



CONCORDE CAPITAL

Ukraine / Electricity Generation Companies

Moving Closer to Russian Peers

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Bloomberg	DOEN UZ	Xetra	-
Price, USD	32.3		
MCap, USD mln	763	12M target	
Shares, mln	23.6	Old	27.60
		New	43.18
		Upside	34%
Ownership:			
State (NC ECU)	85.8%	Free float, %	14.2%
Other	14.2%	FF MC, USD mln	108

Bloomberg	DNEN UZ	Xetra	DPG
		DR Ratio	4 : 1
Price, USD	512		
MCap, USD mln	3,052*	12M target	
Shares, mln	5.97*	Old	410
		New	516
		Upside	1%
Ownership:			
State (NC ECU)	50.0%*	Free float, %	5.0%*
DTEK	45.0%*	FF MC, USD mln	153
Other	5.0%*		

* Assuming restructuring process is completed.
Without restructuring (additional share issue), MCap is USD 1,970 mln, share number is 3.9 mln.

Bloomberg	ZAEN UZ	Xetra	WT7
		DR Ratio	4 : 1
Price, USD	121.7		
MCap, USD mln	1,557	12M target	
Shares, mln	12.8	Old	94.3
		New	130.4
		Upside	7%
Ownership:			
State (NC ECU)	70.1%	Free float, %	29.9%
Other	29.9%	FF MC, USD mln	466

Bloomberg	CEEN UZ	Xetra	DBG
		DR Ratio	1 : 10
Price, USD	4.99		
MCap, USD mln	1,843	12M target	
Shares, mln	369.4	Old	4.20
		New	5.43
		Upside	9%
Ownership:			
State (NC ECU)	78.3%	Free float, %	21.7%
Other	21.7%	FF MC, USD mln	400

With 125%-290% YTD performance, GenCos stocks have reduced their discount to Russian OGKs by EV/Capacity from 70% to 40%. The current discount reflects only the lower load of GenCos' power plants. Still, as one unit of GenCos' capacity generates the same cash flow as a unit of OGKs' capacity, we believe the discount will shrink further. We upgrade our 12M targets for all GenCos and upgrade our recommendation on DOEN to BUY.

Donbasenergo: BUY

- Commissioning of new efficient power unit in March 2008 will increase output (by about 11%) and margins next year
- 1H07 EBITDA margin (15.7%) and yoy growth in EBITDA (+87%) are second largest in the sector
- The company announced it found an investor for construction of 125 MW power unit, which is to be commissioned by 2012
- Trades with a 17% discount to its local peers by EV/Capacity, which we believe is not justified

Dniproenergo: HOLD

- New strategic investor, DTEK, whose position in the company is unlikely to be revised by the new government, will supply coal at a lower price, allowing the company to increase output of coal-fueled power units (by ~14%) and margins in 2008
- 1H07 EBITDA margin (16.1%) and yoy growth in EBITDA (+136%) are the highest in the sector
- Operation of a gas-fueled power unit in 2H07 will increase FY2007 power output by 9%
- The company has the largest capitalization and highest multiples (assuming new shares number) in the sector; we believe all positives are already factored in

Zakhidenergo: HOLD

- Increase in export capacity to the EU by 24% in mid-2008 (export accounts for 1/4 of output) will allow Zakhidenergo to raise total output by 4% in 2008 and 6% in 2009
- Capacity load at 37% remains the highest among state-controlled GenCos
- No significant increase in margins is expected since the company remains the least efficient GenCo: despite a 37% increase in EBITDA in 1H07, the company's EBITDA margin (9.0%) remains the lowest in the sector

Centrenergo: HOLD

- Due to poor competitiveness, load of Centrenergo's power units is the lowest in the sector and is expected to remain so
- Despite a 32% yoy increase of EBITDA in 1H07, this growth was the lowest in the sector
- Power output will increase in FY2007 by 8% due to operation of two gas-fueled power units in 2H07
- Payables, which are the largest in the sector, imply some degree of risk in financial stability over the mid-term
- Market values GenCos by total capacity, ignoring the fact that 22% of Centrenergo's production facilities remain idle

Capacity multiples: Converging with OGKs

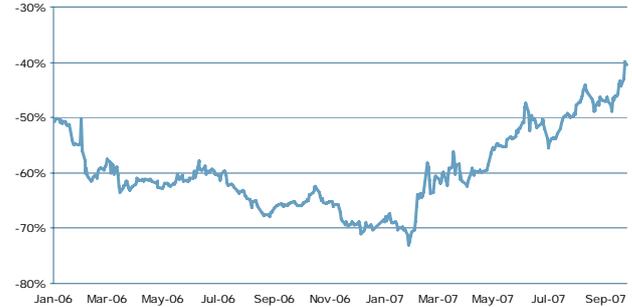
The discount of Ukrainian power generators to Russian OGKs by EV/Capacity, which was around 60%-70% over 2006, has been decreasing since February 2007 and is now approaching 40%. Note that we changed our approach for calculating GenCos' net debt (by adding net payables) and capacity (accounting for 100% of coal-fueled and 1/3 of gas-fueled capacity), which did not change the sector's EV/Capacity valuation much.

