This is bne's Eastern Europe equity capital markets weekly newsletter, a list of the top stories in region last week. You can receive the list as a plain text or html email or as a pdf file. Manage your delivery options here: http://businessneweurope.eu/users/subs.php

**TOP STORY STOCKS**
1. US court freezes assets in Wimm-Bill-Dann insider trading case
2. Harry Potter and the 1st billion (JK Rowling please take note!)
3. US tax deal shifts flows from bond to equity funds
4. BRICS to top U.S., Europe in equity financing
5. HSBC says, Russia is the Top Y 2011 emerging markets pick
6. Nissan may get 15-20% in Russia's AvtoVAZ in future
7. Norilsk Nickel sells 38% in Stillwater for $722mn
8. Russian Railways may sell stake in TGC-14 at tender in '11
9. Sberbank closes RUB3.4bn deal to buy into Detsky Mir
10. Sistema sells blocking minority stake in Detskiy Mir

**NEWS STOCKS**
11. Weekly fund flows: Keeping the emerging market faith
12. EPFR Global Launches New Emerging Markets Flows Index with FTSE
13. Mechel prefs part two: Justice returns
14. Norilsk Nickel sells 38% Stillwater Mining Company stake for $722m
15. OGK-1 to issue new shares below market
16. PCM boosts stake in Cherkizovo to 6.6%, reduces interests in Dixy and M.Video
17. Polys Gold board appoints Prokhorov chief executive
18. RusHydro buys stake in Krasnoyarsk GES; sets R1.61 share issue price
19. Shareholders OK selling 6.6% in Crew Gold to Russia's Severstal
20. Sistema to sell 28% common stake in MGTS to MTS in '11
21. UC Rusal's landmark Russian depository receipts programme registered at the FSFM
22. Will Svyazinvest's Reorganisation be Halted? Not Likely, in Our View

**OTHER NEWS STOCKS**
23. Freight One valued at $3.9bn
24. LSR Group - Management selling shares again
25. RussNeft holders to determine Sistemais payment for 49%
26. Severstal to buy rest of Sacre-Coeur's shares by May 31
27. TNK-BP Holding downgraded to Hold on recent price growth
28. TNK-BP Holding shares to start trading on RTS and MICEX today
29. X5 Retail Group - upgrade on acquisition; organic growth next trigger

**IPO, SPO, ADRs, GDRs, PLACEMENT**
30. Mostotrest raises $212.3mn in extra share offering
31. RTS to sell 25% of the shares through IPO
32. UralSib don't hurry to IPO

**BUY BACKS, SHARE ISSUES**
33. Mechel sold at NYSE receipts
34. MHP'S major shareholder offers 10% of shares in holding company through GDRs
35. Ovoca Gold to start buying back 10% of own shares before 2011
36. Prokhorov selling 1.5% of Polyus Gold in private placement
37. RusHydro announces price for additional share issue
38. WGC-1 to start offering additional shares on Friday

**BANKS shares**
39. Reasonable to sell 7.6% in Sberbank over several years

**FUNDS, PRODUCTS**
40. Exec sees RUB500mln-1bn invested in Sberbank mutual funds
41. Troika Dialog Boosts Liquidity on Two Mutual Funds

**EXCHANGES, REGULATIONS**
42. Finance Ministry distanced itself from Deutsche Boerse
43. Deutsche Boerse joins the chase for Russian equities action

**UKRAINE STOCKS**
44. Court confirms Luhanskteplovoz sale to Transmashholding
45. MHP's majority shareholder to sell a 10% stake
46. Milkiland begins trading under MLK PW ticker
47. Motor Sich: Target upgraded to USD 509 on 10-year tax break
48. Ukrtelecom pays 74bn hryvnas in 2007 divs to ppty fund
49. Ukrtelecom resolves dividend dispute with privatization agency

**EURASIAN STOCKS**
50. Azerbaijan: Azal Sigorta increases authorized capital
51. Azerbaijan: Turanbank increases authorized capital
52. Georgian Railway clarifies reports of subsidiary's IPO
53. Mongolia: Haranga IPO closes early; oversubscribed exploration commencing on 5 Mongolian iron ore projects
54. Mongolia: Prophecy Announces Filing of Preliminary Prospectus for Proposed Equity Offering
55. Mongolia: Prophecy Investigation, Trading Halt, Retracts Lynn Lake information
56. Mongolia: Voyager Resources to raise 2.1Mn AUD in new share issue
57. Mongolia: Xanadu Mines to list Mongolian Coal and Copper/Gold Assets on the ASX

**SE STOCKS**
58. Bulgarian drug maker Sopharma sees 15% rise in sales
59. New pharma player on the Romanian market
60. Romania's first IPO in two years, a failure
61. Significant changes to capital markets in Turkey not expected in short term
62. Eurozone crisis makes foreigners sell Turkish stocks
63. Turkey's Turkcell fined TRY 279m for unpaid Treasury fees
64. Turkish govt plans to move bourse

**CE STOCKS**
65. CEZ - Under pressure due to the state's interventions in the sector
66. CEZ's Turkish JV signs $325m loan agreement with EBRD
67. Mol faces political issues in Croatia again
68. MOL's Syrian plans on schedule
69. More Hungarian companies plan new hires than layoffs
70. Hungary's Mol strikes oil in Kurdistan, but Ina to leave Angola
71. Control Process to IPO on WSE in Q1 2011
72. Milkiland Debuts on WSE
73. Poland Amrest - Accelerated growth to burden near-term results
74. Polish coal miner JSW to IPO on WSE mid-2011
75. Skoda gears up for small car focus
76. Skoda 11-mth sales up 12.3 pct, 2010 sales to reach 750,000 units
77. Slovenian bank Nova KBM mulls listing on Warsaw Bourse
**TOP STORY STOCKS**

1. **US court freezes assets in Wimm-Bill-Dann insider trading case**
   bne
   December 09, 2010

   A federal court in New York has frozen the assets of unnamed investors allegedly involved in insider trading related to U.S. food and beverage producer PepsiCo's takeover of Russian food producer Wimm-Bill-Dann Foods (WBD), reports Prime-Tass.

   Citing media reports, the news agency says that unknown purchasers placed orders to buy 400,000 Wimm-Bill-Dann American Depository Receipts (ADRs) from November 29 through December 1.

2. **Harry Potter and the 1st billion (JK Rowling please take note!)**
   Friday RAM, Plamen Monovski, Renaissance Asset Managers
   December 10, 2010

   Despite unfortunate comparisons between Harry Potter characters and members of the Russian administration, the latest box office taking in Moscow and across the country hit new records for the popular sequel.

   To note, the Russian film distribution market hit an all time high of $1bn in revenues, making Russia fifth biggest film distribution market in the world. This is a significant advance from $736m last year and $831m in 2008. More significantly, while attendance increased strongly by 15%, ticket prices rose even more. The Russian consumer is in rude health and is increasingly willing to pay premium for quality.

   We highlighted of late that the Russian GDP momentum is accelerating whereas it is decelerating in the rest of the BRICs. Concurrent increase in personal bank lending and consumption are some of the key drivers in the positive move of the second derivative (see chart below).

   The Russian consumer had a rough patch as the economy contracted sharply in 2009 but by no means this contraction was as severe as that of the Russian corporates.

   The rebound since then has been more than impressive not only by domestic standards but indeed by global. Jim O'Neil recently called the consumer in BRIC "the key investment of our lifetime". Jim, however, is constantly harassed to drop R- from the BRIC as the Russian demographic would not provide opportunities commensurate with the Asian or the Latam consumer dream. To Jim and his detractors, we would like to send the following graph that shows the spectacular outperformance of some Russian consumer stocks versus their comparatives from Emerging Markets.

   We hope that a few people will be silenced. And indeed, the recent M&A by Western corporates reinforce this thesis. Last week, PepsiCo paid $5.4bn for the acquisition of Wimm-Bill-Dann and cited Russia as a key growth driver in the Pepsi Empire. It was one of the largest checks Pepsi ever wrote to buy another company. We remember fondly WBD even prior to its IPO 10 years ago and the discussion we had about the name. Wimm-Bill-Dann is the naturalization in Russian of Wimbledon (!); at the time - management thought they needed to come up with Western sounding name which
had some recognition in Russia so that they can entice the Russian consumer to buy domestic product which was profoundly distrusted after the collapse of the Soviet Union. A decade later, WBD had build one of the most recognized and trusted domestic brands in Russia. This week, the large Russian retailer X5 confidently bought for $1.7bn the domestic grocery chain Kopeika. In our allocation, we are overweight the consumer in Emerging Europe mainly through the retail chains in the region. Elsewhere, we hear that Diageo is circling to buy the makers of Yeni Raki, the most popular alcoholic beverage in Turkey. We are significantly overweight Russia.

Concerning Turkey where we remain heavily underweight, the market has started to crack as the investor community is waking up to the concerns we highlighted few weeks ago ("High Quality Growth bought with Low Quality Money"). Our recent talks with the unlisted banks - as the listed tend to embellish the truth sometimes - indicated that the spreads on high-margin products have collapsed with the speed of light. We were told that in SMEs, yields have fallen from 12% to 7% in the span of two months. We are reminded of 2007 when Akbank single-handedly managed to destabilize an incipient mortgage market, making it loss making for everyone involved, due to its aggressive pricing. We are also aware that internal lending targets in the big retail empires have been upped to 40% growth (the street expects 15%-20%) as the majority shareholders t saw that the market rewarded lending growth amply with dizzying share price performance and they would like this repeated, especially as some of them are sellers of their stock. We fear such ambitious targets are likely to challenge pricing even further. We currently have no appetite for Turkish banks.
Russia's consumer boom gaining momentum...

12m%ch

- Russia Retail sales
- Personal bank loans
3. US tax deal shifts flows from bond to equity funds

EPFR Global Fund Data News Release
December 11, 2010

The second week of December saw US President Barak Obama hammering out a deal with Republican lawmakers to extend existing income, dividend and capital gains tax rates for two more years. Investors translated this into expectations of higher global growth rates, a growing pile of US debt and a weaker dollar. Money poured into equity and sector funds during the week ending Dec. 8, with all nine of the major EPFR Global-tracked equity funds and six of the nine sector fund groups recording inflows, while US Bond Funds posted outflows for the third time in the past four weeks as investors bailed out of funds specializing in municipal and intermediate term debt.

Among the equity fund groups, Global Equity Funds had their best week in over three years, flows into US Equity Funds hit an 18-week high and Emerging Markets Equity Funds pushed deeper into record setting territory as YTD inflows moved within striking distance of the $90 billion mark.

