

GDR	PIK LI
Recommendation	BUY
Last price	\$3.98
Target price	\$11.00
Upside	176%
Free float	17%

Common	PIKK RU
Recommendation	NOT RATED
Last price	\$4.15

Market cap	\$1,963 mln
Enterprise value	\$3,151 mln
ADT, 100 days	\$5.0 mln

Prices as of October 16, 2008

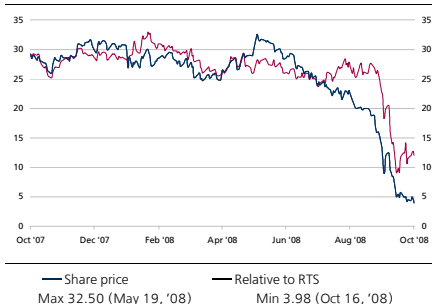
Key data

	2006	2007	2008E	2009E
Financials (IFRS), \$ mln				
Revenues	1,595	2,807	3,231	4,563
EBITDA	368	979	1,079	927
EBIT	343	947	1,030	869
Net income	187	726	627	517
EPS, \$	0.38	1.47	1.27	1.05
Profitability				
EBITDA margin	23%	35%	33%	20%
EBIT margin	21%	34%	32%	19%
Net margin	12%	26%	19%	11%
Price ratios				
P/S	1.2	0.7	0.6	0.4
EV/EBITDA	7.9	2.8	2.9	3.4
P/E	10.5	2.7	3.1	3.8
P/CF	14.9	neg	57.7	neg
Growth				
Revenues	—	76%	15%	41%
EBITDA	—	166%	10%	-14%
EPS	—	289%	-14%	-17%

Price performance, %

	1 mo	3 mo	6 mo	YTD
GDR	-65.5	-83.3	-85.0	-87.0
Relative to RTS	-45.4	-49.3	-54.5	-58.1

Price performance, \$



Source: Bloomberg, Troika

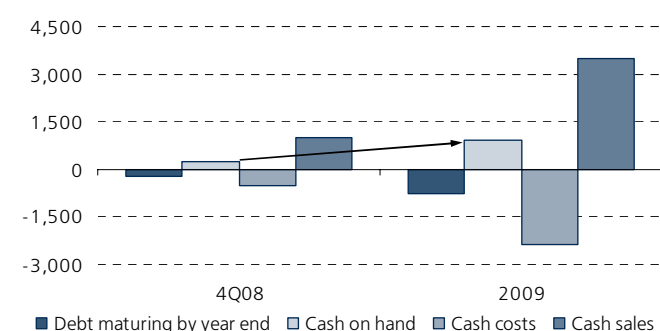
PIK Group

Show me the Cash

PIK Group has reported solid 3Q08 cash collection figures, which mitigate many short-term refinancing risks. We reiterate our target price of \$11.00 per GDR and BUY recommendation on the stock. The heavy discount to its NAV has already priced in the short term risks and possible NAV downgrades due to real estate price corrections. We believe that, in the longer term, the current market weakness creates an attractive risk/reward proposition, though we regard it as speculative due to biased future cash flows.

- PIK Group has stated that it collected \$703 mln in cash during 3Q08, slightly above our expectations. This means that the developer has successfully paid down \$340 mln in short-term debt maturing in September and October, we believe.
- We estimate that PIK Group now has \$260 mln of cash reserves and is prepared to pay off \$223 mln, maturing by November-December 2008. Another \$1 bln in cash collected through bulk sales is expected to be recorded in October, and this addresses the \$803 mln in short-term debt that will come due in 2009.
- The solid residential cash collection for 3Q8 suggests that the company's cash sales schedule came out unaltered and that it was not hit by low liquidity in September. The developer manages its demand and positions itself well for state purchases.
- PIK Group is trading at a 1H08 P/BV of 0.9 and at 14% of its NAV. Even if we assume a 50% drop in residential prices (by end 2009) and downgrade the company's NAV against it, the stock would still be trading at 42% of its NAV.
- The number of state buys increases confidence that PIK Group's short-term debt refinancing risks are well mitigated through internally generated cash flows. However, we remain skeptical of its cash flow sources for future seasons and the reliability of retail sales.
- We regard the news as positive and reiterate our BUY recommendation on the stock and target price of \$11.00 per GDR. PIK Group's deep discount has priced in a huge margin of error, and the short-term risks are addressed through cash flows. However, we still view the developer's upside as speculative due to the high amount of short-term debt and remaining uncertainties caused by the low transparency of its cash flows.

