



CONCORDE CAPITAL

Ukraine / Real Estate

# TMM Real Estate Development

EBITDA surges 10x yoy in 9M08

October 29, 2008

Current price: USD 1.18 / EUR 0.92  
12M Target: N/R

**BUY**

Alexander Romanov  
ar@concorde.com.ua

Andriy Gostik, CFA  
ag@concorde.com.ua

+380 44 391 5577

## Tickers

GDR (Frankfurt/Xetra) TR61

## Market information

Market price, EUR	0.92
USD	1.18
MCap, EUR mln	47.96
USD mln	61.2
Chg YTD	-95%
Hi/Lo YTD, EUR	15.30/0.92
USD	24.09/1.18
DRs per common share	1:1
No of shares, mln	51.8
Avg Mon Tr Vol YTD, USD mln	0.236
Free float	13.1%
Free float, EUR mln	6.27
USD mln	8.0

Prices as of Oct. 29, 2008

## Corporate Governance

Concorde Rating\* Q

\* 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

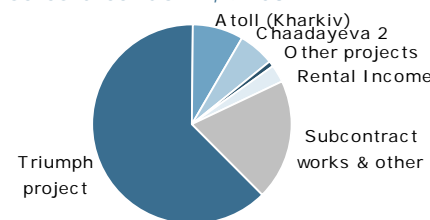
Mr. Tolmachov	70.4%
Management	16.5%
Portfolio investors	13.1%

- This week TMM's 9M08 UAS financials became available: EBITDA grew 10x yoy to USD 42.1 mln, and net income by 50x yoy to USD 39.1 mln
- Despite the market slowdown, residential presales rose 65% yoy in 9M08, thanks to TMM's focus on the high-end segment
- We updated our forecasts of TMM's financials; we maintain a BUY recommendation on the stock

## Impressive 9M08 UAS financials thanks to Triumph

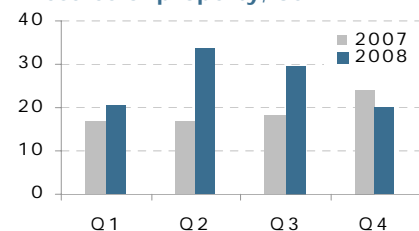
TMM's 9M08 sales reached USD 99.2 mln (up 3x yoy), EBITDA surged 10x yoy to USD 42.1 mln and its EBITDA margin increased to 42% vs. 13% in 9M07, according to UAS. Net income reached USD 39.4 mln vs. USD 0.8 mln in 9M07, pushing net margin up to 40% from 3% a year ago. In our view, P&L improvement can be ascribed to TMM commissioning its Triumph premium-class residential project in July. We expect UAS results to be fully reflected in the company's 2008 IFRS financials, since the same sales recognition principle is applied in IFRS reporting.

## Sales breakdown, 9M08



Source: Company data, Concorde Capital estimates

## Presales of property, USD mln



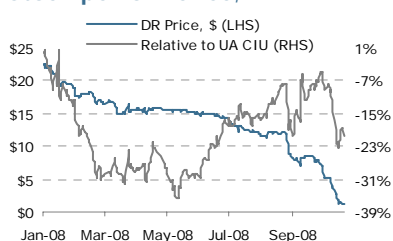
## Residential presales grow 62% in 9M08 despite market slowdown

TMM's management told us yesterday the company increased cash inflow from the presale of residential property to USD 84 mln during 9M08 (62% yoy), despite price growth flat-lining and cooling on the Ukrainian real estate market. In 3Q08 alone, presales grew 65% yoy to USD 30 mln. We attribute this to the fact that the high-end residential segment, in which TMM operates, has been less affected by the shrinkage in mortgage financing during 2008.

