



CONCORDE CAPITAL

Ukraine / Real Estate

# TMM Real Estate Development

New projects added to portfolio

April 03, 2008

Current price: EUR 9.85 / USD 15.34  
12M Target: EUR 18.40 / USD 26.04

**BUY**

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During a conversation with us today, TMM's management confirmed that they expect updated portfolio NAV to be released later this month. Eight newly added projects should increase the portfolio's floor plate by a third. While waiting for updated NAV, we maintain our DCF-based target at USD 26.04 per share and confirm BUY.

### Eight new projects to increase portfolio's floor plate by a third

Today we talked with TMM's management and received confirmation that the release of the company's updated NAV, as of December 2007, is due later this month. We view this as a potential price catalyst. TMM's portfolio, being reappraised by Colliers, includes eight new projects. The total area of the additions is over 800 ths m<sup>2</sup>, which, we estimate, would boost the floor plate of TMM's portfolio by nearly a third.

Out of its eight new projects, six are in regions outside of Kyiv, in line with the company's strategy of geographical expansion and diversification. Importantly, TMM increased its presence in the popular resort regions of Crimea and Kherson (four projects, 35% of new additions by area) and entered Zakarpatska region (mineral water resort area in Western Ukraine) with one project.

### Relative valuation suggests upside

TMM's current P/NAV of 0.73 is based on the old appraisal as of June 2007. At the same time, the median P/NAV for its domestic peers, 0.61, is based on published NAVs with much later valuation dates - from September 2007 to March 2008. Meanwhile, median P/NAV for Russian peers is based on December 2007 NAV and currently amounts to 0.64.

We simulated TMM's P/NAV, assuming expected NAV for December 2007 in the range of USD 1.2-1.6 bln, and found that currently the stock may effectively trade at up to a 25% discount to its Russian peer group and up to a 22% discount to its Ukrainian rivals. This confirms our view of TMM as the value stock in the sector.

That said, we think that the Ukrainian real estate sector is fundamentally undervalued and that the valuations are being depressed only temporarily as a result of the global credit crunch. We consider DCF to be a better indicator of the stock's fundamental value than relative valuation and maintain our DCF-based 12-month target at USD 26.04 per share while waiting for the updated NAV.

### Tickers

Bloomberg TR61 GR

### Market information

|                             |             |
|-----------------------------|-------------|
| Market price, EUR           | 9.85        |
| USD                         | 15.34       |
| MCap, EUR mln               | 510.2       |
| USD mln                     | 794.6       |
| Chg YTD                     | -35%        |
| 52 Wk H/L, EUR              | 16.65/9.19  |
| USD                         | 24.09/14.90 |
| DRs per common share        | 1:1         |
| No of shares, mln           | 51.8        |
| Avg Mon Tr Vol YTD, USD ths | 159.3       |
| Free float                  | 13.12%      |
| Free float, EUR mln         | 66.9        |
| USD mln                     | 104.3       |

Prices as of Apr. 3, 2008

### Corporate Governance

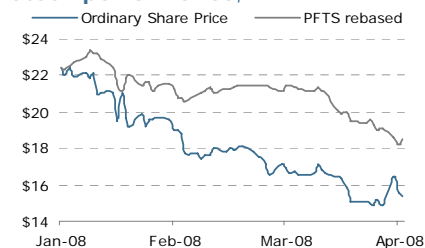
Concorde Rating\* U/R

\* 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.

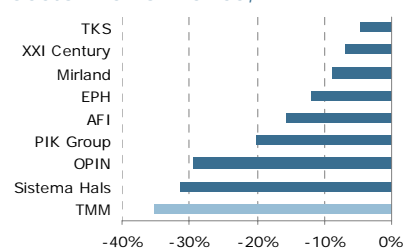
### Shareholders

|                     |       |
|---------------------|-------|
| Mykola Tolmachov    | 70.4% |
| Management          | 16.5% |
| Portfolio investors | 13.1% |

