Ukraine Investment Guide 2010

astrum
investment management

December 01, 2009

Dear valued investor,

In December'09, just eight months after Astrum started providing coverage of Ukrainian stocks and bonds, we are proud to admit that we have been correct in our main forecast that the Ukrainian economy and its specific sectors and companies would weather what has been a difficult 2009. Back in March'09, amid the doom and gloom of the Ukrainian stock and FX markets' turmoil, we identified the strongest sectors and companies that we believed would be strong enough to pull through and rise from the bottom of the late 2008 – early 2009. These sectors and companies have shown strong resilience and have successfully addressed problems posed by the changing market environment. We believe that their strong management will continue to drive these sectors and companies up in 2010 and beyond.

The year 2010 should still present challenges for Ukraine's economy and companies. The major challenge in 2010 is the price hike for imported natural gas. This should be a serious issue for Ukraine's steelmakers and chemical companies which should see their input gas prices go up by 25% in USD terms. At the same time, the prospects for these two industries are different. We expect that the steelmakers will benefit from the strong global demand and prices for steel, which should also create great opportunities for coke makers. Chemical companies, however, should continue to suffer in 2010 and government support is not enough to make us optimistic about this industry in the 12M perspective. The reviving global demand is the major factor contributing to our optimism for 2010. It should help energy machinery and aviation engine makers consolidate the positions they have successfully built up in 2009. Ukraine's iron ore makers should also benefit from strong demand and prices, as should the Country's oil and gas companies. Private agricultural companies boasting higher than domestic average yields and profitability should also be among the winners in 2010. The Ukrainian electricity sector should recover in 2010 thanks to higher electricity prices and the imminent reform of wholesale and oblenergo tariffs. Ukrainian banks should post positive earnings in 2010 in relation to improving asset quality and the gradual restoration of crediting. Overall, we expect that Ukraine's industrial output will grow by 9.5% and that real GDP will rise by 5% in 2010. Our forecast for real GDP growth in 2011-14 is upbeat, with annual growth rates in the range of 3%-6%. The prospects of stabilization of the UAH/USD exchange rate in 2010 should add to the appeal of the hryvnia-denominated assets.

Our recommendations for stocks and bonds proved to be 'right on the money', so to speak, in 2009. The performance of our BUYs has constantly exceeded the performance of the HOLDs and the performance of the HOLDs has constantly exceeded that of the SELLs. Those bonds, which we have recommended that you BUY, have grown in price and have been redeemed. Moving forward, we are consistently refining our approaches in valuing stocks and bonds. Our expectations of the upward direction of stock multiples in 2009 on both global and Ukrainian markets have materialized. This gives us confidence that our forward-looking analysis, which shows that the multiples will remain strong in 2010, will also prove correct. While bond yields have dropped, there are still a number of lucrative and safe opportunities in both the domestic bond and Eurobond segments.

We believe that these opportunities create a brilliant base for our potential cooperation in 2010. We continue to be at your service, ready to address your needs with our world-class skills. Please have a more detailed look at our recommendations and when you contact us, we will be available at our phones and e-mails to set off on an exciting investment journey with you.

Sincerely yours,

Maxim Blank,

CEO, Astrum Investment Management

Yuri Belinsky

Head of Research, Astrum Investment Management

Contents

Investment summary

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Fixed income

On the domestic debt market, we recommend that investors focus on sovereign and quasi-sovereign bonds. The main trading idea at the moment is domestic government bonds (OVGZ), which in late 2009 have attractive 23%+ yields, both on the primary and secondary markets. OVGZs should also provide investors with trading income as a result of the growth in their prices in 2010. In the corporate segment, the choice of bonds is limited. Thus, we recommend that investors buy only select two bonds from the most trusted issuers, both of them owned by the state.

BUYs: Domestic bonds

Bond	Amount, UAHm	Current yield	Maturity	Put option	Key drivers of recommendation
Boryspil 3-A	300	28.0%	19.04.2010	n.a.	State support for extension of terminals, strong of solvency thanks to favorable terms of loans
Ukrtelecom 2-C	50	30.0%	05.11.2012	annually	State support, strong market position
Ukrtelecom 2-D	50	30.0%	04.02.2013	annually	State support, strong market position
Ukrtelecom 2-E	50	30.0%	06.05.2013	annually	State support, strong market position
Ukrtelecom 2-F	50	30.0%	05.08.2013	annually	State support, strong market position
Ukrtelecom 2-G	50	30.0%	04.11.2013	annually	State support, strong market position

In the Ukrainian Eurobond segment, we recommend buying Ukraine's sovereign bonds and several corporate bonds, which should show gains primarily due to a reduction in sovereign risk after February 2010, following the presidential elections. The yield curve for Ukrainian external public debt remains inverted in connection with continuing fears about Ukraine's default risks, which we believe to be unfounded. This presents a window of opportunity in terms of purchasing bonds, whose yields are significantly higher than for analogous bonds in other countries due to overestimation of Ukraine's sovereign risk.

BUYs: Eurobonds

Bond	Amount, USDm	Current yield	Maturity	Coupon	Key drivers of recommendation
Azovstal-11	175	15.7%	28.02.2011	9.1%	Strong market position, low level of debt
MHP-11	250	14.5%	30.11.2011	10.3%	Strong position on growing poultry meat market, high profit margins and level of transparency
UkrSibbank-11	500	13.4%	21.12.2011	7.8%	BNP Paribas support, high capital adequacy
Alfa-Bank Ukraine-12	841	18.6%	30.07.2012	13.0%	Parent support
Ukreximbank-11	500	17.7%	07.09.2011	7.7%	State support and access to government projects, high quality loan portfolio
Pryvatbank-12	500	22.0%	06.02.2012	8.0%	Strong market position, low refinancing needs

Equity

In late 2009, we issue BUY recommendations for 29 Ukrainian stocks from nine different sectors, which should exhibit strong operational and financial performance in 2010 and onwards. We expect that, in late 2010, companies from Ukraine's non-financial sectors will be trading in line with their global peers historic EV/EBITDA levels of 5.1-14, which were average for 2006-09, or even higher than such levels. This should become possible as a result of the expected recovery of Ukrainian companies' bottom lines on the back of the recovery of domestic and export markets and the generally strong global stock market valuations. We also expect that, in 12M, the stock market will see an increase in Ukrainian banks' valuations to 2010 P/Book of 1.75, on average, due to the improving quality of bank assets and their growing profits. The valuations of Ukraine's thermal gencos should rise closer to Russian OGKs' current EV/Capacity of USD 211 per kW thanks to the onset of electricity market reform in Ukraine.

BUYs: Stocks

Ticker	MPrice, USD	MCap, USDm	Upside	2010f EV/EBITDA	Key drivers of recommendation
ALMK	0.016	414	53%	6	The most up-to-date production capacity in the industry, the industry-highest forecast output growth in 2007-14
AST PW	16	418	29%	8.4	Large clients with stable demand, vertical integration in sugar business, use of energy saving technologies
AVDK	1.37	266	46%	3.5	Growing demand for coke within Metinvest, secured coal supplies within Metinvest
AZST	0.326	1,370	50%	4.6	High level of self-sufficiency in inputs within Metinvest; one of the sector's leaders by profit margins
BAVL	0.032	752	74%	0.79*	Strong market position and high capital adequacy ratio
CEEN	1.28	473	69%	103**	Higher than industry average expected output growth supporting bottom-line growth in 2010-14
CHEN	0.37	21	134%	2.7	Growth of investment program, reduction of grid losses and introduction of RAB tariffs, likely privatization by VSE
CHON	0.37	55	58%	3.9	Growth of investment program, reduction of grid losses and introduction of RAB tariffs in 2010-14
DMKD	0.063	430	47%	5.3	Modern production capacity, recovery of output and profit margins in 2010-14
DNEN	111	655	67%	114**	Extensive modernization program and cheaper financing secured by DTEK
DOEN	8.3	197	70%	77**	Commission of a new CFB boiler in 2010 which should help raise output and profit margins in 2010-14
ENMZ	20.3	214	48%	4.9	Secured input supplies within Metinvest, forecast improvements in transparency
FORM	0.72	163	108%	0.66*	Continuing financing from Commerzbank and the EBRD supporting expected asset growth
HMON	0.42	57	108%	3.1	Growth of investment program, reduction of grid losses and introduction of RAB tariffs, possible privatization by VSE
JKX	4.71	731	90%	3.8	Growth of output thanks to development of gas extraction in Hungary and Russia, industry-highest profit margins
KER PW	14.8	1,069	30%	6.7	Vertical integration providing strong market position on vibrant domestic and global sunflower oil markets
KION	0.36	43	68%	3.9	Preferential distribution and supply tariffs, reduction of grid losses in 2010-14
KVBZ	2.24	257	27%	6.7	Resumed renovation of CIS railway stock in 2010-14 and KVBZ's strong market position
MHP	10.8	1,196	73%	4.8	Strong market position on growing domestic poultry market, prospective launch of poultry exports to the EU
MMKI	0.303	1,017	45%	4.7	The lowest transfer pricing and the lowest debt burden in the Ukrainian steel industry
MSICH	197	408	48%	4.9	Strong demand for MSICH's engines due to growing aircraft and helicopters sales in Russia and Asia
PGOK	3.5	671	34%	6.9	Growth of output, net sales and profit margins on strong global demand for iron ore
SMEN	1.27	34	68%	3.8	Preferential distribution and supply tariffs, reduction of grid losses in 2010-14
TATM	0.56	236	28%	13.3	Growing global demand for generation equipment in 2010-14 and TATM's strong competitiveness
TOEN	0.28	17	186%	2.4	Growth of investment program, decline of grid losses, new RAB tariffs, possible privatization by Energy Standard
UNAF	21.4	1,158	43%	4.9	Growth of sales on development of capacity, recovery of profit margins on declining transfer pricing
USCB	0.045	569	106%	0.72*	Higher than industry average operational efficiency
YASK	0.372	102	52%	3.5	Growing demand for a high quality coke in Ukraine and abroad; high level of self-sufficiency in coal within Donetskstal
ZHEN	0.34	41	53%	4.7	Preferential tariffs, growth of investment program, reduction of grid losses in 2010-14

** - P/Book ** - EV/Capacity*

Macro outlook

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Macroeconomy

Recession left in 2009

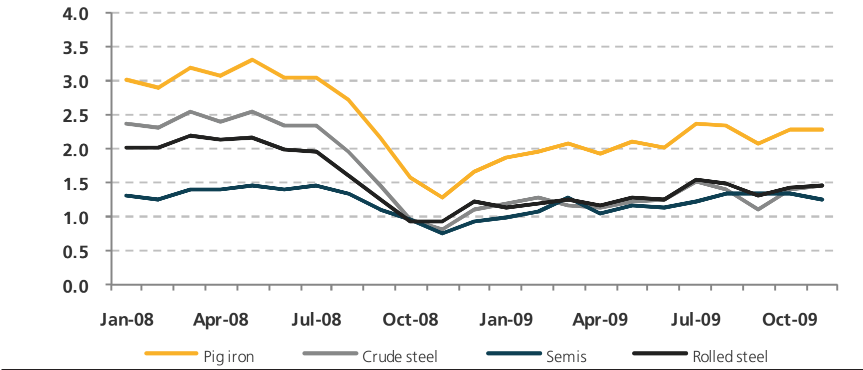
We estimate the real GDP contraction in 2009 at 13.5%.

In 2009, Ukraine's economy produced its worst results since 1994... After a sharp drop in 4Q08-1Q09, the Ukrainian economy hit its bottom in 1H09, with the real GDP contraction rate at 19% y/y in 1H09. We estimate real GDP contraction in 2009 at 13.5%. This is the worst result for the Ukrainian economy since 1994, when the collapse associated with the transition to a market economy produced a 22.9% decline amid hyperinflation and an across-the-board reshuffle in demand.

Steel production is still 30-40% below its pre-crisis peak, but already 60% above its lowest point...

...but things are not all that bad. At the same time, the 2009 recession is likely to be a short-lived one, with no devastating effect of continuous economic stagnation. The recovery is already under way on the back of global markets emergence from the recession, supported by extensive liquidity injections by central banks and state stimulus programs worldwide. This has already reignited external demand. For instance, despite a 30%-40% decrease in November'09, compared to the peak in May'08, the monthly output of the Ukrainian steel industry's key products is already 60% above its low, reached in November'08. As the steel industry is the backbone of the Ukrainian economy and since demand for steel is a proxy for general external demand, the state of the industry is usually a leading indicator for Ukraine's economic development.

Steel production, mln tonnes

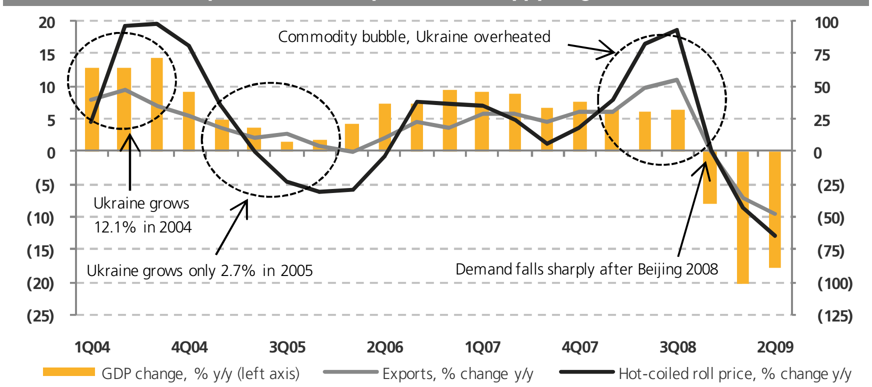


Source: State Statistics Committee

Comparison of the current crisis with the 1990s is irrelevant: adjustment should be prompt and should not bring a prolonged depression.

The crisis in Ukraine: harmful, but not devastating. Notwithstanding its severity, the recession in Ukraine is not associated with a prolonged depression. Unlike the situation in the 1990s, the Ukrainian economy is now much closer to a market economy, reacting quickly to external shocks such as sharp drops in demand and steel prices and a remarkable economic downturn among key trade partners. In particular, in reaction to weakening domestic demand, the CPI growth rate decreased more than twofold from pre-crisis levels, from 31.1% y/y in May'08 to 13.6% y/y in November'09, softening the decline in real disposable household income. We expect that the domestic economy will also quickly react to the growth of external demand.

Ukrainian GDP, exports and steel prices: (un)happy together



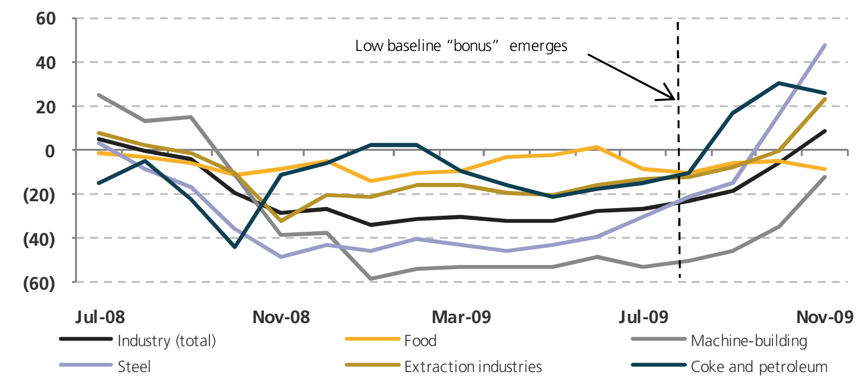
Sources: State Statistics Committee, NBU, Steel Business Brief, Astrum estimates

Adjustment of external imbalances: a delayed task implemented by the crisis. We believe that the current Ukrainian recession has brought an across-the-board structural adjustment that was mostly associated with the external sector and was previously delayed by the overheating of the Ukrainian economy and global commodity markets. This adjustment eventually began in late 2008. In particular, the exchange rate devalued sharply, from UAH/USD 4.85 in the summer of 2008 to UAH/USD 8.00 in December'09, cutting the 10M09 imports of goods and services by 48.5% y/y. This consequently re-balanced the current account, which used to be one of the key economic imbalances; we estimate that the current account deficit dropped from a massive 7.1% of GDP in 2008 to just 1% in 2009.

Suffering has been uneven among Ukraine's key industries. The crisis hit export-oriented industries the most. Output in steel, chemicals and machine-building in 1H09 declined the most, by 35%-55% y/y, while domestically-oriented food processing, retail and the services sector managed to pass the crisis with only a 5%-22% decline. At the same time, diminishing investment, the hryvnia's devaluation, and the credit crunch halved the output of the construction materials industry. This kind of development of the crisis, induced by an external shock, once again underlines that the Ukrainian economy has at least three layers: (1) the industries that are highly exposed to external markets demonstrate high output volatility; (2) other 'spinoff' industries that are highly dependent on them; (3) the domestic market is sustainable enough to support demand for locally-oriented industries products, with construction materials being a notable exemption.

The crisis underlined that the economy consists of three layers: export-oriented industries, "spinoff" industries and domestic-oriented ones.

Industrial output, % change y/y



Source: State Statistics Committee

Ukraine's recovery should, once again, be externally-led. Despite structural adjustments brought about by the crisis, Ukraine's economy is still characterized by a high level of openness. We estimate the exports-to-GDP ratio in 2009 at 45.5%, compared to 47.5% in 2008. However, the local resource base for development remains limited. On the one hand, Ukrainian banks are recuperating from the devastating impact of the deposits' outflow, coupled with the negative effect of the exchange rate devaluation on their external borrowings. On the other, the government's fiscal expenditures are significantly overstretched vs. potential revenues and thus, the government cannot step in with any massive stimulus programs. This means that recovery will be fueled externally, once again.

Ukraine's economy is still highly open: the exports-to-GDP ratio should be at 45.5% in 2009.

2010: a year of reigniting growth

All key sectors should grow in 2010, resembling the recovery in 2000. In 1H10, growth rates should continue enjoying the low baseline factor that was evident throughout 2H09, while stronger external demand should add to the growth. In particular, steel industry output should grow by 11% in 2010 and machine-building should rise by 18%, while the total industrial output should grow by 9.5%.

We expect Ukraine's real GDP to grow by 5% in 2010. Higher external demand should have a spill-over effect for the domestic market. All key demand-side components of GDP should provide positive contributions to economic growth in 2010. After falling below the 20%

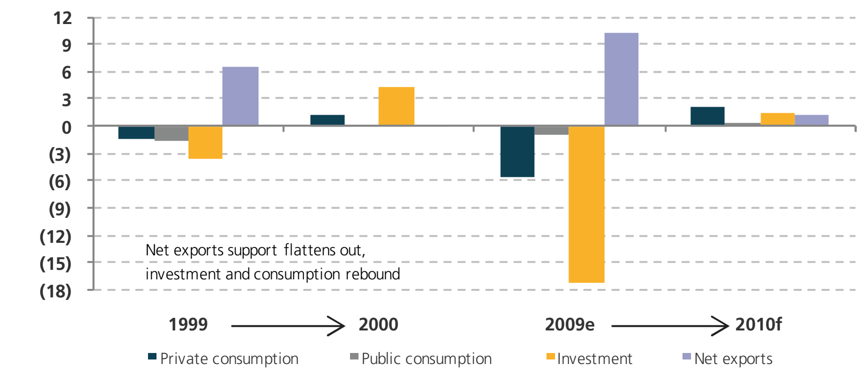
The economy should post a growth of 5% in 2010.

of GDP level in 2009, investment should regain its role in the economy, growing 8% in real terms in 2010. At the same time, consumption growth should lag behind, constrained by inflationary pressure on disposable incomes, which should be flat in real terms, and by retail lending, which should remain anemic. We expect that total consumption will increase by just 2.5% in real terms in 2010.

Growth scenario for 2010 should resemble the profile of the rise in 2000.

Thus, economic growth in 2010 should be different in nature compared to 2005-08, when household demand was a key driver. Actually, the path of recovery in 2010 should resemble the 2000 scenario, when export-oriented industries led the economy out of the 1998-99 crisis.

Contributions into real GDP growth, p.p.



Source: State Statistics Committee, Astrum estimates

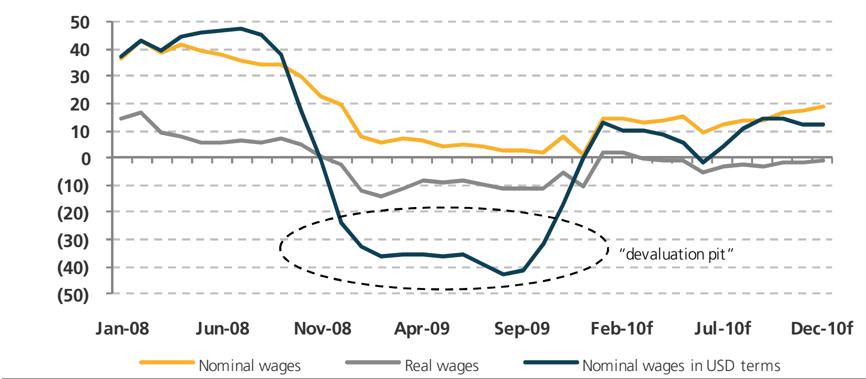
The pre-election price holds in 2009 and economic recovery should mean more inflation in 2010.

Inflation should speed up due to economic recovery and administrative price increases. The year 2010 should be marked by increased inflationary pressures in the economy, as the Consumer Price Index (CPI) should grow 20% Dec/Dec. Acceleration in CPI from an estimated 13% Dec/Dec in 2009 should be caused by two major factors. First, following the elections, the government should allow residential tariffs for gas and electricity to increase, bringing them much closer to the level of actual costs. Second, growth in demand should spur inflation, with the recent acceleration in Producer Price Index (PPI), from a 3.6% y/y decline in August'09 to a 12.8% y/y growth in November'09, mounting in a spill-over effect into the CPI indicator.

In 2010, real wages should be close to flat as a result of high inflation.

Wage growth in 2010 should be cautious. We expect that wage inflation will not mount significantly in 2010. Businesses should still be concerned about cost-saving while the high unemployment rate should prevent labor from becoming significantly more expensive. At the same time, the government should have limited opportunities to lead the process by inflating the minimum wage in 2010, as the budget should be constrained by a deficit amounting to 6% of GDP and the elections will be over, with no need to please voters. At the same time, increased inflationary pressure from growing utility prices should bring wages down in real terms. We expect that nominal wages will grow 14.4% on average in 2010, while real wages will decrease by 1.4%. This should mean flat real disposable household incomes in 2010.

From unsustainable to modest: wages, % change y/y



Source: State Statistics Committee, Astrum estimates

State budget: significant deficit to persist. We estimate the fiscal deficit in 2009 at UAH 65bln, or 7% of GDP. Moreover, as the government tapped into state companies' budgets, used the USD 2bln SDR allocation from the IMF, and continued to use advance tax payments and delayed VAT reimbursement, the real fiscal deficit should stand at above 10% of GDP. We expect that the government will still have a significant fiscal deficit in 2010. We expect that pre-election initiatives, like a massive increase in the minimum wage and pensions, will not be included in the finally approved version of the 2010 budget. At the same time, state coffers should still face revenue shortages due to the fact that the economy should not recover to pre-crisis levels. Thus, we expect that the fiscal deficit in 2010 will amount to UAH 67bln, the equivalent of 6% of GDP. The most of the deficit's financing should come from external sources that is, from international financial institutions and from Ukraine's re-entry to the commercial sovereign debt market in 2H10. Moreover, we expect that, in 2010, the government will issue domestic bonds worth UAH 24bln and that UAH 12bln will come from privatization.

The 2010 fiscal deficit should amount to 6% of GDP.

BoP: to get almost balanced, at last

In 2009, the financial account went into the red, with the current account cutting its deficit... According to our estimates, in 2009, the financial account developed a significant gap, unlike the more or less balanced current account. The diminished capital inflows were only partially offset by the IMF, which added USD 6bln in loans and USD 2bln as an SDR allocation. According to our estimates, the financial account posted a deficit of USD 6bln (5.1% of GDP).

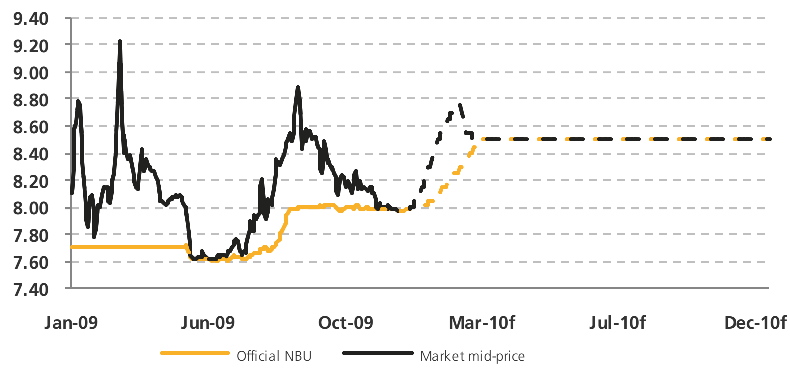
...while in 2010, both accounts should become almost balanced. We expect that the current account will post a deficit of USD 0.5bln in 2010. The weighted average imported natural gas price growth from USD 210 per 1,000 cubic meters in 2009 to USD 325 in 2010 should prevent the current account from pulling out of the red, which would otherwise be the case. At the same time, in 2010, the financial account should reduce its deficit to just USD 0.5bln due to continued cooperation with the IMF, the revival of external loans, and increased foreign direct investment. These BoP factors should provide support for the hryvnia, preventing it from going either upwards or downwards.

In 2010, the consolidated deficit in the BoP should be minimized to USD 1bln.

Exchange rate: fluctuations should end soon. We believe that, after the painful volatility, which began in autumn 2008, the hryvnia's exchange rate is now close to stabilization. After the adjustment of the current account and the massive external debt redemption periods that followed, and supported by less liquidity in the national currency, the exchange rate in autumn'09 found its new "balanced" level in the range of UAH/USD 8.0-9.0. We expect that exchange rate volatility will remain in 1Q10 amid electoral psychological factors, continued speculations on cooperation with the IMF, and another period of strong payments due on external debt. In 2Q10, the rate should stabilize at the UAH/USD 8.5 level, which should persist until the end of the year. We expect that the NBU will continue its "managed float" currency policy. However, low exchange rate volatility in 2Q10-4Q10 should put an end to the "exchange rate dualism" seen when the official rate significantly differs from the market rate.

The exchange rate should stabilize at UAH/USD 8.5 in 2Q10.

Exchange rates, UAH/USD



Sources: NBU, InterBusinessConsulting agency, Astrum estimates

Beyond 2010: Ukrainian economy to grow by 5% annually on average in 2011-14

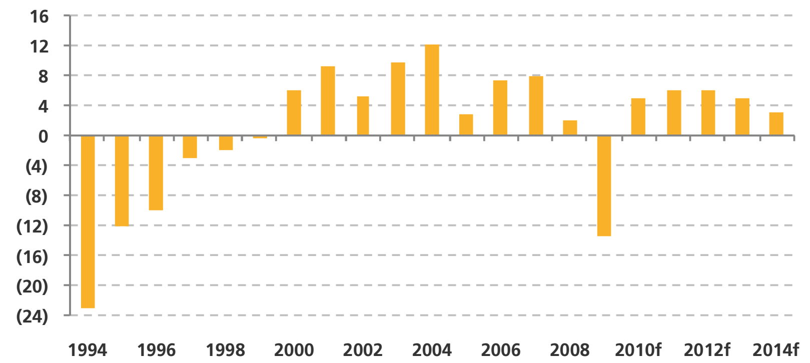
In 2011-14, Ukraine's real GDP should grow by 5% on average.

We believe that Ukraine's economy is poised for another period of rapid growth in the 5-year forecast period. After seeing 5% growth in 2010, Ukraine's real GDP should increase by 5%, on average, over the period 2011-14. Growth should be supported by a cyclical upturn globally, with significant spillover effects for the domestic market already evident in 2011.

The steel and food processing industries should recover to their pre-crisis levels in 2011, while machine-building should catch up only in 2013.

With an annual growth rate of 6% in 2011-12, the Ukrainian economy should fully recover to its pre-crisis 2008 level in 2012 with several sectors showing different patterns of restoration. The steel sector should recover to its 2008 level already in 2011 as: (1) it was the first among key sectors to fall sharply in autumn'08; (2) the global economy and investment, in particular, have already began to expand. The food industry should also fully recover in 2011 due to the fact that it was not hit nearly as hard by the crisis; it should also feel support from the hryvnia devaluation in 2008-09 and the non-interrupted nominal growth of household incomes. At the same time, machine-building should fully recover to its 2008 level only in 2013 due to it being at the "tail" of the ongoing down-and-up economic cycle. Moreover, the revival of domestic demand for machines and equipment will first require the expansion of crediting, which should become a significant factor only in 2011. On the other hand, the machinery sector should post strong output growth at 19%-23% annually in 2011-12.

Real GDP, % change



Source: State Statistics Committee, Astrum estimates

At the same time, we expect that, as Ukraine's consumption rebounds and the country continues to import increasingly more than it exports, net exports will once again become a drag on GDP growth starting from 2011. On the BoP side, the widening external trade deficit should be offset throughout 2011-13 by active investment and respective capital inflows into the country.

This wave of growth should lose momentum in 2014.

We see 2014 as the next turning point for the Ukrainian economy, when capacity utilization rates in most industries should be too high to support further growth at the 5%-6% rates. We expect a significant slowdown in economic growth to 3% in 2014. In 2014, external imbalances, in the form of a significant current account deficit, which should reach 6.7% of GDP in 2013, should require adjustment. As a result, the hryvnia should start devaluing from its level of UAH/USD 8, which should be maintained throughout 2012-13.

Strong economic fundamentals throughout 2010-13 should mean that Ukraine will provide significant investment opportunities during that period, both for portfolio and strategic investors. The expected exchange rate stability and the hryvnia's appreciation from UAH/USD 8.5 at the end of 2010 to UAH/USD 8 at the end of 2011 should make a supportive case for investing in hryvnia-denominated assets.

Ukraine's key macroeconomic indicators

		2007	2008	2009e	2010f
Real sector					
GDP	UAH bln	720.7	949.9	924.3	1,111.3
GDP	USD bln	142.7	180.3	118.6	131.7
GDP per capita	USD	3,069	3,898	2,576	2,871
GDP	% real change	7.9	2.1	(13.5)	5.0
Private consumption	% real change	17.0	11.6	(9.0)	3.0
Investment	% real change	23.9	1.6	(45.0)	8.0
Industrial output	% real change	10.2	(3.1)	(22.0)	9.5
Unemployment rate	% (ILO methodology)	6.4	6.4	9.4	9.1
GDP deflator	%	22.7	29.1	12.5	14.5
Consumer price index (CPI)	% change Dec/Dec	16.6	22.3	13.0	20.0
Consumer price index (CPI)	% average change	12.8	25.2	16.0	16.1
Producer price index (PPI)	% change Dec/Dec	23.3	23.0	15.0	15.5
Producer price index (PPI)	% average change	19.5	35.5	6.6	18.1
Monthly wage	UAH, annual average	1,351	1,806	1,892	2,165
Monthly wage	UAH, end of period	1,675	2,001	2,025	2,400
Monthly wage	% average real change	12.5	6.3	(9.8)	(1.4)
Monthly wage	% real change Dec/Dec	10.3	(3.0)	(10.4)	(1.2)
Disposable income	% real change	12.8	10.3	(11.0)	0.0
Population	mln persons	46.5	46.3	46.1	45.9
Fiscal sector					
Consolidated Budget Revenues	% of GDP	30.5	31.4	29.0	29.5
Consolidated Budget Expenditures	% of GDP	31.6	32.8	36.0	35.5
Consolidated Budget Balance	% of GDP	(1.1)	(1.5)	(7.0)	(6.0)
Privatization revenues	% of GDP	0.3	0.1	0.1	1.1
Direct state debt	% of GDP	9.9	13.8	22.4	23.8
Monetary sector					
Loans	% change	74.0	72.0	(2.5)	9.1
Loans	% of GDP	59.2	77.3	77.4	70.3
Deposits	% change	51.7	30.2	(10.5)	11.4
Deposits	% of GDP	38.8	37.7	34.6	32.1
External sector					
Exports of goods and services	USD bln	64.0	85.6	54.0	66.0
Exports of goods and services	% of GDP	44.8	47.5	45.5	50.1
Imports of goods and services	USD bln	72.2	100.1	56.0	68.2
Imports of goods and services	% of GDP	50.6	55.5	47.2	51.8
Trade balance	USD bln	(8.2)	(14.5)	(2.0)	(2.3)
Current account balance	USD bln	(5.3)	(12.8)	(1.2)	(0.5)
Current account balance	% of GDP	(3.7)	(7.1)	(1.0)	(0.4)
Financial account balance*	USD bln	15.1	13.4	(6.0)	(0.5)
Financial account balance*	% of GDP	10.6	7.4	(5.1)	(0.4)
Foreign direct investment	USD bln	9.2	9.9	4.5	5.5
NBU international reserves	USD bln, end of period	32.5	31.5	27.0	25.5
UAH/USD official exchange rate	end of period	5.05	7.70	8.00	8.50
UAH/USD official exchange rate	average	5.05	5.27	7.79	8.44

** Financial account less change in reserve assets*

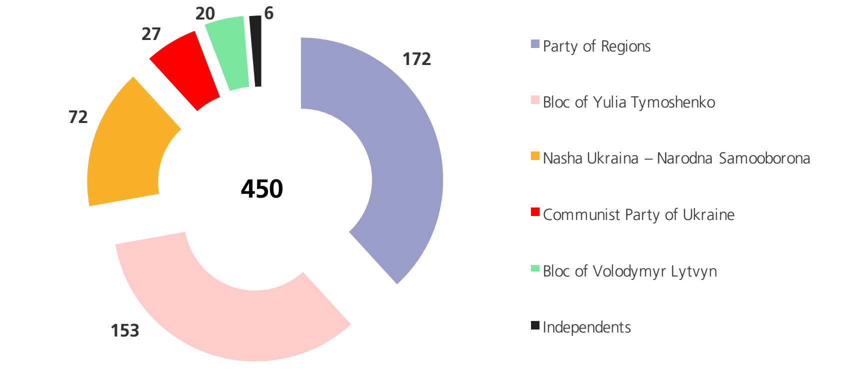
Source: State Statistics Committee, Ministry of Finance, NBU, Astrum estimates

Politics

Political tension in Ukraine should reach its highest level during the presidential campaign of 2009-10.

The political situation in Ukraine remains a key risk for investors... A high level of political uncertainty makes for ineffective government management and leads to domination of negative information about Ukraine, which places pressure on prices of Ukrainian assets. Currently, Ukraine has no functioning parliamentary coalition, as the Verkhovna Rada (the Ukrainian Parliament) is ineffective. As a result, the government does not have support in the parliament, while the prime minister and president are in a continual state of conflict. Political tension in Ukraine should reach its highest level during the presidential campaign of late 2009 – early 2010.

Paliamentary factions as of December'09



Source: Verkhovna Rada

...which should subside in March 2010 when Ukraine should get a new President. We expect that the shabby situation with Ukrainian government and legislature will see changes for good as an outcome of the presidential elections. The victory of any one of the major candidates should restore the manageability of the state apparatus and diminish the amount of negative news flow in relation to Ukraine. The presidential campaign in Ukraine officially started on October 19, 2009. The first round of elections will be held on January 17, 2010, and the second round should occur on February 7, 2010. We expect that the new president's inauguration will take place in March 2010.

The key battle should unfold between Viktor Yanukovych and Yulia Tymoshenko.

From a triangular political model to a bi-polar one. As Viktor Yushchenko has no prospects of being elected, the key battle for the president's position should unfold between Viktor Yanukovych and Yulia Tymoshenko. Regardless of the election result, the situation in the Parliament should change following the elections. Given the threat of early parliamentary elections, small groups in the Ukrainian Parliament should consolidate around the political power of the winner – either the Party of Regions or the Bloc of Yulia Tymoshenko. Otherwise, early parliamentary elections will be held, the results of which should be favorable for the party that wins the presidential elections. As a result, the executive power should become stable and concentrated in a single center, while the opposition promises to be strong. The Ukrainian political landscape should change its form from a triangular one, with the president, the prime minister and the opposition as three opposing centers of power, to a more stable bi-polar model.

The risks of a popular unrest are low, as the Country has a different political tradition and main business groups are interested in a stable situation.

The heightened political tensions do not pose any threat to the existence of Ukraine as a state. Ukrainian political tradition is not characterized by the use of force for the purpose of pursuing political plans. Rather, most political forces in Ukraine rely on support from big business groups, which have no interest in seeing a destabilization of the situation and are instead focused on integration with global markets. The main political opponents prefer to reach compromises, some clear examples of this having occurred in 2004 and 2007. In addition, we see the risks of the re-privatization as minimal due to the inevitable high dependence of the next Ukrainian president on external financing. We expect that Ukraine's cooperation with the IMF will be renewed in 2Q10 as a result of the stabilization of the Country's political landscape.

We expect that the newly-elected president will carry out constitutional changes that are aimed at strengthening the president's chain of command, and that he/she will actually go so far as to overturn the political reforms made in 2004. Each of the leading candidates for the Ukrainian presidency are inclined towards an authoritarian style of government. At the same time, we expect that Ukraine will not give up its democratic model thanks to its existing political tradition, a high level of competition among national business groups, and the desire of the main candidates to become more engaged in the European politics.

Economic policy should not change drastically after elections. Whoever wins the elections, we do not expect any significant changes in economic policy. Although various Ukrainian political forces declare differing campaign slogans, all their messages and actions revolve around 'soft' populism – as opposed to the Latin American version of 'hard' populism. It means that Ukraine's politicians try getting mass appeal with simple social outlay increases, but do not cultivate comprehensive anti-business sentiment followed by nationalization or across-the-board price freezes. Moreover, the level of populism in Ukraine strongly correlates with electoral cycles, thus, it should lose its momentum after new government coalition is formed. At the same time, any government in 2010 will have to run a significant fiscal deficit, which we estimate at 6% of GDP, and will have to address such obvious challenges as the need to increase domestic energy prices, to generate more foreign investment inflows, and to service the public debt. With respect to the government's regulatory and tax policies, we do not expect any drastic changes in 2010. General approaches of both Viktor Yanukovych and Yulia Tymoshenko to economic policy are quite similar. Slow reforms is our baseline scenario for economic policy agenda in 2010 and beyond.

We do not expect any drastic changes in regulatory and tax policies after elections: incremental reforms is our baseline scenario for 2010 and beyond.

Equity strategy

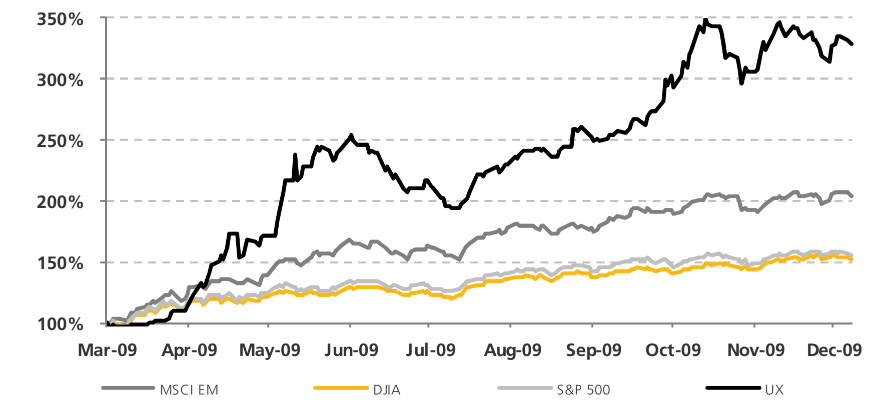
Equity strategy

Global markets: 12M outlook is one of strong valuations

Emerging markets are greatly outperforming developed markets on the back of the monetary easening and...

The bull run since March'09 has been based on economic stabilization and a liquidity influx. After bottoming in early March'09, global equity markets staged a major recovery thanks to a synchronized and aggressive fiscal and monetary response by governments and central banks worldwide. Already into its eighth month, this rally has taken American and European markets higher by more than 50%, while emerging markets have advanced more than 200%, as demonstrated by the MSCI and UX indexes. Neither American nor European markets have undergone a correction of more than 10% over the course of this bull run, despite patchy macro data pointing to the uneven nature of the economic recovery.

International stock indexes (rebased)

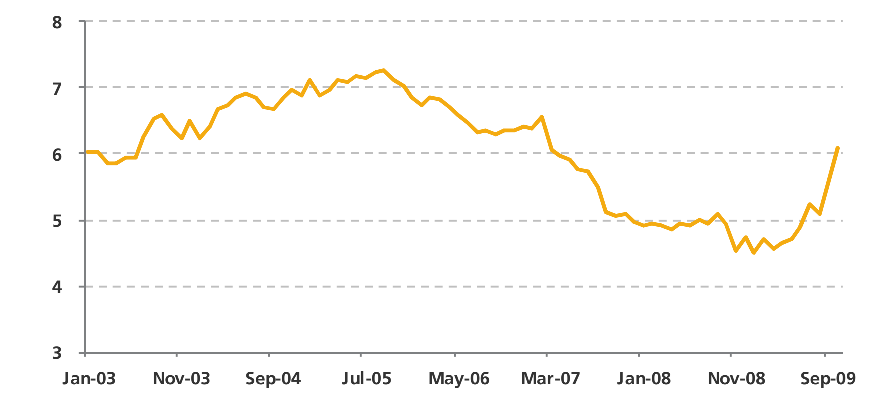


Source: Bloomberg

...improving macro environment in the USA and worldwide in the housing sector, jobs and retail sales.

The stock market rally has been based on the stabilization of the world economy and largely optimistic outlook on the prospects for economic recovery. Indeed, US macro statistics have been showing steady improvement since late spring'09, which is evident from improving ISM manufacturing and non-manufacturing indexes, industrial output growth, rising factory orders, recovering personal consumption, sharply improving GDP dynamics, consumer confidence indexes, as well as clear signs of recovery in the housing sector.

Existing home sales in the USA, mln units



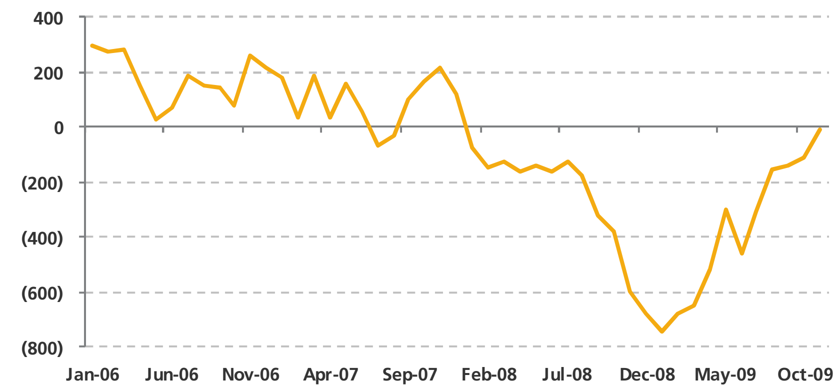
Source: Bloomberg

One of the main drivers of this recovery was monetary easing by the Federal Reserve. The Fed has lowered its funds rate to 0.25% and more than doubled its balance sheet in November-December'08 to USD 2.2trln in order to stimulate credit markets. To battle the tremendous deflationary pressures stemming from a substantial drop in aggregate demand, contracting consumer and small business credit, and rising unemployment, the Fed has created an inflationary asset price environment. By lowering the cost of debt to nearly 0%, thereby supporting record low UST yields with the 2-year UST yield at below 1%, the Fed is essentially directing liquidity into higher yielding assets. Liquidity has grown worldwide: 6-month LIBOR rates fell from above 7% back in December'08 to a historic low of 0.45% as of December 18, 2009, while 3-month EURIBOR rates declined from above 5% at the beginning of 2009 to the current level of 1%. Given an abundance of liquidity in the system, virtually nil returns of money market funds or deposits, and high consumer/small business credit risks, liquidity is channeling through into risky assets like equities and commodities in search of better returns. Thus, primary dealers and institutional funds are effectively forced to move capital from cash into other liquid assets.

Abundance of the dollar liquidity at almost 0% interest rates in search of better returns has flocked into equities, fixed income and commodities...

In addition, such a drastic increase in the monetary base with bank assets of questionable quality and liquidity has created a precedent for dollar devaluation, leading to market concerns about the Fed's ability to withdraw liquidity once inflationary pressures pick up. Moreover, there are structural changes in the demand for USD, whereas emerging markets are slowly moving away from the dollar, creating less demand for the USD. In addition, an ongoing dollar carry trade is one of the major causes of the weak dollar, creating an ample supply of the USD and demand for higher yielding emerging market and "resource" currencies. Devaluation of the USD bodes well for risky assets denominated in US dollars such as US equities, commodities and precious metals, because they provide a hedge against the falling dollar as real assets tend to preserve their value no matter what currency they are priced in.

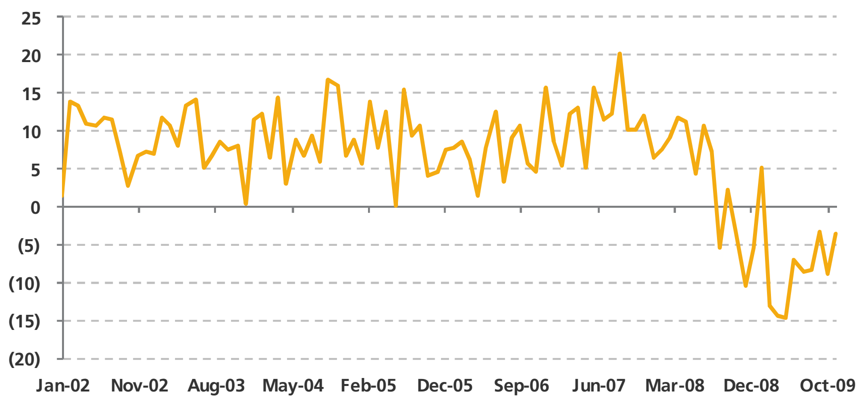
Change in nonfarm payrolls in the USA, thd m/m



Source: Bloomberg

The influx of liquidity has resulted in a steadily rising risk appetite that reached pre-crisis levels in October'09. Elevated risk appetite stimulated cash flows into emerging markets, particularly BRIC countries. Sovereign risks dropped sharply as evidenced in steeply falling CDS spreads and sovereign debt yields worldwide. The restored risk appetite and abundance of liquidity that is being channeled into emerging markets, due to the constant search for better returns, are highly favorable for real assets in general and emerging market equities and bonds in particular.

Consumer credit in the USA, USD bln



Source: Bloomberg

At the same time, on the path of economic recovery the US is facing major headwinds of poor personal consumption, bank credit, and high unemployment. 70% of the USA's GDP come from personal consumption. As a result of the collapse of the housing bubble and credit crunch, personal consumption in the next 12M will hardly be financed by credit expansion. Banks are experiencing losses across all consumer credit products and reducing lending to consumers (see figures), while simultaneously hoarding cash in order to build reserves to cover NPLs.

US banks will hardly resume lending until the employment situation stabilizes. Unemployment hit 10% in November'09, the highest level in 26 years, and the average work week dropped to 33 hours, a record low in the past half century. One part of the economy, which has suffered the most from the continuous credit crunch, is small business that depends on bank lending heavily as it has no access to capital markets.

...that should continue until liquidity starts tightening and putting pressure on risky assets.

We expect that, due to the bleak situation with unemployment and consumer/small business credit, the Fed will refrain from reducing liquidity until consumer inflation becomes a pressing issue, which we expect will happen sometime in mid-2010. Until then, cheap liquidity should continue to pour into capital markets. However, the withdrawal of liquidity in the system may result in a correction on global stock and commodity markets.

In December'09, S&P 500 trailing P/E reached high 22 and should correct to historic average 16.7 in late 2010...

Our analysis of earnings and multiples point to a further upside for the stock market in 2010. In April-November'09, American equity markets moved from being undervalued to reaching their current valuations, which are on the verge of becoming overvalued, in line with our expectations. Prices of S&P 500 companies have recovered much faster than their respective earnings, causing trailing S&P 500 P/E to expand from 10 in March to 22 in early December'09, based on earnings from ongoing operations. At the same time, the S&P 500 trailing P/E had not exceeded 20 in the period 2006-09.

S&P 500 P/E

	S&P 500	12M trailing earnings	12M trailing P/E
March 09, 2009	677	67.6	10.0
Dec. 01, 2009	1,109	49.9	22.2
Dec. 31, 2010	1,250**	75.0*	16.7**

**Standard & Poor's estimate ** Astrum estimate*

...that together with forecast 34% growth in earnings should mean 13% higher S&P 500 index in 12M even taking into account possible stock market correction.

According to Standard & Poor's, the market expects a 34% growth in 2010 earnings from the continuing operations of S&P 500 companies to USD 75. It is difficult to forecast the clear trajectory of the market in 2010, but we expect that interest rate hike and liquidity withdrawal will make trailing 12 months P/E normalize at its historic average levels in late 2010. Therefore, we assume that the market P/E in late 2010 will stand at 16.7, the level of the average market P/E over the period 2004-09. Assuming that index earnings match the forecast USD 75 in 2010, the S&P 500 index would reach 1,250 points by late 2010, up 13% from early December'09 levels.

In late 2010, trailing EV/EBITDA levels should be strong and may even overshoot historic averages. On the other hand, in light of the generally strong stock market and the expected 13% growth of the S&P 500 in 12M, the market's EV/EBITDA, unlike P/E, may not contract to historic levels. While it is difficult to forecast the net debt change over the next 12M in particular segments of global markets, we assume that the trailing EV/EBITDA of different stocks may even expand, as EBITDA should not grow as fast as net earnings. This time around, we pick EV/EBITDA as a main benchmark for the valuation of different market segments, partly because of the lower volatility of Ukrainian companies' EBITDA, compared to their net incomes. The other major reason for our choice of EV/EBITDA is the necessity to account for the different leverage levels of Ukrainian companies. While it made sense to use P/E as a benchmark earlier in 2009, when the market was in worse conditions and investors applied stricter valuation criteria to corporate bottom lines, current and forecast market conditions make us use more detailed analysis of company performance.

Like in our previous strategy pieces, we take a forward view on valuations as we believe that the market volatility of the last two years necessitates the analysis of what the multiples should be in 12M as opposed to the analysis of forward multiples as they appear now. As a benchmark, we take the trailing EV/EBITDA as of December 31, 2010 in order to account for the expected changes in Ukrainian companies' net debt in 2010. In most cases, we take the historic average levels of global peers' EV/EBITDA for 2006-09 as a benchmark for the valuation of Ukrainian companies. In cases where our DCF models for Ukrainian companies or the companies' higher expected growth in profits and profitability justify higher implied 2010 EV/EBITDA, we consider these results to be fair. We do this because we believe that EV/EBITDA, unlike P/E, may not contract to historical levels due to the lower rate of growth of EBITDA in the next 12M. We use the 2006-09 period for historic EV/EBITDA averages in order to account for different stages of market development, both upturn and a downturn of the economic cycle.

We pick EV/EBITDA as a main valuation benchmark for the non-financial companies to account for different leverage levels of Ukrainian companies and due to lower volatility of EBITDA...

Ukrainian 2010 valuations should follow strong global levels

Our valuations of select strong Ukrainian companies yield 29 BUYs. In our stock valuations of Ukraine's non-financial companies, we used DCF and target multiple methods. We then compared the implied 2010 EV/EBITDA (accounting for 2010f net debt) of the resultant target prices to historic average levels of the trailing EV/EBITDA of global peers. The trailing EV/EBITDA peer averages for 2006-09 are 5.1-14 for the different market segments, while the average trailing EV/EBITDA levels of different groups of peers are currently at 5.3-15.1. These levels are, on average, 18% higher than their corresponding historic levels. Since we expect that, in 12M, the trailing EV/EBITDA (2010 EV/EBITDA in this case) still has good chances of exceeding its historic average levels, we tolerated the higher than historic average implied 2010 EV/EBITDA of our target price estimates. At the same time, of the 27 stocks, which we valued using EV/EBITDA, in 11 cases the 2010 EV/EBITDAs implied by our target prices are at historical average levels for peers or are lower than these levels. In the other 16 cases, the implied 2010 EV/EBITDA do not exceed the peer historic averages by more than 29%, on average, which we consider reasonable for late 2010 – early 2011. Overall, 2010 EV/EBITDA levels, implied by the target prices of the 27 stocks, are on average just 12% higher than the peer historic levels.

For Ukrainian thermal electricity generators, we still take EV/Capacity as the main valuation benchmark. We believe that the current average level of Russia's OGKs EV/Capacity at USD 211 per kW is a benchmark that Ukraine's gencos will hardly exceed in 12M, as the wholesale electricity market reform in Ukraine should still be in its early stages at that time. The target prices, which we derive using target EV/Capacity, DCF, and replacement cost methods, imply a USD 130-190 range of EV/Capacity for Ukrainian gencos. For Ukrainian banks, we take the 12M benchmark 2010 P/Book level of 1.75, which should rise from the current 0.66-0.79 2010f P/Book of Ukrainian banks on the back of expected improvements in their asset quality. This average benchmark should be 17% lower than the expected level of 2010 P/Book for European banks due to the expected higher asset quality of European banks.

...while P/Book and EV/Capacity remain benchmarks for banks and thermal gencos respectively.

Generally, on the back of the recovery of the Ukrainian economy and of corporate earnings, on the one hand, and expectations of generally strong global and emerging stock markets with strong EV/EBITDA, P/Book and EV/Capacity valuations, on the other, we are quite upbeat about the potential of Ukrainian stocks. As a result, for the 36 covered companies in this Guide, we assign 29 BUY recommendations, four HOLD, and three SELL recommendations. For this Guide, we picked only issues with a reasonable trading liquidity. As the other major selection criterion, we generally picked strong companies with good profit growth potential, which also explains the tendency of our recommendations to be BUYs.

The expected recovery of corporate bottom lines and other indicators as well as the forecast of strong valuations bring 29 BUY recommendations, four HOLD recommendations and three SELL recommendations.

DCF valuation approach. In our DCF models, we aimed to figure out the stocks' 12M target prices, namely prices that we expect will materialize in December'10. Thus, we discounted the companies' cash flows for the next five years (2011-15) to their present value in January'11. In our DCF models, we used nominal 2011-15 and terminal cash flows, i.e. those that take price growth into account. We expect that, on average, Ukraine's long-term (20 years) economic growth will amount to 4% and that the GDP deflator will be at 5%, which produces a total 9% terminal growth of Ukraine's GDP in nominal terms. Conservatively, we took different companies' terminal FCF growth in the 3%-5% range, lower than 9%.

WACC of Ukrainian companies should be in 13.5%-19% range in 2011 and in 9.6%-15% range in 2015.

We expect that the Ukrainian risk-free rate will stay at 7% in 2011-15 and that the equity premium will decrease from 6% in 2010 to 2% in 2015, reflecting the development of the domestic stock market. We also take company-specific premiums in the 1%-6% range that reflect company corporate culture, transparency, etc. As a result, the cost of equity in Ukraine should stand at 14%-19% in 2011 and at 10%-15% in 2015. We expect that, in 2011, the cost of debt will remain at 18%, on average, which provides a 13.5% after tax cost of debt. In 2015, the average cost of debt should decline to 12.8%, implying a 9.6% after tax cost of debt. As a result, companies' WACCs in 2011 theoretically falls within the 13.5%-19% range and within the 9.6%-15% range in 2015 and beyond.

We consider Ukraine's private agricultural companies, and such machinery and steel makers as Sumy Frunze, Turboatom, Motor Sich and Azovstal as bearing lower corporate risks. As a result, their 2011f WACCs are in the 13.9%-16.1% range and 2015f WACCs are 9.9%-13.7%. The highest WACCs are for companies like Yenakieve Steel, electricity generators and distributors, due to their lower transparency and governance standards, transfer pricing and dependency on state regulation (namely, for electricity companies). These companies' 2011f WACCs are in the range of 15%-19% and their 2015f WACCs are 13%-15%. The exception is real estate projects in their development stages, which have 19%-23% 2011f WACCs. We believe that companies such as MHP, Turboatom and Motor Sich will post higher terminal growth rates, at 4.5%-5%, while the rates of other companies covered here fall into the 2.5%-4% range.

WACC and terminal growth rates

	WACC 2011f	WACC 2015f	Terminal growth rate
Agriculture	14.0%-15.5%	12.0%-14.7%	3.0%-5.0%
Electricity generators	15.0%-17.0%	13.0%-15.0%	4.0%
Electricity distributors	16.0%-17.0%	14.0%-15.0%	4.0%
Machinery	14.1%-16.9%	9.9%-13.0%	3.5%-5.0%
Iron ore, coke and steel	13.5%-19.0%	12.6%-15.4%	4.0%

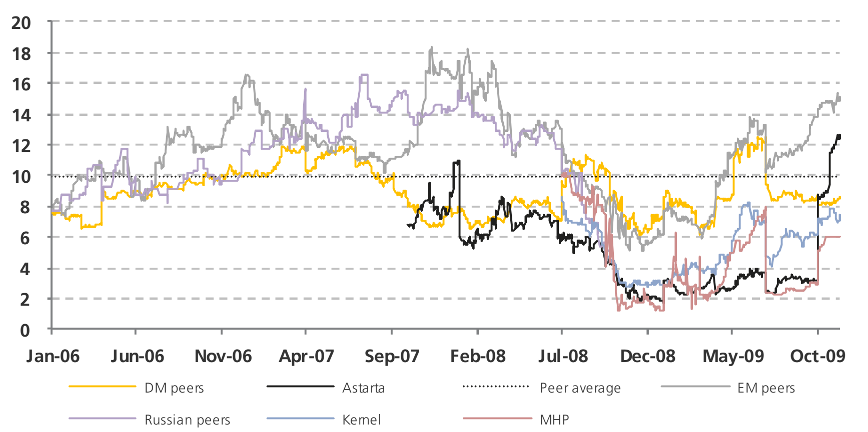
Source: Astrum estimates

Valuation by sectors

Ukraine's agricultural companies valuations should grow on strong profit growth forecast.

