

July 19, 2012

# Ukrainian gas producers

## Parliament initiates tax increase for sector in 2013

After the Ukrainian parliament substituted the current gas production royalty for a unified ad valorem rate of 17% as of 2013 just a month ago, it went further to raise the newly adopted rate 1.5x. This change, if signed by the president, will undermine the profitability of independent gas production companies, effectively decreasing their 2013 EBITDA by up to 20%, with Kulczyk Oil and JKX Oil & Gas to be the largest victims.

### What the new amendments actually change

Based on the production tax calculation formula valid for 2012, Ukrainian gas producers pay a USD 1.95/Mscf\* royalty and USD 0.15/Mscf production tax on gas extracted from reservoirs shallower than 5,000m. These two charges together are equal to the 17% ad valorem rate adopted in May 2012 that will be valid since 2013. The new amendments voted by parliament last month imply a 1.5x unified production tax increase to USD 3.15/Mscf since 2013.

### New law to cause double digit contraction of JKX and Kulczyk EBITDA

We estimate the tax increase, if signed into law, will lead to decreases in the EBITDA of JKX Oil & Gas by 17% and Kulczyk Oil by 20% in 2013.

### Regal Petroleum will lose the least on a possible tax hike

Producing most of its gas from reservoirs deeper than 5,000m Regal currently pays an effective 9% production-based tax (which is 1.9x lower compared to JKX Oil & Gas and Kulczyk Oil). The 50% tax increase in 2013 would eat away just 8.6% of Regal's EBITDA in 2013.

### The "what if" scenario

The adopted production tax hike is urged to increase the state budget revenues by bringing additionally estimated USD 80 mln from the independent gas producers in 2013. Considering the insignificance of possible additional revenues in the scale of the state budget and strong lobby of local gas producers, we do not rule out that president will veto the law. Otherwise (and most likely), we can expect a selling pressure on stocks of Ukraine-focused independent gas producers.

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#### JKX Oil & Gas

Bloomberg	JKX LN
Price, USD	1.56
No of shares, mln	171.7
Market Cap, USD mln	268.0
52-week performance	-61%
52-week range, USD	1.3/4.2
ADT, 12M, USD mln	0.4
Free float, %	47%
Free float, USD mln	125.9

#### Kulczyk Oil

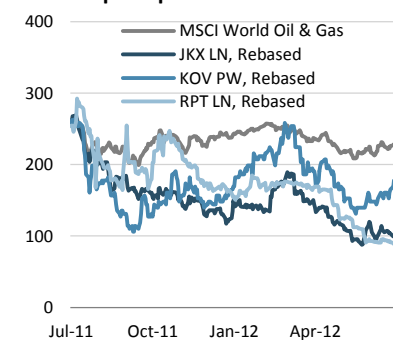
Bloomberg	KOV PW
Price, USD	0.42
No of shares, mln	421.3
Market Cap, USD mln	177.3
52-week performance	-31%
52-week range, USD	0.25/0.63
ADT, 12M, USD mln	1.1
Free float, %	45%
Free float, USD mln	80.2

#### Regal Petroleum

Bloomberg	RPT LN
Price, USD	0.24
No of shares, mln	320.6
Market Cap, USD mln	78.0
52-week performance	-65%
52-week range, USD	0.25/0.80
ADT, 12M, USD mln	0.08
Free float, %	21%
Free float, USD mln	16.4

