



CONCORDE CAPITAL

Ukraine / Electricity

# Oblenergos

## Triple digit growth in 1H08 earnings

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- 1H08 financials released by 22 Oblenergos over the last two weeks prove our aggressive bottom line forecasts realistic: aggregate 1H08 EBITDA grew 2x yoy and net income by 4x yoy. We confirm our forecasts for all sector companies.
- While Oblenergo stock spreads remained wide during the two week span since our sector update, a pitch in market sentiment has lifted the real prices of shares closer to offer prices on the PFTS. Despite diminished upsides, we stand by all our recommendations.
- Flooding in Western Ukraine: PREN, CHEN, LVON, ZOEN, TOEN and VIEN are calculating their losses, part of which is likely to be compensated from the state budget or by Oblenergo tariffs. Amid a predominantly bearish market, news of the losses could prompt to short-term price volatility, especially for PREN, CHEN and ZOEN, which were affected the most.
- Dniprooblenergo came back under the control of the NC ECU via forced replacement of a DTEK-loyal CEO on July 25. This aligns management with the company's ownership structure: the NC ECU holds 75%, while DTEK's stake is below 10%. Though, the method of replacement and procedural violations raise legal questions. We did not see any benefit for Dniprooblenergo with DTEK controlling operations. We cannot detect any risk for the company's fundamentals – the change has no implications for our recommendation and target price.

### Valuation summary

	Price, USD	MCap, USD mln	Mid-market price change		EV/S	EV/EBITDA	Target, USD	Upside	Rec
			YTD	2 week					
CHEN	1.0	56.8	-74%	+9%	0.8	8.1	3.0	200%	BUY
CHEON	1.1	131.2	-67%	+40%	1.1	9.8	2.8	155%	BUY
CHON	0.9	133.6	-70%	+11%	1.0	7.2	2.6	189%	BUY
<b>DNON</b>	90.0	539.2	-50%	+38%	0.3	9.6	130.0	44%	<b>BUY</b>
DOON	3.6	235.9	-28%	+4%	0.9	n/a	n/a	n/a	N/R
ENUG	10.0	54.8	2%	-16%	0.6	6.2	8.0	-20%	SELL
<b>HAON</b>	1.1	282.2	-60%	+1%	0.7	6.3	2.5	127%	<b>BUY</b>
HMON	1.4	188.4	-53%	+12%	1.5	16.5	2.5	79%	BUY
HOEN	1.3	232.6	-47%	0%	1.6	23.6	1.8	38%	BUY
KION	2.0	238.8	-39%	0%	2.5	16.5	2.8	40%	BUY
<b>KREN</b>	1.0	173.0	-62%	-4%	0.8	8.7	3.0	200%	<b>BUY</b>
<b>LVON</b>	1.1	213.4	-59%	-13%	0.9	11.1	2.7	145%	<b>BUY</b>
ODEN	0.6	125.1	-68%	-11%	0.6	5.7	1.0	67%	BUY
<b>POON</b>	1.4	309.3	-52%	-4%	1.2	10.1	2.5	79%	<b>BUY</b>
<b>PREN</b>	1.3	134.7	-57%	-19%	1.1	9.8	3.1	138%	<b>BUY</b>
SMEN	4.0	107.6	-16%	+10%	1.7	24.3	1.8	-55%	SELL
TOEN	1.8	110.0	-34%	+13%	1.5	13.6	4.0	122%	BUY
<b>VIEN</b>	80.0	247.8	-40%	0%	2.0	23.8	140.0	75%	<b>BUY</b>
VOEN	0.3	143.2	-51%	-5%	1.7	15.2	0.5	67%	BUY
ZAON	3.0	538.1	-35%	-2%	0.7	30.7	3.0	0%	HOLD
ZHEN	1.0	122.4	-65%	-10%	1.0	8.0	2.7	170%	BUY
<b>ZOEN</b>	1.3	162.0	-46%	-1%	1.6	19.1	1.9	46%	<b>BUY</b>

