Ukraine / Electricity

GenCos

Post-election power plays

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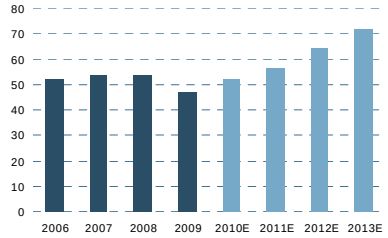
Listed GenCos	Bloomberg ticker
Centrenergo	CEEN UK
Dniproenergo	DNEN UK
Donbasenergo	DOEN UK
Zakhidenergo	ZAEN UK

Market data

	MCap, USD mln	FF, %	FF, USD mln
Centrenergo	797.9	21.7%	173.1
Dniproenergo	1093.6	2.5%	27.3
Donbasenergo	292.9	14.2%	41.6
Zakhidenergo	725.9	18.5%	134.3

Source: Bloomberg, Concorde Capital

Electricity output by listed GenCos, TWh



Source: Energobusiness, Concorde Capital

Revenue, USD mln

	2009	2010E	2011E
Centrenergo	574	694	826
Dniproenergo	540	677	806
Donbasenergo	331	389	464
Zakhidenergo	574	720	857

Source: Company data, Concorde Capital

EBITDA, USD mln

	2009	2010E	2011E
Centrenergo	-0.2	34.7	74.3
Dniproenergo	4.5	40.6	80.6
Donbasenergo	12.5	23.4	46.4
Zakhidenergo	-26.3	14.4	51.4

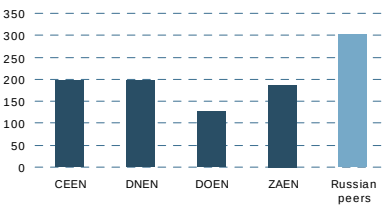
Source: Company data, Concorde Capital

EBITDA margins

	2009	2010E	2011E
Centrenergo	0.0%	5.0%	9.0%
Dniproenergo	0.8%	6.0%	10.0%
Donbasenergo	3.8%	6.0%	10.0%
Zakhidenergo	-4.6%	2.0%	6.0%

Source: Company data, Concorde Capital

EV/Capacity*, USD per kW



** We account for only the coal-fired capacity of Ukrainian GenCos*
Source: Company data, Concorde Capital

Ukrainian power generators move into a post-election Ukraine positioned as early benefactors, with a unified president-Cabinet-parliament finally able to reform the sector and make unpopular tariff hikes. We see 2010 as a transition year for GenCos, with gross margins improving 3-7 pp and total output by 10% yoy. Our top picks are Donbasenergo & Centrenergo.

Political cards indicate reform can begin this year

The arrival of a pro-presidential Cabinet of Ministers and majority coalition in parliament sets the stage for electricity sector reform, which would allow bilateral electricity contracts at liberalized (higher) prices. The reappointment of Sergiy Titenko in late March to head the sector regulator, under whose previous tenure liberalization was first initiated, further fuels expectations. Parliament could adopt the legal framework necessary to setup the first domestic electricity auctions as early as this year.

Election-end clears path for unpopular tariff hike

The end of the presidential election cycle also clears the way for unpopular tariff increases, which we expect to go up 16% this year. GenCos, as a result, could raise their EBITDA margins by 2-6pp yoy to 2%-6% in 2010E, according to our estimates. This would bring a total of USD ~125 mln in additional earnings to the four listed GenCos.

Mid-term demand to double GenCos' capacity utilization

Ukraine's power generators are the key to satisfying growth in domestic electricity demand in the mid-term, which we forecast at 3.3% CAGR in 2010-2019. With limited 15% growth potential in nuclear energy generation, GenCos are poised to double their capacity utilization by 2018.

We recommend BUY on all GenCo stocks

We combine valuation by economic profit model with peer valuation to arrive at our targets. **Our top picks are Donbasenergo**, the only GenCo to increase output in 2009, **and Centrenergo**, the most liquid stock in the sector.

Valuation summary, USD per share

	Current price	Implied by EV/Cap. to OGKs	Implied by EP model	12M target price	Upside	Rec.
Centrenergo	2.2	3.5	3.0	3.2	47%	BUY
Dniproenergo	183.1	283.8	367.4	325.6	78%	BUY
Donbasenergo	12.4	32.2	21.8	27.0	117%	BUY
Zakhidenergo	56.9	96.7	76.7	86.7	52%	BUY

Source: Bloomberg, Concorde Capital

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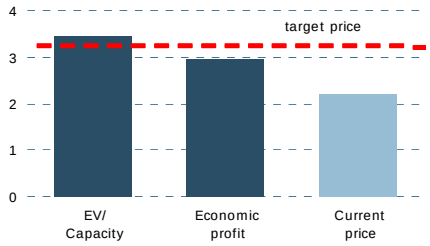
EXECUTIVE SUMMARY

Investment cases

Centrenergo (CEEN UK): BUY

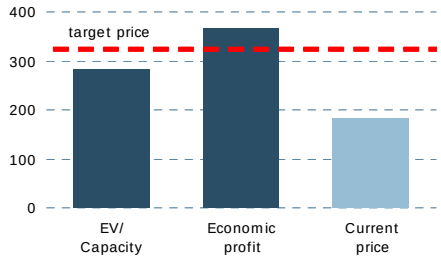
Implied price, USD per share



- Expected 15% increase in electricity price in 2010 should improve EBITDA margin to 5% from 0% in 2009, according to our estimates
- Investment allowance of USD 32 mln approved by NERC in Nov 2009 should help increase EBITDA margin by additional 2 pp in 2010-2015
- Receipt of EUR 150 mln loan from European banks for power unit modernization (6.5% share in total installed capacity) is likely in 2010 after disputes over previous loan are solved. Modernized unit will be 4-8% more cost efficient and work with 1.5-2x higher capacity utilization
- Most liquid GenCo stock, monthly average trading volume amounted to USD 6 mln over the last 6M
- Expensive gas-fired power units, which account for 40% of total installed capacity, have been idle since 2008 due to high gas prices. It has the largest share of gas-fired units among GenCos

Dniproenergo (DNEN UK): BUY

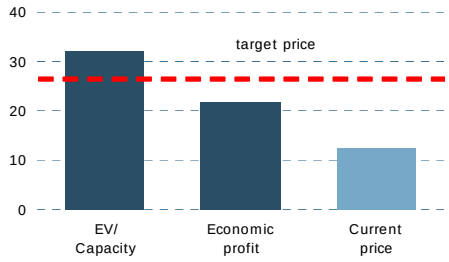
Implied price, USD per share



- Lowest fuel consumption per kWh of electricity produced among coal-fired GenCos (384 g vs. 399 g avg. in 2009)
- Expected 15% increase in electricity price in 2010 should improve EBITDA margin to 6% from 1% in 2009, according to our estimates
- Bituminous coal supplies secured by parent DTEK and abundant anthracite on the domestic market
- Illiquid after DTEK increased its share to 47.5% in 2009 and limited free-float to 2.5%

