

Ukraine / Packaging & Containers

Vetropack Gostomel Glass

Modernization Visible in 1Q07

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12M Target: USD 2.1

BUY

Market Information

Bloomberg	GSKZ UZ
No of Shares, mln	44.3
Market price, USD	1.8
MCap, USD mln	78.9
Free float	25%

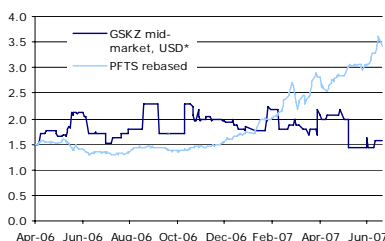
Stock Ownership

Vetropack	75%
Management and employees	20%
Other	5%

Ratios, 2006

EBITDA Margin	25%
EBIT Margin	13%
Net Margin	2%
Net Debt/Equity	0.7

GSKZ Stock performance



* Share price for the period preceding Oct. 12, 2006 restated for the new number of shares

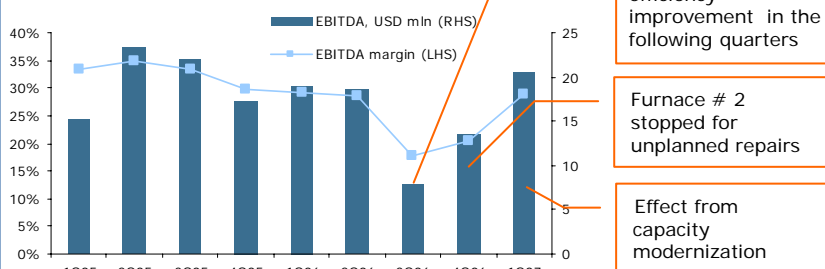
Source: PFTS, Concorde Capital

The effect of Vetropack Gostomel Glass' capacity modernization became evident in 1Q07, when its financials revealed an improvement in profitability. After the launch of a new furnace in autumn, management is planning to close two older ones, the net effect of which leads us to decrease our mid-term production forecasts. Our new target price is a notch lower at USD 2.1 per share, implying an 18% upside – BUY.

1Q07 Financials improved due to energy savings

Vetropack Gostomel Glass' EBITDA margin jumped back to 29% - the level GSKZ posted in 1Q06, an improvement compared to the dip to 20% in 4Q06. The company's profitability grew following the replacement of furnace #3 in 3Q06. This upgrade resulted in an estimated 16% savings on energy consumption, offsetting the effect of increasing competition on Ukraine's glass packaging market. Profitability improved one quarter later than we expected, due to unplanned repairs in 4Q06.

GSKZ EBITDA dynamics



Source: Company data

New furnace will replace two inefficient ones

The company's management said that after furnace #5 is launched, furnaces #1 and #2 will be idled. This makes us change our projections for GSKZ capacity increase from 63% to 35%. We correct our earlier production forecasts downward from 2008. The mothballing of these two furnaces will cause a further ~7% savings on energy consumption, and is likely to minimize the occurrence of unexpected breakdowns.

Beer production growth to ensure orders

We expect the new furnace (green glass) to concentrate on beer bottles. Given the 17% yoy increase in beer production in January-May, annual beer production is likely to at least post last year's 12% yoy growth, with bottled beer increasing 7-8%.

2007 Production forecasts upgraded

We increase our production projections for 2007 by 8% to 197 ths mt – in line with forecasts voiced by Gostomel Glass management, based on their plans to launch furnace #5 in autumn of 2007. This implies an 18% yoy production increase this current year.

Valuation suggests upside

Our target price is based on a DCF valuation. The target price of USD 2.1 per share suggests an 18% upside and implies a 2008E EV/EBITDA of 6.4, compared to the peer group average of 6.6.

Key financials & Ratios

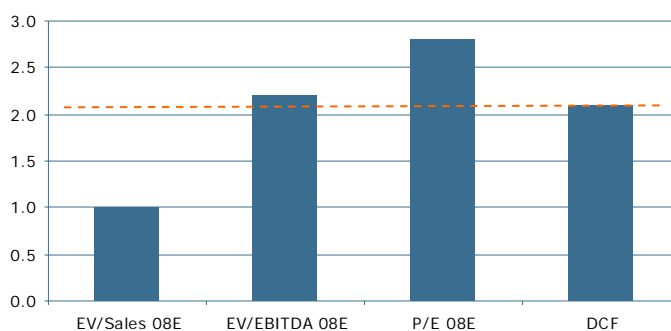
(in USD mln)	Sales	EBITDA Margin	Net Margin	EV/S	EV/EBITDA	P/E
2006	47.7	24.5%	1.7%	2.2	9.0	100.0
2007F	60.2	28.5%	9.8%	2.2	7.9	13.4
2008F	78.2	28.9%	10.6%	1.7	5.8	9.5
2009F	85.4	28.0%	11.3%	1.4	5.1	8.2

Spot exchange rate: 5.05

Valuation summary

Our target price of USD 2.1 is based on a DCF analysis. We also consider an EV/EBITDA multiple to have the highest relevance in a multiple-based valuation: It is less distorted by non-recurring accounting items, takes into account Gostomel Glass' higher EBITDA margin compared to its peers, and also the relatively larger share of debt financing in its capital structure. Our valuation based on EV/EBITDA '08E implies a share price of USD 2.2, consistent with that suggested by DCF.

