



CONCORDE CAPITAL

Ukraine / Packaging & Containers Vetropack Gostomel Glass

Delivering on Promises

October 30, 2007

Current Price: USD 2.0
12M Target: USD 2.4

BUY

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Bloomberg GSKZ UZ

Market information

No of Shares, mln	44.3
Market Price, USD	2.0
52Wk H/L, USD	2.33/1.38
MCap, USD mln	88.6
Free float	25%
Free float, USD	22.2

Ownership

Vetropack	75%
Management and employees	20%
Other	5%

Ratios 2007E

EBITDA Margin	28.0%
Net Margin	9.7%
Net Debt/Equity	1.5

Vetropack Gostomel Glass launched its new furnace on schedule earlier this month, increasing total capacity by 37% to 820 mt of glass per day, according to management. The improved outlook for Ukraine's glass bottle market led us to increase projections for the company's output. We upgrade our target price to USD 2.4 (20% upside), and confirm our BUY recommendation.

Capacity increased, full load planned

Just as planned, Vetropack Gostomel Glass launched a new furnace with 138.7 ths mt annual capacity in early October, and mothballed two outdated ones. This boosted the company's total capacity by 37% to 299.3 ths mt of glass. Management says that they have signed contracts with Ukraine's three largest beer makers Sun InBev, BBH and Obolon, and are ready to completely load the new furnace.

New facility brings energy savings

The new furnace consumes 950 kKcal of energy per kg of glass, which is more than 30% less than each of its two mothballed ones. We expect these cost-savings to lift the company's EBITDA margin to 29% in 2008, up from the 28% expected in 2007.

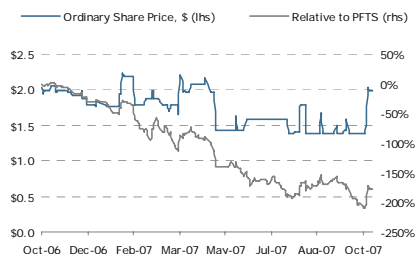
Glass bottle market: production forecast upgraded

We upgrade our projections for production of Ukraine-made glass bottles to incorporate our revised forecasts for beer output, and exports & imports of glass bottles. In mid-October we increased our projections for beer production growth in 2007 from 12% to 16% yoy. In 1H07, imports of glass bottles declines 69% yoy while exports increased 42% yoy, which led us to revise respective annual numbers in favor of higher bottle production in 2007 and onward.

Valuation offers upside

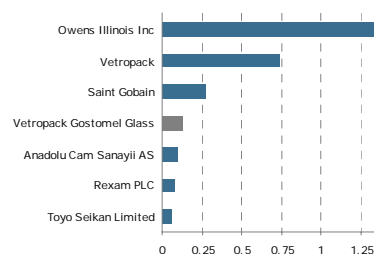
Our target price of USD 2.4 per share implies a 20% upside. As before, our target price is based on DCF, which in our opinion, better than peer comparison allows to incorporate the company's growth potential.