Donbasenergo (DOEN UK): BUY

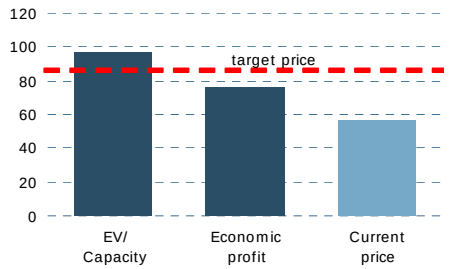
Implied price, USD per share



- Only GenCo to increase output in 2009, 10% yoy vs. the sector aggregate of a 15% yoy decline
- Only GenCo to work purely on anthracite coal, which is available in excess in the long-term. Close location to coal mines allows savings of ~5% in COGS on transportation costs
- Power unit #4, which produces electricity ~20% cheaper than other power units, started working in testing mode in 2H09. Full operation status, expected in May 2010, would allow Donbasenergo to increase output by 15% and reduce electricity production costs by 2% in 2H10
- Expected 15% increase in electricity price in 2010 should improve EBITDA margin to 6% from 4% in 2009, according to our estimates
- Least efficient GenCo by fuel consumption (4-9% more than its peers) per MWh produced

Zakhidenergo (ZAEN UK): BUY

Implied price, USD per share

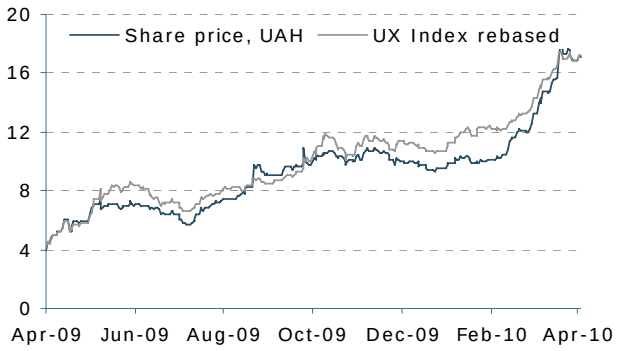


- Expected 15% increase in electricity price in 2010 should improve EBITDA margin to 2% from -5% in 2009, according to our estimates
- Only GenCo connected to EU electricity transmission network, able to benefit from higher margin exports when direct contracts are allowed in two-three years
- Fueled 100% by bituminous coal, which there is forecasted to be insufficient supplies of in Ukraine in the mid-term. This may force Zakhidenergo to import 10-15% of more expensive inputs and limit capacity utilization growth

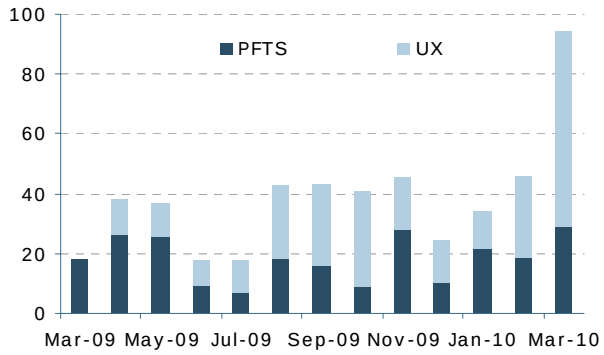
Stock market monitor

Stock performance *Monthly trading volumes, UAH mln*

Centrenergo (CEEN)

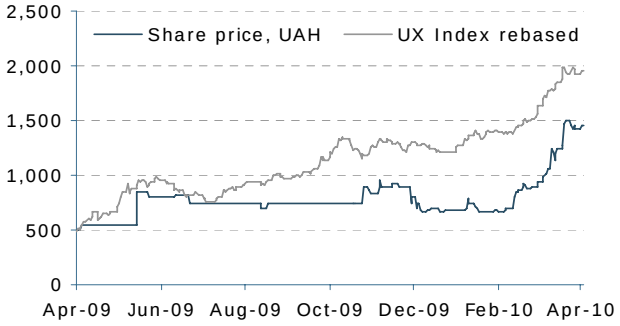


Source: Bloomberg

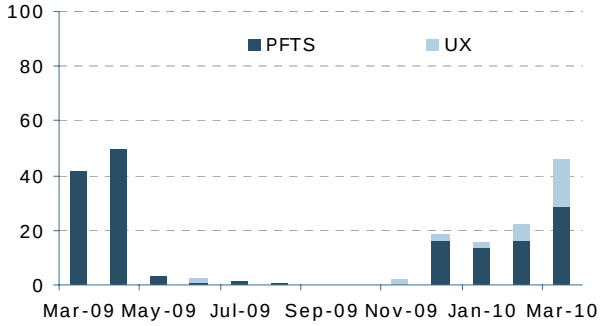


Source: PFTS, UX

Dniproenergo (DNEN)

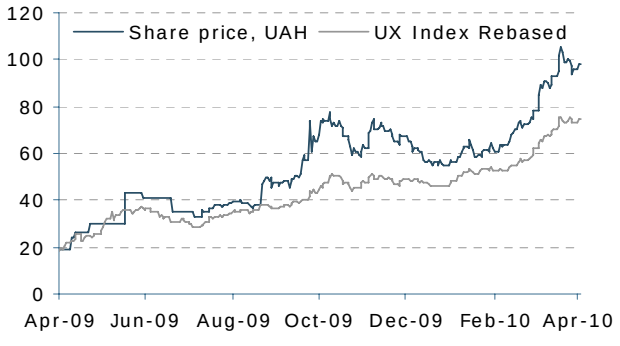


Source: Bloomberg

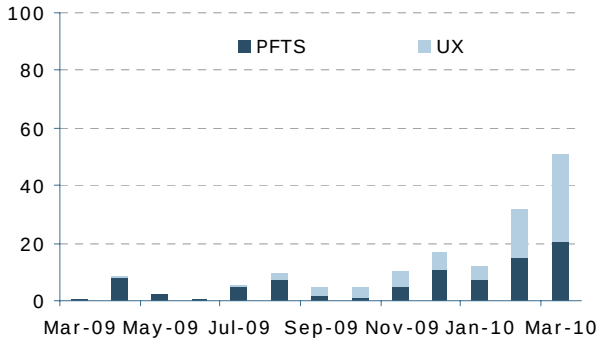


Source: PFTS, UX

Donbasenergo (DOEN)

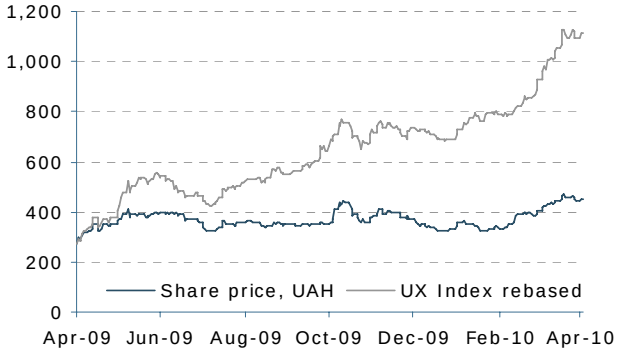


Source: Bloomberg

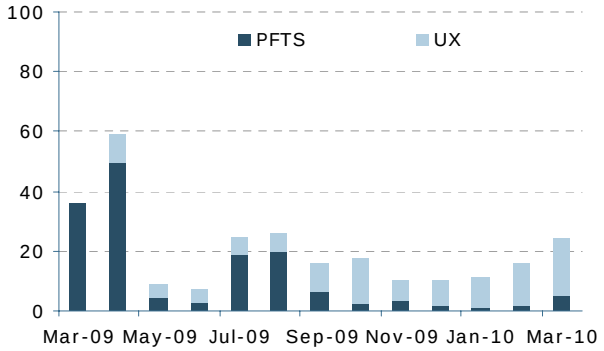


Source: PFTS, UX

Zakhidenergo (ZAEN)



Source: Bloomberg



Source: PFTS, UX

SHORT-TERM OUTLOOK: BACK TO PROFITABILITY

Political stability -> electricity reform?

