



CONCORDE CAPITAL

Ukraine / Chemicals Stirol

Putting Its Cards On The Table

August 3, 2007

Current price: 16.1

12M Target: 21.0

BUY

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Market information

Bloomberg	STIR UZ
Frankfurt/Xetra	SVZ GR
No of Shares, mln	27.1
Reg S GDR to Ord.	1:1
Market price, USD	16.1
52Wk H/L, USD	17.4/13.4
MCap, USD mln	436.7
Free float	7.0%
FF MCap, USD mln	30.6
Mo avg tr volume*, USD mln	1.6

* 6M trailing, PFTS & Frankfurt

Stock ownership

Stirolkhiminvest	90.1%
Other	9.9%

Corporate Governance Rating* AA

* 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.

Ratios, 2006 IFRS

EBITDA Margin	12.1%
EBIT Margin	8.5%
Net Margin	6.3%
Net Debt/Equity	-0.12

Stirol's owner appears to be laying all his cards on the table in response to the depreciation in Stirol's MCap over the last two years. Consolidated UAS financials disclosed earlier this week indicate the real size and profitability of the group's business. The inclusion of subsidiaries and associates in our valuation brought our target up to USD 21.0 per share. So far, the market seems to have neglected the news, leaving the 30% upside intact. We recommend BUY.

Consolidated UAS financials manifest strong performance

Earlier this week, Stirol published 1H07 consolidated financials. The statements were prepared by the management under UAS and included all of Stirol's significant subs and associates. Unlike previously released unconsolidated accounts, the recent report indicates robust performance in 1H07: sales grew 19.8% yoy and EBITDA increased 20.1% yoy, with an increase in gas costs being offset by growth in global fertilizer prices. Consolidation added around 41% to Stirol's non-consolidated revenues and doubled its EBITDA.

The owner signals the real value of his business?

Disclosure of the group's overall performance appears as if the company's owner is signaling the true value of his business. Over the last two years, Stirol's market price almost halved on the back of a drop in profitability caused by twofold gas price increase. Consolidation of all its offspring companies can help to support the stock's price and revive strategic investors' interest.

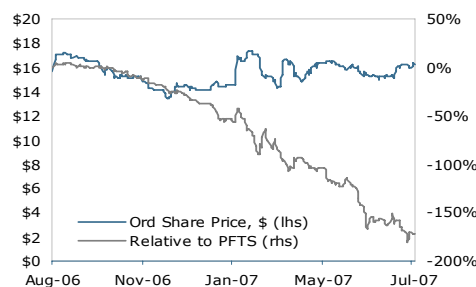
Subsidiaries and associates factored in

We account for subs and associates in our valuation, as they are fully controlled by Stirol's main shareholder, are closely tied to the company's core business and are unlikely to survive or be disposed of separately. We also think it is likely that Stirol will eventually increase its stakes in its associates (that currently do not exceed 49%) and consolidate them under IFRS.

Updated valuation offers 28% upside

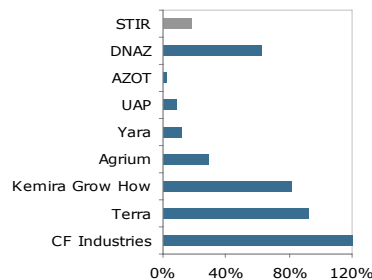
On the basis of consolidated UAS accounts, our valuation yields a USD 21 per share target for Stirol, of which ~USD 8 per share is the incremental contribution of consolidated entities. We account for the possibility that consolidation done by the management might not be perfectly correct by valuing off-spring businesses at a 50% discount.

Stock performance vs. PFTS

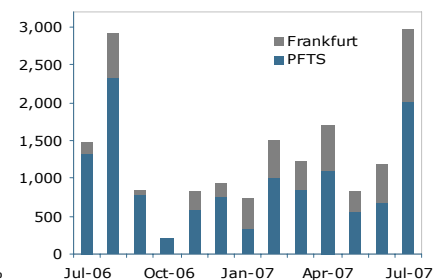


Source: PFTS, Bloomberg

Sector performance, YTD



Trading volume, USD ths



Key financials & ratios*

(in USD mln)	Sales	EBITDA Margin	Net Margin	EV/S	EV/EBITDA	P/E
2006	502.2	12.1%	6.3%	0.82	6.79	13.84
2007E	763.1	11.1%	8.8%	0.54	4.90	6.53
2008E	839.4	9.6%	7.5%	0.51	5.33	6.90

* 2006 financials consolidated under IFRS; 2007-08 forecasts are based on consolidation done by the management in 1H07 (not audited)
Spot exchange rate: 5.05

1H07 results: Stronger consolidated

Stinol discloses UAS consolidated financials

Recently Stinol published 1H07 financials prepared under local accounting standards (UAS) on the SEC web site. The figures were not particularly impressive, notably with net income down by 72.6% yoy. On the next day, the company followed with a press release saying that the financials passed to SEC are misleading, due to some "technical" reasons, and indicated that, in fact, 1H results are much stronger. Afterward, financials that did show strong performance in 1H07 were replaced on the SEC web site.

