


 INVESTMENT CAPITAL UKRAINE  
 INVESTMENT BANKING

# Daily Insight

Liquidity down; Yields up; Auction results; NBU intervenes to stabilize UAH; Banks news

THURSDAY, 30 JANUARY, 2014

RESEARCH INSIGHT

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### UX Index (3 months to 30 Jan 2014)



### Key market indicators (as of 29 Jan 2014)

|  | Last | Daily chg (%) | YTD chg (%) |
|--|------|---------------|-------------|
|--|------|---------------|-------------|

#### FX & MONEY RATES

|                   |         |        |        |
|-------------------|---------|--------|--------|
| USD/UAH           | 8.4750  | -0.12  | +2.85  |
| USD/UAH (1Y NDF)  | 9.6750  | -0.04  | +2.71  |
| EUR/USD           | 1.3663  | -0.06  | -0.58  |
| USD/RUB           | 35.0870 | +0.72  | +6.75  |
| KievPRIME O/N (%) | 7.10    | +291bp | -70bp  |
| KievPRIME 1M (%)  | 12.10   | +210bp | -415bp |

#### BONDS: yields and spreads

|                          |       |       |       |
|--------------------------|-------|-------|-------|
| Ukraine VAT bond (%)     | N/A   | +74bp | +0bp  |
| Ukraine 17, Eurobond (%) | 9.87  | +88bp | +31bp |
| Ukraine 22, Eurobond (%) | 10.06 | +73bp | +71bp |
| Ukraine 23, Eurobond (%) | 9.53  | +63bp | +49bp |
| Ukraine 5Y CDS           | N/A   |       |       |

#### EQUITIES

##### Stock market indices

|                 |          |       |       |
|-----------------|----------|-------|-------|
| UX (Ukraine)    | 880.63   | +0.95 | -3.23 |
| MSCI World      | 393.07   | -0.40 | -3.79 |
| MSCI EM         | 936.67   | +0.28 | -6.58 |
| RTS (Russia)    | 1,308.00 | -1.84 | -9.34 |
| WIG-20 (Poland) | 2,313.34 | -0.88 | -3.65 |
| S&P 500 (USA)   | 1,774.20 | -1.02 | -4.01 |

##### MOST ACTIVE: Top 3 stocks by value traded (US\$m)

|         |      |                             |
|---------|------|-----------------------------|
| FXPO LN | 4.55 | 62.1% of total <sup>1</sup> |
| KER PW  | 1.02 | 13.9%                       |
| AGT PW  | 0.45 | 6.1%                        |

##### GAINERS: Top 3 stocks (in listed currency)

|         |            |        |        |
|---------|------------|--------|--------|
| ZAEN UK | UAH 120.00 | +43.71 | +32.74 |
| AGL PW  | PLN 26.99  | +4.21  | +4.09  |
| AZST UK | UAH 0.61   | +3.92  | -8.96  |

##### LOSERS: Top 3 stocks (in listed currency)

|         |            |       |        |
|---------|------------|-------|--------|
| KSG PW  | PLN 8.86   | -4.83 | -18.34 |
| KER PW  | PLN 40.30  | -2.18 | +5.86  |
| FXPO LN | GBp 159.50 | -1.91 | -16.49 |

Notes: Chg – percentage change, if not otherwise indicated;  
 [1] – total traded volume for stocks listed in Table 3, pp. 4;  
 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

## Loan portfolio of Russian Standard Bank deteriorates

Russian Standard Bank (BRS) increased its gross loan portfolio by UAH280m, up 8.7% QoQ, in 4Q13, significantly improving the 3Q13 result of UAH135m increase (4.4% QoQ). Total bad and doubtful debt has increased 22% QoQ in 4Q13. The bank increased the LLR for household loans from 13.7% in 3Q13 to 15.1% in 4Q13.

**Table 1. Key financials of Russian Standard Bank (UAHm, if not otherwise indicated)**

|  | 4Q12  | 4Q13  | Change (%) |
|--|-------|-------|------------|
| Assets                                   | 2,729 | 3,652 | 33.8       |
| Gross loans                              | 2,477 | 3,509 | 41.7       |
| LLR, % of gross loans                    | 7.2   | 14.9  | 7.7ppt     |
| Equity                                   | 178   | 335   | 88.5       |
| Net interest income (annualised)         | 264   | 574   | 117.4      |
| Operating income before LLP (annualised) | 507   | 957   | 89.0       |
| Operating expenses (annualised)          | -358  | -527  | 47.1       |
| Loan loss provision (annualised)         | -127  | -358  | 182.8      |
| Net income (annualised)                  | 15    | 56    | 275.9      |
| Net interest margin (%)                  | 15.7  | 20.0  | 4.3ppt     |
| Regulatory capital ratio (%)             | 11.8  | 14.1  | 2.3ppt     |

Notes: Based on quarterly UAS data

Sources: Bank data, Investment Capital Ukraine LLC.

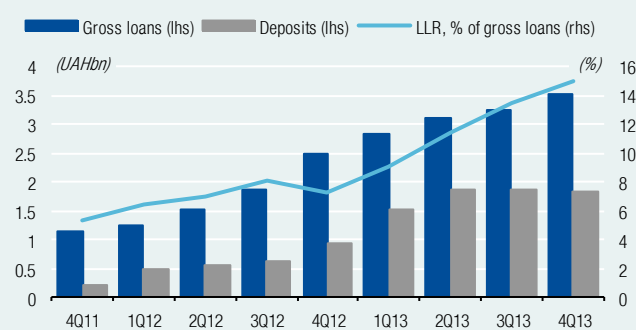
Total deposits declined UAH25m, down 1.4% QoQ, in 4Q13 for the second quarter in a row. Currently, BRS is offering above-average interest rates on its household deposits which amount to 94.7% of total deposits. The bank issued another UAH0.1bn in local bonds during 4Q13, bringing bonds outstanding to UAH0.3bn, or 9.2% of total liabilities.

The bank has turned to commission income as the main source of income from consumer loans. Net interest income declined 78.7% QoQ in 4Q13, to just UAH42m, while net commission income rose 539.8% to UAH201m. Despite the 10.1% QoQ increase in loan loss provision expenses, quarterly net income amounted to UAH24m.

The cost-to-income ratio of BRS has declined for the ninth quarter in a row, now standing at 55.1% as of 4Q13.

