


**INVESTMENT CAPITAL UKRAINE**  
 INVESTMENT BANKING

# Daily Insight

## Geneva agreement; new primary auction announced

TUESDAY, 22 APRIL, 2014

RESEARCH INSIGHT

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**UX Index (3 months to 22 Apr 2014)**

**Key market indicators (as of 18 Apr 2014)**

	Last	Daily chg (%)	YTD chg (%)
<b>FX &amp; MONEY RATES</b>			
USD/UAH	11.3000	+1.35	+37.14
USD/UAH (1Y NDF)	13.5000	+0.00	+43.31
EUR/USD	1.3813	-0.01	+0.51
USD/RUB	35.5736	-0.11	+8.23
KievPRIME O/N (%)	5.50	+30bp	-230bp
KievPRIME 1M (%)	19.70	-10bp	+345bp

**BONDS: yields and spreads**

Ukraine VAT bond (%)	N/A	-8,900bp	-8,900bp
Ukraine 17, Eurobond (%)	12.28	+0bp	+272bp
Ukraine 22, Eurobond (%)	10.06	-1bp	+71bp
Ukraine 23, Eurobond (%)	9.73	-1bp	+68bp
Ukraine 5Y CDS	1,130bp	+2bp	+313bp

**EQUITIES**
**Stock market indices**

UX (Ukraine)	1,105.65	+1.14	+21.49
MSCI World	411.05	+0.07	+0.61
MSCI EM	1,011.87	+0.26	+0.92
RTS (Russia)	1,200.22	+2.35	-16.81
WIG-20 (Poland)	N/A		
S&P 500 (USA)	1,871.89	+0.38	+1.27

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

CEEN UK	0.13	37.7% of total <sup>1</sup>
BAVL UK	0.10	29.1%
DOEN UK	0.04	12.5%

**GAINERS: Top 3 stocks (in listed currency)**
**LOSERS: Top 3 stocks (in listed currency)**

Notes: Chg – percentage change, if not otherwise indicated; [1] – total traded volume for stocks listed in Table 2, 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

## Geneva agreement disregarded over Easter weekend

Over the weekend, developments in the eastern oblast of Donetsk with pro-Kremlin separatists took a new turn for the worse, disregarding the Geneva agreement. In the small town of Slovyansk, overnight fighting broke out between the local squad in self-defense and pro-Kremlin militarists, resulting in several casualties on both sides. Ukrainian authorities claimed the event as a provocation to derail the Geneva accord. The Kremlin identified the attackers as the Right Sector, a small part of the anti-Yanukovich Euro-Maidan movement, officially blamed Kiev, and stated that Russia will not tolerate the escalation of this "civil war". In our view, the Geneva accord was a very weak diplomatic agreement from the very beginning. This past weekend's incident is further evidence that the Kremlin is playing hardball, continues to target the central government in Kiev, and will undermine the new administration's every effort to return Ukraine to normal. We expect this behavior to continue as Ukraine's economy gets accustomed to functioning under the persistent threat of military invasion by the Russian army.

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# Equities: News & Comments

## Ferrexpo's production costs decline 21% YoY in 1Q14

Ferrexpo's (FXPO LN; US\$2.52; Buy; TP US\$4.48) 1Q14 interim management statement issued last Thursday reported that the company's sales increased 10.8% YoY to 2.8mt, in line with production growth. Ferrexpo's production cash cost decreased 21% YoY and 13% QoQ to US\$50.3/t not only as a result of improvements in efficiency and output but also as a consequence of the devaluated hryvnia in which about 50% of the company's production costs are denominated. The company continues to implement its key projects on schedule and within the budget, while its net debt grew just 6% to US\$679m compared to end-2013.

