



CONCORDE CAPITAL

# Ukraine / Electricity Power Generators

## Too Rich For Our Blood

April 2, 2007

**Alexander Paraschiy**  
+380 44 207 5030  
ap@concorde.com.ua

	Price	12M target	Upside	Rec.
CEEN	3.3	3.2	-2%	HOLD
DNEN	350.0	382.9	9%	HOLD
DOEN	21.1	27.6	31%	BUY
ZAEN	87.1	94.3	8%	HOLD
KIEN	4.6	4.0	-13%	HOLD

	MCap	EV/S	EV/EBITDA	EV/Capacity
CEEN	1,219	2.14	23.5	294
DNEN	1,373	2.12	19.3	252
DOEN	499	1.76	22.0	220
ZAEN	1,114	1.56	20.8	259
KIEN	500	0.72	5.8	502

	Installed capacity, GW		Output, TWh	
	Total	Coal-fueled	07E	08E
CEEN	7.55	4.55	14.8	15.6
DNEN	8.16	5.76	15.6	16.1
DOEN	2.71	2.71	7.7	8.3
ZAEN	4.60	4.60	15.9	16.3
KIEN	1.20	-	5.7	6.3

Following their recent rally and high volatility, the GenCos' current heights present investors with a fork in the road – grab the bull by the horns and ride onward into thinner air, or cash out for an enticing profit. As Centrenergo, Dniproenergo, Kyivenergo and Zakhidenergo are trading close to our 12M target, we take the moderate route and downgrade them to HOLD. We re-iterate a BUY recommendation for Donbasenergo as it still boasts an upside potential.

### Price rally to end?

Following a slight correction in early March, GenCos broke February's record prices last week. Reaching a historical high EV/Capacity multiple of USD 270/kW, GenCos reduced their discount to Russian OGKs by EV/Capacity from 70% in January to 54%. We believe that given the high price volatility observed during the last two months, the number of investors willing to cash out (ytd performance of 50%-180%) is very likely to grow.

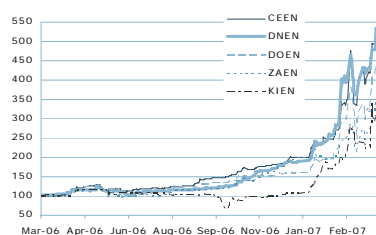
### Profitability of GenCos to decrease for the next quarter

According to an announcement by the Minister of the Coal Industry two weeks ago, local prices for energy coal will grow 19% starting April 1, and by a further 13% since May 1. This is very likely to cause a temporary decrease in profitability for thermal power generation companies, and electricity tariffs are unlikely to adjust correspondingly: the National Electricity Regulatory Commission forecasts growth of wholesale electricity tariffs in April to be only 1.6% (the same growth as a month ago, when no significant growth in coal prices was observed). The negative effect on GenCos' margins will be temporal, and their profitability is very likely to be restored in 3Q07. We do not change our sales and profit forecasts for 2007.

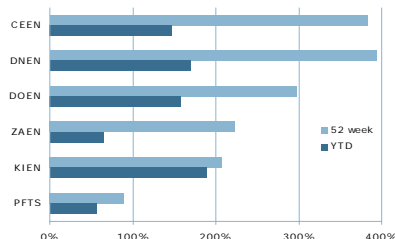
### Kyivenergo: The time of truth is coming

During the last two months, no information on the future of Kyivenergo's lease of the city's assets has appeared. We still keep in mind two announcements: the management's expectation that a tender for the lease of the city of Kyiv's assets might be held in May 2007 (from Oct. 2006); and a political declaration by the Kyiv City Council Head (in Jan. 2007) that Kyivenergo's lease will not be prolonged. Since the major players that pushed for an end to Kyivenergo's lease now seem to have too many other problems in the political sphere to worry about the city's infrastructure, and in the absence of fresh news, we now speculate whether a new tender will take place at all, leaving operating control of the city's power generators to Kyivenergo.

