CONCORDE CAPITAL

# Galnaftogaz

## Well, now it's for real

**March 06, 2008**

**Current price: USD 0.022**
**12M Target: USD 0.029**

**BUY**

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- **Raising USD 48 mln in equity in Nov.07 and arrangement of USD 200 mln credit line from EBRD/IFC in Dec.07, unleashed one of Galnaftogaz's key value drivers, network growth**
- **We upgrade our forecast of retail chain expansion to 500 stations by 2011 eoy from 325 previously**
- **Development of high-margin non-fuel segment proved successful over 2006-07. We triple our cross-sell revenue forecast, to USD 130 mln by 2011, with its share in total sales now twice higher than assumed before**
- **The terms of convertible notes placed in Nov.07 include an additional incentive to hold an IPO by Nov.09**

### Removal of financing bottleneck unlocks network growth

Retail network expansion in 2007 was restrained by insufficient financing. By yearend the number of stations only reached 252 (incl. 208 OKKO branded), vs. the plan of 287 (258 OKKO). Successful attraction of USD 48 mln in equity in Nov.07 (finalized in Feb.08), funded via placement of convertible notes by Galnaftogaz's majority shareholder, enabled the arrangement of a total USD 200 mln credit lines from the EBRD and IFC.

Removal of the financing bottleneck greenlights the company's expansion plans; we upgrade our forecast on the number of stations from 325 previously to 500 by 2011 eoy.

### Higher share of non-fuel sales to prop up margins

With the Galnaftogaz's success in developing its non-fuel business line over 2006-07, we assume the share of cross-sell goods and services in total revenues will reach 6.6% by 2011, more than double our previous forecast. This will induce higher aggregate profitability, as non-fuel sales have 4-5 times higher gross margins than fuel retailing.

### Valuation upgraded, IPO remains a strong catalyst

We set the 12M target price at USD 0.029 per share (implied MCap of USD 510 mln, 32% upside), based on DCF and asset-based valuation. Management is targeting a USD 0.8-1.0 bln MCap at IPO 20-months away on the LSE. The terms of convertible notes, issued in Nov. 2007, contain strong incentives for Galnaftogaz to place shares by Nov. 2009.

**Tickers**

| | |
|---|---|
| PFTS | GLNG |
| GDR (Frankfurt/Xetra) | C9Z |

**Market information**

| | |
|---|---|
| Market price, USD* | 0.022 |

** Hereafter market price refers to the price implied by the mid-market price of FSE-listed GDRs (GDR price divided by DR ratio), which is more reliable than quotes of common shares traded on PFTS with substantial spreads*

| | |
|---|---|
| MCap, USD mln | 385.5 |
| Chg 12M | 82.9% |
| Hi/Lo 12M, USD | 0.032/0.012 |
| DRs per common share | 1:500 |
| No of shares, mln | 17,524 |
| Avg Mon Tr Vol*, USD mln | 0.044 |

** Over the last 6 months*

| | |
|---|---|
| Free float | 17.6% |
| Free float, USD mln | 67.8 |

**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.*

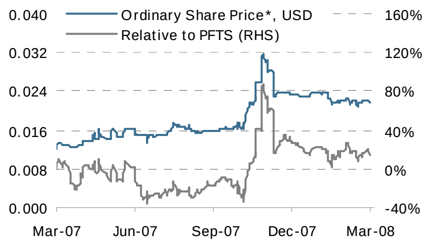
**Shareholders**

| | |
|---|---|
| GNG Retail Limited | 79.7% |
| F.I.E.H. | 2.7% |
| Other | 17.6% |

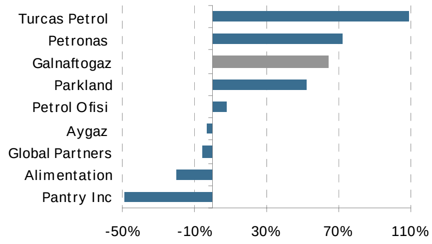
**Upcoming events**

| | |
|---|---|
| 2007 IFRS financials | April 2008 |

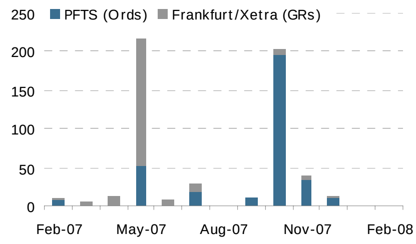
**Stock performance**




**Sector performance**, 12M




**Trading volume**, USD ths




** Share price implied by mid-market price of depository receipts on FSE*
*Source: Bloomberg, PFTS*

**Key financials & ratios**, USD mln

| | Revenue | EBITDA | Net Income | EBITDA Mgn | Net Mgn | EV/EBITDA | P/CF | P/E |
|---|---|---|---|---|---|---|---|---|
| 2006 | 514.7 | 26.2 | 7.4 | 5.1% | 1.4% | 18.81 | neg | 51.91 |
| 2007E | 664.4 | 34.1 | 6.3 | 5.1% | 1.0% | 17.18 | neg | 61.00 |
| 2008E | 955.9 | 56.3 | 14.3 | 5.9% | 1.5% | 11.62 | 8.11 | 27.00 |
| 2009E | 1,365.0 | 85.6 | 25.2 | 6.3% | 1.8% | 8.64 | 13.63 | 15.32 |

*Spot exchange rate: 5.05 UAH/USD*
*Source: Company data, Concorde Capital estimates*

# IPO parameters shaping up

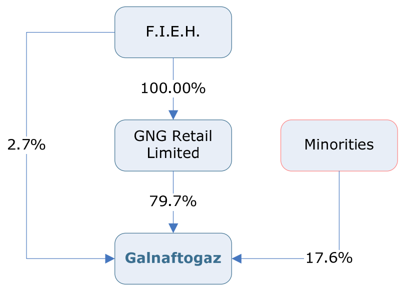
### Deadline set for Nov. 09. Now propped up by monetary stimulus

In November 2007 GNG Finance Public Limited, a subsidiary of Financial & Investment Energy Holding (F.I.E.H.), a Galnaftogaz shareholder, placed USD 50 mln 5% 5Y mandatory convertible notes. The notes mature on November 6, 2012 and can be converted into shares of Galnaftogaz before maturity, provided it holds an IPO. If the company fails to place shares by Nov.09, the annual coupon rate will rise a step every year thereafter. This presents a clear monetary stimulus to meet the deadline.

