

Research
May 26, 2009

Telecommunications
Russia

AvtoVAZ

LADA is all hazy

Recommendation: RECALL

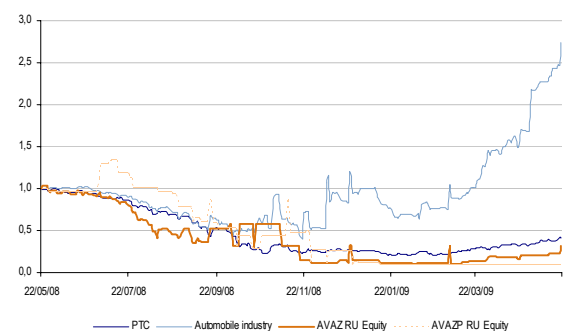
Analyst: Marina Irkly
E-mail: Mirkly@veles-capital.ru

Bullet moments

- According to European Business Association (AEB) selling of passenger cars in RF dropped in April by 53% versus April last year to the level of 135,733 items, and by the results for four months the reduction totaled 44%. LADA cars selling volume in 1Q 2009 lowered by 38.7% versus 1Q 2008 and totaled 88,720 vehicles. In April AvtoVAZ, according to AEB, sold a bit more than 34 thousand vehicles, which is almost 50% lower than April 2008 level. However, change versus March 2009 was positive and formed 12.8%, which is better than market dynamics, which grew by 0.2% in April versus March.
- Considering the current trends remaining the same, we assume the Russian automobile market might reduce in 2009 to 1.6 mn vehicles. AvtoVAZ' share at the market might total by the end of the year about 22%, which correlates with selling at the level of 350 thousand vehicles. Considering the execution of the program of expenses cutoff and the current price policy of the company that might lead to loss at the operating level already. According to our forecast in 2009 the operating loss of AvtoVAZ might form 136 mn USD.
- By the beginning of 2009 the credit portfolio of AvtoVAZ totaled more than 40 bn RUR, 12 bn RUR of which is required to be covered within the coming month. At the same time EBITDA of the company in 2009 might total approximately 4.7 bn RUR we suppose. So, debt/EBITDA ratio will be at the level of 9.3, which is an extremely high estimate.
- Despite the above-mentioned matters, AvtoVAZ occupies a preferred position versus other motor-car constructors. The State promised to provide the giant with large scale financial bail in the volume of 25 bn USD for restructuring the current arrearage. Besides, AvtoVAZ will gain 90 bn RUR for financing the investment program, accounted till 2013.
- We conducted estimation of company's cash flow considering the current market conjuncture. We have also accounted 25 bn RUR bailout and credit attraction from state banks in the amount of 90 bn RUR. However, our forecasts end with 2013, after which AvtoVAZ promises to provide the consumers with a restyled model lines. However, the details of the investment program are not being disclosed due to which it is impossible to evaluate potential selling in the period after the forecasted one. Due to that the cash flow of the enterprise is actually covered by the significant capital expenses, planned for the four-year period. Due to that we call off the recommendation and the target price of AvtoVAZ' shares and, besides, we outline the fact that the company steers to closing information, which raises risks of investing in the company's shares even more.

Principal estimates

Company's shares vs. the RTS index



Company profile

RTS ticker	AVAZ / AVAZP
Common share price, USD	0,4
Preferred share price, USD	0,1
Min/max com. share price in 52 weeks, USD	0,17 / 1,77
Min/max pref. share price in 52 weeks, USD	0,05 / 0,78
Fair value of the com. share by the year end, USD	-
Fair value of the pref. share by the year end, USD	-
Growth potential (com.), %	-
Growth potential (pref.), %	-
Total number of com. shares, items	1 388 289 720
Total number of pref. shares, items	461 764 300
Market capitalization, mn USD	694
EV, mn USD	1 340

Financial coefficients (IAS)	2007	2008 (E)	2009 (F)
Sales, mn USD	7 340	7 945	3 654
EBITDA, mn USD	711	696	134
Net profit (loss), mn USD	135	121	-134
EBITDA margin, %	9,7	8,8	3,7
Net profit margin, %	1,8	1,5	omp.
NOPAT, mn USD	216	241	-109
ROIC, %	5,3	5,6	omp.
ROE, %	4,4	3,5	omp.

Coefficients	2007	2008 (E)	2009 (F)
P/E	5,1	otp.	otp.
P/S	0,1	0,1	0,2
P/BV	0,2	0,2	0,3
$EV/EBITDA$	1,9	1,9	10,0
EV/S	0,2	0,2	0,4
EV/IC	0,3	0,3	0,4
$ROIC/WACC$	0,4	0,4	otp.

