Ukrainian Eurobonds – Update

Restructuring time again

June 15, 2015

CONCORDE CAPITAL

Summary

Restructuring is becoming the main trend in the Ukrainian fixed income universe, with only two issuers, MHP and Ferrexpo, being able to avoid this process. State banks and state railway operator UZ have already announced their wish to restructure their bonds, PUMB and DTEK completed their restructuring, and Metinvest in the middle of the process. We also expect ULF/Avangardco and Privatbank, whose bonds mature in autumn, will start this process soon.

As we anticipated, the bonds of Ukrainian corporate issuers are trading inside the sovereign curve as the risk that their restructuring becoming distressed is much smaller now, as compared to government paper. We do not cover the state bonds in this report given that their ongoing restructuring process, with a wide range of probable outcomes, makes estimating their returns impossible.

We expect the Eurobonds of PUMB, DTEK (03'18), and Metinvest (11'17) that emerged in the process of latest companies' exchange/restructuring (with amortization of principal repayment) will not be subject to new restructuring processes in the future. At the same time, all the remaining bullet bonds of DTEK, Metinvest, Privatbank, ULF (Avangardco), and Privatbank hold a high risk of future restructuring.

The soft restructuring terms offered by Ukreximbank and Oschadbank allows us to expect they will be approved by all bond holders. Though, we believe the bonds of state banks do not look attractive at the moment (as they yield about 15.4%-18.0% post-restructuring).

Even softer restructuring terms offered by DTEK in spring 2015 and PUMB in winter 2014 set a benchmark for possible restructuring terms of other industrial (Metinvest, DTEK): three-year maturity extension, about a 20% down payment and an amortized repayment schedule for the rest. ULF and Avangardco may follow similar restructuring schedule, with 5-year maturity extension, we expect. We expect Privatbank will also have to offer restructuring of its 2015 notes, on the conditions that are in between those offered by state banks and private PUMB.

The most risky bonds as of today are: notes of state railway operator UZ, which newer looked solvent, and the notes of ULF (Avangardco), which showed radical deterioration of their cash flow in 2014 with an unclear outlook. Also risky are the notes of DTEK and Metinvest, but they preserved the potential to generate sufficient cash flow in the future, in our view. To decrease their solvency risks, the companies need to complete their restructuring of banking loans due in 2015, as well as Metinvest's overdue Eurobond.

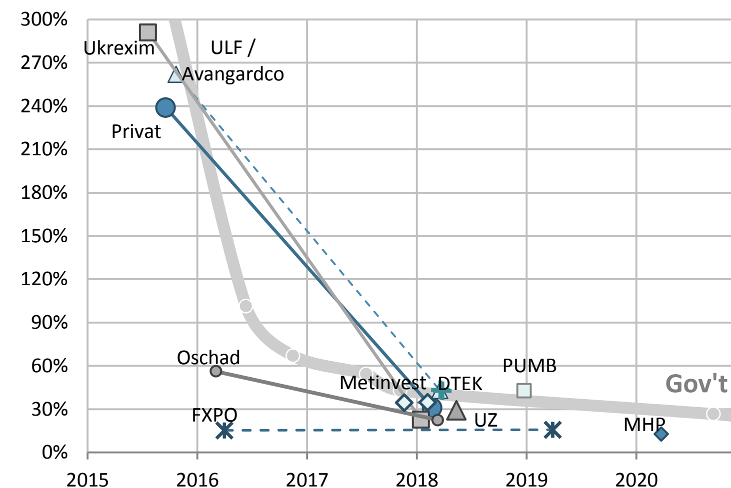
Picking bonds

For those seeking paper of reliable issuers, we recommend looking at Ferrexpo's 2016 notes that yield 15.7% to their maturity.

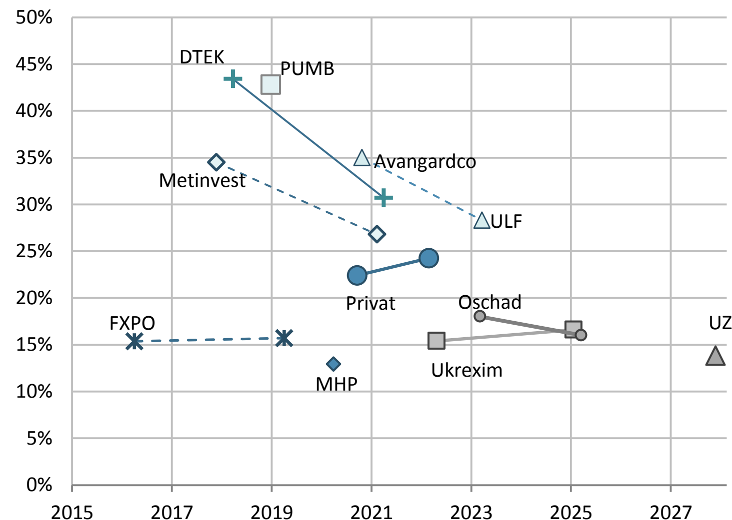
For those ready to tolerate higher risk, we recommend buying the already restructured notes of SCM-related issuers: PUMBUZ 12'18 and DTEKUA 03'18 (both yielding 43% to their extended maturity). Our third-best choice is METINV 11'17 (yielding 35% to its extended maturity, and no less that 26% in the worst case), though we believe there could be a better entry point in this paper soon.

Even for daredevils, we do not recommend even considering entering UZ notes.

Map of yields to designed maturity, June 15, 2015



Map of yields to assumed ultimate maturity, June 15, 2015



Source: Bloomberg, company data, Concorde Capital research

Macroeconomic update

Economic decline: driven by Russian aggression, erosion of domestic demand

As a result of the change in power in Ukraine following the anti-government protests of winter 2013-2014, Ukraine spoiled its ties with Russia, which resulted in:

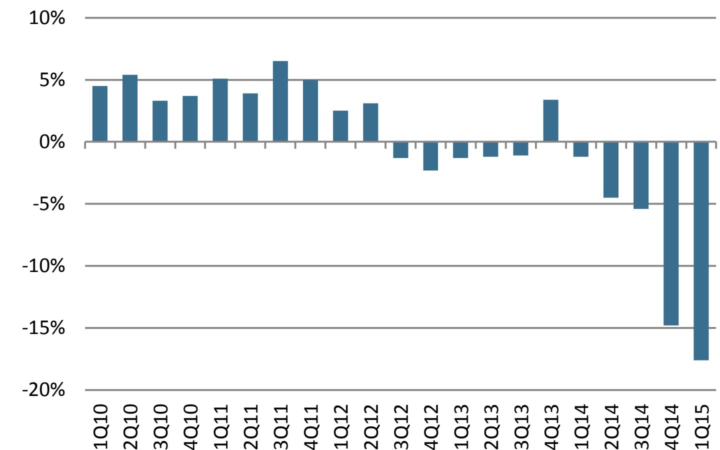
- ruined economic relations (Ukraine export to Russia plunged threefold in 1Q15 vs. 1Q14), which hurt export-oriented industries;
- and, more importantly, direct Russian aggression, which resulted in Ukraine's de facto loss of Crimea (3.5% of its GDP) and military occupation of parts of the two easternmost regions of Ukraine. These regions contributed 16% to Ukraine's GDP and accounted for a quarter of its industrial output. They also had tight business links to other regions of Ukraine.

The dramatic weakening of the national currency, which wrecked the wealth and savings of the Ukrainian population and affected its banking system, has undermined the core pillar of Ukraine's economic stability of 2011-2012, which was private consumption.

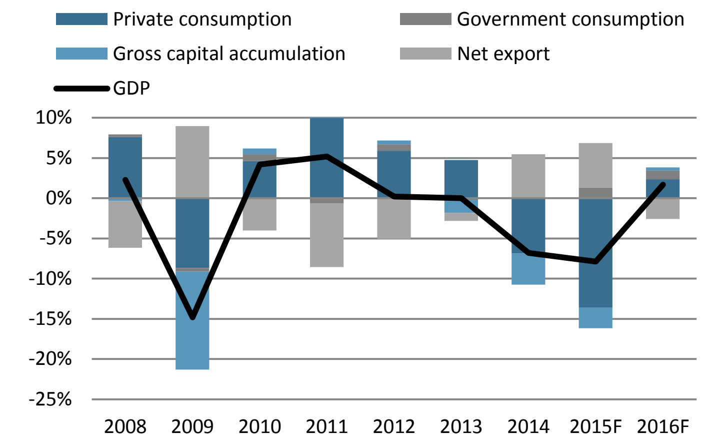
The tendencies that started in 2014 continued in 2015: domestic demand was hit even harder by a new devaluation wave in February (organized retail trade plummeted 26.7% by April) and GDP performance reflected the absence of Donbas production (-17.6% yoy in 1Q15). In 2015, we anticipate GDP falling 7.9% yoy.

In 2016, we expect modest economic recovery with GDP growing 1.7% yoy. Among the key components that should drive GDP will be a recovery of industries bolstered by restored production chains after the loss of Donbas (refer to the next slide for more details), rising government consumption and some recovery in private consumption.

Real GDP, yoy change



GDP growth breakdown



Source: UkrStat, Concorde Capital research

Industrial output: the victim of the Donbas war

Starting August 2014, Ukraine has been living without the functioning of a significant chunk of the heavily industrialized Donetsk and Luhansk regions (collectively known as “Donbas”). Aggregately, the two regions accounted for 23% of Ukraine's industrial output in 2013. But more importantly, unlike the occupied Crimea which is an isolated and poorly industrialized region, Donbas was an integral part of a value chain for companies located in other regions that also suffered from the war.

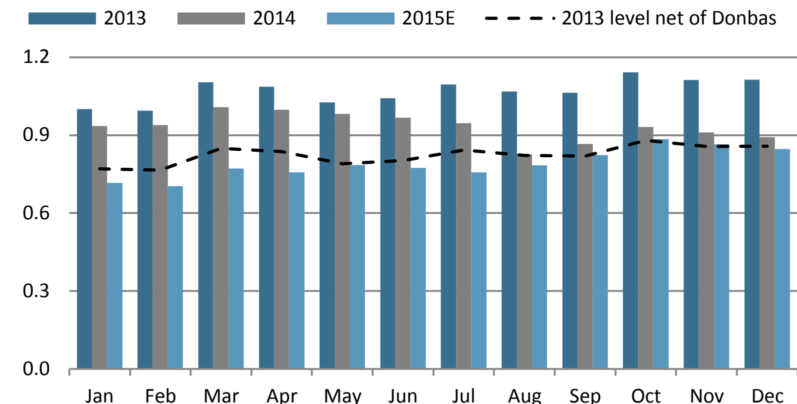
Another powerful factor for output deterioration has been the trade war with Russia. The export of goods to Russia fell 63% yoy in 1Q15, while exports to other destinations fell 26% yoy. The regions with high exposure to Russia have suffered most heavily.

As can be seen from the map on the right, the industries in regions located close to Donbas have been affected more by the war than those more distantly located, due to their tighter production links and higher exposure to Russian markets. At the same time, some central and eastern regions of Ukraine are demonstrating positive industrial output dynamics despite the overall crisis.

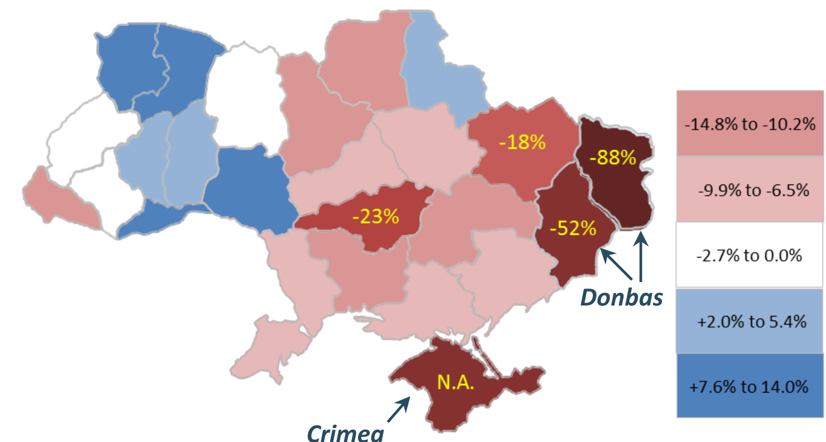
This scenario leads us to draw the conclusion that economic decline has reached its bottom and starting July-August, we will see industry improving because:

- industrial output for 2H15 will be comparable to that of 2H14 (when Russian aggression locked out Donbas)
- the enterprises of other regions that suffered from broken business links with Donbas and Russia have been able to partially substitute the missing chains with companies beyond Donbas and Russia and restore their output levels.

Industrial output change (Jan 2013 = 1.0)



Industrial output: yoy change by regions, 4M15



Source: UkrStat, Concorde Capital research

Hryvnia: signs of stability observed after shock

The devaluation potential of the hryvnia accumulated during the "stability" years of 2010-2013 as the C/A deficit increased each year (to reach 9% of GDP in 2013) while foreign currency reserves evaporated.

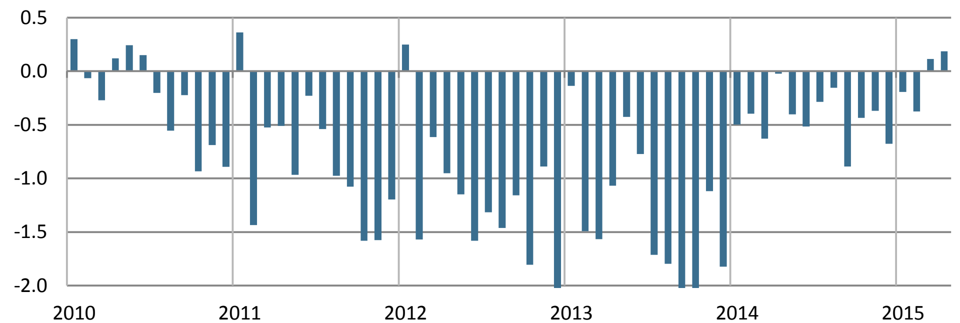
The Kremlin's geopolitical shocks of annexing Crimea and occupying Donbas accelerated for deep hryvnia decline in 2014 and 1Q15. The devaluation process was supported by:

- heavy hryvnia printing to cover increasing budget needs amid declining budget revenues since mid-2014;
- outflow of foreign currency from the banking system due to 1) excess retail demand for dollars amid instability; 2) foreign currency deposit withdrawals from banks;
- the inability of the central bank to curb the currency panic.

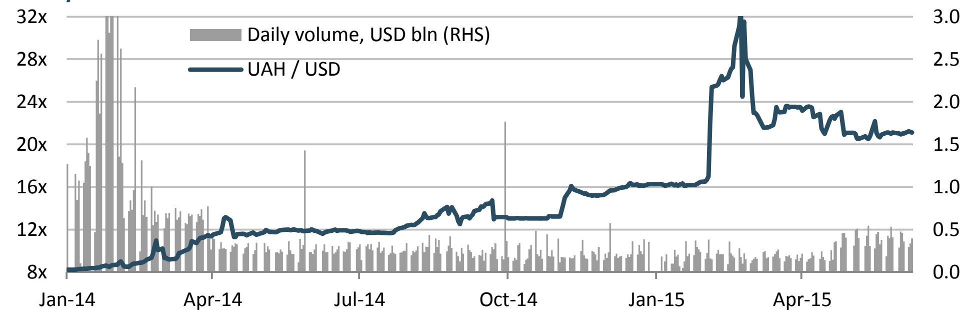
A halt in hryvnia printing, emerged curenct account surplus, a new IMF loan program, as well as restrictive measures imposed by the central bank (the NBU) were the key factors that enabled the hryvnia's stabilization in March 2015.

If no military escalation happens (which is our base-case scenario), we will likely see the hryvnia stay in the range of UAH 20-25 per USD till the end of 2015. The NBU's restrictive measures won't allow it to fall deeper, we believe, as a relatively stable exchange rate is crucial for Ukraine's public finances to remain in line with projections approved with the IMF.

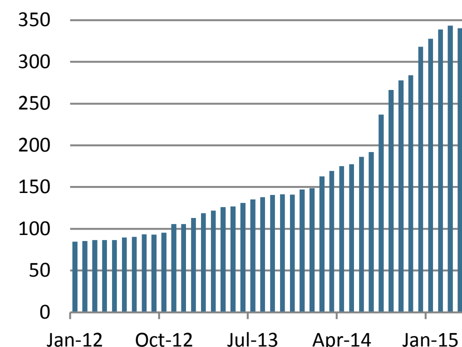
Current account, USD bln



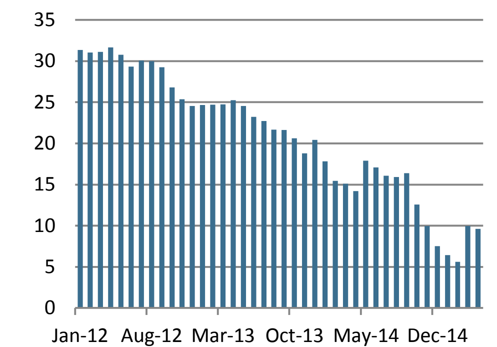
UAH/USD interbank



Gov't bonds in NBU portfolio, UAH bln



NBU reserves, USD bln



Source: UkrStat, minfin.com.ua, Concorde Capital research

Ukraine macro stats and forecast, summary

	2011	2012	2013	2014	2015F	2016F
Real GDP, chg yoy	5.2%	0.2%	0.0%	-6.8%	-7.9%	1.7%
Nominal GDP, USD bln	163	176	180	128	81	82
Household consumption, chg yoy	15.0%	9.0%	7.8%	-9.6%	-19.1%	3.0%
Investments in fixed capital, chg yoy	10.1%	2.5%	-8.4%	-23.0%	-20.9%	2.9%
Industrial output, chg yoy	8.0%	-0.7%	-4.3%	-10.1%	-14.6%	3.5%
CPI (eop)	4.6%	-0.2%	0.5%	24.9%	42.9%	8.3%
CPI average	8.0%	0.6%	-0.3%	12.1%	49.1%	13.4%
PPI (eop)	14.2%	0.3%	1.7%	31.8%	19.8%	13.2%
Current account balance, USD bln	-10.3	-14.3	-16.5	-5.3	-1.7	-1.9
% GDP	-6.3%	-8.1%	-9.2%	-4.1%	-2.1%	-2.3%
Gross NBU reserves (eop), USD bln	31.8	24.6	20.4	7.5	11.5	15.7
Public debt, USD bln	59.2	64.5	73.1	69.8	75.9	75.1
% GDP	36.3%	36.6%	39.9%	70.3%	94.4%	91.7%
Gross external debt, USD bln	126.2	135.1	142.5	126.3	131.4	135.6
% GDP	77.4%	76.8%	79.2%	98.7%	162.2%	165.4%
UAH/USD rate (avg)	7.97	7.99	7.99	11.9	23.0	25.0

Source: UkrStat, NBU, Concorde Capital research

Factoring in war in Donbas

Donbas War: challenges for the Ukrainian economy

The ongoing warfare and occupation of parts of the Donetsk and Luhansk regions of Ukraine (collectively known as "Donbas") by Russian-backed terrorists is one of the core challenges that Ukraine faces right now.

The occupation has significantly disrupted the Ukrainian economy since the Donbas region is an integral part of many of its industrial cycles. The core economic risks going forward are:

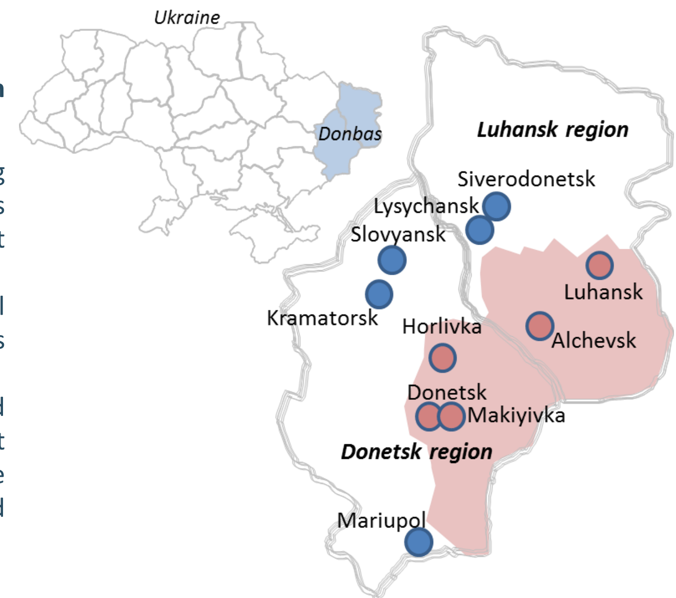
- The threat to Ukraine's energy security, industrial chains and trade deficit. Without Donbas being integrated into Ukraine's economy, the nation loses most of its coal deposits (40% of power is generated from coal mined in Ukraine), half of its steel production and a major part of export revenue (see statistics on the right).
- Painful fiscal burdens. While Ukraine recently declared no intention to finance the social payments of the occupied territory (drawing little tax revenue from there), resettling migrants and renewing damaged properties and structures will carry an enormous expense all the same.
- Broken industrial production chains in Ukraine that involved Donbas-based enterprises generated a significant decline in industrial production in most of the adjacent regions of Ukraine (see next slide for more details). It would take lot of time and effort for the companies located in the Ukrainian mainland to replenish gaps in these production chains by substituting Donbas-based companies with other counterparties.

