CONCORDE CAPITAL

Ukraine | Equity Research
Utilities
Sector Update

Ukrainian Power Generators

Opportunity in a rising price environment

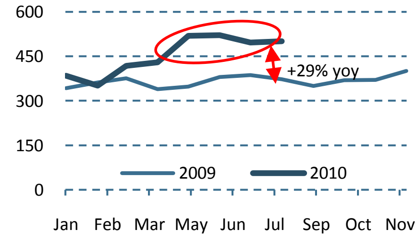
Report date	7 Sept 2010

Company name	Ticker	Rec.
Centrenergo	CEEN UK	**BUY**
Dniproenergo	DNEN UK	**BUY**
Donbasenergo	DOEN UK	**BUY**
Zakhidenergo	ZAEN UK	**HOLD**

Market capitalization, USD mln	
Centrenergo	638.4
Dniproenergo	811.6
Donbasenergo	205.5
Zakhidenergo	854.4

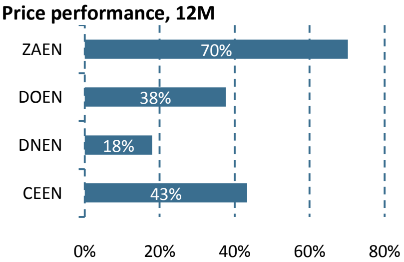
Free float	%	USD mln
Centrenergo	21.7%	138.5
Dniproenergo	2.45%	19.9
Donbasenergo	14.2%	29.2
Zakhidenergo	10%	85.4

Electricity price, UAH per MWh



Source: Energorynok

Price performance, 12M



Source:UX

Event: electricity prices and output rise

After keeping electricity prices artificially low since autumn 2008, the National Electricity Regulatory Commission has loosened its grip since May and allowed generators to increase prices. Since May, thermal generators have sold power at an average UAH 500 (USD 63) per MWh, which is 36% above the average 2009 price and a 29% y-o-y increase as of August 31. By end-July, electricity output had also increased by 10% y-o-y.

Implication: 2Q10 margins climb into double-digits

In the second quarter, generating companies improved their EBITDA margins by 17-21 pp q-o-q thanks to the electricity price hikes. However, we anticipate a moderate 5% correction in the electricity price over 2H10 and forecast EBITDA margins to end the year in the 0% -10% range.

2Q10 generating company financials, UAH mln

	Revenue	Change in revenue y-o-y	EBITDA	EBITDA margin	Change in margin q-o-q
Centrenergo	1,193	40%	191	16%	20 pp
Dniproenergo	1,233	54%	281	23%	18 pp
Donbasenergo	623	61%	27	4%	17 pp
Zakhidenergo	1,035	16%	129	12%	21 pp

Source: State Securities & Exchange Commission

Risks: reform timetable still not set

The industry's regulatory structure remains uncertain, subject to much government caprice. Though the current price environment is favorable, the outlook could deteriorate should steel prices decline or economic growth reverse, both of which would put pressure on the government to restore subsidies. Market reforms (liquidation of the one-pool model and move to bilateral contracts with a balancing market) anticipated following the elections in January also have yet to materialize. With high electricity prices, however, the government should be motivated to effect the reforms necessary to create a more efficient generating and pricing structure.

Valuation: DOEN , CEEN and DNEN rated as Buys

We combine the results of an economic profit-based valuation model with the results of a comparative valuation to arrive at our target prices. **Our top picks are Donbasenergo**, the cheapest stock based on EV/capacity with a potential upside of 161%, **and Centrenergo**, the most liquid name in the sector with a potential upside of 61%. We also recommend Dniproenergo with a target price of USD 200 per share and upside of 47% to investors willing to invest in a less liquid name.

Valuation summary, USD per share

	Current Price	Implied Price EV/Capacity	Implied Price EP model	12M target price	Upside	Rec.
Centrenergo	1.7	2.6	3.0	2.8	61%	BUY
Dniproenergo	136.0	208.1	236.9	200	47%	Spec. BUY
Donbasenergo	8.7	23.8	21.6	22.7	161%	BUY
Zakhidenergo	66.8	71.7	76.8	74.3	11%	HOLD

Source: Bloomberg, Concorde Capital

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Margins return to double digits in 2Q

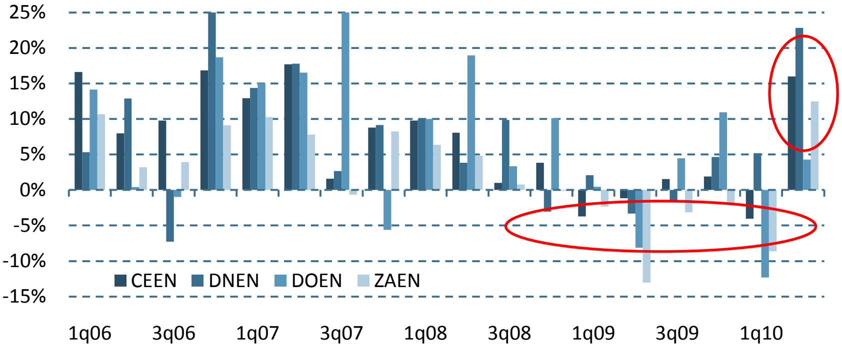
In the second quarter, generation companies across the board increased EBITDA margins by 17-21 pp over the previous quarter. Rising margins came primarily from a 28% q-o-q increase in the electricity price from UAH 360-420 per MWh in 1Q10 to UAH 500-520 per MWh.

