



CONCORDE CAPITAL

Ukraine / Electricity

Oblenergos

Steady through 9M08

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- We see Ukraine's Oblenergo sector as one of the most insulated from the macroeconomic woes: it is state regulated and mid-term profits correlate neither with electricity sales nor end-user tariffs
- A short-term drop in industrial output is harmful to four names in our Oblenergo universe (DNON, ZAON, ENUG and DOON), with little affect on the others
- 9M08 results remain encouraging: aggregate EBITDA +107% yoy, aggregate net income +318% yoy
- Aggregate payables dropped 27% yoy, mainly due to restructuring by small companies
- Those that have still not restructured their payables now have increased bankruptcy risk: DOON, DNON, KREN
- We update our list of top Oblenergo picks, replacing DNON and KREN with CHEN and HMON – cheap Oblenergos with the smallest share of industrials in their customer base

Market and financial data

	Price, USD	Mid-market change ytd	MCap, USD mln	EV, USD mln	Sales 08E, USD mln	EBITDA 08E, USD mln	EV/S	Premium/discount to int'l peer median	EV/EBITDA	Premium/discount to int'l peer median
CHEN	0.3	-71%	17.0	17.0	79.7	8.3	0.2	-59%	2.1	-56%
CHEON	0.7	-75%	83.5	90.1	120.5	14.0	0.7	44%	6.4	37%
CHON	0.3	-76%	44.5	50.7	142.9	19.4	0.4	-32%	2.6	-44%
DNON	16.0	-84%	95.9	166.7	1875.8	63.3	0.1	-83%	2.6	-44%
DOON	0.3	-48%	19.7	344.4	640.0	0.0	0.5	4%	n/a	n/m
ENUG	6.0	-45%	32.9	34.3	94.0	9.1	0.4	-30%	3.8	-19%
HAON	0.3	-82%	77.0	85.2	400.4	46.2	0.2	-59%	1.8	-61%
HMON	0.3	-54%	40.4	44.6	130.1	11.7	0.3	-34%	3.8	-18%
HOEN	0.3	-66%	53.7	57.7	160.9	10.8	0.4	-31%	5.3	14%
KION	0.3	-56%	35.8	72.3	108.6	16.6	0.7	28%	4.3	-7%
KREN	0.7	-76%	121.1	197.3	302.2	28.7	0.7	26%	6.9	47%
LVON	0.3	-69%	58.2	76.3	260.4	20.9	0.3	-44%	3.6	-22%
ODEN	0.3	-75%	62.5	90.4	387.0	38.8	0.2	-55%	2.3	-50%
POON	0.4	-68%	88.4	99.8	268.9	31.6	0.4	-28%	3.2	-33%
PREN	0.8	-73%	82.9	88.5	124.8	14.3	0.7	37%	6.2	33%
SMEN	2.4	-64%	64.5	84.0	74.1	5.2	1.1	119%	16.1	243%
TOEN	0.8	-74%	48.9	50.6	73.4	8.2	0.7	33%	6.2	32%
VIEN	16.0	-61%	49.6	49.6	135.3	11.5	0.4	-29%	4.3	-8%
VOEN	0.1	-77%	47.7	49.3	83.5	9.5	0.6	14%	5.2	11%
ZAON	0.7	-80%	125.6	169.3	823.1	18.9	0.2	-60%	8.9	91%
ZHEN	0.8	-56%	97.9	112.6	142.4	17.0	0.8	52%	6.6	41%
ZOEN	0.9	-63%	112.1	113.4	110.6	9.4	1.0	98%	12.1	159%
Mean		-68%					0.5	-4%	5.5	16%
Median		-70%					0.4	-29%	4.3	-7%

