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### Odeskabel (OCAB): BUY

Market price, USD	1.2
No of shares, mln	56.0
MCap, USD mln	67.2
Free float	2%
FF MCap, USD mln	1.34

#### Key financials, USD mln

	2005	2006E	2007E
Net revenue	62.6	90.0	97.2
EBITDA	8.0	10.4	11.7
Net income	4.4	1.3	1.5

### Donbaskabel (DCAB): BUY

Market price, USD	2.5
No of shares, mln	6.1
MCap, USD mln	15.2
Free float	13%
FF MCap, USD mln	2.0

#### Key financials, USD mln

	2005	2006	2007E
Net revenue	21.3	30.5	49.0
EBITDA	1.3	1.6	3.2
Net income	0.7	0.4	1.0

**Ukraine's cable production is an overlooked sector, and the market for the country's two listed stocks has been dormant. The stocks are quoted at unjustified discounts to their peers and promise a 40%-80% upside. We initiate coverage of Odeskabel (OCAB) and Donbaskabel (DCAB) with a BUY recommendation.**

**Energy cables poised for brisk expansion.** Anticipated increases in CapEx from the power distribution sector and the booming local construction market, which got another boost from the announcement that Ukraine would host the UEFA European Soccer Championship in 2012, should serve as the main drivers for energy cable production. We forecast growth in energy cable demand at about 15% annually over the next five years.

**Telecom cables: stability is the name of the game.** As the traditional consumers of telecommunication cables, large fixed line and mobile operators are now closing in on the completion of their backbone networks, demand is expected to shift primarily to households and the construction industry. We see domestic telecom cable production increasing slightly over the next three years (2-3% annually), but tailing off in the mid-term as imports pick up following the expected abolition of restrictive import duties following Ukraine's accession to the WTO.

**OCAB** trades at an unjustified discount to its global peers, though it is exposed to the same market environment: high-quality product, modest but sustainable growth prospects. OCAB has a DR program.

**DCAB's** new strategic owner, Russia's Sevkabel Group, plans to double Donbaskabel's production within the next two years, utilizing the group's broad distribution network. The company will gain from an expected boom in demand for energy and power cables from domestic electricity, construction companies and coal mines

	Market price, USD	12M target, USD	Upside	EV/S 07E	EV/EBITDA 07E	P/B 07E
Odeskabel	1.2	1.7	42%	0.82	6.8	1.5
Donbaskabel	2.5	4.5	80%	0.43	6.6	2.4

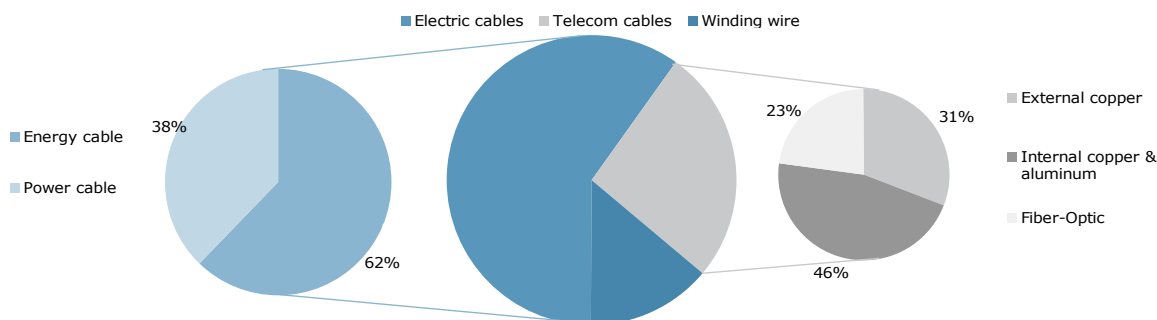
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## Global cable market: Return to 2000 highs

The current annual capacity of the world's cable and wire market is estimated at about USD 100 bln.

### Global cable market: Segment breakdown by sales



Source: CRU

Sixty percent of the market is held by electric cables (power and energy cables), 25% is telecom cable and the rest is winding wire (used as components for power transformers, electric engines and generators).

The global cable market reduced demand following a peak in 2000, but started to revive in 2003. CRU, an independent analytical and consultant group, expects that the market will return to its 2000 level in 2007.

### Changes in cable & wire production by segment, CAGR

	2000-2003	2003-2007E
Energy	-0.3%	4.5%
Telecom (metal)	-10.2%	0.4%
Fiber optics	-22.8%	8.4%
Winding wire	-2.3%	4.8%
<b>Total</b>	<b>-4.9%</b>	<b>3.9%</b>

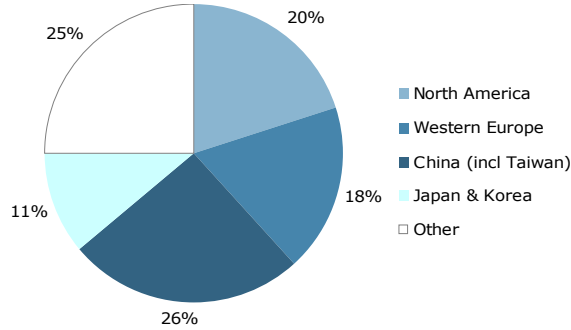
Source: CRU, Nexans, Concorde Capital estimates

The fastest growing market segments are energy and winding wire, mainly due to an increase in worldwide electricity demand.

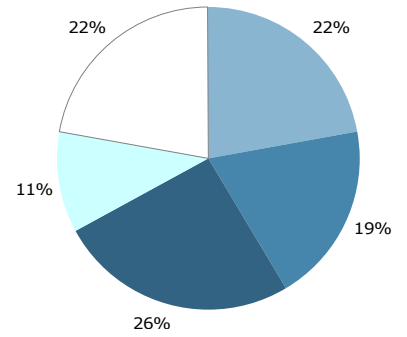
In the telecommunications segment, a stabilization in demand for metallic cables (copper and aluminum) and an increase in demand for fiber optic cables is observed. In developed markets, no growth in telecom cable demand is expected.

The main cable market players are located in China, the USA, Japan, South Korea and Germany, which combined account for half of the world's cable production and consumption.

**Geographical breakdown (by volume produced):  
Cable producers**



**Cable consumers**



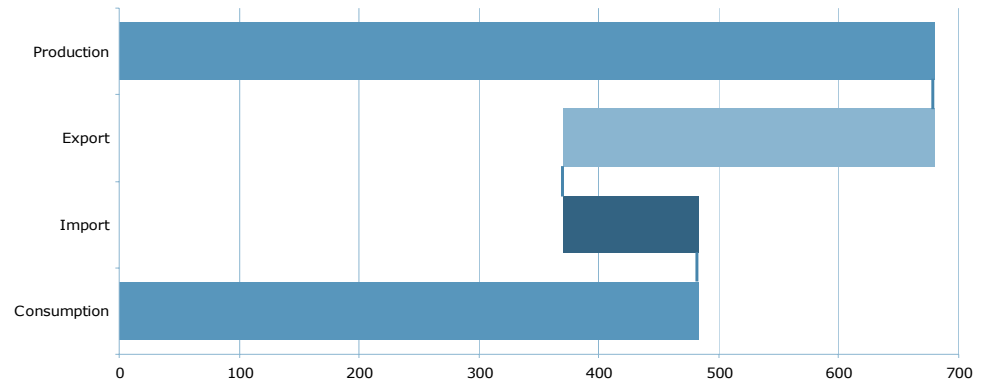
Source: CRU

# Ukrainian cables: In line with global trends

## The Ukrainian market in brief

The Ukrainian cable market's annual consumption capacity is estimated at USD 480 mln (or 0.5% of the global market).

