

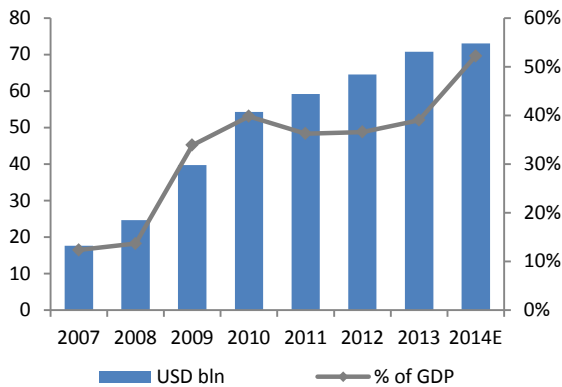
# Ukraine Monthly Sovereign debt restructuring? Not this time

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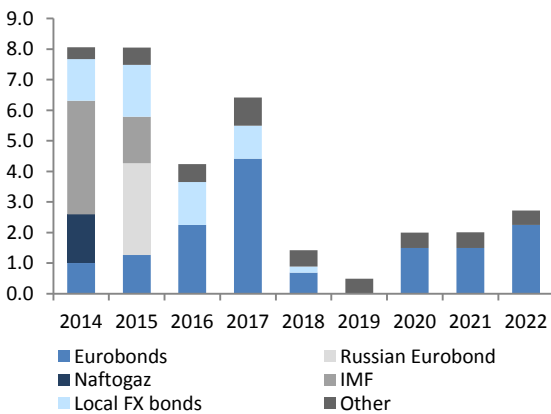
# Economy: Sovereign debt restructuring? Not this time

## Ukraine's public debt



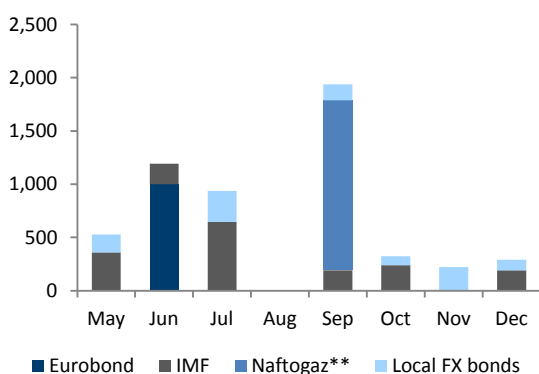
Sources: MinFin, UkrStat, SP Advisors

## Sovereign FX debt redemption, USD bln\*



\*Eurobonds include sovereign Eurobonds and guaranteed Eurobonds of state companies. Naftogaz Eurobond is state guaranteed.  
Sources: Finance Ministry, IMF, SP Advisors

## Sovereign FX debt redemption till end-2014, USD mln\*



\* excludes some minor debts and interest payments  
\*\* state-guaranteed Naftogaz Eurobond  
Sources: Finance Ministry, IMF, SP Advisors

Ukraine's tough near-term debt repayment schedule against the backdrop of heavy capital outflows has raised concerns about the country's ability to manage. We argue Ukraine will be willing and able to service its debt in a timely manner.

**The external debt servicing problem is one of liquidity, not solvency.** Ukraine's public debt-to-GDP stood at 40% at end-2013, but we expect the ratio to surge to c. 52% in 2014 on loose fiscal policies and a sharp hryvnia depreciation. The hryvnia's weakening from UAH 8.0/USD to UAH 10.6/USD (our end-2014 forecast) alone adds c. 8 pp. to the ratio as nominal GDP gets squeezed in foreign currency terms while 60% of Ukraine's public debt is FX-denominated. This level of debt is still manageable in the long-run provided refinancing terms are flexible and favorable. The debt redemption schedule chart on the left clearly shows Ukraine is facing ample needs in 2014 and 2015 with roughly USD 8.0 bln due in each year, but the repayment schedule is more benign afterwards.

