# Ukraine economy update

## Facing the challenge of weak resource prices

February 1, 2016

CONCORDE
CAPITAL

# Summary

The economic depression in Ukraine, which began with the loss of industries from the Russian occupation of Crimea and Donbas in 2014, has all the chances to continue through most of 2016. This time, the main factor would be weakening global commodities, on which Ukraine has proven to be depend heavily upon.

Real economic growth will not be on agenda in 2016, though the effect of business recovering from the Donbas-related shock will likely result in a small bounce. We project 0.6% yoy real GDP growth in 2016. It's only likely driver will be private consumption, while the effect of other GDP components will be limited. It's possible Ukraine's investment climate and investment consumption will turn around towards the year end, though we can't count on that, owing to the slow pace of reforms.

Ukraine's current account deficit will be widening due to shrinking exports and gradually rebounding demand for imports. Falling oil and natural gas prices will save some currency for Ukraine, though such savings will be offset by declining export revenues on falling steel and iron ore rates. We expect the C/A deficit to expand to USD 3.0 bln in 2016 (from an estimated USD 1.1 bln in 2015), which will be about 3.6% of GDP.

The risk of currency shocks is not serious as Ukraine is on the verge of securing IMF support for the year, which could lead to about USD 10 bln in loans arriving, if to include other potential donors. We anticipate a widening trade deficit, which could generate gradual pressure on the ForEx market. Yet according to our estimates, the hryvnia's decline to UAH 27/USD in 2016, on average, should be enough to neutralize pressure on the ForEx market and fulfill the fiscal deficit commitments set by the IMF.

Fiscal accounts might bring multiple surprises after a large part of temporary revenues was cancelled while tax rules were significantly revised in late 2015. In any case, we expect the Cabinet will adhere to the 3.7% of GDP deficit limit for 2016 set by the IMF. At this stage, however, we do not know what exact price the government will have to pay to meet this commitment.

### Key macro indicators

| | 2014 | 2015E | 2016E |
|---|---|---|---|
| Real GDP, yoy | -6.8% | -10.4% | 0.6% |
| Nominal GDP, USD bln | 132.8 | 90.1 | 83.2 |
| C/A balance, USD bln | -4.6 | -1.1 | -3.0 |
| Gross int'l reserves, USD bln | 7.5 | 13.3 | 19.5 |
| External public debt, USD bln | 38.8 | 42.9 | 52.6 |
| Total public debt, USD bln | 69.8 | 65.0 | 74.5 |
| Cons. budget balance, % of GDP | -4.2% | -1.6% | -3.7% |
| CPI, average | 12.1% | 48.7% | 16.2% |
| UAH/USD, average | 11.9 | 21.8 | 27.0 |
| UAH/USD, eop | 15.6 | 24.0 | 27.5 |

*Source: UkrStat, MinFin, NBU, Concorde Capital research*

# Economic growth not on the agenda

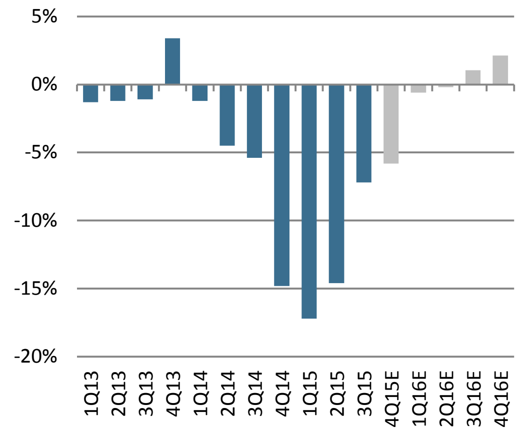
The real sector bottomed out in mid-2015 and has gradually improved since. In 3Q15, for example, GDP decline slowed to -7.2% vs. -14.6% yoy in 2Q15 and -17.2% yoy in 1Q15. We estimate real GDP to have fallen 10.4% yoy in 2015.

The low comparative base effect (due to Donbas occupation since Sept. 2014) was the main factor for the improved statistics in mid-2015. At the same time, we see little chance that economic activity will recover in the nearest future:

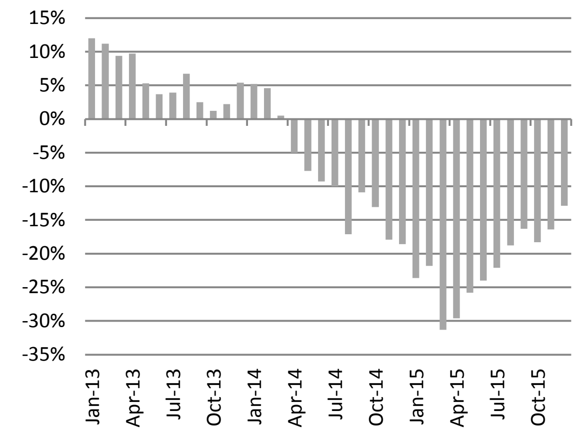
- Resource prices are falling on the global markets (the IMF metal index dropped 25% yoy in 2015) and aggression has intensified from Russia (which still takes nearly 13% of our goods exports) amid an embargo on food imports from Ukraine, a cancelled FTA, and limits on goods transit through Russian territory.
- Private consumption, which was the key driver of economic growth in 2010-2013, is subdued due to decreasing real incomes (real wages dropped 21% yoy in 11M15);
- The investment climate in Ukraine (which should have been fueled by deregulation, tax reform, and a judicial system overhaul) does not show any signs of improvement, which means no source of growth on this side as well.

Against this backdrop, we are quite skeptical regarding Ukraine's near-term economic growth. For 2016, we can expect only modest improvement in private consumption (by nearly 1.8% yoy) while all other sources of growth will remain dormant. This means that near zero (+0.6% yoy) real GDP growth will be a fair result in 2016.