Management advised us that the second version of their 1H07 statements represent consolidated UAS accounts of the whole group, including *all* Stinol's offspring companies. Contrary to audited IFRS accounts, it includes the financials of companies where Stinol controls stakes of less than 50%. To the best of our knowledge, this is the management's first attempt to consolidate financials of the group under UAS, earlier it was done only by the auditors based on IFRS.

Although Stinol's 1H07 financials were not audited and consolidation done by the management could be imperfect, it helped us to estimate the real extent and performance of Stinol's business. We believe there is a big chance that Stinol will continue providing consolidated UAS statements in the future.

Consolidated data signals strong performance in 1H07

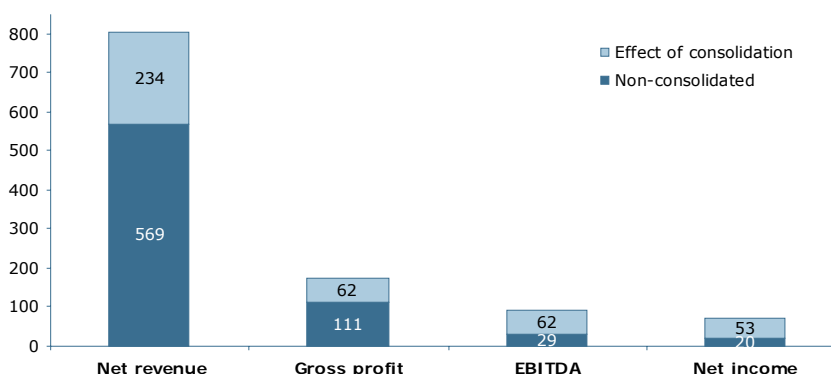
According to consolidated UAS accounts, Stinol's sales grew 19.8% yoy, similar to the 20.9% on a non-consolidated basis. In absolute terms, consolidated revenue was 41.1% larger than non-consolidated, and amounted to 80.6% of our full-year forecast. Consolidated gross and EBITDA margins were also stronger compared to non-consolidated figures, and exceeded our forecast.

1H07 UAS financials and our full-year forecast, USD mln

	Non-consolidated	Chg, yoy	Consolidated	Chg, yoy	Full-year forecast*
Net revenue	284.6	20.9%	401.6	19.8%	498.3
Gross profit	55.7	-26.2%	86.9	22.9%	81.2
EBITDA	14.5	-66.1%	45.7	20.1%	21.4
Net income	9.9	-72.6%	36.1	3.9%	6.0
Gross margin	19.6%		21.6%		16.3%
EBITDA margin	5.1%		11.4%		4.3%
Net margin	3.5%		9.0%		1.2%

* Our forecast from October 2006, Base Case scenario
 Source: Company financial statements, Concorde Capital estimates

Effect of consolidation under UAS on Stinol's financials, USD mln



Source: Company financial statements, Concorde Capital estimates

Where is the money coming from?

We estimate that ~70% of the incremental sales and more than half of incremental EBITDA came from the subsidiaries and associates related to Stinol's core business segments: nitrogen fertilizers, polystyrene, pharmaceuticals and fodder additives. The remaining 30% of consolidated revenues represent mainly sales of services and non-core products.

Below is the excerpt from the 2006 auditors report with the list of Stinol's subsidiaries and associates:

Investments in associates (Note 8 of the auditors report)

Name	Country of incorporation	Activity	2006 % of ownership	2005 % of ownership
Stiolkhimplast LLC	Ukraine	Production of polystyrenes	49	49
Stirolbiopharm LLC	Ukraine	Research development and production of pharmaceuticals	49	49
Stirolmash LLC	Ukraine	Metal-Working	25	25
Stirolelectropribor LLC	Ukraine	Equipment repair	25	25
Stirolautoservice LLC	Ukraine	Transportation	25	25
Stirolstroyontaj LLC	Ukraine	Construction	25	25
Stiroltrans LLC	Ukraine	Maintenance of railway facilities	25	25
Stirol IT LLC	Ukraine	Maintenance of computers	25	25
Stirolservicepribor LLC	Ukraine	Equipment repair	25	25
Stiroltechservice LLC	Ukraine	Equipment repair	25	25
Stirol Security Service	Ukraine	Security services	25	25
CJSC Donkhimoptorg	Ukraine	Trading	25	3

