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Ukrainian Equity Market Picks & Pans



January 2007

In a Nutshell

Our Top Picks

	12M Target, \$	Upside	YTD chg	MCap, \$ mln
ZFER	0.16	95%	24%	186.9
ZACO	2.47	94%	25%	146.5
AVDK	4.79	93%	41%	481.1
KIEN	4.00	67%	52%	248.4
DRMZ	0.48	67%	13%	59.6
MEGA	1.55	48%	-6%	120.8
SHKD	0.60	32%	53%	152.4
CHIM	0.11	29%	0%	58.3
MSICH	115.00	17%	14%	197.5
SHCHZ	0.80	14%	50%	594.0

Source: Concorde Capital, PFTS

Note: Upside to market price of a sizable block, as of January 23, 2007.

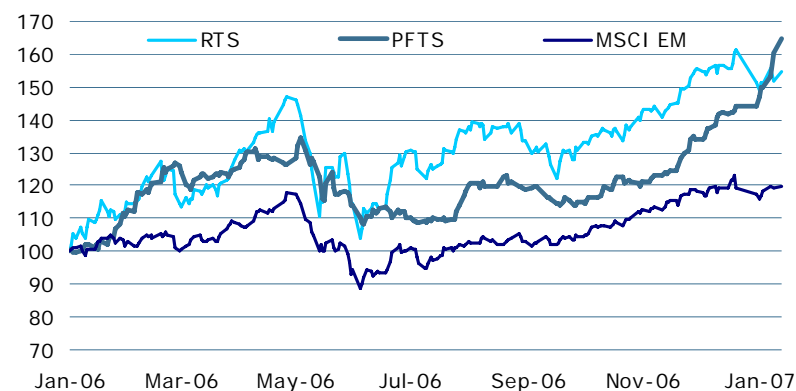
Ukrainian Market At A Glance

Investable Universe MCap	USD 46.6 bln
Free Float	USD 3.2 bln
PFTS avg daily trading volume	
2006	USD 4.7 mln
2007 YTD	USD 3.4 mln
PFTS-Index P/E	14.5
MSCI EM P/E	14.8

Source: PFTS, Concorde Capital, Bloomberg

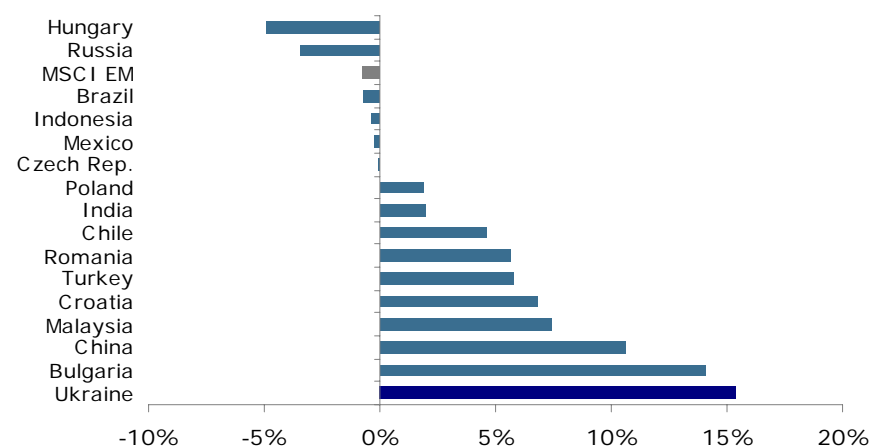
Note: Throughout this report, PFTS tickers are used to refer to stocks, see full company names in the Appendix