2Q10 GenCo financial results, UAH mln

	Sales	Change in sales y-o-y	EBITDA	EBITDA margin	Change in margin q-o-q
Centrenergo	1,193	40%	191	16%	20pp
Dniproenergo	1,233	54%	281	23%	18pp
Donbasenergo	623	61%	27	4%	17pp
Zakhidenergo	1,035	16%	129	12%	21pp

Source: State Securities & Exchange Commission

Historical EBITDA margin, by quarter



Source: Company data, Concorde Capital calculations

Upward revision for 2010 forecast

The selling prices for generation companies remained close to UAH 500 per MWh in July and August. We expect no more than a 5% contraction between September and December, and based on that assumption we revise our forecasted 2010 financial results for Ukraine's four traded power generators.

2010E financials, UAH mln

	Sales	Change in sales y-o-y	EBITDA	EBITDA margin	Change in margin q-o-q
Centrenergo	7,053	58%	705	10%	10pp
Dniproenergo	6,696	59%	603	9%	8pp
Donbasenergo	3,500	36%	70	2%	-2pp
Zakhidenergo	5,161	15%	0	0%	+5pp

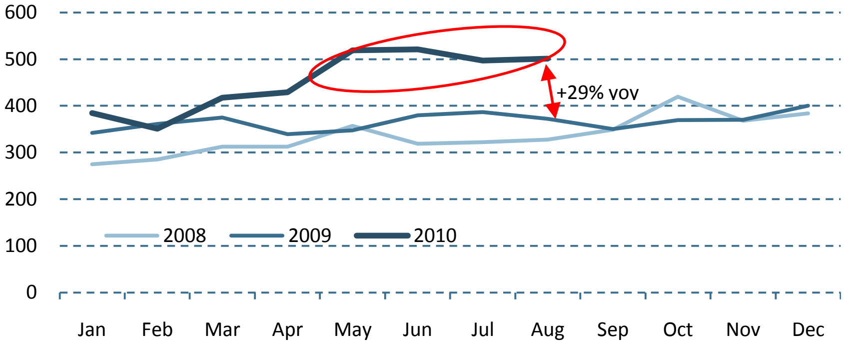
Source: State Securities & Exchange Commission

Electricity prices grow 29% y-o-y

NERC relaxes position on pricing

After keeping prices artificially low since autumn 2008, the National Electricity Regulatory Commission finally allowed an increase from May. Thermal generating companies have sold power at an average UAH 500 (USD 63) per MWh, which is 36% above the average 2009 price and a 29% y-o-y increase as of August 31. At the same time, output had increased by 10% y-o-y at the end of July.

Average price for thermal power producers, UAH/MWh



Source: Energorynok

Given 2Q performance, we expect prices to average UAH 460 per MWh for full year 2010. At this level, we should see a 25% y-o-y increase rather than the 15% rise we previously projected for 2010.

Indicatively, YTD growth in electricity prices is already higher than the NERC projections announced earlier this spring: the wholesale electricity price (price prior to transmission and distribution costs) has grown by 17.2% YTD compared to previously announced expectations of a 15% y-o-y increase.

Subsidies for industrial consumers discontinued

With the economy recovering from the crisis, the government has seemingly abandoned its policy of keeping electricity prices flat at the expense of generators' margins. Removing subsidies for major industrial consumers such as the metals & mining sector, the chemical industry, and railways between April and July was a key factor underlying electricity price growth.

Household tariff: room for growth in 2011

Households account for a quarter of total consumption in Ukraine and household tariffs, the lowest of all electricity prices, have yet to rise. Given upcoming local elections in October, we doubt the government will take any action in this direction, particularly given the 50% hike in gas tariffs in July. With another 50% increase in gas prices scheduled for 1Q11, we believe the first move toward increasing household electricity rates will come only in 2H11 as the government will likely stagger utilities hikes in order to avoid igniting inflation. However, all other factors equal, doubling the household electricity tariff would result in a 10% increase in the wholesale electricity price.

Coal price growth to lag electricity price increases

The average price of coal, the principal fuel utilized by the generation companies covered in this report, is forecasted to grow by only 12% y-o-y in 2010, according to the Ministry of Coal. In our model, we conservatively assume a 15% y-o-y increase. Moreover, since April, state-owned generation companies have been free to buy coal at the lowest available price, contrary to the previous requirement to purchase all coal from state-owned mines. This, in our view, will limit fuel price growth in the medium-term.

Electricity consumption rises 10% y-o-y

Over 7M10, electricity consumption recovered to 2006-07 levels, posting double-digit growth from the low base of 2009. We expect annual consumption to grow by 8.5% y-o-y in 2010 compared to the 11.1% y-o-y growth through July as the base effect diminishes throughout the second half of the year.

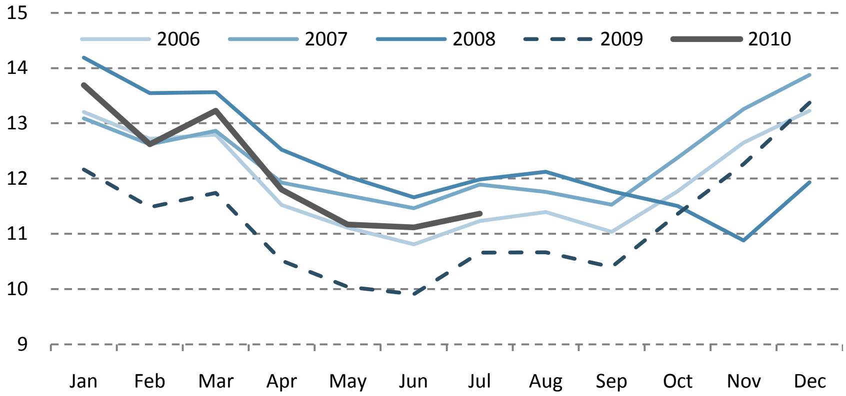
We see two major factors supporting output growth, both of which are likely to continue:

- Industrial output is reviving, and we project 11% y-o-y expansion for 2010. Historically, electricity consumption has increased by around one half of a percentage point for every one percent gain in output. Over 7M10, industrial output grew by 11% y-o-y while industrial electricity consumption jumped by 16% y-o-y. While the increase in industrial consumption may not continue at the same anomalous rate, we nonetheless believe that the output/consumption ratio will continue to be higher than the historical norm. As both gas and labor costs are projected to grow more quickly than electricity prices, we believe a substitution effect has influenced the change in the historical output/consumption ratio.

