Veles Capital

Investment company

Research
January 15, 2009

Transport
Russia

Aeroflot

9 months – doing good

Recommendation: BUY

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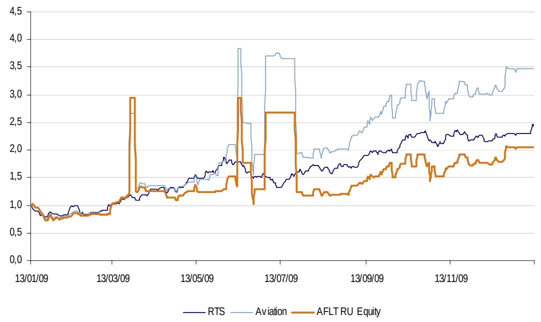
Bullet moments

- **The third quarter turned out to be very successful for Aeroflot. Despite the decrease of the principal estimates (the number of transported passengers, cargo and mail) versus the level a year before, the financial results of the group still have overcome our expectations. The sales of the group within 9 months of 2009 reduced by 31% versus the similar period of the 2008 and formed 2.5 bn USD, but EBITDA of Aeroflot within the same period has reduced by just 12% and formed 403 mn USD. That indicates EBITDA drop slowing down twice versus the half year. So, by the results of the first 6 months of 2009 reduction of EBITDA totaled 21%. Besides, on behalf of the significant reduction of the interest expenses the net profit of the group grew by 21% and totaled 170 mn USD.**
- **Active policy in the field of the expenses reduction has affected the profitability of the group positively. So, EBITDA margin within 9 months of 2009 grew by 16.4% from 12.8% within the similar period of 2008. Net profit margin formed 6.9% versus 3.9% a year before.**
- **Establishment of the financial buffer will support Aeroflot in managing the decrease of demand for transportation in winter, and stable credit policy and keeping the low level of debt load will help stable financial state of the group. Besides, new prospects might be available to Aeroflot relating the offer by Ministry of transport to pass aviation assets of Rostechnologies to Aeroflot. If that does not happen, Aeroflot will have a significant gap from the closest competitors with the level of transportation 1.5 times higher than the current one.**
- **Due to good results within 9 months and also the prospects of the airline in the future, we keep our positive view over the company and up our evaluation of one common share of Aeroflot by 20% to the level of 3.151 USD. According to the current market quotes the growth of Aeroflot's shares cost forms 80%. We confirm the recommendation BUY for the shares of the company.**

Principal estimates

Company's shares vs. the RTS index



Company profile	
RTS ticker	AFLT
Common share price, USD	1,750
Min/max com. share price in 52 weeks, USD	0,623 / 2,500
Fair value of the com. share by the year end, USD	**3,151**
Growth potential (com.), %	*80,05*
Total number of com. Shares (inc. treasury shares), items	1 082 845 520
Market capitalization, mn USD	1 944
EV, mn USD	2 535

Financial coefficients (IAS)	2008	2009 (F)	2010 (F)
Sales, mn USD	4 614	3 516	4 311
EBITDA, mn USD	498	561	670
Net profit, mn USD	56	166	216
EBITDA margin,%	*10,8*	*16,0*	*15,5*
Net profit margin,%	*1,2*	*4,7*	*5,0*
NOPAT, mn USD	46	236	288
ROIC, %	*2,9*	*14,9*	*14,9*
ROE, %	*5,0*	*17,5*	*20,7*

Coefficients	2008	2009 (F)	2010 (F)
P/E	34,6	11,7	9,0
P/S	0,4	0,6	0,5
P/BV	2,1	1,9	1,5
EV/EBITDA	5,1	4,5	3,8
EV/S	0,5	0,7	0,6
EV/IC	1,6	1,6	1,3
ROIC/WACC	0,2	1,0	0,9

Financial results

Financial results of Aeroflot for 9M2009, mn USD

	6M2008	Change, %	6M2009	9M2008	Change, %	9M2009
Sales	**2 132**	***-31,7***	**1 456**	**3 580**	***-31,2***	**2 462**
Cost of services	(2 001)	*-32,4*	(1 352)	(3 243)	*-33,5*	(2 155)
Amortisation	(79)	*-20,8*	(63)	(121)	*-20,7*	(96)
EBIT	131	*-20,7*	104	337	*-8,8*	307
EBIT margin,%	*6,1*		*7,1*	*9,4*		*12,5*
EBITDA	**210**	***-20,8***	**167**	**458**	***-11,9***	**403**
EBITDA margin,%	*9,9*		*11,4*	*12,8*		*16,4*
Finance expenses	(26)	*0,0*	(26)	(78)	*-56,0*	(34)
Finance income	53	*-97,9*	1	4	*316,7*	15
Share in associated companies	2	*38,1*	3	8	*-20,7*	7
Other non-operating income (expenses), net	7	*n/m*	(19)	7	*n/m*	(20)
EBT	167	*-62,5*	63	278	*-1,1*	275
EBT margin,%	*7,8*		*4,3*	*7,8*		*11,2*
Income tax	(92)	*-47,8*	(48)	(137)	*-23,5*	(105)
Net profit	**75**	***-80,4***	**15**	**141**	***20,6***	**170**
Net profit margin,%	*3,5*		*1,0*	*3,9*		*6,9*

