



CONCORDE CAPITAL

Ukraine / Brewery Slavutych

Share Issue to Finance Capacity Increase

October 8, 2007

Current Price

UAH 5.05/USD 1.00

12M Target

UAH 6.16/USD 1.22

BUY

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Bloomberg

SLAV UZ

Market information

No of Shares, mln	495.7
Market Price, UAH	5.05
Market Price USD	1.0
Target price	
undiluted, UAH	6.16
undiluted, USD	1.22
diluted, UAH	4.04
diluted, USD	0.80

52Wk H/L, USD 1.3/0.67

MCap, USD mln 495.7

Free float 6.5%

Free float, USD mln 32.2

Corporate Governance 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.

Ownership

BBH	92.0%
Management	1.5%
Other	6.5%

Ratios 2007E

EBITDA Margin	22.8%
Net Margin	6.1%
Net Debt/ Equity	0.3

At their EGM on November 23, Slavutych shareholders will consider the issue of increasing the company's charter fund by 70% to USD 166.5 mln. Management intends to use the proceeds, USD 68.3 mln, to boost beer production capacity by 45%. Our earlier target adjusted for the share issue is USD 0.80 per share, which offers a 19% upside for those that subscribe. We confirm our **BUY** recommendation.

Charter fund increase announced

Slavutych management released plans to issue 345 mln new shares at the current par value of USD 0.20, implying a charter fund increase of USD 68.3 mln. The issue is on the agenda of the company's EGM on November 23. Subscription is scheduled to take place from December 30, 2007 to June 1, 2008. The additional share issue will result in Slavutych's Net debt to Equity ratio decreasing from 0.6 at the end of 2Q07 to ~0.3 in 3Q07.

Proceeds to be spent on boosting capacity

The company plans to use the proceeds to lift capacity by 45% to 795 ths hl per month and improve logistics.

	2006	2007E	2008E
Capacity, hl per month	440	550	795
Production share in Ukraine	11.5%	13.0%	14.5%
Production, ths hl	3.1	3.9	4.6
Capacity load at peak months	87%	92%	75%

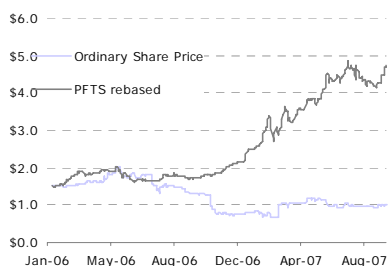
Source: Company Data, Concorde Capital estimates

Capacity load over the summer surpassed 90% and the company's management had already confirmed intentions to increase production at their plants prior to the announcement. We maintain our earlier projection of 18% production growth in 2008, backed by 8% overall market growth, and our forecast of an increase in the company's market share to 14.5% in 2008 from 13.0% this year.

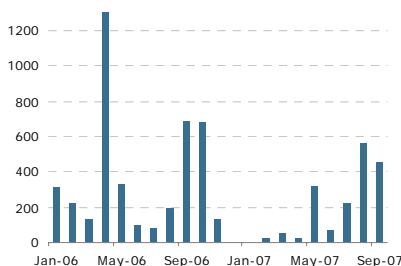
Reasonable upside remains

If adjusted for dilution, our previous target price for SLAV based on a relative valuation offers a 19% upside for investors that subscribe for the additional share issue. That said, we think that the upside will likely be higher, as our relative valuation does not capture the positive effects of the capacity increase beyond 2008. The extended subscription period may reduce liquidity in the stock temporarily, moving it into the category of overlooked opportunities.

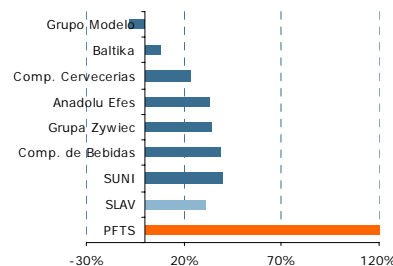
SLAV Stock performance



SLAV Trading volumes, USD ths



Sector performance, YTD



Note: PFTS Mid Price is used

Source: PFTS, Concorde Capital estimates

Key financials, USD mln

(in USD mln)	Sales	EBITDA	Net Income
2006	150.1	28.2	4.4
2007E	216.2	49.4	13.3
2008E	281.1	67.9	23.2

UAH/USD spot exchange rate is 5.05

EV/S	EV/EBITDA	P/E
3.7	19.9	112.7
2.8	12.2	37.3
2.0	8.5	21.4

Valuation

Peer comparison

	MCap, USD mln	EV/S		EV/EBITDA		P/E		EV/Output, USD/hl 2006
		2007E	2008E	2007E	2008E	2007E	2008E	
Slavutych	495.7	2.8	2.0	12.2	8.5	37.3	21.4	182.6
International peers								
Companhia De Bebidas	47 580.89	5.2	4.8	15.1	11.2	36.2	26.7	n/a
Grupo Modelo	17 688.20	2.4	2.1	9.0	7.3	22.1	18.0	n/a
Baltika	8 221.61	3.3	2.9	10.6	10.8	19.7	18.0	215.9
Anadolu Efes	4 825.34	2.3	2.0	11.3	9.8	25.4	18.6	257.9
Tsingtao Brewery	3 186.16	1.7	1.4	20.4	15.8	55.5	41.5	n/a
Compania Cervecerias	2 224.42	2.0	1.8	10.2	8.3	21.2	15.9	n/a
Grupa Zywiec	2 017.27	n/a	n/a	n/a	n/a	17.7	n/a	204.0
Beijing Yanjing	1 881.82	2.1	1.8	14.8	13.4	47.9	37.9	n/a
Guinness Anchor	521.92	1.4	1.4	10.4	8.4	15.0	14.5	n/a
Average		2.6	2.3	12.7	10.6	29.0	23.9	225.9
Implied price, USD								
undiluted		0.91	1.12	0.85	1.10	0.64	0.94	1.27
diluted		0.62	0.74	0.58	0.73	0.46	0.63	0.83

Source: Company data, Thomson Financial, Bloomberg, Concorde Capital estimates

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