RUSSIAN CORPORATE DEBT

Kopeyka: success going forward

Russian food retailer Kopeyka is offering the market its third rouble bond of RBL4b with 5 years to maturity and 1.5-years put option at 99% of par. Our estimate of the fair yield of Kopeyka-3 is 10.1-10.5% to maturity, which roughly corresponds to coupon range 9.75-10.1%.

The long duration of the new bond ensures its upside in case the ambitious plans of the company come true. At the same time, the presence of the put option in 18 months protects investors from downside risks in case Kopeyka fails to meet its high expectations for 2007.

In essence, Kopeyka-3 grants a call option on Kopeyka's success.

- **Financial Corporation Uralsib is becoming the sole owner of Kopeyka. Legally the transaction is not finished yet, but de-facto the company is already enjoying the full support of the financial group.**
- **In 2006 Kopeyka dramatically boosted its expansion, having opened 210 new stores and increased its trading area by 164%. This produced an outstanding result of 71% net sales growth to USD980m.**
- **This acceleration was achieved at a cost: according to 9M2006 interim financials, cash flow from operations for the period turned negative, EBITDA margin fell to 4.1%, Debt/EBITDA ratio soared to 6.7x.**
- **Debt situation as of end-2006: USD106.1m of bank loans, USD200m in long-term bonds. The bank loans will be refinanced using the proceeds from the new issue (approx. 70% or RBL2.8b), so after the transaction Kopeyka will have an excellent liquidity situation with the closest large cash requirement being the redemption of Kopeyka-1 (RBL1.2b) in June 2008.**
- **The company expects to bring its revenue up to USD1844m in 2007 or basically double it. To achieve this, the company will invest approx. USD300m financed the following way: USD45m from Kopeyka-3, USD175m from real estate securitization, USD80m from operations.**
- **As a result, the Debt/EBITDA ratio is forecast to fall to 3x in 2007 with total debt limited to USD330m as of year end.**
- **In 2007-2009 Kopeyka is planning to grow its business mainly on leased area in order to ensure fast store rollout. The sales of the group are expected to reach USD3.8b in 2009, which will require yearly capex of USD250-270m.**
- **Kopeyka is rated B- by S&P and has a long history of IFRS reporting. The next rating review will take place after the audited IFRS report for 2006 is released, i.e. not earlier than in May 2007.**
- **A definite strong point of Kopeyka is its well-known brand, which surpasses in public recognition the brands of many competitors, including Magnit and Dixi, especially in the key Moscow region.**

Kopeyka-3 '12

Sector	Trade
Bloomberg	KOPEIK
Placement date	21 Feb 2007
Issuer	OJSC TD Kopeyka
Issue amount	Rub 4b (~USD 152m)
Coupon	quarterly
Put	1.5 years at 99%
Maturity	5 years
Rating	B- (S&P)
Lead-manager	URALSIB
Fair value	YTM 10.1-10.5% for 5 years

Key figures of Kopeyka

	2005	9M2006
Reported items (USDm)		
Sales	574.83	667.22
GP	120.42	144.17
EBITDA	35.06	27.39
NI	9.34	1.15
Assets	322.22	496.68
Fixed Assets	169.20	253.54
ST Debt	112.30	96.89
LT Debt	0.00	147.58
Debt	112.30	244.47
Equity	141.19	152.92
Ratios (x)		
Gross Mgn	20.9%	21.6%
EBITDA Mgn	6.1%	4.1%
Net Mgn	1.6%	0.2%
Debt/EBITDA	3.20	6.69
NetDebt/EBITDA	2.91	6.39
EBITDA/Interest	4.11	2.25
Debt/Capital	44.3%	61.5%
Debt/Assets	34.9%	49.2%
ST Debt/Debt	100.0%	39.6%
Current Ratio	0.43	0.68
Quick Ratio	0.09	0.16

Source: Kopeyka

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Issue parameters

Size – RBL4b, quarterly coupons, term to maturity – 5 years.

Put option – 18 months, at 99% of par.

Ratings

Kopeyka is rated ***B-/Stable*** by S&P. The rating was assigned on 20 June 2005 and has not changed since then.

Kopeyka is rated B-/Stable by S&P. Next rating review – not earlier than in May 2007

According to company information, the next rating review is likely to take place after Kopeyka issues audited IFRS financials for 2006, i.e. not earlier than in May 2007.

Purpose of the new issue

Kopeyka intends to use approximately 70% (RBL2800m) of the proceeds for refinancing, the rest will be invested in the retail chain development.

70% of proceeds from Kopeyka-3 will be used to refinance short-term bank loans

Issuer profile

Kopeyka is a chain of discount supermarkets, which in the end of 2006 operated 328 stores (276 own ones and 52 – under franchising programme).

Regional presence of the chain is fairly large: stores are mainly concentrated in Moscow, Moscow region, regions around Moscow, Nizhniy Novgorod region, Samara region, i.e. mainly in central Russia.

The main competitive strategy pursued by Kopeyka is price competition. The chain's primary targets are strict cost control and quick store rollout.

