Mirland Development

Price Objective Change BUY

Equity | Russian Federation | Real Estate/Property
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1H09 results reveal the bottom – remain at Buy

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MLD remains among the best Russian property plays - Buy

MLD remains an attractive Russian property play, in our view, as it offers: 1) access to income-generating assets; 2) a well-diversified portfolio by geography and segment; 3) limited near-term refinancing risks and strong parent company support; and 4) current market pricing looks attractive with US$0.05/s implied value of land and projects held for future development, which equates to 2% of their estimated book value. Despite the weak 1H09 results, we reiterate our Buy on the stock.

1H09 results symptomatic of poor property fundamentals

MLD's recently reported financial results were a reflection of the challenging operating environment in Russia in 1H09 anticipated in our upgrade of MLD in May. Revenues declined 14% YoY (to US$8.5mn) as a result of rising vacancy and lower rents across the investment portfolio with no support from Perkushkovo residential sales. MLD showed a loss per share of US$0.09 vs a profit of US$0.1/share in 1H08. Expected property value stabilization and pick-up in demand should support the financials going forward, in our view.

Portfolio valuation suggests fundamentals are stabilising

MLD showed no decline in portfolio value in 1H09 (vs a 50% fall in 2H08). This confirms our view that property values could well be approaching the bottom and we could see a partial recovery in 12M. MLD's NAV is likely at a trough, in our view.

We view GBp179/s as MLD's trough NAV; PO GBp213/s

Our bottom-up valuation suggests an adjusted 06/09E NAV for MLD of GBp179/s, It ascribes no value above book for pipeline projects and residential schemes with no active ongoing sales (Perkushkovo,Triumph Park). As we expect the economic climate to brighten in the next 18 months, we view 06/09E as the trough value. We strike our PO at 12/10E NAV of GBp213/s where we assume a 75bp yield compression, and ascribe a partial profit over book to residential schemes.

Estimates (Dec)

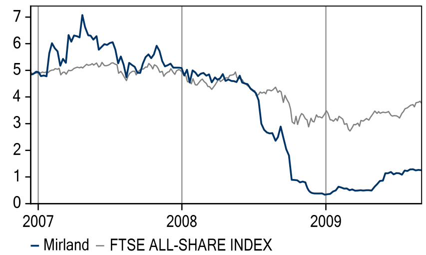
(US$)	2007A	2008A	2009E	2010E	2011E
Pre-tax Profit	70.3	(104)	(8.18)	22.2	33.9
Adjusted BVPS	4.56	3.30	3.32	3.44	4.69
EPS (Adjusted)	(0.12)	(0.12)	(0.06)	0.05	0.14
DPS Tax Adjusted (Basic)	0	0	0	0	0

Valuation (Dec)

	2007A	2008A	2009E	2010E	2011E
NAV Discount, %	(2,638)	(3,682)	(3,671)	(3,534)	(2,565)
ROEV, %	(12.4)	(4.86)	(0.21)	7.98	17.2
EPS Yield	NA	NA	NA	2.46	7.07
Dividend Yield	0	0	0	0	0

Stock Data

Price	125.00p
Price Objective	104.00p to 213.00p
Date Established	7-Sep-2009
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	33.25p-300.00p
Mrkt Val / Shares Out (mn)	£129 / 103.6
Average Daily Volume	20,194
ML Symbol / Exchange	MDVPF / LSE
Bloomberg / Reuters	MLD LN / MLD.L
ROE (2009E)	-1.7%
Net Dbt to Eqty (Dec-2008A)	41.2%
Est. 5-Yr EPS / DPS Growth	NA / 0%
Free Float	24.0%



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Key Income Statement Data (Dec)	2007A	2008A	2009E	2010E	2011E
(US$ Millions)	IFRS	IFRS	IFRS	IFRS	IFRS
Rental and Other Income	12.4	20.4	23.8	86.4	146
Net Interest Payable	14.3	(34.8)	(5.27)	(11.1)	(19.9)
Recurring Pretax Profit	(11.8)	(11.1)	(5.71)	5.67	16.3
Fully diluted shares (year average)	104	104	104	104	104
EPS	(0.12)	(0.12)	(0.06)	0.05	0.14
DPS	0	0	0	0	0