PFTS Relative Performance



Source: Bloomberg, PFTS

EM Equity Returns, 2007 YTD



Note: As of January 23, 2007

Source: Bloomberg

January 2007 - Sector Barometer

Steel	cautious	Many candidates for a correction: most stocks trade at or above their fair value.	Pipes	cautious	Valuations in the sector are becoming demanding and difficult to justify based on fundamentals. The market will be news-driven.
Coke	bullish	Unduly neglected. Hot money will look here for new investment opportunities. Carefully select from these stocks! AVDK, ZACO, YASK promise a respectable upside.	Coal	bullish	Long-term value. We expect privatization to bring more names to the market. The recent surge has not eaten away all of the upside.
Iron Ore	fair	Most of the interesting things have already happened. Awaiting positive news from PGOK about business consolidation or more disclosure. PGZK has a moderate upside.	Electricity	selective	Generation is getting overheated: spillover demand from Russia sent many Ukrainian stocks above their justified levels. KIEN promises a strong upside, even on top of the recent rally. Increasing liquidity in Oblenergos; careful stock picking required.
Ferroalloys	bullish	Bottom fishing spells Ferroalloys. Contrarians can benefit from strong economics, improving profitability, and an apparent end to corporate battles around NFER.	Chemicals	selective	Nitrogen-fertilizer stocks remain out of play due to the natural gas factor. Look for alternative opportunities like cord-maker CHIM.

Sector Barometer

Oil & Gas	fair	We are skeptical of UNAF's optimistic upward march. Too many expected positives are factored into the current price, in our opinion. GLNG might positively surprise investors this year.	Real Estate	burning hot	Severe undersupply of quality housing and commercial property underpins the sector's appeal. Be prepared to see IPOs and private placements in the coming months.
Machinery	fair	Coal machinery and railcar-related companies are the most interesting, on the back of strong economics. We see many catalysts for MSICH. MZVM has a good chance to repeat last year's highs.	Retail	hot	The sector is booming, fueled by expanding consumer lending. The creation of true nation-wide chains is on its way.. Opportunities in both food and non-food segments. Don't miss this <i>emerging industry</i> play. The year will bring more equity placements.
Telecoms	bearish	We treat UTEL's recent price surge as an optimistic overreaction. No tangible catalysts to justify the recent market valuations.	Food Processing	bullish	Maturing and getting ready to go public, on strong fundamentals. Be ready for equity placements over the course of the year.
Financial	bullish	The industry's ongoing expansion stage justifies premium valuations of Ukrainian banks relative to CEE peers. The recent bull run brought stock prices closer to fair. Keep an eye on less liquid opportunities like MEGA and FORM. International banks targeting mid-size institutions will keep the market hot. Insurance will mostly be producing M&A headlines, not free float.			

Top Picks

Zaporizhya Ferroalloy

PFTS ticker:	ZFER
XETRA ticker	ZL3
Industry:	Ferroalloys
MCap, \$ mln	186.9
FF, \$ mln	15.0
12m target, \$:	0.16
Upside:	95%

Leading domestic producer with ensured markets and stable raw material supply; cost-competitive because of access to cheap manganese ore; its modified product mix hedges against hikes in electricity tariffs. Transparency improved in 9M06. An opportunity to diversify from the fully priced steel, while staying within metals & mining.

Kievenergo

PFTS ticker:	KIEN
XETRA ticker	n/a
Industry:	GenCos
MCap, \$ mln	248.4
FF, \$ mln	22.4
12m target, \$:	4.0
Upside:	72%

Unfairly lagged the sector's rally. Its altered business model allows Kievenergo to earn more on electricity production, despite a decrease in real output. Heating segment is expected to become profitable in 2007 as production costs are being fully compensated by new tariffs. We are positive Kievenergo will continue leasing the city of Kiev's generation assets - a tender to be held in May or June to settle the matter will be a strong catalyst for the stock.

ZaporizhCoke

PFTS ticker:	ZACO
XETRA ticker	n/a
Industry:	Coke
MCap, \$ mln	146.5
FF, \$ mln	10.5
12m target, \$:	2.47
Upside:	94%

The most transparent Ukrainian coke maker. Strong and steady demand from Zaporizhstal. Likely take-over target in the mid-term. Among the most attractively valued Ukrainian coke stocks.

Avdiyivka Coke

PFTS ticker:	AVDK
XETRA ticker	n/a
Industry:	Coke
MCap, \$ mln	481.1
FF, \$ mln	15.4
12m target, \$:	4.79
Upside:	93%

Severely punished for last year's decline in production, the stock started the year dirt cheap. We expect a strong recovery in 2007. Europe's largest coke producer. Operates the newest coke capacities in Ukraine. Coking coal is sourced primarily from related mines, which ensures stable supplies. Transparency is improving thanks to efforts by its controlling shareholder. Investments into non-coke businesses (coal, machine-building) create additional value.

