

Ukraine

March 7, 2008

Fixed Income

Issue	Interpipe 10
Coupon	8.75%
Maturity	August 2, 2010
YTM	8.43%
Duration, yrs	2.1
Spread (current/fair), bps	681/650
Volume, \$ mln	200

Interpipe 10 spread over UST curve, bps


Source: Bloomberg

Interpipe IFRS financials, \$ mln

	2006	2H06-1H07*	Change
Revenues	1,442	1,629	13.0%
EBITDA	374	431	15.3%
Net income	217	256	17.6%
<i>Net margin</i>	15%	16%	4.0%
Assets	1,050	1,209	15.0%
Equity	669	646	-3.5%
Financial debt	189	305	61.6%
Financial debt/EBITDA	0.5	0.7	40.1%
Financial debt/assets	0.2	0.3	40.4%
Financial debt/equity	0.3	0.5	67.4%
EBITDA/interest expense	42.5	28.1	-34.0%

* unaudited consolidated financial statements for 12 months ending July 1, 2007

Source: Company

Interpipe

IPO: Positive for Bondholders

Interpipe, Ukraine's largest steel pipe and railcar wheel manufacturer (and the third largest in the CIS) is to conduct an IPO on the LSE, possibly as early as May. We believe that this will provide funding for further growth and modernization, positively impact the company's debt ratios and improve corporate governance. This leads us to tighten our fair spread for the Interpipe 10 over the UST curve by 50 bps (we consider the IPO already to be partly priced in by the market) from 700 to 650 bps.

- The bulk of Interpipe's customers are oil and gas and utilities companies. More than 78% of the company's output is exported, mostly to Russia. With annual turnover in excess of \$1.4 bln, Interpipe produces 2% of the world's seamless pipes and 13% of its railcar wheels.
- The company has healthy financials, with revenues of \$1.4 bln in 2006, strong margins (the net margin was 16% in 1H07) and a low debt burden. Its debt/EBITDA stood at 0.7 in 1H07 and its EBITDA/interest was 28.1.
- Unofficial sources indicate that Interpipe will offer a stake of around 10-20% at its IPO. The company's market value could be as high as \$5-6 bln, and thus the IPO could more than double the company's equity (debt/equity could fall from 0.47 to 0.27, and debt/assets could decrease from 0.25 to 0.18).
- We believe that, having been announced some time ago, the IPO is already partly priced in by the market. However, the more definite nature of the current plans could boost the Interpipe 10's price. As such, we are tightening our fair spread estimate from 700 to 650 bps (the market will probably react when an official announcement appears), which corresponds to a YTM of some 8.00-8.10%.

Ukrainian corporate Eurobonds


Source: Bloomberg, Troika Dialog

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