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Investable Ukraine and Georgia

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Investment Summary

Politics

The recent parliamentary election has completed the transition of power from the autocratic Yanukovych regime to pro-Maidan and pro-Western political forces. The new parliamentary coalition will be pro-presidential, meaning President Poroshenko has gained a carte blanche for pursuing the economic reforms he deems appropriate. The need for a swift and painful transformation is apparent and the newly elected authorities will have no excuses for not delivering on promises. We remain optimistic about the prospects for decisive economic reforms – the authorities' first reform initiatives are much more ambitious and convincing than those pursued in the aftermath of the Orange Revolution of 2004. Nevertheless, the pace is still too slow, which has been noted by many economists and investors.

The terrorist-controlled east will remain out of Kyiv's influence until Russia makes a political decision to stop supporting terrorism and until it allows Ukrainian military forces to regain control of the territories. There is no clarity on a possible timeline for that scenario, but we don't expect it in the next year. In the foreseeable future, the Ukrainian authorities will focus on preventing any further seizure of territories. The recently enacted law on the special status of the Donbas region provides for a flexible governance scheme designed to take into account the interests of people loyal to both Kyiv and the terrorist groups. Feedback from the terrorists clearly shows they are still being supported by Russia and are thus fully reluctant to accept any rules of the game proposed by Kyiv. We would be surprised by any near-term resolution to the war.

Recently, Ukraine launched an unprecedented lustration process aimed at re-launching the state governance machine. Unlike CEE countries where the process was targeted at officials affiliated with the communist regime, lustration in Ukraine is first and foremost aimed at those who occupied posts in the Yanukovych period. Key individuals affected are former ministers and their first deputies, heads, and deputy heads of all armed agencies. In the last two weeks more than 30 high-ranking officials have resigned or were fired after the lustration law entered into force. While the start of the process is inspiring, it remains to be seen if the new authorities' determination to renew the ruling elite is sustainable.

Economy

Ukraine is currently facing its most challenging economic environment since the transition of 1990s. However, any talks of a possible economic collapse and default, with all the far-reaching destructive consequences are an exaggeration, in our view. Our base scenario for the economy though end-2015 is as follows:

- We believe the Ukrainian economy is close to the bottom but GDP will continue contracting in year-on-year terms until 3Q15 because of the base effect. GDP will fall 9.5% yoy this year and further 4.3% yoy in 2015, we project, as the economy heals its war wounds.
- C/A should contract impressively to c. 3.0% of GDP in 2014 and 2015 (from 9% in 2013) due to a depreciation of the hryvnia, declining household and investment demand, and a related drop in goods imports. Production disruptions in the industrialized (and export-oriented) east will prevent a full elimination of the C/A deficit.
- Ukraine will struggle to regain access to international debt markets, and the first sale of sovereign debt to foreign investors is unlikely before September 2015, in our view. Until then, the government will seek to secure sizable inflows of debt from IFIs and other states. So far, enough funds have been raised/committed to keep Ukraine's debt servicing current through end-1H15, but Ukraine will need to secure additional borrowings in 2H15 to keep public finances under control.

- The gas dispute between Ukraine and Russia is likely to linger until a Stockholm arbitration court rules on the legitimacy of a bilateral gas deal. We expect the court's ruling will partly accommodate the interests of both sides and open the way for a long-term solution in a conflict that is becoming increasingly irritating for the EU. Until then, Ukraine will likely agree to purchase gas from Russia on an ad hoc basis that will allow the economy to comfortably weather the winter months.
- Russia has closed off access for many Ukrainian producers to its markets under petty pretexts. Meanwhile, the EU's trade preferences for Ukrainian imports are doing a good job – exports of commodities to the EU increased 14% yoy in 8M14 and now account for 32% of Ukraine's total (vs. 26% last year). The positive trend of reshaping the geographical trade pattern in favor of EU markets should continue in the coming years

The Ukrainian banking sector is seeing unprecedented liquidity pressures against the backdrop of serious deposit outflows and the closure of external debt markets. Many banks' capital bases have also been weakened considerably as borrowers from the war-hit east and Crimea have stopped servicing loans. The hryvnia depreciation has only made matters worse by undermining the debt servicing capacity of borrowers with no FX revenues. Shareholders have been hesitant to boost the capital bases of their banks due to the real uncertainty ahead. There are no quick solutions to the current banking crisis and we expect it will take at least 1.5 years for the local banking sector to return to active lending.

Investable stocks/Eurobonds

Ukraine is entering a period of Eurobond maturities for private companies. Since international debt markets will remain closed for Ukrainian businesses, companies and banks will seek to conserve liquidity by calling for an extension of debt obligations. Over the past 12 months Finance & Credit Bank and VAB Bank restructured Eurobonds by pushing back redemptions. In late December, First Ukrainian International Bank is due to repay USD 252 million, followed by DTEK with a USD 200 mln Eurobond in April, and Metinvest with USD 500 mln in May – all three companies are owned by SCM. Metinvest recently said it will seek to exchange its notes for a new 2017 issue. We don't rule out the possibility of another SCM issuer following suit. MHP and Avangard have to redeem USD 235 mln and USD 200 mln in Eurobonds, respectively, and both claim good liquidity positions to repay the bonds.

The government is facing a challenging year ahead; on top of USD 9.5 bln in sovereign debt redemptions though end-2015, it will also have to facilitate a USD 250 mln debt repayment by the City of Kyiv and probably a USD 750 mln Eurobond by Ukreximbank. We think the government will prioritize the protection of Ukreximbank, while Kyiv is less important in terms of reputational losses if it were to pursue a restructuring.

The hryvnia depreciation has enhanced the competitiveness of leading exporters focused on crop cultivation and raw material extraction. Meanwhile, food-processing companies and egg, milk, and meat producers oriented towards the domestic market are facing a material decline in margins. That squeeze is unlikely to fully recover in the near-term.

Over the past year some Ukrainian equities and bonds slipped into 'junk' category and lost most of their value within weeks or months. While the fragile macro situation has undoubtedly had a negative effect, the key factor behind the drop was poor corporate governance and disrespect of portfolio investors and lenders. Quality of corporate governance is a key issue at the moment. As a rule of thumb, we would say that companies that duly honor the interests of minority investors in the course of the current crisis (principally, via dividend payouts, timely debt redemptions and proper information disclosure) largely pass the long-term viability test.

Top Picks

Equities

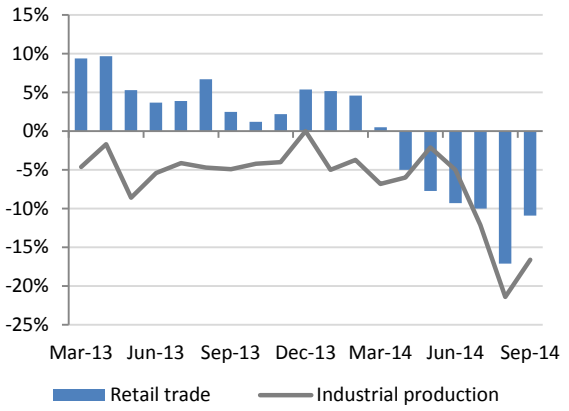
MHP (MHPC LI)	MHP reported impressive 3Q14 operating results despite Ukraine's sharp economic decline and the ongoing military conflict: poultry sales to 3rd parties increased 21% yoy to 145,000 t (+22% in 9M14 to 397,000 t), with material growth in both domestic and export markets. Its EBITDA margin improved 14pp yoy to 43% in 1H14 thanks to a declining cost of sales on favorable fodder pricing. The investment case for MHP rests mainly on its plans to boost chicken production to 800,000 t by 2018 (+45% from end-1H14 capacity), which would make it Europe's largest poultry producer. The key will be MHP's ability to expand into external markets as the local market may be unable to absorb all of the additional volume.
Kernel (KER PW)	While the company reported its lowest-ever EBITDA margin of just 9.3% in FY2014 due to an unfavorable combination of prices for raw materials and production, the margins should recover in FY2015. As an exporter (exports accounted for over 90% of FY2014 revenues), Kernel will benefit from the recent hryvnia depreciation. Its farming division, whose financials were the key drag on overall profitability in FY2014, should also recover – one-off factors (like poor weather) that spoiled the result are unlikely to be repeated. In the foreseeable future the company plans to concentrate on increasing the utilization of capacity at existing oil crushing capacities and to crush 2.4-2.5 million tons of sunflower seed in FY2015 (vs. 2.3 million tons in FY 2014). On top of that, the company is aiming to increase grain exports to 4.5-5.0 million tons (vs. 4.2 million tons in FY2014).

Eurobonds

Ukreximbank-15 (EXIMUK)	The Eurobond currently yields 40-45% as investors fear the looming redemption may be a problem given the lack of liquidity in Ukraine's banking sector. However, as a state bank, Ukreximbank enjoys a reputation as a "safe heaven" among retail and corporate customers who park their money at the bank in periods of uncertainty. We expect the government will stand ready to help the bank redeem the paper, if need be.
MPH-20 (MHPSA)	MHP's Eurobond is the longest dated private paper in the Ukrainian universe. The Eurobond matures in 2020, after the company completes its ambitious investment program and starts deleveraging.

Ukraine: The Big Picture

Monthly retail trade and industrial output, chg. yoy



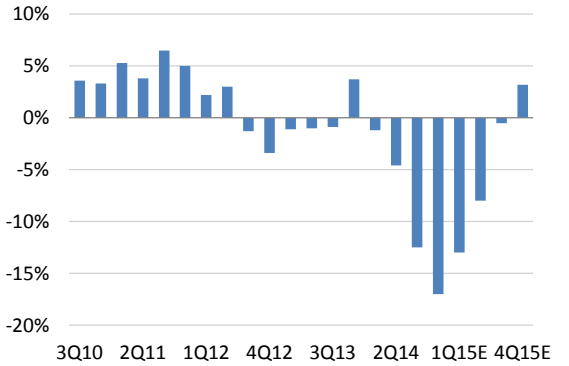
Source: UkrStat

Growth of real GDP and its components

	2013	2014E	2015E
GDP	0.2%	-9.5%	-4.3%
Household consumption	7.7%	-7.1%	-4.2%
Gross fixed capital	-6.7%	-30.0%	-12.0%
Export	-9.3%	-17.5%	-7.0%

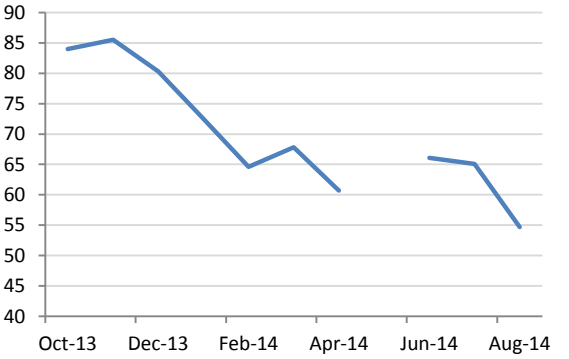
Sources: UkrStat, SP Advisors

Quarterly real GDP, yoy



Sources: UkrStat, SP Advisors

Consumer Confidence Index*



** Index ranges from 0 to 200 and totals 100 when the shares of positive and negative assessments of economic situation are equal.*
Source: GFK

The Ukrainian economy is facing its most difficult challenge since the transition period of the 1990s. The annexation of Crimea and the occupation of industrialized Eastern Ukraine by Russian troops and local terrorists have reshaped economic ties within the country. We estimate it will take up to one year for the full economic adjustment to take place. The current war zone is likely to remain out of Kyiv's control for some time to come, in our view, meaning part of the economy will effectively come to a complete stop, which will weigh on overall economic performance. We now see Ukraine's GDP continuing to contract through 1H15. The decline in exports from eastern industrial companies will keep Ukraine's C/A balance in negative territory even though a strong adjustment in imports is also taking place on the back of the hryvnia depreciation. The currency will remain under pressure, but the current shadow market exchange rate of UAH 14.0-14.5/USD looks somewhat high. NBU reserves are likely to remain largely flat thanks to generous IMF funding. The state budget deficit will widen to 4.8% of GDP in 2014 and will be covered mainly with IFI money.

The economy will dive in 2H14-1H15 before bottoming out

This economic crisis will be comparable to the 2008/09 downturn in terms of the depth of the GDP decline (GDP fell 14.8% yoy in 2009) but it will be longer lasting and with the prospects for a reversal entirely unclear.

What is clear is that the war zone wasn't shaped haphazardly – it accurately cuts the key industrial companies of the region out from Kyiv-governed territory. The terrorist-controlled region apparently lacks an important element – the Azov seacoast city of Mariupol with its cargo sea port and two of Ukraine's top-3 metallurgical plants. The seizure of Mariupol was fortunately prevented by Ukrainian military forces, which continue to stand ready to defend the city at all costs. Industrial production in Donetsk Oblast slumped 59% yoy and in Luhansk Oblast by a whopping 85% in September. By contrast, industry fell 17% yoy overall in Ukraine.

The August and September industrial production data clearly show where the bottom could be for the Ukrainian economy – output in key sectors of the economy is unlikely to be much better than the September data for the next 6-9 months. Monthly production of coal fell 58% yoy, metallurgy cut output 28%, and production in the machinery sector shrank 23%. Retail trade contracted 11% yoy. A part of the decline is due to the inability to collect statistics in the war zone, but that's just a small part of the explanation.

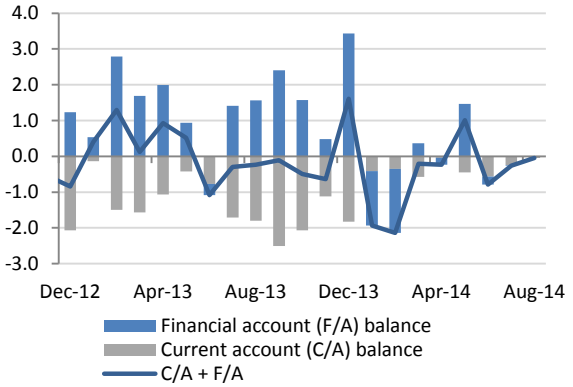
The war in the east, combined with banking sector vulnerabilities, and Russia's aggressive trade policy trigger more fundamental problems:

- A major deterioration in business sentiment, which has led to a full halt in investment activities in Ukraine. We expect fixed capital investment will fall 30-35% yoy in 2014 as companies cut expenses to the bare minimum maintenance CAPEX.

- A worsening of the consumer mood on the back of high inflation and the ongoing reduction in real incomes. According to GFK, the consumer confidence index fell a remarkable 10.4 points from July to 54.7 in August.

