

March 21, 2012

MHP

Upgrade on strong 4Q11 and improved poultry prices

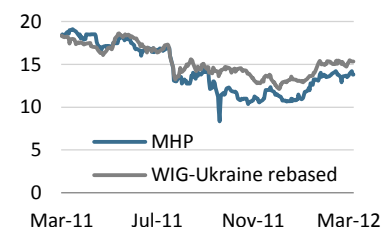
- MHP reported its 2011 financials yesterday: EBITDA grew 24% yoy to USD 401 mln, 4% above consensus and 3% above our forecast. Quarterly EBITDA was unexpectedly high, at USD 100 mln in 4Q11, even though it was harmed by a USD 41 mln loss due to the revaluation of biological assets.
- We attribute the strong 4Q to improved poultry prices, which resulted in the segment's EBITDA margin growing to 34% in 4Q11, up 4pp from 3Q11 and up 7 pp from 1H11. Poultry prices increased in 2H11 to UAH 16-17/kg from UAH 13-14/kg in 1H11. This compensated the lower margin in the agriculture segment where a biological assets revaluation resulted in a USD 41 mln loss in 4Q11, as the company realised a lower-than-expected corn yield (9.5 t/ha vs. 9.8 expected at end-3Q11) and faced a market-wide decrease in grain prices compared to end-3Q11.
- As poultry prices continue to be firm (+27% yoy in March 2012 according to MHP), we expect EBITDA margin in the company's poultry segment to improve from 30% in 2011 to 34% this year. In its crops segment, we expect margins to shrink in 2012, as we do not expect last year's positive weather shock to be repeated this year. MHP benefited more than its peers from weather in 2011, as it had one of the highest shares of corn, the yields of which outperformed long-term averages more than other crops. While the sale of carry-over crops from 2011 (about half of which are not yet sold) should partially offset the expected margin decline from the 2012 harvest, we expect MHP's EBITDA margin on crops to decrease from 44% in 2011 to 40% in 2012.
- We expect MHP to earn USD 449 mln in EBITDA in 2012, up 12% yoy and in line with the company's guidance of USD 450 mln revealed during the conference call yesterday. We forecast revenues to grow 11% yoy to USD 1,365 mln this year, driven mainly by poultry price appreciation.
- We assign a BUY recommendation, incorporating revised earnings projections, which are up 15% for 2012 from our last company update. Our target price of USD 19.3 per share, upside of 40%, is set by a 50/50 blend of DCF and comparison to peers on 2012 EV/EBITDA.

Yegor Samusenko

syg@concorde.com.ua

Bloomberg	MHPC LI
Reuters	MHPCq.L
Recommendation	BUY
Price, USD	13.8
12M target, USD	19.3
Upside	40%
No of shares, mln	107.9
Market Cap, USD mln	1,488.4
52-week performance	-25%
52-week range, USD	8.4/19.4
ADT, 12M, USD mln	2.1
Free float, %	19.3%
Free float, USD mln	287.3

Price performance, USD per share



Source: Bloomberg

Key 2011 results, forecast revisions

	2011E	2011 reported	Difference	2012 old	2012 new	Difference
Revenue, USD mln	1,115	1,229	10%	1,228	1,365	11%
EBITDA, USD mln	390	401	3%	392	449	15%
EBITDA Margin	35%	33%	-2pp	32%	33%	1pp
Net Income, USD mln	201	259	29%	221	273	24%
Net Margin	18%	21%	3pp	18%	20%	2pp

Source: Concorde Capital, Company data

Peer valuation

We use average EV/EBITDA 2012E of 5.9x for Ukrainian consumer goods companies as a reference for MHP. We assign a 50% weight to peer valuation to determine our target price.

