Ukrainian Investment Strategy

Renewed country, proven investment stories

July 3, 2014

CONCORDE CAPITAL

Executive summary

Capital markets reacted temperately to this spring's democratic transformations in Ukraine and the useful attempts by the new government to rehabilitate the economy by securing international financing. Russian aggression against Ukraine – consisting of a renewed trade war, Crimea joining the world's gray areas and sponsorship of terrorism in the part of easternmost regions (Donbas) – did not go beyond the watchful eyes of risk-averse investors.

The new government has yet to offer its plan for rehabilitating the economy and laying the groundwork for improving Ukraine's investment attractiveness. We believe it should be presented and executed soon, otherwise it will be hard for Ukraine to offer the warring regions a reason to halt their separatist fervor. That being said, we do expect the economy will find its bottom in the near term and start rehabilitating soon. A positive development, in our view, is that the Ukrainian hryvnia's devaluation potential has been exhausted, which opens the door to international investors increasing their exposure to local paper. The inflation that has been ignited by the weakened hryvnia will reduce overall consumption in Ukraine, while we believe that publicly listed producers will not see a radical decline in demand for their products, and thus they will be the winners of food price hikers.

Naturally, we cannot treat positively the companies whose bottom line depends on military de-escalation in the east. Instead we are bullish on food producers that are focused on non-Russian exports or domestic sales (which will benefit from overall inflation): Ovostar Union (**OVO PW**), Astarta (**AST PW**), Kernel (**KER PW**). We also recommend looking at Donbasenergo (**DOEN UK**), a historically high-dividend-yielding stock whose profit should be higher yoy in 2014 as the government has allowed it to generate a special investment surcharge, whatever the outcome in Donbas is. Among our preferred stocks are also Avangardco (**AVGR LI**), which is striving to improve its image, and MHP (**MHPC LI**), which should benefit from good free cash flow in 2014. We also like Serinus Energy (**SEN PW**), a fast-growing hydrocarbon producer, and Ukrnafta (**UNAF UK**), a company that may eventually decide to pay good dividends. We are naturally bearish on Ukraine's coal companies, most steel companies and railcar producers, due to their high exposure to Donbas and Russia.

All three corporate Eurobond issuers that were supposed to redeem their bonds in 1H14 underwent (or are going through) debt restructuring processes. Under such circumstances, all the other upcoming debt redemptions do not look to be smooth.

In picking the bonds that are due to mature in 2014-15, we have focused on an issuer's ability to autonomously repay all its debt maturing by the end of 2015. Among the issuers of 2014-15 bonds, we prefer **MHP'15** and **PrivatBank'15**, while we see a high risk of restructuring for **DTEK'15** and **Ukreximbank'15**. A special case is state monopoly **Naftogaz'14**, as we expect the state will help to repay this guaranteed bond smoothly. We believe the bond of **PUMB'14** trades too cheaply since the bank should be able to repay it, even in the worst scenario.

In analyzing longer bonds, we continue to use relative risk-return mapping to pick those that seem to be overlooked by the market. Based on our approach, we have concluded that the bonds of **Oschadbank'16** and **Ukrlandfarming'18** provide attractive yields vs. their fundamental risks. Yet the bond of state **Ukreximbank'18** and **Ukrzaliznytsia'18** look too expensive, given their risks.

Economic growth: to be visible next year only

Hryvnia devaluation, budget cuts and war in the east has pulled down private consumption. In May, Ukrstat reported a 7.7% decline in organized retail trade, which means that the negative trend with consumption is only deepening. We anticipate consumption sentiments will improve as soon as the military operation in the Donbas region ends. Nevertheless, we project private consumption to be in red in 2014, falling 5.6% yoy.

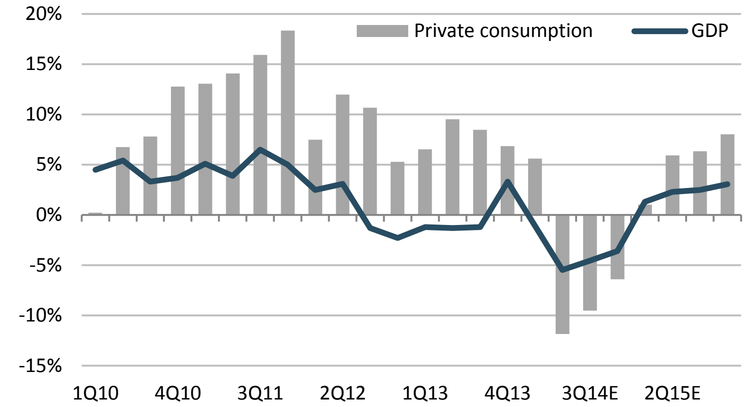
Investment demand will also revive itself not earlier than when Ukraine wins the war in the east. In 1Q14, investments in fixed assets slumped 19.1% yoy, which is a natural consequence of political uncertainty and poor economic conditions. Investment contraction will very likely exceed 10% yoy this year. Some improvement could be expected only till the year end.

GDP will be falling in 2014. In 1Q14, GDP declined 1.1% yoy but over the upcoming months, this trend will only strengthen on the back of shrinking consumption and investment. Still, we anticipate the declining rates to slow down in 2H14, assuming the problems in the east are resolved soon enough. In 2014, we project GDP to fall 3.7% yoy.

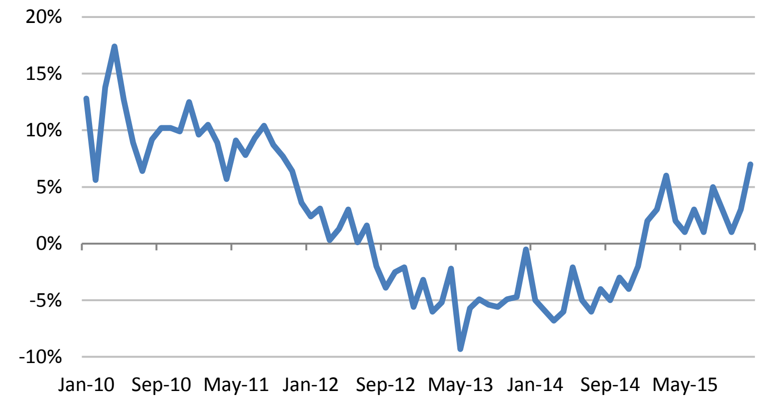
Ukraine's prime minster initiated on June 25 a shift from an emergency economic policy (which resulted in stabilizing public finances and securing macro support from abroad) to a "rehabilitation policy" aimed at stimulating economic growth. The plan's details have yet to be developed, though we expect they will be in the near future. In the currently tough situation in the east, the Cabinet has no other choice but to work actively to show real progress in economic recovery and improvement in the welfare of citizens, simply to prove to current and potential separatists that Ukraine is worth living in and prove to foreigners that it's worth investing in. We expect the government will work closely with business to help it find new markets for their products in the West (given the risk of trade restrictions with Russia) and facilitate investments into the Ukrainian economy via deregulation and fighting corruption.

For 2015, we project a recovery (+2.3% yoy) under the assumption that all of Ukraine's regions will be free from armed conflict.

Real changes, yoy



Industrial output, yoy



Source: UkrStat, Concorde Capital research

Current account: devaluation to make it better balanced

The current account (C/A) deficit shrunk almost 10x yoy in 4M14 to USD 442 mln from USD 4.2 bln a year ago. Exports have been falling quite fast (-8.4% yoy) but imports have slid much stronger (-19.8% yoy) on the back of the devaluation effect and lower energy bill (price for Russian natural gas was assumed to be USD 268.5/tcm vs. USD 410/tcm a year ago).

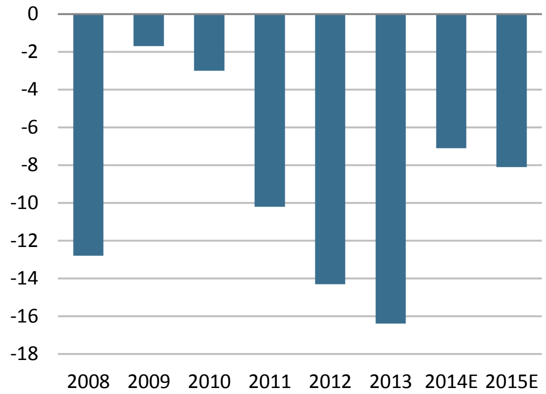
Russia already agreed to a USD 385 per tcm price but Ukraine is insisting on an even on lower price. In any case, the energy bill will be at least USD 2 bln lower than a year ago.

Non-energy imports are shrinking much faster than expected. In 4M14, non-energy imports fell 21.5% yoy and the tendency is only strengthening: in April, they slumped by 35.6% yoy. In light of sustained lower hryvnia value, we expect nearly 30% contraction in non-energy imports through the year.

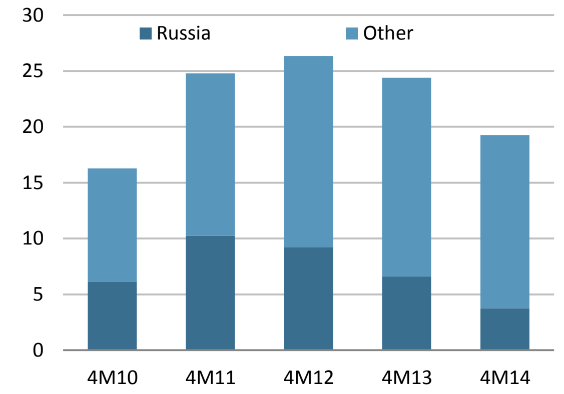
The main risks stem from possible ongoing turmoil in the east, which would further damage exports with minor benefit for domestic producers from hryvnia devaluation. However, even in the case of prolonged destabilization of Donbas, we anticipate the C/A deficit shrinking anyway due to a slump in demand for imports.

We project the C/A deficit contracting to at least USD 7.1 bln, or 4.7% of GDP, compared to USD 16.4 bln, or 9.2% of GDP in 2013.

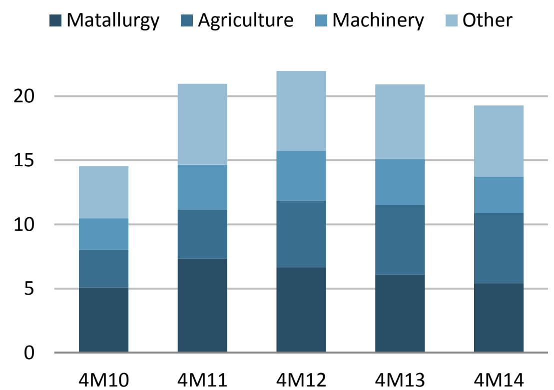
Current account deficit, USD bln



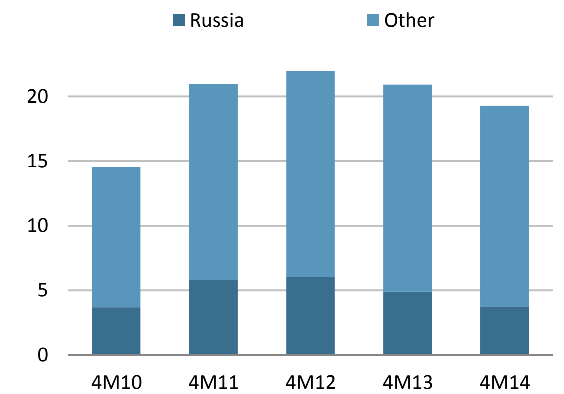
Import structure, USD bln



Export structure by goods, USD bln



Export structure by destination, USD bln



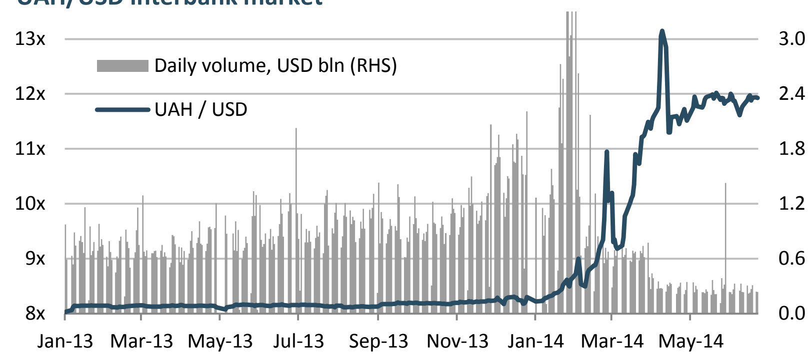
Source: UkrStat, Concorde Capital research

Ukrainian hryvnia: strengthening looks probable now

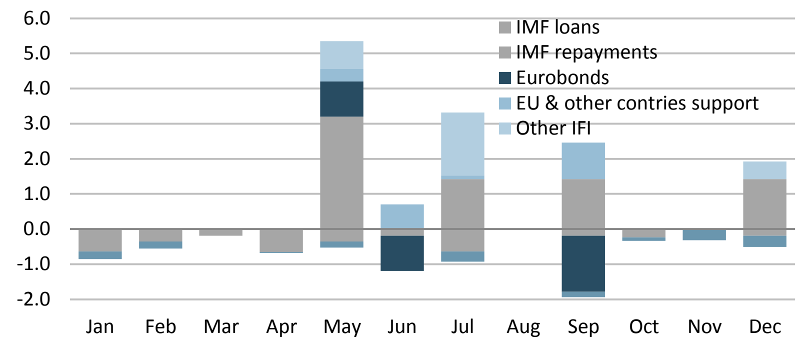
After the central bank released the hryvnia into free float in February, the local currency weakened more than 30% YTD and it is currently hovering near UAH 12/USD. Though the exchange rate has relatively stabilized at that level, we see decent revaluation potential. We see at least four reasons why it should strengthen till the year end.

- **Ukraine's C/A deficit is contracting fast.** We project the 2014 C/A deficit to shrink to USD 7.1 bln, or 4.7% of GDP, but the current trend offers a chance that the trade deficit will be much smaller if the Donbas war ends (at a near zero level). This means there will be no traditional pressure on the hryvnia from the C/A side.
- **Ukraine will see strong financial inflow this year.** In June-December, the Ukrainian government and related entities will have to pay back USD 5.2 bln of debt (private borrowers will likely rollover all their debt). At the same time, we already have commitments on almost USD 14 bln in support (in loans and grants), which is scheduled to arrive to the country by December (USD 3.2 bln from the IMF has already been wired). We expect the general (net) balance of loans (inflow less redemptions) to be at positive USD 5.9 bln in 2014, which outlines depreciation pressure on the hryvnia against the backdrop of a shrinking C/A deficit.
- **Political uncertainty is one of the core factors keeping the hryvnia weak.** We are observing significant foreign currency deposit outflow (-17% YTD in 4M14), which adds pressure on the ForEx market. No doubt, military actions in Donbas are the main driver for this trend. Surprisingly, since April we have not observed the traditional individual demand for dollars that usually accompanies any uncertainty in the country. Against this backdrop, we conclude that people do not believe in further hryvnia devaluation and aren't buying foreign currency. At the same time, the nervousness due to the political situation is making people withdraw their foreign currency deposits, thereby being among the key reasons behind the weak hryvnia at the moment.
- **Low turnover at the ForEx should make it easy for the hryvnia to recover**, providing demand for it will increase. In 2013, the average daily turnover at the ForEx was USD 1.2 bln. Starting April, turnover slumped to nearly USD 400 mln per day. This means that any minor lot of currency can create substantial volatility in both directions. In light of the anticipated financial flow and the strong positive trend in the C/A balance, we believe the hryvnia can strengthen at any point in the future.

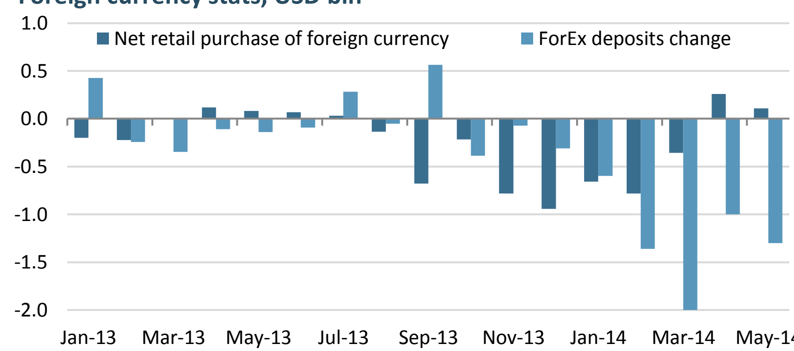
UAH/USD interbank market



Public debt flow in 2014, USD bln



Foreign currency stats, USD bln



Source: UkrStat, NBU, Concorde Capital research

Core assets of Ukraine

Ukraine is rich in fertile land, coal and iron ore deposits. It's among the top 10 producers of agriculture, coal, ferroalloys and steel globally.

Most of Ukraine's coal deposits are located in Donets Coal Basin, known as the Donbas, which is the current battlefield. Ukraine produces both metallurgical and steam coal. Some steam coal is produced outside Donbas, in the neighboring Dnipropetrovsk region and some western regions of Ukraine.

All the iron ore is mined in the central Dnipropetrovsk, Zaporizhia and Poltava regions. Half of the iron ore is exported and the rest is processed 50/50 in the Donbas and central regions.

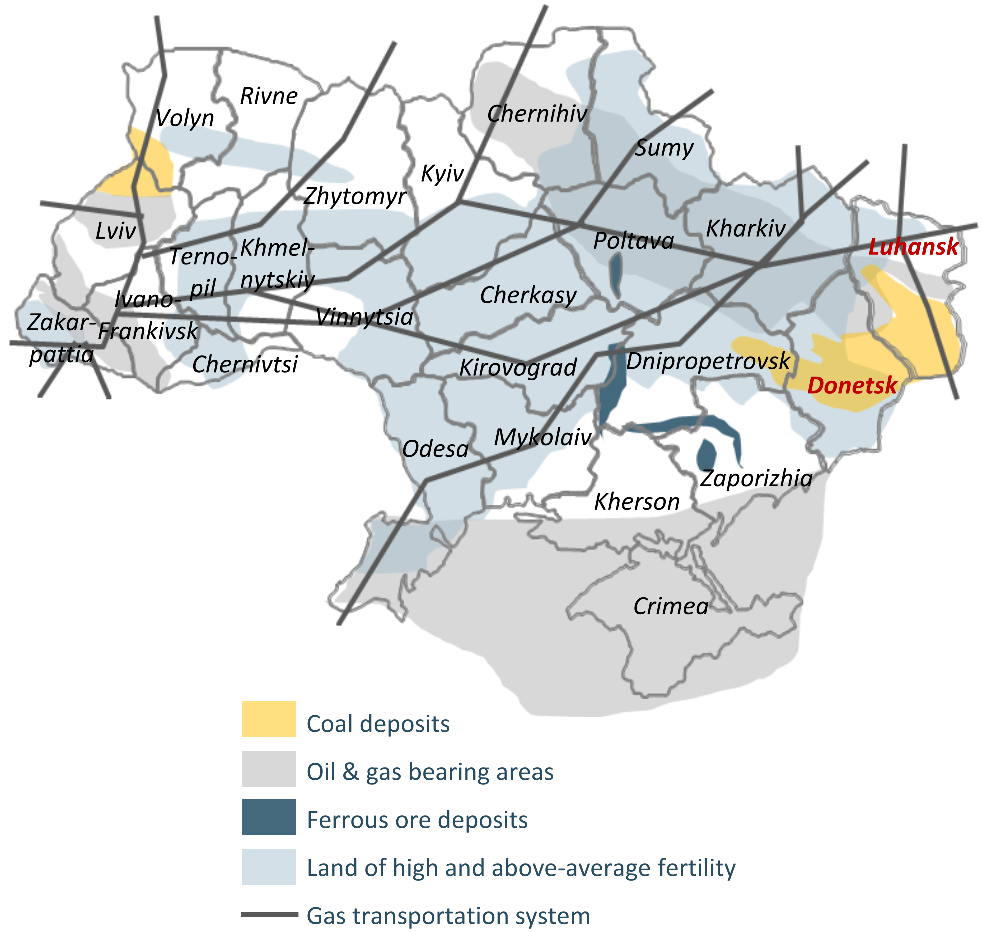
Ukraine's fertile land allows for profitable agricultural operations in most of the country's regions, except some southern location where the climate is too dry. Core agricultural clusters are located on the belt that goes though Ukraine from the west to east and north.

Ukraine is not self-sufficient in oil and natural gas (it imports about 60% of its consumed gas).

Ukraine inherited a powerful machinery industry from the Soviet Union. Most of machinery enterprises are working for export, predominantly to former Soviet countries.

The two easternmost regions of Ukraine, Donetsk and Luhansk (collectively known as Donbas), account for 67% of Ukraine's total steam coal output, 100% of coking coal output, 53% of steel production and 23% of total industrial output and 16% of its GDP.

Ukraine is also an important transit country for Russian gas to Europe.



New risks and challenges to Ukraine

Ukraine has changed radically after the victory of the EuroMaidan protest. The flight of former President Viktor Yanukovych on February 21, and the subsequent election of a new government and president, created a new window of opportunity for the country to pursue badly needed reforms. But an unexpected impediment emerged in the form of a furious reaction from "brotherly" Russia. Indeed almost all the risks related to Ukraine's economy and business are coming from Russia:

- **Occupation of Crimea.** This affects negatively businesses with Crimea-located assets due to a deterioration of the business climate there. Many business links of Crimean enterprises are breaking down. Russian laws have yet to start working there while all the Ukrainian laws are not working already. The financial system of Crimea has been destroyed, and the rules of game for business are not clear. For Ukraine's economy, Crimea becoming a gray zone will cause no significant losses. Though, risks emerge for such publicly listed companies as DTEK and KSG Agro. MHP and Avangardco, which have some egg, meat and poultry production assets in Crimea, may actually have more benefits than risks from their exposure to Crimea. In particular, they might benefit from the food deficit there and considerable food inflation.

- **Russia's attempts to inflame tensions** in the eight Russian-oriented regions of southeastern Ukraine, which has been localized to the easternmost Donbas location, is another straightforward risk. Local separatists and Russian mercenaries have turned Donbas into a war zone, where it is dangerous to live and do business. This region is very important for the Ukrainian economy, as two easternmost regions of Ukraine (those partially occupied by separatists) account for about 23% of its industrial output and 16% of GDP. Moreover, the two regions' enterprises are an important part of the production chains of companies that account for more than 30% of Ukrainian industrial output, we estimate. The turmoil in Donbas affects more than a third of publicly listed assets from Ukraine, including industry leaders DTEK, Metinvest, Motor Sich, Avangardco, the entire coking coal sector of Ukraine, two-thirds of the steam coal sector, and many metallurgical, chemical, machinery and power generation enterprises.

- **A new wave in Ukraine's trade war with Russia**, with new restrictions on exports to the Russian Federation from Ukraine. Russia remains a core trading partner for Ukraine, accounting for 24% of its exports (in 2013). Russia has also leverage on other former Soviet states through the Customs Union (encompassing Belarus and Kazakhstan), where Ukraine delivers 30% of its export. While some part of Ukraine's exports to Russia is protected by a lack of alternatives (this applies to the machinery sector), and some are simple commodities that can find other markets, about a third of exports to Russia from Ukraine are under risk. This is especially true about Ukrainian food products and railcars. Core companies to suffer are dairy firm Milkiland, Kryukiv Railcar and Stakhanov Railcar, car battery maker WESTA, and to some extent, poultry producer MHP and all Ukrainian steel producers.

- **The Ukrainian local currency, which has devalued more than 30%** against the U.S. dollar since February, has failed to recover to the levels prompted by fundamentals, mainly due to Russian aggression and all the related risks.

War in the East: it has been localized to Donbas

In his attempt to destabilize Ukraine, Russian President Vladimir Putin has reached some success in Donbas, an industrialized part of Donetsk and Luhansk regions. The good news is that geography of the warfare is much smaller than "Novorossiya" or "Southeast Ukraine," which Putin groundlessly refers to as the regions that yearn to integrate with Russia if not for the "fascists" in Kyiv.

At the moment, it is hard to guess how long the war in Donbas will continue. Much will depend on the success of a combination of factors, including Western sanctions and the success of Ukraine's anti-terrorist operation (ATO). The military operation has had marginal success so far:

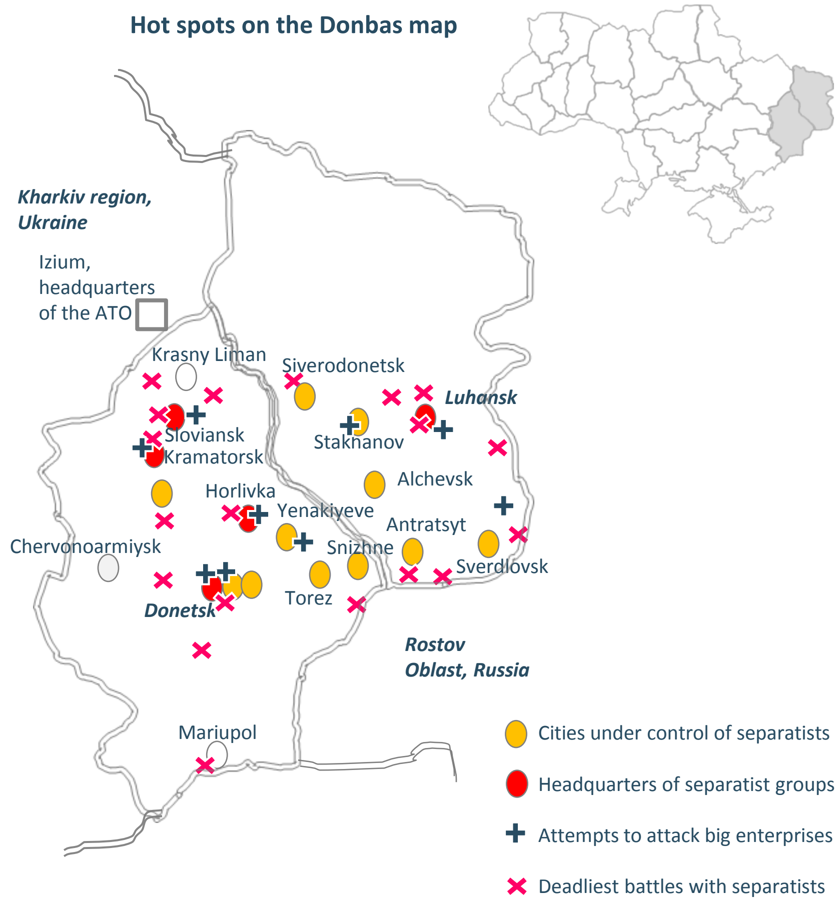
- Progress with the ATO has only been achieved in the cities of Krasniy Liman and Mariupol and Chervonomarmiysk in the Donetsk region and areas north of the city of Luhansk. At the same time, little progress has been made in the cities of Sloviansk and Kramatorsk, even though they are far from the Russian border.
- Separatists are also active in the regional centers of Donetsk, Luhansk and Horlivka, setting up headquarters there.
- Separatists are allocating their resources in the city of Snizhne, which is very close to Russian border, military journalists reported.

If the ATO continues at the current pace, and the West isn't able to pressure the Kremlin to de-escalate, it will be increasingly hard for the Ukrainian forces to retake control of the east, closer to the Russian border. Success will depend on the ability of Ukrainian forces to shut the border with Russia. Thus far, we see little progress with that.

Fortunately, the fighting has been localized to only parts of the Donetsk and Luhansk regions. But that isn't much related to the ATO's effectiveness or any other attempts by Kyiv to stabilize the situation. The northern half of the Luhansk region is mostly rural area, which is of low interest to the separatists. Unfortunately, the territory that is partially or fully occupied by anti-government forces forms the backbone of the two regions' economy.

The core industrial centers like Donetsk, Luhansk, Horlivka, Alchevsk, and Yenakiyeve are out of Kyiv's control. This is particularly worrying as a military operation in such big cities isn't possible without severe damage and human losses. De-escalation there will demand good coordination between the local population and ATO forces, which will be difficult to accomplish.

Hot spots on the Donbas map



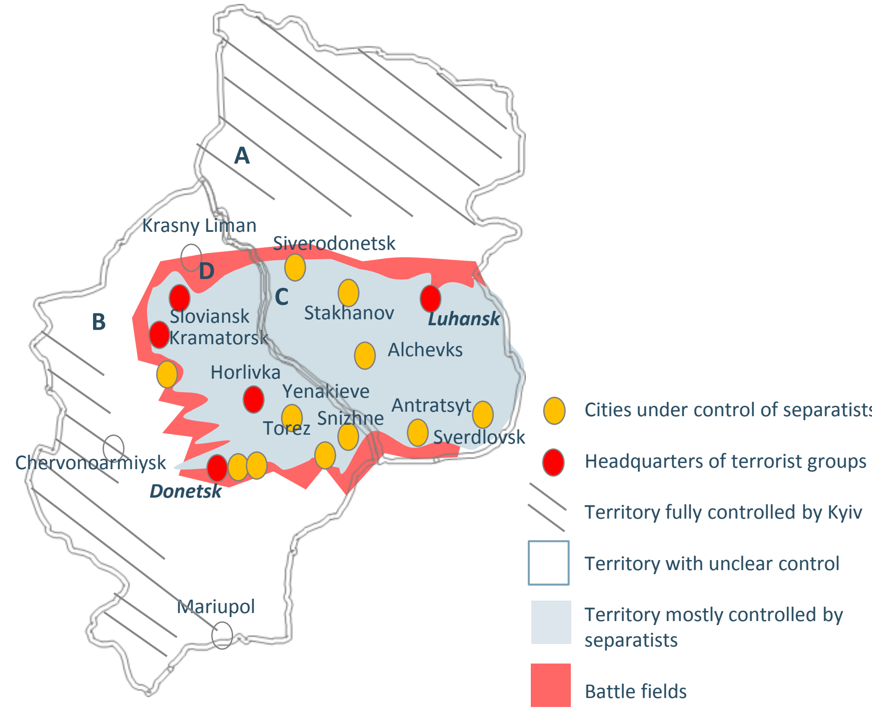
Source: Mass media, Concorde Capital research

Risk zones of easternmost regions of Ukraine

Not all the locations of the Donetsk and Luhansk regions are equally dangerous. We can divide the territory into four different zones, based on their risk:

- **A.** Territory that is totally controlled by the Ukrainian government. Risks for citizens and enterprises in this area do exist, but they are minimal. If Ukraine doesn't lose this war, the area will remain safe.
- **B.** Territory that is not controlled by any forces. There are risks of attacks on small enterprises and guerilla attacks on large plants or infrastructure sites. But the risk is low that separatists will undermine the operations of large enterprises there. If Ukraine wins its war with terrorists, this area will become safer.
- **C.** Territory controlled by separatists. There is a constant risk for asset expropriation and attacks on workers and enterprises. If the president's peace plan is not accepted by the separatists, this area will turn to a battlefield.
- **D.** Border territory, or area of battles between Ukrainian government forces and pro-Russian separatists. This is the most risky area for lives and assets.

Hot zones on Donbas map



Companies fully located in the least risky locations (A and B):
- Azovstal (**AZST**)
- Ilich Steel (**MMKI**)
- Pokrovske Mine (**SHCHZ**)
- KUB-Gas, a Ukrainian subsidiary of Serinus Energy (**SEN PW**): 60% of total sales

Companies fully located in the most risky areas (C and D):
- Luhanskteplovoz (**LTPL**)
- Yenakiyeve Steel (**ENMZ**)
- Khartsyzk Pipe (**HRTR**)
- Stirol Chemical Plant (**STIR**)
- All mines of Coal Energy (**CLE PW**)
- Komsomolets Donbasa Mine (**SHKD**)
- All mines of Sadovaya Group (**SGR PW**)
- Alchevsk Steel (**ALMK**) and Alchevsk Coke (**ALKZ**)
- Avdiyivka Coke (**AVDK**) and Yasynivka Coke (**YASK**)
- Stakhanov Railcar (**SVGZ**) and Stakhanov Ferroalloy (**SFER**)
- Vuhlehirsk TPP of Centrenergo (**CEEN**): 21% of total available capacity
- Snizhne Machinery of Motor Sich (**MSICH**): producer of blades for turbines

Companies with assets split between zones (A&B / C&D):
- Donetskoblenergo (**DOON**) - est. 60%/40% of power supply
- Agroton (**AGT PW**): est. 60% / 40% of total land bank
- Donbasenergo (**DOEN**): 72% / 28% of total output
- Assets of DTEK (**DTEKUA**): 19% / 27% of total EBITDA
- Assets of Metinvest (**METINV**): 44% / 21% of total sales
- Egg factories of Avangardco (**AVGR LI**): 10% / 8% of egg capacity
- Donetska Railway of Ukrzaliznytsia (**RAILUA**): est. 7% / 9% of total cargo traffic

Source: Mass media, Concorde Capital research

Exposure to 2014 risks : Publicly listed companies

Risk of value loss	Ticker	Crimean risks	Russian risks	Donbas risks	Comments
High	SVGZ UK	-	High	High	Used to sell >50% of its products to Russia , now sees no demand there. Located in war zone.
	KSG PW	High	-	-	22% of land bank located in Crimea.
	ENMZ UK	-	Medium	High	Located in Donbas war zone. Russia accounts for 14% of sales.
	AVDK UK	-	-	HIgh	Located in Donbas war zone.
	AGT PW	-	-	High	All assets in the Luhansk region, mostly in its peaceful zone.
	DOEN UK	-	-	High	All assets in the Donetsk region, 28% in the war zone. All its coal is supplied from war zone.
	CEEN UK	-	-	High	21% of capacity is in Donbas war zone, the rest consumes coal from war zone
	SGR PW	-	-	High	Located in Donbas war zone.
	CLE PW	-	-	High	Located in Donbas war zone.
	KVBZ UK	-	High	-	Used to sell >50% of products to Russia, now sees no demand there
	MLK PW	-	High	-	Exports from Ukraine to Russia generated about 20% of its revenue. Now it's under risk.
Fair	MSICH UK	-	Medium	Medium	Heavily depends on Russian demand for its engines, produces turbine blades in Donbas war zone.
	LTPL UK	-	Medium	Medium	Sells all products to Russia, located in Donbas war zone. Its Russian ownership offers protection from demand decline and terrorist attacks.
	ALMK UK	-	Medium	Medium	Located in Donbas war zone. Russia accounts for 13% of sales. Its Russian ownership offers protection from demand decline and terrorist attacks.
	AZST UK	-	Medium	Medium	Located in Donetsk zone freed from terrorists. Russia accounts for 12% of sales.
	BAVL UK	Low	-	Medium	~2% sales in Crimea, ~11% in Donbas*
	USCB UK	Low	-	Medium	~2% sales in Crimea, ~11% in Donbas*
	AVGR LI	Low	-	Medium	3% of egg-producing capacity in Crimea, 18% in Donbas
	SEN PW	-	-	Medium	Ukrainian assets are in the war-torn Luhansk region, although far away from war zones.
	UNAF UK	Low	-	Low	Nationwide gas station network is under risk. Production assets are far from risk zones.
	MHPC LI	Low	-	Low	Some land, 25% of meat capacity, 12% of distribution channels located in Crimea, 15% of distribution channels and some flock capacities are in Donbas.
	DNEN UK	-	-	Low	Gets 2/3 of coal from a risky zone of Donbas
No risk	FXPO LN	-	-	-	
	AST PW	-	-	-	
	ZAEN UK	-	-	-	
	KER PW	-	-	-	
	MAYA GR	-	-	-	
	IMC PW	-	-	-	
	OVO PW	-	-	-	
	JKX LN	-	-	-	
	RPT LN	-	-	-	

Source: Company data, Concorde Capital estimates
Note: All the provided data in comments are for 2013, unless other specified
**Data based on countrywide sector statistics for 2012*

