Ukrainian Corporate Eurobonds – Strategy Note

Behind the closed window

May 30, 2014

CONCORDE
CAPITAL

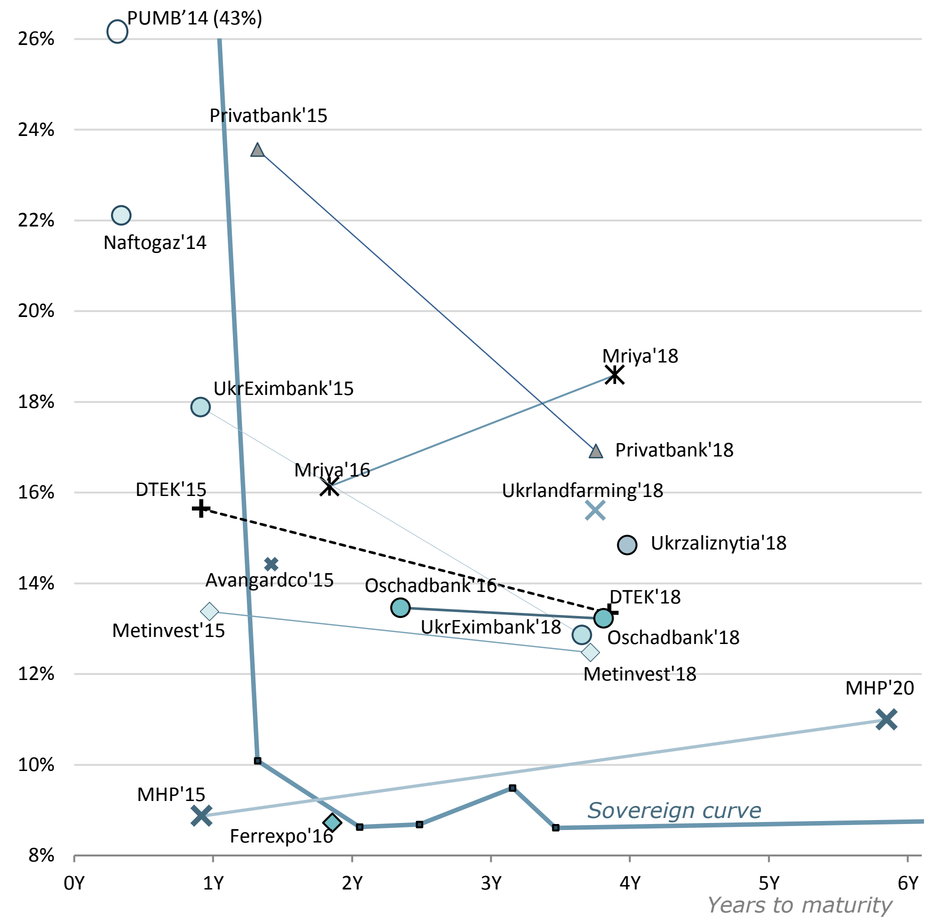
Debt markets failed to react positively to the democratic transformations in Ukraine and the first solid attempts by the interim government to rehabilitate the economy by securing international financing. Russian aggression against Ukraine – which has consisted of a renewed trade war, Crimea joining the world's gray areas and Russian-sponsored turmoil in the eastern regions – did not go beyond the glances of risk-averse investors.

With the Russian factor still relevant (we do expect positive changes with the election of Petro Poroshenko as president), Ukrainian issuers are unlikely to have good access to the international debt markets, at least, as they look right now. All the three corporate issuers that were to redeem their bonds in 1H14 underwent (or are going through) debt restructuring processes. Under such circumstances, all the other upcoming debt redemptions do not look to be smooth.

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

In analyzing longer bonds, we continue to use relative risk-return mapping to pick those that seem to be overlooked by the market. Based on our approach, we have concluded that the bonds of **MHP'20** and **Ukrlandfarming'18** provide attractive yields vs. their fundamental risks. Yet the bond of state **Ukreximbank'18** and the bond of **Mriya'16** look too expensive, given their risks. We also expect the price of longer-term **Metinvest** bond will recover as soon as the situation in Donbas de-escalates.

Yield map, May 29



Source: Bloomberg, Company data, Concorde Capital research

Russian aggression hasn't allowed Ukraine to benefit from domestic reforms

After the victory of EuroMaidan movement, the interim government was able to address the key risks to the Ukrainian economy that were inherited from the administration of former President Viktor Yanukovych, which would have pushed Ukraine towards an inevitable default, namely:

- An unrealistic state budget that was deeply dependent on external financing;
- a tightly controlled hryvnia exchange rate that led to a huge current account (C/A) deficit and squeezed international reserves.

The interim government was able to cut budget deficit and secure cheap international financing that covers all of Ukraine's repayment needs for the next two years. Yet Russia's military aggression against Ukraine offset all the positive internal reforms. The Ukrainian yield curve did not react positively to the domestic economic developments and Ukrainian CDS become increasingly volatile during the last few months.

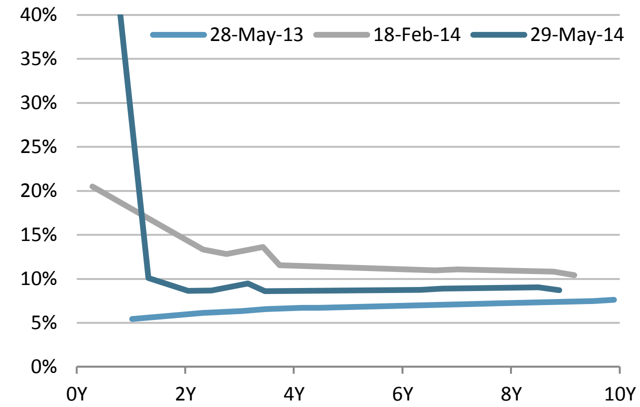
Russia spoiled its relationship with Ukraine, causing investors to shift their focus from analyzing the government's solvency risks (which do not look high any more) to estimating the probability of a country split or possible annexation of Ukraine's eastern oblasts by Russia, in a style similar to the Crimean scenario in March.

The main risks that the market is currently trying to price in are:

- a wide-scale trade war with Russia that is unavoidable, in our view, but will not affect Ukraine's C/A balance much.
- deepening Russian military aggression against Ukraine. Just after the EuroMaidan revolution, Russia was able to ride the backlash of anti-Maidan sentiment among the Crimean population and use its army legally based in the region to illegally annex the peninsula. Russian attempts to duplicate that scenario in the Russian-leaning southeastern regions failed in the absence of similar military bases there. After the repeated failure of sabotage plots and the cooling of anti-Maidan backlash, state officials contained the violence to Ukraine's two easternmost regions (the so-called Donbas). Backed by added economic pressure from the EU and U.S., the Ukrainian government succeeded in reducing the Russian aggression threat from a full-scale military invasion into terrorist operations that have had the more modest goal of merely destabilizing the region.

Thus far, the violence has been localized to several regions within the Donetsk and Luhansk oblasts. We expect that more progress will be made as soon as Poroshenko assumes the presidency in Kyiv (which could happen as early as June 7) and leads structural reforms. Our hopes are primarily based on the emergence of a dialogue between Poroshenko and Putin, though the Russian government recently indicated it's not interested. Yet the terrorists are losing support from local residents in the east, even those wanting to have more autonomy from Kyiv. As soon as the expected reforms transfer more power to regional governments, the extremists will be totally marginalized. On the downside, the presence of an estimated 20,000 armed people in the region implies that total stabilization will take a lot of time.

Ukrainian sovereign curve



Ukrainian 5Y CDS

Source: Bloomberg

Sovereign default risk is low, economy to gradually recover

The Ukrainian government agreed with the IMF to receive a USD 17.1 bln loan on April 30, which will unlock another USD 10-11 bln in debt financing from other institutions. Following the deal, the U.S. provided a state guarantee for a USD 1 bln loan, the World Bank approved USD 1.5 bln in loans and the EU approved a disbursement of EUR 1.6 bln in loans and financial aid.

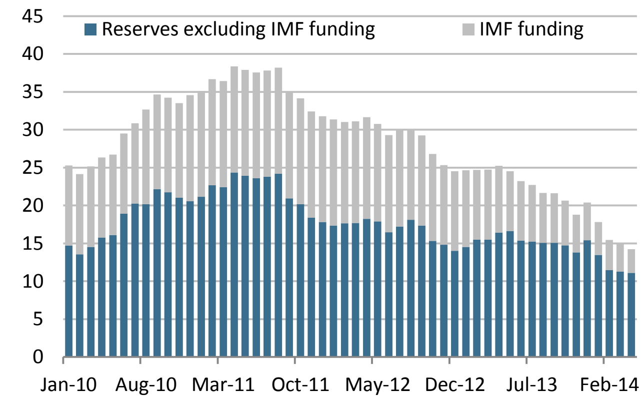
The country has already received USD 3.2 bln from the IMF under the new agreement and has placed USD 1 bln in Eurobonds, backed by the U.S. state guarantee. These two tranches will enable Ukraine to boost its international reserves from end-April level of USD 14.2 bln (1.9 month of future imports) and smoothly repay its USD 1 bln Eurobond maturing next week. With such financial backing at hand, Ukraine isn't likely to default on its international obligations in 2014-15, estimated at more than USD 20 bln.

The hryvnia is currently underpriced and we estimate that the equilibrium exchange rate of the national currency is closer to 10.5 UAH/USD. We see at least three factors that give us optimism about the hryvnia's future:

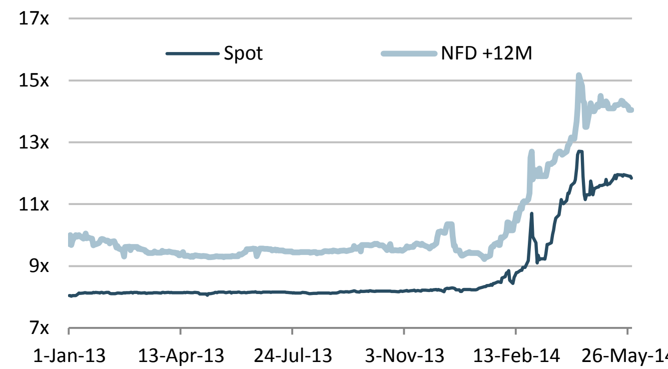
- The fast shrinking C/A deficit may strengthen the hryvnia. Its devaluation caused the C/A deficit to shrink more than 5x to USD 602 mln in 1Q14 from USD 3.1 bln in the same year-ago period. What's more, we see a clear improvement in exports, which have benefited from the hryvnia's decline on non-Russian markets.
- Potential financial inflow also promises hryvnia improvement in the near future. In this context, we can hardly avoid revaluation pressure on the hryvnia.
- Individual demand for foreign cash is not a risk factor anymore. The main reason for devaluation in April to nearly 12 UAH/USD was foreign currency deposit outflows on the armed conflict in eastern Ukraine. In particular, Ukrainians were selling more US dollars (that they withdrew) than buying them in April. The withdrawals caused deposits to fall by USD 1.0 bln yoy. Devaluation pressure should drop as soon as the new government restores order to the east.

While 2014 does not promise any economic growth (we expect a 3.7% drop in real GDP this year), the next year should be much better, providing the military conflict concludes. We are counting on good investment flow following expected economic reforms and a gradual recovery in household consumption, with economic growth of 2.3% in 2015. The Economy Ministry's outlook is line with ours: its recent release assumes 1.7% growth in its base-case scenario and 3.5% in its optimistic one.

Ukraine's international reserves, USD bln



UAH / USD rate



Source: State Statistics Committee of Ukraine, NBU, Bloomberg, Concorde Capital research

The majority of Eurobond issuers have exposure to risks that have surfaced after the EuroMaidan revolution, including:

Spoiled business relations with Russia – a clearly important factor as it can affect the revenue of Russia-focused companies. This is a risk for **Metinvest** and **MHP**, which exported up to 10% of their products to Russia, and **Naftogaz**, which imports most of its gas from Russia.

Crimean occupation by Russia – it has damaged the business climate and negatively affected businesses with Crimea-based assets. Such companies may even lose their Crimean assets (**Nafttogaz** already did). At risk are **MHP**, **Avangardco**, **Ukrlandfarming**, **Ukrzaliznytsia** and **DTEK**.

