



CONCORDE CAPITAL

Ukraine / Insurance

Universalna

Capital inflow primes further M&A expansion

March 26, 2008

Current price: USD 2.18
12M Target: USD 3.00

BUY

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Tickers

Bloomberg SKUN UZ

Market information

Market price, USD	2.18
MCap, USD mln	250.3
52Wk Hi/Lo, USD	3.06/1.38
No of shares, mln*	114.8
Free float	48%
Free float, USD mln	120.1

Corporate Governance

Concorde Rating* AA

* 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

F.I.E.H.	52%
Institutional investors	48%

Ratios 2007E

Combined ratio	102.7%
Investment return	22.4%
ROE	1.2%

- Universalna's EGM on March 24 approved the USD 32.2 mln share issue, securing financing for takeovers in Belarus & Moldova
- By conceding subscription rights, the major shareholder reduced its stake to 52%, making a strategic sale option more likely in our view
- Bids for the stock were up 10% yesterday as the market priced in the news; our target still offers 38% upside

Universalna raised USD 32 mln via 15% share issue

At their March 24, 2008 EGM, Universalna's shareholders approved the results of the new share sale. The company issued 14.8 mln common shares, bringing the total number to 114.8 mln. Subscription was held at USD 2.18 per share, close to the market price. As a result of the issue, Universalna's shareholder equity doubled to USD 61.4 mln.

Financing gives go ahead to execute CIS takeovers

As management reported in January, proceeds will be used to finance acquisitions in the neighboring Belarus and Moldova. In a recent conversation, management provided us with more details on their M&A plans: they expect to spend around USD 15 mln to acquire a 51% stake in a top-5 Belarusian insurer and close to USD 6 mln for a top-tier player in Moldova. Management expects to complete both deals by mid summer.

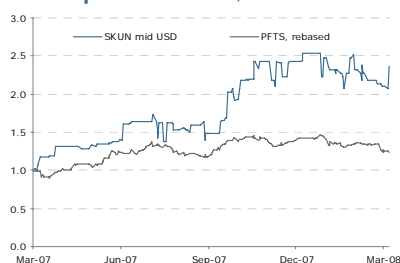
Decline in major shareholder's stake supports our view of strategic sale

Management informed us the major shareholder reduced its share in the company to 52.3%, by conceding subscription rights in favor of institutional investors, in line with our expectations. This supports our belief of a strategic sale in the next 12-18 months, as an IPO option would require extra investment by the current owner or stake reduction to below 50% - we deem both of those options unlikely (see our report of Feb. 20, 2008).

Bids up 10%, hefty upside remains

The stock has picked up on news of the capital inflow, bids were up 10% yesterday to USD 2.18 per share. Universalna still trades at a 24% discount on P/GPW 2008E to Oranta, the only other locally traded insurer. Our target of USD 3.0 per share, based mainly on M&A deals multiples, implies 38% upside. We confirm our BUY recommendation.

Stock performance, 12M

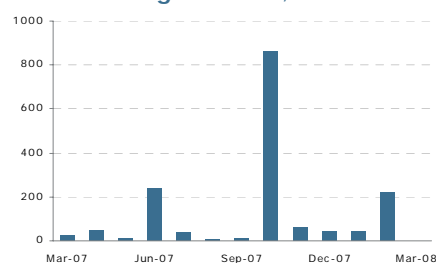


Source: PFTS, Concorde Capital

Spread, %



PFTS Trading Volumes, USD ths



Key financials* & ratios, USD mln

	Premiums	Net income	Book value
2007E	50.4	0.3	28.6
2008E	134.2	0.5	65.7
2009E	204.6	2.4	82.3

