

# Daily Insight

Ukraine-Russia stand-off; Oschadbank report;  
Liquidity falls; Yields high; UAH slides marginally

MONDAY, 5 MAY, 2014

RESEARCH INSIGHT

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**UX Index (3 months to 5 May 2014)**



**Key market indicators (as of 30 Apr 2014)**

	Last	Daily chg (%)	YTD chg (%)
<b>FX &amp; MONEY RATES</b>			
USD/UAH	11.6000	+0.43	+40.78
USD/UAH (1Y NDF)	14.2000	+0.35	+50.74
EUR/USD	1.3867	+0.40	+0.90
USD/RUB	35.6632	+0.04	+8.50
KievPRIME O/N (%)	6.40	+120bp	-140bp
KievPRIME 1M (%)	19.20	+20bp	+295bp

**BONDS: yields and spreads**

Ukraine VAT bond (%)	N/A	-8,900bp	-8,900bp
Ukraine 17, Eurobond (%)	12.20	-57bp	+265bp
Ukraine 22, Eurobond (%)	10.35	-19bp	+100bp
Ukraine 23, Eurobond (%)	10.07	+13bp	+102bp
Ukraine 5Y CDS	1,198bp	+16bp	+382bp

**EQUITIES**

**Stock market indices**

UX (Ukraine)	1,103.28	-0.93	+21.23
MSCI World	414.09	+0.23	+1.36
MSCI EM	995.28	-0.47	-0.74
RTS (Russia)	1,155.70	+0.20	-19.89
WIG-20 (Poland)	2,439.09	-0.50	+1.59
S&P 500 (USA)	1,881.14	-0.13	+1.77

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

BAVL UK	0.11	39.6% of total <sup>1</sup>
CEEN UK	0.08	28.7%
DOEN UK	0.04	13.0%

**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 1, 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

## Ukraine-Russia stand-off: Pro-Kremlin deadly rioting spreads to Odessa

The southern city of Odessa, which as a rule has been protected from the mainstream political turmoil because of its valuable sea port trade, has become an epicenter of a deadly scene that took the lives of more than 40 people this past weekend. Some died from shot gun wounds while the remainder were burnt to death in an occupied building that was set on fire by pro-Russian activists who clashed with pro-Ukrainian supporters. Following the violent weekend, there is heightened risk that Odessa may follow Donetsk, Luhansk, Sloviansk and other smaller cities where pro-Kremlin activists have fortified pro-Russian strongholds that require special operations by Ukraine's army and special forces. The close proximity of Odessa to Transdnistria, a separatist region of Moldova strongly dependent on the Kremlin, poses a great risk that the violence could extend to yet another oblast of Ukraine, the spread of which could threaten the viability of the upcoming presidential elections. The Kremlin desires no elections as they promise to provide a politician who is untouched by the Kremlin's influence. The West is likely to respond with more sanctions on particular Russian business sectors later this month. As for Ukraine, the slow spawn of violence from Donetsk to Odessa, in our view, is big blow to both business and consumer confidence that would result in a serious recession this year. So far, we do not change our view on the real GDP decline of 3.7% loss due to a Russian annexation of Crimea and a 4.3% like-on-like decline.

*Alexander Valchyshen, Kiev, +38044 2200120 ext.242*

## Oschadbank decreases its exposure to Naftogaz - according to the 2013 IFRS report

Oschadbank's total gross exposure to NAK Naftogaz has been reduced by UAH5.0bn in 2H13, decreasing Naftogaz's share in the total net loan portfolio from 33.1% in 2012 to 23.7% in 2013. Naftogaz's gross debt was UAH15.3bn as of December 31, 2013. While Naftogaz has no overdue outstanding loans, the bank continues to create loan loss reserves at 18.5% of the gross exposure.

The remainder of the bank's predominantly corporate loan portfolio has become significantly more impaired in 2H13 as the total NPLs grew 55.0% during the second half of 2013 to nearly UAH7.0bn. The total share of NPL increased from 7.3% in 1H13 to 10.8% in 2H13. However, the share of NPL in the non-Naftogaz portfolio was 10.8% and 14.2%, respectively.