The installation of a pro-presidential Cabinet of Ministers and majority coalition in parliament in early March sets the stage for changes in the electricity sector, with Ukrainian politicians now finally able to overcome their lack of will and unity to reform.

Yanukovych's team, shortly after his election, seized control of the energy sector in late March. Among the appointments was Sergiy Titenko as head of the sector regulator, the National Electricity Regulation Committee, a position he held in April 2004-March 2005 and February-November 2007. That long-awaited sector reform was first initiated under Titenko's tenure in September 2007 fuels expectations that those plans will be resurrected.

This year parliament could adopt the legal framework necessary for reform and National Electricity Regulation Committee setup the first bilateral contract between electricity producers and consumers, a key step toward the new energy market model.

Key steps in electricity sector reform

- Adoption of the laws "On Electricity Markets", "On State Regulation of Electricity", and "On Electricity" by the Verkhovna Rada of Ukraine
- Introduction of bilateral contracts between electricity producers and electricity consumers (20% in the first year, 40%, 70% and 100% in following years) by NERC
- Liquidation of cross-subsidizing household electricity tariffs at a cost of industrial customers by NERC
- Liquidation of the uniform retail tariff for non-households customers by NERC
- Introduction of day ahead and balancing electricity markets by NERC

Source: National Electricity Regulation Committee

GenCo privatization talked up again by Tigipko

Vice Prime Minister Sergiy Tigipko said in mid-March that the government plans to sell GenCos in 2010, for as much as UAH 10 bln, in order to bolster state budget revenue. Although we remain cautious about political privatization announcements, we see the sales as highly likely in 2011-2012 – we await more formal statements regarding the government's privatization plans.

Factors favoring and opposing privatization in 2010

Favoring	Opposing
• 2010E fiscal deficit of ~6.5% would be the second highest in a decade • Lack of political opposition to privatization vs. 2006-2007 attempts that were thwarted by President Viktor Yushchenko • Lack of state funding to finance the modernization of GenCos (privatization is an attractive way to attract funding for this) • Presence of a local bidder (DTEK) for at least one GenCo (Dniproenergo)	• Rapid privatization could limit the pool of bidders and state revenue from the sale • Bids from potential buyers pre-market reform might be depressed

Higher tariffs, higher profits

We expect GenCos to increase their gross margins 3-7 pp yoy to 1-5% in 2010 thanks to anticipated tariff growth, which should move their EBITDA margins to 2-6%, up 2-6pp yoy. We estimate increased tariffs can add USD ~125 mln in additional earnings to the four listed GenCos, enough to cover their annual maintenance CapEx and preserve the value of their core assets. Last year, GenCos' maintenance CapEx was underfunded by a worrying 40%, according to our estimates.

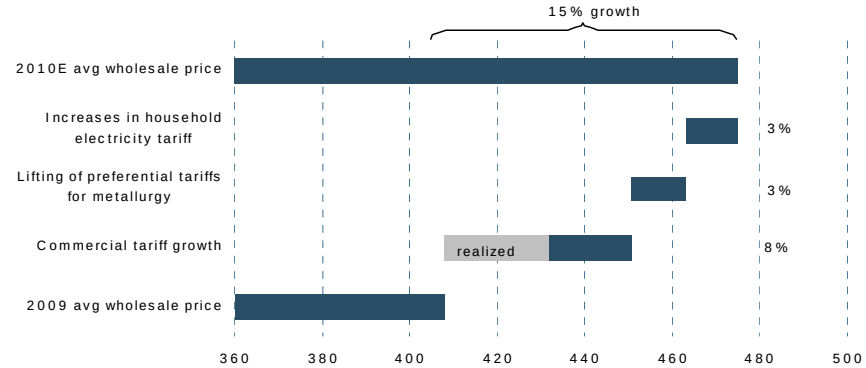
We believe the newly formed government will raise electricity tariffs for end-users this year, which would enable regulators to up the wholesale electricity price and producer prices.

We project prices paid by the wholesale market to GenCos to increase 16% in 2010, just a little over the expected 15% growth in the wholesale tariff. On the cost side, the price of coal, GenCos' primary fuel, is expected to go up by only 10%, as the Ministry of Coal Industry announced in January.

We note three primary sources of expected wholesale electricity price growth:

- increase in household electricity tariffs (by at least 50% in 2010)
- lifting of preferential tariffs for the metallurgy sector
- increase in commercial electricity tariffs by another 5% in 2010 after 10% growth in the last five months

Wholesale electricity price drivers in 2010

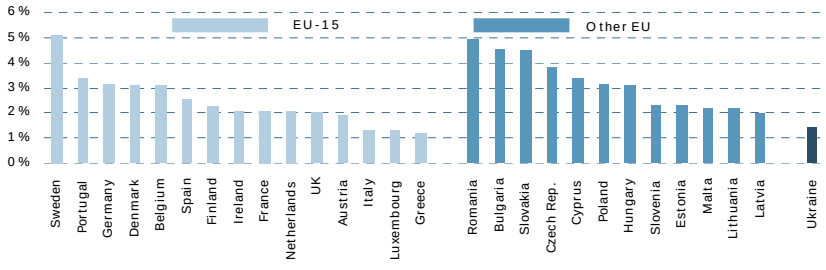


Source: Energorynok, Concorde Capital

Yanukovych has the tools to increase household tariffs

We think the new pro-Yanukovych government has the political will to raise household tariffs by at least 50% in 2010 (their level has been fixed since September 2006, while commercial tariffs grew 2.2x). Yanukovych oversaw the Cabinet of Ministers when household electricity and gas tariffs were increased the last time. We estimate a 50% rise in household tariffs would allow for a 3% increase in the average wholesale tariff in 2010 (since we project the household tariff to rise in mid-2010, we account for the half of the tariff increase).

Expenditures on electricity, % of household consumption



Source: Eurostat, State Statistics Committee of Ukraine

Cancellation of preferential tariffs for metallurgy sector

We expect the lifting of metals & mining companies' special electricity rates, fixed in October 2008 for support during the downturn, to contribute another 3% to the increase in the average wholesale tariff in 2010. We think the repeal is likely with the domestic steel industry showing clear signs of recovery (prices rose 2x from their bottom in October 2008, and output by 60%).

