape vs. other Russian players

We would also underline that MMK's business model in term of debt policy in 2008 and 1H09 helped the company to go through the trouble waters of the current period. Given the company's recently redeemed part of debt and rising steel prices since the mid of 2Q09, undoubtedly MMK won't have any debt problems within the next few quarters.

Valuation

Weighted average approach gives us the final 12M TP of 10.94 per GDR

For valuation of MMK we used DCF modeling and multiples valuation approach (a P/E and EV/EBITDA basis). We assigned a 50% weighting to the DCF price and a 25% to each of multiple methods, leading the final price of USD 10.94/GDR and implying a 16% upside based on the current price of USD 9.4/GDR.

Based on our DCF approach, the company's 12M TP is USD 11.28/GDR, implying an upside of 19% given the current price of USD 9.38. We calculated WACC at 12.1% reflecting 13% cost of debt and 12.5% cost of equity. In our model we also assume 2% terminal growth rate.

Our DCF approach gives 12M TP of USD 11.28 per GDR

DCF valuation

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	Terminal FCF
EBITDA	871	1 921	1 964	1 886	1 956	2 125	2 057	
Income tax	(21)	(243)	(266)	(255)	(269)	(307)	(290)	
Capex	(1 220)	(600)	(630)	(640)	(650)	(670)	(700)	
WC change	371	(165)	(42)	(27)	(21)	(21)	(6)	
FCF	2	913	1 026	964	1 016	1 127	1 061	1 061
Year of discounting	0.3	1.3	2.3	3.3	4.3	5.3	6.3	
PV of FCF	1.5	784	786	659	620	613	515	

WACC	12.1%	PV of FCF, USD mn	3 980
Risk Free Rate	6.5%	Perpertual growth	2,0%
Market risk premium	5.0%	TV, USD mn	4 560
Equity risk premium	1.0%	PV of TV, USD mn	8 379
Beta	1.0	Net Debt, USD mn	613
Cost of equity	12.5%	Minorities, US mn	(0.57)
Cost of debt	13.0%	Share of Belon(46%)&Fortescue(5%), $ mn.	852
Tax rate	20%	Equity value, USD mn	8 619
Cost of debt lever'd	10.4%	Fair value, USD mn	10.03
Debt	20%	Target price, USD	11.28
Equity	80%	Current price, USD	9.38
Number of GDR, mn	860	Upside	19%

Source: GPB

We also used the multiple approach to derive our 12M TP, applying an implied target EV/EBITDA and P/E. Although the latter is pretty volatile now because of the non-operating adjustments, we used it as a valuation metric in spite of the unsteadiness of this ratio in 2009. It's worth noticing that if 2010 is the first year of recovery in steel industry and, as it is expected, financials of steel companies will be less volatile making multiples more representative for comparison analysis.

To receive the target multiples we have tracked back the performance of steel prices over the last industrial cycle (starting from 2002) and found EV/EBITDAs and P/Es attributable to the phases of the cyclical movement within each year.

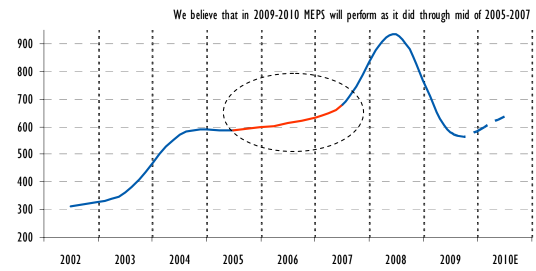
Since there is a wide range of steel products which could be used as benchmarks, we have applied an aggregated index reflecting the basket of various types of carbon steel. For this purpose we have chosen the index provided by MEPS International Ltd, a well-known London-based think-tank monitoring the steel markets with a unique insight into consumption and production trends globally.

The following chart represents the performance of the index over the past few years. In our further analysis we assumed that the index will show at least 10% y-o-y upward movement in 2010 given the consensus about the end of the recession and improvement of steel consumption worldwide, propelling the steel prices. We conservatively expect the average volume of the index in 2009 at about 580 pts. It means that in 2010 MEPS Index should reach the level of 638 pts., taking into account the assumed 10% y-o-y growth.

Fair multiples are based on the performance of MEPS index and historical P/E and EV/EBITDA ratios of companies on emerging and developed markets

Based on the performance presented on the chart (the dashed segment of the blue curve), we concluded that the 2010 movement of the index will correspond with that of falling between the mid 2005 and mid 2007 (the red segment). In other words, the value of the index in 2010 will be the same as it was in 2005-2007. Numerically, in 2007-2007 the index value was in the range of 600-650, meaning that in 2010 its average value should be fluctuating in this range (taking into account our expectations of 10% growth of index).

