

Zakhidenergo

Decline anticipated following DTEK buyup

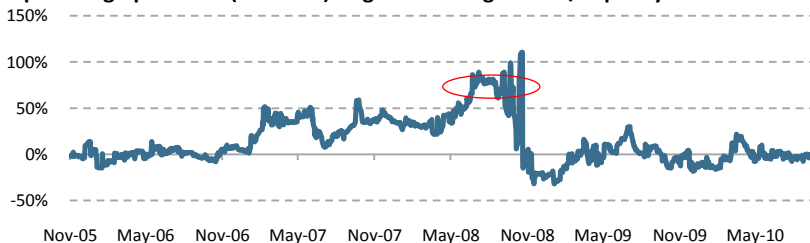
Following DTEK's recent announcement regarding the increase in its stake in Zakhidenergo and the company's continuing purchase of ZAEN stock in the market, we believe Zakhidenergo could decline in the near future. DTEK followed the same pattern with Dniproenergo in 2008, at which time we saw DNEN's stock price fall and liquidity dry up. We recommend exiting Zakhidenergo while the stock is still trading at a 70% premium to local peers.

In late September DTEK, a vertically integrated energy holding in Ukraine, announced the increase of its stake in Zakhidenergo to 24.9% from the 11.3% reported earlier. Additionally, the company requested approval from Ukraine's Antimonopoly Committee to increase its stake beyond 25% (however, we believe the company already owns more stock via affiliated structures).

Rumors DTEK's possible purchase of Zakhidenergo have been swirling around the market for two years (indeed, such rumors prevented a steep decline in ZAEN's stock price over 2H08-2009) and the rumors have come to fruition over the last three months. We view DTEK's recent announcement as an indication that it will soon complete its intended purchase of ZAEN.

We expect DTEK to finish buying Zakhidenergo shares in the market in the near future, which should put an end to the stock's 70% premium to local peers while simultaneously squeezing free float and trading volumes. Indeed, Zakhidenergo's free float has already fallen to 5% (or USD 44 mln) following the announcement and we expect further contraction. We saw a similar story with Dniproenergo, another electricity generating company that DTEK was buying up on the market in 2007-08. Dniproenergo stock was trading at a 50-100% premium to the local peer average on EV/Capacity while DTEK was buying the stock in the market, and returned to the peer average soon thereafter with free float limited to 2.5%. Though fundamentally the strongest among traded generating companies, Dniproenergo has traded in line with the sector average since, with average trading volumes of USD 600 k per month (versus USD 1-10 mln during DTEK's active buying).

Dniproenergo premium (discount) to genco average on EV/Capacity

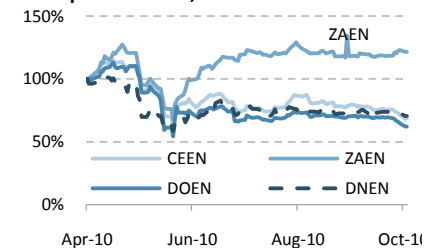


Zakhidenergo premium (discount) to genco average on EV/Capacity



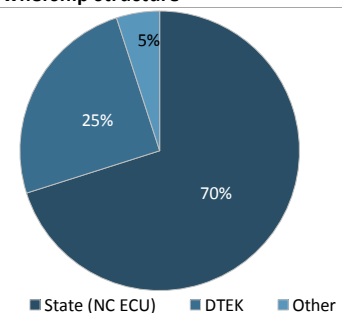
Report date	6 Oct 2010
Bloomberg	ZAEN UK
Reuters	ZAEN=UA
Recommendation	SELL
Price (06 Oct 10), USD	68.9
12M price target, USD	50
No of shares, mln	12.79
Market Cap, USD mln	884.9
52-week performance	56%
52-week range, USD	39.6/72.9
ADT, 12M, USD mln	0.1
Free float, %	5%
Free float, USD mln	44