**Chart 1. Dynamic of the loan portfolio and bank's deposits**

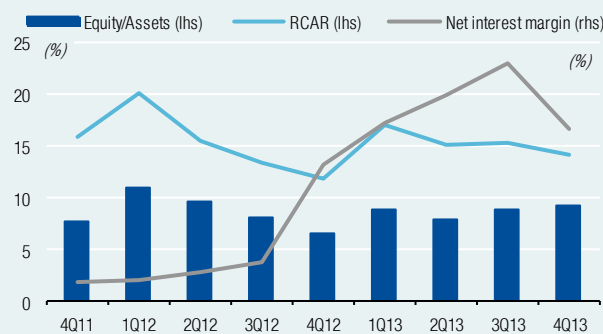
Notes: Based on quarterly UAS data



Sources: Bank data, Investment Capital Ukraine LLC.

**Chart 2. Key financial ratios**

Notes: Based on quarterly UAS data



Sources: Bank data, Investment Capital Ukraine LLC.

## Oschadbank purchases more securities and borrows from NBU

Oschadbank significantly increased its exposure to securities, with the total growth from UAH23.7bn in 3Q14 to UAH35.4bn in 4Q13. We believe that most of this addition was represented by government bonds and securities issued by state-owned companies. Gross portfolio of the banks remained relatively stable – decreasing by a marginal UAH75m or -0.1% QoQ.

The deposit base increased UAH2.2bn (5.0% QoQ) as corporate customers increased their exposure by UAH2.4bn (30.0%) while household deposits shrank UAH183m (0.5% QoQ).

Loans from other banks have increased UAH7.7bn, or 47.3% QoQ, and, according to our estimates, most of this amount was represented by the loan from the National Bank of Ukraine (NBU). Asset quality continues to deteriorate as bad credit exposure rose 16.4% to UAH7.1bn. The LLR rate has increased for the tenth quarter in a row and hit the 19.8% of total gross loans.

**Table 2. Key financials of Oschadbank (UAHm, if not otherwise indicated)**

|  | 4Q12   | 4Q13    | Change (%) |
|--|--------|---------|------------|
| Assets                                   | 85,996 | 103,568 | 20.4       |
| Gross loans                              | 61,348 | 64,281  | 4.8        |
| LLR, % of gross loans                    | 16.6   | 19.8    | 3.2ppt     |
| Equity                                   | 18,118 | 20,456  | 12.9       |
| Net interest income -annualised)         | 4,928  | 5,528   | 12.2       |
| Operating income before LLP -annualised) | 5,752  | 7,174   | 24.7       |
| Operating expenses -annualised)          | -3,203 | -3,481  | 8.7        |
| Loan loss provision -annualised)         | -1,969 | -2,736  | 39.0       |
| Net income -annualised)                  | 566    | 679     | 20.0       |
| Net interest margin -%)                  | 7.2    | 6.8     | -0.4ppt    |
| Regulatory capital ratio -%)             | 25.4   | 25.4    | 0.1ppt     |

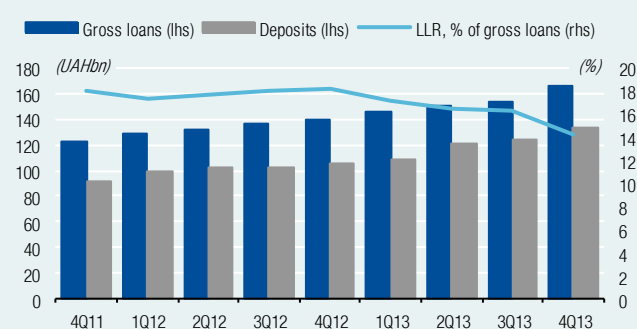
Notes: Based on quarterly UAS data

Sources: Bank data, Investment Capital Ukraine LLC.

Oschadbank increased its share capital by UAH1.4bn in December of 2013 to UAH17.2bn. However, the equity-to-assets ratio has decreased from 20.1% in 3Q14 to 19.8% in 4Q13 as the result of the rapid asset expansion (+12.2% QoQ).

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

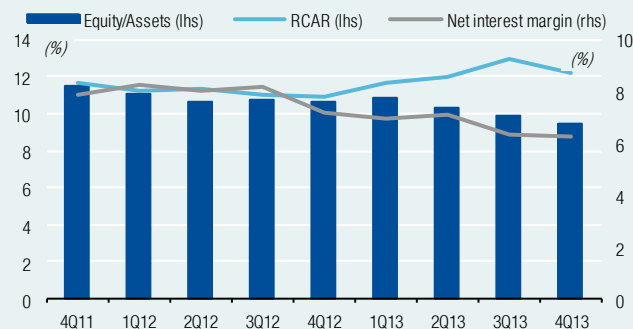
Notes: Based on quarterly UAS data



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.

