

Russian Airlines: Welcome Aboard!

Company name	RTS ticker	Mcap, \$m	EV, \$m	EV/S 09E	EV/EBITDA 09E	Fair price, \$	Ask price, \$	Up/down to ask	Recommendation
Aeroflot	AFLT	1 896	2 667	0.8	6.4	2.60	1.76	50%	BUY
UTair	TMAT	202	785	0.7	7.3	0.60	0.40	50%	BUY
Transaero	TRNS	n/a	n/a	n/a	n/a	3.50	n/a	n/a	N/R
Sibir Airlines	AVSI	90	363	0.4	2.8	3 150	1 000	215%	Spec BUY
Ural Airlines	URAL	40	92	0.3	5.0	650	430	51%	Spec BUY

Source: RTS, RMG estimates

Investment Summary

Russian airlines suffered an inevitable post-crisis slump, but recovery is now evident, despite rising fuel prices. The Russian market still has much bigger growth potential than the global market. We are impressed by Aeroflot's new management team and strategy. We also like UTair due to its stable helicopter business. Transaero has an IPO in January, and Sibir and Ural Airlines both offer value. We find all Russian airlines undervalued by multiples, even with very conservative discounts.

- ✓ Operating figures for Russian airlines show 5% y-o-y decline of revenue passenger kilometers in 11M 2009. Russian operators, like their foreign peers, have experienced some recovery in passenger carrying since the 1H 2009, but the recovery has been hampered by rising prices for fuel in 2009. IATA expects the global industry to show net losses of \$10b this year, declining to \$5b in 2010.
- ✓ The Russian airline market has potential to grow faster than the international average due to current low human mobility, which should rise together with GDP. We also expect concentration of what remains a fragmented market (there are more than 170 domestic airlines, mostly with five or fewer jets). The five biggest airlines, which carry over 60% of passengers, should expand their market share as small companies with inefficient Soviet craft go out of business: we expect a second wave of airline bankruptcies in 2010-2011, as fuel price pressure intensifies.
- ✓ UTair and Transaero outperformed in 11M 2009 by y-o-y RPK. The figure for Aeroflot coincided with the market average for Russian airlines, while the other two main carriers, Sibir and GTK-Rossiya, underperformed.
- ✓ New management is the key positive driver at Aeroflot. The company has a cost-cutting program, which should save nearly \$860m in 2009 vs. the preliminary budget. Unprofitable routes are being closed and personnel numbers reduced. The company is pursuing its fleet renewal program to replace all Soviet-built planes by foreign craft and Russian-made SSJ-100s. Nearly all company operations will be concentrated at Sheremetyevo-D in the first quarter next year, and the new terminal will bring estimated \$200m extra revenues from lease of retail space, etc.
- ✓ Aeroflot has set very ambitious operating targets for 2010: passenger load factor should reach 75%, and passenger numbers should rise by more than 25% y-o-y. We use more conservative figures for valuation, but see the target figures as achievable and look forward to the final version of Aeroflot's strategy, which the company has promised to present by the end of 1Q 2010
- ✓ UTair has a helicopter freight business as well as airline operations, and this has supported company financials through the downturn. UTair has been among best performers in 2009, expanding its regional routes after bankruptcy of Air Union and some of its members. Surgutneftegaz is believed to own a 75% stake in UTair, ensuring strong financial support.
- ✓ Our favorite second-tier airline stocks are Transaero, Sibir Airlines and Ural Airlines. Transaero is appealing ahead of its MICEX IPO in January 2010 with associated improvement of transparency. The company also has the benefit of a strong charter business (relatively unaffected by the market downturn). Sibir has a diverse route network and new fleet, while Ural Airlines has rapidly expanded its business and shown good y-o-y operating results.
- ✓ We recommend to BUY Aeroflot and UTair as the most liquid stocks. We also view Sibir and Ural Airlines as Speculative BUYs due to significant undervaluation compared with peers, even with large multiple discounts. We do not give a recommendation for Transaero, since the stock is not currently traded.

