Ukrainian Eurobonds – Strategy Update

The last bets of the restructuring wave

November 29, 2016

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Summary

The Ukrainian economy is recovering slower than the government and the IMF were expecting a year ago, largely owing to a lack of comprehensive reforms and slow improvement of the business climate. The IMF's growth scenario for Ukraine (over 9% of GDP growth in USD terms in 2017-2021) seems to rest on an assumption of strong reforms and timely support from IFIs - all of which are being delayed. Without the IMF-projected growth, Ukraine's state debt-to-GDP ratio is very unlikely to fall below 80% in the coming five years, which means the risk of sovereign default won't ease soon.

Ukrainian Eurobonds offer comparable YTMs to Greek notes, which are considered to be more risky by rating agencies, and whose government has a much higher debt-to-GDP ratio. From this standpoint, Ukrainian notes have some room for appreciation. Among the key risks for Ukrainian bonds are unclarity regarding the continuation of the IMF program and the risk of a debt-to-GDP surge in case the government decides to nationalize Privatbank.

Among the corporate debt issuers, we prefer:

- Eurobonds of state banks, Oschadbank (**OSCHAD**) and Ukreximbank (**EXIMUK**), which have no higher risk of default than sovereign notes, but proved to have a better recovery rate (more investor-friendly conditions) in case of restructuring.
- Eurobonds of Metinvest (**METINV**) and DTEK Energy (**DTEKUA**), whose potential short-term triggers would be the completion of their debt restructuring programs. Both holdings' fundamentals have significantly improved over 2016, with improvement of prices of their key outputs (steel and steam coal). Among the two names, we prefer Metinvest, whose risks are lower in the mid-term (it bears only commodity price risk, while DTEK also is subject to risk of domestic regulations and exchange rate risk).

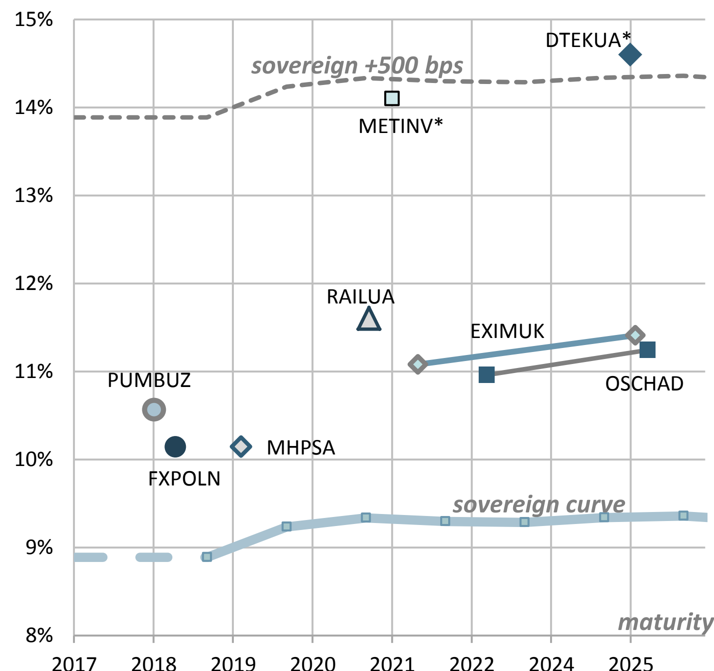
We consider the Eurobonds of First Ukrainian International Bank (**PUMBUZ**) as a good investment with nearly secured repayment (the schedule is smooth) and YTM of 10.6%.

We also recommend to **stay away** from the Eurobonds of ULF (**UKRLAN**) and Avangardco (**AVINPU**), whose free cash flow outlook is too lean to count on smooth repayment of their debt any time in the mid-term.

Thus far, we believe the Eurobonds of Privatbank (**PRBANK**) are risky, primarily because there is a risk of the bank's nationalization. One of the pre-conditions for such a step could be a bondholder "bail in." Such risk can be fulfilled as soon as this year, and it's hard to guess what should happen in order to be sure this risk has gone.

We remain **neutral** on the Eurobonds of MHP (**MHPSA**), Ferrexpo (**FXPOLN**) and Ukrzaliznytsia (**RAILUA**), only stating that currently there are better investment opportunities, as described above.

Yield map, Nov. 29



** Based on latest restructuring proposals. For Metinvest – assuming 9.373% coupon is paid in 2017-2018*
Source: Bloomberg, company data, Concorde Capital research

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Macroeconomic update

Industrial output: good stats so far on low comparative base

Industrial output increased 1.9% yoy in 10M16. The main factors were 6.5% yoy growth in metal production and a 4.6% yoy rise in coal mining. In particular, growth was spectacular in the partially occupied Luhansk region of Ukraine (+51% yoy in 10M16), though this is again the result of an extremely low comparison base.

Indeed the impressive growth statistics so far are **a result of the weak performance of the previous year** (-14.9% yoy in 10M15). Since the declines were softer in 4Q15 (-3.7% yoy, on average), the year-over-year results of these last months should also be milder.

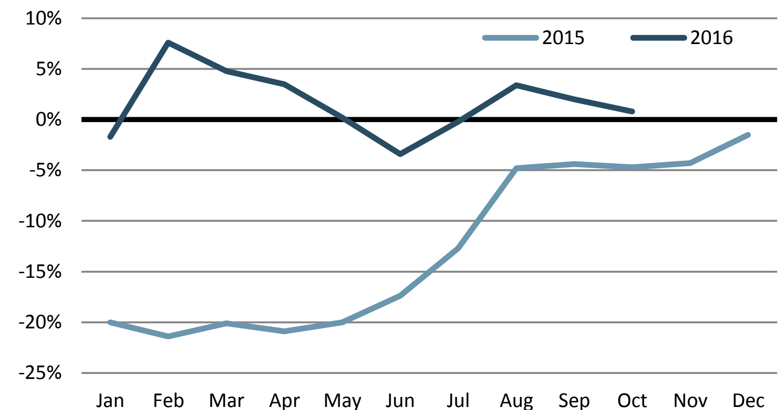
Compared to 2012, Ukraine's industrial output was 25% lower in 10M16, we estimate. The drop is a direct result of a Russian trade embargo and military aggression against Ukraine. It's not likely that Ukraine will be able to return to the levels of 2012 soon, given the de facto loss of its territories with intensive industries.

Regionally, the growth in industrial output is not even, ranging from -9% yoy to +51% yoy. The most industrialized regions (located in the east and south) also show uneven growth paths.

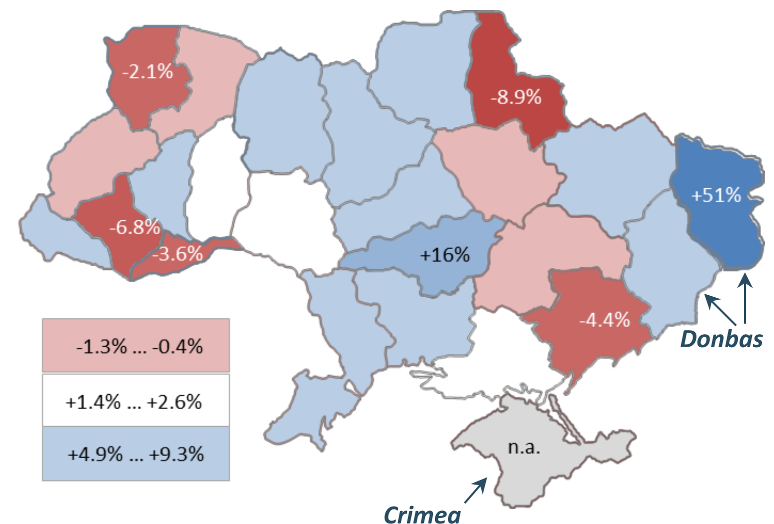
We expect rather modest (low-single digit) growth of industries in September-December 2016, and nearly 2.0% yoy average growth in the full year.

While it's relatively easy to demonstrate growth in 2016 (after a 13% yoy decline last year), **maintaining momentum in 2017 could be more challenging**. We do not expect industry strengthening much in 2017 given that external markets are not sending encouraging signals to metal-exporting countries. In light of such trends at the global markets, we still expect a positive industrial performance next year of 1.8% yoy growth with potential deceleration due to a stronger comparative base.

Industrial output - monthly change yoy



Industrial output: yoy change by regions, 10M16



Source: UkrStat, Concorde Capital research

External accounts: C/A deficit to widen on import expansion

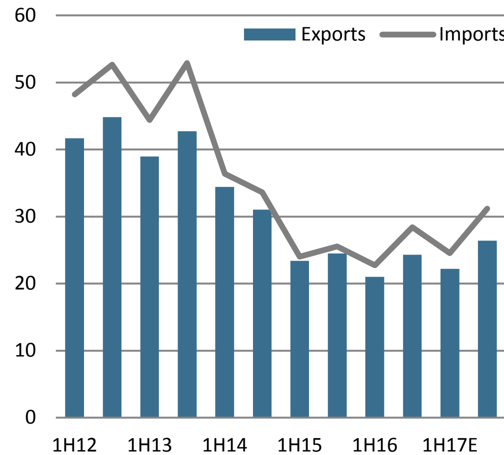
Starting in July, the current account (C/A) balance again switched into red and reached a USD 2.3 bln deficit already by September (USD 13 mln surplus for 9M15). A fast rebound of imports (+7.0% yoy in September and -0.8% yoy for 9M16) amid a still sluggish performance of exports (-5.3% yoy in September and -8.1% yoy for 9M16) stand behind this outcome.

Imports have been improving both on the back of a recovering energy bill and non-energy imports. Energy imports started strengthening from July in line with growing natural gas imports. In particular, energy imports improved to +0.9% yoy in September vs. -11.4% yoy in August and -27.2% yoy in July. Non-energy imports also were on the rise, reflecting recovering internal consumption. In particular, non-energy imports of goods and services grew 14.3% yoy for 9m16.

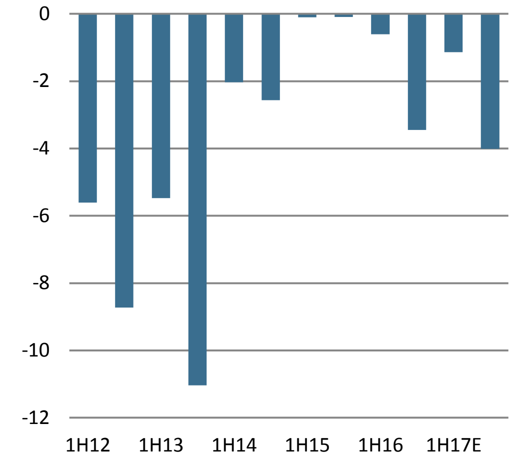
The tendency we are observing is in line with our initial view published early this year. External demand for Ukrainian exports is still poor and we can hardly expect any dramatic change in the next year or so. At the same time, import prospects are quite promising. Firstly, for the next few months we will see strong energy import dynamics as we expect nearly 1.7 bcm in monthly gas imports vs. nearly 0.5 bcm for 1H16. Secondly, internal consumption will keep gaining momentum amid steady economic strengthening.

Against this backdrop, we confirm our 2016 C/A deficit forecast at USD 4.0 bln (4.5% of GDP). Expecting a further expansion of the trade deficit because of rising import consumption in 2017, we expect the C/A deficit to reach USD 5.1 bln (5.8% of GDP) next year.

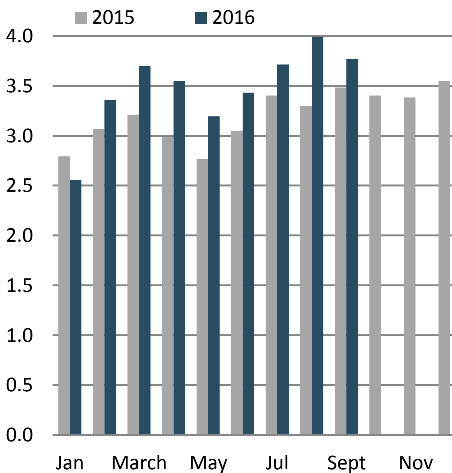
Goods & services trade, USD bln



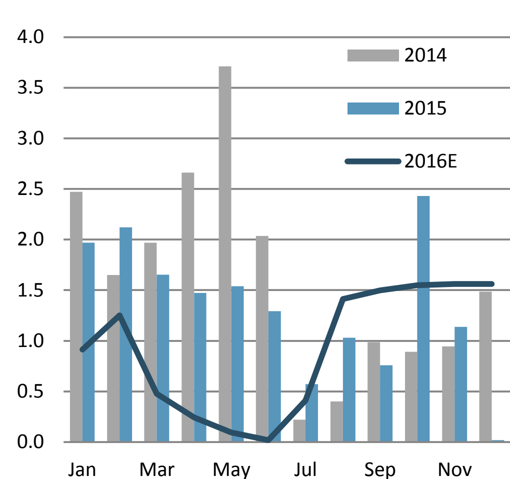
C/A balance, USD bln



Non-energy imports, USD bln



Natural gas imports, bcm



Source: NBU, UkrStat, Concorde Capital research

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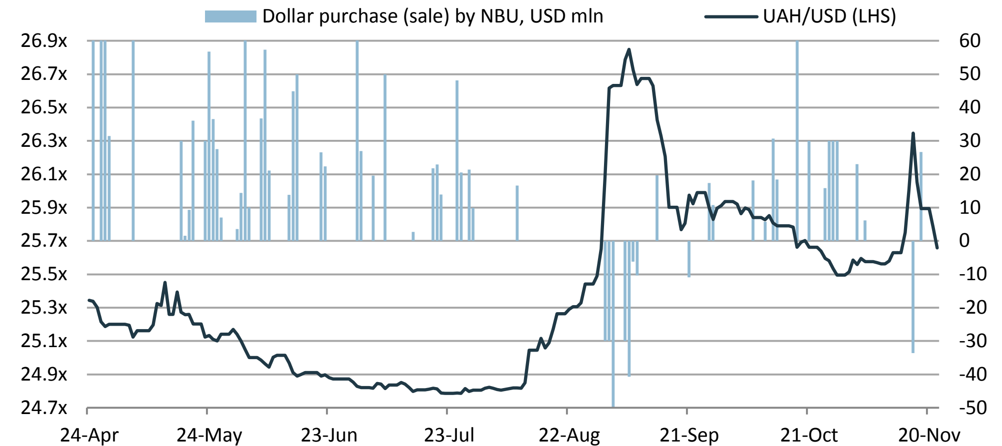
The hryvnia: gradual depreciation tendency to continue

After a period of summer tranquility, the hryvnia started depreciating in mid-August triggered by the expanding C/A deficit, coupled with nervousness related to IMF negotiations. The national currency has lost nearly 7% from the start of August, touching its local bottom at UAH 26.85/USD on Sept. 6, the day before the IMF board put Ukraine on its schedule. From that point onwards, the hryvnia endured some swings and by the report's date, it hovered close to UAH 25.7/USD.

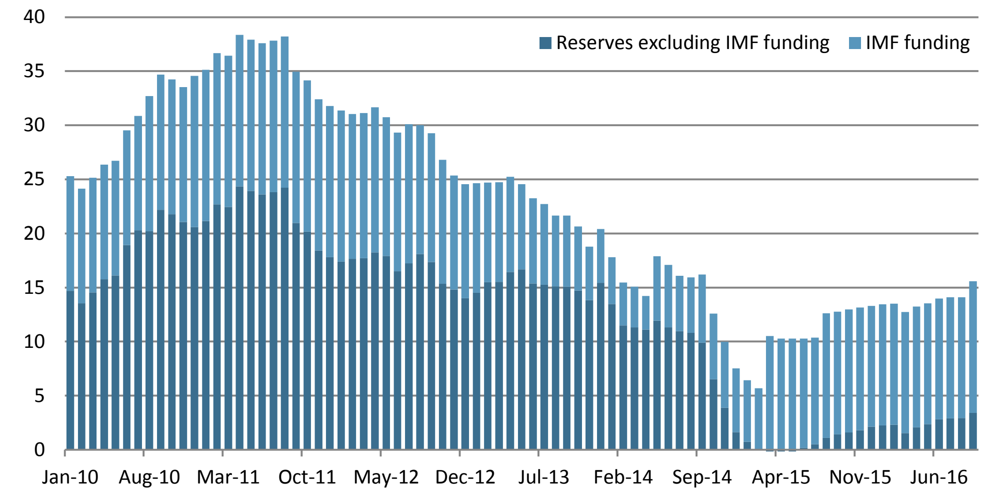
Current tendencies at the ForEx and approval of a USD 500 mln loan from the World Bank for natural gas purchases tell us that the hryvnia is unlikely to move significantly from current levels. A potential EUR 600 mln macro-financial loan from the EU by the year end also adds confidence. We project the hryvnia touching UAH 26.5/USD by the end of 2016.

For 2017, we expect an ongoing pattern of an expanding C/A deficit on the back of a steady revival in imports. We project the hryvnia will touch UAH 28.5/USD as of end-2017.

Interbank currency market in 2016



Gross NBU reserves, USD bln



Source: NBU, Concorde Capital research

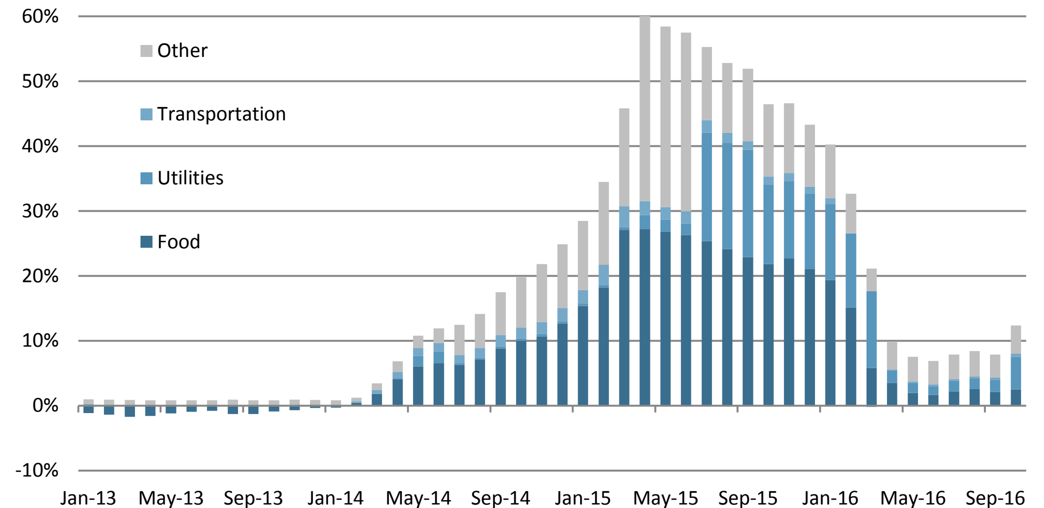
Inflation speeds up, remains in single digits

After three months of summer deflation, consumer prices again started growing in September and October owing to a 27.8% m/m electricity rate hike in September and a 42.7% m/m jump in heating tariffs in October. As a result, CPI rose 9.4% YTD in 9M16.

In October CPI did not reflect in full new heating bills (due to varying billing periods for households) which means we will see further utilities' tariffs increase in November. This factor coupled with stronger food prices dynamics are expected to feed inflation over the upcoming weeks. This tendency is close to what we expected initially and we are leaving our CPI forecast at 10.5% YTD (+14.5% yoy) for 2016.

For 2017, we expect inflation to slow only later in the year. An electricity rate hike in March 2017 (by an extra 28%) and further hryvnia weakening will underpin rising prices. Still we project CPI growth staying in the single digits, or +7.8% YTD (+8.9% yoy), in 2017.

