



CONCORDE CAPITAL

Ukraine / Chemicals

Stirol

Upgrade on Efficiency Gain

November 22, 2007

Current price: **USD 25.9**
12M Target: **USD 29.3**

BUY

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Bloomberg **STIR UZ**
Frankfurt/Xetra **SVZ GR**

Market information

No of Shares, mln	27.1
Reg S GDR to Ord.	1:1
Market price, USD	25.9
52Wk H/L, USD	28.3/14.6
MCap, USD mln	703.6
Free float	7.0%
FF MCap, USD mln	49.3
Mo avg tr volume*, USD mln	1.7

* 6M trailing, PFTS & Frankfurt

Ownership

Management	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

According to management, Stirol has completed a modernization project, which led to a 17% reduction in per-unit gas usage at one of its three ammonia facilities. We estimate the incremental effect on the company's value due to related cost savings at USD 200-250 mln. We raise our target to USD 29.3 per share and upgrade our recommendation to BUY.

Modernization yields gas savings

A completed modernization project resulted in one of Stirol's three ammonia facilities decreasing gas consumption per ton of ammonia by 17% to 1020 m3, according to a company release. We estimate that this reduces Stirol's overall per-unit gas consumption from around 1300 m3 to 1230 m3, which is close to our forecast of 1250 m3 made a year ago. The modernization took place earlier than we expected, which we think was due to surprisingly high ammonia prices worldwide.

Management confirmed to us that modernization of another ammonia facility will be finished in 1H08, which we estimate will bring the company's average gas usage coefficient down to about 1150 m3 per ton of ammonia. Still, the potential for reducing per-unit gas consumption is limited at around 950-1050 m3 per ton of ammonia for all Ukrainian plants, which use so-called *first generation* ammonia technology (for details see our Fertilizers update from October 2006).

Up the value-added chain

Modernization of ammonia facilities is being accompanied by Stirol rebalancing its output mix toward urea, higher value-added ammonia derivative. We expect the company to increase its urea capacity by up to 25% over the next three years, while the launch of a granulation unit in 2008 will enhance urea profitability margin. The company is also making steps toward further diversification into non-fertilizer products.

Valuation suggests target upgrade

We estimate the incremental effect of the company's completed modernization project at USD 7.4 to 9.2 per share, and upgrade our target price to USD 29.3.

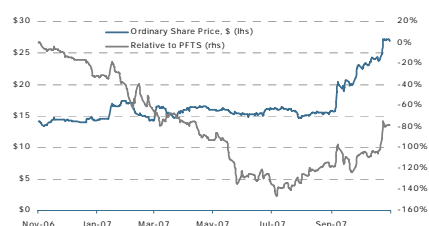
In the short-term, the stock remains vulnerable to the following factors:

- magnitude of forthcoming gas price increase
- extent and timing of consolidation of companies affiliated with Stirol
- global urea and ammonia prices

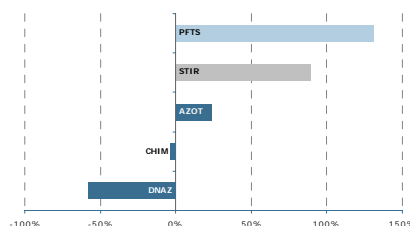
WATCH:

Ukrainian government & Russian Gazprom negotiations on 2008 gas price
Release of consolidated IFRS accounts (expected by end of 1H08)

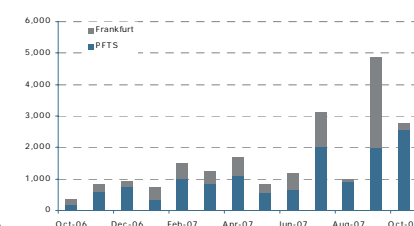
Stock performance*, 12M



Sector performance*, YTD



STIR Trading Volumes, USD ths



Note: PFTS mid price

Source: PFTS, Concorde Capital calculations

Analyst certification

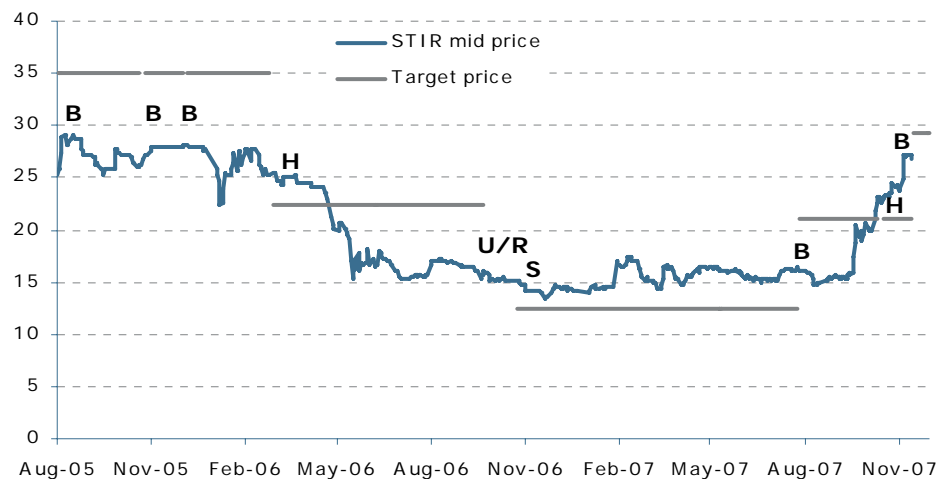
I, Vladimir Nesterenko, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or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

Stirol

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
24-Oct-07	21.0	26.0	HOLD	Downgrade
22-Nov-07	29.3	25.9	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

STIR Recommendation history, USD per share



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 Coverage Universe

Buy	35	42%
Hold	31	37%
Sell	7	8%
Under Review	11	13%
Total	84	100%

Investment Banking Clients

Buy	8	73%
Hold	3	27%
Sell	0	0%
Under Review	0	0%
Total	11	100%

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