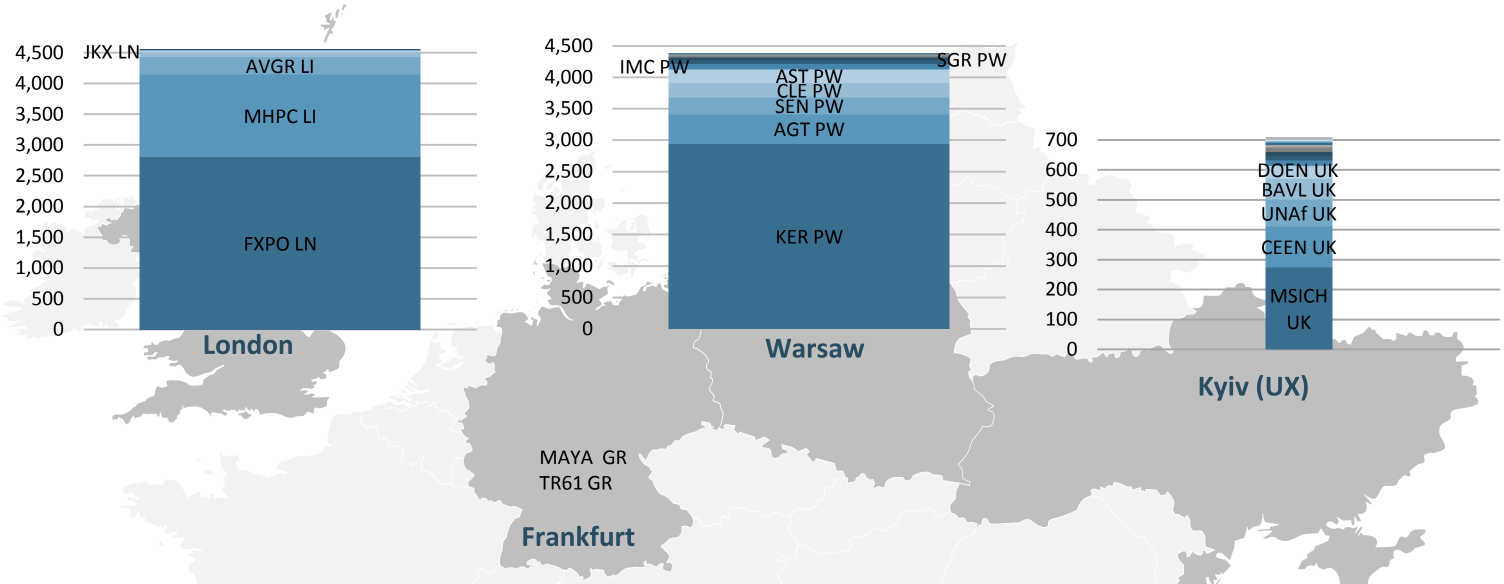
Exposure to 2014 risks: Eurobond issuers

Risk of value loss	Bond ticker	Name	Crimean risks	Russian risks	Donbas risks	Comment
High	NAFTO	Naftogaz of Ukraine	Low	Medium	Medium	9% of gas produced in Crimea; profit depends much on the import price of Russian gas
	DTEKUA	DTEK	Low	Low	High	Owns Crimean DisCo, Russian coal mines (minor share of total output). 60% of its coal and 35% of its power are produced in Donbas. 27% of borrowings are from Russian banks
	METINV	Metinvest	-	Low	High	2/3 of sales come from Donbas enterprises, 8% of products are imported to Russia
	RAILUA	Ukrzaliznytsia	Low	-	High	~3% sales in Crimea, ~17% in Donbas; about 50% of profit depends on Donbas business
Fair	PRBANK	PrivatBank	Low	Low	Medium	~2% sales in Crimea, ~7% in Donbas; shareholder is personal enemy of Putin
	AVINPU	Avangardco	Low	-	Medium	3% of eggs capacities In Crimea, 18% in Donbas
	AGTPW	Agroton	-	-	High	All assets are in the Luhansk region, mostly in its peaceful zone
	EXIMUK	Ukreximbank	Low	-	Medium	~2% sales in Crimea, ~11% in Donbas*; high dependence on export and import operations
	OSCHAD	Oschadbank	Low	-	Medium	~2% sales in Crimea, ~11% in Donbas*
	PUMBUZ	PUMB	Low	-	Medium	~2% sales in Crimea, ~11% in Donbas*
	VABANK	VAB Bank	Low	-	Medium	~2% sales in Crimea, ~11% in Donbas*
	NADRA	Nadra Bank	Low	-	Medium	~2% sales in Crimea, ~11% in Donbas*
	MHPSA	MHP	Low		Low	Some land, 25% of meat capacity, 12% of distribution channels located in Crimea; 15% of distribution channels and some flock capacities are in Donbas
	UKRLAN	Ukrlandfarming	Low	-	Low	Land is situated throughout Ukraine
No risk	FXPOLN	Ferrexpo	-	-		All assets are in the Poltava and Odesa regions
	MRIYA	Mriya Agroholding	-	-		All assets are in western Ukraine

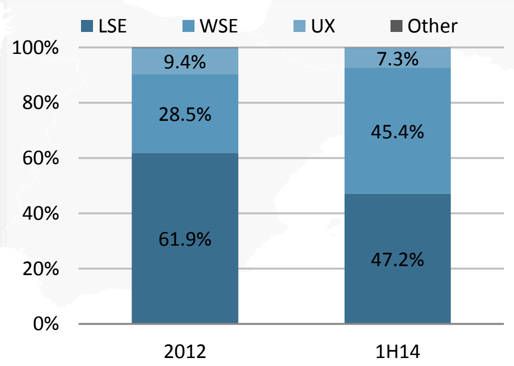
Source: Company data, Concorde Capital estimates
Note: All the provided data in comments are for 2013, unless other specified
**Data based on countrywide sector statistics for 2012*

Equity Analysis

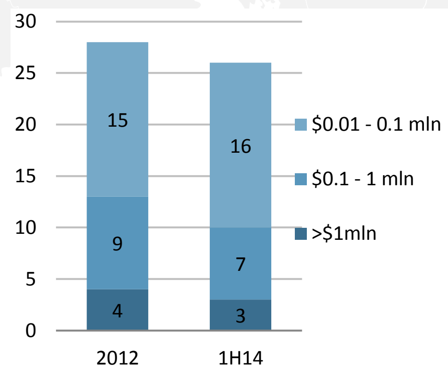
Average daily equity turnover at stock exchanges 1H14, USD ths:



Distribution of equity turnover by exchanges



Number of stocks with ADT



London and Warsaw continue to dominate in terms of trading of Ukraine-related stocks, with the role of London having decreased slightly over the last year, mainly due to a decrease in the trading volume of Ferrexpo.

The trading volumes of Ukraine-related stocks have not changed dramatically over the last two years, even though there were no new issuers on the market and free float was gradually evaporating. The number of stocks trading at more than USD 10,000 per day have declined only slightly.

Kernel has become the most traded stock in the universe in 1H14, surpassing the traditional leader Ferrexpo. Interestingly, the traditionally second-most traded stock in Warsaw, Astarta, has shifted down to 5th place by turnover in 1H14, although its turnover remained unchanged compared to 2012 and 2013.

Source: Bloomberg, UX, PFTS

CONCORDE CAPITAL

UX and WIG-Ukraine indices: two stock market showcases

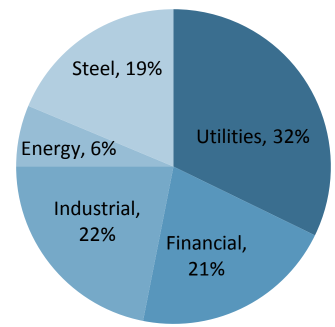
The Ukrainian equity universe is represented by two most popular indices: the local UX Index and the WIG-Ukraine Index of Warsaw-traded stocks.

WIG-Ukraine consists of 11 stocks of companies that listed though an IPO process in Warsaw in 2006-2012. The vast majority of index representatives are food and agricultural companies. The two biggest companies, Kernel and Astarta, represent 73% of the index.

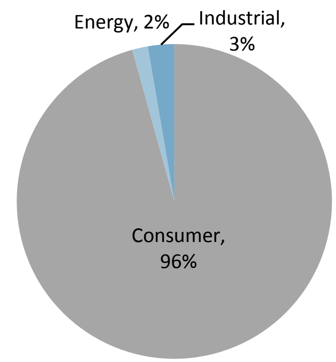
The UX Index consists of 10 companies whose stocks were listed on the local market in late 1990s. The index representatives have no experience of IPOs, as they were listed by brokers. As a result, the companies have a broadly poor attitude to minority investors.

Despite the superior corporate governance and investor relations practices of Warsaw-listed companies, their performance over the last 12 months was much weaker than for UX-listed stocks. This mostly reflects the Warsaw-listed companies' weak operating results of 2013 and 1Q14 because of weak prices for agricultural commodities. On top of that, the Polish market punished Ukrainian stocks due to devaluation of the local currency, although there is no direct link between hryvnia strength and the P&L of these companies.

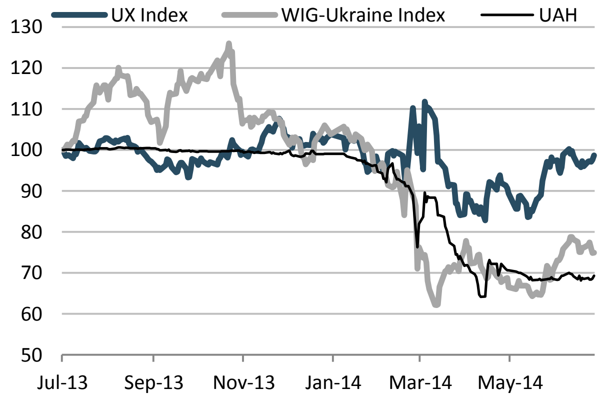
Components of UX Index



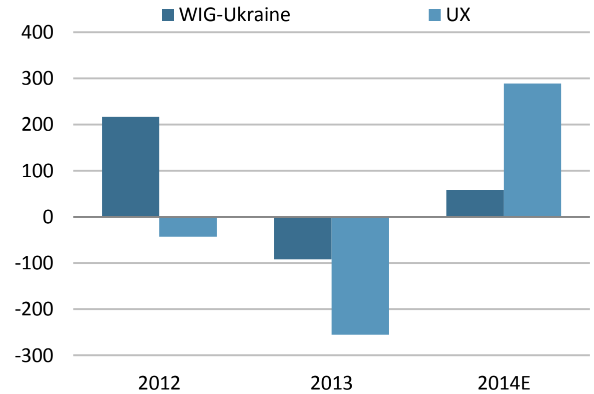
Components of WIG-Ukraine Index



Performance, in USD



Aggregate profit of index components, USD mln



Source: Company data, Bloomberg, Concorde Capital research

Performance: foreign funds are more sensitive to local turmoil

Most Ukrainian stocks performed negatively in 2013 for the third consecutive year, which was the result of low interest in Ukraine's local stock market, high anticipation of hryvnia devaluation, and worsened fundamentals of most of the foreign-listed stocks. But the key factor in the negative performances was the Russian military invasion of Ukraine in February 2014.

Positively performing were mostly stocks that offer high dividends, locally listed electricity generation companies, Raiffeisen Bank Aval. Positively performing were also Agroton in Warsaw, as well as Avangardco, JKX and DUPD in London, which were underpriced heavily a year ago.

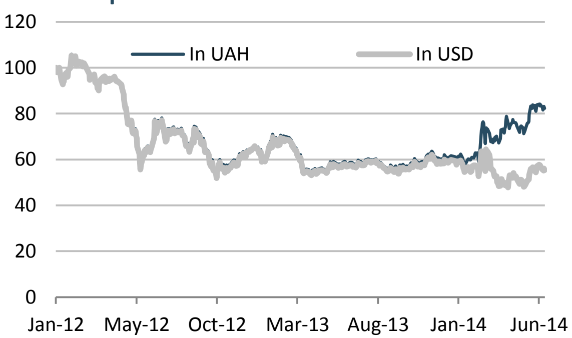
More than half of the 12M price declines of stocks happened after February 27, 2014, when Russia started actively destabilizing Ukraine and the local currency started heavily depreciating. Notably, Warsaw's WIG-Ukraine Index reacted more negatively to post-February developments, which reflected the higher intolerance of international funds to recent events in Ukraine.

In hryvnia terms, the local UX Index is at its 24-month highs, while this is mainly due to the devaluation of the hryvnia. In USD terms, the index is still declining.

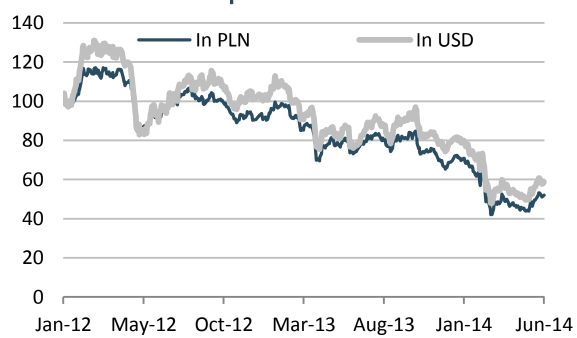
We expect that the fulfilled devaluation expectation of the hryvnia will resurrect interest in locally listed stocks and drive the UX Index upward by the year end. The good news is that the most underperforming components of the UX Index (steel companies) are benefitting from the devaluation that has already occurred, while most of the well-performing stocks will continue showing spectacular profit even though most of their revenue is in the local currency.

We also expect that Warsaw's WIG Ukraine Index will start performing positively as soon as the situation in Donbas stabilizes.

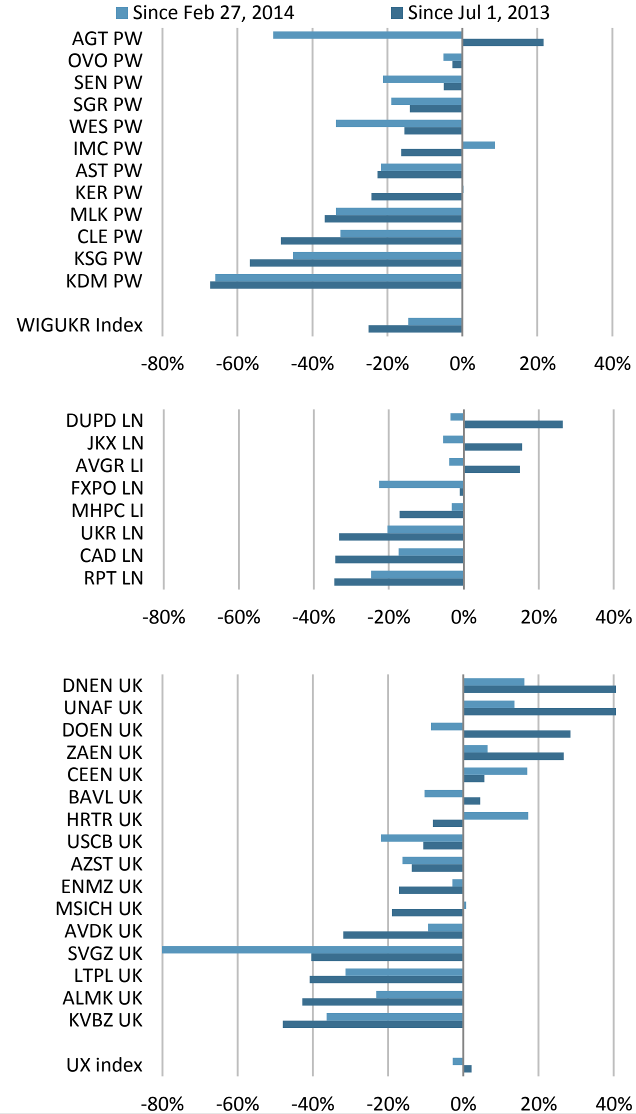
UX Index performance since start-2012



WIG-Ukraine Index performance since start-2012



Stock performance, in USD terms



Source: Bloomberg

CONCORDE CAPITAL

Equity outlook for 2014

We broke down all the stocks from our coverage universe into five groups that differ in terms of:

- prospects for their fundamentals growth
- risks or opportunities that may be fulfilled

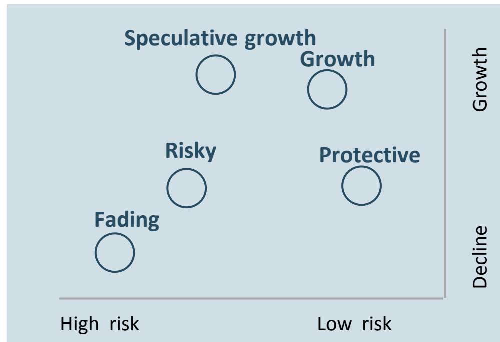
Growth stocks:
Have everything to deliver growth this year:

- **Astarta**
- **Kernel**
- **Ovostar**
- **Donbasenergo**
- **Dniproenergo**

Speculative (conditional) growth:
Growth is highly probable, but is conditional on some favorable event or the company solving a key concern:

- **Avangardco**
- **MHP**
- **Industrial Milk Company**
- **Serinus Energy**
- **Ukrnafta**
- **Avdiyivka Coke**

Stock mapping by outlook for 2014



Protective stocks (not worse than the market):
No growth drivers for 2014 seen, risks are low or balanced with opportunities:

- **Ferrexpo**
- **JKX Oil&Gas**
- **Cetrenergo**
- **Zakhidenergo**
- **Azovstal**
- **Luhanskteplovoz**

Fading or failed companies:
They either face a challenge of deteriorating fundamentals in both the short- and long-term, or their poor corporate governance does not allow for them to be considered as investable stories. At the same time, they have some chance for turnaround:

- **Agroton**
- **Sadovaya Group**
- **Regal Petroleum**
- **Kryukiv Railcar**
- **Stakhanov Railcar**

Risky investments (very likely to underperform as risks for their fundamentals are high):
No growth in fundamentals in 2013. Risk for mid-term value growth. Still a chance for stock price recovery:

Mriya Agro
KSG Agro
Milkiland
Motor Sich
Raiffesen Bank Aval
Ukrsotsbank
Coal Energy
Alchevsk Steel
Yenakiyeve Steel

Source: Concorde Capital research

Growth and Speculative Growth stocks, summary

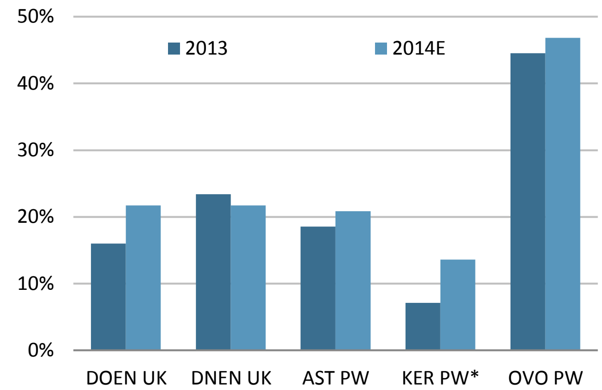
Growth stocks. Growth in fundamentals for this financial year looks certain at the moment for the following companies:

- Companies that should deliver steady growth on supportive demand for their products/services, increased output and favorable pricing on their inputs and outputs: Ovostar Union (**OVO PW**) and Astarta (**AST PW**).
- Kernel (**KER PW**), for which FY2015 will be a turnaround year, on better suply of sunflower seeds for processing and its improved farming efficiency.
- High-dividend, locally listed power GenCos Donbasenergo **(DOEN UK)** and Dniproenergo **(DNEN UK**), which have everything to report a higher bottom line and pay high compulsory dividends.

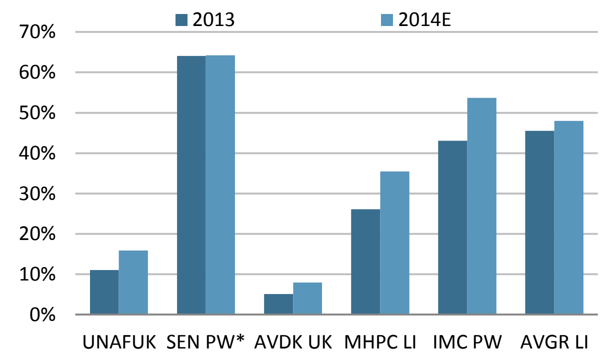
Speculative (conditional) growth stocks. The following companies may also deliver growth in fundamentals and appreciation of their shares in case they are lucky enough:

- Avangardco (**AVGR LI**), if the company is able to find additional demand for its eggs and egg products abroad to increase its output in line with capacity growth, in order to not overhand the domestic market. Additional stimulus for its share appreciation may be a delivered promise to pay dividends.
- The world's second-largest chicken meat producer MHP (**MHPC LI**), which proved itself to be a decent dividend payer, but is likely to postpone this status for next year due to its high ForEx revaluation losses in 2014. The market might punish its stock for lack of expected dividends in 2015. Nevertheless, its operating profit and free cash flow is set to increase in 2014.
- Industrial Milk Company (**IMC PW**), providing that prices for its core crop, corn, will improve in 2H14.
- Serinus Energy (**SEN PW**), which plans to show double-digit growth in oil and gas output both in Ukraine and abroad. Its refocus away from Ukrainian gas fields is good diversification and will enable it to generate higher operating profit its from highly marginal oil fields of Tunisia. A risk for the company is the close location of its fields to the Donbas war zone (though they're located on safe territory), as well as the possible revision of pricing for its gas supplied to Ukrainian consumers, if an emergency occurs in Ukraine's gas sector.
- Ukrnafta (**UNAF UK**), as the company should benefit from high crude oil prices and a decrease in its costs from local currency depreciation. An additional trigger might be an upward revision of domestic natural gas prices at which the company sells to households. A distribution of the company's 2011-13 income in dividends, if it happens, will be another catalyst. A fly in the ointment is the company's poor predictability of P&L due to manipulations.
- Avdiyivka Coke (**AVDK UK**), which has a good chance to report a positive bottom line for the first time in the last five years, providing there is no escalation in Donbas.

Growth stocks, EBITDA margin



Speculative growth stocks, EBITDA margin



** For Kernel: FY2014 (ending June 2013) and FY2015 (ending June 2015), respectively*
For Serinus Energy, ratio of net operating profit to net sales of hydrocarbons
Source: Company data, Concorde Capital research

Protective stocks, summary

The list encompasses fundamentally strong companies that are not going to deliver significant improvements in their P&L next year, for specific reasons.

The following company look well-suited for long-term investment:

- Iron ore miner and pellet maker Ferrexpo (**FXPO LN**), with products that are currently at the bottom of their demand cycle globally, with no visible signs of turnaround in the short term.

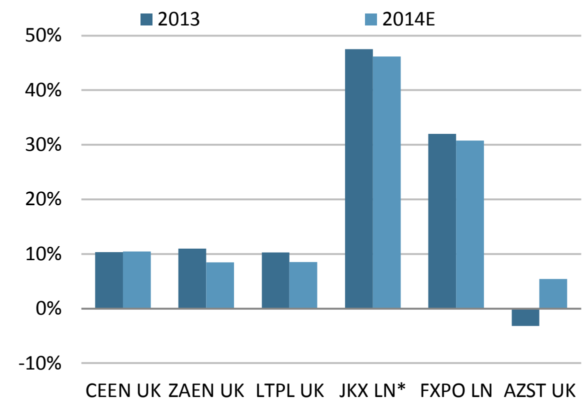
The following companies have their balanced set of risks and opportunities:

- Steel company Azovstal (**AZST UK**), which is set to show positive EBITDA this year after operating losses in 2012 and 2013, while still not being able to deliver a positive bottom line. The good news for this company is that it's located outside the war zone of Donbas, but some risks to its region still exist.
- JKX Oil & Gas (**JKX LN**), which showed the first signs of turnaround on its Ukrainian gas fields after it began focusing on low-margin Russian fields. Conflicts between its management and Ukrainian stakeholders might be a risk factor to price growth. Another risk is a possible revision of pricing for its gas supplied to Ukrainian consumers should an emergency emerge in the gas sector.

The following companies should perform well in 2014, but are not suited for long-term investment:

- Power GenCos Centrenergo (**CEEN UK**) and Zakhidenergo (**ZAEN UK**), which will keep their EPS relatively flat yoy and are very likely to pay compulsory dividends next year. Their relatively low dividend yields (5%-6%) make them look inferior to their higher-yielding peers.
- Luhanskteplovoz (**LTPL UK**), which reported a strong increase in its locomotive production for Russian Railways for the fifth year in a row in 2014. The good operating performance has been spoiled by the absence of a respective increase in its bottom line, its location in the Donbas war zone and sole reliance on demand from Russia, which might decrease significantly in the coming years.

Protective stocks, EBITDA margin



** For JKX Oil & Gas, ratio of net operating profit to net sales of hydrocarbons*
Source: Company data, Concorde Capital research

Non-investable companies

Risky stocks – those subject to specific risks by themselves, or in their target markets are:

- Companies that face the risk of losing the Russian market as deteriorated business and political links between Ukraine and Russia may turn into trading restrictions. Milkiland (**MLK PW**), which has struggled to redirect its cheese supplies from a nearly closed Russian market; and Motor Sich (**MSICH UK**), whose supplies of helicopter engines to Russia might be banned outright by Ukrainian restrictions on military exports.
- KSG Agro (**KSG PW**), a farmer with high exposure to Crimea (more than 20% of its land bank), whose future is not clear at the moment.
- Banks Ukrsotsbank (**USCB UK**) and Raiffesen Bank Aval (**BAVL UK**), which are currently working in an environment of political risk that throws into question the stability of their deposit bases. They had to exit Crimea with losses and feel disruption to their stable work in the war-torn regions of Donbas.
- Yenakiyeve Steel (**ENMZ UK**) and Alchevsk Steel (**ALMK UK**), whose historically negative bottom line is unlikely to change for the better this year and their location in the Donbas war zone does not add optimism for their short-term performance. While the Donbas risk is less for Alchevsk, it additionally suffers from enormous leverage.
- Coal Energy (**CLE PW**), a private provider of steam coal that suffers from very poor domestic demand and has yet to find new customers to restore its capacity load.
- Mriya Agro (**MAYA GR**), a company that regularly reports abnormally high profitability, which is a concern to us. We believe it might disappoint investors any time in the future.

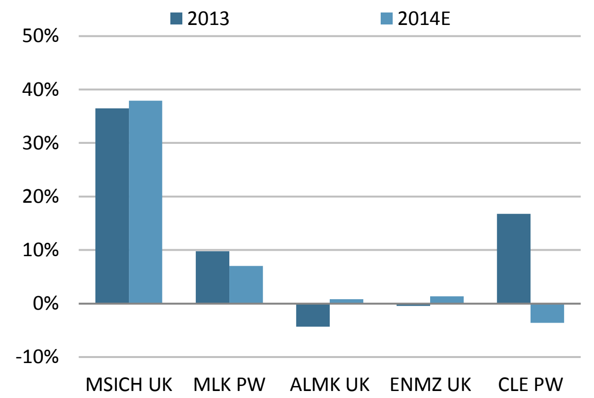
Fading stocks: companies whose business niche is shrinking fast, with some prospects for turnaround:

- Railcar producers Kryukiv Railcar (**KVBZ UK**) and Stakhanov Railcar (**SVGZ UK**), whose best days seem to be over, as the Russian market does not need their products anymore, while other big markets are not accessible to them. Kryukiv counts on local demand for its passenger cars and train, and Stakhanov is still loaded with some orders from related companies in Ukraine, but that will not be enough to compensate the lost Russian demand.
- Regal Petroleum (**RPT LN**), a private natural gas producer whose new wells were unsuccessful last year and continues to show a gradual decline in its output.

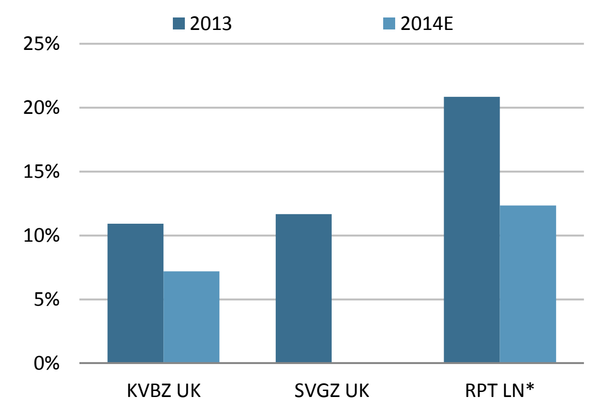
The companies whose future is not clear:

- Sadovaya Group (**SGR PW**), a coal miner that is financially not capable of restarting its mines, which it closed in October 2012.
- Farmer Agroton (**AGT PW**), whose owner's behavior is far from the best standards of corporate governance.

Risky stocks, EBITDA margin



Fading stocks, EBITDA margin



Source: Company data, Concorde Capital research

CONCORDE CAPITAL

Stock multiples

Sector	Company	Ticker	MCap, USD mln	EV / EBITDA			P / E		
				2012	2013	2014E	2012	2013	2014E
Farming	Industrial Milk Co	IMC PW	105.4	5.8	4.6	3.4	5.6	4.1	2.4
	Mriya	MAYA GR	652.5	5.1	8.2	5.8	Na	Na	Na
	KSG Agro	KSG PW	22.3	3.0	26.3	Na	1.9	Neg	Neg
	Agroton	AGT PW	20.9	3.1	8.9	Na	3.0	Neg	Neg
		Peers		**10.9**	**10.5**	**8.6**	**20.7**	**18.3**	**25.8**
Grain trading	Kernel*	KER PW	865.3	5.0	8.8	4.3	8.2	Neg	4.8
		Peers		**10.7**	**9.8**	**7.6**	**15.9**	**21.7**	**15.8**
Poultry & Eggs	MHP	MHPC LI	1526.9	5.5	6.8	5.3	4.9	9.4	Neg
	Ovostar	OVO PW	143.6	5.4	4.1	3.6	6.0	4.6	4.0
	Avangardco	AVGR LI	632.3	2.8	2.7	2.3	2.8	2.7	2.5
		Peers		**10.2**	**8.8**	**5.8**	**23.8**	**19.1**	**12.9**
Sugar	Astarta	AST PW	356.6	6.0	7.8	6.1	6.1	10.5	Neg
		Peers		**7.2**	**6.3**	**8.7**	**13.4**	**12.9**	**27.9**
Milk	Milkiland	MLK PW	72.7	3.5	4.4	7.0	4.2	4.7	Neg
		Peers		**10.8**	**11.8**	**11.5**	**17.2**	**19.2**	**16.0**
Electric GenCos	Donbasenergo	DOEN UK	80.1	4.3	1.1	1.1	20.7	1.2	0.9
	Dniproenergo	DNEN UK	222.4	0.9	0.5	0.7	1.9	1.3	1.8
	Centrenergo	CEEN UK	235.6	4.3	3.0	3.6	8.1	3.9	4.5
	Zakhidenergo	ZAEN UK	156.0	35.1	0.9	1.7	54.3	2.2	4.8
		Peers		**4.6**	**4.6**	**4.8**	**7.4**	**8.1**	**7.6**
Aerospace	Motor Sich	MSICH UK	434.6	1.1	1.1	1.5	1.9	2.6	3.3
		Peers		**10.4**	**9.7**	**9.2**	**18.0**	**17.4**	**15.6**
Railway Machinery	Luhanskteplovoz	LTPL UK	25.2	2.5	2.8	2.7	5.2	1.3	1.8
	Kryukiv Railcar	KVBZ UK	180.4	1.2	3.7	17.4	1.8	4.3	52.9
	Stakhaniov Railcar	SVGZ UK	22.1	3.7	4.5	Na	37.6	41.1	Na
		Peers		**6.9**	**9.0**	**7.1**	**16.0**	**20.1**	**15.8**
Iron Ore	Ferrexpo	FXPO LN	1308.8	4.3	3.7	3.8	6.1	5.0	5.3
		Peers		**5.1**	**4.6**	**4.6**	**7.7**	**6.5**	**8.7**
Iron and Steel	Avdiyivka Coke	AVDK UK	54.1	0.0	1.1	0.7	Neg	Neg	1.8
	Alchevsk Steel	ALMK UK	82.3	Neg	Neg	98.8	Neg	Neg	Neg
	Azovstal	AZST UK	284.5	Neg	Neg	1.9	Neg	Neg	Neg
	Yenakiyeve Steel	ENMZ UK	41.7	Neg	Neg	1.2	4.9	Neg	Neg
		Peers		**4.8**	**5.1**	**6.3**	**9.3**	**3.1**	**9.2**
Coal	Sadovaya Group	SGR PW	11.2	12.8	Neg	Na	Neg	Neg	Na
	Coal Energy	CLE PW	19.3	0.4	5.4	Neg	0.5	Neg	Neg
		Peers		**4.8**	**6.8**	**7.7**	**8.0**	**11.4**	**10.7**

** Multiples based on financial years 2013-2015 (ending in June)*
Source: Company data, Bloomberg, Concorde Capital research

Stock multiples, continued

Sector	Company	Ticker	MCap, USD mln	EV / Output, USD/boe		EV / 2P reserves, USD/ boe
				2013	2014E	2013
Gas E&P	JKX Oil & Gas	JKX LN	173.2	53	51	2.0
	Regal Petroleum	RPT LN	49.1	46	63	2.1
	Serinus Energy	SEN PW	209.3	171	136	12.4
		Peers		**165**	**156**	**10.6**

Sector	Company	Ticker	MCap, USD mln	EV / EBITDA			P / E		
				2012	2013	2014E	2012	2013	2014E
Oil production & retail	Ukrnafta	UNAF UK	1178.6	2.6	4.0	3.1	6.6	49.6	9.7
		Peers		5.1	5.1	4.9	12.1	13.5	11.9

Sector	Company	Ticker	MCap, USD mln	P / B		
				2012	2013	2014E
Banks	Raiffesen Bank Aval	BAVL UK	394.8	0.39	0.35	0.37
	Ukrsotsbank	USCB UK	263.7	0.21	0.23	0.23
		Peers		**0.92**	**0.88**	**0.82**

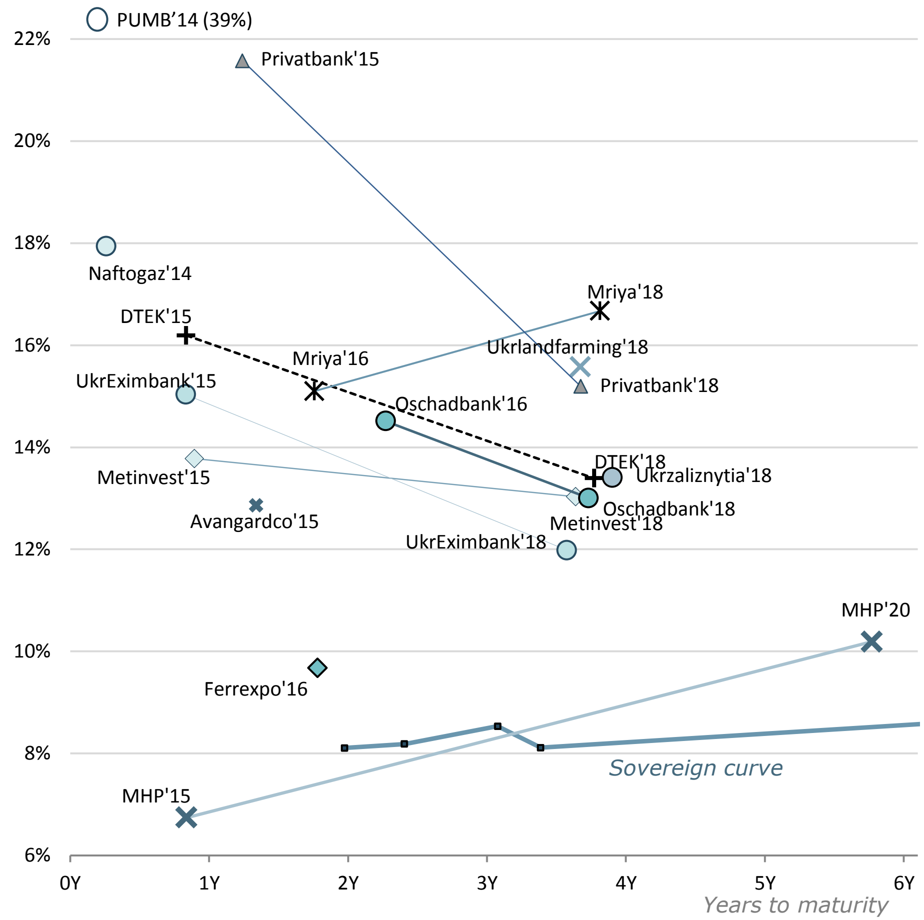
Source: Company data, Bloomberg, Concorde Capital research

Fixed Income Analysis

In picking the bonds that are due to mature in 2014-15, we have focused on an issuer's ability to autonomously repay all its debt maturing by the end of 2015. Among the issuers of 2014-15 bonds, we prefer **MHP'15** and **PrivatBank'15**, while we see a high risk of restructuring for **DTEK'15** and **Ukreximbank'15**. A special case is state monopoly **Naftogaz**, as we expect the state will help to repay its bond smoothly. We believe the bond of **PUMB** trades too cheaply since the bank should be able to repay it, even in the worst scenario.

In analyzing longer bonds, we continue to use relative risk-return mapping to pick those that seem to be overlooked by the market. Based on our approach, we have concluded that the bonds of **Oschadbank'16** and **Ukrlandfarming'18** provide attractive yields vs. their fundamental risks. Yet the bond of state **Ukreximbank'18** and the bond of **Ukrzaliznytsia'18** look too expensive, given their risks.

