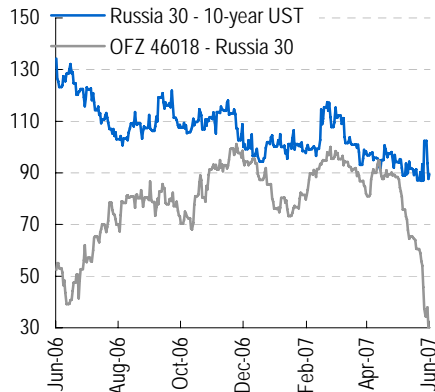
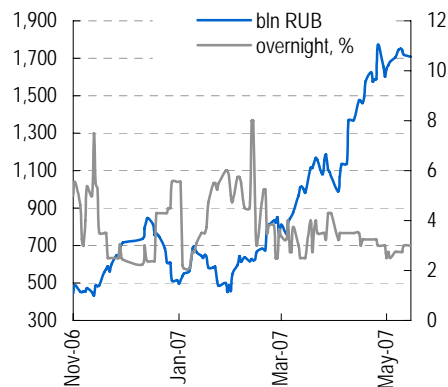


Wednesday, June 13, 2007

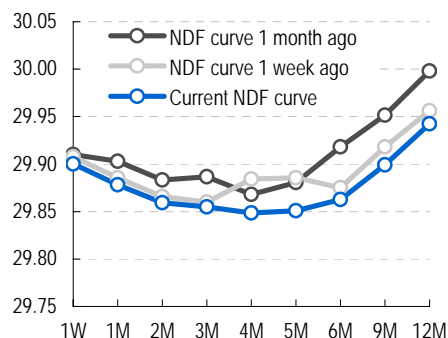
Russia 30-UST and OFZ-Russia 30 spreads, bp



Rouble liquidity available at banks, overnight



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



EVENT CALENDAR

| | |
|--------|--|
| 13-Jun | Income tax payments in Russia |
| 13-Jun | New issue: eurobonds Rolf |
| 13-Jun | Import Price Index (MAY) |
| 13-Jun | FOMC's "Beige Book" |
| 14-Jun | New issue: eurobonds Transneft |
| 14-Jun | New issue: RUB bonds IzhAvto-2 |
| 14-Jun | New issue: RUB bonds UOMZ-1 |
| 14-Jun | New issue: RUB bonds Kurganmashzavod-1 |

NEWS, IDEAS AND COMMENTS

- Russneft (NR) may be nationalized.** According to Vedomosti business daily, Russia's Federal Tax Service has filed 8 lawsuits against the companies that used to be or currently are shareholders of Russneft. These companies (apparently representing interests of the Russneft's key beneficiary – Mr. Gutseriev) are claimed to have violated Article 169 of Russia's Civil Code when buying or selling Russneft's shares. According to this article, if entities are proved to have concluded a transaction which they knew was against "law and order and morale", the respective assets should be seized into state ownership. This wording should sound in fact quite alarming for equity investors in the country, where courts are not always unbiased. Anyway, previously we suggested three scenarios of how situation around Russneft could develop: 1) investigations are closed after Gutseriev somehow resolves the conflict behind the scenes; 2) Gutseriev sells Russneft to a state-controlled oil&gas group and 3) the company is taken over via massive build-up of tax claims or revocation of key operating licenses. We also said that the first two scenarios are the more likely ones and the last one is quite unlikely. Now the state is proposing a new scenario, whereas the assets will be nationalized, but in a creditor-friendly way. It appears quite similar to the scheme where Russneft is sold to a state-controlled corporate. However, the important difference is that under the new scenario Mr. Gutseriev would hardly receive any compensation for his assets, which means that he would try to oppose and hence increases the risks that nationalization will not pass as smooth as Russneft's creditors would want. Anyway, we maintain our bullish view on Russneft-1 ruble issue (trading around 80.0: 27% to a put in Dec. 2008), which is guaranteed by the group's three operating companies. To remind, there have yet been no financial claims against Russneft itself and it appears that the state purposely avoids this. To the best of our knowledge, large lenders to Russneft include Glencore and Sberbank.
- Brief: Ministry of Finance said it may revise its GDP growth forecast from 6.5% to 6.7%** and noted that ruble appreciation so far doesn't impede economic growth in Russia. We think that this kind of rhetoric fuels expectations of ruble appreciation in the short term, facilitates capital inflow and is supportive for short-term ruble bonds.

MARKET COLOR

- Eurobonds:** RUSSIA 30 spread over UST has widened to around 100bp, but yet no signs of any massive risk aversion. SEVERSTALTRANS (NR) has announced price talk on its CLN at 8.5%, we think that's interesting (see our comments from June 8). Alfa Bank is also pricing its 5-year benchmark relatively rich (MS+260 area, close to where its sub-debt is trading) due to weakened sentiment.
- Ruble bonds:** Selling continues, but spreads over USD bonds are compressing as local fundamentals are still strong (ruble appreciation expected, low overnight/REPO rates).

