


INVESTMENT CAPITAL UKRAINE
 INVESTMENT BANKING

Daily Insight

Liquidity falls; Liquidity down further; Primary auction fails; Debt burden up; NBU intervenes

WEDNESDAY, 29 JANUARY, 2014

RESEARCH INSIGHT

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UX Index (3 months to 29 Jan 2014)



Key market indicators (as of 28 Jan 2014)

	Last	Daily chg (%)	YTD chg (%)
FX & MONEY RATES			
USD/UAH	8.4850	-0.06	+2.97
USD/UAH (1Y NDF)	9.6788	-0.73	+2.75
EUR/USD	1.3671	-0.01	-0.52
USD/RUB	34.8348	+0.30	+5.98
KievPRIME O/N (%)	4.19	+163bp	-361bp
KievPRIME 1M (%)	10.00	+199bp	-625bp
BONDS: yields and spreads			
Ukraine VAT bond (%)	N/A	+74bp	+0bp
Ukraine 17, Eurobond (%)	8.99	-112bp	-57bp
Ukraine 22, Eurobond (%)	9.33	-48bp	-2bp
Ukraine 23, Eurobond (%)	8.91	-72bp	-14bp
Ukraine 5Y CDS	866bp	-68bp	+49bp
EQUITIES			
Stock market indices			
UX (Ukraine)	872.31	+0.90	-4.15
MSCI World	394.65	+0.39	-3.40
MSCI EM	934.09	+0.26	-6.84
RTS (Russia)	1,332.51	-1.04	-7.64
WIG-20 (Poland)	2,333.83	+0.68	-2.80
S&P 500 (USA)	1,792.50	+0.61	-3.02
MOST ACTIVE: Top 3 stocks by value traded (US\$m)			
FXPO LN	2.36	36.0% of total ¹	
MHPC LI	1.52	23.2%	
KER PW	1.48	22.6%	
GAINERS: Top 3 stocks (in listed currency)			
CLE PW	PLN 1.16	+12.62	+10.48
AGT PW	PLN 2.54	+12.39	+30.26
AGL PW	PLN 25.90	+5.71	-0.12
LOSERS: Top 3 stocks (in listed currency)			
AVDK UK	UAH 2.67	-2.38	-9.80
OVO PW	PLN 81.88	-2.17	-18.12
KSG PW	PLN 9.31	-2.00	-14.19

Notes: Chg – percentage change, if not otherwise indicated;
 [1] – total traded volume for stocks listed in Table 5, pp. 7;
 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

Ukraine's political crisis: PM Azarov resigns, S&P cuts sovereign rating

Negotiations between incumbent president Yanukovich and the opposition yielded the first concessions from the ruling administration. First, PM Azarov tendered his resignation, which Yanukovich accepted, and Deputy PM Arbutov assumed the PM post to run the Cabinet of Ministers until a new administration is appointed. Second, the parliament rescinded the controversial laws adopted on January 16 which catalyzed the acute outrage from the public activists and political opposition. Negotiations are rumored to be pending regarding Maidan's demands for new elections and a new constitution.

Although Russian president Putin claimed that he will not revoke the US\$15bn loan and natural gas price discount, *Zerkalo Nedeli*, a Russian newspaper, reported that Russian authorities indicated they would renew a trade war with Ukrainian exports (i.e. Ukraine's key business people) and threaten their competitiveness if they fail to take Russian interests into consideration while voting in parliament.

S&P cut Ukraine's sovereign rate to CCC- with a Negative outlook, citing political uncertainty and the possibility that Russia might reverse their decision to issue the promised loans if Ukraine pulls away from the *de-facto* Customs Union in favor of joining the EU instead.

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Ukreximbank earns moderate UAH199m in net income in 2013

State-owned Ukreximbank reported net income of UAH199m in 2013, up 24.3% YoY from the previous year result. The bank increased its share capital by UAH67m in 4Q13, even though the bank's capitalization remains among highest of its peers with a regulatory capital adequacy ratio at 29.2% and equity-to-assets ratio of 19.2%.

Total gross business loans amounted to 98.4% of the total gross loan portfolio which increased 5.3% QoQ to UAH5.3bn in 4Q13 against annual growth of only 3.3% YoY. The loan loss reserves rate dropped from 18.7% in 3Q13 to 17.6% in 4Q13 despite the increase in the amount of overdue loans.

Bad debts increased 13.1% QoQ in 4Q13 to UAH14.0bn, or 21.2% of the total exposure. At the same time, Ukreximbank has written off approximately UAH0.7bn in 4Q13.

Despite being predominantly a corporate bank, Ukreximbank is constantly increasing the amount of household deposits, up 9.3% YoY, to UAH17.3bn while business deposits declined 11.5% YoY to UAH25.7bn.

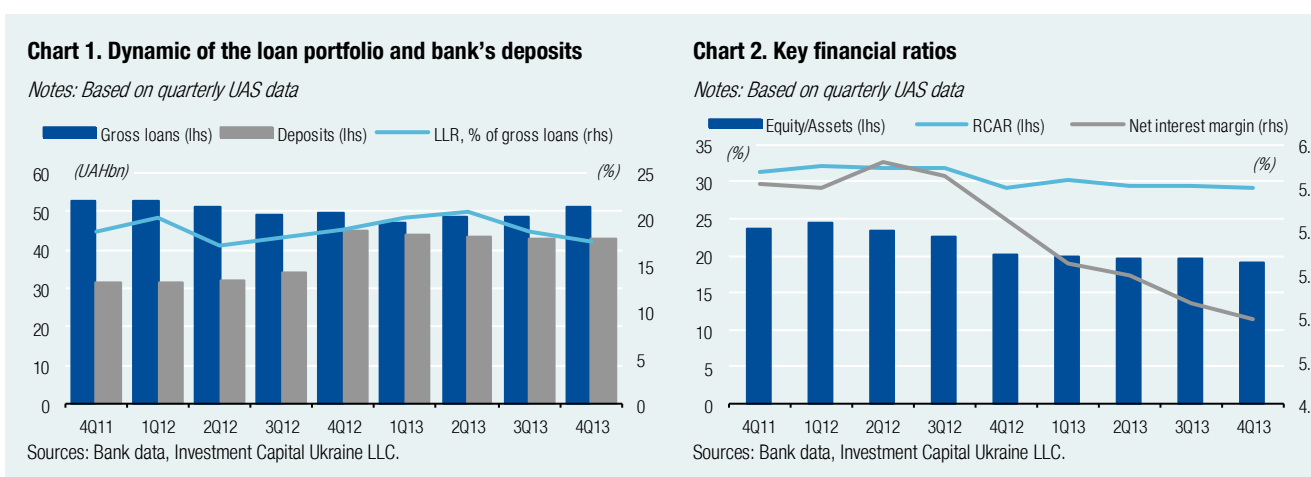
Table 1. Key financials of Ukreximbank (UAHm, if not otherwise indicated)