Oschadbank has increased its gross non-Naftogaz loan exposure by UAH7.5bn in 2H13 with funds received from the partial repayment of the Naftogaz loan.

Total consolidated net earnings of Oschadbank have increased 7.3% YoY to UAH711m in 2013, according to the recent IFRS report. Net interest income rose UAH218m while the net commission income grew UAH191m. However, much of this growth was offset by the staff cost that increased UAH264m.



The bank had above average exposure to the break-away region of Crimea, comprising UAH4.8bn of net loans to customers, or 9.2% of the total. Considering that the regional GDP of Crimea is estimated to be around 3.8% of Ukraine's total GDP, this amount is significant. We believe that the state bank has been engaged in financing large energy generating and distribution companies there; the recoverability of those assets remains questionable at this time.

***Mykhaylo Demkiv, Kiev, +38044 2200120 ext.243***



Table 1. Ukrainian stocks (closing prices as of 30-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 (%)
ENERGY																											
Centrenergo	CEEN UK	Kiev, UX	6.05 UAH	+0.0	+9.5	+27.0	+46.0	0.52	192.8	247.5	21.7	41.8	80.0	119.5	0.36	277	9.6	5.1	7.6	0.4	3.8	3.3	0.3	0.4	0.3	0.9	12.2
Donbasenergo	DOEN UK	Kiev, UX	42.41 UAH	+0.0	+0.8	+53.7	+111.9	3.66	86.4	127.4	14.2	12.3	36.2	39.0	0.40	253	1.9	2.6	2.6	0.5	1.6	1.5	0.3	0.2	0.2	1.5	17.8
Zakhidenergo	ZAEN UK	Kiev, PFTS	130.50 UAH	+0.0	+2.8	+44.4	+53.5	11.25	143.9	120.9	5.0	7.2	0.1	4.6	0.04	2,721	2.9	N/A	N/A	0.8	N/A	N/A	0.1	N/A	N/A	3.2	0.0
METALLURGY																											
Alchevsky Meta...	ALMK UK	Kiev, UX	0.03 UAH	+0.0	-15.4	-19.1	-26.1	0.00	69.8	1,279.9	3.9	2.7	18.9	9.9	0.39	259	Neg.	N/A	N/A	N/A	N/A	N/A	1.0	N/A	N/A	N/A	64.5
Avdiivsky Cok...	AVDK UK	Kiev, UX	2.98 UAH	+0.0	-1.3	+0.8	+0.3	0.26	50.2	47.1	4.0	2.0	10.4	14.9	0.82	122	Neg.	1.9	0.8	Neg.	0.6	0.4	0.1	0.1	0.0	0.1	0.0
Azovstal	AZST UK	Kiev, UX	0.71 UAH	+0.0	-3.5	+5.8	+23.1	0.06	257.0	249.7	4.1	10.5	3.5	12.2	0.12	866	Neg.	Neg.	N/A	Neg.	Neg.	N/A	0.1	0.1	N/A	0.2	0.0
Yasynivsky Cok...	YASK UK	Kiev, UX	0.62 UAH	+0.0	-16.5	+17.4	+13.7	0.05	14.7	15.9	9.0	1.3	0.9	1.2	0.11	929	2.5	1.3	0.8	0.1	0.6	0.5	0.1	0.0	0.0	0.1	0.1
Yenakievo Steel	ENMZ UK	Kiev, UX	34.82 UAH	+0.0	-3.0	+8.8	+2.4	3.00	31.7	27.2	9.4	3.0	15.3	12.9	0.27	377	5.3	Neg.	N/A	Neg.	Neg.	N/A	0.0	0.0	N/A	0.8	0.0
FOOD AND AGRIBUSINESS																											
Agroliga	AGL PW	Warsaw	17.09 PLN	+0.0	-15.1	-34.1	+9.2	5.64	8.7	9.6	16.7	1.4	2.8	12.3	0.26	384	2.0	N/A	N/A	2.8	N/A	N/A	0.4	N/A	N/A	0.7	5.7
FINANCIAL SERVICES																											
Raiffeisen Ban...	BAVL UK	Kiev, UX	0.18 UAH	+0.0	+4.2	+56.3	+73.9	0.02	458.5	N/A	3.8	17.5	110.4	58.8	0.36	281	16.7	7.1	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	-7.8	-16.4	+29.2	0.01	245.2	N/A	4.5	11.0	0.3	4.2	0.03	3,422	939.7	173.4	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 falls

