Veles Capital

Investment company

Research
May 26, 2009

Machinery
Russia

Power Machines

Recommendation: BUY

Signs of revival

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

Bullet moments

- We revised our fundamental estimation of Power Machines considering the results of 2008. Note, last year was completed by the company rather positively. Sales of the Power machines added 70.4% and totaled 1.3 bn USD. At the same time the expenses of the group grew less aggressively, which in the end leaded to net profit in the volume of 85 mn USD versus 304 mn USD loss a year before. EBITDA of the company formed 104 mn USD versus loss before tax and amortization amounting 193 mn USD in 2007. EBITDA margin totaled 7.9%, net profit margin – 6.5%. Note that the company did not gain profit within the past 4 years.

- Income of Power Machines last year grew mostly on behalf of the domestic consumers. Sales from the Russian customers has almost doubled versus 2007 to 935.8 mn USD, and a share of Russian consumers in the regional structure of sales grew up to 71% versus 53% a year before. In 2008 the order portfolio of Power Machines increased by 83% to 3.25 bn USD. The positive trend remains in the current year: by the results of 1Q 2009 the portfolio added another 4.8%.

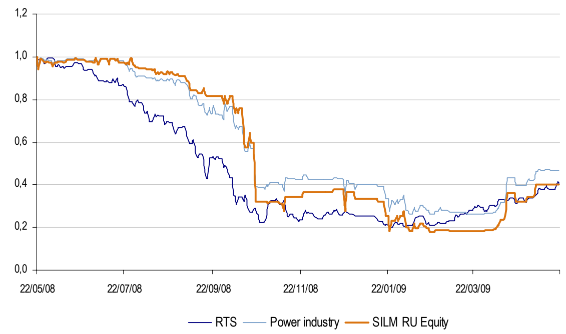
- The fact that Power Machines entered 2009 with light debt load is very significant. The financial leverage in 2008 formed 0.72 versus 1.35 in 2007. Credit portfolio of the enterprise reduced within the previous year by 22.6% to 133 mn USD. Net debt of Power Machines in 2008 was negative and formed 195 mn USD, which indicates a proper level of cash assets at the enterprise's balance.

- We assume this year the positive dynamics of Power Machines' financial estimates will remain: the orders with due dates in 2009 have been placed in 2007-2008 – before the crisis. In the prospect the impact of the crisis will also not be that ultimate. The government insists on execution of the investment programs by the energy companies, which will affect the orders to Power Machines directly. Nevertheless, we stick to moderate scenario in our forecasts, basing on the matter that introduction of new capacities in coming years will slow down and will be significantly lower, than provided in the general layout.

- Due to updates we estimated the cost of Power Machines at the level of 1.26 bn USD, which relates to 0.145 USD per common shares of the enterprise. So, our target price grew by 16%. According to the current market quotes that provides for 65.24% growth potential. Due to that we up our recommendation from SELL to BUY for the shares of Power Machines.

Principal estimates

Company's shares vs. the RTS index



Company profile	
RTS ticker	SILM
Common share price, USD	0,088
Min/max com. share price in 52 weeks, USD	0,040 / 0,220
Fair value of the com. share by the year end, USD	0,145
Growth potential (com.), %	*65,24*
Total number of com. shares, items	8 708 938 708
Market capitalization, mn USD	762
EV, mn USD	271

Financial coefficients (IAS)	2008	2009 (F)	2010 (F)
Sales, mn USD	1 312	1 447	1 492
EBITDA, mn USD	104	265	207
Net profit, mn USD	86	165	118
EBITDA margin,%	*7,9*	*18,3*	*13,9*
Net profit margin,%	*6,5*	*11,4*	*7,9*
NOPAT, mn USD	42	177	120
ROIC, %	*21,7*	*neg.*	*25,2*
ROE, %	*67,3*	*89,7*	*37,1*

Coefficients	2008	2009 (F)	2010 (F)
P/E	8,9	4,6	6,4
P/S	0,6	0,5	0,5
P/BV	4,2	2,4	1,5
EV/EBITDA	2,6	1,0	1,3
EV/S	0,2	0,2	0,2
EV/IC	1,4	neg.	0,6
ROIC/WACC	1,3	-	1,6

Given analytic materials of Veles Capital can only be used in information purposes. The company does not guarantee completeness of given information and its reliability, as well as it is not responsible for any straight or consequential loss resulting from a non-purpose use. Given document cannot be considered as the reason for buying or selling either, one or another shares.