Source: company's data, Estimation: Veles Capital

Operational results of Aeroflot for 9M2009 and 11M2009

	9M2008	Change, %	9M2009	11M2008	Change, %	11M2009
Passenger traffic, mn pskm	23 940	*-7,18*	22 221	28 953	*-5,43*	27 380
Tonne-kilometers, mn tkm	2 774	*-7,89*	2 555	3 393	*-5,25*	3 215
Traffic:						
Passengers, th people	8 992	*-8,19*	8 256	10 810	*-6,23*	10 136
Cargo and mail, t	116 495	*-14,61*	99 473	147 665	*-10,02*	132 871
Passneger load factor, %	*71,8%*	-	*69,8%*	*71,5%*	-	*70,2%*

Source: company's data, Estimation: Veles Capital

Financial model of Aeroflot

Balance sheet, mn USD

	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
Non-current assets	**2 100**	**2 199**	**2 479**	**2 967**	**3 006**	**3 422**	**3 688**	**3 712**	**3 760**	**4 934**	**6 326**	**7 426**	**8 285**
PPE	1 709	1 774	2 077	2 536	2 582	2 979	3 250	3 282	3 335	4 514	5 912	7 016	7 880
Intangible assets	8	14	14	14	12	11	10	8	7	6	5	5	5
Prepayment for aircraft	115	96	91	97	96	101	100	98	97	96	95	94	93
Other non-current assets	269	315	389	417	412	432	428	422	418	414	408	406	400
Current assets	**1 298**	**1 152**	**1 185**	**1 249**	**1 329**	**1 739**	**2 315**	**2 833**	**3 424**	**4 088**	**4 654**	**5 205**	**5 747**
Inventories	104	79	73	89	95	107	118	120	125	134	144	155	166
Accounts recievable	1 049	916	851	1 035	1 100	1 248	1 377	1 400	1 458	1 560	1 672	1 799	1 934
Short-term financial investments	54	10	250	112	121	368	803	1 295	1 823	2 375	2 818	3 229	3 623
Cash and near cash	91	147	10	12	13	15	16	16	17	18	20	21	23
Other current assets	1	1	1	1	1	1	1	1	1	1	1	1	1
Total assets	**3 398**	**3 350**	**3 665**	**4 216**	**4 336**	**5 161**	**6 003**	**6 545**	**7 184**	**9 022**	**10 980**	**12 631**	**14 032**
Equity	**1 112**	**945**	**1 041**	**1 305**	**1 618**	**2 160**	**2 815**	**3 521**	**4 274**	**5 111**	**5 733**	**6 252**	**6 599**
Share capital	52	52	49	52	52	54	54	53	53	52	51	51	50
Treasury stock	-30	-9	-9	-9	-9	-10	-9	-9	-9	-9	-9	-9	-9
Additional paid-in capital	0	0	0	0	0	0	0	0	0	0	0	0	0
Reserves	76	-109	-103	-111	-109	-115	-114	-112	-111	-110	-108	-108	-106
Retained earnings	1 015	1 011	1 104	1 373	1 685	2 230	2 884	3 589	4 341	5 178	5 799	6 318	6 664
Minority interest	**73**	**53**	**54**	**62**	**68**	**81**	**92**	**104**	**117**	**131**	**141**	**150**	**156**
Long-term liabilities	**1 200**	**1 264**	**1 495**	**1 703**	**1 566**	**1 695**	**1 750**	**1 552**	**1 371**	**2 262**	**3 483**	**4 486**	**5 408**
Long-term debt	380	591	580	560	495	459	394	316	242	169	96	26	26
Finance lease liabilities	531	460	717	903	815	947	1 036	910	791	1 731	2 998	4 042	4 933
Other long-term liabalities	290	213	198	240	256	290	320	325	339	362	388	418	449
Short-term liabilities	**1 013**	**1 088**	**1 075**	**1 146**	**1 084**	**1 225**	**1 346**	**1 368**	**1 422**	**1 517**	**1 623**	**1 742**	**1 870**
Short-term debt	131	145	271	168	45	47	46	46	45	45	44	44	43
Finance lease liabilities	67	78	0	0	0	0	0	0	0	0	0	0	0
Accounts payable	630	669	622	756	804	911	1 006	1 023	1 065	1 139	1 221	1 314	1 413
Other short-term liabalities	184	196	182	221	235	267	294	299	311	333	357	384	413
Total equity and liabilities	**3 398**	**3 350**	**3 665**	**4 216**	**4 336**	**5 161**	**6 003**	**6 545**	**7 184**	**9 022**	**10 980**	**12 631**	**14 032**