Stock performance

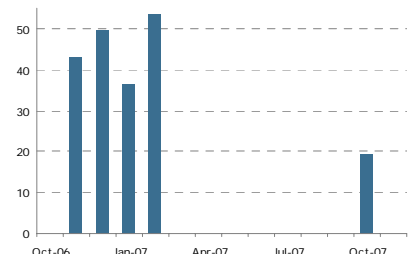


Source: PFTS, Concorde Capital estimates

Sector performance, YTD



PFTS Trading volumes, USD ths



Key financials, USD mln

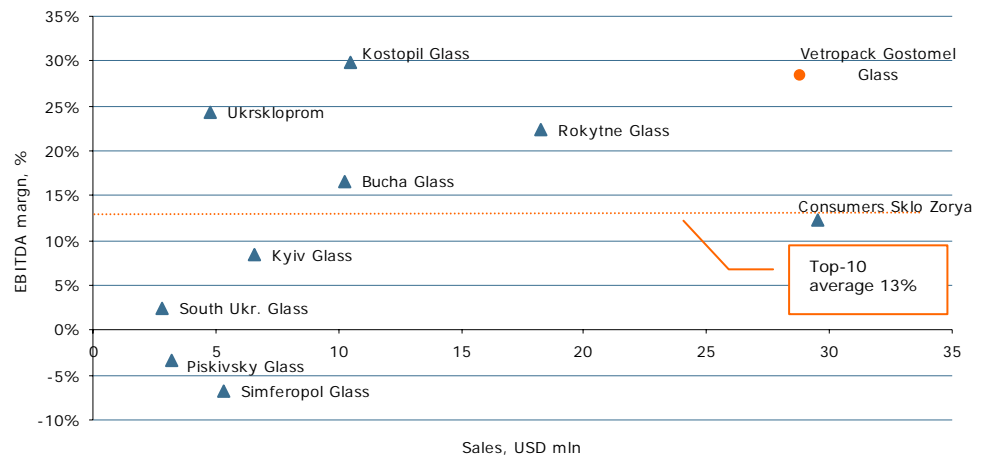
	Sales	EBITDA	Net Income
2006	47.7	11.7	0.8
2007E	64.2	17.9	6.2
2008E	85.7	24.7	9.3

UAH/USD Spot exchange rate is 5.05

	EV/S	EV/EBITDA	P/E
2006	2.4	9.8	112.3
2007E	2.3	8.4	14.2
2008E	1.7	5.9	9.5

1H07 results: Margins significantly above average

Gostomel Glass posted the second-highest EBITDA margin in the domestic glass packaging industry in 1H07. We expect a further increase in the company's profitability, due to the replacement of outdated furnaces with new capacities in October 2007.

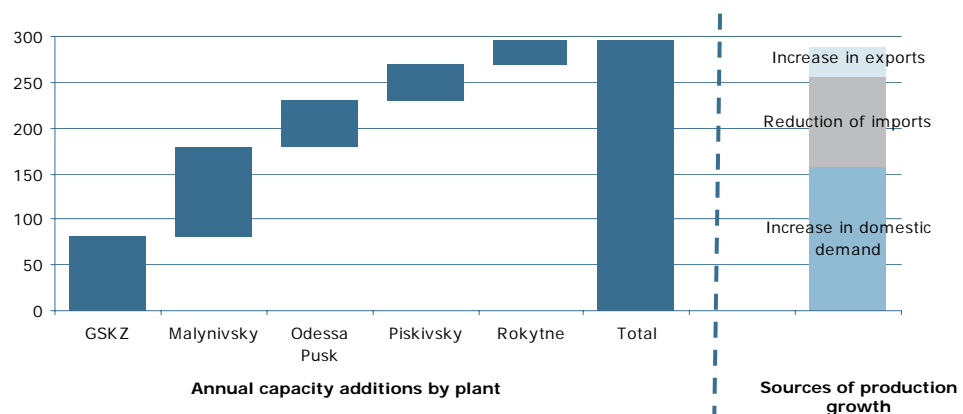


Source: Companies' data

Glass bottle market: New capacities to be absorbed

Based on the data published by *Steklo Mira* magazine in October 2007, we estimate that ~295 ths mt of glass bottle capacities will be launched in Ukraine in 2007-2008. We estimate that the new capacities will be matched by a respective increase in demand, thus leaving capacity load close to full, as in 2006.

Glass bottle capacity additions & load sources, ths mt, 2007-2008



Source: *Steklo Mira*, Concorde Capital estimates

GSKZ current capacities

After having launched the new furnace, Vetropack Gostomel Glass closed two outdated ones, which had a combined 62.1 ths mt capacity.

Furnace	Glass	Destination	Annual capacity, ths mt
#81	Flint	Vodka, CSD	80.3
#82	Green	Beer, wine	80.3
#83	Green	Beer, wine	138.7
Total			299.3

Source: Company data

Revision of projections

	Previous			New		
	2006	2007E	2008E	2006	2007E	2008E
Average annual capacity, ths mt	208	254	296	208	254	299
Production, ths mt, excl. waste	167	197	242	167	210	260
<i>Change yoy</i>	-4%	18%	22%	-4%	26%	23%
Capacity utilization	85%	82%	87%	85%	88%	93%
Revenues, USD mln	48	60	78	48	64	86
<i>Change yoy</i>	3%	26%	30%	3%	33%	33%
EBITDA margin	25%	28%	29%	25%	28%	29%
Net margin	2%	10%	11%	2%	10%	11%