Breakdown of headline CPI



Source: UkrStat, Concorde Capital research

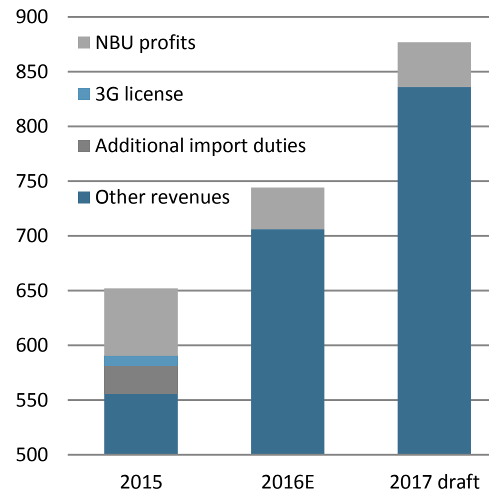
Fiscal accounts: budget prospects look bright

Ukraine's general budget is still in good shape. For 9M16, general budget revenue increased 12.3% yoy while the annual target is +15.5% yoy. Remarkably, the result was achieved disregarding the still-delayed NBU dividend payment of UAH 38.0 bln, or about 5% of the total expected budget revenue for 2016. The main contributors to budget revenue growth were excise duties (+45.6% yoy in 9M16, or UAH 23.1 bln), personal income tax (+40.4% yoy) and value-added tax (+29.4% yoy). Given the NBU Council already approved disbursement of UAH 38 bln in dividends to the budget, we do not see any risk of the budget missing its year-end revenue target. Also we consider the government's initially outlined deficit of 3.7% of GDP to be safe.

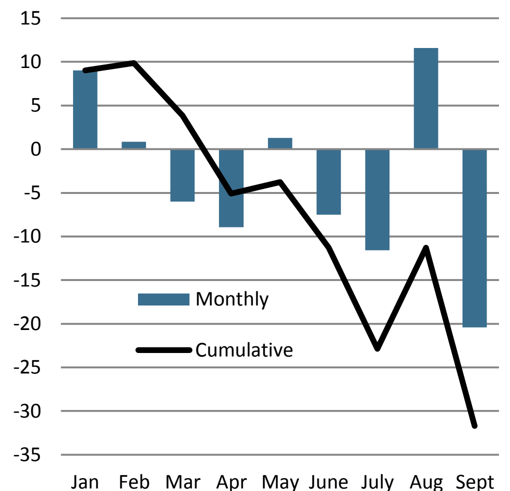
A lot of questions surround fiscal prospects for 2017 after the Cabinet's initiative to double the minimum wage for next year. Authorities managed to keep the spending plan almost unchanged with the same deficit target (3.0% GDP) by untying the minimum wage from other social liabilities. However, the doubled minimum wage raised concerns from the IMF and created much uncertainty for the private sector.

Apart from the minimum wage issue, the 2017 spending plan still remains much better compared to what we used to see, with quite a realistic revenue target and no proposals for typical quasi-fiscal liabilities (like Naftogaz subsidies). Given that the budget's unusually smooth approval process so far was undermined by the doubled minimum wage idea, the final rubber stamp on the spending plan most likely will be delayed till the end of December, the traditional time for voting on the budget.

Budget revenue breakdown, UAH bln



General budget balance in 2016, UAH bln



Source: MinFin, Concorde Capital research

Key macro indicators

	2011	2012	2013	2014	2015	2016F	2017F
Real GDP, chg yoy	5.2%	0.2%	0.0%	-6.8%	-9.9%	0.9%	2.1%
Nominal GDP, USD bln	163	177	183	133	90	89	93
Household consumption, chg yoy	15.0%	9.0%	7.8%	-9.6%	-19.9%	2.1%	5.5%
Investments in fixed capital, chg yoy	10.1%	2.5%	-6.6%	-23.0%	-8.7%	8.3%	7.4%
Industrial output, chg yoy	8.0%	-0.7%	-4.3%	-10.1%	-13.0%	2.0%	1.8%
CPI (eop)	4.6%	-0.2%	0.5%	24.9%	43.3%	10.5%	7.8%
CPI average	8.0%	0.6%	-0.3%	12.1%	48.7%	14.5%	8.9%
PPI (eop)	14.2%	0.3%	1.7%	31.8%	25.5%	30.7%	10.1%
Current account balance, USD bln	-10.2	-14.3	-16.5	-4.6	-0.2	-4.0	-5.1
% GDP	-6.2%	-8.1%	-9.0%	-3.5%	-0.2%	-4.5%	-5.5%
Gross NBU reserves (eop), USD bln	31.8	24.6	20.4	7.5	13.3	16.1	21.4
Public debt, USD bln	59.2	64.5	73.2	69.8	65.5	69.5	73.7
% GDP	36.3%	36.5%	39.9%	70.3%	79.4%	80.8%	80.9%
Gross external debt, USD bln	126.2	134.6	142.1	126.3	118.7	117.1	125.6
% GDP	77.2%	762%	77.5%	95.1%	131.5%	133.1%	135.1%
UAH/USD rate (avg)	7.97	7.99	7.99	11.9	21.8	25.6	28.0

Source: UkrStat, NBU, MinFin, Concorde Capital research

Mid-term outlook for Ukraine

IMF overly optimistic on Ukraine's mid-term growth

Macroeconomic forecasts for Ukraine prepared by the IMF lack reality, in our view. The economy is forecasted to grow at 9.5% CAGR in USD terms in 2017-2021, according to its outlook, while its real growth rate for the period will be just 3.4% p.a. It assumes the Ukrainian currency will be relatively stable against the U.S. dollar (-1.7% CAGR) amid an average inflation rate of 7.2%. Such a high inflation rate will make Ukraine's economy, highly concentrated on external markets, increasingly uncompetitive globally, which should lead to either a decline in real output, or heavier devaluation of the local currency. In both cases, USD-denominated GDP will grow much smaller than what the IMF forecasts.

The IMF's outlook also lacks consistency if we plot Ukraine's USD-denominated GDP versus global commodity trends (see the chart on the left). Historically, Ukraine's GDP in USD terms heavily correlates with the IMF's All Commodity Index. The maximum divergence from the commodity trend line was detected in 2007-2008, years that were preceded by heavy investments (including high FDIs). But even in these years, the divergence from the trend line was no more than 22%. In IMF's forecast for 2021, the divergence is modeled at a spectacular 35%.

- **The only thing that can justify the IMF's optimistic forecast of Ukraine's GDP is systemic, consistent reforms** that lead to radical improvement of the country's investment profile and generate intense capital inflow into Ukraine's economy. Thus far, that scenario does not look very likely. Moreover, the "systemic reforms" scenario was not assumed by the IMF since it does not foresee any spike in FDI, which is forecasted at USD 2-4 bln for 2017-2020 compared to USD 8-10 bln in 2005-2007.
- **An alternative scenario that could enable Ukraine's GDP to reach the IMF's parameters is a commodity boom in 2017-2021** that would be capitalized upon by the nation's economy. This is more likely than the "systemic reforms" scenario, in our view, but still not probable.

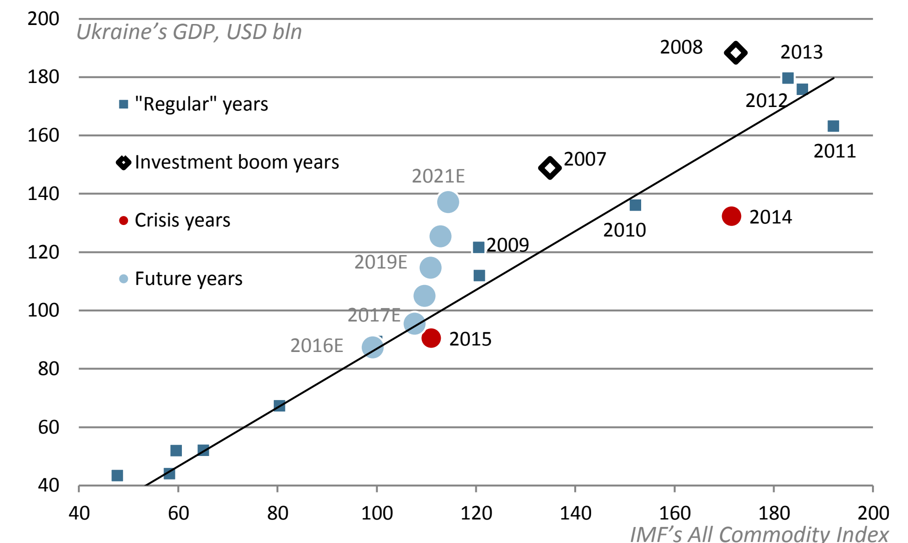
That said, we expect Ukraine's GDP will grow much slower in USD terms in 2017-2021 than what the IMF projects.

The key reason behind the IMF's excessive assumptions of Ukraine's growth lies in its intention to lend to Ukraine, in our view. Should the IMF's outlook be more conservative, the Fund would have to admit that it cannot lend much (in line with EFF program) to the Ukrainian government.

IMF forecasts for Ukraine

	2015	2016F	2017F	2018F	2019F	2020F	2021F
Real GDP	-9.9%	1.5%	2.5%	3.0%	3.5%	4.0%	4.0%
Nominal GDP in UAH	24.7%	15.2%	13.8%	12.3%	10.3%	10.3%	10.3%
Nominal GDP in USD	-31.6%	-3.7%	9.3%	10.1%	9.2%	9.4%	9.4%
UAH / USD	21.9	26.2	27.2	27.8	28.1	28.3	28.5
Inflation	48.7%	15.1%	11.0%	8.0%	6.6%	5.5%	5.0%
UAH devaluation	-45.2%	-16.4%	-4.0%	-2.0%	-1.0%	-0.8%	-0.8%

Ukraine's GDP vs. IMF's commodity index: history and forecasts



Source: IMF, Concorde Capital research

If IMF outlook unfulfilled, sovereign default risk remains

Based on the IMF's vision of Ukraine's economic development by 2021, the country's state debt-to-GDP should fall to 67% as of end-2021 from 80% as of end-2015. This forecast is at the core of the IMF's intention to provide new loans to Ukraine. But if Ukraine's economy doesn't behave as well as projected, its ratio of state debt-to-GDP won't fall to the levels forecasted by the Fund. In other words, we see a high risk that the Ukrainian government won't be able to deleverage in line with the IMF's plan.

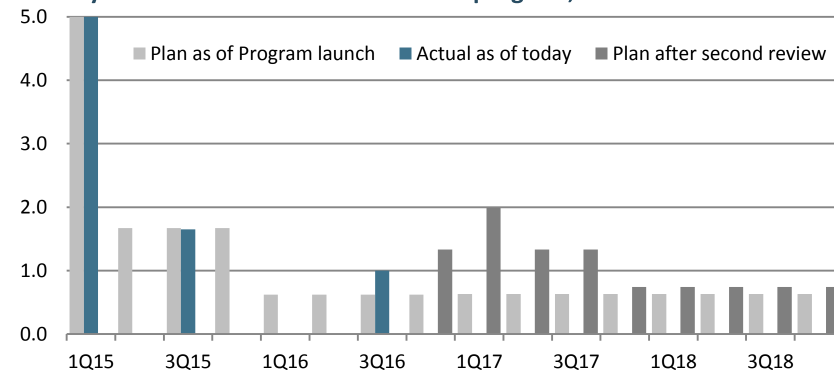
The underperformance of the IMF's scenario would mean that Ukraine's ability to borrow will be much weaker than it looks right now. Among the key outcomes of such inability are:

- a high risk of currency devaluation in 2018-2019 (as not enough foreign currency would be available to finance the traditional current account deficit).
- and/or a high risk of sovereign default in 2019 or 2020, which will only intensify should Ukraine borrow more. Note that in 2019, Ukraine's repayment schedule of sovereign debt is close to what it was in 2015, when the government had to restructure its debt.

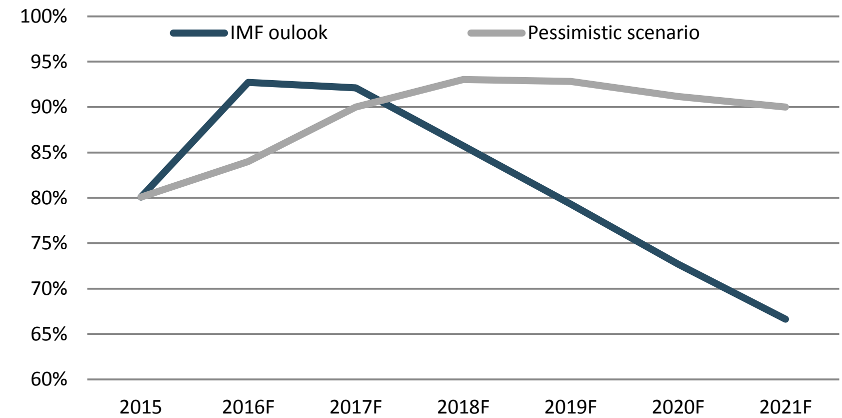
Now we have all the signs to state that the IMF's program with Ukraine is being significantly delayed:

- instead of eight tranches of USD 12.5 bln planned by end-2016, Ukraine received only three tranches worth USD 7.7 bln, with prospects for the next tranche unclear.

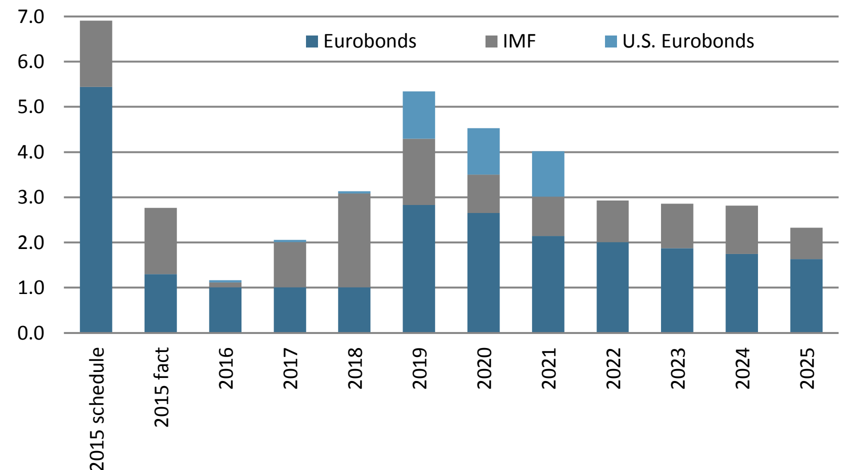
Money received from the IMF under EFF program, USD bln



Ukraine's state debt-to-GDP



External debt servicing schedule (interest and principal)*



** Schedule as it looks right now (including planned new debt from the IMF)*
Source: IMF, MinFin, Concorde Capital research

Sovereign bonds

Ukraine state bonds still look attractive as compared to peers

Below we make an attempt to compare the credit profile and yields of Ukrainian government bonds and the bonds of comparable governments, based solely on their credit ratings and financial leverage (state debt-to-GDP ratio). Based on these parameters, Ukraine is:

- Close to Jamaica, Belarus and Egypt.
- Better than Venezuela and Greece.
- Worse than Argentina, Ghana and Pakistan.

Using the above peer group, we can conclude that:

- Ukraine's nearest sovereign bonds offer better yields than those of Egypt and Belarus, which suggests there is some room for growth of Ukraine's 2019 and 2020 notes.
- Ukraine's bonds maturing in 2024 and 2025 offer a comparable return to the notes of Ghana, which has a better risk profile.
- Ukraine's longest bond (UKRAIN'27) looks attractive compared to the notes of Jamaica, with a close risk profile.

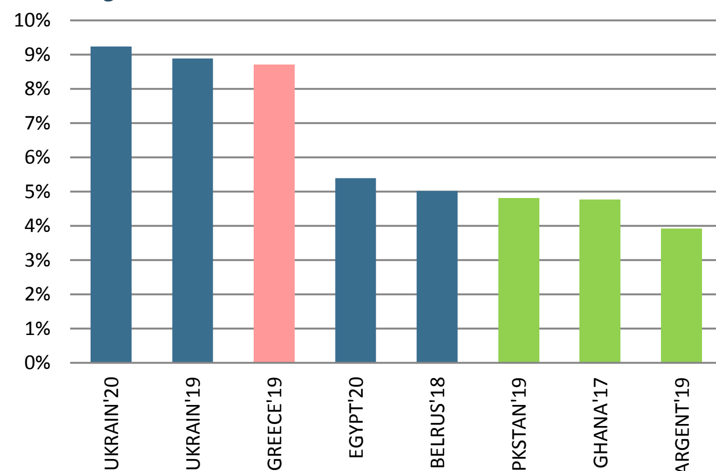
We also note that the YTMs of Ukrainian bonds offer better YTMs as compared to more risky Greek paper, which we view as unjustified.

Sovereign issuers most comparable to Ukraine by ratings

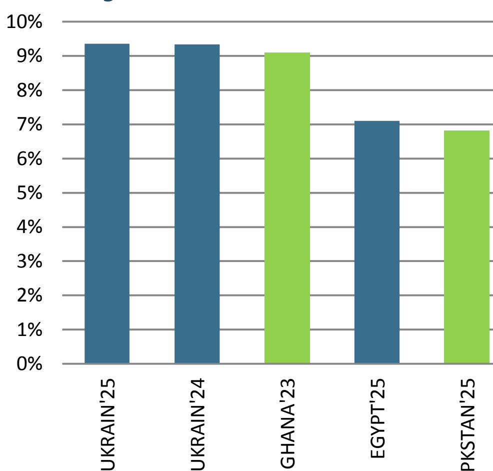
	$ GDP CAGR 2015-'21*	Sov'n Debt/ GDP 2015	Sov'n Debt/ GDP 2021*	S&P	Fitch	Moody's
VENZ	-6%	42%	24%	Caa3	CCC	CCC
GREECE	5%	177%	169%	Caa3	CCC	B-
UKRAIN	**9%**	**77%**	**66%**	**Caa3**	**B-**	**B-**
BELRUS	1%	54%	69%	Caa1	B-	B-
JAMAN	5%	120%	80%	Caa2	B	B-
EGYPT	na	89%	78%	B3	B	B-
ARGENT	6%	52%	49%	B3	B	B-
GHANA	11%	71%	52%	B3	B	B-
PKSTAN	na	64%	54%	B3	B	B

YTM of sovereign bonds:

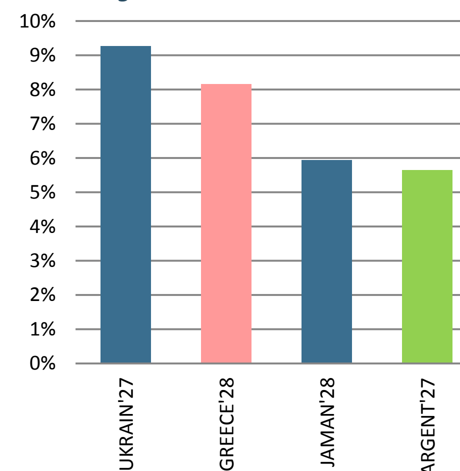
Maturing 2017-2020



Maturing 2023-2025



Maturing 2027-2028



** Based on IMF forecasts*

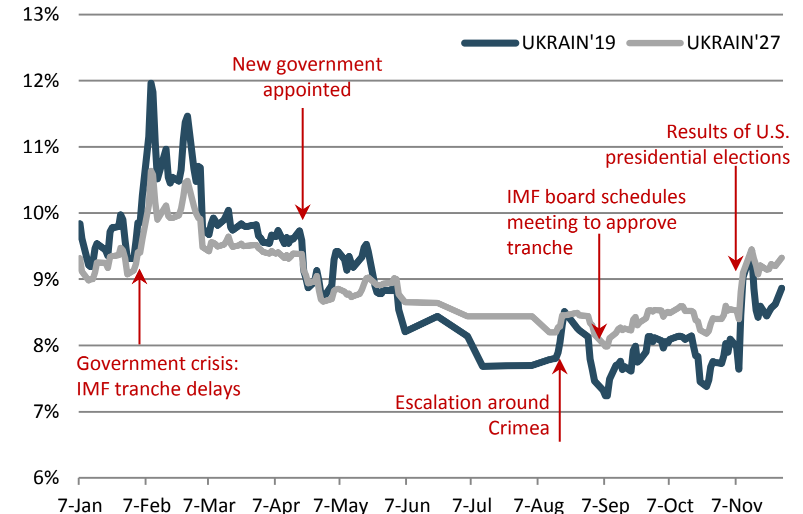
Source: Bloomberg, IMF World Economy Forecast, Concorde Capital research

Ukraine state bonds: moving on political events

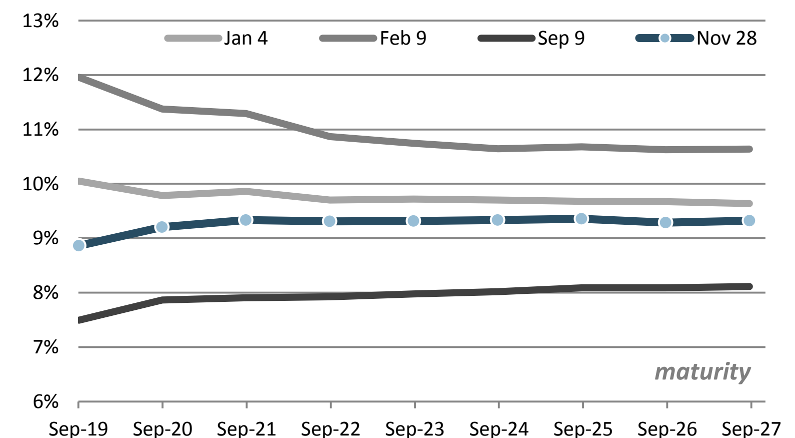
The key movements of the Ukrainian sovereign curve in 2016 were linked to political events in Ukraine and globally.

