



CONCORDE CAPITAL

Ukraine / Electricity

# Donbasenergo

New power unit started

July 17, 2008

Current price: USD 11.7  
12M Target: USD 40.0

**BUY**

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**Tickers**

Bloomberg DOEN UZ

**Market information**

Market price, USD	11.7
MCap, USD mln	277.3
Chg 12M	-60%
Hi / Lo 12M, USD	39.4 / 11.7
No of shares, mln	23.64
Per value, UAH	10.0
Avg Mon Tr Vol 6M, USD mln	2.43
Free float	14.2%
Free float, USD mln	41.0

**Corporate Governance**

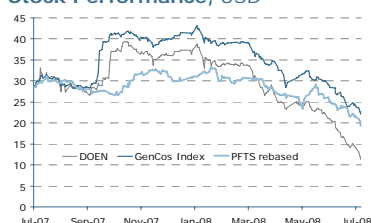
Concorde Rating\* A

\* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

**Shareholders**

NC ECU (State)	85.8%
Other	14.2%

**Stock Performance, USD**



Yesterday Donbasenergo brought onstream its new CFB power unit in testing mode. We view this long awaited event as a catalyst for the stock to eliminate its gap to domestic peers (it currently trades at discounts of 36-47%). We reiterate our target price of USD 40 per share (which already accounts for the new power unit) and our BUY recommendation.

**CFB unit at Starobeshev TPP started**

Yesterday at 1 pm, unit #4 at Starobeshev TPP began working in a testing mode, after six years of construction and three years of repairs. This is the first power unit in Ukraine and the first in the CIS that is designed to burn low-quality coal under efficient and environmentally-friendly CFB (circulated fluidized bed) technology. According to Donbasenergo, the unit will work in a testing mode until September 2008, when it is slated to switch to normal operational mode. Testing mode implies that the power unit is selling electricity to Ukraine's wholesale energy market at cost, and the unit cannot be stopped at the initiative of the energy system's dispatcher.

**Expected economic effect: up to 20% cost savings**

According to preliminary estimates by Donbasenergo, the new power unit will have total production cost savings of up to 20% compared to other units at Starobeshev TPP. Exact parameters will be available only after testing is completed.

**Probability of successful test high, constructor learned their lesson**

We believe the unit will complete its test run successfully this time around; German construction company Lurgi Lentjes AG has every reason to proceed cautiously and ensure the block is in proper working order. Three years ago, the unit was damaged during testing and Lurgi Lentjes, who tried to test the unit in an extreme mode, incurred more than USD 40 mln (by our estimates) in losses.

**Deep discount to local peers, so far**

With the new power unit launch, we see DOEN's current 36-47% discount to the other three Ukrainian GenCos as unjustified: the company is going to raise its fuel efficiency to the average level in Ukraine with the new power unit, and its reported profitability is the highest in the sector. We see the launch as a catalyst for DOEN to converge with its local peers.

**Market multiples, Ukrainian GenCos**

	EV/S	EV/EBITDA	EV/Capacity USD/kW
CEEN	1.23	14.1	228
DNEN	1.37	13.8	250
ZAEN	1.16	18.4	247
<b>Mean</b>	<b>1.25</b>	<b>15.4</b>	<b>242</b>
DOEN	0.80	8.9	129
Discount to Ukrainian peers	-36%	-42%	-47%

Source: PFTS, Concorde Capital estimates

**Key financials and ratios**

	2007	2008E	2009E
Net revenue, USD mln	290.9	430.2	506.3
EBITDA margin	11.2%	8.9%	8.9%
Net Margin	1.8%	1.9%	3.1%
ROE	4.7%	4.4%	7.8%
Net Debt/Equity	0.35	0.32	0.47

**Market multiples**

	2008E	2009E
EV/Sales	0.80	0.75
EV/EBITDA	8.9	8.4
P/E	33.3	17.5
P/B	1.4	1.3
EV/Capacity, USD/kW	129	142

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## Investment Ratings

The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 15% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 15%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

### Concorde Capital ratings distribution

Buy	77	67%
Hold	20	17%
Sell	8	7%
Under Review	10	9%
<b>Total</b>	<b>115</b>	<b>100%</b>

### Investment banking clients\*

Buy	7	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
<b>Total</b>	<b>7</b>	<b>100%</b>

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

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