

MARKET OVERVIEW

Russian stocks crept on up last week despite a 4% fall by the Dow Jones and an 8% fall in Shanghai. The RTS Index finished the week at 2262 points, 1.5% higher w-o-w. Investors set a new record just above 2300 points at the opening on Friday, but then decided to take profits before the weekend.

Oil prices are, of course, a major factor. Oil futures reached \$96 a barrel in New York last week and we would expect to see some correction on the RTS due to profit taking if prices move on to \$100. A modest retreat on the RTS may not be a bad thing, since it will create extra potential for a New Year rally on further speculation over Vladimir Putin's successor (see our Politics Report, due in the next few days).

Gazprom was the star stock and driving force on the market last week. The gas giant added 6.5% thanks to a combination of factors: high oil prices (which have longer-term impact for Gazprom than for oil companies, and benefit it more due to lower tax rates); agreement with Dutch Gazunie over the Nord Stream pipeline; more assurances of domestic price rises; and the prospect of listing in Shanghai. Other oil & gas stocks had varied fortunes: Rosneft rose 4%, but Tatneft and Lukoil were only 0.3% and 0.1% higher respectively.

Electricity distributors were cherry-picked after UES announced conversions ratios for creation of MRSKs (inter-regional distributors), including a 12.4% gain for Sverdlovennergo. However, UES stagnated again, dropping 0.8%.

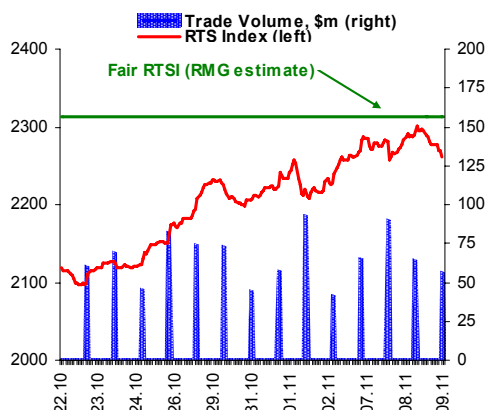
There was strength in the precious and non-ferrous metal sectors: Polymetal rose 13.4% on gold and silver price highs, while Norilsk added 5.1%. Among steel companies, Magnitogorsk fell back 6.3% following its 8% gain a week earlier.

Other points of interest were a 6.9% gain by Seventh Continent (disappointment about non-sale to TGP capital apparently offset by redivision between existing shareholders), and rises of 8.9% by the mobile company MTS and fertilizer giant, Silvinit. Regional telecoms took front stage once more for their (roughly) quarterly price jump, now something of a tradition on the RTS. Volga and Siberia Telecom did best, adding 12.1% and 11%, respectively.

TOP NEWS

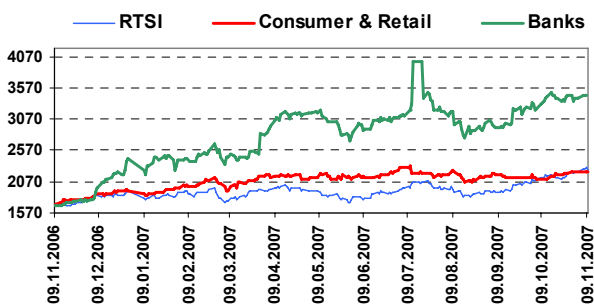
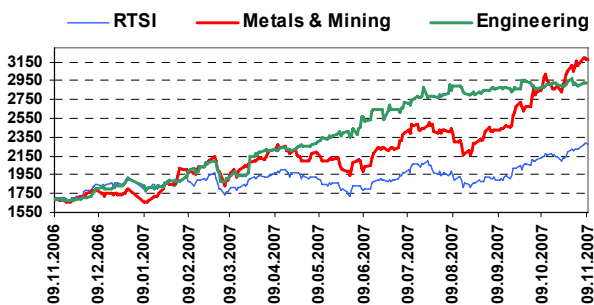
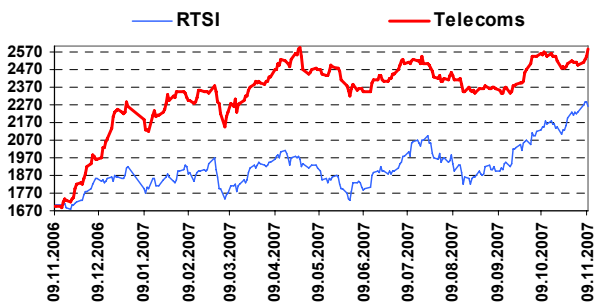
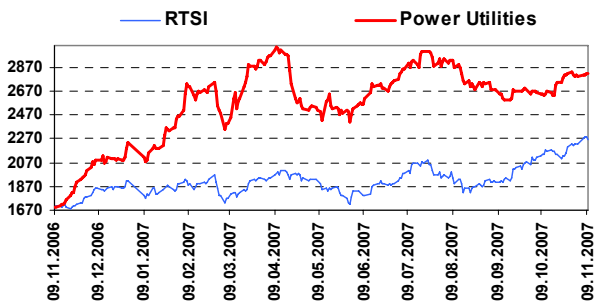
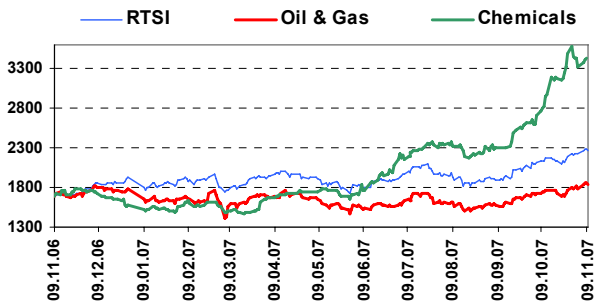
- ✓ GAZ Group completed re-location of management from Moscow to Nizhny Novgorod, where the Group's main industrial site is located. Main gains from the staff reorganization will be linked to ongoing creation of United Engineering Center in Nizhny Novgorod (in assistance with the Canadian components giant, Magna) and launch of the Toyota Production System (TPS) by GAZ. We see the latest news as slightly positive for GAZ Group shares. We are still bullish on GAZ Group and recommend to BUY the shares.
- ✓ Magnit showed impressive unaudited financial results for 9M 2007. Net sales increased by 48% y-o-y, gross profit grew by 60%, while EBITDA showed outstanding 76% rise. The financials are a little worse than our expectations, but we keep our FY estimates unchanged and also keep BUY recommendation for the stocks.
- ✓ Pharmacy chain 36.6 showed strong preliminary figures for sales and business operations in 9M 2007, but less good than in the first half of the year. Pharmacy business is seasonal with a traditional surge in the last quarter and we expect the company to acquire and open a large number of stores by the end of the year, meeting its year-end targets. We find Pharmacy chain 36.6 attractive and keep our BUY recommendation for its shares.

