



CONCORDE CAPITAL

Ukraine / Oil & Gas

Galnaftogaz

USD 48 mln Capital Injection Approved

February 04, 2008

Current price: USD 0.028
12M Target: U/R

U/R

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- USD 48.3 mln capital increase approved at EGM today
- About 84% of minorities (in terms of cumulative holdings) did not subscribe, as the placement price ended up above the market
- The capital increase enables more borrowing; funds will be used for expanding the company's retail network

Tickers

PFTS	GLNG
GDR (Frankfurt/Xetra)	C9Z

Market information

Market price, USD 0.028

MCap, USD mln 487.2

Chg 12M 11.0%

Hi/Lo 12M, USD 0.035/0.005

DRs per common share 1:500

No of shares, mln 17,524

Avg Mon Tr Vol 12M, USD mln 0.046

Free float 18.9%

Free float, USD mln 92.1

Corporate Governance

Concorde Rating^Q

* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

Shareholders

GNG Retail Ltd and related*	81.1%
Other	18.9%

* In 2H07, GNG Retail Ltd. replaced F.I.E.H. as a majority shareholder. According to management, this was a 'technical' change, ultimate shareholder did not change, and still holds approx. 81% of Galnaftogaz.

EGM approves USD 48.3 mln capital increase

At their EGM today, Galnaftogaz shareholders approved a capital increase of USD 48.3 mln, USD 9.1 mln less than planned (see our Nov. 6, 2007 flash note). The company placed 1,523.8 mln new shares at UAH 0.16 (USD 0.032).

Share issue details

	# of shares	Charter fund, USD mln	Additional paid-in capital, USD mln	Total, USD mln
Previous	16,000.0	31.7	4.0	35.6
Additional issue	1,523.8	3.0	45.3	48.3
Current	17,523.8	34.7	49.3	83.9
Change	9.5%	11.3%	1,132.5%	135.7%

Source: Company data, Concorde Capital calculations

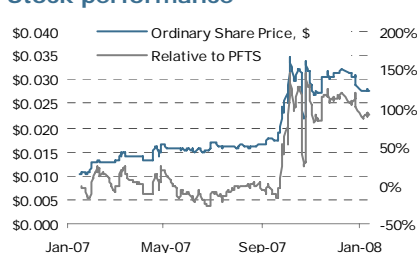
The issue turned out too expensive

Most minority shareholders ignored the issue, in our view because of too high a price. Although the shares were intended to be placed at the market price, since the announcement, the stock's mid-market dropped by 14.0% on the overall market correction. As a result, ignoring the placement was beneficial, while subscribing for new shares would have increased PM's weighted average cost.

Capital increase enables more debt, to fuel growth

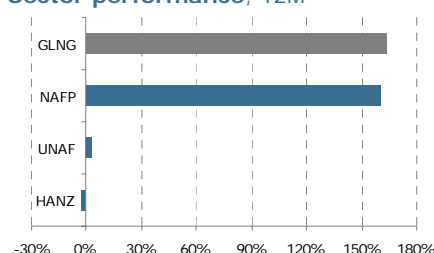
Proceeds will be used to expand the company's retail network this year. The share capital inflow also improves borrowing capacity. In December 2007 Galnaftogaz lined up USD 200 mln in financing from the EBRD and IFC, which we expect to be the main source of funds for expansion going forward.

Stock performance

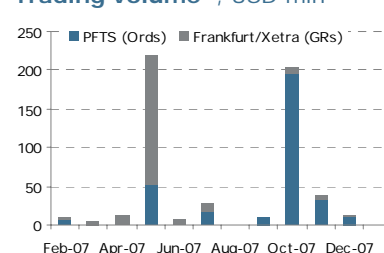


* No trades in January 2008
Source: Bloomberg, PFTS

Sector performance, 12M



Trading volume*, USD mln



Key financials & ratios*, USD mln

	Revenue	EBITDA	Net Income	EBITDA Mgn	Net Mgn	EV/S	EV/EBITDA	P/E
2006	514.7	26.2	7.4	5.1%	1.4%	1.45	34.43	67.81
2007E	645.4	39.5	13.1	6.1%	2.0%	0.96	15.72	37.21
2008E	904.8	55.1	17.7	6.1%	2.0%	0.74	12.21	27.46

* Forward EV not adjusted for the additional capital
Spot exchange rate: 5.05 UAH/USD
Source: Company data, Concorde Capital estimates

SHARE ISSUE ALERT

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Investment Ratings

The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 15% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 15%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

Concorde Capital ratings distribution

Buy	40	38%
Hold	29	27%
Sell	13	12%
Under Review	24	23%
Total	106	100%

Investment banking clients*

Buy	7	78%
Hold	1	11%
Sell	0	0%
Under Review	1	11%
Total	9	100%

* Within the last twelve months, Concorde Capital has obtained compensation from these companies.

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