

Research

May 13, 2008

Russia, Moscow, 123610, Krasnopresnenskaya nab. 12, 7<sup>th</sup> gate, 18<sup>th</sup> fl.

Tel.: 7 (495) 258 1988

Fax: 7 (495) 258 1989

**NefAZ**

*Good daughter*

**Recommendation: BUY**

Analyst: Marina Irkly

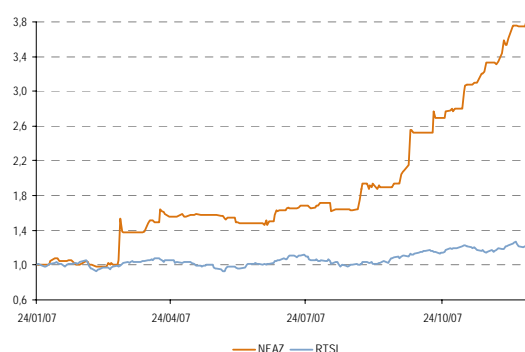
E-mail: Mlrkly@veles-capital.ru

## Bullet moments

- Neftekamskiy Avtozavod (NefAZ – Neftekamsk Automobile Plant) is a subsidiary to KAMAZ and currently one of the top producers of trailers based on KAMAZ' chassis. NefAZ manufactures dump trucks, buses, tank trucks, trailers and semitrailer tanks, as well as general transport trailers and agricultural (farming) vehicles.
- The active development of industry, construction, development of road network, mining, all this provokes high and stable demand for production of NefAZ. However, this also holds some negative issues for company's business. Primary risk is related to the fact that company does not hold required production capacities, hence, those holes in demand now attract foreign competitors, that now try to conquer them. However, NefAZ is an active partner to western companies, purchasing new and high output equipment, may still ensure some competitive benefits, hence, ensuring client base and stable flow of orders.
- The equity structure of NefAZ is rather simple. Control of company is held by KAMAZ (50.02%), 28.5% of company' stocks are held by the government of Bashkortostan in person of Bashkortostan's ministry of property. Another 7.5% are held by Cyprus' Roscoe Holding Ltd.
- Forecast of NefAZ financials is based on company's plan to increase production capacities and forecast of industrial production's growth rate. Besides of that, the strategic program by NefAZ to 2010 includes 39 mn USD of cash, which is set to develop primary and profitable segments: dump trucks, trailers and tank trucks.
- Our analysis of NefAZ with DCF method showed: fair price of company's stock is 49.15 USD apiece. Currently, the stocks of NefAZ are traded at 37.18 USD a piece. DCF analysis was also confirmed by multipliers method, proving that company's stock is relatively cheap if compared to foreign counterparts. Growth potential for year 2008 is 32.21%. We now recommend "BUY" for stocks of NefAZ.

## Principal estimates

Company's shares vs RTS index



### Information about NefAZ

Ticker RTS	NFAZ
Market price (cs), USD	37.18
Min / max price during last year (cs), USD	9.55 / 37.18
Fair price at year end (cs), USD	49.15
Upside (downside) (cs), %	32.27
Number of common shares, total	8,038,896
MC, mn USD	299
EV, mn USD	329

Consolidated financial values	2006	2007 (F)	2008 (F)
Sales, mn USD	296	445	546
EBITDA, mn USD	29	39	55
Net income, mn USD	13	18	27
EBITDA margin, %	9.7	8.8	10.1
Net income margin, %	4.5	4.0	5.0
NOPAT	17.7	22.0	33.1
ROIC, %	27.8	29.0	34.8
ROE, %	37.9	36.3	42.3

Financial coefficients	2006	2007 (F)	2008 (F)
$P/E$	22.6	16.8	10.9
$P/S$	1.0	0.7	0.5
$P/BV$	6.1	4.6	3.4
$EV/EBITDA$	11.4	8.4	6.0
$EV/S$	1.1	0.7	0.6
$EV/IC$	5.2	4.3	3.5
$ROIC/WACC$	2.1	2.3	2.7

## Company profile

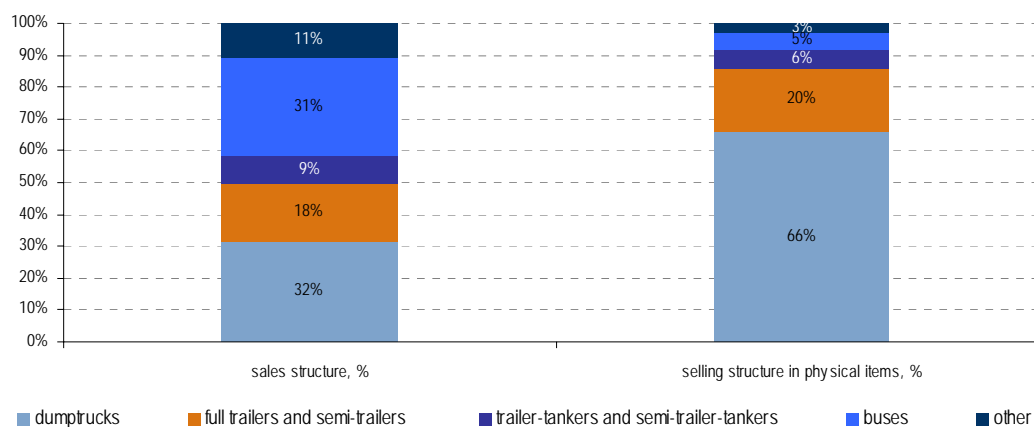
JSC NefAZ is the largest KAMAZ' subsidiary company and one of the leading manufacturers of special add-ins for KAMAZ' running gear. NefAZ' production can be divided by the following groups:

- dump trucks;
- buses;
- fuel trucks, full trailers and semi-trailers-tankers;
- full trailers and semi-trailers of general transportation purposes;
- agricultural engineering.

So, NefAZ occupied the prospective machinery market. Active development of industry, construction, development of traffic network, mineral extraction, engages high and constant demand for such equipment. However that also withholds the weak points. The major risk for the Russian manufacturers is due to the companies not obtaining the required production facilities, so the foreign competitors try to occupy the empty spaces.

NefAZ is the "aged" enterprise: the main line was launched in 1977, though the history of the company goes back to 1970, when Ministry Cabinet of USSR put out the decree "On construction and reconstruction of plants under the Ministry of motor industry in order to provide Kamsk motor plant with parts and kits". Those years KAMAZ was declared to be All-Union top-priority project. It was decided to erect accompanying plants that would supply with the required kitting. So, currently the company faced the obsolesce of the output equipment. As a result NefAZ is forced to invest significant funds in maintaining the production, expansion of the model line and at the same time not to grow out of the defined price frames due to the material and parts' price growth, along with the products of the natural monopolies, gradually cuts off the price advantage of the Russian products comparing to the foreign analogs.