Agriculture: Ukrainian agricultural stocks have suffered on European bourses due to investors' mistrust in the Ukrainian economy and agriculture in particular even despite sound performance of the respective companies in 2009. The stocks' EV/EBITDAs dropped below their peer averages. Ukrainian agricultural companies, which exhibit higher yields and better profitability than the domestic averages, and strong bottom line growth potential, should see their valuations rise in 12M. Our DCF models indicate target prices of MHP, Kernel and Astarta implying 2010 EV/EBITDA of 7.1-10.2, compared to the historic peer average of 9.9.

Agriculture: Trailing EV/EBITDA

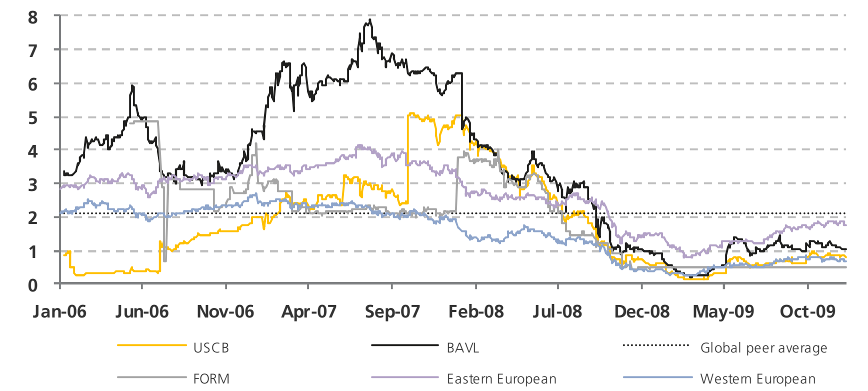


Source: Bloomberg, PFTS, UX, Astrum estimates

Ukrainian banks should trade higher in 12M on improved asset quality.

Banks: Ukrainian banks' valuations rose from 0.11-0.22 2010f P/Book in March'09 to 0.66-0.79 2010f P/Book as of early December'09. We expect that the current European bank average 2010f P/Book of 1.25 will increase to a 2010 P/Book of 2.1 in 12M, their historical average for 2006-09. This should occur on the back of improvement in the quality of these banks' assets, as NPLs should decline to 10%-15% of their loan portfolios. We expect that, in 12M, investors will appreciate the decline of NPLs' share of loan portfolios of the Ukrainian banks covered here, from the current 35% to 20%, as well as the strong prospects for growth of banks' bottom lines in 2011-14. This should drive the valuations of leading Ukrainian banks to 1.75 P/Book on average, implying a 17% discount to the European peers' average, taking into accounting the continuing lower assets' quality of Ukrainian banks. These target P/Book levels provide 74%-108% upsides for the bank stocks covered in this Guide.

Banks: Trailing P/Book

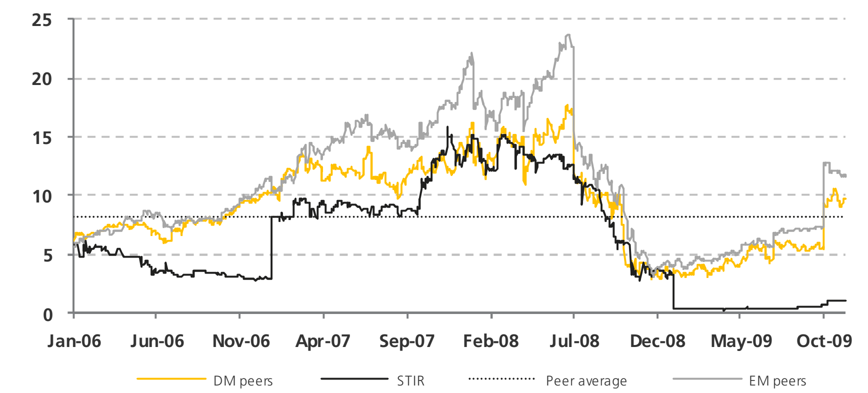


Source: Bloomberg, PFTS, UX, Astrum estimates

Stirol: depressed valuation provides a HOLD recommendation.

Chemicals: While, in 2007-08, Stirol's discount to its global peers on trailing EV/EBITDA was at 14% on average, in 2009, when the imported natural gas price made Stirol's ammonia production unprofitable and seriously hit the Company's profit margins, this discount grew to a staggering 93% on average. Our DCF-derived target price implies that, in 12M, Stirol's discount on 2010 EV/EBITDA to the current historical peer average will decline to 28%, as the stock should start recovering in terms of valuations. This leads us to award a HOLD recommendation for the stock. We believe that, on the back of the expected recovery of Stirol's margins and profits in 2013-14, the stock still has good longer term price growth potential.

Chemicals: Trailing EV/EBITDA



Source: Bloomberg, PFTS, UX, Astrum estimates

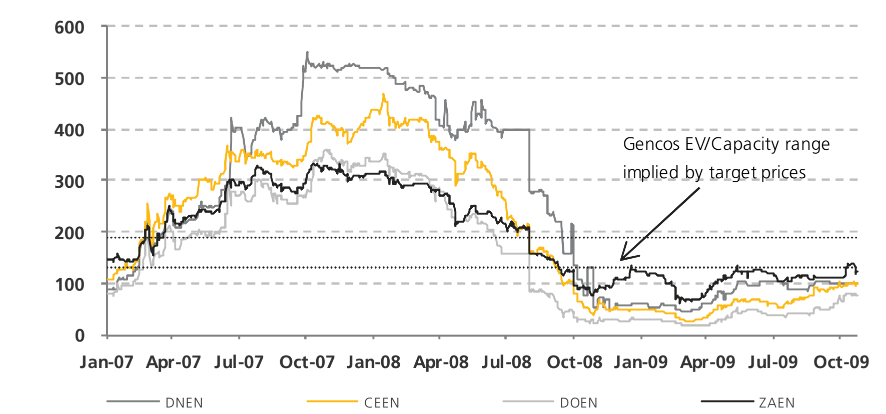
Electricity generation: We believe the EV/Capacity multiple remains the important valuation benchmark for Ukrainian thermal gencos. We consider the current average level of Russia's OGKs EV/Capacity at USD 211 per kW as a the benchmark for Ukraine's gencos in 12M. In our

Thermal gencos should trade lower than OGKs but higher than now.

opinion, while Russian OGKs have chances to trade higher on EV/Capacity in 12M, Ukrainian gencos in 12M should trade at discounts to the Russian OGKs current level of EV/Capacity. The Russian electricity sector has already completed the transition to the balancing electricity market model that the stock market has already priced into OGKs' quotations while Ukrainian gencos in late 2010 will be at initial stages of this kind of reform. The strict regulation of gencos' tariffs and performance by the Ukrainian Government results in their low profit margins while their stocks trade at high bottom-line-based multiples, in particular at an average 2009e P/E of 68.

We believe that this should be taken into account in the valuation of Ukrainian gencos, which is why we attribute a weight of just 30% to the target level of EV/Capacity at USD 211 per kW in calculating gencos' 12M target prices. In the valuation, we exclude the gas-fired capacities of Ukrainian gencos, as we expect that these capacities will be idle in the next 2-3 years due to high gas prices. We assign a 60% weight to the 12M fair value, derived from the respective gencos' DCF models, and a 10% weight to an asset-based valuation method, which, in our view, reflects the gencos' long-term value. Our resultant target prices imply a USD 130-190 range of EV/Capacity for Ukrainian gencos. Historically, EV/Capacity of Ukraine's gencos reached much higher levels. We thus believe that in the long run, Ukraine's thermal gencos' valuations should further increase to their historic levels, which should present additional opportunities for investors.

Ukrainian gencos EV/Capacity, USD/kW

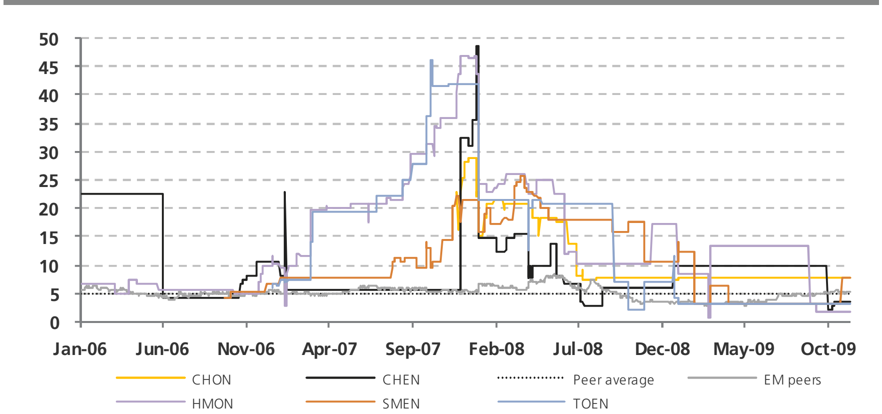


Source: Bloomberg, Astrum estimates

Our target price estimates provide 53%-186% upsides and imply valuations that are below historic highs for oblenergos.

Electricity distribution: We base our target prices for oblenergos on DCF models and use EV/EBITDA as the key valuation benchmark. After the global peers' median trailing EV/EBITDA hit the bottom at 3.0 in February'09, it is currently on the rise due to the improving outlook for electricity companies. Our DCF-based target prices imply a 2010 EV/EBITDA of 6.9 for oblenergos, on average, in 12M. This level seems reasonable, as we believe that Ukrainian oblenergos

Electricity distribution: Trailing EV/EBITDA



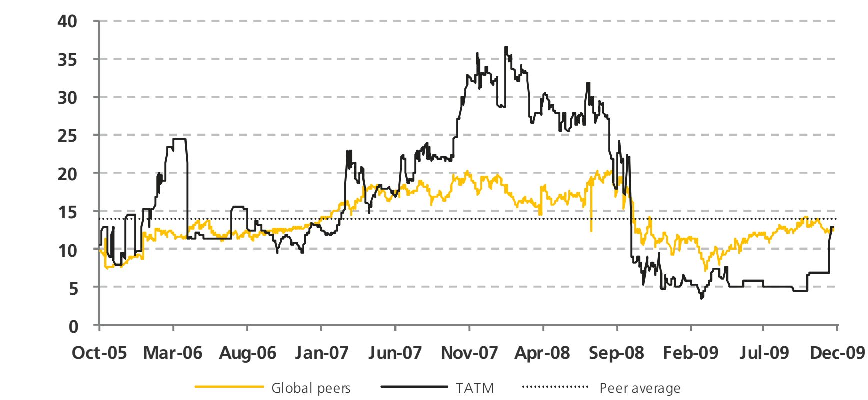
Source: Bloomberg, PFTS, UX, Astrum estimates

deserve to trade higher in 12M than their current 2010f EV/EBITDA average of 3.8 due to their EBITDA margins' forecast growth from 8%-16% in 2009 to 19%-21% in 2014. At the same time, oblenergos' average EV/EBITDA in 12M will hardly grow to its historical average level of 11.6, as we believe that investors will be more cautious of oblenergos' bottom lines than has been the case in the past. Nevertheless, the current prices offer healthy 53%-186% upsides for oblenergos, as their valuations have been unfairly beaten down.

TATM's strong profitability should restore its premium on EV/EBITDA to the peers.

In 2006-08, **Turboatom** reported 21%-32% EBITDA margins, which were the highest in the Ukrainian machinery and were also significantly higher than the median EBITDA margin of Turboatom's global peers, which remained below 16% in 2006-08. The same goes for TATM's net margin, which reached 8.4%-33.6% in 2006-08, compared to the median net margin of its global peers that was below 10% over the period. We believe that TATM's consistently high EBITDA and, in particular, net margins which are quite rare for Ukraine, were the reason why, in 2H05-1H08, TATM traded at an average premium of 30% to its peers' median on trailing EV/EBITDA. Currently, the Company is trading at a 2009e EV/EBITDA of 12.95, in line with the global peer median. We expect that, in 12M, TATM's 30% premium to its peers on trailing EV/EBITDA will materialize again as TATM's 2010 EBITDA and net margins should still be high at 22.4% and 16.1%. This compares to just 16% and 6% for its peers. We also forecast strong margins for TATM in 2011-14. We assume the peer benchmark trailing EV/EBITDA in 12M time at 14, the average level seen in 2007-09. This implies a 28% stock price upside for TATM.

TATM: Trailing EV/EBITDA

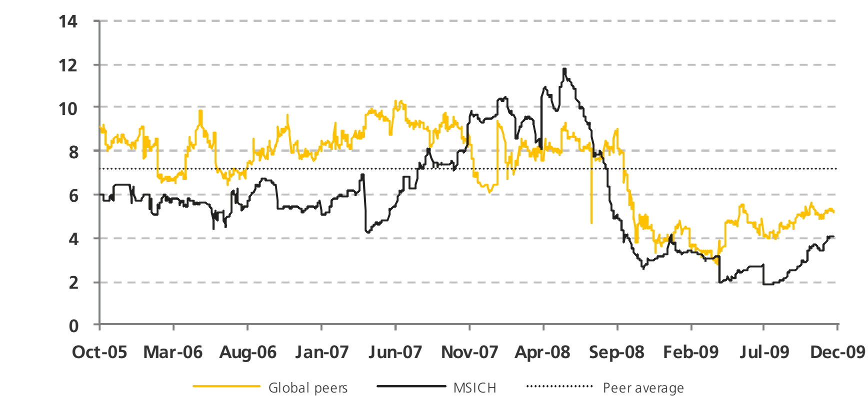


Source: Bloomberg, PFTS, UX, Astrum estimates

Thanks to its strong bottom line, MSICH has a room for growth to the peers historic average EV/EBITDA levels.

Our DCF model brings a target price of USD 292 and a 48% upside for **Motor Sich**. This target price implies a 2010 EV/EBITDA of 7.2, which is in line with the average level of trailing EV/EBITDA for the peers seen in 2007-09. For most of the period 2006-08, MSICH traded below its global peers' median on trailing EV/EBITDA, while, in late 2007, the stock started trading at

MSICH: Trailing EV/EBITDA



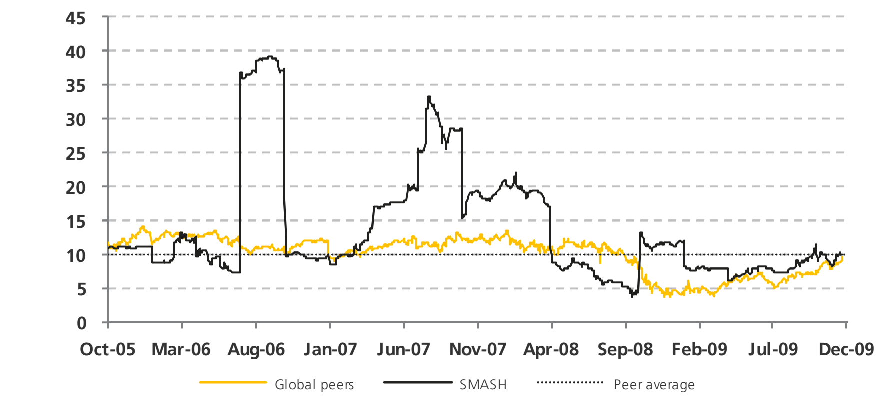
Source: Bloomberg, PFTS, UX, Astrum estimates

premiums to its peers on the back of an upbeat consensus on the prospects of Motor Sich's bottom line in 2008 and onwards. These prospects did not materialize in the crisis year of 2008; however, in 2009, the Company posted a strong performance with a high EBITDA margin, at 33%, and a high net margin, at 21%, in 9M09. We expect that MSICH's net margin will stay above 10% over the next five years, while the median historic net margin of MSICH's peers is 4%. As a result, we expect that, in 12M, the market will value MSICH in line with its peers.

The forecast growth of SMASH's EBITDA in 2010-14 justifies its premium to the peers historic average on EV/EBITDA.

Sumy Frunze's DCF-derived is USD 8.40, implying a 2010 EV/EBITDA of 10.9. We believe that the forecast growth of SMASH's EBITDA by 14% CAGR in 2010-14 justifies a 10% premium to global peers' historic average on 2010 EV/EBITDA, which is currently at 10.0. This premium is supported by the behavior of SMASH's trailing EV/EBITDA: in 2007-09, Sumy Frunze traded at a 40% premium, on average, to the global peers' median on trailing EV/EBITDA. Thus, we expect that the stock will trade, at least, at a 10% premium to the peers' historic level, providing a USD 8.49 target price and implying a 23% upside from the current price.

SMASH: Trailing EV/EBITDA



Source: Bloomberg, PFTS, UX, Astrum estimates

KVBZ also deserves a premium on 2010 EV/EBITDA to the peers historic average due to the Company's strong growth prospects in 2010-14.

In 1H09, **Kryukiv Railcar's** net sales and EBITDA dropped sharply, by 73% and 94% y/y, while the stock's price has grown by 100% in 2009 YTD. As a result, KVBZ's trailing EV/EBITDA surged to 20 and currently, the stock trades at a 94% premium to the global peers on trailing EV/EBITDA. The recovery of the CIS railcar market should drive KVBZ's growth in 2010-14, its EBITDA margin should grow to 12.7% in 2010 and its EV/EBITDA should return to normal levels in 12M. KVBZ's EBITDA should grow by 44% CAGR in 2010-14 on the back of growing orders for passenger and freight railcars in the CIS. We expect that, in 12M, KVBZ will trade at a 10% premium on 2010 EV/EBITDA to the average historic EV/EBITDA peer level of 8 due to KVBZ's strong growth prospects. This implies a target price of USD 2.84 and although our DCF model brings a USD 2.87 target price, we take USD 2.84 as a target, implying a 27% upside in 12M.

KVBZ: Trailing EV/EBITDA

Source: Bloomberg, PFTS, UX, Astrum estimates

Coke makers deserve to trade higher than currently on the back of the strong outlook for 2010-14 and higher peer valuations.

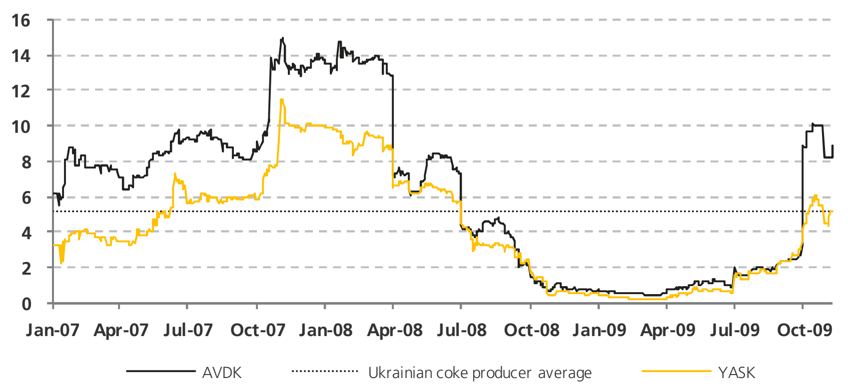
Coke: Our DCF models for the two coke makers covered indicate 12M target prices that imply 2010 EV/EBITDA of 4.8 for Yasynivka Coke and 5.3 for Avdiivka Coke. The different values of this multiple look justified on the background of differences in these companies' expected EBITDA growth in 2007-14, and in 2011 in particular. The correspondent growth rates are 7% CAGR and 13% for Yasynivka Coke, compared to 8% CAGR and 22% for Avdiivka Coke. We believe that the implied levels of the 2010 EV/EBITDA are acceptable as they are quite close to both stocks' average trailing EV/EBITDA in 2007-09. These are, correspondingly, 4.3 for Yasynivka Coke and 5.1 for Avdiivka Coke.

Our global peer group is limited to India's Gujarat NRE and China's Sino Hua-An, as there are very few coke makers traded worldwide that have available earnings estimates. Given that our peers operate on steel markets characterized by sustainable rapid growth and much higher net income margins than Ukrainian coke makers (5%-17% versus 2%-10% in 2006-08), the latter should trade at discounts to their international peers on EV/EBITDA. Currently, Yasynivka Coke and Avdiivka Coke do indeed trade at discounts of 36% and 38% on 2010f EV/EBITDA, respectively, to their international peers. We expect that, in 12M, international peers' trailing EV/EBITDA will subside from the current average of 9.6 to 7.5-8.5. The 2010 EV/EBITDA levels of 4.8-5.3, implied by our 12M target price estimates for domestic coke makers, are at 34%-40% discounts to this benchmark, which we consider fair.

Yasynivka is the Ukrainian coke producer best secured in terms of coking coal supplies. Thanks to the abundant quality coal resources of its parent company, Donetskstal, Yasynivka is virtually non-susceptible to the coking coal deficit in Ukraine. Although Yasynivka Coke has a relatively low share of intragroup coke sales, at up to 10%, the Company should enjoy growing demand for its superior quality coke on the part of domestic steelmakers, which are pursuing the switch-over to PCI technology, and foreign steelmakers in the Middle East and Asia. Our valuation implies a target price of USD 0.565 per share for Yasynivka Coke and a 52% price upside.

Avdiivka is well secured with intragroup orders, as it sells up to 75% of its output to steelmakers within Metinvest Holding. We expect that demand for its coke will significantly expand in 2010-14, driven by growth in steel output of its key clients, Yenakieve Steel and Azovstal. Avdiivka Coke boasts a relatively high level of self-sufficiency in terms of coking coal (up to 70%), which provides it partial protection from the growing coal deficit in Ukraine. Our valuation of Avdiivka Coke implies a target price of USD 2.01 per share and suggests a 46% upside.

Coke: Trailing EV/EBITDA



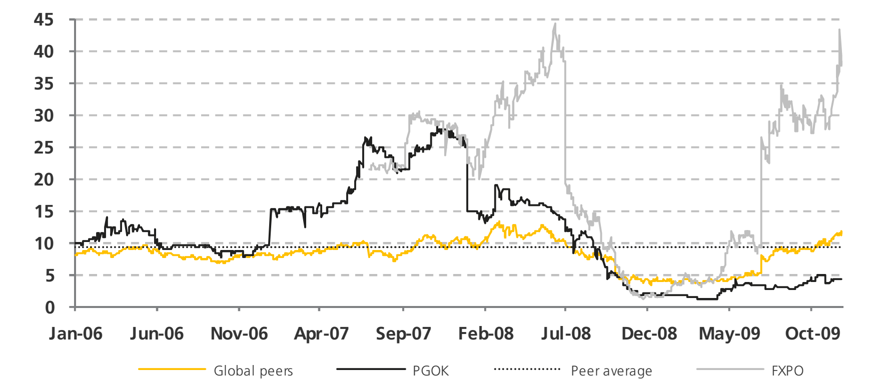
Source: UX, Astrum estimates

Covered iron ore makers are mixed bag in terms of EV/EBITDA levels and upsides.

Iron ore: Ferrexpo is currently trading higher than the market, at a 55% premium on 2010f P/E and 23% premium on 2010e EV/EBITDA to global peers. Historically, Ferrexpo traded with a 126% average premium to its peers on trailing EV/EBITDA and we attribute the two spikes in the stock's EV/EBITDA, which brought 320%-325% premiums to the peers, to the campaign of buying the stock on the market by one of the minority shareholders with speculative goals. Given Ferrexpo's 51% higher 2010f EBITDA and the prospects of speculative stock buying lower than in the past, we expect that, in 12M, Ferrexpo's premium to the peers on historic EV/EBITDA, which for the last four years stands at 9.1, will drop to just 10%. This implies a 3% upside for the stock.

Poltava OMP is currently trading at a 24% discount to global peers on 2010f P/E and a 19% discount to global peers on 2010f EV/EBITDA. We expect that, on the back of the forecast growth of PGOK's bottom line in 2010-14, in 12M, the stock will trade in line with its peers' historic average trailing EV/EBITDA of 9.1. This implies a 34% upside for the stock's price.

Iron ore: Trailing EV/EBITDA



Source: Bloomberg, PFTS, UX, Astrum estimates

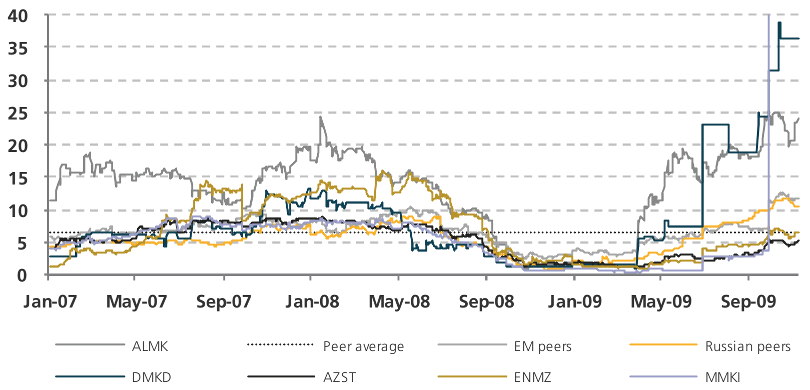
Steel stocks are still BUYs and in 12M should trade at premiums to the peers historic average EV/EBITDA.

Steel: Our DCF models for Ukrainian steelmakers bring 12M target prices that offer 45%-53% upsides and imply 2010 EV/EBITDA of 7.1-7.6. These EV/EBITDA levels are 20%-29% higher than the Russian and emerging market peers' historic average trailing EV/EBITDA of 5.9. We consider these premiums reasonable on the basis of our assumptions about of the behavior of the EV/EBITDA multiple in 12M. We believe that Yenakieve Steel's and Alchevsk Steel's higher implied 2010 EV/EBITDA of 7.6 reflects their high forecast EBITDA growth at 17%-18% CAGR in 2007-14. This compares to the sector's average EBITDA growth of 13% CAGR for the period.

Azovstal and Yenakieve Steel benefit from the vertical integration of their parent Metinvest Holding, which serves as their buffer against input price hikes and interruptions in input supplies. We consider Azovstal the safest play in the group of steel companies covered here – it is one of just a handful of Ukrainian steelmakers that should post a positive bottom line in 2009. Azovstal's and Yenakieve Steel's DCF-based target prices imply 2010 EV/EBITDA of 7.1 and 7.6 in 12M, respectively, and offer corresponding 50% and 48% upsides. Our DCF model for Mariupol Illich implies a 45% upside and 2010 EV/EBITDA of 7.1. We believe that the Company's lower level of transfer pricing partially compensates for its dependency on third parties in terms of raw materials' supplies.

A part of the IUD group, Dzerzhynskyi Steel bears the risks of insolvency at the group level. However, the Company itself has a relatively low debt burden with 2009e debt-to-equity ratio at 0.37. Dzerzhynskyi is one the most modernized steelmakers in Ukraine, which partially compensates for the fact that it lacks its own sources of raw materials. Our DCF valuation implies a 47% upside and 2010 EV/EBITDA of 7.4 for the stock. Alchevsk Steel's stock is the most depressed among the five steelmaker stocks covered in this Guide – its price in hryvnia terms is currently 77% below its historical maximum, while the prices of its Ukrainian peers have dropped by 58%-68%. We see this as primarily due to market concerns about the Company's solvency, as its 2009e debt-to-equity ratio is 1.7, and due to its lack of vertical integration. However, these concerns should subside in 2010 with the recovery of the steel market and a rapid growth in Alchevsk Steel's earnings, facilitated by by its highly competitive products and its most cost-efficient production capacity nationally. We believe that investors with lower risk-aversion will appreciate the expected 53% return on Alchevsk Steel in 12M. We give the stock a SPECULATIVE BUY rating.

Steel: Trailing EV/EBITDA

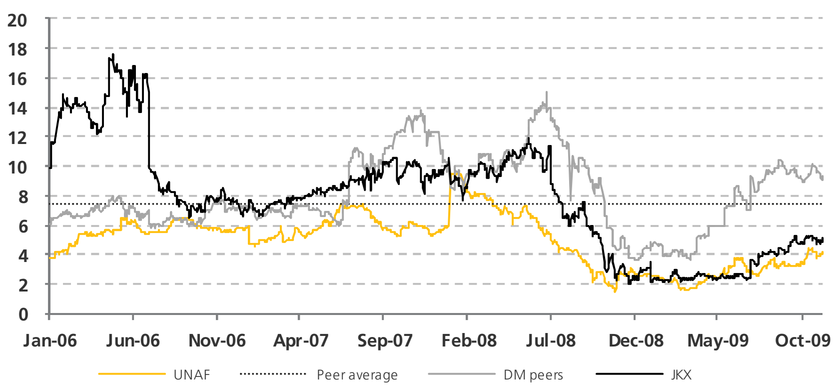


Source: Bloomberg, PFTS, UX, Astrum estimates

Oil & gas: The median trailing EV/EBITDA of the global peers of Ukrainian oil and gas companies comes to an average of 7.45 for the period 2002-09. At the same time, if we base our target prices for JKX and Ukrnafta on the level of peers' current 2010f EV/EBITDA (see the valuation table), the two stocks' implied 2010 EV/EBITDA in 12M comes to 4.7 in both cases. We consider these levels to be too low and take 7.45 as a benchmark. We expect that, in 12M, JKX will trade, at the least, in line with this benchmark thanks to its above-average profit margins. We apply a 10% discount from this benchmark for UNAF, as the Company should exhibit lower-than-average, albeit growing, profit margins in 2010-11. According to this valuation approach, both domestic oil and gas companies are BUYs.

Ukrainian oil and gas companies in 12M should trade in line or slightly lower than peers historic average EV/EBITDA level.

Oil&Gas: Trailing EV/EBITDA



Source: Bloomberg, PFTS, UX, Astrum estimates

Real estate: We base our valuation of Ukrainian developers on an operating income approach for office properties and on the DCF approach for stand-alone residential projects. We apply a capitalization rate of 13%-14% for the income generating office properties of TMM and use a 2011f WACC of 19%-23% for the residential projects of TMM and the KDD group. We value projects held for development on the basis of their deeply discounted liquidation values, primarily on the costs already incurred or on the market prices of the corresponding land plots. The projects under development of both companies should be a source of additional value when the market turmoil calms. In particular, TMM's projects under development were valued at USD 870m in mid-2008, while our current estimate indicates a value of just USD 18m. These value estimates result in our SELL recommendations for both companies at current market prices.

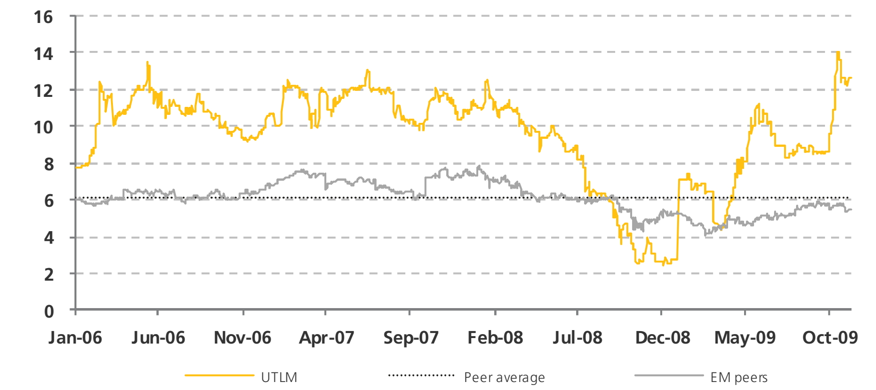
Real estate developers have exhausted their stock price upsides.

Telecommunications: Expectations of Ukrtelecom's privatization, which, if successfully carried out, would mean higher profit margins for the Company, have resulted in the retention of the stock's high bottom-line-based multiples since early 2005. In 2005-09, Ukrtelecom's average

Ukrtelecom's elevated multiples do not bring anything more exciting than a HOLD recommendation.

premium to global peers on trailing EV/EBITDA amounted to 49%. We expect that the forecast growth of Ukrtelecom's bottom line will help the stock to maintain a 40% premium to its peers on EV/EBITDA in 12M, despite the unclear prospects of its privatization. We recommend that investors HOLD Ukrtelecom's shares, which offer a potential price upside of 20%.

Telecommunications: Trailing EV/EBITDA



Source: Bloomberg, PFTS, UX, Astrum estimates

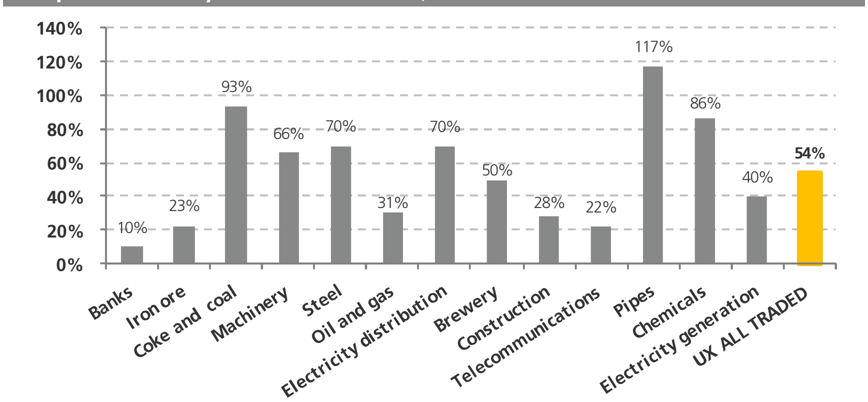
The year 2009 for the Ukrainian stock market: strong growth...

In July-November'09, the growth leaders among more liquid sectors were steel and coke. The banks were the laggards after the strong growth in March-June'09.

In July-November'09, after the release of our Astrum Strategy June'09, the Ukrainian stock market has seen an advance of 54% as calculated on the basis of the performance of all stocks listed on the Ukrainian Exchange (UX). Since its inception in late April'09, the UX index (the ten most liquid stocks) grew by 192% as of November 30, 2009. Back in March-June'09, the biggest outperformer was the banking sector. However, in July-November'09, the banking sector grew by just 10% y/y and severely underperformed the market due to a high comparative baseline, formed by the strong price appreciation in March-June'09, and persisting concerns on the part of investors with respect to banks' credit losses.

Within the six months since the release of our Astrum Strategy June'09, sectors, which outperformed the general market the most, were the coking, steel, utilities, pipes and chemicals. Among the most liquid sectors, the steel and coke sectors turned out to be the biggest gainers. Coke issues, on average, advanced 93%, while the steel sector posted an average growth of 70%. Gains in the coke and steel sectors were driven by fundamental factors, such as growing demand for steel and coke on the back of the recovery in industrial output seen worldwide. We believe that investors' interest in the utilities sector was based on forecasts of impending reforms in this sector, which we expect will commence in 2010 (for thermal electricity generation) and 2011 (for electricity distribution).

UX performance by sector: 01.07-30.11, 2009

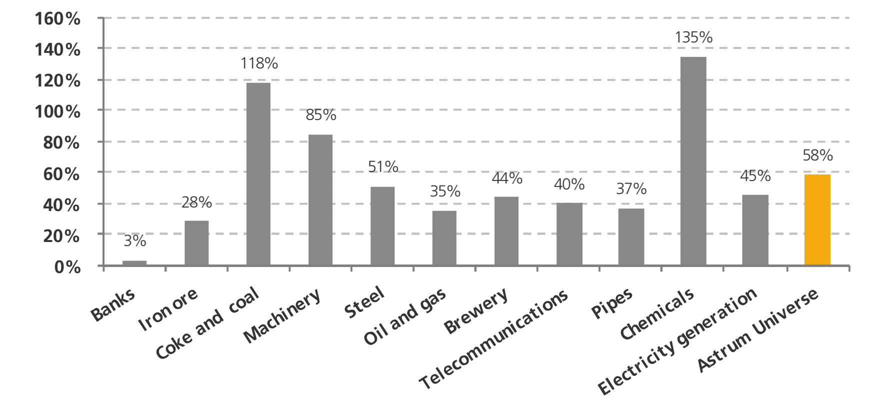


Source: UX

...and our recommendations right on target

In June'09, we selected what we call the Astrum Universe, which included 30 liquid stocks, to which we assigned investment recommendations. Within the Astrum Universe, we are observing a similar pattern as that witnessed on the UX on the whole, with the coking sector posting a 118% gain, and the machinery sector advancing 85%. The bulk of gains in the machinery sector stemmed, to a large extent, from the sharp advances made by Motor Sich upon the release of the excellent 2Q09 and 3Q09 earnings reports. On the whole, stocks in the Astrum Universe, which saw a 58% aggregate gain, performed slightly better than the general market (represented by all issues trading on the UX).

Astrum Universe – Performance by sector: 01.07-30.11, 2009

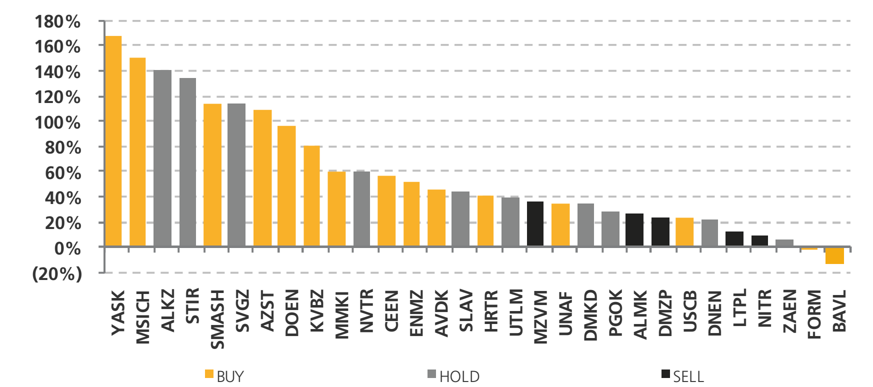


Source: PFTS, UX, Astrum estimates

BUYs within Astrum Universe returned 74% in July-November'09, higher than the total market performance of 54%.

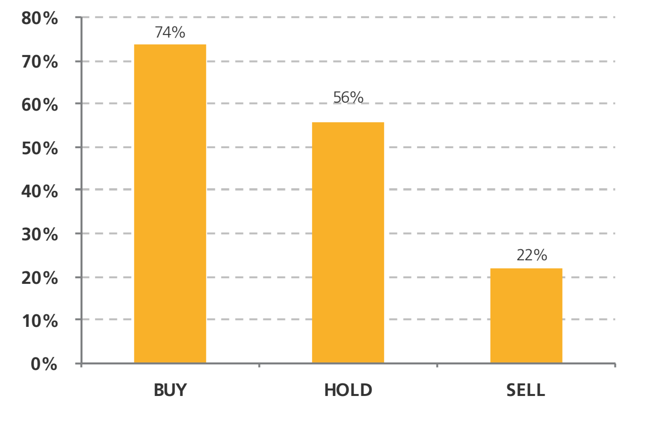
Our recommendations for the Astrum Universe, issued in June'09, included 15 BUYs, 10 HOLDs and 5 SELLs. On average, our BUY recommendations outperformed the market with an average return of 74% – much better than the 54% overall market return. Our HOLD recommendations, on average, ended up being in line with the market, with a 56% return. Finally, all of our SELL recommendations have indeed underperformed the market, gaining just 22%, on average, much worse than the 54% broad market return.

Performance of our recommendations: 01.07-30.11, 2009



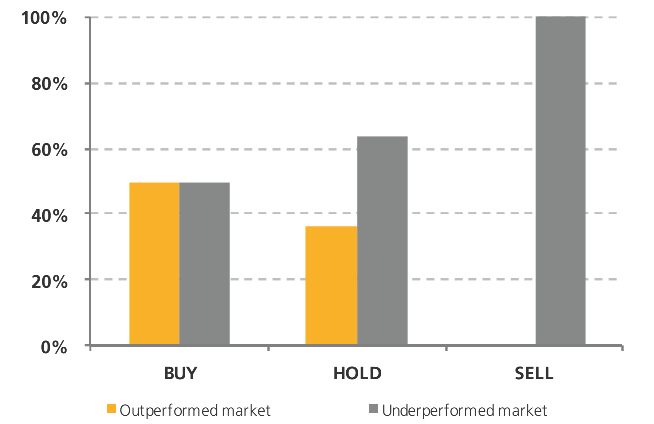
Source: UX, Astrum estimates

Astrum recommendations average performance



Source: Astrum estimates

Astrum recommendations vs market

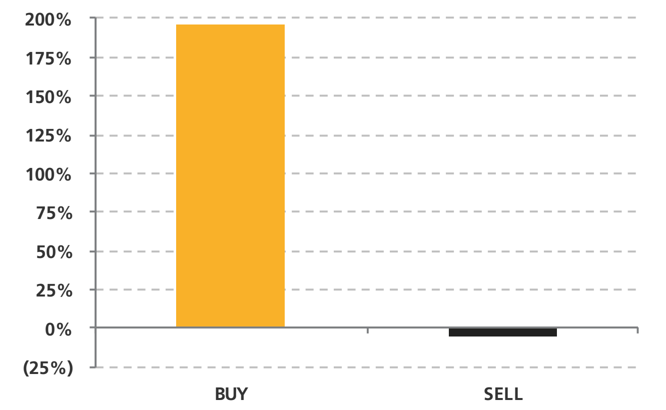


Source: Astrum estimates

Oblenergos, which we recommended to BUY in March'09, returned 197% on average, while oblenergo SELLs declined 5% on average.

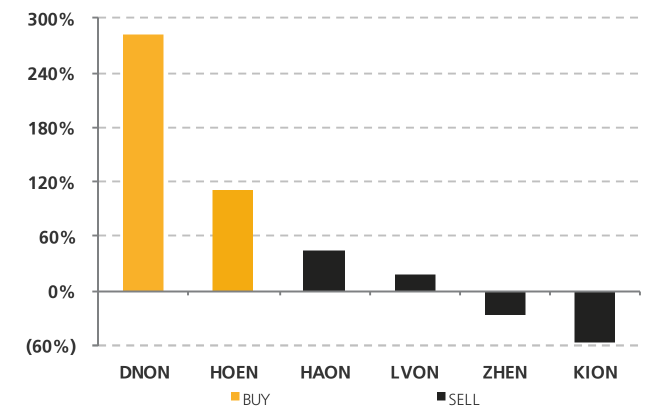
We separately assess the performance of our picks among oblenergos that as a segment did not make it to our Astrum Universe in June'09. Since March 25, 2009, when we issued recommendations for six oblenergos, those stocks, for which we issued BUY recommendations, advanced a whopping 197% on average, while our SELLs declined by an average of 5%. All of our oblenergo BUYs outperformed the market and all of our SELLs underperformed the market.

Oblenergos average performance: 01.04-30.11, 2009



Source: Astrum estimates

Oblenergos performance: 01.04-30.11, 2009



Source: Astrum estimates

The UX vs. the PFTS: the leader is shaping up

The UX was launched in April'09 and gained leadership in trading volumes due to popularity among retail investors.

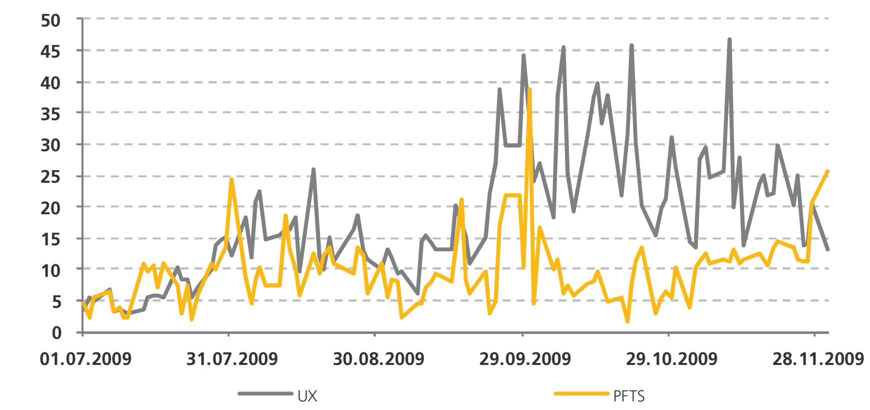
Ever since the launch of trading on the Ukrainian Exchange (UX) in April'09, it has been steadily gaining momentum, while the PFTS has been steadily losing its market position to the UX. Retail investors have played a big role in the rising popularity of the UX. Before the introduction of the UX, few retail investors were trading on the PFTS due to very large spreads. A majority of transactions on the PFTS were conducted over the phone on an OTC type of market. That has drastically changed with the rollout of the UX by the RTS: spreads have narrowed significantly and retail investors were presented the opportunity to invest and trade on their own with a reasonable commission structure and a user-friendly online trading platform. Nowadays, according to the UX, retail investors account for half the overall trading volume on the UX in terms of the number of transactions made.

The UX currently holds the leading position among Ukrainian bourses. In September-November'09, the average daily trading volume on the UX, amounting to UAH 24m (USD 3m), exceeded the equity volume of the PFTS by 189%. Currently, the PFTS holds ground only with respect to relatively large block trades, technical trades and fixed income trading, where OTC operation is desirable. The graphic vividly depicts where the trading activity is concentrated

The development of the Ukrainian stock market should raise its liquidity.

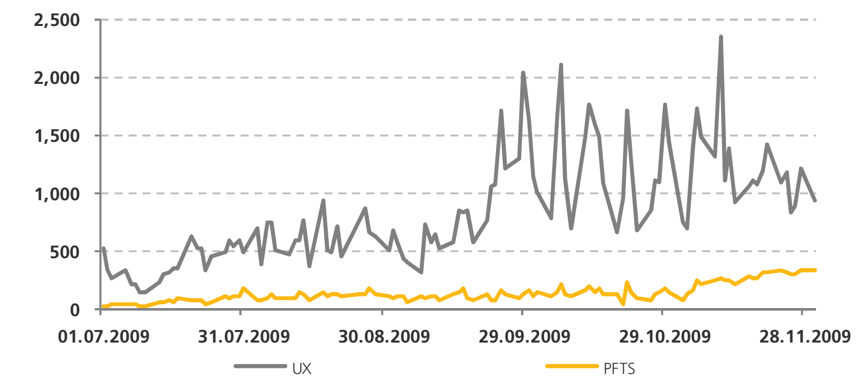
transaction-wise. It is clear that small retail investors and traders are active participants on the UX market given the large number of small trades. The Internet trading business is developing rapidly in Ukraine: the number of brokers providing internet trading services has grown to 20 and, according to the UX, the number of retail investors has grown to over a thousand in November'09. The transaction count on the UX reaches thousands daily, while on the PFTS, it has not exceeded 250 on any given day over the past half year. These developments provide for the higher liquidity of Ukrainian stocks, which we expect will further grow in the future due to the arrival of more domestic individual and institutional investors. This should also make the Ukrainian stock market more appealing for foreign investors and speculators.

PFTS and UX: trade volumes, UAHm



Source: UX, PFTS

PFTS and UX: number of transactions



Source: UX, PFTS

Summary valuation table

Industry	Company	Ticker	MPrice, USD	MCap, USDm	Est. free float, %	Upside	Recommendation
Agriculture	Astarta	AST PW	16.0	418	20%	29%	BUY
	Kernel Holding	KER PW	14.8	1,069	41%	30%	BUY
	MHP	MHPC LI	10.8	1,196	22%	73%	BUY
Banks	Raiffeisen Bank Aval	BAVL	0.032	752	4.0%	74%	BUY
	Bank Forum	FORM	0.72	163	10.8%	108%	BUY
	Ukrsotsbank	USCB	0.045	569	5.0%	106%	BUY
Chemicals	Stirol	STIR	6.59	179	6.4%	10%	HOLD
Electricity generation	Centrenergo	CEEN	1.28	473	5.0%	69%	BUY
	Dniproenergo	DNEN	111	655	4.0%	67%	BUY
	Donbasenergo	DOEN	8.3	197	4.2%	70%	BUY
	Zakhidenergo	ZAEN	48.9	625	5.6%	24%	HOLD
Electricity distribution	Chernivtsioblenergo	CHEN	0.37	21	8.1%	134%	BUY
	Khmelnytskoblenergo	HMON	0.42	57	11.2%	108%	BUY
	Ternopiloblenergo	TOEN	0.28	17	9.0%	186%	BUY
	Cherkasyoblenergo	CHON	0.37	55	3.9%	58%	BUY
	Kirovogradoblenergo	KION	0.36	43	5.5%	68%	BUY
	Sevastopolenergo	SMEN	1.27	34	4.8%	68%	BUY
	Zhytomyroblenergo	ZHEN	0.34	41	8.3%	53%	BUY
Machinery	Motor Sich	MSICH	197	408	23.6%	48%	BUY
	Turboatom	TATM	0.56	236	12.8%	28%	BUY
	Kryukiv Railcar	KVBZ	2.24	257	10.4%	27%	BUY
	Sumy Frunze	SMASH	6.92	492	16.5%	23%	HOLD
Coke	Yasynivka Coke	YASK	0.372	102	9.1%	52%	BUY
	Avdiivka Coke	AVDK	1.37	266	3.2%	46%	BUY
Iron ore	Ferrexpo	FXPO LN	3.35	1,973	25%	3%	SELL
	Poltava OMP	PGOK	3.5	671	4.0%	34%	BUY
Steel	Alchevsk Steel Mill	ALMK	0.016	414	4.3%	53%	SPECULATIVE BUY
	Azovstal	AZST	0.326	1,370	4.3%	50%	BUY
	Dzerzhynskyi Steel Mill	DMKD	0.063	430	0.6%	47%	BUY
	Yenakieve Steel Mill	ENMZ	20.3	214	14.5%	48%	BUY
	Mariupol Illich Steel Mill	MMKI	0.303	1,017	2.0%	45%	BUY
Oil & gas	JKX	JKX LN	4.71	731	27.6%	90%	BUY
	Ukrnafta	UNAF	21.4	1,158	10.0%	43%	BUY
Real estate	KDD Group	KDDG LN	0.77	125	19.6%	(13%)	SELL
	TMM	TR61 GR	3.07	159	13.0%	(16%)	SELL
Telecoms	Ukrtelecom	UTLM	0.061	1,134	7.0%	20%	HOLD

Source: Bloomberg, Astrum estimates

Comparative valuation tables

Ukrainian agricultural companies vs. peers

	Country	Price		Mcap, USDm	P/E				P/Sales				EV/EBITDA			
					2009e	2010f	2011f	2012f	2009e	2010f	2011f	2012f	2009e	2010f	2011f	2012f
Emerging market (EM) peers																
JBS SA	Brazil	BRL	9.48	7,804	36.77	17.42	14.56	12.03	0.35	0.33	0.30	0.29	10.86	9.30	8.20	7.45
Archer-Daniels-Midland Co	USA	USD	30.65	19,688	9.76	11.20	10.57	9.56	0.29	0.31	0.30	0.29	5.14	5.93	5.69	5.38
IOI Corp Bhd	Malaysia	MYR	5.41	10,672	27.01	20.83	18.69	17.37	2.40	2.44	2.25	2.18	15.72	13.45	12.18	11.52
Perusahaan Perkebunan London Sumatra Indonesia	Indonesia	IDR	8,025	1,157	17.03	13.29	11.75	7.75	3.42	3.05	2.84	2.32	9.96	8.56	7.74	5.64
Wimm-Bill-Dann Foods	Russia	USD	40.25	1,771	15.16	10.69	7.84	6.40	0.79	0.67	0.57	0,48	6.77	5.65	4.58	3.69
Emerging market peers median					**21.15**	**14.69**	**12.68**	**10.62**	**1.45**	**1.36**	**1.25**	**1.11**	**9.69**	**8.58**	**7.68**	**6.73**
Developed market (DM) peers																
Tyson Foods Inc	USA	USD	12.195	3,740	44.69	12.65	11.08	9.73	0.17	0.17	0.16	0.16	3.28	3.13	3.54	n.a.
Hormel Foods Corp	USA	USD	37.56	5,041	15.32	14.04	13.11	11.66	0.76	0.75	0.72	0.68	7.80	7.20	6.82	n.a.
Smithfield Foods Inc	USA	USD	15.51	2,563	n.m.	n.m.	13.49	10.07	0.20	0.22	0.21	0.19	26.66	15.37	6.03	5.77
Sanderson Farms Inc	USA	USD	39.91	811	9.77	8.96	n.a.	n.a.	0.45	0.43	n.a.	n.a.	5.66	5.35	n.a.	n.a.
Maple Leaf Foods Inc	Canada	CAD	11.66	1,266	23.31	14.12	11.73	9.93	0.30	0.29	0.29	0.29	7.29	6.22	5.57	4.98
Atria PLC	Finland	EUR	12.75	162	21.90	12.72	9.59	n.a.	0.27	0.27	0.26	0.25	8.66	7.23	6.51	n.a.
HKScan Oyj	Finland	EUR	8.4	189	12.38	9.72	6.79	n.a.	0.15	0.15	0.14	0.13	6.72	6.25	5.52	n.a.
Nippon Meat Packers Inc	Japan	JPY	1047	2,762	52.42	25.65	20.87	17.41	0.23	0.24	0.23	0.23	n.a.	n.a.	n.a.	n.a.
Developed market peers median					**20.76**	**9.85**	**12.38**	**11.76**	**0.32**	**0.31**	**0.29**	**0.28**	**9.44**	**7.25**	**5.67**	**5.38**
Ukrainian agricultural producers																
Astarta Holding NV	Ukraine	USD	16.01	400	25.94	15.73	12.36	7.73	1.98	1.69	1.44	1.25	8.68	7.24	6.03	4.77
Kernel Holding SA	Luxemb.	USD	14.76	1,015	8.29	8.17	7.21	6.83	0.92	0.88	0.84	0.80	6.29	5.66	5.18	4.98
MHP SA	Luxemb.	USD	11.88	1,316	9.52	7.28	6.97	6.18	1.75	1.52	1.45	1.38	6.00	5.28	5.00	4.61
Ukrainian agricultural companies median					**9.52**	**8.17**	**7.21**	**6.83**	**1.75**	**1.52**	**1.44**	**1.25**	**6.29**	**5.66**	**5.18**	**4.77**
Premium/(discount) to international peers median																
Astarta Holding NV	*Prem./(Disc.) to EM peers*				*23%*	*7%*	*(3%)*	*(27%)*	*36%*	*24%*	*15%*	*13%*	*(10%)*	*(16%)*	*(21%)*	*(29%)*
	Prem./(Disc.) to DM peers				*25%*	*60%*	*(0%)*	*(34%)*	*522%*	*437%*	*403%*	*356%*	*(8%)*	*(0%)*	*7%*	*(11%)*
Kernel Holding SA	*Prem./(Disc.) to EM peers*				*(61%)*	*(44%)*	*(43%)*	*(36%)*	*(36%)*	*(35%)*	*(33%)*	*(28%)*	*(35%)*	*(34%)*	*(33%)*	*(26%)*
	Prem./(Disc.) to DM peers				*(60%)*	*(17%)*	*(42%)*	*(42%)*	*191%*	*180%*	*192%*	*190%*	*(33%)*	*(22%)*	*(9%)*	*(7%)*
MHP SA	*Prem./(Disc.) to EM peers*				*(55%)*	*50%)*	*(45%)*	*(42%)*	*20%*	*12%*	*16%*	*24%*	*(38%)*	*(38%)*	*(35%)*	*(32%)*
	Prem./(Disc.) to DM peers				*(54%)*	*(26%)*	*(44%)*	*(47%)*	*450%*	*383%*	*404%*	*400%*	*(36%)*	*(27%)*	*(12%)*	*(14%)*