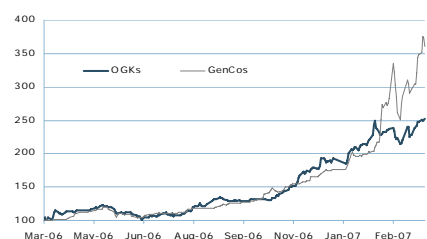
### Market



### Relative performance

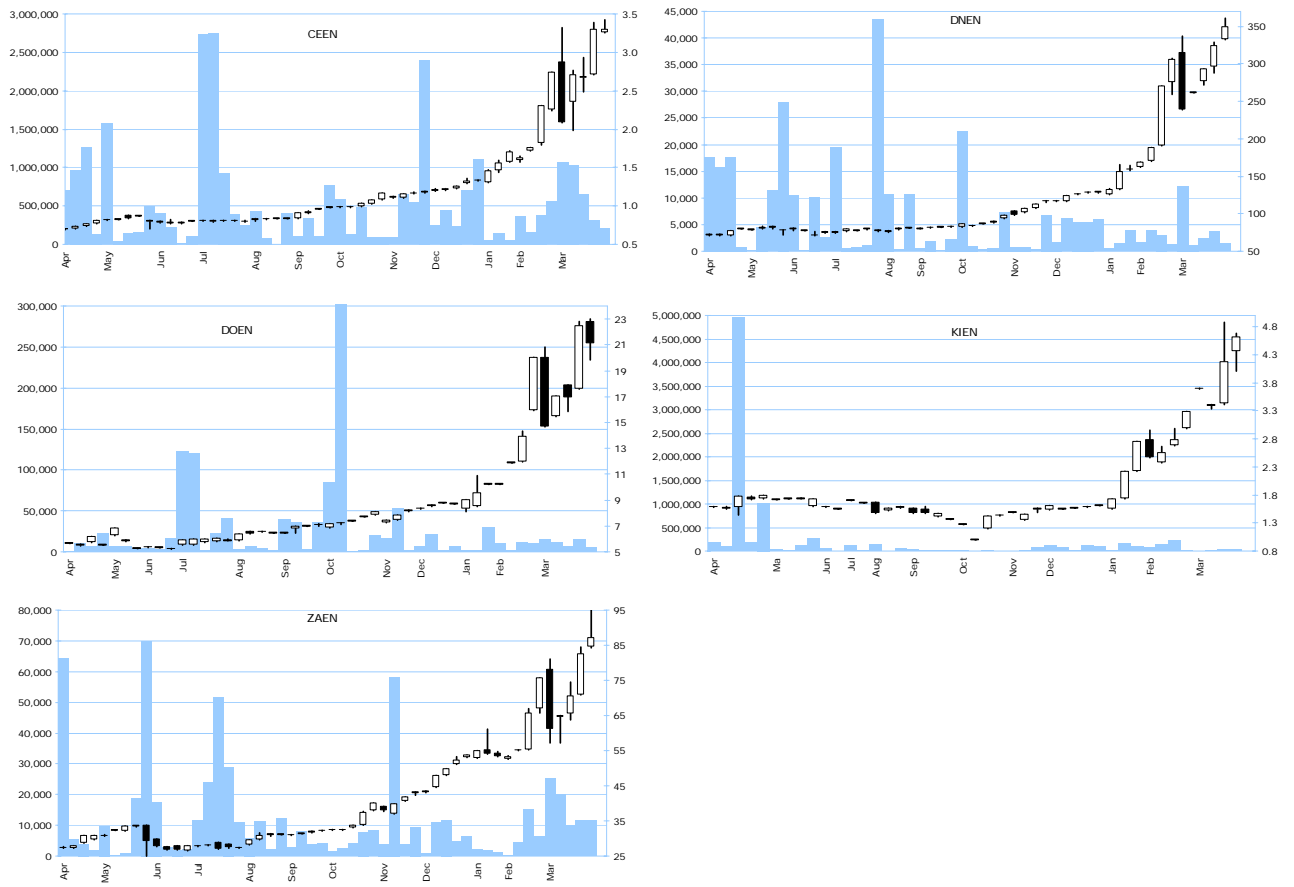


### GenCos vs OGKs indices\*



Source: PFTS, RTS, Bloomberg, Concorde Capital calculations  
\* Four GenCos and five OGKs, MCap-weighted

Weekly candle charts (52 weeks): Market volumes (shares) vs. market prices (USD)



