

December 2, 2010

# Chelyabinsk Pipe Works (CHEP)

## Strong 1H10 IFRS statement

Evgeny Ryabkov e.ryabkov@tkbc.ru

Today Chelyabinsk Pipe Works has announced its 1H10 financial statement under IFRS. The company showed \$110 mn of net income in compare to 2H09 \$53 mn of net loss. EBITDA increased by 150% h-o-h to \$297 mn, EBITDA margin amounted to 23%. We regard company's results as positive. As before, we consider Chelyabinsk Pipe Works as interesting speculative story and worthy alternative to TMK. We maintain our target price on the level of \$3.0 and recommend to BUY the stocks.

**Good 1H10 results.** Chelyabinsk Pipe Works has revealed very strong 1H10 financial results under IFRS. Company's revenue increased by 40% h-o-h to \$1,315 mn, EBITDA jumped by 150% h-o-h to \$297 mn. Net income made up \$110 mn in compare to \$53 mn of net loss in 2H09. EBITDA margin grew dramatically: by 10 pp h-o-h to 23%. The key reasons of the strong results are growth of the pipes sales by 19% h-o-h and average realized price increase by 23% h-o-h.

### Chelyabinsk Pipe Works 1H10 key financials under IFRS, \$ mn

	1H10	2H09	%	1H09	%
<b>Revenue</b>	<b>1 315</b>	<b>937</b>	<b>40%</b>	<b>826</b>	<b>59%</b>
Cost of sales	-877	-656	34%	-601	46%
<b>Gross profit</b>	<b>438</b>	<b>281</b>	<b>56%</b>	<b>225</b>	<b>94%</b>
<b>EBITDA</b>	<b>297</b>	<b>119</b>	<b>150%</b>	<b>64</b>	<b>362%</b>
Operating profit	254	80	219%	30	753%
<b>Net income</b>	<b>110</b>	<b>-53</b>		<b>-85</b>	
Gross margin	33%	30%		27%	
EBITDA margin	23%	13%		8%	
Operating margin	19%	9%		4%	
Net margin	8%	-6%		-10%	

Source: company data, TKB Capital estimates

**Leverage stays high.** Chelyabinsk Pipe Works leverage remains high. Thus, company's net debt amounted \$2,255 mn at the end of the 1H10. Short-term liabilities accounted to \$1,231 mn, long-term liabilities - \$1,158 mn, cash and cash equivalents made up \$135 mn. Net debt/EBITDA is estimated at 4.1 with 2010 EBITDA forecast in comparison with 11.5 at the end of 2009.

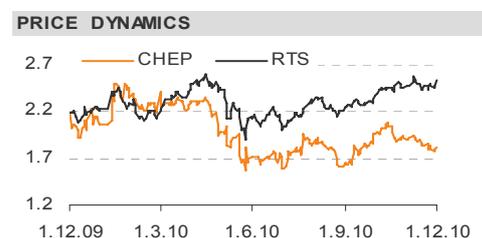
**We maintain our positive view on CHEP.** We believe that Chelyabinsk Pipe Works stocks are worthy alternative to TMK. Companies have comparable leverage (Net debt/EBITDA2010E amount to 4.1 and 4.3 respectively), equal shares on the large diameter pipe market. Besides Chelyabinsk Pipe Works showed much stronger profitability in 1H10 and looks cheaper on EV/EBITDA и EV/Output 2011E: by 45% and 16%. In addition, the company is planning to do an IPO that could be an extra positive trigger for CHEP stocks. We maintain our positive view on Chelyabinsk Pipe Works stocks and recommend to BUY them with the target price of \$3.0.

Chelyabinsk Pipe Works		
	Common	Preferred
Ticker	<b>CHEP</b>	-
Recommendation	<b>BUY</b>	-
Price, \$	<b>1.9</b>	-
Target price, \$	<b>4.0</b>	-
Upside/downside, %	<b>111%</b>	-

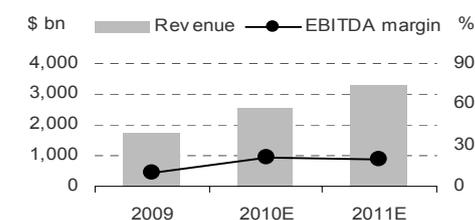
SHARE DATA		
	CHEP RX	
	Common	Preferred
Bloomberg	CHEP RX	
Reuters		
# of shares outstanding, mn	472	-
EV, \$ mn	3,145	-
MC, \$ mn	891	-
MIN 12 mnth., \$	1.57	-
MAX 12 mnth., \$	2.50	-
Shares per GDR	-	-

SUMMARY FINANCIALS, \$ mn			
IFRS	2009	2010E	2011E
Revenue	1,769	2,568	3,338
EBITDA	182	556	635
Net income	-140	210	267
EPS, \$	neg.	0.45	0.57
Rev. growth, %	-42.0	45.2	30.0
EPS growth, %	n/a	n/a	27.1
EBITDA margin, %	10.3	21.7	19.0
Net margin, %	-7.9	8.2	8.0

