

Changes to UX Index

Donbasenergo in, Bank Forum out

UX Index: Bank Forum replaced with Donbasenergo

On December 1, the Ukrainian Exchange (UX) announced Bank Forum (FORM UK) will be removed from the index and Donbasenergo (DOEN UK) will be added as of December 15. We relate Forum's exclusion to a decline in the stock's liquidity, while prior to the decision to include Donbasenergo, we observed no strong liquidity signals.

Typically, changes in UX index composition are reflected in stock prices, as recently demonstrated when Stakhaniv Wagon was added to the UX index and Sumy Frunze was excluded. Inclusion should benefit Donbasenergo, while exclusion could act to the detriment of Forum. We maintain our BUY recommendation on Donbasenergo, and put Forum under review.

Donbasenergo: trading at a 41% discount to 12M high

Donbasenergo, the most volatile power generator, is trading at a 41% discount to its 12M high (while the UX is down by only 17%), the largest decline among index stocks with the exception of steel names. We maintain our BUY recommendation (see our note dated November 5), with a target price of USD 17.8 per share. Inclusion in the index should act as a trigger for price appreciation and consume some of the current 112% upside.

Bank Forum: free float down as well as liquidity

In July, Bank Forum's free float fell from 11% to 5.5% (following a twofold increase in charter capital at a 30%-50% premium to the market price), undermining Forum's liquidity. During the autumn, Forum's average daily trading volume was around USD 100,000, making it one of the least liquid stocks in the UX index and leading to its exclusion.

We expect Forum's free float to decline further to as low as 3% in the coming months as a result of an October decision to increase its charter capital by 34%: (i) the bank has to buy back shares from those who voted against increasing the charter capital (around 1%-2% of shareholders); and (ii) most remaining minority shareholders will refuse to buy new shares at a 66% premium to the current market price.

This, coupled with exclusion from the UX index, will keep Forum's liquidity low and will make it harder for the stock to realize its upside potential, though we still see Bank Forum as fundamentally strong.

Next candidates for the index

The next review of UX index composition is scheduled for March 15, with an announcement around March 1. We see Zakhidenergo as the most likely candidate for exclusion, as its free float is being bought up by DTEK, which aims to gain a controlling stake in the company. Stocks that may be included are FORM, KVBZ, LTPL, MZVM, PGOK, and SGOK, according to UX index committee. Among those, we see KVBZ and SGOK as the most likely candidates.

Report date **6 Dec 2010**

Donbasenergo

Bloomberg	DOEN UK
Reuters	DOEN=UA
Recommendation	BUY
Price (3 Dec 10), USD	8.4
12M price target, USD	22.7

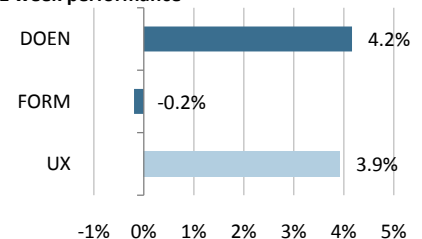
No of shares, mln	23.6
Market Cap, USD mln	198.4
52-week performance	14%
52-week range, USD	14.4/6.5
ADT, 12M, USD '000	89.4
Free float, %	14.2%
Free float, USD mln	28.2

Bank Forum

Bloomberg	FORM UK
Reuters	FORM .PFT
Recommendation	U/R
Price (3 Dec 10), USD	0.77
12M price target, USD	U/R

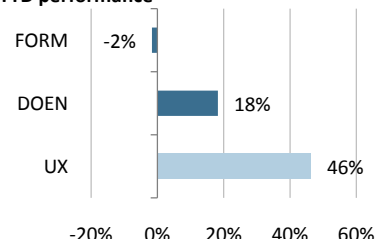
No of shares, mln	443.5
Market Cap, USD mln	341.5
52-week performance	1.9%
52-week range, USD	1.2/0.7
ADT, 12M, USD '000	141
Free float, %	5.5%
Free float, USD mln	18.8