RTS STATISTICS (CLASSIC MARKET)



	Volumes, \$	MC, '\$000'	% of MC	-1W	-1M	-1Y
Oil & Gas	98 545 237	614 225 768	49.3%	4.8%	9.7%	13.7%
Power Utilities	67 235 629	156 994 627	12.6%	1.7%	5.9%	92.4%
Metals & Mining	35 280 355	167 038 114	13.4%	2.3%	8.9%	86.3%
Banks	30 840 225	141 752 687	11.4%	1.5%	3.0%	150.7%
Telecoms	20 455 681	57 408 196	4.6%	6.6%	10.3%	22.9%
Consumer & Retail	9 895 723	25 818 258	2.1%	0.6%	7.0%	46.6%
Chemicals	3 103 127	20 643 789	1.7%	3.8%	24.9%	94.2%
Others	1 566 504	41 036 198	3.3%	21.0%	63.4%	1 833.3%
Transportation	625 872	8 457 899	0.7%	-2.0%	12.2%	138.9%
Engineering	571 016	12 910 720	1.0%	0.5%	0.9%	61.7%
Total	268 119 370	1 246 403 228	100.0%	2.8%	8.3%	43.4%

SECTOR INDEXES VS. RTSI (1Y)



SECTOR WINNERS (WoW)

Silvinit com	8.9%
Gazprom com	6.5%
Rosneft com	4.0%
Uralkaly com	3.8%
Transneft pref	3.7%
Acron com	3.1%

Ivanovo el. sales com	38.2%
Permenergo pref	23.5%
Yarenergo com	16.3%
Sverdlovenrgo com	12.4%
Krasnoyarsk HPS com	10.1%
Sverdlovenrgo pref	8.8%

Central Telegraf pref	25.5%
Volga Telecom com	12.1%
Siberia Telecom com	11.0%
MTS com	8.9%
South Telecom com	8.8%
Siberia Telecom pref	7.3%

Korshunovsk. GOK com	16.8%
Polimetall com	13.4%
NeFaz com	10.0%
Chelyabinsk Metal. com	9.2%
ZMZ com	5.3%
GMK Norilsk Nickel com	5.1%

Seventh Continent com	6.9%
Vozrozhdeniye com	6.6%
Red October pref	5.8%
Magnit com	4.3%
Kalina com	2.4%
36.6 com	2.1%

SECTOR LOSERS (WoW)

Yukos com	-10.3%
Surgutneftegaz com	-2.7%
Nizhnekamskshina com	-2.7%
Surgutneftegaz pref	-1.8%
-	-
-	-

Nizhnovenergo com	-5.6%
Volgogradenergo com	-5.6%
Yarenergo pref	-5.3%
Chelyab. el. sales com	-3.8%
Volgogradenergo pref	-3.7%
TGK-5 com	-2.0%

Center Telecom pref	-1.4%
Dalsvyaz pref	-1.3%
Rostelecom com	-1.2%
-	-
-	-
-	-

Magnitogorsk ISW com	-6.3%
Severstal com	-1.9%
TMK com	-1.8%
Polyus Gold	-1.5%
GAZ pref	-0.9%
GAZ com	-0.8%

Razguliay Group com	-3.3%
Uralsib Bank com	-1.7%
Pharmstandard com	-1.7%
URSA Bank pref	-1.3%
VTB com	-0.3%
Lebedyansky com	-0.1%