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Table 3. Ukrainian stocks (closing prices as of 29-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 (%) |
| <b>ENERGY</b>                |                  |             |                                    |       |       |       |       |                  |                |         |                             |                    |                              |                             |                     |                    |         |       |           |      |       |          |      |       |        |         |                 |
| Cadogan Petrol...            | CAD LN           | London      | 11.75 GBP                          | +0.0  | +13.3 | +13.3 | -7.8  | 0.19             | 44.9           | -18.2   | 40.2                        | 18.1               | 0.0                          | 13.8                        | 0.10                | 1,031              | Neg.    | Neg.  | Neg.      | 2.8  | 2.8   | 5.7      | Neg. | Neg.  | Neg.   | 0.2     | 0.0             |
| Centrenerg                   | CEEN UK          | Kiev, UX    | 4.42 UAH                           | +0.3  | -7.4  | -7.4  | -28.8 | 0.52             | 192.4          | 267.2   | 21.7                        | 41.8               | 26.4                         | 69.2                        | 0.10                | 956                | 7.0     | 6.5   | 4.6       | 0.5  | 3.9   | 2.6      | 0.2  | 0.3   | 0.3    | 0.7     | 12.2            |
| Coal Energy                  | CLE PW           | Warsaw      | 1.16 PLN                           | +0.0  | +10.5 | +10.5 | -90.8 | 0.37             | 16.9           | 74.8    | 25.0                        | 4.2                | 259.4                        | 108.5                       | 5.99                | 17                 | Neg.    | Neg.  | N/A       | 1.2  | 10.2  | N/A      | 0.6  | 0.8   | N/A    | 0.1     | 7.7             |
| Donbasenergo                 | DOEN UK          | Kiev, UX    | 30.50 UAH                          | -1.4  | +10.5 | +10.5 | +44.8 | 3.60             | 85.1           | 141.1   | 14.2                        | 12.1               | 1.8                          | 52.2                        | 0.15                | 688                | 23.3    | 3.1   | 4.5       | 0.5  | 2.5   | 2.4      | 0.3  | 0.2   | 0.3    | 1.1     | 17.8            |
| JKX Oil & Gas                | JKX LN           | London      | 70.25 GBP                          | +2.2  | -2.1  | -1.7  | +19.3 | 1.16             | 199.5          | 196.5   | 47.2                        | 94.2               | 58.4                         | 96.9                        | 0.07                | 1,343              | Neg.    | 6.1   | 5.6       | 1.4  | 2.0   | 2.2      | 1.0  | 1.0   | 0.9    | 0.4     | 2.5             |
| Regal Petroleum              | RPT LN           | London      | 13.00 GBP                          | -1.9  | +2.0  | +0.0  | -58.6 | 0.21             | 68.9           | 42.1    | 80.9                        | 55.8               | 3.7                          | 8.2                         | 0.01                | 8,692              | 5.9     | 13.8  | N/A       | 1.9  | 2.5   | N/A      | 1.0  | N/A   | N/A    | 0.2     | 0.0             |
| Sadova Group                 | SGR PW           | Warsaw      | 0.63 PLN                           | +0.0  | +18.9 | +18.9 | -65.4 | 0.20             | 8.8            | 48.5    | 25.0                        | 2.2                | 8.7                          | 41.2                        | 1.81                | 55                 | Neg.    | N/A   | N/A       | 24.2 | N/A   | N/A      | 1.2  | N/A   | N/A    | 0.2     | 42.7            |
| Zakhidenergo                 | ZAEN UK          | Kiev, PFTS  | 120.00 UAH                         | +43.7 | +32.7 | +32.7 | +28.3 | 14.15            | 181.0          | 215.9   | 5.0                         | 9.1                | 35.8                         | 10.8                        | 0.08                | 1,177              | 800.2   | N/A   | N/A       | 1.4  | N/A   | N/A      | 0.2  | N/A   | 0.1    | 3.0     | 9.7             |
| <b>METALLURGY</b>            |                  |             |                                    |       |       |       |       |                  |                |         |                             |                    |                              |                             |                     |                    |         |       |           |      |       |          |      |       |        |         |                 |
| Alchevsky Meta...            | ALMK UK          | Kiev, UX    | 0.04 UAH                           | +1.7  | -7.5  | -7.5  | -31.0 | 0.00             | 109.1          | 1,764.8 | 3.9                         | 4.2                | 0.9                          | 18.0                        | 0.20                | 509                | 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    | 2.73 UAH                           | +2.3  | -7.7  | -7.7  | -13.0 | 0.32             | 62.9           | 58.6    | 4.0                         | 2.5                | 0.3                          | 13.2                        | 0.48                | 210                | Neg.    | Neg.  | 2.5       | Neg. | 1.4   | 0.8      | 0.1  | 0.1   | 0.1    | 0.1     | 0.0             |
| Azovstal                     | AZST UK          | Kiev, UX    | 0.61 UAH                           | +3.9  | -9.0  | -9.0  | -14.0 | 0.07             | 302.5          | 292.6   | 4.1                         | 12.4               | 9.6                          | 19.5                        | 0.05                | 1,950              | Neg.    | Neg.  | N/A       | Neg. | Neg.  | N/A      | 0.1  | 0.1   | N/A    | 0.2     | 0.0             |
| Ferrexpo PLC                 | FXPO LN          | London      | 159.50 GBP                         | -1.9  | -16.5 | -16.5 | -36.4 | 2.64             | 1,552.6        | 2,139.9 | 22.4                        | 347.8              | 4,546.6                      | 2,357.7                     | 0.93                | 107                | 7.2     | 6.1   | 6.7       | 5.4  | 4.5   | 4.7      | 1.5  | 1.4   | 1.3    | 1.0     | 37.0            |
| Yasynivsky Cok...            | YASK UK          | Kiev, UX    | 0.55 UAH                           | -1.8  | +3.8  | +3.8  | -20.9 | 0.06             | 17.7           | 19.4    | 9.0                         | 1.6                | 1.5                          | 1.9                         | 0.06                | 1,735              | 2.2     | 1.5   | 1.1       | 0.1  | 0.7   | 0.6      | 0.0  | 0.0   | 0.0    | 0.1     | 0.1             |
| Yenakievo Steel              | ENMZ UK          | Kiev, UX    | 31.22 UAH                          | +0.7  | -2.5  | -2.5  | -13.3 | 3.68             | 38.8           | 32.7    | 9.4                         | 3.6                | 0.3                          | 10.2                        | 0.28                | 361                | 4.7     | Neg.  | 2.0       | Neg. | Neg.  | N/A      | 0.0  | 0.0   | 0.0    | 0.7     | 0.0             |
| <b>FOOD AND AGRIBUSINESS</b> |                  |             |                                    |       |       |       |       |                  |                |         |                             |                    |                              |                             |                     |                    |         |       |           |      |       |          |      |       |        |         |                 |
| AgroGeneration               | ALAGR FP         | EN Paris    | 1.24 EUR                           | +3.3  | +0.0  | +0.0  | -28.3 | 1.69             | 59.3           | 86.4    | 34.0                        | 20.2               | 10.7                         | 42.5                        | 0.18                | 543                | Neg.    | N/A   | N/A       | Neg. | N/A   | N/A      | 1.3  | N/A   | N/A    | 1.3     | 35.9            |
| Agroliga                     | AGL PW           | Warsaw      | 26.99 PLN                          | +4.2  | +4.1  | +4.1  | +33.6 | 8.72             | 13.4           | 13.7    | 16.7                        | 2.2                | 11.1                         | 11.5                        | 0.52                | 193                | 18.9    | N/A   | N/A       | 18.7 | N/A   | N/A      | 5.3  | N/A   | N/A    | N/A     | 7.5             |
| Agroton                      | AGT PW           | Warsaw      | 2.53 PLN                           | -0.4  | +29.7 | +29.7 | -76.8 | 0.82             | 17.7           | 65.0    | 26.2                        | 4.6                | 448.9                        | 140.1                       | 7.18                | 14                 | 2.6     | 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      | 66.50 PLN                          | -0.1  | -0.6  | -0.6  | +10.6 | 21.48            | 537.1          | 864.6   | 31.0                        | 166.6              | 443.3                        | 221.8                       | 0.13                | 788                | 8.7     | 8.2   | 4.9       | 9.8  | 7.7   | 5.4      | 1.8  | 1.7   | 1.4    | 1.0     | 38.9            |
| Avangard                     | AVGR LI          | London Intl | 11.49 USD                          | +0.0  | -2.2  | -2.2  | -2.5  | 11.49            | 733.9          | 900.2   | 21.7                        | 159.3              | 0.0                          | 262.0                       | 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      | 11.30 PLN                          | -0.8  | -7.0  | -7.0  | -27.1 | 3.65             | 114.3          | 230.5   | 23.9                        | 27.3               | 35.3                         | 17.2                        | 0.08                | 1,320              | 6.1     | 4.4   | 4.7       | 6.3  | 5.5   | 4.6      | 3.1  | 1.7   | 1.2    | 0.9     | 33.0            |
| Kernel Holding...            | KER PW           | Warsaw      | 40.30 PLN                          | -2.2  | +5.9  | +5.9  | -40.6 | 13.02            | 1,037.5        | 1,758.0 | 58.8                        | 609.7              | 1,018.1                      | 2,221.5                     | 0.25                | 407                | 9.3     | 9.9   | 5.7       | 6.0  | 6.3   | 4.9      | 0.6  | 0.7   | 0.6    | 0.8     | 30.6            |
| KSG Agro                     | KSG PW           | Warsaw      | 8.86 PLN                           | -4.8  | -18.3 | -18.3 | -32.4 | 2.86             | 43.0           | 164.8   | 34.4                        | 14.8               | 19.5                         | 17.0                        | 0.10                | 1,026              | 5.3     | 3.6   | 3.6       | 39.1 | 5.6   | 4.5      | 4.4  | 2.4   | 1.5    | 0.5     | 29.2            |
| MHP                          | MHPC LI          | London Intl | 16.30 USD                          | -0.7  | -4.2  | -4.4  | -4.1  | 16.30            | 1,722.4        | 2,923.4 | 22.3                        | 384.4              | 242.9                        | 1,349.4                     | 0.19                | 530                | 5.8     | 7.9   | 5.8       | 6.3  | 6.7   | 5.5      | 2.1  | 2.0   | 1.7    | 1.5     | 45.8            |
| Milkiland                    | MLK PW           | Warsaw      | 9.98 PLN                           | -0.1  | -20.2 | -20.2 | -37.0 | 3.22             | 100.8          | 234.9   | 20.0                        | 20.2               | 1.9                          | 8.6                         | 0.07                | 1,488              | 5.8     | 5.6   | 5.5       | 6.6  | 5.7   | 4.7      | 0.6  | 0.5   | 0.5    | 0.4     | 29.9            |
| Mriya Agrohold...            | MAYA GF          | Frankfurt   | 5.20 EUR                           | +0.6  | -3.7  | -3.7  | +12.2 | 7.09             | 753.6          | 1,485.4 | 20.0                        | 150.7              | 0.0                          | 1.7                         | 0.00                | 59,341             | 4.3     | 4.7   | 5.0       | 6.4  | 5.6   | 6.0      | 4.3  | 4.0   | 3.5    | 0.8     | 34.8            |
| Ovostar Union                | OVO PW           | Warsaw      | 80.36 PLN                          | -1.9  | -19.6 | -19.6 | -18.0 | 25.96            | 155.8          | 167.8   | 25.0                        | 38.9               | 36.2                         | 42.5                        | 0.24                | 416                | 6.6     | 6.1   | 4.2       | 6.0  | 5.5   | 3.5      | 2.4  | 2.1   | 1.5    | 1.5     | 3.7             |
| <b>CONSTRUCTION</b>          |                  |             |                                    |       |       |       |       |                  |                |         |                             |                    |                              |                             |                     |                    |         |       |           |      |       |          |      |       |        |         |                 |
| TMM                          | TR61 GF          | Xetra       | 0.32 EUR                           | +0.0  | +0.0  | +0.0  | -5.4  | 0.43             | 22.4           | 181.7   | 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            |
| <b>FINANCIAL SERVICES</b>    |                  |             |                                    |       |       |       |       |                  |                |         |                             |                    |                              |                             |                     |                    |         |       |           |      |       |          |      |       |        |         |                 |
| Raiffeisen Ban...            | BAVL UK          | Kiev, UX    | 0.11 UAH                           | +3.4  | +0.4  | +0.4  | +11.9 | 0.01             | 403.1          | N/A     | 3.8                         | 15.4               | 95.1                         | 48.6                        | 0.16                | 637                | 10.7    | 6.2   | 3.3       | N/A  | N/A   | N/A      | N/A  | N/A   | N/A    | 0.5     | 28.3            |
| Ukrsotsbank                  | USCB UK          | Kiev, UX    | 0.18 UAH                           | -1.4  | -4.8  | -4.8  | +45.1 | 0.02             | 381.9          | N/A     | 4.5                         | 17.1               | 6.5                          | 10.6                        | 0.01                | 8,447              | 1,069.7 | 197.4 | N/A       | N/A  | N/A   | N/A      | N/A  | N/A   | N/A    | 0.4     | 30.9            |