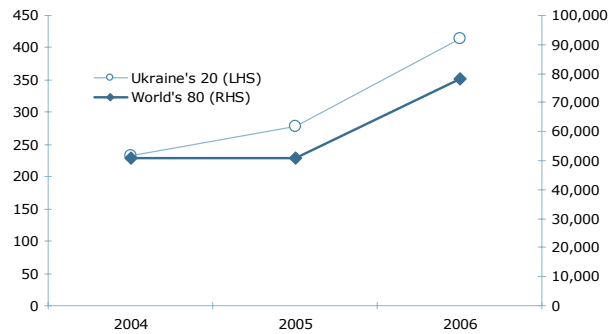
Ukrainian cable market, 2006, USD mln



Source: State Statistics Committee, Donbaskabel, Concorde Capital calculations

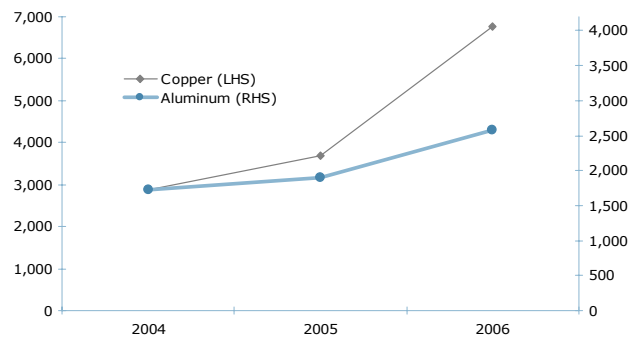
Growth in Ukrainian cable production in recent years has been faster than the global growth trend, and is in line with prices for the key component in cables, copper.

Cable producers' revenues, USD mln



Source: CRU survey of 80 global producers, State Statistics Committee, Concorde Capital survey of 20 local producers

Average metal prices, LME, USD/mt



Source: Bloomberg

Local demand for *telecom* cables grew more than global demand during the last couple of years, mainly due to the construction of nationwide networks by leading telecom operators.

The fastest growing segments of the local cable market, just as for the global market, are energy cables and winding wire – which are utilized primarily by the electricity and machine building sectors.

## Three faces of domestic producers

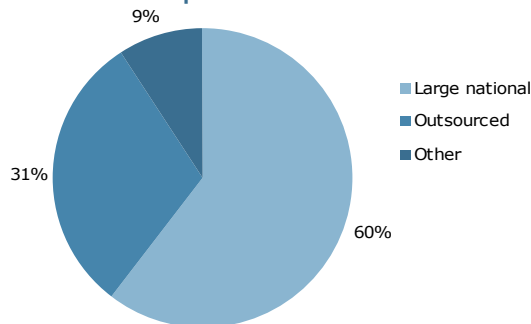
Ukrainian cable companies produce a wide range of cables and wires, and satisfy most of domestic demand (up to 80%).

We estimate cable production in 2006 at USD 700 mln (+45% yoy). One-third of this amount was produced by subsidiaries or joint-ventures of global cable players, mainly through tolling contracts. Local producers supplied wires and cables to the domestic market for about USD 400 mln.

We divide Ukrainian cable producers into three groups:

- Large national cable producers – Cable companies with sales above USD 5 mln
- Small cable producers – Small private enterprises producing cable and wire products, as well as large companies where cables are not the core business
- “Outsourced” cable producers – Enterprises that are targeting international cable markets, and are JVs or subsidiaries of international cable companies; they are all located in the western regions of Ukraine and mostly work on tolling contracts, producing cable and wire components for automobile and consumer electronics producers in Europe (Volkswagen, Daimler-Chrysler, Renault, Ford, General Motors).

Ukrainian cable production breakdown



Source: company data, State Statistics Committee, Concorde Capital

### Cable production centers in Ukraine



Note: The main cable producers are listed in bold; light fonts represent cable producers that do not supply to the domestic market

## Domestic competition

Each large player concentrates on a specific product range to avoid tough competition. Odeskabel concentrates mainly on telecommunication cables; Donbaskabel focuses on cables for coal mines and machinery; Yuzhkabel primarily produces specific cables for machinery, oil & gas, and electricity sectors; while Zaporizhkabel produces winding wires for neighboring transformer giant Zaporizhtransformator; other producers concentrate on cables for construction and electricity.

Over the last few years, cable producers have diversified their product portfolios, which has led to increased competition between them. Odeskabel remains the only company catering mostly to the telecommunication sector. Its position on the telecom cable market is stable, as its main competition comes mainly from abroad and telecom cable imports to this point have been protected by duties.

### Ukraine's largest cable & wire producers and their presence in segments

	Sales 2006E USD mln	Export / Sales	Telecom cables	Energy cables	Winding wires	Bare wires
Yuzhkabel	91	34%	◇◇	◇◇◇◇	◇◇	◇
Odeskabel	89	29%	◇◇◇◇	◇◇	-	-
Katech group	47	0%	◇	◇◇◇	◇◇	◇
Azovkabel-based*	33	27%	-	◇◇◇	◇	◇◇
Donbaskabel	30	16%	◇	◇◇◇◇	◇	◇
Krok - GT	25	11%	◇	◇◇◇◇	◇	◇◇◇
Techprovid	18	7%	-	◇	◇◇◇	◇◇◇
Zaporizhia Cable	16	1%	-	◇◇	◇◇◇◇	◇
Energoprom	14	3%	-	◇	◇◇◇	◇◇◇

Source: Company data, Concorde Capital

Note: More diamonds indicate higher presence in the segment

\* A group of companies that lease capacities of the Azovkabel plant based in Berdiansk, refer to map on page 6

In most cases, large cable producers produce cables of equal quality, so pricing policies generally make up the bulk of competition.

## Imports: Additional source of competition

### Import breakdown

Total cable imports amounted to USD 113 mln in 2006, but only 40% of it can be considered competition to local cable producers. We divide total cable imports into three categories with respect to their competition potential to local producers:

**Competitive imports** – Products that have local analogues (items with high import duties). These cables are competitive in quality; their key disadvantage is poor price comparability. The latter is usually the main factor in cable product decisions in Ukraine. The main exporting countries are neighbors Russia, Poland and Belarus.

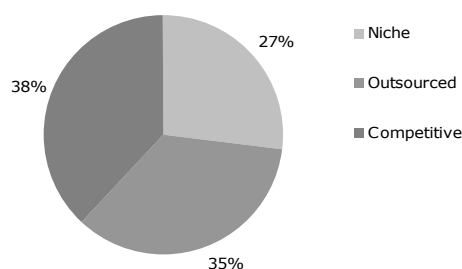
Illegal imports are another important item to note; according to different estimates, amount of this type of import is as large as 25%-40% of total legal imports (or up to 100% of reported *competitive* imports). While in most cases, shadow imports significantly lags behind local cables in terms of quality, they are sound competition due to lower prices. The main sources of these import are Russia, China and Turkey. We believe an increase in quality control will decrease the share of these illicit cables in the mid-term.

**Niche imports** – Fills niches not occupied by local cable producers: cables for vehicles, coaxial cables, cables for mobile telecom networks, branded cables and cable connectors used in electric and electronic equipment (consumer goods, PCs and office equipment).

Main supply countries are Germany, UK, France, Sweden, Finland, South Korea and Russia.

**Ousourced imports** – Importing wires and cables for further processing in Ukraine and re-exporting. The main importers are Germany, Austria, Switzerland, Hungary and the Czech Republic.

### 2006 Import breakdown



Source: State Statistics Committee, Concorde Capital estimates

The main international competitors are Russian, Belarusian and Polish companies, but their product is often more expensive than domestic cables due to import duties.

