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# Raspadskaya (RASP)

## Current efficiency, future recovery

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We have revised our fair price for Raspadskaya taken into account recent explosions at Raspadskaya coal mine which is the core asset of the company. Also we have upgraded our coking coal prices forecast. As a result, we have increased our fair price by 38% from \$5.5 to \$7.6 per share with upside potential of 80%. We recommend BUY the stock which is a long-term investment story.

We expect Raspadskaya mine to resume its mining operations in 3Q11. We estimate Raspadskaya to mine 7 mn tons of coking coal and produce 5.6 mn tons of coking coal concentrate in 2010 (down by 33% y-o-y). The main company's asset, Raspadskaya mine, which terminated coal mining operations when blasts occurred in May, produced nearly 3 mn tons of coal this year. According to our estimates, Raspadskaya mine should resume operations in 3Q11 that is in a year and half after the explosion. We forecast in 2011 Raspadskaya mine to produce around 3.8 mn tons of coking coal. At present, two mines of Raspadskaya are operating: Razrez Raspadsky with capacities of 3 mn tons of coking coal and MUK-96 with capacities of 2 mn tons of coking coal. In 2012 Raspadskaya intends to launch Koksovaya mine, which was bought in 2010 from Evraz Group. Koksovaya capacities are estimated at 3 mn tons of coking coal K and KO grades.

### Raspadskaya's operating results forecast in 2010-2015

	2009	2010E	2011E	2012E	2013E	2014E	2015E
Raspadskaya mine	6.9	3.0	3.8	7.8	7.8	7.8	7.8
Razrez Raspadsky	1.9	2.0	2.2	2.5	2.8	2.8	2.8
MUK-96	1.8	2.0	2.0	2.0	2.0	2.0	2.0
Koksovaya	-	-	-	0.5	1.0	1.5	2.0
<b>Total coal</b>	<b>10.5</b>	<b>7.0</b>	<b>8.0</b>	<b>12.8</b>	<b>13.6</b>	<b>14.1</b>	<b>14.6</b>
<b>Total coking concentrate</b>	<b>7.7</b>	<b>5.6</b>	<b>6.4</b>	<b>10.4</b>	<b>11.2</b>	<b>11.7</b>	<b>12.3</b>

Source: Company data, TKB Capital estimates

Capex on Raspadskaya mine recovery could amount to \$350 mn. According to Minenergo representatives, investments into Raspadskaya mine recovery could amount around RUR6-11 bn (\$190-350 mn). We estimate capex at about \$350 mn in 2010-2011 which is the upper bound of the announced range. Now the government considers a possibility of financial support for the recovery of Raspadskaya mine. We believe that the positive decision could be a growth driver for Raspadskaya.

Raspadskaya is still the most profitable among its peers. Raspadskaya remains the most profitable among domestic and international peers despite of the blasts. In 2010 we estimate EBITDA margin at 61% and it should be absolutely the best result in the coal mining sector.

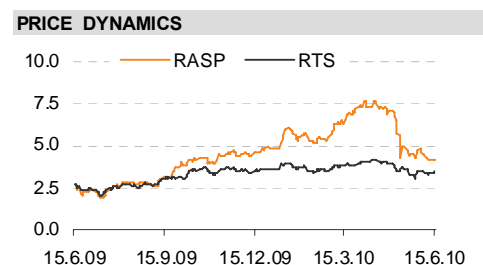
Raspadskaya		
	Common	Preferred
Ticker	<b>RASP</b>	-
Recommendation	<b>BUY</b>	-
Price, \$	<b>4.23</b>	-
Target price, \$	<b>7.6</b>	-
Upside/downside, %	<b>80%</b>	-

SHARE DATA		
	RASP RX	RASP.MM
	Common	Preferred
# of shares outstanding, mn	781	-
EV, \$ mn	3,606	-
MC, \$ mn	3,302	-
MIN 12 mth., \$	1.89	-
MAX 12 mth., \$	7.67	-
Shares per GDR	-	-

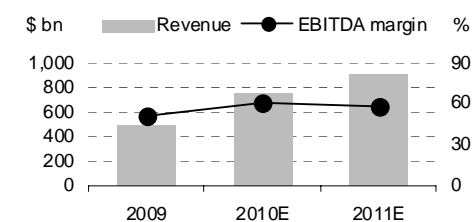
SUMMARY FINANCIALS, \$ mn			
IFRS	2009	2010E	2011E
Revenue	497	748	900
EBITDA	255	453	524
Net income	117	266	294
EPS, \$	0.15	0.34	0.38
Rev. growth, %	-58.6	50.4	20.5
EPS growth, %	-78.0	127.6	10.4
EBITDA margin, %	51.3	60.5	58.2
Net margin, %	23.5	35.6	32.6

