



CONCORDE CAPITAL

Ukraine / Oil & Gas

# Galnaftogaz

2007 UAS financials released

March 18, 2008

Current price: USD 0.022  
12M Target: USD 0.029

**BUY**

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- Galnaftogaz released its 2007 financials consolidated under Ukrainian accounting standards yesterday
- Last year's financial performance was generally in line with our estimates. For a consistency check, we look forward to the company's IFRS statements to be released in April 2008
- This year's hike in oil prices makes us more bullish on Galnaftogaz' fuel price realizations; revision could add up to 15% to existing upside. We maintain our target until there is more certainty in how far oil prices could go this year

## 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 491.0

Chg 12M 71.7%  
Hi/Lo 12M, USD 0.031/0.012

DRs per common share 1:500  
No of shares, mln 17,524  
Avg Mon Tr Vol\*, USD mln 0.042

\* Over the last 12 months

Free float 17.6%  
Free float, USD mln 86.4

## 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

AGM	April 21, 2008
2007 IFRS financials	April 2008

## Sales 25% up, operating profitability improves

Yesterday Galnaftogaz reported its 2007 financial results consolidated under local accounting standards (UAS). Net revenue grew 25.5% yoy to USD 644.3 mln, EBITDA margin increased from 4.5% to 5.3%, while net margin was down from 1.4% to 0.9%. The company also reported 2007 CapEx of USD 115.4 mln and net debt of USD 153.6 mln.

## UAS financials meet our forecasts, looking forward for IFRS

The company's actual EBITDA almost exactly matched our forecast (USD 34.1 mln vs. USD 34.0 mln), while its EBITDA margin was slightly lower (5.1% vs. 5.3%). Although our forecasts are based on IFRS, the company's move toward converging its reporting to IFRS over the last two years makes its local statements more comparable with our forecasts.

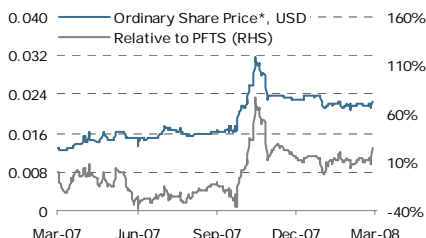
## Share issue proceeds invested already in 2007

Galnaftogaz spent the proceeds from its additional share issue (held from Nov. 2007 to Jan. 2008) already in 2007, while we expected this only in 2008. In effect, our CapEx and net debt estimates differ from actual by the respective amounts. The aforementioned differences do not have any impact on our 2008 forecasts.

## Stronger than expected oil may bring extra 12-15% upside

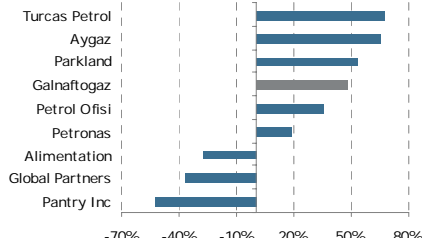
This year's hike in oil prices, which already trickled down into a 4% YTD rise in domestic gasoline prices, make us more bullish on Galnaftogaz' average price realizations. An upward revision in our current forecast (USD 0.95/L) would push our target up by ~12-15%. We maintain our target, unless there is more certainty that crude prices are strong enough to reach an annual average of USD 90/bbl this year.

## Stock performance

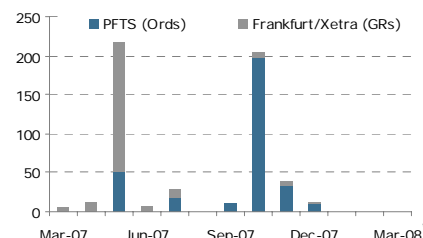


\* Share price implied by mid-market price of depository receipts on FSE  
\*\* For the period from Mar. 1 to Mar. 17, 08  
Source: Bloomberg, PFTS