Komsomolets Donbasa

PFTS ticker:	SHKD
XETRA ticker	n/a
Industry:	Mining
MCap, \$ mln	152.4
FF, \$ mln	3.8
12m target, \$:	0.60
Upside:	32%

Stable orders from power generators due to its affiliation with SCM, the regulatory and economic wheeler & dealer on the electricity sector. Competitive on export markets in terms of cost/quality. Extremely positive FY2006: output growth of 20% yoy; net margin of 14.4% (as of 9M06) against 1.4% in 9M05.

Top Picks (cont'd)

Motor Sich

PFTS ticker:	MSICH
XETRA ticker	n/a
Industry:	Mach.build.
MCap, \$ mln	197.5
FF, \$ mln	23.7
12m target, \$:	115.0
Upside:	17%

Recently upgraded from third to second level of PFTS listing. The market started recovering from the trough in September 2006 on a string of positive news – beginning with rumors of Russian Oboronprom eyeing MSICH. We see several catalysts behind recent growth: announcement of integration with the Design Bureau Progress, which if implemented, will boost efficiency; certification of the AN-148 regional jet expected in February 2007, which will set in motion 41 signed production contracts; and a JV with Volga-Dniper to restart production of the AN-124 Ruslan, the world's largest cargo plane. MSICH began to penetrate the Chinese market: first contracts for helicopters and aircraft engines signed in 2006, more deals being negotiated.

Chervonarmiska Zakhidna

PFTS ticker:	SHCHZ
XETRA ticker	n/a
Industry:	Mining
MCap, \$ mln	594.0
FF, \$ mln	12.5
12m target, \$:	0.80
Upside:	14%

Strong market momentum; target upgrade highly probable in the short-term pending 4Q06 financial results. One of largest CIS producers of hard coking coal, which will benefit from the 14-16 mln mt deficit for this type of coal in Ukraine, twice their capacity. SHCHZ is competitive to Russia in terms of cost/quality. Its current investment program will increase output by 40% by 2010. Reports healthy margins, however if not for transfer pricing, the upside is at least twice as large.

Megabank

PFTS ticker:	MEGA
XETRA ticker	n/a
Industry:	Banking
MCap, \$ mln	120.8
FF, \$ mln	24.2
12m target, \$:	1.55
Upside:	48%

Strong regional franchise, approaching nation-wide reach. Robust retail arm has developed over the past twelve months. Megabank processes 15% of household utility payments in Ukraine, which ensures strong fees & commissions inflow. Attractive acquisition target.

Druzhkivka Machine Building

PFTS ticker:	DRMZ
XETRA ticker	n/a
Industry:	Mach.build.
MCap, \$ mln	59.6
FF, \$ mln	7.1
12m target, \$:	0.48
Upside:	67%

