

Research

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AvtoVAZ

2007 results

Recommendation: CS – BUY

PS – BUY

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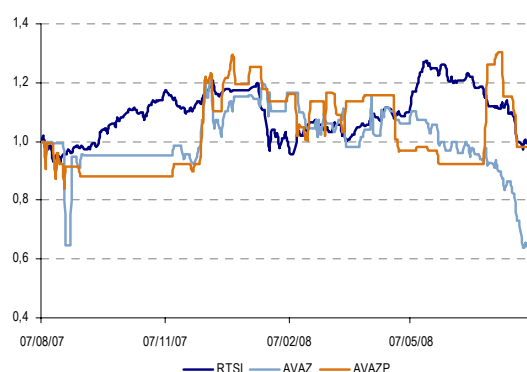
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Bullet moments

- AvtoVAZ has announced its financial results of year 2007, which happened to be higher than our forecasts by 5-10%. Company's revenue increased by 10.7% in USD value, EBITDA added 11.4% and formed 664 mn USD. AvtoVAZ' net income formed 135 mn USD vs 114 mn USD in prior year. Increased sales volume was achieved by growth of Russian automobile market and budget-class automobile segment. 2007 results demonstrate that sales totaled 2.65 mn units. AvtoVAZ' has sold 663.5 th automobiles at the domestic market and 106 th units were exported.
- It should be mentioned that AvtoVAZ' sales record results was achieved due to strong pricing policy, i.e. the company did not increase prices over the year, in order to improve sales volume, which had decreased over 1H 2007. However, this measure brings a lot of difficulties for company's efficiency. Thus, 2007 results indicate that AvtoVAZ' EBITDA margin hits prior year results. Therefore, due to company's single time items influencing the report such as tax debt amortization, net income margin increased by 0.1 p.p., to 1.8% vs 2006 results.
- We have renewed AvtoVAZ' financial model, taking into account received data. We also have forecasted company's sales volume on the base of the current trends of Russian automobile market development. Thus, expectations indicate that Russian automobile market will expand by 30%, i.e. the market value can form 3 mn automobiles. The assembly segment will have the highest growth dynamics: according to Ministry of Economic Development and Trade's data, 750 th foreign brand cars, assembled in Russia, will be sold, which is by 70% higher than 2007 results. Import volume is expected to hit 1.7 mn automobiles. We estimated AvtoVAZ' sales volume, taking into account the received data. We think that company's sales share will decrease by 20-22%.
- Let us remind you that AvtoVAZ plans to establish its development strategy in autumn 2008, which was designed in cooperation with Renault. In our model we have used only market trends, excluding the cooperation with French company.
- We have estimated fair value of company's shares, using DCF method, in 1.677 USD per common share and 1.258 USD per preferred share, below the previous forecasts by 18.6% and 18.5% respectively. A growth potential of share value is significantly increased, thanks to market quotes fall. Today's potential forms 71.99% for common shares and 114.99% for preferred shares. We confirm our previous "BUY" recommendation on AvtoVAZ's securities.

Principal estimates

Company's shares dynamics vs RTS



Company profile

RTS ticker	AVAZ / AVAZP
Common share price, USD	0.975
Preferred share price, USD	0.585
Min/max com. share price in 52 weeks, USD	0,975 / 2,050
Min/max pref. share price in 52 weeks, USD	0,500 / 0,775
Fair value of the com. share by the year end, USD	1.677
Fair value of the pref. share by the year end, USD	1.258
Growth potential (com.), %	71.99
Growth potential (pref.), %	114.99
Total number of com. shares, items	1,388,289,720
Total number of pref. shares, items	461,764,300
Market capitalization, mn USD	1,624
EV, mn USD	2,432

Financial coefficients (IAS)

	2007	2008 (F)	2009 (F)
Sales, mn USD	7,340	7,708	8,167
EBITDA, mn USD	664	635	594
Net income, mn USD	135	152	151
EBITDA margin, %	9.0	8.2	7.3
Net income margin, %	1.8	2.0	1.9
NOPAT, mn USD	219	248	227
ROIC, %	5.3	5.7	4.7
ROE, %	4.3	4.3	4.1

