



# Suek-Kuzbass

**Flash  
Note****BUY****Upside: 82%  
Target price: \$0.41****Analyst: Igor Kraevsky**

kraevsky@sovlink.ru

**Stock data**

Ticker	skzb	M.Cap, \$ mn	787.4
Shares Ords	3,499,429,535	Free Float, %	4.5
Bid Ords, \$	0.22	Offer Ords, \$	0.23

**Key financials**

	2007E	2008E	2009E
Sales, \$ mn	352.0	449.8	582.4
EBITDA, \$ mn	123.2	160.6	212.2
Net profit, \$ mn	70.4	94.0	127.0
EBITDA margin, %	35.0%	35.7%	36.4%
Net income margin, %	20.0%	20.9%	21.8%

**Comparative multiples, 2007E**

	P/S	P/E	EV/EBITDA
Southern Kuzbass	2.57	60.28	18.89
Kuzbassrazrezugol	2.06	36.57	13.43
Developed Markets	2.81	23.75	8.82
Developing Markets	5.18	32.19	9.12
Russian Market	2.68	28.70	11.95
SUEK-Kuzbass	1.92	9.59	5.76

**Peer comparison, 2007E**

	Sales, \$ mn	Income, \$ mn
Southern Kuzbass	720.00	30.70
Kuzbassrazrezugol	1,072.52	60.39
SUEK-Kuzbass	351.97	70.39

Source: Company data, Sovlink estimates

## SUEK unlikely to enforce buy out

• In our last report we described the company' business and its development plans. Investors, interested in the company, are wary of the 95.5% stake of the majority shareholder (SUEK), which would enable it to squeeze out minority investors. In this context, we have studied the legal issues involved and have outlined them below.

• Chapter XI of the Federal Law N 208-Φ3 dated 26.12.1995 (updated as of 24.07.2007) on joint-stock companies states that the purchaser of more than 95% of a company's shares is obliged to purchase the remaining shares from minority shareholders (if the minority shareholders exercise their right to sell); alternatively, the purchaser also has the right to buy out the remaining shares. (In order to exercise its buy out right, the purchaser must submit an application (within 35 days of achieving the 95% threshold) stating that it has the right to buy out the remaining shareholders: on expiry of this 35 day period, the majority shareholder is entitled to exercise its buy out right within a period of 6 months.) Taking into consideration that the company was formed in May 2007, this term will not expire before January 2008. However, article 8 of section 84.2 of this law states that the requirements of this section are not applicable when shares are purchased during the formation or reorganisation of a public corporation. Therefore, SUEK is not legally entitled to enforce the minority shareholders to sell and vice versa.

• Nevertheless, the law can be circumvented, and the possible enforcement of a squeeze out by SUEK depends on its future plans and its desire to have friendly investor relations prior to a possible IPO in the near future.

• For minority investors, one of the ways in which SUEK can enforce a squeeze out is by selling and later buying back part of its stake from (indirectly) affiliated companies. In this way, the formal requirement of acquiring a majority stake of over 95% (partly through buying in the market) would be met, and the majority shareholder would have the right to squeeze out minority shareholders.

• After analysing the situation, we have concluded that SUEK is not likely to use such schemes and will develop a policy, which treats minority investors fairly. Accordingly, as we consider it unlikely that SUEK will exercise its right to buy out minority shareholders, we issue a **BUY** recommendation on SUEK-Kuzbass' ordinary shares and reiterate our target price of \$0.41, which offers potential upside of 82% to the current mid-market price of \$0.225.



**SOVLINK**

YOUR FIRST CALL – FOR THE SECOND TIER

October 24, 2007

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## STOCK RATING POLICY

<b>STRONG BUY:</b>	Upside over 25%; confidence level – high / upside over 100%; confidence level - low
<b>BUY:</b>	Upside between 15 and 25%; confidence level – high / upside between 25% and 100%; confidence level – low
<b>HOLD:</b>	Upside of less than 15%; confidence level – high / upside of less than 25%; confidence level – low
<b>SELL:</b>	Fair value at or below current price levels

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### SOVLINK LLC

**Tel.: +7 495 967 1300**

**Fax: +7 495 967 1311**

Kremlin Embankment 1, building 2,

Moscow 119019, Russia

[www.sovlink.ru](http://www.sovlink.ru)

[research@sovlink.ru](mailto:research@sovlink.ru)

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Tel.: +7 495 967 1300

Fax: +7 495 967 1311