

\$355

BUY

MSICH UZ

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Engineering

Denis Shauruk
 Analyst
 Kyiv (+380 44) 490-1721
www.alfacapital.com.ua

Motor Sich Powers to Robust 1Q08 Growth

Motor Sich's sales increased by 51% to \$87.4 mln in 1Q08, in line with our expectations for 2008 revenue growth. After the company changes its sales recognition practices, profitability should recover for the medium term, supporting our BUY recommendation on the stock with a 12-month target price of \$355/share, implying 42% upside.

Strong sales growth: Motor Sich's 1Q08 financials show a 51% increase in sales to \$87.4 mln, only 1.5 pts lower than 1Q07 sales growth. These results support our annual sales growth forecast of 50% and dispel concerns of a possible sharp decline in orders from Russia on the back of Ukraine's NATO accession plans.

Lower profitability: Net income dropped to \$3.9 mln (-56.3% y-o-y) in 1Q08 and EBITDA declined to \$10.6 mln from \$14.8 mln in 1Q07. The decrease in profitability stems from the accelerated growth in input prices (COGS growth reached 72% y-o-y) compared with output prices, as contracts for engine supplies are being renegotiated much more slowly. Currently, Motor Sich delivers engines at 20-30% below market price.

New payment plans: MSICH's TTM revenues reached \$376 mln (+8.5% growth vs. 2007), and we expect company revenues and profitability growth to accelerate as the company plans to switch from a "per engine" to "per hour of operation" payment scheme. The move will prevent faster growth in costs and will facilitate the process of renegotiating selling prices.

Growth upside: Motor Sich's trailing 12M P/E of 14.4x (2008E of 5.7x) and EV/EBITDA of 7.8x (2008E of 3.4x) leave room for stock growth, with an upside of 42% to our target price of \$355/share.

We maintain our BUY recommendation for the stock in the wake of its 26.4% YTD correction.

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	3.4	2.9
P/E, x	17.5	13.8	5.7	4.8
P/S, x	1	1.6	1.0	0.8
ROE, %	5%	12%	20%	20%
Gross margin, %	33%	44%	46%	46%
Net margin, %	6%	12%	18%	18%

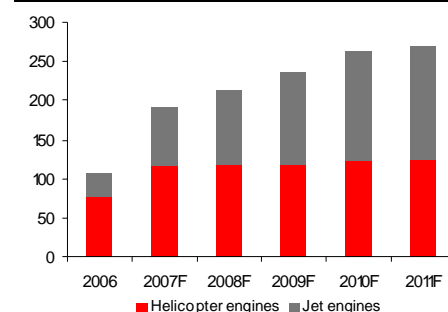
Source: Company data, Alfa Capital Research

Share data

Bloomberg ticker	MSICH UZ
Closing Price	\$250
Free Float	25%
52 Week Range	\$76 - \$350
Shares outstanding, mln	2.077
Market Cap, mln	\$518
12 M Target Price	\$355
Upside	42%
Recommendation	BUY

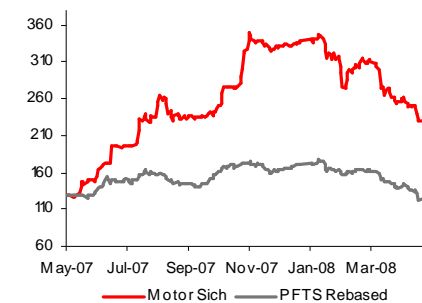
Source: Alfa Capital Research

Engine sales breakdown, \$ mln



Source: Company data, Alfa Capital Research

Share price performance, \$



Source: PFTS

RESEARCH DEPARTMENT research@alfacapital.com.ua

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Contact Information

Alfa Capital (Kyiv)

Research Department

Telephone	(+380 44) 490-1600
Strategy, Macro, Fixed Income	Sergiy Kulpinsky, Ph.D (+380 44) 490-1647
Metals	Oleh Yuzefovych (+380 44) 490-1617
Engineering & Chemicals	Denis Shauruk (+380 44) 490-1721
Utilities	Maksym Nikulyak (+380 44) 490-1620
	Kateryna Ruskykh (+380 44) 490-1660
Consumer Goods	Tetyana Orlova (+380 44) 490-1619
Banking	Andrey Zaripov (+380 44) 490-1614
Real Estate, Small-Cap Strategy	Andriy Gubachov (+380 44) 490-1612
Editorial	Danylo Spolsky

Sales Department

Telephone	(+380 44) 490-1616
Head of Sales	Sergey Grigorian
Sales Trading	Ivan Shehvtsov, Denis Dolmatov, Anfisa Anikushina

Alfa Bank (Moscow)

Head of Equities	Dominic Gualtieri
Telephone	(+7 495) 795-3649

Research Department

Telephone	(+7 495) 795-3676
Head of Research	Ronald P. Smith
Editorial	David Spencer, Heather Dean

Equity Sales & Trading

Telephone	(+7 495) 795-3712
International Sales	Kirill Surikov, Mikhail Shipitsin, David Johnson, Michael McAtavey
Domestic Sales	Alexey Primak, Alexander Nasonov, Konstantin Shapsharov, Vsevolod Topolyansky
Address	12 Akad. Sakharov Prospect, Moscow, Russia 107078

Alfa Capital Markets (London)

Telephone	(+44 20) 7588-8500
Facsimile	(+44 20) 7382-4170
Sales	Maxim Shashenkov, Mark Cowley
Address	City Tower, 40 Basinghall Street, London, EC2V 5DE

Alfa Capital Markets (New York)

Telephones	(+1 212) 421-8563 / (+1 212) 421-7500
Facsimile	(+1 212) 421-8633
Sales	Robert Kaplan, Roman Kogan
Address	540 Madison Avenue, 30 th Floor, New York, NY 10022

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