



## JSC SURHANDARYO QISHLOQHJALIKKIMYO

CHEMICAL INDUSTRY

UPDATE | 10 SEPTEMBER 2008

### Investment Summary

### Company Profile



OJSC Surkhandaryo "QishloqHujalikKimyo" has its 25% stake available as a free float. Company's management outlined further enhancing the technological base, management control and production efficiency and attracting foreign capital as top priorities for coming years. Company plans to expand its production of mineral fertilizers and pesticides by 2011.

JSC Surkhandaryo "QISHLOQHJALIKKIMYO" was established in 2004. Company mainly produces mineral fertilizers and insecticides for agricultural industry of Uzbekistan. The 25% of shares are on offer for foreign investors. Company's charter capital is US\$ 590,443 (2007) at US\$ 0.78 par value. Company employs 849 workers and has a territory of 47.6 hectares.

### Uzbekistan Chemical Industry Overview

*In 2007, the total increase in chemical production was 10,4% and the dynamics of change in volume and structure of exports and imports of chemical products reached 72,4%. As a result of investment program a production growth of nitrogen fertilizers is forecasted to increase by 17,7 % up to 955,8 thousands of tons (100 % of nutrients), phosphate fertilizers by 33,2 % up to 171,2 thousands of tons by*

*Within the frames of the Program on modernization, technological and technical re-equipment of the enterprises of chemical industry for 2007-2011, the total of 30 projects worth some US\$ 280 mln are to be implemented. This year 15 projects are to be implemented, including four worth US\$ 2.42 mln that has already been completed and another four that are to be completed by the end of 2008. The rest of them (7) will be completed in 2009-2010. As a result of the program, it is planned to reduce energy consumption and increase export potential of the industry and at the same time scale up the production 1.4*

In 2007, the total volume of chemical products manufactured reached 1.02 mln tons, two fold increase to 2006 or 512.5 thousand tons. The industry has been undergoing the restructuring process to raise the efficiency and quality of the output to focus markets in China, Iran, Turkey and Afghanistan and East Europe. The industry produces complex production mineral fertilizers and inorganic material; artificial filaments and polymeric material; chemical reagent for energy, gold mining and chemical industry and chemical fertilizers for agriculture.

Investment capacity of the industry is estimated at US\$ 800 mln to further finance the increasing production of potassium, polyvinyl chloride, vinyl chloride, and other fertilizer products. The SSC UzKimyosanoat envisaged a program of modernization and re-equipment worth US\$ 170 mln for 2007-2011.

In May 2007, the Spanish MAXAM Corp. S.A.U. bought 49% stake in OSC Electrohimprom for US\$ 22 mln with the investment obligation of US\$ 53 mln. The largest volume of expected investments (US\$ 142.85 mln) is planned to be directed on projects on modernization of production of nitrogen fertilizers of three largest chemical plants OSC Navoiazot, OSC FerganaAzot and Electrohimprom.

The companies operating in Chemical industry under the UzKimyoSanoat State Company made up over US\$ 305.9 mln in the 1H 2008, thereby demonstrating a growth of 9%.

The companies produced consumer goods for US\$ 15.03 mln (up 21.8%), 535,300 tons of mineral fertilizers (up 4.5%), including 455,500 tons of nitric (up 4.6%), and 79,800 tons of phosphoric fertilizers (up 3.8%). The export of the products manufactured by the chemical industry has grown by 61%.

In the nearest future several new projects are to be implemented in the industry. Among them is launching the production of PVC and caustic soda with the capacity of 50,000 tons and 33,000 tons respectively and the construction of a modern complex for the production of 550,000 tons of ammonium and 450,000 tons of carbamide yearly.

We expect that the completion of the first stage of modernization in chemical industry would change the structure of the products manufactured by the industry. According to estimations, while in absolute values the production of fertilizers will continue to grow, by 2020 their share in the total industry's output will fall to 46.5%. The efficiency of the use of energy resources will be increased through the growth of the volumes of production of finished goods and the integration of energy saving technology.



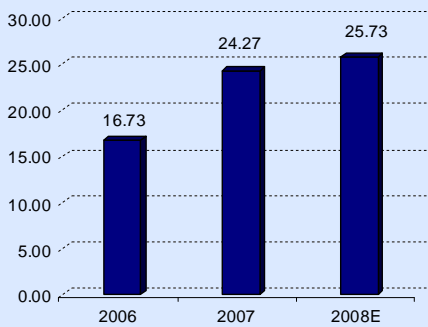
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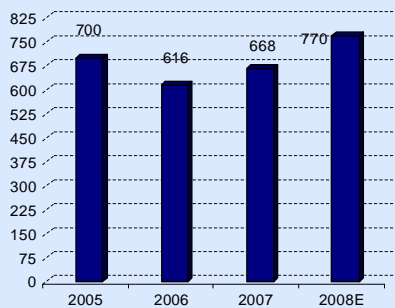
### ESSENTIAL FINANCIALS & CHARTS

#### Asset Dynamics of the Company (US\$ mln)



Source: Company Balance Sheet

#### Net Income of the Company (US\$ '000)



Source: Company Income Statement

### Financial Highlights

Revenues posted relatively stable growth. High costs remain as key challenges for the company in coming years.

EBIT for the company was US\$ 1 mln in 2007, up 13.5% compared to 2006. In accordance with the management strategy, it is expected to modernize the existing equipment through capital investments to reach the benchmark of 70% cost of sales and improve the margins. EBIT is expected to be US\$ 1.36 mln in 2008.

Price per earnings ratio is expected to decrease from 7.95 to 7.4 in 2008 due to expected stable growth in earnings.

#### OJSC SURKHANDARYO QISHLOQHUJALIKKIMYO

##### Financial Overview

In '000 US\$	2005	2006	2007	2008E
<b>Balance Sheet</b>				
Total Assets	35 050	16 727	24 270	25 726
Liabilities	18 490	11 767	10 421	11 046
Total Shareholders' Equity	16 560	4 960	13 849	14 680
Charter Capital	645	614	590	564
<b>Income Statement</b>				
Revenues	23 320	20 534	22 270	24 052
EBIT	933	883	1 002	1 363
Net Income	700	616	668	770
<b>Ratio Analysis, %</b>				
ROA	2,0%	3,7%	2,8%	3,0%
P/E	6,52	8,01	7,95	7,40
P/S	0,20	0,24	0,24	0,24
P/B	0,28	1,00	0,38	0,39
EPS (US\$)	0,92	0,81	0,88	1,01

### Valuation & Per Share Data

Return on Assets (ROA) of the company has been increasing y-o-y. In 2007, company's net income equaled to 1.0% of its total assets. We expect company's ROA to be 1.4% in 2008.

Earnings per share (EPS) of the company increased from US\$ 0.21 to US\$ 0.32 in 2007. We expect that the company's EPS will be US\$ 0.47 for 2008 due to higher level of net income.

We anticipate further dynamic growth of JSC Surkhandaryo "QISHLOQHUJALIKKIMYO" in line with the growing domestic demand for fertilizer products. Revenues and EBIT signal of company's healthy performance and optimistic growth projections.

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