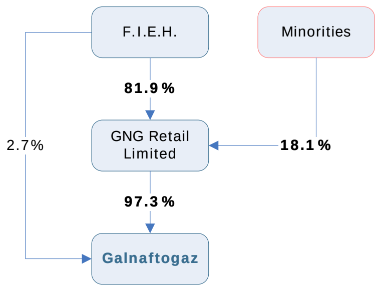
### Offering is likely to be made through GNG Retail, an SPV

Though there has been no announcement on which company will bring its shares to the market, the two options are Galnaftogaz (Ukraine) and GNG Retail Limited (Cyprus, an SPV currently holding 79.7% in Galnaftogaz). According to Galnaftogaz management, GNG Retail, which was established in 3Q07, is the most likely candidate, as Cyprus jurisdiction better fits the LSE placement process from a technical standpoint.

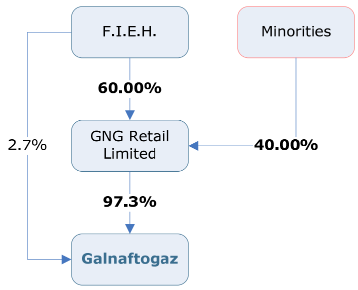
**Current ownership structure**




**After share conversion** (Galnaftogaz shares into shares of GNG Retail)




**After IPO** (assuming additional share issue by GNG Retail and partial sellout by F.I.E.H)




*Source: Company, Concorde Capital forecast*

### Exchange: LSE

In February 2008 the company announced it had chosen the London Stock Exchange as its IPO venue. Galnaftogaz already adopted its management structure to the requirements of the LSE's Combined Code on Corporate Governance. Other organizational changes to ensure compliance with the exchange's policies are underway.

### What will be the price?

Our 12M target implies Galnaftogaz's fair equity value at placement (assuming it will be done in November 2009) at somewhere around USD 550-560 mln. Yet, we do not rule out that high demand will push the price up by another USD 50-75 mln in terms of MCap.

**Management targets USD 0.8-1.0 bln MCap.** According to management, they are targeting MCap at IPO of USD 0.8-1.0 bln. Most likely, both existing and new shares will be sold during the IPO. Galnaftogaz's majority shareholder plans to retain a 60% stake (directly or otherwise) in the company, and to raise ~USD 40 mln through an additional share issue.

### A bit of makeup

In addition to optimization of its ownership structure, in 2007-early 2008 Galnaftogaz adopted its management structure to the requirements of the LSE's Combined Code on Corporate Governance. This move involves shifting to the principle of a Board of Directors with each director responsible for a business direction and an executive director. The new structure is also expected to better facilitate day-to-day business decisions and their implementation.

Management also disclosed that they are shifting to quarterly IFRS reporting, starting with 1Q08. This is rare in Ukraine, and will definitely bolster to the quality of Galnaftogaz's corporate governance.

# Revision of key forecasts

Main changes to our forecasts were:

- **Number of filling stations: upgraded.** In our base case scenario, we assume the number of stations increases to 500 (by 2011 eoy), up from the previously assumed 325, but still 50 below management's target. Despite the history of management underperforming their plans, we now give more weight to the company's projections, given that it has successfully resolved its CapEx financing issue and the management's stronger commitment to IPO.

- **Average daily sales per station: downgraded.** Partly, this is a side effect of more launches in the near term. In the long-term, we believe 9.5 mt a day (down from 10.0 mt assumed before) is a more accurate estimate given the data on comparable Russian and European companies.

- **Fuel prices: upgraded.** We upgrade our price forecasts for 2008 forward to reflect our revised crude oil price projections (see our report on Ukrnafta of Jan. 22, 2008). Meanwhile, the 2007 average retail fuel price (USD 0.84/L) almost exactly matched our forecast (USD 0.83/L).

- **Sales of goods and services: upgraded.** In 2007 the company outperformed our forecast on non-fuel sales by 47%. Given the strategic importance of the segment, which brings ~4-5x higher margins than fuel retail, we foresee a stronger focus on growing goods and services sales. We expect that non-fuel sales to reach 6.6% of revenues in 3-4 years, up from an estimated 5.5% in 2007, and twice higher the ratio we projected before.

- **CapEx: upgraded,** on our more optimistic expectations of retail network expansion. We also upgraded the rate of per-station capital cost appreciation.

