



CONCORDE CAPITAL

Ukraine / Electricity

# Odesaoblenergo

Re-admitted to listing

December 07, 2007

Current price: USD 1.3  
12M target: N/A

N/R

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### Tickers

Bloomberg ODEN UZ

### Market information

Market price, USD 1.3  
MCap, USD mln 271.0

No of shares, mln:  
Current 208.5  
If add. issue is approved 608.5

Free float (current) 9.0%  
Free float, USD mln 24.4

### Corporate Governance

Concorde Rating\* P

\* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

### Shareholders

NC ECU (State) 25.0%  
VS Energy (Babakov) 54.8%  
Zhevago Group 10.4%  
Other 9.8%

### Key financials and ratios

	Sales, USD mln	EBITDA margin	Net margin
2006	215.6	5.4%	0.4%
2007E	298.8	7.9%	0.4%
2008E	354.3	9.1%	0.6%

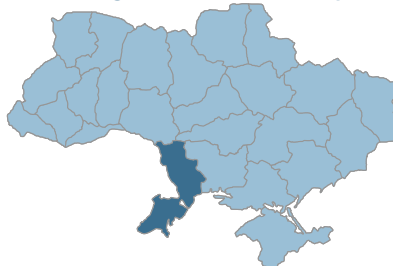
	EV/S	EV/EBITDA	P/E
2006	1.8	32.8	339
2007E	1.3	16.1	208
2008E	1.0	11.5	129

- Following the relisting of Odesaoblenergo on the PFTS on November 30, three years after it was delisted, we provide our updated view on the stock
- Due to high uncertainty with registering of additional share issue, subscription for which has been already completed, variability of implied price provides either upside or downside of 46% with nearly equal probability. We do NOT RATE the stock.

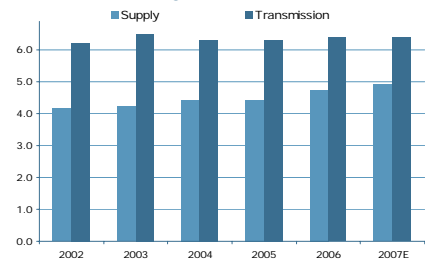
### INVESTMENT CASE

- High dilution risk: a 2.9 times charter fund increase was approved in 2006. Subscription finished in January 2007, but approval of the issue is being blocked by the state. In the event of the company's privatization, the most probable buyer of the state's 25% stake, VS Energy, is likely to approve the charter fund increase
- Among three Oblenergos on PFTS' official second tier of listing
- Restructured USD 160 mln in payables in 2006, thus eliminating bankruptcy risk

### Odesa region on Ukrainian map



### ODEN electricity data, TWh

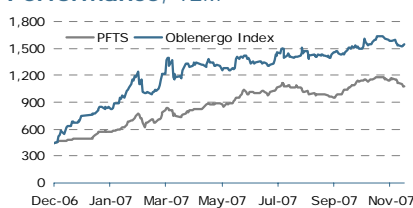


Source: Energobiznes, Concorde Capital estimates

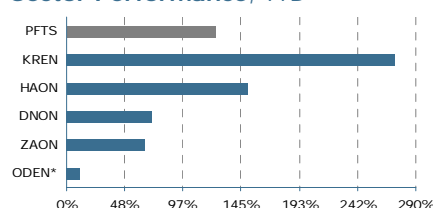
### KEY FACTS ABOUT ODESAOBLENERGO

- Transmits and supplies electricity in Odesa region, the largest by area
- Total length of gridlines: 43.5 ths km
- Total transformer capacity: 5.6 GVA

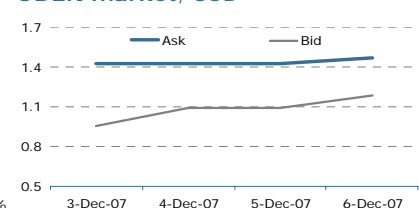
### Performance, 12M



### Sector Performance, YTD



### ODEN market, USD



Source: PFTS, Bloomberg. \* ODEN YTD performance was calculated from Dec. 3, 2007. Note: Oblenergo Index is MCap-weighted, includes Dniprooblenergo (DNON), Kharkivoblenergo (HAON), Krymenergo (KREN) and Zaporizhiaoblenergo (ZAON).