**Table 3. Ukrainian stocks (closing prices as of 29-Jan-2014)**

| Company | Bloomberg<br>Ticker | Listing | Share price performance (% change) |       |     |     |     | Valuation (US\$) |                   |           | Free float (FF) & Liquidity |                          |                                    |                                   |                           | P/E                      |      |       | EV/EBITDA |      |       | EV/Sales |      |       | Ratios |         |
|---------|---------------------|---------|------------------------------------|-------|-----|-----|-----|------------------|-------------------|-----------|-----------------------------|--------------------------|------------------------------------|-----------------------------------|---------------------------|--------------------------|------|-------|-----------|------|-------|----------|------|-------|--------|---------|
|         |                     |         | Last<br>price                      | Daily | MoM | YTD | YoY | Last<br>price    | Market<br>cap (m) | EV<br>(m) | FF<br>(%)                   | FF<br>mkt cap<br>(US\$m) | Last day<br>turnover<br>(US\$ 000) | 3M avg.<br>turnover<br>(US\$ 000) | FF share<br>traded<br>(%) | FF<br>turnover<br>(days) | 2010 | 2011E | 2012E     | 2010 | 2011E | 2012E    | 2010 | 2011E | 2012E  | P/B (x) |

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 continues to decline

Broader banking sector liquidity continued to fall UAH4.44bn to UAH37.00bn yesterday as banks' correspondent accounts with the NBU declined UAH2.39bn to UAH2.53bn and total CDs outstanding fell UAH2.05bn to UAH2.66bn. Total local currency debt repayments scheduled for the next 30 days remained steady at UAH9.80bn.

