Veles Capital

Investment company

Research
August 21, 2009

Telecommunications
Russia

Sibirtelecom

Recommendation: CS – BUY
PS – BUY

Cheap mid class

Analyst: Ilya Fedotov
E-mail: IFedotov@veles-capital.ru

Bullet moments

☎ We are completing the series of reports, dedicated to the annual results of IRC. We have one company left in our list – Sibirtelecom. Sales of the company by IAS in 2008 totaled 37.7 bn RUR, OIBDA – 13.1 bn RUR, the net profit – 1.5 bn RUR.

☎ Totally, the estimates of the report do not look remarkable – the company showed quite average estimates for the branch without any significant advantages over the other IRC neither on OIBDA margin dynamics, nor ROIC margin. Only sales dynamics seems to be a bit better.

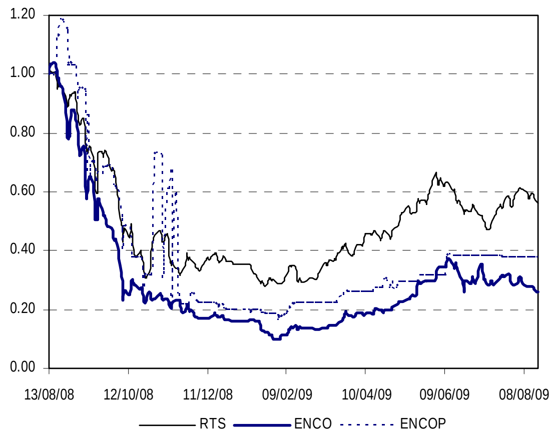
☎ Despite the hard times for the IRC, Sibirtelecom also has a chance to settle its debts, at least for a while. First of all, the growth of effective tariff for local communication services for Sibirtelecom in 2009 might be slightly higher than for the other IRC and we assume it might total about 7%. Second, the company has already refinanced a share of credits, under unfavorable conditions though. Nevertheless, even in that case Sibirtelecom restructures its arrearage in some way by having delayed the payoffs to later dates. Third, Sibirtelecom cutoff the investment program seriously this year, which will affect the value of its cash flow significantly.

☎ We revised the model of the company considering the output data. As a weak moment we might outline high (but not crucial) debt load, which includes a currency component (about 27%), which makes the company vulnerable to the currency risks. Among the positive moments we outline an extremely low market cost of Sibirtelecom's shares, which covers the mentioned risks.

☎ Our new estimation of the common shares of Sibirtelecom forms 0.0379 USD, of the preferred ones – 0.0285 USD (former estimates – 0.0392 USD and 0.0294 USD respectively). The given estimations correlate with the recommendation BUY for both types of the company's shares. Note that the given estimation does not consider the factor of Svyazinvest reorganization.

Principal estimates

Company's shares vs. the RTS index



Information about Sibirtelecom	
Ticker RTS	ENCO / ENCOP
Market price (cs), USD	0.0180
Market price (ps), USD	0.0148
Min / max price during last year (cs), USD	0.0155 / 0.0665
Min / max price during last year (ps), USD	0.0110 / 0.0465
Fair price at year end (cs), USD	0.0379
Fair price at year end (ps), USD	0.0285
Upside (downside) (cs), %	*110.6*
Upside (downside) (ps), %	*93.2*
MC, mn USD	274
EV, mn USD	1,258

Financial values (IAS)	2008	2009 (F)	2010 (F)
Sales, mn USD	1,515	1,242	1,195
OIBDA, mn USD	531	441	392
Net income, mn USD	61	48	59
OIBDA margin, %	*35.1*	*35.5*	*32.8*
Net income margin, %	*4.1*	*3.9*	*4.9*

Financial coefficients	2008	2009 (F)	2010 (F)
EV / S	0.83	1.01	1.05
EV / OIBDA	2.37	2.85	3.21
P / E	3.52	4.48	3.67
ROIC, %	*9.4*	*9.1*	*9.5*
ROE, %	*8.2*	*7.4*	*10.2*

