



CONCORDE CAPITAL

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Ukraine / Telecommunications

**Ukrtelecom**

**3G Mobile Operator Launched**

Current Price: USD 0.22  
12M Target: USD 0.19

**HOLD**

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Bloomberg UTEL UZ  
Xetra UK1  
DR : ord. shares 1 : 50

#### Market information

No of Shares, mln	18,726
Market Price, USD	0.22
52Wk H/L, USD	0.25/0.17
MCap, USD mln	4,195
Free float	2.5%
Free float, USD	105

#### Corporate Governance 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.

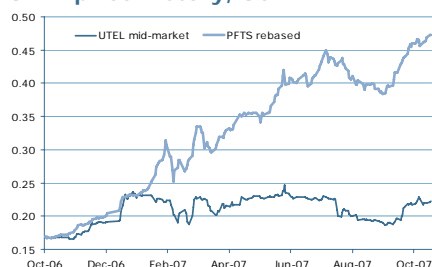
#### Ownership

State	92.86%
Other	7.14%

#### Ratios 2007E

EBITDA Margin	32.1%
Net Margin	5.3%
Net Debt/ Equity	0.15

#### UTEL price history, USD



Source: PFTS

Our impressions of today's presentation by Ukrtelecom's 3G mobile operator under the brand **Utel**:

- Launch is generally positive for Ukrtelecom, which has postponed introduction of its 3G operator several times
- Presentation demonstrated that management has no clear vision for the future of its mobile segment
- We did not find any reasons to revise our target price for Ukrtelecom

We revoke our SPECULATIVE BUY recommendation for the stock, as most of the short-term upside promised by technical analysis has been realized. **HOLD**.

#### New mobile operator presented today

Today is the first day of working of Ukrtelecom's 3G mobile network branded **Utel**. The company is going to provide mobile voice and broadband services in the largest Ukrainian cities, with a focus on quality communication services and low FTM tariffs.

#### Plans for the future: Not clear yet

From today's presentation, our general impression was that Ukrtelecom's management does not have a clear picture of their mobile project's future: the CEO confessed the business plan is still being worked out, thus no mid-term projections for subscriber base exist. They only plan to attract about 10,000 customers by the end of 2007. It looks like the company is only testing the market and could change its strategy in the next couple of years.

#### Market positioning: Premium segment mostly

Ukrtelecom presents its mobile operator as a premium mobile service, thus rejecting competition with major GSM operators on price: no low-cost tariff offers; no discounts for purchasing phones. In contrast to major GSM players' current APRU of around USD 7, Ukrtelecom plans to reach an ARPU level of about USD 16 in 2008. We believe this is realistic: Ukrtelecom's current ARPL is around USD 10. Though, we believe inflexible marketing tactics will not allow the company to increase its customer base quickly: representatives of Utel's target group are already premium customers of major GSM operators, who will do all their best to not let them go.

#### Network coverage: Only in highly populated areas

At the moment, 3G service is available in the six largest cities of Ukraine (18% of Ukraine's population). In addition, Ukrtelecom signed a roaming agreement with Vimpelcom's subsidiary URS, which has a nation-wide GSM network. This means Utel's customers can use voice and SMS services outside of Utel's network.

Total CapEx for installation of base stations was USD 150 mln; about the same amount is planned to be spent in 2008 to cover all 25 regional centers of Ukraine (which hold about 35% of Ukraine's total population). The company does not have plans for nation-wide 3G coverage.

#### Key financials, USD mln

(in USD mln)	Sales	EBITDA Margin	Net Margin	EV/S	EV/EBITDA	P/E
2006	1,327	29.5%	7.0%	3.4	11.6	45.3
2007E	1,379	31.7%	5.5%	3.3	10.4	55.0
2008E	1,444	28.5%	4.4%	3.3	11.5	65.5

UAH/USD Spot exchange rate is 5.05

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## Ukrtelecom 9M07: Slightly better than our forecasts

### 9M07 results

	9M07, USD mln	% to sales	Concorde FY07 forecast (old)
Sales	1004.4		
Gross profit	421.7	42.0%	38.0%
EBITDA	322.0	32.1%	29.8%
Net income	53.6	5.3%	3.1%

Source: Company data

Ukrtelecom's interim margins are slightly higher than our FY07 forecasts, which we relate to higher than expected cost optimization. Based on 9M results, we slightly revise our FY07 forecasts for Ukrtelecom.

### Concorde Capital 2007 forecast revisions, USD mln

	Old	New	Change
Sales	1,401	1,379	-2%
EBITDA	418	437	+5%
Net income	43	76	+77%

Source: Company data, Concorde Capital

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