- The first radical upward movement of the curve happened in early February, following the scandalous resignation of Economy Minister Aivaras Abromavicius and his allegations of high corruption in government. This triggered a government crisis and made clear that the IMF tranche, anticipated in mid-February, won't arrive soon.
- Following the emergence of the new Cabinet in mid-April, bond prices improved and started growing smoothly afterwards.
- Another visible spike in bond yields happened in mid-August, as soon as the Russian government blamed Ukraine for provocations in Crimea. This, as well as the anniversary of Russia's aggression against Georgia in 2008, scared investors.
- The lower YTM was achieved by Ukrainian bonds in mid-September, just after the IMF board scheduled a meeting to approve the next tranche for Ukraine.
- The latest selloff in Ukrainian bonds happened in mid-November, after the results of U.S. presidential elections were announced. For some reason, investors decided that Donald Trump's victory adds some risks for Ukraine's finances – an idea that we don't share.

YTM of Ukraine Eurobonds in 2016



Ukraine sovereign yield curves in 2016



Source: Bloomberg, Concorde Capital research

Ukraine state bonds may improve if Privatbank, political situation calm

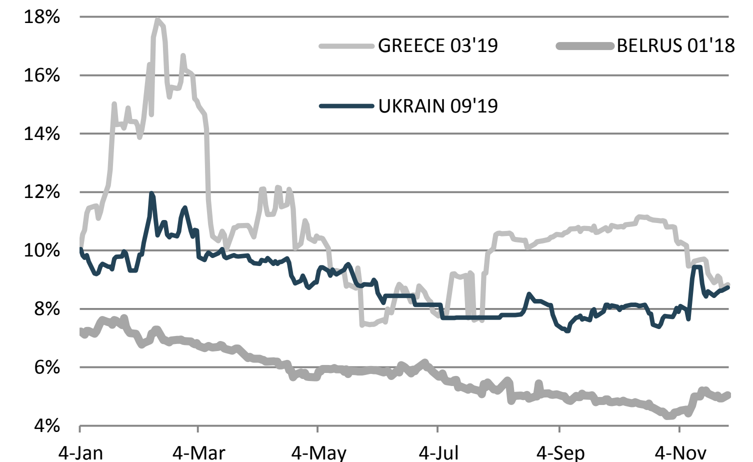
During 2016, the YTM of Ukrainian sovereign bonds converged to the YTM of Greek bonds, which have weaker credit ratings and much heavier indebtedness. Provided there's no political turmoil, Ukrainian bonds should narrow their spread to Belarusian paper, which has the same credit rating from two out of the three leading rating agencies and comparable debt-to-GDP ratio.

In the short term, we expect downward movement of the Ukrainian sovereign curve, provided there is no political turmoil. In his recent interview with Focus magazine, Ukraine's Finance Minister Alexander Danylyuk said Ukraine is targeting to place new Eurobonds in 1H17 at a yield of 5 to 6 percent. While such plans look rather ambitious now, this suggests the government will be focusing on targeting lower yields of sovereign bonds in the near future. Such efforts may result in lowering yields to 7-8% from 8.9%-9.4% currently, in our view.

On the other hand, we have to admit that any political turmoil in Ukraine (which we don't expect to happen, but cannot rule out) would add volatility to Ukrainian bonds.

The key non-political risk for the sovereign curve in the near future is a possible nationalization of Privatbank, which may be done by a contribution of state bonds into the bank's equity (up to UAH 90 – 150 bln), which may increase the ratio of Ukraine's state debt-to-GDP by an additional 4.0 – 6.5 pp, from an already high level of 80%. An increase of the state's financial leverage, as well as lack of institutional preparedness of the government to fulfill such a risky and complicated project, allows us to conclude that the nationalization is not a base-case scenario, though the risk of such an event is currently far from zero.

YTM of Ukrainian, Greek & Belarussian bonds in 2016



Source: Bloomberg, Concorde Capital research

Factoring in the war in Donbas

CONCORDE CAPITAL

Occupation of Donbas: Ukraine economy adjusted accordingly

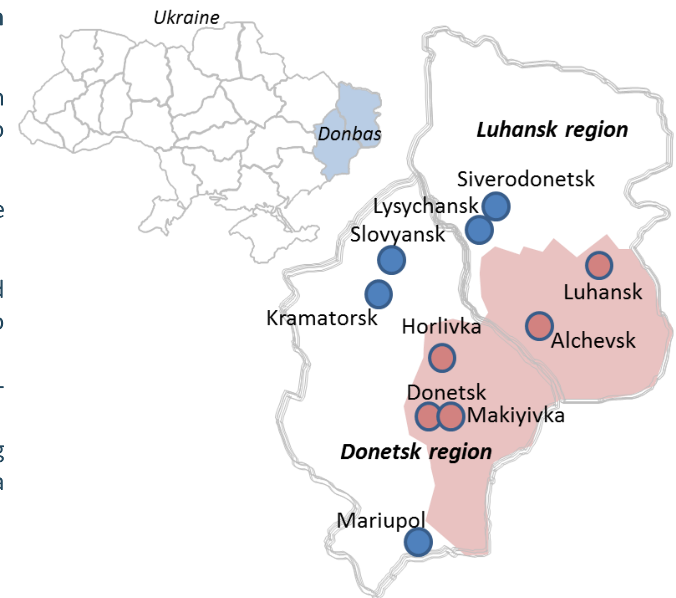
The ongoing warfare and occupation of parts of the Donetsk and Luhansk regions of Ukraine (collectively known as "Donbas") by Russian-backed terrorists has ceased to be a drain on the Ukrainian economy, barring any future escalation. All the related negatives have already been factored in Ukraine's fundamentals.

Since February 2015 when the Minsk Two Accords were signed, the situation in the occupation zone in Donbas remains unchanged. Such "stability" enabled Ukrainian companies to adjust their operations to the new reality.

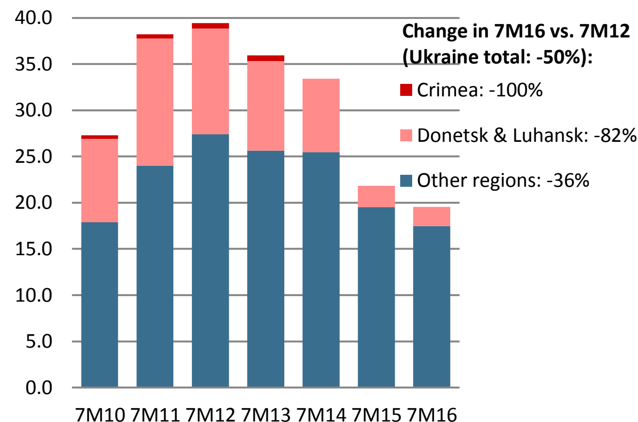
Ukraine's economy also has adjusted as the key effect from the Donbas war – heavy devaluation of the local currency – has been fully reflected in all the fundamentals.

- The biggest contribution of the Donetsk and Luhansk regions was to Ukraine's exports (which peaked at 36% of Ukraine's total in 2011) and net exports (which were positive in 2011-2013 compared to negative for the remainder of Ukraine).
- After Ukraine lost chunk of these regions, Ukraine's external accounts adjusted accordingly in 2014-2015 as imports slowed radically, mainly due to the currency's devaluation.
- With the contribution of the Donetsk and Luhansk regions to Ukraine's total exports having plummeted to 11% in 7M16, Ukraine's imports fell even faster. This enabled Ukraine to demonstrate a much smaller trade deficit in 2015-2016.

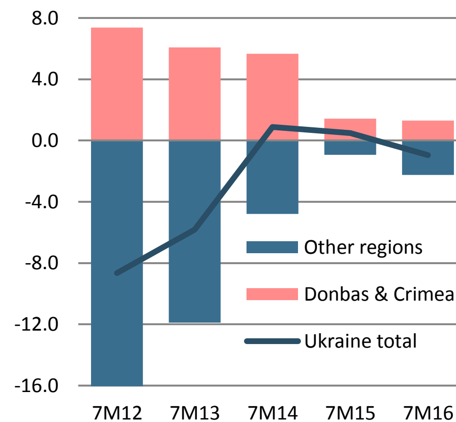
Map of the occupied Donbas, September 2016
(with cities of over 100k population as of early 2014)



Goods exports from Ukraine by regions, USD bln



Ukraine trade balance, USD bln



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 on 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

The Crimea/Donbas factors are fully reflected in company fundamentals

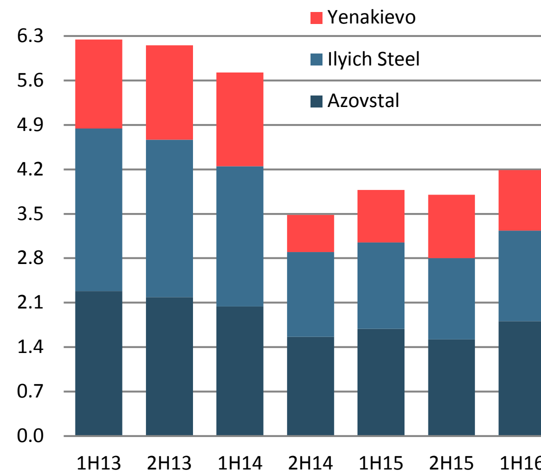
With more than two years of occupation of parts of Ukraine by Russia and Russian-backed forces, Ukrainian companies have adjusted their business accordingly.

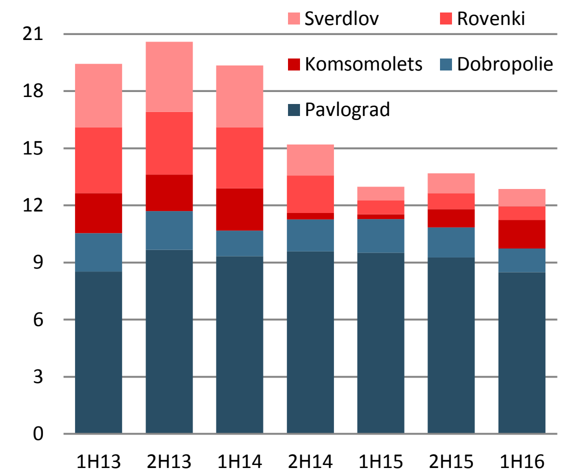
Metinvest and **DTEK** scaled down their operations in the occupied regions, while continuing to operate there. As soon as the situation in the occupied districts of Donbas stabilized this year, the companies were able to slightly restore their operations there. The risk of a new escalation still exists. Though, our base-case scenario assumes no escalation.

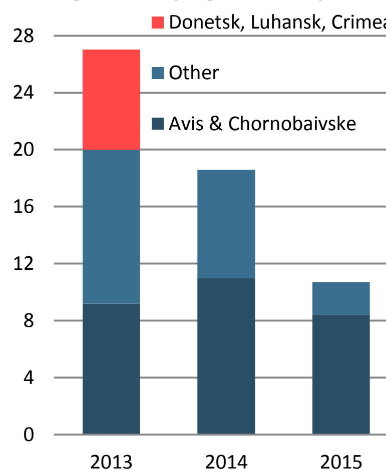
Avangardco closed all its egg factories located in the Donetsk and Luhansk regions, as well as in Crimea. However, as its chart on the right suggests, the company's Donbas-related losses were not limited to those assets located on the occupied territories.

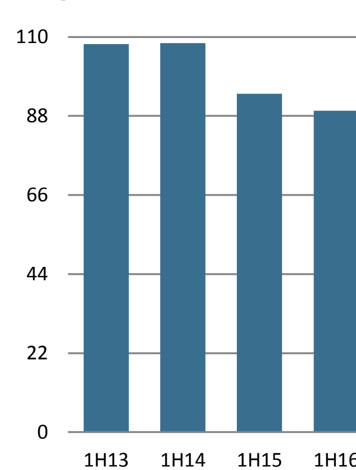
MHP suffered little from the war in Donbas, having closed one breeding factory in the Donetsk region but offsetting the respective capacity losses by boosting activity in other locations. Unlike Avangardco, MHP did not exit its Crimean business. It has reported little about its Crimean operations, so we assume its factory there is operating on the same level as in 2012 (about 73 kt of poultry meat p.a.).

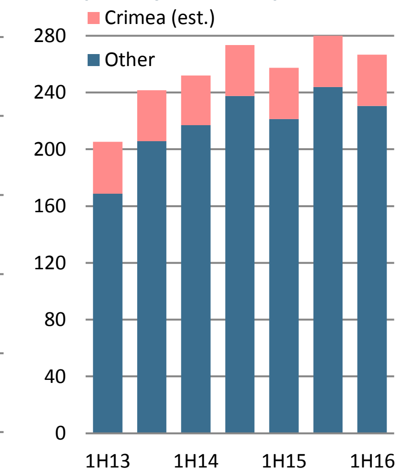
Also affected by the Crimea/Donbas occupations are all the covered **banks** (which already accounted for that in their balance sheet provisions) and **Ukrzaliznytsia (UZ)**, which lost about 17% of its freight turnover in the last two years.











** Shades of red illustrate exposure to the regions that are not currently controlled by Ukrainian government (occupied part of Donetsk and Luhansk regions, Crimea).*
Source: Company data, Concorde Capital research

CONCORDE CAPITAL

Eurobond issuers, non-banking

Risk and reward assessment

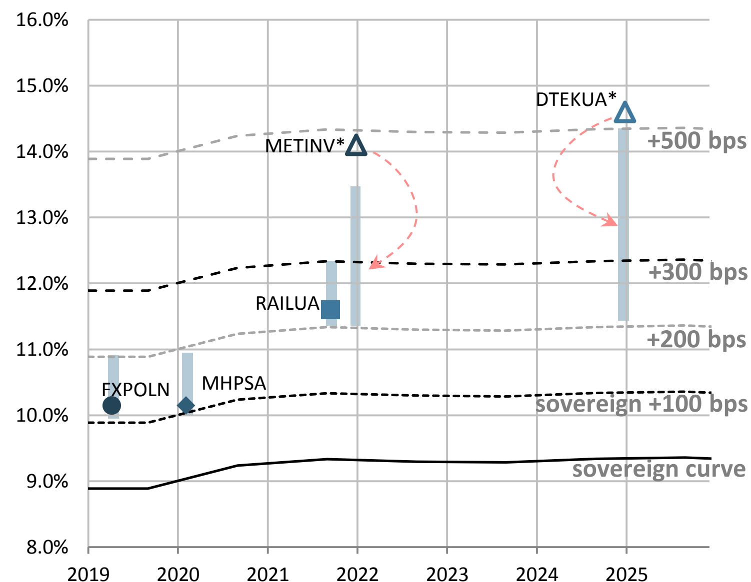
Below we offer our analysis of the risks posed by the non-banking corporate Eurobond issuers and implied YTM range based on the following criteria :

- **Financial leverage that determines ability to refinance debt** (net debt to mid-term EBITDA ratio) looks more or less sound for most of the issuers, except ULF and and Avangardco.
- **Ability to smoothly repay debt via own cash flow** (net debt to FCF ratio) looks solid for Ferrexpo, and slightly risky for DTEK, MHP & Metinvest. However, given their relatively low leverage ratio, these companies still will be able to repay their debt in the mid-term via refinancing. ULF and Avangardco do not look able neither to repay nor refinance their debt in the mid-term.
- **Currency risk**, or exposure to the local market, is low for Ferrexpo, Metinvest and ULF, while it's high for MHP and Avangardco. For DTEK and Ukrzaliznytsia, the local currency risk does exist, but seems to be less material in the mid-term. Prices of their goods and services are adjusted in line with local currency devaluation, but with some lag.
- **Clarity of the future interest rate on bonds**: among the issuers, only Metinvest offers a wide range of possible coupon rates, depending on its financial performance. Also, we note that ULF and Avangardco may offer much smaller rates as compared to scheduled levels.
- **Credit ratings** assigned by international ratings agencies.

Based on the above parameters, we see that:

- The least risky are the bonds of MHP and Ferrexpo, although they look fairly priced.
- More risky are the bonds of Ukrzaliznytsia and DTEK, as well as the paper of Metinvest (primarily because its coupon rate is uncertain). At the same time, bonds of DTEK and Metinvest seem to have an upside potential as their YTMs are higher than the required return rates, as we see them.
- The bonds of ULF and related Avangardco are not investable at all.

Current YTMs and our estimate of their "fair" range



	Latest values, USD mln		2017E - 2021E average, USD mln							
	Total debt	Net debt	EBITDA	FCF	Net Debt / avg. EBITDA	Net Debt / avg. FCF	Currency risk	Coupon rate	Credit rating	"Fair" spread to sov'n
MHP	1286	1239	405	140	3.1	8.9	Fair	Fixed	Sov'n	100 – 200
Ferrexpo	797	753	357	260	2.1	2.9	No	Fixed	Sov'n or below	100 – 200
Metinvest	2981	2798	1460	597	1.9	4.7	No	Wide range	Sov'n or below	200 – 400
Ukrzaliznytsia	1834	1630	620	320	2.6	5.1	Fair	Fixed	Below sov'n	200 – 300
DTEK	2288	2274	925	222	2.5	10.2	Fair	Fixed	Below sov'n	200 – 500
ULF	1601	1540	184	22	8.4	> 20	Low	Unclear	No	>2000
Avangardco	341	317	35	2	9.1	> 20	Fair	Unclear	No	>2000

** Based on latest restructuring proposals. For Metinvest – assuming 9.373% coupon is paid in 2017-2018*
Source: Company data, Concorde Capital research

CONCORDE CAPITAL

DTEK and Metinvest: restructuring approval ahead

Metinvest and DTEK, subsidiaries of Ukraine's biggest business group SCM, have initiated talks with creditors on long-term restructuring of their debt in early 2016.

Thus far, DTEK has achieved more progress with its bondholders in reaching agreement on restructuring conditions with the ad hoc committee. Its conditions are better than were rumored in September and October 2016.

Metinvest last time announced its key conditions in May 2016, and is going to announce final restructuring terms by the end of November. Taking into account DTEK's experience, we expect that the final conditions of Metinvest will be slightly better than initial ones.

The key peculiarity of Metinvest's restructuring offer is that it assumes a wide range of possible cash interest payments for 2017-2018 (from 2.793% to 10.875%), as well as a wide range of principal repayment opportunities (which are the function of Metinvest's cash balance).