We see factors that might lead to a short-term resolution of the conflict, as the occupied region is very unlikely to remain in its current condition for a long time:

- Donbas is not a self-sustainable region, meaning that its budget revenue is much less than expenditures. Total net subsidies to Donbas from Ukraine's budget and industry was UAH 38.6 bln in 2013, or 16.9% of the region's GDP, we estimate. Moreover, Donbas' core industry, metallurgy, depends heavily on central Ukrainian mines because there are no local iron ore deposits.
- The Donbas economy heavily depends on exports (the export-to-GDP ratio was 64% in 2012), out of which only 27% (in 2012) were with Russian Federation. The turning of this area into a gray zone will be disastrous for the local economy.

The Russian Federation doesn't want to annex Donbas, having had at least two good chances to do it so far and there are valid economic and political reasons for that. So the reintegration of this territory into Ukraine eventually remains the most probable scenario to us.

Map of the occupied Donbas, June 2015 (with cities of over 100k population as of early 2014)



The Donetsk and Luhansk regions (Donbas) are:

- *Rich in coal, shale gas and fertile land*
- *Highly urbanized and industrialized with well-developed coal, steel and machinery sectors*

In Ukraine, Donbas is responsible for (based ion 2013 data):

- *8% of agricultural output*
- *9% of area*
- *15% of population*
- *16% of GDP*
- *23% of total industrial output*
- *27% of total goods exports and 28% of exports to Russia*
- *53% of steel output and zero iron ore output*
- *67% of steam coal and 99% of coking coal production*

Source: National Security and Defense Council of Ukraine, UkrStat, Concorde Capital research

Resolution of Donbas crisis: depends on the West's approach

What's in Putin's mind?
Clearly, no one has an answer to that question, though we've been doing our best to try and figure it out. There is little doubt that it's the Russian top establishment (personified in Putin) who is the decision- maker in Donbas. Their ultimate goal is either to regain their control over Ukrainian territory or to destroy it to prove that it was a failed state, or a hiccup of history, if you will.

All tactics like "paving a land corridor to Crimea" and "freezing the conflict in Donbas" are only intermediate steps to the grand prize.

The ultimate goal can be reached by a combination of:

1) Continued military escalation, both in Donbas and other regions (via sabotage and terrorist attacks).
2) Attempts to destroy the country from inside, e.g. by taking advantage of (or initiating) violent protests.
3) Destroying the economy: e.g. destroying (1) industrial enterprises compactly located in Donbas, (2) the energy sector with natural gas and coal blockades, and (3) state finances by forcing excessive spending on defense.

Such moves would lead to:

a) more human losses in Ukraine, increased uncertainty, and declining trust in the government's ability to cope with core challenges.
b) depleted fiscal and economic resources to critical levels, prompting default on both external and internal obligations;
c) blocking reform initiatives and demonstrating to the West that the Ukrainian government is not a reliable partner.

Depending on the success rate of all such attempts, the ultimate result could be:

- the Ukrainian government being forced to make political concessions to Russia, especially in its geopolitical choices;
- a change in power to a Kremlin-loyal government;
- a disintegration of Ukraine into several territories, enabling the Kremlin to initiate talks with the West on dividing spheres of influence

Ukraine's best-case scenario is retaking full control over the Donbas region, akin to the Croatian/Serbian Krajina scenario in 1995. At this moment, this scenario looks both viable and distant.

How Putin's plan can be undermined
Neither Ukraine nor the West individually can spoil Putin's plans, while their cooperation gives a real chance for neutralizing Russian aggression.

Ukraine already did an impressive job in stopping the armed invasion in the east, by both military and diplomatic means. However, the current status quo in the east does not look sustainable given that Putin's goals have not been reached and taking for granted that he is the core decision maker in the situation.

We share the view that Russian aggression can be only stopped by a combination of fierce military resistance (that would increasingly demotivate the aggressor's forces and eat away at its resources) and financial and political sanctions (that would weaken Russia from inside).

What Ukraine lacks to withstand the aggression is:

- Financial support from the West, which under current circumstances mostly depends on Ukraine itself (since this aid can be only reform-driven) ;
- Stricter Western sanctions against Russia for failing to adhere to the ceasefire;
- Provision of up-to-date defense armaments and demonstration of readiness of extending military support upon escalation from Russia. Alternatively, a willingness to establish a UN peacekeeping mission in Donbas.

Any concrete reforms in the most important areas (budgetary, judiciary, anti-corruption) would significantly bolster Ukraine's ability to gain Western support and therefore reduce the likelihood of military escalation.

The Donbas factor and assets of bond issuers

Enterprises currently located in the terrorist-controlled areas are under constant risk of arson, and even more at risk are the assets located closer to the front line between the occupied territories and Ukrainian-controlled parts of Donbas.

A lot of assets of Ukrainian Eurobond issuers are in the high-risk zone, including:

Metinvest: Yenakiyeve Steel (23% of the holding's total steel output in 2013), Krasnodonvuhillia (satisfied 45% of coking coal needs in 2013) and Khartsyzk Pipe are currently on the occupied territory or on the front line. Two Mariupol-based steel plants (responsible for 77% of the holding's steel output) and Avdiyivka Coke (satisfies 67% of coke needs), are located very close to the front line. So these companies are under constant risk of being attacked and, from time to time, they also suffer from damage to railway infrastructure and a lack of raw material supplies.

DTEK: Mines Komsomolets Donbasa, Sverdlovantratsit and Rovenkiantratsit (responsible for 43% of DTEK's total coal output, 100% of anthracite coal output in 1H14); the Zuyivska thermal power plant (TPP) (11% of power generation) and power DisCo Donetskoblenergo are currently on the occupied territory. Fortunately, most of DTEK's power-generating assets are outside the occupied zone.

PUMB (First Ukrainian International Bank): 35% of its loan portfolio is exposed to Donbas, with more than half of it having been in the occupied zone.

Ukrzaliznytsia (UZ): Its Donbas-based subsidiary generated 14% of total EBITDA in 2013 (total traffic there fell 2.5x due to the war), while its other subsidiaries also generate a large part of their revenue from traffic originating or terminating in the war zone.

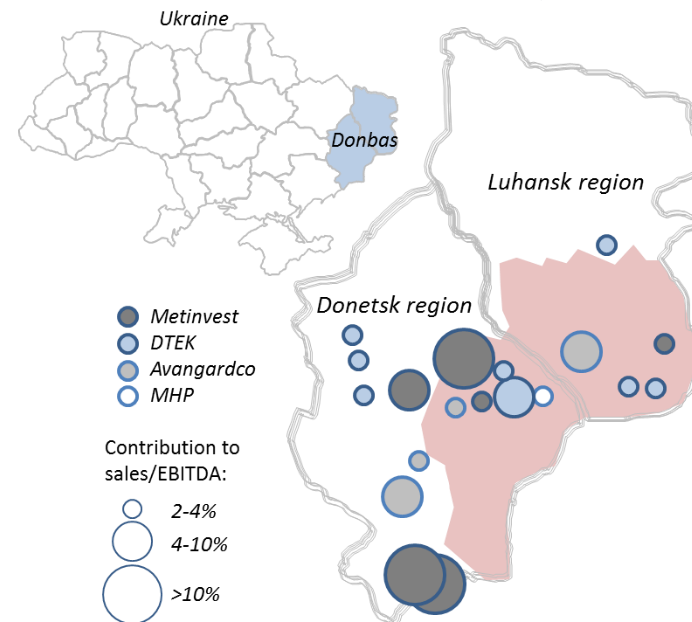
Avangardco: out of its four Donbas-based factories (responsible for an estimated 23% of total egg capacity as of beginning of 2014), two are located in the occupied zone (est. 15% of capacity), and two are close to the front line.

MHP: one of its breeding farms is in the occupied zone (about 5% of the company's total 2013 EBITDA). The factory is currently not working, while MHP has nearly completed its project to substitute the lost capacities by enhancing the breeding capacity of its Peremoha Nova farm in the central Cherkasy region.

Banks other than PUMB. Oschadbank reported the Donbas regions account for just 3% of its loan portfolio as of end-1H14. We estimate the exposure of other banks to the war zone is also less than 5% of total assets.

For more details on the effect of the Donbas factor on Eurobond issuers, please refer to the following slides.

Location of core issuers' assets on Donbas map



Geographical distribution of operating income, 2013 (est.)

	Occupied Donbas	Other Donbas	Other locations
DTEK	19%	27%	54%
PUMB	25%	10%	65%
Ukrzaliznytsia	15%	9%	76%
Avangardco	15%	8%	77%
Metinvest	13%	18%	69%
MHP	5%	-	95%

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

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The Donbas (Crimea) and DTEK production cycle: only some chains are affected

Broadly speaking, DTEK is a holding that consists of three major separate businesses that are not interconnected:

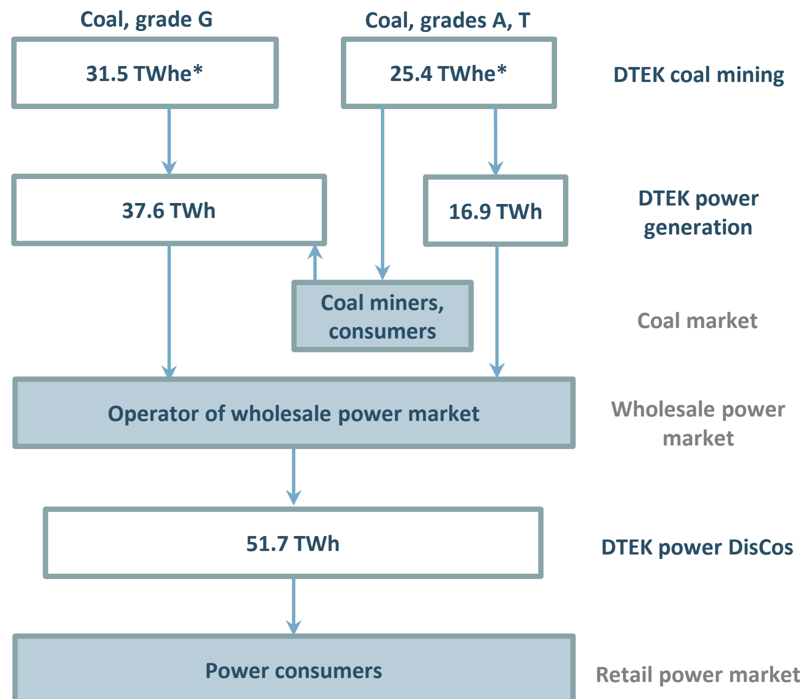
- Mining of anthracite coal (grade A and T) and production of electricity from this coal for sale to the wholesale market;
- Mining of bituminous coal (grade G) and production of electricity from this coal for sale to the wholesale market;
- Purchase of electricity from the wholesale market to transmit and sell to end-users.
- Other business include: production of natural gas, coal and power trading, production of electricity from natural gas.

As can be seen from the patterns below, the **Donbas war factor heavily affected** only one of DTEK's core production chains – all coal mines producing A and T grades of coal are currently located on the occupied territory of Donbas.

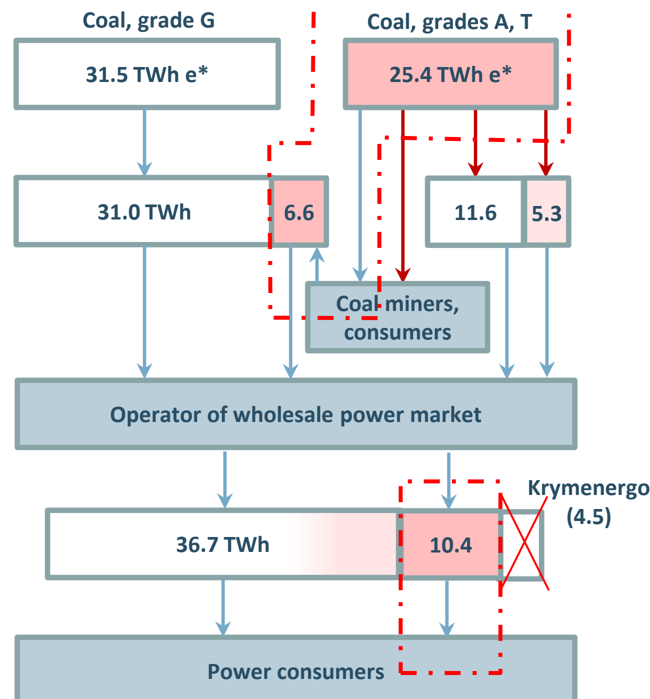
DTEK's other losses due to Russian aggression are:

- its Zuyivska Power Plant (consuming bituminous coal), located on the occupied territory;
- part of the service area of DTEK's DisCo Donetskoblenergo, located on the occupied territory;
- power DisCo Krymenergo, was "nationalized" by the self-proclaimed government of Crimea.

DTEK value chain in 2013



How events of 2014 affected the chain



Legend

DTEK business units, markets located on the occupied territory of Donbas

DTEK business units located near the front line (territory fully controlled by Ukraine)

Asset that DTEK has effectively lost

Limited possibility to supply

** Sellable coal in the equivalent of electricity that it can be converted to*
Source: Company data, Energobiznes, Concorde Capital research

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The Donbas factor and Metinvest production cycle

Metinvest's raw-to-steel production chain includes enterprises employed in the mining and processing of raw materials, as well as steel production and direct sales to customers:

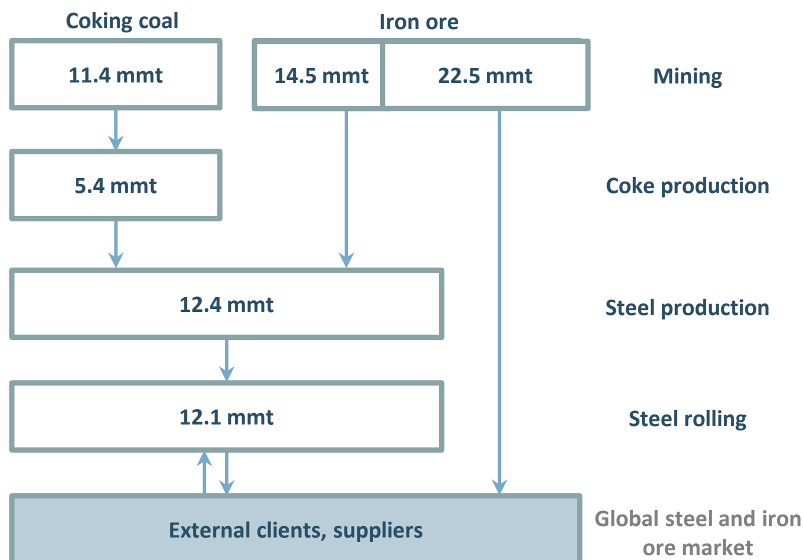
- Mining of coking coal in Ukraine and the U.S.;
- Coke production, which was covering own needs before the war in Donbas;
- Mining of iron ore, which covers >200% of own needs;
- Three steelmakers supplying finished steel products to the open market and semi-products to related rolling mills in Donbas, Bulgaria, Italy and the U.K.

Unlike for DTEK, the military events in Donbas heavily affected Metinvest assets across the whole mining-steel value chain. This resulted in a decrease in capacity load across the chain by more than 50% in January 2015, as compared to the same year-ago period. The only unaffected business of Metinvest is iron ore production and export.

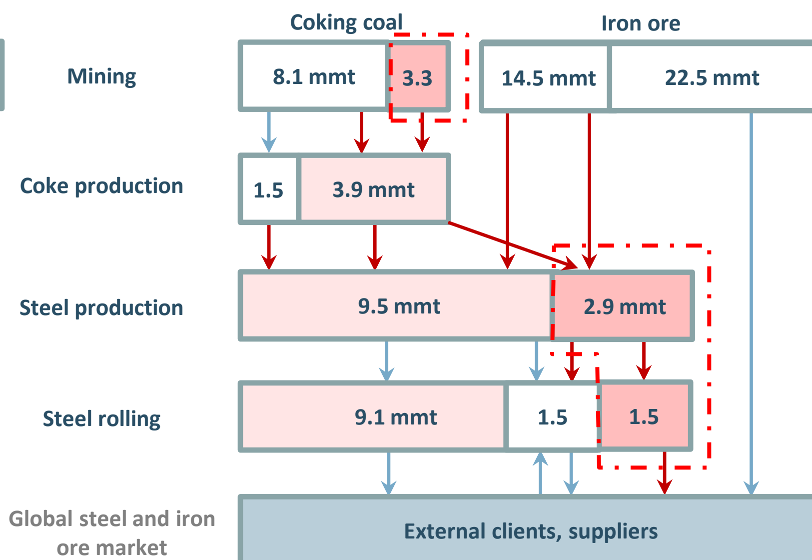
The military actions in Donbas have partially torn the vertically integrated chain of Metinvest:

- Mining and supplies of own coking coal from the Krasnodon Mine in the Luhansk region became constrained after Russian-backed separatists shelled the site and destroyed railways;
- Yenakiyeve Steel and Makiyivka Rolling were placed in idle mode twice since the beginning of the warfare, with neither plant currently operational;
- The cities of Mariupol and Avdiyivka are located near the front line and are one of the main targets for shelling by terrorists:
  - Avdiyivka Coke has been fired upon since August and operates at just a third of capacity;
  - Due to destroyed railways, supplies of raw materials to Mariupol-based Ilyich Steel and Azovstal are constrained, resulting in 50-60% capacity load for both mills.

Metinvest value chain in 2013



How events of 2014 affected the chain



Legend

Business units of Metinvest located on the occupied territory of Donbas

Business units of Metinvest located near the front line (territory fully controlled by Ukraine)

Limited supply possibility

Source: Company data, Concorde Capital research

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PUMB (First Ukrainian International Bank)
PUMB has been most affected by the Donbas war among Ukraine's biggest banks, as before the war it had huge exposure to Donetsk, its native region. A year ago, 30% of its total outlets and 35% of its total assets were based in the Donetsk and Luhansk regions. After the escalation, the bank had to close more than 60% of its outlets in the Donetsk region and all but one outlet in the Luhansk region.

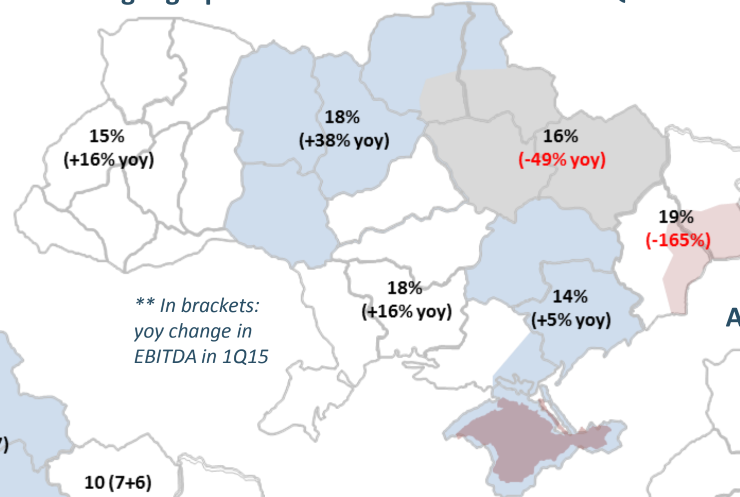
The bank's asset base suffered less as many of its Donbas clients officially moved to non-occupied territory of Ukraine. Only 7.7% of its net loan portfolio was allocated in the conflict zone of Donbas, as of end-2014.

Ukrzaliznytsia (UZ)
For UZ, Donbas was one of its most important cargo destinations. Its Donbas-based subsidiary was the biggest contributor to EBITDA among its six divisions in early 2014. The Donbas subsidiary reported a 66% yoy decline in revenue and negative EBITDA in 1Q15, and its troubles in Donbas affected the bottom line of its adjacent railway divisions as well.

Avangardco
About 26% of the company's laying hens were located in Donbas and Crimea, as of the beginning of 2014. The company reportedly fully stopped its operations in Crimea and Donbas. It also had to significantly reduce egg production at some other factories, which were focused on Donbas-based consumers.

