

# Daily Insight

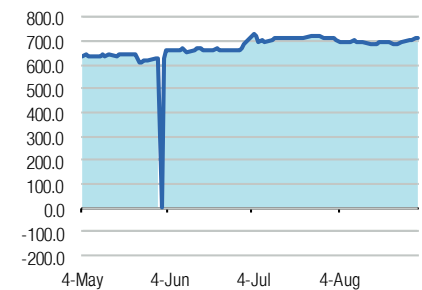
## Liquidity in August absorbed by government

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FRIDAY, 2 SEPTEMBER 2016

### UX Index (3 months to 2 Sep 2016)



Source: UX.

### Key market indicators (as of 1 Sep 2016)

	Last	Daily chg (%)	YTD chg (%)
<b>FX &amp; MONEY RATES</b>			
USD/UAH	26.6500	+1.56	+10.91
USD/UAH (1Y NDF)	30.7000	+1.35	+20.41
EUR/USD	1.1197	+0.35	+3.08
USD/RUB	66.0195	+0.95	-8.96
KievPRIME O/N (%)	14.13	+0bp	-493bp
KievPRIME 1M (%)	17.50	+0bp	-475bp
<b>SOVEREIGN EUROBONDS: yields and spreads</b>			
Ukraine 15, Eurobond (%)	N/A	+0bp	+0bp
Ukraine 17, Eurobond (%)	29.14	+26bp	+0bp
Ukraine 22, Eurobond (%)	12.32	-1bp	+0bp
Ukraine 23, Eurobond (%)	11.85	+0bp	+0bp
Ukraine 5Y CDS	661bp	+0bp	+0bp
<b>EQUITIES</b>			
<b>Stock market indices</b>			
UX (Ukraine)	714.74	+0.53	+4.21
MSCI World	417.35	+0.18	+4.50
MSCI EM	891.08	-0.29	+12.21
RTS (Russia)	944.96	-0.56	+24.82
WIG-20 (Poland)	1,761.68	-1.78	-5.24
S&P 500 (USA)	2,170.86	+0.00	+6.21

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.

## Bonds: News & Comments

### VAT refund bolsters liquidity recovery

On the last day of August, a government reported UAH6.05bn VAT refund pushed banking sector liquidity up UAH5.49bn to UAH79.89bn yesterday. As a consequence, banks' correspondent accounts with the NBU rose UAH4.97bn to UAH47.31bn and total CDs outstanding were up UAH0.52bn to UAH32.57bn.

**Investment implications:** *As the Treasury received documents for the VAT refund on Wednesday morning, most funds were paid that day, probably after they could be invested in CDs. Because of this, we could see a significant increase in banks' accounts, which yesterday could have been partially invested in CDs, to be seen in today's NBU daily statistics. This refund could cover outflows via the FX auction and a small portion of new CDs, pushing banks' correspondent accounts to jump to the record high since January 21, 2016.*

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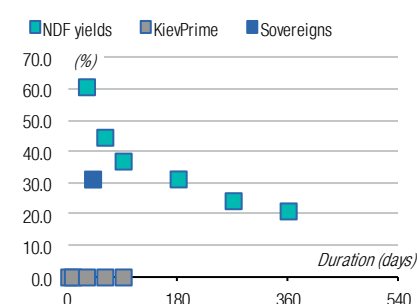
### Liquidity in August absorbed by government

Banking sector liquidity fell UAH19.24bn during August, some of which was covered by the VAT refund (see comment above). Funds from the banking sector were mostly accumulated at the treasury account which rose UAH12.8bn to UAH23.76bn during the month. The remaining funds, which also were absorbed from the banking system to the state budget via taxes and new bond issuances, were paid to the NBU as bond redemptions and interest repayments. Due to bond portfolio dynamics, the NBU received about UAH2.5bn of bond redemptions. Also, due to our assumptions, the NBU got more than UAH4.0bn as the main part of bond repayments scheduled for August were interest repayments, mainly for bonds issued for state-owned banks, Naftogaz, or DGF, and the most likely were monetized (purchased) by the NBU at the secondary market and retained within its portfolio. So, last month's decline in liquidity was mostly caused by outflows to the state budget with a partial transfer to the NBU, and FX auctions held at the end of the month took only a small part in these outflows directly to the NBU.

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### Yield curve of the local bond market

(as of market close on 1 Sep 2016)



Sources: Bloomberg, Investment Capital Ukraine LLC.

