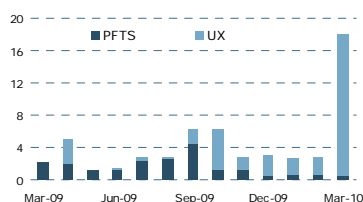


March 23, 2010

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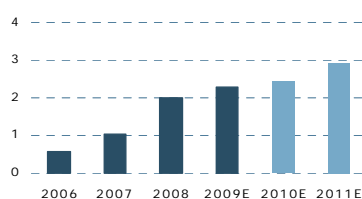
- **Zhytomyroblenergo became the first Oblenergo to enter the UX's order-driven market on March 12; it has made 39% since March 5**
- **We identify seven other Oblenergo-candidates for the ODM, inclusion on which has proven to be a catalyst**
- **For these stocks, we recommend basing entry on timing rather than traditional blanket recommendations**

Oblenergo turnover, UAH mln



Source: PFTS, UX, Concorde Capital calculations

Oblenergo aggregate EBITDA, UAH bln



Source: Company data, Concorde Capital projections

Oblenergos debut on order-driven market with Zhytomyroblenergo

Zhytomyroblenergo (ZHEN UK) became the first Oblenergo to be added to the Ukrainian Exchange's order-driven market on March 12; in 2M10, its monthly trading volume increased 4x to USD 100 ths and spread squeezed below 10%. ODM inclusion should improve the stock's liquidity (turnover increased tenfold in the first week) and has triggered share price growth of 39% since March 5.

We identify seven other Oblenergos with monthly trading volumes over USD 25 ths and spreads below 20% as candidates for the ODM in the next three months: Dniproblenergo (DNON UK), Kharkivoblenergo (HAON UK), Khmelnytskoblenergo (HMON UK), Khersonoblenergo (HOEN UK), Krymenergo (KREN UK), Lvivoblenergo (LVON UK), Poltavaoblenergo (POON UK).

Valuation

In order to capture current and future earnings, we set our targets as the average price implied by 2010E EV/EVITDA of 7.7x and EV/RAB of 0.56x derived from Russian peers. We rely on Russian peers as we believe upcoming reform in Ukraine will echo Russia's regulatory environment. At current UX mid-prices, we recommend BUY on seven of 22 Oblenergos.

Enter based on timing rather than blanket recommendations

With Oblenergo prices on the quote-driven market highly volatile (50% intraday spikes are not uncommon), we recommend entry based on timing rather than blanket recommendations. To determine recommended entry, we use our target prices and upside threshold, which depends on liquidity prospects. For those included in the order-driven market, we set a 25% upside requirement, for likely candidates – 50% and for all other Oblenergo – 75%.

Valuation summary

	Ticker	Target, USD	Upside	Order-driven market	Upside threshold for BUY*	Recommended entry price, USD	Rec.
Chernivtsioblenergo	CHEN	0.9	55%		75%	0.51	HOLD
Chernihivoblenergo	CHEON	1.0	93%		75%	0.56	BUY
Cherkasyoblenergo	CHON	0.7	29%		75%	0.42	HOLD
Dniproblenergo	DNON	41	-42%	candidate	50%	27.0	SELL
Donetskoblenergo	DOON	1.4	-41%		75%	0.79	SELL
Kharkivoblenergo	HAON	0.8	6%	candidate	50%	0.53	HOLD
Khmelnytskoblenergo	HMON	0.7	57%	candidate	50%	0.50	BUY
Khersonoblenergo	HOEN	0.5	39%	candidate	50%	0.36	HOLD
Kirovohradoblenergo	KION	0.4	-6%		75%	0.24	SELL
Krymenergo	KREN	0.7	-15%	candidate	50%	0.45	SELL
Lvivoblenergo	LVON	0.8	30%	candidate	50%	0.56	HOLD
Odesaoblenergo	ODEN	0.2	-43%		75%	0.09	SELL
Poltavaoblenergo	POON	0.8	57%	candidate	50%	0.53	BUY
Prykarpatooblenergo	PREN	1.2	84%		75%	0.70	BUY
Sevastopolenergo	SMEN	0.9	-47%		75%	0.52	SELL
Ternopiloblenergo	TOEN	1.2	147%		75%	0.66	BUY
Vinnitsaoblenergo	VIEN	35	38%		75%	19.8	HOLD
Volynoblenergo	VOEN	0.1	-27%		75%	0.08	SELL
Zaporizhiaoblenergo	ZAON	0.7	-31%		75%	0.42	SELL
Zhytomyroblenergo	ZHEN	0.8	77%	included	25%	0.60	BUY
Zakarpatooblenergo	ZOEN	0.5	6%		75%	0.27	HOLD
PES-Energougol	ENUG	9	139%		75%	5.12	BUY

