



Ukrtelecom

2004 Preliminary Results

SELL

27 Jan 2005

USD 0.165

12m Target

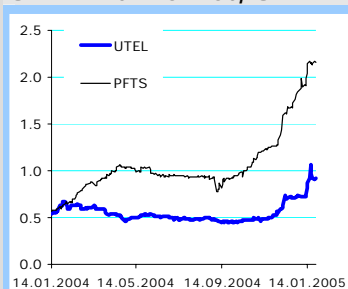
USD 0.135

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UTEL Mid-Market, UAH



Market Information

Bloomberg	UTEL UZ
Reuters	UTEL.PFT
No of Shares, mn	18,726.2
Reg S GDR to Ord.	1:50
Market price	0.165
	0.198/
52Wk H/L, USD	0.084
MCap, USD mn	3,089.8
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

2004 revenue is in line with our predictions. Key top-line driver was FTM traffic intensification resulting from a booming mobile segment. Increasing mobile pressure, however, can affect FTM earnings in the opposite way starting 2006. Developing their own mobile provider is expected to be a main UTEL growth factor in 2005 and 2006. Lowering the probability of minority dilution after privatization, we upgrade our target to USD 0.135. Recent market conditions have resulted in a price not justified by the fundamentals. **SELL**

Preliminary results of 2004 showed a significant increase in sales for parent Ukrtelecom: +22% yoy, and modest growth dynamics for Utel: +4% yoy. Preliminary consolidated growth is about +13-15% yoy, which is slightly higher than our predictions (12%). Positive.

Growth of FTM traffic, which was a key driver for UTEL's top-line in 2004, will slow down in 2005 in line with the mobile penetration dynamics decrease. In addition, mobile competition will decrease MTM tariffs further, making FTM less price-competitive. In addition, UTEL revenues from leasing of international switches to UMC and Kyivstar, mobile majors, will decrease by 70-80% in 2005, as both companies now possess ILD licenses. Negative.

Management's business plan for 2005 foresees a 22% growth of revenues for parent Ukrtelecom, even taking into account the described above revenue-restrictive factors. This signals the company's confidence of a new sales-boosting driver – such as obtaining a 3G mobile license. Key management hinted in this yesterday during a meeting with them. Positive - watch.

The affiliated ILD operator, Utel, is being reorganized into a department of Ukrtelecom. This will allow the building of a common strategy for both companies and will prevent competition between them. Consolidated financials for Ukrtelecom and UTEL beginning 2005 pushes UTEL reporting closer to IAS standards. Positive.

A USD 430 mn CapEx program for 2005 (+28% yoy increase) stipulates relatively 'equal' spending on increasing fixed penetration (installed capacities +850 ths), and upgrading available infrastructure to provide additional services for existing clients. Slightly positive.

To finance CapEx, Ukrtelecom is expected to issue Eurobonds for about USD 350 mn in 1H2005. Lead managers are Citibank and Standard Bank of London, interest rate is expected to be LIBOR+1.5% to 3.5% (in contrast to domestic bonds' 12-16%), which will decrease the current marginal cost of borrowing. Positive.

Privatization can be postponed. The new government has not revealed its position on the issue, but the government's profile suggests a renewal of the privatization process after tariff rebalancing and issuing a mobile license to Ukrtelecom. UTEL's privatization law is expected to be revised, and we believe controversial points will be eliminated. In particular, we decrease the probability of an additional shares issuance (which we detailed in our previous report) after privatization. Positive - watch.

KEY FINANCIAL DATA, USD mn

	Net Revenues	EBITDA	Net Income	DPS, USD
2003	963.2	424.4	201.2	0.0016
2004E	1,132.2	508.0	216.5	0.0024
2005E	1,245.1	565.8	229.6	0.0029

Spot Exch. Rate 5.31

KEY RATIOS

	P/S	P/E	EV/EBITDA	Div. Yield
2003	3.89	25.47	9.04	0.7%
2004E	3.31	18.61	7.55	0.8%
2005E	3.01	17.30	6.78	1.2%

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