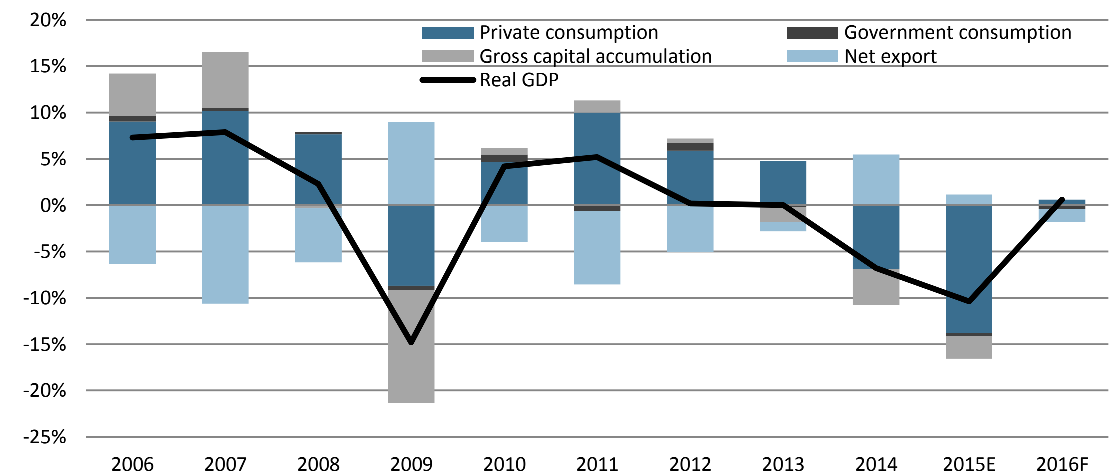
**Real GDP change yoy**




**Organized retail trade, yoy**




**Drivers of real GDP change**






*Source: UkrStat, Concorde Capital research*

CONCORDE CAPITAL

# Industrial output to inch up on low statistical base

Ukraine's industrial output decline slowed to single digits in December: -2.1% yoy compared to -20.5% yoy in 1H15 (-13.4% yoy for 2015). The statistical effect of the low comparative base is the main reason for the recent improvement.

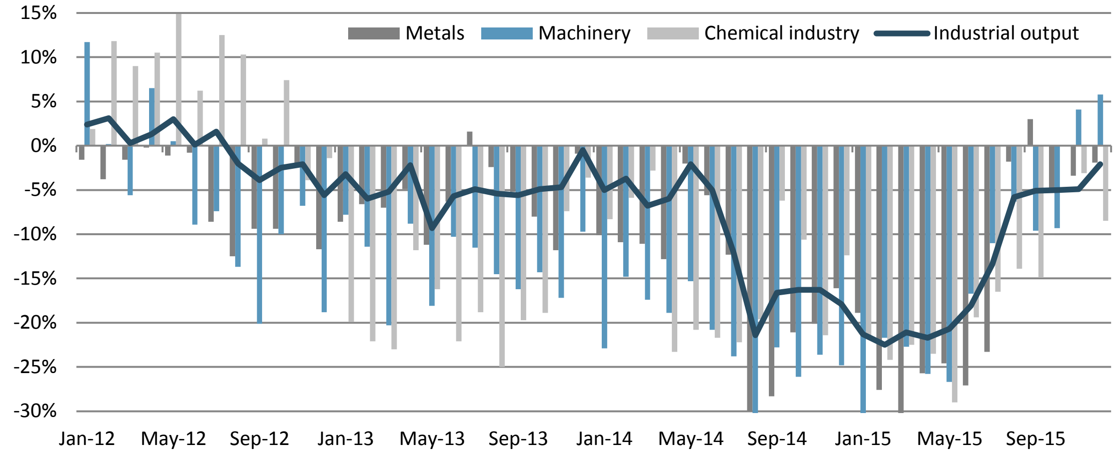
Even though the decline rates have been slowing, we do not see prospects for significant turnaround in industrial output in 2016.

Sliding resource prices at the global markets and the unfolding trade conflict with Russia (exports of goods to Russia plunged 53% yoy in 11M15) do not offer any grounds for optimism.

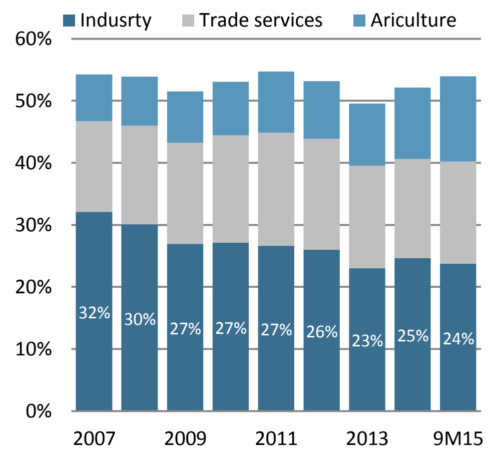
In 2016, we project industry inching up by 0.7% yoy, assuming minor improvements in the economy, continuing devaluation of local currency and/or better global commodity trends in 2H16.

Despite industrial output is falling in Ukraine since 2H12, it remains a core component of Ukraine's GDP.

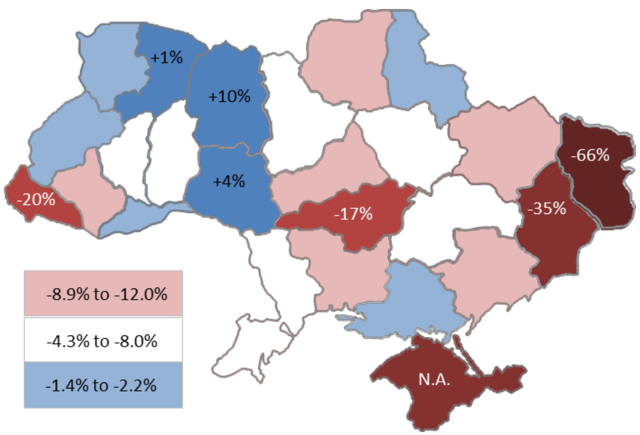
**Industrial output, yoy**




**Key components of Ukraine's GDP**




**Industrial output change by regions, 2015**






*Source: UkrStat, Concorde Capital research*

# External accounts: C/A deficit to reach 3.6% of GDP in 2016

Ukraine's trade deficit for goods and services narrowed to USD 641 mln in 11M15 compared to USD 3.9 bln a year ago. A sharp contraction in non-energy imports (-30% yoy) and a shrinking energy bill (-24% yoy) amid a somewhat slower yoy decline in exports were responsible for the outcome.

Exports of goods and services contracted 29% yoy in 11M15 to USD 43.2 bln on the back of both the exports drop to Russia (-54% yoy) and other markets (-27% yoy), both of which were the result of the trade war with Russia and the loss of export-oriented Donbas. Imports of goods and services plunged a bit stronger, 31% yoy to USD 44.6 bln, owing to the hryvnia's decline. For this reason, Ukraine's C/A deficit narrowed to USD 1.1 bln (1.2% of GDP) in 2015 compared to a USD 4.6 bln deficit in 2014 (3.5% of GDP).

