



CONCORDE CAPITAL

Ukraine / Oil & Gas

Ukrnafta

Management Projections Raise Concerns

SELL

March 29, 2007
12M Target: USD 56.0

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Market information

Bloomberg	UNAF UZ
Frankfurt/Xetra	UKAA GR
No of Shares, mln	54.2
Reg S GDR to Ord.	1:6
Market price, USD	77.33
52Wk H/L, USD	78.2/55.3
MCap, USD mln	4,193.3
Free float	8%
FF MCap, USD mln	335.5

Mo avg tr volume*, USD mln 7.9
Note: 6M trailing, PFTS & Frankfurt

Stock ownership

State	50%+1
Privat Group	42%
Other	8%

Ratios, 9MO6

EBITDA Margin	47.1%
EBIT Margin	40.6%
Net Margin	29.1%
Net Debt/Equity	0.12

Today Ukrnafta's plans for 2007 upstream sales and net income were revealed in media reports as being materially lower than our estimates. Its announced upstream CapEx plans fall within our expectations, but we believe continued tension over oil and gas royalties with the Cabinet threatens downstream expansion. With its current market price suggesting a 38% downside to the target, we downgrade our recommendation to SELL.

Management's financial expectations lower than our forecasts

In today's news, Ukrnafta revealed its ex-gasoline gross sales and respective net income expectations for 2007, which are USD 1.6 bln and USD 173 mln, respectively. Comparing these to our forecasts, we found that it implies approximately 6% lower gross ex-gasoline sales and 22% lower ex-gasoline net income, meaning that the impact of higher royalties on the company's financial performance will be higher than we expected.

Upstream CapEx as expected, Downstream still unclear

Ukrnafta also disclosed its CapEx plan for 2007. By the end of this year, the company will invest around USD 272 mln (or 57% of its 2006 net income) into its upstream segment (our forecast was USD 282 mln). So far, it remains unclear what Ukrnafta's downstream investment will be. We expected Ukrnafta's 2007 CapEx into fuel station construction and acquisition to reach USD 177 mln.

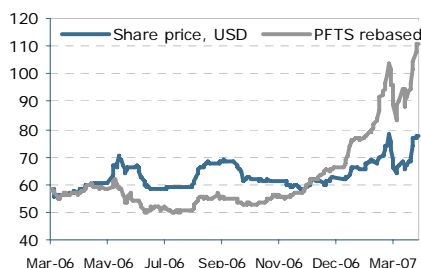
All or nothing

Current tense relations between Ukrnafta and the Cabinet (and in particular with Vice-Prime Minister Azarov) brought about by the company's aggressive attempts to get royalties rolled back, might have a significant effect on its business. The most optimistic scenario is a reduction in royalties. A pessimistic view implies an escalation of the conflict between Privat and the Cabinet, which might result in delaying the company's downstream expansion program.

Too expensive given news and risks

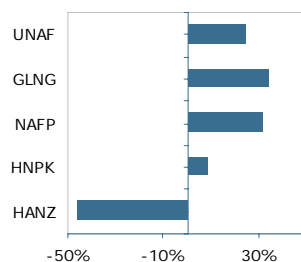
It is hard to predict which way things will go, but we consider the pessimistic scenario to be more likely. Taking this into account, and noting that the management's projections for upstream sales and net income for 2007 are materially lower than our estimates, we remain bearish on the stock. Its current market price suggests a 38% downside to our target price. We downgrade our recommendation to SELL.

UNAF stock performance

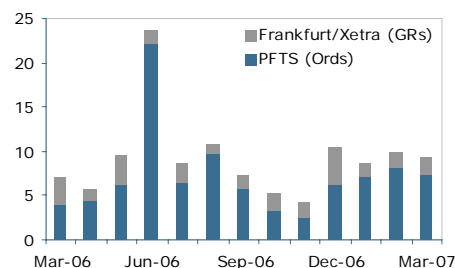


Source: PFTS, Bloomberg

Sector performance, YTD



Trading volume, USD mln



Key financials & ratios

(in USD mln)	Sales	EBITDA Margin	Net Margin	EV/S	EV/EBITDA	P/E
2005	1 087.9	53.9%	33.5%	3.2	5.9	9.3
2006E	1 701.9	41.4%	25.3%	2.5	6.1	9.8
2007E	2 052.6	30.3%	16.8%	2.2	7.2	12.2