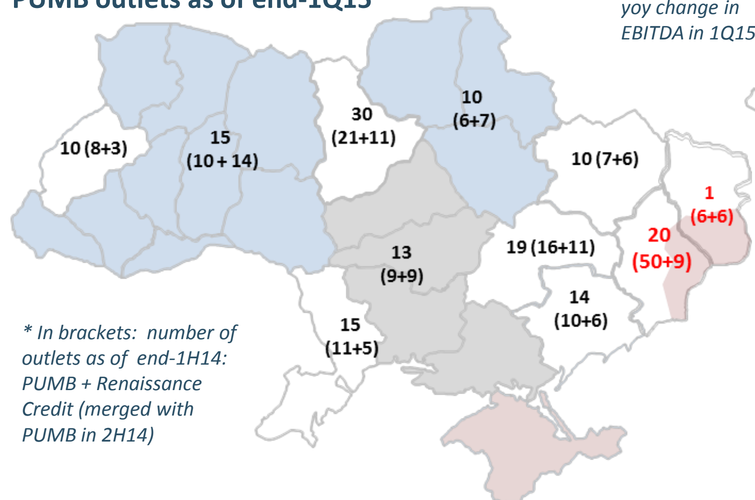
Since beginning 2014, the company has reduced its laying hen flock by 39%, though we cannot attribute this decline solely to the loss of Crimea and Donbas.

UZ geographical distribution of EBITDA in 1Q14**



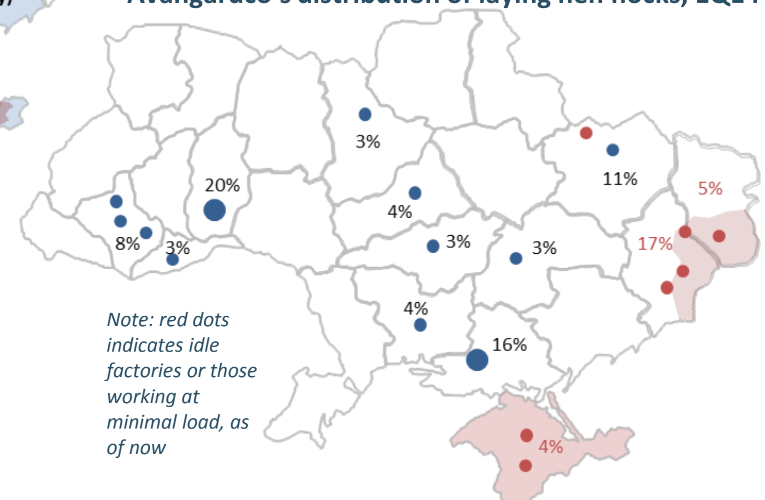
*** In brackets: yoy change in EBITDA in 1Q15*

PUMB outlets as of end-1Q15*



** In brackets: number of outlets as of end-1H14: PUMB + Renaissance Credit (merged with PUMB in 2H14)*

Avangardco's distribution of laying hen flocks, 1Q14



Note: red dots indicates idle factories or those working at minimal load, as of now

Source: Company data, smida.gov.ua, Concorde Capital estimates

Debt issuers - preview

Ukraine's issuers utilize efficiently recent debt placement windows

There were two periods after the 2008 crisis when windows of opportunities for bond placements opened for Ukrainian issuers:

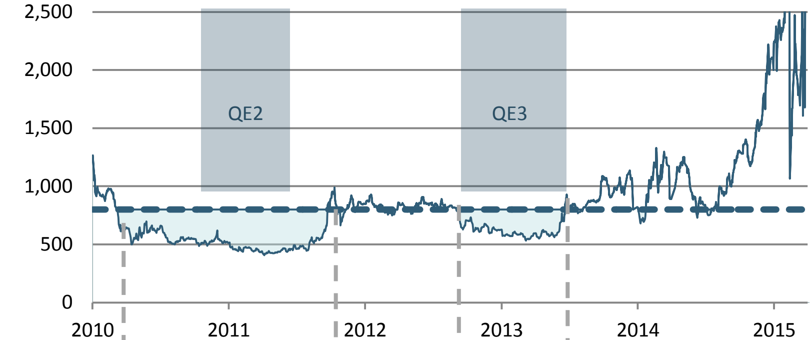
- April 2010 – July 2011, when the Ukrainian economy showed signs of solid recovery after the crisis (with GDP advancing 3.3-5.4%), as well as money generated from QE2 reached Ukraine
- July 2012 – June 2013, when the appetite for Ukrainian debt surged despite the weakening of its economy, solely due to QE3 in the U.S.

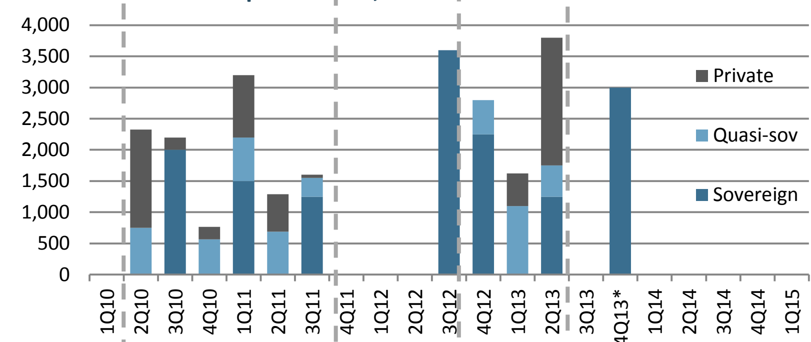
As can be seen from the charts to the right, the new placements were made only during the periods when Ukraine's 5Y CDS were below 800 bps.

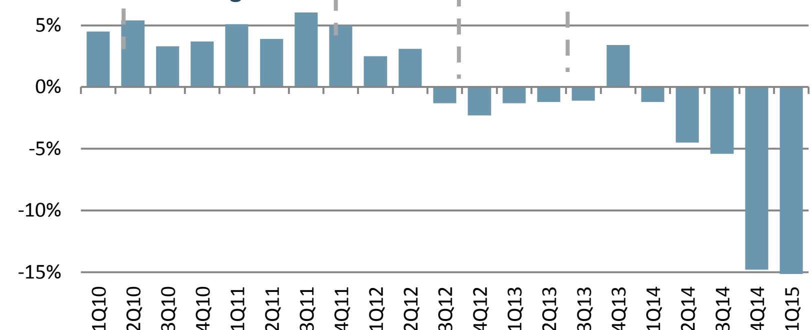
These two short windows were enough for the government to place USD 17 bln in state and quasi Eurobonds, as well as for private issuers to do 14 Eurobond placements worth USD 6.2 bln.

The total amount of market placements of Eurobonds during the two recent periods was the equivalent of 15% of Ukraine's average annual GDP.

The last state bond placement, which was a USD 3 bln issue for the Russian State Welfare Fund in Dec. 2013, was not a market deal.







** USD 3 bln in government Eurobond purchased by National Welfare Fund of Russia*
Source: Bloomberg, issuer data, Capital research

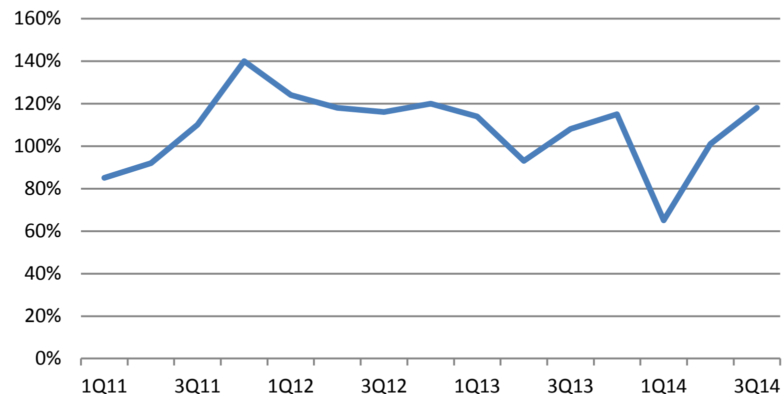
Attempts to refinance debt were mostly successful until 2014

Even with the closure of the debt financing window, Ukrainian borrowers were able to refinance most of their foreign debt in 2013 and 2014, and even were able to increase their leverage.

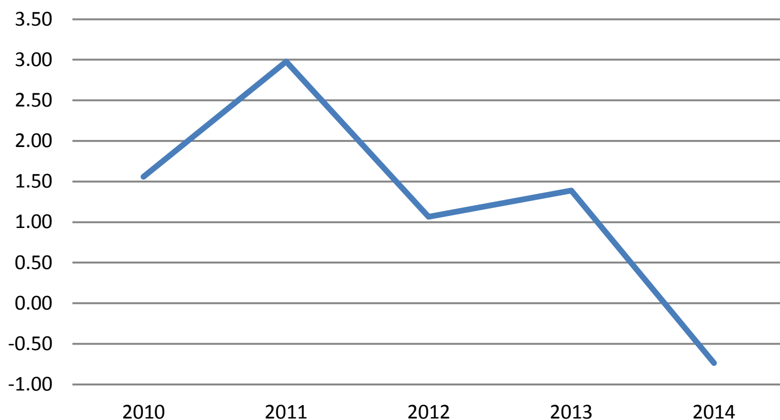
The situation has worsened significantly since August 2014, with the escalation of Russian aggression in Donbas, significant depreciation of the local currency and the banking crisis.

In such circumstances, only borrowers of the highest profile, those being lucky enough to avoid war-related damage and export-oriented, were able to keep their ability to service their debts and count on some refinancing. Most of the other borrowers had to initiate their talks with creditors on debt restructuring.

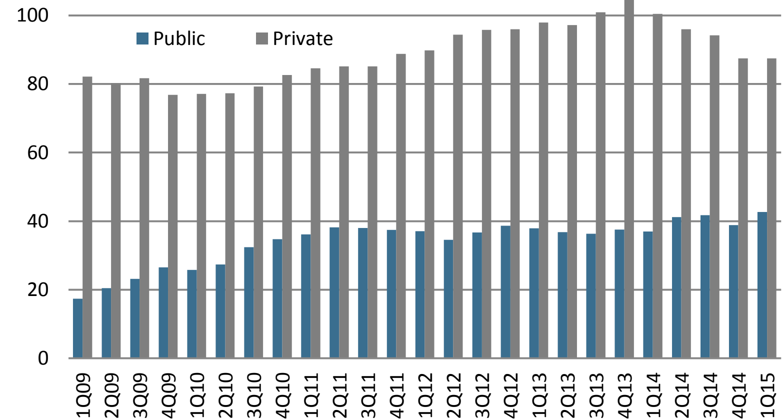
Rollover rate of external debt in Ukraine



Net flow of debt by 6 industrial Eurobond issuers*, USD bln



Ukraine's external debt, USD bln



** Including MHP, Ferrexpo, DTEK, Metinvest, ULF and Ukrainian Railways*
Source: Company data, NBU, MinFin, Concorde Capital research

State debt restructuring – some results should appear soon

The restructuring of Ukraine's government and quasi-sovereign debt held by private investors was initiated by the Finance Ministry in March 2015 and is scheduled to be completed by July 2015.

The operation involves USD 23.4 bln of debt, including:

Sovereign and guaranteed debt of USD 20.25 bln, which might be restructured in one package:

- USD 16.19 bln in government Eurobonds maturing in 2015-2023
- USD 1.81 bln in Eurobonds of Ukraine's infrastructure agency maturing in 2017-2018
- USD 0.55 bln in Eurobonds of Kyiv city maturing in 2015-2016
- USD 1.71 bln in guaranteed loans of state enterprises maturing in 2015-2020

The government intends to secure maturity extensions, decreases in interest rates and haircuts for all these instruments. The haircut request is the most painful option for the bondholders, who are trying to resist it. To improve the government's bargaining position, Ukraine's parliament voted to allow it to selectively stop paying some of the above-listed debt.

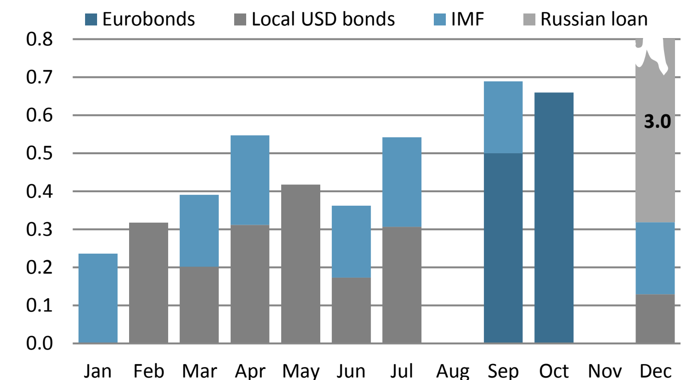
The Eurobonds of three state enterprises of a total face value of USD 3.17 bln that should be restructured on individual conditions include:

- USD 1.48 bln in Eurobonds of Ukreximbank maturing in 2015-2018. The bank was a pioneer in the restructuring attempt – it already offered higher coupons for its bondholders in exchange of up to a seven-year maturity extension;
- USD 1.20 bln in Eurobonds of Oschadbank maturing in 2016-2018, who has just offered restructuring conditions similar to Ukreximbank;
- USD 0.5 bln in Eurobonds of Ukrzaliznytsia maturing in 2018, who already declared technical default and is very likely to offer worse restructuring conditions as compared to state banks.

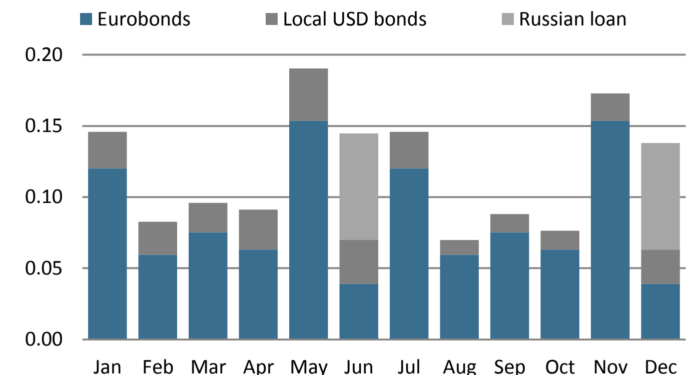
The debt operation process is currently in its final stage, so we refrain from commenting on the likelihood of its success. Five important deadlines for completing the talks are:

- June 17, the date of payment of USD 39 mln coupon on USD 1.25 bln in Jun.'16 Eurobonds;
- June 20, the date of payment of USD 75 mln coupon on USD 3.0 bln in Eurobonds owned by the Russian National Welfare Fund;
- July 24, the date of payment of USD 120 mln coupon on USD 2.6 bln in Jul.'17 Eurobonds;
- August 23, the date of payment of USD 60 mln coupon on USD 1.5 bln in Feb.'21 Eurobonds;
- September 23, the date of repayment of USD 500 mln in Eurobonds.

Monthly repayment schedule of sov'n debt in 2015, USD bln



Interest on sov'n debt (ex-IMF) in 2015, USD bln



Source: IMF, NBU, Concorde Capital research

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Restructuring as the only way to “refinance” private debt in 2015-2016

With financing and refinancing window effectively closed for most of Ukrainian issuers, the restructuring of existing debt remained the only opportunity for them to sustain themselves. The only two issuers of Eurobonds that avoided restructuring in 2014-2015 were:

- Naftogaz of Ukraine, which received government financing to repay its USD 1,595 mln debt in October 2014.
- MHP was able to repay its USD 235 mln debt in April 2015, due to a combination of luck and good financial planning. In fact, it was able to refinance its Eurobond with an IFC loan, which was agreed upon a year in advance, before the military escalation, and because its business has not been severely affected by the escalation.

Out of a total ten surviving issuers of Eurobonds, four (PUMB, Ferrexpo, DTEK, Metinvest) have restructured their Eurobonds or partially exchanged them for longer paper; four issuers (Metinvest, Ferrexpo, Ukreximbank, Oschadbank) are in the process of restructuring or exchanging their existing five bonds; one (RAILUA) already preannounced its restructuring, and two (Privatbank, and ULF) will likely start the restructuring talks soon.

Recent history and near future of corporate Eurobond repayments/restructuring, USD mln, unless other stated

	Event	Status	Upfront payment	Postponed am't	Coupon	Repayment of postponed amount
MHP 2015, USD 235 mln	-	Repaid: Apr. 2015				
Metinvest 2015 (1), USD 500 mln	Exchange: 386.3	Finished: Dec. 2014	96.6 (25%)	289.7	10.5% (+0.25%)	25% x 4: May'16 - Nov'17
PUMB 2014, USD 252 mln	Restructuring	Finished: Dec. 2014	45.0 (17.9%)	207.0	11.0% (unchanged)	4.8%: Dec.'15; 9.5% x 10: Sep.'16 - Dec.'18
Ferrexpo 2016 (1), USD 600 mln	Exchange: 214.3	Finished: Feb. 2015	53.6 (25%)	160.7	10.38% (+2.50%)	50% x 2: Apr.'18, Apr'19
DTEK 2015, USD 200 mln	Restructuring	Finished: May 2015	40.0 (20%)	160.0	10.38% (+0.88%)	50% x 2: Sep.'17, Mar.'18
Ferrexpo, rest of 2016, USD 285.7 mln	Exch. (up to 285.7)	In process (by end-June)	up to 100 (35%)	up to 186 (65%)	10.38% (+2.50%)	50% x 2: Apr.'18, Apr'19
Metinvest, rest of 2015, USD 113.7 mln	Restructuring	In process (June-July?)	28.4 (25%)	85.3	10.25% (unchanged)	100%: Jan'16
Ukreximbank 2015, USD 750 mln	Restructuring	In process (by July 7)	-	750.0	9.63% (+1.13%)	50%: Apr.'19; 8.3% x 6: Oct.'19 - Apr.'22
Ukreximbank 2016, USD 125 mln	Restructuring	In process (by July 7)	-	125.0	7.42% (+1.63%)	50%: Feb.'20; 8.3% x 6: Aug.'20 - Feb.'23
Ukreximbank 2018, USD 600 mln	Restructuring	In process (by July 7)	-	600.0	9.75% (+1.00%)	50%: Jan.'21; 6.3% x 8: Jul.'21 - Jan.'25
Oschadbank 2016, USD 700 mln	Restructuring	To be announced	-	700.0	9.38% (+1.25%)	60%: Mar.'19; 5.0% x 8: Sep.'19 - Mar.'23
Oschadbank 2018, USD 500 mln	Restructuring	To be announced	-	500.0	9.63% (+0.75%)	50%: Mar.‘20; 5.0% x 10: Sep.‘20 - Mar.'25
Privatbank 2015, USD 200 mln	Restructuring	To be announced (by Sep.'15)	Unlikely	up to 200.0	Same (9.38%) or higher	Between 2018 and 2020
ULF (Avangardco) 2015, USD 200 mln	Restructuring	To be announced (by Oct.'15)	Unlikely	up to 200.0	Same (10.0%) or smaller	Between 2018 and 2025
Ukrzaliznytsia2018, USD 500 mln	Restructuring	To be announced	Unlikely	500.0	Same (9.50%) or smaller	Between 2021 and 2028

The only Eurobond that is very likely to be repaid in the coming 12 months is Ferrexpo’s 2016 notes. Yet the company is trying to protect itself from worsened market conditions to offer generous exchange conditions of cash and longer notes.

Source: Company data, Concorde Capital research

Ability to repay notes maturing in 2017+: depends on debt market recovery

Of the outstanding corporate 2017-2020 notes, some are already subject to restructuring, including:

- Paper that's included in MinFin's debt operation: EXIMUK 2018, OSCHAD 2018, RAILUA 2018 (refer to the table on the previous slide).

Some other issuers might be forced to exchange or restructure their longer notes in case their other debt holders demand so:

- UKRLAN 2018, METINV 2017 and 2018, as well as PRBANK 2018.

Less likely to be restructured this year are:

- The bonds that have been already restructured or issued recently in exchange for old notes: PUMB 2018, DTEK March 2018, Ferrexpo 2019;
- MHP's 2020 notes, as the company will unlikely face any restructuring need in the coming years.

The ability to smoothly and timely repay longer bonds look high for:

- FXPOLN 2019, PUMB 2018, DTEK March 2018 and METINV 2017 (if it's not restructured one more time), as they have a smooth repayment schedule.

At the same time, the issuers' ability to repay their longer bullet bonds look not secured, given the large amount on the repayment:

- Metinvest, which will have to repay USD 750 mln in February 2018 (if it won't be restructured this year, on the demand of other creditors);
- ULF, which will have to repay USD 500 mln in March 2018 (if it won't be restructured this year, on the demand of other creditors);
- DTEK, which will have to repay USD 750 mln in April 2018, just after the last USD 80 mln tranche of its bond maturing in March;
- MHP 2020, which will have to repay USD 750 mln in April 2020.

These issuers will have to count on their ability to partially refinance their Eurobonds when due, which will depend on whether the debt markets will be favorable enough for Ukrainian issuers at that time. At this stage, it's too early to guess on when international debt markets will be opened for Ukrainian borrowers:

- Clearly, much will depend on the absence of an escalation of Russian-terrorist aggression;
- Geopolitics aside, we can state that the timing will depend on the results of the state's ongoing debt operation. If it's done smoothly enough to not frighten investors and bring tangible results for Ukraine's external accounts (achieving at least a five-year maturity extension), we could expect a reopening of the debt market in late 2016. This hints some longer bonds could have a better chance for refinancing, as alternative to restructuring. Smaller yield to maturity of some longer issuers' bonds, therefore, look justified.

