CONCORDE CAPITAL

Ukraine / Strategy

A Resilient Growth Story

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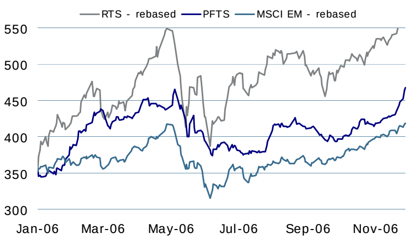
KEY MARKET DATA

PFTS Index (Dec 8 close)	464
Change ytd	+31%
PFTS fair value	510
Upside	10%
Index Basket MCap	15.0bn
Index Free Float MCap	1.82bn
Index P/E (2006E)	14.7
Volumes	
PFTS (Nov/11m USD)	70mn/1.10bn
Total (w/OTC, est.)	228mn/3.66bn

INDEX PERFORMANCE



Source: Bloomberg

TOP PICKS

	TP, USD	Upside*
AVDK	4.79	156%
ALMK	0.07	45%
KSTL	1.22	39%
NITR	21.88	26%

* Over Dec 8 close

The PFTS index is heading for the 500 mark pushed by economic growth, progress on WTO accession and renewed investment in emerging markets. We see secure upside in stocks such as Nyzhnyodniprovsky Pipe (NITR) and Mittal Steel Kryvy Rig (KSTL), and some very attractive prices off the beaten track.

Ukraine is being carried upward by a return to emerging markets. On Dec. 6 the PFTS hit a historical high, breaking past the peak it reached in May. Growing confidence that US interest rates will decline next year and China's strength despite the US slowdown are driving the renewed optimism. The PFTS's 22% gain from Aug. 1 to Dec. 8 was slightly ahead of the MSCI EM index's 17% climb.

WTO accession and a round of credit rating upgrades are on the way. Our PFTS fair value of 510 does not take into account the boost on the horizon as Ukraine joins the WTO and receives a round of rating upgrades around mid-2007. WTO will be seen as a milestone in European integration and will spell the end of EU steel import quotas. Two major agencies have recently lifted the outlook on their Ukraine ratings to "positive", and WTO has been cited as an upgrade trigger.

Most of the value left to be unlocked is outside the PFTS index basket, which includes several overvalued oil, electric energy and nitrogen fertilizer stocks. We believe the recent bull run in electric energy stocks has played itself out. Banks and pipe makers are still attractive as growth stories.

A flight to quality has left many companies with perceived risk attractively priced. The market is very sensitized to governance issues after three incidents when majority owners put forward consolidation plans diluting minorities. Except one case still in court, we believe the wave of dilutions and threatened dilutions is finished, as new regulations protect minorities, and owners are preparing for IPOs. Among the stocks that have been shunned or overlooked, we especially like Avdiyivka Coke (AVDK).

GDP growth sped up in October to 9.0% yoy, despite lower steel prices and slower metallurgy output growth. Corporate earnings continued to accelerate in September, and were up 84% yoy. Inflation slowed in November to 1.8% mom from a peak of 2.6% in October. Further inflation this winter will be driven by the phasing out of subsidies for central heating.

KEY ECONOMIC DATA

GDP (Oct/10M real yoy)	+9.0%/+6.5%	CPI (Nov mom/11M ytd)	+1.8%/+10.6%
Disposable Income	+10.8%/+17.0%	Monetary Base	+0.2%/+6.2%
Industrial output (Nov/11M real yoy)	+8.3%/+5.6%	NBU FX sales (Nov/11M USD)	227mn/841mn
Corporate Earnings (Sep/9M real yoy)	+84%/+4.7%	Net New FDI (9M USD/v GDP)	3.5bn/5.1%
Fixed Cap. Investment (9M real yoy)	+16.1%	Trade balance	-1.3bn/-1.9%

Notes on figures: All economic figures are from Statistics Committee data except monetary base and NBU FX sales, from NBU. Free Float MCap is based on PFTS FF estimates and our price estimates; P/E is weighted by PFTS's FF estimates and based on our earnings estimates and method of counting outstanding shares (see page 6).

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The Global Themes

The GEM Rebound

Despite an abundance of dramatic and important news out of Ukraine this year, the stock market behaved as if it all hardly mattered. The PFTS index has closely followed other emerging markets throughout the year. The PFTS's 22% gain from August 1 through Dec 8 was slightly ahead of the MSCI EM index, which climbed 17%. We expect Ukraine to continue closely tracking the GEM trend in the months ahead.

Emerging markets have regained momentum due to their strong economic growth and growing confidence that US interest rates will begin declining sometime next year. Prices have returned to the peaks they hit in mid-May, before a global GEM sell-off that was triggered mainly by worries about possible further US interest rate increases. However, some worries remain about a possible "hard landing" of the US economy and how that would impact Asian growth.

We are cautiously optimistic. We expect a slow and fairly steady upward climb, not a charging bull run like we had last winter. To one side, there is the risk that the US slowdown could have a bigger than expected impact on global growth and depress steel prices below our forecasts. To the other side, there is the risk that the US Fed could turn more hawkish on inflation, and hopes for a return to rate-cutting by 2H07 could fade. But the middle of the road seems more than wide enough. Chinese growth is still exceeding forecasts.

Meanwhile, fund flows to emerging markets have returned to positive, coming to about USD 4 bln (USD 0.5 bln/week) in October-November. Inflows in January to mid-May were 33 bln (1.7 bln/week), outflows in mid-May to July were 16.9 bln (1.5 bln/week), and outflows in August-September were 1.2 bln (USD 0.15 bln/week). Those numbers pretty well explain this year's PFTS index movements.

Diversifying From BRIC

This has been a very good year for BRIC, aka large emerging markets. More than 20% of the USD 19 bln of flows into emerging market funds this year through November went into BRIC funds. The BRIC idea seems to have reached maturity this year, becoming, so to speak, the most successful brand by which investment in emerging markets is sold. China's booming growth and Russia's commodities story have made it work especially well this year.

Besides the individual strengths of Brazil, Russia, India and China, there's a simple underlying logic to the BRIC method of GEM investment: larger emerging economies tend to have disproportionately larger capital markets than their peers, which makes them better able to absorb disproportionately larger amounts of portfolio investment.

Even so, the BRIC phenomenon can only go so far before it becomes too many investors in too few countries, and the prices of those countries' assets becomes unjustifiably higher than their emerging market peers. It's not easy to say where that point is (each country is it's own story), but this year's concentration of BRIC investment looks unsustainable. We have been seeing increasing interest in diversifying out of the bigger emerging economies.

The Local Themes

The Flight to Quality

Within the Ukrainian market, there has been a clear movement in recent months to stocks and sectors with better transparency and less perceived corporate governance risk. This comes in response to a series of aggressive moves by major industrial groups who sought to consolidate their public and private units on terms that were clearly disadvantageous to the public units' minority shareholders.

Only one of three such consolidations plans proposed this year has been implemented, involving Azovstal, which was also the least damaging for minorities of the three plans. Another, involving Zaporizhstal, is still in the courts, and a third, involving ZaporizhCoke, was withdrawn before it came up for a shareholder vote.

When all is said and done, the proposals are likely to have caused little direct damage to minorities in terms of dilution of their holdings. But they sent a powerful negative signal for all Ukrainian stocks whose investment cases included potential future improvements in corporate governance. Stocks with less transparency and higher perceived governance risk have been marked down. Stocks and sectors with better transparency and less perceived governance risk have been bid up.

This trend could continue for a few more months, but not longer. Already many stocks have become very attractively priced relative to the underlying value of the businesses. As long as there are no new attacks on minorities, the market will return to these stocks. The best opportunities of this kind are in industrial sectors, especially Avdiyivka Coke (AVDK), and also Azovstal (AZST) and Mariupol Heavy Machinery (MZVM).

We believe new attacks are unlikely. The State Securities and Exchange Commission recently adopted new regulations aimed specifically at the method of dilution through consolidation that companies have been using. The parliament has adopted a law enabling companies to issue shares at market price (which previously incurred taxes). Although most major industrial groups still have little regard for "legacy" minorities (those resulting from privatization), they understand it would be difficult to launch an IPO if memories of an attack on minorities were still fresh. Looking at the issue cynically, one could say that the time window in which it was possible for owners to attack minorities and suffer no consequences has passed.

WTO in the Bag

We believe that accession in the World Trade Organization due in 1H07 will boost the Ukrainian stock market. WTO membership is particularly important to Ukraine for several reasons, including:

- The EU would drop its restrictive import quotas on Ukrainian steel.
- An EU offer to negotiate a free trade agreement would be triggered
- Investment in production for export to the EU would be encouraged.
- It would be seen as a milestone in the process of EU convergence.

We initially doubted the Yanukovich government would push for early WTO entry, but it has pushed the needed legislation through parliament like clockwork. By Dec. 6, parliament reportedly had only one bill left to adopt, which was expected to be adopted on Dec. 13.

We also think the WTO accession process helped lay to rest questions about whether Ukraine's quarreling political parties and branches of government can cooperate on important reforms. All of the major political parties except the Communists voted together, laying aside their political differences and working together in an efficient and organized fashion.

Heading for a Credit Rating Upgrade

Ukraine's sovereign Eurobonds have since last year been priced similar to those of countries with credit ratings around two notches higher (such as Colombia and Guatemala), as the bond market has put more emphasis on the declining debt/GDP ratio, while ratings agencies have put more emphasis on political uncertainty.

