

Daily Insight

Parliament passes compulsory FX loan conversion

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FRIDAY, 3 JULY 2015

UX Index (3 months to 3 Jul 2015)



Source: UX.

Key market indicators (as of 2 Jul 2015)

	Last	Daily chg (%)	YTD chg (%)
FX & MONEY RATES			
USD/UAH	21.0050	-0.02	+32.77
USD/UAH (1Y NDF)	25.0153	+0.00	+35.58
EUR/USD	1.1084	+0.28	-8.38
USD/RUB	55.5179	-0.58	-8.59
KievPRIME O/N (%)	21.13	+13bp	+223bp
KievPRIME 1M (%)	28.00	+0bp	+810bp
SOVEREIGN EUROBONDS: yields and spreads			
Ukraine 15, Eurobond (%)	410.36	-501bp	+34,859bp
Ukraine 17, Eurobond (%)	53.61	+248bp	+2,585bp
Ukraine 22, Eurobond (%)	20.51	+16bp	+426bp
Ukraine 23, Eurobond (%)	19.66	+20bp	+409bp
Ukraine 5Y CDS	2,727bp	-21bp	+528bp
EQUITIES			
Stock market indices			
UX (Ukraine)	1,014.99	+0.19	-1.77
MSCI World	426.01	+0.00	+2.13
MSCI EM	971.47	-0.05	+1.59
RTS (Russia)	932.04	+0.15	+18.41
WIG-20 (Poland)	2,294.37	+0.06	-0.93
S&P 500 (USA)	2,076.78	-0.03	+0.87

Notes: Chg – percentage change, if not otherwise indicated; [1] – total traded volume for stocks listed in green- or red-shaded box means gain or loss, respectively, of the index or security.

Sources: Bloomberg, UX, Investment Capital Ukraine LLC.

Economics: News & Comments

Parliament passes compulsory FX loan conversion

The Ukrainian parliament adopted a bill that requires banks to convert retail FX loans into hryvnia. The latest version stipulates that all FX loans, not just mortgages, to be converted at the UAH/USD rate that was valid when the agreement was signed. In sum, approximately US\$6.0bn of FX loans will be revalued at 5.05 UAH/USD instead of the current 21.0 UAH/USD, leaving banks with an immediate loss of up to UAH95bn.

The adoption of this law, in our opinion, is highly populist and does not facilitate solving the problem of FX borrowers. Moreover, as the IMF memorandum specifically stipulates against such conversion, we expect the bill to be vetoed by the president.

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Bonds: News & Comments

Liquidity absorption

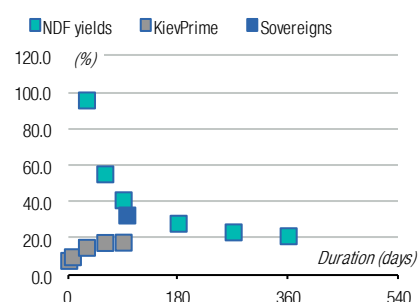
The NBU once more absorbed liquidity on Wednesday as banks' correspondent accounts with the NBU fell UAH0.33bn to UAH22.05bn while the NBU also absorbed funds repaid by the MoF for a local currency debt repayment on Wednesday. As a result, total CDs outstanding rose UAH1.47bn to UAH40.69bn, causing broader banking sector liquidity to rise UAH0.45bn to UAH68.36bn yesterday. Total local currency debt repayments scheduled for the next 30 days declined UAH0.69bn to UAH5.62bn.

With this absorption, the KyivPrime ON interest rate rose 13bp to 21.13% while the KyivPrime 1M interest rate remained steady at 28.00%.

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Yield curve of the local bond market

(as of market close on 2 Jul 2015)



Sources: Bloomberg, Investment Capital Ukraine LLC.

Bond market indicators (as of 2 Jul 2015)

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)

MONEY MARKET KIEV PRIME RATES (%)

0/n	21.13	+13bp	+13bp	-7bp	+223bp
1wk	23.13	+13bp	+0bp	-27bp	+413bp
1m	28.00	+0bp	+0bp	+20bp	+810bp
2m	27.25	+58bp	+75bp	+85bp	+725bp
3m	27.33	+66bp	+83bp	+93bp	+733bp

LIQUIDITY WIDE MEASUREMENT (UAHm)

CB acc's ¹	22,047	-1.46	-3.02	-13.98	-33.70
CDs ²	11,329	+0.00	-25.91	-56.53	-28.23
Sovgns ³	5,105	+0.00	+23.01	+6.86	+12.65
Total	38,481	-0.84	-8.76	-31.86	-28.17

HOLDERS OF UAH SOVEREIGN BONDS (UAHm)

