



CONCORDE CAPITAL

Ukraine / Aerospace

Motor Sich

Turn On The Afterburners

July 26, 2007

BUY

12M Target: USD 285

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Market information

Bloomberg	MSICH UZ
Frankfurt/Xetra	BC21 GR
No of Shares, mln	2.07
Reg S GDR to Ord.	5:1
Market price, USD	232.9
52Wk H/L, USD	234.5/59.7
MCap, USD mln	483.9
Free float*	24.3%
FF MCap, USD mln	117.6
Mo avg tr volume*, USD mln	10.2
Note: 6M trailing, PFTS & Frankfurt	
Concorde Corp Gov Rating	AA

Stock ownership

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

* 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

Motor Sich has been riding a wave of positive momentum since the spring: The company's free float has increased 11% since April, over the last two reported quarters it has reported the highest top-line growth since 2002 (53%-65% yoy) and its margins have drastically improved. We adjust our forecasts upwards based on available interim operating results, and upgrade our target price to USD 285, which implies 22% upside to the current market price. **BUY**

Liquidity improving:

- Volumes have increased substantially over the past half year,
- Following the placement of 11% stake in June, the company's free float rose to 24%*
- Starting August 1, MSICH will be included in the PFTS index basket.

Strong momentum:

- Over the last two quarters Motor Sich report the highest yoy revenue growth since 2002: +65% in 4Q06 and +53% in 1Q07 yoy; the management forecasts 60% yoy for 1H07. The company's net margin has been steadily improving from -0.3% in 3Q06 to 15.5% in 1Q07; in our opinion, 1Q reported profitability could be somewhat inflated – however our annual forecast is a high 9%.
- In June Motor Sich told us that they had signed a three-year contract with Russia's Aviakor for the delivery of 100 engines for An-148s: 44 engines more than we forecasted;
- In June Motor Sich signed a cooperation agreement with Pratt & Whitney, for the production of spare parts for P&W engines. If this trial project is successful, we expect it to raise Motor Sich's related revenues from USD 3-5 mln p.a. to USD 20-30 mln in the midterm.

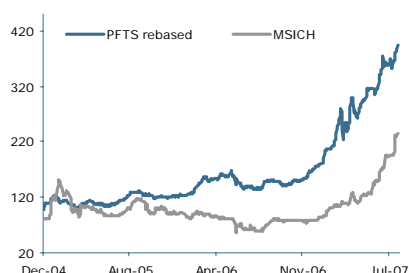
Catalysts all there

- Following the doubling of the company's MCap over the last three months, Motor Sich's CEO officially confirmed that they were holding negotiations with Russia's Oboronprom on a possible merger.
- Management has said that the placement of another 4% will be considered in September. Independent of this, we see the sale of up to 20% to Oboronprom in 2007-2008 as a real possibility.

WATCH LIST:

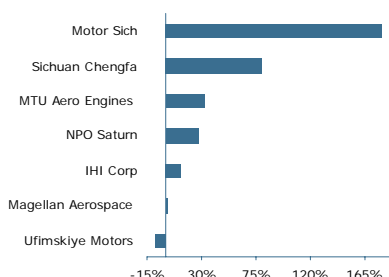
1H07 financial results, expected August
Placement/merger announcement, expected late 2007

Stock performance

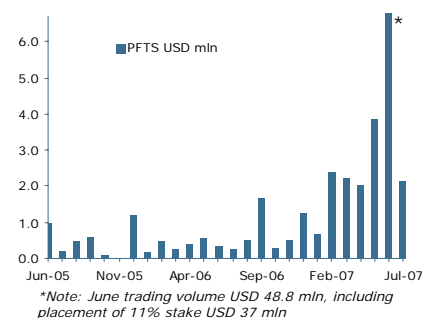


Source: PFTS, Bloomberg

Sector performance, YTD



Trading volume, USD mln



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

Key financials

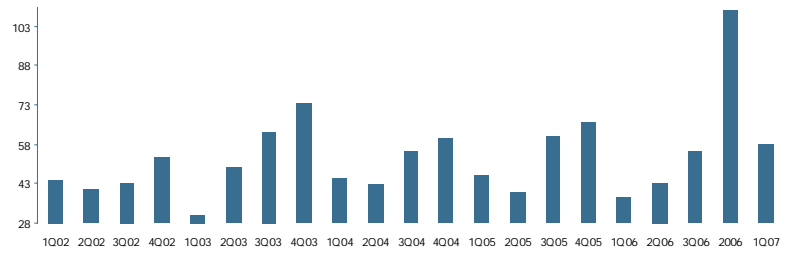
(in USD mln)	Sales	EBITDA Margin	Net Margin
2006	245	16%	3%
2007E	333	23%	9%
2008E	379	23%	11%