For valuation purposes, we assume that both holdings won't make any early repayments of their principals on bonds.

We estimate the fair NPV of DTEK bonds is 89% of par (assuming a 350 bps spread to sovereign curve), and the NPV of Metinvest bonds at 93% of par (assuming the latest available restructuring terms and a 300 bps spread to sovereign curve).

Based on the current bond prices, we conclude that both Eurobonds have an upside potential.

	Metinvest	**DTEK Energy**
Status:	Preliminary conditions announced in May 2016. Updated conditions may differ (expected by end-November).	Conditions offered in November, subject to approval in December.
Coupon payments:	**2017-2018:** Cash coupon: 2.793% Coupon paid in PIK or cash: 6.5795% Extra cash coupon: 1.5025% **2019-2021:** Cash coupon: 10.875%	**10.75%** all time, paid in cash and PIK Cash coupon: 2017-2018: 5.5% 2019: 6.5% 2020: 7.5% 2021: 8.5% 2022-2023: 9.5% 2024: 10.75%
PIK part of coupon:	Capitalized, interest-bearing	Capitalized, interest-bearing
Principal repayment:	End-2021	50% end-2023 50% end-2024
Early repayment:	Principal amortization based on cash position	Partial/full redemption on the company's decision, on pre-determined price

Implied NPV of bonds, % of par:

Metinvest:

Required return rate	Coupon scenario* (1)	(2)	(3)
11.3%	96.2	96.5	99.1
12.3%	92.2	**92.8**	95.4
13.3%	88.5	89.4	91.9

DTEK Energy:

Required return rate	
11.3%	97.0
12.8%	**88.9**
14.3%	81.7

** (1): 2.793% coupon paid in 2017-2018 and 6.58% is capitalized*
(2): 9.373% coupon paid in 2017-2018
(3): 10.875% coupon paid in 2017-2018

Source: Company data, Concorde Capital research

Issuer profiles, non-banking

CONCORDE CAPITAL

Avangardco and Ukrlandfarming (ULF)

NEGATIVE VIEW

Company profile

Ukrlandfarming (ULF) is the largest farming company in Ukraine in terms of land bank controlled. Its total land bank of 653 kha includes 34 kha on the occupied territories (in Donbas and Crimea). Ukrlandfarming harvested around 3.3 mmt of crops in 2015 (-14% yoy), mainly corn and wheat. The company operates grain storage facilities with a total capacity of 2.58 mmt, including 1.86 mmt in vertical elevators.

ULF's subsidiary Avangardco (AVINPU) claims to be the largest egg producer in Ukraine. According to its trading updates, Avangardco's shell egg production fell 46% yoy in 2015 to 3.4 bln eggs. 85% of its shell eggs were sold domestically in 2015. The company also processes part of its shell eggs into dry egg products (9.1 kt produced in 2015, -58% yoy). 78% of its egg products were exported in 2015 (83% in 2014).

Ukrlandfarming has other business segments that generated 28% of its revenue in 2015: distribution (fertilizers, crop protection, agricultural equipment and spare parts), seed production, and meat production (cattle herd was 50,500 heads as of end-2015, hog stock was 24,500 heads).

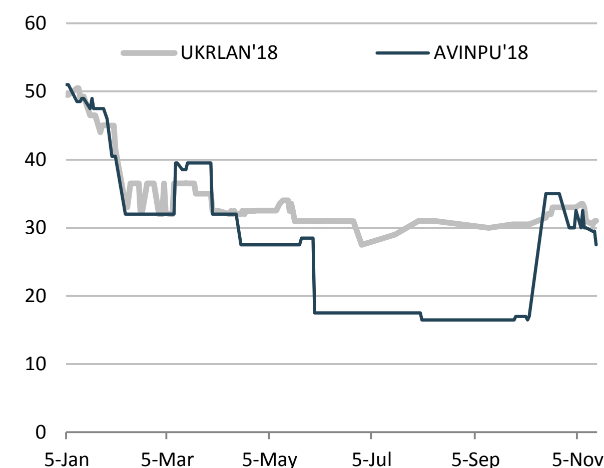
Low commodity prices dent earnings. Pushed down by hryvnia devaluation, seasonal weakness and a lack of export markets, local egg prices plunged 30% qoq in 2Q16 in Ukraine to USD 0.045/egg in dollar terms and sank below production costs (Avangardco's prices were at USD 0.04/egg, while costs stood at USD 0.051/egg). As a result, Avangardco reported negative EBITDA of USD 22.6 mln in 2Q16 compared to USD 9.6 mln in 1Q16. By end-September, local market egg prices recovered somewhat, by 10% above the 2Q16 average. This will merely enable the company to break even in 3Q16, we estimate. Prices need to advance further to enable Avangardco to generate positive EBITDA. Prices for corn, which is ULF's key crop, are sticking to USD 169/t (FOB, Black Sea). We understand this is the base-case scenario (which ULF guided to bondholders in March 2016), which will cause it to generate negative FCF in 2016-17. We estimate current wheat prices (the second-most important crop for ULF) are even worse than the base case (at USD 172/t vs. USD 180/t).

Current debt profile is unsustainable, note restructuring looming. In 2015, Ukrlandfarming reported negative FCF of USD 129 mln. It may be also negative in 2016, according to what the company has projected and actual developments on the markets. Meanwhile, USD 543 mln of ULF's Eurobonds and USD 236 mln of Avangardco's Eurobonds mature in 2018. There is no chance that the holding will accumulate such amounts for repayment by then**. We expect ULF to offer another note restructuring to bondholders soon**. While a large haircut might be among the proposed options to consider, a significant maturity extension combined with reduced coupons could be a workable solution as well. The total debt to estimated normalized EBITDA of USD 184 mln – is at the level of 8.7x, which is not a sustainable debt burden.

Elevated CapEx appetites make ULF's financial stance worse and less transparent. Despite the net operating cash flow of ULF being suppressed by hryvnia devaluation and low agri commodity prices, the holding has outlined an aggressive investment budget for 2016-17. According to its consent solicitation memorandum published in March 2016, ULF sees maintenance CapEx in farming around USD 163 per ha of harvested land, which is 2-3x higher compared to what other Ukrainian farmers spend for maintenance. CapEx for its egg business was projected at 12-16% of revenue, which is way too high and should be supported by respective large profitability margins, which isn't the case. Such an overspending approach has long been the norm for ULF in previous years. We argue that creditors can unlock value for debt repayment by pushing management to reduce CapEx.

	AVINPU 18	UKRLAN 18
Outstanding, USD mln (Nov. '16)	214	543
Maturity	Oct-18	Mar-18
Coupon	10.00 (PIK) / SA	10.88 (PIK) /SA
Fitch / S&P / Moody's	WD / NR / na	WD/ na / na
Covenant: Net Debt / EBITDA	3.0x	-
Covenant: Total Debt / EBITDA	-	3.0x
Net Debt / EBITDA, 2016E	>10	8.3x
Total Debt / EBITDA, 2014E	>10	8.4x
Ownership structure		
Oleg Bakhmatyuk (ULF)	77.50%	95.00%
Cargill		5.00%
Other	22.50%	-

Bond prices, % of par



Source: Bloomberg, company data, Concorde Capital research

Dispersion of the ownership structure hints at a preparation for defense from creditors. A cause of concern to us is that ULF's subsidiaries have undergone a significant legal restructuring since the publication of the company's USD 500 mln Eurobond prospectus. Initially, according to the prospectus, the bulk of these subsidiaries – being surety providers to these bonds and which accounted for 85% of EBITDA in 2012 – were owned directly by Ukrlandfarming.

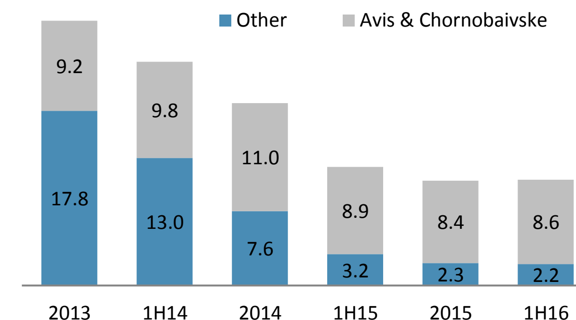
We have noticed from the open public sources that the legal structure has become more complicated and today ULF's direct control has been dispersed between the group's other subsidiaries registered in Ukraine. In 11 instances, we observed additional levels of control that emerged between ULF and its surety providers. This might make potential legal claims to assets more complicated for creditors once somebody decides to attempt that. Most of these changes haven't been publicly announced by ULF, though certain changes to surety providers – being subsidiaries of Avangardco that were impacted by the war in Donbas – were disclosed.

Our view on UKRLAN and AVINPU bonds is negative. Our pessimistic stance on Ukrlandfarming's and Avangardco's Eurobonds is based on several pillars:

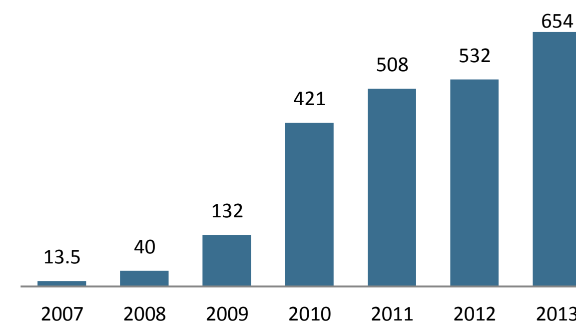
- The company's business is far from any turnaround fundamentally. Stable, normalized EBITDA of USD 184 mln per year would be already an achievement for the group.
- Overstating CapEx, which has been an established practice by the company, would absorb any additional cash flow it may generate.
- Recent changes to the legal structure offer significant risks to the going concern assumption if negotiations with creditors take a hostile form.

So far, we don't expect any cash flow on both Eurobonds' principals. We project a coupon of 2.5% that both Ukrlandfarming and Avangardco would be able/willing to pay. Having employed discount rates of 20-25%, which take into account company-specific risks, we see the NPV of bonds around 11-14% of par.

Avangardco laying hen flock, mln



ULF land bank, '000 ha



Source: Company data, Concorde Capital research

Avangardco financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2015	2016E	2017E
Net revenue	227	152	167
IAS 41 gain	1	-	-
EBITDA	-1	20	33
EBITDA margin	-1%	13%	20%
EBIT	-87	4	17
Operating margin	-38%	3%	10%
Finance costs	-33	-9	-12
PBT	-159	-5	5
Net income	-158	-4	6
Net margin	-70%	-3%	4%

Net operating cash flow	1	7	21
Investing cash flow	-35	-29	-30
Financing cash flow	-15	0	0

Leverage, USD mln

	2015	2016E	2017E
Net debt	305	343	362
Gross debt	336	352	363
Net debt / EBITDA	neg.	17.2	11.1
Covenant (Net debt / EBITDA)	3.0	3.0	3.0

Revenue by segments, USD mln

	2015	2016E	2017E
Shell eggs	156	106	120
Egg products	65	37	37
Other	7	9	9

Key Balance Sheet items, USD mln

	2015	2016E
Current assets	194	172
Cash & equivalents	31	9
Non-Current assets	430	445
PP&E	405	420
Equity	235	223
Current liabilities	93	98
ST debt	69	85
Non-current liabilities	299	299
LT debt	267	267

Source: Company data, Concorde Capital research

ULF financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2015	2016E	2017E
Net revenue	938	854	856
IAS 41 gain	-53	-	-
EBITDA	243	189	182
EBITDA margin	26%	22%	21%
EBIT	31	119	120
Operating margin	3%	14%	14%
Finance costs	-399	-64	-62
PBT	-362	57	60
Net income	-342	54	57
Net margin	-36%	6%	7%
Operating cash flow	95	140	84
Investing cash flow	140	106	106
Net CapEx	131	106	106

Leverage, USD mln

	2015	2016E	2017E
Net debt	1,540	1,539	1,493
Gross debt	1,601	1,588	1,559
Gross debt in UAH	209	209	209
Gross debt / EBITDA	6.6	8.4	8.6
Covenant (Gross debt / EBITDA)			3.0

Revenue by segments, USD mln

	2015	2016E	2017E
Crops	452	486	486
Avangardco	227	152	167
Other	258	216	203

EBITDA margin of key segments

	2015	2016E	2017E
Crops	38%	28%	24%
Avangardco	-1%	13%	20%
Other	15%	15%	15%

Key Balance Sheet items, USD mln

	2015	2016E
Current assets	766	783
Cash & equivalents	62	49
Non-Current assets	1,395	1,262
PP&E	1,141	1,008
Equity	296	180
Current liabilities	510	500
ST debt	234	221
Non-current liabilities	1,417	1,417
LT debt	1,367	1,367

Source: Company data, Concorde Capital research

Company profile

DTEK is an integrated coal and electricity holding. It is a leading producer of steam coal in Ukraine (almost 90% of the nation's total in 10M16), a leading electricity distributor (40%) and the biggest private producer of electricity and natural gas. DTEK is also the near-monopoly exporter of Ukrainian electricity in the last couple of years.

	DTEKUA 3'18	DTEKUA 4'18
Outstanding, USD mln (Nov.'16)	156	803
Maturity, expected	Dec.'24	Dec.'24
Coupon rate, expected	10.75%/Q	10.75%/Q
Cash coupon rate	5.5%	
Fitch / S&P / Moody's	C / na / na	C/ na / Ca

Company ownership structure:

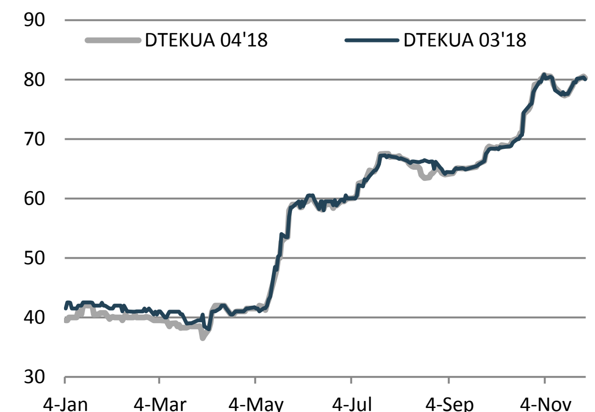
Rinat Akhmetov	100%

Benefits from new coal pricing policy in Ukraine, global coal market recovery

DTEK's key profit-generating business is mining of coal and production of electricity from this coal. Since May 2016, this business has enjoyed a turnaround as the Ukrainian power sector regulator introduced a new methodology of steam coal pricing, which now is a function of the API2 Index (steam coal price in Rotterdam) and shipment and transshipment costs from Rotterdam to Ukraine. Before that, the coal price was fixed by the regulator at UAH 1,100/t (about USD 44/t). The new pricing approach will allow DTEK to more than double its EBITDA in 2H16 as compared to 1H.

The new beneficial pricing methodology is both a short-term benefit for DTEK and a mid-term risk, as it has already led to a significant increase in final electricity prices for industrial consumers in Ukraine (+27% to +29% yoy as of October). That annoys electricity-intensive consumers, including powerful oligarchs involved in the steel and ferroalloy businesses. The fast increase of final electricity prices is mobilizing large consumers who are questioning new rates in courts. In the mid-term, there is a risk that DTEK's opponents may succeed, which will end up in downward adjustments of electricity rates and worsening DTEK's fundamentals.

Bond prices, % of par



Donbas-related risks remain solid

DTEK mined 26% of its coal on the occupied territory of Donbas in 10M16. Three of nine thermal power plants (producing about a quarter of DTEK's total power) depend on that type of coal, which is not mined anywhere else in Ukraine. This makes DTEK's well-being heavily dependent on peace in the occupied Donbas. Thus far, the risks of escalation there do not look solid, but this can change for the worse anytime in the future.

Debt restructuring to increase attractiveness of DTEK bonds

DTEK Energy is close to finalizing its long-term debt restructuring, which will add more clarity about the parameters of its Eurobonds (currently, the bonds do not have any official maturity date). **Based on our estimates, all of DTEK's Eurobonds can generate an NPV of 82% to 97% of their par value, depending on the discount rate (11.3% to 14.3%).**

The latest discussed key restructuring terms are:

- Consent fee of up to 1.25%, paid as soon as the restructuring is complete.
- Coupon rate of 10.75%, paid partially in cash and PIK (the unpaid portion is capitalized and bears interest).
- Cash coupons are paid in the amount of 5.5% in 2017-2018, 6.5% in 2019, 7.5% in 2020, 8.5% in 2021, 9.5% in 2022-2023 and 10.75% in 2024.
- Repayment of bonds outstanding will be made in two equal tranches in late 2023 and late 2024.

Source: Bloomberg, company data, Concorde Capital research

DTEK forecasts look too optimistic

In its presentation to creditors, DTEK Energy revealed its forecasts of EBITDA that will grow from USD 553 mln in 2016 to USD 1,202 mln in 2024. In our view, such forecasts look too optimistic and rest on a number of strong assumptions. Below we list some of key risks for DTEK's forecasts:

Currency risk. With the application of a new pricing model for coal in Ukraine, DTEK is much less sensitive to foreign currency risk: coal prices, and respective prices of electricity produced from coal, are now effectively linked to U.S. dollars. But this link could change in two cases:

- Cancellation of link of coal prices to the API2 Index, which might happen under the pressure of oligarchs who suffer from high electricity rates.
- Adoption of a new law on the electricity market, with the establishment of free market pricing for electricity. In such case, API2-linked regulations on the electricity price produced by thermal power plants will be eliminated in 2-3 years.

Importantly, DTEK factored in the IMF's assumptions of the UAH/USD rate in its forecasts, which we consider as overly optimistic (e.g. UAH 28.8/USD in 2020). If this assumption isn't fulfilled, DTEK's EBITDA in USD terms could be 10%-20% weaker, while its CapEx appetite, linked to the USD, won't change much.

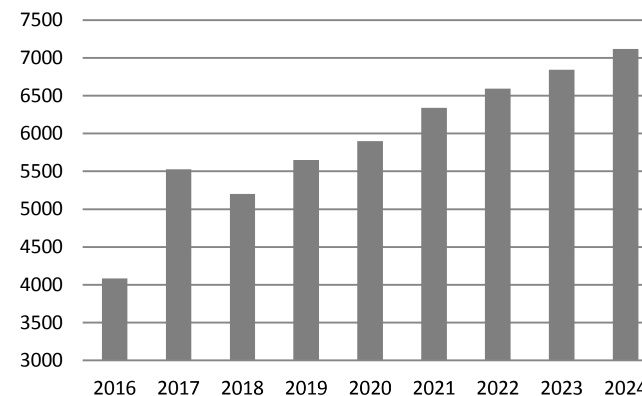
Risk of distribution companies. DTEK's assumption of double-digit growth in EBITDA in the coming years apparently rests on an assumption of boosted profits in its power-distribution segment. This should be a result of the introduction of new regulatory asset base (RAB) approach in setting rates for power distributors. However, there is a risk that this reform won't happen, or actual profits under the RAB approach will be much smaller than expected now.

Compensators for DTEK's weak P&L still exist in the holding's forecasts

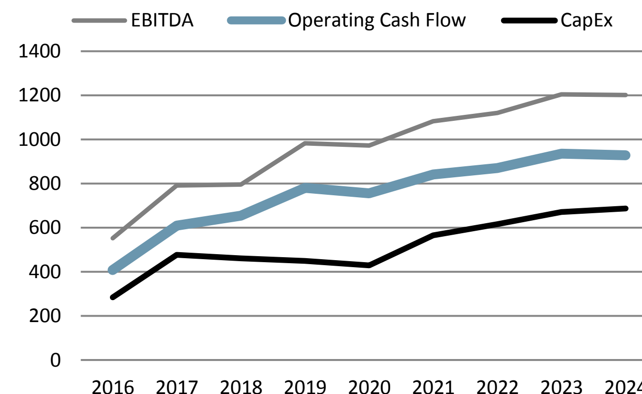
In particular, we believe DTEK's CapEx forecasts are overly aggressive. That means, should the holding's EBITDA be less than expected, it still can generate free cash flow in line with its forecasts by scaling down its CapEx appetites. **That said, we consider DTEK's cash flow forecasts are more or less realistic (even though EBITDA forecasts are not) and so is DTEK's future capacity to repay its debt.**

All in all, we are bullish on DTEKUA bonds.