MEPS Index Performance



Source: MEPS, GPB estimates

Next, we have retrieved EV/EBITDA and P/E multiples of the steel companies having been listed in our peer group table (see the list in the Appendix #4). We considered the period from 2005 to 2007 because it reflects the performance of the index in 2010. As a result, we found that the average multiples for the three years were as follows:

Average Valuation Multiples vs. MEPS Index

	2005	2006	2007	Average
		Developed Markets		
P/E	8.8	10.9	11.7	10.5
EV/EBITDA	5.2	6.9	7.7	6.6
		Emerging Markets		
P/E	4.4	8.5	11.5	8.1
EV/EBITDA	4.1	5.5	8.0	5.9
MEPS Index	585	615	679	626

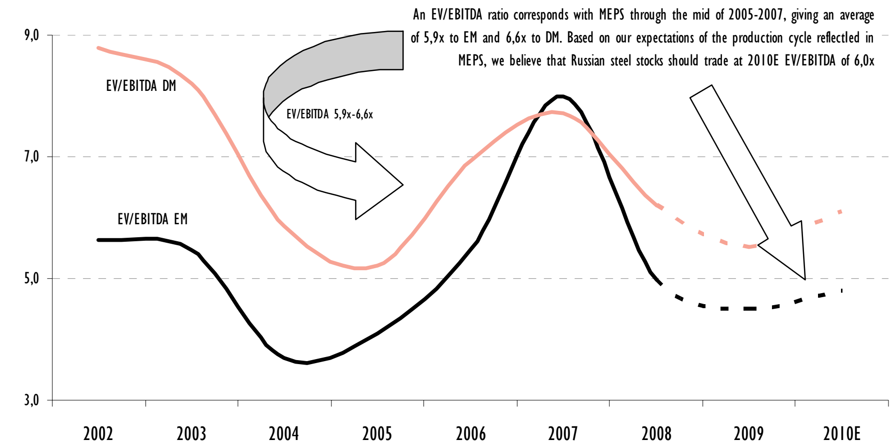
Source: Bloomberg, GPB estimates

The fair EV/EBITDA for DMs is 6.6x and 5.9x for EMs

We also calculated the mean of the MEPS Index which is 626 over the same period. It's clear from the above chart that in 2010 the value of the index will also be close to 626 (given our assumption of 15% growth of the index). It means that the valuation multiples of the steel companies should reflect this rise of the industrial trend in 2010 (the trend is embodied in the index) and should be the same as they were during the mid 2005 – mid 2007.

MMK's TP is USD 12.07/GDR based on the fair EV/EBITDA of 5.9x

The next chart represents historical performance of EV/EBITDA multiples for the companies of developed and emerging markets (DM and EM, respectively). Based on the data reflected on the chart we calculated that in 2005-2007 the average EV/EBITDA was at 6.6x for DM companies (the black curve) and 5.9x for EM companies (the red curve). Since in 2010 the industrial cycle (MEPS index) will expectedly replicate that of 2005-2007's, the fair value of the steel companies should be reflected in the same multiples as they were in 2005-2007. Consequently, the fair EV/EBITDA for DM steel players stands at an average of 6.6x and for EM steel players stands at an average of 5.9x. Since the Russian steel universe refers to emerging markets, we conclude that the Russian steel sector should have the fair EV/EBITDA of 5.9x in 2010. Given the MMK's projected EBITDA of USD 1921 mn. in 2010 and the fair EV/EBITDA of 5.9x, we derived the TP of USD 12.07/GDR.

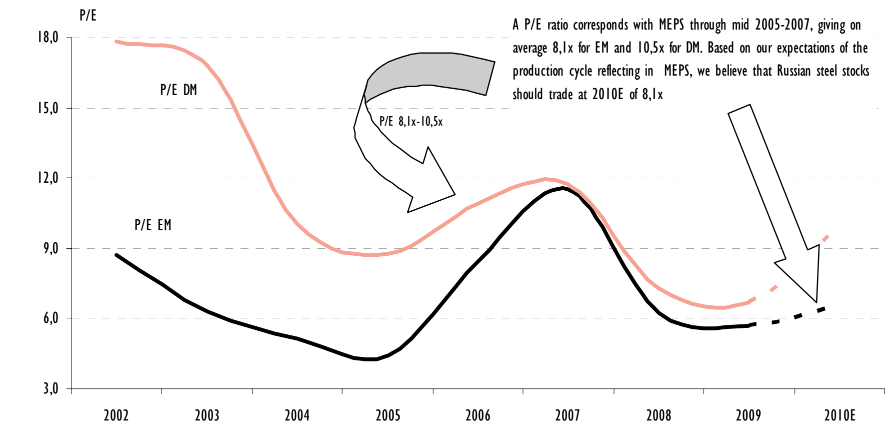


Source: Bloomberg, GPB

To find the fair multiple of P/E in 2010 for the companies of DM and EM, we also applied the same approach as we did with the fair EV/EBTIDA. The following chart describes the logic behind the valuation of MMK on the P/E multiple basis.

MMK's TP is USD 9.11/GDR based on the fair P/E of 8.1x

Based on our calculation we found that in 2010 the emerging market companies should trade at the fair P/E of 8.1x. We applied this multiple to Russian steel companies. Given our expectations of MMK's net income of USD 967 mn. in 2010 and the fair P/E multiple of 8.1x, we derived TP of USD 9.11/GDR for MMK.



Source: Bloomberg, GPB

The table below summaries all steps taken to calculate the TPs on the basis of an EV/EBITDA multiple and P/E multiple.

Multiple valuation

	2010	2010
Target EV/EBITDA	5.9	
Target P/E		8.1
EBITDA, USD mn	1 921	
Net Income, USD mn		967
Target EV, USD mn	11 335	
Net Debt at 30.06.09, USD mn	964	
Minority, USD mn	-7	
Target Mcap, USD mn	10 378	7 832
Number of GRDs mn	860	860
Target price, USD/GDR	12.07	9.11

The weighted 12M TP is 10.94/GDR

Finally, we gathered the results of the three approaches, used in calculation of TPs, to derive the weighted average we assigned a 50% weighting to it in our final valuation and a 25% weighting to each of the multiple valuations. As the result, our final TP stands at 10.94, implying the 16% upside to the current stock price of USD 9.38/GDR.