**Investment implications: Ongoing growth in the company's sales and production in 1Q14 was in line with the market expectations. The key positive message of the statement was the substantial decline in production costs that far outpaced falling iron ore prices. 2Q14 should indicate whether the company is able to support this positive trend, with higher natural gas prices being the main risk. For more details, please see our upcoming note.**

**Table 1. Ferrexpo Eurobond quotation as of market close, 21 April 2014**

Issuer	Moody's/S&P/Fitch	Ccy	Volume	Coupon rate (%)	Maturity	Price (%)	YTW (%)	Spread (bp)
Ferrexpo	Caa2/CCC+/CCC	USD	500m	7.875	07-Apr-16	91.125	13.177	1279

Source: Bloomberg

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Table 2. Ukrainian stocks (closing prices as of 18-Apr-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>																											
Centrenergo	CEEN UK	Kiev, UX	5.85 UAH	+0.0	+10.6	+22.7	+47.6	0.51	187.2	242.1	21.7	40.6	129.1	101.6	0.40	253	9.3	5.0	7.3	0.4	3.7	3.2	0.3	0.3	0.3	0.9	12.2
Donbasenergo	DOEN UK	Kiev, UX	42.38 UAH	+0.0	+8.9	+53.6	+114.9	3.67	86.8	127.9	14.2	12.3	42.7	33.7	0.31	327	32.4	1.2	2.6	0.5	1.0	1.6	0.3	0.2	0.2	1.5	17.8
Zakhidenergo	ZAEN UK	Kiev, PFTS	123.00 UAH	+0.0	-0.2	+36.1	+44.9	10.65	136.2	113.1	5.0	6.8	0.2	6.4	0.06	1,671	2.7	N/A	N/A	0.7	N/A	N/A	0.1	N/A	N/A	0.9	0.0
<b>METALLURGY</b>																											
Alchevsky Meta...	ALMK UK	Kiev, UX	0.03 UAH	+0.0	-6.3	-11.1	-19.4	0.00	77.0	1,292.4	3.9	3.0	19.1	10.1	0.46	215	Neg.	N/A	N/A	N/A	N/A	N/A	1.0	N/A	N/A	N/A	64.5
Avdiyivsky Cok...	AVDK UK	Kiev, UX	2.96 UAH	+0.0	-1.5	-0.2	-4.4	0.26	49.9	46.8	4.0	2.0	17.8	14.0	0.91	110	Neg.	Neg.	1.9	Neg.	1.2	0.6	0.1	0.1	0.1	0.1	0.0
Azovstal	AZST UK	Kiev, UX	0.70 UAH	+0.0	+0.7	+4.5	+20.5	0.06	254.8	247.5	4.1	10.4	19.8	11.6	0.14	708	Neg.	Neg.	N/A	Neg.	Neg.	N/A	0.1	0.1	N/A	0.2	0.0
Yenakievo Steel	ENMZ UK	Kiev, UX	35.14 UAH	+0.0	+1.0	+9.8	+6.3	3.04	32.1	27.6	9.4	3.0	12.7	13.9	0.52	193	5.3	Neg.	N/A	Neg.	Neg.	N/A	0.0	0.0	N/A	0.8	0.0
<b>FINANCIAL SERVICES</b>																											
Raiffeisen Ban...	BAVL UK	Kiev, UX	0.18 UAH	+0.0	+16.4	+54.9	+74.9	0.02	456.3	N/A	3.8	17.4	99.9	56.5	0.31	318	16.5	7.0	Neg.	N/A	N/A	N/A	N/A	N/A	N/A	0.7	28.3
Ukrsotsbank	USCB UK	Kiev, UX	0.16 UAH	+0.0	+1.9	-16.9	+30.2	0.01	244.7	N/A	4.5	11.0	1.5	4.2	0.04	2,477	933.7	172.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.3	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 recovers slightly

Banks' correspondent accounts with the NBU rose UAH1.29bn to UAH31.47bn yesterday while total CDs outstanding slid only UAH0.08bn to UAH8.02bn, causing broader banking sector liquidity to rise UAH1.21bn to UAH44.77bn last Friday. Total local currency debt repayments scheduled for the next 30 days remained steady at UAH5.29bn.