PIK Group short-term cash flow



Source: Company, Troika estimates

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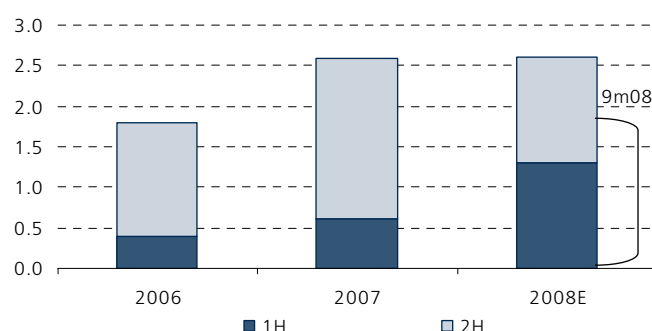
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Solid 3Q08 cash collection figures mitigate many short-term debt refinancing risks

PIK Group has announced solid residential cash collection figures for 9m08, residential cash collections coming in at \$1,544 mln (out of a total \$1,962 mln), or \$545 mln for 3Q08 (out of a total \$703 mln cash collected during 3Q08). These figures are solid and in line with the company's full-year target of \$2,600 mln, which it has reiterated. The aggregate cash collection figures were slightly above our expectations; however, residential cash collections were a bit lower than we had projected.

Importantly, the company has recorded an inflow of \$703 mln in cash to its accounts, which already compares favorably with the estimated \$580 mln that it has in short-term debt maturing in 2H08. Therefore, PIK Group successfully paid over \$340 mln in short-term debt maturities during September-October 2008, we believe.

PIK Group cash collection breakdown, \$ bln



Source: Company, Troika estimates

Well positioned for state buys

PIK Group has indicated that it is expecting up to \$1 bln in cash from wholesale transactions, having the state as a final buyer, to be recorded during October 2008. The government is becoming increasingly concerned with supporting developers, and PIK Group's social importance positions it under the right focus, in our view.

Solid demand management but future periods uncertain

The solid cash figure for 3Q8 suggests that PIK Group's cash sales schedule came out unaltered and that it was not hit by low liquidity in September. We expect the liquidity to remain tight over the next nine to 12 months, and thus highly regard the company's ability to manage its demand even in light of more expensive and less available mortgage financing. However, we remain cautious on exactly how much cash PIK Group expects to raise through retail (pre)sales versus wholesale. Along with the company's short-term solvency, we are concerned that end-user demand may not be sufficient during the next few seasons.

In light of the liquidity crisis, the main focus remains the company's ability to meet its large short-term debt maturities. We estimate that PIK Group has around \$1 bln remaining to refinance through end 2009. With refinancing options remaining tight, the developer will have to rely heavily on its internal cash generation ability, which makes its recent display of unaltered cash sales schedules rather important.

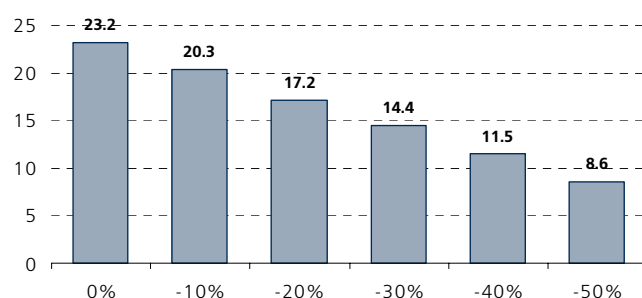
PIK Group RAS debt breakdown, 1H08, \$mln