Source: company's data; Estimation: Veles Capital

Profit and loss statement, mn USD

	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
Sales	**3 808**	**4 614**	**3 516**	**4 311**	**4 716**	**5 190**	**5 894**	**6 009**	**6 242**	**6 676**	**7 173**	**7 690**	**8 298**
Cost of services	(3 230)	(4 275)	(3 105)	(3 848)	(4 015)	(4 359)	(4 741)	(4 809)	(4 999)	(5 308)	(6 049)	(6 727)	(7 486)
Amortisation	(145)	(159)	(151)	(207)	(239)	(265)	(301)	(322)	(332)	(389)	(513)	(639)	(743)
EBITDA	**723**	**498**	**561**	**670**	**940**	**1 095**	**1 454**	**1 522**	**1 574**	**1 757**	**1 638**	**1 602**	**1 555**
EBITDA margin,%	*19,0*	*10,8*	*16,0*	*15,5*	*19,9*	*21,1*	*24,7*	*25,3*	*25,2*	*26,3*	*22,8*	*20,8*	*18,7*
EBIT	**578**	**339**	**410**	**464**	**701**	**830**	**1 153**	**1 200**	**1 243**	**1 369**	**1 125**	**963**	**812**
EBIT margin,%	*15,2*	*7,3*	*11,7*	*10,8*	*14,9*	*16,0*	*19,6*	*20,0*	*19,9*	*20,5*	*15,7*	*12,5*	*9,8*
Finance income	62	4	0	0	0	0	0	0	0	0	0	0	0
Finance expenses	(53)	(197)	(78)	(97)	(91)	(78)	(77)	(75)	(63)	(52)	(82)	(125)	(159)
Other non-operating income (expenses), net	(50)	29	(38)	(12)	(18)	8	(5)	(6)	(4)	(4)	(4)	(5)	(6)
EBT	**537**	**175**	**294**	**355**	**593**	**761**	**1 071**	**1 120**	**1 175**	**1 312**	**1 039**	**833**	**647**
EBT margin,%	*14,1*	*3,8*	*8,4*	*8,2*	*12,6*	*14,7*	*18,2*	*18,6*	*18,8*	*19,7*	*14,5*	*10,8*	*7,8*
Income tax	(208)	(151)	(125)	(134)	(198)	(220)	(262)	(224)	(235)	(262)	(208)	(167)	(129)
Deffered income tax	(16)	13	0	0	0	0	0	0	0	0	0	0	0
Minority interest	(8)	19	(3)	(4)	(7)	(9)	(13)	(13)	(14)	(15)	(12)	(10)	(8)
Net profit	**305**	**56**	**166**	**216**	**387**	**532**	**796**	**883**	**926**	**1 034**	**819**	**657**	**510**
Net profit margin,%	*8,0*	*1,2*	*4,7*	*5,0*	*8,2*	*10,2*	*13,5*	*14,7*	*14,8*	*15,5*	*11,4*	*8,5*	*6,1*

Source: company's data; Estimation: Veles Capital

Cash flow statement, mn USD

	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
Operating activities													
Net profit	305	56	166	216	387	532	796	883	926	1 034	819	657	510
Depreciation and amortisation	145	159	151	207	239	265	301	322	332	389	513	639	743
Minority interest	8	(19)	3	4	7	9	13	13	14	15	12	10	8
Change in current assets	(355)	93	18	(130)	(84)	(100)	(154)	(47)	(77)	(126)	(146)	(151)	(175)
Change in short-term liabilities	35	(21)	(16)	113	73	86	134	41	67	109	127	131	152
Gain on disposal of PPE and IA	0	0	25	34	26	2	2	3	3	3	4	5	6
Operational cash flow	**217**	**501**	**348**	**444**	**648**	**795**	**1 092**	**1 214**	**1 264**	**1 425**	**1 329**	**1 290**	**1 243**
Investment activities													
CapEx	(374)	(475)	(288)	(331)	(339)	(347)	(394)	(402)	(417)	(446)	(480)	(514)	(555)
Change in non-current assets	(97)	(46)	0	0	0	0	0	0	0	0	0	0	0
Change in short-term financial investments	47	26	(234)	153	(10)	(236)	(440)	(507)	(542)	(572)	(479)	(432)	(440)
Other adjustments	7	56	0	0	0	0	0	0	0	0	0	0	0
Investment cash flow	**(417)**	**(439)**	**(522)**	**(179)**	**(349)**	**(583)**	**(834)**	**(909)**	**(960)**	**(1 018)**	**(959)**	**(946)**	**(995)**
Financial activities													
Loans gained	858	904	227	0	0	0	0	0	0	0	0	0	0
Loans paid	(584)	(654)	(150)	(260)	(259)	(153)	(172)	(184)	(183)	(279)	(278)	(278)	(208)
Dividends paid	(59)	(62)	(25)	(32)	(57)	(79)	(118)	(131)	(137)	(153)	(121)	(97)	(75)
Other flows	(116)	(144)	(4)	28	18	21	33	10	17	27	31	32	37
Financial cash flow	**101**	**45**	**48**	**(264)**	**(298)**	**(210)**	**(256)**	**(305)**	**(304)**	**(405)**	**(368)**	**(343)**	**(246)**
Effect of exchange rates	9	(51)	(12)	1	(0)	1	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Cash change	**(100)**	**107**	**(125)**	**1**	**1**	**1**	**2**	**1**	**1**	**1**	**2**	**2**	**2**
Cash assets by the beginning of reported period	**181**	**91**	**147**	**10**	**12**	**13**	**15**	**16**	**16**	**17**	**18**	**20**	**21**