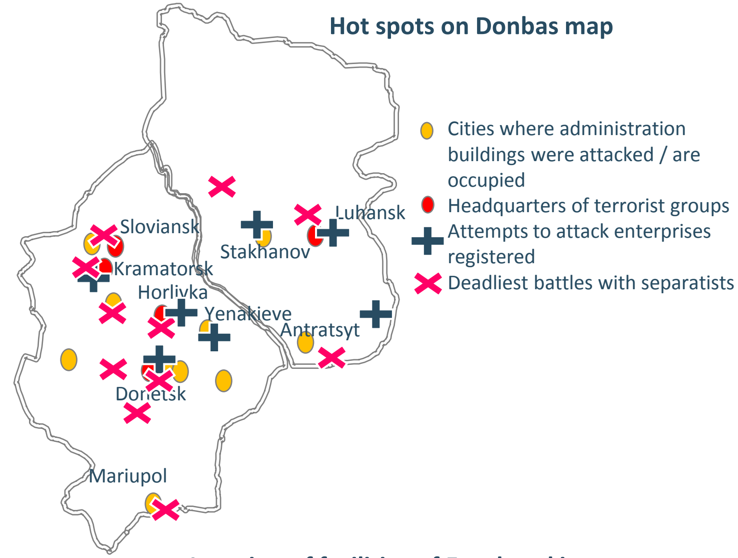
Turmoil in eastern regions of Ukraine, Donetsk and Luhansk (commonly known as **Donbas**). The risk that these regions will turn into a "new Crimea" is very low at the moment.
The core risks are:

- Armed conflicts have **affected retail business, primarily banks,** as most outlets located in the battle zones had to close.
- They have also affected other business owing to **disrupted transportation** of goods.
- They may lead to **temporary idling** of some enterprises in the locations where it's dangerous for workers to walk the streets.
- Attacks on large industrial enterprises are possible.

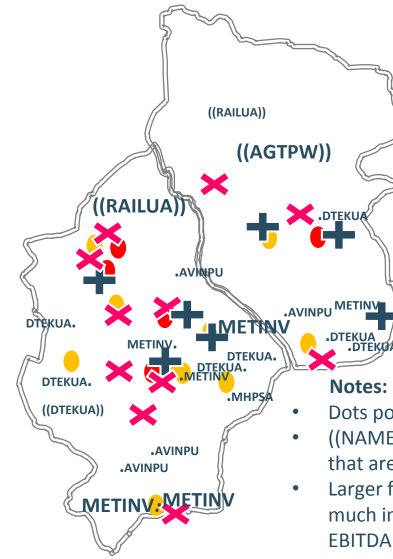
Risks related to Donbas exposure are valid for **Agroton**, **Metinvest, Ukrzaliznytsia** and **DTEK** as a lot of their facilities are located there. **Avangardco** and **MHP** are exposed to a lesser extent.

This set of risks have increased significantly in recent weeks as more attacks of terrorists on industrial enterprises were reported.

Hot spots on Donbas map



Location of facilities of Eurobond issuers



Notes:
- Dots point exact location
- ((NAME)) – for the companies which assets that are spread throughout the region
- Larger font is for assets that contribute much into the company's business (sales, or EBITDA contribution is more than 10%)

Post-EuroMaidan risks: exposure of Eurobond issuers

Risk of value loss	Ticker	Name	Crimean factor	Russian factor	Donbas factor	Comment
High	NAFTO	Naftogaz of Ukraine	Low	Medium	Medium	9% of gas produced in Crimea; profit depends much on the import price of Russian gas
	DTEKUA	DTEK	Low	Low	High	Owns Crimean DisCo, Russian coal mines (minor share of total output). 60% of its coal and 35% of its power are produced in Donbas. 27% of borrowings are from Russian banks
	METINV	Metinvest	-	Low	High	2/3 of sales come from Donbas enterprises, 8% of products are imported to Russia
	RAILUA	Ukrzaliznytsia	Low	-	High	~3% sales in Crimea, ~17% in Donbas; about 50% of profit depends on Donbas business
Fair	PRBANK	PrivatBank	Low	Low	Medium	~2% sales in Crimea, ~7% in Donbas; shareholder is personal enemy of Putin
	AVINPU	Avangardco	Low	-	Medium	3% of eggs capacities In Crimea, 18% in Donbas
	MHPSA	MHP	Low	Low	Low	Some land, 25% of meat capacity, 12% of distribution channels located in Crimea; 15% of distribution channels and some flock capacities are in Donbas; exports to Russia are closed, which did not affect sales in 1Q14
	AGTPW	Agroton	-	-	High	All assets are in the Luhansk region
	EXIMUK	Ukreximbank	Low	-	Medium	~2% sales in Crimea, ~11% in Donbas*; high dependence on export and import operations
	OSCHAD	Oschadbank	Low	-	Medium	~2% sales in Crimea, ~11% in Donbas*
	PUMBUZ	PUMB	Low	-	Medium	~2% sales in Crimea, ~11% in Donbas*
	VABANK	VAB Bank	Low	-	Medium	~2% sales in Crimea, ~11% in Donbas*
	NADRA	Nadra Bank	Low	-	Medium	~2% sales in Crimea, ~11% in Donbas*
	UKRLAN	Ukrlandfarming	Low	-	Low	Land is situated throughout Ukraine
No risk	FXPOLN	Ferrexpo	-	-		All assets are in the Poltava and Odesa regions
	MRIYA	Mriya Agroholding	-	-		All assets are in western Ukraine

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

Bonds selection

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

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

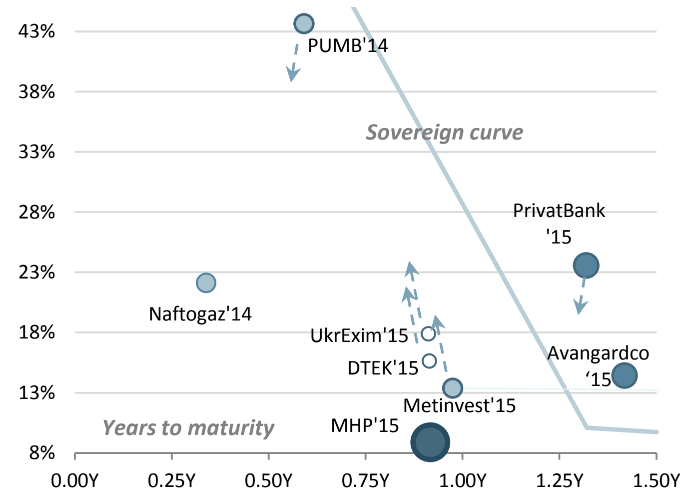
Analyzing whether the issuers that are due to repay their Eurobonds in 2014 and 2015 are capable of doing so without securing additional external financing, we reached the following conclusions:

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

Eurobonds repayable in 2014-15

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

Yield and risk mapping, as of May 29, 2014 *



What we can conclude from the yield map is that:

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

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

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

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

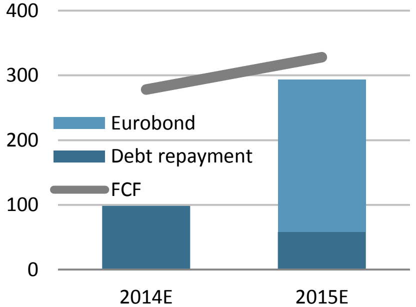
From the charts below, it is clear that **MHP** and **Avangardco should have sufficient cash flow** to service its debt. Both companies completed their ambitious CapEx projects in 2013 so their operating cash flow will grow with the launch of new production facilities. At the same time, their CapEx needs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

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

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

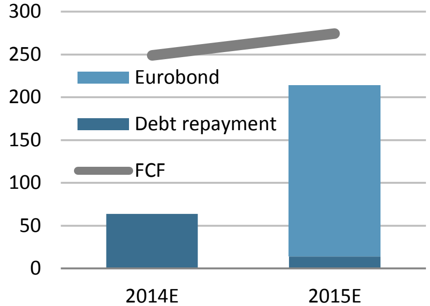
MHP: **set to smoothly repay** all its 2014-15 obligations alone and even start repaying other debt. On top of that, the company has secured USD 250 mln in financing from the IFC that might be used to repay the 2015 bond

MHP, USD mln



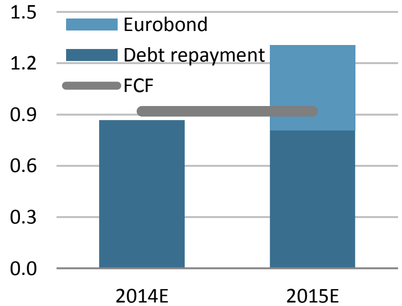
Avangardco: **can easily repay** all its 2014-15 debt obligations alone. The core risk is that the 2015 Eurobond is a noticeable portion of its debt. The willingness of its owner to repay is unclear.

Avangard, USD mln



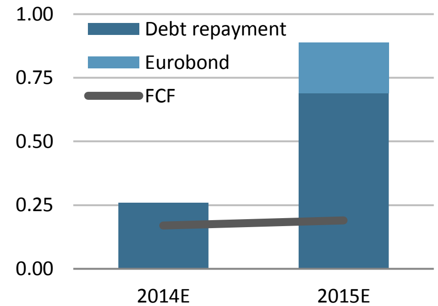
Metinvest: **lacks its own cash flow** to smoothly repay all its debt obligations in 2014-15. It needs to roll over about 20% of its total debt to meet its repayment schedule. The restructuring of its Eurobond will solve its refinancing needs..

Metinvest, USD bln



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

DTEK, USD bln



Sources: Company data, Concorde Capital research

2014/15 Eurobonds: restructuring risks for banking issuers

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

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

The results of such a stress test are provided below:

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

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

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

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

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

Selected items from bank annual reports under IFRS, UAH mln

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

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

Bonds maturing in 2016-2020: compare risks and returns

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

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

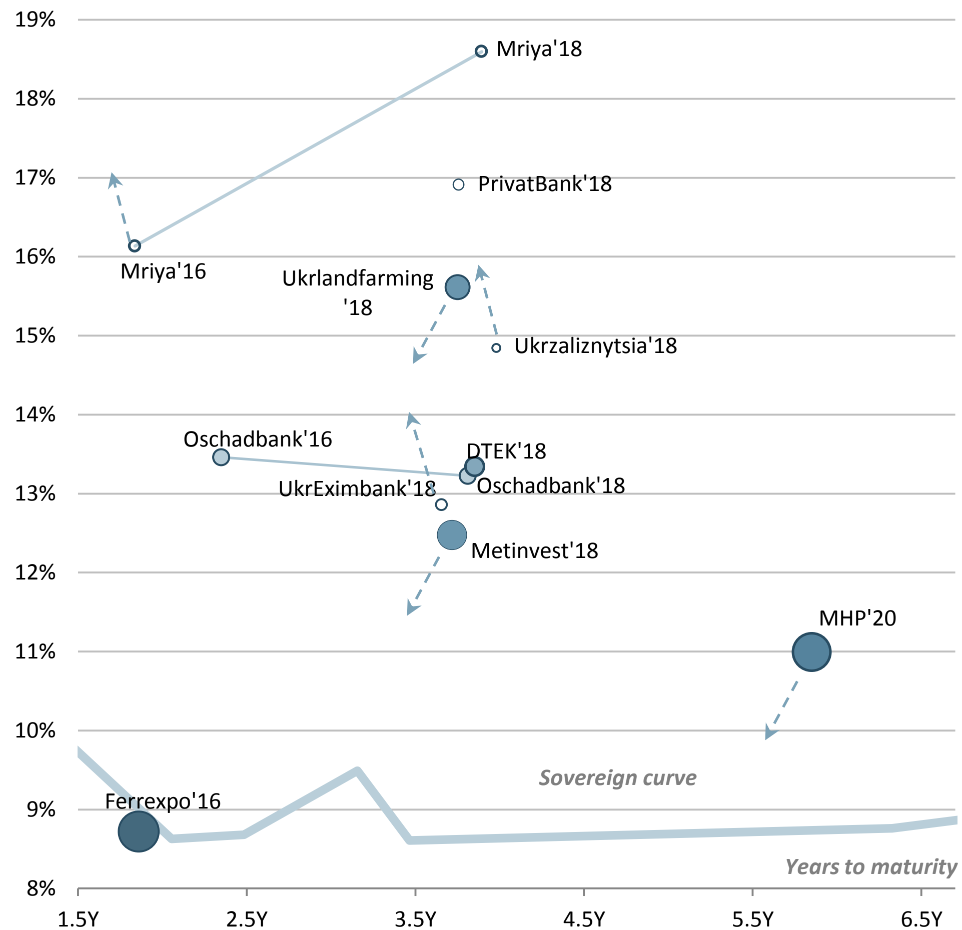
The result of our risk/return analysis is provided on the chart to the right (with the bigger dot representing the smaller risk). As we can see from the chart:

- **UkrEximbank'18, Mriya'16** and **Ukrzaliznytsia'18** papers offer exceedingly small yield s compared to their risk profile;
- The bonds of **Ukrlandfarming'18** and **MHP'20** trade too cheaply compared to their risk profile;
- If Donbas de-escalates the **Metinvest'18** bond will become less risky, its price may increase significantly

Relative risk profiles (higher score for smaller risk)

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

Risk-return mapping, as of May 29, 2014 *



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

Assessment of risk profile: non-banking issuers

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

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

Relative risk profile calculation summary

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

Sources: Company data, Concorde Capital research

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

Assessment of risk profile: banking issuers

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

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

Relative risk profile calculation summary

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

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

Issuer profiles, non-banking

Company profile

Avangardco is Ukraine's leading producer of eggs and egg products and the second-largest producer of eggs globally. In 2013, the company accounted for 57% of industrially produced eggs in Ukraine and 90% of the country's egg exports. Its key outputs, a third of which are exported, are shell eggs, dry egg products and poultry meat. In 2013, Avangardco finalized its expansion program, having launched two new egg farms that boosted egg production capacity 26% to 8.6 bln p.a. and expanded its egg-processing capacity three fold. Avangardco is a part of Ukraine's leading agricultural holding company, Ukrlandfarming (ULF).

Investment case: Low leverage, increasing cash flow, but willingness to repay bond is not clear

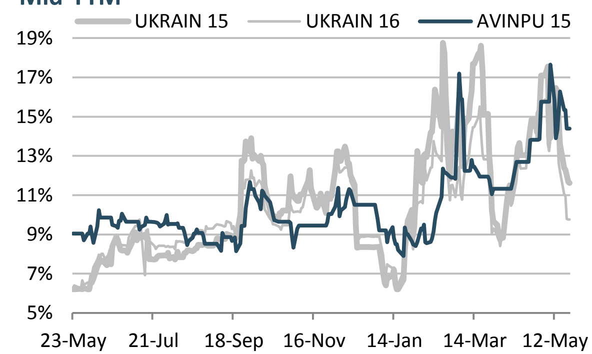
- Having finalized its ambitious investment projects, which were launched with the IPO in 2010, Avangardco will turn to positive free cash flow generation as early as 2014. Its CapEx will drop almost 3x yoy this year to USD 60 mln (from USD 185 mln in 2013 and 321 mln in 2012), the company said.
- This year, the company will ramp up to full capacity production at 8.6 bln eggs (from 7.0 bln in 2013). We expect incremental products will be allocated to export markets. Avangardco managed to increase its share of export sales as part of total revenue to 32% in 2013 and 43% in 1Q14 (and from 14% in 2012) and may potentially increase exports further in 2014.
- Expected EBITDA in 2014 of around USD 270 mln and available cash of USD 178 mln, as of end-1Q14, will cover CapEx requirements, debt repayment and the debt service needs of Avangardco in 2014-15, as well as dividend payments for 2013, which may reach another USD 60 mln based on a 25% dividend pay-out ratio.
- As a result of a Eurobond redemption in 2015, which we consider likely to occur, Avangardco will complete its deleverage afterwards, thus further improving its traditionally solid solvency ratios. The latter already look strong: net debt-to-EBITDA of 0.6x against a covenant of 3.0x. On the downside, Avangardco's ability to repay its Eurobond does not ensure that it will be repaid smoothly. Being an integral part of the ULF holding, Avangardco seems to be involved in the financing of the holding's operations and development. The related VAB Bank has recently initiated restructuring of its Eurobond scheduled for June 2014, which raises the risk that Avandardco will repeat this practice.
- Avangardco is exposed to the risks of the deteriorating Crimean business climate (4% of its egg capacities are there) and the armed conflict in Donbas (where it holds about 18% of its total egg production capacities). Though given that demand for its products will not be harmed even in the event of escalations, we do not expect any visible losses for the holding related to the turmoil.

	AVINPU 15
Outstanding, USD mln	200
Maturity	Oct-15
Coupon	10.0/SA
Fitch / S&P / Moody's	CCC / na / na
Covenant: Net Debt / EBITDA	3.0x
Net Debt / EBITDA, 2013	0.6x

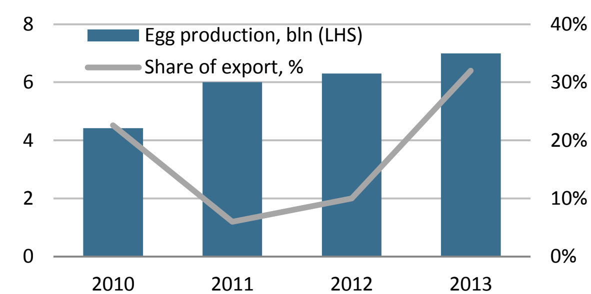
Company ownership structure

Ukrlandfarming (Oleg Bakhmatyuk)	77.5%
Free float	22.5%

Mid-YTM



Export sales vs. total eggs production



Source: Company data, Bloomberg, Concorde Capital research

Avangardco financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2011	2012	2013
Net revenue	553	629	661
IAS 41 gain	24	26	35
EBITDA	246	280	301
EBITDA margin	44%	44%	46%
EBIT	232	264	276
Operating margin	42%	42%	42%
Finance costs	-33	-37	-39
PBT	200	228	237
Net income	196	228	238
Net margin	35%	36%	36%

Operating cash flow	186	277	187
Investing cash flow	-161	-321	-185
Net CapEx	-146	-322	-185

Leverage, USD mln

	2011	2012	2013
Net debt	81	149	166
Gross debt	318	353	323
Gross debt in UAH	32	35	3
Net debt / EBITDA	0.3	0.5	0.6
Covenant (Net debt / EBITDA)	3.0	3.0	3.0

Revenue by segments, USD mln

	2011	2012	2013
Shell eggs	389	458	437
Egg products	99	106	153
Other	65	65	71

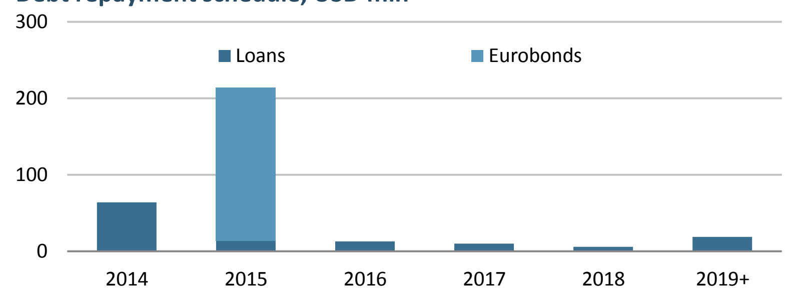
Operating margin of key segments

	2011	2012	2013
Shell eggs	61%	50%	51%
Egg products	-7%	47%	40%
Animal feed	58%	-12%	-32%

Key Balance Sheet items, USD mln

	2011	2012	2013
Current assets	654	609	635
Cash & equivalents	238	204	157
Non-Current assets	652	969	1184
PP&E	513	920	1104
Equity	939	1167	1447
Current liabilities	147	205	108
ST debt	105	152	64,5
Non-current liabilities	219	206	263
LT debt	214	201	258

Debt repayment schedule, USD mln



Source: Company data

CONCORDE CAPITAL

DTEK

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

	DTEKUA 15	DTEKUA 18
Outstanding, USD mln	200	750
Maturity	Apr-15	Apr-18
Coupon	9.50/SA	7.88/SA
Fitch / S&P / Moody's	CCC/na/Caa2	CCC/na Caa2
Covenant: Gross Debt / CCF*	3.0x	3.0x
Gross Debt / CCF, 2014E*	2.4x	2.4x

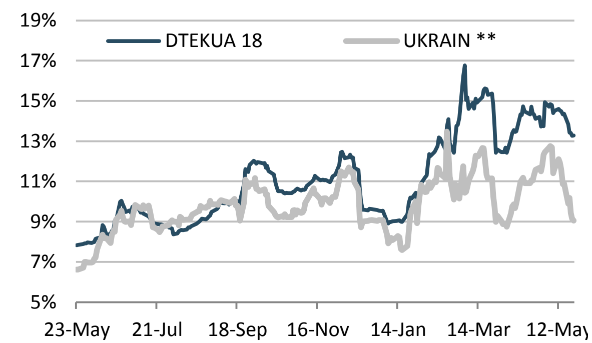
Company ownership structure:

SCM (Rinat Akhmetov)	100%

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

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

Mid-YTM



Source: Bloomberg, Company data, Concorde Capital research
** Based on its prospectus, we calculate Consolidated Cash Flow (CCF) as operating cash flow before working capital changes plus salary taxes and other taxes; ** Interpolated yields for Ukrainian sovereign bonds maturing in Nov. 2017 and Sept. 2020*

Investment case (continued)

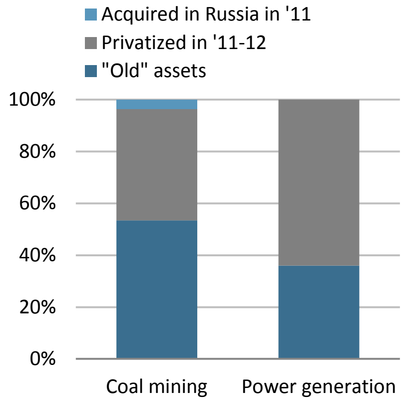
- The core strategic risk is DTEK may lose some of the assets it acquired from the state during the presidency of Viktor Yanukovych, i.e. in 2011-12. These assets generated more than 45% of the holding's EBITDA in 2013. we estimate. So far, we see a low probability of losing assets. Though, given Akhmetov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

	DTEKUA 15	DTEKUA 18
Outstanding, USD mln	200	750
Maturity	Apr-15	Apr-18
Coupon	9.50/SA	7.88/SA
Fitch / S&P / Moody's	CCC/na/Caa2	CCC/na Caa2
Covenant: Gross Debt / CCF*	3.0x	3.0x
Gross Debt / CCF, 2014E*	2.4x	2.4x

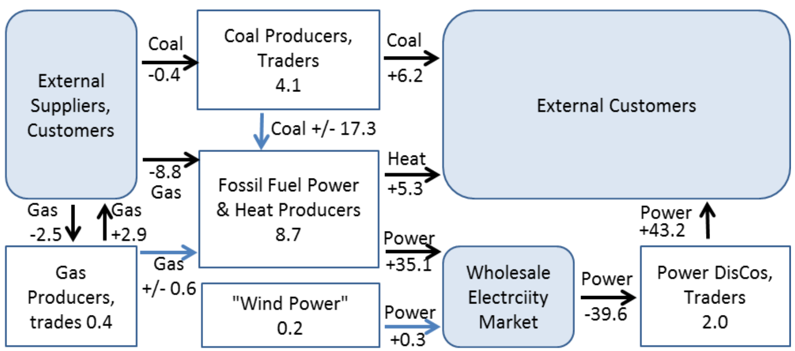
Company ownership structure:

SCM (Rinat Akhmetov)	100%

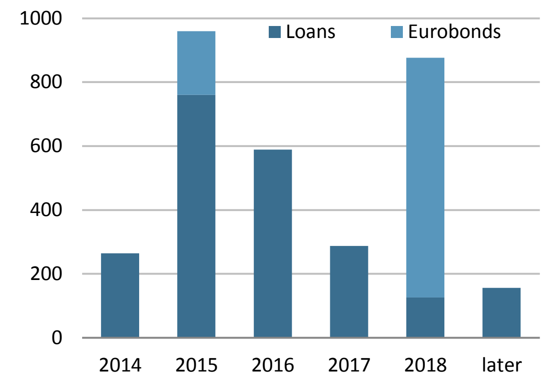
Contribution to DTEK's operation, 2013



Simplified DTEK business model, 2013***



Debt repayment schedule, USD mln



** Based on its prospectus, we calculate Consolidated Cash Flow (CCF) as operating cash flow before working capital changes plus salary taxes and other taxes; ** Interpolated yield curves of sovereign bonds of the same maturity as DTEKUA '18 ; ***Arrows show key input/output flow in 2012 (in UAH bln), blue arrows are for intersegment sales, numbers in boxes show segment EBIT in 2012 (UAH bln); Source: Company data, Bloomberg, Concorde Capital research*

DTEK financial summary (IFRS)

Key P&L and Cash Flow items, USD bln

	2012	2013	2014E
Net revenue	10.32	11.60	9.39
EBITDA	2.12	1.87	1.30
EBITDA margin	21%	16%	14%
EBIT	1.45	1.36	0.88
Finance costs	0.52	0.47	1.38
PBT	0.93	0.65	-0.60
Net income	0.74	0.42	-0.65
Net margin	7%	4%	-7%
Cash EBITDA	1.87	1.55	1.10
Cash EBITDA / EBITDA	0.86x	0.83x	0.84x
Operating cash flow	1.04	1.26	0.90
Investing cash flow	-1.84	-1.71	-0.90
Net CapEx	-1.27	-1.29	-0.85
Dividends paid	-0.22	-0.36	-0.10

Leverage, USD bln

	2012	2013	2014E
Net debt	1.95	2.82	3.40
Gross debt	2.62	3.48	3.50
Gross debt in UAH	3%	3%	2%
Consolidated Cash Flow (CCF)*	2.41	2.23	1.63
Gross debt / CCF*	1.1x	1.6x	2.4x
Gross debt / CCF (old)*	1.4x	2.3x	3.2x
Covenant (Gross debt / CCF)*	3.0x	3.0x	3.0x

Revenue by segments, USD bln

	2012	2013	2014E
Coal & power production	4.72	6.06	5.55
Power distribution	4.60	4.84	3.69
Other	1.00	0.70	0.67

EBITDA margin of key segments

	2012	2013	2014E
Coal & power output	30%	24%	23%
Power distribution	9%	5%	4%

Key Balance Sheet items, USD bln

	2012	2013
Current assets	2.29	3.01
Cash & equivalents	0.67	0.66
Non-Current assets	7.32	8.88
PP&E		
Equity	4.07	4.34
Current liabilities	2.09	2.58
ST debt	0.43	0.59
Non-current liabilities	3.45	4.97
LT debt	2.16	2.78

** We calculate Consolidated Cash Flow as operating cash flow before working capital changes plus salary taxes and other taxes. Old CCF is based on definition of 2015 Eurobond (changed in 2013)*

Source: Company data, Concorde Capital research

Company profile

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

Investment case: The top-rated bond from Ukraine, looks safe unless ambitious CapEx initiated

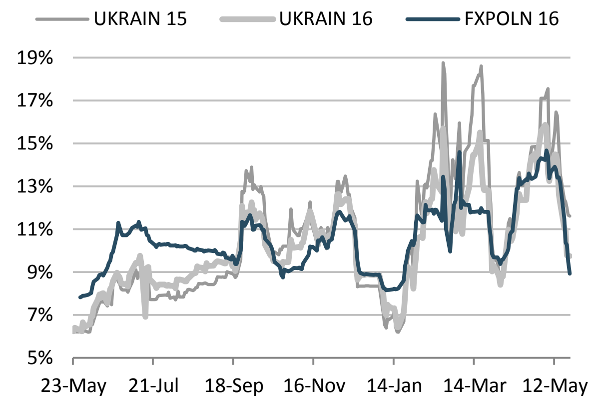
- Ferrexpo will boost pellet production 6% yoy to around 11.5mmt in 2014E (capacity load of 96%), driven by the launch of the Yeristovo Mine in end-2012, which will boost its own iron ore extraction.
- Deep hryvnia devaluation will positively influence the company's bottom line since more than 50% of Ferrexpo's production costs are UAH-denominated, while all revenue is in U.S. dollars. We project C1 production costs of pellets at around USD 48/t in 2014 (-18% yoy).
- Lower costs will counterbalance the ongoing decline in iron ore prices (average prices of 62% fines declined 18% yoy to USD 117/t in 1Q14). We expect Ferrexpo's EBITDA growing to USD 516 mln in 2014 (+2% yoy). Against stable debt, the gross debt-to-EBITDA ratio will be around a comfortable level of 1.85x, we estimate.
- The company has limited CapEx requirements for the next two years as it has chosen to implement the 10 mmt concentrator project (totally worth around USD 700 mln) in small stages. 2014 will be the second consecutive period of positive free cash flow as the main investment projects have been already completed.
- Sitting on USD 390 mln in cash as of end-2013, Ferrexpo will face minor debt repayments in 2014-15. The company has secured a USD 350 mln credit line to refinance the bulk of its USD 420 mln PFX facility, which is repayable during 2014-18. Unless the company gets too involved in the construction of the 10 mmt concentrator, repayment of Eurobonds in 2016 looks relatively safe.
- Its Eurobonds are rated one notch above the sovereign risk by two rating agencies, Moody's and S&P, and are rated by S&P one notch higher than any other Ukrainian issuer of Eurobonds.
- Ferrexpo is one of the two Ukrainian Eurobond issuers that have no exposure to new Ukrainian risks: it does not deal with Russia, and has no assets in Crimea or Donbas. Combined with strong cash flow generation potential, low leverage and a better credit rating, Ferrexpo notes offer much smaller risks compared to other corporate issues and even state paper. This is not a story for risk seekers of distressed assets as Ferrexpo bonds trade inside the sovereign curve.

	FXPOLN 16
Outstanding, USD mln	500
Maturity	Apr-16
Coupon	7.88/SA
Fitch / S&P / Moody's	CCC / CCC+/ Caa2
Covenant: Gross Debt / EBITDA	2.5x
Gross Debt / EBITDA, 2014E	1.9x

Company ownership structure

Kostyantyn Zhevago	50.30%
BRX Limited	23.86%
Free float	25.80%

Mid-YTM



Source: Company data, Bloomberg, Concorde Capital research

Ferrexpo financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2012	2013	2014E
Net revenue	1,424	1,581	1,560
EBITDA	402	506	517
EBITDA margin	28%	32%	33%
EBIT	341	401.4	421
Operating margin	24%	25%	27%
Finance costs	-88	-65.9	-82.4
PBT	262	305	340
Net income	216	263.8	286
Net margin	15%	17%	18%
Operating cash flow	119	163	403
Investing cash flow	-419	-297	-170
Net CapEx	-429	-297	-170

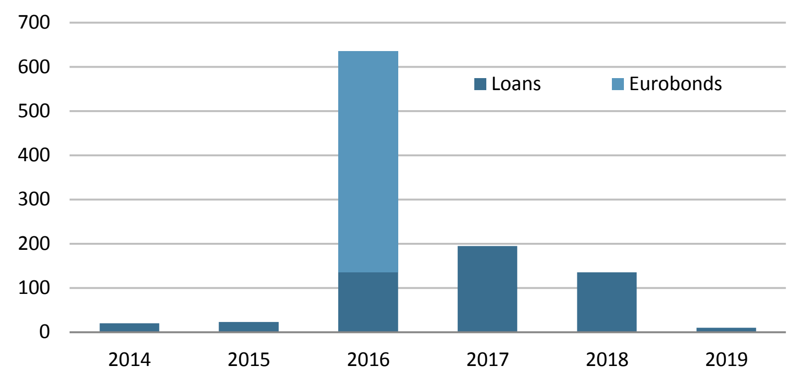
Key Balance Sheet items, USD mln

	2011	2012	2013
Current assets	1,334	1,095	915
Cash & equivalents	890	597	391
Non-Current assets	1,165	1,663	2,017
PP&E	1,342	1,348	1,533
Equity	1,393	1,547	1,570
Current liabilities	136	163	211
ST debt	19	27	101
Non-current liabilities	970	1,048	986
LT debt	951	993	928

Leverage, USD mln

	2012	2013	2014E
Net debt	423	596	401
Gross debt	1,020	1,030	958
Gross debt in UAH	0	0	0
Gross debt / EBITDA	2.5	2.0	1.9
Covenant (Gross debt / EBITDA)	2.5	2.5	2.5

Debt repayment schedule, USD mln



Source: Company data, Concorde Capital research

Metinvest

Company profile

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

Investment case: Benefits from devaluation, suffers from Donbas conflict

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

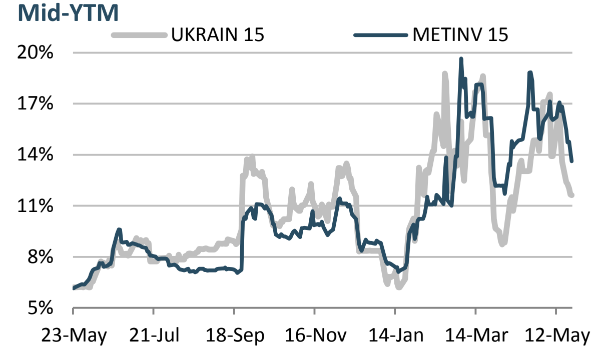
  We project a gross debt/EBITDA ratio of 2.0x by the end of 2014 (vs. a covenant of 3.0x). Should the debt markets be closed to Metinvest, it may choose to restructure its 2015 Eurobond or reduce dividend payments.
- Most of the downstream assets of Metinvest (three steel mills that accounted for 54%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

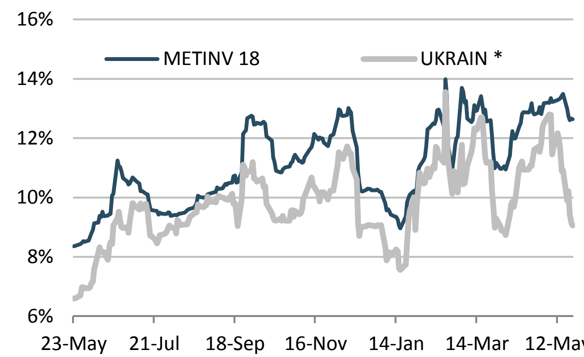
	METINV 15	METINV 18
Outstanding, USD mln	500	750
Maturity	May-15	Feb-18
Coupon	10.25/SA	8.75/SA
Fitch / S&P / Moody's	CCC/na/Caa2	CCC/na/Caa2
Covenant: Gross Debt / EBITDA	3.0x	3.0x
Gross Debt / EBITDA, 2014E	2x	2x

Company ownership structure

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

Mid-YTM





Source: Bloomberg, company data, Concorde Capital research
** Interpolated yields for Ukrainian sovereign bonds maturing in Nov. 2017 and Sept. 2020*

Metinvest financial summary (IFRS)

Key P&L and Cash Flow items, USD bln

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

Revenue by segments, USD bln

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

EBITDA of key segments, USD bln

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

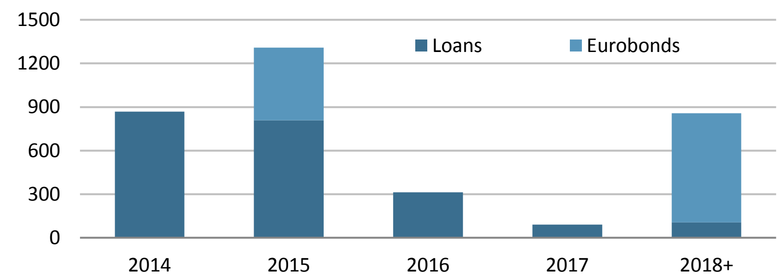
Key Balance Sheet items, USD bln

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

Leverage, USD bln

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

Debt repayment schedule, USD mln



Source: Company data, Concorde Capital research

MHP (Myronivsky Hliboproduct)

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

Investment case: Completed ambitious project sets stage for deleverage, 2015 bond repayment secured

