Ukrainian Corporate Eurobonds – Update

A fresh look from behind the closed window

CONCORDE CAPITAL

November 24, 2014

Executive summary

Ukraine's steeply inverted sovereign yield curve and 1500+ bps spreads of majority of shorter corporate bonds is the best reflection of the crisis of foreign currency liquidity inside Ukraine. Although the banking sector, which suffered from heavy USD deposit outflows in 2014, is among those deserving blame in the liquidity crisis, we believe that the shorter Eurobonds of most banks trade too cheaply. That being said, we see the potential for price increases in Privatbank's and Ukreximbank's 2015 Eurobonds. Clearly, the restructuring option of these bonds should not be ruled out (as with most of the others). But our base-case scenario is that they will smoothly repay their paper. For Ukreximbank, it might be painful to repay a USD 750 mln debt, while its status as a state-run bank gives us optimism. For Privatbank, the repayment amount would be clearly non-material.

Two issuers, MHP and Ferrexpo, whose paper offers negative or zero spreads to state bonds, are considered to be safe borrowers by the market, a view that we share. Of these safe bonds, FXPOLN 2016 paper looks especially attractively priced.

The market seems to lack a strong position regarding Avangardco's 2015 notes, whose spread to sovereign curve is between two extremes. It would be naïve to expect this bond will converge with the Ferrexpo/MHP on the yield map: with equal probability, it will remain in the middle or converge with the group of less-reliable borrowers. For this reason, we recommend staying away from these bonds. Even more, we recommend treating Avangardco's bonds as a debt instrument of its parent ULF. From that standpoint, the slope of Avangardco-ULF "yield curve" looks very unnatural. However, both bonds could have some upside potential if ULF attracts some part of its announced USD 250 mln in international financing.

Among the longer bonds, we believe Ukrzaliznytsia's 2018 notes should offer better yields, based on the entity's risk profile.

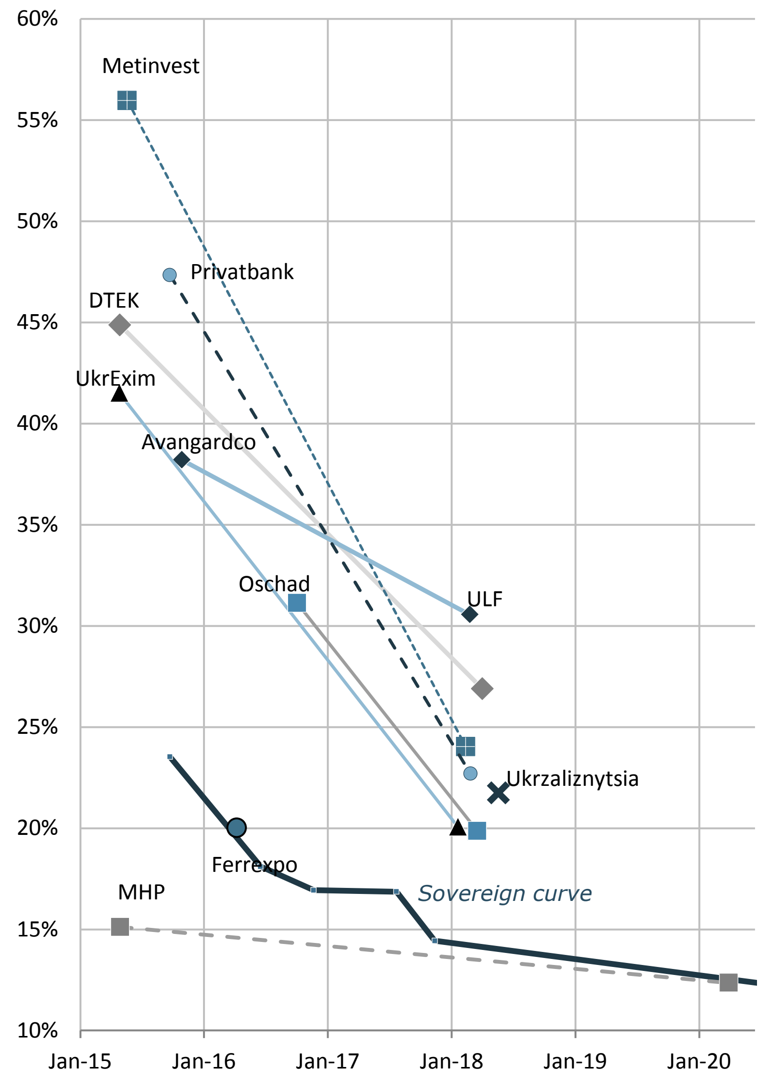
VAB Bank looks very unlikely to service its **VABANK'19** bonds as it was just recognized insolvent.

Our top picks currently are: EXIMUA'15, PRBANK'15, FXPOLN'16 as well as the paper that looks fairly priced to us: **OSCHAD'16,** and **MHPSA'15.** We see a **risk of price declines for DTEK'15, AVINPU'15,** and **RAILUA'18** paper. We also note that the strategy of (1) buying **PUMB '14** notes and (2) accepting (by Dec. 1) the bank's offer to reschedule their repayment to 2018 offers an IRR of at least 35%, which looks like the most lucrative exposure to the 2018 bonds.

In the short-term, there might be more clarity regarding:

- **METINV'15** paper after it reports on the results of its exchange offer, possibly this week.
- **UKRLAN'18** and **AVINPU'15**, if an update is provided on ULF's initiative to attract new financing.
- **DTEK** may offer some restructuring of its 2015 bond.

Yield map (@ bonds' mid-market), Nov. 21, 2014



Source: Bloomberg, company data, Concorde Capital research

Closed debt market, local crisis prompt high restructuring risk

The international debt markets are closed to the Ukrainian government, as well as to Ukraine-exposed corporations. The situation is being aggravated by a deficit of foreign currency liquidity inside the country and non-functioning local debt markets. All this results in a very limited ability of Ukrainian corporations to refinance their debts, an option that was actively used in the previous years, and the situation is even more problematic in the segment of foreign currency debt. Clearly, a lot of companies had to significantly cut their investments projects and even maintenance CapEx to save as much liquidity as possible.

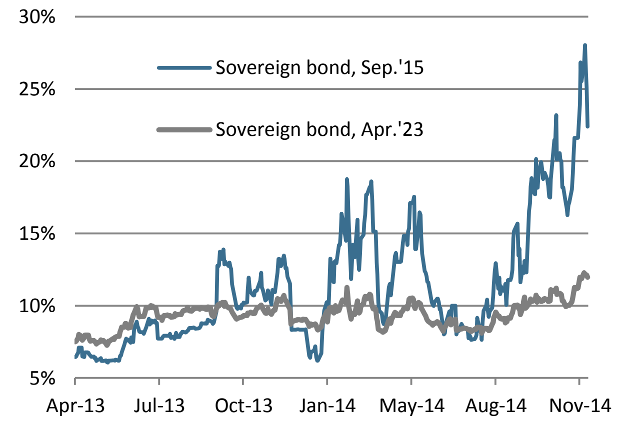
Under such circumstances, the restructuring of foreign currency debt that matures in 2014-2015 looks to be an unavoidable scenario for most issuers, whether or not they wish to satisfy the interests of their lenders.

A lack of confidence is the core problem of the poor attractiveness of Ukrainian debt instruments. The problem with confidence is linked to several major points:

- A clear vision on the condition of Ukrainian statehood and what are its prospects to sustain the future. This point is very much conditional on the behavior of Ukraine's "counterpart," the Russian Federation, which is poorly predictable. At the same time, the country is desperate for a clear Russia strategy by its highest authorities, who have failed to offer any predefined set of responses to all the risks that might stem from escalated aggression. Meanwhile, the West proved to be of minimal help to Ukraine in addressing its unprecedented challenges. No one was able to predict a year before that Ukraine would be in such a geopolitical crisis. With the current unfolding of events on the global stage, no one can predict with certainty where Ukraine will in the next six months.
- A clear domestic policy (economic, fiscal, monetary). We must recognize that disregarding active communication with the media and various commitments to international organizations, there is still no clear vision on what will be the next moves of the authorities to address domestic crises. What's more, there is always the risk that the authorities will suddenly change the rules of the game (August tax hikes, inconsistent foreign currency regulation in recent months). Hopefully, we will get some consistent policies after a new parliamentary coalition starts working and a new Cabinet of Ministers emerges.
- A clear vision on Ukraine's financial solvency. Sliding gross reserves are the main point of concern. By the end of December, gross international reserves will be near USD 10 bln, which is too little to be confident in Ukraine's solvency. There is a need to show investors adequate sources of replenishing gross international reserves to so that Ukraine will have enough currency to service and pay its debts.

Ukraine's 5Y CDS

YTM, shortest and longest Ukraine Eurobonds



Source: Bloomberg

Fiscal accounts, state debt are core areas of concern

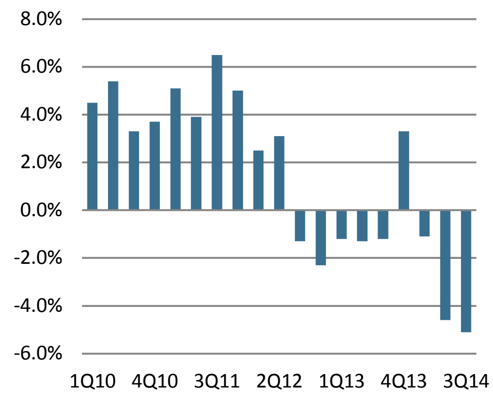
The Ukrainian real sector is performing somewhat better than anticipated. GDP declined just 3.8% yoy in 9M14, despite an 8.6% yoy decline in industrial output for the same period. The strong grain harvest (+16.0% yoy in agri-production) was the main reason for the modest decline. So far, we predict a 7.8% yoy GDP decline in 2014, considering the very uncertain environment. However, if the current trend continues, GDP might fall only about 5% yoy this year.

External accounts have been improving through the year. The C/A deficit shrunk to USD 3.3 bln in 9M14, which is more than 3x lower than a year ago (USD 11.5 bln in 9M13). In light of the occupation of Donbas, we anticipate exports to fall 14-20% yoy over the upcoming months and non-energy imports to plunge 30-40% yoy, which will offset the general impact on the trade balance. We anticipate the energy bill to be nearly USD 5 bln lower than a year ago due to lower prices and much fewer gas imports (20 bcm vs. 27.6 bcm in 2013) owing to the Russian aggression. By the end of 2014, we anticipate the C/A deficit to reach USD 4.1 bln, or 3.1% of GDP.

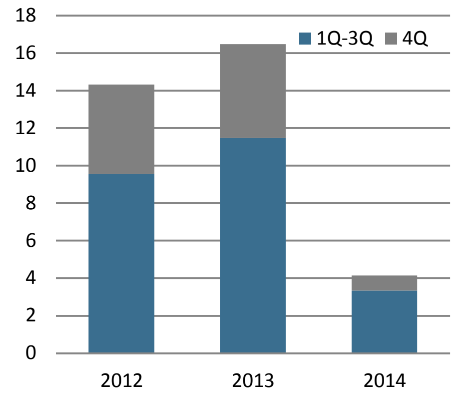
Fiscal accounts are the main problem. Central budget revenue increased 6.2% yoy in 10M14, while the budget's annual target was for 11.4% yoy growth. We don't see anything compensating the revenue shortfall over the next two months. Against this backdrop, we anticipate at least a UAH 20 bln revenue shortfall, which will require respective budget cuts given that the IMF is very unlikely to revise its UAH 63.8 bln deficit limit for the central budget.

The state debt has already reached 64% of GDP, as of end-September, we estimate, on the back of hryvnia devaluation and substantial Naftogaz refunding (UAH 96.6 bln for 9M14). So far, we project the state debt will remain near 65% of GDP by the end of December since no active borrowing is scheduled; however, we cannot rule out the state debt approaching 70% of GDP on the back of the current devaluation wave.

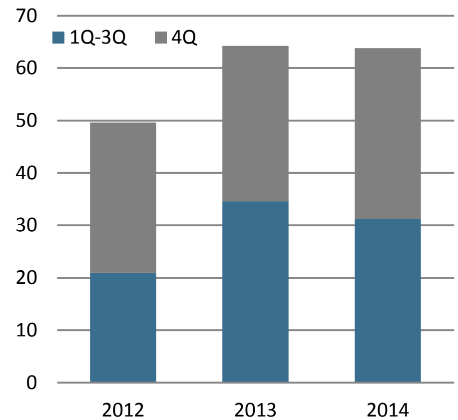
Real GDP change by quarters



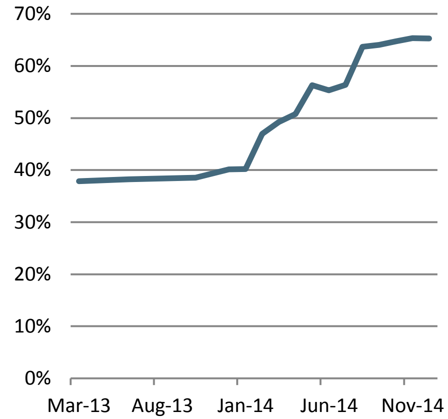
C/A deficit, USD bln*



Budget deficit, UAH bln*



Pubic debt / GDP



** Data for 4Q14 – based on our estimates*
Source: UkrStat, Concorde Capital research

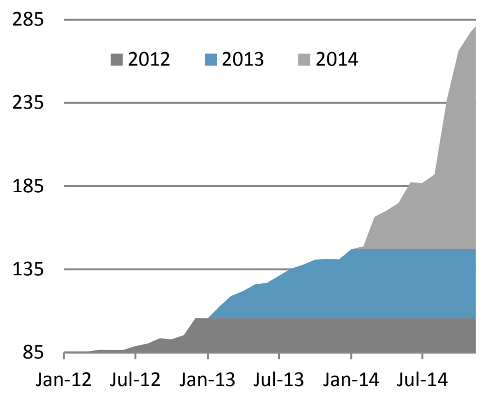
Hryvnia lost nearly half of its value in 2014, might recover in the mid-term

The hryvnia's prospects remain unclear against the backdrop of the malfunctioning ForEx market and the public's lack of confidence in the NBU. After spending USD 1.2 bln of its gross reserves to support the hryvnia in October, the NBU gave up maintaining the artificially propped up 12.95 UAH/USD exchange rate and allowed the hryvnia to decline to UAH 16/USD in early November. The decision was quite natural in view of (1) the rapid gross reserves decline (by USD 3.2 bln to USD 12.6 bln in October) and (2) USD 3.1 bln in commitments for gas debts, which will push gross international reserves below the new psychological level of USD 10 bln by the end of December.

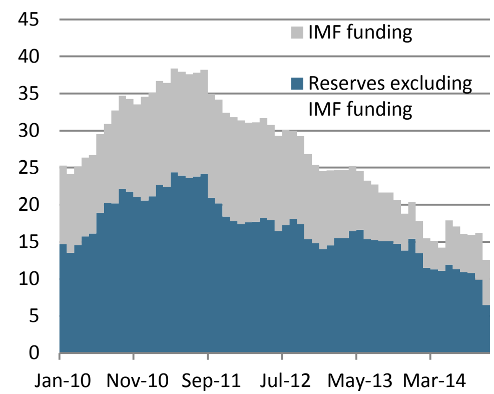
So far, the situation at the ForEx has calmed down somewhat after the hryvnia broke the UAH 16/USD ceiling; however, it is not clear whether this marks the end of the devaluation story, or is merely the eye of the storm. The main risk stems from ongoing hryvnia printing to cover the state budget deficit. Certainly, a large part of the extra liquidity created in recent months was neutralized through ForEx interventions and gross reserves losses; however, in November and December the Finance Ministry will need to borrow at least UAH 30 bln to cover the deficit and for the moment, the authorities have no other source of deficit funding except NBU support via hryvnia printing. Therefore, it will come as no surprise to see another devaluation push amid continued hryvnia printing for fiscal needs.

While we share the view of Ukraine's central bank that the equilibrium rate for the hryvnia should be close to UAH 13/USD, at the moment we do not see established triggers that might bring the hryvnia closer to that rate in the short term. At the same time, we do not rule out that under a stabilized geopolitical situation, households will start returning foreign currency deposits to the banking system (they withdrew USD 7 bln in 10M14), which might replenish dollar liquidity in the system and strengthen the local currency.

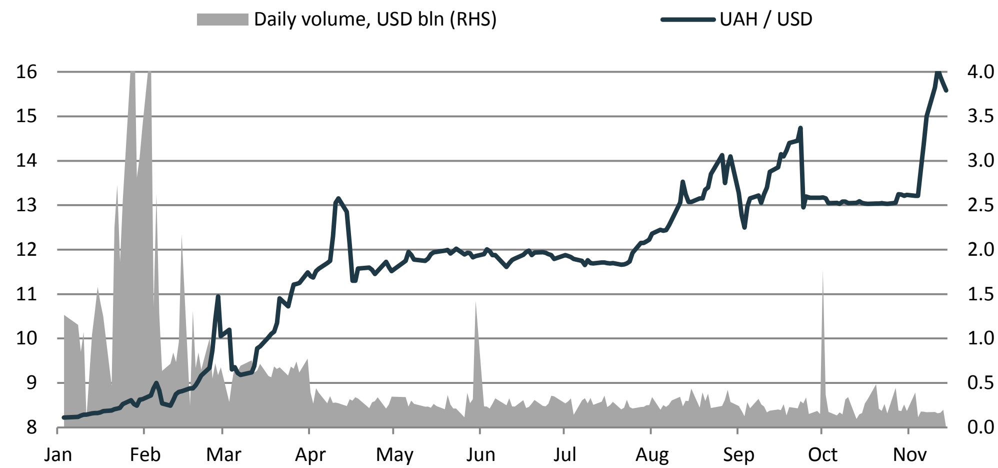
Gov't bonds at NBU accounts, UAH bln



Gross int'l reserves, USD bln



UAH / USD interbank market, 2014



Source: Bloomberg, Company data, Concorde Capital research

War in Donbas: it could be worse, while de-escalation is our base case

The Russian occupation and sponsoring of ongoing military attacks in parts of the Donetsk and Luhansk regions of Ukraine (collectively known as Donbas) is the core challenge that Ukraine faces right now.