	4Q12	4Q13	Change (%)
Assets	87,949	94,349	7.3
Gross loans	49,806	51,307	3.0
LLR, % of gross loans	18.8	17.6	-1.2ppt
Equity	17,856	18,083	1.3
Net interest income (annualised)	3,489	3,889	11.5
Operating income before LLP (annualised)	4,579	4,378	-4.4
Operating expenses (annualised)	-1,227	-1,268	3.3
Loan loss provision (annualised)	-3,060	-2,783	-9.0
Net income (annualised)	160	199	24.3
Net interest margin (%)	5.7	5.2	-0.5ppt
Regulatory capital ratio (%)	29.2	29.2	0ppt

Notes: Based on quarterly UAS data

Sources: Bank data, Investment Capital Ukraine LLC.

The net interest margin dropped 0.2ppt to 5.1% as the total interest income increased 8.4% QoQ while interest expense rose 13.1% QoQ.



Delta Bank: Capitalization urgently needed

The 85.3% YoY increase of assets in 4Q13 was achieved via acquisition of other banks' assets and organic growth severely diluted the bank's capital which did not rise as quickly. The regulatory capital of Delta Bank dropped to 10.05%, only marginally above the minimum required level of 10%, and an additional expense of UAH27,000 in 4Q14 would have caused the bank to fall into non-compliance with NBU standards. According to the recent statement, Delta Bank expects a capital inflow of UAH1.4bn in February, and the current ownership structure is not going to change after this transaction.

The bank has doubled the total amount of loans over the year, increasing the portfolio to UAH43.2bn, up 103.2% YoY, with corporate and retail loans having approximately even shares of 49.6% and 50.4%, respectively. Loan loss reserves (LLR) have dropped from 8.2% in 3Q13 to just 7.2% in 4Q13. The LLR coverage of bad and doubtful debt has declined 3.9ppt in 4Q13 to 38.5%. Given the currently low level of capitalization, we seriously doubt the accuracy of the reported figures.

Table 2. Key financials of Delta Bank (UAHm, if not otherwise indicated)

	4Q12	4Q13	Change (%)
Assets	29,842	55,298	85.3
Gross loans	21,265	43,220	103.2
LLR, % of gross loans	15.3	7.2	-8.1ppt
Equity	3,010	3,325	10.5
Net interest income (annualised)	571	(304)	-153.2
Operating income before LLP (annualised)	2,364	3,334	41.0
Operating expenses (annualised)	(1,019)	(1,965)	92.9
Loan loss provision (annualised)	(1,230)	(1,304)	6.0
Net income (annualised)	98	303	209.3
Net interest margin (%)	2.7	(0.9)	-3.6ppt
Regulatory capital ratio (%)	11.4	10.1	-1.4ppt

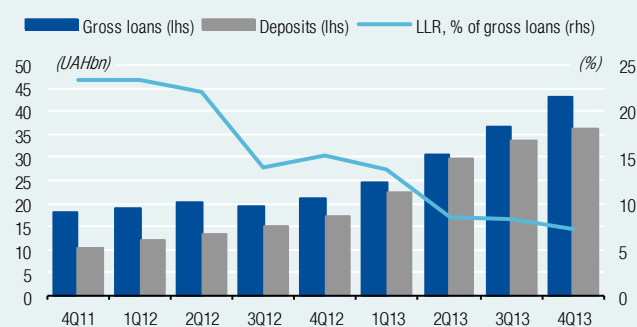
Notes: Based on quarterly UAS data

Sources: Bank data, Investment Capital Ukraine LLC.

The net loan-to-deposits ratio jumped from 99.6% in 3Q13 to 111.0% in 4Q13 due to the bank's acquisition of the existing loan portfolios accompanied by the constant increase of the deposit base. Household deposits increased 9.9% QoQ in 4Q13, representing 72.3% of the total deposits, while corporate deposits declined 0.6% QoQ after 159.8%YoY annual growth.

Chart 3. Dynamic of loans portfolio and bank's deposits

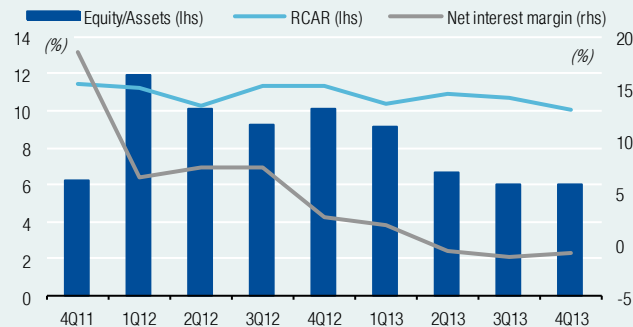
Notes: Based on quarterly UAS data



Sources: Bank data, Investment Capital Ukraine LLC.

Chart 4. Key financial ratios

Notes: Based on quarterly UAS data



Sources: Bank data, Investment Capital Ukraine LLC.

Delta Bank is experiencing particular liquidity problems caused by the acquisition of the other banks loans. Cash-to-liabilities ratio has dropped from 18.2% in 3Q13 to just 10.3% in 4Q13, while the NBU current liquidity ratio (R5) amounted to only 40.3% in 4Q13, just 0.4ppt above the minimum level.

No profits at Nadra Bank

Nadra Bank remained unprofitable as its operating expenses of UAH1.2bn significantly overshadowed its operating income before LLR of UAH0.9bn in 2013. The bank reported negative UAH2m in net income in 2013 due to the income from the release of UAH0.3bn from the LLR. The net interest margin remains critically low at a mere 0.9% in 4Q13.

The bank's gross loan portfolio increased UAH940m, or 6.0% QoQ, in 4Q13 while the gross household portfolio dropped UAH126m, or 1% QoQ. The LLR rate dropped further from 17.2% in 4Q12 to 14.2% in 4Q13. The amount of bad and doubtful debt declined 2.6% QoQ in 4Q13 to UAH4.8bn. The bank has not written-off a material amount of bad loans.