Prior to the long weekend, broader banking sector liquidity fell UAH2.97bn to UAH43.69bn last Wednesday on the reporting of deals made last Tuesday as banks' correspondent accounts with the NBU fell UAH1.67bn to UAH30.20bn and total CDs outstanding declined UAH1.30bn to UAH8.00bn. Total local currency debt repayments scheduled for the next 30 days remained steady at UAH5.49bn.

KyivPrime interest rates rose last Wednesday prior to the 4-day weekend: the KyivPrime ON interest rate rose 120bp to 6.40%, while the KyivPrime 1M interest rate rose 20bp to 19.20%.

**Investment implications:** *Liquidity fell prior to the last business day last week and caused money market interest rates to rise due to the last day of month-end tax payments, primary auction bond purchases last Tuesday, etc. The NBU's injections via loans and CD redemptions merely softened the decline in liquidity.*

**Taras Kotovych, Kiev, +38044 2200120 ext.244**

## Yields high despite the IMF decision

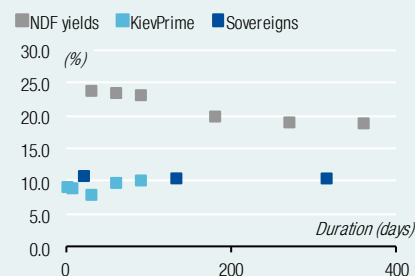
Prices of Ukrainian Eurobonds remained low and YTM's remained high above 10.0% last week, excluding only Eurobonds issued last year for the Russian financing. The YTM of UKRAIN 6.875% '15 was 14.21-17.10%, UKRAIN 9.25% '17 was 12.57-14.16%, UKRAIN 7.95% '21 was 10.85-11.81%, UKRAIN 7.80% '22 was 10.49-11.02% and UKRAIN 7.50% '23 rose last week from 9.77% to 10.52%, also crossing 10.0%.

**Investment implications:** *Ukrainian Eurobonds remained too risky with spreads widening last week slightly due to the large risk of a Russian invasion of Ukraine and the heightened violence in Odessa and in eastern Ukraine. This negative news absolutely cut all possible positive impacts from the IMF decision on the approval of the new stand-by program and the debut tranche which will be issued in the next few days. A significant part of the loan will be spent on debt repayments to the IMF scheduled for the beginning of May, while the next large redemption will be more important and is scheduled for June...but this will be moot if Ukraine is invaded.*

**Taras Kotovych, Kiev, +38044 2200120 ext.244**

### Yield curve of the local bond market

(as of market close on 30 Apr 2014)



Sources: Bloomberg, Investment Capital Ukraine LLC.

### Bond market indicators (as of 30 Apr 2014)

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

#### MONEY MARKET KIEV PRIME RATES (%)

O/n	6.40	+120bp	+116bp	+244bp	-140bp
1wk	10.60	+20bp	+10bp	-670bp	+80bp
1m	19.20	+20bp	-10bp	-410bp	+295bp
2m	18.10	-10bp	-20bp	-20bp	+170bp
3m	18.04	+4bp	+0bp	+0bp	+204bp

#### LIQUIDITY WIDE MEASUREMENT (UAHm)

CB acc's <sup>1</sup>	30,203	-5.23	-0.73	+2.83	-7.64
CDs <sup>2</sup>	9,304	-43.79	-35.11	-49.05	+512.1
Sovgns <sup>3</sup>	3,601	-35.96	-29.57	+13.30	+140.9
<b>Total</b>	<b>43,108</b>	<b>-20.24</b>	<b>-13.57</b>	<b>-15.16</b>	<b>+20.69</b>

#### HOLDERS OF UAH SOVEREIGN BONDS (UAHm)

C.bank	175,188	+0.00	+1.77	+3.39	+20.94
Banks	86,384	+2.14	+1.88	+3.75	+7.75
Resid's <sup>4</sup>	10,787	+0.18	-0.23	-2.66	-12.99
Non-res <sup>5</sup>	15,898	+0.38	+1.28	+5.16	+35.90
<b>Total</b>	<b>288,257</b>	<b>+0.66</b>	<b>+1.70</b>	<b>+3.35</b>	<b>+15.71</b>

