



CONCORDE CAPITAL

Ukraine / Real Estate

# TKS Real Estate

IFRS financials released

May 21, 2008

Current price: EUR 14.4 / USD 22.4  
12M Target: EUR 17.8 / USD 27.3

**BUY**

**Andriy Gostik, CFA**  
ag@concorde.com.ua

**Alexander Romanov**  
ar@concorde.com.ua

+380 44 391 5577

#### Tickers

Bloomberg 37W1 GR

#### Market information

Market price, EUR	14.37
USD	22.41
MCap, EUR mln	129.31
USD mln	201.68
Chg YTD	-0.44%
52 Wk H/L, EUR	15.04/13.04
USD	23.46/20.34
DRs per common share	2:1
No of shares, mln	4.5
Avg Mon Tr Vol YTD, USD ths	0.02
Free float	13.12%
Free float, EUR mln	28.45
USD mln	44.37

Prices as of May 20, 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

Strikewell Investments Limited\* 78%  
Other 22%

\* The key beneficiaries of Strikewell Investments Limited are two individuals: Ivan Torsky and Igor Balenko

#### • Yesterday, TKS released its audited IFRS financials:

- Net revenues of USD 7.6 mln in 2007 beat our forecast by 4.5-fold
- EBITDA & bottom line adjusted for revaluation matched our forecasts
- Book value increased to USD 211 mln on investment property revaluation
- Underleveraged capital structure (debt/equity ratio of just 1%) creates room for debt financing
- Expansion of construction and materials business will generate an additional USD 20 mln in sales in 2008
- We maintain our 12M target price and BUY recommendation

#### TKS releases IFRS financials; sales beat our forecast by 4.5 times

TKS officially released audited IFRS financials yesterday in a conference call with investors. The company's net revenue for 2007 reached USD 7.6 mln, beating our estimate by 4.5 times. The major revenue contributor last year was residential sales in the amount of USD 3.0 mln, which we did not expect to be realized until 2008. Rental revenue of USD 1.9 mln slightly exceeded our forecast of USD 1.7 mln, the only sales component we projected in 2007. The balance of USD 2.7 mln came from TKS' non-core businesses (construction services and concrete production), not accounted for in our model.

#### Normalized EBITDA and net income are in line with our forecasts

TKS' reported EBITDA and net income required adjustments to make possible comparison with our projections. For 2007, the company posted EBITDA of USD 56.8 mln. That said, after adjusting it for revaluation and normalization of *Other OpEx*, we estimate that TKS' operating EBITDA comes close to our previous forecast of USD 1.6 mln. By the same token, we amended TKS' reported net income of USD 54.2 mln, adjusting it for revaluation-related items, and received a normalized bottom line of USD 0.6 mln, in line with our previous projection.

#### Book value surged on investment property revaluation

TKS's book value of USD 211 mln (historical NAV) came in four times higher than the USD 53 mln we expected. The discrepancy is mainly due to larger than projected revaluation surplus recognized by the company. TKS reported on its balance sheet all its investment properties at fair value, including finished premises and those under development, whereas our projections recognized unfinished properties at cost. After the proper adjustment, TKS' 2007 book value is slightly higher than USD 50 mln, close to our initial estimate.

#### Low leverage creates room for increased debt financing

The company's debt of USD 1.7 mln at the end of 2007 represents just a fraction of shareholder equity. We anticipate TKS will attract USD 50-70 mln in debt for project development over 2008. The company has already secured project financing for USD 11 mln from domestic banks, despite tightening credit conditions.

#### Construction and materials business will generate USD 60 mln in sales

TKS' management revealed details of the company's plan to further diversify into the building materials and construction business. Specifically, TKS announced that it will invest USD 21 mln this year to launch seven concrete plants. Management expects to see an addition of at least USD 20 mln to TKS' revenue from third-party sales in 2008. We see the move as highly value-accretive for the company, given the booming market for building materials and construction services in Ukraine.

We maintain our target price at USD 27.3 per DR. The target is based solely on the DCF-derived value of TKS' portfolio. We will review the valuation after we receive more information on the development of TKS's construction and building materials divisions. We confirm our BUY recommendation.

