Power Machines

Flash Note

Hold

Upside: 22%
Target Price: $0.245

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Stock data

Ticker	SILM	M.Cap, $ mn	1,715.7
Shares Ords	8,708,938,708	Free float	19.6%
Shares Prefs	-	Free float, $ mn	336.3
Bid Ords, $	0.197	Offer Ords, $	0.204

Market performance

		1 month	6 months
Absolute	Ords	0.53%	7.71%
Relative to RTSI	Ords	3.70%	-14.03%
Price range, $			
High	Ords	0.190	0.20
Low	Ords	0.177	0.163

Financials, 2007E

Revenue, $ mn	939.3	P/S	1.76
EBITDA, $ mn	62.1	EV/EBITDA	30.85
Net income, $ mn	-22.7	P/E	NEG.

Power Machines – Relative performance

Source: RTS

Recommendation under review

- Yesterday, UES announced that it intends to accept Highstat Ltd's offer to buy its 25% +1 share stake in Power Machines, at an offer price of 5.42 roubles ($ 0.33) per share. UES plans to conclude the deal in the near future. According to UES, Highstat Ltd is controlled by Alexei Mordashov.
- Earlier, Highstat had already bought a 30.4% stake in Power Machines from Interros. According to reports circulating in the media, the deal was priced close to Power Machines' market price – with Highstat paying about $470 mn for its 30.4% stake, or $0.177 per share.
- As a result of these two transactions, Alexei Mordashov will acquire a stake of over 55% in Power Machines. This will oblige the new majority owner to make an offer to the company's minority shareholders. According to Russian legislation, the offer price cannot be lower than the highest price paid by the new majority owner over the last six months. Therefore, we think that the mandatory offer will be made at a price of 5.42 roubles per share.
- This price is lower than our year-end target price. In our opinion, the entrance of a new strategic investor, interested in developing Power Machines' business, could have a positive effect on the company. However, at the moment, we do not have a clear idea of the new majority shareholder's strategy, which could differ from UES' strategy, and on which our financial model is based. Therefore, we change our recommendation on Power Machines from BUY to **HOLD,** but maintain our target price of $0.245, giving potential upside of 22% from the current price.

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STOCK RATING POLICY

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

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