Table 3. Key financials of Nadra Bank (UAHm, if not otherwise indicated)

	4Q12	4Q13	Change (%)
Assets	27,684	31,116	12.4
Gross loans	25,790	29,160	13.1
LLR, % of gross loans	17.2	14.2	-3ppt
Equity	4,030	4,032	0.1
Net interest income (annualised)	262	227	-13.2
Operating income before LLP (annualised)	1,203	931	-22.6
Operating expenses (annualised)	(1,854)	(1,189)	-35.9
Loan loss provision (annualised)	526	297	-43.4
Net income (annualised)	1	2	135.2
Net interest margin (%)	1.2	0.9	-0.3ppt
Regulatory capital ratio (%)	11.7	13.1	1.4ppt

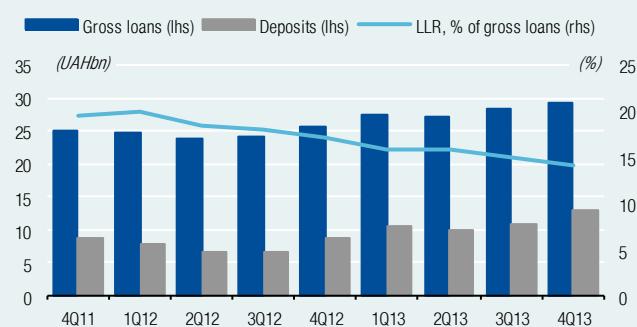
Notes: Based on quarterly UAS data

Sources: Bank data, Investment Capital Ukraine LLC.

Nadra Bank's deposits rose 21.3% QoQ in 4Q13 to UAH13.1. Corporate and retail deposits were split equally in 4Q14, but retail deposits have constant growth dynamics.

Chart 5. Dynamic of loans portfolio and bank's deposits

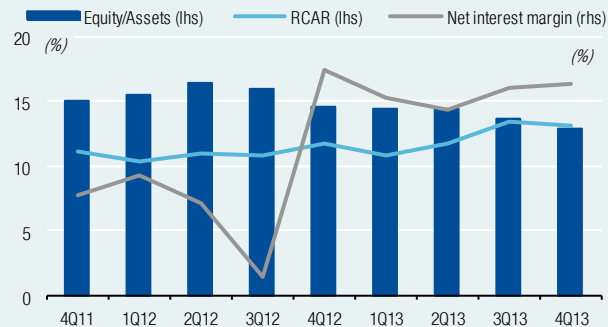
Notes: Based on quarterly UAS data



Sources: Bank data, Investment Capital Ukraine LLC.

Chart 6. Key financial ratios

Notes: Based on quarterly UAS data



Sources: Bank data, Investment Capital Ukraine LLC.

Clean-up of Privatbank's loan portfolio

Privatbank reported net earnings of UAH1.9bn in 2013, up 22.3% from the previous year, despite the 1.0 ppt, YoY decline of the net interest margin to 6.2% in 4Q13. The last quarter of the year produced rather disappointing net income of only UAH141m as loan loss provision expenses grew 83.7% QoQ to UAH1.3bn in 4Q13.

The bank's gross loan portfolio rose 7.8% QoQ in 4Q13 due to the UAH13.0bn or 10.5% QoQ increase of corporate loans. The retail portfolio fell UAH1.0bn or 3.1% QoQ after UAH2.6bn in bad debt write-offs in 4Q13, most of which were overdue retail consumer loans. The LLR rate decreased as the result of these transactions from 16.3% in 3Q13 to 14.3% in 4Q13.

Table 4. Key financials of Privatbank (UAHm, if not otherwise indicated)

	4Q12	4Q13	Change (%)
Assets	172,429	214,491	24.4
Gross loans	138,961	166,259	19.6
LLR, % of gross loans	18.2	14.3	-3.9ppt
Equity	18,301	20,312	11.0
Net interest income (annualised)	8,049	8,444	4.9
Operating income before LLP (annualised)	12,290	11,489	-6.5
Operating expenses (annualised)	(5,586)	(6,669)	19.4
Loan loss provision (annualised)	(4,909)	(2,669)	-45.6
Net income (annualised)	1,533	1,873	22.2
Net interest margin (%)	7.2	6.2	-0.9ppt
Regulatory capital ratio (%)	10.9	12.2	1.3ppt

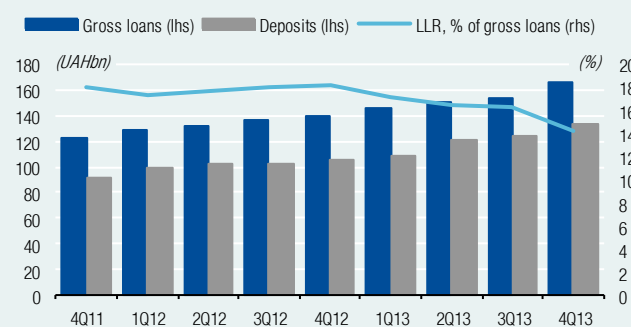
Notes: Based on quarterly UAS data

Sources: Bank data, Investment Capital Ukraine LLC.

The bank increased deposits by 7.7% QoQ in 3Q14 to UAH133.6bn due to the rise of corporate deposits (up UAH3.8bn or 16.7% QoQ) and retail deposits (up UAH5.7bn or 5.7% QoQ).

Chart 7. Dynamic of loans portfolio and bank's deposits

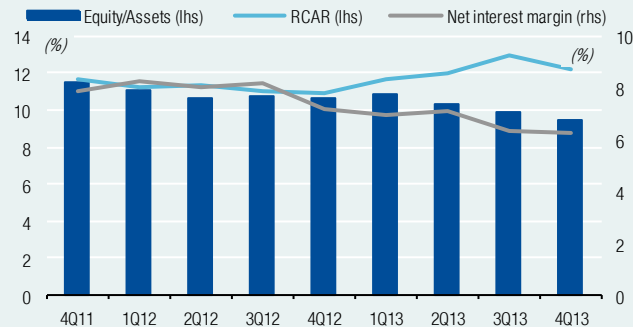
Notes: Based on quarterly UAS data



Sources: Bank data, Investment Capital Ukraine LLC.

Chart 8. Key financial ratios

Notes: Based on quarterly UAS data



Sources: Bank data, Investment Capital Ukraine LLC.