Source: Company data, Concorde Capital research

Eurobond issuers, non-banking

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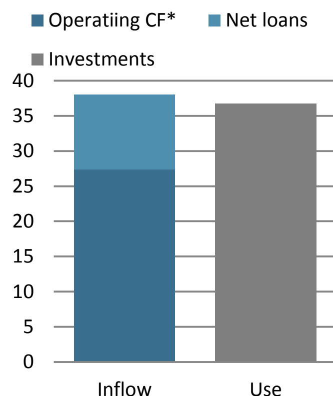
Looking backward: cash generation and use in 2010-2014

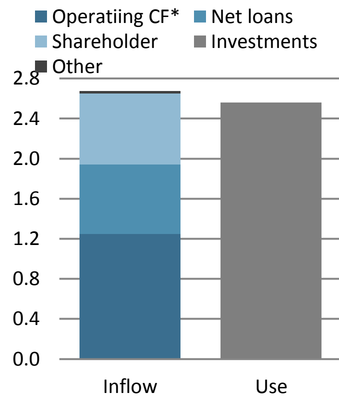
A retrospective view on the use of generated/borrowed funds allows for a deeper understanding of the attitude of owners towards their companies and debtors. In turn, it determines the debt holders' attitude to the borrowers and smoothness of the possible restructuring processes of the companies and their ability to sustain themselves as going concerns. Below, we present cash inflow and its use during the last five years of all the surviving industrial debt issuers.

Cash generation and use in the last five years:

UZ, UAH bln



ULF, USD bln

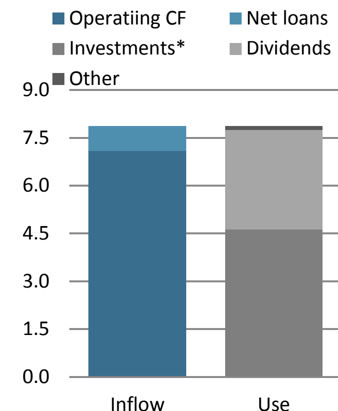


UZ and ULF: all goes to CapEx

UZ is a company with constantly negative free cash flow – it uses for CapEx all the funds it gets from operations and manages to borrow. Due to its constant need to invest in decaying infrastructure and inefficient railway rates, UZ's CapEx appetites are still bigger than the cash flow it's able to generate from any source. UZ is a Ponzi-style company and is potentially insolvent.

ULF is a relatively new company with an excessively high pace of growth. It was using not only funds from operations and borrowed funds , but also owners' money. Now facing troubles to service its debt, the company look rather risky.

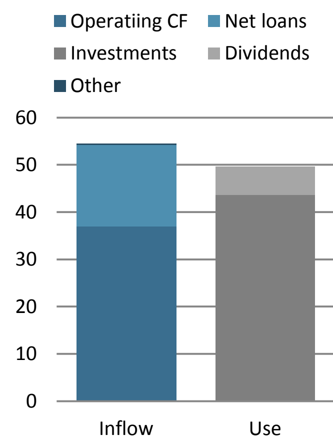
Metinvest, USD bln



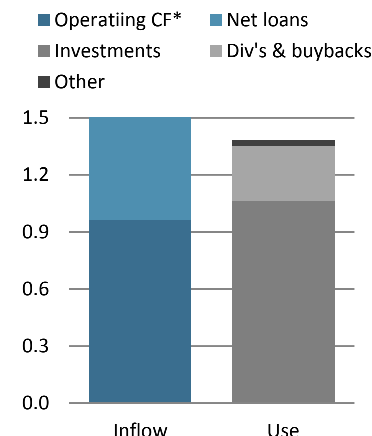
Metinvest: excessively greedy shareholders

Metinvest is a unique company in the Ukrainian universe that was able to function without any additional financing in the last five years, if not for the huge shareholder appetite for dividends. With the company now facing troubles in debt servicing, it is hard for its owners to justify why creditors should share the owners' problems.

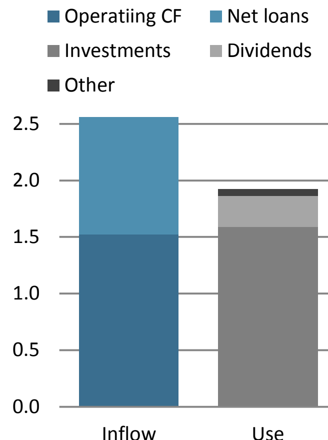
DTEK, UAH bln



MHP, USD bln



Ferrexpo, USD bln



DTEK, MHP and Ferrexpo: balanced strategy

These companies were financing their long-term projects and massive acquisitions via debt capital, while also reserving some funds to return money to their shareholders. The latter was especially important for MHP and Ferrexpo, which are trying to maintain interest in their stocks on the London Stock Exchange. As soon as they complete their large investment projects, they are likely to increase their pace of deleveraging and distribution of funds for shareholders.

DTEK purchased a bunch of utility and coal companies in 2010-2012 and had to spend a lot for their modernization. Currently, it faces trouble stemming from harsh tariff regulations that interfere with its ability to smoothly repay its debt and maintain its desired level of CapEx. Given that SCM wasn't as dividend - greedy with DTEK as it was with Metinvest, we see a higher chance for DTEK to find common ground with its debt holders, if it needs to.

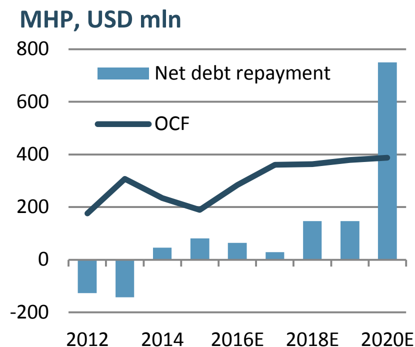
** Operating cash flow includes some adjustments like interest on bonds, or lease payments that are classified by the companies as financing cash flow;*
for Metinvest, investments include acquisition of non-controlling interests
Source: Company data, Concorde Capital research

Looking forward: capacity to repay debt

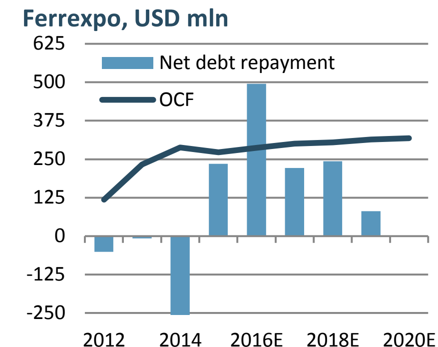
Taking into account the closed international debt markets for Ukrainian lenders, we are focusing our analysis on the ability of companies to repay their future debt using only their operating cash flow. Looking at the debt repayment schedules, we can conclude:

- MHP is the only company that is fully able to repay its debt by using its own funds, without any restructuring needs;
- Ferrexpo will have to repay more than it's able to generate in 2015-2016, which is still doable given its cash balance of USD 0.63 bln as of beginning of 2015;
- Metinvest has a high capacity to smoothly repay all its debt in 3-5 years, but it needs to postpone maturity of some of its short-term debt to be fully solvent. However, Metinvest's story is spoiled by the high dividend appetite of its shareholders (it repaid USD 3.1 bln in the last 5Y), which complicates the negotiating process with debt holders;
- DTEK and ULF will have to significantly adjust their debt repayment schedule to remain solvent.
  - DTEK is currently in the process of negotiations to prolong its debt that is due in 2015 due to its technical default. The holding's problem might be aggravated by the need for extra spending in 2015 to acquire block stakes in the power GenCo and DisCo assets it controls;
  - ULF's restructuring process might be complicated by the fact that its peer Mriya was declared insolvent last year. Investors might overestimate the risks related to Ukrainian farming companies for this reason;
- Ukrzaliznytsia, in line with our recent views, is an insolvent company by its nature. Its debt restructuring might involve haircuts.

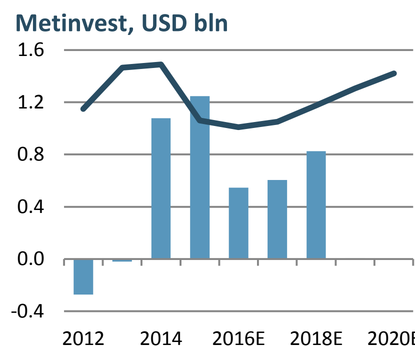
MHP, USD mln



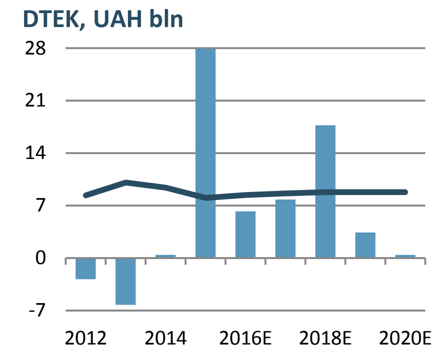
Ferrexpo, USD mln



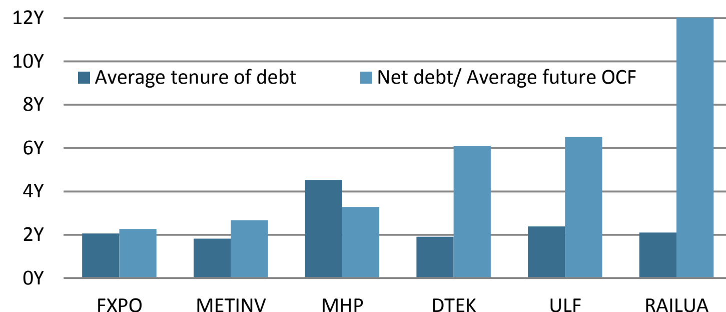
Metinvest, USD bln



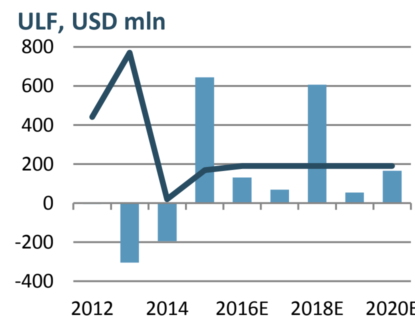
DTEK, UAH bln



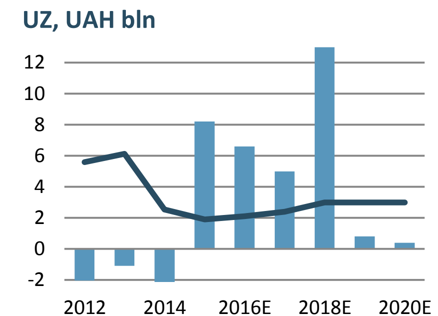
Capacity to repay debt from operating cash flow, years



ULF, USD mln



UZ, UAH bln



Source: Company data, Concorde Capital research

Modeling the base-case scenarios:

Ferrexpo and MHP: smooth repayment of all bonds
These two issuers have high capacity to smoothly service their debt, from the information available. We assume they will pay their Eurobonds when due.

DTEK and Metinvest: repay what's already restructured, and restructure the rest
We see low probability that DTEK and Metinvest will pursue a second restructuring of their Eurobonds maturing in Mar.'18 and Nov.'17, respectively, given their relatively smooth repayment schedule and their owners having already had the experience of restructuring.
DTEK's and Metinvest's longest bonds, maturing in bullets in Apr'18 and Feb'18 respectively, are natural candidates for their first restructuring when they become due.
We believe the restructuring terms for these bonds will be close to those offered by DTEK's (Metinvest's) 2015 paper: 20% (25%) cash down payment and a three-year maturity extension of the rest with two (four) equal repayments in the last semi-annual periods. We assume the coupon rates of these bonds will increase to 10% from 8.75% during the restructuring.

ULF (Avangardco): restructuring looks inevitable
The best-case scenario we see for ULF (Avangardco) is restructuring on slightly worse conditions compared to DTEK'15: 20% down payment and a five-year extension of the rest, with two equal repayments in the last two semi-annual periods. Coupon rates are unlikely to be raised, given that they are close to the 11% ceiling, as regulated by central bank.

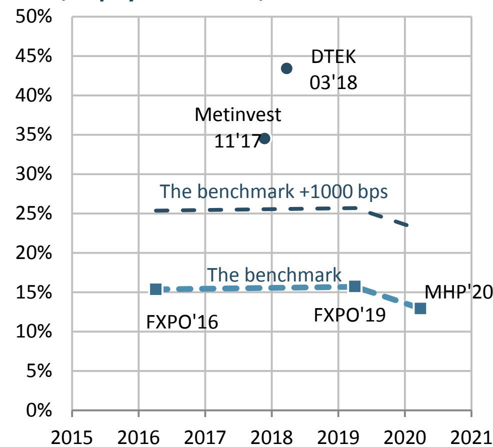
Ukrzaliznytsia (UZ): perpetual shift of maturity looks like the best case. The railway monopoly does not look solvent at all, so its best-case restructuring scenario would be a postponement of principal repayments for perpetuity, with an unchanged coupon.

Benchmark yields: Ferrexpo and MHP instead of the sovereign curve
The Eurobonds of MHP and Ferrexpo are currently substituting sovereign bonds as the benchmarks for other Ukraine- related paper.

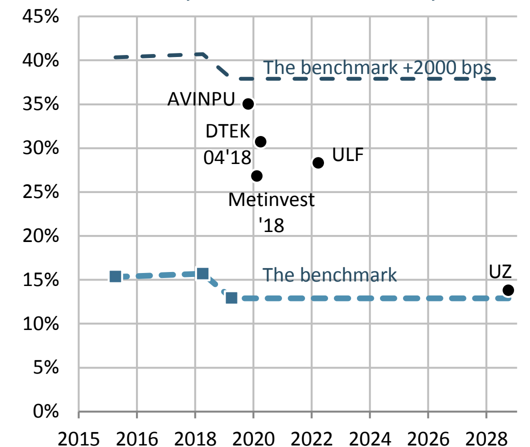
We believe the bonds with the minimum restructuring risk should trade with at least a 1000bp spread to the FXPO-MHP curve.

Those issuers that bear a high risk of restructuring should trade with at least a 2000bp spread to the benchmark, after applying our best-case restructuring assumptions.

YTM, repayable bonds, June 15



Modelled YTM, restructurable bonds, June 15



Based on our approach, we pick the following bonds:
Metinvest maturing in Nov. 2017;
DTEK maturing in Mar. 2018.

On top of that, we recommend investing in the notes of Ferrexpo maturing in 2019, as they offer the best yield among the "benchmark" bonds.

Source: Company data, Bloomberg, Concorde Capital research

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Issuer profiles, non-banking

Avangardco and Ukrlandfarming (ULF)

Company profiles

ULF is the largest integrated agricultural holding in Ukraine by land bank (654,000 ha) that operates in the following segments: crops, egg production (via Avangardco), and cattle and meat processing. Its crop division also produces seeds and has total storage capacity of 1.9 mmt in wheat equivalent. The company emerged in the mid-2000s by acquiring land plots. The holding expanded rapidly in 2010-2011 by acquiring agri-holdings that were overleveraged before the 2008-2009 crisis.

Avangardco, in which ULF has a 77.5% stake, is Ukraine's leading producer of egg and egg products and the second-largest producer of eggs globally. Avangardco's key outputs, a third of which are exported, are shell eggs, dry egg products and poultry meat. In 2014, the company accounted for 49% of industrially produced eggs in Ukraine and 91% of the dry egg product market.

Two companies, single business group

We continue to treat ULF and Avangardco as interconnected entities, and hence their Eurobonds are mutually related. Avangardco is part of ULF and fully contributes to its balance sheet. Its earnings, assets and liabilities to a large extent define the financial performance of the larger agricultural holding, which makes the liquidity position of ULF exposed to the capital structure of Avangardco and the way it meets its obligations to creditors.

War in Donbas and Crimea annexation dented operations

Following the annexation of Crimea and outbreak of war in Donbas in 1H14, Avangardco suspended operations at two of its seven poultry farms in these regions, having total capacity of 7.0 mln laying hens (26% of the company's end-2013 capacity). The company's actual laying hen flock fell even deeper, by 10.4 mln heads to 16.6 mln as of March 2015, which the company attributed to a decrease in domestic demand for its eggs. Whatever the real reasons are, it's apparent that the company's declining operations significantly deteriorated its ability to generate cash flow.

Lean net operating cash flow and limited CapEx seen

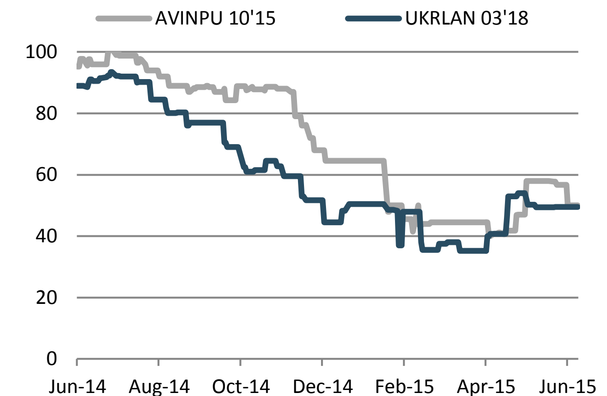
Ukrlandfarming reported net operating cash flow of USD 100 mln in 2014 (and USD 20 mln, if adjusted for interest payments on bonds that the company reports as financing cash outflow). This is much lower than the reported EBITDA of USD 434 mln due to more than USD 300 mln in investment in working capital (mainly due to unsold inventories on corn). We project only a minor increase in ULF's net operating cash flow in 2015, as its EBITDA will be negatively affected by a squeezed financial performance in egg production and other segments. A working capital release would improve the company's liquidity position, but we don't account for this option in our modeling, since the company would have already used this quick fix solution if it were really possible. Sort of a soothing factor, ULF plans to limit its investments to maintenance CapEx of USD 120 mln in 2015 (vs. USD 280 mln in 2014), which might help it keep free cash flow positive this year. However, without improvements in profitability of its core segments or debt reduction (debt servicing alone consumes around USD 156 mln annually), Ukrlandfarming will be able to return just USD 150 mln by 2018, stemming from current cash on books.

Unable to raise USD 250 mln from a private placement

In mid-October, ULF was trying to place privately 4-6% of its preferred equity, aiming to raise up to USD 250 mln. That attempt failed apparently, while the announced number clearly indicates the financial gap the holding faces right now.

	AVINPU 15	UKRLAN 18
Outstanding, USD mln	200	500
Maturity	Oct-15	Mar-18
Coupon	10.00/SA	10.88/SA
Fitch / S&P / Moody's	WD / na / na	WD /CC / na
Covenant: Net Debt / EBITDA	3.0x	-
Covenant: Total Debt / EBITDA	-	3.0x
Net Debt / EBITDA, 2015E	**3.7x**	5.7x
Total Debt / EBITDA, 2015E	4.9x	**5.8x**
Ownership structure		
Oleg Bakhmatyuk (ULF)	77.5%	95.0%
Cargill	-	5.0%
Other	22.5%	-
Price	**52.2**	**51.0**
YTM (@ designed maturity)	262%	42.5%
YTM (@ our restructuring assumptions)	**35.0%**	**28.3%**

Bond prices



Source: Bloomberg, company data, Concorde Capital research

Avangardco and ULF, continued

ULF strives to roll over its banking debt maturing in 2015

Ukrlandfarming has to repay USD 444 mln in banking debt in 2015 (excluding USD 200 mln in Avangardco bonds). This debt consists of USD 145 mln owed to Deutsche Bank and Russian Sberbank, and the rest to local banks. ULF has stated it's close to signing an extension deal with Deutsche and Sberbank from 2015 to 2016, as well as having agreed to rollovers with other banks. According to the current schedule, USD 107 mln is repayable in 2016, which means the company needs radical debt restructuring in order to avoid more debt mounting in 2016.

Avangardco's maturity extension of 2015 bond in focus

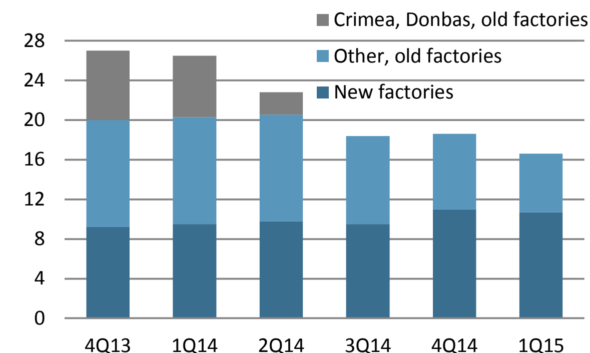
Avangardco is facing redemption of USD 200 mln in Eurobonds scheduled for October 2015. The company has low capacity to repay the bond timely and in full: it generated USD 6.6 mln EBITDA in 1Q15 (-90% yoy), expects zero to negative EBITDA in 2Q15 and had just USD 89.9 mln in cash as of end-March. Management attributes such a deterioration in earnings to a reduction in its laying hen flock and production costs growing faster than sales prices. The company has yet to announce to the public any terms of the Eurobond restructuring. While there might be a chance of obtaining some kind of refinancing, we aren't treating it seriously right now.