FLASH NOTE

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## Financial statements, IFRS

### Income statement summary, USD mln

	2007E*	2007	2007 Adj**	2008F	2009F	2010F
<b>Net Revenues</b>	<b>2</b>	<b>8</b>	<b>8</b>	<b>11</b>	<b>53</b>	<b>93</b>
Cost Of Sales	-	(6)	(6)	(4)	(14)	(26)
Gross Profit	2	2	2	7	39	67
Other Operating Income/Costs, net	-	55	0	-	-	-
SG&A	(0)	(1)	(1)	(0)	(1)	(1)
<b>EBITDA</b>	<b>2</b>	<b>57</b>	<b>2</b>	<b>7</b>	<b>38</b>	<b>66</b>
<i>EBITDA margin, %</i>	<i>99.2%</i>	<i>742.1%</i>	<i>20.9%</i>	<i>67.1%</i>	<i>71.9%</i>	<i>71.0%</i>
D&A	(0)	(0)	(0)	(1)	(1)	(1)
<b>EBIT</b>	<b>1</b>	<b>57</b>	<b>2</b>	<b>7</b>	<b>37</b>	<b>66</b>
<i>EBIT margin, %</i>	<i>88.6%</i>	<i>741.5%</i>	<i>20.3%</i>	<i>62.2%</i>	<i>70.8%</i>	<i>70.4%</i>
Interest Expense	(1)	(1)	(1)	(5)	(8)	(3)
Financial Income	0	-	-	-	-	-
Other Income/(expense)	1	-	-	47	190	13
<b>PBT</b>	<b>1</b>	<b>56</b>	<b>1</b>	<b>48</b>	<b>219</b>	<b>75</b>
Tax	(0)	(2)	(0)	(5)	(22)	(8)
<b>Net Income</b>	<b>1</b>	<b>54</b>	<b>1</b>	<b>44</b>	<b>197</b>	<b>68</b>
<i>Net Margin, %</i>	<i>37.9%</i>	<i>710.3%</i>	<i>9.7%</i>	<i>395.7%</i>	<i>372.3%</i>	<i>72.6%</i>

### Balance sheet summary, USD mln

	2007E*	2007	2007 Adj**	2008F	2009F	2010F
<b>Current Assets</b>	<b>32</b>	<b>20</b>	<b>20</b>	<b>45</b>	<b>48</b>	<b>20</b>
Cash & Equivalents	20	3	3	3	3	1
Trade Receivables	2	1	1	2	5	4
Inventories	4	3	3	21	24	4
Other Current Assets	6	13	13	19	17	11
<b>Fixed Assets</b>	<b>38</b>	<b>261</b>	<b>89</b>	<b>160</b>	<b>363</b>	<b>376</b>
PP&E, net	7	6	6	16	16	15
Investment Property & Other Fixed Assets	31	255	82	145	347	360
<b>Total Assets</b>	<b>70</b>	<b>281</b>	<b>108</b>	<b>205</b>	<b>411</b>	<b>396</b>
<b>Equity</b>	<b>53</b>	<b>267</b>	<b>94</b>	<b>97</b>	<b>295</b>	<b>361</b>
Share Capital	39	39	39	39	39	39
Reserves and Other	14	173	(0)	58	255	321
Minority interest	-	56	56	-	-	-
<b>Current Liabilities</b>	<b>8</b>	<b>13</b>	<b>13</b>	<b>26</b>	<b>35</b>	<b>1</b>
ST Interest Bearing Debt	2	2	2	4	3	0
Trade Payables	2	11	11	4	1	0
Advances from Customers & Other	4	-	-	17	30	0
<b>LT Liabilities</b>	<b>9</b>	<b>2</b>	<b>2</b>	<b>83</b>	<b>82</b>	<b>34</b>
LT Interest Bearing Debt	8	1	1	77	58	8
Other LT	1	1	1	5	24	26
<b>Total Liabilities &amp; Equity</b>	<b>70</b>	<b>281</b>	<b>108</b>	<b>205</b>	<b>411</b>	<b>396</b>

### Cash flow statement summary, USD mln

	2007E*	2007	2007 Adj**	2008F	2009F	2010F
Net Income	1	54	1	43	197	66
D&A	0	0	0	1	1	1
Non-operating and Non-cash Items	4	(55)	(1)	(52)	(172)	(9)
Changes in Working Capital	(6)	(11)	(11)	(14)	7	(5)
<b>Operating Cash Flow</b>	<b>(2)</b>	<b>(12)</b>	<b>(12)</b>	<b>(22)</b>	<b>33</b>	<b>53</b>
Capital Expenditures, net	(19)	(6)	(6)	(66)	(13)	(2)
Other Investments, net	-	(14)	(14)	-	-	-
<b>Investing Cash Flow</b>	<b>(19)</b>	<b>(20)</b>	<b>(20)</b>	<b>(66)</b>	<b>(13)</b>	<b>(2)</b>
Net Borrowings/(Repayments)	2	(4)	(4)	71	(21)	(52)
Equity Financing & Other	39	38	38	-	-	-
<b>Financing Cash Flow</b>	<b>40</b>	<b>34</b>	<b>34</b>	<b>71</b>	<b>(21)</b>	<b>(52)</b>
Beginning Cash Balance	0	0	0	20	3	3
Ending Cash Balance	20	3	3	3	3	1
<b>Net Cash Inflows/Outflows</b>	<b>20</b>	<b>3</b>	<b>3</b>	<b>(17)</b>	<b>(0)</b>	<b>(2)</b>