Source: Bloomberg, Astrum estimates

Ukrainian banks vs. peers

	Country	Price	Mcap, USDm	PEG 2008-13	P/E 2008	P/E 2009e	P/E 2010f	P/E 2011f	P/E 2012f	P/E 2013f	P/Book 2008	P/Book 2009e	P/Book 2010f	P/Book 2011f	P/Book 2012f	P/Book 2013f
International peers																
Sberbank	Russia	USD 66.5	49,002	0.6	14.69	109	15.4	7.67	6.33	5.17	1.91	2.00	1.79	1.49	1.24	1.04
Bank of Moscow	Russia	USD 688.7	3,722	0.5	16.1	n.m.	74.1	7.52	5.33	3.99	1.40	1.27	1.27	1.09	0.92	n.a.
Bank Vozrozhdenie	Russia	USD 1,187	962	0.5	8.99	23.2	11.0	5.52	4.52	3.77	1.77	1.85	1.62	1.27	1.06	0.84
PEKAO	Poland	PLN 172.0	16,331	3.7	12.8	19.7	17.7	14.18	12.1	10.8	2.56	2.50	2.36	2.20	2.03	1.91
Bank Handlowy	Poland	PLN 66.5	3,145	1.6	14.5	21.2	13.8	10.7	10.4	9.28	1.42	1.43	1.36	1.30	1.24	1.19
Kredyt Banca	Poland	PLN 11.3	1,111	0.7	9.45	76.3	21.2	9.20	6.81	5.13	1.19	1.15	1.07	0.96	0.85	0.77
PKO Bank	Poland	PLN 37.1	13,410	1.3	11.9	16.7	14.0	9.85	8.35	7.65	2.96	2.28	2.16	1.97	1.75	1.58
Komercni Bank	Czech Rep.	CZK 3,710	8,085	2.8	10.7	11.3	10.9	9.16	8.72	8.89	2.48	2.23	2.06	1.89	1.68	1.54
OTP	Hungary	HUF 5,316	8,164	n.m.	6.19	10.5	10.6	7.28	7.18	6.26	1.26	1.20	1.09	0.96	0.92	0.83
Akbank	Turkey	TRY 8.2	15,983	0.7	13.7	9.73	9.59	8.06	6.47	5.71	1.82	1.82	1.64	1.45	1.28	1.12
Garanti Bank	Turkey	TRY 5.3	14,551	0.7	11.8	8.28	8.05	6.61	5.93	5.15	1.75	1.83	1.54	1.31	1.09	0.91
Turkiye Is Bank	Turkey	TRY 5.3	10,670	0.5	10.3	7.29	7.16	5.98	5.01	4.32	1.29	1.33	1.16	1.00	0.93	0.82
Yapi Kredi	Turkey	TRY 2.9	8,298	0.6	10.1	8.44	8.04	6.43	5.40	4.51	1.56	1.51	1.27	1.07	0.89	0.76
Piraeus Bank	Greece	EUR 9.6	2,147	0.6	10.2	13.7	11.52	7.14	5.55	4.41	0.90	1.00	0.93	0.85	0.81	0.67
Unicredit	Italy	EUR 2.3	25,933	0.8	9.71	20.7	14.6	7.96	5.82	5.43	0.66	0.66	0.67	0.64	0.54	0.52
Raiffeisen Int.	Austria	EUR 41.0	4,221	1.9	6.46	60.3	27.7	8.93	6.78	5.47	1.08	1.15	1.11	1.01	0.91	0.80
Erste Bank	Austria	EUR 28.1	7,072	0.7	12.4	12.5	11.87	8.43	6.69	5.74	0.84	0.96	0.89	0.81	0.70	0.62
Commerzbank	Germany	EUR 6.2	4,903	8.4	n.m.	n.m.	n.m.	10.06	3.66	2.64	0.26	0.52	0.54	0.50	0.63	0.57
International peers average					**147**	**26.8**	**16.9**	**8.37**	**6.72**	**5.79**	**1.51**	**1.48**	**1.36**	**1.21**	**1.08**	**0.97**
Ukrainian banks																
Raiffeisen Bank Aval	Ukraine	UAH 0.25	752	0.18	11.5	n.m.	8.2	5.42	3.22	1.93	0.81	1.00	0.79	0.59	0.45	0.34
Bank Forum	Ukraine	UAH 5.80	163	2.34	128	n.m.	11.95	6.77	3.77	2.09	0.69	0.70	0.66	0.51	0.41	0.32
Ukrsotsbank	Ukraine	UAH 0.36	569	0.10	5.77	41.7	7.51	4.34	2.57	1.81	0.88	0.79	0.72	0.53	0.41	0.32
Ukrainian banks average					**48.28**	**41.71**	**9.23**	**5.51**	**3.19**	**1.94**	**0.80**	**0.83**	**0.72**	**0.54**	**0.42**	**0.33**
Premium/(discount) to international peers average																
Raiffeisen Bank Aval	*Prem./Disc. to Int. peers*				*(92%)*	*n.m.*	*(51%)*	*(35%)*	*(52%)*	*(67%)*	*(46%)*	*(32%)*	*(42%)*	*(52%)*	*(59%)*	*(65%)*
Bank Forum	*Prem./Disc. to Int. peers*				*(13%)*	*n.m.*	*(29%)*	*(19%)*	*(44%)*	*(64%)*	*(54%)*	*(53%)*	*(51%)*	*(58%)*	*(62%)*	*(67%)*
Ukrsotsbank	*Prem./Disc. to Int. peers*				*(96%)*	*56%*	*(56%)*	*(48%)*	*(62%)*	*(69%)*	*(41%)*	*(47%)*	*(48%)*	*(56%)*	*(62%)*	*(67%)*

Source: Bloomberg, Astrum estimates

Ukrainian chemical producers vs. peers

	Country		Price	Mcap, USDm	PEG	P/E 2009e	P/E 2010f	P/E 2011f	P/E 2012f	P/Sales 2009e	P/Sales 2010f	P/Sales 2011f	P/Sales 2012f	EV/EBITDA 2009e	EV/EBITDA 2010f	EV/EBITDA 2011f	EV/EBITDA 2012f
Emerging market (EM) peers																	
S. Arabian Fertilizer	S. Arabia	SAR	113	7,550	n.a.	14.17	11.56	10.77	9.68	0.04	0.03	0.03	0.03	11.75	9.89	9.40	8.25
Yunnan Yuntianhua	China	CNY	24.6	2,125	n.a.	n.m	28.12	20.50	n.a.	2.26	1.70	1.51	n.a.	24.96	13.21	11.53	n.a.
Chambal Fertilizers	India	INR	47.8	423	n.a.	8.27	7.02	10.14	n.a.	0.47	0.45	0.50	n.a.	5.61	5.61	5.10	6.85
Zaklady Azotowe	Poland	PLN	76.0	505	1.05	8.99	9.26	8.60	7.62	0.62	0.59	0.58	0.57	10.66	3.47	3.59	3.13
Emerging market peers median						**8.99**	**10.41**	**10.45**	**8.65**	**0.55**	**0.52**	**0.54**	**0.30**	**11.21**	**7.75**	**7.25**	**6.85**
Developed market (DM) peers																	
K+S	Germany	EUR	38.4	4,264	0.68	36.87	13.78	10.04	7.94	1.77	1.39	1.28	1.17	14.10	7.52	6.22	5.31
Agrium	Canada	CAD	51.3	7,560	0.93	17.17	10.09	8.03	13.89	0.86	0.80	0.77	0.95	11.84	7.36	6.66	11.16
CF Industries	USA	USD	85.4	4,148	0.97	12.09	12.91	11.84	10.67	1.60	1.77	1.62	1.59	4.07	4.72	4.36	4.25
Terra Ind.	USA	USD	34.9	3,481	1.15	16.52	12.39	12.67	90.47	2.16	1.91	1.71	1.97	7.20	5.81	5.91	20.82
Developed market peers median						**16.84**	**12.65**	**10.94**	**12.28**	**1.69**	**1.58**	**1.45**	**1.38**	**9.52**	**6.59**	**6.07**	**8.24**
Ukrainian chemical producers																	
Stirol	Ukraine	UAH	63	209	1.01	14.7	40.3	43.1	31.4	0.4	0.5	0.4	0.4	4.0	6.0	6.9	6.4
Premium/(discount) to international peers median																	
Stirol	*Prem./(Disc.) to EM peers*					*64%*	*287%*	*312%*	*263%*	*(27%)*	*(4%)*	*(26%)*	*34%*	*(64.3%)*	*(22.6%)*	*(4.8%)*	*(6.6%)*
	Prem./(Disc.) to DM peers					*(13%)*	*219%*	*294%*	*156%*	*(76%)*	*(68%)*	*(72%)*	*(71%)*	*(58.0%)*	*(9.0%)*	*13.7%*	*(22.3%)*

Source: Bloomberg, Astrum estimates

Ukrainian thermal gencos vs. Russia's OGKs

	Current price	Mcap, USDm	EV/ Capacity,	P/Sales					P/E				
Russian peers	**USD**			**2009e**	**2010f**	**2011f**	**2012f**	**2013f**	**2009e**	**2010f**	**2011f**	**2012f**	**2013f**
OGK1	0.025	1,094	125	0.70	0.54	0.43	0.37	0.25	16.11	10.58	5.35	3.19	2.28
OGK2	0.028	917	105	0.71	0.55	0.43	0.36	0.28	85.54	6.13	3.75	2.57	1.75
OGK3	0.049	2,327	274	2.34	1.84	1.54	1.34	1.44	22.35	18.72	15.17	8.10	9.66
OGK4	0.049	3,089	358	2.34	1.64	1.20	1.08	0.67	27.14	12.81	7.11	4.59	2.28
OGK5	0.077	2,734	315	2.10	1.63	1.31	1.21	0.48	34.14	15.30	7.76	5.82	2.42
OGK6	0.025	807	89	0.65	0.54	0.43	0.38	0.27	206.1	(12.88)	(10.29)	20.84	1.65
Russian peers average			**211**	**1.47**	**1.12**	**0.89**	**0.79**	**0.56**	**37.06**	**12.71**	**7.83**	**7.52**	**3.34**
Ukrainian peers	**UAH**												
Centrenergo	10.3	473	103	0.88	0.67	0.52	0.43	0.37	n.m	67.9	16.6	9.32	7.15
Dniproenergo	890	661	114	1.32	1.01	0.78	0.64	0.57	n.m	66.6	23.3	13.3	10.3
Donbasenergo	67.0	197	77	0.73	0.56	0.45	0.37	0.33	n.m	21.5	12.2	8.00	5.56
Zakhidenergo	393	625	133	1.15	0.92	0.72	0.59	0.53	n.m	111.1	19.3	11.3	7.99
Ukrainian thermal gencos average			**107**	**1.02**	**0.79**	**0.62**	**0.51**	**0.45**	**n.a.**	**66.8**	**17.8**	**10.5**	**7.75**
Premium/(discount) to Russian peers average													
Centrenergo			*(51%)*	*(40%)*	*(41%)*	*(41%)*	*(46%)*	*(35%)*	*n.m.*	*434%*	*112%*	*24%*	*114%*
Dniproenergo			*(46%)*	*(11%)*	*(10%)*	*(12%)*	*(19%)*	*0%*	*n.m.*	*424%*	*197%*	*77%*	*209%*
Donbasenergo			*(64%)*	*(51%)*	*(50%)*	*(49%)*	*(53%)*	*(41%)*	*n.m.*	*69%*	*56%*	*6%*	*67%*
Zakhidenergo			*(37%)*	*(22%)*	*(18%)*	*(19%)*	*(25%)*	*(6%)*	*n.m.*	*774%*	*146%*	*50%*	*139%*

Source: Bloomberg, Astrum estimates

Ukrainian oblenergos vs. peers

	Ticker	Price		Mcap, USDm	PEG	EV/EBITDA 2008	2009e	2010f	2011f	2012f	2013f
International peers											
Emasz	EMASZ HB	HUF	21,295	358	n.m.	4.91	n.a.	n.a.	n.a.	n.a.	n.a.
Transmissao Paulista	TRPL4 BZ	BRL	48.9	2,462	0.93	6.34	5.94	5.53	5.14	4.66	4.25
Transelectrica	TEL RO	RON	12.1	306	n.m.	4.00	4.99	4.12	3.86	3.58	3.31
Norte	EDN AR	ARS	1.45	168	n.m.	3.07	2.46	2.43	2.47	1.80	1.30
Eletropaulo	ELPL6 BZ	BRL	35.0	1,983	1.02	2.27	2.30	2.08	2.20	2.40	2.22
International peers median						**4.00**	**3.72**	**3.28**	**3.16**	**2.99**	**2.77**
Ukrainian oblenergos											
Chernivtsioblenergo	CHEN	UAH	3.0	21	0.16	3.14	3.26	2.69	2.15	1.63	1.24
Cherkasyoblenergo	CHON	UAH	3.0	55	0.41	4.44	4.45	3.86	3.19	2.50	2.12
Khmelnytskoblenergo	HMON	UAH	3.4	57	0.40	4.69	4.54	3.10	2.36	1.87	1.51
Kirovogradoblenergo	KION	UAH	2.9	43	0.42	13.0	4.97	3.93	3.08	2.32	1.77
Sevastopolenergo	SMEN	UAH	10.2	34	0.41	5.81	4.80	3.80	3.43	2.86	2.16
Ternopiloblenergo	TOEN	UAH	2.3	17	0.16	3.64	2.57	2.41	1.75	1.64	1.15
Zhytomyroblenergo	ZHEN	UAH	2.7	41	0.51	60.3	5.97	4.74	3.73	2.65	2.21
Oblenergos median						**4.69**	**4.54**	**3.80**	**3.08**	**2.32**	**1.77**
Premium/(discount) to international peers median											
	Chernivtsioblenergo					*(22%)*	*(12%)*	*(18%)*	*(32%)*	*(45%)*	*(55%)*
	Cherkasyoblenergo					*11%*	*19%*	*18%*	*1%*	*(16%)*	*(23%)*
	Khmelnytskoblenergo					*17%*	*22%*	*(5%)*	*(25%)*	*(37%)*	*(45%)*
	Kirovogradoblenergo					*224%*	*34%*	*20%*	*(2%)*	*(22%)*	*(36%)*
	Sevastopolenergo					*45%*	*29%*	*16%*	*8%*	*(4%)*	*(22%)*
	Ternopiloblenergo					*(9%)*	*(31%)*	*(27%)*	*(45%)*	*(45%)*	*(58%)*
	Zhytomyroblenergo					*1,407%*	*60%*	*45%*	*18%*	*(11%)*	*(20%)*

Source: Bloomberg, Astrum estimates

Sumy Frunze vs. global peers

	Country	Price		Mcap, USDm	PEG	P/E 2009e	P/E 2010f	P/E 2011f	P/Sales 2009e	P/Sales 2010f	P/Sales 2011f	EV/EBITDA 2009e	EV/EBITDA 2010f	EV/EBITDA 2011f
International peers														
Cameron Int.	USA	USD	38.5	9,407	2.5	18.57	19.17	15.38	1.61	1.71	1.55	9.70	9.98	8.43
Smith Int.	USA	USD	27.3	6,749	6.4	37.23	25.51	14.52	0.63	0.78	0.67	11.13	9.83	7.27
Dril-Quip	USA	USD	55.0	2,171	n.a.	20.19	18.09	14.67	4.00	3.75	3.31	12.30	11.51	10.11
Lufkin Industries Inc	USA	USD	59.9	891	n.a.	n.a.	n.a.	n.a.	1.20	1.56	1.42	14.95	11.14	8.34
Abb Ltd-Spon	Switzerl.	USD	19.2	44,630	n.a.	16.10	17.59	14.34	1.83	1.46	1.37	n.a.	n.a.	n.a.
Siemens	Germany	EUR	53.7	69,143	0.8	8.99	12.20	12.43	0.63	0.63	0.65	8.54	7.33	7.53
Weir Group	Britain	GBP	6.8	2,342	1.4	11.72	14.31	12.42	1.06	1.14	1.08	7.46	8.62	7.86
Sulzer	Switzerl.	CHF	78.1	2,646	n.m.	10.85	14.04	13.31	0.72	0.92	0.92	5.15	6.35	6.04
Shandong MP	China	HKD	1.0	465	n.a.	11.59	7.91	6.99	1.15	0.98	0.85	9.96	8.40	7.23
International peers median						**13.91**	**15.95**	**13.83**	**1.15**	**1.14**	**1.08**	**9.83**	**9.23**	**7.69**
Ukrainian machinery makers														
Sumy Frunze	Ukraine	UAH	55.7	492	0.72	14.72	18.05	13.35	1.22	1.06	0.88	8.01	8.76	7.05
Premium/(discount) to international peers median														
Sumy Frunze						*6%*	*13%*	*(3%)*	*6%*	*(7%)*	*(18%)*	*(18%)*	*(5%)*	*(8%)*

Source: Bloomberg, Astrum estimates

Kryukiv Railcar vs. global peers

	Country	Price		Mcap, USDm	PEG	P/E 2009e	P/E 2010f	P/E 2011f	P/Sales 2009e	P/Sales 2010f	P/Sales 2011f	EV/EBITDA 2009e	EV/EBITDA 2010f	EV/EBITDA 2011f
International peers														
Freightcar America	USA	USD	18.6	222	n.a.	20.54	411.52	29.83	0.30	1.28	0.83	5.43	21.64	7.45
Greenbrier	USA	USD	10.9	185	n.a.	n.m.	n.m.	15.32	0.18	0.23	0.19	10.76	8.45	6.20
Bradken	Australia	AUD	6.9	802	n.a.	13.62	11.34	9.62	0.74	0.72	0.68	7.84	7.02	6.38
Wabtec	USA	USD	39.7	1,889	n.a.	16.01	15.20	12.76	1.20	1.32	1.25	9.24	8.81	7.65
Iochpe Maxion	Brazil	BRL	25.2	684	2.2	30.70	12.77	9.31	0.65	0.67	0.55	13.11	7.12	5.69
International peers median						**18.27**	**13.99**	**12.76**	**0.65**	**0.72**	**0.68**	**9.24**	**8.45**	**6.38**
Ukrainian machinery makers														
Kryukiv Railcar	Ukraine	UAH	18	257	0.7	45.16	11.03	7.05	1.48	0.82	0.68	17.92	6.66	4.64
Premium/(discount) to international peers median														
Kryukiv Railcar						*147%*	*(21%)*	*(45%)*	*126%*	*13%*	*1%*	*94%*	*(21%)*	*(27%)*

Source: Bloomberg, Astrum estimates

Motor Sich vs. global peers

	Country	Price		Mcap, USDm	PEG	P/E 2009e	P/E 2010f	P/E 2011f	P/Sales 2009e	P/Sales 2010f	P/Sales 2011f	EV/EBITDA 2009e	EV/EBITDA 2010f	EV/EBITDA 2011f
International peers														
Magellan Aerospace	Canada	CAD	1.9	32	n.a.	1.84	4.33	2.84	0.05	0.05	0.05	4.10	4.41	4.40
Mtu Aero Engines	Germany	EUR	33.4	2,591	1.5	11.55	12.12	10.67	0.64	0.66	0.63	5.19	5.40	4.99
Vector Aerospace	Canada	CAD	6.1	256	n.a.	8.18	6.83	6.38	0.55	0.47	0.47	5.77	5.34	5.11
Bombardier Inc 'B'	Canada	CAD	4.3	7,554	2.3	10.56	10.43	9.79	0.38	0.39	0.39	5.85	5.66	5.33
Bae Systems Plc	Britain	GBP	3.3	18,883	0.3	8.07	7.84	7.83	0.69	0.54	0.54	4.62	4.53	4.50
International peers median						**8.18**	**7.84**	**7.83**	**0.55**	**0.47**	**0.47**	**5.19**	**5.34**	**4.99**
Ukrainian machinery makers														
Motor Sich	Ukraine	UAH	1,580	357	2.15	6.55	8.33	7.16	0.92	0.84	0.78	4.11	4.87	4.29
Premium/(discount) to international peers median														
Motor Sich						*(20%)*	*6%*	*(8%)*	*67%*	*78%*	*67%*	*(21%)*	*(9%)*	*(14%)*

Source: Bloomberg, Astrum estimates

Turboatom vs. global peers

	Country		Price	Mcap, USDm	PEG	P/E 2009e	P/E 2010f	P/E 2011f	P/Sales 2009e	P/Sales 2010f	P/Sales 2011f	EV/EBITDA 2009e	EV/EBITDA 2010f	EV/EBITDA 2011f
International peers														
Ormat Industries	Israel	ILS	9.0	1,073	n.a.	13.76	22.14	n.a.	3.03	2.72	n.a.	13.27	13.95	n.a.
General Electric	USA	USD	16.2	172,277	3.1	16.19	18.16	13.62	0.95	1.14	1.12	21.37	21.76	18.68
Mitsubishi Heavy Ind.	Japan	JPY	274.0	10,703	5.4	91.31	33.66	22.29	0.27	0.30	0.29	10.48	9.19	7.97
Harbin Power Eq.	China	HKD	6.1	1,226	0.3	12.45	10.74	10.72	0.28	0.32	0.32	1.61	1.41	1.31
Dongfang Electric	China	HKD	34.6	5,580	0.9	24.29	18.57	15.37	1.40	1.11	0.97	11.03	8.49	7.05
Alstom Projects	India	INR	518.5	744	n.a.	21.15	18.15	15.87	1.52	1.20	1.03	13.07	10.96	9.41
Doosan Heavy Ind.	S. Korea	KRW	54,200	4,845	3.2	n.m.	14.78	10.40	1.00	0.74	0.69	14.99	11.07	9.20
Turbomecanica	Romania	RON	0.1	12	n.a.	14.19	7.17	4.97	0.55	0.45	0.45	8.72	8.08	6.54
International peers median						**18.67**	**18.16**	**14.49**	**0.97**	**1.11**	**0.83**	**13.07**	**10.96**	**8.58**
Ukrainian machinery makers														
Turboatom	Ukraine	UAH	4.5	236	1.24	18.60	19.29	15.48	3.25	3.10	2.58	12.95	13.27	10.96
Premium/(discount) to international peers median														
Turboatom						*(0%)*	*6%*	*7%*	*234%*	*178%*	*212%*	*(1%)*	*21%*	*28%*

Source: Bloomberg, Astrum estimates

Ukrainian coke makers vs. peers

	Country		Price	Mcap, USDm	EV/EBITDA 2008	EV/EBITDA 2009e	EV/EBITDA 2010f	P/E 2008	P/E 2009e	P/E 2010f	P/Sales 2008	P/Sales 2009e	P/Sales 2010f
International peers													
Gujarat NRE Coke	India	USD	1.46	703	8.8	8.9	5.5	14.0	13.4	7.5	1.5	1.8	1.4
Sino Hua-An	China	USD	0.15	165	17.0	10.3	5.9	1,029.4	65.7	7.0	0.4	0.4	0.4
International peers median					**12.9**	**9.6**	**5.7**	**521.7**	**39.6**	**7.3**	**0.9**	**1.1**	**0.9**
Ukrainian coke makers													
Avdiivka Coke	Ukraine	USD	1.37	266	1.7	30.8	3.4	2.7	n.m.	13.0	0.3	0.6	0.4
Yasynivka Coke	Ukraine	USD	0.372	102	2.7	6.6	3.5	3.1	9.3	4.7	0.3	0.4	0.3
Ukrainian coke makers median					**2.2**	**18.7**	**3.5**	**2.9**	**9.3**	**8.9**	**0.3**	**0.5**	**0.4**
Premium/(discount) to international peers median													
Avdiivka Coke					*(87%)*	*221%*	*(39%)*	*(99%)*	*n.m.*	*79%*	*(70%)*	*(43%)*	*(52%)*
Yasynivka Coke					*(79%)*	*(31%)*	*(38%)*	*(99%)*	*(76%)*	*(35%)*	*(68%)*	*(60%)*	*(65%)*

Source: Bloomberg, Astrum estimates

Ukrainian iron ore producers vs. peers

	Country	Price		Mcap, USDm	EV, USDm	P/E 2008	P/E 2009e	P/E 2010f	EV/EBITDA 2008	EV/EBITDA 2009e	EV/EBITDA 2010f	P/Sales 2008	P/Sales 2009e	P/Sales 2010f
International peers														
Anglo	Australia	43.2	USD	56,871	67,419	10.91	22.67	16.46	6.7	10.6	8.2	2.6	3.0	2.7
BHP Billiton	Australia	37.8	USD	194,973	201,509	12.67	18.93	13.89	7.2	9.8	7.7	3.4	4.3	3.7
Rio Tinto	Australia	50.7	USD	117,077	134,560	31.85	21.45	15.83	7.1	10.9	8.8	2.5	3.4	3.2
Cleveland-Cliffs	USA	44.1	USD	5,772	5,874	11.19	72.14	15.88	4.9	17.1	7.9	1.6	2.5	1.9
Vale	Brazil	24.6	USD	144,752	155,586	12.26	22.17	16.76	8.6	14.2	9.5	4.0	5.9	4.9
Kumba	S.Africa	34.7	USD	11,112	11,372	12.55	13.79	15.12	7.2	7.1	7.7	4.3	3.9	3.8
Sesa Goa	India	7.9	USD	6,477	5,463	16.90	15.22	12.27	9.2	10.2	8.1	5.8	4.6	3.7
International peers median				**56,871**	**67,419**	**12.6**	**21.4**	**15.8**	**7.2**	**10.6**	**8.1**	**3.4**	**3.9**	**3.7**
Ukrainian iron ore producers														
Ferrexpo	Ukraine	3.4	USD	1,973	2,137	6.3	29.4	24.5	4.3	15.0	9.9	1.9	3.5	3.2
Poltava OMP	Ukraine	28.3	UAH	5,396	6,063	6.5	30.9	12.0	4.8	11.8	6.5	1.3	1.6	1.2
Ukrainian iron ore producers average						**6.4**	**30.1**	**18.2**	**4.5**	**13.4**	**8.2**	**1.6**	**2.6**	**2.2**
Premium/(discount) to international peers average														
Ferrexpo						*(50%)*	*37%*	*55%*	*(40%)*	*41%*	*23%*	*(43%)*	*(8%)*	*(14%)*
Poltava OMP						*(49%)*	*44%*	*(24%)*	*(33%)*	*11%*	*(19%)*	*(61%)*	*(59%)*	*(69%)*

Source: Bloomberg, Astrum estimates

Ukrainian steelmakers vs. peers

	Country	Price		Mcap, USDm	EV/EBITDA 2008	EV/EBITDA 2009e	EV/EBITDA 2010f	P/E 2008	P/E 2009e	P/E 2010f	P/Sales 2008	P/Sales 2009e	P/Sales 2010f
Russian peers													
Novolipetsk Steel	Russia	USD	2.90	17,380	3.8	14.2	7.9	7.6	59.1	13.5	1.5	3.0	2.4
Seversal	Russia	USD	8.80	8,545	2.6	24.8	6.8	4.2	n.m.	22.9	0.4	0.7	0.6
Evraz Group	Russia	USD	26.4	11,533	3.1	13.7	6.8	6.2	n.m.	16.6	0.6	1.2	0.9
Magnitogorsk Steel	Russia	USD	0.83	9,249	4.8	10.4	5.8	8.6	73.4	12.7	0.9	1.9	1.3
Mechel	Russia	USD	16.0	6,660	4.0	15.9	6.7	5.8	n.m.	10.8	0.7	1.2	0.9
Russian peers median					**3.8**	**14.2**	**6.8**	**6.2**	**66.3**	**13.5**	**0.7**	**1.2**	**0.9**
Emerging markets peers													
Usiminas	Brazil	USD	28.1	14,492	4.8	13.7	6.8	7.8	27.6	12.5	1.6	2.2	1.8
CSN	Brazil	USD	34.3	25,898	5.6	15.2	9.6	7.8	19.1	13.9	3.2	3.9	3.1
Eregli Demir	Turkey	USD	2.74	4,378	11.8	19.4	9.1	30.9	2,214	14.3	1.0	1.3	1.0
Baoshan Iron & Steel	China	USD	1.31	22,905	8.9	9.6	7.4	24.2	30.6	18.6	0.8	1.0	0.9
China Steel	Taiwan	USD	0.96	12,598	9.9	27.7	12.0	16.9	43.3	14.2	1.1	2.5	2.0
POSCO	S. Korea	USD	492	42,936	5.8	10.4	7.1	11.3	15.8	10.8	1.2	1.9	1.7
Dongkuk Steel Mill	S. Korea	USD	23.3	1,442	3.5	14.4	7.3	9.5	239	6.2	0.2	0.4	0.3
ArcelorMittal S. Africa	S. Africa	USD	1,446	6,445	3.5	26.5	9.1	5.1	n.m.	15.9	1.2	1.9	1.5
SAIL	India	USD	4.18	17,265	8.0	7.7	6.8	13.9	13.2	12.2	1.8	2.0	1.8
Emerging market (EM) peers median					**5.8**	**14.4**	**7.4**	**11.3**	**29.1**	**13.9**	**1.2**	**1.9**	**1.7**
Ukrainian steel makers													
Azovstal	Ukraine	USD	0.326	1,370	3.9	8.4	4.6	5.6	40.1	8.7	0.5	0.7	0.5
Mariupol Illich Steel	Ukraine	USD	0.303	1,017	3.2	40.0	4.7	6.0	n.m.	10.6	0.4	0.6	0.5
Alchevsk Steel	Ukraine	USD	0.016	414	11.1	18.4	6.0	n.m.	n.m.	42.8	0.2	0.3	0.2
Dzerzhynskyi Steel	Ukraine	USD	0.063	430	6.1	n.m.	5.3	37.7	n.m.	10.2	0.3	0.4	0.3
Yenakieve Steel	Ukraine	USD	20.3	214	3.5	n.m.	4.9	4.2	n.m.	7.6	0.2	0.3	0.2
Ukrainian steel makers median					**3.9**	**18.4**	**4.9**	**5.8**	**40.1**	**10.2**	**0.3**	**0.4**	**0.3**
Premium/(discount) to international peers median													
Azovstal	*Prem./(Disc.) to Russian peers*				*2%*	*(41%)*	*(32%)*	*(9%)*	*(39%)*	*(35%)*	*(23%)*	*(43%)*	*(45%)*
	Prem./(Disc.) to EM peers				*(32%)*	*(41%)*	*(38%)*	*(50%)*	*38%*	*(37%)*	*(56%)*	*(63%)*	*(71%)*
Mariupol Illich Steel	*Prem./(Disc.) to Russian peers*				*(16%)*	*182%*	*(30%)*	*(3%)*	*n.m.*	*(22%)*	*(44%)*	*(48%)*	*(51%)*
	Prem./(Disc.) to EM peers				*(45%)*	*178%*	*(36%)*	*(47%)*	*n.m.*	*(24%)*	*(68%)*	*(67%)*	*(74%)*
Alchevsk Steel	*Prem./(Disc.) to Russian peers*				*188%*	*30%*	*(11%)*	*n.m.*	*n.m.*	*217%*	*(68%)*	*(73%)*	*(74%)*
	Prem./(Disc.) to EM peers				*90%*	*28%*	*(18%)*	*n.m.*	*n.m.*	*209%*	*(82%)*	*(83%)*	*(86%)*
Dzerzhynskyi Steel	*Prem./(Disc.) to Russian peers*				*58%*	*n.m.*	*(22%)*	*511%*	*n.m.*	*(25%)*	*(49%)*	*(70%)*	*(68%)*
	Prem./(Disc.) to EM peers				*4%*	*n.m.*	*(29%)*	*234%*	*n.m.*	*(26%)*	*(71%)*	*(80%)*	*(83%)*
Yenakieve Steel	*Prem./(Disc.) to Russian peers*				*(10%)*	*n.m.*	*(27%)*	*(32%)*	*n.m.*	*(44%)*	*(70%)*	*(76%)*	*(76%)*
	Prem./(Disc.) to EM peers				*(40%)*	*n.m.*	*(33%)*	*(63%)*	*n.m.*	*(45%)*	*(83%)*	*(85%)*	*(87%)*

Source: Bloomberg, Astrum estimates

Ukrainian oil&gas companies vs. peers

Company		Price	MCap, USDm	EV, USDm	P/E 2008	P/E 2009e	P/E 2010f	EV/EBITDA 2008	EV/EBITDA 2009e	EV/EBITDA 2010f	EV/Sales 2008	EV/Sales 2009e	EV/Sales 2010f
International peers													
Alliance Oil	USD	14.8	2,525	2,914	62.2	12.2	9.9	5.0	7.3	5.4	1.1	1.8	1.4
Tullow Oil	USD	2,025	16,275	17,188	39.4	199.2	96.2	36.0	29.4	23.6	13.4	17.9	15.7
Salamander	USD	4.3	669	772	n.a.	84.3	13.5	14.3	7.5	3.8	7.7	3.9	2.4
Lundin Petroleum	USD	8.1	18,296	18,923	213.0	232.4	80.1	41.2	37.7	23.9	19.7	21.2	16.7
Premier Oil	USD	1,810	2,076	2,369	21.1	24.6	11.5	5.9	5.3	3.9	3.6	3.7	2.7
Dana	USD	2,012	1,836	2,025	10.3	29.8	13.1	4.0	5.6	4.0	2.1	2.9	2.2
International peers median			**2,301**	**2,641**	**39.4**	**57.0**	**13.3**	**10.1**	**7.4**	**4.7**	**5.6**	**3.8**	**2.5**
Ukrainian oil&gas companies													
JKX	USD	4.7	731	660	9.4	8.9	7.1	4.4	4.6	3.8	3.2	3.4	2.8
Ukrnafta	USD	21.4	1,158	1,201	6.5	90.6	13.6	4.1	11.2	4.9	1.1	1.1	0.7
Ukrainian oil&gas companies median					**7.9**	**49.7**	**10.3**	**4.2**	**7.9**	**4.3**	**2.2**	**2.3**	**1.7**
Premium/(discount) to international peers median													
JKX					*(76%)*	*(84%)*	*(47%)*	*(57%)*	*(37%)*	*(20%)*	*(44%)*	*(10%)*	*9%*
Ukrnafta					*(84%)*	*59%*	*2%*	*(60%)*	*51%*	*4%*	*(80%)*	*(72%)*	*(73%)*

Source: Bloomberg, Astrum estimates

Ukrtelecom vs. global peers

	Country		Price	Mcap, USDm	P/E 2008	P/E 2009e	P/E 2010f	EV/EBITDA 2008	EV/EBITDA 2009e	EV/EBITDA 2010f	P/Sales 2008	P/Sales 2009e	P/Sales 2010f
Emerging market (EM) peers													
Turkcell	Turkey	TRY	9.9	2,695	7.6	10.9	10.0	4.9	5.8	5.3	2.2	2.4	2.3
Hellenic Telecom	Greece	EUR	11.3	686	8.7	9.9	9.4	4.3	4.5	4.5	0.9	0.9	0.9
Telefonica O2	Czech Rep.	CZK	430.6	17,250	12.2	12.4	11.9	4.8	5.0	5.2	2.2	2.3	2.3
Magyar Telecom	Hungary	HUF	760.0	98,568	9.1	9.7	9.9	4.1	4.3	4.4	1.2	1.2	1.3
Emerging market peers median					**9.4**	**10.7**	**10.3**	**4.5**	**4.9**	**4.8**	**1.6**	**1.7**	**1.7**
Developed market (DM) peers													
Belgacom	Belgium	EUR	26.5	1,113	10.2	10.6	10.9	5.5	5.6	5.7	1.5	1.5	1.5
Elisa	Finland	EUR	14.2	294	12.4	12.3	11.9	6.4	6.4	6.3	1.6	1.6	1.6
France Telecom	France	EUR	17.4	5,730	8.6	9.6	9.4	4.1	4.6	4.7	0.9	0.9	0.9
Portugal Telecom	Portugal	EUR	8.1	902	13.2	12.9	12.0	5.2	5.3	5.1	1.1	1.1	1.0
Telefonica S.A.	Spain	EUR	19.3	11,294	12.1	11.3	10.3	5.9	5.9	5.9	1.6	1.6	1.6
Swisscom	Switzerland	CHF	382.0	2,539	11.4	10.3	10.5	6.2	6.3	6.3	1.7	1.7	1.7
Developed market peers median					**11.3**	**11.2**	**10.8**	**5.6**	**5.7**	**5.7**	**1.4**	**1.4**	**1.4**
Ukrtelecom	Ukraine	UAH	0.49	1,134	n.m.	n.m.	50.6	10.8	7.6	6.9	1.37	1.30	1.21
Premium/(discount) to international peers median													
Ukrtelecom	*Prem./Disc. to EM peers*				*n.m.*	*n.m.*	*392%*	*138%*	*54%*	*41%*	*(14%)*	*(24%)*	*(28%)*
	Prem./Disc. to DM peers				*n.m.*	*n.m.*	*368%*	*94%*	*33%*	*21%*	*(1%)*	*(8%)*	*(14%)*

Source: Bloomberg, Astrum estimates

Fixed income

Eurobonds

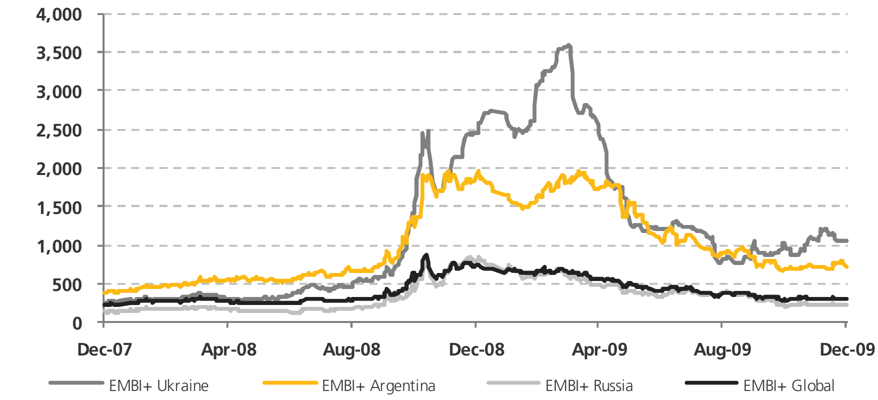
By March'09, panic had driven the Ukrainian sovereign yield to the 90% level and the EMBI+ Ukraine index to 3,560 points.

Sovereign Eurobond segment: from fear of default to growth of prices. In 2009, the Ukrainian Eurobond segment demonstrated the highest level of volatility among emerging markets. In 1Q09, against the backdrop of negative news, the mood in the Ukrainian segment was marked by panic, which, even at that time, we saw as unjustified. The yield curve became inverted and the yield of sovereign bonds on the short end of the curve reached 90%. On March 10, 2009, the EMBI+ Ukraine index spread peaked at 3,560 points.

By September'09, the spread narrowed by 85% to reach 544 points.

Investors began to return to the Ukrainian Eurobond market in late March'09 thanks to an upturn on global stock markets and an increasing appetite for risk on the part of investors. The growth in prices of Ukrainian Eurobonds took place in several stages. The initial impulse for the growth in purchasing activity came from domestic players entering the Eurobond market. Other important drivers of price growth for Ukrainian debt has been the continued cooperation with the IMF and the relative stabilization of the national currency in May-June'09. After the redemption of Ukraine-09 Eurobonds in August'09, sovereign bonds reached a new yield level. On September 1, 2008, the EMBI+ Ukraine spread index suffered a whopping 85% drop from its March peak to arrive at 544 points.

EMBI+ spreads

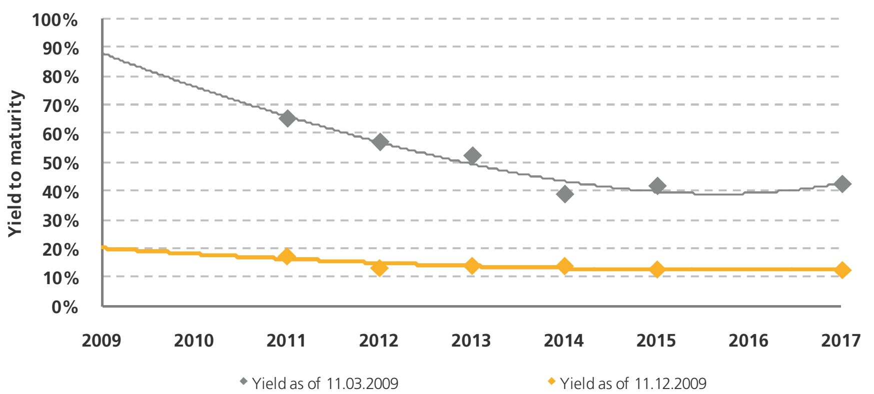


Source: NBU, CBonds

The prices of sovereigns should grow again upon the finalization of the presidential elections in February'10.

By mid-December'09, the EMBI+ Ukraine spread widened to 1,054 points in connection with the restructuring of Naftogaz's debts, the default of Ukrzaliznytsia and the delay of the fourth tranche of the IMF loan. Currently, the yield of sovereign bonds is at 11%-14%. We expect high volatility in the Ukrainian Eurobond segment in January-February'10, along with jolts in political tension. At the same time, we see the equilibrium level of Ukrainian sovereign bond yields at 11%-13% until February'10, when the presidential election results should be finalized.

Sovereign yield curves of Ukrainian Eurobonds



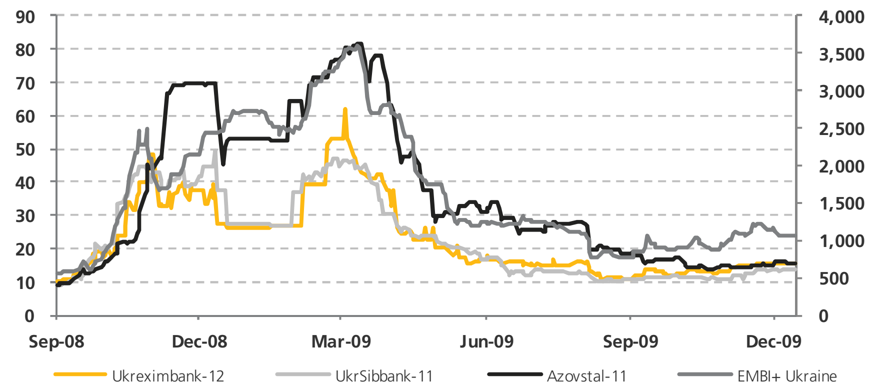
Source: Bloomberg

We expect that the prices of sovereign bonds will jump after the end of the presidential campaign, at which time yields should decline to 6%-8%. At the same time, we expect that the government will enter the primary debt market in 2H10 with an issue we estimate at USD 1bln.

Yields of corporate bonds fell to 10%-20%...

Corporate Eurobonds should also see their prices grow. The prices of Ukrainian corporate Eurobonds are currently under pressure from Ukrainian sovereign risk. In the panic-led situation of 1Q09, Ukrainian corporate issuers traded with significant spreads to similar companies in other emerging markets. Price growth in the sovereign segment pushed up the prices of corporate securities, resulting in the lowering of yields to 10%-20%.

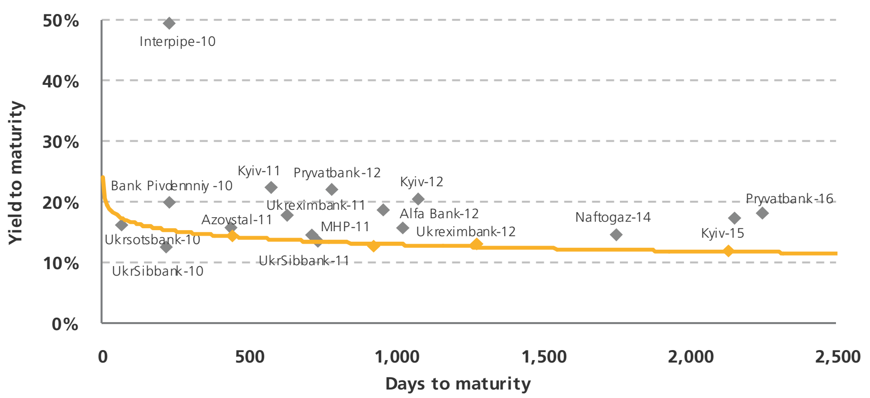
EMBI+ Ukraine and corporate Eurobonds



Source: Bloomberg

Today, the yield map for Ukrainian issuers indicates a clear segmentation based on the credit quality of issuers. This compares to the situation in early 2009, when the yields of various bonds were more uniform under considerable pressure from the sovereign risk.

Yield map for Ukrainian Eurobonds



Source: Bloomberg

...and, at the moment, are largely dependent on their credit quality.

In the first tier of Ukrainian corporate Eurobonds, we include issues by banks affiliated with international financial groups (i.e. UkrSibbank and Ukrsotsbank) and banks with a quasi-sovereign status (i.e. Ukreximbank), as well as other issuers with high credit quality, such as MHP and Azovstal. Despite the weak financial condition of Naftogaz, its Eurobonds also trade at a yield that permits including these bonds in the first tier, due to the existence of a sovereign guarantee. The second tier in the Eurobonds segment includes banks that have lower credit quality (i.e. Bank Pivdennyi, Alfa Bank (Ukraine) and Pryvatbank), in addition to City of Kyiv. The third tier includes bonds that are either currently being restructured or for which the restructuring should begin in the near future.

Ukrainian Eurobonds

	Issue volume, USD m	Coupon rate, %	Maturity date	Bid, %	Ask, %	YTM, %	Growth potential p.p.
Ukraine-11	600	6.88	04.03.11	91.00	92.00	14.23	8-9 p.p.
Ukraine-12	500	6.39	26.06.12	85.50	87.00	12.53	6-7 p.p.
Ukraine-13	1,000	7.65	11.06.13	85.50	86.50	12.92	5-6 p.p.
Ukraine-15	600	4.95	13.10.15	71.50	72.50	11.71	4-5 p.p.
Ukraine-16	1,000	6.58	21.11.16	76.00	77.00	11.47	3-4 p.p.
Ukraine-17	700	6.75	14.11.17	75.50	76.50	11.32	3-4 p.p.
First tier							
Ukreximbank-11	500	7.65	07.09.11	83.50	85.50	17.74	7-8 p.p.
Ukreximbank-12	250	6.80	04.10.12	79.00	80.50	15.65	5-6 p.p.
UkrSibbank-10	200	7.38	23.07.10	95.50	97.00	12.51	3-4 p.p.
UkrSibbank-11	500	7.75	21.12.11	92.00	94.00	13.44	5-6 p.p.
Ukrsotsbank-10	400	8.00	22.02.10	97.50	98.50	16.13	Redemption
Azovstal-11	175	9.13	28.02.11	91.50	93.00	15.70	5-6 p.p.
MHP-11	250	10.25	30.11.11	91.50	93.00	14.47	5-6 p.p.
Naftogaz of Ukraine-14	1,595	9.50	30.09.14	82.00	83.00	14.53	5-6 p.p.
Second tier							
Kyiv-11	200	8.63	15.07.11	81.00	82.50	22.33	9-11p.p.
Kyiv-12	250	8.25	26.11.12	72.50	74.00	20.41	7-8 p.p.
Kyiv-15	250	8.00	06.11.15	65.00	66.50	17.28	5-6 p.p.
Alfa Bank-12	841	13.00	30.07.12	87.50	88.50	18.63	8-9 p.p.
Bank Pivdennyi -10	100	10.25	03.08.10	92.50	94.50	19.87	5-6 p.p.
Pryvatbank-12	500	8.00	06.02.12	75.50	77.00	22.00	10-11 p.p
Pryvatbank-16	150	8.75	09.02.16	65.00	68.00	18.10	7-8 p.p.
Interpipe-10	200	8.75	02.08.10	78.50	80.00	49.37	Restructuring
Third tier							
Finance and Credit-10	100	10.38	25.01.10	67.00	71.00	379.68	Restructuring
FUIB-10	275	9.75	16.02.10	72.00	74.00	214.56	Restructuring
VAB-10	125	10.13	14.06.10	68.00	70.00	101.06	Restructuring
Nadra-10	175	9.25	28.06.10	19.50	21.50	877.00	Restructuring

Source: Bloomberg, Astrum estimates

Yields in both first-tier and second-tier corporate Eurobond segments should also see a decline.

In 2010, the most reliable issuers in the Eurobonds segment should take the opportunity to raise funds on the primary market.

The yields in the corporate Eurobond segment should follow the dynamics of the sovereign curve, which leads us to expect a rise in the price of corporate bonds, beginning in 2Q10. Thus, the yields of first-tier banking issues should markedly decline from the current 10%-16% to 8%-10% in 2Q10, while the yields of MHP and Azovstal Eurobonds should decrease from 13%-14% to 10%-12%. For second-tier banking issues, yields range widely due to the significant difference in the quality of these financial institutions. The yields of the most liquid bonds in this category – Alfa Bank-12 and Pryvatbank-12 – should see a remarkable fall from their current 18%-20% to just 11%-13%.

We expect that, in 2010, a number of Ukrainian issuers will take advantage of new opportunities to raise funds on the primary market. External borrowing should remain attractive for Ukrainian issuers due to the continued absence of long-term crediting in Ukraine. We expect that the following first-tier banks will enter the primary debt market: Ukreximbank, Bank Forum, UkrSibbank and Ukrsotsbank. Throughout the crisis period, Ukreximbank and Bank Forum have both maintained a solid credit history and both fully redeemed their Eurobonds in 2009. We believe that UkrSibbank and Ukrsotsbank will also not have any problems with the redemption of their issues in 2010. This should put these banks' issues in high demand and enable them to avoid substantial premiums for their initial placement. We expect that MHP will enter the primary debt market in 2011. The list of potential new borrowers should be extremely limited and we expect that, in 2010-11, the market will only see the entry of one or two companies or banks that have not previously issued Eurobonds.

The history of restructuring: to be continued

In 2009, a number of Ukrainian issuers restructured their Eurobonds, while a number of other companies are currently in the midst of restructuring their issues. The only issuers on the bond market that did not experience problems in repaying their obligations in 2009 were first-tier Bank Forum and Ukreximbank. They successfully repaid Eurobonds in the amount of USD 100m and USD 250m, respectively.

Eurobond issues, which were successfully restructured, include those of XXI Century (USD 175m), Naftogaz (USD 500m), and Alfa Bank (Ukraine), whose three series came to a total of USD 1bln. Moreover, we think that the restructuring terms offered in most accomplished exchanges, with the exception of XXI Century Eurobonds, were reasonable. For instance, this is reflected in the quotations for Nadra Bank bonds (USD 175m), which have dropped to the current level of 15%-20%. On the other hand, the unattractive restructuring terms offered by XXI Century and that, most likely, will be offered in future for Nadra Bank bonds, indicate the extremely low credit quality of these particular issuers.

We expect that FUIB and Finance and Credit Bank Eurobonds (redemption for both scheduled for February'10) restructuring will be completed in the near future. Among third-tier banking issues, the uncertainty remains only for the VAB Bank that has not announced restructuring plans yet. At the same time, due to the Bank's low level of transparency, we cannot fully determine its strategy in this regard.

Investment ideas. In the late 2009, the attractiveness of investing in Eurobonds decreased significantly. We expect that, in 2010, Ukrainian residents will be only slightly interested in Eurobonds, due to the existence of investment opportunities that offer higher yields in hryvnia terms and also to a reduction of expectations of the hryvnia devaluation. Thus, we expect that the Eurobond market will return to its traditional modus operandi, with the main buyers being foreign investors satisfied with a yield level of 8%-15% in USD. At the same time, the pre-election period has produced a negative informational buzz about Ukraine, effectively creating a window of opportunity for bargain-buying as a result of the widening of spreads.

It is very likely that, in 2010, Ukrainian Eurobonds will again be of interest primarily to non-residents.

For investors investing in the Ukrainian Eurobond segment, we, first and foremost, recommend sovereign bonds on the short end of the curve, the yields of which are currently 13%-14%. We expect that the yield curve for Ukrainian sovereign bonds will finally take its traditional form in 2010, as a result of the accelerated reduction of yields of the shortest bonds, which mature in 2011-13.

First and foremost, we recommend that investors focus on Ukrainian sovereign debt, which should rise in price.

Among the highest quality corporate bonds, we recommend that investors BUY Ukreximbank-11 and UkrSibbank-11, as well as MHP-11 and Azovstal-11, the yields of which are currently at 10%-15%. Alfa-Bank-12 is the most attractive Speculative BUY, because it has the potential to undergo a yield reduction from the current 19% to just 11%-13% in the next 3-6 months.

Amongst corporate issues, we recommend Eurobonds of Ukreximbank, UkrSibbank, MHP, Azovstal, and Alfa Bank (Ukraine).

Alfa Bank (Ukraine)-12

BUY

Price	**88.5**
Yield	**18.6%**

Profile: Alfa Bank (Ukraine) is the seventh largest Ukrainian bank by assets and is a subsidiary of Russia's Alfa group.

The Bank's creditworthiness stands on a solid foundation – support from its parent structure. Alfa Bank (Ukraine) in the summer of 2009 successfully restructured external borrowings, in the amount of USD 1bln, which greatly reduced the risk of refinancing of the Bank's external debt. In our opinion, the Bank's capital adequacy in 2010 offers minimal risk thanks to support from its parent structure: Capital/Assets ratio of the bank should be at healthy 10.8% in 2010. We believe that Russia's Alfa Bank has both the required amount of resources and the desire to support Alfa Bank (Ukraine) in 2011-12.

Alfa Bank (Ukraine) Eurobonds are undervalued. We believe that the current spread of the issuer's Eurobonds is unfairly wide relative to the Ukrainian sovereign curve, and the Eurobond issue of its parent bank due in 2010, which currently has YTM below 10%. We expect that the yield of Alfa Bank (Ukraine) Eurobonds will fall from the current 18.6% to 11%-12% in 2H10.

Balance sheet indicators, UAH bln

	2008	2009e	2010f
Loans to legal entities	19.8	20.1	22.1
Loans to individuals	8.2	6.3	6.9
Reserves	(2.3)	(4.0)	(2.8)
Net assets	32.3	28.9	31.8
Due to other banks	14.2	15.4	17.0
Legal entities' funds	10.8	5.4	5.9
Individuals' funds	1.9	2.4	2.7
Liabilities	29.0	25.8	28.4
Equity	3.3	3.1	3.4
Capital/Assets ratio	10.2%	10.8%	10.8%
Reserves/Loans ratio	8.1%	15.0%	9.5%

Ownership structure

Alfa Bank (Russia)	100%

Issue data

Issue	Amount, USDm	Maturity date	Coupon rate
Alfa Bank (Ukraine)-12	840.7	30.07.2012	13%

Azovstal-11

BUY

Price	**93**
Yield	**15.7%**

Profile: Azovstal is Ukraine's second-largest manufacturer of steel products and enjoys affiliation with the vertically-integrated Metinvest Holding.

Reduced costs and low debt burden are the pillars of solvency. The 47% y/y drop in iron ore prices, coupled with lower personnel costs margin due to the hryvnia's devaluation and staff cuts, should keep Azovstal's 2009 EBITDA margin at healthy 9.1%. As a result, the issuer's solvency should remain high on the back of its low debt burden. The Company's 2009 EBITDA/Interest ratio should be at 11.0, and its Net Debt/EBITDA ratio at 0.6. In 2010-11, Azovstal should benefit from rising steel prices. Its 2010 EBITDA margin should increase to 11.9% and the EBITDA/Interest ratio should rebound to a high 20.5.

Azovstal Eurobonds' price should grow alongside those of sovereign bonds. The yield for Azovstal Eurobonds is currently at 14%, with the spread to Russian peers with comparable credit quality of 200-400 b.p. The spread should narrow as the pressure from Ukrainian risk gradually drops. Yields for Azovstal Eurobonds in 2010 should go down to 11%-12%.

Financial indicators, UAH m

	2008	2009e	2010f
Net sales	21,235	15,566	21,818
Gross profit	3,288	1,146	2,573
EBITDA	3,020	1,415	2,593
EBITDA/Interest	28.7	11.0	20.5
Gross margin	15.5%	7.4%	11.8%
EBITDA margin	14.2%	9.1%	11.9%
Net debt/EBITDA	0.28	0.63	0.37

Ownership structure

Metinvest Holding	95.7%

Issue data

Issue	Amount, USDm	Maturity date	Coupon rate
Azovstal-11	175	28.02.2011	9.13%

BUY

Price	**93**
Yield	**14.5%**

Financial indicators, UAH m

	2008	2009e	2010f
Net sales	4,231.3	6,132.9	7,946.6
Gross profit	1,251.6	2,589.6	3,663.5
EBITDA	1,424.0	2,556.8	3,323.5
EBITDA/Interest	6.0	5.8	5.6
Gross margin	29.6%	42.2%	46.1%
EBITDA margin	33.7%	41.7%	41.8%
Net debt/EBITDA	1.6	1.7	1.8

Ownership structure

Y. Kosyuk	77.7%

MHP-11

Profile: MHP is a vertically-integrated agricultural holding that specializes in manufacturing of poultry (75% of 2008 net sales) and other agricultural products.

Stable sales growth and moderate debt level support MHP's creditworthiness. In 2009, MHP launched the Myronivka Plant, which allowed for a 47% boost in the Group's annual poultry production capacity to 340 thd tonnes. At the same time, in line with our expectations, the domestic demand for more affordable chicken meat grew in 2009 as a result of the reduction in disposable income by 11%. Sales growth and the forecast modest debt load of the Group should keep MHP's Net debt/EBITDA ratio at healthy 1.7-2.0 in 2009-11.

MHP Eurobonds should be among the first to benefit from the reduction in sovereign risks. MHP Eurobonds are one of the most popular instruments among investors in the Ukrainian Eurobonds segment. We expect that they will be one of the first to experience price growth in the segment. According to our estimates, the yield of MHP-11 will fall from the current 13% to 10% in 2010.

Issue data

Issue	Amount, USDm	Maturity date	Coupon rate
MHP-11	250	30.11.2011	10.25%

BUY

Price	**77**
Yield	**22%**

Balance sheet indicators, UAH bln

	2008	2009e	2010f
Loans to legal entities	46.9	47.9	55.1
Loans to individuals	25.6	21.7	25.0
Reserves	(8.9)	(12.2)	(8.5)
Net assets	79.8	80.8	92.9
Due to other banks	14.0	16.1	19.1
Legal entities' funds	19.0	16.5	19.6
Individuals' funds	32.8	31.1	36.8
Liabilities	71.0	71.0	84.1
Equity	7.6	8.0	8.8
Capital/Assets ratio	9.5%	9.9%	9.5%
Reserves/Loans ratio	12.2%	17.5%	10.6%

Ownership structure

Pryvat Group	100%

Pryvatbank-12

Profile: The largest Ukrainian bank by assets, belongs to one of the biggest local business groups Pryvat Group, which also includes companies in mining, oil and gas, and other sectors.

Pryvatbank's position as market leader and the diversified business of its owners make bonds highly reliable. We expect that, in the unlikely case that Pryvatbank were to encounter problems, it would receive timely support from the NBU due to the fact that, as the Country's largest bank, it is of significant importance to the whole banking system. Pryvatbank holds the largest portfolio of individuals' deposits in Ukraine, more than UAH 30bln that accounts for a whopping 15.3% of all deposits made by individuals with Ukrainian banks. The Bank also benefits from resources provided by the diversified businesses of its owners. Pryvatbank is free of any significant short-term external debt, which minimizes the risk of refinancing.

Lowering of sovereign risk and squeezing of the spread to the sovereign curve to drive price growth. We believe that Pryvatbank's Eurobond price will grow as a result of a reduction in the sovereign risk and the narrowing of Pryvatbank-12's spread to the sovereign curve, from the current 600 b.p. to 400 b.p. in 2010. As a result, the yield of Pryvatbank-12 should drop from 22% to 12%-13% over the next 6-9 months.