Eurobonds of Avangardco and ULF do not look cheap

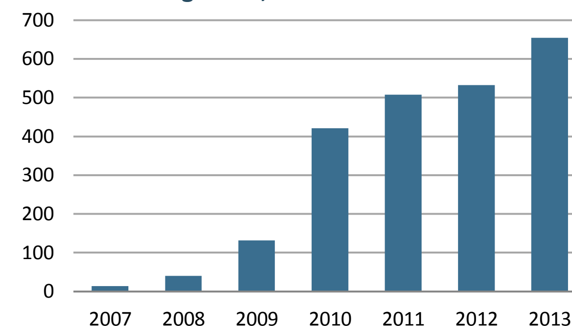
We expect Avangardco will try to postpone the bond's maturity by five years, with a 20% down payment and amortized repayments of the rest in the last two semi-annual periods. At the same time, we do not expect it will be able to offer an increased coupon rate (currently 10%). Based on such restructuring assumptions, we estimate the bond will yield 35% to its ultimate maturity. Accounting for a high probability that restructuring conditions of this bond can be less generous, we believe that the assumed return on Avangardco's bonds is too low for that risk. We do not recommend entering these notes.

Applying the same restructuring assumptions to ULF bonds, we estimate this bond will yield 28.3% to its assumed maturity in 2023. That also looks like a low return compared to ULF's risks.

Avangardco laying hen flock, mln



ULF land bank growth, 000 ha



Source: Company data, Concorde Capital research

Avangardco financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2014	2015E	2016E
Net revenue	420	280	279
IAS 41 gain	15	15	15
EBITDA	129	78	92
EBITDA margin	*31%*	*28%*	*33%*
EBIT	84	67	80
Operating margin	*20%*	*24%*	*28%*
Finance costs	-44	-44	-41
PBT	-28	24	39
Net income	-27	25	40
Net margin	*-6%*	*9%*	*14%*
Net operating cash flow	41	-21	72
Investing cash flow	-77	-40	-50
Financing cash flow	13	-24	0

Revenue by segments, USD mln

	2014	2015E	2016E
Shell eggs	276	206	206
Egg products	117	67	67
Other	27	7	7

Key Balance Sheet items, USD mln

	2014	2015E	2016E
Current assets	416	394	396
Cash & equivalents	118	33	55
Non-Current assets	622	651	689
PP&E	580	608	646
Equity	646	671	711
Current liabilities	310	121	121
ST debt	264	70	70
Non-current liabilities	82	252	252
LT debt	80	250	250

Leverage, USD mln

	2014	2015E	2016E
Net debt	226	287	265
Gross debt	344	320	320
Net debt / EBITDA	1.7	3.7	2.9
Covenant (Net debt / EBITDA)	3.0	3.0	3.0

Source: Company data, Concorde Capital research

ULF financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2014	2015E	2016E
Net revenue	1557	1225	1237
EBITDA	434	280	298
EBITDA margin	*28%*	*23%*	*24%*
EBIT	261	161	238
Operating margin	*17%*	*13%*	*19%*
Finance costs	-542	-192	-186
PBT	-275	-28	53
Net income	-262	-15	66
Net margin	*-17%*	*-1%*	*5%*
Net operating cash flow	100	101	117
Investing cash flow	-282	-120	-120
Financing cash flow	113	-50	-40

Revenue by segments, USD mln

	2014	2015E	2016E
Crops	510	461	474
Avangardco (eggs & poultry)	420	280	279
Meat	98	50	49
Other	531	435	435

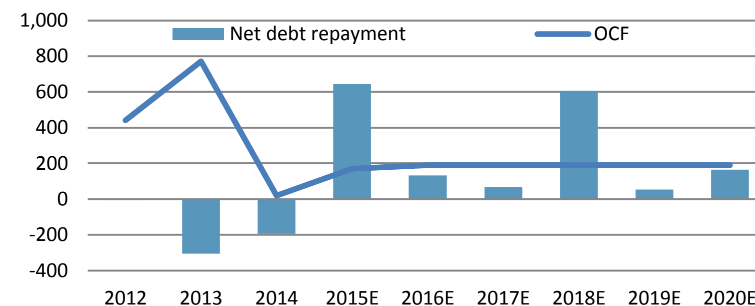
Key Balance Sheet items, USD mln

	2014	2015E	2016E
Current assets	1237	1171	1135
Cash & equivalents	195	126	83
Non-Current assets	2068	1286	1339
PP&E	1592	811	864
Equity	1287	490	550
Current liabilities	917	877	864
ST debt	643	603	593
Non-current liabilities	1101	1091	1061
LT debt	1031	1021	991

Leverage, USD mln

	2014	2015E	2016E
Net debt	1480	1498	1502
Gross debt	1674	1624	1584
Gross debt / EBITDA	3.9	5.8	5.3
Covenant (Gross debt / EBITDA)	3.0	3.0	3.0

Debt schedule and operating cash flow, USD mln



Source: Company data, Concorde Capital research

CONCORDE CAPITAL

DTEK

Company profile

DTEK is an integrated coal and electricity holding. It is a leading producer of steam coal in Ukraine (67% of the nation's total in 4M15), a leading electricity distributor (40%) and the biggest private producer of electricity and natural gas. It is also the monopoly electricity supplier in four 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 2011-2013, its business increased more than threefold with the acquisition of top coal mines, power producers and distributors from the state.

High exposure to war-torn locations in Donbas

DTEK's production cycle is very sensitive to the events in Donbas, as our analysis suggests:

- Coal mines that are responsible for 42% of DTEK's total coal output in 1H14 are located in the areas controlled by terrorists. These mines brought DTEK a sizeable share of its coal export revenue. One of the mines, Komsomolets Donbasa (11% of DTEK's coal output in 1H14) has been idle since mid-July 2014;
- Out of DTEK's nine thermal power plants, five are suffering from the Donbas warfare: one (10% of DTEK's total power in 1H14) is located on the territory controlled by terrorists, two (23% of 1H14 output) are located very close to the front line; and two of the six located outside Donbas (21% of power output) depend 100% on the coal mined in the occupied territory;
- Two DTEK power distribution companies (about 37% of power supplied in 1H14) are selling power to both the occupied territories of Donbas, and those controlled by the Ukrainian government. Krymenergo (8% of power supplied), which is operating in the occupied Crimean region of Ukraine, was "nationalized" by Russian-backed occupants.

High exposure to local currency revenue, foreign currency debt

DTEK's export revenue, about USD 750 mln in 2014, amounted to just 10% of total annual revenue. The rest of sales were done in the local currency. DTEK's high exposure to hryvnia sales and its large amount of foreign currency debt (almost the entire portion of its USD 3.0 bln total debt) make the company's solvency highly dependent on the hryvnia/dollar rate. With about a 60% devaluation of the hryvnia since the start of 2014, DTEK's debt burden has effectively increased threefold.

Temporary victim of overregulated power market and "deoligarchization"

More than 80% of the holding's operating profit is generated in its coal and power segment, which represent an integrated chain of coal mining to production of electricity for sale on the wholesale market. Power prices on the market have been toughly regulated since early 2015, which does not allow DTEK to generate sufficient cash flow to pay all its bills, including debt servicing. The holding's active attempts to lobby the regulator to adjust its rates having failed, so far. The key impediment for DTEK in getting higher rates is the so-called "deoligarchiization" process initiated by the government that is aimed at limiting the economic dominance of key oligarchs, including DTEK's owner.

We expect the holding will be able to come back to talks on electricity pricing closer to the start of the heating season in Ukraine (mid-October), when the contribution of DTEK's power plants to Ukraine's energy stability becomes critical. We expect the holding will be able to reach its desired level of profitability for its assets as a result of these talks.

In talks with creditors on debt restructuring

As of end-2014, the company breached covenants on USD 1.0 bln out of USD 3.0 bln of its total debt and had to start restructuring talks. Total debt due in 2015 is currently about USD 1.3 bln, after it has restructured USD 0.7 bln already. The company needs to reschedule the remaining debt for more than a five years to remain solvent, we estimate. Given all the troubles that DTEK is facing right now, we expect the creditors will agree on postponements.

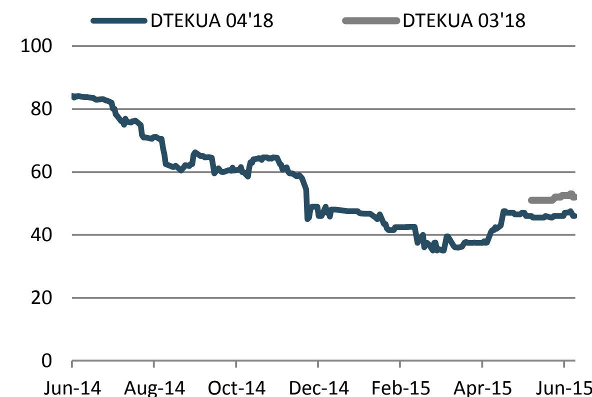
	DTEKUA 3'18	DTEKUA 4'18
Outstanding, USD mln	160	750
Maturity	Sinkable Mar-18	Apr-18
Coupon	10.38/SA	7.88/SA
Fitch / S&P / Moody's	C / na / na	C/ na / Ca
Covenant: Gross Debt / CCF*	3.0x	3.0x
Gross Debt / CCF, 2015E*	5.6x	5.6x

Company ownership structure:

SCM (Rinat Akhmetov)	100%

Price	**52.0**	**46.0**
YTM (@ designed maturity)	**43.4%**	42.7%
YTM (@ our restructuring assumptions)		**30.7%**

Bond prices



** Based on its prospectus, we calculate Consolidated Cash Flow (CCF) as operating cash flow before working capital changes plus salary taxes and other taxes.*
Source: Bloomberg, company data, Concorde Capital research

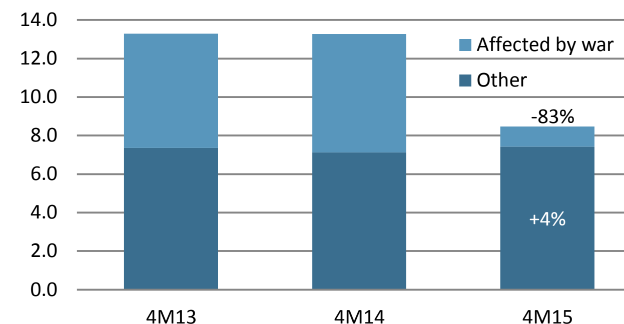
DTEK, Continued

May need additional funds to participate in 2015 privatization
Ukraine's State Property Fund has recently announced a new wave of privatization of state assets in Ukraine, including the 25% stakes in Dniproenergo, Zakhidenergo, Kyivenergo, Dniprooblenergo and Donetskoblenergo, which are assets controlled by DTEK and form its backbone. It will be important for DTEK to acquire these stakes, otherwise it will face a risk they will be bought by rival oligarchs. Based on previous privatization tenders, the total value of these stakes, most of which are scheduled for sale in August, is UAH 3.3 bln (USD 150 mln). At this stage, it's not clear what will be the strategy of DTEK regarding these assets, but we expect the company will try seeking funds to finance their acquisition. This adds even more risks for its debt burden.

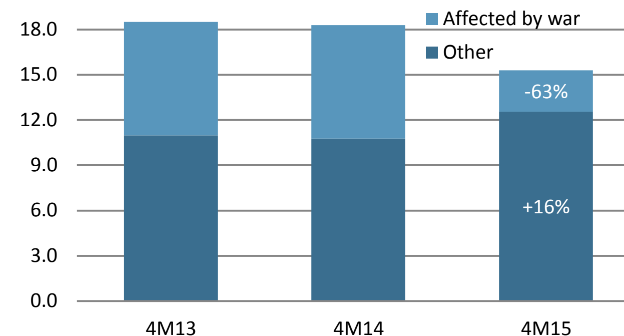
Restructured Eurobonds (due in March 2018): look cheap, despite the risks
The holding's Mar'18 Eurobonds (which were restructured from April 2015) yield currently 43.4% to their ultimate maturity, which makes them an attractive investment. Their relatively smooth repayment schedule (USD 80 mln in two semi-annual tranches) and the fact they have been already restructured adds to the likelihood that the company will be able to repay them smoothly.

DTEK April 2018 bonds: clear candidates for restructuring, look expensive
The size of April 2018 bullet bonds (USD 750 mln) gives no chance that they will be repaid when due. Applying the same restructuring schedule for these bonds as DTEK used for the 2015 notes hints on a possible post-restructuring yield for the paper of 30.7%. Accounting for a high probability that restructuring conditions of this bond can be less generous, we believe that the assumed return on the bonds is too low for that risk. We do not recommend entering these notes.

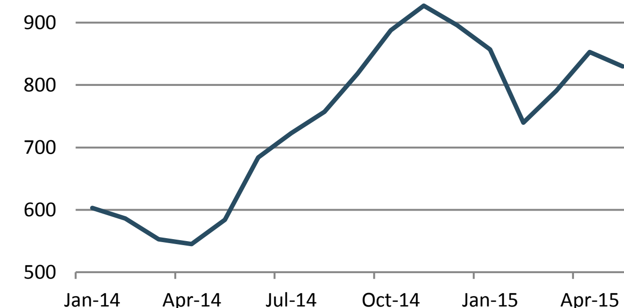
DTEK coal mining in Ukraine by assets, mmt



Power production by assets, TWh



Rates for thermal energy in Ukraine, UAH/MWh



Source: Company data, Energobiznes, Energorynok, Concorde Capital calculations

DTEK financial summary (IFRS)

Key P&L and Cash Flow items, USD bln

	2012	2013	2014
Net revenue	10.32	11.61	7.80
EBITDA	2.12	1.87	1.33
EBITDA margin	21%	16%	17%
EBIT	1.45	1.36	0.74
Finance costs	0.52	0.47	1.09
ForEx losses	0.00	0.04	1.25
PBT	0.93	0.65	-1.63
Net income	0.74	0.42	-1.65
Net margin	7%	4%	-21%
Cash EBITDA	1.87	1.55	1.22
Cash EBITDA / EBITDA	0.86x	0.83x	0.91x
Operating cash flow	1.04	1.26	0.79
Investing cash flow	-1.84	-1.71	-0.74
Net CapEx	-1.27	-1.29	-0.55

Leverage, USD bln

	2012	2013	2014
Net debt	1.95	2.82	2.53
Gross debt	2.62	3.48	3.04
Gross debt in UAH	3%	3%	8%
Consolidated Cash Flow (CCF)*	2.41	2.17	1.62
Gross debt / CCF*	1.1x	1.6x	2.1x
Covenant (Gross debt / CCF)*	3.0x	3.0x	3.0x

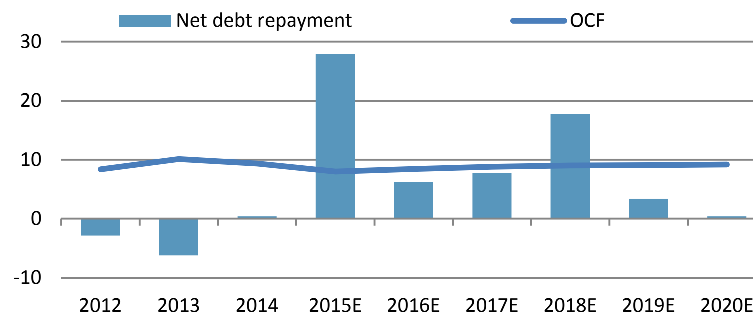
Revenue by segments, USD bln

	2012	2013	2014
Coal & power production	4.72	5.61	3.70
Power distribution	4.60	5.01	3.66
Other	1.00	0.99	0.43

Key Balance Sheet items, USD bln

	2012	2013	2014
Current assets	2.29	3.01	1.94
- Cash & equivalents	0.67	0.66	0.51
- Loans to related parties	0.00	0.00	0.06
Non-Current assets	7.32	8.88	4.82
- Loans to related parties	0.00	0.00	0.37
Equity	4.07	4.34	1.24
Current liabilities	2.09	2.58	3.68
- ST debt	0.43	0.59	2.07
Non-current liabilities	3.45	4.97	1.84
- LT debt	2.16	2.78	0.98
- - Loans from related parties	0.00	0.00	0.15

Debt schedule and operating cash flow, UAH bln



** We calculate Consolidated Cash Flow as operating cash flow before working capital changes plus salary taxes and other taxes.*
Source: Company data, Concorde Capital research

CONCORDE CAPITAL

Ferrexpo

Company profile

Ferrexpo is Ukraine's 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 11.0 mmt pellets (+2% yoy) in 2014 and approached full pelletizing capacity of 12 mmt p.a. in 2015. Ferrexpo controls much of its logistics chain, including a 2,200 railcar fleet, enabling it to deliver the bulk of its pellets on its own. Ferrexpo operates 140 barges transporting pellets on the Danube River to European customers. It sold 57% of its pellets in Europe, 35% in Asia and 8% in the Middle East, Turkey and India in 2014.

Ferrexpo continues to smoothen its debt schedule

Ferrexpo shifted in February 32% of its USD 500 mln notes' maturity from 2016 to 2018 and 2019, having prepaid USD 54 mln as a result of the exchange. Still, a large portion of its debt, USD 495 mln, is due next year. Thus, the company is conducting another exchange involving the remaining USD 286 mln of the 2016 Eurobond for new ones, maturing in 2018 and 2019. The 2016 Eurobonds of the company appreciated10% since the offer's announcement, which indicates that the exchange could be largely supported by the bondholders. If the bonds' maturity is fully shifted, as offered, its debt repayment schedule will become smoother, ranging from USD 210 to USD 343 mln p.a., compared to the projected average annual net operating cash flow of USD 339 mln.

Operating at full capacity and low production costs

Since the start of 2015, Ferrexpo has operated at full capacity load of 12 mmt of pellets per year, thus being on track to increase output 9% yoy. Production costs improved further this year, having declined to USD 33/t (-34% yoy) in 1Q15, as a result of hryvnia depreciation and higher usage of richer ore from its Yeristovo deposit). High capacity load and lower costs underpin Ferrexpo's solid profitability, despite the projected 17% decline in selling price to USD 90/t on a FOB/DAF basis in 2015. We project its EBITDA margin at 35% in 2015, just 1pp lower than in 2014. EBITDA may decline 15% yoy to USD 421 mln, based on our numbers. Net operating cash flow will decline 9% yoy to USD 261 mln in 2015, but as CapEx will be reduced by up to 75% yoy, the company is slated to generate solid free cash flow (USD 209 mln vs. USD 64 mln in 2014).

Iron ore prices rebound, providing safety margin

With its current production cost of USD 33/t, Ferrexpo is breaking even at pellet prices of USD 71/t in China port (CFR), given all the logistic expenses of delivering pellets from the production site. Another USD 11/t are required in order to extinguish net debt during the next five years, which puts the iron ore price threshold to keep Ferrexpo creditors satisfied at USD 82/t. With current spot prices for pellets at USD 92/t, and an average of USD 96/t since the beginning of 2015, we think Ferrexpo is positioned relatively safely. Iron ore pellet prices rebounded 20% since the recent trough in March, improving the resilience of the company's position.

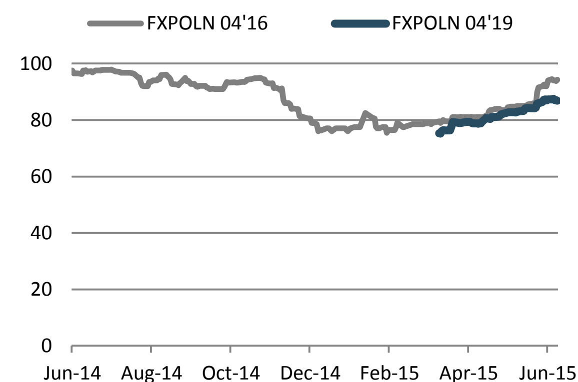
View on bonds: look fairly priced, we prefer the longer ones

With the recent decrease in C1 production costs (below our previous estimates of USD 39/t), as well as the rebound of global iron ore prices, we see little risk that Ferrexpo will lack its own funds to repay its debts on schedule. The ongoing second round of talks on shifting the maturity of its 2016 Eurobonds will contribute to improving its solvency outlook. Both factors, combined with its strong balance sheet, make Ferrexpo one of the safest borrowers in Ukraine's corporate universe. The bonds provide little return to risk-seeking bondholders as their YTMs are 15.4%-15.7% currently. The company's longer bond is our top pick among paper of Ukraine's reliable borrowers.

