

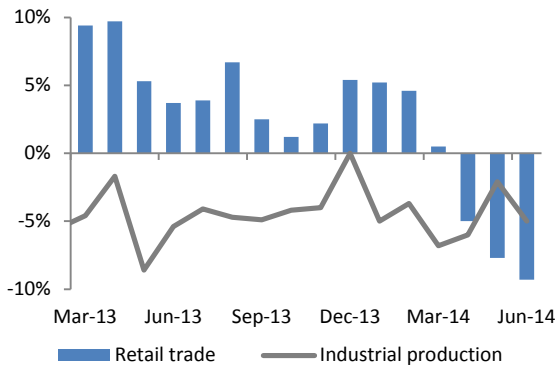
Ukraine Economic Overview

Economy	█
Key macro data and projections	█
Ukraine's Eurobond universe	█
NDF and CDS	█
Ukrainian equity multiples	█
Stock market summary	█



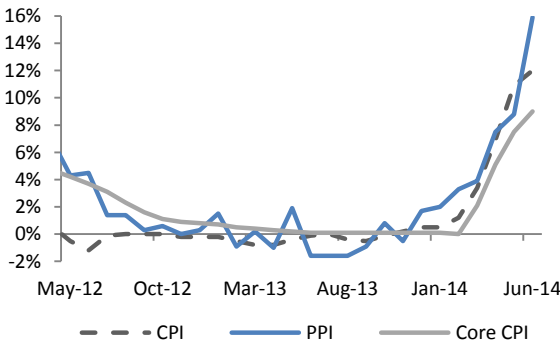
Economy: GDP deteriorates, external accounts improve

Monthly retail trade and industrial production, chg. yoy



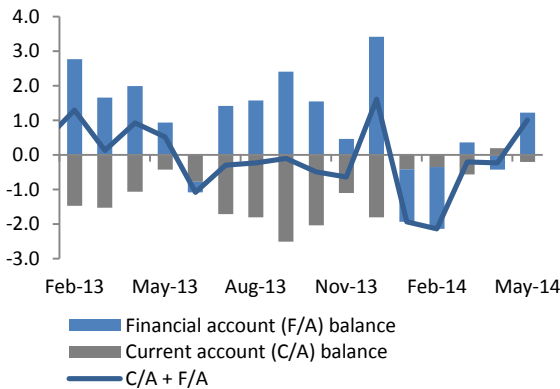
Source: UkrStat

CPI and PPI, yoy



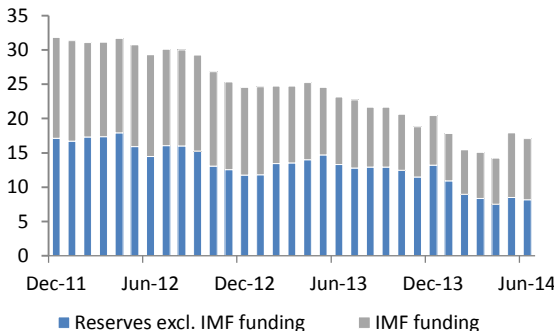
Source: UkrStat

BoP monthly indicators, USD bln



Source: NBU

NBU gross international reserves, USD bln



Sources: NBU, Finance Ministry, SP Advisors

Ukraine's macro situation will remain challenging in 2H14, although the risks will change. The sizable hryvnia depreciation cured the extensive external account misbalances and has brought much-needed stability to the FX market. Meanwhile, the situation in the real sector will worsen due to a slump in private demand and the military conflict in Eastern Ukraine.

The economy held up decently in 1H14, but is likely to slip in 2H

The economic decline in 1H14 was limited and overall the economy exceeded our expectations. The decline in industrial output stabilized at close to 5% yoy, while cargo transportation turnover recently improved slightly, with 1H growth just in the green at +0.4%. We estimate the 2Q contraction at 4-5% yoy vs. 1.1% yoy decrease in 1Q.