Ownership structure – Uralsib is becoming a sole owner

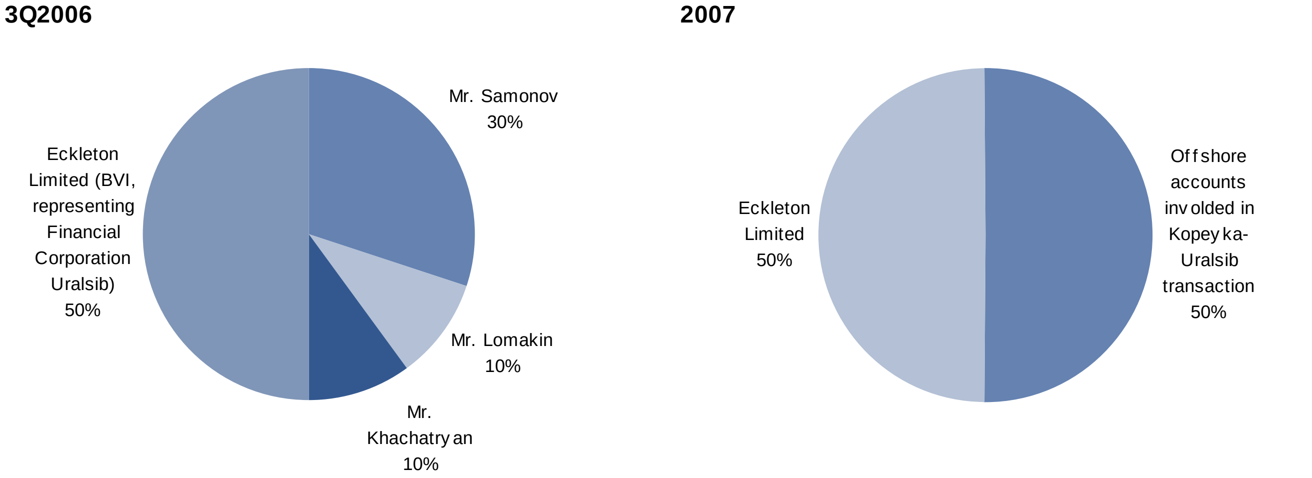
In the end of 2006 Kopeyka experienced a significant change in its shareholders' structure.

Legally the transaction is not over yet, but de-facto Uralsib has become a 100% owner of Kopeyka

The founding shareholders of the chain agreed to sell their remaining shares to Uralsib for the latter to become the sole beneficiary of Kopeyka. Currently the transaction is not fully completed, but 50% of Kopeyka's shares have already been transferred by the former shareholders to offshore accounts representing Uralsib.

The chart below illustrates the change in the capital structure of Kopeyka.

Figure 1 Ownership structure of Kopeyka in transition



Source: Kopeyka

The bottom line is: Uralsib is becoming a 100% owner of Kopeyka, but the transaction is not finished yet.

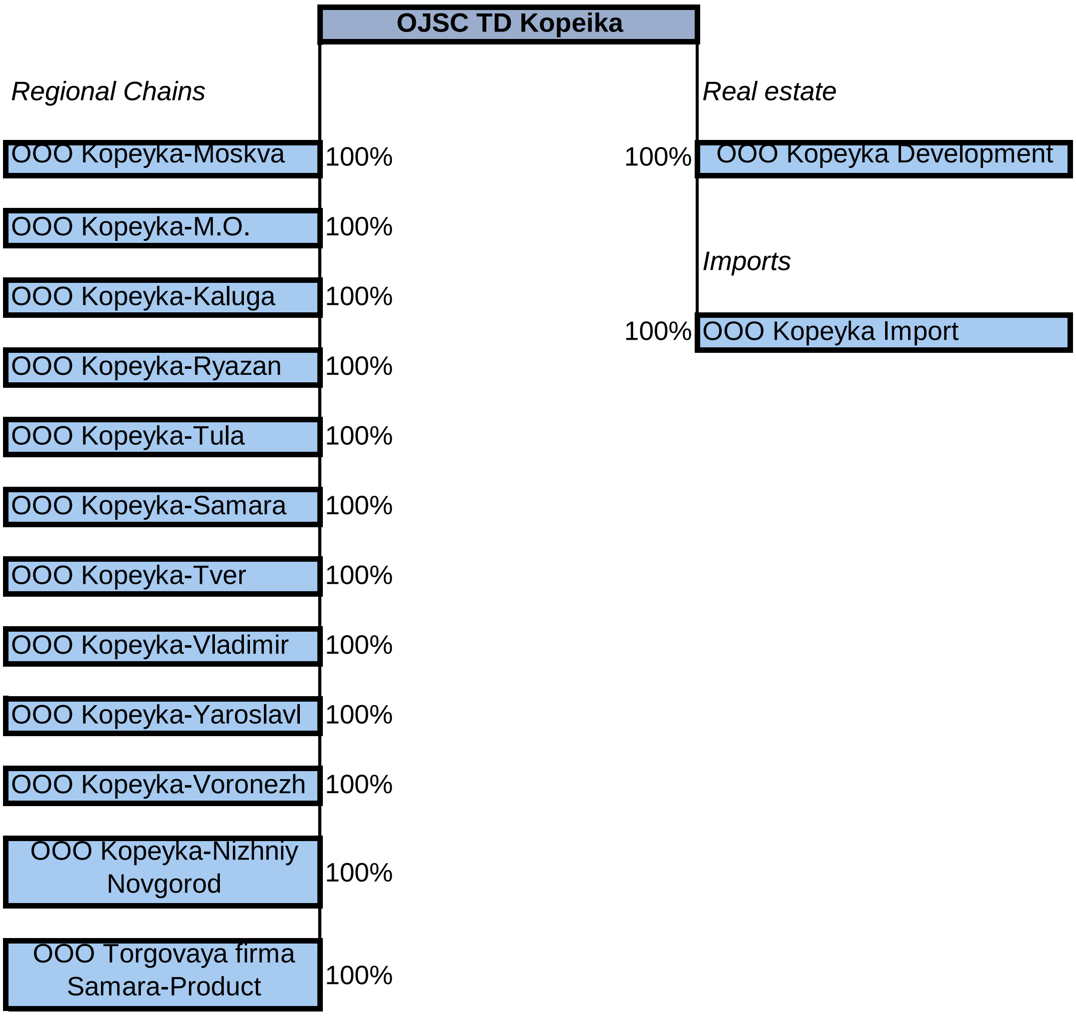
Former shareholders Lomakin and Khachatryan remain with the company at top management positions.