So the appearance of stability in the form of the Yanukovich government, and the likely WTO accession in 1H07, will produce a round of ratings upgrades sometime around mid-2007. In recent weeks, Fitch and Moody's have upgraded the outlooks on their Ukraine sovereign ratings from stable to positive. A Fitch executive told a recent conference in London that WTO accession would likely trigger a ratings upgrade. Standard & Poor's and Fitch rate Ukraine three notches below investment grade, Moody's four notches.

The main remaining obstacle to an upgrade is the next gas price increase coming in January, when Ukraine will be paying USD 130 per thousand cubic meters at the Russia-Ukraine border, up 37% from this year's price and about double the average import price in 2005. Questions remain about how the economy and the hrvynya will hold up, and the extent to which debt and/or higher taxes will be used to smooth the transition to higher gas prices.

We are confident that industry will absorb the price increase and the hryvnya will remain stable, as current inflows of foreign currency are more than enough to cover the extra cost of gas (see page 15). The worst that has happened is that the government has decided to lean on the state gas company to subsidize centralized heating networks to the tune of USD 520 mln next year, which will be compensated by writing off an equal amount of back taxes. On the other hand, very important progress is being made in phasing out traditional indirect subsidies to centralized heating utilities. Their gas supply prices have increased by 2.8 times since last year.

Sectors Overview

Banks, Pipe and GenCos Dominate

The four months from August through November was a period of marked differentiation on the Ukrainian stock market. Banks, pipe and electric energy stocks accounted for most of the market's growth during the period, while most industrial stocks except pipe makers lost ground.

The banking sector performed particularly well because it is growing very quickly, and because it has the best transparency and the least corporate governance risk. Pipe makers were helped by the IPO of Russia's TMK, which helped spread the word that the CIS is a great place to produce and sell pipe, while energy stocks were helped by IPO's of Russian power generators and by the Ukrainian government's moves towards selling off at least part of its stakes in generators and distributors.

A group of nine stocks dominated volumes: the two big banks (USCB and BAVL), the four GenCos (CEEN, ZAEN, DNEN and DOEN), the two main pipe makers (NITR and DTRZ) and the traditional volume leader, Ukrnafta (UNAF). Together, that group of nine accounted for an estimated 60% of secondary trading volumes in August-November.

Volume breakdown by sector and top stocks, Aug-Nov

Sector	Share
Banking	22.2%
Metal, Ore and Coke	21.0%
Including Pipe	*8.4%*
Electric Energy	18.8%
Oil & Gas	17.9%
Machinery (exc. coal)	7.7%
Chemicals	3.7%
Telecoms	3.6%
Construction	3.1%
Coal and Coal machinery	1.9%

Stocks	PFTS	Share
Ukrnafta	UNAF	16.8%
Ukrsotsbank	USCB	10.8%
Aval Bank	BAVL	9.6%
Centrenergo	CEEN	5.0%
Zakhidenergo	ZAEN	4.9%
Nyzhnyodniprovsky Pipe	NITR	4.1%
Dnipropetrovsk Pipe	DTRZ	3.6%
Ukrtelecom	UTEL	3.4%
Dniproenergo	DNEN	3.3%
Stirol	STIR	3.0%

Source: PFTS, Concorde Capital estimates

The popularity of the two big banks, Ukrsotsbank (USCB) and Raiffeisen Bank Aval (BAVL), has made banking the most actively traded sector, displacing metallurgy from its traditional dominant role.

The pipe makers Nyzhnyodniprovsky Pipe (NITR) and Dnipropetrovsky Pipe (DTRZ) were the only two metallurgy stocks in the top ten, and together accounted for more than a third of the sector's volume.

Three GenCos made the top ten, and the fourth, DOEN, was number 12. Together the "big four" took almost 16% of trading volume.

Note: We estimated the relative volumes of different sectors and stocks based on the volumes of 43 stocks we identified as the most actively traded, in order to exclude private placements and technical trades. These are the 40 stocks reviewed on pages 7-11, except Krymenergo, plus four stocks we don't cover (Dnyproshyna, LuAZ, Galychyna Refinery and Mostobud). We assumed these 43 stocks accounted for 90% of total (including OTC) secondary trading.

Banks

Access to Foreign Capital is Key

Stock	Upside	P/E (2006E)	P/BV (2006E)	MCap (USD mln)	Price change, Aug 1-Dec 8
USCB	+18%	32.6	4.8	1412	+62%
FORM	U/R	76.0	3.1	510	+58%
BAVL	+15%	28.8	4.9	2193	+28%

Source: PFTS, Concorde Capital estimates *Note: Prices as of Dec. 8 close*

Foreign takeovers and very rapid growth make banking a popular sector. It is the fastest-growing sector, with total banking assets were up 48% ytd on Dec. 1, while the sector's inflation-adjusted net profits doubled yoy in 11M06. Smaller banks that lack foreign backers must pay very high deposit rates to keep up. This is an excellent climate for investment as access to foreign capital is a big advantage. The three actively traded banks are all positioned well to lead in an increasingly competitive market.

Ukrsotsbank (USCB) still has more upside even after its 61% gain in August to November. Its strong rally came after Banca Intesa reaffirmed its commitment to buying a controlling stake, slightly raised the purchase price and extended the offer to minorities. Intesa delayed the deal over a rival business group's legal complaint, but we expect the deal to close by March.

Raiffeisen Bank Aval's (BAVL) greatly improved transparency and strong 1H06 results, bouncing back from last year's post-takeover provisioning for doubtful loans, helped restore confidence in the benefits of its takeover (see our desk note on BAVL of Oct. 24). BAVL is exhausting its upside after further gains since the Nov. 30 closing price used in these tables. It is now valued at more than twice Raiffeisen's purchase price agreed in August 2005.

Bank Forum (FORM) has announced plans for another share issue, reaffirming its commitment to rapid growth. We have put our price target under review.

Note: The 40 stocks reviewed on this page through page 11 were chosen because they had adequately realistic bid quotes throughout the four-month period of August-November. Prices were calculated as averages of PFTS bid and ask quotes, or bid plus 5%, whichever was less; except prices for ZPST, which were based on Deutsche Börse quotes for DRs. Price change figures are Nov. 30 close over July 31 close. MCap is based on outstanding shares including recent issues for which subscription was completed and approved by shareholders, unless the issue is disputed. Specifically, BAVL MCap includes a recent share issue for which subscription was approved at an EGM in August, but ZPST MCap does not include its disputed share issue.

U/R means under review, N/R means not rated.

Pipe

Feeding a Hungry CIS Oil and Gas Sector

Stock	Upside	P/E (2006E)	EV/S (2006E)	MCap (USD mln)	Price change Aug 1-Dec 8
NITR	+26%	8.2	1.51	934	+56%
DTRZ	+13%	21.7	0.76	111	+49%
NVTR	+1%	29.2	0.79	120	+50%

Source: PFTS, Concorde Capital estimates *Note: Prices as of Dec. 8 close*

Pipe has been practically immune to the global cycles affecting the rest of the metallurgy sector: Output volumes increased about 13% last year and will increase by about the same rate this year. In addition to the rapid growth of pipeline and exploration projects in the oil and gas sector, recovering Central European and CIS economies are catching up on a lot of long-delayed infrastructure renewal.

Nyzhnyodniprovsky Pipe (NITR), Ukraine's biggest and most profitable pipe maker, is our top pick in the sector, offering very good upside for a liquid stock with little corporate governance risk. Smaller Novomoskovsk Pipe (NVTR) is increasing its output most quickly, by 39% yoy in 10M06. Please see our recent update on the pipe sector published Nov. 29.

Coal and Coal Machinery

Who Needs All That Gas Anyway?

Stock	Upside	P/E (2006E)	EV/S (2006E)	MCap (USD mln)	Price change, Aug 1-Dec 8
SHKD	+42%	13.6	0.68	71	+24%
YAMZ	+99%	7.9	1.08	36	+7%
DGRM	+139%	7.3	0.69	15	+3%

Source: PFTS, Concorde Capital estimate *Note: Prices as of Dec. 8 close*

Coal and coal machinery is still a young sector on the stock market. Trading has been gathering momentum since the first companies appeared on the PFTS last year, but the sector still accounts for only about 2% of trading in PFTS-listed stocks. Higher gas prices are driving a switch to coal, and the new government is committed to developing the coal industry through privatization and increased funding for state-owned mines, both of which will support coal machinery companies.

Yasynuvatsky Machinery (YAMZ) remains our favorite in coal machinery, as it is the least illiquid and has among the best margins. The Komsomolets Donbassa (SHKD) coal mine is highly attractive as a producer of high-grade steam coal.

Our favorite coal mine is **Krasnoarmiyska Zakhidna (SHCHZ), a profitable producer of hard coking coal,** the most sought-after varieties. Listed in September, it is one of the most actively traded new stocks (see page 12).

Electric Energy

Wondering Over Privatization

The electric energy sector dramatically outperformed the market as improved governance and regulation and, in most cases, hopes for privatization and higher energy prices have driven up their valuations. IPOs of Russian energy companies also generated strong interest, some of which spilled over to Ukraine. We see price growth in most of these stocks now taking a pause, as the market waits to see what the Yanukovich government will do with the sector. There are still plenty of opportunities to unlock more value, but too many “if”s and “when”s.