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Table 5. Ukrainian stocks (closing prices as of 28-Jan-2014)

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)	2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2012E	P/B (x)	Debt/Assets (%)
ENERGY																											
Cadogan Petrol...	CAD LN	London	11.75 GBP	+1.1	+13.3	+13.3	-7.8	0.19	45.1	-18.0	40.2	18.1	7.8	13.9	0.10	1,009	Neg.	Neg.	Neg.	2.7	2.8	5.6	Neg.	Neg.	Neg.	0.2	0.0
Centrenerg	CEEN UK	Kiev, UX	4.40 UAH	+0.0	-6.6	-7.7	-29.7	0.52	190.7	265.1	21.7	41.4	36.5	69.0	0.11	918	7.0	6.5	4.6	0.5	3.8	2.6	0.2	0.3	0.3	0.7	12.2
Coal Energy	CLE PW	Warsaw	1.16 PLN	+12.6	+16.0	+10.5	-90.3	0.38	17.1	75.0	25.0	4.3	584.3	105.7	5.70	18	Neg.	Neg.	N/A	1.2	10.3	N/A	0.6	0.8	N/A	0.1	7.7
Donbasenergo	DOEN UK	Kiev, UX	30.94 UAH	+4.2	+14.3	+12.1	+45.9	3.63	85.8	141.6	14.2	12.2	21.1	54.4	0.15	675	23.6	3.1	4.5	0.5	2.6	2.4	0.3	0.2	0.3	1.1	17.8
JKX Oil & Gas	JKX LN	London	68.75 GBP	+0.4	-3.8	-3.8	+10.9	1.14	195.9	192.9	47.2	92.5	50.4	98.1	0.07	1,363	Neg.	6.0	5.5	1.4	1.9	2.1	1.0	1.0	0.9	0.4	2.5
Regal Petroleum	RPT LN	London	13.25 GBP	+0.0	+6.0	+1.9	-59.8	0.22	70.5	43.7	80.9	57.0	34.7	8.3	0.01	9,048	6.1	14.1	N/A	2.0	2.6	N/A	1.1	N/A	N/A	0.2	0.0
Sadova Group	SGR PW	Warsaw	0.63 PLN	+3.3	+18.9	+18.9	-66.8	0.21	8.9	48.6	25.0	2.2	22.6	41.6	1.82	55	Neg.	N/A	N/A	24.2	N/A	N/A	1.2	N/A	N/A	0.2	42.7
METALLURGY																											
Alchevsky Meta...	ALMK UK	Kiev, UX	0.04 UAH	-0.6	-9.0	-9.0	-33.2	0.00	106.7	1,753.4	3.9	4.1	1.0	17.7	0.20	492	Neg.	Neg.	N/A	N/A	Neg.	N/A	1.0	1.1	N/A	N/A	64.5
Avdiyivsky Cok...	AVDK UK	Kiev, UX	2.67 UAH	-2.4	-11.4	-9.8	-16.2	0.31	61.1	56.9	4.0	2.4	5.7	13.2	0.49	202	Neg.	Neg.	2.4	Neg.	1.3	0.8	0.1	0.1	0.1	0.1	0.0
Azovstal	AZST UK	Kiev, UX	0.59 UAH	-0.8	-12.9	-12.4	-17.3	0.07	289.5	279.7	4.1	11.9	4.9	18.7	0.05	2,017	Neg.	Neg.	N/A	Neg.	Neg.	N/A	0.1	0.1	N/A	0.2	0.0
Ferrexpo PLC	FXPO LN	London	162.60 GBP	+3.0	-14.3	-14.9	-38.7	2.70	1,588.2	2,175.4	22.4	355.8	2,355.9	2,362.8	0.85	117	7.4	6.3	6.8	5.5	4.6	4.8	1.5	1.4	1.3	1.0	37.0
Yenakievo Steel	ENMZ UK	Kiev, UX	31.00 UAH	+0.0	-5.4	-3.2	-15.9	3.64	38.4	32.3	9.4	3.6	0.4	10.1	0.28	359	4.7	Neg.	2.0	Neg.	Neg.	N/A	0.0	0.0	0.0	0.7	0.0
FOOD AND AGRIBUSINESS																											
AgroGeneration	ALAGR FP	EN Paris	1.20 EUR	+0.8	-2.4	-3.2	-30.2	1.64	57.6	84.7	34.0	19.6	22.3	41.3	0.19	519	Neg.	N/A	N/A	Neg.	N/A	N/A	1.3	N/A	N/A	1.3	35.9
Agroliga	AGL PW	Warsaw	25.90 PLN	+5.7	-0.1	-0.1	+23.9	8.47	13.0	13.4	16.7	2.2	13.3	11.1	0.55	183	18.3	N/A	N/A	18.1	N/A	N/A	5.2	N/A	N/A	N/A	7.5
Agroton	AGT PW	Warsaw	2.54 PLN	+12.4	+28.3	+30.3	-77.1	0.83	18.0	65.3	26.2	4.7	224.2	137.0	6.66	15	2.7	3.7	2.4	4.5	7.0	4.2	0.7	1.0	0.8	0.1	28.0
Astarta Holdin...	AST PW	Warsaw	66.59 PLN	+1.5	+2.6	-0.5	+10.8	21.76	544.1	872.2	31.0	168.8	14.2	225.5	0.11	871	8.8	8.3	5.0	9.9	7.7	5.4	1.8	1.7	1.4	1.0	38.9
Avangard	AVGR LI	London Intl	11.49 USD	+4.5	-2.2	-2.2	-3.8	11.49	733.9	900.2	21.7	159.3	0.1	268.2	0.24	423	3.3	3.2	3.3	3.2	3.1	3.1	1.4	1.3	1.2	0.6	22.3
IMC	IMC PW	Warsaw	11.39 PLN	+0.0	-5.1	-6.3	-26.1	3.72	116.5	232.8	23.9	27.8	56.3	20.2	0.07	1,452	6.2	4.5	4.8	6.4	5.6	4.7	3.1	1.7	1.2	0.9	33.0
Kernel Holding...	KER PW	Warsaw	41.20 PLN	+1.7	+8.3	+8.2	-38.3	13.47	1,073.0	1,793.3	58.8	630.6	1,475.7	2,578.5	0.24	421	9.6	10.2	5.8	6.2	6.4	5.0	0.6	0.7	0.7	0.8	30.6
KSG Agro	KSG PW	Warsaw	9.31 PLN	-2.0	-16.2	-14.2	-29.0	3.04	45.7	167.5	34.4	15.7	3.4	19.0	0.09	1,093	5.6	3.8	3.8	39.7	5.7	4.6	4.5	2.4	1.6	0.5	29.2
MHP	MHPC LI	London Intl	16.42 USD	-1.6	-4.0	-3.7	-4.8	16.42	1,735.1	2,936.0	22.3	387.3	1,520.2	1,361.2	0.18	542	5.8	8.0	5.8	6.3	6.8	5.5	2.1	2.0	1.7	1.5	45.8
Milkiland	MLK PW	Warsaw	9.99 PLN	+3.5	-21.0	-20.1	-35.0	3.27	102.0	236.5	20.0	20.4	4.5	8.7	0.07	1,500	5.8	5.7	5.6	6.6	5.7	4.7	0.6	0.5	0.5	0.4	29.9
Mriya Agrohold...	MAYA GF	Frankfurt	5.17 EUR	+0.0	-6.6	-4.2	+8.9	7.07	751.0	1,482.8	20.0	150.2	0.0	1.7	0.00	59,010	4.3	4.7	4.9	6.4	5.6	6.0	4.3	3.9	3.5	0.8	34.8
Ovostar Union	OVO PW	Warsaw	81.88 PLN	-2.2	-16.4	-18.1	-16.4	26.76	160.6	172.6	25.0	40.1	9.0	43.9	0.27	370	6.8	6.3	4.3	6.2	5.7	3.6	2.4	2.1	1.6	1.5	3.7
CONSTRUCTION																											
TMM	TR61 GF	Xetra	0.32 EUR	+0.0	+6.7	+0.0	-20.8	0.43	22.4	181.8	13.1	2.9	0.0	0.0	N/A	N/A	Neg.	N/A	N/A	Neg.	N/A	N/A	8.3	N/A	N/A	0.2	44.1
FINANCIAL SERVICES																											
Raiffeisen Ban...	BAVL UK	Kiev, UX	0.11 UAH	+2.0	-2.9	-2.9	+9.2	0.01	387.5	N/A	3.8	14.8	71.4	45.6	0.14	717	10.4	6.0	3.2	N/A	N/A	N/A	N/A	N/A	N/A	0.5	28.3
UkrSotsbank	USCB UK	Kiev, UX	0.18 UAH	-1.9	-3.0	-3.4	+50.9	0.02	385.4	N/A	4.5	17.3	0.4	10.6	0.01	10,227	1,085.3	200.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.4	30.9