We do expect, however, the decline in Ukraine's GDP will deepen considerably in 2H14. Our full-year projection is unchanged at -5.9% yoy, broadly in-line with the government's new guidance of a 6-6.5% yoy decline. In our view, the deterioration will be driven by two major factors:

- Firstly, domestic household demand will weaken materially due to rising inflation. While nominal household incomes will be flat or decline slightly, consumer prices are poised to surge an estimated 15-17% as the hryvnia's depreciation and the hike of regulated utility tariffs come into play. This will have a material negative effect on real household incomes and will depress private consumption. The first effects of the weaker household incomes are already visible – retail turnover declined 9.3% yoy in real terms in June, a sharp reversal from 5.2% growth in January. Ample uncertainty with regard to future employment prospects, bankruptcies in the banking sector, and general war-related fears will likely delay any recovery in private spending until at least 1Q15.

- Secondly, the military conflict/war in Eastern Ukraine escalated in June-July, leading many companies to halt operations in the region. A quick resolution of the conflict in the next couple of months doesn't look to be in the cards. Regular violence will keep business activities frozen, which will feed into a stronger decline in industrial output. Conflict-related demand-side effects will also be significant – all investment projects will likely be delayed.

BoP improves on narrower trade deficit, but capital inflows stay weak

Ukraine's current account (C/A) deficit narrowed sharply to USD 1.3 bln in 5M14, down from USD 4.6 bln in 5M13, on the back of a narrowing of the trade deficit in goods (USD 2.2 bln vs. USD 6.2 bln). The hryvnia depreciation over the 1Q caused a sharp adjustment in consumer and investment imports in the 2Q, which will continue into the 2H. Meanwhile, exports held up fairly well, adjusting downwards by just 6% in 5M14 (vs. -17% for total imports). We project the C/A deficit will remain moderate at 1.5% of GDP; a possible increase in the price of Russian gas is the key risk to that projection. Ukraine has effectively halted imports of gas from Russia due to the lingering dispute over a "fair" price. In the event that large-scale imports resume in the 4Q at the USD 485/tcm price offered by Russia, it may add 1-1.5% of GDP to our C/A base-case deficit projection.

The financial account remained negative due to a full stop in FDI inflows and debt capital outflows from the private non-banking sector. Net inflows to the banking sector are positive, largely on liquidity injections from foreign parent institutions to Ukrainian subsidiaries. The government has started to receive the first tranches of international aid, which has been key to maintaining FX market stability. Thanks to a swift adjustment in the external accounts and the ongoing IMF program, the hryvnia should remain fairly stable at UAH 11-12/USD though the year-end even without any sizable NBU interventions.

