

Power Generators

Last barrier to privatization removed

President cancels order banning privatization

Ukrainian President Viktor Yanukovich, in a decree issued on Friday, cancelled an order from his predecessor that banned the privatization of the state's electricity generation companies (GenCos). Cancellation of the old decree clears the last legal barrier blocking privatization of these assets.

Zakhidenergo and Dniproenergo have been named as most likely to be put up for privatization first, according to the State Property Fund. However, we expect the entire GenCos sector to react positively as soon as the first privatization auction is announced.

Valuation: BUY CEEN, DNEN and DOEN

We view Donbasenergo as the best privatization play with 12M target of USD 18.4 per share (103% upside), where we see a liquidity trigger in addition to UX basket as of December 15. Our second choice is Centrenergo, the most liquid generator, trading at a modest USD 166 per kW (USD 235 per kW for Russian peers) of installed capacity. We rate the latter BUY with a 12M target of USD 2.6 per share, 42% upside.

We also assign a BUY recommendation to Dniproenergo, with an upside of 32%, but note the stock is currently illiquid (we apply a 15% discount to our target to account for this risk). We maintain our HOLD recommendation on Zakhidenergo; we see the 17% upside as too thin to make up for the dearth of liquidity, which is being snapped up by a strategic investor.

Valuation summary, USD per share

	Current Price	Implied Price EV/Capacity	Implied Price Replacement cost model	12M target price	Upside	Rec.
Centrenergo	1.8	2.7	2.6	2.6	42%	BUY
Dniproenergo	151.1	214.9	240.0	200.0	32%	BUY
Donbasenergo	9.1	24.6	12.1	18.4	103%	BUY
Zakhidenergo	59.0	74.2	63.5	68.8	17%	HOLD

Source: Bloomberg, Concorde Capital

Report date **13 Dec 2010**

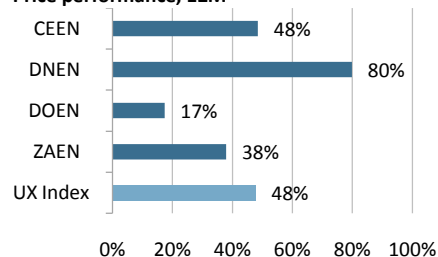
Company name	Ticker	Rec.
Centrenergo	CEEN UK	BUY
Dniproenergo	DNEN UK	BUY
Donbasenergo	DOEN UK	BUY
Zakhidenergo	ZAEN UK	HOLD

Market capitalization, USD mln

Centrenergo	682.0
Dniproenergo	901.9
Donbasenergo	214.3
Zakhidenergo	754.8

Free float	%	USD mln
Centrenergo	21.7%	148.0
Dniproenergo	2.5%	22.1
Donbasenergo	14.2%	30.4
Zakhidenergo	1.0%	7.5

Price performance, 12M



Source: UX

Sales, USD mln	2010E	2011E
Centrenergo	798	978
Dniproenergo	812	1,071
Donbasenergo	431	528
Zakhidenergo	653	847

EBITDA, USD mln	2010E	2011E
Centrenergo	80	111
Dniproenergo	97	86
Donbasenergo	9	21
Zakhidenergo	33	51

Capacity, MW	Coal-fired	Total
Centrenergo	4,575	7,575
Dniproenergo	5,785	8,185
Donbasenergo	2,655	2,655
Zakhidenergo	4,400	4,400

Disclosures

Analyst certification

I, Yegor Samusenko, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

GenCos rating history

Date	CEEN price, USD		DNEN price, USD		DOEN price, USD		ZAEN price, USD	
	Closing	Target	Closing	Target	Closing	Target	Closing	Target
13-May-05	0.8	0.8	75	88	4.2	6.8	27.7	29
30-May-05							27.7	30.5
4-Jul-05					4.4	6		
19-Jul-05							24	30.5
26-Sep-05	0.8	0.8	67	99	4.2	6.6	26	34
3-Jan-06	0.5	0.8						
26-Jun-06	0.8	0.9	76	123	5.2	7.4	26.5	34
25-Sep-06							32	34
26-Sep-06					7.2	7.4		
15-Nov-06	1.2	1.1	109	131	7.8	9.6	40	35.4
28-Nov-06	1.2	1.1	109	131	8	9.6	41	35.4
22-Dec-06	1.4	1.4	126	134	8.7	11.3	52.8	41.2
21-Mar-07	2.8	3.2	288	383	17.1	27.6	73.4	94.3
2-Apr-07	3.3	3.2	347	383	21.4	27.6	88.1	94.3
22-Jun-07			400	432				
23-Jul-07			366	432				
31-Aug-07			373	410				
10-Sep-07	4.1	4.2	383	410	27.6	27.6	103.8	94.3
10-Oct-07	5.0	5.4	512	516	32.3	43.2	121.7	130.4
24-Mar-08			424	516				
10-Apr-08			430	516				
28-May-08	4.0	5.2	417	580	23.6	40	89.1	125
27-Jun-08			385	460				
24-Nov-08	0.8	3.2	69	260	4.0	19.3	51.5	88
26-Nov-08	0.8	3.2	70	266	4.0	19.3	53.0	88
03-Feb-09	0.6	3.5	62	284	3.1	22.6	45.7	96.6
24-Mar-09			53	284				
08-Apr-10	2.2	3.2	183	326	12.4	27.0	56.9	86.7
19-Aug-10			133	200				
06-Sep-10	1.7	2.8	136	200	8.7	22.7	66.8	74.3
05-Nov-10	1.7	2.6	130	200	7.2	17.8	66.8	66.9
13-Dec-10	1.8	2.6	151	200	9.1	18.4	59.0	68.8

* In July 2009, Yegor Samusenko took over coverage; prior to that point, it was covered by other Concorde analysts.

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