SUMMARY VALUATIONS			
	2009	2010E	2011E
P/E	28.22	12.40	11.23
EV/EBITDA	14.14	7.97	6.88

SHAREHOLDER STRUCTURE	
Evraz Group	40%
Management	40%
Free-float	20%

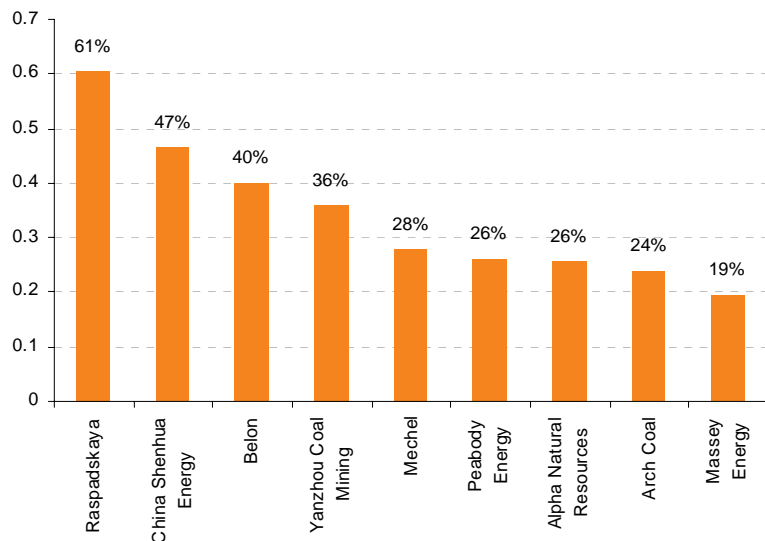


Source: MICEX, RTS, TKB Capital estimates



Source: TKB Capital estimates

**EBITDA margin: Raspadskaya and its peers, 2010E**

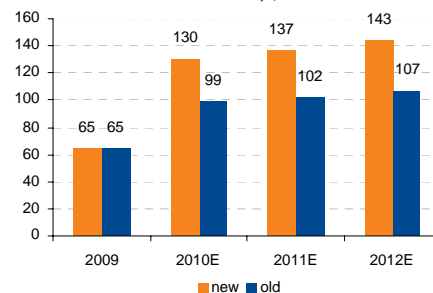


Source: Company data, TKB Capital estimates

Meanwhile, in 2010 we forecast the company's coking coal concentrate cash costs to increase by 73% y-o-y to \$37 per ton due to abrupt reduction of the coal output. For the comparison, Belon coking coal concentrate cash costs make up nearly \$60 per ton.

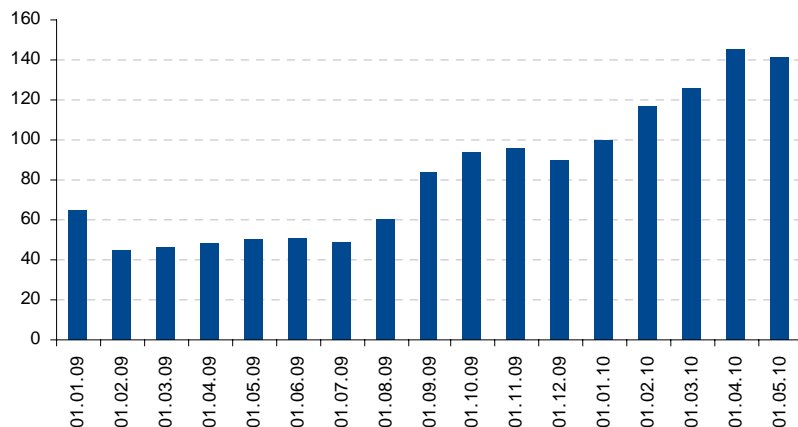
**Strong coal prices in 2010-2012.** We have upgraded our coking coal prices forecast. We believe that the current strong prices on the coal market should remain within the next few years. In May, 2010 coking coal concentrate domestic price rose 41% compared to January, 2010 to \$141 per ton. According to our estimates, coal average price in 2010 should exceed 2009 level by 117% to \$130 per ton. In 2011-2012 we expect the coal price to grow gradually, on average, by 5% per annum. We suppose that the lack of coal supplies on the domestic market due Raspadskaya mine accident should support coal prices.