Key Balance Sheet Data

Property and Other Assets	322	292	320	357	500
Long Term Debt	78.0	88.7	204	223	235
Short Term Debt	76.7	62.2	0	0	0
Cash	189	9.82	29.4	16.6	3.33
Shareholders Funds	473	342	343	356	486
Gearing	-7	41	51	58	48
Number of Shares in Issue	104	104	104	104	104
Adjusted NAV per Share	4.56	3.30	3.32	3.44	4.69

Company Description

Mirland Development Corp. Plc. is a Cyprus-incorporated real estate development company with projects in Moscow and the regions. The company has a balanced portfolio with exposure to residential, office and retail projects.

Investment Thesis

We continue to view Mirland as among the most attractive plays on the Russian property market. It is among few domestic companies offering access to income-generating assets and well-diversified portfolio of projects. Furthermore, it is enjoying strong parent company support through partial access to financing and short-term debt guarantees. Market pricing remains attractive.

Stock Data

Price to Book Value	0.6x

Maintain our Buy recommendation

1H09 results - weak but turnaround in sight

We maintain MLD at Buy despite the weak 1H09 results (revenue down 14%, recurring loss per share US$0.09) as we regard it as among the most attractive Russian property companies under our coverage, well placed for recovery. The weakness of MLD's financial results is indicative of the unforgiving operating environment in Russia in 1H09 as anticipated in our upgrade of MLD in May.

Table 1: MLD 1H09 revenue account summary

	1H09	1H08	YoY change, %
Revenue	8.5	9.8	-14%
EBITDA, recurring	-1.7	-0.8	132%
PBT, IFRS	-15.6	4.9	-418%
PBT, recurring	-7.0	12.4	-156%
Net income, IFRS	-18.1	3.1	-690%
Net income, recurring	-9.5	10.6	-189%
EPS, IFRS, US$/share	-0.17	0.03	-667%
EPS, recurring, US$/share	-0.09	0.10	-190%

Source: Mirland,

We highlight that there has been no further decline in the value of Mirland's portfolio. This is based on the valuation of the independent appraiser (US$632mn for MLD's share). This suggests that property values could be approaching the bottom and that a partial recovery could take place within the next 12 months.

In our view Mirland is among the most attractive listed property companies in Russia and we consider its key attributes to be its:

- **Access to income-generating assets:** Unlike many other domestic property players, MLD offers ample access to income-generating assets as 40% of its portfolio value is made up of completed projects (Hydro, MAG, Yaroslavl I, Century).
- **Well-diversified portfolio:** MLD offers relatively balanced access to commercial and residential segments (65/35% split by value) in Moscow and the regions (57/43% split by value).
- **Limited near-term refinancing risk:** Adjusted for debt related to shareholders and debt that is classified as short term for accounting purposes, MLD has only US$11mn in debt maturing in the next 12 months.
- **Strong parent company support:** MLD enjoys the support of its parent company (Fishman Group) via partial access to financing and short-term debt guarantees. All MLD's short-term debt has been provided with shareholder guarantees, which suggests that debt-related risks are limited.
- **Attractive pricing:** The market continues to ascribe limited value to MLD's uncompleted projects, now at US$0.05/share. As these projects include some with freehold land rights and some with financing in place and thus certainty of completion, we view the market value as still attractive despite the 80% rally since May.

