



CONCORDE CAPITAL

Ukraine / Electricity

Kyivenergo

Analyst meeting note

April 04, 2008

Current price: USD 6.4
12M Target: USD 7.5

HOLD

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Tickers

Bloomberg KIEN UZ

Market information

Market price, USD 6.4
MCap, USD mln 690.0

Free float 9.4%
Free float, USD mln 64.9

Share number, mln 108.36

Shareholders

NC ECU 50.0%
Private blockholders 40.6%
Other 9.4%

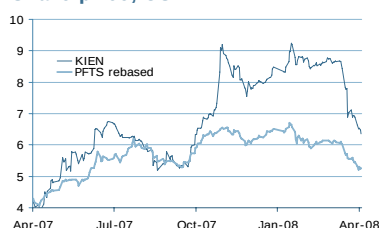
Key financials, USD mln

	2005	2006	2007
Sales	374.0	650.3	1,094.3
EBITDA	26.8	38.1	33.7
Net income	1.2	3.9	1.2

Key ratios

	2005	2006	2007
EV/S	2.0	1.2	0.8
EV/EBITDA	28.3	21.3	25.3
P/E	596	178	567

Share price, USD



Today Kyivenergo's CEO, Serhiy Titenko, organized a meeting with equity analysts – the first ever by a Ukrainian electricity company. On the background of a significant drop in its stock price (-25% since the beginning of March 2008, the highest among GenCos) the meeting was timely. Though we do not change our valuation of the company based on the meeting results, we highlight a remarkable improvement in corporate governance under the new CEO.

Key topics discussed at the meeting:

Heating losses yield wide range in bottom line forecasts for KIEN

Kyivenergo's heating segment generated USD 101 mln in losses in 2007, and only 77% of this amount has been compensated from the Kyiv city budget. According to Titenko, if the city of Kyiv compensates 2008 losses in full and pays back its "debt" for 2007, the company can generate USD 44 mln in net income in 2008. At the moment, the 2008 Kyiv budget provides for only about 30% of needed compensation.

We forecast 2008 compensation rate at close to the level in 2007. Under this assumption and other parameters in line with Titenko's forecasts, Kyivenergo's net income for 2008 will be USD 4.3 mln. As full compensation of heating losses is stipulated by the law 'On Prices and Pricing,' we believe in the mid-term all overdue compensation will be paid back.

Power network upgrade is primary task

According to Titenko, the company needs USD 520 mln in investments to upgrade its electricity network over the next four years to prevent a deficit of distribution capacity. The key sources of financing will be state subsidies and bank loans (EBRD, WBRD, local banks). The company is lobbying for electricity distribution tariffs that include provisions for repaying loans.

Approval of such regulations would improve the willingness of any financial institution to provide credit facilities to finance network upgrades.

No CapEx in generation is foreseen

The risk of gas price growth in 2009 to above USD 300 per ths cm makes investment in expanding Kyivenergo's generation segment unreasonable (finishing construction of gas-fired #3 power unit at Kyiv CHPP-6 which requires USD 160 mln investments). The company is not going to invest.

Privatization is only possible in two years

Titenko said that in the current regulatory and political environment, privatization of Kyivenergo looks unlikely.

We share his position that privatization is not likely before 2010.

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