Financial model

Income statements of Sibirtelecom, mn USD

	2005	2006	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)
Sales	970	1,111	1,379	1,515	1,242	1,195	1,198	1,224	1,280	1,332
Costs	(740)	(839)	(899)	(984)	(801)	(802)	(850)	(880)	(923)	(963)
OIBDA	230	272	481	531	441	392	348	344	357	369
OIBDA margin, %	*23.7*	*24.5*	*34.9*	*35.1*	*35.5*	*32.8*	*29.0*	*28.1*	*27.9*	*27.7*
Amortization	(115)	(153)	(240)	(296)	(255)	(238)	(231)	(229)	(236)	(242)
EBIT	115	119	241	235	187	154	116	114	122	126
EBIT margin, %	*11.9*	*10.7*	*17.5*	*15.5*	*15.0*	*12.9*	*9.7*	*9.3*	*9.5*	*9.5*
Non-recurrent items	(3)	0	0	(5)	0	0	0	0	0	0
Interest expenses	(39)	(50)	(81)	(87)	(86)	(69)	(51)	(32)	(16)	(4)
Non-operating income (losses)	5	6	6	(46)	(31)	(3)	(2)	6	5	4
EBT	79	76	166	98	70	82	63	88	111	127
EBT margin, %	*8.1*	*6.8*	*12.0*	*6.5*	*5.6*	*6.8*	*5.3*	*7.2*	*8.6*	*9.5*
Income tax	(27)	(41)	(62)	(36)	(21)	(23)	(16)	(20)	(22)	(25)
Minority interest	0	1	0	0	0	0	0	0	0	0
Net income	52	36	104	61	48	59	47	68	88	102
Net income margin, %	*5.4*	*3.2*	*7.5*	*4.1*	*3.9*	*4.9*	*4.0*	*5.6*	*6.9*	*7.6*

Source: company's data, Estimation: Veles Capital

Balance sheets of Sibirtelecom, mn USD

	2005	2006	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)
ASSETS										
Non-current assets										
PPE and intangible assets	1,159	1,452	1,814	1,664	1,273	1,071	884	785	735	701
Other non-current assets	34	40	25	16	13	13	12	12	12	12
Total non-current assets	1,193	1,492	1,839	1,679	1,286	1,084	896	797	747	713
Current assets										
Working assets	161	166	182	149	133	135	134	141	148	154
Short-term investments	5	5	6	2	106	152	208	159	144	210
Cash and equivalents	19	18	56	38	34	34	34	36	38	39
Total current assets	184	189	244	189	272	321	376	336	330	403
Total assets	1,377	1,681	2,083	1,868	1,558	1,406	1,272	1,133	1,076	1,116
LIABILITIES										
Shareholder's equity										
Authorised capital	127	138	148	121	102	96	90	89	88	87
Retained earnings	452	470	599	529	474	492	485	533	593	658
Total shareholder's equity	579	608	748	650	575	588	575	622	681	745
Minority interest	2	0	0	0	0	0	0	0	0	0
Non-current liabilities										
Long-term borrowings	509	669	879	818	634	470	359	162	36	2
Other non-current liabilities	124	157	178	146	122	116	108	107	106	105
Total non-current liabilities	633	825	1,058	963	756	586	467	269	142	106
Current liabilities										
Working liabilities	164	248	277	254	227	231	230	242	254	264
Total current liabilities	164	248	277	254	227	231	230	242	254	264
Total liabilities	1,377	1,681	2,083	1,868	1,558	1,406	1,272	1,133	1,076	1,116