All rights on this bill belong to Veles Capital. Reproduction and/or spreading of the analytic materials Veles Capital cannot take place without a company's authorization. © Veles Capital 2009

Financial results of Power machines for 2008

Financial results of Power Machines for 2008

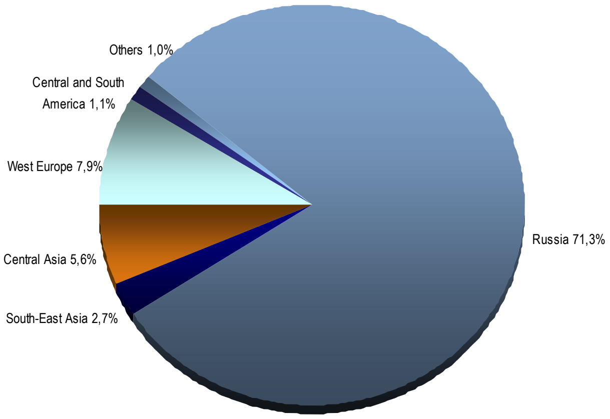
	6 months 2007		Change, %		6 months 2008	
	mn USD	mn RUR	USD	RUR	mn USD	mn RUR
Sales	379	9 886	51,7	39,2	575	13 761
Cost of services	(306)	(7 985)	47,1	35,0	(451)	(10 777)
Gross profit	73	1 901	71,1	57,0	125	2 984
Gross profit margin,%	*19,2*		*2,5*		*21,7*	
Distribution expenses	(30)	(790)	-10,5	-17,9	(27)	(648)
Administrative expenses	(52)	(1 354)	29,5	18,8	(67)	(1 609)
Other income	7	190	40,5	28,9	10	245
Other expenses	(2)	(52)	694,5	629,0	(16)	(376)
EBIT	(4)	(105)	n/m	n/m	25	596
EBIT margin,%	*neg.*		*n/m*		*4,3*	
Finance income	0	10	1 416,4	1 291,3	6	142
Finance expenses	(20)	(513)	-37,4	-42,6	(12)	(295)
Other non-operating income (expenses), net	(0)	(2)	n/m	n/m	0	7
EBT	(23)	(610)	n/m	n/m	19	451
EBT margin,%	*neg.*		*n/m*		*3,3*	
Income tax	7	191	n/m	n/m	(1)	(29)
Minority interest	0	4	-88,2	-89,2	0	0
Net profit	(16)	(414)	n/m	n/m	18	422
Net profit margin,%	*neg.*		*n/m*		*3,1*	

	9 months 2007		Change, %		9 months 2008	
	mn USD	mn RUR	USD	RUR	mn USD	mn RUR
Sales	533	13 784	72,7	60,5	920	22 116
Cost of services	(604)	(15 622)	20,0	11,5	(725)	(17 413)
Gross profit	(71)	(1 838)	n/m	n/m	196	4 703
Gross profit margin,%	*neg.*		*n/m*		*21,3*	
Distribution expenses	(53)	(1 381)	-7,1	-13,7	(50)	(1 192)
Administrative expenses	(83)	(2 136)	27,0	18,0	(105)	(2 520)
Other income	11	277	51,6	40,8	16	390
Other expenses	(19)	(493)	46,6	36,2	(28)	(672)
EBIT	(215)	(5 571)	n/m	n/m	30	710
EBIT margin,%	*neg.*		*n/m*		*3,2*	
Finance income	3	65	356,3	323,8	11	275
Finance expenses	(37)	(957)	-72,6	-74,6	(10)	(244)
Other non-operating income (expenses), net	0	3	102,3	88,0	0	6
EBT	(250)	(6 460)	n/m	n/m	31	748
EBT margin,%	*neg.*		*n/m*		*3,4*	
Income tax	(27)	(708)	-96,6	-96,8	(1)	(22)
Minority interest	0	1	n/m	n/m	(0)	(12)
Net profit	(277)	(7 168)	n/m	n/m	30	714
Net profit margin,%	*neg.*		*n/m*		*3,2*	