	FXPOLN 16	FXPOLN 19
Outstanding, USD mln	286	161
Maturity	Apr-16	Apr-19 Sinkable
Coupon	7.88/SA	10.38/SA
Fitch / S&P / Moody's	C / CCC*-/ Caa3	C / CCC*-/ Caa3
Covenant: Gross Debt / EBITDA		2.5x
Gross Debt / EBITDA, 2015E		2.5x
Company ownership structure		
Kosytantin Zhevago		50.3%
BRX Limited		23.9%
Free float		25.8%

Price	**94.5**	**86.6**
YTM (@ designed maturity)	**15.4%**	**15.7%**

Bond prices



Source: Company data, Bloomberg, Concorde Capital research

Ferrexpo financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2014	2015E	2016E
Net revenue	1388	1203	1172
EBITDA	496	421	416
EBITDA margin	*36%*	*35%*	*35%*
EBIT	356	352	348
Operating margin	*23%*	*29%*	*0%*
Finance costs	-68	-84	-68
PBT	254	271	283
Net income	184	234	244
Net margin	*13%*	*19%*	*21%*
Net operating cash flow	288	261	335
Investing cash flow	-224	-52	-52
Financing cash flow	193	-281	-536

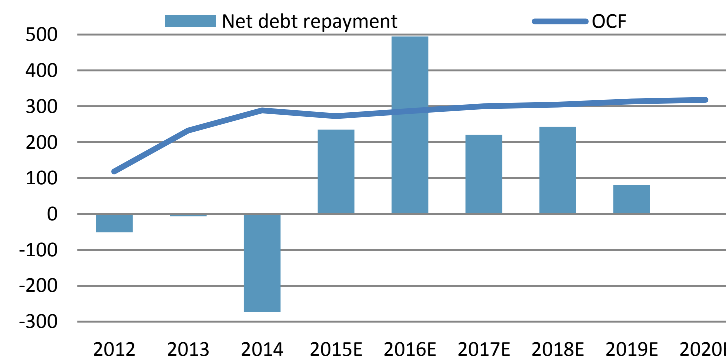
Key Balance Sheet items, USD mln

	2014	2015E	2016E
Current assets	932	893	617
Cash & equivalents	627	555	302
Non-Current assets	1 203	1 187	1 172
PP&E	926	910	895
Equity	718	913	1118
Current liabilities	329	314	312
ST debt	248	241	239
Non-current liabilities	1088	853	358
LT debt	1056	821	326

Leverage, USD mln

	2014	2015E	2016E
Net debt	678	508	264
Gross debt	1 305	1 063	565
Gross debt / EBITDA	2.6	2.5	1.4
Covenant (Gross debt / EBITDA)	2.5	2.5	2.5

Debt schedule and operating cash flow, USD mln



Source: Company data, Concorde Capital research

Metinvest

Company profile

Metinvest is a vertically integrated mining and steel holding that controls the majority of its supply chain from raw materials production to selling finished products. It's one of the largest iron ore and steel producers in the CIS and ranks 33th globally, based of World Steel Association 2014 data. The holding is fully 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 product output in 2013, Metinvest has been one of the most significant players on the flat steel market globally.

Resilient borrower vs. demanding creditors

Metinvest Eurobonds represent the most contradictory investment case among Ukrainian corporates. The company has strong earnings capability (EBITDA margin of 19% in 1Q15) and enjoys low leverage (total debt-to-EBITDA at 1.3x as of March 2015). Despite these advantages, Metinvest faces a severe stand off with a group of creditors who don't support the offered debt restructuring that's aimed at dealing with a temporary liquidity gap caused by the warfare in Donbas. A holdout among the holders of 2015 notes, as well as certain bank lenders, refused to extend the debt's maturity, which resulted in Metinvest's default on USD 114 mln in public debt and USD 178 mln on PXF as of June 2015. The company risks defaulting on another portion of banking debt worth around USD 400 mln by January 2016.

Stalemate with holders of 2015 notes to be resolved soon, for better or for worse

There have been several unfruitful iterations from Metinvest to convince the holders of the 2015 notes (representing just 3% of total debt) to shift 75% of the facility's maturity to Jan. 2016. Bondholder meetings of the 2015 METINV notes failed to get 75% quorum. A meeting with quorum of just 25% is scheduled for June 26, and has higher chances to occur. In case the decision is approved at this meeting, the company will be able to negotiate a standstill agreement with banking lenders. Otherwise, a full-scale restructuring process, involving all the other creditors and bond holders, could be triggered.

A comprehensive agreement between shareholders and lenders is needed

A standstill agreement with creditors is just the first necessary step on the long road ahead. Both lenders and shareholders have to work out a new redemption schedule, as well as a viable dividend distribution principle, so that both stakeholders could benefit from the company's operations in circumstances that have changed significantly since the war in Donbas erupted. In 2015, shareholders abstained from dividends, as Metinvest is in default, but shareholders would like to claim certain capital distribution going forward, we expect.

FCF of around USD 820 mln seen annually, given military conflict gets frozen

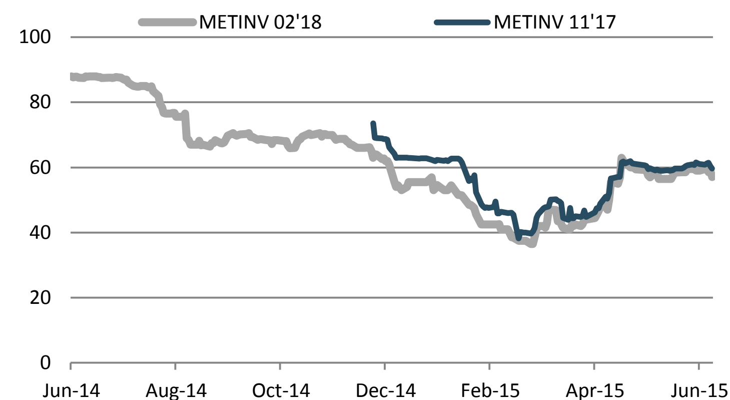
Metinvest is one of the holdings most negatively impacted by the war in Donbas, as certain production facilities have been damaged and the capacity loads of others have decreased. Provided a frozen conflict emerges, the company will be able to generate EBITDA of USD 1.4 bln in 2015, and free cash flow of around USD 820 mln, we estimate. Such FCF provides room to keep the lenders and shareholders of Metinvest satisfied.

	METINV 15	METINV 17	METINV 18
Outstanding, USD mln	114	290	750
Maturity	May-15 (in default)	Nov-17 sinkable	Feb-18
Coupon	10.25/SA	10.50/SA	8.75/SA
Fitch / S&P / Moody's	-	C / na / na	C/ na / Caa3
Covenant: Gross Debt / EBITDA	3.0x	3.0x	3.0x
Gross Debt / EBITDA, 2015E	2.0x	2.0x	2.0x

Company ownership structure	
SCM (Rinat Akhmetov)	71.25%
SMART (Vadim Novinsky)	23.75%
Volodymyr Boyko	5.00%

Price	**na**	**59.6**	**57.0**
YTM (@ designed maturity)		**34.5%**	34.8%
YTM (@ our restructuring assumptions)			**26.8%**
YTM (@ worst-case scenario)		26.0%	25.0%

Bond prices



Source: Bloomberg, company data, Concorde Capital research

Our view on bonds: too many risks are priced in, 2017 bond is among our top picks

The incomplete restructuring process of overdue 2015 Eurobonds contains unforeseen risks for other bonds. However, in our view, the market is pricing in far too negative scenarios for Metinvest bonds maturing in 2017 and 2018.

The worst case for Metinvest is a technical default on all the debt, which will force the company to restructure all across the board. Given that Metinvest is able to repay all its debt with its own free cash flow (deducted by USD 400 mln annual dividends to shareholders) in seven years (i.e. by 2022), the worst thing that could happen to its 2017 and 2018 bonds is a maturity shift to 2022. Under such an assumption, the 2017 and 2018 bonds will yield 26.0%, and 25.0%, respectively, to their extended maturity. (Based on the assumptions that restructuring conditions will be close to those offered by Metinvest in December 2014 in its exchange of 2015 notes for 2017: a 25% down payment, and the rest to be repaid in four semi-annual installments in 2020-2022). These yields are much better than the 20% currently being offered by state bonds with the same initial (before the restructuring) maturity.

The base case for Metinvest's longer bonds is a smooth repayment of the already postponed 2017 bond and a restructuring of the bullet 2018 bond in December based on an experience of exchange of 2015 notes for 2017: a 25% down payment, and a three-year extension of maturity with equal repayments in the four final semi-annual periods in 2019-2021. At such assumptions, the holding's 2017 and 2018 bonds yield currently 34.5% and 26.8%, respectively.

The 2017 bond of Metinvest provides enough return for its risk, we believe, and this paper is among our top picks. We warn, however, that a better entry point to all the Metinvest notes may emerge if a rescheduled meeting of bondholders won't approve the restructuring of METINV'15 notes on June 26.

Metinvest financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2014	2015E	2016E
Net revenue	10565	5897	5744
EBITDA	2702	1440	1289
EBITDA margin	26%	24%	22%
EBIT	1105	656	570
Operating margin	10%	11%	10%
Finance costs	-902	-272	-210
PBT	370	427	415
Net income	159	256	270
Net margin	2%	4%	5%
Operating cash flow	1489	1060	1009
Investing cash flow	-559	-240	-240
Financing cash flow	-1542	-387	-649

Leverage, USD mln

	2014	2015E	2016E
Net debt	3118	2298	1528
Gross debt	3232	2845	2196
Gross debt / EBITDA	1.2	2.0	1.7
Covenant (Gross debt / EBITDA)	3.0	3.0	3.0

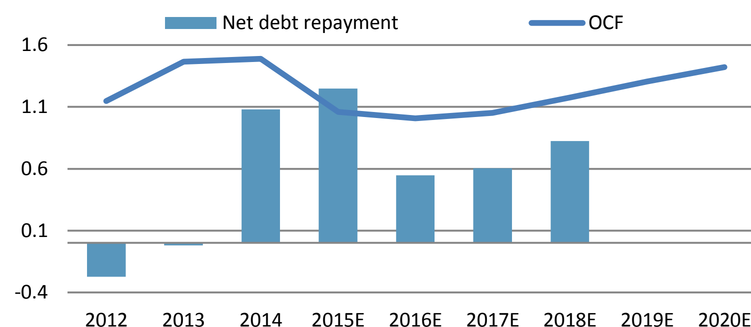
Revenue by segments, USD mln

	2014	2015E	2016E
Metallurgical	8165	4272	4160
Mining	2400	1626	1584

Key Balance Sheet items, USD mln

	2014	2015E	2016E
Current assets	3488	3896	3994
Cash & equivalents	114	547	668
Non-Current assets	9068	8523	8044
PP&E	6538	5993	5514
Equity	6762	7018	7288
Current liabilities	2900	2590	2633
ST debt	1354	1049	1095
Non-current liabilities	2894	2812	2117
LT debt	1878	1796	1101

Debt schedule and operating cash flow, USD bln



Source: Company data, Concorde Capital research

CONCORDE CAPITAL

MHP (Myronivsky Hliboproduct)

Company profile

MHP is Ukraine's leading producer of chicken meat (50% of industrial poultry output in Ukraine in 2013). 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 ramped up its brand new Vinnytsia complex to fully load its 220 kt capacity by the end of 2014, thus having increased total capacity to 580 kt of poultry. With a land bank of 380,000 ha in Ukraine, it is also one of the largest and most efficient Ukrainian farming companies with a focus on corn production (for internal use). MHP aims to increase its land bank to 500,000 ha during the next couple of years.

Timely repayment of 2015 notes strengthened MHP's debt profile

MHP became the sole borrower among Ukrainian corporates that repaid its Eurobond timely and in full in 2015 (USD 234 mln in April). The company performed the repayment relying mainly on USD 200 mln in refinancing from the IFC, which also enabled it to continue to pay dividends to shareholders and keep pursuing its investment program going forward. Just as everybody on the street was referring to the war and worsened business environment, and proposed debt restructurings, MHP's management resolved to repay its notes, which should be rewarded by the market with lower cost of debt, if the company taps the market once again.

Its leverage isn't likely to decline soon

Having replaced the 2015 Eurobonds with banking facilities, MHP kept total debt at USD 1.2 bln. We believe the company will maintain that level of indebtedness and will not pursue active deleverage, as it is considering the continuation of its expansion program, including constructing the next stage of its poultry farm in Vinnytsia. A decision to invest USD 130 mln in a 130 kt poultry farm to be constructed during the next 1.5 years might be taken by the company's board by early 2016. Own operating cash flows and ECA financing are the main funding sources. So we project MHP's total debt-to-equity to remain above 1x in future years (compared to an average of 1.04x during the last five years).

Hryvnia depreciation offset by poultry price increase and better cost efficiency in farming

MHP is selling up to 70% of its poultry on the local market, so its poultry prices, in USD terms, are vulnerable to hryvnia depreciation. Relatively higher demand for poultry in Ukraine compared to other sources of protein helps MHP to pass along part of the hryvnia's weakness onto customers. In 1Q15, MHP increased its average selling price 63% yoy to UAH 25.35/kg, and this price inflation will continue in future quarters, we believe. Unlike the poultry segment, its grain-growing operations benefit from hryvnia depreciation, as selling prices for crops are pegged to global benchmarks in USD, while half of their production costs are pegged to hryvnia. In 2015, MHP sees it could generate EBITDA of up to USD 400 per hectare of its land, after USD 294 per hectare in 2014.

Earnings to reach another record high in 2015

Driven by strong profitability of its two key segments, MHP is set to report another new high in EBITDA in 2015 of USD 567 mln (+2% yoy), which will contribute to a decrease in net debt-to-EBITDA to 1.5x as of end 2015 (2.0x in end-2014).

View on MHPSA 2020 bonds: look to be priced in

We see a high probability that MHP will be able to smoothly repay its 2020 bonds, given its strong operating cash flow and relatively small leverage. At the same time, we think that MHP will try to partially extend the maturity of its USD 750 mln bond for future years, and will be reluctant to repay the facility in one installment. Its 2020 bond currently yields 12.9%, which is the smallest return of any Ukrainian paper. We believe the notes are priced in.

	MHPSA 20
Outstanding, USD mln	750
Maturity	Mar-20
Coupon	8.25/SA
Fitch / S&P / Moody's	CCC / CCC- / na
Covenant: Net Debt / EBITDA	3.0x
Net Debt / EBITDA, 2015E	1.5x

Company ownership structure	
Yuriy Kosyuk	65.9%
Free float	34.1%

Price	**83.7**
YTM (@ designed maturity)	**12.9%**

Bond price

Source: Company data, Bloomberg, Concorde Capital research

CONCORDE CAPITAL

MHP financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2014	2015E	2016E
Net revenue	1379	1329	1334
IAS 41 gain	53	0	0
EBITDA	555	567	577
EBITDA margin	*40%*	*43%*	*43%*
EBIT	460	478	505
Operating margin	*33%*	*36%*	*38%*
Finance costs	-109	-91	-84
PBT	-472	4	415
Net income	-412	6	417
Net margin	*-30%*	*0%*	*31%*
Operating cash flow	254	457	499
Investing cash flow	-127	-170	-170
Financing cash flow	-175	-150	-164

Leverage, USD mln

	2014	2015E	2016E
Net debt	1116	878	649
Gross debt	1215	1115	1051
Net debt / EBITDA	2.0	1.5	1.1
Covenant (Net debt / EBITDA)	3.0	3.0	3.0

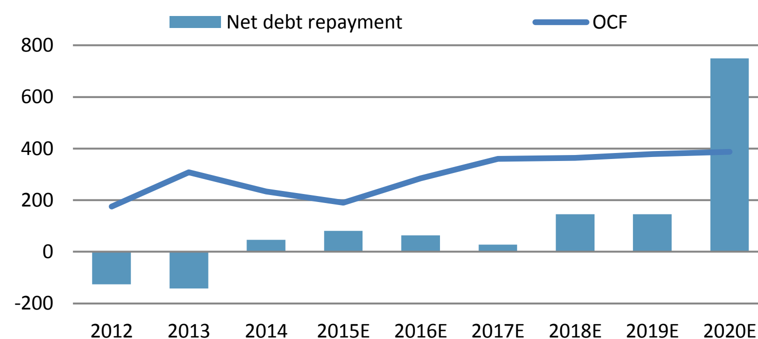
Revenue of key segments, USD mln

	2014	2015E	2016E
Poultry	1177	1157	1168
Grain	109	96	90
Other	121	76	76

Key Balance Sheet items, USD mln

	2014	2015E	2016E
Current assets	732	892	1059
Cash & equivalents	100	237	402
Non-Current assets	920	1056	1027
PP&E	1487	1197	1284
Equity	946	902	1218
Current liabilities	428	193	157
ST debt	300	64	28
Non-current liabilities	920	1056	1027
LT debt	877	1013	984

Debt schedule and operating cash flow, USD bln



Source: Company data, Concorde Capital research

Ukrzaliznytsia (Administration of Railways Transport of Ukraine, UZ)

Entity profile
UZ is the monopoly provider of railway transportation services in Ukraine as part of the Infrastructure Ministry. As an issuer of Eurobonds, UZ is just a synthetic combination of six legal entities that are regional railway companies. Most of their revenue is generated from freight transportation services and their freight segment subsidizes the loss-producing passenger segment.

Restructuring started with tough talks with local banks
As of May 2015, Ukrzaliznytsia stopped repaying its debt to local banks, having triggered a cross-default on its USD 500 mln Eurobond. The terms of redemption of UAH 32 bln (USD 1.52 bln) of debt out of a total of UAH 37 bln (1.76 bln) are to be reviewed during ongoing negotiations. The proactive and relatively aggressive approach to these talks by Ukrzaliznytsia may indicate that the holding may offer some haircuts on its debt. A maturity extension could also be a workable solution, taking into account that freight rate increases were used by the government to improve UZ's financial stance.

Operations and financials affected by warfare in Donbas
UZ's total cargo transportation volume decreased 12% yoy to 390 mmt in 2014, and fell 22% h/h to 184 mmt in 2H14, mainly due to the Crimean annexation and warfare in Donbas. UZ's combined top line increased 16% yoy to UAH 13.6 bln in 1Q15 (mainly thanks to rate hikes), while EBITDA for the same period plunged 26% yoy to UAH 1.45 bln, based on our calculations.

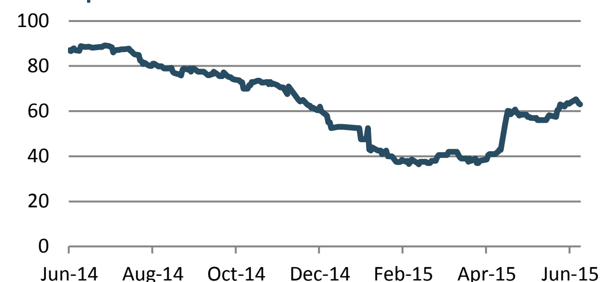
Two rate hikes implemented since beginning 2015
Ukrzaliznytsia benefited from railway freight rate hikes of 30% since February and by 15% in March. Further rate hikes are being rumored on the market, which would further mend the company's debt profile. The enterprise has large reserves to improve its profitability if it continues to pursue its initiated cost optimization program.

No history of deleveraging
UZ's financing strategy resembles a classic Ponzi scheme in which the entity has to borrow more to repay its maturing debt. It is using all its generated cash flow and newly attracted debt to invest into supporting its decaying infrastructure, while its CapEx for any period was way below its appetites. With such a strategy, we continue to believe the entity does not look like a reliable borrower.

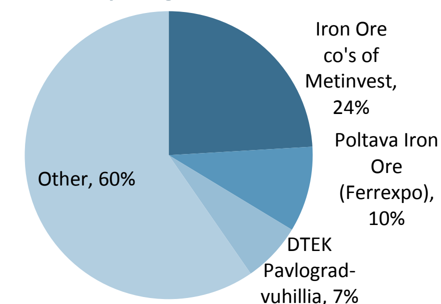
View on UZ Eurobonds: don't touch them
UZ's Eurobonds are a part of Ukraine's debt operation program initiated by the government, while the conditions of its restructuring might differ from those of state bonds, as MinFin hinted. Our vision is the entity is unlikely to offer any better restructuring conditions compared to the state paper. In the best case, the company's bond will be turned into a perpetual bond to yield 13.8%, based in current price. In any case, we do not recommend buying it.