**The funding package from the international community is exceptional.** All the major IFIs and some foreign governments have offered new loans, and the amounts are generous. The IMF, the largest lender, is ready to provide USD 14-18 bln over the next two years, while c. USD 5 bln might come from other lenders in direct budget assistance. This allows a comfortable refinancing of current debt with cheaper long-term facilities from loyal creditors.

**Ukraine has likely committed to a "no restructuring" scenario to secure IFI funding.** We strongly believe that Ukraine committed to "no restructuring of sovereign debt" to secure IFI money. Even though this principle cannot be technically contracted, it's still a critical and viable part of the deal. Any restructuring would lead to a lengthy interruption in IFI money inflows, leaving Ukraine with no alternate funding option.

**A restructuring of sovereign debt would keep external markets closed for private borrowers, aggravating the economic situation.** Any restructuring of sovereign debt would be extremely destructive for Ukraine's private borrowers. While the supply of debt (conditional on reforms) for the government and NBU is ample, Ukraine also badly needs to secure capital inflows into the private sector. Many companies are struggling to refinance maturing obligations and would be forced to default on foreign debts unless external capital markets get reopened. The spiral effect for the whole economy would be long-lasting and powerful.

**The composition of sovereign FX debt leaves little room for restructuring/rescheduling this year.** Of the USD 5.4 bln in sovereign debt to be repaid by the year-end, IMF loans account for c. 33%. Domestic FX T-bills, held overwhelmingly by local banks, make up another 19%. We believe there is no scenario under which T-bills would be restructured, as that would hurt the feeble banking sector, which is desperate for FX liquidity. The balance is made up of a USD 1.0 bln sovereign Eurobond and a USD 1.6 bln state-guaranteed Naftogaz Eurobond. Thus, only USD 2.6 bln is at stake this year. This represents just 11-13% of the international aid package available for Ukraine and a restructuring of this amount is not worth risking the negative spillover effects.

**NBU reserve meltdown halted.** The NBU has entirely abstained from FX interbank interventions over the past two months to prevent an uncontrollable meltdown of reserves, which now stand at close to USD 15 bln. The NBU's approach is sub-optimal for the local FX market and the hryvnia exchange rate, but the relative stability of the reserves is definitely welcome news for holders of sovereign debt.

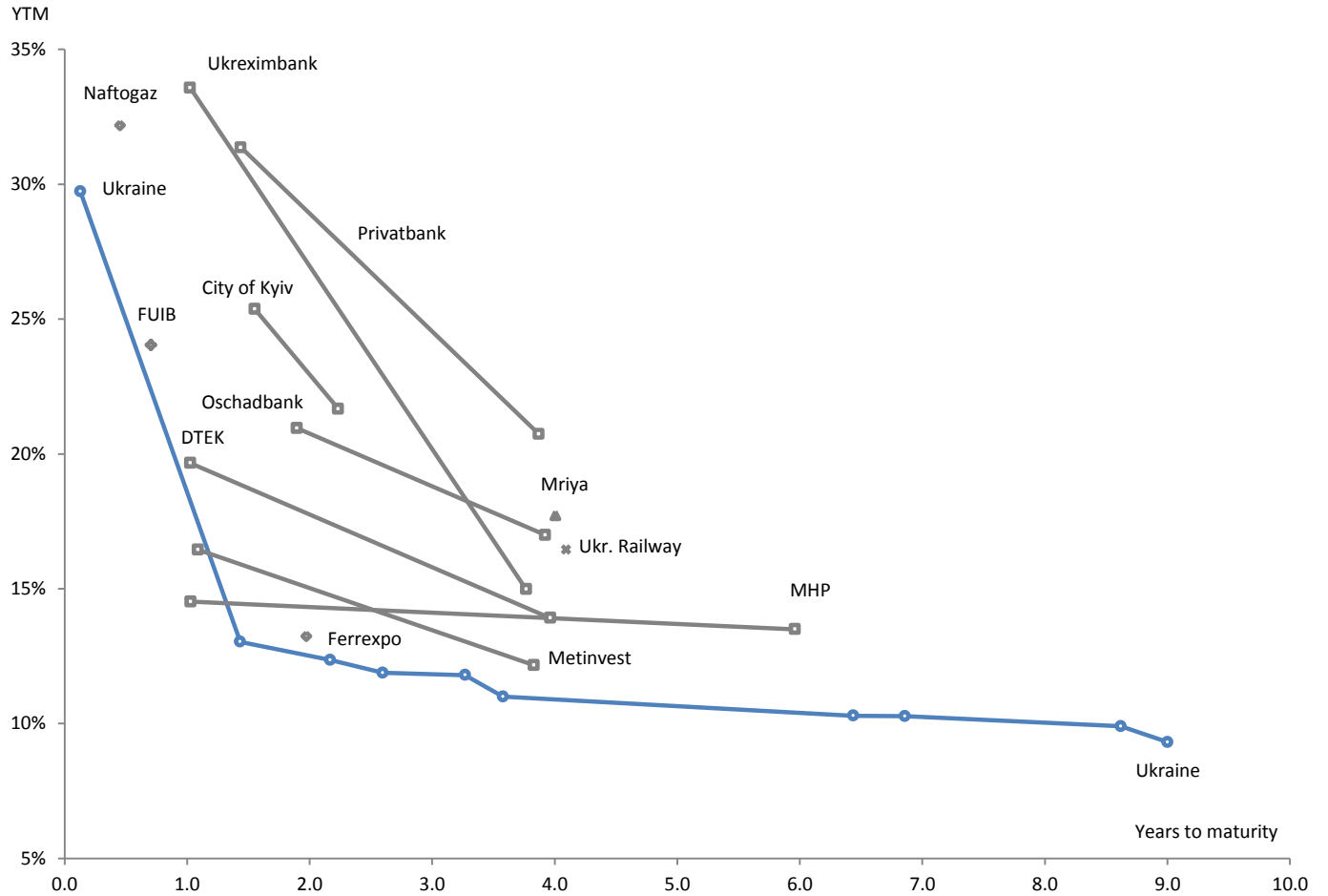
## Appendix A. Key macro data and projections