Table 2: Implied value - less hard assets*

Market Cap	214
Plus Net Debt , actual as of 1H09	188
Enterprise Value	402
Value of hard assets, CWSR as of 1H09	209
EV less Hard Assets	193
Less Net debt	-188
Implied Value of equity	5
Implied Value of Operations (US$/share)	0.05

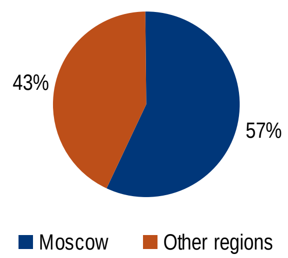
Source: Banc of America Securities - Merrill Lynch estimates, in US$mn unless otherwise specified. Last price used: GBp126/share

We arrive at MLD's NAV using our SOTP valuation approach where we assign only book value to projects yet to come under active development and adjust for non-property related assets and liabilities. We view our estimated adjusted 06/09 NAV of **GBp179/s** as MLD's trough value, as we expect partial market recovery. The stock is trading at a c.40% discount to its trough NAV, in our view.

We strike our PO at 12/10E NAV accounting for expected improvement in fundamentals. We assume 75bp yield compression when valuing MLD's investment portfolio and ascribe partial profit over book value to its residential projects depending on their level of completion.

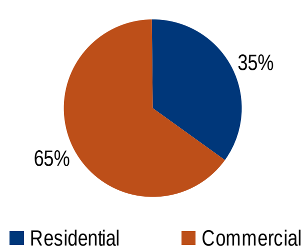
Our PO of **GBp213/share** suggests a c.75% achievable return on MLD shares in the next 12 months. Hence, we reiterate our Buy recommendation.

Chart 1: 1H09 portfolio value split by geography



Source: Mirland

Chart 2: 1H09 portfolio value split by segment



Source: Mirland

Key project updates

Investment portfolio

Yaroslavl I: Completed regional (Yaroslavl) retail project (33,300sqm) with US$8.6mn in rental income in 2008 (6% vacancy). Occupancy declined by a moderate 2% down to 92% by the end of 1H09. We expect a US$3.6mn revenue contribution from Yaroslavl I in 2009.

Saratov: Regional retail mall (28,001sqm) scheduled for completion in 2H09. Sufficient financing is in place (US$48mn from the EBRD at interest of LIBOR+0.5-2.5%, repayment in annual instalments to commence in 2011) to ensure timely completion. MLD drew down US$14mn of the above facility in 1H09. Reported to be 82% pre-leased, CWSR expects US$12.4mn NOI, assuming full occupancy. We forecast stabilised NOI of US$10.5mn (2011).

Century: Class B+ office (22,800sqm) completed in 2Q09. The property is still only partially leased (c.45%). We estimate 55% average vacancy in 2009 and an estimated NOI of US$2.7mn in 2009 (stabilised NOI of US$6.2mn in 2011).

Tamiz: Class B+ office (12,218sqm), scheduled for completion in 3Q10. The building's structure and facades are now completed. The timing of full project completion will be dependent on demand for Hydro, MAG, and Century offices located on the same site. We forecast completion of Tamiz in 2H10 with 30% vacancy in 2011 and 7% long-term estimated vacancy. We currently forecast US$7.2mn in stabilised NOI from Tamiz (2012).

Non-residential pipeline

Skyscraper: This is an 85,000sqm office development in Moscow. The project has now received Gos Expertiza status, the basis for gaining construction permits. Anticipated project completion has been pushed back from 3Q13 to 2Q15.

Residential pipeline

Perkushkovo: Two-phase project assumes delivery of a total of 163 homes. Phase I (c.50%) is currently under construction with 29 houses to be completed by FY09 with the remainder (48 units) to be completed in 1Q10. We forecast a US$2,200/sqm average sales price for 2009 with 6% of Phase I of the project to be sold by FY09.

Triumph Park: The construction of 9,000 residential dwellings with a total area of c.571,200sqm in seven phases along with 60,000sqm of office and 30,000sqm of retail space. Construction of stage 1 of Phase I (502 units, c.5% of total) started in 2H08 and full project completion is expected in 2017. Construction above ground level is expected to commence in 2010, subject to securing project financing.

Negotiations with an international bank on the initial project financing are in progress. We view attainment of project financing as one of the key potential catalysts for the stock.