KEY MARKET INDICATORS

| | Close | Change | | |
|-------------------------------|--------|--------|---------|---------|
| | | 1 day | 1 month | 1 year |
| UST 10 Year Yield, % | 5.30 | +0.15 | +0.63 | +0.60 |
| EMBI+ Spread, bp | 156 | -2 | -7 | -13 |
| EMBI+ Russia Spread, bp | 87 | -6 | -6 | -9 |
| Russia 30 Yield, % | 6.17 | +0.08 | +0.55 | +0.52 |
| OFZ 46018 Yield, % | 6.47 | 0 | -0.03 | -0.05 |
| Cash accounts at CBR, bln RUB | 459 | -17.9 | +75.7 | -207.1 |
| Deposits at CBR, bln RUB | 1250.1 | +8.3 | +157.9 | +1135.4 |
| Due from (to) CBR, bln RUB | 140.5 | - | - | - |
| MOSPRIME O/N RUB, % | 3 | 0 | - | - |
| RUB/Bi-currency basket | 29.93 | +0.02 | +0.02 | +0.25 |
| Crude oil (Brent), USD/barrel | 68.8 | -0.8 | +2.0 | +8.1 |
| RTSI | 1798 | +8 | -47 | -112 |

SEVERSTALTRANS (NR): new issue commentary

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SEVERSTALTRANS, Russia's largest private transportation company, is currently marketing a CLN deal. Key terms are the following: maturity in 4 years, put in 2 years, call-options quarterly (at 102.00 in the 1st year, at 101.25 in the 2nd year and at 100.75 in the 3rd year). We understand that the size would be around USD200-250m. The borrower is a Cyprus-based parent company of the group (TIHL). The issue is secured by the shares of two entities, which represent the land owner and the key operating company of the group's large cargo terminal – Petrolesport (was acquired by SEVERSTALTRANS recently for USD275m).

SEVERSTALTRANS has two major business lines – cargo rail transportation (almost 40,000 railcars in operation) and port services. Both businesses have very strong growth prospects, particularly the container business, given the significant deficit of container terminal capacity in Russia. In that respect Petrolesport (a St.Peterburg-based terminal) is expected to be SEVERSTALTRANS's key growth area. The company has ambitions to increase its container capacity by over 5 times over the next 4 years. The only serious risk to the business of the company is seen with regard to its Estonian oil transshipment terminal, which currently services oil product flows coming from Russia. Given the current political tensions between Russia and Estonia, the flows from Russia could be re-routed. However, since the Estonian business contributes less than 10% to consolidated EBITDA of SEVERSTALTRANS, we think this risk is not very significant for the company.

To date SEVERSTALTRANS is 50% owned by its top-management. The remaining 50% are controlled by Mr. Mordashov, the principal owner of Severstal steel group (MCap over USD13bn). However the management is currently in the process of buying-out Mr. Mordashov's stake, who has decided to exit his non-core assets in order to focus on Severstal. Valuation of SEVERSTALTRANS is not disclosed, but we estimate that its no less than USD1bn for 50% of the company. Part of the deal is due to be financed from the management's own funds, some cash should come from dividends (company's own cash was used to fund the Petrolesport acquisition, CLN proceeds will come as a replacement). The management also raised a USD350m loan from Sberbank, which is secured by the shares of certain companies of the group and guaranteed by those.

Financial position of the company looks quite solid based on the preliminary 2006 consolidated numbers (Sales of USD1.6bn, EBITDA margin of 18% and Net Debt/EBITDA of 1.9x, audited IFRS is yet unavailable). Risks related to the high share of secured debt and the contingent liabilities with regard to the guarantees on shareholder debt, in our view, are largely mitigated by the following: a) the fact that book value of collateralized assets exceeds the respective liabilities; b) strong capitalization of the company (equity of USD750m) and c) share pledge in the proposed CLN. There are no financial covenants on the consolidated group, which is quite unusual.

We think that overall SEVERSTALTRANS is a solid B+/BB-credit, and expect its leverage to gradually reduce going forward as its capex ambitions should be funded from internally generated cash flows. We think that at 8.0-8.25% for 2 years the proposed CLN would look quite fair, even in the currently turbulent market conditions. As a good peer comparison we would point out at a recently priced 7.00% 5-year issue of Novorossiysk Commercial Sea Port. Despite high leverage (Debt/EBITDA >4x), NCSP has received high ratings (Ba2/BB+) since it's a core part of Russia's oil export infrastructure. SEVERSTALTRANS has a much lower share of true infrastructure component in its business and no government support (NCSP is 20% owned by the gov-t and Russian Railways is interested in that asset), but still the two companies have many similarities in their business profiles. NCSP issue is currently trading around par (7.0% yield for a 5-year risk).



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