C.bank	357,821	+0.00	+0.42	+2.74	+12.48
Banks	82,213	-0.01	+3.15	-2.21	-12.01
Resid's ⁴	25,508	+0.00	+17.10	+15.48	+3.90
Non-res ⁵	22,952	+0.00	-0.67	-3.46	+6.54
Total	488,494	+0.00	+1.57	+2.15	+6.74

NDF IMPLIED YIELDS (%)

3m	N/A	N/A	N/A	N/A	N/A
6m	N/A	N/A	N/A	N/A	N/A
9m	N/A	N/A	N/A	N/A	N/A
1yr	N/A	N/A	N/A	N/A	N/A

LOCAL CURRENCY UAH SOVEREIGN BOND YIELDS (%)

Mar '13	N/A	N/A	N/A	N/A	N/A
Jan '14	N/A	N/A	N/A	N/A	N/A
Aug '15 ⁶	N/A	N/A	N/A	N/A	N/A

EUROBONDS USD SOVEREIGN BOND YIELDS (%)

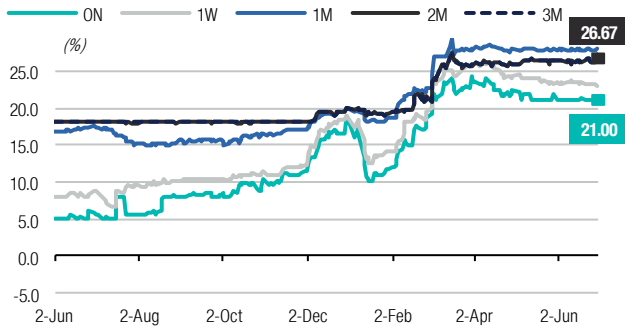
CDS 5yr	2,727	-21bp	-10bp	-125bp	+528bp
Jun '16	100.90	+193bp	+681bp	+6bp	+64bp
Jul '17	53.61	+248bp	+316bp	-20bp	+26bp
Sep '20	25.51	-50bp	+74bp	-196bp	+666bp
Sep '21	22.69	-74bp	-39bp	-370bp	+415bp
Sep '22	20.51	+16bp	+43bp	-267bp	+426bp
Feb '23	19.66	+20bp	+17bp	-67bp	+409bp

Notes: [1] banks' account balance at NBU; [2] certificates of deposits issued by NBU; [3] UAH sovereign bonds due next 30 days; [4] residents; [5] non-residents; [6] VAT bond.

Sources: Bloomberg, Investment Capital Ukraine LLC.

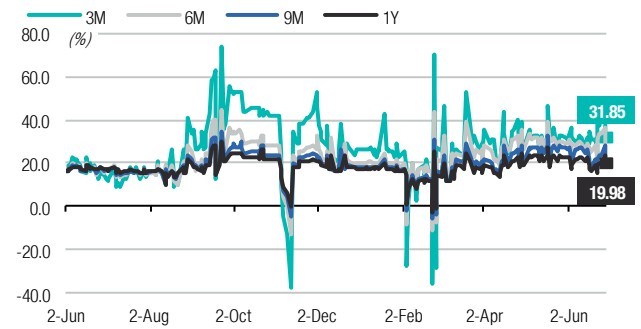
Chart page: Local bond market & Eurobond markets

Chart 1. Kiev Prime rates (%), last 12-month period



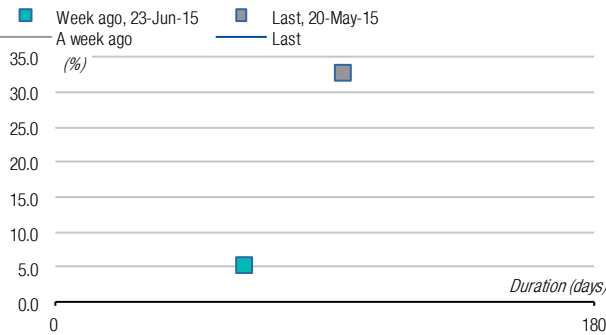
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 2. UAH NDF implied yields (%), last 12-month period



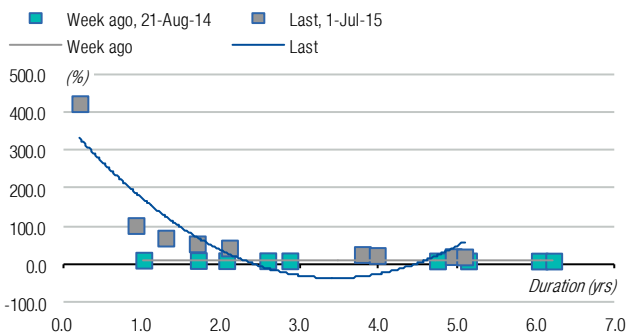
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 3. UAH sovereign yield curve (%) as of 2 Jul 2015



