

Motor Sich

	Last Price	Bloomberg Ticker
Local shares	UAH 536	MSICH UZ

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Analyst: Yuri Belinsky

 Sector: **Machinery**
ybelinsky@foyil.com

The sky's the limit

BUY

Motor Sich should raise its net sales by 16% CAGR in 2007-2010 for the following reasons. Its participation in successful aircraft projects and the need of CIS and other countries to replace their aircraft fleets will raise its sales of aircraft engines by 13% CAGR over the period. Sales of turbine blowers and turbine electric generators will grow at 26% CAGR due to the CIS pipelines' strong demand for turbine blowers and the growing need for generators in Russia. Sales of engine maintenance services should grow by 19% CAGR thanks to increased global sales efforts. The Company's bottom line will also benefit from synergies with the Progress R&D bureau and from the UAH 423m 2007-2010 modernization program. As a result, net profit should rise by 28% CAGR in 2007-2010. Given Motor Sich's bright outlook, we believe that the stock presents 40%-50% upside.

Year-end December	Net Sales USD m	Net Sales UAH m	EBITDA UAH m	Net Income UAH m	EPS UAH	P/E	EV/Sales	EV/EBITDA	ROE %	Dividend yield
2005	213	1,090	205	49	23.8	22.6	1.18	6.3	3.6%	0.24%
2006e	253	1,276	245	65	31.4	17.1	1.01	5.3	4.6%	0.59%
2007e	296	1,493	291	85	40.7	13.2	0.86	4.4	5.7%	1.14%
2008e	345	1,744	341	113	54.2	9.9	0.74	3.8	7.1%	1.52%
2009e	404	2,041	405	149	71.9	7.5	0.63	3.2	8.7%	2.01%
2010e	463	2,337	456	176	84.9	6.3	0.55	2.8	9.5%	2.38%
Share Price	12 months		Market Cap	Major Shareholders			Net debt/Equity	P/Bk:	UAH/USD spot rate:	
	High	Low					12.5%	0.79	5.05	
UAH 536	UAH 536	UAH 275	UAH 1,114m	Management and related companies: 90%			Nom. value (UAH): 135		Free Float: 10%	
USD 106	USD 106	USD 54	USD 221m				Shares outstand: 2.08m		2007 AGM: March 22	

Aircraft engine and energy equipment sales should enjoy strong growth

Motor Sich will raise sales of aircraft engines by 13% CAGR in 2007-2010 thanks to its participation in successful aircraft projects and the global need to replace aircraft fleets. The Company is applying its engine technology to making energy-related equipment, such as turbine blowers and turbine electric generators. Since CIS pipelines evince a strong demand for turbine blowers and Russia has a growing need for generators, their sales will grow at 26% CAGR in 2007-2010.

International sales of engine maintenance and new engines will rise as well

As 25% of helicopters and 10% of aircraft worldwide use Motor Sich engines, we expect the Company's sales of engine maintenance services to grow by 19% CAGR in 2007-2010, thanks to an increased number of service centers (six worldwide). International (non-CIS) sales of engines will reach UAH 1.6bn in 2007-2010 thanks to the good price/quality ratio of Motor Sich's engines.

Russia should buy more helicopter engines

We expect that the holding company that is currently being created by four Russian engine-making companies will acquire 51% of Motor Sich in 2008. As Russia accounts for 100% of Motor Sich's helicopter engine sales, the acquisition will help Motor Sich to raise its sales of helicopter engines at 8% CAGR in 2007-2010.

No transfer pricing, partnership with an R&D bureau and modernization should help raise profits

We believe that Motor Sich abandoned transfer pricing for good in 2006. This, together with the synergies created from its partnership with the Progress R&D bureau and the UAH 423m 2007-2010 modernization program, will help raise the Company's EBITDA at 16% CAGR and net profit at 28% CAGR in 2007-2010.

Valuation - stock presents 40%-50% price upside

Based on 2007e numbers, the stock trades at a 58% discount on P/E, 17% discount on P/Sales and 59% discount on EV/EBITDA ratios to local peers. To global peers, the stock trades at a 24% discount on 2007e P/E, 19% discount on 2007e P/Sales and 46% discount on 2007e EV/EBITDA ratios. We deem these discounts unjustified given Motor Sich's bright outlook. Our DCF model puts the Company's equity value at UAH 778 per share, or 45% above the current market price. We believe that at the current price of UAH 536 per share, the stock presents 40%-50% upside.