



CONCORDE CAPITAL

Ukraine / Real Estate

KDD Group

IPO results announced

December 19, 2007

Current price: USD 4.05 / GBP 2.01
12M Target: N/R

N / R

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Tickers

Bloomberg KDDG LN

Market information

Market price, GBP	2.01
USD	4.05
MCap, GBP mln	325.4
USD mln	655.3
Chg YTD	0.5%
Hi/Lo YTD, GBP	2.05/2.00
USD	4.13/4.03
DRs/ ord.	1:1
No of shares, mln	161.9
Free float	19.7%
Free float, GBP mln	64.1
USD mln	129.0

Prices as of Dec. 18, 2007

Shareholders

Group of seven individuals	80.3%
Portfolio investors	19.7%

On December 17, 2007, the large domestic developer, KDD Group, announced its IPO results. While having raised USD 130 mln from the market, the placement settled on a low P/NAV of 0.72. We think that the low P/NAV is due partially to unfavorable markets, but point out that KDDG LN's discount to other Ukrainian and Russian developer stocks is justified by a high 'back end load' of the company's portfolio.

One more IPO in real estate expands the sector's liquidity

On December 17, the large domestic developer KDD Group (KDDG LN), which has a project portfolio of 2.7 mln m² of floor space, announced the results of its IPO on LSE AIM. The company raised USD 130 mln for a 19.7% stake implying market capitalization at a placement of c. USD 660 mln. With this placement, we estimate that the amount attracted in 2007 by Ukrainian real estate companies in equity totaled ~USD 840 mln, more than triple that of last year.

Is a discount justified?

Colliers valued KDD Group's portfolio at USD 908.2 mln as of September 30, 2007, which yields a P/NAV multiple of 0.72, a discount to Ukrainian and Russian peers' average of 1.0. While apparently exacerbated by unfavorable market sentiment, due to which a number of CIS developers postponed placements until 2008 (Teorema, XXI Century, ICD, etc), we think that the discount for KDDG LN has fundamental underpinnings related to its future financing needs and business profile.

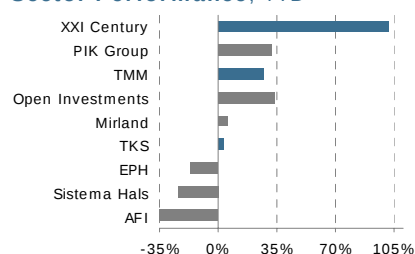
Internal cash generation makes a difference

KDD Group trades at an 18% discount to TMM. We think this is due to the market assigning premium valuations to real estate stocks with cash generating portfolios, or diversified into related cash-generating businesses. This is true for companies such as TMM in Ukraine (P/NAV of 1) or PIK in Russia (P/NAV of 1.7). A good confirmation of this point was the recent IPO of the Russian-based LSR Group in November 2007. This developer with secured cash flows from construction materials business placed its shares at a 23% premium to its portfolio NAV value by DTZ and despite correction still trades at a 10% premium.

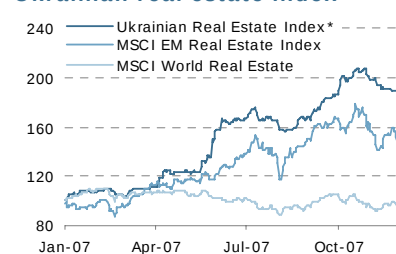
Projects in early stage, high financing needs in 2008-2010

We estimate that KDD Group's portfolio faces significant execution risks, as the company's projects are in early development stage and require external financing totaling ~USD 2 bln in 2008-2010. Similar risks are also applicable to XXI Century (see our report from December 12, 2007), and the two stocks trade at the same P/NAV of 0.7. Yet we feel that the latter has much better access to capital markets due to its stronger fund-raising track record. Conversely, at its IPO KDD Group raised less than a half of the initially declared USD 300 mln.

