

\$355

BUY

MSICH UZ

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Engineering

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Motor Sich: Positive Outlook at AGM

We believe the most important announcements made at Motor Sich's AGM on March 20 were the agreement with RZD to supply power blocks, the certification of new engines and the high sales growth rate expected in 2008. We had downgraded the stock to HOLD on price performance, but the recent correction leads us to reinstate our BUY recommendation.

Motor Sich reached an agreement to supply power generating blocks to Russian Railways (RZD): The latter has decided to switch to internal electricity generation using energy blocks with a unit capacity of up to 20MW. 200 pieces are needed in the Moscow region alone, and Motor Sich is on RZD's list of suppliers of power units for these blocks.

Motor Sich continues to modernize and upgrade existing and new engines: It also successfully certified a new helicopter engine that can run for almost 4,000 engine hours before needing an overhaul, compared with, on average, 1,500-2,000 hours for analogous products from competitors.

The company plans substantial CAPEX financed through cheaper borrowing: Motor Sich attracted a 10-year, \$50 mln loan at a 5.5% interest rate using its stock as collateral, thereby lowering the cost of debt financing. Total expenditures for modernization reached \$30 mln in 2007 and are expected to grow further.

The company guided 14% sales growth for 2008, but actual expectations exceed 30%, from 1,000 to 1,300 engines: Moreover, the company plans to raise prices, as at present Motor Sich engines are marketed at a 20% discount. The company also decided to increase dividend payments from \$0.5 to \$0.6 per share in 2008.

Upgrading to BUY after price decline: We had previously downgraded the stock to HOLD on price performance, but the recent market correction has increased the upside to 30%, leading us to reinstate our BUY recommendation.

Financial data	2006	2007	2008E	2009E
Revenues, \$ mln	231	347	520	615
EBITDA, \$ mln	44	79	173	205
Net income, \$ mln	13	41	91	108
EV/EBITDA, x	6.7	7.8	3.8	3.2
P/E, x	17.5	13.8	6.7	5.6
P/S, x	1	1.6	1.1	0.9
ROE, %	5%	12%	20%	20%
Gross margin, %	33%	44%	46%	46%
Net margin, %	6%	12%	18%	18%

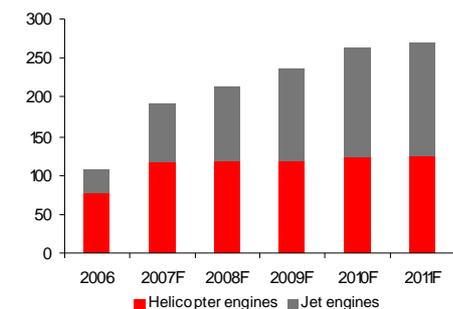
Source: Company data, Alfa Capital Research

Share data

	MSICH UZ
Bloomberg ticker	MSICH UZ
Closing Price	\$272
Free Float	25%
52 Week Range	\$76 - \$312.1
Shares outstanding, mln	2.077
Market Cap, mln	\$565
12 M Target Price	\$355
Upside	30%
Recommendation	BUY

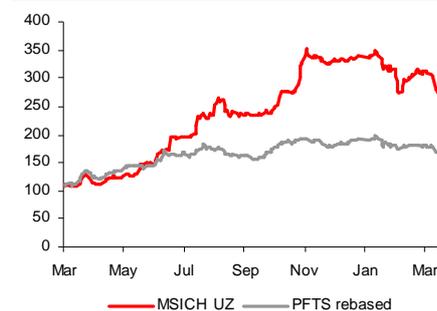
Source: Alfa Capital Research

Engine sales breakdown, \$ mln



Source: Company data, Alfa Capital Research

Share price performance, \$/share



Source: PFTS

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