Source: company's data, Estimation: Veles Capital

Statements of cash flow of Sibirtelecom, mn USD

	2005	2006	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)
Cash flows from operating activities										
Earnings before tax	79	76	166	98	70	82	63	88	111	127
Amortization	115	153	240	296	255	238	231	229	236	242
Changes in working capital	58	59	32	6	6	7	6	6	6	5
Interest expenses	(49)	(67)	(73)	(71)	(86)	(69)	(51)	(32)	(16)	(4)
Income tax	(41)	(57)	(71)	(41)	(21)	(23)	(16)	(20)	(22)	(25)
Other	41	101	68	141	136	98	80	50	27	2
Net cash provided by operating activities	202	265	361	429	359	333	314	322	341	347
Cash flows from investing activities										
CapEx	(318)	(357)	(440)	(443)	(140)	(125)	(141)	(162)	(209)	(218)
Other	8	13	20	11	(113)	(50)	(65)	54	18	(64)
Net cash provided by investing activities	(311)	(344)	(420)	(432)	(253)	(175)	(206)	(109)	(191)	(281)
Cash flows from financing activities										
Proceeds from borrowings	339	389	478	435	199	0	0	0	0	0
Repayments of borrowings	(219)	(303)	(371)	(416)	(287)	(141)	(88)	(195)	(125)	(34)
Other	(9)	(9)	(13)	(27)	(16)	(15)	(19)	(15)	(23)	(29)
Net cash provided by financial activities	112	77	93	(8)	(104)	(155)	(107)	(211)	(148)	(64)
Currency translation impact	(1)	2	3	(8)	(6)	(2)	(2)	(0)	(0)	(0)
Net change of cash	3	(0)	38	(19)	(4)	1	(0)	2	2	2
Cash at the beginning of period	16	19	18	56	38	34	34	34	36	38
Cash at the end of period	19	18	56	38	34	34	34	36	38	39

Source: company's data, Estimation: Veles Capital

Price estimation

Discount rate (WACC) of Sibirtelecom, %

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Cost of equity (k_s)	17.00	16.71	18.34	18.63	19.40	18.94	17.81	17.15	15.57	14.62
Risk-free rate	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Stock market risk	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Coefficient β	1.4	1.3	1.6	1.7	1.8	1.7	1.5	1.4	1.2	1.0
Corporate risk	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Share of equity, %	*59.1*	*53.3*	*47.6*	*46.0*	*44.3*	*47.6*	*55.6*	*61.5*	*79.3*	*94.9*
Cost of debt (k_d)	20.41	20.41	20.41	20.41	20.41	18.81	17.21	15.61	14.01	12.41
Risk-free rate	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Debt premium	13.0	13.0	13.0	13.0	13.0	11.4	9.8	8.2	6.6	5.0
Tax rate	34.1	53.6	37.3	37.2	30.5	27.9	25.3	22.6	20.0	20.0
Share of debt, %	*40.9*	*46.7*	*52.4*	*54.0*	*55.7*	*52.4*	*44.4*	*38.5*	*20.7*	*5.1*
WACC	15.55	13.32	15.44	15.49	16.49	16.12	15.61	15.20	14.67	14.38

Estimation: Veles Capital

Cash flows of Sibirtelecom, mn USD

	2005	2006	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)
Net income (corr.)	90	78	171	190	147	106	81	80	87	88
Depreciation and amortization	115	153	240	296	255	238	231	229	236	242
CapEx	(324)	(361)	(440)	(446)	(140)	(125)	(141)	(162)	(209)	(218)
Changes in working capital	58	59	32	6	6	7	6	6	6	5
Free cash flow	(62)	(71)	3	46	268	226	177	153	119	118
Discount rate, %					*16.5*	*16.1*	*15.6*	*15.2*	*14.7*	*14.4*
Dicount coefficient					1.00	0.86	0.74	0.65	0.56	0.49
Discounted cash flow					268	194	132	99	67	58

Source: company's data, Estimation: Veles Capital

Sibirtelecom's stocks valuation

TGR, %	*3.0*
Sum of cash flows, mn USD	910
Termimal value, mn USD	985
Discounted terminal value, mn USD	325
Enterprise value, mn USD	1,234
Net debt, mn USD	664
Shareholer's equity (incl. minority interest), mn USD	570
Minority interest, mn USD	0
Shareholer's equity, mn USD	570
Number of shares, mn units	12,011
Fair value of common stock at the year end, USD	0.0379
Discount preferred stocks to common stock, %	*25.0*
Fair value of preferred stock at the year end, USD	0.0285
Upside (downside) of common stock, %	*110.6*
Upside (downside) of preferred stock, %	*93.2*

