

# Post-EuroMaidan Ukrainian reality

Interim political and strategy note

# Summary

Three important shifts happened in Ukrainian business after EuroMaidan protests resulted in a change of power in Ukraine, including:

- spoiled business relationships with Russia,
- occupation of Crimea and deterioration of the business climate for Ukrainian companies there,
- attempts to destabilize the situation in Eastern Ukrainian regions with lot of violent acts there.

The first two events bear significant risk for the companies exposed to Crimea or dependent on Russian demand, and there is a low probability of the reversal of events in the mid-term. Though, the Russian factor, as we see it, will be only influential for some food exporters – those supplying steel or machinery to the Russian market are either insulated from risks (power engineering, aerospace), or have already suffered from demand decline in the past (railcar, pipe producers).

Risks assumed by the third factor seem to have been over-estimated by the market. Destabilization affected banking business (as downtown-located banking outlets were attacked by thugs in some locations), but more than a month of turmoil has not affected the operation of big enterprises in the region (exceptions were two coal mines, which suffered a short break in operations). A core risk for eastern region businesses is that Eastern Ukraine will turn to a new Crimea – and we see the chance for that to be very low.

**We recommend considering investments into stocks** of the companies which there is market cursed for their eastern exposure, or for whom the market over-estimated the Russian risks: Serinus Energy (**SEN PW**), Motor Sich (**MSICH UK**), Ukrsotsbank (**USCB UK**), Milkiland (**MLK PW**) and Astarta (**AST PW**).

We also believe that bonds of First Ukrainian International Bank (**PUMBUZ**), Ukrlandfarming (**UKRLAN**) and Ukrainian Railways (**RAILUA**) fell too much following the new Ukrainian reality. Attractively price vs. their risks look also bonds of Ukreximbank (**EXIMUK 2015**) and Ferrexpo (**FXPOLN**).

For the very short term, we see two critical events that may determine an escalation of violence in the east and south of Ukraine: May 9 celebration of Victory Day (and a 3-day long and risky weekend), and the presidential elections of May 25. Unrests are unlikely to de-escalate until May 25, and the next weekend may be at least as violent as the previous one. At least two mobilization points for separatists are expected in the next three days: The Victory Day of May 9 and the “terrorist referendum” on May 11. We expect that the next weekend may create a better entry point for assets exposed to eastern and southern Ukraine. A bet on the tough weekend may be reflected in **shorting** of companies which are heavily exposed to the southern and eastern regions of Ukraine: Kernel (**KER PW**) and Avangard (**AVGR LI**).

# What's going on in Ukraine

Russia has reacted hostile to the results of Euromaidan protests which led to the escape of president Viktor Yanukovich on February 22, and the election of a new government and an acting president in Ukraine.

On February 26, Russia invaded Crimea, the most pro-Russian region of Ukraine. The occupation of Crimea resulted in the signing of an agreement between Putin and self-proclaimed leaders of the Crimean region and Sevastopol city to join these units to Russia on March 18. Despite the fact that annexation has not been recognized by most governments, Russia de-facto fully controls Crimean peninsula.

The de facto annexation of Crimea brings significant risks for the operation of Ukrainian companies which have assets there. Most Ukrainian banks have stopped their operations in the region.

Inspired by a victory in Crimea, president Putin has initiated pro-Russian extremist movements in other regions of Ukraine, which Putin later called *Norosiya* (shaded regions on the right map). At the moment, most of the efforts of the Russia-funded separatists are concentrated in the two most eastern regions, Donetsk and Luhansk. There is some risk of similar developments in the Kharkiv and Odessa regions (though, as recent events suggest, support for anti-Ukrainian protest is weak there).

As of now, the Ukrainian government has fully lost control over two cities in the Donetsk region, Slaviansk and Kramatorsk. Currently the Ukrainian government is implementing an anti-terrorist operation (ATO) there with some progress. Some government and police buildings are currently occupied by armed "separatists" in dozen of cities in the two eastern regions, including the regional centers of Donetsk and Luhansk.

On top of internal separatist movements, Ukraine faces a real threat of invasion of the Russian army, which has concentrated its forces along the whole Ukraine-Russia border. The possibility of attack from Russian forces from Crimea and the region of Transnistria (part of Moldova that is controlled by pro-Russian forces) is also considered by military experts. As the last weekend shows (turmoil in Odessa) such a risk is real.

**Ukraine is trying to fight with Russia-funded terrorists inside Ukraine, and as soon as the government's ATO reaches some interim success separatists activate in other locations to try make Ukrainian forces re-allocate. In the event of any success in battles with terrorists, the threat of full-scaled Russian military invasion is increasing.**

"Risky" regions of Ukraine and external threats



# What to expect: interim destabilization to calm down after May 25

The minimum goal which pro-Russian forces want to achieve in the short-term is **failure of extraordinary presidential elections in Ukraine**, which are scheduled for May 25. As soon as we are approaching the election date, the scope of violence in eastern regions will increase, we expect. Though, we believe the **elections will happen on time**, even though they may fail to convene in some locations.

The maximum goal of Putin, at the moment, looks like an **annexation of Donetsk and Luhansk regions** (commonly known as Donbass) – the two most-eastern regions where pro-Russian sentiments are relatively strong. We believe that this goal is **not achievable**, unless Putin decides to invade its army to the regions (in Crimea, a “legal” presence of Russian army was the key to success). We see the probability of such invasion is low, mainly because Putin understands that Russian economy will suffer from move – EU and the U.S. look serious by threatening with broad sector-focused sanctions in this case.

**Destabilization in Donbass** – this is where Putin was **successful**. Russian-funded and Russian-controlled separatists are still occupying dozen of government buildings and police offices in these two regions, and it will take lot of time for Ukrainian government to free the occupied premises. Therefore, we should expect further attempts of pro-Russian forces to develop their success in Donbass and further destabilize these regions. The minimum goal of Putin is to show how Russian people how weak is a new post-EuroMadan Ukraine. Maximum goal, annexation of Donbass, can emerge as an option to Putin if his destabilization efforts will be exceptionally successful.