Please see Mirland's key portfolio data adjusted for 1H09 results below:

Table 3: MLD key project data

Project	Type	BV	CWSR 1H/09 value	Value at completion	All up costs	Costs incurred	Total profit	Incurred profit	Profit to come	Scheduled completion
BAS-ML investment portfolio										
Hydro	Office	62	69	69	39	39	30	30	0	4Q08
MAG	Office	63	70	70	43	43	28	28	0	4Q07
Century	Office	57	39	39	57	57	-18	-18	0	2Q09
Yaroslavl I	Retail	29	31	31	24	24	7	7	0	2Q07
Triumph Mall	Retail	48	50	100	66	43	33	7	26	4Q09
Tamiz	Office	27	27	49	37	31	12	-4	16	3Q10*
BAS-ML non-residential development pipeline										
Skyscraper	Office	41	48	656	324	54	332	-6	338	2Q15
Techagrocom	Office	16	19	NA	95	14	NA	5	NA	1Q15
Yaroslavl II	Retail	2	2	43	24	2	20	0	19	1Q11
Triumph House	Retail	6	7	71	38	4	33	2	31	2Q12
Penza Mall	Retail	2	1	47	28	2	19	0	19	3Q12
BAS-ML residential pipeline										
Perkhushkovo	Residential	68	81	153	107	68	46	12	33	2Q12**
Triumph Park	Residential	86	187	1830	1082	84	748	103	645	4Q17
Total:		506	632	3158	1963	466	1289	166	1123	

Source: CWSR, company data, Banc of America Securities-Merrill Lynch estimates, * subject to demand for surrounding office projects (Hydro, MAG, Century), ** subject of success of Phase I.

More balanced portfolio value distribution

MLD's portfolio is revalued semi-annually by CWSR. The US$724mn portfolio value (for 100% of rights) as of 1H09 marked a 49% YoY decline but only a marginal 1% correction since the last revaluation six months ago.

The value of MLD's share in the portfolio, according to CWSR, amounted to US$632mn, down 50% YoY but consistent with the 12/08 figure. As the value has not declined in the past six months despite the 50% like-for-like fall in values in 2H08, this would support our view that valuations are approaching the bottom.

Current appraisal values reveal a more balanced portfolio distribution by value than previously. Only 35% of the portfolio value is tied up in projects held for future development, compared with 55% as of 1H08.

We highlight that MLD's portfolio offers c.US$1.3bn in profit upon completion (Table 3) of which only 13% (US$166mn) has been recognised to date vs 24% of costs already incurred (US$466mn). Hence, with no further expected valuation write-downs, we expect US$1.1bn in additional profits on its portfolio still to come.

Key changes to our fair value calculation

We adjust our FV from GBp213/share to GBp**179**/share on the back of:

- Adjusted rental rates and prices based on our revised market forecasts assuming a more substantial correction in 2009 (please see our corresponding Market Overview note for details).
- We now place residential projects at book value only, with no partial profit benefit, as no active sales are currently taking place.
- We no longer adjust for overhead costs - this allows us to make a more consistent comparison across our coverage universe and reduce differences with reported NAVs. For similar purposes, we now adjust for non-property related assets and liabilities.

Below we outline our valuation of Mirland's portfolio.

Table 4: BAS-MLe of Mirland's NAV as of 06/09 (US$mn unless stated otherwise)

Valuation breakdown	Value	Comment
Value of the office portfolio	198	Hydro, MAG, Century, Tamiz. Use DCF. 14% cap rate.
Plus: value of the retail portfolio	88	Yaroslavl I, Saratov. Apply 14% cap rate on stabilised NOI.
Value of the investment portfolio	286	
Plus: value of non-residential pipeline	81	SKY, Penza, Techagrocom, Kazan, Yaroslavl II, Saratov Logistics. Keep at BV
Plus: value of residential pipeline	169	Perkushkovo, Triumph Park. Keep at BV.
Ungeared value of Mirland	535	
Less: Net Debt	-216	Adjusted for the build-out of investment portfolio
Other Net assets	-8.31	
Value of Mirland Equity, US$mn	311	
Value of Mirland, $/share	3.00	
Value of Mirland, GBp/share	1.79	

Source: Banc of America Securities - Merrill Lynch estimates, *Use GBP/USD of: 1.768GBP/USD (BAS-ML FX estimate as of June 2010).