Implied share price, USD



Source: Concorde Capital estimates

DCF Valuation

Valuation date: June 26, 2008

For the purpose of forecasting local currency is used

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	86	113	120	127	136	146	159	150	140	132
EBIT	57	78	84	93	101	112	125	118	109	102
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	43	59	63	70	76	84	94	88	82	77
Plus D&A	29	35	35	34	35	34	33	32	31	30
Less CapEx	(212)	(40)	(41)	(71)	(41)	(36)	(35)	(34)	(32)	(31)
Less change in OWC	(1)	(11)	(5)	(6)	(7)	(4)	(2)	(2)	5	(2)
FCFF	(141)	43	53	27	63	77	91	84	86	74
WACC	10.5%	11.2%	11.2%	11.0%	10.6%	10.5%	10.5%	10.4%	10.6%	10.6%
Discounted cash flow		41	45	21	44	48	51	43	40	31
Sum of discounted CF		364								
							Perpetuity growth rate			2.0%
							WACC to perpetuity			10.5%
Terminal value		371								885
							Implied exit EBITDA multiple			x6.9
Firm value		736								
Portion due to TV		50.5%								
Less net debt		(270)								
Equity value		465								
Implied 12-Mo share price, USD		2.1								

Implied Share Price, USD					
WACC to perpetuity	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
9.0%	2.2	2.3	2.4	2.6	2.8
9.5%	2.1	2.2	2.3	2.4	2.6
10.0%	2.0	2.1	2.2	2.3	2.5
10.5%	1.9	2.0	2.1	2.2	2.3
11.0%	1.8	1.9	2.0	2.1	2.2
11.5%	1.8	1.8	1.9	2.0	2.1
12.0%	1.7	1.8	1.9	1.9	2.0

Implied Share Price, USD					
WACC	Perpetuity Growth Rate				
	1.0%	1.5%	2.0%	2.5%	3.0%
-1.5%	2.2	2.3	2.4	2.5	2.7
-1.0%	2.1	2.2	2.3	2.4	2.5
-0.5%	2.0	2.1	2.2	2.3	2.4
+0.0%	1.9	2.0	2.1	2.2	2.3
+0.5%	1.8	1.9	2.0	2.1	2.2
+1.0%	1.7	1.8	1.9	2.0	2.1
+1.5%	1.6	1.7	1.8	1.9	2.0

Multiples valuation

Profitability comparison

	Country	Market Cap, USD mln	EBITDA Mgn			Net Mgn		
			2006	2007E	2008E	2006	2007E	2008E
GSKZ	Ukraine	80	25%	28%	29%	2%	10%	11%
Developing group								
Anadolu Cam Sanayii AS	Turkey	583.4	25%	26%	26%	5%	7%	8%
Consol Limited	S. Africa	841.1	31%	n/a	n/a	14%	n/a	n/a
Cristalerias De Chile	Chile	792.2	30%	n/a	n/a	13%	n/a	n/a
CSG Holdings	China	1,178.5	27%	n/a	n/a	11%	n/a	n/a
Rigolleau SA	Argentina	70.4	28%	n/a	n/a	12%	n/a	n/a
Developed group								
Owens Illinois Inc	USA	5,149.2	15%	18%	18%	-1%	3%	4%
Toyo Seikan Limited	Japan	4,192.8	11%	9%	10%	1%	1%	1%
Rexam PLC	UK	5,873.9	15%	15%	16%	6%	5%	6%
Ishizuka Glass Company Limited	Japan	102.6	9%	n/a	n/a	1%	n/a	n/a
Vetropack	Switzerland	633.4	21%	23%	23%	8%	9%	10%
Vidrala SA	Spain	810.6	24%	25%	26%	10%	11%	11%
Nihon Yamamura Glass Company	Japan	289.5	11%	n/a	n/a	3%	n/a	n/a
Kum BI Corp.	S. Korea	54.5	15%	n/a	n/a	8%	n/a	n/a
Saint Gobain	France	37,833.9	11%	13%	13%	4%	4%	5%
San Miguel Corp.	Philippines	4,486.1	14%	14%	15%	4%	4%	5%
Fuji Glass Company Limited	Japan	7.9	8%	n/a	n/a	3%	n/a	n/a
Average			18%	18%	18%	6%	6%	6%