Note: winners and losers refer only to the RTS-Classic market

Stocks	Value	-1W	-1M	-3M	-1Y
National					
RTS	2 262.1	1.5%	5.5%	19.2%	33.6%
Fair RTS (RMG estimate)	2 312.0				
MICEX	1 891.3	0.6%	4.0%	15.0%	25.8%
Europe					
FTSE 100	6 304.9	-3.5%	-4.9%	4.4%	1.2%
Xetra DAX 100	7 812.4	-0.5%	-2.2%	6.4%	22.9%
CAC 40	5 524.2	-3.4%	-5.4%	1.4%	1.4%
Asia Pacific & Australia					
ASX 100	5 284.6	-2.3%	-3.2%	10.6%	20.2%
Hang Seng	28 783.4	-5.5%	0.7%	32.1%	51.9%
Nikkei 225	15 583.4	-5.7%	-9.3%	-7.0%	-3.8%
SENSEX	18 907.6	-5.3%	1.3%	27.2%	43.9%
Middle East					
ISE National 100	53 689.1	-5.6%	-6.5%	9.2%	34.6%
Americas					
DJ Industrial	13 042.7	-4.1%	-7.4%	-1.5%	7.8%
S&P 500	1 453.7	-3.7%	-7.0%	0.0%	5.5%
NASDAQ	2 627.9	-6.5%	-6.5%	3.3%	10.6%
BOVESPA	64 320.6	0.4%	1.8%	22.2%	57.6%
MERVAL	2 314.2	-0.3%	1.6%	12.7%	22.2%
MSCI Indices					
Russia	1 487.2	2.8%	8.2%	24.6%	30.4%
EM Europe	796.3	0.5%	5.0%	21.8%	35.6%
EM Asia	533.4	-4.2%	-1.5%	22.0%	55.5%
EM Latin America	4 455.0	-0.9%	0.9%	25.3%	62.0%
EM World	1 278.0	-2.5%	0.5%	22.5%	51.8%
World	1 598.1	-3.0%	-4.3%	4.4%	11.9%
Commodities					
	Value	-1W, %	-1M, %	-3M, %	-1Y, %
Brent (ICE futures), \$/b	93.2	1.2%	18.5%	32.4%	52.0%
Urals (MDT spot), \$/b	91.2	1.8%	20.1%	33.0%	60.3%
Gold (LME spot), \$/oz	832.0	3.1%	12.3%	23.7%	31.4%
Silver (LME spot), \$/oz	15.5	5.7%	14.1%	20.4%	18.7%
Platinum (LME spot), \$/oz	1 433.0	-1.8%	3.4%	12.4%	18.9%
Palladium (LME spot), \$/oz	373.0	-0.5%	-0.3%	4.9%	10.5%
Aluminum (LME spot), \$/mt	2 563.0	-0.4%	6.2%	1.2%	-9.3%
Copper (LME spot), \$/mt	7 000.5	-5.9%	-15.0%	-7.8%	-4.2%
Lead (LME spot), \$/mt	3 574.0	-5.1%	-10.4%	19.8%	103.9%
Nickel (LME spot), \$/mt	33 510.0	5.3%	7.6%	27.1%	8.8%
Tin (LME spot), \$/mt	16 785.0	2.6%	5.7%	6.5%	67.4%
Zinc (LME spot), \$/mt	2 742.0	-1.2%	-10.7%	-19.0%	-40.0%
Steel HR Europe (spot), \$/mt	587.5	0.0%	0.0%	-0.4%	16.3%
Steel CR Europe (spot), \$/mt	635.0	0.0%	0.0%	-3.8%	9.5%
Currencies					
	Value	-1W, %	-1M, %	-3M, %	-1Y, %
RUB/USD (spot)	24.5	-0.7%	-2.0%	-3.9%	-8.2%
RUB/EUR (spot)	35.9	0.5%	1.7%	3.0%	5.0%
EUR/USD (spot)	1.5	1.2%	3.8%	7.2%	14.4%
GBP/USD (spot)	2.1	0.0%	2.3%	3.3%	9.7%
USD/JPY (spot)	110.7	-3.6%	-5.6%	-6.5%	-6.1%
Bonds					
	Value	-1W	-1M	-3M	-1Y
US Treasuries 10 YTM, %	4.0	4.2	4.5	4.8	4.6
US Treasuries 30 YTM, %	4.6	4.6	4.9	5.0	4.7
Russia 10 YTM, %	6.3	6.4	6.4	6.8	6.6
Russia 30 YTM, %	5.6	5.7	5.8	6.0	5.7
EMBI+	428.4	-1.0%	0.5%	4.6%	6.9%

Source: Bloomberg, RMG estimates

Russian Economy	Value	Date	-1Y
Money & Banking			
RTS total MCap, \$b	1 246.4	12.11.07	869.2
M0, \$b	129.6	Sept 07	89.6
M2, \$b	462.4	Sept 07	289.3
CBR refinancing rate, %	10.0	12.11.07	11.0
One-day MIACR, %	6.2	12.11.07	-
Cash of banks at the CBR, Rb	572.3	12.11.07	338.8
CBR reserves, \$b	447.9	02.11.07	267.3
GDP & Investments			
GDP chng (YoY), %	6.7	FY06	6.4
Fixed investments, \$b	13.3	Mar 07	9.0
Foreign investments, \$b	60.3	2Q07	23.4
- FDI, \$b	15.8	2Q07	6.4
Foreign Trade (monthly)			
Exports, \$b	29.9	Sept 07	25.8
Imports, \$b	18.7	Sept 07	14.6
Trade balance, \$b	11.2	Sept 07	11.2
Budget & Debt			
Stabilization Fund, \$b	148.0	Oct 07	76.7
CBR foreign debt, \$b	384.8	2Q07	288.8
FM foreign debt, \$b	47.1	3Q07	50.1
Budget revenues, \$b	204.5	Sept 07	170.1
Budget expenditures, \$b	140.1	Sept 07	107.2
Budget balance, \$b	64.4	Sept 07	62.9
Inflation			
CPI (YTD), %	9.3	Oct 07	7.5
- food (MoM)	3.3	Oct 07	0.0
- non-food (MoM)	0.9	Oct 07	0.6
- services (MoM)	0.1	Oct 07	0.4
PPI (YTD), %	9.3	Sept 07	9.9
- mining (MoM)	-2.6	Sept 07	2.9
- manufacturing (MoM)	0.1	Sept 07	1.0
- utilities (MoM)	0.3	Sept 07	0.3
Russia Credit Ratings			
Standard & Poors	BBB+	04.09.06	15.12.05
Fitch	BBB+	25.07.06	03.08.05
Moody's	Baa2	26.10.05	24.05.06
US Economy			
	Value	Date	-1Y
M2, \$b	7 427.1	29.10.07	6 949.4
GDP chng (YoY), %	3.9	3Q07	1.1
Debt / GDP, %	65.4	08.11.07	64.9
IPI (MoM), %	0.1	Sept 07	-0.3
Trade balance, \$b	-56.5	Sept 07	-64.1
Budget balance, \$b	111.6	Sept 07	56.2
Current Account balance, \$b	-190.8	2Q07	-205.6
CPI (MoM), %	0.3	Sept 07	-0.5
PPI (MoM), %	1.1	Sept 07	-1.1
Michigan Index of Confidence	91.0	Nov 07	106.0
Leading Composite Indicator	137.9	Sept 07	137.6
ISM Manufacturing	50.9	Oct 07	51.5
Major Foreign Bank Rates			
	Value	Date	-1Y
USA, %	4.50	09.11.07	5.25
United Kingdom, %	5.75	09.11.07	5.00
European Community, %	4.00	09.11.07	3.25
Japan, %	0.50	12.11.07	0.25