### Selling structure in 2006



## NefAZ' activity in segments overview

### *Production of dumptrucks*

Primarily the company's activity is related to the production of dumptrucks. That is the oldest complex within the company: in 1977 the first line has been launched. 14 models of dumptruck installations are available at the plant, which cover the whole line of running gears produced by KAMAZ. Production of trailers for operating within the road-trains has been mastered for 5 models of dumptrucks. In 2006 dumptruck output grew by 38% comparing to the level of 2005. Income from dumptruck realization totals 31.8% of sales, at the same time the share of production in physical items was 65.9%. It is planned to create a line of European level dumptrucks up till 2010: four-, six-, eight-wheeled running gears with carrying capacity from 10 to 30 tons depending on the body type and "Euro-3" engine. It is also planned to raise the hydraulic system quality and reliability of epi-frame. During 2006 the company, together with KAMAZ, has developed samples of 4 new models of dumptrucks with carrying capacity 7, 14 and 20 tons.

In order to optimize segment's operating NefAZ purchases foreign equipment. So, in 2006 a disk-cut machine by German Kaltenbakh has been bought and that allowed raising the performance and reducing waste volumes. As for welding fabrication, activities on developing the production capacity for dumptruck output are being conducted, also a line of welding-assembling of heavy-duty platforms has been created. We assume the active industrial development will support demand increase for the output by heavy-duty production. NefAZ will be able to provide itself with definite competitive advantages due to cooperation with the foreign companies and purchase of high-production equipment and so, the company will be provided with orders.

### *Production of tankers, trailers and semi-trailers*

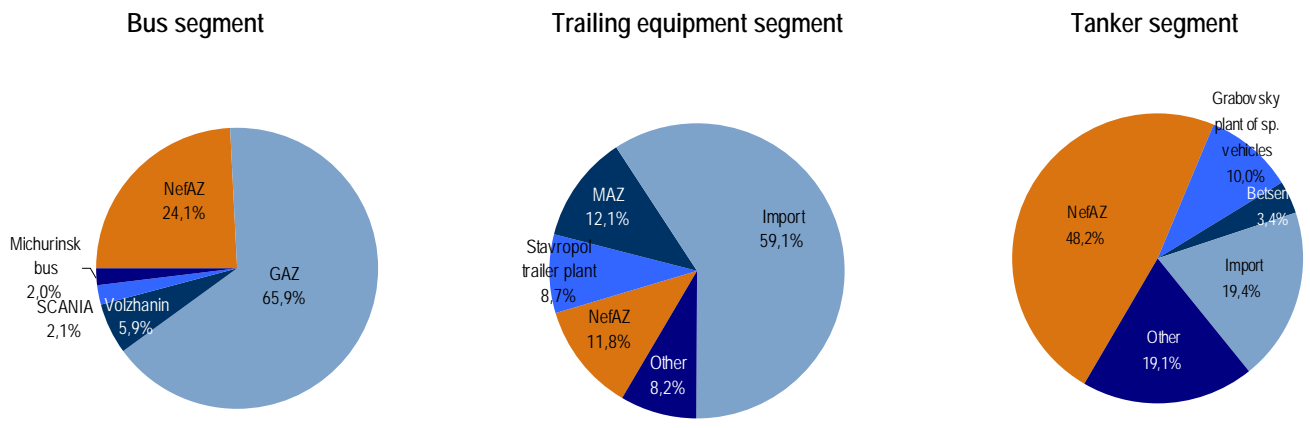
Tankers, trailers and semi-trailer-tankers, rotational vehicles and specific equipment are output at the production facilities of rotational vehicles and tankers complex. The complex obtains high production capability for executing various orders. There are about 70 modifications of the produced equipment: fuel carriers, fueling vehicles, rotational vehicles, bitumen distributors, water carriers for drinking and process water, transport trailers and semi-trailers. Total of 1,387 trailers and semi-trailers have been realized by NefAZ in 2006. Company's share among the Russian producers of trailer equipment for oil-products distribution totaled 53.7%. However, the Russian companies fall behind the foreign producers significantly: the import share at the domestic market is almost 60%. So, NefAZ' share totaled 11.8% in 2006. NefAZ is leading within the segment of tankers with a significant gap: company's share totaled 48.2% in 2006. The output of trailers grew by 26% during the previous year. Income from selling trailers and semi-trailers totaled 17.6% of sales, the share of tanker segment – 8.7% of sales. At the same time the share of selling trailers and semi-trailer-tankers in the physical items totaled just 5.6% of total selling. The strategic plan till 2010 provides for the creation of second generation tankers made from low-alloy and alloy steel that allow using tankers at air temperature up to minus 40 degrees. Also the program "Realization of full-component road-trains" has been completed in 2006, due to which all KAMAZ' trucks are now equipped with trailers and semi-trailers by NefAZ.

### *Production of buses*

The latest complex of NefAZ is the bus production, which has been launched in 2003, and starting from 2006 the line of assembling-welding low-floor buses has been introduced, similarly to VDL Dutch corporation. Occupying just 5.3% of selling in physical items, sales from bus segment totals 31% of realization. GAZ is the principal player in the given segment including such companies as PAZ, Kurgan bus plant, LiAZ, GolAZ, Kanash machine plant. The share of GAZ at the domestic market totals 65.9%. Nevertheless, NefAZ is the second large manufacturer of buses: it occupies 24.1% of the Russian bus market. Within the period till 2010 it is planned to explore the output of second generation buses (of high holding capacity and length up to 12 m). In order to optimize the

costs the volume of metal used and fuel costs are to be reduced. Besides, the new buses are to be equipped with "Euro-3" engines, also the defects, revealed earlier, are to be eliminated: observability for the driver is to be improved, reliability of the driving motor of windscreen wipers is to be upped, heating system leakproofness is also to be improved. Company's management decided to purchase samples of the best foreign buses in order to create similar ones under the Russian conditions. In future that might provide for the definite competitive advantage against the other Russian producers. In "greyhound" bus segment (such as 3 class "Tourist") high-tech research is being conducted and applied. Execution of the program of upgrading the bus fleet in various regions of Russian Federation is to support demand growth for buses, and cooperation with the foreign companies might turn NefAZ' products into more competitive ones. Both these factors are to play principal roles in forming the demand and clients' base for buses by NefAZ.