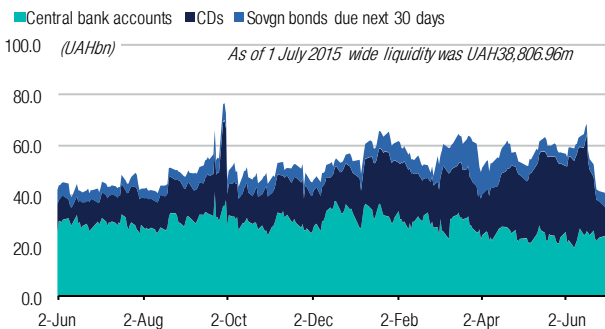
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 4. USD sovereign yield curve (%) as of 2 Jul 2015



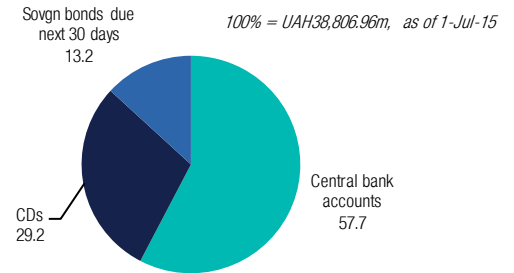
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 5. Banking sector liquidity (UAHbn), last 12-month period



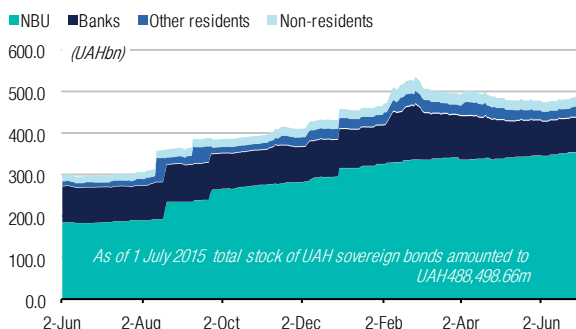
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 6. Breakdown of liquidity pool (%) as of 2 Jul 2015



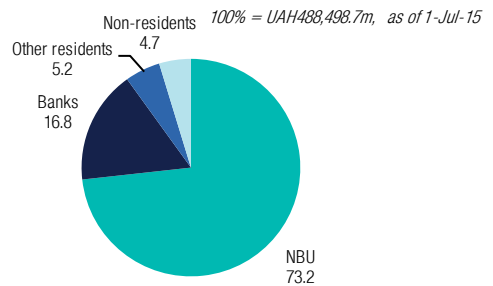
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 7. Holders of sovereign bonds (UAHbn), last 12 months



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 8. Domestic sovereign debt (%) as of 2 Jul 2015



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Table 1. Ukrainian stocks (closing prices as of 2-Jul-2015)