### Bond market indicators (as of 1 Sep 2016)

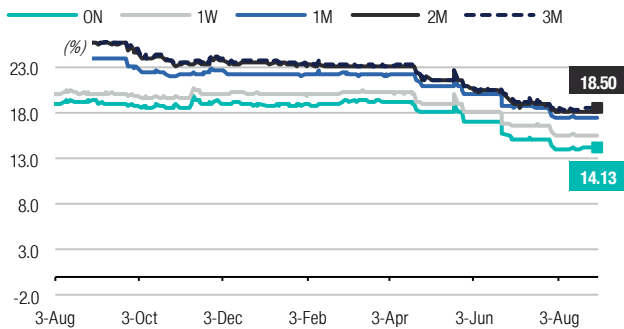
	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>MONEY MARKET KIEV PRIME RATES (%)</b>					
O/n	14.13	+0bp	+0bp	+13bp	-493bp
1wk	15.50	+0bp	+0bp	+0bp	-450bp
1m	17.50	+0bp	+0bp	+0bp	-475bp
2m	18.00	+0bp	+0bp	-25bp	-550bp
3m	18.50	+0bp	+0bp	+0bp	-525bp
<b>LIQUIDITY WIDE MEASUREMENT (UAHm)</b>					
CB acc's <sup>1</sup>	47,315	+11.75	+20.61	+13.94	+23.02
CDs <sup>2</sup>	32,572	+1.62	-16.78	-43.45	-62.47
Sovgns <sup>3</sup>	8,874	+0.00	+21.43	+11.26	+88.14
<b>Total</b>	<b>88,761</b>	<b>+6.60</b>	<b>+3.60</b>	<b>-17.12</b>	<b>-31.71</b>
<b>HOLDERS OF UAH SOVEREIGN BONDS (UAHm)</b>					
C.bank	370,896	+0.00	+0.00	-0.67	-2.35
Banks	148,419	+0.89	+1.55	+12.15	+81.95
Resid's <sup>4</sup>	13,869	-0.12	+0.17	-0.51	-33.95
Non-res <sup>5</sup>	18,815	+1.44	+2.69	-15.51	-15.65
<b>Total</b>	<b>551,999</b>	<b>+0.28</b>	<b>+0.51</b>	<b>+1.85</b>	<b>+9.37</b>
<b>NDF IMPLIED YIELDS (%)</b>					
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
<b>LOCAL CURRENCY UAH SOVEREIGN BOND YIELDS (%)</b>					
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 <sup>6</sup>	N/A	N/A	N/A	N/A	N/A
<b>EUROBONDS USD SOVEREIGN BOND YIELDS (%)</b>					
CDS 5yr	661	+0bp	+20bp	+11bp	+0bp
Jun '16	N/A	+114bp	+0bp	+0bp	+0bp
Jul '17	29.14	+26bp	+0bp	+0bp	+0bp
Sep '20	14.02	+4bp	+0bp	+0bp	+0bp
Sep '21	14.22	+0bp	+0bp	+0bp	+0bp
Sep '22	12.32	-1bp	+0bp	+0bp	+0bp
Feb '23	11.85	+0bp	+0bp	+0bp	+0bp

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.

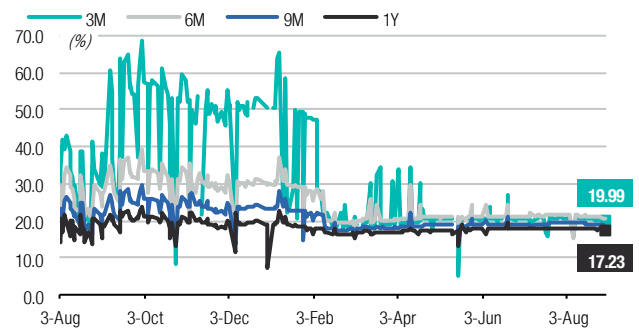
Chart page: Local bond market & Eurobond markets

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



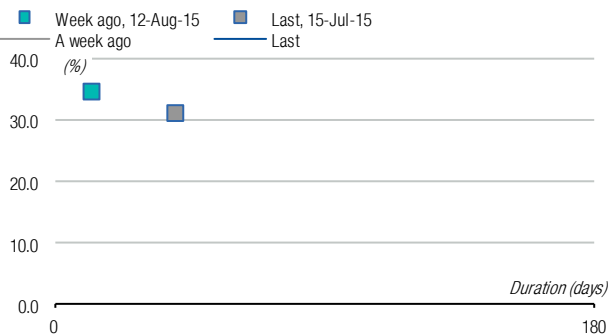
Sources: Bloomberg, Investment Capital Ukraine LLC.