Money market interest rates once more significantly rose: the KyivPrime ON interest rate rose 291bp to 7.10% while the KyivPrime 1M interest rate rose 210bp to 12.10%.

**Investment implications: The NBU did not support liquidity on Tuesday decreasing the volume of ON loans while it redeemed CDs, issued a mere UAH0.10bn of repos and purchased UAH0.03bn of government bonds. Today we anticipate that liquidity could be stable or its movements will be insignificant due to large domestic debt repayments.**

## YTM's rose due to ratings downgrade

After the rebound on Tuesday triggered by the administration's steps to resolve the political crisis yesterday, YTM's rose after the S&P downgraded Ukraine's FX rating to CCC+ with a negative outlook on Tuesday. As a result, YTM's of Ukrainian Eurobonds at the close rose as UKRAIN 6.875% '15 rose 53bp to 9.46%, UKRAIN 9.25% '17 rose 88bp to 9.85%, while UKRAIN 7.95% '21 rose 34bp to 9.79%, UKRAIN 7.80% '22 rose 73bp to 10.02% and UKRAIN 7.50% '23 rose 62bp to 9.50%.

US Treasury YTM's slightly slid yesterday and at the close the YTM of 5-year bonds slid 6bp to 1.50% and the YTM of the 10-year bond slid 7bp to 2.68%.

## Primary auction results

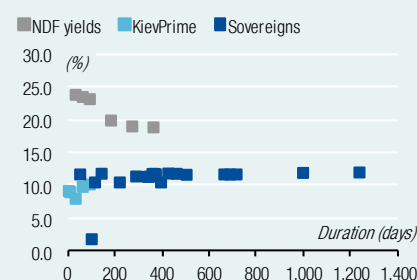
The 5-year bond auction that was announced yesterday received the same non-competitive bid for UAH273.0bn and a small technical at the usual coupon rate.

**Investment implications: Yesterday's demand was accepted, but banks were not ready to buy new bonds at large volumes to provide the budget with funds for repayments. The MoF will likely use its funds received from last week's borrowings, budget proceeds or FX sales.**

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### Yield curve of the local bond market

(as of market close on 29 Jan 2014)



Sources: Bloomberg, Investment Capital Ukraine LLC.

### Bond market indicators (as of 29 Jan 2014)

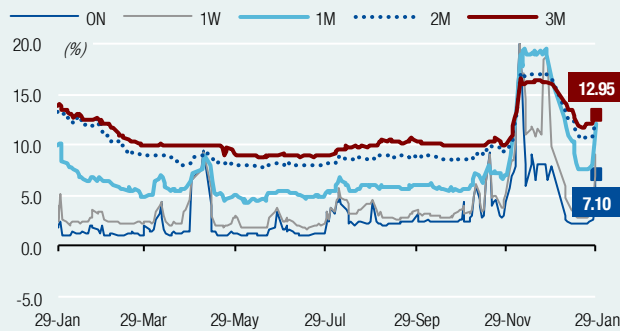
|   | Last           | Daily chg (%) | Weekly chg (%) | MoM chg (%)  | YTD chg (%)  |
|---|----------------|---------------|----------------|--------------|--------------|
| <b>MONEY MARKET KIEV PRIME RATES (%)</b>            |                |               |                |              |              |
| 0/n   | 7.10           | +291bp        | +486bp         | +60bp        | -70bp        |
| 1wk   | 9.10           | +222bp        | +629bp         | -928bp       | -70bp        |
| 1m  | 12.10          | +210bp        | +460bp         | -690bp       | -415bp       |
| 2m  | 12.05          | +36bp         | +130bp         | -483bp       | -435bp       |
| 3m  | 12.95          | +26bp         | +95bp          | -318bp       | -305bp       |
| <b>LIQUIDITY WIDE MEASUREMENT (UAHm)</b>            |                |               |                |              |              |
| CB acc's <sup>1</sup>                               | 24,535         | -8.87         | -20.70         | -24.98       | -24.98       |
| CDs <sup>2</sup>                                    | 7,033          | -30.76        | -67.89         | +362.7       | +362.7       |
| Sovgns <sup>3</sup>                                 | 6,730          | -31.06        | -13.96         | +350.2       | +350.2       |
| <b>Total</b>  | <b>38,298</b>  | <b>-18.24</b> | <b>-36.87</b>  | <b>+7.23</b> | <b>+7.23</b> |
| <b>HOLDERS OF UAH SOVEREIGN BONDS (UAHm)</b>        |                |               |                |              |              |
| C.bank  | 148,580        | +0.02         | -0.65          | +2.57        | +2.57        |
| Banks   | 81,600         | -0.09         | +3.22          | +1.79        | +1.79        |
| Resid's <sup>4</sup>                                | 13,109         | +0.15         | -0.10          | +5.75        | +5.75        |
| Non-res <sup>5</sup>                                | 12,211         | +0.00         | +0.73          | +4.38        | +4.38        |
| <b>Total</b>  | <b>255,499</b> | <b>-0.01</b>  | <b>+0.65</b>   | <b>+2.56</b> | <b>+2.56</b> |
| <b>NDF IMPLIED YIELDS (%)</b>                       |                |               |                |              |              |
| 3m  | 17.03          | +52bp         | +26bp          | +489bp       | +489bp       |
| 6m  | 14.57          | -22bp         | -13bp          | +129bp       | +116bp       |
| 9m  | 14.17          | +18bp         | -34bp          | +121bp       | +16bp        |
| 1yr   | 14.81          | +9bp          | -78bp          | +62bp        | -18bp        |
| <b>LOCAL CURRENCY UAH SOVEREIGN BOND YIELDS (%)</b> |                |               |                |              |              |
| Mar '13   | N/A            | -52ppt        | +0bp           | +0bp         | +0bp         |
| Jan '14   | N/A            | +320bp        | +186bp         | -676bp       | -676bp       |
| Aug '15 <sup>6</sup>                                | N/A            | +74bp         | +0bp           | +0bp         | +0bp         |
| <b>EUROBONDS USD SOVEREIGN BOND YIELDS (%)</b>      |                |               |                |              |              |
| CDS 5yr   | N/A            | N/A           | N/A            | N/A          | N/A          |
| Jun '16   | 9.12           | +86bp         | +123bp         | +23bp        | +23bp        |
| Jul '17   | 9.87           | +88bp         | +113bp         | +31bp        | +31bp        |
| Sep '20   | 9.76           | +33bp         | +52bp          | +56bp        | +56bp        |
| Sep '21   | 9.83           | +33bp         | +62bp          | +61bp        | +61bp        |
| Sep '22   | 10.06          | +73bp         | +77bp          | +71bp        | +71bp        |
| Feb '23   | 9.53           | +63bp         | +70bp          | +49bp        | +49bp        |