Source: company's data, Estimation: Veles Capital

Comparables

Comparables

Company	Country	EV, mn USD	MC, mn USD	EV/S	EV/EBITDA	P/E	*NI margin, %*	*ROIC, %*
Russia								
Comstar United Telesystems OJS	Russia	2 946	1 985	1,79	4,27	11,05	*10,90*	*10,00*
Sibirtelecom	Russia	927	210	0,61	1,76	3,42	*4,06*	*9,23*
Centertelecom	Russia	1 260	608	0,90	2,20	3,58	*12,13*	*18,00*
STC	Russia	824	79	0,96	3,49	neg.	*neg.*	*5,74*
VolgaTelecom	Russia	822	257	0,64	1,68	2,20	*9,06*	*10,48*
NWT	Russia	583	254	0,58	1,44	2,46	*10,17*	*10,47*
Uralsvyazinform	Russia	1 289	414	0,79	2,26	4,06	*6,23*	*10,31*
Dalsvyaz	Russia	330	144	0,51	1,43	1,73	*12,86*	*17,54*
Weighted average	-	-	-	0,90	2,41	5,01	*7,89*	*11,05*
Emerging markets								
Axtel SAB de CV	Mexico	1 412	812	1,36	3,75	neg.	*neg.*	*n/d*
Bahrain Telecom Co	Bahrain	2 033	2 139	2,40	5,35	7,73	*32,66*	*24,50*
Bharti Airtel Ltd	India	33 687	31 355	5,02	11,81	19,73	*23,68*	*43,65*
Brasil Telecom SA	Brazil	7 753	6 281	1,26	3,63	11,20	*9,12*	*12,10*
Carso Global Telecom SAB de CV	Mexico	26 208	14 371	1,48	3,90	13,50	*6,00*	*14,14*
China Unicom Hong Kong Ltd	Hong Kong	35 297	32 256	1,65	3,58	6,61	*22,77*	*7,34*
China United Network Communica	China	20 642	18 951	0,97	2,11	6,67	*13,28*	*7,66*
Telefonica Chile SA	Chile	1 949	1 306	1,49	3,75	38,82	*2,57*	*1,55*
Embratel Participacoes SA	Brazil	6 684	5 404	1,26	5,04	16,20	*6,27*	*10,35*
Emirates Telecom Corp	UAE	17 733	20 057	2,49	7,19	8,50	*33,17*	*29,68*
ENTEL Chile SA	Chile	3 729	3 161	1,83	4,61	10,78	*14,39*	*18,43*
Indosat Tbk PT	Indonesia	4 152	2 737	2,15	4,42	14,11	*10,07*	*16,87*
