



Focus
Ukraine

Scope
Economics, bonds, equity & FX markets

Research team
Alexander Valchyshen

Daily Insight

Industrial production plummets in August

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FRIDAY, 19 SEPTEMBER 2014

UX Index (3 months to 19 Sep 2014)



Source: UX.

Key market indicators (as of 18 Sep 2014)

	Last	Daily chg (%)	YTD chg (%)
FX & MONEY RATES			
USD/UAH	12.8500	+0.00	+55.95
USD/UAH (1Y NDF)	16.3500	+0.00	+73.57
EUR/USD	1.2923	+0.45	-5.97
USD/RUB	38.4719	+0.26	+17.04
KievPRIME O/N (%)	8.25	+0bp	+45bp
KievPRIME 1M (%)	15.75	+0bp	-50bp
SOVEREIGN EUROBONDS: yields and spreads			
Ukraine 15, Eurobond (%)	17.92	-238bp	+957bp
Ukraine 17, Eurobond (%)	13.94	-73bp	+438bp
Ukraine 22, Eurobond (%)	10.35	-23bp	+100bp
Ukraine 23, Eurobond (%)	10.32	-18bp	+127bp
Ukraine 5Y CDS	1,232bp	+1bp	+415bp
EQUITIES			
Stock market indices			
UX (Ukraine)	1,044.21	-1.25	+14.74
MSCI World	428.84	+0.32	+4.97
MSCI EM	1,056.37	-0.57	+5.35
RTS (Russia)	1,187.24	-0.24	-17.71
WIG-20 (Poland)	2,503.16	-0.48	+4.26
S&P 500 (USA)	2,011.36	+0.49	+8.82

Notes: Chg – percentage change, if not otherwise indicated; [1] – total traded volume for stocks listed in green- or red-shaded box means gain or loss, respectively, of the index or security.

Sources: Bloomberg, UX, Investment Capital Ukraine LLC.

Economics: News & Comments

Industrial production plummets in August

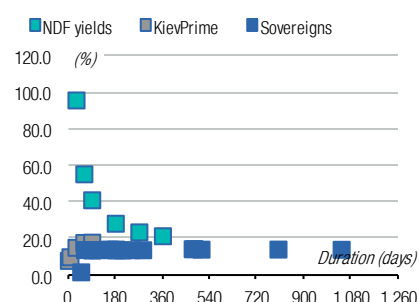
Because of the war in Donbass, particularly in the Luhansk and Donetsk oblasts, industrial production in August sharply contracted 85.0% MoM and 58.7% YoY. Excluding annexed Crimea, the national industrial production index declined 21.4% YoY. The most severe contraction occurred in the energy subsector, down 31.7% YoY due to coal mining stoppages in areas under pro-Kremlin militant control. Capital goods declined 33.2%. While overall industrial production dropped 21.4% last month in Ukraine, consumer goods production (namely food production) decreased less dramatically by 1.5% YoY. By geography, the Odessa and Kherson oblasts increased 8.5% and 4.7%, respectively. Overall, industrial production is likely to decline 14-15% this year.

Alexander Valchyshen, Kiev, +38044 2200120 ext.721

Bonds: News & Comments

Yield curve of the local bond market

(as of market close on 18 Sep 2014)



Sources: Bloomberg, Investment Capital Ukraine LLC.

Bond market indicators (as of 18 Sep 2014)

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)

MONEY MARKET KIEV PRIME RATES (%)

O/n	8.25	+0bp	-35bp	+215bp	+45bp
1wk	10.31	+0bp	-14bp	+51bp	+51bp
1m	15.75	+0bp	+35bp	+65bp	-50bp
2m	18.00	+0bp	+0bp	+0bp	+160bp
3m	18.00	+0bp	+0bp	+0bp	+200bp

LIQUIDITY WIDE MEASUREMENT (UAHm)

CB acc's ¹	32,897	-1.25	+6.02	+24.38	+0.60
CDs ²	8,582	-40.36	-32.41	-35.39	+1,117.3
Sovgns ³	6,419	+0.00	+4.98	+49.85	+329.3
Total	47,897	-11.50	-3.90	+8.82	+37.23

HOLDERS OF UAH SOVEREIGN BONDS (UAHm)

C.bank	241,320	+0.00	+0.25	+23.88	+66.60
Banks	87,373	+0.41	+0.15	-1.71	+8.99
Resid's ⁴	38,131	-0.02	-0.68	-33.05	+207.6
Non-res ⁵	19,702	+0.56	+0.83	-1.27	+68.41
Total	386,526	+0.12	+0.16	+7.19	+55.16

NDF IMPLIED YIELDS (%)

3m	N/A	N/A	N/A	N/A	N/A
6m	N/A	N/A	N/A	N/A	N/A
9m	N/A	N/A	N/A	N/A	N/A
1yr	N/A	N/A	N/A	N/A	N/A

LOCAL CURRENCY UAH SOVEREIGN BOND YIELDS (%)