We see that **destabilization in eastern Ukraine is also beneficial for some local decision-makers**. For Yulia Tymoshenko, who dreams about presidential position and has no chance to win the May 25 elections, a postponement of the vote raises a chance for success. For Rinat Akhmetov, who is considered a shadow leader of Donbass, unstable situation allows to claim the importance of delegation of more power from the center to regions, which will allow him retain his regional power even after his ally Yanukovich lost his presidential post. Tymoshenko is clearly inclined to help destabilizing by May 25, and Akhmetov will favor turmoil before a “dialogue with regions” will start. Though, **neither local decision maker is interested in separation of any region of Ukraine**. We, therefore, believe, that **turmoil is very likely calm down after May 25**.

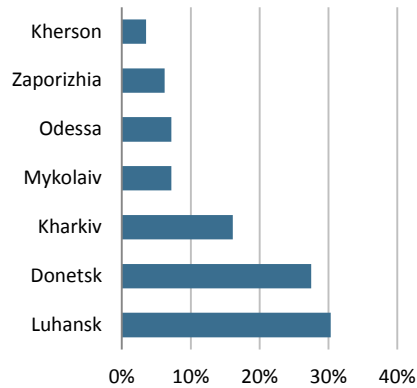


# Eastern and Southern regions do not support joining to Russia

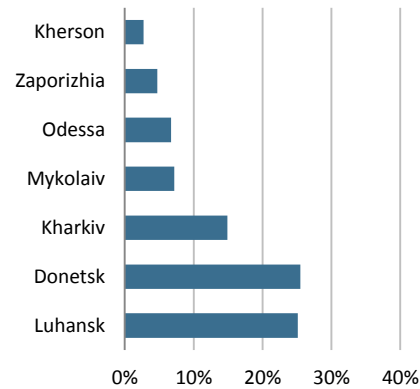
Population of the regions which Putin called “Novorosiya” do not support the idea to joint to Russia, while the idea of “federalization” of Ukraine - one of the key messages voiced by separatists - is more or less popular for some of the regions.

## Share of population in the regions that:

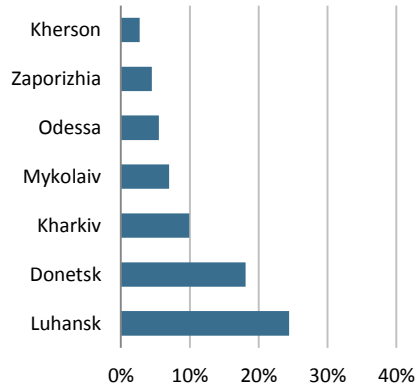
**Strongly support or mostly support a joining of their region to Russia**



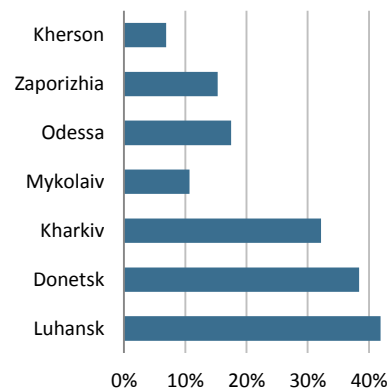
**Ready to participate in pro-Russian protests**



**Strongly support or mostly support those occupied state buildings with weapon**



**Think that Ukraine should be federal republic**



## Separatism moods of southern and eastern regions of Ukraine



We believe it will be hard for Putin to realize the “Crimean scenario” in southern and even eastern regions of Ukraine, given little public support of such idea in these regions.

Source: Poll of Kyiv International Institute of Sociology made on April 8-16, 2014

# “Elites” are interested in interim destabilization, not in separation

Rinat Akhmetov looks to be interested in turmoil in the Donbass region. He publicly interprets the unrests as an appeal of the Donbass people to the central government for the delegation of more power to the region that he is accustomed to control.

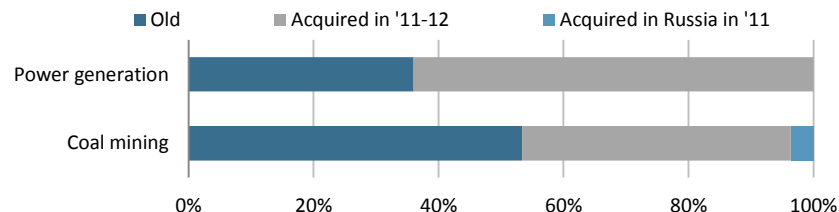
- There is no doubt that Akhmetov, the core employer of Donbass residents, can cope with all the public unrests in the region. The experience of another tycoon, Ihor Kolomoisky, who stabilized situation in eastern Dnipropetrovsk region, is indicative.
- In his possible negotiations with the central government, Akhmetov might be planning to exchange stability in the region for the delegation of power and protecting ownership right on all the assets he accumulated during Yanukovich’s presidency.

Many experts point that destabilization in Donbass (or any other region) is beneficial for Yulia Tymoshenko, whose close allies are currently in power in Ukraine.

- Member of her party Oleksandr Turchynov is currently heading Parliament and acts as interim president of Ukraine – this is the biggest concentration of power in one hand in Ukraine’s modern history.
- Tymoshenko’s ultimate goal is to become president, while her chances to win the May 25 elections are close to zero. Many experts believe that her goal is to postpone presidential elections and buy the time needed to improve her chances. Destabilization, which may lead to postponement of presidential elections, is clearly in favor of Tymoshenko.
- On the other hand, escalations in eastern Ukraine may further spoil the rating of Tymoshenko, whose allies are responsible for the current situation in Ukraine. She cannot openly support unrests in the east.

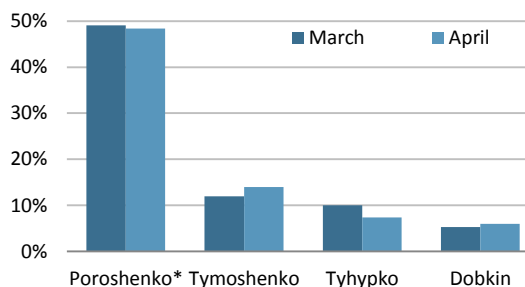
There are no proven facts pointing that these two mentioned persons are playing to destabilize the situation in Ukraine. But their clear interests in destabilization is the most logical explanation of why the Ukrainian government and regional elites have yet not managed to calm down separatist moves in Donbass. If this hypothesis is true, we believe some de-escalation will happen after the May 25 presidential elections (so far, we do not see enough reasons for elections to not take place).