	RAILUA 18
Outstanding, USD mln	500
Maturity	May-18
Coupon	9.50/SA
Fitch / S&P / Moody's	C / CC / na
Covenant: Net Debt / EBITDA	3.0x
Net Debt / EBITDA, 2014E	4.0x
Ownership structure	
State	100%
Price	**63.0**
YTM (@ designed maturity)	29.1%
YTM (@ our restructuring assumptions)	**13.8%**
YTM (@ worst-case scenario)	Negative

Bond price



Core clients by freight turnover, 2012



Source: Bloomberg, 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

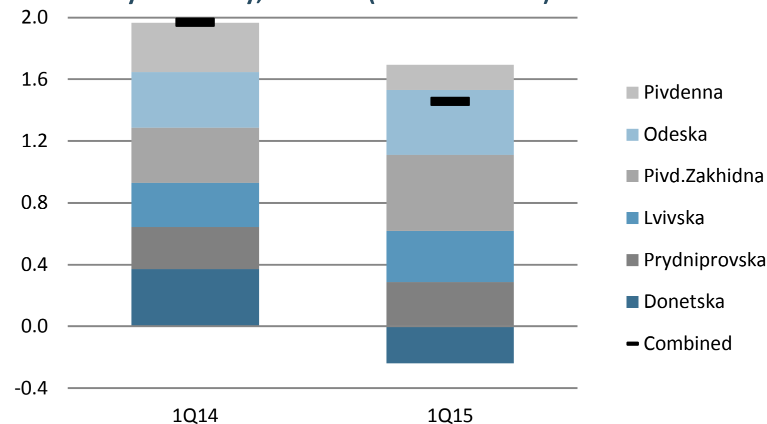
Leverage, UAH bln

	2012	2013	2014E
Net debt	19.86	19.64	36.80
Gross debt	20.10	20.28	37.20
Gross debt in UAH	58%	51%	21%
Net debt / EBITDA	1.7x	1.8x	4.0x
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

EBITDA by subsidiary, UAH bln (local standards)



Source: Entity data, smida.gov.ua, Concorde Capital research

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Eurobond issuers, banking

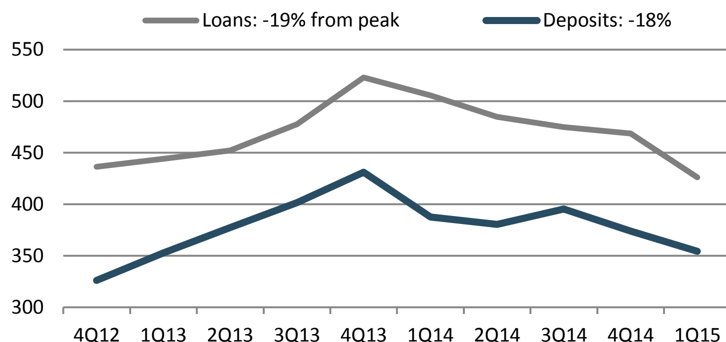
Trends in the banking sector

Ukraine's banking sector clearly lacks stability as asset quality deterioration and deposit outflows have become the main trends since early 2014. This has led to the failure of 1/5 of total banks since early 2014 and significant deterioration of the business of the remainder.

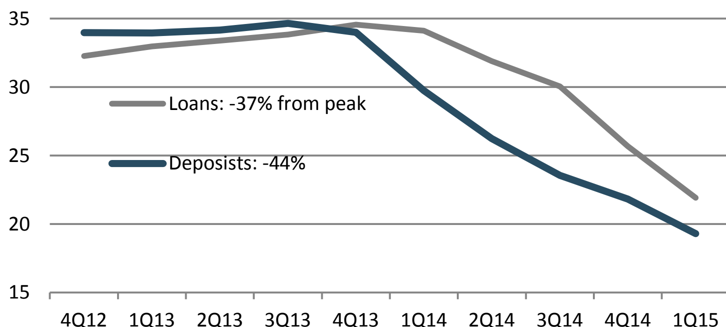
Indeed, the Ukrainian banking system has even stopped lending to the economy and has shifted into survival mode.

As the capital adequacy ratio (CAR) for the baking system has recently dipped below the 10% threshold, the central bank has initiated an inspection program aimed at designing a recovery plan for the banks which will secure an increase in CAR to 5% by end-Jan. 2016 and 10% by end-2018.

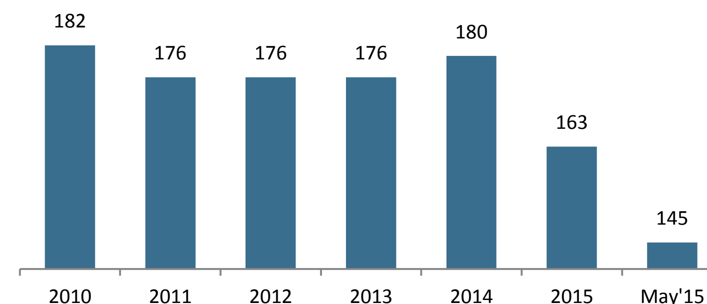
Loans and deposits in local currency, UAH bln



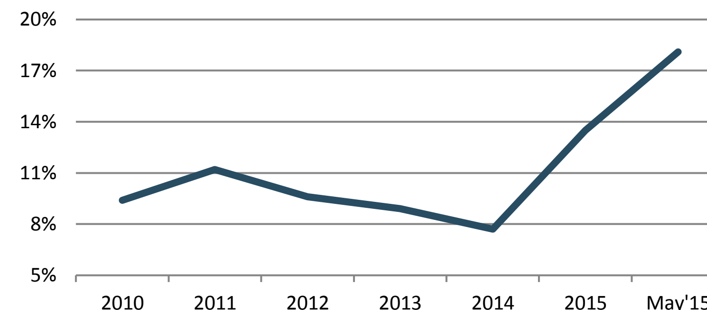
Loans and deposits in foreign currency, USD bln equivalent



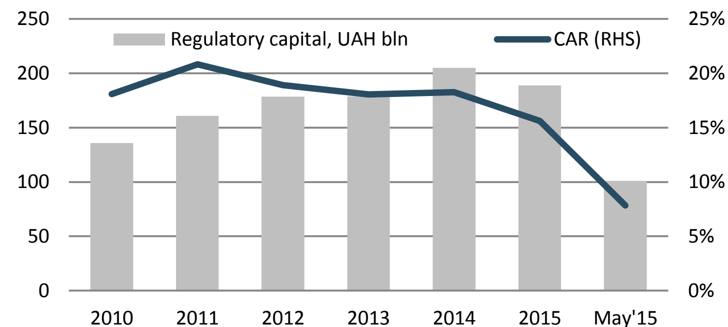
Number of banks, bop



Share of overdue loans in total portfolio, bop



Capital and its sufficiency, local standards, bop



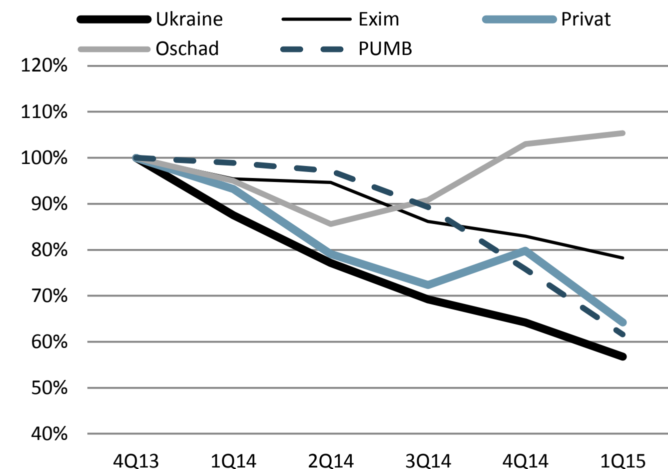
Source: NBU, Concorde Capital calculations

Trends in covered banks

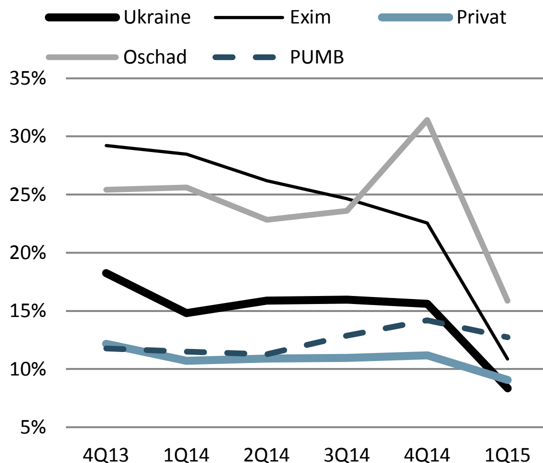
All the covered banks are among the leaders in Ukraine's banking system, in terms of quality and business practices. However, trends in these banks are the same as in the banking system:

- Foreign currency deposit outflow was inherent to all the banks except Oschadank, which has the image of a "safe state-run bank". Though, no banks look either able or willing to repay any solid portion of their foreign currency loans this year;
- Outflow of hryvnia deposits was less solid at the covered banks. The state-run Exim and Oschad were able to increase their local currency deposit base due to: 1) their image; and 2) the government's activity directed at shifting related deposits and current accounts to state intuitions. This was done at the expense of other banks, particularly Privatbank. PUMB was also lucky to get the support of related-party depositors;
- All the banks were able to keep their regulatory capital at an affordable level through 2014, which seems to be the result of their understating NPLs and insufficient provisioning. The situation worsened in early 2015, when the most painful hryvnia devaluation wave happened. The best capitalized bank, at this stage, is Oschadbank, while all the others are on the verge of breaching the historical 10% CAR threshold. The good news is that central bank has recently lowered minimum capital requirements.

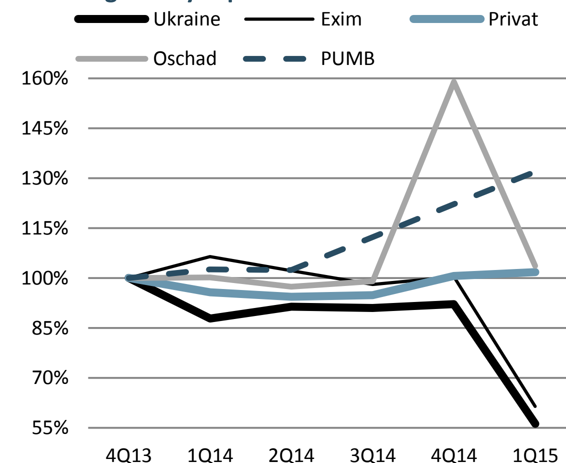
Foreign currency deposits vs. end-2013



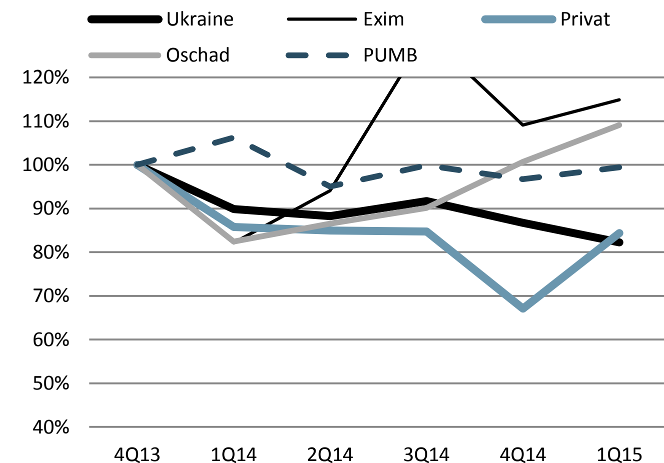
Capital adequacy ratio (NBU standards)



Tier II regulatory capital vs. end-2013



UAH deposits vs. end-2013



Source: NBU, bank data, Concorde Capital calculations

Modeling the best-case restructuring scenarios:

PUMB: no new restructuring assumed
Given that the bank was offered a very smooth repayment schedule of its Eurobond during the last restructuring, we expect it will repay its bond in line with its schedule.

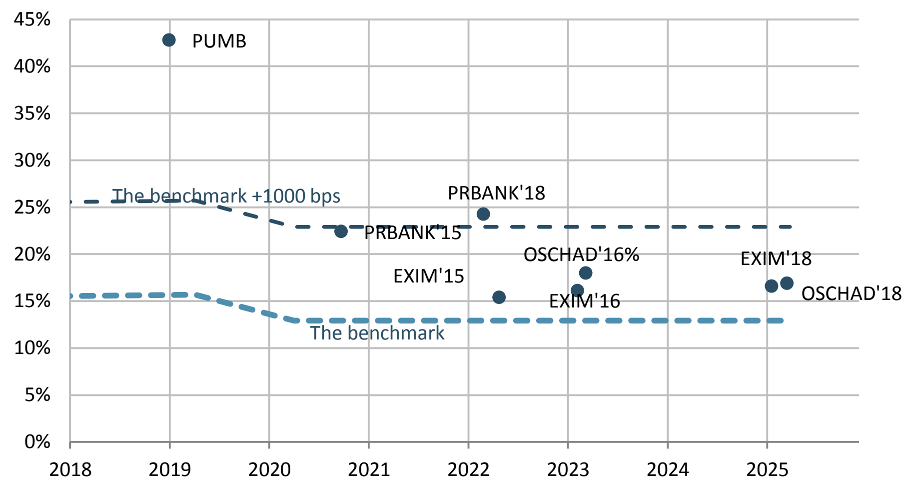
Ukreximbank, Oschadbank: restructuring as offered by the bank
The bondholders of Ukreximbank will vote for the restructuring terms of all of its Eurobonds as provided in the table on slide 19. We expect these restructuring terms will be approved by the holders, and the bonds will be smoothly serviced afterwards.

Privatbank: unlikely to offer something comparable to PUMB
The hopes that Privatbank will repay its 2015 bond smoothly are groundless, given that the bank has recently faced apparent liquidity problems: it borrowed net UAH 14.5 bln in 2014 and UAH 8.5 bln in 4M15 from the central bank (NBU). As the NBU has become an important creditor of the bank, we believe the regulator will try to dictate its own restructuring conditions for Privat, closer to what the state banks are offering. All in all, we expect Privat's restructuring offer for 2015 notes will be something in between of what was approved by PUMB bondholders (a down payment, and four-year amortization) and what state banks are offering. That said, our base-case for Privat 2015 restructuring is: no down payment and a five-year extension with repayment in two equal semi-annual tranches in the fifth year. We expect the coupon rate will increase to 10.5% (from 9.38%).

We also assume the bank will restructure its 2018 bond, though on softer conditions, closer to those of its private peer PUMB: 20% down payment, with repayment of the rest in eight semi-annual installments in the next 3.5 years. Its coupon rate (10.88%) is unlikely to rise.

Benchmark yields: Ferrexpo and MHP
The Eurobonds of MHP and Ferrexpo are currently substituting sovereign bonds as benchmarks for the other Ukraine-related paper. We believe the bonds of banking issuers should be traded at a 1000bp spread to the benchmark.

YTM, banking bonds (accounting for restructuring)



Based on our approach, we pick for following bonds:
PUMB maturing in late 2018
Privatbank that initially matures in 2018.

Source: Bank data, Bloomberg, Concorde Capital research

CONCORDE CAPITAL

Issuer profiles, banking

Oschadbank (State Savings Bank of Ukraine)

Bank profile

Oschadbank is Ukraine's third-biggest bank by assets, as of end-1Q15. Emerging from the ruins of the Soviet savings bank, it remains a fully state-controlled institution that is focused on retail deposits (ranked second by retail money attracted, with retail accounts making up 73% of total customer accounts). It has the biggest retail network in Ukraine. The bank is an important lender to state institutions, with 47% of its total assets (as of end-2014) lent to the government and related companies. It holds the second-biggest portfolio of state bonds among Ukrainian banks. On top of that, about 13% of the bank's end-2014 assets are exposed to state gas monopoly Naftogaz.

Exposure to state debt declines in 2014

In 2014, Oschadbank decreased its exposure to state and state entities, reducing net assets with related parties by 3pp yoy to 47% of total assets. At the same time, its portfolio of bonds of the government and state-controlled enterprises decreased 2% yoy to UAH 30.6 bln.

The only safe harbor for ForEx deposits

The bank outperformed the sector in terms of UAH deposits change in the last 12M, with 32% yoy growth as of 1Q15 (vs. -9% yoy for the sector). Moreover, the bank is a leader in growth of foreign currency deposits, which rose 11% yoy (in USD terms) as of end-1Q15, compared to a 35% decline for the banking system.

The most capitalized bank in Ukraine

Oschadbank's equity increased UAH 12.7 bln in 2014 owing to the state's contribution, which covered its UAH 12.1 bn in loan loss provisions during the year and boosted its capital adequacy. The bank's CAR (according to local standards) increased to 31.4% as of beginning 2015 from 25.4% as of beginning 2014. As of end-1Q15, its CAR amounted to 15.9%, being by far the largest in the banking system.

The bank's low exposure to Donbas (gross loans of just UAH 2.5 bln, which is half the deposit base in the region) implies the warfare has not affected its operations much. Its loan portfolio in Crimea, which was 10% of its gross loan portfolio, were fully provisioned in late 2014.

OSCHAD bonds are subject to the government's debt operation; look expensive now

The bank has just offered the preliminary terms for restructuring its Eurobonds that were approved by the representatives of the largest holders:

- Its 2016 notes are offered to be exchanged for 2023 notes with amortized repayment (60% in Mar. 2019, 5% in the following eight semi-annual periods through Mar. 2023) and a coupon increase to 9.375% (from 8.25%).
- The 2018 notes are offered to be exchanged for 2025 notes with amortized repayment (50% in Mar. 2020, 5% in the following ten semi-annual periods through Mar. 2025) and a coupon increase to 9.625% (from 8.875%).

We expect the bank will try to finalize the bond's restructuring by Sept. 10, the date of the nearest coupon.

Assuming the offered conditions will be approved, Oschadbank's 2016 and 2018 Eurobonds yield 18.0% and 16.9% to their extended maturity, based on their current prices. We believe those are not attractive enough levels to enter now.

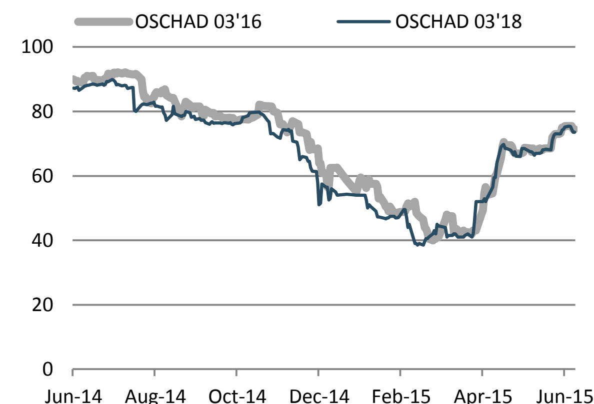
	OSCHAD 16	OSCHAD 18
Outstanding, USD mln	700	500
Maturity	Mar-16	Mar-18
Coupon	8.25/SA	8.88/SA
Fitch / S&P / Moody's	CC / na / Ca	CC / na / Ca

Ownership structure

State	100%

Price	**74.0**	**73.2**
YTM (@ designed maturity)	56.1%	22.4%
YTM (@ offered restructuring)	**18.0%**	**16.9%**

Bond prices



Source: Bloomberg, bank data, Concorde Capital research

Oschadbank financial summary, IFRS

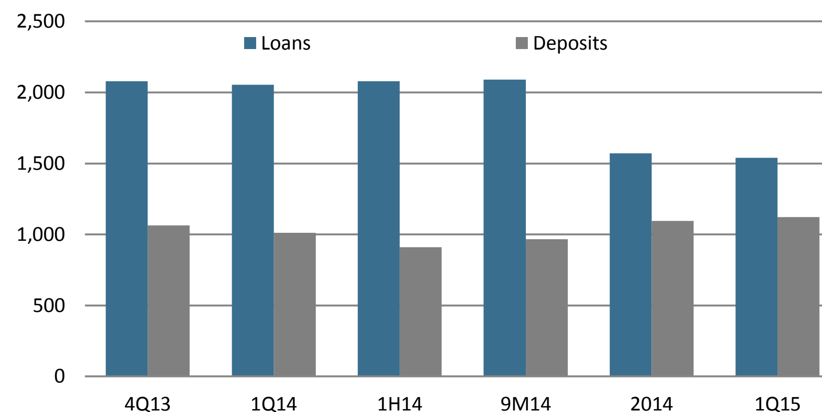
Balance Sheet, UAH mln

	2013	2014	yoy
Cash	2,186	2,336	7%
Accounts with other banks	10,282	10,219	-1%
Net loans	52,180	70,236	35%
- Related party	*20,173*	*27,928*	*38%*
Gross loans	64,270	94,260	47%
- Related party	*23,860*	*31,479*	*32%*
Securities portfolio	33,252	33,210	0%
- Related party	*31,326*	*30,634*	*-2%*
PP&E	3,451	3,375	-2%
Other assets	348	4,938	n/m
Total assets	**101,699**	**124,314**	**22%**
Bank accounts	18,582	14,732	-21%
NBU lending	3,594	9,346	160%
Client accounts	56,209	46,409	-17%
- Current accounts	*21,693*	*17,847*	*-18%*
Eurobonds outstanding	19,340	9,786	-49%
Subordinated debt	1,657	840	-49%
Other liabilities	9,289	10,728	15%
Total liabilities	**105,077**	**82,495**	**-21%**
Equity	**19,237**	**19,204**	**0%**
CAR (Basel)	**18.6%**	**24.7%**	**-6.1pp**

P&L summary, UAH mln

	2013	2014	yoy
Interest income	11,198	13,666	22%
Interest costs	-5,686	-8,347	47%
Net interest income	**5,512**	**5,319**	**-4%**
Loan loss provisions	-2,438	-9,663	296%
Net fees and commissions	1,232	1,260	2%
Operating costs	-3,488	-4,239	22%
Profit before tax	926	-10,114	n/m
Net profit	**711**	**-10,015**	**n/m**

Foreign currency loans and deposits, USD mln equivalent (local accounting standards)



Source: Bank data, Concorde Capital calculations

Bank profile

Privatbank is the largest Ukrainian bank by assets, loan portfolio, deposits and network of ATMs. It holds 21% of the banking system's total client accounts and 26% of retail accounts, as of end-1Q15. Privatbank accounts for 20% of the loans in Ukraine's banking system. It also controls banks in Latvia, with the latter bank having outlets in Cyprus, Italy and Portugal. It completed sales of its banks in Georgia and Russia in 2014-2015. While 70% of its deposits come from individuals, it deploys 86% of its loan portfolio to corporate clients.

