Renaissance Capital

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Russian infrastructure
Opportunities on a global theme

- **Fiscal stimulus: A global theme.** Governments around the world are gearing up to substitute falling private sector demand with a Keynesian fiscal stimulus of unprecedented size. The focus is on investing for the future through building infrastructure. While the world may be suffering a severe economic downturn, the first sectors to recover will likely include those exposed to infrastructure.
- **Russian policy switches to spending.** Over the past four months, Russia has concentrated its resources mainly on shoring up its financial sector, and effectively providing a window for the private sector to hedge any currency mismatch. Now it appears the priority has shifted to managing the social situation – protecting jobs and incomes through government stimulus packages. Despite an expected 25% decline in government revenues in 2009, there are plans to actually increase government expenditure this year.
- **Infrastructure investment to be the main focus.** Plans for infrastructure spending are shifting, with many projects being cancelled. Utility companies have cut their capex budgets. Municipal authorities are reducing the scope of some schemes. Government-owned entities, such as Russian Railways, have reduced spending. Russia's Investment Fund was recently halved, to RUB64bn, affecting five of the country's 21 biggest schemes. However, the federal government has highlighted infrastructure as the sector with the highest multiplier to stimulate economic activity.
- **The total spend will be lower, but still very significant**. Although we have cut our infrastructure spending forecasts for 2009, to $56bn from $72bn, the adjustment mainly reflects the impact of a weaker rouble. As detailed in this note, the largest projects already started are likely to be completed and a number of other, high-profile schemes have received the go-ahead. These include the Western High Speed Diameter, the Moscow-St Petersburg Highway, new runways at Moscow airports and work relating to the Sochi 2014 Winter Olympics. The federal budget has not cut spending on infrastructure, and may indeed be planning to increase it. The real test will come when the construction season restarts in earnest in 2Q09, but progress to date is encouraging, with companies reporting a pick-up in activity in January.
- **For the intrepid, we see some excellent opportunities.** Russia's equity market offers exposure to the global theme at some truly distressed valuations. All stocks are cheap in our view on any kind of medium-term scenario, except a radical change in the political environment. The most important variable is survival. Companies that can survive 2009 will be in good shape to consolidate and become Russian champions in the space. Our top picks are Evraz and NLMK in steel, Novorossiysk Commercial Sea Port in infrastructure; and Mostootryad-19 and Bamtonnelstroy in construction.

Summary sector ratings

Ticker	Company	Current price, $	Target price, $	Rating	Upside potential	MktCap, $mn	EV, $mn	ADR since
NLMK	NLMK	1.2	1.8	**BUY**	50.00%	7,192	7,754	2005
HK1q	Evraz Group	8.35	32	**BUY**	283.23%	3,069	11,392	2005
NMTP	Novorossiysk Commercial Sea Port	0.07	0.16	**BUY**	146.15%	1,252	1,727	2007
MSOT	Mostootryad 19	1575	5732	**BUY**	263.94%	119	76	N/A
BTST	Bamtonnelstroy	1000	5477	**BUY**	447.70%	99	165	N/A

Source : Renaissance Capital estimates

Infrastructure spending: The time is now

The global economic outlook is bad and getting worse. But there is a strong negative correlation between the economic bad news and the size of the stimulus packages unveiled by the world's increasingly desperate governments. As a general rule, the worse the economic outlook, the bigger the stimulus packages.

Figure 1 provides a rough summary of the scale of the promised stimulus. This is a little misleading, because it is often difficult to differentiate between bank bailout plans and classical Keynesian fiscal stimulus. However, the scale of the plans is clear. Collectively, the governments of the world's nine-largest economies have promised something in the region of $1.9trn in government initiatives. To put that into perspective, global GDP last year was roughly $60trn, and the overall share of government roughly $17trn.

Figure 1: Promised stimulus packages

Country	Reported fiscal stimulus package, $bn	Source
US	825	Bloomberg
China	588	Chinese Premier Wen Jiabao, Davos speech
Spain	119	Bloomberg
Japan	111	Bloomberg
Italy	102	Bloomberg
Germany	64	FT
France	33	FT
UK	29	FT
Canada	28	Bloomberg
Australia	6	Bloomberg
Total	**1906**	

Source: Bloomberg, FT

Russia is being hit as hard as any by the global recession. The collapse in global finance has been exacerbated by a precipitous fall in commodity prices. Global deleveraging made financing for Russian companies difficult and the situation only became worse when the fall in commodity prices undermined Russia's creditworthiness and contributed to the disappearance of liquidity. From a growth path of 6-8%/year up to 3Q last year, Russia fell into recession during the fourth quarter, and will likely suffer a decline in output of up to 2-4% in the first three quarters of 2009.

The scale of the squeeze on the economy is being countered by a similar-scale stimulus package. Since the financial crisis really broke out in Russia in September and October last year, the government has focused on maintaining financial stability. Going forward, the government has indicated that it will switch focus towards the real economy.

Figure 2 indicates the government's overall spending plans. In the first three quarters of 2008, the federal government ran an 8%/GDP budget surplus. In 2009, the government could run a budget deficit of up to 8%/GDP. Despite a fall in expected revenues of 25%, the federal government is looking to *increase* public expenditure.

Figure 2: Loosening fiscal policy

	Jan-Sep 2008	2008	Budget Law 2009	Possible budget plan
Oil price, $/bbl	108	95	95	41
Revenues	**23.3%**	**21.8%**	**21.2%**	**15.8%**
oil and gas	11.2%	10.5%	9.1%	5.0%
non-oil and gas	12.1%	11.3%	12.1%	10.8%
Expenditure	**14.9%**	**17.8%**	**17.5%**	**23.3%**
Deficit ('-')	8.3%	4.0%	3.7%	-7.6%

Source: Russian government

As we explain in this report, infrastructure spending in Russia remains the top priority for government stimulus spending. Progress has been made on a range of projects that are in the process of being rolled out. As always, Russia's biggest problem is that its bureaucracy is not an efficient means of implementing government policy. The Ministry of Finance, in particular, is concerned that budget money will not reach its intended goal. For that reason, projects have been delayed, and the participation of the private sector is being sought.

It is clear, however, that in common with global trends, government spending on infrastructure in Russia is beginning, and will grow rapidly this year and next. While it is unlikely to completely offset the overall downward pressure on the economy, it should mean that steel, cement, construction, ports, airports, roads and railways will be relatively well protected, and among the first areas to recover.

The most important key to benefiting from economic growth in the medium-term is now survival. Companies that are in a position to ride out the financial crisis will in our view be able to consolidate their positions as sector leaders, in a space which has less competition. Below we discuss, in some detail, why the five companies we have identified should be able to survive the next year.

Infrastructure update

We have downgraded our estimate for Russian infrastructure spending in 2009 by 22%, to $56.5bn from $72.3bn. Figure 3 summarises our forecast revisions.

Figure 3: Changes to infrastructure spending forecasts, $mn

	Pre-crisis 1 Jan 2008	Change, $	Initiation 2 Dec 2008	Change, $mn (currency)	Change, $mn (underlying)	New assumption, 16 Jan 2009
Federal budget			15.0	-2.3	0.0	12.7
Investment Fund			5.5	-0.9	-1.3	3.3
Regional and municipal budgets			1.5	-0.2	-0.3	1.0
Russian Railways			11.0	-1.8	-1.7	7.5
Gazprom			15.2	-2.5	0.0	12.7
Transneft/Transnefteprodukt			7.5	-1.2	0.0	6.3
RusHydro			1.8	-0.3	0.0	1.5
Other public sector						
Total public sector	**76.4**	**-18.9**	**57.5**	**-9.4**	**-3.1**	**45.0**
Change			**-24.7%**			**-21.8%**
Total private sector	**34.1**	**-19.3**	**14.8**	**-2.4**	**-0.9**	**11.5**
Change			**-56.7%**			**-22.2%**
Total spending	**110.5**	**-38.2**	**72.3**	**-11.9**	**-3.9**	**56.5**
Change			**-34.6%**			**-21.9%**

Source: Renaissance Capital estimates

The key drivers of our forecast changes are:

- The biggest factor driving the downgrade is currency. At the time of our sector initiation (2 Dec 2008), we used an exchange-rate assumption of RUB25.5/$1. Following recent rouble devaluation, our new forecasts are based on an average rate of RUB30.5/$1. This has knocked nearly $12bn off forecast spending. (This is purely a translation effect, because the government budgets in roubles.)

- The Russian government recently revised its macroeconomic forecasts downwards. These now assume an oil price of $41/bbl (vs the previous forecast of $95/bbl), and an exchange rate of RUB35.1/$1. Macro data has also been weak in recent months, with industrial production having fallen 10.3% YoY in Dec 2008, for example. Despite these pressures and new macro assumptions, however, the government is still committed to its original spending plans. To date, no federal funding has been cut and it is possible the budget may actually increase this year. The $12.7bn forecast contribution is relatively small compared with the cash allocated to tackle other effects of the crisis (including the $40bn allotted to banks if required), and the government's financial position remains strong, with Reserve Funds totalling $190bn at YE08. We also note the positive trend of falling input costs, which should alleviate some of the pressures on the federal budget.

- The biggest casualty of the crisis has been the Investment Fund. The fund had originally allocated RUB113bn for projects in 2009. Last week, Regional Development Minister Dmitri Kozak announced spending would be cut to RUB64bn. There are conflicting reports about the impact of this reduction (more on this later), but it seems likely that five or six of the country's 21 largest projects could be delayed. The Investment Fund's priorities have shifted, in our view, to job creation (the schemes going ahead should create 20,000 new jobs) and maintaining social cohesion (10 of the 15 remaining schemes are said to be in regions with labour tensions).

- Regional and municipal budgets have been trimmed, but not by much. There are reports from Moscow, for example, that the underground project may be reduced in scope – from RUB130bn to RUB120bn in value terms over three years, and that more federal subsidies could be required. These adjustments are, so far, relatively immaterial.

- Russian Railways (RZD) has slashed its investment budget. In September, RZD announced it planned to spend RUB432bn on capex in 2009. Last week, *Reuters* reported that spending could be cut by RUB100-330bn. The Ministry of Transport has stated the programme could shrink to just RUB225bn. On 24 Dec 2008, a report by *Reuters* estimated spending of RUB252bn. RZD's CEO, Vladimir Yakunin, said on 17 Jan 2008 that investment spending should total around RUB350bn this year. Given these widely differing views, and the current downturn in trading (with volumes down 36% in January), we have been a little more cautious, and assume the group finds funding for schemes worth RUB230bn ($7.5bn), and that investment in new fleet is almost zero.

- Our forecasts for utility spending and oil and gas capex have not materially changed on an underlying basis since our sector initiation. At that stage, they already reflected a cautious outlook. Capex spending forecasts have since been confirmed by FSK and RusHydro.