KT Corp	South Korea	14 051	7 869	0,79	3,01	19,25	*2,29*	*5,39*
Magyar Telekom Telecommunicati	Hungary	5 518	3 771	1,41	3,54	6,99	*13,82*	*14,15*
Maroc Telecom	Morocco	15 506	15 534	4,07	6,80	12,64	*32,25*	*56,70*
Pakistan Telecommunication Co	Pakistan	1 330	1 153	1,03	2,24	neg.	*neg.*	*n/d*
PCCW Ltd	Hong Kong	4 742	1 843	1,16	4,88	11,28	*3,98*	*10,04*
Philippine Long Distance Telep	Philippines	10 269	9 419	3,13	4,93	12,08	*23,79*	*25,83*
Qatar Telecom Q-Tel QSC	Qatar	11 535	5 486	2,07	4,77	8,77	*11,21*	*12,19*
Saudi Telecom Co	Saudi Arabia	31 547	25 172	2,49	5,83	8,55	*23,25*	*31,91*
StarHub Ltd	Singapore	3 058	2 511	2,03	6,68	11,42	*14,63*	*36,38*
Tele Norte Leste Participacoes	Brazil	11 051	6 279	1,08	3,35	9,99	*6,16*	*10,71*
Telecom Argentina SA	Argentina	3 449	2 868	1,03	3,28	9,44	*9,06*	*20,95*
Telecom Egypt	Egypt	5 505	5 415	2,96	6,84	12,03	*24,20*	*5,56*
Telecomunicacoes de Sao Paulo	Brazil	12 612	11 012	1,45	3,57	8,36	*15,14*	*19,72*
Telefonica de Argentina SA	Argentina	2 144	1 771	1,42	3,84	16,63	*7,08*	*12,14*
Telefonos de Mexico SAB de CV	Mexico	23 487	15 857	2,11	4,63	8,77	*16,26*	*19,32*
Telekom Malaysia Bhd	Malaysia	4 485	3 067	1,72	3,02	12,91	*9,13*	*2,08*
Telekomunikacja Polska SA	Poland	8 987	7 122	1,19	2,79	7,84	*12,05*	*12,90*
Telekomunikasi Indonesia Tbk P	Indonesia	17 814	16 626	2,84	4,81	15,16	*17,50*	*31,96*
Telemar Norte Leste SA	Brazil	15 890	6 789	1,56	4,78	8,20	*8,15*	*11,59*
Telkom SA Ltd	SAR	4 331	2 535	0,55	1,50	2,26	*14,17*	*22,62*
Weighted average	-	-	-	1,69	4,21	9,68	*13,77*	*13,91*

