

Power Generators

Tariff for households grows, with a minimal effect

Electricity tariff rises for high consumption houses

The National Electricity Regulatory Commission voted yesterday to increase electricity tariffs by 30% for households consumption over 150 kWh/month as of February 1. The tariffs for consumption below that level will remain the same (UAH 0.204 per kWh vs. UAH 0.702 for commercial customers).

Households account for 25% of total electricity consumption in Ukraine.

35% revenue growth in 2011 thanks to commercial tariffs

The 30% increase will affect no more than 10% of electricity volumes sold in Ukraine, according to our estimates, and lead to an increase in total revenues from electricity sales of 1.2%. This will allow for a corresponding increase in electricity prices for thermal power generators, assuming equal distribution of additional revenues throughout the value chain but no more than 4% growth even if all incremental revenues go to listed GenCos.

Though the household tariff growth is modest (contrary to rumors that flooded the market of a twofold hike), we expect commercial tariffs to rise 15% in 2011, which, combined with 10% output growth on average, will contribute to about 35% cumulative revenue growth for GenCos. We attribute the state's decision to postpone its desire to put households tariffs on par with commercial rates, likely to 2012-14, to hikes in other utilities tariffs in 1H11 and the government's desire to keep inflation in check.

2011 outlook: privatization a key driver still

We stick to our positive view on the sector, though we do not exclude short-term price fluctuations caused by the release of 4Q10 financials (due to the effect of a 7% decrease in the average electricity selling price in 4Q10 q-o-q). In the mid and long-term, key triggers are privatizations in 2011, asset modernization and market liberalization.

Valuation

We maintain our targets for the whole sector, based on the average of implied prices by two models – replacement costs model and EV/Capacity comparison with Russian peers.

Valuation summary, USD per share

	Current Price	Implied Price EV/Capacity	Implied Price Replacement cost model	12M target price	Upside	Rec.
Centrenergo	2.13	2.7	2.6	2.6	22%	BUY
Dniproenergo	161.5	214.9	240	200	24%	BUY
Donbasenergo	9.3	24.6	12.1	18.4	98%	BUY
Zakhidenergo	57.6	74.2	63.5	68.8	19%	HOLD

Source: Bloomberg, Concorde Capital

Report date **14 Jan 2011**

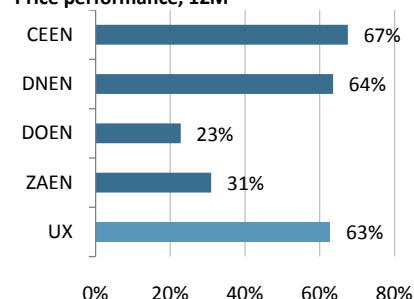
Company name	Ticker	Rec.
Centrenergo	CEEN UK	BUY
Dniproenergo	DNEN UK	BUY
Donbasenergo	DOEN UK	BUY
Zakhidenergo	ZAEN UK	HOLD

Market capitalization, USD mln

Centrenergo	785.0
Dniproenergo	963.7
Donbasenergo	219.5
Zakhidenergo	737.1

Free float	%	USD mln
Centrenergo	21.7%	170.3
Dniproenergo	2.45%	23.6
Donbasenergo	14.2%	31.2
Zakhidenergo	1%	7.4

Price performance, 12M



Source: UX

Sales, USD mln	2010E	2011E
Centrenergo	755	987
Dniproenergo	788	1106
Donbasenergo	411	538
Zakhidenergo	585	821

EBITDA, USD mln	2010E	2011E
Centrenergo	30	49
Dniproenergo	79	133
Donbasenergo	-4	5
Zakhidenergo	18	33