Yield map, June 27



Source: Bloomberg, Concorde Capital research

Analysis of 2014/15 Eurobonds: look at the restructuring risk

The recent wave of Eurobond restructuring (three Ukrainian issues have done this in 2014, so far) raises the natural question whether other issuers are strong enough to repay their bonds that mature soon. Below we estimate their internal capability to service their nearest Eurobonds smoothly (as well as other debts due). Their willingness is beyond the scope of this analysis. More details are provided on the next two slides.

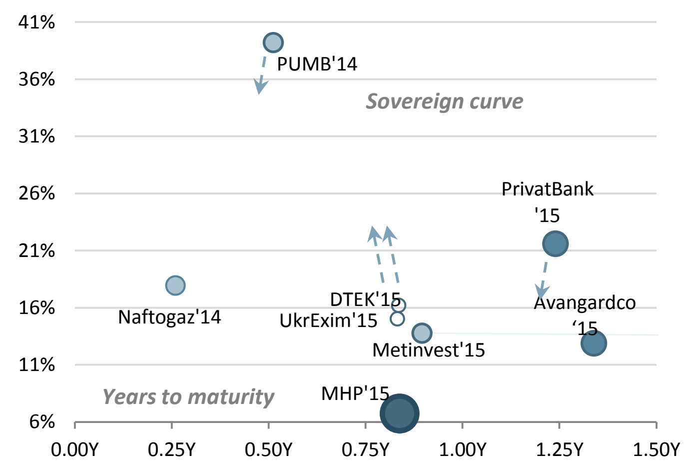
Analyzing whether the issuers that are due to repay their Eurobonds in 2014 and 2015 are capable of doing so without securing additional external financing, we reached the following conclusions:

- Least risky are **MHP**, **Avangardco**, **PrivatBank** and **PUMB** – our stress test suggests these issuers will accumulate enough cash by the date of the maturity of their bonds to repay them. On top of that, MHP reached a preliminary agreement with the IFC in April 2014 to receive USD 250 mln next year for the purpose of refinancing its USD 235 mln Eurobond.
- Most risky is **DTEK**, and to some extent, **Metinvest**, which will need to borrow more or roll over their debt to be able to smoothly repay their obligations in 2014 and 2015. Also, we see risks for **Ukreximbank,** which might not be able to repay its nearest Eurobond under our worst-case assumptions for the banking system's development.
- A special case is **Naftogaz,** which will be clearly unable to repay its Eurobond without state support. In its case, we see a high probability that the state will provide the necessary financing.

Eurobonds repayable in 2014-15

	Due	USD mln	Risk of restructuring
FICBUA	25-Jan-14**	95	
VABANK	14-Jun-14***	88	
AGTPW	14-Jul-14**	50	
NAFTO	30-Sep-14	1595	Fair
PUMBUZ	31-Dec-14	252	Fair
EXIMUK	27-Apr-15	750	High
DTEKUA	28-Apr-15	200	High
MHPSA	29-Apr-15	235	Very low
METINV	20-May-15	500	Fair
PRBANK	23-Sep-15	200	Low
AVINPU	29-Oct-15	200	Low

Yield and risk mapping, as of June 27, 2014 *



What we can conclude from the yield map is that:

- **PUMB notes trade too cheaply** based on the bank's ability to repay Eurobonds. The only factor that explains the Eurobond's discount is the bank's poor credit history – PUMB already restructured this bond in 2008-09. We believe this time, the probability of its restructuring is less than 50%.
- **PrivatBank'15 also should trade at smaller yield**, based on its risk.
- **The yields of DTEK'15 and Ukreximbank '15 should be higher** than they are now, we believe. With their smaller ability to repay their Eurobond smoothly, they look inferior to Avangardco, Ukreximbank and Naftogaz.
- **Naftogaz notes look fairly priced** compared to other corporate and state issuers.

Sources: Company data, Bloomberg, Concorde Capital research
*Notes: * The bigger and darker a dot appears on the yield map, the smaller the restructuring risk of its bonds*
*** restructured to 2019; ** *In the process of restructuring to 2019*

2014/15 Eurobonds: restructuring risks for corporate non-bank issuers

Below we present our conclusions for the financial self-sufficiency of corporate non-financial issuers of Eurobonds that are due in 2014 and 2015.

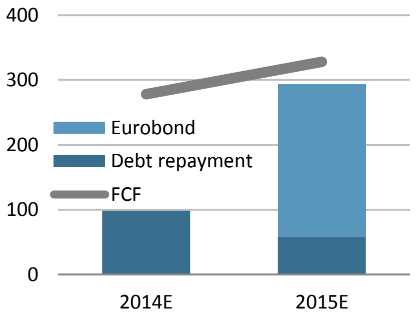
From the charts below, it is clear that **MHP** and **Avangardco should have sufficient cash flow** to service its debt. Both companies completed their ambitious CapEx projects in 2013 so their operating cash flow will grow with the launch of new production facilities. At the same time, their CapEx needs will fall significantly.

The situation differs for **Metinvest** and **DTEK**, which **will have to refinance part of their existing debts** to go smoothly through 2014 and 2015. Earlier, both holdings were able to attract needed financing and we see that such an opportunity will exist for them in the future as well. The core risk here will be political position of their core shareholder, Rinat Akhmetov. If he takes a clear pro-Russian position in the conflict between Ukraine and the Kremlin, his ability to secure borrowing might become more limited. The good news is that he recently took a clear pro-Ukrainian position. In case his holdings' operating cash flow deteriorates significantly, they will have to decrease their CapEx appetites and their shareholders will have to reduce their dividend appetites.

Naftogaz is clearly incapable of repaying any debt, but that's a problem for the Ukrainian government.

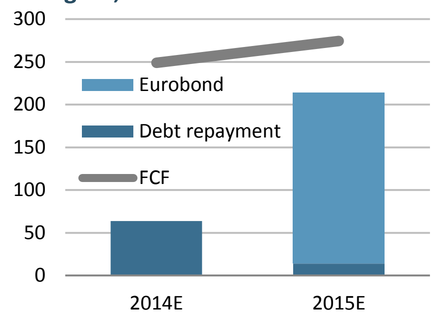
MHP: **set to smoothly repay** all its 2014-15 obligations alone and even start repaying other debt. On top of that, the company has secured USD 250 mln in financing from the IFC that might be used to repay the 2015 bond

MHP, USD mln



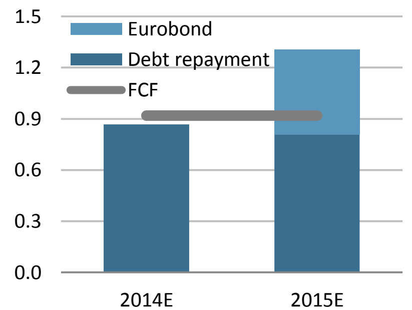
Avangardco: **can easily repay** all its 2014-15 debt obligations alone. The core risk is that the 2015 Eurobond is a noticeable portion of its debt. The willingness of its owner to repay is unclear.

Avangard, USD mln



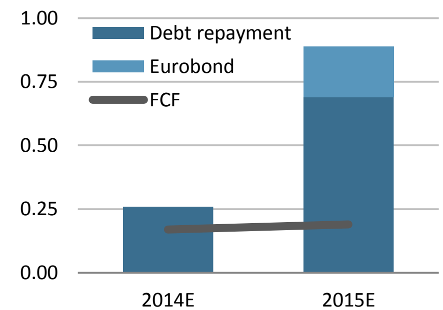
Metinvest: **lacks its own cash flow** to smoothly repay all its debt obligations in 2014-15. It needs to roll over about 20% of its total debt to meet its repayment schedule. The restructuring of its Eurobond will solve its refinancing needs..

Metinvest, USD bln



DTEK: **clearly unable to repay** all its 2015 obligations alone. We estimate the holding will have to roll over at least 25% of its start-2014 debt to get through 2014 and 2015 smoothly.

DTEK, USD bln



Sources: Company data, Concorde Capital research

2014/15 Eurobonds: restructuring risks for banking issuers

For banking issuers, we run a simple stress test to understand how much liquidity they will have as of end-2014, assuming the worst-case development for the banks, namely:

- Banks will be able to roll over only 60% of their deposits that mature in 2014
- Banks will only get back 70% of issued loans that are receivable in 2014
- All the other cash payments and proceeds will be done according to schedule
- No other lending or borrowing will be done in 2014

The results of such a stress test are provided below:

Coverage of nearest Eurobond by end-2014 cash (worst-case scenario)

	Net cash end-2014 (est.)		**Nearest Eurobond**		**Eurobond coverage by end-2014 cash**	**Restructuring risk**
	UAH mln	% of equity	UAH mln*	Due		
PRBANK	78,310	375%	-2,200	09/15	35.6x	Low
PUMBUZ	5,132	92%	-2,772	12/14	1.9x	Fair
EXIMUK	5,728	33%	-8,250	04/15	0.7x	High

Our test implies that **Ukreximbank** may have not enough cash as of end-2014 to smoothly repay its 2015 Eurobond

- The good news for Ukreximbank is that it has a huge portfolio of relatively liquid state bonds that might be used to cover its gap, if needed. We also see that the risk of this scenario, designed by us, happening to this state bank (which has the image of a secure financial institution in Ukraine) is smaller than for private banks.
- On the downside, Ukreximbank is unlikely to sell its state bonds, providing our worst-case scenario is fulfilled. The bank held 22% of the total state bonds in Ukraine's banking system, as of end-2013. At the same time, we believe the NBU, which held 58% of total state bonds as of end-2013, will be able to easily purchase state bonds from the related bank, if such a need emerges.

PrivatBank and **PUMB** should have enough liquidity for repayment, even in the worst case. Though, we have to admit that if our worst-case scenario is fulfilled, PUMB is likely to initiate a restructuring of its bond. The fact that PUMB did it already in 2008-09 means it can't be ruled out this year as well.

Selected items from bank annual reports under IFRS, UAH mln

	Loans receivable in 2014	Deposits repayable in 2014	State bonds held as of end-2013
PRBANK	139,407	149,301	395
PUMBUZ	15,061	20,616	2,698
EXIMUK	13,116	40,529	17,892

Sources: Company data (IFRS reported for 2013), Concorde Capital research
** Assuming UAH/USD rate of 11.0*

Bonds maturing in 2016-2020: compare risks and returns

For Eurobonds that mature in 2016 and later, we provide a comparative risk analysis of offered yields and the respective risk profiles of the issuers.

The risk profile analysis is provided on the next two slides.

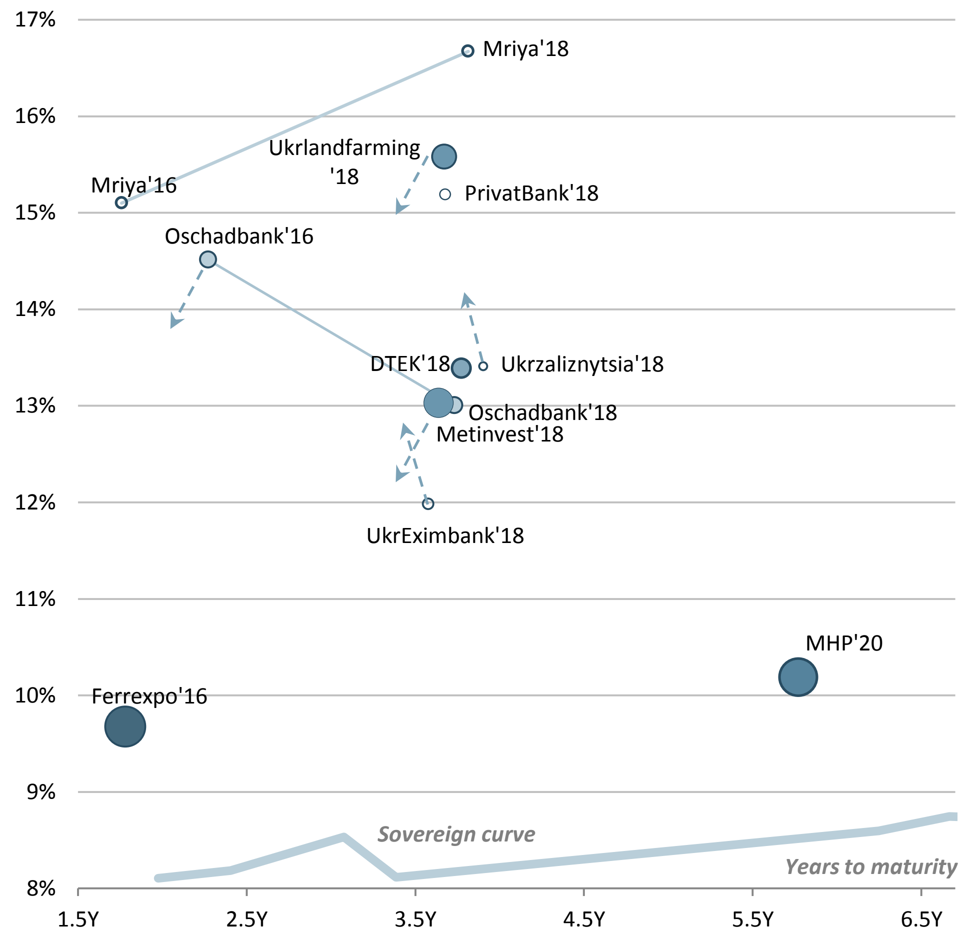
The result of our risk/return analysis is provided on the chart to the right (with the bigger dot representing the smaller risk). As we can see from the chart:

- **UkrEximbank'18** and **Ukrzaliznytsia'18** papers offer exceedingly small yield s compared to their risk profile;
- The bonds of **Ukrlandfarming'18** and **Oschadbank'16** trade too cheaply compared to their risk profile;
- If Donbas de-escalates the **Metinvest'18** bond will become less risky, its price may increase significantly

Relative risk profiles (higher score for smaller risk)

Company	Ticker	Risk score
Ferrexpo	FXPOLN	+ + + + + +
MHP	MHPSA	+ + + +
Metinvest	METINV	+ +
Ukrlandfarming	UKRLAN	-
DTEK	DTEKUA	- -
Oschadbank	OSCHAD	- - -
Mriya	MRIYA	- - - -
Privatbank	PRBANK	- - - -
Ukreximbank	EXIMUK	- - - -
Ukrzaliznytsia	RAILUA	- - - - - -

Risk-return mapping, as of June 27, 2014 *



Sources: Bloomberg, Concorde Capital research
** Bigger and darker dots represent less risky paper issuers, and vice versa*

Assessment of risk profile: non-banking issuers

In estimating the risk profiles of corporate issuers, we look at the following criteria:

- Credit rating of the paper/issuer: whether it is on par or lower than for sovereign paper. This is self-evident criteria than cannot be ignored.
- Probability of breaching leverage covenant: how far is the issuer’s leverage multiplier from the ceiling dictated by paper’s covenant. Those with a distance of 10% (20%) or less clearly fall in a risk category.
- Ability to cover 2014 foreign currency debt obligations with its USD revenue. The companies that easily cover their ForEx debt with ForEx revenue look like preferred borrowers in USD. The coverage ratio is calculated as ForEx revenue to ForEx interest costs plus repayment of ForEx loans in 2014E.
- Ability to cover debt obligations with 2014/15 operating cash flow in 2014: whether the company generates enough operating cash to service its debt. The coverage ratio is calculated as operating cash flow to interest costs plus loan repayments in 2014 and 2015.
- Availability of some specific business risk or other types of risk that might undermine the company’s solvency or profitability.
- Exposure to new risks that emerged in 2014 (worsened relationships with Russia, annexation of Crimea, armed conflict in Donbas).
- Corporate Governance (CG) rating of the issuer (as rated by the Concorde Capital survey). We add extra points to those that have an exceptional CG score (10 out of 10) and penalize those who earned less than 2/3 of the total score (6.5 and less).
- Owner’s commitment to keep the issuer safe: we add some points for distressed bonds for which we believe its main shareholder will do its best (and has a clear reason for it) to avoid possible default.

Relative risk profile calculation summary

	Credit Rating		% of Leverage Covenant in 2014E		ForEx Debt Service Coverage by ForEx Revenue in 2014E		Debt Service Coverage by OCF in 2014-15E		Exposure to Crimea, Donbas, Russia	Other business risks	Corporate Governance		Owner's commit-ment	**Total Score**
		Pts		Pts		Pts		Pts	Pts	Pts	CG score	Pts	Pts	
FXPOLN	Above Sov’n (Moody's, S&P)	+ + +	77%		>20	+	4.2	+			10.0	+		+6
MHPSA	Above Sov’n (Moody's)	+ + +	73%		5.7	+	5.7	+	- -		10.0	+		+4
AVINPU*	At sov.	+ +	18%	+ +	5.4	+	10.0	+	- -		9.0		- -	+2
METINV	Above Sov’n (Moody's)	+ + +	67%		>20	+	3.3	+	- - -	-	10.0	+		+2
UKRLAN	At sov.	+ +	57%		1.9	+	2.8	+	-	-	6.0	-	- -	-1
DTEKUA	Above Sov’n (Moody's)	+ + +	80%	-	2.0	+	1.5	-	- - -	- -	10.0	+		-2
NAFTO*	At sov.	+ +	n/a	- -	0.0	- -	n/a	- -	- -	-	6.5	-	+ + + +	-4
MRIYA	At sov.	+ +	90%	-	n/a	-	1.8			- -	8.5		- -	-4
RAILUA	At sov.	+ +	85%	-	n/a		1.3	-	- - -	- -	n/a	-		-6
AGTPW**	N/R	- -	n/a	- -	n/a	- -	n/a		- - -	-	5.5	-	- -	-13

Sources: Company data, Concorde Capital research

*Note: Following companies are in the table for illustration purpose only: * AVINPU and NAFTO bonds mature before 2016; **We do not cover Agroton as we do not see any value in the company*

In estimating risk profiles of banking issuers, we look at the following criteria:

- Credit rating of the paper/issuer: whether it is on par or lower than for sovereign Eurobonds. This is self-evident criteria that cannot be ignored.
- CAR of the bank under NBU methodology: how far is it from threshold level of 10%.
- Exposure to hryvnia devaluation risk: we calculate the net ForEx position as of ned-1Q14. Those very safe are rewarded.
- Exposure to related-party lending, which by itself carries extra risks. Penalties are applied when the lending-to-equity ratio is (or is believed to be) higher than 1.
- Loans/Deposits ratio: extra punishment is assessed for scores higher than 1.1.
- YTD performance of a bank’s deposit portfolio in 1Q14, in constant currency terms. We award one point for outperforming the sector (-8% YTD) and penalize for underperformance.
- Corporate Governance (CG) rating of the issuer (as rated by the Concorde Capital survey). We add extra points to those that have an exceptional CG score (10 out of 10) and penalize those who earned less than 2/3 of total score (6.5 and less).
- Experience of restructuring Eurobonds: those who did it once are liable to do it again.
- Owner’s commitment to keep the issuer safe: we add some points for distressed bonds for which we believe its main shareholder will do its best (and has a clear reason for it) to avoid possible default.
- Short-term liquidity: whether the issuer is able to cover its scheduled repayments in the next 12M (conservatively assuming that 60% of them will be rolled over) with expected loan repayments (assuming that 30% of them will not be repaid).
- Sector-specific business risks: we penalize the whole sector by two points to make it comparable to non-banking issuers by risk profile
- Exposure to new risks that emerged in 2014 (worsened relationships with Russia, annexation of Crimea, armed conflict in Donbas)

Relative risk profile calculation summary

	Credit Rating		CAR, End-1Q14		Net ForEx Position			Related Party Loans			Loans / Deposits		YTD Deposit Chg., 1Q14		Corp. Gov. Rating		Restruc-turing Experience	S/T Liquidity	Owner's Commit-ment	Sector Risks	Exposure to Crimea, Donbas, Russia	**Total Score**
		Pts		Pts	UAH mln	% CAR	Pts	% of TA	% Equity	Pts		Pts		Pts		Pts						
PUMBUZ*	At sov.	+ +	11.5%		897	23%		2%	13%		0.84		3%	+	10.0	+	- -			- -	-	-1
OSCHAD	At sov.	+ +	25.6%	+ +	-2	0%		51%	268%	-	1.12	-	-15%	-	8.5			- -	+	- -	-	-3
PRBANK	At sov.	+ +	12.2%		-8,628	-39%	- -	1%	5%		0.90		-11%	-	7.0					- -	-	-4
VABANK	At sov.	+ +	12.6%		-700	-26%	-	0%	0%		1.01		15%	+	9.0		- -	+	- -	- -	-	-4
EXIMUK	At sov.	+ +	28.5%	+ +	-5,315	-25%	-	38%	203%	-	0.81		-10%	-	9.5			- -	+	- -	- -	-4

Sources: Company data, NBU, Concorde Capital research
** PUMBUZ bond matures in 2014*

Sector and company profiles

Agricultural and food sectors

Farming companies: weaker prices, but propped by UAH deval and cheaper inputs

Sector profile

The agriculture segment is represented by Ukrainian "blue chips" – the nation's largest sunflower oil producer Kernel (**KER PW**), biggest poultry manufacturer MHP (**MHPC LI, MHPSA**), biggest sugar producer Astarta (**AST PW**) – all being significant landlords and growing crops for internal needs and third-party sales. A smaller farmer, Industrial Milk Company (**IMC PW**), has nearly quadrupled its land bank since its 2011 IPO and thus has taken a solid position in the club of Ukrainian farmers. Ukrlandfarming (**UKRLAN**), having the largest land bank under management in Ukraine, 654,000 ha, has issued only Eurobonds so far, though it still holds plans for a public offering of shares. Another active participant of the debt capital market is Mriya (**MRIYA, MAYA GR**), which has two issues of Eurobonds. The debt-burdened equities of KSG Agro (**KSG PW**) and Agroton (**AGT PW**) have been beaten down.

Consolidation in the sector slows down

The Ukrainian agriculture sector has already undergone significant consolidation and key producers claim they will limit capital expenditures in 2014 to minimize cash outflows, while capital markets remain effectively closed. Mriya plans to cut its CapEx twofold to around USD 80 mln to save cash. Kernel declared it will limit investments to USD 50 mln, with a low possibility of M&A operations, though the company may pursue acquisitions if lucrative buying opportunities emerge. One of the few companies targeting further M&A activity, given they have enough access to funding, is Ukrlandfarming, already the largest landlord in Ukraine, which has set a mid-term goal of boosting its land bank by 17% to 757,000 ha.

Crops producers are highly debt-loaded and striving to get refinancing

High leverage is capping the companies' ability to continue growing their asset base. Mriya's net debt/EBITDA ratio grew to 2.8x in 2013 from 1.1x in 2011, IMC's jumped to 2.5x from 0.7x, and Kernel's leaped to 2.3x from 1.0x, respectively. As a result, Ukrainian companies would rather get the opportunity to refinance existing loans than to fund expansion (that is, until the window to capital markets reopens).

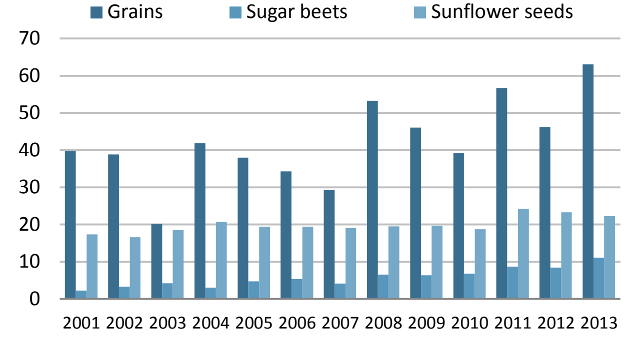
Farmers' hope for price rebound in fall 2014 yet to be confirmed

Fourth quarter 2013 brought disappointment to agri producers, when average prices plunged during the quarter – for wheat and corn by 23% and 41% yoy, respectively. While pricing will be determined closer to the end of the harvesting campaign, industry-wide expectations of better prices this year haven't been met yet: wheat and corn prices are still lower 18% and 23% YTD. On the bright side, deep hrvynia devaluation will support the profitability of agri producers, which denominate most of their costs in the local currency.

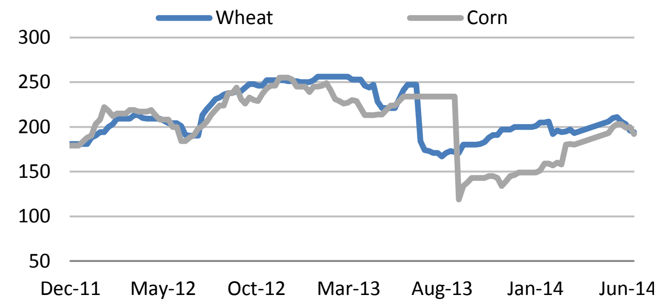
State support of farming business may be adjusted downward

The IMF mission hinted in April that it intends to recommend some adjustment of state subsidies granted to agri producers in Ukraine. This represents a potential threat to the profitability of farmers. Publicly listed Ukrainian companies totally obtained USD 316 mln in subsidies in 2013, mainly through VAT preservation, which represents 16% of their combined EBITDA. We don't expect the subsidy to be totally abolished, but some reduction may occur.

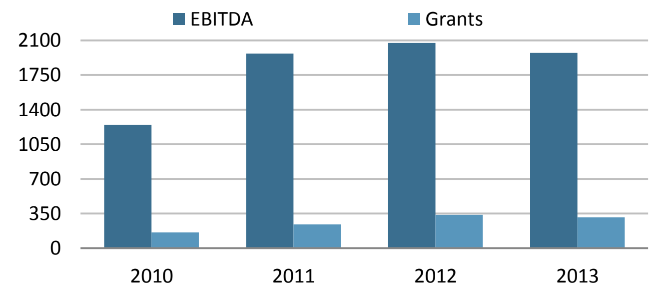
Crop production in Ukraine, mmt



Export prices for wheat and corn (FOB, Ukrainian port)



Aggregate EBITDA and state grants, received by agri producers issued public debt or equity*, USD mln



Source: Bloomberg, Metal Courier

**Kernel, MHP, Mriya, ULF, Astarta, Milkiland, Ovostar, KSG Agro, Agroton, IMC*

CONCORDE CAPITAL

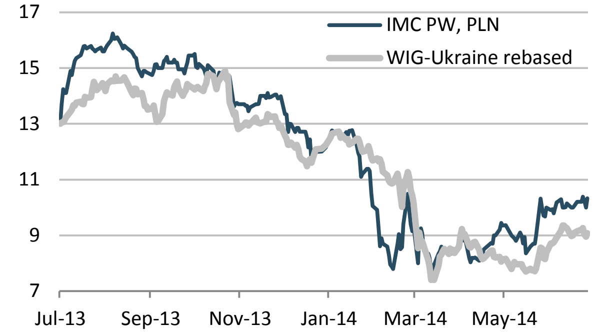
IMC (IMC PW): 2014 seen as a turnaround year

Among the leading farming companies in Ukraine, in terms of farming efficiency, IMC increased its land bank 3.7x since its 2011 IPO on the Warsaw Stock Exchange to 137,000 ha. The company's land plots are located in Ukraine's southern regions, which have fertile soil and mild climate that's suitable for planting corn, the company's flagship crop that accounts for more than 50% of its sowing area. Other important plants are sunflower, soybean and potato. The firm benefits from operating own grain and oilseeds storage facilities, which not only fully satisfy its requirements in storage, but also enable procuring services for third parties. With its dairy farming segment, IMC is among the top 10 milk producers in Ukraine, having manufactured 23.7 kt of raw milk in 2013 (+14% yoy).

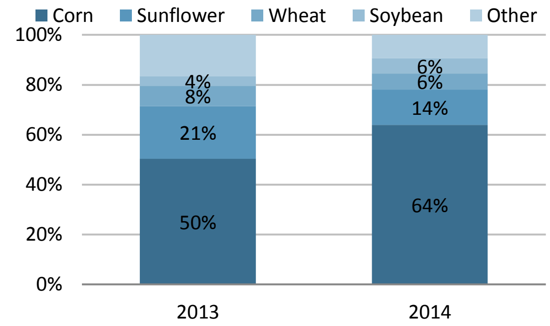
- IMC has increased its acreage under crops 13% yoy in 2014, along with the increase of its land bank. This will drive the top line, given mostly stable yields (as expected by the company) and assuming flat agriculture prices. We project 11% yoy growth in revenue to USD 128 mln this year;
- In 2014, IMC's crop breakdown remained basically the same, while the focus on corn increased. Despite prices for corn having yet to rebound from their lows, IMC has a strong advantage in utilizing its own storage facilities, thus being able to choose better timing to sell its harvested crops on the market;
- Hryvnia depreciation and a corresponding decrease in production and SG&A costs will contribute to the EBITDA growth of IMC in 2014, which we project will increase 38% yoy to USD 69 mln;
- The stock is currently trading at appealing EV/EBITDA multiple of 3.4x, which is quite low, compared to the historical average of 4.3x and average for international peers of 8.6x;
- Its aggravating total debt, which increased along with its boosted land bank, is a cause for concern since its debt burden may pose risks on the company's liquidity position once expectations about yields or costs in 2014 prove wrong. On the bright side, IMC's CapEx plan is rather modest for 2014, around USD 27 mln (USD 18 mln in 2013), which mainly includes deferred capital expenditures for past M&A activity. So far, our projections of net debt-to-EBITDA is 1.9x as of end-2014, a certain improvement compared to 2.5x as of end-2013. Once the company meets expectations, possible deleveraging could become a driver for IMC stocks.

Stock data	IMC PW	MCap, USD mln	105.4
Free float, %	21.2%	Key owners:	
Price, USD	3.39	Management	68.7%
# of shares, mln	31.30	Amplico OFE	5.1%

	2012	2013	2014E
Sales, USD mln	75.2	114.8	127.7
EBITDA margin	42.5%	43.1%	53.7%
Net margin	24.9%	22.5%	35.0%
EPS, USD	0.60	0.82	1.43
Net debt, USD mln	78.9	123.6	130.6
EV / EBITDA	5.8	4.6	3.4
P / E	5.6	4.1	2.4
Peer EV / EBITDA	10.9	10.5	8.6
Peer P/E	20.7	20.7	18.3



IMC crop rotation



Source: Company data, Bloomberg, Concorde Capital research

Mriya is an agricultural holding with a 320,000 ha land bank located in Ukraine's western regions. It plants primarily four crops: wheat, corn, rapeseed and sugar beet. The company's land bank has been reportedly stable over the last three years, as it has concentrated on the development of infrastructure, including storage facilities and machinery. The company's key shareholders, the Huta family, own seven small sugar plants that are located near Mriya's fields and are the main consumers of the company's planted sugar beets.

Too rosy P&L reported

- In 2013, 47% of the land harvested by Mriya was under wheat, the prices for which dropped 23% yoy in 4Q13. 33% of the land was under corn (whose prices fell 40% yoy). Despite the expected earnings decline, Mriya reported EBITDA of USD 227 mln (-11% yoy), or USD 768 per hectare of harvested land in 2013, way above what other local farmers reported for the year. Its reported EBITDA number was 2.2x higher than Mriya's cash flow from operating activities. The company does not report its operating cash flow before working capital changes, which makes it impossible to verify the credibility of its reported EBITDA number.
- In 1Q14, EBITDA grew 152% yoy to USD 74 mln. The sustainability of such a superb performance is a cause for concern for us in 2014-15, ahead of the expected substantial volatility of commodity prices and against the company's elevated leverage (D/E grew to 1.78x as of end March from 0.62x in 2012, EBIT coverage of interest expense plunged to 2.03x from 4.1x).

Savings measures to allow it to generate positive free cash flow in 2014

- Factoring the adverse market conditions of low grain prices, Mriya has chosen to implement a cost-cutting program and to minimize its CapEx in 2014 to a level of USD 80 mln for maintenance CapEx mainly (compared to USD 162 mln in 2013 and USD 253 mln in 2012), which is another indication of liquidity constraints the company is facing.
- Mriya has sown almost the same acreage in 2014 as the year before, having added to its crop mix barley (9% from total) at the expense of wheat and corn, as the crop enjoys higher market prices (USD 235/t vs. USD 192/t & USD 194/t, respectively). Hryvnia devaluation will be another positive factor, since only around a third of the company's costs are denominated in USD, and revenue is fully linked to USD prices of agriculture commodities. We project Mriya to increase operating cash flow by 14% yoy to USD 177 mln in 2014, and combined with reduced CapEx to generate positive FCF of USD 97 mln, instead of cash outflow of USD 244 mln last year.

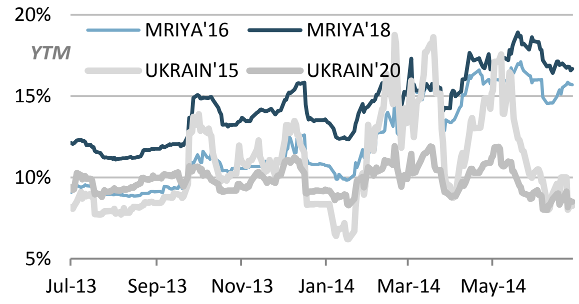
Fixed income case: bonds look priced in

- We estimate that the market 'priced-in' solvency hurdles of Mriya, which translate into spreads to sovereign, are larger than historical averages: 497 bps for Mriya 2016 vs. the average of 320 bps, and 648 bps for Mriya 2018 vs. 349 bps. However, Mriya seems to be capable of meeting its 2014 obligations with USD 177 mln in operating cash flow expected in 2014, USD 27 mln in cash on its books as of June 2014, USD 30 mln CapEx to be spent by the year end and working capital needs of USD 50 mln in 2014.

Equity case: enormous P&L numbers might bring disappointment in the future

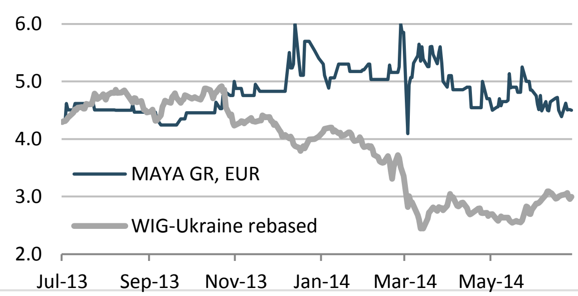
- We cannot treat Mriya as a safe equity story, as its provocatively high EBITDA metrics cannot be verified by any model. Its stock trades in a band of EUR 4.2 – EUR 6.0 over the last three years, and we do not see any reason for it to break through in the near future.

Eurobond		AVINPU 15
Outstanding, USD mln	72	400
Maturity	Mar-16	Apr-18
Coupon	10.95/SA	9.45/SA
Fitch / S&P / Moody's	CCC / CCC /na	CCC / CCC /na



Stock data	MAYA GR	MCap, USD mln	652.5
Free float, %	20.0%	Key owners:	
Price, USD	6.1408	Huta falimy	80.0%
# of shares, mln	106.25	Other	20.0%

	2012	2013	2014E
Sales, USD mln	348.0	498.7	415.2
Operating margin*	57.9%	31.3%	55.2%
Net margin	Na	Na	Na
EPS, USD	Na	Na	Na
Net debt, USD mln	367.0	634.1	668.1
EV / EBITDA	5.1	8.2	5.8
P / E	Na	Na	Na
Peer EV / EBITDA	10.9	10.5	8.6
Peer P/E	20.7	20.7	18.3



** Operating cash flow to revenue*
Source: Bloomberg, Company data, Concorde Capital research

CONCORDE CAPITAL

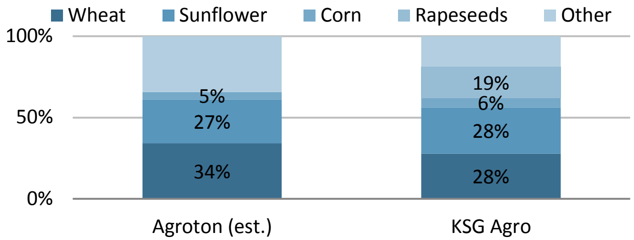
Profiles: Agroton and KSG Agro

Agroton (AGT PW): Poor governance and treatment of investors

An agricultural company with a 130,000 ha land bank located in Ukraine's easternmost Luhansk region, Agroton has historically focused on the planting of just four crops: sunflower, winter wheat, corn and rapeseed. A part of its land bank is located on territory currently controlled by separatists, while the majority is located in the northern territories of the Luhansk region, controlled by the Ukrainian government.