KyivPrime interest rates diverged last Friday: the KyivPrime ON interest rate rose 30bp to 5.50% while the KyivPrime 1M interest rate slid 10bp to 19.70%.

**Investment implications: Liquidity slightly rose last Friday after declining over several days last week. This increase was partially supported by the NBU via CD redemptions on Thursday and UAH0.81bn in loans issued the same day, which was UAH0.60bn more than was repaid by banks. Although the increase was insignificant, but if last Friday's deals caused liquidity to increase, we could see positive dynamics prior to the beginning of month-end tax payments.**

## Primary auction announcement

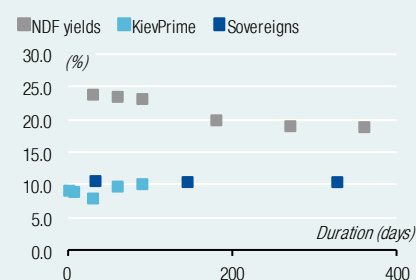
For the third time in April, the MoF changed the auction schedule last Friday, offering not only zero-coupon bonds with 3-month and 12-month maturities, but adding 3-year bonds which were not originally scheduled. For details of this auction, please see the next page.

**Investment implications: The MoF is scheduled to repay UAH1.93bn in debt repayments tomorrow; this amount could be higher due to changes in the UAH/USD exchange rate. Most likely, the MoF will try to refinance a significant portion of these repayments utilizing domestic QE to support demand. We do not anticipate market demand at this auction, especially for the 3-year local currency bond.**

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## Yield curve of the local bond market

(as of market close on 18 Apr 2014)



Sources: Bloomberg, Investment Capital Ukraine LLC.

## Bond market indicators (as of 18 Apr 2014)

	Last	Daily	Weekly	MoM	YTD
		chg (%)	chg (%)	chg (%)	chg (%)
<b>MONEY MARKET KIEV PRIME RATES (%)</b>					
0/n	5.50	+30bp	+212bp	-278bp	-230bp
1wk	11.10	-10bp	-165bp	-742bp	+130bp
1m	19.70	-10bp	-130bp	-420bp	+345bp
2m	18.20	+0bp	+7bp	-10bp	+180bp
3m	18.00	+0bp	+0bp	-4bp	+200bp
<b>LIQUIDITY WIDE MEASUREMENT (UAHm)</b>					
CB acc's <sup>1</sup>	31,468	+4.29	-7.60	+13.35	-3.77
CDs <sup>2</sup>	8,101	-50.00	-47.72	-16.54	+433.0
Sovgns <sup>3</sup>	5,382	+0.00	+20.19	+15.10	+260.0
<b>Total</b>	<b>44,951</b>	<b>-13.15</b>	<b>-16.80</b>	<b>+6.66</b>	<b>+25.85</b>
<b>HOLDERS OF UAH SOVEREIGN BONDS (UAHm)</b>					
C.bank	170,684	+0.00	+0.00	+0.58	+17.83
Banks	86,559	-0.77	-5.86	+8.37	+7.97
Resid's <sup>4</sup>	10,748	-0.10	-1.84	-3.97	-13.30
Non-res <sup>5</sup>	15,702	-0.83	-8.89	+12.58	+34.22
<b>Total</b>	<b>283,692</b>	<b>-0.29</b>	<b>-2.45</b>	<b>+3.27</b>	<b>+13.88</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	-52ppt	+0bp	+0bp	+0bp
Jan '14	N/A	+320bp	+0bp	+0bp	-676bp
Aug '15 <sup>6</sup>	N/A	-89ppt	+0bp	-89ppt	-89ppt
<b>EUROBONDS USD SOVEREIGN BOND YIELDS (%)</b>					
CDS 5yr	1,130	+2bp	+105bp	-119bp	+313bp
Jun '16	12.58	+44bp	+209bp	-294bp	+369bp
Jul '17	12.28	+0bp	+204bp	-201bp	+272bp
Sep '20	10.29	-1bp	+74bp	-158bp	+110bp
Sep '21	10.28	-4bp	+56bp	-147bp	+106bp
Sep '22	10.06	-1bp	+58bp	-91bp	+71bp
Feb '23	9.73	-1bp	+58bp	-101bp	+68bp