* Consolidated

Spot exchange rate: 5.05 UAH/USD

Source: Company data, Concorde Capital estimates

	P/GPW	P/E	P/B
	5.0	834.2	8.8
	1.9	500.5	3.8
	1.2	103.8	3.0

FLASH NOTE

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Financial Statements, UAS

INCOME STATEMENT, UAS, USD mln

	2006	9M07	2007E	2008E	2009E	2010E	2011E
Gross premiums written	33.6	35.0	50.4	134.2	204.6	281.8	366.0
Reinsurers' share	8.5	8.4	11.6	29.7	43.4	57.3	71.2
Net premiums written	25.2	26.6	38.8	104.5	161.2	224.5	294.9
Change in unearned premiums	(2.8)	(1.9)	(7.5)	(29.6)	(23.3)	(27.0)	(29.5)
Reinsurers' share in unearned premiums	(0.1)	0.1	2.2	9.5	7.0	9.1	10.4
Net premiums earned	22.3	24.5	33.6	84.3	144.9	206.6	275.8
Claims paid, net	(7.1)	(11.9)	(13.9)	(35.7)	(61.7)	(94.1)	(134.0)
Insurance activity expenses	(13.3)	(14.4)	(20.6)	(50.7)	(86.3)	(110.0)	(131.2)
Net underwriting income	1.9	(1.5)	(0.9)	(2.1)	(3.2)	2.5	10.5
Net investment income	(0.6)	2.7	3.0	7.3	12.8	20.1	25.9
Profit before tax	1.3	1.2	2.0	5.2	9.7	22.6	36.4
Income tax	(1.1)	(1.1)	(1.7)	(4.7)	(7.3)	(10.1)	(13.3)
Net income	0.2	0.2	0.3	0.5	2.4	12.5	23.1

BALANCE SHEET, UAS, USD mln

	2006	9M07	2007E	2008E	2009E	2010E	2011E
ASSETS							
Fixed income	0.0	2.5	4.6	14.7	27.3	49.4	74.2
Shares	7.6	9.0	5.7	15.1	23.7	37.1	49.1
Bank deposits	5.7	7.8	12.3	29.5	41.7	58.1	67.2
Real estate	0.0	0.0	0.2	0.9	1.9	3.7	5.9
Total Investment Assets	13.3	19.3	22.8	60.2	94.6	148.3	196.4
Total Debtors	6.9	8.3	10.6	28.2	43.0	59.2	76.9
Cash & current accounts	0.8	0.8	0.8	0.9	1.0	1.1	1.2
Fixed assets, net	16.0	22.8	23.3	40.7	40.7	40.7	40.7
Intangibles	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Other	0.3	0.3	0.4	0.4	0.5	0.5	0.6
Prepayments & accruals	0.4	0.4	0.5	0.5	0.5	0.5	0.6
Total Assets	37.8	52.1	58.5	131.1	180.5	250.6	316.5
LIABILITIES							
Provisions for unearned premiums	11.2	13.1	18.7	48.3	71.6	98.6	128.1
Provisions for claims outstanding and other	0.3	2.4	2.3	6.2	11.0	17.2	25.0
Gross technical reserves	11.5	15.5	21.0	54.5	82.6	115.8	153.1
Reinsurers' share in reserves	3.0	3.5	5.9	16.7	25.3	36.6	49.8
Creditors	7.8	10.8	14.8	27.5	40.9	56.8	68.3
EQUITY							
Total Equity	21.6	29.4	28.6	65.7	82.3	114.5	144.9
Total Liabilities & Equity	37.8	52.1	58.5	131.1	180.5	250.6	316.5

KEY RATIOS

	2006	9M07	2007E	2008E	2009E	2010E	2011E
Retention ratio	74.8%	76.1%	77.0%	77.9%	78.8%	79.7%	80.6%
Earned/net written premiums	66.4%	71.0%	66.6%	62.8%	70.8%	73.3%	75.3%
Loss ratio	31.7%	48.0%	41.5%	42.3%	42.6%	45.6%	48.6%
Expense ratio	59.7%	58.0%	61.3%	60.1%	59.6%	53.2%	47.6%
Combined ratio	91.3%	106.0%	102.7%	102.5%	102.2%	98.8%	96.2%
Investment return	4.2%	22.4%	22.4%	20.2%	18.3%	16.5%	15.0%

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Hold	29	26%
Sell	18	16%
Under Review	16	14%
Total	112	100%

Investment banking clients*

Buy	6	86%
Hold	0	0%
Sell	0	0%
Under Review	1	14%
Total	7	100%

* Within the last twelve month period, Concorde Capital has obtained compensation from these companies for investment banking services.

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