### Forecast revision summary

| | | Updated* | | | Previous | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **2007E | 2008E | 2009E | 2007E | 2008E | 2009E | 2007E | 2008E | 2009E |
| **Financials** | | | | | | | | | | |
| Net revenue | USD mln | 664.4 | 955.9 | 1,365.0 | 645.4 | 904.8 | 1,122.2 | 3% | 6% | 22% |
| Gross profit | USD mln | 59.0 | 90.5 | 132.0 | 48.5 | 66.5 | 80.2 | 22% | 36% | 65% |
| *Gross margin* | *%* | *8.9%* | *9.5%* | *9.7%* | *7.5%* | *7.3%* | *7.1%* | *1p.p.* | *2p.p.* | *3p.p.* |
| SG&A and other | USD mln | (24.9) | (34.1) | (46.4) | (9.0) | (11.3) | (9.1) | 178% | 202% | 411% |
| EBITDA | USD mln | 34.1 | 56.3 | 85.6 | 39.5 | 55.1 | 71.1 | -14% | 2% | 20% |
| *EBITDA margin* | *%* | *5.1%* | *5.9%* | *6.3%* | *6.1%* | *6.1%* | *6.3%* | *-1.0p.p.* | *-0.2p.p.* | *0.0p.p.* |
| EBIT | USD mln | 26.8 | 42.9 | 65.7 | 28.7 | 37.7 | 47.6 | -7% | 14% | 38% |
| *EBIT margin* | *%* | *4.0%* | *4.5%* | *4.8%* | *4.4%* | *4.2%* | *4.2%* | *-0.4p.p.* | *0.3p.p.* | *0.6p.p.* |
| Net income | USD mln | 6.3 | 14.3 | 25.2 | 13.1 | 17.7 | 23.7 | -52% | -20% | 6% |
| *Net margin* | *%* | *1.0%* | *1.5%* | *1.8%* | *2.0%* | *2.0%* | *2.1%* | *-1.1p.p.* | *-0.5p.p.* | *-0.3p.p.* |
| | | | | | | | | | | |
| Net Debt | USD mln | 200.7 | 269.3 | 353.8 | 133.9 | 186.5 | 209.6 | 50% | 44% | 69% |
| CapEx | USD mln | (77.4) | (162.9) | (152.8) | (73.7) | (76.5) | (61.2) | 5% | 113% | 150% |
| | | | | | | | | | | |
| **# of stations** | | | | | | | | | | |
| Total, eoy | | 252 | 352 | 417 | 256 | 291 | 316 | -2% | 21% | 32% |
| OKKO | | 208 | 318 | 398 | 219 | 274 | 309 | -5% | 16% | 29% |
| Non-branded | | 44 | 34 | 19 | 37 | 17 | 7 | 19% | 100% | 171% |
| Addition to the ann. avg. | | 38 | 74 | 84 | 39 | 40 | 31 | -5% | 85% | 172% |
| | | | | | | | | | | |
| **Sales** | | | | | | | | | | |
| Avg. daily SPS | mt | 6.9 | 7.5 | 8.0 | 7.3 | 8.7 | 9.6 | -5% | -14% | -17% |
| OKKO | mt | 8.1 | 8.2 | 8.3 | 8.6 | 9.5 | 9.9 | -6% | -13% | -16% |
| Non-branded | mt | 2.1 | 2.5 | 3.2 | 1.8 | 1.6 | 1.4 | 17% | 58% | 126% |
| Total O.P. retailed | ths mt | 564.6 | 813.9 | 1,110.0 | 614.8 | 863.3 | 1,053.1 | -8% | -6% | 5% |
| Bulk O.P. sales | ths mt | 178.4 | 95.5 | 72.2 | 75.0 | 75.0 | 75.0 | 138% | 27% | -4% |
| LPG | ths mt | 8.3 | 9.8 | 10.0 | 18.4 | 29.2 | 37.0 | -55% | -66% | -73% |
| CNG | ths m3 | 0.8 | 5.9 | 13.3 | 4.4 | 12.2 | 21.3 | -83% | -52% | -38% |
| Goods and services | USD mln | 43.6 | 62.6 | 93.1 | 31.3 | 39.6 | 46.0 | 39% | 58% | 102% |
| *% in gross revenue* | *%* | *5.5%* | *5.5%* | *5.7%* | *4.0%* | *3.6%* | *3.4%* | *1.4p.p.* | *1.8p.p.* | *2.3p.p.* |
| | | | | | | | | | | |
| **Prices*** ** | | | | | | | | | | |
| Avg. retail O.P. price | USD/L | 0.829 | 0.955 | 1.041 | 0.841 | 0.865 | 0.892 | -1% | 10% | 17% |
| Avg. retail O.P. price, EU15 | USD/L | 0.792 | 0.912 | 0.976 | n/a | n/a | n/a | n/m | n/m | n/m |

** According to our Base Case scenario. Please refer to the DCF Valuation section of this report.*
*** Actual data, except financials*
**** End-user prices (incl. VAT)*
*Source: Company data, Bloomberg, Concorde Capital estimates*

# Growth unlocked

### Debt backing makes expansion plan more realistic

Placement of convertible notes by GNG Public Limited, with a consequent inflow of USD 48 mln into Galnaftogaz's share capital, enabled the company to attract USD 200 mln in loans from the EBRD and IFC. This will facilitate expansion, which was restrained by the financing bottleneck in 2007, according to management.

Given the strong commitment to IPO, we upgrade our forecast of network rollout considerably, from 325 stations to 500 by 2011. This is still 50 stations below the management's target of 550 to capture risks associated with the targeted size of the network:

- **Availability of good locations.** Growing competition for good locations makes them scarcer. According to Galnaftogaz management, they have more than 150 land plots in their pipeline. That should be enough for 1.5-2 years of development. Management expects that acquisitions of smaller chains will bring about 1/2 of their new stations.

- **Cost of acquisitions**. Increasing competition means that the cost of acquisitions will also rise. In our model, we assume the average cost of new launches rises from an estimated ~USD 1 mln in 2007 to USD 1.2 mln in 2012.

- **Debt covenants**. Higher debt puts more restrictions on the company's financial standing. If Galnaftogaz violates credit covenants, e.g., Debt/EBITDA, banks could limit financing and/or increase the cost of debt. The company does not disclose specific covenants included in its loan agreements.

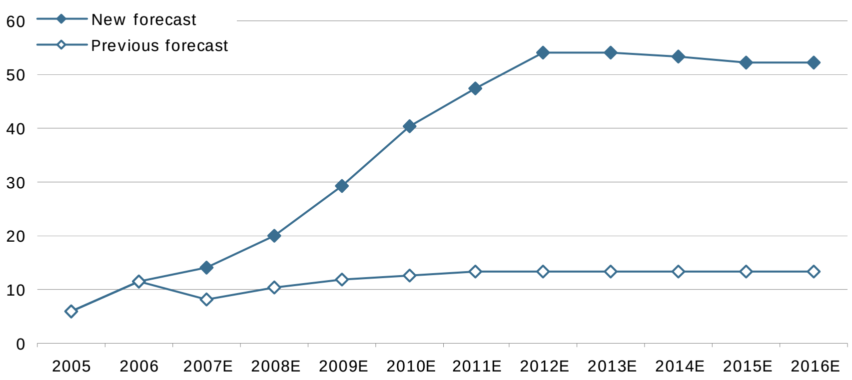
### Development of cross-sell is crucial to profitability

Given the narrow margins in fuel retail, sales of goods and services are an important profitability driver and safety cushion against possible squeezes in the profitability of fuel retail. Our view was also confirmed by management, which reportedly considers development of non-fuel segments a top priority.