Operating results of AvtoVAZ for 4 months

Passenger car sales in 1Q 2009

	2006	2007	2008	2008, Jan-Mar	Change, %	2009, Jan-Mar	2008, Mar	Change, %	2009, Mar	2009, Feb	Change, %	2009, Mar
		th. units		units		units	units		units	units		units
Russian brands, incl.	744	760	695	161 584	-40,81	95 645	58 451	-43,59	32 970	31 760	3,81	32 970
LADA, incl. IzhAuto assembly	654	684	640	149 584	-39,89	89 917	53 735	-42,92	30 671	29 883	2,64	30 671
other domestic brands	90	76	55	12 000	-52,27	5 728	4 716	-51,25	2 299	1 877	22,48	2 299
Foreign brands	1 009	1 639	2 065	453 626	-38,83	277 465	184 352	-47,50	96 782	98 314	-1,56	96 782
Total	1 753	2 399	2 760	615 210	-39,35	373 110	242 803	-46,56	129 752	130 074	-0,25	129 752

Source: AEB, Estimation: Veles Capital

TOP-20 sales leaders for 4 months, units

	2008, Jan-April	Change, %	2009, Jan-April	2008, April	Change, %	2009, April
LADA	212 217	-42,11	122 856	67 440	-49,38	34 136
Chevrolet	82 206	-52,25	39 255	23 708	-62,09	8 987
Ford	59 700	-35,17	38 705	18 201	-51,93	8 749
Nissan	49 475	-39,42	29 970	12 222	-42,37	7 043
Hyundai	65 458	-57,81	27 615	21 404	-70,92	6 224
Toyota	52 735	-50,26	26 233	16 910	-59,33	6 877
Renault	35 352	-38,20	21 846	11 049	-38,14	6 835
KIA	31 962	-39,28	19 407	10 861	-47,55	5 697
Daewoo	33 093	-45,02	18 196	9 152	-28,93	6 504
GAZ	45 956	-60,71	18 055	13 658	-63,87	4 934
Opel	33 749	-54,05	15 506	10 270	-65,33	3 561
Mazda	23 505	-36,05	15 032	6 411	-71,05	1 856
Volkswagen	11 209	31,56	14 746	3 702	2,94	3 811
Skoda	14 231	-4,46	13 596	5 149	-26,78	3 770
Peugeot	12 410	-1,08	12 276	4 007	-42,73	2 295
Honda	22 148	-48,66	11 370	6 703	-67,89	2 152
Mitsubishi	32 746	-65,56	11 278	11 450	-64,54	4 060
UAZ	17 905	-53,36	8 351	5 886	-55,30	2 631
Suzuki	14 039	-59,91	5 628	4 149	-70,57	1 221
BMW	5 630	-1,67	5 536	1 621	-5,92	1 525

Source: AEB, Estimation: Veles Capital

LADA sales for 2004-2008, units

	2004	Change, %	2005	Change, %	2006	Change, %	2007	Change, %	2008
LADA Kalina	0	-	13 506	290,54	52 746	48,92	78 550	19,79	94 094
LADA 110/Priora	197 558	-0,17	197 230	-12,09	173 378	4,05	180 407	-6,81	168 122
LADA Samara	223 082	0,64	224 515	-15,15	190 491	-1,50	187 643	-10,77	167 441
LADA 2105/2107	185 909	2,48	190 524	-4,56	181 833	3,46	188 130	-10,61	168 176
LADA Niva	19 132	19,68	22 897	15,76	26 505	8,65	28 799	-15,45	24 349
Total	625 681	3,67	648 672	-3,66	624 953	6,17	663 529	-6,23	622 182

Source: company's data, Estimation: Veles Capital

Financial model of AvtoVAZ

Income statements, mn USD

	2007	2008 (E)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Sales	7 340	7 945	3 654	5 002	6 279	8 101	9 138
Cost of services	(6 187)	(6 655)	(3 371)	(4 576)	(5 661)	(7 187)	(8 112)
Amortisation	(369)	(380)	(270)	(333)	(346)	(367)	(368)
Gross profit	1 154	1 289	283	426	618	914	1 025
Gross profit margin, %	15,7	16,2	7,7	8,5	9,8	11,3	11,2
Distribution expenses	(329)	(298)	(142)	(190)	(234)	(296)	(333)
Administrative expenses	(626)	(527)	(200)	(248)	(289)	(343)	(376)
Gain on disposal of PPE and IA	0	(148)	(76)	(63)	(34)	(5)	(5)
Other income	192	0	0	0	0	0	0
Other expenses	(48)	0	0	0	0	0	0
EBITDA	711	696	134	258	407	636	680
EBITDA margin, %	9,7	8,8	3,7	5,2	6,5	7,9	7,4
EBIT	342	317	(136)	(75)	61	269	311
EBIT margin, %	4,7	4,0	<i>omp.</i>	<i>omp.</i>	1,0	3,3	3,4
Finance income	26	0	0	0	0	0	0
Finance expenses	(170)	(143)	(36)	(47)	(89)	(151)	(210)
Other non-operating income (expenses), net	61	(7)	(3)	7	1	1	(0)
EBT	259	167	(175)	(115)	(28)	119	101
EBT margin, %	3,5	2,1	<i>omp.</i>	<i>omp.</i>	<i>omp.</i>	1,5	1,1
Income tax	(96)	(40)	35	23	6	(24)	(20)
Deferred income tax	(20)	0	0	0	0	0	0
Minority interest	(9)	(6)	6	4	1	(4)	(3)
Net profit	135	121	(134)	(88)	(21)	91	78
Net profit margin, %	1,8	1,5	<i>omp.</i>	<i>omp.</i>	<i>omp.</i>	1,1	0,9