**KAMAZ' share in various segments by the end of 2006**

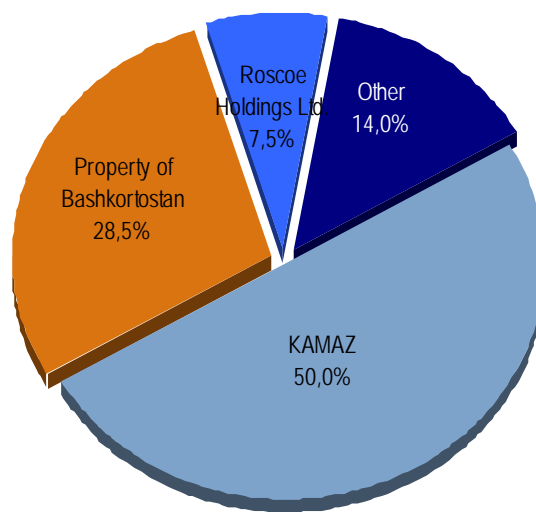


Source: company's data, Estimation: Veles Capital

## Company's equity structure

The equity structure of NefAZ is rather simple. Control of company is held by KAMAZ (50.02%), 28.5% of company' stocks are held by the government of Bashkortostan in person of Bashkortostan's ministry of property. The remaining 7.5% are held by Cyprus' Roscoe Holding Ltd., which some believe is close to Troika Dialog that up until recently has been purchasing AvtoVAZ' shares. We assume the rather simple equity structure relatively to the controlling company turns NefAZ into a company that is clearer to the shareholders, which is a significant competition advantage.

Equity structure on 30.09.2007



Source: company's data, Estimation: Veles Capital

---

## NefAZ' financial state estimation

---

NefAZ' financial results within the recent several years are quite remarkable. Sales of the company in 2006 grew by almost 40%. The main adding was is the segment of dumptrucks and trailer equipment: the sales from trailers and semi-trailers division grew by 56% and totaled 51 mn USD in 2006. The increase in those segments, as we have outlined before, became possible due to the market conjuncture and the upping in the construction branch and industry. Cost of the manufactured products grew by slower rates, which in its turn positively affected the profitability. So, the gross profitability totaled 15.43% vs. 13.97% a year before. EBITDA margin added 1.83 p.p. and totaled 9.74%. Net profit margin has almost doubled to the level of 4.46%. However despite the remarkable growth the profitability estimates of NefAZ fell behind the foreign analogs' estimates. Weighted average EBITDA margin within the developed markets totals 12.93%, within the emerging ones – 10.41%. Weighted average net profit margin within the developed markets totaled 6.91%, within the emerging ones – 6.57%.

Company's assets increase together with the operating results of the company's activity. Fast liquidity coefficient totaled 1.35 in 2006 vs. 1.02. However along with that NefAZ' borrowings increase also. So, the long-term loans grew by 44% in 2006. On contrary, short-term loans have reduced. That shows the effective use of the borrowed assets and also the company's positive credit story. Shareholders' own capital grew due to the non-distributed profit. Resulting from that the debt share in the company's own assets has reduced, despite of the actual upping of loans, and totaled 0.37 comparing to 0.46 in 2005. Besides, the company manages to accumulate the profit that exceeds the expenses of debt management significantly. So, EBITDA to interest expenses ratio totaled 8.56 in 2006 which is twice higher than in 2005. We also expect high results in 2007, however note that NefAZ' investment program totaled 14 mn USD this year, which significantly exceeds the capital expenses of previous years. NefAZ' invested capital profitability exceeds the similar estimate of KAMAZ. So, in 2006 ROIC of NefAZ' plant totaled 27.8%, KAMAZ' estimate was 9.4%. In 2007 we expect ROIC to be at the level of 29%. At the same time the economic profit spread of NefAZ is higher 10% during almost the whole target period. NefAZ occupies the median position between the weighted average estimates within the developed and emerging markets by the ROIC/WACC estimate.

Considering the coefficients, NefAZ looks rather attractive. On one hand, it is not far behind the foreign analogs by the efficiency of activities, and, on the other hand, it looks quite cheap for the position it occupies within the branch.

### Company's risk estimation

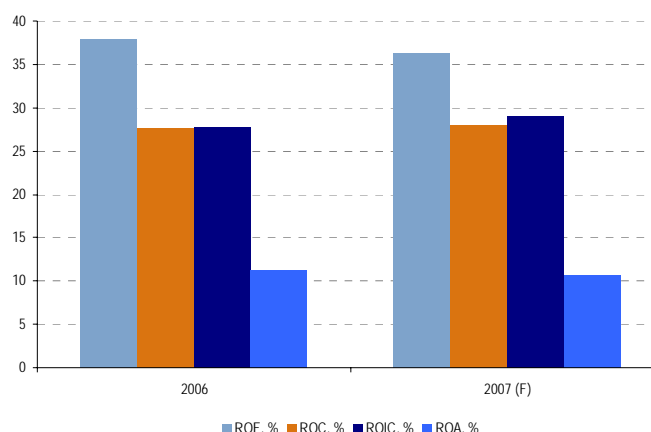
	2005	2006	2007 (F)
<b>Financial state analysis</b>			
Circulating assets, mn USD	36	61	100
Monetary assets and short-term financial investments, mn USD	0	3	13
Circulating liabilities, mn USD	36	45	63
<i>Fast liquidity coefficient</i>	<i>1,02</i>	<i>1,35</i>	<i>1,60</i>
<i>Absolute liquidity coefficient</i>	<i>0,01</i>	<i>0,06</i>	<i>0,21</i>
<b>Financial responsibility analysis</b>			
Long-term debt, mn USD	16	23	38
Short-term debt, mn USD	14	6	5
Own capital, mn USD	35	49	65
Interest expense, mn USD	4	3	2
EBIT, mn USD	15	26	35
EBITDA, mn USD	17	29	39
Capital expense, mn USD	1	1	14
<i>Interest coverage coefficient</i>	<i>4,15</i>	<i>8,56</i>	<i>19,24</i>
<i>Cash flow / capital expense</i>	<i>42,27</i>	<i>20,95</i>	<i>2,26</i>
<i>Debt coefficient</i>	<i>0,46</i>	<i>0,37</i>	<i>0,40</i>
<i>Financial leverage</i>	<i>0,84</i>	<i>0,59</i>	<i>0,66</i>