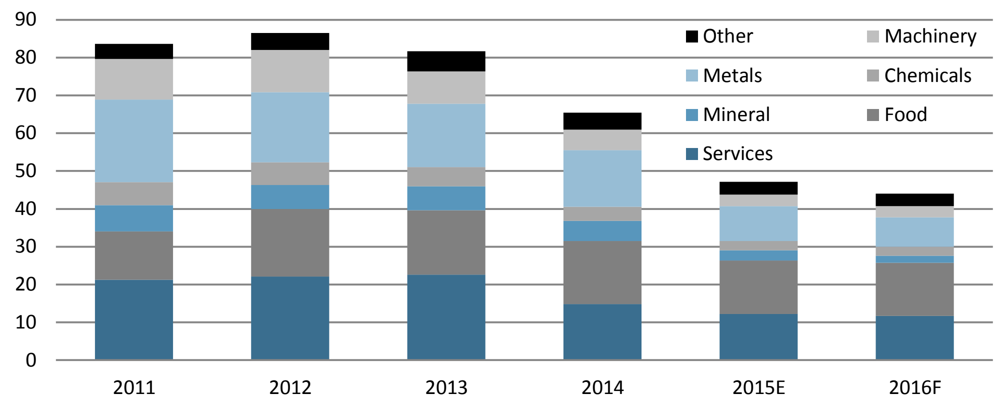
The prospects for 2016 look much worse due to sliding global resource prices and intensified aggression from Russia. All the factors mean that Ukrainian exports will be contracting throughout the year - we estimate export proceeds falling by at least 7% yoy. In particular, we expect:

- a 15% yoy decline in metal prices amid flat volumes of exports.
- A 24% yoy drop in iron ore prices with a subsequent 11% decrease in export volumes.
- a 4% decrease in grain prices while export volumes will remain flat yoy.

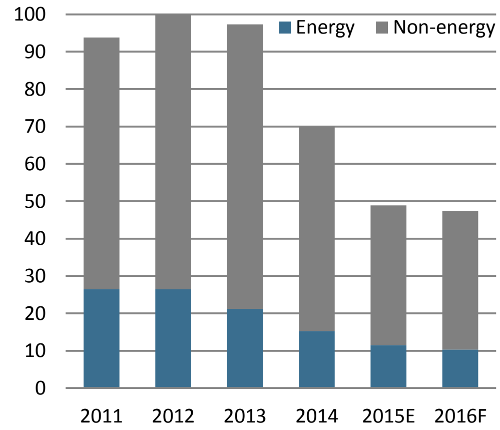
The good news is that falling resource prices mean a lower energy bill by at least 10% yoy. (The IMF fuel commodities forecast is -17% yoy in 2016).

Abolished interim import duties (active in 2015) should make imported goods somewhat cheaper, stimulating a gradual revival in non-energy imports. Though, demand for imported goods will be limited by weak purchasing power in Ukraine – we project consumption of imports will increase 21% yoy in UAH terms (which is -2% yoy in dollar terms, based on our exchange rate outlook). All in all, we expect a C/A deficit of USD 3.0 bln (3.6% of GDP) in 2016.

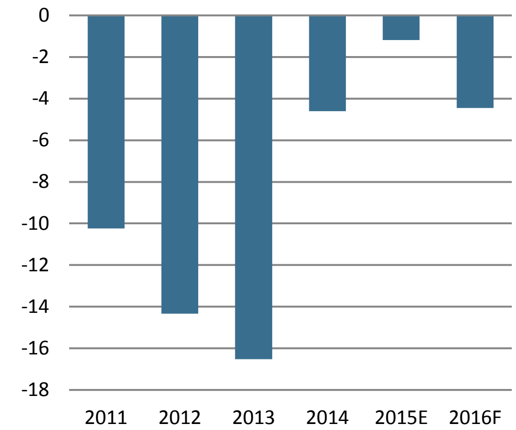
**Ukraine exports, USD bln**




**Ukraine imports, USD bln**




**C/A balance, USD bln**






*Source: NBU, UkrStat, Concorde Capital research*

# Volatility comes back to ForEx market, gradual hryvnia weakening looks unavoidable

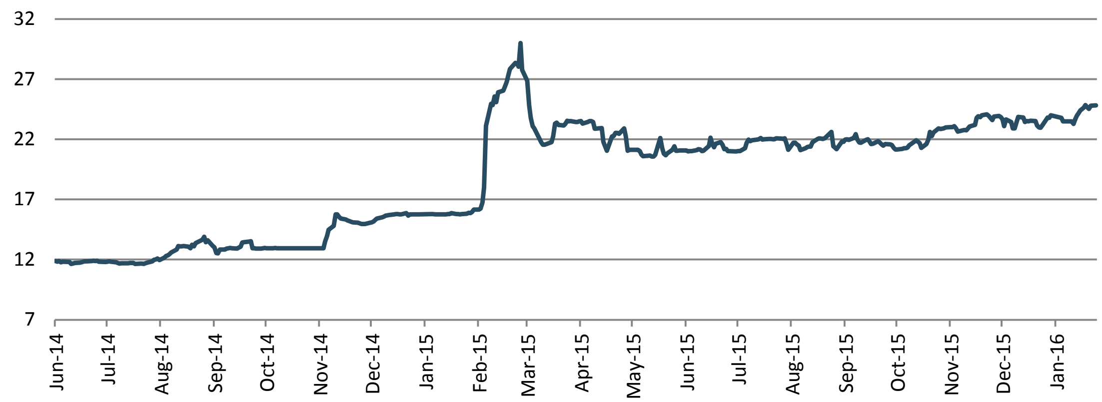
Ukraine's ForEx market returned to volatility in January after ten months of relative stability. So far this year, the hryvnia lost almost 10% at the official market, sinking to UAH 25/USD. At the black market, the hryvnia breached the UAH 28/USD level. In our view, a large part of the volatility was due to large-scale disbursements from Treasury accounts at the end of 2015. However, worsening external conditions (metal prices fell about 13% YTD in 4Q15 and the trend has continued) are among the factors pressuring the national currency.

We do not expect capital account problems since IMF cooperation will likely continue, thus securing substantial foreign currency inflow (USD 5.8 bln from the IMF, EUR 1.2 bln from the EU, USD 1.0 bln from the U.S. and additional aid of about USD 1.5 bln from other Western donors). At the same time, we anticipate that trade deficit widening will generate gradual pressure on the ForEx market.

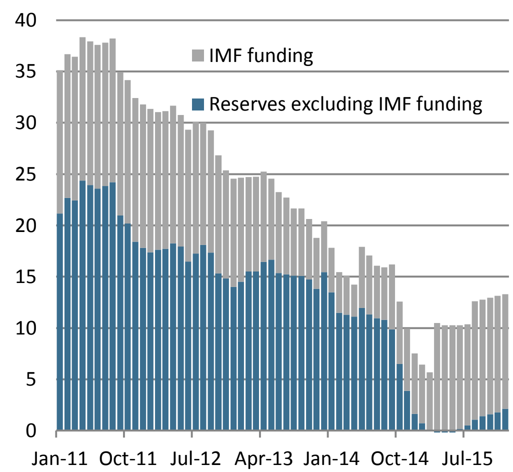
In particular, we expect exports to fall by nearly 7% yoy in 2016 in what will shave off close to USD 2.4 bln of export proceeds. Some part of that will be offset by falling energy imports (-10%, or nearly a USD 1.2 bln decline). However, a declining hryvnia will be needed to neutralize gradually reviving private demand (a large part of which will be allocated on import consumption). According to our estimates, the hryvnia weakening to UAH 27/USD, on average, should be enough to keep the C/A deficit close to 4% of GDP. (Our detailed view on the Ukrainian currency could be found on pages 10-13).