1 week performance



Source: Bloomberg

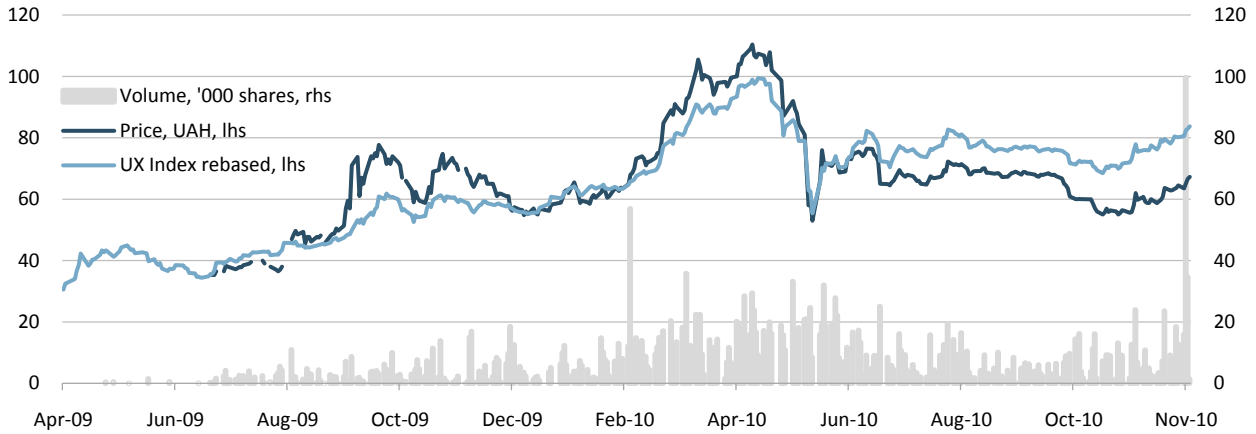
YTD performance



Source: Bloomberg

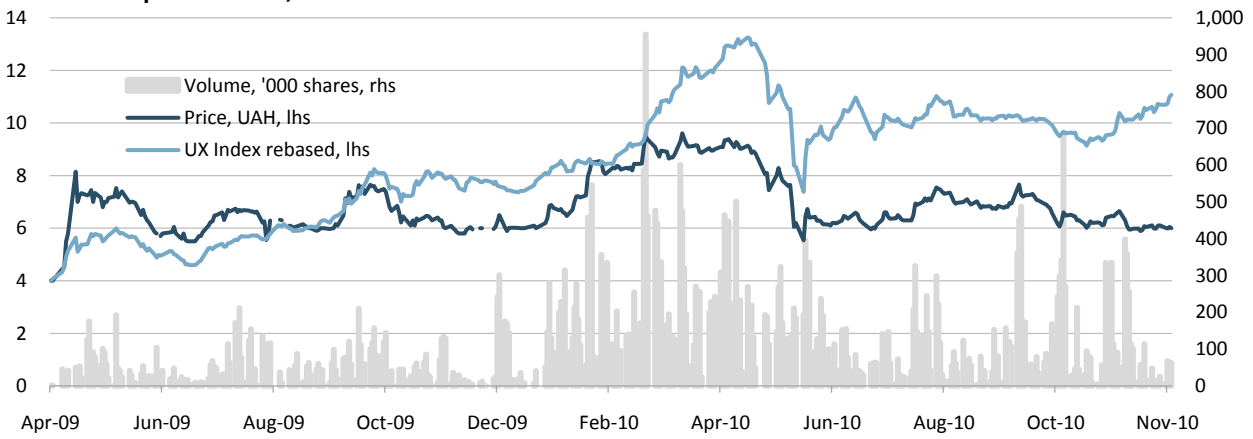
Stock performance

DOEN stock performance, UAH



Source: UX

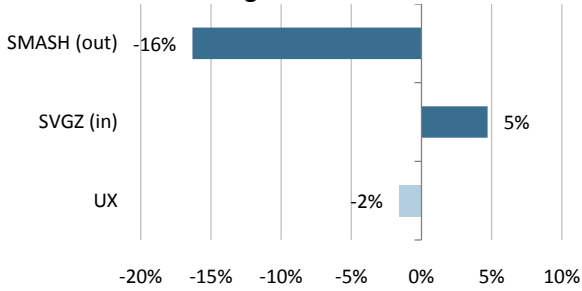
FORM stock performance, UAH



Source: UX

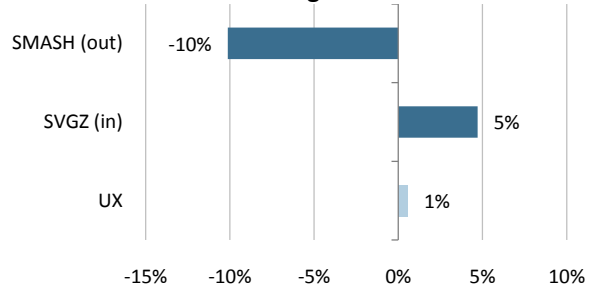
Case Study 1: Index change on 15 Sept 2010: SMASH out, SVGZ in