Market overview

Russia is in the middle of the pack by industry performance in 2009

The International Air Transportation Association (IATA) reports that average passenger load factor in the global airline industry increased from a low of 71% in January-February 2009 to 77% in October-November. The Russian industry has fared better than the US and Europe, but has lagged recovery rates of Middle East and SEA airlines. Operating performance in Russia and worldwide is still far below levels in the pre-crisis period.

Recovery of airline financials has been hindered by rise of fuel prices in 2009. Latest forecasts from IATA predict negative operating margin for the global industry in 2009 and net losses in excess of \$10b. For 2010 IATA predicts positive operating margin and halving of net losses to about \$5b. SEA and the Middle East should lead the recovery in 2010 due to fastest GDP growth in those regions.

Historical jet fuel prices, \$ per tonne

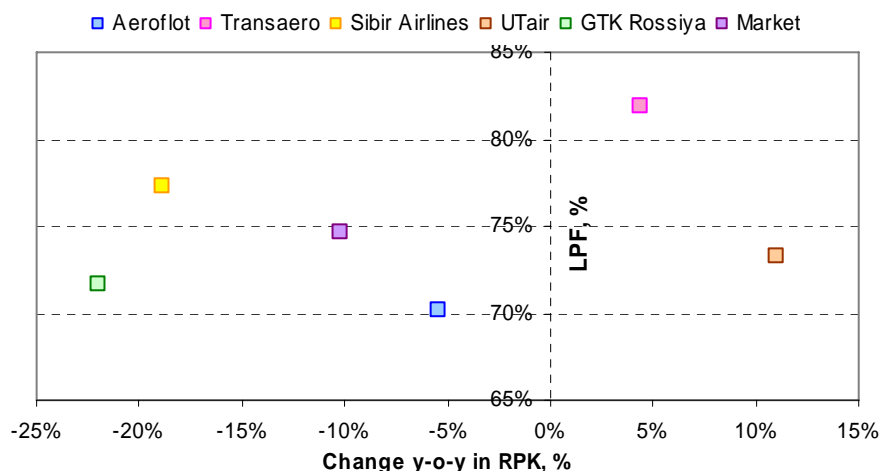


Source: Bloomberg

RPK was down 5% y-o-y in 11M 2009

Revenues passenger kilometers (RPK) in the Russian airline industry fell by just over 5% y-o-y in 11M 2009. Two of the five main Russian carriers, UTair and Transaero, avoided decline, improving their RPK performance by 5% and 11% y-o-y, respectively. Aeroflot showed average performance. But the other main carriers (Sibir, UTair and GTK Rossiya) all fared worse than the average.

Top 5 vs. market, 11M 2009



Source: Federal Agency for Air Transportation

Note: Sibir figures include the 100% subsidiary, Globus, to which Sibir has partly transferred its fleet and routes

Specific features of the Russian airline industry have impact (positive or negative) on its prospects in the current environment.

Russia has low human mobility,

First (positive), Russia still has relatively low human mobility: annual passenger numbers per capita are about 0.5x, which is equal to Slovakia and significantly lower than most developed markets, such as France (2x), Germany (2x) and UK (3.7x). So there is strong potential for industry growth in Russia once the economy recovers.

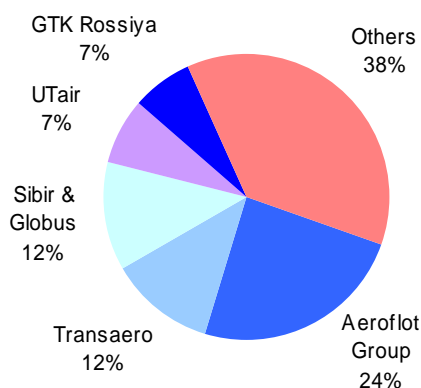
...outdated aircraft,

Second (negative), most of the Russian civil air fleet still consists of domestic-built craft, which are much less fuel-efficient than foreign planes. This makes it hard to achieve profitable operations, even with a high load factor. The situation is made worse by refueling monopolies at many regional airports: only airlines, which refuel in Moscow and St. Petersburg or abroad, can be sure of obtaining fair prices for fuel.