Mar '13	N/A	-52ppt	+0bp	+0bp	+0bp
Jan '14	N/A	+320bp	+0bp	+0bp	-676bp
Aug '15 ⁶	N/A	+542bp	+0bp	+542bp	-81ppt

EUROBONDS USD SOVEREIGN BOND YIELDS (%)

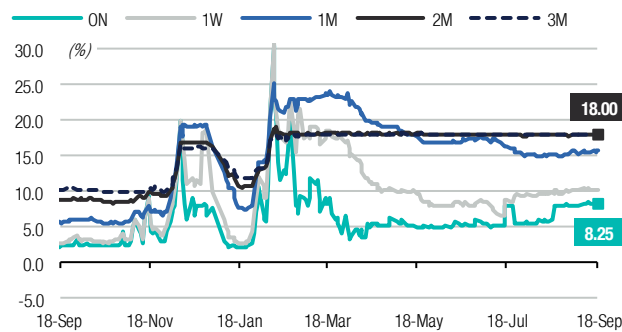
CDS 5yr	1,232	+1bp	+198bp	+282bp	+415bp
Jun '16	14.89	-74bp	+269bp	+503bp	+600bp
Jul '17	13.94	-73bp	+192bp	+405bp	+438bp
Sep '20	10.80	-32bp	+82bp	+125bp	+161bp
Sep '21	10.84	-18bp	+77bp	+126bp	+162bp
Sep '22	10.35	-23bp	+45bp	+116bp	+100bp
Feb '23	10.32	-18bp	+47bp	+120bp	+127bp

Notes: [1] banks' account balance at NBU; [2] certificates of deposits issued by NBU; [3] UAH sovereign bonds due next 30 days; [4] residents; [5] non-residents; [6] VAT bond.

Sources: Bloomberg, Investment Capital Ukraine LLC.

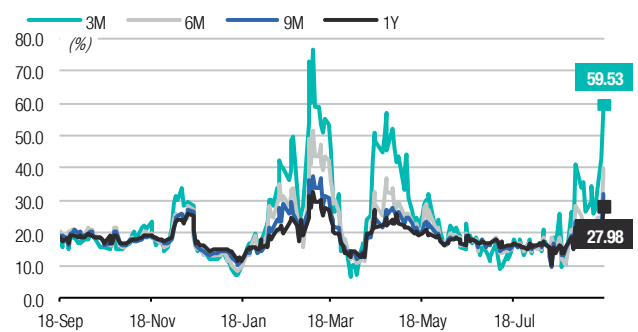
Chart page: Local bond market & Eurobond markets

Chart 1. Kiev Prime rates (%), last 12-month period



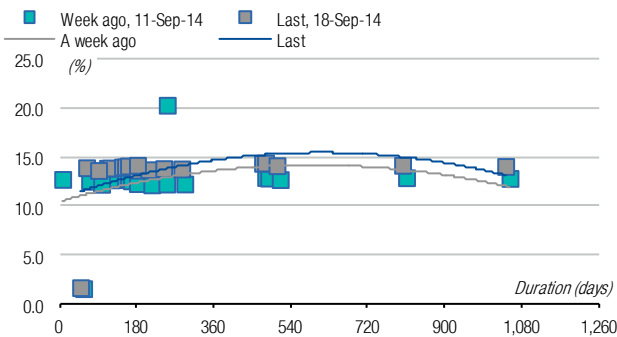
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 2. UAH NDF implied yields (%), last 12-month period



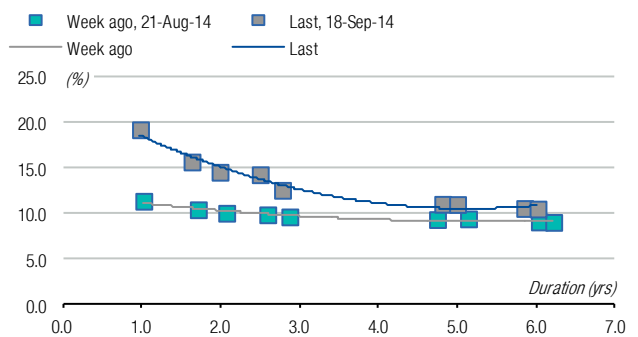
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 3. UAH sovereign yield curve (%) as of 18 Sep 2014



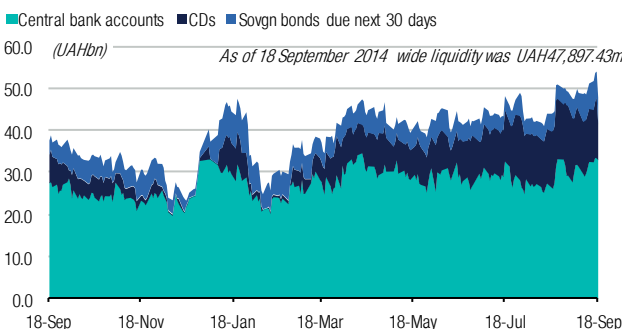
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 4. USD sovereign yield curve (%) as of 18 Sep 2014