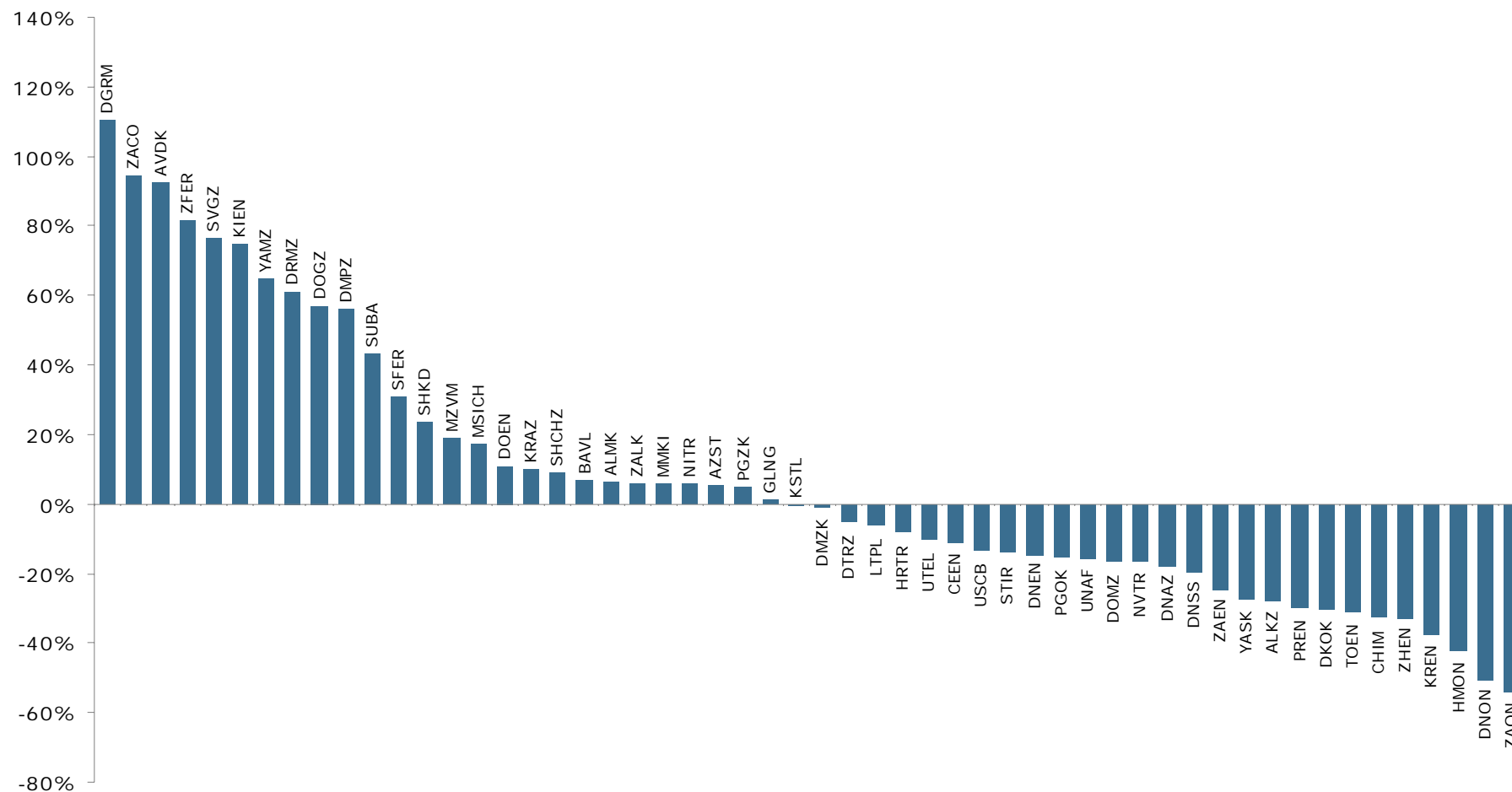
Largest producer of coal machinery in Ukraine. Domestic monopoly in powered roof supports for coal mines. Stable orders ensured by its major shareholder, SCM. The government program to construct new mines is an additional top line driver. Since 2005 a substantial part of free float has been held by longer-horizon funds – current bullish market might justify unloading.

Chernigiv Chimvolokno

PFTS ticker:	CHIM
XETRA ticker	CKU
Industry:	Chemicals
MCap, \$ mln	58.3
FF, \$ mln	7.0
12m target, \$:	0.110
Upside:	29%

CIS-leading cord producer that is rapidly capturing tire makers thanks to its cost/quality advantage. Formula-contracts with suppliers negotiated in late 2006 will hedge against increases in oil prices. Clear-cut growth strategy with an investment program currently in high gear. A pending IPO and possible take-over are the main catalysts.

Picks & Pans - Upside Panel



Source: Concorde Capital research

Note1 : The chart represents upside/downside from the current market price of a sizeable block of shares, as of January 23, 2007.

Please refer to the appendix for a ticker legend

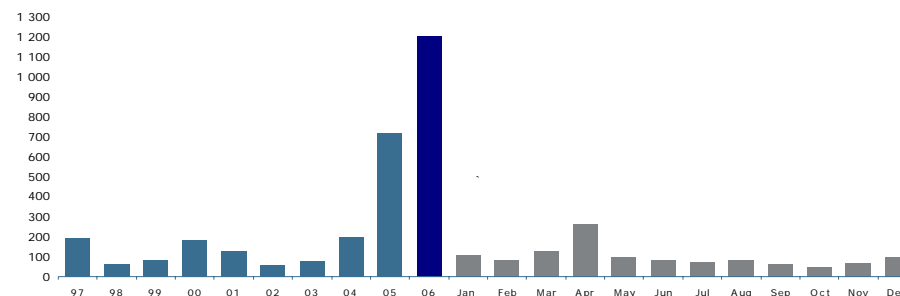
Note 2: Picking a stock for Concorde's Top Picks list is a function of many factors, upside being only one of them. The stocks with the highest current upsides are not necessarily included