Table 5: MLD NAV/share dynamics, US$

	12/08	06/09
Total Property	632	632
Net Debt	141	196
Other liabilities	37	38
Other assets	33	45
NAV	487	443
Shares out	104	104
NAV Per Share	4.70	4.27

Source: Mirland

The difference between reported NAV and our FV

Reported NAV declined by a moderate 9% in 1H09 to US$443mn (prev. US$487mn) or US$4.27/share due to a slight decline in the value of income-producing assets (Hydro, MAG, Yaroslavl I, Century) on the back of falling rental values in 1H09 and the only partial leasing of Century.

The difference between our FV estimate and the reported NAV stems mainly from the gap between our assessment of the value of MLD's residential projects (Perkushkovo, Triumph Park) and that of the independent appraiser (BAS-MLe: US$169mn, CWSR: US$257mn).

If we were to use CWSR's estimated value our TFV would be US$4.00/share. The difference results from our more cautious estimate of the value of the non-residential pipeline and our adjustment for the outstanding capex to be incurred on the investment portfolio.

With only limited clarity on the inputs used by the independent appraiser, we do not forecast our forward NAVs on the basis of reported figures.

Strike our PO at no discount to 12/10E adjusted NAV

Our PO for MLD is based on the assumption that property fundamentals will stabilise in Russia and improve in part by FY10.

We strike the PO using a sensitivity scenario where we:

- Assume 75bp yield compression when valuing the investment portfolio.
- Assign to MLD's residential projects partial benefit over book value. In the case of Perskushkovo, a 50% share of estimated project profit as 50% of the given the project is under active construction with scheduled completion in 1Q10. Due to the long duration of Triumph Park, we allow the benefit of profit to be recognised only in 2010-11.

This results in a PO of GBp**213**/share and suggests c.70% upside potential from the current trading level.

Our PO calculation methodology is shown below.

Table 4: BAS-MLe of Mirland's 12/10 NAV (US$mn unless stated otherwise)

Valuation breakdown	Value	Comment
Value of the office portfolio	209	Hydro, MAG, Century, Tamiz. Use DCF. 13% cap rate
Plus: value of the retail portfolio	93	Yaroslavl I, Saratov. Apply 13% cap rate on stabilised NOI
Value of the investment portfolio	302	
Plus: value of non-residential pipeline	81	SKY, Penza, Techagrocom, Kazan, Yaroslavl II., Saratov Logistics . BV
Plus: value of residential pipeline	212	Perkushkovo, Triumph Park. Partial profit benefit over BV
Ungeared value of Mirland	595	
Less: Net Debt	-216	Adjusted for the build-out of investment portfolio
Other net assets	-8.8	as of 12/10E
Value of Mirland Equity, US$mn	371	
Value of Mirland, $/share	3.58	
Value of Mirland, GBp/share	2.13	

Source: Banc of America Securities - Merrill Lynch estimates, Use GBP/USD of: 1.68 GBP/USD (BAS-ML forecast for June 2010).

Key company-specific risks

Loss of shareholder support: MLD has been strongly supported by its parent company (Fishman Group) in the form of short-term loan guarantees (US$72mn) and access to financing (US$23mn received in 1H09). Loss of shareholder support would significantly increase debt risks and limit MLD's execution ability.

Tenant pull-out, poor sales and leasing: The recently completed Century office project is less than 50% occupied. Sales of Perkushkovo cottages are yet to take place although they have been on sale since 4Q08. Further demand weakness could result in higher-than-expected vacancies and poor sales in 2009.

Key potential catalysts

Near term

- Progress on the EBRD loan for Triumph Park would provide a boost to this major project and be a key potential short-term catalyst.
- Successful short-term debt rollover (US$72mn not related to shareholders)
- Successful leasing of Century at attractive rates
- Sales progress at Perkushkovo.

