



CONCORDE CAPITAL

Ukraine/ Oil & Gas

Ukrnafta

Playing By New Rules?

BUY

11 May 2005

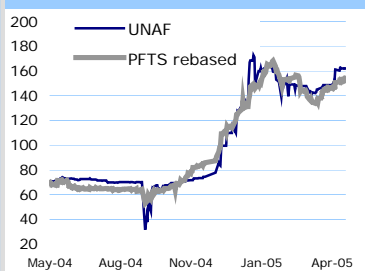
USD 32.6

12m Target

USD 35.7

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UNAF Mid-Market, UAH



Market Information

Bloomberg	UNAF UZ
Reuters	UNAF.PFT

No of Shares, mn	54.2
Reg S GDR to Ord.	1:6

Market price, USD	32.60
52Wk H/L, USD	5.92/32.60
MCap, USD mn	1,767.8
Free Float, %	8%

Stock Ownership

State	50%+1
Privat Group	42%
Minorities	8%

Ratios 2004*

EBITDA Margin	62%
EBIT Margin	49%
Net Margin	34%

Net Debt/Equity	0.06
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*Based on adjusted sales

At Ukrnafta's May 11 AGM, shareholders postponed a decision on whether to issue its highest ever dividends until June 20. Regardless of the dividend payout plans, Ukrnafta remains committed to fulfilling its plans to aggressively expand its gas station network. In the interim period, our BUY recommendation on the stock remains.

The first surprise: Quorum achieved. Despite prevailing sentiment that Privat group would block the AGM to prevent Ukrnafta from paying almost its entire 2004 net income as dividends (USD 253 mn), the group was present at the meeting with 32% of votes. Apparently, the business group does not want to place itself at odds with the new authorities, as the state owns a majority stake in UNAF through Naftogaz. Privat group may also be concerned about the fate of another asset, Nikopol Ferroalloy, which it has its eye on, and is relying on state support to gain control over it.

On the other hand, **Privat's decision to attend the AGM could also be a safety measure.** Otherwise, the company's non-attendance could have compelled the authorities to pass a law in Parliament that would have set the threshold quorum at 50% of votes registered, instead of 60%, as is currently the case. State officials have already said this is a possibility. If this were the case, Naftogaz would be able to summon an AGM, even without Privat's participation.

Dividends still on the agenda. The AGM approved Ukrnafta's 2004 performance, but postponed the issue of net income distribution until June 20. The main surprise was that Privat voted for the dividend payment and Naftogaz voted against. Previously, Ukrnafta's Supervisory Board recommended that it pay high dividends to meet the state's budgetary needs, implying that Naftogaz was behind the initiative. In our view, Privat was ready to sacrifice a portion of Ukrnafta's cash flows in the form of dividends to Naftogaz, but retain its operating control. Instead, Naftogaz suspended the issue of dividend payment until the next EGM, which will also consider changes in the company's management. We think that the two key shareholders will reach a compromise by that date, enabling Naftogaz and Privat to oversee the company's operations equally.

Vertical integration plans not threatened. According to the company's management, the further acquisition of gas stations will take place regardless of whether it pays dividends, and this stance has been supported by both key stakeholders. Ukrnafta has access to a Deutsche Bank credit line of USD 140 mn – yet unused – and can borrow even more than this amount. The target of 800 stations by year-end remains unchanged. Other important projects are a possible JV with Kazmunaygaz for oil extraction in Kazakhstan and completion of the Gamaliyivka gas processing plant by 2007.

Tolling is back. As we expected, Ukrnafta continues using tolling with the Naftokhimyk Prykarpattya refinery, as this makes oil products less expensive and helps the state control the market. Although non-transparent, we think this move is positive, as it will boost Ukrnafta's cash flows.

KEY FINANCIAL DATA, USD mn

	Net Revenue	EBITDA	Net Income	DPS, USD
2004	736.0	459.0	253.3	0.374
2005E	1,463.7	665.0	353.1	0.456
2006E	2,175.1	834.9	468.3	0.604
Spot Exch Rate		5.05		

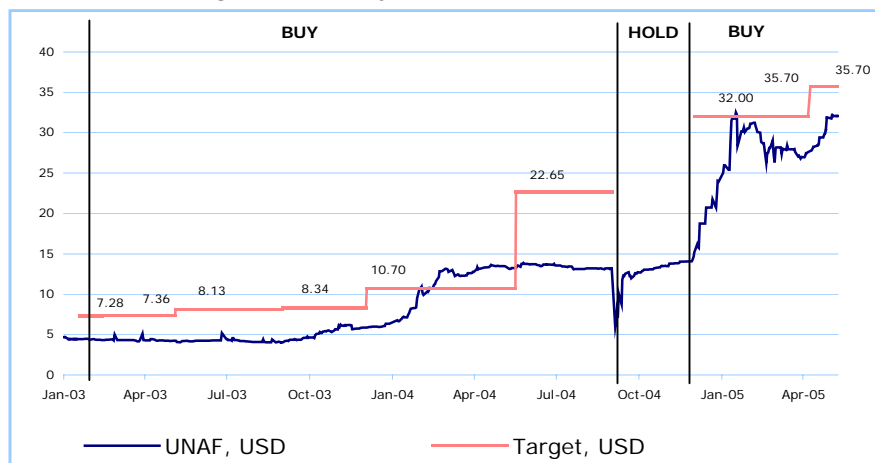
KEY RATIOS

	P/S	P/E	EV/EBITDA	Div Yield
2004	2.40	6.98	4.02	1.1%
2005E	1.21	5.01	3.01	1.4%
2006E	0.81	3.77	2.27	1.9%

Analyst Certification

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

Stock Price And Target Price History, USD



Andriy Gostik

Date	Target Price, USD	Closing Price, USD
20-Jan-03	7.28	4.43
17-Feb-03	7.36	4.32
07-May-03	8.13	4.23
03-Sep-03	8.34	4.05
05-Dec-03	10.70	5.87
19-May-04	22.65	13.23
06-Sep-04	Pending	5.93
03-Dec-04	32.00	15.17
11-Apr-05	35.70	27.75

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