

Research
August 19, 2009

Telecommunications
Russia

STC

Payback time

Recommendation: CS – HOLD
PS – HOLD

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Bullet moments

☎ Sales of South Telecommunications Company, JSC by IFRS totaled 21.3 bn RUR in 2008 (+5.3% versus the previous year estimate), operating profit reduced by 42% to the level of 2.3 bn RUR, net loss formed 671 mn RUR versus profit of 1.6 bn RUR a year before.

☎ If not considering single items and loss from currency exchange in the report, its results might be taken positively, but with no serious moments. Particularly, the “cleared out” OIBDA margin totaled 36.1%, which almost equals the level of the previous year.

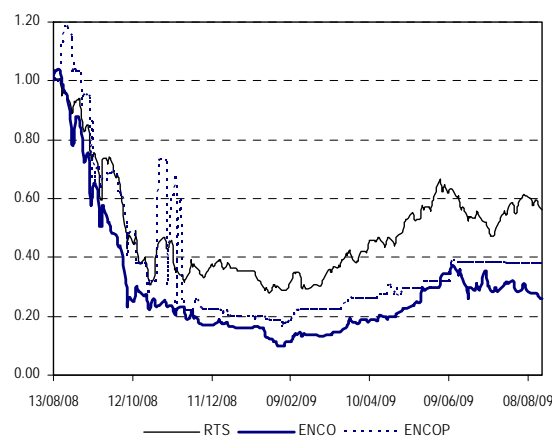
☎ The former problems of the company in the form of crucial debt load still are up-to-date. Net short-term debt forms 12.1 bn RUR. A share of debt has been refinanced by the company, and also STC reduced the investment program to minimal values, however it is possible that in case the company does not manage to refinance the remaining share of debt, it would have to seek for help on behalf of the state banks. Especially the debt factor we assume decreases the investment attractiveness of STC shares.

☎ We changed the model of the company considering the output data. Besides, we accounted the new forecasts by MED relating the dynamics of local communication tariffs, which predetermined the estimation upping.

☎ The new estimation, calculated considering the fundamental figures, forms 0.0461 USD per common and 0.0346 USD per preferred share (former estimates: 0.0191 USD and 0.0143 USD respectively). Concluding from the market quotes, the given estimates correlate with the recommendations HOLD for both types of STC shares, and the main restraining factor is the company's debt. Note that the given estimate does not consider the possible changes in Svyazinvest.

Principal estimates

Company's shares vs. the RTS index



Information about STC

Ticker RTS	KUBN / KUBNP
Market price (cs), USD	0.0425
Market price (ps), USD	0.0295
Min / max price during last year (cs), USD	0.0169 / 0.1150
Min / max price during last year (ps), USD	0.0120 / 0.0835
Fair price at year end (cs), USD	0.0461
Fair price at year end (ps), USD	0.0346
Upside (downside) (cs), %	8.5
Upside (downside) (ps), %	17.3
MC, mn USD	159
EV, mn USD	901

Financial values (IAS)	2008	2009 (F)	2010 (F)
Sales, mn USD	856	698	661
OIBDA, mn USD	310	253	219
Net income, mn USD	-27	20	25
OIBDA margin, %	36.1	36.2	33.1
Net income margin, %	neg.	2.9	3.8

Financial coefficients	2008	2009 (F)	2010 (F)
EV / S	1.05	1.28	1.35
EV / OIBDA	2.89	3.55	4.09
P / E	neg.	6.21	4.97
ROIC, %	10.5	11.3	10.1
ROE, %	neg.	7.2	9.2