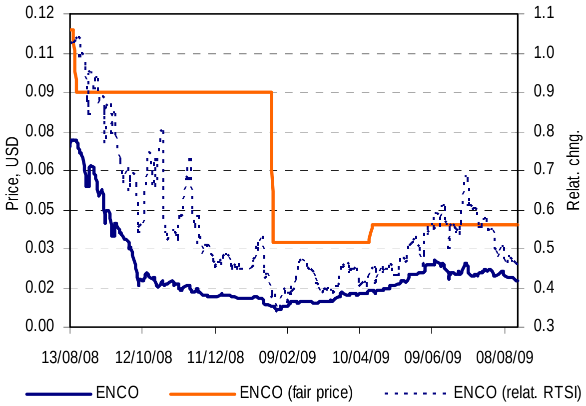
Estimates: Veles Capital

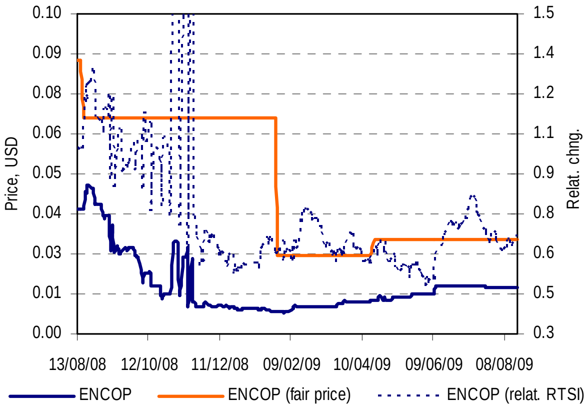
Comparables

Company	Country	EV, mn USD	MC, mn USD	EV/S	EV/EBITDA	P/E	*NI margin, %*	*ROIC, %*
Developed markets								
AT&T Inc	USA	221 289	148 090	1,78	5,15	11,51	*10,37*	*8,40*
BCE Inc	Canada	25 684	18 092	1,55	3,91	20,47	*5,33*	*9,48*
Belgacom SA	Belgium	14 584	11 855	1,69	4,99	10,13	*13,53*	*22,41*
Bezeq Israeli Telecommunicatio	Israel	6 876	5 367	1,99	5,34	11,83	*13,11*	*21,01*
BT Group PLC	UK	36 517	16 835	0,88	3,14	4,83	*8,39*	*21,59*
Cable & Wireless PLC	UK	5 315	5 798	0,84	4,27	17,62	*5,20*	*15,26*
CenturyTel Inc	USA	12 301	9 230	4,73	9,88	25,24	*14,07*	*7,37*
Deutsche Telekom AG	Germany	115 165	54 377	1,28	4,40	25,06	*2,40*	*4,72*
Elisa OYJ	Finland	4 146	3 014	1,91	6,03	11,68	*11,87*	*11,59*
France Telecom SA	France	112 939	63 801	1,44	4,06	10,72	*7,61*	*9,50*
Manitoba Telecom Services Inc	Canada	2 501	1 878	1,39	4,20	13,92	*7,49*	*7,74*
NTT Corp	Japan	101 068	65 665	1,08	3,33	11,82	*5,95*	*6,31*
Portugal Telecom SGPS SA	Portugal	16 719	8 786	1,72	4,94	10,33	*8,78*	*10,30*
Koninklijke KPN NV	Netherlands	39 458	24 331	1,87	5,33	12,48	*9,23*	*12,21*
Softbank Corp	Japan	48 755	22 980	2,01	9,24	24,19	*3,91*	*7,78*
Swisscom AG	Switzerland	27 460	17 323	2,44	6,61	10,68	*14,40*	*11,38*
TDC A/S	Denmark	13 270	6 653	1,74	5,12	11,67	*7,48*	*10,39*
Telecom Italia SpA	Italy	77 750	25 599	1,76	4,67	7,90	*7,34*	*6,62*
Telefonica O2 Czech Republic A	Czech	8 266	8 470	2,19	5,12	12,44	*18,04*	*14,29*
Telefonica SA	Spain	178 507	110 264	2,11	5,32	9,93	*13,10*	*13,92*
Telekom Austria AG	Austria	12 177	7 260	1,61	6,40	neg.	*neg.*	*n/d*
Telephone & Data Systems Inc	USA	3 556	2 696	0,70	2,70	28,83	*1,84*	*9,03*
TeliaSonera AB	Sweden	34 341	26 799	2,19	7,16	9,30	*18,35*	*9,43*
Telstra Corp Ltd	Australia	51 237	37 267	2,32	5,66	11,29	*14,97*	*17,24*
TELUS Corp	Canada	14 552	9 338	1,61	4,05	8,83	*11,69*	*12,37*
Verizon Communications Inc	USA	128 184	86 014	1,32	4,08	13,38	*6,60*	*11,83*
Weighted average	-	-	-	1,58	4,69	11,68	*8,20*	*9,50*