	2007		Change, %		2008	
	mn USD	mn RUR	USD	RUR	mn USD	mn RUR
Sales	770	19 696	70,4	65,6	1 312	32 617
Cost of services	(789)	(20 187)	28,5	24,8	(1 014)	(25 200)
Gross profit	(19)	(491)	n/m	n/m	298	7 417
Gross profit margin,%	*neg.*		*n/m*		*22,7*	
Distribution expenses	(74)	(1 894)	-8,6	-11,2	(68)	(1 681)
Administrative expenses	(125)	(3 202)	32,0	28,3	(165)	(4 109)
Other income	11	290	33,3	29,6	15	376
Other expenses	(23)	(591)	30,1	26,4	(30)	(747)
EBIT	(230)	(5 887)	n/m	n/m	51	1 256
EBIT margin,%	*neg.*		*n/m*		*3,9*	
Finance income	2	42	1 909,7	1 853,0	33	816
Finance expenses	(47)	(1 203)	-45,3	-46,8	(26)	(640)
Other non-operating income (expenses), net	0	5	187,1	179,0	1	15
EBT	(275)	(7 043)	n/m	n/m	58	1 447
EBT margin,%	*neg.*		*n/m*		*4,4*	
Income tax	(29)	(734)	n/m	n/m	21	532
Minority interest	(0)	(1)	n/m	n/m	6	153
Net profit	(304)	(7 778)	n/m	n/m	86	2 132
Net profit margin,%	*neg.*		*n/m*		*6,5*	

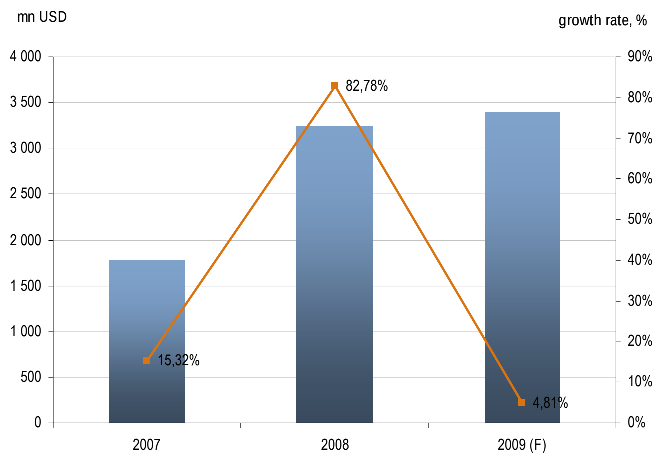
Source: company's data, Estimation: Veles Capital

Sales structure by country



Source: company's data, Estimation: Veles Capital

Projects portfolio of Power Machines



Source: company's data, Estimation: Veles Capital

Financial model of Power Machines

Profit and loss statement, mn USD

	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Sales	770	1 312	1 447	1 492	1 525	1 559	1 589
Cost of services	(789)	(1 014)	(1 043)	(1 117)	(1 150)	(1 183)	(1 206)
Amortisation	(38)	(54)	(44)	(57)	(60)	(62)	(62)
Gross profit	(19)	298	404	374	375	375	383
Gross profit margin,%	*neg.*	*22,7*	*27,9*	*25,1*	*24,6*	*24,1*	*24,1*
Distribution expenses	(74)	(68)	(55)	(67)	(70)	(73)	(74)
Administrative expenses	(125)	(165)	(126)	(153)	(160)	(169)	(173)
Gain on disposal of PPE and IA	0	0	(2)	(4)	(3)	(1)	(1)
Other income	11	15	0	0	0	0	0
Other expenses	(23)	(30)	0	0	0	0	0
EBITDA	(193)	104	265	207	202	195	197
EBITDA margin,%	*neg.*	*7,9*	*18,3*	*13,9*	*13,2*	*12,5*	*12,4*
EBIT	(230)	51	221	150	142	133	135
EBIT margin,%	*neg.*	*3,9*	*15,3*	*10,1*	*9,3*	*8,5*	*8,5*
Finance income	2	33	0	24	28	36	43
Finance expenses	(47)	(26)	(9)	(23)	(40)	(60)	(78)
Other non-operating income (expenses), net	0	1	(1)	1	0	0	(0)
EBT	(275)	58	211	151	130	109	100
EBT margin,%	*neg.*	*4,4*	*14,6*	*10,2*	*8,5*	*7,0*	*6,3*
Income tax	(3)	(9)	(42)	(30)	(26)	(22)	(20)
Deffered income tax	(26)	31	0	0	0	0	0
Minority interest	(0)	6	(4)	(3)	(3)	(2)	(2)
Net profit	(304)	86	165	118	101	85	78
Net profit margin,%	*neg.*	*6,5*	*11,4*	*7,9*	*6,6*	*5,4*	*4,9*