- The major change since the onset of the crisis in mid-2008 has been the collapse in private sector investment. Total infrastructure spending for 2009 (based on retrospective forecasts) originally assumed a $34.1bn private sector spend this year. Lower demand, a lack of financing and the uncertain outlook have meant this figure has been decimated to just $11.5bn. We believe this new forecast is realistic. The majority of investment is due to come from the utility companies, which currently sit on net cash of nearly $7bn.

Figure 4: Current net debts of utility companies, $mn

Current net debt, including	(6,998)
OGKs	(1,898)
TGKs	(2,146)
FSK (accounting for additional share issues in favour of the state)	(4,649)
RusHydro (accounting for additional share issues in favour of the state)	(979)
MRSKs	2,674

Source: Renaissance Capital estimates

- Taking into account internally generated funds, the utility projects should be realisable and affordable, with only $1.1bn of new debt in 2009. We think they will be able to raise this debt, given their strong cash flows and robust balance sheets.

Figure 5: Estimate of general financing flows in utilities, 2009-2013, $mn

	2009E	2010E	2011E	2012E	2013E
Significant sources of financing, $mn	7,953	14,257	19,345	23,028	27,816
Infrastructure bonds, $mn	426	1,748	-	-	-
OGK1 potential additional share issue in favour of state-controlled banks, $mn	516	-	-	-	-
FSK EBITDA estimate, $mn	1,100	2,460	3,072	3,780	4,196
RusHydro EBITDA estimate, $mn	1,815	2,654	3,733	3,322	3,583
OGKs EBITDA estimate, $mn. Including	1,184	2,317	3,783	5,138	6,439
OGK1	*242*	*395*	*587*	*921*	*1,357*
OGK2	*155*	*340*	*625*	*843*	*1,052*
OGK3	*187*	*295*	*442*	*605*	*809*
OGK4	*243*	*632*	*963*	*1,218*	*1,305*
OGK5	*156*	*318*	*691*	*951*	*1,056*
OGK6	*201*	*337*	*475*	*600*	*861*
TGKs EBITDA estimate, $mn	1,161	1,978	3,230	4,387	5,499
MRSKs EBITDA estimate (excluding grid-connection fees), $mn	1,750	3,100	5,526	6,400	8100
Total funding available in utilities, $mn	**12,040**	**13,137**	**15,876**	**18,788**	**27,987**
Renaissance Capital estimate of total utilities capex in 2009, $mn	**13,160**	**16,606**	**20,116**	**18,617**	**11,780**
Coverage of capex with own funds	91%	79%	79%	101%	238%
Total debt needs, $mn	1,121	3,469	4,240	(171)	(16,207)

Source: Renaissance Capital estimates

We expect infrastructure spending of $56.5bn to be split between transport ($24bn; 43%), utilities ($13bn; 23%) and oil and gas ($19bn; 34%).

Figure 6: Russian infrastructure spending, $mn

	$bn	Proportion of total
Total infrastructure spending	**56.5**	**100%**
Transport	**24.4**	**43%**
Of which:		
Roads	12.8	23%
Rail	7.9	14%
Regional development	1.9	3%
Airports	0.8	1%
Ports	0.7	1%
Waterways	0.2	0%
Utilities	**13.2**	**23%**
Of which:		
FSKs	5.3	9%
OGKs	3.4	6%
MRSKs	1.5	3%
RusHydro	1.5	3%
TGKs	1.5	3%
Oil and gas	**19.0**	**34%**
Of which:		
Gazprom	12.7	22%
Transneft/Transnefteprodukt	6.3	11%

Source: Renaissance Capital estimates

Project update

Our new forecasts are based on a detailed project-by-project review of Russia's priorities in 2009. We think spending in 2009 will be allocated as summarised in Figure 7.

Figure 7: Renaissance Capital analysis of likely infrastructure spending in 2009, $mn

Project		2009E spending, $mn	Start date	End date	Description
Highways					
Construction of the WHSD highway, in St Petersburg	Investment Fund	741	2004	2013	Toll highway construction to link south, central and northern areas of St. Petersburg, and connect the transportation hub (including the Bolshoi Sea Port) to the federal highway network. The project is being undertaken in stages; the next of which is being completed under a public-private partnership scheme
Construction and renovation of the M-27 Dzhubga-Sochi to the Russia/Georgia border	Federal budget	523	2009 (start of project design stage)	2015	Phased highway construction, with a total length of 17 km, including bypass and interchange construction
Moscow city highways spending	Moscow City regional budget	459	Ongoing	Ongoing	The municipal government plans to spend RUB100bn/year for the next three years (including federal funding)
KAD construction, in St. Petersburg (section from the Narva highway to Bronka settlement	Federal budget	431	2002	2012	A total length of 120.2 km: 70.3 km from the Priozerskoye highway to the Russia highway; 49.9 km from the Russia highway to Bronka settlement. A four-six-eight-lane category 1 highway. The project is being undertaken in two stages
St Petersburg city highways spending	St Petersburg regional budget	328	Ongoing	Ongoing	
Construction of M-4 Don highway section from Moscow through Voronezh, Rostov-na-Donu, Krasnodar to Novorossiysk (355km-414.7 km)	Federal budget	281	2002	2012	Construction, renovation and modernisation of road sections, including bypasses with total length of 400 km. Category one, four-lane road
Other regional highways spending	Regional budgets	197	Ongoing	Ongoing	
Construction of the high-speed Moscow-St. Petersburg highway (15th km-58th km)	Investment Fund	196	2008	2012	The main section of the Moscow-St Petersburg highway, establishing a road link with Sheremetyevo, including the new Sheremetyevo-3 terminal
Construction and renovation of the M-7 Volga highway from Moscow, through Vladimir, Nizhny Novgorod and Kazan, to Ufa	Federal budget	140	2002	2013	Construction, renovation and modernisation of a category one/two 165 km highway, including bypasses. The main section, from MKAD to Noginsk, is a six-to-eight-lane, 41 km road
Construction and renovation of the M-5 Ural highway, from Moscow through Ryazan, Penza, Samara and Ufa, to Chelyabinsk	Federal budget	134	1990 (start of pre-investment phase)	2012	230 km of category-one highway, with four-to-eight lanes. New road construction is stipulated on some sections of the highway
Construction of the Central Highway, in Sochi (Kurortny Prospect Substitute)	Federal budget	131	2008/2009	2013	A 17 km motorway from the Agura river to the Psakhe river, comprising three sections. The first section will be 6.2 km long and two lanes wide. The second will be 5.2 km long and four lanes wide. The third will be 5.2 km long and four lanes wide
Construction of a new connection from MKAD to the federal highway M-1 *Belarus*: Moscow-Minsk	Investment Fund	74	2008	2011	Toll connection between MKAD and the federal highway M-1 *Belarus* Moscow-Minsk
Construction and renovation of the M-1 Belarus highway (Moscow-Belarus border)	Federal budget	68	2009 (start of project design stage	2015	Construction and reconstruction of sections of 97 km highway. Includes highway construction around the Moscow transportation hub, interchanges and an overpass
Federal highways spending supporting regional development	Federal budget	9,138			The federal budget includes this reserve for funding schemes of national importance. We think these will prioritise projects in remote areas, near mineral deposits or of social significance
Total highways		**12,840**			

Project		2009E spending, $mn	Start date	End date	Description
Regional development (transport)					
Integrated development of Nizhnee Priangarye	Investment Fund	459	2006	2015	Includes the construction and renovation of sections of the Kansk-Aban-Boguchani-Kodinsk highway; construction of a bridge over the Angara river; Karabula-Yarki railway construction; and two new electricity transmission lines. In general, aimed at strengthening the industrial potential of this territory by creating transport and energy infrastructure, developing natural resources and building industrial units.
Creating transport infrastructure for the development of mineral resources in the South East of the Chita region	Investment Fund	383	2007	2015	The main target is to create the necessary rail infrastructure (in a PPP framework) for polymetallic deposits development in the southeastern Chita region
An oil-processing and petrochemicals plant complex, in Nizhnekamsk	Investment Fund	219	2006	2010	The project is aimed to establish high-technology oil-processing and petrochemicals plants with total capacity of 7mn tpa, and creating the required infrastructure (including railway and pipelines)
The design of documentation for the *Complex development of South Yakutiya* investment project	Investment Fund	135	2008	2009	
The Novomoskovsk industrial complex, in Tula region	Investment Fund	128	2007	2016	Includes the construction of a bridge over the Lubovka-river, a new railway station (Promgipsovaya), and the Tula-Novomoscovsk highway. Overall, the project's objective is to build new and modernise existing manufacturing facilities and develop transport infrastructure under a PPP scheme, which should result in developement of this large industrial region
An integrated construction and renovation programme for water supply and the drainage system in Rostov-na-Donu and the south-west Rostov region	Investment Fund	74	2007	2021	The main target of the project is to develop water supply and drainage infrastructure, raise the quality of water supply and drainage services, and mitigate the negative impact on the Don river, and Azov and Black seas
The design of documentation for the *Industrial Ural-Polar Ural* investment project	Investment Fund	4	2008	2009	
Organising the production of micro-circuitry on 300 mm-diameter plates, with 65-45 nm standards	Investment Fund	513	2008 (postponed to 2009)	2010	Establishing Russia's first micro-circuitry production capacity (10,000 units/month)
Total regional development		**1,916**			
Rail					
RZD track upgrade spending	RZD	4,848	Ongoing	Ongoing	Includes work on the Moscow-St Petersburg railway (total project cost $18.4bn), the Trans Siberian Rail extension ($1.6bn) and the Baikal-Amur Railway ($2.1bn)
RZD new track spending	RZD	1,492	Ongoing	Ongoing	Includes the Moscow-Nizhny Novgorod railway (total project cost $10.8bn), the Moscow-Adler line ($15.7bn) and Adler-Krasnaya Polyana-Imerertinskaya Valley ($8.5bn)
RZD station upgrades and new stations	RZD	1,119	Ongoing	Ongoing	Includes upgrade work to the Moscow transportation hub (a $13bn project)
A high-speed rail connection between St.Petersburg and Helsinki	Investment Fund	303	2007	2010	Involves the organisation of high-speed rail traffic on the St.Petersburg-Buslovskaya railway section (up to 200km/h), and construction of the new Petyayarvi-Kamennogorsk railway
Construction of Tommot-Yakutsk launching complex, on the Berkakit-Tommot-Yakutsk rail line	Federal budget	133	2010	2013	Launching the Tommot-Yakutsk complex is a component part of Berkakit-Tommot-Yakutsk rail line. The goal is to increase the transport availability of the region and eliminate infrastructure restrictions
Construction of the Kyzyl-Kuragino railway, in St. Petersburg	Investment Fund	20	2008	2014	Creating a pivotal rail infrastructure to accelerate the economic development of Tyva Republic, based on natural resources development. The total length of the railway is 460 km.
Other federal railways spending	Federal budget	6			
Total rail		**7,920**			