**Contribution of assets to Akhmetov’s DTEK’s 2013 results**

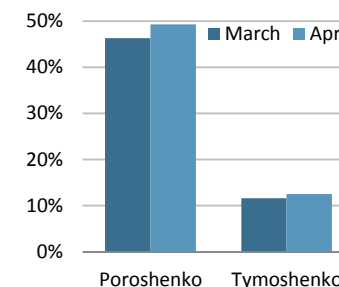


Source: Company data, EnergoBiznes

**Simulated presidential elections: Results of first round**



**Second round (2 candidates)**



Source: Kyiv International Institute of Sociology (KIIS).

Note: Results of nation-wide polls of four most respectful sociological firms (KIIS, SOCIS, Razumkov Center, Rating Sociological Group), based on choices of those who confirmed their plan to vote.

March: pool convened on March 14-19; April: pool convened on April 9-16.

\* For March, votes for Poroshenko include votes for Vitaliy Klitschko

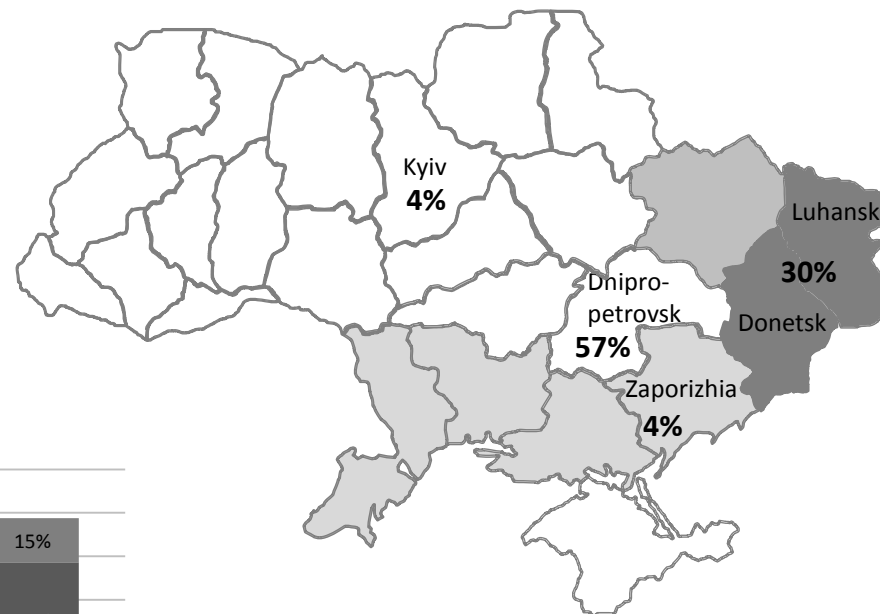
# Akhmetov cannot be interested in separation of Donbass

Rint Akhmetov, who is considered by many experts as a “shadow governor of Donbass” (Donetsk and Luhansk regions) has chosen a neutral position in all the protests, publicly supporting Ukraine’s integrity, but claiming that the central government “has to hear Donbass” (give more power to local authorities). This idea has emerged after his close ally, Viktor Yanukovich, lost his president post, which threatened Akhmetov’s position as well. His ultimate goal, we believe, is to keep as much control over the most eastern regions as he had under Yanukovich.

Destabilization in eastern regions adds more arguments to the central government in favor of delegating some power to regions - this is what Akhmetov is targeting.

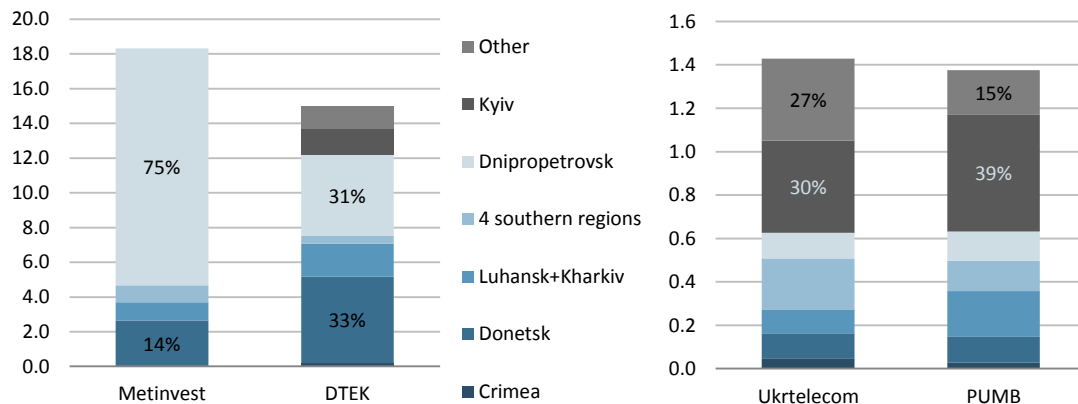
We believe Akhmetov is sincere by stating that he is against separation of the eastern regions. His most valuable assets, iron ore deposits, are located in the Dnipropetrovsk region, and he would face a real risk of losing them in case Donetsk and Luhansk regions are annexed by Russia.

Regional distribution of businesses which brought dividends to Akhmetov in 2013



Source: Company data, Concorde Capital estimates  
 Note: We used DTEK and Metinvest as dividend payers (PUMB and Ukrtelecom did not pay dividends in 2013, all the other businesses of Akhmetov are ignored here). Dividends distributed by regions in proportion of the regions' contribution to EBITDA of the holdings

Regional distribution of 2013 EBITDA of Akhmetov’s core business units, UAH bln



Source: Company data, Concorde Capital estimates  
 Note: For PUMB, we used profit before tax plus loan loss provisions plus D&A as EBITDA

# Risks for listed companies

The vast majority of Ukrainian security issuers have exposure to risks that have opened after the victory of EuroMaidan revolution, including:

**Spoiled business relations with Russia** – a clearly important factor as it can affect the revenue of some Russia-focused companies. Though, it will be only influential for some food exporters. In industrial sector, those supplying critical products for Russia are insulated from risks (power engineering, aerospace) and others have already suffered from demand decline in the past (railcar, pipe producers).