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



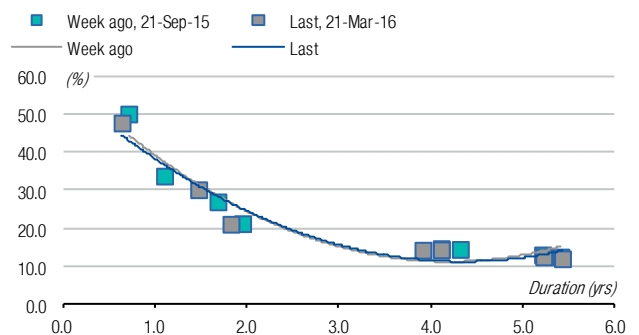
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 3. UAH sovereign yield curve (%) as of 1 Sep 2016



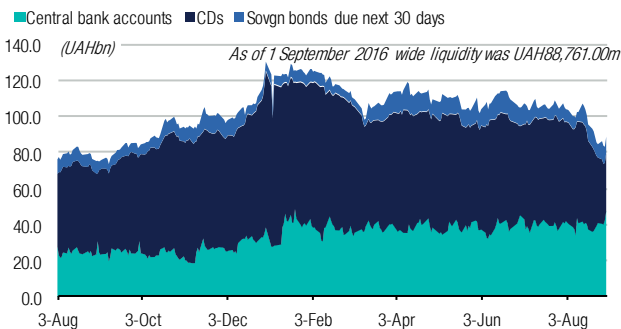
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 4. USD sovereign yield curve (%) as of 1 Sep 2016



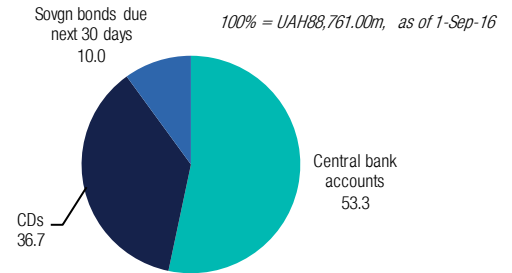
Sources: Bloomberg, Investment Capital Ukraine LLC.

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



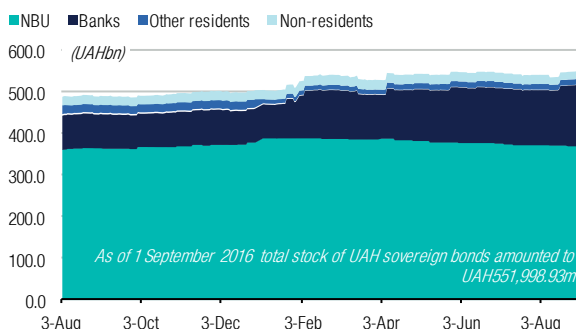
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 6. Breakdown of liquidity pool (%) as of 1 Sep 2016



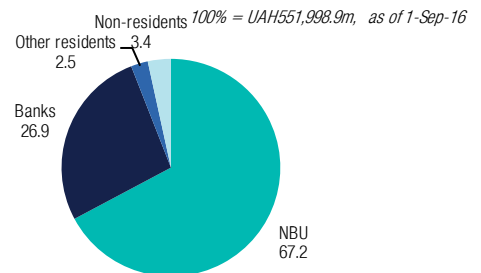
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

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 1 Sep 2016



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

Table 1. Ukrainian stocks (closing prices as of 1-Sep-2016)

