

Equity strategy

Short-term trading ideas

BUY UTLM, SELL UX Index on Tuesday

Given our outlook on a probable Wednesday announcement regarding Ukrtelecom privatization, we recommend buying Ukrtelecom today and simultaneously shorting the UX index to hedge market risk. Following a ten-year history of rumors regarding Ukrtelecom privatization, an official announcement should put an end to uncertainty and trigger upward movement in the stock.

Centrenerg: 1M horizon

From a technical analysis standpoint, the stock's support and resistance levels are close to intersecting. We recommend betting that the stock will break through the resistance level and buying Centrenerg with a sell stop at UAH 11. Third quarter financials are scheduled for release between 23-26 October, and we expect positive results with an EBITDA margin of approximately 8% for 9M10. Fundamentally, Centrenerg is one of the most undervalued liquid stocks in the Ukrainian universe with a target price of UAH 22 per share (upside of 85%).

One-week performance of October 6 short-term recommendations

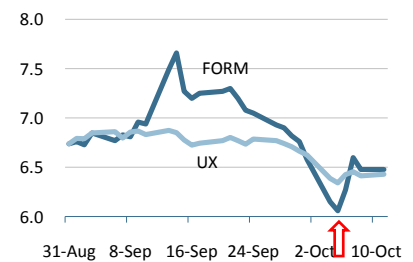
Last week on Wednesday, Oct 6th, we recommended buying FORM at UAH 6-6.1. That price was 8% below the price of UAH 6.6-6.7 at which minority shareholders can sell the stock back to the Bank should they vote against a charter increase at the October 14th EGM. By taking a position in FORM stock, an investor would have effectively gone long not only the stock, but an in-the-money put with a strike price of UAH 6.6-6.7. We assumed FORM's market price would approach the UAH 6.6-6.7 level by the EGM on October 14th, hence providing short-term 8% upside potential. From October 6th – October 7th, the stock gained 8% and closed at UAH 6.6 on Thursday, outperforming the UX index (+1.8% over those two days). Today FORM is trading at UAH 6.43 per share.

Report date	12 October 2010
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Bloomberg	UTLM UK
Reuters	UTLM=UA
Recommendation	Spec. BUY
Price (12 Oct 10), USD	0.069
No of shares, mln	18 726
Market Cap, USD mln	1 287.5
52-week performance	16%
52-week range, USD	0.05458/0.1026
Free float, %	7%
Free float, USD mln	90

Bloomberg	CEEN UK
Reuters	CEEN=UA
Recommendation	BUY
Price (12 Oct 10), USD	1.50
12M price target, USD	2.6
No of shares, mln	369.4
Market Cap, USD mln	554.1
52-week performance	18%
52-week range, USD	1.16/2.48
Free float, %	21.7%
Free float, USD mln	120

FORM UK, UX Index (rebased as of 31/8/10)



Source: Bloomberg, Concorde Capital

BUY UTLM, SELL UX Index on Tuesday

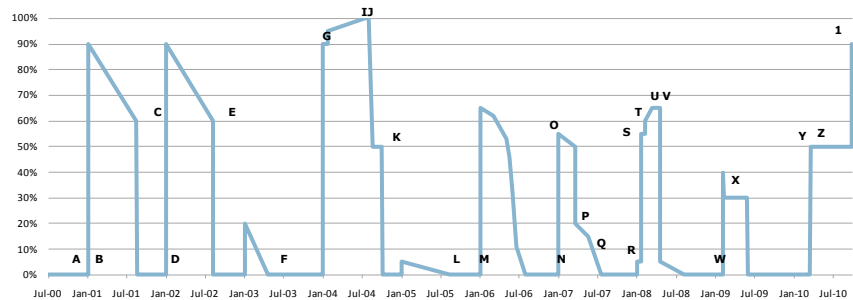
Today, we recommend betting on an October 13th official announcement regarding Ukrtelecom's privatization by buying Ukrtelecom and simultaneously shorting the UX index to hedge market risk.

