



April 06, 2009

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- With an expected increase in sales in 2009 of 25% (due to yoy increase in average retail tariffs) and moderate 7%-8% reduction in EBITDA, the Oblenergo sector will remain one of the most fundamentally stable in the tough economic environment
- Debt is not a burning concern for the sector, as all the companies except Donetskoblenergo have restructured their overdue payables
- Low liquidity in the sector prompts us to revise our approach to Oblenergo stock recommendations; we now estimate yields for buying and holding/selling strategies separately
- Under current bid/ask prices, we see only three BUY opportunities, even though 17 stocks promise triple-digit upsides to the mid-market
- We recommend BUYing relatively liquid, large state-controlled Oblenergos, and keeping an eye on smaller companies still partly state-owned
- Large spreads make selling inadvisable: we have only two stocks rated SELL

WATCH:

Keep on the radar the new government push for the long-awaited privatization of 25%-27% stakes in Poltavaoblenergo, Prykarpatoblenergo, Lvivoblenergo, Chernihivoblenergo, Sumyoblenergo and Odesaoblenergo. We estimate the probability of at least one tender being held as high (see our flash note of March 18).

Market summary

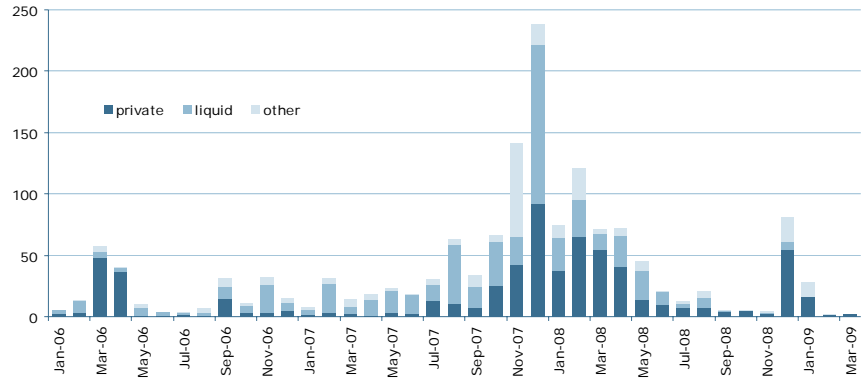
		Mid-market, UAH	Mid-market, USD	MCap, USD	EV/Sales 09E	EV/EBITDA 09E	12M fair value, USD	Rec.
Chernivtsioblenergo	CHEN	5.4	0.7	37.7	1.0	1.7	1.1	HOLD
Chernihivoblenergo	CHEON	1.9	0.2	28.1	0.3	0.4	1.1	HOLD
Cherkasyoblenergo	CHON	2.9	0.4	53.4	0.4	0.4	1.0	HOLD
Dniprooblenergo	DNON	122.5	15.2	91.1	0.1	2.5	51.7	BUY
Donetskoblenergo	DOON	5.1	0.6	41.5	0.6	187.7	3.2	HOLD
Kharkivoblenergo	HAON	1.7	0.2	54.9	0.2	0.6	0.9	BUY
Khmelnitskoblenergo	HMON	3.7	0.5	60.9	0.7	0.7	1.0	HOLD
Khersonoblenergo	HOEN	2.1	0.3	46.6	0.5	3.0	0.6	HOLD
Kirovohradoblenergo	KION	4.3	0.5	62.9	1.1	4.6	0.9	HOLD
Krymenergo	KREN	1.8	0.2	39.2	0.4	3.4	1.0	BUY
Lvivoblenergo	LVON	2.2	0.3	52.3	0.3	0.8	1.0	HOLD
Odesaoblenergo	ODEN	1.5	0.2	38.8	0.4	5.5	0.2	HOLD
Poltavaoblenergo	POON	2.3	0.3	62.6	0.4	0.8	0.8	HOLD
Prykarpatoblenergo	PREN	3.0	0.4	37.9	0.6	0.1	1.3	HOLD
Sevastopolenergo	SMEN	8.8	1.1	29.2	0.7	3.2	0.5	SELL
Ternopiloblenergo	TOEN	4.7	0.6	35.6	0.6	0.6	1.5	HOLD
Vinnitsaoblenergo	VIEN	101.5	12.6	39.0	0.5	1.6	50.2	HOLD
Volynoblenergo	VOEN	0.4	0.1	26.1	0.4	0.3	0.2	HOLD
Zaporizhiaoblenergo	ZAON	2.8	0.3	62.3	0.2	neg	1.0	HOLD
Zhytomyroblenergo	ZHEN	2.1	0.3	31.1	0.5	3.7	0.9	HOLD
Zakarpatooblenergo	ZOEN	2.6	0.3	39.5	0.6	1.2	0.8	HOLD
PES-Energogol	ENUG	14.5	1.8	9.9	0.2	0.4	3.2	SELL

Source: PFTS, company data, Concorde Capital

Liquidity freezes up

Overall, trading of Oblenergo stocks on the PFTS in recent months has been characterized by extremely low volumes, with current median spread of 84% (vs. 34% in 2007 and 40% in 2008).

