

# Kyivenergo

The Company has reduced its loss in 1Q2010

May 19, 2010

Electricity distribution

	Sales (\$ mln)	EBITDA (\$ mln)	Net income (\$ mln)	P/S	EV/EBITDA	P/E
2008	1 126.1	-14.1	-112.6	0.23	neg.	neg.
2009	823.2	79.9	-16.7	0.32	4.25	neg.
01.04.2009- 31.03.2010	935.7	91.7	-2.0	0.28	3.71	neg.

Sources: Company data, UFC Capital estimates.

Kyivenergo is one of Ukraine's largest enterprises in the power industry. Apart from the delivery and supply of electricity, it is involved in its generation as well as providing heat supply services. Its installed generating capacity is 1,200 MW with an aggregate heat capacity is about 8,500 Gcal-h. The length of its power supply lines amounts to 11.2 thsd km.

- ▶ The attractiveness of the Kyiv region from the viewpoint of energy consumption has generated interest by a whole number of business groups in gaining control over Kyivenergo. The controlling interest is still owned by the NJSC 'Energy Company of Ukraine'. However, the government is determined to sell the Company after the renewal of privatization in Ukraine's power industry.
- ▶ One of the main contenders for the state-owned stake is the company DTEK, which, according to mass media, already owns a stake of over 40% in Kyivenergo.
- ▶ The non-market nature of the rates for the heat energy produced by the Company practically forces Kyivenergo to demand compensation every year from the City Administration for the difference between the rate and the production cost. The irregularity and insufficiency of this compensation has provoked a whole series of problems between Kyivenergo, Naftogaz of Ukraine, and the municipality.
- ▶ One of the proposed solutions to the problem whereby Kyivenergo is a loss-maker in terms of heat supply would be to establish a new company – Kyivteploenergo. However, municipal officials and representatives of Kyivenergo have discrepancies as to the scope of the authority to be delegated to the proposed new company.
- ▶ The Company's investment program for 2009 amounted to 163.4 mln hryvnia, while it should amount to 104 mln hryvnia in 2010.
- ▶ In 2010, Kyivenergo reached an agreement with the World Bank for a loan of up to \$200 mln, which will be used to finance the rehabilitation and development of Kyiv's energy supply system.
- ▶ In 1Q2010, the Company's sales grew by 45%; however, its profit margins were negative. At the same time, both the net and operational loss turned out to be less than in 1Q2009.

**BUY**

Current price: \$2.44

Fair price: \$4.23

Upside: 73%

### Tickers

PFTS / UX / Bloomberg      KIEN

### Shareholders structure

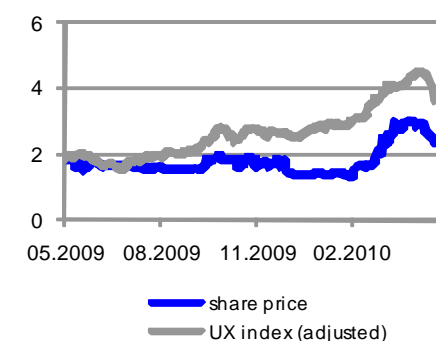
Energy Company of Ukraine NJSC	50.0%
Bledsoe Holdings Ltd. (Cyprus)	20.4%
Kapiton Trading Ltd. (Cyprus)	10.1%
Other	19.5%

### Capital Structure

Number of shares	108 364 280
Capitalization, \$ mln	264.3
Net debt, \$ mln	75.7
EV, \$ mln	340.1

### Equities performance, \$

52-week low	1.30
52-week high	3.03



## Financials

### Balance sheet, \$ mln

	31.12.2008	31.12.2009	31.03.2010
Cash and cash equivalents	14.8	18.0	29.4
Current financial investments	0.0	0.0	0.0
Commercial accounts receivable	86.2	158.2	231.9
Other accounts receivable	1.3	53.6	49.3
Inventories	50.7	48.2	56.7
Other current assets	16.8	17.8	25.7
<b>Total current assets</b>	<b>169.8</b>	<b>295.8</b>	<b>393.1</b>
Fixed assets	212.8	327.3	332.3
Other fixed assets	108.9	57.8	59.0
<b>Total fixed assets</b>	<b>321.7</b>	<b>385.1</b>	<b>391.2</b>
<b>Total assets</b>	<b>491.5</b>	<b>680.9</b>	<b>784.3</b>
Short-term loans	26.9	25.7	0.0
Current long-term liabilities	9.2	9.9	9.9
Goods accounts payable	93.2	180.2	306.5
Other current liabilities	123.9	117.5	123.8
<b>Total short-term liabilities</b>	<b>253.2</b>	<b>333.3</b>	<b>440.1</b>
Long-term bank loans	105.2	95.5	95.3
Other long-term financial liabilities	0.0	0.0	0.0
Other long-term liabilities	9.1	14.6	16.6
<b>Total long-term liabilities</b>	<b>114.3</b>	<b>110.1</b>	<b>111.9</b>
Charter capital	3.5	3.4	3.4
Retained profit	-54.7	-61.9	-72.2
Other equity	175.2	296.1	301.1
<b>Total equity</b>	<b>124.0</b>	<b>237.5</b>	<b>232.3</b>
<b>Total equity and liabilities</b>	<b>491.5</b>	<b>680.9</b>	<b>784.3</b>

Sources: company data, UFC Capital estimates.

### Income statement, \$ mln

	2008	2009	01.04.2009-31.04.2010
<b>Sales (net revenue)</b>	<b>1 126.1</b>	<b>823.2</b>	<b>935.7</b>
COGS	1 199.8	981.3	1 041.6
Gross profit (loss)	-73.7	-158.1	-105.9
Other operating income	115.1	255.8	230.4
Administrative and other operating expenses	55.5	17.7	32.7
<b>EBITDA</b>	<b>-14.1</b>	<b>79.9</b>	<b>91.7</b>
Depreciation	24.1	20.5	20.7
Operating income (loss)	-38.3	59.5	71.0
Other income	10.5	14.1	15.6
Financial expenses	11.8	7.6	6.5
Other expenses	73.0	65.2	64.9
Pre-tax profit (loss) from ordinary operations	-112.6	0.7	15.2
Income tax on ordinary operations	0.0	17.4	17.2
<b>Net income (loss) from ordinary operations</b>	<b>-112.6</b>	<b>-16.7</b>	<b>-2.0</b>

Sources: company data, UFC Capital estimates.

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## Margins

	2008	2009	01.04.2009- 31.04.2010
Gross Margin	-6.5%	-19.2%	-11.3%
EBITDA Margin	-1.3%	9.7%	9.8%
Operating Margin	-3.4%	7.2%	7.6%
Net Margin	-10.0%	-2.0%	-0.2%

## Liquidity

	31.12.2008	31.12.2009	31.03.2010
Current Ratio	0.67	0.89	0.89
Quick Ratio	0.40	0.53	0.59
Cash Ratio	0.06	0.05	0.07

## Capital Structure

	31.12.2008	31.12.2009	31.03.2010
Assets/Equity	3.96	2.87	3.38
Net Interest-Bearing Debt/Equity	1.02	0.48	0.33

## Turnover

	2008	2009	01.04.2009- 31.04.2010
Accounts receivable	11.89	6.74	5.09
Inventory	18.52	19.85	19.23
Accounts payable	18.39	7.18	4.12
Fixed assets	4.30	3.05	3.43
Equity	5.50	4.55	5.56
Assets	1.99	1.40	1.37

Sources: Company data, UFC Capital estimates.

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