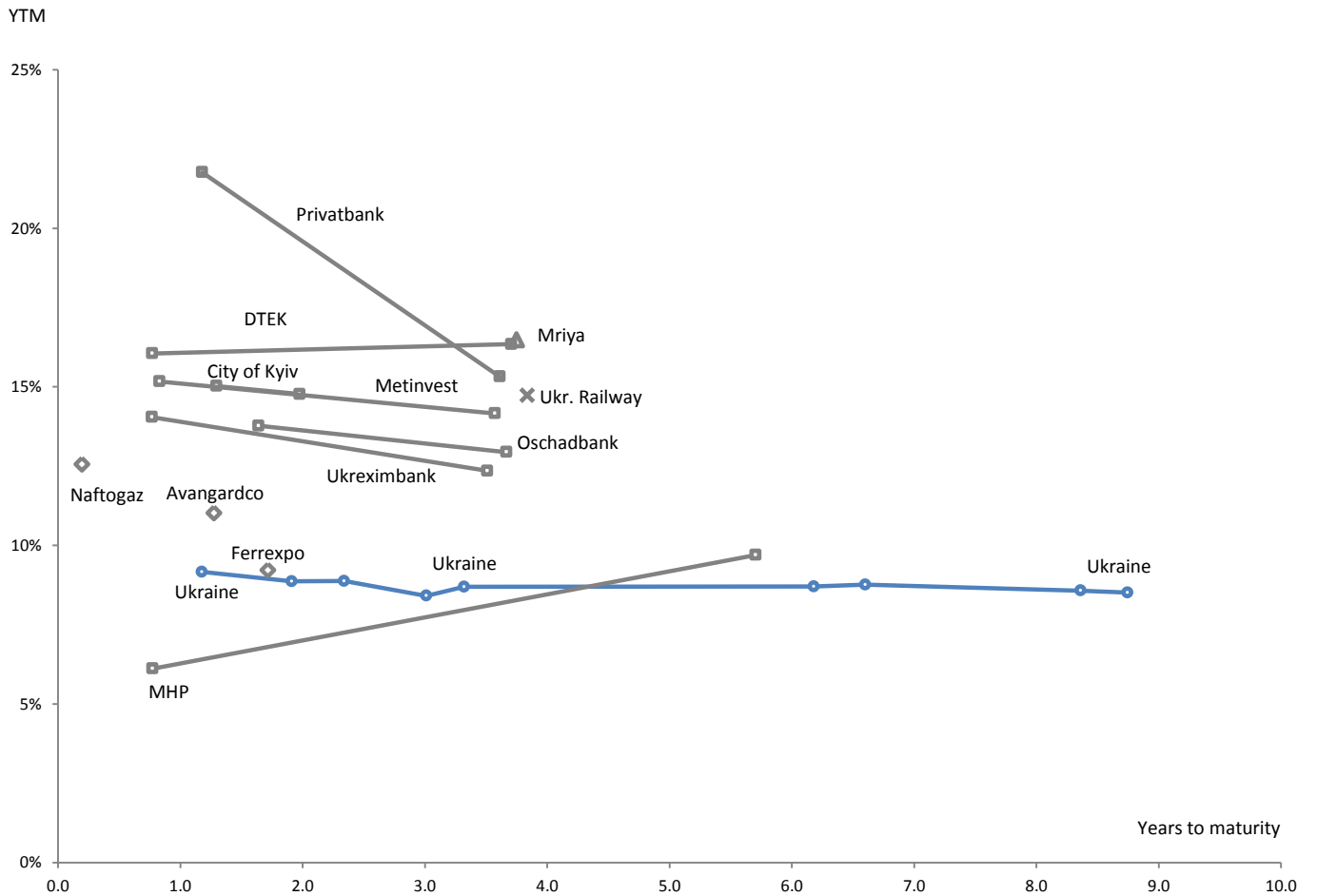
Appendix A. Key macro data and projections