	Stock	Upside	P/E (2006E)	EV/S (2006E)	MCap (USD mln)	Price change, Aug 1-Dec 8
Generators	ZAEN	-26%	53.0	1.00	614	+73%
	DNEN	+9%	27.5	0.91	474	+57%
	CEEN	-13%	46.6	1.02	452	+53%
	DOEN	+14%	neg.	1.00	200	+41%
	KIEN	+12%	10.8	0.61	168	+1%
Distributors	KREN	-42%	76.8	0.89	146	+140%
	HMON	-4%	21.2	0.85	62	+118%
	ZHEN	-30%	17.7	1.22	111	+95%
	DNON	-9%	42.9	0.33	386	+40%

Source: PFTS, Concorde Capital estimate *Note: Prices as of Dec. 8 close*

The main price growth driver has been the State Property Fund’s proposal to sell down state stakes, which could greatly boost liquidity. The Cabinet included the SPF plan in its 2007 privatization program, recently approved by parliament. However, top Regions party figures and energy ministry officials have spoken against the plan. Regions ministers say they would prefer full privatization, but don’t say when.

The government won’t make the real decision on privatization until later. The program adopted by parliament does not itself allow the SPF to go ahead with sales. The Cabinet would first need to take the energy company stakes out of the ownership of the state energy holding company and transfer them to the SPF.

Appointments of people from Cabinet-allied business groups to company boards and regulatory positions have raised suspicions that any full privatization could be geared for insiders.

Given how much stock prices have already appreciated, hoped-for privatization is no longer a good reason for exuberance. Neither are recently restored exports to Russia, which will add no more than 2% to demand growth.

We maintain BUY recommendations on Donbasenergo (DOEN), Dniproenergo (DNEN) and Kievenergo (KIEN). We believe DOEN will bounce back from its weak performance this year, and that the market still overestimates the risks posed by DNEN’s large debts and by city authorities’ threat to cancel KIEN’s lease of city-owned power plants. Among distributors (Oblenergos), we recommend looking for value among the less liquid stocks (see our update on Oblenergos, to be issued shortly).

Metallurgy

Mittal Points the Way

	Stock	Upside	P/E (2006E)	EV/S (2006E)	MCap (USD mln)	Price change, Aug 1-Dec 8
Iron and Steel	KSTL	+39%	5.4	1.17	3393	+14%
	DNSS	+14%	12.4	0.58	199	+9%
	MMKI	+39%	10.5	0.54	1571	-3%
	ENMZ	+162%	5.5	0.09	55	-4%
	AZST	+53%	10.3	0.88	1876	-4%
	DOMZ	+15%	31.6	0.19	32	-38%
	ZPST	Susp.	6.0	0.39	664	+76%
Other	ZALK	+42%	3.0	0.46	83	-1%
	NFER	Susp.	157.8	0.65	316	-17%

Source: PFTS, Concorde Capital estimate *Note: Prices as of Dec. 8 close*

Local industrial groups have been promising better transparency and western-style corporate governance for about two years now, and some are already producing consolidated IFRS accounts (not yet for public dissemination). Eventually, we believe, this will culminate in large international IPOs that will unlock value and give investors opportunities to swap shares in group units for shares in the group. But recent efforts by owners to push consolidations at disadvantageous terms for minorities obviously hurt that hope. Cost inflation and transfer pricing remain widespread. Given the growing number of alternatives, it's not surprising that investors have turned away from steel and related sectors.

The steel industry's performance has been disorientingly volatile this year. The sector contracted by 1.6% yoy in January-April, when prices were low and production was curtailed by severe cold and limited gas supplies. Then prices shot up and the sector's monthly yoy growth rates surged to 18.9%-21.9% in June-August, but 1H results were still weak. Then prices softened and by November the monthly yoy output growth was a still strong but less spectacular 8.9%.

Looked at over a longer time frame, metallurgy has been a very successful and profitable business, and we are confident it will remain so in 2007 despite worries about where global growth is going. Growth in metallurgy sector earnings (pre-tax) accelerated in September to a remarkable 179% yoy, according to Statistics Committee data, after adjusting for inflation. Sector earnings ended 9M06 up 12% yoy in real terms, with 102% yoy growth in May-September overcoming a 53% yoy contraction in January-April.

Mittal Steel Kryvy Rig (KSTL), one of our top picks, will be in the limelight in the weeks ahead as the State Property Fund finishes selling 1.3% of its shares in four separate auctions. Mittal's price dipped after the first two auctions on Nov. 22 and Dec. 1, but we see strong upside, as KSTL's small free float, which had been its main drawback, will almost triple. KSTL was the only major metallurgy stock to keep up with the market's growth, as Mittal did more than promise better governance. KSTL has sharply increased margins mainly by slashing costs, which were presumably exaggerated by the previous management (see our note on KSTL of Nov. 21).

Another of our top picks is Alchevsk Iron and Steel (ALMK), which is showing signs of becoming more liquid (see page 12). Azovstal (AZST) and Mariupol Illicha (MMKI) are attractive as longer-term bets, as their upside owes in part to their potential to improve transparency. We also like Yenakievo Steel (ENMZ) as a high-risk speculative buy: it is cheap but there is a risk of it being consolidated on unfavorable terms with a closely related private company, Metalen.

The price of Zaporizhstal (ZPST) DRs listed on the Deutsche Börse has fluctuated as the dispute over its consolidation plan makes its way through the courts. BUT ZPST is still deeply discounted compared to its peers, and its PFTS listing and our coverage are still suspended.

Ore and Coke

Undervalued Avdiyivka and Pivdenny

	Stock	Upside	P/E (2006E)	EV/S (2006E)	MCap (USD mln)	Change, Aug 1-Dec 8
Ore	PGZK	+51%	110.4	0.91	199	+35%
	PGOK	-13%	34.9	3.09	1173	+1%
Coke	YASK	+5%	10.5	0.53	79	+6%
	ZACO	+164%	6.6	0.39	128	-13%
	AVDK	+156%	24.8	1.22	362	-36%
	DKOK	+28%	neg	0.37	16	-52%

Source: PFTS, Concorde Capital estimate *Note: Prices as of Dec. 8 close*

Iron ore mining output growth accelerated in September-October, even as metallurgy output growth slowed. **We think Pivdenny Iron Ore (PGZK) is undervalued** especially in light of its niche market in sinter (please see our Iron Ore Update of Nov. 23). Pivdenny's price has adjusted to an in-progress share issue, which if included would put its MCap at USD 596 mln (at Dec. 8 close).

Among coke makers, we continue to recommend Avdiyivka Coke (AVDK), unloved as it has been by the market. As the biggest coke maker in Europe, AVDK is sure to be a central component of the SCM group's planned IPO of its metallurgy assets. AVDK is clearly favored by SCM over Donetsk Coke (DKOK). We also like ZaporizhCoke (ZACO), which recovered after a dilutive consolidation plan was cancelled, but still has a lot of upside.

Other sectors

Renewed Hope for Ukrtelecom Privatization

	Stock	Upside	P/E (2006E)	EV/S (2006E)	MCap (USD mln)	Change, Aug-Nov
Machinery	MSICH	+46%	14.2	0.86	163	+27%
	SMASH	N/R	24.1	0.83	236	-3%
	MZVM	+34%	693.2	0.40	139	-14%
	LTPL	+16%	473.2	1.16	95	-14%
Other	UNAF	-9%	7.8	2.02	3342	+4%
	UTEL	+44%	47.2	2.79	3320	-6%
	STIR	-14%	6.1	0.58	392	-7%

Source: PFTS, Concorde Capital estimate *Note: Prices as of Dec. 8 close*

The three majority-state-owned companies that dominate Ukraine's oil, fixed-line telecoms and rail locomotive industries have all suffered from either too little or too much political attention. At Ukrnafta (UNAF), the government is seeking to increase its influence over management. Luhanskteplovoz (LTPL) was bid up ahead of a planned Oct. 3 privatization tender and then fell when the tender was cancelled. Its future remains unclear.

We expect interest in Ukrtelecom (UTEL) to be boosted by renewed movement towards privatization and deregulation of its long-distance tariffs, which will help it stem loss of market share to mobile operators. UTEL's price suffered as the government kept quiet about privatization, but Ukrtelecom was recently added to the 2007 privatization schedule. A UTEL sale looks like the only way the government can meet its target of USD 2 bln of privatization revenues.

Among machine builders, Motor Sich (MSICH) was the only strong performer, with interest driven by its talk of either joining a Russian aviation group or launching an IPO. Mariupol Heavy Machinery (MZVM) is attractively priced after being marked down because of its slow progress on transparency. The nitrogen fertilizer producer Stirol (STIR) is facing a tough adjustment to the next gas price increase.

The Illiquid Segment

The 'Most Likely to Graduate'

Some of the best investment opportunities in Ukraine are in the stock market's illiquid segment. Investors willing to commit long-term and accept penalties for hurried exits are amply rewarded, assuming they pick the right companies. Stocks that gain currency and join the club of actively traded stocks often do so with strong bull runs.

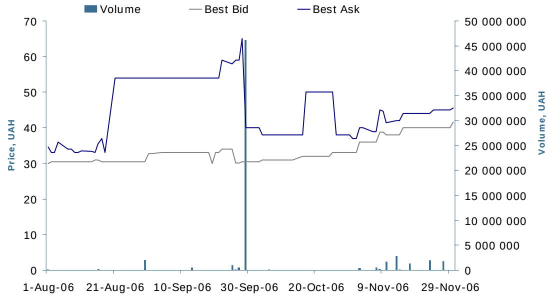
But picking the stocks that are likely to gain currency isn't as easy as it used to be. There are many more new stocks being brought onto the market through private placements, and the discount for illiquid stocks is smaller.