1M before index change



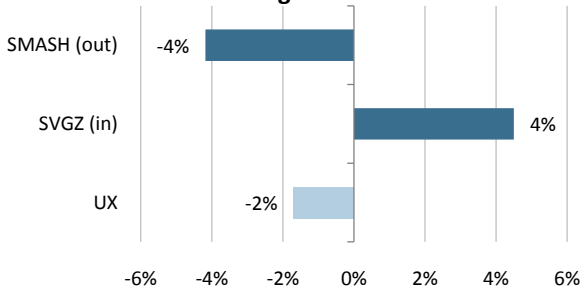
Source: UX

2 weeks before index change



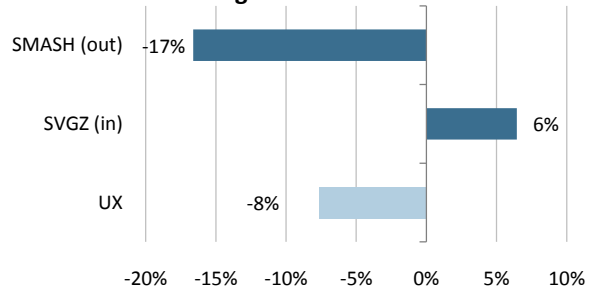
Source: UX

2 weeks after index change



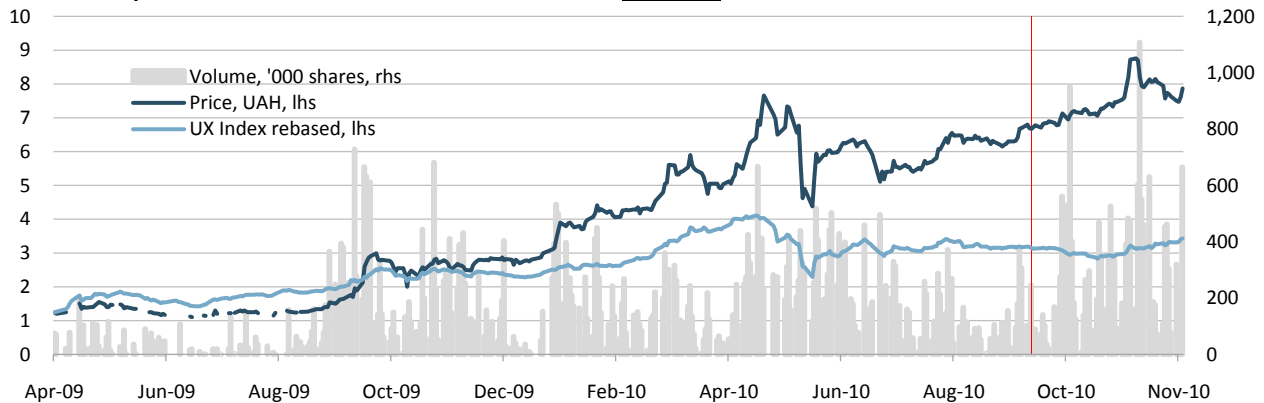
Source: UX

1M after index change



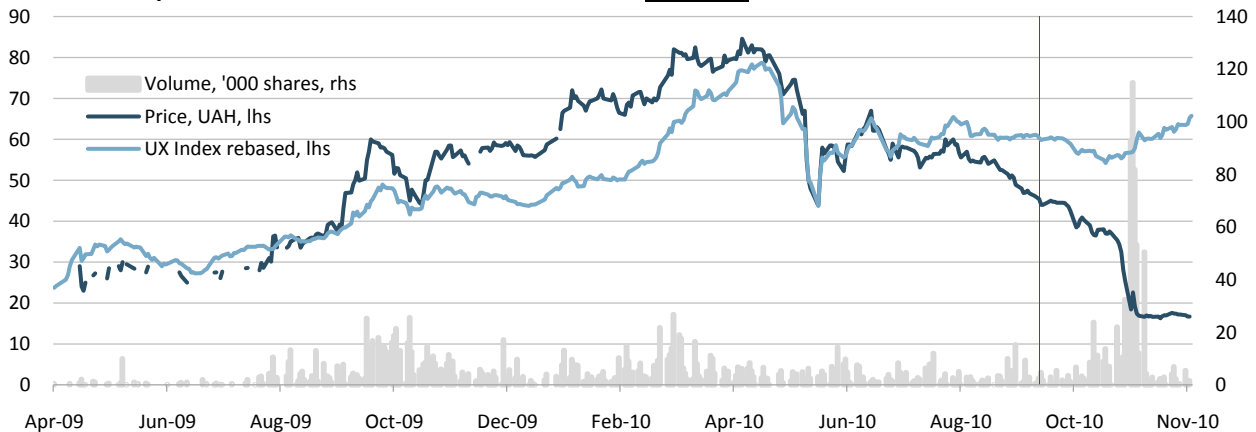
Source: UX

SVGZ stock performance, red line crosses at the date of inclusion in the index



Source: UX

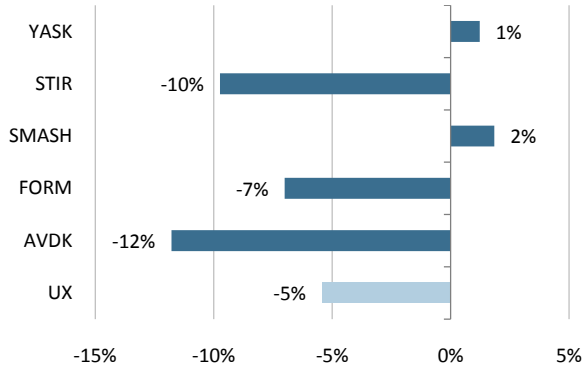
SMASH stock performance, red line crosses at the date of exclusion from the index