Former shareholders Lomakin and Khachatryan remain with the company

Legal structure – cannot be simpler

The legal structure of Kopeyka is very straightforward and self-explanatory.

Figure 2 Holding structure of Kopeyka



Source: Kopeyka

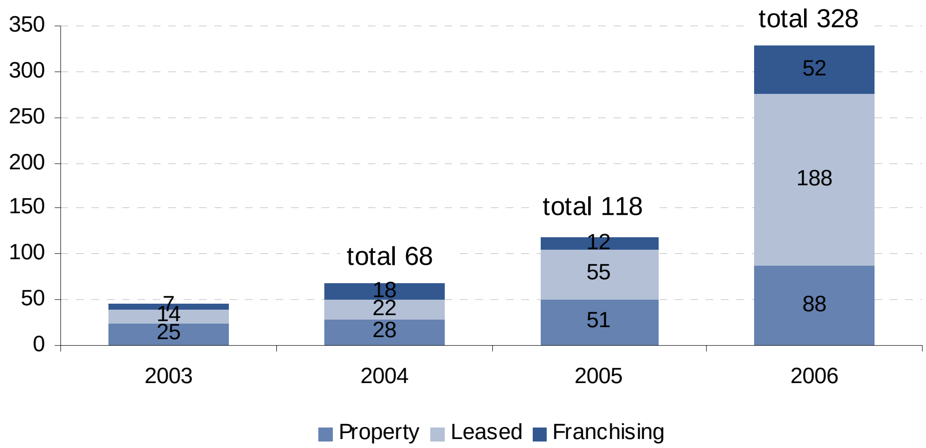
The new bond issue Kopeyka-3 is structured as follows: issuer – OJSC TD Kopeyka, guarantors – OOO Kopeyka-Moskva (retail chain operator in Moscow), OOO Kopeyka-Development (holder and operator of Kopeyka real estate).

Kopeyka-3 is guaranteed by two entities jointly covering 70% of sales and 78% of assets of the group

The guarantors jointly account for 70% of sales and 78% of assets of the group.

Rollout of new stores

Figure 3 Number of Kopeyka stores, historical



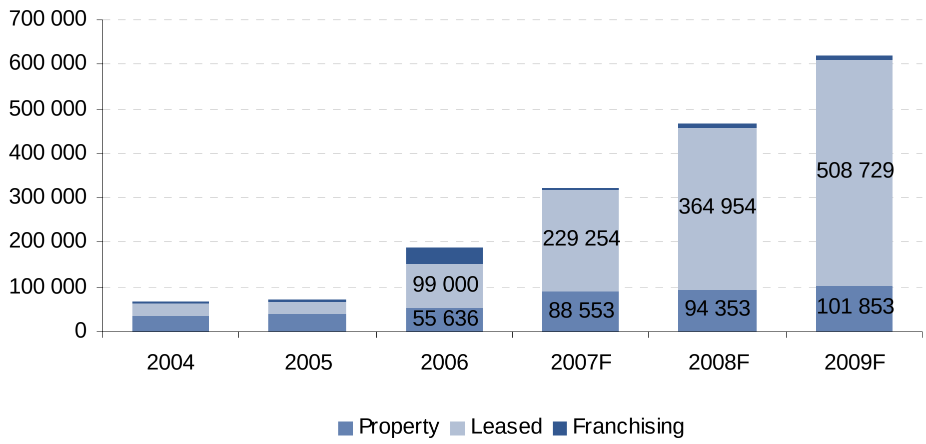
Source: Kopeyka

Key fact: 328 stores as of 2006, 178% up from 118 in 2005 – a huge acceleration of store opening.

The number of stores owned by Kopeyka reached 110 in 2006. The company estimates the market value of its real estate to be USD175m at minimum.

The number of stores operated by Kopeyka grew 178% in 2006 reaching 328

Figure 4 Trading area, sq. m.



Source: Kopeyka

The graph above shows that in 2006 Kopeyka operated 190.5k sq. m. of trading area, out of which 55.6k was owned by the group. Thus, we can conclude that Kopeyka is valuing the trading area of its stores at USD3147/sq.m.

Kopeyka plans to increase its trading area in 2007 by more than 60%

The forecast for 2007-2009 indicates that in the nearest future Kopeyka is planning to develop its business on leased stores, as the company does not expect its property area to notably grow.

The company will be focusing on leasing to ensure fast store rollout

Financial overview

Kopeyka has a good history of IFRS reporting. The company's auditor is Ernst&Young.

The latest available audited report of Kopeyka is for 2005. Unaudited IFRS data is available for 9M2006.