- Household electricity consumption has steadily grown at approximately 7% CAGR over the last five years, regardless of economic conditions.

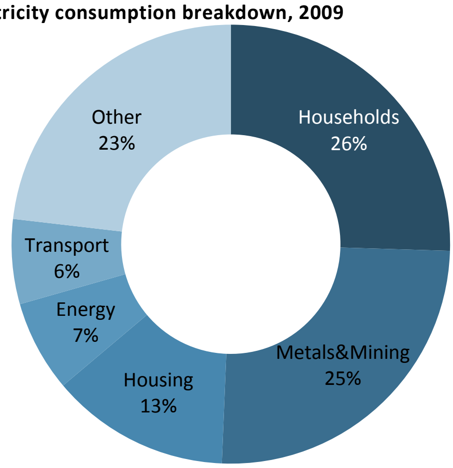
  The recent 50% hike in the gas price for households and heating energy producers (plus an additional 50% rise anticipated in 2011) should also add another 1% to the CAGR in electricity consumption over the next five years as electricity is substituted for increasingly expensive gas used in heating and cooking.

Monthly electricity consumption, TWh



Source: Interfax

Electricity consumption breakdown, 2009



Source: Interfax

Generation asset sale expected to go forward

We see a clear government impetus to privatize all fossil fuel generation companies and liberalize the coal market (all generating companies with the exception of Kyivenergo operate only coal-fired plants), both actions were outlined in the raft of reforms set out by the president in June. According to the plan, all thermal generation companies should be privatized by 2014, while the coal market should be liberalized by 2016 and coal allowed to trade freely on the open market.

The two generation companies likely to be privatized first are Zakhidenergo (70% stake) and Dniproenergo (50% stake): one or both are likely to be auctioned in 4Q10, said State Property Fund spokesman in June. This suggests an effective sale in the first quarter of 2011. Both companies are of interest to local energy giant DTEK, which already controls 11.5% of Zakhidenergo and 47.5% of Dniproenergo.

However, given fiscal pressures from the budget deficit, the government might see fit to move up the timeline in an effort to raise cash, particularly if it is not possible to go forward with the sale of Ukrtelecom, the main asset slated for privatization this year.

Indicatively, in July the government lowered its 2010 privatization revenue target to UAH 6 bln from UAH 10 bln. The new figure is close to the combined market value of the state's stakes in Zakhidenergo and Dniproenergo, but less than the government's estimate of the selling price for a 92% stake in Ukrtelecom. Other planned privatizations are expected to raise no more than UAH 0.5 bln in 2010.

Privatization should increase efficiency and profitability

Across the industry, generation companies universally suffer from high levels of depreciation and depend on outdated and inefficient equipment. With the state unable to finance the level of capital expenditure necessary to modernize generation facilities, privatization is essential to improving efficiency in the Ukrainian power generation sector. As generators are privatized, new owners should be able to make the investments in equipment that will help lower costs while increasing output, thus positively influencing industry profitability.

Risks: Unpredictable government policy and stalled reform

The government continues to control profits

Though 100% of the electricity produced by Ukrainian generation companies is sold on the open market (generators offer power on the market at specified prices for certain levels of demand; the lowest offers are accepted in the quantity necessary to meet demand, and all generators are paid at the highest offer price for the total level of demand). However, despite the open market structure, the government has succeeded in limiting the market price in two ways:

- First, since the government is the majority shareholder in the industry with 81% of generation capacity, state-controlled generation companies are free to submit offers that are lower than their costs, leading to a lower average price.

- Second, the NERC formerly set a price ceiling in order to limit increases. Though this practice has been discontinued, we do not rule out the possibility of the state returning to such a policy.

With government control over the industry pricing structure, most generation companies sold electricity below cost in 2009. Given the 22% drop in industrial output last year, the government was intent on keeping electricity prices flat despite rising fuel costs in order to provide support to the industrial sector.

Though generation companies are currently enjoying a favorable price environment**,** the government's mood could change if steel prices fall (steel producers were the main recipients of government largesse in terms of low electricity prices in 2009) or economic growth reverses.

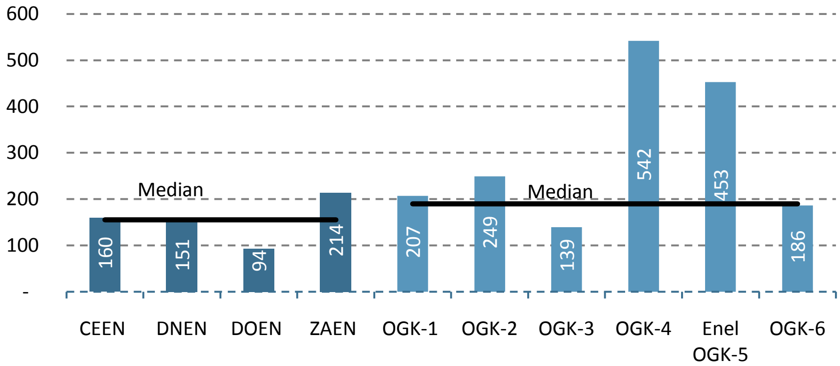
Delayed reform

The lack of political activity on the reform front suggests no consensus exists within the government, which our talks with regulators and sector players confirm. We see the expected privatization of a 50% stake in Dniproenergo and a 70% stake in Zakhidenergo as the main reason behind the slow pace of reform. Without any signs of reform, international portfolio investors will be much less interested in bidding on the stakes, giving an advantage to potential local bidders like DTEK.