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



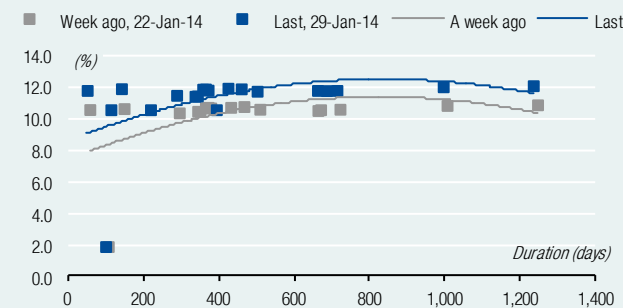
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 6. UAH NDF implied yields (%), last 12-month period



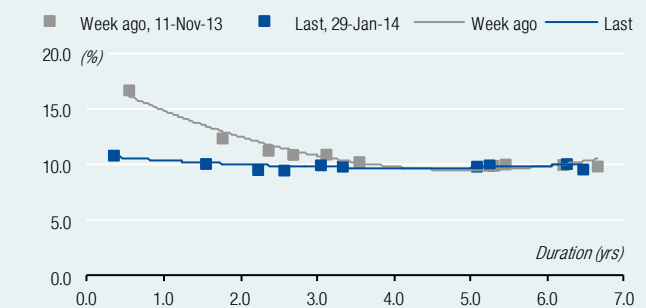
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 7. UAH sovereign yield curve (%) as of 29 Jan 2014



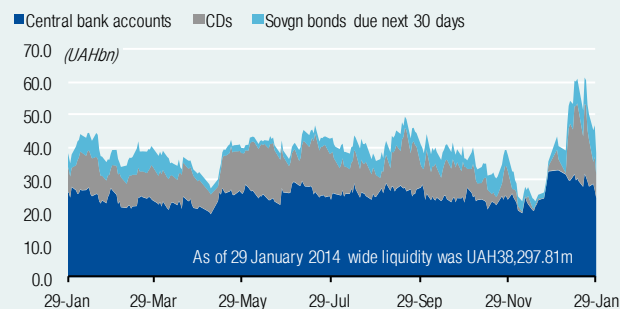
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 8. USD sovereign yield curve (%) as of 29 Jan 2014



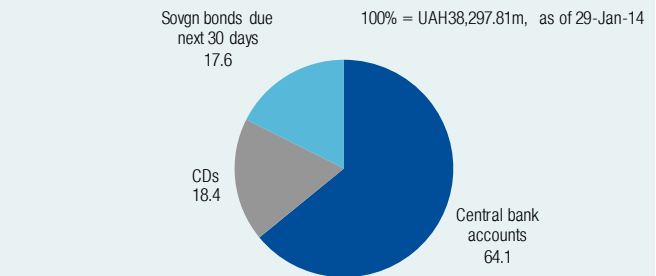
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 9. Banking sector liquidity (UAHbn), last 12-month period



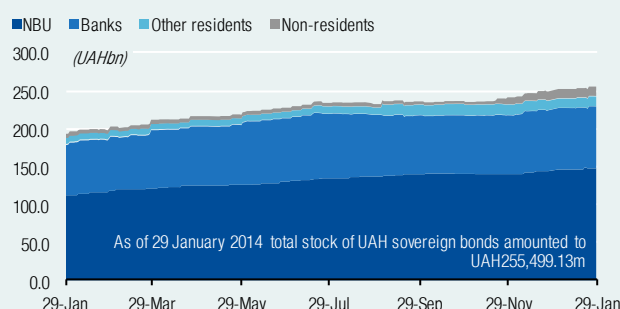
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 10. Breakdown of liquidity pool (%) as of 29 Jan 2014



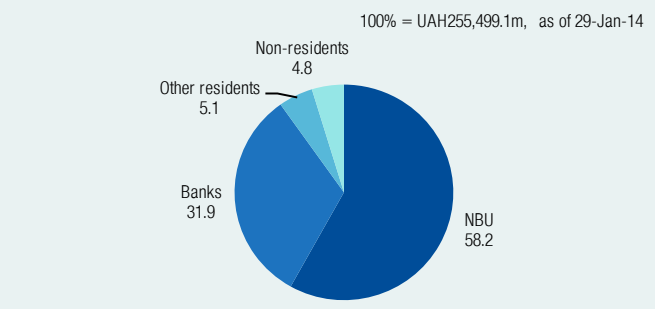
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 11. Holders of sovereign bonds (UAHbn), last 12 months



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

Chart 12. Domestic sovereign debt (%) as of 29 Jan 2014



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

# FX: News & Comments

## NBU intervenes for the third day in a row at 8.40/USD

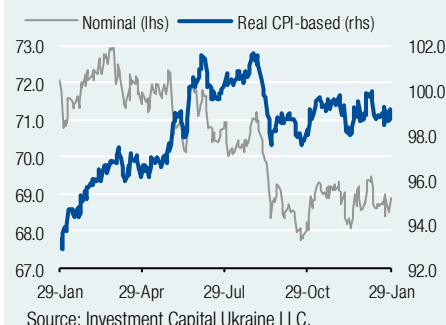
Again, for the third consecutive day, the NBU intervened selling US dollar at 8.40/USD. Trading volume declined to US\$2.8bn, which is lower than it was over the previous two days. The market rate also stabilized at 8.4750/USD, which is 0.12% up from the previous day. The NBU's weighted average rate was reported at 8.1544/USD, which is fairly stable in comparison to the previous days (see Chart 13 next page), meaning that the central bank's selling of USD in corroboration with purchase agreements reached between market players as set at 8.15/USD. This practice of publishing the trade-weighted rate and targeting it at 8.15/USD is not a productive strategy as retail bank FX rates diverge from the NBU's weighted-average rate.

