



CONCORDE CAPITAL

Ukraine/ Oil & Gas

Ukrnafta

Going Abroad?

HOLD

21 Dec 2005

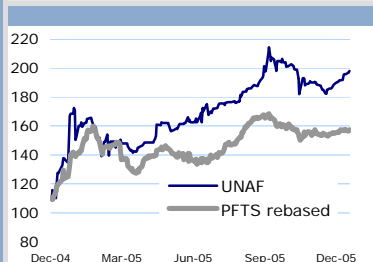
USD 39.2

12m Target

USD 35.7

Andriy Gostik
+380 44 206 8370
ag@concorde.com.ua

UNAF Mid-Market, UAH



Market Information

Bloomberg UNAF.UZ
Reuters UNAF.PFT

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

Market price, USD 39.20
52Wk H/L, USD 21.78/42.48
MCap, USD mln 2,125.8
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

**Based on adjusted sales*

Ukrnafta's EGM on December 20, 2005, confirmed speculation that the company had finally found a foreign country interested in allowing it extract oil. The new Nigerian project could potentially put an end to Ukrnafta's concerns about the depletion of oil reserves in Ukraine. This raises our optimism for the company's future. Yet, we retain our HOLD recommendation until we receive confirmation that the contracts have been signed and licenses received.

Foreign Extraction Opportunities Taking Shape. On December 20, 2005 Ukrnafta held an EGM with 90.6% of all votes registered. Ihor Kolomoyskiy, one of Ukraine's wealthiest businessmen and the key player in Privat group, UNAF's largest minority shareholder, was present at the meeting, a rare sight at events like this. The EGM voted to create an Ukrnafta JV in Nigeria. According to the company's CEO, Igor Palytsia, a Nigerian minister visited Ukrnafta to discuss the possibility of the company receiving licenses for the exploration and extraction of Nigerian oil. In addition, if these talks materialize, Ukrnafta will have an opportunity to purchase crude from Nigeria at below market prices. The monthly volume of additional oil is estimated to be around 150 ths mt, or 60% of the company's current extraction. Now the management is negotiating with Russian companies to substitute Nigerian oil with Russian oil to simplify shipping.

Naftogaz's CEO Now Chairman Of The Board For Ukrnafta. Oleksiy Ivchenko's replacement of former Chairperson Serhiy Pereloma was the most important change to the Board, all other moves made at the EGM were minor reshuffles of Naftogaz personnel. We see Ivchenko's appointment as a sign of enhanced state control over the company, which is the price Privat was forced to pay to retain their management position. This should lead to higher transparency and give the company state support in vertical integration endeavors. However, these positive developments will come at cost, extraction royalties are set to increase 59% in 2006 which will up the company's tax burden.

Ukrnafta Not To Bid For A 33% Stake In The Galychyna Refinery. In the words of both Palytsia and Kolomoyskiy, Ukrnafta decided not to bid for the refinery because the stake offered would not give the company full control over Galychyna. The company announced this in the wake of rumors that Privat had intended to sell its stake in the refinery at an inflated price to Ukrnafta. However, Ukrnafta made it clear that it would be interested in buying a controlling stake in the Galychyna refinery, or, alternatively, in the Odesa, Kherson or Nadvirna refineries should they be offered for sale to complete its vertical integration. Currently Ukrnafta uses beneficial tolling schemes with the Naftokhimyk Prykrarpattya refinery (Nadvirna) to produce oil products.

KEY FINANCIAL DATA, USD mln

	Net Revenue	EBITDA	Net Income	DPS, USD
2004	736.0	459.0	253.3	4.670
2005E	1,271.1	669.4	388.7	2.866
2006E	2,287.6	866.3	485.9	2.240
Spot Exchange Rate		5.05		

KEY RATIOS

	P/S	P/E	EV/EBITDA	Div Yield
2004	2.89	8.39	4.80	11.9%
2005E	1.67	5.47	3.59	7.3%
2006E	0.93	4.37	2.66	5.7%

Retail Expansion To Resume Next Year. Ukrnafta had to rein in its pace of gas station acquisitions due to intensified state control and inspection for transfer pricing. Consequently, the company only won tenders for the purchase of 197 new stations making its total 598 stations. The company had planned to push its total to 800 this year. We forecasted 750 units in Ukrnafta's network by the end of 2005. Out of 197 potential acquisitions, the company has already received a permit from the Antimonopoly Committee for the purchase of 95 stations and transferred money for 28 stations. We expect Ukrnafta to catch up on its expansion plans next year, as the turmoil around the company calms down.

2005 Net Income Tops Our Forecast But Sales Fall Short. According to Ukrnafta's CEO, the company will be able to post a net income of almost USD 400 mln in the current year thanks to its retail segment. This is up 58% yoy and above our projection of USD 334 mln. After examining Ukrnafta's interim financials, we have found that the number mentioned by Palytsia is feasible provided Ukrnafta has a 4th quarter as strong as its 3rd quarter. In addition, Ukrnafta's net income goal will be more attainable if the effective tax rate in 2005 is reduced to 25% from 2004's 30%.