**Occupation of Crimea by Russian Federation** and deterioration of the business climate there. This affects negatively businesses with Crimea-located assets due to a deterioration of the business climate there. This raises the risk that the companies will lose their Crimean assets

**Turmoil in eastern regions of Ukraine, Donetsk and Luhansk** (and to some extent in Kharkiv and Odessa regions). The risk is that these regions will turn into a “new Crimea”, which we see as very low at the current moment.

- Turmoil has clearly **affected retail business, primarily banks** – as most of retail outlets located in the epicenters of separatist movements had to close.
- On the other hand, during the full month of their activity, **separatists did not affect businesses** of the big production and processing enterprises.
  - Some exceptions are: temporary suspension of work at Metinvest’s Krasnodonugol and an attempt to attack Metinvest’s Enakieve Steel head office and Novokramatorsk Machinery; temporary suspension of work at the state coal company. All the listed above companies are currently working at normal mode, no damage to their business was made.
  - At the same time, a series of enterprises which are in the hottest locations were not affected, including Sloviansk TPP of Donbasenergo (located 5 km away from downtown Sloviansk, the headquarters of terrorists and the epicenter of ATO), Khartsyzk Pipe, Azovstal, Illich Steel Plant, Donetsk Steel Plant, Stakhaniv Railcar, chemical giant Stirol, and Luhansk TPP of DTEK (all located not more than 10 km away from centers of the cities where separatists are especially active). The only risk for them is that they will have to temporarily decrease their outputs due to risk of lives of their employees.

We believe that stock market’s negative reaction on eastern Ukrainian events was too fierce.



# Risks for listed companies in eastern Ukraine: exact location doesn't matter

**Aggression of extremists in the eastern regions was not directed at the large business units** in the region. Many attacks were on bank outlets located on the streets. In most cases, they suffered because of their close location to the epicenters of protests. The only exception were outlets of Privat Bank, whose owner is known as a main fighter against separatists.

Out of four large enterprises which were attacked, two were units of Akhmetov (Krasnodonugol mine and the office of Enakieve Steel) one was a private Novokramatorsk Machine Building Plant, and one was a state enterprise, Ordzhonikidzeugol mine:

- Bad news is that a remote location from the epicenter of turmoil does not secure a business from an attack – for instance, Krasnodonugol is very far away from any epicenter of protests.
- Good news is that attacks have not resulted in the significant interruptions of work of enterprises (though coal mines halted their work for couple of days) or any damages to their assets.

We believe that all the enterprises located in Donetsk and Luhansk regions bear an equally low risk of attack, whether it is Sloviansk TPP of Donbasenergo, located hundreds of meters from the ATO epicenter, or Sinzhne Machinery of Motor Sich located far away from hot spots.

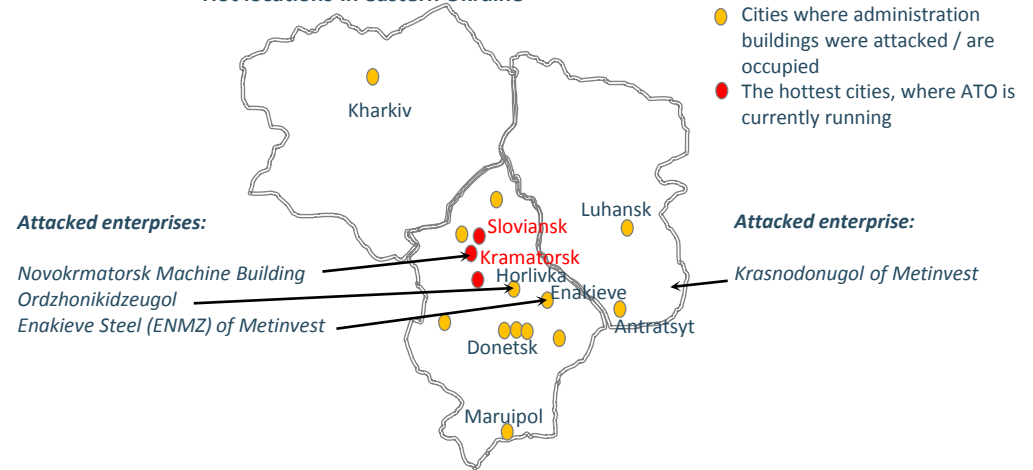
At the same time, we do not expect that enterprises will be damaged by attacks, if any.

**The core risk for all the businesses located in Donetsk and Luhansk regions is the decrease in their outputs vs. plan**, as some employees may choose to not work during the days when it is really dangerous to move on the streets.

This is especially applied to locations where ATO is active - the most risky asset from this standpoint is Sloviansk TPP of Donbasenergo. Though, risk of its under-performance is minimal: the plant shut down its flagship power unit for planned reconstruction on April 18, and TPP is currently producing less than 10% of Donbasenergo's total power.

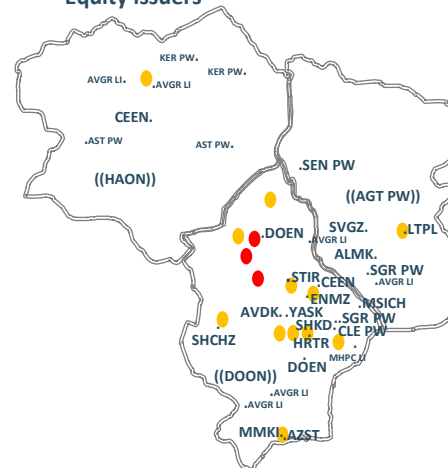
Chemical giant Stirol (located in the hot city of Horlivka) announced on May 7 it was stopping its operations due to terrorism threat.