The biggest disadvantage is that this region is an important part of the Ukrainian economy and integral part of many of its industrial cycles. The core risks for Ukraine from the Donbas occupation are:

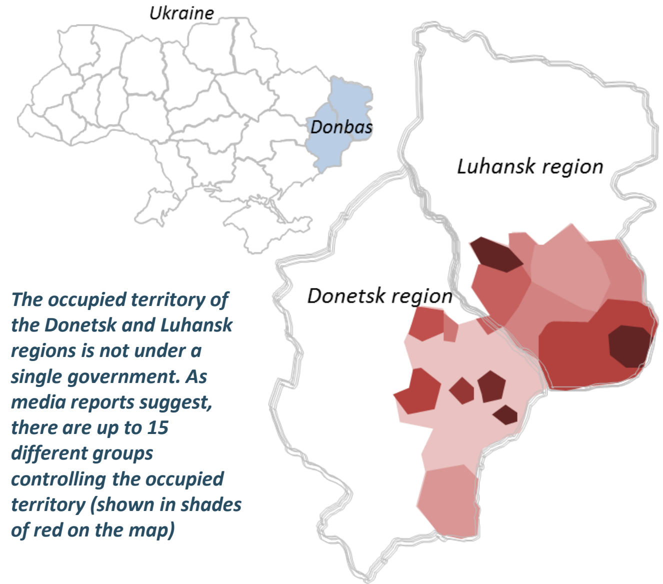
- The threat that Russian-terrorist forces will extend their territory by moving further west into the parts of the Donetsk region under Ukrainian control. Clearly, the separatists can't accomplish this without the help of the Russian army, and the Russian army cannot act openly, given that Moscow does not intend to recognize its presence here. Kyiv, in its turn, has done everything to prevent giving the Kremlin any reason to escalate the war against Ukraine. A lack of strong support in Russian society for escalation is also a hopeful sign. However, the risk of a further invasion is still imminent.
- The threat to Ukraine's energy security, industrial chains and trade deficit. Without Donbas being integrated into Ukraine's economy, the nation loses most of its coal deposits (40% of power is generated from coal mined in Ukraine), half of its steel production and a major part of export revenues (see statistics on the right).
- Painful fiscal burdens. While Ukraine recently declared no intention to finance the social payments of the occupied territory (and gets little taxes from there), helping to resettle migrants might still be too burdensome. Moreover, renewing the damaged regions should they return to the Ukrainian government will carry an enormous expense.

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

- Donbas is not a self-sustainable region, meaning that its budget revenue is much less than expenditures. Total net subsidies to Donbas from Ukraine's budget and industry was UAH 38.6 bln in 2013, or 16.9% of the region's GDP, we estimate. Moreover, Donbas' core industry, metallurgy, depends heavily on central Ukraine because there are no local iron ore deposits.
- Separatists are not unified, meaning there are many groups in the occupied territory of Donbas who are struggling with each other (see map on the right). Unfortunately, Ukraine is too weak now to take advantage of these rivalries.
- The Donbas economy heavily depends on exports (the export-to-GDP ratio was 64% in 2012), out of which only 27% (in 2012) were with Russian Federation. The turning of this area into a gray zone will be disastrous for the local economy.
- The Russian Federation does not look willing to annex Donbas (it had at least two good chances to do it this year) and there are valid economic and political reasons for that. So, the reintegration of this area into Ukraine eventually remains the most probable scenario to us.

In any case, the current situation does not look sustainable. At this moment, the chances for escalation look especially high, but we see the probability of de-escalation in the mid-term as equally high with Ukrainian forces retaking control, akin to the Croatian retaking of Serbian Krajina in 1995.

Map of the occupied Donbas, Nov. 2014



The occupied territory of the Donetsk and Luhansk regions is not under a single government. As media reports suggest, there are up to 15 different groups controlling the occupied territory (shown in shades of red on the map)

The Donetsk and Luhansk regions (Donbas) are:

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

In Ukraine, Donbas is responsible for:

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

Source: UkrStat, media reports, Espresso TV, Concorde Capital research

The anti-terrorist operation (ATO) in some locations of Donbas is still ongoing, with increasing damage to industrial sites and infrastructure. Enterprises currently located in the Russian-controlled areas are under constant risk of arson, and even more at risk are the assets located closer to the frontline between the occupied territories and Ukrainian-controlled parts of Donbas.

Again, we want to stress that not the entire Donbas region is under control of terrorists, as can be seen from the map on the right. It's safe to do business in the locations that are free of terrorists in both the Donetsk and Luhansk regions. However, a lot of assets of Ukrainian Eurobond issuers are in the high-risk zone, including:

Metinvest (Akhmetov's steel holding): Yenakiyeve Steel (23% of the holding's total steel output), Avdiyivka Coke (satisfies 67% of coke needs), Krasnodonvuhillia (satisfies 45% of coking coal needs) and Khartsyzk Pipe are currently on the occupied territory or on the frontline. Two Mariupol-based steel plants (responsible for 77% of the holding's steel output) are located in the safe zone. However, they suffer from damaged railway infrastructure and a lack of supply of raw materials from the enterprises located in the occupied zone.

DTEK (Akhmetov's coal & power holding): mines Komsomolets Donbasa, Sverdlovantratsit and Rovenkiantratsit (43% of total coal output); Zuyivska thermal power plant (TPP) (11% of power generation) and power DisCo Donetskoblenergo (which supplies power to the entire Donetsk region) are currently on the occupied territory. Fortunately, most of DTEK's power generating assets are outside the occupied zone.

PUMB (First Ukrainian International Bank, Akhmetov's bank): 35% of its assets are allocated in Donbas, we estimate, with nearly half of them in the occupied zone.

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

Avangardco: out of its four Donbas-based factories (est. 23% of total egg capacity), two are located in the occupied zone (est. 15% of capacity).

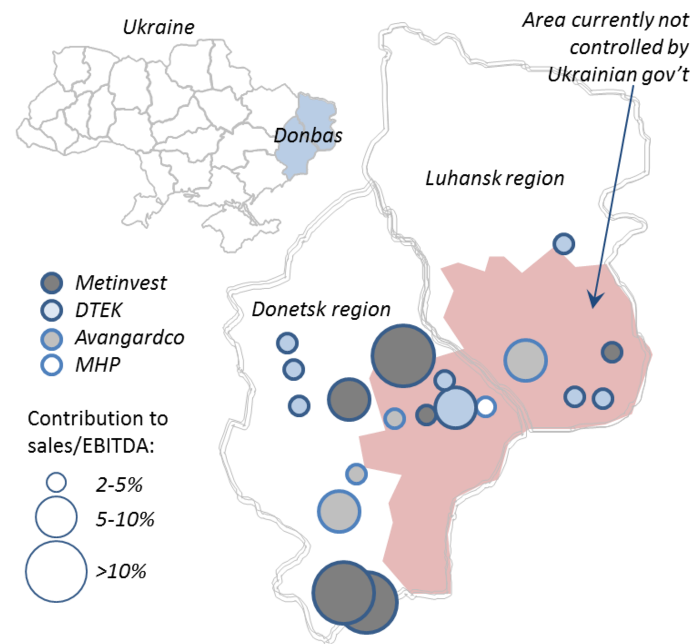
Agroton: the farmer's assets are located entirely in the Luhansk region. Based on its recent report, only 20,000 ha of its total land holding of 121,000 ha are in the occupied zone. Military actions in the region, however, have heavily affected the company's transportation costs, according to Agroton.

MHP: one of its breeding farms is in the occupied zone (about 5% of the company's total EBITDA).

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

If these territories remain occupied, some of the above-listed companies will have a strong basis to initiate conversations with their creditors to prolong the maturity of their debt obligations.

Location of core assets on Donbas map



Geographical distribution of EBITDA, 2013 (est.)

	War zone of Donbas	Other Donbas	Other locations
Agroton	15%	85%	0%
DTEK	19%	27%	54%
Ukrzaliznytsia	14%	10%	76%
PUMB*	18%	17%	65%
Avangardco	15%	8%	77%
Metinvest	13%	18%	69%
MHP	5%	-	95%

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

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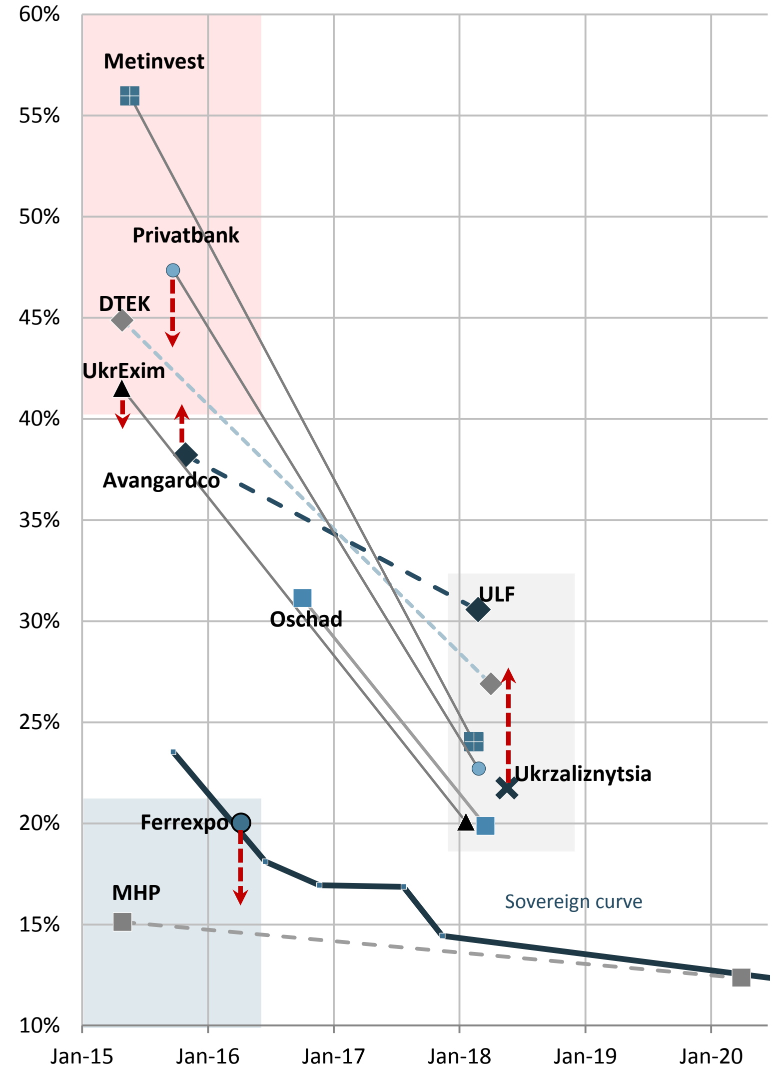
Restructuring expectations and pricing

Assessment of restructuring probability

The market has already "decided" who will offer the restructuring of their shorter bonds and who will repay them smoothly, with a single instrument (Avangardco debt) still undecided:

- The 2015 bonds of Metinvest, DTEK, Privatbank, and Ukreximbank are yielding 40%+ to their scheduled maturity, indicating the market's strong belief that they will restructure. As Metinvest has already offered a soft restructuring of its 2015 notes, and DTEK is likely to follow, we believe the probability of restructuring for the banking issuers is overstated by the market.
- At the other extreme are MHP and Ferrexpo, whom the market treated as more reliable borrowers, even when compared to the Ukrainian government. We believe this position makes sense, and we expect that the current YTM of Ferrexpo bond, which has the best credit rating of all Ukrainian issuers, might decrease in the short-term.
- In the middle, there is the 2015 bond of Avangardco. In the short-term, it might stay there, or converge to the first group of issuers, we believe. We expect the likelihood of the second option is higher. Our expectation is based on the position that Avangardco should be treated as a single entity with ULF. Notably, ULF's bond offers the highest yield of all the issuers of 2018 Eurobonds. The only factor that might secure the current "middle" position of Avangardco's bond is the possibility of raising up to USD 250 mln in financing by ULF, which the holding preannounced last month.
- Just as in ULF's case, the slope of DTEK's yield curve looks too gentle, as compared to other papers. This hints the market still has not ruled out that the holding will be able to repay smoothly its 2015 Eurobond. At the moment, we see such an attitude as well-balanced.
- Another bond which, in our view, is in the wrong place on the yield map is Ukrzaliznytsia. We believe a rescheduling of its 2018 debt is as probable as with most of the issuers of 2015 bonds.

Yield map, Nov. 21



Source: Bloomberg, Concorde Capital research

Offers for holders of METINV'15, PUMB'14

Metinvest has made an exchange offer for its May 2015 Eurobond (USD 500 mln outstanding), revealing its readiness to pay 25% in cash and the rest with new three-year amortizing notes with a higher coupon rate. Unfortunately for Metinvest, its shareholders put their financial interests above those of its bondholders by rewarding themselves with USD 400 mln in dividends this year, which nearly equals its new Eurobond issue.

Clearly, such a move indicates a limited willingness of shareholders to repay their debt, which shouldn't be ignored when estimating the probability of the prolongation of its 2018 Eurobonds. However, this does not mean that related DTEK will follow the same path.

The best strategy for 2015 bondholders is to ignore the exchange offer (as they won't have to exchange them if they don't wish to) and hope for the bond's timely repayment (if a critical mass of bond holders accept the exchange) or a better offer from the issuer.

Expectedly, **PUMB** has made a restructuring offer that, if approved by 50% of bondholders on Dec. 4, will be binding for all. The bank has already improved its restructuring terms (e.g. increasing its down payment from the first offer of 15%), and theoretically might offer even better conditions. At the same time, the best strategy for bondholders is to accept the offer before the early deadline (Dec. 1).

Implications for DTEK:

DTEK, the third issuer of SCM, has yet to offer new conditions for the holders of its shorter notes (USD 200 mln maturing in April 2015). As we understand, the holding is closely monitoring the development of the Metinvest offer (and, possibly, the PUMB offer as well). While the company's official position is it's preparing to repay the nearest bond, the market does not believe in a such development, as the bond's price suggests.

The most likely outcome for DTEK, as we see it now, would be to offer something similar to Metinvest or PUMB: a 20-25% down payment and maturity extension for the remainder of the bond. The core question is for how long will it prolong the maturity. DTEK's other debt repayment schedule looks tough in 2015–2016 and especially tough in 2018, when its USD 750 mln bond matures. Therefore, a repayment of prolonged 2015 Eurobonds will look manageable only if its maturity will exceed mid-2018. Extending the 2015 bonds for a shorter period of time will increase the risk of restructuring its 2018 bond.

Therefore, the most likely extension schedule for the 2015 bond to be offered, if any, will be a postponement of maturity by five years with some amortization in the last 1.5–2 years.

Other issuers: how their restructuring could look like

The restructuring of Eurobonds with a postponement of their redemption for up to five years has become a new reality for 2014. Given this trend and the ongoing warfare in Donbas – both of which offer a solid basis for a lot of companies to ask for restructuring and simultaneously reduce their chances to get refinancing – we tried to analyze what could be the worst case for their bondholders. Clearly, it's too early to think about longer bonds, maturing beyond 2016, but it's a good time to think about a restructuring possibility for all the shorter bonds. In the following sections, we will examine more details on fundamental and other factors that might affect the issuers' decision to offer a restructuring. Here we provide some conclusions:

Ferrexpo, MHP: the probability of restructuring looks very small. These two issuers of Eurobonds, thus far, look like the most reliable borrowers. We see the likelihood of their requesting restructuring as the smallest.

VAB Bank: After the bank restructured its USD 88 mln notes in June, offering a manageable amortization schedule, the risk of the bond's further restructuring is much smaller now. Unfortunately, the bank currently does not look trustworthy at all, as demonstrated by the postponed repayment of its coupon in September. The worst case for the bank, therefore, is bankruptcy.

Oschadbank, Ukreximbank: the possibility that they will offer some restructuring should not be ruled out, given an outflow of foreign currency deposits and a general deficit of foreign currency in the state. If the worst case is fulfilled, we believe they will be able to offer a prolongation of their Eurobonds for up to five years, possibly with an unchanged coupon rate and offering a state guarantee (similar to Naftogaz's offer made in 2009).

Privatbank: it does not need any restructuring of its bonds, but its desire to repay it smoothly is not clear. A five-year prolongation of its shortest bond should not be ruled out.

Ukrzaliznytsia: the probability of restructuring looks high, even though It's too long until the maturity of its 2018 notes. In the worst case, we see them offering one postponement followed by another, with an unchanged coupon rate. So those preparing for the worst case should treat the paper of these companies as perpetuity bonds.

ULF and Avangardco (which should be treated as the same issuer, in our view, since both draw money from the same pocket): the companies have no history of repayment of their large debt obligations and seem to have lot of related parties that assume higher risks of off-balance sheet liabilities (consider Mriya's case). In the worst case scenario, we see Avangardco notes being exchanged for long-term ULF notes next year, without a change in the coupon rate.

Mriya, Finance & Credit Bank: these are top candidates for a distressed restructuring that eventually may include significant haircuts.

Yields weighted by probability of restructuring

Below we present the estimated yields of the shortest bonds based on our vision of best-case (smooth repayment) and restructuring scenarios.

Based on our analysis, we conclude that:

- The shorter bonds of the following issuers offer better probability-weighted yields than their longer bonds: Ferrexpo '16; MHP'15; UkrEximBank'15; Privatbank'15. Among them, the shorter bonds of Privatbank and Ukreximbank provide the highest probability-weighted yields;
- At the same time, the shorter bonds of DTEK and ULF look overpriced compared to their longer bonds;
- With PUMB offering to extend the term of its bonds from 2014 to 2018, along with a cash down payment and amortization schedule, we believe they provide the most attractive yields for those who agree to the bank's offer by Dec. 1.
- The bonds of Ukrainian Railways look unattractive at the current price and their risk profile, in our view.

A separate case is Metinvest, which is on its way to exchanging its 2015 notes.