The NBU interventions are pointless in that the UAH's real rate increased yesterday by 0.47% as the RUB weakened again by 0.72% to 35.0870/USD, and the EUR slid 0.06%.

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### ICU's UAH trade-weighted indices

(Last 12-month history to 30 Jan 2014)



### FX market indicators (as of 29 Jan 2014)

|   | Last     | Daily   | Weekly  | MoM     | YTD     |
|---|----------|---------|---------|---------|---------|
|   | chg (%)  | chg (%) | chg (%) | chg (%) | chg (%) |
| <b>USD/UAH MARKET (HRYVNIA per US DOLLAR)</b>           |          |         |         |         |         |
| Spot mkt  | 8.4750   | -0.12   | +1.15   | +2.85   | +2.85   |
| NBU avg   | 8.1544   | +0.04   | +0.01   | +0.04   | +0.04   |
| Ttt vlm <sup>1</sup>                                    | 3163.22  | -37.93  | -2.20   | +12.88  | +12.88  |
| \$ volume <sup>2</sup>                                  | 2809.70  | -40.69  | +3.05   | +27.09  | +27.09  |
| NDF 3M  | 8.8305   | +0.01   | +1.21   | +4.07   | +4.07   |
| NDF 6M  | 9.0800   | -0.22   | +1.08   | +3.48   | +3.42   |
| NDF 1Y  | 9.6750   | -0.04   | +0.47   | +3.42   | +2.71   |
| <b>TRADE-WEIGHTED INDICES (TWIs, points)</b>            |          |         |         |         |         |
| UAH nom'l   | 68.892   | +0.47   | -0.10   | +0.47   | +0.17   |
| UAH real CPI  | 99.104   | +0.47   | -0.10   | +0.47   | +0.17   |
| UAH real PPI  | 131.580  | +0.47   | -0.10   | +0.47   | +0.17   |
| USD nom'l   | 80.505   | -0.08   | -0.82   | +0.14   | +0.59   |
| <b>FX RATES OF KEY CURRENCIES THAT SHAPE UAH's TWIs</b> |          |         |         |         |         |
| USD/RUB   | 35.0870  | +0.72   | +3.34   | +7.70   | +6.75   |
| EUR/USD   | 1.3663   | -0.06   | +0.86   | -0.63   | -0.58   |
| USD/CNY   | 6.0549   | +0.07   | +0.06   | -0.24   | +0.01   |
| USD/PLN   | 3.0929   | +0.68   | +0.66   | +2.53   | +2.31   |
| USD/TRY   | 2.2611   | +0.38   | +0.12   | +4.93   | +5.26   |
| USD/BYR   | 9,640.00 | +0.00   | +0.31   | +1.15   | +1.05   |
| USD/KZT   | 155.4800 | +0.06   | +0.22   | +0.90   | +0.78   |
| <b>OTHER MAJOR CURRENCIES</b>                           |          |         |         |         |         |
| USD/JPY   | 102.2900 | -0.63   | -2.13   | -2.74   | -2.87   |
| GBP/USD   | 1.6563   | -0.10   | -0.07   | +0.49   | +0.04   |
| USD/CHF   | 0.8944   | -0.31   | -1.89   | +0.33   | +0.17   |
| AUD/USD   | 0.8739   | -0.46   | -1.28   | -1.48   | -2.00   |
| USD/CAD   | 1.1171   | +0.16   | +0.76   | +4.34   | +5.16   |
| USD/BRL   | 2.4373   | +0.65   | +2.70   | +4.23   | +3.18   |
| USD/KRW   | 1,070.03 | -1.02   | +0.25   | +1.49   | +1.93   |
| <b>COMMODITIES</b>                                      |          |         |         |         |         |
| Gold(\$/oz)   | 1,267.24 | +0.82   | +2.44   | +4.44   | +5.11   |
| WTI crude <sup>3</sup>                                  | N/A      | N/A     | N/A     | N/A     | N/A     |
| Brent crd <sup>3</sup>                                  | N/A      | N/A     | N/A     | N/A     | N/A     |
| Urals crd <sup>3</sup>                                  | N/A      | N/A     | N/A     | N/A     | N/A     |
| TR/J CRB <sup>4</sup>                                   | 284.38   | +0.78   | +1.37   | +0.08   | +1.50   |

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.

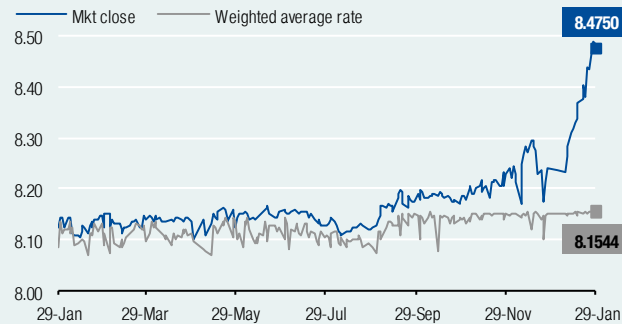
Notes: [1] trading volume in all foreign currencies (US\$m); [2] trading volume in the pair USD/UAH (US\$m); [3] crude oil price (USD per barrel); [4] the Thomson Reuters/Jefferies CRB Index. A green/-red-shaded box means gain or loss, respectively, of the investment into the asset. Currencies are gaining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

Sources: Bloomberg, Investment Capital Ukraine LLC.