Source: company's data, Estimation: Veles Capital

### Company's activity efficiency estimation

	2006	2007 (F)
<b>Profitability analysis</b>		
Sales, mn USD	296	445
EBITDA, mn USD	29	39
Net profit, mn USD	13	18
Own capital in a year, mn USD	35	49
Own and attracted capital in a year, mn USD	64	78
Assets, mn USD	118	167
Invested capital in a year, mn USD	64	76
<i>EBITDA margin, %</i>	<i>9,74</i>	<i>8,81</i>
<i>Net profit margin, %</i>	<i>4,46</i>	<i>4,01</i>
<i>ROE, %</i>	<i>37,92</i>	<i>36,29</i>
<i>ROC, %</i>	<i>27,60</i>	<i>28,04</i>
<i>ROIC, %</i>	<i>27,76</i>	<i>29,00</i>
<i>ROA, %</i>	<i>11,20</i>	<i>10,71</i>

Source: company's data, Estimation: Veles Capital



### Sales structure, mn USD

	2005	Change, %	2006
Dumptrucks	57	60,44	91
Full-trailers and semi-trailers	33	55,78	51
Trailer-tankers and semi-trailer-tankers	22	15,34	25
Buses	75	18,60	89
Other	16	94,46	31
<b>Realization sales</b>	<b>203</b>	<b>41,96</b>	<b>288</b>

Source: company's data, Estimation: Veles Capital

## Interim results of 2007

The interim results of NefAZ show that the company's sales grew by 50% within 9 months of 2007, however the costs grew by anticipating rates, so due to that profitability estimates decreased. So, the operating margin totaled 7.96% vs. 8.77% within the similar period of the previous year. Net profit margin also dropped: 3.71% vs. 4.02% a year before. Nevertheless, NefAZ' results within 9 months of 2007 surpassed the company's business plan: the sales outdid the business plan by 16%, the net profit – by 13%.

Speaking about the company's achievements during the given period we should outline the reconstruction completion at the painting shop that began in 2005. Due to that German Wagner equipment was installed in the painting chambers, and from now on the surface is being prepared for painting using bead-blasting equipment instead of wash-and-dry chambers. The pre-clean of the working surface is significant for anticorrosive protection. Using the blast cleaning is most quality and effective method due to using it any level of clarity, roughness and surface profile can be achieved. Investments in the new product development program and the principal funds totaled 8.3 mn USD within 9 months of 2007. Note that total investment program of the current year forms 14 mn USD.

### NefAZ' financial activity estimates according to RAS within 9 months of 2007

	9 months of 2006	Change, %	9 months of 2007
Sales	202	50	304
Cost	(170)	54	(263)
Gross profit	32	30	42
<i>Gross profit margin, %</i>	<i>15,85</i>		<i>13,67</i>
Commercial expences	(4)	28	(5)
Administrative expenses	(10)	19	(12)
EBIT	18	36	24
<i>EBIT margin, %</i>	<i>8,77</i>		<i>7,96</i>
Financial income	0	255	0
Financial expenses	(3)	(12)	(2)
Other non-operating expenses, net	(3)	43	(4)
EBT	12	45	18
<i>EBT margin, %</i>	<i>6,11</i>		<i>5,90</i>
Income tax	(4)	59	(7)
Other similar payments	(0)	4	(0)
Net profit	8	39	11
<i>Net profit margin, %</i>	<i>4,02</i>		<i>3,71</i>

Source: company's data, Estimation: Veles Capital

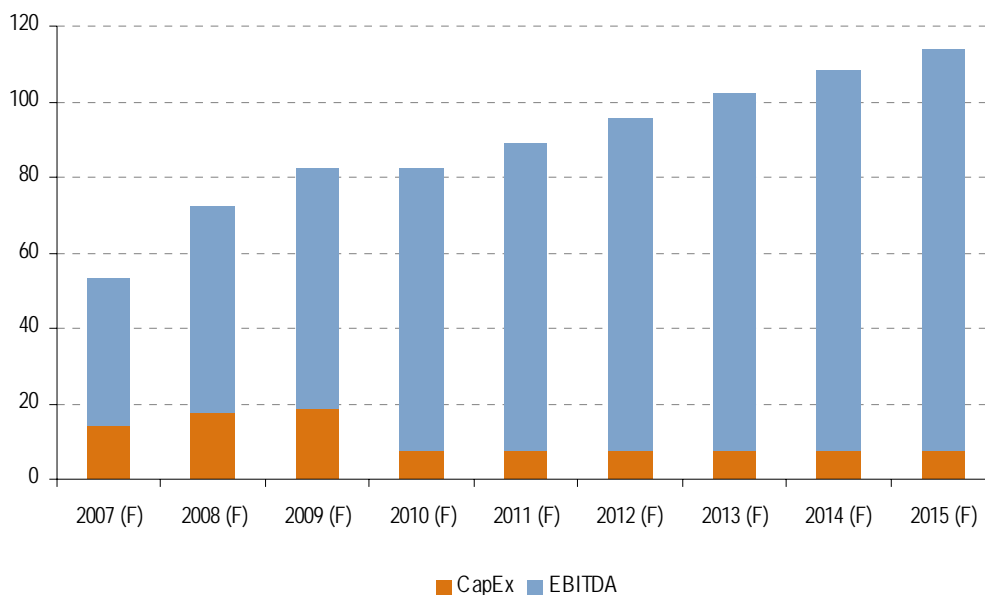
## Basics of financial estimates forecast

NefAZ' financial estimates' forecast was based on the company's plans on raising the production capacity, and also on the forecasts of the industrial production growth rates. Besides, the strategic program of NefAZ till 2010 includes 39 mn USD of assets, which NefAZ is to direct to the development of the principal profitable segments: dumptruck, trailer and tanker.

We assume NefAZ keeps the production at the achieved level. At the same time the share of capital expenses in EBITDA is insignificant and will total less than one third of profit before amortization, interest payoffs and income tax, within the following 3 years.

Company's expenses are calculated considering the forecasts of the principal macroeconomic estimates, along with the company's plans on attracting and covering the borrowed assets.

### Capital expenses and EBITDA ratio, mn USD



---

## Investment conclusion

---

Analysis of NefAZ, conducted by us using discounted cash flows' method, allowed us to calculate company's business cost. We gained the result that the company's shares are underestimated by the market. Share's fair value, calculated basing on the DCF method, totaled 49.15 USD. Currently NefAZ' shares are traded at the level of 37.18 USD per share. Note that share cost upped by 3 times within a year. However the DCF-estimation, along with analysis via coefficients method, shows that NefAZ' shares are rather cheap comparing to the foreign analogs. The shares' growth potential during the next year totals 32.21%. Due to that we assign the recommendation "BUY" for the shares of NefAZ.