Continued growth in commercial and industrial tariffs

We believe this year the government will allow GenCos to generate profits to at least cover maintenance CapEx. This calls for another raise in tariffs for commercial and industrial electricity consumers by the NERC. We estimate these tariffs, applied to half of all domestic customers, will grow by another 5% in 2010, after a 10% increase over November 2009 – February 2010. We estimate the effect of these tariff hikes will lead to 8% growth in the average wholesale electricity price in 2010.

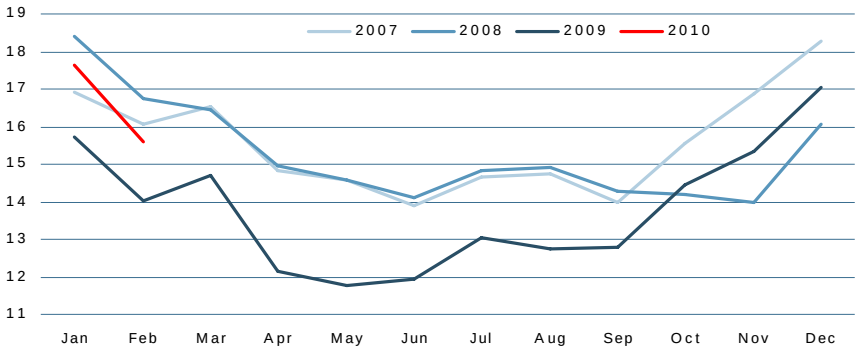
Output set to rebound +10% yoy in 2010

Electricity production has been on the upswing since October, when output first marked a yoy increase. Though electricity production is still below pre-crisis maximums, the declines are now just 4-9% below those highs vs. double-digit drops in preceding months.

We attribute the revival to recovery in demand from metals & mining (their electricity consumption rose 30% yoy in 2M10, accounting for a quarter total demand) and continuing growth in household electricity consumption (up 8% yoy in 2009, driven by increasing penetration of household appliances). We estimate GenCos output to rise 10% yoy in 2010, and total domestic electricity output by 8%, due to a low comparison base in 2009.

GenCo's electricity output fell 13% yoy in 2009, fully in line with our forecast (see our February 2009 report), on the background of a 10% yoy drop in overall domestic electricity production. GenCos' decline was higher-than-average as coal-firing is more expensive than nuclear and hydro electricity production, thus the regulator cuts their utilization first.

Total electricity output, TWh



Source: Energobusiness

Key projections

Output

Production, TWh

	2007	2008	2009	yoy	2010E	yoy	2011E	yoy
Centrenergo	15.0	15.7	13.5	-14%	14.8	9%	16.0	8%
Dniproenergo	16.6	16.1	12.9	-19%	14.6	13%	15.8	8%
Donbasenergo	6.8	7.2	7.9	10%	8.4	6%	9.0	8%
Zakhidenergo	15.1	14.9	12.8	-14%	14.5	13%	15.6	8%
Total	**195.1**	**191.7**	**172.9**	**-10%**	**186.4**	**8%**	**197.8**	**6%**

Source: Concorde Capital forecast

Financials

Revenue, USD mln

	2007	2008	2009	yoy	2010E	yoy	2011E	yoy
Centrenergo	679	887	574	-35%	694	21%	826	19%
Dniproenergo	758	887	540	-39%	677	25%	806	19%
Donbasenergo	291	419	331	-21%	389	18%	464	19%
Zakhidenergo	716	920	574	-38%	720	25%	857	19%

Source: Company data, Concorde Capital forecast

EBITDA, USD mln

	2007	2008	2009	yoy	2010E	yoy	2011E	yoy
Centrenergo	67	45	-0.2	-100%	34.7	n/m	74	114%
Dniproenergo	80	51	5	-91%	41	801%	81	98%
Donbasenergo	33	45	12	-72%	23	87%	46	98%
Zakhidenergo	46	25	-26	-207%	14	n/m	51	257%

Source: Company data, Concorde Capital forecast

EBITDA margins

	2007	2008	2009	yoy	2010E	yoy	2011E	yoy
Centrenergo	9.9%	5.1%	0.0%	-5pp	5.0%	5pp	9.0%	4pp
Dniproenergo	10.5%	5.7%	0.8%	-5pp	6.0%	5pp	10.0%	4pp
Donbasenergo	11.3%	10.7%	3.8%	-7pp	6.0%	2pp	10.0%	4pp
Zakhidenergo	6.4%	2.7%	-4.6%	-7pp	2.0%	7pp	6.0%	4pp

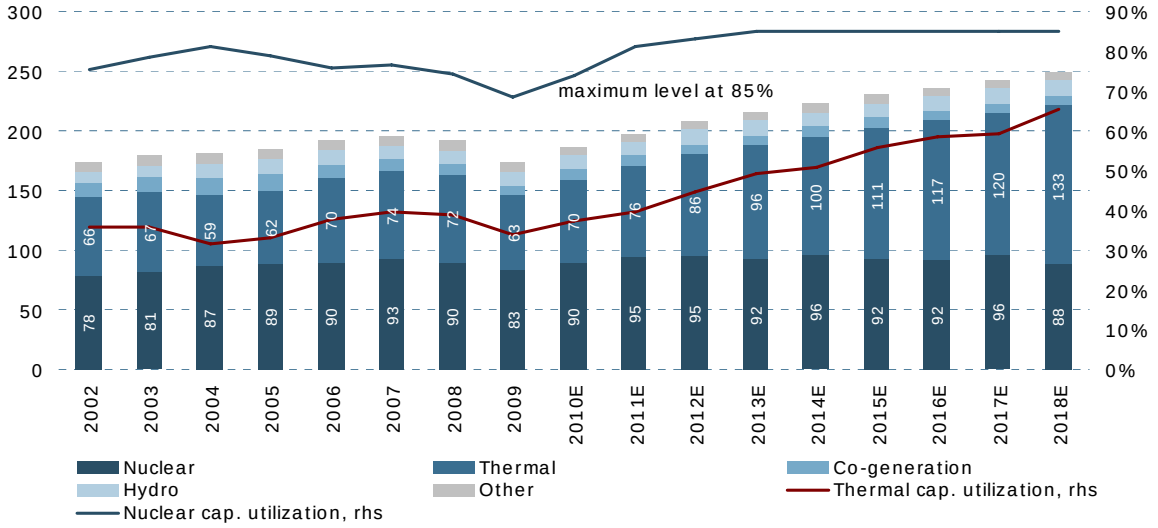
Source: Company data, Concorde Capital forecast