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

Financials

Centrenergy

Income Statement Summary, USD mln

	2004	2005	2006	2007	2008	2009	2010E	2011E
Net Revenues	307.7	380.5	524.9	678.5	897.1	573.3	754.8	987.3
<i>Change y-o-y</i>	-11.2%	23.7%	37.9%	29.3%	32.2%	-36.1%	31.7%	30.8%
EBITDA	38.7	38.3	69.8	67.0	45.8	8.9	30.2	49.4
<i>EBITDA margin, %</i>	12.6%	10.1%	13.3%	9.9%	5.1%	1.6%	4.0%	5.0%
Depreciation	(24.1)	(24.1)	(26.0)	(25.1)	(24.8)	(16.3)	(16.3)	(16.3)
EBIT	14.6	14.1	43.9	41.9	20.9	(7.4)	13.9	33.0
<i>EBIT margin, %</i>	4.7%	3.7%	8.4%	6.2%	2.3%	-1.3%	1.8%	3.3%
Interest Expense	(8.9)	(9.3)	(9.8)	(9.3)	(11.0)	(11.7)	(9.6)	(9.6)
Financial income/(expense)	(0.0)	-	-	-	0.0	-	-	-
Other income/(expense)	(4.6)	14.6	(5.9)	(5.6)	(23.6)	(3.1)	3.7	3.7
PBT	1.1	19.5	28.2	27.0	(13.6)	(22.2)	8.0	27.2
Tax	(7.6)	(7.4)	(10.8)	(14.4)	(14.5)	(1.1)	(2.0)	(6.8)
<i>Effective tax rate</i>	676.5%	38.1%	38.5%	53.5%	-106.6%	4.7%	25.0%	25.0%
Net Income	(6.5)	12.1	17.3	12.6	(28.2)	(23.3)	6.0	20.4
<i>Net Margin, %</i>	-2.1%	3.2%	3.3%	1.9%	-3.1%	-4.1%	0.8%	2.1%

Balance Sheet Summary, USD mln

	2004	2005	2006	2007	2008	2009	2010E	2011E
Current Assets	380.0	374.1	362.7	375.4	137.5	119.4	157.2	205.6
Cash & Equivalents	7.9	2.4	3.2	5.6	3.9	8.4	11.1	14.5
Trade Receivables	325.6	319.0	298.2	291.4	32.4	26.5	34.9	45.7
Inventories	30.8	37.4	47.2	55.0	81.0	66.5	87.6	114.5
Other current assets	15.7	15.3	14.1	23.5	20.2	17.9	23.6	30.9
Fixed Assets	514.0	511.9	521.2	505.7	472.4	429.3	403.9	428.5
PP&E, net	440.6	498.8	480.4	467.2	296.1	274.6	264.2	303.8
Other Fixed Assets	73.4	13.1	40.8	38.5	176.3	154.7	139.7	124.7
Total Assets	894.0	886.0	883.9	881.1	609.9	548.7	561.1	634.1
Shareholders' Equity	393.7	415.9	438.6	443.6	264.0	225.0	233.9	254.2
Share Capital	90.5	95.1	95.1	95.1	62.4	60.1	60.7	60.7
Reserves and Other	413.2	423.7	424.1	439.9	293.4	284.1	286.4	286.4
Retained Earnings	(110.1)	(102.9)	(80.6)	(91.4)	(91.8)	(119.2)	(113.2)	(92.8)
Current Liabilities	311.8	317.4	256.9	306.7	174.2	174.6	191.8	244.5
ST Interest Bearing Debt	27.9	36.2	46.7	31.1	43.6	41.3	32.8	61.3
Trade Payables	196.4	198.4	159.2	207.6	54.0	56.1	73.9	96.7
Accrued Wages	0.7	1.2	1.8	4.3	1.7	1.6	1.7	1.7
Accrued Taxes	14.0	15.3	15.3	21.6	18.3	13.3	14.7	16.1
Other Current Liabilities	72.8	66.4	33.9	42.1	56.6	62.3	68.7	68.7
LT Liabilities	188.6	152.7	188.5	130.8	170.9	149.0	135.4	135.4
LT Interest Bearing Debt	89.6	72.8	71.9	70.2	58.3	49.2	37.9	37.9
Other LT	98.9	79.8	116.6	60.6	112.6	99.8	97.5	97.5
Total Liabilities & Equity	894.0	886.0	883.9	881.1	609.1	548.7	561.1	634.1
Net Debt	109.6	106.6	115.4	95.7	98.0	82.1	59.6	84.6