EV/Capacity, USD/kW



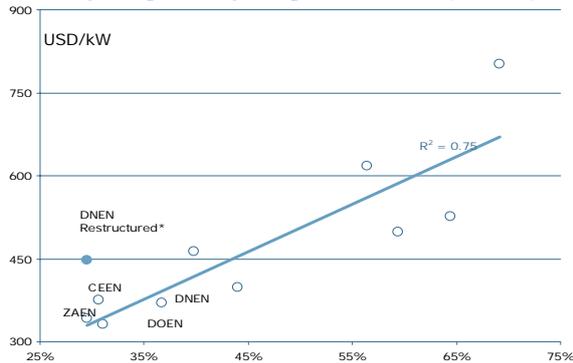
Source: PFTS, RTS, Company data, Concorde Capital estimates

GenCos' discount to OGKs by EV/Capacity



The key parameter that explains the existing discount is the lower capacity utilization of Ukrainian power generators: EV/Output multiples currently imply a nearly equal valuation for both Russian and Ukrainian generation sectors.

EV/Capacity vs Capacity Utilization (2007E)



Source: PFTS, RTS, Company data, Concorde Capital estimates

EV/Output history, USD/MWh



Despite the lower fuel efficiency and capacity load of Ukrainian GenCos compared to OGKs, internal tariff policies in Ukraine and Russia imply similar EBITDA generated by a unit of capacity, thus we expect further converging of GenCos valuation by capacity to Russian peers.

Key capacity parameter differences, Ukraine and Russia

	Fuel efficiency*	Capacity load	EBITDA/kW
	2006	2008E	USD, 2008E
OGKA	37%	61%	24.9
OGKB	36%	66%	25.2
OGKC	35%	41%	21.8
OGKD	38%	71%	25.3
OGKE	37%	58%	29.3
OGKF	34%	45%	29.6
CEEN	30%	30%	21.4
DNEN	32%	31%	25.0
DOEN	30%	34%	23.9
ZAEN	30%	37%	18.9

Source: Company data, Energobiznes, Concorde Capital estimates

* Energy unit of electricity output divided by energy unit of fuel input

Valuation revision

As usual, multiples for OGKs imply upsides for all Ukrainian stocks, while peer valuation by global peers implies an upside by EV/S and downside by EV/EBITDA.

GenCos multiples, 2008E

	EV/S	EV/EBITDA
CEEN	2.9	18.5
DNEN	3.2	18.1
DOEN	2.4	14.7
ZAEN	2.2	20.1
Mean	2.7	17.9

Source: Company data, PFTS, Concorde Capital estimates

Global peers, 2008E

	EV/S	EV/EBITDA
Boralex Inc	4.2	10.0
Drax Group PLC	2.1	6.3
International Power PLC	3.5	8.3
NRG Energy Inc	3.1	7.8
Electric Power Development Company Ltd	3.7	11.1
Electricity Generating Public Company Ltd	5.4	10.3
China Power International Development Ltd	2.7	11.3
Datang International Power Generation	4.1	10.5
Huadian Power International Corp.	2.9	10.4
Huaneng Power International Inc	3.1	9.3
Ntpc Limited	4.7	15.4
Mean	3.6	10.1

Implied upsides @ mean:

CEEN	29%	-55%
DNEN	13%	-43%
DOEN	62%	-38%
ZAEN	76%	-58%

Source: Bloomberg, Company data, Concorde Capital estimates

Russian peers, 2008E

	EV/S	EV/EBITDA
OGK-1	3.6	22.0
OGK-2	3.9	24.4
OGK-3	4.5	27.1
OGK-4	5.4	33.6
OGK-5	4.2	22.6
OGK-6	2.8	14.6
Mean	4.1	24.0

Implied upsides @ mean:

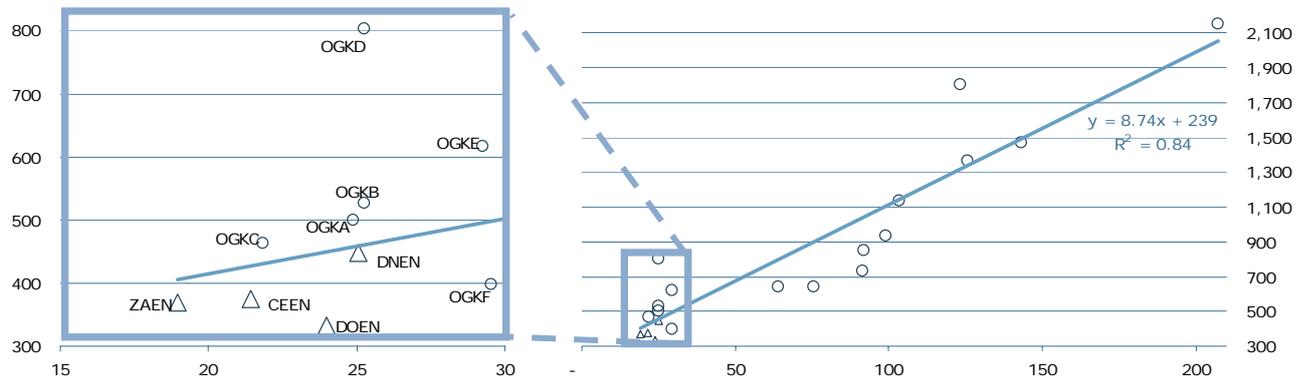
CEEN	49%	36%
DNEN	27%	32%
DOEN	86%	78%
ZAEN	101%	22%

Source: Bloomberg, Company data, Concorde Capital estimates

We continue to value GenCos by estimating implied EV/Capacity multiples based on the global relationship between EV/Capacity and EBITDA/Capacity.

As we discovered in our March 2007 sector update, there is a statistical linear relationship between EV/Capacity and EBITDA generated by a unit of capacity for global generation stocks.

EBITDA(08E)/Capacity vs EV/Capacity, USD/kW



Source: Bloomberg, Company data, Concorde Capital estimates

Ukrainian GenCos trade below the trend-line, while most OGKs – above. We believe that the premium valuation for OGKs is justified by larger long-term EBITDA forecasts for the Russian market.

The ratio presented above suggests GenCos’ EV/Capacity multiples should be in the range of 405 USD/kW – 458 USD/kW. We set our target prices for GenCos based on the aforementioned relationship.

Implied GenCos’ prices

	EBITDA/Capacity 08E, USD/kW	Implied EV/Capacity USD/kW	12M target USD	Upside	Rec.	Revision
CEEN	21.4	426	5.4	+9%	HOLD	Maintain
DNEN*	25.0	458	516.3	+1%	HOLD	Maintain
DOEN	24.0	449	43.2	+34%	BUY	Upgrade
ZAEN	18.9	405	130.4	+7%	HOLD	Maintain

Source: Bloomberg, Company data, Concorde Capital estimates

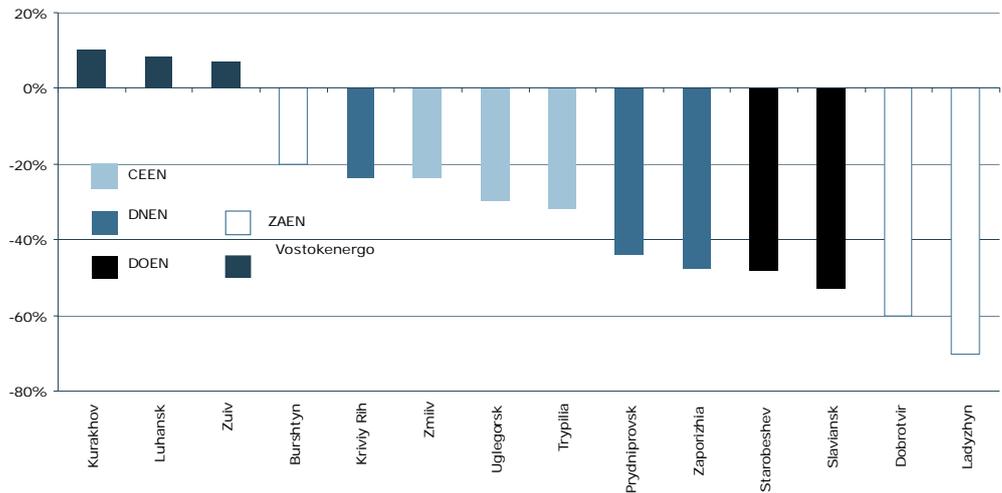
*DNEN implied price on a diluted basis (assuming restructuring is completed)

Sector changes

Strict coal stockpile regulation revised

The amended rules of the wholesale market, which stipulated an increase in coal stockpiles, proved inefficient: all state GenCos were unable to accumulate required reserves over September 2007. Only the three power plants controlled by privately-owned Vostokenergo, supplied by related private coal mines, were able to meet the schedule.