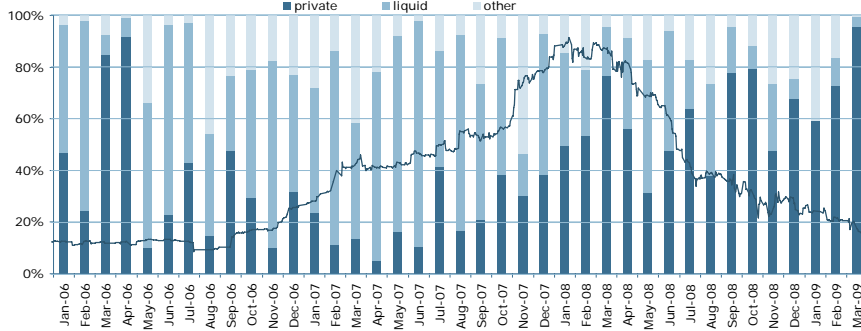
Monthly trading volumes, UAH mln



Source: PFTS, Concorde Capital calculations

The group that in the past we highlighted as liquid (DNON, KREN, HAON and ZAON) have stopped trading in 2009. Now the most trading is taking place in privately-controlled Oblenergo names (CHEON, ENUG, KION, LVON, ODEN, POON, PREN, SMEN and ZHEN). We relate this to activated share buyouts. Indicatively, private Oblenergos (1/3 of Oblenergos' total free float MCap) have accounted for more than 3/4 of sector trading volumes since late 2008. Moreover, even when trading in the rest of the sector has seized up, private Oblenergo stocks have still been changing hands.

Stocks traded by groups, % of total Oblenergo trades



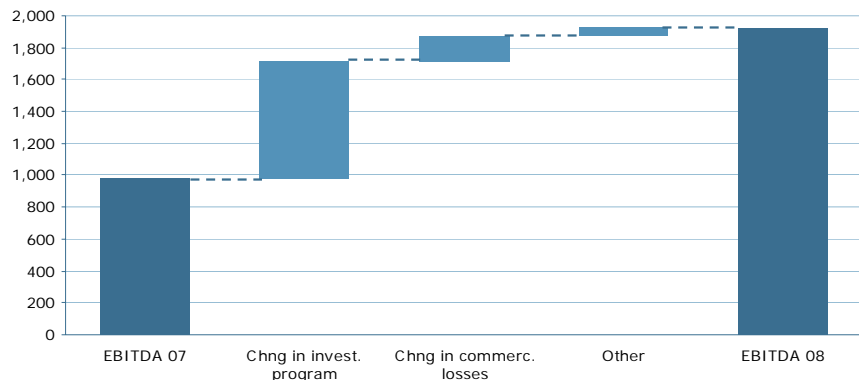
Note: Line chart represents the unweighted index for representatives of the Oblenergo sector: DNON, KREN, ZHEN, PREN, VIEN and CHEN

Source: PFTS, Concorde Capital calculations

2008 EBITDA hit historical maximums

As we highlighted in our previous reports, the majority of EBITDA changes for Oblenergos can be explained by changes in their investment programs (accounted for in tariffs) adopted by NERC. With the highest ever increase in investment programs, the aggregate EBITDA of the Oblenergo sector grew 97% yoy in 2008 – close to our expectation of 102% growth.

Sector's aggregate 2008 EBITDA change: key factors



Source: Company data, NERC, Energobiznes, Concorde Capital estimates

P&L summary, 2008

	Net revenue		EBITDA		Margin	Net income	
	USD mln	yoy	USD mln	yoy		USD mln	Margin
Large industrial Oblenergos: lowest margins							
DNON	1519.5	14%	44.9	161%	3%	15.9	1%
ZAON	690.7	27%	7.6	-4%	1%	-4.3	-1%
Non-industrial Oblenergos:							
Private with preferential tariffs: decreased profits, no longer highest margins							
KION	100.6	34%	8.3	-35%	8%	0.2	0%
SMEN	65.0	27%	9.9	57%	15%	3.9	6%
ZHEN	133.5	32%	5.6	-49%	4%	-7.3	-5%
Private with non-preferential tariffs: above-median margins, moderate growth							
CHEON	110.4	33%	14.4	115%	13%	7.4	7%
LVON	236.0	30%	29.5	140%	12%	13.3	6%
ODEN	371.4	38%	24.3	-19%	7%	1.1	0%
PREN	104.9	2%	21.0	142%	20%	11.9	11%
POON	246.6	28%	23.7	13%	10%	3.8	2%
SOEN	110.2	27%	16.4	96%	15%	7.5	7%
State-controlled: highest profit growth							
CHEN	70.0	35%	10.9	234%	16%	5.8	8%
CHON	133.5	41%	18.1	47%	14%	9.5	7%
DOON	568.8	27%	4.6	n/m	1%	-0.8	0%
HAON	356.5	32%	34.6	45%	10%	3.6	1%
HMON	120.9	38%	15.2	92%	13%	5.6	5%
KREN	263.7	30%	21.9	20%	8%	5.4	2%
MYON	141.2	35%	4.4	67%	3%	2.3	2%
TOEN	67.4	32%	7.9	88%	12%	-1.1	-2%
VIEN	122.7	31%	16.3	203%	13%	5.7	5%
VOEN	74.6	28%	9.8	141%	13%	1.2	2%
ZOEN	92.2	23%	15.8	312%	17%	4.9	5%

Note: Gray cells represent worst in class; blue cells - best in class
Source: Company data, Concorde Capital calculations

Main 2008 winners: PREN and ZOEN

ZOEN and PREN showed the largest EBITDA margins in 2008, significantly beating our forecast. The companies benefited from increased tariffs in fall 2008, which were meant to compensate for damage sustained when their grids had suffered from flooding in August 2008. Most of their extra EBITDA increase was related to additional cash injection for urgent reconstruction – a one-time event. In contrast to our expectations, proceeds from extra investments were not expensed but capitalized.