Bond funds narrowly avoided a third straight week of outflows, taking in a net $146 million for the week, while equity funds collectively absorbed a net $13.71 billion of which $3.1 billion was attributable to funds with emerging markets mandates. Flows into Money Market Funds hit a 22-week high of $32.5 billion.
This week's tepid bond fund inflows highlight the recent shift towards equities," noted EPFR Global Managing Director Brad Durham. "Those that still aren't that comfortable with equities appear to be moving their money back into cash by way of Money Market Funds."

Emerging Market Equity Fund Flows

Against a backdrop of increased optimism about global growth prospects, all four of the major EPFR Global-tracked emerging markets fund groups posted inflows during the first week of December with the diversified Global Emerging Markets (GEM) Equity Funds again accounting for the lion's share of the money taken in.

The amount committed to GEM Equity Funds by retail investors climbed for the fourth consecutive week: overall they accounted for around a third of the total inflows into all Emerging Markets Equity Funds.

Asia ex-Japan Equity Funds were again the laggards as tensions between North and Korea and uncomfortably high headline inflation numbers for China continue to unsettle investors. China Equity Funds saw a five-week inflow streak come to an end as investors braced for more tightening concurrent with - or even ahead of - the Dec. 13 release of that latest Chinese inflation numbers while Greater China Equity Funds posted outflows for the first time since early September.

With commodities taking center stage, EMEA Equity Funds extended their current inflow streak to 13 straight weeks as year-to-date inflows into Russia and Africa Regional Equity Funds climbed to $2.89 billion and $1.08 billion respectively.

Brazil's commodities story also attracted some positive attention as investors committed fresh money to Latin America Equity Funds for the 16th time in the past 17 weeks.

US, Global, Europe, Pacific and Japan Equity Fund Flows

With US fiscal policy looking set to remain accommodative for another two years and Ireland getting closer to meeting the price for EU support flows into EPFR Global-tracked developed market equity funds picked up sharply during the week ending Dec. 8, climbing to their highest level since the second week of June. US Equity Funds led the way in dollar terms while Japan Equity Funds fared best in flows as a percentage of assets under management terms.

The $439 million absorbed by Japan Equity Funds was their biggest weekly inflow since late March. A weaker yen versus the dollar, improved expectations for global demand and better than expected 3Q10 GDP and business investment numbers were among the factors that prompted investors to reassess Japan's prospects.

Europe Equity Funds managed to snap a three week outflow streak as hopes that Ireland will be able to contain its debt problems took some of the pressure off regional funds and Germany Equity Funds posted an 11th straight week of inflows that took their YTD tally over the $5 billion mark.

The improved sentiment toward Europe also boosted Global Equity Funds, whose exposure to the region accounts for over a third of the average portfolio. Inflows fell
just shy of $2 billion, making it the best week for this fund group since late January, 2007. Pacific Equity Funds, the other major diversified developed markets fund group, posted their third straight week of inflows.

US Equity Funds, meanwhile, recorded their biggest weekly inflow since late July with Large Cap Growth and Value Funds the only major sub-groups to suffer redemptions. Flows were spread across all capitalizations and styles, but exchange traded and other passive funds absorbed over 95% of the money committed by investors.

Sector Funds

Expectations of loose US fiscal policy, further dollar depreciation, higher global growth and rising inflation in key emerging markets sent the price of many commodities soaring in early December, with gold and copper hitting fresh record highs and oil prices breached $90 a barrel. Flows into EPFR Global-tracked Commodity and Energy Sector Funds kept pace, with the former seeing YTD inflows pushing over the $26 billion level and the latter recording their fifth consecutive week of inflows.

The prospect of US consumers having more money in their pockets helped Consumer Goods Sector Funds enjoy their third best week YTD while Technology Sector Funds pulled in a net $153 million. Financial Sector Funds also snapped a two week outflow streak as fears about Ireland’s situation and US higher taxes on capital gains began to recede.

Telecoms, Real Estate and Healthcare/Biotechnology Sector Funds posted net outflows for the week ranging from $30 million to $155 million.

YTD flows into all sector funds now stand at $37.35 billion with Commodity Sector Funds accounting for 70% of the total, Real Estate Sector Funds 18% and Energy Sector Funds 8%.

Bond and other Fixed Income Funds

With bond investors interpreting the US tax deal as fuel for higher yields and a weaker currency, EPFR Bond Funds continued to struggle in early December. Global and High Yield Bond Funds did bounce back from the previous week’s outflows, helped by reduced anxiety about the possibility Ireland’s debt problems will have a domino effect around the Eurozone periphery, but redemptions from US Bond Funds exceeded $1 billion and Emerging Markets Bond Funds recorded their first three-week outflow streak since 1Q09.

The outflows from Emerging Markets Bond Funds again centered on those funds with hard currency mandates as investors contemplated the prospect of seeing returns pared by the dollar’s depreciation. When it comes to geographical allocation, investors continue to gravitate towards funds with an Asia focus.

Outflows from US Bond Funds were driven by funds with intermediate (5-8 years) mandates. Outflows from Municipal Bond Funds continued to lose momentum despite the increasing - and largely negative - attention being paid to the health of state and municipal finances.
Redemptions from Western Europe Bond Funds also lost momentum, although not sufficiently to stop their current outflow streak from hitting eight consecutive weeks, as flows into Germany Bond Funds hit an 11-week high.

4. BRICS to top U.S., Europe in equity financing
bne
December 06, 2010

With businesses in emerging nations aggressively securing funds for growth, the total amount raised by companies in Brazil, Russia, India and China through initial public offerings and new share issuances this year is expected to surpass figures for the U.S. and Europe, reports local media.

Reports suggest that businesses in the so-called BRICs have procured a total of $214.3bn, or about 18 trillion yen, through equity financing this year through Nov. 30, roughly double the figure for the same period a year earlier.

5. HSBC says, Russia is the Top Y 2011 emerging markets pick
bne
December 09, 2010

HSBC Global Asset Management said it had Russia as its biggest overweight position in emerging markets, predicting Y 2011 returns would outstrip the 10-30% gains it expects from broader emerging equities, reports local media.

Nick Timberlake, HSBC's head of emerging market equities, was quoted as saying that the fund is underweight India and China and neutral on Brazil but likes South Korea and Turkey.

6. Nissan may get 15-20% in Russiaís AvtoVAZ in future
bne
December 08, 2010

Russian state-owned industrial conglomerate Rostekhnologii CEO Sergei Chemezov has said that Japanese carmaker Nissan may acquire a 15-20% stake in Russian carmaker AvtoVAZ in the future, reports Prime-Tass.

The news agency quoted Chemezov as saying that the alliance of Nissan and French car maker Renault is expected to bring its ownership of AvtoVAZ to a controlling stake, with Renault having 35-40% stake and Nissan having a 15-20% stake.

7. Norilsk Nickel sells 38% in Stillwater for $722mn
bne
December 08, 2010

Russian metals giant Norilsk Nickel has sold 38% in U.S.-based platinum and palladium producer Stillwater Mining Company for $722mn through a secondary share offering (SPO), reports Prime-Tass.
Citing Norilsk Nickel, the news agency says that Norimet Ltd, a wholly owned subsidiary of Norilsk Nickel that directly held the stake, sold 37 million shares at price of $19.5 per share.

8. Russian Railways may sell stake in TGC-14 at tender in 2011
bne
December 08, 2010

State-owned railroad monopoly Russian Railways could sell its stake in Russian power producer Territorial Generating Company-14 (TGC-14) at a tender in 2011, reports Prime-Tass.

Citing an unnamed source from Russian Railways, the news agency says that Russian Railways could announce the tender in January-March 2011.

9. Sberbank closes RUB3.4bn deal to buy into Detsky Mir
bne
December 08, 2010

Russia's largest bank Sberbank has closed a RUB3.4bn deal to buy a 25% plus one share stake in Detsky Mir-Center, which manages children's goods retail chain Detsky Mir, reports Prime-Tass.

Citing Sberbank, the news agency says that the shares were bought as a result of a share offering.

10. Sistema sells blocking minority stake in Detskiy Mir
Renaissance Capital, Russia
Thursday, December 9, 2010

Event: Sistema announced yesterday (8 Dec) that Sberbank had completed the acquisition of 25%+one share of Detskiy Mir. Sberbank acquired the stake in the company through the purchase of an additional share issue in a private placement, for approximately RUB3.4bn (about $110mn). The proceeds of the additional share issue will be used to strengthen Detskiy Mir's capital structure and to develop and expand its retail chain. The ultimate aim of the shareholders is to attract a strategic investor or achieve a similar liquidity event. If this is not achieved within three years, and under certain other conditions, Sberbank will have the right to sell its stake in Detskiy Mir back to Sistema.

Action: Largely neutral for Sistema, in our view.

Rationale: Valuation-wise, this is a neutral transaction (Detskiy Mir contributes 2% to Sistema’s gross NAV), as the valuation of Detskiy Mir is in line with our estimate in our sum-of-the-parts valuation for Sistema ($442mn for total equity).

However, we think this deal will be taken positively by investors as another transaction whereby Sistema disposes of a stake in one of its mature businesses (following the sale of its stake in Sistema-Hals and the divestment of Intourist).
Besides, the deal will allow Detskiy Mir to deleverage (debt as of 2Q10 was $224mn, and EBITDA in 1H10 was -$14mn).

Ivan Kim

**NEWS STOCKS**

11. Weekly fund flows: Keeping the emerging market faith

UralSib

December 10, 2010

2010 flows are almost at a record. The weekly fund flows report from EPFR Global showed another big week for flows into emerging market funds as investors continue to look past the current global market uncertainties and volatility to position for expected strong gains in 2011. The total invested in these funds last week was $3.1 bln, up from the $1.67 bln invested the previous week. That brings the year to date total to $82.8 bln and almost equal to last year's record inflow of $83.3 bln.

Russia is picking up steadily. Russia funds have taken new money in twelve of the last thirteen weeks. For last week, the total invested directly into these funds was $127 mln and well up on the $27 mln of the week prior. In addition, Russia's allocation of the $111 mln invested into Emerging Europe regional funds was $55 mln and the share of the GEM Balanced category was $140 mln (approx), bringing the total available for investment into Russian equities last week to $322 mln.

Turkey funds remain out of favor and are providing at least some of the money switching into Russia. Last week these funds lost $38 mln directly and that was the fourth week of redemptions out of the last five.

Investors are wary of East Asia risk. India funds reported direct inflows of $164 mln and Brazil funds took in $102 mln. By contrast, investors remain wary of China and Korea risk. The former because of the threat of government imposed growth curbs and the latter because of the lingering threat of war. China funds reported redemptions of $78 mln and Korea funds lost $80 mln.

Chris Weafer
12. EPFR Global Launches New Emerging Markets Flows Index with FTSE

December 8, 2010

Press release:

FTSE Group ("FTSE"), the award winning global index provider, and Emerging Portfolio Fund Research ("EPFR Global"), the industry standard for global fund flows data, have today launched a new emerging market focused index - the FTSE EPFR EM Fund Flows Index.

