

Konstantin Fisun
kf@concorde.com.ua
Eugene Cherviachenko
ec@concorde.com.ua

+380 44 207 5037
www.concorde.com.ua
Bloomberg: CONR<GO>

Analyst's Notebook

Ukraine / Equity Strategy

May 12, 2006

The PFTS Becoming Increasingly Representative

On the first trading day of May, Ukraine's major equity index was extended due to the inclusion of two stocks: Bank Aval, the second largest bank in the country in terms of assets and Luganskteplovovz, Ukraine's largest producer of locomotives.

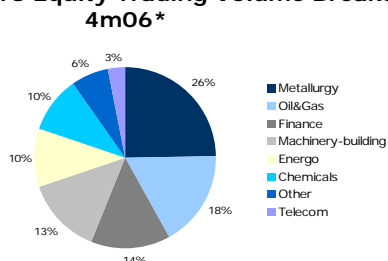
PFTS Index Basket

Company	Ticker	MCap, USD mn		FF*	FF MCap		Share		Trading Vol		Annualized Turnover
		03.05.06	03.05.06		USD mln	28.04.06	03.05.06	4m06 USD mln	03.05.06		
Ukrtelecom	UTEL	4,007.1	7.1%	284.5	20.3%	18.5%	13.9	1.2%			
Ukrnafta	UNAF	3,262.9	8.0%	261.0	18.4%	16.8%	24.3	2.8%			
Bank Aval	BAVL	1,764.1	6.5%	114.7	-	7.4%	39.1	9.6%			
NPR	NITR	700.5	38.7%	271.1	18.9%	17.2%	10.3	5.1%			
Zaporizhstal	ZPST	683.4	19.6%	133.9	10.1%	9.1%	11.6	3.6%			
Stirol	STIR	510.0	17.9%	91.3	7.8%	6.6%	2.9	1.2%			
Zakhidenergo	ZAEN	396.5	29.9%	118.6	8.2%	7.6%	7.8	9.2%			
Centrenergo	CEEN	299.2	21.7%	64.9	4.7%	4.3%	6.1	7.2%			
Dniproenergo	DNEN	294.3	23.9%	70.3	5.1%	4.7%	8.9	10.2%			
Kievenenergo	KIEN	191.8	37.3%	71.5	4.9%	4.5%	10.8	16.4%			
Donbasenergo	DOEN	141.9	14.2%	20.1	1.6%	1.4%	0.9	2.1%			
Luganskteplovovz	LTPL	109.6	24.0%	26.3	-	1.8%	14.6	43.5%			

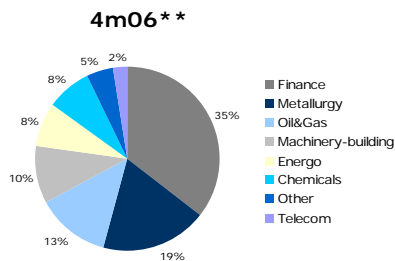
Source: PFTS; * FF as defined by the PFTS index committee

Both stocks come from segments that have long lacked representation on the index - banking and machine-building. Both these sectors record significant trading on the PFTS. During the first four months of 2006 machine-building maintained its 13% share from last year in terms of total equity trading volumes on the PFTS. Even excluding the block deals posted by five banks in 2006, the banking sector still gained an additional 5% in the total volume breakdown. If we add volumes related to three market share placements by the banks, the sector would account for more than a third of the trades posted on the PFTS in the first four months of 2006:

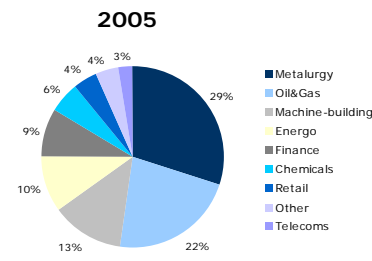
PFTS Equity Trading Volume Breakdown: 4m06*



4m06**



2005



Source: PFTS

* Block trades in Avtokrazbank, Rodovidbank, Megabank, Ukrinbank and Ukgazbank excluded