Hot locations in eastern Ukraine

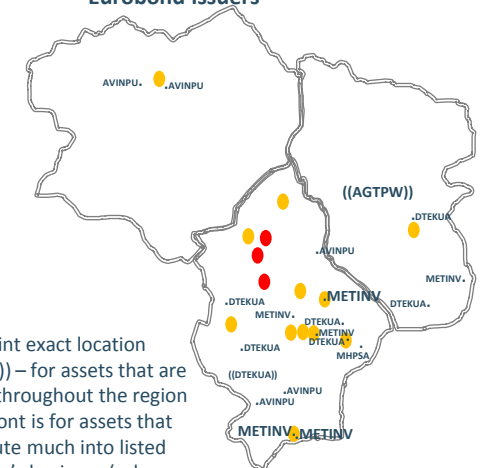


Exact location of core business units in hot regions:

Equity issuers



Eurobond issuers



**Notes:**

- Dots point exact location
- ((NAME)) – for assets that are spread throughout the region
- Larger font is for assets that contribute much into listed company's business (sales, or EBITDA contribution is more than 10%; or it is a critical part of production chain)

# Risks for listed companies: equity

Risk of value loss	Ticker	Name	Crimean factor	Russian factor	Eastern Ukraine location	Comment	Perf. since Feb. 21
Very high	KSG PW	KSG Agro	Medium		Low	21% land in Crimea, 4% in Kharkiv region	-47%
High	SVGZ UK	Stakhaniv Railcar		Medium	High	Located in Luhansk region; Russia accounts for >50% sales, but worst seems to have happened (sales fell 2.1x in 2013)	-34%
	ENMZ UK	Yenakieve Steel		Medium	High	Located in Donetsk region; Russia accounts for 14% of sales	-28%
	AZST UK	Azovstal		Medium	High	Located in Donetsk region; Russia accounts for 12% of sales	-28%
	MHPCL LI	MHP	Low	Low	Low	25% of meat capacity, 12% distribution channels located in Crimea; 15% distribution channels and some flock capacities are in Donetsk and Luhansk regions; export to Russia is closed which did not affect sales in 1Q14	-20%
Relatively high	MSICH UK	Motor Sich		Medium	Medium	~50% sales goes to Russia (though risk of orders fall in low), Donetsk region-based plant produces turbine blades	-33%
	AVGR LI	Avangard	Low		Medium	3% eggs produced in Crimea, 18% in Donetsk and Luhansk, 9% in Kharkiv region	-15%
	UTLM UK	Ukrtelecom	Low		Medium	~2% sales in Crimea, ~7% in Donetsk and Luhansk, ~4% in Kharkiv region*	-8%
	BAVL UK	Raiffeisen Aval	Low		Medium	~2% sales in Crimea, ~7% in Donetsk and Luhansk, ~4% in Kharkiv region*	-3%
	USCB UK	Ukrsofsbank	Low		Medium	~2% sales in Crimea, ~7% in Donetsk and Luhansk, ~4% in Kharkiv region*	-37%
	MLK PW	Milkiland		High		62% of consolidated sales in Russia, imports 40% of Ukraine-made products to Russia	-35%
Moderate	ALMK UK	Alchevsk Steel		Low	High	Located in Luhansk region; Russia accounts for 13% of sales; has Russian shareholders	-41%
	LTPL UK	Luhanskteplovoz		Low	High	Located in Luhansk region, 100% sales go to Russia, but orders are protected as it is owned by Russians	-3%
	HRTR UK	Khartsyzk Pipe		Low	High	Located in Donetsk region; ~75% of sales go to Kazakhstan - Russia accounts for less than 5%	31%
	KER PW	Kernel Group		Low	Medium	14% crushing capacity is in Russia (low risk of loss), 18% crushing capacity and 6% land bank are in Kharkiv region	-26%
	WES PW	Westa ISIC		Medium		>40% sales in Russia, worst seems to have happened	-33%
	KVBZ UK	Kryukiv Railcar		Medium		Russia accounts for more than 60% sales, but worst seems to have already happened (revenue fell 1.9x in 2013)	-41%
		AVDK UK	Avdiivka Coke			High	Located in Donetsk region
Low	YASK UK	Yasynivsky Coke			High	Located in Donetsk region	32%
	SHCHZ UK	Pokrovske Mine			High	Located in Donetsk region	22%
	DOEN UK	Donbasenergo			High	All assets are in Donetsk region	-19%
	SHKD UK	Komsomolets			High	Located in Donetsk region	52%
	CLE PW	Coal Energy			High	All assets in Donetsk, Luhansk regions	-41%
	SGR PW	Sadovaya Group			High	All assets in Donetsk, Luhansk regions	-27%
	AGT PW	Agroton			High	All assets are in Luhansk regions	-53%
	SEN PW	Kulczyk Oil			High	81% of gas produced in Luhansk region; Higher price for Russian imported gas might be beneficial	-34%
	CEEN UK	Centrenergo			High	25% capacity in Donetsk, 50% in Kharkiv region	-8%
	AST PW	Astarta			Medium	14% of sugar production capacity located in Kharkiv region	-31%
		JXX LN	JXX Oil & Gas		Low		52% of gas produced in Russia (not risk for Russian business seen). Higher price of Russian gas in Ukraine would be beneficial
Minimal	UNAF UK	Ukrnafta			Low	Some gas filling stations are in hot regions	0%
	IMC PW	Industrial Milk Co					-11%
	FXPO LN	Ferrexpo					-14%
	CGOK UK	Central Iron Ore					-23%
	SGOK UK	Northern Iron Ore					-30%
	DNEN UK	Dniproenergo					1%
	ZAEN UK	Zakhidenergo					-21%
	OVO PW	Ovostar Union					-12%
		MAYA GR	Mriya Agroholding				-13%
No risk, might be benefit	BGEO LN	Bank of Georgia				13%	
	RPT LN	Regal Petroleum				-31%	
	CAD LN	Cadogan Petrol.				-17%	