Project		2009E spending, $mn	Start date	End date	Description
Ports					
Federal sea transport spending (reserve)	Federal budget	544			
Creating water areas in the south and north sections of the Ust-Lug commercial sea port	Federal budget	67	2010	2015	Conducting channel dredging works to form water areas for the transshipment of containers. Construction of specialised docks for container transshipment. Improving transhippment technologies with the installation of modern equipment
Other federal port integration spending	Federal budget	37			
Construction and further operation of the *Yug-2* multi-profile transshipment complex, at the Ust-Lug commercial sea port	Investment Fund	32	2005 (postponed to 2009)	2009	Establishing a 98 ha area, with the construction of docks and the purchase of transshipment equipment
Reconstruction of the St Petersburg sea channel and port infrastructure	Federal budget	30	2010	2015	Reconstructing the main fairway of the St. Petersburg sea channel. Integrated development of the port infrastructure
Integrated development of the Murmansk transportation hub	Federal budget	16	2006	2010	Includes railway construction to facilitate approach to the Murmansk transportation hub, creating three logistics complexes around St Petersburg, and Pan-European transport corridor #9. Total capacity of 4.5mn tpa. Overall, the project targets the creation of an interregional transportation and logistics system, and integrating this into the international transportation network.
Integrated development of the Novorossiysk transportation hub	Federal budget	16	2006	2010	Complex modernisation of NMTP's rail, highways and communications infrastructure, which will increase the hub's capacity and create conditions for the involvement of small and medium-sized businesses into international economic activity
Development of the Vostochniy-Nahodka transportation hub	Federal budget	3	2010	2015	Complex modernisation and construction of new port terminals, railways, highways, bridges, tunnels and communications infrastructure. The project targets the establishment of a sea transportation hub, integrated into the international transport corridor Transib for processing containers, transhippment of coal, grain and mineral fertilisers
Total ports		**745**			
Airports					
Renovation of runway one, taxiways and parking slots for aircraft at Domodedovo airport	Federal budget	107	2010	2015	Involves the reconstruction of runway one, the construction of a network of taxiways, the installation of a lighting system, engineering communications and meteorological equipment. The main objective is to increase the airport's capacity.
Reconstruction of airport engineering structures at Sochi	Federal budget	103	2010	2012	The project is being implemented jointly by Strabag and Russian construction company Renaissance Construction. The total surface area of the works is 63,000 m2
Renovation and modernisation of Vnukovo airport	Federal budget	81	2010	2014	Involves the reconstruction of runway one, taxiways, the installation of new lighting and meteorological equipment, the construction of treatment facilities and the reconstruction of service roads
Second stage of the Sheremetyevo airport reconstruction	Federal budget	46	2010	2014	Involves the reconstruction of runway one and the airfield sector of Sheremetyevo-1, including taxiways and parking aprons
Pulkovo Airport (initial stage)	PPP	37	2009		The first airport infrastructure development project in Russia to be implemented through a PPP scheme. Commercial infrastructure and runway reconstruction will account for 67% and 33% of the project's total cost, respectively
Renovation and modernisation of Kurumoch	Federal budget	31	2010	2013	Involves the reconstruction of runway two, and its extension to 3,500 metres, and the reconstruction of runway

Project		2009E spending, $mn	Start date	End date	Description
international airport, in Samara					one, taxiways, a water drainage system, treatment facilities and the replacement of lighting equipment
Construction of a new airport complex in Irkutsk	Federal budget	12	2010 (start of construction phase)	2015	A new *class A* airport construction in Pozdnyakovo. Over 67% of the project's total cost is financed from federal and regional budgets
Federal civil aviation spending (reserve)	Federal budget	393			Likely to be allocated mainly to international hub upgrades or regional airports
Total airports		**810**			
Waterways					
Development and implementation of the integrated Volgo-Baltiyskiy waterway reconstruction project	Federal budget	10	2011	2014	Includes the reconstruction of locks and dykes, waterway widening, and the establishment of a centralised system for vessel coordination and control. The target is to eliminate infrastructure restrictions
Development and implementation of the reconstruction of Moscow channel infrastructure assets	Federal budget	8	2011	2015	Includes the reconstruction of power conduits at the Shodnenskaya hydro station and the re-equipment of pumping stations. The project also aims to provide protection against potential terrorist threats
Other domestic waterways spending	Federal budget	162			
Total waterways		**180**			
Utilities					
FSK projects	FKSs	3,602	Ongoing	Ongoing	
Improvements to the Moscow, St Petersburg and Tyumen grids	FSKs	1,725	Ongoing	Ongoing	Split approx: 55% St Petersburg, 30% West Siberia, 15% Moscow
MRSK projects	MRSK	1,500	Ongoing	Ongoing	Management estimates an $8bn spend in 2009
RusHydro projects	RusHydro	1,475	Ongoing	Ongoing	Confirmed by management
Power plants commissioned by TGKs	TGKs	1,458	Ongoing	Ongoing	Includes 450 MW Uzhnaya CHPP plant by TGC-1, 420 MW plant CHPP-26 by TGC-3 and TGC-6's investment in 340 MW plant Sormovskaya CHPP plus 305 MW plant Novogor'kovskaya CHPP
Troitskaya GRES	OGK2	387	2007	2012	660 MW coal plant
Shaturskaya GRES-5	OGK4	370	2008	2013	400 MW gas plant in Central Region
Other power plants commissioned by OGKs	OGKs	355	Ongoing	Ongoing	
Urengoiskaya GRES	OGK1	326	2008	2012	450 MW gas plant in Ural Region
Berezovskaya GRES-1	OGK4	290	2007	2009	800 MW coal plant in East Siberia
Yuzhno-Uralskaya GRES	OGK3	258	2009	2013	450 MW gas plant in Ural Region
Surgutskaya GRES-2	OGK4	257	2009	2012	800 MW gas plant in Tyumen region
Serovskaya GRES	OGK2	250	2009	2012	400 MW gas plant in Ural Region
Kirishskaya GRES-19	OGK6	186	2009	2012	800 MW gas plant in North West Region
Nevinnomysskaya GRES	OGK5	179	2007	2010	410 MW gas plant in North Caucasus
Cherepovetskaya GRES	OGK6	162	2009	2013	330 MW coal plant in Central Region
Nizhnevartovskaya GRES I	OGK1	153	2006	2011	Stage 1 – 800 MW associated gas plant in Urals
Sredneuralskaya GRES	OGK5	126	2007	2010	410 MW gas plant in Ural region
Yaivinskaya GRES-16	OGK4	100	2008	2013	400 MW gas plant in Ural region
Total utilities		**13,160**			

Project		2009E spending, $mn	Start date	End date	Description
Oil and gas					
Bovanenkovo-Ukhta (1,110 km)	Gazprom	3,056			
Gryazovets-Vyborg (Nord Stream feed) (917 km)	Gazprom	2,223			
Upkeep of the pipeline network	Gazprom	1,767			
East Siberia Pacific Ocean Phase 2	Transneft/Transnefteprodukt	1,731			
Upkeep of Transneft network	Transneft/Transnefteprodukt	1,579			
Other / unidentified pipeline spending	Gazprom	1,269			
East Siberia Pacific Ocean Phase 1	Transneft/Transnefteprodukt	1,018			
Murmansk-Volokhov (Gryazovets-Vyborg feed) (1,365 km)	Gazprom	1,000			
BPS-2	Transneft/Transnefteprodukt	840			
Sakhalin-Khabarovsk-Vladivostok pipeline	Gazprom	834			
Sobolevo-Kamchatka pipeine	Gazprom	792			
Kozmino Sea Terminal	Transneft/Transnefteprodukt	747			
Obskaya-Bovanenkovo railway	Gazprom	695			
Ukhta-Torzhok (1,390 km)	Gazprom	614			
Other new pipelines	Gazprom	437			
Upkeep of the Transnefteprodukt network	Transneft/Transnefteprodukt	268			
Other Transneft projects	Transneft/Transnefteprodukt	100			
Total oil and gas		**18,970**			

Source: Renaissance Capital estimates, Federal Budgets, Company Data

The profile of investment spending remains relatively encouraging. We note the following highlights:

- The government has committed to finishing the big schemes that are already under way: $431mn has been allocated to completing KAD in St Petersburg, for example, which is very good news for **Mostootryad-19**. More than $100mn will be spent completing the runway at Domodedovo (which is very positive for **Transstroy**). The development at Novorossiysk transportation hub should complete (promoting the competitiveness of **Novorossiysk Commercial Sea Port**) and the sea channel at St Petersburg port is also likely to be finished (simplifying access for **FESCO's** shipping fleet).
- Most of the other big projects discussed in our initiation have received funding for either their initiation or the next stage of their development. Significant examples include the $281mn allocated from the Federal budget for the M4 Don project (a 1,521 km highway that will likely cost upwards of $30bn to finish); further works on the M1 Belarus and the intersection with MKAD in Moscow; the M5 Urals highway upgrade (part of a 1,155 km renovation); the M7 Volga; the second stage of Sheremetyevo Airport's reconstruction (which should be welcome news for **Aeroflot**).
- Funding has been confirmed from the Investment Fund for the next stage of construction of the Western High Speed Diameter (WHSD), in St Petersburg. This is likely to be the fund's biggest investment in 2009, in our view, and could cost the government upwards of $741mn. We regard this as one of the most significant advances in recent weeks. The WHSD is amongst the most expensive highways ever built globally. Although only 47 km long on completion, it is costing over $82mn/km to build – a reflection of the project's complexity. More significantly, the next stage will be operated under a public-private partnership (PPP) structure – the first of its kind in Russia. There are still some questions over the ability of the private sector to secure funding in 2009 (the ZSD Nevsky Meridian LLC consortium is controlled by the Basic Element Group), but in its most recent report, the St Petersburg administration assured the federal government that resources were in place (welcome news for **Mostootryad-19**, a member of the consortium and highly reliant on this scheme for future growth). We are also cautiously optimistic that the Pulkovo Airport PPP will proceed in 1H09.
- We see a clear focus on spending to improve the infrastructure of Russia's biggest cities. Schemes in Moscow include the MKAD-M1 Interchange and the first leg of the Moscow-St Petersburg toll motorway. The latter provides a boost for St Petersburg, as does the WHSD, and St Petersburg is also allocated funding for port, local infrastructure projects and rail projects (including $303mn for the rail link to Helsinki and $20mn for the Kyzyl-Kuragino railway).
- The government is pressing ahead with spending in preparation for big upcoming international events. In preparation for the Sochi 2014 Winter Olympics, the federal budget allocates $523mn to the M27 Dzhubga-Sochi Highway (the biggest single scheme in the budget), a further $131mn to the central highway in the city and $103mn to airport development. The biggest beneficiaries are likely to be contractors exposed to the region (most

notably, tunnelling specialist **Bamtonnelstroy**) and cement names, including **Eurocement** and **Novoroscement**. There is also some cash in the reserves for the 2012 APEC Summit, in Vladivostok. **Dalmostostroy** has already won some big tenders for this project (including the Russkiy Ostrov mainland bridge), and is likely to win a significant proportion of new contracts in the region, in our view. There is no explicit mention of the Eurovision Song Contest 2009 in any of the detailed budgets.