Source: company's data; Estimation: Veles Capital

Balance sheet, mn USD

	2007	2008 (E)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Non-current assets	4 684	3 740	3 341	4 237	4 685	5 403	5 357
PPE	3 982	3 130	2 773	3 490	3 845	4 437	4 364
Developed costs	212	199	224	332	417	533	562
Other non-current assets	491	410	344	415	423	433	430
Current assets	2 754	1 803	1 322	2 076	2 860	3 718	4 900
Inventories	917	766	352	402	362	446	480
Accounts receivable	235	207	113	154	193	250	281
Short-term financial investments	372	431	529	1 122	1 895	2 599	3 715
Cash and near cash	775	18	10	14	17	22	25
Other current assets	455	380	319	385	392	402	399
Total assets	7 438	5 542	4 664	6 313	7 545	9 122	10 257
Equity	3 457	2 967	2 352	2 751	2 780	2 932	2 981
Share capital	1 119	934	784	947	963	987	980
Currency exchange	38	32	27	32	33	33	33
Retained earnings	2 301	2 001	1 542	1 772	1 784	1 911	1 968
Minority interest	71	64	48	54	54	59	62
Long-term liabilities	938	852	1 311	2 401	3 321	4 337	5 191
Long-term debt	343	354	1 040	2 031	2 856	3 738	4 515
Other long-term liabilities	596	498	270	370	465	599	676
Short-term liabilities	2 971	1 660	953	1 107	1 390	1 793	2 023
Short-term debt	1 240	172	144	0	0	0	0
Accounts payable	951	837	455	622	781	1 008	1 137
Other short-term liabilities	780	652	354	485	608	785	885
Total equity and liabilities	7 438	5 542	4 664	6 313	7 545	9 122	10 257

Source: company's data; Estimation: Veles Capital

Cash flow statement, mn USD

	2007	2008 (E)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Operating activities							
Net profit	135	121	(134)	(88)	(21)	91	78
Depreciation and amortisation	369	380	270	333	346	367	368
Minority interest	9	6	(6)	(4)	(1)	4	3
Change in current assets	(208)	(12)	352	5	10	(126)	(71)
Change in short-term liabilities	143	50	(441)	131	263	368	242
Gain on disposal of PPE and IA	0	148	76	63	34	5	5
Other adjustments	(189)	0	0	0	0	0	0
Operational cash flow	258	692	117	440	631	710	626
Investment activities							
CapEx	(309)	(324)	(548)	(600)	(753)	(972)	(366)
Change in non-current assets	(179)	0	0	0	0	0	0
Change in short-term financial investments	(16)	(143)	(166)	(484)	(754)	(656)	(1 135)
Other adjustments	335	0	0	0	0	0	0
Investment cash flow	(169)	(467)	(715)	(1 084)	(1 507)	(1 628)	(1 500)
Financial activities							
Loans gained	461	80	943	776	789	809	804
Loans paid	(296)	(1 021)	(200)	(174)	0	0	0
Dividends paid	(7)	(28)	(4)	0	2	(9)	(8)
Other flows	(3)	0	(147)	44	88	123	81
Financial cash flow	156	(969)	592	646	880	923	877
Effect of exchange rates	45	(14)	(3)	2	0	0	(0)
Cash change	245	(743)	(5)	2	3	5	3
Cash assets by the beginning of reported period	485	775	18	10	14	17	22

Source: company's data; Estimation: Veles Capital

Valuation of AvtoVAZ

Weighted average cost of capital calculation (WACC)

	2007	2008	2009	2010	2011	2012	2013
Risk-free yield:							
$k_{rf}^{RUR}, \%$	7,41	7,41	7,41	7,41	7,41	7,41	7,41
Required yield of shareholders:							
Share premium, %	6,00	6,00	6,00	6,00	6,00	6,00	6,00
β coefficient	0,39	0,39	0,39	0,39	0,39	0,39	0,39
Premium for quality of corporate management, %	5,40	5,40	5,40	5,40	5,40	5,40	2,10
$k_S, \%$	15,15	15,15	15,15	15,15	15,15	15,15	11,85
Required yield of creditors:							
Premium for credit risk, %	10,80	10,80	10,80	10,80	10,80	10,80	10,80
$k_D, \%$	18,21	18,21	18,21	18,21	18,21	18,21	18,21
Capital structure:							
Source fraction: own capital, %	69%	85%	67%	58%	49%	44%	40%
Source fraction: borrowed capital, %	31%	15%	33%	42%	51%	56%	60%
WACC, %	14,00	14,95	14,96	14,90	14,86	14,82	13,49

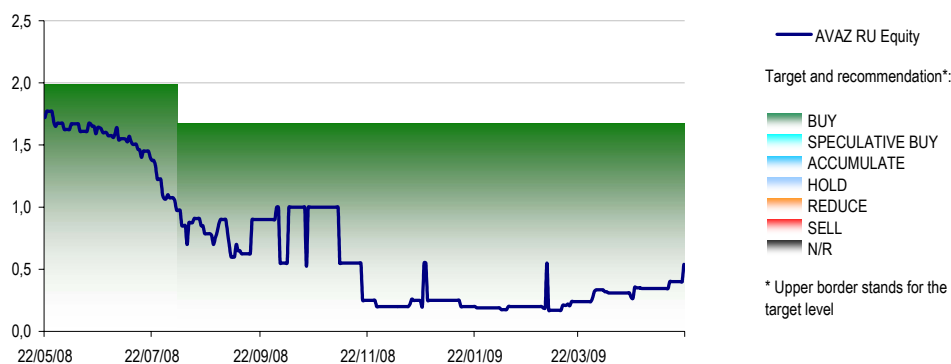
Source: company's data; Estimation: Veles Capital