Note: Bold indicates our top picks

Source: PFTS, Bloomberg, Concorde Capital estimates

International peer multiples, 2008E

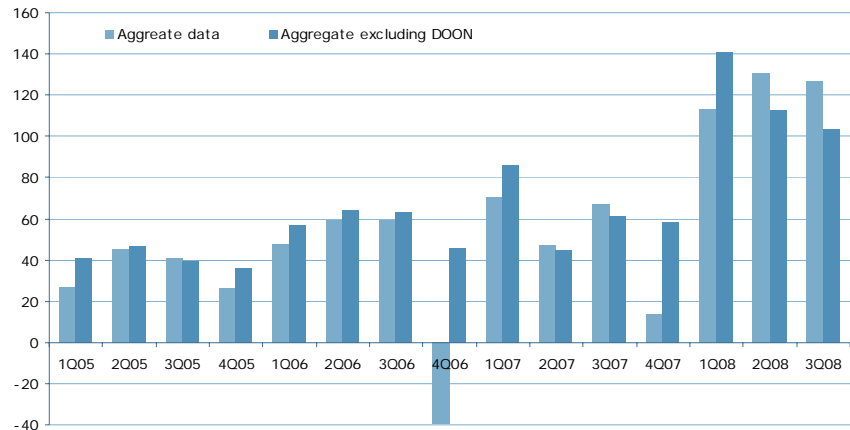
	Country	Price change ytd	EV, USD mln	EV/S	EV/EBITDA
EMASZ	Hungary	-31%	375.9	0.5	6.6
ELMU	Hungary	-27%	786.0	0.5	4.7
Prazska Energetika	Czech Rep.	-8%	1,134.6	1.4	7.0
Horizon Energy	New Zealand	-9%	68.5	3.0	6.3
Central MRSK	Russia	-73%	556.1	0.4	2.6
Ural MRSK	Russia	-44%	492.3	0.5	4.0
Volga MRSK	Russia	-72%	395.0	0.5	3.7
Mean		-38%		1.0	5.0
Median		-31%		0.5	4.7

Source: Bloomberg

Profitability: Stable growth

We observe a slight decrease in Oblenergos' aggregate EBITDA in 3Q08, which is explained by an increase in operating costs on the back of sticky tariffs (tariffs were revised in the beginning of the year) –in line with our expectations.

Sector's quarterly EBITDA, USD mln



Source: Company data, Concorde Capital calculations

Profitability by company

		Net revenue		EBITDA			Net income		
		USD mln	yoy	USD mln	yoy	Margin	USD mln	yoy	Margin
Large industrial Oblenergos: lowest margins									
Dniproblenergo	DNON	1261.4	20%	47.6	114%	4%	19.9	403%	2%
Zaporizhoblenergo	ZAON	551.5	34%	10.7	51%	2%	-2.6	-182%	0%
Non-industrial Oblenergos:									
Private with preferential tariffs: highest margins, moderate growth									
Kirovohradoblenergo	KION	73.9	33%	16.9	71%	23%	7.2	178%	10%
Sevastopolenergo	SMEN	48.8	23%	8.9	55%	18%	4.2	52%	9%
Zhytomiroblenergo	ZHEN	99.1	32%	12.7	109%	13%	2.1	n/m	2%
Private with non-preferential tariffs: above-median margins, moderate growth									
Chernihivoblenergo	CHEON	80.7	30%	11.9	109%	15%	6.0	331%	7%
Lvivoblenergo	LVON	168.6	27%	28.0	158%	17%	15.6	572%	9%
Odesaoblenergo	ODEN	276.3	35%	24.0	73%	9%	0.6	33x	0%
Prykarpatooblenergo	PREN	77.2	0%	15.4*	79%*	20%*	8.7	224%	11%
Poltavaoblenergo	POON	185.7	29%	20.9	6%	11%	4.6	-37%	2%
Sumyoblenergo	SOEN	81.5	25%	14.5	83%	18%	7.3	246%	9%
State-controlled: highest growth; mixed margins									
Chernivtsioblenergo	CHEN	50.9	36%	8.7	272%	17%	4.9	16x	10%
Cherkasyoblenergo	CHON	94.1	34%	14.7	44%	16%	8.2	54%	9%
Donetskoblenergo	DOON	433.8	27%	39.0	n/m	9%	24.0	n/m	6%
Kharkivoblenergo	HAON	261.4	32%	33.2	85%	13%	9.6	48%	4%
Khmelnitskoblenergo	HMON	90.6	41%	14.6	132%	16%	7.1	397%	8%
Krymenergo	KREN	203.8	30%	19.3	46%	9%	4.7	204%	2%
Mykolaivoblenergo	MYON	106.6	33%	5.8	241%	5%	3.0	n/m	3%
Ternopiloblenergo	TOEN	49.0	33%	5.5	115%	11%	-1.6	15x	-3%
Vinnitsaoblenergo	VIEN	90.6	32%	13.8	240%	15%	5.0	433%	6%
Volynoblenergo	VOEN	55.0	26%	7.2	136%	13%	0.3	-50%	1%
Zakarpatooblenergo	ZOEN	69.1	24%	8.5	196%	12%	1.6	199%	2%