	2007	2008	2009	2010	2011	2012	2013	2014E
<b>Business cycle indicators</b>								
Real GDP, chg yoy	7.6%	2.3%	-14.8%	4.1%	5.2%	0.2%	0.0%	-3.4%
Household consumption, chg yoy	17.1%	11.8%	-14.9%	7.1%	15.7%	11.7%	7.8%	-3.5%
Investments in fixed capital, chg yoy	23.9%	1.6%	-50.5%	3.9%	7.1%	0.9%	-6.6%	-15.0%
Industrial output, chg yoy	7.6%	-5.2%	-21.9%	11.2%	7.6%	-1.8%	-4.7%	-5.8%
Nominal GDP, UAH bln	721	948	913	1,083	1,302	1,409	1,455	1,484
Nominal GDP, USD bln	143	180	117	136	163	176	182	140
GDP per capita, USD	3,078	3,891	2,550	2,982	3,585	3,875	4,002	3,084
CPI, eop	16.6%	22.3%	12.3%	9.1%	4.6%	-0.2%	0.5%	10.5%
CPI, avg	12.8%	25.2%	15.9%	9.4%	8.0%	0.6%	-0.3%	6.1%
Unemployment (ILO methodology, avg)	6.9%	6.9%	9.6%	8.8%	8.6%	8.1%	7.6%	7.8%
<b>External accounts</b>								
Current account balance, USD bln	-5.3	-12.8	-1.7	-3.0	-10.2	-14.3	-16.1	-5.9
% of GDP	-3.7%	-7.1%	-1.5%	-2.2%	-6.3%	-8.1%	-8.9%	-4.2%
Financial account balance, USD bln	14.7	9.7	-12.0	8.0	7.8	10.1	18.2	-4.0
% of GDP	10.3%	5.4%	-10.2%	5.9%	4.8%	5.8%	10.0%	-2.9%
FDI net, USD bln	9.2	9.9	4.7	5.8	7.0	6.6	3.3	1.9
% of GDP	6.5%	5.5%	4.0%	4.2%	4.3%	3.8%	1.8%	1.4%
Gross NBU reserves (eop), USD bln	32.5	31.5	26.5	34.6	31.8	24.5	20.4	15.5
<b>Monetary and banking indicators</b>								
Monetary base, UAH bln	142	187	195	226	240	255	307	330
Monetary base, chg. yoy	46%	32%	4%	16%	6%	6%	20%	7%
Money supply (M3), UAH bln	396	515	487	598	683	773	906	1,045
Money supply, chg. yoy	52%	30%	-5%	23%	14%	13%	17%	15%
Monetary multiplier (M3/MB, eop)	2.8	2.8	2.5	2.6	2.8	3.0	3.0	3.2
Bank loans, chg. yoy	74%	72%	-2%	1%	10%	2%	12%	11%
Bank deposits, chg. yoy	52%	28%	-8%	26%	18%	16%	17%	10%
Loan-to-deposit ratio	152%	205%	219%	175%	162%	143%	136%	138%
<b>Exchange rate</b>								
Official UAH/USD (eop)	5.05	7.70	7.99	7.96	7.99	7.99	7.99	10.60
Official UAH/USD (avg)	5.05	5.27	7.79	7.94	7.97	7.99	7.99	10.60
Market UAH/USD (eop)	5.05	7.82	8.01	7.97	8.04	8.05	8.24	10.60
<b>Budget and debt indicators</b>								
State budget revenues, USD bln	32.9	44.0	26.9	30.3	39.5	43.3	42.5	31.1
% of GDP	23.0%	24.4%	23.0%	22.2%	24.2%	24.6%	23.3%	22.2%
State budget expenditures, USD bln	34.8	46.4	31.5	38.4	42.4	50.0	50.5	35.7
% of GDP	24.4%	25.8%	26.8%	28.2%	26.0%	28.3%	27.8%	25.5%
State budget balance, USD bln	-1.9	-2.4	-4.6	-8.1	-3.0	-6.7	-8.1	-4.6
% of GDP	-1.4%	-1.3%	-3.9%	-5.9%	-1.8%	-3.8%	-4.4%	-3.3%
Public debt, USD bln	17.6	24.6	39.8	54.3	59.2	64.5	73.1	73.1
% of GDP	12.3%	13.7%	34.0%	39.8%	36.3%	36.6%	40.1%	52.2%