Valuation

With regulatory uncertainty and reform lagging, we continue to value generation companies based on a combination of EV/capacity relative to Russian peers and our economic profit model. We favor the latter over a DCF valuation because this method relies on fewer assumptions (which are difficult to make given the high level of uncertainty regarding the future regulatory and reform picture) and averages the negative and positive consequences of government intervention in the sector.

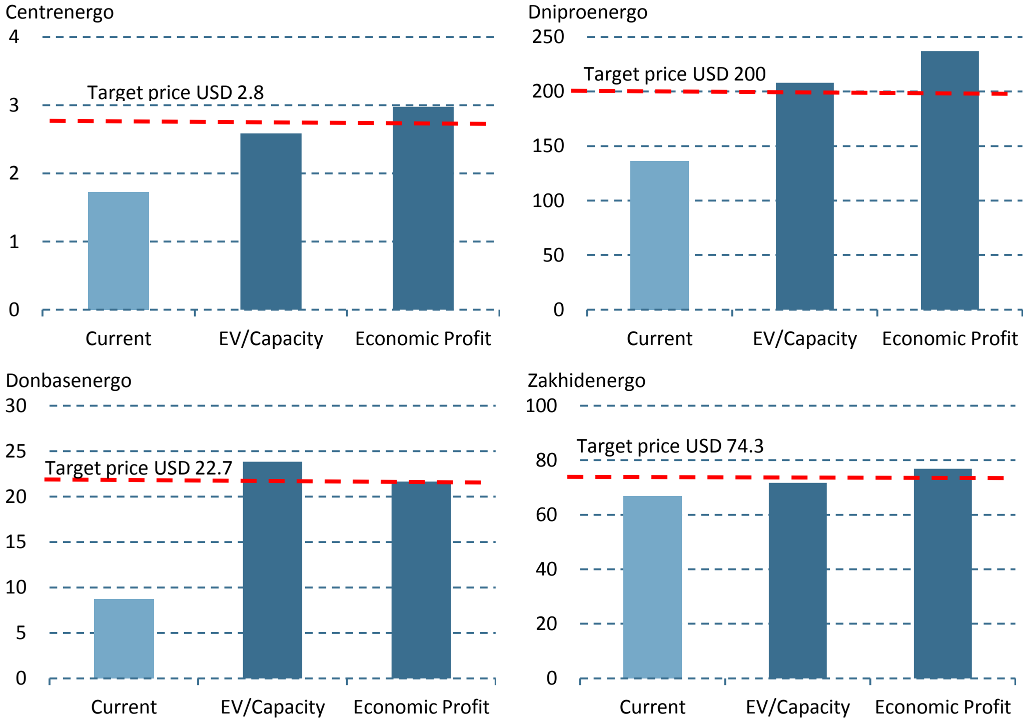
EV/Capacity, USD per kW



** We account for only the coal-fired capacity of Ukrainian GenCos, assuming gas-fired blocks have no value*
Source: Company data, Bloomberg, Concorde Capital

We arrived at our target prices by averaging the results from our economic profit (EP) model and comparative valuation.

Implied price, USD per share



Source: Bloomberg, Concorde Capital

Comparative valuation

Ukrainian generation companies are trading at USD 92-240 EV/kW of installed capacity for discounts of 7-64% to the Russian OGK median and a 70%-90% discount to emerging market peers. We consider comparison to Russian peers appropriate as we believe that the huge upside relative to the EM peer group is not realizable over the medium term given the prohibitive regulatory environment in Ukraine.

However, we believe the discount of liquid Ukrainian power generators relative to Russian peers based on EV/capacity is unjustified because:

- Higher electricity prices in Ukraine (twice prices in Russia) suggest that, other factors held equal, margins even half of Russian generator levels could result in equivalent profit.

- Ukraine’s existing electricity market is ahead of the Russian market, despite 13 years of reform in Russia. One hundred percent of electricity produced by Ukrainian thermal generating companies is sold on the open market (though with regulatory intervention) vs. 80% in Russia.

GenCo market multiples

	EV/S		EV/EBITDA		EV/Capacity	
	2010E	2011E	2010E	2011E	coal-fired	total capacity
CEEN	0.8	0.7	8.2	5.9	159.6	96.4
DNEN	1.0	0.8	12.9	9.8	151.1	106.8
DOEN	0.6	0.5	28.0	11.7	93.5	93.5
ZAEN	1.4	1.1	n/m	34.8	213.8	213.8
Median	**0.9**	**0.7**	**12.9**	**10.8**	**155.3**	**101.6**
OGK-1	1.1	0.9	7.6	5.0		207.1
OGK-2	1.4	1.1	13.3	7.1		249.3
OGK-3	0.9	0.8	11.0	7.6		139.2
OGK-4	2.7	2.0	13.2	7.0		542.1
OGK-5	2.4	1.9	12.8	7.2		453.1
OGK-6	1.1	1.0	14.2	8.7		186.1
Russian peer median	**1.3**	**1.0**	**13.0**	**7.1**		**228.2**

Source: Bloomberg, Company data, Concorde Capital calculations

Present value of economic profit

We continue to value generation companies based on the present value of economic profit (EP), as in our opinion this averages the positive and negative consequences of inconsistent electricity market regulation. We also prefer the EP model to DCF valuation given that the latter method requires a set of assumptions that are extremely difficult to make in the uncertain regulatory environment. The EP model bases company valuation primarily on the value of existing assets.