Source: company's data; Estimation: Veles Capital

Balance sheet, mn USD

	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Non-current assets	372	493	465	590	618	642	637
PPE	300	389	372	475	499	518	512
Intangible assets	31	30	31	40	42	45	46
Goodwill	0	4	3	4	4	4	4
Other non-current assets	41	71	63	76	77	79	79
Current assets	1 053	1 886	2 684	3 004	3 309	3 619	3 909
Inventories	160	180	235	242	248	253	258
Accounts recievable	771	1 377	1 794	1 849	1 891	1 933	1 970
Short-term financial investments	0	0	651	907	1 165	1 428	1 676
Cash and near cash	103	328	4	4	4	4	4
Other current assets	19	1	1	1	1	1	1
Total assets	1 425	2 379	3 149	3 594	3 927	4 262	4 546
Equity	127	184	319	503	613	713	786
Share capital	11	11	9	11	11	12	12
Additional paid-in capital	393	393	330	399	406	416	413
Reserves	57	27	23	28	28	29	29
Retained earnings	-334	-248	-44	66	168	257	333
Minority interest	1	56	51	64	68	72	73
Long-term liabilities	61	39	41	26	25	25	26
Long-term debt	52	20	17	2	0	0	0
Other long-term liabalities	9	18	24	24	25	25	26
Short-term liabilities	1 236	2 102	2 739	3 001	3 221	3 451	3 661
Short-term debt	119	112	147	328	488	658	815
Accounts payable	884	1 807	2 355	2 428	2 483	2 537	2 586
Other short-term liabalities	232	182	237	245	250	256	260
Total equity and liabilities	1 425	2 379	3 149	3 594	3 927	4 262	4 546

Source: company's data; Estimation: Veles Capital

Cash flow statement, mn USD

	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Operating activities							
Net profit	(304)	86	165	118	101	85	78
Depreciation and amortisation	38	54	44	57	60	62	62
Minority interest	0	(6)	4	3	3	2	2
Change in current assets	(121)	(700)	(722)	357	(10)	7	(58)
Change in short-term liabilities	224	1 073	923	(456)	13	(9)	74
Gain on disposal of PPE and IA	0	0	2	4	3	1	1
Other adjustments	166	(49)	0	0	0	0	0
Operational cash flow	3	457	415	82	170	148	158
Investment activities							
CapEx	(74)	(93)	(97)	(89)	(81)	(72)	(62)
Change in non-current assets	23	(30)	0	0	0	0	0
Change in short-term financial investments	7	(0)	(651)	(122)	(242)	(234)	(258)
Other adjustments	(22)	(5)	0	0	0	0	0
Investment cash flow	(65)	(128)	(747)	(211)	(323)	(305)	(320)
Financial activities							
Loans gained	760	328	147	151	154	158	161
Loans paid	(905)	(379)	(94)	(19)	(2)	(0)	0
Dividends paid	0	0	0	0	0	0	0
Other flows	269	0	8	(4)	0	(0)	1
Financial cash flow	124	(51)	61	128	153	157	162
Effect of exchange rates	1	(53)	(53)	1	0	0	(0)
Cash change	62	278	(272)	(1)	0	(0)	0
Cash assets by the beginning of reported period	41	103	328	4	4	4	4

Source: company's data; Estimation: Veles Capital

Valuation of Power Machines

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	0,63	0,63	0,63	0,63	0,63	0,63	0,63
Premium for quality of coprorate management, %	5,40	5,40	5,40	5,40	5,40	5,40	5,40
k_S, %	***16,60***	***16,60***	***16,60***	***16,60***	***16,60***	***16,60***	***16,60***
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, %	*43%*	*58%*	*66%*	*60%*	*56%*	*52%*	*49%*
Source fraction: borrowed capital, %	*57%*	*42%*	*34%*	*40%*	*44%*	*48%*	*51%*
WACC, %	17,63	16,05	15,91	15,80	15,70	15,63	15,57

Source: company's data; Estimation: Veles Capital

Calculation of free cash flows, mn USD

	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
NOPAT	(232)	42	177	120	114	106	108
Depreciation and amortisation	38	54	44	57	60	62	62
Gross operating cash flow	(195)	96	220	177	173	168	170
CapEx	(74)	(93)	(97)	(89)	(81)	(72)	(62)
Change in working capital	103	373	200	(99)	3	(2)	16
FCFF	(166)	376	324	(12)	96	95	124
Discount rate, %			*15,91*	*15,80*	*15,70*	*15,63*	*15,57*
Discount coefficient			1,00	0,86	0,75	0,65	0,56
Discounted FCFF			324	(10)	71	62	70