SUMMARY VALUATIONS			
	2009	2010E	2011E
P/E	-6.35	4.23	3.33
EV/EBITDA	17.29	5.65	4.95



Source: MICEX, RTS. TKB Capital estimates



Source: TKB Capital estimates

**CHEP vs TMK, 2011E**

	<b>CHEP</b>	<b>TMK</b>
Market capitalization, \$ mn	891	4 375
Net debt, \$ mn	2 255	3 555
Net debt/EBITDA	4.1	4.3
EV, \$ mn	3 145	7 929
Output in 2011, mn t	1.5	3.7
- incl. LDP	0.6	0.6
EV/EBITDA	5.7	8.9
EV/Output	1 850	2 143
EV/Sales	1.2	1.5
EBITDA/t	327	249
Cash costs, \$/t	1 002	1 131
EBITDA margin, 1H10	23%	16%

Source: company data, TKB Capital estimates

**Comparative valuation**

	<b>TMK</b>	<b>CHEP</b>
EV/EBITDA, 2011 (weight = 90%)	8.9	5.7
EV/Output, 2011 (bec = 10%)	2 143	1 850
<b>Estimated Market Cap</b>		<b>2 553</b>
on EV/EBITDA		2 682
on EV/Output		1 389
<b>Target price</b>		<b>4.0</b>
Upside		115%

Source: company data, TKB Capital estimates

**Chelyabinsk Pipe Works key financials under IFRS, \$ mn**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010E</b>	<b>2011E</b>
<b>Revenue</b>	<b>3 153</b>	<b>3 070</b>	<b>1 769</b>	<b>2 568</b>	<b>3 338</b>
Cost of sales	-2 431	-2 418	-1 262	-1 738	-2 294
<b>Gross profit</b>	<b>722</b>	<b>653</b>	<b>507</b>	<b>830</b>	<b>1 044</b>
<b>EBITDA</b>	<b>464</b>	<b>-66</b>	<b>182</b>	<b>556</b>	<b>635</b>
Operating profit	401	-154	108	470	561
<b>Net income</b>	<b>256</b>	<b>-372</b>	<b>-140</b>	<b>210</b>	<b>267</b>
Gross margin	23%	21%	29%	32%	31%
EBITDA margin	15%	-2%	10%	22%	19%
Operating margin	13%	-5%	6%	18%	17%
Net margin	8%	-12%	-8%	8%	8%

## Research Department

---

Equity Research + 7 (495) 981 3430

**Maria Kalvaraskaia**

Head of Equity Research  
Banking, Transport  
m.kalvaraskaia@tkbc.ru

**Alexander Kovalev, PhD**

Commodity markets  
aa.kovalev@tkbc.ru

**Evgeny Ryabkov**

Metals & Mining  
e.ryabkov@tkbc.ru

**Tatiana Zadorozhnaya**

Transport  
t.zadorozhnaya@tkbc.ru

**Nadezhda Krupennikova**

Banking  
n.krupennikova@tkbc.ru

**Evgenia Dyshlyuk**

Oil & Gas  
e.dyshlyuk@tkbc.ru

**Kirill Bakhtin**

Telecoms  
k.bakhtin@tkbc.ru

**Artem Lavrishev**

Machinery, Database Management,  
Dividends  
a.lavrishev@tkbc.ru

**Alexey Serov**

Utilities Sector  
a.serov@tkbc.ru

**Natasha Kolupaeva**

Consumer & Retail  
n.kolupaeva@tkbc.ru

**Anatoly Vysotsky**

Real Estate, Infrastructure  
a.vysotsky@tkbc.ru

## Structured Product, Equity & Derivative Department

---

Moscow + 7 (495) 981 3430

**Dmitry Romanov**

d.romanov@tkbc.ru

**Pavel Shlyk**

p.shlyk@tkbc.ru

**Vladimir Kurov**

v.kurov@tkbc.ru

**Artem Ananyan**

a.ananyan@tkbc.ru

**Vadim Guglenko**

v.googlenko@tkbc.ru

**Danil Olimov**

d.olimov@tkbc.ru

**Denis Piskunov**

d.piskunov@tkbc.ru

7, bld 3, Znamenka Street,  
Moscow 119019  
Tel. +7 (495) 981 3430  
Fax +7 (495) 783 3170

www.tkbc.ru

This document is provided to you for informational purposes only and does not constitute an offer to buy, sell or subscribe to investment products described herein. The sources used for this report are believed to be reliable, but TKB Capital makes no representation as to their accuracy or completeness. The views, advice and recommendations contained within represent the analyst's view as of the publication date. Such views may change without notice and may contradict previously expressed views and recommendations. TKB Capital is under no obligation to bring such previously held views to the attention of the reader.

This report is intended for market professionals and institutional investors capable of assessing the risks associated with the securities mentioned herein. TKB Capital shall not be held liable for any losses or other damages which may occur as a result of using this information or investment decisions made on the basis of opinions and recommendations contained in this report. Some Russian equities experience volatility which increases their investment risk, as their value may fall causing losses if the investment is realized. Many Russian equities are illiquid, and some investments are not readily or quickly realizable in good markets, and in times of market duress they may be impossible to realize. Many Russian equities do not trade on a daily basis and thus do not have a daily price quote, giving rise to questions concerning their true value. TKB Capital can give no representation as to the absolute volatility or liquidity of any Russian equity, nor can it give any representation as to the true value of an illiquid security. The value of all ruble-denominated Russian equities is also dependent on currency fluctuations in addition to equity market conditions. Investors should conduct their own investigation and research into a given investment and make their own assessment as to the risks involved with a particular investment in Russian equities.

TKB Capital may trade for its own account based on any short-term or long-term recommendations or trade ideas. It may also trade in recommended securities in a manner that is contrary to any trade idea or recommendation.

This report may not be reproduced, distributed or published without the written agreement of TKB Capital.