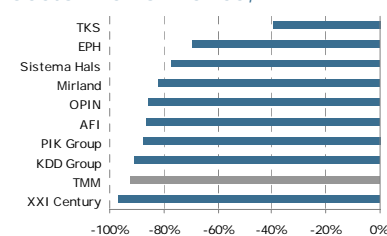
## Financial forecasts updated; recommendation maintained

We updated our forecasts of TMM's pro forma financials. Our new estimates account for the declining availability of financing. We expect TMM to show positive operating EBITDA in 2008-2010 and remain positive about the company's ability to serve its debt. We maintain BUY on the stock as we perceive the current valuation of the company to be unjustifiably low.

## Stock performance, 12M



## Sector Performance, YTD



## Real estate indices, YTD



Note: Ukrainian Real Estate Index is MCap-weighted; includes XXI Century, TMM, DUPD. Source: Bloomberg, Concorde Capital

# Financial Statements, IFRS

## TMM Income statement summary, USD mln

	2006	2007	9M08, UAS	2008E	2009F	2010F
<b>Net Revenues</b>	<b>96.5</b>	<b>60.8</b>	<b>99.2</b>	<b>114.0</b>	<b>158.6</b>	<b>261.3</b>
Cost Of Sales	(68.0)	(42.2)	(44.9)	(51.6)	(42.0)	(67.5)
Gross Profit	28.5	18.6	54.3	62.5	116.5	193.8
Other Operating Income/Costs, net	0.9	9.4	(1.8)	(2.1)	-	-
SG&A	(7.8)	(9.9)	(10.4)	(11.9)	(11.1)	(13.1)
<b>EBITDA</b>	<b>21.7</b>	<b>18.1</b>	<b>42.1</b>	<b>48.4</b>	<b>105.4</b>	<b>180.7</b>
D&A	(1.3)	(0.9)	(6.1)	(1.4)	(1.1)	(1.2)
<b>EBIT</b>	<b>20.4</b>	<b>17.2</b>	<b>36.0</b>	<b>47.0</b>	<b>104.3</b>	<b>179.5</b>
Interest Expense	(1.8)	(3.4)	(1.5)	(2.1)	(11.6)	(23.4)
Financial Income	0.6	1.7	0.1	0.1	-	-
Other Income/(expense)	10.9	10.7	5.3	8.1	5.6	50.3
<b>PBT</b>	<b>30.1</b>	<b>26.1</b>	<b>40.0</b>	<b>53.1</b>	<b>98.3</b>	<b>206.4</b>
Tax	(7.3)	(13.5)	(0.6)	(13.3)	(24.6)	(51.6)
<b>Net Income</b>	<b>22.7</b>	<b>12.7</b>	<b>39.4</b>	<b>39.9</b>	<b>73.7</b>	<b>154.8</b>

## TMM Balance sheet summary, USD mln

	2006	2007	9M08, UAS	2008E	2009F	2010F
<b>Current Assets</b>	<b>123.1</b>	<b>255.4</b>	<b>146.4</b>	<b>256.0</b>	<b>449.5</b>	<b>762.2</b>
Cash & Equivalents	1.4	17.1	2.3	2.0	0.1	0.1
Inventory	77.6	162.2	71.2	177.3	351.4	631.0
Other Current Assets	44.1	76.1	72.9	76.7	98.0	131.1
<b>Fixed Assets</b>	<b>153.3</b>	<b>196.7</b>	<b>477.7</b>	<b>196.7</b>	<b>355.1</b>	<b>696.9</b>
Investment Property	69.5	93.6	189.0	93.6	241.4	577.5
PP&E and Other	83.8	103.1	288.7	103.1	113.7	119.4
<b>Total Assets</b>	<b>276.4</b>	<b>452.1</b>	<b>624.1</b>	<b>452.7</b>	<b>804.6</b>	<b>1,459.1</b>
<b>Shareholders' Equity</b>	<b>107.0</b>	<b>230.1</b>	<b>224.5</b>	<b>242.8</b>	<b>348.1</b>	<b>503.0</b>
Share Capital	0.0	101.2	144.2	101.2	103.8	103.8
Reserves & Other	107.0	128.9	80.3	141.6	244.4	399.2
<b>Current Liabilities</b>	<b>124.0</b>	<b>181.1</b>	<b>359.3</b>	<b>137.2</b>	<b>295.4</b>	<b>642.4</b>
ST Interest Bearing Debt	9.0	69.9	66.0	66.0	4.5	16.8
Advances from customers & Other ST	115.0	111.2	293.3	71.2	290.9	625.6
<b>LT Liabilities</b>	<b>45.4</b>	<b>40.9</b>	<b>40.3</b>	<b>72.7</b>	<b>161.1</b>	<b>313.7</b>
LT Interest Bearing Debt	26.0	3.8	35.6	35.6	120.0	260.0
Deferred Taxes & Other LT	19.4	37.1	4.7	37.1	41.1	53.7
<b>Total Liabilities &amp; Equity</b>	<b>276.4</b>	<b>452.1</b>	<b>624.1</b>	<b>452.7</b>	<b>804.6</b>	<b>1,459.1</b>