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

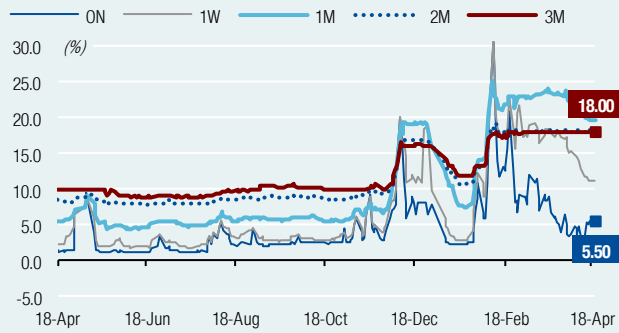


Chart 2. UAH NDF implied yields (%), last 12-month period

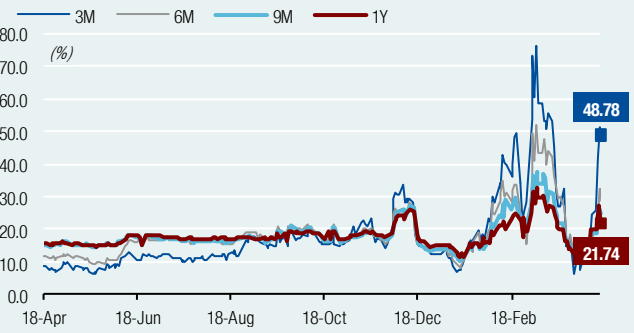


Chart 3. UAH sovereign yield curve (%) as of 18 Apr 2014

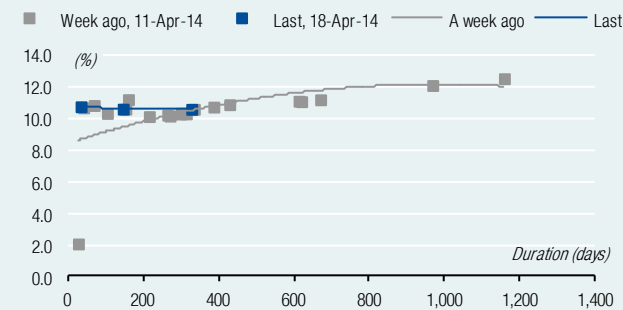


Chart 4. USD sovereign yield curve (%) as of 18 Apr 2014

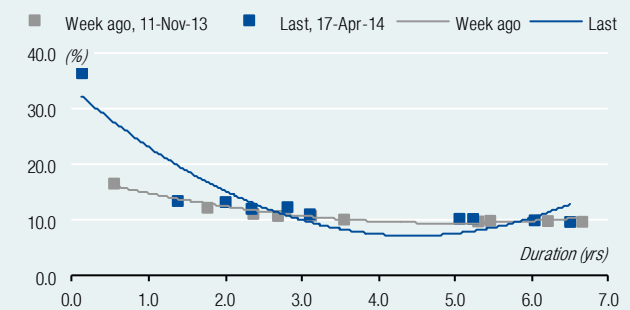


Chart 5. Banking sector liquidity (UAHbn), last 12-month period

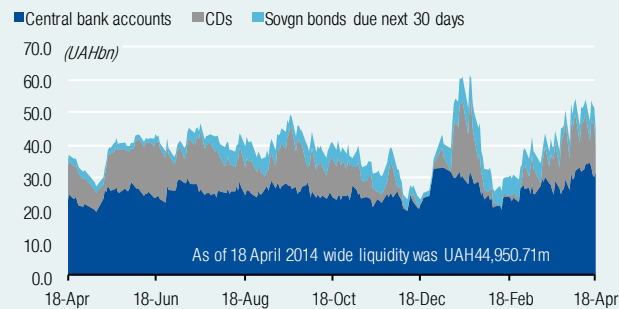