	Amount	Maturity
Long-term debt		
Sberbank	261.0	2010-11
Total	261.0	
Short-term debt		
Debt presumably redeemed or refinanced		
Nomura International	150.0	Nov 02, 2008
Evropa Bank	10.0	Nov 08, 2008
Sberbank	30.8	Aug 15, 2008
Morgan Stanley Senior Funding	150.0	Oct 03, 2008
Debt maturing by end 2008		
Sberbank	7.6	Oct 25, 2008
Orgresbank	12.3	Nov 07, 2008
Rosbank	95.0	Nov 27, 2008
VTB Bank	108.0	Dec 26, 2008
Debt maturing by end 1H09		
Absolut Bank	57.0	Jan 05, 2009
Sberbank	38.4	May 20, 2009
Evrofinans Mosnarbank	50.0	Jul 25, 2009
Raiffeisen Bank Int'l	47.7	Dec 31, 2009
Other short-term debt	570.0	During 1H09
Total	1,326.8	
Total debt	1,587.8	

Source: Company, Bloomberg, Troika estimates

Real estate price correction already priced in; the heaviest scenario

We assume that wholesale buys could be made at a discounted price, but believe this to be of secondary importance, as the recent stock quotes already price in a more than 50% drop in real estate prices by end 2009. PIK Group realizes high gross margins of 60-80% on apartments in Moscow and Moscow Region, and has significant room for cannibalizing its margins and still remaining cash positive. We also expect the developer's margins to be helped by decreasing construction and building material costs – as the market weakness is being passed up the chain – and due to falling energy and commodity prices. Last but not least is the fact that PIK Group has already paid for many of its projects' startup costs and can now continue to work on many of these with positive variable margins.

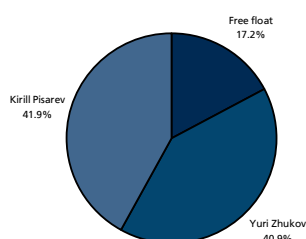
NAV sensitivity to real estate price changes, \$ per share

Source: Company, Bloomberg, Troika estimates

PIK Group is now trading at an 86% discount to its NAV as last updated by CB Richard Ellis (compared with a normal 60% premium before the liquidity crisis). We take a conservative view, expecting real estate prices to drop while financing costs rise. We have run sensitivity analyses of the developer's NAV to real estate price fluctuations. Even if we assume a 50% drop in residential prices by end 2009 and downgrade its NAV accordingly, PIK Group would still trade at a 42% to NAV.

Moreover, the stock is trading at a 1H08 P/BV of 0.9, which is a mere indicator of cash paid for the company's assets without any reserve for revaluation.