Figure 5 Summary financials of Kopeyka

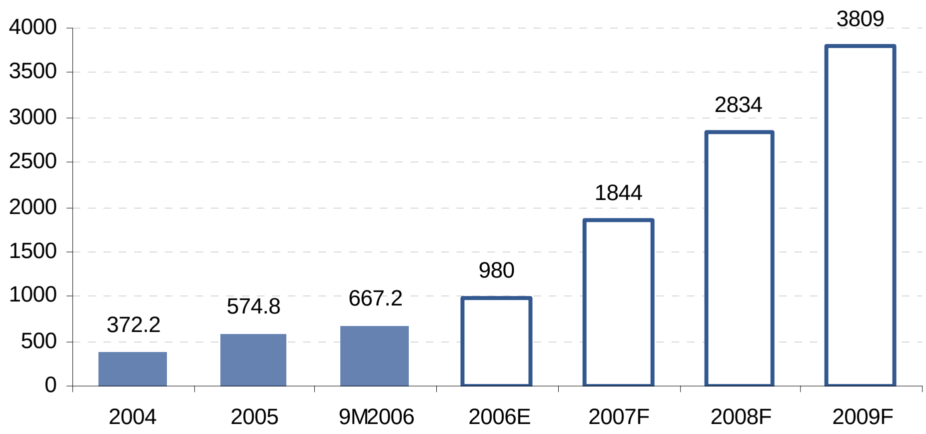
Reported data (USDm)	9M2006	2005	9M2005	2004	Ratios (x)	9M2006	2005	9M2005	2004
Sales	667.2	574.8	404.9	372.2	Gross Mgn	21.6%	20.9%	22.4%	21.0%
GP	144.2	120.4	90.9	78.1	EBITDA Mgn	4.1%	6.1%	7.5%	7.6%
EBITDA	27.4	35.1	30.4	28.3	EBIT Mgn	2.4%	4.6%	6.0%	6.1%
EBIT	15.9	26.7	24.3	22.8	Net Mgn	0.2%	1.6%	2.7%	4.1%
NI	1.1	9.3	10.9	15.2					
					Debt/EBITDA	6.69	3.20	2.25	1.80
Assets	496.7	322.2	250.7	202.9	Debt/EBIT	11.51	4.21	2.81	2.23
Fixed Assets	253.5	169.2	134.7	95.5					
					NetDebt/EBITDA	6.39	2.91	2.09	1.14
ST Debt	96.9	112.3	41.6	50.8	NetDebt/EBIT	10.98	3.82	2.62	1.42
LT Debt	147.6	0.0	49.5	0.0					
					EBITDA/Interest	2.3	4.1	5.7	15.0
Debt	244.5	112.3	91.1	50.8	EBIT/Interest	1.3	3.1	4.5	12.0
Equity	152.9	141.2	120.6	106.6					
					Debt/Capital	0.62	0.44	0.43	0.32
CFO	-5.0	23.9	19.7	13.7	Debt/Assets	0.49	0.35	0.36	0.25
CFI	-116.2	-83.9	-61.5	-38.5					
CFF	121.2	52.5	30.0	38.9	ST Debt/Debt	39.6%	100.0%	45.7%	100.0%
FCF	-121.2	-60.0	-41.8	-24.8	Current Ratio	0.68	0.43	0.81	0.69
					Quick Ratio	0.16	0.09	0.10	0.26
					CFO/Debt	-0.03	0.21	0.29	0.27

Source: Kopeyka

Sales

The following graph displays historical dynamics of Kopeyka's sales together with the company forecast for the coming years.

Figure 6 Net sales of Kopeyka



Source: Kopeyka

The sales figure for 2006 (USD980m) was provided by the company management in a public press-release and should not change significantly in the final IFRS financials for 2006.

Net sales reached USD980m in 2006, +71% to 2005

Key points:

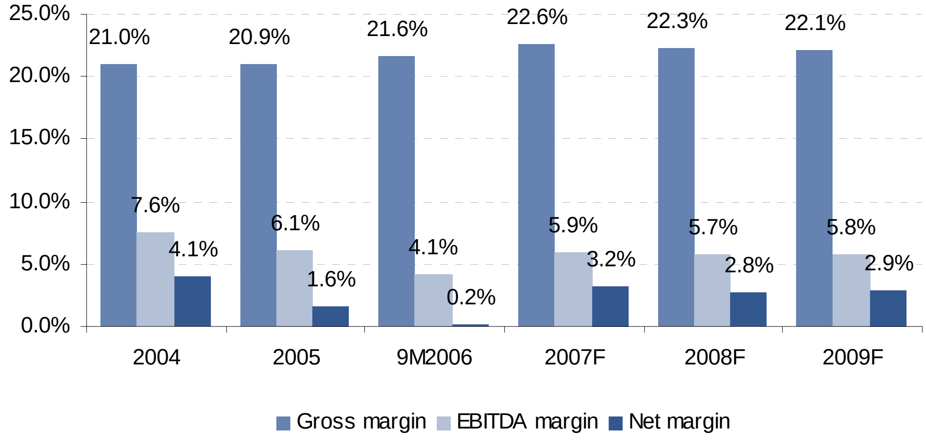
- Sales growth acceleration: +71% in 2006 versus +55% in 2005.

- Plan to almost double the net sales in 2007.
- Revenue is forecast to reach USD3.8b in 2009.

Kopeyka expects to double its sales in 2007, revenue is forecast at USD3.8b for 2009

EBITDA and margins

Figure 7 Kopeyka's margins



Source: Kopeyka

Main trends:

- Relative stability of the gross margin at 20-22%;
- A drop in EBITDA margin over 9M2006 to 4.1% from 6.1% in 2005;
- Corresponding bottom line reduction to almost zero over 9M2006;
- Long run forecast for the margins: 5.7-5.9% at EBITDA level, 2.8-3% at the bottom line.