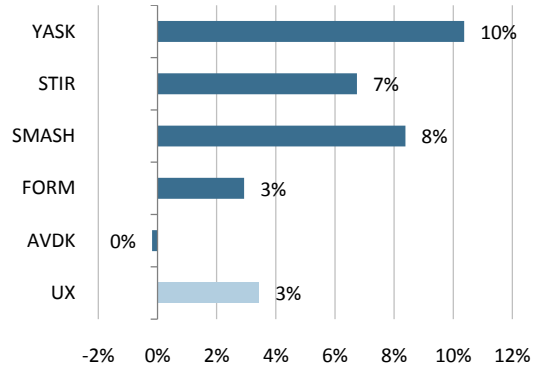
Source: UX

Case Study 2: Index change at 15 Dec 2009: five stocks in

1M before inclusion



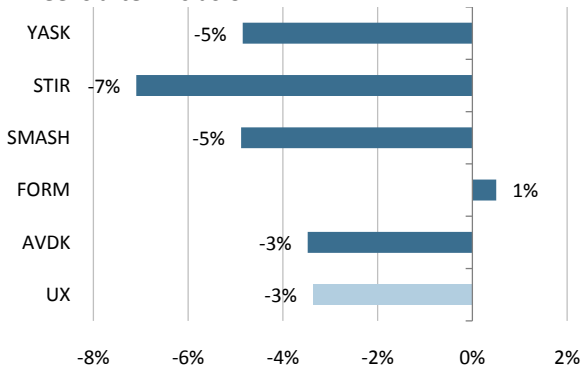
2 weeks before inclusion



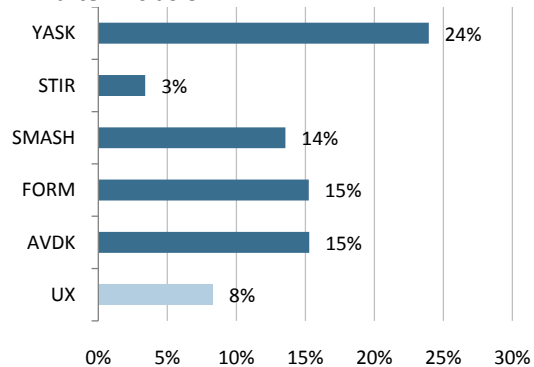
Source: UX

Source: UX

2 weeks after inclusion



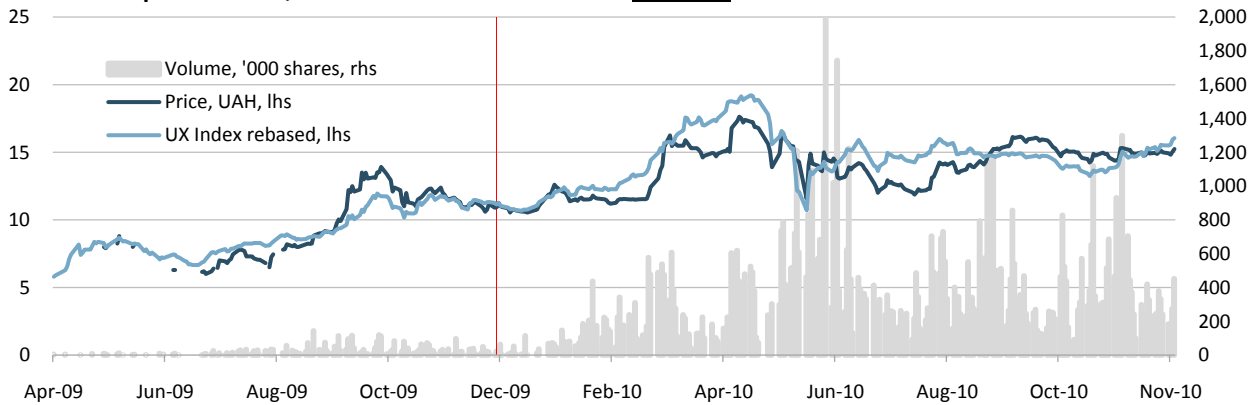
1M after inclusion



