



CONCORDE CAPITAL

Ukraine / CE Retail

**Ekvin**

1Q08 financials: Firing on all cylinders

May 12, 2008

Current price: USD 113  
12M Target: USD 170

**BUY**

**Alexander Viktorov**  
av@concorde.com.ua  
+380 44 391 5577

- Ekvin's 1Q08 financials released last week prove strong growth: Sales up 104% yoy; gross profit doubled, EBITDA up 5.6x
- KVIN still trades at an unwarranted discount to Russian M.Video, suggesting 51% upside

**Tickers**

PFTS KVIN UZ

**Market information**

Market price, USD	112.5
MCap, USD mln	90.5
No of shares, mln	0.8
Free float	27%
Free float, USD mln	24.4

*Prices as of May 08, 2008*

**Shareholders**

Management	73%
Institutional investors	27%

**Ratios, 2007**

Gross margin	14.1%
EBITDA margin	5.1%
Net margin	1.3%
Net debt/Equity	0.5

**KVIN Share price**



Source: PFTS, Concorde Capital

**Revenues jump 104% yoy in 1Q08**

Ekvin's sales accelerated 104% yoy in 1Q08 (vs. +16% yoy in 1Q07) to USD 55 mln, 15% higher than our expectation. Retail revenues increased by 56% yoy to USD 32 mln, while corporate sales maintained the robust pace achieved last year, soaring up 238% yoy to USD 22 mln.

**Ekvin segment performance**

	1Q07	2007	1Q08	chg yoy	2008E
<b>Sales</b>	<b>27</b>	<b>177</b>	<b>55</b>	<b>104%</b>	<b>253</b>
Retail	21	124	32	56%	175
Corporate	4	39	22	238%	59
PC assembly, ths units	7	60	11	54%	75
# stores, eop	51	65	66	29%	80
Trading area, sq. m	21,432	25,957	26,997	26%	35,000

Source: Company data, Concorde Capital calculations

**Profitability remains strong**

Over 1Q08, Ekvin's gross profit doubled yoy to USD 6.1 mln (11.1% of sales), EBITDA increased by 5.6 times to USD 1.6 mln (2.9% margin) and net income was positive at USD 0.1 mln (0.2%) vs. a loss of USD 0.3 mln in 1Q07. Given that margins are traditionally lower during the first half of the year, we are quite comfortable with our full-year EBITDA and net margin forecasts of 5.0% and 1.8%, respectively.

**Market favors Ekvin's core segment**

Ekvin's computers and related products, with a 77% yoy increase to USD 35 mln, remained the company's fastest growing segment. The continued retail boom in laptops and rapidly expanding demand from the corporate segment supported the growth.

**Ekvin's product mix**

	1Q07		1Q08		
	USD mln	% of total	USD mln	% of total	chg, yoy
Computers	11.1	34%	19.3	34%	74%
<i>desktops</i>	6.7	20%	11.3	20%	70%
<i>laptops</i>	4.4	13%	8.0	14%	82%
Peripherals	8.7	26%	15.6	27%	79%
Audio-video	5.3	16%	9.1	16%	72%
Household appliances	6.0	18%	10.3	18%	72%
Mobile phones & cameras	2.0	6%	3.0	5%	52%
<b>Total</b>	<b>33.0</b>	<b>100%</b>	<b>57.2</b>	<b>100%</b>	<b>74%</b>

Source: Company data, Concorde Capital calculations

**Valuation**

KVIN still trades at unjustified discounts of 11%, 29% and 42% on EV/S '08E, EV/EBITDA '08E and P/E '08E to M.Video, the only other traded CE retailer in the CIS. Ekvin also trades at a 13% discount to global peers on EV/S '08E, while premiums of 20-52% on EV/EBITDA and P/E multiples are set to evaporate over 2008-10 due to expected 3x higher earnings growth. We confirm our target of USD 170 per share (51% upside).