The basic assumption of our model is that the sum of the present values of economic profits over 2010-2020 is zero, meaning that periods of negative economic profit are offset by profitable periods. Thus, the value of the company is equal to the depreciated replacement cost of assets in 2010 (91-97%) plus the terminal value (3-9%).

Fair value =
= Invested capital in 2010
+ sum of PV of economic profits 2010-2020, taken as zero
+ PV of terminal economic profit

To calculate current invested capital, the main component of the company's value, we look at the replacement costs of coal-fired generation assets. Based on hours worked by each power unit according to the NC ECU, we estimated the depreciation level of assets (see the full description of our methodology in our November 2008 note).

Applying current replacement costs of USD 1,500 per kW,we arrive at the following valuation results.

Valuation results of economic profits, USD mln

	Initial invested capital, 2010	Discounted terminal EP	Implied EV	**Implied EV/Installed capacity**, USD/KW …coal capacity	…total capacity	Implied MCap	Per share, USD	Upside
CEEN	1,073	115	1,188	260	157	1099	3.0	77%
DNEN	1,381	112	1,492	258	182	1414	237	74%
DOEN	535	19	554	210	210	511	22	154%
ZAEN	1,033	36	1,069	232	232	982	77	12%

Source: NC ECU, company data, PFTS, Concorde Capital research

For more details on economic profit model assumptions and the technical condition of assets used in estimating invested capital, refer to our note dated April 8, 2010.

Centrenergo

BUY

Bloomberg: CEEN UK | Reuters: CEEN.PFT

12M target (USD) 2.8

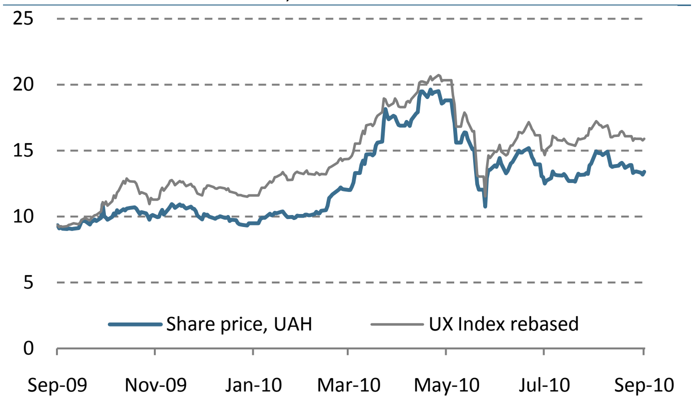
http://www.centrenergo.com/

Upside 61%

INVESTMENT CASE

- Electricity output grew by 27% y-o-y in 1H10, the highest growth among generation companies (average 13% y-o-y). The company was able to offset a 17% decline in output by Zakhidenergo, which resulted from a shortage of bituminous coal on the market
- Revenue grew by 40% y-o-y in 1H10. Both Centerenergo's revenue and output growth rates were the highest in the sector
- EBITDA margin improved to 5% in 1H10 from minus 4% in 1Q10 and zero in 2009, thanks to a 29% q-o-q increase in electricity prices
- CEEN is the most liquid among the GenCo stocks, average monthly trading volume of USD 13.6 mln

SHARE PRICE PERFORMANCE, 12M



Source: Bloomberg

BUSINESS OVERVIEW

Operates three power units located in different regions of Ukraine: Trypillia TPP near Kyiv (installed capacity 1.8 GW, 0.6 GW is gas-fired); Zmiiv TPP near Kharkiv (2.18 GW) and Uglegorsk TPP in Donetsk region (3.6 GW, 2.4 GW is gas-fired). Has the largest share of gas-fired power units among GenCos (almost 40%). Zmiiv TPP's unit #8 is the only fully reconstructed modern unit among GenCos. Considering reconstruction of other units at Zmiiv and Uglegorsk TPPs.

MARKET INFORMATION

Market Price, USD	1.7
52 Wk H/L USD	2.48/1.15
Chg 3m/6m/52w	-3%/11%/43%
Avg M Tr Vol 6M, USD mln	13.6
MCap, USD mln	638.4
Free float	21.70%
FF Mcap, USD mln	138.5
No of shares, mln	369.4
Par Value, UAH	1.3
XETRA	DBG
DR Ratio	1:10

MARKET MULTIPLES

	2010E	2011E
EV/S	0.8	0.7
EV/EBITDA	8.2	5.9
EV/Capacity, USD per kW	159.6	159.6

KEY FINANCIALS, USD mln

	2009	2010E	2011E
Net Revenues	574	892.8	1093.6
EBITDA	-0.2	89.3	124.2
Net Income	-32.1	39.3	63.0
Net debt	90.12	88.7	88.7

KEY RATIOS

	2009	2010E	2011E
EBITDA margin	0%	10%	11%
Net Margin	-6%	4%	6%
ROE	-14%	15%	20%
Net Debt to Equity	41%	34%	28%