Issue data

Issue	Amount, USDm	Maturity date	Coupon rate
Pryvatbank-12	500	06.02.2012	8.0%

Ukreximbank-11

BUY

Price	**85.5**
Yield	**17.7%**

Profile: Ukreximbank is the fourth largest bank in Ukraine in terms of assets. It is one of the Country's state-owned banks, with the government of Ukraine holding 100% ownership.

Ukreximbank's solvency stems from solid state backing and high assets quality. Ukreximbank is one of the few Ukrainian banks that managed to increase its customer portfolio in 2009, by estimated 22% to UAH 46.8bln. This happened as a result of state-owned companies moving their financial dealings to the Bank and the fact that the Bank's solid image led individuals to transfer their deposits to Ukreximbank. Moreover, the quality of its loans portfolio ranks high in the Ukrainian banking system due to the low share of retail loans, just 5%, in its portfolio. The 2009e Reserves/Loans ratio of Ukreximbank is less than 8% compared to the 12% estimated average for the banking system as a whole. We expect that the Bank's solvency will remain high in 2010-11 due to its high asset quality and state support.

Ukreximbank Eurobonds' price to grow along that of the sovereign curve. Its quasi-sovereign status makes Ukreximbank's bonds sensitive to changes in sovereign risk. As a result of reduced political risk pressure on the Ukrainian curve, we expect growth in the price of sovereign and quasi-sovereign bonds in 2Q10. According to our estimates, the yield of Ukreximbank-11 should decrease from the current 16% to 8%-9% in 2010.

Balance sheet indicators, UAH bln

	2008	2009e	2010f
Loans to legal entities	36.2	43.3	52.0
Loans to individuals	2.1	1.7	2.1
Reserves	(1.4)	(3.4)	(2.6)
Net assets	48.3	59.3	71.2
Due to other banks	23.8	24.3	29.2
Legal entities' funds	7.9	12.0	14.4
Individuals' funds	7.6	7.8	9.4
Liabilities	43.8	50.1	60.2
Equity	4.5	9.2	11.0
Capital/Assets ratio	9.3%	15.5%	15.5%
Reserves/Loans ratio	3.8%	7.7%	4.8%

Ownership structure

Government of Ukraine	100%

Issue data

Issue	Amount, USDm	Maturity date	Coupon rate
Ukreximbank-11	500	07.09.2011	7.65%

UkrSibbank-11

BUY

Price	**94**
Yield	**13.4%**

Profile: UkrSibbank is Ukraine's fifth largest bank by assets. It is affiliated with the international group BNP Paribas, one of the world's leading financial groups.

UkrSibbank boasts a high level of solvency, backed by support from its parent company. In line with our expectations, in 2009, BNP Paribas increased its stake in UkrSibbank from 51% to 81.4%, thereby demonstrating the importance of the Ukrainian market for the Group. We expect that BNP Paribas will continue to pour capital into UkrSibbank in order to cover the write-off of the Bank's NPLs and the refinancing of its external debt. The Bank's equity should grow by 10% to UAH 5.5bln by the end of 2010, and its Reserves/Loans ratio should decline from 13% in 2009 to 6.4% in 2011.

UkrSibbank-11 Eurobonds should benefit from a reduction in sovereign risk. UkrSibbank is one of the most trusted issuers in the Ukrainian segment, and the Bank's Eurobonds are among the most liquid bonds available. This should allow the price of UkrSibbank-11 to reap maximum benefits from the growth in quotations of sovereign securities. As a result, we expect that the yield for UkrSibbank-11 will drop from the current 9% to 6% in 2H10. We believe that UkrSibbank Eurobonds are particularly attractive for conservative investors.

Balance sheet indicators, UAH bln

	2008	2009e	2010f
Loans to legal entities	19.9	17.3	19.9
Loans to individuals	30.5	28.3	32.5
Reserves	(2.7)	(5.9)	(4.1)
Net assets	55.7	50.6	58.2
Due to other banks	32.4	27.9	32.2
Legal entities' funds	6.7	4.6	5.3
Individuals' funds	7.9	9.3	10.7
Liabilities	50.8	45.6	52.7
Equity	4.9	5.0	5.5
Capital/Assets ratio	8.7%	9.9%	9.5%
Reserves/Loans ratio	5.4%	13.0%	7.9%

Ownership structure

BNP Paribas Group	81%
A. Yaroslavskiy	19%

Issue data

Issue	Amount, USDm	Maturity date	Coupon rate
UkrSibbank-11	500	21.12.2011	7.8%

Domestic bonds

In 2009, only technical placements occurred on the primary market, while trading on the secondary market was virtually frozen.

The primary and secondary market of corporate and municipal bonds froze in 2009. In 2009, the market of corporate and municipal bonds ceased to exist the way we had known it before. In line with our expectations, investors brought all issues to put option whenever it was time for them in 2009. Non-residents and domestic investors started offering domestic bonds on the secondary market for sale, which in some cases, forced the bonds' price down to less than 20% of the face value. At the same time, trading activity fell to a minimum, with technical placements constituting the only activity on the primary market. The buyers of such bonds, in most cases, were state-owned banks (as was the case for City of Lviv bonds and issues by two state aircraft-building companies) or other financial institutions with which prior arrangements had been made (as was the case for City of Donetsk bonds).

Those issues that remain on the market did not have put options in 2009.

As a result, by early 2010, the issues remaining in circulation should be bonds for which no put option was planned in 2009. These include government and municipal bonds, as well as those by a handful of corporate issuers. Other bonds have gradually been withdrawn from circulation in the following ways:

- **Companies bought up their own bonds at up to 80% discounts.** The issuers that most frequently resorted to this method were banks. Most of the large bond-issuing banks in Ukraine bought back their own bonds from the market in 4Q08-1Q09.
- **Redemption of bonds presented at put option.** Some issuers, such as SIA Boryspil, were able to fulfill their obligations in full, without having to resort to restructuring.
- **Restructuring.** According to our estimates, more than 75% of issuers from the non-financial sector have successfully restructured their bonds by a term of up to three years.
- **Default.** Such defaults, as occurred in the case of YutiSt, have been rare and mostly due to the issuers' reluctance to fulfill their obligations, despite the fact that they indeed had the option of restructuring their debt.

Most significant events on the Ukrainian bond market in 2009

Issuer	Sector	Issue volume, UAH m	Event	Info
SIA Boryspil	Infrastructure	100	Redemption	
Atlant-M	Retail trade	100	Redemption	
Tavria B	Retail trade	40	Redemption	
Ukrsotsbank	Banks	500	Bond buyout	Buyout at a discount from the market
Swedbank	Banks	250	Bond buyout	Buyout at a discount from the market
FUIB	Banks	300	Bond buyout	Buyout at a discount from the market
Rise	Agriculture	100	Restructuring	Coupon rate increased to 24%, full redemption in March'10, restructuring
Podolie	Agriculture	100	Restructuring	Offered 2 options: 1) bonds redemption by December'10, 20% coupon rate; or 2) 10% redemption on put option, 20% on Nov. 27, 2009, 30% on Feb. 26, 2010, and 40% on May 28, 2010 at 23% yield
Bogdan Motors	Machinery	130	Restructuring	10% cash payment at put option. The remainder of the debt is delayed for 1 year, 22% coupon rate
YutiSt	Pipes	50	Default	Bankruptcy proceedings initiated by Company's management
Omega	Retail	50	Default	Bankruptcy proceedings initiated by Company's management
Insaharprom	Agriculture	50	Default	Bankruptcy proceedings initiated by Company's management
Karavan	Retail trade	190	Unacceptable restructuring terms	The case went to court
Kviza-Trade	Retail trade	250	Secondary restructuring	The issuer defaulted on its restructuring obligations
Citycom	Retail trade	100	Unacceptable restructuring terms	The case should go to court

Source: Cbonds

Thus, the corporate bond segment has virtually ceased to exist, and trading operations on the secondary market have predominantly been transactions for the sale and purchase of OVGZs. Under such circumstances, the notions of market price and bond yields have become quite vague. At the implied price levels, the most reliable borrowers (SIA Boryspil, Ukrtelecom) offered yields exceeding 30% in 2009. OVGZ yields on the secondary market in 2009 were within the range of 20%-25%.

High yield levels in a stable currency should restore investors' interest in domestic bonds in 2010.

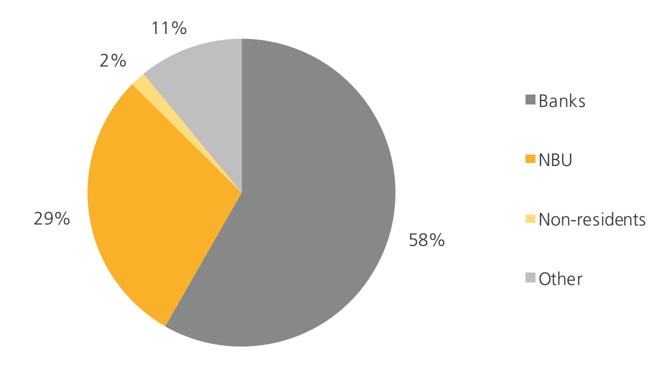
Stabilization of the hryvnia should help the domestic market recover. We expect that the domestic bond market will recuperate in 2010. Just as we forecast earlier, a key driver in the recovery of the corporate and municipal bond market should be the sharp decrease in the hryvnia devaluation expectations. We expect that the UAH/USD rate in December'10 will be relatively stable compared to the rate in December'09. Under such circumstances, the Ukrainian domestic bond market should become attractive for investment, given the high yields that are now being offered for issues remaining on the market and a reduction in the cost of foreign currency hedging. This should encourage non-residents to return to the Ukrainian domestic market in 2H10. In 2010, we also expect that Ukrainian banks' loan portfolio will increase to 9.1% on the back of increased corporate lending. An increased appetite for risk among market players should allow banks to once again return to the corporate bond market.

In 2009, the excess liquidity of the banking system was directed towards the OVGZ market...

In 2009, the OVGZ segment fared better than others. Given the near-total freeze of crediting activity in 2009, banks directed their excess liquidity towards the primary OVGZ market, primarily buying short bonds with a maturity terms of up to nine months. The banks' activity on the OVGZ market was nevertheless limited, demonstrated by the fact that the amount of OVGZs in banks' portfolios grew only slightly from UAH 16.9bln at the end of 2008 to UAH 18.4bln at the end of 2009. The resultant amount has up to UAH 5bln as OVGZs used for banks recapitalization.

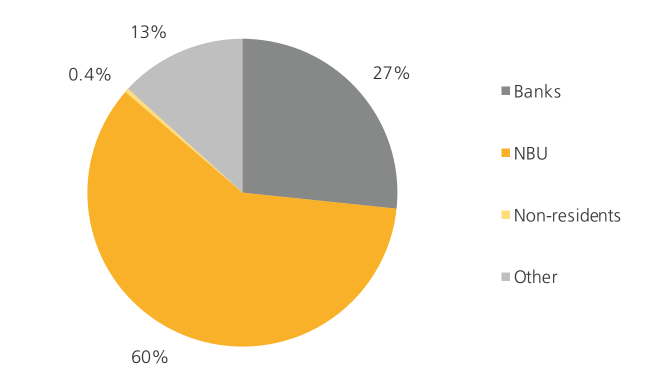
The government's use of OVGZs to finance the budget deficit has raised the amount of bonds that are only nominally in circulation. Such OVGZs amounted to UAH 68.9bln at the end of 2009, 136% up from the total volume of bonds in circulation at the beginning of 2009, and 657% up from the total at the end of 2007. 60% of this amount (UAH 41.1bln) remains in the NBU's portfolio, and 13.3% (UAH 9.1bln) belong to other holders, where we believe Naftogaz, whose capital got a UAH 18.6bln boost in 2009 through the issue of OVGZ, is the major holder. The share of OVGZs held by foreigners is less than 0.4% by volume, which contrasts with 2007, when foreigners held UAH 2.1bln worth of OVGZs, or 23% of the total volume in circulation.

Breakdown of OVGZs by holders, December 2008



Source: NBU

Breakdown of OVGZs by holders, December 2009



Source: NBU

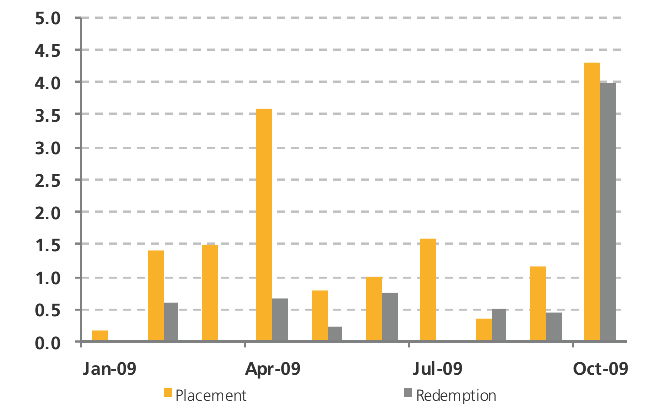
...which enabled the government to sell UAH 16.5bln worth of bonds at primary auctions in 2009.

In 2009, the government sold UAH 16.5bln worth of OVGZs at primary auctions. Throughout the year, the government has been actively placing short bonds that mature in 2009, the total amount of which is UAH 4.8bln. The active placement of short OVGZs means that, in 1H10, the government will have to redeem OVGZs for a total amount of UAH 6.4bln. At the same time, we expect that the government will not default on its domestic debt in 2010. We expect that, in

2Q10, the peak period for OVGZ's redemption, the government will manage to attract the necessary funds on the domestic market. Our confidence is based on the fact that the amount to be repaid in 2Q10 should be less than the volume of bonds that matured in October'09, when market conditions were less favorable. We believe that the refinancing of public debt will be facilitated by improvements in Ukraine's economic prospects, which should occur after the presidential elections. The level of Ukraine's public debt should also remain relatively low – its direct state debt to GDP ratio at the end of 2010 should be at 23.8%.

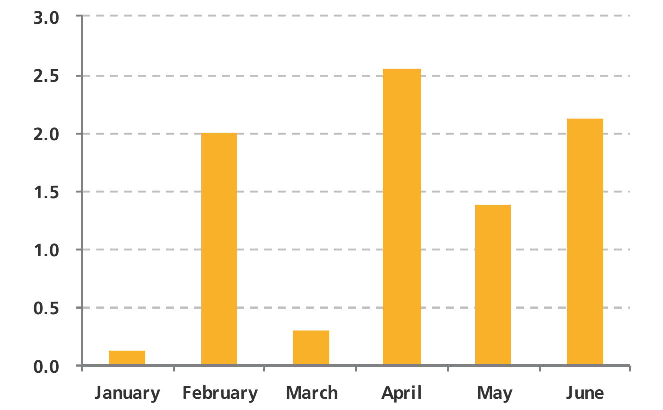
The refinancing of OVGZs in 2010 should ease up upon the completion of the presidential election.

OVGZ placement and redemption volumes in 2009, UAH bln



Source: Cbonds

OVGZ redemption volumes in 1H10, UAH bln



Source: Cbonds

OVGZ market should be at the forefront of recovery. We expect that the high yields and sovereign risk associated with OVGZ will attract non-residents starting from 2Q10, and we anticipate the mass entry of speculative capital to this segment already in 2Q10, in the aftermath of Ukraine's presidential election. We also expect that foreign investors will come to be the most active OVGZ buyers in 2010. The proportion of foreigners in the commercial OVGZ segment (excluding OVGZs owned by the NBU and Naftogaz, as well as OVGZ received by state-owned banks as capital additions) should rise from 1%-2% at the end of 2009 to 20% by the end of 2010.

Foreigners should raise their share of the OVGZ market in 2010.

In 2010, we expect that purchases of OVGZs will be made in two ways:

1) The primary OVGZ market, which we estimate in the amount of UAH 24bln in 2010. We expect that up to 50% of these bonds will, once again, be acquired by the National Bank of Ukraine;

2) The trading of OVGZs, which are currently held in banks' portfolios, on the secondary market.

As a result of the increased demand for OVGZs, we expect lower yields across the curve, from the current 22%-26% to 11%-15% by mid-2010, with a potential for further decline. In 2010, the NBU should remain the main holder of government domestic debt. We estimate the yields of OVGZs in the NBU's portfolio at no more than 10%, which should make these bonds unattractive for market players in 2010. All of these OVGZs remain off the market and, while their yields remain below 10%, they should not affect the value of those government bonds that are on the market.

Improvements on the Ukrainian bond market should also promote growth in the OVGZ market. In particular, in 2009, the Ukrainian Government and the NBU implemented the institution of primary dealers. At the moment, 11 Ukrainian banks have been selected as primary dealers. The introduction of the institution of primary dealers should ensure greater liquidity on the secondary OVGZ market, since dealers agree to make daily quotations and ensure OVGZ purchases in an amount not less than 3% of their placement during a six-month period. These conditions should make the results of primary OVGZ placements more predictable.

The introduction of the institution of primary dealers should boost OVGZs' liquidity.

We expect a high interest in the domestic bond market on the part of Ukrainian corporate and banking issuers...

Corporate segment should be the next to recover after OVGZs. We expect that Ukrainian corporate borrowers will show great interest in the domestic bond market in 2010, as their bitter experience has made them much more sensitive to currency risks, thereby making UAH-denominated borrowing more attractive. At the same time, high inflation expectations in 2010-11 should make companies move closer to market prices and offer higher yields of 15%-20%. In effect, Ukraine's major banks should gain the opportunity to raise funds on the bond market due to the fact that the major buyers should be banks. Thus, for banks, the primary bond market should become a "twin brother" of the Interbank Credit Market, where banks have already imposed open limits on each other. Thus, it will be easier for banks to start with buying bonds of other banks than bonds of non-financial issuers.

At the same time, the high attractiveness of OVGZs will constrain the arrival of foreign speculative capital on the corporate and municipal bonds market in 2010. We expect that, for most of 2010, the main players on this market will be Ukrainian banks and we expect that the most active ones will be banks with Russian shareholders, namely because of their access to financial resources and due to Ukraine's position as a priority market for them. On the other hand, a number of Ukrainian banks, which were active on the bond market in 2005-09, should downsize their presence in this segment, instead focusing on the more secure corporate lending.

...but the 'open window' for first-tier issuers to successfully carry out initial placements should emerge only in 2H10.

We thereby expect the restoration of the corporate bond market in Ukraine to occur slowly. According to our estimates, the 'open window' for first-tier issuers to successfully carry out initial placements should emerge only in 2H10. For other issuers, such possibilities should present themselves starting in 2011.

The requirements to potential borrowers should also grow as a result of complications in legal procedures for bonds' issuance and increased requirements regarding borrowers' credit quality and transparency; this is a marked difference from the situation in 2006-08.

As a result, we estimate that the volume of initial placements in 2010 will be in the range of UAH 3-5bln. Initial offerings in 2010 should feature:

- High-quality issuers, primarily banks, which should return to the bond market with new bond issues or with bonds that were bought up earlier. The yields of such placements should be in the 15%-20% range;
- Corporate borrowers that have good credit history and have fulfilled all of their obligations on the bond market in 2008-09. Falling into this rank are such companies as AVK, Atlant-M, Galnaftogaz, Kernel and MHP. The yields for such placements should also be 15%-20%;
- Issuers that restructured their issues in 2009 and have issued new bonds in exchange for those going out of circulation. Since such emissions represent a continuation of the restructuring process, it is highly unlikely that we will see new emissions from such issuers anytime soon. The bonds' yields should be determined according to the terms of restructuring;
- Corporate borrowers that are just entering the domestic debt market. The yields of such placements should be in the 20%-25% range and, in the case of most high-quality issuers, fall below 20% by the end of 2010.

At the same time, we do not expect a revitalization of the municipal bond market, since municipalities are unable to offer yields on their bonds at levels that are attractive to the market.

Trading activity on the secondary corporate bond market should grow at a faster pace than activity on the primary market.

We expect that trading activity on the secondary market will grow at a faster pace than trading on the primary market. Bonds, which were purchased by issuers in 2008-09, should appear on the market, in addition to bonds that represent technical placements made in 2H08 and 2009.

We expect that, by the end of 2010, yields on the secondary market for first-tier issuers will be in the 15%-20% range, and for second-tier issuers, they should be at the 20%-30% level. The main factors influencing the yield levels should continue to be the credit quality and liquidity of a given issue.

The main investment idea on the domestic market in 2010 is BUYing OVGZs on the primary market. Boryspil and Ukrtelecom bonds are also BUYs.

Investment ideas. We believe that the domestic debt market appears more attractive at the moment than external markets due to the fact that yields are maintained at a high level in addition to a stable hryvnia exchange rate in the 12M perspective. At the moment, investors do not have a wide selection in terms of purchases on the Ukrainian domestic debt market. We recommend that investors BUY OVGZs at yields above 20%-22% on both the long and short end of the curve. Amid the growth in demand from foreign players, we expect that the government will not encounter problems in the redemption of bonds maturing in 1H10. Thus, investors should be able to purchase bonds that present very low risk, with a circulation period of six months and a yield above 20%-22%.

Among those corporate issuers remaining on the domestic bond market, we maintain our BUY recommendation for Boryspil bonds and also recommend BUYing Ukrtelecom bonds, which offer yields of 28%-30%. Other high-quality corporate bonds, which are either present on the balance sheets of their underwriters or are held by the issuers themselves, tend to offer considerably lower yields and are not as attractive as government bonds.

SIA Boryspil

Company profile

The state-owned Boryspil International Airport is the largest and most modern airport in Ukraine, located in Kyiv's vicinity. Its accounts for 67% of all air passenger traffic in the Country, with an overall annual transit capacity of 7 mln people.

Key drivers

Boryspil should maintain position as Ukraine's leading airport. Boryspil's Terminal F should be put into commission in 1Q10, which should decrease the load of Terminal B and help increase passenger traffic by 5%-10% in 2010 thus allowing the airport remain the nation's main air-traffic hub. By the end of 2011, Boryspil's capacity should increase by 80% due to the opening of Terminal D, which will service international flights, and Terminal F, which will service low-cost airlines.

Boryspil's profitability should remain high in 2010. According to our estimates, the issuer's net sales will enjoy 48% growth in 2009, despite a 13% decline in passenger traffic stemming from the reduction in both business activity and tourist trips. The growth in net sales should be achieved thanks to the devaluation of the hryvnia, since USD-denominated airport taxes account for 60% of Boryspil's net sales. Moreover, the fact that up to 75% of the Airport's costs are denominated in UAH has caused a substantial increase in profitability. According to our estimates, Boryspil's gross margin grew from 39% in 2008 to 51% in 2009, and the EBITDA margin from 56% to 62%. The main drivers of the forecast 30% net sales growth in 2010 should be the commissioning of Terminal F and a boost in business activity following the presidential elections. Despite a drop from 62% in 2009 to 57% in 2010, the EBITDA margin should remain at a rather impressive level.

Boryspil's solvency should remain particularly high. We expect that the 2009 financials will indicate that Boryspil's solvency remains high, in particular, its EBITDA/Interest ratio should be fairly healthy at 18.9. The Company should redeem its bond issue in April 2010 using its own funds, without any need to refinance. There is currently more than UAH 450m in cash assets in the Airport's accounts, which is 50% more than the value of the bond issue. Moreover, Boryspil does not have any other short-term debt at present.

Favorable terms on long-term foreign debt bolster Boryspil's solvency. The construction of Terminal D, budgeted at USD 377m, should be partially financed through a USD 178m loan from the Japanese Bank for International Cooperation (JBIC), with the remainder raised through the domestic bonds issue. The bond issue should be redeemed in April 2010, before the JBIC loan is fully dispersed. During the grace period of the JBIC loan, which should last until September 2015, the principal does not need to be repaid. Furthermore, until Terminal D's opening in 2011, there is also no need to pay interest on the loan. As a result, the Company should not encounter any difficulties in redeeming its domestic bonds.

SIA Boryspil: Strongest issuer on the domestic secondary bond market. We believe that SIA Boryspil is the most reliable issuer on the domestic secondary bond market. We have no doubt that the issuer will meet its obligations in full and successfully redeem its bond issue in April'10. We recommend that investors BUY bonds issued by SIA Boryspil, the yield for which currently stands at 28%.

BUY

Price	**95**
Yield	**28%**

Issue data	
Amount of issue, UAH m	300
Placement date	25.04.2005
Maturity date	19.04.2010
Coupon rate	10%
Put option	n.a.
Underwriter	UkrSibbank

Financial indicators, UAH m	2008	2009e	2010f
Net sales	698.0	1,033.3	1,343.3
Gross profit	271.9	528.7	630.3
Net profit	209.0	372.1	359.5
EBITDA	388.0	638.3	769.3
EBITDA/Interest	10.5	18.9	15.4
Gross margin	39.0%	51.2%	46.9%
EBITDA margin	55.6%	61.8%	57.3%
Net debt/EBITDA	(0.31)	0.39	0.45

Ownership structure	
The state	100%

BUY

Price	**100**
Yield	**30%**

Financial indicators, UAH m

	2008	2009e	2010f
Net sales	6,646	7,033	7,536
Gross profit	949	1,266	1,432
EBITDA	1,162	1,662	1,833
EBITDA/Interest	4.7	4.5	4.8
Net income	(121)	180	465
Gross margin	14.3%	18.0%	19.0%
EBITDA margin	17.5%	23.6%	24.3%
Net debt/EBITDA	2.5	2.1	2.2

Ownership structure

The state	92.8%

Ukrtelecom

Profile: Ukrtelecom is Ukraine's fixed-line incumbent and the only holder of a 3G license. The state owns a 93% stake in Ukrtelecom.

High solvency level is underlined by Company's strong market position. Ukrtelecom's predominant position on Ukraine's fixed line market, as well as the development of 3G and Internet services, should ensure a 6%-7% growth in net sales in 2009-10. We expect that the cash flow generated will enable the Company to service its bond issues, for which a put option is held annually, as well as its external bank debt. In 2010, the Company's EBITDA/Interest ratio should be high, at 4.8, while its Net debt/EBITDA ratio should not exceed 2.2 in 2009-10.

Ukrtelecom bonds enjoy a quasi-sovereign status and high yields. Due to the high level of the Company's solvency and the quasi-sovereign status of the bonds, Ukrtelecom issues are among the most reliable on the market. Ukrtelecom offers a high coupon rate, a rare occurrence for high-quality bonds on the market. The bond has 28%-30% yield and 300-500 b.p. spread to OVGZ. As OVGZ yields drop, the spread should narrow to 250-350 b.p. in 2010.

Issue data

Issue	Amount, UAHm	Maturity date	Put option	Coupon
Ukrtelecom 2-C	50	05.11.2012	Annually	30%
Ukrtelecom 2-D	50	04.02.2013	Annually	30%
Ukrtelecom 2-E	50	06.05.2013	Annually	30%
Ukrtelecom 2-F	50	05.08.2013	Annually	30%
Ukrtelecom 2-G	50	04.11.2013	Annually	30%

Equity

Agriculture

astrum
investment management

Agriculture

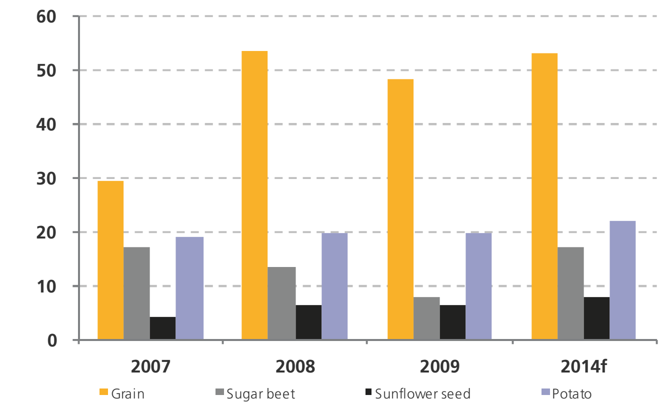
Ukraine is the eighth largest country globally in terms of arable land bank, boasting 25% of the world's fertile black soil.

Ukraine's agriculture is well placed for growth. We believe that agriculture will be one of Ukraine's growth sectors in 2010-14 on the back of strong global demand. According to the UN, the world's population should grow by 5.6% by 2014, compared to 2009, while the IMF expects that global GDP will grow by 22.7% and that the GDP of developing countries will grow by 34.7% in 2014 relative to 2009. This should result in an increase in global demand for agricultural food products and biofuel. Ukraine is well placed to benefit from rising demand, as it has the eighth largest arable land bank globally and the largest one in Europe, at 32.4 mln ha. Of this amount, only 75% is cultivated. Moreover, Ukraine has 25% of the world's chornozem, exceptionally fertile black soil.

Ukraine's leading crop growers have yields that are higher than domestic averages and at par with Eastern European levels.

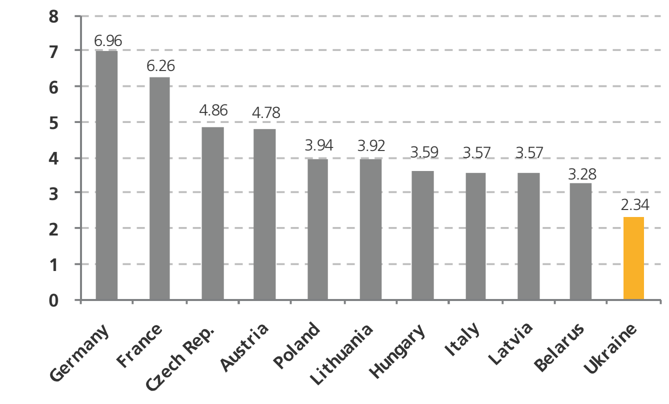
Private companies are the sector's leaders by crop yields. Currently, Ukraine's harvests are volatile and even in good years, crop yields are lower even than in most neighboring countries due to the low use of fertilizers, which makes harvests highly dependent on weather conditions. In 2009, Ukraine harvested 48 mln tonnes of grain, down 10%. In the past 20 years, grain crops were in the range from 20 to 53 mln tonnes per season. In 2007, the yield in Ukraine was at 2.34 tonnes per ha, compared to CEE and Western European yields, which were above 3.5 tonnes per ha in that same year, as usual for those countries. In comparison, the 2008 wheat yield in Ukraine of 3.47 tonnes per ha was the highest seen in the last 20 years. At the same time, Ukraine's agricultural companies, which apply modern planting technologies (e.g. Kernel, Astarta and MHP), achieve yields that are 20%-30% higher than the sector's average in Ukraine, and are average for the Eastern Europe. We believe that favorable natural conditions and significant room for improvement in productivity open great opportunities for the development of the Ukrainian agricultural sector. We expect that Ukraine's aggregate production of grain, sugar beet, sunflower seeds, and soy beans will rise from 78 mln tonnes in 2009 to 100 mln tonnes in 2014, or by 28%.

Harvest of key agricultural products in Ukraine, mln tonnes



Source: State Statistics Committee, Astrum estimates

Wheat crop yields in 2007, t/ha



Source: FAOSTAT

Ukraine's leading sugar makers have achieved above-average energy efficiency levels.

Ukraine's leading sugar plants to improve energy efficiency to European standards. Unlike sunflower refineries, which over the past ten years were modernized in accordance with European standards and achieved European efficiency levels, Ukrainian sugar plants tend to apply outdated technologies and are highly inefficient in terms of energy consumption. At present, Ukrainian sugar plants consume on average 45 cubic meters of natural gas per one tonne of sugar produced, which is up to 114% more than their European peers (17-21 cubic meters). We expect that Ukraine's sugar plants will improve their technologies in 2010-14 so that their consumption per tonne produced will reach 25-30 cubic meters in 2014, the current level of Eastern European peers. We also expect that, in 2014, leading sugar producers like Astarta will achieve the energy efficiency level seen in Western Europe as they have already made significant technology upgrades in 2009.

Ukraine to shift from being a poultry importer to poultry exporter. In 2009, Ukraine had a per capita consumption of 51 kg of meat per annum, compared to 101 kg in the USA and 70 kg in Russia. In 2010-14, Ukraine's per capita consumption of meat should increase by

7% CAGR to 71.5 kg in 2014. Ukraine's per capita consumption of poultry amounts to 22 kg, compared to 44 kg in the USA and 26 kg in Russia. We expect that poultry consumption in Ukraine will rise by 7% CAGR in 2010-14 to 30 kg in 2014.

The growth in domestic chicken meat consumption, the substitution of imports, and increase in exports should boost domestic poultry output by 10% CAGR in 2010-14.

This forecast growth presents great opportunities for domestic poultry makers. We expect that, thanks to the higher quality of domestic chicken meat, which does not have to be deep-frozen before being sold to the end-consumer, domestic chicken producers will be able to increase their domestic market share from 61% in 2009 to 70% in 2014. The prospects for exports are also promising for domestic poultry producers. We expect that, in 2014, Ukraine will see its status change from net poultry importer to net poultry exporter, given a strong demand on such key potential overseas markets as the EU, Russia, other CIS countries, the Middle East and Central Asia. Overall, domestic poultry output should rise by 10% CAGR in 2010-14. We believe that the launch of new production capacities by Ukrainian poultry producers, including MHP, will facilitate this increase in poultry output.

Astarta

BUY

Target price, USD	**21.7**
Upside (Downside)	**29.4%**

Company profile

Astarta is a vertically-integrated agricultural holding primarily focused on sugar production. Its operations are based in the Poltava, Vinnytsia and Khmelnytskyi regions. Astarta grows sugar beets and processes them at its own sugar plants, in addition to producing grain, sunflower seeds, sunflower oil, milk, meat and sugar by-products (e.g. molasses and beet pulp). Astarta's sales structure brakes down as follows: sugar (58%), crops (25%), products related to cattle farming (7%), and sugar by-products (4%). The Company has a land bank of 175,000 ha, its sugar beet processing capacity is 21,000 tonnes per day (as of late 2009).

Key drivers

Large clients with stable demand for sugar create solid base for sales growth. Astarta is the main supplier of sugar to the Ukrainian food industry. In 2009, the Company sold just 17% of its sugar to traders, while 83% went to food producers on the basis of direct agreements that are more profitable. The largest consumers of Astarta's sugar are Coca-Cola Ukraine (19%), Konti (19%), Poltava Konditer (6%), BBH (5%), and AVK (5%). These companies are leaders in their respective segments and should experience a growth in demand for sugar in 2010-14. Thanks to such a strong client base and the growth of its land bank by 10% CAGR, Astarta should increase its net sales by 16% CAGR over the period 2010-14.

Vertical integration in the sugar business to secure Astarta's higher yields. Of all sugar beets processed in 2009, Astarta successfully raised the share of the beets that it grows in-house to 90%. It thereby managed to provide its own plants with high quality sugar beets, securing a sugar yield of 14.9% in 2009, which compares to the industry's average, which should be 13.5%. In 2010, Astarta should further increase the share of its in-house grown sugar beets to reach 94% of all beets processed and this indicator should reach 100% in 2014. As a result, the Company's sugar yield should rise to 15.7% in 2014.

Energy-saving technologies should help raise profit margins. Since 2008, Astarta has been cooperating with the EBRD to implement modern energy-saving technologies. As an outcome, the Company should reduce its natural gas consumption from 49 cubic meters per 1 tonne of sugar produced in 2007 to just 35 cubic meters in 2009. We expect that the higher energy efficiency achieved by Astarta will give it a significant advantage, as the industry's average natural gas consumption in 2009 should be at 57 cubic meters per 1 tonne of sugar produced. Astarta should further diminish this level to just 33 cubic meters in 2010 and 22 cubic meters in 2014. We also expect that domestic sugar prices will see a 10% increase in 2010 on the back of the sugar deficit. The price should subsequently rise by 3%-5% annually in 2011-14. These factors, combined with growing sugar yields, should boost Astarta's EBITDA margin from 26% in 2009 to 27% in 2010. The margin should further rise to 31% in 2014, while the Company's EBITDA should grow by 20% CAGR in 2010-14.

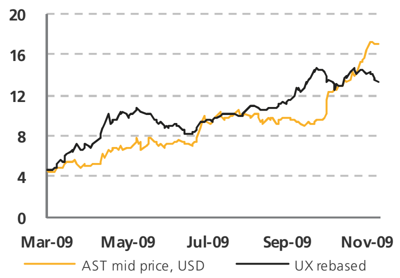
Recommendation

Our DCF model for Astarta brings USD 21.7 target price which implies 2010 EV/EBITDA of 10.2 in 12M. This level is in line with the global peers historic average, which we consider justified thanks to the strong prospects of the growth of Astarta's bottom line. Our target price estimate implies 29% price upside.

Stock information

WSE ticker	AST PW
Bloomberg ticker	ASTH.WA
Market price, USD	16.01
Shares outstanding, mln	110.77
Market cap, USD m	418.2
EV, USD m	529.2
Free float estimate, USD m	83.6
Av. daily turnover 12M, USD m	0.57
Price Lo/Hi12M, USD	2.91/17.28
Price change 12M	246%

Price performance, USD



Source: Bloomberg

Ownership structure

Viktor Ivanchyk	40%
Valeriy Korotko	40%
Free float estimate	20%

Key data

Year	Net sales, USDm	EBITDA, USDm	Net income, USDm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, USDm	Debt/ Assets	ROE	Div. yield
2009e	203	53	15	26.3%	7.6%	27.1	2.1	9.9	111	38.4%	13.2%	0.0%
2010f	233	63	24	27.0%	10.5%	17.1	1.8	8.4	98	34.4%	20.9%	0.0%
2011f	268	74	30	27.7%	11.3%	13.9	1.6	7.1	103	35.8%	25.8%	0.0%
2012f	308	85	39	27.5%	12.6%	10.8	1.4	6.2	130	41.7%	33.1%	0.0%
2013f	339	95	35	28.0%	10.4%	11.8	1.2	5.6	153	47.8%	30.2%	0.0%
2014f	373	103	42	27.6%	11.2%	10.0	1.1	5.1	160	49.8%	35.7%	0.0%

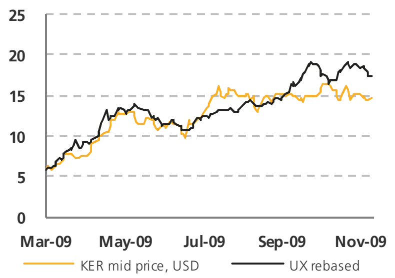
BUY

Target price, USD	**20.2**
Upside (Downside)	**30%**

Stock information

WSE ticker	KER PW
Bloomberg ticker	KERN.WA
Market price, USD	14.8
Shares outstanding, mln	68.741
Market cap, USD m	1,068.5
EV, USD m	1,343.5
Free float estimate, USD m	438
Av. daily turnover 12M, USD m	0.71
Price Lo/Hi12M, USD	4.4/16.44
Price change 12M	233%

Price performance, USD



Source: Bloomberg

Ownership structure

Andriy Verevskiy	59%
Free float estimate	41%

Kernel Holding S.A.

Company profile

Kernel Holding S.A. is Ukraine's leading grain and sunflower oil producer and exporter. It encompasses the Poltavsky, Vovchansky and Prykolotniansky oil-extracting plants, a grain terminal at the Illichivsk Port, as well as grain storage capacities. The Holding has a land bank of 87,000 ha, which we consider to be in the top-10 corporate land banks in Ukraine. In the 2009FY (financial year), which ended on June 30, 2009, Kernel's production accounted for 12% of all sunflower oil produced in Ukraine. The Company maintains a strong position on the domestic bottled oil market, with a 35% market share.

Key drivers

Kernel's sunflower oil and grain output should rise by 4% CAGR in 2010-14. We expect that Kernel will increase its sunflower oil and grain output by 4% in 2010-14, indicating strong demand on both the domestic and export markets. The planned growth of the Holding's land bank from the 87,000 ha it currently holds to 130,000 ha by 2014 and the launch of its new oil extraction plant in Kirovograd in 2010 should capacitate the growth of the Company's output.

Kernel should remain an export-oriented company. We believe that Kernel will continue focusing on external markets and that exports will continue to account for 70% of the Holding's net sales in 2010-14. Kernel holds a strong position on global agricultural markets. In particular it boasts a 4% share of the world sunflower oil market. Thus, the gradual growth of the global sunflower oil prices should help Kernel to raise its net sales by 5% CAGR in 2010-14.

Vertical integration should support Kernel's strong market position and profit margins. Kernel has built its business in the sunflower oil and grain segments thanks to its strong market position in each of the farming, storage, crushing and marketing spheres. The Holding has developed a sizeable land bank and built a network of representatives that buy oilseeds and grains from other farmers, thereby ensuring uninterrupted supplies of raw materials. The fact that Kernel has increased the share of self-produced grain in its sales from 47% in 2009 to 60% in 2014 should help the Company boost its EBITDA margin from 18.2% in 2009 to 19.7% in 2014 and raise its EBITDA by 7% CAGR in 2010-14. The availability of storage capacities and a sea port terminal, which Kernel leases out to reap profits on the background of the grain storage capacity deficit in Ukraine, should also support the growth of the Holding's profit margins in 2010-14.

Recommendation

The DCF-derived Kernel's target price implies 2010 EV/EBITDA at 9.5, below the peer historic average level of trailing EV/EBITDA of 9.9. We believe that the stock deserves to trade close to the peer levels in 12M on the back of the Company's strong forecast EBITDA growth by 14% CAGR in 2009-14. The target price estimate comes at USD 20.2 and implies 30% upside.

Key data

Year	Net sales, USDm	EBITDA, USDm	Net income, USDm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, USDm	Debt/ Assets	ROE	Div. yield
2009e	1,047	190	132	18.2%	12.6%	8.1	1.0	7.1	275	39.3%	18.9%	0.0%
2010f	1,099	201	122	18.3%	11.1%	8.7	1.0	6.7	260	35.9%	16.9%	0.0%
2011f	1,154	212	132	18.3%	11.5%	8.1	0.9	6.3	273	36.4%	17.6%	0.0%
2012f	1,212	232	131	19.1%	10.8%	8.1	0.9	5.8	295	38.1%	16.9%	0.0%
2013f	1,273	241	138	18.9%	10.9%	7.7	0.8	5.6	307	38.4%	17.3%	0.0%
2014f	1,336	264	157	19.7%	11.7%	6.8	0.8	5.1	311	37.7%	19.0%	0.0%

MHP

BUY

Target price, USD	**18.7**
Upside (Downside)	**73%**

Company profile

MHP (Myronivskyi Hliboprodukt) is a vertically-integrated agricultural company operating in three key segments: (1) poultry and related products, which account for up to 80% of the net sales; (2) grain cultivation (e.g. corn, sunflower, rapeseed, and wheat); and (3) other products (e.g. sausages, cooked meats, premium fresh beef, other foods). MHP's share of the Ukrainian chicken market stood at 42% as of 9M09. In 2008, MHP launched an IPO on the main market of the London Stock Exchange and raised USD 372m for a 22% stake.

Key drivers

MHP's output should enjoy strong growth in 2010-14. Thanks to growing demand for chicken meat and the addition of new capacities in the summer of 2009, MHP should raise its 2010 chicken meat output by 18% to 330,000 tonnes. In the grain segment, we expect a 2% increase in the amount of grain sold to external clients in 2010. In 2011-13, MHP's chicken output should be flat as the Company should operate at full capacity. At the same time, we expect a 2% CAGR growth in the other two segments: with respect to grain cultivation, this should result from the expansion of the Company's land bank, while in food processing, this should occur thanks to growth in demand for value-added products. In 2014, MHP should raise its chicken meat output by 10%, helped by the launch of the first stage of the new poultry plant in Ladyzhyn (Vinnytsia Region), with the total CapEx budget at USD 900m.

MHP's net sales should benefit from growing output and prices. In 2010, on the back of an expected 22% growth in output and 4% hryvnia devaluation (market FX rate), MHP's net sales should grow by 15% in USD terms. In 2011-13, net sales should rise by 5% CAGR in USD terms due to growth in the price of chicken meat and increased output in the grain and meat processing segments. MHP's 2014 net sales should improve by 10%, capacitated by the launch of the first stage of its poultry plant.

Cost optimization and value-added products should help boost bottom line. We expect that cost optimization, which MHP's management plans to advance in 2010, will raise its EBITDA margin from 39.3% in 2009 to 39.6% in 2010. In 2011-14, the growth of sales of the more value-added products, such as processed meat, foie gras, etc., should help MHP boost its EBITDA margin to 40.6%. Overall, MHP's EBITDA should rise by 13% CAGR in 2010-14.

MHP's chicken meat exports to the EU should help it service its debts in 2010. We expect that, in 2Q10, MHP will start selling its chicken meat and processed meat products to the EU pending the approval from the European Commission, which we expect in February'10. We believe that hard currency proceeds will secure the Company's position to service its external debt and payments for imported raw materials, serving as an effective hedge against any possible hryvnia devaluation spikes in 2010.

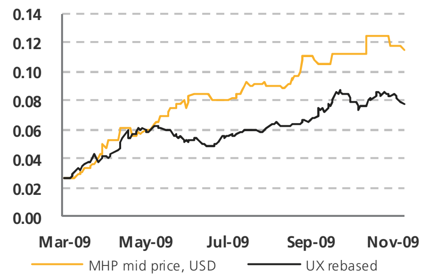
Recommendation

Our DCF valuation brings USD 18.7 12M target price that implies MHP's 2010 EV/EBITDA at 7.2. We believe that this trailing EV/EBITDA level in 12M will look reasonable as currently the global peer historic EV/EBITDA level is at 9.9. The Company's strong profit growth opportunities should justify the growth of the stock's valuation. Our target price estimate implies a 73% upside from the current price.

Stock information

LSE ticker	MHPC LI
Bloomberg ticker	MHPC LI
Market price, USD	10.8
Shares outstanding, mln	110.77
Market cap, USD m	1,196.3
EV, USD m	1,658.8
Free float estimate, USD m	266
Av. daily turnover 12M, USD m	0.07
Price Lo/Hi12M, USD	0.02/0.2
Price change 12M	97%

Price performance, USD



Source: Bloomberg

Ownership structure

Management	77.7%
Free float estimate	22.3%

Key data

Year	Net sales, USDm	EBITDA, USDm	Net income, USDm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, USDm	Debt/ Assets	ROE	Div. yield
2009e	753	296	138	39.3%	18.3%	8.66	1.59	5.60	463	44.0%	32.0%	0.0%
2010f	919	349	190	37.9%	20.7%	6.28	1.30	4.76	420	37.0%	43.1%	0.0%
2011f	965	368	199	38.1%	20.6%	6.02	1.24	4.51	420	37.2%	36.7%	0.0%
2012f	1,013	399	210	39.4%	20.7%	5.71	1.18	4.16	300	26.5%	32.7%	0.0%
2013f	1,064	422	218	39.6%	20.5%	5.48	1.12	3.93	153	10.9%	29.4%	0.0%
2014f	1,149	463	250	40.3%	21.7%	4.79	1.04	3.58	64	4.3%	28.0%	0.0%

Equity

Banks

astrum
investment management

Banks

Deposits of individuals should begin returning to the banking sector and rise by 10% in 2010.

Client deposits should gradually begin to recover and raise banks solvency in 2010. After an estimated 12.1% reduction in 2009 in real terms, the amount of individuals' deposits in Ukraine's banks should begin to recover in 2Q10 due to the stabilization of the hryvnia's exchange rate, political stabilization after the presidential election, and the recovery of banks that faced severe solvency problems in 2009. We expect that the larger part of individuals' funds, which were withdrawn from banks in 4Q08-1Q09, will return to banks and that individuals' deposits will rise by 10% in real terms – that is, weighted by currency structure of the total portfolio – in 2010.

The redemption of NPLs should limit the growth rate of corporate deposits to 5% in 2010.

We estimate that corporate deposits fell by 22.1% in 2009. We believe that the total corporate loan portfolio in Ukraine has a larger share of NPLs, including hidden NPLs, as much as 40%-45%, compared to just 20%-25% for individuals' loan portfolio. We expect that the bulk of these NPLs will be redeemed in 2010, restraining the growth of corporate deposits, which should rise by 5%, in real terms, in 2010.

The total amount of deposits should grow by 8.2% in 2010 and by 35%-45% annually in 2011-14.

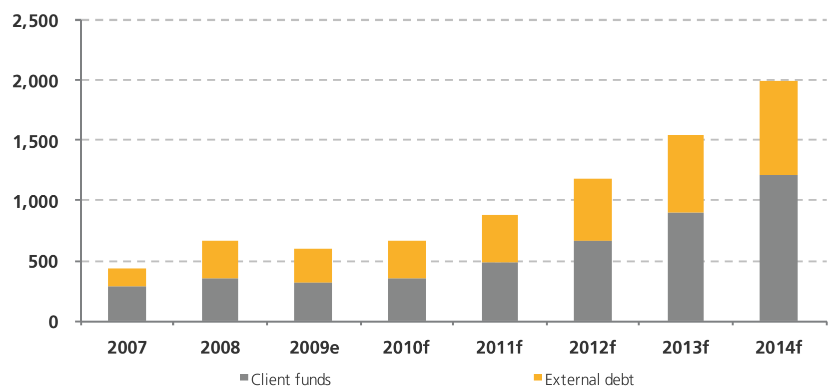
After a reduction by 15.7% in 2009, the total amount of deposits should grow by 8.2% in 2010 in real terms. The 5.9% devaluation of the hryvnia's official rate in 2010 should help raise overall deposits by 11.4% in UAH terms, or by UAH 36bln. We expect a rapid growth in clients' deposits, by 35%-45% annually, in 2011-14 thanks to the restoration of depositors' confidence in the banking system.

The growth of deposits should improve the solvency of the banking sector and we expect that the NBU will not need to provide new resources to banks in 2010, with the exception of a few small banks. At the same time, the main part of the NBU loan portfolio provided to commercial banks, which we estimate at end-2009 at UAH 70bln in total, should be restructured. As a result, in 2010, the portfolio of the NBU's refinancing for banks should decline by UAH 10bln and reach UAH 60bln in December 2010. In 2011-12, the total amount of refinancing (UAH 60bln) should be returned to the NBU.

Ukrainian banks' aggregate external debt should increase by USD 2bln in 2010.

Foreign lending should become available for first-tier banks in 2H10. Once economic and political instability in Ukraine subsides and the economic growth strengthens, foreign lenders' interest in Ukraine should rise in 2H10. The banks with foreign shareholders and state-owned banks should gain access to the external debt market in 2H10. At the same time, their ability to attract resources should remain limited and interest rates should be high at 10%-12% in 2H10. We expect that financing from parent institutions will also rise and contribute to Ukrainian banks' total external debts increasing by USD 2bln in 2010, or by 6%, to USD 37bln. The banking sectors' total liabilities, in UAH terms, should grow 11.8%, or UAH 71bln, in 2010. We believe that banks' total liabilities will rise by 28%-33% annually in 2011-14 due to a 35%-40% annual increase in clients' deposits and a 20%-30% annual increase in foreign lending.

Bank liabilities' structure, UAH bln



Source: NBU, Astrum estimates

Economic recovery should boost banks' loan portfolios in 2010-14. We expect that the portfolio of loans to individuals will stagnate in 2010. Households should remain unattractive borrowers on the back of a flat real disposable income in 2010 and the continuance of a high unemployment rate, which we expect will see a rather slow improvement from 9.4% in 2009 to 9.1% in 2010 (compared to 6.4% in 2008). Interest rates for consumer cash credit should stay in the 70%-150% range, making them a product that is hard to sell. In addition, banks' loan collateral requirements should remain high in 2010. While housing used as collateral should remain illiquid due to the slow recovery of the real estate market, auto loans should be the only active segment of retail lending and should experience a growth of 200% in 2010 due to the low baseline of 2009. This however should not make up for the overall reduction in banks' mortgage and cash-credit portfolios in 2010. As a result, banks' individuals credit portfolio should be flat in 2010.

Credits for individuals should stagnate in 2010 as car loans should be the only active segment.

At the same time, the growth of Ukraine's GDP by 5% in real terms in 2010 should open the doors for corporate lending after the credit crunch of 2009. Following a decline of 6% in 2009, the corporate credit portfolio should increase by 8.7% in 2010, facilitated by growth in banks' overall liabilities. The total credit portfolio of the banking system should, thus, rise by 5.6% in real terms in 2010. In 2011-14, credit portfolio growth should accelerate to 30%-40% annually, on the back of increasing credit activity in the corporate and retail sectors due to strong GDP growth rates at 3%-6% annually.

Corporate credit portfolio should increase by 8.7% in 2010.

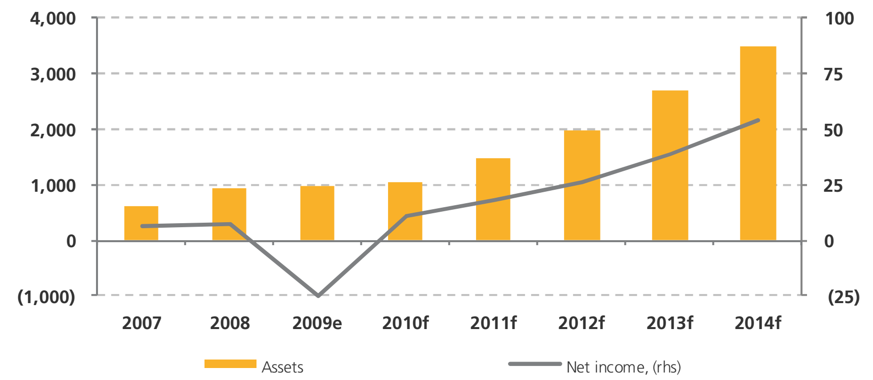
Total bank assets should grow by 9.1% in 2010. We believe that the NBU will reduce FX-lending in 2010 to lower dollarization of the Ukrainian economy. This should force banks to switch to lending in hryvnia. We therefore expect that banks' UAH-denominated loan portfolios will increase by 18.4% in 2010, while their hard-currency loan portfolios should see a 5% decline in real terms. As a result, in 2010, banks' assets should see a 5.6% increase, in real terms, or 9.1% in UAH terms, following their reduction by 6% in real terms and by 4% in UAH terms in 2009. Starting from 2011, banking assets should grow more rapidly due to increased lending activity and better access to external and domestic financing. We expect that the Ukrainian banking system's total assets will grow 30%-40% annually in nominal terms in 2011-14, which is more optimistic than the 30%-35% rate we previously forecast.

Lending in hryvnia should boost banks' assets by 9.1% in 2010 and by 30%-40% annually in 2011-14.

The profitability of Ukrainian banking system should recover in 2010. We expect that, on the back of improvements in financial conditions of corporate borrowers, the quality of bank assets will gradually stabilize and that banks will not make additional reserves in 2010. As a result, Ukraine's banking system should post an aggregate net income of UAH 11bln in 2010 after an estimated UAH 25bln net loss in 2009. In 2011-14, the accelerating growth of lending should boost banks' net income by 40%-60% annually.

The stabilization of banks' assets quality should allow banks to post an aggregate net income of UAH 11bln in 2010.

Assets and net income of Ukrainian banks, UAH bln



Source: NBU, Astrum estimates

Raiffeisen Bank Aval

Company profile

Raiffeisen Bank Aval (BAVL) is the third largest bank in Ukraine by assets. Since October 2005, the Bank has been part of Europe's largest banking group, Raiffeisen International. BAVL's nation-wide network consists of a total of 1,134 branches.

Key drivers

Capital increase should help attract more client resources. We expect that in, January 2010, the Bank will carry out the emission of 5,828.4 mln new shares at a price UAH 0.16 per share. This should increase BAVL's own capital by 15%, or by UAH 933m. We expect that the capital injection will raise the Bank's capital adequacy ratio from 13.4% in 2009 to 15.5% in 2010. We believe that Bank Aval's greater financial strength and strong market position will help it attract more resources from clients which should rise by 20% in 2010 and by 35%-40% in 2011-13.

Corporate lending should boost assets by 15% in 2010. We expect that Bank Aval will focus on the crediting of the corporate clients as individuals' real disposable incomes should be flat at low levels in 2010. BAVL's corporate loan portfolio should increase by 30% in 2010. This should drive BAVL's assets up by 15% in 2010 that should be higher than the expected 9.1% growth of assets of the total banking sector. The recovery of the corporate and individuals' incomes should drive stronger growth of lending and help boost BAVL's assets by 30%-40% in 2011-13.

Improvements in assets quality should raise bottom line. We estimate that BAVL's 2009 net loss amounted to UAH 1.4bln, caused by the UAH 3.8bln increase in the loan loss reserves. This should raise the Bank's LLR/Gross loans ratio from 6.7% in 2008 to 13.7% in 2009. We expect that improvements in BAVL's assets quality, which should start in 2010, will reduce the LLR/Gross loans ratio to 11.3% in 2010 and 4.8% in 2013. This, combined with the forecast asset growth, should help BAVL report UAH 734m in net income in 2010 and raise net income by 62% CAGR in 2010-13.

Recommendation

Currently, BAVL trades at 2010f P/Book of 0.79, which implies a 42% discount to international peers average. The Bank's strong prospects for net income growth should drive its valuation up, in line with the growth of banking valuations on global markets. We expect that in 12 months' time the Bank will trade at 2010 P/Book of 1.8, still at a discount to its European peers. This offers a 74% upside taking into account the new number of BAVL's shares.