	YTM, best-case (@ Nov. 21 mid-price)	Restructuring (exchange) case	YTM, restructuring (exchange) case	Probability of restructuring	Probability-weighted yield
MHP'15	15.1%	-	-	-	**15.1%**
MHP'20	12.4%	-	-	-	12.4%
Ferrexpo'16	20.0%	-	-	-	**20.0%**
PUMB'14	425.5%	as offered by the bank*	≥35.6%**	99%	**≥35.6%******
DTEK'15	44.9%	25% cash payment +5Y bond with 10% coupon and semi-annual amortization in the last 2 years	15.6%	75%	22.9%
DTEK'18	26.9%	-	-	-	26.9%
Metinvest'15	56.0%	as offered by the company*	26.3%***	***	56.0%***
Metinvest'18	24.0%	-	-	-	24.0%
Avangardco'15 (ULF)	38.2%	5-Y prolongation, unchanged coupon	16.8%	50%	27.5%
Ukrlandfarming'18 (ULF)	30.6%	-	-	-	30.6%
Ukranian Railways'18	21.7%	5-Y prolongation, unchanged coupon	16.4%	75%	17.8%
UkrExim'15	41.5%	5-Y prolongation, unchanged coupon	11.7%	25%	**34.1%**
UkrExim'18	20.1%	-	-	-	20.1%
Oschadbank'16	31.1%	5-Y prolongation, unchanged coupon	14.3%	25%	26.9%
Oschadbank'18	19.9%	-	-	-	19.9%
Privatbank'15	47.3%	5-Y prolongation, unchanged coupon	12.9%	25%	**38.7%**
Privatbank'18	22.7%	-	-	-	22.7%

** Refer to company profiles below for more details on the PUMB and Metinvest offers; **For PUMB, YTM in the restructuring case assumes holders will agree on the terms by Dec. 1 deadline; ***For Metinvest'15 bonds, probability-weighted YTM is based on the assumption that the company will smoothly repay the bond in May 2015 for those who decline to exchange for new bonds.   Source: Bloomberg, company data, Concorde Capital research*

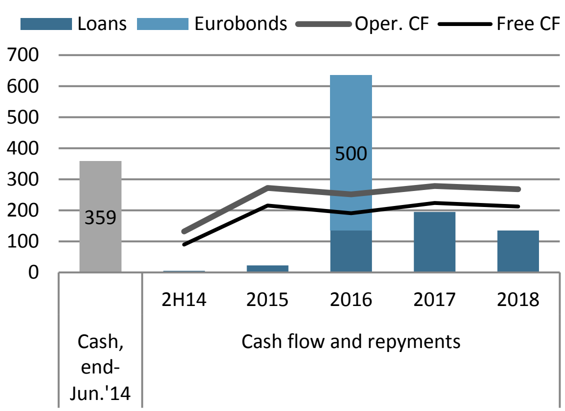
Assessing ability to repay nearest Eurobonds

Looking at the issuers' debt repayment schedule

In the environment of closed debt markets, the ability of companies to smoothly service their debt independently, or their ability to agree with other borrowers on restructuring, is one of the most important factors that determine their capability to timely repay Eurobonds. Below, we provide a short analysis of available cash and cash generation potential of Ukrainian bond issuers.

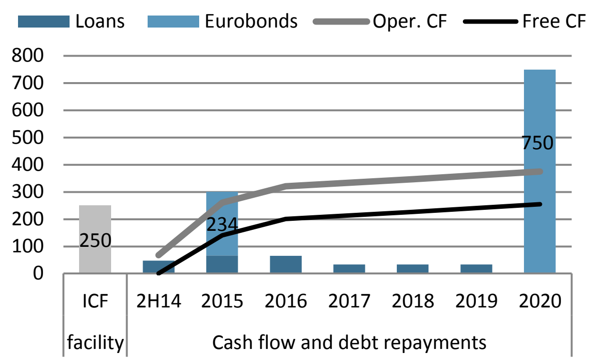
Our conclusion is that only the bonds of MHP and Ferrexpo look secure, and Avangardco looks self-sufficient, as a standalone company.

Ferrexpo, cash flow & debt maturing, USD mln



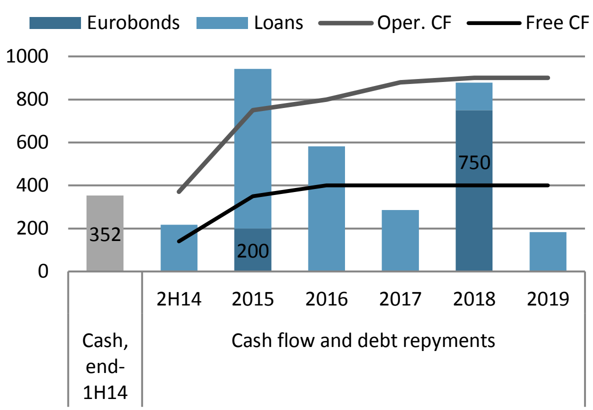
Ferrexpo has no significant debt to repay until April 2016. Its cash flow generation potential, as well as USD 360 mln on its cash balance, makes the repayment an easy task. The core risk for the company is that it might initiate some large CapEx projects before the bond matures, e.g. its USD 700 mln concentrator construction project.

MHP, cash flow & debt maturing, USD mln



MHP has reached a preliminary agreement with the IFC to refinance the repayment of its 2015 Eurobond. The company seems to be able to repay without taking any refinancing. It's too early to figure out how the company will be preparing to repay its 2020 Eurobond. The core risk on its way will be initiating a new ambitious CapEx project, e.g. construction of the second stage of its Vinnytsia poultry factory.

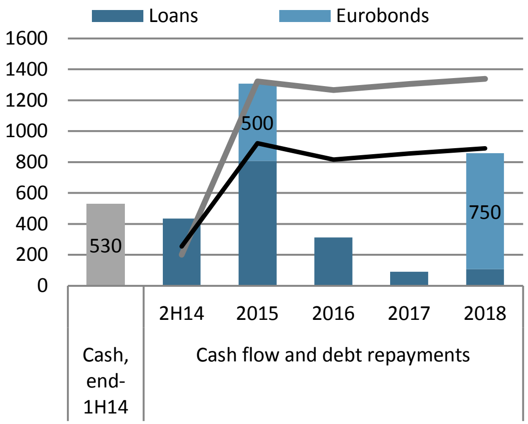
DTEK, cash flow & debt maturing, USD bln



An intensive CapEx program (of more than UAH 10 bln p.a.) in recent years resulted in a tough repayment schedule for DTEK in 2015. Most likely, the holding will have to significantly cut its CapEx appetite in the next years (to spend no more than UAH 5 bln p.a.), though this measure still will not be enough to smoothly service its debt repayment schedule in 2015. The chance that DTEK will propose restructuring for its 2015 bonds looks very high, though it can avoid that outcome if it secures restructuring for its other debts, which account for almost 4/5 of its total debt maturing next year.

Source: Company data, Concorde Capital research

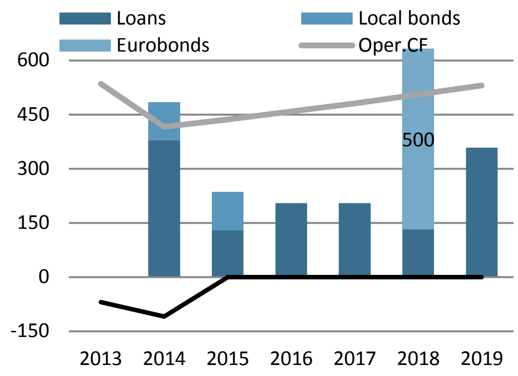
Metinvest, cash flow & debt maturing, USD bln



For Metinvest, it's critical to get smoothly through 2015, when it faces its toughest repayment schedule. The holding will have to prolong about half of its debt maturing in 2015, and the prolongation may or may not involve the 2015 Eurobonds. A lot will depend on the results of Metinvest's recent offer to exchange the 2015 bonds for up to 25% in cash and new four-year bonds.

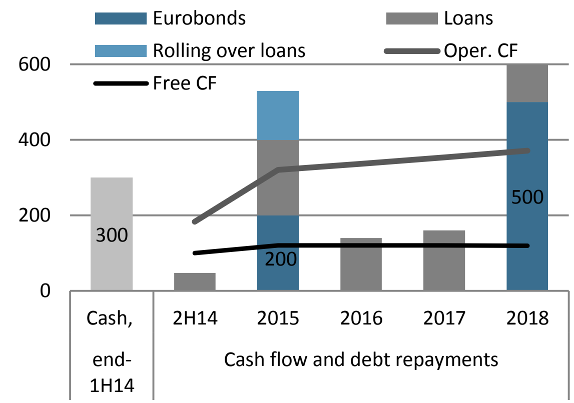
The holding's shareholders accustomed to take large portion of its cash flow to pay dividends (USD 400 mln planned in 2014, out of which about USD 250 mln taken in 1H14).

UZ, cash flow &debt maturing, USD mln

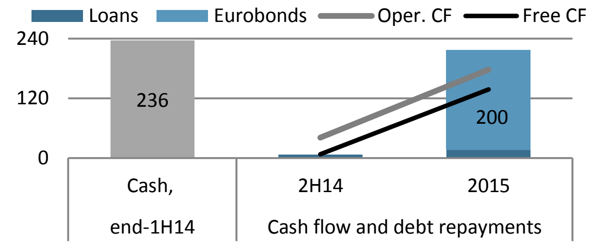


Ukkrzaliznytsia (UZ) has always had ambitious investment plans aimed at replenishing its railcar and locomotive fleet, though due to a lack of financing these plans have always been corrected downwards. The holding has been refinancing all its existing loans, and in the future this practice will not change, we expect. Its relatively high short-term debt does not look like a risk to us, given that the entire amount of these loans is from local banks, who are very likely to prolong all the credit lines. By the end of the year, an issue of new local bonds is possible by UZ subsidiaries to refinance the outstanding local bonds.

ULF, cash flow & debt maturing, USD mln



Avangardco standalone, USD mln



Avangardco, as a separate business, looks capable of easily repaying its 2015 bond. However, the company should be considered only in the context of its parent ULF, we believe.

To be able to smoothly repay the Avangardco Eurobond in 2015, ULF will have to significantly decrease its CapEx appetite in 2015. The core risk behind ULF is that the holding is not transparent – it might be the case that not all its debt obligations (or guarantees) are on its balance sheet.

Ironically, the probability that ULF will repay smoothly its 2018 notes looks higher than the chance that its less leveraged subsidiary Avangardco will repay its 2015 notes.

Source: Company data, Concorde Capital research

Banking issuers – bonds repayments won't be more painful than deposit outflows

All the banking issuers of Eurobonds look capable of smoothly repaying their nearest Eurobonds, judging from their balance sheet and financial assets/liabilities repayment schedule for 2014. The core problem they face is that they are operating in a hryvnia environment while having to secure enough cash in U.S. dollars to prepay their Eurobonds smoothly.

In the environment of a deficit of foreign currency in the country, exaggerated by closed external borrowing markets and a 30% YTD outflow of ForEx deposits, any material outflow of dollars is not desirable for banks. The situation with dollar deposits may improve in the near future, provided that the war in Donbas reaches a conclusion. For the time being however, it looks like the repayment of the nearest Eurobonds (maturing in the next 12 months) will require a significant outflow of dollar liquidity of banks. For most of them, it accounts for more than 10% of their foreign-currency assets.

Thus far, only Privatbank looks capable of repaying its nearest Eurobond without a significant effect on its foreign currency balance.

For Oschadbank, it's critical to increase foreign currency assets/liabilities to make the repayment of its 2016 Eurobond more probable and less painful. Still, the bank has enough time to prepare for the redemption.

Nearest Eurobonds and bank foreign currency stats, USD mln

	Nearest Eurobonds	Due	% of end-9M14 ForEx assets	ForEx deposits history					ForEx total assets history				
				end-12	end-13	Chg yoy	end-9M14	Chg YTD	end-12	end-13	Chg yoy	end-9M14	Chg YTD
PUMBUZ	252	Dec'14*	17%	1 102	1 125	2%	1 004	-11%	1 597	1 857	16%	1 505	-19%
EXIMUK	750	Apr'15	16%	3 770	3 033	-20%	2 613	-14%	5 136	5 393	5%	4 617	-14%
PRBANK	200	Sep'15	3%	6 933	7 166	3%	5 182	-28%	8 606	10 621	23%	5 821	-45%
OSCHAD	700	Mar'16	27%	1 044	1 064	2%	966	-9%	2 098	3 006	43%	2 626	-13%
UA banking sector						**0%**		**-31%**			**4%**		**-29%**

** Restructuring has been offered recently*
Source: NBU, bank data, Concorde Capital research

Some thoughts on the willingness to repay

Private issuers: the willingness to repay is key nowadays

In our talks with private issuers of Eurobonds, we found a lack of willingness to deprive themselves of USD-denominated cash in the coming months, given the current environment in which replenishing such cash via new borrowing is a hard task.

For this reason, we believe the issuers controlled by Oleg Bakhmatyuk and Rinat Akhmetov will only repay their nearest Eurobonds in case they are able to secure adequate refinancing. The location of some of their assets on the occupied territories of Donbas might serve as a good excuse for debt restructuring needs.

Among the private issuers, MHP (MHPSA) and Ferrexpo (FXPOLN) look like the safest issuers:

a. thus far, they do not have large investment projects to implement and their accumulated cash and upcoming cash flow will allow them to repay their soonest bonds smoothly.
b. their reputation is important for the market capitalization of their equities, which is precisely what key shareholders look to be concerned about.

The third private issuer that looks safe at the moment is Privatbank (PRBANK).

1. the size of Eurobond'15 outstanding (USD 200 mln) is a negligible 1% of the bank's total assets (3% of foreign currency assets);
2. the bank is considering to tap international markets for equity capital, and any restructuring will spoil its plans.

One can claim that Bakhmatyuk has the same reasoning to pay its obligations as described in items a. and 2. above (Ukrlandfarming is considering IPO plans; Avangardco has no large projects in its pipeline and it's free-cash-flow positive). However, his recent move towards VAB Bank's debt restructuring suggests these arguments indeed might not apply to his assets. And he does not treat Avangardco as a separate business. (Refer to the next slide for more details.)

Bakhmatyuk's assets: not as safe as they might look

The VAB Bank restructuring illustrates a clear unwillingness to repay

The recent restructuring of VAB Bank was very indicative of Oleg Bakhmatyuk's behavior towards creditors. The VAB case (see right-hand column) has important implications for his other assets:

- Thus far, Bakhmatyuk has not repaid any large debt – his "credit history" is non-existent;
- The case illustrates that if he has any small opportunity to postpone payment, he will use it, regardless of the reputation risks;
- The behavior of VAB bondholders, who declined the bank's first restructuring offer, should be applied to all the other issues of Bakhmatyuk – bondholders should always ask for more.

Avangardco: Bakhmatyuk treats it as a part of ULF – so you should too

As a standalone company, Avangardco looks like a rather safe bond issuer, with its end-2013 net bebt/EBITDA ratio at 0.5x, and because it's generating hefty free cash flow as it has completed its ambitious investment projects. On the flipside, its parent holding ULF (which controls 77.5% of Avangardco) treats the company as an integral part of its business. This means that the Avangardco case should be only discussed in the context of ULF.

This was clearly illustrated by Bakhmatyuk's claim made last summer that he will take no new debt on the balance sheet of Avangardco. That is why Avangardco's balance sheet looks so clean right now.

ULF: the good news is ULF's repayment schedule for 2014-2015 does not look tough. But it's not a good time to be optimistic based on this information:

- ULF does not look like a transparent holding – we suspect it might have some leveraged related parties (recall the recent case of Mriya);
- In the last two years, ULF spent much more cash in CapEx and acquisitions than it has generated. Should it see some opportunities to use money, instead of repaying debt, it will opt for the former;
- In our talks with ULF, we sensed it had no wish to repay its dollar loans, lest adequate dollar refinancing would be available;
- Weak prices for corn and wheat, which are beyond any pessimistic estimates that could have been made earlier this year, add more risks.

All in all, we see a high risk that Avangardco will offer some restructuring next year. However, we will become more optimistic on that issue should ULF becomes able to attract money (up to USD 250 mln) from the private placement of its convertible paper.

Case study: VAB Bank restructuring

VAB Bank offered to restructure bonds maturing on June 14 for the first time on May 20 with:

- A quarterly coupon rate of 9.0% for the next 12M and 10.9% afterwards (vs. 10.54% before)
- Amortization of face value: 18% in five quarters between March'18 and March'19; the last 10% to be repaid on June 14, 2019.
- A consent fee of 0.5%

After the bondholder meeting failed to approve the deal on June 2, the bank offered a new schedule:

- A quarterly coupon rate of 9.0% for the next 12M and 10.9% afterwards
- Amortization of face value: 5% in 15 quarters between June'15 and Dec'18; 10% in Mar'19 and the last 15% on June 14, 2019.
- A consent fee of 2.265%, but no coupon paid on June 14, 2014.

The primary reason for the restructuring was, according to the bank, a need to keep all of its cash (USD 226 mln as of end-March 2014, vs. Eurobonds outstanding of USD 88 mln) untouched to meet the regulatory requirement of the central bank. The bank claimed the repayment of Eurobonds on the due date would force the initiation of its closure.

The bank's position was not sincere:

- VAB shareholders approved a UAH 1.0 bln increase of its share capital at their Nov. 5, 2013 AGM – this was a good reserve for the bank to repay its Eurobond. (In USD terms, it's 85 mln, as of the bond's maturity date).
- However, equity was increased only in late July, after the second offer was accepted by bondholders at their July 1 meeting.

Akhmetov's assets: clear excuse for restructuring, incentive to satisfy bondholders

High dependence on Donbas creates a good pretext for restructuring
Donbas is a very important region for all the assets of Ukraine's top industrial tycoon, Rinat Akhmetov (DTEK, Metinvest, PUMB). Even though not all the assets of these companies are located in the Donbas war zone, the military actions are prompting a revision of all the companies' strategies, including reducing CapEx appetites and slowing down financing.

Clearly, high exposure to Donbas can be used as a good pretense to ask all of Akhmetov's debt holders for relaxed conditions. Thus far, the risks of significant losses due to their location look moderate, though the situation can change for better or worse at any time.

The need to roll over some portion of their debt maturing in 2015 looks evident. A rollover was not a problem for them in previous years, but nowadays opportunities for refinancing are clearly not as good as before.

Political factor should not be ignored
What Akhmetov is personally doing right now is belittling his assets/profits to improve his chances of preserving them, given that many politicians have targeted him for blame in escalating the warfare in Donbas this spring. Accusations in financing separatists may have very negative consequences for Akhmetov, even possibly a forced deprivation of his ownership rights. In such an environment, he is trying to exaggerate his losses from the war in Donbas. Clearly, such behavior does not make his holdings attractive for potential creditors, so the chances for new or prolonged credit lines are not high.

State assets: look safer at the moment

Oschadbank, Ukreximbank, City of Kyiv: low chances to avoid repayment

The two leading state-controlled banks look to be safe borrowers, given their role in the banking system of Ukraine and their participation in financing the government via bond purchases. In the worst case, we see both banks could offer some restructuring of their bond issues maturing in 2015-2016, under state guarantees, as Naftogaz did it in 2009. The base case, still, is that they will repay their Eurobonds smoothly.

City of Kyiv, thus far, hasn't done anything to question its credit history. The city usually provides for repayment in its annual budget (notably, it recently repaid smoothly UAH 2.6 bln in local bonds), and we expect that will be the case in 2015, when its USD 200 mln bond matures. An additional incentive for the city to smoothly service its debt is a state regulation that prohibits new borrowings in the five years following a default.

Ukrzaliznytsia (UZ): the only way to repay is to secure refinancing

The state railway monopoly is a much less important player in the debt markets for the government. Its Eurobonds are not secured by the state, and the entity already has a history of delayed repayments. We do not expect any significant improvement in UZ free cash flow in the future as we see its needs to finance its infrastructure projects will only increase. It's too early to think about the probability of repayment of its USD 500 mln Eurobonds maturing in 2018, though we do not see any internal sources of cash flow that UZ may use for the repayment. That said, we see UZ only repaying its Eurobond if it has secured adequate refinancing.