**Key financials & ratios, USD mln**

	Net Revenue	Gross profit	EBITDA	Net income	EV/S	EV/EBITDA	P/E
2007	177	25	9.1	2.4	0.6	11.5	37.7
2008E	253	38	12.6	4.6	0.4	8.6	19.7
2009E	344	55	17.2	7.2	0.3	6.9	12.6

Spot exchange rate: 5.05 UAH/USD

## Relative valuation

Company	Price, USD	MCap, USD mln	EV/S			EV/EBITDA			P/E		
			2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E
Ekvin	112.5	90.5	0.6	0.4	0.3	11.5	8.6	6.9	37.7	19.7	12.6
<b>RUSSIAN PEERS</b>											
M.Video	7.5	1,348	0.7	0.5	0.4	16.8	12.1	8.6	56.4	34.0	15.9
<b>GLOBAL PEERS</b>											
Gome Electrical Appliances	2.3	7,351	1.2	0.9	0.7	23.6	16.4	12.5	49.6	24.3	18.4
Fone Zone Ggroup	0.6	82	0.3	0.2	0.2	3.4	3.0	2.7	7.9	6.2	5.4
JB HI-FI	9.3	980	1.1	0.6	0.5	18.3	10.7	8.9	30.9	17.7	14.6
Avenir Telecom	2.2	207	0.3	0.4	0.4	4.8	9.0	7.3	18.1	7.8	7.3
Best Buy	43.9	18,061	0.4	0.4	0.4	6.3	6.2	6.3	12.8	13.0	13.3
DSG International	1.4	2,422	0.1	0.1	0.1	2.7	3.3	3.4	6.4	8.2	9.4
Elektroniki Athinon	10.8	186	0.7	0.4	0.4	9.2	5.2	4.8	19.3	13.1	11.4
Kesa Electricals	4.3	2,283	0.3	0.3	0.2	4.9	4.9	4.0	14.3	10.1	9.8
Mobilizezone Holding	7.4	265	0.9	0.8	0.7	8.2	7.0	6.3	16.9	13.5	12.2
Rex Stores	16.0	172	0.4	0.7	0.6	8.3	7.2	5.8	5.1	5.9	14.7
Radioshack	15.0	1,968	0.4	0.4	0.4	3.9	3.7	3.4	8.3	9.6	7.9
Plaisio Computers	12.2	269	0.5	0.5	0.4	10.3	8.9	10.1	19.9	22.9	14.1
Staples	22.7	15,898	0.8	0.8	0.7	8.2	7.8	7.4	16.0	15.6	15.8
<b>Average</b>			<b>0.6</b>	<b>0.5</b>	<b>0.4</b>	<b>8.6</b>	<b>7.2</b>	<b>6.4</b>	<b>17.3</b>	<b>12.9</b>	<b>11.9</b>
<b>Ekvin price, USD</b>											
Implied by M Video			132.7	129.8	137.6	171.4	170.3	149.3	168.4	194.8	142.0
<i>Upside/(Downside)</i>			<i>18%</i>	<i>15%</i>	<i>22%</i>	<i>52%</i>	<i>51%</i>	<i>33%</i>	<i>50%</i>	<i>73%</i>	<i>26%</i>
Implied by global peers avg			110.0	132.7	159.0	80.3	89.8	102.4	51.8	73.9	106.3
<i>Upside/(Downside)</i>			<i>-2%</i>	<i>18%</i>	<i>41%</i>	<i>-29%</i>	<i>-20%</i>	<i>-9%</i>	<i>-54%</i>	<i>-34%</i>	<i>-6%</i>

## Financial Statements, UAS

### Income Statement Summary, USD mln

	2006	1Q07	2007	1Q08	2008F	2009F	2010F	2011F	2012F
<b>Net Revenues</b>	<b>115</b>	<b>27</b>	<b>177</b>	<b>55</b>	<b>253</b>	<b>344</b>	<b>427</b>	<b>501</b>	<b>562</b>
<i>Change y-o-y</i>	27%	16%	54%	104%	43%	36%	24%	18%	12%
Cost Of Sales	(101)	(24)	(152)	(49)	(215)	(289)	(354)	(411)	(456)
Gross Profit	14	3	25	6	38	55	73	90	107
<i>Gross margin %</i>	12%	12%	14%	11.0%	15.0%	16.0%	17.0%	18.0%	19.0%
Other Op. Income/ Costs. Net	(0.3)	0	0.6	0	-	-	-	-	-
SG&A	(11)	(3)	(16)	(5)	(25)	(38)	(51)	(65)	(79)
<b>EBITDA</b>	<b>2</b>	<b>0.3</b>	<b>9</b>	<b>1.6</b>	<b>13</b>	<b>17</b>	<b>21</b>	<b>25</b>	<b>28</b>
<i>EBITDA margin. %</i>	2.1%	1.0%	5.1%	2.9%	5.0%	5.0%	5.0%	5.0%	5.0%
Depreciation	(1)	0	(2)	(1)	(1)	(1)	(1)	(1)	(1)
<b>EBIT</b>	<b>1</b>	<b>0.0</b>	<b>7</b>	<b>1.1</b>	<b>12</b>	<b>16</b>	<b>20</b>	<b>24</b>	<b>27</b>
<i>EBIT margin. %</i>	1.2%	0.0%	3.7%	2.0%	4.7%	4.8%	4.8%	4.8%	4.8%
Interest Expense	(4)	0	(2)	(1)	(6)	(7)	(8)	(9)	(8)
Financial income	-	0	-	0	-	-	-	-	-
Other income/(expense)	-	0	-	0	-	-	-	-	-
<b>PBT</b>	<b>(2)</b>	<b>(0.3)</b>	<b>4</b>	<b>0.1</b>	<b>6</b>	<b>9</b>	<b>12</b>	<b>16</b>	<b>19</b>
Tax	-	-	(1)	-	(1)	(2)	(2)	(3)	(4)
Extraordinary income/(loss)	-	-	(1)	-	-	-	-	-	-
<b>Net Income</b>	<b>(2.4)</b>	<b>(0.3)</b>	<b>2.4</b>	<b>0.1</b>	<b>4.6</b>	<b>7.2</b>	<b>9.7</b>	<b>12.4</b>	<b>15.3</b>
<i>Net Margin. %</i>	-2.1%	-1.2%	1.3%	0.2%	1.8%	2.1%	2.3%	2.5%	2.7%