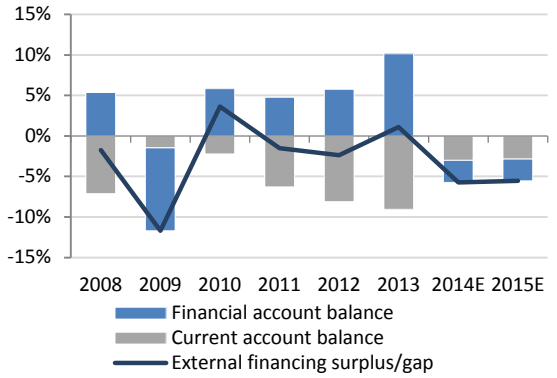
- Exports are falling as many key exporters from the war zone have scaled down operations. Russia's aggressive trade war is another concern as the politically motivated non-tariff barriers continue to bite. Trade preferences from the EU should compensate for the loss of the Russian market, but that will require time.

Monthly balance of payments, USD bln



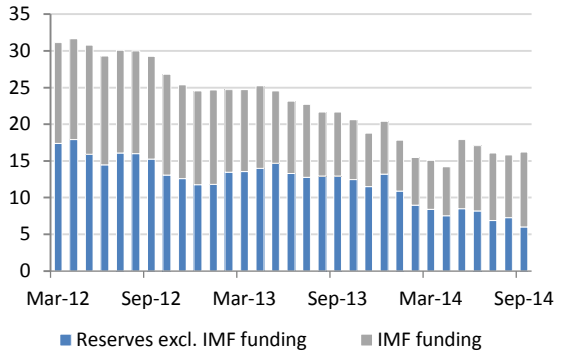
Source: UkrStat

External financing balance, % of GDP



Sources: NBG, SP Advisors

NBU gross international reserves, USD bln



Sources: NBU, SP Advisors

UAH/USD exchange rate

Source: Bloomberg

Overall, we see the economic decline deepening substantially in 2H14. GDP growth numbers will remain deep in the red at least though 1H15 due to a relatively high comparison base. If no major shocks emerge politically, militarily, or economically we expect the trend to flatten out only in 3Q15, while any return to growth is possible no earlier than 4Q15. We project a 9.5% yoy GDP decline for 2014 and a further 4.3% contraction in 2015.

C/A issues remain despite heavy hryvnia depreciation

The deep hryvnia depreciation narrowed the C/A deficit to USD 2.7 bln in 8M14 from USD 9.0 bln in 8M13. In August alone the C/A was fully balanced – a sharp contrast to the USD 1.8 bln monthly deficit a year previous. The improvement was mainly helped by a drastic decline in the import of goods, which reached 42% yoy in August and 22% in 8M14. While the trend is apparently positive, some concerns remain:

(i) The decline in goods exports (-17% yoy in August, -8% in 8M14) will accelerate through the year-end due to interruptions to key exporters' operations in the Donbas – this would require an even stronger adjustment in imports if the C/A were to remain balanced.

(ii) Imports of natural gas declined 86% yoy in volume terms in August since Ukraine isn't purchasing gas from Gazprom due to the gas price dispute. Once Ukraine returns to a normal gas purchase schedule, the C/A deficit will reemerge.

We forecast Ukraine's C/A deficit at close to 3.0% of GDP in 2014 and we expect it will narrow slightly to 2.9% in 2015 as a weaker hryvnia and falling real household incomes keep imports on a downward trend in the coming months.

Financial account hurt by debt, FDI outflows

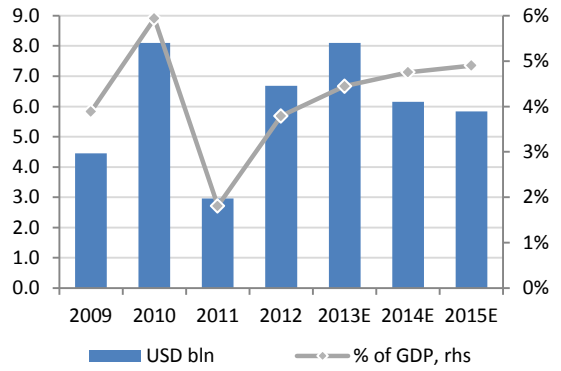
Ukraine continues to see capital outflows as companies and banks have lost access to international credit markets and are having real difficulty refinancing maturing obligations. Moreover, Ukraine is on course to post annual net FDI outflows (-USD 0.6 bln in 8M14) for the first time in its history. Another major source of concern is FX outflows to the cash market, which will persist at least through end-1Q15. IFI money to the state sector is the only source of foreign money inflows that is preventing a further deterioration of the financial account. Ukraine's financial account will see a major one-off decline when Naftogaz repays the USD 3.1 bln debt due to Gazprom.

The C/A and financial account deficits will have to be covered with NBU reserves. NBU injections will mainly be done through direct FX sales to Naftogaz and via FX auctions to commercial banks. We nonetheless expect central bank reserves to remain at current levels through end-2015 thanks to an active IMF-Ukraine program. Net IMF funding is scheduled at USD 8.9 bln through end-2015, split between the NBU and the government.

Hryvnia to remain under pressure

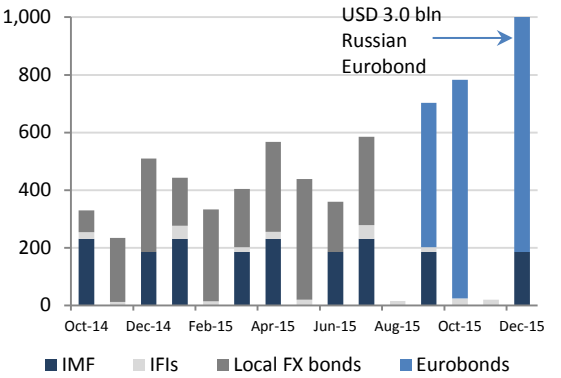
The negative market sentiment will keep the local FX market nervous in the coming months. The NBU has thus far failed to bring the market exchange rate close to the "indicative" rate of UAH 12.95/USD using administrative tools. The equilibrium rate in the shadow cash market is currently range-bound near UAH 14.0-14.5/USD. In our view, it is only a matter of time before the NBU admits the "indicative" dollar rate is too low and sanctions another wave of official depreciation. At this time we see the exchange rate appreciating slightly to UAH 13.7/USD through end-1H15, and further to UAH 13.3/USD in 2H15.

State budget deficit



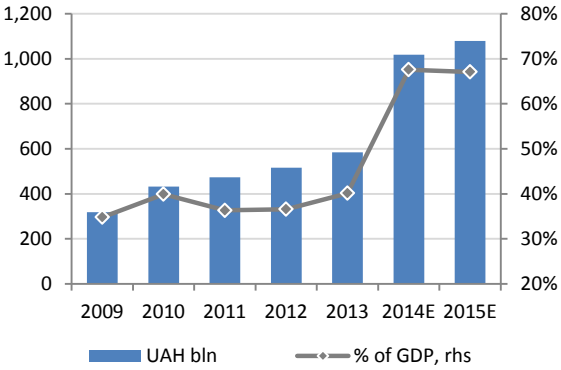
Sources: Finance Ministry, UkrStat, SP Advisors

Sovereign FX debt redemptions for 4Q14-2015, USD mln*



** excludes USD 320 mln that can't be distributed over months due to lack of information, excludes interest payments on FX debt*
Sources: Finance Ministry, IMF, WB, SP Advisors

Public debt (direct + state-guaranteed)



Sources: Finance Ministry, UkrStat, SP Advisors

Budget deficit to reach 4.8% of GDP, to be covered with IFI borrowings

Tax revenues are holding up fairly well, supported by a combination of high inflation, hikes in excise taxes and royalty rates, the elimination of some tax avoidance schemes, and (unfortunately) persistent strong fiscal pressures on companies. In September, state budget proceeds declined 9.3% yoy, but the decline was purely technical as a sizable transfer by the NBU to the budget last year pumped up the comparison base. Net of NBU transfers, the budget saw a 7.0% increase in revenues – quite a decent result given that a large part of the Donbas economy contributes practically nothing to the state budget. On the other hand, the potential to offset the cutoff in tax inflows from the war zone via compensatory measures like tax rate hikes is limited. We forecast 5% growth in state budget revenues in 2014, below the 13% projected by the budget law.

On the expenditures side, a tiny 5% increase in budget outlays in 8M14 was fully utilized to cover depreciation-inflated state debt servicing needs and boost military spending (+37% yoy, 4% of budget spending). Nearly all other key expenditure items declined yoy. An unfortunate factor that keeps expenditure growth in check is the inability to deliver social payments to recipients and to fund healthcare/education infrastructure in the war zone. Those payment interruptions will apparently result in huge accumulated arrears that will weigh on the central government budget in the coming years.

We see the state budget deficit at 4.8% of GDP, above last year's 4.4%. The projected budget shortfall doesn't include UAH 6.7 bln (0.4% of GDP) in compensation for VAT arrears, contributions to Naftogaz's share capital (UAH 96 bln, or 6.4% of GDP) that facilitated the redemption of the company's Eurobond, and possible bank recapitalization costs – all of these are non-cash expenses covered via T-bill transfers. The sources of cash to cover the state budget gap are at present limited solely to borrowings from IFIs and other governments. The government has thus far received c. USD 6.3 bln in external loans and at least USD 2.0 bln will come in 4Q14. This is entirely sufficient to keep government liquid through 2014. Meanwhile, domestic borrowings are stagnating as liquidity issues have kept commercial banks' interest in T-bills subdued.

The fiscal deficit will remain in the range of 4.5-5.0% of GDP for at least the next two years. The government will seek to compensate an inflation-driven decline in households' living standards via higher salaries for public employees and social payments. The need for a further increase in military spending is also apparent. We therefore see no chance of a narrowing of the fiscal gap any time soon. Consequently, raising money from IFIs and foreign governments will be a key agenda item in the coming years.

No sovereign default risk so far

The redemption of a state-guaranteed USD 1.6 bln Naftogaz Eurobond in late September put a full stop to debates over the Ukrainian government's commitment to smooth sovereign debt servicing. The government now faces a tough but manageable FX debt redemption schedule, with c. USD 6.3 bln due up until December 2015 (incl. USD 2.5 bln in local FX bonds). The redemption of the USD 3.0 bln Russia Eurobond in December 2015 will be the next milestone. Unless the conflict escalates further and feeds into a deterioration of macro fundamentals, we expect the government will remain determined to keep current on debt servicing. A possible violation of a Eurobond covenant that limits public debt-to-GDP to 60% for Ukraine may move the redemption date forward, but that feature adds little to the story. In that case Ukraine would apparently need to refinance the debt in full by tapping alternative sources, presumably new long-term loans from the US or the EU.

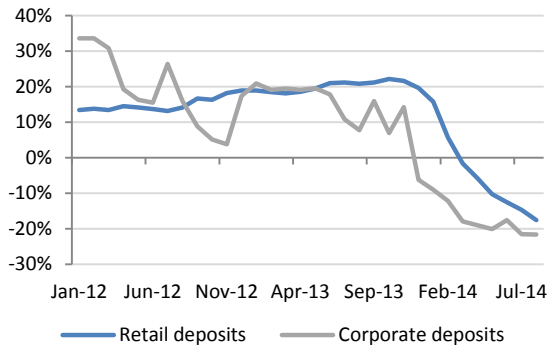
Macro Data and Projections

	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Business cycle indicators									
Real GDP, chg yoy	7.6%	2.3%	-14.8%	4.1%	5.2%	0.2%	0.2%	-9.5%	-4.3%
Household consumption, chg yoy	17.1%	11.8%	-14.9%	7.1%	15.7%	11.7%	7.7%	-7.1%	-4.2%
Investments in fixed capital, chg yoy	23.9%	1.6%	-50.5%	3.9%	7.1%	0.9%	-6.7%	-30.0%	-12.0%
Industrial output, chg yoy	7.6%	-5.2%	-21.9%	11.2%	7.6%	-1.8%	-4.7%	-14.3%	-7.2%
Nominal GDP, UAH bln	721	948	913	1,083	1,302	1,409	1,455	1,508	1,609
Nominal GDP, USD bln	143	180	117	136	163	176	182	129	119
GDP per capita, USD	3,078	3,891	2,550	2,982	3,585	3,875	4,002	2,850	2,625
CPI (eop)	16.6%	22.3%	12.3%	9.1%	4.6%	-0.2%	0.5%	19.4%	9.8%
CPI average	12.8%	25.2%	15.9%	9.4%	8.0%	0.6%	-0.3%	10.2%	14.6%
Unemployment (ILO methodology, avg)	6.9%	6.9%	9.6%	8.8%	8.6%	8.1%	7.7%	11.1%	10.4%
Balance of payments									
Current account balance, USD bln	-5.3	-12.8	-1.7	-3.0	-10.2	-14.3	-16.5	-3.9	-3.4
% GDP	-3.7%	-7.1%	-1.5%	-2.2%	-6.3%	-8.1%	-9.0%	-3.0%	-2.9%
Financial account balance, USD bln	14.7	9.7	-12.0	8.0	7.8	10.1	18.5	-3.5	-3.2
% GDP	10.3%	5.4%	-10.2%	5.9%	4.8%	5.8%	10.2%	-2.7%	-2.7%
FDI net, USD bln	9.2	9.9	4.7	5.8	7.0	6.6	3.4	-0.2	0.3
% of GDP	6.5%	5.5%	4.0%	4.2%	4.3%	3.8%	1.8%	-0.2%	0.3%
Gross NBU reserves (eop), USD bln	32.5	31.5	26.5	34.6	31.8	24.5	20.4	16.9	18.4
Monetary and banking indicators									
Monetary base, UAH bln	142	187	195	226	240	255	307	347	385
Monetary base, chg. yoy	46%	32%	4%	16%	6%	6%	20%	13%	11%
Money supply (M3), UAH bln	396	515	487	598	683	773	909	982	1,060
Money supply, chg. yoy	52%	30%	-5%	23%	14%	13%	18%	8%	8%
Monetary multiplier (eop M3/MB)	2.8	2.8	2.5	2.6	2.8	3.0	3.0	2.8	2.8
Bank loans, chg. yoy	74%	72%	-2%	1%	10%	2%	12%	13%	1%
Bank deposits, chg. yoy	52%	28%	-8%	26%	18%	16%	18%	-1%	4%
Loan-to-deposit ratio	152%	205%	219%	175%	162%	143%	135%	154%	150%
Exchange rate									
Official UAH/USD (eop)	5.05	7.70	7.99	7.96	7.99	7.99	7.99	13.70	13.30
Official UAH/USD (avg)	5.05	5.27	7.79	7.94	7.97	7.99	7.99	11.65	13.50
Budget and debt indicators									
State budget revenues, UAH bln	32.9	44.0	26.9	30.3	39.5	43.3	339.2	354.4	376.4
% of GDP	23.0%	24.4%	23.0%	22.2%	24.2%	24.6%	23.3%	23.5%	23.4%
State budget expenditures, UAH bln	34.8	46.4	31.5	38.4	42.4	50.0	403.9	426.1	455.3
% of GDP	24.4%	25.8%	26.8%	28.2%	26.0%	28.3%	27.8%	28.3%	28.3%
State budget balance, UAH bln	-1.9	-2.4	-4.6	-8.1	-3.0	-6.7	-64.7	-71.7	-78.8
% of GDP	-1.4%	-1.3%	-3.9%	-5.9%	-1.8%	-3.8%	-4.4%	-4.8%	-4.9%
Public debt, UAH bln	89	189	318	432	473	516	584	1,019	1,079
% GDP	12.3%	13.7%	34.0%	39.8%	36.3%	36.6%	40.1%	67.6%	67.1%