Financial model

Income statements of STC, mn USD

	2005	2006	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)
Sales	663	662	792	856	698	661	654	659	698	724
Costs	(493)	(432)	(503)	(547)	(445)	(442)	(454)	(459)	(470)	(491)
OIBDA	170	230	289	310	253	219	200	200	228	234
<i>OIBDA margin, %</i>	<i>25.6</i>	<i>34.8</i>	<i>36.5</i>	<i>36.1</i>	<i>36.2</i>	<i>33.1</i>	<i>30.5</i>	<i>30.4</i>	<i>32.6</i>	<i>32.3</i>
Amortization	(112)	(123)	(120)	(146)	(122)	(114)	(112)	(110)	(112)	(113)
EBIT	58	107	169	164	130	105	88	90	116	120
<i>EBIT margin, %</i>	<i>8.8</i>	<i>16.2</i>	<i>21.3</i>	<i>19.1</i>	<i>18.7</i>	<i>15.9</i>	<i>13.5</i>	<i>13.7</i>	<i>16.6</i>	<i>16.6</i>
Non-recurrent items	0	0	(13)	(71)	0	0	0	0	0	0
Interest expenses	(102)	(85)	(88)	(89)	(76)	(70)	(58)	(44)	(32)	(30)
Non-operating income (losses)	8	6	20	(39)	(29)	(4)	(2)	1	0	2
EBT	(35)	29	88	(35)	25	31	29	46	84	92
<i>EBT margin, %</i>	<i>neg.</i>	<i>4.4</i>	<i>11.1</i>	<i>neg.</i>	<i>3.6</i>	<i>4.7</i>	<i>4.4</i>	<i>7.0</i>	<i>12.0</i>	<i>12.8</i>
Income tax	2	(16)	(28)	8	(5)	(6)	(5)	(9)	(17)	(18)
Minority interest	(0)	(0)	1	0	0	0	0	0	0	0
Net income	(33)	13	61	(27)	20	25	23	37	67	74
<i>Net income margin, %</i>	<i>neg.</i>	<i>1.9</i>	<i>7.7</i>	<i>neg.</i>	<i>2.9</i>	<i>3.8</i>	<i>3.5</i>	<i>5.6</i>	<i>9.6</i>	<i>10.2</i>

Source: company's data, Estimation: Veles Capital

Balance sheets of STC, 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	1,206	1,289	1,350	1,127	891	804	705	649	615	590
Other non-current assets	45	35	34	26	22	21	19	19	19	19
Total non-current assets	1,252	1,324	1,384	1,152	913	824	724	667	634	609
Current assets										
Working assets	101	101	114	94	83	84	82	85	90	94
Short-term investments	0	0	0	0	53	58	17	0	85	116
Cash and equivalents	27	13	23	52	46	47	46	47	50	52
Total current assets	128	113	137	147	182	188	145	132	226	262
Total assets	1,379	1,437	1,521	1,299	1,095	1,013	869	799	860	870
LIABILITIES										
Shareholder's equity										
Authorised capital	106	115	124	103	87	82	77	76	75	74
Retained earnings	234	267	270	188	172	184	189	220	278	336
Total shareholder's equity	340	382	393	291	259	267	266	296	353	410
Minority interest										
	0	0	0	0	0	0	0	0	0	0
Non-current liabilities										
Long-term borrowings	753	762	860	794	650	562	425	322	318	266
Other non-current liabilities	73	98	94	67	56	53	50	49	49	48
Total non-current liabilities	827	860	954	861	706	615	475	371	366	314
Current liabilities										
Working liabilities	137	150	174	147	130	130	128	133	141	146
Short-term borrowings	75	45	0	0	0	0	0	0	0	0
Total current liabilities	212	195	174	147	130	130	128	133	141	146
Total liabilities	1,379	1,437	1,521	1,299	1,095	1,013	869	799	860	870

Source: company's data, Estimation: Veles Capital

Statements of cash flow of STC, mn USD

	2005	2006	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)
Cash flows from operating activities										
Net income	(35)	29	88	(35)	25	31	29	46	84	93
Amortization	112	123	120	146	122	114	112	110	112	113
Changes in working capital	40	46	(31)	(3)	3	3	2	2	3	2
Interest expenses	(101)	(100)	(85)	(97)	(76)	(70)	(58)	(44)	(32)	(30)
Income tax	(3)	(14)	(20)	(18)	(5)	(6)	(5)	(9)	(17)	(19)
Other	114	85	81	215	114	84	71	54	38	28
Net cash provided by operating activities	127	170	154	208	183	157	150	159	189	188
Cash flows from investing activities										
CapEx	(100)	(98)	(147)	(210)	(71)	(83)	(78)	(71)	(91)	(95)
Other	6	7	12	14	(57)	(7)	40	18	(86)	(29)
Net cash provided by investing activities	(94)	(90)	(135)	(197)	(129)	(90)	(38)	(53)	(177)	(124)
Cash flows from financing activities										
Proceeds from borrowings	474	394	422	499	388	0	52	263	0	0
Repayments of borrowings	(493)	(488)	(422)	(454)	(436)	(61)	(157)	(363)	(1)	(49)
Other	(4)	(2)	(10)	(17)	(4)	(4)	(5)	(4)	(7)	(13)
Net cash provided by financial activities	(22)	(96)	(10)	28	(52)	(64)	(110)	(104)	(8)	(62)
Net change of cash	10	(14)	10	30	(6)	0	(1)	1	3	2
Cash at the beginning of period	17	27	13	23	52	46	47	46	47	50
Cash at the end of period	27	13	23	52	46	47	46	47	50	52