** Block trades in Avtokrazbank and Ukgazbank excluded as considered to be non-market

Overall, the expansion of the index will allow it to give a more accurate picture of the market. In our view, banking's ~7% share in the equity index is reflective of the real economy. At the same time, machine-building remains under-represented – in our opinion at the expense of inflated telecom and electricity presence in the index basket:

Industry Breakdown in PFTS index

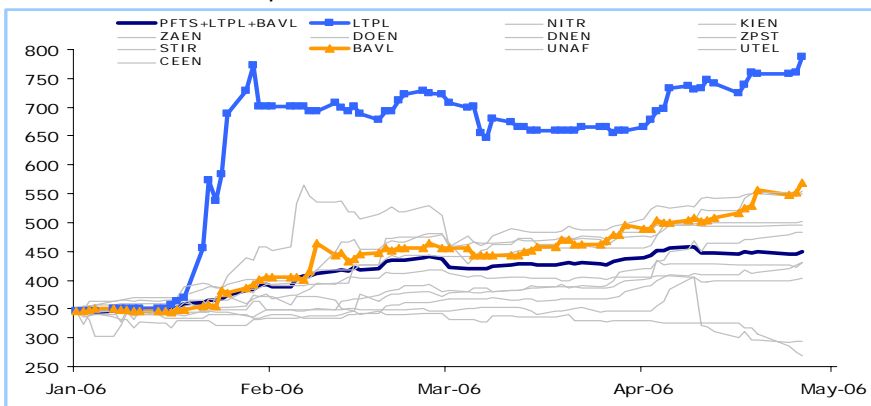
	As of 28.04.06	As of 3.05.06
Metals	29.0%	26.3%
Electricity	22.9%	21.1%
Telecom	20.3%	18.5%
Oil & Gas	18.4%	16.8%
Banking	-	7.4%
Chemicals	7.8%	6.6%
Machine-building	-	1.8%

Impact On The Index

As the PFTS index is MCap-weighted and adjusted for free float, the relative significance of Aval and Lugnskeplovoz in the index will be different. BAVL is a Ukrainian *blue chip*, or Premier League stock in Concorde's classification. With its MCap of about USD 2 bln and FF in excess of USD 100 mln, it is the third largest stock in the PFTS basket – and provides the index with adequate sensitivity to the banking sector. LTPL's impact will be rather limited in scope, due to its smaller size. In any case, recent market history, as suggested by the chart below, implies bullish support for the index from both stocks at least in the short term.

We simulated the PFTS index with BAVL and LTPL in the basket starting from the first trading day of January, 2006. Early inclusion of these two stocks would have improved index performance by 3.1% -- to 29.8% YTD.

PFTS Index Movers, 4M06

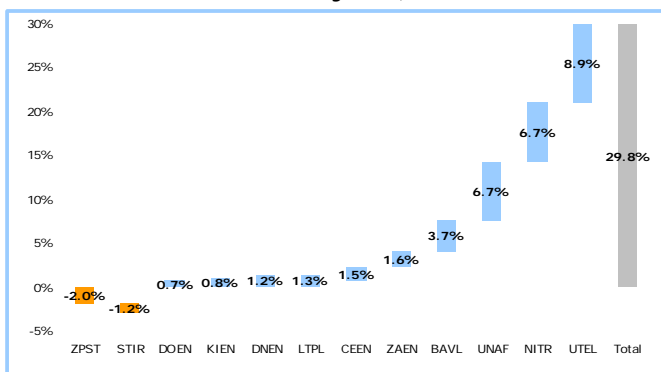


Source: PFTS; Concorde Capital calculations

Note: PFTS simulated with LTPL+BAVL in the basket starting Jan, 10 2006, mid-market prices were used; all charts normalized to PFTS index value on Jan, 10 2006

The contribution of BAVL would have been the fourth largest among twelve index constituents (see the chart below). LTPL's contribution, notwithstanding its spectacular YTD performance, would have been rather subdued, due to relatively low free float MCap:

Growth Attribution Analysis (PFTS simulated with LTPL and BAVL)



Source: PFTS, Concorde Capital calculations

BAVL - a good choice. LTPL? - not necessarily

How good was the selection of stocks by the PFTS index committee?

