Debt Markets

Local Markets

Ukraine

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Galnaftogaz

Full-year 2005 performance and peer comparison

Oil products retail & wholesale

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OJSC 'Concern Galnaftogaz' released its 2005 consolidated financials. While audited IFRS 2005 financials will not be available until June, we assessed the company's financial health on the available data.

Galnaftogaz is considered one of the most market-friendly companies in Ukraine, providing annual IFRS-audited financials. The company's stock is floated on the local exchange with a market cap of US$198m now (up by 10% over 1Q06).

In 2005, Galnaftogaz continued to take strides in its business expansion as annual revenues were up again with an impressive growth rate of 49.5% YoY, reaching US$360.8m.

Margins, already at the sector peer level, improved in 2005, reflecting improvements in cost management and helping to improve debt-servicing ratios. The EBITDA margin grew from 4.5% in 2004 to 5.3% in 2005, while the ability to service debt, as measured by the pre-tax interest coverage ratio, strengthened to 3.2x.

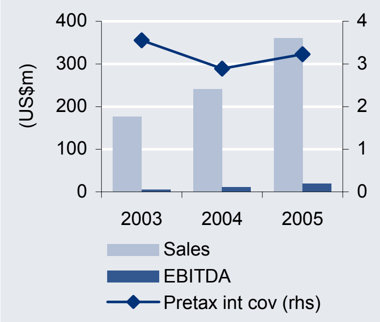
In the ever-changing business environment, characterised by high competition, the company faced a need for the financing of working capital and capital expenditure increases, mostly taken care of via capital market and bank borrowings in 2005. However, the lower interest rate environment last year and the company's high level of transparency helped the company to win cheaper financing. As such, Galnaftogaz's balance sheet became slightly more leveraged than those of its more mature international sector peers – the debt-to-assets and debt-to-equity ratios moved to levels of 42% and 112%, respectively. But even though the company's debt repayment ratio, total debt to EBITDA, increased over last year from 2.5x to 3.4x, the company looks well-positioned to service its interest-bearing debt.

Galnaftogaz financials

	2003 audited	2004 audited	2005 un-audited
Sales (US$m)	176.7	241.3	360.8
EBITDA (US$m)	5.1	10.8	19.1
Assets (US$m)	63.0	89.7	157.0
Equity (US$)	31.5	38.3	58.9
Debt (US$)	17.5	27.4	65.8
Sales growth rate (%)	n/a	36.6	49.5
EBITDA growth rate (%)	n/a	110.8	77.6
Gross margin (%)	4.7	4.8	9.1
Operating margin (%)	2.1	2.4	3.6
Net margin (%)	1.2	1.7	2.0
EBITDA margin (%)	2.9	4.5	5.3
ROA (%)	3.3	5.5	6.0
ROE (%)	6.6	12.0	15.1
EBIT int coverage (x)	3.6	2.9	3.2
EBITDA int coverage (x)	5.5	3.9	4.2
Debt/EBIT (x)	5.3	3.4	4.5
Debt/EBITDA (x)	3.4	2.5	3.4
Debt/Equity (%)	55.5	71.5	111.7
Debt/Assets (%)	27.7	30.5	41.9
FFO/Debt (%)	30.1	29.0	26.4
ST debt/Ttl debt (%)	12.3	13.8	24.5
Current ratio (x)	1.3	1.3	1.6
Quick ratio (x)	1.1	1.1	1.3
Capex (US$m)	24.6	11.8	23.8
Capex/Sales (%)	13.9	4.9	6.6
Capex/EBITDA (%)	482.0	109.2	124.5