Company	Bloomberg Ticker	Listing	Share price performance (% change)				Valuation (US\$)			Free float (FF) & Liquidity					P/E			EV/EBITDA			EV/Sales			Ratios			
			Last price	Daily	MoM	YTD	YoY	Last price	Market cap (m)	EV (m)	FF (%)	FF mkt cap (US\$m)	Last day turnover (US\$ 000)	3M avg. turnover (US\$ 000)	FF share traded (%)	FF turnover (days)	2014	2015E	2016E	2014	2015E	2016E	2014	2015E	2016E	P/B (x)	Debt/Assets (%)
ENERGY																											
Cadogan Petrol...	CAD LN	London	10.38 GBp	+2.5	+6.4	+3.8	+7.8	0.16	37.4	6.1	40.2	15.1	5.1	32.9	0.61	165	Neg.	N/A	N/A	Neg.	N/A	N/A	0.2	N/A	N/A	0.4	15.3
Centrenerg	CEEN UK	Kiev, UX	7.72 UAH	-0.2	+0.0	+2.3	+6.3	0.37	135.7	140.9	21.7	29.5	1.6	20.1	0.08	1,195	40.4	Neg.	6.4	0.4	Neg.	2.9	0.4	0.3	0.2	1.3	4.2
Coal Energy	CLE PW	Warsaw	0.72 PLN	+2.9	+26.3	+16.1	-39.0	0.19	8.6	81.1	25.0	2.1	7.7	2.2	0.14	700	Neg.	N/A	N/A	11.1	N/A	N/A	0.7	N/A	N/A	0.3	56.9
Donbasenergo	DOEN UK	Kiev, UX	21.59 UAH	-1.2	-5.9	-34.6	-44.8	1.03	24.3	38.3	14.2	3.5	5.1	5.9	0.18	543	5.1	Neg.	N/A	0.0	10.6	N/A	0.2	0.2	N/A	0.3	13.6
JKX Oil & Gas	JKX LN	London	27.50 GBp	+0.0	-3.5	+129.2	-51.3	0.43	73.9	85.0	47.2	34.9	64.6	183.1	0.05	2,068	Neg.	Neg.	Neg.	Neg.	1.6	N/A	0.6	0.6	1.1	0.3	9.9
Regal Petroleum	RPT LN	London	5.49 GBp	+15.7	+22.0	+75.7	-39.0	0.09	27.5	-4.3	80.9	22.2	8.9	4.8	0.02	5,955	4.8	9.2	N/A	Neg.	Neg.	N/A	Neg.	Neg.	N/A	0.3	0.0
Zakhidenergo	ZAEN UK	Kiev, PFTS	167.00 UAH	+0.0	+7.7	+12.8	+19.3	7.95	101.7	153.3	5.0	5.1	0.0	0.3	0.00	36,803	Neg.	N/A	N/A	0.1	N/A	N/A	0.3	N/A	N/A	0.7	11.6
METALLURGY																											
Alchevsky Meta...	ALMK UK	Kiev, UX	0.01 UAH	+1.5	-6.3	-8.3	-63.7	0.00	16.3	1,971.1	3.9	0.6	0.2	0.9	0.14	740	Neg.	Neg.	N/A	0.7	Neg.	N/A	2.8	6.3	N/A	N/A	145.5
Avdiyivsky Cok...	AVDK UK	Kiev, UX	1.14 UAH	-0.6	-1.0	-34.2	-64.6	0.05	10.6	8.1	4.0	0.4	4.4	1.5	0.51	198	Neg.	Neg.	N/A	Neg.	Neg.	N/A	0.0	0.0	N/A	0.0	0.0
Azovstal	AZST UK	Kiev, UX	0.80 UAH	+2.3	-2.4	+7.7	+3.1	0.04	160.5	117.8	4.1	6.6	0.0	6.2	0.11	884	3.7	2.9	N/A	0.1	1.0	N/A	0.1	0.1	N/A	0.2	0.0
Ferrexpo PLC	FXPO LN	London	66.00 GBp	-0.8	-17.0	+34.9	-48.4	1.03	606.6	1,303.5	22.4	135.9	275.1	801.2	0.53	189	3.4	8.2	11.9	3.1	5.8	7.0	0.9	1.3	1.3	0.9	61.1
Yasynivsky Cok...	YASK UK	Kiev, UX	0.26 UAH	+0.0	-0.8	-7.9	-62.7	0.01	3.4	4.1	9.0	0.3	0.0	0.2	0.21	477	Neg.	7.8	N/A	Neg.	Neg.	N/A	0.0	0.0	N/A	0.1	0.0
Yenakievo Steel	ENMZ UK	Kiev, UX	17.14 UAH	+0.8	-0.3	-18.2	-59.3	0.82	8.6	0.6	9.4	0.8	0.0	2.9	0.60	168	Neg.	Neg.	N/A	0.0	0.0	N/A	0.0	0.0	N/A	0.2	0.0
FOOD AND AGRIBUSINESS																											
AgroGeneration	ALAGR FP	EN Paris	0.43 EUR	+0.0	-8.5	+0.0	-57.4	0.48	44.1	92.0	34.0	15.0	15.9	9.9	0.05	1,997	Neg.	N/A	N/A	Neg.	N/A	N/A	1.3	N/A	N/A	0.9	35.9
Agroliga	AGL PW	Warsaw	11.50 PLN	+2.7	+11.7	+27.8	-41.7	3.04	4.7	5.4	16.7	0.8	0.7	2.0	0.17	590	1.3	N/A	N/A	1.6	N/A	N/A	0.3	N/A	N/A	0.5	5.7
Agroton	AGT PW	Warsaw	1.12 PLN	-1.8	+15.5	-8.9	-61.5	0.30	6.4	33.8	26.2	1.7	1.7	10.0	0.49	202	Neg.	N/A	N/A	1.5	N/A	N/A	0.6	N/A	N/A	0.1	33.4
Astarta Holdin...	AST PW	Warsaw	30.00 PLN	+1.7	+6.2	+50.0	-29.3	7.94	198.5	432.3	31.0	61.6	11.6	226.3	0.09	1,154	Neg.	Neg.	3.8	3.6	3.6	4.3	1.1	1.1	1.0	1.2	49.6
Avangard	AVGR LI	London Intl	1.11 USD	-9.8	-30.9	-46.1	-89.2	1.11	70.6	332.7	21.7	15.3	4.1	21.9	0.10	1,022	Neg.	Neg.	1.9	2.6	4.8	4.1	0.8	0.9	0.8	0.2	33.1
IMC	IMC PW	Warsaw	4.50 PLN	+0.0	+0.0	-20.6	-54.2	1.19	37.3	145.8	23.9	8.9	1.9	8.1	0.23	432	Neg.	4.6	1.2	2.5	2.6	2.5	1.1	0.9	0.7	1.4	69.8
Kernel Holding...	KER PW	Warsaw	38.19 PLN	-0.3	-0.8	+34.2	+16.1	10.11	805.4	1,279.8	58.8	473.3	1,351.8	1,291.1	0.15	664	Neg.	6.2	4.9	5.7	3.8	3.8	0.5	0.5	0.5	0.9	39.1
MHP	MHPC LI	London Intl	10.45 USD	+3.5	-5.4	+13.6	-29.9	10.45	1,104.2	2,264.2	22.3	246.5	0.8	607.4	0.34	290	Neg.	5.9	4.4	4.1	4.5	4.5	1.6	1.8	1.7	2.6	53.0
Milkiland	MLK PW	Warsaw	1.55 PLN	+0.0	-29.5	+4.7	-77.7	0.41	12.8	126.1	20.0	2.6	2.9	10.3	0.31	326	Neg.	Neg.	1.7	9.2	4.3	3.9	0.4	0.5	0.5	0.1	42.5
TRANSPORTATION																											
KDM Shipping	KDM PW	Warsaw	3.00 PLN	+0.0	+15.8	-25.9	-69.8	0.79	7.4	-7.2	10.9	0.8	0.3	0.4	0.01	12,659	Neg.	N/A	N/A	14.1	N/A	N/A	Neg.	N/A	N/A	0.2	7.9
CONSTRUCTION																											
TMM	TR61 GF	Frankfurt	0.02 EUR	+0.0	-40.0	-81.3	-93.3	0.02	0.9	128.0	13.1	0.1	0.0	0.2	0.14	703	Neg.	N/A	N/A	Neg.	N/A	N/A	3.9	N/A	N/A	0.0	45.5
FINANCIAL SERVICES																											
Raiffeisen Ban...	BAVL UK	Kiev, UX	0.09 UAH	-0.6	-0.5	-6.4	-40.1	0.00	128.3	N/A	3.8	4.9	2.1	9.1	0.15	664	N/A	Neg.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.7	N/A
Ukrsotsbank	USCB UK	Kiev, UX	0.08 UAH	+0.0	-18.6	-36.2	-50.7	0.00	97.5	N/A	4.5	4.4	8.5	0.6	0.03	3,096	Neg.	Neg.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.3	38.2

