



CONCORDE CAPITAL

Ukraine / Electricity

Dniproenergo

Supreme Court ruling fails to tarnish upside

April 10, 2008

Current price: USD 430

12M Target: USD 516 *diluted* (USD 672 *undiluted*)

BUY

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Tickers

PFTS	DNEN
GDR (Frankfurt/Xetra)	DPG

DR ratio 4 : 1

Market information

Market price, USD	430
Chg YTD	-8%

MCap, USD mln*:	
<i>(old share number)</i>	1,922
<i>(increased charter fund)</i>	2,566

No of shares, mln*:	
old shares	3.92
<i>(increased charter fund)</i>	5.97

Free float, USD mln 101.5

Shareholder structure:

By proportion in new charter fund*

NC ECU (State)	50.0%
DTEK (SCM)	46.1%
Other	3.9%

By number of actual shares

NC ECU (State)	76.0%
DTEK (SCM)	18.0%
Other	6.0%

* Dniproenergo raised its charter fund by 1.52x in late 2007, but DNEN's registrar refused to register the new shares proportionally to the fund increase. De jure, the number of shares has not grown.

Key financials and ratios***

USD mln	2005	2006	2007
Sales	406.9	551.2	758.0
EBITDA	65.8	56.6	79.6
Net income	4.6	2.5	24.1
EV/S	6.8	5.0	3.4
EV/EBITDA	42.6	49.5	32.6
P/E	558	1,026	106
EV/Capacity, USD/kW	483	480	450

*** Ratios assuming increased charter fund

The Supreme Court's April 8 ruling to invalidate Dniproenergo's pro-DTEK dilutive share issue does not completely settle the conflict around Dniproenergo. The procedure for enforcing the ruling is not clear at the moment; legal ambiguity gives DTEK room to fight to keep its larger share in the company. DNEN's current market price implies upside in both diluted and undiluted cases - we reiterate our BUY rating.

What did the Supreme Court cancel?

The Supreme Court effectively invalidated all the decisions of Dniproenergo's AGM of August 27, 2007. Among them:

- Charter fund increase by 1.52 times via issuing new shares and exchange them for 100% of Investment Company LTD
- Changes to Dniproenergo's charter to account for new share capital

If the ruling is implemented, DTEK's stake in the company would fall from 46% to 18%; the stakes of all the other shareholders would grow 1.52 times.

Will the battle go on?

According to Ukrainian legislation, the Supreme Court's ruling is conclusive. However, certain loopholes give DTEK a chance to continue its court battles:

- The court did not specify the procedure for revising Dniproenergo's charter, which was amended at the AGM and now includes the new number of shares
- The AGM's decisions were integral part of Dniproenergo's financial recovery process which was finished in November 2007. Invalidation would mean rolling back the financial recovery process, and the procedure for that is not specified
- DTEK contributed USD 208 mln to Dniproenergo's new charter fund. Revision of AGM results imply returning that financing

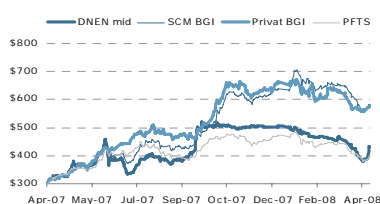
How many Dniproenergo shares are there at the moment?

- Actual number of shares is 3.92 mln, supported by the recent ruling of the Supreme Court
- 5.97 mln shares are stipulated in the company's valid charter document

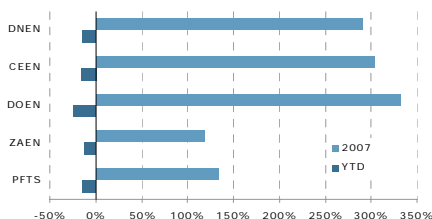
Implication for valuation

From the point of view of a portfolio investor, the current situation resembles a share issue situation where subscription results have not been approved. We calculate both diluted and undiluted target prices: each yield more than 20% upside. Our diluted 12M target price (based on the assumption of DTEK's presence in Dniproenergo) is unchanged: USD 516. Undiluted, the target is USD 672 (30% premium to diluted).