The FTSE-EPFR index, a factor-adjusted version of the FTSE Emerging Index, is the first to overlay 'country flows' data on top of a market cap weighted index. Country flows data tracks investment allocation and flows in funds covering stock markets in developed and emerging countries. The new index gives investors a clearer picture of how these factors are driving emerging markets and can help improve portfolio performance by influencing an investor's country weight adjustments.

Emerging markets constitute a growing fraction of investor portfolios and the new FTSE-EPFR index is aimed at improving country allocations within emerging market equity portfolios. Asset owners and institutional investors globally can use the FTSE EPFR Index to enhance their emerging markets portfolio, based on recommended country weights linked to countries' investment flows. Country investment flows combine fund flow and country weight data to track the flow of money into world stock markets. The fund flow data tracks the amount of cash flowing in and out of thousands of ETFs and mutual funds monitored by EPFR world-wide, while the country weights data tracks fund managers' portfolio allocations at month-end across various emerging markets. Combining these two data sets gives a timely measure of portfolio flows in and out of individual emerging markets. The index country weightings will be revised quarterly based on the country flows data.

EPFR tracks global flows into and out of emerging markets from the US, Europe, and other regions, providing a more complete view of foreign investor demand.

"The new index will enable investors to further develop their interest in emerging markets", said Mark Makepeace, CEO, FTSE Group. "FTSE is pleased to work with EPFR Global in creating this timely and valuable addition to our range of investment strategy indices."

EPFR's Managing Director, Simon Ringrose commented, "Fund flows are an important element in the investment process. Partnering with FTSE, EPFR Global is delighted to offer emerging market equity investors a tool to help improve country selection."

The index was developed using FTSE’s internationally recognised robust index rules and methodology.

13. Mechel prefs part two: Justice returns

UralSib

December 8, 2010

Justice placed another portion of prefs as ADRs. Yesterday the Justice family, which owns 48% of Mechel prefs, sold around 16.5 mln pref ADRs at $8.1/share through an
accelerated book building, Interfax re-reported. According to Reuters, the offer generated $1 bln in demand from investors. We note that the Justice family has utilized their remaining quota in Mechel pref ADRs, by placing an additional 16.5 mln prefs for around $134 mln. The offering from the Justice family, who desperately need money for their own projects, was generally expected by the market as the previous lock-up period expired on 3 November. We do not expect Mechel to place prefs any time soon, due to the relatively low price of prefs trading at 36% discount to the price of common shares.

Russian IPO may take place only in 2Q11. After the SPO, the Justice family will fully utilize its quota in ADRs on the NYSE (50 mln pref ADRs) and may only place additional prefs on MICEX and the RTS index (not traded at the moment). As we understand, an IPO of prefs on MICEX and the RTS cannot occur earlier than 2Q11, due to certain technical procedures. An additional placement should dramatically increase the liquidity in Mechel prefs, which is now around $1-2 mln per day versus $50-100 mln for ordinary ADRs. This low liquidity of prefs is the main reason for the 36% discount to the price of ordinary shares.

Positive view on ordinary and preferred shares. After the pref placement is complete and the risk of overhang is removed (at least until March-April 2011), we reiterate our positive view on Mechel ordinary and pref shares, and would use any weakness as a good entry point in 2011. Coking coal remains one of our top commodities, and Mechel should greatly benefit in 2011, as it is the largest coking coal producer in Russia. In terms of preferred shares, we see the upcoming placement as the main catalyst for a rerating and expect the discount to narrow from the current 36% to 20-25%, which is the historical average for prefs in Russia. Based on our new estimates, Mechel prefs also trade with 2010E and 2011E dividend yields of 6% and 11%, respectively.

14. Norilsk Nickel sells 38% Stillwater Mining Company stake for $722m
Troika, Russia
Thursday, December 9, 2010

Interfax reported yesterday that Norilsk Nickel has sold a 38% stake in Stillwater Mining Company via an SPO for $722m ($19.50 per share, or a 5% discount to Tuesday's closing price). The placement was expected to be completed on December 7 as part of the disposal of Norilsk Nickel's total 50.1% stake in the company, with the remaining 12.9% of shares to be sold to UBS Securities (8.0%) and offered as an overallotment option to the underwriters (4.9%).

As a reminder, Norilsk Nickel acquired its controlling stake in Stillwater Mining Company, a US platinum and palladium producer, in 2003 for around $340m and has never had operational control over it under the shareholder agreement. We have always been negative on this acquisition, with Norilsk Nickel's position in Stillwater Mining Company effectively reduced to that of a portfolio investor.

The sale should be one of Norilsk Nickel's potential steps to dispose its multiple non core assets, which include a 75% stake in OGK 3 and the mothballed Australian mining operations. We estimate the total proceeds at around $3.7bn in cash and argue that this should be distributed among shareholders as a special dividend.

We welcome the actions of the management team to streamline the asset base and think the news should be positive for the share price.
15. **OGK-1 to issue new shares below market**

Aton
December 9, 2010

OGK_1 will place new equity at RUB 1.12/share, 6% below yesterday’s closing price on MICEX, the company reported today (9 Dec). The issue amounts to 38bn new shares (85% pre_money, 46% post_money equity) and will be placed under open subscription. InterRAO is expected to acquire the majority of the issue. As the placement price is below the current market price, we view the news as moderately negative for OGK_1's share price performance.

16. **PCM boosts stake in Cherkizovo to 6.6%, reduces interests in Dixy and M.Video**

bne
December 07, 2010

Funds managed by Prosperity Capital Management (PCM) changed their positions in several Russian companies in the consumer sector, reports Interfax.

Citing PCM, the news agency says that Prosperity now owns 5% of the shares in electronics and household appliance retailer M.Video, down from 6% in November 2009.

17. **Polyus Gold board appoints Prokhorov chief executive**

bne
December 09, 2010

The board of directors of Russia's leading gold producer Polyus Gold has approved appointing Mikhail Prokhorov the company’s chief executive, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that Prokhorov replaces Yevgeny Ivanov, who is to be in charge of the implementation of Polyus Gold’s priority international projects as CEO and chairman of the board of directors at KazakhGold Group, which is 65% controlled by Polyus Gold.

18. **RusHydro buys stake in Krasnoyarsk GES; sets R1.61 share issue price**

Troika, Russia
Thursday, December 9, 2010

RusHydro has acquired a stake of around 25% in Krasnoyarsk GES (controlled by EuroSibEnergo) by swapping a 4.53% treasury stake held by a subsidiary, with no cash contribution. RusHydro paid a premium of 8.5% based on current market prices.

Although the deal appears to be in line with RusHydro's strategy (which calls for the consolidation of hydro assets), the impact will be slightly negative for RusHydro stock, in our view. Plugging in the corresponding reduction in its treasury stake and
using the current market valuation for the 25% stake in Krasnoyarsk GES, our target price for RusHydro would fall by 1.4%. Applying our current indicative valuation for Krasnoyarsk GES, we end up with a 1.9% reduction to our target price for RusHydro. However, the exact impact of the deal will depend on future relations with the controlling shareholder, EuroSibEnergo.

Located in Siberia with 6 GW of installed capacity, Krasnoyarsk GES is Russia's second largest hydropower plant (RusHydro's capacity stands at 25.5 GW). RusHydro controls Krasnoyarsk Supply, which controls more than 90% of the regional electricity supply market, according to RusHydro. Krasnoyarsk GES, Sayano Shushensk GES and Mainsk GES are the three power plants comprising the Eniseisk cascade.

SUEK shareholders (which have acquired a 4.53% stake in RusHydro) do not plan to sell their stake for now, as they see it as a good portfolio investment, Interfax reported yesterday, citing an unnamed source close to them. This news reduces the stock overhang risk for RusHydro, in our view, at least in the short term.

On a separate note, RusHydro's BoD yesterday set the new share issue price at R1.61 per share, including for pre emptive rights. The price is based on the six month weighted average market price on MICEX. The issue volume (via open subscription) is 1.86bn new shares, which is a mere 0.6% of the current share count, so the impact on our valuation will be tiny. Nevertheless, the issue price is 7% above our current assumption of R1.50 per share, which is positive. The issue proceeds will mainly be used to finance the repair of Baksansk GES, with the state contributing around R1.5bn. The record date was September 14.

For the time being, we keep our target price for RusHydro of $0.072 per share and reiterate our BUY recommendation.

Alexander Kotikov

19. Shareholders OK selling 6.6% in Crew Gold to Russiaís Severstal

bne
December 08, 2010

The shareholders of Canada's Crew Gold have approved selling a 6.6% stake in the company to Russian steelmaker Severstal subsidiaries Nord Gold N.V. and Nord Gold /Yukn/ Inc., reports Prime-Tass.

Citing a statement issued by Crew Gold, the news agency says that the deal would bring Severstal's ownership of Crew Gold to 100%.

20. Sistema to sell 28% common stake in MGTS to MTS in 2011

bne
December 09, 2010

Russian multi-industry holding AFK Sistema plans to sell a 28% common stake in Moscow City Telephone Company (MGTS) to mobile subsidiary MTS in 2011, says AFK Sistema's President Leonid Melamed, reports Prime-Tass.
The news agency quoted Melamed as saying that the exact timeline for the sale depends on the situation on the market.

21. UC Rusal's landmark Russian depository receipts programme registered at the FSFM
Press Release
December 8, 2010

Moscow, 8 December 2010 - UC RUSAL (SEHK: 486, EuroNext: RUSAL/RUAL), the world's largest aluminium producer, announces that the issue and the prospectus of the Russian Depository Receipts ("RDRs") programme of the company have been registered at the Russian Federal Service for the Financial Markets ("FSFM").

The maximum number of RDRs that may be issued under the RDR programme is 2,000,000,000. This would represent 100% of the authorized share capital of the company. RDRs are planned to be issued on already issued common shares of the company. Each RDR will represent a right of its holder to receive 10 (ten) shares. RDRs do not have any nominal value. There is no time limit on the issue of RDRs within the RDR programme. The date on which the issue of RDRs may commence will be determined by Sberbank being the issuer of the RDRs. The company's shareholders will be able to receive RDRs against the deposit of shares, and, vice versa, RDR holders will be able to receive shares.

RUSAL becomes the first company to set up a Russian Depository Receipts programme. This programme is aimed at improving the attractiveness of and access to RUSAL's shares for the extensive Russia-focused investor base that was unable to participate in the company's listing of its shares on the Hong Kong Stock Exchange.

It is currently contemplated that RDRs will be listed on both "MICEX Stock Exchange" and "Russian Trading System" Stock Exchange. Listing on both of these stock exchanges remains subject to compliance with all relevant regulatory and listing requirements, applicable laws and regulations.