Chart 6. Breakdown of liquidity pool (%) as of 18 Apr 2014

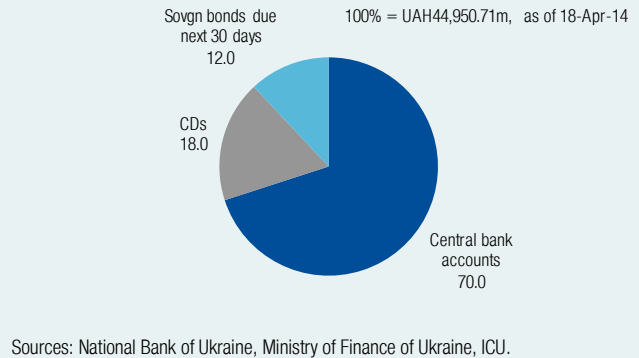


Chart 7. Holders of sovereign bonds (UAHbn), last 12 months

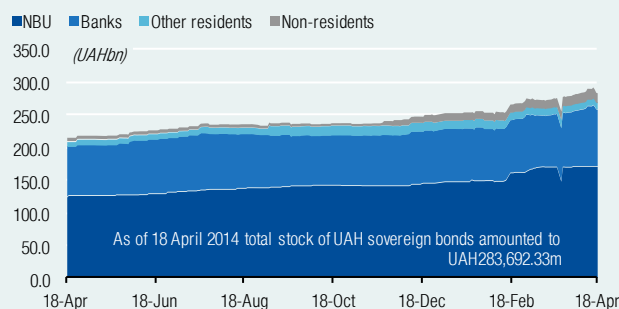
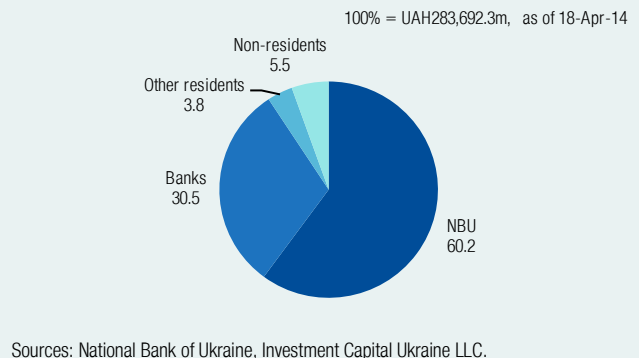


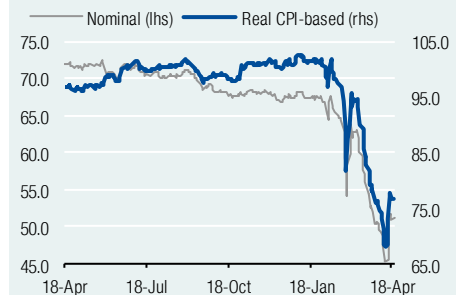
Chart 8. Domestic sovereign debt (%) as of 18 Apr 2014



# FX: News & Comments

## ICU's UAH trade-weighted indices

(Last 12-month history to 22 Apr 2014)



Source: Investment Capital Ukraine LLC.