Sources: NBU, UkrStat, Ministry of Finance, Bloomberg, SP Advisors

# Appendix B. Ukraine Eurobond universe (1)

Ukraine Eurobond yield map\*



\*as of Apr. 17, 2014.  
Source: Bloomberg

## Appendix B. Ukraine Eurobond universe (2)

### Key parameters of Ukrainian Eurobonds

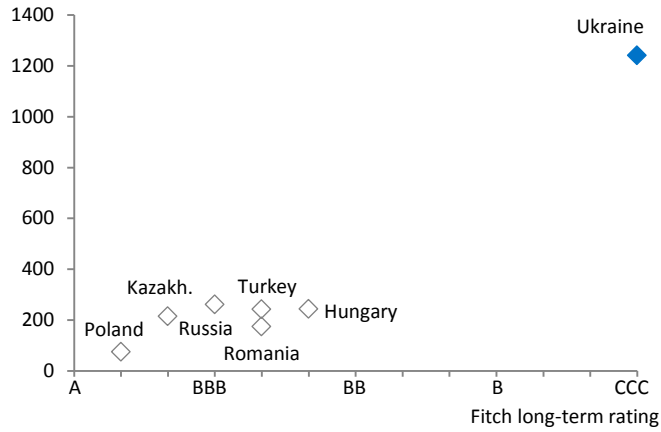
Name	Currency	Amount USD mln	Maturity	YTM,%		Mid. YTM change, pp		Rating		
				Mid	Spread	1 M	YTD	Fitch	Moody's	S&P
<b>Sovereign</b>										
Ukraine-14	USD	1,000	04.06.2014	29.73	13.54	-12.94	23.08	CCC	Caa3	CCC
Ukraine-09/15	USD	500	23.09.2015	13.03	1.26	-5.17	4.68	CCC	Caa3	CCC
Ukraine-10/15	EUR	600	13.10.2015	13.20	2.60	-3.84	5.78	CCC	Caa3	CCC
Ukraine-12/15	USD	3,000	20.12.2015	5.32	0.64	0.02	-	CCC	Caa3	CCC
Ukraine-06/16	USD	1,250	17.06.2016	12.36	0.88	-2.62	3.47	CCC	Caa3	CCC
Ukraine-11/16	USD	1,000	21.11.2016	11.88	0.75	-2.22	2.89	CCC	Caa3	CCC
Ukraine-07/17	USD	2,600	24.07.2017	11.80	0.40	-2.75	2.25	CCC	Caa3	CCC
Ukraine-11/17	USD	700	14.11.2017	11.00	0.56	-1.78	1.95	CCC	Caa3	CCC
Ukraine-20	USD	1,500	23.09.2020	10.29	0.35	-1.60	1.05	CCC	Caa3	CCC
Ukraine-21	USD	1,500	23.02.2021	10.28	0.33	-1.49	1.04	CCC	Caa3	CCC
Ukraine-22	USD	2,250	28.11.2022	9.90	0.19	-1.08	0.53	CCC	Caa3	CCC
Ukraine-23	USD	1,250	17.04.2023	9.31	0.94	-1.50	0.24	CCC	Caa3	CCC
Infrastr. projects-11/17	USD	568	03.11.2017	13.31	1.15	-2.95	-1.12	-	Caa3	-
Infrastr. projects-12/17	USD	550	07.12.2017	14.17	0.74	-2.65	2.99	-	(P)Caa3	-
Infrastr. projects-18	USD	690	20.04.2018	12.17	0.89	-2.34	-2.09	-	Caa3	-
<b>Municipal</b>										
