



Ternopiloblenergo

2004 & 1Q05 Results

HOLD

25 May 2005

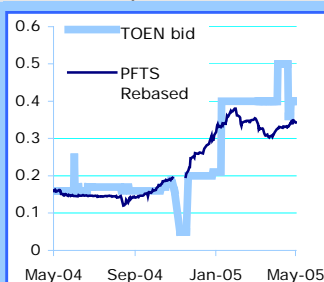
USD 0.15

12m Target

USD 0.16

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TOEN Bid, UAH



Market Information

PFTS ticker	TOEN
No of Shares, mn	61.1
Market price, USD	0.15
MCap, USD mn	9.17
Free Float, %	4%

Stock Ownership

NC ECU (State)	50.99%
Grigoryshyn Group	24.99%
Surkis Group	15.10%
Other	8.92%

Ratios 2004

EBITDA Margin	2.8%
EBIT Margin	-6.9%
Net Margin	-0.7%
Net Debt/ Equity	0.06

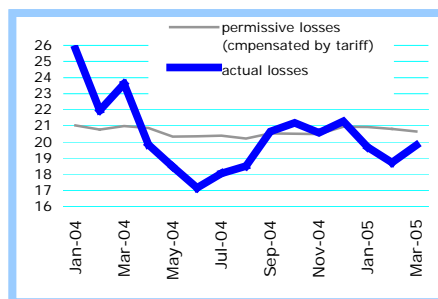
Ternopiloblenergo (TOEN) wrote off a considerable amount of its accounts receivable as bad debt provisions in 2004 and 1Q05, resulting in a negative net income for the period. Nevertheless, the company remains one of the most technologically efficient in its sector, with low level of electricity losses. Its share price has nearly reached our target, and as a result we downgraded our recommendation to HOLD.

TOEN posted net losses of USD 0.23 mn in 2004, due to the write-off of USD 3.57 mn as bad debt. An additional bad debt write off amounting to USD 1.08 mn led to losses of USD 0.64 mn in 1Q05. By the end of 1Q05, TOEN had USD 6.8 mn in receivables, about 2 mn of which can be treated as long term debt overdue and may be written off by the end of 2005. We will probably see further losses in 2005, but this cleaning up of the company's A/R accounts will be **positive in the long run, albeit negative in the short term.**

TOEN's accounts payable decreased by USD 10.6 mn in 2004-1Q05, making the difference between payables (USD 17 mn, as of April 1, 2005) and receivables (USD 6.8 mn) three times lower than at the beginning of 2004. Although the company's debt to the wholesale market operator remains high (about USD 17 mn), the company is rated 17th among 27 regional electricity distributors in terms of debt load. **Positive.**

The company reduced electricity losses in 1Q05.

Losses from TOEN's grid fell from 23.9% of electricity purchased in Q104 to 19% in 1Q05. By maintaining losses below its permissive level, the company gained an additional USD 0.11 mn in 1Q05. We estimate that in 2005 TOEN will be able to obtain an additional USD 0.27 mn income by reducing actual losses. **Positive.**



Source: EnergoBusiness

No AGM. A conflict between TOEN minority shareholders has prevented the company from holding an AGM. This conflict reflects the state's weak position in the company. As a majority stakeholder and sector regulator, the state should have the power to resolve the conflict, but it has been unable to do so. Regardless, this problem has not hampered the company's financial performance. **Neutral.**

KEY FINANCIAL DATA, USD mn

	Net Revenues	EBITDA	Net Income	DPS, USD
2003	32.1	8.9	3.25	0.0016
2004	31.4	0.9	-0.23	0.0000
2005E	32.0	1.9	-1.20	0.0000
Spot Exch. Rate		5.10		

KEY RATIOS

	P/S	P/E	EV/EBITDA	Div. Yield
2003	0.28	2.82	1.1	0.9%
2004E	0.29	Neg.	11.1	0.0%
2005E	0.29	Neg.	6.24	0.0%

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