Source: company's data, Estimation: Veles Capital

Price estimation

Discount rate (WACC) of STC, %										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Cost of equity (k_e)	25.61	20.55	22.38	23.77	26.61	25.58	23.76	21.49	19.22	18.41
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	2.8	1.9	2.2	2.5	2.9	2.8	2.5	2.1	1.7	1.6
Corporate risk	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Share of equity, %	31.5	29.1	32.2	31.4	26.8	28.5	32.2	38.5	47.9	52.6
Cost of debt (k_d)	17.41	17.41	17.41	17.41	16.71	16.01	15.31	14.61	13.91	13.91
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	10.0	10.0	10.0	10.0	9.3	8.6	7.9	7.2	6.5	6.5
Tax rate	6.3	54.3	31.3	22.1	18.5	18.8	19.2	19.6	20.0	20.0
Share of debt, %	68.5	70.9	67.8	68.6	73.2	71.5	67.8	61.5	52.1	47.4
WACC	19.23	11.62	15.31	16.77	17.11	16.58	16.03	15.49	15.00	14.96

Estimation: Veles Capital

Cash flows of STC, mn USD										
	2005	2006	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)
Net income (corr.)	61	92	142	179	111	67	51	45	62	68
Depreciation and amortization	112	123	120	146	122	114	112	110	112	113
CapEx	(100)	(98)	(147)	(210)	(71)	(83)	(78)	(71)	(91)	(95)
Changes in working capital	40	46	(31)	(3)	3	3	2	2	3	2
Free cash flow	113	163	84	111	164	101	87	87	85	89
Discount rate, %					17.1	16.6	16.0	15.5	15.0	15.0
Discount coefficient					1.00	0.86	0.74	0.64	0.56	0.48
Discounted cash flow					164	87	64	56	47	43

Source: company's data, Estimation: Veles Capital

STC's stocks valuation

TGR, %	3.0
Sum of cash flows, mn USD	537
Terminal value, mn USD	882
Discounted terminal value, mn USD	283
Enterprise value, mn USD	821
Net debt, mn USD	676
Shareholder's equity (incl. minority interest), mn USD	144
Minority interest, mn USD	0
Shareholder's equity, mn USD	144
Number of shares, mn units	2,961
Fair value of common stock at the year end, USD	0.0461
Discount preferred stocks to common stock, %	25.0
Fair value of preferred stock at the year end, USD	0.0346
Upside (downside) of common stock, %	8.5
Upside (downside) of preferred stock, %	17.3