### UAH/USD exchange rates

	2007	2008F	2009F	2010F
Average	5.05	4.99	4.93	4.90
Year-end	5.05	4.95	4.90	4.90

\* 2007E – represents the financial projections made in our report dated December 12, 2007

\*\* 2007 Adj – represents actual financials adjusted for revaluation of property under development

Source: Company data, BDO, Concorde Capital estimates

## Appendix - Disclosures

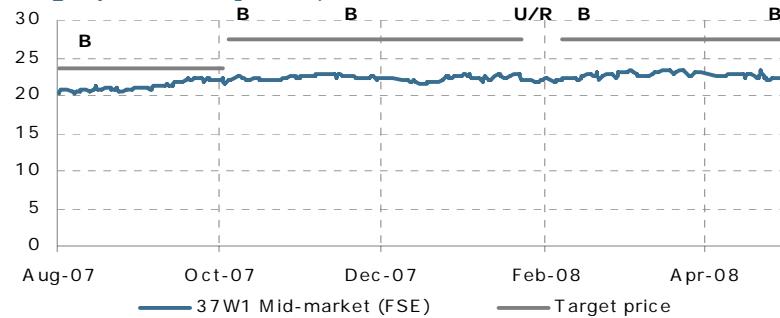
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We, Andriy Gostik and Alexander Romanov, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

### 37W1 GR ratings history

Date	Target price, USD	Market Price, USD	Rating	Action
16-Aug-07	23.7	20.34	BUY	Initiate
01-Nov-07	27.3	21.94	BUY	Maintain
12-Dec-07	27.3	21.98	BUY	Maintain
21-Feb-08	U/R	22.21	U/R	Suspend
06-Mar-08	27.3	22.70	BUY	Reinstate
20-May-08	27.3	22.41	BUY	Maintain

### Target price history, USD per GDR



## Investment Ratings

The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 15% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 15%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

<u>Concorde Capital ratings distribution</u>		
Buy	50	44%
Hold	24	21%
Sell	19	17%
Under Review	20	18%
<b>Total</b>	<b>113</b>	<b>100%</b>

<u>Investment banking clients*</u>		
Buy	6	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
<b>Total</b>	<b>6</b>	<b>100%</b>

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

**Concorde Capital**  
**2 Mechnikova Street**  
**21st Floor**  
**Kyiv 01601, UKRAINE**

**Tel.: +380 44 391 5577**  
**Fax: +380 44 391 5571**  
**www.concorde.com.ua**  
**office@concorde.com.ua**

**CEO**

Igor Mazepa

im@concorde.com.ua

**Head of Equity Sales**

Roman Nasirov

rn@concorde.com.ua

**Equity Sales**

Anastasiya Nazarenko  
Duff Kovacs, CFA  
Marina Martirosyan  
Andriy Supranonok

an@concorde.com.ua  
dk@concorde.com.ua  
mm@concorde.com.ua  
sap@concorde.com.ua

**Director of Research**

Konstantin Fisun, CFA

kf@concorde.com.ua

**RESEARCH**

**Strategy**

Konstantin Fisun  
Oleksandr Klymchuk

kf@concorde.com.ua  
ok@concorde.com.ua

**Metals & Mining**

Eugene Cherviachenko  
Andriy Gerus

ec@concorde.com.ua  
ga@concorde.com.ua

**Utilities (Telecom, Energy)**

Alexander Paraschiy

ap@concorde.com.ua

**Oil & Gas, Chemicals**

Vladimir Nesterenko

vn@concorde.com.ua

**Consumer/Real Estate Group**

Andriy Gostik, CFA  
Olha Pankiv  
Alexander Romanov  
Anna Dudchenko

ag@concorde.com.ua  
op@concorde.com.ua  
ar@concorde.com.ua  
ad@concorde.com.ua

**Machinery**

Eugene Cherviachenko  
Inna Perepelytsya

ec@concorde.com.ua  
pi@concorde.com.ua

**Financial Services, Retail**

Alexander Viktorov

av@concorde.com.ua

**Macroeconomics**

Polina Khomenko

pk@concorde.com.ua

**Fixed Income**

Oleksandr Klymchuk

ok@concorde.com.ua

**Editor**

Brad Wells

bw@concorde.com.ua

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