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; *** -- means that P/E ratio is above 10,000x.

Sources: Bloomberg, Investment Capital Ukraine LLC.

Bonds: News & Comments

Liquidity declines significantly

Broader banking sector liquidity fell UAH2.63bn yesterday to UAH41.43bn as banks' correspondent accounts with the NBU declined UAH1.91bn to UAH26.92bn and total CDs outstanding declined UAH1.08bn to UAH4.71bn. Total local currency debt repayments scheduled for the next 30 days rose UAH0.35bn UAH9.80bn.

Money market interest rates rose dramatically: the KyivPrime ON interest rate rose 163bp to 4.19% while the KyivPrime 1M interest rate rose 199bp to 10.0%.

Investment implications: The NBU slightly supported liquidity on Monday, repaid UAH1.08bn on CD redemptions and issued UAH1.78bn in repos. But this liquidity could be reduced further by significant demand for FX the same day. FX volume has been trading at record highs since last week. Yesterday's primary auction (see comment below) attracted little demand, while liquidity was oriented to FX trading. Today, we expect liquidity to decline significantly if the NBU provides no support.

YTM's rebound prior to rating downgrade

Ukrainian Eurobond YTM's declined yesterday on news that Ukraine's ruling administration took steps to ease the current political crisis. The resignation of PM Azarov and the reversal of several recently approved laws had a positive impact, cutting spreads and yields.

As a result, at the close YTM's of Ukrainian Eurobonds declined as UKRAIN 6.875% '15 fell 132bp to 8.93%, UKRAIN 9.25% '17 declined 113bp to 8.97%, while UKRAIN 7.95% '21 slid 64bp to 9.46%, UKRAIN 7.80% '22 slid 49bp to 9.30% and UKRAIN 7.50% '23 declined 74bp to 8.87%.

Despite these developments, S&P published cut Ukraine's sovereign rating to CCC+, with the rationale that the political crisis could escalate further, possibly threatening the promised financing from Russia. This news could force investors to sell bonds with reduced ratings, thus pushing rates higher.

Primary auction results

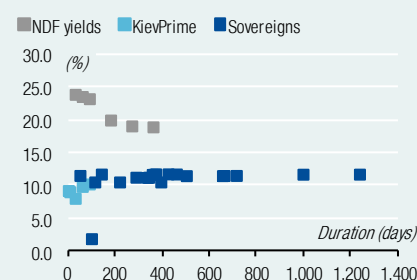
The MoF received just two bids yesterday for 5-year and 7-year bonds. But 5-year bond received only non-competitive bid which could not be accepted due lack of competitive demand. At the same time demand for 7-year bond was insignificant.

Investment implications: To have some funds for debt repayments refinancing, the MoF announced for today new auction with offering only 5-year bond which was not sold yesterday, likely anticipated to see the same demand but as normal bid, not non-competitive one.

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Yield curve of the local bond market

(as of market close on 28 Jan 2014)



Sources: Bloomberg, Investment Capital Ukraine LLC.

Bond market indicators (as of 28 Jan 2014)

	Last	Daily chg (%)	Weekly chg (%)	MoM chg (%)	YTD chg (%)
MONEY MARKET KIEV PRIME RATES (%)					
O/n	4.19	+163bp	+197bp	-231bp	-361bp
1wk	6.88	+257bp	+407bp	-12ppt	-292bp
1m	10.00	+199bp	+250bp	-900bp	-625bp
2m	11.69	+104bp	+94bp	-519bp	-471bp
3m	12.69	+69bp	+94bp	-344bp	-331bp
LIQUIDITY WIDE MEASUREMENT (UAHm)					
CB acc's ¹	26,922	-6.61	-15.62	-17.68	-17.68
CDs ²	10,158	+51.66	-52.88	+568.3	+568.3
Sovgns ³	9,762	+0.00	+21.62	+553.0	+553.0
Total	46,842	+3.43	-23.82	+31.15	+31.15
HOLDERS OF UAH SOVEREIGN BONDS (UAHm)					
C.bank	148,554	+0.00	-0.67	+2.56	+2.56
Banks	81,670	-0.10	+3.34	+1.87	+1.87
Resid's ⁴	13,089	-0.09	+1.58	+5.59	+5.59
Non-res ⁵	12,211	+0.73	+1.33	+4.38	+4.38
Total	255,524	+0.00	+0.79	+2.57	+2.57
NDF IMPLIED YIELDS (%)					
3m	16.52	-306bp	+115bp	+437bp	+437bp
6m	14.79	-444bp	+109bp	+151bp	+138bp
9m	14.00	-149bp	-29bp	+104bp	-2bp
1yr	14.72	-78bp	-4bp	+53bp	-27bp
LOCAL CURRENCY UAH SOVEREIGN BOND YIELDS (%)					
Mar '13	N/A	-52ppt	+0bp	+0bp	+0bp
Jan '14	N/A	+320bp	+119bp	-676bp	-676bp
Aug '15 ⁶	N/A	+74bp	+0bp	+0bp	+0bp
EUROBONDS USD SOVEREIGN BOND YIELDS (%)					
CDS 5yr	866	-68bp	+121bp	+66bp	+49bp
Jun '16	8.25	-62bp	+111bp	-64bp	-64bp
Jul '17	8.99	-112bp	+102bp	-57bp	-57bp
Sep '20	9.42	-62bp	+72bp	+23bp	+23bp
Sep '21	9.49	-62bp	+72bp	+27bp	+27bp
Sep '22	9.33	-48bp	+45bp	-2bp	-2bp
Feb '23	8.91	-72bp	+37bp	-14bp	-14bp