Coefficients

	2007	2008 (F)	2009 (F)
P/E	12.0	10.7	10.7
P/S	0.2	0.2	0.2
P/BV	0.5	0.4	0.4
EV/EBITDA	3.7	3.8	4.1
EV/S	0.3	0.3	0.3
EV/IC	0.6	0.6	0.5
ROIC/WACC	0.5	0.5	0.4

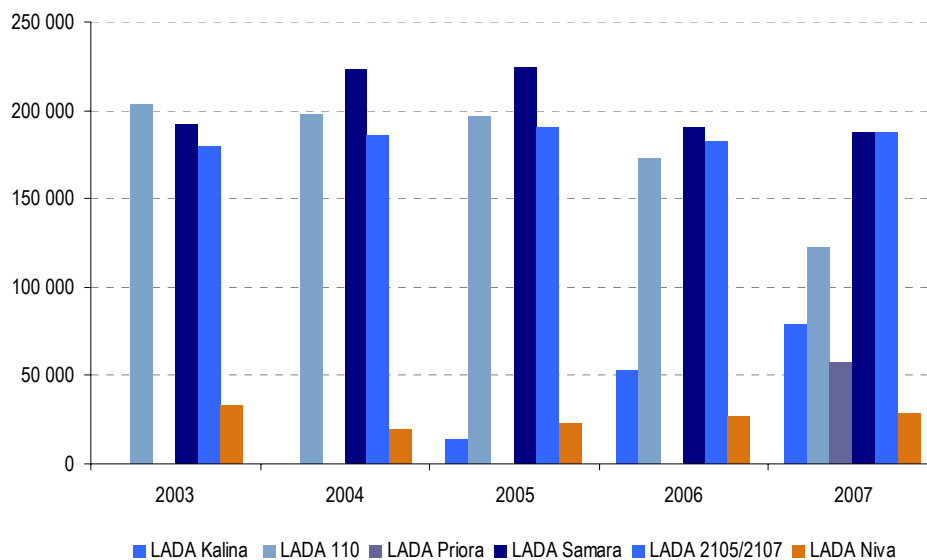
Financial and production results of 2007

AvtoVAZ' financial results under IAS 2007 report, mn USD

	2006		Change, %		2007	
	mn RUR	mn USD	mn RUR	mn USD	mn RUR	mn USD
Sales	179,915	6,632	4.2	10.7	187,545	7,340
Costs	(148,694)	(5,481)	6.3	12.9	(158,071)	(6,187)
Gross income	31,221	1,151	(5.6)	0.2	29,474	1,154
Amortization	(6,977)	(257)	35.0	43.3	(9,416)	(369)
EBITDA	16,696	615	8.8	15.5	18,164	711
EBITDA margin, %	9.3		0.4		9.7	
Operatin (expenses)/ income	(21,502)	(793)	(3.6)	2.4	(20,726)	(811)
Operating income	9,719	358	(10.0)	(4.4)	8,748	342
Operating income margin, %	5.4		-0.7		4.7	
Financial income	1,065	39	(38.8)	(35.0)	652	26
Financial expense	(4,205)	(155)	3.2	9.6	(4,339)	(170)
Net income before tax depreciation	0	0	n/m	n/m	1,730	68
Income before tax	6,579	242	3.2	9.6	6,791	266
Income before tax margin, %	3.7		0.0		3.6	
Tax liabilities	(3,096)	(114)	(4.7)	1.2	(2,950)	(115)
Stopped businesses	41	2	n/m	n/m	(172)	(7)
Net income exluding minority interset	3,524	130	4.1	10.6	3,669	144
Net income margin exluding minority interset, %	2.0		0.0		2.0	
Minority interest	(424)	(16)	(48.3)	(45.2)	(219)	(9)
Net income	3,100	114	11.3	18.2	3,450	135
Net income margin, %	1.7		0.1		1.8	

