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Current price: UAH 283 / USD 35.8  
Target price: UAH 470 / USD 60

# BUY

The ex-dividend date for Ukrnafta's UAH 44.48 mln 2006 dividend payout is this Friday, July 30. At the current price, the dividend yield is an attractive 15.7%. Given drastic improvements in Ukrnafta's financials in 1H10, we recommend the stock as a BUY, with a TP of USD 60. Upside 65%.

### Market data

Ticker	UNAF UK
Last price, USD per share	35.8
# of shares, mln	54.229
MCap, USD bn	1.9
FF	8%
FF MCap, USD mln	155.3

Source: UX, Concorde Capital

### Ownership structure

Naftogaz	50%+1
Privat	42%
Other	8%

Source: Smida

### AGM approved dividend of UAH 44.5 in January

Ukrnafta shareholders convened for an AGM meeting on January 26, 2010 for the first time since May 2007, approving a dividend payout for 2006-2008.

### Ukrnafta 2006-2008 dividend schedule

Dividend period	Volume	Per share	Payment timeline
2006	UAH 2.4 bln	UAH 44.48	August 1, 2010-August 1, 2011
2007	UAH 1.2 bln	UAH 22.82	January 29, 2010-August 1, 2011
2008	UAH 1.4 bln	UAH 26.54	January 29, 2010-August 1, 2010

Source: Company data

Historically, dividend payments with a required price correction have tended to generate arbitrage potential. In January, subsequent to the ex-dividend date for the 2007 and 2008 dividend payouts (total dividends of UAH 49.36 per share), the stock dropped nearly UAH 20.

### Drastic improvement in profitability margins in 1H10

Today Ukrnafta posted unexpectedly strong financials for 1H10: EBITDA skyrocketed to USD 261.7 mln (EBITDA margin of 28%) from negative USD 13.9 in 1H09; net income was USD 193.3 mln (vs. a net loss of UAH 64.3 in 1H09). We attribute the stronger figures to improved financial disclosure and increased accuracy in reporting based on pressure from the new government, the beneficial owner of a 50% plus one share stake.

in USD mln	1H09	1H10	2009	2010E
Sales	356.9	933.1	1,123.7	1,613.3
EBITDA	(13.9)	261.7	182.6	511.7
margin, %	neg	28.0%	16.2%	29.2%
Net income	(64.3)	193.3	88.6	284.8
margin, %	neg	20.7%	7.9%	17.7%

Source: Company data, Concorde Capital

We forecast that 2010 sales will grow by 43.5% to USD1.6 bln. EBITDA should rise by 2.8x to USD 511 mln., while net income is anticipated to more than triple to USD 284.8 mln. Our forecasts are based on the company's 1H10 results reported today and assume full financial disclosure going forward. We expect strong financial performance will be the main driver for stock price appreciation over the next 12 months.

### 12M target: USD 57 per share, upside 60%

Ukrnafta now trades at 6.9x 2010E P/E, for a 49% discount to global peers. A comparative valuation indicates 36%-106% upside. We recommend the stock as a BUY, with a target of USD 60 (UAH 470) per share, an average of the 2010E P/E and EV/EBITDA multiples. Ukrnafta remains one of the most liquid stocks on the UX, with daily trading volumes around USD 1 mln.

## Comparative valuation

### Peer multiples

	EV/EBITDA		P/E	
	2009	2010E	2009	2010E
Ukrnafta	11.1	4.0	21.9	6.8
<b>Global peers</b>				
ROSNEFT OIL COMPANY	7,1	5,0	5,7	7,2
OIL & NATURAL GAS CORP	7,5	5,0	14,8	11,1
LUKOIL OAO-CLS	3,5	3,5	5,0	5,6
NOVATEK OAO-CLS	19,5	11,8	29,5	16,9
TULLOW OIL PLC	23,5	26,9	173,0	124,3
MOL HUNGARIAN OIL&GAS	5,4	6,0	6,9	12,4
OMV AG	3,2	2,9	4,6	6,6
OMV PETROM SA	4,3	6,3	8,8	12,1
PREMIER OIL PLC	8,3	6,6	71,4	17,9
SOCO INTERNATIONAL PLC	523,2	17,7	69,2	37,2
DANA PETROLEUM PLC	6,4	5,2	19,5	15,3
LUNDIN PETROLEUM AB	4,7	3,5	12,4	7,4
ZHAIKMUNAI LP-GDR REG S	28,5	9,1	37,5	18,1
AFREN PLC	-38,3	3,7	-33,1	13,4
SALAMANDER ENERGY PLC	18,2	3,8	120,1	11,0
MELROSE RESOURCES PLC	15,2	5,5	-8,7	27,1
PETRONEFT RESOURCES	-66,6	17,7	-70,3	49,0
<b>Median</b>	<b>7.1</b>	<b>5.5</b>	<b>12.4</b>	<b>13.4</b>
Implied price by median	22.5	48.61	20.31	70.61
Upside	-37%	36%	-43%	97%