MACROECONOMICS
by Sergei Perminov
In one line

- Russian inflation was 1.6% m-o-m in October and 0.2% w-o-w in the first week of November; the October data are higher than forecast, but the result for the November offers hope of a slow-down
- The U.S. dollar dropped to a new historic low against the euro (about \$1.475 per euro) and an 8-year low against the ruble (about R24.4); we see dollar depreciation as generally positive for the Russian economy due to lower interest payments by Russian companies on dollar-denominated debt and higher prices for dollar-denominated goods (like oil); however, a serious U.S. recession will hit economic growth worldwide, including Russia

OIL & GAS
by Alexander Sidorov
In one line

- Gazprom (*RTS: GAZP: \$13.56 BUY*) will consider a public offering of its shares on the Shanghai stock exchange; no other Russian companies are quoted in Shanghai at present

POWER UTILITIES
by Alexei Minaev, Petr Oparin
In one line

- The head of Enel, Fulvio Conti, said on November 8 that the company may make an offer to minorities of OGK-5 (*RTS: OGKE: \$0.129 HOLD*) this week; the offer price will be not lower than R4.43 (\$0.181) per share (the highest bid by Enel over the last six months); after the offer Enel may increase its stake in OGK-5 to 73.7%; the government will not sell its stake
- Lenenergo (*RTS: LSNG: \$1.712 HOLD; LSNP: \$1.541 HOLD*) will place a new issue in favor of the Petersburg government on November 14; the issue size is equal to 23.4% of enlarged capital (240 million common shares); the placement price is R37.44 (\$1.53), which implies 18% discount to the market; the city government will thus consolidate a blocking stake in the distributor; UES (*RTS: EESR: \$1.630 BUY; EESRP: \$1.465 BUY*) and VTB (*LSE: VTBR: \$11.0 BUY*) stakes will reduce to 44.5% and 21.6% respectively

TELECOMS
by Viktor Chizhov
In one line

- Uralsvyazinform (*RTS: URSI: \$0.074 HOLD; URSIP: \$0.049 BUY*) published 3Q07 RAS results; revenues rose by 24% y-o-y to \$1.1b, EBITDA rose by 31% y-o-y to \$401m and net income rose by 44% y-o-y to \$131m; EBITDA margin rose to 36% from 34% and net margin rose to 12% from 10%; the positive results are due to increase of fixed-line tariffs and growth of mobile and fixed-line subscribers by 9.8% and 0.4% respectively
- Vimpelcom (*NYSE: VIP: \$26.48 HOLD*) has been taken to court in Armenia by a local computer company, which trades under the trademark "Beeline" (Vimpelcom's Russian trademark, which it is using for business development of the recently purchased Armenian mobile asset, Armentel); the Russian company may well lose the case, and be forced to buy rights to the trademark from the local company
- RBC (*RTS: RBCI: \$8.1 HOLD*) published 3Q07 IFRS results; revenues rose by 77% y-o-y to \$125.3m, which is approximately equal to our estimate

Golden Telecom (SELL) publishes 3Q07 GAAP results: positive

Golden Telecom (*NASD: GLDN: \$60.13 SELL*), the leading provider of integrated telecommunication and Internet services in Russia and the CIS, published positive 3Q07 GAAP results. Revenues rose by 50% to \$903m, while operating costs rose by 55% to \$781m. The company showed 24% growth of operating income, 30% growth of EBITDA and 86% growth of net income. Net margin rose to 14% from 11%.

The company attributes the positive results to full consolidation of Corbina Telecom results in 3Q07, sale of a minority stake in MCT (a mobile operator with business in Uzbekistan, Tajikistan and Afghanistan) and receipt of \$20m from Rostelecom as payment for newly issued shares of Golden Telecom.

The company added more than 254 900 residential broadband customers in the first 10 months of 2007, and estimates its current share of the Russian LD market in excess of 25%.

Golden Telecom cons. 9M 2007 P&L (GAAP)

	9M07, \$m	9M06, \$m	Change, %
Revenues	903.8	603.8	50%
Operating costs	781.0	505.0	55%
Operating income	122.8	98.8	24%
- Operating margin	14%	16%	
EBITDA	223.1	171.8	30%
- EBITDA margin	25%	28%	
Income before tax and minorities	174.0	102.2	70%
Income tax	44.4	31.8	40%
- Effective tax rate	26%	31%	
Minority interest	6.2	4.0	55%
Net income	123.4	66.4	86%
- Net margin	14%	11%	

Source: Company data, RMG estimates

METALS & MINING

by Ilya Frolov

In one line

- Norilsk Nickel (*RTS: GMKN: \$316 HOLD*) said that treasury shares representing 3.9% of share capital (bought back in the last year) will be sold; we expect the shares to be taken by Vladimir Potanin ahead of an ownership reorganization, which will leave Potanin as the sole main owner of the company while his former business associate, Mikhail Prokhorov, sells his holding; market value of the 3.9% stake is nearly \$2.5b and Norilsk will use money raised from its sale to repay debts

- Izhora Pipe Plant (*RTS: N/L*), Severstal (*RTS: CHMF: \$25.7 HOLD*)'s pipe rolling facility, certificated its output to the European Det Norske Veritas (DNV) quality standard; the certification will open the way for Severstal to take part in tenders for large-diameter pipes deliveries to the underwater section of the Nord Stream pipeline and other projects

Severstal (HOLD) clinches Celtic deal: positive

Severstal (*RTS: CHMF: \$25.7 HOLD*) is expected to secure control of Celtic Resources (*LSE: CER: N/R*), the Irish-registered gold mining company with interests in Russia and Kazakhstan, after the Celtic BoD recommended shareholders to accept the latest offer from Severstal last Friday.

The steel company will reportedly pay 2.8 pounds sterling per share valuing the whole of Celtic at 162 million pounds (about \$340m). Severstal already owns 29.5% of the Irish company.

