



CONCORDE CAPITAL

Ukraine / Oil & Gas

**Ukrnafta**

EGM fails, No compromise so far

January 25, 2008

Current price: USD 73.4  
12M Target: USD 65.0

**SELL**

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**Tickers**

PFTS	UNAF
GDR (Frankfurt/Xetra)	UKAA

**Market information**

Market price, USD	73.4
MCap, USD mln	3,978.5
Chg 12M	11.0%
Hi/Lo 12M, USD	101.5/62.4
DRs per common share	1:6
No of shares, mln	54.23
Avg Mon Tr Vol 12M, USD mln	10.9
Free float	8.0%
Free float, USD mln	318.3

**Corporate Governance**

Concorde Rating*	AA
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\* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

**Shareholders**

Naftogaz of Ukraine	50%+1
Privat Group	42%
Other	8%

As we expected, Ukrnafta's Jan. 22 EGM did not reveal a compromise between Privat group and the state. Yesterday, state authorities responded by announcing the possible sale of their own stake. We do not think the rhetoric will end in any deals, rather it looks like posturing. We still expect an endgame of Privat obtaining a higher gas price in exchange for a 2006 dividend payout of ~40%.

**No compromise - no dividends. So far...**

Ukrnafta failed to conduct its EGM this Tuesday due to lack of quorum. As we expected, shareholders did not decide on the issue of paying out 2006 dividends. Our view is that a dividend payout is conditional on Privat's success in getting a higher gas price, which currently capped by the state. We believe that a compromise will be reached later this year. Privat is also likely to push for royalty discounts for exhausted fields, but its chances look extremely low (refer to our Jan. 22 update).

**State replies to Privat's pressure**

Yesterday, Deputy Head of the Presidential Secretariat Alexander Shlapak said that Privat's disclosure that it might sell its stake was nothing but blackmail. Shlapak also said that the state itself was considering selling its stake in Ukrnafta, which we view as a defensive tit-for-tat response to Privat's salvo.

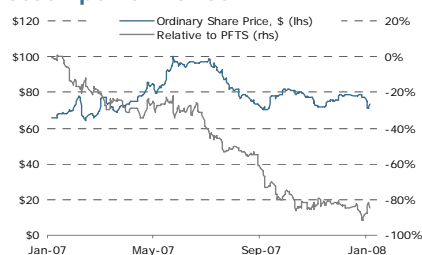
**What if the sellout talk is for real?**

So far, both announcements look just like bargaining. We believe a deal is unlikely to happen, at least in the next few years. Even if the sellout threats are serious, it is hard to predict the effect on the stock price:

**++ The state sells.** The best, yet the least probable scenario. Ukraine covers 3/4 of its oil & gas consumption with imports. Sale of the country's largest oil and second largest gas producer clearly would not help the prime minister or president in the run-up to the next presidential elections.

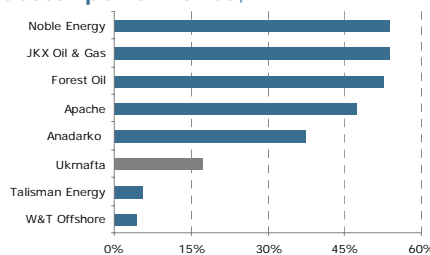
**+/- Privat sells.** More likely than the first option. The effect depends on the buyer and the price. If a Russian company comes in, which is able to fight with Ukraine's authorities more efficiently than Privat, it would be a plus. However, in a strategic buyout Russians are unlikely to pay high - that's a detractor. If there are several small buyers, the deal price could be higher, but dispersed minority holdings increase the risk of suboptimal decisions by Naftogaz, the state-owned majority shareholder.

**Stock performance**

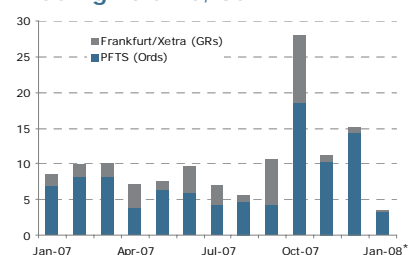


\* For the period from Jan. 1 to Jan. 24, 2008  
Source: Bloomberg, PFTS

**Sector performance, 12M**



**Trading volume, USD mln**



**Key financials & ratios, USD mln**

	Revenue	EBITDA	Net Income	EBITDA Mgn	Net Mgn	CPS	EPS	DPS	EV/EBITDA	P/CF	P/E
2006	1,659	748	478	45.1%	28.8%	10.60	8.81	3.52	5.48	6.9	8.33
2007E	1,097	454	208	41.4%	18.9%	5.31	3.83	1.53	9.11	13.8	19.18
2008E	1,385	623	321	44.9%	23.2%	8.48	5.92	2.37	6.83	8.7	12.40
2009E	1,572	742	395	47.2%	25.1%	10.08	7.28	5.46	5.63	7.3	10.08