PFTS' Rising Liquidity

2006 Round Up

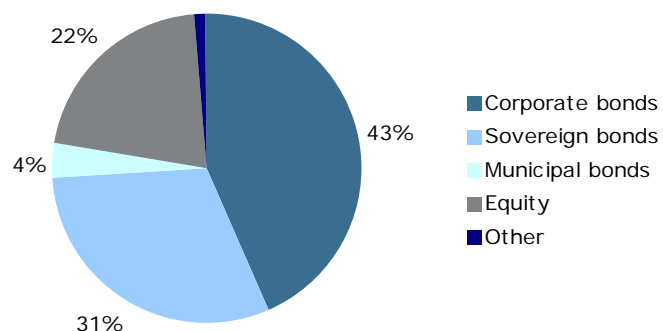
- Overall PFTS trading almost doubled in 2006, while the equity trading volume increased by 1.8 times to USD 1.2 bln;
- The market's total MCap increased by half to about USD 50 bln;
- The finance sector (even excluding private placements from banks and insurance companies) rose to first place by volume, supplanting metals & mining.

Equity Trading Volumes, USD mln



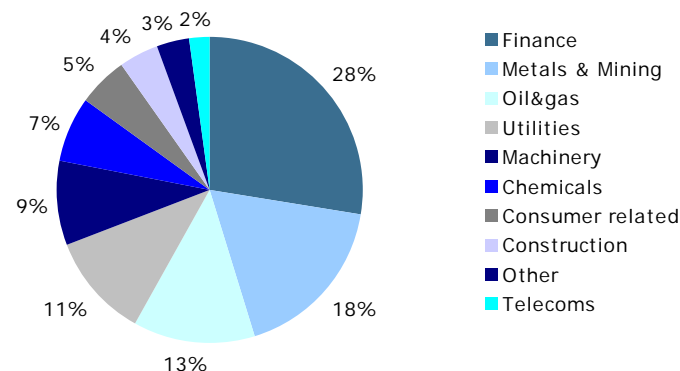
Note: Monthly volumes refer to 2006
Source: PFTS

PFTS Trading Breakdown, 2006



Source: PFTS

Equity Trading by Sector, 2006



Note: Including private placements reported on the PFTS
Source: PFTS, Concorde Capital

Ukraine vs. Emerging Markets

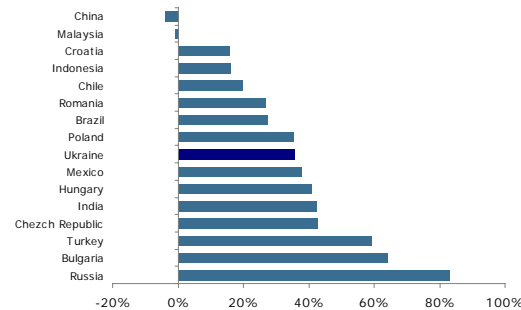
Both widely recognized metrics for the Ukrainian equity market witnessed solid returns of above 40% in 2006.

The PFTS grew by **41.33%** yoy in 2006, 5.6 percentage points higher than growth from the previous year. In 2006 the index basket became more representative of the market with additions from the banking and machinery sectors, extending from 10 to 14 stocks.

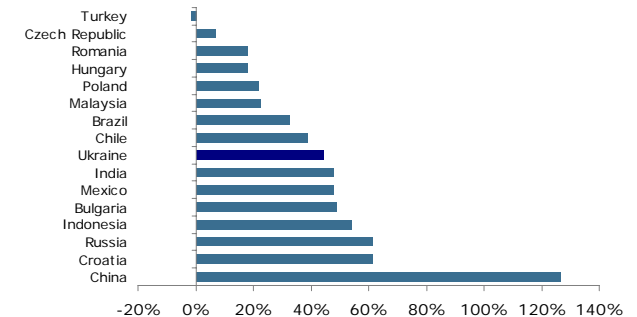
An alternative proxy, the S&P/IFCF Total Return Index, showed a **48.65%** return in 2006. Ukraine outperformed the S&P/IFCF index, as it continued to post stable returns of around 50% for the second year in a row.