* Estimates

Note: Gray cells represent worst in class; blue cells - best in class

Source: Company data, Concorde Capital calculations

We believe Oblenergos' FY profits will be close to our forecasts (refer to our July 16 industry update): on one hand, a decrease in power demand related to the drop in industrial output will be reflected in 4Q08 profit underperformance, but on the other hand, this effect is likely to be offset by the recent unexpected increase in the tariffs of all Oblenergos, which was done by the NERC to allow them to raise their employees' salaries.

Debt issue: Positive news from VIEN, VOEN and ZOEN

As we expected (refer to our July 16 industry update), over the third quarter of this year, small Oblenergos restructured their overdue payables for up to 10 years. Among this group, Donetskoblenergo only managed to restructure a small portion of its total payables.

Payables restructured over 3Q08

	Restr A/P, USD mln	% of A/P as of Jun 30. 08
DOON	119.6	13%
VIEN	76.5	95%
ZOEN	54.6	93%
VOEN	8.1	88%
Total	258.9	

Source: Company data, Concorde Capital estimates

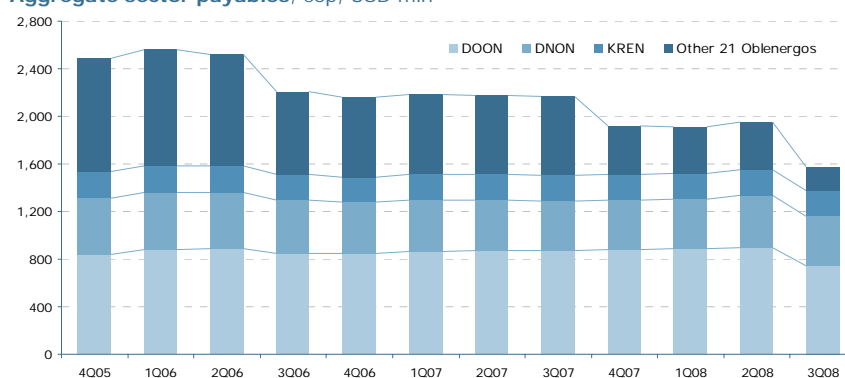
Among the remaining Oblenergos with relatively high indebtedness, only HAON and HMON, which have the least absolute amount of outstanding payables among the group, have a high chance of restructuring in 4Q08.

Oblenergos that have yet to restructure payables, Sept. 30, 2008

	A/P USD mln	% of sales 2007
DNON	416.2	30%
DOON	745.7	159%
HAON	77.4	27%
HMON	21.7	24%
KREN	210.2	99%

Source: Company data, Concorde Capital calculations

Aggregate sector payables, eop, USD mln



Source: Company data, Concorde Capital calculations

Bankruptcy risk for DOON, DNON and KREN is growing

The restructuring of overdue payables is now an essential issue for Oblenergos, as we do not expect the moratorium prohibiting the bankruptcy of energy companies to be prolonged after January 1, 2009. We warn of increasing bankruptcy risk at KREN, DNON and DOON as we approach 2009. We exclude DNON and KREN from our list of top Oblenergo picks.

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