The summary of the calculation of weighted average TP is presented in the following table.

Weighted average calculation of TP

	TP	Weight
Based on DCF	11.28	50%
Based on an target EV/EBITDA ratio	12.07	25%
Based on a P/E ratio	9.11	25%
Weighted average TP	**10.94**	

The relative valuation table shows that MMK is undervalued now by the market given our expectations on the company's financials in 2009 and 2010. Based on our financial forecasts, MMK stands at 2010E P/E of 8.4x and EV/EBITDA of 4.5x, which now looks fairly cheap against the peer group on the developed and emerging markets. On a 2010E EV/EBITDA ratio, MMK now trades with a 39% discount to EM companies and a 61% to DM. On a P/E ratio, the company trades with a 38% discount to EM and a 46% to DM.

MMK is attractive on the multiple valuation basis

Peer group table

	EV/EBITDA			P/E		
	2008	2009e	2010e	2008	2009e	2010e
GEM	5.8	11.4	7.4	12.4	24.0	13.5
GDM	4.9	14.5	11.6	7.8	31.4	27.3
Russia						
Severstal	2.2	17.9	5.5	2.4	neg.	14.0
NLMK	3.3	12.9	7.9	4.1	42.0	13.8
MMK	4.1	10.0	4.5	7.6	n/m	8.4
Mechel	3.0	12.2	8.2	2.5	neg.	11.6
Average	**3.1**	**12.7**	**6.6**	**3.7**	**42.0**	**12.6**
MMK/EM	**-30%**	**-12%**	**-39%**	**-39%**	**n/m**	**-38%**
MMKDM	**-16%**	**-31%**	**-61%**	**-3%**	**n/m**	**-46%**
MMK/Russia	**32%**	**-21%**	**-32%**	**105%**	**n/m**	**-33%**

Source: Bloomberg, GPB

Revenue product mix and delivery markets

The frail situation in Russia forced all steel players to keep close eye on European and Asian markets. In the past MMK was a leading Russian company having the biggest exposure on the domestic market. It sold there up to 60% of its finished products.

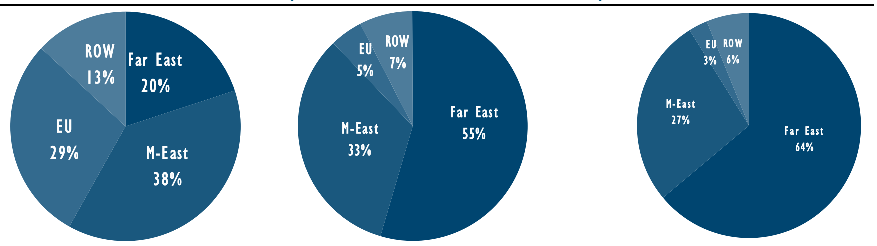
Asian orientation now prevails in company's export

Today the picture is different. In 1H2009 the company had to sell up to 50% of its decreased production abroad. The vast majority of the sold volume fell on Middle East and Asia. The export breakdown has drastically changed: sales in Europe have shrunk from 29% in 2008 to 3% 2Q09, while Far East delivery increased to 64% in 2Q2009 vs. last year's share of 20%.

The main reason behind these changes is the rising demand on Asian and Middle Eastern markets, pushing up the steel prices over there.

Export Breakdown

FY08 1Q09 2Q09



Source: MMK Source: MMK Source: MMK

It's highly likely that the situation will remain the same throughout the rest part of the year unless the Russian market begins thawing. Until now the macro statistics hasn't sounded promising for the steel producer. We think that some signs of revival will appear rather in 4Q09, allowing to look at domestic steel prices more optimistically.

MMK's product mix has also been changed to meet new harsh environment. Although the production volume has suffered over the last few months, especially in 4Q 2008, the steel company switched its focus onto value-added products. It's resulted in MMK almost completely cutting production of slabs and boosting output of hot rolled steel in 1Q2009.

Product mix focus is on more expensive types

MMK's Production Dynamics

	1Q2008	2Q2008	3Q2008	4Q2008	1Q2009	2Q2009
Steel products output, mn t, incl.:	3 287	3 147	2 935	1 542	1 917	1 919
Q-o-Q, %		*-4%*	*-7%*	*-47%*	*24%*	*0%*
Slabs and billets, mt	431	248	170	104	0,2	0,2
Q-o-Q, %		*-42%*	*-31%*	*-39%*	*-100%*	*-15%*
Long products, mt	485	451	453	187	256	261
Q-o-Q, %		*-7%*	*0%*	*-59%*	*37%*	*2%*
Flat hot-rolled products, mt	1612	1651	1573	837	1260	1090
Q-o-Q, %		*2%*	*-5%*	*-47%*	*51%*	*-13%*
Flat cold-rolled products, mt	411	436	340	161	188	278
Q-o-Q, %		*6%*	*-22%*	*-53%*	*17%*	*48%*
Downstream products, mt	349	361	399	252	213	290
Q-o-Q, %		*3%*	*11%*	*-37%*	*-15%*	*36%*