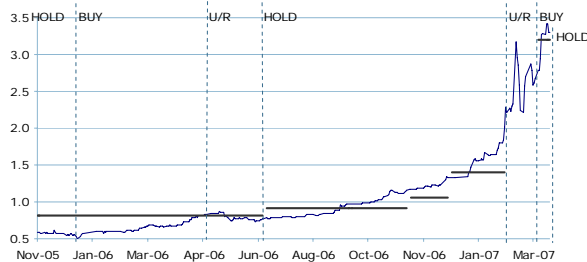
Source: Bloomberg, PFTS

## Analyst Certification

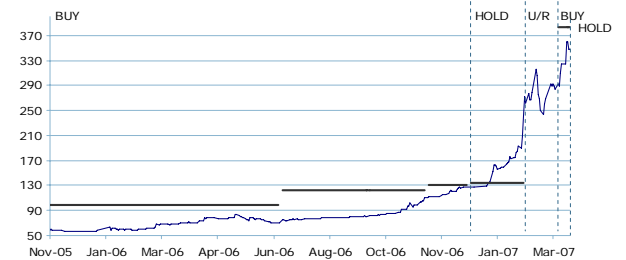
I, Alexander Paraschiy, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Date	CEEN price, USD		DNEN price, USD		DOEN price, USD		ZAEN price, USD		KIEN price, USD	
	Closing	Target	Closing	Target	Closing	Target	Closing	Target	Closing	Target
13-May-05	0.79	0.76	75	88	4.2	6.8	27.7	29.0	1.62	1.80
30-May-05							27.7	30.5		
4-Jul-05					4.4	6.0				
19-Jul-05							24.0	30.5		
15-Aug-05									1.40	1.70
15-Sep-05									1.50	1.70
26-Sep-05	0.80	0.82	67	99	4.2	6.6	26.0	34.0		
3-Jan-06	0.54	0.82								
7-Apr-06									1.50	2.25
26-Jun-06	0.79	0.91	76	123	5.2	7.4	26.5	34.0		
4-Aug-06									1.51	1.74
25-Sep-06							32.0	34.0		
26-Sep-06					7.2	7.4				
6-Oct-06									1.04	1.74
12-Oct-06									1.41	1.74
15-Nov-06	1.17	1.06	109	131	7.8	9.6	40.0	35.4		
28-Nov-06	1.18	1.06	109	131	8.0	9.6	41.0	35.4		
22-Dec-06	1.35	1.40	126	134	8.7	11.3	52.8	41.2		
23-Jan-07									2.32	4.00
21-Mar-07	2.80	3.20	288	383	17.1	27.6	73.4	94.3		
2-Apr-07	3.30	3.20	347	383	21.0	27.6	87.1	94.3	4.63	4.00

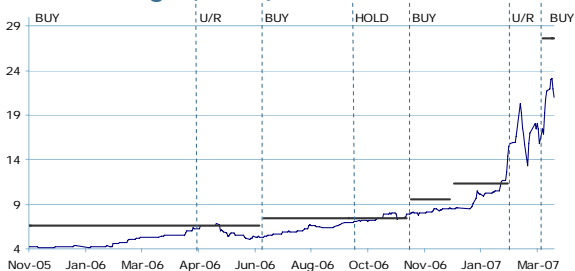
Centrenergo (CEEN)



Dniπροenergo (DNEN)



Donbasenergo (DOEN)



Zakhidenergo (ZAEN)



Kyivenergo (KIEN)



**Concorde Capital**  
**3V Sportyvna Square**  
**2nd entrance, 3rd floor**  
**Kyiv 01023, UKRAINE**

**Tel: +380 44 207 5030**  
**Fax: +380 44 206 8366**  
**www.concorde.com.ua**  
**office@concorde.com.ua**

**CEO**

Igor Mazepa

im@concorde.com.ua

RESEARCH COVERAGE BY SECTOR

**Head of Equity Sales**

Lucas Romriell

lr@concorde.com.ua

**Strategy**

Konstantin Fisun

kf@concorde.com.ua

Oleksandr Klymchuk

ok@concorde.com.ua

**Equity Sales**

Marina Martirosyan

mm@concorde.com.ua

Anastasiya Nazarenko

an@concorde.com.ua

**Metals & Mining**

Eugene Cherviachenko

ec@concorde.com.ua

**Director of Research**

Konstantin Fisun, CFA

kf@concorde.com.ua

**Utilities (Telecom, Energy)**

Alexander Paraschiy

ap@concorde.com.ua

**Oil & Gas, Chemicals**

Vladimir Nesterenko

vn@concorde.com.ua

**Consumer/Retail Group**

Andriy Gostik

ag@concorde.com.ua

Olha Pankiv

op@concorde.com.ua

Alexander Romanov

ar@concorde.com.ua

Anna Dudchenko

ad@concorde.com.ua

**Machinery**

Olha Pankiv

op@concorde.com.ua

Eugene Cherviachenko

ec@concorde.com.ua

Inna Perepelytsya

pi@concorde.com.ua

**Financial Services,  
 Macroeconomics**

Alexander Viktorov

av@concorde.com.ua

**Fixed Income**

Oleksandr Klymchuk

ok@concorde.com.ua

**Corporate Governance**

Nick Piazza

np@concorde.com.ua

**News/Production**

Nick Piazza

np@concorde.com.ua

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 has 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.

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. © 2007 Concorde Capital