So we have attempted to come up with an objective method of identifying which illiquid stocks are "most likely to graduate". The most obvious criteria are volumes, numbers of trades and spreads between bid and ask quotes. Besides the 40 stocks already reviewed, and four other relatively actively quoted stocks that we don't cover (DNSH, HANZ, LUAZ, MTBD), only five PFTS stocks had at least USD 400,000 of reported volume in August-November, at least 15 reported trades, and a bid-ask spread less than 30%. Keep in mind only about one-fifth of trades in PFTS stocks are reported.

Those criteria narrow down the field, but don't tell the full story. Some stocks' trading volumes are exaggerated by "technical trades", in which non-market transactions are reported to the PFTS, sometimes with the intention of manipulating the market data. To get a better picture of whether a stock is really tradable, it helps to look at charts of their bid-ask quote movements and volumes. Stocks that are being traded have finer and smoother quote movements and more stable volumes. Here are graphs for the five stocks that met our other criteria.

Koryukivka Paper (KFTP)

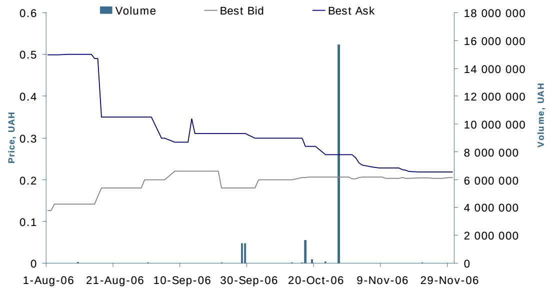
Reported volume: USD 12.1 mln. Reported trades: 38



Source: PFTS

Alchevsk Iron and Steel (ALMK)

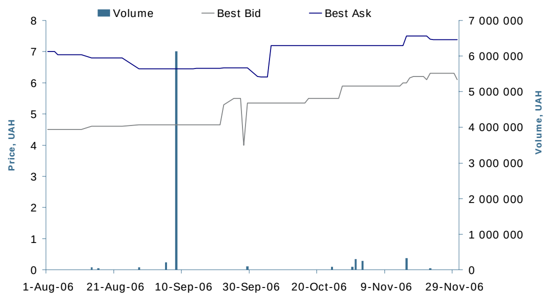
Reported volume: USD 4.1 mln, Reported trades: 18



Source: PFTS

Donetskoblenergo (DOON)

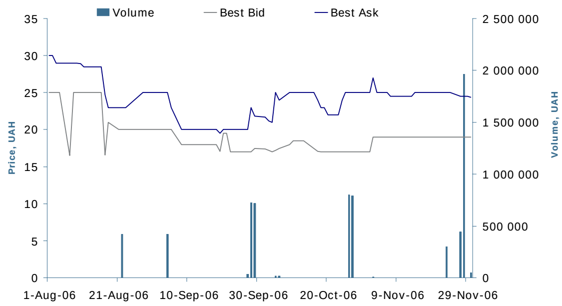
Reported volume: USD 1.6 mln, Reported trades: 19



Source: PFTS

Kremenchug Wheel (KKOL)

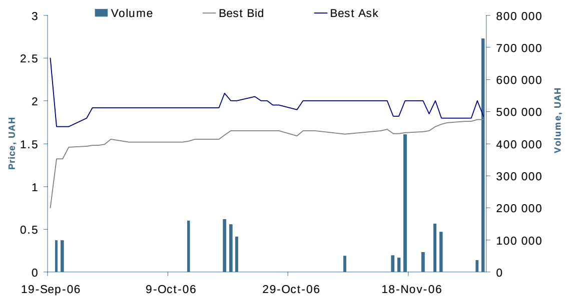
Reported volume: USD 1.3 mln, Reported trades: 16



Source: PFTS

Krasnoarmiyska-Zakhidna Coal Mine (SHCHZ)

Reported volume: USD 0.5 mln, Reported trades: 25



Source: PFTS

Among these, the newest stock, **Krasnoarmiyska Zakhidna Coal Mine (SHCHZ) looks the best,** as its quote movements were smooth, its spread narrowed since listing in mid-September, and its volumes were fairly evenly spread.

Alchevsk Iron and Steel (ALMK) also looks relatively good: its smooth quote movements and narrowing spread shows there is definite interest, but most of its reported volume was on one day. KFTP had erratic volumes and quote movements, DOON had erratic volumes and a persistent wide spread, and KKOL's spread widened.

Trading Volumes

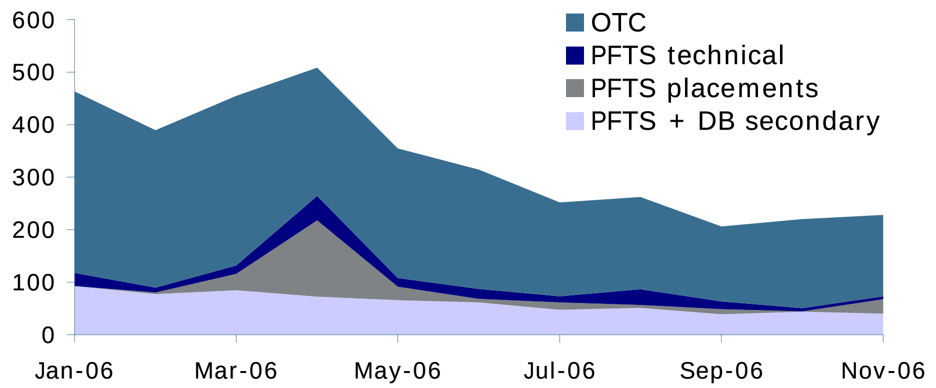
Volumes Still Below Spring Peak

Tracking changes in the trading volume of PFTS-listed stocks is a tricky matter as most trades are OTC and thus not publicly reported. We estimate that about 20% of secondary trades are reported either to the PFTS or the Deutsche Börse, the two main trading platforms.

Reported trading data is still useful for statistical purposes. A 20% sample provides a pretty good gauge of what a complete set of data would look like, as long as one keeps in mind the scope for error. But there are several other complexities which have to be taken into account. PFTS trading data includes private placements, which are a very different animal from secondary trades. Also, some of the trades reported to the PFTS are "technical trades" – non-market transactions between related parties in which control over shares does not really change hands.

The chart below shows estimates of total trading volumes including placements. We believe volumes averaged above USD 400 mln per month in January-April and peaked above USD 500 mln in April before the sell-off of May-June, after which volumes have fallen to around USD 220 mln monthly. Note that the estimated total volume excludes technical trades.

Estimated monthly volumes of PFTS-listed stocks, USD mln



Source: PFTS, Concorde Capital estimates

PFTS Cleans Up Reporting (Partly)

In an effort to combat technical trades, the PFTS on Sept. 11 banned reporting of trades involving less than one PFTS member. The rule is part of the PFTS's efforts to transform from an electronic trading system to a full stock exchange.

Our analysis of PFTS data found the rule had some success. Since the rule change, there have been no large trades of investment funds or of "non-market" stocks – those which are of no interest to portfolio investors, in which any reported trading is presumably technical trading. Technical trades were most evident in August, when four of the six most-traded stocks according to PFTS data were "non-market" stocks (KOGM, KOIM, CMKH and SPPS).

Technical trades of illiquid stocks are still fairly common, but not on a scale that could distort the apparent trend in overall PFTS trading volumes.

Note: We estimated technical trades as all trading in investment funds and stocks which we believe are not used for portfolio investment; 90% of reported trading in illiquid stocks during months in which their volumes were anomalously high (more than 1.5m UAH); and 20% of reported trading in stocks with less than 1.5m UAH of volume in the month.

Economy

Growth Accelerates

Recent macroeconomic data have brought some pleasant and unpleasant surprises, but the overall impression is still of a strongly growing economy that will be able to absorb the next gas import price increase in January.

GDP growth accelerated in October to 9.0% yoy, well up from the 7.1% yoy growth in August and nearly matching the peak monthly yoy rate of 9.3% recorded in June. June's high growth owed to the 2Q surge in steel prices, while the slowdown in August was due mainly to a relatively poor harvest. Steel export prices softened in September-October, and metallurgy output growth decelerated, so the rebound of GDP growth is a pleasant surprise.

Growth in fixed capital investment accelerated in the third quarter, reaching 16.1% yoy in 9M06 after a 12.2% yoy increase in 6M06. Industrial investment picked up, from 11.0% yoy in 6M06 to 11.9% yoy in 9M06, but the sectors that saw the most increased investment were telecommunications (mostly cellular), wholesale and retail trade, and real estate. The average price of Kiev apartments reached USD 3013 per square meter in November, up 64% ytd, according to the agency Blagovest.

Corporate earnings in September were up 84% yoy in real terms, continuing their steady acceleration. In May-September, earnings (net income before taxes) were up 41% yoy, led not surprisingly by metallurgy, which increased earnings by 102% yoy during the period. That was a sharp reversal from 4M06, when corporate earnings were down 40% yoy and metallurgy earnings were down 53% yoy. A harsh winter, gas supply problems and lower global demand for steel were the main culprits for the 4M06 weakness. For 9M06, earnings were up only slightly, by 4.7% yoy.

The financial sector has emerged as the highest-earning major sector, making 18.7% of total 9M06 earnings versus metallurgy's 18.4%. Financial sector earnings are growing steadily, by 51% yoy in 4M06 and 46% yoy in 9M06.

Inflation cooled slightly to 1.8% mom in November, after 2.6% mom inflation in October and 2.0% mom in September. Cumulative 11M06 inflation came to 10.6%, after a relatively modest 3.8% in 8M06. The three months of high inflation were driven partly by the monetary expansion that occurs when foreign currency flows into an economy with a fixed exchange rate, partly by utilities price increases, post-harvest food price increases, a weak harvest, and rising property values.