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

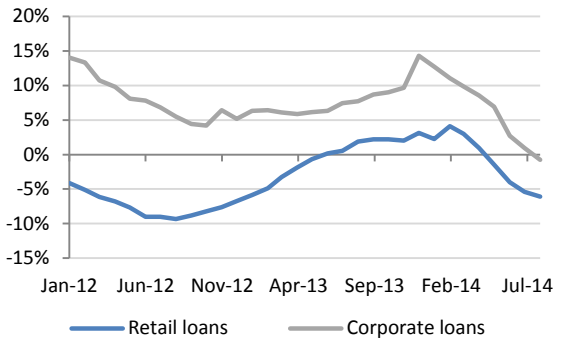
Banking Sector Overview

Bank deposits, chg. yoy, FX-adjusted terms



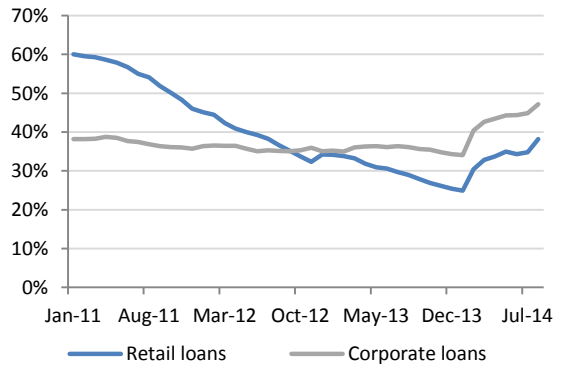
Sources: NBU, SP Advisors

Bank loans, chg. yoy, FX-adjusted terms



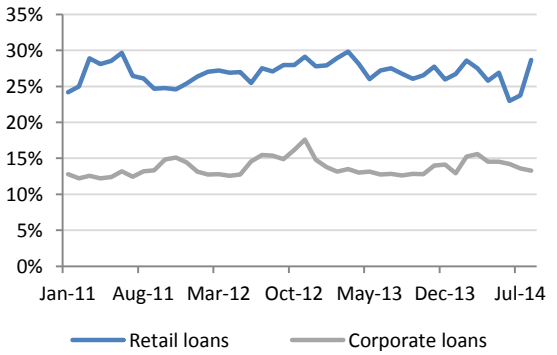
Sources: NBU, SP Advisors

Share of FX loans in total loan book



Sources: NBU, SP Advisors

Interest rates on newly issued loans (FX-blended)



Sources: NBU, SP Advisors

Ukrainian banks are passing through another challenging period in their history. The short-term risks are broad. Political turbulence, the ongoing exit of EU banks, the hryvnia devaluation, Crimea's annexation, the military conflict in the east, the trade war with Russia, and the deteriorated economic environment have all increased the stress on the banking sector. That stress has resulted in panic among depositors, numerous bank receiverships and bankruptcies, a reliance on NBU liquidity facilities, surging interest rates, a deterioration of asset quality, write-offs, foreign currency translation losses, and increases in NPL rates, which will continue affecting the system over the next 3 years.

According to the NBU-led and IMF-requested stress tests of Ukrainian banks, the sector may require around USD 5 bln of new capital (+35% to the sector's end-8M14 equity of USD 14 bln) to maintain adequate capitalization levels. In the aftermath of the 2008 crisis the sector received almost USD 13 bln in new equity over 2008-10 from banks' shareholders (mainly from the government and EU-based parent banks). This time the recapitalization could be more difficult as many EU banks have left the country and those that are still present are not all ready to support their Ukrainian subsidiaries at any cost.

After several waves of outflows since the start of the year the sector's deposit base (which made up 51% of total end-8M14 funding, vs. 39% at end-2008) stabilized at the end of August (total deposits were down 13% in 8M14 in FX-adjusted terms) and is likely to expand slightly by early 2015. We expect withdrawn deposits will return to the system, but the speed at which that happens will depend on exchange rate stability.

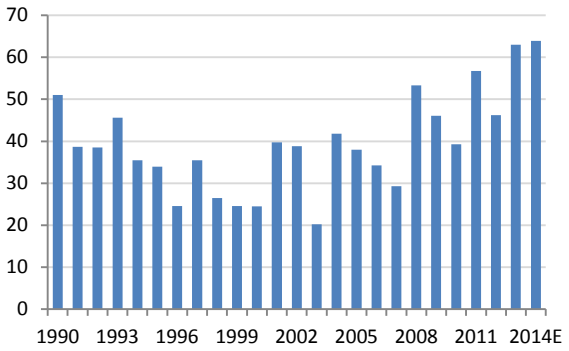
At the same time, loan origination remains weak as creditworthy borrowers remain scarce. Many lenders have continued to deploy liquidity into domestic T-bills as a result. The sector's total loan book decreased 2% in FX-adjusted terms in 8M14. The sector's official NPLs stood at 11.2% of the end-8M14 loan portfolio, according to the NBU definition (up from 7.7% at end-2013), but we believe a fair estimate is closer to 35-40% based on the generally accepted criteria of "past due 90 days or more." We expect negligible loan portfolio growth in 2015 as many banks will be busy with recapitalization and limited by their capital levels.

Assuming the military crisis in the east finds a resolution and the macroeconomic and banking sector situations stabilize, we expect interest rates to start retreating next year. Long-term hryvnia rates for prime borrowers may decline 5-7 pp over 2015.

The banking sector is unlikely to return to profitability until 2016. We expect the system to report heavy losses for the period (the sector posted over USD 0.4 bln of net losses for 8M14). Any improvement is conditional on the domestic environment stabilizing (especially politically) and economic reforms picking up speed. Core earnings are unlikely to broadly improve until the economy returns to healthy stable growth.

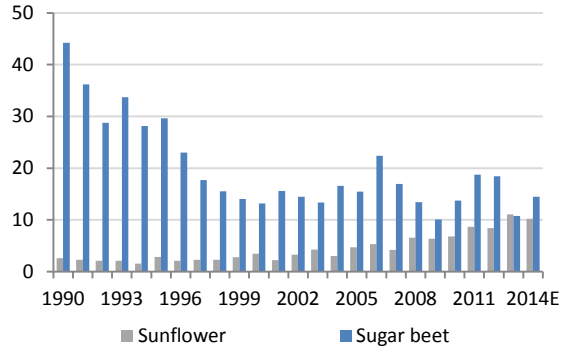
Agriculture Sector Overview

Ukraine's grain harvest, mln t.



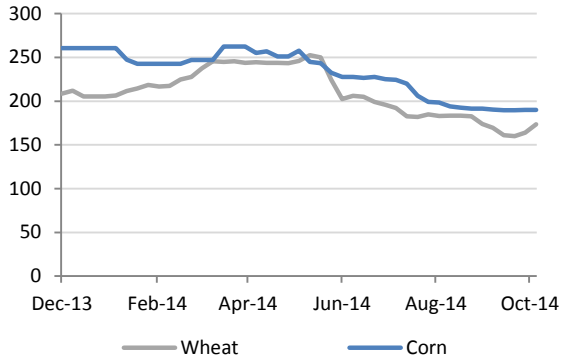
Sources: UkrStat, AAA Consulting

Ukraine's sunflower and sugar beet harvest, mln t.



Sources: UkrStat, AAA Consulting

Wheat and corn prices, Black Sea FOB, USD/t.



Source: Bloomberg

Sunflower oil price, Black Sea FOB, USD/t.

Source: Bloomberg

Ukraine is on track to deliver a new record grain harvest for the second consecutive year. Last year agricultural companies harvested 63 million tons of grains and this year the result is shaping up to be broadly flat yoy, even despite the loss of harvests in the occupied eastern territories and Crimea. The sunflower seed harvest will decline 5-10% from last year's 11.1 million tons, according to AAA Consulting, due to lower yields. The quality of seeds (oil extraction yield) is also expected to be worse than last year's. The sugar beet harvest is poised to recover some 30-35% from last year's 10.8 million tons (2nd lowest historically).

Prices are shaping up to be less favorable for agro producers this marketing year than last, mainly on the plentiful global harvest of major grain and oilseed crops. Fodder wheat FOB prices are currently 10-15% lower vs. October 2013 while corn prices are 25-30% lower yoy. Sunflower oil and sunflower seed prices declined 10% yoy.

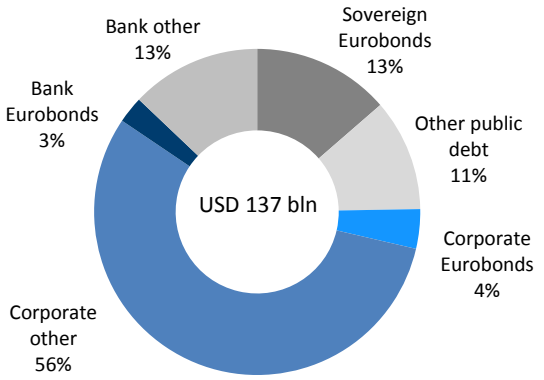
The topic of subsidies to agricultural producers is a pressing one that needs to be addressed by the newly elected parliament and government. Agro companies currently retain the difference between output and input VAT and use the money for their needs. VAT subsidies are an important catalyst for profitability. In 2013, the ratio of VAT subsidies to revenues stood at 1% for Kernel, 4% for Ovostar and IMC Agro, 7% for MHP, and 8% for Avangard. The IMF is requesting that Ukraine bring the VAT regime for agriculture closer to the general VAT regime. While we do not expect an outright abolition of this tax privilege, we do see the government starting to charge a reduced-rate VAT (vs. the normal 20% rate) already as of the start of 2015. Another tax privilege for agro producers is the right to pay a fixed agricultural tax (FAT) in lieu of corporate profit tax, land tax, and some other minor taxes. While choosing to pay FAT, companies usually face symbolic tax charges. The IMF is not asking the FAT to be abolished and we see no changes to this tax in the near future.

Transparency in financial reporting remains an issue for many agricultural companies. Some of them continue to abuse the IAS 41 (revaluation of biological assets) component to boost margins. The artificially hiked EBITDA usually exceeds cash flows from operations and offers investors a misleading measure of comfort. Another problem is underreporting of related party transactions, which usually take place on non-market conditions. The case of Mriya (MAYA GR, MRIYA CORP) is a perfect illustration that there is always room for financial cheating, even if approved by respected audit companies.

Ukraine's leading agro companies are in the process of establishing regular dividend policies. Kernel will pay its first-ever dividend of USD 0.25/share (dividend yield of 3.7% relative to the Oct. 17 price) with regards to FY2014 results (net loss of USD 98 mln). MHP distributed 39% of its 2012 net income and 49% of 2013 net income as dividends. Milkiland announced DPS of EUR 0.07 out of 2013 net income (implying a 19% dividend payout ratio) after it paid DPS of EUR 0.08 from 2012 net income. Avangard also approved its first-ever dividend payout of 12.5% of 2013 net income but is planning future dividend payout ratios of 15-40%. Other agro companies are still in an active development stage and are not paying dividends.