...and low industry concentration

Third (negative, but with positive future implications), the Russian airline industry is still quite fragmented: there are 170 airlines, most of them with no more than five jets each. The five biggest airlines (Aeroflot, Sibir Airlines, Transaero, UTair and GTK Rosiya) carried more than 60% of passengers in 9M 2009. Other players are small regional companies with Soviet-made planes, few routes and very low margins.

Russian airlines by passengers carried, 9M 2009



Source: Federal Agency for Air Transportation

We believe that the combination of an old inefficient fleet and rising fuel prices could lead to a new wave of bankruptcies among small regional players in 2010. This will create expansion opportunities for the biggest airlines.

The crisis is speeding up concentration, and will continue to do so

Overall, we expect the number of Russian airlines to decline significantly in the mid-term. The big players (and other survivors) will use the opportunity to increase their market share, and their operating results will improve substantially as the Russian economy recovers and per capita passenger numbers increase.

Aeroflot

Operational, new management

Aeroflot has a new CEO and strategy to reinforce its #1 position

Aeroflot remains the #1 Russian airline company, carrying over 22% of Russian passengers in 9M 2009 (including subsidiaries Donavia and Nordavia). The key event at the company in 2009 was a change of management team. The airline industry veteran, Valeriy Okulov, was replaced as CEO by Vitaliy Saveliev, a professional manager, who previously headed the telecom division of AFK Sistema. The new team has emphasized focus on profitability and seems resolved to close unprofitable routes, regardless of their political or social significance (flights to Cairo have been axed, and flights to Norilsk will cease in mid-January).

We look forward to hearing a final version of company strategy, due at the end of 1Q 2010.

9M operational were good The Group showed healthy 9M 09 operating results. RPK in 11M fell by only 5% y-o-y, while passenger load factor was only 1.3% lower y-o-y at 70.2%. Company results have improved much faster than the overall market since 2H 2009.

Targets for 2010 are ambitious Management has very ambitious targets for 2010: passenger load factor should reach 75%, and the company has set a target in excess of 25% for y-o-y growth of passenger numbers, increasing market share. Our forecasts are more conservative, but we take the company targets seriously and believe that they may be achieved.

Aeroflot Group key operating data and forecast

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
PASSENGER CARRYING								
<i>International routes</i>								
Passenger turnover, million RPK*	19 167	20 528	19 091	20 924	22 154	23 129	24 143	25 196
Passenger capacity, million ASK**	27 539	29 159	27 870	29 264	30 142	31 046	31 977	32 936
Passenger load factor, %	69.6%	70.4%	68.5%	71.5%	73.5%	74.5%	75.5%	76.5%
Passenger yield, US cents	9.91	11.01	8.26	9.50	10.45	10.97	11.52	12.09
<i>Domestic routes</i>								
Passenger turnover, million RPK	8 720	10 634	10 687	11 750	12 741	13 466	14 232	14 612
Passenger capacity, million ASK	12 196	14 790	14 701	15 730	16 831	17 672	18 556	18 927
Passenger load factor, %	71.5%	71.9%	72.7%	74.7%	75.7%	76.2%	76.7%	77.2%
Passenger yield, US cents	10.84	11.73	8.45	10.14	10.64	10.86	11.07	11.29
<i>Consolidated data</i>								
Passenger turnover, million RPK	27 887	31 162	29 778	32 673	34 895	36 595	38 375	39 808
Passenger capacity, million ASK	39 735	43 949	42 571	44 993	46 972	48 718	50 533	51 863
Passenger load factor, %	70.2%	70.9%	70.0%	72.6%	74.3%	75.1%	75.9%	76.8%
Passenger yield, US cents	10.38	11.60	8.58	10.02	10.84	11.26	11.70	12.16
CARGO CARRYING								
Cargo turnover, million RTK***	3 360	3 640	3 458	3 695	3 913	3 991	4 071	4 152
Cargo capacity, million ATK****	5 803	6 287	6 025	6 326	6 643	6 775	6 911	7 049
Freight load factor, %	57.9%	57.9%	57.4%	58.4%	58.9%	58.9%	58.9%	58.9%
Cargo yield, US cents	8.09	9.16	6.41	7.38	8.11	8.52	8.95	9.39