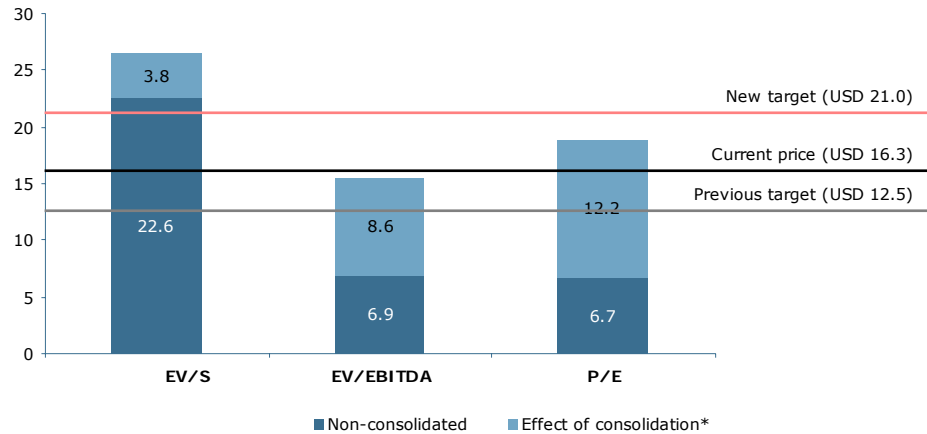
Significant subsidiaries (Note 31 of the auditors report)

Name	Country of incorporation	Activity	2006 % of ownership	2005 % of ownership
Stirol Pack JSC	Ukraine	Production of packaging and other products derived from chemicals	100	95
Chemo Invest Erade LLP	United Kingdom	Trading	51	51
OJSC StirolBiotech	Ukraine	Production of lyprot and leaven	53	13

Implications for Stirol valuation

The inclusion of associates and subsidiaries in Stirol's valuation, with their incremental contribution valued at a 50% discount, yielded an upgraded target of USD 21.0 per share, 68% above our previous target.

Valuation summary, USD/share



Source: Bloomberg, Thomson, Concorde Capital estimates

Our grounds for factoring subsidiaries and associates into Stirol's valuation are as follows:

- There is a common understanding that all the significant subsidiaries and associates are effectively controlled by Stirol's main shareholder
- Most of those are closely tied to Stirol's core businesses and are unlikely to survive or be disposed of separately
- We think that the eventual consolidation of associated companies, which are currently not consolidated by auditors, is quite likely. Such a move would be to the benefit of Stirol's main shareholder, enabling him to provide a clearer signal to the market about the real value of his business.

Major risk to our forecasts: mistakes in consolidation procedure

Contrary to the auditors, management treated the associated companies as entities under Stirol's control, despite the fact that Stirol's stakes do not exceed 49%. Given that management is performing this type of consolidation for the first time, there is large chance of a mistake. For example, intra-group transactions and balances might be not eliminated or eliminated incorrectly. To account for the risk of improper consolidation, we value the incremental contribution of consolidated entities at a 50% discount.

Peer comparison summary

	EV/Sales		EV/EBITDA		P/E	
	2007E	2008E	2007E	2008E	2007E	2008E
Non-consolidated	0.73	0.69	14.28	18.97	22.05	32.24
Consolidated	0.54	0.51	4.90	5.33	6.53	6.90
Peers' average	0.97	0.97	7.78	8.05	14.22	13.35

STIR implied price, USD per share:

Non-consolidated	21.3	22.6	9.1	6.9	10.4	6.7
Upside	32.2%	40.6%	-43.2%	-56.9%	-35.5%	-58.6%
Consolidated	28.3	30.3	25.1	24.2	35.1	31.2
Upside	75.5%	88.1%	55.8%	50.3%	117.8%	93.5%

Effect of consolidation:

USD/share	7.0	7.6	15.9	17.3	24.7	24.5
Discounted @ 50%	3.5	3.8	8.0	8.6	12.3	12.2

Implied price per share

based on discounted contribution of consolidated entities:

USD/share	24.8	26.5	17.1	15.6	22.7	18.9
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Source: Bloomberg, Thomson, Concorde Capital estimates

Updated forecasts

We take UAS consolidated financials as a point of departure. Our most critical assumptions are:

- 10% lower revenues and slightly weaker margins in 2H07 compared to 1H, on the back of expected correction of global fertilizer prices; 10% yoy revenue growth in 2008;
- 7.7% increase of gas price at the border in 2008, to USD 140/tcm, which would translate into ~7.1% yoy higher price for the plant, to ~USD 172/tcm;