Capital remains insufficient despite large shareholder contributions

The core concern for Privatbank is its low capitalization: its CAR (NBU) has been kept close to the 10% minimum over the last two years and fell below that historical threshold to 9.2% as of end-1Q15. Since the beginning of 2014, the bank's shareholders contributed UAH 1.7 bln to its equity (in July 2014) in the form of capitalized dividends from 2013 income. The bank completed a UAH 5.0 bln capital increase in late April to increase its regulatory capital by 22%, but that is unlikely to be enough to meet the minimum capital requirements in the coming years.

With liquidity deteriorating, increasingly dependent on NBU refinancing

The bank was able to partially restore its UAH deposit base in 1Q15, which improved 26% qoq after a 33% fall in 2014. At the same time, its foreign currency deposit base continued to shrink fast, or by 20% qoq in 1Q15 (in USD terms) after a 20% yoy drop in 2014.

Due to apparent liquidity problems, the bank increased its dependence on refinancing from Ukraine's central bank: in 2014, its loans from the NBU swelled 5x yoy to UAH 18.4 bln (9% of its total liabilities, 71% of its total equity). In 4M15, it increased its NBU borrowings by UAH 8.5 bln and rescheduled for October the repayment of an earlier attracted UAH 10 bln from March-April to October 2015. Note that the maturity of this credit coincides with maturity of USD 200 mln Eurobond.

2015 Eurobond: restructuring is not avoidable, looks expensive given its risks

Although the USD 200 mln 2015 Eurobond accounts for a minor part of Privabank's balance sheet (3.9% of its foreign currency assets), its restructuring looks unavoidable. Investors might expect the bank would offer terms comparable to those of its private peer PUMB in late 2014 (about a 20% down payment and up to a four-year maturity extension with amortization of principal). We expect the central bank, which recently became the biggest lender to Privat, might insist on much more distressed restructuring terms, closer to what the state banks are offering. As a base case, we take some intermediate scenario for Privat'2015: no down payment, a maturity extension by five years (to Sept. 2020) with repayment in three equal semi-annual tranches during the last year, and a coupon increase to 10.5% (from 9.38%).

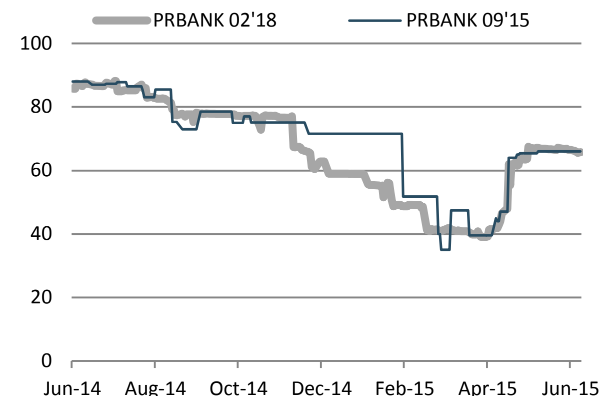
Applying these assumptions, we estimate Privatbank's 2015 notes would yield 22.4% to their maturity at their current price. We believe this yield is not attractive enough to enter.

2018 Eurobonds: looking more attractive

We expect the bank will be able to offer better restructuring conditions for its 2018 bond (something close to the PUMB offer). Assuming the bond will be postponed for four years, with a 20% down payment and repayment of the rest in eight equal 10% installments in the following semi-annual periods, we derive an expected yield of 24.3% to the ultimate maturity. We believe this return is attractive enough for a bond with such a risk profile.

	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	CC / na / Cau	CC / na / Cau
Ownership structure		
Igor Kolomoisky		45.1%
Gennady Bogolyubov		45.1%
Other		9.8%
Price	**66.0**	**65.5**
YTM (@ designed maturity)	239%	30.5%
YTM (@ our restructuring assumptions)	**22.4%**	**24.3%**

Bond prices



Source: Bloomberg, bank data, Concorde Capital research

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Privatbank financial summary, IFRS

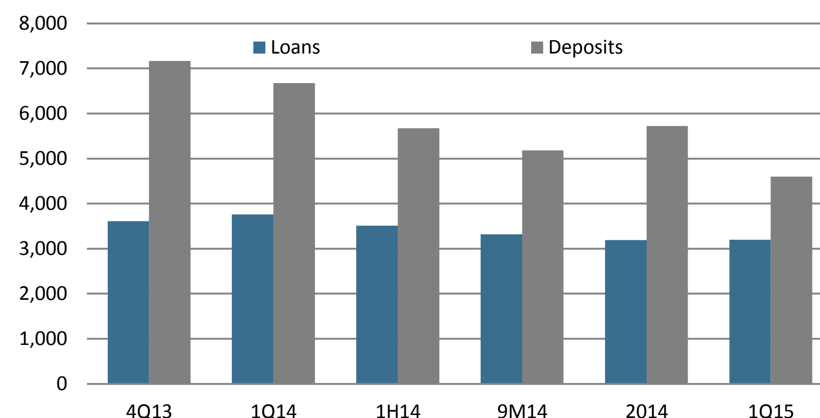
Balance Sheet, UAH mln

	2013	2014	yoy
Cash	21,827	17,801	-18%
Accounts with other banks	25,247	17,366	-31%
Net loans	139,663	161,830	16%
- Gross loans	*161,003*	*183,635*	*14%*
- Related party	*10*	*19*	*93%*
PP&E	4,004	4,098	2%
Other assets	6,829	27,941	309%
Total assets	**197,570**	**229,036**	**16%**
Bank accounts	3,758	3,279	-13%
NBU lending	3,473	18,357	429%
Client accounts	150,888	152,053	1%
- Current accounts	*41,208*	*46,009*	*12%*
Eurobonds outstanding	2,989	5,874	97%
Subordinated debt	3,308	5,450	65%
Other liabilities	10,330	18,290	77%
Total liabilities	**174,746**	**203,303**	**16%**
Equity	**22,824**	**25,733**	**13%**
CAR (Basel)	**15.6%**	**13.7%**	**-1.9pp**

P&L summary, UAH mln

	2013	2014	yoy
Interest income	23,144	25,624	11%
Interest costs	-14,429	-18,366	27%
Net interest income	**8,715**	**7,258**	**-17%**
Loan loss provisions	-3,891	-4,689	21%
Net fees and commissions	3,671	3,558	-3%
Operating costs	-8,259	-9,948	20%
Profit before tax	1,491	149	-90%
Net profit	**1,307**	**247**	**-81%**

Foreign currency loans and deposits, USD mln equivalent (local accounting standards)



Source: Bank data, Concorde Capital calculations

PUMB (First Ukrainian International Bank)

Bank profile

PUMB is ranked 11th by assets in Ukraine as of end-1Q15, down from its 9th position as of end-2013. 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 (88% of its consolidated loan portfolio) while its deposit base is split 50/50 between its corporate and retail sectors. About a quarter of its depositors are related parties. PUMB employs the best quality investor relations standards among Ukrainian banking issuers, according to our research.

	PUMBUZ 14
Outstanding, USD mln	208
Maturity	Dec-18 (sinkable)
Coupon	11.0/Quart
Fitch / S&P / Moody's	na / na / WR

Ownership structure

SCM (Rinat Akhmetov)	99.9%

Price	**56.0**
YTM (@ designed maturity)	**42.8%**

Bond restructuring came on time in 2014

The bank executed a successful restructuring of its USD 252 mln Eurobond maturing in late 2014 in early December, making just a USD 44 mln cash repayment and having received the consent of bondholders to prolong the maturity of its Eurobond for four years, with equal quarterly repayments between September 2016 and December 2018. That was made on time, given that PUMB's foreign currency liquidity deteriorated in 4Q14: foreign currency deposits fell 15% qoq in 4Q14 and by another 19% qoq in 1Q15, after falling just 11% in 9M14.

Related parties are core supporters of PUMB liquidity

The share of related parties was 24.5% in the bank's total deposit base as of end-1Q15, meaning that they are key contributors to the bank's liquidity and financial stability. Their share decreased from 27.2% as of end-2014, although the deposits were nearly flat qoq at UAH 6.8 bln (or 1.5x more than the bank's total equity). The positive side to the large related deposits with the bank is they can be converted into subordinated debt or equity should PUMB need a capital increase.

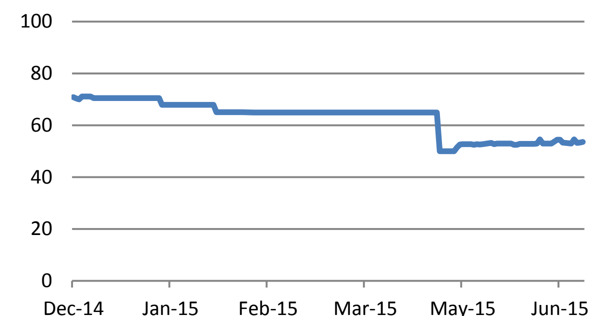
Although the bank itself sees little risk that exposure of related parties into its deposit base can decrease, we believe the liquidity and debt troubles that have been affected some of SCM's assets (DTEK, Metinvest, Ukrtelecom, Astelit) might have a negative impact on PUMB's liquidity as well.

View on bonds: smoothened repayment schedule looks affordable, bond looks underpriced

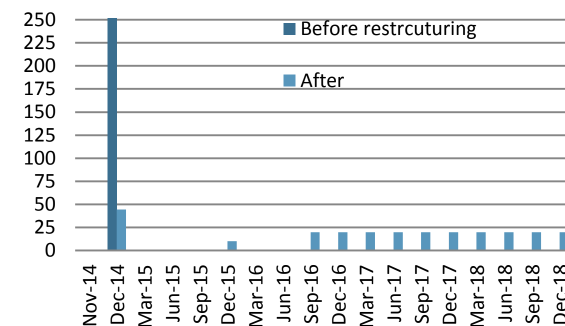
The repayment schedule of the restructured Eurobond – with USD 10 mln repayable in Dec. 2015 and about USD 20 mln in quarterly payments starting in 1.5 years – looks doable right now. At this stage, we see little risk that the bank won't be able to service its Eurobond.

PUMB notes, which yield 42.8% to their maturity at the current price, are our top picks in the Ukrainian banking universe. The main drawback of PUMB bonds is low liquidity.

Bond price



Bond repayment schedule, USD mln



Source: Bloomberg, bank data, Concorde Capital research

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PUMB financial summary, IFRS

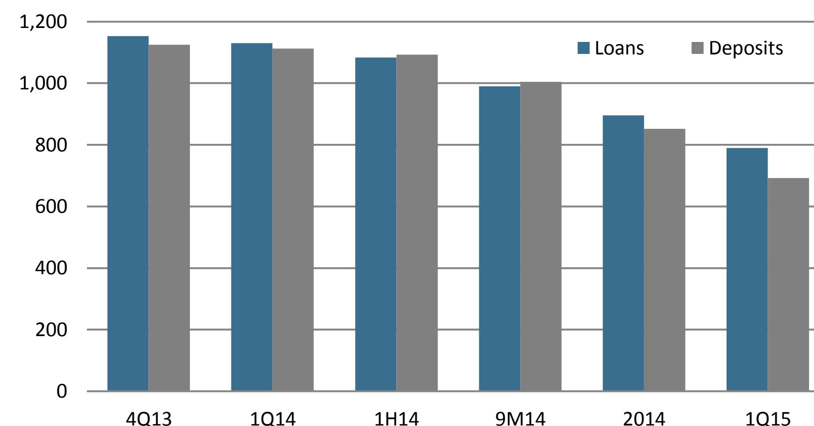
Balance Sheet, UAH mln

	2013	2014	yoy
Cash	1,337	1,054	-21%
Accounts with other banks	3,733	3,998	7%
Net loans	21,863	28,356	30%
- Gross loans	*24,592*	*33,445*	*36%*
- Related party	*705*	*1,691*	*140%*
PP&E	1,247	1,366	10%
Other assets	3,979	2,658	-33%
Total assets	**32,159**	**37,432**	**16%**
Bank accounts	1,353	244	-82%
NBU lending	1,063	1,190	12%
Client accounts	21,068	26,273	25%
- Current accounts	*8,585*	*11,149*	*30%*
- Related party	*4,249*	*7,140*	*68%*
Eurobonds outstanding	1,989	3,273	65%
Subordinated debt	529	493	-7%
Other liabilities	1,938	671	-65%
Total liabilities	**26,587**	**31,900**	**20%**
Equity	**5,572**	**5,532**	**-1%**
CAR (Basel)	**24.4%**	**17.4%**	**-7.0pp**

P&L summary, UAH mln

	2013	2014	yoy
Interest income	3,573	4,989	40%
Interest costs	-1,848	-2,644	43%
Net interest income	**1,725**	**2,345**	**36%**
Loan loss provisions	-556	-2,863	415%
Net fees and commissions	775	834	8%
Operating costs	-1,389	-1,560	12%
Profit before tax	688	-173	n/m
Net profit	**555**	**-136**	**n/m**

Foreign currency loans and deposits, USD mln equivalent (local accounting standards)



Source: Bank data, Concorde Capital calculations

Ukreximbank (Ukrainian State Export-Import Bank)

Bank profile

Ukreximbank is the second biggest by assets in Ukraine, as of end-1Q15. During the last couple of years, it swapped the 2nd and 3rd rank with its peer, State Savings Bank. The bank is almost entirely focused on corporate clients (corporate lending is 99% of its total loan portfolio) and servicing export-import operations. It is the biggest holder of corporate accounts (15% of the sector's total) and ForEx corporate accounts in Ukraine (22% of the sector's total, as of end-1Q15). It is also the biggest holder of the government's local bonds.

Capital shrinks too fast in 1Q15

The Ukrainian government contributed UAH 5.0 bln to Ukreximbank's equity in late 2014, which allowed it to maintain an exceptionally high capital adequacy ratio of 22.6% as of end-2014. However, as of end-1Q15 the bank's regulatory capital shrunk 39% qoq and CAR stood at a record-low level of 10.9%. This prompted a high need for additional capital contributions from the state, which, if implemented, will improve the bank's lending capacity.

Exposure to related parties increases in 2014

The bank increased its share of state and related loans and bonds in its portfolio to 46% of total assets as of end-2014, up from 40% a year before. Most likely, the increase was due to the bank's high exposure to foreign-currency denominated government bonds. At this stage, high exposure to local state paper is not a risk for the bank, given that MinFin has no plans to restructure them.

Pioneer in the state's debt restructuring task, offers small yield if restructuring accounted for

Ukreximbank was the first of state companies that disclosed its Eurobond restructuring terms, as part of the government's debt operation. It has scheduled meetings with holders of all its Eurobonds for July 7, aiming to extend their maturity up to seven years:

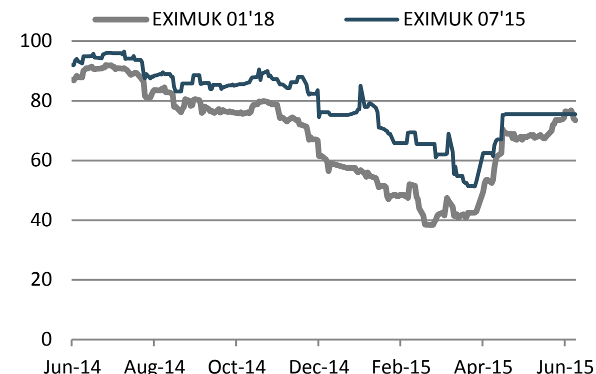
- Its USD 750 mln notes due July 27, 2015 (with a coupon of 8.375%) are offered to be repaid in seven tranches: 50% on April 27, 2019, and the rest in six semi-annual installments of 8.33% between October 2019 and April 2022. The new coupon rate, 9.625%, will be applicable as of April 27, 2015.
- Its USD 600 mln notes due Jan. 22, 2018 (with a coupon of 8.75%) are offered to be repaid in nine tranches: 50% on Jan. 22, 2021, and the rest in eight 6.25% semi-annual installments between July 2021 and January 2025. The new coupon rate, 9.75%, will be applicable as of July 22, 2015.

Given that the restructuring terms of these bonds are much better than those that the government plans to offer for sovereign bonds (no haircut, rising coupon rate), we believe the notes will be restructured smoothly.

At the proposed restructuring conditions and current bond prices, they yield 15.4%-16.6% to their ultimate maturity. We believe such returns are too low for paper of distressed Ukrainian issuer and we do not recommend entering them.

	EXIMUK 15	EXIMUK 18
Outstanding, USD mln	750	600
Maturity	Jul-15	Jan-18
Coupon	8.38/SA	8.75/SA
Fitch / S&P / Moody's	C / na / WR	C / na / Ca
Ownership structure		
State		100%
Price	**76.0**	**73.5**
YTM (@ designed maturity)	291%	22.8%
YTM (@ offered restructuring)	**15.4%**	**16.6%**

Bond prices



Source: Bloomberg, bank data, Concorde Capital research

CONCORDE CAPITAL

Ukreximbank financial summary, IFRS

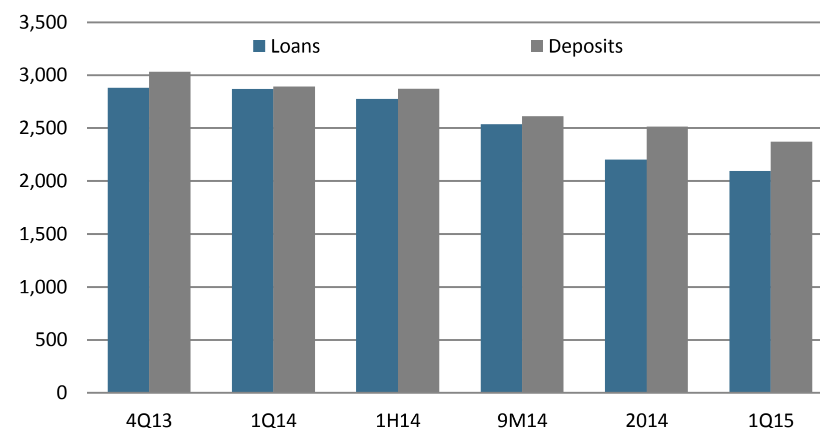
Balance Sheet, UAH mln

	2013	2014	yoy
Cash	8,321	14,661	76%
Accounts with other banks	1,747	4,097	135%
Net loans	41,625	49,974	20%
- Gross loans	*50,384*	*73,161*	*45%*
- Related party	*10,070*	*14,963*	*49%*
Securities portfolio	34,488	47,939	39%
- Related party	*27,355*	*42,288*	*55%*
PP&E	2,287	2,252	-2%
Other assets	4,807	4,607	-4%
Total assets	93,275	123,530	32%
Bank accounts	8,156	16,556	103%
NBU lending	9,223	5,249	-43%
Client accounts	41,461	61,995	50%
- Current accounts	*9,882*	*15,255*	*54%*
Eurobonds outstanding	13,519	21,764	61%
Subordinated debt	3,112	6,140	97%
Other liabilities	8,348	16,807	101%
Total liabilities	**75,663**	**111,955**	**48%**
Equity	**17,612**	**11,575**	**-34%**
CAR (Basel)	**28.5%**	**17.8%**	**-10.7pp**

P&L summary, UAH mln

	2013	2014	yoy
Interest income	9,244	10,096	9%
Interest costs	-5,299	-7,419	40%
Net interest income	**3,945**	**2,677**	-32%
Loan loss provisions	-2,780	-11,431	311%
Net fees and commissions	370	430	16%
Operating costs	-1,358	-3,535	160%
Profit before tax	333	-12,442	n/m
Net profit	**201**	**-11,249**	**n/m**

Foreign currency loans and deposits, USD mln equivalent (local accounting standards)



Source: Bank data, Concorde Capital calculations

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