Peer comparison

	MCap		EV				EV/Sales				EV/EBITDA				P/E			
	USD mln	USD mln	11	12E	13E	14E	11	12E	13E	14E	11	12E	13E	14E				
MHP	1,488	2,290	1.9	1.7	1.5	1.4	5.7	5.1	5.0	4.6	5.7	5.5	5.3	4.5				
Ukrainian consumer goods peers																		
Astarta	521	750	2.2	2.1	1.8	1.6	5.5	6.5	5.7	5.1	5.2	7.3	6.1	5.4				
Avangard	626	714	1.3	1.1	1.0	0.9	3.1	2.7	2.6	2.4	3.4	3.0	3.0	3.0				
Kernel	1,761	2,378	1.3	1.1	1.0	1.0	7.8	6.5	6.2	6.3	7.9	6.9	6.6	6.6				
Milkiland	168	238	0.6	0.6	0.5	0.4	5.0	4.5	3.9	3.4	7.9	6.1	5.0	4.0				
Ovostar	227	223	4.5	2.9	1.9	1.5	11.8	9.4	5.3	5.5	15.0	12.5	6.9	6.1				
Average			2.0	1.5	1.3	1.1	6.6	5.9	4.8	4.6	7.9	7.1	5.5	5.0				
MHP implied share price, USD			15.1	11.6	10.9	11.2	17.2	16.8	13.8	15.9	19.0	18.1	14.4	15.2				
Upside			10%	-16%	-21%	-19%	25%	22%	0%	15%	38%	31%	4%	10%				
Global protein peers																		
Brazil Foods	18,017	20,528	1.4	1.3	1.2	1.1	11.5	9.8	8.6	8.3	18.9	16.4	14.3	12.8				
China Yurun Food Group	2,672	2,802	0.8	0.7	0.6	0.5	9.2	8.8	6.9	5.6	13.4	14.2	10.3	7.8				
Charoen Pokphand Foods	9,306	10,827	1.6	1.1	0.9	0.8	14.7	10.5	9.3	8.1	18.0	14.0	12.4	10.2				
Universal Robina	3,104	3,034	1.9	1.8	1.6	1.4	12.2	10.9	9.6	8.0	23.2	19.0	16.3	14.0				
Cherkizovo Group	872	1,590	1.1	0.9	0.8	0.7	6.2	4.8	4.3	3.9	5.4	4.2	4.2	3.6				
Rainbow Chicken	685	681		0.7	0.6	0.6		7.5	6.7	6.7		14.2	12.3	12.1				
KFC Holdings Malaysia	970	1,009	1.2	1.0	1.0	0.9	9.2	8.7	8.0	7.6	18.7	17.5	15.8	15.3				
Sovereign Foods	60	86		0.5	0.5	0.4		12.8	4.7	4.0		-	-	8.2				
GFPT Public	407	498	1.1	1.0	0.9		6.8	6.3	5.8		10.1	8.3	7.5	7.3				
Astral Foods	692	697	0.7	0.6	0.5	0.5	6.7	6.6	5.8	5.2	11.8	11.7	9.9	9.5				
Marfig Alimentos	2,204	6,925	0.6	0.5	0.5	0.5	8.3	6.9	6.0	5.4	-	-	27.1	8.2				
Average			1.1	0.9	0.8	0.7	9.4	8.5	6.9	6.3	11.9	10.9	12.6	9.7				
MHP implied share price, USD			5.6	3.8	5.2	6.3	27.6	27.6	22.8	23.8	28.7	27.5	32.7	29.7				
Upside			-60%	-73%	-63%	-54%	100%	100%	65%	73%	108%	99%	137%	115%				

Source: Bloomberg, Concorde Capital estimates

DCF

We assign a 50% weight to DCF results to determine our target price. For detailed operating assumptions, please refer to the next page.