## FX market indicators (as of 18 Apr 2014)

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

### USD/UAH MARKET (HRYVNIA per US DOLLAR)

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
Spot mkt	11.3000	+1.35	-11.09	+12.72	+37.14
NBU avg	11.2274	-0.22	-10.67	+12.73	+37.75
Tt vlm <sup>1</sup>	406.11	-11.41	+1.74	-46.92	-85.51
\$ volume <sup>2</sup>	324.42	-4.07	+19.61	-42.44	-85.33
NDF 3M	12.5000	+0.00	-7.24	+12.13	+47.32
NDF 6M	12.7500	+0.00	-7.61	+8.05	+45.22
NDF 1Y	13.5000	+0.00	-11.04	+9.31	+43.31

### TRADE-WEIGHTED INDICES (TWIs, points)

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
UAH nom'l	50.928	-1.35	+12.70	-11.80	-24.59
UAH real CPI	76.564	-1.35	+12.70	-11.80	-24.26
UAH real PPI	105.310	-1.35	+12.70	-11.80	-24.13
USD nom'l	79.847	+0.02	+0.50	+0.55	-0.23

### FX RATES OF KEY CURRENCIES THAT SHAPE UAH's TWIs

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
USD/RUB	35.5736	-0.11	-0.20	-1.86	+8.23
EUR/USD	1.3813	-0.01	-0.52	-0.87	+0.51
USD/CNY	6.2243	+0.09	+0.22	+0.47	+2.81
USD/PLN	3.0277	+0.01	+0.57	+0.25	+0.16
USD/TRY	2.1296	+0.14	+0.76	-4.00	-0.87
USD/BYR	9,955.00	-0.05	+0.15	+1.14	+4.35
USD/KZT	182.0700	+0.01	+0.04	-0.16	+18.02

### OTHER MAJOR CURRENCIES

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
USD/JPY	102.4300	+0.04	+0.80	+0.98	-2.73
GBP/USD	1.6794	+0.00	+0.36	+1.21	+1.43
USD/CHF	0.8835	+0.03	+0.84	+1.18	-1.05
AUD/USD	0.9333	+0.03	-0.68	+2.26	+4.67
USD/CAD	1.1024	+0.19	+0.40	-1.00	+3.77
USD/BRL	N/A	N/A	N/A	N/A	N/A
USD/KRW	1,037.58	-0.13	+0.22	-2.96	-1.16

### COMMODITIES

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
Gold(\$/oz)	1,294.30	-0.07	-1.83	-4.53	+7.35
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>	N/A	N/A	N/A	N/A	N/A

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>).

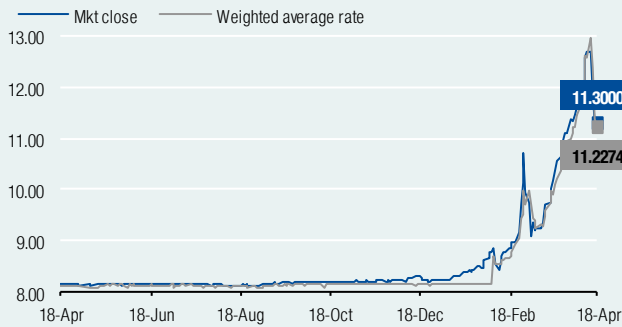
Section on FX market is continued on next page.

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.

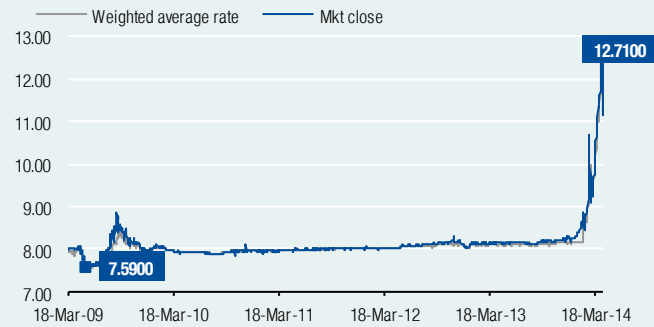
Sources: Bloomberg, Investment Capital Ukraine LLC.