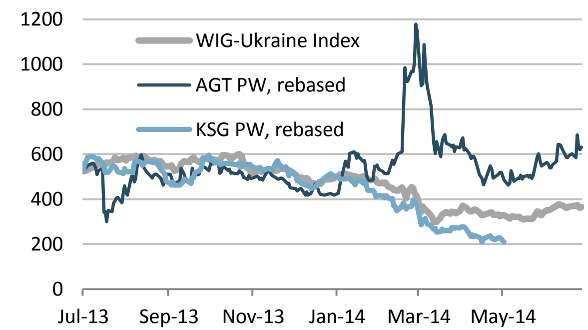
- The company initiated a restructuring of its USD 50 mln bonds last year citing a lack of funds even to pay coupons, while it continued to prepay money for assets that it never received and even lent USD 10 mln to its major shareholder. We believe this is the best demonstration of the company's poor attitude towards investors.
- Agroton's high focus on the planting of sunflower, which is a soil-exhausting crop, apparently led to the deteriorated quality of its land and gradual decrease of crop yields.
- We do not consider this company as worthy of investment.

Sowings structure, 2013 season



Stock data	AGT PW	MCap, USD mln	20.9
Free float, %	33.9%	Key owners:	
Price, USD	1.00	Y. Zhuravlyov	51.0%
# of shares, mln	21.67	Jaspen Capital	15.0%

	2012	2013	2014E
Sales, USD mln	88.0	81.4	Na
EBITDA margin	23.3%	9.1%	Na
Net margin	7.8%	-7.0%	Na
EPS, USD	0.32	-0.26	Na
Net debt, USD mln	42.6	45.5	Na
EV / EBITDA	3.1	8.9	Na
P / E	3.0	Neg	Na
Peer EV / EBITDA	10.9	10.5	8.6
Peer P/E	20.7	20.7	18.3



KSG Agro (AGT PW): Crimean factor makes it a very risky investment

This agricultural company has about a 92,000 ha land bank focusing on wheat, sunflower and corn production. About 60% of its land plots are in the southern Dnipropetrovsk region of Ukraine, and about 22% are located in Crimea.

- KSG Agro resembles its peer Agroton with its soil-exhaustive sunflower planting (which is planted every second or third year versus a norm of once per every five to six years) and investments into non-core assets like bakeries. And the company delivered last year the same poor financial results as Agroton.
- The company has yet to deliver on its plan to increase its land bank to 200,000 ha, which it declared before its 2011 IPO. It was able to increase its land bank to 62,700 in 2012 from 44,800 ha in 2011, while afterwards its growth path slowed down as unfavorable weather spoiled its plans. Right now, it holds a 92,000 ha land bank, with a low chance to expand it this season.
- A large portion of its land bank in Crimea, where there is literally no demand for sunflower and rapeseed. Another problem is its ability to export from the occupied territory is under question. Some of its Crimean land plots are irrigated, and the availability of water to them (supplied from mainland Ukraine) is also uncertain. Most likely, the company will consider some strategic review regarding its Crimean assets.
- The company failed to present audited results for 2013, thus far, which we believe is related somehow to possible troubles with its Crimean assets. Right now, the company looks like a very risky investment.

Stock data	KSG PW	MCap, USD mln	22.3
Free float, %	34.3%	Key owners:	
Price, USD	1.49	S. Kasianov	65.7%
# of shares, mln	15.02	Other	34.3%

	2012	2013	2014E
Sales, USD mln	37.2	57.9	Na
EBITDA margin	65.9%	7.1%	Na
Net margin	31.5%	-47.0%	Na
EPS, USD	0.78	-1.81	Na
Net debt, USD mln	50.2	85.9	Na
EV / EBITDA	3.0	26.3	Na
P / E	1.9	Neg	Na
Peer EV / EBITDA	10.9	10.5	8.6
Peer P/E	20.7	20.7	18.3

Source: Bloomberg, Company data, Concorde Capital research

Sector profile

Ukraine's egg sector is represented on the capital markets by Europe's leading egg maker Avangardco (AVGR LI, AVINPU) and smaller producer Ovostar Union (OVO PW). Both companies have shown spectacular growth in their laying hens flock and egg processing capacity. Both are focused on processing more of their eggs into exportable egg products.

Listed producers are core drivers of the nation's output growth

Avangardco and Ovostar, which fulfill their ambitious investment projects using the funds they attract on capital markets, are responsible for Ukraine's swelling egg output. As the domestic egg market is nearly saturated, the companies are expanding their production by capturing the market share of less efficient industrial egg producers, as well as developing export sales to not kill domestic egg prices. While Ovostar is too small to affect prices on the local market by higher domestic sales, the expansion of Avangardco seems only possible by securing export markets.

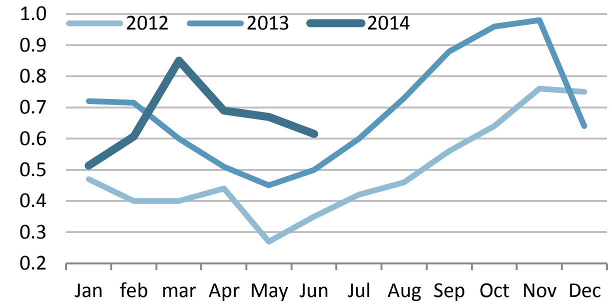
Domestic egg prices look strong

The good news is that egg prices have been continuously increasing over the last two years and they are likely to increase further, in the local currency equivalent, due to hryvnia devaluation, which has spurred inflation of all protein products in the country. At the same time, we expect that domestic egg prices, in dollar terms, will decline in 2014.

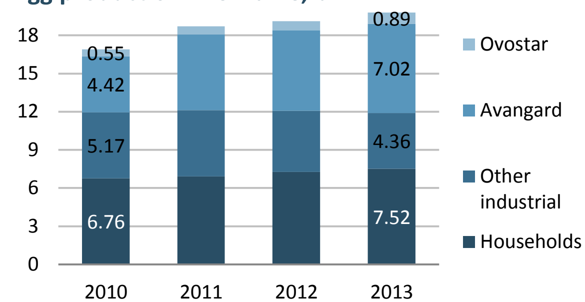
Export prospects

Devaluation also makes more profitable exports of egg products as they are becoming more competitive globally. The June 27 signing of the EU Free Trade Area will not add much to the companies' ability to export eggs: the country's total quota allowed by the agreement is less than 5% of Avangardco's and Ovostar's total annual output. So, their core markets will remain in MENA countries.

Egg prices in Ukraine, UAH/unit

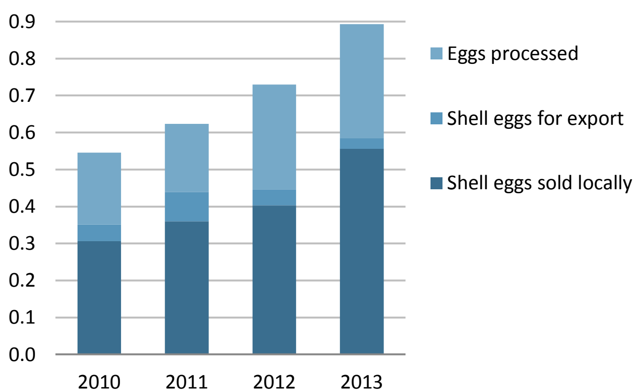


Egg production in Ukraine, bln

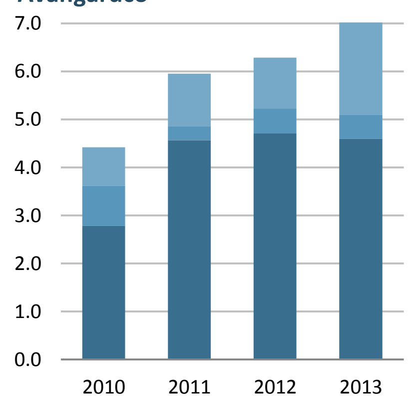


Use of the produces eggs, bln units:

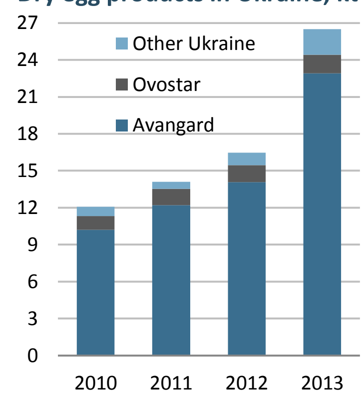
Ovostar



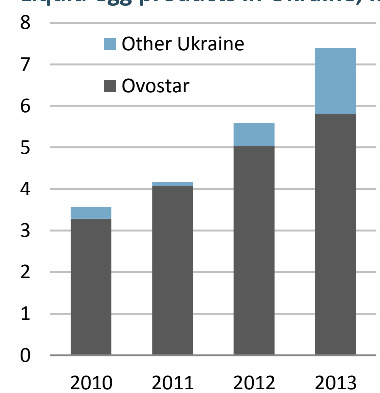
Avangardco



Dry egg products in Ukraine, kt



Liquid egg products in Ukraine, kt



Source: Company data, ptichki.net, Concorde Capital research

Profile: Ovostar Union

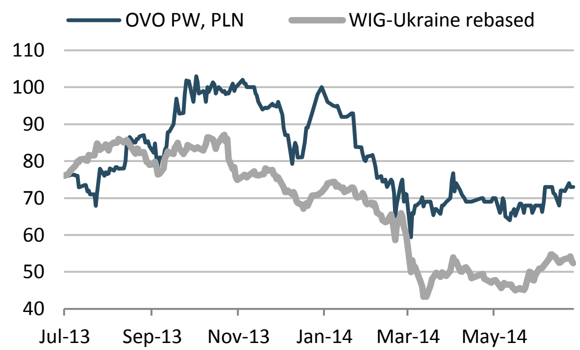
Ovostar Union is a small but fastest growing egg producer in Ukraine, responsible for 8% of nation's industrial egg production. It is also the second-biggest producer of dry egg products and leading producer of liquid egg products in Ukraine. Its production assets and points of sales in the shell egg segment are localized to the Kyiv region. About 80% of its shell eggs are branded and sold through modern retail chains. Its also sells sunflower oil as a byproduct of its fodder preparation facilities.

Stock data	OVO PW	MCap, USD mln	143.6
Free float, %	26.0%	Key owners:	
Price, USD	23.93	B. Bielikov	37.0%
# of shares, mln	6.00	V. Veresenko	37.0%

	2012	2013	2014E
Sales, USD mln	60.3	81.3	88.1
EBITDA margin	45.2%	44.5%	46.8%
Net margin	39.8%	38.4%	41.0%
EPS, USD	4.00	5.21	6.03
Net debt, USD mln	3.3	4.9	4.0
EV / EBITDA	5.4	4.1	3.6
P / E	6.0	4.6	4.0
Peer EV / EBITDA	10.2	8.8	5.8
Peer P/E	23.8	23.8	19.1

Investment case: Steady and certain growth using equity funding only

- The company is among the few that fully met its expansion promises given before its IPO, and will most likely meet further expansion promises to present a growth story in 2013-14. Most its investments were made using equity capital, so the company remains one of the least leveraged among foreign-listed Ukrainian issuers. A negative externality of such an approach is the company has not been not paying dividends, unlike its peers more increasingly.
- The company surprised positively with its 1Q14 results, showing a record-high EBITDA margin of 47% (vs. 37% a year before) on a 29% yoy decrease in its fodder costs (in USD terms) and only 7% yoy correction in egg prices. According to Ovostar updates, fodder costs remain weak in 2Q14, which promises a repetition of strong profitability in the next quarter as well. A worrying point is that the company's unaudited revenue results for the quarter are some 6% higher compared to what was implied by its data on volumes and prices that it provided earlier in its operating update.
- The stock was among the best performers in the WIG-Ukraine Index in 2013 and 1H14, and its continuing growth story allows us to expect that it will remain so in 2014 and 2015. Its output plan for 2014 foresees more than 23% yoy increase in egg production to 1.1 bln units. Even if it slightly underperforms, Ovostar is set to show higher-single digit growth in its revenue and double-digit growth in its bottom line in 2014, in USD terms.
- OVO Trades cheap compared to its global peers.



Source: Company data, Bloomberg, Concorde Capital research

Avangardco is Ukraine's leading producer and exporter of eggs and egg products and the second-largest producer of eggs globally. In 2013, the company accounted for 57% of industrially produced eggs in Ukraine. Its key outputs are shell eggs, dry egg products and poultry meat. In 2013, Avangardco finalized its expansion program, having launched two new egg farms that boosted egg production capacity 26% to 8.6 bln p.a. and expanded its egg-processing capacity threefold. Avangardco is a part of Ukraine's leading agricultural holding company, Ukrlandfarming (ULF).

Exposure to Crimea and Donbas: some risk, high opportunities

Avangardco has egg production assets in Crimea (4% of its egg capacity) and Donbas (18%). Though demand for its products will not be harmed even in the event of military escalations, and we do not expect any visible losses for the holding related to the turmoil. Moreover, we expect the company might benefit from the Crimean food deficit and inflated prices there, although the potential for some negative events from that location should not be ignored.

Generator of high free cash flow

After its ambitious investment projects – launched with its 2010 IPO – had been finalized in 2013, Avangardco turned to positive free cash flow generation as early as 1Q14. Its CapEx will drop almost 3x yoy this year to USD 60 mln (from USD 185 mln in 2013 and USD 321 mln in 2012), the company said. With its EBITDA expected to be non-declining on increased production capacity, the company is set to significantly increase its free cash flow in 2014-15.

Export revenue should grow fast

In 2014, the company will continue to ramp up egg and egg products output, by at least 6% yoy to 7.4 bln eggs, we expect, following a capacity increase to 8.6 bln eggs in 2013 from 7.0 bln eggs the prior year, while incremental products will be allocated to export markets. Avangardco managed to increase its share of export sales as part of total revenue to 32% in 2013 and 43% in 1Q14 (from 14% in 2012).

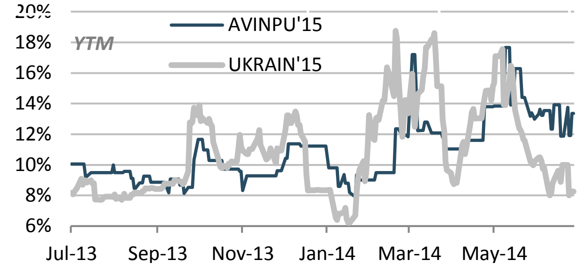
Fixed income story: Low leverage, but willingness to repay bond is not clear

- As a result of a Eurobond redemption in 2015, which we consider likely to occur, Avangardco will complete its deleverage afterwards, thus further improving its traditionally solid solvency ratios. They already look strong: net debt-to-EBITDA of 0.6x against a covenant of 3.0x.
- The related VAB Bank has recently initiated a restructuring of its Eurobond scheduled for June 2014. This casts a shadow of anticipated risks around Avandardco's bonds repayment, however it's not reflected yet in the current spread to sovereign, which is 330 bps, compared to the historical average of 490 bps.

Equity story: growth on cleansing its image, a new dividend story

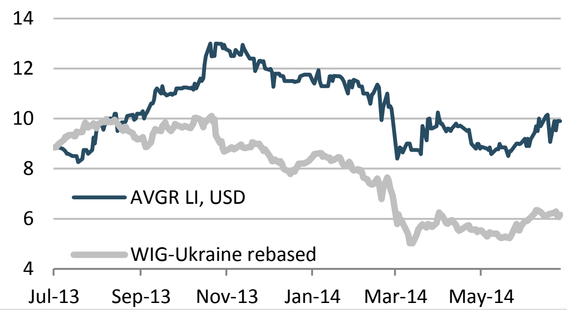
- Avangardco stock has been damned by the market for the lack of transparency and sustainability by its main shareholders. As a result, the stock trades at rather low 2013 EV/EBITDA of 2.7x (the historical average is 3.7x), compared to peers' average of 8.5x. Now the company is working hard to improve its image and has reached interim success (AVGR is among the few foreign-listed Ukrainian stocks to perform positively in 2013 and 2014). The main owner is aiming to place ULF, a much larger company, and Avangardco's multiples will be a natural benchmark for its pricing. This is why Bakhmatyuk will be willing to invest in raising AVGR multiples further. We see this as a good opportunity to ride on these efforts, but only before the placement of ULF is finalized.
- The company promises to pay 25% of its 2013 income as dividends, with the decision to be made later this year. If it happens, it will amount to USD 0.93 in dividends per DR, yielding 9.4%.

Eurobond	AVINPU 15
Outstanding, USD mln	200
Maturity	Oct-15
Coupon	10.0/SA
Fitch / S&P / Moody's	CCC / na / na



Stock data	AVGR LI	MCap, USD mln	632.3
Free float, %	22.5%	Key owners:	
Price, USD	9.90	Ukrlandfarming	77.5%
# of shares, mln	63.87	Other	22.5%

	2012	2013	2014E
Sales, USD mln	629.0	661.0	636.8
EBITDA margin	44.5%	45.5%	48.0%
Net margin	36.2%	36.0%	39.1%
EPS, USD	3.57	3.73	3.90
Net debt, USD mln	148.0	166.0	77.0
EV / EBITDA	2.8	2.7	2.3
P / E	2.8	2.7	2.5
Peer EV / EBITDA	10.2	8.8	5.8
Peer P/E	23.8	23.8	19.1



Source: Company data, Bloomberg, Concorde Capital research

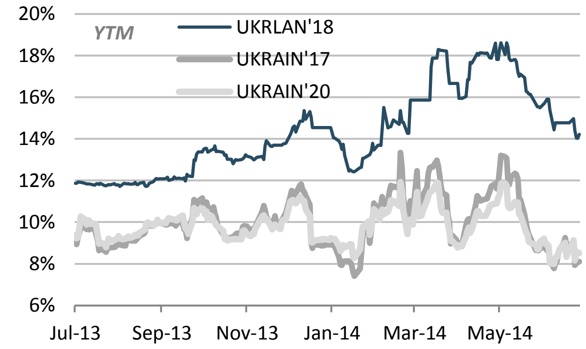
Profile: Ukrlandfarming (ULF)

ULF is an integrated agricultural holding, the largest in Ukraine by land bank (654,000 ha), that operates in five segments: crops, egg production (via its subsidiary Avangardco), sugar, cattle and meat. Its crops division also produces seeds and has seven grain silos with a total grain capacity of 1.1 mmt in wheat equivalent. The group's six sugar refining plants have a total capacity of 450 kt. The company emerged in the mid-2000s based on land plots with egg farms that were acquired by Oleg Bakhmatyuk. The holding expanded rapidly in 2010-11 via acquisition of agri-holdings that were overleveraged before the 2008-09 crisis.

Investment case: The bigger brother of Avangardco, more leverage and less transparent

- In 2013, the company boosted its land bank by 22%. Despite ULF already being the largest landlord in Ukraine, the company's strategy foresees a further increase of its land bank by acquiring agriculture companies with a stated target of 757,000 ha in the mid-term (+16% compared to current holdings).
- Such a strategy of an aggressive increase of the company's arable land portfolio has led to a higher leverage of Ukrlandfarming compared to its egg-producing subsidiary, Avangardco, and a more intensive debt repayment schedule for 2014-16. The holding continues to actively raise new debt – its subsidiaries placed local bonds to raise UAH 2.5 bln (USD 212 mln) in June 2014. The bonds mature in 2019, while they have a put option that can be exercised once per year.
- The holding's reported net debt-to-EBITDA ratio looked rather safe in 2013: 2.0x compared to a covenant of 3.0x, though worse than 1.65x a year before. However, nominal numbers may not tell the whole story. The profitability of farming , which is another key business segment for Ukrlandfarming in addition to egg output , was rather high in 2013 compared to the sector's financial underperformance. We estimate that the company reported EBITDA of USD 600/ha , which is at the level of Mriya's suspicious result of USD 763/ha in 2013.
- A discouraging development for ULF is that its related VAB Bank chose not to repay its Eurobond that matured in June 2014, and it's stubbornly offering restructuring to bondholders, despite their resistance. This has cast a shadow on other assets related to Bakhmatyuk, and ULF is the first to be damned. Worryingly, the holding has much poorer reporting practices compared to its subsidiary Avangardco, and it is the only Ukrainian issuer of Eurobonds that does not openly report its financials.
- ULF's Eurobonds trade at a discount to peers that have a similar risk profile – we believe this partially reflects ULF's poor reporting practices. Fundamentally, the holding looks stronger than other Ukrainian Eurobond issuers, and we believe its paper should trade at a smaller spread to sovereigns in the near term. The spread is 726 bps, which is higher than historical average of 654 bps.
- The holding is exposed to risks related to the annexation of Crimea and armed conflict in Donbas, but we estimate its exposure to these regions as low (the company hasn't provided exact data).

Eurobond	UKRLAN 18
Outstanding, USD mln	500
Maturity	Mar-18
Coupon	10.88/SA
Fitch / S&P / Moody's	CCC / CCC / na
Covenant: Net Debt / EBITDA	3.0x
Gross Debt / EBITDA, 2013	2.0x
Company ownership structure	
Oleg Bakhmatyuk	95%
Cargill	5%



Source: Bloomberg, Company data, Concorde Capital research

Ukrlandfarming financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2012	2013	2014E
Net revenue	1,889	2,072	1,990
EBITDA	792	842	795
EBITDA margin	42%	41%	40%
Profit from operations	673	925	685
Operating margin	36%	45%	34%
Finance costs	-159	-190	-131
PBT	532	740	560
Net income	542	754	470
Net margin	29%	36%	24%
Operating cash flow	778	766	720
Investing cash flow	-433	-1154	-200
Net CapEx	-454	-846	-200

Leverage, USD bln

	2012	2013	2014E
Net debt	906	1,367	895
Gross debt	1,303	1,665	1,145
Gross debt in UAH	227	213	205
Gross debt / EBITDA	1.6	.2.0	1.4
Covenant (Gross debt / EBITDA)		3.0	3.0

Revenue by segments, USD bln

	2012	2013	2014E
Crops	638	662	662
Eggs & poultry	590	635	603
Meat	121	133	90
Other	423	642	636

EBITDA margin of key segments, %

	2012	2013	2014E
Crops	61%	35%	39%
Eggs & poultry	47%	45%	48%
Meat	20%	-60%	6%

Key Balance Sheet items, USD bln

	2012	2013	2014E
Current assets	1,969	2,196	1,986
Cash & equivalents	402	398	297
Non-Current assets	2,078	2,413	3,846
PP&E	1,522	2,082	2,900
Equity	2,322	2,867	3,652
Current liabilities	773	908	773
ST debt	318	280	408
Non-current liabilities	952	834	1,408
LT debt	997	1,024	1,252

Source: Company data, Concorde Capital research

Profile: MHP

MHP is Ukraine's leading producer of chicken meat (50% of industrial poultry output in Ukraine in 2013). With a land bank of 360,000 ha, it is also one of the largest and most efficient Ukrainian farming companies with a focus on corn production (for internal use). It operates in three basic segments: poultry (which also produces sunflower oil as a byproduct of animal feed preparation), grain and meat processing. The company is planning to fully load the 220kt capacity of its brand new Vinnytsia complex by the end of 2014, thus aiming to produce 550 kt of poultry meat this year (+16% yoy).

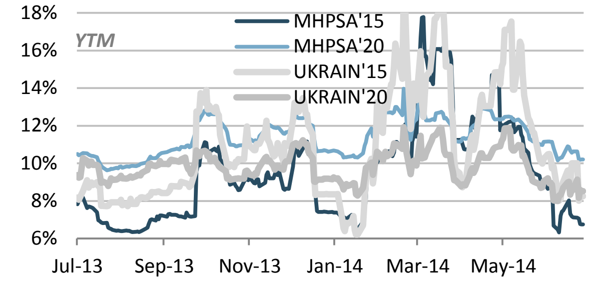
Fixed income story: Eurobonds are low yield, low risk

- MHP enjoys one of the lowest YTMs among Ukrainian corporates, with maturity in 2015-16, reflecting a secure profile for the company's Eurobonds, which includes both strong operating and free cash flow and refinancing options available.
- Among the key drivers of the projected 24% yoy EBITDA increase to USD 485 mln are the full capacity load of the newly launched Vinnytsia complex in 2H14 (boosting poultry output 16% yoy in that period), lower grain costs inherited from previous season's bumper harvest, and continuingly lower sunflower prices. We expect net debt to remain stable in 2014. MHP is slated to improve its Net Debt/EBITDA ratio to below 2.5x in 2014 from 2.9x as of end-2013.
- With respect to FCF, following the completion of the Vinnytsia project, CapEx will be limited to around USD 100-120 mln in 2014 (from USD 264 mln in 2013 and USD 386 mln in 2012). That will allow MHP to further increase its positive free cash flow for the second consecutive year to USD 385 mln in 2014;
- MHP's ability to service and repay its debt looks strong having USD 163 mln in cash as of March 2014 (half of which will be directed to pay USD 80 mln in dividends) and USD 291 mln in secured credit lines from the IFC and EBRD as of end-2013. Moreover, the repayment of the company's USD 235 mln Eurobond in 2015 is nearly secured by IFC's promise to provide USD 250 mln in refinancing.

Equity story: Abundant dividend payer, but lacks growth drivers until fall 2014

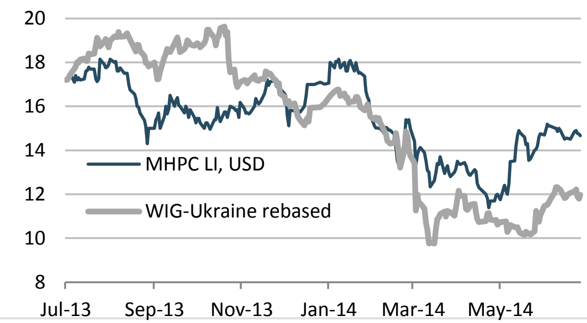
- The stock has been an abundant dividend payer for two consecutive years, having adopted a payout policy of 50% of net profit (dividend yield has reached levels of 7-8%).
- However, the company is likely to take a pause in dividend payment next year, as it profit in 2014 will most likely be negative. Hryvnia devaluation has caused a large USD 366 mln non-cash forex loss in 1Q14, which doesn't look likely to be offset by profits in the next quarters, even if local currency slightly strengthens.
- MHP trades at cheap level, compared to international peers. Specifically, the stock trades a 14-31% discount to its peers on 5.3x EV/EBITDA 2014E multiple, at some discount to peers. However, if compared to its historical average EV/EBITDA and P/E multiples of 5.5x, it doesn't seem too undervalued.
- For the mid-term, we see lack of growth drivers until autumn 2014, when pricing of agricultural commodities and possible results of harvesting campaign become more clear.

Eurobonds	MHPSA15	MHPSA20
Outstanding, USD mln	235	750
Maturity	Mar-15	Mar-20
Coupon	10.25/SA	8.25/SA
Fitch / S&P / Moody's	CCC/na/Caa2	CCC/CCC/na



Stock data	MHPC LI	MCap, USD mln	1,526.9
Free float, %	34.1%	Key owners:	
Price, USD	14.45	Y. Kosyuk	65.9%
# of shares, mln	105.67	Other	34.1%

	2012	2013	2014E
Sales, USD mln	1,408.0	1,496.1	1,368.3
EBITDA margin	33.2%	26.1%	35.4%
Net margin	22.1%	10.8%	-6.5%
EPS, USD	2.94	1.54	-0.84
Net debt, USD mln	1,045.0	1,129.8	1,059.8
EV / EBITDA	5.5	6.8	5.3
P / E	4.9	9.4	neg
Peer EV / EBITDA	10.2	8.8	5.8
Peer P/E	23.8	23.8	19.1



Source: Bloomberg, Company data, Concorde Capital research

MHP financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2012	2013	2014E
Net revenue	1,408	1,496	1,368
IAS 41 gain	17	14	17
EBITDA	468	391	485
EBITDA margin	33%	26%	35%
EBIT	381	272	375
Operating margin	27%	18%	27%
Finance costs	-59	-93	-447
PBT	319	160	-89
Net income	311	162	-94
Net margin	22%	11%	neg
Operating cash flow	198	332	250
Investing cash flow	-260	-224	-110
Net CapEx	-260	-165	-110

Leverage, USD mln

	2012	2013	2014E
Net debt	1,045	1,130	1,060
Gross debt	1,140	1,302	1,405
Gross debt in UAH	0	0	0
Net debt / EBITDA	2.2	2.9	2.2
Covenant (Net debt / EBITDA)	3.0	3.0	3.0

	2012	2013	2014E
Poultry	1,083	1,128	1,064
Grain	169	200	184
Other	155	165	120

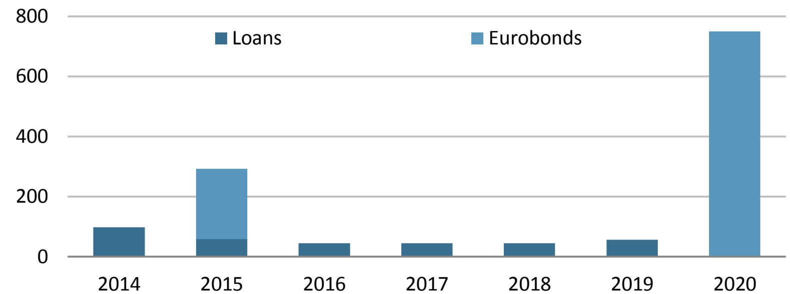
EBITDA margin of key segments, %

	2012	2013	2014E
Poultry	376	358	350
Grain	112	39	54
Other	10	33	12

Key Balance Sheet items, USD mln

	2012	2013
Current assets	1,001	1,109
Cash & equivalents	95	172
Non-Current assets	1,487	1,659
PP&E	1,340	1,493
Equity	1,199	1,249
Current liabilities	469	328
ST debt	323	119
Non-current liabilities	820	1,190
LT debt	817	1,183

Estimated debt repayment schedule, USD mln



Source: Company data, Concorde Capital research

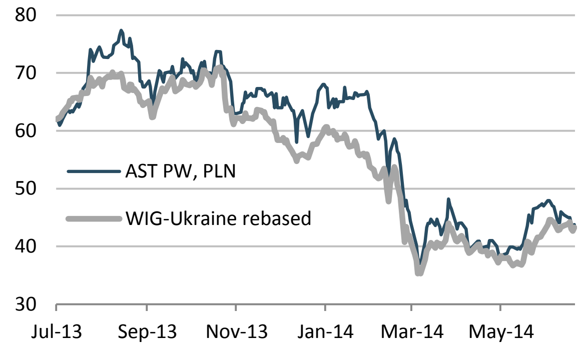
The company is Ukraine's leading sugar producer (26% of Ukraine's sugar output in 2013, up from 19% in 2012) and second-biggest industrial milk producer. It is also one of the nation's largest and most efficient farmers (245,000-hectare land bank). It operates in five regions of Ukraine. In 2013, the company commissioned a soybean processing facility to strengthen the value-added of its agricultural operations and further diversify its business. It also invests in decreasing the natural gas use of its sugar plants by implementing energy savings technologies, and it commissioned a biogas facility at one of its bigger sugar plants in 2013.

Investment case: Winning from domestic sugar price rally, proved investor in efficiency projects

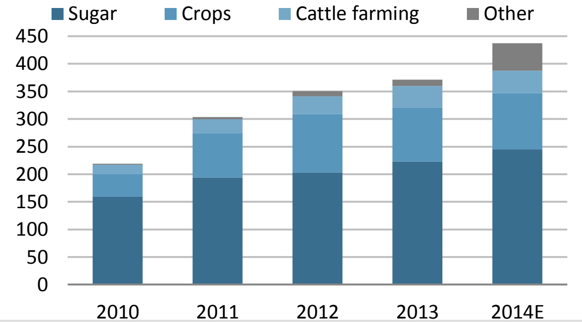
- The company continues to benefit from strong domestic sugar prices in Ukraine, which is a result of decreased sugar output in 2013 to 1.2 mmt (compared to 2.2 mmt in 2012, which exceeded annual domestic demand of 1.9 mmt). This year, sugar beet sowing increased only 6% yoy in Ukraine, which means the sugar market will be far from saturated this season as well. Astarta boosted its own sugar beet sowing 28% yoy this season with the aim of increasing its share on the Ukrainian sugar market.
- Sugar prices rose about 22% in USD terms in 1Q14, according to Astarta reports, and are about 10% higher yoy in 2Q14, according to our estimates. While we expect sugar prices will undergo a slight correction in 2H14, while average prices for the full year will be stronger. Along with the company's efforts to decrease energy use in sugar production, these factors should lead to more than 30% growth in Astarta's operating profit in the segment, in USD terms.
- The company is also increasing its exposure to soybeans (sowing area increased 41% in 2014, compared to 2012), which will enable it to load most of its soybean processing capacity with in-house input this year. The company should benefit from the production of higher value-added goods in 2014, while the exact positive effect is hard to estimate at the moment.
- Although focused on sugar sales to the domestic market, Astarta generated a large portion of its revenue from exports, which makes it relatively hedged against hryvnia devaluation. Its share of export revenue was 25% in 2013, vs. 24% in 2012 and 13% in 2011.
- Devaluation of the local currency in 1Q14 had a one-off negative effect on Astarta's profit, as it posted EUR 70 mln in exchange losses in the quarter. Stronger operating results, which we expect in 2014, will not be able to counterbalance the revaluation losses in the company's full-year results.
- Astarta's leverage remains pretty high, with its Net Debt/LTM EBITDA at 2.8x as of end-1Q14. While the company's solvency risk remains low, such a leverage level suggests the company is unlikely to pay dividends in the near future. The company decided not to pay dividends this year.
- The company trades at a discount on forward-looking EV/EBITDA to its global peers, and we believe such a discount can shrink closer to the year's end.

Stock data	AST PW	MCap, USD mln	356.6
Free float, %	37.0%	Key owners:	
Price, USD	14.26	V.Ivanchyk	37.0%
# of shares, mln	25.00	V.Korotkov	26.0%

	2012	2013	2014E
Sales, USD mln	453.1	487.7	588.5
EBITDA margin	24.4%	18.5%	19.7%
Net margin	13.0%	7.0%	-5.6%
EPS, USD	2.35	1.36	-1.31
Net debt, USD mln	308.8	348.9	351.9
EV / EBITDA	6.0	7.8	6.1
P / E	6.1	10.5	neg
Peer EV / EBITDA	7.2	6.3	8.7
Peer P/E	13.4	13.4	12.9



Astarta revenue structure, EUR mln



Source: Company data, Bloomberg, Concorde Capital research

Profile: Milkiland

The company that does not give up

The company is the third-largest cheese and butter producer in the CIS region, with production capacities located in Ukraine, Russia and Poland. It is also Ukraine's biggest exporter of cheese to the Russian market. About 62% of the company's sales came from Russian customers in 2013, while 54% of its goods sold came from Milkiland's Ukrainian assets. In 2012 and 2013, the company expanded its business by acquiring small dairy producers in Poland and Russia.

Always struggling with challenges

- The company has distinguished itself by its continuous struggles with regulatory challenges that have constantly surfaced since its IPO in 2010. 2011 was distinct for cancelled VAT subsidies for milk intake that inflated raw milk costs; in 2012 came the first serious export ban imposed by Russia against Milkiland's Ukrainian producers. 2013 was remarkable for the deficit of raw milk in Ukraine and Russia and steep increase in prices, as well as renewed trade barriers imposed by Russia, reflecting the riskiness of the environment in which Milkiland has to operate.
- The company has overcome all its challenges by constantly increasing production of milk products, developing new brands and product lines, investing in acquisitions of new dairy factories and building up its own raw milk sources. As a result, the company's revenue increased 1.7x in 2013, as compared to its pre-IPO year of 2009. However, all these efforts merely resulted in in the company preserving its EBITDA at near-2009 levels.
- Despite the challenges, the company initiated a dividend program in 2013 and is sticking to it in 2014 as well. The latter dividends, payable in November 2014, imply a dividend yield of 4.2%.

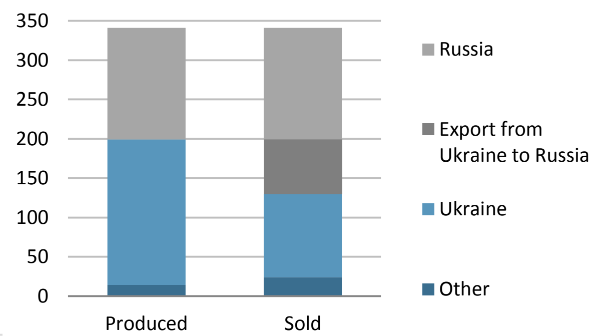
Exposure of Ukrainian assets to Russia is the main challenge, EU market opening is a mid-term opportunity

- A new trade war with Russia makes uncertain the export of milk products from Milkiland's Ukrainian assets to Russia. This part of its business was responsible for 38% of Milkiland's Ukrainian asset revenue and 20% of its consolidated revenue in 2013. In the short term, Russia's trade bans will negatively affect the company's ability to export to Russia, which should be partially offset by a decrease in raw milk prices in Ukraine.
- Milkiland will be one of the biggest winners from Ukraine's signing of the Free Trade Area agreement with the EU. It will lift all the trade restrictions to supplying its cheese to EU countries, compared to an import tax of EUR 1.4-1.7/kg valid before the deal. This opportunity will open for Milkiland in the mid-term only, after Ukrainian veterinary authorities will have adjusted their rules to EU standards.
- All in all, we believe that some time in the mid-term all of Milkiland's efforts to diversify its milk intake and sales channels will pay off. Though at the moment, it's not clear when such a turnaround will happen, and 2014 promises to be another challenging year for the company.