22. Will Svyazinvest's Reorganisation be Halted? Not Likely, in Our View
Aton
December 6, 2010

Interfax reported on Friday (3 Dec) that the Economics Ministry had not yet received the results of an independent appraiser's examination of Ernst & Young's valuation of the swap ratios for the Svyazinvest companies, which was expected on 30 Nov.

The Economics Ministry is still worried about the potential loss of governmental control over the united Rostelecom. It also disagreed with the sale of a 25% stake in Svyazinvest to Rostelecom earlier this autumn, rather than to state Controlled VEB.

Bottom line
While the news adds some uncertainty for Regional Telecom Operators' shares, the chances that Svyazinvest's reorganisation could be halted or the swap ratios revised are small, in our view. Indeed, the reorganisation concept has already been approved by the government and minority shareholders who disagreed with the process have been bought out.
23. Freight One valued at $3.9bn
Aton
December 6, 2010

According to Kommersant (6 Dec) 75% of Freight One (FO), slated for an IPO, has been preliminarily valued at RUB91.1bn ($2.9bn) in Russian Railways' (RZD) financial plan for 2011. This implies a total market capitalisation of $3.9bn and an EV of $4.3. On our numbers, the company's fair market cap is $4.9_5.3bn. An RZD representative quoted by Kommersant stated that the valuation would be revised prior to the IPO. The scheme for FO's privatisation has not yet been finalised, and furthermore, the government has not decided whether a private placement of 25% should precede the IPO. In our view, if FO's IPO valuation is favourable for investors, we expect an outflow of funds from Globaltrans (BUY, target price $18.90, current price $18.30).

24. LSR Group - Management selling shares again
Renaissance Capital
December 6, 2010

Event: On Friday (3 Dec), LSR announced that Igor Levit (chairman) has reduced his stake in the company to 0.61% from 1.26% and that Evgeny Yatsyshin (managing director, Residential) has reduced his stake in the company to 0.58% from 1.22%. This is the third time since September that both members of management have sold shares (Levit's stake was originally 1.78% and Yatsyshin's stake was originally 1.55%).

Shares in LSR are up 7% YtD but are among the worst-performing stocks in Russian real estate. It is difficult to provide much additional detail around the share sale, though we note it follows the release of LSR's 1H10 results in September, which were below consensus expectations, and a $400mn primary offering in April. Furthermore, the company now trades at a premium to PIK (12x and 9.4x 2011E and 2012E EV/EBITDA, respectively, vs PIK's 11.3x and 9.1x), and although we think LSR continues to have upside potential to our $11/share target price, the scope for outperformance may have decreased.

David Ferguson

25. RussNeft holders to determine Sistemaís payment for 49%
bne
December 09, 2010

The shareholders of Russian oil company RussNeft are expected to sign an agreement to determine the procedure for multi-industry group AFK Sistema's additional payment for a 49% stake in RussNeft, says AFK Sistema CEO Leonid Melamed, reports Prime-Tass.

The news agency quoted Melamed as saying that AFK Sistema had partially paid for the stake and was expected to make another payment. It is not clear how much AFK Sistema has paid.
26. Severstal to buy rest of Sacre-Coeurís shares by May 31
bne
December 09, 2010

Russian steelform Severstal plans to close a deal before May 31, 2011 at the latest to buy the remaining 80.3% stake in Canadais Sacre-Coeur Minerals, which mines gold in Guyana, reports Prime-Tass.

Citing a statement issued by Sacre-Coeur, the news agency says that Severstal may close the deal before April 1, 2011.

27. TNK-BP Holding downgraded to Hold on recent price growth
UralSib
December 9, 2010

No change to target price. TNK-BP Holding’s (TNBP RU - Hold) share price has risen from $2.2/share on 22 November (the pricing date used in our latest update) to $2.9/share as of 7 December, a gain of 31%. The stock’s growth exceeded that of the RTS index during this period by 24 ppt. The upside that previously existed to our target price of $2.60/share has not only been eliminated but the latest market price suggests a downside of 10%. Based on this, we have downgraded the stock from Buy to Hold leaving the target price unchanged at $2.6/share, as we do not see any fundamental reasons to revise our model.

SPO looks unlikely. From our recent discussions with the company, we have concluded that its controlling shareholders have no compelling mo- tive to reduce their stakes and increase the free float over the short to medium term. This contrasts with Gazprom Neft’s situation, as Gazprom could raise $4 bln by selling the 20% stake it bought from ENI in 2009, without losing its 75% majority. Over the long run, however, TNK-BP Holding’s majority owners believe that all financing options are possible, including a new share issue.

28. TNK-BP Holding shares to start trading on RTS and MICEX today
Troika Dialog
December 6, 2010

TNK-BP Holding shares have been admitted to trading on both the RTS and MICEX stock exchanges starting today. The stock has been placed in the "unlisted shares admitted to trading" section. The shares were previously only traded OTC on the RTS Board.

We understand that admittance to both exchanges will improve daily turnover (liquidity) by widening the base of investors with easy access to the stock; it will also make the pricing more relevant and lead TNK-BP Holding to start publishing quarterly RAS results (until now, it has only published semi-annual US GAAP figures). A certain proportion of investors, including Russian pension funds and insurance companies, will remain unable to invest in the shares due to the lack of formal listing on the exchanges.

Oleg Maximov
29. X5 Retail Group - upgrade on acquisition; organic growth next trigger
Troika Dialog
December 7, 2010

With X5 Retail Group's acquisition of Kopeika, we raise our target price to $56.40 per GDR and confirm our BUY recommendation. X5 Retail Group's management expertise, coupled with synergy effects and economies of scale, should boost Kopeika's EBITDA 66% to $224 mln in 2012. This translates into a consolidated EBITDA CAGR of 38% in 2010-12, which compares well with Magnit's 41%. We thus consider X5 Retail Group's 29% discount to Magnit on 2011E EV/EBITDA to be undeserved. We anticipate that organic store roll-out plans to be announced by year end will surprise the market on the upside and become the next trigger for the stock.

- X5 Retail Group is paying R51.5 bln ($1.64 bln) including debt for 100% of Kopeika, implying a 2010E EV/EBITDA of 12.1 and EV/S of 0.8, we estimate. Although this valuation is close to the market, we believe that the deal will be value-accretive for X5 Retail Group as synergies can be achieved after the merger.

- With Kopeika's revenues per m2 of $7,300 per annum versus $12,800 for Pyaterochka, we see massive scope for improved performance following consolidation. We believe that Kopeika's sales density may reach 80% of Pyaterochka's level by 2012, implying revenues of $3,121 mln that year.

- In addition, X5 Retail Group's stronger purchasing power, logistics infrastructure and savings on administrative expenses could boost Kopeika's EBITDA margin 0.8 pp to 7.2% in 2012. We thus expect the acquired business to add $224 mln to consolidated EBITDA in 2012, implying a 15% increase to our current projection.

- We now assume a 38% EBITDA CAGR for X5 Retail Group in 2010-12, which compares well with Magnit's 41%. X5 Retail Group's 2011E EV/EBITDA of 11.0 implies a 29% discount to Magnit, which we believe to be undeserved.

- The company has confirmed its intention to accelerate organic store roll-out. This is already reflected in our model, and we assume that the retailer will organically double its store count over the next three years. The company's official guidance, to be announced by year end, may surprise the market on the upside and become the next trigger for the stock.

30. Mostotrest raises $212.3mn in extra share offering
bne
December 09, 2010

Russian infrastructure builder Mostotrest has raised about $212.3mn through an additional share offering, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that Mostotrest placed 33,975,500 common additional shares at a price of $6.25 per share.

Of the total, Cyprus-registered Marc Polo Investments Ltd, one of the company’s shareholders, bought additional shares worth a total of $195.1mn, says Prime-Tass.
**31. RTS to sell 25% of the shares through IPO**
December 09, 2010

RTS Board of Directors decided to sell additional 25% of the shares of the stock exchange through IPO in 2011, reports local media.

Reports suggest that authorized capital of the stock exchange amounts to RUB166bn.

**32. UralSib don't hurry to IPO**
December 08, 2010

UralSib Bank denied the information published in some mass media concerning its negotiations with foreign and Russian banks about a possible involvement of a strategic partner or holding an IPO, reports local media.

Reports suggest that the bank plans a number of consultations with the largest Western investment banks on these issues early 2011.

**BUY BACKS, SHARE ISSUES**

**33. Mechel sold at NYSE receipts**
December 09, 2010

Mechel investors Jim Justice and his family sold at NYSE receipts for 6% of the preferred shares of Mechel (1.5% of the capital) for $135mn, reports local media.

Reports suggest that the Justice bought shares of the company in 2009 having sold Bluestone Coal for 83.25 million the preferred shares (60% of the total number of the preferred shares or 15% of the Mechel capital) and $436mn to Russian company.

**34. MHP’S major shareholder offers 10% of shares in holding company through GDRs**
December 07, 2010

Controlling shareholder of large Ukrainian poultry producer Myronivsky Hliboprodukt (MHP) Yuriy Kosiuk is offering up to approximately 10% of shares in MHP S.A., the Ukrainian agroindustrial group’s holding company, reports Interfax.

Citing a statement issued by t MHP, the news agency says that WTI Trading Limited, beneficially owned by Kosiuk, is placing about 10% of the holding company in the form of global depositary receipts (GDRs).
35. Ovoca Gold to start buying back 10% of own shares before 2011
bne
December 07, 2010

London-listed Ovoca Gold, which has its main operations in Russia, plans to start buying back 10% of its own shares before the end of 2010, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that Ireland-registered Ovoca is awaiting the necessary documents from Irish courts in order to start the buy back.

36. Prokhorov selling 1.5% of Polyus Gold in private placement
Troika Dialog
December 10, 2010

Media reported yesterday that Mikhail Prokhorov's Onexim Group is conducting the placement of $100 mln worth of Polyus Gold stock and that the books are expected to close on Friday. The price is reportedly $35 per GDR, a discount of around 5% to the current price, while the stake represents 1.5% of the company's outstanding capital (around 2.9 mln shares).

As we have contended in the past, in light of drastically improving equity market conditions, firm bullion prices and swelling valuations of gold miners, we are likely to see a number of equity issuances on the market next year, mainly composed of secondary issues whereby existing shareholders reduce their stakes, but also some primary deals. Both should naturally lead to a perceptible share overhang. We posit that in particular, Polyus Gold and Polymetal are in the danger zone, with up to 50% and 70% of their shares, respectively, potentially offered for sale by the companies and shareholders over the next several years.

The defining characteristic of the shareholder structures of both Polyus Gold and Polymetal is that they are mainly composed of financial investors that would stand ready to monetize their investments once the rate of return on the initial investment is deemed acceptable.