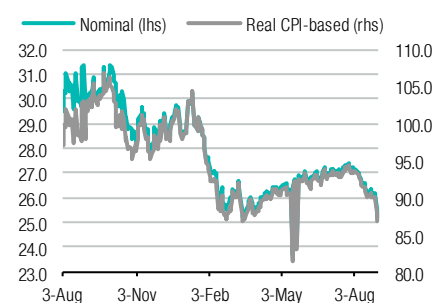
Company	Bloomberg Ticker	Listing	Share price performance (% change)				Valuation (US\$)			Free float (FF) & Liquidity					P/E			EV/EBITDA			EV/Sales			Ratios			
			Last price	Daily	MoM	YTD	YoY	Last price	Market cap (m)	EV (m)	FF (%)	FF mkt cap (US\$m)	Last day turnover (US\$ 000)	3M avg. turnover (US\$ 000)	FF share traded (%)	FF turnover (days)	2014	2015E	2016E	2014	2015E	2016E	2014	2015E	2016E	P/B (x)	Debt/Assets (%)
<b>ENERGY</b>																											
Cadogan Petrol...	CAD LN	London	7.25 GBp	-1.7	-4.9	-10.8	-28.4	0.10	22.2	-18.0	40.2	8.9	1.0	1.3	0.01	10,563	Neg.	N/A	N/A	2.0	N/A	N/A	Neg.	N/A	N/A	0.4	17.5
Centrenergo	CEEN UK	Kiev, UX	8.89 UAH	-0.4	+16.7	+94.9	+20.3	0.33	123.5	106.0	21.7	26.8	8.9	11.0	0.04	2,594	150.2	5.4	5.4	0.3	2.6	2.7	0.4	0.3	0.3	1.1	3.4
Coal Energy	CLE PW	Warsaw	0.51 PLN	+4.1	-8.9	-3.8	-16.4	0.13	5.9	77.9	25.0	1.5	1.2	0.6	0.06	1,632	Neg.	N/A	N/A	10.7	N/A	N/A	0.7	N/A	N/A	0.2	56.9
Donbasenergo	DOEN UK	Kiev, UX	12.46 UAH	-0.2	-4.9	-20.9	-36.4	0.47	11.1	21.9	14.2	1.6	1.1	1.4	0.08	1,260	Neg.	N/A	N/A	0.1	N/A	N/A	0.1	N/A	N/A	0.6	4.2
JKX Oil & Gas	JKX LN	London	19.25 GBp	+0.0	-1.3	-29.4	+22.2	0.26	43.9	49.3	47.2	20.7	0.0	4.7	0.01	14,453	Neg.	Neg.	6.7	Neg.	1.8	1.6	0.6	0.6	0.6	0.2	13.0
Regal Petroleum	RPT LN	London	3.13 GBp	+0.2	-3.8	-16.7	-26.5	0.04	13.3	-19.7	80.9	10.8	0.0	2.0	0.01	13,031	Neg.	N/A	N/A	Neg.	N/A	N/A	Neg.	N/A	N/A	0.2	0.0
Sadova Group	SGR PW	Warsaw	0.19 PLN	+0.0	-34.5	-36.7	-36.7	0.05	2.1	43.3	25.0	0.5	0.1	0.5	0.09	1,067	Neg.	N/A	N/A	Neg.	N/A	N/A	41.8	N/A	N/A	N/A	239.6
Zakhidenergo	ZAEN UK	Kiev, PFTS	59.70 UAH	+0.0	-3.7	-28.9	-54.1	2.25	28.7	58.0	5.0	1.4	0.0	0.2	0.00	138,735	Neg.	N/A	N/A	0.1	N/A	N/A	0.1	N/A	N/A	0.4	11.6
<b>METALLURGY</b>																											
Alchevsky Meta...	ALMK UK	Kiev, UX	0.01 UAH	+5.0	+5.0	-43.4	-51.5	0.00	6.1	2,325.2	3.9	0.2	0.0	0.1	0.03	3,063	Neg.	Neg.	Neg.	14.2	25.0	22.7	7.9	7.1	7.4	N/A	192.1
Ferrexpo PLC	FXPO LN	London	65.75 GBp	+4.8	+26.4	+205.8	+11.4	0.87	514.0	1,266.0	22.4	115.1	2,505.1	1,029.9	1.81	55	15.6	3.7	4.6	9.2	4.5	6.0	1.3	1.4	1.4	1.7	73.7
Yasynivsky Cok...	YASK UK	Kiev, UX	0.20 UAH	+0.0	+0.0	-13.0	-25.9	0.01	2.1	2.6	9.0	0.2	0.0	0.0	0.00	51,270	Neg.	N/A	N/A	Neg.	N/A	N/A	0.0	N/A	N/A	0.0	0.0