Note: Market data as of March 23.

* Upside threshold is equal to 25% for stocks included in the order-driven market, 50% for likely candidates, 75% for all other Oblenergos

Source: Company data, Concorde Capital projections

Oblenergos data

Financial summary

	Ticker	Sales, USD mln		EBITDA, USD mln		RAB*, Net debt,** USD mln	
		2010E	2011E	2010E	2011E	2010E	2010E
Chernivtsioblenerqo	CHEN	75	90	6.3	7.6	132	10.9
Chernihivoblenerqo	CHEON	116	140	11.6	13.0	263	2.1
Cherkasyoblenerqo	CHON	148	179	8.0	9.7	288	2.4
Dniprooblenerqo	DNON	1,469	1,774	33.1	45.5	664	70.3
Donetskoblenerqo	DOON	569	688	15.3	21.2	742	235.4
Kharkivoblenerqo	HAON	375	453	22.3	26.0	459	9.4
Khmelnitskoblenerqo	HMON	116	140	8.4	9.8	265	6.1
Khersonoblenerqo	HOEN	141	170	11.7	13.4	262	22.0
Kirovohradoblenerqo	KION	105	127	4.4	6.0	276	55.3
Krymenerqo	KREN	270	326	13.5	17.1	414	50.9
Lvivoblenerqo	LVON	247	298	17.7	20.6	370	9.7
Odesaoblenerqo	ODEN	397	479	26.8	30.7	416	126.8
Poltavaoblenerqo	POON	319	386	23.3	25.8	332	7.6
Prykarpatooblenerqo	PREN	105	127	15.0	16.8	247	0.5
Sevastopolenerqo	SMEN	74	89	7.6	8.4	46	17.9
Ternopiloblenerqo	TOEN	73	88	5.0	6.0	191	2.3
Vinnitsaoblenerqo	VIEN	124	150	8.4	9.8	338	19.6
Volynoblenerqo	VOEN	78	94	4.6	5.5	187	1.9
Zaporizhiaoblenerqo	ZAON	626	755	15.5	21.2	432	49.8
Zhytomiroblenerqo	ZHEN	142	171	11.2	12.9	286	31.3
Zakarpatooblenerqo	ZOEN	95	114	5.2	6.6	187	14.4
PES-Energougol	ENUG	85	102	11.4	12.0	26	2.0

Note: Market data as of March 23. * Please refer to July 2008 report for our methodology of RAB values estimation. ** We continue to partially account for non-interest debt in Oblenergos' net debt estimation. See our April 2009 report for details
Source: UX, PFTS, Concorde Capital estimates