EBITDA and net income margins fell in 9M2006

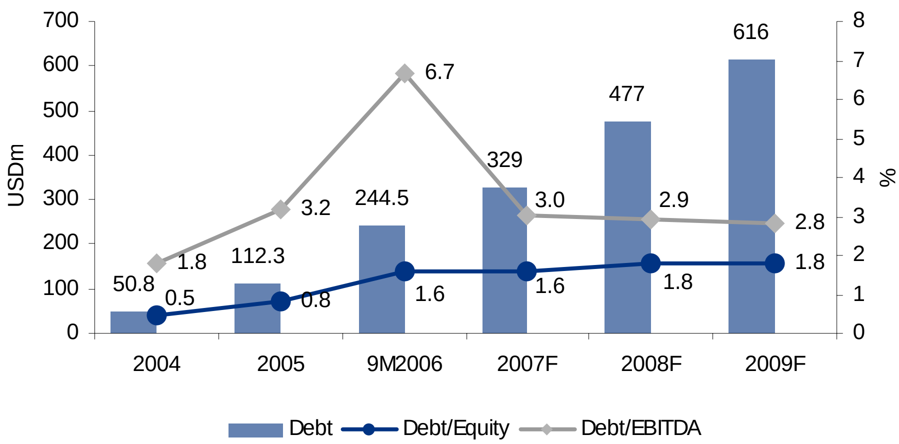
Reasons for the fall of profitability:

- EBITDA margin suffered in 2H2006 due to a large number of stores that were opened in 2006 adding to expenses, but have not yet reached expected output. In essence, EBITDA was a victim of the dramatic increase in store opening pace that took place in 2006;
- Net income additionally lost due to debt level growth and corresponding increase in finance costs from USD8.5m in 2005 to USD12.1m over 9M2006.

This was a result of exceptionally quick store opening in 2H2006, as well as an increase of finance costs

Debt

Figure 8 Main debt metrics of Kopeyka



Source: Kopeyka

Latest financials (9M2006): total debt USD244.5m, Debt/EBITDA 6.7x

Situation as of 9M2006:

- Total debt 244.5m, +117% to 2005;
- Debt/EBITDA 6.7x, up from 3.2x in 2005;
- Debt/Equity 1.6x, up from 0.8x in 2005.

Plan to limit debt to USD330m in 2007, reduce Debt/EBITDA to 3x

Plans for the future:

- Total debt USD329m in 2007, Debt/EBITDA – 3x;
- More or less linear debt growth to USD616m in 2009;
- Long-term Debt/Equity ratio target 1.8x.

Reason for debt growth in 2006 – rapid store rollout on the background of cancelled IPO

Reasons for quick debt growth in 2006:

- Cancellation of IPO;
- Necessity to finance rapid store rollout.

Most recent data: the following table lists all external financial liabilities of Kopeyka group as of end-2006.

Figure 9 Kopeyka's debt breakdown as of 31 December 2006

Creditor	Borrower	Type	Currency	Limit, mln	Taken, mln	Interest, %	Start date	Tranche end	Final date	Guarantee
Commerzbank	OOO Kopeyka-Development	credit line	USD/EUR/RBL	USD 20	USD 4.5 RBL 425	9.45% 8.75%	10.10.2005	15.05.2007 15.05.2007	15.05.2007	OOO Kopeyka-Moskva, OJSC TD Kopeyka
MDM-Bank	OJSC TD Kopeyka	credit line	RBL	530	350 170	10.55% 10.50%	26.10.2006	15.03.2007 20.03.2007	31.12.2007	OOO Kopeyka-Moskva, OOO Kopeyka-Development
MDM-Bank	OJSC TD Kopeyka	credit line	RBL	390	200	10.55%	07.12.2006	12.01.2007	31.12.2007	OOO Kopeyka-Moskva, OOO Kopeyka-Development
Uralsib	OJSC TD Kopeyka	credit line	USD	35	25 10	10.30% 10.30%	22.11.2006	22.02.2007 27.02.2007	22.11.2007	OOO Kopeyka-Moskva, OOO Kopeyka-Development
Gazprombank	OOO Kopeyka-Moskva	overdraft	RBL	850	608	8.00%	12.12.2006	12.01.2007	08.06.2007	Blank
				Subtotal	**106.1 USDm**					

Bonds

Placement	Issuer	Type	Currency	Issued, mln	Outstand., mln	Coupon	Placement date	Put option	Maturity	Guarantee
MICEX	OJSC TD Kopeyka	bond	RBL	1 200	1 200	9.40%	21.06.2005	29.12.2006	17.06.2008	OOO Kopeyka-Moskva, OOO Kopeyka-Development
MICEX	OJSC TD Kopeyka	bond	RBL	4 000	4 000	8.70%	22.02.2006	04.03.2009	15.02.2012	OOO Kopeyka-Moskva, OOO Kopeyka-Development

Total	**303.6**	**USDm**
Average weighted interest rate	**9.12**	**%**

Source: Kopeyka

Highlights:

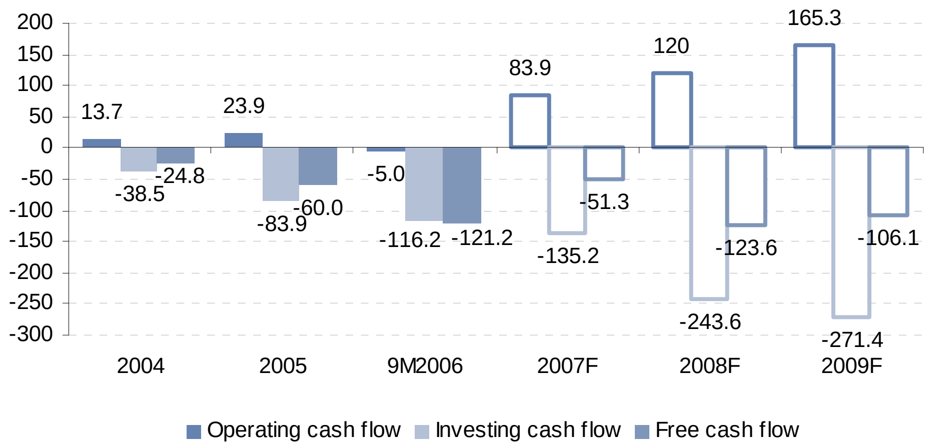
- USD303.6m of total debt as of end-2006, of which USD106.1m – bank loans;
- Bank loans will be mainly refinanced with the proceeds from Kopeyka-3;
- Target total debt level for 2007 – USD329m, so net borrowings in 2007 will be limited to USD25m, i.e. the new bond placement is likely to satisfy the need of Kopeyka for borrowed funds in 2007.

Most recent data (end-2006): total debt USD303.6m, USD106.1m in bank loans

Bank loans will be entirely refinanced with proceeds from Kopeyka-3

Cash flow

Figure 10 Main cash flow items



Source: Kopeyka

Important points:

- Free cash flow of Kokeyka has always been negative and is expected to remain negative for the coming years.
- Over 9M2006 cash flow from operations also turned negative for the same reason as we cited for the EBITDA margin deterioration - fast store opening, which demanded a corresponding working capital increase.
- Cash flow from investing activities is expected in 2007 to be limited to only -USD135.2m, although actually Kopeyka is planning to invest this year almost USD300m. The explanation is that the company expects to receive approximately USD175m from a potential securitization of its real estate.

Free cash flow has been negative and will remain such

Negative cash from operations due to abnormal working capital requirements over 9M2006

Potential securitization of real estate will help Kopeyka meet capex need of USD300m in 2007

The potential real estate transaction

Options for the real estate transaction include sale and lease back or a transfer to an SPV with subsequent securitization

As mentioned, in 2007 Kopeyka is planning to partly fund its development utilizing the real estate property currently owned by the company.

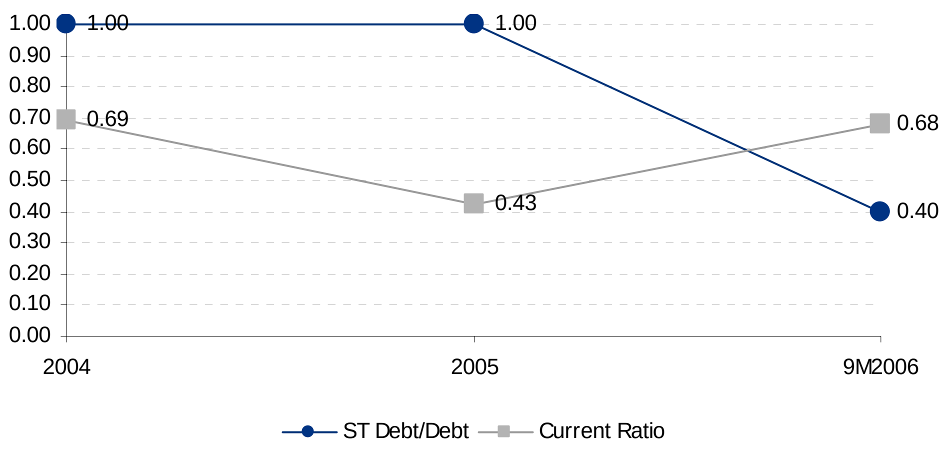
Kopeyka estimates the current market value of its owned stores to be USD175m at minimum.

The details of the upcoming transaction are not known yet, but possible options include: a sale and lease back or a switch of the real estate to an SPV with subsequent securitization of these assets.

Kopeika is doing this in order to reduce this year's debt requirements and at the same time to be able to finance approximately USD300m of capital expenditures.

Liquidity

Figure 11 Key liquidity metrics



Source: Kopeyka

Notes to presented data:

- The portion of short-term debt decreased in 3Q2006 to 40% versus 100% in 2005. This was due to the placement of the 3-year RBL4b bond Kopeika-2.
- Correspondingly, the current ratio of Kopeyka surged from 0.43 in 2005 to 0.68.

Share of short-term debt as of 9M2006 – only 40%.

Overall, current liquidity requirements of Kopeyka are relatively low, and its short-term solvency does not raise any questions. The liquidity will further improve when the company places Kopeyka-3 and refinances bank loans. After that the closest large cash requirement will be the redemption of Kopeyka-1 (RBL1.2b) in June 2008.

The liquidity will improve when the company refinances current bank loans with the proceeds from Kopeyka-3

Let's rehearse once more: what's to happen in 2007

- Entry point: USD303.6m of total debt as of end-2006.
- Kopeyka places Kopeyka-3 (RBL4000, ~USD150m) and refinances USD106.1m of bank loans.
- Within the year approximately USD300m is invested. This requirement is financed using remaining USD45m of Kopeyka-3, USD175m from the potential real estate transaction and USD80m of funds from operations.