## TMM Cash flow statement summary, USD mln

	2006	2007	9M08, UAS	2008E	2009F	2010F
Net Income	22.7	12.7	39.4	39.9	73.7	154.8
Depreciation	1.3	0.9	6.1	1.4	1.1	1.2
Non-operating and Non-cash Items	3.4	(7.5)	(94.1)	(25.6)	(12.7)	(44.6)
Changes in Working Capital	6.5	(84.2)	12.8	(55.7)	(26.6)	22.1
<b>Operating Cash Flow</b>	<b>33.9</b>	<b>(78.1)</b>	<b>(35.9)</b>	<b>(40.1)</b>	<b>35.6</b>	<b>133.5</b>
Capital Expenditures, net	(39.8)	(20.2)	(12.3)	(3.0)	(135.0)	(285.8)
Other Investments, net	(2.9)	(19.3)	5.3	-	-	-
<b>Investing Cash Flow</b>	<b>(42.7)</b>	<b>(39.5)</b>	<b>(7.0)</b>	<b>(3.0)</b>	<b>(135.0)</b>	<b>(285.8)</b>
Net Borrowings/(repayments)	(29.4)	(30.3)	27.9	28.0	97.6	152.3
Proceeds & Other	39.2	163.7	8.8	-	-	-
<b>Financing Cash Flow</b>	<b>9.8</b>	<b>133.4</b>	<b>36.7</b>	<b>28.0</b>	<b>97.6</b>	<b>152.3</b>
Beginning Cash Balance	0.4	1.4	8.5	17.1	2.0	0.1
Ending Cash Balance	1.4	17.1	2.3	2.0	0.1	0.1
<b>Net Cash Inflows/Outflows</b>	<b>1.0</b>	<b>15.8</b>	<b>(6.1)</b>	<b>(15.1)</b>	<b>(1.9)</b>	<b>0.0</b>

Source: Company data, KPMG, Concorde Capital estimates

# Appendix - Disclosures

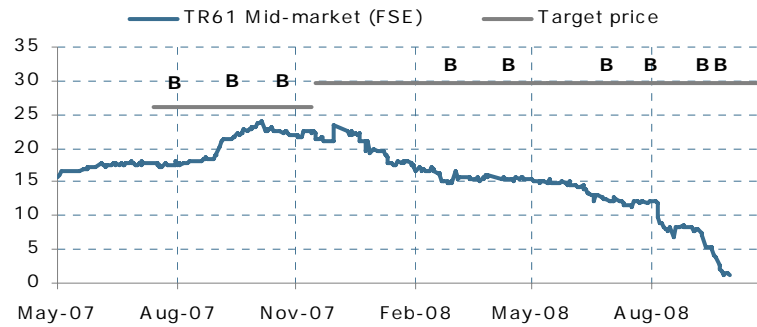
## Analyst certification

We, Alexander Romanov and Andriy Gostik, 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.