	2007	2008	2009	2010	2011	2012	2013	2014E
Business cycle indicators								
Real GDP, chg yoy	7.6%	2.3%	-14.8%	4.1%	5.2%	0.2%	0.0%	-5.9%
Household consumption, chg yoy	17.1%	11.8%	-14.9%	7.1%	15.7%	11.7%	7.8%	-6.1%
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%	-12.3%
Nominal GDP, UAH bln	721	948	913	1,083	1,302	1,409	1,455	1,527
Nominal GDP, USD bln	143	180	117	136	163	176	182	136
GDP per capita, USD	3,078	3,891	2,550	2,982	3,585	3,875	4,002	3,002
CPI, eop	16.6%	22.3%	12.3%	9.1%	4.6%	-0.2%	0.5%	15.2%
CPI, avg	12.8%	25.2%	15.9%	9.4%	8.0%	0.6%	-0.3%	7.8%
Unemployment (ILO methodology, avg)	6.9%	6.9%	9.6%	8.8%	8.6%	8.1%	7.7%	8.8%
External accounts								
Current account balance, USD bln	-5.3	-12.8	-1.7	-3.0	-10.2	-14.3	-16.4	-2.1
% of GDP	-3.7%	-7.1%	-1.5%	-2.2%	-6.3%	-8.1%	-9.0%	-1.5%
Financial account balance, USD bln	14.7	9.7	-12.0	8.0	7.8	10.1	18.4	-4.0
% of GDP	10.3%	5.4%	-10.2%	5.9%	4.8%	5.8%	10.1%	-2.9%
FDI net, USD bln	9.2	9.9	4.7	5.8	7.0	6.6	3.4	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	15.8
Monetary and banking indicators								
Monetary base, UAH bln	142	187	195	226	240	255	307	335
Monetary base, chg. yoy	46%	32%	4%	16%	6%	6%	20%	9%
Money supply (M3), UAH bln	396	515	487	598	683	773	909	1,020
Money supply, chg. yoy	52%	30%	-5%	23%	14%	13%	18%	12%
Monetary multiplier (M3/MB, eop)	2.8	2.8	2.5	2.6	2.8	3.0	3.0	3.0
Bank loans, chg. yoy	74%	72%	-2%	1%	10%	2%	12%	13%
Bank deposits, chg. yoy	52%	28%	-8%	26%	18%	16%	18%	7%
Loan-to-deposit ratio	152%	205%	219%	175%	162%	143%	135%	143%
Exchange rate								
Official UAH/USD (eop)	5.05	7.70	7.99	7.96	7.99	7.99	7.99	11.20
Official UAH/USD (avg)	5.05	5.27	7.79	7.94	7.97	7.99	7.99	11.20
Market UAH/USD (eop)	5.05	7.82	8.01	7.97	8.04	8.05	8.24	11.20
Budget and debt indicators								
State budget revenues, USD bln	32.9	44.0	26.9	30.3	39.5	43.3	42.5	30.0
% of GDP	23.0%	24.4%	23.0%	22.2%	24.2%	24.6%	23.3%	22.0%
State budget expenditures, USD bln	34.8	46.4	31.5	38.4	42.4	50.0	50.5	34.8
% 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	-4.8
% of GDP	-1.4%	-1.3%	-3.9%	-5.9%	-1.8%	-3.8%	-4.4%	-3.5%
Public debt, USD bln	17.6	24.6	39.8	54.3	59.2	64.5	73.1	69.2
% of GDP	12.3%	13.7%	34.0%	39.8%	36.3%	36.6%	40.1%	50.8%

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

Appendix B. Ukraine Eurobond universe (1)

Ukraine Eurobond yield map*



*as of Jul. 18, 2014.
Source: Bloomberg

Appendix B. Ukraine Eurobond universe (2)