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	3 063	2 102	1,86	4,44	11,70	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	-	-	-	0,91	2,45	5,16	7,89	11,03
Emerging markets								
Axtel SAB de CV	Mexico	1 436	836	1,38	3,82	neg.	neg.	n/d
Bahrain Telecom Co	Bahrain	2 090	2 196	2,47	5,50	7,94	32,66	24,50
Bharti Airtel Ltd	India	34 506	32 174	5,14	12,10	20,25	23,68	43,65
Brasil Telecom SA	Brazil	7 886	6 414	1,28	3,70	11,44	9,12	12,10
Carso Global Telecom SAB de CV	Mexico	26 619	14 781	1,50	3,96	13,88	6,00	14,14
China Unicom Hong Kong Ltd	Hong Kong	37 326	34 285	1,74	3,79	7,03	22,77	7,34
China United Network Communica	China	23 030	21 338	1,08	2,36	7,51	13,28	7,66
Telefonica Chile SA	Chile	1 975	1 332	1,51	3,80	39,59	2,57	1,55
Embratel Participacoes SA	Brazil	6 831	5 551	1,28	5,15	16,64	6,27	10,35
Emirates Telecom Corp	UAE	18 027	20 351	2,53	7,30	8,63	33,17	29,68
ENTEL Chile SA	Chile	3 806	3 238	1,87	4,71	11,04	14,39	18,43
Indosat Tbk PT	Indonesia	4 442	3 028	2,31	4,73	15,61	10,07	16,87
KT Corp	South Korea	14 517	8 334	0,81	3,11	20,39	2,29	5,39
Magyar Telekom Telecommunicati	Hungary	5 569	3 823	1,43	3,58	7,08	13,82	14,15
Maroc Telecom	Morocco	15 691	15 719	4,12	6,88	12,79	32,25	56,70
Pakistan Telecommunication Co	Pakistan	1 268	1 091	0,98	2,13	neg.	neg.	n/d
PCCW Ltd	Hong Kong	4 768	1 870	1,16	4,91	11,45	3,98	10,04
Philippine Long Distance Telep	Philippines	10 747	9 896	3,28	5,15	12,70	23,79	25,83
Qatar Telecom Q-Tel QSC	Qatar	11 822	5 773	2,12	4,89	9,23	11,21	12,19
Saudi Telecom Co	Saudi Arabia	32 825	26 451	2,59	6,06	8,99	23,25	31,91
StarHub Ltd	Singapore	3 227	2 681	2,15	7,05	12,19	14,63	36,38
Tele Norte Leste Participacoes	Brazil	11 502	6 730	1,13	3,48	10,71	6,16	10,71
Telecom Argentina SA	Argentina	3 531	2 950	1,05	3,35	9,71	9,06	20,95
Telecom Egypt	Egypt	5 757	5 666	3,10	7,15	12,59	24,20	5,56
Telecomunicacoes de Sao Paulo	Brazil	12 804	11 204	1,47	3,62	8,50	15,14	19,72
Telefonica de Argentina SA	Argentina	2 102	1 729	1,40	3,77	16,23	7,08	12,14
Telefonos de Mexico SAB de CV	Mexico	23 639	16 009	2,12	4,66	8,85	16,26	19,32
Telekom Malaysia Bhd	Malaysia	4 540	3 122	1,74	3,06	13,14	9,13	2,08
Telekomunikacja Polska SA	Poland	9 462	7 597	1,26	2,94	8,37	12,05	12,90
Telekomunikasi Indonesia Tbk P	Indonesia	18 797	17 610	3,00	5,07	16,05	17,50	31,96
Telemar Norte Leste SA	Brazil	16 216	7 114	1,60	4,88	8,59	8,15	11,59
Telkom SA Ltd	SAR	4 401	2 605	0,56	1,52	2,33	14,17	22,62
Weighted average	-	-	-	1,75	4,35	10,10	13,77	13,91

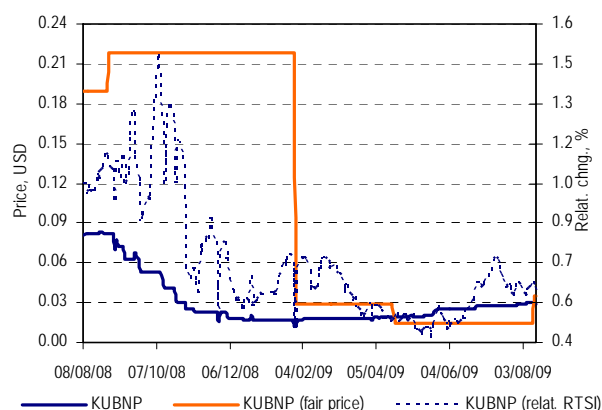
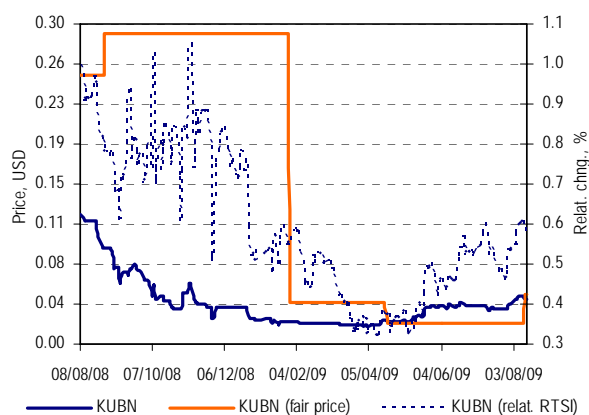
Estimates: Veles Capital