In addition to launching the "Tobi" trademark for convenience stores in 2007, the company is targeting the development of fast-food outlets, coffee shops and restaurants. There are also plans to launch a network of motels in cooperation with a well-known worldwide hotel operator. The cross-sell business line is headed by one of Galnaftogaz key top managers, Vasyl Danylyak.

We upgrade our forecasts and assume sales of goods and services will reach 6.6% of total revenue by 2011, compared to the 3.2% we forecasted before. This resulted in roughly 3x increase in gross profit forecast, as non-fuel sales bear 4-5x higher gross margins.

**Gross profit from goods and services**, USD mln

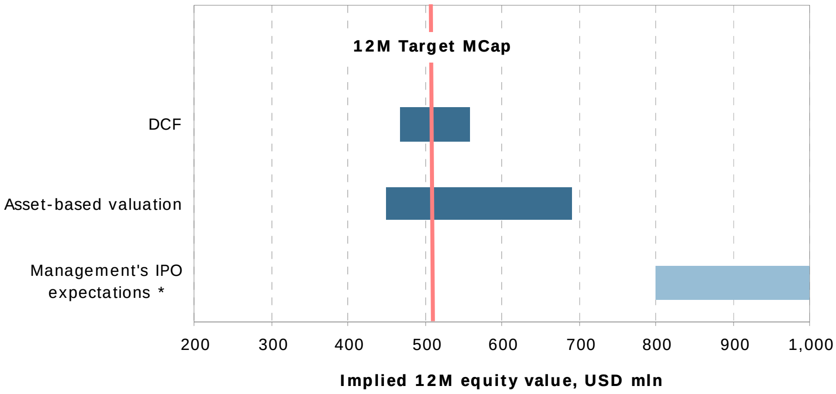



*Source: Company data, Concorde Capital estimates*

# Valuation

Our DCF and asset-based valuation suggest a range for Galnaftogaz's equity value from USD 350 to 558 mln 12 months out (USD 0.020-0.032 per share). We set our target at USD 0.029 per share (implied MCap of USD 510 mln, 31.8% upside).

### Valuation summary




** Provided for reference*
*Source: Concorde Capital estimates*

# DCF valuation

Our DCF valuation suggests a range for Galnaftogaz's equity value of USD 468-558 mln, depending on the size of its network (500 stations by 2011 in the base case and 550 under the optimistic scenario). The model yields a considerable terminal value (88.2% in the base case), which is the result of improved growth assumptions. As we mentioned before, we upgraded those on the company's stronger commitment to meeting IPO targets.

## DCF output (base case)

Valuation as of March 3
UAH mln

| | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E |
|---|---|---|---|---|---|---|---|---|---|---|
| EBITDA | 172.3 | 281.6 | 427.8 | 582.9 | 687.6 | 764.1 | 762.9 | 755.4 | 745.4 | 745.5 |
| EBIT | 135.1 | 214.6 | 328.7 | 456.8 | 542.7 | 606.5 | 595.7 | 578.7 | 559.1 | 549.5 |
| Tax Rate | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% |
| Taxed EBIT | 101.4 | 160.9 | 246.6 | 342.6 | 407.1 | 454.9 | 446.8 | 434.0 | 419.3 | 412.1 |
| Plus D&A | 37.2 | 67.1 | 99.1 | 126.1 | 144.9 | 157.6 | 167.2 | 176.7 | 186.3 | 196.0 |
| Less CapEx | (390.7) | (814.3) | (764.1) | (664.4) | (457.3) | (288.6) | (225.8) | (221.0) | (224.9) | (228.3) |
| Less change in OWC | (90.8) | 100.9 | (82.9) | (73.6) | (49.6) | (29.2) | (14.8) | 3.1 | 4.1 | (0.0) |
| FCFF | - | - | (501.4) | (269.3) | 45.0 | 294.7 | 373.5 | 392.8 | 384.7 | 379.8 |
| WACC | 10.3% | 9.9% | 9.4% | 9.1% | 8.8% | 8.6% | 8.9% | 9.2% | 9.5% | 9.8% |

| | | | |
|---|---|---|---|
| Sum of discounted CFs | 442.2 | WACC To Perpetuity | 10.0% |
| PV of Terminal Value | 3,317.2 | Terminal Value | 6,583.5 |
| Firm Value | 3,759.4 | Perpetuity Growth Rate | 4.0% |
| *Portion due to TV* | *88.2%* | Implied Exit EBITDA Multiple | 8.8x |
| Less Net Debt | (1,418.1) | | |
| Equity Value | 2,341.3 | | |
| **Implied 12M share price, UAH** | **0.134** | | |
| **Implied 12M share price*, USD** | **0.027** | | |

