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# Raspadskaya (RASP)

## Fulfilling optimistic expectations

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We have revised our Raspadskaya's fair price due to recent positive officials' statements concerning restoration works on the key coal mine. They are in line with our expectations and lead us to increase our company's operating and financial forecasts. As a result, we have raised our fair price by 12% to \$8.5 per share and maintained our BUY recommendation.

**Politicians deliver optimistic forecasts...** This week a number of officials made positive statements concerning a situation with Raspadskaya. In particular, the Russian Prime Minister Vladimir Putin said that the mine should resume operations promptly and start working in full swing. According to Kemerovo region governor Aman Tuleev, on the Raspadskaya mine the longwall face #9 could be launched ahead of schedule. He expected the capacity of the new face to be as a half as of Raspadskaya mine capacity that is nearly 400,000 tons of raw cooking coal. We note that the longwall face #9 was a part of the company's investment program aimed at the expansion of coal production capacity. The blasts on Raspadskaya speeded up the implementation of this project.

**...conservative approach is more justified.** Meanwhile, in our opinion, which is confirmed by Raspadskaya officials' comments, longwall face #9 capacities are less than above-mentioned figure. We estimate it at 250,000 tons per month. At the first stage coal extraction will not be conducted at full capacity, and in 2011 we predict Raspadskaya's coal production of about 2.7 mn tons or around 90% of total capacities. We consider such approach is more reasonable, taking into possible risks associated with technical problems connected with the face launch. Thus, assuming a new face will be commissioned in November, 2010, we have increased Raspadskaya's annual coking coal concentrate output by 2.7% to 5.75 mn tons. We have raised our concentrate production forecast for 2011 by 34% to 8.6 mn tons. We still expect Raspadskaya mine to resume production in 3Q11. By our estimates, in 2011 its raw coal production would amount around 6.5 mn tons, given core capacities and new longwall face #9.

### Our new Raspadskaya operating forecasts in 2010-2011, mn tons

	2010E			2011E		
	Old	New	%	Old	New	%
Raspadskaya mine	3.0	3.3	9%	3.8	6.5	71%
Razrez Raspadsky	2.0	2.0	0%	2.2	2.2	0%
MUK-96	2.0	2.0	0%	2.0	2.0	0%
Koksovaya	-	-	-	-	-	-
<b>Total coal</b>	<b>7.0</b>	<b>7.3</b>	<b>4%</b>	<b>8.0</b>	<b>10.7</b>	<b>34%</b>
<b>Total coking concentrate</b>	<b>5.6</b>	<b>5.7</b>	<b>3%</b>	<b>6.4</b>	<b>8.6</b>	<b>34%</b>

Source: Company data, TKB Capital estimates

**Financials: 2011E EBITDA revised up by 34%.** We also increased our forecasts of Raspadskaya's financial numbers. Particularly, we expect the company's EBITDA to add 3% in 2010 and 34% in 2011, while net income to advance 4% and 48%, respectively.

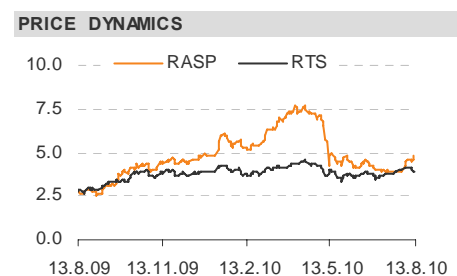
Raspadskaya		
	Common	Preferred
Ticker	<b>RASP</b>	-
Recommendation	<b>BUY</b>	-
Price, \$	<b>4.78</b>	-
Target price, \$	<b>8.5</b>	-
Upside/downside, %	<b>78%</b>	-

SHARE DATA		
	Common	Preferred
Bloomberg	RASP.RX	-
Reuters	RASP.MM	-
# of shares outstanding, mn	781	-
EV, \$ mn	4,038	-
MC, \$ mn	3,735	-
MIN 12 mnth., \$	2.57	-
MAX 12 mnth., \$	7.67	-
Shares per GDR	-	-