Source: company's data; Estimation: Veles Capital

AvtoVAZ' sales dynamics



Source: company's data; Estimation: Veles Capital

Financial model

Balance sheet, mn USD

	2003	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Non-current assets	3,675	4,030	3,940	4,384	4,684	4,684	4,684	4,684	4,684	4,684	4,684	4,684	4,684
PPE	3,543	3,717	3,579	3,903	3,982	3,982	3,982	3,982	3,982	3,982	3,982	3,982	3,982
Other non-current assets	132	313	362	481	702	702	702	702	702	702	702	702	702
Current assets	1,488	1,946	2,017	2,261	2,754	3,136	3,030	3,084	3,277	3,573	3,858	4,020	4,416
Inventories	645	747	725	950	917	892	939	943	931	931	931	931	931
Accounts receivable	245	272	263	235	235	229	241	242	239	239	239	239	239
Short-term financial investments	0	0	0	0	0	625	427	469	681	971	1,249	1,407	1,798
Cash and near cash	230	431	474	485	775	563	597	604	600	605	612	616	621
Other current assets	369	496	555	591	826	826	826	826	826	826	826	826	826
Total assets	5,163	5,977	5,958	6,645	7,438	7,820	7,714	7,768	7,961	8,257	8,542	8,704	9,100
Equity	2,700	3,009	2,875	3,171	3,528	3,688	3,847	4,054	4,302	4,573	4,869	5,203	5,571
Share capital	981	1,041	1,047	1,042	1,119	1,119	1,119	1,119	1,119	1,119	1,119	1,119	1,119
Reserves	44	48	38	38	38	38	38	38	38	38	38	38	38
Retained earnings	1,631	1,861	1,721	2,024	2,301	2,444	2,588	2,775	3,000	3,247	3,516	3,821	4,156
Minority interest	44	58	69	67	71	87	103	122	145	169	196	226	258
Long-term liabilities	877	995	1,129	968	938	930	946	924	911	867	680	685	690
Long-term debt	359	443	634	440	343	304	283	254	245	194	0	0	0
Other long-term liabilities	517	552	495	528	596	625.5	662.8	670.8	665.9	672.4	680.3	684.5	690.0
Short-term liabilities	1,587	1,973	1,953	2,506	2,971	3,202	2,922	2,789	2,748	2,817	2,993	2,816	2,839
Short-term debt	402	586	610	1,003	1,240	1,384	996	840	813	863	1,016	827	834
Other short-term liabilities	1,185	1,388	1,343	1,503	1,731								
						1,818	1,926	1,949	1,935	1,954	1,977	1,989	2,005
Total equity and liabilities	5,163	5,977	5,958	6,645	7,438	7,820	7,714	7,768	7,961	8,257	8,542	8,704	9,100

Source: company's data; Estimation: Veles Capital

Income and loss statement, mn USD

	2003	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Sales	4,264	5,574	5,642	6,632	7,340	7,708	8,167	8,265	8,205	8,286	8,382	8,435	8,502
Costs	(3,590)	(4,641)	(4,773)	(5,481)	(6,187)	(6,402)	(6,851)	(6,926)	(6,839)	(6,889)	(6,951)	(6,974)	(7,009)
Gross income	673	932	869	1,151	1,154	1,305	1,315	1,340	1,366	1,397	1,431	1,461	1,493
<i>Gross income margin, %</i>	<i>15.8</i>	<i>16.7</i>	<i>15.4</i>	<i>17.4</i>	<i>15.7</i>	<i>16.9</i>	<i>16.1</i>	<i>16.2</i>	<i>16.6</i>	<i>16.9</i>	<i>17.1</i>	<i>17.3</i>	<i>17.6</i>
General and administrative expenses	(417)	(559)	(702)	(783)	(955)	(935)	(987)	(991)	(979)	(979)	(980)	(980)	(981)
Other income (expenses), net	(62)	(43)	10	(9)	144	0	0	0	0	0	0	0	0
EBITDA	399	551	380	596	664	635	594	614	652	682	716	745	777
<i>EBITDA margin, %</i>	<i>9.4</i>	<i>9.9</i>	<i>6.7</i>	<i>9.0</i>	<i>9.0</i>	<i>8.2</i>	<i>7.3</i>	<i>7.4</i>	<i>7.9</i>	<i>8.2</i>	<i>8.5</i>	<i>8.8</i>	<i>9.1</i>
EBIT	194	330	176	358	342	370	329	349	387	418	451	480	512
<i>EBIT margin, %</i>	<i>4.5</i>	<i>5.9</i>	<i>3.1</i>	<i>5.4</i>	<i>4.7</i>	<i>4.8</i>	<i>4.0</i>	<i>4.2</i>	<i>4.7</i>	<i>5.0</i>	<i>5.4</i>	<i>5.7</i>	<i>6.0</i>
Finance income	11	24	0	39	26	0	19	13	14	0	0	14	20
Finance expenses	(121)	(96)	(155)	(155)	(170)	(191)	(181)	(131)	(120)	(119)	(120)	(109)	(103)
Other non-operating income (expenses), net	0	0	32	0	68	71	75	76	76	76	77	78	78
EBT	84	258	53	242	266	250	242	307	356	375	408	463	508
<i>EBT margin, %</i>	<i>2.0</i>	<i>4.6</i>	<i>0.9</i>	<i>3.7</i>	<i>3.6</i>	<i>3.2</i>	<i>3.0</i>	<i>3.7</i>	<i>4.3</i>	<i>4.5</i>	<i>4.9</i>	<i>5.5</i>	<i>6.0</i>
Income tax	(65)	(93)	(69)	(128)	(96)	(83)	(75)	(89)	(96)	(90)	(98)	(111)	(122)
Deferred income tax	78	(6)	(7)	14	(20)	0	0	0	0	0	0	0	0
Loss/gain from discontinued operations	0	0	0	2	(7)	0	0	0	0	0	0	0	0
Minority interest	3	(11)	(19)	(16)	(9)	(16)	(16)	(20)	(23)	(24)	(26)	(30)	(33)
Net income	99	147	(43)	114	135	152	151	198	237	261	284	322	354
<i>Net income margin, %</i>	<i>2.3</i>	<i>2.6</i>	<i>(0.8)</i>	<i>1.7</i>	<i>1.8</i>	<i>2.0</i>	<i>1.9</i>	<i>2.4</i>	<i>2.9</i>	<i>3.1</i>	<i>3.4</i>	<i>3.8</i>	<i>4.2</i>