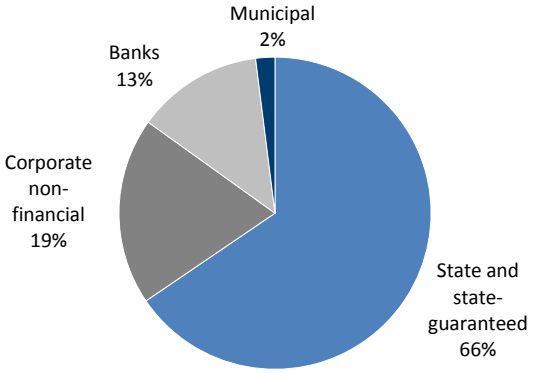
Guide to Ukraine Debt Universe

Ukraine's gross external debt composition, end-1H14



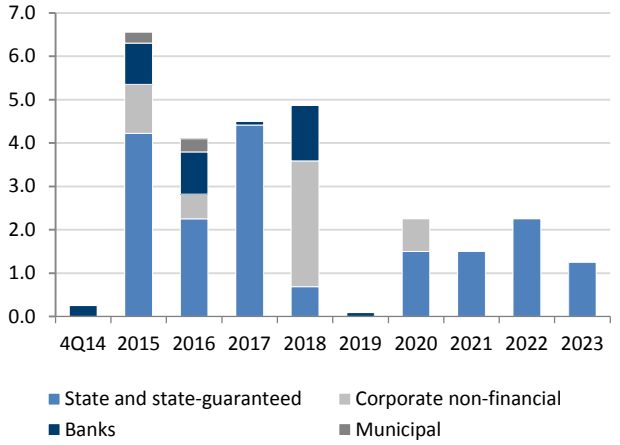
Sources: NBU, Bloomberg, SP Advisors

Ukraine Eurobond market composition as of Oct. 2014



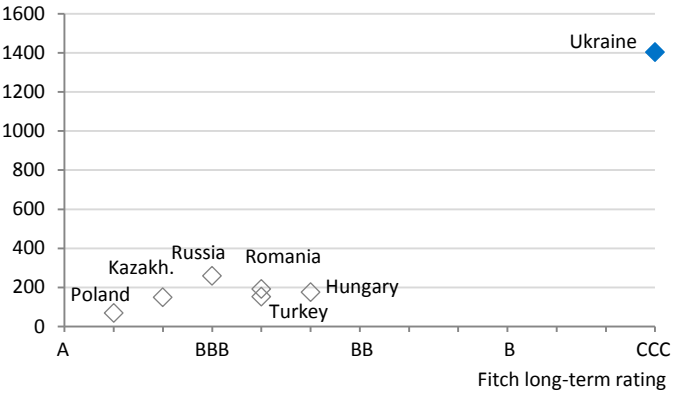
Sources: Bloomberg, SP Advisors

Ukraine Eurobond maturity profile as of Oct. 2014, USD bln



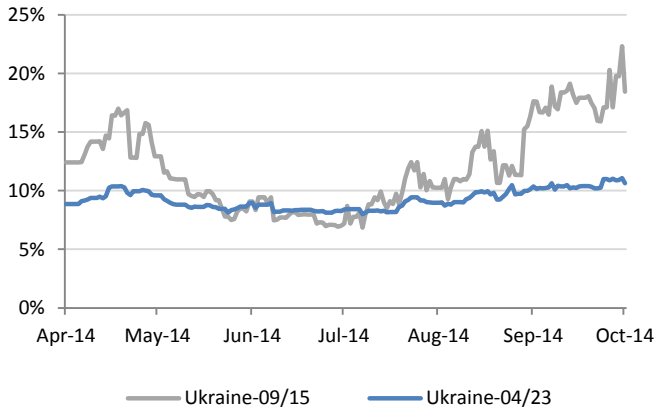
Sources: Bloomberg, SP Advisors

5Y CDS vs. Fitch long-term rating*



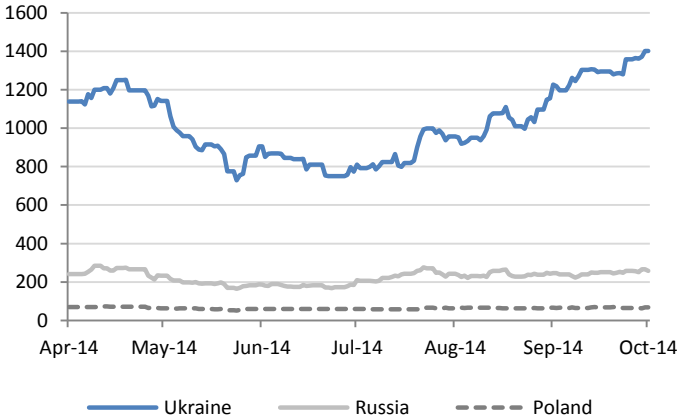
** data as of Oct. 17, 2014*
Source: Bloomberg`

Ukraine sovereign Eurobond yields



Source: Bloomberg

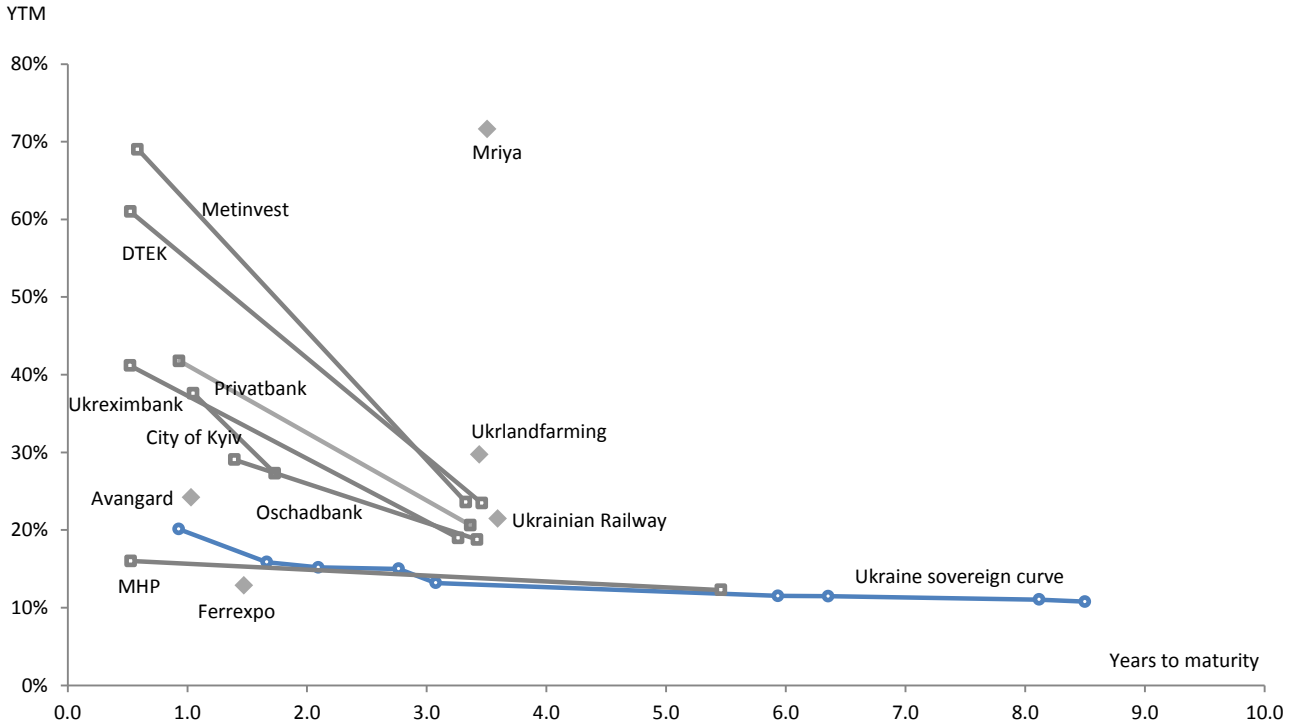
5Y CDS: Ukraine vs. peers



Source: Bloomberg

Ukraine Eurobond Universe

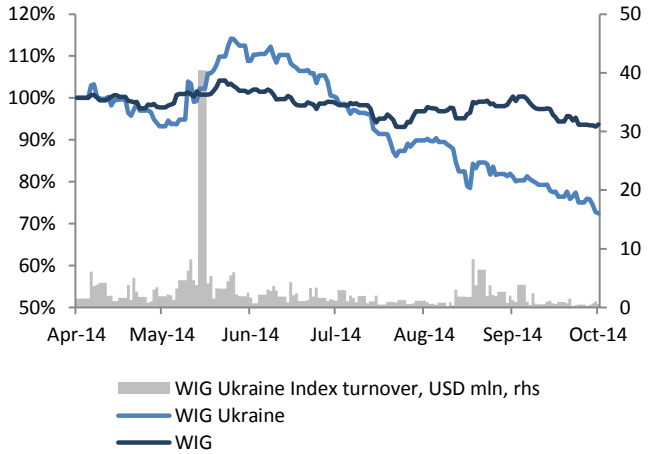
Ukraine Eurobond yield map*



** Data as of Oct. 17, 2014*
Sources: Bloomberg, SP Advisors

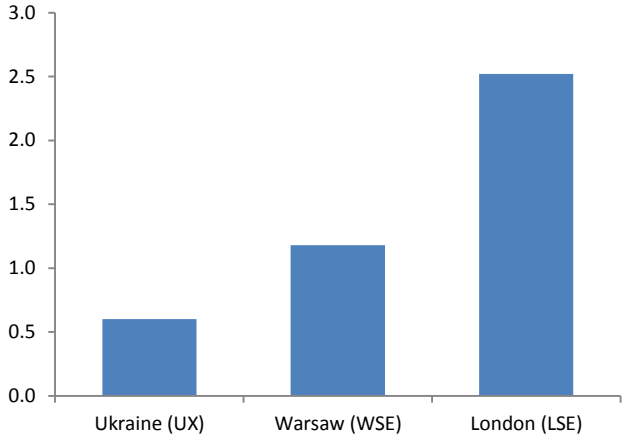
Ukraine Stock Market Overview

WIG Ukraine



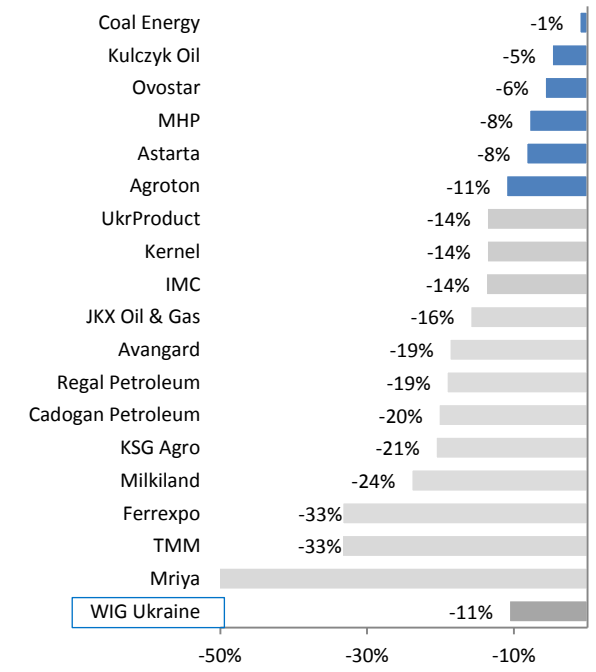
Source: Bloomberg

1-month ADT in Ukrainian stocks*



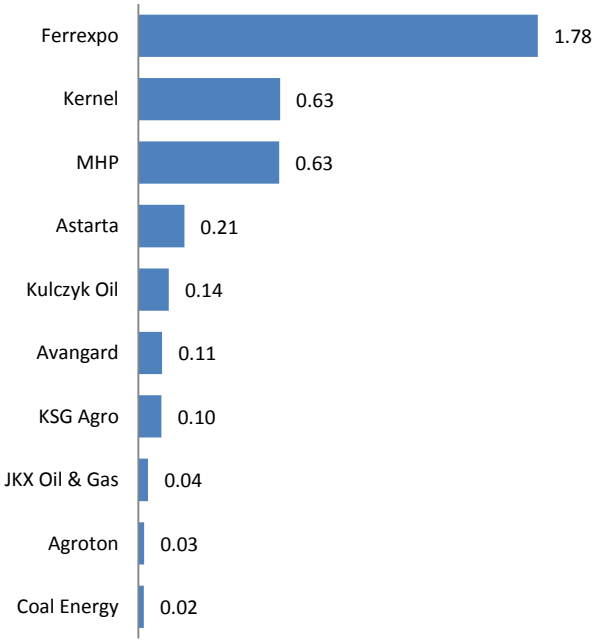
** Data as of Oct. 17, 2014*
Source: Bloomberg, SP Advisors

Ukrainian stock price change, mom*



** Data as of Oct. 17, 2014*
Source: Bloomberg

Average daily trading in Ukrainian stocks, USD mln*



** Data as of Sep. 17 – Oct. 17, 2014*
Source: Bloomberg

Eurobond Issuer Profiles

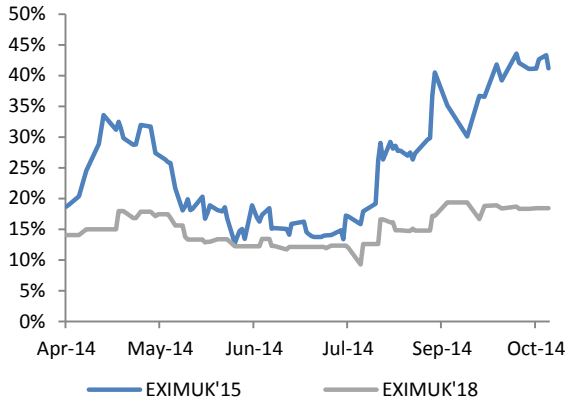
Ukreximbank

Eurobond parameters

Bloomberg ticker			EXIMUK
Maturity	04/15	02/16*	01/18
Amount outstanding, USD mln	750	125	600
Coupon, S/A	8.375%	5.793%	8.750%
Fitch	CCC	C	CCC
Moody's	Caa3	Ca	Caa3
S&P	-	-	-

** subordinated Eurobond*
Source: Bloomberg

Yield-to-Maturity



Source: Bloomberg

Bank Description

Fully state-owned Ukreximbank is Ukraine's 3rd-largest bank with end-1H14 assets of USD 9.4 bln (8.5% of banking sector assets). It focuses on corporate clients, which account for 98% of total loans. Corporate and retail deposits make up 35% and 21% of liabilities, respectively.

Recent Developments

- The bank reported a sound capital adequacy ratio (CAR) of 26.2% as of end-1H14.
- Liquidity was also sufficient with cash balances at USD 0.8 bln, or 8% of total assets, and total liquid assets (cash, interbank, and government bonds) at USD 3.8 bln (40% of assets).
- Customer deposits grew 20% YTD (in UAH terms) to USD 4.4 bln and total lending increased 24% (in UAH terms) in 1H14.
- NPLs (IFRS) stood at 14.4% of gross customer loans as of end-1H14, with a 120% coverage ratio.
- The bank is still positioned as a financing vehicle for the government – government, municipal, and state company debt securities accounted for 35% of total assets at end-1H14, the largest share among Ukrainian banks.
- State-owned companies accounted for 18% of loans at end-1H14 (19% at end-2013), a sign of a relatively risky lending policy.

Key Challenges/Opportunities

- A relatively high share of foreign currency loans (63% as of end-1H14) is balanced by the fact that virtually 100% of those loans were provided to large export-oriented corporations.
- Although we do not expect a negative bottom line, the bank is unlikely to return to decent profitability in 2H14-1H15 due to a heightened reserves allocation. This nevertheless shouldn't undermine liquidity.
- Given Ukreximbank's moderate foreign currency risks and exposure to external funding, sound capital adequacy, balanced loan-to-deposit ratio, solid liquidity position, and availability of state support, we expect the bank will repay its bonds in due course.