Celtic mines gold and semi-precious metals at several sites in Kazakhstan and Russia. Gold output in 2006 was 1.93 tons.

It was also announced last week that Celtic will sell a 70% stake in the Tominskoye gold and copper deposit to Russian Copper Company (*RTS: N/L*). The point is apparently to focus on gold extraction, selling non-core assets (Tominskoye is mainly a copper deposit).

VSMPO-Avisma (HOLD) and Silvinit (HOLD) create JV: positive

VSMPO-Avisma (*RTS: VSMO: \$319 HOLD*) is setting up a JV with the potash company, Silvinit (*RTS: SILV: \$488 HOLD*), for extraction and processing of carnallite (a mineral, which is an essential part of the titanium production process). The new company plans to extract ore at the Polovodsky area of Silvinit's Verkhnekamskoye deposit and build an enrichment plant there with 500 000 tons annual capacity. Cost of the project is estimated at \$1.5b.

This is a good news for both companies. Silvit previously sought a license for development of Povolodsky, but an official decision was delayed until August, when the government said that an open tender will be held by the end of this year. Ownership of VSMPO by Kremlin-backed Rosoboronexport should ensure that the new JV wins the tender.

The carnallite JV will help VSMPO-Avisma towards self-sufficiency in raw materials for titanium production, reducing costs and reassuring VSMPO customers. VSMPO is expected to take a controlling stake in the new company.

However, we think that solution by VSMPO-Avisma of its raw material problems is priced in and we recommend to HOLD company shares with fair price of \$319.

Magnitogorsk Steel (HOLD) seeking cheap metal scrap: neutral

Magnitogorsk Steel (*RTS: MAGN: \$1.45 HOLD*) could reduce its steel scrap costs thanks to creation of a JV between its main scrap supplier and the special steel maker, Russpetsstal (*RTS: N/L*), to develop scrap procurement networks in southern Russia.

The supplier, a company called Profit (*RTS: N/L*), is owned by Sergei Rashnikov, younger brother of the MMK owner, Viktor Rashnikov. The main owner of Russpetstal is Rosoboronexport, the state-owned arms exporter which has recently bought several machine-building and steel assets with Kremlin backing. Profit currently provides 98% of Magnitogorsk Steel's scrap needs.

MMK spent \$543m on scrap purchases in the first half of 2007 and consumes about 4 million tons of scrap annually. These volumes are expected to increase in the future.

We keep our HOLD recommendation for Magnitogorsk Steel with fair price of \$1.45 per share for end-2008.

ENGINEERING

by Ilya Frolov

In one line

- Power Machines (*RTS: SILM: \$0.17 HOLD*) announced appointment of new directors for finance and for strategy, both men previously occupied senior positions at Severstal (*RTS: CHMF: \$25.7 HOLD*), which bought at 30.42% of Power Machines from Vladimir Potanin's Interros at the start of October; a Severstal representative has already been appointed to the CEO position; Severstal has an agreement with Siemens (25% stake in Power Machines), by which the German firm will be responsible for technical management at the engineering company

GAZ Group (BUY) reorganizes management: slightly positive

GAZ Group (*RTS: GAZA: \$240 BUY; GAZAP: \$176 BUY*) completed re-location of management from Moscow to Nizhny Novgorod, where the Group's main industrial site is located. The number of managers has been reduced from 800 at the start of the year to 200 at present, most of whom will now work in Nizhny.

GAZ says that SG&A expenses will drop by 40% in 2007 due to the staff reduction, disposal of office space in Moscow, etc., but we think that reduction of expenses will be less significant due to wage increases (by 20-30% on average), severance costs, travel costs to and from Nizhny for staff living in Moscow, etc.

Main gains from the staff reorganization will be linked to ongoing creation of United Engineering Center in Nizhny Novgorod (in assistance with the Canadian components giant, Magna) and launch of the Toyota Production System (TPS) by GAZ.

We see the latest news as slightly positive for GAZ Group shares, since it confirms efforts to boost operating profit in coming years. We are still bullish on GAZ Group and recommend to BUY the shares with fair price of \$240 per common and \$176 per pref.

CONSUMER & RETAIL

by Maxim Isaev

In one line

- Sinergia (*RTS: N/L*), a Russian producer of alcoholic drinks, set a price range of \$61-72 per share for its forthcoming IPO and said that 2.72m share will be placed (representing 19% increase of share capital); company capitalization should thus rise from \$875m to about \$1.03b

- Alexander Zanodvorov bought out his business partner Vladimir Gruzdev to take control of Seventh Continent (*RTS: SCON: \$32.7 BUY*); Zanodvorov now owns 100% of 7K-Investholding, which owns 74.8% of the retail chain; this suggests that negotiations on sale of the business to TPG Capital have indeed broken down, which is negative for Seventh Continent

- X5 Retail Group (*LSE: FIVE: \$36.0 HOLD*) is completing preparations for multi-format expansion in Ukraine; the program should be approved by the end of the year

- Razgulay (*RTS: GRAZ: \$6.6 BUY*) set a placement price of \$5 per share for its SPO and should thus raise \$70m (14m shares are to be placed); the price is a little below the market and thus represents a good opportunity for investors to enter the Russian agro-industry sector

Magnit (BUY) shows strong 9M 2007 financial results: neutral

Magnit (*RTS: MGNT: \$56.756 BUY*), one of the Russian grocery retail leaders, showed impressive unaudited financial results for 9M 2007. Net sales increased by 48.3% y-o-y from \$1734m to \$2572m, gross profit grew by 59.9% y-o-y to \$496.4m, while EBITDA showed outstanding 76.4% growth to \$134.6m. Net income in 9M 2007 was 42.2% higher y-o-y at \$60.0m.

Stores opened before September 1, 2005, drove rapid net sales growth. Like-for-Like revenue growth was 14.4% in rubles and 21% in US dollar terms.