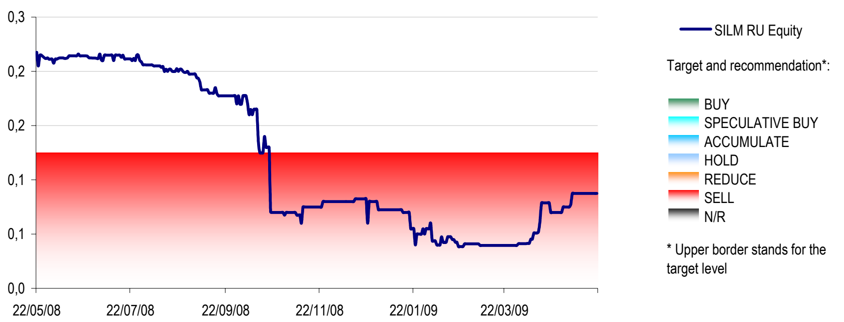
Source: company's data; Estimation: Veles Capital

Estimation of shares fundamental price

Target growth rate, %	*3*
Cash flow amount, mn USD	517
Terminal value, mn USD	1 019
Discounted terminal value, mn USD	495
Company's cost, mn USD	1 011
Debt cost, mn USD	-486
Share capital cost with minority interest, mn USD	1 498
Minority interest, mn USD	239
Share capital cost, mn USD	1 259
Number of common shares, units	8 708 938 708
Common share's fundamental cost , USD	0,145
Underestimation (overestimation) of common shares, %	*65,24*

Source: company's data; Estimation: Veles Capital

Recommendation history



Financial analysis of Power Machines

Business efficiency analysis

	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Invested capital at year's beginning (IC), mn USD	415	196	-12	478	829	1 097	1 367
Share capital at year's beginning (IC), mn USD	152	127	184	319	503	613	713
EVA, mn USD	-	11	-	45	-16	-65	-104
ROIC, %	*neg.*	*21,7*	*neg.*	*25,2*	*13,7*	*9,7*	*7,9*
ROE, %	*neg.*	*67,3*	*89,7*	*37,1*	*20,1*	*13,8*	*10,9*
ROA, %	*neg.*	*3,6*	*5,2*	*3,3*	*2,6*	*2,0*	*1,7*
EBITDA margin,%	*neg.*	*7,9*	*18,3*	*13,9*	*13,2*	*12,5*	*12,4*
EBIT margin,%	*neg.*	*3,85*	*15,27*	*10,09*	*9,32*	*8,51*	*8,53*
Net profit margin,%	*neg.*	*6,54*	*11,38*	*7,93*	*6,64*	*5,44*	*4,90*

Source: company's data; Estimation: Veles Capital

Financial state analysis

	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Leverage:							
Financial leverage	1,35	0,72	0,51	0,66	0,80	0,92	1,04
Financial leverage effect	0,91	1,31	1,04	1,18	1,39	1,82	2,37
Financial leverage characteristics:							
Interest-bearing debt / EBITDA	neg.	1,28	0,62	1,59	2,42	3,38	4,13
Interest-bearing SR debt / EAT	neg.	1,31	0,89	2,77	4,82	7,77	10,46
Interest-bearing debt / sales	0,22	0,10	0,11	0,22	0,32	0,42	0,51
Interest-bearing debt / assets	0,12	0,06	0,05	0,09	0,12	0,15	0,18
EBITDA / Interest payments	neg.	8,79	29,56	8,83	5,03	3,25	2,52
Company's liquidity:							
current ratio (>2)	0,85	0,90	0,98	1,00	1,03	1,05	1,07
quick ratio (>1)	0,71	0,81	0,66	0,62	0,59	0,56	0,54
absolute liquidity ratio (>0,2)	0,08	0,16	0,00	0,00	0,00	0,00	0,00
Turnover estimates of (days):							
accounts recievable	360	378	446	446	446	446	446
inventories	75	49	59	59	59	59	59
non-operating assets	493	517	668	725	781	836	886
net current assets	437	487	631	646	666	684	701

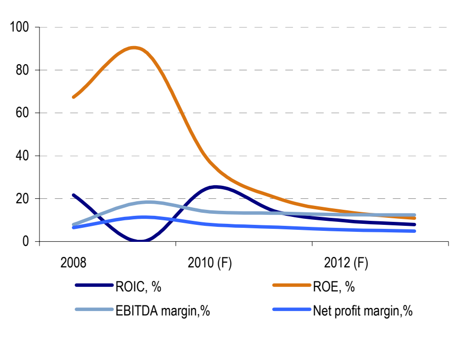
Source: company's data; Estimation: Veles Capital