Meanwhile, we expect gross international reserves to increase to USD 19.5 bln (4.9 months of imports) as of end-2016 from USD 13.3 bln (3.3 months of imports) at the beginning od the year.

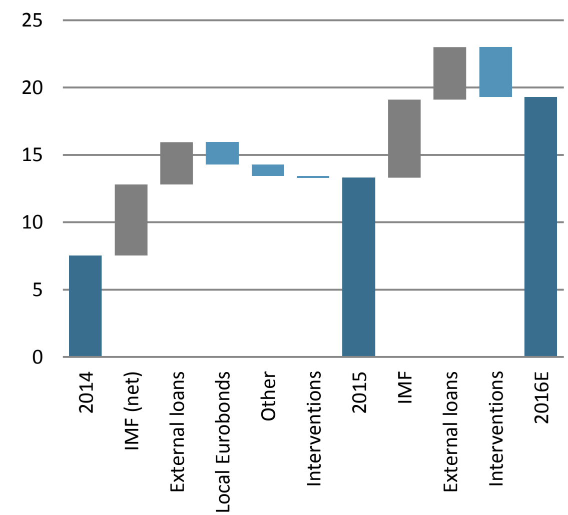
**UAH/USD interbank rate**




**Gross NBU reserves, USD bln**




**Drivers of NBU reserves change, USD bln**





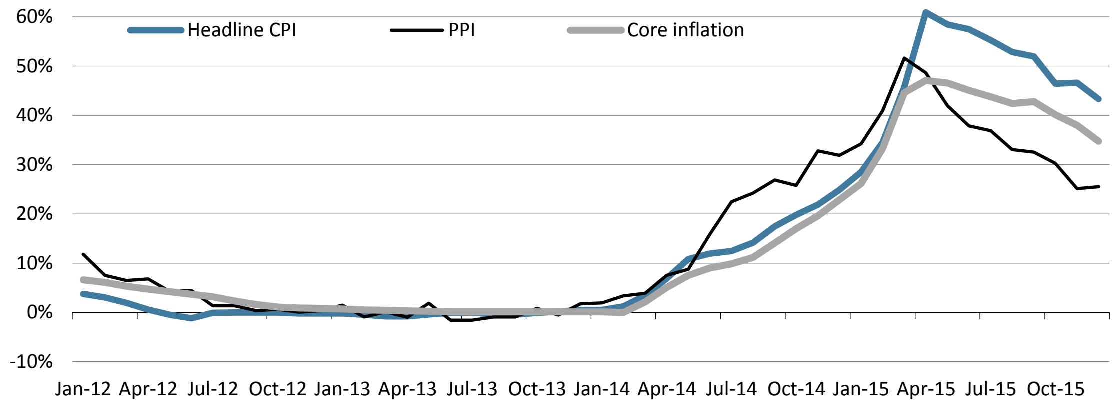

Source: NBU, Concorde Capital research

# Inflation to slow amid modest hryvnia weakening

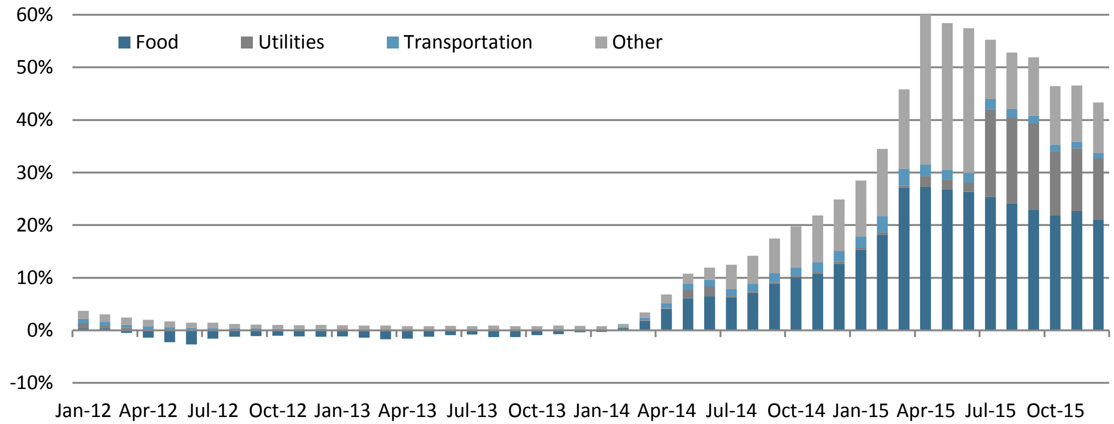
Hryvnia devaluation and dramatic electricity and heating rate hikes at the year's start triggered harsh inflation in 2015. As a result, CPI surged 43.3% YTD and 48.7% on a yoy basis.

In 2016, inflation patterns will change somewhat, with the main factor being the relative stability of the national currency (compared to 2015). At the same time, the CPI will face upward pressure from higher electricity rates (two increases by 25% each are scheduled for March and September), as well as a seasonal adjustments in natural gas prices. In light of this, we project CPI increasing 9.5% YTD (16.2% yoy) in 2016.

**Inflation indicators, yoy**




**Drivers of yoy change in headline CPI**






*Source: UkrStat, Concorde Capital research*

# 2016 budget deficit: 3.7% of GDP limit won't be breached

Ukraine's general budget revenue surged 43.0% yoy to UAH 652.0 bln in 2015 on the back of devaluation-driven inflation and collections from one-off sources like:

- 3G mobile license proceeds (UAH 8.9 bln),
- interim import duties (UAH 25.2 bln);
- distribution of NBU profits (UAH 61.8 bln);

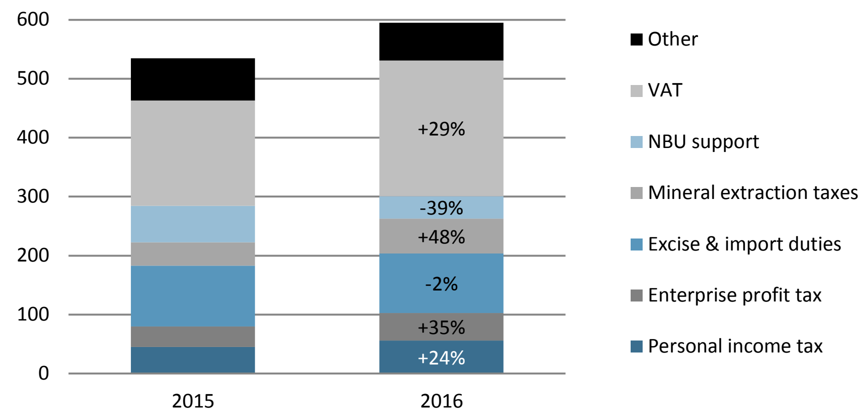
Even net of such temporary revenue sources, the general budget revenue increase remained impressive at 28.3% yoy (UAH 556.1 bln) in 2015. The key factor of such growth, no doubt, was high inflation (+48.7% yoy).