The NBU's FX reserves reached USD 21.2 bln at end-November, up USD 1.7 bln, mainly as a result of a USD 1 bln Eurobond issue and the falling dollar. However, despite the bond issue, apparent foreign currency inflows were down. The cash FX market bought USD 436m net in November (down from USD 454m in October), while the NBU bought USD 227m (down from USD 363m). Growth in the monetary base slowed, to 0.2% mom in November from 3.5% mom in October.

Net new FDI came to USD 3.5 bln in 9M06, 5.1% of the period's GDP. We are confident that 3Q06 balance of payments data due out later this month will show the current account in surplus since mid-year. The gas price increase will subtract about USD 160-175 mln/month from net currency inflows in 2007. Unless there is a slowdown of investment or a fall in exports, which we doubt, that should leave a small net positive inflow.

The downward pressure on the hryvnya after the previous gas price increase was caused by large purchases of dollars by the population, who were unnerved by the gas dispute with Russia and the election campaign. Out of USD 2.1 bln of reserves sold by the NBU in 4M06, the cash market bought USD 1.9 bln.

Politics

Yanukovich's East-West Balance

Political developments since the appointment of the Cabinet in August have been mostly as expected. The alliance between the prime minister, Viktor Yanukovich, and the president, Viktor Yushchenko, has proved to be rocky, and they clash as often as they cooperate. The four parties that formed the Cabinet in August fell out with each other almost immediately: Yanukovich's Regions party sided with its leftist allies, the Socialists and Communists, while pro-presidential, center-right Our Ukraine went into opposition and withdrew its ministers from the Cabinet.

Yanukovich and his government have not lived up to their tax-cutting, belt-tightening rhetoric. The 2007 budget adopted by parliament on Dec. 6 has 18.4% more income than the 2006 budget and 17.7% more spending. Using our forecast of 6.5% GDP growth and 9% inflation in 2007, the ratio of central government spending versus GDP would increase in 2007 by just over 1%.

The government has placed former managers from its main business backer, Regions MP Rinat Akhmetov's System Capital Management group, in charge of state-owned companies and regulatory bodies. Russia has been somewhat gentler on gas prices than it would have been with a less Russia-friendly Cabinet, but we are still looking at a 37% gas import price increase in January.

None of that comes at all unexpected. However, we have been pleasantly surprised at Yanukovich's foreign policy, which has been much more balanced than we predicted, given his pro-Russian background. When he was last prime minister and while he was in opposition, Yanukovich resisted WTO accession and was explicitly noncommittal on EU accession. Since his appointment in August, he has consistently championed pro-western causes including immediate accession to the WTO and long-term accession to the EU.

At the same time, Yanukovich has greatly improved relations with Russia, which is not a simple thing for a Ukrainian leader to do, given Vladimir Putin's explicit strategy of re-establishing Russian dominance within the CIS. Putin and the Russian establishment are in general very happy to again have a close ally in power in Ukraine, but so far there is not all that much they could say they have gained from it. One was Yanukovich's choice of energy minister, Yury Boiko, who is very pro-Russian and close to Moscow-based business groups.

Although Yanukovich denies it, there appears to be some kind of unannounced agreement between Yanukovich and Putin that Gazprom will get an increasing role in Ukraine's oil and gas sector. Among the recent appointees to Ukrnafta's board is one Yury Borysov, a long-time manager of Dmytro Firtash's companies in Ukraine. Firtash, a Moscow-based Ukrainian, is Gazprom's partner in RosUkrEnergo, the company that supplies Ukraine's gas imports.

On the other hand, Russia has turned almost silent on the issue of the Common Economic Area, the economic bloc that Putin proposed in 2003 in what was in part an attempt to dissuade Ukraine from seeking closer ties with the EU. That project appears to be dying.

Cabinet Reshuffle: Lots of Drama, Little Change

The break-up of the Blue-Orange coalition, Our Ukraine's departure to the opposition and the Cabinet changes that have followed were not as important as the media made them out to be. The Cabinet formed in August was dominated by Viktor Yanukovich and his Regions party and that hasn't changed. The stability of Yanukovich's majority owes to his alliance with the Socialists and Communists, who are very unlikely to quit. Polls show they would likely not be returned to parliament if new elections were held. Technically, Our Ukraine was never part of Yanukovich's coalition – the party received six ministries on the basis of a tentative agreement that it would join.

The long, drawn out reshuffle in the wake of Our Ukraine's decision has finally, almost, finished. Five of the six ministers that were allotted to Our Ukraine in August have either resigned or been sacked, and one, the health minister, has quit the party to keep his job. The Emergencies Ministry is still vacant. The replacments are:

- Interior: Vasyl Tsushko, Socialist party. He is a wine businessman from southern Ukraine, not allied to any big business group. He was governor of the Odessa region last year, and this year played an important role in forming the Socialist party's alliance with the Regions party.
- Justice: Olexander Lavrynovych, non-partisan. He held the same job in Yanukovich's previous Cabinet in 2002-2004. Previously he was involved in the nationalist Rukh party.
- Youth, Family and Sport: Viktor Korzh, Regions.
- Culture: Yury Bohutsky, served in Yanukovich's 2002-2004 government.

The most important outcome is that the potentially very powerful Interior Ministry has stayed out of the hands of the Regions party. A balance of powers has been preserved.

Yanukovich is also putting pressure on Yushchenko to replace the foreign minister, Borys Tarasyuk, who clashes with Yanukovich constantly. The foreign and defense ministers, unlike other ministers, are nominated by the president. Parliament voted to dismiss Tarasyuk but Yushchenko can keep him on as acting minister indefinitely. This dispute could go to the Constitutional Court.

Another result of the coalition break-up is that Yushchenko has re-established leadership of Our Ukraine. Yushchenko had been pushing for the party to join Yanukovich's coalition and stay in the Cabinet, but most of the party's MPs and the vast majority of party officials preferred to be in the opposition, which is much more popular with the party's electorate. Petro Poroshenko, the party's main business backer, waged a behind-the-scenes battle to take control of the party away from Yushchenko by waving the opposition flag. But after it became clear there was no way to reverse Our Ukraine's move into the opposition, the party rank and file came back to Yushchenko. His chief of staff, Viktor Baloha, is also now party leader.

Our Ukraine looks like it will take the role of "soft opposition", cooperating very actively with Regions on legislation.

Yulia Tymoshenko is seen as well positioned to win the presidency in three years, which is a short or long time depending on your outlook. She is gaining support from other "Orange" politicians, including Viktor Pynzenyk, the former finance minister, and Mykola Katerynchuk, one of Our Ukraine's more popular leaders, who recently quit. But she is losing support from the big businessmen who backed her last campaign, including recently Vasyl Khmelnytsky, whose group owns the main minority stake in Kievenergo.

An emerging centrist group of businessmen who were elected to parliament as Tymoshenko bloc MPs could play an important role in future coalition politics. With their support, Regions came close to claiming the Interior Ministry.

Ukrainian 'Bipartisanism'

As the Blue-Orange coalition whimpered to its demise, a much more practical form of cooperation between the two camps was emerging. In the US it would be called bipartisanism. While clearly defining themselves as the opposition, Our Ukraine and the Tymoshenko bloc have been voting together with the governing coalition on important bills, notably including those needed to join the WTO (see page 4), but also many others. This is how things ought to work in a democratic system in which two camps have roughly equal support.

Ukrainian politics is developing into something like a two-party system. Instead of two parties, there are two electoral groups, still usually called Blue and Orange after Yanukovich's and Yushchenko's 2004 presidential election campaign colors. But the divide is deeply rooted in centuries of history. It will almost certainly outlast all of us.

On one hand, the polarized electorates make cooperation tricky. Politicians who switch camps or merely get too friendly with the other side stand little chance of being re-elected – according to polls, Yushchenko, Our Ukraine and the Socialists are all doomed in the next round of elections. On the other hand, the political system pushes the two camps to cooperate. It is inherently difficult for either side to win and hold on to both the presidency and parliament.

In this situation, developing a tradition of "cross-aisle" cooperation, in which neither side has to sacrifice its loyalty to its electorate, is the best solution.

Unless the constitution is changed again, the next round of elections is likely to produce a very similar division of forces. The president in 2010-2014 will probably be either Yulia Tymoshenko or Yanukovich, and their parties will probably be the largest in the 2011-2015 parliament. In the longer run, the names will change, each of the camps will be in and out of power, but the rough breakdown of political forces will be fairly stable.

Empty Talk of Changing the Constitution

There is a lot of talk of changing the constitution. Yushchenko recently suggested holding a referendum, where he would presumably ask for support for a stronger presidency. Yanukovich's coalition wants to weaken the presidency further by making regional governors elected. But any referendum would be non-binding, as only a two-thirds majority of parliament can amend the constitution. That looks very unlikely to happen with this parliament.

Also, Our Ukraine and Tymoshenko are talking about filing a complaint to the Constitutional Court asking it to cancel the recent changes to the constitution. That would mean a return to a strong presidency, a Yushchenko-dominated government for three years, and then a winner-takes-all presidential battle.

But this talk looks like an empty bluff. Any complaint would have to claim that the constitution's requirements for amendments weren't met. Amendments must be approved by a majority of parliament, cleared by the Constitutional Court, and adopted by two thirds of parliament at its next regular session. Those steps were clearly met. No one has yet seen any written complaint.