Key financials and ratios, USD mln, UAS

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Assets	11,008	11,804	7%	11,468	9,400	-18%
Net loans	5,059	5,289	5%	4,830	4,434	-8%
Net interest income	438	487	11%	240	200	-17%
Net loans to deposits	90%	98%	8.2pp	88%	102%	13.3pp
ROE	0.9%	1.1%	0.2pp	1.0%	1.1%	0.2pp
Cost/income	26.6%	29.2%	2.6pp	26.8%	16.5%	-10.2pp
Cost of risk	6.0%	5.4%	-0.6pp	6.1%	12.1%	6.0pp
Equity to assets	20.3%	19.2%	-1.1pp	19.6%	16.3%	-3.3pp
CAR (NBU methodology)	29.2%	29.2%	0.0pp	29.5%	26.2%	-3.3pp

Sources: Company, SP Advisors

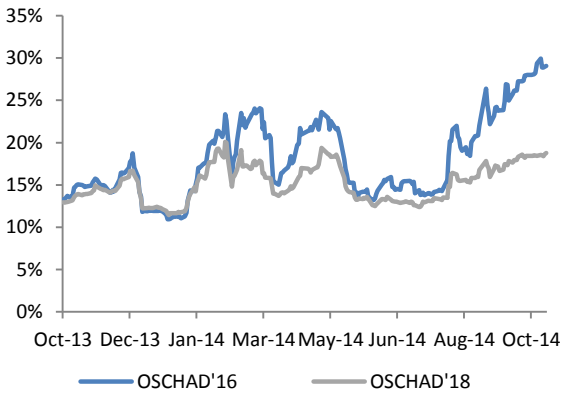
Oschadbank

Eurobond parameters

Bloomberg ticker		OSCHAD
Maturity	03/16	03/18
Amount outstanding, USD mln	700	500
Coupon, S/A	8.250%	8.875%
Fitch	CCC	CCC
Moody's	Caa3	Caa3
S&P	-	-

Source: Bloomberg

Yield-to-Maturity



Source: Bloomberg

Company Description

Fully state-owned Oschadbank is Ukraine's 2nd-largest bank with USD 9.8 bln in assets and 8.9% of the market as of end-1H14. The bank boasts the country's largest retail network with over 5,000 outlets. Funding is dominated by retail deposits at 35% of total liabilities, while lending is focused on corporates (94% of total loans at end-1H14).

Recent Developments

- The bank enjoyed a strong CAR of 22.8% as of end-1H14. Liquidity was also sufficient with cash balances at USD 0.5 bln or 5% of total assets and total liquid assets at USD 4.0 bln (42% of assets).
- Retail deposits are down 7% YTD (in UAH terms) to USD 2.8 bln (vs. -3% YTD in the sector) and corporate deposits are down 3% YTD in 1H14, while lending rose 23% YTD (in UAH terms). The bank reported a 3.1% ROE in 1H14.
- The NPL ratio (IFRS) has doubled (20.2% at end-1H14 vs. 10.7% at end-2013) solely because it recognized its loan exposure in Crimea as non-performing. The bank's coverage ratio stood at 92%.
- Two outstanding Eurobonds remain the bank's only exposure to external debt markets (external debt at 15% of total liabilities at end-1H14). Foreign currency assets account for 27% of all assets (end-1H14), among the lowest in the sector.

Key Challenges/Opportunities

- The bank's gross loan exposure to Crimea and the Donetsk and Luhansk Oblasts of USD 0.9 bln as of end-1H14 is likely to continue putting pressure on profitability and capitalization levels in the coming months.
- The risk of a deterioration of asset quality as a result of the hryvnia depreciation is mitigated by the bank's moderate share of foreign currency loans (39% as of end-1H14) and the fact that they were provided mostly to FX-hedged companies.
- There is a potential for a weakening of risk management controls due to the lender's close ties to the government. Oschadbank remains a government financing vehicle: T-bills and municipal and state company bonds made up 29% of assets at end-1H14 and loan exposure to state companies is at around 33% of the loan portfolio.
- The bank's exposure to Naftogaz (19% of gross loans as of end-1H14) is essentially financed by the central bank and the state (through refinancing facilities). Nevertheless, the deterioration of Naftogaz's financial position and/or a restructuring of the company could bring unfavorable consequences for loan servicing discipline.
- The bank plays a crucial social role that private banks are unlikely to fulfill. That makes us believe the government and the NBU will support the institution's liquidity and solvency at all costs. The bank's 100% state-guarantee of retail deposits also bodes well for the near-term stabilization and return to growth of deposits.

Key financials and ratios, USD mln, UAS

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Assets	10,763	12,957	20%	11,968	9,781	-18%
Net loans	6,407	6,449	1%	6,343	5,363	-15%
Net interest income	619	692	12%	338	297	-12%
Net loans to deposits	130%	111%	-18.7pp	118%	146%	28.0pp
ROE	3.2%	3.5%	0.3pp	3.3%	3.1%	-0.1pp
Cost/income	56.3%	48.3%	-8.0pp	49.2%	50.1%	1.0pp
Cost of risk	3.2%	4.4%	1.2pp	3.8%	3.6%	-0.2pp
Equity to assets	21.1%	19.8%	-1.3pp	18.9%	17.6%	-1.3pp
CAR (NBU methodology)	25.4%	25.4%	0.1pp	29.4%	22.8%	-6.6pp

Sources: Company, SP Advisors

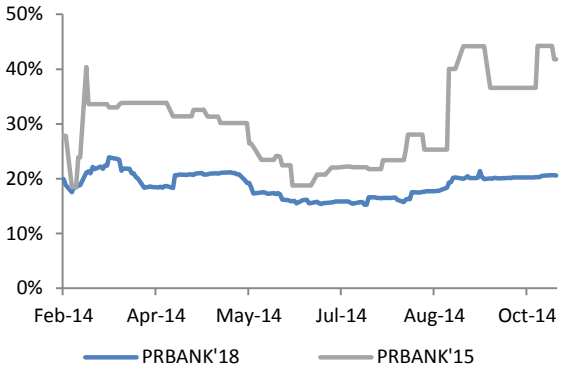
Privatbank

Eurobond parameters

Bloomberg ticker			PRIVAT
Maturity	09/15	02/16*	02/18
Amount outstanding, USD mln	200	150	175
Coupon, S/A	9.375%	5.799%	10.875%
Fitch	CC	-	CC
Moody's	Caa3u	Cau	Caa3u
S&P	-	-	-

** subordinated Eurobond*
Source: Bloomberg

Yield-to-Maturity



Source: Bloomberg

Company Description

Ukraine's largest bank with end-1H14 assets of USD 17.3 bln and a 16% market share. Its retail network consists of over 3,300 branches, Ukraine's 2nd largest. Funded mainly via retail deposits (57% of total liabilities) while corporates dominate lending (82% of total loans). Igor Kolomoysky and Gennadiy Bogolyubov control almost 90% of the bank in virtually equal stakes.

Recent Developments

- Sufficient liquidity buffers as at end-1H14: cash balances of USD 1.8 bln (10% of assets) and total liquid assets at USD 3.3 bln (19% of assets).
- Customer deposits are down 1% YTD (in UAH terms) to USD 11.1 bln, while lending is up 3% YTD (in UAH terms) in 1H14.
- NPLs stood at 6.6% (IFRS) as of end-1H14 (up from 5.9% at end-2013), among the lowest in the sector, with a 189% coverage ratio.
- Exposure to foreign currency lending has remained relatively low (28% of total lending as of end-1H14).
- External debt exposures accounted for just 2% of end-1H14 liabilities. The bank's next significant external debt repayment (USD 200 mln Eurobond) is scheduled for September 2015.
- Shortly after Ukraine's relations with Russia deteriorated, Privatbank's Russian subsidiary went into receivership. The parent sold its 79% stake in the subsidiary for an undisclosed price.

Key Challenges/Opportunities

- Although the shareholders decided to capitalize the UAH 1.7 bln of dividends for 2013 via an 11% share capital increase, the bank's CAR ratio still remains just slightly above the 10% minimum. The recent hryvnia depreciation as well as the loss of its Crimean business and the ongoing tensions in eastern Ukraine may trigger a deterioration of asset quality and a consequent negative effect on capital.
- Loans to related parties are a concern – they officially accounted for just 5% of the loan book at end-1H14 (IFRS), but this seems low given the bank is the key asset of Privat Group, one of Ukraine's largest diversified business conglomerates with interests in the oil, mining, metallurgy, media, and financial sectors.
- Nevertheless, with 24% of total retail deposits the bank is systemically important. We believe the central bank will stand ready to support liquidity of the lender. Loans from the NBU accounted for 9.5% of the bank's total liabilities as of June 2014. Privatbank's stable reputation among retail depositors will also help its retail deposit base stabilize and return to growth sooner.

Key financials and ratios, USD mln, UAS

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Assets	21,581	26,835	24%	23,896	17,271	-28%
Net loans	14,234	17,834	25%	15,740	12,424	-21%
Net interest income	1,010	1,056	5%	535	524	-2%
Net loans to deposits	107%	107%	-0.2pp	104%	111%	7.3pp
ROE	8.8%	9.7%	0.9pp	14.6%	3.5%	-11.0pp
Cost/income	45.5%	58.2%	12.7pp	57.0%	68.3%	11.3pp
Cost of risk	3.8%	1.7%	-2.0pp	1.0%	1.3%	0.3pp
Equity to assets	10.6%	9.5%	-1.1pp	10.3%	10.2%	-0.1pp
CAR (NBU methodology)	10.9%	12.2%	1.3pp	12.0%	10.9%	-1.1pp

Sources: Company, SP Advisors

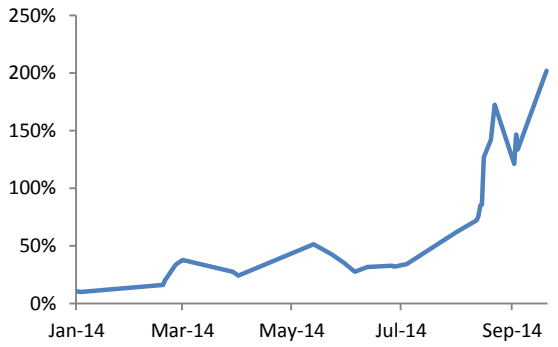
FUIB

Eurobond parameters

Bloomberg ticker	PUMBUZ
Maturity	12/14
Amount outstanding, USD mln	252
Coupon, Quarterly	11%
Fitch	NR
Moody's	Caa3
S&P	-

Source: Bloomberg

Yield-to-Maturity



Source: Bloomberg

Company Description

First Ukrainian International Bank is Ukraine's 10th largest bank with total assets of USD 3.1 bln and a 2.7% market share as of end-1H14. The lender is 100%-owned by Rinat Akhmetov's System Capital Management. In 2011 FUIB merged with Dongorbank, another SCM-owned bank. Retail and corporate deposits each account for 40% of total liabilities and corporate loans account for 75% of the total portfolio.

Recent Developments

- Sufficient liquidity at end-1H14: cash balances of USD 0.4 bln (12% of assets) and total liquid assets at USD 0.8 bln (25% of assets).
- Retail deposits have increased 11% YTD (in UAH terms) to USD 1.1 bln (vs. the sector's 3% YTD decline) and corporate deposits are up 25% YTD in 1H14; lending has increased 18% YTD (in UAH terms).
- CAR (Basel) of 18.2% at end-1H14 (vs. 21.0% at end-2013) and NBU CAR of 11.6% (down from 12.5% at end-2013)
- Pre-provision pre-tax earnings increased 142% yoy in 1H14, implying a pre-provision pre-tax ROE of 42.0% (vs. 22.8% in 2013), but that increase was offset by a 407% yoy hike in loan impairment charges.
- NPLs (IFRS) stood at 19.2% as of end-1H14 (up from 14.6% at end-2013), with a 72% coverage ratio.
- The bank's exposure to foreign currency lending remained relatively high (53% of total as of end-1H14) but the loans such loans were provided mainly to foreign currency-hedged companies.
- External debt positions accounted for 9% of total liabilities and 8% of the total funding base at end-1H14.

Key Challenges/Opportunities

- Higher provisioning driven by the recent hryvnia devaluation, the loss of business in Crimea, and a sharp worsening of the business environment in eastern Ukraine will continue suppressing the bottom line and weakening capital adequacy until at least 2H15.
- SCM's core business is located in eastern Ukraine, meaning its ability to support the bank may be constrained given that region's current conflict.
- The bank restructured its Eurobond in the wake of the 2008-2009 crisis and given the uneasy situation in the sector and limited refinancing opportunities we believe the chances are high FUIB will again offer restructuring terms to holders of its USD 252 mln Eurobond.

Key financials and ratios, USD mln, IFRS

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Assets	3,447	4,023	17%	3,911	3,130	-20%
Net loans	2,237	2,735	22%	3,297	2,190	-34%
Net interest income	144	216	50%	80	115	44%
Net loans to deposits	102%	104%	2.0pp	95%	105%	9.9pp
ROE	5.6%	10.4%	4.8pp	8.2%	2.3%	-5.9pp
Cost/income	57.9%	52.8%	-5.1pp	49.5%	39.1%	-10.4pp
Cost of risk	1.4%	2.4%	1.1pp	1.9%	3.8%	1.9pp
Equity to assets	18.4%	17.3%	-1.0pp	16.9%	15.3%	-1.6pp
CAR (NBU methodology)	17.6%	12.5%	-5.9pp	15.7%	11.6%	-4.1pp

Sources: Company, SP Advisors

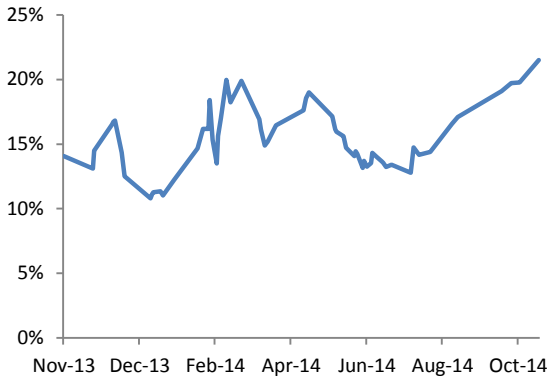
Ukrainian Railway (Ukrzaliznytsya)

Eurobond parameters

Bloomberg ticker	RAILUA
Maturity	05/18
Amount outstanding, USD mln	500
Coupon, S/A	9.5%
Fitch	CCC
Moody's	-
S&P	CCC

Source: Bloomberg

Yield-to-Maturity



Source: Bloomberg

Company Description

The state-owned monopoly rail carrier manages Ukraine's railroad infrastructure, including 21,640 km of track, a fleet of 4,040 locomotives and 126,000 passenger and cargo railcars. Cargo transportation makes up 76% of total revenues. The company accounted for 83% of Ukraine's total freight transportation turnover (excluding pipelines) in 2013.

Recent Developments

- Ukrzaliznytsia's revenue slipped 3% yoy to USD 6.4 bln in 2013 and EBITDA fell 6% to USD 1.4 bln. At end-2013 the company was reasonably leveraged with 1.8x net debt-to-EBITDA, safely clear of the 3.0x Eurobond covenant.
- Transportation tariffs are set by the government and the company has limited influence on pricing policies. In July, the government increased cargo transportation tariffs by 12%.
- The passenger transportation segment continues to generate huge losses, with a total operating loss of USD 458 mln in 2013. In 8M14, losses in the segment have increased by an estimated 40% yoy.