Source: Company data, Concorde Capital estimates

Ukraine's glass bottle market assumptions, ths mt

	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Domestic production	629	711	921	1000	1068	1118	1158	1198	1237	1263	1277	1290
<i>Change, %</i>		13%	30%	9%	7%	5%	4%	3%	3%	2%	1%	1%
Imports	62	128	40	30	22	27	21	17	15	13	12	12
<i>Change, %</i>		108%	-69%	-25%	-25%	20%	-20%	-20%	-15%	-10%	-5%	-3%
Exports	12	41	59	74	78	82	84	86	89	91	92	93
<i>Change, %</i>		234%	45%	25%	5%	5%	3%	3%	3%	2%	1%	1%
Domestic demand	678	798	901	956	1013	1064	1095	1128	1162	1185	1197	1209
<i>Change, %</i>		18%	13%	6%	6%	5%	3%	3%	3%	2%	1%	1%
Share of GSKZ in production	28%	24%	23%	26%	26%	27%	27%	27%	27%	28%	28%	28%

Source: Glass of Ukraine (union of producers), Concorde Capital estimates

DCF model

As of October 30

For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
EBITDA	89.3	123.6	129.8	140.0	149.1	152.5	156.6	159.3	152.0	144.9
EBIT	60.5	87.7	93.4	102.4	112.3	116.2	120.9	124.6	118.2	112.1
Tax Rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Taxed EBIT	45.4	65.8	70.0	76.8	84.2	87.2	90.7	93.4	88.7	84.1
Plus D&A	28.8	35.9	36.4	37.7	36.9	36.3	35.7	34.8	33.8	32.8
Less CapEx	(238.5)	(43.3)	(90.8)	(40.6)	(44.7)	(45.8)	(36.8)	(35.8)	(35.0)	(33.3)
Less change in OWC	(4.7)	(13.9)	(7.5)	(2.6)	(5.7)	0.0	3.3	(5.3)	(3.4)	(3.1)
FCFF	-	44.5	8.1	71.2	70.6	77.7	92.8	87.1	84.1	80.4
WACC	10.2%	11.0%	10.6%	10.8%	10.4%	10.3%	10.3%	10.2%	10.4%	10.6%

							Perpetuity growth rate		2.0%
							WACC to perpetuity		10.5%
Terminal value		428.4							965.1
							Implied exit EBITDA multiple		6.7x
Firm value		818.4							
Portion due to TV		52.3%							
Less Net Debt		(290.5)							
Equity Value		527.9							
Implied 12M price, USD		2.4							

Sensitivity analysis

WACC Y1-10	Implied share price, USD				
	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
-1.5%	2.5	2.6	2.7	2.9	3.0
-1.0%	2.4	2.5	2.6	2.7	2.9
-0.5%	2.3	2.4	2.5	2.6	2.8
+0.0%	2.2	2.3	2.4	2.5	2.7
+0.5%	2.1	2.2	2.3	2.4	2.5
+1.0%	2.0	2.1	2.2	2.3	2.4
+1.5%	1.9	2.0	2.1	2.2	2.3

WACC to perpetuity	Implied share price, USD				
	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
9.0%	2.4	2.6	2.8	2.9	3.2
9.5%	2.3	2.5	2.6	2.8	3.0
10.0%	2.2	2.4	2.5	2.6	2.8
10.5%	2.2	2.3	2.4	2.5	2.7
11.0%	2.1	2.2	2.3	2.4	2.5
11.5%	2.0	2.1	2.2	2.3	2.4
12.0%	2.0	2.0	2.1	2.2	2.3