Price performance, 6M



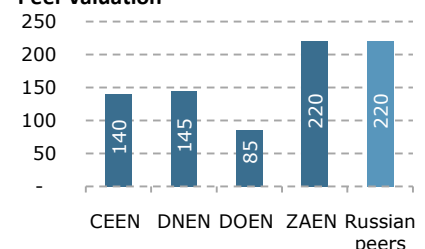
Source: Bloomberg, UX

Ownership structure



Source: Company data

Peer valuation

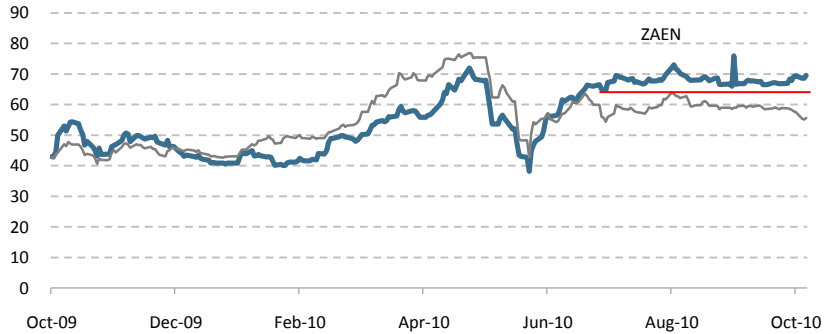


Source: Bloomberg, company data

Proper timing: 1-2 month horizon for exit

We advise closing out positions in the stock over the next 1-2 months. We see the support level at USD 65 per share (which might be the price DTEK is buying at), but note that there could be a privatization announcement for the state's 70% stake in 4Q10. Earlier this summer, the State Property Fund said it will announce privatization of one of the four generating companies in 4Q10, and we see Zakhidenergo as one of the two most likely candidates (along with Dniproenergo). Though any privatization announcement would stimulate buying sentiment toward the stock, there will be sellers who bought on rumors. The starting price may well be lower than anticipated, given that DTEK is likely to be the only bidder and will press for the lowest possible price.

ZAEN price, USD per share



Source: Bloomberg

Disclosures

Analyst certification

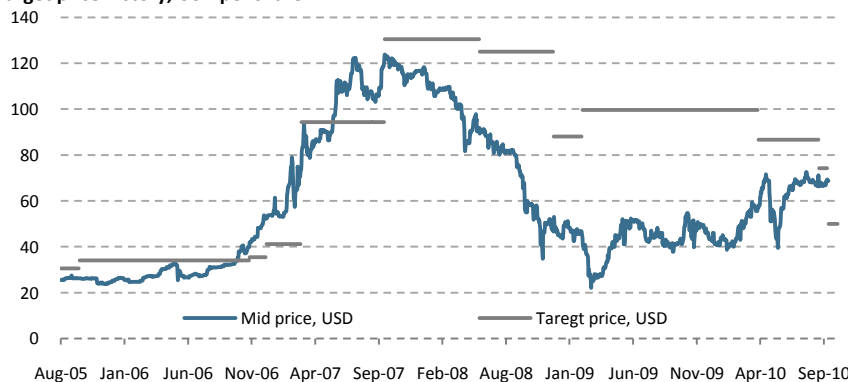
I, Yegor Samusenko, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Zakhidenergo ratings history

Date	12M target price, USD	Market price, USD	Recommendation	Action
13-May-05	29	27.7	HOLD	Initiate
30-May-05	30.5	27.7	HOLD	Maintain
19-Jul-05	30.5	24	BUY	Upgrade
26-Sep-05	34	26	BUY	Downgrade
26-Jun-06	34	26.5	BUY	Maintain
25-Sep-06	34	32	HOLD	Downgrade
15-Nov-06	35.4	40	SELL	Downgrade
28-Nov-06	35.4	41	SELL	Maintain
22-Dec-06	41.2	52.8	SELL	Maintain
21-Mar-07	94.3	73.4	BUY	Upgrade
2-Apr-07	94.3	88.1	HOLD	Downgrade
10-Sep-07	94.3	103.8	SELL	Downgrade
10-Oct-07	130.4	121.7	HOLD	Upgrade
28-May-08	125	89.1	BUY	Upgrade
24-Nov-08	88	51.5	HOLD	Downgrade
26-Nov-08	88	53.0	HOLD	Maintain
03-Feb-09	96.6	45.7	BUY	Upgrade
08-Apr-10	86.7	56.9	BUY	Maintain
06-Sep-10	74.3	66.8	HOLD	Downgrade
06-Oct-10	50	26	SELL	Downgrade

Note: In July 2009, Yegor Samusenko took over coverage; prior to that point, it was covered by other Concorde analysts.

Target price history, USD per share



Source: Bloomberg, Concorde Capital

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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