Key Challenges/Opportunities

- Ukrzaliznytsia has been affected heavily by the war in the east as all cargo and passenger transportation in the conflict zone have stopped. According to the company, September's average cargo railcar volume was 26% lower yoy. The production of coal, which accounted for 18% of total cargo transported (ton-kilometer metric), has more than halved since August, which is a key factor in the decline.
- Nearly 90% of revenues are in hryvnia, far below what the company needs to cover FX expenses. We see UZ's EBITDA declining at least 35% yoy in USD terms (to c. 890 mln) due to the sharp hryvnia depreciation and interruptions to operations in the east. That forecast suggests net debt/EBITDA could worsen to 2.4x at end-2014 from 1.8x at end-2013 and near the 3.0x Eurobond covenant in 2015.
- The company needs vast amounts of debt funding to modernize its infrastructure and renew facilities in the Donbas region and it will apparently aim to tap new Eurobonds in the coming years. For that reason we fully expect the government will stand behind the company to ensure smooth debt servicing.
- A management reshuffle offers hope that the company will launch a turnaround process that would lead to sizable gains in operating and financial efficiency. We also expect material improvements in corporate governance and transparency.

Key financials and ratios, USD mln

	2012	2013	Chg. yoy
Revenue	6,599	6,389	-3%
EBIT	658	621	-6%
EBITDA	1,460	1,368	-6%
Total Assets	9,229	9,348	1%
Net debt	2,475	2,455	-1%
EBIT margin	10.0%	9.7%	-0.3 pp
EBITDA margin	22.1%	21.4%	-0.7 pp
Net debt/EBITDA	1.7x	1.8x	0.1x
Gross debt/EBITDA	1.7x	1.9x	0.1x
EBIT/Finance costs	1.9x	1.7x	-0.2x

Sources: Company, SP Advisors

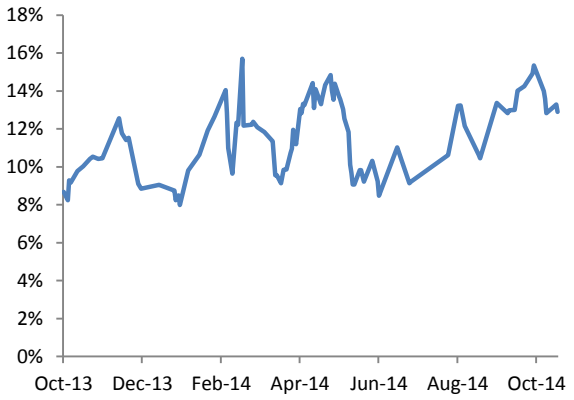
Ferrexpo

Eurobond parameters

Bloomberg ticker	FXPO LN
Maturity	04/16
Amount outstanding, USD mln	500
Coupon, S/A	7.875%
Fitch	CCC
Moody's	Caa2
S&P	CCC+

Source: Bloomberg

Yield-to-Maturity



Source: Bloomberg

Equity data

Bloomberg ticker	FXPO LN
Market capitalization, USD mln	509
Free float	24%
1-month ADT, USD mln	1.78
EV/Sales (2014E)	0.7x
EV/EBITDA (2014E)	2.1x

Data as of Oct. 17, 2014.
Source: Bloomberg

Share price, GBp

Source: Bloomberg

Company Description

Ukraine's 2nd largest iron ore pellet producer and top-10 globally. Operates two mines located in central Ukraine, far from the military zone in the east, and holds 6.8 billion of JORC-classified iron ore resources. Ferrexpo produced 10.8 mmt of pellets in 2013 (+12% yoy), all of which was exported, mainly to the EU and China. The company is nearing completion of its USD 650 mn Capex program, which is aimed at increasing production to 12 mmt annually and improving the average quality of its pellets to 65% Fe content. Ferrexpo also operates a fleet of 2,000 railcars and 140 dry cargo barges used to deliver pellets to EU customers via the Danube River. The company is 51%-owned by local businessman Kostyantyn Zhevago.

Recent Developments

- Pellet output increased 2% and sales 3% yoy in 1H14 thanks to an export-oriented sales strategy – the company focuses solely on sales abroad which shelters it from falling demand from local steel companies.
- Net realized price declined 9% yoy in 1H14 vs. a 19% decline in the benchmark ore price over the same period.
- EBITDA margin improved 11pp yoy to 42% in 1H14 on improved cost efficiency and the local currency depreciation. Over 1H14, production costs declined 23% to USD 47.8/t (down by USD 6.2/t from 2013) thanks to the UAH devaluation – over 55% of production costs are UAH-denominated. Increased pellet production at the new Yeristovo mine also helped reduce production costs by a further USD 6.8/t.

Key Challenges/Opportunities

- A global oversupply of iron ore and the continued adjustment of ore prices are key challenges. Since the start of 2014, the pellet price (65%, China-based, CFR) fell 32% to USD 121/t, while the benchmark price for fines is down 39% to USD 82.3/t
- The completion of the quality upgrade program (with all pellets produced with 65% Fe content) should increase Ferrexpo's premium over the benchmark to partially mitigate the risks associated with a decline of iron ore prices.
- Ferrexpo's debt load is comfortable – it has to repay c. USD 250 mln in 2H14-2015, with end-June cash of USD 360 mln. We also forecast OCF of not less than USD 800 mln in 2H14-2015.
- Tough debt markets due to Ukraine's heightened macro risks may delay Ferrexpo's plans to expand annual pellet output to 20 mmt in the mid-term through the construction of one more concentrator and a new pelletizing factory.

Key financials and ratios, USD mln

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Revenue	1,424	1,581	11%	775	759	-2%
EBIT	346	401	16%	195	226	16%
EBITDA	405	506	25%	244	321	32%
Total Assets	2,758	2,932	6%	2,794	2,346	-16%
Net debt	423	639	51%	567	694	22%
EBIT margin	24%	25%	1 pp	25%	30%	5 pp
EBITDA margin	28%	32%	4 pp	31%	42%	11 pp
Net debt/EBITDA	1.0x	1.3x	0.2x	nm	nm	nm
Gross debt/EBITDA	2.5x	2.0x	-0.5x	nm	nm	nm
EBIT/Interest expense	3.9x	6.1x	2.2x	4.0x	6.8x	2.8x

Sources: Company, SP Advisors

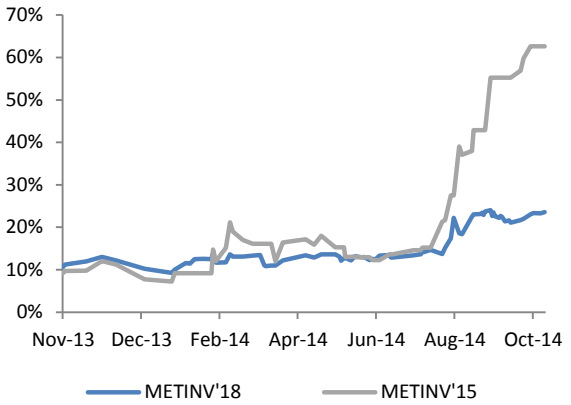
Metinvest

Eurobond parameters

Bloomberg ticker		METINV
Maturity	05/15	02/18
Amount outstanding, USD mln	500	750
Coupon, S/A	10.250%	8.750%
Fitch	CCC	CCC
Moody's	Baa2	Baa2
S&P	-	-

Source: Bloomberg

Yield-to-Maturity



Source: Bloomberg

Company Description

Ukraine's largest vertically integrated steel and mining group and top-25 globally. In 2013, Metinvest produced 36.9 mmt of iron ore concentrate and 12.4 mmt of steel, accounting for 45% and 39% of the Ukrainian market, respectively. Owned by Rinat Ahkmetov's SCM (71.25%), Smart Holding (23.75%), and former CEO Volodymyr Boyko (5%).

Recent Developments

- Benefited from the hryvnia depreciation in 1H14 as EBITDA surged 29% yoy to USD 1.6 bln despite an 8% contraction in sales. About 84% of revenues are either FX-denominated or linked to the FX exchange rate, while 2/3 of costs are UAH-denominated.
- Metinvest is suffering from the military conflict in the Donbas: 4 of the company's plants – Yenakiievo Steel, Avdiivka Coke, Krasnodon Coal, and Khartsyzsk Pipe, which accounted for 26% of steel, 56% of coke, 24% of coal, and almost 100% of pipe production at Metinvest, respectively – are located in the war zone and have suspended or cut production since August. There is no clarity on a resumption of works at the moment. In addition, two of Metinvest's largest steel mills, Azovstal and Ilyich Steel (c. 75% of steel production and 25% of EBITDA for 1H14) are situated in Mariupol, just 30 km away from the war zone. The two are currently operating at c. 60% of their capacity and could scale back output further if the conflict escalates.
- Scaled back its 2014 investment program from c. USD 1 bln to USD 0.5 bln (USD 272 mln spent in 1H14).
- The company recently offered investors to exchange its USD 500mn Eurobond maturing in May 2015 for cash (20%) and new notes (80%) redeemable in November 2017 with a 10.5% coupon.

Key Challenges/Opportunities

- The sustainability of its business model is uncertain – if the military conflict escalates further, all of Metinvest's steel assets could be idled and the company could be forced to concentrate solely on iron ore production and sales.
- Damaged and idle plants may require significant CAPEX to make them operational and to restart production. We stress that the scale of the potential investment required is impossible to estimate at the moment.
- The decrease in production, decline in revenues, and the need to fund increased purchases of raw materials from outside parties could stir up liquidity pressures. Meanwhile, external debt markets will effectively remain closed in the foreseeable future.

Key financials and ratios, USD mln

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Revenue	12,569	12,807	2%	6,567	6,023	-8%
EBIT	989	1,026	4%	704	1,203	71%
EBITDA	1,996	2,291	15%	1,252	1,609	29%
Total Assets	17,588	16,906	-4%	17,103	14,811	-13%
Net debt	3,747	3,525	-6%	3,198	3,210	0%
EBIT margin	8%	8%	0 pp	11%	20%	9%
EBITDA margin	16%	18%	2 pp	19%	27%	8 pp
Net debt/EBITDA	1.9x	1.5x	-0.3x	nm	nm	nm
Gross debt/EBITDA	2.1x	1.9x	-0.3x	nm	nm	nm
EBIT/Interest expense	3.1x	3.0x	-0.1x	6.2x	10.3x	4.1x

Sources: Company, SP Advisors

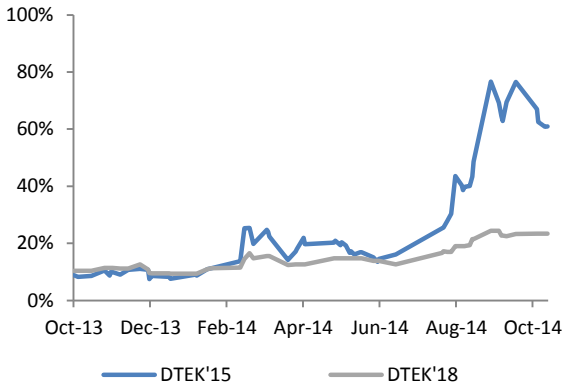
DTEK

Eurobond parameters

Bloomberg ticker		DTEK
Maturity	04/15	04/18
Amount outstanding, USD mln	200	750
Coupon, S/A	9.500%	7.875%
Fitch	CCC	CCC
Moody's	Baa2	Baa2
S&P	-	-

Source: Bloomberg

Yield-to-Maturity



Source: Bloomberg

Company Description

Ukraine's largest energy company, fully owned by Rinat Akhmetov's System Capital Management (SCM). Operates 10 thermal power plants and two heating and thermal plants with 18.2 GW of total capacity, as well as 6 coal-producing companies with 31 mines. In 2012, DTEK mined 41.4 mmt of energy and coking coal (48% of Ukraine's total) and generated 53 TWh of electricity (30% of the country's total).

Recent Developments

- Revenues sank 21% and EBITDA decreased 6% in 1H14 in USD due to the depreciation of the hryvnia and decreased electricity sales, which was only partly offset by increased coal exports over the period.
- The company has been hit hard by the military conflict in the Donbas – two of 10 thermal plants (23% of total output in 2013) and 3 of 6 coal-producing companies (45% of 2013 output) are in the war zone. Some equipment at the plants was destroyed by artillery attacks, while the coal assets are cut off from territories controlled by Kyiv.
- Since August DTEK has been faced with a deficit of thermal coal; it became a coal importer in September after striking a USD 500 mln contract for coal deliveries from Russia.

Key Challenges/Opportunities

- The Donbas exposure is already negatively affecting DTEK's cash flows – thermal plants and coal companies in the war-hit region accounted for more than a third of DTEK's EBITDA in 2013.
- DTEK is scheduled to repay USD 942 mln of debt in 2015, including a USD 200 mln Eurobond. Managing the debt will be a big challenge for two main reasons: i) 90% of revenues are in hryvnia and ii) the company stopped exporting coal and started purchasing coal from abroad to ensure stable operations at its thermal plants. It is possible, in our view, that the company will repay the Eurobond but attempt to restructure other debt.
- The company's plan to cut CAPEX 30% in 2H14 from the 1H in order to accumulate cash for debt repayments may negatively affect the future operational capacity at its assets. Moreover, damage to DTEK's TPPs and mines in the east may require additional CAPEX simply to restart operations.
- Given that Rinat Akhmetov, DTEK's UBO, is attempting to play both sides of the Donbas conflict, it is possible, in our view that the government may initiate a re-privatization of DTEK's assets (Kyivenergo and Zakhidenergo), which were privatized in 2011-12 under the presidency of Viktor Yanukovych.