Source: UX

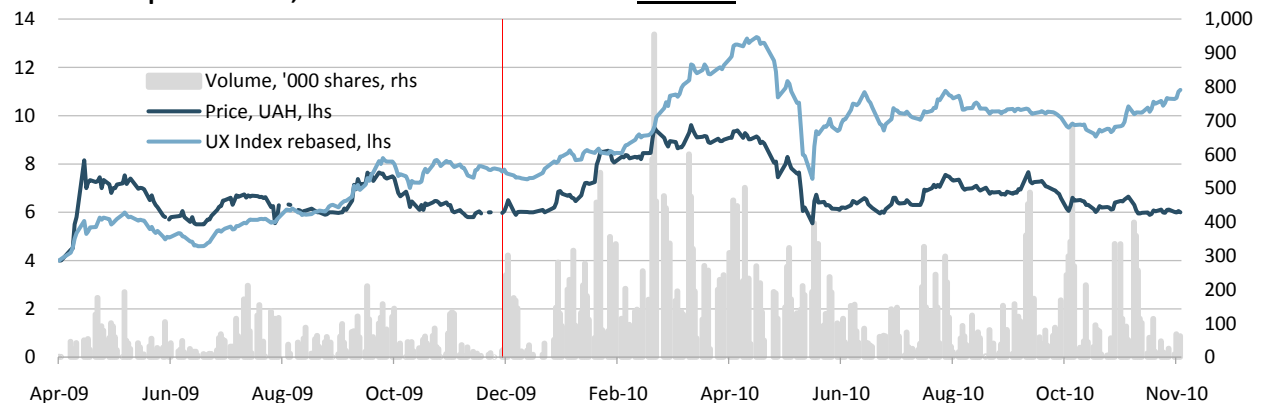
Source: UX

AVDK stock performance, red line crosses at the date of inclusion in the index



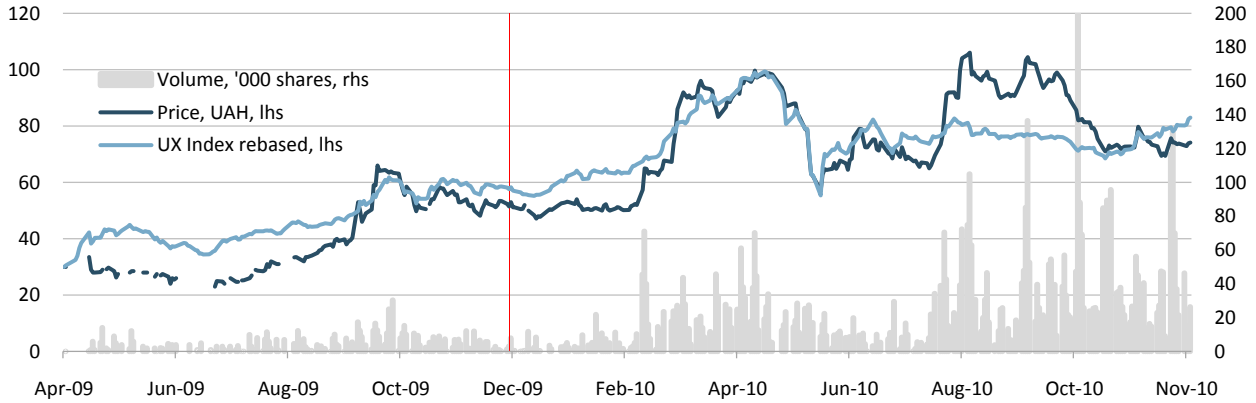
Source: UX

FORM stock performance, red line crosses at the date of inclusion in the index



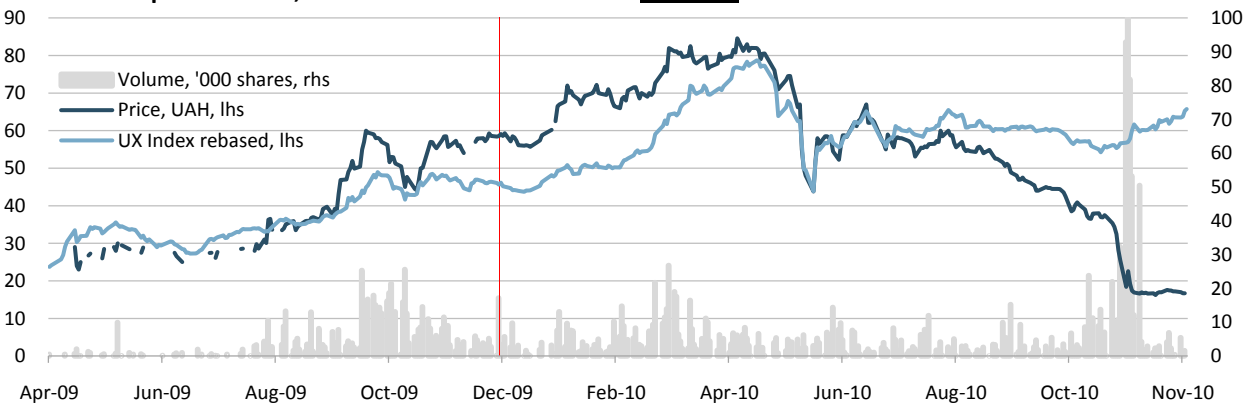
Source: UX

