

Equity Markets

\$163.5

BUY

MSICH UZ

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Engineering

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Motor Sich: Beaten Down, But Not Out!

Motor Sich offers substantial value despite disappointing 1H08 results. Rising labor costs and expenses for materials and supplies pushed the net margin into negative territory, causing us to cut our TP from \$355 to \$163.5 per share. However, the stock's YTD correction of over 70% has created a 75% upside. We thus reiterate our BUY recommendation.

The most underperforming stock on the PFTS: Motor Sich's share price has corrected 73.4% YTD. Its high liquidity has led to overselling on the back of unjustified speculation that Russia will stop buying engines from Ukraine.

Unfounded rumors: Neither Motor Sich nor Russian officials have made any statements concerning the cessation of supplies of Ukrainian engines to Russia in the wake of the South Ossetia conflict. Prime Minister Vladimir Putin's statement in mid-July concerned only the relocation of missile-engine production, which contributes less than 5% of Motor Sich's sales.

Enormous growth potential: Motor Sich's main fundamental growth driver – supplying aircraft engines – remains on hold. The company has not yet begun massive deliveries of aircraft engines owing to technical delays by third parties. The order book and backlog for jet engines continues to expand.

Growth in gas-transmission and power engines: Motor Sich increased supplies of engines for gas transmission and autonomous power stations by 75% this year. It also plans to expand into the market for unmanned aerial vehicle engines.

Reiterate BUY, 75% upside: The 1H08 financials indicated that the company will not sustain 2007 growth rates for revenues and earnings in the forecasted period, forcing us to switch back to a more conservative DCF model. We cut our target price from \$355 to \$163.5 per share. However, even after this cut, Motor Sich's shares are still trading with a 75% upside.

Financial Data	2007	2008F	2009E	2010E
Revenues, \$ mln	346	362	492	637
EBITDA, \$ mln	92	56	95	135
Net income, \$ mln	51	7	27	47
EV/EBITDA, x	2.9	4.8	2.8	2.0
P/E, x	3.8	27.8	7.2	4.1
P/S, x	0.6	0.5	0.4	0.3
ROE, %	14%	2%	7%	9%
Gross margin, %	44%	32%	36%	38%
Operating margin, %	17%	6%	10%	13%
Net margin, %	12%	2%	5.4%	7.3%

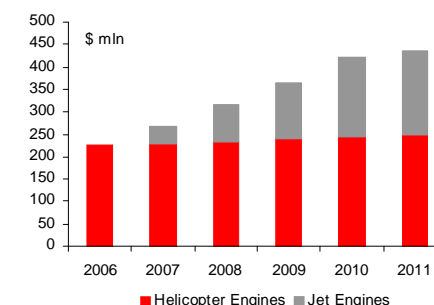
Source: Company data, Alfa Capital Research

Share data

Bloomberg ticker	MSICH UZ
Closing Price	\$93.7
Free Float	25%
52 Week Range	\$76 - \$350
Shares outstanding, mln	2.077
Market Cap, mln	\$195
12 M Target Price	\$163.5
Upside	75%
Recommendation	BUY

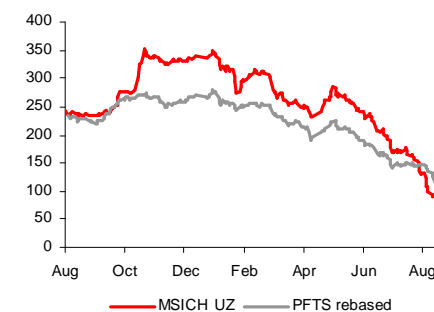
Source: Alfa Capital Research

Aircraft engine impact on Motor Sich sales



Source: Company data, Alfa Capital Research

Share price performance, \$



Source: PFTS

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The contents of this document have been prepared by Denis Shauruk of Limited Liability Company Alfa Capital ("Alfa Capital") as Investment Research within the meaning of Article 24 of Commission Directive 2006/73/EC implementing the Markets in Financial Instruments Directive (2004/39/EC). Please refer to the further important information in relation to this Document located on page 6. Note that the recommendations contained in this document in relation to Motor Sich differ materially from recommendations issued by Alfa Bank and distributed by ACM in the 12 months preceding the publication of this document.