Source: company's data; Estimation: Veles Capital

Fair value estimation

Weighted average cost of capital estimation (WACC)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Risk-free yeild (for RF)	***5,46***	***5,74***	***10,33***	***10,33***	***9,78***	***9,50***	***8,94***	***8,38***	***8,38***	***7,26***	***6,98***	***6,98***	***6,98***
Shareholders' required yield rate	***14,70***	***16,70***	***20,53***	***20,66***	***19,18***	***18,97***	***18,46***	***17,93***	***17,96***	***16,86***	***16,59***	***17,60***	***18,61***
Share premiun, %	*5,00*	*7,00*	*6,00*	*6,00*	*5,00*	*5,00*	*5,00*	*5,00*	*5,00*	*5,00*	*5,00*	*6,00*	*7,00*
β coefficient	*0,585*	0,31	0,54	0,67	0,76	0,82	0,87	0,90	0,93	0,95	0,96	0,97	0,98
Premium for the quality of corporate governance, %	*3,65*	*3,65*	*3,65*	*3,65*	*3,65*	*3,65*	*3,65*	*3,65*	*3,65*	*3,65*	*3,65*	*3,65*	*3,65*
Creditors' required yield rate	***6,96***	***7,62***	***12,08***	***12,01***	***11,23***	***10,84***	***10,21***	***9,61***	***9,58***	***8,45***	***8,15***	***8,14***	***8,13***
Premium for credit risk, %	*1,50*	*1,87*	*1,75*	*1,67*	*1,46*	*1,34*	*1,27*	*1,23*	*1,20*	*1,19*	*1,17*	*1,16*	*1,15*
Структура капитала:													
Share of source «debt finance», %	*68,52*	*56,20*	*55,02*	*64,21*	*74,98*	*81,04*	*86,47*	*90,68*	*93,71*	*95,99*	*97,61*	*98,89*	*98,96*
Share of source «shareholders capital», %	*31,48*	*43,80*	*44,98*	*35,79*	*25,02*	*18,96*	*13,53*	*9,32*	*6,29*	*4,01*	*2,39*	*1,11*	*1,04*
WACC	**11,74**	**11,92**	**15,42**	**16,53**	**16,52**	**16,94**	**17,01**	**16,94**	**17,28**	**16,44**	**16,34**	**17,48**	**18,48**

Source: company's data, Estimation: Veles Capital

Calculation of free cash flows, mn USD

	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
NOPAT	355	46	236	288	467	590	870	960	994	1 095	900	770	650
Depreciation and amortisation	145	159	151	207	239	265	301	322	332	389	513	639	743
Gross operating cash flow	**500**	**205**	**387**	**494**	**705**	**855**	**1 172**	**1 282**	**1 326**	**1 484**	**1 413**	**1 409**	**1 392**
CapEx	(374)	(475)	(288)	(331)	(339)	(347)	(394)	(402)	(417)	(446)	(480)	(514)	(555)
Change in working capital	(320)	73	2	(17)	(11)	(13)	(20)	(6)	(10)	(16)	(19)	(20)	(23)
FCFF	**(195)**	**(197)**	**102**	**146**	**355**	**495**	**758**	**874**	**898**	**1 021**	**914**	**875**	**814**
Discount rate, %			*15,42*	*16,53*	*16,52*	*16,94*	*17,01*	*16,94*	*17,28*	*16,44*	*16,34*	*17,48*	*18,48*
Discount coefficient			1,00	1,00	0,85	0,72	0,60	0,51	0,43	0,38	0,33	0,26	0,20
Discounted FCFF			**102**	**146**	**302**	**354**	**458**	**450**	**387**	**392**	**302**	**228**	**166**

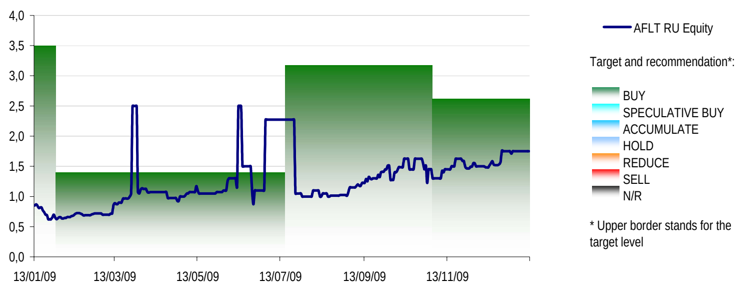
Источник: данные компании, Оценка: Велес Капитал