The court appears to be stacked against Our Ukraine. The court's 18 judges are appointed six each by the president, parliament and a group of the country's top judges. Four were chosen by Yushchenko or his allies; eight by Yanukovich, former president Leonid Kuchma or their allies; and six by the judges.

Ironically, many of the Our Ukraine MPs who say they support the appeal voted for the constitutional changes when they were adopted in December 2004.

Watch List

Dec. 12	3rd Mittal Steel Kryvy Rig (KSTL) Share Auction, 0.33% stake Federal Reserve Board Meeting
Dec. 13	Volynoblenergo (VOEN) AGM
Dec. 14	Dniprospetstal (DNSS) AGM
Dec. 17	Retail Group (RTGR) AGM
Dec. 18	Government Bond Auction
Dec. 19	Kharkivoblenergo (HAON) AGM
Dec. 20	4th Mittal Steel Kryvy Rig (KSTL) Share Auction, 0.33% stake Chernivtsyoblenergo (CHEN) AGM
Dec. 21	Zakhidenergo (ZAEN) AGM
Dec. 22	Putin Ukraine Visit Bank Forum (FORM) AGM, initiation of share issue Lutsk Automobile (LuAZ) AGM Alchevsk Coke (ALKZ) AGM
Dec. 23	Khartsyzsk Pipe (HRTR) AGM
Dec. 26	Osnova Holding (retailer and wholesaler) AGM Ukrgazbank (UGZB) AGM

Recent Research

Naftogaz Corporate Eurobond Alert	7 Dec 2006	*V.Nesterenko, O.Klymchuk*
MZVM & AZGM Note	6 Dec 2006	*O.Pankiv*
Poltava Iron Ore (PGOK) Note	4 Dec 2006	*E.Cherviachenko*
Pipes Update	29 Nov 2006	*A.Gostik*
GenCos Note	28 Nov 2006	*A.Paraschiy*
Iron Ore Update	23 Nov 2006	*E.Cherviachenko*
Mittal Steel Kryvy Rig (KSTL) Note	21 Nov 2006	*A.Gostik*
GenCos Update	15 Nov 2006	*A.Paraschiy*
Galnaftogaz (GLNG) Update	10 Nov 2006	*V.Nesterenko*
Fixed Income Initiating	6 Nov 2006	*O.Klymchuk*
Nitrogen Fertilizers Update	31 Oct 2006	*V.Nesterenko*
Raiffeisen Bank Aval (BAVL) Note	24 Oct 2006	*A.Viktorov*

Trading Information (Dec. 8 close)

	PFTS	XETRA	Rec'	Upside	Target USD	Mid, USD Local	Mid, USD DR	Price Impact	MCap USD mln	EV USD mln	FF %	FF USD mn
STEEL												
Alchevsk Iron & Steel	ALMK		BUY	66%	$0.07	$0.04		3	453.6	653.6	5%	22.7
Azovstal	AZST	DZ8	BUY	53%	$0.51	$0.33	$3.75	2	1 870.2	1 955.2	2%	31.8
DniproSpetsStal	DNSS		BUY	19%	$210.0	$176.53		3	189.8	240.8	6%	11.0
Donetsk Metal Plant	DOMZ	D2K	SELL	-11%	$0.10	$0.11	$11.83	3	40.5	45.5	30%	12.2
Donetsk Metal Rolling	DMPZ		HOLD	12%	$0.03	$0.03		3	26.0	27.0	7%	1.9
Mariupol Illicha	MMKI	IWD	BUY	38%	$0.65	$0.47	$9.20	2	1 575.6	1 425.6	2%	31.5
Mittal Steel Kryviy Rig	KSTL		BUY	44%	$1.22	$0.85		2	3 271.0	3 221.0	4%	140.7
Zaporizhstal	ZPST	UWP	SUSP		Susp	Tr Susp	$8.87	2	n/a	n/a	4%	n/a
MINING & COKE												
Alchevsk Coke	ALKZ		SELL	-6%	$0.05	$0.05		3	161.0	253.3	2%	3.2
Avdiyivka Coke	AVDK		BUY	140%	$4.79	$2.00		2	387.2	633.9	3%	12.4
Bagliy Coke	BKOK		SELL	36%	$0.12	$0.09		3	82.4	87.5	6%	4.9
Chervonarm. Zahidna	SHCHZ		BUY	76%	$0.60	$0.34		3	289.0	288.8	2%	6.1
Donetsk Coke	DKOK	D6N	SELL	-40%	$0.08	$0.13	$1.31	3	33.3	34.3	8%	2.6
Komsomolets Donbasa	SHKD		BUY	55%	$0.30	$0.19		3	64.7	64.1	3%	1.6
Pivdenny Iron Ore	PGZK		BUY	67%	$0.14	$0.08		3	179.3	267.3	8%	13.5
Poltavsky Iron Ore	PGOK	UVT	HOLD	-14%	$8.80	$10.22	$9.53	2	1 179.1	1 400.3	4%	47.2
Sukha Balka	SUBA	S6D1	BUY	113%	$0.19	$0.09	$0.55	3	74.6	86.9	3%	2.5
Yasinivsky Coke	YASK		HOLD	-4%	$0.30	$0.31		2	85.6	97.5	9%	7.7
ZaporizhCoke	ZACO		BUY	146%	$2.47	$1.00		2	119.9	135.6	7%	8.6
PIPES												
Dnipropetrovsk Pipe	DTRZ		BUY	13%	$118.90	$104.95		2	110.8	123.0	25%	27.5
Khartsyzk Tube	HRTR	LBY	BUY	11%	$0.33	$0.30	$13.80	2	754.5	769.6	2%	15.1
Kominmet	DMZK		HOLD	11%	$0.18	$0.16		3	16.8	18.7	20%	3.3
Novomoskovsk Pipe	NVTR		BUY	1%	$10.12	$9.98		2	119.8	121.3	14%	16.2
Nyzhnyodniprovsky Pipe	NITR	NYZ	BUY	24%	$21.88	$17.58	$82.43	2	947.5	1 121.3	9%	88.5
FERROALLOYS												
Nikopol Ferroalloy	NFER	N4AA	N/R		N/R	$1.04	$38.13	2	315.6	319.6	2%	6.3
Stakhanov Ferroalloy	SFER	SSZ1	BUY	68%	$0.007	$0.00	$0.53	2	60.0	101.2	2%	1.2
Zaporizhzhya Ferroalloy	ZFER	ZL3	BUY	121%	$0.16	$0.07	$11.18	3	164.8	213.8	8%	13.2
NON-FERROUS METALS												
Zaporizhzhya Aluminum	ZALK		HOLD	42%	$0.19	$0.13		2	83.2	139.3	3%	2.5
OIL & GAS												
Galnaftogaz	GLNG	C9Z	HOLD	9%	$0.01	$0.01	$4.73	2	160.8	244.9	23%	37.6
Galychyna Refinery	HANZ		N/R		N/R	$0.20		3	244.7	267.3	2%	4.9
Ukrnafta	UNAF	UKAA	SELL	-9%	$56.00	$61.63	$346.44	1	3 342.3	3 443.9	8%	267.4
CHEMICALS												
Azot Cherkasy	AZOT	A9T	SUSP		Susp	$1.74	$63.11	2	216.6	236.2	2%	5.2
Chernigiv Chimvolokno	CHIM		BUY	-34%	$0.1086	$0.16		3	112.1	142.5	12%	13.5
DniproAzot	DNAZ	UZB	SELL	-22%	$0.003	$0.00	$0.11	3	135.8	162.0	10%	13.6
Stirol	STIR	SVX	SELL	-14%	$12.50	$14.51	$13.28	1	393.6	282.0	6%	23.6
UTILITIES: GenCos												
Centrenergo	CEEN	DBG	HOLD	-13%	$1.06	$1.23	$9.73	2	452.6	575.0	13%	57.5
Dniproenergo	DNEN	DPG	BUY	9%	$131.3	$120.71	$24.98	2	473.7	531.3	24%	113.7
Donbasenergo	DOEN		BUY	14%	$9.60	$8.45		2	199.7	255.7	14%	28.4
Kievenergo	KIEN		BUY	12%	$1.74	$1.55		2	167.9	253.6	9%	15.1
Zakhidenergo	ZAEN	WT7	HOLD	-26%	$35.40	$48.03	$11.18	1	614.3	669.4	30%	183.7
UTILITIES: Oblenergos												
Dniprooblenergo	DNON		U/R		U/R	$51.34		3	307.6	307.6	9%	28.0
Khmelnitskoblenergo	HMON	KF3A	U/R		U/R	$0.38	$23.01	3	50.6	51.2	11%	5.7
Krymenergo	KREN		U/R		U/R	$0.51		3	87.5	88.4	18%	16.1
Prykarpatoblenergo	PREN		U/R		U/R	$0.37		3	38.5	42.0	14%	5.2
Ternopiloblenergo	TOEN		U/R		U/R	$0.31		3	19.1	20.2	9%	1.7
Zaporizhiaoblenergo	ZAON		U/R		U/R	$1.17		3	209.5	209.3	11%	22.8
Zhytomyroblenergo	ZHEN		U/R		U/R	$0.77		3	94.4	94.5	8%	7.9
UTILITIES: GasCos												
DonetskOblGaz	DOOG*		BUY	49%	$0.05	$0.04		3	24.4	22.6	40%	9.7
ZhytomyrGaz	ZHGZ	W8P1	BUY	124%	$111.80	$50.00		3	8.0	9.2	11%	0.9
TELECOM												
Odesa Cable	OCAB		N/R		N/R	$0.93		2	52.1	59.4	2%	1.0
Ukrtelecom	UTEL	UK1	BUY	44%	$0.26	$0.18	$8.22	2	3 326.2	3 616.2	3%	99.8
BANKING												
Aval	BAVL		BUY	12%	$0.12	$0.11		2	2 252.7		7%	146.4
Forum	FORM	B5F	U/R		U/R	$8.22	$0.55	2	509.5		10%	51.0
Megabank	MEGA		N/R		N/R	$1.29		2	148.0		20%	29.6
Rodovid Bank	RODB		N/R		N/R	$301.98		2	280.7		15%	42.1
Ukrsotsbank	USCB		BUY	18%	$0.45	$0.38		2	1 454.1		5%	70.7
MACHINE BUILDING												
AvtoKrAZ	KRAZ	A6X1	HOLD	36%	$0.11	$0.08	$13.15	3	180.3	238.3	7%	12.6
Donetskgirmash	DGRM		BUY	155%	$0.77	$0.30		3	13.7	31.7	20%	2.7
Druzhkivsky m-build	DRMZ		BUY	70%	$0.48	$0.28		3	58.6	68.7	12%	7.0
Kryukiv Wagon	KVBZ		N/R		N/R	$1.69		3	194.2	184.3	2%	3.9
Luganskteplovoz	LTPL		HOLD	15%	$0.50	$0.43		3	95.3	110.5	24%	22.9
Maruipol Heavy Machinery	MZVM	M9X	BUY	34%	$12.10	$9.01	$11.83	2	138.6	200.2	7%	9.0
Motor Sich	MSICH		BUY	46%	$115.00	$79.01		2	164.2	205.9	5%	8.2
Stakhanovsky Wagon	SVGZ		BUY	219%	$80.50	$25.25		3	29.0	45.9	6%	1.7
Sumy Frunze	SMASH	M9Y1	U/R		U/R	$3.29	$71.00	2	233.7	256.6	25%	58.4
Svitlo Shakhtarya	HMBZ		U/R		Susp	$0.25		3	85.3	73.6	25%	21.3
Turboatom	TATM		U/R		Pend'g	$0.38		2	162.3	138.5	6%	8.9
Yasynuvatsky m-build	YAMZ	WPB1	BUY	81%	$3.10	$1.71	$19.72	3	39.0	34.4	24%	9.4
Zaporizhtransformator	ZATR		N/R		N/R	$0.10		2	229.8	260.5	1%	2.3
OTHER												
Gostomel Glass	GSKZ		BUY	35%	$2.60	$1.93		2	85.5	120.0	25%	21.4