Other issuers: all the troubled have already revealed themselves

All the other issuers from our universe can be divided into two clear groups: 1) those who already showed their inability to smoothly service their international debts: Mriya (MRIYA), Finance and Credit Bank (FICBUA) and Agroton (AGTPW); and 2) safe issuers: Privatbank (PRBANK), MHP (MHPSA) and Ferrexpo (FXPOLN).

MHP and Ferrexpo: capable of easily repaying their debts, unless they initiate new ambitious projects

The future free cash flow and stored cash for these firms are enough to smoothly service their debt obligations for the next two to three years, at least. Both companies have finished their ambitious CapEx projects and are enjoying high free cash flow. Both companies have listed stocks on the LSE and have a good reputation in London. The core risk for their long notes is they may decide to initiate ambitious CapEx projects in the near future. Some extra risks for MHP, which may stem from the elimination of government subsidies starting 2015 (the likelihood of that happening looks very low at the moment), are offset by available IFC financing designed to refinance its nearest Eurobond.

Privatbank: its ability to repay is high, incentive is unclear; core risk is low capitalization

For Ukraine's leading bank, the repayment of its Sep.'15 USD 200 mln notes is not a big event (as it's less than 1% of its total assets). And we see no reason for the bank to spoil its international reputation and decline to repay. The risk that makes the bank's paper cheap is its shareholders are not hurrying to replenish the bank's equity. The bank's CAR (under local standards) has been marginally above the regulatory minimum of 10% over the last three reporting quarters.

Issuer profiles, non-banking

Avangardco and Ukrlandfarming (ULF)

Company profiles

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

Avangardco, in which ULF has a 77.5% stake, 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 threefold.

Two companies, single management

We recommend bondholders to treat both companies as a single entity. Both companies have nearly the same management team, as well as a common strategy regarding to their financing. This means that any trouble with the liquidity and solvency of one company would heavily affect another.

Avangardco's 2015 bond repayment in focus

Ukrlandfarming is facing a debt redemption in 2015, which includes USD 200 mln in Eurobond of Avangardco, around USD 100 mln in syndicated loans from DB and Sberbank (out of a total USD 200 mln), and up to USD 150 mln in loans from local banks, which ULF has nearly agreed to roll over. Repaying USD 350 mln next year presents a challenge for the company, which is trying to organize funding despite closed access to capital markets. The introduction of an external interim administration to related VAB Bank (which, for obvious reasons, was always ready to reschedule ULF's debts) will clearly diminish the ability of ULF to roll over its banking debt. VAB loans amounted to USD 100 mln of ULF's total debt portfolio as of end-1H14.

ULF private placement of equity might boost liquidity

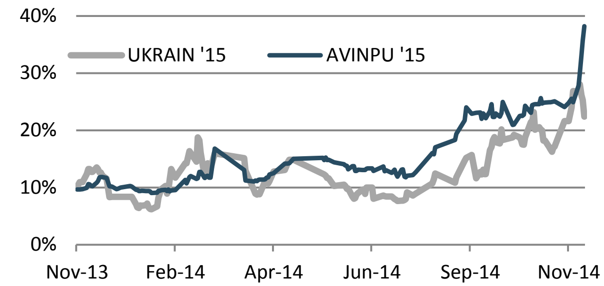
Since mid-October, Ukrlandfarming has been running a private placement for 4-6% of its equity, aiming to raise up to USD 250 mln. If the placement is successful, the company will cover a chunk of the debt redemption for next year. Additional funding is necessary for ULF since the soft commodity markets are bottoming out, which will negatively impact its crops segment, and hryvnia devaluation adversely affected its egg production segment. In 1H14, the company generated just USD 183 mln in net operating cash flow (-42% yoy), and we expect a weaker financial performance in 2H14. 58% of that net operating cash flow came from its egg segment. Only part of this cash flow is available for debt redemption, as ULF earmarks around USD 200 mln annually for CapEx purposes.

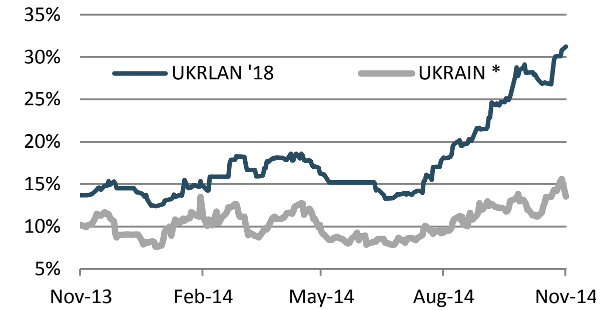
ULF earnings quality causes concern

In 1H14, ULF reported operating income of USD 572 mln (EBIT margin of 62%). LTM EBITDA, as of end June, reached USD 796 mln, implying a total debt/EBITDA ratio of 1.95x, compared to a Eurobond covenant of 3.00x. Such numbers would normally indicate ULF's solid solvency position, and formally the company isn't in breach of any covenants. However, 55% of its operating profit in 1H14 stems from revaluating biological assets, and its P&L results do not match its actual cash flows, which may be one of the causes of the liquidity gap.

	AVINPU 15	UKRLAN 18
Outstanding, USD mln	200	500
Maturity	Oct-15	Mar-18
Coupon	10.00/SA	10.88/SA
Fitch / S&P / Moody's	CCC / na / na	CCC/CCC/ na
Covenant: Net Debt / EBITDA	3.0x	-
Covenant: Total Debt / EBITDA	-	3.0x
Net Debt / EBITDA, 2014E	**0.8x**	1.9x
Total Debt / EBITDA, 2014E	1.8x	**2.2x**
Ownership structure		
Oleg Bakhmatyuk (ULF)	77.5%	95.0%
Cargill	-	5.0%
Other	22.5%	-

Mid-YTM





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

Donbas factor harms Avangardco business

Once having been the flagship of the ULF holding, Avangardco endured its toughest times in 2H14. The Russian-backed occupation of parts of Donbas forced the company to halt operations at its four Donbas-based egg factories (23% of its total egg production capacity, as of end-2013) and squeezed domestic demand for eggs (about a third was consumed in Donbas, according to management).

An extra cause for concern is a 31% YTD decline of Avangardco's laying hen flock in 9M14, which outpaces its entire laying hen capacity at its Donbas-based factories.

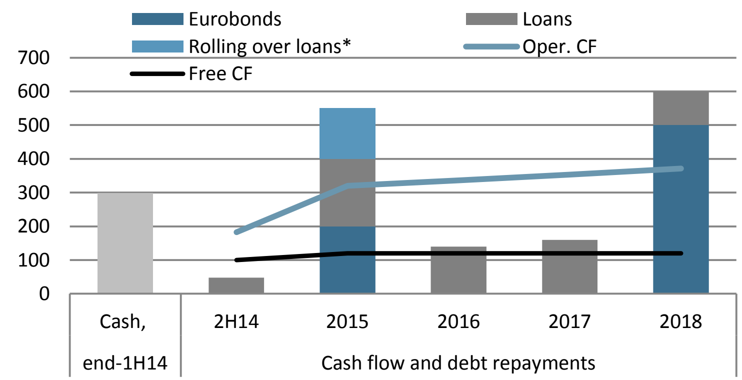
Our view on the bonds: risky unless ULF attracts new financing soon

ULF's attempts to attract up to USD 250 mln in financing (via placement of preferred equity), occurring at the worst possible time for any placements in Ukraine, reflects its urgent need for external financing, in our view. A month ago, ULF promised to close the deal in a couple of weeks, yet we've heard no update thus far. Each day lacking news on the placement may add extra basis points to AVIPU's spread to the sovereign curve.

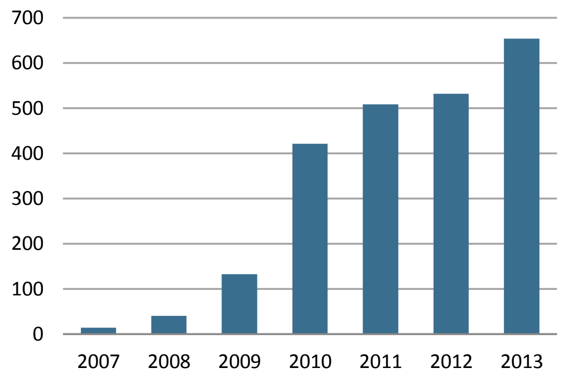
Other news that diminishes the likelihood of ULF/Avangardco to timely repay its nearest bond is the introduction of an interim administration to the related VAB Bank, one of the lenders to ULF.

We see ULF opting to ask for postponement of Avangardco's Eurobond repayment as one of the most straightforward alternative options if the placement fails. Most likely, ULF will offer to exchange AVINPU'15 notes for some mix of cash and new ULF Eurobonds. In our view, the current price of Avangardco's 2015 notes does not fully account for such risk.

Debt repayment schedule and cash position, USD mln



Land bank growth history, 000 ha



** Loans from Ukrainian banks, which maturity ULF expects to easily renegotiate*
Source: Bloomberg, company data, Concorde Capital research

Avangardco financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2013	2014E	2015E
Net revenue	661	475	386
IAS 41 gain	35	18	18
EBITDA	301	162	186
EBITDA margin	46%	34%	48%
EBIT	278	136	159
Operating margin	42%	29%	41%
Finance costs	-39	-35	-9
PBT	237	102	154
Net income	238	86	130
Net margin	36%	36%	36%
Net operating cash flow	187	141	175
Investing cash flow	-185	-73	-50
Financing cash flow	-49	-60	-223

Revenue by segments, USD mln

	2013	2014E	2015E
Shell eggs	437	289	316
Egg products	153	131	21
Other	71	55	49

Key Balance Sheet items, USD mln

	2013	2014E	2015E
Current assets	635	610	490
Cash & equivalents	157	165	66
Non-Current assets	1 184	1 231	1 254
PP&E	1 104	1 151	1 174
Equity	1 447	1 503	1 618
Current liabilities	108	291	91
ST debt	65	250	50
Non-current liabilities	263	47	35
LT debt	258	42	30

Leverage, USD mln

	2013	2014E	2015E
Net debt	166	127	10
Gross debt	323	292	80
Net debt / EBITDA	0.5	0.8	0.1
Covenant (Net debt / EBITDA)	**3.0**	**3.0**	**3.0**

Source: Company data, Concorde Capital research

ULF financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2011	2012	2013
Net revenue	1 344	1 889	2 072
IAS 41 gain	247	10	83.0
EBITDA	823	792	842
EBITDA margin	61%	42%	41%
EBIT	739	673	925
Operating margin	55%	36%	45%
Finance costs	-157	-159	-190
PBT	595	532	740
Net income	593	542	754
Net margin	44%	29%	36%

Operating cash flow	109	778	766
Investing cash flow	-849	-433	-1 154
Net CapEx	-305	-454	-846

Leverage, USD mln

	2011	2012	2013
Net debt	913	906	1 367
Gross debt	1 315	1 303	1 665
Gross debt in UAH	409	227	213
Gross debt / EBITDA	1.6	1.6	2.0
Covenant (Gross debt / EBITDA)			**3.0**

Revenue by segments, USD mln

	2011	2012	2013
Crops	376	638	662
Avangardco (eggs & poultry)	550	590	635
Meat	118	121	133
Other	299	423	642

EBITDA margin of key segments

	2011	2012	2013
Crops	109%	61%	35%
Avangardco (eggs & poultry)	46%	47%	45%
Meat	31%	20%	-60%

Key Balance Sheet items, USD mln

	2011	2012	2013
Current assets	1 969	2 196	1 986
Cash & equivalents	402	398	297
Non-Current assets	2 078	2 413	3 846
PP&E	1 522	2 082	2 900
Equity	2 322	2 867	3 652
Current liabilities	773	908	773
ST debt	318	280	408
Non-current liabilities	952	834	1 408
LT debt	997	1 024	1 252

Source: Company data

Company profile

DTEK is an integrated coal and electricity holding. It is a leading producer of steam coal in Ukraine (48% 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 four out of 27 regions of Ukraine, including Crimea. DTEK is also the near-monopoly exporter of Ukrainian electricity in the last couple of years. In 2011-13, 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.

High exposure to war-torn locations in Donbas

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

- Coal mines that are responsible for 42% of DTEK's total coal in 1H14 are located in the areas controlled by separatists. These same mines brought DTEK sizeable share of its coal export revenue.
- The Zuyiv Thermal Power Plan (TPP), which produced 10% of DTEK's total power in 1H14, is located on the territory controlled by separatists. On top of that, three other TPPs (24% of 1H14 output) are located on (or very close to) the front line in Donbas .To make matters worse, two DTEK TPPs located outside of Donbas depend 100% on the coal mined in the occupied territory (they account for 21% of DTEK's 1H14 power output).
- Three DTEK power distribution companies (37% of power supplied in 1H14) are partially involved in power sales to the occupied territories of Donbas. Another one, Krymenergo (8% of power supplied), operates in the occupied Crimean region of Ukraine, while its business seems to have not been negatively affected by Russia's occupation.

2H14 could be the toughest in DTEK's history

The partial occupation of the Donetsk and Luhansk regions by separatists and the Russian army will affect negatively DTEK's operational and financial indicators in 2H14, particularly in the coal mining business: in 3Q14, coal mining by DTEK's Ukrainian assets fell 18% yoy and coal mining in the war-torn districts plunged 52% yoy. DTEK said it's doing its best to minimize the effect of coal supply troubles on its power production operations. Yet even with its best efforts, it's clear that 2H14 will be much weaker for DTEK's P&L and cash flow than 1H14, when the holding was able to keep its EBITDA at USD 829 mln (just -6% yoy in dollar terms) and improve its cash flow from operations by 21% yoy, in dollar terms.

Inability to deliver mined coal locks its working capital, raises TPP costs

DTEK has accumulated about 1.5 mmt of mined coal in the occupied territory of Donbas that it's unable to deliver to other parts of Ukraine due to infrastructure damage, particularly railroads. This implies the holding has frozen about UAH 1 bln of its inventories. To make matters worse, DTEK has to import coal to satisfy the needs of its two TPPs located in central Ukraine, spending an extra USD 30 mln monthly, we estimate. This cost increase is partially covered by increased tariffs for its TPPs.

We believe executives will resolve this situation soon. The straightforward solution is to repair railroads and restore coal supplies from Donbas, which will enable DTEK to de-stock its coal. But it's only a part of the solution. For instance, DTEK would have to solve political issues that might arise on the occupied territory.

Risk of losing two of its three biggest mines becomes realistic

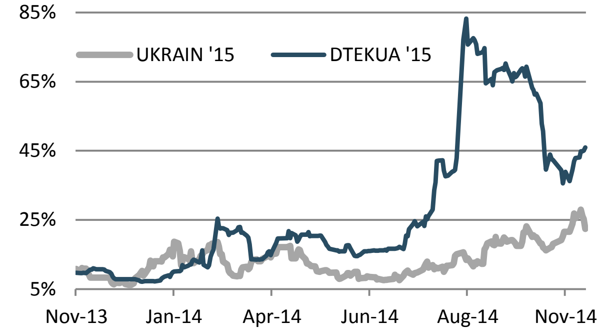
With the president's Nov. 15 resolution imposing austerity measures in the energy sector, the Cabinet of Ministers gained the right to reconsider concession agreements for coal mines. If the government decides to terminate the agreements, DTEK will officially lose control over Sverdlovantratsyt and Roverkyantratsyt, the mines that contributed 33% to DTEK's total coal output in 2013.

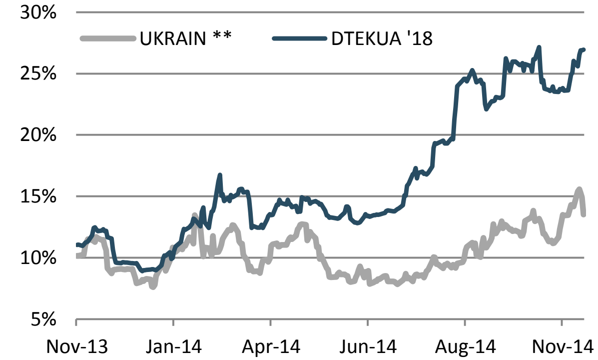
	DTEKUA 15	DTEKUA 18
Outstanding, USD mln	200	750
Maturity	Apr-15	Apr-18
Coupon	9.50/SA	7.88/SA
Fitch / S&P / Moody's	CCC/na/Caa2	CCC/na Caa2
Covenant: Gross Debt / CCF*	3.0x	3.0x
Gross Debt / CCF, 2014E*	2.4x	2.4x

Company ownership structure:

SCM (Rinat Akhmetov)	100%

Mid-YTM





** 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*

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

Rescheduling of debt maturity looks inevitable in 2015
DTEK is scheduled to repay USD 942 mln of its debt in 2015, while the holding never decreased its leverage in its history up until 1H14, when it reduced its total debt by just USD 25 mln. Theoretically, the holding might repay its debt maturing next year by using all its cash and all available credit lines. Though, it seems more rational for the holding to reserve some safety cushion in the environment of closed financial markets. In practice, we see a high need for DTEK to reschedule the maturity of USD 400-450 mln of its debt repayable in the next year, or about half of its maturing debt.

Will the 2015 Eurobonds be involved in a total debt rescheduling?
DTEK's 2015 Eurobonds account for just 21% of its total debt the repayment of which is scheduled for 2015. This leaves the theoretical chance that the holding won't restructure them, providing it secures rolling over of its most of other 2015 debt. For this reason, we see a chance to avoid the rescheduling exists (though it's below 50%), with pros and cons nearly being balanced:

+ DTEK is planning to increase its share of publicly listed debt in the future, meaning it is important for the holding to satisfy fully the interest of its current bondholders.
+ DTEK is an important client for any banking lender in the region. Our vision is that most banks are interested in maintaining good relationships with the holding. For this reason, the lenders might satisfy DTEK's rescheduling requests and allow the holding to repay its Eurobond.
- The size of loans that DTEK has to reschedule to avoid the restructuring of Eurobonds is very high (1/2 to 2/3 of total banking debt maturing in 2015). Clearly, there is a high risk that the holding won't be able to get rollover permission for most of its banking loans.
- Many banks might require that DTEK treat all lenders equally, thus demanding that the holding will offer a rollover for bondholders too. At the same time, DTEK might start negotiations with banks on rolling over after it repays its Eurobonds in April 2015. We estimate that USD 500 mln out of USD 740 mln of DTEK's loans repayable next year will mature in 2H15.
- A big portion of DTEK's debt maturing in 2015 was provided by Russian banks, who might be feeling some trouble in their domestic business due to international sanctions. This means they might be not ready to agree on rescheduling DTEK's loans.