Long term

- Financing success, particularly for large-scale projects, which form a major share of MLD's portfolio value and NAV (SKY, Triumph Park, Techagrocom).
- A significant boost to the revenue stream upon market recovery, driven by investment projects and Perkushkovo and Triumph Park housing sales.

Mirland financials

We have adjusted our financial forecasts to reflect the 1H09 results and our updated market forecasts.

Table 6: MLD financials - key changes

Parameter	09E, OLD	09E, NEW
FV, GBp	213	179
PO, GBp	104	213
Revenue 09E, US$mn	25	24
Recurring EBITDA 09E, US$mn	1.0	-0.4
Recurring EPS 09E, $	-0.02	-0.06
Recurring EPS 10E, $	0.01	0.05
Recurring EPS 11E, $	0.46	0.14
Debt 09E, $m	201	204
Net debt 09E, $m	172	175
Gearing* 09E, %	40%	51%

Source: Banc of America Securities-Merrill Lynch estimates, * Gearing = Net Debt/Equity

Revenue account

Revenue: MLD posted a 14% YoY decline in revenue as of 1H09 at US$8.5mn. This results from a decline in revenues across the investment portfolio (Hydro, MAG, Yaroslavl I), lower-than-expected leasing of Century, and the absence of sales of the Perkushkovo residential project. We forecast total revenue of US$24mn as of FY09 based on some top-line support from sales of Perkushkovo cottages in 2H09 as well as further leasing of MLD's investment projects.

Recurring profit declined by a massive 156% YoY to US$7mn loss due to the higher net interest (-US$5.3mn). As a consequence, **IFRS earnings** dropped from US$0.03/share to a US$0.17 loss per share, while **recurring losses** amounted to US0.09/share (vs EPS of US$0.1 in 1H08).

G&A expenses: MLD is still cutting costs, with G&A expenses down 5% YoY to US$7.7mn as of 1H09 (incl. a 34% drop in professional fees and 16% in salaries).

Table 7: Revenue account

	2006	2007	2008	2009E	2010E	2011E
Rental income from investment properties	4	12	20	23	35	44
Revenue from construction contracts	0	0	0	1	51	102
Total revenue from ordinary activities	4	12	20	24	86	146
Expenses	-10	-39	-31	-24	-70	-110
EBITDA, recurring	-5	-26	-10	0	17	36
EBIT	-5	-26	-10	0	17	36
Finance costs, adjusted for FX	-1	-9	-11	-12	-12	-21
Finance income	4	23	10	6	1	1
Net interest	2	14	-1	-5	-11	-20
PBT, recurring	-3	-12	-12	-6	6	16
Income tax	-1	0	-1	0	-1	-2
Net profit before outside equity interests	-4	-12	-12	-6	5	15
Minority interest	0	0	0	0	0	0
Net profit, recurring	-4	-12	-13	-6	5	15
PBT, non-recurring	33	70	-104	-8	22	34
Net profit, IFRS	30	65	-105	-8	20	30
EPS, IFRS US$/share	0.51	0.63	-1.01	-0.08	0.19	0.29
EPS, recurring US$/share	-0.07	-0.12	-0.12	-0.06	0.05	0.14

Source: Banc of America Securities-Merrill Lynch estimates

Balance sheet

Assets: MLD's 1H09 asset balance was US$551mn or 4% above the December level.

Equity: MLD's equity was down by a moderate 7% to US$317mn due to the US$18mn loss on the currency translation reserve (driven by RUB devaluation).

IAS 40 accounting policy effects: As we note in our Overview report, the balance sheets of the Russian property companies will be affected by the IASB requirement to value investment property under construction (IPUC) under IAS 40 starting in 2009. Hence, IPUC is to be stated in the MLD accounts at fair value rather than at cost previously. We highlight the provision that only IPUCs with reliably determinable fair value are falling within the scope of IAS 40. These projects typically include projects in the late stages of development with the material share of NLA under leasing agreements.

We view this approach as sound as it prevents MLD from taking up a significant share of project profits in the early stages of development and reduces balance sheet volatility.