<b>FOOD AND AGRIBUSINESS</b>																											
AgroGeneration	ALAGR FP	EN Paris	0.35 EUR	+0.0	+2.9	-12.5	-22.2	0.39	38.9	77.5	34.0	13.2	28.8	38.3	0.38	260	Neg.	9.7	2.4	4.2	3.9	2.7	1.2	1.1	0.9	0.5	40.7
Agroliga	AGL PW	Warsaw	14.60 PLN	+0.0	-10.2	+28.3	+31.5	3.75	5.8	7.0	16.7	1.0	2.5	1.0	0.14	694	1.9	N/A	N/A	1.9	N/A	N/A	0.4	N/A	N/A	0.5	10.7
Agroton	AGT PW	Warsaw	3.24 PLN	-2.7	+16.1	+220.8	+211.5	0.83	18.0	32.0	26.2	4.7	417.8	115.6	3.65	27	Neg.	2.3	2.0	1.4	2.1	1.6	0.8	0.9	0.8	0.4	32.4
Astarta Holdin...	AST PW	Warsaw	51.70 PLN	+0.5	+0.4	+49.9	+71.5	13.27	331.7	486.7	31.0	102.9	9.3	85.5	0.19	524	18.6	4.1	3.6	3.7	3.2	3.5	1.4	1.3	1.2	1.0	41.5
Avangard	AVGR LI	London Intl	0.50 USD	+0.0	-37.5	-60.0	+0.0	0.50	31.9	371.0	21.7	6.9	27.5	6.2	0.20	505	Neg.	Neg.	0.8	Neg.	Neg.	10.6	1.6	2.9	2.2	0.2	53.9
IMC	IMC PW	Warsaw	7.09 PLN	-0.8	-6.1	+18.8	+36.3	1.82	56.9	143.1	23.9	13.6	7.5	14.0	0.06	1,718	3.8	2.4	2.2	2.1	2.6	3.0	1.0	1.0	0.9	0.9	56.8
Kernel Holding...	KER PW	Warsaw	58.20 PLN	-2.2	-6.1	+21.0	+38.3	14.94	1,190.1	1,629.1	58.8	699.5	1,288.0	1,677.6	0.20	513	11.1	5.4	5.1	4.1	4.6	4.3	0.7	0.7	0.7	1.2	32.0
KSG Agro	KSG PW	Warsaw	1.90 PLN	-8.2	-4.0	+104.3	+86.3	0.49	7.3	70.6	34.4	2.5	218.5	28.5	1.83	55	Neg.	N/A	N/A	7.0	N/A	N/A	2.2	N/A	N/A	N/A	67.4
MHP	MHPC LI	London Intl	9.40 USD	+0.0	+2.2	+1.1	+3.9	9.40	993.3	2,262.8	22.3	221.7	107.8	282.7	0.20	509	Neg.	6.0	4.2	4.9	5.5	5.2	1.9	1.7	1.6	1.3	61.6
Milkiland	MLK PW	Warsaw	1.91 PLN	-5.9	-19.4	+34.5	+94.9	0.49	15.3	131.4	20.0	3.1	43.8	23.3	1.25	80	Neg.	Neg.	Neg.	Neg.	14.8	8.5	0.6	0.6	0.6	0.4	57.6
<b>CONSTRUCTION</b>																											
TMM	TR61 GF	Frankfurt	0.01 EUR	+0.0	+0.0	-85.7	-44.4	0.01	0.6	93.5	13.1	0.1	0.0	0.0	N/A	N/A	Neg.	N/A	N/A	Neg.	N/A	N/A	3.6	N/A	N/A	0.0	41.9
<b>FINANCIAL SERVICES</b>																											
Raiffeisen Ban...	BAVL UK	Kiev, UX	0.11 UAH	+0.4	-0.7	+42.2	+17.7	0.00	247.7	N/A	3.8	9.5	0.8	4.3	0.03	3,648	Neg.	4.4	5.0	N/A	N/A	N/A	N/A	N/A	N/A	0.9	14.4
Ukrsofsbank	USCB UK	Kiev, UX	0.06 UAH	+8.2	N/A	N/A	N/A	0.00	281.6	N/A	4.5	12.6	0.0	N/A	N/A	N/A	Neg.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.4	24.3