Notes: mln - millions; FF - free float; n/a - not available; neg. - negative; a company name (the left column of the table) is shortened to fit the column and hence in some cases is not displayed in full; *** - P/E is above 10,000x. Sources: Bloomberg, ICU.

FX: News & Comments

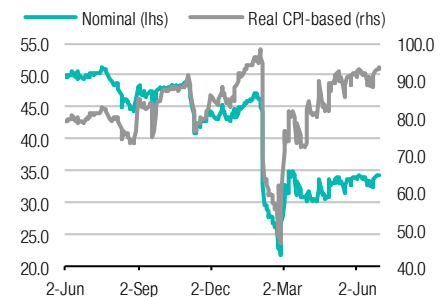
US weakness aids hryvnia

The hryvnia remained at 21/USD on volume of US\$137.91m on stable trading over the last few sessions. In our view, the hryvnia was bolstered (via a declining real trade-weighted value) by the weaker-than-expected US macro report of 223,000 new non-farm jobs, which is 10,000 less than market consensus. Moreover, the labour participation rate came in below the previous number. The euro rose 0.25% towards 1.1084 as well as Russia ruble added 0.58% to 55.5179/USD, pushing the UAH's real TWI down 0.17%.

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ICU's UAH trade-weighted indices

(Last 12-month history to 3 Jul 2015)



Source: Investment Capital Ukraine LLC.

FX market indicators (as of 2 Jul 2015)