### Main international competitors to local cable producers

Producer	Country	Import 2006, USD mln	Product type
Tele-Fonika Kable	Poland	5.65	Telecom and power cables
Electrokabel Kolchugino	Russia	4.05	Telecom and power cables
Kamkabel Perm	Russia	3.83	Energy cables
Rybinsk Cable	Russia	3.72	Power cables, winding wire
Kavkazkabel	Russia	0.96	Power cables
Belaruskabel	Belarus	0.89	Telecom and power cables
Irkutskkabel	Russia	0.78	Energy cables
Mikroprovod Podolsk	Russia	0.73	Winding wire
Samara Cable	Russia	0.24	Telecom cables

Source: State Statistics Committee, Concorde Capital



### Winding wires and telecom cable producers are protected from imports

Importing cable products into Ukraine is limited by duties imposed in 2001. Import regulations protect local cable producers from competition by imposing up to 20% duties on most items that are produced locally (winding wires, telecom cables, low-voltage energy cables), while allowing the free import of items for which demand is not satisfied by local producers (wires for automobiles, high-voltage cables, internal telecom and data cables).

#### Import duties for cable products, % of value

<b>Winding wires</b>	
Copper, Aluminum, enameled or lacquered	20%
Other	2% - 15%
<b>Coaxial cables</b>	
	0%
<b>Automobile wires</b>	
	0% - 2%
<b>Metal telecom cables</b>	
	20%
<b>Fiber-optic cables</b>	
For external telecom networks	20%
Other	0%
<b>Power cables &amp; wires</b>	
Low-voltage	20%
High-voltage	0% - 2%

Source: Import duty code

### WTO accession likely to mean end of protection

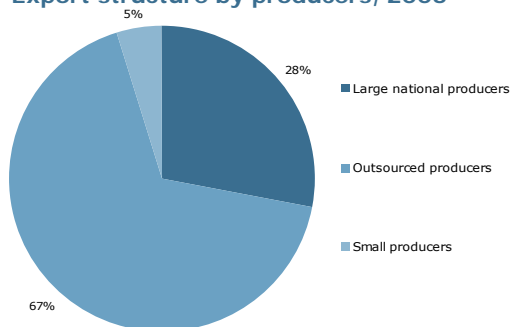
Following Ukraine's entrance to the WTO, there is a risk for local producers that import duties will be removed. Odeskabel's CFO supports our belief that this could happen in the midterm. Removal of duties will allow cable producers in the EU and Russia to significantly increase their presence on the Ukrainian cable market. However, since large Ukrainian cable producers are currently competitive on CIS cable markets (they export 15%-35% of their output, refer to the table on page 7), we believe most of them will retain their market position, even after Ukraine's WTO accession.

## Exports: Navigating tough regulations

### Export breakdown

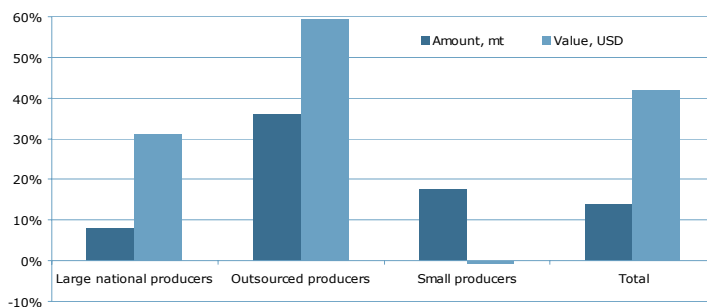
Cable product exports made up USD 310 mln in 2006 (CAGR 42% 2002-2006), with two-thirds of exports coming from *outsourced* producers.

Export structure by producers, 2006



Source: State Statistics Committee, Concorde Capital

Export growth by producers, 2002-2006 CAGR



National cable producers increased exports at a CAGR (2002-2006) of 30%. Key destinations for national cable exports are Russia, Belarus, Moldova and Georgia.

### Tough export regulations make trouble for domestic producers

Even though Ukrainian cable producers do not face entry barriers to CIS cable markets, local export regulations are much more constricting. Legislation currently regulates the export of military and dual-purpose products (particularly technology, including several types of cable products), and became especially strict following scandals involving the export of military products to Iraq in the early 2000s. During 2002-2005, a series of regulatory acts were adopted requiring exports of these types of goods to receive approval from dozens of regulatory and control agencies.

According to local cable producers, the approval process for exporting one batch of goods can take up to three months, which reduces their reliability and increases the timeframe for supplying cable products in export contracts. Only a couple large cable producers export their products, while the majority of Ukrainian cable makers target domestic markets.

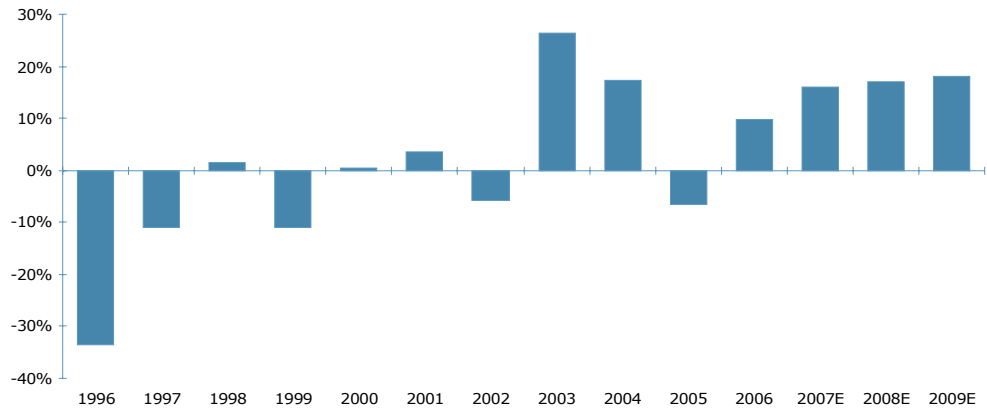
## Outlook by segment

### Energy cables and winding wires: Poised for brisk expansion

The two main reasons for growth in energy cable demand are a significant increase of CapEx by electricity companies and a construction boom.

Construction in Ukraine is set to take off on the back of growing demand for residential housing and an expected boost to business and infrastructure development, especially ahead of hosting the UEFA European Soccer Championship in 2012.

#### Construction volume changes, yoy

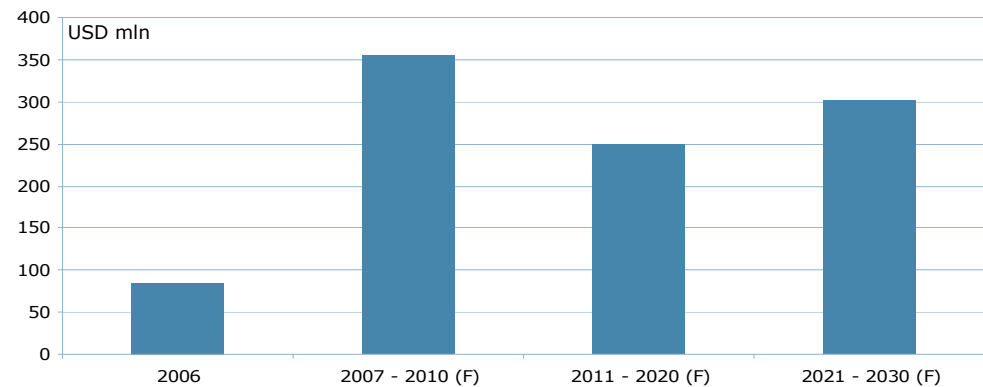


Source: State Statistics Committee, Concorde Capital forecast

Ukrainian power networks consist of 22 ths km of high-voltage power lines, and about 1,000 ths km of distribution lines, most of which were constructed in Soviet times and were not repaired during the 1990s and early 2000s. The network currently needs significant investments for upgrades. For cable producers, the most interesting segments are distribution lines (cables and insulated wires) and transformers (whose main components are winding wires).

The Ukrainian government's Energy Strategy foresees a jump in demand for wire and cable production, given increased investments into Ukraine's electricity distribution networks from USD 85 mln in 2006 to USD 250-350 mln by 2010. Total investment needs for power lines and transformers is estimated at USD 7.0 bln by 2030.

