

22 September 2011

Zakhidenergo, Kyivenergo

Starting auction prices announced at 67 and 128% premiums, respectively

- Yesterday the Cabinet of Ministers approved the starting price for Zakhidenergo at a 67% premium to yesterday's close and for Kyivenergo at a 128% premium
- We believe privatization, especially at a premium to the current market, will be a catalyst for the entire sector
- We downgrade our target price for Zakhidenergo to USD 42 per share from USD 47.4 as we see no reason for the stock to trade above its privatization price

Starting auction prices for privatization announced. Yesterday the Cabinet of Ministers approved a starting price for Zakhidenergo at a 67% premium to yesterday's close and for Kyivenergo at a 128% premium to yesterday's offer.

Privatization starting price

Company name	Ticker	Stake	Starting price, UAH mln	Implied price per share, UAH	Closing price, Sep 20
Zakhidenergo	ZAEN	45.1%	1,930	335	200
Kyivenergo	KIEN	25.0%	432	16	7*

*Last offer price used instead of closing due to stock's illiquidity
Source: State Property Fund

We expect the State Property Fund to publish an official announcement in short order, with the actual auction taking place 75 days after that, which implies a December privatization date.

DTEK is most likely suitor for both companies. We believe DTEK is the most likely and only bidder for both stakes, as it is the only candidate that would be able to gain control over the companies via privatization of the stakes. Thus, we see privatization taking place at close to the starting price.

Ownership structure

	State (to keep)	State (to offer for privatization)	DTEK	Other
Zakhidenergo	25.0%	45.1%	24.9%	5%
Kyivenergo	25.0%	25.0%	40.0%	10%

Source: Securities Commission

Announced prices imply USD 116 per share for Dniproenergo. The starting price for Zakhidenergo implies an EV/kW of capacity multiple of USD 138. Using this as a guide for the privatization of Dniproenergo, which we expect could be announced in 4Q11-1H12, the implied price would be USD 116 per share, 16% above the current price.

No put option for minorities during privatization. Ukraine's Securities and Exchange Commission said that minorities will not have a put option during privatization, even though Ukrainian law provides a put option in case of majority owner change.

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Bloomberg	ZAEN UK
Reuters	ZAEN=UA
Recommendation	HOLD
Price (21 Sep 11), USD	36.14
12M price target, USD	42
Upside	16%

No of shares, mln	12.791
Market Cap, USD mln	462.3
52-week performance	-46%
52-week range, USD	22.5\70.0
ADT, 12M, USD mln	0.06
Free float, %	5%
Free float, USD mln	23.1

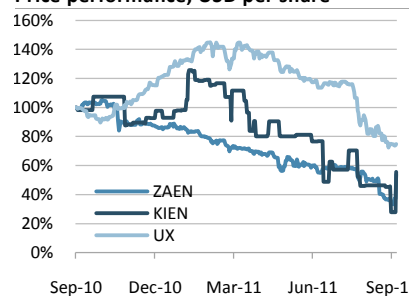
Prices as of Sep. 21, 2011

Bloomberg	KIEN UK
Reuters	KIEN=UA
Recommendation	N/R
Price (21 Sep 11), USD	1.00
12M price target, USD	N/A
Upside	N/A

No of shares, mln	108.4
Market Cap, USD mln	108.4
52-week performance	-44.1%
52-week range, USD	0.5\2.24
ADT, 12M, USD mln	0.01
Free float, %	2%
Free float, USD mln	2.17

Prices as of Sep. 21, 2011

Price performance, USD per share



Source: Bloomberg, UX

Multiples

The starting price for the privatization of Zakhidenergo implies an EV/kW of installed capacity multiple of USD 138, higher than all other multiples in the sector, even though Zakhidenergo's asset quality is the poorest, in our view.