- Total debt increases to USD350m, but can be reduced during the year to USD330m using remaining funds from operations through buybacks of outstanding bonds.
- Net revenue of the company increases to USD1844m, which (with the forecast margin of 6%) produces USD110m of EBITDA covering total debt in the end of 2007 at 0.33 (Debt/EBITDA 3x).
- Even if the EBITDA margin remains at the current 4% and the debt ends 2007 at USD350m, the Debt/EBITDA ratio will be 4.8x, i.e. notably safer than now.

Comparison to peers

Most relevant peers of Kopeyka on the rouble bond market include: Pyaterochka (group X5), Magnit, Dixi, Unimilk. The latter is not a retailer, but a dairy products producer, however in our opinion the comparison of Kopeyka to Unimilk can help price the new bond in question.

Figure 12 Kopeyka relative to peers

USDm (IFRS, unaudited)	Kopeyka 9m2006	Dixi 9m2006	Unimilk 1H2006	X5 1H2006	Magnit 1H2006
Revenue	668.7	788.0	386.5	1 580.8	1 074.0
Sales growth in 2006	*70.5%*	*26.3%*	-	-	*58.8%*
EBITDA	27.4	28.4	25.6	122.0	47.2
Assets	496.7	450.0	640.8	4 155.0	588.6
Equity	152.9	-	201.9	2 840.0	259.5
Debt	244.5	236.0	317.4	823.7	75.4
EBITDA Margin	4.1%	3.6%	6.6%	7.7%	4.4%
Current ratio	0.68	-	0.75	0.61	1.38
STDebt/Debt	39.6%	-	60.0%	16.8%	10.2%
Debt/Capital	61.5%	-	61.1%	22.5%	22.5%
Debt/Assets	49.2%	52.4%	49.5%	19.8%	12.8%
Debt/EBITDA	6.55	6.23	6.12	3.38	0.80
EBITDA/Interest	2.25	-	3.28	4.52	7.42
- number of stores	*328*	*310*	-	*1 234*	*1 893*

Source: Companies

a) *Kopeyka compared to X5 and Magnit*.

- (-) Magnit and X5 are leading the Russian food retail market, so Kopeyka is notably smaller in scale;
- (-) The leverage of Kopeyka is significantly higher than those of X5 and Magnit;
- (+) Kopeyka demonstrated a higher sales growth rate in 2006.

Kopeyka is weaker than X5 and Magnit, being smaller in scale and having higher leverage

Overall, Kopeyka appears inferior to X5 and Magnit in credit quality, so the bonds of Kopeyka must trade with a notable premium over their obligations.

b) *Kopeyka compared to Dixi*

- Kopeyka and Dixi operate very similar formats (discount supermarkets);
- With USD980m of sales in 2006 Kopeyka is smaller, but very close in scale to Dixi (USD1.1b in 2006).

- Leverage of Kopeyka and Dixy is also very close – Kopeyka is slightly more stretched in Debt/EBITDA, while Dixy has a higher Debt/Assets ratio.
- (+) Kopeyka has a good history of IFRS reporting and a credit rating from S&P.
- (+) Kopeyka now fully enjoys support from a large financial group;
- (+) Kopeyka's brand is much stronger in Moscow.

Kopeyka looks preferable to Dixi due to support from Uralsib, stronger brand and better transparency

As a result, Kopeyka appears to be stronger than Dixy in credit quality, and its credit should trade at a discount to Dixy.

b) *Kopeyka compared to Unimilk*

- (+) Kopeyka is larger than Unimilk in sales and as a retailer naturally demonstrates higher growth rates;
- The leverage of both companies is almost identical, although Kopeyka's Debt/EBITDA ratio is slightly higher than that of Unimilk.
- (-) Unimilk's liquidity appears to be just a bit better with stronger interest coverage (3.3 versus 2.2 of Kopeyka) and the current ratio of 0.75 versus 0.68 of Kopeyka.
- (+) Kopeyka has a good history of IFRS reporting and a credit rating from S&P.
- (+) Kopeyka now fully enjoys support from a large financial group.

Overall, Kopeyka's credit should trade at a discount to Dixi and at least without a premium to Unimilk

Overall, Kopeyka's credit looks stronger than that of Unimilk and even taking into account that Unimilk is a producer, the bonds of Kopeyka should not trade with a premium over the papers of Unimilk.

Summary: pros and contras

Positive factors for Kopeyka credit:

- Support from Financial Corporation Uralsib;
- Very high growth rate, ambitious plans for 2007-2009;
- A good history of IFRS reporting, rating B- from S&P;
- Strong brand;
- Adequate liquidity.

Negative factors:

- Very significant increase in leverage in 2006;
- Notable fall in EBITDA margin;
- Negative cash flow from operations.

Summary: company financials suffered in 2006 due to exceptionally fast store opening, but the debt raised to finance it in 4Q2006 will be refinanced with long-term resources. At the same time, if Kopeyka succeeds in doubling its sales in 2007, current debt level will be well covered with the new earnings

Overall, Kopeyka's financials suffered in 2006 mostly due to the exceptionally fast store rollout, which was financed using debt resources. The peak of this process fell on the second half of the year, so in 4Q2006 in addition to already outstanding bonds the company had to take a number of bank loans, which will be largely refinanced with the proceeds from Kopeyka-3.

In 2007 the company expects to double its sales reaching revenue USD1844m, stabilize EBITDA margin at roughly 6% and reduce its Debt/EBITDA ratio to 3x. These are the three main parameters investors will be looking at when deciding whether to put the bond in 18 months after the placement or leave it on position for 3.5 more years.