Estimation of shares fundamental price

Target growth rate, %	*3*
Cash flow amount, mn USD	3 184
Terminal value, mn USD	5 417
Discounted terminal value, mn USD	994
Company's cost, mn USD	4 177
Debt cost, mn USD	603
Share capital cost with minority interest, mn USD	3 574
Minority interest, mn USD	162
Share capital cost, mn USD	3 412
Number of common shares, units	1 082 845 520
Common share's fundamental cost , USD	**3,151**
Underestimation (overestimation) of common shares, %	*80,05*

Source: company's data; Estimation: Veles Capital

Recommendation history



Financial analysis of Aeroflot

Business efficiency analysis

	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
Invested capital at year's beginning (IC), mn USD	842	1 606	1 588	1 936	2 083	2 213	2 732	3 332	3 971	4 660	5 438	5 996	6 452
Share capital at year's beginning (IC), mn USD	785	1 112	945	1 041	1 305	1 618	2 160	2 815	3 521	4 274	5 111	5 733	6 252
ROIC, %	*42,1*	*2,9*	*14,9*	*14,9*	*22,4*	*26,6*	*31,9*	*28,8*	*25,0*	*23,5*	*16,5*	*12,8*	*10,1*
ROE, %	*38,9*	*5,0*	*17,5*	*20,7*	*29,7*	*32,8*	*36,8*	*31,4*	*26,3*	*24,2*	*16,0*	*11,5*	*8,2*
ROA, %	*9,0*	*1,7*	*4,5*	*5,1*	*8,9*	*10,3*	*13,3*	*13,5*	*12,9*	*11,5*	*7,5*	*5,2*	*3,6*
EBITDA margin,%	*19,0*	*10,8*	*16,0*	*15,5*	*19,9*	*21,1*	*24,7*	*25,3*	*25,2*	*26,3*	*22,8*	*20,8*	*18,7*
EBIT margin,%	*15,18*	*7,34*	*11,67*	*10,76*	*14,87*	*16,00*	*19,56*	*19,97*	*19,91*	*20,50*	*15,68*	*12,52*	*9,78*
Net profit margin,%	*8,02*	*1,22*	*4,72*	*5,01*	*8,21*	*10,24*	*13,51*	*14,69*	*14,84*	*15,49*	*11,42*	*8,54*	*6,15*

Source: company's data; Estimation: Veles Capital

Financial state analysis

	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
Leverage:													
Financial leverage	0,46	0,78	0,82	0,56	0,33	0,23	0,16	0,10	0,07	0,04	0,02	0,01	0,01
Financial leverage effect	1,08	1,14	1,24	1,26	1,15	1,10	1,07	1,07	1,05	1,04	1,08	1,15	1,24
Financial leverage characteristics:													
Interest-bearing debt / EBITDA	0,71	1,48	1,52	1,09	0,57	0,46	0,30	0,24	0,18	0,12	0,09	0,04	0,04
Interest-bearing SR debt / EAT	0,43	2,59	1,64	0,78	0,12	0,09	0,06	0,05	0,05	0,04	0,05	0,07	0,09
Interest-bearing debt / sales	0,13	0,16	0,24	0,17	0,11	0,10	0,07	0,06	0,05	0,03	0,02	0,01	0,01
Interest-bearing debt / assets	0,15	0,22	0,23	0,17	0,12	0,10	0,07	0,06	0,04	0,02	0,01	0,01	0,00
EBITDA / Interest payments	17,51	12,05	7,17	6,91	10,29	14,08	18,94	20,40	24,82	33,48	19,97	12,82	9,76
Company's liquidity:													
current ratio (>2)	1,28	1,06	1,10	1,09	1,23	1,42	1,72	2,07	2,41	2,69	2,87	2,99	3,07
quick ratio (>1)	1,12	0,98	0,80	0,91	1,03	1,03	1,03	1,04	1,04	1,04	1,04	1,04	1,05
absolute liquidity ratio (>0,2)	0,09	0,13	0,01	0,01	0,01	0,01	0,01	0,01	0,01	0,01	0,01	0,01	0,01
Turnover estimates of (days):													
accounts recievable	99	71	87	86	84	87	84	84	84	84	84	84	84
inventories	10	6	7	7	7	7	7	7	7	7	7	7	7
operating assets	123	90	121	104	101	121	141	170	197	220	234	244	249
net current assets	110	79	94	90	98	117	139	167	195	218	231	242	247

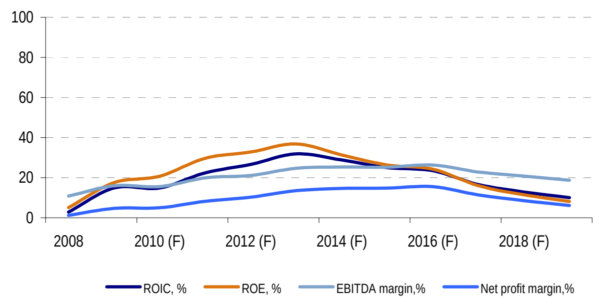
Source: company's data; Estimation: Veles Capital