Bank Aval, the most liquid and largest traded stock in the sector, fits perfectly as a proxy to the Ukrainian banking segment. Other banks on the PFTS are either illiquid stocks or the PFTS is used as a platform just to record the results of private share placements in fact conducted through warrant programs. Hefty volumes can be deceiving, as they only reflect the initial placement of blocks on the market, not regular trading. With this in mind BAVL's volumes really stand out (they are larger than any other PFTS-constituent):

Company	Ticker	Trading Volumes, USD mln	Nature of Trading
Rodovid Bank	RODB	69.5	Market PP
Ukrinbank	UKIB	46.4	Market PP
Bank Aval	BAVL	39.1	Market
Megabank	MEGA	16.6	Market PP
Ukrsotsbank	USCB	15.1	Market
AvtoKrazBank	AKRB	12.5	Non-market
Ukrqazbank	UGZB	1.8	Non-market

Source: PFTS, Concorde Capital estimates

Things are not as simple with the machinery segment. There could be several candidates for the PFTS index in this sector.

Machine-building Stocks at Glance

Company	MCAp USD mln 5/05/2006	Bid-Ask Spread	FF as of 5/05/2006		Trading Volumes, USD mln			Growth		
			%	USD mln	4m06	2H05	1H05	4m06	2H05	1H05
MZVM	207.6	7.7%	15%	31.1	4.8	16.0	4.4	26.8%	46.5%	63.1%
SMASH	328.7	3.0%	25%	82.2	7.7	7.9	6.2	36.9%	32.2%	36.6%
MSICH	167.4	3.9%	5%	8.4	1.4	3.1	10.8	-9.4%	6.6%	9.8%
TATM	176.1	11.2%	6%	9.7	2.9	0.2	2.8	55.9%	2.6%	11.5%
LTPL	120.7	8.3%	24%	29.0	14.6	7.6	3.6	127.9%	48.3%	312.5%
DRMZ	80.1	37.5%	12%	9.6	0.9	3.4	n/a	44.4%	22.7%	Not listed

Source: PFTS; Concorde Capital calculations

The index committee was definitely driven by LTPL's impressive growth rates combined with strong and growing volumes. Nevertheless, two stocks, MZVM and SMASH, represent quite feasible alternatives.

SMASH is the largest among its peers, with very sound and stable trading volumes, relatively tight spreads and the longest history of (real) trading on the PFTS. MZVM demonstrated volumes comparable to LTPL in the second half of last year and has maintained this high level. Additionally, the company is twice as big as LTPL in terms of MCAp and has similar free float.

MZVM and LTPL are both examples of quick appreciation for long neglected stocks. On the other side, SMASH is a mature stock. So if SMASH had been included, the index would have gotten pure exposure to the real sector. In the case of MZVM – and more so LTPL – exposure to the industry is additionally flavored with company-specific exposure, as both stocks are less mature in terms of the stock market.

Probably a combination of SMASH with LTPL or MZVM would be the best idea, given under-representation of the sector in the index. However, keeping in mind what we have said, we consider LTPL's inclusion justified.

Disclaimer

This report has been prepared by Concorde Capital investment bank for informational purposes only. Concorde Capital does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that Concorde Capital may have a conflict of interest that could affect the objectivity of this report.

Concorde Capital, its directors and employees or clients may have or have had interests or long or short positions in the securities referred to herein, and may at any time make purchases and/or sales in them as principal or agent. Concorde Capital may act or have acted as market-maker in the securities discussed in this report. The research analysts, and/or corporate banking associates principally responsible for the preparation of this report receive compensations based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and investment banking revenues.

Concorde Capital verifies all the information it receives however, due to the timely nature of this report, the information contained may not have been verified as being entirely accurate and therefore we do not purport this document to be a complete statement or summary of the available data. Any opinions expressed herein are statements of our judgments as of the date of publication and are subject to change without notice. Reproduction without prior permission is prohibited. © 2006 Concorde Capital