Source: Company data

Galnaftogaz's 3-year performance



Source: Company data

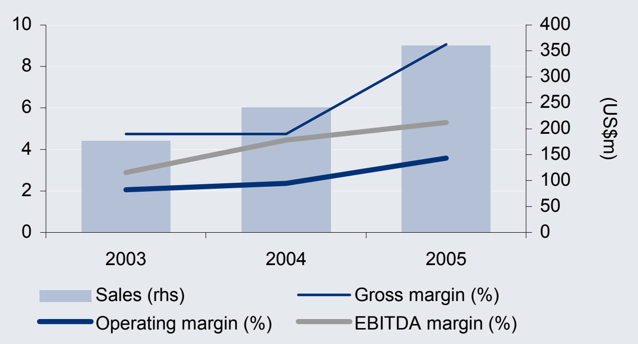
Sales grew by 49.5% in 2005, while EBITDA margin improved to 5.3%

In 2005 Galnaftogaz continued its double-digit pace of revenue growth (sales grew by 49.5% YoY to US$360.8m) capitalising both on households' high level of real disposable income growth (20.1%), which sent car owners to spend more on gasoline (the volume of the light oil products sold by Galnaftogaz grew by 20.3% to 492.4 million m^3), and on the government's retreat from the market since May 2005, when the price caps were eliminated. This growth was also supported by the network expansion of the company – the number of stations grew by 19 in 2005 to a total of 176 outlets. In cost management, it appears the company increased its efficiency by improving margins (the operating margin increased from 2.4% in 2004 to 3.6% in 2005 and the EBITDA margin was up from 4.5% to 5.3%).

Financing needs led to a more leveraged balance sheet

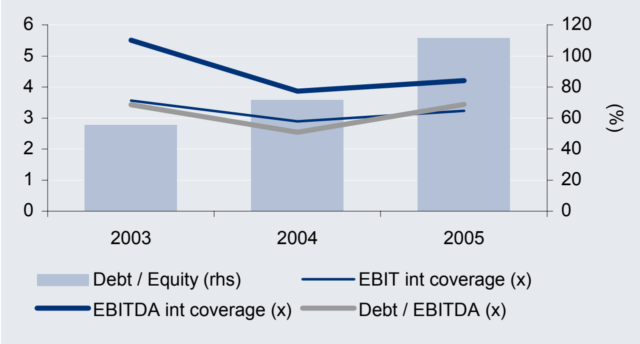
The working capital financing increase coupled with capital expenditures pushed the company to borrow more last year, which resulted in a more leveraged balance sheet (debt to assets grew to 41.9% as at 31 December 2005 from 30.5% as at 31 December 2004, debt to equity increased to 111.7% from 71.5%). At the same time, the company's debt-servicing capabilities, as measured by the pretax interest coverage ratio, have improved and remains above the 3x level thanks to the lower interest rate environment when the borrowing took place last year.

Fig 1 Sales and margins



Source: Company data

Fig 2 Debt ratios



Source: Company data

To compare Galnaftogaz with sector peers, we selected the following corporates – Petrol Ofisi, which is the main player of the oil product market in Turkey with a 25.9% gasoline market share and a 35.3% diesel fuel market share, and Petrol DD, which sells oil products via a 348-strong network of petrol stations scattered over Slovenia, Bosnia-Herzogovina, Croatia and Serbia. Petrol DD has a 68% market share in Slovenia in terms of the number of stations. We selected these sector peers due to the lack of disclosure in the financial statements of Galnaftogaz's Ukrainian peers, while these two companies from neighbouring countries have similar business profiles to Galnaftogaz.

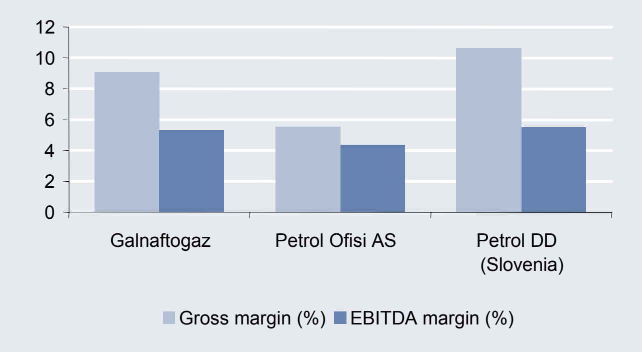
Galnaftogaz has an intensive investment programme