#### Ukraine's Energy Strategy: Annual investments for upgrading distribution lines



Source: National Electricity Regulation Commission, Ministry of Fuel and Energy, Concorde Capital

Even though we do not believe Ukraine’s Energy Strategy will be implemented completely, it underscores the real need for heavy invests in upgrading Ukraine’s distribution networks in the mid-term. There is a real necessity to increase the stability of electricity supplies to satisfy rapidly growing electricity consumption, especially from urban households (Soviet lines were designed to carry much lower electrical capacities than demanded by today’s households) – this demands the construction of new electricity distribution networks at new standards.

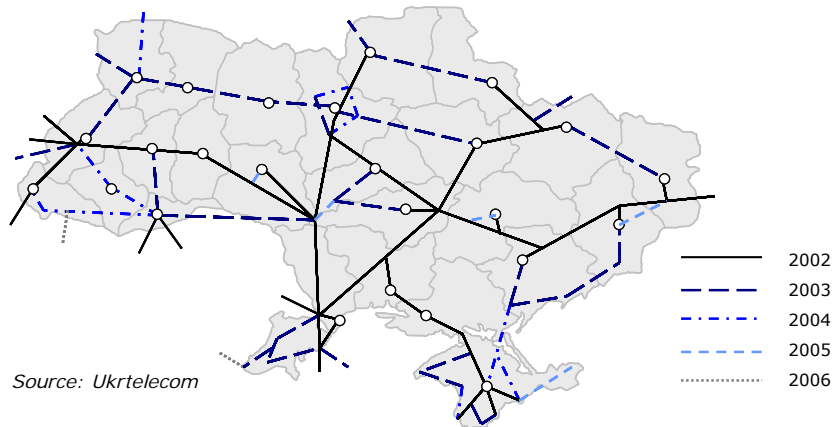
We believe domestic demand for electric wires and cables as well as winding wires will increase by least 200% over the next three-four years. We expect annual growth of locally produced energy cables of 30%-40% during the next five years, and 4%-5% afterward. As winding wire imports are currently protected by duties and we expect them to be removed in the mid-term, growth in domestic production of winding wires will be lower than for electric cables (20%-25% p.a. during the next five years).

**Telecom cables: Slow increases in demand expected**

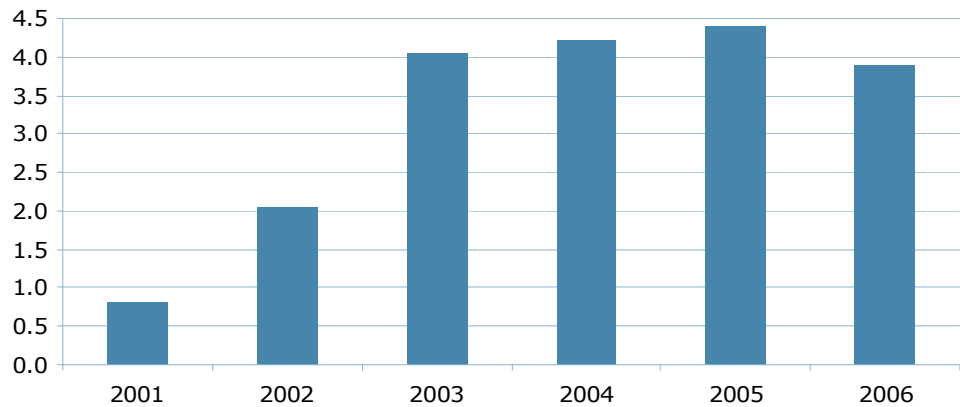
The main consumers of telecom cables in Ukraine are fixed telephony companies and Internet providers that construct their own networks, large industrial companies and office communication equipment/network suppliers. Large mobile telephony providers have constructed their nation-wide networks using equipment (including cable products) from global producers, such as Ericsson, Nokia, and Radio Frequency Systems.

Ukrtelecom, the main consumer of Ukrainian telecom cables, has almost finished its nation-wide backbone, and already began reducing cable purchases back in 2005. Thus, in the mid-term, we expect a decrease in demand for backbone cables in Ukraine.

**Ukrtelecom’s fiber-optic backbone, as of end of the period**



**Incremental length of Ukrtelecom's backbone, ths km**



Source: Ukrtelecom

As Ukrtelecom is now constructing digital fixed telecom networks, we expect an increase in demand for "last mile" (internal) telecom cables.

In addition to slowing growth in demand, a restraining factor to local telecom cable growth is the likely removal of import duties following WTO accession. When this happens, the doors will be open to foreign competitors that will move to increase their presence in Ukraine, including Russian Nevakabel, Saranskabel, Samara Cable Company, Elektrokabel-Kolchugino and Polish Tele-Fonika Kable. Thus, we forecast modest 2%-3% annual growth for local telecom cable production over the next three years.

## Stocks and ownership

### Stock market: Trades few and far between

Of the major Ukrainian cable producers, only two companies are listed on stock exchanges:

- Odeskabel (OCAB), also has ADRs;
- Donbaskabel (DCAB)

The stocks are not liquid: The last trades in OCAB were posted on the PFTS in December 2005; DCAB has had only one posted trade – in December 2001.

### M&A Prospects: Not glamorous, but handy assets

In 2006 there were two acquisitions on local cable market:

- The largest Ukrainian rubber cable producer, **Donbaskabel** (DCAB), was bought by Russian cable producer Sevkabel-Holding, which has developed distribution networks in Russia, Ukraine, Belarus, Moldova, Azerbaijan and Germany. The holding is expanding fast, last year it also acquired the largest CIS producer of winding wire – Russian Mikroprovod-Podolsk plant. According to Sevkabel management, synergies will allow Donbaskabel to increase sales by almost 90% to USD 56 mln in 2007.
- Katech group sold part of its shares (about 40%) in Kyiv-based cable plant **Ukrkabel** to investment company ITT-Invest. Ukrkabel is a loss-making enterprise with a modest USD 0.4 mln in sales (2006), and it is unlikely to improve its production and financials in the near future.

In 2007, the State Property Fund (SPF) is planning to sell a 90.8% stake in cable plant **Azovkabel**. At the moment, the company is an empty shell: it does not produce cables and leases its capacities out to several companies. There have been three attempts to privatize Azovkabel in 2002-2004 at its nominal price (equity value of USD 2.26 mln), but there has not been interest. The next attempt for a tender is scheduled for May 2007, and there are poor chances that SPF will manage to sell it.

The other large cable producers, **Yuzhkabel** and **Odeskabel**, might become attractive acquisition targets for Russian and global cable producers. Currently, they are controlled by management.

The largest producer of winding wire, **Zaporizhya Cable Plant**, is a structural component of Konstantin Grigorishyn's energy machinery empire (a nest for producers of transformers and components for power plants and gas pipelines). The plant is the main supplier of winding wire for Grigorishyn's Zaporizhtransformator (ZATR), thus it is unlikely to be put up for sale.

## Profitability study

We analyze the profitability of three Ukrainian cable producers: the largest company, Yuzhkabel and the two listed producers Odeskabel (OCAB) and Donbaskabel (DCAB).

Globally, cable producers vary widely by profitability, which depend a lot on their product categories. The general tendency is for emerging market producers to be more profitable due to their lower labor costs.