### Balance Sheet Summary, USD mln

	2006	1Q07	2007	1Q08	2008F	2009F	2010F	2011F	2012F
<b>Current Assets</b>	<b>34</b>	<b>27</b>	<b>59</b>	<b>58</b>	<b>75</b>	<b>99</b>	<b>122</b>	<b>143</b>	<b>159</b>
Cash & Equivalents	3	1	11	3	12	14	17	20	22
Trade Receivables	7	2	6	5	13	17	21	25	28
Inventories	20	20	33	35	44	60	73	85	94
Other current assets	4	4	9	15	6	9	11	13	14
<b>Fixed Assets</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>35</b>	<b>40</b>	<b>43</b>	<b>46</b>	<b>47</b>
PP&E, net	21	21	21	21	34	38	41	44	44
Other Fixed Assets	1	1	1	2	2	2	2	2	2
<b>Total Assets</b>	<b>56</b>	<b>49</b>	<b>81</b>	<b>80</b>	<b>110</b>	<b>139</b>	<b>165</b>	<b>188</b>	<b>206</b>
<b>Shareholders' Equity</b>	<b>11</b>	<b>11</b>	<b>23</b>	<b>23</b>	<b>28</b>	<b>35</b>	<b>45</b>	<b>57</b>	<b>73</b>
Share Capital	0	0	9	9	9	9	9	9	9
Reserves and Other	11	10	13	13	19	26	36	48	63
<b>Current Liabilities</b>	<b>25</b>	<b>19</b>	<b>46</b>	<b>41</b>	<b>76</b>	<b>97</b>	<b>114</b>	<b>124</b>	<b>126</b>
ST Interest Bearing Debt	0	1	12	13	26	33	39	39	34
Trade Payables	23	16	30	25	47	61	71	80	87
Accrued Wages	0	0	0	0	-	-	-	-	-
Accrued Taxes	0	0	0	0	-	-	-	-	-
Other Current Liabilities	2	2	4	4	3	3	4	5	6
<b>LT Liabilities</b>	<b>19</b>	<b>20</b>	<b>12</b>	<b>17</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>
LT Interest Bearing Debt	19	20	12	17	7	7	7	7	7
Other LT	0	0	0	0	-	-	-	-	-
<b>Total Liabilities &amp; Equity</b>	<b>56</b>	<b>49</b>	<b>81</b>	<b>80</b>	<b>110</b>	<b>139</b>	<b>165</b>	<b>188</b>	<b>206</b>

### UAH/USD Exchange Rates

	2006	1Q07	2007	1Q08	2008F	2009F	2010F	2011F	2012F
Average	5.05	5.05	5.05	5.05	5.00	5.00	5.00	5.00	5.00
Year-end	5.05	5.05	5.05	5.05	5.00	5.00	5.00	5.00	5.00