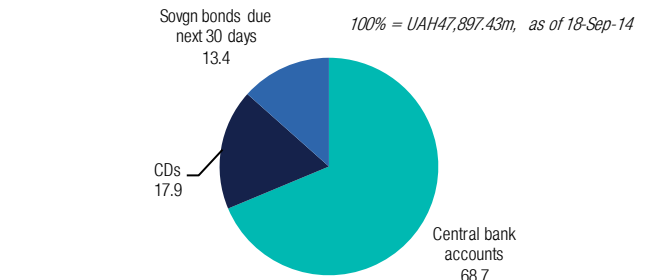
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 5. Banking sector liquidity (UAHbn), last 12-month period



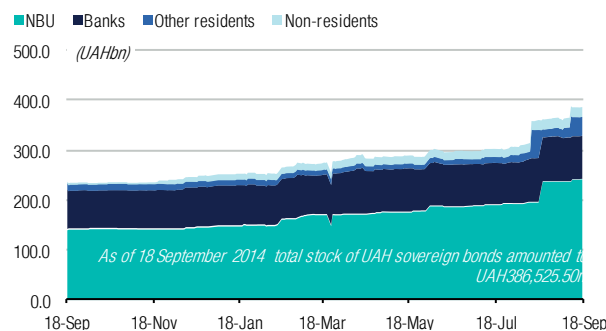
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 6. Breakdown of liquidity pool (%) as of 18 Sep 2014



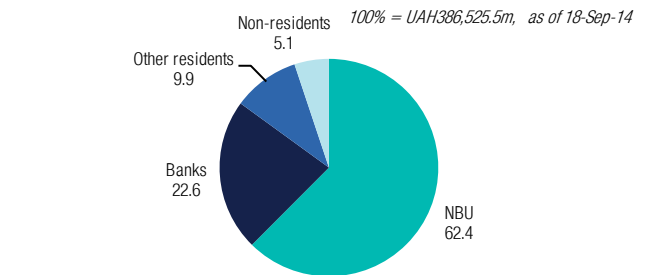
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 7. Holders of sovereign bonds (UAHbn), last 12 months



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 8. Domestic sovereign debt (%) as of 18 Sep 2014



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Table 1. Ukrainian stocks (closing prices as of 18-Sep-2014)