Calculation of free cash flows, mn USD

	2007	2008 (E)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
NOPAT	216	241	(109)	(60)	49	215	249
Depreciation and amortisation	369	380	270	333	346	367	368
Dividends to preference share	(103)	(191)	(4)	0	2	(9)	(8)
Gross operating cash flow	481	429	157	273	396	573	610
CapEx	(309)	(324)	(548)	(600)	(753)	(972)	(366)
Change in working capital	(65)	38	(89)	136	273	243	172
FCFF	107	143	(480)	(191)	(84)	(156)	416
Discount rate, %	14,96	14,90	14,86	14,86	14,82	13,49	
Discount coefficient			1,00	0,87	0,76	0,66	0,60
Discounted FCFF			(480)	(166)	(64)	(103)	251

Source: company's data; Estimation: Veles Capital

Recommendation history



Financial analysis of AvtoVAZ

Business efficiency analysis

	2007	2008 (E)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Invested capital at year's beginning (IC), mn USD	4 063	4 265	3 474	3 527	4 769	5 619	6 648
Share capital at year's beginning (IC), mn USD	3 104	3 457	2 967	2 352	2 751	2 780	2 932
EVA spread, %	-8,68	-9,31	-	-	-13,83	-10,99	-9,74
EVA, mn USD	-353	-397	-	-	-660	-618	-648
ROIC, %	5,3	5,6	neg	neg	1,0	3,8	3,7
ROE, %	4,4	3,5	neg	neg	neg	3,3	2,6
ROA, %	1,8	2,2	neg	neg	neg	1,0	0,8
EBITDA margin, %	9,7	8,8	3,7	5,2	6,5	7,9	7,4
EBIT margin, %	4,7	3,99	neg	neg	0,97	3,32	3,41
Net profit margin, %	1,8	1,53	neg	neg	neg	1,13	0,85

Source: company's data; Estimation: Veles Capital

Financial state analysis

	2007	2008 (E)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Leverage:							
Financial leverage	0,46	0,18	0,50	0,74	1,03	1,27	1,51
Financial leverage effect	1,87	1,82	0,79	0,61	-2,16	2,28	3,07
Financial leverage characteristics:							
Interest-bearing debt / EBITDA	2,23	0,75	8,83	7,87	7,03	5,88	6,64
Interest-bearing SR debt / EAT	9,18	1,41	neg	0,00	0,00	0,00	0,00
Interest-bearing debt / sales	0,22	0,07	0,32	0,41	0,45	0,46	0,49
Interest-bearing debt / assets	0,21	0,09	0,25	0,32	0,38	0,41	0,44
EBITDA / Interest payments	4,46	4,88	3,72	5,50	4,56	4,20	3,24
Company's liquidity:							
current ratio (>2)	0,93	1,09	1,39	1,88	2,06	2,07	2,42
quick ratio (>1)	0,34	0,14	0,13	0,15	0,15	0,15	0,15
absolute liquidity ratio (>0,2)	0,26	0,01	0,01	0,01	0,01	0,01	0,01
Turnover estimates of (days):							
accounts receivable	12	9	11	11	11	11	11
inventories	45	35	35	29	21	20	19
non-operating assets	135	82	130	149	164	165	193
net current assets	74	74	116	149	164	165	193

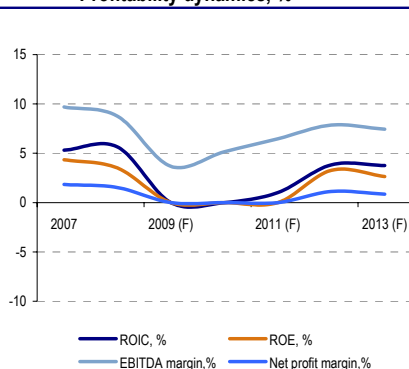
Source: company's data; Estimation: Veles Capital

Balance sheet structure analysis

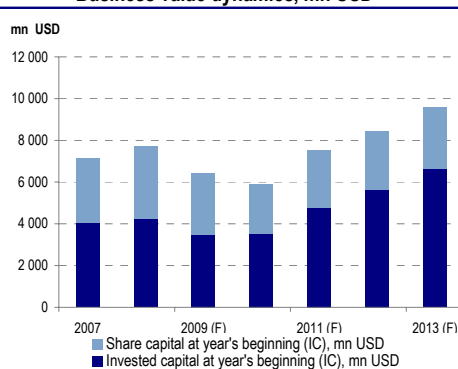
	2007	2008 (E)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Non-current assets							
PPE	54	56	59	55	51	49	43
Developed costs	3	4	5	5	6	6	5
Other non-current assets	7	7	7	7	6	5	4
Current assets							
Inventories	12	14	8	6	5	5	5
Accounts receivable	3	4	2	2	3	3	3
Short-term financial investments	5	8	11	18	25	28	36
Cash and near cash	10	0	0	0	0	0	0
Other current assets	6	7	7	6	5	4	4
Total assets	100	100	100	100	100	100	100
Equity	46	54	50	44	37	32	29
Minority interest	1	1	1	1	1	1	1
Long-term debt	5	6	22	32	38	41	44
Short-term debt	17	3	3	0	0	0	0
Accounts payable	13	15	10	10	10	11	11
Total equity and liabilities	100	100	100	100	100	100	100