Stock data	MLK PW	MCap, USD mln	72.8
Free float, %	22.2%	Key owners:	
Price, USD	2.30	Yurkevich family	73.0%
# of shares, mln	31.25	V.Rekov	4.8%

	2012	2013	2014E
Sales, USD mln	368.8	450.1	408.4
EBITDA margin	13.0%	9.8%	7.0%
Net margin	4.7%	3.4%	-8.9%
EPS, USD	0.56	0.49	-1.16
Net debt, USD mln	93.9	119.7	127.0
EV / EBITDA	3.5	4.4	7.0
P / E	4.2	4.7	neg
Peer EV / EBITDA	10.8	11.8	11.5
Peer P/E	17.2	17.2	19.2

Origin and supply of goods sold, EUR mln, 2013



Source: Company data, Bloomberg, Concorde Capital research

Profile: Kernel

FY2015 seen as a turnaround year

is a globally leading producer of sunflower oil, with total crushing capacity of 3 mmt of sunflower seeds p.a. The company is one of the largest Ukrainian farmers, operating on a land bank of 405,000 ha, having produced 0.6 mmt of grains and oilseed in FY2013. It is also among the top Ukrainian grain exporters. Kernel operates own-deep water grain terminals at Black Sea ports, with a total capacity of around 4.5 mmt p.a. The company's financial year ends in June.

An end to a rough year

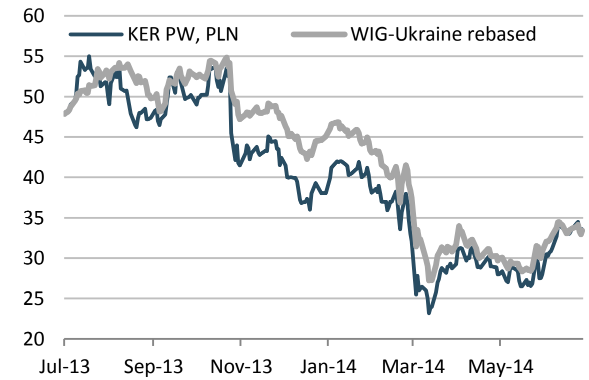
- FY2014 (ended in June 2013) has been a bad year for Kernel's financials for a number of reasons. A deficit of sunflower seed from the previous season caused a low capacity load in 1QFY14. Low agriculture commodity prices in 2QFY14 have led to losses in the farming segment. Deep hryvnia depreciation triggered a large non-cash revaluation of VAT receivables in 3QFY14. The company will generate USD 170 mln in EBITDA in FY2014, 32% below its initial guidance and 41% lower yoy. That said, the next year should be much stronger for the company – we expect its EBITDA will more than double yoy.

Next season should deliver triple-digit EBITDA growth

- Assuming no negative surprises with the sunflower harvest in 2014, Kernel will utilize its oil production capacity by 75% next season, we expect (vs. 70% in the previous season). Kernel is set for a strong rebound only due to a low comparison base – EBITDA of sunflower oil production will grow 13% yoy to USD 200 mln, on our projections;
- Following improvements in farming practices, Kernel also expects to generate EBITDA in the range of USD 180-200/ha in the next financial year versus a negative FY14 and USD 211/ha in FY13. This outlook is subject to stable market prices and favorable weather conditions. Once guidance is met, USD 70 mln in EBITDA will prop up Kernel's financial result;
- Since the bulk of the company's revenue is generated in U.S. dollars, hryvnia devaluation will have a positive effect on EBITDA, totally worth around USD 70-80 mln in FY15, mainly through cutting SG&A expenses.
- We project a gradual increase in export terminals throughput in FY2015, leading to 17% yoy growth in EBITDA from the segment to USD 40 mln;
- Kernel seems likely to beet the consensus expectation of generating EBITDA of USD 341 mln in FY15. Thus, the stock trades at EV/EBITDA of 4.3x compared to its historical average of 6.3x, and may be at the lucrative entry point for investors betting on good weather and a strong sunflower harvest in the 2014 calendar year.
- The company has taken a cautious stance towards cash outflows in FY15, having budgeted USD 50 mln for capital expenditures (investments of USD 85 mln were planned initially for FY14 vs. USD 80 mln in FY13). Having financing facilities available, the company's liquidity position will be strong, securing sustainable operations.

Stock data	KER PW	MCap, USD mln	865.3
Free float, %	61.8%	Key owners:	
Price, USD	10.90	A. Verevskiy	38.2%
# of shares, mln	79.68	Other	61.8%

	FY2013	FY201	FY2015E
Sales, USD mln	2,796.8	2,378.1	2,603.6
EBITDA margin	10.3%	7.1%	13.6%
Net margin	3.8%	-1.0%	6.9%
EPS, USD	1.32	-0.29	2.25
Net debt, USD mln	576.5	630.0	650.0
EV / EBITDA	5.0	8.8	4.3
P / E	8.2	neg	4.8
Peer EV / EBITDA	10.7	9.8	7.6
Peer P/E	15.9	15.9	21.7



Source: Bloomberg, Company data, Concorde Capital research

Electricity and coal sectors

Electricity: a high dividend sector; subject to Donbas risks

Sector profile
The electricity sector is represented in the capital markets by four locally listed stock issuers (power GenCos), two of which are local blue chips, as well as vertically integrated utility holding DTEK.

All the production assets of Ukraine's listed power GenCos are coal-fueled. They sell their electricity to a single wholesale market operator on competitive tenders. Their prices are set by the market, while the sector regulator has the right to cap their final price to prevent a radical increase in wholesale prices for power.

Dividend stories
In 2013, all the power GenCos reported record-high profits and paid record dividends. Their status as high dividend payers will strengthen further, we expect, as their profits in 2014 will be nearly as high as the year before. As companies with a 25%+ state stake, all the listed GenCos have to pay at least 30% of their profit as dividends, by law.

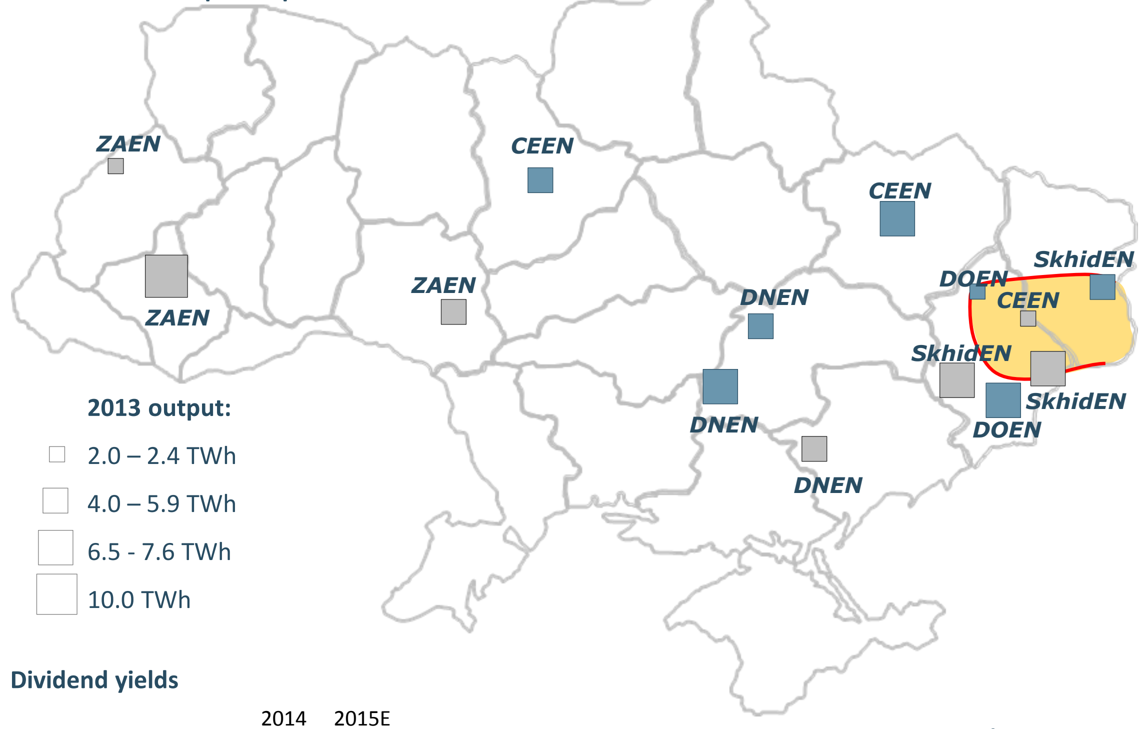
The achieved prices of coal-fired GenCos, having been capped by the regulator over the last six months, have been adjusted upward recently. Slightly discouraging news was a 10% increase in regulated coal prices since 2Q14 – we expect that power tariffs will grow slightly slower than fuel rates (by about 7% yoy) in 2014.

Donbasenergo is set to show the highest increase in its bottom line in 2014 as it's receiving high additional profit, at the cost of electricity consumers, that's aimed to help it finance ambitious CapEx projects that have been approved by the government.

Core risks for GenCos in 2014 is turmoil in Donbas:
All the coal supplied to half the power stations (the anthracite coal) is mined in the Donbas war zone. Four power stations (including one of Donbasenergo's, one of Centrenergo's and two of DTEK's private Skhidenergo) are located in the area that is mostly controlled by separatists, and three of these stations are located in zones of heavy military action.

The only company that is fully insulated from the turmoil in Donbas is Zakhidenergo – it consumes coal that is mined outside Donbas and all its assets are located far away from Donbas.

Coal-fired power plants in Ukraine*



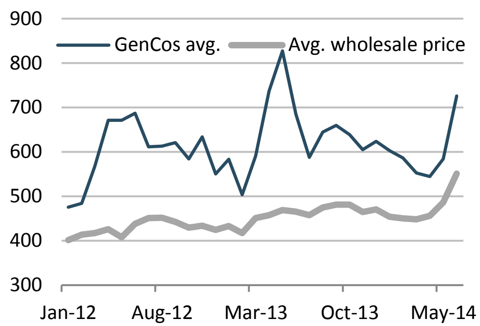
Dividend yields

		2014	2015E
Centrenergo	CEEN	17%	30%
Donbasenergo	DOEN	8%	6%
Dniproenergo	DNEN	16%	13%
Zakhidenergo	ZAEN	3%	5%

Percent of power capacity that is under risk of:

		Interrupted coal supply	Terrorist attack
Centrenergo	CEEN	79%	21%
Donbasenergo	DOEN	100%	30%
Dniproenergo	DNEN	79%	0%
Zakhidenergo	ZAEN	0%	0%

Wholesale power price, UAH/MWh



Source: Company data, Energorynok. Concorde Capital research
** Blue squares are power plants that are designed to use anthracitic coal; orange area is the separatist-controlled zone; red line is the battle area*

Profiles: Donbasenergo and Dniproenergo

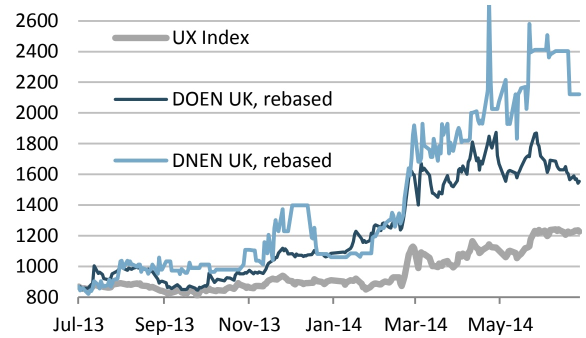
Donbasenergo (DOEN UK): High dividend play

The company is Ukraine's seventh-largest power producer in terms of installed capacity and 2013 output. It operates two coal-fired plants in eastern Ukraine with a total capacity of 2.6 GW. The company implements an aggressive CapEx program (for UAH 12.4 bln, or 13x more than its capitalization) at its Sloviansk TPP, with its needed costs to be covered via additional revenue at the expense of power consumers.

- The company's 2014 bottom line should grow significantly as it is eligible to receive UAH 0.94 bln in guaranteed special purpose revenue aimed to finance its investment projects (vs. total net income of UAH 0.53 bln, including special revenue of UAH 0.27 bln in 2013).
- As a company with a state's stake, it has to pay a minimum 30% of its income in dividends. A higher expected income in 2014 should boost the company's dividend payment next year to yield an estimated 30%, based on the current price.
- All its assets are located in the risky Donetsk Oblast, with one of its two power stations (28% of output) being situated very close to the separatist stronghold of Sloviansk. It's a core risk and core opportunity, if the situation in nearby Sloviansk de-escalates.
- Its stocks are among the most liquid on the local exchange.

Stock data	DOEN UK	MCap, USD mln	80.1
Free float, %	14.2%	Key owners:	
Price, USD	3.34	Energoinvest	60.8%
# of shares, mln	23.64	State	25.0%

	2012	2013	2014E
Sales, USD mln	581.0	710.0	597.3
EBITDA margin	5.6%	16.0%	21.7%
Net margin	0.7%	9.4%	15.1%
EPS, USD	0.16	2.81	3.82
Net debt, USD mln	59.0	45.0	64.0
EV / EBITDA	4.3	1.1	1.1
P / E	20.7	1.2	0.9
Peer EV / EBITDA	4.6	4.6	4.8
Peer P/E	7.4	7.4	8.1



DTEK Dniproenergo (DNEN UK): An illiquid dividend stock

Ukraine's fourth-largest power producer in 2013 and the second-largest in terms of installed capacity. It operates three coal-fired power plants in the Dnipropetrovsk region of 8.2 GW capacity (5.8 GW of which burn coal). It's an integral part of private DTEK's coal-power channel, while 25% of its stake belong to the state.

- After its affiliation with DTEK, the company started reporting an enormously high bottom line, which has resulted in its highest power efficiency ranking in Ukraine and DTEK's good will to supply cheaper coal to its plants.
- A risk for the company's bottom line in the future is not being able to control the price for incoming coal. Thus, much depends on DTEK's decision to allocate profits here or there. In fact, Dniproenergo is not distinguished as a separate company from DTEK – it's simply the operator of three of DTEK's nine power plants
- As a company with a state stake, it has to pay a minimum of 30% of its income as dividends. We expect some decline in Dniproenergo's bottom line in 2014, while we expect it will remain a decent payer of dividends, which will yield about 13%.
- Its assets are far from the conflict zones of Ukraine, but two of its three power plants depend on coal supplies from the heart of the Donbas conflict.
- The company's shares are illiquid, even for Ukraine's local market.

Stock data	DNEN UK	MCap, USD mln	222.4
Free float, %	6.7%	Key owners:	
Price, USD	37.27	DTEK	68.3%
# of shares, mln	5.97	State	25.0%

	2012	2013	2014E
Sales, USD mln	1,153.9	1,220.8	1,005.6
EBITDA margin	19.4%	23.4%	21.7%
Net margin	10.1%	14.3%	12.5%
EPS, USD	19.61	29.22	21.02
Net debt, USD mln	-28.0	-80.5	-78.0
EV / EBITDA	0.9	0.5	0.7
P / E	1.9	1.3	1.8
Peer EV / EBITDA	4.6	4.6	4.8
Peer P/E	7.4	7.4	8.1

Source: Bloomberg, company data, Concorde Capital research

Profiles: Centrenergo and Zakhidenergo

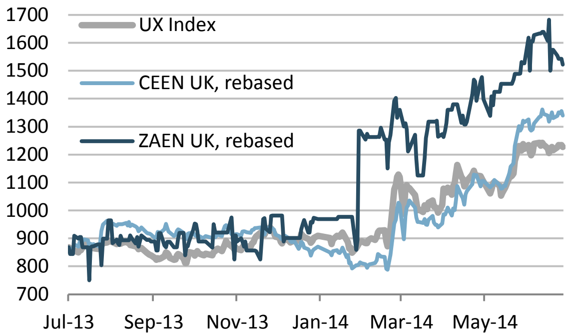
Centrenergo (CEEN UK): The last state GenCo, a real blue chip

The firm was Ukraine's fifth-largest power producer in 2013 and third-largest in terms of installed capacity. It operates three power plants in central and eastern Ukraine with a total capacity of 7.6 GW (with 4.6 GW coal-fired and the rest being idle gas-fired capacity). This is the only remaining coal-fired GenCo controlled by the state. One of its power stations suffered a fire in 2013, with three of four of its damaged power units restored as of today.

- The privatization of Centrenergo, which is possible in 2014 or 2015, may spur interest in its shares.
- Like Donbasenergo, the company initiated large CapEx projects designed by a state regulator that are financed by additionally secured revenue. But the scale of the projects is much smaller than for Donbasenergo, and so are their reported profitability.
- As a company controlled by state, it has to pay minimum 30% of its income as dividends. Centrenergo's dividend yield is expected to be moderate next year (about 6%).
- It's exposed to Donbas risks, and this exposure seems to be underpriced by the market. One of its power plants is located on the territory controlled by pro-Russian separatists; two others depend on coal that is mined only in the conflict zone.
- Centrenergo shares are the second-most liquid on the local market.

Stock data	CEEN UK	MCap, USD mln	235.6
Free float, %	21.7%	Key owners:	
Price, USD	0.63	State	78.3%
# of shares, mln	369.41	Other	21.7%

	2012	2013	2014E
Sales, USD mln	1,132.9	931.8	786.8
EBITDA margin	6.2%	10.3%	10.5%
Net margin	2.6%	6.5%	6.7%
EPS, USD	0.08	0.16	0.14
Net debt, USD mln	66.0	53.7	58.0
EV / EBITDA	4.3	3.0	3.6
P / E	8.1	3.9	4.5
Peer EV / EBITDA	4.6	4.6	4.8
Peer P/E	7.4	7.4	8.1



DTEK Zakhidenergo (ZAEN UK): Ex-blue chip, totally insulated from Donbas risks

The company was Ukraine's third-largest power producer in 2013 and fifth-largest in terms of installed capacity. It operates three coal-fired power plants in western Ukraine with 4.7 GW of installed capacity. It's the only Ukrainian company producing electricity for EU countries, and the only one capable of doing so.

- Once being one of the most popular Ukrainian stocks in mid-2000s, now the company is completely liquid. The company drawn admiration for its exclusive ability to produce power for EU countries, while this peculiarity does not add any profit to Zakhidnergo.
- After its affiliation with DTEK, the company slightly improved its profitability and there is some chance that it will improve its margins further, but this exclusively depends on the good will of DTEK to supply cheaper coal to its plants. Like other companies with a state stake, it's a stable dividend payer though only at a moderate yield.
- It's the only GenCo that is not exposed to any Donbas risks. Its assets are located in central and western Ukraine, while its coal is supplied from the Dnipropetrovsk Oblast and western Ukrainian locations.

Stock data	ZAEN UK	MCap, USD mln	156.0
Free float, %	2.8%	Key owners:	
Price, USD	12.20	DTEK	72.2%
# of shares, mln	12.79	State	25.0%

	2012	2013	2014E
Sales, USD mln	1,233.5	1,410.8	1,128.0
EBITDA margin	0.4%	11.0%	8.5%
Net margin	0.2%	5.1%	2.9%
EPS, USD	0.22	5.65	2.54
Net debt, USD mln	37.0	-14.7	11.0
EV / EBITDA	35.1	0.9	1.7
P / E	54.3	2.2	4.8
Peer EV / EBITDA	4.6	4.6	4.8
Peer P/E	7.4	7.4	8.1

Source: Bloomberg, company data, Concorde Capital research

DTEK is an integrated coal and electricity holding. It is a leading producer of steam coal in Ukraine (49% of the nation's total in 2013), a leading electricity distributor (39%) and the biggest producer of electricity from fossil fuel s (30%). It is also the monopoly electricity supplier in five out of 27 regions of Ukraine, including Crimea. DTEK is also the near-monopoly exporter of Ukrainian electricity in the last couple of years. In 2011-13, its business increased most than threefold with the acquisition of top coal mines, power producers and distributors from the state. The company is also developing prospective segments of own oil & gas extraction, as well as electricity output from wind energy sources.

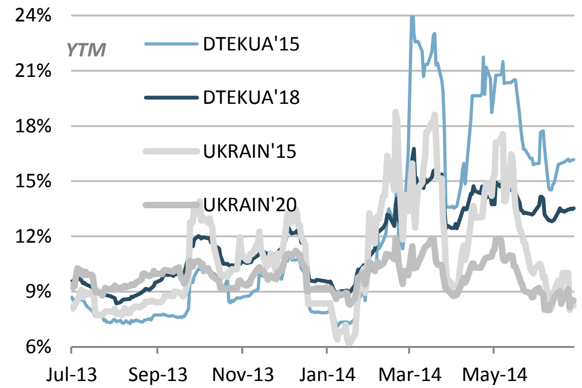
Investment case: Good business…. but it looks very risky right now

- The holding was able to build a good operating business that integrates coal mining and power production chains. Its leading position in the coal and power sectors of Ukraine creates enormous bargaining power with local clients.
- DTEK's top line will be negatively influenced by the decline in domestic electricity consumption in Ukraine in 2014 (as much as -3% yoy , we estimate). We also expect its operating margin will be negatively affected by a smaller increase in achieved electricity rates compared to production cost growth in 2014. Its USD-denominated P&L will also be negatively affected by devaluation (about 90% of its revenue is generated on the domestic market).
- At the same time, the company will likely increase coal exports in 2014 1.4x yoy to 6.5 mmt and keep electricity exports at least stable yoy, thus bringing total dollar-denominated revenue to USD 1.1 bln, which more than twofold covers its financial expenses for the year.
- DTEK received consent from the holders of its 2015 Eurobond to ease its leverage covenant. In particular, DTEK included social charges and taxes on wages in calculating its Consolidated Cash Flow (CCF). That enabled it to increase its CFF for the purpose of its Consolidated Leverage (CR) calculation by more than 40% (CR is Gross Debt to CCF, which should not exceed 3.0x). Such changes significantly increased DTEK's ability to borrow, as well as its solvency risk. On top of that, the changed definition of CCF complicates the calculation of the holding's CR, offering few inputs for that.
- DTEK increased its total debt by about UAH 12.2 bln during the last two years, with almost 40% of this increase being used to pay dividends . This aggressive dividend payment policy, if it continues, is a risk to DTEK's solvency. We expect it will cut its dividend payouts this year and stop paying dividends in 2015, unless it secures new generous lending.
- DTEK's Eurobond repayable in 2015 accounts for just a quarter of its total debt repayment scheduled for the year (as of end-2013). Smooth repayment of all the holding's debt in 2015 is conditional on its ability to roll over 25% of its total debt outstanding as of now, according to our estimates, creating a high temptation to restructure the next year's bonds.
- More than 40% of DTEK's EBITDA was generated in the Donetsk and Luhansk regions last year, we estimate. Armed conflict in the listed regions, which is occurring right now, adds the risk that some of the holding's assets will under-perform this year. Its Crimean asset, power DisCo Krymenergo, generated just 1% of the holding's EBITDA in 2013, and its possible divestment will not harm DTEK's business much.

Eurobonds	DTEKUA 15	DTEKUA 18
Outstanding, USD mln	200	750
Maturity	Apr-15	Apr-18
Coupon	9.50/SA	7.88/SA
Fitch / S&P / Moody's	CCC/na/Caa2	CCC/na Caa2

Company ownership structure:

SCM (Rinat Akhmetov)	100%



Source: Bloomberg, Company data, Concorde Capital research

Profile: DTEK, continued

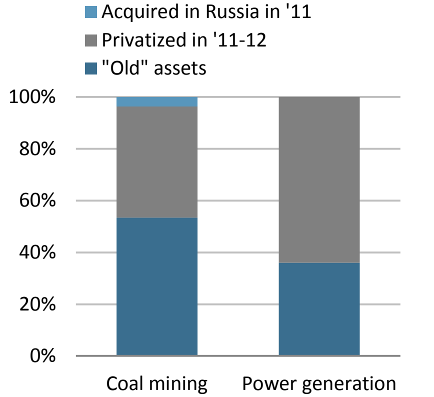
Investment case (continued)

- The core strategic risk is DTEK may lose some of the assets it acquired from the state during the presidency of Viktor Yanukovych, i.e. in 2011-12. These assets generated more than 45% of the holding's EBITDA in 2013. we estimate. So far, we see a low probability of losing assets. Though, given Akhmetov has tried to play both sides of the conflict in the Donetsk and Luhansk regions (which definitely has irritated the Kyiv government), this risk should not be ignored.
- Of DTEK's total borrowings , 27% are from Russian banks, which looks like another risk given the worsened relations between the two nations. DTEK assured us that its business links with Russian banks are untouchable, but much may change if DTEK's ultimate shareholder embraces the Ukrainian cause (which he apparently has done). On the positive side, the Russian ruble is devaluing on par with the hryvnia, which slightly decreases DTEK's future financial burden.
- The mid-term value growth of DTEK now looks worse than a yea r before. Reforms of the wholesale power market, lobbied by DTEK and approved by the Ukrainian parliament, is now highly likely to fail. The reform legislation stipulated free market prices for fossil fuel-based power producers (like those operated by DTEK), at the cost of tougher price controls imposed on other electricity generators.

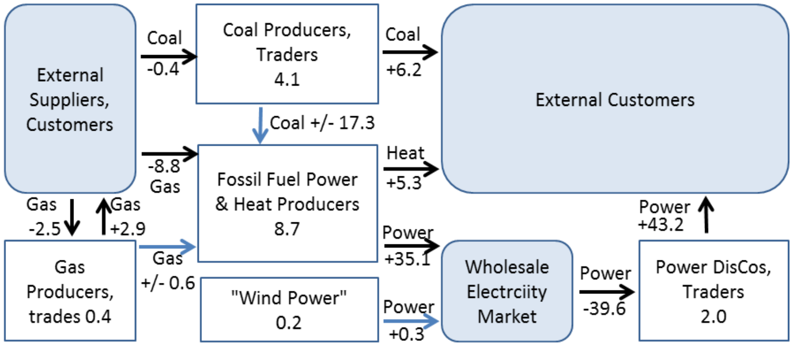
Financial summary, USD mln

	2012	2013	2014E
Net revenue	10.32	11.6	9.39
EBITDA	2.12	1.87	1.30
EBIT	1.45	1.36	0.88
Finance costs	-0.52	-0.47	-1.38
Net income	0.74	0.42	-0.65
Net debt	1.95	2.82	3.4
Gross debt	2.62	3.48	3.5
Consolidated Cash Flow (CCF)*	2.41	2.23	1.63
Gross debt / CCF*	1.1x	1.6x	2.4x
Covenant (Gross debt / CCF)*	3.0x	3.0x	3.0x

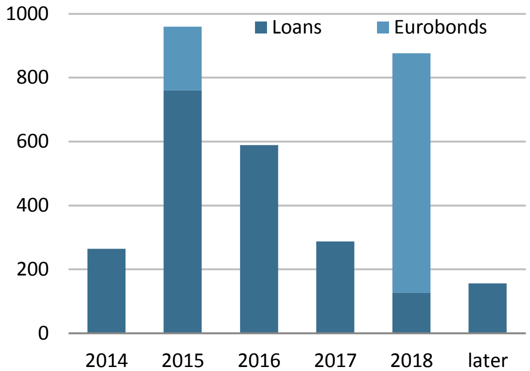
Contribution to DTEK's operation, 2013



Simplified DTEK business model, 2013**



Debt repayment schedule, USD mln



** Based on its prospectus, we calculate Consolidated Cash Flow (CCF) as operating cash flow before working capital changes plus salary taxes and other taxes;*
***Arrows show key input/output flow in 2012 (in UAH bln), blue arrows are for intersegment sales, numbers in boxes show segment EBIT in 2012 (UAH bln);*
Source: Company data, Bloomberg, Concorde Capital research

Independent steam coal producers: lacking demand

Sector profile
The coal sector is represented by two Warsaw-listed independent coal producers, Sadovaya Group (SGR PW) and Coal Energy (CLE PW). These companies are focused on mining, processing and selling coal and enriching coal waste into sellable coal. Most of coal they produce becomes steam coal supplies for domestic power plants.

Excess supply of coal in Ukraine making private mines idle
The core problem for these coal miners is that they have no stable demand for their coal. Currently, Ukraine produces more coal than it consumes. The bad news is that most of the consumers of steam coal, thermal power plants, belong either to the state or private DTEK, which prefer to buy coal from related mines. Not integrated with coal buyers, these private producers have very limited sales opportunity. An option to export coal is also restricted, as less than half of the coal that is extracted in Ukraine meets tough environmental requirements to be exportable (most of the coal has excessive sulfur content).

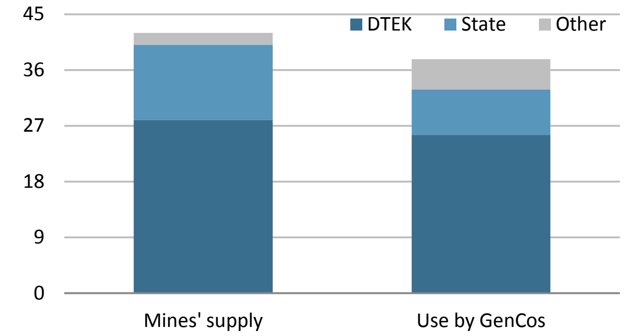
Having lost its sales ability, Sadovaya Group stopped its mines in October 2012. Since then, the company has not been able to restart them, which would require large initial investment into working capital that the company would have to borrow. Such borrowing is possible only in the case of a large secured order book. In conditions of excess coal supply, large consumers demand tough supply terms, which Sadovaya (with its yet to be recommissioned coal mines) cannot guarantee.

Unlike Sadovaya, Coal Energy has been able to preserve some of its customers and is able to keep its assets in workable mode, although its volumes are currently below break even.

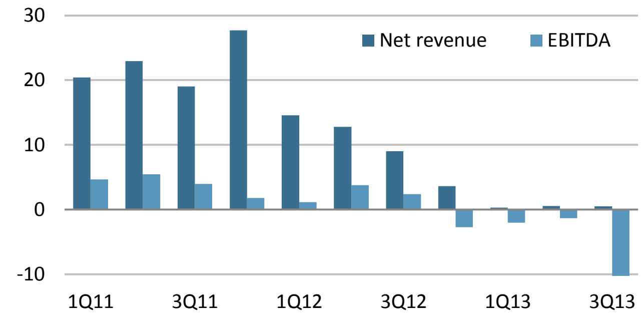
Some prospects on the horizon
As Ukraine faces the risk of restricted natural gas supplies, some new projects to stimulate the use of alternative energy sources, including coal, can be initiated by the government in the near term. Another factor that might improve the demand/supply balance on the domestic coal market is the government's repeatedly stated intention to close some state mines (all of them are very inefficient and a real burden for the state). The prospects of these possible initiatives are not clear at the moment – the two listed miners may not survive till these better times.

Donbas risks
The location of the two companies' assets, in the heart of territory controlled by the separatists, is a straightforward risk. The mines, which posses lots of vehicles and explosives suitable for terrorist use, are becoming easy targets.

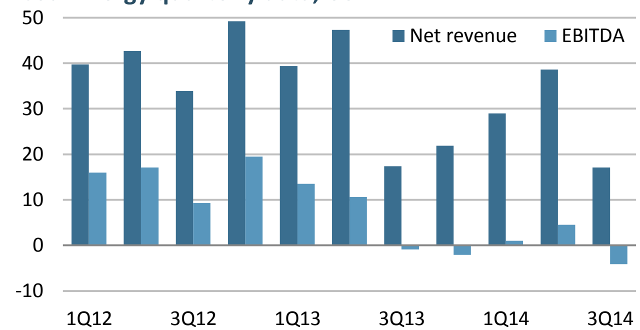
Supply and demand for thermal coal in 2013, mmt



Sadovaya quarterly data, USD mln



Coal Energy quarterly data, USD mln*



Source: Energobiznes, company data, Concorde Capital research
** Coal Energy's financial year ends in June*

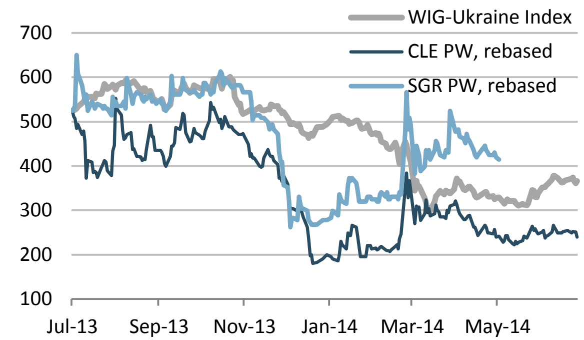
Coal Energy (CLE PW): Struggling to survive till better times

Coal Energy is the third-largest private Ukrainian coal miner with assets producing both steam and coking coal. The company operates one large mine that it leases from the state and seven smaller mines. Its annual mining capacity is 1.6 mmt. It mines coal from underground mines and reprocesses it at on-ground coal waste dumps. Its financial year ends in June.

- The company significantly decreased its output and revenue over the last year due to the unfavorable market for its coal. The good news is that it was able to maintain some production on its assets, but current levels don't allow the company to break even.
- Some recovery in demand for coal in Ukraine might happen in late 2014, though the company may not survive until these better times.

Stock data	CLE PW	MCap, USD mln	19.3
Free float, %	25.0%	Key owners:	
Price, USD	0.43	V. Vyshnevetskyy	75.0%
# of shares, mln	45.01	Other	25.0%

	FY2012	FY2013	FY2014E
Sales, USD mln	165.5	126.0	99.0
EBITDA margin	37.9%	16.7%	-3.6%
Net margin	23.6%	-13.4%	-31.3%
EPS, USD	0.87	-0.38	-0.69
Net debt, USD mln	7.3	94.1	104.0
EV / EBITDA	0.4	5.4	Neg
P / E	0.5	Neg	Neg
Peer EV / EBITDA	4.8	6.8	7.7
Peer P/E	8.0	8.0	11.4



Sadovaya Group (SGR PW): Nearly bankrupt

Sadovaya is a small private Ukrainian miner of steam coal. It operates two mines with a capacity of 0.6 mmt of raw coal per year. It possesses 48.1 mmt of 2P reserves at four mine fields and ten coal waste deposits. In 2011, it initiated a large EBRD-financed project to construct waste processing facilities, though it has failed to update the public on the progress of the projects. In April 2014, it restructured its EBRD loan. Its two coal mines are idle since October 2012.

- With a USD 40 mln debt and less than USD 2 mln in revenue generated in 2013, the company does not look as a going concern any more.
- The company might survive on the market, but only n case of some new capital additions.

Stock data	SGR PW	MCap, USD mln	11.2
Free float, %	25.0%	Key owners:	
Price, USD	0.26	A.Tolstoukhov	38.2%
# of shares, mln	43.09	S.. Stetsurin	36.8%

	2012	2013E	2014E
Sales, USD mln	40.0	1.8	Na
EBITDA margin	11.4%	n/m	Na
Net margin	-36.5%	n/m	Na
EPS, USD	-0.34	-0.74	Na
Net debt, USD mln	47.0	42.7	Na
EV / EBITDA	12.8	-3.0	Na
P / E	-0.8	-0.3	Na
Peer EV / EBITDA	4.8	6.8	7.7
Peer P/E	8.0	8.0	11.4

Source: Company data, Bloomberg, Concorde Capital research

Oil & gas sector

Gas E&P companies: keep benefiting from high prices in Ukraine

Sector profile
The three most liquid stocks exposed to natural gas exploration and production (E&P) in Ukraine are Serinus Energy (SEN PW), JKX Oil & Gas (JKX LN) and Regal Petroleum (RPT LN). Besides Ukraine, JKX also operates in Russia, where gas prices are 5x lower compared to Ukraine. Serinus Energy is currently expanding its business in Tunisia, where it mostly engages in oil production, but its Ukrainian asset remains the core contributor to its revenue.