Dniproenergo

Income Statement Summary, USD mln

	2004	2005	2006	2007	2008	2009	2010E	2011E
Net Revenues	326.9	406.9	551.2	758.0	900.7	539.8	787.8	1,106.0
<i>Change y-o-y</i>	-2.5%	24.5%	35.5%	37.5%	18.8%	-40.1%	45.9%	40.4%
EBITDA	49.4	65.8	56.6	79.6	55.6	19.4	78.8	132.7
<i>EBITDA margin, %</i>	15.1%	16.2%	10.3%	10.5%	6.2%	3.6%	10.0%	12.0%
Depreciation	(35.2)	(37.8)	(37.9)	(36.7)	(36.1)	(24.8)	(24.8)	(24.8)
EBIT	14.2	27.9	18.8	42.9	19.5	(5.4)	53.9	107.9
<i>EBIT margin, %</i>	4.4%	6.9%	3.4%	5.7%	2.2%	-1.0%	6.8%	9.8%
Interest Expense	(1.7)	(2.0)	(3.5)	(9.2)	(10.0)	(12.9)	(14.4)	(14.4)
Financial income/(expense)	(0.0)	0.0	0.0	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Other income/(expense)	(0.9)	(0.3)	2.0	(0.6)	0.5	0.5	(1.5)	(1.5)
PBT	11.6	25.7	17.2	33.1	10.0	(17.9)	38.0	91.9
Tax	(16.8)	(21.1)	(14.7)	(9.0)	(9.6)	-	(9.5)	(23.0)
<i>Effective tax rate</i>	145.0%	82.2%	85.5%	27.1%	95.9%	0.0%	25.0%	25.0%
Net Income	(5.2)	4.6	2.5	24.1	0.4	(17.9)	28.5	68.9
<i>Net Margin, %</i>	-1.6%	1.1%	0.5%	3.2%	0.0%	-3.3%	3.6%	6.2%

Balance Sheet Summary, USD mln

	2004	2005	2006	2007	2008	2009	2010E	2011E
Current Assets	181.4	193.9	75.8	125.3	150.1	144.5	262.1	227.6
Cash & Equivalents	8.8	9.4	2.7	11.9	8.5	10.5	115.3	21.4
Trade Receivables	118.9	117.6	18.6	21.3	27.6	42.8	62.5	87.7
Inventories	40.8	45.5	43.5	69.7	85.0	61.0	62.3	87.4
Other current assets	12.9	21.4	11.0	22.3	29.0	30.2	22.1	31.0
Fixed Assets	332.4	355.2	357.5	365.1	292.2	280.0	308.9	437.9
PP&E, net	311.0	308.3	319.5	319.3	249.7	231.5	226.2	320.8
Other Fixed Assets	21.4	46.9	38.0	45.8	42.5	48.5	82.8	117.1
Total Assets	513.8	549.1	433.3	490.3	442.3	424.5	571.0	665.4
Shareholders' Equity	58.9	68.8	83.5	336.1	269.2	233.1	277.0	346.0
Share Capital	18.5	19.4	19.4	227.7	149.4	18.7	18.9	18.9
Reserves and Other	403.8	431.5	436.0	453.1	337.0	466.6	481.9	481.9
Retained Earnings	(363.3)	(382.1)	(371.9)	(344.7)	(217.1)	(252.2)	(223.7)	(154.8)
Current Liabilities	413.4	442.9	304.2	153.5	169.7	178.3	283.0	308.5
ST Interest Bearing Debt	34.8	52.0	56.4	38.7	64.9	58.9	158.2	161.2
Trade Payables	247.7	256.2	152.0	31.0	36.9	45.3	52.9	74.3
Accrued Wages	1.1	1.4	1.9	2.3	2.1	2.0	2.4	2.4
Accrued Taxes	74.5	75.1	41.7	11.8	10.9	9.9	10.9	12.0
Other Current Liabilities	55.2	58.2	52.2	69.8	54.9	62.1	58.5	58.5
LT Liabilities	41.5	37.4	45.6	0.7	0.5	13.1	11.0	11.0
LT Interest Bearing Debt	16.8	14.9	13.8	-	-	13.1	11.0	11.0
Other LT	24.7	22.5	31.8	0.7	0.5	-	-	-
Total Liabilities & Equity	513.8	549.1	433.3	490.3	439.4	424.5	571.0	665.4
Net Debt	42.9	57.6	67.4	26.8	56.4	61.5	53.9	150.7