Source: Company data, RMG estimates

*Revenue passenger kilometers

**Aircraft seat kilometers

***Revenue tonne kilometers

**** Aircraft tonne kilometers

Cost-cutting program

Costs should be reduced by \$860m in 2009 compared with initial plans

A cost-cutting program this year is targeting \$860m savings compared with the initial budget for 2009. The program includes reduction of non-operating personnel numbers by about 2300 (following the pattern of personnel reductions by other international airlines), and about \$240m savings thanks to a new system of fuel purchases, which includes a hedge strategy and auctions for fuel supplies every 10 days to replace long-term contracts.

Routes and personnel and being reduced

Aeroflot has reviewed routes and ticket pricing, and is closing unprofitable routes, except those, which are justified by connections with other highly profitable routes (mainly regional routes inside Russia connecting with international routes via Moscow).

The cost-cutting does not extend to Aeroflot's fleet renewal program, which continues unabated and aims to replace all Soviet-built planes with Airbus, Boeing and Russian-made SSJ-100s in a few years time.

Sheremetyevo-3

Sheremetyevo-3 is opening gradually

Aeroflot opened its new terminal at Sheremetyevo Airport (Sheremetyevo-3) in mid-November and is gradually transferring all its flights there. The company says that slow pace of the changeover is intentional, to avoid repeating the disastrous opening of Heathrow-5, and that 80% of international flights and all domestic flights will use Sheremetyevo-3 by the end of 1Q 2010. In addition to efficiency improvements thanks to exclusive operation of a single terminal, Aeroflot expects to receive nearly \$200m revenues from leasing of retail space, etc. (Aeroflot has a controlling stake in Sheremetyevo-3).

9M 2009 financials

Financials are improving

The Group published healthy 9M 2009 financials, though margins were pulled down by subsidiaries (Donavia, Nordavia and Aeroflot-Cargo). Losses at subsidiaries have been reduced y-o-y.

We believe that Group profitability will increase and cost-cutting measures will bring positive effects in 2010-2011. However higher-than-expected fuel prices could have serious impact on margins.

Aeroflot Group revenue model, \$m

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
Traffic revenue								
International	1 900	2 260	1 576	1 987	2 314	2 537	2 780	3 047
Domestic	946	1 248	903	1 191	1 356	1 462	1 576	1 650
Charter	48	108	76	97	112	123	134	144
Total passenger revenue	2 894	3 615	2 555	3 275	3 783	4 121	4 490	4 841
Cargo	272	334	222	273	317	340	364	390
Total traffic revenue	3165	3949	2777	3548	4100	4461	4854	5231
Airline revenue agreements	481	477	416	360	235	211	185	156
Ground handling and maintenance	22	25	21	26	26	25	26	29
Other revenue	139	163	137	163	164	162	169	184
Total revenue	3808	4614	3351	4097	4525	4860	5235	5599
EBITDAR	906	732	700	890	1 163	1 405	1 419	1 356
<i>EBITDAR margin, %</i>	<i>24%</i>	<i>16%</i>	<i>21%</i>	<i>22%</i>	<i>26%</i>	<i>29%</i>	<i>27%</i>	<i>24%</i>
EBITDA	723	498	417	550	775	1 022	1 040	985
<i>EBITDA margin, %</i>	<i>19%</i>	<i>11%</i>	<i>12%</i>	<i>13%</i>	<i>17%</i>	<i>21%</i>	<i>20%</i>	<i>18%</i>
Operating income	578	339	237	360	581	824	819	743
<i>Operating margin, %</i>	<i>15%</i>	<i>7%</i>	<i>7%</i>	<i>9%</i>	<i>13%</i>	<i>17%</i>	<i>16%</i>	<i>13%</i>
Net income	305	56	98	140	274	480	545	494
<i>Net margin, %</i>	<i>8%</i>	<i>1%</i>	<i>3%</i>	<i>3%</i>	<i>6%</i>	<i>10%</i>	<i>10%</i>	<i>9%</i>