#### NDF IMPLIED YIELDS (%)

3m	46.03	-628bp	-385bp	+28bp	+34bp
6m	27.05	-707bp	-414bp	+882bp	+14bp
9m	26.32	-69bp	+282bp	+12bp	+12bp
1yr	23.09	-10bp	+8bp	+873bp	+810bp

#### LOCAL CURRENCY UAH SOVEREIGN BOND YIELDS (%)

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

#### EUROBONDS USD SOVEREIGN BOND YIELDS (%)

CDS 5yr	1,198	+16bp	+30bp	+248bp	+382bp
Jun '16	13.95	-60bp	+35bp	+503bp	+506bp
Jul '17	12.20	-57bp	-15bp	+222bp	+265bp
Sep '20	10.70	-20bp	+13bp	+162bp	+150bp
Sep '21	10.66	-26bp	+9bp	+171bp	+144bp
Sep '22	10.35	-19bp	+19bp	+147bp	+100bp
Feb '23	10.07	+13bp	+20bp	+147bp	+102bp

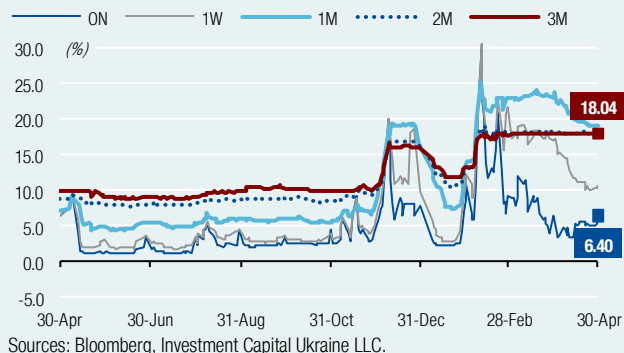
Notes: [1] banks' account balance at NBU; [2] certificates of deposits issued by NBU; [3] UAH sovereign bonds due next 30 days; [4] residents; [5] non-residents; [6] VAT bond.

Sources: Bloomberg, Investment Capital Ukraine LLC.



## Chart page: Local bond market & Eurobond markets

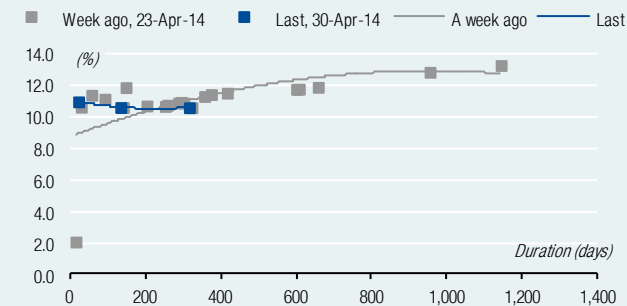
**Chart 1. Kiev Prime rates (%), last 12-month period**



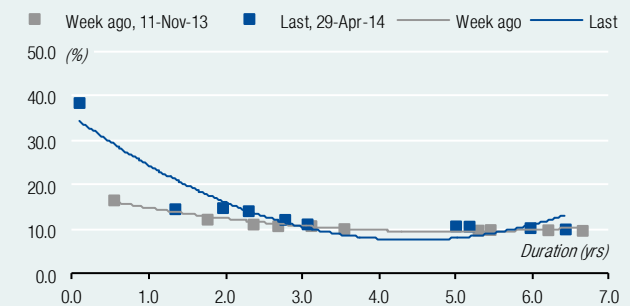
**Chart 2. UAH NDF implied yields (%), last 12-month period**



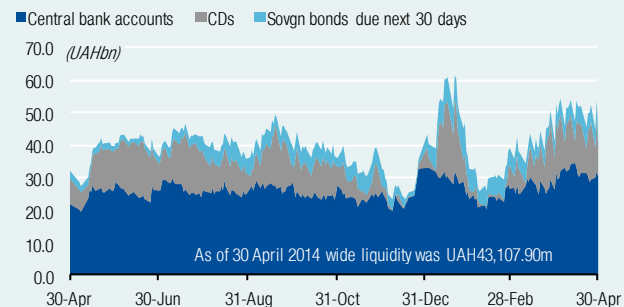
**Chart 3. UAH sovereign yield curve (%) as of 30 Apr 2014**