MID-TERM OUTLOOK: DOUBLING CAPACITY UTILIZATION

GenCos key to satisfying increased mid-term demand

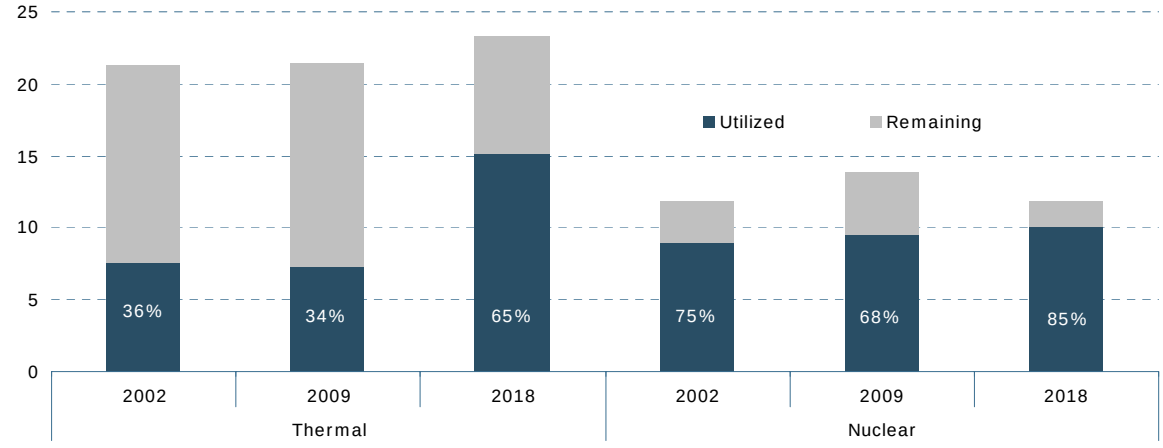
Ukraine's power generators are the key to satisfying growth in domestic electricity demand in the mid-term, which we forecast at 3.3% CAGR in 2010-2019. Nuclear power plants are limited in terms of increase potential (to maximum loaded capacity, +15%) and will actually decrease overall capacity this decade due to scheduled decommissionings. As a result, we expect the capacity utilization of GenCos to grow at 8.0% CAGR over 2011-2016.

Structure of electricity supply (lhs, TWh) **and capacity utilization** (rhs)



Source: Company data, Energobusiness, Concorde Capital projections

Available capacity and utilization*, TW



** We account only for coal-fired thermal power capacity, because gas-fired blocks are idle due to high gas prices.*
Source: Company data, Energobusiness, Concorde Capital projections

Key risk: Bituminous coal shortage

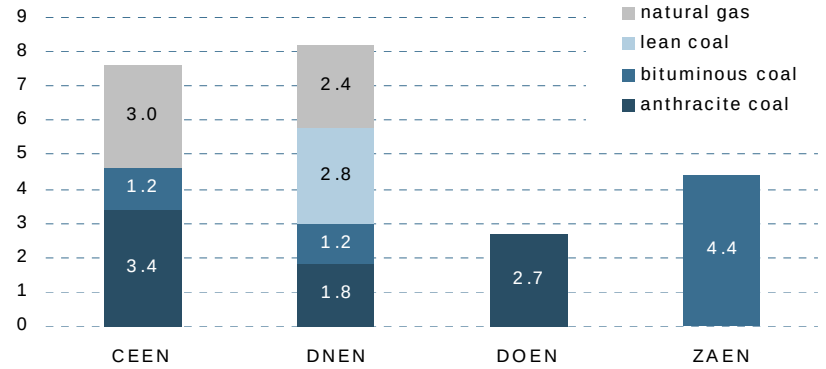
The biggest risk to our projection of GenCos doubling their capacity utilization in next eight years is a domestic shortage of bituminous coal, which is used by select GenCos (Zakhidenergo, 100% of inputs; Centrenergo, 15%; and Dniproenergo, 12%).

The Ministry of Coal Industry forecasts bituminous coal (G-grade according to CIS classification) sourced domestically (about 2.8 mln mt) to satisfy only ~85% of total demand already in 2010, forcing the aforementioned GenCos to import it from neighboring Russia or Poland. Importing pushes up affected GenCos' fuel costs and thus decreases margins, by 1-4 pp according to our estimates, and might limit capacity utilization in the mid-term (as the cheapest power producers are loaded first).

We relate the shortage of bituminous coal to:

- demand for bituminous coal from steelmakers, which are substituting it for more expensive natural gas
- DTEK, owner of 1/3 of Ukraine's bituminous coal mines, gives priority to its controlled Vostokenergo and Dniproenergo, though it does supply state-owned GenCos currently
- low CapEx in the state coal mining sector makes it difficult to develop coal extraction

Structure of thermal generation by type of fuel, GW



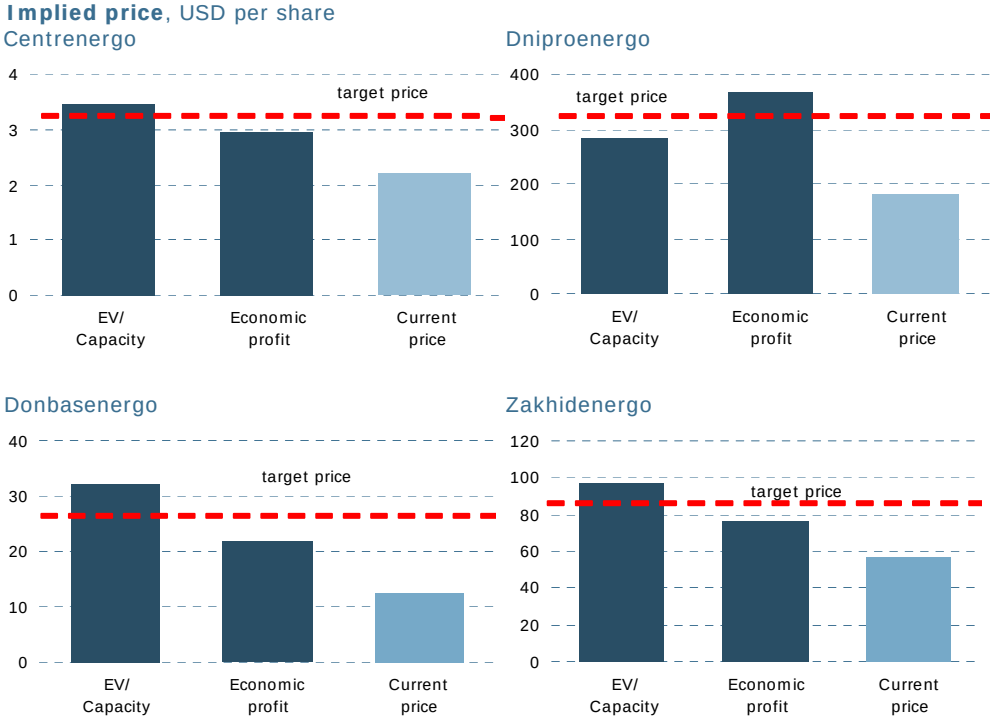
Source: Energobusiness, Company data

VALUATION: CHEAPER THAN RUSSIAN PEERS

Valuation summary

We base our targets on the average of prices implied by economic profit (EP) model and peer comparison with Russian peers on EV/Capacity.

Implied price, USD per share



Source: Bloomberg, Concorde Capital

Valuation summary, USD per share

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Zakhidenergo	96.7	76.7	56.9	86.7	52%	BUY

Source: Bloomberg, Concorde Capital

Comparative valuation

GenCos are trading at USD 126-198 EV/kW of installed capacity, 32-57% lower than Russian OGKs' median and 4-7x below their Emerging Market peers' median. We favor comparison to Russian peers, because in our view the huge upside potential to the EM peer group is not realizable in the mid-term due to the prohibitive regulatory environment in Ukraine.