Balance sheet structure analysis

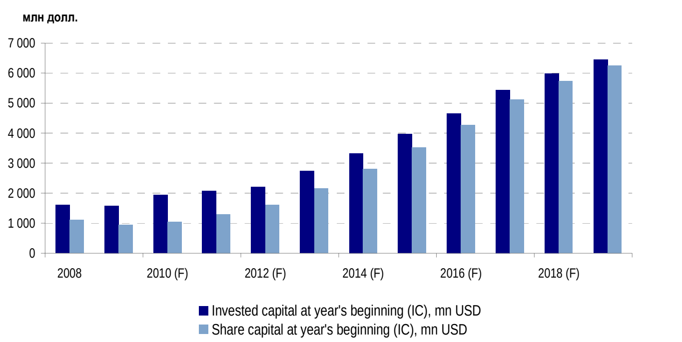
	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
Non-current assets	**62**	**66**	**68**	**70**	**69**	**66**	**61**	**57**	**52**	**55**	**58**	**59**	**59**
PPE	50	53	57	60	60	58	54	50	46	50	54	56	56
Intangible assets	0	0	0	0	0	0	0	0	0	0	0	0	0
Other non-current assets	8	9	11	10	10	8	7	6	6	5	4	3	3
Current assets	**38**	**34**	**32**	**30**	**31**	**34**	**39**	**43**	**48**	**45**	**42**	**41**	**41**
Inventories	3	2	2	2	2	2	2	2	2	1	1	1	1
Accounts recievable	31	27	23	25	25	24	23	21	20	17	15	14	14
Short-term financial investments	2	0	7	3	3	7	13	20	25	26	26	26	26
Cash and near cash	3	4	0	0	0	0	0	0	0	0	0	0	0
Other current assets	0	0	0	0	0	0	0	0	0	0	0	0	0
Total assets	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Equity	33	28	28	31	37	42	47	54	59	57	52	49	47
Minority interest	2	2	1	1	2	2	2	2	2	1	1	1	1
Long-term debt	11	18	16	13	11	9	7	5	3	2	1	0	0
Short-term debt	4	4	7	4	1	1	1	1	1	0	0	0	0
Accounts payable	19	20	17	18	19	18	17	16	15	13	11	10	10
Total equity and liabilities	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: company's data; Estimation: Veles Capital