### Chart page #1: Foreign-exchange market

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

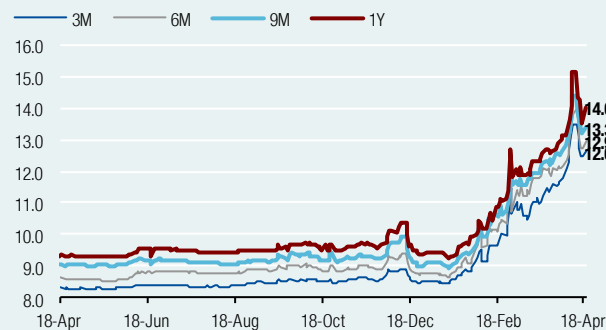


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

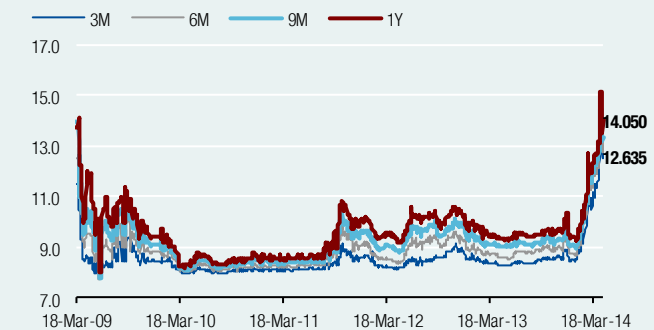


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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

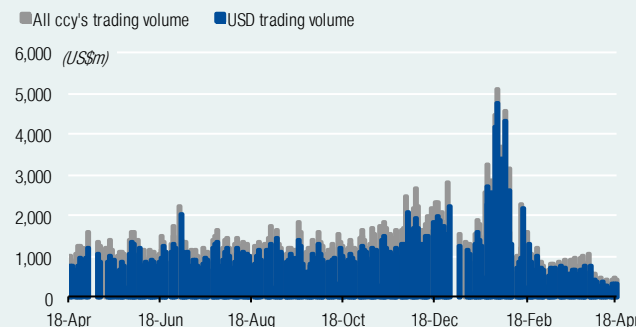


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

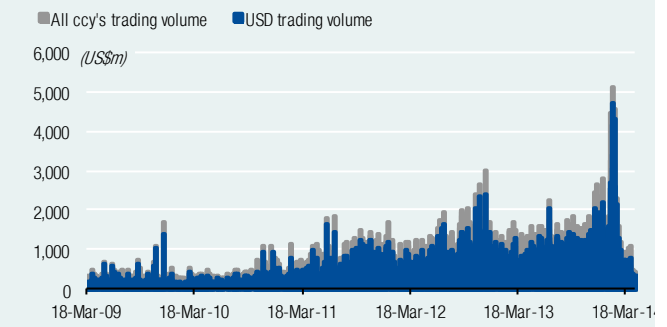


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**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.