Prices to remain high in the mid-term
Private gas production companies are able to sell their gas to industrial consumers at the price capped by the state regulator (the marginal price). The marginal price depends mostly on the price of imported Russian gas. It fell from USD 432/tcm in 2H13 to USD 346/tcm in 1Q14, as Russia offered a good interim discount. Yet as of June 2014, it swelled to USD 404/tcm (-8% yoy) as Ukraine's relations with Russia have spoiled. Even if Ukraine finds alternative sources of gas supply, we do not expect this price will decrease. In fact, independent companies sell their gas with some discount (uo tp 10%) to the marginal price.

Production royalties are temporarily low due to the current gas dispute with Russia
Private companies pay royalties that are calculated as 28% of the import price of Russian gas. Yet the government has boosted the royalty rate from the 25% level that was valid until end-1Q14. Despite this royalty rate growth, independent E&P companies decreased their royalty payment because the government decided to set (unilaterally) the export price for Russian gas at USD 269/tcm, or 35% lower yoy. That enabled the companies to pay a royalty that's 27% lower yoy in 2Q14. The resulting price, net of royalty, remained almost unchanged yoy in May and June 2014. The core risk is the government may recalculate its 2Q14 export price of Russian gas and demand the companies to pay extra royalties in the future, when Ukraine and Russia will have agreed on a new price.

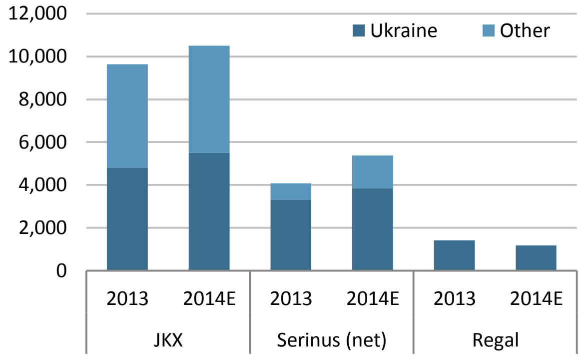
Emergency in Ukraine's gas sector is a risk
The Ukrainian government has initiated a draft law addressing potential emergencies in the energy sector, prompted by the stoppage of Russian gas supplies to Ukraine since June. That might allow the Cabinet to cap private producers' gas prices, which will be a loss for them. At the moment, Ukraine's parliament failed to support this legislative initiative.

Company issues
Regal Petroleum is constantly decreasing its hydrocarbon output as all of its new wells planned for commissioning last year failed, and all of its existing wells are continuously being exhausted. The company operates the deepest wells of its peers, with depths of more than 5,000 meters.

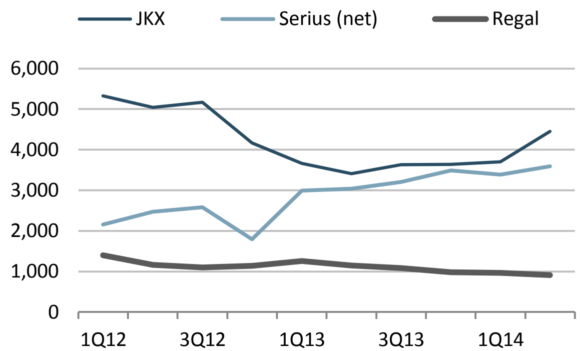
JKX Oil & Gas invested heavily in its Russian assets in 2012 and 2013, while its output in Ukraine was declining. After a series of corporate conflicts initiated by its Ukrainian shareholders, management started paying more attention to its Ukrainian licenses (which generate about 5x more revenue per unit of gas compared to their Russian wells) and the company started demonstrating output growth in Ukraine since late 2013

Serinus Energy has become increasingly active outside Ukraine, in Tunisia and Romania. At the same time, it continues to develop new wells in its Ukrainian license areas. Despite Serinus's Ukrainian subsidiary, KUB-Gas, producing all its hydrocarbons in the risky Luhansk region, its exact location (on territory fully controlled by the government, some 50 km away from the war zone) leads us to believe that its assets will not suffer from the conflict. The company's wells are the shallowest among its peers, ranging between 2,000m and 3,800m.

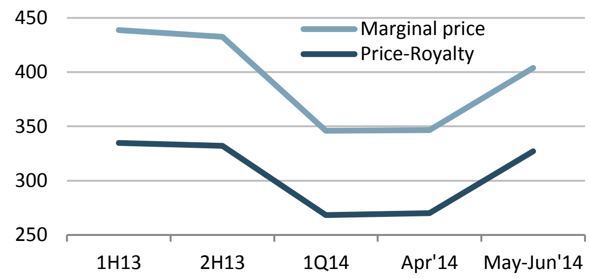
Output distribution, boepd



Output in Ukraine, boepd



Gas pricing in Ukraine, USD/tcm



Source: Company data, Energobiznes, Concorde Capital research

Profiles: Serinus Energy, JKX Oil & Gas, Regal Petroleum

Serinus Energy (SEN PW): Growing output in all its license areas

Serinus Energy (former Kulczyk Oil Ventures) is an E&P company with 70% interest in Ukraine's KUB-Gas, which also has assets in Tunisia and Romania. Ukrainian assets accounted for 81% of Serinus's total output in 2013.

- Year-to-date, the company demonstrated production growth in all its countries of operation, especially in Tunisia where the company has twice a bigger netback than in Ukraine. The company's plan to increase its output 30%-35% yoy in 2014 looks feasible. Serinus plans to drill eight new E&P wells in 2014, vs. six in 2013.
- Even though its Ukrainian assets are located in the Luhansk region, their exact location is on the territory controlled by Ukrainian government. Over the last two months, the company increased its output in Ukraine 15% yoy.
- Serinus sells its gas with the deepest discount to Ukraine's marginal gas price, which lacks explanation. Its discount was 9% in 2013, compared to 3% for JKX and 5% for Regal.
- Serinus has among the most liquid stocks and highest corporate governance standards in the Ukrainian universe.

Stock data	SEN PW	MCap, USD mln	209.3
Free float, %	39.0%	Key owners:	
Price, USD	2.66	Kulczyk Invetm't	50.8%
# of shares, mln	78.63	Pala Asset	7.5%

	2012	2013	2014E
Net sales, USD mln	80.1	112.2	144.3
Output, boepd	2,655	4,081	5,387
2P reserves, mln boe			20.6
Net debt, USD mln	-12.5	45.9	58.0
EV / 2P ($/boe)			13.0
EV / Output ($/boe)	203	171	136
Peer EV / 2P			**10.6**
Peer EV / Output			**156**

JKX Oil & Gas (JKX LN): Turning around in Ukraine

JKX is an E&P company focused on gas production in Ukraine and Russia, with equal output shares in both countries in 2013. It also possesses some E&P assets in Hungary (with some production there), as well as Slovakia and Bulgaria, with no production there so far. The company plans to put into operation six wells in 2014.

- After a series of corporate conflicts between its British management and Ukrainian minority shareholders, the company has paid more attention to developing its Ukrainian assets, which provide 5x larger netback compared to its Russian assets.
- A turnaround in Ukraine is expected in 2014 after output continuously declined over the last four years. In 5M14, the company boosted its Ukraine gas production 16% yoy. Higher gas output from its Ukrainian assets will allow JKX to keep its operating profit stable yoy in 2014, even though the average Ukrainian gas price will decline slightly.

Stock data	JKX LN	MCap, USD mln	173.2
Free float, %	46.1%	Key owners:	
Price, USD	1.01	I. Kolomoisky	27.5%
# of shares, mln	171.72	A.Zhukov	11.5%

	2012	2013	2014E
Net sales, USD mln	156	139	141.8
Output, boepd	8,281	9,731	10,500
2P reserves, mln boe			94.2
Net debt, USD mln	3.0	13.8	23.0
EV / 2P ($/boe)			2.1
EV / Output ($/boe)	58	53	51

Regal Petroleum (RPT LN): Fails to deliver growth in 2013

Regal is an oil & gas company focused on gas and condensate production in central Ukraine. It holds a 100% interest in two production licenses with 11.7 mln boe in 2P reserves.

- The company's ambitious growth plan for 2013, including the drilling of three new wells, failed as two wells turned out to be non-productive. That forced the company to cut the estimate of its 2P reserves 2.7x in 2013 from 31.6 mln boe. The company's 2014 expansion plan is very moderate, as it includes the drilling of one production well, as well as the workover and stimulation of three others, which does not allow us to count on any production growth in 2014.
- As an operator of the deepest wells among Ukrainian E&P companies, Regal has the highest well drilling costs and its value is very sensitive to any well failure.

Stock data	RPT LN	MCap, USD mln	49.1
Free float, %	16.5%	Key owners:	
Price, USD	0.153	Smart Holding	54.0%
# of shares, mln	320.64	Alfa Group	28.7%

	2012	2013	2014E
Net sales, USD mln	35.2	29.6	22.8
Output, boepd	1,539	1,422	1,180
2P reserves, mln boe			11.7
Net debt, USD mln	-28.5	-25.1	-22.0
EV / 2P ($/boe)			2.3
EV / Output ($/boe)	37	46	63

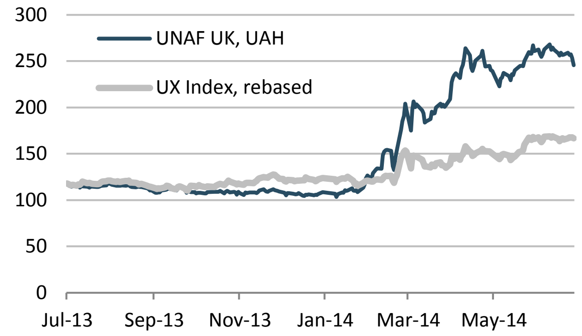
Source: Company data, Bloomberg, Energobiznes, Concorde Capital research

Ukrnafta (UNAF UK): The company that used to breaking rules

Ukrnafta is Ukraine's leading producer of oil and retailer of gasoline. The firm produced 86% of crude oil, 20% of gas condensate and 9% of natural gas of Ukraine's total in 2013. Its oil production assets are concentrated in the northern and western regions of Ukraine. Ukrnafta has the nation's biggest network of gas filling stations at more than 530 units. The government holds a 50%+1 share stake while its operations are controlled by the second-largest shareholder, Ihor Kolomoisky.

Stock data	UNAF UK	MCap, USD mln	1,178.6
Free float, %	5.0%	Key owners:	
Price, USD	21.62	State	50.0%
# of shares, mln	54.23	Privat Group	41.8%

	2012	2013	2014E
Sales, USD mln	2,585.4	2,637.6	2,359.9
EBITDA margin	17.8%	11.1%	15.9%
Net margin	6.9%	0.9%	5.1%
EPS, USD	3.29	0.44	2.23
Net debt, USD mln	13.1	-13.4	-6.1
EV / EBITDA	2.6	4.0	3.1
P / E	6.6	49.6	9.7
Peer EV / EBITDA	5.1	5.1	4.9
Peer P/E	12.1	12.1	13.5



Gas pricing demotivates exploration of new fields, but Ukrnafta found a solution to sell gas efficiently

- As a state-owned company, Ukrnafta has to sell its produced natural gas at a special rate of UAH 349/tcm, or 13x discount to the rate that private gas producers are allowed to sell at. A leading state gas producer Ukrgazvydobuvannia (UGD) estimates the break even level for gas at UAH 379/tcm. UGD is lobbying for an increase in gas rates for state companies to UAH 738/tcm to stimulate the development of new gas fields. If approved, the new rate will be beneficial for Ukrnafta as well.
- Meanwhile, Ukrnafta has found a loophole in regulations to sell its gas at a higher price. Legislation allows state companies to use its gas for own purposes , and the company uses this opportunity to lease the assets of Kolomoisky-controlled fertilizer producer Dniproazot to process Ukrnafta's gas into ammonia. It has leased the Dniproazot assets since 2Q11. About 0.6 bcm out of Ukrnafta's total 1.9 bcm annually produced gas was used for ammonia production in 2012 and 2013. The company provides little details of this business activity.

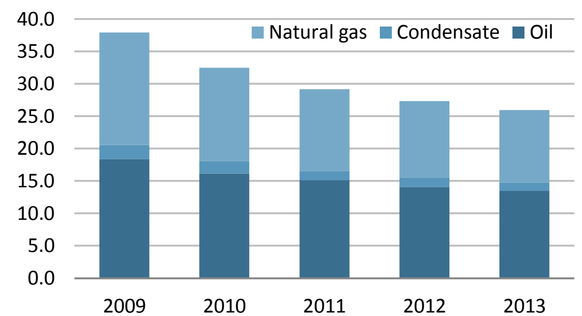
Hydrocarbons production is steadily declining

- Not only have inefficient gas prices affected Ukrnafta's operating performance. Output of its core product, crude oil, also dropped on under-investment into the development of new fields. Thus far, this has not affected the company's top line, as prices of crude oil remain robust globally. But in any case, the company's strategy offers little value creation.

A theoretical high-dividend story

- Ukrnafta has to pay dividends as a state-controlled company (at least 30% of its profit) and has historically been a generous payer, at that. Incidentally, the company's shareholders, who should approve the payout, have failed to organize the company's AGM for the last three years. The accumulated dividends distributable for the company's 2011-2013 profit amount to UAH 21/share, (assuming the minimum 30% payout for each year), and they should be eventually paid. If paid, the dividends would yield a minimum of 8.2%.
- A sign of worry for Ukrnafta is that its bottom line lacks predictability. In 4Q13, the company reported UAH 800 mln in losses. Most likely, this was a result of manipulations aimed at decreasing the company's full-year profit (which fell 7.5x yoy to UAH 190 mln in 2013) and avoiding the payment of large dividends.
- The price of oil that Ukrnafta is selling is linked to global oil prices, so the devaluated local currency should allow the company to keep its top line stable in 2014 and decrease production costs, which are mostly pegged to UAH, and thus improve its operating margin significantly in 2014. The company reported a 35% yoy increase in its bottom line in 1Q14.

Ukrnafta's hydrocabrons production, mln boe



Source: Company data, Bloomberg, Energobiznes, Concorde Capital research

Profile: Naftogaz of Ukraine (Naftogaz)

Naftogaz is the near-monopoly producer and importer of natural gas in Ukraine. In 2013, it accounted for 87% of total Ukrainian gas production and about 54% of its gas import (this share will increase to nearly 100% in 2014). It consolidates state companies involved in the exploration and production of natural gas and oil, as well as gas transit through Ukraine. In March 2014, its Crimean subsidiary, Chornomornaftogaz, which accounted for 9% of consolidated gas output in 2013, was nationalized by the self-proclaimed Crimean government.

Naftogaz is not a self-sufficient business entity and should be considered solely as a financing vehicle of the government. The company relied on state subsidies to cover the difference between the price of gas purchased in Russia and sold to domestic heating companies. A standby agreement, signed with the IMF on April 30, foresees the liquidation of the operating losses of Naftogaz by 2018 by implementing gas price hikes.

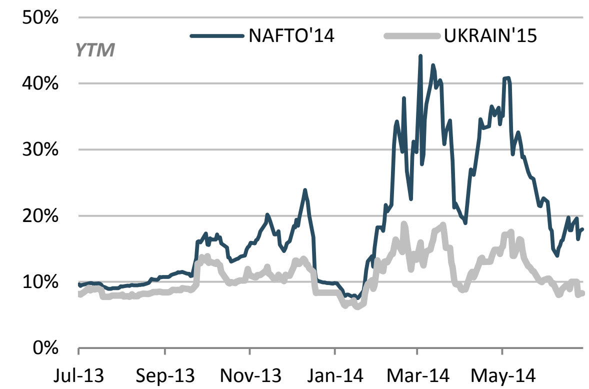
Investment case: Eurobond is protected by a state guarantee, the state's willingness and IMF consent to repay it

- Naftogaz 's 2014 Eurobond is guaranteed by the state, which will either have to pump money into Naftogaz or repay the company's bond by itself, otherwise a cross-default on all sovereign debt might be triggered. With the standby agreement, the IMF will support Ukraine with its obligation on Naftogaz, we expect.
- This year, the government has already made a UAH 33.4 bln contribution to Naftogaz equity. The state's total contribution to the company may be UAH 55 bln this year. We estimate its 2014 obligations are about UAH 55-57 bln (depending on the future exchange rate), based on the following calculations:
  - MinFin calculations show that the 2014 Naftogaz deficit that emerges from the difference between the gas import price and supply price for subsidized categories will be close to UAH 24.8 bln (at a 2Q14-4Q14 import price of USD 387/tcm, which is close to our base-case scenario). The company will be able to save about UAH 2.4 bln out of this amount from higher gas rates (which increased 40% for utilities and 50% for households as of May 2014). So the total imbalance of Naftogaz will amount to about UAH 22.4 bln this year.
  - On top of that, Naftogaz will have to repay about USD 1.45 bln (UAH 17.1 bln based on the current exchange rate) to Gazprom for the gas it imported in 2013.
  - The repayment of a USD 1.6 bln Eurobond will require another cash outflow amounting to UAH 16.8 bln (at our forecasted exchange rate of 10.5 UAH/USD).

  We expect Naftogaz and MinFin will prioritize the Eurobond repayment over other payment obligations in 2014.
- The nationalization of the company's Crimean subsidiary in March 2014 should not harm Naftogaz's financials much. The subsidiary produced 1.7 bcm of gas in 2013, out of which about 1.4 bcm was consumed in the region by households and heating companies at subsidized rates, we estimate. The core loss related to losing Chornomornaftogaz is 2 bcm of gas that was stored in Crimea at the moment of nationalization (as Ukrainian government estimates). The Ukrainian government already filed a request to the Russian side to compensate this lost gas.

Eurobond	NAFTO 14
Outstanding, USD mln	1,595
Maturity	Sep-14
Coupon	9.50/SA
Fitch / S&P / Moody's	CCC / na / na

Ownership structure	
State	100%



Source: Bloomberg, entity data, Concorde Capital research

Investment case (continued):

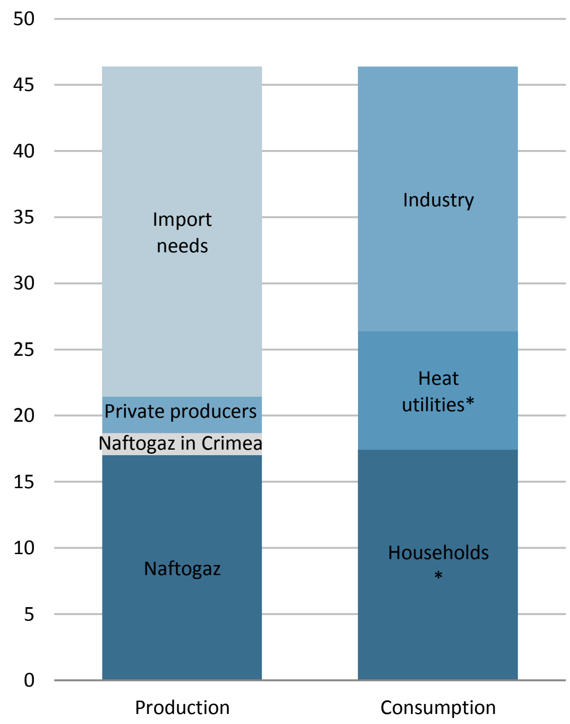
- Another hot issue for Naftogaz is its talks with Gazprom on gas gas pricing and payment schedule. Naftogaz paid nothing to Gazprom for gas imported since the beginning of 2014, and even owes USD 0.6 bln for gas bought in 2013. After relations soured with Russia in late February, Gazprom decided to not prolong a USD 268.5/tcm discounted price for Ukraine since 2Q14 and even cancelled all the earlier discounts. At the moment, Gazprom is demanding that Ukraine start prepaying for Russian gas since June and pay USD 485.5/tcm for gas imported in 2Q14. Naftogaz insists that it should pay only USD 268.5 per tcm of gas imported in 2Q14 and later. This year, Ukraine can't count on much gas supplies from the EU. We expect it will be able to import no more than 5 bcm from the EU this year, thus it will have to import about 23 bcm from Russia. (including 17 bcm in 2Q-4Q 2014).
  - If Russia insists on its positions on prepayment and the new gas price (USD 485.5/tcm in 2Q14, as Gazprom is demanding), Naftogaz will have to pay about USD 7.0 bln as of June 7, 2014 to be able to import more gas. Its total payment for imported gas in 2014 will amount to about **USD 13.5** bln in this case.
  - If Naftogaz is able to maintain its position, it will have to pay only USD 4.0 bln to Gazprom by June 7, and its total payment for imported gas in 2014 will amount to **USD 8.1 bln**.

  The difference is clearly critical for Naftogaz – so it is continuing its pressure on Gazprom by not paying gas bills and increasing gas imports. Having enough gas in storage, Naftogaz can wait until this issue is solved by early autumn. Most hopes on solving the issue are rooted in talks between the EU and Russia, who look more interested in a quick solution:
  - We expect that the EU and Russia will be able to agree on a price for Ukraine at close to USD 370/tcm, and that Gazprom will not demand prepayment. In this case, Naftogaz will have to pay about **USD 10.6 bln** for imported gas in 2014.
- In case the EU and Russia are unable to agree on gas pricing for Ukraine by mid-September, Naftogaz will be in deep trouble and its 2014 deficit will exceed the UAH 60.4 bln that we forecast . But we believe that the solution will be found in the next 2-5 weeks, otherwise the EU and Russia will be unable to trade Russian gas.
- We believe that existing risks for Naftogaz operations don't fully justify the high spread to sovereign. The spread of 1,899 bps is much larger than the historical average, while risk of a Naftogaz default right now looks smaller than a year ago.

Eurobond	NAFTO 14
Outstanding, USD mln	1,595
Maturity	Sep-14
Coupon	9.50/SA
Fitch / S&P / Moody's	CCC / na / na

Ownership structure	
State	100%

Ukraine's gas stats in 2013, bcm



Source: Bloomberg, Ministry of Fuel and Energy, Concorde Capital research
** The categories of consumers that enjoy low gas rates*

Machinery sector

Machinery sector: linked to Russian demand, risks of Donbas

Sector profile

The most liquid universe of Ukraine's machinery sector is represented by aerospace firm Motor Sich and railway machinery companies Luhanskteplovoz, Kryukiv Railcar and Stakhanov Railcar. Unfortunately, 50% to 100% of their products meet their demand in Russia, with no alternatives available.

Russian demand is key, railcar producers are suffering from its absence

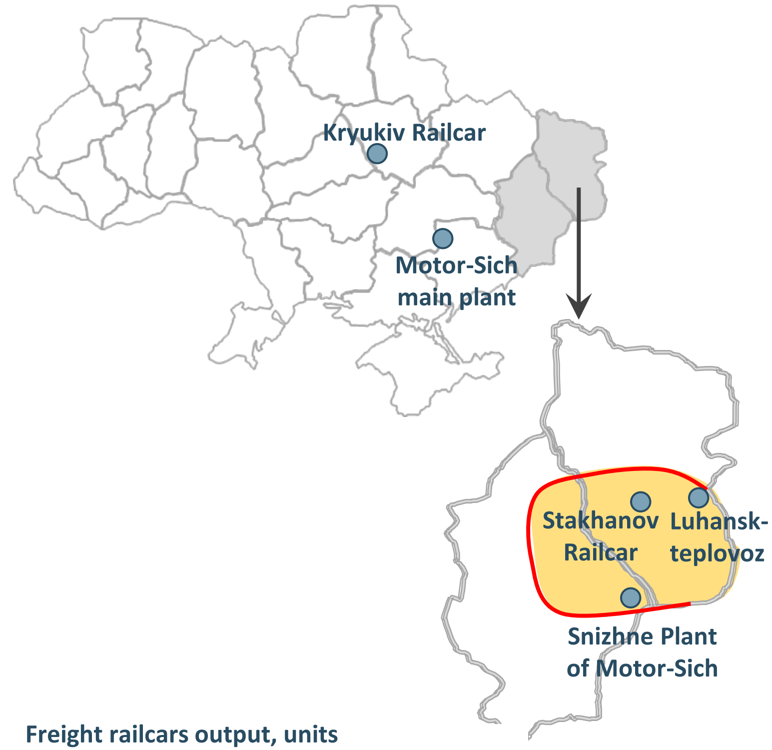
Motor Sich is the near monopoly producer of engines for Russian-made helicopters (about 80% are equipped with its engines). While the Russian government initiated a program to substitute the imported engines with domestic ones more than a decade ago, it achieved little success. In March 2014, the company revealed its plan to boost deliveries of engines to Russia by 7%-20% yoy, depending on the model. The core risk for Motor Sich's plan comes from the possible implementation of a ban reportedly announced by the Ukrainian government on supplying Russia with military and dual-purpose goods (like helicopter engines). If Motor Sich stops supplying Russia, it may lose this market forever.

Luhanskteplovoz is a near-monopoly producer of diesel locomotives for CIS railways (its only competitor is a Kazakh plant that assembles limited amounts of locomotives under a GE license). The company is controlled by Russian TMH, in which Russian Railways has a stake. The company plans to increase production of locomotives for Russia by 19% yoy in 2014.

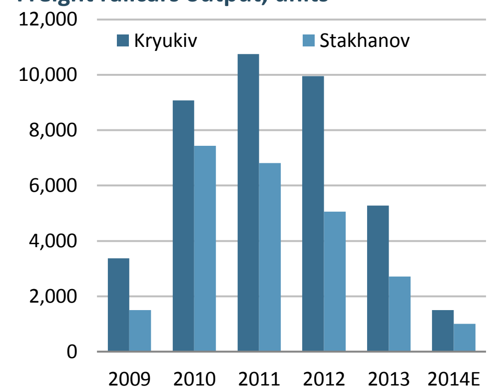
Stakhanov and Kryukiv Railcar are very different stories. Their production of freight railcars in 2013 halved from 2011 as Russian companies (its key clients) cut orders and placed most new orders with newly commissioned Russian plants. In 1Q14, both companies decreased their output nearly 5x yoy. Kryukiv Railcar, a diversified producer, has counted on demand for its passenger cars from Ukrainian and CIS railway monopolies, as well as demand from Ukrainian state companies for its subway trains and new passenger trains. At the same time, Stakhanov Railcar survives mostly off demand for its freight railcars from its related Ferrexpo subsidiaries. These orders are not enough to compensate for the companies' decreasing output for the Russian market.

Exposure to Donbas: only Kryukiv is indifferent

Among the selected companies, only Kryukiv Railcar has no exposure to Donbas as it is located in the central Poltava region. Luhanskteplovoz and Stakhanov Railcar are located in the area that is currently not controlled by the Ukrainian government. Luhanskteplovoz, despite being located in the war zone, is relatively protected from the possible attacks of pro-Russian separatists and Russian mercenaries, as it's indirectly owned by the Russian state railway monopoly. One of Motor Sich's most important assets, involved in production of blades for turbine engines, is located in the town of Snizhne, which is also in the war zone.



Freight railcars output, units



Source: Company data, Concorde Capital research

Profile: Motor Sich

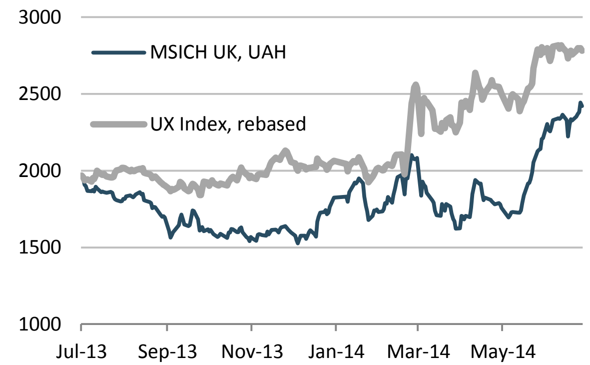
Motor Sich (MSICH UK): The most actively traded local company, but for how long?

The firm is among the most profitable and fastest-growing aero-engine producers with a 1.4% global market share. It's an exclusive supplier of engines for 80% of Russia-made helicopters. All the planes assembled in Ukraine are powered by its engines. The company heavily depends on Russian contracts, which account for more than 50% of its order book. It's the most actively traded company on the Ukrainian stock exchange and the biggest component of the local UX Index.

- The company's core risk is the possible implementation of a ban reportedly announced by the Ukrainian government to supply engines for Russian military and dual-purpose helicopters (actually, all the helicopter are classified as such). Thus far, no interruption of engine supplies has been reported, despite Ukraine's president reportedly ordering a halt to such cooperation with Russia. Should these supplies stop, we expect Motor Sich would lose the Russian market forever. The Russian government has been seeking alternatives to Motor Sich engines for more than a decade, but not very successfully. But a disruption in Motor Sich supplies may trigger an urgent campaign to find any substitute. For Motor Sich, it will be very hard to find an alternative market to Russia, unless the government lobbies a contract with global aerospace companies.
- One of Motor Sich's most important assets, turbine blade manufacturer Snizhne Machinery, is located in the heart of the Donbas war zone. Ongoing cooperation between Motor Sich and the Russian defense sector would serve as good protection from pro-Russian separatists. But once such cooperation stops, the subsidiary will face a real risk of a destructive attack.
- The company is reporting abnormally high profitability over the next four years, but its P&L numbers cannot be confirmed by its dividend policy (which is enormously greedy) or by its cash flow statement. In particular, its cash flow from operations is 2x-4x smaller than reported EBITDA and smaller than its bottom line. That shouldn't happen with a company with constantly growing revenue and which takes prepayments from its customers.
- The core strategic risk for Motor Sich is that it's a valuable acquisition target for Russian military and aerospace machinery firms. In the long term, the company will either be acquired by some Russian holding, or it will lose the Russian market of aerospace engines.
- Given that the company announced its plan to increase supplies of aerospace engines in 2014, including 7%-20% growth in its models for Russian helicopters, we would have normally considered Motor Sich as a growth story. At the moment, however, we see lost of a risks related to cooperation with Russia that might emerge at the initiative of either the Ukrainian or Russian government.

Stock data	MSICH UK	MCap, USD mln	434.6
Free float, %	12.0%	Key owners:	
Price, USD	207.44	Management	78.0%
# of shares, mln	2.08	Other	22.0%

	2012	2013	2014E
Sales, USD mln	980.8	1,073.0	820.0
EBITDA margin	43.3%	36.5%	37.9%
Net margin	23.2%	15.4%	15.8%
EPS, USD	109.66	79.34	62.48
Net debt, USD mln	38.5	9.3	20.0
EV / EBITDA	1.1	1.1	1.5
P / E	1.9	2.6	3.3
Peer EV / EBITDA	10.4	9.7	9.2
Peer P/E	18.0	18.0	17.4



Source: Bloomberg, company data, Concorde Capital research

Profiles: Luhanskteplovoz, Kryukiv and Stakhanov Railcars

Luhanskteplovoz (LTPL UK): Set to show record-high output in 2014

The company is the largest diesel locomotive producer in the CIS. It's a subsidiary of Russian Transmashholding, which is 25% owned by Russian Railways (RZD) , the major customer for the company's flagship 2TE-116-locomotives.

- The company boosted its production of diesel locomotives for RZD 62% yoy in 2013 to 263 units, and it's set to increase its output 19% yoy to 359 units in 2014.
- The further development of its order book is not clear, as the company is counting on big orders from Ukrzaliznytsia (up to 200 electric locomotives in 2015). Not only are orders from Ukraine uncertain at the moment, but so is Luhanskteplovoz's profitability from the assembly of these locomotives, which it never produced and will most likely just assemble with Russian parts.
- Although being located in the hot spot of Luhansk, the company seems to be protected from the attacks of pro-Russian separatists due to its Russian links.
- Its shares are becoming increasingly illiquid on the local market.

Stock data	LTPL UK	MCap, USD mln	25.2
Free float, %	24.0%	Key owners:	
Price, USD	0.119	TMH (Russia)	76.0%
# of shares, mln	219.18	Other	24.0%

	2012	2013	2014E
Sales, USD mln	216.4	379.9	401.1
EBITDA margin	12.4%	10.3%	8.5%
Net margin	2.3%	5.2%	3.5%
EPS, USD	0.02	0.09	0.06
Net debt, USD mln	43.3	83.5	66.7
EV / EBITDA	2.5	2.8	2.7
P / E	5.2	1.3	1.8
Peer EV / EBITDA	**10.4**	**9.7**	**9.2**
Peer P/E	**18.0**	**18.0**	**17.4**

Kryukiv Railcar (KVBZ UK): faces an urgent need to refocus on train production

The company is Ukraine's second-largest freight railcar maker and the only maker of passenger railcars. It produces and repairs self-propelled railcars for subway and escalators and offers high-speed passenger trains to the Ukrainian railway monopoly.

- The company cannot count on demand for its freight railcars from Russia. Output in this segment halved in 2013 compared to 2011, and is set show more than a 3x yoy decline in 2014.
- A renewed order book may contain mostly subway trains and high-speed trains that will substitute failed Hyundai Rotem trains on passenger routes. Though, the company's prospects in its new niche will depend on the capability of state transport monopolies to place orders, which does not look certain.
- The company will likely decrease its revenue significantly in the coming years and will decrease its workforce to adjust to the new reality.
- Once having been among the local blue chips, now KBVZ stocks are not liquid.

Stock data	KVBZ UK	MCap, USD mln	180.4
Free float, %	14.2%	Key owners:	
Price, USD	1.59	Management	60.8%
# of shares, mln	114.68	OW Capital	25.0%

	2012	2013	2014E
Sales, USD mln	902.0	471.1	152.4
EBITDA margin	15.2%	10.9%	7.2%
Net margin	10.8%	9.0%	2.2%
EPS, USD	0.85	0.37	0.03
Net debt, USD mln	-10.5	7.4	10.5
EV / EBITDA	1.2	3.7	17.4
P / E	1.8	4.3	52.9

Stakhanov Railcar (SVGZ UK): Losing its ground

The firm is Ukraine's fourth-largest freight railcar producer. The company specializes in production of universal gondola cars, while recently it invested in designing special-purpose railcars tailored for specific customer needs. It's the only local railcar maker diversified on the upstream due to its ability to purchase bogie castings from EU-based suppliers.

- In 2013, the company's railcar output dropped 2.7x compared to its 2010 record year. Its preliminary plan to double its railcar output in 2014 has yet to be confirmed by orders. Thus far, we only know that its revenue slid 5.3x yoy in 1Q14. Stakhanov's only firm client is related Ferrexpo, which can't fully load the company's capacity.
- Its location in an area currently controlled by separatists is a straightforward risk for its operations and integrity.
- SVGZ stock is illiquid.

Stock data	SVGZ UK	MCap, USD mln	22.1
Free float, %	7.8%	Key owners:	
Price, USD	0.097	K.Zhevago	92.2%
# of shares, mln	226.39	Other	7.8%

	2012	2013	2014E
Sales, USD mln	367.5	176.8	Na
EBITDA margin	4.6%	11.7%	Na
Net margin	0.2%	0.3%	Na
EPS, USD	0.00	0.00	Na
Net debt, USD mln	40.1	70.0	Na
EV / EBITDA	1.2	3.7	17.4
P / E	1.8	4.3	52.9

Source: Bloomberg, company data, Concorde Capital research

Metals and Mining sectors

Metals & mining: propped up by weakened hryvnia and cheaper inputs

Sector profile

The metals & mining sector is represented by the most liquid stock in the Ukrainian universe, LSE-listed iron ore pellet producer Ferrexpo (FXPO LN); vertically integrated holding Metinvest (METINV), which has issued Eurobonds; and a set of local equity names, most which are part of Metinvest. They include steelmakers Azovstal (AZST UK) and Yenakiyeve Steel (ENMZ UK), coke manufacturer Avdiyivka Coke (AVDK UK), two iron ore subsidiaries Northern Iron Ore (SGOK UK) and Central Iron Ore (CGOK UK), and large-diameter pipe producer Khartsyzk Pipe (HRTR UK). Alchevsk Steel (ALMK UK) is a standalone, non-vertically integrated steelmaker, owned by Russian investors.

Steelmakers will enjoy falling raw material prices

A margin squeeze in favor of raw materials producers – iron ore and coking coal miners – and their super-profits seems to be coming to an end, even sooner than had been anticipated previously. Global benchmark prices for iron ore fines (62% Fe) have plunged 17% in 1H14, and will continue to decline looking forward. Coking coal prices are falling globally, driven by a widening supply surplus, and are feeling pressure on the local market. As a result, coke prices dropped 15% yoy in 1H14. Both developments will help pure steelmakers, like Azovstal, Alchevsk Steel and Yenakiyeve Steel, report positive EBITDA in 2014 and onwards, after years of disappointing results.