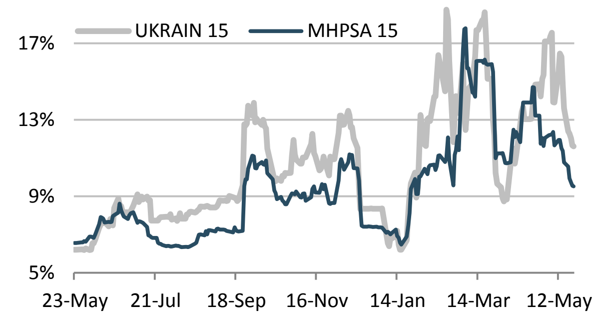
- MHP copes well with allocating its incremental poultry produced on the market. After hryvnia devaluation spurred domestic inflation in 2014, poultry became even more competitive on the Ukrainian market, compared to other sources of protein. The company continues to increase exports, planning to sell abroad 180 kt of poultry (+50% yoy) as it found additional customers in the Middle East, Africa and Asia. That's despite the company being banned from export deliveries to the Customs Union in 1Q14 (equal to about 10% of MHP's total 2013 sales).
- MHP is slated to improve its Net Debt/EBITDA ratio to below 2.5x in 2014 from 2.9x as of end-2013. Among the key drivers of the projected 24% yoy EBITDA increase to USD 485 mln are the full capacity load of the newly launched Vinnytsia complex in 2H14 (boosting poultry output 16% yoy in that period), lower grain costs inherited from previous season's bumper harvest, and continuingly lower sunflower prices. We expect net debt to remain stable in 2014.
- Following the completion of the Vinnytsia project, CapEx will be limited to around USD 100-120 mln in 2014 (from USD 264 mln in 2013 and USD 386 mln in 2012). That will allow MHP to further increase its positive free cash flow for the second consecutive year to USD 385 mln in 2014.
- The company expects to earn more than USD 400/ha in EBITDA from its farming operations in 2014, subject to weather conditions and commodity prices, which can be another strong profit driver this year.
- A tiny debt repayment schedule for the next couple of years makes the company one of the least risky assets in the Ukrainian universe. MHP's ability to service and repay its debt looks strong having USD 163 mln in cash as of March 2014 (half of which will be directed to pay USD 80 mln in dividends) and USD 291 mln in secured credit lines from the IFC and EBRD as of end-2013. Moreover, the repayment of the company's USD 235 mln Eurobond in 2015 is nearly secured by IFC's promise to provide USD 250 mln in refinancing.
- MHP belongs to a group of companies that have exposure to Crimea (Crimean assets generated about 10% of its operating profit in 2013, according to the company). On top of that, it possesses a breeding factory located in a troublesome area of the Donetsk region. These two factors may undermine the company's planned KPIs for 2014, but they will hardly have any consequences for MHP that might harm its ability to smoothly repay its 2020 Eurobond.

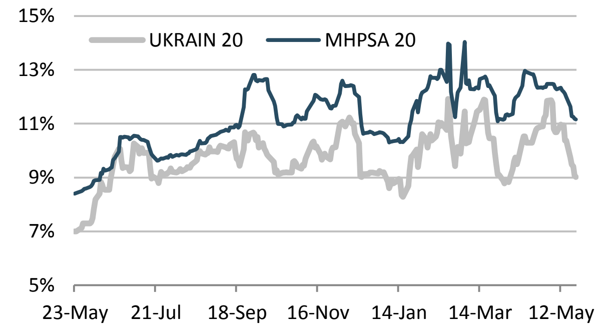
	MHPSA 15	MHPSA 20
Outstanding, USD mln	235	750
Maturity	Mar-15	Mar-20
Coupon	10.25/SA	8.25/SA
Fitch / S&P / Moody's	CCC/na/Caa2	CCC/CCC/na
Covenant: Net Debt / EBITDA	3.0x	3.0x
Net Debt / EBITDA, 2013E	2.7x	2.7x

Company ownership structure

Yuriy Kosyuk	65.9%
Fee float	34.1%

Mid-YTM





Source: Company data, Bloomberg, Concorde Capital research

MHP financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2012	2013	2014E
Net revenue	1,408	1,496	1,368
IAS 41 gain	17	14	17
EBITDA	468	391	485
EBITDA margin	33%	26%	35%
EBIT	381	272	375
Operating margin	27%	18%	27%
Finance costs	-59	-93	-97
PBT	319	160	261
Net income	311	162	256
Net margin	22%	11%	19%
Operating cash flow	198	332	250
Investing cash flow	-260	-224	-100
Net CapEx	-260	-165	-100

Leverage, USD mln

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

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

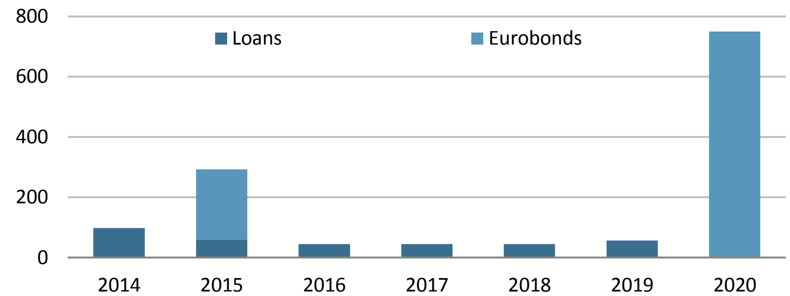
EBITDA margin of key segments, %

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

Key Balance Sheet items, USD mln

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

Estimated debt repayment schedule, USD mln



Source: Company data, Concorde Capital research

Mriya (Mriya Agro Holding)

Company profile
Mriya is an agricultural holding with a 298,000 ha land bank located in Ukraine's western regions. It plants primarily four crops: wheat, corn, rapeseed and sugar beet. The company's land bank has been reportedly stable over the last three years, as it has concentrated on the development of infrastructure like storage facilities and machinery. The company's key shareholder, the Huta family, owns seven small sugar plants that are located near Mriya's fields and are the main consumers of the company's planted sugar beet.

Investment case: Too profitable to be true, high leverage is the issue

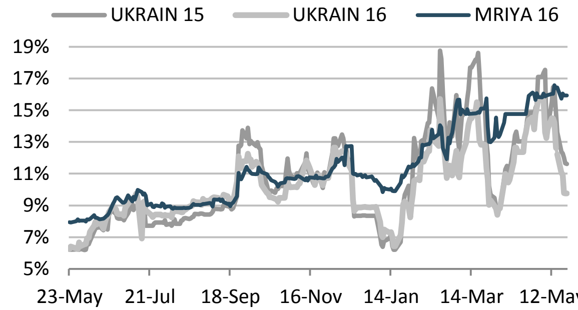
- In 2013, 47% of the land harvested by Mriya was under wheat, the prices for which dropped 23% yoy in 4Q13, and 33% of the land was under corn (whose prices fell 40% yoy), which negatively impacted the financials of Mriya. Despite the earnings decline being expected, Mriya reported EBITDA of USD 227 mln (-11% yoy), or USD 768 per hectare of harvested land in 2013, which was 2.2x higher than Mriya's cash flow from operating activities and way above what other local farmers reported for the year. The company does not report its operating cash flow before working capital changes, which makes it impossible to verify the credibility of its reported EBITDA number.
- The company sees EBITDA in 2014 as basically flat yoy. The sustainability of such a superb performance is cause of concern for us in 2014-15, ahead of the expected substantial volatility of commodity prices and against the company's elevated leverage (D/E grew from 0.62x in 2012 to 0.94x, EBIT coverage of interest expense plunged from 4.1x to 2.4x).
- 2013 was a tough year for Mriya in terms of extending its short-term debt maturity. The company managed to refinance the bulk of its 2016 Eurobond with newly issued 2018 paper worth USD 400 mln so that the shorter debt doesn't seem so large, with a remaining principal of USD 72 mln. But the short-term debt consisting of revolving loans of about USD 200 mln was just shifted from 2014 to 2015, and the ability to effectively refinance these loans again will be crucial for the company in 2015.
- Factoring the adverse market conditions of low grain prices, Mriya has chosen to minimize its CapEx in 2014 to a level of USD 50-60 mln to mainly maintenance CapEx (compared to USD 162 mln in 2013 and USD 253 mln in 2012), which is another indication of liquidity constraints the company is facing.
- Mriya is not exposed to the new risks that Ukraine faces: it does not trade with Russia and has no assets in Crimea or Donbas.

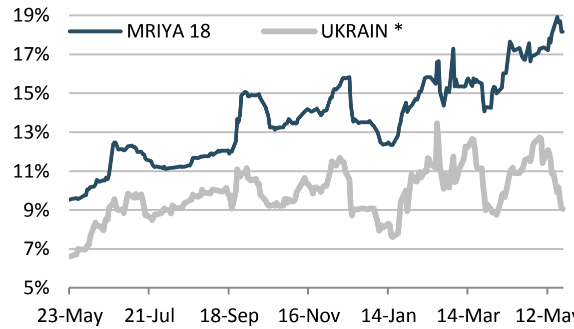
	MRIYA 16	MRIYA 18
Outstanding, USD mln	72	400
Maturity	Mar-16	Apr-18
Coupon	10.95/SA	9.45/SA
Fitch / S&P / Moody's	CCC / CCC /na	CCC / CCC /na
Covenant: Net Debt / EBITDA	3.0x	3.0x
Net Debt / EBITDA, 2013	2.8x	2.8x

Company ownership structure

Huta family	80%
Free float	20%

Mid-YTM





Source: Bloomberg, Company data, Concorde Capital research
** Interpolated yields for Ukrainian sovereign bonds matured on Nov. 2017 and Sep. 2020*

Mriya financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2011	2012	2013
Net revenue	268	348	499
IAS 41 gain	157	215	164
EBITDA	180	254	227
EBITDA margin	67%	73%	45%
EBIT	171	208	163
Operating margin	64%	60%	33%
Finance costs	-51	-51	-86
PBT	151	175	91
Net income	150	174	88
Net margin	56%	50%	18%
Cash EBITDA	na	na	na
Cash EBITDA / EBITDA	na	na	na
Operating cash flow	125	167	155
Investing cash flow	-236	-256	-399
Net CapEx	-192	-329	-162

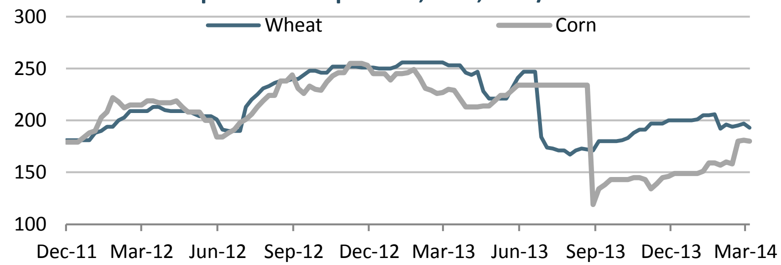
Leverage, USD mln

	2011	2012	2013
Net debt	202	367	610
Gross debt	387	471	796
Gross debt in UAH	10	0	5
Net debt / EBITDA	1.1	1.4	2.8
Covenant (Net debt / EBITDA)	3.0	3.0	3.0

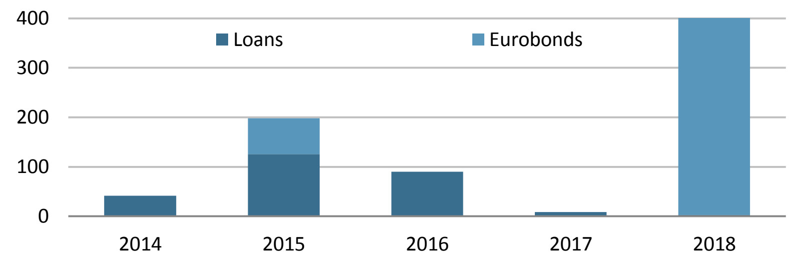
Key Balance Sheet items, USD mln

	2011	2012	2013
Current assets	519	487	681
Cash & equivalents	184	104	186
Non-Current assets	534	866	1,075
PP&E	381	644	763
Equity	595	756	846
Current liabilities	170	268	407
ST debt	124	189	317
Non-current liabilities	288	314	503
LT debt	262	282	478

Wheat and corn price developments, FOB, USD/t



Debt repayment schedule, USD mln



Source: Company data, Bloomberg

Naftogaz (Naftogaz of Ukraine)

Entity profile

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

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

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

- Naftogaz 's 2014 Eurobond is guaranteed by the state, which will either have to pump money into Naftogaz or repay the company's bond by itself, otherwise a cross-default on all sovereign debt might be triggered. With the standby agreement, the IMF will support Ukraine with its obligation on Naftogaz, we expect.
- This year, the government has already made an UAH 11 bln contribution and will grant another UAH 22 bln, according to the state budget plan. An additional UAH 22 bln contribution to Naftogaz equity is also possible as this plan has been preliminarily agreed with the IMF. The total contribution of the state to the company may be UAH 55 bln. Its obligations for 2014 are about UAH 60 bln, we estimate:
  - MinFin calculations show that the 2014 Naftogaz deficit that emerges from the difference between the gas import price and supply price for subsidized categories will be close to UAH 24.8 bln (at a 2Q14-4Q14 import price of USD 387/tcm, which is close to our base-case scenario). The company will be able to save about UAH 2.4 bln out of this amount from higher gas rates (which increased 40% for utilities and 50% for households as of May 2014). So the total imbalance of Naftogaz will amount to about UAH 22.4 bln this year.
  - On top of that, Naftogaz will have to repay about UAH 21.3 bln to Gazprom for the gas it imported in 2013 (most of the debt has been already repaid, the remainder is USD 0.6 bln, or UAH 6.6 bln).
  - The repayment of a USD 1.6 bln Eurobond will require another cash outflow amounting to UAH 16.8 bln (at our forecasted exchange rate of 10.5 UAH/USD).