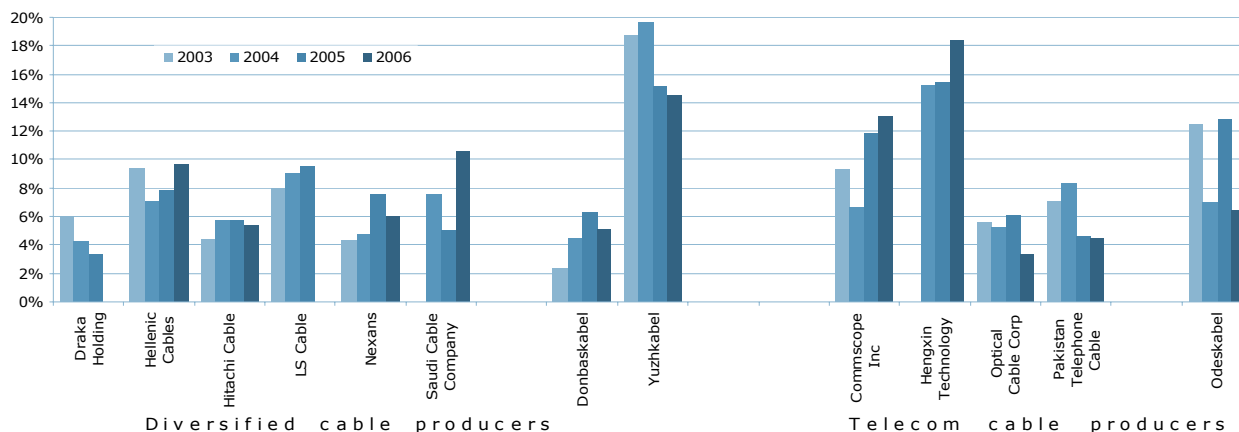
### EBITDA margins, 2006

Telecom cable producers		Diversified cable producers		
Tamilnadu Telecom. (IN)	45%	LS Cable (KR)	19%	emerging
Hengxin Technology (CN)	18%	Taihan Electric Wire Co (KR)	5%	
Jiangxi Lianchuang (CN)	12%	<b>Yuzhkabel (UA)</b>	<b>15%</b>	
Pakistan Telephone Cable (PK)	5%	<b>Donbaskabel (UA)</b>	<b>6%</b>	
<b>Odeskabel (UA)</b>	<b>6%</b>			
Belden CDT (US)	12%	Hellenic Cables (GR)	9%	developed
Commscope Inc (US)	12%	General Cable Corp. (US)	8%	
Oki Electric Cable Co (JP)	11%	Fujikura (JP)	7%	
Huber & Suhner (CH)	10%	Nexans (FR)	6%	
Superior Essex Inc (US)	5%	Furukawa (JP)	6%	
Optical Cable Corp (US)	4%	Draka Holding (NL)	5%	

Note: UA – Ukraine, IN – India, CN – China, PK – Pakistan, US – United States of America, CH – Switzerland, KR – South Korea, GR – Greece, JP – Japan, FR – France, NL – Netherlands  
Source: Bloomberg, Company data

Yuzhkabel definitely outperforms the majority of its international peers by EBITDA margin, and its EBITDA is sustainable over time, which means it has room to maneuver in terms of pricing competition in the future.

### EBITDA margin history



Source: Bloomberg, Company data

Donbaskabel and Odeskabel have lower margins than their peers. Both companies supply the majority of their products to state-controlled companies (Donbaskabel to coal mines, Odeskabel to state telecom monopoly Ukrtelecom), which might be the main reason for their low profitability:

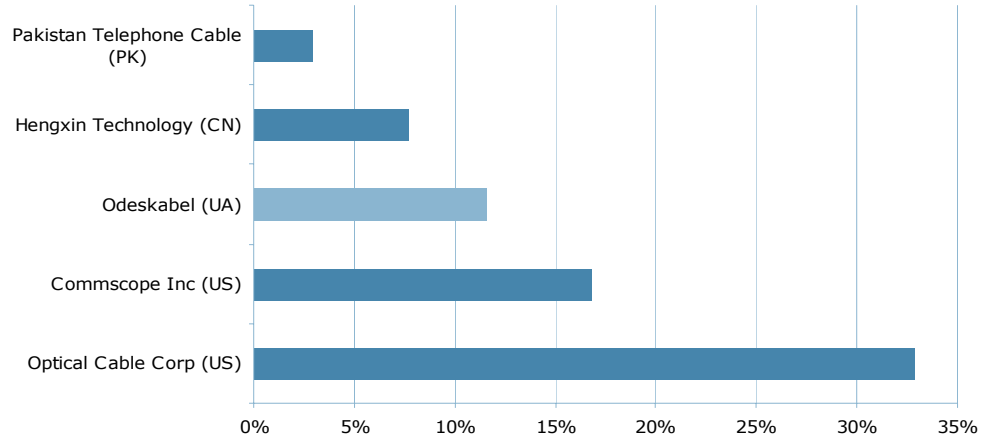
- Dealing with the state sector (state orders and/or state support) often implies transfer pricing
- Both companies seem to have consumers with high bargaining power

We believe that Donbaskabel's new shareholder, Russian Sevkabel, will decrease the scope of transfer pricing being practiced and will diversify Donbaskabel's market, providing two reasons why the company's profitability will get a boost.

Besides its relationship with Ukrtelecom, there are other reasons for Odeskabel's low margins: Its SG&A expenses are the highest of any Ukrainian cable producers and, in common size, are between the SG&A of developed and emerging market peers. We relate this to Odeskabel's higher R&D activity compared to its emerging market peers. We do not see any triggers that would lead to Odeskabel increasing its margin in the mid-term.

However, its R&D activity suggests the company will remain competitive in quality on the telecom cable market in the future.

**Pure telecom cable producers: SG&A to sales, 2006**



Source: Thomson Banker, Company data



## Peer valuation

### Telecom cable producers\* : OCAB's benchmark

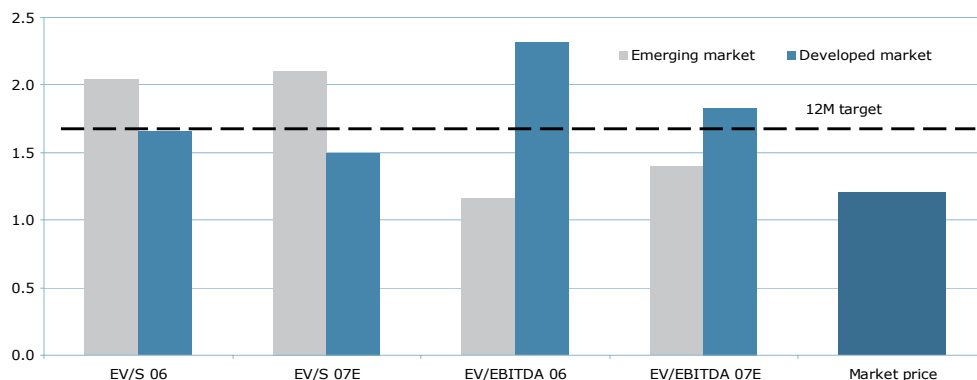
		EV/S		EV/EBITDA	
		06E	07E	06E	07E
<b>Odeskabel</b>	UA	0.9	0.8	7.6	6.8
<b>Emerging market peers</b>					
Chengdu Putian Telecommunications	CN	1.5	1.5	n/a	n/a
Jiangxi Lianchuang	CN	3.1	2.5	25.9	n/a
Hengxin Technology Limited	CN	1.3	1.2	7.1	7.8
Charoong Thai Wires Cable	TH	1.0	0.9	n/a	n/a
Pakistan Telephone Cable	PK	0.4	0.3	7.9	n/a
Tamilnadu Telecommunications	IN	1.8	1.6	3.9	n/a
mean		<b>1.5</b>	<b>1.3</b>	<b>11.2</b>	<b>7.8</b>
median		<b>1.4</b>	<b>1.3</b>	<b>7.5</b>	<b>7.8</b>
<b>Developed market peers</b>					
Commscope Inc	US	1.7	1.5	14.1	11.4
Superior Essex Inc	US	0.3	0.3	6.5	6.0
Belden CDT Inc	US	1.7	1.3	13.3	9.5
Optical Cable Corp	US	0.6	0.6	15.2	n/a
Huber & Suhner	CH	1.8	1.6	17.0	10.2
Oki Electric Cable Co	JP	0.7	0.7	6.2	n/a
mean		<b>1.1</b>	<b>1.0</b>	<b>12.1</b>	<b>9.3</b>
median		<b>1.2</b>	<b>1.0</b>	<b>13.7</b>	<b>9.9</b>

Source: Bloomberg, Concorde Capital calculations

\* Cable producers whose share of telecom cables was 30%-100% of production

We benchmark Odeskabel against comparable producers at the developed market: we consider them as the closest peers for OCAB in terms of technical base, R&D potential and modest sales growth prospects.