Golden times of iron ore miners are about to wane

The profitability of Ferrexpo, as well as Northern and Central Iron Ore, is still very high. 2013 EBITDA margins of 31%, 56% and 46% were reported by these companies, respectively. The sustainability of such safety cushions is waning as long as the outlook for global iron ore prices worsens. This is the very reason why Ferrexpo isn’t pursuing its 10 mmt concentrator expansion project, and why SGOK and CGOK have ceased to pay out dividends in 2014.

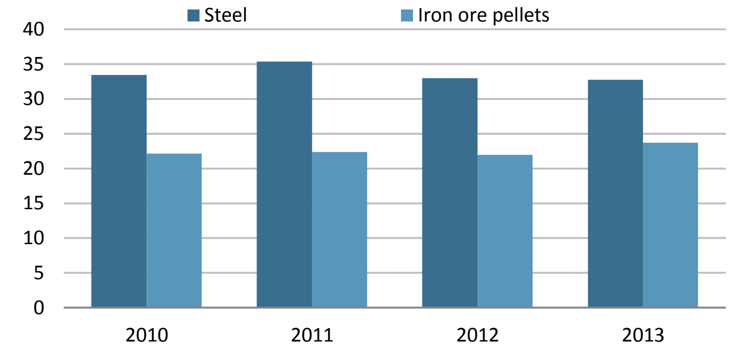
Hryvnia devaluation supports strong cash-flows of iron ore miners and Metinvest

Hryvnia depreciation has significantly strengthened the competitive position of Ukrainian steelmakers as about half of their production costs are denominated in UAH. In particular, the devaluation offsets the negative effect of falling steel prices and decreasing production volumes on Metinvest EBITDA (which we expect to be flat in 2014 at USD 2.3 bln, as a result).

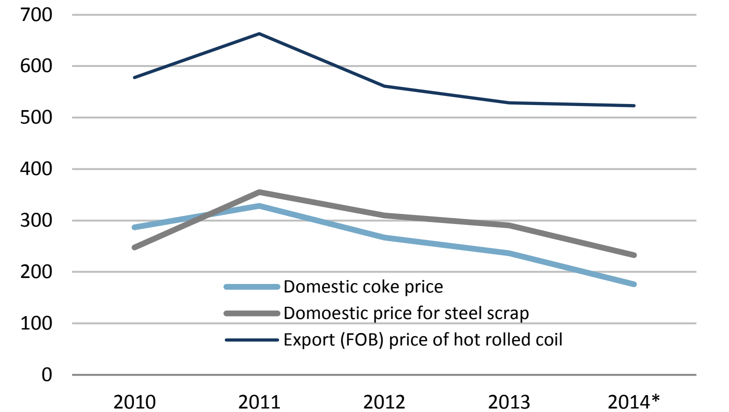
Donbas as a war zone threatens steelmakers

Iron ore producers are located in the Dnipropetrovsk (Northern Iron Ore and Central Iron Ore) and Poltava regions (Ferrexpo), which are far from the current military action and thus relatively safe from possible production disruptions. Steel mills, especially Yenakiyeve and Alchevsk Steel, operate in the hot spots of Donbas. The same applies to Avdiyivka Coke (AVDK UK), located near Donetsk. Azovstal and Ilyich Steel are in Mariupol, a city which has been under control by Ukrainian Armed Forces, but they rely on coke supplies from Avdiyivka. So there’s a risk of potential irregularities of raw materials supplies owing to growing sabotage of rails in the Donbas region.

Steel and iron ore output in Ukraine, mmt



Prices, USD / t



Source: Bloomberg, Metal Courier

Profile: Ferrexpo

Ferrexpo is Ukraine’s second-largest iron ore pellet producer, ranking in the top 10 globally. It controls the Poltava and Yeristovo mines in the Poltava region of central Ukraine. The company exports all its products. It manufactured 10.8 mmt of pellets (+12% yoy) in 2013, while approaching full pelletizing capacity use (12 mmt p.a.) in 2014. Ferrexpo controls much of its logistics chain, including its 2,200 railcar fleet, enabling it to deliver the bulk of its pellets in its own railcars. Ferrexpo operates 140 barges transporting pellets via the Danube River to European customers. It sold 50% of its pellets in Europe, 38% in Asia and 12% in the Middle East in 2013.

The only steel industry representative insulated from Donbas risks
The assets of Ferrexpo are located in the Poltava region of central Ukraine, quite far from the Donbas war zone. Its focus solely on exports makes it indifferent to any troubles that Ukrainian steel companies may face.

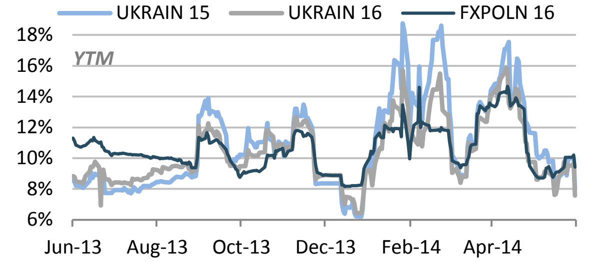
Fixed income story: Eurobonds are Ukraine’s top-rated, look safe unless ambitious CapEx initiated

- Having launched the Yeristovo Mine in 2012 after eight years of preparation, Ferrexpo will get enough iron ore to fully load its 12 mmt pelletizing capacity in 2015 (11.5 mmt production expected in 2014, +6% yoy);
- Deep hryvnia devaluation will positively influence the company’s bottom line since more than 50% of Ferrexpo’s production costs are UAH-denominated, while all revenue is in U.S. dollars. We project C1 production costs of pellets at around USD 49/t in 2014 (-17% yoy).
- Lower costs will secure strong profitability margins for Ferrexpo. We expect Ferrexpo’s EBITDA margin to be at a robust level of 31% in 2014 (32% in 2013). Against stable debt, its gross debt-to-EBITDA ratio will be around a level of 2.1x, we estimate, which is below the Eurobonds covenant of 2.5x.
- The company has limited CapEx requirements for the next two years (totaling USD 225 mln), as it has chosen to implement its 10 mmt concentrator project (worth around USD 700 mln) in small stages. 2014 will be the second consecutive period of positive free cash flow with its main investment projects having been already completed.
- Sitting on USD 390 mln in cash as of end-2013, Ferrexpo will face minor debt repayments in 2014-15. The company has secured a USD 350 mln credit line to refinance the bulk of its USD 420 mln PFX facility, which is repayable during 2014-18. Unless the company gets too involved in the construction of the 10 mmt concentrator, the repayment of its Eurobonds in 2016 looks relatively safe.

Equity story: More downside seen for FXPO on oversupply hits the global iron ore market

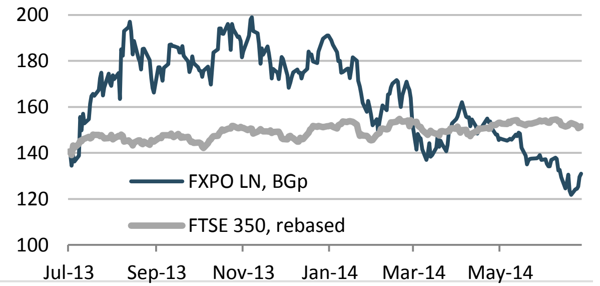
- Iron ore prices have plunged in 2014 to lower levels than the consensus had previously anticipated, by 30% YTD to USD 93/t (Chinese port, CFR). Hence, the consensus has downgraded its forecast to USD 115/t from USD 120/t, though iron ore prices have averaged USD 112/t since the start of the year. If the spot prices continue to remain at current low levels, below USD 100/t, a further downgrade for the equities of iron ore miners, including Ferrexpo, may follow.
- Ferrexpo trades at a low forward EV/EBITDA multiple of 3.6x, compared to the historical average of 6x and average for international peers of 5.0x. However, despite its seemingly cheap price, the stock remains a risky asset as long as the main market driver – Chinese demand for iron ore – continues to weaken, being negatively impacted by economic slowdown in China. At the same time, low cost Australian and Brazilian producers have ramped up their newly built capacities, aggravating the global oversupply in iron ore;
- We keep a bearish view on FXPO LN , unless clear signs of recovery on the global iron ore market surface.

Eurobond	FXPOLN 16
Outstanding, USD mln	500
Maturity	Apr-16
Coupon	7.88/SA
Fitch / S&P / Moody's	CCC / CCC+ / Caa2



Stock data	FXPO LN	MCap, USD mln	1,308.8
Free float, %	23.0%	Key owners:	
Price, USD	2.23	K.Zhevago	51.0%
# of shares, mln	588.62	BRX ltd	26.0%

	2012	2013	2014E
Sales, USD mln	1,424.0	1,581.4	1,486.2
EBITDA margin	28.2%	32.0%	30.8%
Net margin	15.1%	16.7%	16.6%
EPS, USD	0.37	0.45	0.42
Net debt, USD mln	423.4	587.2	425.5
EV / EBITDA	4.3	3.7	3.8
P / E	6.1	5.0	5.3
Peer EV / EBITDA	5.1	4.6	4.6
Peer P/E	7.7	7.7	6.5



Source: Bloomberg, Company data, Concorde Capital research

Profiles: Azovstal and Yenakiyeve Steel

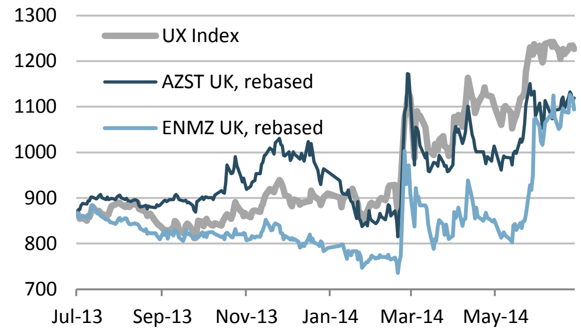
Azovstal (AZST UK): Input market turnaround will benefit top-three steelmaker

This Metinvest subsidiary is Ukraine's third-largest Ukrainian steel maker based on installed capacity. The company operates two modern steel converters with a total capacity of 4.5 mmt, having decommissioned energy-intensive open-hearth furnaces in 2011. Azovstal produces pipe strips of high quality and it's one of the largest CIS railway rail manufacturers. It also produces steel slabs for rerolling in the EU.

- Azovstal will benefit from a projected 11% yoy and 26% yoy decrease in 2014 prices for coke and steel scrap, respectively, which are key raw materials;
- The company has started to develop a PCI project, aimed at replacing natural gas with injections of coal dust in hot iron production, which will allow it to save USD 27-36 per ton of steel;
- Azovstal is located in Mariupol, a city which was liberated by Ukrainian military forces from the pro-Russian separatists in June 2014. But the safety of raw material supplies there (especially coke) is potentially under threat;
- Azovstal shares are among the most liquid on the local market.

Stock data	AZST UK	MCap, USD mln	284.5
Free float, %	4.4%	Key owners:	
Price, USD	0.066	Metinvest	95.7%
# of shares, mln	4,204.00	Other	4.4%

	2012	2013	2014E
Sales, USD mln	2,820.5	2,610.3	2,367.5
EBITDA margin	-6.6%	-3.2%	5.5%
Net margin	-11.8%	-9.5%	-1.3%
EPS, USD	-0.08	-0.06	-0.01
Net debt, USD mln	-55.0	-30.0	-40.0
EV / EBITDA	-1.2	-3.1	1.9
P / E	-0.9	-1.1	-9.2
Peer EV / EBITDA	4.8	5.1	6.3
Peer P/E	9.3	9.3	3.1



Yenakiyeve Steel (ENMZ UK): Propped up by the opening U.S. market

This mid-sized steelmaker (seventh largest in Ukraine by capacity) and Metinvest subsidiary operates three modern converters with a total capacity of 3 mmt steel p.a. The enterprise is focused on the production of finished steel products for construction (rebars, wire rods), as well as semi-products (steel billets), which are further reprocessed in the EU.

- After 2011, the Makiyivskiy rolling plant, which produces steel billets (semi-products), merged with Yenakiyeve Steel, prompting the latter to switch to more high-value-added products (about 60% of its total), which forms a foundation for better margins when the market recovers;
- During the last decade, Metinvest has completed an overhaul of two blast furnaces, having widened its hot iron production capacity to above 3.0 mmt from 2.7 mmt;
- Yenakiyeve will benefit from the recent cancelation of a 116% U.S. import duty on Ukrainian wire rod (about 25% of Yenakiyeve's total product mix);
- The company's cost side will be positively influenced by falling prices for coke and steel scrap, also expected for iron ore in 2014, that are offsetting declining steel product prices;
- Yenakiyeve Steel in closely located to the epicenter of military actions in Donbas (48 km from the city of Donetsk), which may cause interruptions in the production process. It already has had to repel an attack on its headquarters in May 2014.

Stock data	ENMZ UK	MCap, USD mln	41.7
Free float, %	14.4%	Key owners:	
Price, USD	3.85	Metinvest	85.6%
# of shares, mln	10.55	Other	14.4%

	2012	2013	2014E
Sales, USD mln	1,597.9	1,526.0	1,619.0
EBITDA margin	-5.3%	-0.5%	1.4%
Net margin	0.5%	-4.1%	-2.0%
EPS, USD	0.82	-5.88	-3.04
Net debt, USD mln	-24.0	-5.0	-15.0
EV / EBITDA	-0.2	-5.2	1.2
P / E	4.9	-0.7	-1.3
Peer EV / EBITDA	4.8	5.1	6.3
Peer P/E	9.3	9.3	3.1

Source: Bloomberg, company data, Concorde Capital research

Profiles: Alchevsk Steel and Avdiyivka Coke

Alchevsk Steel (ALMK UK): Overloaded with debt as a legacy of modernization

Ukraine's fifth-largest steelmaker in 2013, part of Industrial Union of Donbas (IUD) conglomerate, operates steel converters and open-hearth furnaces with a total capacity of 5.8 mmt per year. Alchevsk Steel specializes in the output of hot-rolled flat steel products, including those used for pipe production.

- From an operating standpoint, Alchevsk Steel will benefit from a decrease in prices for raw materials, which will lead to a positive EBITDA in 2014 for the first time during last three years, as we projected;
- The company is among the most efficient steelmakers having implemented the modernization of its steel converters in 2007 and having introduced PCI technology, which props up its low production costs compared to local peers;
- The modernization performed by parent IUD in 2004-07, worth a total USD 3.0 bln, has left a debt burden on the company's balance sheet which jumped 49% in two years to an unsustainable level of USD 1.5 bln as of end-2013;
- The plant is located deep in the territory controlled by pro-Russian separatists, while it's relatively secure from their attacks as its owners have Russian roots. A risk of damage might increase in case the front line shifts towards Alchevsk in the future.

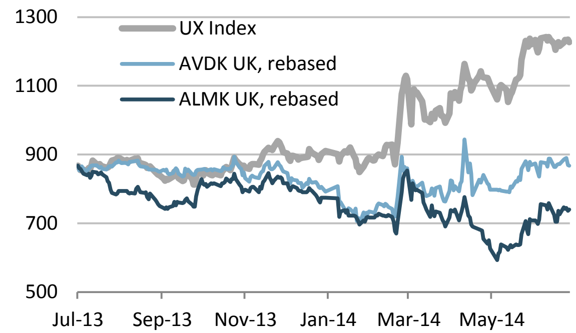
Avdiyivka Coke (AVDK UK): Driven by falling coal prices

Avdiyivka is the largest coke producer in Ukraine, operating nine coking batteries with a capacity of 4.5 mmt of coke p.a. The company supplies metallurgical coke to Metinvest-affiliated steelmakers – Azovstal, Yenakiyeve Steel and Ilich Steel.

- With its relatively modern capacities compared to related companies, Avdiyivka Coke enjoys a priority status by parent Metinvest – three out of six outdated and inefficient coke batteries at Azovstal ertr closed in 2012. It provided better allocation of output volumes for AVDK inside the holding, which supports its load in market downturns;
- Following Metinvest's implementation of PCI technology in its steelmaking plants, aimed at cutting natural gas consumption, Avdiyivka Coke started producing so-called premium coke in 2013, with lower sulfur content and higher solidity required in the PCI process. This solidifies captive demand for the company's production in the long term;
- Globally and locally, prices for coking coal, the key raw material for coke, have been falling since 2012. In 2014, local coal prices fell deeper than that for coke: by 24% vs 11% yoy, we estimate. This will help increase Avdiyivka's EBITDA 39% yoy to USD 65 mln, we estimate, and bring the company's bottom line in black after four consecutive years of losses.
- Its location on the front line in Donbas imposes a certain risk on its business and assets.

Stock data	ALMK UK	MCap, USD mln	82.3
Free float, %	3.9%	Key owners:	
Price, USD	0.0031	IUD	96.1%
# of shares, mln	25,775.25	Other	3.9%

	2012	2013	2014E
Sales, USD mln	1,804.9	1,844.6	1,875.1
EBITDA margin	-0.2%	-4.3%	0.8%
Net margin	-7.1%	-11.8%	-5.4%
EPS, USD	0.00	-0.01	0.00
Net debt, USD mln	976.0	1,454.1	1,460.0
EV / EBITDA	-264.6	-19.2	98.8
P / E	-0.6	-0.4	-0.8
Peer EV / EBITDA	4.8	5.1	6.3
Peer P/E	9.3	9.3	3.1



Stock data	AVDK UK	MCap, USD mln	54.1
Free float, %	14.0%	Key owners:	
Price, USD	0.275	Metinvest	86.0%
# of shares, mln	195.06	Other	14.0%

	2012	2013	2014E
Sales, USD mln	1,103.8	916.8	813.8
EBITDA margin	-13.4%	5.1%	8.0%
Net margin	-7.3%	-2.7%	3.6%
EPS, USD	-0.41	-0.13	0.15
Net debt, USD mln	-55.0	-4.5	-10.0
EV / EBITDA	0.0	1.1	0.7
P / E	-0.7	-2.2	1.8
Peer EV / EBITDA	4.8	5.1	6.3
Peer P/E	9.3	9.3	3.1

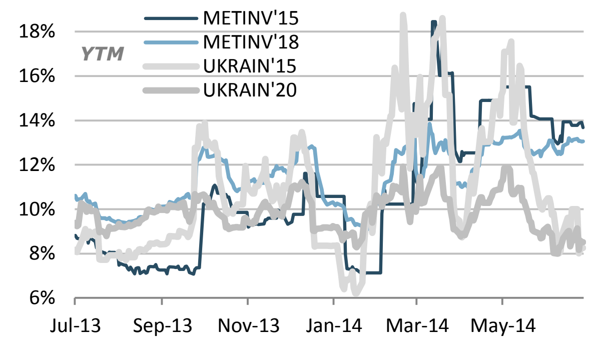
Source: Bloomberg, company data, Concorde Capital research

Metinvest is a vertically integrated mining and steel holding that controls the majority of its supply chain from raw materials to selling finished products to final consumers. It's one of the largest iron ore and steel producers in the CIS. The holding is 65% self-sufficient in coking coal and produced 76% more iron ore in 2013 than it consumed internally. With about 5.8 mmt of flat steel products output in 2013, Metinvest is one of the most significant players on the flat steel market globally. The holding also manufactures railway rails and large diameter pipes.

Eurobonds	METINV 15	METINV 18
Outstanding, USD mln	500	750
Maturity	May-15	Feb-18
Coupon	10.25/SA	8.75/SA
Fitch / S&P / Moody's	CCC/na/Caa2	CCC/na/Caa2
Covenant: Gross Debt / EBITDA	3.0x	3.0x
Gross Debt / EBITDA, 2014E	2.0x	2.0x

Company ownership structure

SCM (Rinat Akhmetov)	71.25%
SMART (Vadim Novinsky)	23.75%
Vladimir Boyko	5%



Investment case: Benefits from devaluation, suffers from Donbas conflict

- Oversupply on the global steel market and escalating uncertainty due to political tensions have pushed steel prices down around 5% yoy in 1Q14. Meanwhile, Metinvest's steel product output slid 9% yoy and Chinese iron ore prices dropped 20% in the quarter. The outlook for the company's core operating performance in 2014 is weak as the decline in volumes and pricing may persist through the year end.
- The deep hryvnia devaluation has offset the bulk of the negative effect of global markets in 2014, as Metinvest's revenue is mostly in U.S. dollars and at least half of its costs are denominated in hryvnias. As a result, we expect the holding's 2014 EBITDA will be flat yoy at around USD 2.3 bln.
- Metinvest will have to refinance around USD 300-600 mln a year in 2014-15 in order to secure smooth repayment of its maturing debts of USD 0.5 bln in 2014 and USD 1.3 bln in 2015, we estimate. The case for Metinvest handling the 2015 repayment smoothly looks promising given certain conditions, namely:
  - it's able to obtain necessary refinancing from creditors
  - Its shareholders don't increase dividends from the amount of USD 544 mln paid in 2013.

  We project a gross debt/EBITDA ratio of 2.0x by the end of 2014 (vs. a covenant of 3.0x). Should the debt markets be closed to Metinvest, it may choose to restructure its 2015 Eurobond or reduce dividend payments.
- Most of the downstream assets of Metinvest (three steel mills that accounted for 54% of the holding's 2013 revenue) are located in a tense Donetsk region. The risk of them being attacked by terrorists is low at the moment, though they face a real risk of underperformance due to possible interruptions in logistic chains and a decrease of their output due to reduced employee attendance (many may prefer to not visit their work places due to risks to their lives on the streets).
- Unlike related DTEK, Metinvest's assets do not bear any risk related to the departure of Akhmetov's ex-ally Yanukovych. Most of the holding's assets were privatized many years ago, and privatization results passed the test in time.
- We recommend looking at the holding's debt papers as soon as clear signs of de-escalation in Donbas appear.

Source: Bloomberg, company data, Concorde Capital research

Metinvest financial summary (IFRS)

Key P&L and Cash Flow items, USD bln

	2012	2013	2014E
Net revenue	12.6	12.8	11.1
EBITDA	2.0	2.3	2.2
EBITDA margin	16%	18%	20%
EBIT	1.0	1.0	0.9
Operating margin	7.8%	8.0%	7.9%
Finance costs	-0.3	-0.3	-0.3
PBT	0.7	0.8	0.6
Net income	0.4	0.4	0.4
Net margin	4%	3.1%	3.2%
Operating cash flow	1.2	1.5	1.2
Investing cash flow	-1.1	0.3	-0.7
Net CapEx	-0.7	-0.7	-0.7

Revenue by segments, USD bln

	2012	2013	2014E
Metallurgical	9.3	9.7	8.3
Mining	3.3	3.1	2.8

EBITDA of key segments, USD bln

	2012	2013	2014E
Metallurgical	-0.3	0.2	0.1
Mining	2.3	2.3	2.1

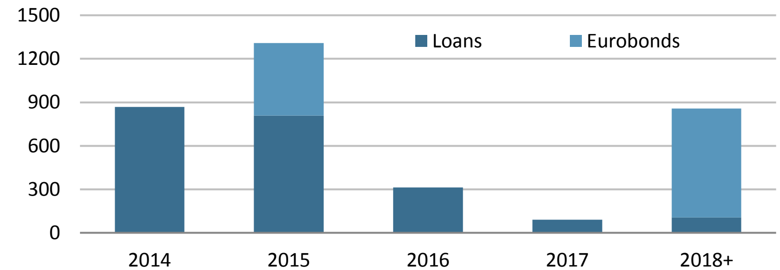
Key Balance Sheet items, USD bln

	2012	2013	2014E
Current assets	6.1	5.6	5.5
Cash & equivalents	0.5	0.8	0.5
Non-Current assets	11.4	11.3	11.0
PP&E	1.0	8.2	7.9
Equity	10.4	9.6	9.4
Current liabilities	3.2	3.7	3.7
ST debt	1.5	1.5	1.5
Non-current liabilities	3.6	3.6	3.6
LT debt	2.8	2.8	2.8

Leverage, USD bln

	2012	2013	2014E
Net debt	3.8	3.5	3.6
Gross debt	4.3	4.3	4.3
Gross debt in UAH	0.0	0.0	0.0
Gross debt / EBITDA	2.2	1.9	2.0
Covenant (Gross debt / EBITDA)	3.0	3.0	3.0

Debt repayment schedule, USD mln



Source: Company data, Concorde Capital research

Infrastructure sector

Ukrzaliznytsia (Administration of Railways Transport of Ukraine, UZ)

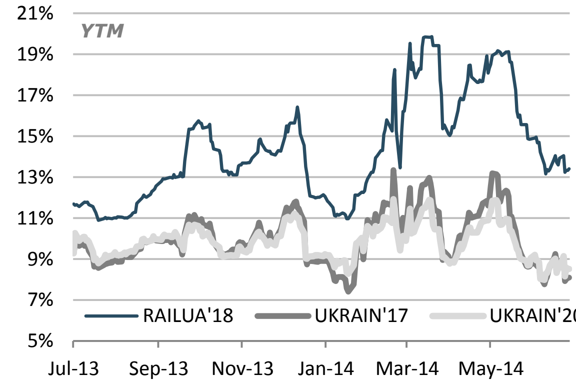
UZ is the monopoly provider of railway transportation services in Ukraine as part of the Ministry of Infrastructure . As an issuer of Eurobonds, UZ is just a synthetic combination of six legal entities that are regional railway companies. This year, the entity has a chance to be transformed into a public joint stock company. Most of entity's revenue is generated from freight transportation services. Freight segment subsidizes the loss-making passenger segment.

Investment case: Mid-term sustainability of business is not secured

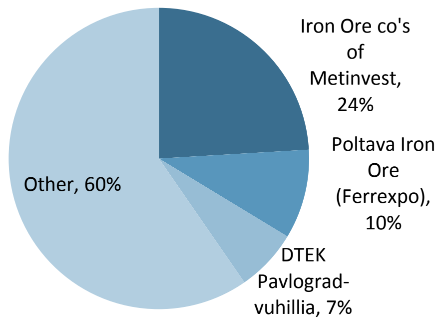
- Given the long maturity of UZ Eurobonds, it is important to understand the entity's mid-term prospects. We see a lot of risks there:
  - UZ generates all its profit from freight transportation services, while its passenger and "other services" segments are deeply loss-making. In case Ukraine's railway industry is liberalized (there are some plans in this direction), UZ will have to compete with private freighters. It will unlikely to succeed as its profit in the freight segment would not only have to cover the segment's costs, but it will have to continue covering the costs of its other segments.
  - To provide a clear analogy, UZ can go down the trail blazed by other former state monopolies, namely Ukrtelecom and Naftogaz. In these cases, the loss-making retail segment (in UZ's case, passenger transportation) is subsidized by the corporate one that does not allow this profitable segment to compete with private operators. Upon liberalization, corporate revenue shrinks quickly to the point where it does not even cover the losses of retail segment.
  - These factors are aggravated by the lack of customer-friendliness of UZ and the high concentration of its customer base. In particular, companies related to just two holdings, SCM (DTEK and Metinvest) and Ferrexpo, accounted for more than 40% of UZ's freight traffic in 2012 (refer also to the chart on the right).

  The good news is that the reform has yet to be adopted and UZ is unlikely to radically worsen its financials by the time of the Eurobond repayment. At the same time, such risk should not be ignored.
- UZ's credit profile does not look excellent. In November 2009, the company had to restructure its syndicated loan as it was unable to repay a portion of the loan worth USD 110 mln. The entity fully repaid the facility in 2012.
- Ukrzaliznytsia usually plans ambitious investment programs for one to three years in advance, constantly postponing their execution due to lack of corresponding funds (it counts on future leasing contracts and new debts to finance them). Its investment and debt appetites, therefore, are only limited to the readiness of investors to provide relevant financing. To us, this looks like a risky strategy: once the entity's risk profile worsens, it will not be able to neither cover its CapEx needs nor service its debt properly.
- The entity's 2013 financials do not look encouraging: EBITDA fell 6% yoy, as revenue from its profitable cargo segment declined 5% yoy. UZ's revenue for 2014 will also decrease yoy, as steel industry demonstrates a visible decline in output this year as well. We also expect UZ profit will continue declining gradually in 2014, mainly on higher fuel costs.

Eurobond	RAILUA 18
Outstanding, USD mln	500
Maturity	May-18
Coupon	9.50/SA
Fitch / S&P / Moody's	CCC / CCC / na
Covenant: Net Debt / EBITDA	3.0x
Net Debt / EBITDA, 2014E	2.6x
Ownership structure	
State	100%



Core clients by freight turnover, 2012



Source: Bloomberg, entity data, Concorde Capital research

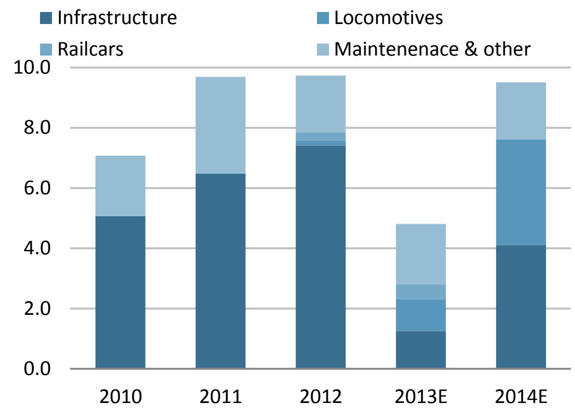
Ukrzaliznytsia (UZ), continued

Investment case (continued):

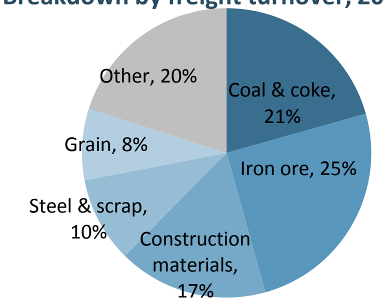
- UZ leverage looks safe at the moment – its 2013 Net Debt/EBITDA amounted to 1.8x. Even if it pursues at least 80% of its ambitious CapEx programs for 2014 (which were designed in 2012-13 and thus might be adjusted downward as tradition), its leverage will not exceed 2.7x as of end-2014. UZ has a relatively high portion of local currency debt (40% of total borrowings as of end-1H13). Therefore, UZ has not been suffering much from the hryvnia devaluation in 2014.
- After the annexation of Crimea by the Russians, UZ will likely lose its Crimean infrastructure and some revenue from traffic in Crimea.. At the same time, we believe that will not affect its EBITDA negatively. Infrastructure is a loss-making division and so is passenger traffic, which used to be intensive in the Crimean direction. At the same time, most freight traffic that went to and from Crimea n ports will most likely be redirected to other Ukrainian destinations.
- Spoiled relationships with Russia may slightly harm UZ's top line as 18% of its traffic revenue is from transit services. At the same time, we believe the effect on UZ 's P&L will not be material.
- Some risks for UZ's stable operation in 2014 stem from unrest in the Donetsk and Luhansk regions (Donbas). The May 19 attack on the UZ office in Donetsk is indicative of this risk. If the situation escalates there, UZ will lose a significant part of its freight traffic and revenue:
  - Donetska Railway (the department of UZ located in Donbas) generated 17% of UZ revenue and 14% of its EBITDA in 2013, we estimate.
  - But that's just part of the story: 57% of UZ freight traffic in 2012 was from transportation of coal, coke, steel and iron ore. The vast majority of this transportation was routed to Donbas or from Donbas.

Eurobond	RAILUA 18
Outstanding, USD mln	500
Maturity	May-18
Coupon	9.50/SA
Fitch / S&P / Moody's	CCC / CCC / na
Covenant: Net Debt / EBITDA	3.0x
Net Debt / EBITDA, 2014E	2.6x
Ownership structure	
State	100%

CapEx plans, UAH bln



Breakdown by freight turnover, 2012



Source: Entity data, Concorde Capital research

Ukrzaliznytsia financial summary (IFRS)

Key P&L and Cash Flow items, UAH bln

	2012	2013	2014E
Net revenue	52.73	51.05	49.52
EBITDA	11.66	10.93	9.19
EBITDA margin	22%	21%	19%
EBIT	5.22	4.96	3.57
Operating margin	10%	10%	7%
Finance costs	-3.22	-3.36	-3.81
PBT	2.05	1.88	0.40
Net income	0.83	0.56	0.10
Net margin	2%	1%	0%
Operating cash flow	7.12	8.11	6.43
Investing cash flow	-9.74	-6.81	-8.00
Net CapEx	-10.34	-7.15	-6.69

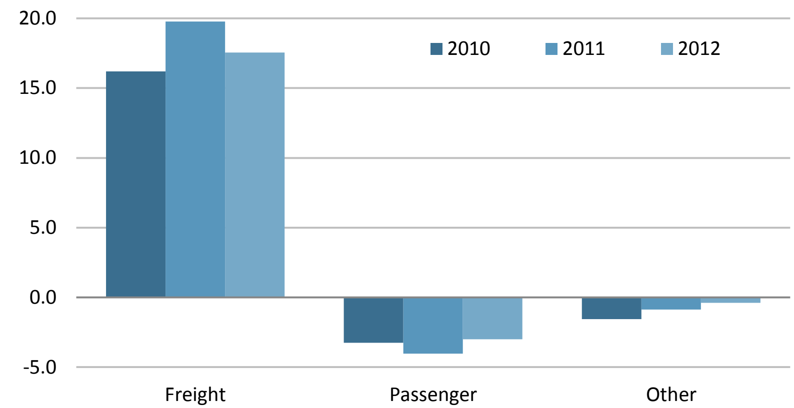
Leverage, UAH bln

	2012	2013	2014E
Net debt	19.86	19.64	23.49
Gross debt	20.10	20.28	24.14
Gross debt in UAH	58%	51%	56%
Net debt / EBITDA	1.7x	1.8x	2.6x
Covenant (Net debt / EBITDA)	3.0x	3.0x	3.0x

Key Balance Sheet items, UAH bln

	2012	2013
Current assets	5.02	6.15
Cash & equivalents	0.29	0.64
Non-Current assets	68.82	68.54
PP&E	63.27	63.72
Equity	42.86	43.21
Current liabilities	30.88	31.48
ST debt	8.97	6.84
Non-current liabilities	13.39	15.62
LT debt	11.13	13.44

Gross profit by segment, UAH bln



Source: Entity data, Concorde Capital research

Banking sector

Banking sector: not well protected from new risks

Sector profile

Ukraine's banking sector is represented by lot of issuers of Eurobonds, including PrivatBank (PRBANK), First Ukrainian International Bank (PUMBUZ), Oschadbank (OSCHAD), Ukreximbank (EXIMUA), VAB Bank (VABANK), Nadra Bank (NADRA) and Bank Finance & Credit (FICBUA). It is also represented by local stock market blue chips: Raiffeisen Bank Aval (BAVL UK) and UniCredit's Ukrsotsbank (USCB UK).

While the banking sector overall looks risky at the moment, most banks with publicly listed papers look much better than the sector overall.

Short-term deposits and long-term loans prevail in the sector

About 60% of deposits attracted by the banking system have maturity of below one year, while 60% of the system's loans are long term. Such a liquidity gap is a natural risk for the system, especially during the current turmoil.

Instability in the country is the main risk

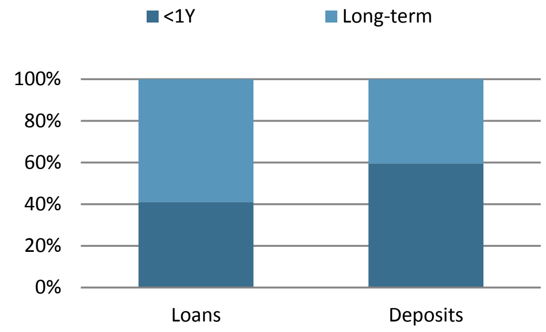
Political instability due to the Donbas war and the volatility of the UAH/USD rate, which was last observed five years ago, has triggered nervousness among citizens. These factors have already generated a deposit outflow from banks in 1Q14 (local currency deposits decreased 10% YTD; ForEx deposits, in their USD equivalent, fell 12% YTD) and an increased share of overdue loans to 10.1% of the total loan book as of June 1 from 7.7% as of January 1.

Other risks are related to losses from the Russian invasion of Crimea as a majority of Ukrainian banks had to stop their operations there. The region was responsible for just 2.1% of banking sector revenue in 2012. A higher risk currently exists from military actions in Donbas, which contributed 11% of banking sector revenue in 2012. The banking system is failing to operate smoothly in the region at present, which should return to normal as soon as the situation de-escalates.