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

## ICU's UAH trade-weighted indices

(Last 12-month history to 2 Sep 2016)



Source: Investment Capital Ukraine LLC.

## FX market indicators (as of 1 Sep 2016)

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>USD/UAH MARKET (HRYVNIA per US DOLLAR)</b>					
Spot mkt	26.6500	+1.56	+4.63	+7.41	+10.91
NBU avg	26.6159	+2.05	+5.08	+7.39	+11.88
Ttl vlm <sup>1</sup>	229.74	-10.60	-18.47	-1.61	-36.76
\$ volume <sup>2</sup>	156.22	-17.94	-6.75	+1.59	-37.77
NDF 3M	27.9215	+1.52	+4.54	+7.14	+0.00
NDF 6M	29.2000	+1.42	+4.27	+6.71	+6.07
NDF 1Y	30.7000	+1.35	+4.05	+6.36	+20.41
<b>TRADE-WEIGHTED INDICES (TWIs, points)</b>					
UAH nom'l	25.204	-1.39	-3.65	-7.37	-11.87
UAH real CPI	86.749	-1.39	-3.65	-7.37	-11.46
UAH real PPI	117.009	-1.39	-3.65	-7.37	-10.26
USD nom'l	95.653	-0.38	+0.93	-0.06	-3.02
<b>FX RATES OF KEY CURRENCIES THAT SHAPE UAH's TWIs</b>					
USD/RUB	66.0195	+0.95	+1.50	-1.44	-8.96
EUR/USD	1.1197	+0.35	-0.78	+0.30	+3.08
USD/CNY	6.6750	-0.06	+0.23	+0.47	+2.79
USD/PLN	3.8935	-0.36	+1.38	-0.28	-0.75
USD/TRY	2.9608	+0.10	+0.89	-0.99	+1.49
USD/BYR	19,607.00	+0.23	+0.06	-0.90	+5.26
USD/KZT	341.0800	+0.17	+0.58	-3.20	+0.14
<b>OTHER MAJOR CURRENCIES</b>					
USD/JPY	103.2300	-0.19	+2.69	+0.82	-14.13
GBP/USD	1.3268	+0.99	+0.58	+0.68	-9.96
USD/CHF	0.9801	-0.39	+1.28	+1.20	-2.20
AUD/USD	0.7551	+0.45	-0.88	+0.20	+3.64
USD/CAD	1.3103	-0.02	+1.40	-0.16	-5.32
USD/BRL	3.2573	+0.95	+0.70	-0.25	-17.76
USD/KRW	1,122.05	+0.65	+0.57	+1.25	-4.51
<b>COMMODITIES</b>					
Gold(\$/oz)	1,313.92	+0.38	-0.61	-2.90	+23.79
WTI crude <sup>3</sup>	43.16	-3.45	-8.03	+7.74	+16.52
Brent crd <sup>3</sup>	45.13	-2.27	-7.88	+10.59	+26.24
Urals crd <sup>3</sup>	N/A	+0.00	+0.00	+0.00	+0.00
TR/J CRB <sup>4</sup>	178.21	-1.11	-4.31	+0.00	+1.17

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.

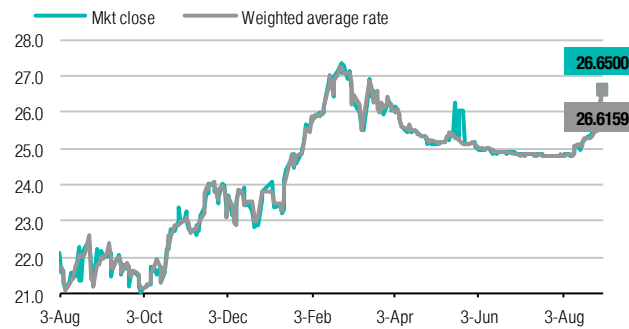
Sources: Bloomberg, Investment Capital Ukraine LLC.

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>).

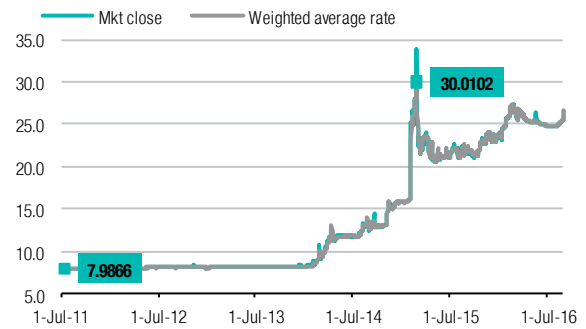
Section on FX market is continued on next page.