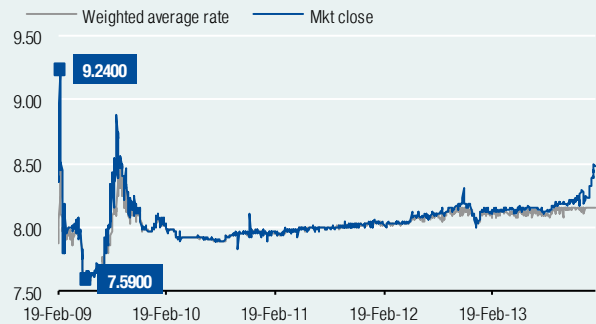


Chart page #1: Foreign-exchange market

Chart 13. Spot market rates USD/UAH: last 12-month and 5-year periods (UAH per USD, left and right respectively)

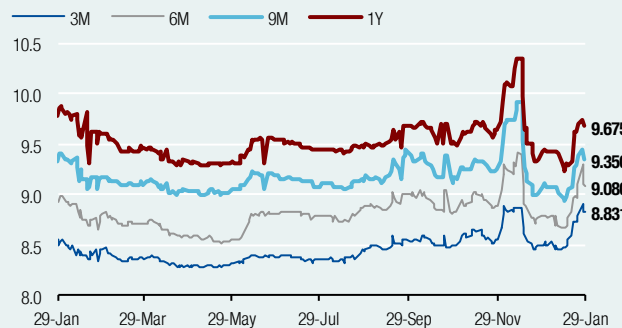


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

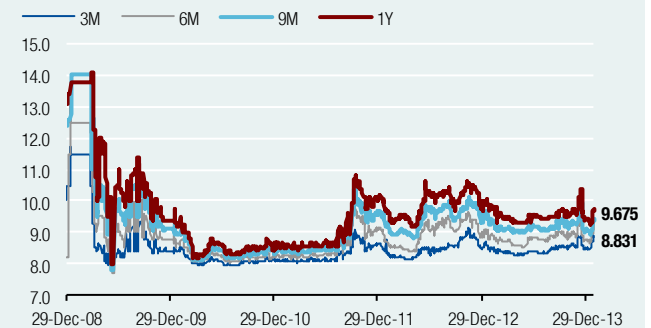


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 14. NDF market rates USD/UAH: last 12-month and 5-year periods (UAH per USD, left and right respectively)

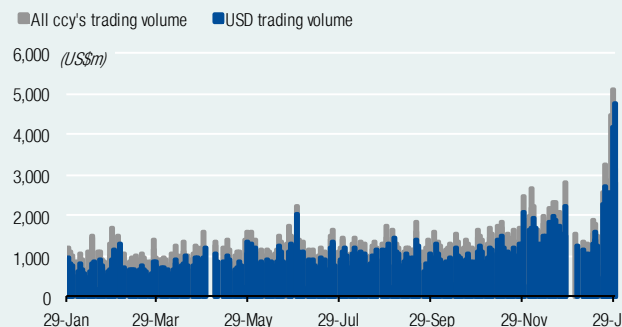


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.



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

Chart 15. 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 16. 30D MA\* ratio of FX market turnover to merchandise trade: last 12m and 5yr periods (% , left and right respectively)



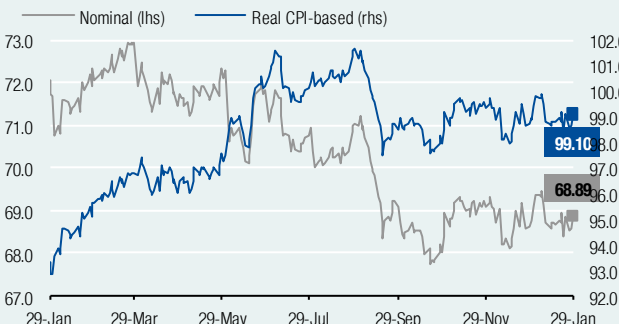
Note: \* 30-day moving average; The boxes of the right chart show high and low values. Sources: NBU, State Statistics Service of Ukraine, Bloomberg, Investment Capital Ukraine LLC.



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

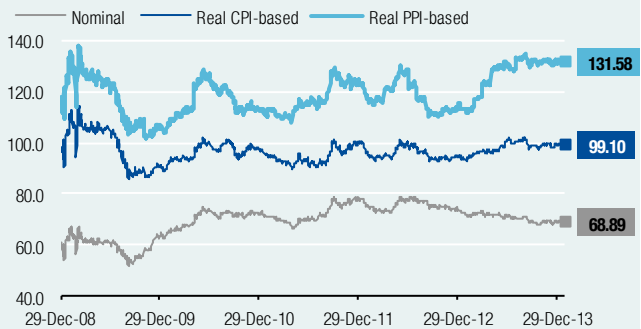
The following charts depict ICU's Ukrainian hryvnia trade-weighted indices which were calculated in accordance with methodology published in the [Quarterly Report "Keep the music playing"](#) dated 31 January 2013 and, then, updated, in the [Quarterly Report "Muddling through no more"](#) dated 14 August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

**Chart 17. Nominal and CPI-based real TWIs of UAH, history of last 12-month period**



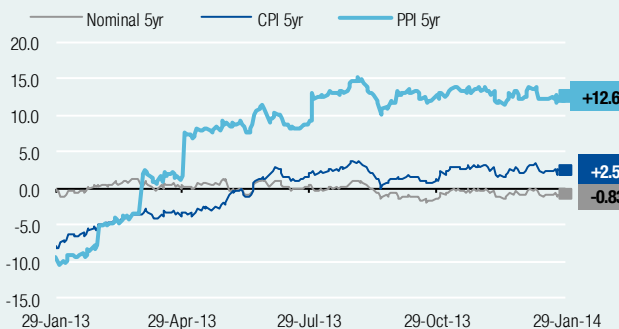
Note: The boxes indicate the last values of the depicted indicators.  
Source: Investment Capital Ukraine LLC.

**Chart 18. 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 19. Deviation of UAH trade-weighted indices from their 5-year moving averages: last 12-month and 5-year periods (% , left and right respectively)**

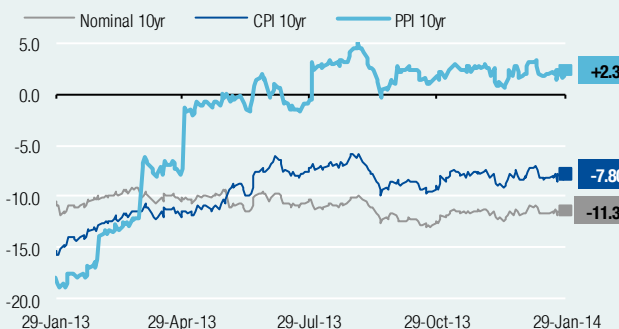


Note: The boxes indicate the last values of the depicted indicators.  
Source: Investment Capital Ukraine LLC.



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

**Chart 20. 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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### 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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