GenCos' market multiples

	EV/S		EV/EBITDA		EV/Capacity	
	2010E	2011E	2010E	2011E	coal-fired	total capacity
CEEN	1.31	1.10	26.1	12.2	198	120
DNEN	1.69	1.42	28.2	14.2	198	140
DOEN	0.86	0.72	14.3	7.2	126	126
ZAEN	1.14	0.96	57.0	15.9	186	186
Median	**1.22**	**1.03**	**27.1**	**13.2**	**192.2**	**132.9**
Peer median						
DM peers	3.0	2.9	7.9	7.7		487.2
EM peers	2.9	2.0	9.0	8.5		833.4
OGK	1.8	1.6	13.0	9.1		301.9

Source: Bloomberg, Company data, Concorde Capital calculations

Implied upsides by peer average

		EV/S		EV/EBITDA		EV/
		2010E	2011E	2010E	2011E	Capacity**
CEEN	DM peers	145%	185%	-78%	-41%	164%
	EM peers	134%	88%	-74%	-34%	360%
	OGKs	41%	55%	-56%	-28%	59%
DNEN	DM peers	81%	110%	-75%	-48%	153%
	EM peers	73%	40%	-72%	-42%	336%
	OGKs	6%	16%	-56%	-38%	55%
DOEN	DM peers	283%	345%	-51%	8%	326%
	EM peers	266%	196%	-42%	21%	639%
	OGKs	123%	145%	-10%	30%	159%
ZAEN	DM peers	183%	230%	-97%	-58%	182%
	EM peers	171%	118%	-95%	-52%	391%
	OGKs	64%	80%	-87%	-48%	70%

*** Note: Only the coal-fired capacities of GenCos is accounted for*
Source: Bloomberg, Company data, Concorde Capital calculations

Peer multiples

		EV/S		EV/EBITDA		EV/Capacity
	Country	2010E	2011E	2010E	2011E	USD/kW
Boralex	Canada	3.2	3.8	8.1	8.9	2,051
Drax Group	UK	0.9	0.8	3.8	4.2	466
International Power	UK	3.0	2.9	7.9	7.7	487
NRG Energy	USA	1.2	1.1	6.1	5.4	480
J-Power	Japan	3.3	3.3	11.2	11.5	1,290
DM peer median		**3.0**	**2.9**	**7.9**	**7.7**	**487**
EGCO	Thailand	4.5	4.3	7.9	8.5	271
Datang Int. Power Gen.	China	3.9	3.5	13.0	10.4	1,725
Huadian Power Int.	China	2.1	1.8	8.7	7.1	582
Huaneng Power Int.	China	2.0	1.9	9.4	8.9	833
NTPC	India	3.8	3.5	12.7	11.2	1,706
AES Gener S.A.	Chile	3.1	3.1	9.0	9.0	1,383
Ratchaburi	Thailand	1.3	1.2	6.2	6.3	397
Glow Energy PCL	Thailand	2.9	2.0	11.0	6.9	2,132
First Gen Corp	Philippines	1.3	1.3	4.1	3.8	530
EM peer median		**2.9**	**2.0**	**9.0**	**8.5**	**833**
OGK-1	Russia	1.6	1.6	12.0	10.1	294
OGK-2	Russia	1.7	1.6	15.7	11.6	310
OGK-3	Russia	1.8	1.9	23.7	18.3	269
OGK-4	Russia	3.0	2.3	14.1	8.1	586
OGK-5	Russia	1.9	1.6	6.7	5.5	451
OGK-6	Russia	1.4	1.3	9.7	8.1	265
Russian peer median		**1.8**	**1.6**	**13.0**	**9.1**	**301.9**

Source: Bloomberg, Company data, Concorde Capital calculations

Present value of economic profits

We continue valuing GenCos based on the present value of economic profits (EP). Fair value of the company is based on the following equation:

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 part of the value of the company, we look at replacement costs of coal-fired generating assets. Based on hours worked by each GenCo 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, we arrive at the following valuation results:

Valuation results, USD mln

				Implied EV / Installed capacity, USD/KW				
	Initial invested capital, 2010	Discounted terminal EP	Implied EV	...coal capacity	...total capacity	Implied MCap	Per share, USD	Upside
CEEN	1,073	115	1,188	260	157	1,094	3.0	36%
DNEN	1,381	112	1,492	258	182	1,442	367.4	101%
DOEN	535	19	554	210	210	516	21.8	76%
ZAEN	1,033	36	1,069	232	232	981	76.7	35%

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

For more details on economic profit model assumptions and technical condition of assets used in estimating Invested Capital, refer to appendices 1-2 on pages 26-27.

COMPANY PROFILES

Centrenergo

Electricity

Bloomberg: CEEN UK | Reuters: CEEN.PFT

http://www.centrenergo.com

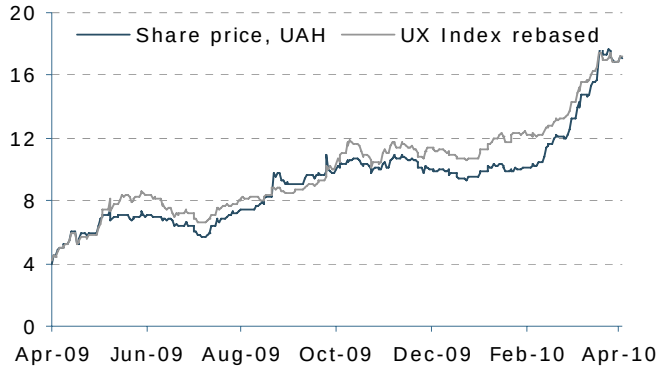
12M target (USD)	2.2
Upside	47%

BUY

INVESTMENT CASE

- Expected 15% increase in electricity price in 2010 should improve EBITDA margin to 5% from 0% in 2009, according to our estimates
- Investment allowance of USD 32 mln approved by NERC in Nov 2009 should help increase EBITDA margin by additional 2 pp in 2010-2015
- Receipt of EUR 150 mln loan from European banks for power unit modernization (6.5% share in total installed capacity) is likely in 2010 after disputes over previous loan are solved. Modernized unit will be 4-8% more cost efficient and work with 1.5-2x higher capacity utilization
- Most liquid GenCo stock, monthly average trading volume amounted to USD 6 mln over the last 6M
- Expensive gas-fired power units, which account for 40% of total installed capacity, have been idle since 2008 due to high gas prices. It has the largest share of gas-fired units among GenCos

SHARE PRICE PERFORMANCE



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	2.2
52 Wk H/L USD	2.3/0.5
Chg 3m/6m/52w	76%/78%/297%
Chg YTD	76%
Avg M Tr Vol 6M, USD mln	5.9
MCap, USD mln	797.9
Free float	21.7%
FF Mcap, USD mln	173.1
No of shares, mln	369.4
Par Value, UAH	1.3
XETRA	DBG
DR Ratio	1 : 10

STOCK OWNERSHIP

State (NC ECU)	78.3%
Other	21.7%

MARKET MULTIPLES

	2010E	2011E
EV/Sales	1.31	1.10
EV/EBITDA	26.1	12.2
EV/Capacity*, USD per kWh	198	198