Sector Performance, YTD



Ukrainian real estate index



Source: Bloomberg, PFTS. Note: Ukrainian Real Estate Index is MCap-weighted; includes XXI Century, TMM, DUPD

Key financials & ratios, USD mln

	Revenue	EBITDA	Net Income	Book Value	Debt/Equity
2006	0.3	222.1	165.5	557.0	0.03
H1 2006	0.2	-0.2	-0.7	306.5	0.10
H1 2007	0.1	-0.7	-0.7	563.6	0.03

Spot exchange rate: 5.05 UAH/USD

FLASH NOTE

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P/NAV comparison

Company	Ticker	MCap, USD mln	NAV, USD mln	P/NAV
<i>Russian peers</i>				
AFI Development	AFID LI	4736.84	5600.0	0.8
Mirland	MLD LN	1030.79	1237.8	0.8
PIK Development	PIKK RU	15093.8	8800.0	1.7
RGI International	RGI LN	1172.96	2048.0	0.6
Sistema Hals	HALS RM	2238.37	2882.0	0.8
LSR Group	LSRG RU	5543.2	5000.0	1.1
Raven Russia*	RUS LN	767.215	265.0	2.9
RTM	RTMC RU	406	643.0	0.6
Open Investments	OIVS RU	4185.09	3240.0	1.3

Average: 1.0

Ukrainian peers

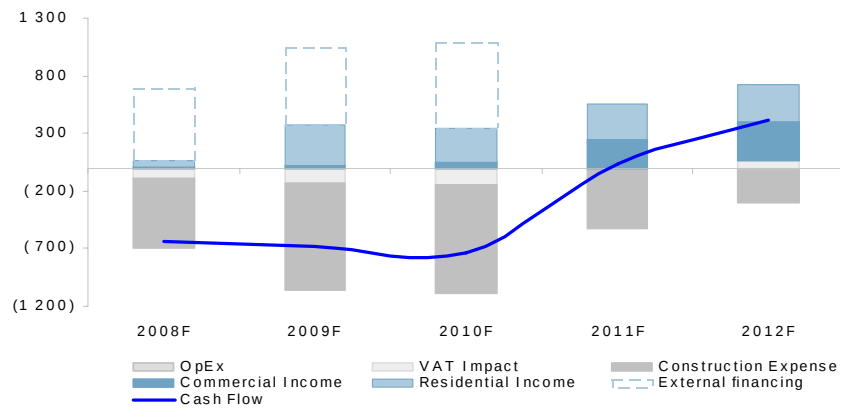
XXI Century	XXIC LN	1092.42	1498.0	0.7
AISI Realty*	AISI LN	126.802	40.5	3.1
TKS Management	37W1 GR	196.746	150.0	1.3
TMM Real Estate Development	TR61 GR	1103.23	1095.5	1.0

Average: 1.0

* excluded from the average as an outlier

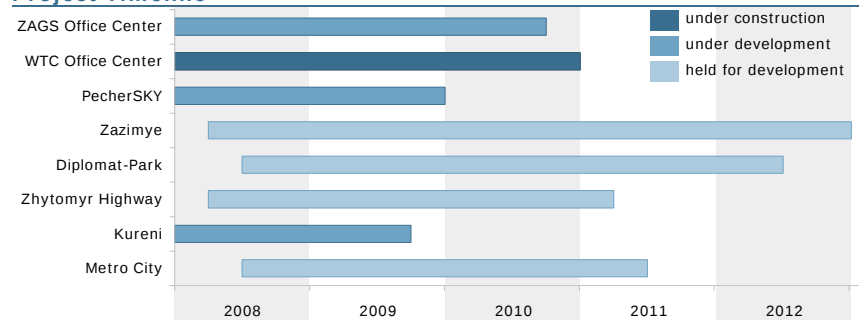
Source: Bloomberg, Concorde Capital estimates

Cash flow schedule, USD mln



Source: Company data, Concorde Capital estimates

Project Timeline



Source: Company data

Investment Ratings

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Concorde Capital ratings distribution			Investment banking clients [*]		
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Hold	36	34%	Hold	2	20%
Sell	18	17%	Sell	0	0%
Under Review	11	10%	Under Review	0	0%
Total	107	100%	Total	10	100%

^{*} Concorde Capital provided investment banking services to the company within the past 12 months.

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