### TR61 GR ratings history

Date	Target price, USD	Market Price, USD	Rating	Action
09-Aug-07	26.0	17.7	BUY	Initiating
25-Sep-07	26.0	18.3	BUY	Maintain
05-Oct-07	26.0	21.6	BUY	Maintain
12-Dec-07	29.6	22.5	BUY	Maintain
03-Apr-08	29.6	15.3	BUY	Maintain
13-May-08	29.6	15.3	BUY	Maintain
08-Aug-08	29.6	12.1	BUY	Maintain
27-Oct-08	N/R	1.32	BUY	Maintain
29-Oct-08	N/R	1.18	BUY	Maintain

### Target price history, USD per share



## 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.

### Concorde Capital ratings distribution

Buy	90	74%
Hold	18	15%
Sell	7	6%
Under Review	7	6%
<b>Total</b>	<b>122</b>	<b>100%</b>

### Investment banking clients\*

Buy	7	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
<b>Total</b>	<b>7</b>	<b>100%</b>

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

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

[www.concorde.ua](http://www.concorde.ua)

**CEO**

Igor Mazepa [im@concorde.com.ua](mailto:im@concorde.com.ua)

**Head of Equity Sales**

Roman Nasirov [rn@concorde.com.ua](mailto:rn@concorde.com.ua)

**Equity Sales**

Anastasiya Nazarenko [an@concorde.com.ua](mailto:an@concorde.com.ua)  
Marina Martirosyan [mm@concorde.com.ua](mailto:mm@concorde.com.ua)  
Andriy Supranonok [sap@concorde.com.ua](mailto:sap@concorde.com.ua)  
Alyona Degrik [dav@concorde.com.ua](mailto:dav@concorde.com.ua)

**Director of Research**

Konstantin Fisun, CFA [kf@concorde.com.ua](mailto:kf@concorde.com.ua)

**Concorde Capital**

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

[office@concorde.com.ua](mailto:office@concorde.com.ua)

**RESEARCH**

**Strategy**

Konstantin Fisun [kf@concorde.com.ua](mailto:kf@concorde.com.ua)  
Oleksandr Klymchuk [ok@concorde.com.ua](mailto:ok@concorde.com.ua)

**Metals & Mining**

Eugene Cherviachenko [ec@concorde.com.ua](mailto:ec@concorde.com.ua)  
Andriy Gerus [ga@concorde.com.ua](mailto:ga@concorde.com.ua)

**Utilities (Telecom, Energy)**

Alexander Paraschiy [ap@concorde.com.ua](mailto:ap@concorde.com.ua)

**Oil & Gas, Chemicals,  
Pharmaceuticals**

Vladimir Nesterenko [vn@concorde.com.ua](mailto:vn@concorde.com.ua)

**Real Estate/Construction**

Andriy Gostik, CFA [ag@concorde.com.ua](mailto:ag@concorde.com.ua)  
Alexander Romanov [ar@concorde.com.ua](mailto:ar@concorde.com.ua)

**Consumer-related**

Olha Pankiv [op@concorde.com.ua](mailto:op@concorde.com.ua)  
Anna Dudchenko [ad@concorde.com.ua](mailto:ad@concorde.com.ua)

**Machinery**

Inna Perepelytsya [pi@concorde.com.ua](mailto:pi@concorde.com.ua)

**Financial Services, Retail**

Alexander Viktorov [av@concorde.com.ua](mailto:av@concorde.com.ua)

**Economics**

Andrii Parkhomenko [pav@concorde.com.ua](mailto:pav@concorde.com.ua)

**Fixed Income**

Oleksandr Klymchuk [ok@concorde.com.ua](mailto:ok@concorde.com.ua)

**Editor**

Brad Wells [bw@concorde.com.ua](mailto:bw@concorde.com.ua)

---

**Disclaimer**

THIS REPORT HAS BEEN PREPARED BY CONCORDE CAPITAL INVESTMENT BANK INDEPENDENTLY OF THE RESPECTIVE COMPANIES MENTIONED HEREIN FOR INFORMATIONAL PURPOSES ONLY. CONCORDE CAPITAL DOES AND SEEKS TO DO BUSINESS WITH COMPANIES COVERED IN ITS RESEARCH REPORTS. AS A RESULT, INVESTORS SHOULD BE AWARE THAT CONCORDE CAPITAL MIGHT HAVE A CONFLICT OF INTEREST THAT COULD AFFECT THE OBJECTIVITY OF THIS REPORT.