Peer comparison

	Country	Market Cap, USD mln	EV/Sales			EV/EBITDA			P/E		
			2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
GSKZ	Ukraine	80	2.2	2.3	1.7	9.0	8.0	5.8	99.6	13.5	9.6
Developing group											
Anadolu Cam Sanayii AS	Turkey	583.4	1.6	1.6	1.3	6.6	6.3	5.2	21.0	14.7	12.1
Consol Limited	S. Africa	841.1	2.5	n/a	n/a	8.1	n/a	n/a	16.9	n/a	n/a
Cristalerias De Chile	Chile	792.2	2.4	n/a	n/a	8.2	n/a	n/a	17.0	n/a	n/a
CSG Holdings	China	1,178.5	4.0	n/a	n/a	14.8	n/a	n/a	28.2	14.3	n/a
Rigolleau SA	Argentina	70.4	1.1	n/a	n/a	4.0	n/a	n/a	8.9	n/a	n/a
Developed group											
Owens Illinois Inc	USA	5,149.2	1.4	1.3	1.2	9.4	7.2	6.4	neg	27.8	23.3
Toyo Seikan Limited	Japan	4,192.8	0.6	0.6	0.6	5.4	6.3	5.8	87.4*	92.1*	68.6*
Rexam PLC	UK	5,873.9	1.1	1.1	1.0	7.4	7.1	6.7	13.5	19.3	16.0
Ishizuka Glass Company Limited	Japan	102.6	0.6	n/a	n/a	6.7	n/a	n/a	22.1	n/a	n/a
Vetropack	Switzerland	633.4	1.7	1.6	1.4	8.2	7.0	6.1	17.9	9.8	9.8
Vidrala SA	Spain	810.6	2.6	2.4	2.2	11.0	9.4	8.6	21.0	8.4	8.4
Nihon Yamamura Glass Company	Japan	289.5	0.6	n/a	n/a	5.0	n/a	n/a	17.8	n/a	n/a
Kum BI Corp.	S. Korea	54.5	0.4	n/a	n/a	2.6	n/a	n/a	8.6	n/a	n/a
Saint Gobain	France	37,833.9	1.0	0.9	0.8	8.3	6.9	6.5	17.5	21.1	20.6
San Miguel Corp.	Philippines	4,486.1	1.3	1.2	1.1	9.3	8.2	7.3	20.8	21.0	19.8
Fuji Glass Company Limited	Japan	7.9	0.4	n/a	n/a	5.2	n/a	n/a	12.8	n/a	n/a
Average			1.5	1.3	1.2	7.5	7.3	6.6	17.4	17.0	15.7
GSKZ implied share price			1.0	0.5	1.0	1.4	1.5	2.2	0.3	2.3	2.8

* Excluded from the calculation of average as an outlier

Source: Thomson Financial, Company data, Concorde Capital estimates

Appendix

Revision of projections

	Previous			New		
	2006E	2007E	2008E	2006	2007E	2008E
Average capacity, ths mt	208	219	358	208	254	296
Production, ths mt (excl. waste)	172	182	288	167	197	242
Change yoy	-2%	6%	58%	-4%	18%	22%
Capacity utilization	88%	89%	85%	85%	82%	87%
Revenues, USD mln	50	55	89	48	60	78
Change yoy	7%	10%	62%	3%	26%	30%

Source: Concorde Capital estimates

Planned capacity changes

Furnace	Glass	Destination	Daily capacity, mt
#1	Amber	Beer, wine	100
#2	Flint	Cosmetic	70
#3	Flint	Vodka, CSD	220
#4	Green	Beer, wine	210
Current capacity, mt/day			600
+ #5	Green	Beer, wine	+380
- #1			-100
- #2			-70
Capacity starting from autumn 2007, mt/day			810