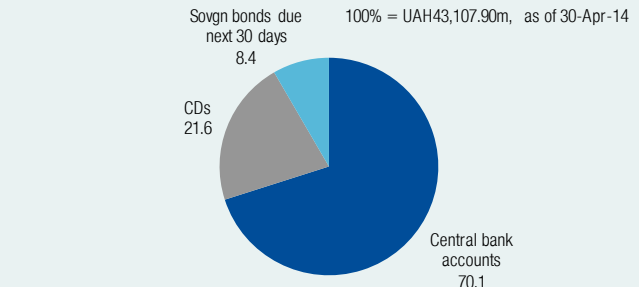
**Chart 4. USD sovereign yield curve (%) as of 30 Apr 2014**



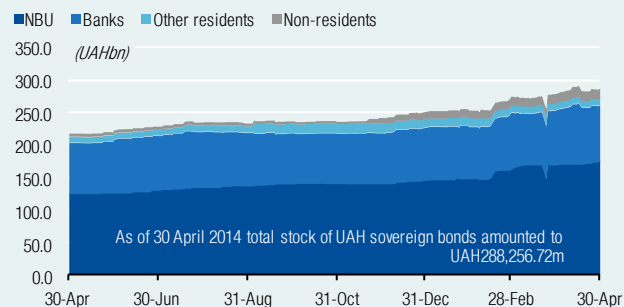
**Chart 5. Banking sector liquidity (UAHbn), last 12-month period**



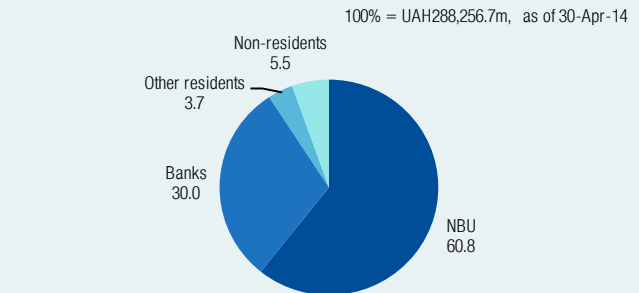
**Chart 6. Breakdown of liquidity pool (%) as of 30 Apr 2014**



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



**Chart 8. Domestic sovereign debt (%) as of 30 Apr 2014**





# FX: News & Comments

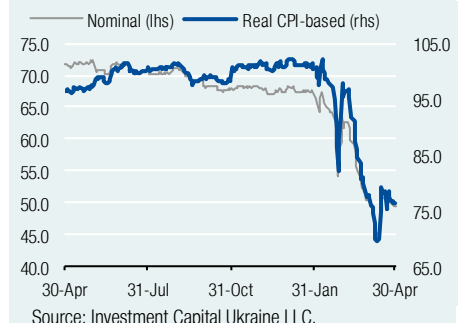
## UAH slides marginally, IMF decision supportive

The IMF's first tranche that is likely to arrive within a few days should support the FX market this week despite the heightening of increased violence that occurred over the past weekend. Last week, the FX rate was under downward pressure and slid 0.43% over the shortened holiday week. Still, the current risk of military invasion by Russia that has morphed into multiple enclaves of the highly armored and violent militancy by pro-Kremlin activists and special squads overshadows the economy and FX market.

