



SOVLINK

YOUR FIRST CALL – FOR THE SECOND TIER

August 22, 2006

# Uralelectromed

**FLASH  
NOTE**

**BUY**

**UPSIDE: 61%**

**Target Price: US\$216**

## Strong 1H06 RSA results

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### STOCK DATA

Ticker	uelm	MCap (\$ mn)	681
Shares Ords	5,071,415	Free Float, %	12
Shares Pref	-	Free Float (\$ mn)	82
Bid Ords (\$)	133	Offer Ords (\$)	134.5
Bid Prefs (\$)	-	Offer Prefs (\$)	-

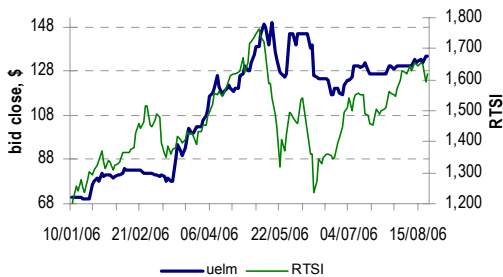
### MARKET PERFORMANCE

Absolute	Ords	1 month	5.9%	6 months	62%
	Prefs	-	-	-	-
Relative to RTSI	Ords	-2.5%	-44.6%	-	-
	Prefs	-	-	-	-
Price range (US\$)	Ords	134.8	150	-	-
	High	127	78	-	-
	Low	-	-	-	-

### PERFORMANCE 2005

Revenues (\$ mn)	400	P/S	1.7
EBITDA(\$ mn)	102	EV/EBITDA	7.5
Net Income (\$ mn)	47	P/E	14.5

### UELME RELATIVE PERFORMANCE



Source: RTS, Sovlink Securities

Uralelectromed recently published its 1H06 RSA results. We note that the company continues to benefit from the favorable market situation and is becoming more transparent, increasing its posted net profit. The average LME copper price was \$7,207/ton in 2Q06, up 96% year-on-year. As we expected, Uralelectromed showed impressive revenues and net profit in 2Q06: the company increased its sales by 91% year-on-year and quadrupled its net profit. Uralelectromed exports more than 70% of its copper and is a beneficiary of high copper prices.

### Uralelectromed 1H06 RSA results, \$mn

	1H05	1H06	% chg.
Sales	164	314	91%
COGS	104	190	82%
Gross profit	60	123	106%
Net profit	17	70	309%
average LME copper price, \$/ton	3,680	7,207	96%

Source: Company data, Bloomberg, Sovlink estimates

We emphasize that the increase in net income significantly surpassed revenue growth. Simultaneously, the growth of COGS was lower than revenue growth. As a result, Uralelectromed achieved higher gross and net margins.

### Uralelectromed margins

	1H05	1H06
Gross margin, %	36%	39%
Net margin, %	10%	22%

Source: Company data, Sovlink estimates

Uralelectromed demonstrated a sound increase in its 1H net margin, from 10% to 22%—which could be an indication that the company's business is becoming more transparent.

### Uralelectromed valuation

	P/S	P/E	P/BV	EV/EBITDA	EV/S
Developed market average	2.65	14.02	4.89	8.12	2.93
Uralelectromed	1.70	14.47	2.19	7.53	1.92
Upside potential, %	56%	-3%	123%	8%	52%
Weights for multiples	0.3	0.1	0.25	0.1	0.25
	<b>Weighted upside</b>				<b>61%</b>

Source: Bloomberg, Sovlink estimates

We do not change our target price for Uralelectromed and believe that the company is undervalued compared to its developed market peers. Our aggregate estimate suggests a fair market capitalization of \$1,094 mn, or \$215.7 per share, which implies 61% potential upside. At the same time, we again note that by improving transparency, this could be even higher.

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## STOCK RATING POLICY

<b>STRONG BUY:</b>	Target price offers upside of over 100%; confidence level – high
<b>STRONG BUY (SPEC):</b>	Target price offers upside of over 100%; confidence level – low
<b>BUY:</b>	Target price offers upside of between 25% and 100%; confidence level – high
<b>BUY (SPEC):</b>	Target price offers upside of between 25% and 100%; confidence level – low
<b>HOLD:</b>	Target price offers upside of less than 25%
<b>SELL:</b>	Target price at or below current price levels

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