



CONCORDE CAPITAL

Ukraine / Electricity

# Donetskoblenergo

## Initiating investment recommendation

January 17, 2008

Current price: USD 8.0  
12M target: 10.4

**BUY**

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**Prolongation of the moratorium on energy company bankruptcies for all of 2008 was rewarded by the market doubling DOON's market price over the last week. With the risk of bankruptcy now minor, we set our target price at USD 10.4, which implies a 30% upside. We initiate BUY recommendation for the stock.**

### Tickers

Bloomberg DOON UZ

### Market information

Market price, USD 9.0  
MCap, USD mln 589.7

No of shares, mln 65.52

Free float 6.3%  
Free float, USD mln 35.4

### Corporate Governance

Concorde Rating<sup>†</sup> P

*\* 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) 65.1%  
DTEK 28.6%  
Other 6.3%

### Key financials and ratios

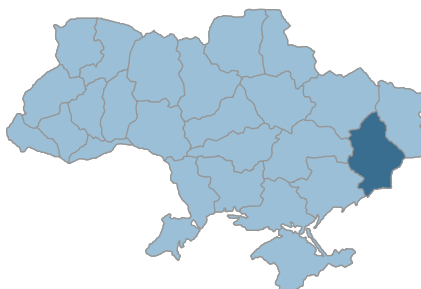
	Sales, USD mln	EBITDA margin	Net margin
2006	415.7	-24.6%	-26.9%
2007E	515.3	2.5%	-8.7%
2008E	591.6	5.9%	-3.7%

	EV/S	EV/EBITDA	P/E
2006	2.1	neg	neg
2007E	1.7	66.2	neg
2008E	1.5	24.6	neg

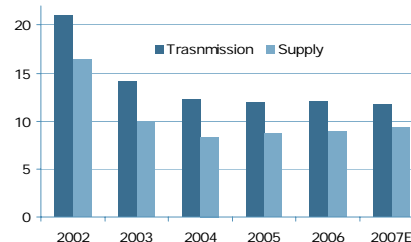
### INVESTMENT CASE

- With prolongation of the moratorium on bankruptcy in the energy sphere extended through the end of 2008, the main price-constraining factor (high risk of bankruptcy) is minor. We believe the company will succeed in restructuring its outstanding payables over a long-term period this year
- The company showed progress in decreasing its inefficiencies, reducing net losses by USD 24.4 mln yoy over 9M07. We expect further improvements in 2008
- The company is in the sphere of interest of DTEK, and is a likely acquisition target

### Donetsk region on Ukrainian map



### DOON electricity data, TWh

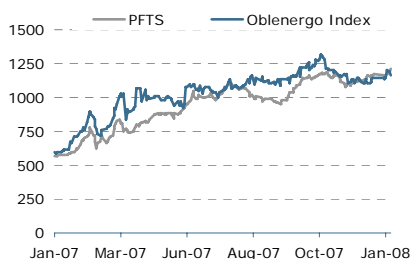


Source: Energobiznes, Concorde Capital estimates

### KEY FACTS ABOUT DONETSKOBLENERGO

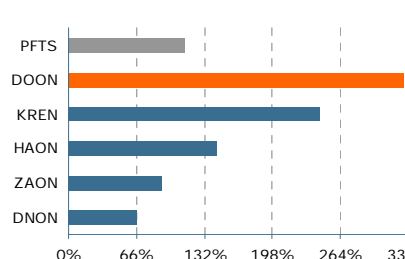
- One of the three electricity distribution and supply companies in Donetsk region
- Total length of gridlines: 71.6 ths km, the largest in Ukraine
- Total transformer capacity: 11.6 GVA, the largest in Ukraine

### Performance

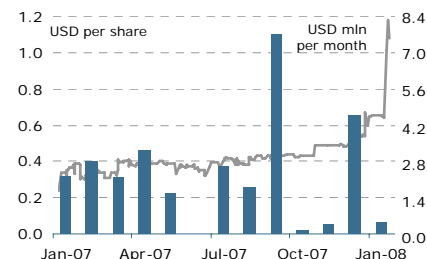


Source: PFTS Note: Oblenergo Index is MCap-weighted, includes Dniprooblenergo (DNON), Kharkivoblenergo (HAON), Krymenergo (KREN) and Zaporizhyaoblenergo (ZAON).

### Sector Performance, 52 wk



### DOON price & Trading volumes\*



## Valuation summary

As before, we calculate the company's EV as estimated RAB: USD 776 mln (refer to our Oblenergo report of Nov. 8, 2007). We believe in 2008 the company will restructure its debt for 47 years, as it applied for in August 2007. We no longer consider a bankruptcy scenario at Donetskoblenergo.

To calculate the company's net debt, we continue using scenario analysis:

- 1) **20% probability: restructuring of debt with compensation**  
According to this scenario, the company's payables will be restructured for 47 years, with money for restructuring to be accumulated from surcharges to the company's tariffs (no affect on the company's cash flow). This would mean Donetskoblenergo's debt can be entirely ignored: implied MCap is equal to RAB in this case. Implied price is USD 11.8 per share.
- 2) **80% probability: restructuring without compensation**  
This assumes restructuring of the company's payables will be split up over 47 years, but its tariff will not be adjusted to accumulate money for repaying the debt. Debt repayment will decrease the company's future cash flow, thus needs to be accounted for. Assuming Donetskoblenergo will be able to get back 50% of its outstanding receivables, uniform repayment of its debt over 47 years and no interest rate on the restructured debt, the discounted cash outflow related to debt restructuring (assuming 10% discount rate) is USD 110 mln. Implied MCap is USD 656 mln, or USD 10.0 per share.

We set a 12-month target price of USD 10.4, and issue a BUY recommendation.

# Disclosures

## 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	37	30%
Hold	29	24%
Sell	12	10%
Under Review	19	15%
Suspended / Not Rated	26	21%
<b>Total</b>	<b>123</b>	<b>100%</b>

### Investment banking clients\*

Buy	7	78%
Hold	1	11%
Sell	0	0%
Under Review	1	11%
Suspended / Not Rated	0	0%
<b>Total</b>	<b>9</b>	<b>100%</b>

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

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