In the case of Polyus Gold, we see four potential sellers, but mainly Suleiman Kerimov, who acquired his 25% stake in the company at around $10 per ADR. Next in line is Dmitri Rybolovlev, who purportedly received his 10% share in Polyus Gold from Kerimov as part of the consideration for 53% in Uralkali. Third, the company could be a seller itself, disposing of its treasury shares (5.6%) to raise funds for project development (namely, Natalka) and further M&A. Rounding out the group is Prokhorov, who could reduce his 35% stake somewhat to partially capitalize on it while remaining a core shareholder.

Mikhail Stiskin

37. RusHydro announces price for additional share issue
Alfa Bank
December 9, 2010
Yesterday, RusHydro announced the price for its additional share issue: RUB1.61/share, or 0.7% below the market price. The price was calculated as the weighted average price for the last six months. The additional share issue is intended to attract funding to repair the Baksanskaya GES in Kabardino- Balkaria, which was damaged by a terrorist attack last summer.

The volume of the placement is rather small (1.9bn shares, or 0.66% of equity), and the price is close to market, so we treat the news as NEUTRAL for the stock.

38. WGC-1 to start offering additional shares on Friday

Russian power producer Wholesale Generating Company-1 (WGC-1) plans to start offering 38 billion additional shares on Friday, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that the company plans to offer the shares publicly at the price of RUB1.12 per share.

39. Reasonable to sell 7.6% in Sberbank over several years

Alexei Ulyukayev, first deputy chairman of the Central Bank of Russia (CBR), believes it is reasonable to sell a 7.6% stake in Sberbank, the country’s largest bank, over several years, reports Prime-Tass.

The news agency quoted Ulyukayev as saying that a 7.6% stake is too big a stake for a free-float.

40. Exec sees RUB500mln-1bn invested in Sberbank mutual funds

Investors are expected to contribute between RUB500mn and RUB1bn into mutual funds run by Russia’s Sberbank Management Company, says Andrei Golikov, head of Sberbank’s treasury and financial markets department, reports Prime-Tass.

The news agency quoted Golikov as saying that Sberbank Management Company aims to invest in the most attractive Russian stocks and bonds.

41. Troika Dialog Boosts Liquidity on Two Mutual Funds

Press Release

December 10, 2010
On December 10, 2010, Troika Dialog enacted changes in the fund management rules of equity fund "Troika Dialog - Potential" Interval fund "Troika Dialog - Potential" - rules of fund custodial management registered by the FSFM of Russia on March 2, 2005, under _ 0328-76077318. The profitability of open-ended equity fund "Troika Dialog - Potential" as of November 30, 2010, in rubles for 1 month, 3 months, 6 months, 1 year and 3 years totaled 9.0%, 23.7%, 29.2%, 63.7% and 55.5% respectively and bond fund "Troika Dialog - Risky Bonds" Interval bond fund "Troika Dialog - Risky Bonds" - rules of custodial fund management registered by the FSFM of Russia on March 2, 2005, under _ 0327-76077399. The profitability of open-ended bond fund "Troika Dialog - Risky Bonds" as of November 30, 2010, in rubles for 1 month, 3 months, 6 months, 1 year and 3 years totaled 1.0%, 2.6%, 7.7%, 18.4% and 25.6% respectively. The funds have switched from the open-ended type to the interval type. Investors may now complete operations with shares in these funds on a daily rather than quarterly basis according to the work schedule of the company's sales offices <http://www.troika-am.ru/rus/Offices/index.wbp>.

According to Anton Rakhmanov, Managing Director at Troika Dialog AM, "We have changed the management rules of two of our funds for our clients' benefit. This will allow investors to purchase and redeem mutual fund shares on any day, thereby greatly increasing the shares' liquidity. We believe we can provide enough liquidity to the funds' securities holdings to allow daily operations without losing any profits. More broadly, Troika Dialog continues to modify its mutual fund offering in anticipation of investors' needs, as exemplified by mixed-investment fund "Troika Dialog - BRIC," Open-ended mixed-investments fund "Troika Dialog - BRIC" - rules of custodial fund management registered by the FSFM of Russia on September 28, 2010, under number 1924-94168958 launched this fall, which invests in assets on BRIC markets. Soon to follow is another product with a similarly innovative and profitable strategy."

"Troika Dialog - Potential" invests in the equities of small and mid-cap firms. The YTD ruble yield of "Troika Dialog - Potential" totals 48.1%, versus an RTS Index gain from the start of the year until November 30, 2010, totaling 10.6%. A thorough stock picking approach led to this impressive result. The strongest contributors to the fund's increased profits were equities in consumer sector firms as well as equities in regional telecoms operators.

Over 11m2011, the fund "Troika Dialog - Risky Bonds" created returns totaling 18.29%. The fund invests in 2nd and 3rd tier Russian corporate ruble bonds with medium and long-term growth potential and ample credit risk rating. Securities are selected on the basis of a thorough analysis of the issuer's credit quality including the potential for positive ratings revaluations and possible changes in the market environment.

EXCHANGES, REGULATIONS

42. Finance Ministry distanced itself from Deutsche Boerse
bne
December 08, 2010

Alexei Savatyugin, Deputy Finance Minister of Russia, has said that the government didn't make any decisions to elaborate on the question of establishing an alliance
between the Russian exchanges RTS and MICEX and the German exchange operator Deutsche Boerse, reports local media.

Savatyugin was quoted as saying that the question wasn't discussed by the Board of Directors of both Russian exchanges.

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**43. Deutsche Boerse joins the chase for Russian equities action**

bne  
December 6, 2010

Deutsche Boerse is in talks over building an alliance with Moscow's two major stock exchanges, reports Bloomberg, although any progress may depend on uniting the infrastructure of the Russian competitors in advance.

The German stock market operator is the latest to be eyeing the potential proceeds from Russian equity trading. For the moment, London, with its more relaxed requirements, continues to attract many listings. Hong Kong is pushing for business from Russia however, and hoped to make a splash with Rusal's float in January. That difficult issue was followed by a poor performance by IRC in October. The NYSE is also known to be sniffing around.

Deutsche Borse has been discussing cooperation with the Russian markets for some time now, but progress has been slow. The Bloomberg report suggests little headway has been made, but two unnamed sources confirmed that discussion of an alliance is still underway.

Micex, RTS and Deutsche Boerse may swap equity as part of the deal, the sources said. If a tie-up should happen, Russian companies may be offered listings in both countries, helping the exchanges win market share.

"Moscow as a global financial center has an ambitious plan, and this should be combined with the opportunities of German bourses, including the Frankfurt Stock Exchange," First Deputy Prime Minister Igor Shuvalov, who oversees efforts to attract investment, said in an October interview. "There are talks," he said, declining to elaborate on possible links.

The partnership would also give investors in Russian equities access to the German company's Eurex Clearing and Clearstream settlement systems, the sources said.

Deutsche Borse is providing Russia with advice on how to develop its market and keeps in "constant contact" with officials in Moscow, said Rainer Riess, managing director of the German company’s Xetra Market Development. "We feel we would be a unique partner because we would have a lot to offer as a group with our trading, clearing and settlement platforms," Riess said November 26 in a phone interview from Frankfurt. "Russia still has a few issues to resolve in the clearing and settlement space."

Deutsche Boerse would like to see the integration of Moscow's market infrastructure and its two central depositaries before forming an alliance, Riess said. The creation of a single depository was ordered by Medvedev as part of his drive to build Moscow into a global financial centre some time ago. However, vested interest in Micex's
National Depositary Center and RTS's Depository Clearing Company have prevented any progress, settlement officials told bne earlier this year.

Roman Goryunov, chief executive officer of RTS, Moscow's oldest exchange, and Andrei Saiko, a spokesman for Micex, both declined to comment. Micex is seeking to buy RTS in a "friendly takeover," Bank Rossii First Deputy Chairman Alexei Ulyukayev told reporters Nov. 18 in Moscow. That said, the dollar-denominated exchange appears less than keen on a deal.

**UKRAINE STOCKS**

**44. Court confirms Luhanskteplovoz sale to Transmashholding**

Dragon Capital  
December 8, 2010

News: The Kyiv Commercial Appeals Court yesterday confirmed the legality of the privatization tender in which Luhanskteplovoz, the monopoly producer of mainline locomotives in the CIS, was sold to Russia's Transmashholding, thereby overturning earlier court rulings won by the State Property Fund and Privat Group-affiliated bidder Mantara Holding. However, both the SPF and Mantara said they would continue litigation. (Kommersant)

Dragon view: We think the ongoing dispute between the SPF and the Russian producer would eventually be resolved through amicable settlement since Transmashholding has virtually full control of Luhanskteplovoz's order flow and operations. To illustrate, the company sold 54 out of the 58 locomotive sections it produced in 11M10 to Russia (50) and Mongolia (4) under contracts negotiated by Transmashholding. We maintain our Buy recommendation on Luhanskteplovoz.

Taisiya Shepetko

**45. MHP's majority shareholder to sell a 10% stake**

Renaissance Capital  
December 8, 2010

Event: Yesterday evening (7 Dec), MHP announced that its majority shareholder, WTI Trading Limited, which is wholly owned by MHP CEO Yuriy Kosiuk, will be offering up to approximately 10% of the company's common shares in the form of GDRs. The offering also includes an over-allotment option of up to 15% of the number of GDRs initially placed (greenshoe option). Details on the pricing of the deal have not been released.

Action: Somewhat positive for MHP's shares, in our view.

Rationale: If the offering is completed, MHP's free float will increase by roughly a third to 33.8% (this is including the greenshoe option), which we feel will add even more liquidity to a company that is already relatively liquid for Ukraine (3mn average daily turnover, at $1.2mn). Despite a recent price rally (the company's shares have risen more than 15% in the past month and have almost reached our target price), we have a very positive view on the stock and see no reason to interpret Kosiuk's move in a negative light.

Konstantin Fastovets
46. Milkiland begins trading under MLK PW ticker
BG Capital
December 6, 2010

Ukrainian dairy producer Milkiland, which floated shares in an IPO on the Warsaw Stock Exchange, will begin trading on the WSE today under the ticker MLK PW. The company raised gross proceeds of PLN 236mn (US$ 79mn) during the IPO. Proceeds will be used in 2011-12 to upgrade the company's Okhtyrsky Cheese Plant in Ukraine (EUR 10mn), modernize its Ostankino plant in Russia (EUR 10-13mn), expand milk farms to house 3,500-4,000 milk cows (EUR 8mn), and increase working capital.

47. Motor Sich: Target upgraded to USD 509 on 10-year tax break
Concorde Capital
December 9, 2010

Event: New tax code sets zero income tax for MSICH Ukraine's new tax code, signed into law by President Viktor Yanukovych earlier this month, included an income tax break for the aerospace industry, which includes locally traded Motor Sich (MSICH UK), until 2020. Motor Sich shares have risen 12% growth over the last two days.