## Sector performance, 12M



## Monthly trading volume, USD ths



## 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

\* According to IFRS

Source: Company data, Concorde Capital estimates

## Summary of company financials

	2007		2006	
	IFRS (estimate)	UAS	IFRS	UAS
Net revenue	664.4	644.3	514.7	513.5
<i>change yoy</i>	29.1%	25.5%		
Gross profit	59.0	87.8	35.7	52.2
Gross margin	8.9%	13.6%	6.9%	10.2%
EBITDA	34.1	34.0	26.2	23.2
<i>change yoy</i>	30.0%	46.2%		
EBITDA margin	5.1%	5.3%	5.1%	4.5%
Net income	6.3	5.6	8.3	7.0
<i>change yoy</i>	-24.0%	-20.0%		
Net margin	1.0%	0.9%	1.6%	1.4%
Operating CF	(15.2)	(6.9)	13.2	4.8
CapEx	(77.4)	(115.4)	(42.7)	(46.1)
Equity	94.6	148.0	89.2	74.0
Net debt	200.7	153.6	108.2	99.2
D/E	2.12	1.04	1.21	1.34

Source: Company data, Concorde Capital estimates

## Financial Statements, IFRS

### Income Statement Summary, USD mln

	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
<b>Net Revenue</b>	<b>379.5</b>	<b>514.7</b>	<b>664.4</b>	<b>955.9</b>	<b>1,365.0</b>	<b>1,742.3</b>	<b>1,969.2</b>	<b>2,129.3</b>
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	-	-	-	-	-	-
<b>EBITDA</b>	<b>16.0</b>	<b>26.2</b>	<b>34.1</b>	<b>56.3</b>	<b>85.6</b>	<b>116.6</b>	<b>137.5</b>	<b>152.8</b>
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)
<b>EBIT</b>	<b>12.3</b>	<b>21.3</b>	<b>26.8</b>	<b>42.9</b>	<b>65.7</b>	<b>91.4</b>	<b>108.5</b>	<b>121.3</b>
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	-	-	-	-	-	-	-
<b>PBT</b>	<b>9.1</b>	<b>10.2</b>	<b>8.4</b>	<b>19.0</b>	<b>33.5</b>	<b>51.8</b>	<b>66.6</b>	<b>80.2</b>
Tax	(1.9)	(2.7)	(2.1)	(4.8)	(8.4)	(13.0)	(16.6)	(20.0)
<b>Net Income</b>	<b>7.2</b>	<b>7.4</b>	<b>6.3</b>	<b>14.3</b>	<b>25.2</b>	<b>38.9</b>	<b>49.9</b>	<b>60.1</b>
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
<b>Current Assets</b>	<b>79.3</b>	<b>98.6</b>	<b>131.4</b>	<b>130.1</b>	<b>214.5</b>	<b>209.9</b>	<b>231.7</b>	<b>246.5</b>
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
<b>Fixed Assets</b>	<b>83.8</b>	<b>149.2</b>	<b>219.2</b>	<b>370.7</b>	<b>503.4</b>	<b>610.7</b>	<b>673.2</b>	<b>699.4</b>
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
<b>Total Assets</b>	<b>163.1</b>	<b>247.7</b>	<b>350.6</b>	<b>500.8</b>	<b>717.9</b>	<b>820.7</b>	<b>904.9</b>	<b>945.9</b>
<b>Shareholders' Equity</b>	<b>61.2</b>	<b>88.2</b>	<b>94.6</b>	<b>158.5</b>	<b>223.7</b>	<b>262.6</b>	<b>312.5</b>	<b>372.6</b>
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
<b>Current Liabilities</b>	<b>65.7</b>	<b>76.0</b>	<b>81.3</b>	<b>90.2</b>	<b>121.2</b>	<b>142.3</b>	<b>151.3</b>	<b>155.9</b>
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	-	-	-	-	-	-
<b>LT Liabilities</b>	<b>36.1</b>	<b>83.5</b>	<b>174.7</b>	<b>252.1</b>	<b>373.0</b>	<b>415.8</b>	<b>441.2</b>	<b>417.3</b>
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
<b>Total Liabilities &amp; Equity</b>	<b>163.1</b>	<b>247.7</b>	<b>350.6</b>	<b>500.8</b>	<b>717.9</b>	<b>820.7</b>	<b>904.9</b>	<b>945.9</b>