- Another priority for public spending is regional development in areas that are suffering from either poor or non-existent infrastructure, or are linked to mineral development. Significant sums have been set aside for the Tyumen area (beneficial for **Mostostroy 11** and **Khantymansiyskdorstroy**), Siberia generally (**Dalmostostroy**, **Bamstroymekhanizatsiya**, **Sibirskiy Cement**) and also the Chita, Tula and Rostov regions. There is a significant reserve within the federal highways budget (about $9.1bn) that we expect to be allocated mainly to these regions and, in addition, projects totalling $1.9bn have been allocated in the budget specifically for regional development.
- In addition to federal government and Investment Fund spending, local administrations are pressing ahead with infrastructure investment. Highway spending in Moscow totalled RUB106bn in 2008 (including federally funded projects) and the mayor recently reaffirmed this would not fall below RUB100bn for the next three years. A number of schemes are planned for 2009, including the south substitute of Kutuzovskiy Prospect, interchanges with MKAD, highways around the Kurkino and Sokol Metro Stations and reconstruction of the roads around Tverskaya Zastava Square. This is very good news for contractors with strong institutional links to the local government, including **Mostotrest, Gordostroy** and **Mosinzhstroy**. Similar comments have come from local officials in Nizhniy Novgorod, where Igor Korobeynikov (Director of Road Construction) stated, on 16 Jan 2009, that infrastructure spending was a top priority for the city. The same is likely to be true in St Petersburg, in our view, with spending in the area benefiting the contractor **Mostootryad-19**, as well as **Metrostroy**.
- RZD is pressing ahead with its investment programme. The sums involved are likely to be below those allocated in 2008 (total investment is expected to be RUB230bn in 2009 vs nearly RUB400bn last year) but we think they will be focused more on track renewal; maintenance and installation; and infrastructure spending, as opposed to items such as safety and fleet development. We have yet to see a breakdown of the new budget, so this remains an assumption, but given the downturn in underlying demand it makes sense, in our view. Higher spending on core infrastructure by RZD would benefit **Bamtonnelstroy** (working on the BAM upgrade, which has been confirmed), **Mostotrest** (partially owned by RZD) and also some of the less liquid names, such as **Transsignalstroy**.
- We expect a number of major utility projects to proceed in 2009, despite the reduced availability of private sector financing. These include grid reliability improvements by the Federal Grid Company (FSK) in Moscow, St Petersburg and Tyumen (worth nearly $2bn); power plant investments by the TGKs (the largest being the 450 MW plant Uzhnaya CHPP-22 by TGC-1); and new capacity additions by the OGKs (the largest project in terms of spending being the $387mn Troitskaya GRES coal station investment by

OGK-2). On 23 Jan 2008, the board of RusHydro confirmed a capex budget of RUB55.5bn/$2.2bn and the CEO of FSK, Andrey Rappoport, told *Vesti-24* that capex would total RUB160-180bn/$4.85-5.45bn for the year. Ongoing utility spending is vital for the prospects of **Sevapelectrosetstroy**, the largest utility contractor with an approximate 8% market share.

- Gazprom is likely to invest $12.7bn in pipelines in 2009, with the largest amount going on the 1,110 km Bovanenkovo-Ukhta pipeline, a scheme that is likely to cost around $8bn to complete (of which we think $3.1bn will be spent this year). The 917 km Nord Stream feed, Gryazovets-Vyborg, should proceed at a cost of $2.2bn in 2009. Transneft and Transnefteprodukt will also invest in their networks, in our view, with the focus being on East Siberia Pacific Ocean Phases I (costing $1bn in 2009, on our estimates) and II ($1.7bn).

Inevitably there have been some casualties in the current environment. The most important are:

- CKAD, the central ringroad in Moscow. This was originally to be designed by the end of 2009, and completed in 2015 as the new fourth ringroad around Moscow, with a length of 522 km and a total cost of $22bn. There are conflicting reports about its progress, with suggestions in *RBC Daily* (15 January 2008) that it has been postponed. Our understanding from the Investment Fund also suggests this may be the case.

- Construction of the Orlovskiy tunnel, under the Neva River, in St Petersburg. If confirmed, this would be a major disappointment, because the project is another pioneering PPP scheme. There are currently four pre-selection bidders, which include international contractors (Vinci, Bouygues), and we would not be surprised to see the project slip to 2011. However, it is unclear whether this is due to financing difficulties or, as in the past, disputes and changes to the technical specification of this complex scheme.

- KAD2, the second ringroad around St Petersburg. This is a 175 km highway, which was originally expected to cost around $13-17bn, with completion in 2010. We have seen no newsflow on this scheme, nor is it explicitly mentioned in any of the budget appendices.

- MRSK spending. The cumulative total of MRSK capex plans comes to $8bn. We have only assumed $1.5bn is actually invested in 2009, largely due to constraints on private sector financing (more on this below).

- The Moscow underground (discussed above). We see scope for the federal budget share of project expenses to increase from 20% towards 30%.

We do not believe these delays threaten the overall investment case for Russian infrastructure. The schemes involved are big, but are only in their early conceptual stages. As such, they were unlikely to require much funding in 2009 in any case. Moreover, the government and Investment Fund have confirmed that they are not planning to cancel funding altogether, so progress on these initiatives should merely be delayed.

Our top picks

Stock selection

Our coverage spans Russia's infrastructure capabilities, from building materials through to construction, infrastructure assets and transportation. For the first time, we now incorporate steel names into our stock selection.

Our top picks are Evraz, NLMK, Novorossiysk Commercial Sea Port, Mostootryad-19 and Bamtonnelstroy.

Through these five stocks, we think investors can gain exposure to some of the most interesting themes discussed in this note, specifically:

- **Evraz:** Infrastructure spending generally, and rail spending in particular
- **NLMK:** Infrastructure spending generally, and highways spending in particular
- **Novorossiysk Commercial Sea Port:** Infrastructure spending on ports, government policy to promote domestic ports and investment in the Novorossiysk region
- **Mostootryad-19:** The massive investment programme around St Petersburg, and PPPs in Russia
- **Bamtonnelstroy:** Investment in tunnels, spending on the Sochi 2014 Winter Olympics and railway modernisation (specifically on the BAM line)

All these stocks satisfy three criteria:

- **They benefit directly from Russia's infrastructure boom.** Evraz is the number-one supplier of rails to RZD. NLMK makes up to 50% of its domestic sales in the construction sector. Novorossiysk Commercial Sea Port is Russia's largest port facility and is benefiting from investment in the region. Mostootryad-19 is one of the biggest contractors in St Petersburg, and the only local player involved in PPP schemes. Tunnel contractor Bamtonnelstroy is working on some of the biggest contracts likely to proceed in 2009, including modernisation of the BAM line and projects for Sochi 2014.
- **They are financially secure and should survive the crisis.** We think these five stocks can successfully refinance any debt obligations throughout the year, and have a high likelihood of still being around to capitalise on any recovery. NMLK is in a strong financial position. Its short-term debt is mainly with local banks and can be rolled over, and it received $1.6bn of long-term resources (at LIBOR + 2.25%) after cancelling the JMC deal. EVRAZ has $10bn of gross debt and is close to breaching covenants, but we think VEB's $1.8bn credit line (opened in Nov 2008) is sufficient to cover quarterly repayments of $200mn on its $3.2bn syndicated loan, while VTB's one-year loan of RUB10bn will cover working capital requirements. While we recognise that there is a risk that credit lines cannot be extended or rolled over, the company's debt position is manageable, in our view. We forecast Novorossiysk Commercial Sea Port will make EBITDA of $444mn in 2009 – easily sufficient to cover refinancing needs of just $32mn – and

by the end of the year, we think net debt/EBITDA is likely to fall to under 1x. Mostootryad-19 is in a very robust net cash position, and Bamtonnelstroy has sufficient cash generation to refinance its RUB200mn bank loan, maturing at the end of 3Q09.

Figure 8: Company debt profiles at 30 Sep 2008, $mn

Company	Total debt, $m	Long-term debt, $m	Short-term debt, $m	Cash and cash equivalents, $m	Net debt, $m	Net debt / EBITDA	Net debt / market cap
Evraz	10,214	5,801	4,413	623	9,591	1.45	324%
NLMK	3,337	1,992	1,345	2,735	602	0.13	8%
Novorossiysk Commercial Sea Port	353	353	0	3	350	0.88	30%
Bamtonnelstroy	99	56	43	38	61	0.74	51%
Mostootryad-19	10	7	3	90	-80	(1.27)	-67%

Source: Company Data

- **They are cheap.** Despite the recent rally, Evraz still trades on 2009 P/E of only 2.0x, on our estimates, and with a near-60% discount to its Russian peers. This clearly reflects concerns about the group's financial structure, which we discuss above. NMLK's valuation is less compelling against those of its peers, mainly due to its robust balance sheet; but it still trades with a discount to fundamental fair value, and on EV/sales of less than 1.0x. Novorossiysk Commercial Sea Port trades on a discount to its international peers of over 40% on every multiple, we estimate, despite much better growth prospects (an EPS CAGR 2007-2010E of 51%, vs the 11% global average). Mostootryad 19 now has negative EV/EBITDA (investors get the cash for free) and Bamtonnelstroy's 2009E EV/EBITDA multiple is only 0.6x, with an EPS CAGR 2007-2010E of 32% (driven by Sochi 2014).

Figure 9: Composite valuations

	Price	Target	Mkt Cap	P/E x			EV/EBITDA x			EV/Sales
	$	price, $	$mn	2008	2009E	2010E	2008	2009E	2010E	2009E
NLMK	1.2	1.8	6,443	2.2x	6.3x	2.5x	1.9x	3.9x	1.9x	0.8x
Evraz	8.9	32.0	3,225	0.9x	2.0x	1.6x	5.4x	3.2x	2.5x	1.8x
Russian steel sector			**15,902**	**1.6x**	**4.8x**	**2.9x**	**3.3x**	**3.3x**	**2.1x**	**1.0x**
Novorossiysk Commercial Sea Port	0.1	0.2	1,350	6.1x	5.4x	4.2x	4.5x	3.8x	2.7x	2.1x
Mostootryad 19	1,575.0	5,873.0	119	3.3x	3.4x	2.4x	0.5x	0.1x	-0.8x	0.0x
Bamtonnelstroy	1,149.5	5,550.0	121	2.4x	2.3x	2.0x	1.2x	0.6x	-0.2x	0.2x
Russian infrastructure sector			**7,016**	**4.2x**	**4.1x**	**3.2x**	**3.8x**	**3.6x**	**3.0x**	**0.8x**

Source: Renaissance Capital estimates

A summary investment case on each of these stocks is outlined below. Further information on Mostootryad-19, Bamtonnelstroy and Novorossiysk Commercial Sea Port is available in our report mentioned earlier, *Russian infrastructure, overhauling a country – the complete guide*, dated 2 Dec 2008. Further information on Evraz and NLMK is available in *Russian ferrous and carbon: After the fall – a look into 2009*, dated 18 Dec 2008.