Implication: additional USD 86 to DCF target We estimate the income tax vacation, from 25% under the previous tax code, will allow Motor Sich to increase its FCFF by USD 180 mln at present value (or USD 86.5 per share). Accounting for the tax break in our DCF model increases the fair value of the stock by 36% to USD 481.

Action: Target upgraded to USD 509, confirming BUY We continue to value Motor Sich by averaging the results of a DCF analysis and a comparative valuation based on EV/EBITDA using global peers. Given the changes to our DCF model, we increase our target by 34% to USD 509 (44% upside), confirming our BUY recommendation.

48. Ukrtelecom pays 74bn hryvnas in 2007 divs to ppty fund
bne
December 08, 2010

Ukrainian state-controlled fixed-line monopoly Ukrtelecom has paid 74.37bn hryvnas worth of dividends for 2007 to the State Property Fund of Ukraine, thus fulfilling a court ruling, reports Interfax.

Citing the fundís press office, the news agency says that the fund is also seeking to recover a 20.4mn hryvna penalty from Ukrtelecom for the delayed dividend payment, but this claim is currently being considered by a court.

49. Ukrtelecom resolves dividend dispute with privatization agency
BG Capital
December 9, 2010

Ukrtelecom (UTLM) paid out UAH 74.4mn (US$ 9.4mn) in withheld dividends for 2007 to Ukraine's State Property Fund, according to Interfax. Shareholders in 2008 approved dividends of 30% of 2007's net income of UAH 267mn, but the company later asked the SPF for permission to freeze the payment owing to its poor 2008
financials. Under the terms of the upcoming Ukrtelecom privatization tender, the tender winner would need to pay the outstanding dividends within 3 months, along with fines for delays amounting to 200% of the NBU's refinancing rate.

Alexander Paraschiy: The early payment of the dividends looks to have saved about UAH 28mn (US$ 3.5mn) in fines for the potential investor, or just 0.25% of the auction's starting price. Although the event carries little direct implication for the potential success of the privatization, it could be an indicator that the state is actively preparing to finally privatize the company by cleaning up its liabilities.

### EURASIAN STOCKS

#### 50. Azerbaijan: Azal Sigorta increases authorized capital

APA-Economics  
December 8, 2010

The State Committee for Securities registered the issue prospectus of ordinary registered book-entry shares of “Kapital Bank” OJSC.

Issue volume AZN 8 137 500  
Quantity of shares 17 500  
Par value AZN 465

Azal Sigorta has been in operation since 1995.

#### 51. Azerbaijan: Turanbank increases authorized capital

APA-Economics  
December 8, 2010

The State Committee for Securities registered the issue prospectus of ordinary registered book-entry shares of Turanbank OJSC.

Issue volume AZN 1 500 000  
Quantity of shares 1 500  
Par value AZN 1 000

According to the issue prospectus, placement is planned to be held by means of the public subscription method at the Baku Stock Exchange.

Note that, Turanbank has been in existence since 1992.

#### 52. Georgian Railway clarifies reports of subsidiary’s IPO

BG Capital  
December 7, 2010

On Friday, news sources reported that Georgian Railway Construction Ltd. (GRC), a fully-owned subsidiary of Georgian Railway (GRAIL), plans to conduct an IPO and raise US$ 500mn to finance the construction of a hydropower plant (HPP). Vitaliy Vavryshchuk: We spoke with management to get clarity on the issue, and they confirmed the news was misinterpreted. GRC is not planning to raise any financing. It will only work out the best structure for the project as a separate entity, conduct a feasibility study, and search for a private investor for the project, and will not contribute to the project above that. Funding for the HPP will be raised by a separate
entity to be established by prospective private investors. On a separate note, Georgian Railway said the HPP project carries certain positives for the company as it will result in lower electricity prices.

53. Mongolia: Haranga IPO closes early; oversubscribed exploration commencing on 5 Mongolian iron ore projects
Monet/Mineweb
December 6, 2010

Haranga Resources Limited is a Mongolia focused iron ore exploration and development company. On 9 November 2010, Haranga Resources lodged a Prospectus with the Australian Securities and Investments Commission ("ASIC") regarding its Initial Public Offer ("IPO") to raise $25 million and list on the Australian Stock Exchange ("ASX"). The Company announces that:

- The Haranga Resources IPO has closed early and heavily oversubscribed
- The Company will list on the ASX in early to mid December 2010
- Drill rigs and geophysical survey crews booked for immediate commencement of exploration post IPO

54. Mongolia: Prophecy Announces Filing of Preliminary Prospectus for Proposed Equity Offering
Monet/Marketwire
December 6, 2010

Prophecy Resource Corp. (TSV:PCY) announced today that it has filed a preliminary short form prospectus in the provinces of British Columbia, Alberta and Ontario, Canada for a new issue of common shares. The net proceeds of the offering are intended to be used by the Company to fund work on its existing properties in Mongolia, repayment of an outstanding credit facility, and for working capital and general purposes. The issue price of the shares and the number of shares to be issued will be determined in the context of the market.

Jacob Securities Ltd. and Renaissance Capital (Hong Kong) Ltd. will act as joint lead managers for the offering. The offering will be conducted in the Canadian provinces referred to above through Jacob Securities Ltd. Renaissance Capital (Hong Kong) Ltd. and affiliates will act as special selling agent for the purpose of procuring subscribers in certain jurisdictions outside of Canada.

The offering is subject to all customary conditions and regulatory approvals, including that of the TSX Venture Exchange.

This press release does not constitute an offer to sell or a solicitation to buy any of the securities in the United States. The securities have not been and will not be registered under the United States Securities Act of 1933, as amended ("the U.S. Securities Act") or any state securities law and may not be offered or sold in the United States unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration is available.
55. Mongolia: Prophecy Investigation, Trading Halt, Retracts Lynn Lake information
Monet/TMX  
December 6, 2010

Prophecy Resource Corp. (TSV: PCY) - as part of a pre-filing review of the Company's technical disclosure, in advance of the filing of the preliminary short form prospectus dated December 2, 2010, the British Columbia Securities Commission identified certain instances where the information disclosed by the Company in relation to the Lynn Lake property, did not comply with NI 43-101 and other disclosure requirements. Specifically, historical reports, including an October 23, 2006 Preliminary Economic Assessment Report and a December 5, 2007 Prefeasibility study, both by Wardrop Engineering Inc. for a prior holder, Independent Nickel Inc., contain mineral reserve estimates that were calculated under standards and assumptions that are no longer applicable or appropriate. As a result these reserve estimates cannot be relied upon until such time as Prophecy has completed an updated technical report on the property.

Prophecy retracts all past reported economic valuations, estimates, references to pending prefeasibility studies, reported mineral reserves and references to future production scheduling regarding its Lynn Lake nickel property. An updated or amended technical report in respect of the Lynn Lake nickel property will be completed by the Company in due course and the Preliminary Economic Assessment and any references to it have been removed from the Company's website. The Company therefore cautions investors that these materials should not be relied upon.

Shares dropped 3.13% today as a result, down 9.71% this week.

56. Mongolia: Voyager Resources to raise 2.1Mn AUD in new share issue
Monet/ASX  
December 9, 2010

Voyager Resources (ASX:VOR) announced today they will issue 70,000,000 new shares at AUD 0.03 per share to raise AUD 2.1Mn. One in every four shares placed will come with an option to exercise at 0.02 on or before 30/09/11.

The funds will be applied to ground geophysical surveys, geological mapping, surface geochemistry, diamond drilling and as working capital.

57. Mongolia: Xanadu Mines to list Mongolian Coal and Copper/Gold Assets on the ASX
Monet/Xanadu Mines  
December 7, 2010

Xanadu Mines Ltd ("Xanadu"), an Australian-backed, Mongolian-focused minerals explorer and developer has opened its Initial Public Offer (IPO) ahead of its proposed listing on the ASX in late December. The IPO is seeking to raise between $15 million and $21 million at 60 cents a share, valuing the company at between $90 and $100 million.
Xanadu commenced exploration in Mongolia almost six years ago and in that time has assembled a portfolio of coal and copper/gold assets strategically located in proximity to rail infrastructure and the Chinese border.

Upon listing, Xanadu’s portfolio of coal assets will consist of its 327 million tonne JORC Code compliant indicated and inferred resource at its Khar Tarvaga (Black Marmot) project, and its new flagship coal project at Galshar. Currently Galshar has an exploration target in the range of 175 million tonnes to 225 million tonnes of thermal coal. The Galshar Project is 65 kilometres from rail infrastructure and 200km from the Chinese border.

“Mongolia has now become a destination of choice for the world’s major mining houses due to its prospectivity, resource endowment and its 3800km border with China. The country represents a next generation minerals play with two world-class copper gold and coal projects, namely Oyu Tolgoi and Tavan Tolgoi respectively”, according to Xanadu’s founder and Executive Chairman, Brian Thornton.

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**SE STOCKS**

**58. Bulgarian drug maker Sopharma sees 15% rise in sales**

bne
December 6, 2010

Last Friday, Bulgarian drug maker Sopharma announced its sales revenue rose by 15% on the year through November, according to SeeNews.

Exports rose by 23% in the first nine months, while domestic sales fell by 1.0%, the blue-chip company said in a statement filed with x3news, the news service of the Bulgarian Stock Exchange (BSE).

In November alone, Sopharma's exports increased by 6%, while domestic sales fell by 6%, the statement added.

The company provided no sales figures.

Sopharma's CEO Ognian Donev has said he expected the company's sales revenue to rise by between 12 and 15% in 2010.

Sopharma exports its output to 28 countries.

Its stock closed 0.39% lower at 3.85 levs in a volume of 30,926 shares on the BSE on Friday.

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**59. New pharma player on the Romanian market**

Raiffeisen
December 7, 2010

Starting with November 24, 2010 Ropharma Brasov (RPH) shares are traded on the Bucharest Stock Exchange (BVB) main market, Tier I. Previously, Ropharma shares were listed on the OTC market NASDAQ under the ticker IAFR. Ropharma is a practically vertically integrated Romanian pharmaceutical player. The company, which is the ninth largest player on the wholesale market according to pharma statistics provider Cegedim, owns a 96-unit retail chain of pharmacies (roughly
1.5% of the total number of pharmacies in Romania) and a production facility of dietary supplements. A second production facility is located in Iasi County, but is currently not operational due modernizing and upgrading works. According to data released by Ropharma, in 1H of 2010 it held a market share of 3.75% of the wholesale market and a 2.85% of the retail market. Ropharma handles the distribution business through five warehouses which allow a 3/4 nation-wide coverage (practically the entire northern and eastern parts of Romania). The retail chain is spread throughout seven counties that make for a 1/4 nation wide exposure. The wholesale portfolio is diversified and comprised of 11,000 products (Rx, OTC, supplements and cosmetics). In early 2009 Ropharma merged with three local pharmaceuticals retailers and expanded its retail chain to 94 units. After the acquisition, the breakdown between retail and wholesale tilted towards retail (roughly 70% of sales in 2009), while previously the balance was slightly tilted towards wholesale (53% of sales in 2008). RPH is the 100% owner of Aesculap Prod SRL, a producer of dietary supplements specialized on supplements extracted from milk. The company has local patents for several dietary supplements based on lactoferrin (also know as lactotransferrin, which is a multifunctional protein, component of the immune body system that can be purified from milk). Sales of own production accounted for roughly 2% of 2009 revenues. Ropharma expects sales of own production to double yoy in 2010 to EUR 2 mn and to reach EUR 10 mn by 2014 on a wider portfolio of products, improved marketing activities and rising brand awareness.