**Coking coal concentrate price forecast in 2010-2012, \$/t**



Source: Company data, Metal Expert, TKB Capital estimates

**Coking coal concentrate price on the domestic market, \$/t**



Source: Company data, Metal Expert, TKB Capital estimates

**Full stoppage of Raspadskaya mine as a main risk for the company.** We think that the main risk for Raspadskaya is associated with a full stoppage of Raspadskaya mine. According to our estimates, in that case the company's fair price would be about \$3.8 per share which implies a 9% discount to the current quotes. Meanwhile, we view this scenario is hardly probable.

**Raspadskaya is an attractive long-term play.** We believe that Raspadskaya stock offers a good long-term investment bet. The company is trading in line with peers based on 2010E-2011E EV/EBITDA and P/E multiples. This valuation implies that negative developments caused by mine failure have been already priced in. We believe that positive outcome regarding the future of the key company's asset should improve Raspadskaya's investment appeal.

#### Comparative valuation: multiples of Raspadskaya and its peers

	EV/EBITDA		P/E	
	2010E	2011E	2010E	2011E
<b>Russian peers</b>				
Mechel	7.4	6.1	14.5	10.1
Belon	7.0	6.7	11.7	10.8
<b>Average</b>	<b>7.2</b>	<b>6.4</b>	<b>13.1</b>	<b>10.5</b>
<b>International peers</b>				
Massey Energy	5.2	3.1	15.8	6.0
Gloucester coal	14.3	6.9	21.3	10.9
Whiteheaven Coal	19.5	11.0	24.0	18.5
Consol Energy	5.4	3.9	15.2	9.5
Yanzhou Coal Mining	8.3	7.2	11.8	10.1
Alpha Natural Resources	4.8	3.8	14.6	8.1
<b>Average</b>	<b>6.6</b>	<b>5.0</b>	<b>14.0</b>	<b>9.3</b>
Raspadskaya	8.0	6.9	12.4	11.2

Source: Company data, TKB Capital estimates

**New Raspadskaya's fair price is \$7.6 per share.** We have revised Raspadskaya's fair price, given the changes connected with the accident. Also we have increased our coking coal prices forecast. As a result, we have derived a new fair price of Raspadskaya which is \$7.6 per share and implies 80% upside potential. We recommend BUY this stock.

#### Raspadskaya's key financials forecast, \$ mn

	2009	2010E	2011E	2012E	2013E	2014E	2015E
Revenue	497	748	900	1 534	1 699	1 837	1 982
EBITDA	255	453	524	915	1 027	1 111	1 215
Net income	117	266	294	612	702	770	855
<i>EBITDA margin</i>	51%	61%	58%	60%	60%	60%	61%
<i>Net margin</i>	24%	36%	33%	40%	41%	42%	43%

Source: Company data, TKB Capital estimates

**Raspadskaya's cash flows, \$ mn**

	2011E	2012E	2013E	2014E	2015E
<b>EBIT</b>	<b>411.4</b>	<b>783.5</b>	<b>896.7</b>	<b>981.4</b>	<b>1 087.3</b>
Taxed EBIT	329.1	626.8	717.3	785.1	869.8
Depreciation	112.5	131.2	130.1	129.1	128.2
WC investments	-11.3	-44.0	-10.9	-9.4	-9.3
Capex	-300.0	-120.0	-120.0	-120.0	-120.0
<b>Free cash flow</b>	<b>130.3</b>	<b>594.1</b>	<b>716.6</b>	<b>784.9</b>	<b>868.6</b>
Discount factor	0.78	0.68	0.60	0.53	0.47
<b>PV</b>	<b>101.0</b>	<b>405.4</b>	<b>430.5</b>	<b>415.1</b>	<b>404.4</b>

Source: Company data, TKB Capital estimates

**DCF model results**

<b>WACC</b>		<b>13.6%</b>
Cost of debt after tax		6.0%
	<i>Cost of debt before tax</i>	7.5%
	<i>Tax</i>	20%
Cost of equity		15.6%
	<i>Risk free rate</i>	6.5%
	<i>Risk premium</i>	7.5%
	<i>Beta unleveraged</i>	1.00
	<i>Beta leveraged</i>	1.21
Weight of debt		20.7%
Weight of equity		79.3%
Long-term growth rate		3%
Terminal value		8 450.9
Discounted terminal value		4 469.5
Sum of discounted CF 2011-2015		1 756.4
<b>EV, \$ mn</b>		<b>6 225.8</b>
Net debt, \$ mn		303.5
<b>Market cap, \$ mn</b>		<b>5 922.4</b>
Number of shares		780 799 808
<b>Fair price, \$</b>		<b>7.6</b>
Upside		80%

Source: Company data, TKB Capital estimates

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