Source: company's data; Estimation: Veles Capital

Fair and shares value

Weighted average cost of capital calculation (WACC)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Risk-free yield:												
k_{rf} \$ (GT10 aver(5)), %	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95	3.95
Current spread of default of Russia, %	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
k_{rf}^{RUR} , %	5.91	5.91	5.91	5.91	5.91	5.91	5.91	5.91	5.91	5.91	5.91	5.91
Required yield of shareholders:												
Share premium, %	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
β coefficient average	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34	0.34
β coefficient	0.41	0.29	0.41	0.44	0.44	0.42	0.41	0.40	0.40	0.39	0.38	0.38
corporate governance level S&P scale	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Premium for quality of corporate management, %	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60
k_s , %	12.58	11.98	12.58	12.70	12.73	12.60	12.54	12.52	12.51	12.48	12.42	12.40
Required yield of creditors:												
Credit rating, S&P scale	B	B	B	B	B	B	B	B	B	B	B	B
Premium for credit risk, %	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80
k_d , %	8.71	8.71	8.71	8.71	8.71	8.71	8.71	8.71	8.71	8.71	8.71	8.71
Capital structure:												
Source fraction: own capital, %	75%	70%	69%	69%	69%	75%	79%	80%	81%	83%	86%	87%
Source fraction: borrowed capital, %	25%	30%	31%	31%	31%	25%	21%	20%	19%	17%	14%	13%
WACC, %	10.80	7.52	9.93	10.49	10.57	10.96	11.19	11.30	11.40	11.47	11.62	11.65

Source: company's data; Estimation: Veles Capital

Calculation of free cash flows, mn USD

	2003	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
NOPAT	42	211	(56)	170	219	248	227	248	283	317	343	365	389
Depreciation and amortisation	205	221	204	238	321	265	265	265	265	265	265	265	265
Gross operating cash flow	247	433	148	407	541	513	492	512	547	582	608	630	654
CapEx	(300)	(311)	(290)	(296)	(309)	(265)	(265)	(265)	(265)	(265)	(265)	(265)	(265)
Change in working capital	0	(67)	(160)	(150)	(65)	118	49	19	0	19	23	12	16
FCFF	(53)	54	(302)	(39)	166	366	275	266	283	336	365	377	405
Discount rate, %						10.57	10.96	11.19	11.30	11.40	11.47	11.62	11.65
Discount coefficient						1.00	0.90	0.81	0.73	0.65	0.58	0.52	0.46
Discounted FCFF						366	248	216	205	218	212	195	187