Source: MMK

We view a 18% y-o-y growth of salable products in 2010 for MMK

In our model we used company's preliminary estimates of full year production. It's expected that throughout 2009 MMK will make 8.6 m tonnes of finished products which is 20% below the last year's result. It corresponds to the production of 9.3 mn. tonnes of crude steel. We keep the view that in at the end of 2009 the Russian economy will begin its recovery which will be reflected particularly in the growth of steel consumption. We assume that in 2010 MMK will increase its production of rolled steel by 18% y-o-y to 10.3 m. tonnes, leading to the growth of revenue by 43% y-o-y from USD 4.7 bn. in 2009 to USD 6.8 bn. in 2010. Our total production figures also include the production volume on the Mill-5000 launched in July 2009. Our model envisages the gradual growth here: 200 kt in 2009 and at least 1 mt in 2010, while the total installed capacity is 1.2 mt. We conservatively assume that MMK will reach a 97% utilization rate of the Mill in 2014, although the demand on large diameter pipes (LDP) may show faster upward dynamic. Based on the production figures, we think that in 2010 this new project will add at least USD 1 bn. or about 15% of the total revenue over the period.

Steel Production Forecast

million tonnes	2007	2008	2009E	2010E
Commercial products, including:	12 203	10 911	8 720	10 269
change, y-o-y, %		*-11%*	*-20%*	*18%*
Slabs	976	952	800	600
change, y-o-y, %		*-2%*	*-16%*	*-25%*
Long products	1 788	1 577	1 161	1 277
change, y-o-y, %		*-12%*	*-26%*	*10%*
Hot rolled	6 391	5 661	4 737	5 069
change, y-o-y, %		*-11%*	*-16%*	*7%*
Cold rolled	1 563	1 362	852	980
change, y-o-y, %		*-13%*	*-37%*	*15%*
Plate on new Mill 5000			200	1 200
change, y-o-y, %				*500%*
Downstream products	1 483	1 359	970	1 143
		-8%	*-29%*	*18%*

Source: Company data, GPB estimates

Costs: the key to survive in 2009

Opposite to the over-than-5-year trend of pursuit deep vertical integration, MMK stayed aside from the mainstream hysteria of purchasing mining assets to secure its business from price volatility or guarantee required volume of coking coal and iron ore. It turns out that today MMK is most agile steel maker in Russia without heavy burden of raw material assets.

Low prices on coking coal and iron ore give additional competitive advantage to MMK in 2009

Because of the dramatically declined steel prices on the global market, the prices on iron ore and met coal were subject to this impressive decrease. MMK purchases coking coal on average for USD 50–55/t now. The last year's struggle with coal companies seems already in the past, but today's situation doesn't give enough leeway to pass costs on the steel prices as it was a year ago. All steel plants have to rummage more and more places where they could cut costs and keep them under strict control. Because of the various factors, MMK today is one of the most efficient producers of slabs in terms of cash costs. According to the company, in the mid of 2009 its cash cost per tonne of slab stood at USD 205/t, which is one of the lowest among other Russian steelmakers (we consider here only the domestic facilities of them).

Cash Cost per tonne of Slab

	Mid 2009, USD/t
MMK	205
NLMK	200
Severstal	230
Evraz	220
Average	214

Source: companies data, GPB

There is rather a legal issue for MMK regarding purchasing coking coal from Mechel with which the steelmaker reached a 5 year mutual agreement last August. Under its terms, MMK has to buy certain volume of coal on prices based on the Australian benchmarks. It turns out that now these prices are higher than those on Russia's spot market. Both companies are in the middle of the civil trial now. We have talked with both MMK and Mechel recently about the prospects of this case, but there is no clear answer at the moment. What is obvious is that the final judgment will not be made in a few months. If the judge opinion benefits Mechel, then it might undermine MMK cost position slightly depressing the margins. However, it's not for sure, because it might be more favorable for MMK to pay fines if it is still more profitable to buy coking coal not from Mechel. Another aspect here is that MMK has to have coking coal blend with certain quality to charge its blast furnace to meet the technological requirements. All in all, there might be a tree of various final outcomes which we now avoid to predict. Meanwhile, both companies do their businesses without each other.

Although the terms of the contract between the two companies are not disclosed, we made rough estimate of the base from which MMK might have to pay fines in favor of Mechel. According to public information, the 5-year contract signed by these companies in August 2008 is based on the benchmark coking coal prices between the Australian coking coal miners (BHP/RIO) and the large Asian consumers (Japan, Korean and Chinese steel companies). The final price for MMK should account for the 20-35% discount to the benchmark price.

In 2009 the benchmark price for coking coal is set at USD 128/t, meaning that for MMK it is in the range of USD 83-102/t. However, the steelmaker has opportunities to buy coking coal domestically on average at USD 65/t. This is the clear explanation why MMK would like to postpone the imposition of the contract terms.

The legal issue between MMK and Mechel regarding the coal contracts is a risk for the former, but….

Back to the data for the previous years, we assumed that MMK has to buy about 20% of its total requirements of coking coal from Mechel. According to our calculations, it takes about 840 kt of coking coal in 2010 given our projected production figures. This, consequently, translates to USD 70–86 mn. of what MMK would have to spend on purchasing coking coal from Mechel. This is the base from which, as we think, MMK might have to pay fines in case it loses this civil trial. Apparently, if the part of this amount should be paid as a fine, MMK's consolidated financials wouldn't be hurt considerably because of

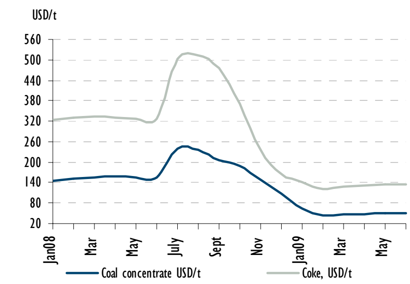
... the damage is unlikely to hurt MMK's financials considerably

the size of the contract itself. In other words, if the fine is conservatively 10% of the total amount of the contract, then MMK will have to pay from USD 7.0 to 8.6 mn., which is less than 0.5% of the company's revenue in 2009.