## Forecasted financial estimates

### NefAZ' balance sheet, mn USD

	2005	2006	2007 (F)	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
<b>ASSETS</b>											
<b>Circulating assets</b>	36	61	100	140	166	202	241	286	339	396	463
Monetary assets and equivalents	0	3	13	16	19	21	23	24	26	28	30
Financial investments	0	0	0	17	26	47	73	103	142	186	240
Other circulating assets	36	59	87	107	121	134	146	158	170	182	194
<b>Non-circulating assets</b>	50	57	66	79	91	91	91	91	91	91	91
Principal funds	33	39	48	61	74	74	74	74	74	74	74
Other non-circulating assets	17	18	18	18	18	18	18	18	18	18	18
<b>TOTAL ASSETS</b>	<b>86</b>	<b>118</b>	<b>167</b>	<b>218</b>	<b>257</b>	<b>294</b>	<b>333</b>	<b>377</b>	<b>430</b>	<b>488</b>	<b>555</b>
<b>LIABILITIES</b>											
<b>Capital</b>	35	49	65	89	118	154	197	245	299	358	422
Equity	19	21	21	21	21	21	21	21	21	21	21
Non-distributed profit	16	28	44	68	97	133	176	224	278	337	401
<b>Long-term liabilities</b>	16	23	39	44	41	39	28	19	10	5	3
Long-term credits and loans	16	23	38	44	40	39	27	18	9	4	2
Other long-term liabilities	0	1	1	1	1	1	1	1	1	1	1
<b>Short-term liabilities</b>	36	45	63	85	99	100	108	114	122	125	130
Short-term credits and loans	14	6	5	15	19	12	12	10	10	6	3
Other short-term liabilities	22	39	58	70	80	88	96	104	112	120	127
<b>TOTAL LIABILITIES</b>	<b>86</b>	<b>118</b>	<b>167</b>	<b>218</b>	<b>257</b>	<b>294</b>	<b>333</b>	<b>377</b>	<b>430</b>	<b>488</b>	<b>555</b>

Source: company's data, Estimation: Veles Capital

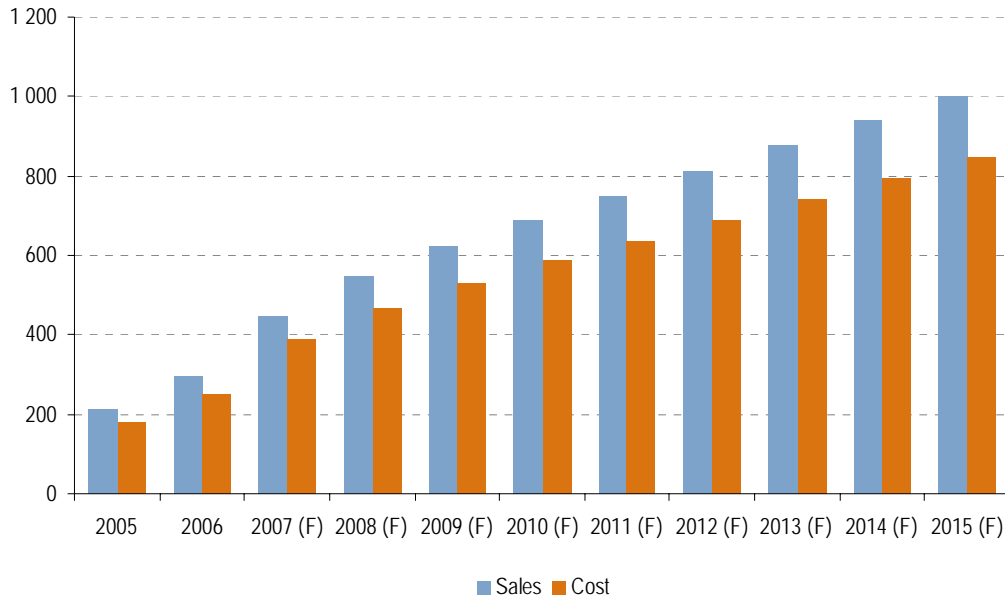
### NefAz' profit and loss report, mn USD

	2004	2005	2006	2007 (F)	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Sales	213	296	445	546	621	689	751	814	877	939	1 000	
Cost	(183)	(251)	(387)	(466)	(530)	(585)	(636)	(689)	(742)	(795)	(847)	
<b>Gross profit</b>	<b>30</b>	<b>46</b>	<b>59</b>	<b>79</b>	<b>91</b>	<b>105</b>	<b>115</b>	<b>124</b>	<b>134</b>	<b>144</b>	<b>153</b>	
<i>Gross profit margin, %</i>	<i>13,97</i>	<i>15,43</i>	<i>13,20</i>	<i>14,56</i>	<i>14,65</i>	<i>15,20</i>	<i>15,26</i>	<i>15,30</i>	<i>15,32</i>	<i>15,31</i>	<i>15,27</i>	
Commercial expenses	(5)	(6)	(7)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	
Administrative expenses	(11)	(14)	(17)	(21)	(23)	(26)	(28)	(31)	(33)	(35)	(38)	
<b>EBITDA</b>	<b>17</b>	<b>29</b>	<b>39</b>	<b>55</b>	<b>64</b>	<b>75</b>	<b>82</b>	<b>88</b>	<b>94</b>	<b>100</b>	<b>106</b>	
<i>EBITDA margin, %</i>	<i>7,91</i>	<i>9,74</i>	<i>8,81</i>	<i>10,06</i>	<i>10,25</i>	<i>10,89</i>	<i>10,85</i>	<i>10,82</i>	<i>10,77</i>	<i>10,70</i>	<i>10,61</i>	
<b>EBIT</b>	<b>15</b>	<b>26</b>	<b>35</b>	<b>50</b>	<b>57</b>	<b>67</b>	<b>74</b>	<b>80</b>	<b>87</b>	<b>93</b>	<b>98</b>	
<i>EBIT margin, %</i>	<i>6,83</i>	<i>8,74</i>	<i>7,78</i>	<i>9,14</i>	<i>9,23</i>	<i>9,79</i>	<i>9,84</i>	<i>9,88</i>	<i>9,90</i>	<i>9,89</i>	<i>9,85</i>	
Financial income	0	0	0	0	1	1	2	4	5	7	9	
Financial expenses	(4)	(3)	(2)	(3)	(4)	(4)	(4)	(3)	(2)	(1)	(1)	
Other non-operational expenses, net	(3)	(3)	(4)	(5)	(6)	(7)	(8)	(8)	(9)	(9)	(10)	
<b>EBT</b>	<b>8</b>	<b>19</b>	<b>28</b>	<b>41</b>	<b>48</b>	<b>58</b>	<b>65</b>	<b>73</b>	<b>81</b>	<b>89</b>	<b>97</b>	
<i>EBT margin, %</i>	<i>3,72</i>	<i>6,54</i>	<i>6,32</i>	<i>7,59</i>	<i>7,71</i>	<i>8,37</i>	<i>8,68</i>	<i>8,99</i>	<i>9,27</i>	<i>9,51</i>	<i>9,71</i>	
Income tax	(3)	(6)	(10)	(14)	(15)	(16)	(16)	(18)	(19)	(21)	(23)	
Other similar payoffs	(0)	(0)	(0)	(0)	(0)	(0)	(1)	(1)	(1)	(1)	(1)	
<b>Net profit</b>	<b>5</b>	<b>13</b>	<b>18</b>	<b>27</b>	<b>33</b>	<b>42</b>	<b>49</b>	<b>56</b>	<b>62</b>	<b>68</b>	<b>74</b>	
<i>Net profit margin, %</i>	<i>2,33</i>	<i>4,46</i>	<i>4,01</i>	<i>5,03</i>	<i>5,34</i>	<i>6,06</i>	<i>6,54</i>	<i>6,83</i>	<i>7,04</i>	<i>7,23</i>	<i>7,38</i>	