BUY

Target price, USD*	**0.054**
Upside (Downside)	**74%**

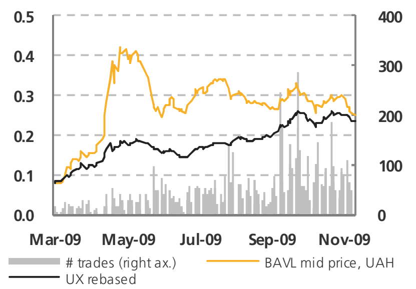
** at 1yr forward UAH/USD rate 8.50*

Stock information**

UX ticker	BAVL
Bloomberg ticker	BAVL UK
Market price, USD	0.032
Shares outstanding, mln	24,199
Market cap, USD m	752
Free float estimate, USD m	30
Av. daily turnover 8M, USD m	0.12
Price Lo/Hi 8M, USD	0.01/0.05
Price change 8M	211%

*** at current UAH/USD rate 8.04; performance since start of trading on the UX*

Price performance, UAH



Source: UX

Ownership structure

Raiffeisen International	96%
Free float estimate	4%

Key data

Year	Operational income, UAH m	Net income, UAH m	Assets, UAH m	Equity, UAH m	P/E	P/Book	Net interest margin	Loan loss reserves / Gross loans	Capital adequacy ratio	ROE
2008	5,103	527	65,362	7,436	11.5	0.81	5.8%	6.7%	12.9%	8.3%
2009e	4,332	(1,413)	62,093	6,023	n.m.	1.00	4.7%	13.7%	13.4%	n.m.
2010f	4,699	734	71,407	7,689	8.25	0.79	4.9%	11.3%	15.5%	10.7%
2011f	6,579	1,116	99,970	10,304	5.42	0.59	5.0%	9.1%	13.9%	12.4%
2012f	9,158	1,879	134,960	13,484	3.22	0.45	5.1%	7.0%	12.7%	15.8%
2013f	11,511	3,130	175,448	17,813	1.93	0.34	5.0%	4.8%	12.4%	20.0%

BUY

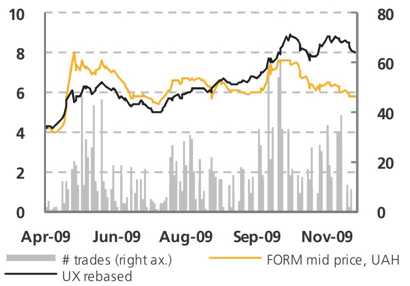
Target price, USD*	**1.50**
Upside (Downside)	**108%**

* *at 1yr forward UAH/USD rate 8.50*

Stock information**	
UX ticker	FORM
Bloomberg ticker	FORM UK
Market price, USD	0.72
Shares outstanding, mln	226
Market cap, USD m	163
Free float estimate, USD m	18
Av. daily turnover 7M, USD m	0.04
Price Lo/Hi 7M, USD	0.5/1.0
Price change 7M	40%

*** at current UAH/USD rate 8.04; performance since start of trading on the UX*

Price performance, UAH



Source: UX

Ownership structure	
Commerzbank AG	63.00%
L. Yurushev	26.25%
Free float estimate	10.75%

Bank Forum

Company profile

Bank Forum (FORM) is the 12th largest Ukrainian bank by assets. The Bank currently has 332 branches and outlets across Ukraine, its history dates back to 1994. In March 2008, one of leading European banks, Commerzbank AG (Germany), acquired a 60% stake in Bank Forum.

Key drivers

Continued financing from Commerzbank and the EBRD should help boost assets. As of July 1, 2009, Commerzbank loans account for 45% of Forum's total liabilities. We expect that the Commerzbank group will continue crediting Forum in 2010-13. The Bank is also implementing a number of joint projects with the EBRD that focus on lending to small and medium-sized businesses, providing micro-credit, and promoting the development of international trade and mortgaging. The destiny of Forum's possible capital increases in 2010 is still unclear. At the same time, we expect that the Bank will attract up to the UAH 1.1bln in subordinated loans in 2010 that together with financing from Commerzbank and the EBRD will allow the Bank to raise its assets by 12% in 2010. In 2011-13, FORM's assets should rise by 32% annually on average.

Cost cutting should improve operational efficiency. The Bank is implementing a cost-cutting program, in particular reorganizing its regional network and implementing management standards that are in line with those of Commerzbank. This program should be finalized by the end of 2010 and reduce Forum's administrative expenses/operation income ratio from 59% in 2009 to 39% in 2010, the average level for the Ukrainian banking sector.

The restoration of lending should bring profits in 2010-13. Improvements in the quality of FORM's loan portfolio due to the decline of the share of NPLs on the background of the economic growth should ease the pressure on FORM's bottom line starting from 2010. We expect that the Bank will activate its lending, which should help it move into the black and post a net income of UAH 110m in 2010. With an increase in lending by 30%-35% annually we expect that FORM's net income will grow by 79% annually on average in 2011-13.

Recommendation

FORM's current 2010f P/Book is at 0.66, implying 16% and 7% discounts to BAVL and USCB and a 51% discount to international peers. We estimate that FORM's association with Commerzbank and the prospects for the growth of the Bank's bottom line in 2010-13 will raise its 2010 P/Book in the 12-month perspective to 1.65. We set this level at an 8% discount to the BAVL's and USCB's forecast 12M average due to Forum's higher than average administrative expenses/operation income ratio, higher dependence on the financing from shareholders and lower assets quality. At the same time, this level implies a price upside of 108% and supports our BUY recommendation for the stock.

Key data

Year	Operational income, UAH m	Net income, UAH m	Assets, UAH m	Equity, UAH m	P/E	P/Book	Net interest margin	Loan loss reserves / Gross loans	Capital adequacy ratio	ROE
2008	974	10	20,513	1,889	127	0.69	3.6%	4.2%	10.0%	0.6%
2009e	1,036	(658)	19,077	1,870	n.m.	0.70	3.6%	12.0%	11.5%	n.m.
2010f	1,074	110	21,366	1,980	11.9	0.66	3.6%	12.0%	10.8%	5.7%
2011f	1,269	193	28,845	2,573	6.77	0.51	3.4%	7.5%	10.0%	8.5%
2012f	1,559	348	37,498	3,221	3.77	0.41	3.2%	5.7%	9.5%	12.0%
2013f	2,214	626	48,747	4,147	2.09	0.32	3.5%	4.2%	9.3%	17.0%

Ukrsotsbank

BUY

Target price, USD*	**0.092**
Upside (Downside)	**106%**

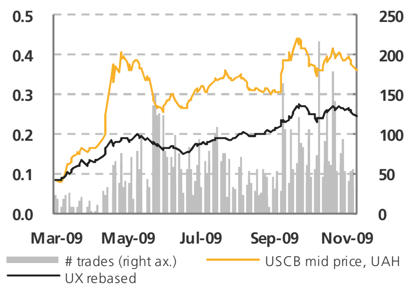
* at 1yr forward UAH/USD rate 8.50

Stock information**

UX ticker	USCB
Bloomberg ticker	USCB UK
Market price, USD	0.045
Shares outstanding, mln	12,700
Market cap, USD m	569
Free float estimate, USD m	28
Av. daily turnover 8M, USD m	0.15
Price Lo/Hi 8M, USD	0.01/0.05
Price change 8M	329%

** at current UAH/USD rate 8.04; performance since start of trading at the UX

Price performance, UAH



Source: UX

Ownership structure

UniCredit Group	95%
Free float estimate	5%

Company profile

Ukrsotsbank (USCB) is the sixth largest Ukrainian bank in terms of assets. Ukrsotsbank has a network of 447 branches throughout Ukraine. In January 2008, the UniCredit Group purchased the 94.2% stake in USCB.

Key drivers

Focus on domestic resources should help raise assets. Even throughout the instability in Ukraine's banking sector in 4Q08-1H09, Ukrsotsbank's financial strength remained high. The refinancing received by USCB from the NBU was less than 1% of the Bank's liabilities during 4Q08-3Q09 and testified of USCB's ability to maintain solvency without NBU's help. We expect that the Bank's strong position will allow it to raise the amount of client deposits by 17% in 2010 and 41%-56% annually in 2011-13. The financing provided by UniCredit should also grow by an average of 16% annually in 2010-13. As a result, USCB's assets should grow by 10% in 2010 and by 30%-42% annually in 2011-13.

High asset quality should enable USCB to post net income in a turbulent 2009. Currently, NPLs account for 18.5% of the Bank's credit portfolio, which is less than the 35% average for the overall Ukrainian banking sector. We estimate that, in order to cover bad loans, the Bank made a UAH 1.9bln provision to loss loan reserves in 2009. As a result, Ukrsotsbank's LLR/Gross loans ratio should increase from 3.9% in 2008 to 8.5% in 2009. Nevertheless, this level should still be lower than the expected 12% average for Ukrainian banks in 2009. We believe that the Bank's low expenses on reserves allowed it to post UAH 110m net income in 2009, on the contrary to most leading Ukrainian banks that should be in the red in 2009.

Resumption of lending should help Ukrsotsbank raise its bottom line. Based on its strong funding base, USCB should begin to resume lending as of 3Q10. As the financial conditions of most borrowers should remain unstable in 2010, we expect that the Bank will stick to a conservative credit policy for that period. This should imply providing loans to the most reliable corporate borrowers and the slow 10% increase of the Bank's credit portfolio in 2010. We expect that a strong GDP growth by 3%-6% annually in 2011-13 will allow the Bank to realize more aggressive strategy and raise its credit portfolio annually by 35% on average in 2011-13.

Higher operational efficiency – another bottom line growth driver. As a result of USCB's cost-cutting program, the Bank's administrative costs/operation income ratio should decline from 35% in 2008 to 28% in 2009. This compares with the 39% average for the Ukrainian banking sector which we expect in 2009. We expect that high operational efficiency combined with the resumption of lending should drive USCB's net income up by 60% CAGR in 2010-13.

Recommendation

USCB is currently trading at 2010f P/Book of 0.72, at a 48% discount to its international peers. In 12 months' time, the stock's 2010 P/Book should rise to 1.8 that should still be at a discount to the European peers. This level however should be at a premium to the domestic average thanks to USCB's strong market position and its strong net income growth prospects.

Key data

Year	Operational income, UAH m	Net income, UAH m	Assets, UAH m	Equity, UAH m	P/E	P/Book	Net interest margin	Loan loss reserves / Gross loans	Capital adequacy ratio	ROE
2008	3,665	792	49,695	5,176	5.77	0.88	4.6%	3.9%	11.6%	18.9%
2009e	2,859	110	48,204	5,785	41.7	0.79	4.5%	8.5%	14.1%	2.0%
2010f	3,271	609	53,024	6,394	7.51	0.72	4.7%	7.0%	13.9%	10.0%
2011f	4,493	1,053	75,295	8,647	4.34	0.53	4.7%	6.0%	13.1%	14.0%
2012f	5,830	1,780	100,142	11,127	2.57	0.41	4.7%	4.0%	12.4%	18.0%
2013f	7,278	2,528	130,184	14,155	1.81	0.32	4.7%	3.5%	12.1%	20.0%

Equity

Chemicals

astrum investment management

Chemicals

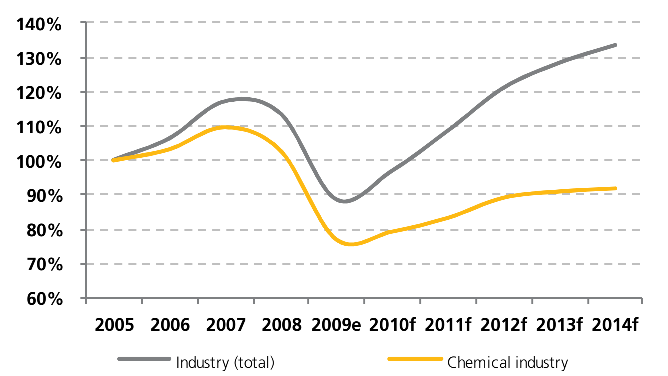
Domestic nitrogen fertilizer consumption should grow by 4% CAGR in 2010-14 driven by agricultural development...

Agriculture demand should drive the domestic fertilizer consumption up in 2010-14... Ukrainian agricultural companies on average consume just 65 kg of nitrogen fertilizers per hectare annually, compared to 106 kg in Poland and 220 kg in Germany and France. We expect that the domestic agricultural companies will raise their consumption of the nitrogen fertilizers by 4% CAGR in 2010-14 to raise yields and make them less volatile. As a result, in 2014, the average consumption of nitrogen fertilizers should reach 79 kg per hectare, up 22% to 2009, while the total domestic consumption of nitrogen fertilizers should rise by 4% CAGR in 2010-14 to 2.56 mln tonnes in 2014. We expect that the growth of the domestic demand for urea and ammonium nitrate will be the key growth driver for Stirol, the largest listed fertilizer producer in Ukraine.

...while Russian fertilizer producers should increase their Ukrainian market share to 22% due to lower costs.

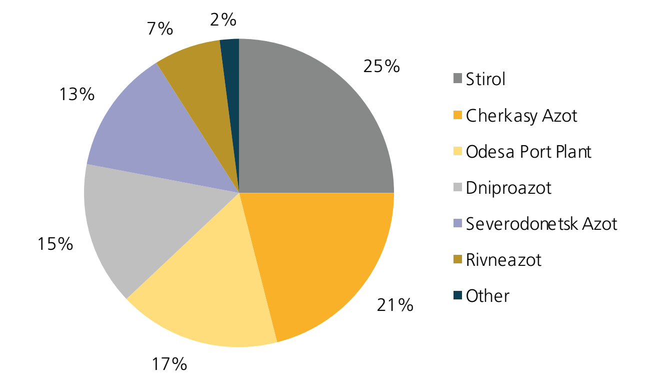
...while Russian nitrogen fertilizer makers should increase their share of the Ukrainian market. Ukrainian producers dominate the domestic nitrogen fertilizer market with 89% market share in 2009. We estimate that Ukraine's ammonia output declined 41% in 2009 as leading domestic fertilizer makers were idle for the good part of 2Q-3Q09 on low global demand and prices. Russian producers should double their Ukrainian market share from 11% in 2009 to 22% in 2014 thanks to lower fertilizer prices that they can offer due to the access to cheaper natural gas. Russian producers buy natural gas at USD 75 per 1,000 cubic meters, which is just 25% of the price that their Ukrainian peers have to pay. The decline of the domestic makers market share should be softened by the Ukrainian government's support which provides them with natural gas at 17%-20% discount to market prices as well as provides subsidies to buyers of the domestically produced fertilizers. We expect that sales of domestic makers on the domestic market will remain flat in 2010 and will underperform the domestic market by posting 2% CAGR in 2010-14.

Chemical industry output, 2005 = 100%



Source: State Statistics Committee, Astrum estimates

Main domestic producers of nitrogen fertilizers



Source: company

Nitrogen fertilizer exports should drop to 35%-40% of the domestic output in 2010-14, compared to 64% in the pre-crisis 2008.

Ukrainian nitrogen fertilizer exports should suffer due to higher costs. In 2009, the Ukrainian fertilizer makers could no longer maintain their exports at 2008 levels due to lower global demand and prices, and growth of costs by 20% in USD terms. In 9M09, the exports dropped by 62.3% y/y to USD 544m. We expect that in 2010-14, the share of exports in Ukrainian fertilizer producers output will remain flat at 35%-40% as compared to 64% in the pre-crisis 2008. In 2010, export revenues should stay flat with exports growing by just 1% in volume terms due to the slow growth of global agricultural markets. In 2011-14, Ukraine's exports of fertilizers should rise by 2% on average annually in volume terms. Overall, the domestic nitrogen fertilizer output should stay flat in 2010 and rise by 2% CAGR in 2010-14.

Increased costs should affect Ukrainian fertilizer producers profits. The imported gas price for Ukraine grew by 17% from USD 179.5 per 1,000 cubic meters at the Ukrainian border in 2008 to USD 210 in 2009. Including additional fees, the gas price for domestic chemical producers should rise by 25% in USD terms (35% in UAH terms) in 2010 to USD 375 per 1,000 cubic m. As the natural gas is the main raw material for nitrogen fertilizers, accounting for 65%-90% of their COGS depending on the technology applied, this price growth should raise the domestic ammonia makers COGS by over 30% in UAH terms in 2010. In 2011-14, we do not expect significant changes in the structure of COGS, but we expect minor decrease of the natural gas share.

The producers should focus on the more value-added urea and ammonium nitrate, while sales of ammonia should be minimized.

The Ukrainian chemical companies will minimize producing ammonia as a separate product. Production of ammonia for sale should have negative profitability in 2010 due to higher natural gas price. We expect that domestic ammonia makers in 2010-14 will focus on its further processing to produce more value-added and still profitable urea and ammonium nitrate. On the background of growing costs and outdated equipment, domestic ammonia makers should invest in modernization up to USD 500m in 2010-14 primarily to decrease the share of the natural gas in costs. We expect that stabilization in natural gas price in 2011-14 and lower gas consumption will gradually raise profit margins of domestic ammonia fertilizer makers in 2011-14.

Stirol

HOLD

Target price, USD*	**7.27**
Upside (Downside)	**10.3%**

** at 1yr forward UAH/USD rate 8.50*

Profile: Stirol (STIR) is Ukraine's largest ammonia maker and one of the largest ammonia producers in Europe. Nitrogen fertilizers account for 85% of the Company's 2008 net sales.

Difficult adjustment to new natural gas prices. In 2009, natural gas price hit USD 295 per 1,000 cubic meters for Stirol, which was a critically high level for the ammonia production to remain profitable. The 35% gas price hike in 2010 in UAH terms should raise Stirol's COGS margin from 80% in 2009 to 87% in 2010. This should reduce Stirol's competitiveness and prevent it from increasing its fertilizer output in 2010. Its output should rise by 2% CAGR in 2010-14 on higher global and domestic demand. STIR should further reduce ammonia output and switch to more profitable urea and ammonium nitrate in 2010, but its EBITDA should return to pre-crisis levels only in 2014.

The stock is a HOLD despite bleak 2010 outlook. Our DCF model provides USD 7.27 target price, which implies 2010 EV/EBITDA of 5.97. We expect that the stock's discount on 2010 EV/EBITDA to the historic average peer level, which stands at 8.3, will be justified at that time on the back of unimpressive prospects of STIR's EBITDA.

Stock information**	
UX ticker	STIR
Bloomberg ticker	STIR UK
Market price, USD	6.59
Shares outstanding, mln	27.1
Market cap, USDm	178.8
EV, USDm	130.1
Free float estimate, USDm	11.4
Av. daily turnover 7M, USDm	0.03
Price Lo/Hi 7M, USD	2.7/8.2
Price change 7M	61%

*** at current UAH/USD rate 8.04; performance since start of trading on the UX*

Key data

Year	Net sales, USDm	EBITDA, USDm	Net income, USDm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, USDm	Debt/ Assets	ROE	Div. yield
2009e	436.3	61.8	12.9	14.2%	1.3%	13.86	0.41	3.86	(61.1)	0.21	3.9%	0%
2010f	420.2	42.8	5.5	10.2%	1.3%	32.72	0.43	5.58	(56.8)	0.20	1.7%	0%
2011f	445.6	37.3	5.2	8.4%	1.2%	34.25	0.40	6.40	(58.3)	0.20	1.6%	0%
2012f	474.8	40.5	6.9	8.5%	1.5%	25.86	0.38	5.90	(60.0)	0.20	2.1%	0%
2013f	491.1	52.4	15.9	10.7%	3.2%	11.26	0.36	4.56	62.7	0.20	4.8%	0%
2014f	513.2	81.4	37.6	15.9%	7.3%	4.76	0.35	2.93	65.0	0.20	11.0%	0%

Equity

Electricity generation

Electricity generation

Electricity consumption should recover in 2010-14… Ukraine's electricity consumption declined by 13.4% y/y in 8M09. The main factor of the decline was the contraction in industrial electricity consumption by 25% y/y, in particular by the steel sector, which in 2008 accounted for more than 30% of electricity consumption in Ukraine, by 30% y/y. Other industrial sectors also reduced their output dramatically, in particular, machine building by 33% y/y, chemical and petrochemical industry by 37% y/y and construction materials by 42% y/y.

On the back of recovery in industrial electricity consumption in 4Q09, the electricity consumption should decline 10.2% in FY09.

On the contrary to the industry, households raised their 8M09 electricity consumption by 11% y/y. Given expected continued strong consumption by households and traditionally higher electricity consumption in the fourth quarter in general, we expect that the FY09 consumption will decline by just 10.2%. This, however, exceeds our previous forecast of a 7% decline in 2009.

Electricity consumption in Ukraine in 2009-10, bln kWh

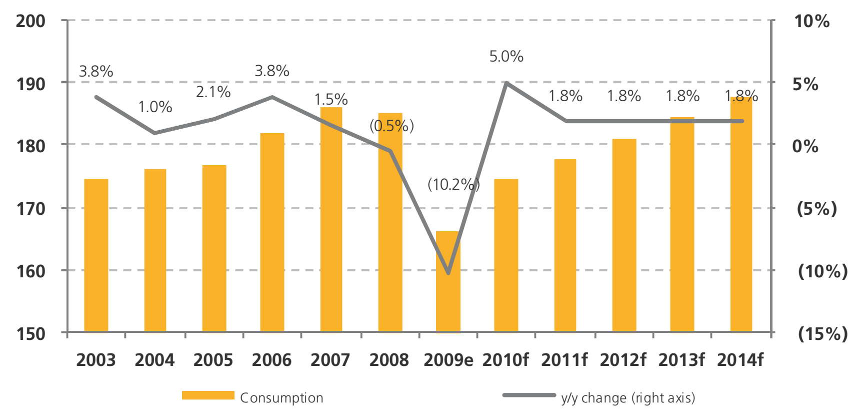
	2009e	Share in total	2010f	Share in total	*Change in 2010*
Industry	61.7	46%	65.3	46%	*6%*
Residential	35.1	26%	38.6	27%	*10%*
Housing utilities	19.3	14%	20.3	14%	*5%*
Agriculture	3.3	2%	3.5	2%	*5%*
Transport	7.9	6%	8.7	6%	*10%*
Construction	0.8	1%	0.9	1%	*15%*
Other	5.9	4%	5.9	4%	*0%*
Total (net)	**134.0**	**100%**	**143.1**	**100%**	***6.8%***
Total (gross)	**166.2**		**174.6**		***5.0%***

Source: Fuel and Energy Ministry of Ukraine, Astrum estimates

The electricity consumption should rise by 5% in 2010 on higher residential and industry consumption.

We expect that electricity consumption in 2010 will grow by 5% on the back of the continued growth of residential consumption (by 10%) and a 6% growth of the industrial electricity consumption. Growth in industrial electricity consumption should mainly be driven by the expected growth of the steel sector output by 11%. Among other sectors, which altogether account for less than 15% of the total domestic electricity consumption, we expect that the machinery will raise its electricity consumption in 2010 by 10%, transportation by 10% and construction by 15%. The domestic electricity consumption should further grow by 1.8% CAGR in 2011-14 reaching the 2007 level in 2014 on the back of the growth of industrial and residential consumption.

Electricity consumption, bln kWh



Source: Fuel and Energy Ministry, Astrum estimates

…so should electricity exports… Ukraine's electricity exports slumped by 56% y/y in 8M09 in contrast to our initial forecast of flat exports in 2009. Ukraine lost Moldova's market that in

2008 accounted for up to 38% of total electricity exports. In contrast to our forecast, Ukraine did not manage to recover export volumes after Moldova's refusal to buy Ukrainian electricity. The decline in exports stemming from Moldova's refusal should have been substituted with renewed exports to Belarus in early 2009 which did not happen due to disagreements between two countries on the price. Ukraine started stable exports to Belarus only in August'09. Absence of agreement with Belarus also hindered the start of electricity sales to Lithuania which have not yet started, contrary to our expectations. Since September'09, Ukraine exports up to 200 mln kWh to Belarus monthly which should add up to 1.15 bln kWh by the end of 2009 and account to 28% of total exports in 2009.

Having lost Moldova's market, Ukraine was unable to fully renew exports to Belarus nor start exports to Lithuania. As a result, Ukrainian exports slumped by 56% y/y in 8M09.

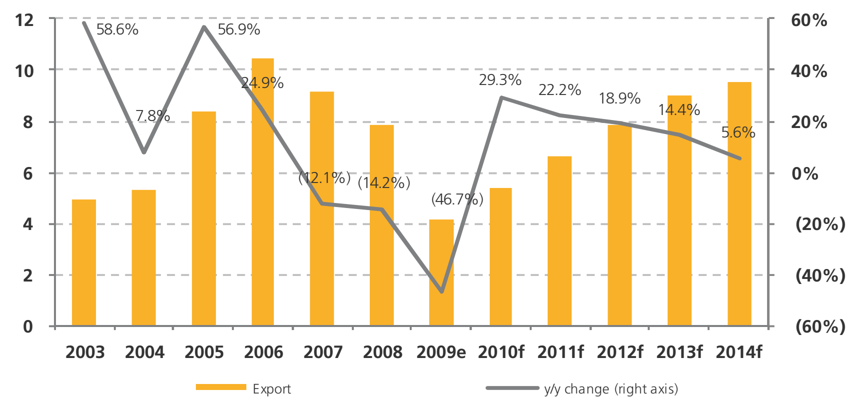
Electricity exports in 2009-10, bln kWh

	2009e	share in total	2010f	share in total	*Change in 2010, y/y*
Hungary	1.19	29%	1.60	30%	34%
Slovakia	1.57	37%	1.60	30%	2%
Poland	0.16	4%	0.60	11%	272%
Romania	0.11	3%	0.11	2%	0%
Subtotal EU	**3.04**	**72%**	**3.91**	**72%**	**29%**
Moldova	0.01	0%	0.01	0%	0%
Belarus	1.15	28%	1.50	28%	30%
Subtotal CIS	**1.15**	**28%**	**1.51**	**28%**	**30%**
Total	**4.19**	**100%**	**5.42**	**100%**	**29%**

Source: Fuel and Energy Ministry of Ukraine, Astrum estimates

Second significant factor dragging total exports lower was the decline in electricity export to the EU by 25% y/y in 8M09 while this region accounted for over 60% of the total electricity exports in 2008. Exports to the EU declined mostly due to lower EU needs in Ukrainian electricity and the annual modernization works at ZAEN, limiting the export capacity in the summer'09.

Electricity export, bln kWh



Source: Fuel and Energy Ministry, Astrum estimates

We expect that the FY09 electricity exports rate of decline will subside to 47%. In 2010, we expect that Ukraine will increase exports to Belarus by 30% to 1.5 bln kWh. Exports to the EU, on the other hand, should increase by 29% reaching the level of 2008. Thus, we expect that electricity export will increase by a total of 29% in 2010 amounting to 5.4 bln kWh. We expect that electricity exports will further increase by 12.6% CAGR in 2010-14, reaching the 2007 level in 2014.

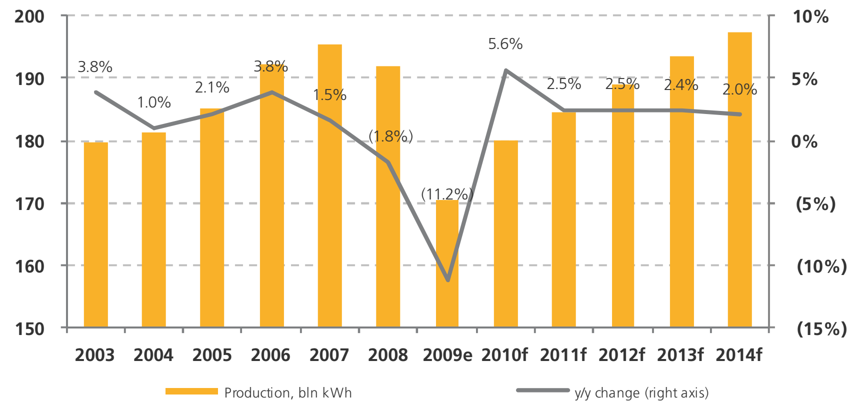
FY09 electricity exports decline should slow down to 47% thanks to resumption of exports to Belarus.

...driving electricity production up by 2.3% CAGR in 2010-14. We expect that the total electricity production will decline by 11.2% in 2009 exceeding our previous forecast of a 7% decline. Decline in 2009 production should be mainly driven by the expected 10.2% contraction in domestic electricity consumption. At the same time, the expected 47% y/y electricity exports decline should contribute less than 1 p.p. to the rate of production decline.

Total electricity production dropped 11.2% in 2009e and should rise by 5.6% in 2010.

We expect that electricity production in 2010 will grow by 5.6%, reflecting the 5% expected domestic electricity consumption growth and a 29% electricity export increase. Based on our forecast of the growth of domestic electricity consumption and electricity exports, we expect that the domestic electricity production will rise by 2.3% CAGR in 2011-14.

Electricity production, bln kWh



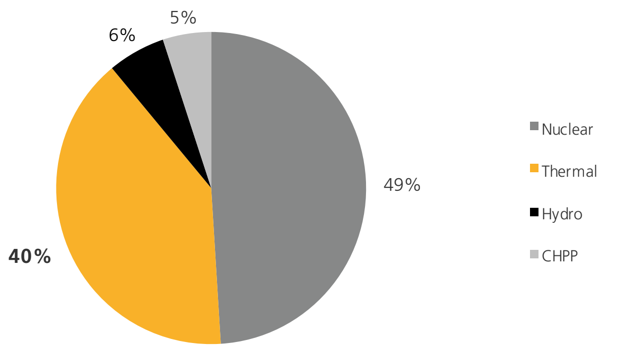
Source: Fuel and Energy Ministry, Astrum estimates

Thermal gencos were hit harder in 2009 in favor of nuclear plants... As the system operator the Wholesale Electricity Market gives priority to nuclear power plants and Combined Heat&Power Plants (CHPP) while forming the daily electricity balance, thermal gencos were the last to get loaded in the crisis year of 2009. Moreover, the WEM had to load nuclear capacity to keep wholesale electricity price low during the economic crisis as the wholesale price of electricity produced by hugely underfinanced Ukrainian NPPs is 63% cheaper compared to the thermal gencos price. We expect that thermal gencos will decrease their output by 17.9% compared to total electricity production decline of 11.2% in 2009. As a result, their share of total electricity produced should decrease from 40% in 2008 to 38% in 2009.

Gencos share of the electricity market should decrease from 40% in 2008 to 38% in 2009 and rise to 42% in 2014.

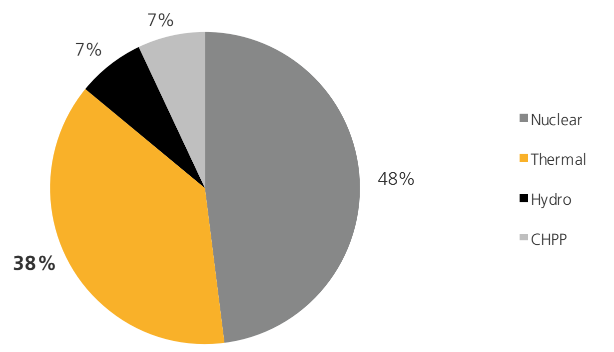
...and should make up for this decline in 2010-14. The domestic electricity consumption and electricity exports rise in 2010-14 should benefit thermal gencos as capacity utilization rate at nuclear power plants was at a high level of 70% in 2009. As we do not see any possibility for the government to commission additional new nuclear capacity by 2014, we expect that the growth rate of electricity production by nuclear power plants in 2010-14 will be restricted by lack of free capacity and will not exceed 1.4% CAGR in 2010-14. Thus, we expect that thermal gencos, which in 2009 utilized just 25%-35% of their capacity, will be the primary source of the output growth as the demand rises in 2010-14. The growth of output by thermal gencos by 4.6% CAGR in 2010-14 should outpace the overall growth of the electricity output. This should raise the share of thermal gencos in the electricity output to 42% in 2014.

Electricity output by generation type in 2008



Source: Fuel and Energy Minstry, Astrum estimates

Electricity output by generation type in 2009

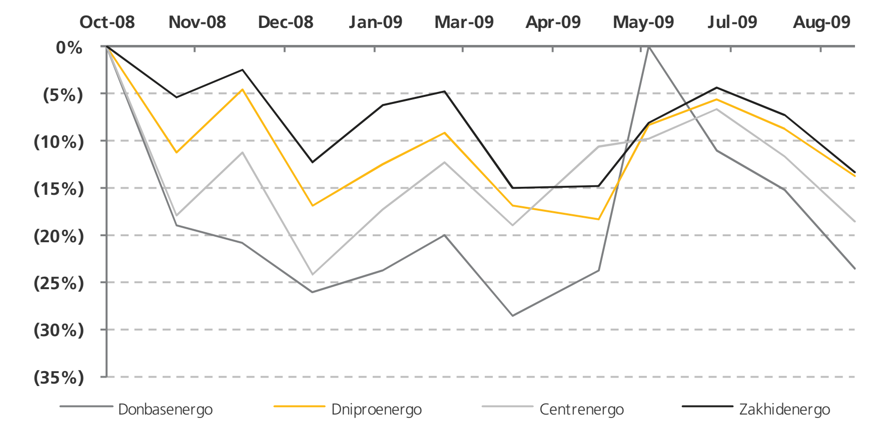


Source: Fuel and Energy Minstry, Astrum estimates

NERC cut gencos tariffs to avoid retail electricity price growth in 2009... On top of lower gencos' production, which led to higher COGS margins, the NERC in 4Q08 embarked on a policy of constraining gencos' tariffs. In 2009, the NERC faced several problems – it could not raise residential electricity prices on the verge of presidential elections while the payments by industrial customers were not enough to cover UAH 15bln worth of cross-subsidies for low household electricity prices. The NERC opted for keeping the wholesale electricity price stable for the sake of all categories of customers, including industrial ones.

Reduction of gencos tariffs by 3%-6% in 4Q08-3Q09 ...

Thermal gencos generation tariff, change since Oct-08

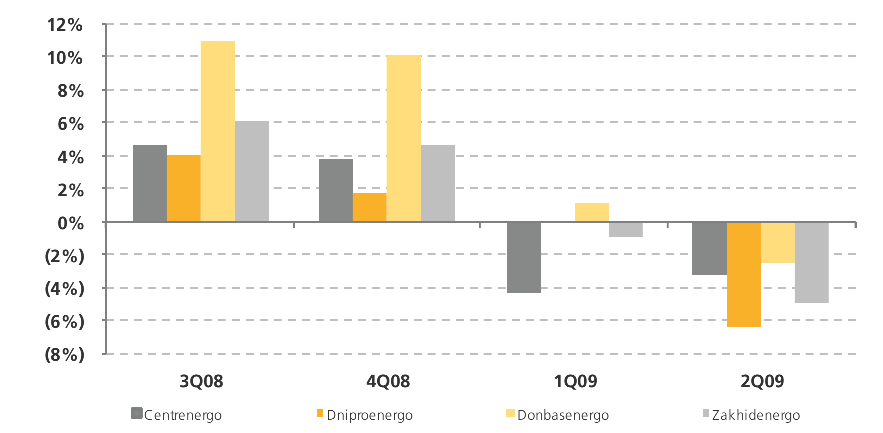


Source: NERC, Astrum estimates

Thus, the NERC had to lower the tariff paid to thermal gencos as another component of the wholesale price, the cross-subsidy for residential customers, had to rise as households raised their electricity consumption. The NERC's unfavorable tariff regulation led to gross losses at all four state-owned thermal gencos in 1H09 and reportedly in 2H09. The 3%-6% reduction in tariffs in 3Q09 as compared to 4Q08 for different gencos should bring the aggregate expected UAH 1.2bln in net losses for all four listed gencos in FY09.

...brought 2009e UAH 1.2bln net losses for all four listed gencos jointly.

Gross margin in 3Q08-2Q09



Source: Astrum estimates

...while the generation sector reform, which should resume in 2010, is to improve gencos profitability. According to the Cabinet of Ministers decree dated November 2007, the electricity sector reform should be finished by 2014. However, due to the economic crisis in 2009 and upcoming 2010 presidential elections, most of the reform tasks set for 2009 were not implemented.

Most of the electricity sector reform goals set for 2009 have not been reached, reform should resume in 2010.

The introduction of bilateral contracts scheduled for 2Q09 did not happen and we expect that they will be introduced in 2Q10-3Q10. We expect that the NERC will finish preparatory work for the first stage of the reform in 1H09 and start the first stage in 2Q-3Q10 with the transition from centralized capacity load to bilateral and balancing market.

Gencos should be able to sell 20% of the electricity produced through bilateral contracts in 2Q10.

Accordingly, we expect that, in 2Q10, gencos will be able to sell up to 20% of their electricity through bilateral contracts. We believe this would be mutually beneficial both for gencos and industrial consumers given that industrial electricity tariffs are 25%-60% higher than gencos tariffs.

First stage of the wholesale electricity market reform	2008-09
Design of legislative and regulatory base for:	
functioning of a bilateral electricity market	✗
balancing the volumes sold through bilateral contracts	✗
providing guarantees for bilateral contracts	✗
Code for transmission and distribution grids	✗
Methodology for asset valuation of electricity companies	✓ ✗
Tariff calculation for access to transmission and distribution grids	✓
Introduction of bilateral contracts	✗
Second stage	**2010**
Introduction of a mechanism for balancing electricity sales while preserving a centralized capacity load schedule	
Third stage	**2011-14**
Introduction of electricity exchange and decentralized capacity load calculation:	
Decentralized capacity load calculations by generation companies	
Introduction of electricity exchange	
Switching to a bilateral market and a balancing electricity market	

Source: Fuel and Energy Ministry, Astrum estimates

We expect that the first export auction will take place in December 2009.

Export was liberalized in 2009 and should become more profitable for gencos in 2010. The Parliament in April 2009 adopted amendments to the Law on Electricity which allowed the licensed electricity distribution and generation companies to participate in auctions for access to the interstate electricity grids and conclude bilateral export contracts. Although according to these amendments the first auctions should have taken place in August'09, we expect that the first electricity auction will take place in December 2009. This should be made possible by the fact that the NERC has already elaborated and approved auction procedures for accessing the export grids.

According to the NERC, 500 MW of export capacities to the EU will be auctioned in 2010.

The NERC plans to auction only 100 MW of 500 MW of Zakhidenergo's Burshtyn TPP total installed export capacity to the EU in 2009. According to the NERC, full export capacities will begin to be auctioned only starting from 2010. We believe that NERC is auctioning just 100 MW due to existing long-term export contracts of the state export operator Ukrinterenergo which limit access to the export capacities for third parties. However, since Ukrinterenergo has not yet announced its plans on how it might restructure its long term contracts we believe it may cause legal disputes and create obstacles for NERC to auction the whole 500 MW in 2010, as currently planned.

Zakhidenergo should be the best suited genco to benefit from electricity export liberalization.

Zakhidenergo is the best suited to benefit from liberalized electricity exports as the Burshtyn Power Plant allows the Company to better coordinate the production load schedule of the power units with the export schedule creating what we believe to be a synergy effect leading to cost optimization. However even after the recent amendments to the electricity exports legislation, Zakhidenergo is bound to sell its electricity produced first to the WEM and then purchase it from the WEM at an hourly price schedule for export purposes. Thus the possible cost cuts by thermal gencos will be "eaten" by the WEM. Such situation should cease to exist with the introduction of the bilateral contracts in 2010-14 which should allow Zakhidenergo to capture full profit margin from electricity export operations.

Ukraine's joining the European Network of Transmission System Operators (ENTSO), which is the Country's strategic goal, should support liberalization of the market and the introduction of bilateral contracts. As a result of the generation sector reform and export liberalization, retail electricity prices should reach current European levels by 2015 and the profits of thermal gencos should be set free. As a result, gencos EBITDA margins should rise from current 8%-12% to 20%-24% in 2014.

The energy sector reform should raise gencos' EBITDA margin to 20%-24% in 2014.

Outdated capacities need investments. Most gencos approved their modernization plans 4-5 years ago, however the plans remain unfulfilled. The government keeps re-approving modernization programs every year while adjusting their modernization estimates to inflation. Although state-owned gencos are capable of including up to 80% of principal and interest into their electricity tariff for 4-5 years, as set by the Cabinet of Ministers Decree №183, this is not enough for banks that require state guarantees for state-owned gencos.

Cabinet's Decree #183 allows gencos to reimburse principal and interest on loans used for modernization through a special surcharge to electricity tariff…

Donbasenergo was the first among state owned thermal gencos to receive a total of UAH 53m in May-December 2009 within a tariff aimed at covering part of principal and interest on EBRD loan for the reconstruction of the unit #4 at Starobesheve Power Plant. In August 2009, Dniproenergo got its first approval from the NERC to include UAH 189m for the unit #3 of Kryvyi Rih power plant modernization into the electricity tariff over 2009-13. In August 2009, Zakhidenergo received approval of UAH 132m reimbursement for the modernization of the unit #7 at Burshtyn Thermal Power Plant through tariff increase in 2009-13.

At the same time, according to the government's estimates, modernization needs of the four state-owned thermal generation companies until 2016 exceed USD 8.5bln. Thus, the modernization programs of four state-owned thermal gencos currently cover less than 3% of the required amount.

…but the current modernization programs of thermal gencos cover only 3% of USD 8.5bln modernization needs.

Privatization is imminent and should help raise financing for thermal gencos CapEx. The situation is strikingly different at privately-owned DTEK-managed thermal genco Vostokenergo. Vostokenergo used its own funds to finance modernization and applied to the NERC to include the principal and interest on modernization loans into the electricity tariff. The currently approved reimbursements for Vostokenergo are included in the Company's tariff for 2007-15 and amount to a total of UAH 1,645m which cover modernization of seven power units at three Vostokenergo's power plants: Zuiv, Kurakhiv and Luhansk.

Privatization of 50%-60% stakes in thermal gencos should happen in 2010-11 and help meet modernization needs.

This shows that there is no alternative to privatization of thermal gencos and we believe that the current government realizes this. We expect that the privatization of the majority stakes in four listed generation companies will take place not earlier than 2H10. The imminent reform of the electricity generation sector should trigger interest of foreign strategic investors such as Electricite de France, Endesa, E.ON, CEZ and the AES Corporation.

Privatization plans

Company	Ticker	State stake	Stake to be privatized	State share after privatization
Centrenergo	CEEN	78.3%	60.0%	18.3%
Dniproenergo	DNEN	50.0%	50.0%	0.0%
Donbasenergo	DOEN	85.8%	60.0%	25.8%
Zakhidenergo	ZAEN	70.1%	60.0%	10.1%

Source: Astrum estimates

Centrenergo

Company profile

The thermal electricity generation company Centrenergo is Ukraine's second largest in terms of installed capacity. It operates three power stations with overall installed capacity of 7,575 MW, including 3,000 MW of gas-fueled capacities currently kept in reserve.

Key drivers

Strong growth forecast of the electricity output in 2010-14… We downgrade Centrenergo's electricity output estimate from 16% decline to 20% decline in 2009, based on the Company's 8M09 electricity output decline of 23% y/y. According to our estimates, Centrenergo slightly increased its monthly production in 4Q09 on the back of growing industry and household consumption in the winter period. We expect that the Company's electricity output will rebound by 10.6% in 2010 and continue growing by 5.5% CAGR over 2010-14 on the back of rising electricity consumption.

…and electricity price growth should raise net sales. Centrenergo's generation tariff in September 2009 was 17% down from October 2008 level. This should contribute to the reduction of CEEN's 2009 net sales by 7.9% to UAH 4.3bln. On the contrary, CEEN's tariff should grow by 20% in 2010 and by 12.9% CAGR in 2010-14 supporting the Company's net sales growth by 19% CAGR in 2010-14.

Introduction of bilateral contracts should help raise the bottom line. We expect that the launch of bilateral contracts in 2Q10 will help raise CEEN's bottom line on the back of rising electricity output and tariffs. CEEN's EBITDA margin should turn positive in 2010 and reach 5.8% that year. Centrenergo's net margin should reach 1% in 2010 and 6.1% in 2014, while its net income should rise by 88% CAGR in 2010-14.

Recommendation

CEEN's 12-months target price as derived from our DCF model, asset-based valuation and USD 211 per kWh benchmark implies USD 175 EV/Capacity and a 69% stock price upside. We believe that Centrenergo's higher implied target EV/Capacity compared to Zakhidenergo and Donbasenergo is justified as the Company boasts newer power units at Vuglegirsk Power Plant which were commissioned in mid-1970s. Still, this level is lower than the current Russia's OGK average of USD 211 per kW and CEEN's historical maximum of USD 461 per kW that was reached in 2008.

BUY

Target price, USD*	**2.17**
Upside (Downside)	**69%**

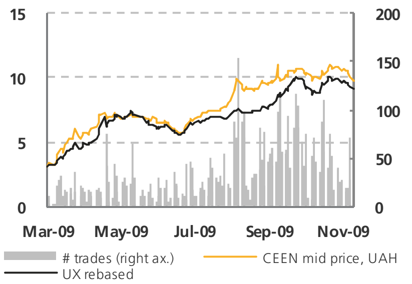
** at 1yr forward UAH/USD rate 8.50*

Stock information**

UX ticker	CEEN
Bloomberg ticker	CEEN UK
Market price, USD	1.28
Shares outstanding, mln	369
Market cap, USD m	473
EV, USD m	525
Free float estimate, USD m	23.7
Av. daily turnover 8M, USD m	0.09
Price Lo/Hi 8M, USD	0.34/1.34
Price change 8M	74%

*** at current UAH/USD rate 8.04; performance since start of trading on the UX*

Price performance, UAH



Source: UX

Ownership structure

National Energy Company of Ukraine	78.3%
Other	16.7%
Free float estimate	5.0%

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	4,673	81	(198)	1.74%	(4.23%)	n.m.	0.81	52.1	419	0.57	n.m.	0.0%
2009e	4,305	(106)	(338)	(2.46%)	(7.85%)	n.m.	0.88	(39.8)	1,251	0.72	n.m.	0.0%
2010f	5,713	333	56	5.83%	0.98%	67.9	0.67	12.7	1,574	0.74	3.17%	0.2%
2011f	7,301	836	230	11.5%	3.15%	16.6	0.52	5.05	1,899	0.74	11.5%	0.9%
2012f	8,925	1,290	408	14.5%	4.58%	9.3	0.43	3.27	1,922	0.72	17.0%	1.6%
2013f	10,322	1,590	533	15.4%	5.16%	7.1	0.37	2.66	1,681	0.70	18.1%	2.1%

Dniproenergo

BUY

Target price, USD*	185
Upside (Downside)	67%

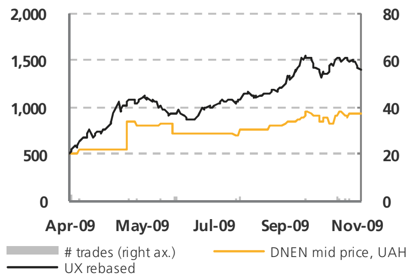
* at 1yr forward UAH/USD rate 8.50

Stock information**

UX ticker	DNEN
Bloomberg ticker	DNEN UK
Market price, USD	111
Shares outstanding, mln	5.97
Market cap, USD m	655
EV, USD m	715
Free float estimate, USD m	26.2
Av. daily turnover 8M, USD m	0.29
Price Lo/Hi 8M, USD	43/109
Price change 8M	59%

** at current UAH/USD rate 8.04; performance since start of trading on the UX

Price performance, UAH



Source: UX

Ownership structure

National Energy Company of Ukraine	50%+1
DTEK	46%
Free float estimate	4%

Company profile

Dniproenergo is the largest Ukrainian thermal electricity generator operating three power stations with installed capacity of 8,185 MW including 2,400 MW of currently idle gas fueled capacity.

Key drivers

DNEN's output should grow by 5.1% CAGR in 2010-14. Dniproenergo posted the steepest output decline among thermal gencos in 8M09, by 29% y/y, mostly due to higher comparative baseline. We lower our output estimate for DNEN in 2009 accordingly and now expect that it will decline by 24% to 12.3 bln kWh. In 2010, we expect that Dniproenergo will raise its output by 8.6% on the backdrop of expected 5.6% rebound in total electricity production in 2010. DNEN's output should continue growing by 5.1% CAGR in 2010-14.

DNEN's net sales should grow by 30% in 2010 and by 18.7% CAGR in 2010-14. We expect that Dniproenergo's generation tariff will grow by 20% in 2010 and by 12.9% CAGR in 2010-14 thanks to further market liberalization. This should help raise the Company's net sales by 30% in 2010 and by 18.7% CAGR in 2010-14.

High corporate management standards should help raise the net income by 68% CAGR in 2010-14. We believe that solid experience and high corporate standards of DTEK's management will put Dniproenergo in a better position as compared to state-owned gencos to benefit from the introduction of bilateral contracts and export liberalization. This should help raise the Company's EBITDA and net income by 19% and 68% CAGR in 2010-14 respectively.

Modernization program should support bottom line. According to Dniproenergo's modernization plans announced in 2008, the Company will invest UAH 486m in modernization of 282MW power unit at Kryvyi Rih power plant and 150MW power unit at Prydniprovsk TPP by 2011. Out of this amount, UAH 189m should come from Dniproenergo's electricity tariff in 2009-14. The remaining investment volume DNEN should finance from its own sources and loans provided by its largest private shareholder DTEK. The modernization should support the Company's net income growth of 68% CAGR in 2010-14.

Recommendation

We believe that Dniproenergo's modernization plans justify its domestically higher EV/Capacity of 190 per kW implied by our estimate of the 12 months price target of USD 185. As this target EV/Capacity level is well below the historic high for the stock at USD 545 per kW reached in 2008, we believe that the stock has strong further growth potential beyond the 12 months period.

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	4,676	271	(16)	5.8%	(0.34%)	n.m.	1.14	21.2	434	0.39	n.m.	0.0%
2009e	4,032	(133)	(361)	(3.3%)	(8.96%)	n.m.	1.32	(43.2)	663	0.44	n.m.	0.0%
2010f	5,254	456	80	8.7%	1.52%	66.6	1.01	12.6	683	0.45	4.45%	0.0%
2011f	6,806	885	228	13.0%	3.35%	23.3	0.78	6.49	854	0.48	11.3%	0.6%
2012f	8,327	1,381	400	16.6%	4.80%	13.3	0.64	4.16	797	0.45	16.5%	1.1%
2013f	9,363	1,708	515	18.2%	5.50%	10.3	0.57	3.36	374	0.38	17.6%	1.4%

Donbasenergo

BUY

Target price, USD*	**14.1**
Upside (Downside)	**70%**

** at 1yr forward UAH/USD rate 8.50*

Company profile

Donbasenergo is the smallest Ukrainian thermal electricity generation company operating two coal fired power plants with overall installed capacity of 2,575 MW.

Key drivers

New unit should help raise DOEN's electricity output by 5% in 2009 and 3.8% CAGR in 2010-14. Higher demand for Donbasenergo's maneuverable capacities allowed the Company to increase its 10M09 electricity output by 4.5% y/y. We estimate that DOEN's 2009 electricity output grew by 5% as opposed to other thermal gencos' reduction of output by 14%-24%. Due to limited potential for output growth we expect that Donbasenergo's output will grow by just 7% in 2010. We expect that the launch of the new 210 MW Circulated Fluidized Bed boiler unit at the Starobesheve TPP in 2011 should enable the Company to raise output by 4.6% in 2011 and by 3.8% CAGR in 2010-14.

Donbasenergo's net sales should grow by 17% CAGR in 2010-14. Despite the estimated growth of DOEN's electricity output in 2009, the Company's 2009 net sales should be flat due to the decline of its generation tariff. We expect that DOEN's net sales will grow by 28.7% in 2010 supported by the growth of the tariff by 20%. The tariff should continue growing by 13% CAGR in 2010-14 driving the net sales up by 17% CAGR.

Higher tariff should help raise net income by 49% CAGR in 2010-14. We expect that DOEN's net income margin will restore to pre-crisis 2.6% in 2010 on the back of higher electricity prices. The net margin should reach 6.9% in 2014 driving DOEN's net income up by 49% CAGR in 2010-14 thanks to further liberalization of the market. We expect that the new CFB boiler unit at the Starobesheve TPP will be commissioned in 2011; this should contribute to raising DOEN's profit margins due to more efficient coal burning technologies leading to up to 2.5% decrease in 2011f COGS.

Recommendation

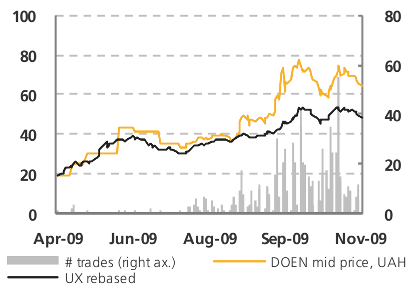
Our DCF model for Donbasenergo provides the lowest for all four gencos 12M implied target EV/Capacity at USD 77 per kW. This result is partially due to the Company's limitations in its growth in the next 12 months due to limited capacity, that should be extended in 2011. This weighs on the Company's resultant 12M target price at USD 14.1 per share that implies USD 130 per kW, again the lowest among gencos. At the same time, this target price offers 70% upside from the current market level which we believe is justified due to the forecast of the growth of DOEN's bottom line in 2010-14.

Stock information**

UX ticker	DOEN
Bloomberg ticker	DOEN UK
Market price, USD	8.3
Shares outstanding, mln	23.6
Market cap, USD m	197
EV, USD m	243
Free float estimate, USD m	8.3
Av. daily turnover 8M, USD m	0.02
Price Lo/Hi 8M, USD	2.0/8.9
Price change 8M	181%

*** at current UAH/USD rate 8.04; performance since start of trading on the UX*

Price performance, UAH



Source: UX

Ownership structure

National Energy Company of Ukraine	85.8%
Other	10.0%
Free float estimate	4.2%

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	2,207	166	15	7.5%	0.69%	104	0.72	11.7	367	0.65	1.66%	0.0%
2009e	2,181	(53)	(155)	(2.4%)	(7.10%)	n.m.	0.73	n.m.	416	0.70	n.m.	0.0%
2010f	2,806	224	74	8.0%	2.63%	21.5	0.56	8.72	551	0.70	8.85%	0.0%
2011f	3,522	405	130	11.5%	3.69%	12.2	0.45	4.81	615	0.69	13.5%	1.1%
2012f	4,230	558	198	13.2%	4.68%	8.0	0.37	3.50	588	0.66	17.1%	1.7%
2013f	4,757	752	285	15.8%	5.99%	5.6	0.33	2.59	512	0.61	19.7%	2.5%

HOLD

Target price, USD*	**60.5**
Upside (Downside)	**24%**

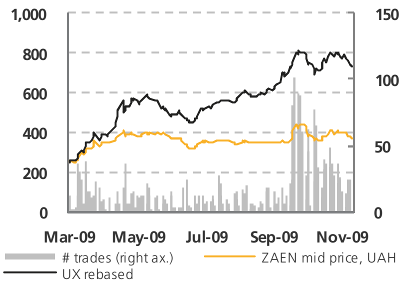
** at 1yr forward UAH/USD rate 8.50*

Stock information**

UX ticker	ZAEN
Bloomberg ticker	ZAEN UK
Market price, USD	48.9
Shares outstanding, mln	12.8
Market cap, USD m	625
EV, USD m	630
Free float estimate, USD m	35.0
Av. daily turnover 8M, USD m	0.15
Price Lo/Hi 8M, USD	25.2/54.3
Price change 8M	36%

*** at current UAH/USD rate 8.04; performance since start of trading on the UX*

Price performance, UAH



Source: UX

Ownership structure

National Energy Company of Ukraine	70.1%
DTEK	11.4%
Other	12.9%
Free float estimate	5.6%

Zakhidenergo

Company profile

Zakhidenergo is the only Ukrainian genco that exports electricity. For exports, the Company uses its Burshtyn Power Plant (2,300 MW). Its Dobrotvir Power Plant (600 MW coal fired), which also has access to Polish electricity grid, and Ladyzhyn Power Plant (1,800 MW coal fired) both produce electricity for domestic consumption.

Key drivers

ZAEN's electricity output should rebound on higher exports. Zakhidenergo's 2009 electricity output should drop 14% on the back of lower domestic electricity consumption and a 47% decline of electricity exports which should account for 24% of the Company's 2009 output. We expect that ZAEN will post a higher than the industry average electricity output growth in 2010 of 8.2% on the back of expected 29% growth in electricity exports to the EU. In 2010-14, Zakhidenergo should raise its electricity output by 4.6% CAGR.

The Company's net sales should grow by 18% CAGR in 2010-14 helped by higher electricity prices. Zakhidenergo's net sales should drop by 10% in 2009 on lower output and 5% lower electricity price. We expect that, in 2010, ZAEN's electricity price will rise by at least 15% due to both recovery in domestic generation tariffs and the start of electricity exports to the EU. This should help raise ZAEN's 2010 net sales by 24.4%. We expect that ZAEN's tariff will continue growing and rise by 13% CAGR in 2010-14 with further liberalization of electricity exports while the net sales should grow by 18% CAGR over the period.

Zakhidenergo's net income should grow by 94% CAGR in 2010-2014. On the back of lower electricity output and prices, ZAEN should post UAH 406m net loss in 2009. We expect that the Company's net margin will restore to 6.1% in 2014 on higher electricity prices. Thus, Zakhidenergo's net income should rise by 94% CAGR in 2010-14.

Recommendation

Our depreciated replacement cost estimate for Zakhidenergo provides 12M fair value of Zakhidenergo that implies USD 238 per kW. However, when taken into account, our DCF model outcome and the benchmark Russian peer level of EV/Capacity bring the resultant fair value to USD 163 per kW. This provides the USD 60.5 target price which presents a 24% upside.

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	4,848	103	(90)	2.1%	(1.85%)	n.m.	1.04	48.9	35	0.59	n.m.	0.0%
2009e	4,377	(226)	(406)	(5.2%)	(9.27%)	n.m.	1.15	(22.4)	993	0.72	n.m.	0.0%
2010f	5,447	271	45	5.0%	0.83%	111.1	0.92	18.7	1,068	0.72	4.74%	0.1%
2011f	6,961	638	218	9.2%	3.12%	23.1	0.72	7.93	1,117	0.71	18.6%	0.6%
2012f	8,461	957	371	11.3%	4.38%	13.6	0.59	5.29	1,204	0.67	24.1%	1.1%
2013f	9,513	1,257	524	13.2%	5.51%	9.6	0.53	4.02	962	0.60	25.4%	1.6%

Equity

Electricity distribution

Electricity distribution

Oblenergo net sales should grow by 14% CAGR in 2010-14 based on the growth in electricity consumption and retail electricity prices.