** 2008 UAH/USD rate forecast: 5.00*

## Sensitivity of 12M DCF implied price, USD per share

| 10-Year Discount Rates | Perpetuity Growth Rate | | | | |
|---|---|---|---|---|---|
| | *3.0%* | *3.5%* | *4.0%* | *4.5%* | *5.0%* |
| *WACC-1.0%* | 0.024 | 0.027 | 0.030 | 0.034 | 0.039 |
| *WACC-0.5%* | 0.022 | 0.025 | 0.028 | 0.032 | 0.037 |
| *WACC+0.0%* | 0.021 | 0.024 | **0.027** | 0.030 | 0.035 |
| *WACC+0.5%* | 0.020 | 0.022 | 0.025 | 0.029 | 0.033 |
| *WACC+1.0%* | 0.018 | 0.021 | 0.024 | 0.027 | 0.031 |

| WACC to perpetuity | Perpetuity Growth Rate | | | | |
|---|---|---|---|---|---|
| | *3.0%* | *3.5%* | *4.0%* | *4.5%* | *5.0%* |
| *9.0%* | 0.026 | 0.030 | 0.034 | 0.039 | 0.046 |
| *9.5%* | 0.023 | 0.027 | 0.030 | 0.034 | 0.040 |
| *10.0%* | 0.021 | 0.024 | **0.027** | 0.030 | 0.035 |
| *10.5%* | 0.019 | 0.021 | 0.024 | 0.027 | 0.031 |
| *11.0%* | 0.017 | 0.019 | 0.021 | 0.024 | 0.027 |

*Source: Concorde Capital estimates*

## Sensitivity of 12M DCF implied MCap, USD mln

| 10-Year Discount Rates | Perpetuity Growth Rate | | | | |
|---|---|---|---|---|---|
| | *3.0%* | *3.5%* | *4.0%* | *4.5%* | *5.0%* |
| *WACC-1.0%* | 460.7 | 523.8 | 599.6 | 692.1 | 807.8 |
| *WACC-0.5%* | 410.8 | 464.5 | 527.9 | 604.1 | 697.2 |
| *WACC+0.0%* | 368.0 | 414.3 | **468.3** | 532.1 | 608.6 |
| *WACC+0.5%* | 330.9 | 371.3 | 417.8 | 472.0 | 536.2 |
| *WACC+1.0%* | 298.5 | 334.0 | 374.5 | 421.3 | 475.8 |

| WACC to perpetuity | Perpetuity Growth Rate | | | | |
|---|---|---|---|---|---|
| | *3.0%* | *3.5%* | *4.0%* | *4.5%* | *5.0%* |
| *9.0%* | 460.7 | 523.8 | 599.6 | 692.1 | 807.8 |
| *9.5%* | 410.8 | 464.5 | 527.9 | 604.1 | 697.2 |
| *10.0%* | 368.0 | 414.3 | **468.3** | 532.1 | 608.6 |
| *10.5%* | 330.9 | 371.3 | 417.8 | 472.0 | 536.2 |
| *11.0%* | 298.5 | 334.0 | 374.5 | 421.3 | 475.8 |

*Source: Concorde Capital estimates*

**Optimistic scenario.** In our optimistic scenario we assume that the management achieves its plan of 550 stations by 2011 eoy. This results in a DCF-implied 12M equity value of USD 558 mln.

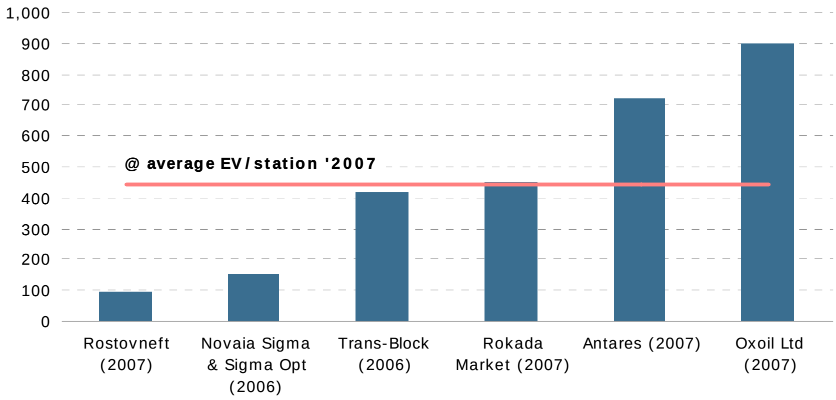
## Asset-based valuation

Our asset-based valuation suggests a USD 450 mln 12M equity value for Galnaftogaz. The key assumptions are:

- **The company operates 365 filling stations** as of March 2009, which is implied by the business model we use for DCF valuation
- **Enterprise value (EV) per station of USD 2 mln**, based on our analysis of comparable deals. We believe that among retail chain acquisitions over 2006-07 with available data (see comparable deals table below), Russian deals in 2007 provide the best benchmark for valuing Galnaftogaz's retail assets.

We do not add Galnaftogaz's wholesale business due to its non-recurring nature and narrow margins.

**Galnaftogaz MCap implied by Russian acquisitions**, USD mln




*Source: Mergermarket, Thomson Financial, Concorde Capital estimates*

Our asset-based valuation is very sensitive to both key parameters, making us favor DCF valuation relatively more.

**Sensitivity to EV per station,** USD mln

| Implied average EV per station | Russian deals 2007 | Top-3 Russian deals in 2007 |
|---|---|---|
| **Avg. EV per station*** | **2.0** | **2.7** |
| Number of stations | 365 | 365 |
| Total EV | 730 | 971 |
| Net debt | 280 | 280 |
| **Galnaftogaz's implied equity value** | **450** | **691** |

** See Appendix for detailed data on comparable deals*
*Source: Concorde Capital estimates*

## Peer comparison

Galnaftogaz is a rapidly growing and highly leveraged company, which makes it hardly comparable to its peers on sales and profitability multiples. The only ratio we feel relatively safe with is P/E-to-Growth (PEG), which accounts for both profitability and earnings growth. Comparison on PEG ratio revealed that Galnaftogaz trades at a 57% discount to its peers, which implies equity value of USD 641 mln (at 2008 eoy).

However, given the generally low robustness of EPS and growth forecasts, and absence of benchmarks other than the PEG ratio, we prefer DCF and asset-based valuation methods over peer comparison. The table below is provided for reference only.