Source: Company data, Concorde Capital estimates

Notes: All the provided data in comments is for 2013. \*Data based on country-wide sector statistics for 2012

# Risks for listed companies: fixed income

Risk of value loss	Ticker	Name	Crimean factor	Russian factor	Eastern Ukraine location	Comment
Very high	NAFTO	Naftogaz of Ukraine	Low	High	Medium	9% gas produced in Crimea, ~14% in Kharkiv region, profit depends much on import price of Russian gas
	PRBANK	Privat Bank	Low	Medium	Medium	~2% sales in Crimea, ~7% in Donetsk and Luhansk, ~4% in Kharkiv region; Shareholder is personal enemy of Putin
High	DTEKUA	DTEK	Low	Low	High	Owns Crimean DisCo, Russian coal mines (minor share in total output). 60% of coal and 35% of power produced in Donetsk and Luhansk regions. About 25% of borrowings are from Russian banks
	MHPSA	MHP	Low	Low	Low	Some land, 25% of meat capacity, 12% distribution channels located in Crimea; 15% distribution channels and some flock capacities are in Donetsk and Luhansk regions; export to Russia is closed which did not affect sales in 1Q14
Relatively high	AVINPU	Avangard	Low		Medium	4% eggs prod. In Crimea, 22% in Donetsk and Luhansk, 10% in Kharkiv region
	RAILUA	Ukrainian Railways	Low		Medium	~2% sales in Crimea, ~11% in Donetsk and Luhansk, ~13% in Kharkiv region*
	OSCHAD	State Savings Bank	Low		Medium	~2% sales in Crimea, ~7% in Donetsk and Luhansk, ~4% in Kharkiv region*
	EXIMUK	UkrExim Bank	Low		Medium	~2% sales in Crimea, ~7% in Donetsk and Luhansk, ~4% in Kharkiv region*
	PUMBUB	First Ukr. Int'l Bank	Low		Medium	~2% sales in Crimea, ~7% in Donetsk and Luhansk, ~4% in Kharkiv region*
	VABANK	VAB Bank	Low		Medium	~2% sales in Crimea, ~7% in Donetsk and Luhansk, ~4% in Kharkiv region*
	NADRA	Nadra Bank	Low		Medium	~2% sales in Crimea, ~7% in Donetsk and Luhansk, ~4% in Kharkiv region*
Moderate	METINV	Metinvest		Low	High	2/3 sales come from enterprises of Donetsk, Luhansk regions; Russia accounts for 8% of sales
	UKRLAN	Ukrlandfarming	Low		Low	Land is dispersed throughout Ukraine
Low	AGTPW	Agroton			High	All assets are in Luhansk regions
No risk	FXPOLN	Ferrexpo				
	MRIYA	Mriya Agroholding				

Source: Company data, Concorde Capital estimates

Notes: All the provided data in comments is for 2013. \*Data based on country-wide sector statistics for 2012

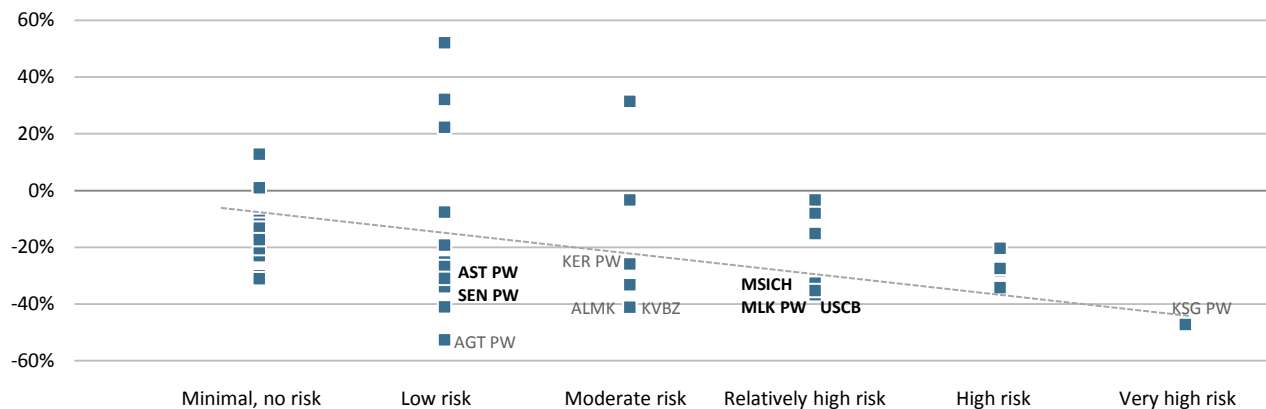
# Stocks that over-reacted on post-EuroMaidan risks

To pick over-reacted stocks, we have arranged all the companies from our universe by their exposure of new risks (as described on slide 10) and their stock performance, in USD terms, since these risks emerged (February 22).

Some liquid-enough stocks have noticeably over-reacted to the new risks as their price fell more than for the more risky stocks. Prices for many of them also suffered due to company-specific negatives. Out of the under-performed stocks, we select those which had no clearly negative company-specific surprises:

**Serinus Energy (SEN PW), Astarta (AST PW), Motor Sich (MSICH UK), Milkiland (MLK PW) and Ukratsbank (USCB UK)** and are our top picks.