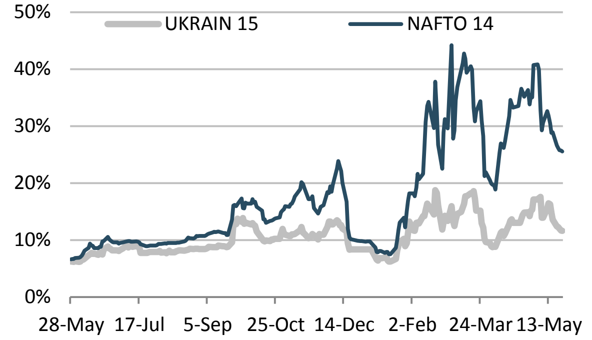
  We expect Naftogaz and MinFin will prioritize the Eurobond repayment over other payment obligations in 2014.
- The nationalization of the company's Crimean subsidiary in March 2014 should not harm Naftogaz's financials much. The subsidiary produced 1.7 bcm of gas in 2013, out of which about 1.4 bcm was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

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

Ownership structure

State	100%

Mid-YTM



Source: Bloomberg, entity data, Concorde Capital research

Naftogaz, Continued

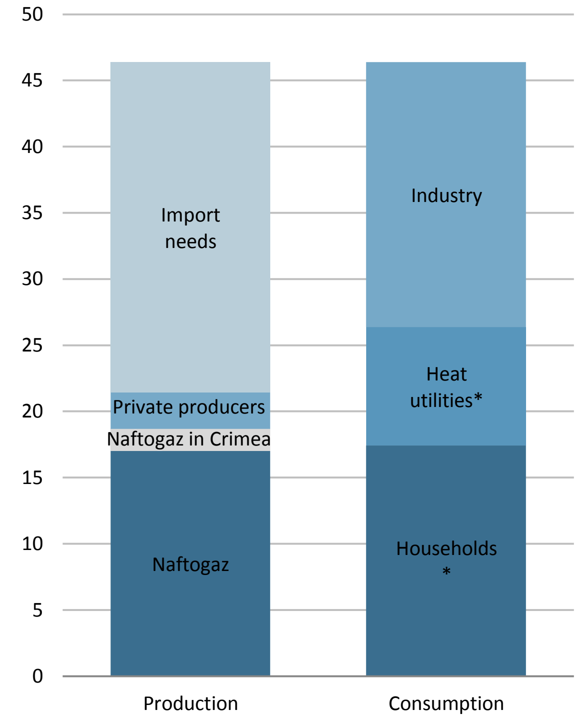
Investment case (continued):

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

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

	NAFTO 14
Outstanding, USD mln	1,595
Maturity	Sep-14
Coupon	9.50/SA
Fitch / S&P / Moody's	CCC / na / na
Ownership structure	
State	100%

Ukraine's gas stats in 2013, bcm



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

Ukrlandfarming (ULF)

Company profile

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

Investment case: The dark side of Avangardco

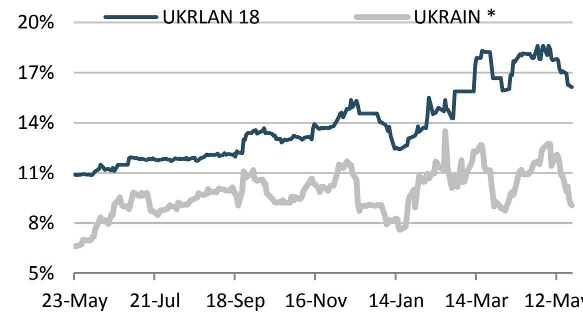
- Despite ULF already being the largest landlord in Ukraine, the company's strategy foresees a further increase of its land bank by acquiring agriculture companies with a stated target of 757,000 ha (+16% compared to current holdings). Such a strategy of an aggressive increase of the company's arable land portfolio has led to a higher leverage of Ukrlandfarming compared to its egg-producing subsidiary, Avangardco, and a much more intensive debt repayment schedule for 2014-16. This might push ULF to re-enter the public or private debt market in order to roll over short-term debt. A possible rollover may also have some negative consequences for the related egg producer, Avangardco.
- The holding's reported net debt-to-EBITDA ratio looks rather safe in 9M13 (1.7x compared to a covenant of 3.0x). However, its EBITDA may not tell the true story : operating cash flow before working capital changes comprised just 58% of the EBITDA reported for 9M13.
- ULF's Eurobonds trade at a discount to peers that have a similar risk profile, but such a discount is unlikely to disappear soon given the poor image of the holding's shareholder among international investors. The recently initiated Eurobond restructuring of Bakhmatyuk's VAB Bank adds more oil to the fire.
- The holding enjoys one of the poorest images among international investors, which is reflected in its lowest rank in corporate governance among private Eurobonds issuers, as rated by our recent studies. In particular, ULF is the only private Eurobond issuer that does not offer free access to its financials reports. This, however, has not affected ULF's credit rating, which is on par with sovereign.
- The holding is exposed to risks related to the annexation of Crimea and armed conflict in Donbas, but we estimate its exposure to the se regions is low (the company does not provide exact data).

	UKRLAN 18
Outstanding, USD mln	500
Maturity	Mar-18
Coupon	10.88/SA
Fitch / S&P / Moody's	CCC / CCC / na
Covenant: Net Debt / EBITDA	3.0x
Net Debt / EBITDA, 2013E	1.7x

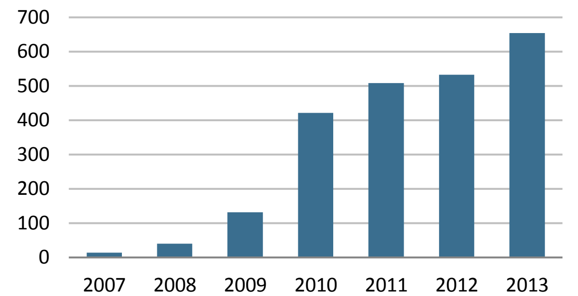
Company ownership structure

Oleg Bakhmatyuk	95%
Cargill	5%

Mid-YTM



Land bank development history, 000 ha



Source: Bloomberg, company data, Concorde Capital research

** Interpolated yields for Ukrainian sovereign bonds maturing in Nov. 2017 and Sept. 2020*

ULF financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2011	2012	2013E
Net revenue	1,344	1,889	1,831
IAS 41 gain	247	10	22
EBITDA	823	792	746
EBITDA margin	61%	42%	41%
EBIT	739	673	625
Operating margin	55%	36%	34%
Finance costs	-157	-159	-155
PBT	595	532	490
Net income	593	542	490
Net margin	44%	29%	27%
Cash EBITDA	624	778	732
Cash EBITDA / EBITDA	0.8	1.0	1.0
Operating cash flow	109	474	429
Investing cash flow	-849	-433	-250
Net CapEx	-305	-454	-250

Leverage, USD mln

	2011	2012	2013E
Net debt	913	906	887
Gross debt	1,315	1,304	1,285
Gross debt in UAH	409	413	393
Gross debt / EBITDA	1.6	1.6	1.7
Covenant (Gross debt / EBITDA)	3.0	3.0	3.0

Revenue by segments, USD mln

	2011	2012	2013E
Crops	376	719	682
Avangard (eggs & poultry)	550	626	682
Meat	118	121	121

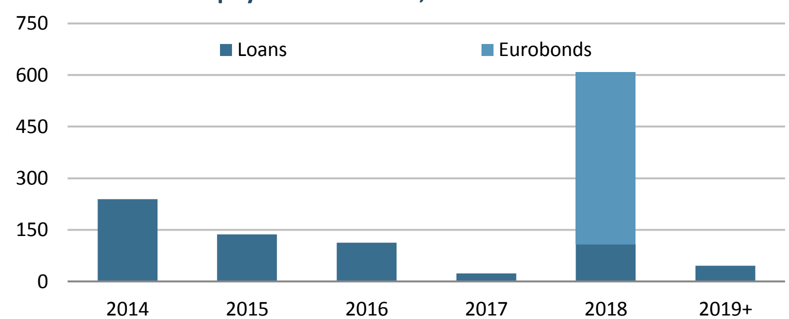
EBITDA margin of key segments

	2011	2012	2013E
Crops	109%	61%	59%
Avangard (eggs & poultry)	46%	47%	45%
Meat	31%	20%	31%

Key Balance Sheet items, USD mln

	2011	2012
Current assets	1,969	2,196
Cash & equivalents	402	398
Non-Current assets	2,078	2,413
PP&E	1,522	2,082
Equity	2,322	2,867
Current liabilities	773	908
ST debt	318	280
Non-current liabilities	952	834
LT debt	997	1,024

Estimated debt repayment schedule, USD mln



Source: Company data, Concorde Capital research

Entity profile

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

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

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

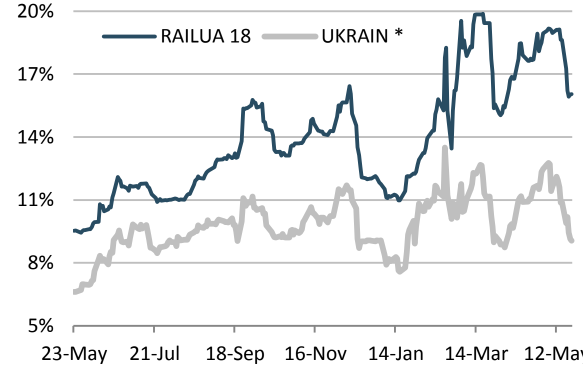
  The good news is that the reform has yet to be adopted and UZ is unlikely to radically worsen its financials by the time of the Eurobond repayment. At the same time, such risk should not be ignored.
- UZ's credit profile does not look excellent. In November 2009, the company had to restructure its syndicated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

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

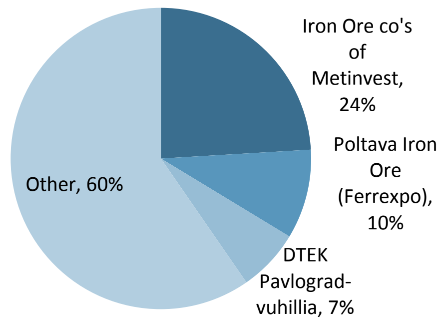
Ownership structure

State	100%

Mid-YTM



Core clients by freight turnover, 2012



Source: Bloomberg, entity data, Concorde Capital research

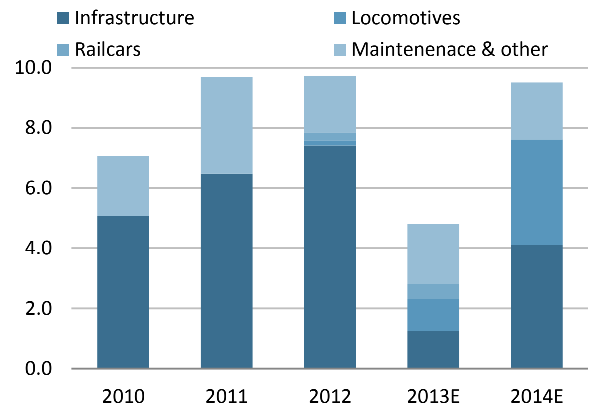
** Interpolated yields for Ukrainian sovereign bonds mature on Nov. 2017 and Sept. 2020*