Evraz

Overview: The group is the largest producer of long steel in Russia, and the biggest supplier of rail to RZD. Construction and railway products account for 54% and 23% of domestic sales volumes, respectively, meaning Evraz is exposed to most of the big infrastructure projects across Russia. Its international operations are in very good shape, in our view. Flat rolled steel accounts for 40% of its US volumes and 60% of the product mix in Europe. This type of steel is widely used in infrastructure – meaning the group should also benefit from fiscal stimulus packages in these regions.

Financial position: The group took strides to shore up its balance sheet at the end of 2008. It applied for, and received, state funding of $1.8bn from VEB, $0.8bn of which was used to repay a bridging loan on the acquisition of Ipsco assets. The remainder will be utilised throughout 2009 to repay the $200mn quarterly instalments on the group's $3.2bn syndicated loan. A one year loan of RUB10bn (around $60mn) from VTB should help cover working capital. $300mn of eurobonds fall due on 3 Aug 2009, and in 4Q09, $719mn of revolving credit lines also mature. However, we believe internal cash-generation is sufficient to cover these payments (the group makes around $300mn of EBITDA per month). The group has also done a good job of improving cash flow by scaling back capex and changing its dividend policy and we expect it to end 2009 with cash of $1.3bn, despite principal repayments. We acknowledge that Evraz is highly geared and close to breaching covenants and, unlike at NLMK, there is a risk of default if credit lines cannot be rolled over (either from foreign banks or VEB). However, the risk of this scenario is minimal, in our view.

Valuation: Evraz has traditionally been one of the most liquid securities in the Russian steel sector, and, in the search for liquidity, investors sold the stock at the end of 2008. Concerns about the financial structure have also weighed heavily and, as a result, it now trades on a 2009 P/E of just 2.0x, on our estimates – representing a 58% sector discount. We regard this as far too extreme given the group's very robust product positioning, the action it has taken to strengthen the balance sheet and its international businesses.

Figure 10: Evraz financials and key data sheet

Price ($/sh)	8.35	Rating	BUY	Target price ($/share)	32	WACC	9.9%		
Bloomberg ticker	EVR LI	Mkt Cap ($mn)	3,039	DCF, $/sh	68	P/DCF	0.12		

December YE	FY06	FY07	FY08E	FY09E	FY10E
Share price (average)	23.21	47.30	73.60	8.35	8.35
Mkt Cap (average)	8,140	16,589	27,049	3,069	3,069
Enterprise value (average)	9,817	22,862	35,315	9,262	8,001

Income statement, $mn	FY06	FY07	FY08E	FY09E	FY10E
Revenue	8,292	12,808	19,928	13,703	15,814
Operating costs	(4,855)	(7,875)	(10,823)	(8,440)	(9,740)
Gross profit	3,133	4,933	7,614	3,819	4,548
Gross margin	38%	39%	38%	28%	29%
SG&A	732	1,220	1,804	1,332	1,631
EBITDA	2,652	4,254	6,606	3,350	3,852
EBITDA margin	32%	33%	33%	24%	24%
D&A	(304)	(698)	(1,117)	(1,184)	(1,255)
EBIT	2,348	3,556	5,489	2,167	2,597
NOPLAT	2,328	3,545	5,541	2,202	2,616
Net interest expense	(201)	(368)	(571)	(452)	(449)
Income from associates	45	88	380	197	340
Other income/expenses	(132)	(225)	(178)	(180)	(183)
Exceptionals/write downs	(29)	(7)	(85)	0	0
PBT	**2,097**	**3,201**	**5,355**	**2,051**	**2,625**
Tax	(638)	(984)	(1,607)	(410)	(525)
Effective rate	30%	31%	30%	20%	20%
PAT	**1,459**	**2,217**	**3,749**	**1,641**	**2,100**
Minorities	(74)	(73)	(62)	(27)	(35)
Net profit	**1,385**	**2,144**	**3,674**	**1,616**	**2,064**
Headline Income	1,385	2,144	3,674	1,616	2,064
Net margin	17%	17%	18%	12%	13%
Shares out, mn	**351**	**351**	**368**	**368**	**368**
EPS, $/share	3.95	6.11	10.00	4.40	5.62
DPS, $/share	1.07	2.49	1.98	1.80	1.25

Cash Flow, $mn	FY06	FY07	FY08E	FY09E	FY10E
Operating CF (unlevered)	2,092	2,957	3,170	2,849	2,599
OPCFPS	$4.86	$7.70	$12.13	$6.50	$7.81
CF from operations	2,092	2,957	3,170	2,849	2,599
Capex	(660)	(740)	(1,096)	(577)	(877)
Acquisitions	(849)	(4,752)	(3,340)	0	0
Free CF	515	(2,679)	(1,266)	2,273	1,721
FCFPS	$16.56	($6.49)	($2.42)	$1.35	$1.78
Equity issues (net)	0	0	0	0	0
Debt raised	24	2,880	3,350	(1,965)	(52)
Debt repaid	(2)	2	15	5	14
Other financing	(10)	(30)	0	0	0
Dividends paid	(392)	(916)	(727)	(661)	(460)
CF from financing	(341)	2,135	2,623	(2,626)	(512)
Net change in cash	201	(515)	1,357	(353)	1,210
Cash at YE	842	327	1,684	1,331	2,541

Balance sheet, $mn	FY06	FY07	FY08E	FY09E	FY10E
Current assets	2,922	4,725	7,627	6,177	8,036
Cash and investments	842	327	1,684	1,331	2,541
PP&E	3,712	9,967	10,340	10,170	10,275
Non current assets	5,600	13,909	14,282	14,112	14,217
Total assets	6,754	8,510	16,380	20,288	22,253
Current liabilities	1,886	5,349	6,656	4,418	4,796
Non current liabilities	2,386	6,932	9,232	8,867	8,816
Net debt	1,807	6,404	8,397	6,785	5,524
Total liabilities	4,272	12,281	15,888	13,285	13,611
Shareholders' equity	4,074	5,953	5,559	6,514	8,118
Minorities	176	400	462	489	523
Total liabilities and shareholders' equity	8,522	18,634	21,909	20,288	22,253

Production, mnt	FY06	FY07	FY08E	FY09E	FY10E
Finished steel	15,918	16,426	16,775	13,898	17,030
Semi-finished	7,601	5,427	4,504	1,805	4,290
Construction	4,153	5,122	5,514	4,850	5,206
Rail	1,630	2,290	2,300	2,400	2,401
Flat	1,612	2,165	3,007	3,315	3,371
Tubular	14	664	982	1,150	1,151
Other	950	778	205	376	611
Coking coal (attrib.)	10.7	6.7	9.8	10.8	11.5
Coke	0.0	1.0	2.0	1.7	2.0
Thermal coal	5.4	5.2	4.4	2.7	2.9
Iron ore products	17.0	18.9	22.9	18.3	21.0
Vanadium	13.1	23.7	27.5	21.5	25.0

Segment dynamics	FY06	FY07	FY08E	FY09E	FY10E
Sales steel	7,145	10,907	18,848	12,461	14,953
Sales mining	1,147	1,901	1,080	1,241	861
EBITDA steel	2,237	3,621	3,602	1,021	2,040
EBITDA mining	415	633	2,475	1,779	1,262
EBITDA margin steel	31%	33%	19%	8%	14%
EBITDA margin mining	36%	33%	229%	143%	147%
EBITDA Russian steel	2,001	2,686	2,863	1,145	1,925
EBITDA non-Russian steel	236	935	739	-124	115
EBITDA iron ore	420	600	1,914	1,038	955
EBITDA coal	-5	33	561	741	307
EBITDA vanadium	-	-	528	550	550

Revenue by region	FY06	FY07	FY08E	FY09E	FY10E
Russia	50.9%	46.4%	40.0%	40.3%	45.0%
EU	17.0%	14.8%	12.0%	15.0%	12.8%
Americas	4.1%	16.7%	18.7%	22.5%	20.0%
CIS	4.1%	4.5%	7.4%	4.5%	8.0%
Africa	0.2%	2.8%	3.8%	4.5%	4.0%
Asia	23.5%	14.7%	17.8%	13.0%	10.0%
RoW	0.2%	0.1%	0.3%	0.2%	0.2%

Ratio analysis	FY06	FY07	FY08E	FY09E	FY10E
EV/sales	1.2	1.8	1.8	0.7	0.5
Sales growth	27%	54%	56%	-31%	15%
Cost growth	24%	62%	37%	-22%	15%
EV/EBITDA	3.7	5.4	5.3	2.8	2.1
EBITDA growth	43%	60%	55%	-49%	15%
EV/EBIT	4.2	6.4	6.4	4.3	3.1
PE	5.9	7.7	7.4	1.9	1.5
Earnings growth	153%	55%	71%	-56%	28%
Dividend yield	5%	5%	3%	22%	15%
P/OPCFPS	5	6	6	1	1
P/FCFPS	1	-	-30	6	5
Free cash flow yield	6%	-16%	-5%	74%	56%
Net debt/EBITDA	0.7	1.5	1.3	2.0	1.4
Net debt/equity	44%	108%	151%	104%	-
ROA	18%	16%	18%	8%	10%
ROE	66%	75%	97%	54%	51%
Capital employed (YE)	6,723	12,778	15,734	14,725	16,277
Invested capital (YE)	4,966	12,187	13,734	12,834	13,371
ROCE	37%	38%	35%	11%	13%
ROIC	47%	29%	40%	17%	20%
ROIC/WACC	4.5	2.9	4.1	1.7	2.0
P/CE	1.2	1.3	1.7	0.2	0.2
EV/IC	2.0	1.9	2.6	0.7	0.6
Price/book	1.9	2.6	4.5	0.4	0.4

Source: Company Data, Renaissance Capital estimates

NLMK

Overview: NLMK is among the most efficient, cash-generative Russian steel companies, in our view, with the lowest debt burden. Up to 50% of domestic sales are in the construction sector, and it is the only producer of thick galvanised rolled steel in Russia – a product widely used in highway construction. As a result, we think NLMK is a very effective way to play the nascent infrastructure boom taking place throughout the country in this subsector. In Dec 2007 the group strengthened its position by taking control of Urals-based long-steel producer, Maxi-Group, adding 2mn tpa of construction steel capacity to its platform. The group also benefits from one of the highest-value product offerings in Russia, in our view. It controls the entire domestic transformer steel market (and has a 20% global share), and its recent results confirm prices in this segment have been very resilient (only -10% in 4Q08), while margins are likely to be as high as 70% for some grades, on our estimates.