Key financials and ratios, USD mln

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Revenue	10,332	11,612	12%	5,477	4,309	-21%
EBIT	1,365	1,030	-25%	461	468	2%
EBITDA	2,119	1,872	-12%	879	829	-6%
Total Assets	9,619	11,903	24%	10,236	8,171	-20%
Net debt	1,950	2,823	45%	2,484	3,044	23%
EBIT margin	13%	9%	-4 pp	16%	19%	3%
EBITDA margin	21%	16%	-4 pp	8%	11%	2 pp
Net debt/EBITDA	0.9x	1.5x	0.6x	nm	nm	nm
Gross debt/EBITDA	1.2x	1.9x	0.6x	nm	nm	nm
EBIT/Interest expense	2.6x	2.2x	-0.4x	3.8x	3.0x	-0.8x

Sources: Company, SP Advisors

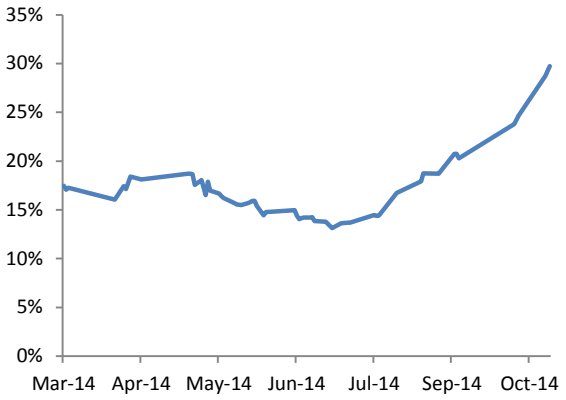
Ukrlandfarming

Eurobond parameters

Bloomberg ticker	UKRLAN
Maturity	03/18
Amount outstanding, USD mln	500
Coupon, S/A	10.875%
Fitch	CCC
Moody's	-
S&P	CCC

Source: Bloomberg

Yield-to-Maturity



Source: Bloomberg

Company Description

Ukraine's largest agricultural company with a land bank of 654,000 ha and 611,000 ha cultivated in 2014. The company grew aggressively over the last few years via M&A and aims to further expand to 1 million ha in the long-run. It mainly focuses on growing corn (46% of land planted in 2013 and 52% in 2014). Owns over 63,000 heads of cattle for both milk and meat production; operates 5 seed production plants, storage for 1.9 million tons of grain, and a dense distribution network across Ukraine for agro machinery and raw materials. On top of that, ULF owns a 77.5% stake in Avangard, Ukraine's largest egg and egg products producer.

Recent Developments

- ULF's revenues declined 7% yoy to USD 923 mln in 1H14 as the company idled its sugar segment (contributed USD 129 mln to 1H13 revenue), citing unfavorable market conditions. Growth in the seeds production and distribution segments compensated much of the sugar hole. 12M-trailing EBITDA decreased 5% to USD 796 mln (including from the revaluation of biological assets) vs. end-2013. Cash flows from operations (before changes in working capital) were up 6% yoy to USD 403 mln.
- In early 2014, Cargill acquired a 5% stake in ULF. Media sources reported the deal size at USD 200 mln, which values ULF's equity at USD 4.0 bln (implying EV/2013 EBITDA of 6.4x). This is the largest foreign investment in the Ukrainian agricultural sector within the last couple of years.
- In mid-October, ULF announced plans to seek preferred equity financing in order to expand its shareholder base ahead of a prospective IPO and to raise cash to pursue acquisitions of distressed assets/companies.

Key Challenges/Opportunities

- ULF grew by acquiring companies in diverse locations and with diverse business models. Uniting them under one umbrella and aligning their operational models has been a key challenge. Operating efficiency across land clusters in different regions of Ukraine converged thanks to hefty investments into machinery and working capital.
- Leverage is acceptable, with gross debt-to-EBITDA at 1.9x as of June (down from 2.0x at end-2013), below the 2.5x Eurobond covenant.
- ULF continues to diversify markets: exports made up 40% of revenues in 1H14 (vs. 15% in 1H13), fully covering FX-denominated costs and interest expense, and helping accumulate FX for external debt redemptions.
- In view of the current economic crisis, the company scaled back on its near-term CAPEX program. It now plans to complete the construction of 12 new silos with a combined capacity of 2.2 million tons of grain (the bulk is financed by export credit agencies for equipment purchases) and plans to budget USD 60-80 mln per year for the maintenance CAPEX.

Key financials and ratios, USD mln

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Revenue	1,889	2,072	10%	995	923	-7%
EBIT*	673	925	37%	705	572	-19%
EBITDA*	792	842	6%	842	796	-5%
Total Assets	4,609	5,832	27%	5,609	4,461	-20%
Net debt	906	1,379	52%	1,363	1,252	-8%
EBIT margin	36%	45%	9 pp	71%	62%	-9 pp
EBITDA margin	42%	41%	-1 pp	85%	86%	2 pp
Net debt/EBITDA	1.1x	1.6x	0.5x	1.6x	1.6x	0.0x
Gross debt/EBITDA	1.6x	2.0x	0.2x	1.9x	1.9x	0.1x
EBIT/Interest expense	4.0x	5.3x	1.3x	9.3x	6.6x	-2.7x

** EBIT and EBITDA include effects of revaluation of biological assets.*
Sources: Company, SP Advisors

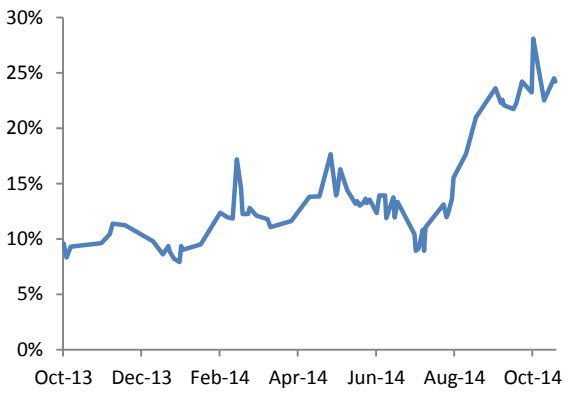
Avangard

Eurobond parameters

Bloomberg ticker	AVINPU
Maturity	10/15
Amount outstanding, USD mln	200
Coupon, S/A	10.0%
Fitch	CCC
Moody's	-
S&P	-

Source: Bloomberg

Yield-to-Maturity



Source: Bloomberg

Company Description

Ukraine's leading egg producer with 55% of industrial shell egg production, 92% of dry egg product output, and 84% of egg and dry egg product exports in 1H14. Avangard operates 19 farms for laying hens, 10 farms for rearing young laying hens, an egg processing plant, and other auxiliary facilities. The company had a laying hen flock of 22.8 million heads as of June 2014 and produced 3.7 billion eggs in 1H14.

Recent Developments

- Revenues slumped 14% yoy to USD 263 mln in 1H14, mainly due to the substantial hryvnia depreciation (UAH 10.3/USD in 1H14 vs. 8.0 in 1H13) as 61% of 1H14 sales were domestic. Operating profit and EBITDA declined 44% yoy and 41% yoy, respectively, on a USD 29 mln FX loss. Meanwhile, operating cash flow (before changes in working capital) declined just 11% yoy to USD 102 mln.
- At its AGM Avangard voted to buy back a portion of its outstanding USD 200 mln October 2015 Eurobond. The company will provide details on the timing and size of the deal at a later date. The Eurobond accounts for 58% of Avangard's end-1H14 gross debt.
- Avangard is moderately leveraged, with end-1H14 net debt-to-EBITDA of 0.4x and gross debt-to-EBITDA of 1.4x, well below the 3.0x Eurobond covenant.
- As of June 2014 the company had USD 236 mln in cash and cash equivalents, with over USD 200 mln on deposit at foreign banks.

Key Challenges/Opportunities

- About 95% of scheduled CAPEX volumes were financed prior to 2014; the company is in a position to deleverage.
- The Eurobond is Avangard's only sizable debt due in 2015; bank debt of USD 17 mln (at end-1H14) accounts for the rest.
- The intention to buy Eurobonds back from the market is a positive message that underscores the company's determination to repay the Eurobond on time and in full. Moreover, it has sufficient cash to start offloading debt ahead of the redemption schedule.

Key financials and ratios, USD mln

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Revenue	629	661	5%	304	263	-14%
EBIT*	265	276	4%	122	68	-44%
EBITDA*	280	301	8%	135	79	-41%
Total Assets	1,578	1,819	15%	1,578	1,374	-13%
Net debt	121	167	38%	156	106	-32%
EBIT margin	42%	42%	-1 pp	40%	26%	-14 pp
EBITDA margin	44%	46%	2 pp	44%	30%	-14 pp
Net debt/EBITDA	0.4x	0.6x	0.1x	0.5x	0.4x	-0.1x
Gross debt/EBITDA	1.2x	1.1x	-0.1x	1.1x	1.4x	0.3x
EBIT/Interest expense	7.2x	7.1x	-0.1x	7.2x	4.1x	-3.1x

** EBIT and EBITDA include effects of revaluation of biological assets.*
Sources: Company, SP Advisors

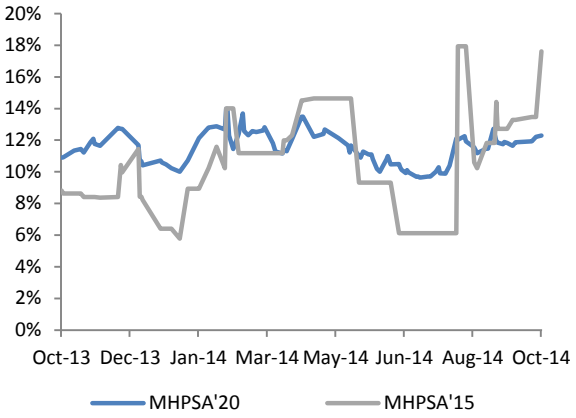
MHP

Eurobond parameters

Bloomberg ticker		MHPSA
Maturity	04/15	04/20
Amount outstanding, USD mln	235	750
Coupon, S/A	10.25%	8.25%
Fitch	CCC	CCC
Moody's	Caa2	-
S&P	-	CCC

Source: Bloomberg

Yield-to-Maturity



Source: Bloomberg

Company Description

Ukraine's largest poultry producer, MHP holds a 50% share of the country's industrially produced chicken meat and accounts for 1/3 of total consumption. MHP now operates annual production capacities of 550,000 t of poultry and 285,000 t of sunflower oil. The company owns a 360,000 ha land bank (of which 11% is in Russia) for fodder production for in-house use.

Recent Developments

- MHP reported impressive 3Q14 operating results despite Ukraine's sharp economic decline and the ongoing military conflict: poultry sales to 3rd parties increased 21% yoy to 145 Kt (+22% in 9M14 to 397 Kt), with material growth in both domestic and export markets. Specifically, export sales surged 48% yoy in 3Q14 and accounted for 31% of total volume sales. The average price per kg of chicken meat increased 37% yoy in UAH but still declined 13% in USD terms due to the hryvnia's depreciation.
- With 12-m trailing EBITDA recovering to USD 469 mln in June 2014 from USD 391 mln in December 2013, MHP's net debt/EBITDA ratio improved to 2.45x from 2.89x over that period (vs. a 3.0x Eurobond covenant cap). The company's end-1H14 gross debt stood at USD 1,271 mln, down 2% since the start of the year. The company's weighted average cost of debt remains below 8%.

Key Challenges/Opportunities

- The company will have no problem redeeming its USD 235 mln Eurobond due in April 2015 – MHP recently secured a USD 250 mln line of credit from the IFC to refinance the paper.
- The company has extensively used debt to fund its development program but is unlikely to materially increase its debt burden further – operating cash flows fully cover remaining CAPEX needs (including the construction of the Vinnytsia project).
- Export sales – dominated by sunflower oil – accounted for 37% of 1H14 revenue and offer a hedge against currency risks. The share of export sales is due to rise in the coming years.
- MHP boasts a perfect credit history and maintains strict corporate governance practices.
- The USD 750 mln Eurobond (of USD 1,271 mln total debt) is due in 2022 when MHP will have fully completed its investment program; deleveraging can then take place without compromising the pace of growth.

Key financials and ratios, USD mln

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Revenue	1,408	1,496	6%	656	637	-3%
EBIT	381	272	-29%	147	227	54%
EBITDA	468	391	-16%	193	272	41%
Total Assets	2,488	2,768	11%	2,701	2,085	-23%
Net debt	1,045	1,130	8%	1,179	1,150	-2%
EBIT margin	27%	18%	-33 pp	22%	36%	13 pp
EBITDA margin	33%	26%	-21 pp	29%	43%	14 pp
Net debt/EBITDA	2.2x	2.9x	0.7x	2.7x	2.5x	-0.3x
Gross debt/EBITDA	2.4x	3.1x	0.3x	3.1x	2.7x	-0.4x
EBIT/Interest expense	5.8x	4.6x	-1.2x	5.0x	5.4x	0.4x

Sources: Company, SP Advisors

Equity Issuer Profiles

Kernel

Market data

Bloomberg ticker	KER PW
Market capitalization, USD mln	533
Free float	60.9%
1-month ADT, USD mln	1.78
EV/Sales (2014E)	0.5x
EV/EBITDA (2014E)	5.4x

Data as of Oct. 17, 2014.
Source: Bloomberg

Share price, PLN

Source: Bloomberg

Company Description

Ukraine's leading vegetable oil producer and exporter with crushing capacities of 2.9 mln t/year, and the largest producer in the domestic bottled oil segment with 30% of the market. Other business segments include farming (a 390,000 ha land bank) and grain exports (c. 10% of Ukraine's and 4% of Russia's total). Kernel operates one of Ukraine's largest grain sea terminals with throughput capacity of 4 mln tons/year and a similar-size grain terminal in Russia (50/50 JV), as well as 2.8 million tons of inland silo storage capacity in Ukraine.

Recent Developments

- The last financial year (FY2014, June 2014 end) was mixed. Operationally, Kernel managed to maintain sunflower seed crushing volumes flat at 2.3 million tons thanks to a 60% yoy increase in the 4Q (ended June 2014). On the downside, FY2014 sales of bulk oil fell 12% to 920,000 t and sales of bottled oil declined 13% to 94,000 t. Grain sales surged 41% yoy to 4.2 million tons.
- Revenues decreased 14% yoy to USD 2,393 mln in FY2014 while EBITDA declined 22% yoy to USD 223 mln. The EBITDA margin narrowed 1 pp yoy to 9.3% due to sizable losses in the farming segment (EBITDA at neg. USD 44 mln) on unfavorable crop prices. The company expects a material recovery of margins in FY2015.

Key Challenges/Opportunities

- Over the past year, Kernel divested three companies – a sugar plant and a farm in Ukraine and a 100,000 t oil crushing plant in Russia – a sign the company is optimizing assets following an aggressive M&A campaign over the past couple of years. With the spate of divestments, the company has now exited the sugar segment as it felt sugar price volatility and local currency exposure made the segment unattractive.
- Kernel prefers to buy sunflower seed for crushing on spot and selling sunflower oil forward to mitigate price risks.
- None of the company's assets are allocated in Crimea or the Donbas region.
- In the foreseeable future the company plans to concentrate on increasing the utilization of capacity at existing oil crushing capacities. Kernel plans to crush 2.4-2.5 million tons of sunflower seed in FY2015 (vs. 2.3 million tons in FY 2014). On top of that, company is aiming to increase grain exports to 4.5-5.0 million tons (vs. 4.2 million tons in FY2014).
- Kernel will keep CAPEX relatively low at USD 55 mln in FY15 (broadly in line with FY14) against the backdrop of general economic instability. It is planning to deleverage and strengthen its financial position.