No downside risk for iron ore price now

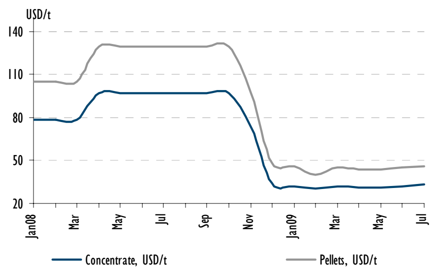
A downside risk of price correction on iron ore is limited now. The company purchases iron ore from ENCR on prices pegging to the benchmarks between global mining majors (BHP, Vale, Rio) and Japanese, Korean and Chinese steel players. In May the agreement between Rio and Posco, Nippon and JEF was reached: the price of USD 70/t for lump iron ore is 33% down of the benchmark in 2008.

Coal concentrate and coke price dynamics, Russia



Source: MetalExpert

Iron ore concentrate and pellets price dynamics, Russia



Source: MetalExpert

In our model we tested some scenarios under which the price on coking coal and iron ore would range from from -20% to +20%. We chose only these two components because they are crucial to the cost base and might bring the biggest downside risks for MMK. The results of the test are presented in the table below. Based on our model, MMK's EBITDA is more vulnerable to iron ore price fluctuation than to that of coking coal.

EBITDA sensitivity to coking coal price

Scenario	Best	Good	BASE	Worse	Worst
Coking coal price price change, %	-20%	-10%	0%	10%	20%
Coking coal price, USD/t	52	56	67	74	80
EBITDA USD mn	950	926	871	837	802
EBITDA change, %	9%	6%	0%	-4%	-8%
EBITDA margin	20%	19%	18%	17%	17%

Source: GPB

MMK is more sensitive to iron ore price fluctuation

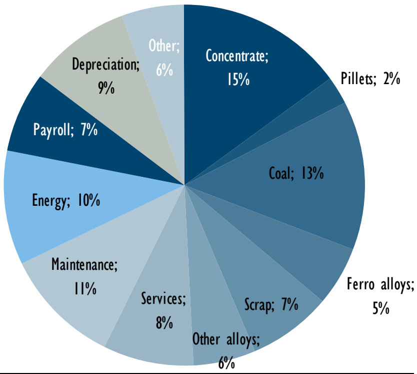
EBITDA sensitivity to iron ore price

Scenario	Best	Good	BASE	Worse	Worst
Iron ore price change, %	-20%	-10%	0%	10%	20%
Iron ore price, USD/t	46	51	57	63	68
EBITDA USD mn	1 111	991	871	751	631
EBITDA change, %	28%	14%	0%	-14%	-28%
EBITDA margin	23%	21%	18%	16%	13%

Source: GPB

Although our worst and worse hypotheses consider the price increase by 30%, we think that it's unlikely that till the end of 2009 we will see considerable upward price movements either for coal or iron ore. Moreover, MMK signs 12 month contracts effectively starting either from 1st of March or April, which guarantees volume delivery and almost no price adjustments.

COGS Breakdown



Source: MMK

Capex: time to think about post-crisis?

MMK's ambitious capex program was cut and some projects were freezed or postponed

MMK had to make changes in its capex program at the end of 2008. In the pre-crisis period the company planned to invest about USD 1.8 bln. in 2009, but because of mayhem on the markets, the final amount was approved at USD 1.2 bln. to finish already launched projects, the main of which was the Mill 5000. For now the company hasn't confirmed that it would fully carry out its previously approved massive investment program targeting at further widening of product mix and increasing production of crude steel to 16.1 mn. t pa and of finished products to 15.0 mn. t pa by 2013. We think that within the next 2–3 years MMK will try to fulfill only some parts of that program unless the steel market recovers to healthier conditions. In our model we keep the conservative scenario under which the company will spend minimum funds to end the already launched investment projects and maintain facilities. At the same time, the situation will be become clearer for the company and, consequently, for investors upon the market will be less depressive and volatile.

5000 Plate Mill is the main capex priority

For 2009 there is only one priority – tailoring of 5000 Plate Mill for production of thick plates for pipe industry, engineering, boiling building and bridge construction. The installed capacity of the mill is going to be at 1.5 mn. tonnes. The plate complex also envisages installation of continuing casting machine to make specific size slabs for further processing on the mill.

The plate project falls completely in the company's strategy, the key element of which is diversification through production of more value added products. Upon launching the mill, MMK is becoming the leading maker of the thick plate on the Russian market. Below we put the table with some of the dimensional characteristics of the plate produced on the MMK and Severstal facilities. The latter also produces thick plates, but with a bit different size.