In 2010-14, oblenergo net sales should rise… We expect that oblenergos' 2010 total net sales will rise by 15% due to: (1) growth of domestic electricity consumption by 5%, and (2) growth of household electricity prices by 70%. In 2010, total electricity consumption should rise on the recovery of industrial production and a steady increase in household consumption. We also expect that, after the presidential elections in 2010, households will see an electricity price increase as current household electricity prices in Ukraine are not only the lowest in Central and Eastern Europe, but they are also lower than the cost of electricity production. In 2010-14, the aggregate net sales of the electricity distribution industry should grow by 14% CAGR, based on expected electricity consumption growth by 2.8% CAGR, as well as the growth of industrial electricity prices by 12% CAGR and of household electricity prices by 28% CAGR.

…but what matters is distribution and supply tariffs which went down in 2009 and should grow in 2010. The expected 70% hike in household electricity prices in 2010 should contribute to the growth of wholesale electricity price, which should subsequently benefit electricity generators rather than oblenergos. The growth of retail electricity price and thus oblenergos net sales does not necessarily result in the growth in oblenergos' profits. Over 70% of oblenergos' net sales go towards covering the cost of electricity purchased from the Wholesale Electricity Market, which oblenergos transfer directly back to the WEM after collecting payments from final consumers. This is the reason why we discard the P/Sales-based valuation for oblenergos, as most global peers have already gone through unbundling and are currently only engaged in the distribution business, without buying electricity from the generators.

The main source of oblenergo profits and the source for financing their investment programs and operational costs are electricity distribution and supply tariffs, which are approved by the NERC and account for 4%-27% of the retail electricity price. In line with our expectations and due to the need to restrain electricity prices, in 2009, the NERC reduced distribution and supply tariffs by ordering that investments be funded from oblenergos' cost portion of distribution and supply tariffs and cutting the profit portion of the tariffs that should have been allocated for investments. NERC decreased oblenergos' investment programs in two stages – on March 1 and June 1, 2009. With the second tariff reduction, NERC cut the portion of oblenergos' regulated profit, which was to be reinvested as CapEx, to zero.

Electricity distribution and supply tariffs, which drive oblenergo profits, should decline by 3%-16% in 2009…

Thus NERC effectively reduced oblenergos' distribution and supply tariffs by 3%-16% in 2009. In line with the tariff decrease, NERC reduced oblenergos planned investment programs by 15%-35%. We estimate that this significant decrease stripped oblenergos of UAH 200m, which was directed towards state-owned thermal gencos to soften their losses. However, these regulations did not apply to the six oblenergos privatized in 2001, namely Zhytomyroblenergo (ZHEN), Kyivoblenergo, Kirovogradoblenergo (KION), Sevastopolenergo (SMEN), Rivneenergo and Khersonoblenergo (HOEN), which enjoy a preferential tariff setting methodology. We believe that the expected 70% household electricity price increase in 2010 will enable NERC to increase oblenergo distribution and supply tariffs by 10%-15% in 2010, thus raising oblenergo profits.

…and rise by 10%-15% in 2010, raising oblenergo profits.

Reduction of grid losses above normative level should be the other major oblenergo profit driver in 2009-11.

The NERC annually approves oblenergo tariffs based on (1) its calculations of the cost of electricity distribution and supply in the upcoming year that is the cost part of the tariff and (2) the regulated profit in the upcoming year, the profit part of the tariff. By decreasing its electricity grid losses above the normative reduction set by the NERC and included into the distribution and supply tariff, an oblenergo can generate additional profits. In 2009, the reduction of grid losses should soften the decline or even provide growth of oblenergos EBITDA, while in 2010-11 it should become the other major EBITDA growth driver, along with the tariff growth. We expect that our covered oblenergos will raise their EBITDA by 24% on average in 2010.

The implementation of RAB tariffs should start in 2011 and further raise oblenergos bottom lines. The forecast for oblenergos' profits beyond 2010 heavily depends on the timing of the planned introduction of Regulatory Asset Base (RAB) tariffs for oblenergos. The existing "cost plus" price formation has proven inefficient as it encourages oblenergos to overstate their operational expenses, which NERC, in turn, tries to keep to a minimum. The RAB tariffs should instead provide a certain rate of return on oblenergos' assets creating incentives to cut costs.

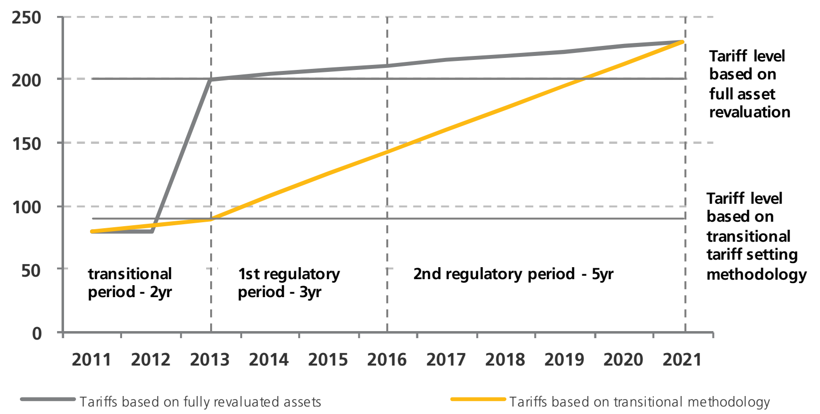
Beyond 2011, the introduction of the RAB tariffs should become the main oblenergo profit driver.

Although the NERC had planned to start the first transitional period to RAB tariffs in 2009, our expectations in early 2009 were more realistic, as we then forecast that this would happen only in 2010 due to the difficult economic situation in 2009. However, we now adjust our forecast for the introduction of RAB tariffs to 2011. The NERC has yet to prepare the legislation and methodology required in order to start the first pilot projects with respect to RAB tariffs.

The introduction of the RAB tariffs should occur in three stages including a transitional period and two regulatory periods which, together, should last ten years. During the two-year transitional period, the official reported net value of oblenergos' fixed assets should be used as a base for tariff calculation and a substitute for RAB. This transitional period, in 2011-12, should give oblenergos time to carry out their asset revaluation and give the NERC time to approve the RAB-related legislation and methodology. The second three-year regulatory period should be in 2013-16 and the third in 2017-21.

We expect that the NERC will launch the first regulatory period at current level of distribution and supply tariffs and gradually arrive at tariffs that fully correspond to oblenergos' Regulated Asset Bases by the end of the regulatory period (see graphic). The NERC's other option is to introduce RAB tariffs based on assets' completed revaluation, fully reflecting RAB calculated tariffs in the first regulatory period. However, we view such a scenario as unlikely. According to the NERC's calculations, the RAB level that fully reflects costs is, on average, more than 500% higher then the currently-reported value of oblenergos' fixed assets. The introduction of RAB tariffs, which fully reflect costs, would lead to an up to 2-3 times increase in oblenergos tariffs, which would cause a up to 100% increase in the retail electricity price for all types of consumers which is unlikely until 2013.

Distribution tariffs growth in two scenarios of RAB introduction, UAH/MWh



Source: NERC, Astrum estimates

Oblenergo tariffs should rise by 27% CAGR in 2011-14.

We thus expect that the distribution and supply tariffs will rise by 27% CAGR in 2011-14 that should raise their share in the retail electricity price from current 4%-27% in 2009 to as much as 40% in 2014. The growth of the distribution and supply tariffs should lead to EBITDA growth of our covered oblenergos 27% on average in 2011-14.

Blocking stakes in Lvivoblenergo and Chernigivoblenergo were privatized in 2009...

Two oblenergos were sold in 2009... Of the six oblenergos, in which the state still holds 25% blocking stakes, two were auctioned off in 2009. Lvivoblenergo (LVON) was acquired by a company affiliated with Ukrainian businessman Mr. Surkis and Chernigivoblenergo (CHEON) was acquired by a company affiliated with Russian businessman Mr. Grigorishin, in April and May 2009 respectively. However, the auctions for Poltavaoblenergo (POON), Prykarpattiaoblenergo (PREN) and Sumyoblenergo (SOEN) failed due to the absence of bidders.

In a press interview in October 2009, Mr. Grigorishin, who is the largest shareholder in these oblenergos, announced that he would not participate in further auctions for these oblenergos, due to the fact that the second-largest shareholder, Mr. Surkis, owns blocking stakes, which would thereby hinder the new owner from changing the oblenergos' management. We believe that, as long as the confrontation between the two shareholders persists, these privatization auctions will continue to see further postponements, while it is difficult to predict the future of this conflict.

Oblenergo privatization results in 2009

Name	Ticker	Result	Stake	Starting price	Deal price	Implied EV/EBITDA'08
Chernihivoblenergo	CHEON	Sold	25%+1	UAH 119m	UAH 223m	11.30 *
Lvivoblenergo	LVON	Sold	26.98%	UAH 171m	UAH 198m	4.68 *
Poltavaoblenergo	POON	Failed	25%+1	UAH 308m	—	9.86**
Prykarpattiaoblenergo	PREN	Failed	25.02%	UAH 231m	—	8.37**
Sumyoblenergo	SOEN	Failed	25%+1	UAH 209m	—	6.70**

Source: Astrum estimates
** Based on deal price ** Based on starting price*

...while the government should privatize controlling stakes in 15 oblenergos in 2010-11.

...and a large scale oblenergo privatization should follow in 2010-11. On November 13, 2009, the State Property Fund delayed the privatization of 15 oblenergos until 2010. Earlier, in July 2009, the Ukrainian government ordered the SPF to prepare for the sale of the controlling blocks of shares in 15 oblenergos by December 1, 2009, which turned out to be unrealistic due to the political tensions in the lead-up to the January 2010 presidential elections.

The first oblenergos to be sold in 2010 are those of greater interest for local strategic investors.

As of yet, the SPF has neither announced the dates nor the prices of the privatization of these oblenergos. However, we believe that certain oblenergos, which have long been known as interesting prospects for strategic players, i.e. Dniprooblenergo, Zaporizhiaoblenergo, Kharkivoblenergo and Cherkasyoblenergo, are likely to be auctioned off in 2010.

Oblenergo privatization in 2010

Name	Ticker	To be privatized	Potential buyers	Probability of privatization in 2010
Cherkasyoblenergo	CHON	71%	Energy Standard	High
Chernivtsioblenergo	CHEN	60% + 1	VS Energy	Medium
Dniprooblenergo	DNON	60% + 1	DTEK, Pryvat	High
Donetskoblenergo	DOON	60% + 1	DTEK	Medium
Kharkivoblenergo	HAON	60% + 1	Energy Standard	High
Khmelnytskoblenergo	HMON	60% + 1	VS Energy	Medium
Krymenergo	KREN	60% + 1	DTEK	Medium
Kyivenergo	KIEN	50% + 1	DTEK	Low
Luhanskoblenergo	LOEN	60.06%	—	Low
Mykolaivoblenergo	MYON	60% + 1	VS Energy	Low
Ternopiloblenergo	TOEN	51%	Energy Standard	Low
Vinnitsaoblenergo	VIEN	60% + 1	Energy Standard	High
Volynoblenergo	VOEN	60% + 1	Energy Standard	High
Zakarpattiaoblenergo	ZOEN	60% + 1	VS Energy	Medium
Zaporizhiaoblenergo	ZAON	60.25%	Pryvat	High

Source: Cabinet of Ministers of Ukraine, Astrum estimates

Although the reform of oblenergo tariffs is proceeding slower than expected, we believe that the reform of the Wholesale Electricity Market, which is already underway, is giving prospective investors sufficient confidence that the reform in the oblenergos segment according to a globally-acknowledged RAB model will also materialize. Thus, we expect interest in oblenergos on the part of foreign strategic investors when oblenergos are offered for privatization in 2010-11.

BUY

Target price, USD*	0.87
Upside (Downside)	134%

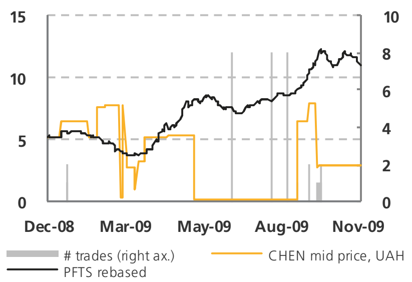
** at 1yr forward UAH/USD rate 8.50*

Stock information**

PFTS ticker	CHEN
Bloomberg ticker	CHEN UZ
Market price, USD	0.37
Shares outstanding, mln	56.8
Market cap, USD m	21
EV, USD m	23
Free float estimate, USD m	1.7
Av. daily turnover 12M, USD m	0.06
Price Lo/Hi12M, USD	0.03/1.00
Price change 12M	(43%)

*** at current UAH/USD rate 8.04*

Price performance, UAH



Source: PFTS

Ownership structure

National Energy Company of Ukraine	70.0%
VS Energy	21.9%
Free float estimate	8.1%

Chernivtsioblenergo

Company profile

The state-owned Chernivtsioblenergo (CHEN) is an electricity distribution company operating in the Chernivtsi region of western Ukraine. The Company covers a territory of more than 8,000 sq km with 904,000 inhabitants and owns 17,000 aerial electricity lines. CHEN's client base consists of over 12,000 commercial and 320,000 residential customers.

Key drivers

CHEN's investment program expansion and lower grid losses should support its EBITDA growth in 2010. The NERC left CHEN's 2009 electricity distribution and supply tariffs unchanged; thus, the Company's 2009 EBITDA should also remain flat. We expect that Chernivtsioblenergo's EBITDA will increase by 21% in 2010, driven by the expansion of the Company's investment program, which is envisioned in its distribution and supply tariffs, and the reduction of the Company's grid electricity losses from 19.8% in 2009 to 18.0% in 2010.

The introduction of RAB-based tariffs should support bottom line growth in 2011-14. New RAB tariffs, which the NERC should start introducing in 2011, should be more profitable and contribute to the growth of Chernivtsioblenergo's EBITDA in 2011-14. We expect that RAB tariffs will also create incentives for CHEN to further reduce its grid losses to 11.2% in 2014. The Company should be able to cut its grid losses at a quicker pace than the NERC will account for in CHEN's electricity distribution tariff. This should serve as an additional source of growth in CHEN's profitability. Overall, we expect that CHEN's EBITDA will grow by 30% CAGR in 2011-14.

VS Energy's acquisition of a 60% stake in 2010-11 should bring operational improvements. The state holds 70% of Chernivtsioblenergo and we see a strong probability that the government will sell its stake in 2010-11. We believe that the main potential buyer of this stake is the VS Energy group, which currently holds over 21% of the Company. VS Energy's management should positively influence Chernivtsioblenergo's financial results, as has been the case with other oblenergos in which VS Energy is a major shareholder: Zhytomyroblenergo (ZHEN), Khersonoblenergo (HOEN), Kirovogradoblenergo (KION), and Sevastopolenergo (SMEN). Unlike Chernivtsioblenergo, these companies have been outperforming the NERC's grid losses norms for a number of years already.

Recommendation

Based on the expected EBITDA growth, Chernivtsioblenergo trades at 12%-55% discounts to international peers on 2009e-14f EV/EBITDA. We consider these discounts as unjustified on the background of the forecast growth of Chernivtsioblenergo's bottom line. Our DCF model produces a USD 0.87 target price, which implies a 2010 EV/EBITDA of 6.4, which should materialize in 12M, and provides a stock price upside of 134%. Chernivtsioblenergo's current rock-bottom PEG at 0.16 supports the high upside potential of this stock.

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	370	58	31	15.7%	8.3%	5.54	0.46	3.14	12	0.77	36%	0%
2009e	363	56	35	15.5%	9.5%	4.93	0.47	3.26	12	0.69	29%	0%
2010f	382	68	43	17.8%	11.2%	3.99	0.45	2.69	66	0.67	28%	6%
2011f	452	85	55	18.7%	12.1%	3.12	0.38	2.15	89	0.69	28%	8%
2012f	512	112	74	21.9%	14.5%	2.30	0.33	1.63	89	0.65	30%	11%
2013f	565	147	99	26.0%	17.6%	1.71	0.30	1.24	61	0.59	31%	15%

Khmelnytskoblenergo

Company profile

The state-owned Khmelnytskoblenergo (HMON) is an electricity distribution company operating in western Ukraine. The Company covers a territory of more than 20,000 sq km with a population of 1,426 thd and 35,000 km of aerial electricity lines. More than 40% of the Company's client base are industrial consumers, while households account for 25% and agricultural consumers for 10% of clients.

Key drivers

EBITDA growth should speed up in 2010-11. The positive effect from Khmelnytskoblenergo's higher than normative grid loss decrease from 17.7% to 16.4% in 2009 was largely offset by the reduction of the Company's electricity distribution and supply tariffs by the NERC. As a result, we estimate that the Company's 2009 EBITDA increased by just 3%. On the background of the imminent growth of electricity distribution and supply tariffs, Khmelnytskoblenergo's 2010-11 investment program included in the tariffs should increase on average by 25% annually. This should become the main driver for HMON's expected EBITDA growth by 27% annually on average in 2009-11.

The introduction of RAB tariffs and decrease in grid losses should further boost EBITDA in 2011-14. The introduction of more profitable RAB tariffs starting in 2011 should support Khmelnytskoblenergo's EBITDA growth. As new RAB tariffs should increase the Company's incentives to cut costs, we expect that its grid losses will decline from 16.4% in 2009 to 11.2% in 2014. This should be an additional source for HMON's operational improvements. Overall, HMON's EBITDA should rise by 29% CAGR in 2011-14.

Another acquisition target for the VS Energy. Russia's VS Energy group is the largest private shareholder of Khmelnytskoblenergo, with a stake of more than 18%. We believe that VS Energy will be the main bidder in the expected privatization of Khmelnytskoblenergo's 60%+1 stake in 2010-11. After the privatization, the Company should benefit from an improvement in management, along with other VSE-owned oblenergos.

Recommendation

The stock currently trades at unwarranted 5%-45% discounts to international peers based on 2010f-14f EV/EBITDA. Our DCF derived price target for the stock implies a 2010 EV/EBITDA at 7.0. Khmelnytskoblenergo's low 2009-14 PEG of 0.40 supports our BUY recommendation and a price upside of 108%.

BUY

Target price, USD*	**0.88**
Upside (Downside)	**108%**

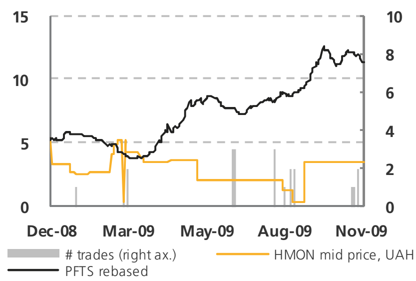
* at 1yr forward UAH/USD rate 8.50

Stock information**

PFTS ticker	HMON
Bloomberg ticker	HMON UZ
Market price, USD	0.42
Shares outstanding, mln	135
Market cap, USD m	57
EV, USD m	49
Free float estimate, USD m	6.4
Av. daily turnover 12M, USD m	0.01
Price Lo/Hi12M, USD	0.03/0.66
Price change 12M	(36%)

** at current UAH/USD rate 8.04

Price performance, UAH



Source: PFTS

Ownership structure

National Energy Company of Ukraine	70.0%
VS Energy	18.8%
Free float estimate	11.2%

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	638	83	30	13.0%	4.69%	15.3	0.72	4.69	15	0.44	11%	0%
2009e	648	86	30	13.3%	4.59%	15.4	0.71	4.54	(67)	0.43	10%	0%
2010f	838	126	52	15.0%	6.21%	8.79	0.55	3.10	(125)	0.43	15%	3%
2011f	1,011	165	74	16.4%	7.33%	6.17	0.45	2.36	(132)	0.40	18%	4%
2012f	1,182	208	98	17.6%	8.26%	4.69	0.39	1.87	(162)	0.37	21%	5%
2013f	1,381	259	125	18.7%	9.03%	3.67	0.33	1.51	(220)	0.38	22%	7%

BUY

Target price, USD*	**0.80**
Upside (Downside)	**186%**

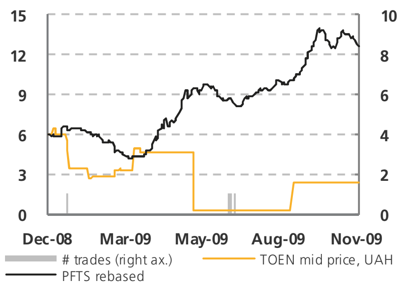
* *at 1yr forward UAH/USD rate 8.50*

Stock information**

PFTS ticker	TOEN
Bloomberg ticker	TOEN UZ
Market price, USD	0.28
Shares outstanding, mln	61.1
Market cap, USD m	17
EV, USD m	19
Free float estimate, USD m	1.53
Av. daily turnover 12M, USD m	0.04
Price Lo/Hi12M, USD	0.03/0.81
Price change 12M	(62%)

** *at current UAH/USD rate 8.04*

Price performance, UAH



Source: PFTS

Ownership structure

National Energy Company of Ukraine	50.9%
Energy Standard group	40.1%
Free float estimate	9.0%

Ternopiloblenergo

Company profile

The state-owned Ternopiloblenergo (TOEN) is an electricity distribution company operating in western Ukraine. The Company covers a territory of more than 13,000 sq km with a population of 1,139 thd and owns 24,500 km long aerial electricity lines. Ternopiloblenergo supplies its largest share of electricity, 29%, to industrial consumers while household consumers account for 25% of the total electricity supplied and the agricultural sector for 9%.

Key drivers

Healthy growth in profit margins in 2009 should continue in 2010. Ternopiloblenergo's EBITDA in 2009 should grow by 42%, outperforming the 2009e EBITDA growth in the industry, which should be at 7%-14%. This should occur due to a decrease in TOEN's grid losses by 1.03 p.p. over the normative decrease in 2009. The Company's net income should come out of the red and amount to UAH 25m in 2009. We expect that the growth in the Company's EBITDA and net income in 2010 will take place in stride with the growth of the Company's investment program, with their respective expansions at 7% and 15%.

The bottom line should grow further in 2011-14 on the back of operational and regulatory improvements. Supported by the introduction of RAB tariffs in 2011, the growth of Ternopiloblenergo's EBITDA should amount to 28% annually on average in 2011-14 raising EBITDA margin to 23% in 2014. Further reduction of the grid losses from 17.1% in 2009 to 11.2% in 2014 should facilitate the growth of the bottom line.

Consolidation of TOEN's over 90% by the Energy Standard group should bring operational improvements. According to our estimates, the Energy Standard group, which is affiliated with Mr. Grigorishin, owns over 40% of Ternopiloblenergo. We expect that once the Company's 51% state-owned stake is put up for privatization in 2010-11, Energy Standard will be the most interested party and will likely purchase the stake since this will allow the Group to accumulate a supermajority interest. Based on the operational performance of Ukraine's privately-owned oblenergos vs. ones that are state-owned, we expect that the privatization will result in improvements in Ternopiloblenergo's operations.

Recommendation

The stock trades at 31%-58% discounts to international peers on 2009e-14f EV/EBITDA. Our DCF valuation indicates a USD 0.80 target price which implies a 2010 EV/EBITDA of 6.8. Ternopiloblenergo's low PEG of 0.16 supports the 186% stock price upside and our BUY recommendation.

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	356	42	(6)	11.9%	(1.68%)	n.m.	0.39	3.64	9	0.31	n.m.	0%
2009e	385	60	25	15.6%	6.58%	5.43	0.36	2.57	17	0.31	6%	0%
2010f	500	64	29	12.8%	5.81%	4.73	0.28	2.41	19	0.28	6%	5%
2011f	542	88	35	16.2%	6.40%	3.96	0.25	1.75	37	0.27	7%	6%
2012f	561	94	47	16.8%	8.41%	2.91	0.25	1.64	40	0.26	9%	9%
2013f	637	133	76	20.9%	11.9%	1.81	0.22	1.15	36	0.33	13%	14%

Cherkasyoblenergo

BUY

Target price, USD*	0.59
Upside (Downside)	58%

* at 1yr forward UAH/USD rate 8.50

Profile: The state-owned Cherkasyoblenergo (CHON) distributes and supplies electricity in the central Ukrainian Cherkasy region, which has a population of 1.3 mln. The Company covers more than 20,900 sq km and has 37,800 km in aerial electricity lines.

The Company's EBITDA should rise by 15% in 2010 on the growth of the investment program. We expect that the Company's EBITDA will grow in line with the expected industry average, by 15% in 2010, following the growth of the Company's investment program, approved by the NERC. The introduction of RAB-based tariffs should positively influence the growth of CHON's EBITDA, which we expect will amount to 27% CAGR in 2011-14.

BUY with 58% upside. Our DCF valuation model indicates a USD 0.59 target price, which implies a lower-than-average for the sector 2010 EV/EBITDA of 6.2. We issue a BUY recommendation for the stock with a 58% upside potential.

Stock information**	
PFTS ticker	CHON
Bloomberg ticker	CHON UZ
Market price, USD	0.37
Shares outstanding, mln	148
Market cap, USDm	55
EV, USDm	53
Free float estimate, USDm	2.14
Av. daily turnover 12M, USDm	0.48
Price Lo/Hi12M, USD	0.28/0.84
Price change 12M	129%

** at current UAH/USD rate 8.04

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	705	97	50	13.7%	7.11%	8.88	0.63	4.44	(0)	0.56	28%	0%
2009e	777	97	46	12.4%	5.87%	9.76	0.57	4.45	(15)	0.52	20%	0%
2010f	918	111	55	12.1%	5.96%	8.14	0.48	3.86	(56)	0.48	20%	3%
2011f	1,080	135	68	12.5%	6.32%	6.53	0.41	3.19	(57)	0.46	21%	4%
2012f	1,221	172	90	14.1%	7.39%	4.93	0.36	2.50	(62)	0.42	23%	5%
2013f	1,344	202	108	15.1%	8.02%	4.13	0.33	2.12	(126)	0.40	23%	6%

Kirovogradoblenergo

BUY

Target price, USD*	0.61
Upside (Downside)	68%

* at 1yr forward UAH/USD rate 8.50

Profile: Kirovogradoblenergo (KION) is an electricity distribution company operating in central Ukraine. The Company supplies more than 1 mln residential consumers through its 34,000 km of aerial electricity lines. The major shareholder is the VS Energy group, which holds a 94% stake.

A reduction in the Company's grid losses should raise its EBITDA by 27% in 2010. Kirovogradoblenergo's EBITDA should grow by 27% in 2010, driven by a reduction of electricity grid losses, from 12% in 2009 to 11.5%. The further reduction of electricity grid losses below the NERC normative level should continue supporting the Company's EBITDA growth by 29% annually, on average, in 2011-14.

BUY with 68% upside. Our DCF valuation brings a target price of USD 0.59, implying a 2010f EV/EBITDA of 7.2. The expected 5% dividend yield for 2009, which should be paid in 2010, results in an increase in the target price to USD 0.61. This implies a total return on the stock of 68% and supports our BUY recommendation.

Stock information**	
PFTS ticker	KION
Bloomberg ticker	KION UZ
Market price, USD	0.36
Shares outstanding, mln	119
Market cap, USDm	43
EV, USDm	38
Free float estimate, USDm	2.35
Av. daily turnover 12M, USDm	0.06
Price Lo/Hi12M, USD	0.01/0.62
Price change 12M	(79%)

** at current UAH/USD rate 8.04

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	531	24	1	4.43%	0.24%	271	0.65	13.0	0	0.61	0%	5%
2009e	539	61	18	11.4%	3.3%	19.3	0.64	4.97	(41)	0.53	5%	5%
2010f	648	78	29	12.0%	4.5%	11.8	0.53	3.93	(42)	0.51	7%	8%
2011f	766	99	45	12.9%	5.8%	7.75	0.45	3.08	(46)	0.49	10%	12%
2012f	857	132	68	15.4%	8.0%	5.08	0.40	2.32	(46)	0.44	13%	19%
2013f	912	173	98	19.0%	10.8%	3.52	0.38	1.77	(47)	0.53	16%	27%

BUY

Target price, USD*	2.13
Upside (Downside)	68%

** at 1yr forward UAH/USD rate 8.50*

Stock information**	
PFTS ticker	SMEN
Bloomberg ticker	SMEN UZ
Market price, USD	1.27
Shares outstanding, mln	26.9
Market cap, USDm	34
EV, USDm	27
Free float estimate, USDm	1.63
Av. daily turnover 12M, USDm	0.01
Price Lo/Hi12M, USD	0.40/1.80
Price change 12M	(11%)

*** at current UAH/USD rate 8.04*

Sevastopolenergo

Profile: Sevastopolenergo (SMEN) is an electricity distribution company in the city of Sevastopol, in the Crimean peninsula. The Company serves an area with an urban population of 350 thd. SMEN was fully privatized in 2001, with the VS Energy group now holding over 95% of the Company.

Expected robust profit growth in 2010-14. Sevastopolenergo's preferential distribution and supply tariffs, established by the NERC in 2001, ensure a steady return on the Company's invested capital. We estimate that the Company's 2009 EBITDA rose by 21%. In the period 2010-14, its EBITDA should continue growing by 24% CAGR, mainly due to the reduction of the electricity grid losses.

BUY with 68% upside. Our DCF-derived target price of USD 2.04 implies a 2010 EV/EBITDA of 7.1. The expected 7% 2010 dividend yield brings the target price to USD 2.13 supporting our BUY recommendation with the total 68% upside.

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	343	38	19	10.9%	5.57%	14.4	0.80	5.81	(14)	0.85	30%	7%
2009e	414	45	25	11.0%	6.14%	10.8	0.66	4.80	(56)	0.80	28%	7%
2010f	492	57	33	11.7%	6.75%	8.27	0.56	3.80	(62)	0.76	29%	9%
2011f	526	64	37	12.1%	6.98%	7.46	0.52	3.43	(40)	0.71	26%	10%
2012f	568	76	44	13.4%	7.77%	6.22	0.48	2.86	(14)	0.67	25%	12%
2013f	607	101	60	16.6%	9.81%	4.60	0.45	2.16	(52)	0.56	27%	16%

BUY

Target price, USD*	0.52
Upside (Downside)	53%

** at 1yr forward UAH/USD rate 8.50*

Stock information**	
PFTS ticker	ZHEN
Bloomberg ticker	ZHEN UZ
Market price, USD	0.34
Shares outstanding, mln	122
Market cap, USDm	41
EV, USDm	42
Free float estimate, USDm	3.42
Av. daily turnover 12M, USDm	0.02
Price Lo/Hi12M, USD	0.10/0.60
Price change 12M	(44%)

*** at current UAH/USD rate 8.04*

Zhytomyroblenergo

Profile: Zhytomyroblenergo (ZHEN) is an electricity distribution company operating in central Ukraine. The Company delivers over 1% of the total electricity in Ukraine, covering a territory of over 30,000 sq km and with 37,000 km in electricity lines. ZHEN is 92% owned by the VS Energy group.

Expected 26% growth of 2010 EBITDA and a positive outlook for 2011-14. In line with our forecast, as one of the six oblenergos which enjoy preferential tariffs, Zhytomyroblenergo did not experience tariff cuts in 2009. We expect that the Company will continue benefiting from its preferential tariff, which should lead to an increase in the EBITDA by 26% in 2010 and support further EBITDA growth by 29% CAGR in 2011-14.

BUY with 53% upside. The stock's DCF-derived target price provides a 53% upside and implies a 2010 EV/EBITDA of 7.7. Zhytomyroblenergo's PEG of 0.51 justifies our BUY recommendation.

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	705	6	(39)	0.79%	(5.5%)	n.m.	0.47	60.3	32	0.28	n.m.	0%
2009e	739	56	10	7.62%	1.36%	32.9	0.45	5.97	6	0.25	1%	0%
2010f	807	71	21	8.80%	2.58%	15.9	0.41	4.74	10	0.22	3%	2%
2011f	887	90	35	10.2%	3.95%	9.42	0.37	3.73	9	0.18	4%	3%
2012f	1,007	127	62	12.6%	6.19%	5.30	0.33	2.65	8	0.13	7%	5%
2013f	1,172	152	81	13.0%	6.89%	4.10	0.28	2.21	7	0.07	8%	6%

Equity

Machinery

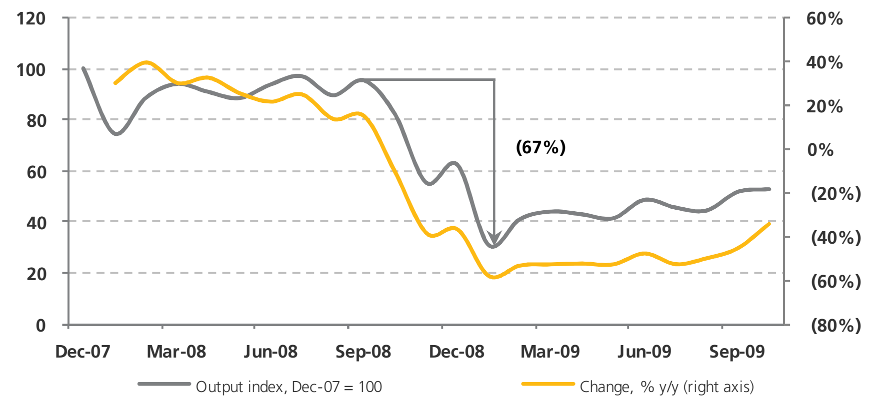
astrum
investment management

Machinery

After weak 9M09, machinery output improved in 4Q09, however still posted an estimated 45% drop in FY09.

Machinery in 2009: back to 2004. The output of the Ukrainian machine building saw a bottom in January'09 when it dropped by 67% as compared to September'08, the last pre-crisis month for this industry. In February'09, machine building output grew 22% m/m due to the seasonal factors and remained largely flat in March-August'09. In September, the output jumped 16% m/m and we expect that it will grow by 17% q/q in 4Q09 on the back of the recovery of the CIS economies. Economic recovery should lead to the gradual inflow of orders for machinery equipment that were delayed as a result of the crisis. However, the Ukrainian machinery output should still drop 45% in FY09, which should bring the industry to the output levels seen five years ago, in 2004.

Machinery monthly output



Source: State Statistics Committee

Dramatic output drop of cars, buses and railcars in 2009 was softened by better dynamics in Ukrainian shipbuilding output. Transport machinery should drop by 64% in 2009.

Transport machinery: the laggard of 2009. We estimate that the greatest output decline among machinery segments in 2009 was posted by transport machinery, which demonstrated the highest growth rates over in 2000-08. Output of cars, buses, trucks and railcars plummeted by 80%-90% y/y in 9M09. In particular, Kryukiv Railcar's freight railcar output dropped by 72% in 9M09. Such a significant drop in output in the domestic transport machinery segment was caused by a decline in Ukrainians' purchasing power, and diminished activity on the part of the construction and ore mining industries in the CIS in 2009. However, this lamentable situation for domestic transport machinery should be softened by better dynamics in Ukrainian shipbuilding output. Strong order books and long-term nature of contracts resulted in only 23.5% drop of domestic shipbuilding output in 9M09. Overall, we estimate the drop in Ukrainian transport machinery output in 2009 at 64%.

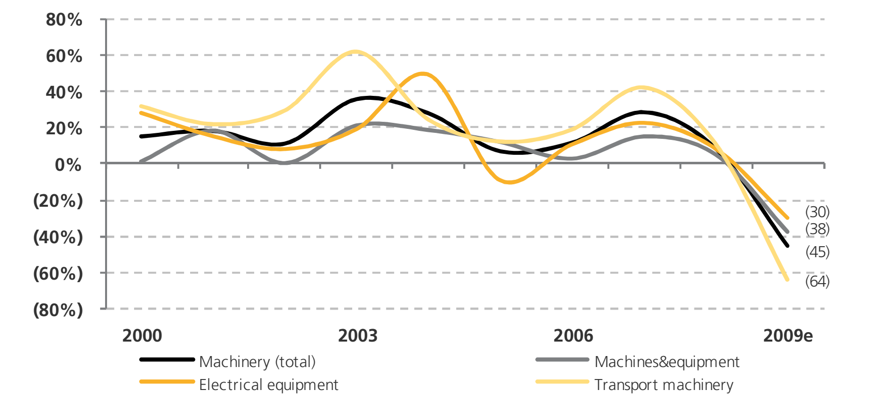
We estimate that machines&equipment output dropped 38% in 2009.

Engines and turbines felt well in 2009. We estimate that, in 2009, machines&equipment production in Ukraine posted better than average performance in the machinery sector. In particular, engines and turbines segments did quite well. We estimate that helicopter and aircraft engine maker Motor Sich's 2009 output grew by 17% in 2009 on the back of growing orders from the CIS and Asia. Long-term contracts, solid order books, and the diversification of external sales markets should result in output growth at Turboatom by up to 8%, while the output at Sumy Frunze should decline by just 7%. Overall, accounting for home appliances, which should decline by up to 30%, and cranes, machine-tools and agricultural machinery, which should drop by 70%, the total machines&equipment output should drop 38% in 2009.

The smallest output decline among the machinery segments in 2009 should be for electrical equipment segment, with production 30% down.

Electrical equipment did better than average in 2009. We believe that, on 2009, the electrical equipment segment demonstrated the smallest output decline among the Ukrainian machine building segments. Domestic output of transformers, with Zaporizhtransformator (ZATR: N/R) as its prominent representative, should drop by just 20% in 2009, while the output of electric motors, generators and cable-insulation products should decrease by 34%. As a result, electrical equipment output in total should drop by 30% in 2009.

Machinery segments' output, change y/y

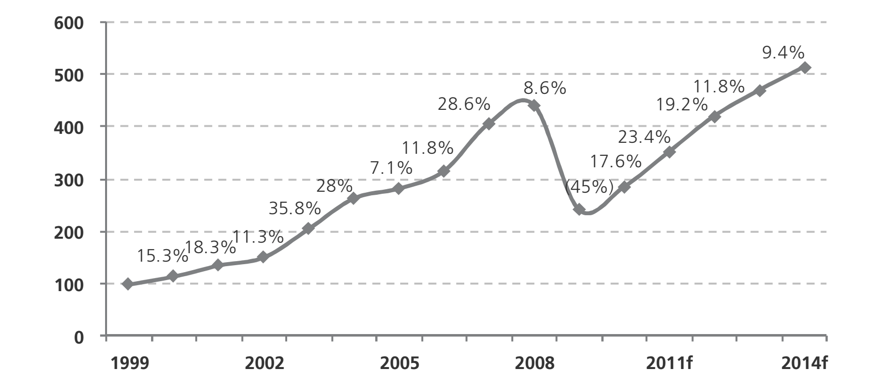


Source: State Statistics Committee, Astrum estimates

Economic recovery should support the growth of Ukrainian machinery output by 16% CAGR in 2010-14.

Strong growth on the horizon. After the decline in 2009, the domestic machinery should recover further on. We expect that the machinery in 2010 will recover gradually and raise its output by 17.6% mostly due to the low baseline effect. Economic recovery and the restoration of lending in 2011-12 should raise Ukrainian machinery output by 19%-23% in 2011-12. As a result, in 2012, Ukrainian machinery output should return to the level seen in 2007. In 2013-14, we expect a more modest but still significant machinery output growth, by 9%-12% annually.

Machinery output (1999 = 100) and its annual change



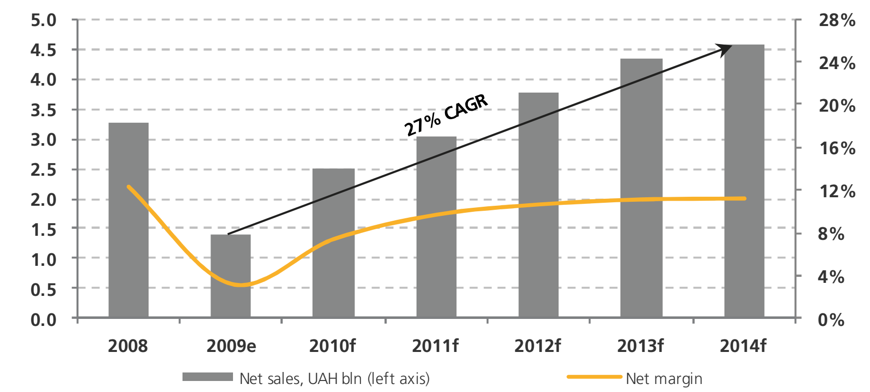
Source: State Statistics Committee, Astrum estimates

Freight railcars output in Ukraine should rise by 23% CAGR in 2010-14.

Railcar segment should be one of growth leaders. Growth in the metals and mining, as well as construction industries in the CIS in 2010-14, along with increased transit transportation from Asia to Europe should drive railway freight turnover in the CIS by 4% CAGR over the next five years. Nevertheless, the improvement of railway transport activity in 2010 should not be enough to eliminate the railcars surplus in the CIS, which appeared after traffic fell heavily in 2009. As a result, the core driver for orders of new freight railcars in 2010 should be the renovation of 80% deteriorated rolling stock of CIS railway monopolies that operate up to 60% of total railcar fleet at the region. The growth of railway transportation in 2011-14 should be supported by railcar fleet expansion in the CIS. Such demand, coupled with the necessity for renovating the CIS railcar fleets, should be the main driver of orders for new freight railcars in 2011-14. In total, we expect a 21% CAGR for the CIS freight railcar market in 2010-14 and 23% CAGR of railcars output in Ukraine due to the gradual restoration of the CIS market share of Ukraine's railcar makers.

Orders for passenger railcars should be primarily driven by the necessity to replace that part of the CIS fleet that needs to be written off over the next five years. In that period, Ukraine's only producer of new passenger railcars, Kryukiv Railcar, has strong chances of receiving orders for passenger railcars from the Ukrainian railway monopoly, Ukrzaliznytsia (UZ). However, in 2009, UZ did not place any orders for passenger railcars due to a lack of financial resources. The restructuring of Ukrzaliznytsia's debt in 2009-10 and the reform of the monopoly, which we expect in 2010-14, should drive orders for up to 700 new passenger railcars from KVBZ in those years. On the back of growing orders for freight and passenger railcars, KVBZ's net sales should grow by 27% CAGR in 2010-14.

KVBZ's financials

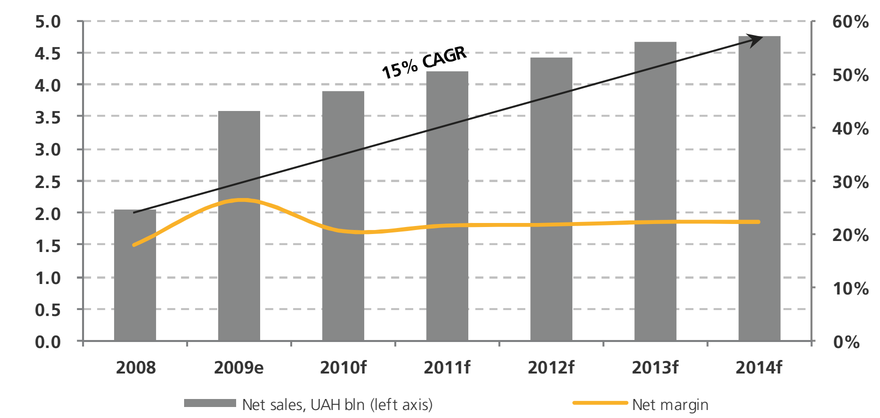


Source: Company data, Astrum estimates

Growing aircraft and helicopters output in Russia and Asia should drive MSICH's net sales up by 15% CAGR in 2009-14.

Aviation engines output should enjoy stable growth. The production and maintenance of aviation engines in Ukraine in 2010-14 should be mainly driven by growing aircraft and helicopters output in Russia and Asia. Even in 2009, Russia enjoyed strong demand for its helicopters on the domestic and global markets, which we believe will remain the case over next five years with main markets being CIS, China, India, Europe and Africa. Motor Sich's (MSICH: BUY) monopoly position as a serial producer of engines for medium and heavy helicopters in the CIS should drive growth of orders for its helicopter engines. The growth of orders for MSICH aircraft engines should be driven by implementation of An-148 and Yak-130 projects in Russia and of L-15 project in China. As a result, MSICH's net sales should grow by 15% CAGR in 2009-14, supported also by the stable global demand for engine maintenance.

MSICH's financials

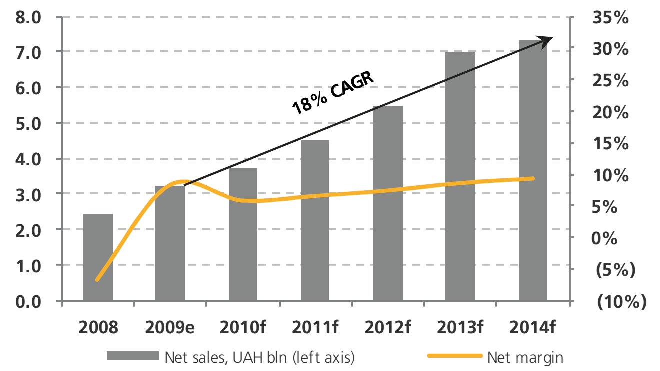


Source: Company data, Astrum estimates

Modernization and expansion of energy infrastructure in the CIS and Asia should secure 15% and 18% CAGR of TATM and SMASH net sales in 2009-14.

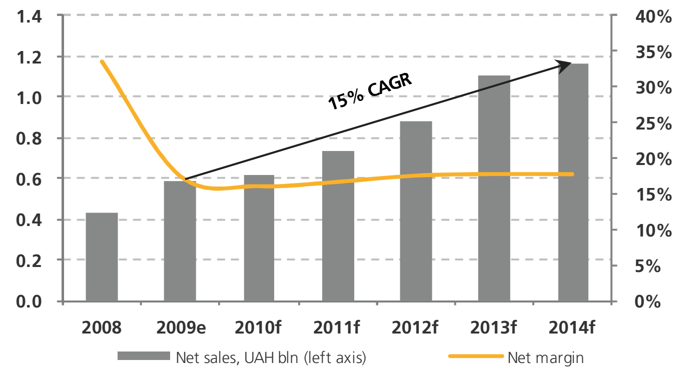
Energy equipment: upbeat forecast. Energy machinery output in Ukraine is driven by orders for the modernization and expansion of oil&gas and electricity infrastructure in the CIS and Asia. The expected resurgence in global consumption of oil&gas in 2010-14 should drive the development of new fields and the construction of new oil and gas pipelines. This, along with demand for the modernization of existing oil&gas infrastructure in the CIS and Asia, should drive Sumy Frunze's net sales by 18% CAGR in 2010-14. The global growth of electricity consumption and deterioration of generation capacities in the CIS, Asia and Latin America should raise demand for Turboatom's turbines and other equipment. As a result, the Company's net sales should grow by 15% CAGR in 2010-14.

SMASH's financials



Source: Company data, Astrum estimates

TATM's financials

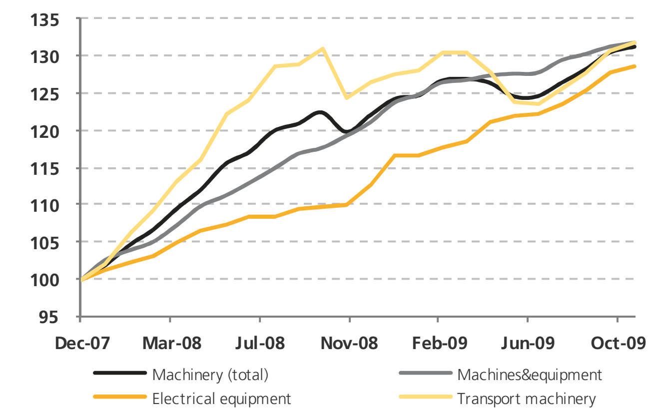


Source: Company data, Astrum estimates

Growing prices should support machinery makers net sales. On the back of the hryvnia devaluation, the producer prices in the Ukrainian machinery grew 7.5% YTD in November'09 despite the sharp drop in demand. Temporary price drop occurred only for transport machinery, the segment that experienced the biggest drop in demand in 2009. Consequently, in 2009, net sales of Ukrainian machinery, on the whole, should undergo less of a drop than should output – 38% vs. 45%, respectively. We expect that prices for Ukrainian machinery will keep growing in 2010-14. This should result in the growth of net sales of domestic machinery by 20% CAGR in 2010-14, compared to 16% CAGR for machinery output over this period.

The net sales growth of domestic machinery should outride the output growth over 2010-14 on the back of steadily growing prices.

Producer prices in machinery, Dec'07 = 100



Source: State Statistics Committee

Growth in machinery, %

Source: State Statistics Committee, Astrum estimates

Motor Sich

BUY

Target price, USD*	**292**
Upside (Downside)	**48%**

** at 1yr forward UAH/USD rate 8.50*

Company profile

Motor Sich (MSICH) is the largest CIS producer of engines for aircrafts, helicopters and cruise missiles. Brand new engines account for 50% of the Company's output. The Company also provides engine repair and maintenance services, which account for 27% of the output, and makes energy equipment – gas pumping units and electricity generators (14%). MSICH exports 90% of its output, of which up to 60% traditionally goes to Russia.

Key drivers

Growth of aircraft and helicopter output in Russia and China should drive demand for MSICH's engines in 2009-14. To meet the demand for helicopters on both internal and external markets, Russia plans to boost its annual helicopter output by 17% CAGR in 2010-15 to 500 units in 2015. MSICH's monopoly position as a serial producer of engines for medium and heavy helicopters in the CIS should allow it to benefit from the strong demand for helicopter engines. We expect that MSICH's output of new helicopter engines will grow by 5% CAGR in 2009-14. Among passenger aircrafts, we expect that An-148 regional aircraft will generate the highest demand for MSICH engines. There are currently over 100 contracts for An-148 and we expect that the total number of contracts for An-148 in 2009-14 will reach 150. The number of contracts for Russian and Chinese combat-training jets Yak-130 and L-15, which also use MSICH's engines, should reach up to 400 until 2015.

Repair and maintenance of engines should help drive MSICH's net sales up. Currently, over 5,000 Russian helicopters used globally are in total deteriorated by more than 50%. Thus, we expect stable demand for MSICH's repair and maintenance services for Russian helicopter engines in 2009-14. The launch of MSICH's production and repairs facility in Russia in 2010 should secure the Company's position on that market, enabling it to receive stable orders for helicopter engine repairs over the next five years. The market for repairs of Soviet-made aircraft engines is also promising. Recently, the Company signed the contract to modernize engines for India's An-32 worth USD 200m. Another significant Asian customer for the repair services offered by MSICH is China, with its 300-strong fleet of K-8J aircraft. Motor Sich signed the contract for their modernization in 2008.

Profits to remain strong in 2010-14. Growing orders, selling prices fixed in USD, and the UAH devaluation should result in a stunning 75% increase in MSICH's 2009 net sales. Better cost management, in particular for raw materials, should allow the Company recover its profitability. The 2009 net margin should rise to 14% and the EBITDA margin to 26.5%. The margins should subside in 2010-14 as the Company will hardly any longer enjoy such a favorable disparity between the growth of selling prices and prices for raw materials in UAH terms. Still, driven by the growth of the net sales by 5.8% CAGR in 2010-14, the Company's EBITDA should rise by 2.2% CAGR and the net income by 3.1% CAGR over the period.

Recommendation

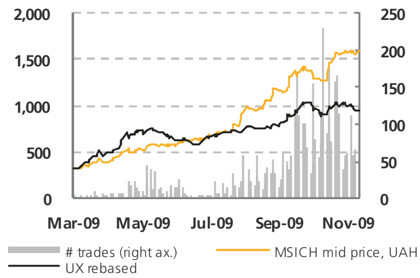
MSICH trades at a 21% discount on 2009e EV/EBITDA to the global peers median, which is at 5.2. We expect that on 2010 EV/EBITDA in 12M MSICH will trade in line with peers historic average EV/EBITDA of 7.2 that implies a 48% price upside in USD. Our DCF model brings the same upside for MSICH. As a result, we reiterate our BUY recommendation for the stock.

Stock information**

UX ticker	MSICH
Bloomberg ticker	MSICH UK
Market price, USD	197
Shares outstanding, mln	2.08
Market cap, USD m	408
EV, USD m	486
Free float estimate, USD m	52
Av. daily turnover 8M, USD m	0.09
Price Lo/Hi 8M, USD	40.2/198.5
Price change 8M	393%

*** at current UAH/USD rate 8.04; performance since start of trading on the UX*

Price performance, UAH



Source: UX

Ownership structure

V. Bohuslayev	15.0%
Bartens Alliance Ltd.	9.7%
Finance and Credit Bank	5.7%
Management	46.0%
Free float estimate	23.6%

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	2,047	365	3.84	17.85%	0.19%	854.3	1.60	10.69	609	0.49	0.23%	0.00%
2009e	3,583	949	501	26.50%	13.98%	6.55	0.92	4.11	622	0.46	23.73%	1.53%
2010f	3,905	802	394	20.53%	10.09%	8.33	0.84	4.87	693	0.45	15.8%	1.80%
2011f	4,218	910	458	21.58%	10.86%	7.16	0.78	4.29	717	0.41	15.6%	2.79%
2012f	4,429	964	497	21.76%	11.23%	6.60	0.74	4.05	787	0.39	15.0%	3.79%
2013f	4,650	1,036	558	22.28%	12.00%	5.89	0.71	3.77	674	0.35	14.8%	5.10%

BUY

Target price, USD*	**0.717**
Upside (Downside)	**28%**

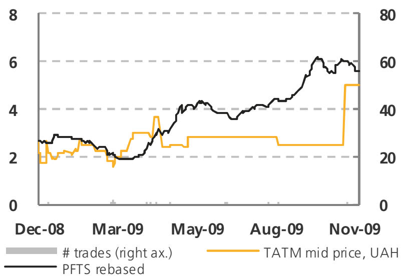
** at 1yr forward UAH/USD rate 8.50*

Stock information**

PFTS ticker	TATM
Bloomberg ticker	TATM UZ
Market price, USD	0.560
Shares outstanding, mln	422
Market cap, USD m	236
EV, USD m	227
Free float estimate, USD m	30.2
Av. daily turnover 12M, USD m	0.006
Price Lo/Hi12M, USD	0.5/0.5
Price change 12M	117%

*** at current UAH/USD rate 8.04*

Price performance, UAH



Source: PFTS

Ownership structure

State Property Fund	75.2%
Svarog Asset Management	12.0%
Free float estimate	12.8%

Turboatom

Company profile

Turboatom (TATM) is one of the world's largest producers of turbines for hydro, thermal and nuclear power plants, as well as other equipment for power generation. The Company ranks fourth globally in terms of the number of NPP turbines produced (160 so far) with a 13% share in the overall global market. Exports generate 75% of the Company's net sales.

Key drivers

Strong order book should secure stable output for TATM in 2010. Demand for Ukrainian-made generation equipment has suffered less from the global crisis than has been the case for other types of machinery. As a result, in 4Q09, TATM had an order book equaling UAH 1.5bln, 21% up from December 2008. In 2010, TATM should deliver over 80% of its equipment to clients in Ukraine, Russia, Asia and Middle East. At the same time, we expect TATM to encounter a decline in orders from Russia in 2010 on the back of stagnation in Russian electricity consumption in 2010 following an expected 9% drop in 2009. Fewer Russian orders, which usually generate up to 30% of TATM's net sales, should be compensated by more orders from growing Asian and Middle East regions. We expect that TATM's 2010 net sales will grow by 5% to UAH 614m.

Economic recovery and deterioration of generating capacity in the CIS should drive demand for TATM's equipment in 2011-14. The global economy should begin to grow in 2010, with Asia demonstrating the highest growth rates by 2015. This should drive demand for extended generating capacities in that region already in 2011. TATM's successful track record in Asia and its cooperation with two global leaders in the generating equipment industry, Skoda Power and Siemens, should secure the Company's participation in Asian electricity projects. The modernization of highly-deteriorated generating capacity should be the main driver of TATM's orders in the CIS by 2015. In particular, the equipment at Ukrainian thermal power plants should expire in 5-7 years and should be totally modernized by 2015. There is a similar situation in Russia and other CIS countries. TATM's strong position in the CIS should secure the Company's participation in modernization projects in the region. As a result, we expect that TATM's net sales will grow by 17% CAGR in 2011-14.

Turboatom's net income should grow 15% CAGR in 2010-14. The hryvnia devaluation and gains through currency conversion highly influenced TATM's 2008 net income, which grew by 317% to UAH 145m. On the back of stable operating income in 2009-10, the lower impact of the hryvnia's devaluation in 2009 and its stabilization in 2010 should result in a decline in TATM's net income to UAH 102m and 99m, respectively. TATM's top line growth in 2011-14 should drive its net income up by 20% CAGR over this period.

Recommendation

We believe that consistently high TATM's EBITDA and in particular net margins were the reason why the stock in 2H05-1H08 traded at the average premium of 30% to its peers median on trailing EV/EBITDA. Currently the stock trades at 2009e EV/EBITDA of 12.95, in line with the global peer median. We expect that in 12M TATM will restore its 30% premium on trailing EV/EBITDA to the peers historic average level of 14. This implies 28% stock price upside for TATM in USD and makes us reiterate or BUY recommendation for the stock.