Donbasenergo

Income Statement Summary, USD mln

	2004	2005	2006	2007	2008	2009	2010E	2011E
Net Revenues	169.4	223.7	272.0	290.9	419.0	331.0	411.4	538.2
<i>Change y-o-y</i>	-16.5%	32.0%	21.6%	6.9%	44.1%	-21.0%	24.3%	30.8%
EBITDA	24.8	40.7	28.9	32.7	44.6	12.5	(4.1)	5.4
<i>EBITDA margin, %</i>	14.6%	18.2%	10.6%	11.3%	10.6%	3.8%	-1.0%	1.0%
Depreciation	(16.7)	(15.9)	(14.2)	(12.6)	(12.6)	(9.2)	(9.2)	(9.2)
EBIT	8.1	24.8	14.7	20.1	32.0	3.3	(13.3)	(3.8)
<i>EBIT margin, %</i>	4.8%	11.1%	5.4%	6.9%	7.6%	1.0%	-3.2%	-0.7%
Interest Expense	(4.5)	(4.9)	(5.8)	(5.6)	(6.7)	(6.4)	(5.9)	(8.3)
Financial income/(expense)	0.0	-	-	-	0.0	0.0	0.0	0.0
Other income/(expense)	(3.5)	5.6	(3.8)	(1.0)	(11.4)	(1.3)	0.8	0.8
PBT	0.1	25.5	5.1	13.4	13.9	(4.4)	(18.4)	(11.3)
Tax	0.0	(14.4)	(5.8)	(8.2)	(8.9)	-	4.6	2.8
<i>Effective tax rate</i>	0.0%	56.4%	115.4%	60.9%	63.8%	0.0%	25.0%	25.0%
Net Income	0.1	11.1	(0.8)	5.3	5.0	(4.4)	(13.8)	(8.5)
<i>Net Margin, %</i>	0.1%	5.0%	-0.3%	1.8%	1.2%	-1.3%	-3.4%	-1.6%

Balance Sheet Summary, USD mln

	2004	2005	2006	2007	2008	2009	2010E	2011E
Current Assets	210.0	204.7	186.1	167.1	147.2	170.3	211.8	277.0
Cash & Equivalents	17.7	11.9	15.2	4.6	8.0	10.7	13.2	17.3
Trade Receivables	150.6	139.6	134.7	122.8	88.4	71.5	88.8	116.2
Inventories	25.5	32.0	28.5	28.5	39.8	68.6	85.3	111.5
Other current assets	16.2	21.2	7.7	11.3	11.0	19.6	24.4	31.9
Fixed Assets	313.3	318.4	312.5	313.3	196.6	183.4	187.6	191.8
PP&E, net	203.7	204.9	196.7	199.8	120.7	106.0	104.1	102.1
Other Fixed Assets	109.7	113.5	115.8	113.6	75.8	77.4	83.5	89.7
Total Assets	523.3	523.1	498.6	480.4	343.8	353.7	399.4	468.8
Shareholders' Equity	150.4	172.1	165.7	187.5	118.6	105.8	92.9	84.5
Share Capital	44.6	46.8	46.8	46.8	30.7	29.6	29.9	29.9
Reserves and Other	214.2	227.5	226.2	230.6	139.2	130.5	131.2	131.2
Retained Earnings	(108.3)	(102.2)	(107.3)	(89.9)	(51.3)	(54.3)	(68.1)	(76.6)
Current Liabilities	175.1	182.4	179.2	166.7	129.0	163.5	221.3	299.2
ST Interest Bearing Debt	29.9	37.9	59.7	57.2	48.7	44.9	74.8	134.9
Trade Payables	43.9	41.1	13.3	17.7	12.2	44.4	55.2	72.2
Accrued Wages	0.7	1.0	1.2	1.4	1.1	1.1	1.2	1.2
Accrued Taxes	13.5	9.8	8.7	6.7	13.4	7.2	7.9	8.7
Other Current Liabilities	87.1	92.7	96.3	83.7	53.6	65.9	82.3	82.3
LT Liabilities	197.8	168.6	153.7	126.2	73.5	84.4	85.1	85.1
LT Interest Bearing Debt	66.5	49.5	39.3	13.7	7.0	5.2	5.2	5.2
Other LT	131.4	119.1	114.4	112.6	66.5	79.2	79.9	79.9
Total Liabilities & Equity	523.3	523.1	498.6	480.4	321.2	353.7	399.4	468.8
	-	-	-	-	-	-	-	-
Net Debt	78.7	75.5	83.8	66.3	47.6	39.5	66.7	122.8

