

\$355

HOLD

MSICH

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Engineering

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Motor Sich: UAS 2007 Financial Results

Motor Sich's 2007 UAS financials show a 41% net sales increase to \$346.5 mln and 98% growth in EBITDA to \$79 mln. Strong stock performance resulted in high price multiples and squeezed the available upside for our TP of \$355/share to 14%, requiring a technical downgrade of our recommendation from BUY to HOLD.

Motor Sich reported a 41% increase in net sales to \$346.5 mln and 98% growth in EBITDA to \$79 mln, which fell below our forecasts by 2.4% and 33%, respectively. The company released its 2007 UAS financials on its website today.

The EBITDA margin was 10% lower than we expected and 5% below 1H07, although still in line with Motor Sich's peer average. The major reasons why the EBITDA margin missed our forecast are accelerating modernization of existing production capacity, which raised non-operating expenses, relatively low labor productivity, and appreciation of materials and parts.

We expect political risk to have no influence on Motor Sich's order book in 2008 as the book has already been set. Orders for 2009 are also in the process of being secured. A 50% increase in helicopter engine sales in 2007 and confirmed orders for aircraft engines support our sales (\$520 mln) and earnings (\$91 mln) forecasts for 2008.

Motor Sich trades at a premium to its peers, which is justified by stronger growth prospects. On multiples, the company should see a P/E of 15.8x in 2007, 7.1x in 2008E, and 6x in 2009E, as well as an EV/EBITDA of 9.2x in 2007, 5.2x in 2008E, and 3.5x in 2009E. With 14% upside, we downgrade the stock from BUY to HOLD.

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	9.2	3.5	3
P/E, x	17.5	15.8	6	5.1
P/S, x	1	1.9	1.1	0.9
ROE, %	5%	12%	20%	20%
Gross margin, %	33%	44%	46%	46%
Operating margin, %	12%	17%	26%	26%
Net margin, %	6%	12%	18%	18%

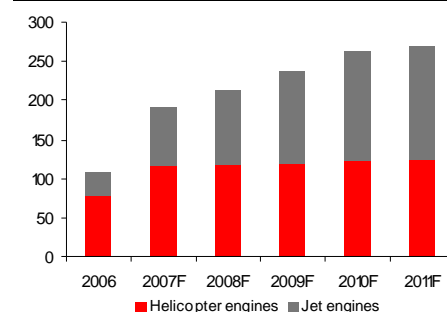
Source: Company data, Alfa Capital Research

Share data

Bloomberg ticker	MSICH UZ
Closing Price	\$312.1
Free Float	25%
52 Week Range	\$76 - \$312.1
Shares outstanding, mln	2.077
Market Cap, mln	\$648.5
12 M Target Price	\$355
Upside	14%
Recommendation	HOLD

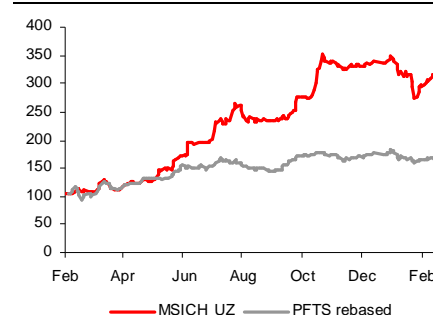
Source: Alfa Capital Research

Engine sales breakdown, \$ mln



Source: Company data, Alfa Capital Research

Share price performance, \$/share



Source: PFTS

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