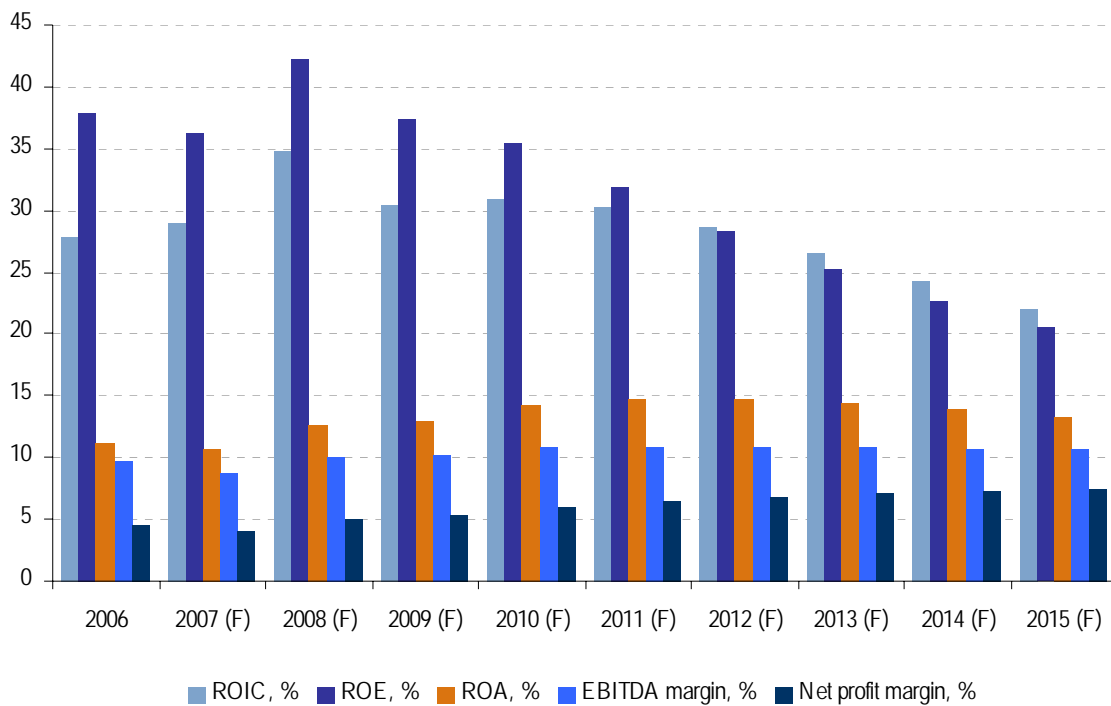
Source: company's data, Estimation: Veles Capital

## PRINCIPAL FORECASTED ESTIMATES

Sales and operating costs dynamics, mn USD



Profitability estimates' dynamics, %



Source: company's data, Estimation: Veles Capital

## DCF model

### WACC estimation

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Risk-free yield:</b>											
$k_{rf}$ \$ (GT10 aver(5)), %	4,36	4,36	4,36	4,36	4,36	4,36	4,36	4,36	4,36	4,36	4,36
Current spread of RF <sup>1</sup> default, %	1,53	1,53	1,53	1,53	1,53	1,53	1,53	1,53	1,53	1,53	1,53
$k_{rf}^{RUR}$ , %	<b>5,89</b>	<b>5,89</b>	<b>5,89</b>	<b>5,89</b>	<b>5,89</b>	<b>5,89</b>	<b>5,89</b>	<b>5,89</b>	<b>5,89</b>	<b>5,89</b>	<b>5,89</b>
<b>Required yield of shareholders, %</b>											
share premium, %	5,00	5,00	5,00	5,00	5,00	5,00	5,00	5,00	5,00	5,00	5,00
$\beta$ coefficient	0,91	0,91	0,91	0,91	0,91	0,91	0,91	0,91	0,91	0,91	0,91
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
Premium for the quality of corporate governance, %	4,60	4,60	4,60	4,60	4,60	4,60	4,60	4,60	4,60	4,60	4,60
$k_{S}$ , %	<b>15,04</b>	<b>15,04</b>	<b>15,04</b>	<b>15,04</b>	<b>15,04</b>	<b>15,04</b>	<b>15,04</b>	<b>15,04</b>	<b>15,04</b>	<b>15,04</b>	<b>15,04</b>
<b>Creditors' required yield:</b>											
credit rating, S&P scale	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+
Premium for credit risk, %	7,80	7,80	7,80	7,80	7,80	7,80	7,80	7,80	7,80	7,80	7,80
$k_{d}$ , %	<b>13,69</b>	<b>13,69</b>	<b>13,69</b>	<b>13,69</b>	<b>13,69</b>	<b>13,69</b>	<b>13,69</b>	<b>13,69</b>	<b>13,69</b>	<b>13,69</b>	<b>13,69</b>
<b>Capital's structure:</b>											
Share of source "ones own capital", %	54%	63%	60%	60%	67%	75%	83%	90%	94%	97%	99%
Share of source "borrowed capital", %	46%	37%	40%	40%	33%	25%	17%	10%	6%	3%	1%
<b>WACC, %</b>	<b>12,22</b>	<b>12,93</b>	<b>12,50</b>	<b>12,66</b>	<b>13,18</b>	<b>13,76</b>	<b>14,25</b>	<b>14,57</b>	<b>14,76</b>	<b>14,91</b>	<b>14,98</b>