Profitability dynamics, %



Business value dynamics, mn USD



Source: company's data; Estimation: Veles Capital

Comparables

Sector companies' multipliers and coefficients

	Country	Current capitalization, mln USD	Enterprise value, mln USD	Market multipliers					Financial coefficients							
				EV/S	EV/EBITDA	P/E	P/BV	EV/IC	*ROE, %*	*ROA, %*	*ROIC, %*	*EBITDA margin, %*	ROIC/WACC	Fin. leverage (ND/S)	Net Debt / EBITDA	Net Debt / Sales
Developed markets																
Deutsche Lufthansa AG	GERMANY	8 482	12 133	0,37	5,67	-	1,01	1,01	-	-	*0,67*	*6,49*	0,10	0,43	1,71	0,11
Air Berlin PLC	GERMANY	519	1 066	0,22	5,27	-	0,56	0,73	-	*0,22*	*3,04*	*4,23*	0,62	0,59	2,70	0,11
Austrian Airlines AG	AUSTRIA	233	1 399	0,43	3,85	-	-	1,18	-	-	-	*11,18*	-	77,64	3,21	0,36
Air France-KLM	FRANCE	5 380	15 341	0,50	-	-	0,71	0,87	-	-	-	*3,51*	-	1,31	9,25	0,32
Qantas Airways Ltd	AUSTRALIA	6 184	8 547	0,66	4,94	18,55	1,25	1,17	*5,75*	*1,83*	*5,15*	*13,30*	0,61	0,48	1,37	0,18
Virgin Blue Holdings Ltd	AUSTRALIA	1 190	2 259	0,86	7,40	27,84	1,36	1,16	*6,41*	*3,49*	*5,22*	*11,58*	0,64	1,22	3,51	0,41
All Nippon Airways Co Ltd	JAPAN	7 717	16 327	1,18	-	-	1,57	1,21	-	-	-	*8,54*	-	1,75	7,30	0,62
Japan Airlines Corp	JAPAN	2 007	10 555	0,58	-	-	-	1,46	-	-	-	*1,94*	-	-	24,37	0,47
SAS AB	SWEDEN	1 456	2 922	0,46	-	-	1,00	1,00	-	-	-	-	-	1,00	-	0,23
Finnair OYJ	FINLAND	705	1 231	0,46	-	-	0,65	0,76	-	-	-	-	-	0,48	-	0,20
Westjet Airlines Ltd	CANADA	1 830	3 115	1,41	8,75	21,54	1,35	1,18	*6,38*	*5,69*	*7,85*	*16,15*	1,01	0,95	3,61	0,58
ACE Aviation Holdings Inc	CANADA	215	3 605	0,38	-	-	-	1,06	-	-	-	*3,69*	-	-	9,79	0,36
Jazz Air Income Fund	CANADA	521	1 286	0,91	8,62	6,71	0,63	0,81	*11,00*	-	*10,06*	*10,53*	1,33	0,93	5,13	0,54
Air Canada	CANADA	343	5 481	0,58	-	-	0,13	0,70	-	-	-	*3,58*	-	1,89	15,23	0,55
JetBlue Airways Corp	UNITED STATES	1 629	3 746	1,14	7,36	27,79	1,04	1,02	*3,86*	-	*5,34*	*15,53*	0,77	1,35	4,16	0,65
Alaska Air Group Inc	UNITED STATES	1 245	2 024	0,60	4,13	12,09	1,42	1,22	*11,84*	-	*14,09*	*14,49*	2,10	0,89	1,59	0,23
AirTran Holdings Inc	UNITED STATES	689	1 309	0,55	5,72	7,42	1,26	1,12	*24,58*	-	*10,36*	*9,69*	1,58	1,14	2,71	0,26
Southwest Airlines Co	UNITED STATES	8 503	10 349	1,00	-	-	1,60	1,45	*2,05*	*1,15*	*4,30*	*9,66*	0,56	0,35	1,85	0,18
Continental Airlines Inc	UNITED STATES	2 773	6 626	0,52	-	-	-	1,67	-	-	-	*3,41*	-	34,07	8,91	0,30
Allegiant Travel Co	UNITED STATES	978	782	1,41	5,31	12,95	2,74	4,85	*29,07*	*8,54*	*45,92*	*26,59*	5,08	-	-	-
US Airways Group Inc	UNITED STATES	812	3 942	0,38	-	-	-	1,72	-	-	-	*1,08*	-	-	27,98	0,30
Skywest Inc	UNITED STATES	910	2 027	0,78	4,62	10,35	0,64	0,80	*6,70*	*2,82*	*5,76*	*16,79*	0,97	0,79	2,54	0,43
AMR Corp	UNITED STATES	2 676	10 918	0,55	-	-	-	2,71	-	-	-	*2,06*	-	-	20,23	0,42
UAL Corp	UNITED STATES	2 190	7 173	0,44	-	-	-	9,51	-	-	-	*3,22*	-	-	9,52	0,31
British Airways PLC	BRITAIN	3 681	8 281	0,65	-	-	1,53	1,18	-	-	-	*4,03*	-	1,91	8,89	0,36
easyJet PLC	BRITAIN	2 401	2 677	0,58	6,28	11,94	1,04	1,04	*9,54*	*3,53*	*10,34*	*9,20*	1,55	0,12	0,65	0,06
Ryanair Holdings PLC	IRELAND	7 284	8 033	1,94	9,17	19,34	1,65	1,56	*10,46*	*4,53*	*7,73*	*21,14*	1,15	0,17	0,85	0,18
Developed markets weighted average		2 687	5 672	0,60	6,03	16,20	1,13	1,23	*7,48*	*2,96*	*6,28*	*9,50*	0,85	2,55	5,65	0,30
Developing markets																
China Southern Airlines Co Ltd	CHINA	5 554	13 744	1,73	-	-	4,29	1,45	*1,94*	*1,12*	*0,98*	*12,58*	0,17	6,33	8,19	1,03
Air China Ltd	CHINA	14 198	21 841	2,98	-	26,09	3,65	1,89	*16,70*	*3,79*	*4,25*	*22,30*	0,43	1,97	4,67	1,04
China Eastern Airlines Corp Ltd	CHINA	6 757	14 674	2,52	-	-	-	2,12	*4,53*	*0,84*	*1,94*	*14,45*	0,29	-	9,41	1,36
Shanghai Airlines Co	CHINA	1 388	2 622	1,31	-	-	-	1,93	-	-	-	*1,66*	-	9,77	37,12	0,62
Malaysian Airline System BHD	MALAYSIA	1 483	1 161	0,36	-	-	-	-	-	-	*71,82*	-	7,65	1,09	1,26	-
AirAsia BHD	MALAYSIA	1 182	3 295	3,83	9,08	7,89	1,32	1,10	*21,54*	*5,34*	*6,89*	*42,21*	1,01	2,36	5,82	2,46
Air New Zealand Ltd	NEW ZEALAND	956	794	0,27	2,26	13,09	0,86	0,83	*6,35*	*3,83*	*11,81*	*11,87*	1,34	-	-	-
Turk Hava Yollari	TURKEY	3 285	5 197	1,10	6,00	8,29	1,24	1,14	*16,93*	*7,69*	*11,77*	*18,27*	0,82	0,72	2,21	0,40
Singapore Airlines Ltd	SINGAPORE	12 309	11 260	1,31	9,49	-	1,39	1,44	-	*0,72*	-	*13,80*	-	-	-	-
Korean Air Lines Co Ltd	SOUTH KOREA	3 565	12 631	1,53	-	-	1,57	1,11	-	-	*0,45*	*9,71*	0,05	4,00	11,30	1,10
Asiana Airlines	SOUTH KOREA	577	3 667	1,08	-	-	1,28	1,04	-	-	-	*0,91*	-	6,84	99,59	0,91
Thai Airways International PCL	THAILAND	997	5 268	1,09	6,41	-	0,74	0,94	*3,98*	*1,42*	*2,89*	*16,98*	0,44	3,18	5,20	0,88
China Airlines Ltd	TAIWAN	1 648	5 519	1,78	-	-	1,36	1,09	-	-	-	*9,16*	-	3,20	13,63	1,25
Eva Airways Corp	TAIWAN	1 329	4 105	1,83	-	-	1,46	1,11	-	-	-	*8,62*	-	3,05	14,39	1,24
Copa Holdings SA	PANAMA	2 392	3 158	2,55	-	11,67	2,51	1,84	*30,98*	*8,31*	*15,10*	*21,50*	1,65	0,80	2,88	0,62
Cathay Pacific Airways Ltd	HONG KONG	6 990	11 570	1,40	9,64	28,13	1,37	1,19	*5,69*	*2,19*	*3,91*	*14,51*	0,57	0,89	3,81	0,55
Gol Linhas Aereas Inteligentes SA	BRAZIL	4 281	6 067	1,73	-	12,57	2,53	1,74	*21,86*	*7,95*	*9,70*	*12,94*	1,01	1,05	3,94	0,51
Tam SA	BRAZIL	3 398	7 405	1,31	-	6,76	2,29	1,35	*63,51*	*11,05*	*43,68*	*9,57*	4,71	2,70	7,41	0,71
Lan Airlines SA	CHILE	5 973	8 101	2,28	-	-	5,03	2,44	*20,30*	*3,45*	*11,65*	-	1,22	1,79	3,27	0,60
Jet Airways India Ltd	INDIA	1 021	5 147	2,01	-	-	3,93	1,17	-	-	-	*6,20*	-	15,87	25,96	1,61
Emerging markets weighted average		3 831	7 046	1,63	7,80	14,69	1,91	1,41	*16,17*	*3,54*	*9,30*	*15,41*	1,01	2,75	7,71	0,91
Russia																
Aeroflot - Russian Airlines OJSC	RUSSIA	1 944	2 547	0,72	4,54	11,73	1,87	1,55	*17,54*	*4,52*	*14,89*	*15,97*	0,97	0,58	1,07	0,17
Siberia Airlines	RUSSIA	92	455	0,43	-	15,27	4,47	1,19	*28,00*	*0,46*	*21,55*	-	-	17,70	-	0,34
KrasAir	RUSSIA	7	371	0,61	-	7,54	0,28	0,95	*4,77*	*0,14*	*0,37*	-	-	14,18	-	0,60
Russia weithed average		455	841	0,65	5,18	11,82	1,88	1,41	*7,07*	*3,04*	*13,24*	*14,37*	0,97	0,61	1,17	0,17

