



CONCORDE CAPITAL

Ukraine / Aerospace

Motor Sich

More Upside Revealed

November 2, 2007

Current Price: USD 324
12M Target: USD 375

BUY

Inna Perepelytsya
pi@concorde.com.ua

+380 44 391 5577

Bloomberg MSICH UZ
Frankfurt/Xetra BC21 GR

Market information

No of Shares, mln	2.07
Market Price, USD	324.3
52Wk H/L, USD	324.3/72.9
MCap, USD mln	673.8
Free float*	24.3%
Free float, USD	78.8

* note that in PFTS index MSICH is given a 34% FF coefficient. We give the company 24%FF as we consider Bartence Alliance's 10% stake as related to the company's management

Corporate Governance Rating* AA

* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

Ownership

Management	61.3%
Treasury stock	4.7%
Bartence Alliance	9.7%
Other	24.3%

- Our optimistic financial forecasts for 2007 have been supported by interim financials
- Management provided us with information about new potential orders, which, if realised, will add up to USD1.0bln to MSICH sales over the next 15 years
- Plans to place 5% stake in 2008 and to implement IFRS audit were confirmed
- Upgraded business model and reduction of company-specific risk allow us to increase our DCF-based target price to USD 375, which yields 16% upside. BUY

Orders flow is higher than we expected

- management provided us with Russia's Tu-334 production plan for 2009-2012, which is 3.5 times higher than we initially forecasted
- MSICH should expand into new markets through An-124 sales to the EU if a project between Austria's Luftfahrttechnik and the Ukrainian Aviation Corporation (announced in October), is implemented.
- management confirmed plans to participate in a tender (scheduled for 1Q08-2Q08) for a joint Russian-Indian plane, MTA, which could bring in more than USD 900 mln over ten years

Strong 9M07 financials

In 9M07 the company's reported financials were in line with our forecasts: top line grew to USD 223.6 mln (+64.1% yoy); EBITDA grew 2.7 times to USD 54.4 mln (a margin of 24.3%); and net income catapulted by 89 times to USD 32.9 mln (a margin of 14.7%).

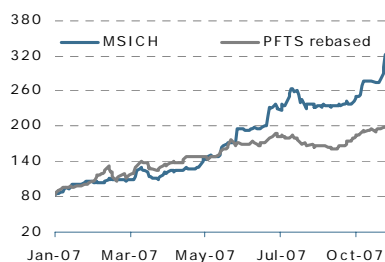
Corporate governance improvement is underway

- the management is going to place another 5% stake in 1H08, with total free float reaching 29%, or USD 195 mln
- audited financials: The company is currently selecting an auditing firm from the Big 4, which will conduct a three-year IFRS financial audit - which we believe may be preparation an IPO
- in September 18 Motor Sich was included in the PFTS & Wiener Borse's New Ukrainian Traded Index (UTX) as one of the ten most liquid Ukrainian stocks

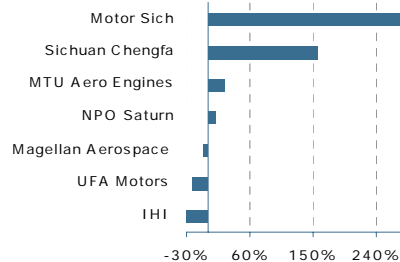
DCF model upgraded

Given the improvement in corporate governance, higher liquidity and stronger than expected market conditions, we decrease company-specific risk to 0% in perpetuity, thus WACC to perpetuity drops to 11.5% from its previous 12.5%, closer to the company's Russian peers. Our DCF gives an implied price of USD 375 per share, due to new orders from the Tu-334 project and lower WACC assumptions.

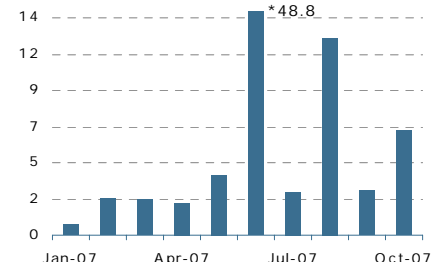
Stock performance*, 12M



Sector performance*, YTD



PFTS Trading Volumes, USD



Source: PFTS, Bloomberg *Note: June trading volume USD 48.8 mln, including placement of 11% stake USD 37 mln

Key financials, USD mln

	Sales	EBITDA Margin	Net Margin	EV/S	EV/EBITDA	P/E
2006	245	16%	3%	3.0	18.3	89.8
2007E	333	23%	12%	2.1	9.0	17.1
2008E	379	23%	13%	1.8	7.6	13.5