City of Kiev-15	USD	250	06.11.2015	25.37	1.96	0.76	13.00	CCC	Caa3	CCC
City of Kiev-16	USD	300	11.07.2016	21.67	1.29	-1.23	8.96	CCC	Caa3	CCC
<b>Banks</b>										
VAB Bank-14	USD	112	14.06.2014	-	-	-	-	WD	Caa3	-
FUIB-14	USD	252	31.12.2014	24.03	-	-13.66	11.47	NR	Caa3	-
Ukreximbank-15	USD	750	27.04.2015	33.57	-	1.97	22.25	CCC	Caa3	-
Ukreximbank-16	USD	125	09.02.2016	-	-	-	-	C	Ca	-
Ukreximbank-18	USD	600	22.01.2018	14.98	-	-	2.85	CCC	Caa3	-
Oschadbank-16	USD	700	10.03.2016	20.96	1.54	-3.11	9.03	CCC	Caa3	-
Oschadbank-18	USD	500	20.03.2018	16.99	1.26	-0.89	4.69	CCC	Caa3	-
Privatbank-15	USD	200	23.09.2015	31.37	0.00	-1.67	-	CCC	Caa3u	-
Privatbank-16	USD	150	09.02.2016	33.69	5.27	3.11	10.63	-	Cau	-
Privatbank-18	USD	175	28.02.2018	20.75	0.94	-2.92	3.72	CCC	Caa3u	-
<b>Corporate</b>										
Naftogaz-14	USD	1,595	30.09.2014	32.18	-	-9.48	23.43	CCC	-	-
Avangardco-15	USD	200	29.10.2015	11.60	-	-0.49	0.37	CCC	-	-
MHP-15	USD	235	29.04.2015	14.52	-	3.35	8.13	CCC	Caa2	-
MHP-20	USD	750	02.04.2020	13.50	-	0.99	3.10	CCC	-	CCC
DTEK-15	USD	200	28.04.2015	19.66	-	-5.02	11.08	CCC	Caa2	-
DTEK-18	USD	750	04.04.2018	13.92	-	-1.62	4.45	CCC	Caa2	-
Metinvest-15	USD	500	20.05.2015	16.45	-	-0.58	8.71	CCC	Caa2	-
Metinvest-18	USD	750	14.02.2018	12.17	-	-0.93	-0.02	CCC	Caa2	-
Mriya-16	USD	72	30.03.2016	15.91	-	-	-	CCC	-	CCC
Mriya-18	USD	400	19.04.2018	17.73	-	2.35	3.79	CCC	-	CCC
Ferrexpo-16	USD	500	07.04.2016	13.24	-	1.15	4.39	CCC	Caa2	CCC+
Ukrainian Railway-18	USD	500	21.05.2018	16.46	-	-3.43	3.95	CCC	-	CCC
Ukrlandfarming-18	USD	500	26.03.2018	18.11	-	0.85	-	CCC	-	CCC

