



CONCORDE CAPITAL

Ukraine / Electricity

Oblenergos

Positive first quarter

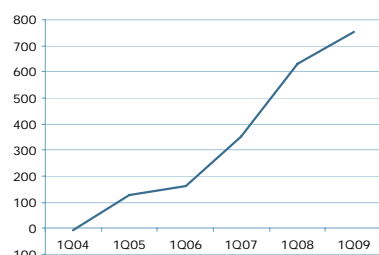
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Sector's* aggregate EBITDA, UAH mln



Source: Company data

*Note: sector except ENUG, HOEN and VIEN which did not report 1Q09 financials so far

- 1Q09 was positive for the Ukrainian electricity distribution sector, even amid a 14.3% yoy decrease in power consumption in Ukraine:
 - Aggregate net revenue in the sector grew 10% yoy in local currency (mainly due to a yoy increase of tariffs)
 - Aggregate EBITDA rose 19% yoy
 - Aggregate net income increased 25% yoy
 - The companies maintained high payment discipline
- More positive news – yesterday the State Property Fund auctioned off a 26.98% stake in Lvivoblenergo, the first successful privatization in the sector since 2001
- We stick to our sector forecasts (-7% to -8% yoy decrease in EBITDA in local currency for FY09), and reiterate our investment recommendations: **BUY** for DNON, HAON and KREN; **SELL** for ENUG and SMEN

WATCH: privatization tenders for POON, PREN, CHEON, ODEN and SOEN (see schedule on page 3)

Market summary

	Mid-market, UAH	Mid-market, USD	MCap, USD mln	Market spread	EV/S 09E	EV/EBITDA 09E	12M fair value, USD	Rec.
CHEN	5.4	0.7	37.9	93%	0.96	5.5	1.1	HOLD
CHEON	2.8	0.3	41.5	76%	0.46	4.9	1.1	HOLD
CHON	2.8	0.4	52.0	82%	0.35	5.2	1.0	HOLD
DNON	157.5	19.5	117.1	38%	0.14	6.4	52.6	BUY
DOON	5.2	0.6	41.9	86%	0.58	220.7	3.3	HOLD
HAON	1.9	0.2	61.3	52%	0.22	3.4	0.9	BUY
HMON	3.7	0.5	60.9	87%	0.68	6.8	1.0	HOLD
HOEN	5.4	0.7	118.7	93%	1.17	25.5	0.6	HOLD
KION	4.3	0.5	62.9	94%	1.09	12.6	0.9	HOLD
KREN	1.6	0.2	33.8	20%	0.34	5.7	1.0	BUY
LVON	3.1	0.4	74.6	76%	0.43	4.7	1.0	HOLD
ODEN	1.8	0.2	45.3	60%	0.46	7.5	0.2	HOLD
POON	2.8	0.3	76.8	76%	0.46	5.7	0.8	HOLD
PREN	3.0	0.4	38.9	79%	0.60	3.3	1.4	HOLD
SMEN	6.0	0.7	20.0	50%	0.59	6.2	0.5	SELL
TOEN	4.7	0.6	35.6	89%	0.62	7.6	1.5	HOLD
VIEN	107.5	13.3	41.3	93%	0.56	5.4	51.1	HOLD
VOEN	0.6	0.1	32.6	63%	0.54	5.3	0.2	HOLD
ZAON	3.3	0.4	72.3	70%	0.20	34.2	1.0	HOLD
ZHEN	2.5	0.3	38.0	75%	0.56	8.4	1.0	HOLD
ZOEN	2.6	0.3	39.5	84%	0.64	5.3	0.8	HOLD
ENUG	14.5	1.8	9.9	47%	0.17	4.1	3.1	SELL

Source: PFTS, Bloomberg, Concorde Capital

1Q09 financials were encouraging

Our expectation of a yoy decrease in EBITDA for the Oblenergo sector in 2009 was so far not realized in the first quarter: the majority of companies increased their bottom lines. Even industrial Oblenergos, which faced more than a 25% yoy decrease in power demand, managed to report yoy increases in EBITDA.

