

Mostotrest

**FLASH
NOTE**

STRONG BUY

Target price: US\$ 558

Upside potential: 125%

Meeting with new management

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STOCK DATA

| | | | |
|----------------|-----------|--------------------|-------|
| Ticker | mstt | MCap US\$ mn | 282 |
| Shares Ords | 1,241,200 | Free Float, % | 20-25 |
| Shares Pref | - | Free Float US\$ mn | 56-70 |
| Bid Ords, US\$ | 227 | Offer Ords, US\$ | 229 |

MARKET PERFORMANCE

| | | 1 month | 6 months |
|--------------------|-------|---------|----------|
| Absolute | Ords | -4.9% | -2.6% |
| | Prefs | - | - |
| Relative to RTSI | Ords | -9.9% | 1.7% |
| | Prefs | - | - |
| Price range (US\$) | | | |
| High | Ords | 241 | 305 |
| Low | | 229 | 169 |

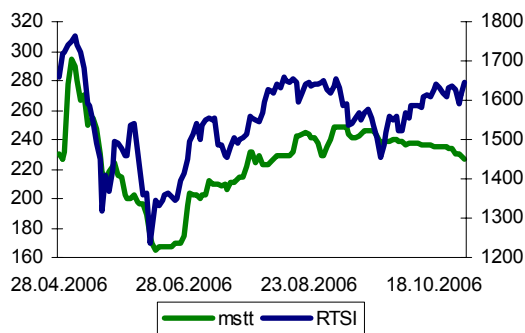
Shareholders

| | |
|----------------|------|
| SeverstalTrans | 50+% |
| Other | 50-% |

Financials

| US\$ mn | 2004 | 2005 | 2006E |
|--------------|------|------|-------|
| Sales | 344 | 470 | 517 |
| Gross profit | 46.5 | 65 | 72 |
| EBITDA | 38 | 46 | 62 |
| Net income | 9 | 13.4 | 5. |

MSTT market performance



• Earlier this week, representatives of Sovlink met with Mostotrest's new management. During an open dialogue, a number of significant questions were discussed concerning the company's current—and future—projects. The new management team, led by General Director Vladimir Vlasov, was installed by SeverstalTrans, and was largely responsible for the turnaround at Kolomna Diesel. This plant—previously owned by SeverstalTrans—is now a part of Transmashholding.

• We highlight the following points, which are significant for investors:

1. Management's 2006 revenue forecast coincides almost exactly with our previous anticipations. Mostotrest expects turnover of Rb 14 bn (\$524 mn), which is in line with our forecast of \$517 mn.

2. The company is in the process of reforms across its entire business—from the structure of raw material supply to bank accounts at its regional subsidiaries. Management expects a seasonal decrease of cashflow quality over the next six months, which is the reason why high profits are not expected.

3. Mostotrest's management confirmed that the company and Sistema-Hals (a subsidiary of AFK Sistema) are going to create a joint-venture. It is expected that the companies will jointly control more than half of the Moscow bridge and road construction market.

4. Management named raising the company's capitalization and transparency as strategic objectives.

5. The new management team has implemented a set of structural changes to cut expenses and improve the company's business. An example of these changes is the centralization of the company's raw materials supply system. Moreover, the company's regional branches will eliminate superfluous bank accounts.

• The most important item we can highlight is new management team's readiness to have a dialogue with investors, and placing an increase in capitalization and transparency as key tasks.

Source: RTS

- According to new management forecasts, net income will be \$0.5 mn in 9M06—compared to a net loss in 1H06—and we expect net profit could reach \$5 mn for the full-year. Management expects full-year revenues of 14 bn rubles (\$524 mn), which is in line with our forecast of \$517 mn.
- Considering the low level of income received by the company in 9M06, we revise previous annual net income forecast to \$5 mn, from a net loss. The company is in the process of internal modifications that concern a wide range of processes—from materials sourcing to bank accounts. Management expect a decrease in quality of cashflows during the next six

month, which is why high profits are not predicted. We do not have a clear net profit forecast, and believe that at the end of the year Mostotrest will post a small profit.

- Mostotrest's management expects turnover to rise to 20 bn rubles (\$749 mn) in 2007, suggesting 43% growth over 2006. The company is aiming for pre-tax profit of 2 bn rubles (\$74.9 mn) for the year.

- The Mostotrest-Sistema-Hals joint-venture could have synergies, as Sistema-Hals owns OOO Organizator, the general contractor for all large infrastructure construction in Moscow. Organizator is currently allocating contracts for the building of Krasnopresnensky Prospekt, where Mostotrest is one of the builders.

- Together with Sistema-Hals, Mostotrest intends to take part in one of the biggest Moscow projects—Moscow-City. Management also expects to work on the Moscow-St. Petersburg highway, the reconstruction of Leningradsky Prospekt in Moscow, and the ring road in St. Petersburg.

- Strategic tasks for Mostotrest's new management are raising the company's market capitalization and increasing its transparency. However, given the restructuring going on company-wide, we do not expect to see solid results from this before 6–12 months from you. The centralized purchasing system is one step in the restructuring which has already taken place. Management expects up to 50% of company's purchase to be centralized this year, and up to 70% in 2007. As a result, the company expects to save up to 15% on expenses. Also, the company is working on simplifying the banking system with its subsidiaries by allowing each regional subsidiary to have only one account at Sberbank, to make transfers between the parent company and its subsidiaries easier.

STOCK RATING POLICY

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

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