STOCK OWNERSHIP

State (NC ECU)	78.3%
Other	21.7%

Dniproenergo

BUY

Bloomberg: DNEN UK | Reuters: DNEN.PFT

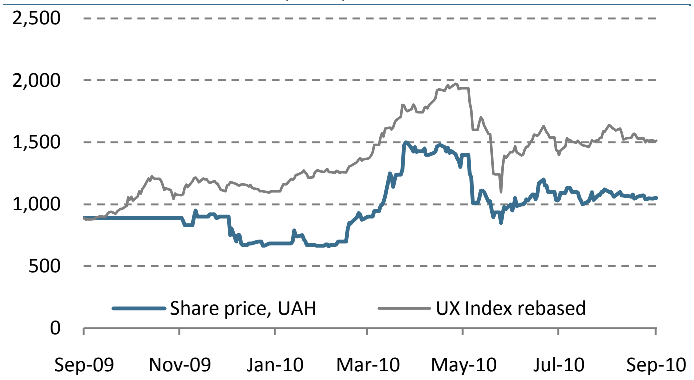
http:// dniproenergo.ua/

12M target (USD)	200
Upside	47%

INVESTMENT CASE

- Candidate for privatization: we expect the state to announce privatization in 1Q11. The potential local bidder, DTEK, already owns 47.5%
- Output grew in line with the market in 1H10: 15% y-o-y growth vs. the 13% y-o-y average
- Most fuel-efficient generating company with only 380 g of fuel equivalent used per kWh compared to sector average of 399 g in 1H10
- Posted a 13% EBITDA margin, highest in the sector, based on low fuel prices in 1H10 (UAH 773 per mt of fuel equivalent vs. the average of 821). We expect the margin to tighten since coal contract prices for 2H10 have increased by 15%
- Least liquid GenCo, with free float limited to 2.45%, or approximately USD 20 mln at current prices
- DNEN trades at a 35% discount to Zakhidenergo, the other 4Q10-1Q11 privatization candidate, which we believe to be temporary since we expect both to be privatized within six months

SHARE PRICE PERFORMANCE, UAH, 12M



Source: Bloomberg

BUSINESS OVERVIEW

Largest GenCo by installed capacity. Operates three power units located in Dnipropetrovsk and Zaporizhya regions: Zaporizhya TPP (installed capacity 3.6 GW, 2.4 GW is gas-fired), Prydniprovsk TPP (1.74 GW) and Kryvyi Rih TPP (2.82 GW). One of two GenCos operating gas-fired power units. Fuel efficiency is the highest in the sector.

MARKET INFORMATION

Market Price, USD	136.0
52 Wk H/L USD	190/84
Chg 3m/6m/52w	11%/17%/18%
Avg M Tr Vol 6M, USD mln	1.1
MCap, USD mln	811.6
Free float	2.45%
FF Mcap, USD mln	19.9
No of shares, mln	6.0
Par Value, UAH	25
XETRA	DPG
DR Ratio	4:01

MARKET MULTIPLES

	2010E	2011E
EV/S	1.0	0.8
EV/EBITDA	12.9	9.8
EV/Capacity, USD per kW	151.1	151.1

KEY FINANCIALS, USD mln

	2009	2010E	2011E
Net Revenues	540	848	1118
EBITDA	5	68	89
Net Income	-30	14	18
Net debt	45	78	78

KEY RATIOS

	2009	2010E	2011E
EBITDA margin	1%	8%	8%
Net Margin	-6%	2%	2%
ROE	-13%	6%	8%
Net Debt to Equity	23%	37%	35%

STOCK OWNERSHIP

State (NC ECU)	50%
DTEK	47.5%
Other	2.5%

Donbasenergo

BUY

Bloomberg: DOEN UK | Reuters: DOEN.PFT

12M target (USD) 22.7

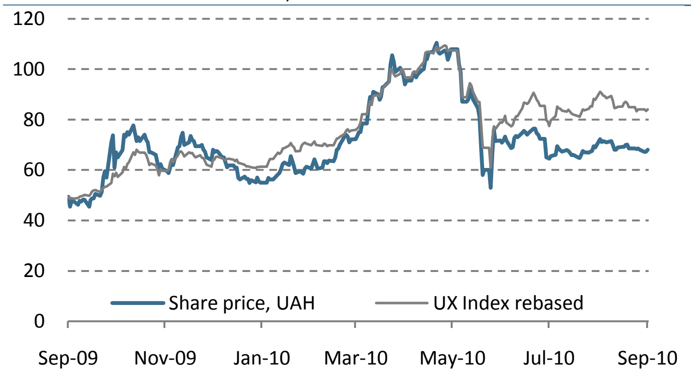
http://www.de.com.ua/

Upside 161%

INVESTMENT CASE

- Output grew in line with the market in 1H10: 15% y-o-y vs. the 13% y-o-y average
- EBITDA margin was minus 5% in 1H10. Profitability suffered due to technical problems with a generating unit, which led to fuel overconsumption and a lower selling price due to instability in production levels
- Cheapest stock by EV/capacity: USD 94 vs. 155 median in the sector
- Located in close proximity to coal mines, which we estimate should make coal approximately 5% cheaper once the coal market is liberalized over the next four years

SHARE PRICE PERFORMANCE, 12M



Source: Bloomberg

BUSINESS OVERVIEW

Smallest thermal generation company in Ukraine - operates two power units located in Donetsk region: Starobeshev TPP (installed capacity 1.78 GW) and Slaviansk TPP (0.88 GW) with a single working power unit.