Source: Company data, RMG estimates

Aeroflot: FCFF calculation, \$m

	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBIT	578	339	237	360	581	824	819	743
Less: non-operating expenses	41	163	79	127	155	127	58	53
Less: cash taxes on EBIT	224	138	59	90	145	206	205	186
Add: DD&A	145	159	180	190	194	198	220	242
Less: Capex	374	475	400	401	396	388	378	363
Less: Changes in NWC	157	-261	17	0	7	6	6	6
FCFF	-73	2	-139	-72	65	285	381	367
Discount factor				1.00	0.89	0.79	0.70	0.63
Discounted FCFF	-	-	-	-72	58	225	268	230

Source: RMG estimates

WACC calculation

Cost of debt	9.6%
Leveraged beta	1.03
Risk free rate	7.0%
Standard risk premium	5.0%
Specific company premium	2.5%
Cost of equity	14.7%
Share of debt, %	45.1%
Share of equity, %	54.9%
WACC	12.4%

Source: RMG estimates

Fair price calculation

Terminal growth rate, %	2.5%
Terminal value, \$m	6 164
PV of terminal value, \$m	3 438
Discounted value for 2010-2014, \$m	710
Fair EV, \$m	4 149
Net debt, \$m	771
Fair MC, \$m	3 378
Number of common shares, m	1 096
Fair price per common share, \$	3.10

Source: RMG estimates

Aeroflot: Sensitivity matrix for common shares (fair price in \$)

Terminal growth rate, %	WACC, %						
	11.0%	11.5%	12.0%	12.4%	13.0%	14.0%	15.0%
1.5%	3.4	3.2	2.9	2.8	2.5	2.2	1.9
2.0%	3.6	3.3	3.1	2.9	2.7	2.3	2.0
2.5%	3.9	3.5	3.3	3.1	2.8	2.4	2.1
3.0%	4.1	3.8	3.5	3.3	3.0	2.6	2.2
3.5%	4.4	4.0	3.7	3.5	3.1	2.7	2.3

Source: RMG estimates

Multiples valuation

	EV/S	EV/EBITDA	P/E
Median for peers	0.8	9.7	19.5
Applied premium/discount, %	-5%	-5%	-5%
Implied multiples for valuation	0.7	9.2	18.6
MCap based on multiples, \$m	1673	3061	1817
Weight, %	30%	50%	20%
Weighted fair market cap, \$m		2395.9	
# of commons outstanding		1 096	
Common fair price, \$		2.20	
Common mid price, \$		1.73	
Upside/Downside for com, %		27%	

Source: Bloomberg, RMG estimates

Final valuation

	DCF	Comparative
Fair price per share, \$	3.10	2.20
Weight in final fair price, %	50%	50%
Final fair price per share, \$	2.60	

Source: RMG estimates

UTair

UTair has steady helicopter business,

...and an ADR program

UTair is #5 airline company in Russia and includes a helicopter transport business, which has supported company financials through the downturn. UTair has been among best performers in 2009, expanding its regional routes after bankruptcy of Air Union and some of the operators, which were part of Air Union. UTair operates freight transportation for Russian oil & gas and mining companies, and also has projects in Congo, Turkey and some other EMEA countries.

The company has an ADR program and publishes financial results under IFRS, but there have been delays in publication of audited figures: FY 2008 IFRS results have not yet been presented, so we use RAS figures, which have traditionally been close to IFRS.

The company has opaque shareholder structure. But the main beneficiary shareholder is believed to be Surgutneftegaz, with a stake of more than 75%. Surgut has very large cash reserves, adding to confidence about financial stability of UTair.