### Peer comparison summary

| | | MCap, USD mln | EBITDA Growth | | EPS 2Y CAGR | EV/EBITDA | | P/CF | | P/E | | PEG |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 2008E | 2009E | 2008-09E | 2007E | 2008E | 2007E | 2008E | 2007E | 2008E | 2008E |
| **Galnaftogaz** | **Ukraine** | **386** | **65.1%** | **51.9%** | **68.5%** | **17.18** | **11.62** | **-25.42** | **8.11** | **61.00** | **27.00** | **39.4** |
| Pantry Inc | United States | 645 | 8.3% | -7.1% | 25.5% | 4.84 | 4.53 | 4.38 | 3.79 | 15.20 | 11.62 | 45.5 |
| Global Partners* | United States | 339 | 19.5% | 16.8% | 4.7% | n/a | n/a | 8.61 | 7.27 | 7.80 | 7.84 | 166.5 |
| Alimentation* | Canada | 3,497 | 14.0% | 5.3% | 14.5% | 7.22 | 6.32 | 7.80 | 7.66 | 15.10 | 12.62 | 86.9 |
| Parkland* | Canada | 654 | -5.8% | n/a | n/a | 6.37 | 6.88 | 6.43 | 7.31 | 8.78 | 9.23 | n/a |
| Aygaz | Turkey | 971 | -8.6% | 6.9% | -16.0% | 5.86 | 6.56 | 4.94 | 5.13 | 4.20 | 8.57 | -53.5 |
| Petrol Ofisi | Turkey | 2,087 | 2.4% | 3.8% | 9.6% | 4.23 | 3.50 | 6.22 | 5.02 | 8.76 | 7.70 | 80.3 |
| Turcas Petrol | Turkey | 783 | -1.0% | n/a | 28.8% | n/a | n/a | 8.64 | 7.99 | 9.00 | 8.20 | 28.5 |
| Petronas* | Malaysia | 2,518 | 8.5% | 8.1% | 9.8% | 6.34 | 5.79 | n/a | n/a | 11.36 | 10.26 | 104.3 |
| **Mean** | | | **2.3%** | **5.6%** | **11.0%** | **5.81** | **5.60** | **6.71** | **6.31** | **11.07** | **9.51** | **65.5** |
| Premium/Discount | | | | | | 195.9% | 107.7% | neg | 28.5% | 450.8% | 184.0% | -39.9% |
| **Implied price, USD** | | | | | | 0.000 | 0.003 | n/m | 0.017 | 0.004 | 0.008 | 0.037 |
| **Implied MCap, USD mln** | | | | | | neg | 46 | n/m | 300 | 70 | 136 | 641 |

** Full names: Global Partners Limited Partnership, Alimentation Couche Tard Inc, Parkland Income Fund, Petronas Dagangan Berhad*
*Source: Thomson Financial, Bloomberg, Concorde Capital estimates*

# Appendix. Comparable deals

| Period* | Target | Bidder | Country | # of stations | Deal value, USD mln | Implied EV per station, USD mln | Description |
|---|---|---|---|---|---|---|---|
| Dec-07 | Rostovneft | LUKOIL | Russia | 55 | 56.6 | 1.03 | Rostovneft is a Russian wholesaler of petroleum products. The transaction included acquisition of 55 filling stations and bulk plant facilities which will add to LUKOIL's already existing 41 filling stations |
| Oct-07 | Antares | Rosneft | Russia | 20 | 55.0 | 2.75 | Filling stations and oil depot in Moscow region |
| Sep-07 | Oxoil Ltd | Rosneft | Russia | 13 | 42.0 | 3.23 | Oxoil Ltd is the Cyprus-registered company operating filling stations in Moscow region under the Parkoil brand. Its retail network is connected to an oil product pipeline in Moscow. Owner of storage facilities with a capacity of 18 tcm, and a number of car repair centers |
| Aug-07 | Rokada Market | Rosneft | Russia | 29 | 57.8 | 1.99 | Rokada Market is a Russian retailer of petroleum products, operating in Stavropol region |
| Aug-07 | Favorite Markets | MAPCO Express Inc | United States | 107 | 65.0 | 0.61 | Favorite Markets is a chain of retail fuel and convenience stores |
| Aug-07 | Chevron's Benelux fuel marketing business | Delek Benelux B.V. | Benelux | 803 | 528.6 | 0.66 | Benelux fuels marketing business of Chevron Corporation. The acquisition includes Texaco branded service stations, two fuel terminals in Belgium and Luxembourg, interests in six joint venture retailers in the Netherlands, as well as other related assets |
| May-07 | Yukos's retail stations and other assets | Novatek | Russia | 537 | 482.3 | 0.90 | Retail fuel stations, tank farms, bulk terminals and several small assets of Yukos |
| Dec-06 | Trans-Block | Sibnafta Group | Russia | 6 | 11.5 | 1.91 | A network of filling stations in Novosibirsk city |
| Jul-06 | Fast Petroleum Inc | MAPCO Express Inc | United States | 40 | 40.0 | 1.00 | US based retail fuel and convenience stores |
| Jun-06 | Mobil Oil de Peru SA | Repsol Comercial SAC | Peru | 70 | 27.5 | 0.39 | Retail assets of Mobil Oil de Peru SA |
| May-06 | Sonol Israel Ltd | Oil Refineries Ltd | Israel | 70 | 51.4 | 0.73 | Israel-based fuel retailer. The agreement provides the buyer with an option to acquire 10 more gas stations |
| Apr-06 | Novaia Sigma, Sigma Opt | Petersburg Fuel Company (PTK) | Russia | 17 | 20.0 | 1.18 | Filling stations in Novgorod and fuel storage facility with storage capacity of 5 ths mt |
| Mar-06 | Caprabo SA | Saras Energia S.A | Spain | 37 | 38.7 | 1.05 | Fuel retail business of Caprabo SA, the Spanish supermarket group |
| | **Average** | | | | | **1.34** | |
| | **Russian deals:** | | | | | | |
| | Average | | | | | 1.86 | |
| | 2007 deals avg. | | | | | 1.98 | |
| | Top-3 2007 deals avg. | | | | | 1.98 | |
| | **2007 average** | | | | | **1.60** | |
| | **2006 average** | | | | | **1.04** | |