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)

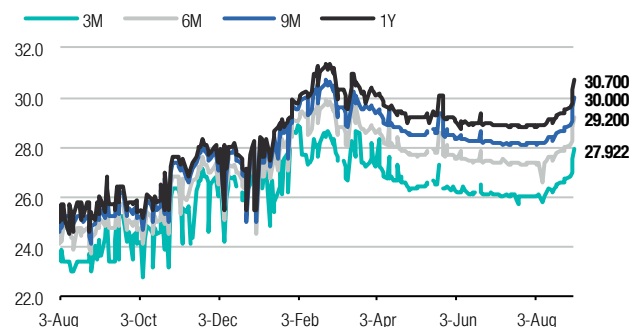


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

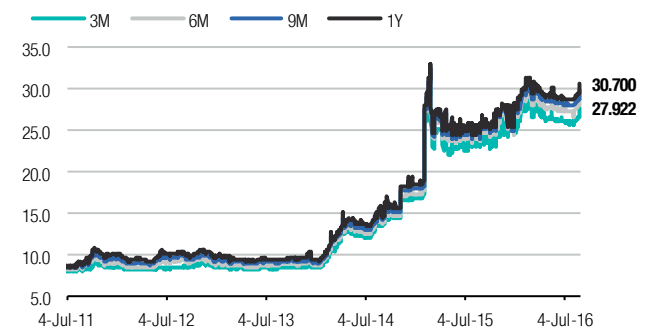


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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

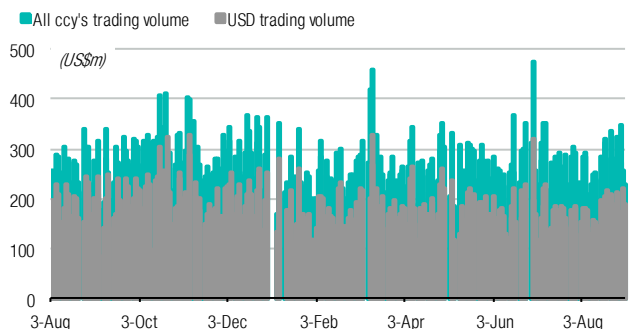


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

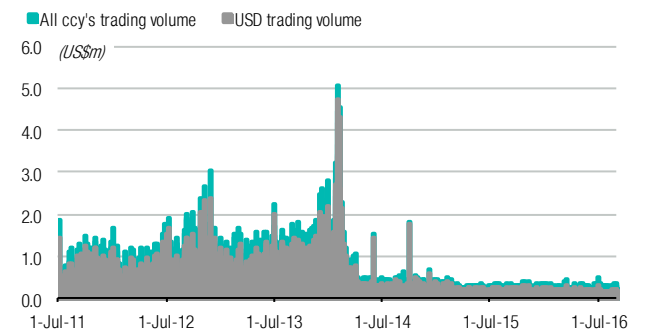


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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

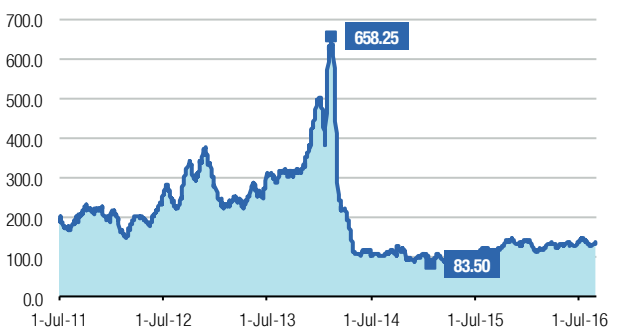
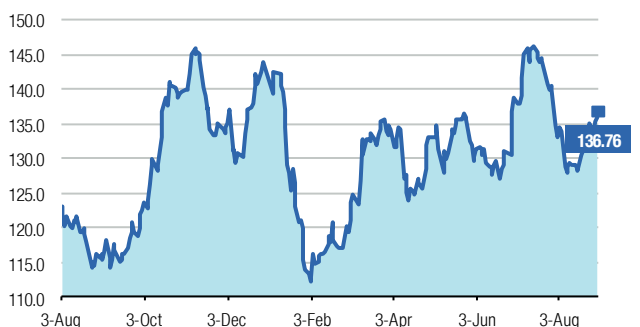


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.