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.

Debt burden increases

In recently published debt statistics by the MoF, total sovereign debt as of December 31 rose UAH33.95bn, mostly on the UAH26.09bn increase of public debt. Domestic public debt rose UAH10.89bn due to large issues of debt at the end of last year, while external debt rose slightly more significantly, up UAH15.20bn. The MoF issued US\$3.0bn of new Eurobonds last month (about UAH24.0bn) while it repaid UAH2.74bn to the IMF and UAH5.99bn to VTB on the loan received last September.

Guaranteed debt rose UAH7.86bn, of which UAH3.93bn came from the Naftogaz state guarantee on its new UAH4.8bn domestic bond which reduced its banks loans by UAH0.87bn to UAH5.99bn and issued UAH4.00bn in guaranteed debt to repay the loan from Gasprombank to Naftogaz.

Investment implications: Sovereign debt increased at the end of last year and this increase was the most significant this year, about half of total increase in debt burden during last year, amounted to UAH68.60bn. This year, the MoF will continue to increase its debt burden as the state budget included the budget deficit and large financing from debt markets.

Chart page: Local bond market & Eurobond markets

Chart 9. Kiev Prime rates (%), last 12-month period

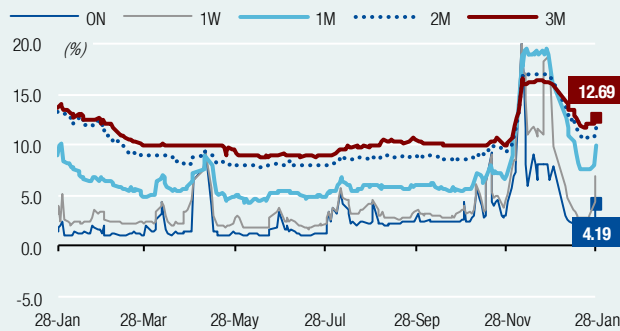


Chart 10. UAH NDF implied yields (%), last 12-month period



Chart 11. UAH sovereign yield curve (%) as of 28 Jan 2014

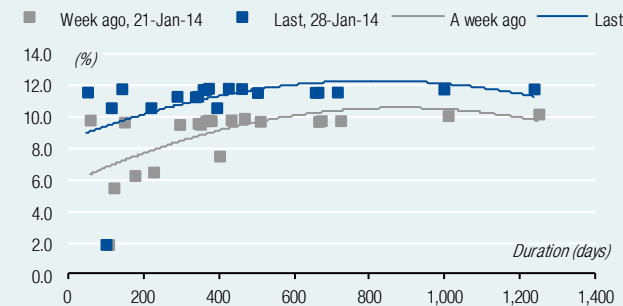


Chart 12. USD sovereign yield curve (%) as of 28 Jan 2014

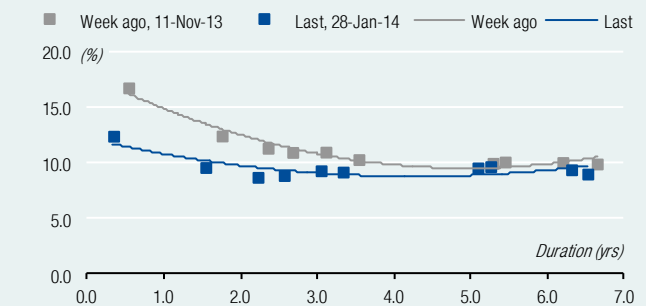


Chart 13. Banking sector liquidity (UAHbn), last 12-month period

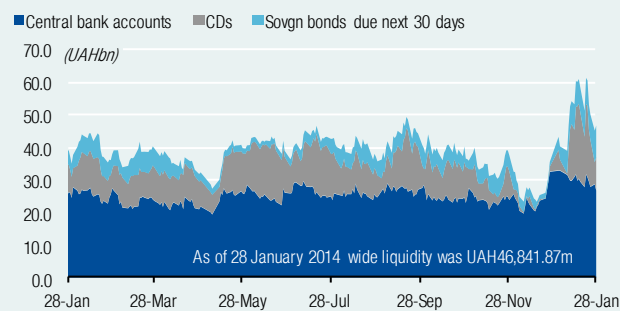


Chart 14. Breakdown of liquidity pool (%) as of 28 Jan 2014

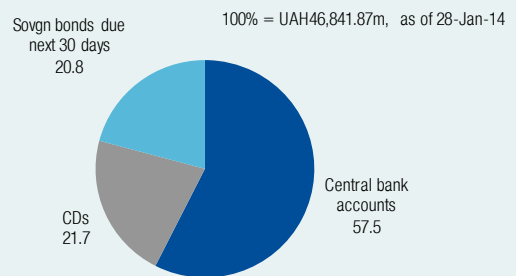
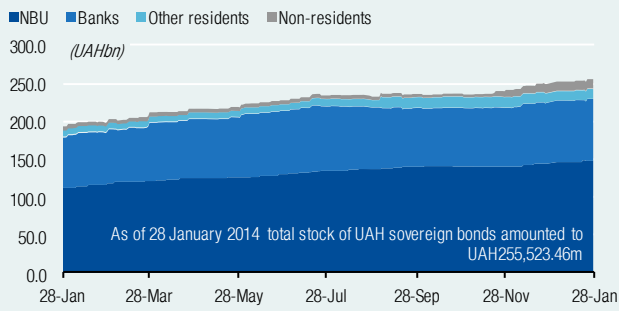
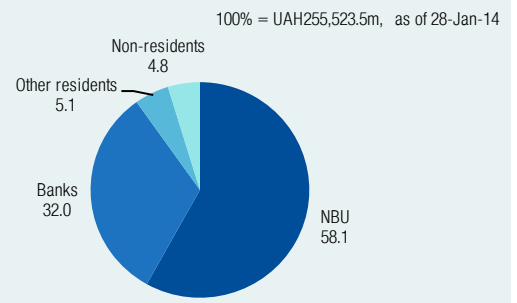