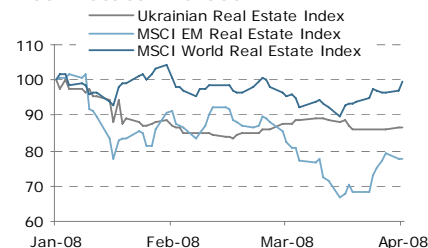
### Stock performance, YTD



### Sector Performance, YTD



### Real Estate Indices



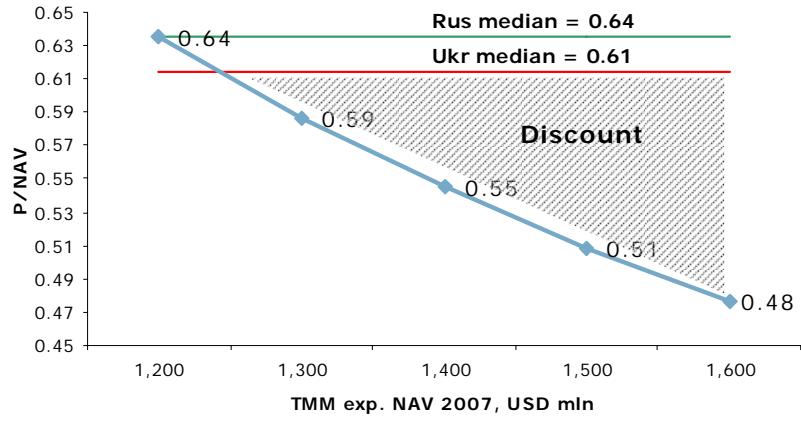
Note: Ukrainian Real Estate Index is MCap-weighted and includes XXI Century, TMM and DUPD. Source: Bloomberg, PFTS

### Key financials & ratios, USD mln

|       | Revenue | EBITDA | Net Income | Book Value | Net Debt/Equity |
|-------|---------|--------|------------|------------|-----------------|
| 2006  | 96      | 18     | 23         | 107        | 0.3             |
| 2007E | 82      | 20     | 18         | 225        | 0.1             |
| 2008E | 183     | 93     | 64         | 274        | 0.7             |
| 2009E | 207     | 113    | 80         | 354        | 0.5             |

Spot exchange rate: 5.05 UAH/USD

**TMM Relative Valuation\***



*Note: Medians are calculated for companies that reported NAV after 3Q07 (KDD Group, XXI Century and AISI in Ukraine, RGI, Mirland, AFI and TM in Russia. NAVs are not adjusted for net debt due to missing financial data. Source: Company data; Bloomberg*

## Financial Statements, IFRS

### Income Statement Summary, USD mln

|                                   | 2006         | 2007E        | 2008F        | 2009F        | 2010F        | 2011F        | 2012F        |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Net Revenues</b>               | <b>96</b>    | <b>82</b>    | <b>183</b>   | <b>207</b>   | <b>404</b>   | <b>579</b>   | <b>613</b>   |
| Cost of Sales                     | (67)         | (56)         | (82)         | (85)         | (134)        | (216)        | (205)        |
| Gross Profit                      | 29           | 26           | 102          | 122          | 270          | 363          | 408          |
| Other Operating Income/Costs, net | -            | -            | -            | -            | -            | -            | -            |
| SG&A                              | (9)          | (7)          | (9)          | (8)          | (8)          | (12)         | (12)         |
| <b>EBITDA</b>                     | <b>18</b>    | <b>20</b>    | <b>93</b>    | <b>113</b>   | <b>262</b>   | <b>352</b>   | <b>396</b>   |
| <i>EBITDA margin, %</i>           | <i>19.1%</i> | <i>24.0%</i> | <i>50.6%</i> | <i>54.8%</i> | <i>64.8%</i> | <i>60.7%</i> | <i>64.5%</i> |
| Depreciation                      | (1)          | (3)          | (5)          | (6)          | (6)          | (6)          | (6)          |
| <b>EBIT</b>                       | <b>17</b>    | <b>17</b>    | <b>87</b>    | <b>108</b>   | <b>256</b>   | <b>346</b>   | <b>390</b>   |
| <i>EBIT margin, %</i>             | <i>17.7%</i> | <i>20.1%</i> | <i>47.7%</i> | <i>52.1%</i> | <i>63.4%</i> | <i>59.7%</i> | <i>63.6%</i> |
| Interest Expense                  | (1)          | (13)         | (23)         | (25)         | (14)         | (4)          | (3)          |
| Financial Income                  | -            | -            | -            | -            | -            | -            | -            |
| Other Income/(Expense)            | 14           | 20           | 5            | 4            | 33           | 131          | 13           |
| <b>PBT</b>                        | <b>30</b>    | <b>24</b>    | <b>69</b>    | <b>86</b>    | <b>275</b>   | <b>473</b>   | <b>400</b>   |
| Tax                               | (7)          | (6)          | (5)          | (6)          | (19)         | (33)         | (28)         |
| <b>Net Income</b>                 | <b>23</b>    | <b>18</b>    | <b>64</b>    | <b>80</b>    | <b>256</b>   | <b>440</b>   | <b>372</b>   |
| <i>Net Margin, %</i>              | <i>23.7%</i> | <i>21.8%</i> | <i>35.1%</i> | <i>38.8%</i> | <i>63.4%</i> | <i>76.0%</i> | <i>60.7%</i> |