Summary of updated forecasts, USD mln

	1H07	2007E	2008E
Net revenue	401.6	763.1	839.4
Gross profit	86.9	160.8	164.8
EBITDA	45.7	84.5	80.9
Net income	36.1	66.9	63.3
Gross margin	21.6%	21.1%	19.6%
EBITDA margin	11.4%	11.1%	9.6%
Net margin	9.0%	8.8%	7.5%

Appendix. Peer summary

USD mln

	Country	MCap	Sales		EBITDA Mgn		Net Mgn	
			2007E	2008E	2007E	2008E	2007E	2008E
Yara	Norway	7,965	9,140	9,638	12.5%	11.3%	8.2%	7.2%
Agrium	Canada	5,698	4,921	4,992	15.2%	16.1%	7.4%	8.3%
Terra	U.S.	2,228	2,210	2,124	17.8%	16.8%	7.1%	10.6%
UAP	U.S.	1,408	3,162	3,268	6.4%	6.3%	2.9%	3.1%
CF Industries	U.S.	3,196	2,311	2,262	17.9%	14.8%	11.2%	10.2%
Kemira Grow How	Finland	907	1,768	1,762	8.3%	8.5%	3.0%	3.0%
Average					13.0%	12.3%	6.6%	7.1%

	EV/Sales		EV/EBITDA		P/E	
	2007E	2008E	2007E	2008E	2007E	2008E
Yara	1.0	0.9	8.0	8.3	10.6	11.5
Agrium	1.3	1.3	8.5	7.9	15.6	13.8
Terra	1.1	1.2	6.4	7.0	14.2	9.9
UAP	0.6	0.6	9.4	9.1	15.5	14.0
CF Industries	1.2	1.2	6.6	8.2	12.3	13.8
Kemira Grow How	0.7	0.7	7.9	7.8	17.1	17.2
Average	1.0	1.0	7.8	8.0	14.2	13.4

Source: Bloomberg, Company data, Concorde Capital estimates

Analyst certification

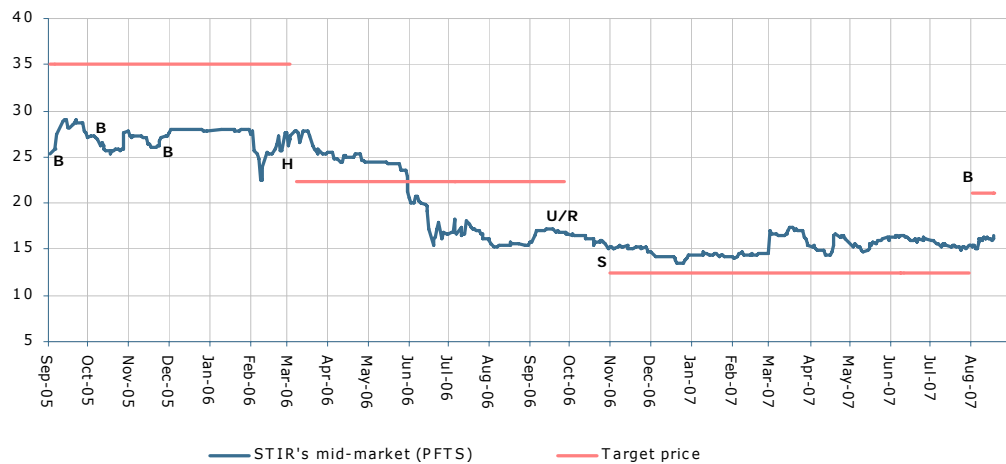
I, Vladimir Nesterenko, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Recommendation history, USD

Date	12M target price, USD	Market price, USD	Recommendation	Action
08 Aug 05	35.0	25.0	BUY	Initiate
01 Nov 05	35.0	26.0	BUY	Maintain
13 Dec 05*	35.0	28.0	BUY	Maintain
07 Mar 06	22.3	23.9	HOLD	Downgrade
27 Sep 06	U/R	15.7	U/R	Review
31 Oct 06	12.5	15.0	SELL	Downgrade
03 Aug 07	21.0	**16.1	BUY	Upgrade

* Until February 2006 the company was covered by Olha Pankiv, who now focuses on another sector. In February 2006, Vladimir Nesterenko took over coverage.

** PFTS opening price as of Aug. 2, 2007



Concorde Capital Rating Universe

Buy	36	47%
Hold	11	14%
Sell	4	5%
Under Review	25	33%
Total	76	100%

Investment Banking Clients

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

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