Source: company's data; Estimation: Veles Capital

Profitability dynamics, %



Business value dynamics, mn USD



Source: company's data; Estimation: Veles Capital

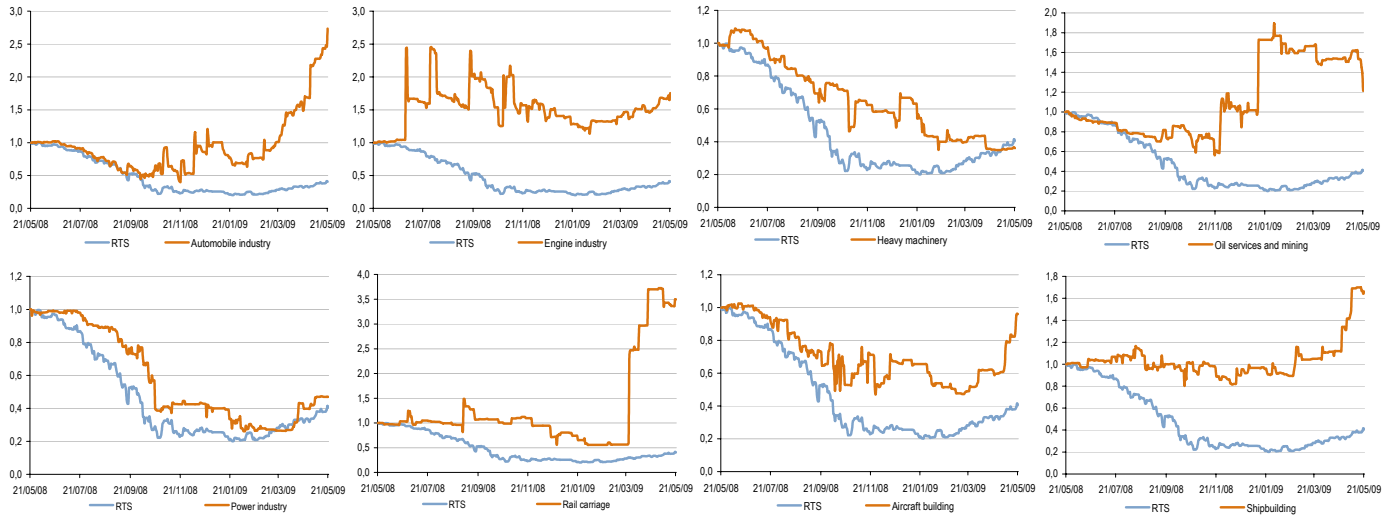
Comparables

Sector companies' multipliers and coefficients

	Country	Current capitalization, min USD	Enterprise value, min USD	Market multipliers					Financial coefficients							
				EV _i /S	EV _i /EBITDA	P _i /E	P _i /BV	EV _i /IC	ROE, %	ROA, %	ROIC, %	EBITDA margin, %	ROIC _i /WACC	Fin. leverage (ND/S)	Net Debt / EBITDA	Net Debt / Sales
Developed markets																
Bayerische Motoren Werke AG	GERMANY	22 701	19 477	0,31	2,61	-	0,86	0,85	-	-	0,29	11,71	0,06	-	-	-
Daimler AG	GERMANY	38 481	37 616	0,33	7,23	-	0,91	0,91	-	-	-	4,57	-	-	-	-
Volkswagen AG	GERMANY	96 181	91 427	0,64	6,79	50,60	2,08	2,21	4,42	0,82	1,82	9,47	0,27	-	-	-
Audi AG	GERMANY	24 258	17 357	0,45	4,78	22,49	1,75	2,48	8,50	8,96	40,85	9,46	6,89	-	-	-
Honda Motor Co Ltd	JAPAN	51 868	91 784	1,00	17,96	124,67	1,27	1,14	0,57	0,34	-	5,54	-	0,98	7,81	0,43
Nissan Motor Co Ltd	JAPAN	26 130	51 181	0,66	14,21	-	0,89	0,94	-	-	-	4,64	-	0,85	6,96	0,32
Suzuki Motor Corp	JAPAN	12 026	11 971	0,43	6,21	55,92	1,50	1,50	2,95	1,24	2,33	6,98	0,25	-	-	-
Mitsubishi Motors Corp	JAPAN	8 454	9 379	0,56	18,83	-	-	-	-	-	266,44	2,95	31,99	-	1,86	0,05
Isuzu Motors Ltd	JAPAN	2 894	5 304	0,42	26,00	-	1,02	1,01	-	-	12,32	1,61	1,03	0,85	11,82	0,19
Mazda Motor Corp	JAPAN	3 375	7 148	0,32	17,51	-	0,75	0,86	-	-	-	1,83	-	0,84	9,24	0,17
Daihatsu Motor Co Ltd	JAPAN	4 110	5 019	0,32	4,43	22,02	1,27	1,21	4,68	0,69	4,33	7,14	0,45	0,28	0,80	0,06
Fuji Heavy Industries Ltd	JAPAN	2 943	5 301	0,38	10,35	-	0,74	0,84	-	-	-	3,69	-	0,59	4,60	0,17
PEUGEOT SA	FRANCE	6 035	13 869	0,22	5,22	-	0,32	0,52	-	-	-	4,16	-	0,41	2,95	0,12
Renault SA	FRANCE	10 131	21 205	0,47	9,01	-	0,37	0,55	-	-	-	5,22	-	0,41	4,71	0,25
Fiat SpA	ITALY	13 197	21 300	0,31	4,03	-	0,99	0,99	-	2,52	2,26	7,70	0,29	0,60	1,53	0,12
General Motors Corp	UNITED STATES	885	33 800	0,33	-	-	-	-	21,90	-	24,55	-	5,37	-	-	0,33
Ford Motor Co	UNITED STATES	17 411	33 458	0,32	-	-	-	-	52,70	-	-	0,09	-	-	172,02	0,15