		Net revenue		EBITDA		
		UAH mln	yoy	UAH mln	yoy	Margin
Industrial Oblenergos						
Dniprooblenergo	DNON	1,858.3	-10%	100.1	55%	5%
Zaporizhyaoblenergo	ZAON	942.8	6%	24.5	28%	3%
Non-industrial Oblenergos:						
Private with preferential tariff:						
Kirovohradoblenergo	KION	161.0	21%	29.7	-16%	18%
Sevastopoblenergo	SMEN	109.3	23%	14.8	3%	14%
Zhytomyroblenergo	ZHEN	211.4	19%	23.8	-16%	11%
Private with non-preferential tariff:						
Chernihivoblenergo	CHEON	173.9	22%	35.0	57%	20%
Lvivoblenergo	LVON	365.3	14%	59.0	-6%	16%
Odesaoblenergo	ODEN	636.2	28%	48.6	39%	8%
Poltavaoblenergo	POON	444.6	22%	69.9	13%	16%
Prykarpatooblenergo	PREN	168.0	14%	47.2	68%	28%
Sumyoblenergo	SOEN	185.3	28%	45.9	44%	25%
State controlled:						
Chernivtsioblenergo	CHEN	120.6	27%	18.9	2%	16%
Cherkasyoblenergo	CHON	266.2	58%	28.4	-16%	11%
Donetskoblenergo	DOON	889.6	11%	16.4	n/m	2%
Kharkivoblenergo	HAON	562.8	18%	80.0	8%	14%
Khmelnitskoblenergo	HMON	172.5	11%	27.2	-9%	16%
Krymenergo	KREN	403.8	14%	28.4	-16%	7%
Mykolaivoblenergo	MYON	218.0	21%	5.9	155%	3%
Ternopiloblenergo	TOEN	108.8	22%	12.1	-31%	11%
Volynoblenergo	VOEN	121.0	19%	17.0	8%	14%
Zakarpatooblenergo	ZOEN	155.5	17%	19.1	17%	12%

Note: Gray cells represent worst in class; blue - best in class; HOEN, VIEN and ENUG have not released 1Q09 financial results so far

Source: Company data

Tariff cuts can be expected in the near future

Despite positive results in 1Q09, we stick to our previous forecasts (a decrease in EBITDA over full-year 2009) due the government's and the sector regulator's target of redistributing electricity sector incomes to the maximum benefit of thermal generation companies. The National Electricity Regulation Commission officially stated that in 2009, all electricity companies have to cut their investment appetites, which means Oblenergos' planned incomes should decrease yoy. In the last week, the NERC has reduced the distribution tariffs of CHON and ZAON. We expect further reductions of Oblenergos' distribution tariffs in the near future.

Payment discipline remains high

Contrary to the common opinion that cash collection from electricity consumers should drop during times of economic hardship, the Oblenergo sector has retained its high rate of payment discipline. In 1Q09, the sector's aggregate receivables grew 2.9% qoq and payables climbed only 0.7% qoq; at the same time, sector revenues increased 5.3% qoq.

LVON's 27% stake sold... other stakes in the pipeline

After failed tenders to privatize PREN and POON, the State Property Fund yesterday successfully auctioned off a 26.98% stake in Lvivoblenergo. The tender's final price represented a 15% premium to the starting price. The deal's trailing EV/Sales was 0.68. The tender's participants were two local brokerage companies, Tekt-Trade (winner) and Online Capital, which appear to have been participating in the tender on behalf of portfolio investors.

The tenders' success proved demand for Oblenergo stocks at relatively low prices: note that LVON's starting price-based EV/Sales was much smaller than the starting prices of PREN (1.67x) and POON (1.02x). This raises the chance of tenders for CHEON, ODEN and SOEN (all scheduled for May of 2009) stakes being carried out successfully.

In addition, LVON's privatization implies there could be demand for PREN and POON stakes if their starting prices are reduced by the SPF. Both tenders have been rescheduled within the first 10 days of May.

Privatization summary

Company	Ticker	Date of tender	Starting price per share	Final price per share	Price per stake, UAH mln	Starting EV/Sales08	Premium to mid-market	Premium to our target	Probability of success
Lvivoblenergo	LVON	29-Apr-09	3.28	3.78	197.8**	0.68**	10%**	-53%**	
Poltavaoblenergo	POON	6-May-09	5.57		307.7	1.02	99%	-9%	5%
Prykarpatoblenergo	PREN	8-May-09	8.90		230.9	1.67	154%	-19%	5%
Chernihivoblenergo	CHEON	14-May-09	3.99*		119.0	0.86	42%	-56%	60%
Odesaoblenergo	ODEN	19-May-09	3.98*		207.5	0.93	127%	-18%	80%
Sumyoblenergo	SOEN	22-May-09	2.90*		128.4	0.90	n/a	-54%	60%

Source: SPF, PFTS, Concorde Capital; * Estimates ** at final price

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