Financial position: The group has one of the strongest balance sheets in the sector. Gross debt at the end of 2008 was $3.3bn, of which only $1.3bn was short-term and $1.6bn comprised new long-term debt raised in 3Q08 at LIBOR + 1.25%. We think this debt burden can comfortably be serviced by existing cash resources (around $2.4bn at the beginning of the year) and internal cash-generation, which we forecast at close to $1.5bn in 2009. Even if the group is required to pay a $529mn penalty on quitting the JMC deal in 2008, we still believe it will end 2009 with cash exceeding $1.5bn.

Valuation: The group trades on a modest premium to the Russian steel sector in 2009. We think this is deserved by the strong balance sheet, low-cost production base and high-value product portfolio. In 2010, we estimate it falls to a discount (13% on P/E, 10% on EV/EBITDA), which is unjustified, in our view, given its unique qualities. In fundamental terms we believe the current stock price fails to capture the group’s value-creation (it has a ROIC/WACC of 2.0x, on our forecasts) and we see a further 50% of potential upside to our target price.

Figure 11: NLMK financials and key data sheet

Price, $/share	1.2	Rating	BUY	Target price, $/share	1.8	WACC	13.1%
Bloomberg ticker	NLMK LI	Mkt Cap ($mn)	5,394	DCF, $/share	37	P/DCF	0.34

December YE	FY06	FY07	FY08E	FY09E	FY10E
Share price (average)	19.90	33.25	35.96	9.00	9.00
Mkt Cap (average)	11,927	19,927	21,552	5,394	5,394
Enterprise value (average)	11,558	20,383	23,053	5,636	5,208
Income statement, $mn	**FY06**	**FY07**	**FY08E**	**FY09E**	**FY10E**
Revenue	6,046	7,719	11,245	6,654	9,148
Operating costs	(3,074)	(3,977)	(6,130)	(4,206)	(4,885)
Gross profit	2,971	3,742	5,115	2,448	4,264
Gross margin	49%	48%	45%	37%	47%
SG&A	-514	-664	-797	-905	-905
EBITDA	2,631	3,366	4,700	1,927	3,742
EBITDA margin	44%	44%	42%	29%	41%
D&A	(514)	(664)	(797)	(905)	(905)
EBIT	2,243	2,998	4,239	1,490	3,305
NOPLAT	1,728	2,278	3,221	1,192	2,644
Net interest expense	82	68	(110)	(23)	(23)
Income from associates	0	(50)	(50)	(75)	(75)
Other income/expenses	299	117	60	60	60
Exceptionals/write-downs	173	(232)	(47)	(47)	(49)
PBT	2,621	3,156	4,142	1,480	3,294
Tax	(707)	837	(994)	(296)	(659)
Effective rate	-27%	27%	-24%	-20%	-20%
PAT	1,914	3,993	3,148	1,184	2,635
Minorities	(26)	(24)	(138)	(138)	(138)
Net Profit	2,066	2,247	2,960	971	2,422
Headline Income	2,066	2,247	2,960	971	2,422
Net margin	34%	29%	26%	15%	26%
Shares out, mn	5,993	5,993	5,993	5,993	5,993
EPS, $/GDR	3.45	3.75	4.94	1.62	4.04
DPS, $/GDR	1.45	1.20	1.48	0.49	1.21
Cash flow, $mn	**FY06**	**FY07**	**FY08E**	**FY09E**	**FY10E**
Operating CF (unlevered)	1,586	2,441	2,758	2,254	2,757
OPCFPS	0.26	0.41	0.46	0.38	0.46
CF from operations	1,586	2,441	2,758	2,254	2,757
Capex	-619	-958	-1,300	-600	-1,000
Acquisitions	-1,348	61	-425	0	0
Free CF	-457	1,173	1,326	1,654	1,757
FCFPS	(0.08)	0.20	0.22	0.28	0.29
Equity issues (net)	0.0	0.0	0.0	0.0	0.0
Debt raised	225	269	1,600	500	0
Debt repaid	-183	-452	-1,200	-600	-600
Other financing	-104	75	-3	-3	-3
Dividends paid	-870	-722	-888	-291	-727
CF from financing	-933	-830	-619	-394	-1,330
Net change in cash	-1,390	343	707	1,259	427
Cash at YE	666	1,072	1,779	3,039	3,466
Cash per share	0.11	0.18	0.30	0.51	0.58
Balance sheet, $mn	**FY06**	**FY07**	**FY08E**	**FY09E**	**FY10E**
Current assets	3,050	4,388	5,076	5,355	6,103
Cash and investments	665	1,155	1,779	3,039	3,466
PP&E	3,988	6,450	11,090	11,101	11,511
Non-current assets	5,667	8,688	13,221	13,232	13,642
Total assets	8,717	13,076	18,297	18,586	19,745
Current liabilities	993	3,002	4,015	3,453	2,737
Non current liabilities	781	975	2,575	2,575	2,575
Net Debt	-368	455	1,501	242	-186
Total liabilities	1,774	3,978	6,590	6,028	5,313
Shareholders' equity	6,809	8,992	11,523	12,203	13,898
Minorities	133	107	245	382	520
Total liabilities and equity	8,717	13,076	18,358	18,613	19,731

Production, kt	FY06	FY07	FY08E	FY09E	FY10E
Crude steel	9,127	9,056	10,172	6,974	10,631
Finished steel	5,100	5,243	5,537	5,352	7,814
Semi-finished (slabs, billets)	4,855	4,113	4,024	1,849	3,396
HRC	2,093	2,314	2,114	2,975	4,032
CRC	1,752	1,625	1,101	1,081	1,499
GOES & NGOES	631	680	580	695	788
Polymer coated	341	344	292	372	416
Galvanised	430	476	341	460	504
Longs	-	104	1,922	1,018	2,369
Iron ore conc.	11,000	12,500	10,600	7,600	10,500
Coke	4,350	7,125	6,608	4,596	5,984

Revenue per product, %	FY06	FY07	FY08E	FY09E	FY10E
Semi finished (slabs, billets)	1,675	2,037	3,081	1,025	1,619
HRC	883	1,100	1,572	938	1,316
CRC	1,106	1,104	1,101	733	1,036
GOES & NGOES	399	468	1,406	1,485	1,764
Polymer-coated	336	396	502	436	495
Galvanised	358	464	449	335	367
Longs	-	93	1256	623	1272
Iron ore conc.	550	875	742	532	735
Coke	400.0	1259.3	492.2	577.8	756.6

Revenue by region	FY06	FY07	FY08E	FY09E	FY10E
Russia	30%	38%	44%	50%	52%
EU	19%	20%	21%	22%	21%
US	19%	4%	7%	10%	11%
Middle East	17%	15%	14%	13%	11%
Asia	5%	13%	7%	3%	3%
RoW	10%	11%	8%	2%	2%

Ratio analysis	FY06	FY07	FY08E	FY09E	FY10E
EV/sales	1.9	2.6	2.1	0.8	0.6
Sales growth	38%	28%	46%	-41%	37%
Cost growth	32%	29%	54%	-31%	16%
EV/EBITDA	4.4	6.1	4.9	2.9	1.4
EBITDA growth	24%	28%	40%	-59%	94%
EV/EBIT	5.2	6.8	5.4	3.8	1.6
PE	5.8	8.9	7.3	5.6	2.2
Earnings growth	50%	9%	32%	-67%	149%
Dividend yield	7%	4%	4%	5%	13%
P/OPCFPS	75.2	81.6	78.1	23.9	19.6
P/FCFPS	-260.9	169.9	-	32.6	30.7
Free cash flow yield	-4%	6%	6%	31%	33%
Net debt/EBITDA	-0.1	0.1	0.3	0.1	0.0
Net debt/equity	-5%	5%	13%	2%	-1%
ROA	28%	21%	19%	5%	13%
ROE	30%	25%	25%	8%	17%
Capital employed (YE)	7,106	10,601	14,803	15,483	17,178
Invested capital (YE)	5,628	8,218	11,979	11,571	13,018
ROCE	29%	21%	20%	6%	14%
ROIC	28%	47%	27%	10%	20%
ROIC/WACC	2.1	3.6	2.1	0.8	1.6
P/CE	1.7	1.9	1.5	0.3	0.3
EV/IC	2.1	2.5	1.9	0.5	0.4
EV/CF	7.3	8.4	8.4	2.5	1.9
Price/book	1.7	2.3	2.0	0.5	0.4

Source: Renaissance Capital estimates

Novorossiysk Commercial Sea Port

Overview: The group owns the port of Novorossiysk. This is Russia's largest port, situated on the Black Sea. It is a very strong asset that benefits from modern facilities, a deep harbour, year-round operations (it rarely freezes), direct access to the sea (unlike ports in St Petersburg) and a strategic location on the Asia-Europe trade route. We think investment in the region will improve transport links (which are already good by Russian standards) and create an additional competitive advantage for the facility. The group is spending on new container and oil capacity, and should be able to capture market share from neighbouring CIS ports. The economic crisis will put pressure on some cargoes. However, we expect oil and oil products (about 45%/sales) to be resilient, export volumes to benefit from a weaker rouble, and higher tariffs to more than offset any weakness elsewhere. The government will support better pricing, in our view. It owns 20% of the stock, is represented on the board, and is actively trying to encourage new investment in domestic facilities.

Financial position: The group is in a very strong financial position. Net debt/EBITDA at the end of 3Q09 was only 1.1x. The majority of the debt comprises long-term funding, dominated by $300mn of eurobonds (five-year; 7%) and a loan from Unicredit Group of $118mn (three-year; LIBOR + 1.6%). Short-term refinancing requirements in 2009 only amount to $32mn. This will not pose a problem for the group, which had $84mn in cash at the end of 2008, generates EBITDA margins of over 50% and an EBITDA in 2009 of nearly $450mn. Even after assuming significant investment in new capacity ($193mn of capex in 2009E), net debt/EBITDA falls to under 1x by Dec 2009, in our model. By the beginning of 2010, we estimate $370mn of the group's $488mn total gross debt will be due within a year, but given its strong cash generation, we think the group should be able to refinance without difficulty.

Valuation: The stock has bounced by nearly 200% off its lows in Dec 2008. Despite the rally, headline multiples are undemanding compared with those of its international peers. It trades on 2009 P/E of 6.2x, on our estimates – representing a 65% discount to our global ports composite index. EV/EBITDA is only 4.3x (50% cheaper than the index), and EV/sales of less than 2.5x compares with the international benchmark of nearly 4x. Our target price is based on a DCF model, with a cost of equity of 18%, a terminal margin of 46%, and a terminal growth of 3.2%. At our target price, the stock would command a sector rating. We still see over 100% potential upside in the name, with relatively limited downside risk.

