



CONCORDE CAPITAL

Ukraine / Real Estate

XXI Century Investments

USD 150 mln Eurobonds redeemed

August 26, 2008

Current price: USD 13.8/GBP 7.4
12M Target: U/R

U/R

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XXI Century announced last week that it redeemed the USD 150 mln Eurobonds it placed this May. In our view, the early bond redemption is likely linked to the risk of breaching the issue's covenant. With only about USD 85 mln attracted so far this year (to cover the developer's planned USD 600 mln construction budget), delays in delivering projects looks increasingly unavoidable to us. We place the stock's 12M target price and recommendation Under Review.

Tickers

LSE AIM XXIC

Market information

Market price, GBP	7.2
USD	13.35
MCap, GBP mln	276.10
USD mln	511.31
Chg YTD	-50%
Hi/Lo YTD, GBP	15.23 / 7.2
USD	30.15 / 13.35
No of shares, mln	38.3
Avg Mon Tr Vol YTD, USD mln	14.4
Free float	35.4%
Free float, GBP mln	97.7
USD mln	181.0

Prices as of Aug. 25, 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. Partskhaladze	53.2%
Management	9.4%
Portfolio investors	37.4%

Upcoming events

1H08 audited financials Sep'08

XXI Century redeems Eurobonds placed in May

Last week, XXI Century announced the redemption of its USD 150 mln Eurobonds placed in May. The notes had a coupon of 14% (7% p.a. until August 25, 2008) and were issued with 1,500 warrants attached, each giving the right to subscribe for 4,000 ordinary shares. Had the warrants been exercised, XXI Century would have issued up to 6 mln additional shares (15.7% of the current number). The company's management names minorities' fear of potential dilution as the main reason for redemption.

Deal cancellation spurred by a looming covenant breach?

XXI Century's May 2008 Eurobond offering contained a covenant on minimum interest coverage ratio (EBITDA net of revaluation gain to interest expense of 1.25:1). In our view, the company would risk breaking the covenant as early as 2009. The developer's current financial debt, estimated at USD 282 mln, envisages an interest payment of USD 25 mln this year. The new Eurobond issue would have increased the consolidated interest payment up to USD 36 mln in 2008 and USD 46 mln next year. That said, we project that operating EBITDA in 2009 will be negative, as the majority of the company's completed properties are planned to be sold in 2008 and no new property will become operational in 2009, according to the projects' construction timing.

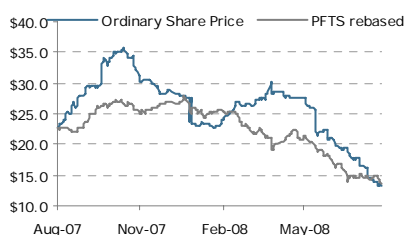
Warrant execution could have helped had they been in-the-money

We think that XXI Century counted on additional equity financing from exercising the warrants attached to its Eurobonds to clear the newly acquired debt. This would effectively be equivalent to holding an SPO. If the warrant exercise price (determined as a volume weighted average stock price during May 23-August 11) had been equal to GBP 14.0 (price at the date of the notes' issue), proceeds from the execution would have reached USD 156 mln, enough to sink the bonds. Yet, the sharp decline in the company's stock price, by 50% during the last three months, put the warrants deeply out-of-the-money: the stock's current price is GBP 7.2 vs. the exercise price set at GBP 10.56.

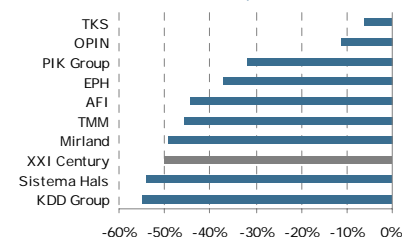
Impact on company's performance is negative, stock under review

We think the company's forced Eurobonds redemption will adversely affect its performance. Early in 2008, XXI Century's management announced their construction budget for the year is USD 600 mln (80% of which should have been financed externally). At the same time, the company has managed to attract USD ~85 mln YTD. This makes postponing the construction of projects unavoidable, in our view. We place our recommendation and target price on the stock under review until we receive clarifications on the sources of funding and updated project portfolio data from the company.

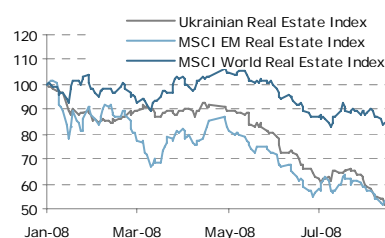
Stock performance, 12M



Sector Performance, YTD



Real estate indices



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

Disclosures

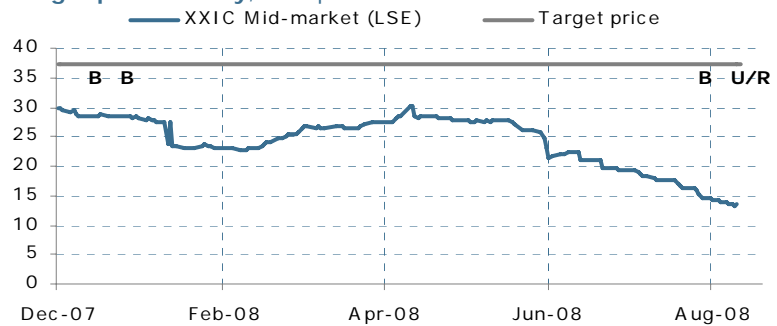
Analyst certification

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.

XXIC LN ratings history

Date	Target price, USD	Market Price, USD	Rating	Action
12-Dec-07	37.2	30.4	BUY	Initiate
22-Jan-08	37.2	24.1	BUY	Maintain
18-Aug-08	37.2	13.8	BUY	Maintain
26-Aug-08	U/R	13.8	U/R	Withdrawn

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	92	74%
Hold	20	16%
Sell	8	6%
Under Review	4	3%
Total	124	100%

Investment banking clients*

Buy	7	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
Total	7	100%

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

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