Investment case (continued):

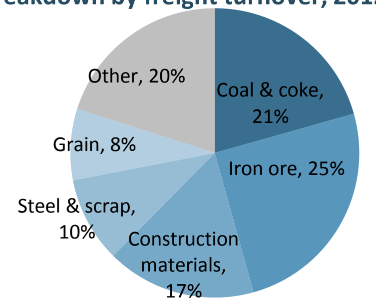
- UZ leverage looks safe at the moment – its 2013 Net Debt/EBITDA amounted to 1.8x. Even if it pursues at least 80% of its ambitious CapEx programs for 2014 (which were designed in 2012-13 and thus might be adjusted downward as tradition), its leverage will not exceed 2.7x as of end-2014. UZ has a relatively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

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

CapEx plans, UAH bln



Breakdown by freight turnover, 2012



Source: Entity data, Concorde Capital research

Ukrzaliznytsia financial summary (IFRS)

Key P&L and Cash Flow items, UAH bln

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

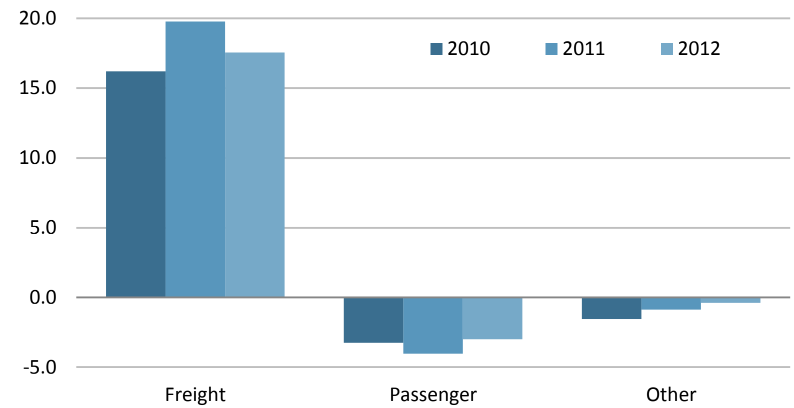
Leverage, UAH bln

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

Key Balance Sheet items, UAH bln

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

Gross profit by segment, UAH bln



Source: Entity data, Concorde Capital research

Issuer profiles, banking

Oschadbank (State Savings Bank of Ukraine)

Bank profile

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

Investment case: Exposure to state debt

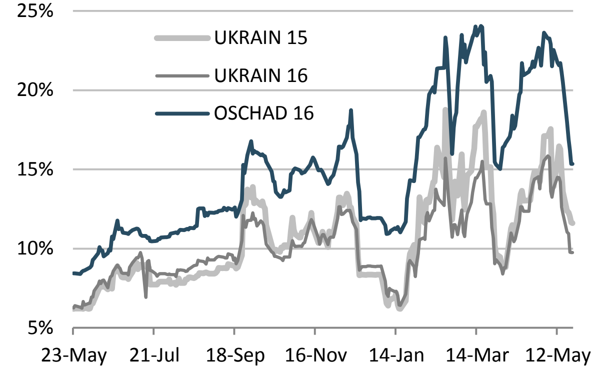
- In 2013, Oschadbank decreased its exposure to Naftogaz as loans decreased 25% yoy (UAH 5.1 bln) to UAH 15.2 bln as of end-2013. At the same time, the bank took a leading role from its peer Ukreximbank in lending to the Ukrainian government. Its portfolio of state and municipal bonds increased by UAH 22.7 bln yoy to UAH 31.3 bln as of end-2013. As 51% of the bank's total assets are loans to the state, exposure to its paper is related mostly to the solvency risk of the Ukrainian government.
- While in 2012, the bank's exposure to the state and state companies (UAH 37 bln) was nearly offset by state's contribution to the bank (UAH 32.1 bln, via central bank loans and Oschadbank's equity), by end-2013 Oschadbank had contributed much more to the state (UAH 55.2 bln) than it received from it (UAH 34 bln). So if earlier the bank claimed its risk related to state lending was balanced by the state's contribution, it can't assert that anymore. In case the state decides to default on its local obligations (the risk is very low), Oschadbank may be the first to fail. On the positive side, it is too big to fail; moreover, given that it is the only bank in Ukraine with retail deposits (UAH 33 bln, as of end-1Q14) guaranteed by state, the government looks clearly interested in keeping it safe.
- Oschadbank 's CAR (according to local standards) is one of the highest in the system: 25.6% as of end-1Q14. Keeping high CAR for state banks (above 20%, vs. the minimum requirement of 10%) is the government's strategy. The bank's net ForEx position was zero as of end-1Q14.
- In 1Q14, Oschadbank reported a 9% YTD (UAH 4.1 bln) decline in client accounts, and even a bigger (-15% YTD) decline in constant currency terms . Hryvnia accounts fell by UAH 6.6 bln, or 18% YTD. This is explained by low interest rates that the bank offers (due to existing state guarantees). At the same time, the bank managed to increase loans from other banks by 30% YTD (UAH 7.3 bln) and increase total liabilities by UAH 7.2 bln YTD. We assume that most of the funds came from the central bank.
- The bank's loans and deposits are not balanced well by their maturity profile, with only UAH 19 bln of loans subject to repayment in 2014, but UAH 41 bln in deposits maturing in 2014. On the positive side, the difference is more than covered by the bank's exposure to government bonds (UAH 23 bln).
- The bank's Eurobonds are among the most liquid in the Ukrainian universe.

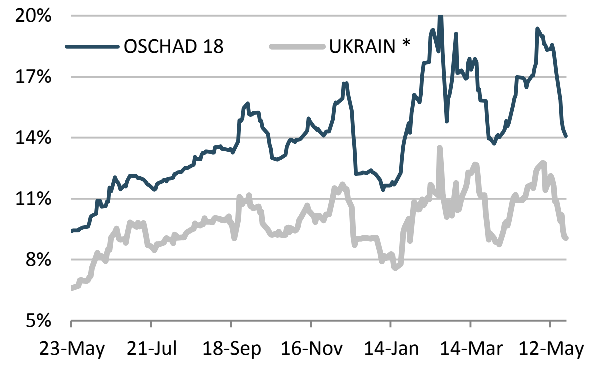
	OSCHAD 16	OSCHAD 18
Outstanding, USD mln	700	500
Maturity	Mar-16	Mar-18
Coupon	8.25/SA	8.88/SA
Fitch / S&P / Moody's	CCC/na/ Caa3	CCC/na/Caa3

Ownership structure

State	100%

Mid-YTM





Source: Bloomberg, bank data, Concorde Capital research

** Interpolated yields for Ukrainian sovereign bonds mature on Nov. 2017 and Sept. 2020*

Oschadbank financial summary (IFRS)

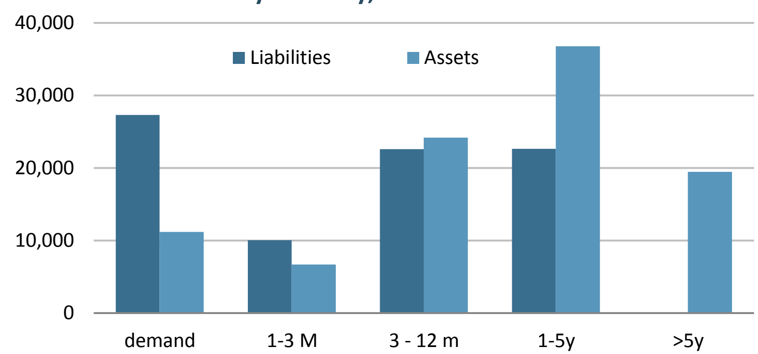
Balance Sheet, UAH mln

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

P&L summary, UAH mln

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

Assets and liabilities by maturity, UAH mln



Source: Bank data

PrivatBank

Bank profile

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

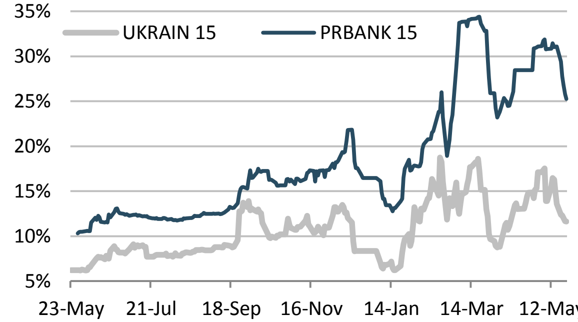
Investment case: Too big and too smart to fail

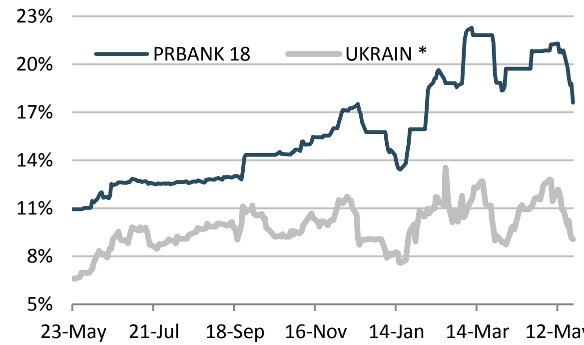
- The bank's Eurobonds look like a safe investment, due to its size. All the outstanding Eurobonds account for just 3% of the bank's total liabilities.
- PrivatBank looks ill-capitalized with its regulatory capital-to-assets ratio just 0.3pp above the minimum level (as of end-2013). The bank looks big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

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

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

Mid-YTM





Source: Bloomberg, bank data, Concorde Capital research
** Interpolated yields for Ukrainian sovereign bonds mature on Nov. 2017 and Sept. 2020*

PrivatBank financial summary (Consolidated)

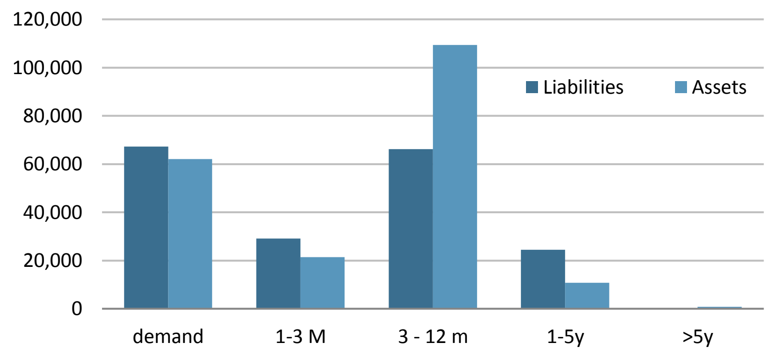
Balance Sheet, UAH mln

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

P&L summary, UAH mln

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

Assets and liabilities by maturity, UAH mln



Source: Bank data

CONCORDE CAPITAL

PUMB (First Ukrainian International Bank, FUIB)