Source: company's data, Estimation: Veles Capital

### NefAZ' cash flow estimation, mn USD

	2005	2006	2007 (F)	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
NOPAT	9	18	22	33	40	49	56	61	66	71	75
Amortization	(2)	(3)	(5)	(5)	(6)	(8)	(8)	(8)	(8)	(8)	(8)
<b>Gross operating cash flow</b>	<b>12</b>	<b>21</b>	<b>27</b>	<b>38</b>	<b>46</b>	<b>56</b>	<b>63</b>	<b>69</b>	<b>74</b>	<b>78</b>	<b>82</b>
Capital costs	(1)	(1)	(14)	(18)	(19)	(8)	(8)	(8)	(8)	(8)	(8)
Circulating capital change	(14)	(6)	(10)	(7)	(5)	(5)	(4)	(4)	(4)	(4)	(4)
<b>FCFF</b>	<b>(3)</b>	<b>14</b>	<b>3</b>	<b>14</b>	<b>22</b>	<b>44</b>	<b>52</b>	<b>57</b>	<b>62</b>	<b>66</b>	<b>71</b>
Discount rate, %				12,66	13,18	13,76	14,25	14,57	14,76	14,91	14,98
Discount coefficient				1,00	0,88	0,77	0,67	0,58	0,50	0,43	0,38
<b>Discounted FCFF</b>				<b>14</b>	<b>20</b>	<b>34</b>	<b>35</b>	<b>33</b>	<b>31</b>	<b>29</b>	<b>27</b>

Source: company's data, Estimation: Veles Capital

### Estimation of NefAZ' shares fundamental cost

Target growth rate, %	3,00
Cash flow amount, mn USD	222
Terminal value, mn USD	608
Discounted terminal value, mn USD	199
Company's cost, mn USD	421
Net debt, mn USD	26
Equity cost, mn USD	395
Quantity of common shares, items	8 038 896
<b>Common shares' fundamental cost, USD</b>	<b>49,1</b>
<b>Common shares' growth potential, %</b>	<b>32,21</b>

Source: company's data, Estimation: Veles Capital

## Financial analysis

### Cost creation estimates

	2006	2007 (F)	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Invested capital growth, %		18,6	25,7	37,7	20,8	16,2	16,0	16,4	17,3	16,5
Invested capital, mn USD	64	76	95	131	158	184	213	248	291	339
Equity	35	49	65	89	118	154	197	245	299	358

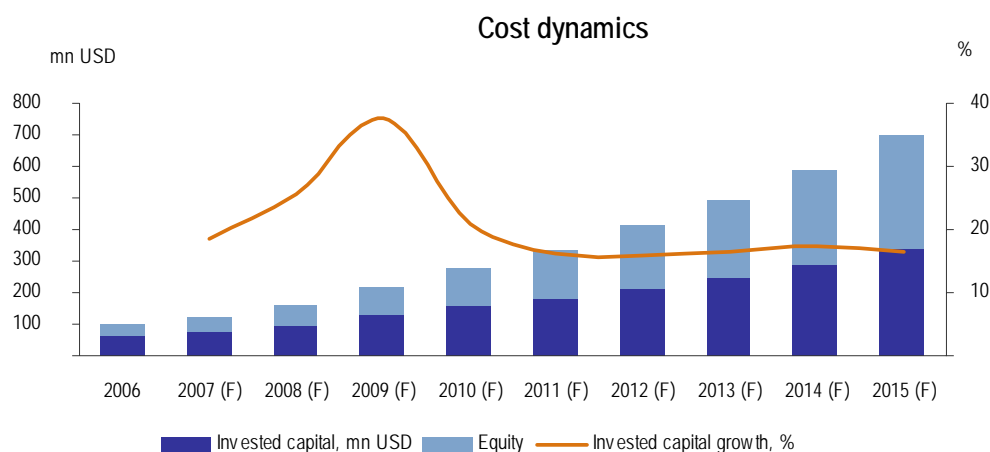
### Business efficiency analysis

	2005	2006	2007 (F)	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
ROIC, %		27,8	29,0	34,8	30,4	30,9	30,3	28,6	26,6	24,2	22,1
ROE, %		37,9	36,3	42,3	37,5	35,5	31,9	28,3	25,2	22,7	20,6
ROA, %	5,7	11,2	10,7	12,6	12,9	14,2	14,8	14,7	14,4	13,9	13,3
EBITDA margin, %	7,9	9,7	8,8	10,1	10,3	10,9	10,9	10,6	10,6	10,7	10,6
EBIT margin, %	6,8	8,7	7,8	9,1	9,2	9,8	9,8	9,9	9,9	9,9	9,8
Net profit margin, %	2,3	4,5	4,0	5,0	5,3	6,1	6,5	6,8	7,0	7,2	7,4

### Financial state analysis

	2005	2006	2007 (F)	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Financial leverage	0,84	0,59	0,66	0,66	0,50	0,33	0,20	0,11	0,06	0,03	0,01
<b>liquidity estimates</b>											
coverage coeff.	0,29	0,71	0,92	0,83	0,82	0,89	0,90	0,93	0,94	0,97	1,00
fast liquidity coeff.	1,02	1,35	1,60	1,63	1,68	2,01	2,23	2,52	2,79	3,16	3,56
absolute liquidity coeff.	0,01	0,06	0,21	0,19	0,19	0,21	0,21	0,21	0,22	0,22	0,23
<b>business activity indicators</b>											
ratio of debt arrearage, days	17	36	36	36	36	36	36	36	36	36	36
ratio of supplies, days	38	33	33	33	33	33	33	33	33	33	33