DCF output, USD mln

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
EBITDA	449	458	500	538	570	590	610	623	637	652
EBIT	355	361	401	439	470	490	509	521	534	547
Effective Tax Rate	2%	2%	3%	5%	7%	10%	10%	10%	10%	10%
Taxed EBIT	348	354	389	417	437	441	458	469	481	492
Plus D&A	94	97	99	99	100	100	101	102	103	105
Less CapEx	(329)	(129)	(111)	(67)	(87)	(66)	(80)	(93)	(93)	(103)
Less change in OWC	(71)	(86)	(91)	(99)	(75)	(59)	(59)	(35)	(35)	(36)
FCFF	-	236	286	350	376	416	421	444	456	458
WACC	13%	13%	14%	14%	14%	14%	14%	14%	14%	14%
Sum of disc't'd CF's		1,788								
Terminal Value										4,298
Disc't'd TV		1,370								
Firm value		3,159								43.4%
										Portion due to TV
Less Net Debt		(812)								
Equity Value as of 21 March 2013		2,347								Implied exit EBITDA Multiple
										6.6 x
Perpetuity Growth Rate										3.0%
Fair price of ord. share										USD 21.8

Source: Concorde Capital estimates

Sensitivity analysis, USD per share

WACC	Perpetuity Growth Rate					WACC	Exit Multiple (EBITDA)				
	2.0%	2.5%	3.0%	3.5%	4.0%		4.6 x	5.6 x	6.6 x	7.6 x	8.6 x
-3.0%	25.8	26.5	27.3	28.1	29.1	-3.0%	22.4	24.9	27.3	29.7	32.2
-2.0%	23.9	24.6	25.3	26.1	26.9	-2.0%	20.8	23.1	25.3	27.6	29.8
-1.0%	22.2	22.8	23.5	24.2	25.0	-1.0%	19.3	21.4	23.5	25.5	27.6
+0.0%	20.6	21.1	21.8	22.4	23.2	+0.0%	17.9	19.8	21.8	23.7	25.6
+1.0%	19.1	19.6	20.2	20.8	21.5	+1.0%	16.6	18.4	20.2	22.0	23.7
+2.0%	17.7	18.2	18.7	19.3	19.9	+2.0%	15.4	17.1	18.7	20.4	22.0
+3.0%	16.4	16.9	17.3	17.9	18.5	+3.0%	14.3	15.8	17.3	18.9	20.4

Source: Concorde Capital estimates

WACC decomposition

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Debt-to-Equity	0.74	0.50	0.36	0.27	0.26	0.26	0.26	0.26	0.25	0.25
Avg. after-tax Interest Rate	9.3%	9.2%	9.0%	9.4%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%
Ukr. Eurobonds YTM	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Equity premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Comp.-specif. prem.	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Cost of Equity	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%
WACC	12.8%	13.3%	13.7%	14.1%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
WACC to Perpetuity	14.0%									

Source: Company data, Concorde Capital estimates

Operating assumptions

Poultry segment

	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Sales volumes to third parties, kt	331	371	381	425	475	525	550	565	580	580	580	580
Chicken price, yoy	-21%	10%	12%	4%	3%	3%	3%	3%	3%	3%	3%	3%
EBITDA/kg, USD	0.74	0.71	0.88	0.83	0.81	0.78	0.78	0.79	0.79	0.81	0.84	0.86
Local sales EBITDA, USD/kg		0.75	0.95	0.91	0.89	0.90	0.92	0.94	0.97	1.00	1.03	1.06
Export sales EBITDA, USD/kg		0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Share of local sales		90%	88%	85%	84%	76%	73%	71%	69%	69%	69%	69%

Source: Company data, Concorde Capital

Crops segment

	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Landbank cropped, ths ha	150	250	280	280	300	320	350	350	350	350	350	350
Revenue, USD/ha	999	1,105	900	845	835	824	837	851	864	878	892	906
EBITDA, USD/ha	458	482	360	338	351	363	368	374	380	386	393	399

Crop segment balance, USD mln

Inventories at the year start	48.6	77.1	131.8	134.3	129.8	133.1	138.9	151.2	157.1	160.8	163.8	166.6
Sales to third parties	35.6	103.7	135.2	121.4	115.0	113.7	127.2	131.6	131.7	134.5	137.0	139.3
Intersegment sales	85.7	117.8	114.3	119.6	132.2	144.2	153.5	160.2	167.0	169.7	172.5	175.2
Sales as % of supply	61%	63%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%
Inventories at the year end	77.1	131.8	134.3	129.8	133.1	138.9	151.2	157.1	160.8	163.8	166.6	169.4