\*as of Apr. 17, 2014.

Source: Bloomberg

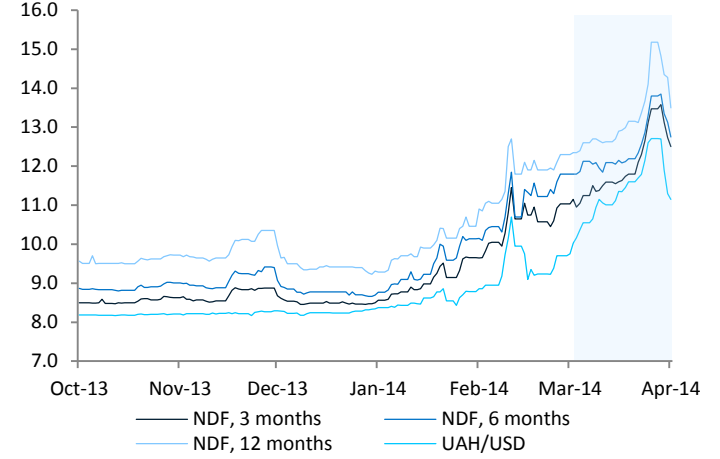
# Appendix C. NDF and CDS

5Y CDS vs. Fitch long-term rating\*



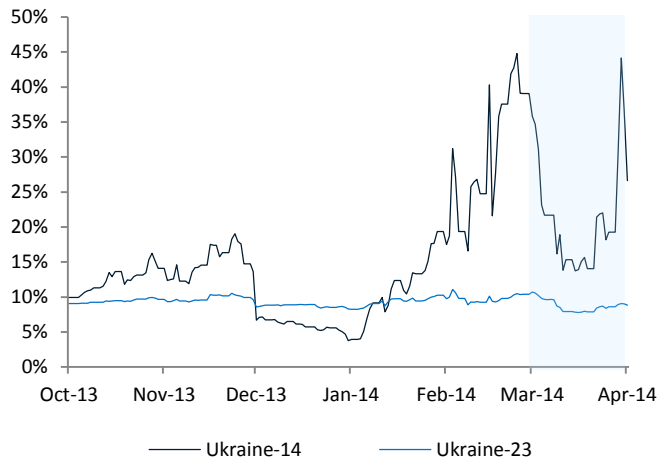
\*data as of Apr. 17, 2014  
Source: Bloomberg