Successful fiscal collections put the 2015 budget on the safe side, resulting in modest 1.6% of GDP budget deficit. This is much less than the 4.2% of GDP deficit requirement set by the IMF.

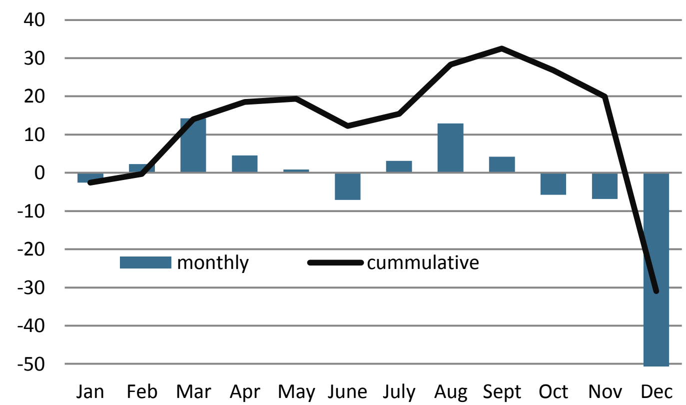
The prospects for fiscal success in 2016 are cloudy. On the one hand, Ukraine's parliament adopted new legislation to widen the tax base (partially abolishing a special taxation regime for agri-producers and boosting excise tax rates). On the other hand, the payroll tax was cut to 22% from nearly 37% previously. Interim import duties and duties for most goods imported from the EU were removed, while planned collections from NBU profit were reduced to UAH 38 bln. Positive contributors to the budget deficit narrowing could be improved tax collections from more efficient administration and evasion investigations, as well as better spending discipline owing to a shift to electronic procurement.

As the new taxation rules have yet to be tested, many surprises could emerge with budget implementation in 2016. In any case, we do not expect the Cabinet will dare to violate the 3.7% of GDP deficit limit for 2016 set by the IMF. Underfinancing of some spending (without official budget cuts) might be the way to satisfy the IMF requirement if fiscal collections fall short of plans. Alternatively, Ukraine may face a need to revise the state budget completely in the first half of 2016, and/or the IMF might allow for some higher fiscal deficit ceiling.

**Planned central budget revenue, UAH bln**




**General budget balance in 2015, UAH bln**






*Source: MinFin, Concorde Capital research*

# State debt to increase on carry-over loans

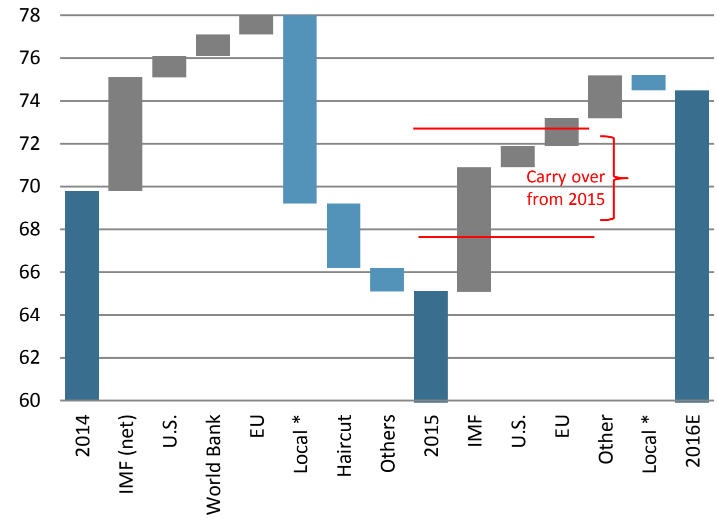
As of November 2015, Ukraine's state debt fell to USD 65.1 bln (nearly 80.6% of GDP) compared to USD 69.8 bln at the year's start. This appeared to be a much better result than 94.1% of GDP projected by the IMF.

The main factors were a USD 3 bln haircut of government Eurobonds, devaluation of local currency, as well as delayed IMF tranches and related Western loans. This delayed financing included two IMF wires of USD 1.7 bln each, a EUR 0.6 bln loan from the EU within the Macro-Financial Assistance program, and a USD 1 bln guarantee from the U.S. All the delayed funds are expected to arrive in 2016.

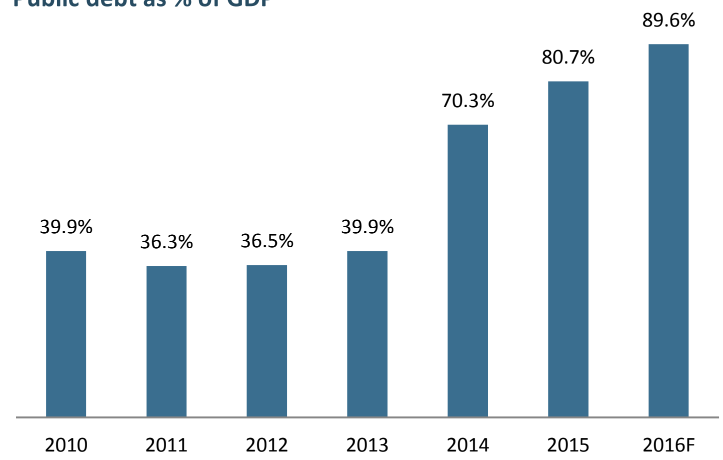
For 2016, we project the state debt swelling to USD 74.5 bln, or 89.6% of GDP on the back of new loans from the IMF (worth USD 5.8 bln, including those delayed from 2015), the EU (EUR 1.2 bln), the placement of USD 1.0 bln in Eurobonds under U.S. guarantees, and additional aid of about USD 1.5 bln from other Western donors. No redemptions on foreign debt are scheduled in 2016.

Importantly, the high risk of the hryvnia's weakening – beyond what has been budgeted for 2016 (UAH 24.1/USD on average) – means higher spending on debt servicing. Based on our estimates, an average hryvnia exchange rate at UAH 27/USD means an extra UAH 6 bln in outlays on interest payments (about 0.3% of GDP).

**Public debt change, USD bln**




**Public debt as % of GDP**






** Net placements of local bonds and effect of UAH devaluation*
*Source: MinFin, Concorde Capital research*

# Hryvnia prospects: looking at the 2016 equilibrium rate

# Hryvnia weakening prompted by weak commodities

In this section, we applied a simple statistical approach to estimate what the hryvnia/U.S. dollar equilibrium rate could be in 2016, given that Ukraine's economic position continues to heavily depend on global commodities.