Source: Company data, Concorde Capital projections

All financial statements according to Ukrainian Accounting Standards

Income Statement Summary, USD mln

	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Net Revenues	46	48	60	78	85	94	109	122	132	136	140	143
Change y-o-y	N/M	3%	26%	30%	9%	10%	16%	12%	9%	3%	3%	2%
Cost Of Sales	(26)	(29)	(36)	(46)	(51)	(57)	(69)	(78)	(85)	(90)	(94)	(98)
Gross Profit	20	18.7	24.4	32.0	34.2	36.7	40.3	43.8	47.6	46.3	46.3	45.1
SG&A	(5)	(6)	(7)	(9)	(10)	(11)	(13)	(15)	(16)	(16)	(18)	(19)
EBITDA	15	12	17	23	24	25	27	29	32	30	28	26
EBITDA margin, %	33.0%	25%	28%	29%	28%	27%	25%	24%	24%	22%	20%	19%
Depreciation	(5)	(5)	(6)	(7)	(7)	(7)	(7)	(7)	(7)	(6)	(6)	(6)
EBIT	10	6	11	16	17	19	20	22	25	24	22	20
EBIT margin, %	22.0%	13%	19%	20%	20%	20%	19%	18%	19%	17%	16%	14%
Interest Expense	(2)	(2)	(4)	(5)	(4)	(4)	(3)	(3)	(3)	(2)	(2)	(2)
Financial Income	2	0	-	-	-	-	-	-	-	-	-	-
Other income/(expense)	1	(0)	-	-	-	-	-	-	-	-	-	-
PBT	11	4	8	11	13	15	17	19	22	21	20	19
Tax	(2)	(4)	(2)	(3)	(3)	(4)	(4)	(5)	(6)	(5)	(5)	(5)
Effective tax rate	21.9%	82%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Net Income	8	1	6	8	10	11	13	14	17	16	15	14
Net Margin, %	18.2%	2%	10%	11%	11%	12%	12%	12%	13%	12%	11%	10%
Dividend Declared	-	-	-	-	-	-	6	9	10	10	13	12

Balance Sheet Summary, USD mln

	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Current Assets	15	21	20	25	28	31	34	38	40	40	40	41
Cash & Equivalents	2	3	2	2	3	3	3	4	4	3	3	3
Trade Receivables	3	6	7	11	12	13	15	16	18	18	19	19
Inventories	9	7	9	10	11	12	13	14	15	15	14	14
Other current assets	1	5	2	2	3	3	3	4	4	4	4	4
Fixed Assets	45	49	86	87	88	95	97	97	97	98	98	98
PP&E, net	35	43	80	87	88	95	97	97	97	98	98	98
Other Fixed Assets	10	6	6	0	0	0	0	0	0	0	0	0
Total Assets	60	70	106	112	116	126	131	135	138	138	138	139
Shareholders' Equity	32	36	42	51	60	71	78	83	90	96	99	101
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
Retained Earnings	25	27	33	41	51	62	68	74	81	87	89	91
Current Liabilities	9	8	8	11	12	13	15	17	19	20	21	21
ST Interest Bearing Debt	5	3	2	3	3	2	2	2	3	3	3	3
Trade Payables	2	3	4	5	6	8	9	10	12	12	13	13
Accrued Wages	0	0	-	-	-	-	-	-	-	-	-	-
Accrued Taxes	0	0	0	0	0	0	1	1	1	1	1	1
Other Current Liabilities	1	2	2	2	3	3	3	4	4	4	4	4
LT Liabilities	19	26	56	51	44	42	38	34	28	21	18	17
LT Interest Bearing Debt	19	26	56	51	44	42	38	34	28	21	18	17
Other LT	0	0	-	-	-	-	-	-	-	-	-	-
Total Liabilities & Equity	60	70	106	112	116	126	131	135	138	138	138	139

Cash Flow Statement Summary, USD mln

	2005	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Net Income	8	1	6	8	10	11	13	14	17	16	15	14
Depreciation	5	5	6	7	7	7	7	7	7	6	6	6
Non-operating and non-cash item	(3)	1	(6)	(0)	0	(0)	0	(0)	0	0	(0)	(0)
Changes in working capital	2	(1)	(0)	(2)	(1)	(1)	(1)	(1)	(0)	(0)	1	(0)
Operating Cash Flow	13	6	5	13	16	17	18	20	23	22	22	20
Capital Expenditures, net	(13)	(15)	(42)	(8)	(8)	(14)	(8)	(7)	(7)	(7)	(6)	(6)
Other Investments, net	-	3	6	-	-	-	-	-	-	-	-	-
Investing Cash Flow	(13)	(12)	(36)	(8)	(8)	(14)	(8)	(7)	(7)	(7)	(6)	(6)
Net Borrowings/(repayments)	(1)	4	29	(5)	(7)	(2)	(3)	(4)	(6)	(7)	(3)	(1)
Dividends Paid	-	(0)	-	-	-	-	(6)	(9)	(10)	(10)	(13)	(12)
Other	-	3	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	(1)	7	29	(5)	(7)	(2)	(10)	(13)	(16)	(16)	(16)	(13)
Beginning Cash Balance	N/A	2	3	2	2	3	3	3	4	4	3	3
Ending Cash Balance	2	3	2	2	3	3	3	4	4	3	3	3
Net Cash Inflows/Outflows	(1)	1	(1)	1	0	0	0	0	0	(1)	0	0

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