Comparative valuation

	MCap, USD mln	EV/S			EV/EBITDA			P/E		
		2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
GSKZ	88.6	2.4	2.3	1.7	9.8	8.4	5.9	112.3	14.2	9.5
Developing group										
Anadolu Cam Sanayii AS	601.5	1.5	1.5	1.3	6.7	5.5	4.8	23.0	13.8	12.2
Consol Limited	901.7	2.6	1.6	1.4	8.5	4.9	4.2	18.1	15.7	12.6
Cristalerias De Chile	916.6	2.7	n/a	n/a	9.0	n/a	n/a	19.7	n/a	n/a
CSG Holdings	1 445.1	3.9	n/a	n/a	14.4	n/a	n/a	34.6	24.5	17.2
Rigolleau SA	82.6	1.3	n/a	n/a	4.6	n/a	n/a	10.4	n/a	n/a
Developed group										
Owens Illinois Inc	6 461.7	1.5	1.4	1.2	9.9	7.6	6.3	neg	20.2	15.9
Toyo Seikan Limited	3 753.4	0.5	0.5	0.5	4.3	5.9	5.7	87.4*	92.1*	68.6*
Rexam PLC	6 981.2	1.2	1.4	1.3	7.9	9.5	7.7	16.0	17.8	15.2
Ishizuka Glass Company Limited	84.7	0.4	n/a	n/a	4.1	n/a	n/a	18.3	n/a	n/a
Vetropack	860.4	2.1	1.8	1.6	10.0	7.3	6.6	24.3	7.1	8.3
Vidrala SA	805.7	2.4	2.2	1.9	10.2	9.1	7.9	20.9	7.9	8.2
Nihon Yamamura Glass Company	269.5	0.5	n/a	n/a	4.3	n/a	n/a	16.5	n/a	n/a
Kum BI Corp.	58.5	0.4	n/a	n/a	2.7	n/a	n/a	9.2	n/a	n/a
Saint Gobain	37 517.6	0.9	0.9	0.8	7.6	6.7	6.2	17.4	21.4	19.6
San Miguel Corp.	4 293.2	1.1	1.2	1.1	7.5	8.0	7.2	19.9	22.9	19.7
Fuji Glass Company Limited	8.0	0.3	n/a	n/a	4.3	n/a	n/a	12.9	n/a	n/a
Average		1.4	1.4	1.2	7.3	7.2	6.3	18.7	16.8	14.3
Implied GSKZ price, USD		1.0	0.6	1.1	1.3	1.5	2.2	0.3	2.4	3.0

* Excluded from calculation of average as an outlier

Income statement summary, USD mln

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Net Revenues	46.2	47.7	64.2	85.7	96.1	107.7	119.3	127.1	136.2	144.8	152.0	156.7
Change y-o-y	N/M	3.2%	34.7%	33.4%	12.2%	12.0%	10.8%	6.5%	7.1%	6.4%	5.0%	3.1%
Gross Profit	20.2	18.7	25.6	35.0	37.5	40.9	44.1	45.8	47.7	49.2	50.2	49.4
EBITDA	15.2	11.7	17.9	24.7	26.0	28.0	29.8	30.5	31.3	31.9	30.4	29.0
EBITDA margin. %	33.0%	25%	28%	28.9%	27.0%	26.0%	25.0%	24.0%	23.0%	22.0%	20.0%	18.5%
Depreciation	(5.1)	(5.3)	(5.8)	(7.2)	(7.3)	(7.5)	(7.4)	(7.3)	(7.1)	(7.0)	(6.8)	(6.6)
EBIT	10.2	6.4	12.1	17.5	18.7	20.5	22.5	23.2	24.2	24.9	23.6	22.4
EBIT margin. %	22.0%	13.4%	18.8%	20.5%	19.4%	19.0%	18.8%	18.3%	17.8%	17.2%	15.6%	14.3%
Interest Expense	(1.9)	(2.1)	(3.8)	(5.1)	(4.9)	(4.6)	(4.0)	(3.7)	(3.3)	(2.8)	(2.4)	(2.1)
Other income/(expense)	1.8	0.3	-	-	-	-	-	-	-	-	-	-
PBT	10.8	4.4	8.3	12.5	13.7	15.9	18.4	19.5	20.9	22.1	21.2	20.4
Tax	(2.4)	(3.6)	(2.1)	(3.1)	(3.4)	(4.0)	(4.6)	(4.9)	(5.2)	(5.5)	(5.3)	(5.1)
Effective tax rate	21.9%	82.1%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net Income	8.4	0.8	6.2	9.3	10.3	11.9	13.8	14.6	15.7	16.6	15.9	15.3
Net Margin. %	18%	1.7%	9.7%	10.9%	10.7%	11%	11.6%	11.5%	11.5%	11.4%	10.5%	9.8%