Source: Company data, National Bank, Concorde Capital estimates

# Appendix – Disclosures

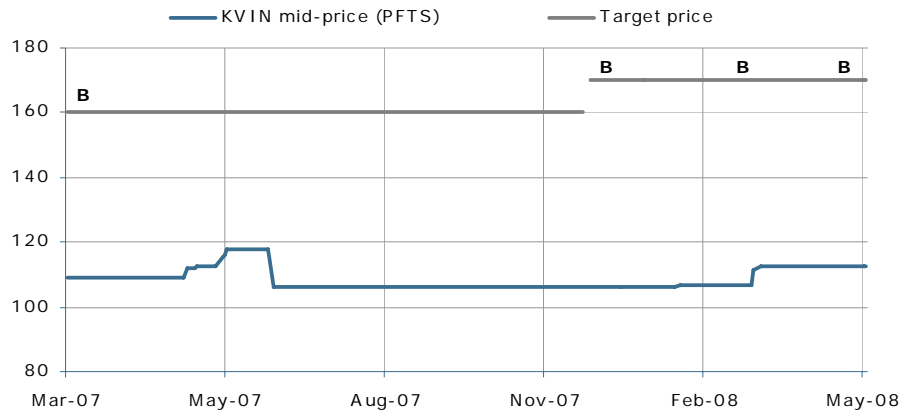
## Analyst certification

I, Alexander Viktorov, 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.

### Ekvin

Date	12M target price, USD	Market price, USD	Rating	Action
07-Mar-07	160	109	BUY	Initiating
11-Dec-07	170	106	BUY	Maintain
07-Mar-08	170	111.5	BUY	Maintain
12-May-08	170	112.5	BUY	Maintain

### KVIN, USD per share



## 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	50	44%
Hold	24	21%
Sell	20	18%
Under Review	19	17%
Total	113	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.

**Concorde Capital**  
**2 Mechnikova Street**  
**21st Floor**  
**Kyiv 01601, UKRAINE**

**Tel.: +380 44 391 5577**  
**Fax: +380 44 391 5571**  
**www.concorde.com.ua**  
**office@concorde.com.ua**

**CEO**

Igor Mazepa

im@concorde.com.ua

**Head of Equity Sales**

Roman Nasirov

rn@concorde.com.ua

**Equity Sales**

Anastasiya Nazarenko

Duff Kovacs, CFA

Marina Martirosyan

Andriy Supranonok

an@concorde.com.ua

dk@concorde.com.ua

mm@concorde.com.ua

sap@concorde.com.ua

**Director of Research**

Konstantin Fisun, CFA

kf@concorde.com.ua

**RESEARCH COVERAGE BY SECTOR**

**Strategy**

Konstantin Fisun

Oleksandr Klymchuk

kf@concorde.com.ua

ok@concorde.com.ua

**Metals & Mining**

Eugene Cherviachenko

Andriy Gerus

ec@concorde.com.ua

ga@concorde.com.ua

**Utilities (Telecom, Energy)**

Alexander Paraschiy

ap@concorde.com.ua

**Oil & Gas, Chemicals**

Vladimir Nesterenko

vn@concorde.com.ua

**Consumer/Real Estate Group**

Andriy Gostik, CFA

Olha Pankiv

Alexander Romanov

Anna Dudchenko

ag@concorde.com.ua

op@concorde.com.ua

ar@concorde.com.ua

ad@concorde.com.ua

**Machinery**

Eugene Cherviachenko

Inna Perepelytsya

ec@concorde.com.ua

pi@concorde.com.ua

**Financial Services, Retail**

Alexander Viktorov

av@concorde.com.ua

**Macroeconomics**

Polina Khomenko

pk@concorde.com.ua

**Fixed Income**

Oleksandr Klymchuk

ok@concorde.com.ua

**News/Production**

Polina Khomenko

pk@concorde.com.ua

**Editor**

Brad Wells

bw@concorde.com.ua

**Disclaimer**

This report has been prepared by Concorde Capital investment bank for informational purposes only. Concorde Capital does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that Concorde Capital might have a conflict of interest that could affect the objectivity of this report.

Concorde Capital, its directors and employees or clients might have or have had interests or long /short positions in the securities referred to herein, and might at any time make purchases and/or sales in them as a principal or an agent. Concorde Capital might act or has acted as a market-maker in the securities discussed in this report. The research analysts and/or corporate banking associates principally responsible for the preparation of this report receive compensation based upon various factors, including quality of research, investor/client feedback, stock picking, competitive factors, firm revenues and investment banking revenues.

Prices of listed securities referred to in this report are denoted in the currency of the respective exchanges. Investors in financial instruments such as depository receipts, the values or prices of which are influenced by currency volatility, effectively assume currency risk.

Due to the timely nature of this report, the information contained might not have been verified and is based on the opinion of the analyst. We do not purport this document to be entirely accurate and do not guarantee it to be a complete statement or summary of available data. Any opinions expressed herein are statements of our judgments as of the date of publication and are subject to change without notice. Reproduction without prior permission is prohibited. © 2008 Concorde Capital