MARKET INFORMATION

Market Price, USD	8.7
52 Wk H/L USD	14.0/5.8
Chg 3m/6m/52w	-4%/-6%/38%
Avg M Tr Vol 6M, USD mln	3.4
MCap, USD mln	205.5
Free float	14.2%
FF Mcap, USD mln	29.2
No of shares, mln	23.6
Par Value, UAH	10

MARKET MULTIPLES

	2010E	2011E
EV/S	0.6	0.5
EV/EBITDA	28.0	11.7
EV/Capacity, USD per kW	93.5	93.5

KEY FINANCIALS, USD mln

	2009	2010E	2011E
Net Revenues	331	443	543
EBITDA	12	9	21
Net Income	-4	-14	-7
Net debt	72	43	43

KEY RATIOS

	2009	2010E	2011E
EBITDA margin	4%	2%	4%
Net Margin	-1%	-3%	-1%
ROE	-4%	-8%	-4%
Net Debt to Equity	38%	24%	25%

STOCK OWNERSHIP

State (NC ECU)	85.8%
Other	14.2%

Zakhidenergo

HOLD

Bloomberg: ZAEN UK | Reuters: ZAEN.PFT

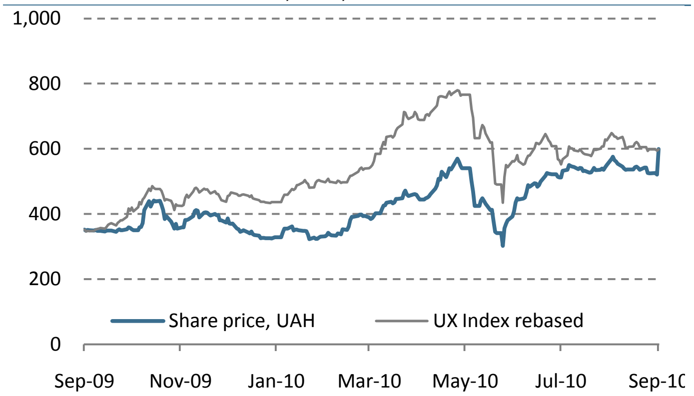
http://www.zakhidenergo.ua/

12M target (USD)	74.3
Upside	11%

INVESTMENT CASE

- Candidate for privatization: we expect the state to announce privatization in 4Q10. Potential local bidder DTEK already owns 11.5% and continues to buy shares on the market
- Only generating company to decrease electricity output in 1H10: minus 17% y-o-y vs. average growth of 13%. The company has been suffering from a bituminous coal shortage since the beginning of the year; 100% of Zakhidenergo's capacity is fueled by bituminous coal
- Electricity export to EU suffered from the combination of low prices in the EU and the high prices for domestic electricity. We do not expect a renewal of exports in the mid-term due to low electricity futures prices in neighboring countries and the low likelihood of domestic price contraction
- ZAEN trades at a small discount of 10% to Russian peers, at USD 214 per kW

SHARE PRICE PERFORMANCE, UAH, 12M



Source: Bloomberg

BUSINESS OVERVIEW

Operates three power units in Western Ukraine: Burstyn TPP (installed capacity 2.3 GW); Dobrotvir TPP (0.6 GW) and Ladyzhyn TPP (1.8 GW). Burshtyn TPP is separated from the energy system of Ukraine and works on the so-called Burstyn Energy Island – an energy system that works in parallel with the UCTE, with monopoly access to export markets in Hungary, Romania and Slovakia. Export capacity is 500-550 MW. Dobrotvir TPP is located near the Polish border and can be connected to the Polish energy system.

MARKET INFORMATION

Market Price, USD	66.8
52 Wk H/L USD	75.8/38.2
Chg 3m/6m/52w	47%/54%/70%
Avg M Tr Vol 6M, USD mln	3.8
MCap, USD mln	854.4
Free float	10.00%
FF Mcap, USD mln	85.4
No of shares, mln	12.8
Par Value, UAH	10
XETRA	WT7
DR Ratio	4:01

MARKET MULTIPLES

	2010E	2011E
EV/S	1.4	1.1
EV/EBITDA	n/m	34.8
EV/Capacity, USD per kW	213.8	213.8

KEY FINANCIALS, USD mln

	2009	2010E	2011E
Net Revenues	574	653	847
EBITDA	-26	0	27
Net Income	-51	-27	-9
Net debt	85	87	87

KEY RATIOS

	2009	2010E	2011E
EBITDA margin	-5%	0%	3%
Net Margin	-9%	-4%	-1%
ROE	-42%	-32%	-11%
Net Debt to Equity	74%	100%	111%

STOCK OWNERSHIP

State (NC ECU)	70.1%
DTEK	11.4%
Other	18.5%

Appendix 1: Economic Profit Model

(A) EV = Invested Capital$_{2010}$ + Sum of discounted EP$_{2010\ to\ perpetuity}$

(B) Invested Capital$_{2010}$ = Value of remaining (net of depreciation) capacity = Adjusted net capacity * (1 - time in operation / full depreciation time) * Replacement cost

Where:

Replacement cost in 2010 is assumed to be 1,500 USD/kW of capacity

Adjusted capacity is ZAEN's total installed capacity, the installed capacity of coal-fired power units at CEEN and DNEN, and DOEN's installed capacity plus Unit 4 at Starobeshev TPP and Unit 7 at Slavyansk TPP both discounted by 25% (for more details, refer to our November2008 report)

full depreciation time is taken as 280,000 hrs of operation

Sum of discounted EP$_{2010\ to\ perp.}$ is estimated based on the assumption that the sum of discounted EPs over 2011-2020 will equal zero , with 1% EP from 2020 onward:

(C) Sum of discounted EP$_{2010\ to\ perp.}$ = 0 + Sum of discounted EP$_{2021\ to\ perp.}$ = Invested capital$_{2021}$ * (ROIC$_{perp.}$-WACC$_{perp.}$) / (WACC$_{perp}$ – Growth$_{perp.}$) * Discount factor

Where:

WACC$_{perp.}$ is assumed to be 12%

ROIC$_{perp.}$ is assumed to be 13%, which implies EP (ROIC less WACC) in perpetuity at 1%

Growth$_{perp.}$ (sustainable growth in perpetuity) is assumed to be 3% p.a.