Global Emerging Markets

2005



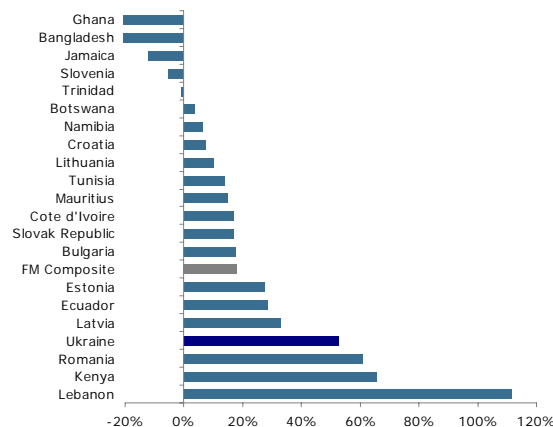
2006



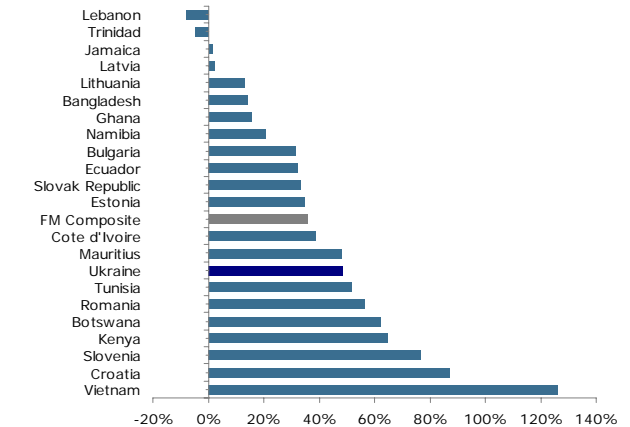
Source: Bloomberg.

S&P/IFC Frontier Markets

2005



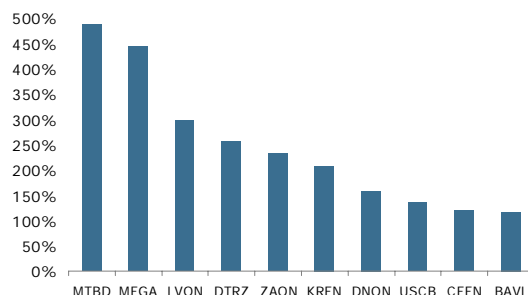
2006



Note: Measured by the S&P/IFCF Total Return Index
Source: Standard & Poor's

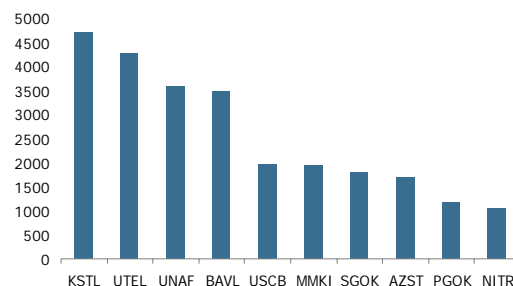
2006 Market Round-up

Best Performers

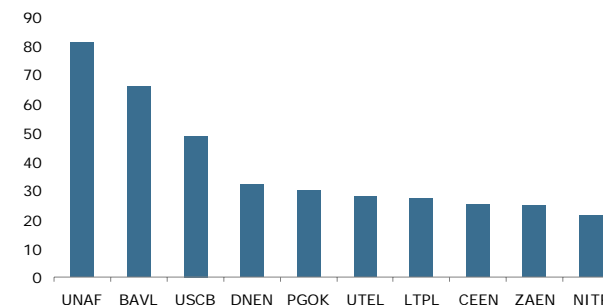


Note: Calculated based on PFTS mid prices, stocks with an annual trading volume of less than \$ 1 mln excluded

Largest MCap, USD mln

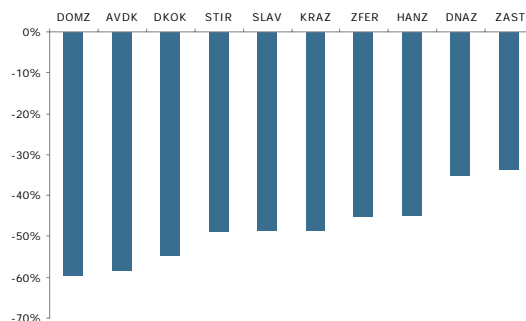


Most Traded Stocks, USD mln



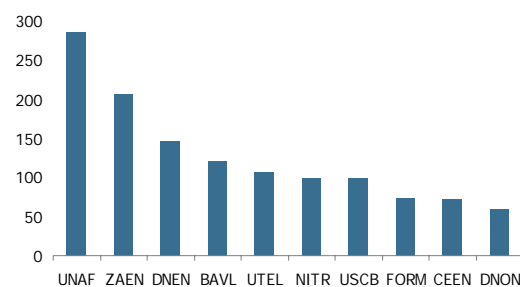
Note: 2006 annual volumes, excluding technical trades and private placements