** Announcement or completion*
*Source: Mergermarket, Thomson Financial, Concorde Capital estimates*

# Financial Statements, IFRS

**Income Statement Summary**, USD mln

| | 2005 | 2006 | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E |
|---|---|---|---|---|---|---|---|---|
| **Net Revenue** | **379.5** | **514.7** | **664.4** | **955.9** | **1,365.0** | **1,742.3** | **1,969.2** | **2,129.3** |
| Gross Profit | **25.9** | **35.7** | **59.0** | **90.5** | **132.0** | **173.0** | **198.3** | **212.5** |
| *Gross margin* | *6.8%* | *6.9%* | *8.9%* | *9.5%* | *9.7%* | *9.9%* | *10.1%* | *10.0%* |
| SG&A | (8.9) | (13.0) | (24.9) | (34.1) | (46.4) | (56.4) | (60.8) | (59.7) |
| *% of Net Revenue* | *N/M* | *45.2%* | *91.8%* | *37.0%* | *36.0%* | *21.6%* | *7.6%* | *-1.7%* |
| Other Operating Income/Costs, net | (1.0) | 3.5 | - | - | - | - | - | - |
| **EBITDA** | **16.0** | **26.2** | **34.1** | **56.3** | **85.6** | **116.6** | **137.5** | **152.8** |
| *EBITDA margin* | *4.2%* | *5.1%* | *5.1%* | *5.9%* | *6.3%* | *6.7%* | *7.0%* | *7.2%* |
| Depreciation | (3.7) | (4.9) | (7.4) | (13.4) | (19.8) | (25.2) | (29.0) | (31.5) |
| **EBIT** | **12.3** | **21.3** | **26.8** | **42.9** | **65.7** | **91.4** | **108.5** | **121.3** |
| *EBIT margin* | *3.2%* | *4.1%* | *4.0%* | *4.5%* | *4.8%* | *5.2%* | *5.5%* | *5.7%* |
| Interest Expense | (3) | (11) | (18) | (24) | (32) | (40) | (42) | (41) |
| Financial income | 0.3 | - | - | - | - | - | - | - |
| **PBT** | **9.1** | **10.2** | **8.4** | **19.0** | **33.5** | **51.8** | **66.6** | **80.2** |
| Tax | (1.9) | (2.7) | (2.1) | (4.8) | (8.4) | (13.0) | (16.6) | (20.0) |
| **Net Income** | **7.2** | **7.4** | **6.3** | **14.3** | **25.2** | **38.9** | **49.9** | **60.1** |
| *Net Margin* | *2%* | *1.4%* | *1.0%* | *1.5%* | *1.8%* | *2.2%* | *2.5%* | *2.8%* |
| Dividends declared | - | - | - | - | - | - | - | - |

**Balance Sheet Summary**, USD mln

| | 2005 | 2006 | 2007E | 2008F | 2009F | 2010F | 2011F | 2012F |
|---|---|---|---|---|---|---|---|---|
| **Current Assets** | **79.3** | **98.6** | **131.4** | **130.1** | **214.5** | **209.9** | **231.7** | **246.5** |
| Cash & Equivalents | 3.2 | 10.4 | 16.6 | 19.1 | 67.3 | 34.8 | 39.4 | 42.6 |
| Trade Receivables | 47.4 | 41.5 | 53.2 | 28.7 | 41.0 | 47.0 | 51.2 | 53.2 |
| Inventories | 14.3 | 20.8 | 35.8 | 56.3 | 80.1 | 102.0 | 115.1 | 124.6 |
| Other current assets | 14.3 | 25.8 | 25.8 | 26.1 | 26.1 | 26.1 | 26.1 | 26.1 |
| **Fixed Assets** | **83.8** | **149.2** | **219.2** | **370.7** | **503.4** | **610.7** | **673.2** | **699.4** |
| PP&E, net | 65.5 | 128.8 | 188.1 | 326.5 | 477.6 | 585.7 | 656.4 | 692.0 |
| Other Fixed Assets | 18.3 | 20.3 | 31.1 | 44.2 | 25.8 | 25.0 | 16.8 | 7.3 |
| **Total Assets** | **163.1** | **247.7** | **350.6** | **500.8** | **717.9** | **820.7** | **904.9** | **945.9** |
| | | | | | | | | |
| **Shareholders' Equity** | **61.2** | **88.2** | **94.6** | **158.5** | **223.7** | **262.6** | **312.5** | **372.6** |
| Share Capital | 33.5 | 33.5 | 33.5 | 82.6 | 122.6 | 122.6 | 122.6 | 122.6 |
| Reserves and Other | 27.7 | 54.7 | 61.1 | 76.0 | 101.1 | 140.0 | 189.9 | 250.0 |
| **Current Liabilities** | **65.7** | **76.0** | **81.3** | **90.2** | **121.2** | **142.3** | **151.3** | **155.9** |
| ST Interest Bearing Debt | 34.9 | 48.3 | 45.0 | 38.2 | 49.6 | 57.6 | 59.2 | 58.2 |
| Trade Payables | 30.5 | 27.4 | 36.3 | 51.9 | 71.5 | 84.7 | 92.1 | 97.8 |
| Accrued Taxes | 0.1 | 0.1 | - | - | - | - | - | - |
| Other Current Liabilities | 0.1 | 0.1 | - | - | - | - | - | - |
| **LT Liabilities** | **36.1** | **83.5** | **174.7** | **252.1** | **373.0** | **415.8** | **441.2** | **417.3** |
| LT Interest Bearing Debt | 30.8 | 70.3 | 172.3 | 250.1 | 371.5 | 414.5 | 440.0 | 416.1 |
| Other LT | 5.3 | 13.3 | 2.5 | 2.0 | 1.6 | 1.3 | 1.2 | 1.2 |
| **Total Liabilities & Equity** | **163.1** | **247.7** | **350.6** | **500.8** | **717.9** | **820.7** | **904.9** | **945.9** |