STIR stock performance, red line crosses at the date of inclusion in the index



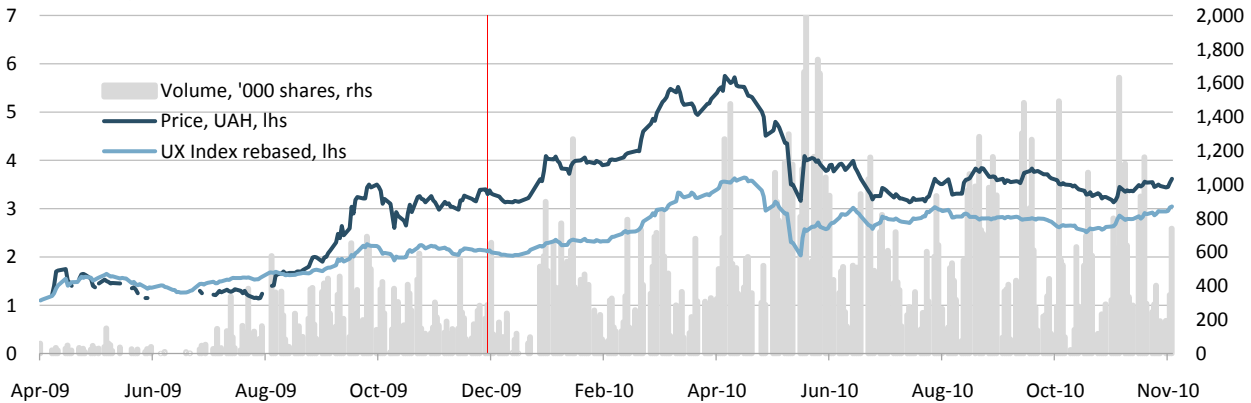
Source: UX

SMASH stock performance, red line crosses at the date of inclusion in the index



Source: UX

YASK stock performance, red line crosses at the date of inclusion to the index



Source: UX

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