Figure 12: Novorossiysk Commercial Sea Port – Financial summary, $mn

	2007	2008E	2009E	2010E	2011E	2012E
Adjusted revenue	483.4	703.7	796.3	943.9	1089.5	1182.9
% change		45.6%	13.2%	18.5%	15.4%	8.6%
Cost of goods sold	-255.7	-289.3	-337.8	-376.9	-419.4	-442.6
Gross profit	227.7	414.5	458.5	567.0	670.1	740.4
% margin	47.1%	58.9%	57.6%	60.1%	61.5%	62.6%
SG&A	-73.1	-85.8	-96.0	-105.9	-109.7	-109.3
Operating profit	154.6	328.7	362.5	461.1	560.3	631.1
% margin	32.0%	46.7%	45.5%	48.8%	51.4%	53.4%
Net finance expenses	-21.2	-36.7	-36.2	-40.3	-37.3	-33.1
Profit before tax	133.4	292.0	326.3	420.8	523.1	597.9
Tax charge	-39.7	-70.1	-78.3	-101.0	-125.5	-143.5
Net income	93.7	221.9	248.0	319.8	397.5	454.4
% change		136.9%	11.8%	28.9%	24.3%	14.3%

	2007	2008E	2009	2010	2011	2012E
PP&E	755	873	985	1,026	1,061	1,085
Other fixed assets	531	532	532	533	533	534
Total fixed assets	1,287	1,405	1,517	1,559	1,595	1,619
Trade and other receivables	71	104	117	139	160	174
Other current assets	12	14	16	17	18	19
Cash	67	102	185	389	663	1,000
Total assets	1,437	1,625	1,836	2,104	2,436	2,812
Total equity	770	952	1,156	1,418	1,744	2,117
Long-term debt	508	508	508	508	508	508
Short-term debt	30	30	30	30	30	30
Trade and other payables	17	48	56	62	68	71
Other current liabilities	110	85	85	85	85	85
Total liabilities and equity	1,437	1,625	1,836	2,104	2,436	2,812

	2007	2008E	2009E	2010E	2011E	2012E
Net profit	94	222	248	320	398	454
Depreciation	50	67	82	87	97	89
Working capital changes	24	-29	-8	-17	-17	-11
Other operating flows	-30	-1	-2	-3	-6	-10
Cash from operating activities	138	259	321	388	472	522
Capital expenditure	-94	-184	-194	-129	-133	-113
Other investment flows	-8	1	2	3	6	10
Cash from investing activities	-102	-183	-193	-127	-127	-103
Cash from financing activities	-10	-40	-45	-57	-71	-82
Net cash flow	26	36	83	204	274	337

	2008E	2009E	2010E	2011E	2012E
Growth rates					
Sales	45.6%	13.2%	18.5%	15.4%	8.6%
Operating profit	112.6%	10.3%	27.2%	21.5%	12.6%
EBITDA	93.6%	12.3%	23.5%	19.9%	9.4%
Net income	137.0%	11.8%	28.9%	24.3%	14.3%
Margins					
Operating profit	46.7%	45.5%	48.8%	51.4%	53.4%
EBITDA	56.2%	55.8%	58.1%	60.4%	60.8%
Net income	31.5%	31.1%	33.9%	36.5%	38.4%

Source: Company Data, Renaissance Capital estimates

Mostootryad 19

Overview: The group is the largest contractor in St Petersburg and the Leningrad Region, with a 35-40% share of the local market. We think this regional exposure is very attractive. Developing the infrastructure around St Petersburg is a clear priority in the federal budget, the municipality is committed to ramping investment and the region is at the forefront of promoting public-private partnerships. Mostootryad-19 is already benefiting from these favourable trends. It works extensively on KAD – the 138 km St Petersburg ringroad – and is involved in constructing the 650 km St Petersburg-Moscow highway. Both initiatives have received committed funding for 2009 (see above). The group is the only Russian listed contractor in a PPP consortium (it is a member of ZSD Nevsky Meridian LLC, the concessionaire on the WHSD), and its strong informal ties with Mostotrest mean it should also capitalise on the boom happening around Moscow.

Financial position: At the end of Sep 2008, the group had long-term debt of RUB200mn and short-term debt of RUB100mn, with cash of almost RUB100mn. We understand the cash was used to refinance the short-term proportion of debt, leaving RUB200mn to be refinanced at the end of 3Q09. This is immaterial for the group, which is sitting on a cash pile of almost RUB2.7bn/$90mn and should generate an EBITDA of at least RUB1.8bn/$58mn in 2009 (on our, very conservative, forecasts).

Valuation: The stock has been sold off heavily on low liquidity and concerns about potential delays to the WHSD PPP scheme (a Basic Element-controlled consortium). We believe the latter are unjustified and note above that the scheme has now been allocated money from the Investment Fund. We think the stock's valuation is now compelling. It trades on a 2009E P/E of only 3.4x. This is a discount to its Russian liquid construction peers (4.9x average P/E), a basket of 50 illiquid Russian contractors (on 5.6x P/E) and the international groups (on 8.3x). Its EV/EBITDA multiple is only 0.1x in 2009E, and becomes negative in 2010E, despite a 40%-plus EPS CAGR to 2010E. We doubt the group controls all the cash on its balance sheet – prepayments and bonded cash are common in construction – but even so, these multiples now imply a serious risk of corporate failure, in our view, which we deem unlikely given the strong balance sheet. Our DCF-derived target price implies nearly 300% potential upside.

Figure 13: Mostootryad 19 – Financial summary, $mn

	2007	2008E	2009E	2010E	2011E	2012E
Adjusted revenue	454.5	713.9	641.6	884.0	791.6	726.4
% change		57.1%	-10.1%	37.8%	-10.5%	-8.2%
Cost of goods sold	-400.2	-627.9	-563.7	-775.8	-693.9	-636.1
Gross profit	54.3	85.9	77.9	108.2	97.7	90.4
% margin	11.9%	12.0%	12.1%	12.2%	12.3%	12.4%
SG&A	-22.0	-28.6	-25.7	-35.4	-31.7	-29.1
Operating profit	32.2	57.4	52.2	72.8	66.0	61.3
% margin	7.1%	8.0%	8.1%	8.2%	8.3%	8.4%
Net finance expenses	-3.5	-5.8	-5.2	-7.4	-6.5	-6.0
Profit before tax	28.7	51.6	47.0	65.5	59.5	55.4
Tax charge	-10.7	-15.3	-11.6	-15.5	-14.1	-13.1
Net income	18.1	36.3	35.5	49.9	45.4	42.3
% change		100.7%	-2.2%	40.8%	-9.1%	-6.9%

	2007	2008E	2009E	2010E	2011E	2012E
PP&E	27	31	36	42	50	60
Other fixed assets	14	14	14	14	14	14
Total fixed assets	41	45	50	56	64	75
Trade and other receivables	39	59	52	69	59	52
Other current assets	46	61	58	74	71	69
Cash	76	123	151	210	243	272
Total assets	202	288	311	409	438	468
Total equity	82	118	153	203	249	291
Long-term debt	8	8	8	8	8	8
Short-term debt	24	24	24	24	24	24
Trade and other payables	86	137	125	174	157	146
Other current liabilities	1	1	1	1	1	1
Total liabilities and equity	202	288	311	409	438	468

	2007	2008E	2009E	2010E	2011E	2012E
Net profit	18	36	35	50	45	42
Depreciation	5	6	7	8	9	11
Working capital changes	25	16	-3	16	-4	-3
Other operating flows	-16	-22	-18	-24	-22	-20
Cash from operating activities	32	36	22	50	29	31
Capital expenditure	-8	-8	-8	-8	-8	-8
Other investment flows	29	0	0	0	0	0
Cash from investing activities	21	-8	-8	-8	-8	-8
Cash from financing activities	-11	20	14	18	12	6
Net cash flow	41	48	28	59	33	29

	2008E	2009E	2010E	2011E	2012E
Growth rates					
Sales	57.1%	-10.1%	37.8%	-10.5%	-8.2%
Operating profit	78.0%	-9.0%	39.5%	-9.4%	-7.1%
EBITDA	69.1%	-6.8%	36.7%	-6.8%	-3.9%
Net income	100.7%	-2.2%	40.8%	-9.1%	-6.9%
Margins					
Operating profit	8.0%	8.1%	8.2%	8.3%	8.4%
EBITDA	8.9%	9.2%	9.1%	9.5%	9.9%
Net income	5.1%	5.5%	5.6%	5.7%	5.8%

Source: Company Data, Renaissance Capital estimates

Bamtonnelstroy

Overview: The group is one of the largest tunnel contractors in Russia. This market is likely to benefit from the government's spending plans, which allocate significant funding to tunnelling on all the major highway projects. The group's regional footprint is also attractive. It has a strong presence in the Krasnodor krai, making it the obvious beneficiary of spending on Sochi 2014; and it works extensively on the modernisation of the BAM line. It has continued to win tenders during the onset of the crisis (for example, the Kuznetsovski Tunnel), and we see scope for the group to benefit from work on the Sakhalin-Mainland Tunnel in the long term. We also think its modern equipment provides a competitive advantage and a strong barrier to entry, meaning its sector-leading, superior returns should prove sustainable (its EBITDA margin has consistently exceeded 12%).

Financial position: The group reports and provides disclosure under RAS. It is also highly non-transparent. This adds an element of risk to the investment case, but from a financial perspective, we believe the balance sheet is strong enough to pose zero risk of default in 2009. As of 30 Sep 2008, the group reported long-term debt of $56mn, short-term debt of $43mn, and cash of $38mn. We regard our forecasts for 2009 as highly conservative, as they only assume flat EBITDA and do not include the upside potential from new work relating to Sochi 2014 or BAM. Even on these numbers, however, the group should generate EBITDA of over $80mn in 2009, on our estimates – sufficient to cover any refinancing needs.

Valuation: The stock is one of the cheapest in our coverage universe. Some discount is warranted because of low transparency, but the size of the current spread is too great, in our view, particularly given the group's very strong track record of consistently reporting estimate-beating results. The stock trades on a 2009E P/E of only 2.4x and is EV/EBITDA-negative. This is despite the highest EBITDA margin in the sector, its regional exposure, the competitive advantage of its modern kit and an EPS CAGR (excluding upside from Sochi 2014) of 32% to 2010, on our estimates. Our DCF model uses a cost of equity of 20%, and derives a target price of $5,500 – implying more than 350% potential upside.

