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Motor Sich

The missing piece
to Russia's aviation puzzle



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Motor Sich

MSICH UZ BUY

Aerospace

<http://www.motorsich.com>

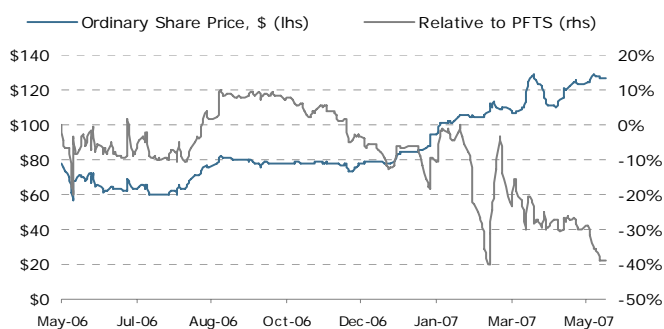
Target Price

USD 200.0

INVESTMENT CASE

- Take-over target: Oboronprom, Russia's helicopter production holding has been in talks with the company's owners since last year. We estimate the deal might be closed within a twelve-month period at 70%+ premium to the current market
- Russian aviation producers have no other choice than to bid for Motor Sich: it would take roughly USD 0.5 bln and 6-10 years to replicate Motor Sich's mass production of its brand new helicopter engine alone. Russia has no alternative supplier of engines, components and spare parts
- Motor Sich offers a new generation of jet and helicopter engines that fit Russian state sponsored programs:
 - Replacement of outdated passenger aircraft,
 - Reclaiming lost share of the global helicopter market (from 6% currently to 15% by 2015)
- Three of four new Russian/Ukrainian regional passenger jets require Motor Sich engines: An-140 (in production), An-148 (certified in February 2007), Tu-334 (certified in 2004)
- As part of diversification strategy, Motor Sich signed two contracts with China last year to deliver engines for their training jets, which will generate USD 190 mln in revenues over the next three years. Contracts with India are being negotiated
- High operating leverage will boost ROIC as order book increases, while high entry barriers will protect abnormal returns over long periods
- Management is placing an additional 5% to 15% of shares in late May with a listing in Frankfurt

SHARE PRICE PERFORMANCE



BUSINESS PROFILE

One of the CIS largest producers of aircraft and helicopter engines, monopoly in helicopter segment. Target niche: jet and propeller engines for cargo aircraft, small and mid-sized regional passenger planes, civil and military helicopters. Product mix consists of up to 50 different types of aircraft engines, including engines for the world's largest cargo jets, Mriya and Ruslan. On-the-ground products include gas turbines, gas pumping equipment, motor cultivators, separators and board engines. Motor Sich exports more than 80% of its total output, most of which goes to Russia, China and Iran.

*"Price impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:

- Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size
- Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size
- All other stocks (quoted price is less reliable and should be considered indicative)

MARKET INFORMATION

Market price, USD (PFTS)	128.8
Price impact*	2
52 Wk H/L, USD	129 / 56
Chg 3m/6m/52w	23% / 65% / 61%
Chg vs PFTS 3m/6m/52w	-6% / -43% / -38%
Chg YTD	53%
Avg Mo Tr Vol 6M, USDmln	1.63
MCap, USD mln	267.7
Free float, %	6.0%
FF MCap, USD mln	16.1
No of shares, mln	2.08
Par Value, UAH	135.0
XETRA	M7H GR
DR Ratio	5:1
Avg Mo Tr Vol 6M, USD ths	0.0

STOCK OWNERSHIP

Garant Invest	46.2%
Treasury Stock	15.7%
V. Boguslayev	15.0%
Other	23.1%

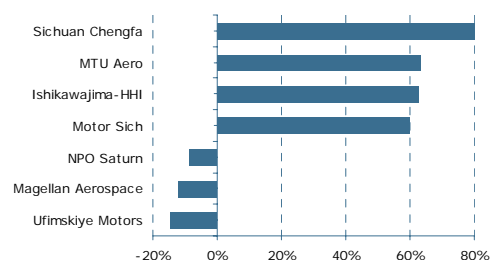
MARKET MULTIPLES

	2007E	2008E
EV/Sales	1.1	1.0
EV/EBITDA	5.8	5.0
P/E	15.0	10.7
P/B	0.9	0.9
P/CF	7.5	6.3

KEY FINANCIALS, USD mln

	2006	2007E	2008E
Revenues	245.1	283.5	323.4
EBITDA	39.8	54.5	63.4
Net income	7.5	17.6	24.7
Net Debt/Equity	0.19	0.18	0.16

Sector stock performance YTD



Source: Bloomberg