

Strategy

Technical vision of market

Analyst:

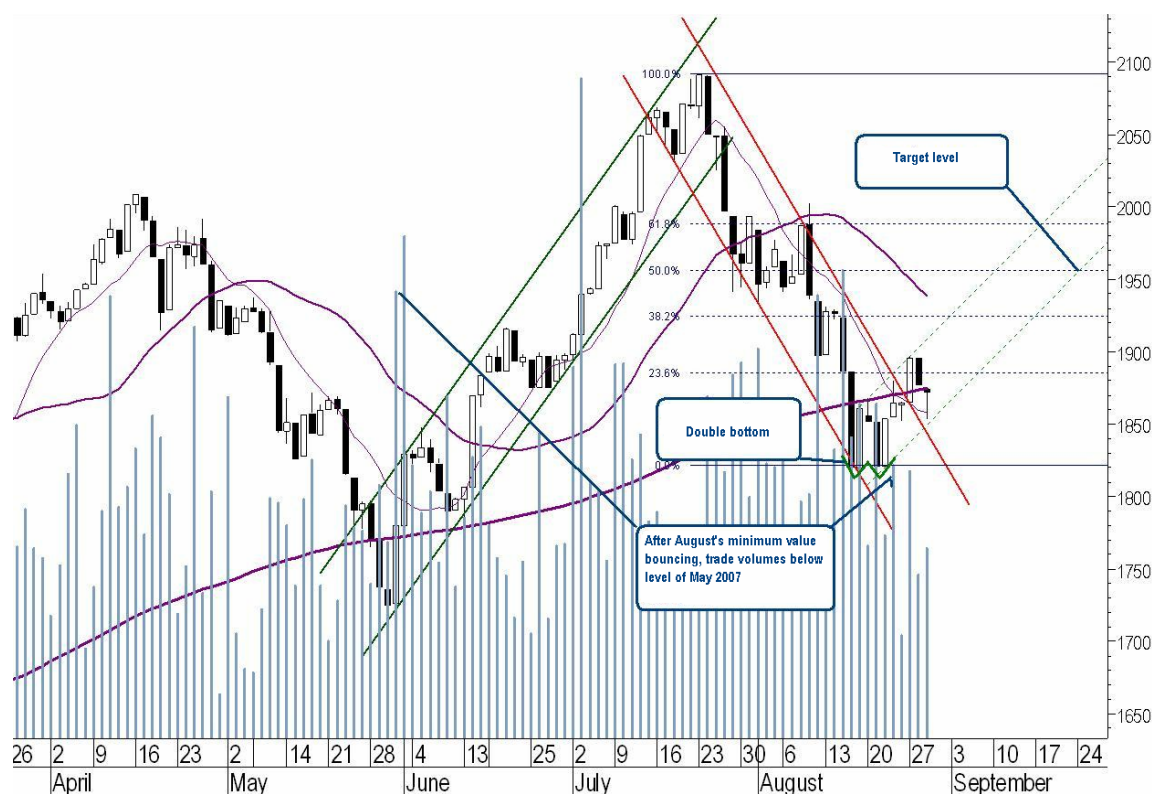
Ivan Manaenko

E-mail:

IManaenko@veles-capital.ru

Bullet moments

For six weeks in a row, RTS stably followed downward trend. Results: Late June, main indicator of Russian market of shares meets support of 30 day sliding average (30MA). It seems as if part of speculators used the calm to increase their long positions. However, index could not go beyond borders of downward trend. Fall continued, at moderately high rate, which could be a possible symptom for a large scale execution of "stop-loss".



Middle July – indicator decrease rates took up the speed, while trading volumes increased. Backed by this, index was able to pierce its main support line (line to support index since May 2005 – 200 day sliding average (MA)), “on a go”, at high turnover levels; however – just like it happened during late May 2007, index fall stopped after that. On top of that, daily charts clearly indicate appearance of a Double Bottom.

Middle of the next week: after short sideways movement, RTS was able to exit the six days side trend, coming back to 200 MA level. Nevertheless, we are very careful towards future growth prospects for index, as exit from such a continuous dive, but, unlike scenario of May 2007, there was no accompanying high trading volumes. Such situation may be related to a large number of foreign investors leaving Russian assets, and as it well known, those investors set the pace. Due to this we expect two possible scenarios to develop:

1) Index could be drifting just above 200 MA for uncertain amount of time, changed by occasional hikes upwards. This way a signal to enter the market (opening of long positions) would be index's leaving of then formed side trend at high volumes.

2) Slow climb of index, with low but constantly heated volumes of turnover.

Second scenario looks much more promising, as it offers a continuous and stable growth. In both cases – entrance to the market should be accompanied by the installation of stop-loss below 200 MA level. If such level is triggered, we recommend opening positions after clear return of index above its key support.

Our recommended target level is 1960 points (corresponds to 50% correction level of latest fall), if such level is reached we recommend you consider closing part of long positions.

Brief investor's guide

Methods, used for company's share evaluation				
Income approach		Comparables approach	Expenses approach	
	DCF method	EVA method	Multiplicative method	Net assets method
Concept of evaluating the unified object (EV) *	FCFF discounting	EVA discounting		
Shareholders' value direct calculation (SV) **	FCFE discounting	EVA for shareholders discounting (Edwards-Bell-Ohlson method)		

*

Debt cost is calculated separately and then subtracted from the sum total cost of business (target EV), formed considering the cash flows/ economic profits of firm.

**

Debt is accounted integrated -via annual coverage. So the fair cost of shareholders' value (target SV) is formed directly - considering the cash flow / economic profits for holders.