Prices as of Jul. 18, 2012

#### Relative price performance



Source: Bloomberg

\* Thousand standard cubic feet

**Key forecast revisions, USD mln (unless other specified)**

	2011	2012E	2013E (under current legislation)	2013E (under new legislation)	Effect of change in legislation
<b>JKX Oil &amp; Gas</b>					
<b>Net revenue</b>	<b>236.9</b>	<b>218.1</b>	<b>243.6</b>	<b>243.6</b>	<b>0.0%</b>
Production (Mboe)	3,301	2,813	3,103	3,103	0.0%
Operating costs	17.3	16.3	19.8	19.8	0.0%
<b>Production based taxes</b>	<b>67.1</b>	<b>55.5</b>	<b>62.0</b>	<b>82.4</b>	<b>33.0%</b>
Administrative & Other	38.1	40.3	42.2	42.2	0.0%
<b>EBITDA</b>	<b>114.4</b>	<b>106.0</b>	<b>119.7</b>	<b>99.2</b>	<b>-17.1%</b>
<i>EBITDA margin</i>	<i>48.3%</i>	<i>48.6%</i>	<i>49.1%</i>	<i>40.7%</i>	<i>-8.4pp.</i>
<b>Net Income</b>	<b>60.3</b>	<b>61.2</b>	<b>71.5</b>	<b>55.0</b>	<b>-23.2%</b>
<i>Net margin</i>	<i>25.5%</i>	<i>28.1%</i>	<i>29.4%</i>	<i>22.6%</i>	<i>-6.8pp.</i>
<b>Kulczyk Oil</b>					
<b>Net revenue</b>	<b>35.2</b>	<b>97.4</b>	<b>114.3</b>	<b>114.3</b>	<b>0.0%</b>
Production (Mboe)	385	928	1,095	1,095	0.0%
Operating costs	7.3	18.8	23.7	23.7	0.0%
<b>Production based taxes</b>	<b>6.9</b>	<b>19.1</b>	<b>22.4</b>	<b>33.6</b>	<b>50.0%</b>
Administrative & Other	11.7	11.9	12.3	12.3	0.0%
<b>EBITDA</b>	<b>9.3</b>	<b>47.7</b>	<b>55.9</b>	<b>44.7</b>	<b>-20.0%</b>
<i>EBITDA margin</i>	<i>26.5%</i>	<i>49.0%</i>	<i>48.9%</i>	<i>39.1%</i>	<i>-9.8pp.</i>
<b>Net Income</b>	<b>-16.9</b>	<b>19.9</b>	<b>24.3</b>	<b>15.3</b>	<b>-37.3%</b>
<i>Net margin</i>	<i>-48.1%</i>	<i>20.4%</i>	<i>21.3%</i>	<i>13.3%</i>	<i>-7.9pp.</i>
<b>Regal Petroleum</b>					
<b>Net revenue</b>	<b>19.1</b>	<b>51.6</b>	<b>53.8</b>	<b>53.8</b>	<b>0.0%</b>
Production (Mboe)	251	592	621	621	0.0%
Operating costs	3.3	4.8	5.1	5.1	0.0%
<b>Production based taxes</b>	<b>1.9</b>	<b>5.1</b>	<b>5.3</b>	<b>8.0</b>	<b>50.0%</b>
Administrative & Other	16.9	11.8	12.4	12.4	0.0%
<b>EBITDA</b>	<b>-3.0</b>	<b>29.8</b>	<b>31.0</b>	<b>28.3</b>	<b>-8.6%</b>
<i>EBITDA margin</i>	<i>-15.7%</i>	<i>57.7%</i>	<i>57.6%</i>	<i>52.6%</i>	<i>-5.0pp.</i>
<b>Net Income</b>	<b>6.4</b>	<b>14.4</b>	<b>15.2</b>	<b>13.0</b>	<b>-14.2%</b>
<i>Net margin</i>	<i>33.6%</i>	<i>27.8%</i>	<i>28.3%</i>	<i>24.2%</i>	<i>-4.1pp.</i>