Source: company's data, Estimation: Veles Capital

Brief investor 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 thee 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 united object cost evaluation*	*Shareholders' capital value calcculation (**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)		$SV = \sum_{i=1}^{n} \frac{FCFE_i}{(1+k_{si})^i} + \frac{TV}{(1+k_{si})^n} + Cash + NA$
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		$SV = BV_1 + \sum_{i=1}^{n} \frac{SVA_i}{(1+k_{si})^i} + \frac{TV}{(1+k_{si})^n} + Cash + NA$

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- income tax effective rate)
FCFF - *Free Cash Flow to Firm*
FCFF = gross cash flow - gross investments
Gross cash flow = NOPAT + amortization
FCFE - *Free Cash Flow to Equity*
FCFE= gross shareholders' cash flow - gross investments
Gross shareholders' cash flow = EAT of operational profit (including interest payoffs) -annual debt coverage + attracted borrowed assets + amortization
EVA - *Economic Value Added*
EVA = economic profit spread * IC = (ROIC - WACC) * IC
SVA - *Shareholders Value Added*
SVA = 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 thee balance*
NA - *non-operational assets*
IC - *Invested Capital*
ROIC - *Return on Invested Capital*
ROIC = $NOPAT / IC$
ROE - *Return on Equity*
ROA - *Return on Assets*

Information disclosure

The statement of an analyst and confirmation of the responsibility withdrawal

The given report is prepared by the analyst (-s) of the Investment Company Veles Capital. The given estimations in the present report reflect personal opinion of the analyst (-s). The award of the analysts does not depend, never depended and will not depend upon the specific recommendations or estimations, provided in the present report. The award of the analysts depends upon the general efficiency of the business of the Investment Company Veles Capital, determined by the investment benefit of the company's clients and also upon the incomes from other types of activity of the Investment Company Veles Capital.

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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 months by 15% or more.

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

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

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

SELL – corresponds to the reduction potential of the shares within the nearest 12 months 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.

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