**Cash Flow Statement Summary**, USD mln

| | 2005 | 2006 | 2007E | 2008F | 2009F | 2010F | 2011F | 2012F |
|---|---|---|---|---|---|---|---|---|
| Net Income | 7.2 | 7.4 | 6.3 | 14.3 | 25.2 | 38.9 | 49.9 | 60.1 |
| D&A | 3.7 | 4.9 | 7.4 | 13.4 | 19.8 | 25.2 | 29.0 | 31.5 |
| Non-operating and non-cash items | (1.0) | (11.5) | (10.9) | (0.3) | (0.1) | 0.1 | (0.1) | (0.0) |
| Changes in working capital | (27.5) | (2.3) | (18.0) | 20.2 | (16.6) | (14.7) | (9.9) | (5.8) |
| **Operating Cash Flow** | **(17.6)** | **(1.4)** | **(15.2)** | **47.5** | **28.3** | **49.5** | **68.9** | **85.8** |
| | | | | | | | | |
| Capital Expenditures, net | (20.2) | (44.2) | (77.4) | (162.9) | (152.8) | (132.9) | (91.5) | (57.7) |
| Other Investments, net | (0.2) | (0.1) | - | - | - | - | - | - |
| **Investing Cash Flow** | **(20.4)** | **(44.2)** | **(77.4)** | **(162.9)** | **(152.8)** | **(132.9)** | **(91.5)** | **(57.7)** |
| | | | | | | | | |
| Net Borrowings/(repayments) | 35.0 | 52.8 | 98.7 | 68.9 | 132.7 | 51.0 | 27.1 | (24.9) |
| Dividends Paid | - | - | - | - | - | - | - | - |
| Equity Financing & Other | 3.6 | 0.0 | - | 48.8 | 40.0 | - | - | - |
| **Financing Cash Flow** | **38.6** | **52.9** | **98.7** | **117.7** | **172.7** | **51.0** | **27.1** | **(24.9)** |
| | | | | | | | | |
| Beginning Cash Balance | N/A | 3.2 | 10.4 | 16.8 | 19.1 | 67.3 | 34.8 | 39.4 |
| Ending Cash Balance | 3.2 | 10.4 | 16.6 | 19.1 | 67.3 | 34.8 | 39.4 | 42.6 |
| Exchange Rate Impact | - | - | - | - | - | - | - | - |
| **Net Cash Inflows/Outflows** | **0.6** | **7.2** | **6.2** | **2.3** | **48.2** | **(32.5)** | **4.5** | **3.2** |

**UAH/USD Exchange Rates**

| | 2005 | 2006 | 2007E | 2008F | 2009F | 2010F | 2011F | 2012F |
|---|---|---|---|---|---|---|---|---|
| Average | 5.12 | 5.05 | 5.05 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Year-end | 5.05 | 5.05 | 5.05 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |

*Source: Company data, Concorde Capital estimates*

# Disclosures

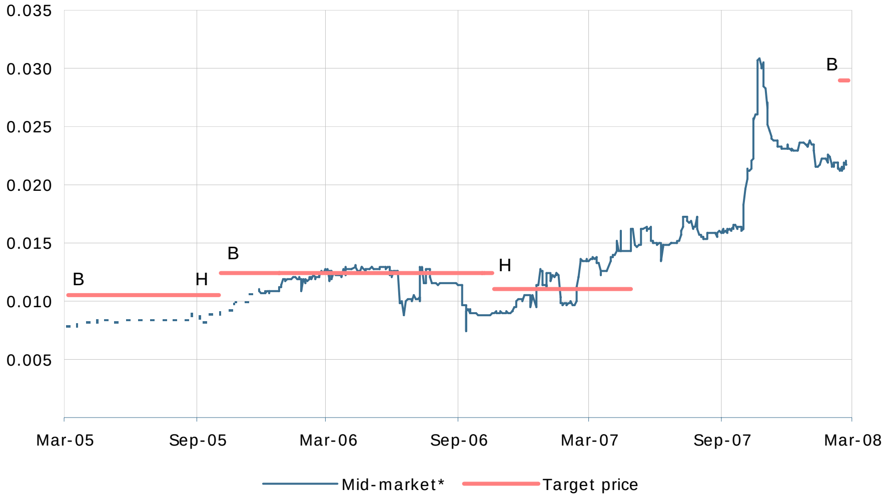
## Analyst certification

I, Vladimir Nesterenko, 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.

| **Date** | **Target price**, USD | [(2)]**Market price**, USD | **Rec** | **Action** |
|---|---|---|---|---|
| 05-Mar-05 | 0.0105 | 0.0080 | BUY | Initiate |
| 23-Sep-05 | 0.0105 | 0.0087 | HOLD | Downgrade |
| 26-Oct-05 | 0.0124 | 0.0091 | BUY | Upgrade |
| 10-Nov-06[(1)] | 0.0110 | 0.0089 | HOLD | Downgrade |
| 21-May-07 | N/A | 0.0141 | N/R | Suspended |
| 05-Mar-08 | 0.0290 | [(3)]0.0217 | BUY | Upgrade |

*(1) Until December 2005 the company was covered by Andriy Gostik, who now focuses on another sector. In January 2006, Vladimir Nesterenko took over coverage.*
*(2) Share price implied by mid-market price of FSE-listed depository receipts*
*(3) As of Mar.5, 2008*

**Recommendation history**, USD per share




** Mar.5, 2005 - Dec.5, 2005: PFTS bid price; Dec.6, 2005 up to date: FSE mid-market price, implied by the price of depository receipts*

# 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 | 48 | 45% |
| Hold | 28 | 26% |
| Sell | 13 | 12% |
| Under Review | 17 | 16% |
| Total | 106 | 100% |

Investment banking clients*

| | | |
|---|---|---|
| Buy | 8 | 100% |
| Hold | 0 | 0% |
| Sell | 0 | 0% |
| Under Review | 0 | 0% |
| Total | 8 | 100% |

* *Within the last twelve month period, Concorde Capital has obtained compensation from these companies for investment banking services.*

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