Source: Company data, Concorde Capital

**Peer multiples**

		MCap	EV/EBITDA			P/E			EV/Sales			EV / 2P reserves	EV / 1P reserves	EV/ Output
		USD mln	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	USD / boe	USD / boe	2012E USD / boe
Cadogan Petroleum	CAD LN	86	neg	2.6	3.7	0.6	n/a	n/a	3.0	1.0	1.0	8.0	n/a	64.3
JKX Oil & Gas	JKX LN	268	2.4	2.6	2.8	4.5	4.4	4.9	1.2	1.2	1.2	3.1	n/a	98.5
Kulczyk Oil Ventures	KOV PW	177	19.9	3.6	4.0	neg	8.9	11.6	5.3	1.8	1.6	32.7	46.6	185.9
Regal Petroleum	RPT LN	78	neg	2.6	2.8	12.3	5.5	6.0	3.1	1.5	1.5	0.5	n/a	129.1
Ukrnafta	UNAF UK	1,130	2.6	3.9	3.6	4.1	8.4	7.4	0.4	0.5	0.5	2.2	n/a	64.1
<b>Ukraine mean</b>		<b>348</b>	<b>8.3</b>	<b>3.1</b>	<b>3.4</b>	<b>5.4</b>	<b>6.8</b>	<b>7.5</b>	<b>2.6</b>	<b>1.2</b>	<b>1.1</b>	<b>9.3</b>	<b>46.6</b>	<b>108.4</b>
<b>CIS peers mean</b>		<b>8,566</b>	<b>7.5</b>	<b>5.4</b>	<b>4.0</b>	<b>9.9</b>	<b>7.5</b>	<b>7.2</b>	<b>3.7</b>	<b>2.3</b>	<b>1.8</b>	<b>2.8</b>	<b>7.5</b>	<b>101.7</b>
Novatek	NVTK LI	35,221	12.4	11.2	9.0	8.6	15.1	12.3	6.2	5.3	4.3	2.4	3.3	82.5
Dragon Oil	DGO ID	4,422	2.5	2.0	1.5	6.8	5.9	5.0	2.3	1.8	1.3	2.6	n/a	92.1
Alliance Oil	AOIL SS	1,549	4.4	4.4	3.3	4.9	4.2	3.0	1.0	1.0	0.9	5.1	10.6	173.1
Zhaikmunai LP	ZKM LI	1,588	10.7	2.8	2.2	19.5	4.6	4.0	6.4	1.9	1.5	3.3	12.4	103.5
Petronaft Resources	PTR ID	48	n/m	6.5	4.0	neg	neg	11.6	2.8	1.7	1.2	0.6	3.7	57.5
<b>Global peers mean</b>		<b>12,076</b>	<b>6.6</b>	<b>5.5</b>	<b>5.0</b>	<b>16.8</b>	<b>16.7</b>	<b>14.4</b>	<b>4.1</b>	<b>3.6</b>	<b>3.2</b>	<b>11.6</b>	<b>15.0</b>	<b>226.3</b>
PTT E&P	PTTEP TB	17,385	5.0	4.5	3.7	11.8	9.8	8.5	3.6	3.2	2.6	n/a	20.4	159.3
Cairn India*	CAIR IN	10,839	5.7	4.9	3.7	7.8	6.5	6.0	4.6	3.8	2.5	10.4	n/a	232.5
Woodside Petroleum	WPL AU	25,939	11.3	7.2	6.0	17.2	12.9	11.3	6.5	5.2	4.5	18.2	22.7	387.9
Anadarko Petroleum	APC US	36,284	6.6	5.5	4.8	neg	20.0	15.4	3.6	3.5	3.0	n/a	19.1	186.4
Encana Corp	ECA CN	15,102	4.5	5.5	6.7	n/m	23.9	38.4	2.7	3.4	3.6	5.6	n/a	104.1
Talisman Energy	TLM CN	11,446	3.1	3.8	3.3	14.8	16.2	10.4	1.9	2.1	2.0	7.6	11.3	102.9
Chesapeake Energy	CHK US	12,717	4.4	8.1	5.2	7.3	32.8	9.6	1.9	2.8	2.4	n/a	7.8	n/a
Noble Energy	NBL US	15,252	7.8	5.6	4.9	33.7	14.4	10.9	4.9	4.1	3.6	6.8	15.2	200.6
Santos Ltd	STO AU	10,001	neg	7.3	7.5	12.9	16.5	16.3	3.8	4.1	4.3	9.3	19.4	226.3
Pioneer Natural Resources	PXD US	11,060	8.6	6.7	5.5	13.3	17.0	12.6	5.3	4.4	3.7	n/a	12.9	257.0
Ultra Petroleum	UPL US	3,301	5.1	6.4	7.9	7.3	15.3	22.7	4.0	4.9	5.3	2.8	6.5	126.2
Premier Oil	PMO LN	3,124	10.8	4.2	3.2	18.3	8.2	5.6	4.7	2.8	2.1	13.7	n/a	184.7
Soco International	SIA LN	1,647	8.7	3.2	2.1	18.6	7.3	5.8	6.6	2.6	1.7	10.6	n/a	305.3
Lundin Petroleum	LUPE SS	6,259	7.3	6.6	6.8	39.1	30.4	28.4	5.1	4.8	5.0	31.1	n/a	499.1
Salamander Energy	SMDR LN	784	4.2	3.5	3.0	neg	19.3	14.2	2.5	2.3	1.7	11.8	n/a	195.3

Source: Bloomberg, Concorde Capital estimates

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