Positive surprises: VIEN, CHEN, and DOON

In addition to ZOEN, three other state-controlled Oblenergos (VIEN, CHEN and DOON) beat our forecasts. We attribute this to a faster than we expected reduction in the companies' commercial electricity losses.

Worst performers: VS Energy-related

Most Oblenergos controlled by VS Energy (ZHEN, KION, ODEN and MYON) underperformed our expectations. Moreover, ZHEN and KION unexpectedly sharply cut EBITDA, which we relate to losses from non-core businesses (investment activities, etc.) These companies reported steep increases in "other operating losses" in 4Q08. We believe the effect is one-off, and expect an increase in their bottom lines in 2009. Still, the lack of transparency in this group raises the risk of unexpected losses in the future.

Outlook for 2009

Privatization of blocking stakes: second attempt

The privatization of 25%-27% stakes in six Oblenergos (CHEON, LVON, ODEN, POON, PREN and SOEN) is once again slated for 2009, following the government's failure to put these on the privatization block last year.

Privatization schedule

Company	Ticker	Stake	Date
Poltavaoblenergo	POON	25%+1	22-Apr-09
Prykarpatooblenergo	PREN	25.02%	24-Apr-09
Lvivoblenergo	LVON	26.98%	29-Apr-09
Chernihivoblenergo	CHEON	25%+1	14-May-09
Odesaoblenergo	ODEN	25.01%	19-May-09
Sumyoblenergo	SOEN	25%+1	22-May-09

Source: SPF

In contrast to the situation in 2008 when the government's attempts to privatize the blocks met fierce opposition from the President and then-head of the SPF, Valentina Semeniuk, this year the government has a stronger hand with Tymoshenko now pulling the levers at the SPF.

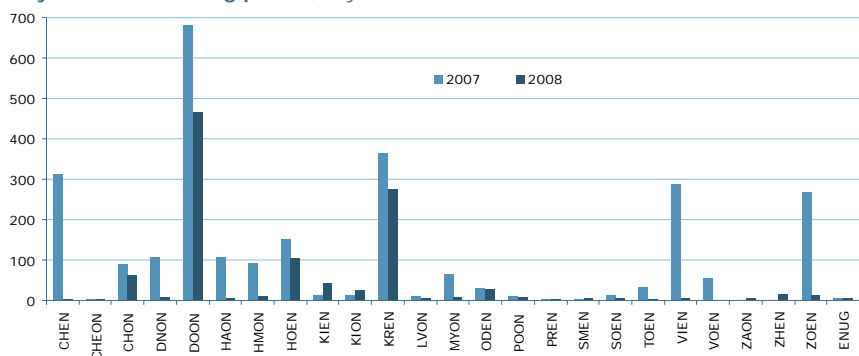
Still, there is no certainty that the tenders will take place this year either, and could even be cancelled in the final hour before they are due to start. Two events could easily spoil the Cabinet's plan to privatize these companies: a presidential ban (via suspending Cabinet or SPF orders to conduct the privatizations) or a decision from any Ukrainian local court banning the privatization.

We consider the probability of successful privatization of all six stakes at below 25%, with probability at least one of the blocks being sold at above 75%.

Bankruptcy risk: now pressing for DOON only

As of end-2008, the majority of Oblenergos restructured overdue payables, significantly reducing their bankruptcy risk. Only two still report relatively high payables: Krymenergo and Donetskoblenergo. The former is going to restructure in 1Q09: restructuring has already been agreed to with the company's main creditor, Energorynok. Thus, Donetskoblenergo remains the only company with high payables, and has nearly two years to restructure (until the bankruptcy-protecting law expires). We consider the bankruptcy risk for DOON as moderate in 2011.

Payables outstanding period, days



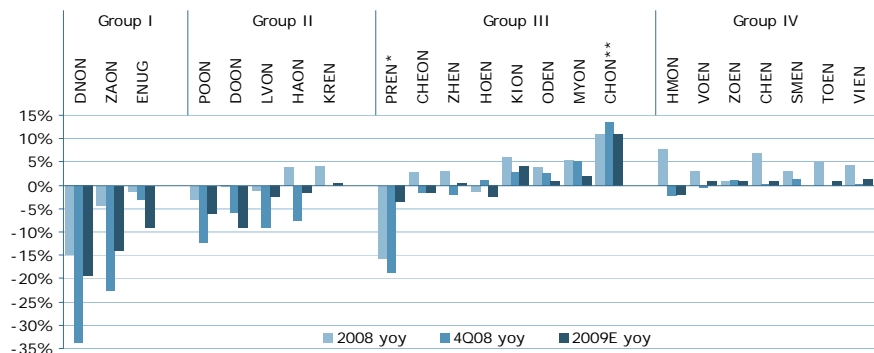
Source: Company data, Concorde Capital calculations

Sales to slow for industrial Oblenergos

We expect a 7.5% yoy decrease of overall power demand in Ukraine, which will be reflected in a 6.7% reduction in electricity supply by listed Oblenergos. The largest drop is expected in industrial regions, and Oblenergos with the largest share of industrial consumers will suffer the most: Dniprobenergo, Zaporizhyaoblenergo and PES-Energougol. A lesser negative effect is expected at Poltavaoblenergo, Kharkivoblenergo, Krymenergo and Donetskoblenergo.