Source: company's data; Estimation: Veles Capital

Estimation of shares fundamental price

Target growth rate, %	3.00
Cash flow amount, mn USD	1,482
Terminal value, mn USD	4,823
Discounted terminal value, mn USD	1,997
Company's cost, mn USD	3,479
Debt cost, mn USD	500
Share capital cost with minority interest, mn USD	2,979
Minority interest, mn USD	70
Share capital cost, mn USD	2,909
Number of common shares, units	1,388,289,720
Number of preferred shares, units	461,764,300
Preferred to common shares discount, %	25
Common share's fundamental cost, USD	1.677
Preferred share's fundamental cost, USD	1.258
Underestimation (overestimation) of common shares, %	71.99
Underestimation (overestimation) of preferred shares, %	114.99

Source: company's data; Estimation: Veles Capital

Estimation of company's business efficiency

Balance sheet structure analysis

	2003	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Non-current assets	71	67	66	66	63	60	61	60	59	57	55	54	51
PPE	69	62	60	59	54	51	52	51	50	48	47	46	44
Intangible assets	0	0	0	0	0	0	0	0	0	0	0	0	0
Other non-current assets	3	5	6	7	9	9	9	9	9	9	8	8	8
Current assets	29	33	34	34	37	40	39	40	41	43	45	46	49
Inventories	13	13	12	14	12	11	12	12	12	11	11	11	10
Accounts receivable	5	5	4	4	3	3	3	3	3	3	3	3	3
Short-term financial investments	0	0	0	0	0	8	6	6	9	12	15	16	20
Cash and near cash	4	7	8	7	10	7	8	8	8	7	7	7	7
Other current assets	7	8	9	9	11	11	11	11	10	10	10	9	9
Total assets	100	100	100	100	100	100	100	100	100	100	100	100	100
Long-term debt	7	7	11	7	5	4	4	3	3	2	0	0	0
Short-term debt	8	10	10	15	17	18	13	11	10	10	12	10	9
Equity	52	50	48	48	47	47	50	52	54	55	57	60	61
Minority interest	1	1	1	1	1	1	1	2	2	2	2	3	3
Total equity and liabilities	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: company's data; Estimation: Veles Capital

Financial state analysis

	2003	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Leverage:													
Financial leverage	0.28	0.34	0.43	0.46	0.45	0.46	0.33	0.27	0.25	0.23	0.21	0.16	0.15
Financial leverage characteristics:													
Interest-bearing debt / EBITDA	1.91	1.87	3.27	2.42	2.38	2.66	2.15	1.78	1.62	1.55	1.42	1.11	1.07
Interest-bearing SR debt / EAT	4.07	3.97	(14.32)	8.78	9.18	9.13	6.58	4.24	3.43	3.31	3.58	2.57	2.36
Interest-bearing debt / sales	0.18	0.18	0.22	0.22	0.22	0.22	0.16	0.13	0.13	0.13	0.12	0.10	0.10
Interest-bearing debt / assets	0.15	0.17	0.21	0.22	0.21	0.22	0.17	0.14	0.13	0.13	0.12	0.10	0.09
EBITDA / Interest payments	3.58	4.60	2.64	4.00	4.16	3.33	3.28	4.69	5.42	5.72	5.97	6.82	7.58
Company's liquidity:													
current ratio (>2)	0.94	0.99	1.03	0.90	0.93	0.98	1.04	1.11	1.19	1.27	1.29	1.43	1.56
quick ratio (>1)	0.30	0.36	0.38	0.29	0.34	0.25	0.29	0.30	0.31	0.30	0.28	0.30	0.30
absolute liquidity ratio (>0.2)	0.14	0.22	0.24	0.19	0.26	0.18	0.20	0.22	0.22	0.21	0.20	0.22	0.22
Turnover estimates of (days):													
accounts receivable	21	18	17	13	12	11	11	11	10	10	10	10	10
inventories	54	48	46	52	45	42	41	41	41	40	40	40	39
non-operating assets	126	126	129	123	135	146	134	134	144	155	166	172	187
net current assets	92	88	90	68	74	82	90	98	108	118	122	136	152