	Sales 06E	Sales 07E	EBITDA 06E	EBITDA 07E	Net Income 06E	Net Income 07E	Book Value 06E	Book Value 07E	EV/Sales 06E	EV/Sales 07E	EV/EBITDA 06E	EV/EBITDA 07E	P/E 06E	P/E 07E	P/CF 06E	P/CF 07E	P/B 06E	P/B 07E	ROE, % 06E	ROE, % 07E
STEEL																				
Alchevsk Iron & Steel	1 161.5	1 277.6	127.8	153.3	46.5	76.7	204.1	280.8	0.56	0.51	5.1	4.26	9.8	5.9	4.4	6.4	2.2	1.6	29.5	37.6
Azovstal	2 220.5	2 398.1	226.6	287.8	183.0	215.8	1 370.1	1 586.0	0.88	0.82	8.6	6.79	10.2	8.7	7.9	6.9	1.4	1.2	15.4	15.8
DniproSpetsStal	430.0	510.0	35.0	54.4	16.0	30.7	134.7	147.0	0.56	0.47	6.9	4.43	11.9	6.2	7.9	4.9	1.4	1.3	14.3	22.8
Donetsk Metal Plant	190.0	170.0	5.0	4.0	1.0	1.0	83.6	84.6	0.24	0.27	9.1	11.38	40.5	40.5	19.6	19.6	0.5	0.5	1.2	1.2
Donetsk Metal Rolling	63.0	64.0	5.7	6.0	3.9	4.0	27.0	28.0	0.43	0.42	4.7	4.50	6.7	6.5	6.2	6.0	1.0	0.9	16.3	14.8
Mariupol Illicha	2 642.0	2 853.4	320.0	342.4	150.0	185.5	1 665.3	1 850.8	0.54	0.5	4.5	4.2	10.5	8.5	6.7	5.8	0.9	0.9	9.9	11.1
Mittal Steel Kryviy Rig	2 846.1	3 156.8	882.3	915.5	626.6	631.4	1 897.5	2 528.9	1.13	1.0	3.7	3.5	5.2	5.2	4.7	4.7	1.7	1.3	49.3	33.3
Zaporizhstal	1510.0	1585.0	220.0	206.1	110.0	122.1	998.0	1120.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	12.4	12.2
MINING & COKE																				
Alchevsk Coke	229.0	250.6	27.5	28.8	10.8	7.8	224.0	232.0	1.1	1.2	9.2	10.5	14.9	20.6	8.6	9.0	0.7	0.7	14.5	3.5
Avdiyivka Coke	498.9	540.7	62.4	70.3	14.6	25.6	593.4	619.0	1.3	1.1	10.2	8.7	26.5	15.1	12.7	9.3	0.7	0.6	2.5	4.3
Bagliy Coke	101.8	120.2	7.7	10.2	4.5	6.3	51.0	54.0	0.9	0.7	11.4	8.3	18.3	13.1	12.7	9.9	1.6	1.5	15.4	12.4
Chervonarm. Zahidna	302.1	332.3	120.8	132.9	60.4	66.5	312.4	378.9	0.96	0.9	2.4	2.2	4.8	4.3	3.2	3.0	0.9	0.8	24.0	21.3
Donetsk Coke	45.3	52.5	1.4	6.3	-0.7	3.1	78.0	81.1	0.76	0.6	24.5	5.1	neg	10.7	19.9	6.5	0.4	0.4	-0.9	4.0
Komsomolets Donbasa	103.6	119.2	17.7	23.8	5.2	9.5	40.2	49.7	0.62	0.5	3.6	2.7	12.4	6.8	7.7	3.8	1.0	1.0	2.8	23.6
Pivdenny Iron Ore	315.7	397.8	29.3	53.2	1.8	19.6	187.1	206.7	0.85	0.7	9.1	5.2	102.5	9.2	8.6	4.6	1.0	0.9	0.9	10.5
Poltavsky Iron Ore	451.7	564.8	97.9	133.6	33.6	52.3	300.1	352.4	3.10	2.6	14.3	11.0	35.1	22.5	21.9	15.1	3.9	3.3	12.6	17.4
Sukha Balka	71.2	71.9	11.7	13.5	5.2	6.7	72.9	79.6	1.22	1.2	7.5	6.2	14.3	11.1	9.1	7.6	1.0	0.9	7.6	9.2
Yasinivsky Coke	170.5	222.3	15.3	24.5	7.5	13.6	72.4	146.0	0.6	0.4	6.4	4.0	11.4	6.3	6.9	4.6	1.2	0.6	11.6	18.8
ZaporizhCoke	328.4	349.0	26.4	29.0	16.9	19.0	98.0	111.0	0.4	0.4	5.1	4.5	7.10	6.3	6.0	5.5	1.2	1.1	20.9	19.4
PIPES																				
Dnipropetrovsk Pipe	161.2	188.3	9.7	10.3	5.1	5.1	29.8	34.6	0.8	0.7	12.7	12.3	21.9	21.8	15.7	15.7	3.7	3.2	20.5	17.0
Khartsyzk Tube	528.9	650.4	127.2	150.0	81.5	97.4	171.4	218.2	1.5	1.2	6.0	5.1	9.3	7.7	8.4	7.2	4.4	3.5	72.8	56.8
Kominmet	87.4	97.2	1.1	6.9	-0.4	4.0	-6.4	-1.2	0.2	0.2	17.0	3.1	neg	4.2	28.1	3.4	N/M	N/M	6.6	-62.0
Novomoskovsk Pipe	153.1	153.3	9.2	14.2	4.1	8.3	46.0	48.9	0.8	0.8	13.2	8.6	29.0	14.4	18.3	11.2	2.6	2.4	9.8	18.1
Nyzhnyodniprovsky Pipe	734.1	831.7	185.8	210.5	113.9	124.8	221.3	281.2	1.5	1.4	6.0	5.4	8.32	7.6	7.7	7.0	4.3	3.4	38.0	56.4
FERROALLOYS																				
Nikopol Ferroalloy	495.0	n/a	10.0	n/a	2.0	n/a	121.3	n/a	0.6	n/a	32.0	n/a	157.8	n/a	32.0	n/a	2.6	n/a	1.7	n/a
Stakhanov Ferroalloy	127.7	150.0	10.3	21.0	1.1	9.0	21.2	27.0	0.4	0.3	9.8	4.7	54.5	6.7	12.8	4.8	0.5	0.4	5.5	42.4
Zaporizhzhya Ferroalloy	332.6	367.0	49.7	59.0	27.6	33.0	110.9	126.0	0.6	0.6	4.3	3.5	5.97	5.0	5.0	4.3	0.7	0.6	33.1	29.8
NON-FERROUS METALS																				
Zaporizhzhya Aluminum	300.3	303.3	52.2	52.9	27.4	30.1	105.8	135.9	0.5	0.4	2.7	2.2	3.03	2.8	2.5	2.3	0.8	0.6	34.5	28.4
OIL & GAS																				
Galnaftogaz	507.0	645.4	27.2	39.5	9.9	13.1	71.2	83.5	0.5	0.5	9.0	7.5	16.2	12.3	10.0	6.7	2.3	1.9	16.2	18.4
Galychyna Refinery	653.3	n/a	6.5	n/a	1.4	n/a	50.1	n/a	0.4	n/a	40.9	n/a	177.3	n/a	50.2	n/a	4.9	n/a	2.7	n/a
Ukrnafta	1701.9	2052.6	704.4	622.2	430.9	344.3	1191.7	1329.4	2.0	1.8	4.9	5.8	7.76	9.7	6.0	6.7	2.8	2.5	41.8	28.9
CHEMICALS																				
Azot Cherkasy	363.9	373.0	76.8	46.1	40.6	17.5	225.2	242.7	0.6	0.6	3.1	5.1	5.3	12.4	3.6	5.7	1.0	0.9	22.0	7.8
Chernigiv Chimvolokno	96.7	148.4	9.3	19.4	3.1	9.4	39.6	46.6	1.5	1.1	15.3	8.1	36.2	11.9	36.2	11.9	2.8	2.4	14.0	23.7
DniproAzot	204.4	200.4	41.5	15.5	25.8	6.3	274.6	280.9	0.8	0.8	3.9	10.4	5.3	21.5	4.3	11.0	0.5	0.5	10.4	2.3
Stirol	480.6	498.3	87.0	21.4	63.8	6.0	381.6	387.6	0.6	0.6	3.2	13.2	6.16	65.6	5.1	17.4	1.0	1.0	18.6	1.6
UTILITIES: GenCos																				