Note:

DCF methods differ from the methods of economic profit by the way of investments calculation. The methods of unified object evaluation concept differ from these methods of direct calculation of shareholders' value costs - by the way of accounting cost and maintenance of debt liabilities.

Cost calculation within the frames of income approach:

	Business cost calculation (EV) within the frames of unified object cost evaluation	Shareholders' capital value calculation (SV)
DCF method (FCFF)	$EV = \sum_{i=1}^n \frac{FCFF_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_i)^n} + NA$	$SV = EV - D$
DCF method (FCFE)		$SV = \sum_{i=1}^n \frac{FCFE_i}{(1+k_{SI})^i} + \frac{TV}{(1+k_{SI})^n} + \text{Cash} + NA$
EVA method	$EV = IC_1 + \sum_{i=1}^n \frac{EVA_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_i)^n} + NA$	$SV = EV - D$
EBO method		$SV = BV_1 + \sum_{i=1}^n \frac{SVA_i}{(1+k_{SI})^i} + \frac{TV}{(1+k_{SI})^n} + \text{Cash} + NA$

Signs:

- EV - Enterprise Value
- SV - Shareholders Value
- TV - Terminal Value
- Cagr - development rates within the target period
- BV, E - Balance Value, Equity
- EBIT - operational profit from selling, profit before payments of credit interest and income tax
- EBITDA - operational profit before payment of credit interest, income tax and amortization
- EBT - Earnings Before Tax
- EAT - Earnings After Tax
- EPS - Earnings Per Share
- NOPAT - net operational profit, free from effects of debt financing

$$NOPAT = EBIT * (1 - \text{income tax effective rate})$$
- FCFF - Free Cash Flow to Firm

$$FCFF = \text{gross cash flow} - \text{gross investments}$$

$$\text{Gross cash flow} = NOPAT + \text{amortization}$$
- FCFE - Free Cash Flow to Equity

$$FCFE = \text{gross shareholders' cash flow} - \text{gross investments}$$

$$\text{Gross shareholders' cash flow} = \text{EAT of operational profit (including interest payoffs)} - \text{annual debt coverage} + \text{attracted borrowed assets} + \text{amortization}$$
- EVA - Economic Value Added

$$EVA = \text{economic profit spread} * IC = (ROIC - WACC) * IC$$
- SVA - Shareholders Value Added

$$SVA = \text{spread} * E = (ROE - k_s) * E$$
- WACC - Weighted Average Cost of Capital
- k_s - required shareholders' yield
- D - fair (market) cost of net debt
- Cash - cash assets, along with market securities on the balance
- NA - non-operational assets
- IC - Invested Capital
- ROIC - Return on Invested Capital

$$ROIC = \frac{NOPAT}{IC}$$
- ROE - Return on Equity
- ROA - Return on Assets

Information disclosure

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The principle of recommendation assignment

The investment recommendations are given based on the evaluation of the company's share yield. The basis for the calculation of the expected company's cost is the evaluation by the discounted cash flows method (DCF). In some estimations the method of comparable coefficients, and also the mixed estimation (by DCF method and by comparable coefficients method) are applied. All recommendations are assigned based on the determined by us the fair cost of the shares within the nearest 12 months.

At the present moment the investment scale of the Investment Company Veles Capital is the following:

BUY – corresponds to the growth potential of the shares within the nearest 12 month by 15% or more.

ACCUMULATE – corresponds to the growth potential of the shares within the nearest 12 month for 5-15%.

HOLD – corresponds to the growth (reduction) potential of the shares within the nearest 12 month from -5% to 5%.

REDUCE – corresponds to the reduction potential of the shares within the nearest 12 month from 5% to 15%.

SELL – corresponds to the reduction potential of the shares within the nearest 12 month by 15% or more.

In some cases the deviations from the evaluation scale given above, based on which the recommendations are assigned, are possible. That fact relates to the high volatility of some securities in particular, and market in the whole, and also to the individual characteristics of one or another issuer.

In order to get additional information and specifications please contact the Research Department of the Investment Company Veles Capital.

Research Department*research@veles-capital.ru*

Mikhail Zak
Head of Department
Oil and gas
MZak@veles-capital.ru

Ivan Manaenko
Fixed income market,
Macroeconomics
IManaenko@veles-capital.ru

Ilya Fedotov
Telecommunications
IFedotov@veles-capital.ru

Stanislav Fomenko
Metallurgy, machinery
SFomenko@veles-capital.ru

Marina Irkly
Metallurgy, machinery
Mirkly@veles-capital.ru

Oleg Zotikov
Energy
OZotikov@veles-capital.ru

Shawn Gizatulin
Editor/Interpreter
SGizatulin@veles-capital.ru

Marina Matvienko
Ukraine
MMatvienko@veles-capital.com.ua

Vadim Antsiferov
Fixed income market
VAntsiferov@veles-capital.ru

Sales and Trading Department*sales@veles-capital.ru*

Yury Pavlov
Director (VIP clients)
YPavlov@veles-capital.ru

Sergey Vetoshkin
Corporate Clients
SVetoshkin@veles-capital.ru

Michael Haase
Head of International Sales
MHaase@veles-capital.ru

Ekaterina Tochilkina
Trading
ETochilkina@veles-capital.ru

Alexander Taran
Trading (Ukraine)
ATaran@veles-capital.com.ua

Strategic Investments Department

Andrey Lee
Head of department
ALee@veles-capital.ru

Assets Management*am@veles-capital.ru*

Beyshen Isaev
Head of Department
BIsaev@veles-capital.ru

Vadim Labed
Investor relations
VLabed@veles-capital.ru

Stanislav Brodsky
Investment products
SBrodsky@veles-capital.ru