Though the Cabinet of Ministers issued a decree regarding the Ukrtelecom privatization on 27 September, we still see the privatization story as far from clear. Over the past ten years at least three similar decrees have been issued, but no official announcement of privatization has been forthcoming. Thus, any subsequent tangible movements on privatization (an official announcement, clear and official information regarding privatization conditions, and/or the privatization price) should unlock the fundamental value of the stock.

The procedure for making an official privatization announcement requires publication in the State Property Fund's official newsletter, *Vedomosti Privatizacii*, which is published every Wednesday. Publication must occur 75 days prior to the date of the privatization auction. If the official announcement comes this Wednesday, the auction will be held on 20 December, the last possible day before the Christmas and New Year holidays. Given that Ukrtelecom is the only asset scheduled for privatization that would allow the government to meet its budgetary privatization target of UAH 10 bln this year, we see a very strong chance of an announcement tomorrow. If not this Wednesday, we believe that no announcement will be forthcoming earlier than 10 November (to avoid the auction date falling during the New Year holidays).

To hedge market risk, we recommend shorting the UX index.

History of Ukrtelecom's privatization mood*



* Subjective probability that the company will be privatized in the current year
Source: Mass media, Concorde Capital

Legend

A	8-Aug-00	President signs law on UTEL privatization
B	16-Nov-00	Cabinet sets deadline for privatization for Dec. '01
C	16-Aug-01	SPF postpones privatization until 2002
D	6-Dec-01	SPF declares its plan to sell 37% in 2002
E	7-Aug-02	Cabinet postpones privatization until 2003
F	16-Apr-03	President orders preparation for privatization - deadline is '04
G	21-Jan-04	SPF sets target to privatize 42.9% in 2H04
H	15-Jul-04	Privatization commission sets deadline - Oct. '04
I	29-Jul-04	Cabinet approves conditions for 42.9% privatization, deadline - Sep. 30, '04
J	19-Aug-04	President bans privatization before October
K	Oct-Dec 04	"Orange revolution" - privatization plans are frozen
L	10-Aug-05	Cabinet includes UTEL in the list of the companies to be privatized in 2006
M	5-Nov-05	Cabinet starts preparations for privatization, scheduled for 2006
N	6-Dec-06	Parliament included UTEL in 2007 privatization list
O	21-Mar-07	SPF announces plan to place 5%-10% on stock exchanges
P	17-May-07	SPF announces starting price for placements - implied MCap USD 4.3 bln
Q	May-Jul 07	Series of placements failures
R	21-Jan-08	Cabinet includes UTEL in privatization list; deadline - 1 Nov. '08
S	6-Feb-08	Cabinet decides to privatize 67.8%
T	10-Mar-08	PM Tymoshenko forecasts privatization will be complete by July '08
U	9-Apr-08	Cabinet approves privatization plan and starting price @ USD 3.5 bln MCap
V	18-Apr-08	SPF head Semenuik (supported by President) declares she is against privatization
W	2-Feb-09	PM Tymoshenko announces privatization for May-June 2009
X	10-Feb-09	President Yuschenko says he will do his best to prevent privatization
Y	18-Mar-10	Vice Prime-Minister Serhiy Tygypko states privatization will happen this year
Z	25-Mar-10	SPF head confirms privatization plans for Ukrtelecom in 2010
1	27-Sep-10	Government transfer Ukrtelecom to SPF for privatization

Source: Mass media, Concorde Capital

Centrenerg: 1M horizon

The stock is currently in a bear triangle with support and resistance levels intersecting in early November. We recommend betting that the stock will break through the resistance level and buying Centrenerg with a sell stop at UAH 11. Third quarter financials are scheduled for release between 23-26 October, and we expect positive results with EBITDA margin at approximately 8% for 9M10.

Fundamentally, Centrenerg is one of the most undervalued liquid stocks in the Ukrainian universe with a target price of UAH 22 per share (upside of 85%). For more details, please refer to our note «Power Generators: Opportunity in a Rising Price Environment» from 7 September 2010.

CEEN, UAH per share



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