### Implied share price: Odeskabel (OCAB), USD



Source: Bloomberg, Concorde Capital estimates

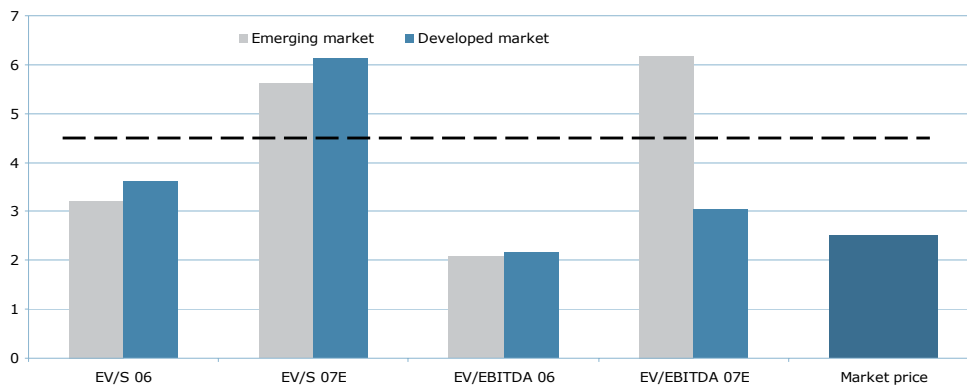
Our 12M target price for Odeskabel of USD 1.7 per share implies a 42% upside. We issue BUY recommendation for OCAB.

**Diversified cable producers: DCAB's benchmark**

		EV/S		EV/EBITDA	
		06E	07E	06E	07E
<b>Donbaskabel</b>	UA	0.7	0.4	13.4	7.2
<b>Emerging market peers</b>					
LS Cable	KR	0.8	0.8	4.4	11.5
Taihan Electric Wire Co	KR	0.9	1.0	19.4	18.0
SUCACO	ID	0.3	0.3	n/a	n/a
Evertop Wire	CN	0.5	0.5	n/a	n/a
Bicc Cafca Limited	ZW	8.9	8.5	n/a	n/a
mean		<b>2.3</b>	<b>2.2</b>	<b>11.9</b>	<b>14.8</b>
median		<b>0.8</b>	<b>0.8</b>	<b>11.9</b>	<b>14.8</b>
<b>Developed market peers</b>					
General Cable Corp.	US	0.9	0.8	12.0	9.4
Draka Holding NV	NL	0.6	0.6	10.8	8.2
Hellenic Cables SA	GR	0.9	1.2	10.3	n/a
Nexans	FR	0.5	0.7	7.7	7.3
Sumitomo	JP	1.6	1.6	55.9	n/a
Hitachi Cable	JP	1.0	0.9	16.6	n/a
Fujikura	JP	0.9	0.9	12.2	n/a
Tatsuta El. Wire & Cable	JP	0.8	0.7	n/a	n/a
Furukawa	JP	1.8	2.0	29.8	n/a
mean		<b>1.0</b>	<b>1.0</b>	<b>17.3</b>	<b>8.3</b>
median		<b>0.9</b>	<b>0.9</b>	<b>12.0</b>	<b>8.2</b>

Source: Bloomberg, Concorde Capital calculations

Unlike telecom cable segment, energy cable producers have more homogenous profiles across different regions - we compare Donbaskabel to both groups of peers - emerging market and developed. With a target price of USD 5.5 per share, we see a 80% upside for the stock. We recommend BUY on DCAB. Note that shares availability is limited on the market.

**Implied share price: Donbaskabel (DCAB), USD**


Source: Bloomberg, Concorde Capital estimates

## Company profiles

# Odeskabel

OCAB

Electrical Components & Equipment

<http://www.odeskabel.com>

**Target Price (USD)**

**1.7**

**Upside**

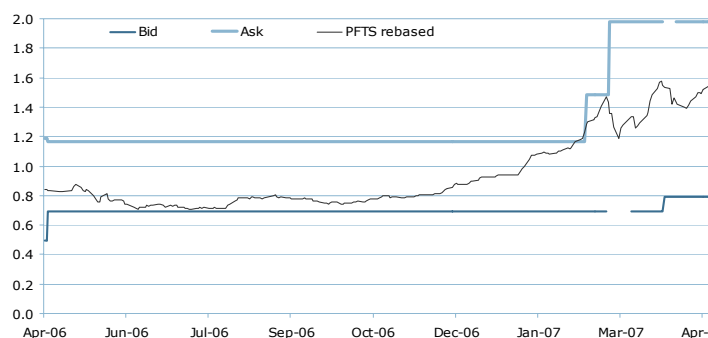
**42%**

**BUY**

## INVESTMENT CASE

The current discount to developed market peers (which as well as OCAB supply high-quality product and face modest but stable sales growth prospects) implies a 42% potential upside for the stock. OCAB has a DR program.

## SHARE PRICE PERFORMANCE



## BUSINESS OVERVIEW

Odeskabel is the largest telecommunication cable producer in Ukraine and one of the largest producers in the CIS. Its product portfolio includes fiber-optic, LAN and communication cables; oxygen-free copper cords; radio frequency and mounting wires; and other products. Odeskabel mainly supplies its products to the telecommunications (about 50% of production is purchased by Ukrtelecom) and broadcasting industries, as well as to large industrial enterprises and construction companies.

The company's products are ISO-certified, and comply with local, Russian and international quality standards.

The company has its own R&D department, and cooperates with leading cable and telecom equipment producers (Nokia, Lucent Technologies, Sumitomo), which allows Odeskabel to remain competitive in terms of quality. Established contacts with cable consumers in Ukraine and in the CIS assure stability in cable orders.

Odeskabel also has its own facilities for wire rod production which secures its raw material base.

## MARKET INFORMATION

<b>Market price, USD</b>	<b>1.2</b>
Price impact	3*
52 wk H/L	1.8 / 0.8

<b>MCap, USD mln</b>	<b>67.2</b>
Free float	2%
FF MCap, USD mln	1.34

<b>No of shares, mln</b>	<b>56.0</b>
Par value, UAH	0.25

<b>Bloomberg XETRA</b>	<b>OCAB UZ</b>
<b>DR Ratio</b>	<b>05N1</b>
	1:50

## STOCK OWNERSHIP

Management	76.8%
ING Bank Ukraine	17.3%
Other	5.9%

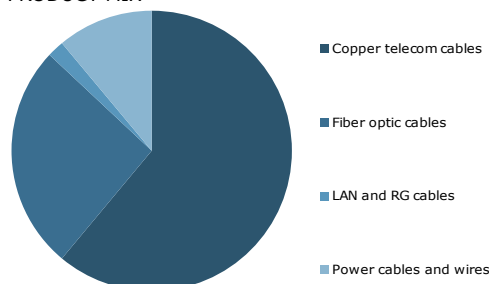
## MARKET MULTIPLES

	2006E	2007E
EV/S	0.89	0.82
EV/EBITDA	7.63	6.83
P/E	51.7	44.8
P/B	1.6	1.5

## KEY FINANCIALS

	2005	2006E	2007E
Net revenue, USD mln	62.6	90.0	97.2
EBITDA margin	12.8%	11.6%	12.0%
Net margin	7.0%	1.4%	1.5%
D/E	0.2	0.3	0.3

## PRODUCT MIX



\*Price"impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the reliability of quoted prices:  
: Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size  
: Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size  
: All other stocks (quoted price is less reliable and should be considered indicative)