Based on our findings, Ukraine's nominal GDP denominated in U.S. dollars depends linearly on global commodity prices. The downtrend on the global markets, therefore, is very likely to pressure Ukraine's dollar-denominated GDP in 2016, which will require another wave of hryvnia weakening for the economy to remain competitive globally and for the government to fulfill its core commitment to the IMF - keeping the budget deficit from exceeding 3.7% of GDP.

Our analysis suggests that an equilibrium UAH/USD rate for 2016 should be about 27.2x. We expect the average hryvnia rate will be somewhat stronger in 2016, at about UAH 26.5-27.0/USD, with the higher value being our base-case forecast.

# Ukraine's commodity-driven economy

Over the last two decades, Ukraine's economy remains heavily dependent on global commodity prices, as we can see from the charts to the right:

Ukraine's nominal GDP denominated in dollars almost perfectly correlates with the IMF's World Commodity Price Index (correlation is 0.97x). We relate this phenomenon to Ukraine's weak global competitiveness, or institutional inability to produce and consume more value added, in USD terms, than is prompted by international steel, ore, and grain prices. With a lack of real reforms so far, we do not expect Ukraine will be able to break this trend in 2016, but neither do we rule out such a possibility in the mid-term.

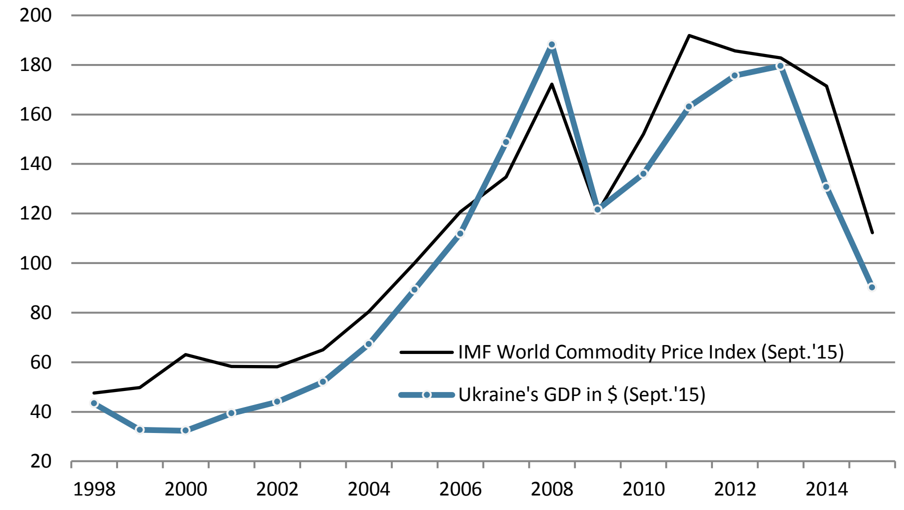
The exceptions to the strong linear trend were:

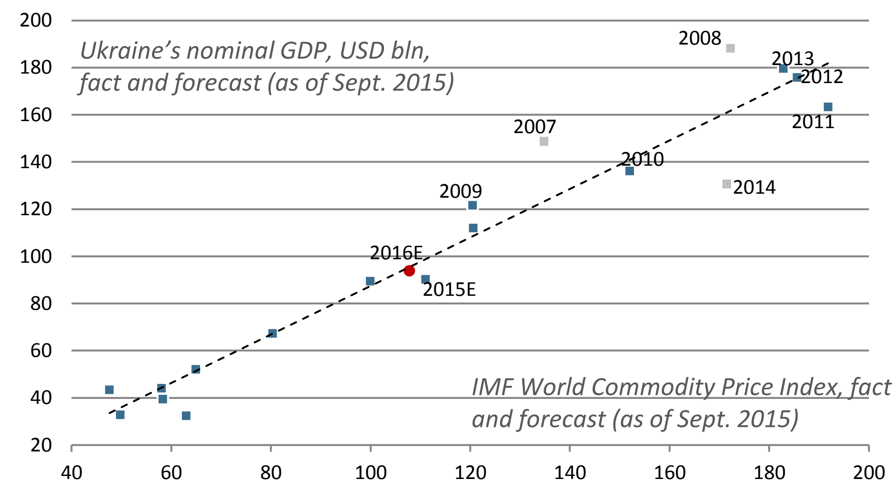
- The fat years of 2007-2008, when Ukraine's economy was driven by the investment boom of 2006-2007. In those times, Ukraine enjoyed a huge capital inflow that fueled domestic wealth and stimulated consumption. However, this boom failed to raise Ukraine to a new level of development as its gains evaporated during the crisis of 2008-2009.
- The tumultuous year of 2014, when Ukraine's economy lost major industrial contributors from the Russian occupation of Donbas and Crimea. Remarkably, Ukraine's economy managed to recover on a commodity-driven trend already in 2015.

The close statistical relationships between commodities and Ukraine's dollar-denominated GDP enables us to estimate the GDP value in 2016. Interestingly, the IMF's forecast, released in September, falls right on the trend line that we have drawn.

Clearly, the IMF's ambitious 2016 forecast for Ukraine of USD 93.8 bln in nominal GDP, also provided in its September update, is no longer valid. Nor is its commodity index forecast of 107, which has already been downgraded to 96.

**Ukraine's dollar-denominated GDP and IMF commodity index**






Source: IMF

CONCORDE CAPITAL

# Forecasting USD-denominated GDP and implied UAH/USD rate for 2016

The discovered simple relationship enables us to see where Ukraine's dollar-denominated GDP will land on our chart in 2016, factoring the updated commodity price forecasts by the IMF (the current estimate of its commodity index is 96 for 2016, which is 11% below its September estimate).

Moving down the trend line, we estimate Ukraine's dollar-GDP could reach USD 80-86 bln in 2016, or **USD 83 bln** in the mean of this range:

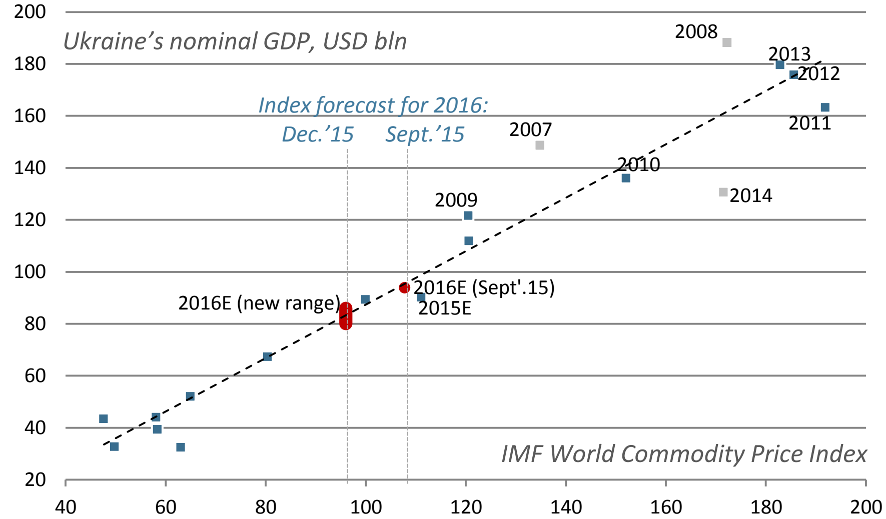
- The upper value of this range assumes the possibility of positive shifts in the economy and investment climate, or better recovery in commodity prices in 2016;
- The lower number assumes commodity prices will be lower than the IMF currently forecasts.