Company	Bloomberg Ticker	Listing	Share price performance (% change)				Valuation (US\$)			Free float (FF) & Liquidity					P/E			EV/EBITDA			EV/Sales			Ratios			
			Last price	Daily	MoM	YTD	YoY	Last price	Market cap (m)	EV (m)	FF (%)	FF mkt cap (US\$m)	Last day turnover (US\$ 000)	3M avg. turnover (US\$ 000)	FF share traded (%)	FF turnover (days)	2013	2014E	2014E	2013	2014E	2014E	2013	2014E	2014E	P/B (x)	Debt/Assets (%)
ENERGY																											
Cadogan Petrol...	CAD LN	London	11.75 GBp	+0.0	+1.1	+13.3	-27.1	0.19	44.7	-18.4	40.2	18.0	0.0	30.8	0.24	417	Neg.	Neg.	Neg.	2.8	N/A	N/A	Neg.	Neg.	Neg.	0.2	0.0
Centrenerg	CEEN UK	Kiev, UX	7.13 UAH	+0.0	-12.1	+49.4	+39.6	0.50	184.1	228.4	21.7	40.0	95.0	254.9	0.14	729	5.4	4.8	7.1	0.4	3.8	3.8	0.4	0.3	0.3	1.1	12.2
Coal Energy	CLE PW	Warsaw	0.89 PLN	+2.3	-5.3	-15.2	-67.2	0.27	12.3	138.2	25.0	3.1	1.3	48.0	4.07	25	Neg.	N/A	N/A	6.1	N/A	N/A	1.1	N/A	N/A	0.1	39.8
Donbasenergo	DOEN UK	Kiev, UX	26.30 UAH	+0.0	-34.3	-4.7	+18.7	1.84	43.5	76.7	14.2	6.2	1.2	31.0	0.22	461	1.2	1.1	1.2	0.3	1.4	1.1	0.2	0.2	0.2	0.9	17.8
JXK Oil & Gas	JXK LN	London	43.50 GBp	-0.6	-2.2	-39.2	-34.1	0.72	122.9	128.0	47.2	58.0	3.6	32.8	0.03	3,727	18.9	20.5	3.7	1.9	2.4	2.0	0.7	0.8	0.7	0.3	5.5
Regal Petroleum	RPT LN	London	9.00 GBp	+0.0	+63.6	-30.8	-39.0	0.15	47.5	20.6	80.9	38.4	1.5	11.5	0.03	3,201	Neg.	23.7	N/A	0.9	0.8	N/A	0.6	0.5	N/A	0.2	0.0
Zakhidenergo	ZAEN UK	Kiev, PFTS	127.90 UAH	+0.0	-2.4	+41.5	+52.3	8.94	114.4	95.8	5.0	5.7	0.0	2.3	0.01	11,385	2.8	N/A	N/A	0.6	N/A	N/A	0.1	N/A	N/A	3.2	0.0
METALLURGY																											
Alchevsky Meta...	ALMK UK	Kiev, UX	0.02 UAH	+0.0	-31.3	-38.7	-38.5	0.00	42.9	1,024.6	3.9	1.7	5.8	15.4	0.29	341	Neg.	Neg.	N/A	N/A	Neg.	N/A	1.0	0.6	N/A	N/A	64.5
Avdiyivsky Cok...	AVDK UK	Kiev, UX	2.30 UAH	+0.0	-21.7	-22.3	-27.8	0.16	31.4	28.8	4.0	1.3	12.6	13.5	0.67	149	Neg.	224.3	0.6	Neg.	0.6	0.3	0.1	0.0	0.0	0.1	0.0
Azovstal	AZST UK	Kiev, UX	0.59 UAH	+0.0	-34.4	-12.5	-5.8	0.04	172.3	166.4	4.1	7.1	3.4	8.6	0.13	757	Neg.	N/A	Neg.	Neg.	N/A	5.0	0.1	N/A	0.1	0.2	0.0
Ferrexpo PLC	FXPO LN	London	132.20 GBp	+2.5	-4.8	-28.9	-27.1	2.17	1,280.1	1,482.5	22.4	286.7	23.2	1,400.2	0.39	256	4.9	4.6	8.0	3.0	2.9	4.1	0.9	1.0	1.0	1.2	35.1
Yasynivsky Cok...	YASK UK	Kiev, UX	0.47 UAH	+0.0	-32.1	-10.9	-15.0	0.03	9.0	10.0	9.0	0.8	0.0	4.4	1.07	93	Neg.	0.9	0.5	0.0	0.4	0.3	0.1	0.0	0.0	0.1	0.1
Yenakievo Steel	ENMZ UK	Kiev, UX	25.00 UAH	+0.0	-39.6	-21.9	-25.4	1.75	18.4	14.8	9.4	1.7	12.4	16.3	0.36	279	3.8	N/A	Neg.	Neg.	N/A	0.5	0.0	N/A	0.0	0.6	0.0
FOOD AND AGRIBUSINESS																											
AgroGeneration	ALAGR FP	EN Paris	0.82 EUR	+1.2	-3.5	-33.9	-40.1	1.06	97.6	153.3	34.0	33.2	0.0	7.6	0.02	4,562	Neg.	N/A	N/A	Neg.	N/A	N/A	2.2	N/A	N/A	1.8	35.9
Agroliga	AGL PW	Warsaw	15.01 PLN	-5.7	-16.1	-42.1	-49.1	4.62	7.1	8.0	16.7	1.2	2.2	1.5	0.31	324	1.7	N/A	N/A	2.3	N/A	N/A	0.4	N/A	N/A	0.6	5.7
Agroton	AGT PW	Warsaw	2.14 PLN	+0.0	-7.4	+9.7	-10.8	0.66	14.3	59.6	26.2	3.7	56.8	89.5	3.68	27	Neg.	2.0	1.8	22.3	6.3	3.7	0.7	0.7	0.7	0.1	28.4
Astarta Holdin...	AST PW	Warsaw	36.70 PLN	-0.8	-3.4	-45.1	-48.4	11.29	282.3	533.4	31.0	87.6	0.8	92.9	0.07	1,520	8.5	27.4	4.3	7.0	4.2	4.7	1.1	1.1	1.1	0.8	38.2
Avangard	AVGR LI	London Intl	8.00 USD	+0.0	-15.2	-31.9	-27.3	8.00	511.0	741.9	21.7	110.9	0.0	160.7	0.16	611	2.2	3.3	2.9	2.5	3.9	4.1	1.1	1.2	1.1	0.4	17.8
IMC	IMC PW	Warsaw	8.00 PLN	+0.0	-5.3	-34.2	-47.4	2.46	77.0	228.0	23.9	18.4	65.4	42.9	0.19	533	3.0	7.7	1.7	4.2	4.2	4.1	2.0	1.2	1.2	0.5	38.7
Kernel Holding...	KER PW	Warsaw	25.22 PLN	+1.9	-6.7	-33.8	-52.4	7.76	618.3	1,525.0	58.8	363.4	3.7	1,069.9	0.38	262	5.6	18.3	4.4	5.2	6.4	4.7	0.5	0.6	0.6	0.6	30.6
KSG Agro	KSG PW	Warsaw	1.27 PLN	-1.6	-72.0	-88.3	-88.1	0.39	5.9	117.0	34.4	2.0	2.2	187.6	25.22	4	Neg.	0.5	0.3	4.4	3.0	2.4	1.6	1.2	1.1	0.4	44.0
MHP	MHPC LI	London Intl	12.65 USD	+0.0	-1.7	-25.8	-22.9	12.65	1,336.7	2,547.0	22.3	298.3	50.6	1,437.0	0.62	161	8.6	11.5	4.6	6.5	5.3	5.0	1.7	1.8	1.6	2.3	47.0
Milkiland	MLK PW	Warsaw	4.29 PLN	+0.0	-15.2	-65.7	-63.0	1.32	41.3	170.9	20.0	8.3	7.3	5.2	0.12	819	3.0	Neg.	N/A	5.2	4.4	4.9	0.4	0.4	0.4	0.2	30.8
Mriya Agrohold...	MAYA GF	Frankfurt	1.45 EUR	-0.7	-5.2	-73.1	-65.8	1.87	198.6	926.4	20.0	39.7	2.9	3.5	0.02	4,793	2.2	2.3	0.9	5.6	3.4	3.1	1.9	2.2	2.1	0.5	45.3
Ovostar Union	OVO PW	Warsaw	69.20 PLN	+0.0	-1.0	-30.8	-27.2	21.29	127.8	135.3	25.0	31.9	1.5	34.2	0.08	1,197	4.2	6.6	6.4	3.7	5.1	4.8	1.5	1.8	1.4	0.9	8.5
CONSTRUCTION																											
TMM	TR61 GF	Xetra	0.24 EUR	+0.0	+9.1	-24.3	-46.4	0.31	16.0	191.6	13.1	2.1	0.0	0.2	0.02	4,691	Neg.	N/A	N/A	Neg.	N/A	N/A	5.6	N/A	N/A	0.2	45.5
FINANCIAL SERVICES																											
Raiffeisen Ban...	BAVL UK	Kiev, UX	0.13 UAH	+0.0	-10.9	+11.6	+39.4	0.01	265.6	N/A	3.8	10.1	3.0	22.3	0.26	388	3.7	Neg.	12.9	N/A	N/A	N/A	N/A	N/A	N/A	0.5	28.3
Ukrsotsbank	USCB UK	Kiev, UX	0.15 UAH	+0.0	-15.7	-22.7	+14.0	0.01	183.9	N/A	4.5	8.2	1.1	8.9	0.01	7,230	Neg.	10.7	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.3	30.9