**Alexander Valchyshen, Kiev, +38044 2200120 ext.242**

### ICU's UAH trade-weighted indices

(Last 12-month history to 5 May 2014)



### FX market indicators (as of 30 Apr 2014)

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>USD/UAH MARKET</b> (HRYVNIA per US DOLLAR)					
Spot mkt	11.6000	+0.43	+0.43	+4.50	+40.78
NBU avg	11.4016	-0.06	-0.97	+4.08	+39.88
Ttl vlm <sup>1</sup>	481.88	+30.96	+21.28	-42.06	-82.80
\$ volume <sup>2</sup>	345.42	+34.39	+22.82	-43.98	-84.38
NDF 3M	12.9250	-0.96	-0.42	+11.54	+52.33
NDF 6M	13.1500	-2.59	-1.36	+8.72	+49.77
NDF 1Y	14.2000	+0.35	+0.50	+12.49	+50.74
<b>TRADE-WEIGHTED INDICES</b> (TWIs, points)					
UAH nom'l	49.391	-0.56	-0.62	-4.67	-26.87
UAH real CPI	76.154	-0.56	-0.62	-4.67	-24.65
UAH real PPI	105.489	-0.56	-0.62	-4.67	-23.99
USD nom'l	79.474	-0.42	-0.48	-0.88	-0.70
<b>FX RATES OF KEY CURRENCIES</b> THAT SHAPE UAH's TWIs					
USD/RUB	35.6632	+0.04	-0.04	-0.28	+8.50
EUR/USD	1.3867	+0.40	+0.36	+0.84	+0.90
USD/CNY	6.2595	+0.03	+0.34	+0.76	+3.39
USD/PLN	3.0316	-0.16	+0.01	-0.04	+0.28
USD/TRY	2.1125	-0.36	-1.77	-3.60	-1.66
USD/BYR	9,990.00	+0.00	+0.10	+1.11	+4.72
USD/KZT	182.0700	+0.00	+0.01	-0.01	+18.02
<b>OTHER MAJOR CURRENCIES</b>					
USD/JPY	102.2400	-0.39	-0.29	-0.57	-2.92
GBP/USD	1.6873	+0.27	+0.54	+1.41	+1.91
USD/CHF	0.8804	-0.35	-0.34	-0.72	-1.40
AUD/USD	0.9287	+0.21	-0.04	+0.43	+4.15
USD/CAD	1.0962	+0.16	-0.63	-0.90	+3.19
USD/BRL	2.2323	-0.17	+0.47	-1.28	-5.50
USD/KRW	1,033.22	+0.26	-0.63	-3.36	-1.58
<b>COMMODITIES</b>					
Gold(\$/oz)	1,291.55	-0.34	+0.60	-0.29	+7.12
WTI crude <sup>3</sup>	99.74	-1.52	-1.97	-1.90	+1.34
Brent crd <sup>3</sup>	108.65	-0.69	-0.34	+1.29	-1.96
Urals crd <sup>3</sup>	N/A	+0.00	+0.00	+0.00	+0.00
TR/J CRB <sup>4</sup>	309.53	-0.74	-0.59	+1.42	+10.48

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.

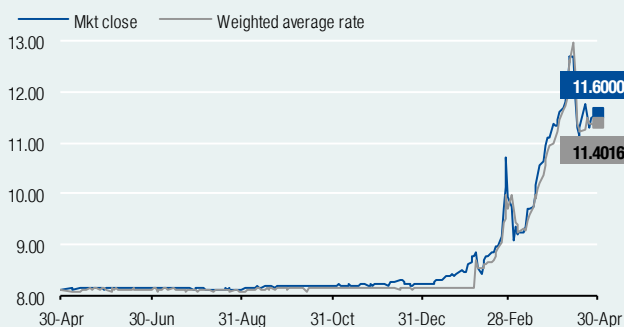
Notes: [1] trading volume in all foreign currencies (US\$m);  
[2] trading volume in the pair USD/UAH (US\$m);  
[3] crude oil price (USD per barrel); [4] the Thomson Reuters/Jefferies CRB Index. A green-/red-shaded box means gain or loss, respectively, of the investment into the asset.  
Currencies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

Sources: Bloomberg, Investment Capital Ukraine LLC.