UAH/USD Spot exchange rate is 5.05

Peer valuation

Peer summary, USD mln

	Country	MCap	Net Revenues			EBITDA Margin			Net Margin		
			2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
Motor Sich	Ukraine	674	245	333	379	16%	23%	23%	3%	12%	13%
Aircraft engines manufacturers											
NPO Saturn	Russia	462	292	411	490	7%	19%	21%	-2%	6%	4%
IHI Corporation	Japan	3 580	10 557	11 357	11 433	5%	1%	7%	0%	2%	2%
Ufimskiye Motors	Russia	431	368	389	438	30%	32%	28%	14%	15%	15%
Magellan Aerospace Corp	Canada	192	494	601	653	6%	7%	9%	neg	-1%	1%
Sichuan Chengfa	China	448	69	83	107	15%	16%	12%	7%	9%	9%
Mean						13%	15%	15%	5%	6%	6%
Aerospace sector											
Boeing Co	USA	76 413	61 530	66 044	69 920	8%	11%	12%	4%	6%	7%
Lockheed Martin	Russia	905	832	1 064	1 209	13%	16%	15%	5%	7%	8%
EADS	USA	45 463	39 620	41 792	42 759	12%	13%	13%	6%	7%	7%
Finmeccanica	UK	4 961	1 981	2 132	2 302	20%	22%	22%	13%	13%	13%
Safran SA	France	26 913	49 499	53 786	57 555	4%	5%	9%	0%	0%	3%
Smiths Group PLC	UK	8 838	6 577	4 844	5 049	9%	19%	19%	1%	12%	12%
Cobham	Finland	12 356	16 446	19 321	20 814	16%	11%	12%	8%	4%	4%
Meggitt PLC	UK	2 191	1 312	1 750	2 167	27%	27%	29%	14%	14%	15%
Zodiac SA	France	10 424	14 295	17 046	18 079	7%	11%	11%	0%	4%	4%
JSC Scientific Production IRKUT	France	3 741	2 995	3 549	3 369	16%	17%	17%	7%	8%	8%
Mean						13%	15%	16%	6%	7%	8%
Global machinery companies											
United Technologies Corp	USA	74 573	47 118	53 978	57 613	15%	15%	15%	8%	8%	8%
Mitsubishi Heavy Industries Limited	Japan	19 149	23 664	27 433	28 643	6%	8%	9%	1%	2%	3%
Honeywell International Inc	USA	44 388	31 367	34 120	36 123	13%	14%	15%	7%	7%	8%
Rolls-Royce Group PLC	UK	20 503	14 005	15 781	16 982	23%	14%	14%	14%	8%	8%
Mean						11%	13%	13%	7%	6%	7%

Source: Bloomberg, Company data, Concorde Capital estimates

Peer multiples

	Country	EV/Sales		EV/EBITDA		P/E	
		2007E	2008E	2007E	2008E	2007E	2008E
Motor Sich	Ukraine	2.1	1.8	9.0	7.6	17.1	13.5
Aircraft engines manufacturers							
NPO Saturn	Russia	1.6	1.3	8.2	6.5	18.6	23.3
IHI Corporation	Japan	0.5	0.5	120.2*	7.8	17.5	17.9
Ufimskiye Motors	Russia	1.1	1.0	3.5	3.6	7.6	6.6
Magellan Aerospace Corp	Canada	0.7	0.6	9.9	6.8	neg	20.5
Sichuan Chengfa	China	5.7	4.4	38*	38*	61.9*	45.7
Mean		1.9	1.6	7.8	6.5	21.6	16.3
MSICH implied price, USD		304	291	260	265	275	549
Upside/Downside		-20%	-6%	-20%	-18%	-15%	69%
Aerospace sector							
Boeing Co	USA	1.1	1.1	9.8	8.7	19.0	16.5
Lockheed Martin	USA	1.3	1.1	7.7	7.4	11.9	9.9
EADS	France	1.1	1.1	8.7	8.1	15.4	14.8
Finmeccanica	Finland	2.3	2.0	10.4	9.3	18.1	16.3
Safran SA	France	0.4	0.4	7.7	4.1	123*	14.6
Smiths Group PLC	UK	2.0	1.9	10.7	9.9	15.8	14.8
Cobham	UK	0.7	0.7	6.6	5.7	17.1	13.9
Meggitt PLC	UK	2.2	1.7	8.1	5.8	9.0	6.9
Zodiac SA	France	0.6	0.6	6.0	5.4	14.9	13.0
JSC Scientific Production IRKUT	Russia	1.6	1.6	9.3	9.6	13.9	13.4
Mean		1.3	1.2	8.5	7.4	15.0	13.4
MSICH implied price, USD		186	199	304	331	292	344
Upside/Downside		-55%	-43%	-6%	2%	-10%	6%
Global machinery companies							
United Technologies Corp	USA	1.5	1.4	9.9	8.8	17.7	15.7
Honeywell International Inc	Japan	1.0	1.0	12.3	10.6	33.3	26.2
Mitsubishi Heavy Industries Limited	USA	1.4	1.3	10.4	9.3	18.2	16.2
Rolls-Royce Group PLC	UK	1.2	1.1	8.9	7.8	17.1	15.2
Mean		1.3	1.2	10.4	9.1	21.6	18.3
MSICH implied price, USD		210	226	367	388	340	383
Upside/Downside		-35%	-30%	13%	20%	5%	18%