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	433	138	145	32.0%	33.6%	13.1	4.39	13.17	(64.5)	0.30	6.38%	2.68%
2009e	585	141	102	24.1%	17.5%	18.6	3.25	12.95	(77.1)	0.31	6.38%	1.88%
2010f	614	138	99	22.4%	16.1%	19.3	3.10	13.27	(73.6)	0.31	9.36%	2.07%
2011f	737	166	123	22.6%	16.7%	15.5	2.58	10.96	(94.0)	0.31	10.93%	3.23%
2012f	884	202	155	22.8%	17.6%	12.3	2.15	9.05	(110.1)	0.30	12.66%	4.90%
2013f	1,105	252	196	22.8%	17.8%	9.7	1.72	7.24	(116.8)	0.33	15.22%	6.20%

Kryukiv Railcar

BUY

Target price, USD*	**2.84**
Upside (Downside)	**27%**

* at 1yr forward UAH/USD rate 8.50

Profile: Kryukiv Railcar is one of the leading freight railcar makers in the CIS with 9% of the CIS market share in 2008. KVBZ is the only Ukrainian producer of new passenger railcars.

The output drop in 2009 is compensated by strong growth in 2010-14. The 18% decline in CIS railway turnover in 2009 should depress demand for new railcars and put pressure on Kryukiv's 2009 results. KVBZ's 2009 railcar output should drop by 55% to just 3,025 railcars, including 3,000 freight cars and 25 passenger cars, leading to a 57% drop in net sales. The recovery of the CIS economy should drive demand for the renovation of the highly obsolete railway stock of this region. As a result, KVBZ's freight railcar output should grow by 18% CAGR in 2010-14, which, along with growing orders for passenger railcars, should support the growth of net sales by 27% CAGR and an increase of EBITDA by 44% CAGR.

The forecast growth justifies higher multiples. As a benchmark, we take the average historic peer EV/EBITDA level at 8. We expect that, in 12M, KVBZ will deserve to trade 10% higher on 2010 EV/EBITDA thanks to its strong growth prospects. This implies USD 2.84 target price estimate that we stick to although our DCF model brings USD 2.87.

Stock information**	
UX ticker	KVBZ
Bloomberg ticker	KVBZ UK
Market price, USD	2.24
Shares outstanding, mln	115
Market cap, USDm	257
EV, USDm	265
Free float estimate, USDm	26.8
Av. daily turnover 8M, USDm	0.01
Price Lo/Hi 8M, USD	1.1/2.4
Price change 8M	73%

*** at current UAH/USD rate 8.04; performance since start of trading on the UX*

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	3,253	596	400	18.3%	12.3%	5.16	0.63	3.58	30.8	0.22	40.7%	2.8%
2009e	1,399	119	46	8.5%	3.3%	45.16	1.48	17.92	65.7	0.23	3.9%	0.0%
2010f	2,517	320	187	12.7%	7.4%	11.03	0.82	6.66	49.9	0.28	15.2%	0.6%
2011f	3,021	459	293	15.2%	9.7%	7.05	0.68	4.64	36.4	0.16	18.1%	6.1%
2012f	3,776	599	402	15.9%	10.6%	5.14	0.55	3.56	(34.7)	0.08	21.6%	13.9%
2013f	4,343	701	482	16.2%	11.1%	4.28	0.48	3.04	(59.8)	0.07	23.8%	15.2%

Sumy Frunze

HOLD

Target price, USD*	**8.49**
Upside (Downside)	**23%**

* at 1yr forward UAH/USD rate 8.50

Profile: Sumy Frunze is one of the largest CIS producers of equipment for the oil&gas and chemical industries. SMASH exports over 90% of its output, oil&gas equipment accounts for more than 70% of its net sales.

Oil&gas equipment sales should raise SMASH's net sales by 18% CAGR in 2010-14. The recovery of the global economy should drive global demand for oil&gas equipment in 2010-14. Good price-to-quality ratio of SMASH's products should help the Company raise its presence, especially in the CIS and Asia. As a result, the Company's net sales should grow by 18% CAGR in 2010-14 accompanied by 14% CAGR of EBITDA. On the back of decreasing interest expense margin SMASH's net income should grow by 21% CAGR in 2010-14.

23% to the target. SMASH's DCF model brings USD 8.40 target price and implies EV/EBITDA 2010 of 10.9. We expect that on the back of the forecast growth of SMASH's EBITDA by 14% CAGR in 2010-14, the stock will trade at a 10% premium to its peers historical average EV/EBITDA of 10 in 12M. This implies USD 8.49 target price and 23% price upside potential for the stock.

Stock information**	
UX ticker	SMASH
Bloomberg ticker	SMASH UK
Market price, USD	6.92
Shares outstanding, mln	71
Market cap, USDm	492
EV, USDm	631
Free float estimate, USDm	81
Av. daily turnover 8M, USDm	0.02
Price Lo/Hi 8M, USD	2.0/7.5
Price change 8M	238%

*** at current UAH/USD rate 8.04; performance since start of trading on the UX*

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	2,460	186	(163)	7.5%	(6.61%)	n.m.	1.61	27.32	1,155	0.77	(24.9%)	0.0%
2009e	3,242	633	269	19.5%	8.29%	14.71	1.22	8.01	1,116	0.68	23.7%	0.0%
2010f	3,731	579	219	15.5%	5.88%	18.04	1.06	8.76	1,243	0.65	17.5%	0.0%
2011f	4,491	719	297	16.0%	6.60%	13.34	0.88	7.05	1,488	0.62	19.8%	2.2%
2012f	5,467	881	407	16.1%	7.45%	9.71	0.72	5.76	1,732	0.60	22.6%	4.1%
2013f	6,980	1,126	602	16.1%	8.63%	6.57	0.57	4.50	1,666	0.58	27.2%	6.9%

Equity

Metals & mining / Coke

astrum investment management

Coke

Ukraine's coke makers are able to produce 23 mln tonnes of coke p.a. while the domestic coke consumption should not exceed 21 mln tonnes in 2010-14.

Ukraine's coke making capacity is sufficient to fully meet domestic demand. The Ukrainian coke industry consists of 14 coke by-product plants, which are controlled by six of the seven metallurgical groups operating in Ukraine. The seventh group, Illich Stal, leases coke batteries from Yasynivka Coke. Metinvest, Evraz and Donetskstal sell some coke outside, while IUD, ArcelorMittal and Midland consume all the coke they produce. In total, Ukrainian coke makers own up to 58 coke batteries and are able to produce 23 mln tonnes of coke annually. Considering that we expect that domestic annual coke consumption will not exceed 21 mln tonnes until 2014, Ukraine is so far self-sufficient in terms of coke making capacities.

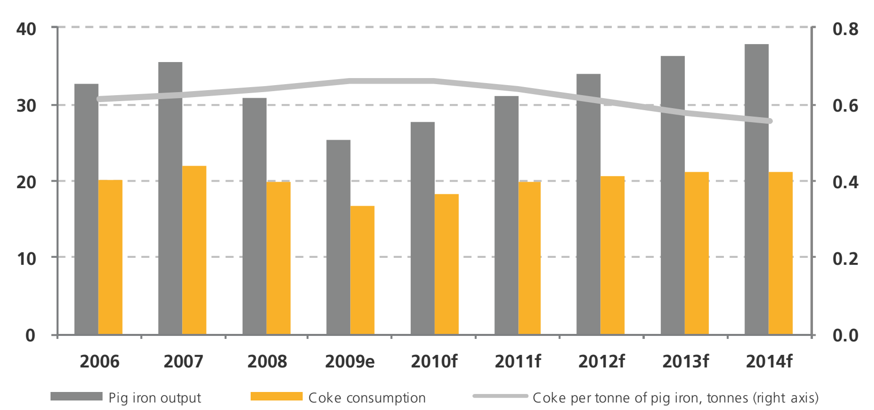
Ukraine's 2009e coke output performed better than pig iron output. In 2009, the devaluation of the hryvnia by 35% caused a dramatic drop in coke imports, by up to 90%. At the same time, the hike in natural gas price for steelmakers, which we estimate at 14% in USD terms, resulted in its partial replacement with coke in the process of producing pig iron. The growth of the metallurgical coke-to-pig iron ratio by 8% to 0.58 in 2009 softened the drop in Ukrainian coke output to 11%, which compares to the 18% drop in domestic pig iron output.

Driven by domestic steelmakers' modernization, coke usage per tonne of pig iron should drop in 2010-14... We expect that ArcelorMittal Kryvyi Rih, Dzerzhynskyi Steel and Petrovskyi Steel will increase their use of coke per tonne of pig iron by as much as 3% in 2010 in attempts to cut back on their consumption of natural gas, whose price for steelmakers in USD terms will grow by 25%. In 2010, the industry-average coke usage ratio should remain flat due to the wider use of pulverized coal injection (PCI) technology at Alchevsk Steel and its launch by Zaporizhstal and Mariupol Illich. In 2014, the industry-average coke usage ratio should be 16% lower than in 2009 due to the completion of introduction of PCI technology at Alchevsk Steel, Zaporizhstal, and Mariupol Illich in 2011-12, and its launch by other large domestic steelmakers in 2012-13.

Despite the expected decrease in coke usage per tonne of pig iron, domestic coke consumption should grow by 4.8% CAGR in 2010-14 on the accelerated growth of pig iron output.

...nevertheless, coke consumption should expand due to strong growth of pig iron output. Pig iron output in Ukraine should grow by 8.4% CAGR in 2010-14 to reach 37.9 mln tonnes in 2014. In this period, growth in pig iron output should outweigh the negative effect of the expected coke usage ratio drop by 3.3% CAGR, and consumption of gross, 6% wet coke (hereon "coke") should grow by 4.8% CAGR to reach 21.2 mln tonnes in 2014.

Ukraine's pig iron output and coke consumption, mln tonnes



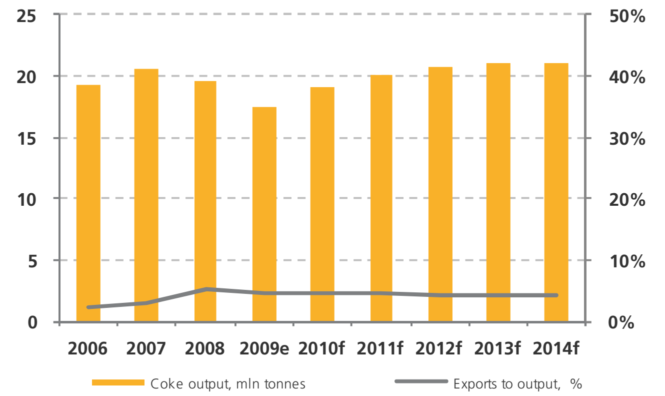
Source: Metal-Courier, Astrum estimates

In 2010-14, coke output in Ukraine should grow by 4% CAGR.

Probable interruptions in coal supplies in 2010-14 weigh on coke output growth. On the background of coke consumption growth by 4.8% CAGR in 2010-14, domestic coke output should grow by 4.0% CAGR to reach 21.1 mln tonnes in 2014. This difference in growth rates owes to probable coking coal shortages in the domestic coke industry. As a result, coke imports should grow by 50% CAGR in 2010-14 to 1.0 mln tonnes in 2014 while domestic coke sales and exports should grow by 4% CAGR and by 2% CAGR respectively.

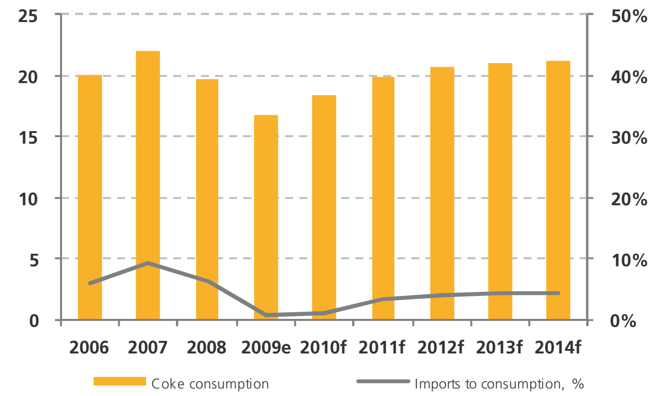
Avdiivka Coke and Yasynivka Coke should post above-average output growth. Avdiivka Coke sources coal mainly from related Krasnodon Coal and United Coal, while Yasynivka Coke gets it from the related Pokrovske Mine. These coke makers' high level of self-sufficiency in coal

Ukraine's coke output and exports' share in output



Source: Metal-Courier, Astrum estimates

Coke consumption and imports' share in consumption



Source: Metal-Courier, Astrum estimates

Pig iron output and coke market balance in Ukraine, mln tonnes

	2006	2007	2008	2009e	2010f	2011f	2012f	2013f	2014f
Pig iron output	32.7	35.4	30.8	25.2	27.7	31.0	34.0	36.4	37.9
change, %		*8.3%*	*(13.1%)*	*(18.0%)*	*9.5%*	*12.3%*	*9.4%*	*7.1%*	*4.2%*
Coke consumption	20.0	22.1	19.8	16.7	18.3	19.9	20.7	21.1	21.2
change, %		*10.2%*	*(10.5%)*	*(15.5%)*	*9.8%*	*8.3%*	*4.4%*	*1.8%*	*0.4%*
Coke output	19.2	20.6	19.5	17.4	19.0	20.1	20.8	21.0	21.1
change, %		*7.1%*	*(5.0%)*	*(11.0%)*	*9.5%*	*5.6%*	*3.2%*	*1.4%*	*0.4%*
Coke exports	0.4	0.6	1.0	0.8	0.9	0.9	0.9	0.9	0.9
Coke domestic deliveries	18.8	20.0	18.5	16.6	18.1	19.2	19.9	20.1	20.2
Coke imports	1.2	2.1	1.2	0.1	0.2	0.7	0.9	1.0	1.0

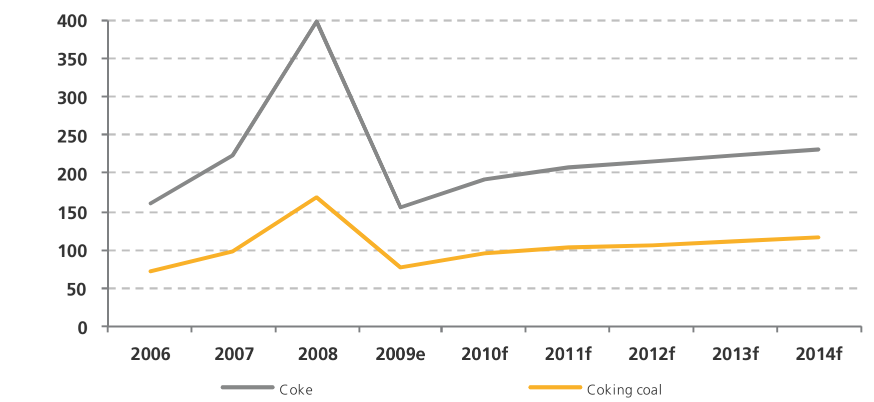
Sources: Metal-Courier, Astrum estimates

and their ability to produce superior quality coke should allow them to boost output at above-average rates. In 2010-14, Avdiivka Coke and Yasynivka Coke should increase output by 6.0% CAGR and 4.1% CAGR respectively thanks to higher demand from traditional clients, other domestic clients such as IUD-owned steelmakers and foreign clients in the Middle East and Asia.

Avdiivka Coke and Yasynivka Coke should boost coke output at higher than average rates thanks to their high level of self-sufficiency in coal supplies.

The market recovery should boost prices. The revival of the coke market in 2010 should result in coke and coal prices growth by 24%-25% to USD 193 and USD 96 per tonne respectively. In 2011-14, these products' prices should grow by 4%-5% CAGR to USD 231 and USD 115 respectively. Given similar dynamics in coke and coal prices and the expected output growth of major coke makers, their EBITDA should jumpstart in 2010 and grow by 5%-12% CAGR in 2011-14.

Domestic prices of coke and coking coal (ex. VAT), USD/tonne



Source: Metal-Courier, Astrum estimates

Yasynivka Coke

BUY

Target price, USD*	**0.565**
Upside (Downside)	**52%**

** at 1yr forward UAH/USD rate 8.50*

Stock information**

UX ticker	YASK
Bloomberg ticker	YASK UK
Market price, USD	0.37
Shares outstanding, mln	274
Market cap, USD m	102
EV, USD m	126
Free float estimate, USD m	9.3
Av. daily turnover 7M, USD m	0.04
Price Lo/Hi 7M, USD	0.1/0.4
Price change 7M	182%

*** at current UAH/USD rate 8.04; performance since start of trading on the UX*

Price performance, UAH

Source: UX

Ownership structure

Donetskstal	90.9%
Free float estimate	9.1%

Company profile

Yasynivka Coke (YASK) is Ukraine's fifth largest coke maker in terms of output. It produces coke of superior quality. Currently, YASK operates three coke batteries with an annual capacity of 1.7 mln tonnes of coke. Up to 70% of YASK's sales are generated by a coal mix sold to Mariupol Illich, which leases two coke batteries from YASK. The remaining 30% come from sales of coke from the third non-leased battery and from sales of chemical by-products. Ukrainian businessman Mr. Nusenkis controls YASK via the Donetskstal Group.

Key drivers

In 2010-14, YASK's output should rise on strong demand for quality coke. We expect that, in 2010-14, Mariupol Illich will continue to load the two leased coke batteries at YASK by up to 99% of their capacity and produce 1.25 mln tonnes of coke p.a. YASK's output at non-leased batteries should grow from 0.31 mln tonnes in 2009 to 0.40 mln tonnes in 2010, driven by exports to the Middle East (e.g. to Iran's Esfahan Steel) and additional orders from Mariupol Illich, which needs high-quality coke for its new PCI unit. In 2011-14, IUD-owned steel mills should increase demand for YASK's coke as the IUD's Alchevsk Coke should face capacity constraints. Given access to stable coal supplies from its parent Donetskstal group, re-launch of the currently idle coke battery #4 in 2010-11 should enable YASK to increase coke output at the non-leased batteries to 0.58 mln tonnes in 2014. As a result, YASK's total coke output should grow by 8% in 2010 and by 3.1% CAGR in 2011-14 (vs. the industry average of 2.6% CAGR) to 1.84 mln tonnes in 2014.

Growing coke prices and output should help YASK boost net sales. We expect that coke prices will grow by 8.0% CAGR in 2010-14, driven by the recovery of the coke market in Ukraine and globally. Coupled with YASK's total coke output growth by 4.1% CAGR over the next five years, YASK's net sales should grow by healthy 13% CAGR in 2010-14.

Vertical integration and improved cost efficiency should enlarge YASK's EBITDA. Within the Donetskstal group, YASK acts as a profit center. Helped by relatively cheap coking coal from the Donetskstal-owned Pokrovske Mine, YASK should be among the few Ukrainian coke makers to post a positive net income in the troubled 2009. We believe that the re-launch of the coke battery #4 equipped with cost-efficient thermal pre-treatment technology should help YASK reduce its COGS margin from 86% in 2010 to 84% in 2014. This should raise YASK's EBITDA margin from 11% in 2010 to 13% in 2014. Meanwhile, its EBITDA should grow by 10% CAGR in 2010-14 to reach UAH 420m in 2014.

Recommendation

Our DCF model for YASK results in a target price of USD 0.565 per share, implying a 2010 EV/EBITDA of 4.8 at the end of 2010. We consider this multiple value fair since it is quite close to the stock's average trailing EV/EBITDA of 4.3 and below the international peers' 2010 EV/EBITDA level of 7.5-8.5, which we expect will materialize in 12M. Our target price estimate implies 52% price upside.

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	2,758	376	264	13.6%	9.6%	3.10	0.30	2.69	(0)	0.20	33.3%	0.0%
2009e	1,853	153	88	8.3%	4.7%	9.34	0.44	6.62	194	0.31	10.0%	0.0%
2010f	2,696	289	173	10.7%	6.4%	4.73	0.30	3.51	63	0.21	16.5%	0.0%
2011f	2,936	326	197	11.1%	6.7%	4.16	0.28	3.10	15	0.14	15.8%	0.0%
2012f	3,060	350	209	11.4%	6.8%	3.91	0.27	2.89	(5)	0.11	15.1%	9.0%
2013f	3,205	384	230	12.0%	7.2%	3.56	0.26	2.63	(15)	0.09	15.3%	14.0%

BUY

Target price, USD*	**2.01**
Upside (Downside)	**46%**

** at 1yr forward UAH/USD rate 8.50*

Stock information**

UX ticker	AVDK
Bloomberg ticker	AVDK UK
Market price, USD	1.37
Shares outstanding, mln	194
Market cap, USDm	266
EV, USDm	258
Free float estimate, USDm	8.5
Av. daily turnover 7M, USDm	0.03
Price Lo/Hi 7M, USD	0.7/1.7
Price change 7M	89%

*** at current UAH/USD rate 8.04; performance since start of trading on the UX*

Avdiivka Coke

Profile: The Avdiivka Coke (AVDK) is Ukraine's second largest coke maker by output. Coke gross and chemical by-products account for 80% and 20% of AVDK's net sales, respectively. AVDK's capacity is up to 5 mln tonnes of coke p.a. AVDK is owned by the Metinvest Holding.

AVDK should see rapid EBITDA growth on the back of market recovery. Significant free capacity (up to 44% in 2009) and stable coal supplies from Metinvest Holding should enable AVDK to outperform domestic coke industry in 2010-14. Additional orders from its clients – Yenakieve Steel, Azovstal and Mariupol Steel – should help AVDK boost its coke output by 14% to 3.3 mln tonnes in 2010 and by 4% CAGR in 2011-14. Rapid growth in output should bring significant effects of scale to AVDK, decreasing its COGS margin from 86% in 2010 to 84% in 2014. As a result, its EBITDA should grow by 12% CAGR in 2011-14.

Avdiivka Coke is a BUY. AVDK's target price of USD 2.01 implies a 46% upside and 2010 EV/EBITDA of 5.3 at the end of 2010. We believe this multiple is fair as it accounts for the AVDK's fast EBITDA growth in 2011-14 (by 8% CAGR) and is below its peers' trailing EV/EBITDA estimated level of 7.5-8.5 in 12M.

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	7,732	1,225	805	15.8%	10.4%	2.66	0.28	1.69	(6)	0.53	13.4%	0.0%
2009e	3,388	67	(252)	2.0%	(7.4%)	n.m.	0.63	30.81	(65)	0.54	(4.4%)	0.0%
2010f	5,185	602	165	11.6%	3.2%	13.00	0.41	3.45	(86)	0.50	2.8%	0.0%
2011f	6,014	737	257	12.3%	4.3%	8.32	0.36	2.81	(89)	0.39	4.2%	0.0%
2012f	6,390	788	285	12.3%	4.5%	7.51	0.33	2.63	(85)	0.34	4.5%	5.3%
2013f	6,731	863	331	12.8%	4.9%	6.46	0.32	2.40	(82)	0.29	5.1%	7.1%

Equity

Metals & mining / Iron ore

astrum
investment management

Iron ore

Ukraine ranks world's second by iron ore reserves gross volume and third by iron ore content.

Ukraine is one of the key players on the global iron ore market. Ukraine possesses the world's second largest iron ore reserves of 68 bln tonnes in terms of iron ore volume and ranks third globally by the iron content of 20 bln tonnes. Ukraine is the world's sixth iron ore producer with 72 mln tonnes output and eighth iron ore exporter with 23 mln tones of export in 2008. Apart from supplying iron ore to the local steel industry, the world's third steel exporter, Ukraine is the principal iron ore supplier to the Central and Eastern European iron ore market.

Ukrainian iron ore has a low iron content of 30%-32% in crude iron ore, compared with 60%-66% for the leading global suppliers from Australia and Brazil. This means that domestic producers need to implement an additional stage of enrichment that results in an increased cost of USD 10-12/tonne and lower profit margins compared with Brazilian and Australian peers.

2009e: 22% drop in ore domestic sales and 19% surge in exports, total output 10% down.

Drop in domestic demand offset by growth in exports in 2009. Ukraine's 2009e pig iron output declined by 18%. At the same time, the drop in Ukrainian iron ore output was less severe due to a strong global demand for Ukrainian iron ore. We estimate that Ukraine's 2009 iron ore output dropped by 10% to 65.8 mln tonnes, as the expected 22% drop in domestic supply to 39 mln tonnes was partially offset by a 19% surge in Ukrainian export, to 26.7 mln tonnes. As a result, the share of exports in Ukraine's total ore deliveries reached a record 41%, which compares with 31% in 2008.

Exporter Ferrexpo should perform the best in 2009.

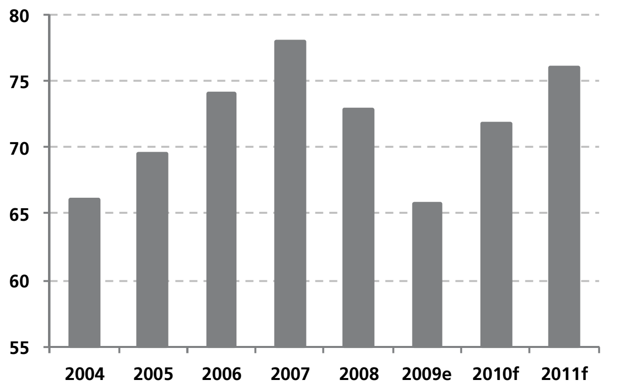
Thanks to strong demand on international markets, those Ukrainian iron ore producers with a higher exposure to export markets reported a lower decline in output in 2009. Ferrexpo, which controls the Poltava Ore Mining Plant (Poltava OMP), reported only a minor 9% y/y decline in output in 9M09 as it exports up to 95% of its total output. On the other hand, the greatest decline in iron ore output was the 39% drop recorded by Arcelor Mittal Kryvyi Rih (KSTL) in 9M09, which runs in-house iron ore production for its own use.

The Ukrainian iron ore industry benefits from proximity to its main export market. In particular, Central and Eastern Europe accounts for 58% of Ukrainian iron ore exports in 2009. At the same time, the surge in Ukrainian iron ore exports in 2009 is largely attributable to the 132% increase in shipments to China. The weak demand on traditional Ukrainian markets, easy access to China's spot iron ore market, and an extremely low freight rate in 2009 enabled Ukrainian producers to increase deliveries to China.

Export prospects should improve after the development of deep water terminal in Yuzhnyi.

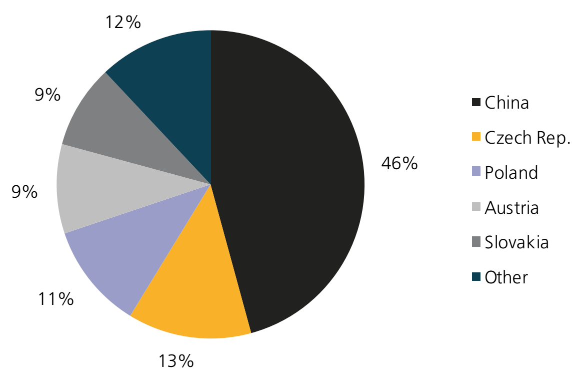
As iron ore demand in Eastern Europe stabilized in 2H09, Ukrainian producers started exporting more actively to Europe due to the substantial transportation differential between the two export routes. On the other hand, China remains the fastest growing global iron ore market. Currently, Ukraine lacks a deep water terminal which makes exports to China less profitable as freight tariffs for small and medium-sized ships are higher compared to dry bulk cargoes with a deadweight over 150,000 tonnes. Ferrexpo is heavily investing in the infrastructure of Yuzhnyi port to be able to use deep water ships. Thus, we expect that both CEE and China will remain the main export markets for Ukrainian iron ore in 2010-14.

Ukraine's iron ore output, mln tonnes



Source: Metal-Courier, Astrum estimates

Ukraine's iron ore exports breakdown, %



Source: Metal-Courier, Astrum estimates

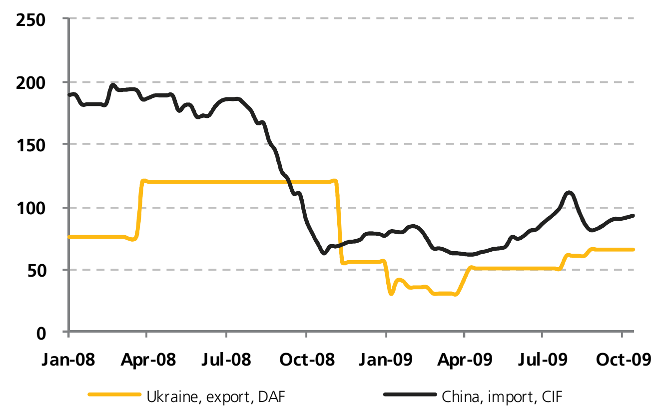
Thanks to proximity to main export markets and a cheaper workforce, Ukrainian iron ore makers should be more flexible price-wise, thus the growth rates of Ukraine's iron ore industry output should outstrip the average global growth rate of iron ore production. We forecast that, in 2010-16, Ukrainian iron ore output will grow by 3.0% CAGR or 0.5 p.p. above the global average growth rate.

Ukraine's iron ore output growth by 3.0% CAGR in 2010-16 should outpace the global average growth rate.

Iron ore prices should materially grow in 2010. China is quickly becoming a bigger power on the global iron ore market and has been participating in the global annual iron ore settlement since 2005. Chinese customers did not agree to the 33% price cut in 2009, instead insisting on a deeper cut. After that, Chinese steel mills switched to spot market purchases, thereby ignoring the long-term pricing mechanism of annual price negotiations. The three largest iron ore producers – Vale of Brazil, Rio Tinto and BHP Billiton – have asked for a 30%-35% increase in iron ore prices for 2010-11, partially offsetting the 2009 cut. Given that Chinese steel mills are proposing flat iron ore prices for 2010, we foresee next year's price increase at 20%-25%.

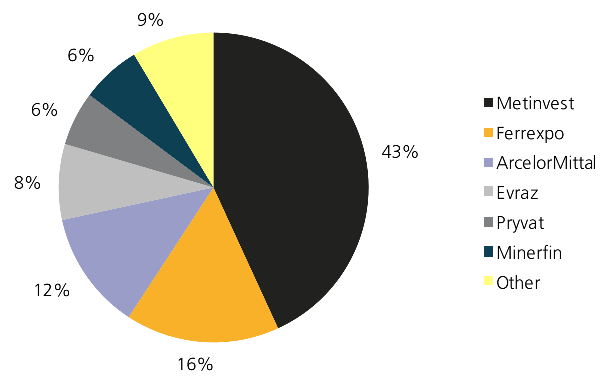
We expect that global iron ore price will increase by 20%-25% in 2010...

Ukrainian and Chinese iron ore prices, USD/tonne



Source: Bloomberg, Metal-Courier

Major Ukrainian iron ore producers, % of total output



Source: company, Astrum estimates

Ukrainian iron ore prices traditionally follow those on international markets as domestic producers export up to 40% of their output. Ukrainian iron ore prices dropped by 35% y/y in 2009 and should increase by 25% in 2010. We expect further growth of 7% in 2011 and 3% annually on average in 2012-14 due to the growing global demand for steel.

...by 7% in 2011 and by 3% on average in 2012-14.

Ukrainian iron ore companies should substantially lower their profit margins in 2009 following a sharp decline in the price of iron ore and output decline. At the same time, the hryvnia's devaluation by 35% brought down costs, partially offsetting the decline in sales. Ukrainian producers' EBITDA margin should decline to 13% on average in 2009 and climb again to 18% in 2010 thanks to the recovery of the iron ore prices and a higher output. We forecast that EBITDA margins of Ukrainian iron ore producers will return to more common 20%-25% in 2011-14, thanks to recovery of Ukrainian demand and cheaper exports after the development of deep water terminal.

Ukraine's iron ore makers profitability should recover in 2010 on higher ore prices and cheaper exports after the development of deep water terminal.

Ferrexpo

SELL

Target price, USD	**3.44**
Upside (Downside)	**3%**

Profile: Ferrexpo is a Swiss-based company with its main production asset, Poltava OMP, located in Ukraine. Its stock is listed on the LSE.

Profitability to rise on higher ore prices. Ferrexpo is a holder of a vast resource base that totals 20 bln tonnes of iron ore (29% of the total Ukrainian base). The Company currently operates at close to its full annual production capacity of 9 mln tonnes, thanks to a strong export demand as it exports about 95% of its output to Eastern Europe and China. Ferrexpo's 2010 EBITDA margin should rise by 7.5 p.p. to 32% thanks to a 25% increase in iron ore prices. The Company's prospects depend on the development of the Yerystovske deposit, which should offset the depletion of its current ore field and provide a capacity rise starting from 2013. We expect that Ferrexpo's net sales will return to the 2008 historic high in 2014.

To trade higher than the market, but not so much higher than the current price. The stock's 23% premium to the peers on 2010f EV/EBITDA implies 18% price downside in USD terms. At the same time, we expect that in 12M the stock will not fully adjust down to the peer's historic average trailing EV/EBITDA of 9.1. We believe that the stock has 3% upside.

Stock information	
LSE ticker	FXPO LN
Bloomberg ticker	FXPO LN
Market price, USD	3.35
Shares outstanding, mln	589
Market cap, USDm	1,973
EV, USDm	2,136
Free float estimate, USDm	493
Av. daily turnover 12M, USDm	1.0
Price Lo/Hi12M, USD	0.4/3.7
Price change 12M	511%

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	1,117	504	313	45.1%	28.0%	6.3	1.8	4.3	231	35.8%	68.5%	1.0%
2009e	613	144	67	23.5%	11.0%	29.4	3.2	15.0	188	29.3%	13.3%	0.5%
2010f	683	218	81	32.0%	11.8%	24.5	2.9	9.9	164	25.2%	14.0%	0.3%
2011f	852	274	163	32.1%	19.1%	12.1	2.3	7.9	188	24.8%	25.1%	0.4%
2012f	904	292	174	32.3%	19.3%	11.3	2.2	7.4	243	24.5%	21.7%	1.0%
2013f	921	299	179	32.4%	19.4%	11.0	2.1	7.2	296	24.1%	18.7%	1.2%

Poltava Ore Mining Plant

BUY

Target price, USD*	**4.72**
Upside (Downside)	**34%**

** at 1yr forward UAH/USD rate 8.50*

Profile: The Poltava OMP, a leading Ukrainian pellet exporter, belongs to Ukrainian businessman Konstantin Zhevago. The Company reports lower margins than its holding company, Ferrexpo, but it has the same resource base and is driven by the same factors as Ferrexpo.

Profitability should recover. The estimated drop in Poltava OMP's output by 4% and of pellet prices by 13% in 2009 was partially offset by a sharp reduction in costs in 1H09 following the hryvnia's devaluation. We expect that the Company's EBITDA margin will recover by 4.3 p.p. to 17.7% in 2010 on the back of a 32% pellet price increase to 585 UAH/tonne and a 2% rebound in output. We expect that Poltava OMP's output will grow by 4% CAGR in 2008-14 and its EBITDA will grow by 18% in 2010-14.

Stock has price upside on profit growth forecast. PGOK is trading at a 19% discount on 2010f EV/EBITDA to the global peers. We deem this discount unjustified on the background of the forecast growth of the Company's EBITDA in 2010-14. This discount implies 17% upside in USD terms. At the same time, we expect that, in 12M, PGOK will trade at the peer historic average trailing EV/EBITDA of 9.1 that implies 34% upside.

Stock information**	
UX ticker	PGOK
Bloomberg ticker	PGOK UK
Market price, USD	3.5
Shares outstanding, mln	191
Market cap, USDm	671
EV, USDm	763
Free float estimate, USDm	27
Av. daily turnover 7M, USDm	0.01
Price Lo/Hi 7M, USD	2.0/4.1
Price change 7M	69%

*** at current UAH/USD rate 8.04; performance since start of trading on the UX*

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	4,578	1,263	836	27.6%	18.3%	6.8	1.2	5.0	777	25.1%	25.9%	1.7%
2009e	3,831	514	175	13.4%	4.6%	32.7	1.5	12.4	667	20.9%	5.1%	3.7%
2010f	5,242	926	449	17.7%	8.6%	12.7	1.1	6.9	777	20.6%	11.8%	0.8%
2011f	5,806	1,030	503	17.7%	8.7%	11.3	1.0	6.2	901	20.3%	11.7%	2.0%
2012f	6,201	1,103	543	17.8%	8.8%	10.5	0.9	5.8	1,032	19.9%	11.2%	2.2%
2013f	6,283	1,121	557	17.8%	8.9%	10.2	0.9	5.7	1,163	19.6%	10.3%	2.4%

Equity

Metals & mining / Steel

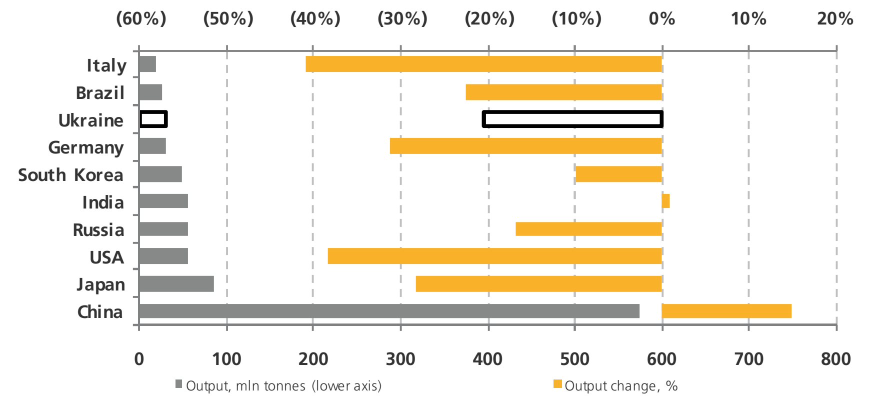
astrum
investment management

Steel

In 2009, the global steel industry narrowed by just 9.4% thanks to output growth in China.

In 2009, the global steel industry shrunk by just 9.4% thanks to output growth in China. The economic crisis caused an abrupt drop in global steel demand, with crude steel output declining in 2H08 by 13% compared to 1H08. However, a strong 1H08 softened the decline in 2008 to 1.2%. The downturn in the global steel industry ended in 1Q09, which was the trough of the current economic cycle. By our estimates, global steel output grew by 8%, 12% and 1% q/q in the remaining three quarters of 2009 and the FY09 output dropped by 9.4% to 1,204 mln tonnes. Helped by effective government measures, China's steel industry demonstrated a 15% growth in output despite the crisis. This saved the global steel industry from a deeper dive in 2009. With other steelmaking countries from the top-10 cutting their output on average by 22%, China's share in the global output grew by 10 p.p. to 47% in 2009.

Crude steel output and its change in 2009 in major steel producing countries



Source: Worldsteel, Astrum estimates

In 2009, Ukraine's steelmakers partly compensated lower exports to stagnating Europe, CIS and North America with larger exports to growing Asia.

Strong Asian demand cushioned the 2009 drop in Ukraine's steel exports and output. Ukraine's 2009e steel exports dropped by 14% to 22 mln tonnes. This compares to the 24% steel output drop seen in countries other than China (hereafter referred to as "the world ex. China"). Ukraine's steelmakers managed to partly compensate for lower exports to stagnating European, CIS and North American markets by larger sales to growing markets such as China, India, Pakistan and Vietnam. Ukraine's 2009e steel exports to Asia grew by 75%, while sales to other regions dropped by 29%. Ukrainian steel products became competitive in Asia thanks to a sharp drop of production costs due to the hryvnia's devaluation by 35% and a drop in domestic raw materials prices by 47%-61% in USD terms. In 2009, strong demand for steel semis (billets and slabs) in Asia helped Ukraine's steelmakers cut their total exports by just 9% to 11 mln tonnes. A relatively weak demand for Ukrainian finished steel resulted in a 18% decline of their exports to 11 mln tonnes.

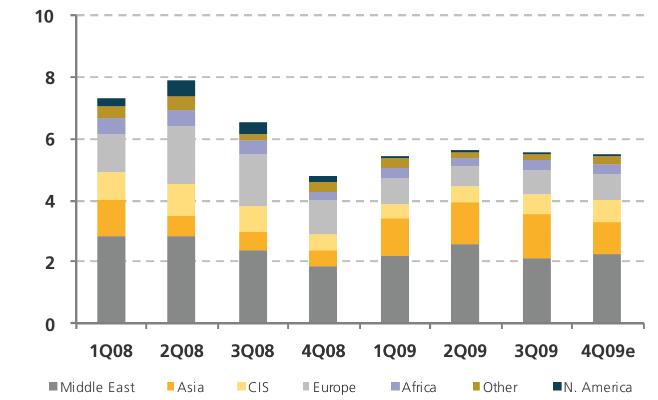
A 14% drop of 2009e Ukraine's rolled steel exports cushioned the effect of a 35% drop in domestic sales: rolled steel output dropped by just 18%.

Domestic steel deliveries dropped more dramatically, by estimated 35% to 4.2 mln tonnes in 2009. Taking into account the 22 mln tonnes of rolled steel sold on export markets, Ukraine's 2009e rolled steel output dropped by just 18% to 26.2 mln tonnes. However, the output structure worsened as the share of steel semis grew by 4 p.p. to 44%.

Ukraine's 2009e crude steel output of 29.4 mln tonnes should account for more than 2% of global 2009e steel output while Ukraine's 2009e rolled steel exports of 22 mln tonnes should account for 7% of global 2009e steel exports. As a result, in 2009, Ukraine should remain a member of the top-10 steel producing countries and of the top-5 steel exporting countries. We believe that Ukraine's steel industry is managing to keep its traditionally high rankings globally thanks to its high level of self-sufficiency in key raw materials (iron ore, manganese ore and coal), an advantageous geographical location and a relatively inexpensive labor force.

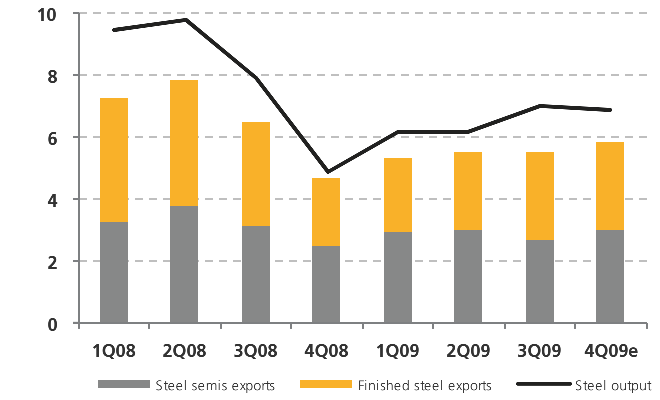
Economic stabilization should help global steel markets rebound in 2010. Recent macro data on the EU, USA and Russia point to the end of the economic recession and beginning of a gradual recovery. We expect that in 2010 developed economies will grow, on average, by 3% while emerging economies will grow, on average, by 5%.

Ukraine's rolled steel exports by regions, mln tonnes



Source: Metal Expert, Astrum estimates

Ukraine's rolled steel exports and output, mln tonnes

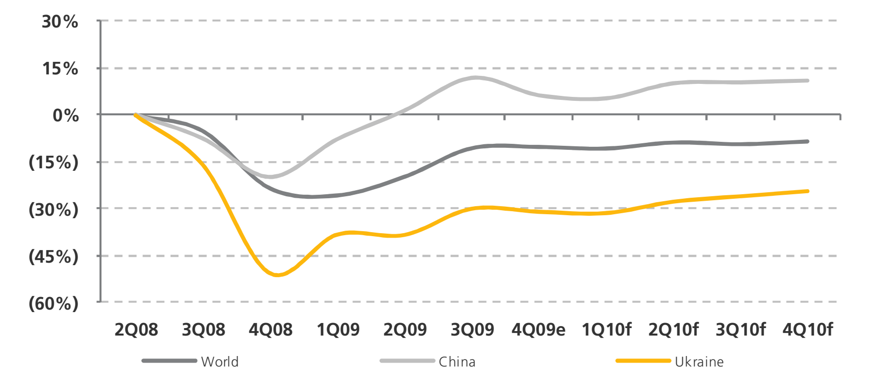


Source: Metal Expert, Astrum estimates

The global crude steel output should grow by 9% in 2010.

The economic recovery will result in an eventual strengthening of the global steel demand in 2010. We expect that global steel output will slide by 0.6% q/q in 1Q10 due to high steel inventories and seasonal factors; however, in the following three quarters of 2010, the global steel industry should grow by 0.7% q/q, on average. Output dynamics in China and Ukraine should be more volatile but take a similar direction. As a result, global crude steel output should grow by 9%, driven mainly by China, other Asian countries, the EU, the United States, the Middle East and Russia where steel consumption should grow by estimated 5%-15%. At the same time, China should lower its rate of crude steel output growth from extraordinary 15% in 2009 to 6% in 2010. We expect that Ukraine will increase output by 11%, in line with the world ex. China.

Crude steel output, 2Q08 = 0%



Source: Worldsteel, Astrum estimates

Industrialization and urbanization of China and India, and economic growth in Russia and the Middle East should be major drivers of global steel demand in 2011-14.

Growth in emerging economies should enhance steel industry growth in 2011-14. The normalization of economic activity across the globe should help restart bank lending to households and businesses beyond 2010. This should unfreeze suspended projects in construction, machinery, pipe-making and other steel consuming industries in 2011-14. In this period, ongoing industrialization and urbanization of China and India, as well as economic growth in oil-exporting Russia and the Middle East should be the major drivers of global steel demand. In 2011-14, global steel output should grow by 6.5% CAGR, a pace demonstrated by the global steel industry in 2001-07. Given the Chinese government's strategy to shut down inefficient steel capacities and restrain the domestic steel industry growth, the latter should expand in 2011-14 by just 5% CAGR vs. 8% CAGR in the world ex. China. Nevertheless, China should remain the largest contributor to the growth in global steel output (up to 34%) over this period.

Ukraine's steelmakers' high competitiveness, which comes from abundant raw materials and lower personnel costs, and easing protectionism across the globe should help Ukraine increase

In 2014, crude steel output should exceed the 2007 level by 25% globally and by 5% in Ukraine.

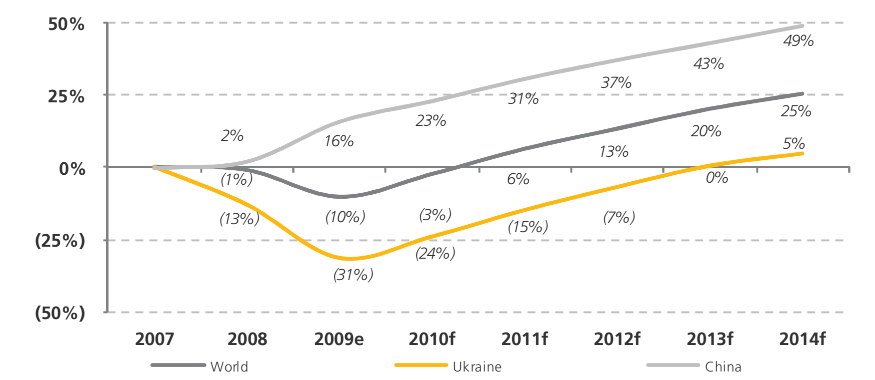
exports in line with the growth in steel output expected in the world ex. China, or by 8% CAGR in 2011-14. The main destinations of Ukrainian exports should continue to be the Middle East, the EU, CIS and Asia. In this period, domestic steel demand should recover from the relatively low level seen in 2010, by 12% CAGR. Residential construction and infrastructure projects as part of the preparations for the Euro-2012 football championship should be the major drivers of domestic steel demand. In 2014, crude steel output should exceed the pre-crisis 2007 level by 25% globally, while surpassing the 2007 mark by 49% in China and by 5% in Ukraine.

Crude steel output and rolled steel market balance, mln tonnes

		2006	2007	2008	2009e	2010f	2011f	2012f	2013f	2014f
World	Crude steel output	1,250	1,344	1,329	1,204	1,310	1,428	1,521	1,614	1,684
	change, %	*9%*	*7.5%*	*(1.1%)*	*(9.4%)*	*8.8%*	*9.0%*	*6.6%*	*6.1%*	*4.4%*
China	Crude steel output	421	488	499	566	600	637	669	697	726
	change, %	*21%*	*15.9%*	*2.2%*	*13.4%*	*6.1%*	*6.2%*	*4.9%*	*4.2%*	*4.2%*
World, ex. China	Crude steel output	829	856	830	638	710	790	852	917	958
	change, %	*9%*	*3.3%*	*(3.0%)*	*(23.1%)*	*11.2%*	*11.3%*	*7.9%*	*7.5%*	*4.5%*
Ukraine	Crude steel output	40.9	42.8	37.3	29.4	32.6	36.6	40.1	43.0	44.8
	change, %	*5.9%*	*4.7%*	*(13.0%)*	*(21.1%)*	*10.9%*	*12.1%*	*9.6%*	*7.4%*	*4.2%*
	Rolled steel output	35.0	36.2	32.1	26.2	29.0	32.5	35.5	38.7	40.4
	change, %	*8.6%*	*3.5%*	*(11.4%)*	*(18.3%)*	*10.6%*	*11.9%*	*9.3%*	*9.1%*	*4.4%*
	Rolled steel exports	27.8	28.1	25.7	22.1	24.4	27.2	29.4	31.8	33.2
	change, %	*9.2%*	*1.2%*	*(8.7%)*	*(14.0%)*	*10.7%*	*11.5%*	*8.0%*	*8.1%*	*4.3%*
	share in output	*79.4%*	*77.6%*	*79.9%*	*84.1%*	*84.2%*	*83.9%*	*82.9%*	*82.2%*	*82.1%*
	Rolled steel dom. sales	7.2	8.1	6.4	4.2	4.6	5.2	6.1	6.9	7.2
	change, %	*6.7%*	*12.5%*	*(20.5%)*	*(35.4%)*	*10.0%*	*14.0%*	*16.0%*	*14.0%*	*5.0%*
	Rolled steel imports	1.3	2.0	2.2	1.0	1.1	1.3	1.5	1.6	1.7
	change, %	*6.7%*	*46.6%*	*10.9%*	*(54.6%)*	*12.0%*	*15.0%*	*17.0%*	*10.0%*	*5.0%*
	share in consumption	*15.9%*	*19.8%*	*25.5%*	*19.3%*	*19.6%*	*19.7%*	*19.9%*	*19.3%*	*19.3%*
	Rolled steel consumption	8.5	10.0	8.6	5.2	5.7	6.5	7.5	8.5	9.0
	change, %	*6.7%*	*17.3%*	*(13.8%)*	*(40.0%)*	*10.4%*	*14.2%*	*16.2%*	*13.2%*	*5.0%*

Sources: Worldsteel Association, Metal-Courier, Astrum estimates

Crude steel output, 2007 = 0%



Source: Worldsteel, Astrum estimates

In 2010, Ukraine's largest flat steel producers – Azovstal, Mariupol Illich Steel and Alchevsk Steel – should increase crude steel output by healthy 9%-13%.

In 2010, flat steel producers should lead the growth of the Ukrainian steel industry. In 2010, well-funded state programs supporting the automobile industry in China, the EU and the USA should help global demand for flat steel recover more rapidly, compared to the demand for long steel. Thanks also to the low comparison base in 2009, Ukraine's largest flat steel producers – Azovstal, Mariupol Illich Steel and Alchevsk Steel – should post high growth in crude steel output in 2010, by 13%, 12% and 9% respectively. At the same time, Yenakieve Steel and Dzerzhynskyi Steel – long steel producers with higher baseline in 2009 – should boost output by just 8% and 3% in 2010.

Ukraine's steelmakers differ by the degree of modernization and self-sufficiency in raw materials.

Only modernized and well-secured in raw materials steelmakers should exceed their 2007 output levels by 2014. Ukraine's iron ore, manganese ore and coal deposits are the third, second and seventh largest in the world respectively. Although Ukraine is self-sufficient in key raw materials, they are unequally distributed among steelmakers. Metinvest Holding, ArcelorMittal and Evraz group mainly provide their steel mills with in-house materials whereas IUD, Illich Steel, Midland and Donetskstal buy large parts of their inputs on the market. We believe that the technology and equipment used by Ukraine's steelmakers and their self-sufficiency in raw materials will be major factors of their competitiveness and output growth in 2010-14.

Resource security of industrial groups operating in Ukraine

Group	Steel assets	Self-sufficiency in		
		Iron ore	Coke	Coal
Metinvest	Azovstal, Yenakieve Steel	>100%	>100%	80%
ArcelorMittal	ArcelorMittal Kryvyi Rih	93%	85%	0%
IUD	Alchevsk Steel, Dzerzhynskyi Steel	0%	75%	10%
Illich Stal	Mariupol Illich Steel	6%	13%	15%
Midland Group	Zaporizhstal	30%	45%	0%
Evraz	Petrovskyi Steel	88%	>100%	85%

Source: company, Astrum estimates

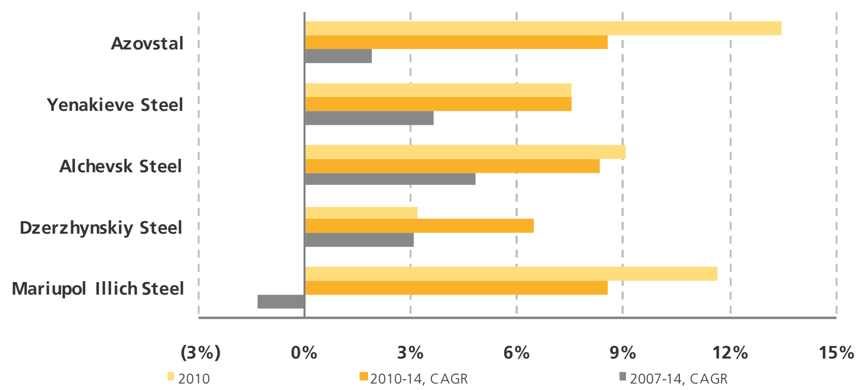
In 2014, Alchevsk Steel, Yenakieve Steel, Dzerzhynskyi Steel and Azovstal should exceed their pre-crisis levels of output by 10%-37%.

In 2010-14, Azovstal, Alchevsk Steel, Yenakieve Steel and Dzerzhynskyi Steel should raise output by 8.6%, 8.3%, 7.5%, and 6.4% CAGR respectively. As a result, these companies' output should exceed the pre-crisis 2007 level in 2014, by 10%, 37%, 22%, and 22%. At the same time, although Mariupol Illich Steel should boost its output by solid 8.6% CAGR in 2010-14, it 2014 output should be at just 90% of its 2007 level. We believe this will be due to the Company's lower competitiveness originating from its less efficient production capacities, inflated staff and a lack of upstream vertical integration. To compare, Azovstal and Yenakieve Steel both enjoy high level of self-sufficiency in raw materials and more up-to date production capacities, whilst Alchevsk Steel and Dzerzhynskyi Steel boast one of the most up-to-date equipment.

In 2010, export prices of Ukrainian steel should grow by 15%-25% in USD terms.

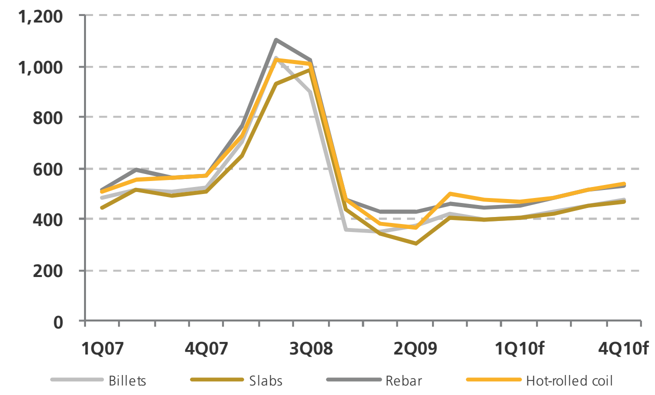
The recovery of demand for steel should inflate steel prices in 2010-14. We expect that, in 2010, Ukrainian steel export prices will rise from the lows of 1H09. In 1Q10, steel prices should be flat q/q and but should grow in the remaining three quarters of 2010 due to the recovery of real steel demand. As a result, in 4Q10, steel prices should be 13%-20% higher (by steel products) than their 4Q09e levels. In 2010, year-average Ukrainian steel export prices should surpass the 2009 level by USD 53-74 per tonne, or by 15%-25%. In 2011-14, the growth of the global market should raise Ukraine's steel export prices by 6%-7% CAGR. In 2014, the prices should exceed the 2007 level by 11% and surpass the 2009 level by 44%.

Crude steel output growth by several Ukraine's steel makers



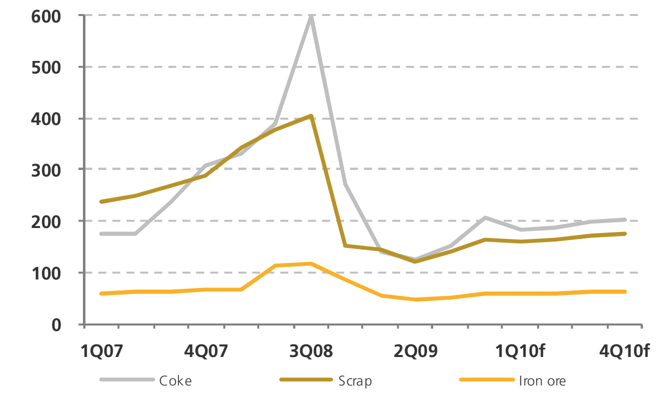
Source: Metal-Courier, Astrum estimates

Export prices of Ukr. steel (FOB, Black Sea), USD/tonne



Source: Metal-Courier, Astrum estimates

Domestic prices of raw materials (ex. VAT), USD/tonne



Source: Metal-Courier, Astrum estimates

Export prices of Ukrainian steel (FOB, Black Sea), USD per tonne

	2006	2007	2008	2009e	2010f	2011f	2012f	2013f	2014f
Billet	384	507	748	387	440	484	508	529	548
change,%		*32%*	*47%*	*(48%)*	*14%*	*10%*	*5%*	*4%*	*4%*
Slab	408	489	749	363	437	485	508	529	548
change,%		*20%*	*53%*	*(52%)*	*20%*	*11%*	*5%*	*4%*	*4%*
Rebar	438	559	842	440	494	539	565	589	610
change,%		*28%*	*51%*	*(48%)*	*12%*	*9%*	*5%*	*4%*	*4%*
Hot-rolled coil	462	549	808	430	501	549	575	626	627
change,%		*19%*	*47%*	*(47%)*	*17%*	*10%*	*5%*	*9%*	*0%*
change of av. price in USD,%		*24%*	*49%*	*(49%)*	*16%*	*10%*	*5%*	*5%*	*3%*
change of av. price in UAH,%		*24%*	*56%*	*(24%)*	*25%*	*7%*	*2%*	*5%*	*4%*

Source: Metal-Courier, Astrum estimates

In 2010, steelmakers operating costs should grow by USD 50-60 per tonne, as compared to the expected steel prices growth of USD 53-74 per tonne.