We believe that the likelihood of a DTEK restructuring offer will increase if Metinvest is able to satisfy the interests of its bondholders in its ongoing bond restructuring talks. We believe that DTEK, if it has to, will offer the same or better rescheduling conditions as Metinvest. An advantage is that DTEK, unlike Metinvest, did not pay huge dividends in 1H14.

View on DTEK's notes: fairly priced

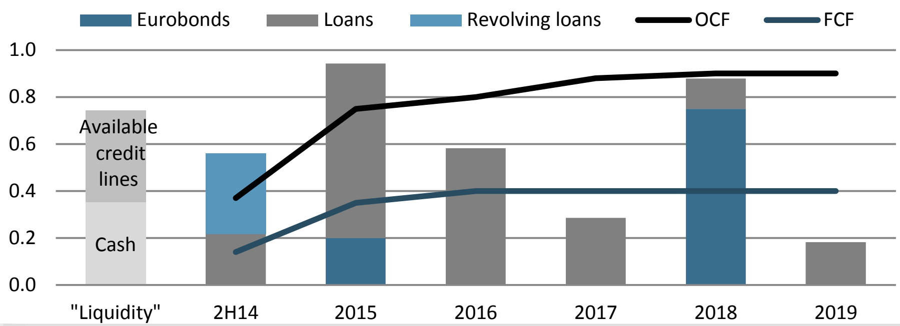
DTEKUA '15 notes yield 45% to its designed maturity (Apr. 28, 2015), with the probability of the company repaying it smoothly being less than 50%, we believe.

An alternative is restructuring the 2015 notes under conditions similar to the recent exchange offer of Metinvest's 2015 notes.

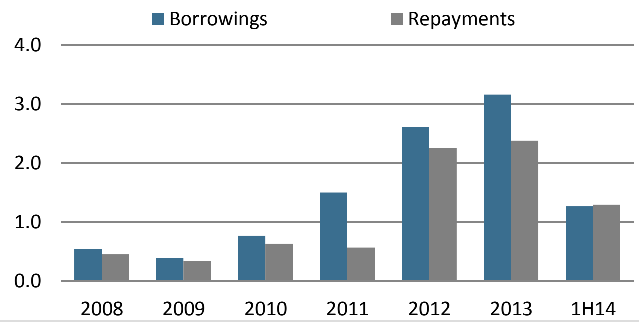
Using Metinvest as benchmark, we assume the company may offer a 25% down payment and five-year extension on the rest of its debt with a 0.5pp higher coupon and amortization over the last two years. Such deal offers a 16% IRR, which is smaller than the YTM of DTEK's 2018 notes (27%).

We believe DTEK's bonds are fairly priced, based on their risk profile.

Debt and cash flow, USD bln



Historical debt change, USD bln



Source: Company data, 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	7.51
EBITDA	2.12	1.87	1.26
EBITDA margin	21%	16%	17%
EBIT	1.45	1.36	0.61
Finance costs	0.52	0.47	1.38
PBT	0.93	0.65	-0.84
Net income	0.74	0.42	-0.82
Net margin	7%	4%	-11%
Cash EBITDA	1.87	1.55	1.10
Cash EBITDA / EBITDA	0.86x	0.83x	0.87x
Operating cash flow	1.04	1.26	0.67
Investing cash flow	-1.84	-1.71	-0.54
Net CapEx	-1.27	-1.29	-0.52
Dividends paid	-0.22	-0.36	0.00

Leverage, USD bln

	2012	2013	2014E
Net debt	1.95	2.82	3.10
Gross debt	2.62	3.48	3.50
Gross debt in UAH	3%	3%	2%
Consolidated Cash Flow (CCF)*	2.41	2.23	1.58
Gross debt / CCF*	1.1x	1.6x	2.2x
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	3.35
Power distribution	4.60	4.84	3.31
Other	1.00	0.70	0.85

EBITDA margin of key segments

	2012	2013	2014E
Coal & power production	30%	24%	23%
Power distribution	9%	5%	6%

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.*
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 in pellets (+12% yoy) in 2013 and approached full pelletizing capacity (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.

One of few names to avoid restructuring

Ferrexpo is among a limited number of Ukrainian corporates that is in a position to manage its debt without a need to renegotiate its terms. The company is sitting on cash, raised previously to develop the Yeristovo 10 mmt concentrator project, which has been put on hold after the iron ore market deteriorated. Moreover, Ferrexpo is nearing the finalization of its investment program aimed at launching and ramping up the Yeristovo Mine and improving pellet quality. Now the company is generating positive free cash flow (FCF): USD 100-200 mln annually in 2014-16 (totaling USD 464 mln), we forecast. Together with cash on balance of USD 359 mln as of June 2014 and available undrawn facilities of USD 280 mln, Ferrexpo looks capable of coping with scheduled debt redemptions of up to USD 800 mln for 2015-2016, the largest of which is USD 500 mln in 2016 Eurobonds.

Full capacity load at a low cost, far from Donbas

We expect Ferrexpo will have boosted pellet production 6% yoy to around 11.5 mmt in 2014 (96% capacity load), driven by the launch of the Yeristovo Mine in end-2012. In 2015, the company will fully load its pellet production capacity of 12 mmt per year. Deep hryvnia devaluation will positively influence the company's bottom line as more than 50% of Ferrexpo's production costs are hryvnia-denominated and all revenues are linked to the U.S. dollar. Expanding ore extraction from Yeristovo, where iron content is higher compared to the main Poltava mine, will serve as the basis for further cost-trimming. A strong advantage for Ferrexpo is the geographical location of its production facilities in the Poltava region, which hasn't been impacted by military actions.

Large pellet premiums ensure solid margins

Despite certain volatility on the iron ore market that may persist, Ferrexpo benefits from producing pellets, a product that sells at a large premium to the price of raw iron ore. Pellet premiums in Europe, Ferrexpo's key market, increased 36% yoy to USD 38/t (and 61% yoy to USD 29/t in China) in 1H14. It's highly probable that pellet premiums will stay at that level, reflecting the preferences of consumers who are demanding a higher grade product. They will enable Ferrexpo to generate an EBITDA margin of above 25% in 2015-16, even when accounting for the expected decline in selling prices for the company (we project -14% yoy in 2014 to USD 111/t, -12% yoy in 2015). In 2015, the company will finalize its project that aims to enhance its pellet production capacity with 65% Fe grade, while currently only half of the pellets from Poltava can have 65% grade. The projects' implementation will be another factor supporting the company's pellet premiums.

Ferrexpo sells more to Europe, where pellet premiums are higher

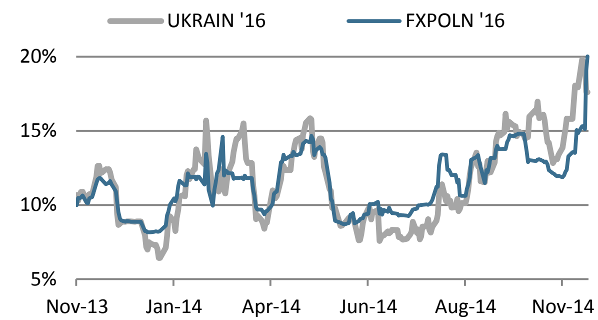
The key market for Ferrexpo has been the region of Central and Eastern Europe during the last 30 years, and the quality of the company's pellets best suits European steelmakers. Now this region remains Ferrexpo's key focus, and the company is even increasing sales there: shipments to Central and Eastern Europe grew 8% yoy to 2.8 mmt in 1H14.

	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	2.3x

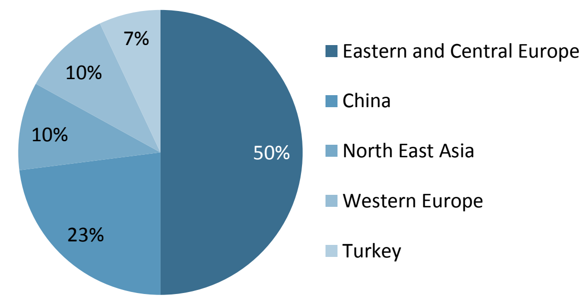
Company ownership structure

Kostyantyn Zhevago	50.3%
BRX Limited	23.9%
Free float	25.8%

Mid-YTM



Geographical breakdown of sales, 1H14



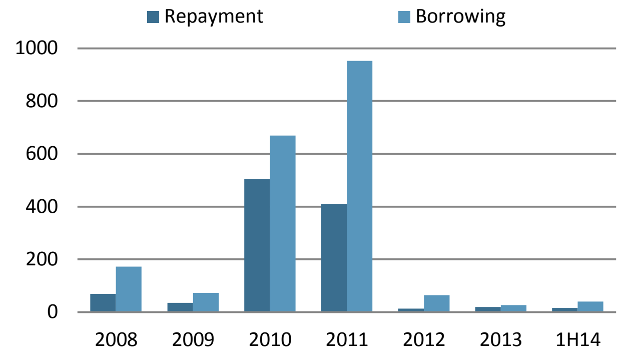
Source: Company data, Bloomberg, Concorde Capital research

Working capital outflows normalized as VAT receivables stabilize in hryvnia terms
In previous years, the non-redemption of export VAT caused large working capital outflows (USD 132 mln in 2012) and aggravated net debt. In early 2014, the company resolved this issue to a certain extent when reaching an agreement with Ukraine's state authorities to gain VAT redemptions in exchange for prepayment of corporate income taxes.

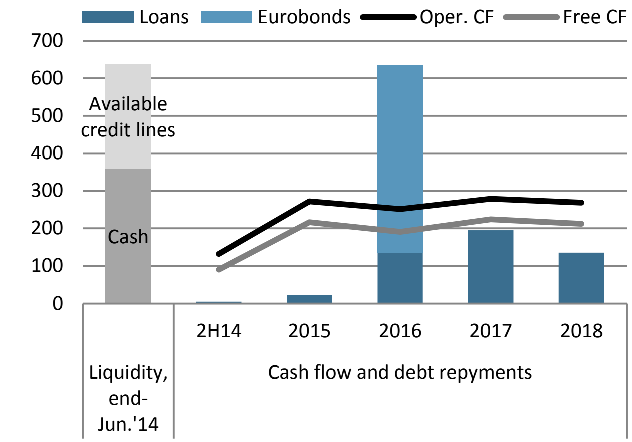
Litigation victory
A long-running legal battle over a 40% stake in the key production asset of Ferrexpo, the Poltava Iron Mine, seems to have reached its turning point. In end-October, the Kyiv Economic Court ruled in Ferrexpo's favor in a lawsuit filed by four companies related to Russian businessman Alexander Babakov that sought to reverse the sale of Babakov's 40% stake in Poltava Iron Ore in 2002 and subsequent issuance of new shares. Court hearings have been held since 2005, once the iron ore market improved sharply. Babakov was able to achieve certain success in the courts after Viktor Yanukovych became president in 2010, but they failed to cancel new share issues to fully reverse the 2002 deal. Now that the Yanukovych regime has been overthrown, the threat of Babakov retaking his 40% stake is waning.

Our view on the bonds: safer than Ukraine's sovereign debt, underpriced
The current YTM of FXPOLN is at a historical high of 19%, which can be explained by the current weak prices for iron ore fines, as well as for Ukraine's sovereign debt. Ferrexpo's bond enjoys a S&P's rating of CCC+, one notch higher than Ukraine's sovereign rating, which reflects the relatively strong liquidity position of the company, in our view. This justifies the negative spread of Ferrexpo's Eurobond to the sovereign yield curve, which we had observed in recent months. We are bullish on Ferrexpo's bond.

Historical borrowing and repayments, USD mln



Cash sources and debt repayment, USD mln



Source: Company data, 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	1,452
EBITDA	402	506	450
EBITDA margin	28%	32%	31%
EBIT	341	401	350
Operating margin	24%	*25%*	*24%*
Finance costs	-88	-66	-66
PBT	262	305	286
Net income	216	264	240
Net margin	15%	17%	17%
Operating cash flow	119	172	270
Investing cash flow	-419	-297	-170
Net CapEx	-429	-217	-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	525
Gross debt	1,020	1,030	1,015
Gross debt / EBITDA	2.5	2.0	2.3
Covenant (Gross debt / EBITDA)	2.5	2.5	2.5

Source: Company data, Concorde Capital research

Metinvest

Company profile

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

Business damaged by war in Donbas

The warfare in Donbas has adversely impacted Metinvest's steel, coal and coke production. Since August 2014, output volumes at Azovstal and Ilyich Steel – both based in the port city of Mariupol that's on the frontline's edge – have plunged 60-70% due to destroyed railway connections and logistics constraints for raw materials delivery. Yenakiyeve Steel, located on the occupied territory of Donbas, stood idle in September, restarted production in October and plans to maintain a 50% capacity load going forward. Metinvest steel production fell 42% qoq in 3Q14 to 1.7 mmt, and is heading for a 18% yoy drop in steel products output for 2014. Production is suspended at Avdiyivka Coke, which satisfied 67% of Metinvest's coke requirements in 2013 and has been bombarded numerous times. Krasnodon Coal, the local coking coal miner of Metinvest, faces continuing hurdles for shipping coal and is stockpiling.

Timing of rebuilding destroyed Donbas railroads is uncertain

Ukrainian state railway operator Ukrzaliznytsia announced quite upbeat expectations for repairing key sections of railroad by mid-December, but we don't believe any repairs are possible until a true cease-fire is achieved.

Cash flow generation to decline in 2H14 and 2015

The strong 1H14 financial performance (a 29% yoy increase in EBITDA to USD 1.6 bln), driven mainly by hryvnia devaluation, will worsen in 2H14 and onward. We forecast the company will generate EBITDA of USD 2 bln in 2014 (-11% yoy), and USD 1.6 bln in 2015 (-20% yoy). We see net operating cash flow at around USD 900 mln in 2015 (-19% yoy), which combined with CapEx of around USD 450 mln will not cover the scheduled USD 1.3 bln repayment of bonds and banking debt. Thus restructuring the debt portfolio is of high importance for the holding.

Profitability shifts to metallurgical plants, located mostly in the war zone

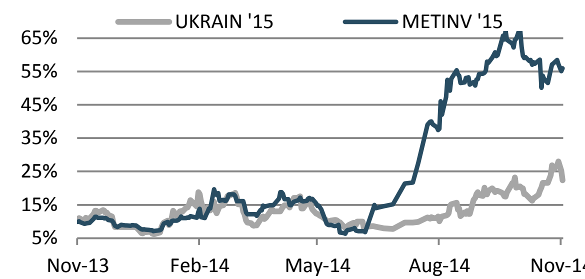
The holding earned 80% of its EBITDA in its iron ore mining segment until recently, which is no longer the case. Despite Metinvest's iron ore mines operating at almost full capacity, iron ore prices have declined sharply in 2014. In 1H14, the contribution of its metallurgical division to EBITDA grew to 34%, and this portion will widen in 2H14. So one way to boost EBITDA is to restore steel production at Azovstal, Ilyich Steel and Yenakiyeve back to normal volumes. Since Mariupol is a prime target of a Russian-backed invasion, three-quarters of Metinvest's steelmaking capacities are under threat of disrupted operations.

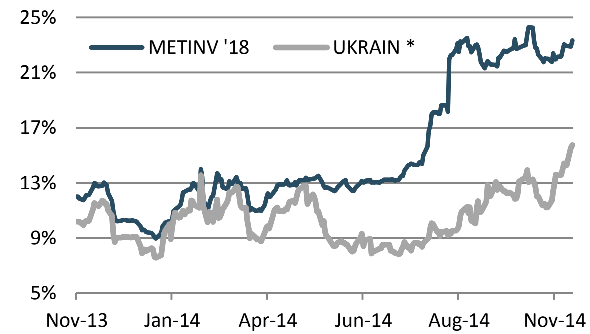
	METINV 15	METINV 18
Outstanding, USD mln	500	750
Maturity	May-15	Feb-18
Coupon	10.25/SA	8.75/SA
Fitch / S&P / Moody's	CCC /na/ Caa2	CCC/na/ Caa2
Covenant: Gross Debt / EBITDA	3.0x	3.0x
Gross Debt / EBITDA, 2014E	1.7x	1.7x

Company ownership structure

SCM (Rinat Akhmetov)	71.25%
SMART (Vadim Novinsky)	23.75%
Vladimir Boyko	5.00%

Mid-YTM





Source: Bloomberg, company data, Concorde Capital research

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

Debt restructuring talks, while retaining payments for shareholders

In October, Metinvest offered holders of its 2015 Eurobond an exchange for longer bonds, which has been already amended once. The main criticism from bondholders, prompting the new proposal, was related to management's decision to hold postponement talks on a USD 375 mln debt, while paying dividends to shareholders on a similar sum this year.

Important clauses of the amended offer include:

- Increased cash down payment to 25% from 20% in the initial offer;
- Instead of a bullet repayment of a new bond, maturing in November 2017, the company proposes an amortization schedule, including four equal semi-annual installments, starting in May 2016;
- Metinvest kept the coupon rate on the new bond at 10.5%, as in the first offer, compared to a coupon of 10.25% for the bonds currently outstanding.

We think the new exchange offer may get broader consent from bondholders, but we doubt that the 90% approval threshold expected by Metinvest will be achieved. Once the offer is approved by most of the holders, the 2015 Eurobond (which will remain in the hands of those who decline the offer) might trade at around 80 cents per dollar with a YTM of 24%, we estimate. Since the 2015 Eurobonds trade at a YTM of 52% currently, the bondholders who don't approve the offer and wait until maturity will benefit the most.

Contribution from banks and shareholders required

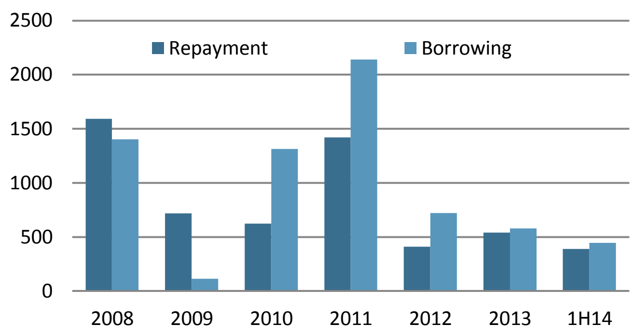
The restructuring of Eurobonds in and of itself doesn't solve Metinvest's liquidity risk for 2015. We think that the company needs to reach a deal with banks on shifting the maturity (management expects to do it by December) and further reduce dividends in order to keep cash inflows and outflows next year in balance.