Note: Bold recommendations are our top picks

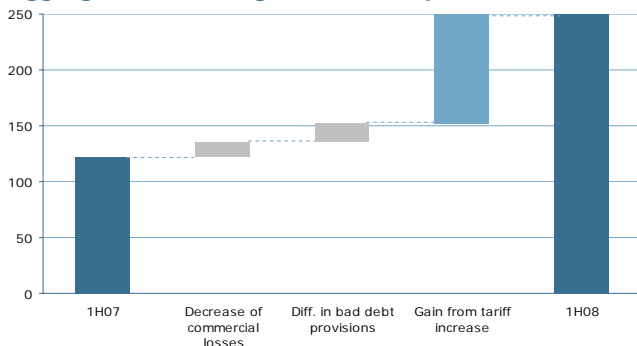
## Financials by Oblenergo class

		Net revenue		EBITDA		Margin
		USD mln	yoy	USD mln	yoy	
<b>Industrial Oblenergos: highest EBITDA growth yoy; smallest margins</b>						
Dniprooblenergo	DNON	844.9	15%	37.6	178%	4.4%
Zaporizhyaoblenergo	ZAON	364.3	30%	6.0	111%	1.6%
<b>Non-industrial Oblenergos:</b>						
<b>Private with preferential tariff: moderate EBITDA growth; highest margins</b>						
Kirovohradoblenergo	KION	50.8	30%	11.7	58%	23.0%
Sevastopoblenergo	SMEN	33.5	20%	7.3	60%	21.7%
Zhytomyroblenergo	ZHEN	59.2	24%	9.2	82%	15.6%
<b>Private with non-preferential tariff: moderate EBITDA growth yoy; above median margins</b>						
Chernihivoblenergo	CHEON	54.5	27%	8.2	101%	15.0%
Lvivoblenergo	LVON	118.8	26%	21.8	132%	18.4%
Odesaoblenergo	ODEN	188.8	33%	15.2	85%	8.1%
Poltavaoblenergo	POON	130.0	28%	18.7	133%	14.4%
Prykarpatooblenergo	PREN	54.9	4%	11.5	79%	21.0%
Sumyoblenergo	SOEN	56.3	26%	11.3	76%	20.0%
<b>State controlled: highest on average (but dispersed) EBITDA growth yoy; median margins</b>						
Chernivtsioblenergo	CHEN	35.7	35%	6.2	245%	17.3%
Cherkasyoblenergo	CHON	64.3	32%	11.8	54%	18.3%
Kharkivoblenergo	HAON	179.6	30%	25.7	156%	14.3%
Khmelnitskoblenergo	HMON	61.2	39%	10.7	120%	17.5%
Krymenergo	KREN	132.4	27%	10.7	20%	8.1%
Mykolaivoblenergo	MYON	70.7	30%	2.5	148%	3.5%
Ternopiloblenergo	TOEN	33.7	32%	4.9	98%	14.5%
Vinnitsyaoblenergo	VIEN	62.7	32%	10.7	328%	17.0%
Volynoblenergo	VOEN	38.3	26%	6.2	161%	16.1%
Zakarpatooblenergo	ZOEN	48.8	25%	5.5	241%	11.3%

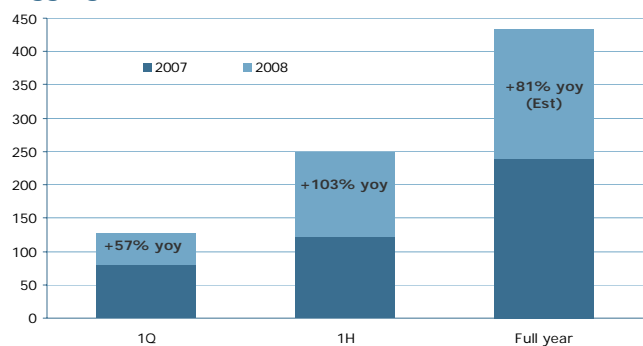
Note: Grey cells represent worst in class; blue - best in class; HOEN and ENUG did not provide 1H08 financial results