UAH/USD spot and NDF rates, 6-m development



Source: Bloomberg

Ukraine sovereign Eurobond YTM, 6-m development



Source: Bloomberg

## Appendix D. Ukrainian equity multiples

### Ukrainian stock multiples\*

Sector / Company	Ticker	MCap, USD mln	EV/EBITDA		EV/Sales		P/B		P/E		Net Debt / Book Value	
			2013	2014E	2013	2014E	2013	2014E	2013	2014E	2013	2014E
<b>Agriculture</b>												
Kernel	KER PW	758	4.8	3.4	0.6	0.4	0.5	0.5	9.3	4.1	0.40	0.29
MHP	MHPC LI	1,268	4.6	3.6	1.5	1.1	0.9	0.8	4.8	4.0	0.72	0.44
Mriya	MAYA GR	667	3.8	3.4	2.6	2.2	-	-	4.7	7.7	-	-
Astarta	AST PW	327	8.2	3.9	1.5	1.1	0.7	0.6	8.4	4.1	0.59	0.45
IMC	IMC PW	88	4.6	3.1	1.3	0.8	0.6	0.5	4.7	3.1	0.67	0.47
KSG Agro	KSG PW	24	-	-	-	-	-	-	-	-	-	-
Agroton	AGT PW	15	-	-	-	-	-	-	-	-	-	-
Median		-	4.6	3.4	1.5	1.1	0.7	0.6	4.8	4.1	0.63	0.45
<b>Food</b>												
Avangard	AVGR LI	621	2.0	1.3	0.8	0.5	0.4	0.4	3.1	2.8	-0.05	-0.15
Ovostar	OVO PW	136	5.6	3.4	1.9	1.4	1.1	0.9	5.3	3.7	0.16	0.10
Milkiland	MLK PW	77	3.9	3.4	0.4	0.4	-	-	3.8	4.3	-	-
UkrProduct	UKR LN	5	2.8	1.9	0.2	0.2	0.2	0.1	2.9	1.8	0.39	0.24
Median		-	3.4	2.6	0.6	0.5	0.4	0.4	3.4	3.2	0.16	0.10
<b>Oil &amp; Gas</b>												
JKX Oil & Gas	JKX LN	167	2.1	2.1	1.0	0.9	-	-	12.9	6.0	-	-
Kulczyk Oil	SEN PW	234	2.1	1.5	1.3	1.0	1.4	1.1	5.9	4.1	-0.18	-0.19
Regal Petroleum	RPT LN	55	-	-	-	-	-	-	-	-	-	-
Cadogan Petroleum	CAD LN	35	-	-	-	-	-	-	-	-	-	-
Median		-	2.1	1.8	1.1	0.9	1.4	1.1	9.4	5.1	-0.18	-0.19
<b>Mining</b>												
Coal Energy	CLE PW	19	-	-	-	-	-	-	-	-	-	-
Sadvaya Group	SGR PW	12	-	-	-	-	-	-	-	-	-	-
Median		-	-	-	-	-	-	-	-	-	-	-
<b>Metals &amp; Mining</b>												
Ferrexpo	FXPO LN	1,485	4.5	4.9	1.3	1.3	0.8	0.7	6.0	7.3	0.30	0.25
Median		-	4.5	4.9	1.3	1.3	0.8	0.7	6.0	7.3	0.30	0.25
<b>Real Estate</b>												
TMM	TR61 GR	10	-	-	-	-	-	-	-	-	-	-
Median		-	-	-	-	-	-	-	-	-	-	-
<b>Industrials</b>												
Westa ISIC	WES PW	8	-	-	-	-	-	-	-	-	-	-
Median		-	-	-	-	-	-	-	-	-	-	-
<b>Transportation</b>												
KDM Shipping	KDM PW	41	-	-	-	-	-	-	-	-	-	-
Median		-	-	-	-	-	-	-	-	-	-	-

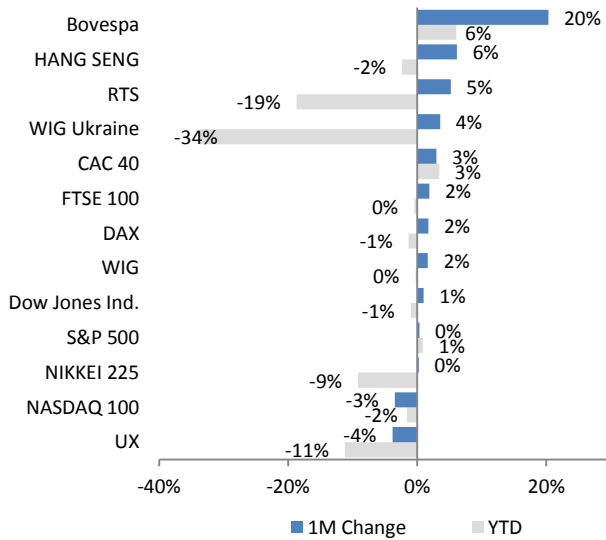
\* as of Apr. 17, 2014.