Developed markets weighted average		20 064	28 035	0,47	7,66	49,63	1,12	1,09	7,99	1,81	19,26	6,85	2,61	0,79	25,69	0,28
Developing markets																
Hyundai Motor Co	SOUTH KOREA	11 987	9 950	0,42	4,35	11,06	0,74	0,71	6,50	4,18	6,97	9,72	1,27	-	-	-
Kia Motors Corp	SOUTH KOREA	3 716	7 452	0,58	7,73	13,00	0,78	0,88	6,20	2,80	3,28	7,54	0,47	0,78	3,87	0,29
Ssangyong Motor Co	SOUTH KOREA	195	687	0,27	5,26	-	0,95	0,99	-	-	-	5,21	-	2,40	3,76	0,20
Maruti Suzuki India Ltd	INDIA	6 338	5 735	1,18	10,94	18,55	2,95	3,70	15,78	10,24	11,72	10,78	1,18	-	-	-
Tata Motors Ltd	INDIA	3 440	6 431	1,03	13,46	20,12	1,40	1,18	7,57	2,38	3,14	7,68	0,33	1,22	6,26	0,48
Tofas Turk Otomobil Fabrikasi AS	TURKEY	897	1 659	0,55	5,79	9,28	1,37	1,17	12,00	6,38	6,99	9,47	0,64	1,16	2,66	0,25
Dongfeng Motor Group Co Ltd	CHINA	7 325	6 737	0,62	5,89	12,26	2,34	2,65	16,78	6,10	45,13	10,55	5,94	-	-	-
FAW CAR Co Ltd	CHINA	3 906	3 624	0,99	13,57	21,64	4,06	5,33	16,05	10,00	24,99	7,31	1,40	-	-	-
Great Wall Motor Co Ltd	CHINA	822	527	0,39	4,11	11,07	0,83	0,76	6,99	5,11	21,97	9,40	2,40	-	-	-
SAIC Motor Corp Ltd	CHINA	14 100	15 427	0,93	16,87	31,41	2,78	2,41	8,89	3,73	5,33	5,49	0,37	0,26	1,45	0,08
Tianjin Faw Xiali Automobile Co Ltd	CHINA	1 725	1 840	1,56	-	62,72	3,58	3,08	5,20	-	-	-	-	0,24	-	0,10
Beiqi Foton Motor Co Ltd	CHINA	1 724	1 935	0,45	16,12	29,10	3,91	2,97	12,65	6,20	9,52	2,78	0,79	0,48	1,76	0,05
Yulon Motor Co Ltd	TAIWAN	1 454	1 219	2,28	42,86	67,19	0,83	0,80	1,35	0,56	0,50	5,31	0,07	-	-	-
China Motor Corp	TAIWAN	665	696	1,01	45,78	-	0,57	0,58	-	-	0,04	2,20	0,01	0,03	2,01	0,04
Emerging markets weighted average		4 128	4 447	0,69	8,77	16,43	1,47	1,42	10,57	5,88	12,41	12,91	1,42	0,51	2,58	0,17
Russia																
SOLLERS	RUSSIA	266	594	0,26	2,61	3,81	0,42	0,62	17,20	7,85	15,38	9,87	1,63	0,52	1,44	0,14
GAZ Auto Plant	RUSSIA	342	1 939	0,34	8,19	-	0,58	0,89	-	-	7,84	4,11	0,22	2,73	6,75	0,28
Ulyanovsk Automobile Plant	RUSSIA	254	299	0,51	5,96	9,91	0,87	0,89	11,00	4,86	16,30	8,51	-	0,16	0,91	0,08
AvtoVAZ	RUSSIA	694	1 773	0,49	13,22	-	0,30	0,52	-	-	-	3,67	-	0,46	8,04	0,30
Russia weithed average		389	1 151	0,37	7,10	5,45	0,40	0,67	13,49	6,04	11,26	4,73	0,36	0,41	2,59	0,18