	1Q05	2Q05	3Q05	9M05
Net Revenues	242.0	227.2	370.7	839.9
EBITDA	130.1	110.0	198.7	438.8
<i>EBITDA margin, %</i>	53.8%	48.4%	53.6%	52.2%
EBIT	106.6	85.7	173.4	365.8
<i>EBIT margin, %</i>	44.1%	37.7%	46.8%	43.5%
PBT	107.4	83.1	170.9	361.5
Tax	-	(50.2)	-	(50.2)
<i>Effective tax rate</i>	0%	60%	0%	14%
Net Income	107.4	32.9	170.9	311.3
<i>Net Margin, %</i>	44%	14%	46%	37%

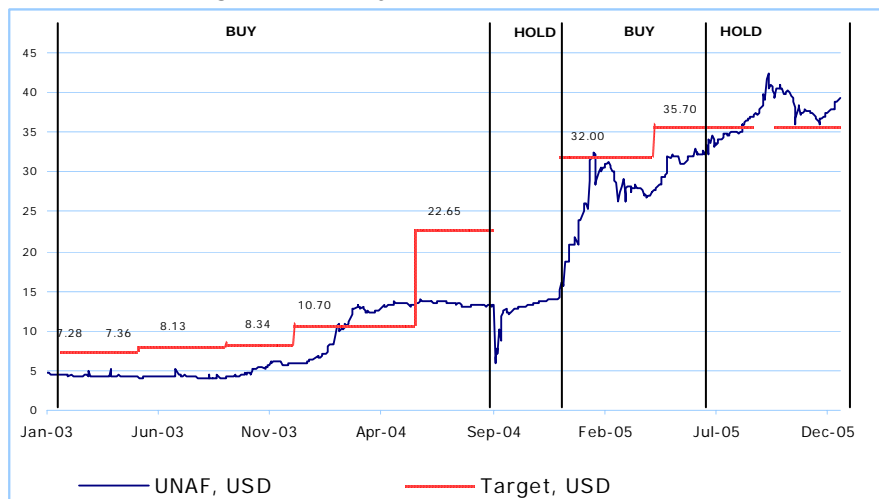
Based on nine month UAS financials, Ukrnafta will likely report higher profitability margins than we projected largely due to higher than expected prices for oil products in 3Q05 and tolling schemes with Naftokhymyk Prykarpattya. With this in mind, we revised our 2005 projections as follows:

	2005E new	2005E old
Net Revenues	1,271.1	1,475.6
EBITDA	669.4	640.8
Net Income	388.7	334.0

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
26-Aug-05	Pending	37.00
22-Sep-05	35.70	39.20

Concorde Capital
3V Sportyvna Square
2nd entry, 3rd floor
Kyiv 01023, UKRAINE

Tel +380 44 206 8370
Fax: +380 44 206 8366
www.concorde.com.ua
office@concorde.com.ua

CEO

Igor Mazepa

im@concorde.com.ua

COO/ Managing Partner

John David Suggitt

js@concorde.com.ua

Director, International Equity Sales

Peter Bobrinsky

pb@concorde.com.ua

Equity Sales

Marina Martirosyan
Lucas Romriell
Alexis Stenbock-Fermor
Anastasiya Nazarenko

mm@concorde.com.ua
lr@concorde.com.ua
asf@concorde.com.ua
an@concorde.com.ua

Director of Research

Konstantin Fisun, CFA

kf@concorde.com.ua

Utilities (Telecom, Energy)

Alexander Paraschiy

ap@concorde.com.ua

Oil & Gas, Pipes, Metals

Andriy Gostik

ag@concorde.com.ua

Machine Building, Chemicals

Olga Pankiv

op@concorde.com.ua

Banking & Macroeconomics

Alexander Viktorov

av@concorde.com.ua

Junior Analysts

Eugene Cherviachenko
Polina Khomenko

ec@concorde.com.ua
pk@concorde.com.ua

Editor

Nick Piazza

np@concorde.com.ua

Disclaimer

This report has been prepared by Concorde Capital investment bank for informational purposes only. Concorde Capital does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that Concorde Capital may have a conflict of interest that could affect the objectivity of this report.

Concorde Capital, its directors and employees or clients may have or have had interests or long or short positions in the securities referred to herein, and may at any time make purchases and/or sales in them as principal or agent. Concorde Capital may act or have acted as market-maker in the securities discussed in this report. The research analysts, and/or corporate banking associates principally responsible for the preparation of this report receive compensations based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and investment banking revenues.

The information contained herein is based on sources which we believe to be reliable but is not guaranteed by us as being accurate and does not purport to be a complete statement or summary of the available data. Any opinions expressed herein are statements of our judgments as of the date of publication and are subject to change without notice. Reproduction without prior permission is prohibited. © 2005 Concorde Capital