## OCAB Financials, Ukrainian accounting standards

Income Statement Summary, Cumulative USD mln					
	2002	2003	2004	2005	3Q06
<b>Net Revenues</b>	<b>37.9</b>	<b>50.3</b>	<b>65.1</b>	<b>62.6</b>	<b>59.8</b>
<i>Change yoy</i>		33%	29%	-4%	32%
Cost Of Sales	(30.6)	(38.3)	(53.9)	(49.2)	(49.8)
Gross Profit	7.3	12.0	11.2	13.4	10.0
Other Operating Income/Costs, net	(0.1)	0.1	1	2	0.8
SG&A	(4.8)	(5.8)	(7.3)	(7.1)	(6.9)
<b>EBITDA</b>	<b>2.5</b>	<b>6.3</b>	<b>4.5</b>	<b>8.0</b>	<b>3.8</b>
<i>EBITDA margin, %</i>	6.5%	12.5%	7.0%	12.8%	6.4%
Depreciation	(1.0)	(1.5)	(2.0)	(2.2)	(1.5)
<b>EBIT</b>	<b>1.4</b>	<b>4.8</b>	<b>2.6</b>	<b>5.9</b>	<b>2.3</b>
<i>EBIT margin, %</i>	3.7%	9.5%	4.0%	9.4%	3.9%
Interest Expense	(0.2)	(0.3)	(0.8)	(0.8)	(0.9)
Financial income/(expense)	0.0	0.0	0.0	0.5	0.0
Other income/(expense)	(0.0)	(0.1)	0.0	0.1	(0.0)
<b>PBT</b>	<b>1.1</b>	<b>4.4</b>	<b>1.8</b>	<b>5.7</b>	<b>1.5</b>
Tax	(0.3)	(1.3)	(0.7)	(1.3)	(0.4)
<b>Net Income</b>	<b>0.8</b>	<b>3.1</b>	<b>1.1</b>	<b>4.4</b>	<b>1.1</b>
<i>Net Margin, %</i>	2.0%	6.2%	1.6%	7.0%	1.9%

Balance Sheet Summary, USD mln					
	2002	2003	2004	2005	3Q06
<b>Current Assets</b>	<b>18.2</b>	<b>28.7</b>	<b>30.6</b>	<b>30.3</b>	<b>40.1</b>
Cash & Equivalents	0.5	0.7	0.8	0.6	0.3
Trade Receivables	5.5	6.7	10.8	9.8	15.9
Inventories	7.9	10.1	13.7	15.4	15.7
Other current assets	4.2	11.1	5.4	4.6	8.2
<b>Fixed Assets</b>	<b>14.7</b>	<b>15.0</b>	<b>17.1</b>	<b>35.4</b>	<b>34.8</b>
PP&E, net	9.7	13.2	14.7	30.7	32.3
Other Fixed Assets	5.0	1.8	2.4	4.7	2.5
<b>Total Assets</b>	<b>32.9</b>	<b>43.7</b>	<b>47.7</b>	<b>65.7</b>	<b>74.9</b>
<b>Shareholders' Equity</b>	<b>15.2</b>	<b>18.3</b>	<b>19.5</b>	<b>40.7</b>	<b>41.8</b>
Share Capital	2.6	2.6	2.6	2.8	2.8
Reserves and Other	6.7	6.8	6.8	22.6	22.5
Retained Earnings	5.9	8.9	10.1	15.3	16.5
<b>Current Liabilities</b>	<b>17.7</b>	<b>25.3</b>	<b>28.2</b>	<b>25.0</b>	<b>31.6</b>
ST Interest Bearing Debt	2.2	4.3	7.6	7.9	11.3
Trade Payables	15.0	19.3	20.5	15.9	18.6
Accrued Wages	0.1	0.2	-	-	0.3
Accrued Taxes	0.1	0.3	0.0	0.1	0.1
Other Current Liabilities	0.3	1.2	0.1	1.1	1.4
<b>LT Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.6</b>
LT Interest Bearing Debt	-	-	-	-	1.6
Other LT	-	-	-	-	-
<b>Total Liabilities &amp; Equity</b>	<b>32.9</b>	<b>43.7</b>	<b>47.7</b>	<b>65.7</b>	<b>74.9</b>

# Donbaskabel

DCAB

Electrical Components &amp; Equipment

<http://www.donbasscabel.com.ua/>

**Target Price (USD)**  
Upside

**4.5**  
80%

**BUY**

## INVESTMENT CASE

The company was taken over by Russia's Sevkabel Group in late 2006. The new owner is expected to improve corporate governance, diversify Donbaskabel's product range and bring in new customers to double output within a year or two.

The company will gain from an expected boom in demand from domestic electricity companies (which are expected to triple cable orders in the midterm), coal industry (connected to the state's program for coal mines development), and construction companies (ahead of EURO-2012)

The stock represents an opportunity to get in on a neglected story turnaround

## MARKET INFORMATION

<b>Market price, USD</b>	<b>2.5*</b>
Price impact	3**
52 wk H/L	n/m

<b>MCap, USD mln</b>	<b>15.2</b>
Free float	13%
FF MCap, USD mln	2.0

<b>No of shares, mln</b>	<b>6.07</b>
Par value, UAH	0.05

<b>Bloomberg XETRA</b>	<b>DCAB UZ</b>
	-

## STOCK OWNERSHIP (as of January 2007)

Management	43%
Ukrpodshipnik	43%
Other	14%

*Note: Russain Sevkabel Holding announced in March 2007 it has acquired control stake of DCAB. No deal information is available.*

## BUSINESS OVERVIEW

Donbaskabel is one of the largest producers of energy and power cables in Ukraine. The company specializes in power cables with rubber insulation. The main consumers of its products are coal mines and metallurgical plants in eastern Ukraine, as well as electricity distribution companies.

The company's products are ISO-certified, and comply with local and Russian quality standards. As quality is not the key factor driving sales, the company's selling tactic is to propose discounts to competitors' prices.

In late 2006 the company's main shareholder Ukrpodshypnik sold a controlling stake to Russia's Sevkabel. The latter has introduced aggressive expansion plans to double Donbaskabel's production in the midterm. This is possible due to Sevkabel's broad product distribution network in CIS countries.

## MARKET MULTIPLES

	2006	2007E
EV/S	0.69	0.43
EV/EBITDA	13.4	6.6
P/E	37.0	15.1
P/B	2.8	2.4

## KEY FINANCIALS

	2005	2006	2007E
Net revenue, USD mln	21.3	30.5	49.0
EBITDA margin	6.3%	5.1%	6.5%
Net margin	3.2%	1.3%	2.0%
D/E	1.0	1.1	1.1

\* Indicative price, as the stock is not traded  
 \*\* Price "Impact" is the opinion of Concorde's trading desk on stocks to help investors estimate the liability of quoted prices:  
 : Market price reaction remains within 10% in execution of a market order of about USD 10 mln in size  
 : Market price reaction remains within 10% in execution of a market order of about USD 1 mln in size  
 : All other stocks (quoted price is less reliable and should be considered indicative)

**DCAB Financials, Ukrainian accounting standards**
**Income Statement Summary, USD mln**

	2002	2003	2004	2005	2006
<b>Net Revenues</b>	<b>6.9</b>	<b>11.2</b>	<b>16.3</b>	<b>21.3</b>	<b>30.5</b>
<i>Change yoy</i>		62%	46%	30%	43%
Cost Of Sales	(5.5)	(10.1)	(15.0)	(18.4)	(27.3)
Gross Profit	1.4	1.1	1.4	2.9	3.2
Other Operating Income/Costs, net	(0.0)	0.1	0.5	0.4	0.2
SG&A	(0.9)	(0.9)	(1.1)	(1.3)	(1.6)
<b>EBITDA</b>	<b>0.5</b>	<b>0.3</b>	<b>0.7</b>	<b>2.0</b>	<b>1.7</b>
<i>EBITDA margin, %</i>	7.8%	2.4%	4.5%	9.2%	5.6%
Depreciation	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)
<b>EBIT</b>	<b>0.3</b>	<b>0.0</b>	<b>0.5</b>	<b>1.7</b>	<b>1.5</b>
<i>EBIT margin, %</i>	3.8%	0.3%	2.9%	8.0%	4.8%
Interest Expense	(0.1)	(0.4)	(0.4)	(0.6)	(0.8)
Financial income/(expense)	-	-	-	-	-
Other income/(expense)	0.0	(0.1)	0.0	(0.0)	0.0
<b>PBT</b>	<b>(0.1)</b>	<b>(0.4)</b>	<b>0.1</b>	<b>1.1</b>	<b>0.7</b>
Tax	(0.0)	0.0	(0.1)	(0.4)	(0.1)
<b>Net Income</b>	<b>(0.1)</b>	<b>(0.4)</b>	<b>0.0</b>	<b>0.7</b>	<b>0.6</b>
<i>Net Margin, %</i>	-1.8%	-3.6%	0.1%	3.2%	1.9%