UTair shareholder structure

CSD - nominee	75.6%
DKK - nominee	7.1%
Management	0.05%
Others	17.25%

Source: Company data

Multiples valuation for UTair

	EV/S	EV/EBITDA	P/E
Median for peers	0.8	9.7	19.5
Applied premium/discount, %	0%	0%	0%
Implied multiples for valuation	0.8	9.7	19.5
MCap based on multiples, \$m	224	462	185
Weight, %	30%	50%	20%
Weighted fair market cap, \$m		335	
# of commons outstanding		577 208 000	
Common fair price, \$		0.60	
Common mid price, \$		0.40	
Upside/Downside for com, %		50%	

Source: Bloomberg, RMG estimates

Second-tier airlines

We picked favorites among second-tiers

Our favorite second-tier airline stocks are Transaero, Sibir Airlines and Ural Airlines, which are ranked #2, 3 and 7 by passenger numbers. All three are expanding routes and starting new flights in Russia and abroad. They all have efficient fleets, consisting mainly of foreign jets (Airbus and Boeing).

Transaero, with an all-foreign fleet, has an IPO on MICEX in January

Transaero

Transaero is the biggest Russian charter operator, and is particularly interesting in light of its upcoming IPO on MICEX (scheduled in January 2010). Charter business accounted for about 60% of revenues in 2009 and the foreign-built long- and medium-haul fleet helps to reduce fuel expenses. Transaero recently obtained government guarantees for debt refinancing, which is clearly positive.

Transaero shares have an indicative listing on the RTS-board, but trading has been suspended for the duration of a share split (intended to raise attractiveness for investors ahead of the IPO). We estimate fair price at \$3.5 per share (after the split), but give no recommendation due to absence of an official offer price.

Transaero shareholder structure

Management	33.5%
DKK - nominee	31.8%
Transaero-Finance	14.8%
ING - nominee	5%
Others	14.9%

Source: Company data

Multiples valuation for Transaero

	EV/S	EV/EBITDA	P/E
Median for peers	0.8	9.7	19.5
Applied premium/discount, %	-10%	-10%	-10%
Implied multiples for valuation	0.7	8.7	17.6
MCap based on multiples, \$m	505	615	189
Weight, %	35%	55%	10%
Weighted fair market cap, \$m		534	
# of commons outstanding		153 846 100	
Common fair price, \$		3.50	
Common ask price, \$		n/a	
Upside/Downside for com, %		n/a	

Source: Bloomberg, RMG estimates

Sibir Airlines

Sibir has government debt guarantees, among other advantages

Sibir Airlines has the benefits of a diverse route network and new fleet. The company also has significant charter business, which brought about 20% of revenues in 2008. Sibir, like Transaero, has obtained government guarantees for its debt, which calms concerns about high debt levels incurred in 2008 due to acquisition of new jets. The Russian government has a minority stake in Sibir, which provides a good hedge in the downturn. Official operating results of Sibir shrank substantially in 2009 due to transfer of part of routes and fleet to the 100% subsidiary, Globus. We use consolidated results for our valuation.

We find Sibir Airlines shares to be significantly undervalued in comparison with peers and therefore give a Speculative BUY recommendation.

Sibir Airlines shareholder structure

Management	63.3%
Russian government	25.5%
Others	11.2%

Source: Company data

Multiples valuation for Sibir Airlines

	EV/S	EV/EBITDA	P/E
Median for peers	0.8	9.7	19.5
Applied premium/discount, %	-35%	-35%	-35%
Implied multiples for valuation	0.5	6.3	12.7
MCap based on multiples, \$m	231	533	116
Weight, %	35%	40%	25%
Weighted fair market cap, \$m		323	
# of commons outstanding		102 456	
Common fair price, \$		3 150	
Common ask price, \$		1 000	
Upside/Downside for com, %		215%	

Source: Bloomberg, RMG estimates

Ural Airlines

Ural Airlines has a fast-growing business and good y-o-y operational

Ural Airlines is #7 operator in Russia by passenger numbers. Recent business development and fleet enlargement made it one of the best performers in 2009: RPK of the company increased by 1% y-o-y in 10M 2009. Ural Airlines is 74% owned by its 100% subsidiary Krylya Urala, so this stake should be considered as a treasury. That assumption would entail fair price of nearly \$2550 per share. However, the nature of company shareholder structure is opaque, so we do not treat the 74% stake as treasury in our valuation.