Multiples

	Ticker	MCap, USD mln	EV, USD mln	EV/S		EV/EBITDA		EV/RAB 2010E
				2010E	2011E	2010E	2011E	
Chernivtsioblenerqo	CHEN	32	43	0.58	0.48	6.9	5.7	0.33
Chernihivoblenerqo	CHEON	60	63	0.54	0.45	5.4	4.8	0.24
Cherkasyoblenerqo	CHON	84	87	0.59	0.49	10.9	8.9	0.30
Dniprooblenerqo	DNON	416	486	0.33	0.27	14.7	10.7	0.73
Donetskoblenerqo	DOON	154	389	0.68	0.57	25.5	18.4	0.52
Kharkivoblenerqo	HAON	194	203	0.54	0.45	9.1	7.8	0.44
Khmelnitskoblenerqo	HMON	64	70	0.61	0.50	8.3	7.2	0.26
Khersonoblenerqo	HOEN	69	91	0.65	0.54	7.8	6.8	0.35
Kirovohradoblenerqo	KION	53	108	1.02	0.85	24.8	17.9	0.39
Krymenerqo	KREN	137	188	0.70	0.58	13.9	11.0	0.45
Lvivoblenerqo	LVON	125	134	0.54	0.45	7.6	6.5	0.36
Odesaoblenerqo	ODEN	56	183	0.46	0.38	6.8	5.9	0.44
Poltavaoblenerqo	POON	112	119	0.37	0.31	5.1	4.6	0.36
Prykarpatooblenerqo	PREN	69	69	0.66	0.54	4.6	4.1	0.28
Sevastopolenerqo	SMEN	46	64	0.87	0.72	8.4	7.6	1.38
Ternopiloblenerqo	TOEN	29	31	0.42	0.35	6.1	5.1	0.16
Vinnitsaoblenerqo	VIEN	77	97	0.78	0.65	11.6	9.9	0.29
Volynoblenerqo	VOEN	92	94	1.21	1.01	20.7	17.3	0.51
Zaporizhiaoblenerqo	ZAON	191	240	0.38	0.32	15.5	11.4	0.56
Zhytomiroblenerqo	ZHEN	52	83	0.59	0.49	7.4	6.5	0.29
Zakarpatooblenerqo	ZOEN	55	69	0.73	0.60	13.3	10.4	0.37
PES-Energougol	ENUG	21	23	0.27	0.22	2.0	1.9	0.88

Note: Market data as of March 23
Source: UX, PFTS, Concorde Capital estimates

Implied prices

	Ticker	Current price USD	Target price* USD	Implied by EV/S		Implied by EV/EBITDA		Implied by EV/RAB 2010E
				2010E	2011E	2010E	2011E	
Chernivtsioblenerqo	CHEN	0.57	0.89	1.13	1.12	0.67	0.55	1.11
Chernihivoblenerqo	CHEON	0.51	0.97	0.95	0.94	0.73	0.59	1.22
Cherkasyoblenerqo	CHON	0.57	0.73	0.98	0.97	0.40	0.35	1.07
Dniprooblenerqo	DNON	69.4	40.6	234.5	232.0	30.9	30.4	50.2
Donetskoblenerqo	DOON	2.34	1.37	5.14	5.05	n/m	n/m	2.75
Kharkivoblenerqo	HAON	0.76	0.80	1.43	1.42	0.63	0.53	0.97
Khmelnitskoblenerqo	HMON	0.48	0.75	0.82	0.81	0.44	0.36	1.06
Khersonoblenerqo	HOEN	0.39	0.54	0.67	0.66	0.38	0.29	0.70
Kirovohradoblenerqo	KION	0.44	0.42	0.42	0.41	n/m	n/m	0.83
Krymenerqo	KREN	0.79	0.68	1.28	1.26	0.31	0.25	1.05
Lvivoblenerqo	LVON	0.64	0.84	1.23	1.22	0.66	0.54	1.02
Odesaoblenerqo	ODEN	0.27	0.45	1.30	1.28	0.38	0.21	0.51
Poltavaoblenerqo	POON	0.51	0.79	1.42	1.40	0.78	0.61	0.81
Prykarpatooblenerqo	PREN	0.66	1.22	1.02	1.00	1.11	0.90	1.33
Sevastopolenerqo	SMEN	1.71	0.91	2.09	2.06	1.52	1.07	0.30
Ternopiloblenerqo	TOEN	0.47	1.16	1.16	1.15	0.60	0.51	1.72
Vinnitsaoblenerqo	VIEN	25.0	34.6	34.0	33.5	14.5	11.2	54.7
Volynoblenerqo	VOEN	0.19	0.14	0.16	0.16	0.07	0.06	0.21
Zaporizhiaoblenerqo	ZAON	1.06	0.73	3.23	3.19	0.39	0.38	1.07
Zhytomiroblenerqo	ZHEN	0.42	0.75	0.91	0.89	0.45	0.33	1.05
Zakarpatooblenerqo	ZOEN	0.44	0.47	0.65	0.64	0.21	0.18	0.73
PES-Energougol	ENUG	3.75	8.97	15.2	15.0	15.7	11.8	2.25