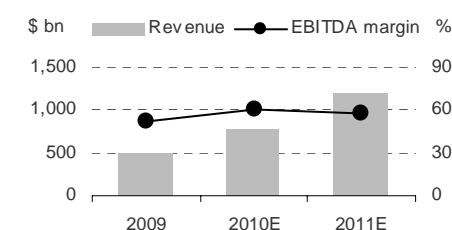
SUMMARY FINANCIALS, \$ mn			
IFRS	2009	2010E	2011E
Revenue	497	770	1,205
EBITDA	259	466	701
Net income	117	277	436
EPS, \$	0.15	0.35	0.56
Rev. growth, %	-58.6	54.9	56.5
EPS growth, %	-77.9	136.5	57.2
EBITDA margin, %	52.2	60.5	58.2
Net margin, %	23.6	36.0	36.2

SUMMARY VALUATIONS			
	2009	2010E	2011E
P/E	31.88	13.48	8.57
EV/EBITDA	15.58	8.67	5.76

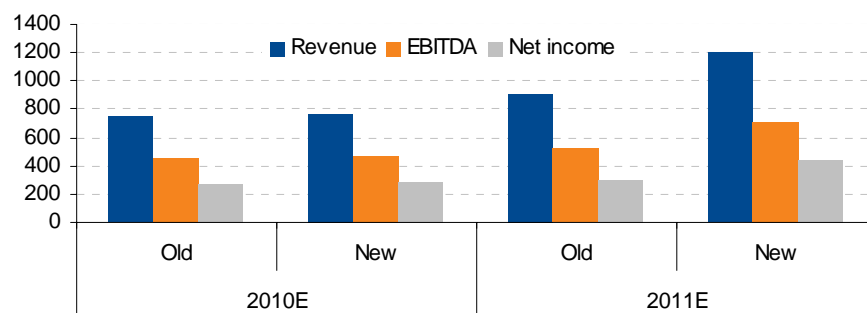
SHAREHOLDER STRUCTURE	
Evraz Group	40%
Management	40%
Free-float	20%



Source: MICEX, RTS. TKB Capital estimates



Source: TKB Capital estimates

**Raspadskaya 2010-2011 financials forecast change, \$ mn**


Source: Company data, TKB Capital estimates

**Forecasts of key Raspadskaya's financials, \$ mn**

	2009	2010E	2011E	2012E	2013E	2014E	2015E
Revenue	497	770	1 205	1 690	1 862	2 006	2 159
EBITDA	255	466	701	1 008	1 122	1 208	1 318
Net income	117	277	436	686	779	848	936
EBITDA margin	51%	61%	58%	60%	60%	60%	61%
Net margin	24%	36%	36%	41%	42%	42%	43%

Source: Company data, TKB Capital estimates

**Fair price upgraded to \$8.5/share.** Given benign newswires reports regarding the restoration of Raspadskaya mine, we introduced corresponding changes into our financial model. As a result, we have raised our fair price by 12% to \$8.5/share and reiterated our BUY rating. We expect a close look of the Russian top officials into the situation with Raspadskaya to ensure favorable newsflow that will positively impact the company's performance.

**Comparative valuation: Raspadskaya and peers**

	EV/EBITDA		P/E	
	2010E	2011E	2010E	2011E
Mechel	7.1	5.0	9.5	7.1
Raspadskaya	8.7	5.8	13.5	8.6
Belon	6.6	6.4	10.9	10.1
<b>Median</b>	<b>7.1</b>	<b>5.0</b>	<b>10.9</b>	<b>7.1</b>
<b>Average</b>	<b>7.5</b>	<b>5.4</b>	<b>11.3</b>	<b>8.0</b>
Massey Energy	7.3	4.0	33.0	7.5
Gloucester coal	11.5	9.3	17.5	12.6
Consol Energy	7.8	5.7	14.7	9.2
Yanzhou Coal Mining	7.8	6.8	10.8	9.2
Alpha Natural Resources	5.4	4.1	13.1	8.3
<b>Median</b>	<b>7.8</b>	<b>6.3</b>	<b>16.1</b>	<b>9.2</b>
<b>Average</b>	<b>11.0</b>	<b>7.3</b>	<b>23.1</b>	<b>12.0</b>

Source: Bloomberg, TKB Capital estimates

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