We estimate fair price per common share of Ural Airlines at \$650 and recommend it as a Speculative BUY with 52% upside from the current ask level.

Ural Airlines shareholder structure

Krylya Urala	74.4%
Beta Investment Holding	10.3%
Management	0.04%
Others	15.26%

Source: Company data

Multiples valuation for Ural Airlines

	EV/S	EV/EBITDA	P/E
Median for peers	0.8	9.7	19.5
Applied premium/discount, %	-15%	-15%	-15%
Implied multiples for valuation	0.7	8.2	16.6
MCap based on multiples, \$m	167	98	24
Weight, %	30%	50%	20%
Weighted fair market cap, \$m		104.0	
# of commons outstanding		159 563	
Common fair price, \$		650	
Common ask price, \$		430	
Upside/Downside for com, %		52%	

Source: Bloomberg, RMG estimates

Comparative valuation

Our valuations of second-tier airlines are based on comparison with peers. We used various multiple discounts for the companies, depending on the business model and transparency (the discounts are shown in the multiples valuation tables above). We view the discounts as conservative.

Comparative multiples, 2009E

	Country	MCap, \$m	EV, \$m	EV / S	EV / EBITDA	P / E	EBITDA margin, %	Net margin, %
Emerging market peers								
CHINA SOUTHERN AIRLINES CO-H	China	5 786	14 002	1.8	14.2	73.7	13%	1%
AIR CHINA LTD - A	China	13 987	22 060	2.9	13.1	21.2	22%	9%
CHINA EASTERN AIRLINES - H	China	5 571	12 955	2.2	13.4	217.3	17%	0%
THAI AIRWAYS INTERNATIONAL	Thailand	1 009	5 308	1.1	6.2	48.5	18%	0%
MALAYSIAN AIRLINE SYSTEM BHD	Malaysia	1 551	1 565	0.5	neg	neg	neg	neg
CHINA AIRLINES LIMITED	Taiwan	1 516	5 639	1.8	21.1	neg	9%	neg
LAN AIRLINES SA	Chile	5 655	7 991	2.2	11.8	29.2	19%	5%
TURK HAVA YOLLARI AO	Turkey	3 293	4 191	0.9	5.5	9.6	17%	7%
KOREAN AIR LINES CO LTD	South Korea	3 463	12 736	1.6	17.0	neg	9%	neg
GOL LINHAS AEREAS - PREF	Brazil	3 887	4 485	1.3	10.5	10.0	12%	11%
TAM SA-PREF	Brazil	2 947	3 116	0.5	5.8	4.9	9%	10%
SHANGHAI AIRLINES CO-A	China	1 384	2 723	1.3	81.9	neg	2%	neg
EVA AIRWAYS CORP	Taiwan	1 257	3 455	1.6	20.1	neg	8%	neg
AIR ARABIA	UAE	1 194	767	1.4	8.6	10.1	17%	22%
AIRASIA BHD	Malaysia	1 082	3 011	3.5	8.2	7.7	43%	17%
JET AIRWAYS INDIA LTD	India	1 017	3 952	1.4	neg	neg	neg	neg
ASIANA AIRLINES	South Korea	620	3 681	1.1	neg	neg	neg	neg
Median				1.4	12.5	15.6	15%	8%
Developed market peers								
DEUTSCHE LUFTHANSA-REG	Germany	7 806	11 107	0.3	5.1	neg	7%	neg
BRITISH AIRWAYS PLC	Britain	3 579	6 148	0.5	11.2	neg	4%	neg
AIR FRANCE-KLM	France	4 739	11 576	0.4	11.3	neg	3%	neg
FINNAIR OYJ	Finland	651	1 542	0.6	147.9	neg	0%	neg
AUSTRIAN AIRLINES AG	Austria	222	1 489	0.5	4.1	neg	11%	neg
JAPAN AIRLINES CORP	Japan	3 033	9 942	0.5	23.3	neg	2%	neg
CONTINENTAL AIRLINES-CLASS B	US	2 448	5 623	0.4	14.1	neg	3%	neg
DELTA AIR LINES INC	US	8 879	21 075	0.8	12.7	neg	6%	neg
SOUTHWEST AIRLINES CO	US	8 391	9 713	0.9	9.7	113.4	10%	1%
SINGAPORE AIRLINES LTD	Singapore	11 971	9 549	1.1	8.1	neg	14%	neg
CATHAY PACIFIC AIRWAYS	Hong Kong	7 202	12 010	1.4	10.1	27.1	14%	3%
ALL NIPPON AIRWAYS CO LTD	Japan	7 048	12 832	0.9	12.0	neg	8%	neg
RYANAIR HOLDINGS PLC	Ireland	7 163	7 831	1.9	9.2	19.5	21%	9%
QANTAS AIRWAYS LTD	Australia	5 754	7 277	0.6	5.6	67.8	11%	1%
IBERIA LINEAS AER DE ESPANA	Spain	2 674	526	0.1	neg	neg	neg	neg
AMR CORP	US	2 540	10 021	0.5	24.4	neg	2%	neg
EASYJET PLC	Britain	2 448	2 521	0.6	13.2	44.5	4%	1%
ALASKA AIR GROUP INC	US	1 220	1 797	0.5	3.8	12.0	14%	3%
JETBLUE AIRWAYS CORP	US	1 600	4 320	1.3	8.6	28.5	15%	2%
WESTJET AIRLINES LTD	Canada	1 670	1 920	0.9	5.9	19.5	15%	4%
VIRGIN BLUE HOLDINGS LTD	Australia	1 091	1 952	0.8	6.6	29.6	12%	1%
SKYWEST INC	US	968	2 009	0.8	4.6	11.0	17%	3%
AIR NEW ZEALAND	New Zealand	904	969	0.3	2.8	11.4	11%	3%
US AIRWAYS GROUP INC	US	741	4 125	0.4	neg	neg	neg	neg