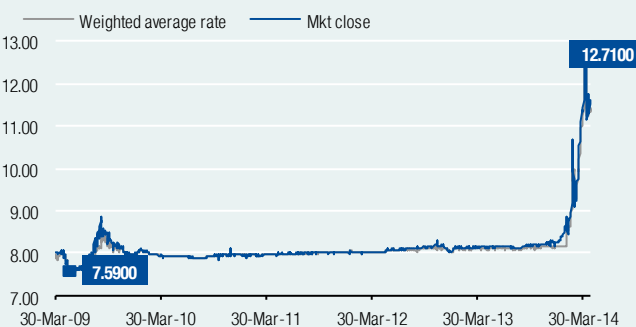


## Chart page #1: Foreign-exchange market

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

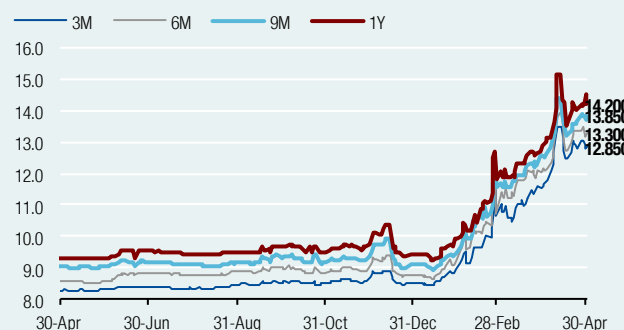


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

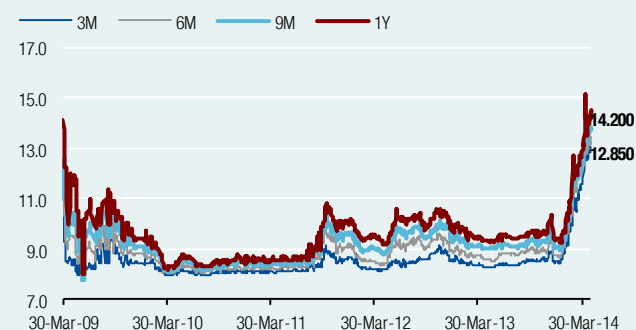


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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

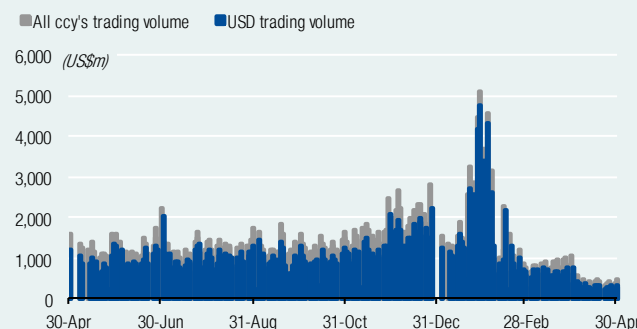


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

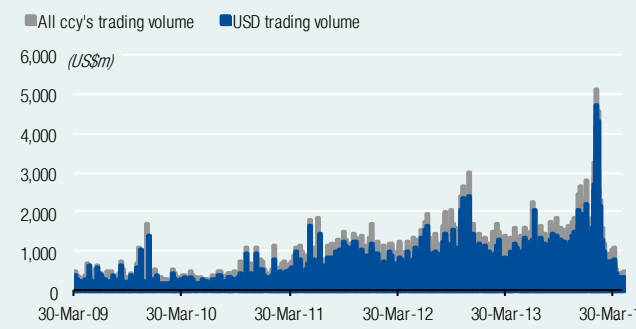


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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.

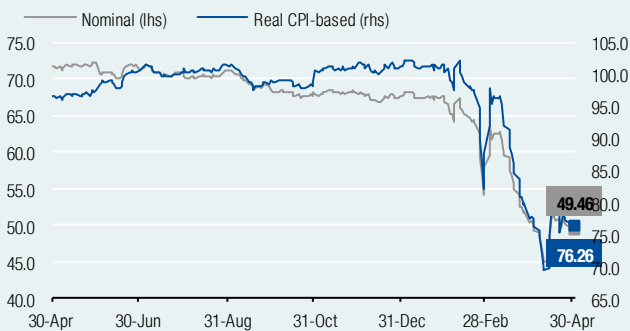




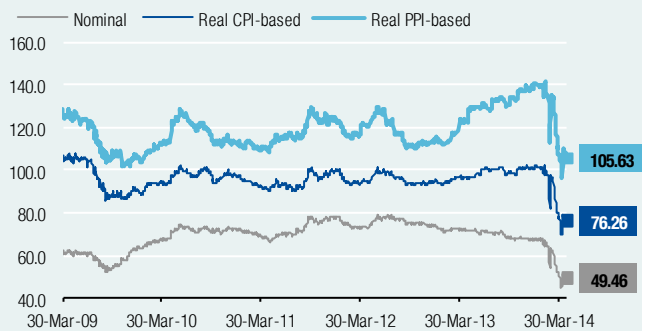
## Chart page #2: ICU's UAH trade-weighted indices

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.