Cash balance dropped to US$8mn as of 1H09 vs US$10mn as of FY08. Current net debt is US$188mn and we estimate FY09 net debt at US$204mn.

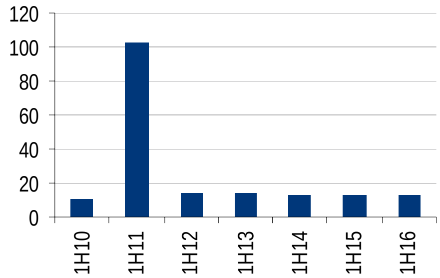
Debt

MLD's total debt amounted to US$196mn as of 1H09 (up 37% from Dec) with a debt/assets ratio of 36% (up from 27% in Dec).

MLD was able to draw on the first tranche (US$13.7mn) of its financing facility for Triumph Mall (Saratov); the project's anticipated completion is in 2H09.

MLD has substantial debt maturing in 2011. However, we expect strong pre-sales of Perkushkovo and Triumph Park, sufficient to meet the necessary obligations.

Chart 3: MLD debt maturity schedule*



Source: Mirland, * excludes shareholder loans and excludes the technical issue of reclassifying the loans as short-term

Table 8: Balance sheet

	2006	2007	2008	2009E	2010E	2011E
Cash	268	189	10	29	17	3
Trade and other receivables	10	8	8	4	6	8
Development property under construction	76	104	144	149	163	180
Other	0	8	0	0	0	0
Total current assets	354	308	162	183	186	191
Investment property	66	227	164	182	186	204
Investment property under construction	47	88	120	130	163	288
Long-term loan	0	15	59	59	59	59
Other	9	20	26	26	26	26
Total non-current assets	121	350	368	397	434	577
Total assets	476	658	530	580	619	768
ST debt	71	77	62	0	0	0
LT debt	22	78	89	204	223	235
Other liabilities	16	31	37	32	40	47
Total liabilities	109	185	188	237	263	282
Capital	1	1	1	1	1	1
Reserves and share premium	334	375	349	346	354	468
Retained earnings	32	97	-8	-4	2	16
Minority interest	0	0	0	0	0	0
Total Equity	367	473	342	343	356	486
Net debt/equity	-48%	-7%	41%	51%	58%	86%

Source: Banc of America Securities-Merrill Lynch estimates

Cash flow statement

MLD targets c.US$85mn in capex in 2009 for key projects Saratov (c.US$43mn), Triumph Park (US$10mn), SKY (c.US$14mn), and Perkushkovo (c.US$9mn).

Table 9: Cash flow statement

	2006	2007	2008	2009E	2010E	2011E
Cash at the beginning of the period	1	197	118	10	29	17
Net Cash Provided by Operating Activities	-37	-38	-75	-22	-10	6
Net Cash used in Investing Activities	-168	-127	-40	-54	-31	-42
Net Financing cashflows	356	93	-6	96	29	22
Change in Cash	150	-73	-121	20	-13	-13
Change in cash from foreign currency translation	4	-6	13	0	0	0
Cash at end of period	155	118	10	29	17	3

Source: Banc of America Securities-Merrill Lynch estimates

Price objective basis & risk

Mirland Development (MDVPF)

We use SOTP valuation approach to arrive at MLD's 06/09E adjusted NAV of GBP179/share, which we view as the company's trough NAV given our belief in the economic reocvery in Russia in the coming months. We furthermore adjust for non-property assets and liabilities from the balance sheet. We strike our PO equal to our estimate of MLD's 12/10 NAV adjusted for non-property balance sheet items use sensitivity analysis to strike PO for MLD where we assume 75bp yield compression and ascribe residential projects. This results in a PO of GBP213/share. Downside risks are: 1) limited access to financing (including through pre-sales) to be reflected in completion delays, 2) difficulty in short-term debt rollover, 3) limited leasing of Century and tenant pull-out from MAG, Hydro, and Yaroslavl I, 4) risk to land values.

