



CONCORDE CAPITAL

Ukraine / Beverages

Slavutych Brewery

New production line launched

August 14, 2008

Current price: USD 0.55
12M Target: USD 0.87

BUY

Olha Pankiv

op@concorde.com.ua
+380 44 391 5577

Tickers

PFTS SLAV

Market information

Market price, USD	0.55
MCap, USD mln	467.0
Chg YTD	-44%
Hi/Lo YTD, USD	1.07/0.50
DRs per common share	1:1
No of shares, mln	853.7
Avg Mon Tr Vol YTD, USD mln	0.69
Free float	6.5%
Free float, USD mln	30.5

Prices as of Aug.13, 2008

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

Slavutych Carlsberg Group	92.0%
Management	1.5%
Other	6.5%

Slavutych's controlling shareholder increased bottling capacity at its Kyiv plant by 33% with the launch of a new line this week. In our view, the move will facilitate further growth in the Slavutych's market share, already up an estimated 5 pp yoy in 1H08. On the balancing side, soaring input prices are likely to take 2008 profits down below our expectations. We expect margins to pick up in 2009 as beer prices catch up with costs. We confirm our target at USD 0.87 per share, while maintaining BUY (58% upside).

New production line will facilitate further expansion

Slavutych launched a new bottling line at its Kyiv plant this week. The move increased the plant's capacity by 33% to 4 mln dal per month. The company invested over EUR 12 mln in the expansion. In our view, the capacity increase will facilitate further growth in Slavutych's market share starting from 2009. We expect Slavutych to increase its share in Ukraine's beer production by 3 pp to 18% in 2008, and to 19% in 2009.

Revenues ahead of our expectations

Carlsberg Group (formerly BBH Ukraine), Slavutych's controlling shareholder, announced that its three breweries (Kyiv, Zaporizhyya and Lviv) jointly posted 40% higher sales volumes, to 414 mln l, on a 24% increase in the effective beer price in 1H08. We view the Kyiv and Zaporizhyya breweries, the only two consolidated under Slavutych, as the main growth contributors to the group's revenues, and believe that our earlier projections for the company's revenues (+32% yoy in 2008) were overly conservative. We increase our 2008 sales projections by 15%.

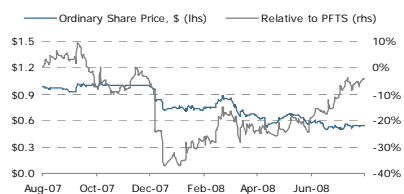
Profits restrained by soaring costs

The company's management says the rise in production costs in 1H08 surpassed that of beer prices. The major contributors to cost hikes were malt (price +75% yoy in 1H08), glass bottles (+44%), electricity (+38%), and gas (+37%). We revise our expectations for the company's EBITDA in 2008 downward by 10%. We expect beer prices to catch up with costs in 2009 to result in EBITDA margin growth to 21%, from 20% in 2008.

Room for market growth still there

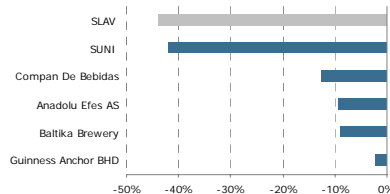
Ukrainian beer output grew by 10% yoy in 1H08. A yoy decline was posted in June, by 3.3%, and July, by 2.1% yoy. We stick with our earlier forecast of 6% yoy growth in 2008. We see room for further growth in beer consumption in Ukraine as 65 l of beer consumption per capita we expect in 2008 is still below the respective 71 l and 88 l of beer per capita consumed last year in the neighboring Russia and Poland.