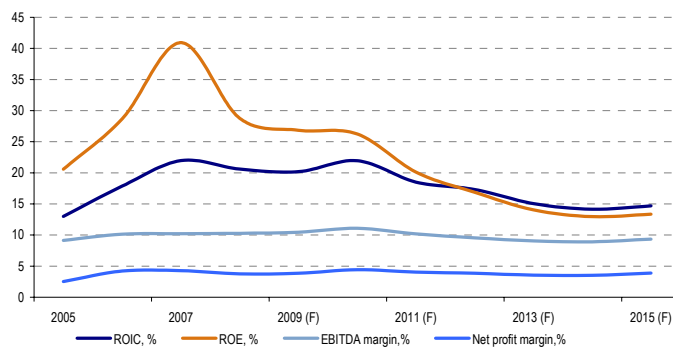
Source: company's data; Estimation: Veles Capital

Business efficiency analysis

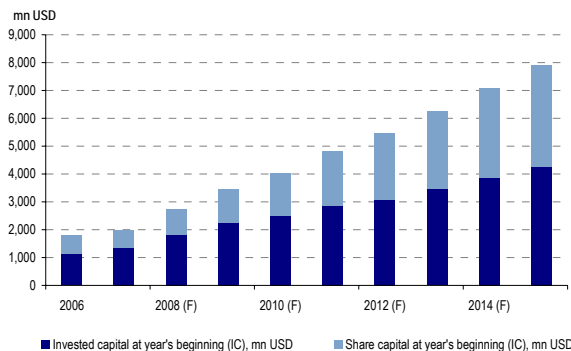
	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Invested capital at year's beginning (IC), mn USD	3,232	3,606	3,646	4,130	4,336	4,813	4,529	4,544	4,761	5,025	5,272	5,414
Share capital at year's beginning (IC), mn USD	2,700	3,009	2,875	3,171	3,528	3,688	3,847	4,054	4,302	4,573	4,869	5,203
ROIC, %	6.5	-1.6	4.7	5.3	5.7	4.7	5.5	6.2	6.7	6.8	6.9	7.2
ROIC/WACC	0.6	-0.2	0.5	0.5	0.5	0.4	0.5	0.6	0.6	0.6	0.6	0.6
ROE, %	5.5	-1.4	4.0	4.3	4.3	4.1	5.1	5.9	6.1	6.2	6.6	6.8
ROA, %	2.5	-0.7	1.7	1.6	1.9	2.0	2.5	3.0	3.2	3.3	3.7	3.9
EBITDA margin, %	9.9	6.7	9.0	9.0	8.2	7.3	7.4	7.9	8.2	8.5	8.8	9.1
EBIT margin, %	5.9	3.1	5.4	4.7	4.8	4.0	4.2	4.7	5.0	5.4	5.7	6.0
Net income margin, %	2.6	(0.8)	1.7	1.6	2.0	1.9	2.4	2.9	3.1	3.4	3.8	4.2