Source: Bloomberg, Company data, Concorde Capital estimates

We rely on our DCF valuation as peer valuation yields a broad USD 199-549 range, due to both the lower volume of the company's operations compared to global peers and Motor Sich's higher margins.

DCF valuation

Assumptions revision

		2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Net Revenues	New	333	379	424	478	526	578	625	677	692	707
	Old	333	379	413	456	500	544	591	646	661	680
EBITDA	New	76	88	102	107	116	127	141	156	159	163
	Old	76	88	99	103	110	120	133	149	152	156
Net Income	New	39	50	61	66	72	80	90	102	105	108
	Old	39	50	59	62	67	74	84	96	99	103

Source: Concorde Capital estimates

DCF output

As of November 02

For the purposes of forecasting, local currency is used (UAH mln)

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	385	445	514	543	584	642	710	786	804	822
EBIT	295	357	426	455	497	555	625	702	723	743
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	221	268	319	341	373	416	469	527	542	557
Plus D&A	90	88	88	88	87	86	86	84	81	79
Less CapEx	(120)	(130)	(160)	(165)	(160)	(135)	(115)	(95)	(85)	(79)
Less change in OWC	(107)	(66)	(65)	(79)	(45)	(39)	(26)	(16)	(11)	(8)
FCFF	84	160	182	185	255	329	413	500	527	549
WACC	17.7%	17.9%	14.4%	13.2%	12.2%	11.2%	11.1%	11.2%	11.2%	11.2%
Discounted cash flow	82	155	155	139	171	199	224	244	231	216
Sum of discounted CF	1 735									

Terminal value 5 542

Firm value 3 921

Portion due to TV 56%

Less net debt 16

Equity value 3 937

Implied 12M price, USD 375

WACC Y1-10	Perpetuity Growth Rate				
	0.0%	0.5%	1.0%	1.5%	2.0%
-1.5%	387	398	410	423	438
-1.0%	376	386	398	411	425
-0.5%	365	375	386	399	413
+0.0%	354	364	375	387	401
0.5%	344	354	364	376	389
1.0%	335	344	354	365	378
1.5%	325	334	344	355	367

WACC to perpetuity	Perpetuity Growth Rate				
	0.0%	0.5%	1.0%	1.5%	2.0%
9.5%	380	393	408	424	443
10.0%	370	382	396	410	427
10.5%	362	373	385	398	413
11.0%	354	364	375	387	401
11.5%	347	357	367	378	390
12.0%	341	350	359	369	380
12.5%	335	343	352	361	371

Pro forma statements

P&L summary, USD mln

	2007E	2008E	2009E	2010E	2011E	2012E
Net Revenues	333	379	424	478	526	578
Gross Profit	163	184	203	222	242	266
<i>Gross margin</i>	<i>48.9%</i>	<i>48.5%</i>	<i>47.9%</i>	<i>46.4%</i>	<i>46.0%</i>	<i>46.0%</i>
EBITDA	76	88	102	107	116	127
<i>EBITDA margin</i>	<i>22.8%</i>	<i>23.2%</i>	<i>24.1%</i>	<i>22.4%</i>	<i>22.1%</i>	<i>22.0%</i>
Depreciation	(18)	(17)	(17)	(17)	(17)	(17)
EBIT	58	71	84	90	98	110
<i>EBIT margin</i>	<i>17.4%</i>	<i>18.7%</i>	<i>19.8%</i>	<i>18.8%</i>	<i>18.6%</i>	<i>19.0%</i>
Interest Expense	(6)	(4)	(2)	(2)	(3)	(3)
PBT	52	67	82	88	96	107
Tax	(13)	(17)	(20)	(22)	(24)	(27)
<i>Effective tax rate</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>
Net Income	39	50	61	66	72	80
<i>Net Margin</i>	<i>11.8%</i>	<i>13.2%</i>	<i>14.5%</i>	<i>13.8%</i>	<i>13.7%</i>	<i>13.9%</i>

