



Flash Note

Elektrogaz

ELGZ: BUY

Target price: US \$1,317

New plans announced at its AGM

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| Stock data | | | |
|---------------|--------|-------------------|------|
| Ticker | ELGZ | M.Cap*, \$ mn | 42.6 |
| Shares Ords | 57,814 | Free Float, % | 10 |
| Shares Prefs | 19,272 | Free Float, \$ mn | 4.26 |
| Bid Ords, \$ | 650 | Offer Ords, \$ | 850 |
| Bid Prefs, \$ | 155.1 | Offer Prefs, \$ | 245 |

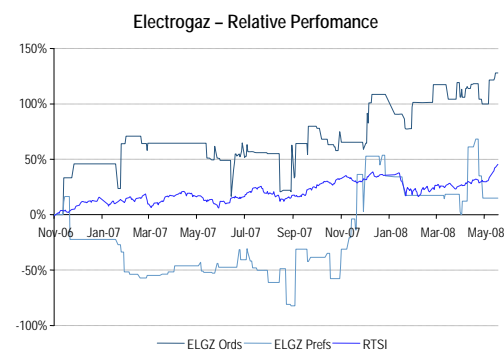
* Mid-market, as of 23.05.2008

| Market performance (ords) | | | |
|---------------------------|------|---------|----------|
| | | 1 month | 6 months |
| Absolute | Ords | 6% | 6.7% |
| Relative to RTSI | Ords | -7.2% | -2% |
| Price range, \$ | | | |
| High | Ords | 750 | 750 |
| Low | Ords | 705 | 500.5 |

| Market performance (prefs) | | | |
|----------------------------|------|---------|----------|
| | | 1 month | 6 months |
| Absolute | Ords | 8.4% | 9.8% |
| Relative to RTSI | Ords | -11.1% | -85.1% |
| Price range, \$ | | | |
| High | Ords | 375 | 375 |
| Low | Ords | 202.5 | 202.55 |

| Financials, 2007A | | | |
|-------------------|-------|------|-------|
| Assets, \$ mn | 64.61 | ROE | 23.0% |
| Book Value, \$ mn | 21.7 | P/E | 20 |
| Net income, \$ mn | 2.07 | P/BV | 2 |

| Financials, 2008E | | | |
|-------------------|-------|----------|-------|
| Assets, \$ mn | 72.54 | ROE | 14.9% |
| Book Value, \$ mn | 28.08 | P/E (x) | 10.83 |
| Net income, \$ mn | 4.18 | P/BV (x) | 1.61 |



Source: RTS, SOVLINK

- OJS Elektrogaz held its annual general meeting for shareholders in Krasnodar.
- The company announced revenues of RR3.065 mn for 2007, which is an increase of 22% growth vs. 2006 and beats our expectations by 6%. Its net profit grew by 11% to RR49.7 mn. However, production costs increased by 26% on a y-o-y basis, which resulted in a decline in the company's margins.
- In 2008, the company intends to increase its revenues by 27%, with the bulk of the new operations and revenues expected to be generated from the Southern Stream project. In our opinion, the announced forecasts are quite conservative since the company will obtain orders from its majority shareholder Gazprom in new sectors as early as this year, which could increase the company's turnover by 50%. A more detailed analysis of the company's report for 2007 and 1Q08 will be released later.
- During the annual general meeting, Gazprom's representatives reiterated their plans to establish a services holding company for the provision of repair and maintenance services to the Unified Gas Supply System (UGS). The new holding will be called LLC Gazprom Tsentremont. Elektrogaz, as well as a number of other services companies, will be part of the holding. It will take up to two years to establish the holding. This confirms our mid-term investment idea; namely, the purchase of Elektrogaz's shares will result in investors becoming shareholders in a larger maintenance company.
- We would like to draw your attention to the changes in Elektrogaz's status in the proposed holding. Whereas previously Elektrogaz was mainly treated as a subcontractor, under the proposed structure, Elektrogaz will become a general contractor for the provision of maintenance services to power facilities. In other words, Elektrogaz will be in a position to boost its revenues. At the same time, the expansion of operations will also result in the need to hire more employees and purchase new equipment required to fulfill orders, which, in turn, may pressurize the company's profit margins.
- This also supports our expectations that the company's production capacities may be utilized in related sectors. This year Gazprom could award Elektrogaz contracts worth RR1.5 bn in sectors that are new for the company, which would boost the company's revenues by 1.5 times.
- During the meeting, shareholders voted for the payment of dividends of RR3.5 per ordinary share and RR35 per preferred share for the 2007 financial year. Thus, the company's dividend payout ratio is 1.7%, and its dividend yield is close to 0.02% for ordinary shares and 0.6% for preferred shares as of the record date. The approved dividends will be paid out by December 31, 2008. We note the absence of positive changes in the company's dividend policy. However, this is typical for companies with high growth rates such as Elektrogaz.
- We continue coverage of Elektrogaz by reiterating our **BUY** recommendation on the stock. We estimate a target price per ordinary share of \$1,317 over the next 12 months and a target price of \$579 per preferred share.

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SOVLINK

YOUR FIRST CALL – FOR THE SECOND TIER

May 23, 2008

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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