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
USD/UAH MARKET (HRYVNIA per US DOLLAR)					
Spot mkt	21.0050	-0.02	+0.02	-0.33	+32.77
NBU avg	21.0116	+0.02	-0.87	-0.28	+33.25
Ttl vlm ¹	193.66	-32.71	-24.75	-5.59	-55.05
\$ volume ²	137.91	-41.85	-29.48	-5.43	-61.07
NDF 3M	22.6653	+0.00	-1.21	-0.15	+34.51
NDF 6M	24.0153	+0.00	-1.78	-0.35	+38.02
NDF 1Y	25.0153	+0.00	+0.06	-2.28	+35.58
TRADE-WEIGHTED INDICES (TWIs, points)					
UAH nom'l	34.259	-0.17	+0.92	+2.31	-22.95
UAH real CPI	93.136	-0.17	+0.92	+2.31	+7.62
UAH real PPI	111.389	-0.17	+0.92	+2.31	-5.41
USD nom'l	96.113	-0.20	+0.97	+0.29	+6.47
FX RATES OF KEY CURRENCIES THAT SHAPE UAH's TWIs					
USD/RUB	55.5179	-0.58	+1.50	+5.06	-8.59
EUR/USD	1.1084	+0.28	-1.08	-0.60	-8.38
USD/CNY	6.2045	+0.05	-0.08	+0.10	-0.02
USD/PLN	3.7818	-0.20	+1.57	+2.37	+6.72
USD/TRY	2.6845	-0.27	+1.10	+0.39	+14.97
USD/BYR	15,375.00	+0.15	-0.38	+3.06	+39.77
USD/KZT	186.2300	-0.02	+0.01	+0.13	+2.13
OTHER MAJOR CURRENCIES					
USD/JPY	123.0700	-0.08	-0.45	-0.84	+2.75
GBP/USD	1.5609	-0.05	-0.88	+1.73	+0.21
USD/CHF	0.9435	-0.52	+0.72	+1.11	-5.11
AUD/USD	0.7633	-0.16	-1.36	-1.79	-6.63
USD/CAD	1.2540	-0.40	+1.72	+1.12	+7.91
USD/BRL	3.0967	-1.67	-0.98	-1.14	+16.52
USD/KRW	1,125.00	+0.66	+1.33	+1.13	+3.12
COMMODITIES					
Gold(\$/oz)	1,166.20	-0.23	-0.60	-2.25	-1.57
WTI crude ³	56.93	-0.05	-4.40	-7.07	+6.87
Brent crd ³	60.78	-0.16	-1.97	-5.64	+9.00
Urals crd ³	N/A	+0.00	+0.00	+0.00	+0.00
TR/J CRB ⁴	224.55	+0.22	+0.09	-0.56	-2.35

Notes: [1] trading volume in all foreign currencies (US\$m); [2] trading volume in the pair USD/UAH (US\$m); [3] crude oil price (USD per barrel); [4] the Thomson Reuters/Jefferies CRB Index. A green-/red-shaded box means gain or loss, respectively, of the investment into the asset. Currencies are gaining when their exchange rates strengthen versus USD.

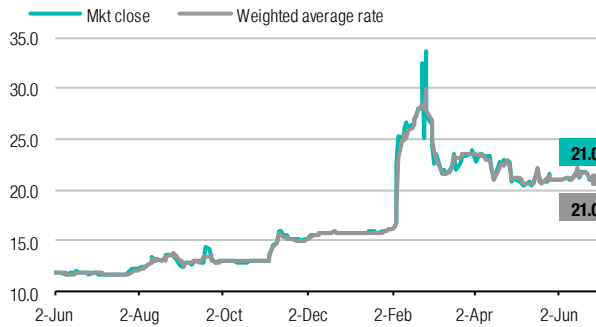
Sources: Bloomberg, Investment Capital Ukraine LLC.

Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#) and Bloomberg (type: ALLX UTWI <GO>).

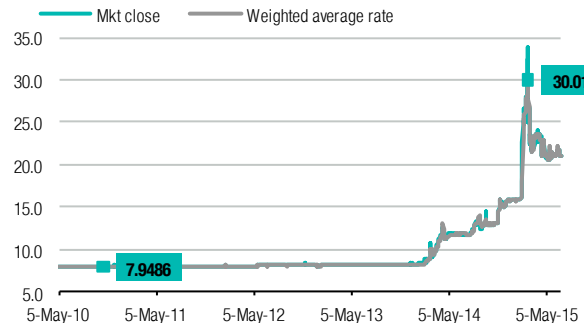
Section on FX market is continued on next page.

Chart page #1: Foreign-exchange market

Chart 9. Spot market rates USD/UAH: last 12-month and 5-year periods (UAH per USD, left and right respectively)