Spot exchange rate: 5.05

Ukrnafta P&L summary*, USD mln

	2005	2006E	2007E	2008E	2009E	2010E
Net Revenues	1,088	1,702	2,053	2,538	3,184	3,893
Gross profit	691	824	768	845	924	1,014
<i>Gross margin</i>	63.5%	48.4%	37.4%	33.3%	29.0%	26.0%
EBITDA	586	704	622	663	692	726
<i>EBITDA margin</i>	53.9%	41.4%	30.3%	26.1%	21.7%	18.6%
Depreciation	(100)	(128)	(152)	(175)	(196)	(215)
EBIT	486	576	470	488	496	511
<i>EBIT margin</i>	44.7%	33.8%	22.9%	19.2%	15.6%	13.1%
Interest expense	(11)	(12)	(22)	(32)	(42)	(48)
Financial income/(expense)	24	24	24	24	24	24
Other income/(expense)	(13)	(13)	(13)	(13)	(13)	(13)
PBT	486	575	459	466	465	473
Tax	(121)	(144)	(115)	(117)	(116)	(118)
<i>Effective tax rate</i>	25%	25%	25%	25%	25%	25%
Net Income	365	431	344	350	349	355
<i>Net margin</i>	33.5%	25.3%	16.8%	13.8%	10.9%	9.1%

* Last forecast revision date: Sep. 21, 2006

Source: 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.

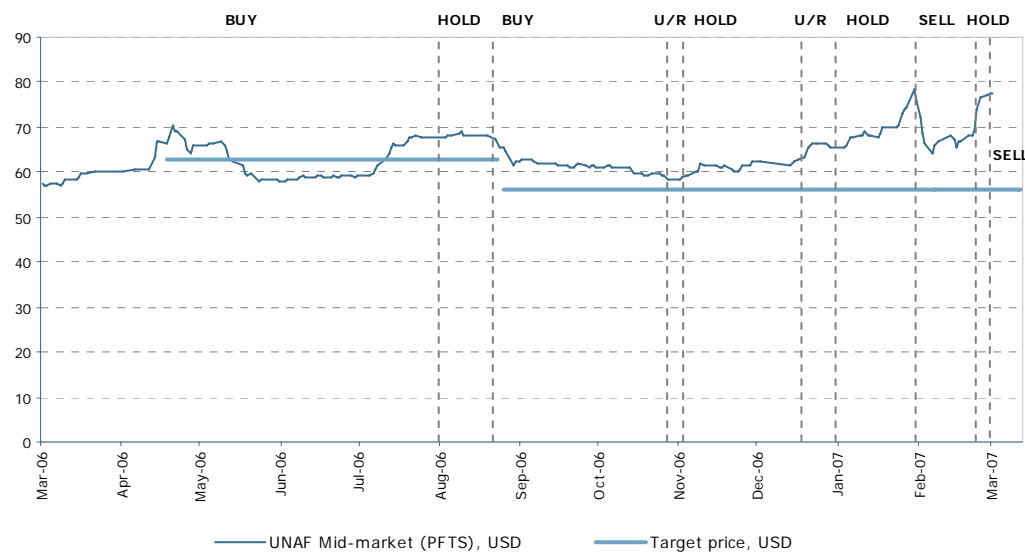
Date	12M target price, USD	Market price, USD	Recommendation	Action
20 Jan 03*	7.28	4.43	BUY	Initiate
17 Feb 03	7.36	4.32	BUY	Maintain
07 May 03	8.13	4.23	BUY	Maintain
03 Sep 03	8.34	4.05	BUY	Maintain
05 Dec 03	10.70	5.87	BUY	Maintain
19 May 04	22.65	13.23	BUY	Maintain
06 Sep 04	Pending	5.93	HOLD	Downgrade
03 Dec 04	32.00	15.17	BUY	Upgrade
11 Apr 05	35.70	27.75	BUY	Maintain
26 Aug 05	Pending	37.00	N/A	Suspend
22 Sep 05	35.70	39.20	HOLD	Downgrade
28 Mar 06**	Pending	57.28	N/A	Review
15 May 06	62.60	66.83	HOLD	Maintain
21 Sep 06	56.00	65.45	SELL	Downgrade
28 Dec 06	56.00	62.41	HOLD	Upgrade
07 Mar 07	56.00	62.48	HOLD	Maintain
29 Mar 07	56.00	***77.53	SELL	Downgrade

* This stock was covered by analysts currently engaged with Concorde Capital prior to the legal inception of the company in October 2004, recommendations are supported by research

** Until December 2005 the company was covered by Andriy Gostik, who now focuses on another sector. In January 2006, Vladimir Nesterenko took over coverage.

*** PFTS closing price as of Mar. 28, 2007

Recommendation history, USD



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