Chart 15. Holders of sovereign bonds (UAHbn), last 12 months



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

Chart 16. Domestic sovereign debt (%) as of 28 Jan 2014



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

FX: News & Comments

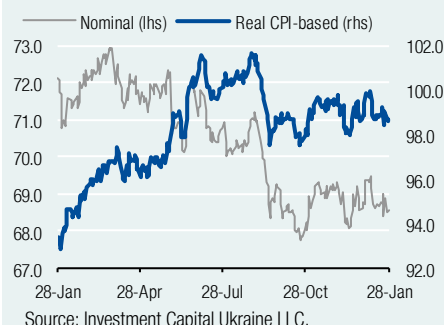
NBU intervenes as FX trading volume hits new all-time high

Yesterday, the NBU intervened into the FX market for the second day in a row offering US dollars at 8.40/USD. The market rate hovered around 8.50-8.60/USD and closed at 8.4850/USD, up 0.06% from the previous day on volume above US\$4bn for the second consecutive day. Next to the record-breaking privatization deal with Mittal Steel back in 2005 that resulted in FX trading volume of US\$4.7bn, yesterday and Monday's trading volumes of US\$4.2bn have set new daily highs. This spike in FX turnover suggests a "flight to safety" of savvy investors converting their UAH deposits into USD. The real question is how much FX reserves the NBU used over the past two days to support the hryvnia, the data for which will be available at the end of next week. So far, NBU support has been aimed at quelling fears in the domestic market and at preventing the selling of hryvnia by a narrow circle of large depositors, i.e. the super wealthy. Should news spread of larger depositors' liquidation of their hryvnia deposits become broadly known, domestic savings depositors might begin to liquidate their hryvnia deposits, causing a run on the banks to exchange FX. In our view, the NBU's defensive intervention is both pointless and wasteful as the UAH real rate continues to rise (by 0.06% yesterday) as a result of the weaker RUB, which fell 0.30%, and of the EUR, which slid 0.01%.

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ICU's UAH trade-weighted indices

(Last 12-month history to 29 Jan 2014)



FX market indicators (as of 28 Jan 2014)

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
USD/UAH MARKET (HRYVNIA per US DOLLAR)					
Spot mkt	8.4850	-0.06	+0.95	+2.97	+2.97
NBU avg	8.1512	-0.03	+0.02	+0.00	+0.00
Ttt vlm ¹	5096.30	+14.68	+99.02	+81.87	+81.87
\$ volume ²	4737.12	+13.87	+110.5	+114.3	+114.3
NDF 3M	8.8300	-0.79	+1.23	+4.07	+4.07
NDF 6M	9.1000	-2.08	+1.47	+3.70	+3.64
NDF 1Y	9.6788	-0.73	+0.92	+3.46	+2.75
TRADE-WEIGHTED INDICES (TWIs, points)					
UAH nom'l	68.571	+0.06	-0.19	+0.00	-0.29
UAH real CPI	98.642	+0.06	-0.19	+0.00	-0.29
UAH real PPI	130.966	+0.06	-0.19	+0.00	-0.29
USD nom'l	80.568	+0.05	-0.65	+0.22	+0.67
FX RATES OF KEY CURRENCIES THAT SHAPE UAH's TWIs					
USD/RUB	34.8348	+0.30	+2.64	+6.92	+5.98
EUR/USD	1.3671	-0.01	+0.81	-0.57	-0.52
USD/CNY	6.0509	+0.06	+0.01	-0.30	-0.06
USD/PLN	3.0719	-0.11	+0.03	+1.83	+1.62
USD/TRY	2.2525	-1.35	+0.05	+4.53	+4.86
USD/BYR	9,640.00	+0.10	+0.33	+1.15	+1.05
USD/KZT	155.3800	+0.07	+0.07	+0.83	+0.72
OTHER MAJOR CURRENCIES					
USD/JPY	102.9400	+0.38	-1.30	-2.12	-2.25
GBP/USD	1.6579	-0.04	+0.62	+0.58	+0.13
USD/CHF	0.8972	+0.11	-1.42	+0.64	+0.48
AUD/USD	0.8779	+0.46	-0.31	-1.03	-1.55
USD/CAD	1.1153	+0.33	+1.70	+4.18	+4.99
USD/BRL	2.4215	-0.05	+2.58	+3.56	+2.51
USD/KRW	1,081.10	-0.23	+1.49	+2.54	+2.98
COMMODITIES					
Gold(\$/oz)	1,256.88	-0.02	+1.25	+3.59	+4.25
WTI crude ³	N/A	N/A	N/A	N/A	N/A
Brent crd ³	N/A	N/A	N/A	N/A	N/A
Urals crd ³	N/A	N/A	N/A	N/A	N/A
TR/J CRB ⁴	282.18	+0.88	+1.36	-0.70	+0.72

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

Section on FX market is continued on next page.

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.

Chart page #1: Foreign-exchange market

Chart 17. Spot market rates USD/UAH: last 12-month and 5-year periods (UAH per USD, left and right respectively)

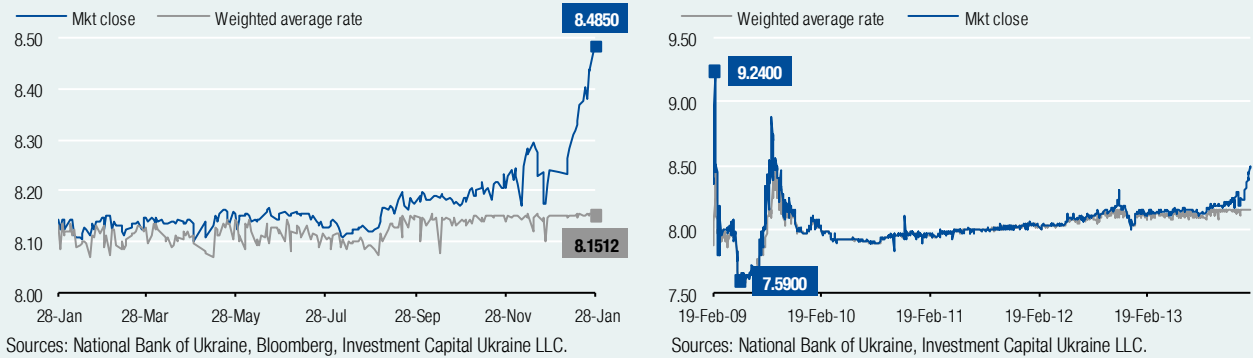


Chart 18. NDF market rates USD/UAH: last 12-month and 5-year periods (UAH per USD, left and right respectively)