Our view on the METINV'15 bond: you're better off declining the restructuring offer

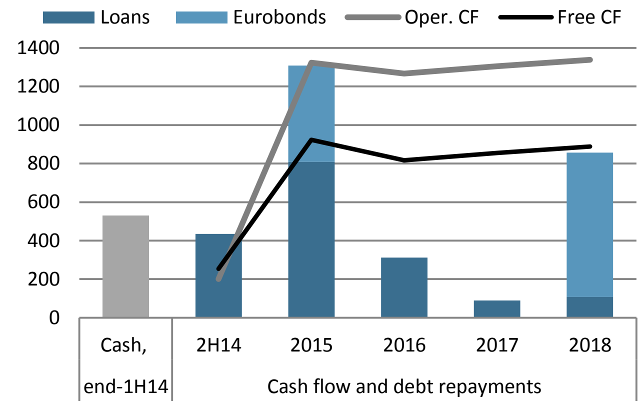
Based on its recent update, 76% of the holders of Metinvest's 2015 notes agreed to exchange them for cash and new notes. The company has recently extended its deadline to Nov. 24 for accepting its exchange offer. Those who accept Metinvest's offer will yield an IRR of about 26% from the deal (based on the current price of Metinvest's bond at 82.5% of par). Those who decline it face a strong chance that Metinvest will smoothly repay the paper on its maturity date next year, which implies they will enjoy a 55% YTM.

In case the company declines to make the exchange into new notes (it wants to see 90% of bondholders agree to the deal), it will have to offer better conditions for the exchange or restructuring, we believe. In which case, those who declined the offer will have lost nothing.

Historical debt borrowing and repayments, USD mln



Liquidity position and repayment schedule, USD mln



Source: Company data, Concorde Capital research

Metinvest financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2013	2014E	2015E
Net revenue	12,807	10,623	9,241
EBITDA	2,291	2,041	1,675
EBITDA margin	18%	19%	18%
EBIT	1,226	1326	609
Operating margin	10%	12%	7%
Finance costs	-341	-272	-169
PBT	965	1,133	521
Net income	592	850	437
Net margin	5%	8%	5%
Operating cash flow	1,465	1,215	1,323
Investing cash flow	263	-450	-400

Leverage, USD mln

	2013	2014E	2015E
Net debt	3,525	3,158	2,130
Gross debt	4,308	3,440	2,132
Gross debt / EBITDA	1.9	1.7	1.3
Covenant (Gross debt / EBITDA)	3.0	3.0	3.0

Revenue by segments, USD mln

	2013	2014E	2015E
Metallurgical	9,727	7,775	6,617
Mining	3,080	2,849	2,624

Key Balance Sheet items, USD mln

	2012	2013
Current assets	5,578	4,794
Cash & equivalents	531	783
Non-Current assets	3,231	3,117
PP&E	8,248	8,212
Equity	10,406	9,631
Current liabilities	1,384	1,999
ST debt	2,018	1,718
Non-current liabilities	2,654	1,133
LT debt	1,126	2,425

Source: Company data, Concorde Capital research

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 capacity of its brand new Vinnytsia complex by the end of 2014, thus aiming to produce 550 kt of poultry meat this year (+16% yoy).

2015 bond repayment covered by IFC loan

The key advantage of MHP's 2015 Eurobond, making it the safest in the Ukrainian universe, is that the company has secured a USD 250 mln loan from IFC to cover the bond's redemption. As of mid-November, USD 200 mln out of this facility have been committed, while the rest might be syndicated with other lenders, according to MHP. The company plans to draw the loan in early 2015, closer to the Eurobond's repayment date.

Generator of solid FCF after key investment project completed

Following the completion of the Vinnytsia poultry complex, MHP's CapEx will be limited to around USD 100-120 mln in 2014 and in following years. That will enable MHP to maintain strong positive free cash flow of above USD 150 mln (USD 174 mln in 2013), which in turn will enable the company to deleverage fast, if management chooses to do so.

Expansion option in focus

MHP's alternative strategic option to deleveraging, to be reviewed by the company's board in the coming months, is the construction of the second stage of its Vinnytsia complex that could double its capacity. The documentation for the project is currently being finalized. The company estimates the project's CapEx at USD 250 mln. MHP can afford to fund the construction of such a project, with a repayment period of three years from own cash flows, we estimate.

Solid solvency ratios

MHP reported a 43% yoy increase in EBITDA in 9M14. Its net debt-to-LTM EBITDA improved to 2.1x, as of end-September, compared to 2.9x in the beginning of 2014, and its 3.0x Eurobond covenant. MHP is slated to improve its net debt/EBITDA ratio further by the end of 2014 with expectations of earning USD 540 mln in EBITDA for the full year of 2014 (our projection is USD 485 mln). Among the key drivers of this projected EBITDA increase are the full capacity load of the newly launched Vinnytsia complex, leading to a 16% yoy increase in poultry output, low grain costs inherited from the previous harvest, and continuingly lower sunflower prices.

Stronger sales despite weak macro environment

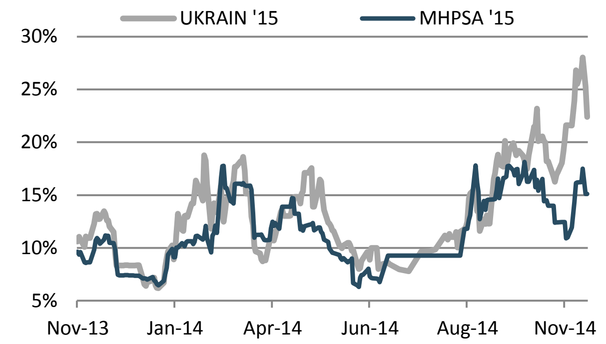
In 2014-15, the company will operate at a capacity load close to full (580 kt of poultry production p.a.). MHP copes well with incrementally allocating produced poultry on the market. After hryvnia devaluation and accelerated inflation this year, poultry became even more competitive on the domestic Ukrainian market, compared to other sources of protein. The company continues to increase export supplies, planning to sell 180 kt of poultry abroad (+50% yoy) in 2014, despite an export ban on deliveries to the Moscow-led Customs Union. The company found additional customers in the Middle East, Northern Africa and Asia and benefits from a duty-free import quota to the EU (annual quota of 30 kt).

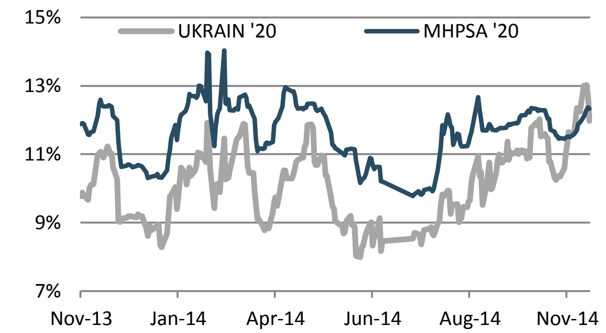
	MHPSA 15	MHPSA 20
Outstanding, USD mln	235	750
Maturity	Mar-15	Mar-20
Coupon	10.25/SA	8.25/SA
Fitch / S&P / Moody's	CCC/na/Caa2	CCC/CCC/na
Covenant: Net Debt / EBITDA	3.0x	3.0x
Net Debt / EBITDA, 2014E	2.2x	2.2x

Company ownership structure

Yuriy Kosyuk	65.9%
Fee float	34.1%

Mid-YTM





Source: Company data, Bloomberg, Concorde Capital research

Impact of Donbas war limited, lost facilities to be replicated
Among the direct damage to MHP's assets from the Donbas war has been the loss of Shakhtarska breeding farm, which had to suspend its operations in August. Before the closure, the farm satisfied 30% of the company's hatching egg needs and represented 5% of MHP's EBITDA. After its suspension, MHP turned to importing hatching eggs from the EU, thus increasing production costs. In order to mitigate the negative consequences of the closed Shakhtarska farm, MHP decided to replicate its breeding capacities at one of its existing poultry farms in the Cherkasy region of central Ukraine. Management expects to launch these hatching capacities by end-2014.

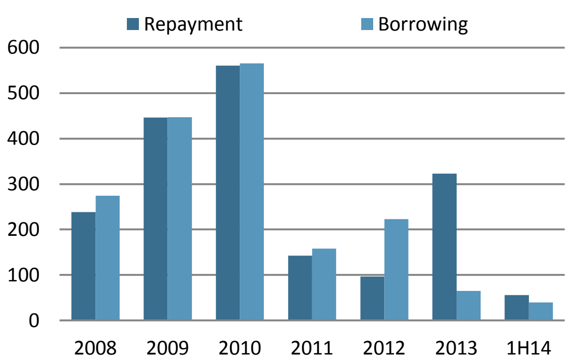
Lost support for agricultural producers is a key risk
MHP has one of the highest exposures among Ukrainian agricultural producers to indirect state support, which is granted to companies in the form of a special regime of VAT administration. Agricultural enterprises recognize the positive difference between tax liability and tax credit as a government grant. The special regime was introduced in 2004 and is effective until January 2018, according to Ukraine's tax code. However in April, the Ukrainian government renewed cooperation with the IMF, which has urged local government to cut or abandon state support to agri producers. The risk that they will be abandoned in 2015 or 2016 looks low at the moment, while there is no clarity on the long-term future. In 9M14, income from state support generated 15% of the company's reported EBITDA.

Up to 50% dividend payout on track
In 9M14, MHP generated USD 259 mln in net income before non-cash FX losses (and a net loss of USD 302 mln, when accounting for the FX effect). Management stated the company will stick to its dividend policy of distributing up to 50% of its net profit in dividends. Though this is an issue to follow for bondholders, dividends aren't likely to impact the timeliness of the MHPSA 2015 repayment.

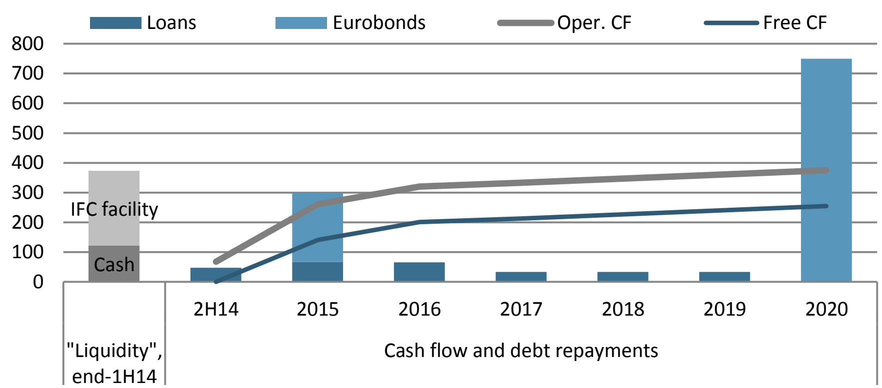
Our view on MHP's bonds: bullish on MHPSA'15
Unlike vast majority of corporate issuers in Ukraine, MHP is facing no urgent necessity to renegotiate terms of Eurobonds.. Repayment of the bond is covered with a loan facility from IFC, which serves as a sort of guarantee to bondholders.

The core drawback of its 2015 notes is low YTM, which is currently inside the sovereign yield curve. Though, the notes offer better YTM than MHP's 2020 paper, which makes them attractive.

MHP's historical debt borrowing and repayments, $ mln



MHP's liquidity position and debt maturity, USD mln



Source: Company data, Concorde Capital research

MHP financial summary (IFRS)

Key P&L and Cash Flow items, USD mln

	2012	2013	2014E
Net revenue	1,408	1,496	1,368
IAS 41 gain	17	14	17
EBITDA	468	391	485
EBITDA margin	33%	26%	35%
EBIT	381	272	375
Operating margin	27%	18%	27%
Finance costs	-59	-93	-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

Source: Company data, Concorde Capital research

Ukrzaliznytsia (Administration of Railways Transport of Ukraine, UZ)

Entity profile
UZ is the monopoly provider of railway transportation services in Ukraine as part of the 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 their revenue is generated from freight transportation services and their freight segment subsidizes the loss-producing passenger segment.

Mid-term sustainability of business is not secure
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 of 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 is 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 segment's revenue would shrink quickly to the point where it does not even cover the losses from its retail segment.
- These factors are aggravated by UZ's lack of customer-friendliness 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.

Credit history is not ideal, no deleveraging noticed in its history
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 the portion worth USD 110 mln. The entity fully repaid the facility in 2012. Over the last four years, the company has been only increasing its leverage, with total borrowings having increased UAH 2.5 bln p.a.

Ukrzaliznytsia usually plans ambitious investment programs for one to three years in advance, constantly postponing their execution due to a 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.

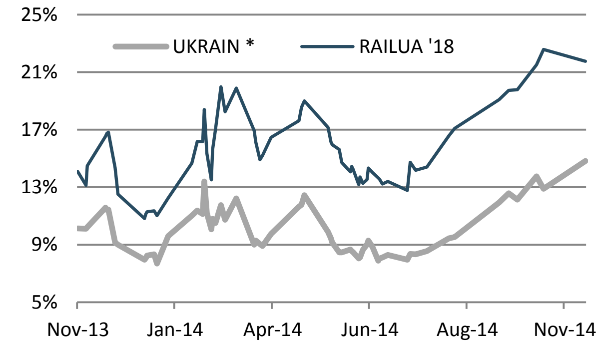
Leverage doesn't look dangerous, thus far
UZ leverage looks safe at the moment – its 2013 net debt/EBITDA amounted to 1.8x. Even if it pursues at least 80% of its ambitious CapEx programs for 2014 (which were designed in 2012-2013 and thus might be adjusted downward as tradition), its leverage will not exceed 2.7x as of end-2014. UZ has a relatively high portion of local currency debt (43% of total borrowings as of end-2013). Therefore, it hasn't suffered much from hryvnia devaluation in 2014.

	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

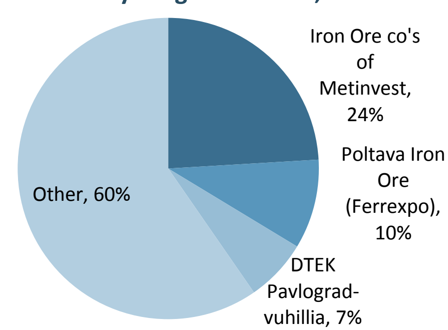
Ownership structure

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*

Financials were not affected much by Donbas warfare and conflict with Russia
Despite heavy military actions in Donbas and damaged railway infrastructure, the entity's combined financials were not spoiled much in 2014. Its Donbas-based subsidiary's EBITDA declined 36% yoy in 9M14 (and -69% yoy in 3Q14), while the combined EBITDA of all its subsidiaries fell just 6% yoy in 9M14, and even improved 6% yoy in 3Q14. Indeed the 9M14 yoy decline in UZ's compbined EBITDA was equal to 2013, when a 6% yoy decline was reported.

Its negative consequence from the Donbas war is loss of infrastructure objects due to damages, which might exceed UAH 1 bln.

Spoiled relationships with Russia may slightly harm UZ's top line as 18% of its total freight traffic is from transit services. At the same time, we believe the effect on UZ 's P&L will not be material. In 1H14, the company reduced its transit freight turnover 7% yoy, while total turnover remained flat yoy.

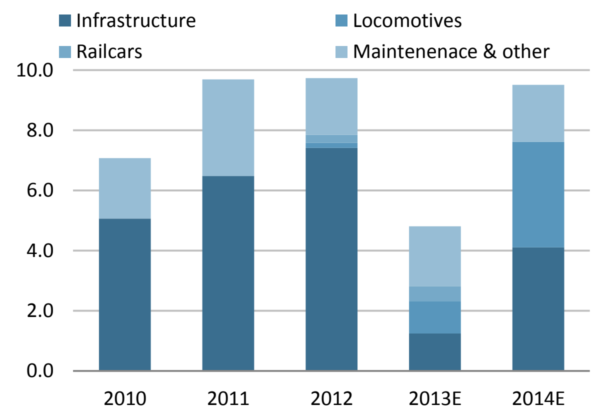
Potential to increase profit in the short term, though CapEx appetites are still bigger
The enterprise has large reserves to improve its profitability if it continues to pursue its initiated cost optimization programs. According to UZ's acting head, optimization measures might enable it to save about UAH 1.2 bln in 2014 (or 11% of its 2013 EBITDA), while further restructuring of the entity will lead to further cost savings.

On top of this, Ukrzaliznytsia is on its way to get approval for a 30% increase in freight transportation rates as of February 2015. If approved (we see chances are even), it might add more than UAH 3 bln to the entity's EBITDA in the next year.

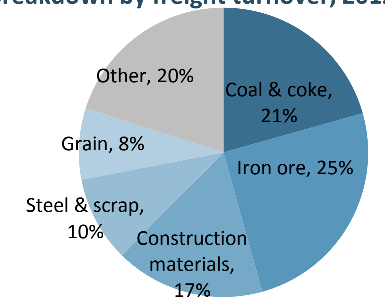
At the same time, investors should be aware that UZ's CapEx appetite is much bigger than all the amount of possible boosted profit, given that the vast majority of its rolling stock is heavily depleted and outdated (the wear out ratio is near 90%). Better P&L numbers, therefore, will only open new possibilities for UZ to increase its leverage.

View on UZ Eurobonds: overpriced, given its risk profile
In the current circumstances, the Eurobonds of UZ, yielding about 22% to maturity in 2018, look over-priced. Some improvement in the notes' price might happen once the entity transforms into an open joint-stock company (from the government's department). However, such opportunities (which are not certain) are counter-balanced by all the risks, we believe.

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

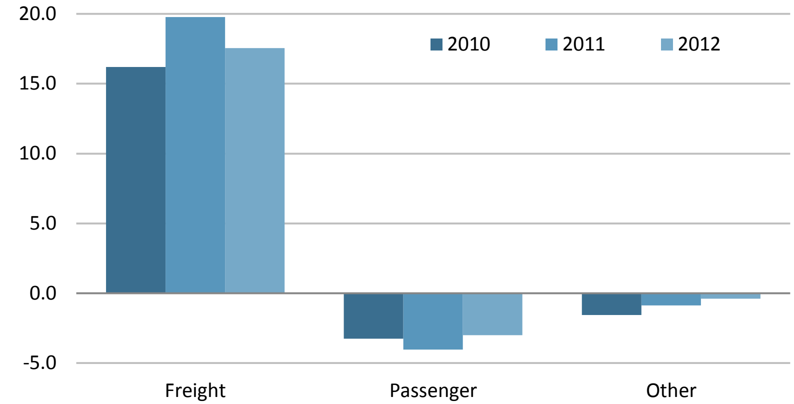
Leverage, UAH bln

	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

Bank profile

Oschadbank is Ukraine's third-biggest bank by assets. Emerging from the ruins of the Soviet savings bank, it remains a fully state-controlled institution that is focused on retail deposits (ranked second by retail money attracted, with retail accounts making up 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 47% of its total assets (as of end-1H14) lent to the government and related companies. It holds the biggest portfolio of state bonds among Ukrainian banks. On top of that, about 15% of the bank's end-1H14 assets are exposed to state gas monopoly Naftogaz.