Source: company's data; Estimation: Veles Capital

Efficiency dynamics, %



Business value dynamics, mn USD



Source: company's data; Estimation: Veles Capital

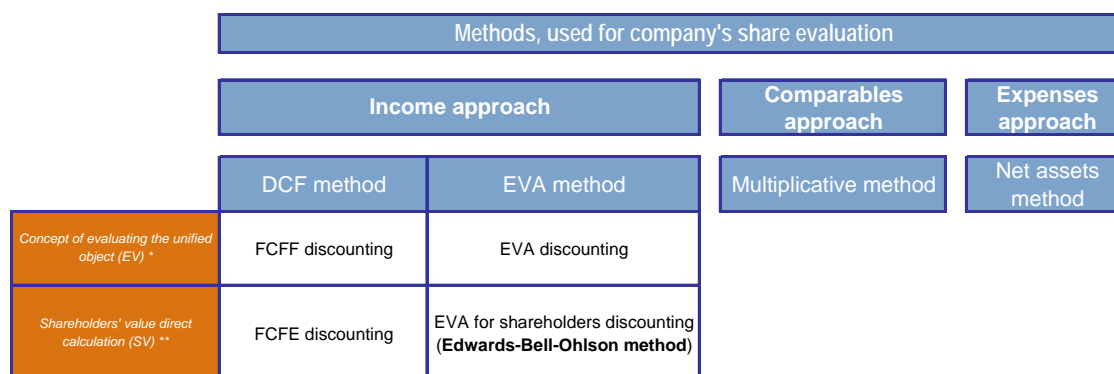
Public comparables

Sector companies' multipliers and coefficients

		Current capitalization, mln USD	Enterprise value, mln USD										Financial coefficients				
				P/S	EV/S	$EV/EBITDA$	P/E	P/BV	EV/IC	ROE, %	ROA, %	ROIC, %	EBITDA margin, %	ROIC / WACC			
Developed markets																	
Bayenische Motoren Werke AG	GERMANY	27,545	73,135	0.31	0.84	5.93	8.95	0.86	0.94	9.48	2.83	4.94	14.10	0.71			
Daimler AG	GERMANY	59,222	113,981	0.38	0.72	5.78	7.76	1.16	1.08	13.42	5.12	5.86	12.48	0.78			
Volkswagen AG	GERMANY	104,909	168,790	0.61	0.98	7.42	13.99	2.56	1.61	14.01	3.48	6.36	13.15	0.92			
Audi AG	GERMANY	31,853	20,854	0.60	0.39	2.34	9.17	1.97	4.00	27.16	7.97	41.81	16.64	4.80			
Porsche Automobil Holding SE	GERMANY	24,760	27,849	2.11	2.37	6.99	6.08	3.81	2.91	23.27	10.06	27.82	33.93	2.33			
Honda Motor Co Ltd	JAPAN	57,933	91,043	0.51	0.81	8.09	11.87	1.26	1.15	11.36	4.23	5.34	10.00	0.78			
Nissan Motor Co Ltd	JAPAN	34,813	60,808	0.36	0.62	5.68	10.54	0.89	0.94	9.52	3.94	5.44	10.95	1.01			
Suzuki Motor Corp	JAPAN	10,982	11,217	0.33	0.34	3.83	14.36	1.17	1.17	9.75	4.05	9.17	8.78	1.31			
Mitsubishi Motors Corp	JAPAN	8,692	8,938	0.35	0.36	6.90	43.61	-	-	6.13	2.40	-	5.22	-			
Isuzu Motors Ltd	JAPAN	6,525	7,687	0.38	0.45	5.27	7.98	1.81	1.61	20.95	7.10	18.25	8.46	1.71			
Mazda Motor Corp	JAPAN	7,734	9,976	0.26	0.34	5.15	10.44	1.39	1.28	13.94	4.78	10.54	6.52	1.47			
Daihatsu Motor Co Ltd	JAPAN	4,944	6,413	0.30	0.39	4.74	14.83	1.50	1.35	10.04	3.78	8.74	8.13	1.08			
Fuji Heavy Industries Ltd	JAPAN	4,110	6,011	0.28	0.40	6.84	29.81	0.76	0.82	3.29	1.27	2.08	5.89	0.38			
Toyota Auto Body Co Ltd	JAPAN	2,012	1,971	0.15	0.14	3.62	17.55	0.90	0.89	6.05	2.81	5.42	3.96	0.57			
Toyota Motor Corp	JAPAN	146,845	240,835	0.62	1.02	8.66	11.43	1.13	1.07	10.53	4.46	4.98	11.80	0.79			
Peugeot SA	FRANCE	11,938	9,275	0.12	0.10	1.11	5.72	0.56	-	8.46	1.91	12.09	8.66	1.80			
Renault SA	FRANCE	24,251	28,065	0.37	0.43	3.95	6.15	0.73	0.75	11.10	4.12	6.12	10.79	0.73			
Fiat SpA	ITALY	20,684	35,257	0.21	0.36	3.50	5.67	1.33	1.17	19.18	3.99	13.72	10.44	1.45			
General Motors Corp	UNITED STATES	6,052	22,464	0.04	0.14	6.81	-	-	-	19.10	-	11.48	2.01	1.02			
Ford Motor Co	UNITED STATES	11,412	16,526	0.08	0.12	3.96	-	-	-	-	-	-	2.98	-			
Developed markets weighted average		30,361	48,055	0.37	0.58	5.98	9.90	1.27	1.17	13.20	4.53	9.22	12.38	1.17			
Developing markets																	
Hyundai Motor Co	SOUTH KOREA	15,416	11,845	0.46	0.36	3.37	7.31	0.77	0.72	11.25	6.97	10.20	10.57	0.97			
Kia Motors Corp	SOUTH KOREA	4,633	8,115	0.28	0.49	7.72	17.75	0.85	0.91	5.38	2.34	2.25	6.41	0.29			