DTEK Energy revenue guidance, USD mln



DTEK Energy guidance, USD mln



Source: Company data, Reorg Research, Concorde Capital research

CONCORDE CAPITAL

DTEK Energy financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2012	2013	2014	2015
Net revenue	10.32	11.61	7.80	4.29
EBITDA	2.12	1.87	1.33	0.19
EBITDA margin	21%	16%	17%	4%
EBIT	1.45	1.36	0.74	-0.58
Finance costs	0.52	0.47	1.09	-0.46
ForEx losses	0.00	0.04	1.25	-0.60
PBT	0.93	0.65	-1.63	-1.64
Net income	0.74	0.42	-1.65	-1.71
Net margin	7%	4%	-21%	-40%
Cash EBITDA	1.87	1.55	1.22	0.47
Cash EBITDA / EBITDA	0.86x	0.83x	0.91x	2.5x
Operating cash flow	1.04	1.26	0.79	0.02
Investing cash flow	-1.84	-1.71	-0.74	-0.19
Net CapEx	-1.27	-1.29	-0.55	-0.19

Leverage, USD bln

	2012	2013	2014	2015
Net debt	1.95	2.82	2.53	2.61
Gross debt	2.62	3.48	3.04	2.64
Gross debt in UAH	3%	3%	8%	5%

Revenue by segments, USD mln

	2012	2013	2014	2015
Coal & power production	4.72	5.61	3.70	1.83
Power distribution	4.60	5.01	3.66	1.61
Other	1.00	0.99	0.43	0.84

Key Balance Sheet items, USD bln

	2012	2013	2014	2015
Current assets	2.29	3.01	1.94	1.08
- Cash & equivalents	0.67	0.66	0.51	0.03
- Loans to related parties	0.00	0.00	0.06	0.03
Non-Current assets	7.32	8.88	4.82	3.18
- Loans to related parties	0.00	0.00	0.37	0.41
Equity	4.07	4.34	1.24	0.23
Current liabilities	2.09	2.58	3.68	2.81
- ST debt	0.43	0.59	2.07	1.53
Non-current liabilities	3.45	4.97	1.84	1.55
- LT debt	2.16	2.78	0.98	1.11

Source: Company data, Concorde Capital research

Ferrexpo

NEUTRAL VIEW

Company profile

Ferrexpo is Ukraine's largest iron ore pellet exporter, ranking in the top 10 globally. It operates the Poltava and Yeristovo mines in the Poltava region of central Ukraine. The company exports all its products. It manufactured 11.7 mmt in pellets (+6% yoy) in 2015 and approached full pelletizing capacity (12 mmt p.a.). Ferrexpo controls much of its logistics chain, including its 2,200 railcar fleet, enabling it to deliver the bulk of its pellets in its own railcars. It operates 140 barges transporting pellets along the Danube River to European customers. It sold 60% of its pellets in Europe, 34% in Asia and 6% in the Middle East in 2015.

Ferrexpo repaid the USD 420 mln PXF in 2016 and abstained from restructuring banking loans

By end-2015, a number of negative developments coincided for Ferrexpo. A USD 174 mln deposit was lost in its failed Finances & Credit bank in September. Iron ore prices hit a decade low of USD 38/t in December, bringing many miners to or below breakeven level. The market has widely expected that Ferrexpo might run out of cash or incur a restructuring of its banking debt in early 2016, as the company had to redeem around USD 17.5 mln per month on its USD 420 mln PXF loan. However, cost reduction and iron ore price recovery in February-March 2016 have enabled Ferrexpo to come through this tough period without default or additional debt restructuring. In July, the company successfully redeemed the last installment of a USD 420 mln loan, having proved the resilience of its business model.

Debt maturities in 2017 look safe so far

Ferrexpo has been fully focused on debt repayment recently. Having certain liquidity constraints, it halted dividend distributions in early 2016, which used to reach USD 39-70 mln per year previously. The company has completed its major investment programs and minimized annual CapEx to USD 48-50 mln. Such steps, backed by relatively firm prices in 2016, will enable Ferrexpo to continue servicing its banking debt. The USD 350 mln PXF facility starts to amortize in November 2016, having quarterly installments of USD 44 mln (or USD 15 mln per month). Given iron ore prices remain in 2017 at the same level on average as in 2016 (USD 54/t YTD), the scheduled redemption of USD 202 mln in 2017 looks doable. We project FCF to reach USD 217 mln in 2017 (USD 182 mln in 2016).

Eurobond maturity might be pushed forward by two-three years

The scheduled maturity of USD 328 mln in debt in 2018 won't be supported by enough free cash flow, which we now project at around USD 244 mln. Therefore, we expect the company may initiate a maturity extension exercise if capital markets don't reopen by then. If Ukraine places sovereign debt in 2017 on market conditions, as is currently planned, Ferrexpo may take full use of the window reopened and refinance its debt. Anyhow, total debt-to-EBITDA of 1.55x, which we expect by end-2017, will make Ferrexpo an attractive borrower again.

Our view on FXPOLN notes: neutral

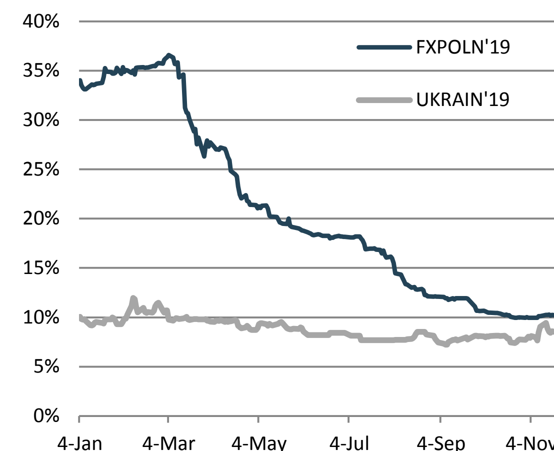
The risk of another maturity extension for Ferrexpo is insignificant, in our view. Though, any weakness in iron ore prices in 2017 will translate into pressure on bonds prices. At current prices of close to par value, the risk-reward ratio doesn't favor Ferrexpo's bonds. Our view on the name is neutral.

	FXPOLN 19
Outstanding, USD mln	161
Maturity	Apr-19 Sinkable
Coupon	10.38/SA
Fitch / S&P / Moody's	CCC / CCC / Caa3
Covenant: Gross Debt / EBITDA	2.5x
Gross Debt / EBITDA, 2016E	2.1x

Company ownership structure

Kostyantyn Zhevago	50.3%
BRX Limited	13.9%
Free float	35.8%

Bond YTM



Source: Bloomberg, company data, Concorde Capital research

CONCORDE CAPITAL

Ferrexpo financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2015	2016E	2017E
Net revenue	961	966	944
EBITDA	313	335	352
EBITDA margin	33%	35%	37%
EBIT	251	283	299
Operating margin	26%	29%	32%
Finance costs	-72	-65	-43
PBT	25	218	257
Net income	31	188	222
Net margin	3%	20%	24%
Net operating cash flow	128	262	278
Investing cash flow	-204	-50	-40
Net CapEx	-23	-50	-40

Key Balance Sheet items, USD mln

	2015	2016E	2017E
Current assets	296	295	330
Cash & equivalents	35	53	93
Non-Current assets	929	927	915
PP&E	654	652	640
Equity	244	432	654
Current liabilities	263	261	387
ST debt	203	199	326
Non-current liabilities	719	529	203
LT debt	700	511	185

Leverage, USD mln

	2015	2016E	2017E
Net debt	868	656	418
Gross debt	904	710	511
Gross debt / EBITDA	2.9	2.1	1.5
Covenant (Gross debt / EBITDA)	2.5	2.5	2.5

Source: Company data, Concorde Capital research

Company profile

Metinvest is a vertically integrated mining and steel holding that controls the majority of the supply chain from raw materials production to selling finished products to final consumers. The holding is fully self-sufficient in coking coal and it produced 2.2x more iron ore than it consumed internally in 2015. With about 5.7 mmt of attributable flat steel product output in 2015, Metinvest has been one of the most significant players on the flat steel market globally.

Recovery in steel output capped by war in Donbas

The military conflict in Donbas has stabilized but Russian-backed forces continue regular shelling across the frontlines, resulting in a handful of injuries and casualties every week. This prevents restoration of railroads and bridges in the region, as well as slows border crossing. Therefore, Metinvest has to use alternative transportation routes, including via sea ports to deliver iron ore to steel making facilities. As a result of such logistics constraints, Ilyich Steel operates at a capacity load of 73%, Azovstal – 65%, and Yenakiyeve – 64%. Usually, any capacity load below 80% is an indication of an unhealthy operating environment. Only Zaporizhstal – located outside of Donbas and accounted for as a JV – demonstrates a robust 83% load. Meanwhile, operating disruptions due to active military actions have declined, which will contribute to a better operating result in 2016. We project Metinvest's subsidiaries will produce 8.5 mmt of steel (+11% yoy) in 2016. The company's total attributable steel output, including 49.9% of Zaporizhstal, is on track to grow 9% yoy to 10.5 mmt.

Iron ore production slides due to weaker markets

We now project that Metinvest will produce 33.9 mmt of attributable merchant iron ore products (-4% yoy) in 2016, compared to forecasting earlier this year a rather flat output at 35.2 mmt. We attribute intensified competition on the global iron ore markets to this decline, as well as low steel production by traditional local consumers of Metinvest's iron ore in Donbas.

Metinvest benefits from firm prices amid lower costs

Propped up by additional investments in Chinese real estate and infrastructure made in early 2016, steel and iron ore prices rebounded from decade-lows at the end of 2015. Therefore, as markets develop currently, we see average annual prices on par with those of 2015. The market preferences of the largest iron ore miners (Vale, BHP, Rio) have changed from volume to profit. This is going to support iron ore prices and positively impact steel prices. At the same time, dollar production costs have been declining for metal & mining companies. Metinvest has reported USD 217 mln in savings in 1H16 (a third of the total) due to hryvnia devaluation, and another USD 80 mln due to lower energy prices (cheaper fuel and natural gas, though offset by higher electricity rates).

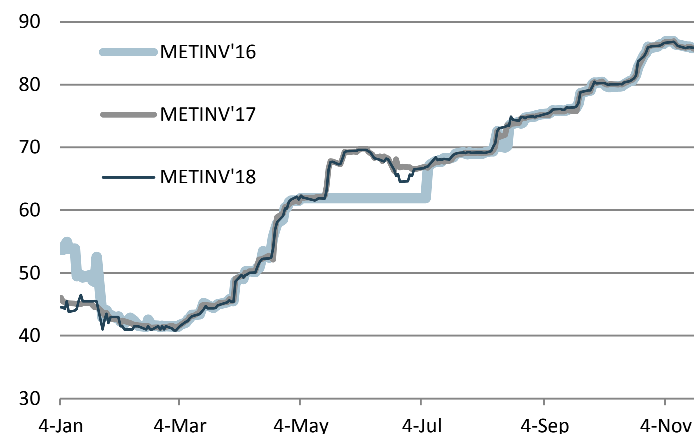
Solid EBITDA, despite all the headwinds, rises from breakeven

Operating in a tough environment, Metinvest still generates solid cash flows. The company reported USD 580 mln of EBITDA in 1H16. This is in line with our 2016 EBITDA projection of USD 1.35 bln (+68% yoy). This is much lower than USD 2.7 bln in 2014 and other previous years, though it is an impressive turnaround from a cold streak in October 2015 -February 2016, when Metinvest reported zero to negative EBITDA.

	METINV'16	METINV'17	METINV'18
Outstanding, USD mln	90	306	796
Maturity, expected	Dec.'21	Dec.'21	Dec.'21
Coupon rate, expected, up to	10.88%	10.88%	10.88%
Fitch / S&P / Moody's	NR /na / Caa3	C / na / na	C/ na / Caa3

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

Bond prices, % of par



Source: Bloomberg, company data, Concorde Capital research

CONCORDE CAPITAL

CapEx minimized, though certain projects implemented

In 1H16, Metinvest invested USD 130 mln in PP&E, or USD 260 mln if annualized. This is significantly lower than the USD 400-450 mln the company used to see as its maintenance CapEx previously. In his comments to the 1H16 trade update, Metinvest's CEO stated the company has underinvested due to problems with liquidity. Meanwhile, despite its limited budget, certain projects have been finalized and launched. The first phase of an iron ore crushing and conveyor system at Northern Iron Ore has been launched (the project ensures annual savings of about USD 34 mln). PCI facilities have been installed at two blast furnaces of Yenakiyeve Steel at an investment of up to USD 10 mln, by our estimates.

In 2016, liquidity was propped by reduced cash interest payments and a working capital release

As a remedy to survive extremely low prices and zero to negative EBITDA in end-2015 – early-2016, Metinvest reduced its cash coupon payments to just 30% of those accrued. Working capital release was another source of liquidity, which Metinvest exploited during six tough months between October 2015 to March 2016. In March, prices started to rebound and Metinvest began to replenish its working capital. This process was basically over by end-August, when cash on its balance sheet exceeded USD 180 mln and the company started to distribute additional cash to creditors in excess of 30% of accrued (67% in August, 98% in September and 105% in October). As steel and iron ore prices kept firm in November, we expect the company to transition to full repayment of accrued coupon soon.

Leverage of Metinvest looks robust

Our 2016 EBITDA projection of USD 1.2 bln implies a total debt-to-EBITDA ratio of 2.6x in end-2016, which itself alone indicates quite a robust solvency position. The company's 2017E projected EBITDA of USD 1.56 bln and FCF of USD 62 bln mean that total Metinvest's debt gets repaid just in five years. The shortfall of Metinvest's debt profile was reliance on refinancing, which dried up after war erupted in Ukraine in 2014. All the company needed was negotiating a new maturity schedule that corresponds to its new operating cash flow. This restructuring exercise was also a challenging task in the constantly changing market environment of 2014-2015.

High chances of debt restructuring to be finalized by end-2016

By the end of May 2016, Metinvest reached agreement on the heads of the terms of debt restructuring with two coordinating committees of bondholders and banking lenders. Currently, the company is finalizing the details of the restructuring deal with creditors. The splendid feature of the published terms of the restructuring is its flexibility. Whatever scenario – positive or negative – that commodity prices may follow, Metinvest's payments to creditors will automatically get adjusted, depending on the cash available. Against a background of stable steel prices, decent leverage and the company's creditor-friendly approach, we see high chances that Metinvest may obtain permission from creditors by end-2016.

Our view on notes: Eurobonds still have upside

Metinvest's notes trade at the level of 87 cents per dollar, while we see the notes trading at the level of about 93 cents per dollar following completion of its debt restructuring. We reiterate our bullish view on the name.

Source: Company data, Concorde Capital research

Metinvest financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2015	2016E	2017E
Net revenue	6,832	6,830	6,676
EBITDA	804	1,352	1,566
EBITDA margin	18%	19%	18%
EBIT	1,226	1,326	609
Operating margin	10%	12%	7%
Finance costs	-341	-272	-169
PBT	965	1	521
Net income	592	850	437
Net margin	5%	8%	5%
Operating cash flow	1,465	1,215	1,323
Investing cash flow	263	-450	-400

Leverage, USD mln

	2015	2016E
Net debt	3,525	3,158
Gross debt	4,308	3,440
Gross debt / EBITDA	1.9	2.6
Covenant (Gross debt / EBITDA)	3.0	3.0

Revenue by segments, USD mln

	2015	2016E	2017E
Metallurgical	9,727	7,775	6,617
Mining	3,080	2,849	2,624

Key Balance Sheet items, USD mln

	2015	2016E
Current assets	5,578	4,794
Cash & equivalents	531	783
Non-Current assets	3,231	3,117
PP&E	8,248	8,212
Equity	10,406	9,631
Current liabilities	1,384	1,999
ST debt	2,018	1,718
Non-current liabilities	2,654	1,133
LT debt	1,126	2,425

Source: Company data, Concorde Capital research

Company profile

MHP is Ukraine's leading producer of chicken meat (44% of industrial poultry output in Ukraine in 2015). With a land bank of 370,000 ha in Ukraine, it is also one of the largest and most efficient Ukrainian farming companies, focused on corn production for internal use. It operates in three business segments: poultry (which also produces sunflower oil as a byproduct of animal feed preparation), grain and meat processing. The company has 600 kt p.a. in total poultry capacities. About 75% of its chicken meat was sold to the domestic market in 2015.

Poultry production grows due to larger exports. In 1H16, MHP produced 267 kt of poultry (+4% yoy). With seasonally higher volumes in 2H, we expect total annual production in 2016 to reach full capacity of 600 kt (+7% yoy) and sales of 582 kt (+8% yoy). Poultry sales have risen owing to exports swelling 31% yoy to 86 kt in 1H16. MHP revealed this year its expansion into new markets in the Middle East, EU, Asia and Africa as traditional supply lines to Russia and the CIS have shrunk owing to Russia's trade embargo.

Hryvnia weakness caps profitability of poultry segment, causes EBITDA decline. Ukraine has been the key market for MHP's poultry, as two thirds of volumes have been sold domestically. Hryvnia devaluation in 2014-16 (around 70%) has been only partially offset by local poultry price inflation. MHP's average dollar-denominated poultry selling price fell 42% during last three years. As a result, EBITDA per kg of poultry fell from USD 0.86/kg in 4Q13 to USD 0.44/kg in 2Q16. We think a certain limit on the ability to increase hryvnia prices in order to compensate for hryvnia devaluation might have been reached as the purchasing power of Ukrainian households suffered in recent years. We project MHP's EBITDA in its poultry segment will fall 26% yoy to USD 261 mln. The company has guided robust financial performance in its grain-growing segment at EBITDA of USD 400/ha in 2016, rising from USD 276/ha last year. All in all, we forecast MHP to report EBITDA of USD 409 mln in 2016 (-1% yoy).

Additional 130 kt of poultry capacities in Vinnytsia as key CapEx in pipeline. Investments in 2016 will reach USD 100-110 mln, with MHP allocating its budget mainly towards expanding its breeding farm and two rearing sites. CapEx in 2017 will be USD 170 mln, including USD 130 mln budgeted for the first line of the second stage of the Vinnytsya poultry plant. MHP plans for the first meat from this facility to be produced in 2018 (around 50-60 kt additionally, and another 60 kt in 2019). The firm will need more market demand in order to ensure a high capacity load for this plant.

Debt profile appears safe, notes refinancing in 2017-19 possible. MHP's maturity profile is skewed towards 2020, when USD 750 mln in Eurobonds mature, or 58% of its total debt. Current debt (USD 273 mln, as of June 2016) is to be rolled over by providers of short-term financing, according to the company. MHP management is contemplating refinancing a portion of its notes once debt capital markets open up for Ukraine and its corporate borrowers. We think creditors will have a favorable perception of the company since MHP is the only public borrower in Ukraine that has honored its debt obligations despite the crisis of 2014-15, having repaid USD 234 mln in notes due in 2015.