Source: Company data, Concorde Capital

Sunflower seed processing

	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Sunflower oil sales volumes, kt	196	174	180	180	180	180	180	180	180	180	180	180
Sunflower oil price, USD/t	28%	35%	-12%	-6%	-1%	-1%	2%	2%	2%	2%	2%	2%
EBITDA margin	14%	15%	13%	12%	11%	10%	10%	10%	10%	10%	10%	10%

Source: Company data, Concorde Capital

Meat processing and other

	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Meat processing sales, USD mln	80	100	108	126	147	169	184	196	210	218	227	236
Other sales, USD mln	28	46	46	46	46	46	46	46	46	46	46	46
EBITDA margin	8%	11%	11%	12%	13%	14%	15%	15%	15%	15%	15%	15%

Source: Company data, Concorde Capital

Revenue by segment, USD mln

	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Sunflower	180	216	198	186	184	181	184	187	190	193	196	199
Poultry	620	763	878	1,018	1,172	1,335	1,440	1,524	1,611	1,659	1,709	1,761
Agriculture	36	104	135	121	115	114	127	132	132	135	137	139
Other	108	146	154	172	193	215	230	242	256	264	273	282
Total	944	1,229	1,365	1,498	1,664	1,844	1,981	2,085	2,189	2,251	2,315	2,381
yoy	33%	30%	11%	10%	11%	11%	7%	5%	5%	3%	3%	3%

Source: Company data, Concorde Capital

Revenue growth by segment

	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Sunflower	78%	20%	-8%	-6%	-1%	-1%	2%	2%	2%	2%	2%	2%
Poultry	30%	23%	15%	16%	15%	14%	8%	6%	6%	3%	3%	3%
Agriculture	-22%	189%	30%	-10%	-5%	-1%	12%	3%	0%	2%	2%	2%
Other	23%	35%	5%	12%	12%	11%	7%	5%	5%	3%	3%	3%
Total	33%	30%	11%	10%	11%	11%	7%	5%	5%	3%	3%	3%

Source: Company data, Concorde Capital

EBITDA by segment, USD mln

	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Sunflower	27	26	26	22	20	18	18	19	19	19	20	20
Poultry	246	265	337	354	385	411	427	444	461	473	485	497
Agriculture	68	121	101	95	105	116	129	131	133	135	137	140
Other	12	19	17	21	25	30	34	36	38	40	41	42
Unallocated SG&A	(28)	(30)	(31)	(34)	(36)	(37)	(39)	(40)	(42)	(43)	(45)	(47)
Total	325	401	449	458	500	538	570	590	610	623	637	652
yoy	20%	23%	12%	2%	9%	8%	6%	3%	3%	2%	2%	2%