Estimates: Veles Capital

Sibirtelecom’ fair price history





Source: RTS, Estimates: Veles Capital

Sector coverage

Share	Tiker	Current price, USD	Target for year end, USD	*Current growth potential, %*	Recommendation	Date of recommendation revision	Investment idea
Traditional telephony							
Volgatelecom, cs	NNSI	1,1250	3,0523	*171,3*	BUY	03.07.2009	
Volgatelecom, ps	NNSIP	0,9000	2,2893	*154,4*	BUY	03.07.2009	
Dalsvyaz, cs	ESPK	1,8000	3,4860	*93,7*	BUY	18.06.2009	
Dalsvyaz, ps	ESPKP	1,1500	2,6145	*127,3*	BUY	18.06.2009	
NWT, cs	SPTL	0,2769	0,5030	*81,7*	BUY	17.07.2009	Rapidly fall quotes last year intends considerable potencial of growth despite of negative moments
NWT, ps	SPTLP	0,1913	0,3773	*97,3*	BUY	17.07.2009	
Sibirtelecom, cs	ENCO	0,0180	0,0379	*110,8*	BUY	19.08.2009	
Sibirtelecom, ps	ENCOP	0,0148	0,0285	*92,3*	BUY	19.08.2009	
Uralsvyazinform, cs	URSI	0,0149	0,0323	*117,5*	BUY	25.06.2009	
Uralsvyazinform, ps	URSIP	0,0088	0,0242	*175,4*	BUY	25.06.2009	
Centrtelecom, cs	ESMO	0,3500	0,3072	*-12,2*	REDUCE	10.08.2009	Shares reached thheir fair values. Growth potential are contained by credit risks
Centrtelecom, ps	ESMOP	0,2640	0,2304	*-12,7*	REDUCE	10.08.2009	
STC, cs	KUBN	0,0440	0,0461	*4,8*	HOLD	14.08.2009	High debt level carries highly risks of investments in this shares
STC, ps	KUBNP	0,0295	0,0346	*17,2*	HOLD	14.08.2009	
Alternative telephony							
Comstar-UTS	CMST	4,7000	5,6700	*20,6*	BUY	27.05.2009	Company has all chances to live out crisis with minimum losses
Long-distance communication							
Rostelecom, cs	RTKM	5,0500	3,4406	*-31,9*	SELL	22.06.2009	An extremely high market price, resulted from buyup of shares, yet unsupported by fundamental factors
Rostelecom, ps	RTKMP	1,4900	2,5805	*73,2*	BUY	22.06.2009	
Cellular communication							
Vimpelcom	VIMP	13,83	10,59	*-23,4*	SELL	29.05.2009	High debts cuts up development
MTS	MTSS	5,50	9,49	*72,5*	BUY	12.08.2009	Fundamental underestimation of shares
Media							
CTC Media	CTCM	12,95	13,85	*6,9*	ACCUMULATE	07.08.2009	Quotes are slightly moving to fair value

Estimation: Veles Capital

Brief investor's guide

	Methods, used for company's share evaluation			
	Income approach		**Comparables approach**	**Expenses approach**
	DCF method	EVA method	Multiplicative method	Net assets method
*Concept of evaluating the unified object (EV) **	FCFF discounting	EVA discounting		
*Shareholders' value direct calculation (SV) ***	FCFE discounting	EVA for shareholders discounting (**Edwards-Bell-Ohlson method**)		

*
Debt cost is calculated separately and then subtracted from the sum total cost of business (target EV), formed considering the cash flows/ economic profits of firm.

**
Debt is accounted integrated -via annual coverage. So the fair cost of shareholders' value (target SV) is formed directly - considering the cash flow / economic profits for holders.

Note:

DCF methods differ from the methods of economic profit by the way of investments calculation. The methods of unified object evaluation concept differ from thee methods of direct calculation of shareholders' value costs - by the way of accounting cost and maintenance of debt liabilities.

Cost calculation within the frames of income approach:

	*Business cost calculation (**EV**) within the frames of united object cost evaluation*	*Shareholders' capital value calcculation (**SV**)*
DCF method (FCFF)	$EV = \sum_{i=1}^{n} \frac{FCFF_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_i)^n} + NA$	$SV = EV - D$
DCF method (FCFE)		$SV = \sum_{i=1}^{n} \frac{FCFE_i}{(1+k_{si})^i} + \frac{TV}{(1+k_{si})^n} + Cash + NA$
EVA method	$EV = IC_1 + \sum_{i=1}^{n} \frac{EVA_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_i)^n} + NA$	$SV = EV - D$
EBO method		$SV = BV_1 + \sum_{i=1}^{n} \frac{SVA_i}{(1+k_{si})^i} + \frac{TV}{(1+k_{si})^n} + Cash + NA$

Signs:

EV - *Enterprise Value*
SV - *Shareholders Value*
TV - *Terminal Value*
Cagr - *development rates within the target period*
BV, E - *Balance Value, Equity*
EBIT - *operational profit from selling, profit before payments of credit interest and income tax*
EBITDA - *operational profit before payment of credit interest, income tax and amortization*
EBT - *Earnings Before Tax*
EAT - *Earnings After Tax*
EPS - *Earnings Per Share*
NOPAT - *net operational profit, free from effects of debt financing*
NOPAT = EBIT * (1- income tax effective rate)
FCFF - *Free Cash Flow to Firm*
FCFF = gross cash flow - gross investments
Gross cash flow = NOPAT + amortization
FCFE - *Free Cash Flow to Equity*
FCFE= gross shareholders' cash flow - gross investments
Gross shareholders' cash flow = EAT of operational profit (including interest payoffs) -annual debt coverage + attracted borrowed assets + amortization
EVA - *Economic Value Added*
EVA = economic profit spread * IC = (ROIC - WACC) * IC
SVA - *Shareholders Value Added*
SVA = spread * E = (ROE - k_s) * E
WACC - *Weighted Average Cost of Capital*
k_s - *required shareholders' yield*
D - *fair (market) cost of net debt*
Cash - *cash assets, along with market securities on thee balance*
NA - *non-operational assets*
IC - *Invested Capital*
ROIC - *Return on Invested Capital*
ROIC = NOPAT / IC
ROE - *Return on Equity*
ROA - *Return on Assets*

Information disclosure

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The principle of recommendation assignment

The investment recommendations are given based on the evaluation of the company's share yield. The basis for the calculation of the expected company's cost is the evaluation by the discounted cash flows method (DCF). In some estimations the method of comparable coefficients, and also the mixed estimation (by DCF method and by comparable coefficients method) are applied. All recommendations are assigned based on the determined by us the fair cost of the shares within the nearest 12 months.

At the present moment the investment scale of the Investment Company Veles Capital is the following:

BUY – corresponds to the growth potential of the shares within the nearest 12 months by 15% or more.

ACCUMULATE – corresponds to the growth potential of the shares within the nearest 12 months for 5-15%.

HOLD – corresponds to the growth (reduction) potential of the shares within the nearest 12 months from -5% to 5%.

REDUCE – corresponds to the reduction potential of the shares within the nearest 12 months from 15% to 5%.

SELL – corresponds to the reduction potential of the shares within the nearest 12 months by 15% or more.

In some cases the deviations from the evaluation scale given above, based on which the recommendations are assigned, are possible. That fact relates to the high volatility of some securities in particular, and market in the whole, and also to the individual characteristics of one or another issuer.

In order to get additional information and specifications please contact the Research Department of the Investment Company Veles Capital.

Research Department

research@veles-capital.ru

Mikhail Zak
Head of Department
Strategy
MZak@veles-capital.ru

Ivan Manaenko
Fixed income market, Macroeconomics
IManaenko@veles-capital.ru

Ilya Fedotov
Telecommunications
IFedotov@veles-capital.ru

Stanislav Fomenko
Metallurgy
SFomenko@veles-capital.ru

Marina Irkly
Transport, machinery
MIrkly@veles-capital.ru

Oleg Zotikov
Energy
OZotikov@veles-capital.ru

Dmitry Lyutyagin
Oil and gas
DLyutyagin@veles-capital.ru

Sales and Trading Department

sales@veles-capital.ru

Yury Pavlov
Director (VIP clients)
YPavlov@veles-capital.ru

Sergey Vetoshkin
Corporative Clients
SVetoshkin@veles-capital.ru

Alexander Taran
Trading (Ukraine)
ATaran@veles-capital.com.ua

Assets Management

am@veles-capital.ru

Beyshen Isaev
Head of Department
BIsaev@veles-capital.ru

Vadim Labed
Investor relations
VLabed@veles-capital.ru

Stanislav Brodsky
Investment products
SBrodsky@veles-capital.ru

Russia, Moscow, 123610, Krasnopresnenskaya nab. 12,
Entr. 7, floor 18
Tel.: 7 (495) 258 1988, Fax: 7 (495) 258 1989
www.veles-capital.ru

Ukraine, Kiev, 04070, Naberezhno-Kreschatitskaya, 37/55
Tel.: 38 (044) 459 0250
Fax: 38 (044) 459 0251