Key parameters of Ukrainian Eurobonds

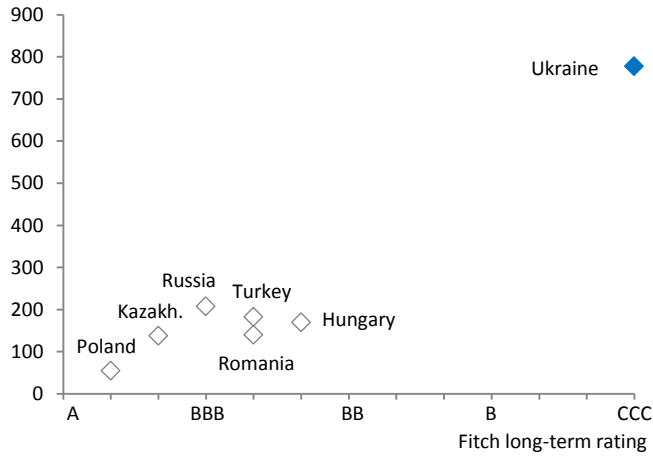
Name	Currency	Amount USD mln	Maturity	YTM,%		Mid. YTM change, pp		Rating		
				Mid	Spread	1 M	YTD	Fitch	Moody's	S&P
Sovereign										
Ukraine-09/15	USD	500	23.09.2015	9.17	0.94	0.29	0.81	CCC	Caa3	CCC
Ukraine-10/15	EUR	600	13.10.2015	8.64	1.34	-0.04	1.22	CCC	Caa3	CCC
Ukraine-12/15	USD	3,000	20.12.2015	2.32	0.09	-0.69	-2.64	CCC	Caa3	CCC
Ukraine-06/16	USD	1,250	17.06.2016	8.87	0.60	-0.15	-0.02	CCC	Caa3	CCC
Ukraine-11/16	USD	1,000	21.11.2016	8.88	0.50	-0.08	-0.12	CCC	Caa3	CCC
Ukraine-07/17	USD	2,600	24.07.2017	8.41	0.30	-0.69	-1.14	CCC	Caa3	CCC
Ukraine-11/17	USD	700	14.11.2017	8.69	0.37	0.30	-0.36	CCC	Caa3	CCC
Ukraine-20	USD	1,500	23.09.2020	8.71	0.22	0.37	-0.54	CCC	Caa3	CCC
Ukraine-21	USD	1,500	23.02.2021	8.76	0.21	0.13	-0.48	CCC	Caa3	CCC
Ukraine-22	USD	2,250	28.11.2022	8.58	0.26	-0.38	-0.79	CCC	Caa3	CCC
Ukraine-23	USD	1,250	17.04.2023	8.51	0.17	-0.16	-0.56	CCC	Caa3	CCC
Infrastr. projects-11/17	USD	568	03.11.2017	10.29	0.57	-1.19	-4.14	-	Caa3	-
Infrastr. projects-12/17	USD	550	07.12.2017	9.71	0.52	-1.47	-1.46	-	(P)Caa3	-
Infrastr. projects-18	USD	690	20.04.2018	10.15	0.39	0.04	-4.11	-	Caa3	-
Municipal										
City of Kiev-15	USD	250	06.11.2015	15.03	1.83	-0.16	2.66	CCC	Caa3	CCC
City of Kiev-16	USD	300	11.07.2016	14.77	1.04	0.05	1.87	CCC	Caa3	CCC
Banks										
VAB Bank-14	USD	112	14.06.2014	-	-	-	-	WD	Caa3	-
FUIB-14	USD	252	31.12.2014	34.23	-	2.71	21.67	NR	Caa3	-
Ukreximbank-15	USD	750	27.04.2015	14.05	-	-2.86	2.72	CCC	Caa3	-
Ukreximbank-16	USD	125	09.02.2016	21.10	-	4.49	-	C	Ca	-
Ukreximbank-18	USD	600	22.01.2018	12.35	-	0.12	-	CCC	Caa3	-
Oschadbank-16	USD	700	10.03.2016	13.77	1.34	-1.83	1.84	CCC	Caa3	-
Oschadbank-18	USD	500	20.03.2018	12.94	0.52	-0.33	0.64	CCC	Caa3	-
Privatbank-15	USD	200	23.09.2015	21.77	-	-	-	CCC	Caa3u	-
Privatbank-16	USD	150	09.02.2016	5.56	-	-0.01	-0.06	-	Cau	-
Privatbank-18	USD	175	28.02.2018	15.32	0.81	-0.60	-1.06	CCC	Caa3u	-
Corporate										
Naftogaz-14	USD	1,595	30.09.2014	12.56	-	-6.28	3.81	CCC	-	-
Avangardco-15	USD	200	29.10.2015	11.03	-	-0.84	-0.21	CCC	-	-
MHP-15	USD	235	29.04.2015	6.12	-	-3.21	-0.28	CCC	Caa2	-
MHP-20	USD	750	02.04.2020	9.70	-	-1.29	-0.70	CCC	-	CCC
DTEK-15	USD	200	28.04.2015	16.05	-	1.56	7.48	CCC	Caa2	-
DTEK-18	USD	750	04.04.2018	16.35	-	3.67	6.89	CCC	Caa2	-
Metinvest-15	USD	500	20.05.2015	15.17	-	2.89	7.43	CCC	Caa2	-
Metinvest-18	USD	750	14.02.2018	14.16	-	0.81	1.98	CCC	Caa2	-
Mriya-16	USD	72	30.03.2016	14.99	0.90	-0.39	4.25	CCC	-	CCC
Mriya-18	USD	400	19.04.2018	16.48	-	-0.68	2.54	CCC	-	CCC
Ferrexpo-16	USD	500	07.04.2016	9.22	-	0.75	0.37	CCC	Caa2	CCC+
Ukrainian Railway-18	USD	500	21.05.2018	14.73	-	0.40	2.22	CCC	-	CCC
Ukrlandfarming-18	USD	500	26.03.2018	13.70	-	-1.07	-	CCC	-	CCC

*as of Jul. 18, 2014.