The best positioned in 2009 are Oblenergos in non-industrial regions: Chernivtsioblenergo, Khmel'nitskoblenergo, Sevastopoblenergo, Sumyoblenergo, Ternopiloblenergo, Vinnytsyaoblenergo, Volynoblenergo and Zakarpatooblenergo. In addition, Cherkasyoblenergo could show the largest increase in sales and power supply in 2009: its main customer, Azot Cherkasy, stopped bypassing the company and has been directly purchasing electricity since late-2008.

Electricity supply changes yoy



Source: ErgoBiznes, Concorde Capital estimates

Note: Group I – companies with above 80% of industrial consumers, Group II – companies with above 40% of industrial consumers, Group III – companies with above 40% of industrial consumers with a large share (above 20%) accounted for by a single consumer; Group IV – companies with a low share of industrial consumers

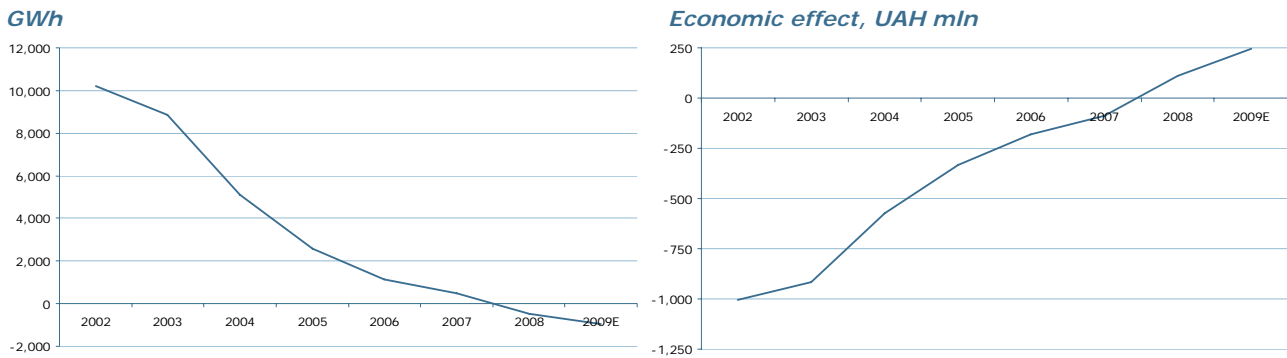
Sector-wide EBITDA to decrease

With a slight drop in EBITDA and modest increase in revenues in 2009, the Oblenergo sector is likely to be one of the strongest fundamentally in the current economic environment.

We expect an aggregate yoy decrease in the sector's EBITDA of 7.5% in 2009. The key factor putting on the downward pressure is the decrease in distribution tariffs in 2009. The regulator's priority for this year is to prevent an increase in retail electricity tariffs, redistributing tariffs to the maximum benefit of coal-fired GenCos (who are main coal consumers in the country, and would thus support the coal industry during the crisis). The aggregate investments built into listed Oblenergos' tariffs, after a 49.2% yoy increase in 2008, dropped 15% yoy in 2009, based on figures approved by NERC.

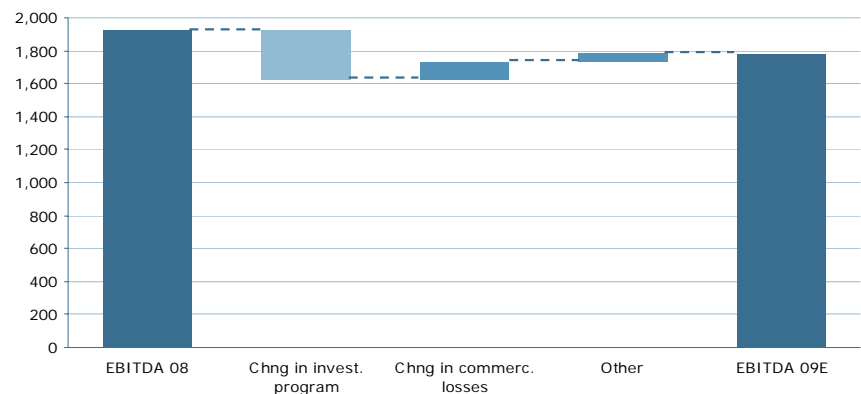
The only factor set to put upward pressure on the sector's EBITDA in 2009 is the expected continuation of reductions in commercial losses. Still, as we highlighted in our previous reports, the potential for decreasing Oblenergos' commercial losses (those in excess of the amount allowed by tariffs) is dwindling.

Commercial (excessive) electricity losses for Oblenergos



Source: NERC, EnergoBiznes, Concorde Capital estimates

Sector's aggregate 2009E EBITDA change: key factors



Source: Company data, NERC, EnergoBiznes, Concorde Capital estimates

Oblenergos' EBITDA, UAH mln

	2008	yoy	2009E	yoy
CHEON	57.8	234%	55.0	-5%
CHEON	76.0	115%	73.2	-4%
CHON	95.5	47%	86.3	-10%
DNON	237.0	161%	168.0	-29%
DOON	24.3	n/m	10.1	-59%
HAON	182.7	45%	174.2	-5%
HMON	80.2	92%	78.8	-2%
HOEN	45.0	43%	42.3	-6%
KION	43.7	-35%	62.6	43%
KREN	115.5	20%	115.3	0%
LVON	155.7	140%	152.9	-2%
MYON	23.3	67%	25.1	8%
ODEN	128.2	-19%	179.5	40%
POON	125.3	13%	124.3	-1%
PREN	111.1	142%	96.8	-13%
SMEN	52.1	57%	51.8	-1%
SOEN	86.6	96%	83.9	-3%
TOEN	41.8	88%	40.3	-4%
VION	86.1	203%	86.4	0%
VOEN	51.8	141%	51.5	-1%
ZAON	40.1	-4%	-12.9	-132%
ZHEN	29.5	-49%	64.1	117%
ZOEN	83.2	312%	76.5	-8%
ENUG	24.6	0%	23.3	-5%