Source: company's data, Bloomberg; Estimation: Veles Capital

Sector coverage

Machinery sectors vs. RTS index dynamics


Source: RTS, Estimation: Veles Capital

Sector coverage

Stock	BLOOMBERG Ticker	Market capitalization, mln USD	Last price, USD	In a year, USD		Change, %					Target price *, USD	Upside, %	Recommendation	Last revision	
				min.	max.	Weak	3 mth	2008	from last recom.	since 01.01.2009					
Automobile industry															
AvtoVAZ (ord.)	AVAZ RU Equity	750	0,54	0,17	1,77	35,00	170,00	-88,60	-	116,00	-	-	N/R	22.05.09	
AvtoVAZ (pref.)	AVAZP RU Equity	25	0,06	0,05	0,78	0,00	0,00	-90,48	-	-12,00	-	-	N/R	22.05.09	
Sollers	SVAV RU Equity	248	7,25	2,43	65,10	8,21	141,67	-87,82	-78,52	11,54	94,90	1 208,97	BUY	18.09.08	
GAZ (ord.)	GAZA RU Equity	329	17,75	4,50	197,25	31,48	215,56	-90,66	47,92	84,42	16,50	-7,04	HOLD	30.03.09	
GAZ (pref.)	GAZAP RU Equity	13	9,00	3,25	117,50	0,00	125,00	-92,34	20,00	-5,26	9,60	6,67	HOLD	30.03.09	
KAMA3	KMAZ RU Equity	1 061	1,50	0,30	6,23	9,09	215,79	-74,58	-62,03	87,50	5,98	298,67	BUY	28.08.08	
NefAZ	NFAZ RU Equity	72	8,95	2,00	46,00	0,00	258,00	-79,66	-72,88	164,40	45,75	411,17	BUY	28.08.08	
Engine industry															
RKK Energy	RKKE RU Equity	157	140,00	34,00	705,00	11,11	174,51	-80,00	-78,46	166,67	641,10	357,93	HOLD	06.06.08	
Satum	SATR RU Equity	58	0,01	0,01	0,09	16,00	95,95	-83,52	-	19,83	0,14	851,03	HOLD	06.07.07	
ZMZ (ord.)	ZMZN RU Equity	183	1,63	1,63	23,30	0,00	-7,14	-65,97	-67,01	-24,42	4,45	173,85	HOLD	26.05.08	
ZMZ (pref.)	ZMZNPR RU Equity	35	0,93	0,28	5,20	0,00	-19,13	-72,49	-72,49	-22,50	3,34	259,14	HOLD	26.05.08	
Heavy machinery															
Kirovsky plant	KIRZ RU Equity	71	6,50	6,50	56,00	0,00	-45,83	-87,03	-	-71,11	33,30	412,31	REDUCE	31.10.07	
Oil services and mining															
Angeromash	ANGE RU Equity	24	23,50	20,05	60,50	0,00	0,00	-61,16	-	17,21	79,65	238,94	BUY	13.04.07	
Orgenergogaz	OENG RU Equity	26	4,30	3,05	14,10	-5,49	14,67	-66,92	-62,05	-36,30	25,20	486,05	BUY	31.07.08	
Electrogaz (ord.)	ELGZ RU Equity	14	235,00	20,05	850,00	0,86	3,25	-68,67	-60,50	944,44	895,70	281,15	BUY	31.07.08	
Electrogaz (pref.)	ELGZP RU Equity	3	152,50	101,50	350,00	0,00	-22,39	-23,77	-7,58	-22,39	671,80	340,52	BUY	31.07.08	
Centrenergogaz (ord.)	CEGZ RU Equity	55	600,00	600,00	5 250,00	-42,86	-40,00	-88,24	-87,10	-61,29	5 693,60	848,93	BUY	31.07.08	
Centrenergogaz	CEGZP RU Equity	6	462,50	462,50	1 750,00	0,00	-7,50	-73,57	-62,24	-7,50	4 270,20	823,29	BUY	31.07.08	
Gazenergoservice	GZES RU Equity	14	39,05	13,51	162,50	-3,58	43,30	-74,81	-68,63	189,05	137,00	250,83	ACCUMULATE	31.07.08	
Ainaz	ALNZ RU Equity	19	0,09	0,09	1,00	-54,50	-71,96	-89,89	-88,97	-71,56	1,20	1 218,68	BUY	02.07.08	
BENZ (ord.)	BUNZ RU Equity	8	28,50	27,50	52,00	0,00	3,64	-45,19	-45,19	-3,39	81,00	184,21	BUY	02.07.08	
BENZ (pref.)	BUNZP RU Equity	0	23,50	23,50	41,00	0,00	0,00	-42,68	-42,68	-2,08	60,70	158,30	BUY	02.07.08	
Power industry															
Power machines	SILM RU Equity	762	0,09	0,04	0,22	0,00	127,27	-59,77	-59,77	-	20,69	0,14	65,26	BUY	22.05.09

 * - calculations at the end of the year
 Source: RTS, Estimation: Veles Capital

Brief investor guide

Methods, used for company's share evaluation				
Income approach			Comparables approach	Expenses approach
	DCF method	EVA method	Multiplicative method	Net assets method
Concept of evaluating the unified object (EV) *	FCFF discounting	EVA discounting		
Shareholders' value direct calculation (SV) **	FCFE discounting	EVA for shareholders discounting (Edwards-Bell-Ohlson method)		

*

Debt cost is calculated separately and then subtracted from the sum total cost of business (target EV), formed considering the cash flows/ economic profits of firm.

**

Debt is accounted integrated -via annual coverage. So the fair cost of shareholders' value (target SV) is formed directly - considering the cash flow / economic profits for holders.

Note:

DCF methods differ from the methods of economic profit by the way of investments calculation. The methods of unified object evaluation concept differ from these methods of direct calculation of shareholders' value costs - by the way of accounting cost and maintenance of debt liabilities.