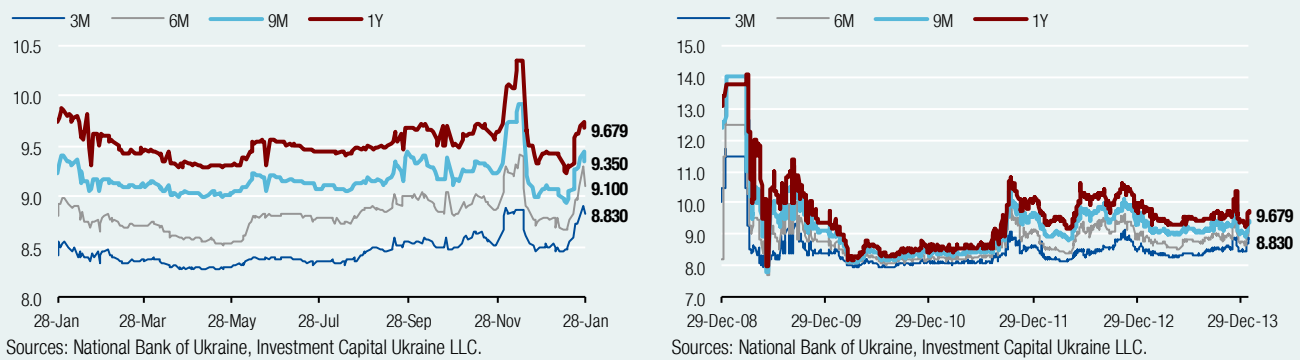


Chart 19. Trading volume: last 12-month and 5-year periods (US\$m, left and right respectively)



Chart 20. 30D MA* ratio of FX market turnover to merchandise trade: last 12m and 5yr periods (% , left and right respectively)

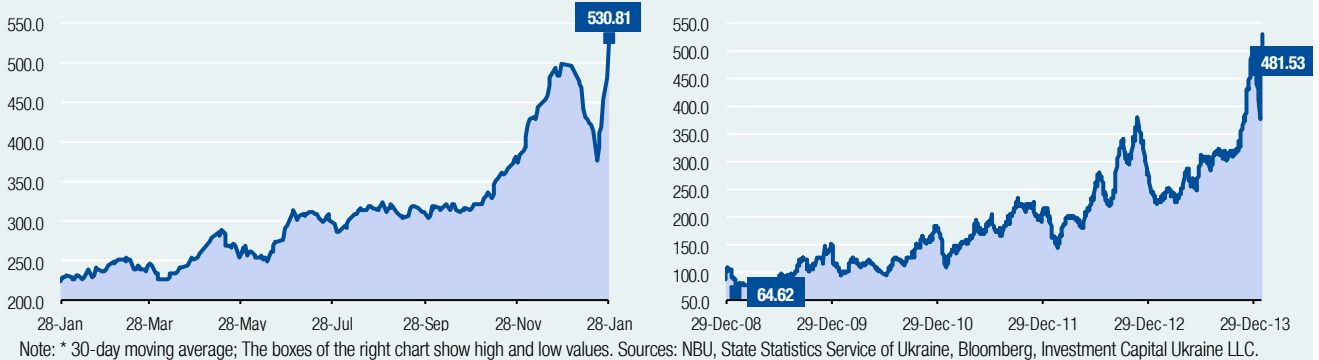
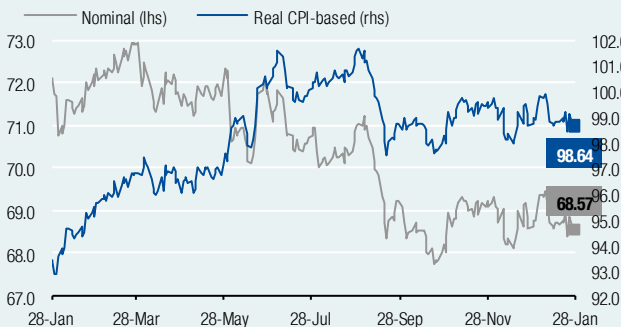


Chart page #2: ICU's UAH trade-weighted indices

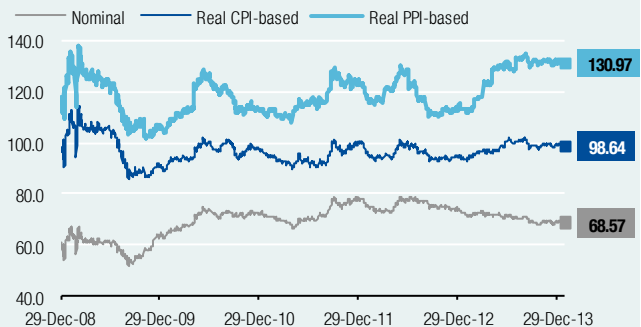
The following charts depict ICU's Ukrainian hryvnia trade-weighted indices which were calculated in accordance with methodology published in the [Quarterly Report "Keep the music playing"](#) dated 31 January 2013 and, then, updated, in the [Quarterly Report "Muddling through no more"](#) dated 14 August 2013.

Chart 21. 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 22. Nominal, CPI- and PPI-based TWIs of UAH, history of last 5-year period

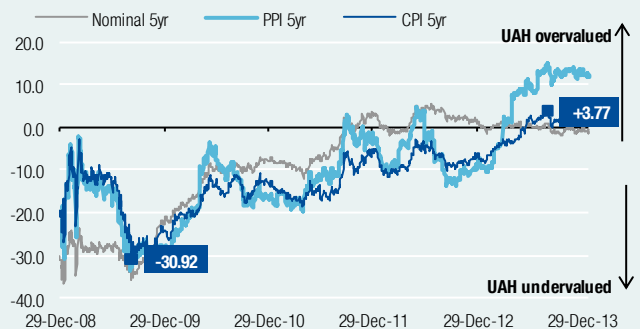


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

Chart 23. 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 24. 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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