Magnit key financial results in 9M 2007

	9M 2007, \$m	9M 2006, \$m	Growth, %
Net sales	2 572.0	1 734.0	48.3%
Gross profit	496.4	310.4	59.9%
- Gross margin	19.3%	17.9%	
EBITDA	134.6	76.3	76.4%
- EBITDA margin	5.2%	4.4%	
Net income	60.0	42.2	42.2%
- Net margin	2.3%	2.4%	

Source: Company data, RMG estimates

Magnit also improved most margins. Gross margin rose by 1.4 p.p. y-o-y to 19.3% and EBITDA margin increased by 0.8 p.p. to stand at 5.2%. Net margin lowered slightly (by 0.1 p.p.) and stood at 2.3%.

Though the financials posted by the company are a little worse than our expectations, strong positions on the market, advanced logistic system, promising hypermarket format and increase in ownership of stores are encouraging. Sustained revenue growth pace and margin improvements give us confidence in company prospects.

We expect the company to bring total discounter store numbers to 2193 by the end of the year (currently 2066) and to open 8 hypermarkets (only 1 hypermarket is open to date), which together should push revenue to \$3.8b. We also keep our 2007 FY gross and EBITDA margin forecasts unchanged at 18.3% and 5.5%.

We keep our BUY recommendation for Magnit stocks.

Lebedyansky (HOLD) publishes financial results for 1H 2007: neutral

Lebedyansky (*RTS: LEKZ: \$86.96 HOLD*), the leading Russian juice manufacturer and one of the largest baby food producers, published IFRS financials for 9M 2007. Sales grew by 34.7% y-o-y from \$519.7m to \$699.9m and gross profit increased by 34.1% to \$295.9m. However, EBITDA and operating income rose by only 13.8% and 4.1% y-o-y to \$125.5m and \$103.1m respectively, while 9M 2007 net income was even 5.6% lower than in 9M 2006 at \$69.0m.

Revenue growth was mainly driven by regional expansion of the distribution system, direct delivery development and efficient marketing and pricing policies. However, revenue increase is not as good as it appears: the consolidated net revenue figure includes results of Troya-Ultra (acquired in November 2006), which contributed \$38.5m to the figure. Excluding Troya-Ultra, Lebedyansky 9M 2007 net revenues were only 27% y-o-y higher at \$661.4m.

The company showed steady growth of volumes and prices in every business division (juices, baby food and mineral water). There was particularly rapid growth in the mineral water segment, where revenue rose by 154.7% y-o-y. But major increase of prices for fruit concentrate boosted cost of sales despite cost of sales reduction in the

baby food and mineral water segments, leading to overall gross margin decline from 42.5% to 42.3%. Purchase of Troya-Ultra put further pressure on gross margin as Troya-Ultra manufactures mainly low-end products.

Lebedyansky key financial results in 9M 2007

	9M 2007, \$m	9M 2006, \$m	Growth, %
Sales	699.9	519.8	34.7%
Juices	597.2	449.4	32.9%
Baby food	89.2	65.1	37.0%
Mineral water	13.5	5.3	154.7%
Gross profit	295.9	220.7	34.1%
- Gross margin	42.3%	42.5%	
Selling and distribution expenses	147.9	93.1	58.9%
General and administrative expenses	43.7	28.9	51.2%
Operating income	103.1	99.0	4.1%
- Operating margin	14.7%	19.1%	
Net income	69.0	73.1	-5.6%
- Net margin	9.0%	14.1%	
EBITDA	125.5	110.3	13.8%
- EBITDA margin	17.9%	21.2%	

Source: Company data, RMG estimates

Slow progress of operating income was due to substantial increase in transport expenses (2 p.p. more as share of net revenues versus 9M 2006) and storage charges (1 p.p. more as share of net revenues versus 9M 2006) as well as rapid wage growth (0.7% p.p. more as share of net revenues versus 9M 2006). Freight and delivery costs per liter produced rose by 42% due to 34% transport tariff inflation and 5.3% ruble appreciation. Warehousing costs per liter grew by 58% mainly due to 11% seasonal increase in leased warehouse capacity, abnormal obsolete finished-goods write-offs of 14% caused by shortage of storage capacity, warehousing service inflation of 16% and ruble appreciation.

These factors pushed SG&A expenses by over 57% and knocked almost 4.5 p.p. off operating margin and 3.3 p.p. off EBITDA margin. Finally, high interest expenses due to sizable borrowings led to net income decrease: net margin dropped by over 5 p.p.

The results are of mixed quality, but in line with our expectations overall. We think that tough competition on the juice market will impede rapid development in the future and force the company to seek ways of diversifying the business. Higher costs for raw materials, wage inflation and new transport regulations, imposed by government, will also be a problem.

We expect growth rates to slow down and keep our HOLD recommendation for Lebedyansky stocks.

FINANCIALS

by Sergei Perminov

In one line

- Preferred shares of Sberbank (*RTS: SBER: \$4.9 BUY; SBERP: \$3.7 BUY*) will be included in the MSCI index from November, 30; we see the news as very positive, though expected
- VTB (*LSE, RTS: VTBR: \$11.0 BUY*) plans to sell its 5% stake in EADS to United Aircraft Corporation (*RTS: N/L*) on favorable terms; we see this as positive for VTB, because the EADS stake is a doubtful investment for the bank in view of low diversification of the VTB shares portfolio and unclear prospects for EADS

CHEMICALS

by Victor Chizhov

In one line

- Metafrax (*RTS: MEFR: \$1.5 HOLD*) agreed with Gazprom (*RTS: GAZP: \$13.56 HOLD*) on restoration of natural gas supplies as required levels from November 2007

- Lukoil (*RTS: LKOH: \$94.6 HOLD*) set up a JV with Madura Holding Limited, main shareholder of the potash fertilizer giant Uralkaliy (*RTS: URKA: U/R*); the JV, Kama-oil (*RTS: N/L*), will bid in competitions for oil field development rights in Perm region, to be held early next year; the fields overlap with major potash deposits, explaining Uralkaliy's interest

PHARMACEUTICALS
by Maxim Isaev
In one line

- Pharmacy chain 36.6 (*RTS: APTK: \$112 BUY*) completed SPO placement of 1.5m new shares (3.17% of which were bought via priority purchase rights) and raised \$109m

Pharmacy chain 36.6 (BUY) shows healthy 9M 2007 preliminary results: neutral

Pharmacy chain 36.6 (*RTS: APTK: \$112 BUY*), the health and beauty retailer, showed good preliminary figures for sales and business operations in 9M 2007. Consolidated sales in 9M 2007 grew by 70.6% y-o-y to \$592.0m.