Pricing Kopeyka-3 – attractive deal structure

Kopeyka deal structure is very attractive: it offers large upside due to 5-year duration and protects from downside risk thanks to put-option

The new bond issue is ideally structured to support Kopeyka's high expectations for 2007 and at the same time protect investors from downside risk.

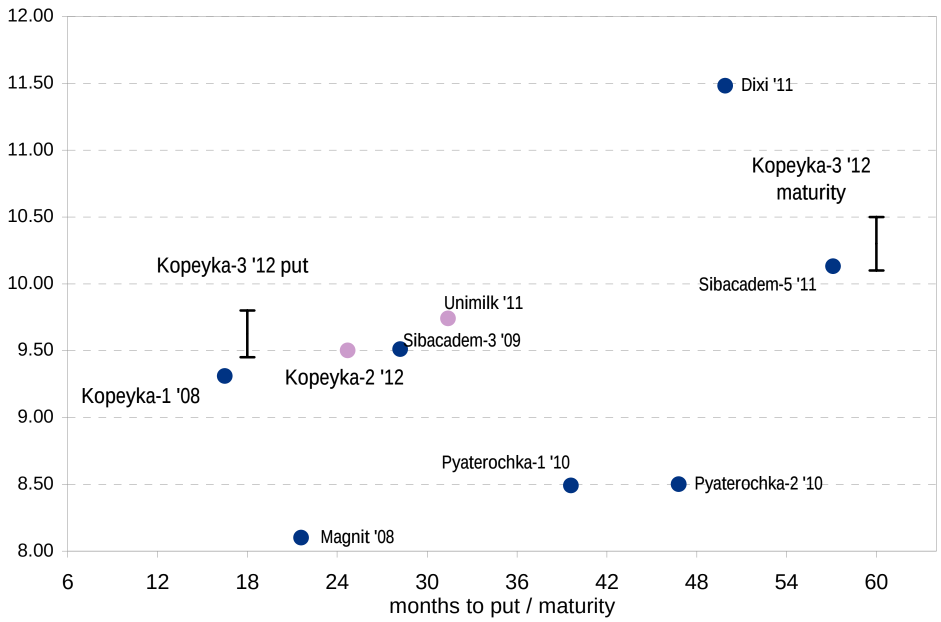
We already mentioned that Kopeyka-3 will have 5 years to maturity offering significant upside in case of credit improvement or a reduction in long-term interest rates, and at the same time the paper has an embedded put option in 18 months at 99%, which significantly limits the issue downside.

The option will become exercisable when IFRS financials for full year 2007 will be available and investors will be able to verify how Kopeyka performed compared to its own forecasts

In essence, by the moment the put option becomes exercisable, the financial report (most probably, already audited) for 2007 will be available and investors will be able to verify if the company forecasts for the year were close to reality and then decide whether to put the paper to the issuer or hold it.

It is also very probable that further sales growth and the improvements in the company leverage will become clear much earlier, in which case the paper upside will be realized through the 5-year duration and the put option will get obsolete.

Figure 13 Current market picture



Source: MICEX, Cbonds

As can be seen, the main benchmark point for the new Kopeyka issue is the company's currently outstanding paper Kopeyka-2, which is now trading at roughly 9.5% to put in 24 months.

Readers may ask why we pictured on the graph the bonds of Sibacadembank together with our retailers. The answer is simple – for the pricing of Kopeyka-3 at 5 years to maturity the bonds of Sibacadem are the most convenient way to estimate the premium 5-year paper should pay to shorter issues of the same credit.

Specifically, Sibacadem-3 is trading very much in line with Kopeyka-2 at 9.5% for 28 months. At the same time Sibacadem-3 is at 10.1% for 56 months – very close to 5-year point. Therefore, we estimate 10.1% in yield to be the lowest point for the YTM of Kopeyka-3 corresponding to the current position of Kopeyka-2 on the secondary market.

Let's go over to the upper limit. We mentioned above that Kopeyka-3 should not trade with a wider credit spread than Unimilk, now at 9.75% to put in 32 months. Looking at Sibacadem bonds, we already decided that the term premium between 2.5 and 5 years is equal to 60bp. As a result, the equivalent yield for Unimilk at 5 years is 10.35%. Adding here the primary placement premium we get 10.5% as our estimate for the upper bound for the YTM of Kopeyka-3.

We estimate 10.1-10.5% to be the fair range for the 5-year YTM of Kopeyka-3. This range roughly corresponds to coupon rate 9.75-10.1% and 18-months YTP 9.45-9.8%

As a result, ***we believe 10.1-10.5% to be the fair range for the yield of Kopeyka-3 to maturity in 5 years.***

The bond of Dixy is currently located at 11.5% for 50 months. As a result, the discount of Kopeyka-3 to Dixi will be minimum 100bp. Is it fair? In our opinion, not quite. The discount can be smaller, but currently it is a result of Dixy being too cheap, rather than Kopeyka being too expensive.

At any point in this range Kopeyka-3 is offering a notable premium over its outstanding bonds if priced to put option

Let's now look at the put option of Kopeyka-3. YTM range 10.1-10.5% corresponds to YTP range 9.45-9.8%. At this point in term (18 months) this range offers a premium to existing bonds of Kopeyka, as Kopeyka-1 is now trading at 9.3% for 16 months.

Therefore, our YTM range 10.1-10.5 (coupon range 9.75-10.1%) appears to be balanced both at maturity and put.

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