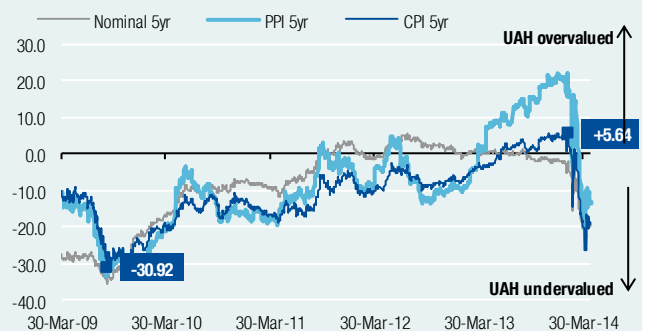
**Chart 13. Nominal and CPI-based real TWIs of UAH, history of last 12-month period**



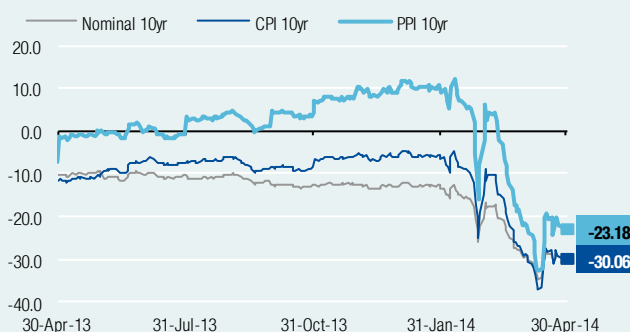
**Chart 14. Nominal, CPI- and PPI-based TWIs of UAH, history of last 5-year period**



**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)**



**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)**





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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





**INVESTMENT CAPITAL UKRAINE**  
INVESTMENT BANKING

Office 44, 11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kiev, 01030 Ukraine  
Phone/Fax +38 044 2200120

**CHAIRMAN OF THE BOARD OF DIRECTORS**

**Valeria Gontareva**  
valeria.gontareva@icu.ua

**CORPORATE FINANCE TEL. +38 044 2200120**

**Makar Paseniuk**, Managing Director  
makar.paseniuk@icu.ua

**Volodymyr Demchyshyn**, Director  
volodymyr.demchyshyn@icu.ua

**Ruslan Kilmukhametov**, Director  
ruslan.kilmukhametov@icu.ua

**SALES AND TRADING TEL. +38 044 2201621**

**Konstantin Stetsenko**, Managing Director  
konstantin.stetsenko@icu.ua

**Sergiy Byelyayev**, Fixed-Income Trading  
sergiy.byelyayev@icu.ua

**Vitaliy Sivach**, Fixed-Income & FX Trading  
vitaliy.sivach@icu.ua

**Vlad Sinani**, Director,  
Strategy and Corporate Development  
vlad.sinani@icu.ua

**Julia Pecheritsa**,  
Ukraine and CIS International Sales  
julia.pecheritsa@icu.ua

**Yevgeniya Gryshchenko**,  
Fixed-Income Sales  
yevgeniya.gryshchenko@icu.ua

**RESEARCH DEPARTMENT TEL. +38 044 2200120**

**Alexander Valchyshen**  
Head of Research  
alexander.valchyshen@icu.ua

**Alexander Martynenko**  
Head of corporate research  
alexander.martynenko@icu.ua

**Bogdan Vorotilin**  
Financial analyst (Food & Agribusiness)  
bogdan.vorotilin@icu.ua

**Taras Kotovych**  
Senior financial analyst (Sovereign debt)  
taras.kotovych@icu.ua

**Mykhaylo Demkiv**  
Financial analyst (Banks)  
mykhaylo.demkiv@icu.ua

**Lee Daniels, Rolfe Haas**  
Editors

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