**We account only for coal-fired capacity*

KEY RATIOS

	2009	2010	2011E
EBITDA margin	0.0%	5.0%	9.0%
Net Margin	-5.6%	0.3%	4.0%
ROE	-14%	1%	17%
Net Debt/Equity	0.41	0.52	0.51

Power plant locations (circles for CEEN)

*Note: Power plants with installed capacity in excess of 0.5 GW are illustrated. **T** stands for thermal, **N** for nuclear and **H** for hydro*

Dniproenergo

Electricity

Bloomberg: DNEN UK | Reuters: DNEN.PFT

http://www.dniproenergo.ua

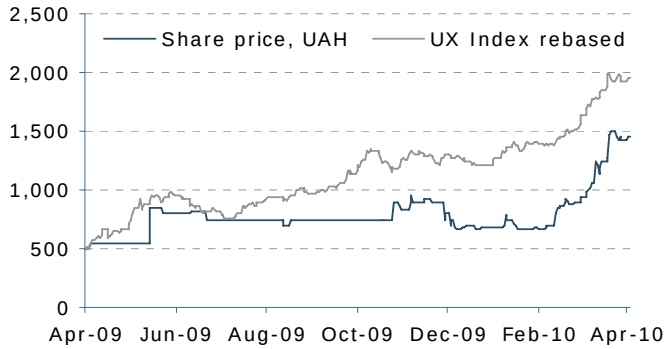
12M target (USD)	183.1
Upside	78%

BUY

INVESTMENT CASE

- Lowest fuel consumption per kWh of electricity produced among coal-fired GenCos (384 g vs. 399 g avg. in 2009)
- Expected 15% increase in electricity price in 2010 should improve EBITDA margin to 6% from 1% in 2009, according to our estimates
- Bituminous coal supplies secured by parent DTEK and abundant anthracite on the domestic market
- Illiquid after DTEK increased its share to 47.5% in 2009 and limited free-float to 2.5%

SHARE PRICE PERFORMANCE



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). Among two GenCos that have gas-fired power units. Fuel efficiency of its power units is the highest in the sector.

MARKET INFORMATION

Market Price, USD	183.3
52 Wk H/L USD	189.6/61.9
Chg 3m/6m/52w	116%/104%/196%
Chg YTD	116%
Avg M Tr Vol 6M, USD mln	2.2
MCap, USD mln	1,093.6
Free float	2.5%
FF Mcap, USD mln	27.3
No of shares, mln	5.97
Par Value, UAH	25.0
XETRA	DPG
DR Ratio	4 : 1

STOCK OWNERSHIP

State (NC ECU)	50.0%
DTEK/SCM	47.5%
Other	2.5%

MARKET MULTIPLES

	2010E	2011E
EV/Sales	1.69	1.42
EV/EBITDA	28.2	14.2
EV/Capacity*, USD per kWh	198	198

**We account only for coal-fired capacity*

KEY RATIOS

	2009	2010E	2011E
EBITDA margin	0.8%	6.0%	10.0%
Net Margin	-5.6%	0.7%	4.0%
ROE	-13%	3%	16%
Net Debt/Equity	0.23	0.26	0.26

Power plant locations (circles for DNEN)

*Note: Power plants with installed capacity in excess of 0.5 GW are illustrated. **T** stands for thermal, **N** for nuclear and **H** for hydro*

Donbasenergo

Electricity

Bloomberg: DOEN UK | Reuters: DOEN.PFT

http://www.de.com.ua

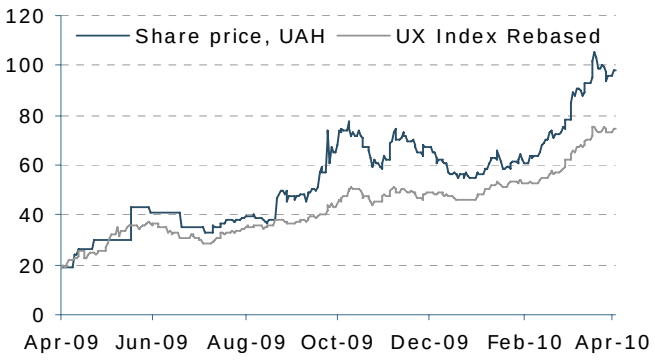
12M target (USD)	12.4
Upside	117%

BUY

INVESTMENT CASE

- Only GenCo to increase output in 2009, 10% yoy vs. the sector aggregate of a 15% yoy decline
- Only GenCo to work purely on anthracite coal, which is available in excess in the long-term. Close location to coal mines allows savings of ~5% in COGS on transportation costs
- Power unit #4, which produces electricity ~20% cheaper than other power units, started working in testing mode in 2H09. Full operation status, expected in May 2010, would allow Donbasenergo to increase output by 15% and reduce electricity production costs by 2% in 2H10
- Expected 15% increase in electricity price in 2010 should improve EBITDA margin to 6% from 4% in 2009, according to our estimates
- Least efficient GenCo by fuel consumption (4-9% more than its peers) per MWh produced

SHARE PRICE PERFORMANCE



BUSINESS OVERVIEW

Smallest thermal generation company - 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	12.4
52 Wk H/L USD	13.3/2.4
Chg 3m/6m/52w	78%/41%/426%
Chg YTD	78%
Avg M Tr Vol 6M, USD mln	2.6
MCap, USD mln	292.9
Free float	14.2%
FF Mcap, USD mln	41.6
No of shares, mln	23.6
Par Value, UAH	10.0

STOCK OWNERSHIP

State (NC ECU)	85.8%
Other	14.2%

MARKET MULTIPLES

	2010E	2011E
EV/Sales	0.86	0.72
EV/EBITDA	14.3	7.2
EV/Capacity, USD per kW	126	126

KEY RATIOS

	2009	2010E	2011E
EBITDA margin	3.8%	6.0%	10.0%
Net Margin	-1.3%	1.8%	5.0%
ROE	-4%	7%	22%
Net Debt/Equity	0.38	0.40	0.37

Power plant locations (circles for DOEN)

*Note: Power plants with installed capacity in excess of 0.5 GW are illustrated. **T** stands for thermal, **N** for nuclear and **H** for hydro*

Zakhidenergo

Electricity

Bloomberg: ZAEN UK | Reuters: ZAEN.PFT

http://zakhidenergo.ua

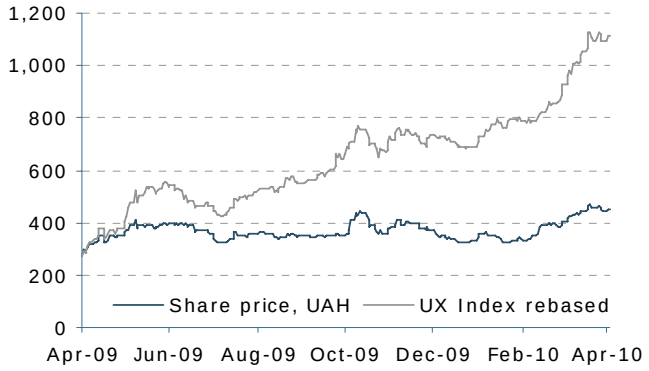
12M target (USD)	56.9
Upside	52%

BUY

INVESTMENT CASE

- Expected 15% increase in electricity price in 2010 should there is improve EBITDA margin to 2% from -5% in 2009, according to our estimates
- Only GenCo connected to EU electricity transmission network, able to benefit from higher margin exports when direct contracts are allowed in two-three years
- Fueled 100% by bituminous coal, which there is forecasted to be insufficient supplies of in Ukraine in the mid-term. This may force Zakhidenergo to import 10-15% of more expensive inputs and limit capacity utilization growth

SHARE PRICE PERFORMANCE



BUSINESS OVERVIEW

Operates three power units located 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 in 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.

