



CONCORDE CAPITAL

SELL

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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	83.1
52Wk H/L, USD	85.2/58.1
MCap, USD mln	4506.4
Free float	8%
FF MCap, USD mln	360.6
Mo avg tr volume*, USD mln	8.6

Note: 6M trailing, PFTS & Frankfurt

Stock ownership

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

Ratios, 2006

EBITDA Margin	45.1%
Net Margin	28.8%
Net Debt/Equity	0.08

Yesterday's Ukrnafta AGM only widened the discord between the stock's price upsurge and a consistent flow of negative news. We were neither impressed by 2006 results nor by 2007 expectations, and feel Ukrnafta does not deserve a 29% premium to its peers. With our target implying a 33% downside, we maintain our SELL recommendation.

The main messages from the AGM:

Negative:

- A decision on dividends was postponed until the next meeting, possibly signaling a higher payout than the expected 60%, which would put company growth at risk
- Management is projecting a 4x yoy earnings drop in 2007. We doubt it will be down that much, but this estimate puts our 2007 net income forecast at risk
- Ukrnafta's 2007 CapEx plan assumes only USD 24.7 mln in investments for its fuel station network. This means no more than 30 new outlets in 2007, a far cry from our forecast and the management's earlier plan of 160
- 2006 operating results mostly lagged behind our forecasts, specifically in terms of drilling, extraction volumes and price realizations

Positive:

- A possibly higher than expected dividend payout might trigger speculative demand and higher volatility for the stock in the near term

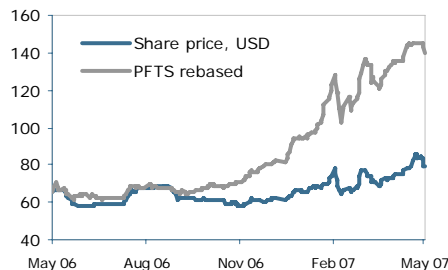
Neutral:

- The company continues to develop its gas processing wing to capture favorable trends on the local market. This is rated neutral because gas products account for less than 10% of Ukrnafta's gross revenue

Even optimistic forecasts imply a downside

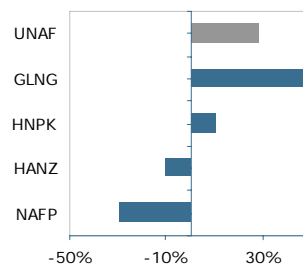
Compared to the management's estimates, our forecasts look very optimistic but still do not justify the premium the stock is currently trading at. On P/E '07, Ukrnafta is trading at a 64% premium to its closest peer, Tatneft, and at a 28% premium to its peer group's average of 10.2. Our DCF-based target implies a 33% downside. We maintain our SELL recommendation.

Stock performance

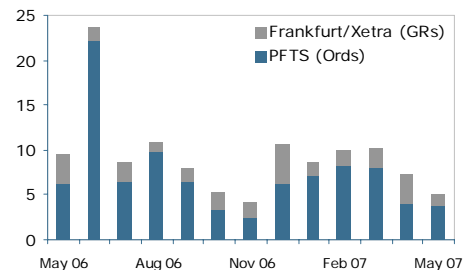


Source: PFTS, Bloomberg

Sector performance, YTD



Trading volume, USD mln



Key financials & ratios

(in USD mln)	Sales	EBITDA Margin	Net Margin	EV/S	EV/EBITDA	P/E
2006	1 659.2	45.1%	28.8%	2.8	6.2	9.4
2007E	2 073.0	30.3%	16.8%	2.3	7.6	13.0
2008E	2 563.0	26.1%	13.8%	1.9	7.3	12.8

Spot exchange rate: 5.05

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.

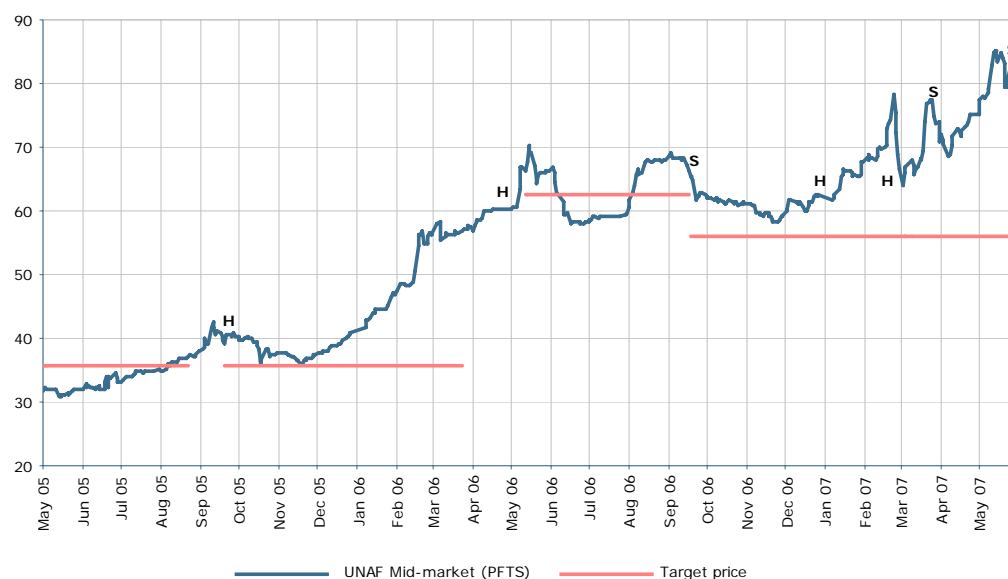
Date	Target price, USD	Market price, USD	Recommendation	Action
20 Jan 03 ⁽¹⁾	7.28	4.43	BUY	Initiate
17 Feb 03	7.36	4.32	BUY	Maintain
07 May 03	8.13	4.23	BUY	Maintain
03 Sep 03	8.34	4.05	BUY	Maintain
05 Dec 03	10.70	5.87	BUY	Maintain
19 May 04	22.65	13.23	BUY	Maintain
06 Sep 04	Pending	5.93	HOLD	Downgrade
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	<i>Suspend</i>
22 Sep 05	35.70	39.20	HOLD	Downgrade
28 Mar 06 ⁽²⁾	Pending	57.28	N/A	<i>Review</i>
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	74.75	SELL	Downgrade
30 May 07	56.00	⁽³⁾ 83.09	SELL	Maintain

⁽¹⁾ 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

⁽²⁾ Until December 2005 the company was covered by Andriy Gostik, who now focuses on another sector. In January 2006, Vladimir Nesterenko took over coverage.

⁽³⁾ PFTS closing price as of May 29, 2007

Recommendation history, USD



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