### 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)
<b>Operating Cash Flow</b>	<b>(17.6)</b>	<b>(1.4)</b>	<b>(15.2)</b>	<b>47.5</b>	<b>28.3</b>	<b>49.5</b>	<b>68.9</b>	<b>85.8</b>
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)	-	-	-	-	-	-
<b>Investing Cash Flow</b>	<b>(20.4)</b>	<b>(44.2)</b>	<b>(77.4)</b>	<b>(162.9)</b>	<b>(152.8)</b>	<b>(132.9)</b>	<b>(91.5)</b>	<b>(57.7)</b>
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	-	-	-
<b>Financing Cash Flow</b>	<b>38.6</b>	<b>52.9</b>	<b>98.7</b>	<b>117.7</b>	<b>172.7</b>	<b>51.0</b>	<b>27.1</b>	<b>(24.9)</b>
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	-	-	-	-	-	-	-	-
<b>Net Cash Inflows/Outflows</b>	<b>0.6</b>	<b>7.2</b>	<b>6.2</b>	<b>2.3</b>	<b>48.2</b>	<b>(32.5)</b>	<b>4.5</b>	<b>3.2</b>

### 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.

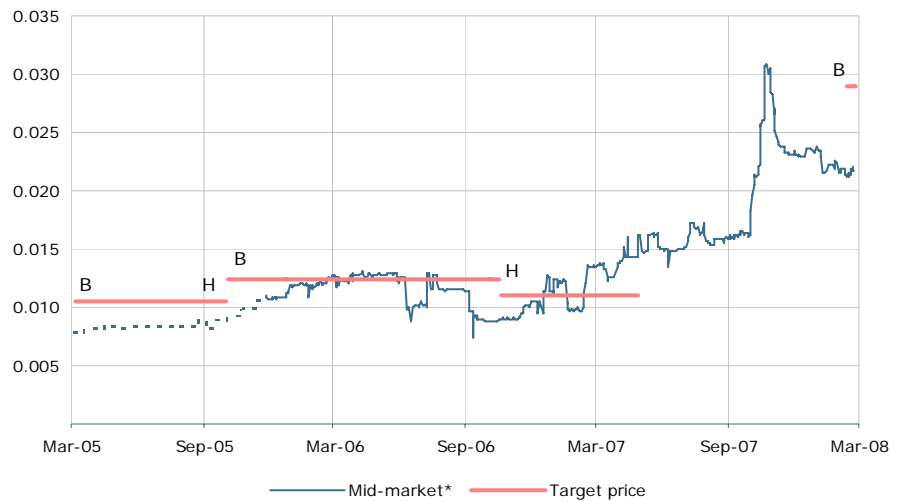
Date	Target price, USD <sup>(2)</sup>	Market price, USD	Rec	Action
05-Mar-05	0.0105	0.0080	BUY	Initiate
23-Sep-05	0.0105	0.0087	HOLD	Downgrade
26-Oct-05	0.0124	0.0091	BUY	Upgrade
10-Nov-06 <sup>(1)</sup>	0.0110	0.0089	HOLD	Downgrade
21-May-07	N/A	0.0141	N/R	Suspended
06-Mar-08	0.0290	0.0217	BUY	Upgrade
18-Mar-08	0.0290	<sup>(3)</sup> 0.0220	BUY	Maintain

<sup>(1)</sup> Until December 2005 the company was covered by Andriy Gostik, who now focuses on another sector. In January 2006, Vladimir Nesterenko took over coverage.

<sup>(2)</sup> Share price implied by mid-market price of FSE-listed depository receipts

<sup>(3)</sup> As of Mar. 17, 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	43%
Hold	30	27%
Sell	18	16%
Under Review	15	14%
Total	111	100%

### Investment banking clients\*

Buy	6	86%
Hold	0	0%
Sell	0	0%
Under Review	1	14%
Total	7	100%

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

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