Source: Company data, NERC, EnergoBiznes, Concorde Capital estimates

Dividend policy: no changes since 2008

Recent Oblenergo AGMs indicate that the 2009 dividend policy of state-controlled companies is the same as in 2008: companies whose accumulated losses do not exceed their charter funds (i.e. all state-controlled companies except CHON, DOON, DNON and VIEN) will direct 15% of their net income into dividends. Despite decreases in their share prices and jump in net incomes, the dividend yields of state-controlled companies are still in the single-digits.

PREN (as a privately controlled company) paid out 30% of income as dividends in 2006-2008. Still, as large portion of the company's 2008 reported net income was generated via increased tariffs in the aftermath of the August 2008 floods, we believe this year the company will reduce its dividend payout to 15%. We also do not expect any dividends from CHEON, LVON, POON, SMEN and TOEN, whose AGMs are unlikely to convene (these companies have not been able to convene AGMs since 2002, due to shareholder conflicts).

The biggest uncertainty regarding dividends is at VS-Energy controlled companies. Taking into account the worsened financial stability of the companies, there is a risk that SMEN and KION will not adhere to their usual 95%-100% dividend payout policy.

Dividend policy in 2009

	EPS, 2008, UAH	Dividend payout	DPS, UAH	Div. yield
CHEN	0.54	15%*	0.08	1.5%
CHEON	0.33	-	-	-
CHON	0.34	15%	0.05	1.7%
DNON	13.97	0%	-	-
DOON	-0.06	-	-	-
HAON	0.07	15%	0.01	0.6%
HMON	0.22	15%*	0.03	0.9%
HOEN	n/a	0%*	-	-
KION	0.01	30%*	0.00	0.0%
KREN	0.16	15%*	0.02	1.4%
LVON	0.36	-	-	-
ODEN	0.03	0%*	-	-
POON	0.09	-	-	-
PREN	0.60	15%*	0.09	6.0%
SMEN	0.76	30%*	0.23	11.6%
SOEN	0.22	-	-	-
TOEN	-0.10	-	-	-
VIEN	9.72	0%*	-	-
VOEN	0.01	15%	0.00	0.5%
ZAON	-0.13	-	-	-
ZHEN	-0.32	-	-	-
ZOEN	0.21	15%	0.03	1.2%
ENUG	n/a	-	-	-

Source: Company data, Concorde Capital expectations (*)

Valuation and recommendations

Estimating fair values

We set our 12M fair values as an average of two peer-based metrics: implied EV/RAB and 2010 EV/EBITDA multiples.

Peer valuation: EV/EBITDA

Peer multiples

	MCap	Sales		EBITDA		EV/EBITDA	
		2009E	2010E	2009E	2010E	2009E	2010E
Eletropaulo Metropolitana	BR 2,081	3,448	3,700	658	756	3.7	4.0
EDENOR	AR 168	626	965	111	108	3.6	2.6
Equatorial Energia	BR 628	1,019	1076	326	307	3.9	3.6
Luz Del Sur	PE 566	477	507	141	153	5.5	5.1
EMASZ	HU 305	514	532	68	70	5.5	5.3
Mean						4.4	4.1
Median						3.9	4.0

Source: Bloomberg

Implied Oblenergo equity value, by peer mean

	EBITDA 2010E	Net debt*	Implied MCap 2010
CHEN	65	84	182
CHEON	79	29	293
CHON	102	33	384
DNON	266	420	668
DOON	46	1888	neg.
HAON	195	104	696
HMON	85	46	302
HOEN	46	122	66
KION	70	285	2
KREN	122	388	112
LVON	169	114	578
MYON	30	231	neg.
ODEN	231	985	neg.
POON	130	96	437
PREN	123	7	496
SMEN	54	163	56
SOEN	89	12	354
TOEN	43	20	155
VIEN	95	134	255
VOEN	58	11	227
ZAON	41	342	neg.
ZHEN	69	234	47
ZOEN	90	89	279
ENUG	28	7	107

* Calculation of net debt is provided in appendix II

Source: Bloomberg, Concorde Capital estimates

Peer valuation: EV/RAB

We assume the implementation of a new regulation policy that will be based on regulatory asset base (RAB) to take place in 2011 (a delay compared to our previous expectation of mid-2009). We use current peers' EV/RAB multiples, and apply Oblenergos' estimated 2011 RAB to assess the implied value for 2011. Then, to get to implied values for 2010, we discount 2011 values using 30% WACC.

Our methodology for the estimation of Oblenergos' implied RAB is unchanged:

$$RAB = \text{Net market value of assets} + \text{Needs in invested capital increase}$$

$$\text{Net market value of assets} = \text{Gross replacement value of assets} * (1-75\%)$$

Where:

75% - estimated wear out (depreciation) rate

Gross replacement value of assets – replacement value of transformers and gridlines on the balance of Oblenergos, estimated by NERC as of mid-2006, and adjusted for accumulated inflation over 2H06-2010.