Ownership structure



PIK Group IFRS financials, \$ mln

	2006	2007	2008E	2009E	2010E	2011E	2012E
INCOME STATEMENT							
Revenues	1,595	2,807	3,231	4,563	6,693	6,548	4,495
COGS	(1,227)	(2,082)	(2,174)	(3,431)	(5,102)	(4,847)	(3,624)
Gross income	368	725	1,057	1,132	1,591	1,702	871
Gross margin	23.1%	25.8%	32.7%	24.8%	23.8%	26.0%	19.4%
SG&A	(75)	(162)	(218)	(263)	(342)	(361)	(332)
EBITDA	368	979	1,079	927	1,311	1,407	610
Adjusted EBITDA	368	979	1,079	927	1,311	1,407	610
EBITDA margin	23.1%	34.9%	33.4%	20.3%	19.6%	21.5%	13.6%
DD&A	(26)	(32)	(49)	(57)	(62)	(66)	(71)
EBIT	343	947	1,030	869	1,249	1,341	540
Interest income	(30)	(73)	(206)	(189)	(172)	(168)	(178)
Forex gain	—	—	—	—	—	—	—
Other gains	108	386	191	—	—	—	—
Pre-tax income	312	873	824	681	1,077	1,172	362
Income tax	(126)	(146)	(198)	(163)	(259)	(281)	(83)
Minority interest	0	(1)	—	—	—	—	—
Exceptionals	—	—	—	—	—	—	—
Net income	187	726	627	517	819	891	279
Adjusted net income	187	726	627	517	819	891	279
Net margin	11.7%	25.9%	19.4%	11.3%	12.2%	13.6%	6.2%
EPS, \$	0.38	1.47	1.27	1.05	1.66	1.81	0.56
Adjusted EPS, \$	0.38	1.47	1.27	1.05	1.66	1.81	0.56
BALANCE SHEET							
Assets							
Cash and equivalents	43	693	291	51	96	135	68
Receivables	210	736	847	1,196	1,754	1,716	1,178
Inventories	1,471	2,044	3,740	5,102	4,617	3,970	4,716
Other current assets	170	146	168	233	337	330	229
Total current assets	1,894	3,619	5,045	6,581	6,804	6,151	6,191
Total non-current assets	602	1,534	2,619	2,370	2,790	3,212	3,771
Total assets	2,496	5,153	7,665	8,951	9,594	9,363	9,962
Liabilities							
Short-term borrowings	532	983	1,136	904	904	904	1,112
Payables	995	1,330	2,578	3,617	3,233	2,061	2,548
Other current liabilities	40	40	4	4	4	4	4
Total current liabilities	1,567	2,353	3,718	4,525	4,141	2,969	3,664
Long-term borrowings	382	425	700	686	686	686	686
Other non-current liabilities	170	328	477	513	720	770	395
Total non-current liabilities	552	753	1,178	1,198	1,406	1,456	1,081
Total liabilities	2,119	3,106	4,896	5,723	5,547	4,425	4,745
Minority interest	16	51	54	53	53	53	53
Equity	378	2,046	2,769	3,228	4,047	4,938	5,216
Total liabilities and equity	2,496	5,153	7,665	8,951	9,594	9,363	9,962
Net debt/(cash)	870	715	1,545	1,539	1,493	1,455	1,731
CASH FLOW STATEMENT							
Net income	187	726	627	517	819	891	279
Minority interest	0	(1)	—	—	—	—	—
DD&A	(26)	(32)	(49)	(57)	(62)	(66)	(71)
Working capital change	(76)	(810)	(1,808)	(1,711)	(74)	685	(208)
Other assets change	(30)	223	1,358	1,072	(180)	(1,125)	115
Operating cash flow	132	(121)	34	(64)	626	517	256
Maintenance capex	(108)	(147)	(142)	(73)	(95)	(99)	(104)
Expansionary capex	(315)	(658)	(599)	255	(382)	(387)	(528)
Other investments	111	269	(219)	(54)	(104)	7	100
Investing cash flow	(311)	(536)	(960)	128	(581)	(479)	(532)
Change in debt	193	415	428	(247)	—	—	208
Dividends paid	—	—	—	—	—	—	—
Share issues/(purchases)	—	897	96	(58)	—	—	—
Other	—	—	—	—	—	—	—
Financing cash flow	193	1,312	524	(304)	—	—	208
Forex effects	—	(5)	—	—	—	—	—
Net change in cash	14	650	(402)	(240)	46	38	(67)
RATIOS							
P/E	10.5	2.7	3.1	3.8	2.4	2.2	7.0
EV/EBITDA	7.9	2.8	2.9	3.4	2.4	2.2	5.4
P/BV	5.2	1.0	0.7	0.6	0.5	0.4	0.4
ROE	49.5%	35.5%	22.6%	16.0%	20.2%	18.0%	5.3%
ROIC	12.9%	19.0%	10.1%	7.7%	12.1%	11.6%	2.0%
Dividend per share, \$	0	0	0	0	0	0	0
Dividend yield	—	—	—	—	—	—	—
P/S	1.2	0.7	0.6	0.4	0.3	0.3	0.4
P/CF	14.9	neg	57.7	neg	3.1	3.8	7.7
Revenue growth	—	76%	15%	41%	47%	-2%	-31%
EBITDA growth	—	166%	10%	-14%	41%	7%	-57%
EPS growth	—	289%	-14%	-17%	58%	9%	-69%

Source: Company, Troika estimates

Disclosure appendix

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