THE INFORMATION GIVEN AND OPINIONS EXPRESSED IN THIS DOCUMENT ARE SOLELY THOSE OF CONCORDE CAPITAL AS PART OF ITS INTERNAL RESEARCH COVERAGE. THIS DOCUMENT DOES NOT CONSTITUTE OR CONTAIN AN OFFER OF OR AN INVITATION TO SUBSCRIBE FOR OR ACQUIRE ANY SECURITIES. THIS DOCUMENT IS CONFIDENTIAL TO CLIENTS OF CONCORDE CAPITAL AND IS NOT TO BE REPRODUCED OR DISTRIBUTED OR GIVEN TO ANY OTHER PERSON.

CONCORDE CAPITAL, ITS DIRECTORS AND EMPLOYEES OR CLIENTS MIGHT HAVE OR HAVE HAD INTERESTS OR LONG/SHORT POSITIONS IN THE SECURITIES REFERRED TO HEREIN, AND MIGHT AT ANY TIME MAKE PURCHASES AND/OR SALES IN THEM AS A PRINCIPAL OR AN AGENT. CONCORDE CAPITAL MIGHT ACT OR HAS ACTED AS A MARKET-MAKER IN THE SECURITIES DISCUSSED IN THIS REPORT. THE RESEARCH ANALYSTS AND/OR CORPORATE BANKING ASSOCIATES PRINCIPALLY RESPONSIBLE FOR THE PREPARATION OF THIS REPORT RECEIVE COMPENSATION BASED UPON VARIOUS FACTORS, INCLUDING QUALITY OF RESEARCH, INVESTOR/CLIENT FEEDBACK, STOCK PICKING, COMPETITIVE FACTORS, FIRM REVENUES AND INVESTMENT BANKING REVENUES.

PRICES OF LISTED SECURITIES REFERRED TO IN THIS REPORT ARE DENOTED IN THE CURRENCY OF THE RESPECTIVE EXCHANGES. INVESTORS IN FINANCIAL INSTRUMENTS SUCH AS DEPOSITORY RECEIPTS, THE VALUES OR PRICES OF WHICH ARE INFLUENCED BY CURRENCY VOLATILITY, EFFECTIVELY ASSUME CURRENCY RISK.

DUE TO THE TIMELY NATURE OF THIS REPORT, THE INFORMATION CONTAINED MIGHT NOT HAVE BEEN VERIFIED AND IS BASED ON THE OPINION OF THE ANALYST. WE DO NOT PURPORT THIS DOCUMENT TO BE ENTIRELY ACCURATE AND DO NOT GUARANTEE IT TO BE A COMPLETE STATEMENT OR SUMMARY OF AVAILABLE DATA. ANY OPINIONS EXPRESSED HEREIN ARE STATEMENTS OF OUR JUDGMENTS AS OF THE DATE OF PUBLICATION AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART WITHOUT PRIOR PERMISSION IS PROHIBITED.

NEITHER THIS DOCUMENT NOR ANY COPY HEREOF MAY BE TAKEN OR TRANSMITTED INTO THE UNITED STATES OR DISTRIBUTED IN THE UNITED STATES OR TO ANY U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")), OTHER THAN TO A LIMITED NUMBER OF "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) SELECTED BY CONCORDE CAPITAL.

THIS DOCUMENT MAY ONLY BE DELIVERED WITHIN THE UNITED KINGDOM TO PERSONS WHO ARE AUTHORIZED OR EXEMPT WITHIN THE MEANING OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 ("FSMA") OR TO PERSONS WHO ARE OTHERWISE ENTITLED TO RECEIVE THIS DOCUMENT UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, OR ANY OTHER ORDER MADE UNDER THE FSMA.