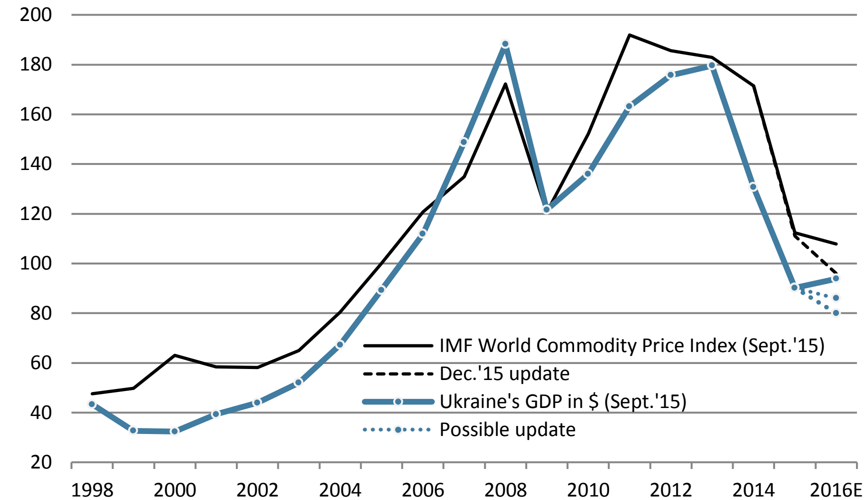
With dollar-GDP estimates in hand, we can simply derive the implied UAH/USD rate that Ukraine will need to keep in order to meet its core obligations to the IMF in 2016:

- Ukraine's state budget deficit should not exceed 3.7% of its nominal GDP in 2016, while there is very limited possibility for Ukraine to reduce its budget expenditures.
- This means Ukraine should not underperform in terms of budget revenues, which the government forecasted based on nominal GDP of UAH 2,262 bln. With any lower figure, the risk of revenue underperformance (deficit commitment breach) increases.
- The implied UAH/USD exchange rate needed to reach the UAH 2,262 bln level of nominal GDP is 27.2x, assuming the dollar-denominated GDP is USD 83.2 bln.

| | | | |
|---|---|---|---|
| GDP in USD bln | 86.0 | **83.2** | 80.0 |
| Implied UAH/USD rate | 26.3 | **27.2** | 28.3 |

**Ukraine's dollar-denominated GDP and IMF commodity index**






Source: IMF. Concorde Capital research

CONCORDE CAPITAL

# Appendix: Summary table

# Key macro indicators

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 E | 2016 F |
|---|---|---|---|---|---|---|---|---|---|
| **Economic activity** | | | | | | | | | |
| Real GDP, yoy | 2.3% | -14.8% | 4.1% | 5.2% | 0.2% | 0.0% | -6.8% | -10.4% | 0.6% |
| Household consumption, yoy | 13.1% | -14.2% | 7.2% | 15.0% | 9.0% | 7.8% | -9.6% | -19.3% | 1.8% |
| Investments in fixed capital, yoy | -1.2% | -46.2% | 4.0% | 10.1% | 2.5% | -6.6% | -23.0% | -17.5% | 1.1% |
| Nominal GDP, UAH bln | 948 | 913 | 1,083 | 1,302 | 1,411 | 1,465 | 1,567 | 1,929 | 2,286 |
| Nominal GDP, USD bln | 181.8 | 117.1 | 136.5 | 163.4 | 176.6 | 183.3 | 132.8 | 90.1 | 83.2 |
| GDP per capita, USD | 3,944 | 2,545 | 2,980 | 3,583 | 3,873 | 4,029 | 3,088 | 2,113 | 1,965 |
| Industrial output, yoy | -5.2% | -21.9% | 11.2% | 8.0% | -0.7% | -4.3% | -10.1% | -13.4% | 0.7% |
| **Inflation** | | | | | | | | | |
| CPI (eop) | 22.3% | 12.3% | 9.1% | 4.6% | -0.2% | 0.5% | 24.9% | 43.3% | 9.5% |
| CPI average | 25.2% | 15.9% | 9.4% | 8.0% | 0.6% | -0.3% | 12.1% | 48.7% | 16.2% |
| PPI (eop) | 23.0% | 14.3% | 18.7% | 14.2% | 0.3% | 1.7% | 31.8% | 25.4% | 7.2% |
| **External accounts** | | | | | | | | | |
| Current account balance, USD bln | -12.8 | -1.7 | -3.0 | -10.2 | -14.3 | -16.5 | -4.6 | -1.1 | -3.0 |
| % GDP | -7.0% | -1.5% | -2.2% | -6.2% | -8.1% | -9.0% | -3.5% | -1.2% | -3.6% |
| Financial account balance, USD bln | 9.7 | -12.0 | 8.1 | 7.8 | 10.2 | 18.5 | -8.7 | 1.7 | 3.9 |
| % GDP | 5.3% | -10.3% | 5.9% | 4.8% | 5.8% | 10.1% | -6.6% | 1.9% | 4.7% |
| Net FDI, USD bln | 9.9 | 4.7 | 5.8 | 7.0 | 7.2 | 4.1 | 0.3 | 2.5 | 3.4 |
| % GDP | 5.4% | 4.0% | 4.2% | 4.3% | 4.1% | 2.2% | 0.2% | 2.8% | 4.1% |
| Gross NBU reserves (eop), USD bln | 31.5 | 26.5 | 34.6 | 31.8 | 24.6 | 20.4 | 7.5 | 13.3 | 19.5 |
| **Public debt** | | | | | | | | | |
| Total public debt, USD bln | 24.6 | 39.8 | 54.3 | 59.2 | 64.5 | 73.2 | 69.8 | 65.1 | 74.5 |
| % GDP* | 13.7% | 34.0% | 39.9% | 36.3% | 36.5% | 39.9% | 70.3% | 80.6% | 89.6% |
| Public external debt, USD bln | 18.5 | 26.6 | 34.8 | 37.5 | 38.7 | 37.6 | 38.8 | 42.9 | 52.6 |
| % GDP* | 10.2% | 22.7% | 25.5% | 23.0% | 21.9% | 20.5% | 29.2% | 52.0% | 63.3% |
| Gross external debt, USD bln | 101.7 | 103.4 | 117.3 | 126.2 | 134.6 | 142.1 | 126.3 | 127.4 | 135.6 |
| % GDP* | 55.9% | 88.3% | 85.9% | 77.2% | 76.2% | 77.5% | 95.1% | 141.4% | 163.0% |
| **Exchange rate** | | | | | | | | | |
| Official UAH/USD (eop) | 7.58 | 7.97 | 7.96 | 7.99 | 7.99 | 7.99 | 15.6 | 23.4 | 27.5 |
| Official UAH/USD (avg) | 5.27 | 7.79 | 7.94 | 7.97 | 7.99 | 7.99 | 11.9 | 21.8 | 27.0 |
| **Fiscal indicators** | | | | | | | | | |
| Consolidated budget revenues, USD bln | 56.5 | 37.0 | 39.6 | 50.0 | 55.8 | 55.4 | 38.3 | 29.9 | 27.6 |
| % GDP | 31.1% | 31.6% | 29.0% | 30.6% | 31.6% | 30.2% | 28.8% | 33.8% | 32.5% |
| Consolidated budget expenditures, USD bln | 58.7 | 39.4 | 47.6 | 52.3 | 61.6 | 63.3 | 43.9 | 31.2 | 30.7 |
| % GDP | 32.3% | 33.7% | 34.9% | 32.0% | 34.9% | 34.5% | 33.1% | 35.2% | 36.2% |
| Consolidated budget balance, USD bln | -2.2 | -2.4 | -8.0 | -2.3 | -5.9 | -7.9 | -5.6 | -1.4 | -3.1 |
| % GDP | -1.2% | -2.1% | -5.9% | -1.4% | -3.3% | -4.3% | -4.2% | -1.6% | -3.7% |
| State budget + Naftogaz balance, USD bln | n/a | -5.3 | -10.7 | -3.2 | -7.0 | -8.7 | -13.7 | -2.8 | -3.1 |
| % GDP | n/a | -4.5% | -7.8% | -2.0% | -4.0% | -4.7% | -10.3% | -3.1% | -3.7% |