LDP plate metrics

	MMK	Severstal
Length, m	24	18
Width, m	1.6 – 4.8	1.8 – 4.6
Thickness, mm	8 – 50	10 – 50

Secured consumption market of plates: TMK, OMK and ChTPZ are ready to buy

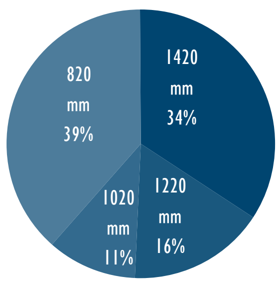
As we mentioned above, the thick plate is used for production of Large Diameter Pipes (LDP), which are one of the most expensive steel products on the market. LDPs have diameters of 1220 or 1420 mm. Today two of the Russian pipe companies (TMK and OMK) already have facilities to roll LDPs from thick plates. The third one, Chelyabinks pipe plant (ChTPZ), is on the way to install required facilities by the mid of 2010. Since this plant is located 500-700 km far from Magnitogorsk, it's logical that MMK will be the main deliverer of the plate to the plant. It is expected that the installed capacity on ChTPZ will be 600k tonne pa. MMK will definitely sell plates to OMK and TMK, but because of the logistics costs the sale volume to those companies might be lower than to ChTPZ. In the table below there are some main gas and oil pipeline projects where LDPs are/will be used.

New pipeline projects of Gazprom and Transneft is the base for the future plate consumption

Projects	Operator	km
Short-/mid-term projects		
Nord stream (terrestrial part)	Gazprom	2x917
Bovanenkovo-Ukhta	Gazprom	2x1100
Shtokman project	Gazprom	1357
Sakhalin-Khabarovsk-Vladivostok	Gazprom	2035
South stream	Gazprom	900
Altai	Gazprom	2417
East Siberia-Pacific (second phase)	Transneft	2100
Baltic pipeline-2	Transneft	1032
Kharyaga-Indiga	Transneft	430
Kenkiyak-Kumkol (Kazakhstan)	KKT	750
Middle Asia-Central Russia	Gazprom	500
Long-term projects		
Nord stream (marine part)	Gazprom	1216
Yamal-Ukhta-Torzhok	Gazprom	2600
Shtokman project (marine part)	Gazprom	580
Yakutia-Khabarovsk-Vladivostok	Gazprom	600
Caspian gas pipeline	Stroytransgaz	750

It's also worth mentioning that LDPs are used not only for building new projects but also for maintaining the ongoing ones. Here we expect the additional demand on the thick plates. Given the breakdown of Gazprom's pipeline type, 34% of its total pipelines falls on 1420 mm LDPs.

LDPs consumption breakdown



Source: Gazprom

By the mid of 2010 MMK plans to fully utilize the Mill

According to our estimates and given today's average price per tonne of plate of USD 795/t, MMK's revenue will be boosted at least by USD 1 bn. at 80% utilization rate of the mill. During the last conference call MMK management said that it was going to reach 1,5 mn. t of plate production in 2009. In our model, however, there are more moderate figures because we think that the demand for on this product will be lower in 2009-2010 than what the company expects. The second reason is that ChTPZ's facilities for production of LDP will be launched in the mid of 2010 at best. We consider this site as one of the main sources of thick plate consumption. Unless these facilities commence, MMK production will be lagging behind of announced plans.

Atokash project is on the waiting list…

Because of the weak market and unclear prospects MMK has to postpone intensive development of two other investment projects, namely Turkish Atokash and production site in Ohio. In Turkey MMK hasn't completely freezed its project to build rolling facilities to sell then rolled steel on the regional and Middle Eastern markets. At the moment, the company is working on construction of infrastructure segments such as the sea port to ease logistic issues and be prepared to more intensive use of it in the post-crisis period.

… as well as the rolled mill in the Ohio, US

With Ohio project the situation doesn't look promising. Today the plan to build facilities for production of cold rolled steel for automotive industry is suspended unless the situation, primarily on the local market, becomes clearer. Given the troublesome situation with US car giants and apparently weak demand and overcapacity, it's unlikely for MMK to resume consideration of this project. In any event, MMK haven't incurred any significant costs in US.

Appendix I

Income statement, USD mn	2005	2006	2007	2008	2009e	2010e	2011e
Revenue	**5 380**	**6 424**	**8 197**	**10 550**	**4 786**	**6 865**	**7 615**
COGS	(3 447)	(3 807)	(5 710)	(7 835)	(3 738)	(4 466)	(5 147)
Gross profit	1 933	2 617	2 487	2 715	1 048	2 398	2 468
SG&A	(499)	(700)	(1 003)	(1 163)	(766)	(1 098)	(1 142)
Other expenses	(111)	(152)	(31)	(378)	0	0	0
EBIT	1 323	1 765	1 453	1 174	282	1 300	1 326
DD&A	173	188	857	945	589	621	638
EBITDA	**1 496**	**1 953**	**2 310**	**2 119**	**871**	**1 921**	**1 964**
Finance income	97	69	133	92	25	91	145
Finance costs	(64)	(63)	(87)	(110)	(203)	(174)	(142)
FX gain	(39)	132	175	16	0	0	0
Other gains	0	(8)	(48)	(66)	0	0	0
Pre-tax income	1 317	1 895	1 626	1 106	104	1 217	1 329
Income tax	(372)	(468)	(320)	(25)	(21)	(243)	(266)
Minority	2	(1)	2	(6)	(1)	(7)	(7)
Net profit	947	1 426	1 308	1 075	83	967	1 056
EPS (GDR), USD	**1.102**	**1.659**	**1.522**	**1.251**	**0.097**	**1.125**	**1.228**