Source: Company data

Aggregate\* EBITDA growth decomposition, USD mln



Aggregate\* EBITDA, USD mln



\* Aggregate data does not include DOON as an outlier, as well as HOEN and ENUG, which did not provide 1H08 financials. Data accounts for two delisted companies: Sumyoblenergo and Mykolaivoblenergo

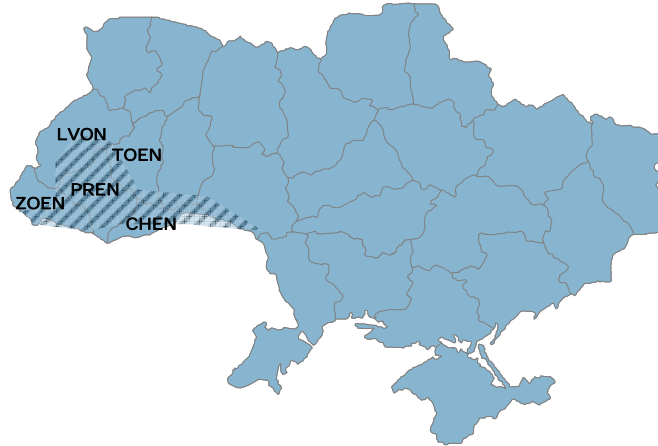
Source: Company data, NERC, Concorde Capital estimates

## Recent events

### Flooding in Western Ukraine led to losses

During July 23-25, rainfall resulted in the worst flooding in Western Ukraine in the last 30 years. The most affected regions were Ivano-Frankivsk, Zakarpattya and Chernivtsi, where Prykarpatoblenergo, Zakarpatooblenergo and Chernivtsioblenergo's grids are located.

#### Territories most affected by flooding on July 25-28 (dashed)



Prykarpatoblenergo preliminarily estimates its losses at USD 2.5 mln (only accounting for high-voltage grid damage), while we estimate that the company's total losses could reach USD 5-8 mln. At the moment, the possibility of receiving compensation for the losses is being considered by the Cabinet of Ministers. If not compensated, the losses could cause short-term financial troubles for Prykarpatoblenergo, Zakarpatooblenergo and Chernivtsioblenergo. Still, taking into account the temporary nature of the trouble and high probability of compensation for at least some of the losses, we do not feel the need to revise the companies' investment cases or target prices.

### Dniprooblenergo: NC ECU takes operating control

On July 25, 2008, Dniprooblenergo's head office was seized by representatives of a private security firm representing the interests of the NC ECU (holder of 75% of the company) and Privat group. As a result of action, CEO Eduard Sokolovskiy, who was supported by minority shareholder DTEK, was dismissed. Dniprooblenergo's supervisory board, which was elected at the company's April 30 AGM, appointed Andriy Martyniuk as the new CEO. DTEK and the outgoing management, which have not recognized the April 30 AGM decisions (including election of a new supervisory board) as valid, are suing against the replacement in court.

Taking into account the numerous procedural violations in appointing Martyniuk as CEO, we do not exclude the possibility that Dniprooblenergo's management is replaced again. Still, we see a high chance for the NC ECU to retain its operating control. Dniprooblenergo already announced another EGM for October 30 - if Martyniuk keeps his position until this date, a new shareholder meeting is almost certain to be held without legal violations – the NC ECU will elect new supervisory board whose legitimacy will hardly be questionable.

Ambiguity in the company's management is unlikely to affect its operational results – there was no synergy from DTEK controlling the company. At the moment, the company is controlled by representatives of its 75% owner, which looks natural.

## 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 15% 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 15%. 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.

### Concorde Capital ratings distribution

Buy	80	70%
Hold	19	17%
Sell	7	6%
Under Review	8	7%
Total	114	100%

### Investment banking clients\*

Buy	7	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
Total	7	100%

\* Within the last twelve month period, Concorde Capital has obtained compensation from these companies for investment banking services.

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