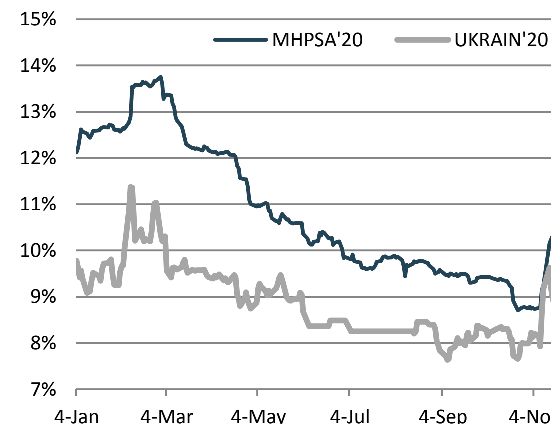
Our view on notes: resilient, though risk return profile isn't enticing. The key risk for MHP currently is possible hryvnia devaluation, which may pressure the earnings of its poultry segment. All other concerns are quite manageable. Its traditionally large appetite for distributing dividends (USD 80 mln in 2016) will be subject to the company's actual financial stance in early 2017. We believe the actual payout will be adjusted accordingly, while the dividends themselves mitigate corporate governance issues. Meanwhile, the historically high prices of MHP's bonds do not promise any noticeable upside. Our view on the name remains neutral.

	MHPSA 20
Outstanding, USD mln	750
Maturity	Mar '20
Coupon	8.25/SA
Fitch / S&P / Moody's	B- / B- / na
Covenant: Net Debt / EBITDA	3.0x
Net Debt / EBITDA, 2016E	2.8x

Company ownership structure

Yuriy Kosyuk	65.9%
Free float	34.1%

Bond YTM



Source: Bloomberg, company data, Concorde Capital research

MHP financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2015	2016E	2017E
Net revenue	1,183	1,189	1,198
IAS 41 gain	22	0	0
EBITDA	459	409	411
EBITDA margin	*39%*	*34%*	*34%*
EBIT	460	364	354
Operating margin	*39%*	*31%*	*28%*
Finance costs	-106	-108	-96
PBT	-166	191	199
Net income	-126	196	199
Net margin	*-11%*	*16%*	*17%*
Operating cash flow	110	323	293
Investing cash flow	-163	-170	-170
Net CapEx	15	-80	-50

Leverage, USD mln

	2015	2016E	2017E
Net debt	1,220	1,130	1,270
Gross debt	1,279	1,302	1,395
Net debt / EBITDA	2.7	2.8	3.1
Covenant (Net debt / EBITDA)	3.0	3.0	3.0

Revenue by segments, USD mln

	2015	2016E
Poultry	951	957
Grain	117	117
Other	115	115

Key Balance Sheet items, USD mln

	2015	2016E
Current assets	737	748
Cash & equivalents	59	132
Non-Current assets	1,339	1,659
PP&E	1,250	1,493
Equity	673	788
Current liabilities	373	364
ST debt	288	119
Non-current liabilities	1,029	1,190
LT debt	1,007	1,183

Source: Company data, Concorde Capital research

Ukrzaliznytsia (Ukrainian Railway, UZ)

NEUTRAL VIEW

Company profile
UZ is the state monopoly provider of railway transportation services. “Ukrainian Railway” was created in end-2015 as a result of the reorganization and merger of six state railways and other related state entities. 82% of the company’s revenue in 2015 was generated from cargo transportation, and 10% from the loss-making passenger segment. As of June 2015, the company operated 1,223 freight electric locomotives, 614 diesel locomotives and 110,194 freight cars. The company operates a railway system that is 21,000 km long, 47.6% of which is electrified. Cargo and passenger transportation in Ukraine is a natural monopoly and is subject to price regulations by the government. DTEK, Metinvest, Ferrexpo, and ArcelorMittal Kryviy Rih are among UZ’s largest clients.

Reorganization made UZ more transparent. Before its reorganization in October 2015, UZ was structured as a division of the Infrastructure Ministry that administered railway transportation. After the reorganization, the company was governed by a full-fledged management board, consisting of top managers selected at an open tender. Wojciech Balczun, a 46-year-old executive with five years of experience in running and restructuring Polish freight cargo transporter PKP Cargo, won the tender for CEO in April 2016.

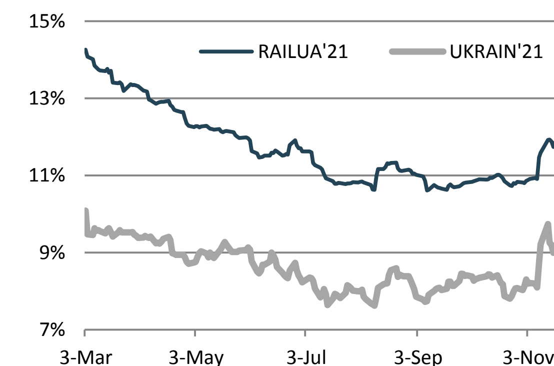
Railway rate hike is a hedge against hryvnia devaluation. Having most of its railway prices denominated in hryvnias, UZ is highly exposed to the weakness of the local currency. On the bright side, Ukraine’s government has been imposing incremental rate hikes on the company to compensate for devaluation. The last hike of 15% was imposed in May 2016, which offset the hryvnia slide at the end of 2015. Despite such hikes triggering intense protests from Ukraine’s heavy industry lobby, the government always has certain leverage to push them through, as transportation of industrial goods has low elasticity of substitution. As a fresh development in end-September, UZ’s management announced that another rate hike would be needed in 2017 to strengthen the company’s financial position. If the hryvnia experiences any further weakness, the hike will be justified and is likely to be implemented.

UZ notes are in technical cross-default. While UZ’s Eurobonds have been successfully restructured in February 2016, with maturity shifted from a bullet repayment in 2018 to an amortization schedule by 2021, negotiations with local banks are getting protracted. In September, the company announced that it failed to agree a restructuring with banks holding USD 243 mln of its debt, triggering a cross-default. Ukrzaliznytsia has recently offered a 0.5% fee for those who would agree to waive the cross default by the end of 2017. Clearly, the unresolved debt issue is something that does not add credibility to the company.

Our view on UZ bonds: neutral. UZ’s Eurobonds have performed nicely since the finalization of restructuring, reaching prices from low 80-ies over 90. At this stage, we see little reasons for bond price to increase. The company is an established infrastructure business, with cash flows having certain support from the state in the form of rate hikes, though RAILUA isn’t a borrower enjoying state guarantees. At the same time, risks stemming from the stern position of banking lenders elevate uncertainty.

	RAILUA ‘21
Outstanding, USD mln	500
Repayment, USD mln:	**150**: Mar’19 **150**: Sep’19 4 x **50** S/A: Mar’20-Sep’21
Coupon	9.88/SA
Fitch / S&P / Moody's	CCC / CCC+ / na
Covenant: Net Debt / EBITDA	3.0x
Net Debt / EBITDA, 2016E	3.0x
Ownership structure	
State	100%

Bond YTM



Source: Bloomberg, company data, Concorde Capital research

Ukrzaliznytsia financial summary (IFRS)

Key P&L and Cash Flow items, UAH bln

	2013	2014	2015
Net revenue	38.81	39.31	49.10
EBITDA	10.93	8.80	12.83
EBITDA margin	28%	22%	26%
EBIT	4.96	3.20	5.80
Operating margin	*13%*	*8%*	*12%*
Finance costs	-3.21	-3.70	-5.10
PBT	1.88	-14.70	-12.94
Net income / (loss)	0.56	-15.44	-3.80
Net margin	*1%*	*-39%*	*-8%*
Operating cash flow	8.11	6.10	10.80
Investing cash flow	-6.81	-3.80	-3.50
Net CapEx	-6.85	-3.84	-3.58

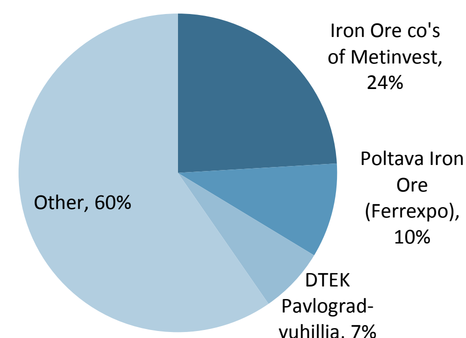
Leverage, UAH bln

	2013	2014	2015
Net debt	19.64	32.50	39.06
Gross debt	20.28	34.53	43.96
Gross debt in UAH	*31%*	*28%*	*22%*
Net debt / EBITDA	1.8x	3.7x	3.0x
Covenant (Net debt / EBITDA)	3.0x	3.0x	3.0x

Key Balance Sheet items, UAH bln

	2013	2014	2015
Current assets	6.15	6.56	13.03
Cash & equivalents	0.64	2.04	4.88
Non-Current assets	68.54	67.11	260.70
PP&E	63.72	62.35	259.31
Equity	43.21	27.77	218.24
Current liabilities	15.86	36.44	31.43
ST debt	6.84	26.97	21.89
Non-current liabilities	15.62	9.46	24.06
LT debt	13.44	7.53	22.13

Core clients by freight turnover, 2012



Source: Company data, Concorde Capital research

CONCORDE CAPITAL

Eurobond issuers, banking

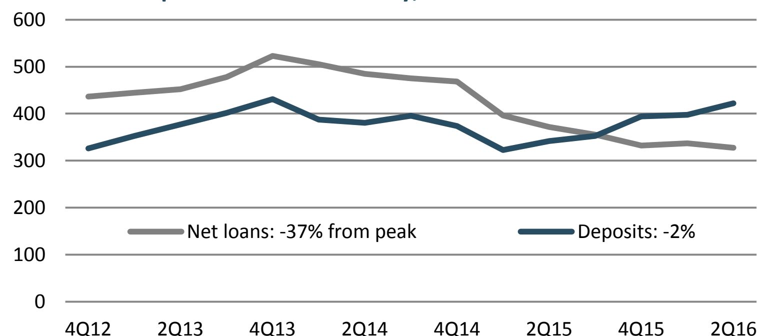
Trends in the banking sector

A major cleansing of Ukraine's banking system that started in mid-2014 has resulted in the exit of 80 weak and doubtful banks. The cleansing, coupled with relative macro stability achieved in 2016, returned some trust to the banking system, thus resulting in boosted deposits this year. At the same time, banks are continuing to clean their loan portfolios by gradual increasing their loan loss provisions.

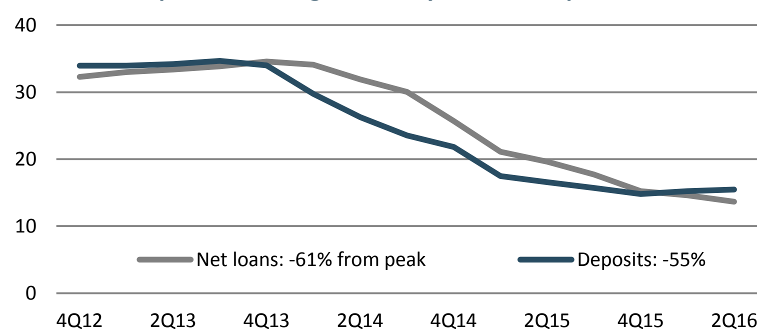
As a result of the exit of some large banks, market concentration in the system significantly increased.

Although the NBU declared in late 2015 the cleansing had been competed, it's highly likely that another dozen banks will leave the market in the coming year.

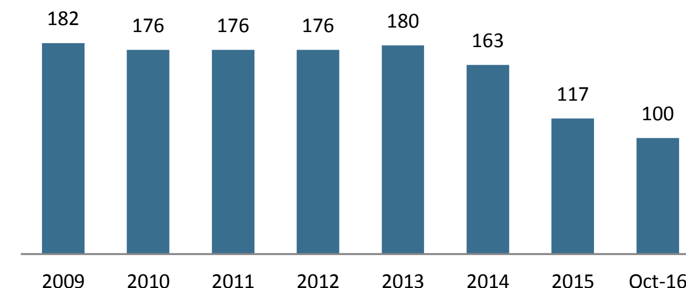
Loans and deposits in local currency, UAH bln



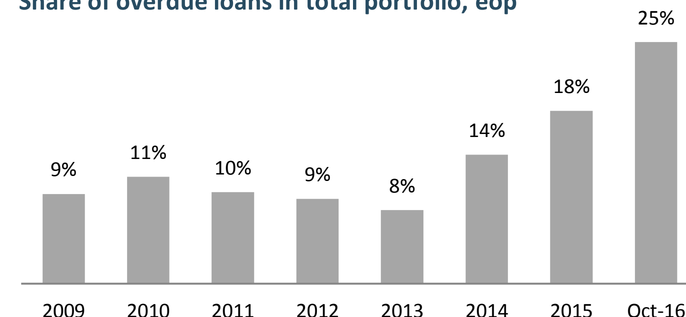
Loans and deposits in foreign currency, USD bln equivalent



Number of banks, eop

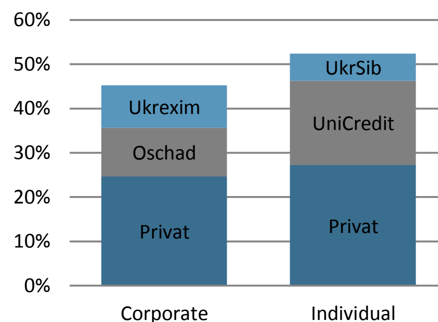


Share of overdue loans in total portfolio, eop

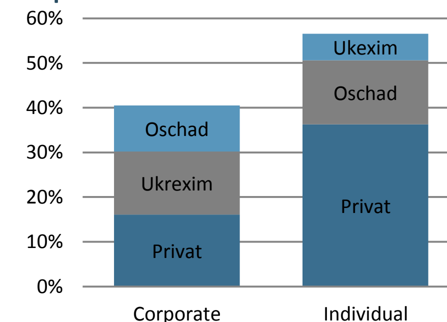


Market concentration (top-3 share) as of end-1H16:

Net loans



Deposits



Source: NBU, Concorde Capital calculations

Potential capital gaps in Top 20 banks

Being among top-20 banks of Ukraine by assets, the covered banks underwent stress-testing by the central bank (the NBU) in 2015, which was aimed at detecting their potential capital needs for 2016-2018. What we know thus far from the NBU is:

Out of the studied top-20 banks:

1. four did not demand any capital increase;
2. five have completed their recapitalization program as of September 2016;
3. five completed their program for 2016 and will extend it until 2018;
4. Four have done little so far;
5. two were recognized as insolvent

Of the banks from the Eurobond universe, we consider:

- **PUMB** to be in category 2 (in full completion of its recapitalization program).
- **Oschadbank** and **Ukreximbank** to be in category 3 (partial completion).
- **Privatbank** to be in category 4 (having a lot more to do to complete the recapitalization).

The key results of the Top 20 banks' stress-testing was summarized in an NBU report revealing the quality of loan portfolios, both from the NBU's standpoint and the banks':

- the NBU concluded that the top-20 banks have 53% of their loan portfolio in poor-quality loans;
- the banks themselves believe poor-quality loans account for only 27% of their total.

The difference between loan portfolio assessments enables us to estimate that a **total potential capital gap of the top-20** banks (surfacing from the stress tests) **is close to UAH 250 bln**. As of Sept. 9, the banks **were able to fill UAH 108 bln of that gap, or 43%** of total potential needs.

Among the key banks that have yet to fulfill their recapitalization program is Privatbank. As the bank's key owner, Igor Kolomoisky suggested a year ago its potential capital gap may be as high as **UAH 128 bln,** which we view as close to reality. As we can understand from the NBU's Sept. 9 press release, Privatbank filled no more than UAH 35 bln of the gap, or about a quarter of its total needs.

PUMB earlier reported its potential capital gap is UAH 1.28 bln, and it stated on Sept. 1 it has fully addressed its capital issue. In particular, the bank reported it has attracted additional collateral and has repaid some of non-performing loans to fulfill its capital commitments.

State lenders **Oschadbank** and **Ukreximbank** enjoyed a capital increase of **UAH 4.96 bln and UAH 9.32 bln**, respectively, in early 2016. The total capital needs of Oschadbank is UAH 8.42 bln according to media reports, implying about UAH 3.46 bln needed to be contributed in 2017-2018. The appetites of Ukrexmbank seem to be higher at about UAH 12 bln more, based on media reports. Should they need extra contributions, the Ukrainian government will easily comply.

Bank's capital needs, UAH bln

	Capital gap based on stress test (est.)	Filled so far	Yet to fill
Oschad	8.4	5.0	3.4
Ukrexim	~21	9.3	~12
Privat	~128	~34	~94
PUMB	1.3	1.3	-

Source: NBU, bank data, dt.ua, Concorde Capital research

Operations of the covered banks

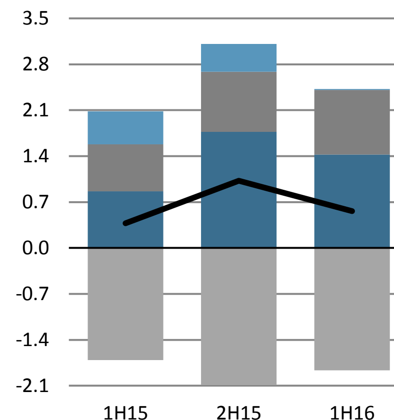
In the current environment of far-from-perfect payment discipline of their customers, banks' financial results are primarily a function of their physical ability to provision loan portfolio (i.e. owners' willingness to increase capital). For that reason, the banks' P&L tells little about their ability to generate profit. Therefore, we pay more attention to cash flow statements, which reflect well their ability to generate money despite a risky environment.

As can be seen from the charts on the slide:

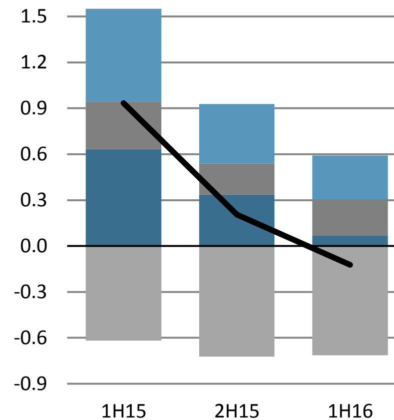
- **Oschadbank** and **PUMB** are generating positive cash from their operations in the last three semi-annual periods.
- Ability to generate cash by **Ukreximbank** significantly worsened in early 2016. Namely, the bank generated almost zero net cash interest income.
- The operating performance of **Privatbank** is of particular worry: during the last 1.5 years, the bank spent UAH 20.7 bln in cash to fund its operating activity. The only thing that keeps the bank above water is its ability to attract new deposits (UAH 48.4 bln attracted in 2015-1H16). This was possible due to offering one of the highest deposit rates on the market. In turn, the aggressive deposit acquisition strategy resulted in the deterioration of its net interest income and aggravation of the bank's problems.

Cash generated from operations (before assets/liab. change), UAH bln:

Oschadbank

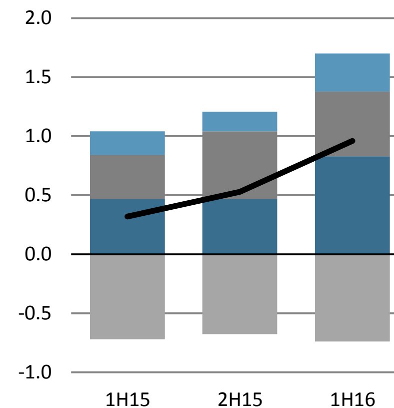


Ukreximbank

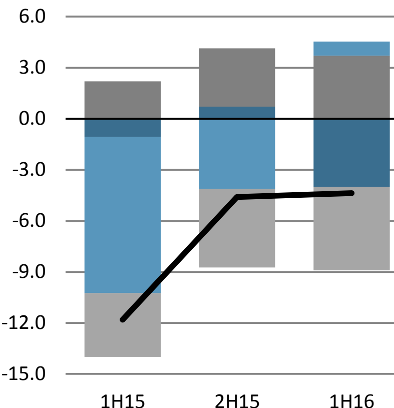


Net interest income*
Net commissions*
Net other*
OpEx*
Net cash from operations

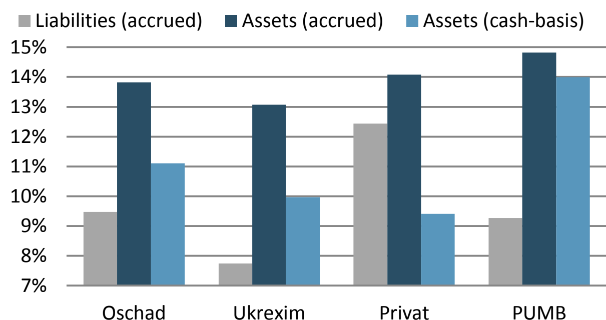
PUMB



Privatbank



Effective interest rates in 1H16



1Y deposit rates offered

	UAH	USD
Oschad	17.0%	5.3%
Ukrexim	15.5%	3.6%
Privat	19.0%	8.5%
PUMB	12.7%	2.7%

Note: deposits with monthly interest accrued and repayment of principal in 12M

** All items are on cash basis.*
Source: NBU, bank data, Concorde Capital calculations

CONCORDE CAPITAL

Related party exposure of the banks

Abnormal exposure to related parties is a key peculiarity of the covered banks. High exposure to related parties bears no risks for state banks, while it could be an issue for privately held banks.