Spot exchange rate: 5.05

Market multiples

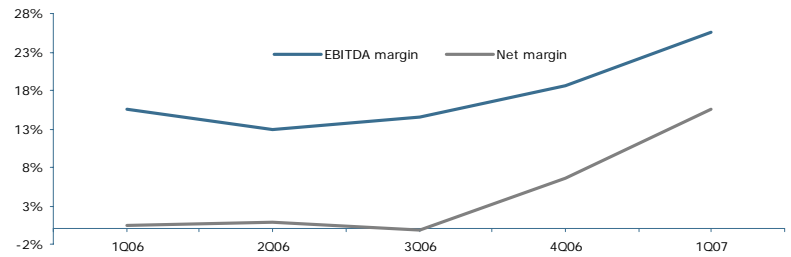
EV/S	EV/EBITDA	P/E
2.2	13.8	66.1
1.8	6.7	16.2
1.6	5.7	11.8

Quarterly sales, mln USD



Source: Company data

Quarterly margins



Source: Company data

Forecast revision

		2006	2007E	2008E	2009E
Sales, mln USD	New	245	333	379	413
	Old	245	284	323	364
EBITDA margin	New	16.2%	22.9%	23.3%	24.0%
	Old	16.2%	19.2%	19.6%	19.9%
Net margin	New	3.0%	9.2%	11.0%	12.5%
	Old	3.0%	6.2%	7.6%	8.7%