Needs for increase in invested capital = 1/12 of expected 2011 COGS (working capital) plus 1/20 of expected 2011 CapEx needs (refer to our Nov. 8, 2007 update for details).

Peer multiples

		MCap	EV	RAB	EV/RAB
Horizon Energy	NZ	41	57	76	0.8
Cegedel	LU	1,398	1,298	659	2.0
Elia	BE	1,522	4,935	4,724	1.0
Terna	IT	5,853	10,307	8,064	1.3
Transelectrica	RO	204	567	832	0.7
National Grid	UK	20,246	56,033	39,280	1.4
Mean					1.19
Median					1.16

Source: Bloomberg, Company data, Concorde Capital estimates

Implied Oblenergo equity value, by peer mean

	Net asset value 2011E, UAH mln	Invested capital increase needs 2011E, UAH mln	RAB 2011E UAH mln	Implied MCap, 2010, UAH mln
CHEN	1020	32	1053	846
CHEON	2039	68	2107	1833
CHON	2187	111	2299	1998
DNON	4448	923	5371	4325
DOON	5613	360	5974	3390
HAON	3442	229	3671	3140
HMON	2059	67	2125	1832
HOEN	2016	82	2097	1731
KION	2150	58	2207	1665
KREN	3150	167	3317	2543
LVON	2820	138	2958	2500
MYON	1940	100	2041	1572
ODEN	3080	250	3331	1958
POON	2500	133	2634	2231
PREN	1932	41	1973	1736
SMEN	326	45	371	164
SOEN	1999	71	2070	1817
TOEN	1489	43	1531	1332
VIEN	2627	70	2697	2249
VOEN	1450	42	1491	1306
ZAON	3072	457	3529	2776
ZHEN	2208	80	2288	1788
ZOEN	1443	52	1495	1232
ENUG	165	39	204	173

Source: Bloomberg, Company data, Concorde Capital estimates

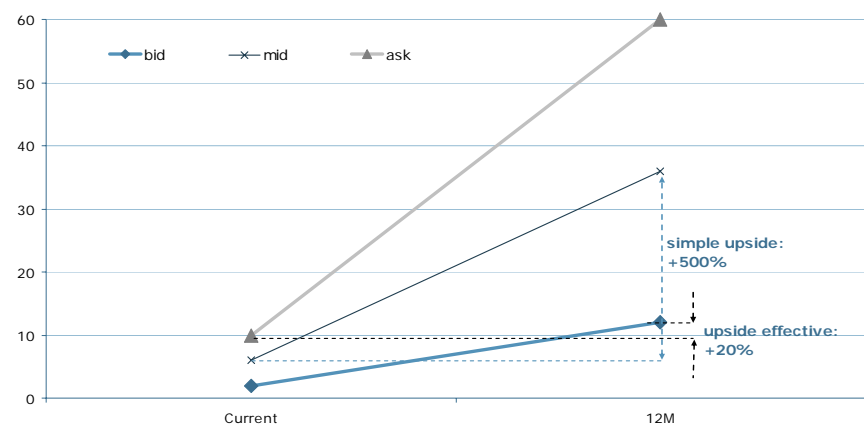
New approach to recommendations

In light of the dearth of liquidity in Oblenergos stocks, we introduce two upside metrics which, accounting for liquidity and relative investment attractiveness, allow us to filter stocks to buy and those better to sell.

Basis for BUY recommendations: *buy upside*

With currently wide market spreads, traditional upsides are no longer relevant to base investment recommendations. The concept of upside effective (UE), presented in our strategy report of Nov. 24, 2008, allows for the selection of stocks that yield high returns adjusted for crossing the spread. Upside effective is the expected return from buying a stock at its current offer price, and selling it later at the expected bid price, assuming a constant spread over time.

Illustration: upside to mid-market vs. upside effective



Source: Concorde Capital

In this report we modify the concept, adding the assumption that market spread can alter in the future. We believe that as soon as the market shows signs of recovery, the spread will narrow.

We transform the *upside effective* concept to *buy upside*, which we define as expected return from buying the stock now at the offer price and selling it at the bid price in 12 months, accounting for the expected spread.

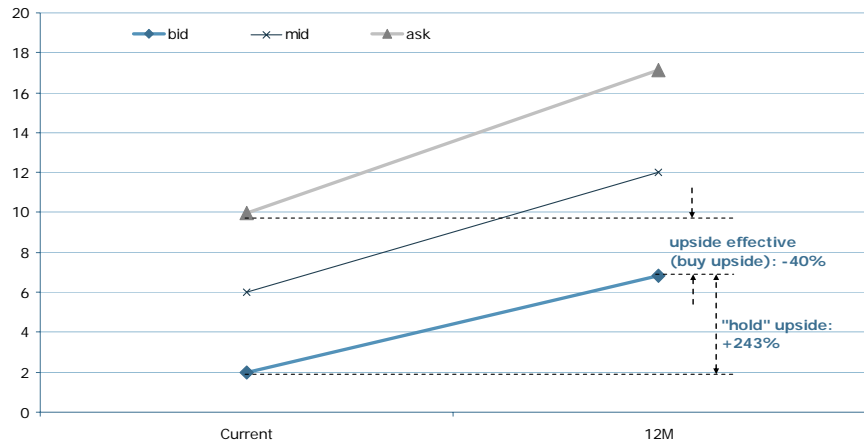
We expect state-controlled Oblenergos' market spreads in 12 months to decrease to the average level in 2007. To account for liquidity risks at private Oblenergos (refer to appendix I for more details), we estimate their 12-month spreads to be two times higher than in 2007, but no larger than current levels.