Discount factor is estimated assuming an 18% WACC over 2010-2021 = 1.18^{-11}

Invested Capital$_{2021}$ is calculated as the fair value of remaining total capacity in 2021 (based on the assumption that remaining capacity will remain unchanged over the next 11 years) multiplied by the ***Replacement Cost*** adjusted for an annual inflation rate of 5% over 2010-2021. Unlike fair value for 2010, this value fully accounts for the gas-fired units at CEEN and DNEN, as well as the units at DOEN:

(D) Invested capital$_{2021}$ = Fair value of equipment$_{2021}$ = Depreciated capacity * 1.500 * 1.05^{11}

(E) Sum of discounted EP$_{2010\ to\ perp.}$ = Fair value of equipment$_{2021}$ * (13%-12%) / (12% – 3%) * 1.18^{-11}

For more details on our assumptions, refer to our November 2008 update on generation companies.

Disclosures

Analyst certification

I, Yegor Samusenko, 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.

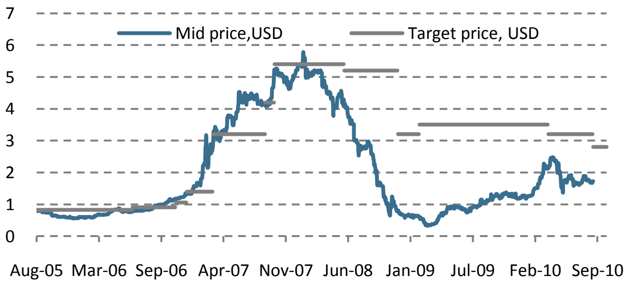
GenCos rating history

Date	**CEEN price**, USD		**DNEN price**, USD		**DOEN price**, USD		**ZAEN price**, USD	
	Closing	Target	Closing	Target	Closing	Target	Closing	Target
13-May-05	0.8	0.8	75	88	4.2	6.8	27.7	29
30-May-05							27.7	30.5
4-Jul-05					4.4	6		
19-Jul-05							24	30.5
26-Sep-05	0.8	0.8	67	99	4.2	6.6	26	34
3-Jan-06	0.5	0.8						
26-Jun-06	0.8	0.9	76	123	5.2	7.4	26.5	34
25-Sep-06							32	34
26-Sep-06					7.2	7.4		
15-Nov-06	1.2	1.1	109	131	7.8	9.6	40	35.4
28-Nov-06	1.2	1.1	109	131	8	9.6	41	35.4
22-Dec-06	1.4	1.4	126	134	8.7	11.3	52.8	41.2
21-Mar-07	2.8	3.2	288	383	17.1	27.6	73.4	94.3
2-Apr-07	3.3	3.2	347	383	21.4	27.6	88.1	94.3
22-Jun-07			400	432				
23-Jul-07			366	432				
31-Aug-07			373	410				
10-Sep-07	4.1	4.2	383	410	27.6	27.6	103.8	94.3
10-Oct-07	5.0	5.4	512	516	32.3	43.2	121.7	130.4
24-Mar-08			424	516				
10-Apr-08			430	516				
28-May-08	4.0	5.2	417	580	23.6	40	89.1	125
27-Jun-08			385	460				
24-Nov-08	0.8	3.2	69	260	4.0	19.3	51.5	88
26-Nov-08	0.8	3.2	70	266	4.0	19.3	53.0	88
03-Feb-09	0.6	3.5	62	284	3.1	22.6	45.7	96.6
24-Mar-09			53	284				
08-Apr-10	2.2	3.2	183	326	12.4	27.0	56.9	86.7
19-Aug-10			133	200				
06-Sep-10	1.7	2.8	136	200	8.7	22.7	66.8	74.3

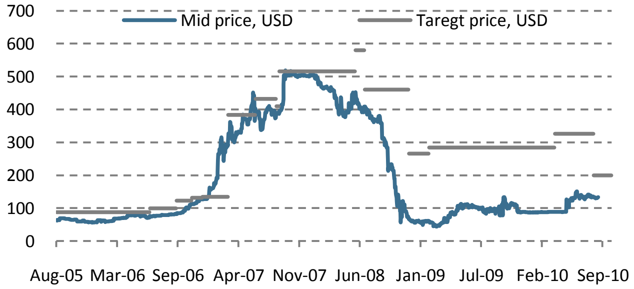
** In July 2009, Yegor Samusenko took over coverage; prior to that point, it was covered by other Concorde analysts.*

Target price history

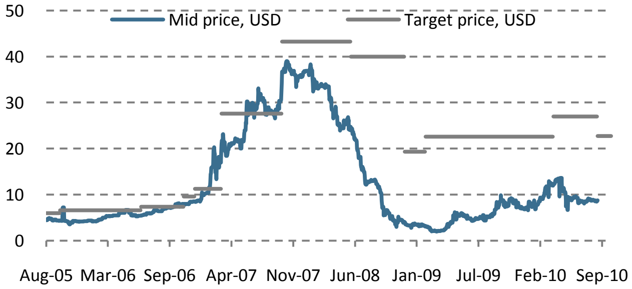
CEEN



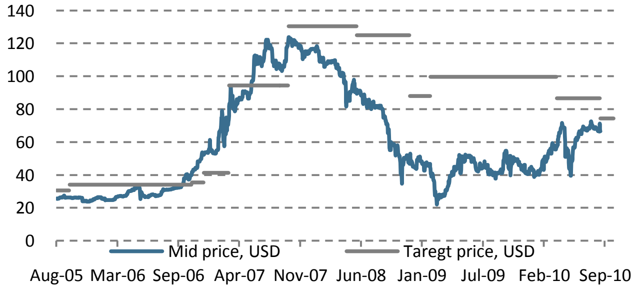
DNEN



DOEN



ZAEN



Source: Bloomberg, Concorde Capital

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.

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