The main difference between the selected market peers and Galnaftogaz is in market share. While both of these peers could be considered as local market majors, holding the largest shares in their respective home markets, Galnaftogaz is only one of the big names in Ukraine, where competition is quite high and there is no one clear leader in the market. Galnaftogaz's market share amounted to just 6% as at the beginning of 2006. Due to this fact, Galnaftogaz's capital expenditure programme is quite intensive as the company spends more than one hundred percent of EBITDA on its investment activities. The selected sector peers spent less in terms of capex-to-sales, which reflects their more established status within their home markets. This is one of the main reasons why Galnaftogaz has increased its debt, yet is has done so opportunistically, while interest rates were low last year.

In a peer comparison, Galnaftogaz appears as a fast-growing but more leveraged business

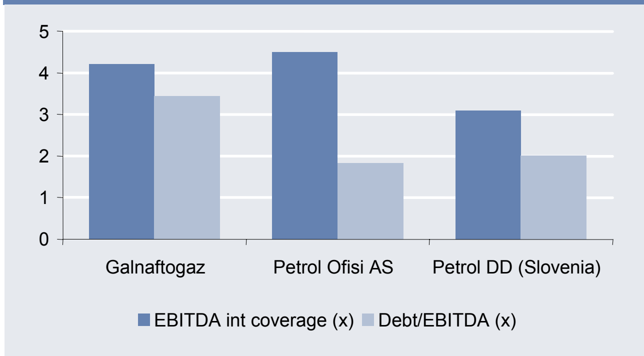
Comparing Galnaftogaz's financial standing with peers from Turkey and Slovenia, the Ukrainian oil products retailer is quite similar on the profitability scale. At the same time, in terms of balance sheet leverage, Galnaftogaz looks overloaded with debt due to its need to finance investments, however, its capability to service debt is quite good at 4.2x. In this comparison, Galnaftogaz's distinguishing features are its high pace of growth in revenue and the volume of oil products sold.

Fig 3 Peer comparison by margins



Source: Company data

Fig 4 Peer comparison by debt ratios



Source: Company data

Fig 5 Peer comparison (basic financials)

(US$m)	Galnaftogaz (Ukraine)			Petrol Ofisi AS (Turkey)		Petrol DD (Slovenia)	
	2003 audited	2004 audited	2005 unaudited	2004 audited	2005 audited	2004 audited	2005 audited
Volume of oil products sold (m)	0.36	0.41	0.49	5.51	5.48	1.825	1.881
Number of retail outlets	161	156	174	3504	3730	343	348
Average annual throughput per station (1000 m^3)	n/a	n/a	n/a	1.420	1.502	n/a	n/a
Income statement							
Revenues	176.7	241.3	360.8	7,153.1	8,755.3	1,640.7	1,989.0
Gross profit	8.4	11.5	32.7	392.1	485.6	197.5	211.0
Profit from operations	3.6	5.7	12.9	128.1	259.8	29.8	30.3
EBT	2.4	5.3	10.1	267.9	226.8	38.9	44.7
Net income	2.1	4.2	7.3	171.6	159.8	33.0	35.6
EBIT	3.3	8.0	14.7	351.7	311.7	68.6	80.3
EBITDA	5.1	10.8	19.1	499.2	382.2	96.8	109.9
Balance sheet							
Assets	63.0	89.7	157.0	3,244.8	3,475.9	1,012.6	1,005.5
Current assets	19.9	33.8	77.6	960.4	1,205.5	316.8	362.7
Cash	1.7	2.5	3.2	92.7	101.8	5.8	6.5
Equity	31.5	38.3	58.9	1,494.4	1,609.1	444.1	428.4
Liabilities	31.5	51.3	98.0	1,748.7	1,864.3	511.3	533.3
LT	16.2	25.4	50.1	580.8	708.1	149.1	148.1
ST	15.3	25.9	47.9	1,167.9	1,156.2	362.2	385.2
Debt	17.5	27.4	65.8	809.2	697.4	242.3	220.4
LT	15.3	23.6	49.6	570.4	397.6	147.1	146.4
ST	2.1	3.8	16.1	238.8	299.8	95.1	74.0
Cash flow statement							
Funds from operations	5.3	7.9	17.4	444.3	381.1	60.9	52.5
Net cash flow from operating activities	3.8	3.0	(14.6)	359.8	165.5	52.5	39.3
Net cash flow from investing activities	(24.6)	(11.8)	(23.8)	(46.8)	(117.8)	(48.1)	(47.9)
Net cash flow from financing activities	21.6	9.5	38.9	(287.3)	(37.9)	(5.6)	10.1
Capex	24.6	11.8	23.8	46.8	117.8	48.1	47.9
Interest expense	0.9	2.8	4.5	83.8	85.0	29.8	35.6
Depreciation and amortisation	1.8	2.7	4.5	147.5	70.5	28.2	29.6