Risk profile vs. stock performance since Feb. 22

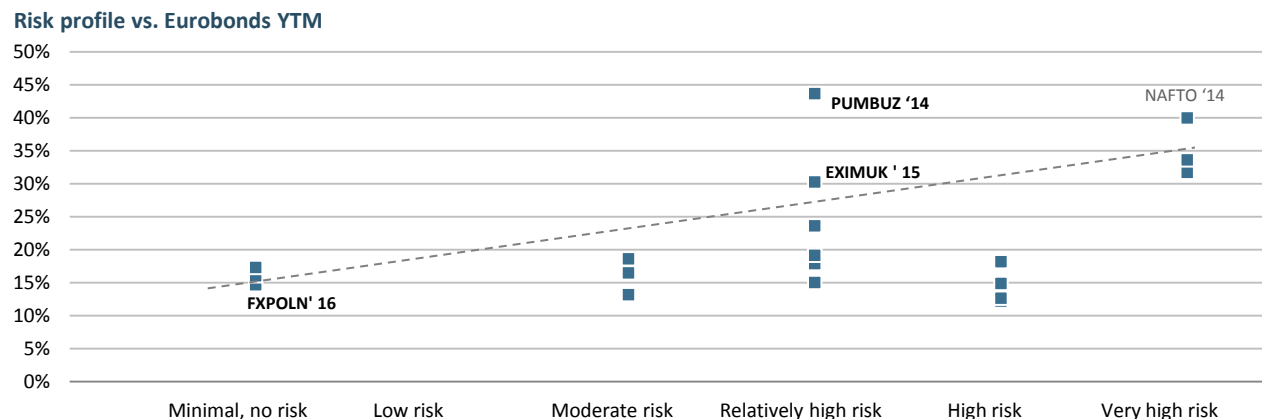
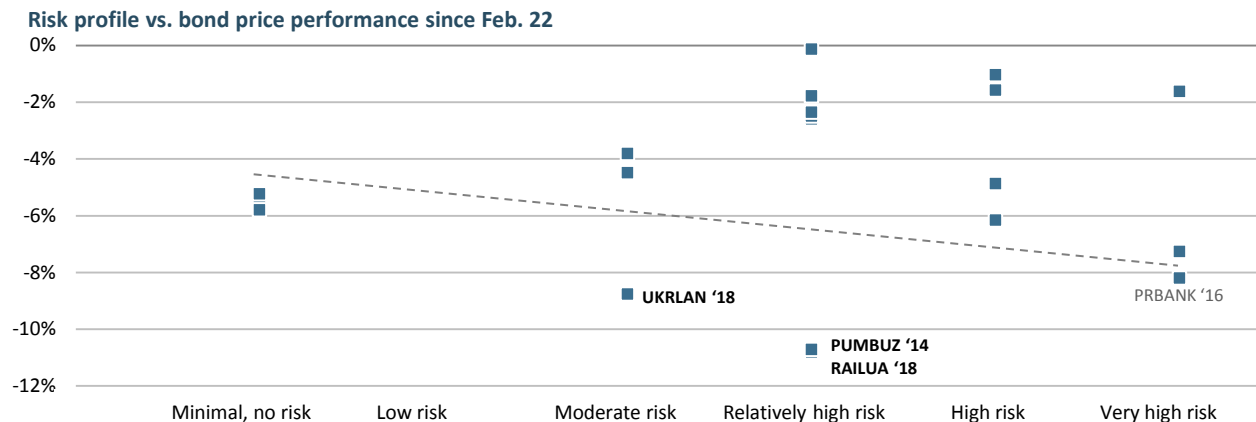


Source: Bloomberg, Concorde Capital Research

# Bonds that over-reacted on post-EuroMaidan risks

Among fixed income instruments which seem to negatively over-reacted on post-EuroMaidan turmoil are First Ukrainian International Bank (**PUMBUZ**), Ukrainian Railways (**RAILUA**) and Ukrlandfarming (**UKRLAN**).

Our of them, PUMBUZ also provides an attractive yield. Attractively priced, compared to its recent risks, look also bonds of Ukreximbank (**EXIMUK 2015**) and Ferrexpo (**FXPOLN**).



Source: Bloomberg, Concorde Capital Research

# Turmoil in Eastern and Southern Ukraine: beware holidays, short exposed to risks

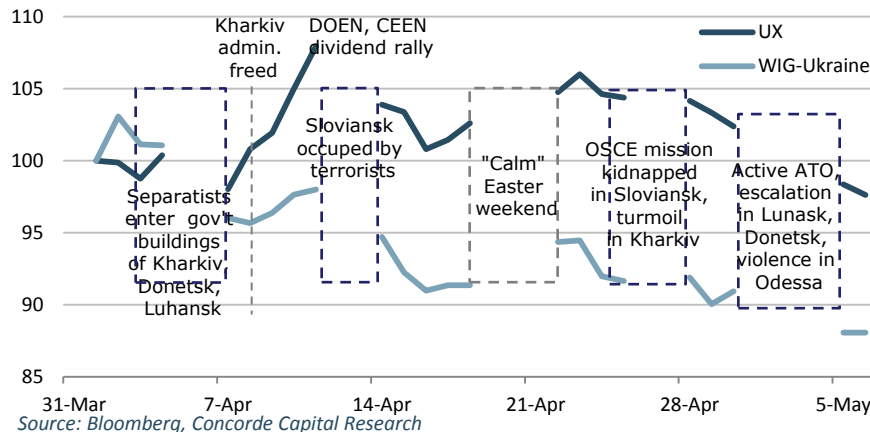
While we see that risk of separation of eastern regions from Ukraine is low, we expect that situation will further escalate there in the coming days, at least until the scheduled presidential elections of May 25.

The most aggressive actions of pro-Russian extremists are during weekends (when it is easier to mobilize radical protesters from Ukraine and “political tourists” from Russia). The exception was Easter weekend (April 18-20).

Usually, on the weekends, both pro-Ukrainian and pro-Russian rallies are happening in most of the cities. Such mass meetings sometimes are used by aggressive individuals to escalate local conflicts and de-stabilize situation. Some rallies of pro-Russian protesters in the eastern regions finished in the seizure of administrative and police offices.

The last extended weekend’s peaceful pro-Ukrainian rally in Odessa turned into a bloody battle with separatist. The Situation in the Donetsk and Luhansk regions has also been escalating on the weekends.

## Stock market reacted negatively after tough weekends (April 1 = 100):



The next 3-day weekend may be violent as well. Core mobilization date is May 9, Victory Day, when pro-Soviet moods are on the extreme in post-USSR countries. Another mobilization date for pro-Russian separatists is May 11, when a “terrorist referendum” is scheduled.