Centrenergo	563.0	612.0	46.8	57.5	9.7	12.6	423.8	447.7	0.8	0.7	12.3	10.3	46.7	35.9	11.0	10.3	1.1	1.0	2.4	10.3
Dniproenergo	585.3	665.0	61.5	70.1	17.2	20.1	86.9	112.2	0.8	0.7	8.6	7.7	27.5	23.6	9.8	9.1	5.5	4.2	25.0	23.1
Donbasenergo	255.0	290.0	15.9	25.5	-2.6	2.8	186.4	210.4	0.8	0.7	16.1	10.1	neg	71.3	9.7	7.7	1.1	0.9	-1.5	1.5
Kievenergo	412.8	439.9	35.9	40.9	15.5	17.7	198.9	225.1	0.4	0.4	7.1	6.6	10.8	9.5	6.4	5.9	0.8	0.7	9.7	8.9
Zakhidenergo	667.6	738.0	37.0	56.4	12.0	18.0	283.0	360.0	0.9	0.8	18.1	12.4	51.19	34.1	24.7	19.9	2.2	1.7	4.4	6.4
UTILITIES: Oblenergos																				
Dniprooblenergo	990.3	n/a	16.2	n/a	1.8	n/a	neg	n/a	0.3	n/a	19.0	n/a	170.9	n/a	21.6	n/a	N/M	n/a	neg	n/a
Khmelnitskoblenergo	70.4	n/a	4.9	n/a	1.1	n/a	54.9	n/a	0.7	n/a	10.5	n/a	46.0	n/a	14.1	n/a	0.9	n/a	2.0	n/a
Krymenergo	153.2	n/a	8.1	n/a	0.4	n/a	18.0	n/a	0.6	n/a	10.9	n/a	218.8	n/a	9.5	n/a	4.9	n/a	2.1	n/a
Prykarpatoblenergo	95.8	n/a	8.7	n/a	2.3	n/a	38.9	n/a	0.4	n/a	4.8	n/a	16.7	n/a	5.7	n/a	1.0	n/a	6.3	n/a
Ternopiloblenergo	38.8	n/a	4.1	n/a	1.0	n/a	14.6	n/a	0.5	n/a	4.9	n/a	19.1	n/a	5.0	n/a	1.3	n/a	6.8	n/a
Zaporizhiaoblenergo	386.7	n/a	4.7	n/a	1.2	n/a	18.9	n/a	0.5	n/a	44.5	n/a	174.6	n/a	27.6	n/a	11.1	n/a	5.5	n/a
Zhytomyroblenergo	80.3	n/a	10.6	n/a	4.1	n/a	51.2	n/a	1.2	n/a	8.9	n/a	23.03	n/a	11.2	n/a	1.8	n/a	8.5	n/a
UTILITIES: GasCos																				
DonetskOblGaz	82.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ZhytomyrGaz	53.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
TELECOM																				
Odesa Cable	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukrtelecom	1293.4	1231.2	294.0	204.4	70.3	-79.2	1629.7	1550.5	2.8	3.0	12.3	17.9	47.32	neg	13.1	n/a	2.0	2.1	4.5	-4.9
BANKING																				
Aval	440.4	649.8			76.2	131.3	450.7	635.8					29.6	17.2			5.0	3.5	21.1	24.2
Forum	61.9	103.3			6.7	12.2	164.5	210.6					76.0	41.8			3.1	2.4	5.5	6.5
Megabank	18.0	23.0			1.9	2.7	37.0	42.0					77.9	54.8			4.0	3.5	6.3	6.8
Rodovid Bank	22.0	29.0			4.0	4.3	40.0	45.0					82.6	65.3			7.0	6.2	8.5	9.6
Ukrsotsbank	243.7	n/a			43.4	n/a	293.6	n/a					32.60	n/a			4.8	n/a	17.9	n/a
MACHINE BUILDING																				
AvtoKrAZ	149.1	198.5	24.1	35.7	5.9	14.1	166.0	181.0	1.6	1.2	9.9	6.6	30.6	12.8	19.3	9.8	1.1	1.0	3.3	8.5
Donetskgirmash	47.1	n/a	4.3	n/a	2.0	n/a	12.5	n/a	0.7	n/a	7.4	n/a	6.9	n/a	3.8	n/a	1.1	n/a	19.0	n/a
Druzhkivsky m-build	118.3	n/a	11.2	n/a	3.2	n/a	37.8	n/a	0.6	n/a	6.1	n/a	18.3	n/a	7.9	n/a	1.5	n/a	9.2	n/a
Kryukiv Wagon	229.3	263.7	33.0	36.9	21.4	23.7	122.0	145.7	0.8	0.7	5.6	5.2	9.1	8.2	8.5	7.7	1.6	1.3	21.3	19.4
Luganskteplovoz	94.3	113.6	7.7	9.1	0.2	3.4	30.9	34.3	1.2	1.1	14.3	13.2	476.3	28.0	40.7	17.2	3.1	2.8	0.7	11.0
Maruipol Heavy Machinery	496.0	564.6	9.0	15.4	0.2	3.6	70.6	74.2	0.4	0.4	22.2	13.6	693.2	38.5	30.7	17.5	2.0	1.9	0.3	5.1
Motor Sich	239.5	n/a	43.1	n/a	11.5	n/a	276.7	n/a	0.9	n/a	4.8	n/a	14.3	n/a	5.4	n/a	0.6	n/a	4.3	n/a
Stakhanovsky Wagon	97.9	120.0	8.8	17.0	4.6	9.0	3.6	3.6	0.5	0.5	5.2	3.4	7.2	3.2	4.8	2.6	8.1	8.1	1666.7	250.0
Sumy Frunze	312.7	n/a	31.27	n/a	9.8	n/a	182.7	n/a	0.8	n/a	8.2	n/a	23.8	n/a	13.1	n/a	1.3	n/a	5.7	n/a
Svitlo Shakhtarya	40.0	n/a	10.0	n/a	7.2	n/a	53.1	n/a	1.8	n/a	6.8	n/a	11.9	n/a	9.0	n/a	1.6	n/a	15.7	n/a
Turboatom	61.0	n/a	10.98	n/a	5.5	n/a	157.4	n/a	2.3	n/a	12.6	n/a	29.6	n/a	20.0	n/a	1.0	n/a	3.6	n/a
Yasynuvatsky m-build	28.6	n/a	6.5	n/a	4.5	n/a	26.9	n/a	1.2	n/a	5.3	n/a	8.7	n/a	7.0	n/a	1.4	n/a	20.1	n/a
Zaporizhtransformator	150.0	n/a	13.5	n/a	9.8	n/a	48.2	n/a	1.7	n/a	19.3	n/a	23.45	n/a	19.7	n/a	4.8	n/a	25.5	n/a
OTHER																				
Gostomel Glass	52.5	57.0	17.3	18.8	7.3	6.5	42.8	49.3	2.3	2.6	6.9	7.7	11.71	13.2	6.9	6.8	2.0	1.7	22.5	15.2

EE Indices	Price	Daily	YTD	Commodities	USD
PFTS	463.7	-0.06%	34.2%	Oil (Brent)	62.6
MICEX	3 011.4	1.10%	64.4%	Steel (long)	445.0
RTS	1 846.1	0.16%	55.0%	Al (primary)	2 836.0
WSE	52 166.5	-0.33%	44.7%	Ammonia	275.0
ISE	39 300.3	-1.03%	-1.2%	Wheat	160.0

Note. **"Price impact" is opinion of Concorde's trading desk on stocks to he estimate reliability of quoted prices:** * unofficial ticker
1: Market price reaction remains within 10% in execution of a market order of about $10mn size
2: Market price reaction remains within 10% in execution of a market order of about $1mn size
3: All other stocks (quoted price is less reliable and should be considered indicative)

Concorde Rating Universe		
Buy	33	47%
Hold	10	14%
Sell	7	10%
Pending/Suspend	13	19%
Not rated	7	10%
Total	**70**	**100%**

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