Balance sheet summary, USD mln

	2007E	2008E	2009E	2010E	2011E	2012E
Current Assets	301	311	330	354	366	384
Cash & Equivalents	42	30	30	29	26	29
Trade Receivables	37	38	38	43	47	46
Inventories	182	199	216	230	240	251
Other current assets	40	44	47	53	53	58
Fixed Assets	212	216	227	239	252	261
PP&E, net	151	159	172	186	199	209
Other Fixed Assets	61	57	55	53	53	52
Total Assets	513	527	557	593	618	645
Shareholders' Equity	346	379	407	430	448	460
Share Capital	58	58	58	58	58	58
Reserves and Other	288	321	348	371	389	401
Current Liabilities	140	129	137	146	147	155
ST Interest Bearing Debt	36	16	16	16	12	12
Trade Payables	32	35	37	41	43	47
Other Current Liabilities	72	78	84	89	92	95
LT Liabilities	27	19	14	18	24	31
LT Interest Bearing Debt	16	9	6	10	16	23
Other LT	11	10	8	8	8	8
Total Liabilities & Equity	513	527	557	593	618	645

Analyst Certification

I, Inna Perepelytsya, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Motor Sich

Date	Target price, USD	Market Price, USD	Recommendation	Action
14-Dec-04	220	100	BUY	Initiating
01-Feb-06	115	90	BUY	Maintain
20-Mar-06	115	86	BUY	Maintain
16-May-07*	200	129	BUY	Maintain
26-Jul-07	285	233	BUY	Maintain
02-Oct-07	375	324	BUY	Maintain

* - Until March 2007 the company was covered by Olha Pankiv, who now focuses on another sector. In May 2007, Inna Perepelytsya took over coverage.

MSICH Recommendation history, USD per share



Concorde Capital coverage universe

Buy	38	46%
Hold	24	29%
Sell	7	9%
Under Review/Suspended	13	16%
Total	82	100%

Investment Banking clients

Buy	8	73%
Hold	3	27%
Sell	0	0%
Under Review/Suspended	0	0%
Total	11	100%

Concorde Capital
 2 Mechnikova Street
 21st Floor
 Kyiv 01601, UKRAINE

Tel.: +380 44 391 5577
Fax: +380 44 391 5571
www.concorde.com.ua
office@concorde.com.ua

CEO

Igor Mazepa

im@concorde.com.ua

RESEARCH COVERAGE BY SECTOR

Equity Sales

Anastasiya Nazarenko
 Duff Kovacs, CFA
 Zack Watson
 Marina Martirosyan

an@concorde.com.ua
 dk@concorde.com.ua
 zw@concorde.com.ua
 mm@concorde.com.ua

Strategy

Konstantin Fisun
 Oleksandr Klymchuk

kf@concorde.com.ua
 ok@concorde.com.ua

Metals & Mining

Eugene Cherviachenko
 Andriy Gerus

ec@concorde.com.ua
 ga@concorde.com.ua

Director of Research

Konstantin Fisun, CFA

kf@concorde.com.ua

Utilities (Telecom, Energy)

Alexander Paraschiy

ap@concorde.com.ua

Oil & Gas, Chemicals

Vladimir Nesterenko

vn@concorde.com.ua

Consumer/Real Estate Group

Andriy Gostik, CFA
 Olha Pankiv
 Alexander Romanov
 Anna Dudchenko

ag@concorde.com.ua
 op@concorde.com.ua
 ar@concorde.com.ua
 ad@concorde.com.ua

Machinery

Eugene Cherviachenko
 Inna Perepelytsya

ec@concorde.com.ua
 pi@concorde.com.ua

Financial Services, Retail

Alexander Viktorov

av@concorde.com.ua

Macroeconomics

Polina Khomenko

pk@concorde.com.ua

Fixed Income

Oleksandr Klymchuk

ok@concorde.com.ua

Corporate Governance

Nick Piazza

np@concorde.com.ua

News/Production

Nick Piazza
 Polina Khomenko

np@concorde.com.ua
 pk@concorde.com.ua

Editor

Brad Wells

bw@concorde.com.ua

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