	Country	MCap, \$m	EV, \$m	EV / S	EV / EBITDA	P / E	EBITDA margin, %	Net margin, %
NORWEGIAN AIR SHUTTLE AS	Norway	712	577	0.5	4.7	9.4	10%	6%
AIRTRAN HOLDINGS INC	US	706	1 410	0.6	6.2	7.9	10%	4%
AIR BERLIN PLC	Germany	464	1 266	0.3	6.4	neg	4%	neg
AER LINGUS	Ireland	397	1 197	0.7	neg	neg	neg	neg
Median				0.6	8.6	19.5	10%	3%
Domestic companies								
Aeroflot	Russia	1 896	2 667	0.8	6.4	19.4	12%	3%
UTair	Russia	202	785	0.7	7.3	21.4	10%	1%
Transaero	Russia	n/a	n/a	n/a	n/a	n/a	9%	1%
Sibir Airlines	Russia	89.6	362.6	0.4	2.8	9.9	13%	1%
Ural Airlines	Russia	39.9	91.9	0.3	5.0	28.1	5%	0.4%
Median				0.6	5.7	20.4	10%	1%
Premium/discount of domestic companies to:								
emerging markets				-62%	-54%	30%		
developed markets				-2%	-34%	4%		

Source: Bloomberg, RMG estimates

Recommendations

We recommend to BUY Aeroflot and UTair, which are the most liquid Russian airline stocks. We also give a Speculative BUY for Sibir and Ural Airlines due to their significant undervaluation compared with peers (even with large discounts).

Transaero is an appealing stock, but we do not rate the company at present due to temporary suspension of trading, while a share split is carried out.

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