Cost calculation within the frames of income approach:

	Business cost calculation (EV) within the frames of united object cost evaluation	Shareholders' capital value calculation (SV)
DCF method (FCFF)	$EV = \sum_{i=1}^n \frac{FCFF_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_i)^n} + NA$	$SV = EV - D$
DCF method (FCFE)		$SV = \sum_{i=1}^n \frac{FCFE_i}{(1+k_{si})^i} + \frac{TV}{(1+k_{si})^n} + Cash + NA$
EVA method	$EV = IC_1 + \sum_{i=1}^n \frac{EVA_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_i)^n} + NA$	$SV = EV - D$
EBO method		$SV = BV_1 + \sum_{i=1}^n \frac{SVA_i}{(1+k_{si})^i} + \frac{TV}{(1+k_{si})^n} + Cash + NA$

Signs:

EV	- Enterprise Value
SV	- Shareholders Value
TV	- Terminal Value
Cagr	- development rates within the target period
BV, E	- Balance Value, Equity
EBIT	- operational profit from selling, profit before payments of credit interest and income tax
EBITDA	- operational profit before payment of credit interest, income tax and amortization
EAT	- Earnings Before Tax
EAT	- Earnings After Tax
EPS	- Earnings Per Share
NOPAT	- net operational profit, free from effects of debt financing $NOPAT = EBIT * (1 - \text{income tax effective rate})$
FCFF	- Free Cash Flow to Firm $FCFF = \text{gross cash flow} - \text{gross investments}$ $\text{Gross cash flow} = NOPAT + \text{amortization}$
FCFE	- Free Cash Flow to Equity $FCFE = \text{gross shareholders' cash flow} - \text{gross investments}$ $\text{Gross shareholders' cash flow} = \text{EAT of operational profit (including interest payoffs)} - \text{annual debt coverage} + \text{attracted borrowed assets} + \text{amortization}$
EVA	- Economic Value Added $EVA = \text{economic profit spread} * IC = (ROIC - WACC) * IC$
SVA	- Shareholders Value Added $SVA = \text{spread} * E = (ROE - k_s) * E$
WACC	- Weighted Average Cost of Capital
k_s	- required shareholders' yield
D	- fair (market) cost of net debt
Cash	- cash assets, along with market securities on the balance
NA	- non-operational assets
IC	- Invested Capital
ROIC	- Return on Invested Capital $ROIC = \frac{NOPAT}{IC}$
ROE	- Return on Equity
ROA	- Return on Assets

Information disclosure

The statement of an analyst and confirmation of the responsibility withdrawal

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The principle of recommendation assignment

The investment recommendations are given based on the evaluation of the company's share yield. The basis for the calculation of the expected company's cost is the evaluation by the discounted cash flows method (DCF). In some estimations the method of comparable coefficients, and also the mixed estimation (by DCF method and by comparable coefficients method) are applied. All recommendations are assigned based on the determined by us the fair cost of the shares within the nearest 12 months.

At the present moment the investment scale of the Investment Company Veles Capital is the following:

BUY – corresponds to the growth potential of the shares within the nearest 12 months by 15% or more.

ACCUMULATE – corresponds to the growth potential of the shares within the nearest 12 months for 5-15%.

HOLD – corresponds to the growth (reduction) potential of the shares within the nearest 12 months from -5% to 5%.

REDUCE – corresponds to the reduction potential of the shares within the nearest 12 months from 15% to 5%.

SELL – corresponds to the reduction potential of the shares within the nearest 12 months by 15% or more.

In some cases the deviations from the evaluation scale given above, based on which the recommendations are assigned, are possible. That fact relates to the high volatility of some securities in particular, and market in the whole, and also to the individual characteristics of one or another issuer.

In order to get additional information and specifications please contact the Research Department of the Investment Company Veles Capital.

Contacts

Mikhail Zak
Head of Department
Strategy
MZak@veles-capital.ru

Stanislav Fomenko
Metallurgy
SFomenko@veles-capital.ru

Dmitry Lyutyagin
Oil and gas
DLyutyagin@veles-capital.ru

Ivan Manaenko
Fixed income market,
Macroeconomics
IManaenko@veles-capital.ru

Marina Irkly
Transport, machinery
Mirkly@veles-capital.ru

Ilya Fedotov
Telecommunications
IFedotov@veles-capital.ru

Oleg Zotikov
Energy
OZotikov@veles-capital.ru

Sales and Trading Department

sales@veles-capital.ru

Yury Pavlov
Director (VIP clients)
YPavlov@veles-capital.ru

Sergey Vetoshkin
Corporative Clients
SVetoshkin@veles-capital.ru

Alexander Taran
Trading (Ukraine)
ATaran@veles-capital.com.ua

Strategic Investments Department

Andrey Lee
Head of department
ALee@veles-capital.ru

Assets Management

am@veles-capital.ru

Beyshen Isaev
Head of Department
BIsaev@veles-capital.ru

Vadim Labeled
Investor relations
VLabeled@veles-capital.ru

Stanislav Brodsky
Investment products
SBrodsky@veles-capital.ru

Russia, Moscow, 123610, Krasnopresnenskaya nab. 12,
Entr. 7, floor 18
Tel.: 7 (495) 258 1988, Fax: 7 (495) 258 1989
www.veles-capital.ru

Ukraine, Kiev, 04070, Naberezhno-Kreschatitskaya,
37/55
Tel.: 38 (044) 459 0250
Fax: 38 (044) 459 0251