Comparables

Company	Country	EV, mn USD	MC, mn USD	EV/S	EV/EBITDA	P/E	NI margin, %	ROIC, %
Developed markets								
AT&T Inc	USA	223 531	150 332	1,80	5,20	11,68	10,37	8,40
BCE Inc	Canada	26 029	18 438	1,57	3,96	20,86	5,33	9,48
Belgacom SA	Belgium	14 866	12 137	1,72	5,09	10,37	13,53	22,41
Bezeq Israeli Telecommunicatio	Israel	7 070	5 560	2,04	5,49	12,25	13,11	21,01
BT Group PLC	UK	36 918	17 237	0,89	3,18	4,94	8,39	21,59
Cable & Wireless PLC	UK	5 516	5 999	0,87	4,43	18,23	5,20	15,26
CenturyTel Inc	USA	12 524	9 453	4,82	10,06	25,85	14,07	7,37
Deutsche Telekom AG	Germany	117 011	56 223	1,30	4,47	25,91	2,40	4,72
Elisa OYJ	Finland	4 240	3 108	1,95	6,17	12,05	11,87	11,59
France Telecom SA	France	115 322	66 184	1,47	4,15	11,12	7,61	9,50
Manitoba Telecom Services Inc	Canada	2 571	1 949	1,43	4,32	14,44	7,49	7,74
NTT Corp	Japan	104 102	68 699	1,11	3,43	12,37	5,95	6,31
Portugal Telecom SGPS SA	Portugal	16 964	9 031	1,75	5,01	10,61	8,78	10,30
KONINKLIJKE KPN NV	Netherlands	40 291	25 164	1,91	5,44	12,91	9,23	12,21
Softbank Corp	Japan	49 510	23 735	2,04	9,38	24,98	3,91	7,78
Swisscom AG	Switzerland	27 731	17 595	2,46	6,68	10,85	14,40	11,38
TDC A/S	Denmark	13 539	6 923	1,78	5,23	12,14	7,48	10,39
Telecom Italia SpA	Italy	78 992	26 840	1,79	4,75	8,28	7,34	6,62
Telefonica O2 Czech Republic A	Czech	8 518	8 722	2,26	5,28	12,81	18,04	14,29
Telefonica SA	Spain	184 021	115 778	2,17	5,49	10,42	13,10	13,92
Telekom Austria AG	Austria	12 054	7 138	1,59	6,33	neg.	neg.	n/d
Telephone & Data Systems Inc	USA	3 550	2 691	0,70	2,70	28,76	1,84	9,03
TeliaSonera AB	Sweden	35 852	28 310	2,28	7,47	9,82	18,35	9,43
Telstra Corp Ltd	Australia	51 666	37 696	2,34	5,71	11,42	14,97	17,24
TELUS Corp	Canada	14 821	9 606	1,64	4,12	9,09	11,69	12,37
Verizon Communications Inc	USA	130 343	88 173	1,34	4,14	13,72	6,60	11,83
Weighted average	-	-	-	1,61	4,78	12,05	8,20	9,50

Estimates: Veles Capital

STC' fair price history



Source: RTS, Estimates: Veles Capital

Sector coverage

Share	Ticker	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	0,0200	0,0392	96,0	BUY	20.04.2009	
Sibirtelecom, ps	ENCOP	0,0148	0,0294	99,4	BUY	20.04.2009	
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 ththeir 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	0,0425	0,0461	8,5	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-UJS	CMST	5,0300	5,6700	12,7	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	14,61	10,59	-27,5	SELL	29.05.2009	High debts cuts up development
MTS	MTSS	5,80	9,49	63,6	BUY	12.08.2009	Fundamental underestimation of shares
Media							
CTC Media	CTCM	13,71	13,85	1,0	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 these 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 calculation (SV)
DCF method (FCFF)	$EV = \sum_{i=1}^n \frac{FCFF_i}{(1+WACC_c)^i} + \frac{TV}{(1+WACC_c)^n} + NA$	$SV = EV - D$
DCF method (FCFE)		$SV = \sum_{i=1}^n \frac{FCFE_i}{(1+k_{S_i})^i} + \frac{TV}{(1+k_{S_i})^n} + Cash + NA$
EVA method	$EV = IC_1 + \sum_{i=1}^n \frac{EVA_i}{(1+WACC_c)^i} + \frac{TV}{(1+WACC_c)^n} + NA$	$SV = EV - D$
EBO method		$SV = BV_1 + \sum_{i=1}^n \frac{SVA_i}{(1+k_{S_i})^i} + \frac{TV}{(1+k_{S_i})^n} + Cash + NA$

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

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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.

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