Balance sheet structure analysis

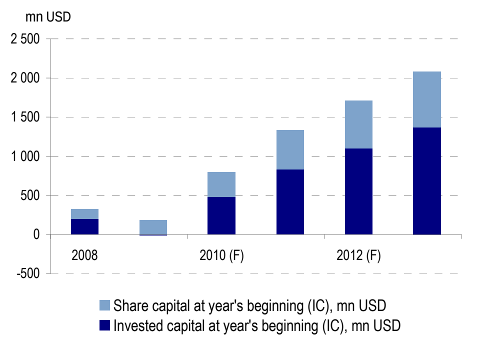
	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Non-current assets	26	21	15	16	16	15	14
PPE	21	16	12	13	13	12	11
Intangible assets	2	1	1	1	1	1	1
Other non-current assets	3	3	2	2	2	2	2
Current assets	74	79	85	84	84	85	86
Inventories	11	8	7	7	6	6	6
Accounts recievable	54	58	57	51	48	45	43
Short-term financial investments	0	0	21	25	30	34	37
Cash and near cash	7	14	0	0	0	0	0
Other current assets	1	0	0	0	0	0	0
Total assets	100	100	100	100	100	100	100
Equity	9	8	10	14	16	17	17
Minority interest	0	2	2	2	2	2	2
Long-term debt	4	1	1	0	0	0	0
Short-term debt	8	5	5	9	12	15	18
Accounts payable	62	76	75	68	63	60	57
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

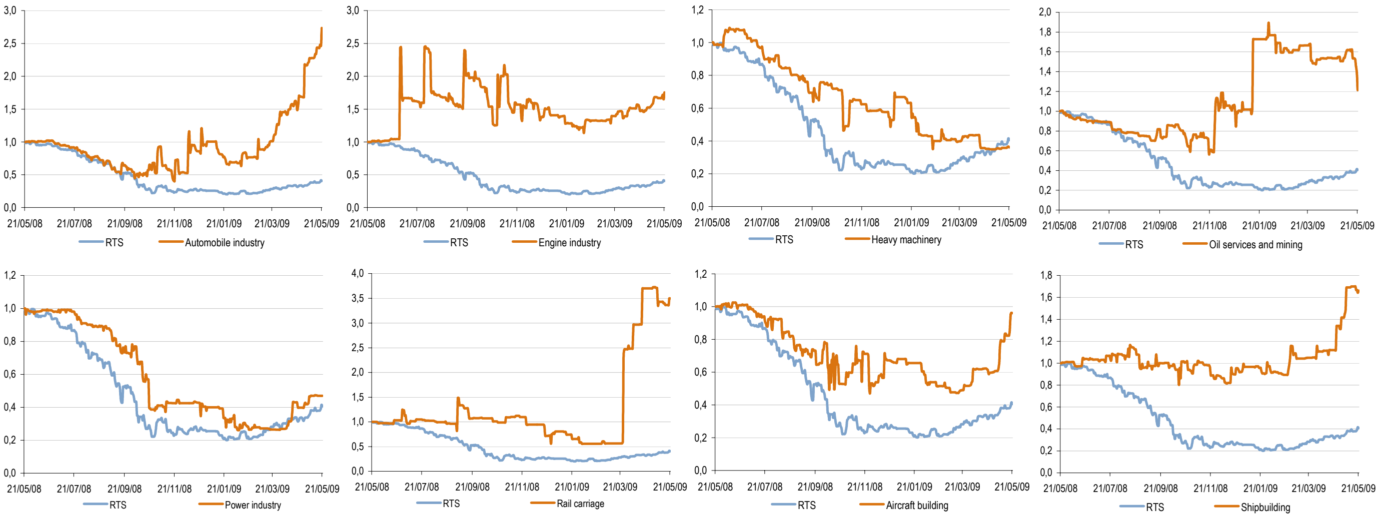
Sector companies' multipliers and coefficients

