



CONCORDE CAPITAL

Ukraine / Real Estate

**KDD Group**

Portfolio valuation up 18%

September 05, 2008

Current price: GBP 0.84/ USD 1.49  
12M Target: U/R

**U/R**

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**Tickers**

LSE AIM KDDG

**Market information**

Market price, GBP	0.84
USD	1.49
MCap, GBP mln	136.0
USD mln	243.1
Chg YTD	-59%
Hi/Lo YTD, GBP	2.09 / 0.84
USD	4.11 / 1.49
No of shares, mln	162.7
Avg Mon Tr Vol YTD, USD mln	1.271
Free float	23%
Free float, GBP mln	31.3
USD mln	55.9

Prices as of Sep. 3, 2008

**Corporate Governance**

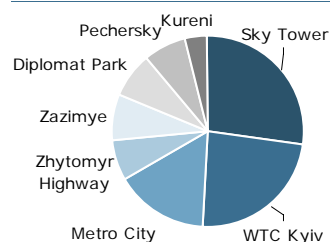
Concorde Rating\* Q

\* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

**Shareholders**

Group of seven individuals	77.1%
Portfolio investors	22.9%

**Portfolio value breakdown**



- This week, KDD Group reported 18% growth in its portfolio value over the eight months since September 2007
- More favorable assumptions used to revalue the portfolio were not adequately explained in the valuation report
- Project delivery schedule was shifted forward into the future and is now more feasible, in our view

**Portfolio value increased by 18% on revaluation of existing projects**

This week KDD Group released its new portfolio valuation by Colliers International as of June 30, 2008, which values KDD's portfolio at USD 1.1 bln, 18.3% higher than the previous valuation from September 30, 2007. The growth was solely due to the increase in the value of existing projects – no new ones were added.

Project	Valuation, USD mln			%	Constr. completion period		
	initial	new	chg		initial	new	shift
Sky Tower	226.7	293.8	67.1	30%	Q3 2010	Q3 2011	12 m
WTC Kyiv	226.6	249.3	22.7	10%	Q2 2010	Q2 2011	12 m
Metro City	163.3	170.2	6.9	4%	Q2 2011	Q2 2013	24 m
Zhytomyr Highway	51.0	73.3	22.3	44%	Q4 2010	Q2 2012	18 m
Zazimye	82.4	84.9	2.5	3%	Q1 2012	Q1 2012	-
Diplomat Park	50.6	83.7	33.1	65%	Q4 2011	Q4 2013	24 m
Pechersky	70.9	77.1	6.2	9%	Q4 2009	Q3 2010	9 m
Kureni	36.7	41.8	5.1	14%	Q4 2009	Q3 2010	9 m
<b>Total</b>	<b>908.2</b>	<b>1 074.1</b>	<b>165.9</b>	<b>18%</b>			

Source: Company data

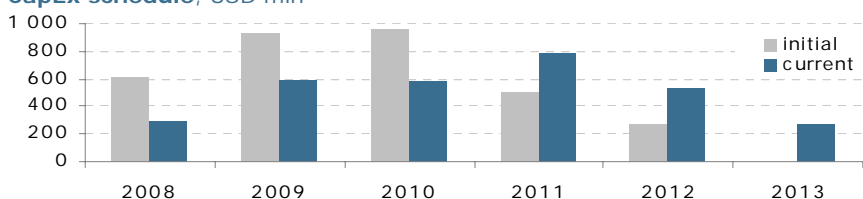
**More favorable assumptions on cap rates and rentals propel valuation**

Our analysis reveals the main reason behind the increase in portfolio value was the appraiser using more favorable assumptions in valuation. Specifically, we did not find adequate explanation in Colliers' report for the decrease in cap rates from 8% to 7% for Sky Tower and WTC, KDD's largest projects, which jointly contributed 54% of the growth in portfolio value. Similarly, the cap rate for the #3 project, Metro City, was cut to 7.5% from 8%. On top of that, Colliers raised its assumptions for office rental rates from USD 50-60/m<sup>2</sup>/month to USD 95/m<sup>2</sup>/month and occupancy rates from 90% to 95% for the Sky Tower and WTC projects. That said, we find it reasonable that Diplomat Park's expected construction cost was cut by a third, based on rates already contracted for the project.

**Construction schedule shifted forward, as expected**

In our Dec. 19, 2007 note on KDD, we contended that the company's portfolio faces significant execution risks. According to the new valuation report, KDD Group shifted project delivery further into the future. The most capital intense projects (such as Metro City and Zhytomyr Highway, with expected construction costs of USD 1.0 bln and 0.5 bln) were moved forward by 24 and 18 months, respectively. The new schedule looks much more feasible to us. In particular, the new CapEx schedule is now much smoother (see chart below).

**CapEx schedule, USD mln**



Source: Company data

# Disclosures

## Analyst certification

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

### KDDG LN ratings history

Date	Target price, USD	Market Price, USD	Rating	Action
19-Dec-07	N/R	4.05	N/R	N/R
23-Jun-08	N/R	3.38	N/R	N/R
04-Sep-08	N/R	1.49	N/R	N/R

## 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.

### Concorde Capital ratings distribution

Buy	94	76%
Hold	19	15%
Sell	7	6%
Under Review	4	3%
<b>Total</b>	<b>124</b>	<b>100%</b>

### Investment banking clients\*

Buy	7	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
<b>Total</b>	<b>7</b>	<b>100%</b>

\* Within the last twelve month period, Concorde Capital has obtained compensation from these companies for investment banking services.

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