Source: Company data, Concorde Capital

Financials

Income statement, USD mln

	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Net Revenues	944	1,229	1,365	1,498	1,664	1,844	1,981	2,085	2,189	2,251	2,315	2,381
Change y-o-y	32.8%	30.2%	11.0%	9.8%	11.1%	10.9%	7.4%	5.2%	5.0%	2.9%	2.8%	2.8%
Cost Of Sales	(624)	(822)	(882)	(1,007)	(1,132)	(1,269)	(1,372)	(1,454)	(1,535)	(1,583)	(1,632)	(1,682)
Gross Profit	349	428	483	491	532	575	609	631	653	668	684	699
SG&A	(91)	(93)	(102)	(108)	(115)	(129)	(139)	(146)	(153)	(158)	(162)	(167)
Other Operating Income/Costs. net	66	66	68	75	83	92	99	104	109	113	116	119
EBITDA	325	401	449	458	500	538	570	590	610	623	637	652
EBITDA margin. %	34.4%	32.6%	32.9%	30.6%	30.1%	29.2%	28.8%	28.3%	27.9%	27.7%	27.5%	27.4%
Depreciation	(68)	(80)	(94)	(97)	(99)	(99)	(100)	(100)	(101)	(102)	(103)	(105)
EBIT	257	321	355	361	401	439	470	490	509	521	534	547
EBIT margin. %	27.2%	26.1%	26.0%	24.1%	24.1%	23.8%	23.7%	23.5%	23.3%	23.2%	23.1%	23.0%
Interest Expense	(63)	(66)	(83)	(75)	(62)	(53)	(46)	(46)	(47)	(48)	(48)	(48)
Financial income	13	6	6	-	-	-	-	-	-	-	-	-
Other income/(expense)	10	1	-	-	-	-	-	-	-	-	-	-
PBT	217	262	278	286	339	386	423	443	462	474	486	499
Tax	(2)	(3)	(6)	(6)	(10)	(19)	(30)	(44)	(46)	(47)	(49)	(50)
Effective tax rate	1%	1%	2%	2%	3%	5%	7%	10%	10%	10%	10%	10%
Net Income	215	259	273	280	329	367	394	399	416	426	437	449
Net Margin. %	22.8%	21.1%	20.0%	18.7%	19.8%	19.9%	19.9%	19.1%	19.0%	18.9%	18.9%	18.8%
Dividend Declared			-	-	82	184	315	359	375	405	402	413

Balance sheet, USD mln

	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Current Assets	719	809	822	926	1,037	1,158	1,249	1,321	1,392	1,434	1,477	1,521
Cash & Equivalents	174	97	41	45	50	55	59	63	66	68	69	71
Trade Receivables	53	66	75	82	92	101	109	115	120	124	127	131
Inventories	363	487	529	604	679	762	823	872	921	950	979	1,009
Other current assets	129	159	177	195	216	240	258	271	285	293	301	310
Fixed Assets	855	1,136	1,381	1,426	1,455	1,441	1,441	1,417	1,406	1,404	1,400	1,404
PP&E. net	745	1,009	1,244	1,276	1,288	1,256	1,243	1,209	1,188	1,179	1,168	1,166
Other Fixed Assets	110	127	136	150	166	184	198	208	219	225	232	238
Total Assets	1,574	1,944	2,203	2,352	2,491	2,599	2,690	2,738	2,798	2,838	2,876	2,925
Shareholders' Equity	670	926	1,199	1,479	1,726	1,909	1,988	2,028	2,070	2,091	2,126	2,162
Share Capital	285	285	285	285	285	285	285	285	285	285	285	285
Reserves and Other	386	641	914	1,195	1,441	1,625	1,704	1,744	1,785	1,807	1,842	1,877
Current Liabilities	242	308	402	270	163	386	398	406	424	443	446	459
ST Interest Bearing Debt	174	190	285	140	17	224	224	222	231	244	241	248
Trade Payables	19	53	44	50	57	63	69	73	77	79	82	84
Other Current Liabilities	50	65	73	80	88	98	105	111	116	120	123	127
LT Liabilities	661	711	602	603	603	303	304	304	304	304	304	304
LT Interest Bearing Debt	658	709	600	600	600	300	300	300	300	300	300	300
Other LT	3	2	2	3	3	3	4	4	4	4	4	4
Total Liabilities & Equity	1,574	1,944	2,203	2,352	2,491	2,599	2,690	2,738	2,798	2,838	2,876	2,925