	Country	Current capitalization, mln USD	Enterprise value, mln USD	Market multipliers					Financial coefficients							
				EV/S	EV/EBITDA	P/E	P/BV	EV/IC	ROE, %	ROA, %	ROIC, %	EBITDA margin, %	ROIC/WACC	Fin. leverage (ND/S)	Net Debt / EBITDA	Net Debt / Sales
Hubbell Inc	UNITED STATES	1 761	1 937	0,82	6,32	12,40	1,51	1,44	*17,11*	*11,19*	*18,04*	*12,98*	2,09	0,15	0,57	0,07
Scientific Energy Inc	UNITED STATES	23 734	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SunPower Corp	UNITED STATES	2 170	2 472	1,81	-	-	1,78	1,62	*6,78*	*3,38*	*5,23*	*15,64*	0,38	0,25	1,42	0,22
REpower Systems AG	GERMANY	1 267	1 059	0,58	8,49	-	2,20	2,88	*8,27*	*3,92*	*26,27*	*6,84*	2,94	-	-	-
SMA Solar Technology AG	GERMANY	2 622	2 362	2,64	-	-	5,08	9,25	*29,28*	*25,11*	*89,41*	*22,02*	10,28	-	-	-
Schneider Electric SA	FRANCE	19 012	25 010	1,08	8,11	13,48	1,11	1,08	*9,17*	*5,03*	*8,09*	*13,30*	1,04	0,35	1,94	0,26
Gamesa Corp Tecnologica SA	SPAIN	5 512	6 482	1,47	-	-	2,36	1,96	*9,84*	*3,37*	*14,94*	*12,26*	1,54	0,42	1,79	0,22
Vestas Wind Systems A/S	DENMARK	15 923	15 686	1,68	-	-	4,37	4,61	*18,87*	*8,53*	*24,58*	*13,54*	2,02	-	-	-
Developed markets weighted average		1 182	1 075	1,17	7,65	13,03	1,69	1,56	*13,40*	*7,17*	*18,13*	*13,56*	1,86	0,37	1,78	0,23
Suzlon Energy Ltd	INDIA	2 990	4 742	1,15	9,12	12,03	1,32	1,18	*13,61*	*5,00*	*10,34*	*12,61*	0,89	0,77	3,37	0,42
ABB Ltd/India	INDIA	2 839	2 917	1,85	-	-	6,52	5,69	*29,23*	*10,86*	*23,12*	*11,99*	2,26	0,18	0,41	0,05
Bharat Heavy Electricals Ltd	INDIA	20 555	18 508	3,08	-	-	7,65	-	*29,23*	*10,59*	*79,39*	*14,29*	7,14	-	-	-
Areva T&D India Ltd	INDIA	1 604	1 695	2,54	-	-	8,09	5,87	*30,83*	*8,00*	*23,25*	*14,60*	2,15	0,45	0,93	0,14
Crompton Greaves Ltd	INDIA	2 002	2 042	0,99	9,13	15,85	4,44	4,16	*29,12*	*9,26*	*26,52*	*10,84*	2,46	0,09	0,18	0,02
Delta Electronics Inc	TAIWAN	5 037	3 949	1,08	9,03	19,12	2,47	4,14	*13,00*	*7,11*	*13,15*	*11,96*	1,17	-	-	-
China High Speed Transmission Equipment Group Co Ltd	CHINA	2 306	2 451	3,23	-	18,61	3,44	3,01	*20,67*	*8,87*	*16,73*	*22,69*	1,31	0,22	0,84	0,19
Baoding Tianwei Baobian Electric Co Ltd	CHINA	6 501	6 901	7,51	-	-	8,95	6,13	*27,73*	*15,81*	*20,46*	*26,06*	1,43	0,55	1,67	0,44
Dongfang Electric Corp Ltd	CHINA	5 188	4 515	1,14	-	-	9,97	-	*47,59*	*2,72*	-	*8,46*	-	-	-	-
Harbin Power Equipment Co Ltd	CHINA	1 391	638	0,17	2,38	10,17	1,05	1,11	*10,06*	*1,96*	*45,19*	*6,97*	4,50	-	-	-
Henan Pinggao Electric Co Ltd	CHINA	1 178	1 185	2,63	-	-	4,56	4,46	*17,25*	*6,60*	*13,46*	*11,26*	1,26	0,03	0,15	0,02
Shanghai Zhixin Electric Co Ltd	CHINA	1 508	1 456	4,44	-	-	7,89	-	*27,54*	*13,90*	*67,49*	*20,84*	4,53	-	-	-
Suntech Power Holdings Co Ltd	CHINA	1 945	2 833	1,69	-	-	1,34	1,21	*5,42*	*3,10*	*4,55*	*11,54*	0,40	0,61	4,60	0,53
Tellhow Sci-Tech Co Ltd	CHINA	556	653	1,65	-	-	3,46	2,54	*7,90*	*2,84*	-	*7,87*	119,74	0,60	3,09	0,24
Yingli Green Energy Holding Co Ltd	CHINA	1 196	1 659	1,57	9,28	13,97	1,56	1,35	*6,53*	*7,16*	*13,43*	*16,86*	1,18	0,60	2,59	0,44
Emerging markets weighted average		647	712	1,61	7,44	13,60	3,41	2,15	*24,85*	*8,83*	*41,40*	*14,08*	4,77	0,44	2,00	0,29
Russia																
Siloviye Mashiny	RUSSIA	762	276	0,19	1,04	4,63	2,39	-	*89,66*	*5,23*	*77,68*	*18,29*	4,88	-	-	-
MZ Arsenal	RUSSIA	18	107	0,88	7,31	-	-	1,20	*4,59*	*0,43*	*5,79*	*12,06*	-	275,50	6,08	0,73
Russia weithed average		146	656	0,08	0,31	0,10	0,04	0,13	49,63	4,22	53,24	12,79	4,29	0,13	0,23	0,05