### Balance Sheet Summary, USD mln

|  | 2006       | 2007E      | 2008F      | 2009F        | 2010F        | 2011F        | 2012F        |
|--|------------|------------|------------|--------------|--------------|--------------|--------------|
| <b>Current Assets</b>                    | <b>123</b> | <b>310</b> | <b>395</b> | <b>644</b>   | <b>879</b>   | <b>1 014</b> | <b>1 178</b> |
| Cash & Equivalents                       | 1          | 113        | 2          | 2            | 6            | 5            | 5            |
| Trade Receivables                        | 27         | 53         | 55         | 52           | 57           | 58           | 61           |
| Inventories                              | 78         | 130        | 312        | 541          | 741          | 852          | 991          |
| Other Current Assets                     | 18         | 14         | 26         | 50           | 76           | 100          | 121          |
| <b>Fixed Assets</b>                      | <b>153</b> | <b>198</b> | <b>267</b> | <b>387</b>   | <b>550</b>   | <b>810</b>   | <b>950</b>   |
| PP&E, net                                | 77         | 106        | 111        | 109          | 106          | 104          | 101          |
| Investment Property & Other Fixed Assets | 77         | 92         | 156        | 278          | 444          | 706          | 849          |
| <b>Total Assets</b>                      | <b>276</b> | <b>508</b> | <b>663</b> | <b>1 031</b> | <b>1 429</b> | <b>1 824</b> | <b>2 128</b> |
| <b>Shareholders' Equity</b>              | <b>107</b> | <b>225</b> | <b>274</b> | <b>354</b>   | <b>451</b>   | <b>552</b>   | <b>631</b>   |
| Share Capital                            | 67         | 167        | 169        | 169          | 169          | 169          | 169          |
| Reserves and Other                       | 40         | 58         | 105        | 185          | 283          | 384          | 462          |
| <b>Current Liabilities</b>               | <b>124</b> | <b>166</b> | <b>214</b> | <b>499</b>   | <b>956</b>   | <b>1 240</b> | <b>1 464</b> |
| ST Interest Bearing Debt                 | 9          | 24         | 18         | 21           | 20           | 14           | 15           |
| Trade Payables                           | 47         | 22         | 28         | 31           | 32           | 41           | 43           |
| Advances from Customers & Other          | 68         | 120        | 168        | 447          | 904          | 1 185        | 1 406        |
| <b>LT Liabilities</b>                    | <b>45</b>  | <b>118</b> | <b>175</b> | <b>178</b>   | <b>22</b>    | <b>32</b>    | <b>34</b>    |
| LT Interest Bearing Debt                 | 26         | 112        | 169        | 172          | 13           | 14           | 15           |
| Other LT                                 | 19         | 6          | 6          | 6            | 9            | 18           | 19           |
| <b>Total Liabilities &amp; Equity</b>    | <b>276</b> | <b>508</b> | <b>663</b> | <b>1 031</b> | <b>1 429</b> | <b>1 824</b> | <b>2 128</b> |

