



## HOLD

22 Apr 2005

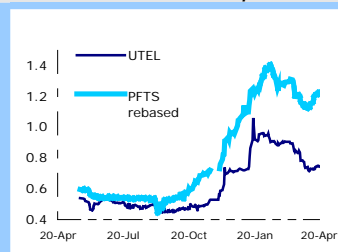
USD 0.148

12m Target

USD 0.140

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### UTEL Mid-Market, UAH



### Market Information

Bloomberg	UTEL UZ
Reuters	UTEL.PFT

**No of Shares, mr** 18,726.2

Reg S GDR to Ord. 1:50

**Market price** 0.148

52Wk H/L, USD 0.20/ 0.08

**MCap, USD mn** 2,771.5

**Free Float, %** 2.4%

### Stock Ownership

State	92.86%
Legal entities	4.71%
Individuals	2.43%

### Ratios 2004E

EBITDA Margin	44.9%
EBIT Margin	32.2%
Net Margin	19.1%
Net Debt/ Equity	0.20

The company has developed its financial plan for 2005 – The plan's adoption by Prime Minister Yulia Tymoshenko makes us optimistic for its fulfillment. However, UTEL investment possibilities can be limited in 2004 due to a deficit of cheap investment funds. Taking into account UTEL's stock price is down closer to its fair value, and UAH appreciation, we upgrade our recommendation to HOLD.

**USD 143 mn dividends will be paid in 2005** amounting to 83.4% of 2004 net income. Holders of the shares as of April 25, 2005, will receive 0.007 USD per share (yielding 5.2%). All the dividends must be paid by October 20, 2005.

**CapEx program can be revised downwards.** The USD 430 mn investment program declared in January is not likely to be fulfilled. High dividends payout, and postponement of the Eurobond issuance (about USD 350 mn), which was expected in H1 raises questions of the company's ability to fund CapEx. The company's only possibility is to finance it through short-term debts, which will increase financial expenses. **Negative**

**Telephone network development will slow down.** Management stresses the low payback from digitalization and fixed line installation. Therefore, UTEL is expected to pay more attention to development of more lucrative data transfer services. Digitalization will be promoted mainly in high-populated areas. The company is waiting for state participation in telephone penetration programs. **Positive**

**Re-organization of Utel (LD operator).** UTEL, who concentrated a 100% stake in Utel, has re-organized the company into the department of UTEL. Utel will remain independent in its customer policy and its brand will be saved. However, its network will be integrated with Ukrtelecom, who is now the owner of all the assets. **Positive:** re-organization is likely to be beneficial due to economy of scale effects (no needs to develop two separate networks) and prevents unnecessary competition between UTEL and Utel. **Negative:** The successful, customer-oriented Utel may inherit UTEL's less efficient management and marketing. Utel will be less flexible in their decision-making due to increased bureaucracy. **Mixed**

**Possible divestment of Infocom network operator.** UTEL was not able to execute last AGMs' decision to increase its stake in Infocom from 51% to 100%, in order to transfer 51% to the state. Due to various decisions from courts of different levels, all transactions of UTEL with Infocom stakes were prohibited. Moreover, taking into account the low importance of Infocom in UTEL's consolidated revenue (0.9%), and the fact that Infocom never paid dividends, the AGM instructed the supervisory board to consider Infocom's divestment. **Negative:** Infocom's value-added is its nation-wide data package (Frame-Relay) network, which UTEL will lose. Note that Utel also did not paid dividends before 2004.

**UTEL operational plan for 2005 has been approved by the Prime Minister.** Approval of the plan announced in January (with a consolidated revenue increase of 14% yoy) allows UTEL to rely on Government support in obtaining the long-awaited 3G mobile license, and to account for local telephony tariff increase by 20% this summer, to fulfill the plan. **Positive**

**2005 net income** of the company is planned at **UAH 1.1 bn** (USD 210 mn). With a 30% payout approved by the AGM, next year dividends are expected to be USD 63 mn, yielding 2.3%

### KEY FINANCIAL DATA, USD mn

	Net Revenues	EBITDA	Net Income	DPS, USD
2003	963.2	424.4	147.1	0.0016
2004E	1,132.2	508.0	170.9	0.0076
2005E	1,245.1	565.8	209.6	0.0033
Spot Exch. Rate		5.25		

### KEY RATIOS

	P/S	P/E	EV/EBITDA	Div. Yield
2003	2.88	18.85	6.74	1.1%
2004E	2.45	16.22	5.69	5.2%
2005E	2.23	13.28	5.06	2.3%

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