Source: company's data, 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 min.	In a year, USD max.	Change, % Weak	Change, % 3 mth	Change, % год	from last recom.	since 01.01.2009	Target price *, USD	Upside, %	Recomendation	Last revision
Automobile industry			2,73	0,40	2,73			-78,76	-27,86		10,88	297,86		
AvtoVAZ (ord.)	AVAZ RU Equity	750	0,54	0,17	1,77	35,00	170,00	-68,60	-	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			1,75	1,00	2,46			-72,32	-62,31		7,22	311,55		
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
Saturn	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.)	ZMZNP 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			0,36	0,35	1,09			-87,03	0,00		1,85	412,31		
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			1,21	0,57	1,89			-79,54	-71,86		10,48	764,79		
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
Alnaz	ALNZ RU Equity	19	0,09	0,09	1,00	-54,50	-71,56	-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			0,47	0,26	1,00			-59,77	0,00		0,78	65,26		
Power machines	SILM RU Equity	762	0,09	0,04	0,22	0,00	127,27	-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 thee 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 calcculation (**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*
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- income tax effective rate)
FCFF - *Free Cash Flow to Firm*
FCFF = gross cash flow - gross investments
Gross cash flow = NOPAT + amortization
FCFE - *Free Cash Flow to Equity*
FCFE= gross shareholders' cash flow - gross investments
Gross shareholders' cash flow = EAT of operational profit (including interest payoffs) -annual debt coverage + attracted borrowed assets + amortization
EVA - *Economic Value Added*
EVA = economic profit spread * IC = (ROIC - WACC) * IC
SVA - *Shareholders Value Added*
SVA = 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 = $NOPAT / IC$
ROE - *Return on Equity*
ROA - *Return on Assets*

Information disclosure

The statement of an analyst and confirmation of the responsibility withdrawal

The given report is prepared by the analyst (-s) of the Investment Company Veles Capital. The given estimations in the present report reflect personal opinion of the analyst (-s). The award of the analysts does not depend, never depended and will not depend upon the specific recommendations or estimations, provided in the present report. The award of the analysts depends upon the general efficiency of the business of the Investment Company Veles Capital, determined by the investment benefit of the company's clients and also upon the incomes from other types of activity of the Investment Company Veles Capital.

The given report, prepared by the Research Department of the Investment Company Veles Capital, is basing on the public information. The present review was prepared independently from other Departments of the Investment Company Veles Capital, and any recommendations and judgments, presented in the given report reflect only the view point of the analyst (-s), participated in making of the present review. Due to that consideration, the Investment Company Veles Capital considers being necessary to state that the analysts and the Company are not responsible for the content of the given report. The analysts of the Investment Company Veles Capital do not take overall responsibility to regularly up-date the information, contained in the present report, and also to announce about all changes, introduced to the present review.

Provided analytical material of the Investment Company Veles Capital could be used only with information aims. The company does not guarantee the completeness and preciousness of provided information in the given report and its reliability, and also is not responsible for direct and indirect losses from using of the given materials. This document cannot serve as a basis for purchase and selling any securities, and cannot also be considered as an offer from the part of the Investment Company Veles Capital. The Investment Company Veles Capital and (or) its subsidiaries along with the staff, directors and analysts of the Investment Company Veles Capital have the right to purchase and sell any securities, mentioned in the given review.

The Investment Company Veles Capital and (or) its subsidiaries can serve as a market-maker or have the liabilities for underwriting of companies' securities, mentioned in the given review, can purchase or sell them for clients, and also make any actions, which do not contradict the Russian law. The Investment Company Veles Capital and (or) its subsidiaries can also be interested in the possibility of providing the companies, mentioned in the present review, with the investments and bank or any other services.

All rights for the given bulletin belong to the Investment Company Veles Capital. The reproduction and/or distribution of the analytical materials of the Investment Company Veles Capital are prohibited without the written permission of the Company. © Veles Capital 2009.

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

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

Ilya Fedotov
Telecommunications
IFedotov@veles-capital.ru

Stanislav Fomenko
Metallurgy
SFomenko@veles-capital.ru

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

Oleg Zotikov
Energy
OZotikov@veles-capital.ru

Dmitry Lyutyagin
Oil and gas
DLyutyagin@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 Labed
Investor relations
VLabed@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