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## Financial Statements

### Income Statement Summary, USD mln

	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
<b>Gross Revenue</b>	<b>1,628</b>	<b>2,582</b>	<b>2,723</b>	<b>3,246</b>	<b>3,568</b>	<b>3,570</b>	<b>3,672</b>	<b>3,753</b>
Royalty	(242)	(476)	(689)	(781)	(782)	(781)	(780)	(775)
VAT	(271)	(427)	(449)	(536)	(589)	(589)	(606)	(619)
Other deductions	(27)	(20)	(488)	(544)	(626)	(634)	(641)	(647)
<b>Net Revenues</b>	<b>1,088</b>	<b>1,659</b>	<b>1,097</b>	<b>1,385</b>	<b>1,572</b>	<b>1,566</b>	<b>1,645</b>	<b>1,711</b>
Gross Profit	691	965	624	817	947	963	1,034	1,095
<i>Gross margin</i>	64%	58%	57%	59%	60%	61%	63%	64%
SG&A	(108)	(145)	(148)	(168)	(176)	(168)	(165)	(160)
Other Operating Income/Costs, net	3	(72)	(22)	(26)	(29)	(29)	(29)	(30)
<b>EBITDA</b>	<b>586</b>	<b>748</b>	<b>454</b>	<b>623</b>	<b>742</b>	<b>766</b>	<b>840</b>	<b>905</b>
<i>EBITDA margin</i>	53.9%	45.1%	41.4%	44.9%	47.2%	48.9%	51.1%	52.9%
Depreciation	(100)	(114)	(141)	(160)	(182)	(205)	(228)	(253)
<b>EBIT</b>	<b>486</b>	<b>634</b>	<b>313</b>	<b>462</b>	<b>560</b>	<b>562</b>	<b>612</b>	<b>652</b>
<i>EBIT margin</i>	44.7%	38.2%	28.5%	33.4%	35.6%	35.8%	37.2%	38.1%
Interest Expense	(11)	(17)	(20)	(26)	(28)	(25)	(26)	(24)
Financial income	24	30	6	6	6	6	5	5
Other income/(expense)	(13)	(17)	(23)	(14)	(11)	(8)	(5)	(2)
<b>PBT</b>	<b>486</b>	<b>630</b>	<b>277</b>	<b>428</b>	<b>527</b>	<b>534</b>	<b>587</b>	<b>631</b>
Tax	(121)	(152)	(69)	(107)	(132)	(134)	(147)	(158)
<b>Net Income</b>	<b>365</b>	<b>478</b>	<b>208</b>	<b>321</b>	<b>395</b>	<b>401</b>	<b>440</b>	<b>473</b>
<i>Net Margin</i>	34%	28.8%	18.9%	23.2%	25.1%	25.6%	26.8%	27.7%
Dividends declared	365	191	83	128	296	301	330	355

### Balance Sheet Summary, USD mln

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F
<b>Current Assets</b>	<b>341</b>	<b>397</b>	<b>472</b>	<b>513</b>	<b>562</b>	<b>554</b>	<b>568</b>	<b>580</b>
Cash & Equivalents	15	75	41	51	58	58	61	63
Trade Receivables	39	18	120	152	172	172	180	188
Inventories	160	196	220	218	240	232	234	236
Other current assets	127	109	91	92	92	92	92	92
<b>Fixed Assets</b>	<b>1,255</b>	<b>1,463</b>	<b>1,650</b>	<b>1,800</b>	<b>1,961</b>	<b>2,093</b>	<b>2,222</b>	<b>2,334</b>
PP&E, net	1,056	1,215	1,333	1,466	1,618	1,750	1,875	1,984
Other Fixed Assets	199	249	317	334	343	343	347	350
<b>Total Assets</b>	<b>1,595</b>	<b>1,860</b>	<b>2,122</b>	<b>2,313</b>	<b>2,523</b>	<b>2,647</b>	<b>2,790</b>	<b>2,914</b>
<b>Shareholders' Equity</b>	<b>1,401</b>	<b>1,508</b>	<b>1,716</b>	<b>1,777</b>	<b>2,044</b>	<b>2,148</b>	<b>2,288</b>	<b>2,431</b>
Share Capital	3	3	3	3	3	3	3	3
Reserves and Other	1,398	1,506	1,713	1,774	2,041	2,145	2,285	2,428
<b>Current Liabilities</b>	<b>106</b>	<b>158</b>	<b>208</b>	<b>214</b>	<b>226</b>	<b>224</b>	<b>228</b>	<b>231</b>
ST Interest Bearing Debt	-	-	-	-	-	-	-	-
Trade Payables	43	29	45	39	43	41	42	42
Accrued Wages	6	8	10	12	14	14	15	15
Accrued Taxes	16	28	35	44	50	50	53	55
Other Current Liabilities	42	94	117	118	118	118	118	118
<b>LT Liabilities</b>	<b>88</b>	<b>194</b>	<b>199</b>	<b>322</b>	<b>254</b>	<b>275</b>	<b>274</b>	<b>252</b>
LT Interest Bearing Debt	88	193	198	322	253	274	274	252
Other LT	1	0	0	0	0	0	0	1
<b>Total Liabilities &amp; Equity</b>	<b>1,595</b>	<b>1,860</b>	<b>2,122</b>	<b>2,313</b>	<b>2,523</b>	<b>2,647</b>	<b>2,790</b>	<b>2,914</b>