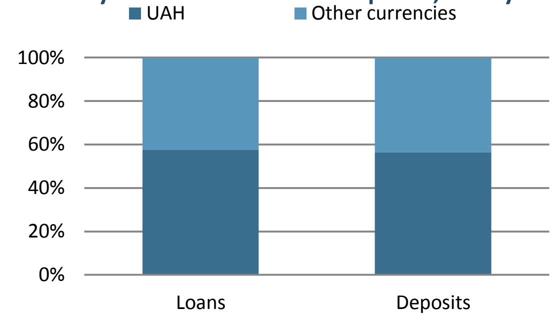
Another risk for the banking system came from the June's adoption of a law that prohibits the confiscation of collateral under mortgage loans provided in foreign currency. The total amount of ForEx mortgage loans outstanding is UAH 47.7 mln (as of end-April 2014), or 26% of the sector's total capital.

As of June 2014, the banking system's CAR fell to 15.2% (from 18.3% at year start), which is the lowest level since 2010.

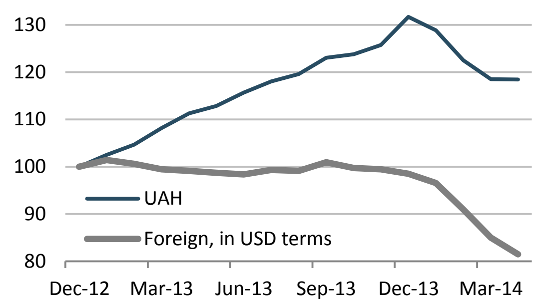
Term structure of loans & deposits, 1 May 14



Currency structure of loans & deposits, 1 May 14



Change in deposits vs. beginning of 2013



Source: NBU

Profiles: Raiffeisen Bank Aval and Ukrsotsbank

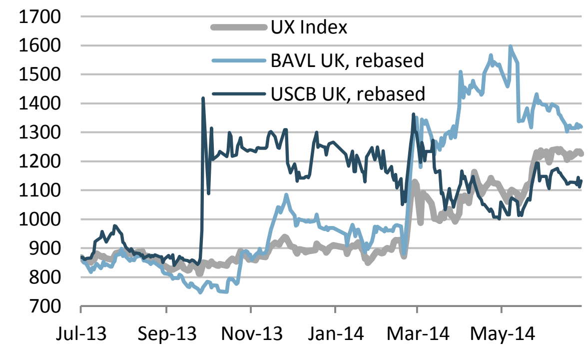
Raiffeisen Bank Aval (BAVL UK): Well-capitalized to overcome crisis

Ukraine's seventh-largest bank, with a market share of 3.4% by assets as of end-1Q14, used to be the fourth-largest bank for a long time until 1H13, and it grew slower than the market after that. 57% of its deposits are attracted from households, while it has focused on lending to corporations (71% of its gross loan book). Raiffeisen Bank International, its parent institution, confirmed that it's interested in maintaining a presence in Ukraine.

- The bank reported a solid bottom line in 2013 and paid dividends that yielded 17% at record day. The bank's 2013 profit was generated mainly due to revaluation of securities, while its core business showed a decline with net interest and commission incomes falling 1% yoy. The good news is that part of its profit growth was attributed to a decline in the bank's operating costs, which fell 6% yoy and allowed its cost/income ratio to fall 4pp to 59%.
- This year promises to be tougher. In 1Q14, Aval was hit by a 10% deposit outflow, with its local currency deposit loss at 12%. Foreign currency deposits fell about 30%, in USD terms. The bank posted a UAH 943 mln net loss in 1Q14, mainly on UAH 1,012 mln in foreign currency revaluation losses. These results make the bank very unlikely to pay dividends next year.
- The bank's CAR remains solid at 18.6%, as of end-1Q14, suggesting it will not demand an additional capital contribution this year.

Stock data	BAVL UK	MCap, USD mln	394.8
Free float, %	3.6%	Key owners:	
Price, USD	0.013	Raiffeisen Int'l	96.5%
# of shares, mln	29,977.75	Other	3.6%

	2012	2013	2014E
Book value, USD mln	1,008.8	1,124.9	1,059.9
ROE	4.0%	11.3%	neg
EPS, USD	0.0013	0.0042	-0.0022
P / B	0.4	0.4	0.4
Peer P / B	0.9	0.9	0.8



Ukrsotsbank (USCB UK): New equity injection may be needed

The bank is Ukraine's sixth-largest with a market share of 3.5% by assets. In mid-2013, parent UniCredit Group initiated a merger with a smaller Ukrainian intuition called UniCredit Bank. The merger was planned to be completed in 2Q14. The parent holding maintains its business in Ukraine despite unfavorable developments. The bank operates 435 outlets and lends to corporate (58%) and retail clients. Mortgage loans account for 16% of the bank's gross loan book. 60% of its loans are in foreign currency, as of end-1Q14.

- Ukrsotsbank suffered from 14% YTD deposit outflow in 1Q14, in UAH terms, with local currency deposits having decreased 17%. Foreign currency deposits, in USD terms, fell by an astonishing 33%, we estimate. While the bank's loan book remained nearly unchanged over the quarter, in constant currency terms, the higher share of ForEx loans made its loan book swell 19% YTD, in local currency terms. This also boosted the bank's loan/deposit ratio to 1.75x in end-1Q14 from 1.27x in end-2013.
- The bank's low CAR, 11.8% as of end-1Q14, implies a need to increase its equity in the near term. It was able to report a positive bottom line in 1Q14, though this result was reached only due to a positive effect from the revaluation of financial instruments.

Stock data	USCB UK	MCap, USD mln	263.7
Free float, %	1.0%	Key owners:	
Price, USD	0.014	UniCredit	99.0%
# of shares, mln	18,140.14	Other	1.0%

	2012	2013	2014E
Book value, USD mln	1,284.8	1,143.1	1,154.1
ROE	0.9%	Neg	1.0%
EPS, USD	0.0007	-0.0081	0.0006
P / B	0.2	0.2	0.2
Peer P / B	0.9	0.9	0.8

Source: Company data, Bloomberg, Concorde Capital research

CONCORDE CAPITAL

Profile: Oschadbank (State Savings Bank of Ukraine)

Oschadbank is Ukraine's second-biggest bank by assets. Emerging from the ruins of the Soviet savings bank, it remains a fully state-controlled institution focused on keeping retail deposits (ranked second by retail money attracted, with retail accounts making up 79% of total customer accounts). It has the biggest retail network in Ukraine with almost 6,000 outlets. The bank is an important lender to state institutions, with 51% of its total assets (as of end-2013) lent to the government and related companies. It holds the biggest portfolio of state bonds among Ukrainian banks. On top of that, 17% of the bank's end-2013 assets are exposed to state gas monopoly Naftogaz.

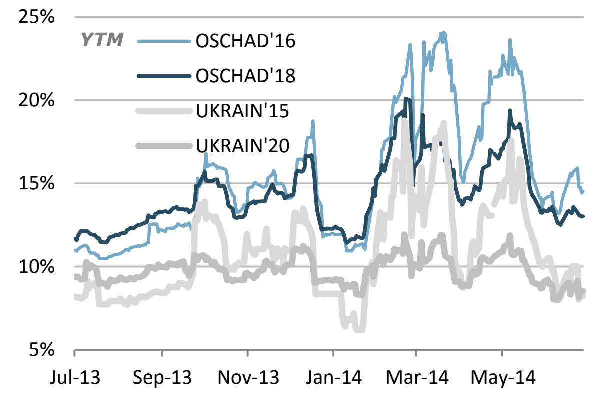
Investment case: Exposure to state debt

- In 2013, Oschadbank decreased its exposure to Naftogaz as loans decreased 25% yoy (UAH 5.1 bln) to UAH 15.2 bln as of end-2013. At the same time, the bank took a leading role from its peer Ukreximbank in lending to the Ukrainian government. Its portfolio of state and municipal bonds increased by UAH 22.7 bln yoy to UAH 31.3 bln as of end-2013. As 51% of the bank's total assets are loans to the state, exposure to its paper is related mostly to the solvency risk of the Ukrainian government.
- If in 2012, the bank's exposure to the state and state companies (UAH 37 bln) was nearly offset by state's contribution to the bank (UAH 32.1 bln, via central bank loans and Oschadbank's equity), then by end-2013 Oschadbank had contributed much more to the state (UAH 55.2 bln) than it received from it (UAH 34.0 bln). So if earlier the bank claimed its risk related to state lending was balanced by the state's contribution, it can't assert that anymore. In case the state decides to default on its local obligations (the risk is very low), Oschadbank may be the first to fail. On the positive side, it is too big to fail; moreover, given that it is the only bank in Ukraine with retail deposits (UAH 33 bln, as of end-1Q14) guaranteed by state, the government looks clearly interested in keeping it safe.
- Oschadbank 's CAR (according to local standards) is one of the highest in the system: 25.6% as of end-1Q14. Keeping high CAR for state banks (above 20%, vs. the minimum requirement of 10%) is the government's strategy. The bank's net ForEx position was zero as of end-1Q14.
- In 1Q14, Oschadbank reported a 9% YTD (UAH 4.1 bln) decline in client accounts, and even a bigger (-15% YTD) decline in constant currency terms . Hryvnia accounts fell by UAH 6.6 bln, or 18% YTD. This is explained by low interest rates that the bank offers (due to existing state guarantees). At the same time, the bank managed to increase loans from other banks by 30% YTD (UAH 7.3 bln) and increase total liabilities by UAH 7.2 bln YTD. We assume that most of the funds came from the central bank.
- The bank's loans and deposits are not balanced well by their maturity profile, with only UAH 19 bln of loans subject to repayment in 2014, but UAH 41 bln in deposits maturing in 2014. On the positive side, the difference is more than covered by the bank's exposure to government bonds (UAH 23 bln).
- The bank's Eurobonds are among the most liquid in the Ukrainian universe.

Eurobonds	OSCHAD 16	OSCHAD 18
Outstanding, USD mln	700	500
Maturity	Mar-16	Mar-18
Coupon	8.25/SA	8.88/SA
Fitch / S&P / Moody's	CCC/na/ Caa3	CCC/na/Caa3

Ownership structure

State	100%



Source: Bloomberg, bank data, Concorde Capital research

Oschadbank financial summary (IFRS)

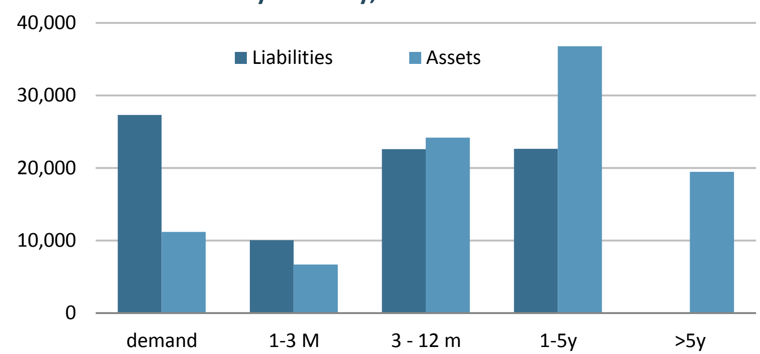
Balance Sheet, UAH mln

	2012	2013
Cash	1,656	2,186
Accounts with NBU	2,217	2,631
Accounts with other banks	14,868	7,651
Net loans	51,338	52,180
- Related party loans	28,705	23,860
Securities portfolio	10,074	33,252
- Related party securities	8,624	31,326
PP&E	2,986	3,451
Other assets	282	348
Total assets	**83,421**	**101,699**
NBU funding	14,347	14,732
Other banks funding	4,877	9,346
Client accounts	38,877	46,409
Bonds issued	5,719	9,786
Subordinated debt	842	840
Other liabilities	992	1,382
Total liabilities	**65,654**	**82,495**
	1,656	2,186
Equity	2,217	2,631

P&L summary, UAH mln

	2012	2013
Interest income	10,076	11,198
Interest costs	-4,783	-5,686
Net interest income	**5,293**	**5,512**
Net fees and commissions	1,040	1,232
Other incomes/costs	249	108
Total income	**6,582**	**6,852**
Operating costs	**-3,171**	**-3,488**
Loan loss provisions	**-2,676**	**-2,438**
Profit before tax	735	926
Net profit	**663**	**711**
ROAA		0.8%
ROAE		3.8%
Cost / Income	48%	51%

Assets and liabilities by maturity, UAH mln



Source: Bank data

Profile: PrivatBank

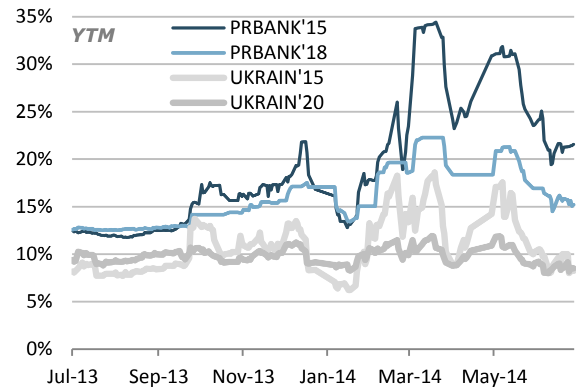
PrivatBank is the largest Ukrainian bank by assets , loan portfolio, deposits and network of ATMs. It holds 19% of the banking system's total client accounts and 24% of retail accounts. PrivatBank accounts for 16% of the loans in Ukraine's banking system. It also controls banks in Georgia and Latvia, with the latter bank having outlets in Cyprus, Italy and Portugal. In April 2014, the bank had to sell its Russian subsidiary due to a personal conflict between President Putin and the bank's core shareholder. International assets generated about 9% of the bank's revenue in 2013. While 81% of its deposits come from individuals, it deploys 84% of its loan portfolio to corporate clients.

Investment case: Too big and too smart to fail

- The bank's Eurobonds look like a safe investment, due to its size. All the outstanding Eurobonds account for just 3% of the bank's total liabilities.
- PrivatBank looks ill-capitalized with its regulatory capital-to-assets ratio just 0.3pp above the minimum level (as of end-2013). The bank looks big enough and important enough to the economy to be the safest financial institution in Ukraine. In case of any turbulence, it will be the first to receive support from the NBU. Due to its low capitalization, the bank seems to under-report loan loss provisions, which might be a risk. At the same time, the bank's ratio of provisions-to-total loans (15.9% as of end-1Q14) is bigger than for the rest of the industry (15.5%).
- The bank's negative net ForEx position, which was UAH 8.6 bln as of end-1Q14 (about 40% of its regulatory capital) adds more to the risk of low capitalization. On the positive side, the bank seems to control well its ForEx position: it declined from UAH 20.2 bln as of end-2012 to UAH 8.8 bln as of end-2013, and further to UAH 8.6 bln as of end-1Q14, even though the hryvnia devalued about 30% during the quarter.
- Due to its high ForEx position, the bank reported a UAH 2.4 bln loss from ForEx revaluation in 1Q14. But it still remained in the black in the quarter, due to traditionally low provisioning (UAH 289 mln, down 38% yoy) and UAH 1.1 bln profit from operations with foreign currency. Another important contributor to its profit was a 56% yoy rise in net interest income to UAH 3.0 bln in 1Q14. A sign of worry is the bank's 11% YTD decrease in client accounts in 1Q14, in constant currency terms. The decline is slightly worse than for the sector average, -8% YTD.
- The core operational risk of the bank is related to politics. As soon as one of PrivatBank's biggest shareholders, Igor Kolomoisky, became the governor of Dnipropetrovsk region in March 2014, he insulted Russian President Putin. The next day, the bank's Russian assets, Moscomprivatbank, had its operations halted. Despite this, Kolomoisky sold the bank on April for RUR 6 bln, or 1x its {equity plus subordinated debt}, according to the sources of gazeta.ru. Despite the fact that Kolomoiskiy is a personal enemy to Putin, which may harm the international operations of PrivatBank in the future, the story with its Russian asset suggests that the bank will be able to mitigate the possible negative consequences of their antagonism.
- The Eurobonds of PrivatBank are not liquid.

Eurobonds	PRBANK 15	PRBANK 18
Outstanding, USD mln	200	175
Maturity	Sep-15	Feb-18
Coupon	9.38/SA	10.88/SA
Fitch / S&P / Moody's	CCC/na/Caa3	CCC/na/Caa3

Ownership structure	
Igor Kolomoiskiy	34%
Hennadiy Bogolyubov	34%
Other	32%



Source: Bloomberg, bank data, Concorde Capital research

PrivatBank financial summary (Consolidated)

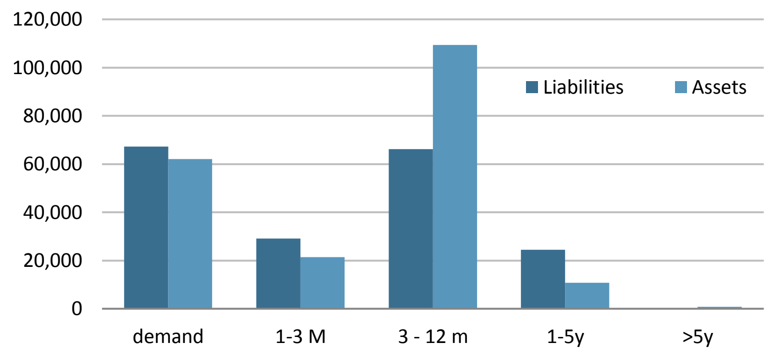
Balance Sheet, UAH mln

	2012	2013
Cash	29,929	38,690
Accounts with NBU	1,238	1,566
Accounts with other banks	5,441	9,428
Net loans	123,452	149,625
- Related party loans	0	62
Securities portfolio	1,152	1,958
- Related party securities	0	1,008
PP&E	2,974	3,184
Other assets	2,221	4,552
Total assets	**166,407**	**209,003**
NBU funding	na	na
Other banks funding	9,830	8,818
Client accounts	124,525	153,315
Bonds issued	na	na
Subordinated debt	1,629	3,780
Other liabilities	11,439	22,180
Total liabilities	**147,423**	**188,093**
Equity	**18,984**	**20,910**

P&L summary, UAH mln

	2012	2013
Interest income	19,508	24,019
Interest costs	-10,842	-14,784
Net interest income	**8,666**	**9,235**
Net fees and commissions	4,141	3,671
Other incomes/costs	1,184	671
Total income	**13,991**	**13,577**
Operating costs	**-6,968**	**-8,123**
Loan loss provisions	**-5,355**	**-3,062**
Profit before tax	1,668	2,392
Net profit	**1,331**	**2,018**
ROAA		1.1%
ROAE		10.1%
Cost / Income	50%	60%

Assets and liabilities by maturity, UAH mln



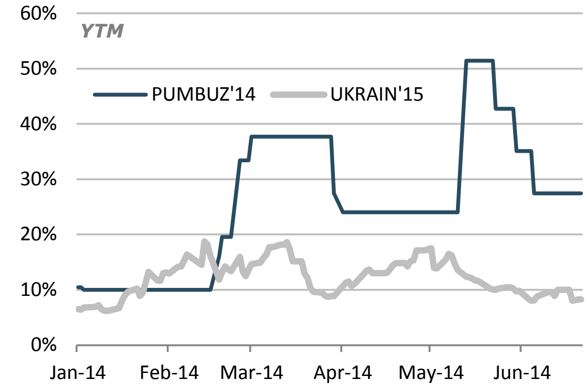
Source: Bank data

Profile: PUMB (First Ukrainian International Bank, FUIB)

PUMB is ranked ninth by assets in Ukraine as of end-1Q14. Over the last two years, it merged with two other banks that were controlled or had been acquired by Rinat Akhmetov (Dongorbank and the retail bank Renaissance Capital). PUMB specializes in corporate lending (81% of consolidated loan portfolio) and corporate accounts (52% of consolidated deposit portfolio). Despite being a part of Ukraine's biggest business group, the bank has relatively small exposure to related parties (2% of net loans, 20% of deposits). PUMB employs the best quality investor relations standards among Ukrainian banking issuers, according to our research.

Eurobond	PUMBUZ 14
Outstanding, USD mln	252
Maturity	Dec-14
Coupon	11.0/Quart
Fitch / S&P / Moody's	na / na / Caa3

Ownership structure	
SCM (Rinat Akhmetov)	99.9%



Investment case: Seems to be able and interested in repaying its 2014 Eurobond

- The key risk related to investment in the bank's Eurobond (maturing in end-2014) is the past experience of the bond's restructuring (in late 2009). The current similarity to the 2009 situation is prompted by the recent restructuring of bonds by Agroton, Finance & Credit Bank and VAB Bank; and by high risks in the Ukrainian economy (expected GDP decline, limited possibility of external corporate borrowing, currency devaluation, deposit outflows from the banking system). Though we see a high chance that the bank will choose to repay its Eurobond this year, as we believe the situation differs from what was back in 2009:
  - The economic situation in 2014 differs from 2008-09 as there is no global crisis now. The opportunity for new corporate borrowing still exists and loans restructuring, so far, does not look like a normal event that investors may tolerate.
  - Back in 2009, the bank increased the coupon rate on the bond from 9.75% to 11.0% to make its restructuring offer interesting for bond holders. PUMB will not be able to raise the coupon rate this time, as 11% is the maximum allowed rate for external borrowing , according to NBU regulations. We believe the bank is not going to do a distressed restructuring and spoil its reputation. The reputation of other related companies, like DTEK and Metinvest, might be also harmed by PUMB's restructuring.
  - We estimate the bank's cash position before Eurobond repayment, as of end-2014, will be about USD 490 mln (in the worst-case scenario, as discussed on slide 28). This is 1.9x more than the amount of Eurobonds to be repaid (USD 252 mln). This contrasts to the situation as of beginning of 2009, when PUMB's net cash position outlook for the year 2009 (using the same assumptions) would have been USD 190 mln. This also contrasts with PUMB's cash balance as of end-2009 (two months before its Eurobond repayment), when the bank's cash and current accounts with banks were USD 230 mln, less than the outstanding Eurobond, or USD 275 mln.

- The bank's standalone financials for 1Q14 (under local accounting standards) look resilient: it was able to increase its deposit portfolio 19% YTD in UAH terms, and by about 2% YTD in constant currency terms (vs. the sector's 8% YTD decline). PUMB's loan portfolio increased 2% YTD in constant currency terms. The bank's net interest income (stand alone, not including Renaissance Capital bank) increased 48% yoy to UAH 573 mln and its bottom line advanced 50% yoy to UAH 134 mln. The only cause for concern is the bank's CAR under NBU standards: it declined 0.3pp YTD and 4.0pp yoy to 11.5%, though being relatively distant from the 10% threshold.

Source: Bloomberg, bank data, Concorde Capital research

PUMB financial summary (IFRS)

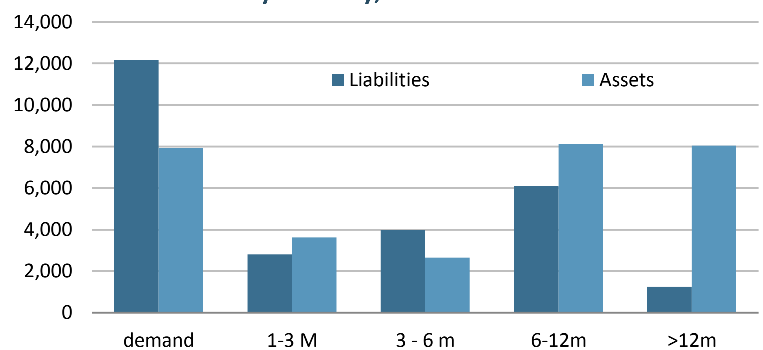
Balance Sheet, UAH mln

	2012	2013
Cash	719	1,337
Accounts with NBU	1,544	1,611
Accounts with other banks	2,305	2,122
Net loans	18,280	21,863
- Related party loans	874	706
Securities portfolio	3,398	3,192
- Related party securities	0	0
PP&E	1,264	1,247
Other assets	493	787
Total assets	**28,003**	**32,159**
NBU funding	1,016	1,063
Other banks funding	1,160	1,353
Client accounts	17,681	21,068
Bonds issued	1,973	1,989
Subordinated debt	528	529
Other liabilities	320	585
Total liabilities	**22,678**	**26,587**
Equity	**5,325**	**5,572**

P&L summary, UAH mln

	2012	2013
Interest income	2,882	3,573
Interest costs	-1,605	-1,848
Net interest income	**1,277**	**1,725**
Net fees and commissions	551	775
Other incomes/costs	0	133
Total income	**1,828**	**2,633**
Operating costs	**-1,266**	**-1,389**
Loan loss provisions	**-315**	**-556**
Profit before tax	247	688
Net profit	**277**	**555**
ROAA		1.8%
ROAE		10.2%
Cost / Income	69%	53%

Assets and liabilities by maturity, UAH mln



Source: Bank data

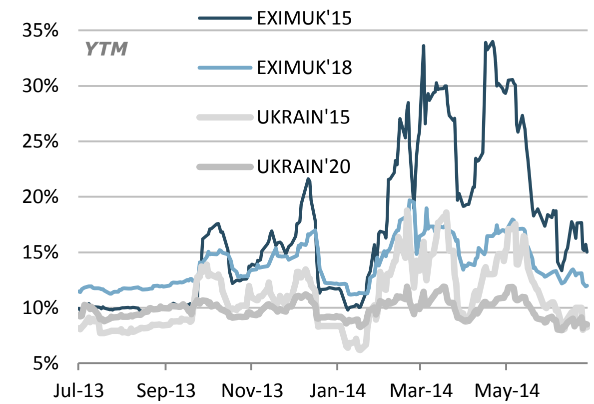
Profile: Ukreximbank (Ukrainian State Export-Import Bank)

Ukreximbank is third biggest by assets in Ukraine. The state bank is almost entirely focused on corporate clients (corporate lending is 99% of the total loan portfolio) and servicing export-import operations. It is the second biggest holder of corporate accounts (11% of the sector's total) and the biggest holder of ForEx corporate accounts in Ukraine (20% of the sector's total). It is also the second-biggest holder of local state bonds, after Oschadbank.

Eurobond	EXIMUK 15	EXIMUK 18
Outstanding, USD mln	750	600
Maturity	Apr-15	Jan-18
Coupon	8.38/SA	8.75/SA
Fitch / S&P / Moody's	CCC/na/Caa3	CCC/na/Caa3

Ownership structure

State	100%



Investment case: Exposed to ForEx risks, risk of decreased international trade

- Despite doubling its exposure to state bonds in yoy terms in 2013, to UAH 27.4 bln, the bank lost its leading position as a lender to the state to its peer Oschadbank. Like Oschadbank, Ukreximbank's liabilities and assets exposed to the state became unbalanced in 2013, with total lending to state, (UAH 37 bln), being much bigger than the state's contribution to the bank via equity and NBU lending (UAH 27 bln). At the same time, the bank's exposure to the state accounts for just 38% of its total assets, which is far less than for its bigger peer.
- As the bank with the biggest share of ForEx operations, Ukreximbank is exposed to the risk of the worsening quality of its loan portfolio related to hryvnia devaluation. In 1Q14, the bank increased its loan loss provisioning 4x yoy to UAH 2.7 bln, and may further increase it in the coming quarters. As a bank that deals with importers, its business may suffer from a decrease in import activities in Ukraine that has been observed in recent months.
- Ukreximbank's net ForEx position is minus UAH 5.3 bln as of end-1Q14 and amounts to 25% of its regulatory capital. Given that we expect some revaluation of the local currency in the coming months, its net ForEx position may improve in the near future. Despite a constantly negative net ForEx position, the bank did not report losses on currency revaluation in 1Q14.
- The bank reported one of the sector's biggest increase in deposits in the Ukrainian banking system, +10% YTD to UAH 47 bln. However, the increase happened solely due to the bank's high exposure to foreign currency – in constant currency terms, its deposit base fell 10% YTD.
- Ukreximbank's CAR (according to local standards) is the highest in the system: 28.5% as of end-1Q14. Keeping high CAR for state banks (above 20%, vs. the minimum requirement of 10%) is the government's strategy.
- Most of the bank's revenue is directed to provisions so it has repeatedly reported its bottom line close to nil. At the same time, its loans loss provisions accounted for 24% of gross loans (up 3pp YTD) as of end-March (according to local accounting standards), which is much more than for the sector average (16%). Aggressive provisioning, in this case, suggests the quality of the bank's loan book is low.
- The bank's loans and deposits are not balanced by their maturity profile, with only UAH 13 bln of loans subject to repayment in 2014 compared to UAH 41 bln in deposits maturing in 2014. The difference is not even balanced by government bonds kept by the bank (only UAH 18 bln). On a positive note, the bank was always able to roll over its deposit base and we expect no exceptions in 2014 or 2015.
- The bank's Eurobonds are among the most liquid in the Ukrainian universe.

Source: Bloomberg, bank data, Concorde Capital research

Ukreximbank financial summary (IFRS)

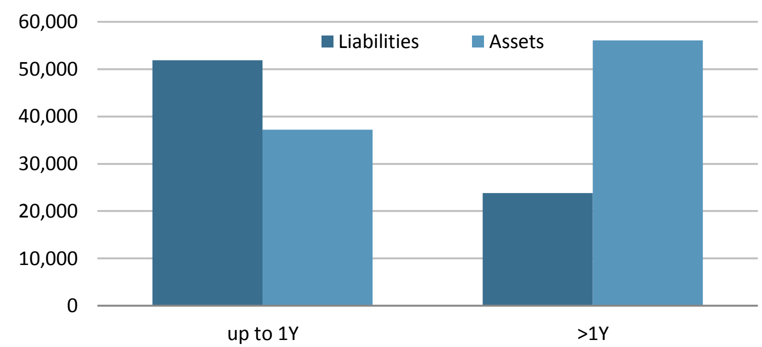
Balance Sheet, UAH mln

	2012	2013
Cash	19,197	8,321
Accounts with NBU	531	741
Accounts with other banks	1,141	1,006
Net loans	39,366	41,625
- Related party loans	11,846	10,070
Securities portfolio	19,926	34,488
- Related party securities	13,284	27,355
PP&E	2,288	2,287
Other assets	4,757	4,807
Total assets	**87,206**	**93,275**
NBU funding	7,825	9,223
Other banks funding	7,244	8,156
Client accounts	42,834	41,461
Bonds issued	8,554	13,519
Subordinated debt	3,107	3,112
Other liabilities	262	192
Total liabilities	**69,826**	**75,663**
	19,197	8,321
Equity	531	741

P&L summary, UAH mln

	2012	2013
Interest income	7,691	9,244
Interest costs	-4,133	-5,299
Net interest income	**3,558**	**3,945**
Net fees and commissions	384	370
Other incomes/costs	605	149
Total income	**4,547**	**4,464**
Operating costs	**-1,215**	**-1,351**
Loan loss provisions	**-3,071**	**-2,780**
Profit before tax	261	333
Net profit	**137**	**201**
ROAA		0.2%
ROAE		1.1%
Cost / Income	27%	30%

Assets and liabilities by maturity, UAH mln



Source: Bank data

Profile: VAB Bank

VAB Bank is 15th largest by assets in Ukraine, as of end-March 2014 (improving from 18th place in March 2013). The bank lends mostly to commercial clients (96% of loans outstanding), while collects mostly retail deposits (72% of the total). The bank's low-quality loan portfolio has made it redirect all its net interest income into loan loss provisions, keeping VAB in the red on a barely breakeven level over the last couple of years. Oleg Bakhmatyuk took control of the bank three years ago and described it as the asset that contributed the most to the spoiling his own reputation. Over the last two years, Bakhamtyuk contributed UAH 1.9 mln in equity of the bank to keep it complying with minimum capital requirements, while another UAH 1.0 bln in capital contributions is due in the near term.

Eurobond	VABANK 14
Outstanding, USD mln	87
Maturity	Jun-14
Coupon	10.5/Quart
Fitch / S&P / Moody's	WD / na / Caa3

Ownership structure	
Quickcom Limited (Oleg Bakhmatyuk)	87%
Other	13%

Struggling to restructure its June 2014 Eurobond

- The bank initiated its first attempt to restructure its Eurobond repayable on June 14 at its June 2 bondholder meeting but found no support.
- The bank has since filed another offer to restructure its Eurobond maturing on June 14, with the following conditions:
  - Its coupon rate, 10.5% before the restructuring, is proposed at 0% between January and June 2014, then 9.0% between June 2014 and June 2015 and 10.9% between June 2015 and June 2019;
  - The bond's repayment schedule is proposed at:
    - 75% of par value repayable in 15 quarterly installments between June 14, 2015 and December 14, 2018;
    - 15% repayable on March 14, 2018
    - the remaining 10% of notes repayable on June 14, 2019;
  - 2.625% consent fee payable to those willing to agree to the restructuring;
  - A bondholders meeting should approve the plan on July 1, with minimum votes of 50%.
- This restructuring proposal is somewhat better than what the bank offered a month before. But its stubborn intention to not repay its Eurobond this year – despite the June 2 bondholder meeting failing to approve any restructuring – looks worrying. Such a position has not been prompted by the bank's financial situation (its end-March 2014 cash stands at USD 226 mln, or 2.5x more than Eurobonds outstanding). The restructuring offer, therefore, reflects solely the lack of willingness of the bank's main shareholder, Oleg Bakhmatyuk, to repay this debt. We believe that such an approach by Bakhmatyuk to capital markets can be extrapolated to his other assets, Avangardco (AVINPU) and Ukrlandfarming (UKRLAN), which have borrowed USD 700 mln on the international markets via bonds placements.
- The bank's fundamentals look decent: its deposit portfolio increased 56% yoy and net loan book grew 34% in 2013. Its deposits increased by a remarkable 25% YTD in UAH terms in 1Q14 (and 15% in constant currency terms). VAB Bank reportedly decreased its exposure to related parties to nil in 2013 (which, however, cannot be confirmed properly). At the same time, the quality of the bank's loan portfolio remains weak: it writes down in loan loss provisions all its revenue and constantly demands contributions to its equity to remain compliant with capital requirements. The good news is its top shareholder contributes capital to the banks as soon as the need arises.

Source: Bank data

VAB Bank financial summary (IFRS)

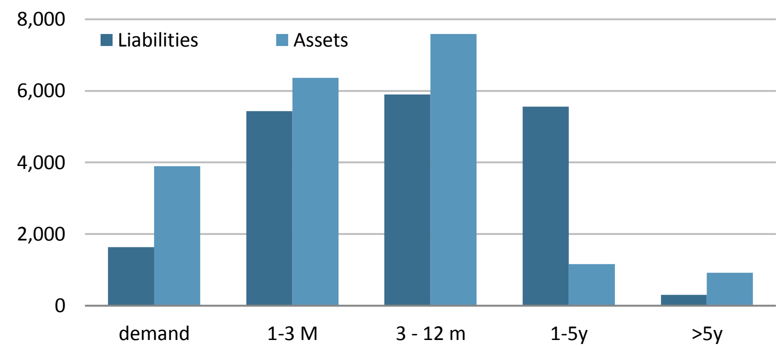
Balance Sheet, UAH mln

	2012	2013
Cash	968	2,561
Accounts with NBU	177	148
Accounts with other banks	170	921
Net loans	7,615	11,484
- Related party loans	1	0
Securities portfolio	529	610
- Related party securities	0	0
PP&E	152	179
Other assets	3,263	4,702
Total assets	**12,874**	**20,605**
NBU funding	11	95
Other banks funding	271	1,230
Client accounts	8,048	12,591
Bonds issued	715	699
Subordinated debt	358	382
Other liabilities	2,601	3,829
Total liabilities	**12,004**	**18,826**
Equity	**870**	**1,779**

P&L summary, UAH mln

	2012	2013
Interest income	1,412	2,076
Interest costs	-1,109	-1,789
Net interest income	**303**	**287**
Net fees and commissions	108	81
Other incomes/costs	128	130
Total income	**539**	**498**
Operating costs	**-410**	**-372**
Loan loss provisions	**-317**	**-93**
Profit before tax	-188	33
Net profit	**-220**	**9**
ROAA		0.1%
ROAE		0.7%
Cost / Income	76%	75%

Assets and liabilities by maturity, UAH mln



Source: Bank data

CONCORDE CAPITAL

Disclaimer

Contacts

2 Mechnikova Street, 16th Floor
Parus Business Centre
Kyiv 01601, Ukraine
Tel.: +380 44 391 5577
Fax: +380 44 391 5571
www.concorde.ua
Bloomberg: TYPE CONR <GO>

CEO
Igor Mazepa im@concorde.com.ua

SALES & TRADING

Andriy Gerus ga@concorde.com.ua
Alexandra Kushnir ak@concorde-group.eu
Yuri Tovstenko ytovstenko@concorde.com.ua
Alisa Tykhomirova at@concorde.com.ua

RESEARCH

Head of Research
Alexander Paraschiy ap@concorde.com.ua

Macro, Utilities, Financial, Consumer
Alexander Paraschiy ap@concorde.com.ua

Basic Materials, Consumer
Roman Topolyuk rt@concorde.com.ua

Editor, Politics
Zenon Zawada zzawada@concorde.com.ua