Margins							
Gross %	36%	41%	30%	26%	22%	35%	32%
EBIT, %	25%	27%	18%	11%	6%	19%	17%
EBITDA %	28%	30%	28%	20%	18%	28%	26%
Net profit %	18%	22%	16%	10%	2%	14%	14%

Growth							
Revenue		19%	28%	29%	-55%	43%	11%
EBIT		33%	-18%	-19%	-76%	360%	2%
EBITDA		31%	18%	-8%	-59%	121%	2%
EPS (GDR)		51%	-8%	-18%	-92%	11.5x	9%

Appendix 2

Balance sheet, USD mn	2005	2006	2007	2008	2009e	2010e	2011e
Cash&equivalents	1 151	891	2 078	1 244	825	1 450	2 380
Receivables	572	851	945	991	450	645	715
Invertories	568	688	963	996	475	568	654
Other current assets	38	50	287	397	397	397	397
Total current assets	2 329	2 480	4 273	3 628	2 146	3 059	4 146
Fixed assets	2 288	2 764	10 409	9 751	10 382	10 361	10 353
Other non-current	237	445	1 205	818	818	818	818
Total non-current assets	2 525	3 209	11 614	10 569	11 200	11 179	11 171
Total Assets	**4 854**	**5 689**	**15 887**	**14 197**	**13 347**	**14 238**	**15 317**
Short term debt	151	373	1 198	1 276	729	729	729
Payables	469	553	686	1 321	630	753	868
Other current liabilities	46	38	68	43	43	43	43
Total current liabilities	666	964	1 952	2 640	1 402	1 525	1 640
Long term debt	448	577	200	405	709	504	405
Other non-current liabilities	52	109	1 949	1 300	1 300	1 300	1 300
Total non-current liabilities	500	686	2 149	1 705	2 009	1 804	1 705
Total liabilities	1 166	1 650	4 101	4 345	3 411	3 329	3 345
Minority interest	11	12	152	189	190	196	203
Equity	3 677	4 027	11 634	9 663	9 746	10 713	11 769
Total liabilities and equities	**4 854**	**5 689**	**15 887**	**14 197**	**13 347**	**14 238**	**15 317**
Net Debt	**(552)**	**59**	**(680)**	**437**	**613**	**(217)**	**(1 246)**

Appendix 3

Cash flow statement, USD mn	2005	2006	2007	2008	2009e	2010e	2011e
Net Income	**947**	**1 426**	**1 308**	**1 075**	**83**	**967**	**1 056**
Minorities	(2)	1	(2)	6	1	7	7
DD&A	173	188	857	945	589	621	638
WC change	120	(553)	(722)	(269)	371	(165)	(42)
Other asset change	15	68	56	(584)	0	0	0
Net operating cash flow	**1 253**	**1 130**	**1 497**	**1 925**	**1 222**	**1 513**	**1 656**
Maintenance Capex	(562)	(697)	(1 240)	(2 112)	(1 220)	(600)	(630)
Other investments	230	(436)	(991)	1 133	0	0	0
Investing cash flow	**(332)**	**(1 133)**	**(2 231)**	**(979)**	**(1 195)**	**(509)**	**(485)**
Change in Debt	0	339	435	412	(243)	(205)	(99)
Dividend paid	(947)	(1 077)	(547)	(314)	0	0	0
Share issues /(purchanse)	0	0	977	0	0	0	0
Other (interest paid)	(59)	(41)	(53)	(36)	(203)	(174)	(142)
Financing cash flow	**(1 006)**	**(779)**	**812**	**62**	**(446)**	**(379)**	**(241)**
Forex effects	(2)	(18)	6	(158)	0	0	0
Net change in cash	**(85)**	**(800)**	**84**	**850**	**(419)**	**625**	**930**

Appendix 4

	EV/EBITDA			P/E		
	2008	2009e	2010e	2008	2009e	2010e
Emerging Markets						
Posco	5.2	9.4	6.6	10.4	17.4	11.3
Usiminas	5.4	11.5	6.4	10.6	24.4	11.8
China Steel	8.9	23.7	10.3	16.8	50.4	14.3
Gerdau SA	5.0	10.8	6.5	9.0	22.1	11.8
Angang Steel	8.0	10.2	6.3	29.0	47.4	18.4
Maanshan I&S	6.9	7.9	5.9	27.3	39.5	14.8
Wuhan Steel	5.9	9.6	7.3	9.0	21.3	14.5
CSN	8.6	11.2	7.5	15.1	19.0	13.4
Dongkuk Steel	3.1	9.1	4.8	6.8	neg.	6.9
Tata Steel	4.7	5.3	9.7	5.8	5.0	18.5
Sail	4.1	6.9	6.8	8.4	12.5	12.5
Hyundai Steel	7.1	12.7	8.8	10.1	11.8	11.8
Ternium	3.5	13.6	6.8	7.2	17.2	13.4
Average	**5.8**	**11.4**	**7.4**	**12.4**	**24.0**	**13.5**
Developed Markets						
Nucor Corp	4.4	56.8	7.3	8.5	neg.	16.1
US Steel Corp	2.5	n/m	8.4	3.5	neg.	51.0
Arcelor Mittal	3.6	13.5	7.2	4.9	neg.	14.4
Nippon Steel	5.2	6.4	0.0	7.6	14.8	n/m
Thyssen Krupp	3.6	24.0	5.2	6.9	neg.	21.4
SSAB	5.3	n/m	9.2	6.7	neg.	18.2
BlueScope Steel	4.8	12.6	10.3	7.5	neg.	26.4
Nisshin Steel	5.2	8.3	48.8	6.1	91.7	n/m
Daido Steel	5.9	10.0	22.2	11.3	neg.	n/m
Hitachi Metals	6.1	13.0	12.7	13.7	neg.	n/m
JFE Holdings	5.4	6.7	11.2	8.6	16.4	62.4
Kobe Steel	4.8	6.0	9.2	6.2	neg.	n/m
Sumitomo Metal	6.2	6.9	14.0	6.6	11.4	n/m
OneSteel	9.0	10.5	10.4	16.1	22.6	19.2
Acerinox	n/m	n/m	11.1	n/m	neg.	28.8
Salzgitter	2.4	19.2	4.2	6.4	neg.	16.6
Rautaruukki	4.5	n/m	10.6	6.9	neg.	38.5
Sidenor	4.3	8.7	6.6	5.5	neg.	14.7
Average	**4.9**	**14.5**	**11.6**	**7.8**	**31.4**	**27.3**
Russia						
Evraz	2.8	12.0	6.7	2.1	neg.	15.1
Severstal	2.2	17.9	5.5	2.4	neg.	14.0
NLMK	3.3	12.9	7.9	4.1	42.0	13.8
MMK	**4.1**	**10.0**	**4.5**	**7.6**	**n/m**	**8.4**
Mechel	3.0	12.2	8.2	2.5	neg.	11.6
Average	**3.1**	**12.7**	**6.6**	**3.7**	**42.0**	**12.6**