Source: company's data, Estimation: Veles Capital



Source: company's data, Estimation: Veles Capital

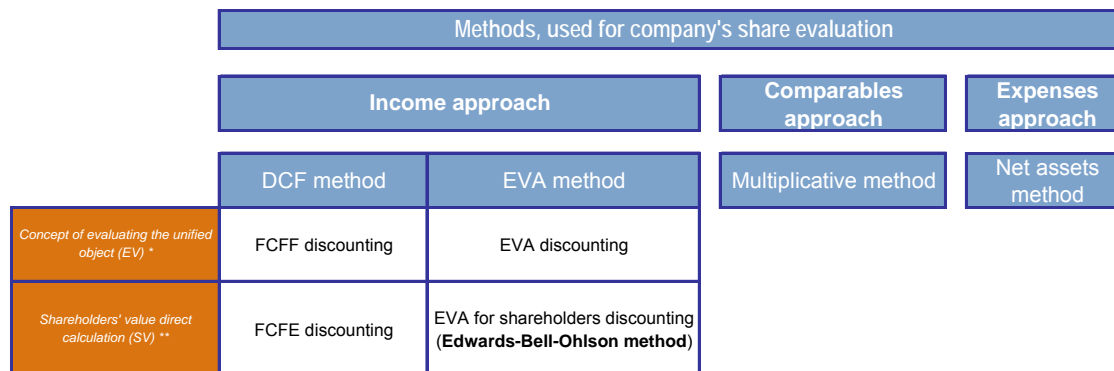
## Public comparables

### 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	
<b>Developed markets</b>															
MAN AG	GERMANY	19,361	19,239	0.76	0.75	5.50	9.68	2.69	2.72	24.54	8.24	26.90	13.68	2.06	
Isuzu Motors Ltd	JAPAN	7,747	9,123	0.45	0.53	6.87	9.47	2.60	2.09	21.05	6.68	21.25	7.74	1.93	
Hino Motors Ltd	JAPAN	4,068	6,126	0.31	0.46	7.09	16.86	1.58	1.32	8.10	2.72	5.93	6.49	0.85	
Fuji Heavy Industries Ltd	JAPAN	3,330	5,941	0.22	0.39	5.83	16.16	0.69	0.80	4.06	1.40	3.86	6.64	0.68	
Hino Motors Ltd	JAPAN	4,068	6,126	0.31	0.46	7.09	16.86	1.58	1.32	8.10	2.72	5.93	6.49	0.85	
PACCAR Inc	UNITED STATES	17,230	14,716	1.12	0.96	7.22	13.38	3.45	5.94	24.69	17.10	47.66	13.29	4.42	
Navistar International Corp	UNITED STATES	4,074	4,874	0.31	0.37	4.88	10.88	-	-	18.83	1.42	-	7.54	-	
Oshkosh Corp	UNITED STATES	2,668	5,407	0.37	0.75	6.32	8.11	1.87	1.30	20.48	7.90	11.11	11.79	1.23	
Oshkosh Corp	UNITED STATES	2,668	5,407	0.37	0.75	6.32	8.11	1.87	1.30	20.48	7.90	11.11	11.79	1.23	
Scania AB	SWEDEN	16,168	19,454	1.06	1.28	7.11	10.69	10.08	3.98	36.50	11.53	32.71	17.97	2.32	
Rosenbauer International AG	AUSTRIA	283	348	0.44	0.54	6.44	12.27	4.09	2.60	26.65	10.50	31.95	8.45	3.83	
<b>Developed markets weighted average</b>		<b>7,424</b>	<b>8,796</b>	<b>0.57</b>	<b>0.67</b>	<b>6.40</b>	<b>11.09</b>	<b>2.62</b>	<b>2.09</b>	<b>23.59</b>	<b>9.43</b>	<b>27.90</b>	<b>12.43</b>	<b>2.39</b>	
<b>Developing markets</b>															
Ashok Leyland Ltd	INDIA	1,055	1,146	0.55	0.59	5.73	9.23	2.41	2.17	23.27	12.23	21.87	10.32	1.62	
Tata Motors Ltd	INDIA	6,196	7,876	0.82	1.05	9.61	13.33	3.49	2.28	23.11	8.15	13.01	10.88	1.06	
Mahindra & Mahindra Ltd	INDIA	3,998	4,623	1.12	1.29	10.22	13.62	3.57	2.65	26.58	11.12	13.94	12.67	1.15	
CNHTC Jinan Truck Co Ltd	CHINA	1,853	1,940	0.82	0.86	26.17	21.30	7.64	5.89	30.50	3.42	12.98	3.28	1.08	
Zhengzhou Yutong Bus Co Ltd	CHINA	1,358	1,182	1.31	1.14	23.99	28.90	5.04	12.59	23.45	7.00	42.65	4.77	3.78	
Xiamen King Long Motor Co Ltd	CHINA	1,134	908	0.65	0.52	11.55	36.14	7.64	-	19.70	6.70	-	4.50	-	
Liaoning SG Automotive Group Co Ltd	CHINA	403	406	0.68	0.69	14.94	25.18	2.58	2.54	11.51	3.50	9.81	4.62	1.01	
<b>Developing markets weighted average</b>		<b>2,285</b>	<b>2,583</b>	<b>0.86</b>	<b>0.97</b>	<b>10.63</b>	<b>15.18</b>	<b>3.85</b>	<b>2.72</b>	<b>24.34</b>	<b>8.30</b>	<b>16.51</b>	<b>9.28</b>	<b>1.37</b>	
<b>Russia</b>															
Neftekamsky Avtozavod OAO		378	352	0.85	0.79	8.97	21.18	5.81	8.98	36.29	10.71	29.00	8.81	2.32	
Kamaz		4,675	4,368	1.24	1.16	8.67	35.58	2.27	2.49	6.82	3.97	13.14	13.38	0.93	
<b>Russia weighted average</b>		<b>2,527</b>	<b>2,360</b>	<b>1.20</b>	<b>1.12</b>	<b>8.69</b>	<b>33.86</b>	<b>2.38</b>	<b>2.64</b>	<b>9.02</b>	<b>4.47</b>	<b>14.33</b>	<b>13.04</b>	<b>1.04</b>	

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 unified object cost evaluation	Shareholders' capital value calculation (SV)
DCF method (FCFF)	$EV = \sum_{i=1}^n \frac{FCFF_i}{(1+WACC_1)^i} + \frac{TV}{(1+WACC_1)^n} + NA$	$SV = EV - D$
DCF method (FCFE)		$SV = \sum_{i=1}^n \frac{FCFE_i}{(1+k_{s1})^i} + \frac{TV}{(1+k_{s1})^n} + \text{Cash} + NA$
EVA method	$EV = IC_1 + \sum_{i=1}^n \frac{EVA_i}{(1+WACC_1)^i} + \frac{TV}{(1+WACC_1)^n} + NA$	$SV = EV - D$
EBO method		$SV = BV_1 + \sum_{i=1}^n \frac{SVA_i}{(1+k_{s1})^i} + \frac{TV}{(1+k_{s1})^n} + \text{Cash} + NA$

### 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  

$$FCFE = \text{gross shareholders' cash flow} - \text{gross investments}$$

$$\text{Gross shareholders' cash flow} = EAT \text{ of operational profit (including interest payoffs) - annual debt coverage} + \text{attracted borrowed assets} + \text{amortization}$$
- 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

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 2008.

### 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.

---

**Research Department***research@veles-capital.ru*

*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

*Oleg Salmanov*  
*Fixed income*  
OSalmanov@veles-capital.ru

*Shawn Gizatulin*  
*Editor/Interpreter*  
SGizatulin@veles-capital.ru

---

**Sales and Trading Department***sales@veles-capital.ru*

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

*Sergey Vetoshkin*  
*Corporate Clients*  
SVetoshkin@veles-capital.ru

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

*Ekaterina Tochilkina*  
*Trading*  
ETochilkina@veles-capital.ru

---

**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