Source: Concorde Capital estimates

Peer summary, USD mln

	Country	MCap	Net Revenues			EBITDA Margin			Net Margin		
			2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
Motor Sich	Ukraine	496	245	333	379	16%	23%	23%	3%	9%	11%
Aircraft engines manufacturers											
IHI Corporation	Japan	5 677	9 552	10 032	10 316	5%	6%	7%	0%	2%	2%
MTU Aero Engines Holding AG	Germany	3 640	3 033	3 637	3 889	14%	14%	15%	4%	5%	7%
Sichuan Chengfa	China	471	67	80	80	15%	16%	16%	7%	9%	9%
Magellan Aerospace Corp	Canada	247	507	568	612	7%	9%	11%	neg	1%	2%
NPO Saturn	Russia	526	328	397	450	24%	20%	21%	14%	6%	8%
Ufimskiy Motors	Russia	492	368	438	461	30%	26%	27%	14%	14%	16%
Mean						16%	15%	16%	8%	6%	7%
Aerospace sector											
Boeing Co	USA	81 732	61 530	65 166	72 832	9%	11%	12%	4%	6%	6%
Lockheed Martin	USA	41 744	39 620	41 088	42 552	11%	12%	13%	6%	7%	7%
EADS	France	26 234	49 499	53 786	57 555	4%	5%	9%	0%	0%	3%
Finmeccanica	Finland	13 633	15 655	18 780	20 258	11%	11%	12%	8%	4%	4%
Safran SA	France	10 850	13 608	16 576	17 613	5%	12%	13%	0%	4%	4%
Smiths Group PLC	UK	8 613	6 293	5 637	5 154	8%	19%	20%	7%	10%	11%
Cobham	UK	4 658	1 861	2 208	2 373	22%	21%	22%	15%	13%	13%
Meggitt PLC	UK	4 368	1 233	1 761	2 188	27%	26%	29%	14%	14%	15%
Zodiac SA	France	4 085	2 868	3 472	3 430	16%	17%	17%	7%	8%	8%
JSC Scientific Production IRKUT	Russia	1 003	832	1 212	1 326	13%	21%	18%	5%	11%	9%
Mean						13%	16%	16%	7%	8%	8%
Global machinery companies											
United Technologies Corp	USA	75 941	47 829	53 234	56 380	15%	15%	16%	8%	8%	8%
Honeywell International Inc	USA	45 966	31 367	33 824	35 676	12%	14%	15%	7%	7%	8%
Mitsubishi Heavy Industries Limited	Japan	24 485	23 664	25 470	26 518	6%	8%	9%	1%	2%	3%
Rolls-Royce Group PLC	UK	20 217	13 165	15 703	16 762	12%	14%	14%	14%	7%	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	1.8	1.6	6.7	5.7	16.2	11.8
Aircraft engines manufacturers							
IHI Corporation	Japan	0.6	0.6	9.5	7.9	37.2	27.0
MTU Aero Engines Holding AG	Germany	1.1	1.0	7.5	6.5	19.7	13.7
Sichuan Chengfa	China	6.1	6.1	38*	38*	67.4*	67.4*
Magellan Aerospace Corp	Canada	0.8	0.7	8.6	6.6	48.9*	18.9
NPO Saturn	Russia	1.8	1.6	9.1	7.5	21.6	15.2
Ufimskiy Motors	Russia	1.1	1.1	4.4	4.0	7.9	6.6
Mean		1.9	1.8	7.8	6.5	21.6	16.3
MSICH implied price, USD		165	177	280	278	319	330
Aerospace sector							
Boeing Co	USA	1.3	1.1	11.6	9.1	21.5	17.4
Lockheed Martin	USA	1.0	0.9	8.1	7.6	15.3	14.6
EADS	France	0.4	0.4	7.5	4.0	123*	14.2
Finmeccanica	Finland	0.8	0.7	7.1	6.2	18.6	15.7
Safran SA	France	0.7	0.6	5.6	4.8	17.1	13.8
Smiths Group PLC	UK	1.8	1.9	9.8	9.5	14.7	14.9
Cobham	UK	2.1	2.0	10.0	9.1	16.7	14.9
Meggitt PLC	UK	3.2	2.6	12.2	9.1	17.8	13.4
Zodiac SA	France	1.7	1.5	10.0	9.0	15.5	14.7
JSC Scientific Production IRKUT	Russia	1.2	1.1	5.8	6.0	7.6	8.5
Mean		1.3	1.1	9.0	8.3	16.7	14.6
MSICH implied price, USD		195	196	321	352	246	296
Global machinery companies							
United Technologies Corp	USA	1.5	1.4	10.2	9.1	18.1	16.0
Honeywell International Inc	USA	1.5	1.4	10.6	9.7	18.8	16.7
Mitsubishi Heavy Industries Limited	Japan	1.3	1.2	15.6	13.4	46.6	36.9
Rolls-Royce Group PLC	UK	1.3	1.2	9.1	8.2	17.6	15.6
Mean		1.4	1.3	10.4	9.4	18.5	16.3
MSICH implied price, USD		214	237	374	401	272	331

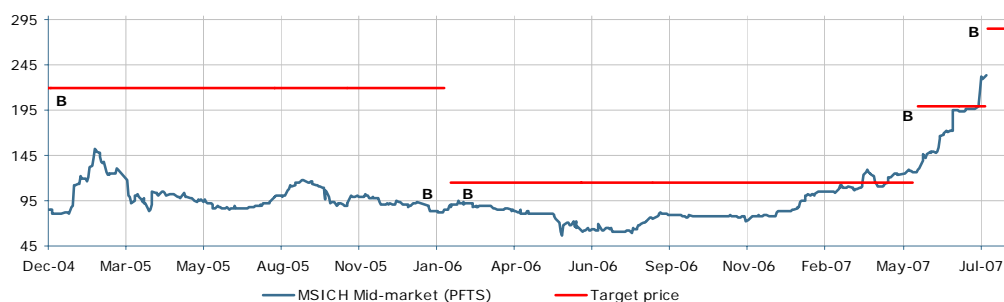
Source: Bloomberg, Company data, Concorde Capital estimates

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.

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

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



Recommendation history, USD

Concorde Capital Coverage Universe

Buy	34	40%
Hold	11	13%
Sell	5	6%
Under Review	23	27%
Not Rated	12	14%
Total	85	100%

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