Source: Bloomberg



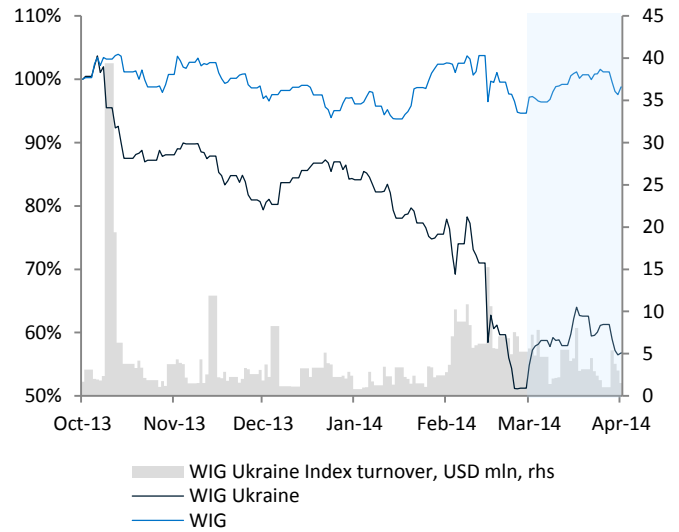
# Appendix E. Stock market summary

Ukraine indexes (UX, WIG Ukraine) vs. global majors



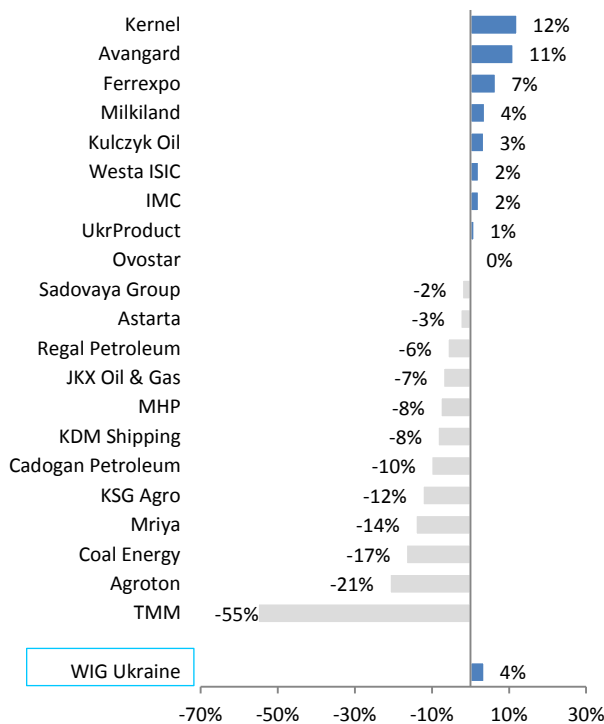
Data as of Apr. 17, 2014  
Source: Bloomberg

WIG Ukraine vs. WIG, 6-month development



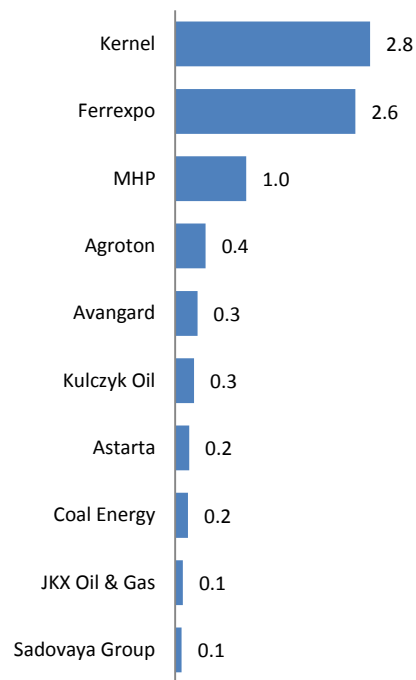
Source: Bloomberg

Ukrainian stock price change, mom\*



\* as of Apr. 17, 2014  
Source: Bloomberg

Average daily trading in Ukrainian stocks, USD mln\*



\* Only top-10 stocks are shown, data are for Mar. 17, 2014 - Apr. 17, 2014  
Source: Bloomberg



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