## Valuation summary

	EV/Electr. supply	EV/ EBITDA	EV/ Capacity	RAB
Peer multiples	192.3 USD/MWh	13.9	0.162 USD/VA	
Discount to peers	25%	0%	50%	
Implied EV, USD mln	719.0	449.3	447.4	431.0

Source: Bloomberg, company data, NERC, Concorde Capital estimates

Our valuation approach, presented in Oblenergo report of October 8, 2007, implies capitalization of Odesaoblenergo at USD 400 mln, which corresponds to undiluted price per share of USD 1.9. Though, in case the additional share issue made in 2007 is registered, diluted price will be USD 0.7. We do **NOT RATE** the stock due to variability of implied upsides/downsides from – 46% to + 46% with almost equal probability.

Below we provide our vision for realization of dilution scenario, which we estimate at 54%.

## Appendix: Scenarios for ODEN's implied price

### Disposition of shareholders

ODEN is made up of three groups of large shareholders: VS Energy has a controlling stake, NC ECU has a blocking stake and Konstantin Zhevago's group owns approximately a 10% stake. Zhevago is currently in conflict with VS Energy regarding the privatization of the 35% stake in Odesaoblenergo that took place in 1998. VS Energy controls the company and has high incentive to dilute other large shareholders.

### History of additional shares issue

At Odesaoblenergo's EGM on November 6, 2006, shareholders passed a 2.92 times (+ USD 20 mln) charter fund increase, to be used for the investment needs of the company. By law, approval of this decision needs 50%+1 votes during a shareholder meeting: VS Energy had enough votes to approve the motion itself.

NC ECU and Konstantin Zhevago did not subscribe for the issue (subscription took place from Dec. 28, 2006 to Jan. 14, 2007), essentially allowing VS Energy to dilute their stakes.

However, NC ECU can effectively protect itself from dilution. By law, approval of additional shares issue requires change in the company's charter fund, i.e. needs at least 75% of votes at the shareholder meeting. VS Energy is holding fruitless negotiations with NC ECU and the State Property Fund on approving the results and even scheduled nearly 20 EGMs over March-December 2007. Though, because the NC ECU remains against the move, all the EGMs failed to hold.

### What-if analysis:

#### **1. The issue's results are approved in 2008: DILUTION. Implied 12M price USD 0.7**

This can be realized in two cases:

- VS Energy buys 25% stake in the company from the state, accumulating a 80% stake in the company – enough to approve the additional share issue. If privatization of electricity assets goes forward, Odesaoblenergo, as one of the companies where the state has the smallest stake, will be among the first on the list. VS Energy is the main candidate to acquire the state's stake as it already has full operating control over the company. Probability of this scenario is high, but timing of privatization is still not clear (it can be 2008 or 2009)
- VS Energy will persuade the state to vote for approval: probability is very low

#### **2. The issue's results are cancelled in 2008: NO DILUTION. Implied 12M price USD 1.9**

Three possible cases:

- Solving corporate conflict between Zhevago and VS Energy, which will remove strong incentive for VS Energy to make dilution. Low probability
- VS Energy fails to win privatization tender in case of privatization. Low probability

- VS Energy will reach negotiations with NC ECU to cancel the already done issue and make another, allowing NC ECU (as well as other shareholders) to subscribe and avoid dilution. According to VS Energy, the holding is trying to persuade NC ECU to agree to this scenario. Probability of this scenario depends on likelihood of privatization of Odesaoblenergo. If privatization is announced in the near future (probability is about 70%), for VS Energy it will be more sensible to implement dilution scenario.

**3. The issue remains in limbo:**

**NO DILUTION IN 2008. Implied 12M price USD 1.9**

This is possible if no privatization occurs in 2008 and VS Energy does not reject its idea of the issue approval, implying high probability that they will succeed in the mid- to long-term. This scenario implies uncertainty will remain.

**Summary of scenarios**

Event	Privatization in 2008			No privatization in 2008		
	70%			30%		
Probability						
Scenario for 2008	VS Energy privatize ODEN and approves the issue	VS Energy fails to win tender	VS Energy and Zhevago solve conflict	VS Energy agrees to cancel the issue	VS Energy persuades NC ECU to approve the issue	No final decision on the issue will be made
Probability	75%	20%	5%	75%	5%	20%
Dilution in 2008	yes	no	no	no	yes	no
Implied 12M price, USD	0.7	1.9	1.9	1.9	0.7	1.9

The aggregate probability of dilution is 54%, probability-weighted implied price about USD 1.25, or close to the current market price.

# Disclosures

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Sell	12	13%	Sell	0	0%
Under Review	12	13%	Under Review	0	0%
<b>Total</b>	<b>90</b>	<b>100%</b>	<b>Total</b>	<b>11</b>	<b>100%</b>

\* Concorde Capital provided investment banking services to the company within the past 12 months.

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