Analyst Certification

I, Tatiana Volochkovich, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Emerging EMEA - Russia Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	Acron	XACJF	AKRN LI	Odile Lange-Broussy
	Acron	XCKRF	AKRN RU	Odile Lange-Broussy
	AvtoVAZ	XAVZF	AVAZ RU	Eduard Faritov
	Dixy	XDIXF	DIXY RU	Odile Lange-Broussy
	Globaltrans	XGIPF	GLTR LI	Eduard Faritov
	Mirland Development	MDVPF	MLD LN	Tatiana Volochkovich
	MMK	MGKPF	MAGN RU	Eduard Faritov
	MMK	XGMJF	MMK LI	Eduard Faritov
	OGK-2	SGWJF	OGKB RU	Ekaterina Rodina
	OGK-4	FXGCF	OGKD RU	Ekaterina Rodina
	Oriflame	OFLMF	ORI SS	Odile Lange-Broussy
	Pharmstandard	XDMPF	PHST RU	Odile Lange-Broussy
	Pharmstandard	XPOJF	PHST LI	Odile Lange-Broussy
	RusHydro OJSC-CLS	HDWGF	HYDR RU	Ekaterina Rodina
	Sollers	XSVJF	SVAV RU	Eduard Faritov
	Uralkali	URLKF	URKA RU	Odile Lange-Broussy
	Uralkali	XURLF	URKA LI	Odile Lange-Broussy
	X5	XFIVF	FIVE LI	Odile Lange-Broussy
NEUTRAL				
	Federal Grid Company	FGCYF	FEES RU	Ekaterina Rodina
	Magnit	MGJNF	MGNT RU	Odile Lange-Broussy
	Magnit	XGMTF	MGNT LI	Odile Lange-Broussy
	NLMK	XKOVF	NLMK LI	Eduard Faritov
	NLMK	XNVLF	NLMK RU	Eduard Faritov
	OGK5	FFGEF	OGKE RU	Ekaterina Rodina
	Raspadskaya OJSC	XRSPF	RASP RU	Eduard Faritov
	SeverStal	XVCHF	CHMF RU	Eduard Faritov
	SeverStal	XVSEF	SVST LI	Eduard Faritov
UNDERPERFORM				
	GAZ Auto	GZAPF	GAZA RU	Eduard Faritov
	Mechel	MTL	MTL US	Eduard Faritov
	Mechel	XCMHF	MTLR RU	Eduard Faritov
	OGK-1-BRD	FWMJF	OGKA RU	Ekaterina Rodina
	OGK-3	TRJCF	OGKC RU	Ekaterina Rodina

Emerging EMEA - Russia Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
	OGK-6-CLS	SXGCF	OGKF RU	Ekaterina Rodina
	Open Investments	OPIVF	OPIN RU	Tatiana Volochkovich
	RGI	RILDF	RGI LN	Tatiana Volochkovich
	Seventh Continent	SCJSF	SCON RU	Odile Lange-Broussy
	TGK-1	TJNGF	TGKA RU	Ekaterina Rodina
	WBD	WBD	WBD US	Odile Lange-Broussy
	WBD	XMSMF	WBDF RU	Odile Lange-Broussy
RVW				
	Evraz	EVGPF	EVR LI	Eduard Faritov
	Sistema	JSFCF	SSA LI	Anastasia Levashova
	Sistema	XJSCF	AFKS RU	No Analyst

***iQ**method* SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

***iQ**method* SM is the set of Banc of America Securities-Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

***iQ**database* ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Banc of America Securities-Merrill Lynch.

Important Disclosures

MDVPF Price Chart

B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

"Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of July 31, 2009 or such later date as indicated. BAS-ML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of July 31, 2009 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

Investment Rating Distribution: Real Estate/Property Group (as of 01 Jun 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	27	30.68%	Buy	3	12.00%
Neutral	20	22.73%	Neutral	7	35.00%
Sell	41	46.59%	Sell	10	24.39%

Investment Rating Distribution: Global Group (as of 01 Jun 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1303	40.83%	Buy	602	51.10%
Neutral	807	25.29%	Neutral	362	51.49%
Sell	1081	33.88%	Sell	394	39.96%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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