** Based on UAH value of debt and GDP*
*Source: UkrStat, NBU, MinFin, Concorde Capital research*

# Disclaimer

THIS REPORT HAS BEEN PREPARED BY CONCORDE CAPITAL INVESTMENT BANK INDEPENDENTLY OF THE RESPECTIVE COMPANIES MENTIONED HEREIN FOR INFORMATIONAL PURPOSES ONLY. CONCORDE CAPITAL DOES AND SEEKS TO DO BUSINESS WITH COMPANIES COVERED IN ITS RESEARCH REPORTS. AS A RESULT, INVESTORS SHOULD BE AWARE THAT CONCORDE CAPITAL MIGHT HAVE A CONFLICT OF INTEREST THAT COULD AFFECT THE OBJECTIVITY OF THIS REPORT.

THE INFORMATION GIVEN AND OPINIONS EXPRESSED IN THIS DOCUMENT ARE SOLELY THOSE OF CONCORDE CAPITAL AS PART OF ITS INTERNAL RESEARCH COVERAGE. THIS DOCUMENT DOES NOT CONSTITUTE OR CONTAIN AN OFFER OF OR AN INVITATION TO SUBSCRIBE FOR OR ACQUIRE ANY SECURITIES. THIS DOCUMENT IS CONFIDENTIAL TO CLIENTS OF CONCORDE CAPITAL AND IS NOT TO BE REPRODUCED OR DISTRIBUTED OR GIVEN TO ANY OTHER PERSON.

CONCORDE CAPITAL, ITS DIRECTORS AND EMPLOYEES OR CLIENTS MIGHT HAVE OR HAVE HAD INTERESTS OR LONG/SHORT POSITIONS IN THE SECURITIES REFERRED TO HEREIN, AND MIGHT AT ANY TIME MAKE PURCHASES AND/OR SALES IN THEM AS A PRINCIPAL OR AN AGENT. CONCORDE CAPITAL MIGHT ACT OR HAS ACTED AS A MARKET-MAKER IN THE SECURITIES DISCUSSED IN THIS REPORT. THE RESEARCH ANALYSTS AND/OR CORPORATE BANKING ASSOCIATES PRINCIPALLY RESPONSIBLE FOR THE PREPARATION OF THIS REPORT RECEIVE COMPENSATION BASED UPON VARIOUS FACTORS, INCLUDING QUALITY OF RESEARCH, INVESTOR/CLIENT FEEDBACK, STOCK PICKING, COMPETITIVE FACTORS, FIRM REVENUES AND INVESTMENT BANKING REVENUES.

PRICES OF LISTED SECURITIES REFERRED TO IN THIS REPORT ARE DENOTED IN THE CURRENCY OF THE RESPECTIVE EXCHANGES. INVESTORS IN FINANCIAL INSTRUMENTS SUCH AS DEPOSITORY RECEIPTS, THE VALUES OR PRICES OF WHICH ARE INFLUENCED BY CURRENCY VOLATILITY, EFFECTIVELY ASSUME CURRENCY RISK.

DUE TO THE TIMELY NATURE OF THIS REPORT, THE INFORMATION CONTAINED MIGHT NOT HAVE BEEN VERIFIED AND IS BASED ON THE OPINION OF THE ANALYST. WE DO NOT PURPORT THIS DOCUMENT TO BE ENTIRELY ACCURATE AND DO NOT GUARANTEE IT TO BE A COMPLETE STATEMENT OR SUMMARY OF AVAILABLE DATA. ANY OPINIONS EXPRESSED HEREIN ARE STATEMENTS OF OUR JUDGMENTS AS OF THE DATE OF PUBLICATION AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART WITHOUT PRIOR PERMISSION IS PROHIBITED.

NEITHER THIS DOCUMENT NOR ANY COPY HEREOF MAY BE TAKEN OR TRANSMITTED INTO THE UNITED STATES OR DISTRIBUTED IN THE UNITED STATES OR TO ANY U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”)), OTHER THAN TO A LIMITED NUMBER OF “QUALIFIED INSTITUTIONAL BUYERS” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) SELECTED BY CONCORDE CAPITAL.

THIS DOCUMENT MAY ONLY BE DELIVERED WITHIN THE UNITED KINGDOM TO PERSONS WHO ARE AUTHORIZED OR EXEMPT WITHIN THE MEANING OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (“FSMA”) OR TO PERSONS WHO ARE OTHERWISE ENTITLED TO RECEIVE THIS DOCUMENT UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, OR ANY OTHER ORDER MADE UNDER THE FSMA.

©2016 CONCORDE CAPITAL

# 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

Alexandra Kushnir ak@concorde.com.ua
Marina Martirosyan mm@concorde.com.ua
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