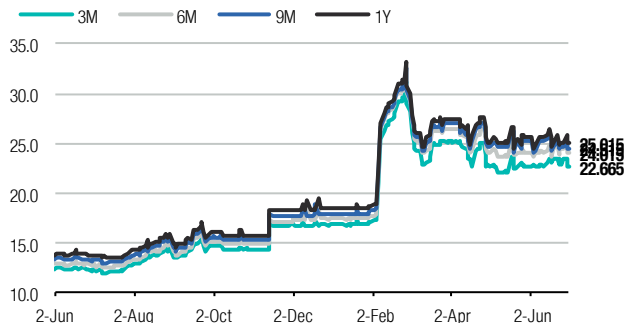


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

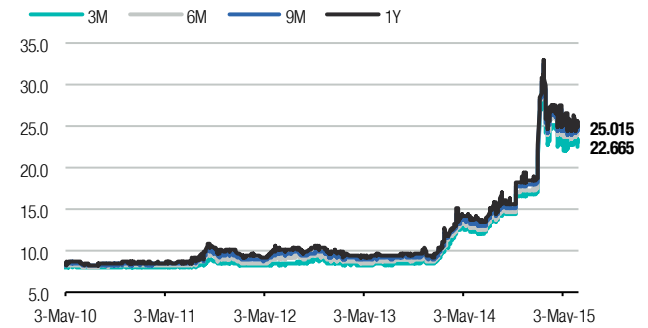


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 10. NDF market rates USD/UAH: last 12-month and 5-year periods (UAH per USD, left and right respectively)

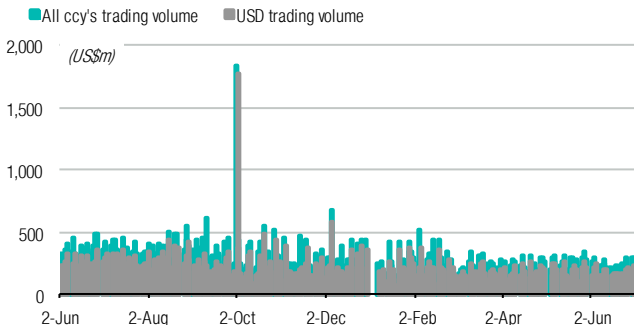


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

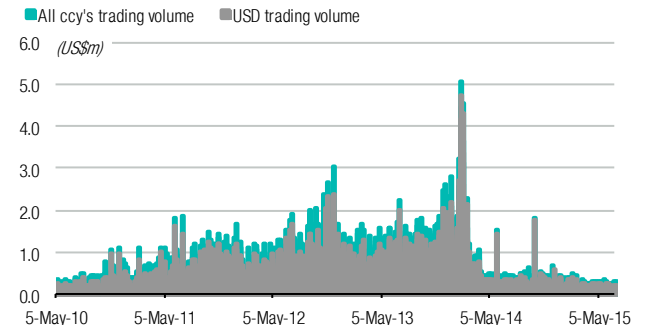


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 11. Trading volume: last 12-month and 5-year periods (US\$m, left and right respectively)

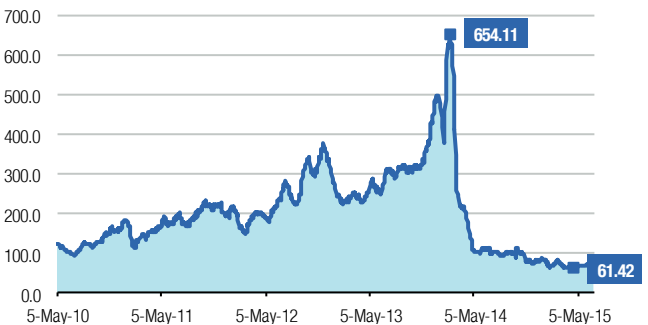


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 12. 30D MA* ratio of FX market turnover to merchandise trade: last 12m and 5yr periods (% , left and right respectively)

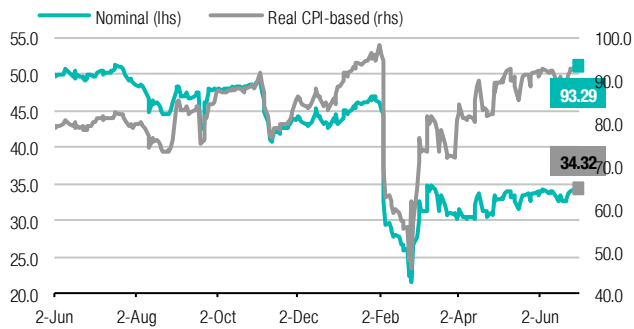


Note: * 30-day moving average; The boxes of the right chart show high and low values. Sources: NBU, State Statistics Service of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

Chart page #2: ICU's UAH trade-weighted indices

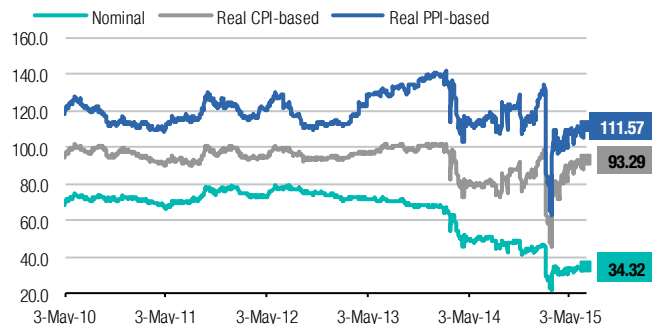
The following charts depict ICU's Ukrainian hryvnia trade-weighted indices which were calculated in accordance with methodology (for more details visit <http://www.icu.ua/en/research/currency-indices>).