60. Romania's first IPO in two years, a failure
IEBA
December 7, 2010

The initial public offering of Hidraulica Plopeni (HPR) producer of hydraulic pumps was just 0.04% subscribed, less than EUR 1,000, the lowest level registered by an IPO launched on the Stock Exchange in the past 10 years. The company had planned to raise RON10m (EUR2.3m) to accomplish its investments plans in the field of green energy.

61. Significant changes to capital markets in Turkey not expected in short term
bne
December 9, 2010

Today's Zaman reports that significant changes to capital markets in Turkey are not expected in the short term, according to a new survey done by the Turkish Capital Markets Board (SPK).

The SPK November Outlook Survey of 312 of the top managers at various companies indicates that many managers do not expect a significant change in capital market indicators in Turkey; however, their expectations for the performance of the capital markets were optimistic for the next six months and year.

According to the SPK survey, 76% of participants responded that they did not expect a significant change in the Treasury bill interest rate for the next month; 60% of respondents did not expect any change in the six month period; and 49% of participants said they were expecting an increase in the interest rate for Treasury bills in the next year.
Moreover, 61% of participants predicted the dollar would stay stable next month against the Turkish lira, while 13% indicated that they expect the US currency to drop against the lira. The rate of the participants expecting that the euro would stay stable was also quite high -- 66% said they did not expect any significant change in the value of the euro in the next month, while 50% also think there will be no significant change in the value of the euro against the TL in the next six months.

62. Eurozone crisis makes foreigners sell Turkish stocks
bne
December 8, 2010

Foreigners in the Istanbul Stock Exchange (ISE) purchased a net $98m of shares in November 2009, writes the Hurriyet Daily News. However, ISE data shows that foreigners were net sellers last month, selling $613.5 million worth of shares as the Eurozone crisis continues. The figure also compares with a net inflow of $80.9 million to Turkish stocks in October.

In November the benchmark ISE-100 index declined 5.4%, triggering fears of a "market correction" due to the Eurozone crisis.

Banking stocks were hit the most, making up the top-five sold-off stocks among the ISE-30. "Out of ISE-30 companies, Garanti Bank, Isbank and Vakifbank ranked as the top-three sold-off equities with net outflow figures of $223m, $180m and $98m, respectively," said EkspresInvest, according to the Hurriyet Daily News.

63. Turkey's Turkcell fined TRY 279m for unpaid Treasury fees
Erste
December 8, 2010

In a filing submitted to the Public Disclosures Platform, Turkcell stated that the company is ordered to pay TRY 279mn because of an alleged failure to pay fees for the licence to the Treasury. According to telecoms regulator, Turkcell did not pay TRY 73mn fee for license agreement between March 2006 and December 2008, and the penalty portion is TRY 206mn for the fine. Turkcell also noted the company did not believe the fine by the telecoms regulator was correct and that it would pursue all legal means against the decision.

64. Turkish govt plans to move bourse
bne
December 10, 2010

Turkish PM Recep Tayyip Erdogan has announced plans to move the Istanbul Stock Exchange (ISE) from the Istinye district on the European side of Istanbul to Atasehir on the Asian side, reports Hurriyet Daily News.
The Turkish government has plans to turn the Atasehir district into a regional and then global financial center, as many financial institutions are buying up land in the area, boosting prices.

Two years ago, Halkbank and Ziraat Bank purchased sizeable chunks of land in Atasehir. Vakifbank and the Capital Markets Board are expected to take similar steps soon.

"Whatever people say, Istanbul is a center of finance," Erdogan said. "As it utilizes the benefits of its location, the Istanbul bourse will have a more international identity, making the world hear the voice of the Turkish economy.

The daily trading volume of the ISE has reached $1.7bn, from $281m in 2002, Erdogan said, according to Hurriyet Daily News. "Meanwhile, the ISE-100 index has hit the 70,000 level recently, while it was below 11,000 points in 2002. All this happened despite a severe crisis, two elections and a referendum.

"I hope this beautiful city will become an important center for the world economy," he added.

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**CE STOCKS**

**65. CEZ - Under pressure due to the state's interventions in the sector**

**KB**

**December 6, 2010**

Investment case 12M: Since mid-October, CEZ shares have been under strong selling pressure due to new measures imposed by the Czech government in order to prevent a possible high increase of electricity prices in the country. The whole European utilities sector now lacks imminent profit growth potential, and the same applies to CEZ, which will be burdened by new taxes in the next two years. We reduced our DCF-based target price due to the new regulation and updated projections for future electricity prices; this target price offers only a 7% upside to the current market price. Nevertheless, CEZ shares still offer several attractive attributes; CEZ is still relatively attractive within its sector and is also well-positioned on the cost curve and could thus benefit from a possible increase in electricity prices more than an average utility in Western Europe. All in all, as we are still negative for the sector but CEZ might outperform it slightly, a neutral rating seems the most appropriate for CEZ shares at the moment.

Fact/Impact: The Czech government’s proposal not to give any emissions allowances to electricity producers for free from 2013 onward had a negative impact of around CZK 50 on our valuation, and the newly introduced gift tax on emissions allowances will lower CEZ’s net profit more than CZK 4bn annually in 2011-12. Additionally, our forecasts of future electricity prices have been decreased approximately 10%, and this all has negatively impacted our target price. We expect next year's net profit to decrease and remain on this level for several years. The shares will thus probably lack any growth impulses in the near and midterm. On the other hand, the company should still generate very solid profits relative to its share price (P/E is expected to be below 10 over the coming years) and pay out attractive dividends (we expect a dividend yield of 6-7%). Despite the expected decline in profits, CEZ is still attractive
within its sector. The shares now trade with a 5-10% discount to its peers, based on the major 2011 multiples.

12M target price: We reduced our target price from CZK 960 to CZK 816 (based on the DCF model with a fair value of CZK 838). Our valuation is based on WACC of 7.71% and a long-term growth rate of 2%.

Next events: CEZ will probably announce its Q410 and full-year 2010 results at the end of February.

66. CEZ's Turkish JV signs $325m loan agreement with EBRD
bne
December 7, 2010

Czech power group CEZ said on Tuesday its Turkish unit AKCEZ and a company SEDAS signed a $325m loan agreement with the European Bank for Reconstruction and Development (EBRD), the World Bank's International Finance Corporation and UniCredit, Reuters reported.

SEDAS is a Turkish distribution company privatised by AKCEZ, which is a joint venture between CEZ and Turkish Akkök Group.

Proceeds from the loan will enable AKCEZ to finalise the privatisation of SEDAS and will help SEDAS implement its investment programme, CEZ said on its web site.

67. Mol faces political issues in Croatia again
Equilor
December 7, 2010

The major opposition party in Croatia started megaphone diplomacy in order to prevent MOL from achieving majority in INA. Currently, MOL holds 47.2% of INA shares and could increase its stake to 56.2% by last week's buyout offer. However, the opposition party would like to keep the majority of INA in Croatian hands and is intended to launch a counteroffer for the 8% of INA shares.

In our view, this is a less important story, as MOL's bid for INA shares is rather a part of a background deal with the government, which also includes INA's gas division. Regarding the latter, the final version is still to come, but latest rumors suggest MOL/INA would keep the gas unit and would be enabled to hike gas prices by 10%. We expect more details later.

68. MOL's Syrian plans on schedule
Equilor
December 9, 2010

MOL and INA are expected to triple the gas extraction of the Hayan fields (Syria) beginning from early 2011 due to the establishment of new unit in the area (Palmyria). This is broadly in line with market expectations. Currently, Syria accounts for about 2.5% of MOL's total hydrocarbon production, this is estimated to rise to around 8-10% through the new units. We consider this news neutral.

69. More Hungarian companies plan new hires than layoffs
bne
December 9, 2010

About 15pc more Hungarian companies plan to make new hires next year than expect to make layoffs, a survey by the Hungarian Chamber of Commerce and Industry (MKIK) shows, the chairman of the business association Laszlo Parragh said on Wednesday, MTI reported.

Exporters, mostly foreign owned, were the most optimistic, but SMEs plan new hires too, Mr Parragh said.

About 16pc more companies plan new hires of people with vocational training than plan layoffs. About 12pc more companies plan new hires of people with university degrees than plan layoffs. About the same number of companies plan new hires of unskilled workers as plan layoffs of such employees.

The survey of more than 7,000 companies was conducted by the chamber's Economic and Business Research Institute between September 5 and October 22.

70. Hungary's Mol strikes oil in Kurdistan, but Ina to leave Angola
bne
December 10, 2010

Hungary's MOL and partner Gulf Keystone Petroleum have submitted a discovery report on the Bijell-1 exploration well to Iraq's Kurdistan Regional Government (KRG) Natural Resources Ministry, Upstream reported. The well produced 3743 barrels a day of heavy oil, which "might be significantly increased by application of artificial lifting systems", according to London-listed Gulf Keystone.

The companies announced the successful closing of the Bijell-1 well tests in the Akri-Bijeel block in November.

MOL signed a production sharing contract with the KRG for Akri-Bijeel in 2007. MOL holds an 80% operating stake in the acreage, with Gulf Keystone holding the remaining 20%.

However, Mol's Croatian upstream subsidiary Ina Naftaplin is set to pull out of Angola after many decades of involvement in the country. Jozsef Torkoly, portfolio deputy director of Ina, a subsidiary of Mol in Hungary, said Angola's authorities have been notified of its plan to exit the country and that a sales process is under way. The Angolan asset sale is part of Ina's attempts to bring costs under control and focus its upstream operations in Croatia, Syria and Egypt.