Note: Market data as of March 23. * Target price is the average of prices implied by EV/EBITDA 10E and EV/RAB 10E comparison with Russian peers
Source: UX, PFTS, Concorde Capital estimates

Russian peer multiples

Russian peers financials

	Sales, USD mln		EBITDA, USD mln		RAB, USD mln	Net debt, USD mln
	2010E	2011E	2010E	2011E	2010E	2010E
MOESK	4,553	5,156	683	932	6,880	489
MRSK of Center	1,953	2,398	397	525	4,478	287
MRSK of Siberia	1,470	1,889	121	195	3,152	225
Lenenergo	914	1,105	235	287	2,990	712
MRSK of Center and Volga	2,160	2,530	329	420	2,439	461
MRSK of Urals	2,013	2,297	279	344	2,518	454
MRSK of North-West	947	1,147	116	153	1,661	126
MRSK of Volga	1,099	1,388	137	212	1,937	448
MRSK of South	678	832	148	188	2,057	384
MRSK of North Caucasus	361	430	33	50	997	75

Source: Bloomberg, Company data, Open Utilities

Russian peers multiples

	MCap, USD mln		EV, USD mln		EV/S		EV/EBITDA		EV/RAB
	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2010E	
MOESK	4,969	5,458	1.2	1.1	8.0	5.9	0.79		
MRSK of Center	1,684	1,972	1.0	0.8	5.0	3.8	0.44		
MRSK of Siberia	1,073	1,298	0.9	0.7	10.8	6.7	0.41		
Lenenergo	1,035	1,747	1.9	1.6	7.4	6.1	0.58		
MRSK of Center and Volga	934	1,395	0.6	0.6	4.2	3.3	0.57		
MRSK of Urals	931	1,385	0.7	0.6	5.0	4.0	0.55		
MRSK of North-West	820	946	1.0	0.8	8.2	6.2	0.57		
MRSK of Volga	804	1,252	1.1	0.9	9.1	5.9	0.65		
MRSK of South	319	703	1.0	0.8	4.7	3.7	0.34		
MRSK of North Caucasus	189	264	0.7	0.6	8.1	5.2	0.27		
Mean			1.0	0.8	7.0	5.1	0.52		
Median			1.0	0.8	7.7	5.6	0.56		

Source: Bloomberg, Company data, Concorde Capital

Global peer multiples

RAB-based peer valuation

	MCap, USD mln	EV, USD mln	RAB, USD mln	EV/RAB
National Grid (UK)	24,666	61,546	39,280	1.57
Terna (IT)	8,798	15,260	8,064	1.89
Elia (BE)	1,890	5,242	4,724	1.11
Transelectrica (RO)	473	879	1,460	0.60
Horizon Energy (NZ)	67	85	76	1.12
Mean				1.26
Median				1.12

Source: Bloomberg, Company data, Concorde Capital

Valuation by peers' median EV/EBITDA '10

	MCap, USD mln	Sales, USD mln		EBITDA, USD mln		EV/EBITDA	
		2010E	2011E	2010E	2011E	2010E	2011E
Eletropaulo Metropolitana (BR)	3,645	4,856	5,034	1,007	859	5.4	6.4
EDP Brazil (BR)	3,072	2,744	3,005	832	873	5.5	5.2
Equatorial Energia SA (BR)	1,037	1,362	1,346	398	402	4.5	4.4
EMASZ (HU)	363	736	761	n/a	n/a	n/a	n/a
EDENOR (AR)	333	585	659	170	135	2.8	3.6
Mean						4.6	4.9
Median						5.0	4.8

Source: Bloomberg, Concorde Capital

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