Cash flow statement, USD mln

	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Net Income	215	259	273	280	329	367	394	399	416	426	437	449
Depreciation	68	80	94	97	99	99	100	100	101	102	103	105
Non-operating and non-cash items	(20)	(17)	(8)	(13)	(16)	(18)	(13)	(10)	(10)	(6)	(6)	(6)
Changes in working capital	(167)	(125)	(71)	(86)	(91)	(99)	(75)	(59)	(59)	(35)	(35)	(36)
Operating Cash Flow	97	198	288	278	321	349	406	430	448	488	499	511
Capital Expenditures. net	(188)	(246)	(329)	(129)	(111)	(67)	(87)	(66)	(80)	(93)	(93)	(103)
Other Investments. net	(141)	125	-	-	-	-	-	-	-	-	-	-
Investing Cash Flow	(330)	(121)	(329)	(129)	(111)	(67)	(87)	(66)	(80)	(93)	(93)	(103)
Net Borrowings/(repayments)	328	5	(13)	(145)	(123)	(93)	(0)	(2)	9	12	(2)	6
Dividends Paid/Share Buybacks	(46)	-	-	-	(82)	(184)	(315)	(359)	(375)	(405)	(402)	(413)
Other	(31)	(26)	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	250	(21)	(13)	(145)	(205)	(277)	(315)	(361)	(365)	(393)	(405)	(406)
Beginning Cash Balance	22	39	95	41	45	50	55	59	63	66	68	69
Ending Cash Balance	39	95	41	45	50	55	59	63	66	68	69	71
Net Cash Inflows/Outflows	17	55	(54)	4	5	5	4	3	3	2	2	2

Source: Company data, Concorde Capital

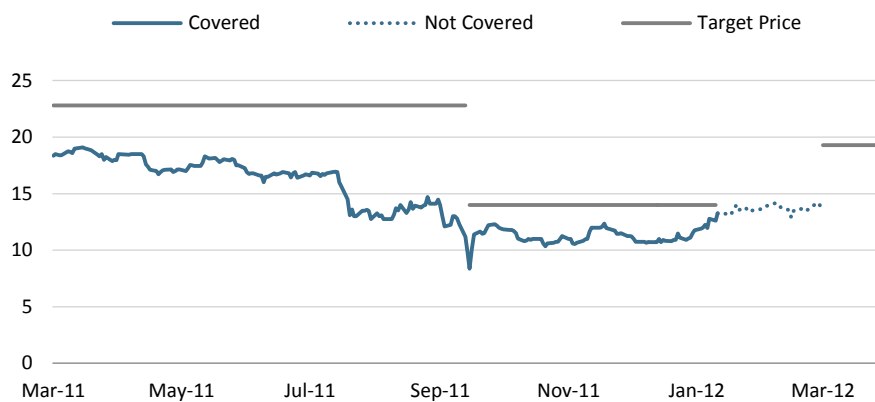
APPENDICES

Analyst certification

I, Yegor Samusenko, 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	12M target price, USD	Market price, USD	Rating	Action
30 September 2010	22.8	15.2	BUY	Initiate
05 October 2011	14.0	8.35	BUY	Maintain
31 January 2012	N/R	13.3	U/R	Under review
21 March 2012	19.3	13.8	BUY	Maintain

MHP target price vs. share performance, USD per share



Source: Bloomberg, Concorde Capital

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 20% 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 20%. 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.

Contacts

CONCORDE CAPITAL
2 Mechnikova Street, 16th Floor
Parus Business Centre
Kyiv 01601, Ukraine
Tel.: +380 44 391 5577
Fax: +380 44 391 5571
www.concorde.ua
Bloomberg: TYPE CONR <GO>

CEO

Igor Mazepa im@concorde.com.ua

SALES

Head of Sales & Trading

Luba Yurchyk ly@concorde.com.ua

International Sales & Trading

Katerina Shevchenko ksh@concorde.com.ua
Marina Martirosyan mm@concorde.com.ua
Rostyslav Shmanenko rs@concorde.com.ua

RESEARCH

Head of Research

Alexander Paraschiy ap@concorde.com.ua

Agriculture, Consumer

Yegor Samusenko syg@concorde.com.ua

Economics

Svetlana Rekrut sr@concorde.com.ua

Machinery

Roman Dmytrenko rd@concorde.com.ua

Utilities, Telecommunications

Alexander Paraschiy ap@concorde.com.ua

Fixed income, Energy

Vitaliy Vavryshchuk vv@concorde.com.ua

Metals & Mining

Roman Topolyuk rt@concorde.com.ua

Financials

Olena Zuikova olz@concorde.com.ua

Corporate governance, Politics

Brad Wells bw@concorde.com.ua

Editor

Brad Wells bw@concorde.com.ua

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