71. Control Process to IPO on WSE in Q1 2011
bne
December 8, 2010

On Tuesday, Control Process submitted its prospectus to the Financial Supervision Commission (KNF), Polish News Bulletin reported. The company intends to debut on the WSE in Q1 of 2011. Its representatives reveal that the offering will consist of both old and new shares. "The main aim of the IPO is to obtain funds enabling us to reach for contracts from the top shelf. While at present we carry out contracts worth around ZL200m, within the next 2-3 years we want to reach for contracts worth ZL1bn," says Control Process boss and main shareholder Marian Wiatr. According to plans, the operation is to bring in several dozen million zlotys. At present, the firm
builds measurement and transmission installations mainly for oil and gas companies, which accounts for around 50 percent of the revenue it generates. In the future, however, it wants to expand to the energy sector, hence its plan to acquire a firm representing it.

72. Milkiland Debuts on WSE
bne
December 10, 2010

Monday saw the WSE debut of Ukrainian dairy company Milkiland, with its share price rising 3 percent at the beginning of the trading session, Polish News Bulletin reported. In total, the enterprise sold 6.25 million new shares and 750,000 existing shares, which means that the IPO eventually brought in ZL236m. Yesterday, Milkiland top brass representative Anatoliy Yurkevych announced that the firm intends to spend the entire income from its WSE debut on investment. The money will be used to finance the planned modernisation of Milkiland’s currently owned facilities and the takeover of a cheese factory in Russia, which will later be developed. Additionally, the enterprise wants to boost milk production output in order to increase its share in the Ukrainian milk market. In total, in the years 2011-2013 it intends to invest EUR83-106m. This figure includes potential expenditure on acquisitions. Milkiland is the 29th debutant on the WSE this year and the 26th foreign company listed there.

73. Poland Amrest - Accelerated growth to burden near-term results
Erste
December 8, 2010

- We downgrade our recommendation on AmRest shares from Accumulate to Sell, with a 12M target price of PLN 74 (from PLN 78).
- We believe that 2011 should bring a rebound in company's sales with positive one-digit same-storesales.
- We are afraid that the accelerated expansion may burden near-term company results, putting pressure on company's stock price.
- The peer comparison indicates that AmRest is traded with significant premium to its peers based on both: P/E and EV/EBIT ratios.

Investment story As a consequence of the recent capital increase, management plans to accelerate development of the AmRest sales network. Beginning in 2011, AmRest intends to open approximately 100 restaurants annually. A straight majority of new developments should take place in the Quick Service segment (with KFC, Burger King and Starbucks being the most expanded brands), in the company's core markets, i.e. Poland and the Czech Republic. Moreover, a majority of new openings are to be drive-through restaurants, which will require significant capital outlays - such restaurants are much more expensive compared to restaurants opened in a shopping center. For 2011, our new openings forecasts are in line with those of management. However, in subsequent years, we are more conservative and assume 67 and 47 new openings in 2012 and 2013, respectively. For 2011, we forecast CAPEX of PLN 400mn including PLN 50mn maintenance CAPEX. Despite new restaurant additions, we expect the FY10 top line to report only slight y/y growth, which is due to the sales weakness in the company's core markets, i.e. Poland and the Czech Republic. This negative tendency should be partially offset by decent growth stemming from Russia and US, which seem to be emerging from the crisis first. All in all, we envisage the overall top line at about PLN 2.03bn in 2010 (up only
1.5% y/y). For subsequent years, we forecast a strengthening of overall consumer spending, which should be reflected in positive same-store-sales dynamics, which we assume already in 2011. This together with accelerated expansion should contribute to higher sales growth in the following years. Our revenue forecast equals PLN 2.38bn for 2011 (up 17.2% y/y) and PLN 2.78bn for 2012 (up 16.9% y/y). The Polish gastronomy market is estimated to be worth approx PLN 20bn, which means that an average Pole spends PLN 500 annually on dining out - 5% of total spending for food, which is well behind Western European countries (e.g. 35% in Germany). For this reason, we forecast significant growth in the Polish gastronomy market. This is, however, in the long term. On the other hand, it should be borne in mind that there are different customs in Poland - Poles (especially in smaller towns and in the countryside) tend to eat more at home. For other CEE countries, where AmRest operates, we expect similar tendencies on the gastronomy markets.

Although we believe the following years should bring a rebound in company's sales resulting from improving consumer confidence, we are afraid that the accelerated growth plan will deteriorate the company's near-term financial results, which may put pressure on the company's stock price. Firstly, AmRest expenses start-up costs which will undoubtedly erode margins. Additionally, it takes some time before new units reach desired profitability levels. The payback period of the investment in a drive-through restaurant is, in our opinion, close to 5-7 years. Additionally, we believe that the growing cost of food may slightly decrease company's margins.

We expect that the effects of new openings will no be visible until 2013. The expected near term deterioration of results prompted us to downgrade our recommendation to Sell with a new target price of PLN 74. It should be borne in mind that WP Holding has an option to acquire additional new shares to reach a shareholding not exceeding 33% within 12 months, once the initial subscription is completed. The second tranche is to be acquired at PLN 75 per share. As the exercise price oscillates near AmRest's current stock price, we do not include any further dilution in our valuation.

AmRest intends to maintain its position in the CEE region. Poland and Czech Republic are expected to remain the company's core markets, as AmRest plans to continue its expansion there. The share of US sales of total sales may, however, decline as sales in other CEE countries and Russia grow.

We believe that the KFC brand will continue to be the company's key sales growth driver. On the Polish market, KFC has no strong competition, contrary to other AmRest brands. The pizza and coffee markets are especially characterized by fierce competition in Poland. On the other hand, Burger King faces very strong competition from McDonald's which has a much stronger brand and, consequently, much higher revenues per store. Additionally, a new competitor, Swedish Max Hamburger, plans to enter the Polish market soon.

74. Polish coal miner JSW to IPO on WSE mid-2011
bne
December 10, 2010

According to Treasury Minister Aleksander Grad, the WSE debut of Jastrzebska Spolka Weglowa (JSW) mining company should take place in mid-2011, Polish News Bulletin reported. At this stage, it is still unknown whether the flotation will be accompanied by a new share issue. Grad believes that taking into account these
plans, the enterprise should focus on preparations for the IPO. "It needs to present investors with a precise strategy, as well as cost restructuring and revenue diversification plans," states the official. Meanwhile, in reaction to press revelations concerning the charges pressed against directors of three mines controlled by JSW, the company has issued a declaration stating that the persons in question are presently on holiday leave, with their duties taken over by their deputies. It adds that if the charges are confirmed by court verdicts, the directors will face severe consequences.

75. Skoda gears up for small car focus
bne
December 7, 2010

BMI believes _koda's plans, as revealed by its board of directors, to make record investment in the development of new cars in 2011 reflect its broader aims of making strong inroads into key emerging markets such as Russia, India and China. Given the nature of demand in most of these emerging markets, we believe that small cars are set to become an integral part of _koda's product offering.

A focus on small cars also makes sense in the longer term as we expect government policy to play an increasing role in helping boost demand for these vehicles in developed markets. This is especially important for carmakers such as _koda, which continue to rely heavily on European markets for a major proportion of their total sales.

_koda's biggest strength lies in the popularity of its small cars. Despite the global economic crisis, the Czech carmaker reported a 1.4% y-o-y increase in its sales, to a record 684,226 units, during 2009. However, owing to increased competitiveness and price pressure as well as the volatility of the Czech koruna, its sales revenue declined 6.2% y-o-y, to CZK187.9bn, during 2009. This led to a near 20% y-o-y drop in its spending (down to only CZK11.7bn), most of which was invested in the Yeti and Superb Combi product lines.

In 2011, however, _koda is turning its focus towards developing a small compact family car and a new large family car. Meanwhile, given that demand in European markets is proving slow to recover, _koda is focussing on expanding its reach beyond traditional markets to high growth areas such as Russia and India. It has already revealed plans to establish local manufacturing facilities in Kaluga in Russia and in Pune, India.

The downside, however, is that a product offering mostly comprising small cars threatens its profitability margins. _koda's operating profit has already fallen from EUR565mn in 2008 to EUR203mn during 2009. _koda's parent Volkswagen (VW), however, has pledged to provide high quality cars, rather than cheaper models. For that, we expect _koda to benefit from the lower cost of combining production with VW's.

76. Skoda 11-mth sales up 12.3 pct, 2010 sales to reach 750,000 units
bne
December 10, 2010
Czech car maker Skoda Auto raised sales by 12.3 percent year-on-year to 702,400 units in January-November, the company said in a press release, adding it plans to sell a record 750,000 cars in the full year 2010, CTK reported.

Sales at the largest Czech car producer in January-November exceeded the result for the entire year 2009 when Skoda sold 684,200 cars.

Juergen Stackmann, Skoda board of directors member for sales and marketing, said the company has all prerequisites to post a double-digit rise this year.

Skoda is on track to meet this year's sales outlook of 750,000 cars thanks to the strong growth in November, Stackmann said.

In November alone, sales of Skoda cars worldwide rose by 15.8 percent to 64,200 units. The company registered fast double-digit growths above all on growth markets in China, India and Russia.

Sales on the Czech market increased by 5 percent to 53,400 cars. The company's market share in the Czech Republic grew by 1.4 percentage points to 34.3 percent in November.

Skoda recorded fast increases in sales of the Octavia Combi and Superb Combi models. The company also launched sales of the first cars of the second-generation Octavia Tour model.

Sales grew at a double-digit pace in Ukraine, Hungary, Slovenia, Estonia and Serbia, for example, where Skoda raised its market share.

The company doubled its sales in Ireland, for example, and raised sales in the Netherlands by 92 percent. Sales in Finland added 53 percent and sales in Great Britain rose 23 percent.

In China, Skoda sold 167,000 cars, a growth of 56 percent compared to last year. Sales in Russia went up by 38 percent to 41,500 cars.

Sales of the Octavia model increased by 29 percent to 27,000 units in November. In contrast, Fabia sales dropped by around 1 percent to 19,500 units.

Sales of the Superb model grew by 59 percent to 8,700 units and sales of the Yeti model rose by three-quarters to 4,500 units. Roomster sales decreased by 12 percent to 2,900 units.

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**77. Slovenian bank Nova KBM mulls listing on Warsaw Bourse**

bne

December 10, 2010

Slovenian bank Nova KBM (NKBM), listed on the Ljubljana bourse, is mulling a debut on the Warsaw Stock Exchange (WSE), Reuters reported, quoting market sources, Polish News Bulletin said. Allegedly, a new share issue worth EUR110m is also a possibility. NKBM would not comment on the rumours. According to an anonymous source, the institute's supervisory board is to approve the debut and the issue in mid-December. NKBM is controlled by the Slovenian government and its market value is EUR264m. It is not the first bank in the region to choose the WSE. Recently,
Belgian KBC's Ceskoslovenska Obchodni Banka (CSOB), the second-biggest bank in the Czech Republic, was said to be planning debuts on the bourses in Warsaw and in Prague. Analysts are not surprised about the interest in the WSE, which is the largest and most liquid bourse in the CEE region, with a big base of domestic investors - open pension funds (OFE).