More than half of the assets of state **Oschadbank** and **Ukreximbank** are exposed to state bonds, loans and securities of state companies. This is not a big problem for them, given that the state is always ready to offer support via additional capital injections (which only increase their exposure to the state, as the injections are made in form of state bond contributions) or refinancing from the central bank. That said, **we recommend treating the banks as government agents, with risks being the same as sovereign risk.**

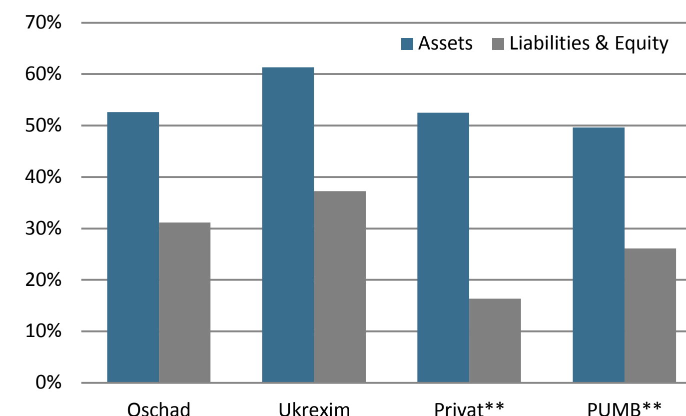
Moreover, as the results of last year's Eurobond restructuring showed, the **price risk of the state bank bonds are even lower than for government bonds**. Since early 2015, those having invested in state bank bonds are enjoying much higher increases in bond prices as compared to the holders of state bonds (and the difference in return is even higher if to account for higher coupons paid on bank bonds over the period):

Price gain on state and state bank bonds since beginning of 2015

Old bonds	Price, Jan 2, 2015	Exchanged new bonds	New bonds' synthetic price, Nov. 25, 2016	Price gain
OSCHAD 16	80.0	OSCHAD 23	92.9	+16%
OSCHAD 18	74.0	OSCHAD 25	91.4	+24%
EXIMUK 15	84.3	EXIMUK 22	94.2	+12%
EXIMUK 18	76.1	EXIMUK 25	91.3	+20%
UKRAIN 15	89.1	0.4 x UKRAIN 19 + 0.4 x UKRAIN 20 + + 0.2 x UKRAIN 40	83.8	-6%
UKRAIN 16	87.5	= // =	83.8	-4%
UKRAIN 20	86.8	0.8 x UKRAIN 23* + 0.2 x UKRAIN 40	80.4	-7%

That said, we believe the spread of state bank bonds to the sovereign curve should be no more than zero.

Contribution of related parties as of end-1H16**



Private banks are a different story, as their exposure to related parties implies the banks bear the same risks as their related business groups.

- In the case of PUMB, whose related Metinvest and DTEK are currently under restructuring talks, this is more evident.
- For Privatbank, more important is the controversial profile of its shareholders.

In their audited accounts, PUMB and Privatbank report on low exposure of their loan portfolio to related parties. But we suspect that this far from reality. Analyzing the distribution of their loan portfolio by industry, we conclude that Privatbank and PUMB were providing significant amount of loans to the industries in which their related companies are widely present. For us, it does not look logical that the banks are lending to competitors of their related companies. Thus, we conclude that the banks are lending to their related parties.

** Approximation. The actual set of new bonds in exchange for old UKRAIN 20 bond is different. ** Exposure of assets to related parties was calculated based on the assumption that loans to the sectors in which the related parties are present are in fact loans to related parties. Source: NBU, bank data, Concorde Capital calculations*

Pricing of banking Eurobonds

Ukreximbank, Oschadbank: should be traded on par with sovereign bonds

- We do not see any difference between the solvency risks of sovereign Eurobonds and state bank bonds.
- The credit ratings of OSCHAD, EXIMUK are identical to UKRAIN.
- Recent experience suggests that the price risk of state bank bonds in case of restructuring is even lower than for state paper (refer to the previous slide).

Therefore, we see few arguments for the bonds of state banks to trade at a discount to respective sovereign bonds. **Therefore, we see upside potential in EXIMUK and OSCHAD notes, which trade 200 bps spread to the sovereign curve.**

PUMB: enjoying a smooth bond repayment schedule

The pricing of PUMB bonds should account for two things, in our view:

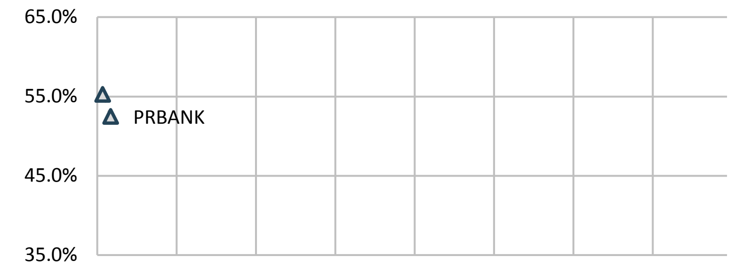
- The probability that the bank won't be able to pay its bond obligation smoothly. Such risk looks extremely low. The bank has restructured its notes so that it will repay about USD 20 mln in principal over the next nine quarters. This quarterly amount is equal to 2% of the bank's foreign currency assets as of the last reporting date. Should the bank need more foreign currency to service its debt, it can easily attract it by raising dollar deposit rates.
- The required rate of return on the bonds. We believe it should be at about a 150-200 bps spread to the sovereign curve, or close to 10.4-10.9% YTM.

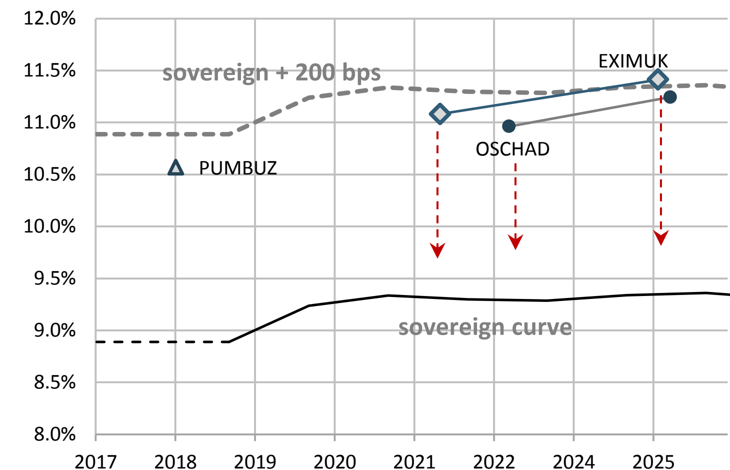
With a current YTM of 10.6% of PUMB bonds, we believe it is fairly priced.

Privatbank: a value-dilution risk for its bonds looks high

The key risk for Privatbank is a high potential capital gap, which has yet to be filled by a contribution of the borrowers' hard assets or an equity injection of about UAH 90 bln. That does not look like an affordable amount for the bank's shareholders. Given the current political situation (the bank's shareholders are not in the best relations with Ukraine's power brokers) and nationalization risk, we do not believe the bank's current shareholders are willing to contribute enough to fill the bank's gap. **That means the bank's nationalization** (it's too big to be closed) **is a likely scenario.** In which case, **"non-deposit, unsecured creditors are bailed-in",** according to a recent Ukraine memorandum with the IMF**. Thus far, the details of a possible bail-in are not known, which poses further risk for PRBANK bonds.**

Yield map





We recommend:

- Buying state bank bonds (**OSCHAD** and **EXIMUK**) as an alternative to exposure to state bonds;
- Investing in **PUMBUZ** bonds for those who are comfortable with a return rate of 10.6%;
- Stepping away from **PRBANK** bonds.

Source: Bloomberg, Concorde Capital research

Issuer profiles, banking

Oschadbank (State Savings Bank of Ukraine)

POSITIVE VIEW

Bank profile

Oschadbank is Ukraine's second-largest bank by assets, as of end-1H16. 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). It has the biggest retail network in Ukraine. The bank is an important lender to state institutions, with 53% of its total assets (as of end-1H16) lent to the government and related companies. It holds the second-biggest portfolio of state bonds among Ukrainian banks. On top of that, about 12% of the bank's assets are exposed to state natural gas monopoly Naftogaz.

Transitioning from a "savings bank" to a cashier of state agents

Over the last year, Oschadbank effectively lost its status as an institution that keeps predominantly individual deposits. While the share of households in its deposit portfolio was 66% in end-2014, now it's less than 48%. In the last year and a half, the bank's deposit base increased 2.2x, while household deposits rose only by 1.6x. This was partially due to higher deposits of state agents and enterprises, which grew 5.5x over the period to nearly 27% of the bank's deposit base.

Still a safe harbor for residential deposits

The bank outperformed the sector in terms of residential deposits in 1H16, having attracted UAH 4.6 bln (+8% YTD, vs. the sector average of +4%), even though its interest on deposits is below market. The bank is enjoying its exclusivity as an institution with fully state-guaranteed individual deposits.

Enjoying strong state support

Oschadbank's share capital increased UAH 17.9 bln in 2014-1H16 owing to state recapitalization. The latest UAH 5.0 bln capital increase occurred in January 2016, following the NBU's stress-testing. Its total capital gap resulting from stress tests is UAH 8.4 bln (implying it needs additional capital of about UAH 3.5 bln in 2017-2018), according to the bank's report to the dt.ua news site. Should the bank need any additional capital, the government will easily contribute more. The bank's CAR stood at 11.0%, as of end-1H16.

OSCHAD bond restructuring softer than for state bonds

The bank successfully restructured its Eurobonds in August 2015, with no principal haircuts, an extension of ultimate maturity by about five years, an amortized principal repayment and an increased coupon rate. The conditions were much more investor-friendly than for state Eurobonds.

We believe **OSCHAD should be traded with a zero spread to sovereign Eurobonds** (refer to slide 44 for more details). Our view on the bank's Eurobonds is positive.

	OSCHAD 03'23	OSCHAD 03'25
Outstanding, USD mln	700	500
Repayment, USD mln:	**420:** Mar'19	**250:** Mar'20
	8 x **35 S/A**: Sep'19 - Mar'23	10 x **25 S/A**: Sep'21 – Mar'25
Coupon	9.38% / SA	9.63% / SA
Fitch / S&P / Moody's	B- /na/ Caa3	B- /na/ Caa3

Bank ownership structure

State	100%

Bond YTM

Source: Bloomberg, bank data, Concorde Capital research

Oschadbank financial summary, IFRS

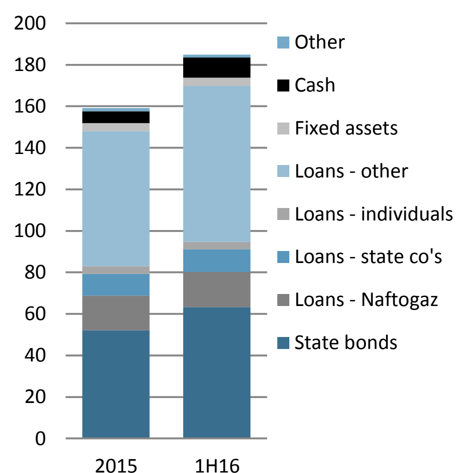
Balance Sheet, UAH mln

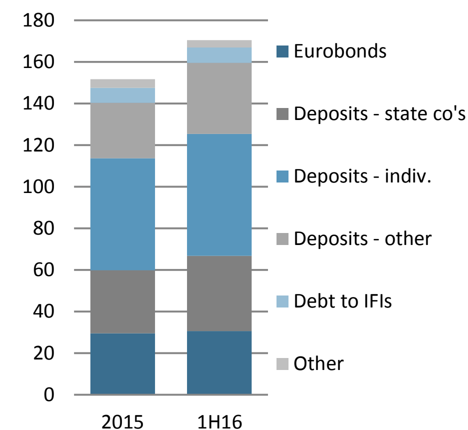
	2013	2014	2015	1H16
Cash	2,186	2,336	5,632	9,565
Accounts with other banks	10,282	10,219	17,775	31,363
Net loans	52,180	70,236	65,462	66,348
- Related party	*20,173*	*27,928*	*22,916*	*23,246*
Gross loans	64,270	94,260	109,211	112,989
- Related party	*23,860*	*31,479*	*26,297*	*26,581*
Securities portfolio	33,252	33,210	64,734	72,071
- Related party	*31,326*	*30,634*	*56,439*	*67,862*
PP&E	3,451	3,375	3,945	4,053
Other assets	348	4,938	1,585	1,530
Total assets	**101,699**	**124,314**	**159,133**	**184,930**
Due to banks	3,594	9,346	2,497	2,727
Due to NBU	18,582	14,732	14,060	3,500
Client accounts	56,209	46,409	94,270	122,866
- Related party	*5,398*	*5,939*	*16,266*	*32,679*
Eurobonds outstanding	19,340	9,786	29,498	30,551
Subordinated debt	1,657	840	2,536	2,564
Other liabilities	9,289	10,728	8,932	8,322
Total liabilities	**105,077**	**82,495**	**151,793**	**170,530**
Equity	**19,237**	**19,204**	**7,340**	**14,400**
CAR (Basel)	**18.6%**	**24.7%**	**6.3%**	**11.0%**

P&L summary, UAH mln

	1H15	1H16	yoy
Interest income	8,632	10,226	18%
Interest costs	-5,937	-6,768	14%
Net interest income	**2,695**	**3,458**	**28%**
Loan loss provisions	-8,205	-2,139	-74%
Net fees and commissions	717	985	37%
Net other incomes/costs	-2,882	361	-113%
Operating costs	-1,972	-2,414	22%
Profit before tax	-9,647	252	n/m
Net profit	**-9,647**	**252**	**n/m**

Assets & liabilities structure, UAH bln





Source: Bank data, Concorde Capital calculations

Privatbank

NEGATIVE VIEW

Bank profile

Privatbank is the largest Ukrainian bank by assets, loan portfolio, deposits and network of ATMs. It holds 23% of the banking system's total client accounts and 36% of residential accounts, as of end-1H16. Privatbank accounts for 25% of the loans in Ukraine's banking system. While 78% of its deposits come from individuals, it deploys 85% of its loans to corporate clients.

Shifts from a bank to financial pyramid

The bank's liquidity problems in late 2014 forced it to adopt an aggressive deposit acquisition strategy, which resulted in a high cost of borrowing and negative cash from operating activity. In 2015-1H16, it spent UAH 20.7 bln to fund its operations, which was compensated by a UAH 48.4 bln increase in its deposit base. To stay on track, the bank continues to offer one of the highest deposit rates on the market (19% in the local currency). The current bank's strategy, therefore, does not look sustainable.

Exposure to related parties seems to be higher than reported

Privatbank reported UAH 34 bln in net loans to related parties as of end-1H16, or 19% of its loan portfolio. At the same time, we suspect that exposure of the bank's loan portfolio to related parties might be much higher.

In particular, the companies of the so-called Privat Group are dominant players in industries in which 72% of the bank's gross loan portfolio has been allocated: ski resorts, football clubs, airlines, ferroalloy businesses, chemical companies and the trading of oil & oil-based products. It's very hard for us to believe that Privatbank is actively providing loans to Privat Group's key competitors in these sectors. On the other hand, not all the businesses known as Privat Group necessarily have a formal affiliation with Privatbank or its shareholders.

The bank has made commitments to the NBU to reduce its exposure to related parties (in three years) and plans to come into compliance with NBU rules (related loans are no more than 10% of its regulatory capital) in one year, its CEO said.

Insufficient capital is the biggest risk

The bank's key weakness is a high risk of insufficient capital, which seems to be rooted in its careless work with its borrowers. The bank's key shareholder, Kolomoisky, confessed in mid-2015 that the NBU estimates its capital gap in the range of UAH 15 bln to **UAH 128 bln,** likely being determined by stress-testing performed by the NBU around that time. The gap most likely stems from the possible change in estimation/recognition of collateral for loans, and the actual gap is closer to the upper range of what Kolomoisky estimated.

As part of its recapitalization program (scheduled for 2016-2018):

- Privatbank repossessed collateral from failed borrowers for UAH 42.8 bln in 8M16. However, the NBU reported on Sept. 14 that the total positive effect of all top-18 banks from their work with loans and collateral is UAH 30.4 bln. Most likely, this number includes not only Privatbank, but also PUMB (up to UAH 1.3 bln), meaning the effect of collateral on the biggest lender's capital is no more than UAH 29.1 bln.
- The bank also boosted its equity by UAH 2.2 bln in 2015 and is in the process of a further equity increase of UAH 2.6 bln.
- It also had to "obtain additional collateral for a significant part of its loans" by Sept. 1, 2016 – but in its 1H16 statements issued in late August, the bank did not report on any progress with that. This suggests the bank is on delay with its recapitalization program.

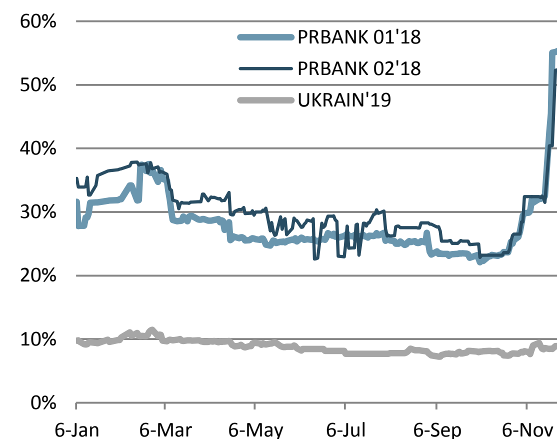
We conclude that **the bank's potential capital gap is close to UAH 94 bln** (based on its balance sheet as of end-1Q15).

	PRBANK 01'18	PRBANK 02'18
Outstanding, USD mln	200	175
Repayment, USD mln:	**60:** Sep'17 **35:** Oct'17 **35:** Nov'17 **35:** Dec'17 **35:** Jan'18	**175:** Feb.'18
Coupon	10.25%	10.875%
Fitch / S&P / Moody's	CCC/na/WR	CCC/na/Cau

Bank ownership structure

Igor Kolomoisky	49.99%
Gennady Bogolyubov	41.59%
Other	8.42%

Bond YTM



Source: Bloomberg, bank data, Concorde Capital research

Bailout by borrowers, owners doesn't look realistic

The remaining gap still can be filled by additional hard collateral from borrowers, or additional capital contributions by the bank's owners. That would mean that both borrowers and owners would have to contribute their own assets to bail out the bank. From point of view of Kolomoisky, such a contribution (i.e. investment) looks risky, given his volatile political relationships with Ukraine's power brokers. So we see little incentive for Kolomoisky and the bank's borrowers to contribute enough to the bank's bailout.

We believe **a bailout without state involvement is still possible**, but it could be only a result of economic and political deals between the Ukrainian government and Kolomoisky, which might involve many other issues, including the tycoon's investments in media and oil business.

Nationalization means Eurobond holders will be bailed-in

Ukraine's updated memorandum with the IMF contains a separate section for possible nationalization of Privatbank, which is only referred to as "a problem systemic bank." There are only three systemic banks in Ukraine, two of which are state-owned (Ukrexim and Oschad) and the third is Privatbank.