GenCo multiples

	EV/S		EV/EBITDA		EV/Capacity		EV/MWh
	2011E	2012E	2011E	2012E	coal-fired	total capacity	USD per MWh
Centrenergo	0.5	0.4	10.6	5.4	108	65	31.9
Dniproenergo	0.6	0.5	5.1	2.9	121	86	45.2
Donbasenergo	0.2	0.2	24.7	4.1	44	44	13.5
Zakhidenergo	0.6	0.5	16.1	7.1	122	122	50.4
Harmonic mean	0.4	0.4	10.2	4.4	82.1	68.7	27.1
OGK-1	0.6	0.6	4.0	3.7		137	41.1
OGK-2	0.8	0.8	5.0	4.6		177	31.0
OGK-3	0.7	0.6	8.1	4.2		121	34.3
OGK-4	2.1	1.7	6.0	4.6		524	83.8
EneI OGK-5	1.5	1.3	6.0	4.9		356	75.1
OGK-6	0.7	0.6	7.1	4.5		135	42.1
Russian OGKs harmonic mean	0.9	0.8	5.7	4.4		180	44.5

Source: Company data, Bloomberg, Concorde Capital

Appendices

Analyst certification

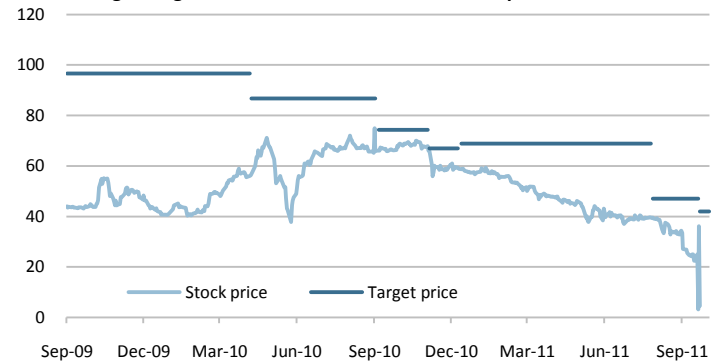
We, Yegor Samusenko and Antonina Davydenko, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific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

Zakhidenergo rating history

Date	ZAEN price, USD	
	Closing	Target
13-May-05	27.7	29.0
30-May-05	27.7	30.5
19-Jul-05	24.0	30.5
26-Sep-05	26.0	34.0
26-Jun-06	26.5	34.0
25-Sep-06	32.0	34.0
15-Nov-06	40.0	35.4
28-Nov-06	41.0	35.4
22-Dec-06	52.8	41.2
21-Mar-07	73.4	94.3
2-Apr-07	88.1	94.3
10-Sep-07	103.8	94.3
10-Oct-07	121.7	130.4
28-May-08	89.1	125.0
24-Nov-08	51.5	88.0
26-Nov-08	53.0	88.0
03-Feb-09	45.7	96.6
08-Apr-10	56.9	86.7
06-Sep-10	66.8	74.3
05-Nov-10	66.8	66.9
13-Dec-10	59.0	68.8
28-Jul-11	39.6	47.0
22-Sep-11	36.1	42.0

Source: Bloomberg, Concorde Capital

Zakhidenergo: Target Price vs. Share Performance, USD per share



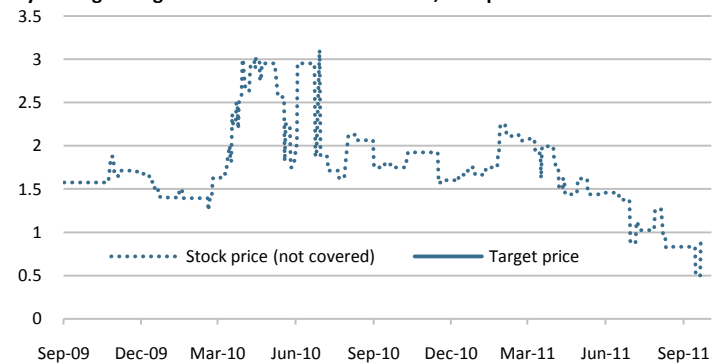
Source: Bloomberg, Concorde Capital

Kyivenergo rating history

Date	KIEN price, USD	
	Closing	Target
15-Aug-05	1.40	1.70
07-Apr-06	1.50	2.25
06-Oct-06	1.02	1.74
24-Jan-07	2.32	4.00
24-Jan-07	2.85	4.00
13-Apr-07	3.90	4.00
28-Sep-07	5.92	7.50
13-Nov-07	8.50	7.50
04-Apr-08	6.40	7.50
06-Feb-09	1.08	4.50
15-Jul-09	1.50	N/R
15-Jul-09	1.50	N/R

Source: Bloomberg, Concorde Capital

Kyivenergo: Target Price vs. Share Performance, USD per share



Source: Bloomberg, Concorde Capital

Investment ratings

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