Source: Bloomberg

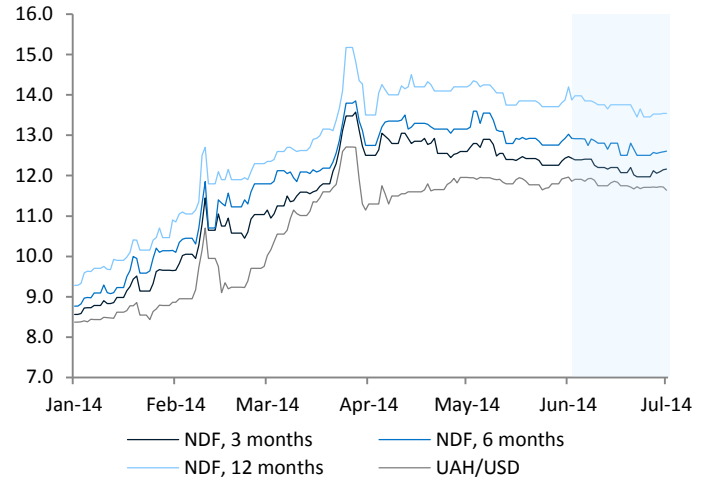
Appendix C. NDF and CDS

5Y CDS vs. Fitch long-term rating*



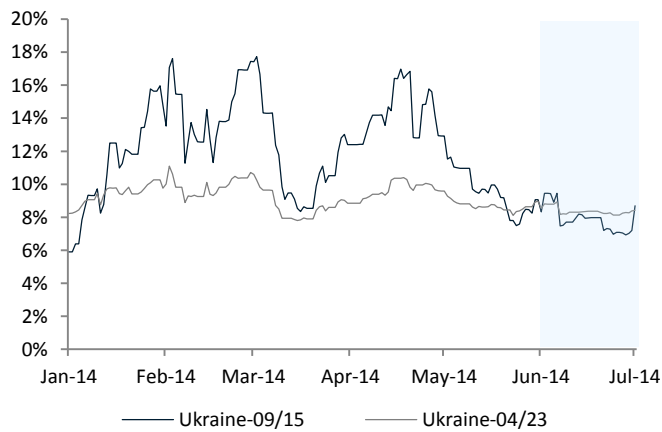
*data as of Jul. 18, 2014
Source: Bloomberg