Basis for sell/hold recommendations: *hold upside*

To assess whether it is time to sell or hold, we introduce another concept – *hold upside* – based on comparing the expected bid price in 12 months and current bid price. We recommend holding stocks that have high *hold upsides*.

Note that *upside effective (buy upside)* can only help indicate buy recommendations, and it does not address if there is a need to sell. For illustration, refer to the chart below: despite negative *buy upside*, expected stock appreciation and market spreads shrinkage yield 243% growth in the bid price in 12 months.

Buy upside vs. hold upside



Source: Concorde Capital

Oblenergo ranking

Before assigning recommendations to Oblenergo stocks, we rank them in terms of investment attractiveness, taking into account their fundamental prospects, expected catalysts and liquidity. More details on Oblenergo mapping are provided in Appendix I.

Return/risk summary

Group of companies	Stocks	Recommended investment horizon	Key risks/weaknesses	Key opportunities/strengths	Investment rank*
1.1 State liquid (large companies)	DNON, HAON, KREN, ZAON	3-5 years	Worsening fundamentals in short-term	Expected fast fundamentals recovery in mid-term Sector's lowest multiples Relatively liquid stocks	3
1.2 State illiquid	CHEN, CHON, HMON, TOEN, VIEN, VOEN, ZOEN	2-5 years	Poor liquidity	Stable fundamentals in short and mid-term Privatization play in mid to long-term	2
2.1 Private Ukrenergo-consulting	CHEON, LVON, POON, PREN, SOEN	0-3 years	No liquidity in mid to long-term	Stable fundamentals in short and mid-term Privatization play in short to mid-term	2
2.2 Private VS Energy	HOEN, KION, MYON, ODEN, SMEN, ZHEN	0-3 years	Worsening financials in short-term No liquidity in mid to long-term	Possibility to sell out to strategic investor	1
Special case	DOON	1-5 years	Poor liquidity Bankruptcy	Expected fast fundamentals recovery in mid-term	0
Special case	ENUG	3-5 years	Worsening fundamentals in short-term Poor liquidity	Expected fast fundamentals recovery in mid-term Possibility to sell out to strategic investor	1

* A higher score indicates higher investment attractiveness

Recommendation summary

In setting recommendations for Oblenergo stocks, we account for *buy upside*, *hold upside* and a stock's *investment rank* applied on page 13.

We recommend **BUY** the stocks:
 with *buy upside* above 200% and rank of 0;
 with *buy upside* above 150% and rank of 1 and 2;
 with *buy upside* above 100% and rank of 3

We recommend **SELL** the stocks:
 with *hold upside* below 50% and rank of 3 and 2;
 with *hold upside* below 100% and rank of 1
 with *hold upside* below 200% and rank of 0

Valuation summary

	Mid-market, UAH	12M fair value, UAH	12M fair value, USD	Upside to mid- market	Current spread	Expected spread	Rank	Buy upside	Hold upside	Rec.
CHEN	5.4	9.1	1.1	69%	93%	60%	2	-49%	633%	HOLD
CHEON	1.9	8.9	1.1	369%	73%	51%	2	95%	633%	HOLD
CHON	2.9	8.0	1.0	177%	84%	24%	2	38%	763%	HOLD
DNON	122.5	416.7	51.7	240%	31%	8%	3	175%	299%	BUY
DOON	5.1	25.8	3.2	405%	87%	31%	0	134%	1652%	HOLD
HAON	1.7	7.5	0.9	334%	56%	12%	3	192%	566%	BUY
HMON	3.7	7.9	1.0	117%	88%	29%	2	1%	722%	HOLD
HOEN	2.1	5.0	0.6	139%	80%	69%	1	-32%	241%	HOLD
KION	4.3	7.1	0.9	66%	94%	86%	1	-79%	240%	HOLD
KREN	1.8	7.7	1.0	321%	18%	12%	3	260%	336%	BUY
LVON	2.2	7.9	1.0	265%	66%	32%	2	98%	484%	HOLD
ODEN	1.5	1.6	0.2	8%	80%	34%	1	-48%	159%	HOLD
POON	2.3	6.0	0.8	165%	71%	49%	2	15%	300%	HOLD
PREN	3.0	10.8	1.3	266%	80%	80%	2	-25%	266%	HOLD
SMEN	8.8	4.3	0.5	-51%	70%	70%	1	-85%	-51%	SELL
TOEN	4.7	12.2	1.5	159%	89%	52%	2	-7%	783%	HOLD
VIEN	101.5	404.2	50.2	298%	99%	31%	2	65%	10925%	HOLD
VOEN	0.4	1.6	0.2	265%	90%	35%	2	58%	1483%	HOLD
ZAON	2.8	7.7	1.0	174%	76%	17%	3	55%	532%	HOLD
ZHEN	2.1	7.5	0.9	266%	74%	30%	1	91%	629%	HOLD
ZOEN	2.6	6.1	0.8	137%	84%	45%	2	-2%	509%	HOLD
ENUG	14.5	25.5	3.2	76%	47%	47%	1	-7%	76%	SELL

Source: Bloomberg, PFTS, Concorde Capital

Appendices

Appendix I: Oblenergo mapping

We separate the Oblenergo universe into four groups based on their fundamental profile, liquidity, and reaction to possible catalysts.

