

Ukrnafta

Vertical integration postponed; still Under Review

March 22 EGM: strictly procedural issues

The critical issues on Ukrnafta's March 22 EGM agenda - consideration of creation of a vertically integrated oil company, listing on a western stock exchange and an additional share capital increase - were all postponed. Instead, the meeting focused on technical issues such as rearranging into a public joint stock company, as required by 2009 law on Joint Stock Companies. Shareholders also approved of converting shares into non-documentary form (dematerialization), which implies temporary suspension of trading, but no exact timeframe was specified.

25 % additional share capital could pop up again

The proposed 25% equity capital increase via an additional share issue, in our view, will turn up at a future EGM under similar terms as a mechanism for the state to facilitate its vertical integration plans. We believe it is likely that instead of cash, Ukrnafta's two major shareholders, Naftogaz (50%+1) and Privat (which we estimate to have accumulated 45% of shares), contribute their stakes in the refinery Ukrtatnafta (Naftogaz - 43% stake and Privat Group - 47%). However, in this scenario, we note the risk for minority shareholders of overvaluing Ukrtatnafta. Our rough estimate for the refinery based on EV/Sales multiple is USD 500-700 mln, compared to the USD 1.4 bln in additional capital to be raised via the additional share issue. In 2010, Ukrtatnafta's sales were reported at USD 612 mln, EBITDA at USD 47.2 mln, and net income at USD 47.5 mln.

Valuation: Under Review

We keep Ukrnafta under review until further details of its plans for vertical integration are clarified. We believe the major shareholders are continuing negotiations and will bring the issue up for discussion at an upcoming, as yet unscheduled, EGM within the next six months.

Ukrnafta key financial results, 2008-2010

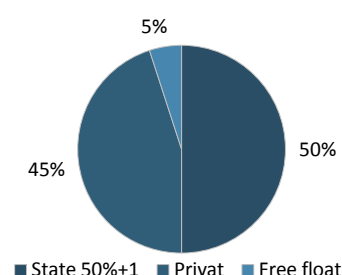
USD ths	2008	2009	2010
Net sales	1,783,769	1,280,990	2,523,380
EBITDA	490,887	170,615	557,980
Net income	272,871	48,624	333,706
EBITDA margin	28%	13%	22%
Depreciation	118,568	84,311	85,406
Net margin	15%	4%	13%

Source: Company data

Report date	23 Mar 2011
Bloomberg	UNAF UK
Reuters	UNAF=UA
Recommendation	U/R
Price (21 Feb 11), USD	106
12M price target, USD	U/R
No of shares, mln	54.22
Market Cap, USD mln	5599
52-week performance	260%
52-week range, USD	21/117
ADT, 12M, USD mln	1.65
Free float, %	5%
Free float, USD mln	279.9

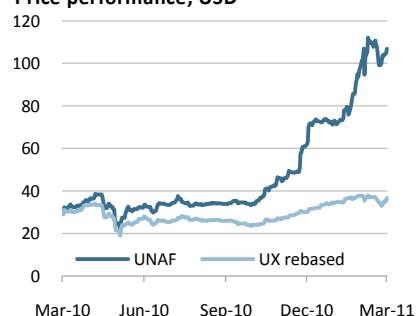
Prices as of Mar. 22, 2011

Shareholder structure



Source: Concorde Capital estimates

Price performance, USD



Source: Bloomberg, UX

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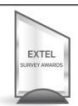
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