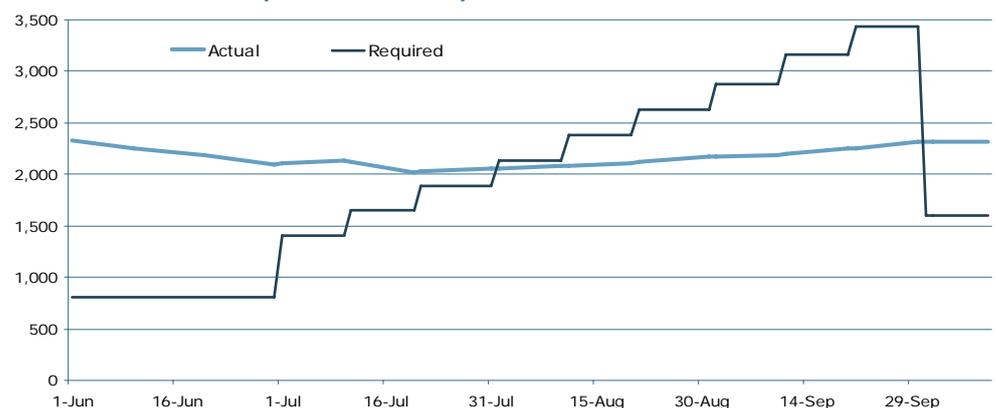
How power plants met coal stockpile requirements*: Sept. 30, 2007



Source: Energobiznes, NERC, Concorde Capital calculations
 * Actual less required stockpile, divided by required stockpile

Even halting coal-powered units and substituting them with gas-fueled units did not solve the problem: by the end of September, the coal shortfall was still 1130 ths mt, or 2-weeks of supplies from coal mines, assuming no use of coal. The National Electricity Regulatory Commission's solution – decrease the coal stockpile requirement from October 1.

GenCos' actual vs required coal stockpile, ths mt



Source: EnergoRynok, NERC

Since GenCos did not increase coal stockpiles and regulator decreased accumulation requirements, we revise upward our EBITDA forecasts for GenCos for FY2007 (refer to the next page).

Gas-fueled power units still operational

The decreased coal stockpile requirement from October 1 would have suggest no more need for the gas-fueled power units. However, three gas-fueled power units have remained functional for the first nine days of October, suggesting that EnergoRynok is not going to stop them. According to amendment to wholesale market rules, which is valid between October 1 and December 31 of 2007, gas-fueled power units can continue working with EnergoRynok's permission.

It looks like Dniproenergo and Centrenergo (which power plants have gas-fueled power units) have lobbied wholesale operator EnergoRynok to allow them to go on using one gas-fueled power unit per TPP. Thus we believe the gas power units will be operation until the end of December. If so, they will generate 1.9 TWh of electricity over 4Q07.

The operation of gas-fueled units has two benefits for the companies: higher output, and higher profit as costs for electricity generation by gas power units are fully compensated by the regulator.

Gas-fueled power units: Days in operation per period of 2007

Power plant/Unit	MW	Aug	Sep	Oct 1-9	Oct E	Nov E	Dec E
Zaporizhia TPP (DNEN)							
#5	800	-	-	-	-	-	-
#6	800						
#7	800	19	14	9	31	30	31
Uglegorsk TPP (CEEN)							
#5	800	-	-	-	-	-	-
#6	800	14	25	9	31	30	31
#7	800	-	-	-	-	-	-
Trypillia TPP (CEEN)							
#5	300	5	27	9	31	30	31
#6	300	-	-	-	-	-	-

Source: EnergoRynok, Concorde Capital estimates

We raise our forecast for Dniproenergo's and Centrenergo's output (each by 0.5 TWh) and sales (each by USD 26 mln).