### Cash Flow Statement Summary, USD mln

|                                  | 2006        | 2007E       | 2008F        | 2009F        | 2010F        | 2011F        | 2012F        |
|----------------------------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Net Income                       | 23          | 18          | 64           | 80           | 256          | 440          | 372          |
| D&A                              | 1           | 3           | 5            | 6            | 6            | 6            | 6            |
| Non-operating and Non-cash Items | (6)         | (60)        | (32)         | (6)          | (34)         | (125)        | (16)         |
| Changes in Working Capital       | 6           | (49)        | (140)        | 34           | 227          | 153          | 59           |
| <b>Operating Cash Flow</b>       | <b>24</b>   | <b>(41)</b> | <b>(103)</b> | <b>113</b>   | <b>454</b>   | <b>474</b>   | <b>421</b>   |
| Capital Expenditures, net        | (40)        | (2)         | (58)         | (119)        | (133)        | (132)        | (129)        |
| Other Investments, net           | (3)         | -           | -            | -            | -            | -            | -            |
| <b>Investing Cash Flow</b>       | <b>(43)</b> | <b>(2)</b>  | <b>(58)</b>  | <b>(119)</b> | <b>(133)</b> | <b>(132)</b> | <b>(129)</b> |
| Net Borrowings/(Repayments)      | 10          | 101         | 50           | 6            | (159)        | (5)          | 2            |
| Dividends Paid                   | -           | -           | -            | -            | (159)        | (339)        | (294)        |
| Equity Financing & Other         | (1)         | 100         | -            | -            | -            | -            | -            |
| <b>Financing Cash Flow</b>       | <b>10</b>   | <b>201</b>  | <b>50</b>    | <b>6</b>     | <b>(318)</b> | <b>(344)</b> | <b>(292)</b> |
| Beginning Cash Balance           | 10          | 1           | 113          | 2            | 2            | 6            | 5            |
| Ending Cash Balance              | 1           | 113         | 2            | 2            | 6            | 5            | 5            |
| <b>Net Cash Inflows/Outflows</b> | <b>(9)</b>  | <b>111</b>  | <b>(111)</b> | <b>0</b>     | <b>4</b>     | <b>(1)</b>   | <b>(0)</b>   |

### UAH/USD Exchange Rates

|          | 2006 | 2007E | 2008F | 2009F | 2010F | 2011F | 2012F |
|----------|------|-------|-------|-------|-------|-------|-------|
| Average  | 5.12 | 5.05  | 5.05  | 5.03  | 5.00  | 5.00  | 5.00  |
| Year-end | 5.05 | 5.05  | 5.05  | 5.00  | 5.00  | 5.00  | 5.00  |

Source: Company data, KPMG, Concorde Capital estimates

# Appendix - Disclosures

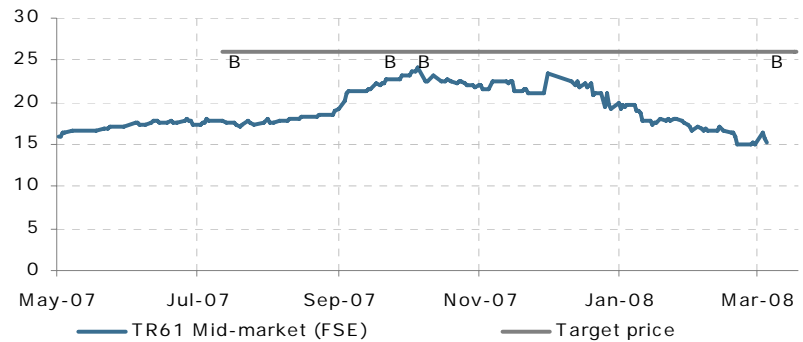
## Analyst certification

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.

### TR61 GR ratings history

| Date      | Target price, USD | Market Price, USD | Rating | Action     |
|-----------|-------------------|-------------------|--------|------------|
| 09-Aug-07 | 26.04             | 17.74             | BUY    | Initiating |
| 25-Sep-07 | 26.04             | 18.32             | BUY    | Maintain   |
| 05-Oct-07 | 26.04             | 21.63             | BUY    | Maintain   |
| 03-Apr-08 | 26.04             | 15.34             | 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.

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|              |            |             |
|--------------|------------|-------------|
| Buy          | 49         | 44%         |
| Hold         | 27         | 24%         |
| Sell         | 19         | 17%         |
| Under Review | 16         | 14%         |
| <b>Total</b> | <b>111</b> | <b>100%</b> |

### Investment banking clients\*

|              |          |             |
|--------------|----------|-------------|
| 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.

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