### Cash Flow Statement Summary, USD mln

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F
Net Income	365	478	208	321	395	401	440	473
D&A	100	114	141	160	182	205	228	253
Non-operating and non-cash items	(13)	(19)	(1)	(0)	(0)	(0)	(0)	(0)
Changes in working capital	80	2	(60)	(21)	(31)	7	(8)	(6)
<b>Operating Cash Flow</b>	<b>532</b>	<b>575</b>	<b>288</b>	<b>460</b>	<b>547</b>	<b>612</b>	<b>661</b>	<b>720</b>
Capital Expenditures, net	(259)	(283)	(323)	(280)	(334)	(337)	(353)	(362)
Other Investments, net	9	18	(4)	(14)	(9)	0	(4)	(3)
<b>Investing Cash Flow</b>	<b>(250)</b>	<b>(265)</b>	<b>(327)</b>	<b>(294)</b>	<b>(343)</b>	<b>(337)</b>	<b>(357)</b>	<b>(365)</b>
Net Borrowings/(repayments)	(13)	105	5	121	(68)	21	(0)	(22)
Dividends Paid	(279)	(357)	-	(277)	(128)	(296)	(301)	(330)
Equity Financing & Other	0	1	(0)	0	0	(0)	0	0
<b>Financing Cash Flow</b>	<b>(292)</b>	<b>(250)</b>	<b>5</b>	<b>(155)</b>	<b>(197)</b>	<b>(276)</b>	<b>(301)</b>	<b>(352)</b>
Beginning Cash Balance	N/A	15	75	41	51	58	58	61
Ending Cash Balance	15	75	41	51	58	58	61	63
Exchange Rate Impact	-	(0)	-	-	-	-	-	-
<b>Net Cash Inflows/Outflows</b>	<b>(10)</b>	<b>60</b>	<b>(34)</b>	<b>10</b>	<b>7</b>	<b>(0)</b>	<b>3</b>	<b>2</b>

### UAH/USD Exchange Rates

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F
Average	5.12	5.05	5.05	5.00	5.00	5.00	5.00	5.00
Year-end	5.05	5.05	5.05	5.00	5.00	5.00	5.00	5.00

Source: Company data, Concorde Capital estimates

# Disclosures

## 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.

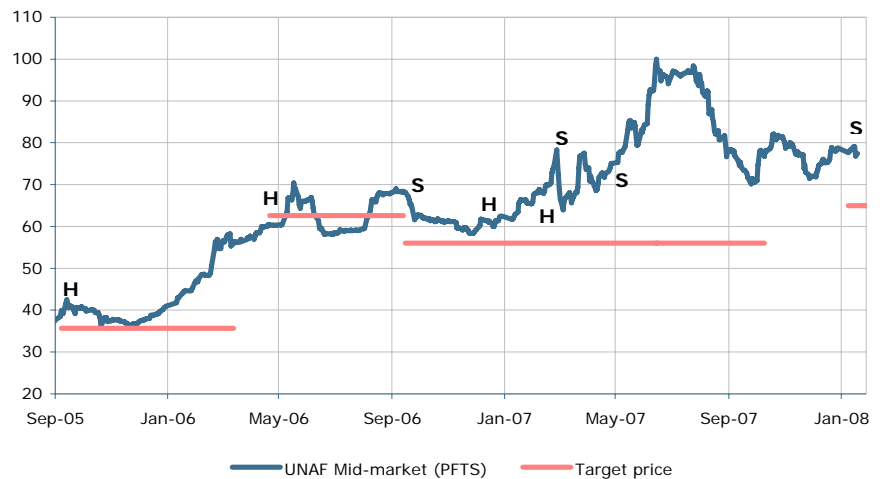
Date	Target price, USD	Market price, USD	Rec	Action
20 Jan 03 <sup>(1)</sup>	7.28	4.43	BUY	Initiate
17 Feb 03	7.36	4.32	BUY	Maintain
07 May 03	8.13	4.23	BUY	Maintain
03 Sep 03	8.34	4.05	BUY	Maintain
05 Dec 03	10.70	5.87	BUY	Maintain
19 May 04	22.65	13.23	BUY	Maintain
06 Sep 04	Pending	5.93	HOLD	Downgrade
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 <sup>(2)</sup>	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	74.75	SELL	Downgrade
30 May 07	56.00	83.09	SELL	Maintain
29 Oct 07	Pending	81.46	N/A	Review
22 Jan 08	65.00	<sup>(3)</sup> 77.40	SELL	Maintain

<sup>(1)</sup> 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.

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

<sup>(3)</sup> PFTS closing price as of January 18, 2007

## Recommendation history, USD per share



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Buy	38	31%
Hold	29	23%
Sell	13	10%
Under Review	19	15%
Suspended / Not Rated	25	20%
Total	124	100%

### Investment banking clients\*

Buy	7	78%
Hold	1	11%
Sell	0	0%
Under Review	1	11%
Suspended / Not Rated	0	0%
Total	9	100%

\* Within the last twelve months, Concorde Capital has obtained compensation from these companies.

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