GenCos forecast revisions (Change in absolute units is in brackets)

	Output, TWh		Sales, USD mln		EBITDA margin	
	2007	2008	2007	2008	2007	2008
CEEN	14.9 (+0.5)	14.4	634.7 (+25.6)	763.0	15.0% (+4.9%)	15.6%
DNEN	17.0 (+0.5)	17.9	722.2 (+27.9)	933.6	15.8% (+4.7%)	17.6%
DOEN	7.2 (-0.1)	8.0	299.0 (+0.0)	385.0	15.6% (+7.4%)	16.5%
ZAEN	15.1 (-0.4)	15.8	689.8 (-20.2)	824.2	10.2% (+2.3%)	10.8%

Source: EnergoRynok, Energobiznes, Concorde Capital estimates

Company news

Donbasenergo: New power units

Details on commissioning of 215 MW unit at Starobeshev TPP. This will be first Ukrainian power unit with CFB technology for burning coal. It was damaged during testing in 2005 and is now being repaired by the contractor. According to Donbasenergo, the unit will be tested by January 31, 2008, and it will be officially commissioned on March 15, 2008. The cheaper electricity provided the new unit will imply an increase in Donbasenergo's output and profits next year.

CFB power unit to be constructed at Slaviansk TPP. Donbasenergo announced it will create a joint venture with US-based ContourGlobal to construct a 125 MW CFB power unit at Slaviansk TPP. Donbasenergo contribute the site and infrastructure for the new unit and hold 65% in the JV. ContourGlobal will be responsible for financing construction. The new unit is expected to be commissioned in 2012, and thus will only have a long-term impact on Donbasenergo.

Dniproenergo: Restructuring not finished yet

Akhmetov decided to wait for moves by the new government. The restructuring process that will finish Dniproenergo's financial recovery involves:

- Dniproenergo's additional share issue will be exchanged for Investment Company LTD, which is backed by USD 208 mln in cash. As a result of the additional share issue, Akhmetov-related DTEK will increase its stake in Dniproenergo by 29%
- Investment agreement will be signed that oblige DTEK-related companies to invest USD 200 mln in Dniproenergo's reconstruction in 2008-2012
- Legal agreement between Dniproenergo and its board of creditors will be signed to finish the financial recovery process

According to Dniproenergo's management, this process could be finished in the near future. However, with the high probability that Yulia Tymoshenko, the biggest opponent of the restructuring, will become prime minister, the process is now frozen and will be finished only after it becomes clear that Tymoshenko will not "re-privatize" Dniproenergo. Because it will be hard to find legal reasons for cancellation, we expect the restructuring will be completed in early 2008. In the result of increase of its presence in Dniproenergo, DTEK will supply cheaper coal from related coal mines to the company, raising price competitiveness of its power plants and profitability in 2008.

USD 2.8 bln CapEx program for 2008-2030 worked out. Dniproenergo's management has worked out a capacity upgrade program for 2008-2030, which is separated into three stages. During the first stage (2008-2012), minor reconstruction is planned, and required investments are estimated at USD 383 mln, 50% of which will be financed by DTEK.

Zakhidenergo: Plans to increase exports

Burshtyn Island: Reconstruction of switchgears + reconstruction of power unit #9. According to Zakhidenergo, reconstruction of outdoor switchgears at Burstyn TPP will enable this power plant to increase the company's export capacity from 500/550 MW (winter/summer) to 650 MW year-round (+24% on average). Reconstruction is expected to be finished in mid-2008. When Burstyn TPP's power unit #9's modernization is completed by the end of summer 2008, it will increase the power plant's available capacity by 80 MW. We expect these modernizations will increase Zakhidenergo's export by 12% (and output by 4%) in 2008.

Dobrotvir TPP: Waiting for construction of new transmission lines. According to Zakhidenergo, the export potential of Dobrotvir TPP is 215 MW, but actual export capacity is 10%-20% lower due to lack of transmission capacity. The company is now studying the possibility of constructing new cross-border power lines to Poland to raise export capacity.

Analyst Certification

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Date	CEEN price, USD		DNEN price, USD		DOEN price, USD		ZAEN price, USD	
	Closing	Target	Closing	Target	Closing	Target	Closing	Target
13-May-05	0.79	0.76	75	88	4.2	6.8	27.7	29.0
30-May-05							27.7	30.5
4-Jul-05					4.4	6.0		
19-Jul-05							24.0	30.5
26-Sep-05	0.80	0.82	67	99	4.2	6.6	26.0	34.0
3-Jan-06	0.54	0.82						
26-Jun-06	0.79	0.91	76	123	5.2	7.4	26.5	34.0
25-Sep-06							32.0	34.0
26-Sep-06					7.2	7.4		
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
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	21.4	27.6	88.1	94.3
22-Jun-04			400	432				
23-Jul-07			366	432				
31-Aug-07			373	410				
10-Sep-07	4.06	4.20	383	410	27.6	27.6	103.8	94.3
10-Oct-07	4.99	5.40	512	516	32.3	43.2	121.7	130.4

Centrenerg (CEEN), USD



Dniproenergo (DNEN), USD



Donbasenergo (DOEN), USD



Zakhidenergo (ZAEN), USD



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