Notes: mln - millions; FF - free float; n/a - not available; neg. - negative; a company name (the left column of the table) is shortened to fit the column and hence in some cases is not displayed in full; *** - P/E is above 10,000x. Sources: Bloomberg, ICU.

FX: News & Comments

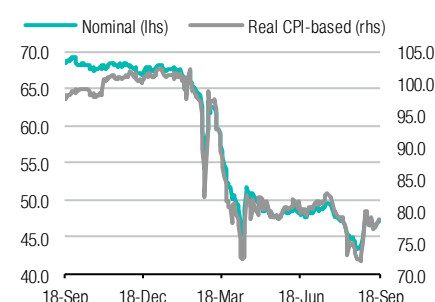
The hryvnia's weighted average rate declines further

After several days of the hryvnia's weighted average rate trading with support at 12.9/USD, it declined to a new floor of 13.50/USD, underlying market pressure from US dollar sellers.

Alexander Valchyshen, Kiev, +38044 2200120 ext.242

ICU's UAH trade-weighted indices

(Last 12-month history to 19 Sep 2014)



Source: Investment Capital Ukraine LLC.

FX market indicators (as of 18 Sep 2014)

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
USD/UAH MARKET (HRYVNIA per US DOLLAR)					
Spot mkt	12.8500	+0.00	-0.98	-1.38	+55.95
NBU avg	13.4250	+2.62	+3.46	+2.69	+64.71
Ttl vlm ¹	257.07	-34.96	-1.60	-6.99	-90.83
\$ volume ²	134.58	-48.27	-20.19	-39.63	-93.91
NDF 3M	14.8500	+0.68	+7.22	+7.03	+75.01
NDF 6M	15.4000	+0.00	+7.69	+8.26	+75.40
NDF 1Y	16.3500	+0.00	+7.57	+8.46	+73.57
TRADE-WEIGHTED INDICES (TWIs, points)					
UAH nom'l	47.189	-0.03	+1.95	+5.05	-30.13
UAH real CPI	78.620	-0.03	+1.95	+5.05	-22.21
UAH real PPI	118.409	-0.03	+1.95	+5.05	-14.68
USD nom'l	84.323	-0.03	+0.03	+3.37	+5.36
FX RATES OF KEY CURRENCIES THAT SHAPE UAH's TWIs					
USD/RUB	38.4719	+0.26	+2.52	+6.70	+17.04
EUR/USD	1.2923	+0.45	-0.02	-3.30	-5.97
USD/CNY	6.1414	+0.03	+0.18	-0.04	+1.44
USD/PLN	3.2509	-0.14	+0.11	+3.81	+7.54
USD/TRY	2.2255	+0.08	+1.11	+2.86	+3.60
USD/BYR	10,535.00	+0.05	+0.38	+1.40	+10.43
USD/KZT	181.9500	-0.01	-0.03	-0.04	+17.94
OTHER MAJOR CURRENCIES					
USD/JPY	108.6900	+0.30	+1.48	+5.97	+3.21
GBP/USD	1.6396	+0.74	+0.87	-1.98	-0.97
USD/CHF	0.9338	-0.79	-0.21	+3.01	+4.58
AUD/USD	0.8990	+0.35	-1.21	-3.59	+0.82
USD/CAD	1.0934	-0.58	-0.92	+0.43	+2.93
USD/BRL	2.3649	+0.30	+2.92	+4.76	+0.12
USD/KRW	1,043.14	+0.80	+0.69	+2.49	-0.63
COMMODITIES					
Gold(\$/oz)	1,225.20	+0.13	-1.27	-5.64	+1.62
WTI crude ³	93.07	-1.43	+0.26	-3.46	-5.44
Brent crd ³	96.44	-0.82	-1.08	-3.98	-12.98
Urals crd ³	N/A	+0.00	+0.00	+0.00	+0.00
TR/J CRB ⁴	280.94	-1.11	-0.65	-2.52	+0.27

Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#) and Bloomberg (type: ALLX UTWI <GO>).

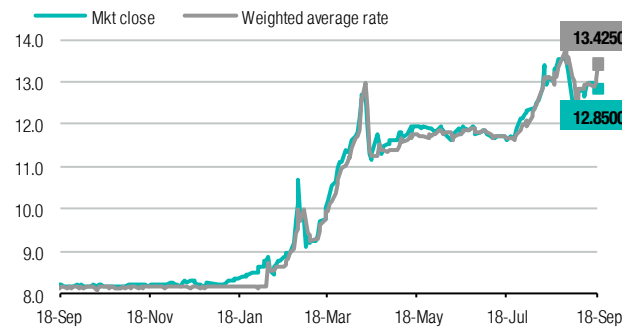
Section on FX market is continued on next page.

Notes: [1] trading volume in all foreign currencies (US\$m); [2] trading volume in the pair USD/UAH (US\$m); [3] crude oil price (USD per barrel); [4] the Thomson Reuters/Jefferies CRB Index. A green-/red-shaded box means gain or loss, respectively, of the investment into the asset. Currencies are gaining when their exchange rates strengthen versus USD.

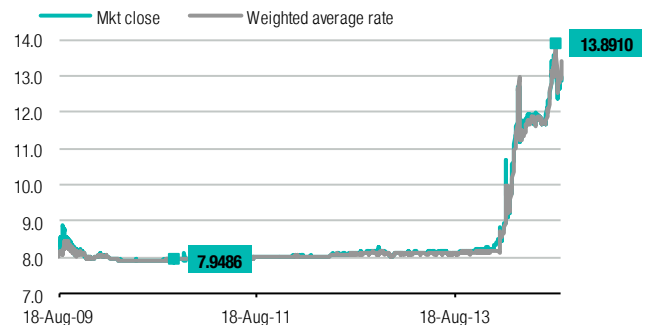
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart page #1: Foreign-exchange market

Chart 9. Spot market rates USD/UAH: last 12-month and 5-year periods (UAH per USD, left and right respectively)

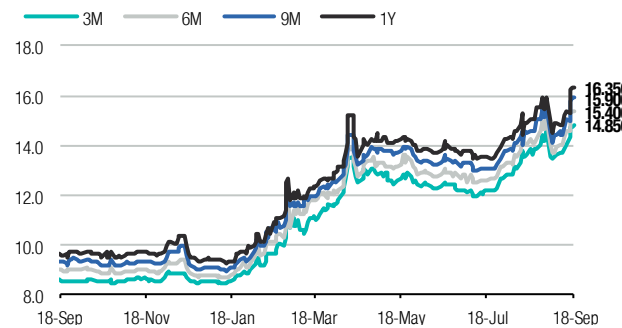


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

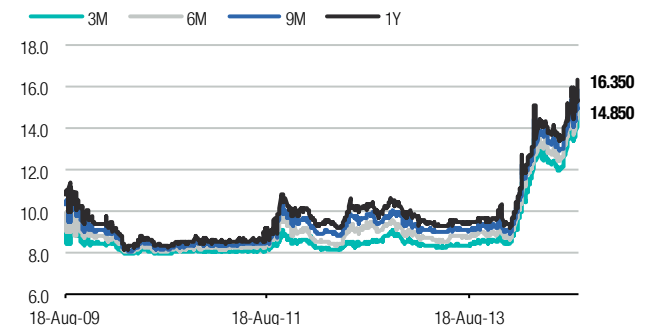


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 10. NDF market rates USD/UAH: last 12-month and 5-year periods (UAH per USD, left and right respectively)