Zakhidenergo

Income Statement Summary, USD mln

	2004	2005	2006	2007	2008	2009	2010E	2011E
Net Revenues	367.2	480.2	617.0	715.8	923.4	573.9	584.8	821.1
<i>Change y-o-y</i>	18.6%	30.8%	28.5%	16.0%	29.0%	-37.8%	1.9%	40.4%
EBITDA	20.9	23.1	43.0	45.9	26.1	(7.0)	17.5	32.8
<i>EBITDA margin, %</i>	5.7%	4.8%	7.0%	6.4%	2.8%	-1.2%	3.0%	4.0%
Depreciation	(11.7)	(12.2)	(12.6)	(10.9)	(14.1)	(12.3)	(12.3)	(12.3)
EBIT	9.3	10.9	30.4	35.0	12.0	(19.3)	5.2	20.5
<i>EBIT margin, %</i>	2.5%	2.3%	4.9%	4.9%	1.3%	-3.4%	0.9%	2.5%
Interest Expense	(3.4)	(5.0)	(10.5)	(16.1)	(17.6)	(14.9)	(13.9)	(20.8)
Financial income/(expense)	0.0	0.0	0.1	(0.0)	0.0	-	-	-
Other income/(expense)	2.5	0.8	0.7	0.8	(4.2)	0.5	0.4	0.4
PBT	8.3	6.7	20.7	19.7	(9.7)	(33.6)	(8.2)	0.2
Tax	0.0	(2.6)	(16.2)	(9.9)	(6.0)	-	2.0	(0.0)
<i>Effective tax rate</i>	0.0%	39.3%	78.4%	49.9%	-61.6%	0.0%	25.0%	25.0%
Net Income	8.3	4.1	4.5	9.9	(15.7)	(33.6)	(6.1)	0.1
<i>Net Margin, %</i>	2.3%	0.8%	0.7%	1.4%	-1.7%	-5.9%	-1.0%	0.0%

Balance Sheet Summary, USD mln

	2004	2005	2006	2007	2008	2009	2010E	2011E
Current Assets	181.9	201.7	199.9	195.8	172.1	132.7	182.0	255.5
Cash & Equivalents	1.9	1.3	1.0	0.2	0.5	4.9	5.0	7.0
Trade Receivables	122.3	128.9	113.4	114.7	82.3	48.6	49.6	69.6
Inventories	31.6	43.2	53.9	46.3	56.0	44.5	92.1	129.3
Other current assets	26.1	28.4	31.6	34.6	33.3	34.7	35.3	49.6
Fixed Assets	282.9	307.6	319.1	335.0	240.2	242.8	263.0	282.3
PP&E, net	228.2	249.2	253.9	272.7	180.4	176.2	175.4	194.7
Other Fixed Assets	54.7	58.5	65.1	62.3	59.9	66.6	87.6	87.6
Total Assets	464.7	509.4	519.0	530.8	412.3	375.5	445.0	537.8
Shareholders' Equity	255.5	275.2	279.3	284.2	170.7	115.8	119.4	119.5
Share Capital	24.1	25.3	25.3	25.3	16.6	16.0	16.2	16.2
Reserves and Other	288.6	310.3	315.6	323.2	219.6	210.9	220.5	220.5
Retained Earnings	(57.2)	(60.4)	(61.6)	(64.3)	(65.5)	(111.1)	(117.2)	(117.1)
Current Liabilities	101.0	147.0	188.7	207.7	222.7	237.0	287.7	380.4
ST Interest Bearing Debt	19.9	53.0	97.3	123.3	81.4	74.6	50.1	109.2
Trade Payables	41.7	44.7	40.6	42.4	32.1	80.2	81.7	114.7
Accrued Wages	1.8	2.6	3.3	2.7	2.1	1.6	2.4	2.4
Accrued Taxes	12.8	15.7	18.4	4.1	21.1	4.3	4.8	5.2
Other Current Liabilities	24.7	31.0	29.2	35.2	86.1	76.3	148.8	148.8
LT Liabilities	108.2	87.1	50.9	38.9	18.5	22.7	37.9	37.9
LT Interest Bearing Debt	10.3	9.4	8.4	7.4	4.9	10.6	16.1	16.1
Other LT	97.9	77.7	42.5	31.5	13.6	12.2	21.8	21.8
Total Liabilities & Equity	464.7	509.4	519.0	530.8	411.9	375.5	445.0	537.8
	-	-	-	-	-	-	-	-
Net Debt	28.4	61.1	104.7	130.5	85.9	80.2	61.1	118.3

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	8.9	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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