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

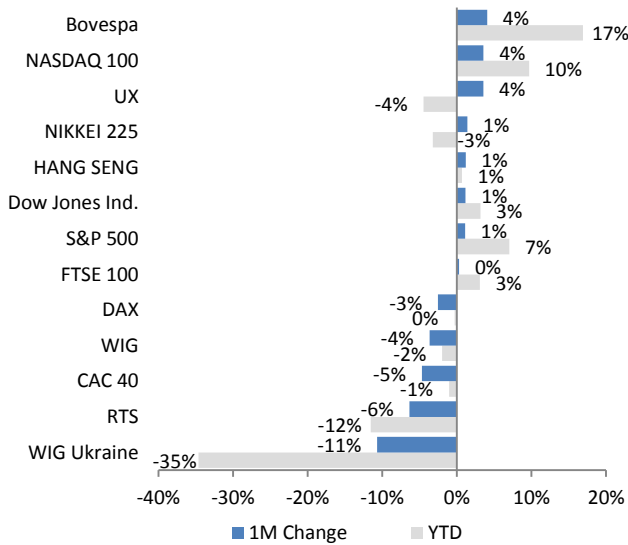
Ukrainian stock multiples*

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
Agriculture												
Kernel	KER PW	779	5.3	3.8	0.6	0.5	0.6	0.5	15.1	5.1	0.44	0.34
MHP	MHPC LI	1,569	5.4	4.6	1.7	1.4	1.4	1.1	5.8	5.2	0.95	0.61
Mriya	MAYA GR	632	3.3	2.4	2.1	1.7	-	-	7.3	2.8	-	-
Astarta	AST PW	326	4.2	4.2	1.1	1.0	0.8	0.7	7.1	4.6	0.61	0.44
IMC	IMC PW	89	3.6	2.8	1.1	0.8	0.5	0.4	8.1	1.9	0.74	0.52
Agroton	AGT PW	20	-	-	-	-	-	-	-	-	-	-
Median			4.2	3.8	1.1	1.0	0.7	0.6	7.3	4.6	0.67	0.48
Food												
Avangard	AVGR LI	610	1.6	1.1	0.7	0.4	0.4	0.4	2.7	2.6	-0.08	-0.18
Ovostar	OVO PW	135	4.8	4.4	1.7	1.4	0.9	0.8	6.6	6.3	0.06	0.08
Milkiland	MLK PW	59	3.6	2.8	0.4	0.3	-	-	-	2.9	-	-
UkrProduct	UKR LN	5	2.8	1.9	0.2	0.2	0.2	0.2	2.9	1.8	0.39	0.24
Median			3.2	2.3	0.5	0.4	0.4	0.4	2.9	2.8	0.06	0.08
Oil & Gas												
JKX Oil & Gas	JKX LN	152	2.1	1.9	0.9	0.8	-	-	13.4	5.5	-	-
Kulczyk Oil	SEN PW	174	1.6	1.5	0.9	0.9	1.2	0.9	6.6	4.1	-0.19	0.07
Regal Petroleum	RPT LN	50	-	-	-	-	-	-	-	-	-	-
Cadogan Petroleum	CAD LN	44	-	-	-	-	-	-	-	-	-	-
Median			1.8	1.7	0.9	0.9	1.2	0.9	10.0	4.8	-0.19	0.07
Mining												
Coal Energy	CLE PW	16	-	-	-	-	-	-	-	-	-	-
Metals & Mining												
Ferrexpo	FXPO LN	1,362	4.5	5.0	1.3	1.3	0.7	0.7	6.5	7.7	0.31	0.29
Real Estate												
TMM	TR61 GR	13	-	-	-	-	-	-	-	-	-	-
Industrials												
Westa ISIC	WES PW	5	-	-	-	-	-	-	-	-	-	-
Transportation												
KDM Shipping	KDM PW	29	-	-	-	-	-	-	-	-	-	-