Source: Company data

Fig 6 Peer comparison (ratios)

	Galnaftogaz (Ukraine)			Petrol Ofisi AS (Turkey)		Petrol DD (Slovenia)	
	2003 audited	**2004 audited**	**2005 unaudited**	**2004 audited**	**2005 audited**	**2004 audited**	**2005 audited**
Sales (US$m)	176.7	241.3	360.8	7,153.1	8,755.3	1,640.7	1,989.0
EBITDA (US$m)	5.1	10.8	19.1	499.2	382.2	96.8	109.9
Sales growth rate (%)	n/a	36.6	49.5	n/a	22.4	n/a	21.2
EBITDA growth rate (%)	n/a	110.8	77.6	n/a	-23.4	n/a	13.5
Gross margin (%)	4.7	4.8	9.1	5.5	5.5	12.0	10.6
Operating margin (%)	2.1	2.4	3.6	1.8	3.0	1.8	1.5
Net margin (%)	1.2	1.7	2.0	2.4	1.8	2.0	1.8
EBITDA margin (%)	2.9	4.5	5.3	7.0	4.4	5.9	5.5
ROA (%)	3.3	5.5	6.0	10.6	4.8	6.5	3.5
ROE (%)	6.6	12.0	15.1	23.0	10.3	14.9	8.2
EBIT int coverage (x)	3.6	2.9	3.2	4.2	3.7	2.3	2.3
EBITDA int coverage (x)	5.5	3.9	4.2	6.0	4.5	3.3	3.1
Debt/EBIT (x)	5.3	3.4	4.5	2.3	2.2	3.5	2.7
Debt/EBITDA (x)	3.4	2.5	3.4	1.6	1.8	2.5	2.0
Debt/Equity (%)	55.5	71.5	111.7	54.1	43.3	54.6	51.4
Debt/Assets (%)	27.7	30.5	41.9	24.9	20.1	23.9	21.9
FFO/Debt (%)	30.1	29.0	26.4	54.9	54.6	25.1	23.8
ST debt/Debt (%)	12.3	13.8	24.5	29.5	43.0	39.3	33.6
Current ratio	1.3	1.3	1.6	0.8	1.0	0.9	0.9
Capex (US$m)	24.6	11.8	23.8	46.8	117.8	48.1	47.9
Capex/Sales (%)	13.9	4.9	6.6	0.7	1.3	2.9	2.4
Capex/EBITDA (%)	482.0	109.2	124.5	9.4	30.8	49.7	43.6
Credit ratings*							
S&P/Moody's/Fitch	-/-/-	-/-/-	-/-/-	B/-/B+	B+/-/BB-	-/-/-	-/-/-

Source: Company data

Disclosures Appendix

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