Stock performance, 12M

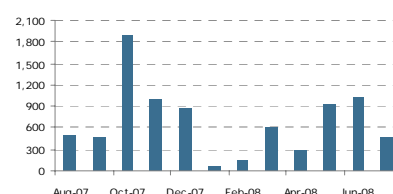


Source: Bloomberg, PFTS

Sector Performance, YTD



SLAV trading volumes, USD ths



Key financials & ratios, USD mln

	EV/Sales	EV/EBITDA	P/E
2007	2.3	10.2	24.2
2008E	1.5	7.2	14.9
2009E	1.1	5.0	8.7

Spot exchange rate: 4.85 UAH/USD

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Revision of projections

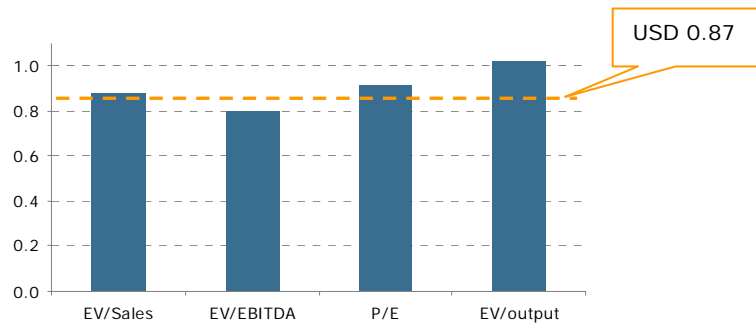
	2008E			2009E	
	Old	New	New/old chg	2009E/08E chg	
Ukraine's beer production, ths dal	329	335	2%	355	6%
Slavutych's market share, %	16%	18%	2 pp	19%	1 pp
Change in effective beer price, %	14%	24%	10 pp	18%	-6 pp
Net revenues, USD mln	319.4	367.2	15%	484.8	32%
EBITDA, USD mln	83.1	74.82	-10%	103.6	39%
<i>EBITDA margin, %</i>	<i>26%</i>	<i>20%</i>	<i>-6 pp</i>	<i>21%</i>	<i>1 pp</i>
Net income, USD mln	32.6	31.3	-4%	53.4	70%
<i>Net margin, %</i>	<i>10%</i>	<i>9%</i>	<i>-1 pp</i>	<i>11%</i>	<i>2 pp</i>

Source: Concorde Capital estimates

Valuation

We confirm our 12M target on Slavutych at USD 0.87 per share with a BUY recommendation. The implied upside is 58%.

Valuation summary



Peer valuation

	MCap, USD mln	EV/S			EV/EBITDA			P/E			EV/Output USD/hi, 2007
		2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E	
Slavutych	467.0	2.3	1.5	1.1	10.2	7.2	5.0	24.2	14.9	8.7	115.2
International peers											
Companhia De Bebidas	39,302.0	3.9	3.3	3.0	8.4	7.5	6.8	24.8	17.9	14.7	n/a
Grupo Modelo	16,967.1	2.3	2.0	1.8	6.8	6.6	6.0	19.5	18.0	16.5	n/a
Baltika	5,309.7	1.7	1.8	1.6	5.7	6.6	5.9	9.7	10.5	9.5	126.0
Anadolu Efes	5,184.7	2.3	1.9	1.6	8.6	8.2	7.0	16.2	15.6	12.9	278.7
Tsingtao Brewery	2,478.8	1.3	1.0	0.8	11.7	9.3	7.1	33.6	21.5	15.5	n/a
Compania Cervecerias	2,233.0	1.9	1.8	1.7	7.7	7.9	7.3	14.0	14.8	12.6	n/a
Grupa Zywiec	2,890.6	2.2	n/a	n/a	9.6	n/a	n/a	17.0	n/a	n/a	n/a
Beijing Yanjing	2,306.9	2.7	1.9	1.6	15.1	12.1	9.7	41.1	29.4	22.9	n/a
Guinness Anchor	476.0	1.4	1.2	1.1	8.2	7.1	6.6	14.6	12.4	11.9	n/a
Average		2.2	1.8	1.6	9.1	8.2	7.0	21.2	17.5	14.6	202.4
Implied price, USD											
Slavutych		0.53	0.71	0.88	0.48	0.63	0.80	0.48	0.64	0.91	1.02

Source: Thomson Financial, Bloomberg, Concorde Capital estimates

Financial statements

Income statement summary, USD mln

	2007	2008E	2009E
Net Revenues	232.8	367.2	484.8
Cost Of Sales	(98.0)	(163.9)	(211.5)
Gross Profit	134.8	203.3	273.3
Other Operating Income/Costs. net	5	-	-
SG&A	(87.7)	(128.5)	(169.7)
EBITDA	51.6	74.8	103.6
<i>EBITDA margin. %</i>	<i>22.2%</i>	<i>20.4%</i>	<i>21.4%</i>
Depreciation	(18.8)	(27)	(28)
EBIT	32.7	48.1	75.6
<i>EBIT margin. %</i>	<i>14.1%</i>	<i>13%</i>	<i>16%</i>
Interest Expense	(6.9)	(6.3)	(4.4)
Financial income	-	0	0
Other income/(expense)	(0.6)	0	0
PBT	25.3	41.8	71.2
Tax	(6.0)	(10)	(18)
Net Income	19.3	31.3	53.4
<i>Net Margin. %</i>	<i>8.3%</i>	<i>8.5%</i>	<i>11.0%</i>