Worst Performers

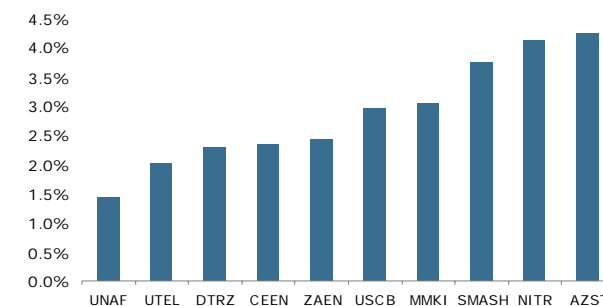


Note: Calculated based on PFTS mid prices except for ZPST's prices which are taken from the Frankfurt SE; stocks with an annual trading volume of less than \$ 1 mln are excluded

Largest Free Float, USD mln



Tightest Spreads, 2H06 avg



Source: PFTS, Bloomberg, Concorde Capital

Appendix

Ticker	Company	Ticker	Company	Ticker	Company
ALKZ	Alchevsk Coke	GSKZ	Gostomel Glass	SHCHZ	Chervonarmiyska Zahidna
ALMK	Alchevsk Iron & Steel	HANZ	Galychyna Refinery	SHKD	Komsomolets Donbasa
AVDK	Avdiyivka Coke	HMBZ	Svitlo Shakhtarya	SMASH	Sumy Frunze
AZOT	Azot Cherkasy	HMON	Khmelnitskobleno	STIR	Stirol
AZST	Azovstal	HRTR	Khartsyzk Tube	SUBA	Sukha Balka
BAVL	Aval	KIEN	Kieveno	SVGZ	Stakhanovsky Wagon
BKOK	Bagliy Coke	KRAZ	AvtoKrAZ	TATM	Turboatom
CEEN	Centrenerg	KREN	Krymenergo	TOEN	Ternopiloblenergo
CHIM	Chernigiv Chimvolokno	KSTL	Mittal Steel Kryviy Rig	UNAF	Ukrnafta
DGRM	Donetskirmash	KVBZ	Kryukiv Wagon	USCB	Ukrsotsbank
DKOK	Donetsk Coke	LTPL	Luganskteplov	UTEL	Ukrtelecom
DMPZ	Donetsk Metal Rolling	MEGA	Megabank	YAMZ	Yasynuvatsky m-build
DMZK	Kominmet	MMKI	Mariupol Illicha	YASK	Yasinivsky Coke
DNAZ	DniproAzot	MSICH	Motor Sich	ZACO	ZaporizhCoke
DNEN	Dniproenergo	MZVM	Mariupol Heavy Machinery	ZAEN	Zakhidenergo
DNON	Dniprooblenergo	NFER	Nikopol Ferroalloy	ZALK	Zaporizhzhya Aluminum
DNSS	DniproSpetsStal	NITR	Nyzhnyodniprovsky Pipe	ZAON	Zaporizhiaoblenergo
DOEN	Donbasenergo	NVTR	Novomoskovsk Pipe	ZATR	Zaporizhtransformator
DOGZ	DonetskOblGaz	OCAB	Odesa Cable	ZFER	Zaporizhzhya Ferroalloy
DOMZ	Donetsk Metal Plant	PGOK	Poltavsky Iron Ore	ZHEN	Zhytomyroblenergo
DRMZ	Druzhkivka m-build	PGZK	Pivdenny Iron Ore	ZHGZ	ZhytomyrGaz
DTRZ	Dnipropetrovsk Pipe	PREN	Prykarpatooblenergo	ZPST	Zaporizhstal
FORM	Forum	RODB	Rodovid Bank		
GLNG	Galnaftogaz	SFER	Stakhanov Ferroalloy		

Source: Concorde Capital

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