


 INVESTMENT CAPITAL UKRAINE  
 INVESTMENT BANKING

# Ferrexpo

## FY13 Earnings review: Positive surprise again

 Sector  
**Mining**

 Ticker in Bloomberg  
**FXPO LN**

Recommendation

**BUY**

 Target price  
**US\$4.48**

THURSDAY, 13 MARCH, 2014

RESEARCH INSIGHT

**Ferrexpo's FY2013 results exceeded market expectations as the company's EBITDA increased 25% YoY to US\$506m, and its EPS increased 21% YoY to US\$0.45, 7% and 3% above market consensus, respectively. While higher prices, new production and inflation-resistant unit costs helped the company to repel the market's cautious forecast for FY2013, further growth in volumes of more efficient operations at Yeristovo mine and the hryvnia's depreciation have a good chance to offset the negative effect of weaker iron ore prices in FY2014.**

**Yeristovo helped EBITDA beat consensus.** We believe that the market underestimated the positive impact of newly employed operations at the company's new mine, Yeristovo, which helped Ferrexpo to boost its sales volume 11% YoY to 10.7mt of pellets. As a result, Yeristovo alone contributed nearly 40% to EBITDA growth. Iron ore prices rose 4% to US\$135/t, according to the Ferrexpo's main benchmark, the Platts' Fe 62% Index, and contributed nearly 50% to EBITDA growth.

**Cost-saving potential still high.** Ferrexpo's cash production costs were nearly flat at US\$59.8/t in 2013, despite the absent depreciation in the Ukrainian hryvnia, one of the key factors expected by us to alleviate the company's cost burden last year. Due to shallower mining depths and higher ore grades, growing operations at the Yeristovo mine provided the key cost-saving impact for Ferrexpo. This should become even more prevalent in 2014, as the company plans to increase processing volumes of Yeristovo's ore by 36% to 9mt. As the NBU finally loosened its rigid control of the hryvnia in January, we expect the currency to depreciate 20% to UAH10/USD to reduce production costs in 2014.

**Leverage looks sustainable into 2014.** As of end-2013, Ferrexpo's net debt increased 13% to US\$639m compared to end-1H13, driven mostly by the acquisition of a 14% stake in Brazil's Ferrous Resources. Nevertheless, the stronger EBITDA allowed the company to reduce its Net debt/LTM EBITDA from 1.4x to 1.3x, and management sounds determined to continue its prudent debt policy to preserve the company's leverage at moderate levels in 2014.

### Ferrexpo FY2013 results highlights

US\$m	2013A	Change (% YoY)	2013E, Cons*	Diff. to 2013E Cons* (%)
Net revenues	1,581	11.0	1,565	1.0
EBITDA	506	24.9	473.4	6.9
EBITDA margin	32.0		30.2	
Net income	264	20.5	253.9	4.0
Net margin	16.7		16.2	

Sources: Company data, Bloomberg.

### Key data on company's shares

Data as of 12 March, 2014

Price (GBP, current)	144.20
Price (US\$)	2.40
Outstanding (m shares)	589
ADT, 100 days (US\$m)	3.91
Market capitalisation (US\$m)	1,409.9
Enterprise value (US\$m)	1,975.4
Free float (%)	22.4
Mkt cap of free float (US\$m)	315.8

 Note: market exchange rate US\$1.6611 per GBP.  
 Sources: Company data, Bloomberg, ICU.

### Key financial figures

(US\$m)	2012	2013	2014E
Sales	1,424.0	1,581.4	1,614.8
EBITDA	405.4	505.9	472.8
Net income	218.6	263.8	245.1
EPS (US\$)	0.37	0.45	0.42

Sources: Company data, Bloomberg.

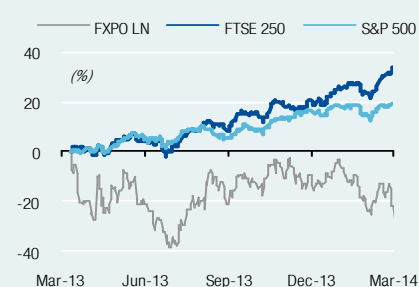
### Key ratios

	2012	2013	2014E
EBITDA mgn (%)	28.5	32.0	29.3
ROE (%)	25.9	21.1	12.8
Net Debt/EBITDA (x)	1.1	1.3	1.2
EV/EBITDA (x)	4.9	3.9	4.2
P/E (x)	6.4	5.3	5.8

Sources: Company data, Bloomberg.

### Relative share price performance

During the last 12 months



Sources: Bloomberg.

<http://www.icu.ua>

Bloomberg: ICUA &lt;GO&gt;

READ THE DISCLOSURES SECTION FIRST FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION.

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# Disclosures

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**Buy:** Forecasted 12-month total return greater than 20%

**Hold:** Forecasted 12-month total return 0% to 20%

**Sell:** Forecasted 12-month total return less than 0%

Note: total return is share price appreciation to a target price in relative terms plus forecasted dividend yield.



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