Bank profile

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

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

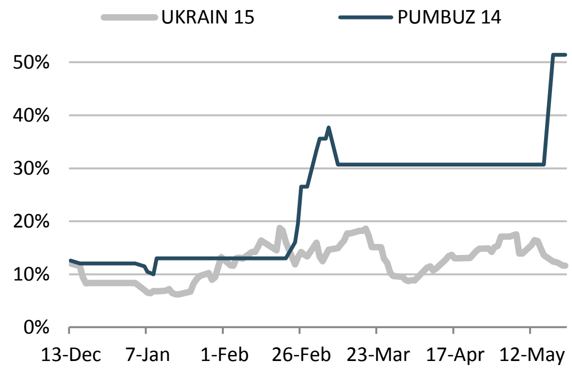
- The key risk related to investment in the bank's Eurobond (maturing in end-2014) is the past experience of the bond's restructuring (in late 2009). The current similarity to the 2009 situation is prompted by the recent restructuring of bonds by Agroton, Finance & Credit Bank and VAB Bank; and by high risks in the Ukrainian economy (expected GDP decline, limited possibility of external corporate borrowing, currency devaluation, deposit outflows from the banking system). Though we see a high chance that the bank will choose to repay its Eurobond this year, as we believe the situation differs from what was back in 2009:
  - The economic situation in 2014 differs from 2008-09 as there is no global crisis now. The opportunity for new corporate borrowing still exists and loans restructuring, so far, does not look like a normal event that investors may tolerate.
  - Back in 2009, the bank increased the coupon rate on the bond from 9.75% to 11.0% to make its restructuring offer interesting for bond holders. PUMB will not be able to raise the coupon rate this time, as 11% is the maximum allowed rate for external borrowing , according to NBU regulations. We believe the bank is not going to do a distressed restructuring and spoil its reputation. The reputation of other related companies, like DTEK and Metinvest, might be also harmed by PUMB's restructuring.
  - We estimate the bank's cash position before Eurobond repayment, as of end-2014, will be about USD 490 mln (in the worst-case scenario, as discussed on slide 10). This is 1.9x more than the amount of Eurobonds to be repaid (USD 252 mln). This contrasts to the situation as of beginning of 2009, when PUMB's net cash position outlook for the year 2009 (using the same assumptions) would have been USD 190 mln. This also contrasts with PUMB's cash balance as of end-2009 (two months before its Eurobond repayment), when the bank's cash and current accounts with banks were USD 230 mln, less than the outstanding Eurobond, or USD 275 mln.
- The bank's standalone financials for 1Q14 (under local accounting standards) look resilient: it was able to increase its deposit portfolio 19% YTD in UAH terms, and by about 2% YTD in constant currency terms (vs. the sector's 8% YTD decline). PUMB's loan portfolio increased 2% YTD in constant currency terms. The bank's net interest income (stand alone, not including Renaissance Capital bank) increased 48% yoy to UAH 573 mln and its bottom line advanced 50% yoy to UAH 134 mln. The only cause for concern is the bank's CAR under NBU standards: it declined 0.3pp YTD and 4.0pp yoy to 11.5%, though being relatively distant from the 10% threshold.

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

Ownership structure

SCM (Rinat Akhmetov)	99.9%

Mid-YTM



Source: Bloomberg, bank data, Concorde Capital research

PUMB financial summary (IFRS)

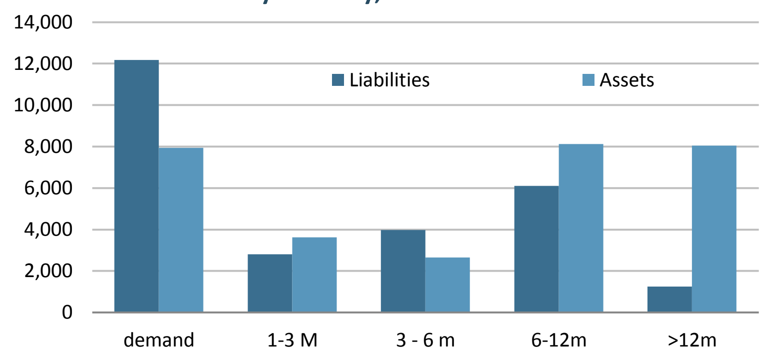
Balance Sheet, UAH mln

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

P&L summary, UAH mln

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

Assets and liabilities by maturity, UAH mln



Source: Bank data

Ukreximbank (Ukrainian State Export-Import Bank)

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

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

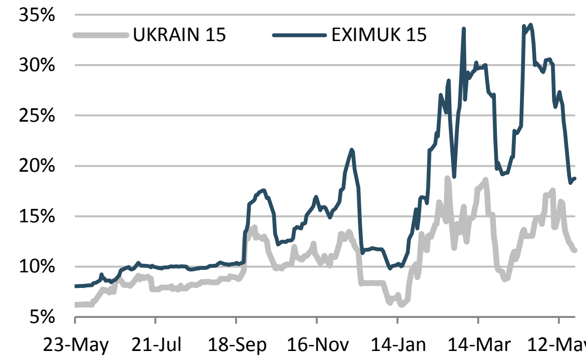
- Despite doubling its exposure to state bonds in yoy terms in 2013, to UAH 27.4 bln, the bank lost its leading position as a lender to the state to its peer Oschadbank. Like Oschadbank, Ukreximbank's liabilities and assets exposed to the state became unbalanced in 2013, with total lending to state,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

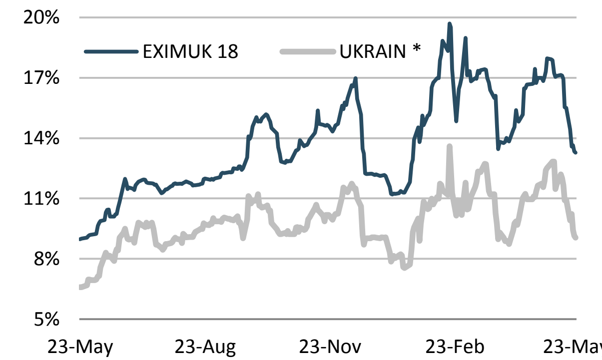
	EXIMUK 15	EXIMUK 18
Outstanding, USD mln	750	600
Maturity	Apr-15	Jan-18
Coupon	8.38/SA	8.75/SA
Fitch / S&P / Moody's	CCC/na/Caa3	CCC/na/Caa3

Ownership structure

State	100%

Mid-YTM





Source: Bloomberg, bank data, Concorde Capital research
** Interpolated yields for Ukrainian sovereign bonds mature on Nov. 2017 and Sept. 2020*

Ukreximbank financial summary (IFRS)

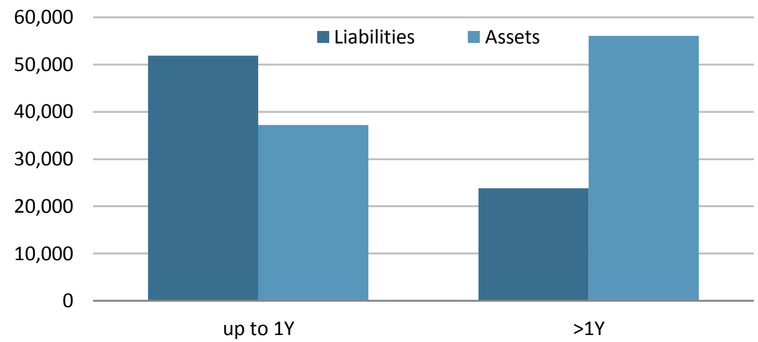
Balance Sheet, UAH mln

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

P&L summary, UAH mln

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

Assets and liabilities by maturity, UAH mln



Source: Bank data

VAB Bank

Bank profile

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

Investment case: Preparing to restructure its June 2014 Eurobond

- The bank has offered to restructure its Eurobond maturing on June 14, including:
  - Its coupon rate, currently 10.5%, has been proposed to change to 9.0% between June 2014 and June 2015 and 10.9% between June 2015 and June 2019;
  - The bond's repayment schedule has been proposed at 18% of par value in five equal quarterly installments between March 14, 2018 and March 14, 2019; the remaining 10% of the notes is repayable on June 14, 2019;
  - 0.5% consent fee is payable to those willing to agree to the restructuring;
  - A bondholders meeting should approve the plan on June 2, with minimum votes of 50%.
- This is clearly a distressed restructuring, which has not been prompted by the bank's financial position (its end-March 2014 cash stands at USD 226 mln, or 2.5x more than Eurobond outstanding). The restructuring offer, therefore, reflects solely the lack of willingness of the bank's main shareholder Oleg Bakhmatyuk to repay this debt. We believe that such an approach by Bakhmatyuk to capital markets can be extrapolated to his other assets, Avangardco (AVINPU) and Ukrlandfarming (UKRLAN), which have borrowed USD 700 mln on international markets via bonds placements.
- The bank's fundamentals look decent: its deposit portfolio increased 56% yoy and net loan book grew 34% in 2013. Its deposits increased by a remarkable 25% YTD in UAH terms in 1Q14 (and 15% in constant currency terms). VAB Bank reportedly decreased its exposure to related parties to nil in 2013 (which, however, cannot be confirmed properly). At the same time, the quality of the bank's loan portfolio remains weak: it writes down in loan loss provisions all its revenue and constantly demands contributions to its equity to remain compliant with capital requirements. The good news is its shareholder contributes capital to the banks as soon as the need arises.

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

Ownership structure

Quickcom Limited (Oleg Bakhmatyuk)	87%
Other	13%

YTM of the notes, if restructuring is successful

Price	YTM
50	37.4%
60	29.6%
70	23.6%

Source: Bank data

VAB Bank financial summary (IFRS)

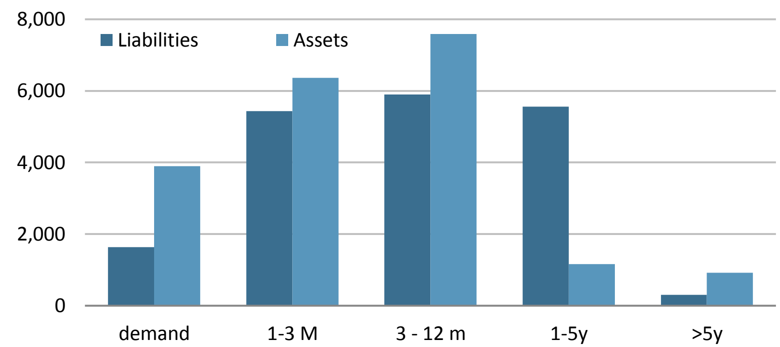
Balance Sheet, UAH mln

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

P&L summary, UAH mln

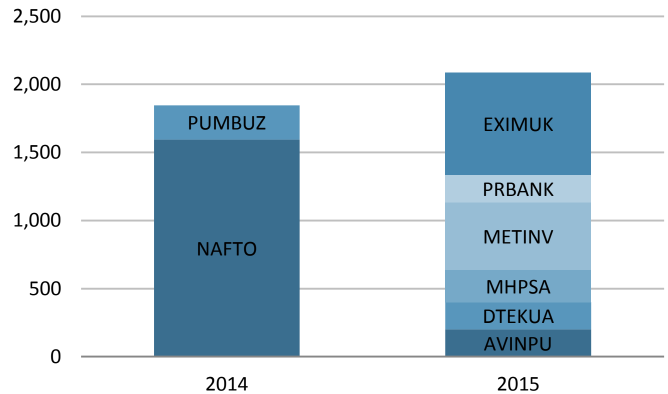
	2012	2013
Interest income	1,412	2,076
Interest costs	-1,109	-1,789
Net interest income	**303**	**287**
Net fees and commissions	108	81
Other incomes/costs	128	130
Total income	**539**	**498**
Operating costs	**-410**	**-372**
Loan loss provisions	**-317**	**-93**
Profit before tax	-188	33
Net profit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

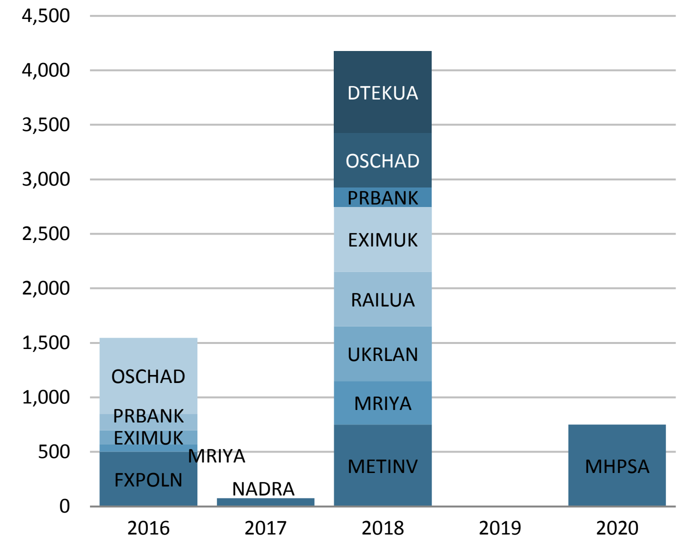
Assets and liabilities by maturity, UAH mln



Source: Bank data

Repayment schedule of corporate Eurobonds, USD mln





Source: Company data, Concorde Capital research

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