Source: Company data, Bloomberg, Concorde Capital

**Income statement summary, USD mln**

	1Q09	2Q09	3Q09	2009	1Q10	2Q10
<b>Net Revenues</b>	<b>153,0</b>	<b>356,9</b>	<b>787,8</b>	<b>1 123,7</b>	<b>413,7</b>	<b>933.1</b>
<i>Change y-o-y</i>	-30,8%	-56,6%	-47,7%	-38,4%	170,4%	
Cost Of Sales	(142,2)	(328,6)	(657,1)	(846,2)	(925,1)	
Gross Profit	10,8	28,3	130,7	277,5	148,3	
<i>Gross Margin, %</i>	7,1%	7,9%	16,6%	24,7%	35,9%	
Other Operating Income/Costs, net	(0,1)	12,2	14,2	12,7	3,1	
SG&A	(25,6)	(54,4)	(103,3)	(107,6)	(33,7)	
<b>EBITDA</b>	<b>(14,9)</b>	<b>(13,9)</b>	<b>41,6</b>	<b>182,6</b>	<b>117,8</b>	<b>261.7</b>
<i>EBITDA margin, %</i>	-9,7%	-3,9%	5,3%	16,2%	28,5%	28,0%
Depreciation	(20,6)	(42,1)	(64,4)	(63,9)	(20,7)	
<b>EBIT</b>	<b>(35,5)</b>	<b>(56,1)</b>	<b>(22,8)</b>	<b>118,6</b>	<b>97,1</b>	
<i>EBIT margin, %</i>	-23,2%	-15,7%	-2,9%	10,6%	23,5%	
Interest Expense	(4,0)	(6,9)	(9,2)	(6,0)	-	
Financial income/(expense)	0,5	4,6	7,7	8,8	5,2	
Other income/(expense)	(0,6)	(5,8)	(10,6)	(13,8)	(9,0)	
<b>PBT</b>	<b>(39,6)</b>	<b>(64,1)</b>	<b>(34,9)</b>	<b>107,6</b>	<b>97,2</b>	
Tax	-	-	(1,2)	(21,3)	(25,2)	
<i>Effective tax rate</i>	0,0%	0,0%	-3,6%	19,8%	26,0%	
<b>Net Income</b>	<b>(39,7)</b>	<b>(64,3)</b>	<b>(35,6)</b>	<b>88,6</b>	<b>74,9</b>	<b>193.3</b>
<i>Net Margin, %</i>	-25,9%	-18,0%	-4,5%	7,9%	18,1%	20,7%

**Balance sheet summary, USD mln**

	1Q09	2Q09	3Q09	2009	1Q10
<b>Current Assets</b>	<b>679,6</b>	<b>894,5</b>	<b>1 095,1</b>	<b>1 382,9</b>	<b>1 522,1</b>
Cash & Equivalents	143,4	73,7	69,6	102,0	39,4
Trade Receivables	43,4	60,7	128,7	168,0	173,5
Inventories	285,1	320,4	320,6	335,6	356,9
Other current assets	207,6	439,8	576,3	777,2	952,2
<b>Fixed Assets</b>	<b>1 022,4</b>	<b>1 029,8</b>	<b>978,7</b>	<b>986,8</b>	<b>984,8</b>
PP&E, net	836,0	845,8	792,4	816,4	802,3
Other Fixed Assets	186,4	184,0	186,3	170,4	182,5
<b>Total Assets</b>	<b>1 702,0</b>	<b>1 924,3</b>	<b>2 073,8</b>	<b>2 369,7</b>	<b>2 506,8</b>
<b>Shareholders' Equity</b>	<b>1 306,9</b>	<b>1 297,3</b>	<b>1 262,4</b>	<b>1 351,8</b>	<b>789,8</b>
Share Capital	1,8	1,8	1,7	1,7	1,7
Reserves and Other	181,1	185,7	176,8	177,6	178,1
Retained Earnings	1 124,0	1 109,8	1 083,9	1 172,5	610,0
<b>Current Liabilities</b>	<b>390,0</b>	<b>572,8</b>	<b>756,7</b>	<b>948,8</b>	<b>1 648,0</b>
ST Interest Bearing Debt	145,0	14,7	-	-	-
Trade Payables	22,1	18,4	22,5	29,4	59,3
Accrued Wages	5,9	5,6	5,3	5,8	6,5
Accrued Taxes	44,3	48,9	45,3	45,1	86,2
Other Current Liabilities	172,6	485,2	683,7	868,5	1 496,1
<b>LT Liabilities</b>	<b>5,1</b>	<b>54,3</b>	<b>54,7</b>	<b>69,0</b>	<b>69,1</b>
LT Interest Bearing Debt	-	49,2	49,8	44,9	44,8
Other LT	5,1	5,1	4,8	24,1	24,2
<b>Total Liabilities &amp; Equity</b>	<b>1 701,9</b>	<b>1 924,3</b>	<b>2 073,8</b>	<b>2 369,7</b>	<b>2 506,8</b>

Source: Company data, Concorde Capital

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