Chart 13. Nominal and CPI-based real TWIs of UAH, history of last 12-month period



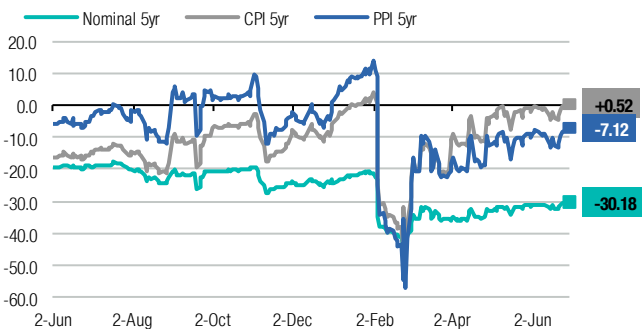
Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

Chart 14. Nominal, CPI- and PPI-based TWIs of UAH, history of last 5-year period

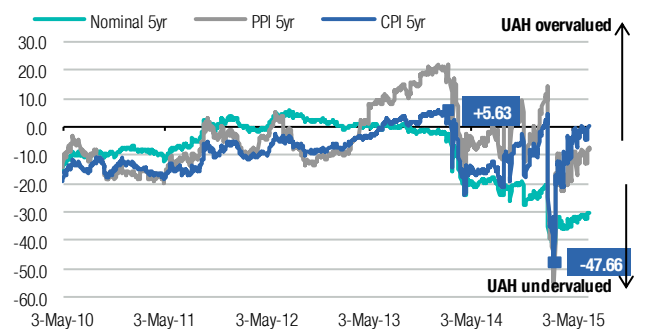


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

Chart 15. Deviation of UAH trade-weighted indices from their 5-year moving averages: last 12-month and 5-year periods (% , left and right respectively)

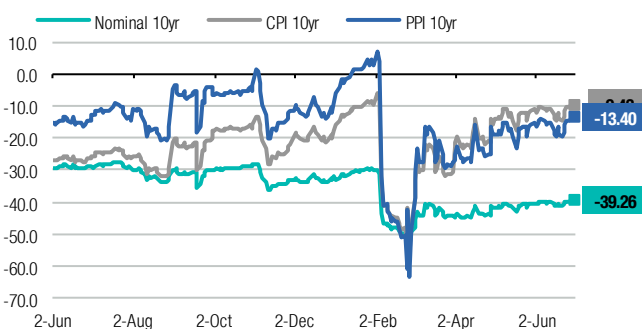


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

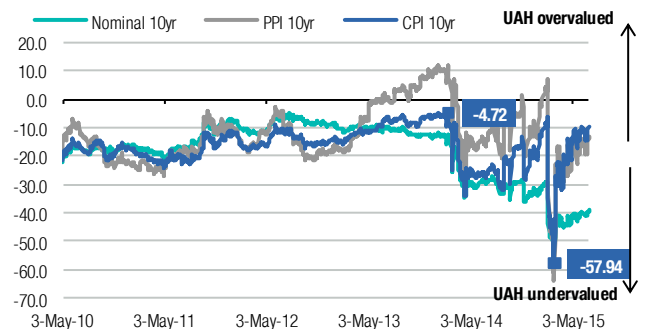


Note: the boxes indicate the high and low values of CPI-based TWI.
Source: Investment Capital Ukraine LLC.

Chart 16. Deviation of UAH trade-weighted indices from their 10-year moving averages: last 12-month and 5-year periods (% , left and right respectively)



Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.



Note: the boxes indicate the high and low values of CPI-based TWI.
Source: Investment Capital Ukraine LLC.

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Disclosures

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This research publication has been prepared by the analyst(s), whose name(s) appear on the front page of this publication. The analyst(s) hereby certifies that the views expressed within this publication accurately reflect her/his own views about the subject financial instruments or issuers and no part of her/his compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views within this research publication.

EQUITY RATING DEFINITIONS

Buy: Forecasted 12-month total return greater than 20%

Hold: Forecasted 12-month total return 0% to 20%

Sell: Forecasted 12-month total return less than 0%

Note: total return is share price appreciation to a target price in relative terms plus forecasted dividend yield.

DEBT RATING DEFINITIONS

Buy: Forecasted 12-month total return significantly greater than that of relevant benchmark

Hold: Forecasted 12-month total return is in line with or modestly deviates from relevant benchmark

Sell: Forecasted 12-month total return significantly less than that of relevant benchmark



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