Figure 14: Bamtonnelstroy – Financial summary, $mn

	2007	2008E	2009E	2010E	2011E	2012E
Adjusted revenue	369.0	500.9	488.7	522.2	604.6	624.9
% change		35.7%	-2.4%	6.9%	15.8%	3.4%
Cost of goods sold	-304.6	-393.2	-381.2	-404.7	-465.5	-478.0
Gross profit	64.4	107.7	107.5	117.5	139.1	146.9
% margin	17.4%	21.5%	22.0%	22.5%	23.0%	23.5%
SG&A	-20.1	-25.8	-23.7	-23.7	-27.5	-28.4
Operating profit	44.3	81.9	83.8	93.8	111.6	118.5
% margin	12.0%	16.4%	17.2%	18.0%	18.5%	19.0%
Net finance expenses	-10.0	-14.0	-13.7	-14.7	-17.3	-17.9
Profit before tax	34.3	68.0	70.2	79.0	94.3	100.5
Tax charge	-8.5	-16.8	-17.4	-19.6	-23.3	-24.9
Net income	25.8	51.2	52.8	59.5	71.0	75.6
% change		98.0%	3.2%	12.6%	19.3%	6.6%

	2007	2008E	2009E	2010E	2011E	2012E
PP&E	17	19	22	25	28	31
Other fixed assets	95	95	95	95	95	95
Total fixed assets	112	114	117	119	122	126
Trade and other receivables	78	75	67	72	80	79
Other current assets	30	40	37	38	41	41
Cash	14	65	125	179	243	318
Total assets	233	294	346	408	486	563
Total equity	146	197	250	309	380	456
Long-term debt	23	23	23	23	23	23
Short-term debt	22	22	22	22	22	22
Trade and other payables	36	46	44	47	54	56
Other current liabilities	6	6	6	6	6	6
Total liabilities and equity	233	294	346	408	486	563

	2007	2008E	2009E	2010E	2011E	2012E
Net profit	26	51	53	59	71	76
Depreciation	1	1	1	2	2	2
Working capital changes	-17	3	9	-3	-4	3
Other operating flows	-22	-28	-28	-31	-37	-39
Cash from operating activities	-12	28	36	28	32	41
Capital expenditure	-8	-3	-4	-4	-5	-6
Other investment flows	-4	0	0	0	0	0
Cash from investing activities	-12	-3	-4	-4	-5	-6
Cash from financing activities	-7	-24	-25	-29	-34	-36
Net cash flow	-6	52	60	54	64	75

	2008E	2009E	2010E	2011E	2012E
Growth rates					
Sales	35.7%	-2.4%	6.9%	15.8%	3.4%
Operating profit	85.0%	2.3%	11.8%	19.0%	6.2%
EBITDA	85.1%	2.6%	12.0%	19.0%	6.4%
Net income	98.0%	3.2%	12.6%	19.3%	6.6%
Margins					
Operating profit	16.4%	17.2%	18.0%	18.5%	19.0%
EBITDA	16.6%	17.4%	18.3%	18.8%	19.3%
Net income	10.2%	10.8%	11.4%	11.7%	12.1%

Source: Company Data, Renaissance Capital estimates

Disclosures appendix

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Renaissance Capital equity research distribution ratings

Investment Rating Distribution Renaissance Capital Research			Infrastructure		
Buy	163	37%	Buy	8	62%
Hold	76	17%	Hold	3	23%
Sell	28	6%	Sell	0	0%
UR	47	11%	UR	2	15%
NR	124	28%	NR	0	0%
	438			13	

Investment Banking Relationships* Renaissance Capital Research			Infrastructure		
Buy	7	54%	Buy	0	0%
Hold	4	31%	Hold	0	0%
Sell	1	8%	Sell	0	0%
UR	1	8%	UR	0	0%
NR	0	0%	NR	0	0%
	13			0	

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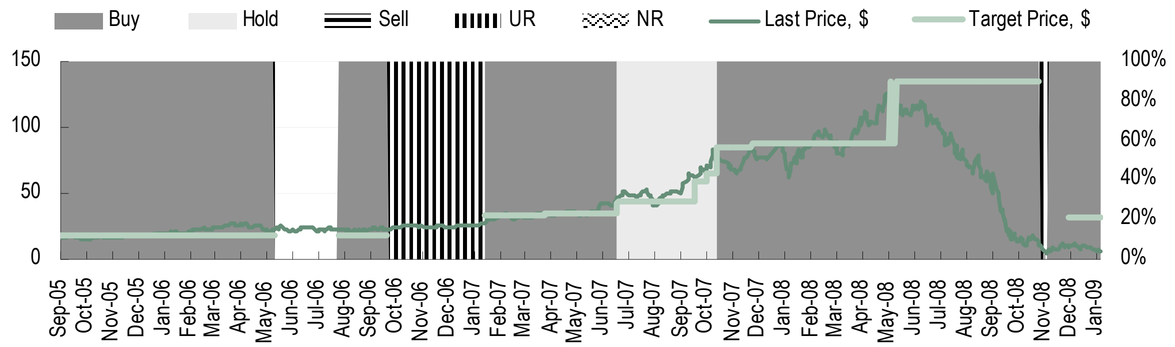
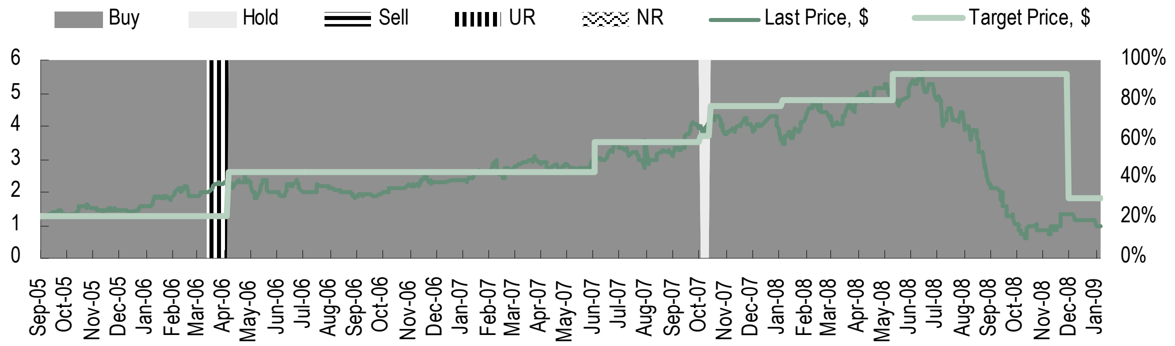
NR – Not Rated
UR – Under Review

EVRAZ share price, target price and rating history



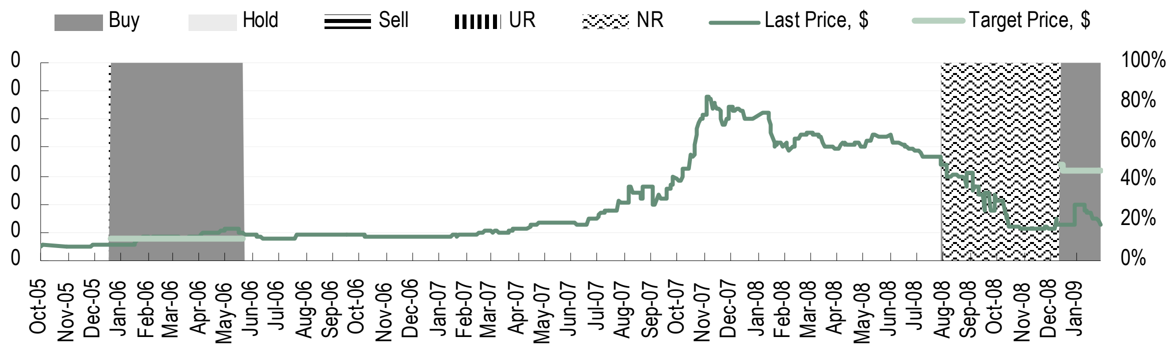
Source: Renaissance Capital, prices local market close or the mid price if illiquid market

NLMK share price, target price and rating history



Source: Renaissance Capital, prices local market close or the mid price if illiquid market

Novorossiysk Commercial Sea Port share price, target price and rating history



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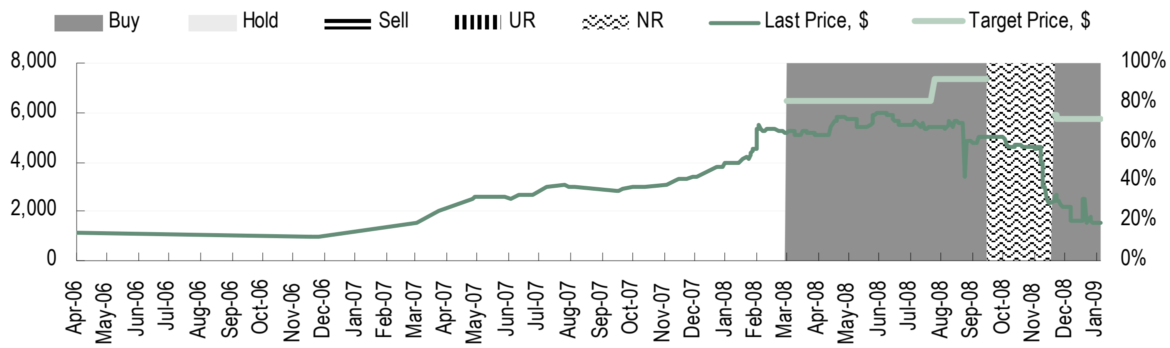
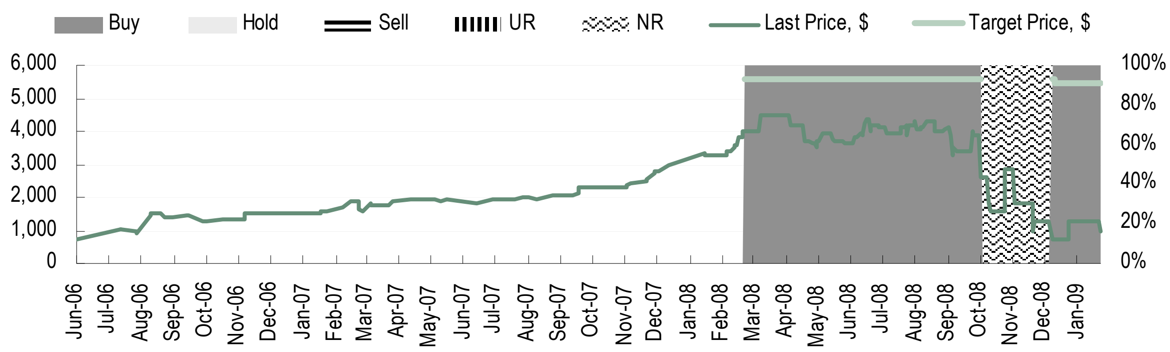
Mostootryad-19 share price, target price and rating history



Source: Renaissance Capital, prices local market close or the mid price if illiquid market

Bamtonnelstroy share price, target price and rating history



Source: Renaissance Capital, prices local market close or the mid price if illiquid market

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