



Zakhidenergo

Technical Upgrade

BUY

20 July 2005

USD 24.0

12m Target

USD 30.5

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Market Information

Bloomberg	ZAEN UZ
Reuters	ZAEN.PFT
No of Shares, mln	12.8
Reg S GDR to Ord.	4:1
Market price*, USD	24.0
52Wk H/L, USD	32.2/10.6
MCap, USD mln	307.0
Free Float, %	29.9%

Stock Ownership

NC ECU	70.1%
Others	29.9%

Ratios 2005E

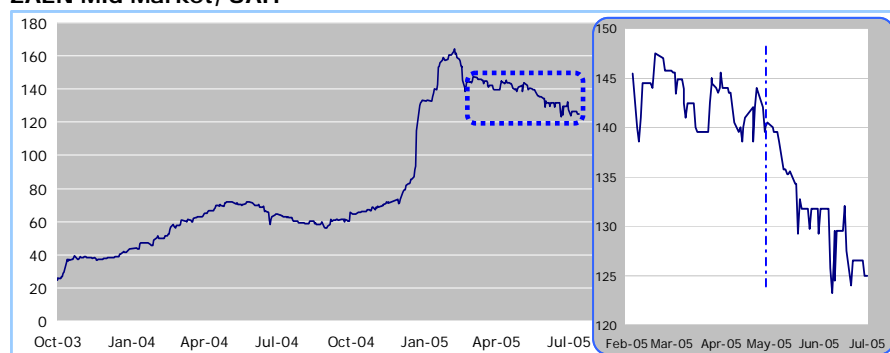
EBITDA Margin	10.3%
EBIT Margin	6.1%
Net Margin	3.6%
Net Debt/ Equity	0.13

* Note: market price, as given, reflects the price of USD 100,000 block. It does not necessarily correspond to the PFTS mid-market price

A large, profit-taking seller has pushed the price of the stock down over the last two months, despite ZAEN unchanged fundamentals. This has caused a situation where the stock now trades at a discount to our target, implying a 27% upside. We upgrade our recommendation to BUY.

Please refer to our May 30 report for a more complete analysis.

ZAEN Mid Market, UAH



Source: PFTS

Selling Pressure. In May 2005, following the demand peak in 1Q05, a 5% stake in ZAEN became available for sale. Increased profit taking has caused ZAEN's price to decline ~14% over the last 2 months, with unchanged company fundamentals. Despite the relative trading liquidity of the stock, the size of the seller, 17% of free float, has been more than the market could bear. ZAEN is oversold and is trading below our target price - now implying a 27% upside. We treat this transition period as an excellent opportunity for bottom fishing and technically upgrade the stock from HOLD to BUY.

New playing field for major league. Since the PFTS peaked in mid-February, post revolution, institutional investors have taken profits on Ukrainian blue chips and switched to less liquid, second & third tier equities. The selling by these highly risk tolerant, "first stage" investors is creating the necessary liquidity and stock availability to larger mainstream investment funds and has greatly increased the liquidity of second tier companies that were, until recently, very rarely traded. In our opinion, this has been a long awaiting shift in the market and has enlarged the breadth of liquid, tradable stocks. In addition, a whole new caliber of investors is now interested in Ukrainian blue chips ... they should look closely at ZAEN.

KEY FINANCIAL DATA, USD mln

	Net Revenue	EBITDA	Net Income	DPS, USD
2004	366.3	20.9	10.8	0.339
2005E	416.6	42.9	14.9	0.370
2006E	503.7	94.3	52.20	0.398

Spot Exch. Rate 5.05

KEY RATIOS

	EV/S	EV/EBITDA	P/E	Div. Yield
2004	0.92	16.05	28.32	1.4%
2005E	0.80	7.94	20.54	1.5%
2006E	0.67	3.65	5.88	1.7%

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mn

	1Q04	2Q04	3Q04	4Q04	1Q05
Net Revenues	93.9	83.4	83.6	107.6	110.6
Cost Of Sales	-77.4	-72.3	-76.1	-90.5	-99.4
Gross Profit	16.5	11.0	7.5	17.0	11.2
Other Operating Income/Costs, net	-2.4	-6.5	-3.2	-12.0	-2.5
SG&A	-1.7	-1.6	-1.7	-2.1	-2.7
EBITDA	12.4	3.0	2.7	2.9	6.0
EBITDA margin, %	13.2%	3.5%	3.3%	2.7%	5.4%
Depreciation	2.9	2.9	2.9	2.9	3.0
EBIT	9.5	0.0	-0.2	0.0	3.0
Interest Expense	-0.9	-0.9	-0.7	-0.9	-0.7
Financial income/(expense)	0.0	0.0	0.0	0.0	0.0
Other income/(expense)	0.1	2.2	0.2	0.1	0.2
PBT	8.7	1.3	-0.8	-0.8	2.4
Tax	-2.0	1.9	-1.1	1.3	-1.9
Extraordinary Income/(loss)	0.0	0.0	0.0	0.0	0.0
Net Income	6.7	3.1	-2.0	0.4	0.5
Net Margin, %	7.2%	3.8%	-2.3%	0.4%	0.5%

Balance Sheet Summary, USD mn

	1Q04	2Q04	3Q04	4Q04	1Q05
Current Assets	204	195	191	182	188
Cash & Equivalents	1	0	1	2	1
Trade Receivables	146	134	132	122	131
Inventories	28	27	24	32	28
Other current assets	29	34	35	26	27
Fixed Assets	289	288	288	283	293
PP&E, net	236	234	231	228	241
Other Fixed Assets	53	55	57	55	52
Total Assets	493	483	479	465	481
Shareholders' Equity	257	257	255	256	266
Share Capital	24	24	24	24	25
Reserves and Other	291	291	290	289	300
Retained Earnings	(58)	(58)	(60)	(57)	(59)
Current Liabilities	112	111	107	101	103
ST Interest Bearing Debt	24	24	24	24	25
Trade Payables	1	1	1	1	0
Accrued Wages	257	257	255	256	266
Accrued Taxes	(58)	(58)	(60)	(57)	(59)
Other Current Liabilities	(111)	(113)	(112)	(122)	(129)
LT Liabilities	124	115	117	108	112
LT Interest Bearing Debt	11	11	11	10	11
Other LT	112	104	106	98	101
Total Liabilities & Equity	493	483	479	465	481

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