Exposure to state debt declines in 1H14, while state support is increasingly visible

In 1H14, Oschadbank decreased its exposure to state and state entities, lowering net assets with related parties by 2% YTD to UAH 50.4 bln and decreasing their share of total assets by 8pp YTD to 47%. Importantly, its portfolio of state bonds decreased 13% YTD to UAH 20.4 bln.

Even though the bank's exposure to the state decreased, the government continues to actively help the bank. The National Bank of Ukraine (NBU) has increased its loans to Oschadbank 1.5x YTD to UAH 22.7 bln over 1H14, while the government is trying to force all its administrators to shift their payroll programs to this bank. Regardless of the legitimacy and efficiency of such attempts, this indicates the government's eagerness to ensure the bank's wellbeing.

A new lending vehicle to SME and households

The decrease in state exposure and increased NBU liquidity support enabled the bank to significantly increase its loan portfolio in 1H14: the net loan portfolio in the local currency increased 8% YTD in 9M14, compared to the industry's performance of -9% YTD. The bank has signed up with the European Investment Bank to finance Ukraine's SME sector. The programs assumed financing of EUR 220 mln for a period of 10 years. Out of this amount, the bank received EUR 66 mln in 1H14. On top of that, Oschadbank has initiated a program to finance the purchase of energy saving equipment for households.

Recapitalization to improve its liquidity

According to a recent statement from Ukraine's prime minister, Oschadbank's equity will soon increase by UAH 11 bln, which would clearly add to its liquidity and stability. Oschadbank 's CAR (according to local standards) is one of the highest in the system: 23.6% as of end-9M14. Keeping high CAR for state banks (above 20%, vs. the minimum requirement of 10%) is the government's strategy. A need to write off its Crimean loans (net value of UAH 6.3 bln, and gross value of UAH 7.7 bln, as of end-1H14, according to IFRS) seems to be the core reason for the recapitalization.

The bank's low exposure to Donbas (gross loans of just UAH 2.5 bln, which is twice less than the deposit base in the region) implies the warfare in the easternmost regions does not affect its operations much.

View on OSCHAD bonds: a shorter bond offers a good yield, in regards to its risk profile

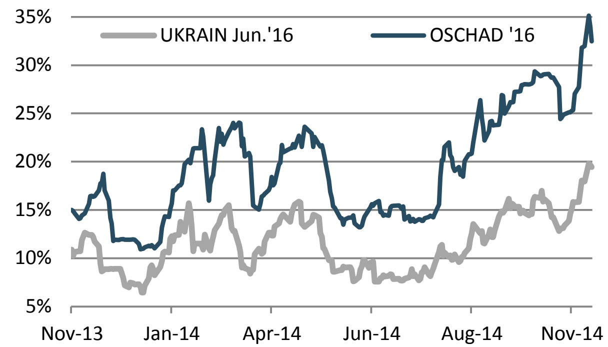
The bank looks right now to be one of the most reliable depositors in Ukraine (surely, due in large part to state support) and this image should be rewarded by the bank's bondholders. Its paper looks most safe in Ukraine's banking and quasi-sovereign universes, which warrants our bullish view. Out of the two notes, we prefer OSCHAD'16, which provides a better risk-weighted yield.

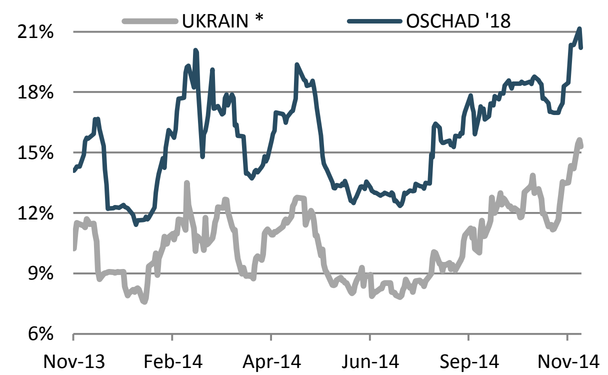
	OSCHAD 16	OSCHAD 18
Outstanding, USD mln	700	500
Maturity	Mar-16	Mar-18
Coupon	8.25/SA	8.88/SA
Fitch / S&P / Moody's	CCC/na/Caa3	CCC/na/Caa3

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)

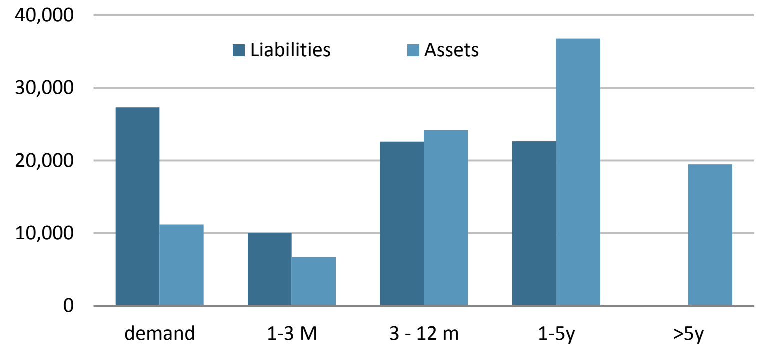
Balance Sheet, UAH mln

	1H14	2013	Chg YTD
Cash	1,446	2,186	-34%
Accounts with NBU	1,682	2,631	-36%
Accounts with other banks	6,123	7,651	-20%
Net loans	63,221	52,180	21%
- Gross loans	*77,531*	*64,270*	*21%*
- Related party loans (net)	*21,754*	*20,173*	*8%*
- Loans to Crimean entities (net)	*6,308*	*4,832*	*31%*
- Loans to Donbas entities (net)	*2,106*	*1,682*	*25%*
Securities portfolio	31,373	33,252	-6%
- Related party securities	*28,693*	*31,326*	-8%
PP&E	3,608	3,451	5%
Other assets	619	348	78%
Total assets	**108,071**	**101,699**	**6%**
NBU funding	22,726	14,732	54%
Other banks' accounts	4,072	9,346	-56%
Client accounts	43,736	46,409	-6%
- Accounts of Crimean clients	*1,819*	*n.a.*	*n.a.*
- Accounts of Donbas clients	*5,553*	*n.a.*	*n.a.*
Bonds issued	14,495	9,786	48%
Subordinated debt	1,208	840	44%
Other liabilities	3,034	1,382	120%
Total liabilities	**89,272**	**82,495**	**8%**
Equity	**18,799**	**19,204**	-2%

P&L summary, UAH mln

	1H14	1H13
Interest income	6,842	5,335
Interest costs	-3,740	-2,675
Net interest income	**3,102**	**2,660**
Net fees and commissions	611	554
ForEx operations and reval.	-1,058	20
Operating costs	**-3,171**	**-3,488**
Loan loss provisions	**-1,914**	**-1,607**
Profit before tax	316	628
Net profit	**221**	**481**

Assets and liabilities by maturity, UAH mln



Source: Bank data, Concorde Capital research

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 25% of retail accounts, as of end-3Q14. Privatbank accounts for 18% 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 77% of its deposits come from individuals, it deploys 85% of its loan portfolio to corporate clients.

Abusing its "too big to fail" status

The core concern for Privatbank is its low capitalization: its CAR (NBU) has been kept between the minimum 10% and 11% over the last three quarters (10.96% as of end-September), clearly pointing to a need for additional capital injection. Thus far, the bank's shareholders only contributed UAH 1.7 bln to its equity (in July 2014) in the form of capitalized dividends from 2013, a move that did not affect its regulatory capital. No plans to contribute more by its shareholders are apparent at the moment. Meanwhile, the bank benefits from the support of the central bank, which provided it UAH 15 bln in refinancing in 1H14.

Core assets, liabilities remain balanced, despite their heavy fluctuations in 2014

Privatbank's total assets and liabilities denominated in foreign currency fell 45% YTD, as of end-September (to the equivalent of USD 5.8 bln and USD 6.5 bln, respectively), which was the biggest decline among Ukrainian top 15 banks. This, however, did not harm quality of the bank's balance sheet much, and even improved its net short position in foreign currency to USD 0.6 bln as of end-3Q14, down from USD 1.1 bln as of end-2013, we estimate. At least, this suggests the bank remains efficient in matching its foreign assets and liabilities, however big their fluctuations are.

The bank lost 15% of its hryvnia deposits and 28% of its foreign currency deposits in 9M14, which is another cause for concern. However, by reducing net loans over the period, the bank kept its loan/deposit ratio nearly unchanged YTD at 1.1x, as of end-September.

Eurobonds are a minor portion of its balance sheet

All of Privatbank's outstanding Eurobonds account for 2.7% of the bank's total liabilities and 5.8% of its foreign currency liabilities, as of end-September. The nearest Eurobond, maturing in September 2015, accounts for 3.1% of its foreign currency liabilities. The notes' comparable size is too small to affect the bank's business much.

View on the nearest Eurobond: smooth repayment is the base case, bullish on its shorter bond

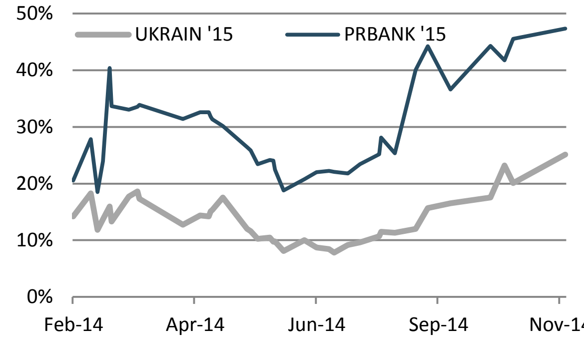
Although the bank has a reputation for being aggressive with its counterparts inside Ukraine, Privatbank is trying to maintain a good image internationally. It's making all its external repayments on time, perhaps because it's considering an IPO abroad. This, as well as the minor size of its Eurobond, gives us optimism on the bank repaying it on time. For this reason, we recommend considering investing in PRBANK'15 notes, which currently yield 47% to their maturity. Its longer Eurobond looks fairly priced.

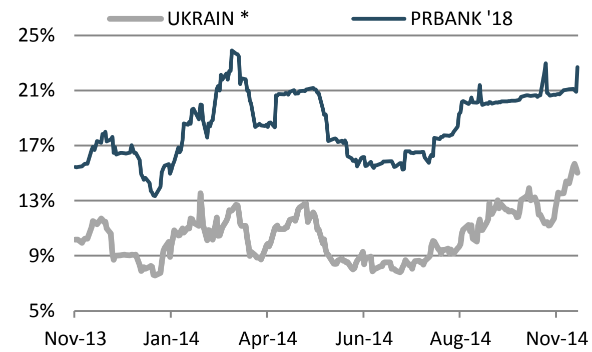
	PRBANK 15	PRBANK 18
Outstanding, USD mln	200	175
Maturity	Sep-15	Feb-18
Coupon	9.38/SA	10.88/SA
Fitch / S&P / Moody's	CCC/na/Caa3	CCC/na/Caa3

Ownership structure

Igor Kolomoiskiy	45.1%
Hennadiy Bogolyubov	45.1%
Other	9.8%

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, local accounting standards

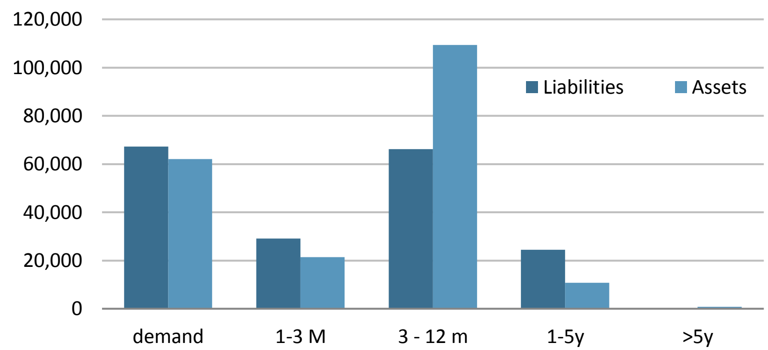
Balance Sheet, UAH mln

	9M14	2013	Chg YTD
Cash	17,112	32,157	-47%
Accounts with NBU	2	1,566	-100%
Accounts with other banks	16,015	3,486	359%
Net loans	150,443	142,548	6%
- *Gross loans*	172,916	166,259	4%
- *Foreign currency loans (net)*	*42,953*	*28,863*	*-8%**
- *UAH loans (net)*	*107,490*	*113,685*	*-5%*
Other financial asset	13,175	29,829	-56%
PP&E	2,737	2,737	0%
Other assets	2,416	2,168	11%
Total assets	**166,407**	**209,003**	**-6%**
Total foreign currency assets	***75,379***	***84,895***	***-45%****
Bank accounts	19,116	8,897	115%
Client accounts	131,715	133,551	-1%
- *Foreign currency accounts*	*67,106*	*57,281*	*-28%**
- *UAH accounts*	*64,609*	*76,270*	*-15%*
Subordinated debt	4,572	3,358	36%
Other financial liabilities	11,555	36,969	-69%
Other liabilities	13,955	11,404	23%
Total liabilities	**180,952**	**194,179**	**-7%**
Total foreign currency liabilities	***83,626***	***93,671***	***-45%****
Equity	**20,497**	**20,312**	**3%**
CAR	***10.96%***	***10.70%***	***+0.26pp***

P&L summary, UAH mln

	9M14	9M13
Interest income	21,225	16,189
Interest costs	-13,534	-9,938
Net interest income	**7,691**	**6,251**
Net fees and commissions	2,020	1,725
Operating costs	**-5,828**	**-4,724**
Loan loss provisions	**-2,665**	**-1,368**
Profit before tax	582	1,989
Net profit	**427**	**1,732**

Assets and liabilities by maturity, end-2013, UAH mln



** Change in USD equivalent*
Source: Bank data, Concorde Capital research

PUMB (First Ukrainian International Bank)

Bank profile
PUMB is ranked ninth by assets in Ukraine as of end-September 2014. 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 its consolidated loan portfolio) and corporate accounts (52% of its 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, about 20% of deposits). PUMB employs the best quality investor relations standards among Ukrainian banking issuers, according to our research.

2014 note restructuring as a measure to withstand possible 2015 hardships
PUMB has offered to restructure its 2014 Eurobonds as it sees that a USD 45 mln (out of a total USD 252 mln) repayment will enable it to maintain enough of a safety cushion to endure possible hardships in 2015. According to management, that will enable the bank to smoothly repay its dollar deposits in 2015 (about USD 10 mln per month) and use 2016 to prepare for a smooth repayment of the postponed portion of its Eurobond.

Our view on the offer
PUMB has offered an exchange of its notes for a mix of cash and new four-year amortizing notes. In its updated offer of Nov. 19, it promises a cash down payment of USD 45 mln, distributable between note holders who agree to the restructuring by a Dec. 1 deadline. If the new offer is approved by the shareholder meeting, the Eurobond will retain its 11% coupon rate paid quarterly and would amortize by USD 10 mln (or about 4%) on Dec. 31, 2015, and then in ten equal quarterly installments between Sept. 30, 2016 and Dec. 31, 2018. PUMB also seeks to receive consent to decrease the covenant on its Basel CAR floor to 12.5% from 15.0% (the ratio was 18.1% as of end-3Q14). Meeting of bond holders to consider the offer is scheduled for Dec. 4, 2014.

Given the specifics of the offer (it will be binding for everybody if approved by the majority of bondholders), it is more beneficial to accept it before the early deadline (Dec. 1). We also note that PUMB has enough time and reserved liquidity to offer better restructuring conditions if the second offer was rejected.

High exposure to Donbas
The Donetsk region is core for PUMB – more than 30% of its outlets were located there, as of end-1H14. The president's Nov. 15 decree ordering the NBU to consider a moratorium on all the operations of Ukrainian banks in the occupied territory may be painful for the bank's P&L. At the same time, stoppage of PUMB's operations in the occupied part of Donbas will only add to its stability, we believe. A lot of its outlets located in the occupied territory have already been closed, and some of its operating outlets still suffer from terrorist attacks.

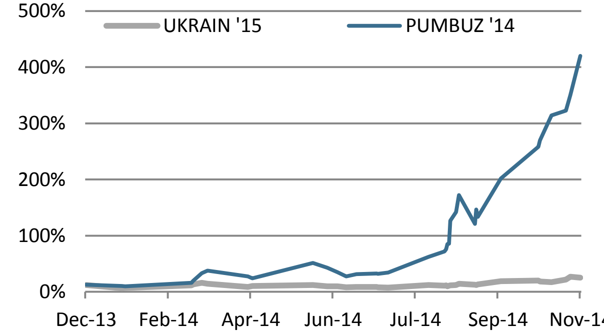
Related parties allowed PUMB deposits to remain stable in 2014
The bank reported one of the most moderate declines in deposits in 9M14 among Ukrainian banks: hard currency deposits fell just 11% YTD in 9M14 (in USD terms), compared to the sector's decline of 31% YTD. The better-than-industry result was secured mostly with a 34% YTD increase in corporate deposits in foreign currency, which the bank attributed to the reallocation of deposits of related holdings (Metinvest, DTEK) to PUMB from other banks. Such a reallocation should not be considered exclusively as financial aid to the bank – corporations seem to feel safer when allocating funds with a related bank, given the current uncertainties in Ukraine's banking sector. At the same time, increased dependence on related parties, some of whom are not in the best shape right now, is also a risk for the bank.

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

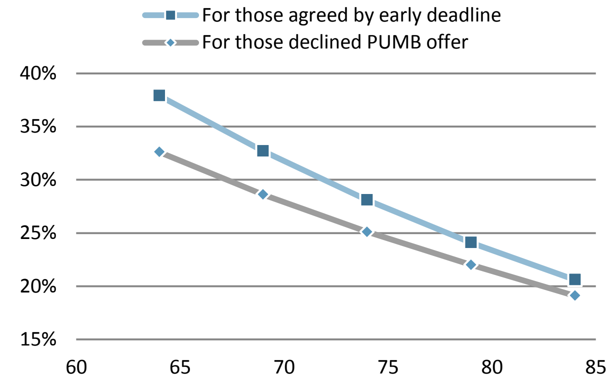
Ownership structure

SCM (Rinat Akhmetov)	99.9%

Mid-YTM



YTM depending on price, assuming restructuring approved



Source: Bloomberg, bank data, Concorde Capital research

PUMB, continued

Proud to need no recapitalization, or has no ability to get it?
The bank is proud that the stress-testing performed by the central bank (NBU) last summer revealed no recapitalization needs. At the same time, we have to stress that reality appeared to be worse than some assumptions of the worst-case scenario made by the NBU in the testing (in particular, the exchange rate was assumed to be about UAH 13/USD), meaning that the bank might demand some capital contributions should the situation in Ukraine fail to improve in the next year. Thus far, we see no willingness of SCM, PUMB's shareholder, to contribute anything, as can be seen from PUMB's offer to current bondholders to reduce the minimum Basel CAR requirement to 10% from 15%.