1. State-controlled Oblenergos

Main catalyst is privatization in 2-3 years' time.

1.1. Large state companies: DNON, HAON, KREN and ZAON

Best for long-term investment. Key risk (fundamentally) is the expected highest drop in sales in the short-term, due to a reduction in power consumption from the industrial sector. Still, this group's sector-lowest multiples seem to account for this. Higher liquidity. Expected largest mid/long-term returns among Oblenergo stocks.

1.2. Small state companies: CHEN, CHON, HMON, TOEN, VIEN, VOEN and ZOEN

For those focused on mid-term returns. This group looks the most stable during crisis due to low share of industrial clients. Largest bottom line growth potential in short to mid-term.

2. Private Oblenergos

High risk of free float evaporation and significant liquidity drop in mid to long-term. Buyback activity creates an opportunity to earn speculative returns in the short-term.

2.1. Ukrenergiconsulting group ("conflict Oblenergos"): CHEON, LVON, POON, PREN and SOEN

Companies jointly owned by Privat, Energy Standard and the state. Looks best for short to mid-term investment. Key catalyst – privatization. Rival shareholders are likely to drive up tender prices. Privatization was scheduled for 2008, rescheduled for 2009.

2.2. VS Energy group: HOEN, KION, MYON, ODEN, SMEN and ZHEN

Most risky group in terms of short-term fundamental outlook and liquidity. Most companies in this group had weak 2008 results, which we relate to inter-group manipulations.

Note that the privatization of VS Energy-controlled ODEN is unlikely to be a positive catalyst – there is only one prospective buyer, and high dilution risk (if VS Energy privatizes the company, it is likely to approve the results of an already completed dilutive share issue).

Special cases: DTEK-related companies (DOON and ENUG)

We do not place state-controlled DOON and private ENUG in any of the aforementioned groups, and consider them special cases.

By profile, DOON is closest to group 2. However, it has two roads for development in the mid-term: (1) bankruptcy, as the company has large outstanding and so far unstructured payables. (2) Restructuring of payables and privatization. The latter outcome implies that DTEK (its main private shareholder) will buy out all of the company's free float.

ENUG's profile is close to subgroup 1.1, with additional risks related to groups 1.2 and 2: poor liquidity and expected evaporation of free float (DTEK, the main shareholder, is likely to buy out most shares).

Appendix II: Net debt calculation

We continue to partially account for non-interest debt in Oblenergos' net debt estimation. As before, we calculate net debt as interest-bearing liabilities less cash accounts, plus half of the companies' net current non-interest-bearing debt. We estimate net current non-interest-bearing debt as current payables, plus restructured payables, less net receivables. In this report we simplified our approach of net receivables estimation: we assume receivables should not exceed 1/5 of the companies' annual sales.

Net debt estimation, Dec. 31, 2008, UAH mln

(1)	(2)	(3)	(4)	(5)	(6)	(7) = MIN { (6); 1/5 x sales ₀₈ }	(8) = (4) + (5) - (7)	(9) = (2) - (3) + 1/2 x (8)
Interest-bearing debt	Cash	Current payables	Restructured payables	Reported receivables	Adjusted receivables	Net non-interest-bearing debt	Net debt	
CHEN	10.6	9.4	2.7	236.0	182.9	73.9	164.8	83.6
CHEON	29.1	0.3	4.5	6.3	12.5	12.5	0.0	28.8
CHON	0.3	0.5	120.5	0.0	55.0	55.0	65.5	32.5
DNON	0.0	152.1	163.7	1908.2	927.2	927.2	1,144.7	420.3
DOON	0.1	32.2	3,843.0	598.2	1753.0	600.6	3,840.6	1,888.2
HAON	0.0	39.8	21.4	416.2	151.0	151.0	286.6	103.5
HMON	16.7	1.8	16.8	78.9	33.6	33.6	62.1	46.0
HOEN	16.4	24.5	26.1	375.8	301.3	142.1	259.8	121.7
KION	431.4	146.4	37.0	9.0	59.6	59.6	-13.6	278.2
KREN	10.7	8.5	1050.0	0.0	658.1	278.5	771.5	388.0
LVON	113.0	6.8	19.5	20.9	25.6	25.6	14.8	113.6
MYON	15.0	8.6	18.1	517.8	87.2	87.2	448.7	230.8
ODEN	666.8	5.4	140.2	746.6	240.2	240.2	646.6	984.6
POON	118.9	22.7	31.5	0.0	33.8	33.8	-2.3	95.1
PREN	10.2	3.3	3.5	8.1	16.2	16.2	-4.6	4.7
SMEN	175.8	12.4	4.4	0.0	14.8	14.8	-10.4	158.2
SOEN	20.0	8.3	7.0	8.8	20.5	20.5	-4.8	9.3
TOEN	17.7	1.1	1.6	24.3	18.5	18.5	7.4	20.3
VIEN	5.8	18.7	9.3	370.6	85.9	85.9	294.0	134.1
VOEN	6.2	1.6	0.7	35.3	22.4	22.4	13.6	11.4
ZAON	119.4	0.8	62.1	740.3	355.0	355.0	447.4	342.3
ZHEN	237.4	8.3	33.5	0.0	24.5	24.5	9.0	233.6
ZOEN	3.6	6.4	17.0	263.6	214.4	97.3	183.3	88.9
ENUG*	0.0	0.6	4.9	51.8	40.9	40.9	15.8	7.3

Source: Company data, Concorde Capital estimates (*)

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