The company purchased an export license for its own electricity (100 MW out of 500 MW) for 2009, which will allow it to build experience in the field.

MARKET INFORMATION

Market Price, USD	56.7
52 Wk H/L USD	59.7/35.2
Chg 3m/6m/52w	29%/32%/61%
Chg YTD	29%
Avg M Tr Vol 6M, USD mln	1.8
MCap, USD mln	725.9
Free float	18.5%
FF Mcap, USD mln	134.3
No of shares, mln	12.8
Par Value, UAH	10.0
XETRA	WT7
DR Ratio	4 : 1

STOCK OWNERSHIP

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

MARKET MULTIPLES

	2010E	2011E
EV/Sales	1.14	0.96
EV/EBITDA	57.0	15.9
EV/Capacity, USD per kWh	186	186

KEY RATIOS

	2009	2010E	2011E
EBITDA margin	-4.6%	2.0%	6.0%
Net Margin	-8.8%	0.0%	3.0%
ROE	-42%	0%	39%
Net Debt/Equity	0.74	1.41	1.41

Power plant locations (circles for ZAEN)

*Note: Power plants with installed capacity in excess of 0.5 GW are illustrated. **T** stands for thermal, **N** for nuclear and **H** for hydro*

APPENDICES

Appendix 1: Economic Profit Model

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

(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 the total installed capacity of ZAEN, installed capacity of coal-fired power units of CEEN and DNEN, and installed capacity of DOEN taken with 25% discounts for unit #4 of Starobeshev TPP and unit#7 of Slavyansk TPP (for more details, refer to our Nov. 2008 report)

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

Sum of discounted EP$_{2010\ to\ perp.}$ is estimated based on the assumption of a zero sum of discounted EPs over 2011-2020, and 1% EP since 2020:

(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 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 not change over the next 11 years) multiplied by the ***Replacement cost*** adjusted for an annual inflation rate for equipment of 5% over 2010-2021. Unlike fair value for 2010, this value fully accounts for the gas-fired blocks of CEEN and DNEN, as well as the risky blocks of 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 GenCos.

Appendix 2: Technical conditions of GenCos' assets

Invested capital 2010 breakdown by power units

Centrenergo

Trypillia TPP

Unit #	Capacity MW	Date of comissioning	Hours worked as of 1 Jan 2010, ths	Invested capital, USD mln
1	300	1969	260	22
2	300	1970	261	21
3	300	1970	263	18
4	300	1970	255	27
5*	300	1971	176	111*
6*	300	1972	172	115*

** Gas units. Accounted only in Invested Capital 2020*

Zmiiv TPP

Unit #	Capacity MW	Date of comissioning	Hours worked as of 1 Jan 2010, ths	Invested capital, USD mln
1	175	1960	302	-
2	175	1961	302	-
3	175	1962	272	5
4	175	1963	286	-
5	175	1964	284	-
6	175	1965	274	4
7	275	1967	244	36
8*	300	1968	248	268
9*	275	1969	232	47
10*	275	1969	251	29

** Gas units. Accounted only in Invested Capital 2020*

Uglegorsk TPP

Unit #	Capacity MW	Date of comissioning	Hours worked as of 1 Jan 2010, ths	Invested capital, USD mln
1	300	1972	230	53
2	300	1973	226	57
3	300	1973	220	64
4	300	1973	220	64
5	800	1975	126	441
6	800	1976	127	436
7	800	1977	137	408

Dniproenergo

Prydniprovsk TPP

Unit #	Capacity MW	Date of comissioning	Hours worked as of 1 Jan 2010, ths	Invested capital, USD mln
7	150	1959	308	-
8	150	1960	319	-
9	150	1960	304	-
10	150	1961	300	-
11	310	1963	239	131
12	285	1964	222	59
13	285	1965	279	1
14	285	1966	246	34

Kryvyi Rih TPP

Unit #	Capacity MW	Date of comissioning	Hours worked as of 1 Jan 2010, ths	Invested capital, USD mln
1	282	1965	281	-
2	282	1966	277	3
3	282	1966	253	27
4	282	1968	216	64
5	282	1968	262	19
6	282	1969	233	48
7	282	1970	190	90
8	282	1970	238	42
9	282	1972	179	102
10	282	1973	173	108

Zaporizhya TPP

Unit #	Capacity MW	Date of comissioning	Hours worked as of 1 Jan 2010, ths	Invested capital, USD mln
1	300	1972	247	35
2	300	1972	233	50
3	300	1972	239	43
4	300	1973	221	63
5*	800	1975	149	375*
6*	800	1976	127	436*
7*	800	1977	133	420*

** Gas units. Accounted only in Invested Capital 2020*

Donbasenergo

Slaviansk TPP

Unit #	Capacity MW	Date of comissioning	Hours worked as of 1 Jan 2010, ths	Invested capital, USD mln
7**	800	1971	248	91

*** Accounted with 25% discount in Inv. Capital 2010*

Starobeshev TPP

Unit #	Capacity MW	Date of comissioning	Hours worked as of 1 Jan 2010, ths	Invested capital, USD mln
4**	210	1961	234	140
5	175	1962	274	4
6	175	1962	272	5
7	175	1963	256	15
8	175	1963	273	5
9	175	1964	264	10
10	175	1965	271	6
11	175	1965	266	9
12	200	1966	271	63
13	175	1967	243	23

*** Accounted with 25% discount in Inv. Capital 2010*

Zakhidenergo

Burstyn TPP

Unit #	Capacity MW	Date of comissioning	Hours worked as of 1 Jan 2010, ths	Invested capital, USD mln
1	195	1965	258	15
2	185	1965	249	21
3	185	1966	257	15
4	195	1966	273	5
5	195	1967	276	3
6	185	1967	266	9
7	185	1968	264	11
8	195	1968	270	7
9	195	1968	252	20
10	195	1969	261	13
11	195	1969	229	36
12	195	1969	223	40

Dobrotvir TPP

Unit #	Capacity MW	Date of comissioning	Hours worked as of 1 Jan 2010, ths	Invested capital, USD mln
4	100	1960	329	-
5	100	1960	308	-
6	100	1961	301	-
7	150	1963	307	51.2
8	150	1964	290	-

Ladyzhyn TPP

Unit #	Capacity, MW	Date of comissioning	Hours worked as of 1 Jan 2010, ths	Invested capital, USD mln
1	300	1970	221	63
2	300	1971	209	77
3	300	1971	202	83
4	300	1971	216	68
5	300	1971	203	82
6	300	1971	215	70

Source: NC ECU, Concorde Capital calculations

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.

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