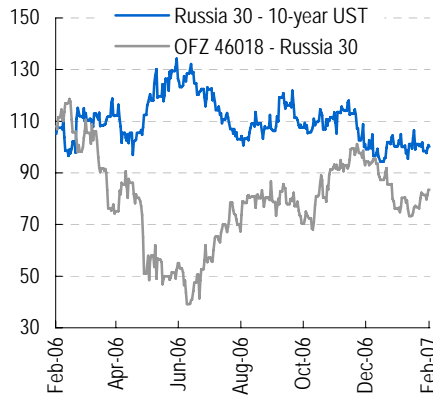
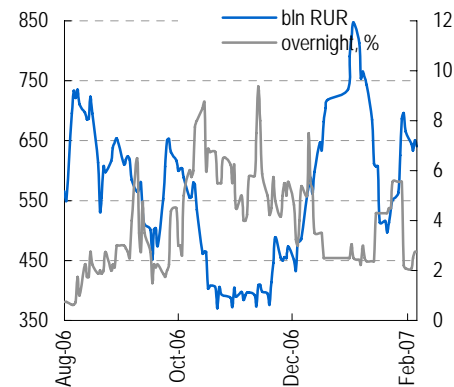


Thursday, February 15, 2007

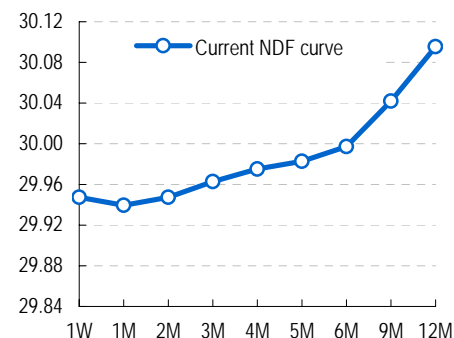
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



NDF on a basket of 0.55 USD+0.45 EUR (in RUR)



EVENT CALENDAR

15-Feb	New issue: RUB bonds Transmash-2
15-Feb	New issue: RUB bonds Ust-Luga-1
16-Feb	US Producer Price Index (PPI)
16-Feb	New issue: RUB bonds Rusfinansbank-4
20-Feb	New issue: RUB bonds Mitland Food-1
20-Feb	New issue: RUB bonds Moscommerce
20-Feb	New issue: RUB bonds RussBank-2

NEWS AND COMMENTS

- **Brief: The representatives of Kopeyka food retailer (S&P B-) met investors prior to the new bond issue.** At the meeting they said that the company is going to double sales in 2007, raise profitability and at the same time keep debt close to 2006FYE levels, which means improvement in leverage ratios. The company said it will open new stores on leased space and do sale-lease-back of its current real estate holdings, which along with operating cash flow should be sufficient to finance capex. According to the company, FC Uralsib is not going to sell part or all of its equity stake in Kopeyka (100% after the recent deal) over the next 2-3 years. We view the strategy as quite challenging to implement. Nevertheless, we like the fact that the company is concerned with its high leverage levels (6.5x at September 30, 2006). We recommend investors to participate in Kopeyka's upcoming 5-year issue, which is currently marketed at 10.0% (coupon). It appears that Kopeyka will not issue anything else this year.
- **Brief: Dalsvyaz (Fitch B) received RUB909 mn of tax claims based on the 2003-2005 tax audit.** As a reminder, litigation over RUB712 mn in tax claims against Dalsvyaz covering 2001-2002 has been dragging on over two years. Interestingly, this time the bulk of the claim is based on the company's failure to provide copies of some documents to the tax authorities within a 5-day deadline, with the rest of the claim relating to incorrect accounting of ong-distance traffic. Anyway, we believe the litigation over the new chunk of the tax claims will last at least a year, i.e. the company will not make any cash payments until 2008. Even after conservatively taking into account all tax claims as proved liabilities due to be paid, Dalsvyaz's Debt/EBITDA should remain within 2.5x. Since recently bond investors are immune to the news about minor tax claims to the telecoms of Svyazinvest group (many of those cos received similar claims).

MARKET COLOR

- **Eurobonds:** EM bonds rallied following release of US retail sales data and Bernanke's speech. **Russia 30** is trading at 112.75 (UST+99bp). In the primary market **ATF Bank** (Ba1/B+/BB-) has priced its 7-year paper at YTM of 9.375% (coupon 9.25%). The bond traded above the placement price in the early secondary trading.
- **Rouble bonds:** Positive sentiment in Eurobonds has triggered some buying in the OFZs and first tier issues. **AHML** (NR) bonds are among top performers. We recommend AHML as a core holding in the first tier, but overall recommend to underweight longer-dated high grade bonds given our negative view on local money market rates. **URSA's** local bonds are well bid despite upcoming supply, perhaps on the news of reduced guidance on its 3-year Euroclearable rouble bond (9.125% from 9.25%). **Transmashholding** (NR) is pricing a 4bn bond today (price talk 9.1%). We like the company's market positions, strong ties with Russian Railways and solid shareholders. On the negative side – poor financial transparency, high leverage & capex needs and weak bond structure. We are hearing of very strong demand for the issue from both locals and non-residents, so the actual yield will likely come out below 9.0% as a result of the auction.

KEY MARKET INDICATORS

	Close	Change		
		1 day	1 week	1 year
UST 10 Year Yield, %	4.74	-0.07	-0.01	+0.04
EMBI+ Spread, bp	168	+3	-3	-1
EMBI+ Russia Spread, bp	100	+3	+1	+4
Russia 30 Yield, %	5.75	-0.06	-0.03	+0.10
OFZ 46018 Yield, %	6.58	-0.04	+0.04	+0.06
Cash accounts at CBR, bln RUR	413.9	+12.0	-11.2	-252.2
Deposits at CBR, bln RUR	226.7	-21.9	-102.8	+112.0
Due from (to) CBR, bln RUR	37.0	-	-	-
MOSPRIME O/N RUR, %	3.33	-0.01	-	-



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