Source: Bloomberg, GPB

Gazprombank

HQ: 16/1 Nametkina str., Moscow 117420, Russia
(Office: 63 Novocheremushkinskaya St.)

Research Department

Andrei Bogdanov
Head of Research
+7 (495) 988 23 44

Equity/Fixed Income Strategy

Andrei Bogdanov
Artem Arkhipov
Anna Bogdyukevich

+7 (495) 988 23 44
Andrei.Bogdanov@gazprombank.ru
+7 (495) 980 41 82
Artem.Arkhipov@gazprombank.ru
+7 (495) 983 18 00 ext. 54085
Anna.Bogdyukevich@gazprombank.ru

Oil & Gas, Electric Utilities

Ivan Khromushin
Dmitry Kotlyarov

+7 (495) 980 43 89
Ivan.Khromushin@gazprombank.ru
+7 (495) 913 78 26
Dmitry.Kotlyarov@gazprombank.ru

Macroeconomics & Banking

Artem Arkhipov
Anna Bogdyukevich

+7 (495) 980 41 82
Artem.Arkhipov@gazprombank.ru
+7 (495) 983 18 00 ext. 54085
Anna.Bogdyukevich@gazprombank.ru

Metals & Mining

Sergei Kanin

+7 (495) 988 24 06
Sergei.Kanin@gazprombank.ru

Telecom & Media

Andrei Bogdanov
Anna Kurbatova
+7 (495) 988 23 44
Andrei.Bogdanov@gazprombank.ru
+7 (495) 913 7885
Anna.Kurbatova@gazprombank.ru

FMCG & Retail

Rustam Shikhakhmedov

+7 (495) 428 50 69
Rustam.Shikhakhmedov@gazprombank.ru

Transport & Car Manufacturing

Alexei Astapov

+7 (495) 428 49 33
Aleksei.Astapov@gazprombank.ru

Fixed Income

Artem Arkhipov
Yakov Yakovlev
+7 (495) 980 41 82
Artem.Arkhipov@gazprombank.ru
+7 (495) 988 24 92
Yakov.Yakovlev@gazprombank.ru

Editor

Tatiana Kurnosenko

+7 (495) 983 18 00 ext. 54084
Tatiana.Kurnosenko@gazprombank.ru

Debt Product Department

Pavel Isaev
Head of Debt
+ 7 (495) 980 4134
Pavel.Isaev@gazprombank.ru

Debt Capital Markets

Igor Eshkov
Director
+ 7 (495) 429 96 44
Igor.Eshkov@gazprombank.ru

Fixed Income Sales and Trading

Sales

Dmitry Kuznetsov
+7 (495) 428 49 80
kuzd@gazprombank.ru

Ilya.Remizov
+7 (495) 983 18 80
Ilya.Remizov@gazprombank.ru

Sergey Yablonskiy
+7 (495) 719 17 74
sy@gazprombank.ru

Trading

Alexander Semennikov
+7 (495) 988 2373
Alexander.Semennikov@gazprombank.ru

Equity Product Department

Maxim Shashenkov
Head of Equity
+7 (495) 988 23 24
Maxim.Shashenkov@gazprombank.ru

Equity Sales and Trading

Sales

Konstantin Shapsharov
Director
+7(495) 983 18 11
Konstantin.Shapsharov@gazprombank.ru

Evgeniy Tereschenko
+7 (495) 428 49 80
Evgeniy.Tereschenko@gazprombank.ru

Maria Bratchikova
+7 (495) 988 24 03
Maria.Bratchikova@gazprombank.ru

Trading

Valeriy Levit
Director
+7 (495) 988 24 11
Valeriy.Levit@gazprombank.ru

Equity Capital Markets

Andrey Chicherin
+7 (495) 983 19 14
Andrey.Chicherin@gazprombank.ru

Online Brokerage

Andrey Blokhin
+ 7 (495) 983 17 28
Andrey.Blokhin@gazprombank.ru