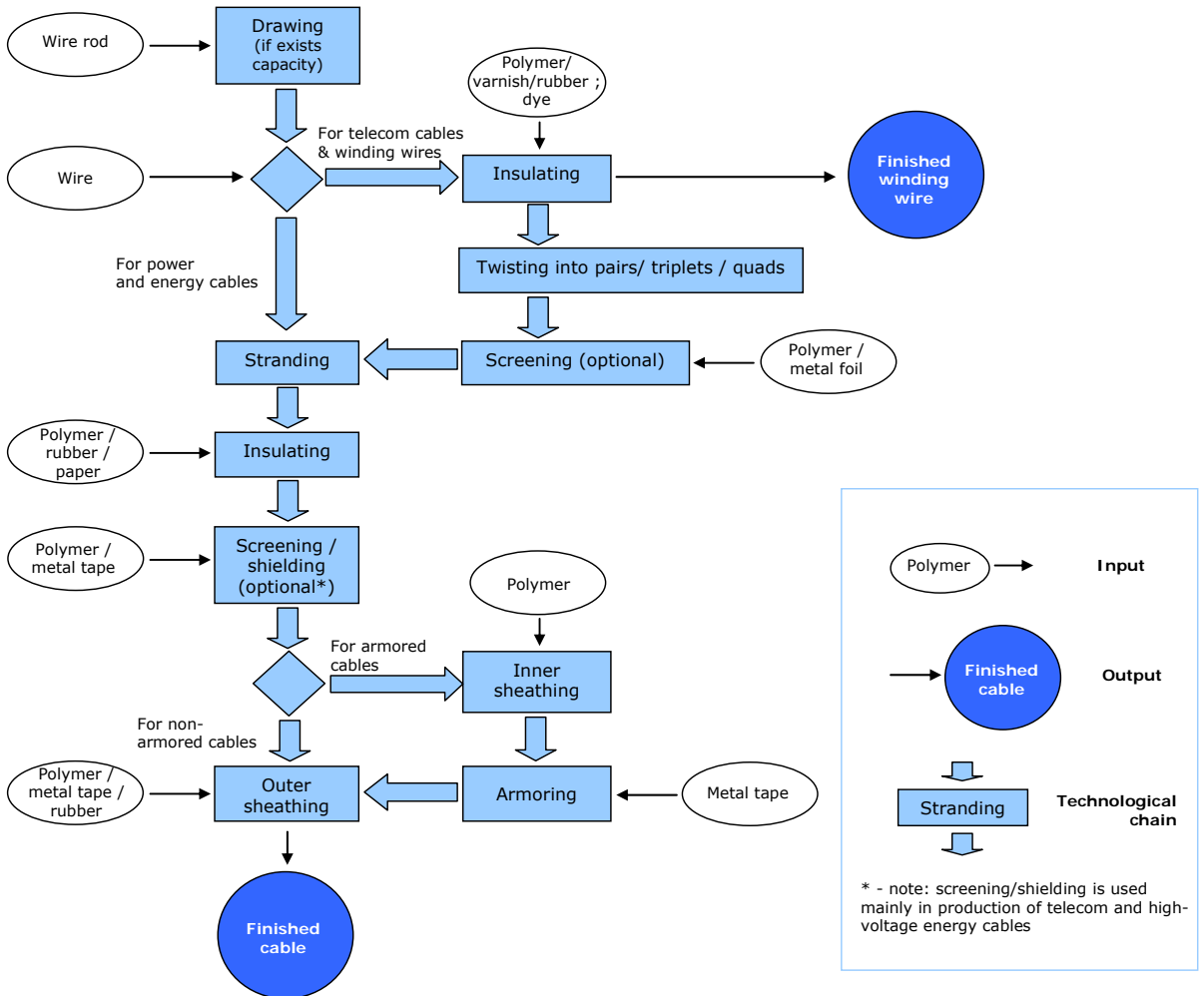
**Balance Sheet Summary, USD mln**

	2002	2003	2004	2005	2006
<b>Current Assets</b>	<b>7.6</b>	<b>8.2</b>	<b>8.3</b>	<b>8.4</b>	<b>11.6</b>
Cash & Equivalents	0.1	0.1	0.3	0.1	0.0
Trade Receivables	1.1	2.1	1.9	1.5	1.8
Inventories	1.8	3.0	3.9	4.7	7.2
Other current assets	4.6	3.1	2.2	2.1	2.6
<b>Fixed Assets</b>	<b>3.5</b>	<b>3.3</b>	<b>3.3</b>	<b>3.3</b>	<b>3.4</b>
PP&E, net	3.5	3.3	3.2	3.2	3.2
Other Fixed Assets	0.0	0.0	0.1	0.1	0.2
<b>Total Assets</b>	<b>11.1</b>	<b>11.5</b>	<b>11.5</b>	<b>11.7</b>	<b>15.0</b>
<b>Shareholders' Equity</b>	<b>4.8</b>	<b>4.1</b>	<b>4.2</b>	<b>5.0</b>	<b>5.4</b>
Share Capital	0.1	0.1	0.1	0.1	0.1
Reserves and Other	5.2	5.2	5.2	5.5	5.4
Retained Earnings	(0.4)	(1.1)	(1.1)	(0.5)	(0.1)
<b>Current Liabilities</b>	<b>6.2</b>	<b>7.1</b>	<b>7.1</b>	<b>1.5</b>	<b>3.9</b>
ST Interest Bearing Debt	5.2	5.0	4.8	0.0	0.4
Trade Payables	0.2	1.8	2.0	0.7	2.3
Accrued Wages	0.0	0.0	0.0	0.1	0.1
Accrued Taxes	0.0	0.0	0.0	0.0	0.0
Other Current Liabilities	0.8	0.3	0.3	0.6	1.1
<b>LT Liabilities</b>	<b>0.1</b>	<b>0.3</b>	<b>0.3</b>	<b>5.2</b>	<b>5.6</b>
LT Interest Bearing Debt	-	-	-	4.9	5.5
Other LT	0.1	0.3	0.3	0.3	0.1
<b>Total Liabilities &amp; Equity</b>	<b>11.1</b>	<b>11.5</b>	<b>11.5</b>	<b>11.7</b>	<b>15.0</b>

# Appendix: Cable manufacturing process

The cable manufacturing process involves several stages that are designed to protect conductors of energy/information from harmful interference of internal and external factors: electric and magnetic fields, moisture, physical damage, etc. The main inputs in the cable industry are bare conductors (or the raw materials for their production) as well as a wide range of materials used for insulating and protecting them: different types of polymers (threads, fibers), paper, rubber and metal components (wire, tape, foil).

Scheme of cable manufacturing



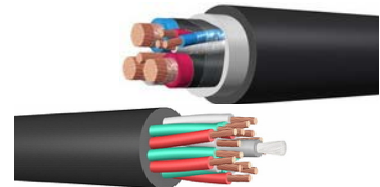
Armored electric cables: High-voltage Low-voltage



Telecommunication cables: Fiber optic Copper cables



Power cables



Power wire



Winding wire





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