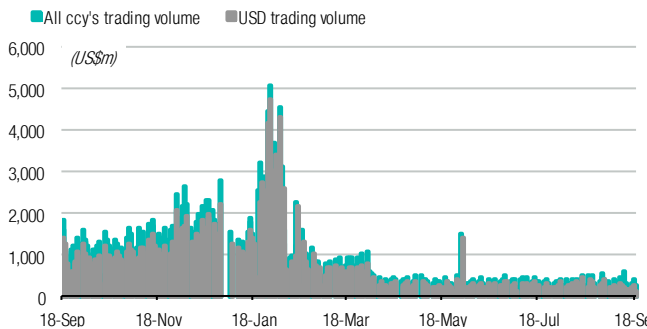


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

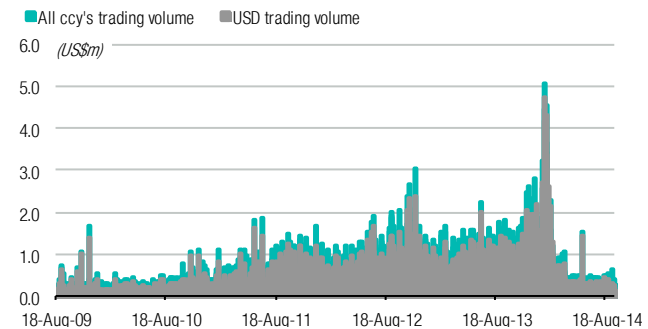


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 11. Trading volume: last 12-month and 5-year periods (US\$m, left and right respectively)

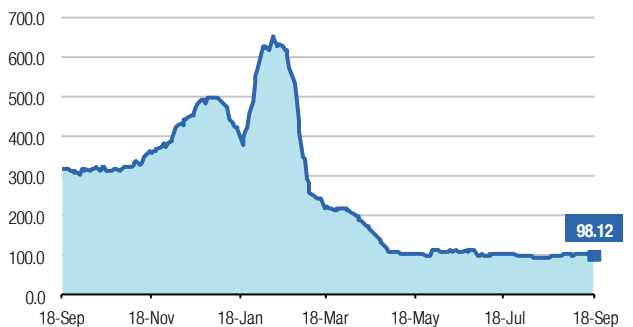


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 12. 30D MA* ratio of FX market turnover to merchandise trade: last 12m and 5yr periods (% , left and right respectively)



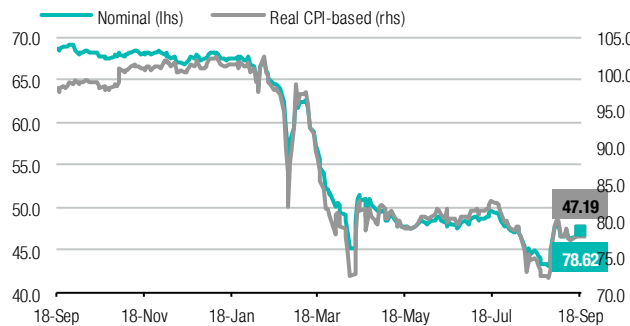
Note: * 30-day moving average; The boxes of the right chart show high and low values. Sources: NBU, State Statistics Service of Ukraine, Bloomberg, Investment Capital Ukraine LLC.



Chart page #2: ICU's UAH trade-weighted indices

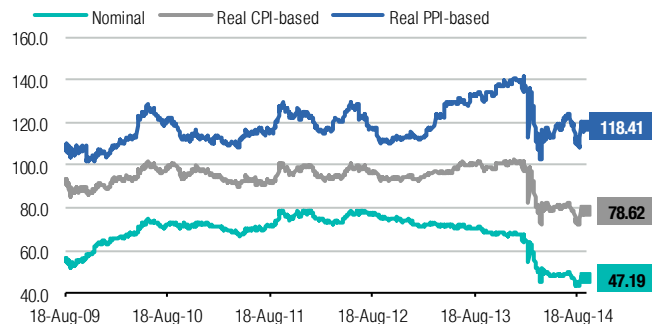
The following charts depict ICU's Ukrainian hryvnia trade-weighted indices which were calculated in accordance with methodology published in the [Quarterly Report "Keep the music playing"](#) dated 31 January 2013 and, then, updated, in the [Quarterly Report "Muddling through no more"](#) dated 14 August 2013.