Balance sheet summary, USD mln

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Current Assets	15	21	22	28	31	34	37	39	40	41	43	45
Cash & Equivalents	2	3	2	3	3	3	4	4	4	3	3	3
Trade Receivables	3	6	8	12	13	15	16	17	18	20	21	21
Inventories	9	7	10	11	12	13	14	14	14	14	15	16
Other current assets	1	5	2	3	3	3	4	4	4	4	5	5
Fixed Assets	45	49	91	93	104	104	106	108	108	108	108	109
PP&E, net	35	43	86	93	104	104	106	108	108	108	108	109
Other Fixed Assets	10	6	6	0	0	0	0	0	0	0	0	0
Total Assets	60	70	113	121	135	138	143	147	148	150	152	153
Shareholders' Equity	32	36	43	52	62	74	81	87	93	99	105	110
Share Capital	0	3	3	3	3	3	3	3	3	3	3	3
Reserves and Other	7	6	6	6	6	6	6	6	6	6	6	6
Current Liabilities	9	8	9	12	13	15	16	18	20	21	23	24
ST Interest Bearing Debt	5	3	3	3	3	2	2	3	3	3	3	3
Trade Payables	2	3	4	6	7	9	10	11	12	13	14	14
Other Current Liabilities	1	2	2	3	3	3	4	4	4	4	5	5
LT Liabilities	19	26	62	57	59	50	46	42	35	29	24	20
LT Interest Bearing Debt	19	26	62	57	59	50	46	42	35	29	24	20
Other LT	0	0	-	-	-	-	-	-	-	-	-	-
Total Liabilities & Equity	60	70	113	121	135	138	143	147	148	150	152	153

Quarterly analysis, USD mln

	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07
Net Revenues	13.0	13.0	11.5	12.9	12.8	8.9	13.1	14.1	14.7
Change q-o-q	52%	0%	-12%	13%	-1%	-31%	47%	8%	5%
EBITDA	4.6	4.4	3.4	3.8	3.7	1.6	2.7	4.1	4.1
EBITDA margin. %	34.9%	33.5%	29.8%	29.1%	28.7%	17.8%	20.5%	29.0%	27.8%
EBIT	3.2	3.0	2.0	2.4	2.4	0.5	1.0	2.6	2.6
EBIT margin. %	24.9%	23.3%	17.5%	18.9%	19.0%	5.9%	7.5%	18.2%	17.7%
Net Income	3.4	2.0	1.4	(0.1)	1.4	(0.3)	(0.2)	1.4	1.5
Net Margin. %	26.3%	15.2%	12.3%	-0.8%	11.2%	-3.8%	-1.6%	10.2%	10.2%

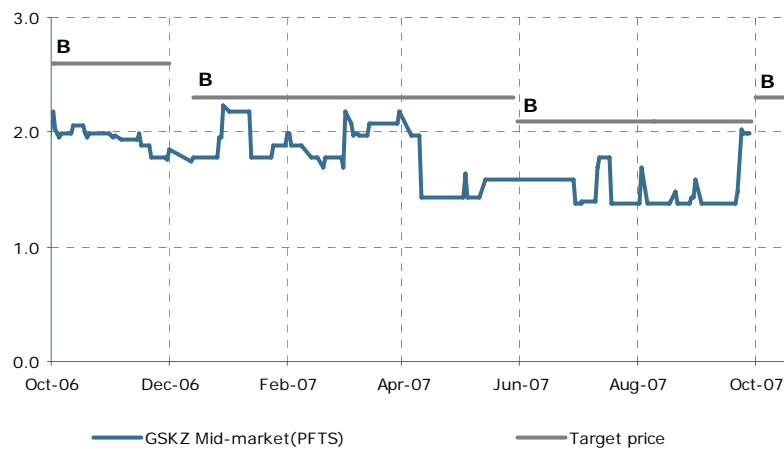
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Vetropack Gostomel Glass

Date	Target price, USD	Market Price, USD	Rec'	Action
13-Jun-06	2.60	1.8	BUY	Initiating
10-Jan-07	2.30	1.9	BUY	Maintain
27-Jun-07	2.10	1.8	BUY	Maintain
30-Oct-07	2.30	2.0	BUY	Maintain

GSKZ Recommendation history



Concorde Capital Coverage Universe

Buy	37	46%
Hold	25	31%
Sell	7	9%
Under Review/Suspended	12	15%
Total	81	100%

Investment Banking clients

Buy	9	75%
Hold	3	25%
Sell	0	0%
Under Review/Suspended	0	0%
Total	12	100%

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