The IMF memorandum also suggests reserving UAH 152 bln for a possible issue of state bonds in 2H16, aimed at banks' recapitalization and financing of the State Deposit Guarantee Fund. We believe that such a large amount (only UAH 60 mln was spent for the above-mentioned purpose in the last 1.5 years) is earmarked for a possible nationalization of Privatbank.

The contingency scenario for "a systemic bank," as described in memorandum with the IMF, assumes that shareholders will be "completely diluted" and that unsecured non-deposit lenders (like **Eurobond** holders) will be **bailed-in**. Clearly, such an expected outcome does not promise anything good for bondholders.

Nationalization still isn't our base-case scenario

We still believe the nationalization scenario is avoidable, given:

- High budget costs associated with such a task (it may result in a state debt-to-GDP increase by about 4.0-6.5 pp);
- High execution risk (lack of institutional readiness of the government to execute such a complicated project) and extremely high potential costs of failure (including the risk of a bank run, or even the risk of the bank's failure if the government won't be able to enter it smoothly);
- Reputational risk and risk to spoil relationships with international creditors, some of which are holders of Privatbank's Eurobonds. Together with increased government debt, this may significantly delay Ukraine's entering international credit markets.

That said, we see a high chance (above 50%) that the bank will avoid the nationalization. The key problem, thus far, is that it's hard to guess what particular event will indicate the nationalization risk rising or being removed.

All in all, we see PRBANK bonds as too risky to invest now.

Source: Bank data, Concorde Capital research

Privatbank financial summary, IFRS

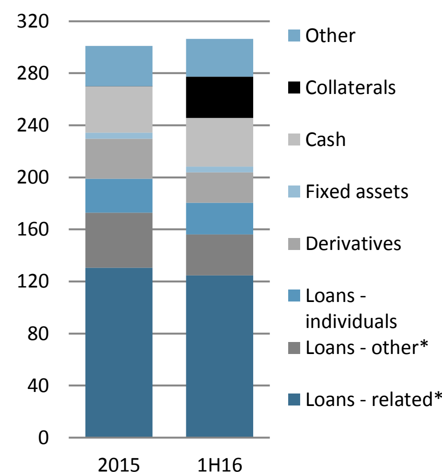
Balance Sheet, UAH mln

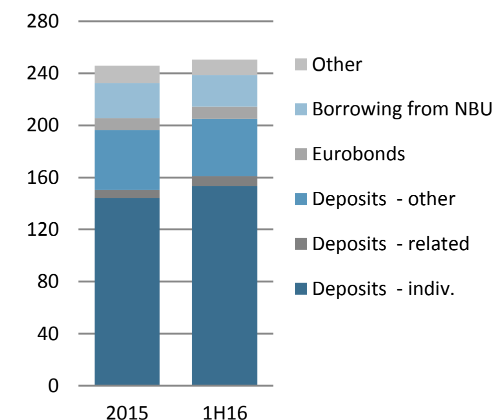
	2013	2014	2015	1H16
Cash	21,827	17,801	35,609	37,304
Accounts with other banks	25,247	17,366	3,689	1,904
Net loans	139,663	161,830	195,339	178,626
- Gross loans	*161,003*	*183,635*	224,133	206,772
- Related party (reported)	*9,617*	*18,530*	*34,503*	*34,042*
- Related party (est.)	*na*	*na*	*130,552*	*124,746*
Derivatives	6,829	27,941	30,673	23,239
PP&E	4,004	4,098	4,651	4,549
Repossessed collateral	0	0	7	31,824
Other assets	3,013	7,963	1,902	2,033
Total assets	**197,570**	**229,036**	**274,934**	**281,906**
Due to banks	3,758	3,279	4,476	4,538
Due to NBU	3,473	18,357	27,079	24,351
Client accounts	150,888	152,053	191,910	200,444
- Related party	*41,208*	*46,009*	*4,674*	*5,844*
- Individuals	*122,892*	*113,611*	*144,191*	*153,290*
Eurobonds outstanding	2,989	5,874	9,145	9,488
Subordinated debt	3,308	5,450	9,466	7,874
Other liabilities	10,330	18,290	3,813	3,887
Total liabilities	**174,746**	**203,303**	245,889	250,582
Equity	**22,824**	**25,733**	**29,045**	**31,324**
CAR (Basel)	**15.6%**	**13.7%**	**14.9%**	**14.3%**

P&L summary, UAH mln

	1H15	1H16	yoy
Interest income	14,502	16,388	13%
Interest costs	-12,669	-15,052	19%
Net interest income	**1,833**	**1,336**	**-27%**
Loan loss provisions	-1,923	279	n/m
Net fees and commissions	2,199	3,710	69%
Net other incomes/costs	2,188	-513	n/m
Operating costs	-4,079	-4,596	13%
Profit before tax	218	217	0%
Net profit	**94**	**187**	**99%**

Assets & liabilities structure, UAH bln





** Estimated distribution of loans based on sector representation of borrowers*
Source: Bank data, Concorde Capital calculations

PUMB (First Ukrainian International Bank)

NEUTRAL VIEW

Bank profile

PUMB is ranked 10th by assets in Ukraine as of end-1H16, down from its 9th position as of end-2013. Over the last three 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 (89% of its consolidated loan portfolio) while its deposit base is split nearly 50/50 between corporates and individuals. PUMB employs the best quality investor relations standards among Ukrainian banking issuers, according to our research.

Recapitalization seem to have been completed

PUMB's potential capital gap is UAH 1.28 bln, as determined by the NBU's 2015 stress-testing, according to the bank's CEO. The bank reported in early September it has filled the potential gap by avoiding capital contributions (it attracted new collateral under bad loans and also recovered some bad loans). That said, PUMB appeared to be the bank with smallest capital gap and the only one that has completed its restructuring program among Eurobond issuers.

Exposure to related parties seem to be under-reported

PUMB reported UAH 1.6 bln in net loans to related parries as of end-1H16, or 6% of its loan portfolio. At the same time, we suspect that exposure of the bank's loan portfolio to related parties (in particular, the SCM group of companies of Ukrainian tycoon Rinat Akhmetov) might be much higher.

In particular, the companies from the sectors in which SCM is widely present (agriculture, real estate, mining, machinery, metallurgy, transportation) borrowed from the bank gross UAH 20.0 bln (54% of the bank's loan portfolio as of end-2015). It's very hard for us to believe that PUMB is actively providing loans to SCM's key competitors.

The share of related parties was 18% in the bank's total deposit base as of end-1H15, meaning that they are important contributors to the bank's liquidity and financial stability. Their share decreased from 27% as of end-2014. Although the bank itself sees little risk that exposure of related parties to its deposit base can decrease, we believe the liquidity and debt troubles that have affected some of SCM's assets (DTEK, Metinvest, Ukrtelecom) might have a negative impact on PUMB's liquidity as well.

View on bonds: smoothened repayment schedule looks affordable

The repayment schedule of the restructured Eurobond – with ten USD 19.7 mln quarterly payments starting in September 2016 – looks doable right now. As of now, the bank is offering a smaller rate for USD-denominated deposits than its competitors (2.7% for 12M). Should it need additional dollar liquidity, it has room to raise the rates. At this stage, we see little risk that the bank won't be able to service its Eurobond.

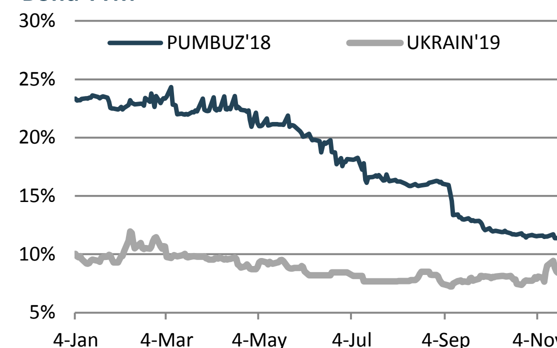
The main drawback of PUMB bonds is their extremely low liquidity. Therefore, the notes can be only interesting for those ready to keep them to maturity. The current 10.6% YTM of PUMBUZ bonds looks fair, at this stage.

	PUMBUZ'18
Outstanding, USD mln	177.8
Repayment, USD mln	**19.76** in last day of each 9 quarters: 4Q16 – 4Q18
Coupon	11.0%, Quarterly
Fitch / S&P / Moody's	NR / na / WR

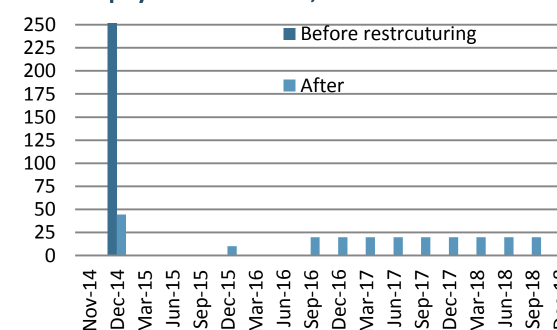
Bank ownership structure

Rinat Akhmetov	99.91%
Other	0.09%

Bond YTM



Bond repayment schedule, USD mln



Source: Bloomberg, bank data, Concorde Capital research

PUMB financial summary, IFRS

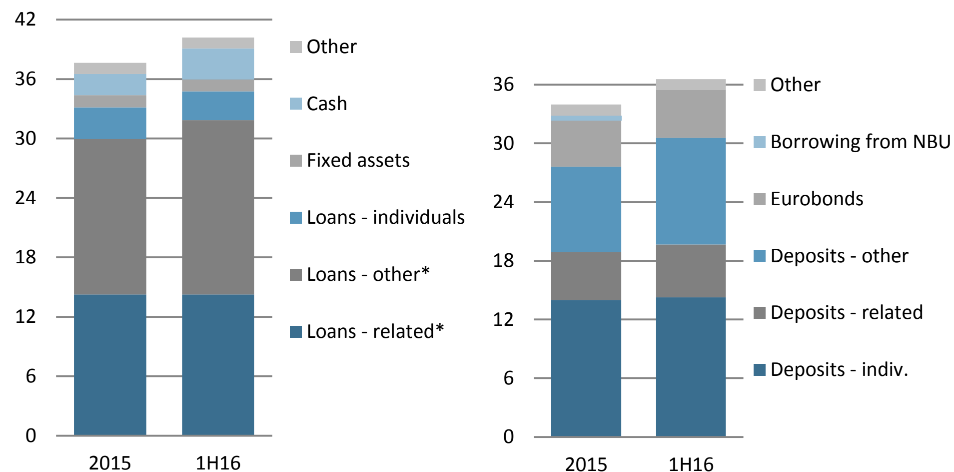
Balance Sheet, UAH mln

	2013	2014	2015	1H16
Cash	1,337	1,054	2,142	3,131
Accounts with other banks	3,733	3,998	4,283	6,278
Net loans	21,863	28,356	26,288	25,444
- Gross loans	*24,592*	*33,445*	*36,819*	*35,645*
- Related party (reported)	*705*	*1,691*	*1,501*	*1,555*
- Related party (est.)	*na*	*na*	*14,249*	*14,249*
PP&E	1,247	1,366	1,209	1,204
Other assets	3,979	2,658	3,722	4,134
Total assets	**32,159**	**37,432**	**37,644**	**40,191**
Due to banks	1,353	244	25	1,023
Due to NBU	1,063	1,190	485	0
Client accounts	21,068	26,273	27,585	29,553
- Related party	*4,249*	*7,140*	*4,921*	*5,402*
- Individuals	*11,353*	*12,644*	*14,000*	*14,267*
Eurobonds outstanding	1,989	3,273	4,722	4,897
Subordinated debt	529	493	492	491
Other liabilities	1,938	671	668	582
Total liabilities	**26,587**	**31,900**	**33,977**	**36,546**
Equity	**5,572**	**5,532**	**3,667**	**3,645**
CAR (Basel)	**24.4%**	**17.4%**	**13.2%**	**12.9%**

P&L summary, UAH mln

	1H15	1H16	yoy
Interest income	2,671	2,456	-8%
Interest costs	-1,598	-1,544	-3%
Net interest income	**1,073**	**912**	**-15%**
Loan loss provisions	-2,318	-840	-64%
Net fees and commissions	387	443	14%
Net other incomes/costs	891	242	-73%
Operating costs	-799	-814	2%
Profit before tax	-766	-56	n/m
Net profit	**-643**	**-46**	**n/m**

Assets & liabilities structure, UAH bln



** Estimated distribution of loans based on sector representation of borrowers*
Source: Bank data, Concorde Capital calculations

Ukreximbank (Ukrainian State Export-Import Bank)

POSITIVE VIEW

Bank profile

Ukreximbank is the third biggest by assets in Ukraine, as of end-1H16. 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 (lending to business accounts for almost 99% of its total loan portfolio) and servicing export-import operations. It is the biggest holder of ForEx corporate accounts in Ukraine (25% of the sector's total, as of end-1H16). It is also the second-biggest holder of the government's local bonds.

State support remains key solvency factor

Ukreximbank's share capital increased UAH 14.5 bln in 2014-1H16 owing to the state's recapitalization. The latest UAH 9.3 bln capital increase occurred in January 2016, following the NBU's stress testing. The bank does not disclose its total capital needs as a result of stress tests, while the dt.ua news site reported in October additional need could reach UAH 12 bln (which does not look impossible). As of end-1H16, the bank's CAR stood at 9.0%, but its capital can shrink any time. Should the bank need any additional capital, the government will easily contribute more.

High concentration of deposit base

Out of its total UAH 81.8 bln deposit base as of end-1H16, UAH 28.5 bln (35%) are deposits by the State Food & Grain Corporation (DZPKU). The corporation attracted a USD 1.5 bln, 15-year loan from Chinese Export-Import Bank in late 2012, keeping part of the raised money at Ukreximbank accounts. The bank is monitoring for proper use of funds, according to DZPKU management. The corporation is very unlikely to withdraw its deposit soon, therefore we see little liquidity risk related to the deposit. The loan should be used to purchase grains to fulfil a long-term grain supply contract with the Chinese state corporation (CCEC). Liquidity of the bank remains solid as it had UAH 25.7 bln in cash and equivalents as of end-1H16 (17% of total assets).

Exposure to foreign currency is both a strength and weakness

The bank has high exposure to foreign currency as 62% of its end-1H16 assets and 83% of its liabilities were denominated in foreign currency. As an institution focused on financing export and import operations, the bank is exposed to the risks of its major clients: both Ukraine's major exporters (suffering from weak global commodity prices and trade restrictions imposed by Russia) and major importers (which suffer lower domestic demand for their goods) are currently not in the best shape.

As a positive externality of large exposure to foreign currency operations, the bank has more dollar liquidity to service its international obligations as compared to its peer, Oschadbank, whose Eurobond debt is comparable.

EXIUMK bond restructuring was softer than for state bonds

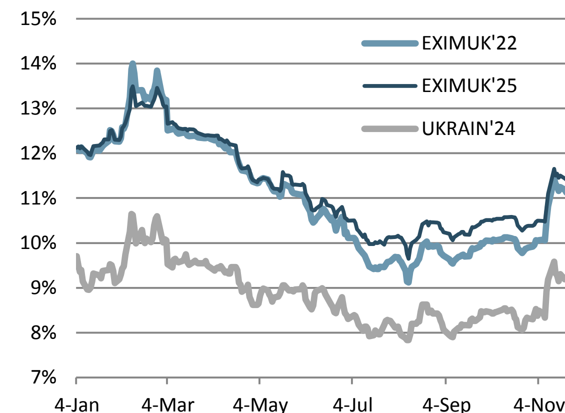
The bank successfully restructured its Eurobonds in July 2015, with no principal haircuts, an extension of ultimate maturity by about five years, an amortized principal repayment and an increased coupon rate. The conditions were much more investor-friendly than for state Eurobonds, and the holders of the old EXIMUK bonds even enjoyed a price gain, as of now.

We believe **EXIUMK should be traded on par with sovereign bonds** (refer to slide 44 for more details). Our view on Ukreximbank Eurobonds is positive.

	EXIMUK'22	**EXIMUK'25**
Outstanding, USD mln	750	600
Repayment, USD mln:	**375**: Apr'19	**300**: Jan'21
	6 x **62.5 S/A:** Oct'19 – Apr'22	8 x **37.5 S/A:** Jul'21 – Jan'25
Coupon	9.63%/SA	9.75%/SA
Fitch / S&P / Moody's	B- /na/ Caa3	B- /na/ Caa3

Bank ownership structure

State	100%



Source: Bloomberg, bank data, Concorde Capital research

Ukreximbank financial summary, IFRS

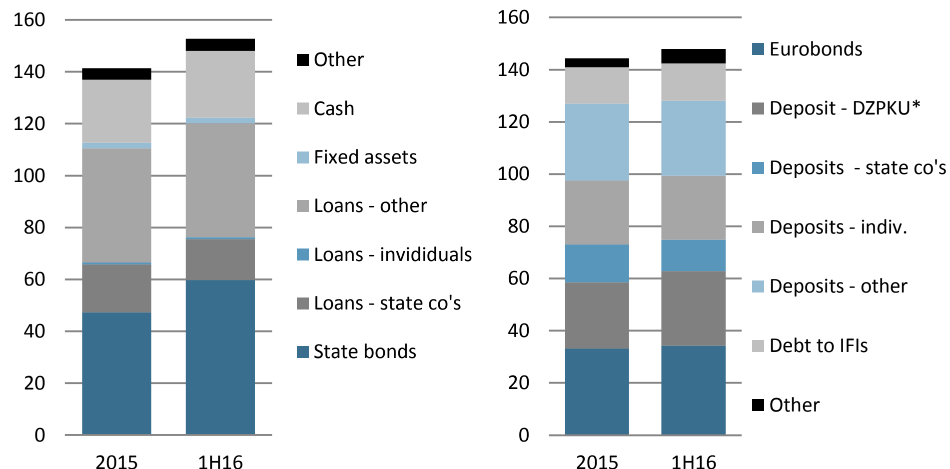
Balance Sheet, UAH mln

	2013	2014	2015	1H16
Cash	8,321	14,661	24,241	25,735
Accounts with other banks	1,747	4,097	4,084	1,623
Net loans	41,625	49,974	55,100	55,772
- Gross loans	*50,384*	*73,161*	*95,948*	*100,106*
- Related party	*10,070*	*14,963*	*16,216*	*15,738*
Securities portfolio	34,488	47,939	51,348	62,777
- Related party	*27,355*	*42,288*	47,319	59,760
PP&E	2,287	2,252	2,171	2,144
Other assets	4,807	4,607	4,405	4,706
Total assets	**93,275**	**123,530**	**141,349**	**152,757**
Due to banks	8,156	16,556	19,299	20,737
Due to NBU	9,223	5,249	2,980	1,019
Client accounts	41,461	61,995	79,318	81,800
- Related party	*13,234*	*23,583*	*36,937*	*39,505*
Eurobonds outstanding	13,519	21,764	33,122	34,309
Subordinated debt	3,112	6,140	9,375	9,725
Other liabilities	8,348	16,807	315	318
Total liabilities	**75,663**	**111,955**	**144,409**	**147,908**
Equity	**17,612**	**11,575**	**-3,060**	**4,849**
CAR (Basel)	**28.5%**	**17.8%**	**-4.1%**	**9.0%**

P&L summary, UAH mln

	1H15	1H16	yoy
Interest income	6,516	7,221	11%
Interest costs	-5,543	-5,579	1%
Net interest income	**973**	**1,642**	**69%**
Loan loss provisions	-5,088	-2,433	-52%
Net fees and commissions	334	346	4%
Net other incomes/costs	-780	-130	-83%
Operating costs	-930	-766	-18%
Profit before tax	-5,491	-1,340	n/m
Net profit	**-5,491**	**-1,340**	**n/m**

Assets & liabilities structure, UAH bln



** DZPKU – State Food & Grain Corporation of Ukraine*
Source: Bank data, Concorde Capital calculations

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