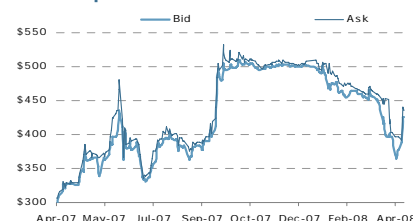
52 week performance



Performance vs GenCos and PFTS



DNEN spread



Source: Bloomberg, PFTS

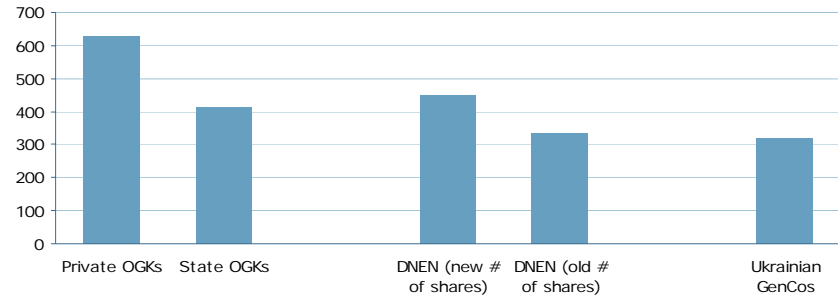
Appendix

Multiples comparison

Assuming the old number of shares for Dniproenergo and the withdrawal of DTEK's investment, Dniproenergo's EV/Capacity is USD 333/kW: a 4% premium to other Ukrainian GenCos' average, and a 19% discount to Russian state-controlled OGKs (OGK-1, OGK-2 and OGK-6).

Assuming the new number of shares, Dniproenergo's EV/Capacity is USD 450/kW: a 40% premium to other Ukrainian GenCos' average, and a 28% discount to average of Russian private OGKs (OGK-3, OGK-4 and OGK-5).

EV/Capacity multiples: DNEN vs peer average



Source: Company data, Bloomberg, Concorde Capital calculations

Undiluted target calculation

To arrive at an undiluted target, we apply the old number of shares and estimate a decrease in Dniproenergo's value related to the exit of DTEK - **USD 471 mln**:

- Withdrawal of **USD 208 mln** contributed by DTEK
- Cancellation of DTEK's investment obligation. Two negative outcomes for Dniproenergo value:
 - Termination of DTEK's USD 200 mln investment commitment over the next five years: NPV is **USD 160 mln**
 - Postponement of the company's capacity modernization program: with its corporate conflict and ownership structure uncertain, it will be hard to find financing. We estimate the company's investment program will be shifted back two years, which will yield discounted unrealized gains of **USD 103 mln** over 10 years. According to our estimates, the company's gains from commissioning a modernized power unit are: 0.7pp annual economy on COGS; 2% increase in annual power production.

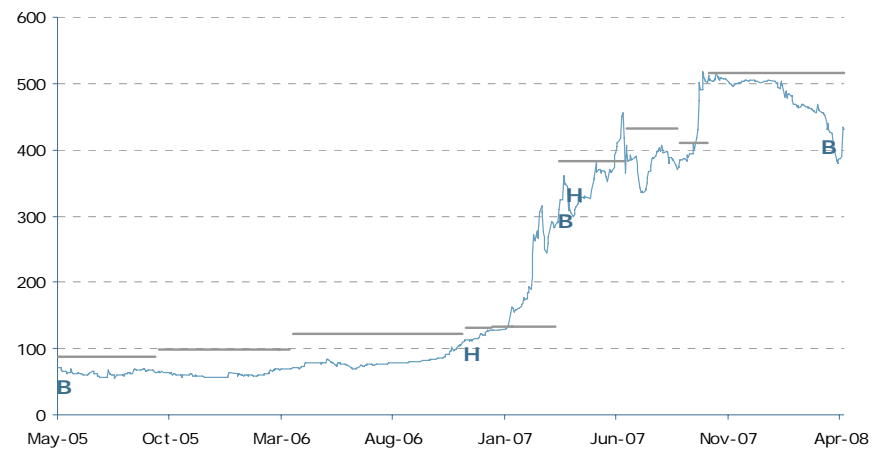
Analyst certification

I, Alexander Paraschiy, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

DNEN ratings history

Date	12M target price, USD	Market price, USD	Rating	Action
13-May-05	88	75	BUY	Initiate
26-Sep-05	99	67	BUY	Maintain
26-Jun-06	123	76	BUY	Maintain
15-Nov-06	131	109	BUY	Maintain
28-Nov-06	131	109	BUY	Maintain
22-Dec-06	134	126	HOLD	Downgrade
21-Mar-07	383	288	BUY	Upgrade
02-Apr-07	383	347	HOLD	Downgrade
22-Jun-07	432	400	HOLD	Maintain
23-Jul-07	432	366	HOLD	Maintain
31-Aug-07	410	373	HOLD	Maintain
10-Sep-07	410	383	HOLD	Maintain
09-Oct-07	516	512	HOLD	Maintain
24-Mar-08	516	424	BUY	Upgrade
10-Apr-08	516	433	BUY	Maintain

Target price history, USD per share



Investment Ratings

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Hold	26	23%
Sell	19	17%
Under Review	16	14%
Total	111	100%

Investment banking clients*

Buy	6	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
Total	6	100%

* Within the last twelve month period, Concorde Capital has obtained compensation from these companies for investment banking services.

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