Chart 13. Nominal and CPI-based real TWIs of UAH, history of last 12-month period



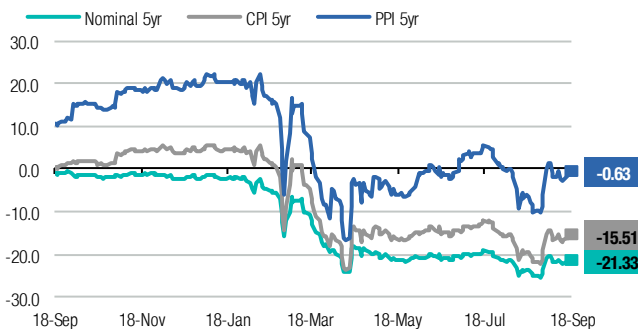
Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

Chart 14. Nominal, CPI- and PPI-based TWIs of UAH, history of last 5-year period

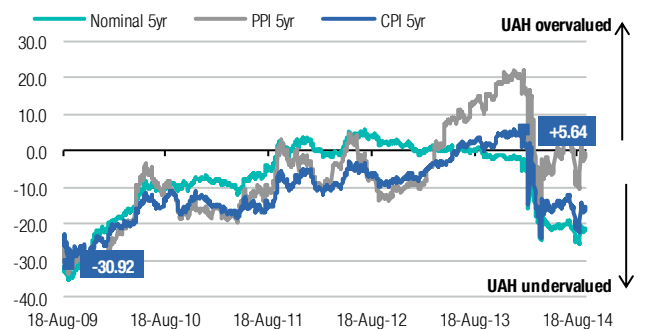


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

Chart 15. Deviation of UAH trade-weighted indices from their 5-year moving averages: last 12-month and 5-year periods (% , left and right respectively)

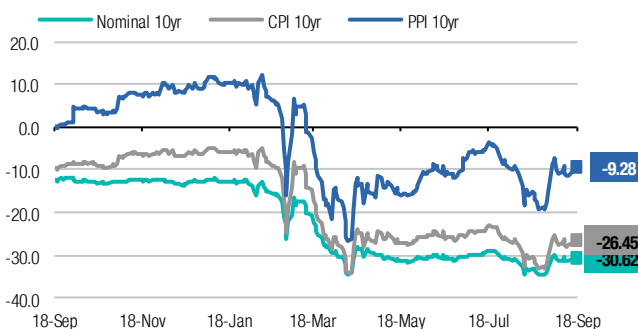


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

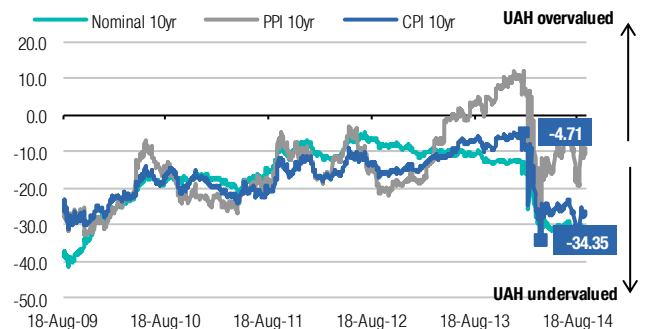


Note: the boxes indicate the high and low values of CPI-based TWI.
Source: Investment Capital Ukraine LLC.

Chart 16. Deviation of UAH trade-weighted indices from their 10-year moving averages: last 12-month and 5-year periods (% , left and right respectively)



Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.



Note: the boxes indicate the high and low values of CPI-based TWI.
Source: Investment Capital Ukraine LLC.

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Disclosures

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Buy: Forecasted 12-month total return greater than 20%

Hold: Forecasted 12-month total return 0% to 20%

Sell: Forecasted 12-month total return less than 0%

Note: total return is share price appreciation to a target price in relative terms plus forecasted dividend yield.

DEBT RATING DEFINITIONS

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Hold: Forecasted 12-month total return is in line with or modestly deviates from relevant benchmark

Sell: Forecasted 12-month total return significantly less than that of relevant benchmark



Office 44, 11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kiev, 01030 Ukraine
Phone/Fax +38 044 2200120

CORPORATE FINANCE TEL. +38 044 2200120

Makar Paseniuk, Managing Director
makar.paseniuk@icu.ua

Ruslan Kilmukhametov, Director
ruslan.kilmukhametov@icu.ua

SALES AND TRADING TEL. +38 044 2201621

Konstantin Stetsenko, Managing Director
konstantin.stetsenko@icu.ua

Sergiy Byelyayev, Fixed-Income Trading
sergiy.byelyayev@icu.ua

Vitaliy Sivach, Fixed-Income & FX Trading
vitaliy.sivach@icu.ua

Vlad Sinani, Director,
Strategy and Corporate Development
vlad.sinani@icu.ua

Julia Pecheritsa,
Ukraine and CIS International Sales
julia.pecheritsa@icu.ua

Yevgeniya Gryshchenko,
Fixed-Income Sales
yevgeniya.gryshchenko@icu.ua

RESEARCH DEPARTMENT TEL. +38 044 2200120

Alexander Valchyshen
Head of Research
alexander.valchyshen@icu.ua

Alexander Martynenko
Head of corporate research
alexander.martynenko@icu.ua

Bogdan Vorotilin
Financial analyst (Food & Agribusiness)
bogdan.vorotilin@icu.ua

Taras Kotovych
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Mykhaylo Demkiv
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Lee Daniels, Rolfe Haas
Editors

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