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)

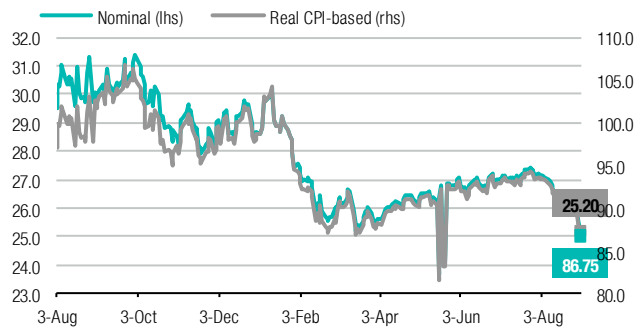


Note: \* 30-day moving average; The boxes of the right chart show high and low values. Sources: NBU, State Statistics Service of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

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

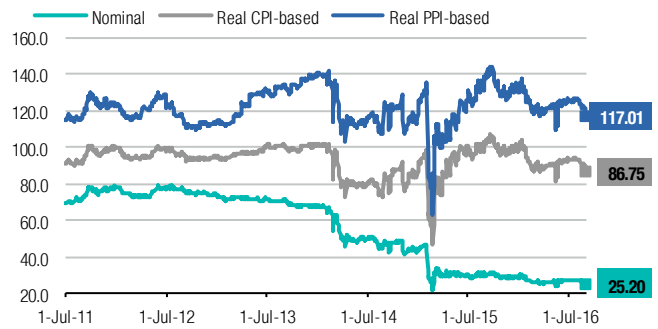
The following charts depict ICU's Ukrainian hryvnia trade-weighted indices which were calculated in accordance with methodology (for more details visit <http://www.icu.ua/en/research/currency-indices>).

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



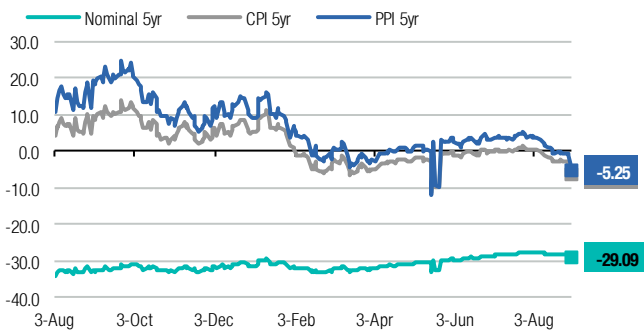
Note: The boxes indicate the last values of the depicted indicators.  
Source: Investment Capital Ukraine LLC.

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

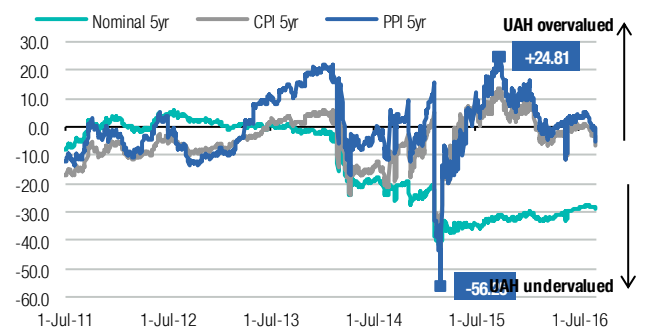


Note: The boxes indicate the last values of the depicted indicators.  
Source: Investment Capital Ukraine LLC.

**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)**

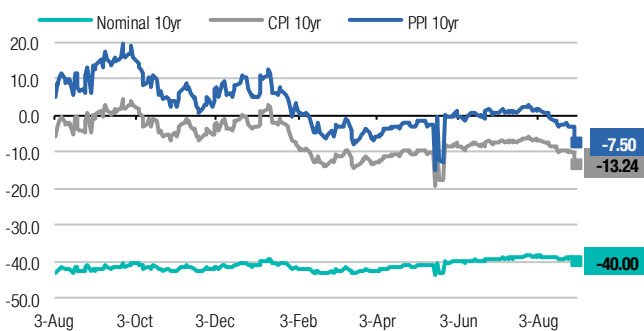


Note: The boxes indicate the last values of the depicted indicators.  
Source: Investment Capital Ukraine LLC.

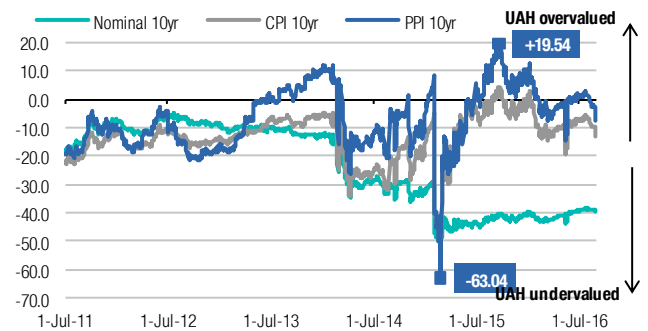


Note: the boxes indicate the high and low values of CPI-based TWI.  
Source: Investment Capital Ukraine LLC.

**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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**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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