This figure is the sum of net sales by pharmacies (\$458.8m), the generic manufacturing subsidiary Veropharm (*RTS: VRPH: \$55.0 HOLD*) (\$92.9m), and European Medical Center (*RTS: N/L*) (\$18.7m), as well as \$21.6m from non-core operations. The retail segment showed strongest growth – by 81.6% y-o-y – due to aggressive acquisition of regional chains, while Veropharm net sales increased by 31.4% and EMC revenue rose 20.6%.

Pharmacy chain 36.6 net sales structure, \$m

	Consolidated	Retail	Veropharm	EMC
9M 2007	592.0	458.8	92.9	18.7
9M 2006	346.9	252.6	70.7	15.5
Change y-o-y, %	70.6%	81.6%	31.4%	20.6%

Source: Company data

Organic growth in 3Q 2007 added 32 pharmacies. 36.6 also acquired 9 regional chains (Zem Pharm, ACN, Sigma, IKA Firm, Donlav, ALS, Companion, Ekoros Pharm and Nasha Apteka), consisting of total 120 drugstores, rebranded 20 drug stores and closed 16 outlets for efficiency reasons. Acquisition of Companion, Nasha Apteka and CAN gives the company access to three new regions in Central Russia: Stavropol, Vladimir and Ivanovo. At the end of 9M 2007 the company was operating 1090 drug stores in 29 regions around Russia.

Also in the third quarter 36.6 opened its sixth ELC (Early Learning Center). ELC is a chain of retail stores, designed and implemented by 36.6, offering a range of educational toys and other products for children in Moscow.

36.6 retail outlets

Region	Number of pharmacies	Share in sales	Average trade space, sq. m
Moscow	374	44.5%	73.8
Urals	360	26.7%	53.7
South	158	13.9%	37.3
Volga	132	9.9%	58.3
North-West	32	2.9%	69.6
Western Siberia	34	2.2%	44.8
Total	1090		60.1

Source: Company data

The fast geographical expansion further reduced average trading space of outlets by 11.6% y-o-y to 60.1 sq. m. Also, the share of regional outlets in sales decreased in comparison with 1H 2007 results: Moscow pharmacies now bring 54.7% of total retail sales (up from 45.7% in the first half), while outlets in the regions account for only 45.3% (54.3% in the first half).

Trading results were good: number of purchases increased by 59% y-o-y to 68.7m, average ticket at pharmacies operating more than a year rose by 30.3% to \$8.4, and Like-for-Like revenues per square meter of trading area were up by 29.8% y-o-y to \$8100.

Pharmacy chain 36.6 operational results according to opening/acquisition date

	Number of pharmacies	Share in sales	Average ticket, \$
Opened/acquired before 01.01.06	389	54.8%	8.6
Opened/acquired after 01.01.06	701	45.2%	5.2
Total	1090	100%	6.7

Source: Company data

The results are strong, but less good overall than in the first half of the year. Thus, 9M 2007 company sales growth rates and 3Q organic openings are lower, while the number of drugstores closed during 3Q is higher than figures for 1H and 2Q respectively (see [RMG Weekly# 637](#)).

The main reason for lower revenue growth pace is the small number of new openings during 3Q 2007. Because retail accounts for most of company business, even a slight slow-down of new store openings entails significant slowdown of revenue growth.

However, pharmacy business is seasonal with a traditional surge in the last quarter and we expect the company to acquire and open a large number of stores by the end of the year, meeting its year-end targets of 1450 drug stores and \$1b net sales. Our optimism is supported by improvement in quality of financials during 9M: Veropharm net sales growth acceleration and very strong average ticket increase both for pharmacies opened before and after 01.01.07.

We find Pharmacy chain 36.6 attractive and keep our BUY recommendation for its shares with fair price unchanged at \$112.

TRANSPORTATION

by Maxim Isaev

In one line

- Sovcomflot (*RTS: N/L*), a 100% state owned shipping company, increased 9M 2007 IFRS revenue by 22% y-o-y to \$464m, while net income skyrocketed by 69% y-o-y to \$209; sharp net income growth is explained by sale of two tankers and several dry cargo ships for \$67.7m
- Aeroflot (*RTS: AFLT: \$4.14 BUY*) received and commissioned its tenth A-319 aircraft; the company will receive one more aircraft by end of the year under its operational lease deal, signed in February with General Electric Capital Aviation Services; in 2008 Aeroflot expects to obtain 11 A-320 planes
- GDRs of Novorossiysk Commercial Seaport (*RTS: NMTP: \$0.06 SELL*) were included in the LSE official list, and are being traded

CONSTRUCTION & DEVELOPMENT

by Sergei Perminov

In one line

- Shares of PIK Group (*LSE: PIK: N/R; RTS: PIKK: N/R*) will be included in the MSCI index from November, 30; the news is positive, but expected in view of the company's large size
- LSR Group (*LSE, RTS: LSRG: N/R*) sold 12.5% of equity capital for \$772m (\$72.5 per share and \$14.5 per GDR) at its IPO, which closed last week