Balance sheet summary, USD mln

	2007	2008E	2009E
Current Assets	96.7	111.1	138.1
Cash & Equivalents	22.3	5.0	5.0
Trade Receivables	25.2	39.7	52.4
Inventories	29.4	49	63
Other current assets	19.9	17.3	17.3
Fixed Assets	197.3	291.3	305.9
PP&E, net	172.9	291.3	305.9
Other Fixed Assets	24.4	-	-
Total Assets	293.9	402.4	443.9
Shareholders' Equity	154.7	257.1	310.5
Share Capital	98.5	169	169
Reserves and Other	56.2	88.1	168.5
Current Liabilities	51.0	86	86
ST Interest Bearing Debt	-	20	9
Trade Payables	23.9	40	51
Accrued Wages	0.8	1	1
Accrued Taxes	3.7	3	3
Other Current Liabilities	22.7	23	23
LT Liabilities	88.2	59	47
LT Interest Bearing Debt	83.9	57	45
Other LT	4.3	2	2
Total Liabilities & Equity	293.9	402.4	443.9

Appendix - Disclosures

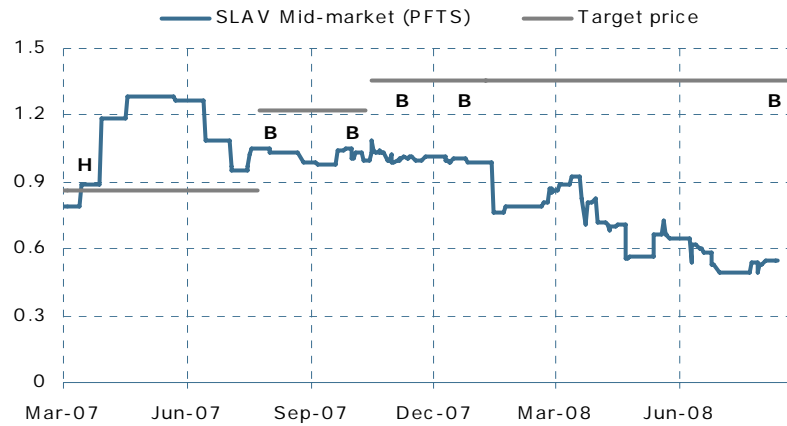
Analyst certification

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SLAV ratings history

Date	12M target price, USD	Market price, USD	Rating	Action
02-Mar-07	0.86	0.79	HOLD	Initiating
27-Jul-07	1.22	1.00	BUY	Upgrade
08-Oct-07	1.22	1.00	BUY	Maintain
16-Oct-07	1.36	0.98	BUY	Maintain
18-Dec-07	1.36	1.00	BUY	Maintain
14-Aug-08	1.36	0.55	BUY	Maintain

Target price history, USD per share



Investment Ratings

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Buy	80	70%
Hold	19	17%
Sell	7	6%
Under Review	8	7%
Total	114	100%

Investment banking clients*

Buy	7	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
Total	7	100%

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

Concorde Capital, Head office

2 Mechnikova Street, 21st Floor
Parus Business Centre
Kyiv 01601, Ukraine
Tel.: +380 44 391 5577
Fax: +380 44 391 5571

www.concorde.ua

CEO

Igor Mazepa im@concorde.com.ua

Head of Equity Sales

Roman Nasirov rn@concorde.com.ua

Equity Sales

Anastasiya Nazarenko an@concorde.com.ua
Marina Martirosyan mm@concorde.com.ua
Andriy Supranonok sap@concorde.com.ua
Marina Cherednichenko cmg@concorde.com.ua
Alyona Degrik dav@concorde.com.ua

Director of Research

Konstantin Fisun, CFA kf@concorde.com.ua

Concorde Capital

4 Fourth Lesnoy Pereulok, 5th Floor
Capital Plaza
Moscow 125047, Russia
Tel.: +7 495 642 87 15
Fax: +7 495 225 85 00

office@concorde.com.ua

RESEARCH

Strategy

Konstantin Fisun kf@concorde.com.ua
Oleksandr Klymchuk ok@concorde.com.ua

Metals & Mining

Eugene Cherviachenko ec@concorde.com.ua
Andriy Gerus ga@concorde.com.ua

Utilities (Telecom, Energy)

Alexander Paraschiy ap@concorde.com.ua

Oil & Gas, Chemicals, Pharmaceuticals

Vladimir Nesterenko vn@concorde.com.ua

Real Estate/Construction

Andriy Gostik, CFA ag@concorde.com.ua
Alexander Romanov ar@concorde.com.ua

Consumer-related

Olha Pankiv op@concorde.com.ua
Anna Dudchenko ad@concorde.com.ua

Machinery

Inna Perepelytsya pi@concorde.com.ua

Financial Services, Retail

Alexander Viktorov av@concorde.com.ua

Economics

Polina Khomenko pk@concorde.com.ua
Andrii Parkhomenko pav@concorde.com.ua

Fixed Income

Oleksandr Klymchuk ok@concorde.com.ua

Editor

Brad Wells bw@concorde.com.ua

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