Ssangyong Motor Co	SOUTH KOREA	366	820	0.12	0.27	3.88	-	-	0.55	1.11	-	-	6.99	-			
Maruti Suzuki India Ltd	INDIA	4,474	3,569	0.92	0.74	5.81	10.66	2.78	5.05	20.05	13.52	45.60	12.67	3.56			
Tata Motors Ltd	INDIA	3,933	4,950	0.48	0.61	5.65	8.64	1.81	1.55	19.96	7.48	14.63	10.72	1.26			
Denway Motors Ltd	HONG KONG	2,649	1,978	-	-	-	7.21	1.79	2.44	21.43	20.58	0.45	4.54	0.03			
Tofas Turk Otomobil Fabrikasi AS	TURKEY	1,878	2,332	0.38	0.47	5.22	7.44	1.90	1.61	22.35	8.13	15.20	9.04	0.96			
Ford Otomotiv Sanayi AS	TURKEY	3,009	3,117	0.44	0.46	4.24	6.41	2.05	1.98	31.18	19.06	27.49	10.82	1.75			
Dongfeng Motor Group Co Ltd	CHINA	3,632	3,362	0.36	0.33	3.31	7.08	4.51	6.28	18.13	6.71	94.31	10.04	7.11			
FAW CAR Co Ltd	CHINA	1,989	1,737	0.74	0.65	7.72	12.76	2.51	3.22	16.13	10.05	25.14	8.41	1.38			
Great Wall Motor Co Ltd	CHINA	631	20	0.37	0.01	-	3.84	1.90	-	14.55	8.69	-	12.94	-			
SAIC Motor Corp Ltd	CHINA	7,614	6,876	0.43	0.39	43.26	11.20	1.49	1.57	12.29	5.25	-	0.89	-			
Tianjin Faw Xiali Automobile Co Ltd	CHINA	1,053	1,017	0.90	0.87	-	17.40	2.28	2.38	7.90	3.30	-	-	-			
Beiqi Foton Motor Co Ltd	CHINA	922	1,049	0.21	0.24	8.50	14.84	3.11	2.48	20.13	5.47	18.21	2.79	1.30			
Yulon Motor Co Ltd	TAIWAN	1,314	1,208	1.76	1.62	25.37	11.92	0.72	0.71	5.31	4.13	1.40	6.38	0.10			
China Motor Corp	TAIWAN	850	823	0.87	0.85	9.16	13.60	0.60	0.60	4.09	6.40	1.30	9.22	0.12			
Developing markets weighted average		3,398	3,301	0.44	0.43	5.46	8.79	1.22	1.20	14.67	8.23	21.34	8.30	1.66			
Russia																	
SOLLERS		1,714	2,151	0.60	0.75	6.74	13.35	1.94	1.63	17.10	6.94	19.33	11.13	1.74			
Kamaz		3,870	4,177	1.03	1.11	8.29	29.45	1.88	1.77	6.82	3.97	13.14	13.38	0.93			
GAZ Auto Plant		2,583	3,648	0.37	0.52	5.08	9.82	2.16	1.61	28.77	7.55	20.61	10.29	2.05			
Ulyanovsk Automobile Plant		484	481	0.51	0.50	4.44	7.56	1.33	1.33	17.45	9.91	17.80	11.31	2.31			
AvtoVAZ		1,624	2,124	0.21	0.28	3.34	10.71	-	0.51	4.30	1.94	5.72	8.24	0.54			
Russia weighted average		2,055	2,516	0.46	0.56	5.51	13.91	1.92	1.20	14.16	5.33	15.10	11.32	1.35			

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

Brief investor's guide



*

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)	$EV = \sum_{i=1}^n \frac{FCFF_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_1)^n} + NA$	$SV = EV - D$
DCF method (FCFE)		$SV = \sum_{i=1}^n \frac{FCFE_i}{(1+k_{si})^i} + \frac{TV}{(1+k_{si})^n} + \text{Cash} + NA$
EVA method	$EV = IC_1 + \sum_{i=1}^n \frac{EVA_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_1)^n} + NA$	$SV = EV - D$
EBO method		$SV = BV_1 + \sum_{i=1}^n \frac{SVA_i}{(1+k_{si})^i} + \frac{TV}{(1+k_{si})^n} + \text{Cash} + NA$

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
EBT	- 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 thee 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.

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