	RTS ticker	Fair price, \$	Market bid-ask range, \$	Reason to BUY
Blue Chips				
Sberbank com	SBER	☉	4.300-4.320	fast growth of Russian banking sector; largest branch network
UES com	EESR	1.630	1.225-1.230	traded with discount to SOP value; coming break-up should disclose full value
VTB com	VTBR	11.000	9.480	state support; good prospects for growth
Oil & Gas				
Sibneftegeophysica com	SNGF	133.000	90.000-120.000	undervalued to peers; most rapid growth in the sector is expected within 2-3 years
Sibneftegeophysica pref	SNGFP	93.000	37.000-54.000	
Surgutneftegaz pref	SNGSP	0.860	0.655-0.675	unjustifiably undervalued to common shares
Yamalgeophysica com	YMGF	4.100	1.370-1.900	undervalued to peers; most rapid growth in the sector is expected within 2-3 years; controlled by Integra
Power Utilities				
Lipetsk electricity sales company com	LPSB	0.311	0.090-0.150	auctioning of UES stake is scheduled for 2007-2008; valuation confirmed by independent appraiser
Moscow electricity sales company com	MSSB	0.044	0.018-0.025	largest Russian electricity supplier; our outlook for supplies and tariffs suggests unrealized price growth; valuation is confirmed by appraiser valuation
Petersburg electricity sales company com	PBSB	0.424	0.050-0.200	fastest growing region; our outlook for supplies and tariffs suggests unrealized price growth
Ryazan electricity sales company com	RZSB	0.159	0.048-0.090	auctioning of UES stake is scheduled for 2007-2008; valuation confirmed by independent appraiser
OGK-2 com	OGKB	0.193	0.130-0.135	one of the most efficient OGKs, market price is significantly below recent SPO price (\$0.16)
UES pref	EESRP	1.465	1.085-1.105	traded with discount to SOP value; coming break-up should disclose full value
Volga MRK com	VMRK	0.114	0.056-0.060	RAB-based approach indicates upside; possibility of asset value increment is a key valuation risk
Volga MRK pref	VMRKP	0.102	0.048-0.057	
Telecoms				
MGTS com	MGTS	46.400	29.100-35.000	high demand for fixed telephony due to low tariffs; additional value from shares in Svyazinvest and Comstar
MGTS pref	MGTSP	41.700	26.500-27.500	
Metals & Mining				
Chelyabinsk Zinc Plant ADR	CHZN	☉	13.620-13.850	information is available for RMG clients only
Kuzbassrazrezugol com	KZRU	0.540	0.380-0.392	increase in demand for thermal coal; focus on high-margin enriched coal; IPO plans
Novosibirsk Tin Combine com	NOKN	☉	20.010-22.400	information is available for RMG clients only
Polyus Gold com	PLZL	68.000	42.500-47.500	positive gold market outlook; massive capex program
Uralelectromed com	UELM	228.000	124.000-125.000	high prices; production growth
Engineering				
Energomashcorporation com	ENMA	0.290	0.136-0.153	high demand; production growth; foreign orders
GAZ Group com	GAZA	240.000	146.000-146.000	leadership in almost all segments; diversified portfolio of assets; leading management team among Russian car producers
GAZ Group pref	GAZAP	176.000	111.000-112.700	
Consumer & Retail				
Nutritek Group com	NTRI	64.700	51.700-52.450	focus on most profitable baby food products; strong position on regional markets; export plans
Razgulay com	GRAZ	6.600	4.950-5.190	attractive long-term growth potential; possible earnings surprise in the second half of 2006
Shatura com	MKSH	181.400	116.100-130.000	leading Russian furniture producer; significant capital investments are made; good expansion strategy
Pharmaceuticals				
Biokhimik com	BIOH	0.474	0.348-0.367	high operating efficiency; undervalued to Russian peers
Pharmacy Chain 36.6 com	APTK	112.000	75.500-79.000	rapid expansion; ambitious development strategy; potential consolidator; SPO expected by year-end
Financials				
Sberbank pref	SBERP	☉	2.940-2.990	fast growth of Russian banking sector; largest branch network
Vozrozhdenie Bank com (new)	VZRZ	☉	62.000-68.000	fast-developing independent financial institution; one of the leaders (esp. in retail segment)
Vozrozhdenie Bank pref (new)	VZRZP	☉	29.000-37.000	

	RTS ticker	Fair price, \$	Market bid-ask range, \$	Reason to BUY
Chemicals				
Azot Perm com	AZOP	1 172.00	835.000-895.000	significantly undervalued relative to peers; exposure to high growth market
Kazanorgsintez com	KZOS	0.830	0.501-0.513	Russian leader in polyethylene production; large investments in new products; IPO expected within next 2 years
Kazanorgsintez pref	KZOSP	0.410	0.200-0.208	
Kemerovoazot com	AZKM	95.600	27.750-30.500	speculative BUY in case of tolling scheme refuse; N2 caprolactam producer in Russia
Transportation				
Aeroflot com	AFLT	4.140	3.300-3.600	leading market position; strong management team; new cost control system; expansion plans
FESCO com	FESH	☺	1.125-1.300	information is available for RMG clients only
Construction & Development				
AFI Development GDR	AFID	13.200	10.550	strong demand for property boosts price growth; most of the projects are in Moscow
Open Investments com	OIVS	397.00	282.500-287.000	undersupplied and most attractive market niches; undervalued to foreign peers

Note: common and preferred shares of South Telecom (RTS: KUBN; KUBNP), common shares of Magnit (RTS: MGNT), common shares of Seventh Continent (RTS:SCON) are removed from the LIST due to low upside left

	RTS ticker	Fair price, \$	Market bid-ask range, \$	Reason to SELL
Blue Chips				
Rostelecom com	RTKM	2.860	9.650-9.750	growth of competition due to LD market liberalization, interconnect tariffs destructed profitability
Power Utilities				
OGK-6 com	OGKF	0.065	0.122-0.124	lowest fuel efficiency among OGKs, power market deregulation will make pressure on company value
Telecoms				
Rostelecom pref	RTKMP	2.060	2.650-2.800	growth of competition due to LD market liberalization, interconnect tariffs destructed profitability

Note: no changes

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