Despite the expected growth in input prices, steelmakers' EBITDA margins should rapidly recover. In 2010, key raw materials' prices should grow, on average, by 20% in USD terms. In particular, we expect the largest price growth for natural gas, by 25% to USD 400 per 1,000 cubic m, and for coke, by 23% to USD 193 per tonne. Meanwhile, prices of iron ore and steel scrap should grow more slowly in 2010, by 16% and 18% respectively, given their less significant drop in 2009. We expect that Ukraine's steelmakers will increase expenditures on natural gas, coke, iron ore and scrap by USD 8, USD 20, USD 11 and USD 9 per tonne respectively. In 2010, steelmakers operating costs should grow by USD 50-64 per tonne, as compared to the expected steel prices growth of USD 53-74 per tonne. As a result, EBITDA margins of Azovstal, Alchevsk Steel, Yenakieve Steel, Dzerzhynskyi Steel and Mariupol Illich Steel should grow from an average of 1.9% in 2009 to an average of 8.4% in 2010.

Output growth and efficiency improvements at the five covered steelmakers should increase their EBITDA margins from average 1.9% in 2009 to 8.4% in 2010 and to 12% in 2014.

In 2011-14, growing global steel market should stimulate the demand and prices for raw materials, both globally and in Ukraine. In this period, inputs prices should grow in line with steel prices, by 6%-7% CAGR. At the same time, output growth and efficiency improvements at Azovstal, Alchevsk Steel, Yenakieve Steel, Dzerzhynskyi Steel and Mariupol Illich should help increase their EBITDA margins from 10% on average in 2011 to 12% in 2014, at par with the pre-crisis 2007 average level. We believe that the major efficiency improvements will come from the introduction of pulverized coal injection (PCI) units, replacement of obsolete open-hearth furnaces with converters, introduction of ladle-furnaces and concasters, and reconstruction of rolling mills.

SPECULATIVE BUY

Alchevsk Steel Mill

Target price, USD*	**0.024**
Upside (Downside)	**53%**

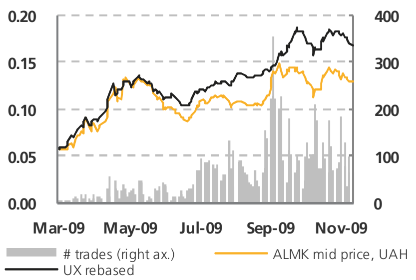
* *at 1yr forward UAH/USD rate 8.50*

Stock information**

UX ticker	ALMK
Bloomberg ticker	ALMK UK
Market price, USD	0.016
Shares outstanding, mln	25,775
Market cap, USD m	414
EV, USD m	929
Free float estimate, USD m	18
Av. daily turnover 8M, USD m	0.13
Price Lo/Hi 8M, USD	0.01/0.02
Price change 8M	123%

*** at current UAH/USD rate 8.04; performance since start of trading on the UX*

Price performance, UAH



Source: UX

Ownership structure

Industrial Union of Donbas	95.7%
Free float estimate	4.3%

Company profile

The Alchevsk Steel Mill (ALMK) is the fourth largest Ukrainian steelmaker by output. Up to 75% of the Company's rolled steel output is flat products (slab, heavy plate, etc.) used in shipbuilding, machines production and other industries. The share of semis (slabs and billets) in ALMK's 2009e output is up to 62%. ALMK exports as much as 90% of its steel. The Company's annual capacity is 6 mln tonnes of rolled steel, 7 mln tonnes of crude steel and 5 mln tonnes of pig iron. The Industrial Union of Donbas (IUD) owns a 94% equity stake in ALMK.

Key drivers

ALMK should post strong output growth in 2010-14 on the back of the market recovery. We expect that in 2010 ALMK will succeed in compensating lower rolled steel exports to China with higher sales to other steel markets. Difficulties with purchases of iron ore and coke, which we expect in 1H10, should limit ALMK's rolled steel output growth in 2010 to 9%. However, ALMK should fully benefit from the steel demand recovery in 2011-14. Being highly competitive thanks to its up-to-date production capacities, ALMK should increase its output by 9% CAGR In 2011-14, as compared to the industry-average growth by 8% CAGR. Over this period, ALMK should sell its semis to the IUD-owned steel mills in the EU (Huta Czestochowa and Dunaferr) and its traditional North American and Middle East markets; major consumers of its finished steel should remain the Middle East and CIS.

Higher steel prices should help ALMK's net sales grow even faster than output. We expect that ALMK's steel prices in USD terms will grow by 16% in 2010. The 4% devaluation of the hryvnia should help boost ALMK's 2010 net sales in UAH terms by 37%. On the background of increased output, ALMK's net sales in hryvnia-terms should grow by 14% CAGR in 2011-14.

Modernization should help raise ALMK's bottom line. A wider use of the PCI technology in ALMK's blast-furnace shop and replacement of its obsolete open-hearth furnaces with converters should reduce ALMK's natural gas and coke usage per tonne of steel in 2010-14. We also expect that the launch of own power generating facilities (capacity of 450 MW p.a.) in 2010-12 will result in a rapid decline of ALMK's electricity costs. This should help the Company cut its COGS margin from 84% in 2010 to 81% in 2014. As a result, ALMK's EBITDA and net income should grow by 25% and 99% CAGR respectively in 2011-14.

Recommendation

Our DCF valuation of ALMK yields a target price of USD 0.024 per share, implying a 53% upside and a 2010 EV/EBITDA of 7.6 at the end of 2010. This higher than for most other domestic peers implied level corresponds to ALMK's rapid EBITDA growth in 2007-14 (by 17% CAGR). ALMK is one of the three most traded metallurgy stocks and is included into the UX and PFTS index baskets. Given ALMK's high 2009e debt-to-equity ratio of 1.7 and the lack of own raw materials, we rate ALMK as a SPECULATIVE BUY.

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	15,322	674	(350)	4.4%	(2.3%)	n.m.	0.22	11.08	3,947	0.71	(10.4%)	0.0%
2009e	10,005	406	(653)	4.1%	(6.5%)	n.m.	0.33	18.40	4,142	0.78	(24.0%)	0.0%
2010f	13,719	1,237	78	9.0%	0.6%	42.9	0.24	6.04	4,076	0.77	2.8%	0.0%
2011f	16,478	1,833	507	11.1%	3.1%	6.56	0.20	4.07	4,126	0.74	15.3%	0.0%
2012f	18,933	2,352	822	12.4%	4.3%	4.04	0.18	3.18	4,004	0.70	19.9%	0.0%
2013f	21,051	2,734	1,033	13.0%	4.9%	3.22	0.16	2.73	3,625	0.64	20.0%	0.0%

Azovstal

BUY

Target price, USD*	**0.488**
Upside (Downside)	**50%**

** at 1yr forward UAH/USD rate 8.50*

Company profile

Azovstal (AZST) is the second largest Ukraine's steelmaker by output. AZST's two key types of products are semi-finished flat products (slabs) and finished flat products (heavy plates, tube strips), which account for 53% and 32% of the Company's output, respectively. AZST exports up to 75% of its steel, mainly to Asia and the EU. The Company's annual production capacity is 6 mln tonnes of rolled steel, 7 mln tonnes of crude steel, 6 mln tonnes of pig iron and 3 mln tonnes of coke. AZST is the flagship of the vertically-integrated Metinvest Holding.

Key drivers

Azovstal's high competitiveness should foster strong steel output growth. AZST's in-house coke making facilities and cheap raw materials from Metinvest Holding should secure its high competitiveness and fast output growth in 2010-14. The Company's rolled steel output should grow by 13% to 4.8 mln tonnes in 2010, driven mainly by exports of slabs and hot-rolled steel to growing Asian and Middle East markets. We expect that a strengthening of demand for steel in the EU in 2011-12 will spur exports of AZST-produced slabs to Metinvest-owned rolling mills in Italy and Great Britain. Moreover, in 2011-14, AZST should significantly increase sales of steel plates and strips to machinery, pipe-making and ship-building companies in Russia and Ukraine. As a result, AZST's rolled steel output should grow by 7.5% CAGR in 2011-14 to reach 6.4 mln tonnes in 2014, up 14% from the 2007 level.

Rising steel prices should positively affect AZST's net sales. We expect that prices for AZST-produced steel will grow by 15% in 2010 in USD terms. Coupled with a 4% devaluation of the hryvnia and an 11% growth in output, this should allow AZST to post net sales of UAH 21.8bln in 2010, up 40%. In 2011-14, the Company's net sales should grow by 13% CAGR, supported by growth in steel prices by 4.7% CAGR.

Upstream integration and modernization should help increase AZST's earnings. We expect that AZST will be purchasing iron ore and coke at lower prices from the related Metinvest – owned companies. The further modernization of the mill should result in the replacement of energy-inefficient open-hearth furnaces with converters in the steel-smelting shop in 2011-14. These factors should help the Company cut its COGS margin from 85% in 2010 to 81% in 2014. As a result, AZST's EBITDA should grow by 83% in 2010 and by 18% CAGR in 2011-14, while its net income should increase by 359% and by 23% CAGR respectively.

Recommendation

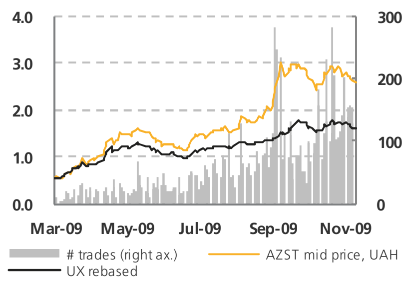
Our DCF model for AZST brings a target price of USD 0.488 per share, implying a 50% upside and a 2010 EV/EBITDA of 7.1 at the end of 2010. This multiple level corresponds to the Company's moderate forecast EBITDA growth by 8% CAGR in 2007-14. Given AZST's low debt burden, high level of vertical integration and acceptable accounting practices, we consider it the safest play among steel companies. AZST is one of the three most traded steel sector stocks.

Stock information**

UX ticker	AZST
Bloomberg ticker	AZST UK
Market price, USD	0.326
Shares outstanding, mln	4,204
Market cap, USD m	1,370
EV, USD m	1,480
Free float estimate, USD m	59
Av. daily turnover 8M, USD m	0.19
Price Lo/Hi 8M, USD	0.1/0.4
Price change 8M	369%

*** at current UAH/USD rate 8.04; performance since start of trading on the UX*

Price performance, UAH



Source: UX

Ownership structure

Metinvest B.V.	74.1%
Metinvest International S.A.	21.6%
Free float estimate	4.3%

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	21,235	3,020	1,959	14.2%	9.2%	5.62	0.52	3.94	837	0.48	19.6%	2.7%
2009e	15,566	1,415	275	9.1%	1.8%	40.1	0.71	8.41	886	0.44	2.0%	0.0%
2010f	21,818	2,593	1,260	11.9%	5.8%	8.74	0.50	4.59	956	0.43	8.6%	0.0%
2011f	26,159	3,396	1,888	13.0%	7.2%	5.83	0.42	3.50	(354)	0.37	11.5%	1.7%
2012f	29,013	4,024	2,278	13.9%	7.9%	4.83	0.38	2.96	(311)	0.34	13.0%	10.3%
2013f	32,402	4,587	2,610	14.2%	8.1%	4.22	0.34	2.59	(320)	0.33	14.0%	13.0%

BUY

Target price, USD*	0.093
Upside (Downside)	47%

* at 1yr forward UAH/USD rate 8.50

Stock information**	
UX ticker	DMKD
Bloomberg ticker	DMKD UK
Market price, USD	0.063
Shares outstanding, mln	6,777
Market cap, USDm	430
EV, USDm	568
Free float estimate, USDm	2.6
Av. daily turnover 2M, USDm	0.0003
Price Lo/Hi 2M, USD	0.05/0.07
Price change 2M	2%

** at current UAH/USD rate 8.04; performance since start of trading on the UX

Dzerzhynskyi Steel Mill

Profile: The Dzerzhynskyi Steel Mill (DMKD) is the fifth largest Ukrainian steelmaker. DMKD is a long steel producer, with billets accounting for 90% of its output and its share of exports at 70%. DMKD's capacity is 4 mln tonnes of rolled steel p.a. IUD group owns 99% of DMKD.

Better market conditions and capacity upgrades should push up DMKD's EBITDA. Given the high comparison baseline in 2009, DMKD's rolled steel output should grow by 3.0% to 3.35 mln tonnes in 2010 and by 7.3% CAGR in 2011-14. The recovery of steel prices should help DMKD increase net sales by 29% in 2010 and by 13% CAGR in 2011-14. The launch of new facilities in DMKD's steel smelting and rolling shops in 2010-11 should improve its efficiency, partly compensating for the lack of DMKD's own raw materials. As a result, DMKD's EBITDA should grow by 28% CAGR in 2011-14.

Dzerzhynskyi Steel is a BUY. Our DCF model indicates that DMKD's target price is USD 0.093, implying a 2010 EV/EBITDA of 7.4 at the end of 2010. We consider this multiple fair as it corresponds to the fast growth of DMKD's EBITDA in 2007-14 by 15% CAGR.

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	10,215	751	92	7.4%	0.9%	37.74	0.34	6.08	854	0.48	2.6%	0.0%
2009e	9,121	(223)	(547)	(2.4%)	(6.0%)	n.m.	0.38	n.m.	1,108	0.56	(18.4%)	0.0%
2010f	11,755	867	338	7.4%	2.9%	10.21	0.29	5.26	1,077	0.53	10.2%	0.0%
2011f	14,057	1,313	761	9.3%	5.4%	4.54	0.25	3.48	1,087	0.47	18.7%	0.0%
2012f	15,625	1,696	992	10.9%	6.3%	3.49	0.22	2.69	1,051	0.41	19.6%	0.0%
2013f	17,264	2,032	1,238	11.8%	7.2%	2.79	0.20	2.25	775	0.34	19.8%	1.8%

BUY

Target price, USD*	29.9
Upside (Downside)	48%

* at 1yr forward UAH/USD rate 8.50

Stock information**	
UX ticker	ENMZ
Bloomberg ticker	ENMZ UK
Market price, USD	20.3
Shares outstanding, mln	10.6
Market cap, USDm	214
EV, USDm	212
Free float estimate, USDm	31
Av. daily turnover 8M, USDm	0.22
Price Lo/Hi 8M, USD	5.4/24.6
Price change 8M	262%

** at current UAH/USD rate 8.04; performance since start of trading on the UX

Yenakieve Steel Mill

Profile: The Yenakieve Steel Mill (ENMZ) and Metalen represent Ukraine's seventh largest steelmaker EMZ Group. Therein, ENMZ makes pig iron and re-rolls up to 15% of billets produced by Metalen. ENMZ is owned by the vertically-integrated Metinvest Holding.

Market recovery and ENMZ's improved transparency should boost its EBITDA. Given the high comparative baseline in 2009, ENMZ's pig iron output should grow by just 9% to 2.3 mln tonnes in 2010 and by 8% CAGR in 2011-14. On the way to an IPO, Metinvest should slash transfer pricing within the group to help ENMZ raise steel prices faster than the market. This should help ENMZ raise net sales by 34% in 2010 and 14% CAGR in 2011-14. The launch of the new blast furnace #3 in 2011-12 should help ENMZ decrease its COGS margin from 93% in 2010 to 89% in 2014, while its EBITDA should grow by 27% CAGR in 2011-14.

Yenakieve Steel is a BUY. Our DCF model for ENMZ gives a USD 29.9 target price, implying a 2010 EV/EBITDA of 7.6 at the end of 2010. This multiple corresponds to ENMZ's EBITDA fast growth in 2007-14 by 18% CAGR. ENMZ is one of more liquid steel stocks and part of both UX and PFTS indexes.

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	8,486	491	408	5.8%	4.8%	4.22	0.20	3.48	(112)	0.75	28.4%	0.0%
2009e	5,730	(169)	(576)	(2.9%)	(10.1%)	n.m.	0.30	n.m.	(12)	0.87	(72.1%)	0.0%
2010f	7,689	348	226	4.5%	2.9%	7.62	0.22	4.91	(27)	0.84	22.0%	0.0%
2011f	9,250	490	313	5.3%	3.4%	5.49	0.19	3.48	(39)	0.80	23.4%	0.0%
2012f	10,400	587	358	5.6%	3.4%	4.80	0.17	2.91	(41)	0.76	21.5%	1.7%
2013f	11,859	743	444	6.3%	3.7%	3.87	0.15	2.30	(35)	0.74	23.2%	11.6%

Mariupol Illich Steel Mill

Profile: The Mariupol Illich Steel Mill (MMKI) is Ukraine's third largest steelmaker. Finished flat steel accounts for up to 90% of its output, the share of exports is 80%. MMKI has a capacity of 7 mln tonnes of rolled steel, 7 mln tonnes of crude steel and 6 mln tonnes of pig iron p.a.

Steel market recovery should bring a strong growth of MMKI's EBITDA. In 2010, MMKI's rolled steel output should grow by 11% to 4.0 mln tonnes while its prices should rise by 30%, resulting in a 43% increase in 2010 net sales. Given a large share of fixed costs, MMKI's operating costs should grow by just 32% in 2010, yielding a 2010f EBITDA of UAH 1.65bln, up 744%. The launch of cost-saving PCI technology in 2011 should help MMKI cut its COGS margin from 83% in 2010 to 79% in 2014. Assuming that MMKI increases output in 2011-14 in line with industry by 7.5% CAGR, its EBITDA will grow by 25% CAGR.

Mariupol Illich Steel is a BUY. Our DCF model for MMKI produces a target price of USD 0.441, implying a 2010 EV/EBITDA of 7.1 at the end of 2010. This multiple is lower than for domestic steelmakers on the back of MMKI's moderate forecast EBITDA growth in 2007-14 by 7% CAGR.

BUY

Target price, USD*	**0.441**
Upside (Downside)	**45%**

** at 1yr forward UAH/USD rate 8.50*

Stock information**	
UX ticker	MMKI
Bloomberg ticker	MMKI UK
Market price, USD	0.303
Shares outstanding, mln	3,352
Market cap, USDm	1,017
EV, USDm	968
Free float estimate, USDm	20
Av. daily turnover 7M, USDm	0.008
Price Lo/Hi 7M, USD	0.1/0.4
Price change 7M	126%

*** at current UAH/USD rate 8.04; performance since start of trading on the UX*

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	21,727	2,420	1,362	11.1%	6.3%	6.00	0.38	3.21	(628)	0.13	11.8%	0.0%
2009e	12,610	195	(508)	1.5%	(4.0%)	n.m.	0.65	39.96	(399)	0.12	(4.6%)	0.0%
2010f	18,039	1,646	772	9.1%	4.3%	10.59	0.45	4.73	(821)	0.12	6.5%	0.0%
2011f	20,664	2,272	1,196	11.0%	5.8%	6.84	0.40	3.42	(845)	0.11	9.2%	0.0%
2012f	22,772	2,910	1,616	12.8%	7.1%	5.06	0.36	2.67	(859)	0.10	11.7%	9.9%
2013f	25,718	3,464	1,966	13.5%	7.6%	4.16	0.32	2.25	(899)	0.09	13.4%	13.2%

Equity

Oil & gas

astrum
investment management

Oil & gas

Ukraine is 60% dependent on Russian oil supplies…

Ukrainian oil industry has been suffering from lack of investment… Ukraine possesses relatively modest oil and gas reserves compared with other FSU countries and satisfies 60% of its energy needs through imports. Ukraine's hydrocarbon reserves are estimated at 14 bln oil equivalent (boe), which, given the current output level, implies 40 years of extraction. Ukrainian hydrocarbon deposits are located at a depth of 2,500-5,000 m and are more expensive in terms of extraction than deposits in Russia and Central Asian countries.

…partially due to the slow development of the energy sector, which is dominated by the state.

As a result of the privatization that took place in the 1990s, private companies effectively took control of the processing and distribution of oil products, while exploration and production (E&P) remains mainly controlled by the state, where Ukrnafta is the largest producer with a 72% share. The state also has a monopoly in oil and gas transportation. Since 2004, political instability and substantial investment barriers have been preventing the entrance of new large private capital in the Ukrainian oil and gas sector, which has resulted in stable or even declining volumes of oil and gas output in Ukraine. Private companies, like JKX and Regal Petroleum, remain in a better position than their Ukrainian peers, such as Ukrnafta, as private companies are free to sell its output at market prices, while state companies are obligated to sell their oil and gas output at artificially low prices in order to meet public needs.

…and the crisis has worsened the industry's problems… We estimate that, in 2009, domestic oil consumption dropped less than natural gas consumption as Ukrainian consumers' behavior was less affected by higher gasoline prices. Ukraine's 2009e oil output went down 6% to 29 MMbbl and oil imports dropped 4% to 46 MMbbl. We believe that the development of the oil market in Ukraine is constrained by the stagnation of the Ukrainian refining industry and insufficient capital expenditures by the state oil and gas companies. In 9M09, the leading Ukrainian oil producer, Ukrnafta, reported a 6% y/y drop in oil output to 2.2 mln tonnes due to insufficient financing. The Company heavily used transfer pricing in 1H09, which brought about lower capital expenditures. Ukrnafta commissioned 21 new wells in 9M09, compared to 31 wells commissioned in 9M08.

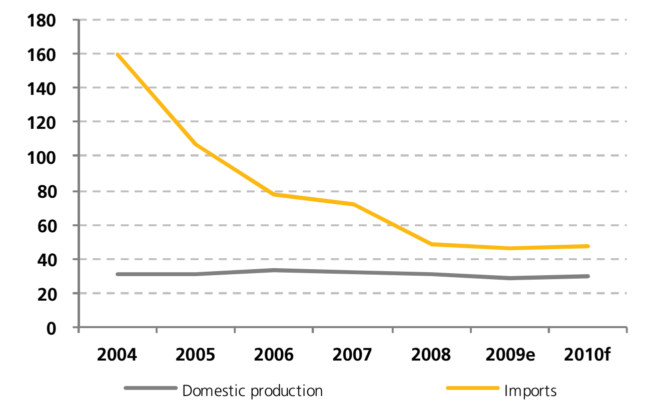
Oil consumption should rise by 5% annually on average in 2010-14.

…but the future holds bright prospects for domestic oil companies. We expect that oil consumption in Ukraine will grow in line with GDP by 5% annually on average in 2010-14, while private upstream oil companies with better access to financing are even better positioned for growth. Ukrainian oil producers have natural competitive advantages on Ukrainian market compared with Russian oil suppliers thanks to a transportation price differential of up to USD 5 per barrel and an export duty of USD 35 per barrel. Thus, we expect that share of domestic supply in total consumption will increase overtime.

Private oil extractors like JKX should benefit from government incentives. Ukrnafta should benefit from the end of conflict between the government and the Pryvat Group.

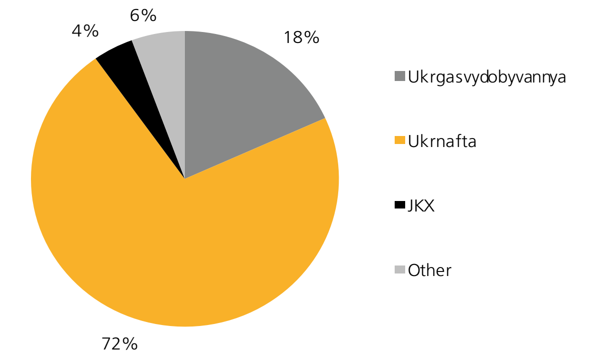
As Ukraine imports 60% of consumed oil from Russia, Ukrainian oil prices generally follow international benchmarks, like WTI or Urals, with some lag. We forecast that following an expected 17% increase in global oil prices in 2009, the market price for oil in Ukraine will demonstrate the same growth rate to USD 72/bbl. This price is sufficient for the economic utility of developing most Ukrainian oil fields. We expect that the presidential election in 2010 will result in the

Supply of oil in Ukraine, MMbbl



Source: Energobusiness, Astrum estimates

Ukraine's oil and gas condensate production breakdown, %



Source: Energobusiness

stabilization of the Ukrainian political landscape. We forecast that, following the election, the government will offer attractive oil fields at auctions in order to fill the state budget deficit and provide incentives for private oil producers like JKX to increase their output in 2011-2015. Political stabilization should also bring about the resolution of the long-lasting standstill between the government and the Pryvat Group, which runs Ukrnafta, thereby serving as a catalyst for the Company's development.

Domestic gas industry should win on imported gas price shock. Ukraine is the second largest purchaser of Russian gas, with 52.6 bln cubic meters imported in 2008. The consumption habits of Ukrainian individual consumers and businesses were developed when Ukraine was part of the Soviet Union and had access to cheap oil and gas. This explains why Ukrainian industries are extremely energy-intensive consumers and, therefore, sensitive to oil and gas prices.

Gas consumption should plunge by 24% in 2009 due to gas price shock and industrial production decline, while domestic extraction drop just 2.4%.

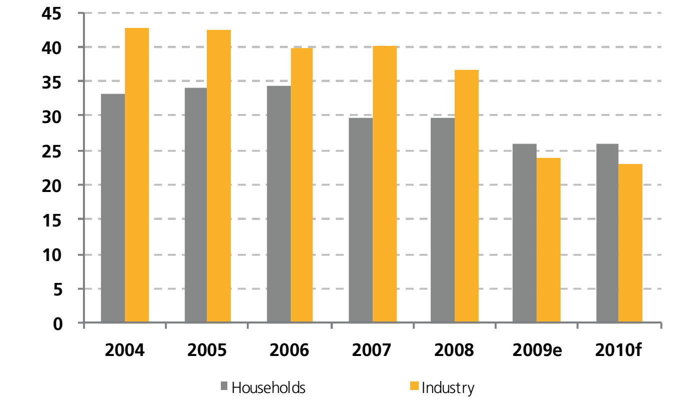
The price of Russia's natural gas for Ukraine rose from USD 100 per 1,000 cubic meters in 2005 to USD 210 per 1,000 cubic meters in 2009. As a result, Ukraine's gas imports should decline by 29% in 2009 to 37.5 bln cubic meters. The share of imported gas in Ukraine's gas consumption should drop from 71% in 2008 to 64% in 2009. At the same time, domestic gas output in 2009 should decline by just 2.4% to 20.5 bln cubic meters as the government should ensure the extraction of subsidized gas by Ukrnafta and Ukrgazvydobuvannia, despite lower financing.

The price for imported gas is a subject of negotiations between Ukraine and Russia as Ukraine controls the largest pipeline system exporting Russian gas to Europe (70% of the total Russian gas export capacity), while Russia is a monopoly gas supplier to Ukraine. According to the effective gas contract between Russia and Ukraine, the price of gas for Ukraine is linked to the European oil product prices, and the 20% discount in the formula applied in 2009 should be eliminated in 2010. This implies a 55% y/y growth in the average Ukrainian imported gas price to USD 325 per 1,000 cubic meters in 2010. As an outcome, gas imports should drop by 11% to 33 bln cubic meters in 2010, while domestic output should be flat at 20.5 bln cubic meters. As a result, the market share of domestic gas should grow from 35.7% in 2009 to 38.3% in 2010. We expect that the introduction of energy-efficient technologies will offset the expected rebound of industrial output in 2010, thereby resulting in a 2% decrease in gas consumption in 2010. In 2011-14, Ukrainian gas consumption should grow by 1.0%-1.5% annually while the domestic gas producers market share should stay flat.

Domestic gas producers market share should rise from 37.6% in 2009 to 38.3% in 2010.

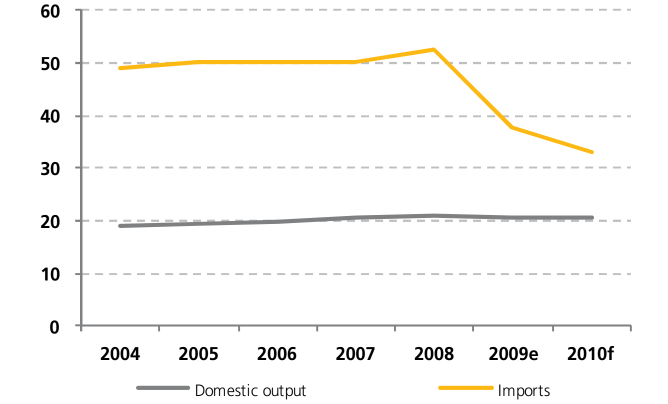
Inevitable growth of the household gas price should improve gas companies' prospects. The rapid growth of the gas price in 2005-09 resulted in the government beginning to supply extremely cheap gas, produced mainly by Ukrnafta and other state producers, to households, while industrial users received gas imported from Russia at close to market prices. In March 2009, Ukraine's government signed the Brussels Declaration with the European Union where it agreed to reform the domestic gas market. In particular, the government agreed to provide access to public transportation for all private gas companies, thereby making the domestic gas market more competitive. Most importantly, the proposed reforms should allow for

Gas consumption in Ukraine, bln cubic m



Source: Naftogaz, Astrum estimates

Supply of gas in Ukraine, bln cubic m



Source: Energobusiness, Astrum estimates

The government should raise gas price for households that should benefit Ukrnafta...

an increase in the gas price for households, which is crucial for making the industry profitable. Currently, Naftogaz lacks the necessary funding to carry out maintenance works and develop its infrastructure. We expect that the state will increase the purchase gas price for state gas producers from USD 32 per 1,000 cubic meters in 2009 to USD 80 per 1,000 cubic meters in 2010 that should benefit Ukrnafta.

...and promote better access to resources for private producers like JKX.

We also expect that the liberalization of the gas market will provide private producers like JKX with better access to natural reserves, thus securing the growth of gas output in 2011-15, as higher gas prices should make the extraction more attractive from an investment point of view. Most investment opportunities in the Ukrainian energy sector are associated with offshore gas extraction in the Black Sea. We expect that, once political stability resumes following the presidential election in February 2010, private capital should allow exploration on the offshore shelf of the Black Sea to commence once again. However, given the complexity of this project, we do not expect any significant changes in the structure of the market, nor in the volumes of gas extraction during the next 5-7 years.

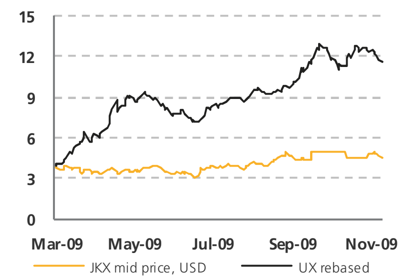
BUY

Target price, USD	**8.83**
Upside (Downside)	**90%**

Stock information

LSE ticker	JKX LN
Bloomberg ticker	JKX LN
Market price, USD	4.71
Shares outstanding, mln	157
Market cap, USD m	731
EV, USD m	659
Free float estimate, USD m	203
Av. daily turnover 12M, USD m	0.57
Price Lo/Hi12M, USD	2.12/4.95
Price change 12M	82%

Price performance, USD



Source: Bloomberg

Ownership structure

Ralcon Commercial Ltd	19.1%
Glengary Overseas Ltd	12.6%
Interneft Ltd	7.3%
Standard Life	5.9%
Naftogaz Ukraine	6.4%
AXA S.A	4.9%
JP Morgan	4.9%
Fidelity International Ltd	4.9%
Legal & General	3.6%
Management	2.8%
Free float estimate	27.6%

JKX

Company profile

JKX is the largest private oil and gas producer in Ukraine with output of 4 mln bbl of oil equivalent in 2009. JKX produces oil and gas with the main production base located in Ukraine. The Company is actively developing deposits in Hungary and Russia with additional interests in Georgia, Bulgaria, Hungary and Slovakia.

Key drivers

JKX should benefit from a rebound in hydrocarbon output in 2H09-2010… We believe that JKX's oil output bottomed out when it dropped 30% y/y in 1H09. In line with our expectations, JKX increased its overall production in 3Q09 by 24% y/y: it raised its oil output by 46% y/y and gas output by 14% as a result of higher production in Ukraine and new production coming on-stream in Hungary. We estimate a 5% increase in JKX's hydrocarbon production in 2009 and a 7% growth in 2010. The Company's output should speed up its growth to 17.5% CAGR in 2010-13 with the launch of gas fields in Russia's Adygeya starting from 4Q10.

…and from a conversion of Ukrainian gas prices to European levels. The Company's higher 2H09 oil revenues should offset low 1H09 oil revenues thanks also to the more favorable global pricing environment. JKX's realized gas price increased by 25% y/y in 3Q09 and in FY09 the growth should exceed 31%. We expect that JKX's realized gas price will further increase by 7% in 2010 thanks to conversion of Ukrainian domestic gas prices to European levels in 2010. As a result, JKX's share of gas sales in total net sales should increase from 28% in 2007 to 52% in 2009 which should help drive 2010 net sales up by 24% and EBITDA by 23%.

Tradition of high margins supports expected EBITDA growth of 10.5% CAGR in 2009-14. JKX is highly profitable as it sells natural gas to domestic consumers at market prices and enjoys low royalties. The Company holds no debts and its cash position totalled USD 54m in 1H09. Despite the recession, the Company is pursuing its extensive exploitation and investment programs, worth USD 270m in 2009-11, thanks to its healthy operating cash flow. We expect that JKX's EBITDA margin will increase to staggering 74% in 2009 and 77% in 2014 due in particular to the Company's cost-cutting measures. Along with the net sales growth, this should help raise JKX's EBITDA by 10.5% CAGR in 2009-14.

Recommendation

JKX is trading at a 37% discount to the peers on 2009e EV/EBITDA, while in 2006-1H08, it traded at an average 23% premium to the peers trailing EV/EBITDA. We expect that in 12M JKX will trade at least in line with the peers historical average trailing EV/EBITDA of 7.45, thanks to JKX's strong profit margins. This provides USD 8.83 target price.

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	207	151	78	73.0%	37.7%	9.4	3.5	4.4	(64.8)	(16.5%)	23.4%	1.9%
2009e	192	142	82	74.1%	42.6%	8.9	3.8	4.6	(71.1)	(15.3%)	20.3%	1.7%
2010f	239	175	103	73.3%	43.3%	7.1	3.1	3.8	(85.0)	(15.4%)	21.0%	2.1%
2011f	249	188	109	75.4%	43.6%	6.7	2.9	3.5	(121.5)	(18.6%)	18.6%	2.2%
2012f	264	202	115	76.6%	43.6%	6.4	2.8	3.3	(163.5)	(21.7%)	16.9%	2.4%
2013f	283	218	123	77.3%	43.6%	5.9	2.6	3.0	(218.4)	(25.3%)	15.7%	2.5%

Ukrnafta

BUY

Target price, USD*	**30.5**
Upside (Downside)	**43%**

** at 1yr forward UAH/USD rate 8.50*

Profile: Ukrnafta is the largest oil & gas producer in Ukraine with 40 mln bbl output in 2008. Pryvat Group owns 42% and manages the Company although the state owns 50%.

Future promises a number of opportunities. Ukrnafta's profitability should recover starting from 2010 thanks to liberalization of the gas price for utility companies and households and the growth of output on higher CAPEX into new wells. Reduction of UNAF's transfer pricing thanks to the resolution of the dispute between the government and Pryvat Group started when Ukrnafta raised the price of its oil from 30% of the market price in 1H09 to 70% in 3Q09. Lower transfer pricing should help raise UNAF's net income by 23% CAGR in 2008-13.

Ukrnafta is a BUY on the profit growth forecast. In 2006-1H08, Ukrnafta traded at an average 26% discount to the peers trailing EV/EBITDA. We expect that, in 12M, the discount to the peers historic average trailing EV/EBITDA of 7.45 will be just 10%, thanks to the prospects of UNAF's profitability growth. The resultant target trailing EV/EBITDA of 6.7 in 12M implies USD 30.5 target price and 43% upside.

Stock information**

UX ticker	UNAF
Bloomberg ticker	UNAF UK
Market price, USD	21.36
Shares outstanding, mln	54
Market cap, USDm	1,158
EV, USDm	1,201
Free float estimate, USDm	116
Av. daily turnover 8M, USDm	0.33
Price Lo/Hi 8M, USD	10.4/24.0
Price change 8M	101%

*** at current UAH/USD rate 8.04; performance since start of trading on the UX*

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	9,400	2,587	1,438	27.5%	15.3%	6.8	1.0	4.1	584	5.0%	14.1%	0.0%
2009e	9,734	941	103	9.7%	1.1%	95.8	1.0	11.2	682	6.2%	1.0%	73.4%
2010f	15,365	2,154	684	14.0%	4.4%	14.4	0.6	4.9	367	6.1%	6.8%	38.9%
2011f	16,987	3,453	1,592	20.3%	9.4%	6.2	0.6	3.0	435	6.0%	14.2%	4.1%
2012f	19,401	4,929	2,587	25.4%	13.3%	3.8	0.5	2.1	560	5.9%	18.8%	9.6%
2013f	22,164	7,039	4,053	31.8%	18.3%	2.4	0.4	1.5	748	5.8%	22.9%	15.6%

Equity

Real estate

astrum
investment management

Real estate

Ukraine's office space market has stabilized. Ukraine's office space market experienced a rapid boom in 2004-08 thanks to an abundant FDI inflow, an advent of a number of new companies, good access to relatively cheap credit, and a historical absence of professional office space suitable for business. The gross leasing area in Kyiv grew from 350,000 sq meters in 2004 to 920,000 sq meters in 2008.

Kyiv's office market was hit hard in 2009 with vacancy rate soaring to 17%.

The situation dramatically changed 2H08 when the crisis eroded the demand for new office space. The vacancy rate in Kyiv grew from 5% in 2008 to 17% in 2009, reflecting the downsizing by Ukrainian companies. New market realities required a substantial revision of the supply of office space, as well as of projects in the pipeline and potential projects. 2008 was one of the most successful years in terms of new office space additions, while in 2009-10 a wide gap between planned and actual new office additions should form. Real estate developers have revised their 3-5 year outlook to account for lower market growth prospects and a higher capitalization rate. Developers managed to finish 170,000 sq meters in 2008, but we expect that the supply of new space will not exceed 100,000 sq meters in either 2009 or 2010. As a result, the rate of growth of Gross Leased Area in Kyiv should decline from 24% in 2008 to 11% in 2009, and the GLA should amount to 1,020,000 sq meters in 2009.

Kyiv's rental rates bottomed out in mid-2009 and should reach pre-crisis levels in 2015-16.

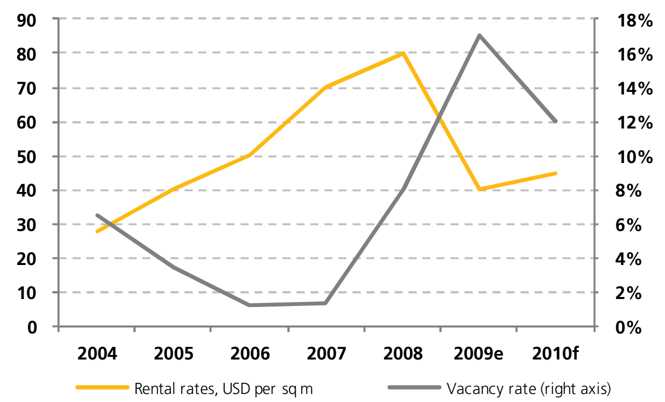
Weak demand halved rental rates (in USD terms) in mid-2009 from their historic highs of 2Q08. Low rental rates have attracted numerous companies that had previously been renting cheap office space, converted from residential or administrative properties. This helped rental prices to bottom out in mid-2009 and we expect that prices will recover gradually starting in 2010. As the deterioration of asset prices in 2008-1H09 brought demand back to 2006-07 levels, the office property market should require 2-3 years to get back on track. We conservatively forecast that rental rates will reach their pre-crisis levels only in 2015-16.

New office centers under construction used to be financed involving 70% debt financing on average, but the availability of debt financing was wiped out by the crisis. To make the economy more resilient to FX effects, the National Bank banned foreign currency-denominated loans for companies operating solely on the domestic market, while the cost of debt in the domestic currency exceeded 20% in 2009. Most large scale office projects currently have a negative value and are unprofitable at such high financing costs. This should result in fewer projects and downsizing of projects – we expect that projects of 100,000 sq meters and more will not be successful in 2010-11. We expect that small cash generating projects with possible presales will be the focus of Ukrainian developers in the next two years. We forecast stagnation in the development of greenfield office projects in 2010-11, until the debt market stabilizes and the cost of financing declines.

Kyiv's unsaturated office space market should resume robust growth in 2010.

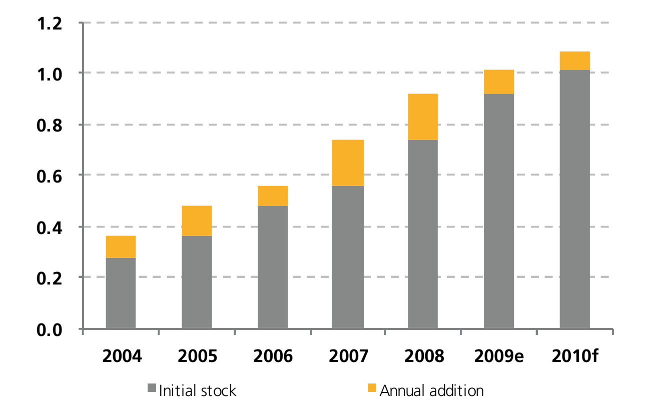
On the other hand, current Ukrainian office stock remains relatively scarce compared to the East European peers. In the capital city of Kyiv there are 285 sq office meters per 1,000 inhabitants, compared with 1,000-2,000 sq meters per 1,000 inhabitants in East European peer capitals. We expect it will take Kyiv up to ten years to reach the level of Warsaw or Prague, which still implies

Rental and vacancy rates in Kyiv



Source: DTZ, Colliers Int, Astrum estimates

Kyiv GLA, mln sq m



Source: DTZ, Colliers Int., Astrum estimates a strong growth of the Kyiv's office stock by 18% CAGR in 2010-20. Although there are risks associated with the Ukrainian business climate, the growth in demand for quality office space in Kyiv in the next decade we consider inevitable.

Sharp 45% drop of residential prices wiped out most of real estate bubble...

Residential market has bottomed out. Ukraine's residential market experienced a severe correction in 2H08-1H09 owing to panic driven by the crisis, the 37% devaluation of the hryvnia in 4Q08, and the credit crunch. Growth in the residential market had largely been fueled by speculation, abundant mortgage financing, and lax lender assessment standards. As a result, in 2005-08, the Ukrainian residential market showed signs of a bubble, supported also by unjustified expectations of unlimited property price growth potential on the part of inexperienced home owners and investors.

Most importantly, growth in household income substantially lagged behind the growth of residential property prices. Kyiv's average residential property price skyrocketed from USD 24,000 for a two-room apartment in 2003 to USD 210,000 in 1H08. This implied a CAGR of 54% in 2003-08, compared with the corresponding 18% CAGR for Kyiv household income growth in USD terms.

...and we do not expect further residential prices deterioration.

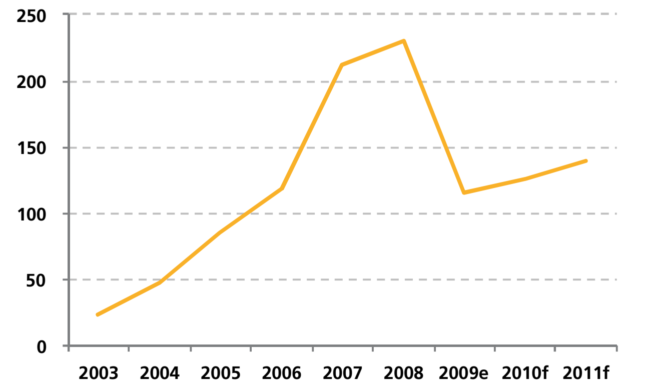
The rapid decline in demand for residential property and the massive exit of speculative investors resulted in a sharp drop in residential prices, which plummeted 45% y/y in USD terms in 4Q08. This fall might have been even more severe if banks would have proceeded to offer foreclosed properties on the market. Despite the growth in NPLs to 35% of the total credit portfolio, most banks are postponing recognition of bad loans because such admissions will require higher loss provisions and accumulation of reserves, thereby demanding additional capital injections. The massive forced sales of mortgage-financed properties would cause a surge in the supply of cheap property and send prices down by a further 20%-30%. However, the legislation, which was passed in 2009 and prohibited the forced sale of residential property during the crisis, has also helped to restrain a decline in property prices. We believe that residential property prices have already bottomed out and should not see any further deterioration.

Demand for residential properties should start growing after mortgage rates decline to 17%-19% in 2011.

The sharp drop in Ukrainian real estate prices in 2009 has not brought much relief to potential buyers, as it was accompanied by the devaluation of the national currency. Apart from a deterioration in demand, office operators suffered from a devaluation of the hryvnia and the growth of mortgage rates from 13%-14% in UAH terms in 1H08 to 26%-28% in 2009. At the same time, the number of local banks operating on the mortgage market declined from 90 in 2008 to just 2-3 in 2009. Many households are now constrained by credit obligations and cannot find any additional financing. We expect that due to lower real incomes and tightened credit conditions, many households will not be able to secure credit for years. Mortgage lending should restore after mortgage rates go down from current levels to 17%-19% in 2011.

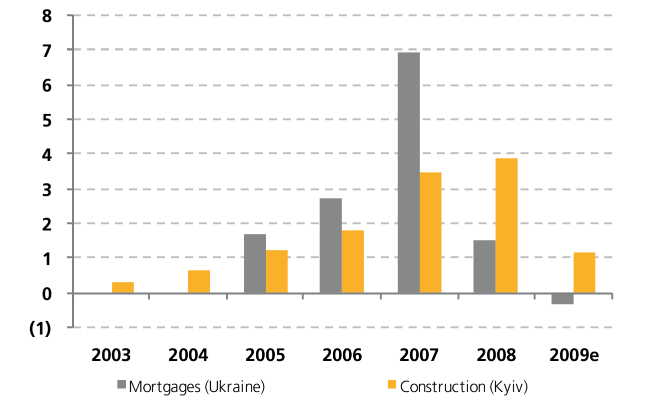
We expect that the drop in real estate supply will have an aftermath in 2010, with a substantial additional drop in the amount of completed residential space. As most residential real estate

Average apartment price, USD thd



Source: Astrum estimates

Volume of mortgages and construction, USD bln



Source: Astrum estimates

Domestic developers sharply cut the number of projects in 2009…

construction was financed through mortgages, many developers froze most of their projects when banks scaled back lending in 2009. Developers are currently working only in niche market segments as high premium properties or allocating their remaining funds to projects that are near completion. As a result, construction in Kyiv dropped by 58% y/y in 8M09. In the last 12 months, developers had to postpone sales for 38 of the total 142 new residential projects existing in Kyiv. We expect that construction will not rebound in 2010 and that supply and demand will, therefore, remain balanced. The lower amount of residential real estate being offered on the market and the restoration of demand, which has been pent-up during this time, should support the recovery of real estate prices in Ukraine. Thus, we expect that residential property prices will grow at an average annual rate of 10% in 2010-15. We remain positive about the Ukrainian real estate market, but investors should acknowledge that the recovery of the domestic real estate sector will probably lag behind the recovery of some other sectors of the economy, such as the consumer, finance and commodities sectors.

…thus supply should match demand and support real estate prices in 2010-15.

KDD Group

SELL

Target price, USD	0.67
Upside (Downside)	(13%)

Stock information	
LSE ticker	KDDG LN
Bloomberg ticker	KDDG LN
Market price, USD	0.77
Shares outstanding, mln	163
Market cap, USDm	125.4
EV, USDm	157.6
Free float estimate, USDm	24.6
Av. daily turnover 12M, USDm	0.19
Price Lo/Hi12M, USD	0.07/0.88
Price change 12M	143%

Profile: KDD Group is a real estate company focused on early-stage large-scale residential and office projects. The Company lacks completed projects and has 9 projects on the development stage.

To cope with the crisis is the main current issue. As KDD relies heavily on debt financing, it postponed the construction of its current projects and is now pursuing different funding options. Improved market sentiment and the stabilization of rental rates should allow KDD to tap into fresh debt and equity capital in 2010 and complete its current projects in 2013-15. Thus, due to the negative investment cash flow, KDD should be cash burning in 2010-12.

Stock price growth has exhausted upside. We estimate the value of KDD's projects under construction based on the net operating income approach at USD 107m and the value of projects held for development at USD 34 at liquidation values. The value of KDD's equity comes at USD 98m. The stock has rallied 300% on the back of improved real estate and stock market sentiment from the bottom reached in April 2009. We believe that, at the current market level, the stock price has 13% downside potential.

Key data

Year	Net sales, USDm	EBITDA, USDm	Net income, USDm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, USDm	Debt/ Assets	ROE	Div. yield
2008	0.8	(356.1)	(294.1)	n.m.	n.m.	n.m.	147.9	n.m.	18.1	0.63	(233.1%)	0.0%
2009e	1.0	1.6	(1.1)	n.m.	n.m.	n.m.	125.4	n.m.	20.3	0.59	(0.8%)	0.0%
2010f	1.5	8.2	1.7	n.m.	n.m.	n.m.	83.6	n.m.	40.1	0.70	1.8%	0.0%
2011f	25.0	(4.9)	(11.5)	(19.6%)	(46.1%)	n.m.	5.0	n.m.	45.4	0.35	(5.4%)	0.0%
2012f	76.0	65.1	43.0	85.7%	56.6%	2.9	1.7	2.4	13.0	0.37	16.8%	0.0%
2013f	19.0	8.8	0.7	46.1%	3.7%	177.8	6.6	18.0	31.4	0.41	0.3%	0.0%

TMM

SELL

Target price, USD	2.58
Upside (Downside)	(16%)

Stock information	
Deutsche Boerse ticker	TR61 GR
Bloomberg ticker	TR61 GR
Market price, USD	3.07
Shares outstanding, mln	51.8
Market cap, USDm	158.9
EV, USDm	246.0
Free float estimate, USDm	20.7
Av. daily turnover 12M, USDm	0.59
Price Lo/Hi12M, USD	0.21/4.07
Price change 12M	150%

Profile: TMM is a leading Ukrainian real estate developer with portfolio consisting of 35 projects. The Company is in a better position compared to most domestic peers as it has seven completed or near completion projects that total up to 95,000 sq.m.

Best positioned to weather the crisis. TMM enjoys a secured financial position thanks to its moderate leverage (50% in 2009) and annual net sales of USD 3-4m generated by functioning properties. After the refinancing of UAH 150m of local bonds in October 2009, the Company's next loan redemptions, in the amount of UAH 337m and UAH 310m, are due in 2011 and 2012. Thanks to its stable financial position, TMM should be able to raise new equity and debt funding to begin construction of five new projects in 2010.

SELL as no upside is left. We value the Company at USD 220m as a sum of the parts (standalone projects) based on our DCF models. Existing property and projects close to completion contribute 92% to this amount. We believe that prospective projects, which we currently value at liquidation prices, will be a substantial source of value when the real estate market calms. Our 12M price target of USD 2.58 implies 16% downside potential.

Key data

Year	Net sales, USDm	EBITDA, USDm	Net income, USDm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, USDm	Debt/ Assets	ROE	Div. yield
2008	90	39.8	11.6	44.4%	12.9%	13.7	1.8	6.2	81.3	0.53	6.1%	0.0%
2009e	52	16	(10.8)	30.7%	(20.8%)	(14.7)	3.1	15.4	86.6	0.53	(6.1%)	0.0%
2010f	102	53	27.9	52.2%	27.4%	5.7	1.6	4.6	43.3	0.52	13.5%	0.0%
2011f	129	81	55.4	63.0%	42.9%	2.9	1.2	3.0	(10.7)	0.31	21.2%	0.0%
2012f	98	55	37.9	55.6%	38.6%	4.2	1.6	4.5	(97.3)	0.34	12.6%	0.0%
2013f	52	43	31.1	82.8%	59.8%	5.1	3.0	5.7	(135.8)	0.31	9.4%	0.0%

Equity

Telecommunications

astrum investment management

Telecommunications

Broadband's subscriber base should grow by 30% CAGR in 2010-14.

Broadband to see rapid expansion in 2010-14... Ukraine's 2009e broadband Internet market grew by 60% to reach 2.3 mln subscribers, yet the expected market penetration stood at 10% of households, in comparison to up to 30% in Western Europe. We expect that a significant pent-up demand for broadband connection will continue to drive the rapid growth of this segment and that the subscriber base will grow by 30% CAGR in 2010-14.

The growth of mobile operators' revenues in 2010-14 should mainly come from the expansion of new services.

...while saturation of the mobile market presents challenges for growth... The total 2009e number of mobile subscribers in Ukraine dropped by 1% to 55.1 mln users, implying a nominal penetration of 120% while mobile operators estimate the real penetration at 80%. Given the high saturation of the market and mobile operators' efforts to discard inactive SIM cards, the segment's growth in 2010-12 should remain under pressure. Achievements in terms of customer retention should help mobile operators maintain their subscriber bases flat in 2010-14, while the growth of operators' revenues should mainly come from the expansion of new high-return services, including mobile broadband and 3G.

Fixed line telephony is under pressure from the mobile segment.

...and fixed-line telephony is losing its market position. With growing competition on the part of more active mobile operators and the increasing popularity of VoIP, the fixed-line telephony market should continue to shrink in 2010-12. At the same time, the total fixed-line 2009e revenues saw a contraction of just 1.5%, softened by the introduction of the new fixed-line tariffs, which came into effect in May'09. Nevertheless, the drop in fixed-line revenues in 2010-14 should be more profound, at 4% annually on average.

HOLD

Target price, USD*	0.073
Upside (Downside)	20%

** at 1yr forward UAH/USD rate 8.50*

Stock information**	
UX ticker	UTLM
Bloomberg ticker	UTLM UK
Market price, USD	0.061
Shares outstanding, mln	18,726
Market cap, USDm	1,134.3
EV, USDm	1,562.5
Free float estimate, USDm	79.4
Av. daily turnover 8M, USDm	0.05
Price Lo/Hi 8M, USD	0.02/0.07
Price change 8M	143%

*** at current UAH/USD rate 8.04; performance since start of trading on the UX*

Ukrtelecom

Profile: Ukrtelecom is Ukraine's fixed-line incumbent and the only holder of a 3G license as of early December 2009. The state owns a 93% stake in Ukrtelecom.

Mobile and Internet segments' growth should make up for stagnating fixed-line sales. UTLM's net sales should grow by a healthy 13% CAGR in 2010-14, fueled by the growth in Internet and mobile revenues by 29% and 66% CAGR. Fixed-line net sales should rise by 1% CAGR, tempered by fixed-to-mobile substitution and the growth of VoIP. UTLM's EBITDA margin should rise from 24% in 2009 to 29% in 2014 and its EBITDA should grow by 17.7% CAGR in 2010-14 primarily thanks to development of high-return broadband services. Benefits from the new management that would come with UTLM's privatization, which should occur after 2010, should be a source of additional value for shareholders.

Ukrtelecom is a HOLD on the forecast of EBITDA growth. UTLM trades at a 41% premium on 2010f EV/EBITDA to global peers. However, taking into account UTLM's forecast EBITDA growth, the stock should hardly adjust to lower valuations, thanks also to its blue chip status. Our DCF model brings a USD 0.073 target price, implying a 20% upside.

Key data

Year	Net sales, UAHm	EBITDA, UAHm	Net income, UAHm	EBITDA margin	Net margin	P/E	P/Sales	EV/EBITDA	Net debt, UAHm	Debt/ Assets	ROE	Div. yield
2008	6,646	1,162	(1,526)	18%	n.m.	n.m.	1.37	10.8	2,881	0.29	n.m.	0%
2009e	7,033	1,662	(121)	24%	n.m.	n.m.	1.30	7.6	3,443	0.25	n.m.	0%
2010f	7,536	1,833	180	24%	2%	50.6	1.21	6.9	4,070	0.26	2.5%	0%
2011f	8,459	2,117	465	25%	5%	19.6	1.08	5.9	4,359	0.29	6.0%	0%
2012f	9,765	2,513	496	26%	5%	18.4	0.93	5.0	4,570	0.29	6.0%	0%
2013f	11,196	3,082	743	28%	7%	12.3	0.81	4.1	4,517	0.27	8.2%	0%

Recommendations guidelines

Astrum Investment Management stock recommendations fall into three categories: **BUY**, **HOLD** and **SELL**. Table below contains upside/downside ranges in USD terms relative to our 12M price targets that imply each recommendation:

Recommendation	Upside/(Downside) range
Buy	>25%
Hold	6%-25%
Sell	<6%

We assign **Speculative BUY** rating when specific risks associated with a Company are above 35%.

We may temporarily rate a stock as **UNDER REVIEW**, based on the issuer's latest financial results and significant news, the emergence of new risk factors concerning the issuer, or other factors.

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