In the current circumstances, the lack of willingness of shareholders to help the bank should be considered as another risk, we believe. At the same time, we admit that most of the owners of other banks in Ukraine have the same position, given the lack of confidence in NBU policies and the general risks related to investing in Ukrainian equities.

View on the bank's bond: restructuring to make it the best-yielding corporate bond maturing in 2018
In buying the 2014 bond (at 69% of par) and then approving the restructuring offer by the Dec.1 early deadline, investors can generate at least 35.6% in IRR to the bond's maturity. Given the bank's good shape, as to the Ukrainian banking system, we see this as a bargain deal. To compare, the 2018 bonds of state banks offer YTMs of 20% at the moment, while the 2018 bonds of related DTEK and Metinvest offer 24%-27% YTM currently.

For the note holders, we recommend approving the offer by the deadline to be eligible to participate in the distribution of USD 45 mln in a total cash down payment. Still, we do not rule out that the bank will have to offer even more restructuring terms, as compared to what it has already done.

Source: Bank data, Concorde Capital research

PUMB financial summary (IFRS)

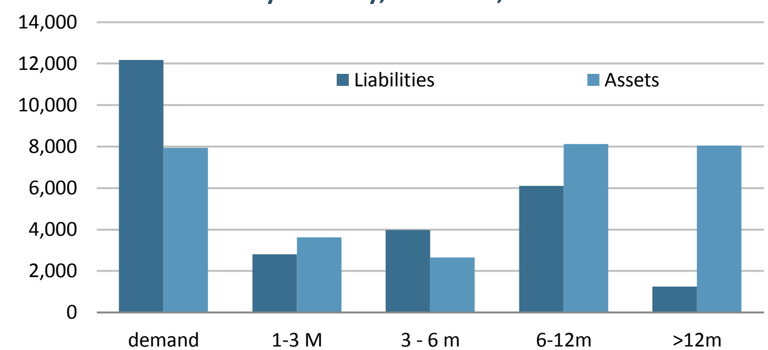
Balance Sheet, UAH mln

	9M14	2013	Chg YTD
Cash	1,406	1,337	5%
Accounts with NBU	2,037	1,611	26%
Accounts with other banks	4,348	2,122	105%
Net loans	26,603	21,863	22%
Securities portfolio	2,996	2,890	4%
PP&E	1,240	1,247	-1%
Other assets	750	1,089	-31%
Total assets	**39,380**	**32,159**	**22%**
NBU funding	1,409	1,063	33%
Other banks' accounts	1,008	1,353	-25%
Client accounts	27,404	21,068	30%
- Retail accounts in foreign currency	6,719	5,858	-29%*
Eurobnds issued	3,245	1,989	63%
Subordinated debt	485	529	-8%
Other liabilities	3,034	1,382	120%
Total liabilities	**33,960**	**26,587**	**28%**
Equity	**5,420**	**5,572**	**-3%**
CAR (Basel)	**18.1%**	**21.0%**	**-2.9pp**

P&L summary, UAH mln

	9M14	9MH13
Interest income	3,639	2,552
Interest costs	-1,855	-1,404
Net interest income	**1,784**	**1,148**
Net fees and commissions	586	605
ForEx operations and reval.	735	33
Operating costs	**-1,124**	**-1,009**
Loan loss provisions	**-2,139**	**-340**
Profit before tax	-239	513
Net profit	**-212**	**410**

Assets and liabilities by maturity, end-2013, UAH mln



** Change in USD equivalent*
Source: Bank data, Concorde Capital research

Ukreximbank (Ukrainian State Export-Import Bank)

Bank profile

Ukreximbank is the second biggest by assets in Ukraine, as of end-September. 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 biggest holder of corporate accounts (19% of the sector's total) and ForEx corporate accounts in Ukraine (21% of the sector's total). It is also the biggest holder of local state bonds.

Radical increase in securities portfolio in 3Q14 prompts higher exposure to state debt

Ukreximbank reported an astonishing increase in its securities portfolio in 3Q14 of 43% qoq and 66% YTD, which may mean the bank recently took a leading role in financing the government's debt. The total amount of securities held as of end-September was UAH 57.3 bln, or 44% of the bank's total assets (up from 37% as of end-2013). The bank's lending activity decreased in 9M14, with foreign currency loans having fallen 12% YTD and UAH loans decreasing 5% YTD as of end-September.

Liquidity remains solid as deposit portfolio improves

The bank's deposit base in the local currency increased 2.2x YTD to UAH 40.2 bln as of end-September. This enabled the bank to improve its liquidity ratio from 55% as of end-2013 to 103% as of end-3Q14. Most of the deposit base increase (UAH 22.6 bln) came in 3Q14, in the form of increased current corporate deposits. Interestingly, out of a UAH 27.1 bln increase in UAH-denominated corporate current accounts for the banking system in 9M14, UAH 24.1 bln were attracted by Ukreximbank. We suspect this was help from the state, which might have ordered state enterprises to allocate their funds with the bank.

Low exposure to Donbas prompts little political risks

The bank reported that its total loan portfolio in the three biggest cities of the Donbas region – Donetsk, Luhansk and Mariupol – amounted to UAH 1.2 bln, or 2.3% of its net loan portfolio, as of end-1H14. This amount was smaller than UAH 2.4 bln in deposits attracted in these cities, suggesting the bank wouldn't incur additional losses in case Donbas is cut off from Ukraine's banking system. At the same time, the bank did not disclose its assets and liabilities structure that it left behind in Crimea. A lot could have been lost, judging from the data of related Oschadbank.

Recapitalization prospects are unclear

Unlike related Oschadbank, which is actively seeking recapitalization by the state, the prospects for Ukreximbank to get any state recapitalization are unclear right now. The bank's CAR remains above 24% as of end-3Q14, despite UAH 9 bln in write-offs into loan loss provisions in 9M14.

Foreign currency deposits, assets shrink in 9M14

The bank lost 14% of its foreign currency deposits and total assets in 9M14, YTD. To repay USD 750 mln in Eurobonds in April 2015, the bank will have to reduce its foreign currency assets by another 16%, which might be painful for the bank. At the same time, the bank seems to be ready for the repayment: its end-September cash (a lot of which might be in foreign currency) was equivalent to USD 1.1 bln.

Our view on Ukreximbank bonds: shorter bond looks underpriced

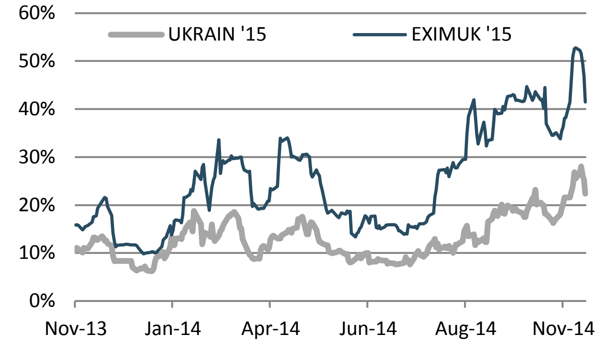
Given the bank's solid cash position, as well as imminent state support, we see a very high probability that Ukreximbank will smoothly repay its nearest bond, maturing in April 2015. Thus, we see that the bank's 1900 bps spread to the sovereign curve (which is related to nearly the same risk profile) makes its paper attractive.

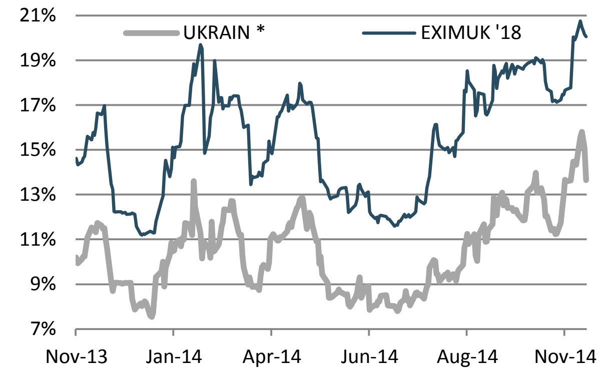
	EXIMUK 15	EXIMUK 18
Outstanding, USD mln	750	600
Maturity	Apr-15	Jan-18
Coupon	8.38/SA	8.75/SA
Fitch / S&P / Moody's	CCC/na/Caa3	CCC/na/Caa3

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, local accounting standards

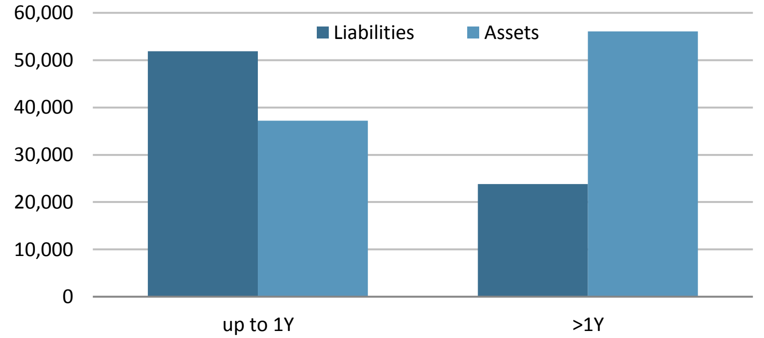
Balance Sheet, UAH mln

	9M14	2013	Chg YTD
Cash	14,447	7,223	100%
Accounts with NBU	0	741	-100%
Accounts with other banks	1,087	1,930	-44%
Net loans	51,088	42,274	21%
- Gross loans	*67,892*	*51,307*	*32%*
- Foreign currency loans (net)	*32,849*	*23,022*	*-12%**
Securities portfolio	57,303	34,489	66%
PP&E	2,252	2,288	-2%
Other assets	5,350	5,298	1%
Total assets	**131,527**	**94,243**	**40%**
Total foreign currency assets	***59,790***	***43,105***	***-14%****
Bank accounts	11,375	12,286	-7%
Client accounts	74,025	42,970	72%
- Foreign currency accounts	*33,840*	*24,421*	*-14%**
- UAH accounts	*40,185*	*18,729*	*-115%*
Subordinated debt	4,860	3,063	59%
Other financial liabilities	27,049	17,636	53%
Other liabilities	248	203	22%
Total liabilities	**117,557**	**76,158**	**54%**
Total foreign currency liabilities	***69,626***	***46,654***	***-8%****
Equity	**13,971**	**18,085**	**-23%**
CAR	***24.6%***	***29.2%***	***-4.6pp***

P&L summary, UAH mln

	9M14	9M13
Interest income	8,573	6,704
Interest costs	-5,451	-3,810
Net interest income	**3,122**	**2,894**
Net fees and commissions	414	380
Operating costs	**-1,172**	**-914**
Loan loss provisions	**-9,049**	**-2,095**
Profit before tax	-3,940	224
Net profit	**-3,951**	**139**

Assets and liabilities by maturity, end-2013, UAH mln



** Change in USD equivalent*
Source: Bank data, Concorde Capital research

VAB Bank

Bank profile

VAB Bank is the 15th largest by assets in Ukraine, as of end-September 2014 (improving from 18th place in March 2013). The bank lends mostly to commercial clients (96% of loans outstanding), while it collects mostly retail deposits (74% of its total). The bank's low-quality loan portfolio has made it redirect all its net interest income into loan loss provisions in the previous years, keeping VAB 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 of his reputation. In the last two years, Bakhmatyuk contributed UAH 2.9 bln to the bank's equity to keep it compliant with minimum capital requirements.

Officially insolvent bank

The NBU officially recognized VAB Bank as insolvent on Nov. 20 and initiated the introduction of an external administration. This development adds even more risk that the bank won't be able to service its Eurobond.

June 2014 Eurobond restructured on the second attempt

The bank failed to repay it only Eurobond, which matured on June 14, 2014. With a second attempt on July 1, it got the consent of bondholders to restructure it for five more years, under the following conditions:

- Its quarterly coupon rate, previously being 10.5%, changed to 9.0% between June 2014 and June 2015 and 10.9% between June 2015 and June 2019;
- The new bond is amortized by 5% of par during the 15 quarters between June 2015 and December 2018, then by 10% of par on March 14 , with the remaining 15% repayable on June 14, 2019. (In its first offer, VAB Bank proposed amortizati of 18% in each of the five quarterly installments between March 2018 and March 2019; and then pay the remaining 10 on June 14, 2019);

Notably, after the deal was approved, in late July the bank completed an equity increase of UAH 1.0 bln, the amount that wou have been enough to repay its USD 87 mln Eurobond. To us, this was a clear indication that Bakhmatyuk was not willing to rep the bond on any condition.

A relaxed repayment schedule did not help

The much more relaxed repayment schedule of a new Eurobond (with no more than USD 7 mln repayable in each of the next quarters until end-2018) clearly added optimism for smooth repayments in the future. However, a recent failed coupon payment (USD 2.0 mln due on Sept. 14, 2014) prompted a huge liquidity crisis in the bank, making its bond investment story highly risky.

Ukraine's biggest lender in 9M14, despite all its troubles

VAB Bank demonstrated the most growth among the gross loan portfolios of the nation's top 40 banks (+61%), as well as the 7th biggest increase in gross loan portfolio (of the entire banking system) in the absolute amount – and that's despite all the hardships the bank is reportedly experiencing. As VAB Bank did not create any loan loss provisions in 9M14, it also reported the biggest increase in net loan portfolio among all the nation's banks in 9M14, which raises questions the quality of its reporting and solvency.

New capital injection plan has suspended

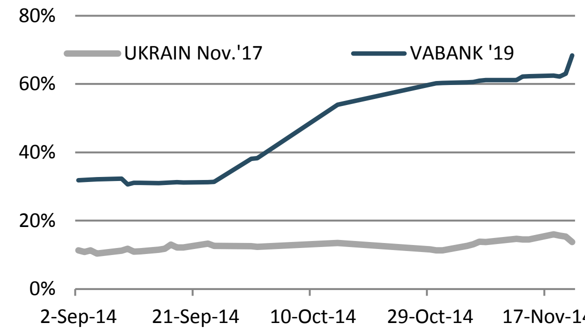
The bank's shareholders failed to convene an EGM on Nov. 17, which was aimed at considering a capital increase by up to UAH 7.0 bln. A capital injection of at least UAH 2.5-3.0 bln was earlier announced by Bakhmatyuk, who also invited the central bank to participate. The bank's key parameters, as of end-3Q14, were on the verge of dipping below the waterline: its CAR was 10.7% (vs. a bottom level of 10.0%) and its liquidity ratio was 57% (vs. a bottom level of 40%).

	VABANK 19
Outstanding, USD mln	88
Maturity	Jun-19
Amortization	5% / Quart since Jun'15; 10% in Mar'19
Coupon	9.0%/Quart in 1st year; 10.5%/Quart since Jun'15
Fitch / S&P / Moody's	WD / na / WR

Ownership structure

Oleg Bakhmatyuk	90%
Other	10%

YTM



View on VAB bonds: very risky

As the recent postponement of its coupon payment indicated, the bank is unable to smoothly pay even small dollar bills at the moment. Without an additional capital contribution, the prospects of which are unclear now, VABANK paper bears a high risk of default, we believe.

Source: Bloomberg, bank data

CONCORDE CAPITAL

VAB Bank financial summary, local accounting standards

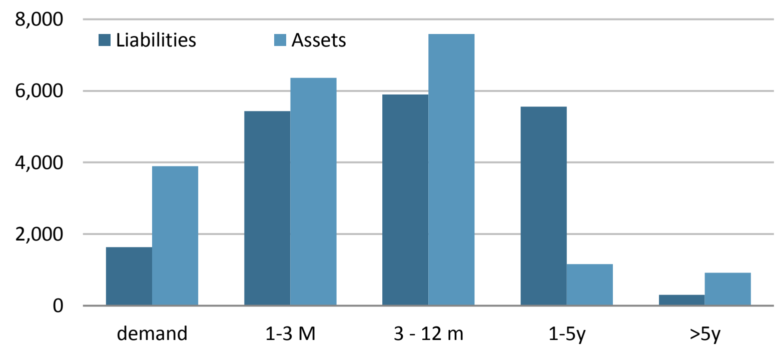
Balance Sheet, UAH mln

	9M14	2013	Chg YTD
Cash	800	2,587	-69%
Accounts with NBU	0	122	-100%
Accounts with other banks	10	1,046	-99%
Net loans	18,887	11,559	63%
- Gross loans	*19,771*	*12,281*	*61%*
- ForEx loans (net)	*5,654*	*3,310*	*5%**
Securities portfolio	2,911	640	355%
Other financial assets	125	3,852	-97%
PP&E	218	219	0%
Other assets	1,022	1,036	-1%
Total assets	**23,973**	**21,061**	**14%**
Total foreign currency assets	***6,400***	***8,770***	***-55%****
Bank deposists	4,319	1,428	202%
Client accounts	14,009	12,579	11%
- Foreign currency accounts	*4,598*	*3,491*	*-19%**
- UAH accounts	*9,411*	*9,088*	*4%*
Subordinated debt	613	382	60%
Other financial labilities	381	3,812	-90%
Other liabilities	1,778	758	135%
Total liabilities	**21,100**	**18,959**	**11%**
Total foreign currency liabilities	***6,961***	***9,347***	***-54%****
Equity	**2,873**	**2,102**	**37%**
CAR	***10.7%***	***10.9%***	***-0.2pp***

P&L summary, UAH mln

	9M14	9M13
Interest income	1,940	1,243
Interest costs	-1,703	-1,127
Net interest income	**237**	**117**
Net fees and commissions	165	251
Operating costs	**-430**	**-420**
Loan loss provisions	**-9**	**-390**
Profit before tax	69	-333
Net profit	**2**	**-232**

Assets and liabilities by maturity, end-2013, UAH mln



** Change in USD equivalent*
Source: Bank data, Concorde Capital research

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Contacts

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

CEO
Igor Mazepa im@concorde.com.ua

SALES & TRADING

Alexandra Kushnir	ak@concorde-group.eu
Marina Martirosyan	mm@concorde.com.ua
Yuri Tovstenko	ytovstenko@concorde.com.ua
Alisa Tykhomirova	at@concorde.com.ua

RESEARCH

Head of Research	
Alexander Paraschiy	ap@concorde.com.ua
Macro, Utilities, Financial, Consumer	
Alexander Paraschiy	ap@concorde.com.ua
Basic Materials, Consumer	
Roman Topolyuk	rt@concorde.com.ua
Editor, Politics	
Zenon Zawada	zzawada@concorde.com.ua