The probability of destabilization in any region close to Russia, Transnistria and Crimea should not be ruled out for the coming weekend. It is naïve to expect that the Ukrainian government will be able to prevent violence in all the “risky” regions. The real threat of de-stabilization remains primarily in the Donetsk and Luhansk regions, while some turmoil might be expected next weekend in some southern regions and in Kharkiv as well.

**We expect another negative reaction of stock market after the next weekend - this might create attractive entry points to some assets.**

Those willing to bet on next weekend turmoil may short Kernel (37% of its seed crushing capacities are in Odessa & Mykolaiv regions, 14% in Kharkiv region) and Avangard (23% of its laying hens are in Kherson & Mykolaiv regions, 25% in Donetsk, Luhansk & Kharkiv regions)

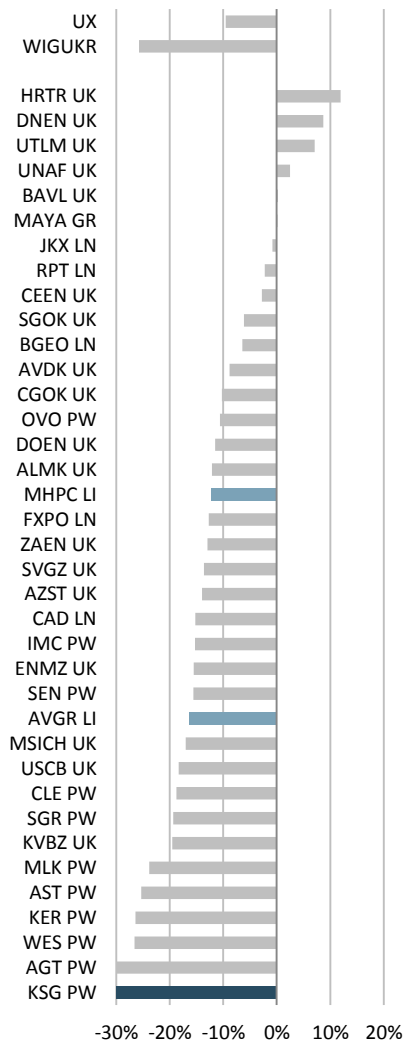
# Stock performance: Crimean and Eastern Ukrainian factors

Stock market nervously reacted on Russia's occupation of Crimea and the Russia-driven escalation of conflicts in some cities of three eastern regions of Ukraine: Donetsk, Luhansk and Kharkiv.

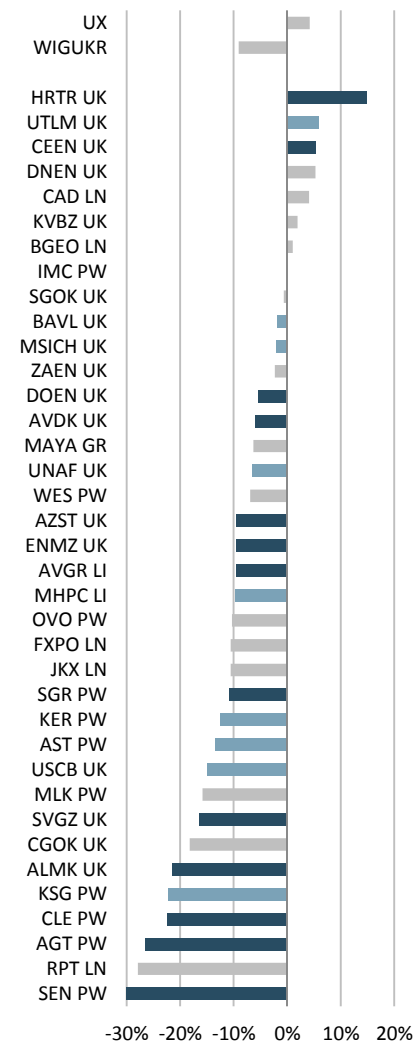
Stocks listed in Warsaw and London reacted much fiercer on both Crimean and Eastern Ukrainian conflicts, which we explain by a much smaller tolerance to local risks of international investors compared to local investors.

Stock prices of the companies exposed to the regions of conflict suffered more, on average. The most remarkable exceptions are high-dividend payers, Donbasenergo, Raiffeisen Bank Aval and Centrenergo, as well as illiquid Khartsyzk Pipe and Ukrtelecom.

Crimean factor: price chg Feb. 22 – Apr. 4



East Ukrainian factor: price chg Apr. 4 – May 6



Source: Bloomberg, Concorde Capital Research

Note: Changes in USD-denominated stock price

Dark blue bars - for companies heavily exposed to the risk;

Light blue bars - for companies exposed somehow to the risk

## Contribution of southern and eastern regions to Ukraine's national statistics

	Crimea*	Luhansk	Donetsk	Kharkiv	Odessa	Zaporizhia	Mykolaiv	Kherson	Dnipropetrovsk
Population (Mar 2014)	5.2%	4.9%	<b>9.6%</b>	6.0%	5.3%	3.9%	2.6%	2.4%	7.2%
GDP (2012)	3.8%	4.0%	<b>11.7%</b>	5.6%	4.4%	3.8%	2.0%	1.3%	10.1%
Agricultural output (2012)	3.0%	2.8%	4.9%	<b>5.5%</b>	3.6%	3.2%	3.1%	3.7%	5.2%
Industrial output (2012)	2.2%	6.0%	<b>17.3%</b>	5.5%	2.0%	5.9%	1.7%	0.7%	15.6%
Trade retail turnover (2012)	5.4%	4.4%	<b>10.3%</b>	6.9%	6.2%	4.2%	2.0%	1.7%	7.5%
Iron ore mining (2013)						5.4%			<b>78.8%</b>
Steel production (2013)		12.8%	<b>39.6%</b>			12.6%			35.1%
Steam coal mining (2013)		31.2%	<b>44.8%</b>						30.0%
Electricity generation (2012)	0.6%	3.3%	14.3%	4.6%	0.1%	<b>25.0%</b>	9.1%	0.7%	7.6%
Natural gas production (2013E)	7.7%	0.6%		<b>14.0%</b>					

Sources: UkrStat, Energobiznes

\* Crimean data includes city of Sevastopol





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