Source: Bloomberg

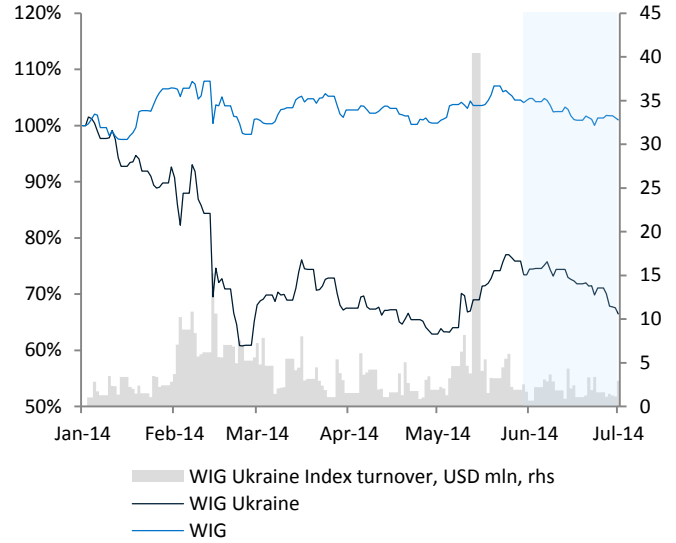
Appendix E. Stock market summary

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



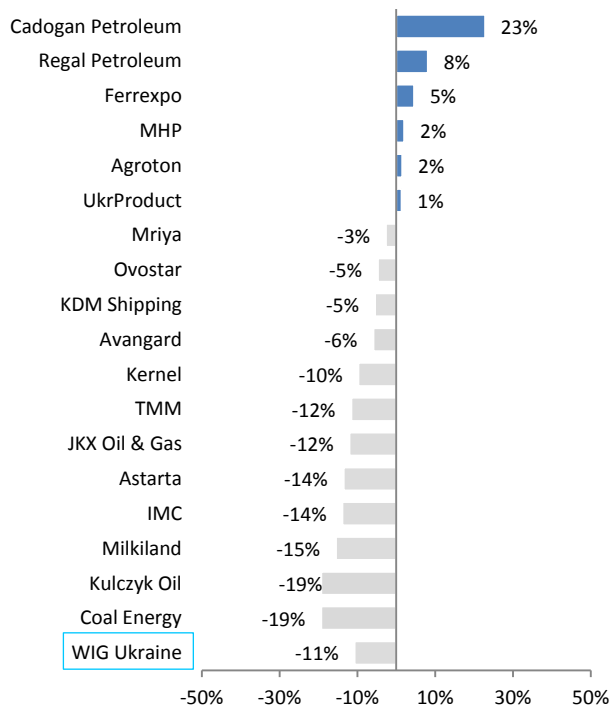
Data as of Jul. 18, 2014
Source: Bloomberg

WIG Ukraine vs. WIG, 6-month development



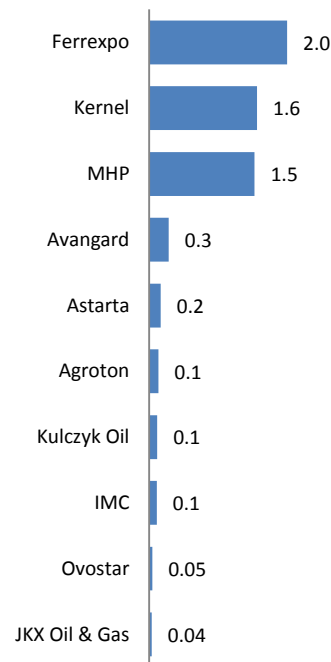
Source: Bloomberg

Ukrainian stock price change, mom*



* as of Jul. 18, 2014
Source: Bloomberg

Average daily trading in Ukrainian stocks, USD mln*



* Only top-10 stocks are shown, data are for Jun. 18, 2014 - Jul. 18, 2014
Source: Bloomberg

Contacts

CEO

Nick Piazza

npiazza@spadvisors.eu

Head of Research

Vitaliy Vavryshchuk

v.vavryshchuk@spadvisors.eu

Vice President, Capital Markets

Olena Zuikova

ozuikova@spadvisors.eu

Vice President, Sales and Trading

Tatyana Chub

tchub@spadvisors.eu

SP Advisors

spadvisors.eu

72 Chervonoarmiyska St.,

12th floor, office 17

Kyiv 03680, Ukraine

+380 44 300 1425

research@spadvisors.eu

Disclaimer

This monthly report has been prepared by SP Advisors solely for information purposes and independently of the respective companies mentioned herein. It should not be construed as an offer or solicitation of an offer to buy or sell any securities and should not be considered as a recommendation to any such actions.

SP Advisors makes no warranty, express or implied, of this report's usefulness in predicting the future performance, or in estimating the current or future value, of any security. This document should not be considered as a complete description of the securities or markets referred to herein. Any investment decision made on the basis of this document shall be made at the investor's sole discretion, and under no circumstances shall SP Advisors, any of its employees or related parties be liable in any way for any action, or failure to act, by any party, on the basis of this document. Nor shall SP Advisors or any of its employees or related parties be liable in any way for any loss or damages arising from such action or failure to act. This document is confidential to clients of SP Advisors. Unauthorized copying, distribution or publication of all or any part of this document is strictly prohibited.