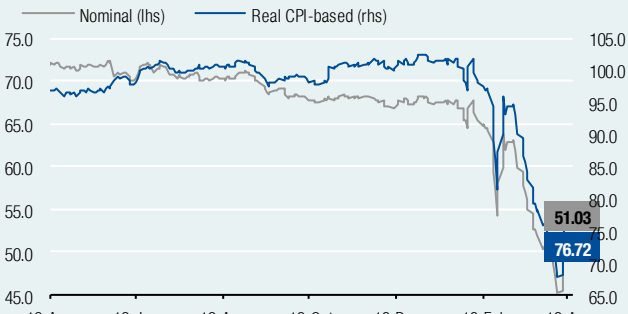




## Chart page #2: ICU's UAH trade-weighted indices

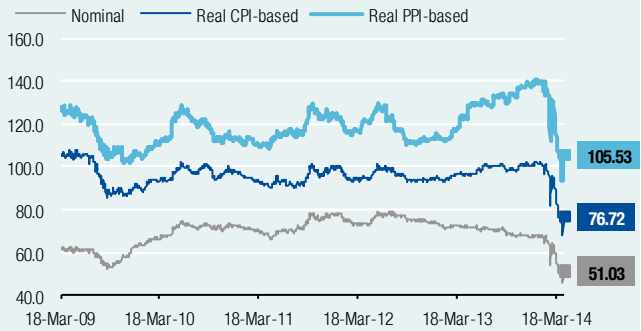
The following charts depict ICU's Ukrainian hryvnia trade-weighted indices which were calculated in accordance with methodology published in the [Quarterly Report "Keep the music playing"](#) dated 31 January 2013 and, then, updated, in the [Quarterly Report "Muddling through no more"](#) dated 14 August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

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



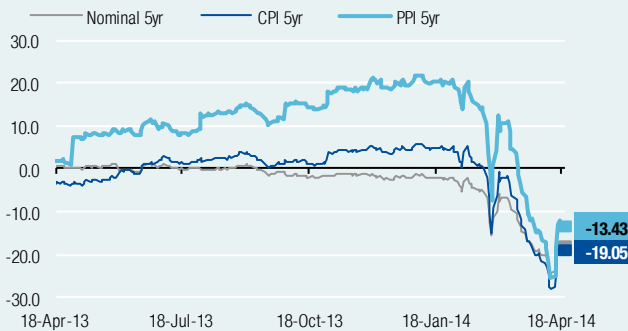
Note: The boxes indicate the last values of the depicted indicators.  
Source: Investment Capital Ukraine LLC.

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

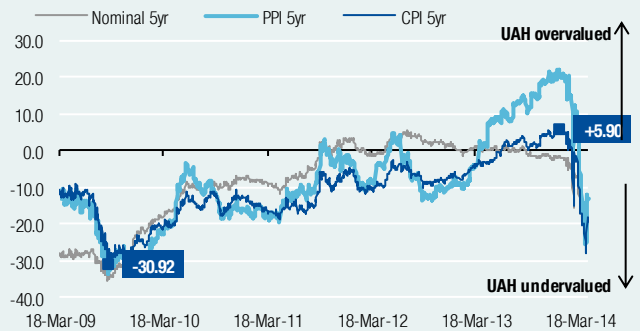


Note: The boxes indicate the last values of the depicted indicators.  
Source: Investment Capital Ukraine LLC.

**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)**

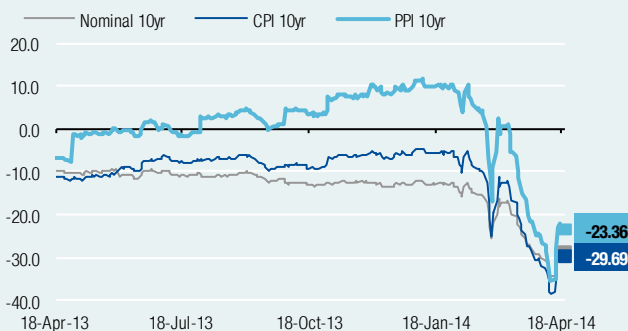


Note: The boxes indicate the last values of the depicted indicators.  
Source: Investment Capital Ukraine LLC.

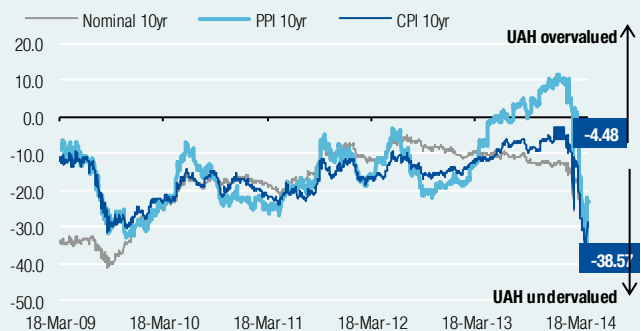


Note: the boxes indicate the high and low values of CPI-based TWI.  
Source: Investment Capital Ukraine LLC.

**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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**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

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