Key financials and ratios, USD mln

	2013	2014	Chg. yoy
Revenue	2,797	2,393	-14%
Gross profit	451	408	-9%
Gross margin	16%	17%	1 pp
EBITDA	288	223	-22%
EBITDA margin	10%	9%	-1 pp
EBIT	201	129	-36%
EBIT margin	7.2%	5.4%	-2 pp
Net profit/loss	111.6	-98.3	nm
Net debt	655	684	4%

**Kernel's financial year ends in June. Sources: Company, SP Advisors*

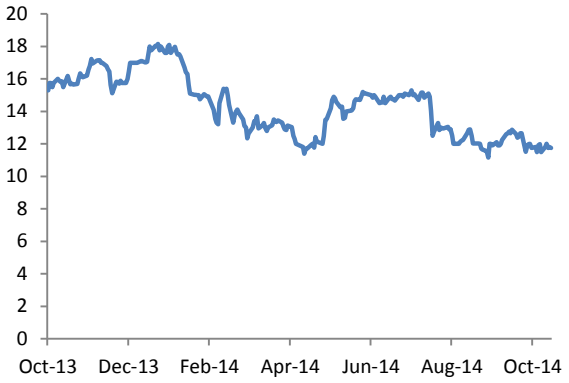
MHP

Market data

Bloomberg ticker	MHPC LI
Market capitalization, USD mln	1,242
Free float	38%
1-month ADT, USD mln	0.63
EV/Sales (2014E)	1.7x
EV/EBITDA (2014E)	4.9x

Data as of Oct. 17, 2014.
Source: Bloomberg

Share price, USD



Source: Bloomberg

Company Description

Ukraine's largest poultry producer, MHP holds a 50% share of the country's industrially produced chicken meat and accounts for 1/3 of total consumption. MHP now operates annual production capacities of 550,000 t of poultry and 285,000 t of sunflower oil. The company owns a 360,000 ha land bank (of which 11% is in Russia) for fodder production for in-house use.

Recent Developments

- MHP reported impressive 3Q14 operating results despite Ukraine's sharp economic decline and the ongoing military conflict: poultry sales to 3rd parties increased 21% yoy to 145 Kt (+22% in 9M14 to 397 Kt), with material growth in both domestic and export markets. Specifically, export sales surged 48% yoy in 3Q14 and accounted for 31% of total volume sales. The average price per kg of chicken meat increased 37% yoy in UAH but still declined 13% in USD terms due to the hryvnia's depreciation.
- The war in the east has affected the company – one of its breeding farms, which provided c. 30% of hatching eggs is located in the conflict area. MHP has started to import hatching eggs from the EU and has managed to keep all poultry production facilities running at full capacity.

Key Challenges/Opportunities

- The company improved EBITDA margin 14pp yoy to 43% in 1H14 thanks to a declining cost of sales on favorable grain and oilseed pricing. The recent hryvnia depreciation will undermine margins in 2H14, but a high share of export sales (37% in 1H14) will mitigate the negative effects.
- The investment case for MHP rests mainly on its plans to boost chicken production to 800,000 t by 2018 (+45% from end-1H14 capacity), which would make it Europe's largest poultry producer. The key will be MHP's ability to expand into external markets as the local market may be unable to absorb all of the additional volume.
- A preferential 0% import duty in the EU will allow MHP to strengthen its position in that market. In 3Q14, exports to the EU grew 9x vs. the 1Q and accounted for a significant 17% of the company's total external poultry sales.
- MHP reaffirmed plan to increase its arable land bank 33% to 480,000 ha and expand poultry production via M&A in the EU. The company also plans to strengthen its vertical integration by constructing a soybean plant.

Key financials and ratios, USD mln

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Revenue	1,408	1,496	6%	656	637	-3%
Gross profit	422	324	-23%	180	264	47%
Gross margin	30%	22%	-8%	27%	41%	14%
EBITDA	468	391	-16%	193	272	41%
EBITDA margin	33%	26%	-7 pp	29%	43%	14 pp
EBIT	381	272	-29%	147	227	54%
EBIT margin	27%	18%	-9 pp	22%	36%	13 pp
Net profit/loss	311	162	-48%	90	-270	nm
Net debt	1,045	1,130	8%	1,179	1,150	-2%

Sources: Company, SP Advisors

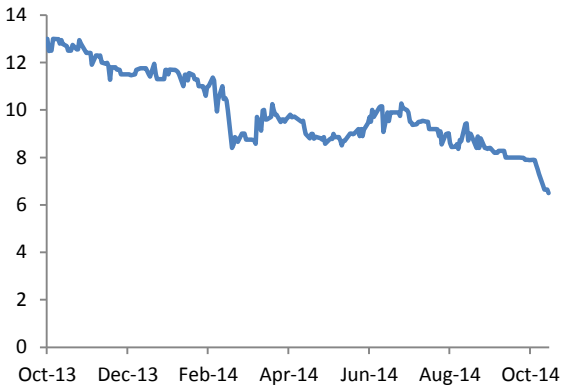
Avangard

Market data

Bloomberg ticker	AVGR LI
Market capitalization, USD mln	415
Free float	22.5%
1-month ADT, USD mln	0.11
EV/Sales (2014E)	0.6x
EV/EBITDA (2014E)	2.8x

Data as of Oct. 17, 2014.
Source: Bloomberg

Share price, USD



Source: Bloomberg

Company Description

Ukraine's leading egg producer with 55% of industrial shell egg production, 92% of dry egg product output, and 84% of egg and dry egg product exports in 1H14. Avangard operates 19 farms for laying hens, 10 farms for rearing young laying hens, an egg processing plant, and other auxiliary facilities. The company had a laying hen flock of 22.8 million heads as of June 2014 and produced 3.7 billion eggs in 1H14.

Recent Developments

- Revenues slumped 14% yoy to USD 263 mln in 1H14, mainly due to the substantial hryvnia depreciation (UAH 10.3/USD in 1H14 vs. 8.0 in 1H13) as 61% of 1H14 sales were domestic. Operating profit and EBITDA declined 44% yoy and 41% yoy, respectively, on a USD 29 mln FX loss. Meanwhile, operating cash flow (before changes in working capital) declined just 11% yoy to USD 102 mln.
- Avangard's AGM on September 30 approved the company's first-ever dividend payout of 12.5% of 2013 net income. The payout of USD 29.5 mln (of 2013 net income of USD 238 mln) implies USD 0.4625/DR and a 5.9% dividend yield based on the September 30 closing price. The record day was October 14 and dividends will be paid by December 31, 2014.

Key Challenges/Opportunities

- Avangard is a mature company that has already reached its planned production capacity and is now aiming to use operating cash flows to offload debt and start paying dividends.
- While all of Avangard's facilities remain operational, those located in the conflict area may be shut down when the production cycle of the current flock ends. In light of that possibility, the company expects egg production to decline 10% in the 2H vs. the 1H, which would leave it flat yoy at 7 bln eggs in 2014.
- The current downturn should end once Ukraine resolves its economic problems. The company completed the construction of two brand new egg farms 2013 (Avis and Chornobaivske) that brought total production capacity to 8.6 bln eggs and the new facilities (along with increased capacity at the Imperovo egg processing plant) are likely to become key value drivers for the company once economic situation improves.
- The probable elimination of tax benefits for Ukrainian agricultural producers is a risk to Avangard. The elimination of the preferential VAT framework could squeeze Avangard's EBITDA margin by 6-7pp.
- Uncertainty regarding the future for minority shareholders will persist into the foreseeable future. Ukrlandfarming, the controlling shareholder, may decide to either maintain a hefty free float in Avangard stock or offer a voluntary share swap in which shares of the egg producer would be exchanged into shares of ULF following the latter's long-rumoured IPO.

Key financials and ratios, USD mln

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Revenue	629	661	5%	304	263	-14%
Gross profit	259	267	3%	119	81	-32%
Gross margin	41%	40%	-1 pp	39%	31%	-8 pp
EBITDA	280	301	8%	135	79	-41%
EBITDA margin	44%	46%	1 pp	44%	30%	-14 pp
EBIT	265	276	4%	122	68	-44%
EBIT margin	42%	42%	0 pp	40%	26%	-14 pp
Net profit/loss	228	238	4%	106	52	-51%
Net debt	121	167	38%	156	106	-32%

Sources: Company, SP Advisors

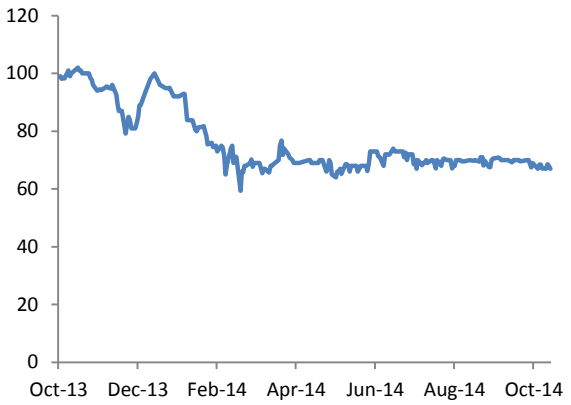
Ovostar

Market data

Bloomberg ticker	OVO PW
Market capitalization, USD mln	122
Free float	26%
1-month ADT, USD mln	0.02
EV/Sales (2014E)	1.6x
EV/EBITDA (2014E)	4.6x

Data as of Oct. 17, 2014.
Source: Bloomberg

Share price, PLN



Source: Bloomberg

Company Description

One of Ukraine's leading producers of eggs and egg products. In 2013, Ovostar accounted for c. 8% of industrially produced eggs, 93% of liquid egg products, and 5% of dry egg products. Ovostar operates two laying hen farms with an end-1H14 flock of 4.1 mln (+ 23% yoy) laying hens, a hatchery, a breeder farm, and an egg processing plant. The company owns recognizable shell egg brands in Ukraine and is the leader in the private label egg segment.

Recent Developments

- Egg production increased 11% yoy to 468 million pieces in 1H14, of which 298 million pieces were sold (42 million exported) and 150 million processed.
- 1H14 revenue grew 5% yoy to USD 34.9 mln. The EBITDA margin improved 10 pp yoy to 39% in the 1H thanks to a decline in production costs (mainly poultry fodder), and EBITDA increased 42% yoy to USD 13.5 mln. Cash flows from operations were virtually unchanged yoy at USD 7.6 mln.
- The company has delivered on all of its pre-IPO promises, albeit with minor delays and despite Ukraine's worsening economic conditions. In 2013, the company completed an expansion and modernization program at its Vasylkiv farm.

Key Challenges/Opportunities

- The company announced a new USD 90 mln investment program for 2014-17 which aims to increase the number of places for laying hens to 9.0 mln (from 5.4 mln at end-2013) and boost shell egg production to 2.1 bln pieces/year (from 0.9 bln) and liquid egg product output to 14 Kt/year (from 6.4 Kt). The total value of the CAPEX program is estimated at USD 90 mln, including USD 10-12 mln in 2014.
- Ovostar is underleveraged, with end-1H14 gross debt of USD 13 mln and net debt at just USD 6.9 mln. Expansion has thus far been financed from operating cash flows and IPO proceeds, but the company will have to rely on borrowings for its new CAPEX program.
- The sharp hryvnia depreciation in 1H14 will depress Ovostar's USD revenue as more than 80% of sales are domestic.

Key financials and ratios, USD mln

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Revenue	60.3	81.3	35%	33.1	34.9	5%
Gross profit	29.1	35.4	22%	10.6	13.7	29%
Gross margin	48%	44%	-5 pp	32%	39%	7 pp
EBITDA	27.3	36.2	33%	9.5	13.5	42%
EBITDA margin	45%	45%	-1 pp	29%	39%	10 pp
EBIT	23.8	32.3	36%	6.8	11.4	67%
EBIT margin	39%	40%	0 pp	21%	33%	12 pp
Net profit/loss	24.0	31.2	30%	6.7	11.2	67%
Net debt	3.3	4.9	48%	2.5	6.9	176%

Sources: Company, SP Advisors

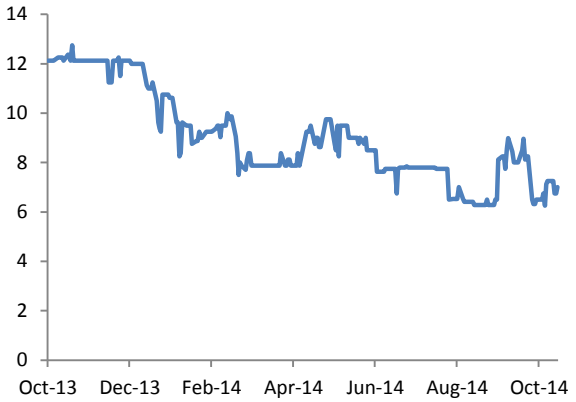
UkrProduct

Market data

Bloomberg ticker	UKR LN
Market capitalization, USD mln	4
Free float	25%
1-month ADT, USD mln	0.002
EV/Sales (2014E)	0.2x
EV/EBITDA (2014E)	2.7x

Data as of Oct. 17, 2014.
Source: Bloomberg

Share price, GBp



Source: Bloomberg

Company Description

UkrProduct is a leading Ukrainian producer and distributor of dairy. It operates four dairy plants (including cheese-and-butter plant) with aggregate production capacity of 60,000 t/year. In 1H14, sales of branded products accounted for 66% of revenue and skimmed milk products contributed 27%. In 2013 the company held a 21% market share in packaged butter and a 23% market share in packaged cheese in Ukraine. Exports made up 30% of revenues last year.

Recent Developments

- Revenues were down 30% yoy to GBP 17.2 mln in 1H14, mainly due to the heavy hryvnia depreciation. The branded products segment led the decline on lower sales prices. Cheese prices also suffered as the Russian export ban redirected supply to the local market. Meanwhile, the company increased sales of skimmed milk products 36% yoy to GBP 4.7 mln on the back of demand improvements, both domestically and externally.
- Despite the sizable decline in sales, EBITDA surged an impressive 42% yoy to GBP 1.8 mln on better raw input pricing.

Key Challenges/Opportunities

- Ukrproduct doesn't plan to increase capacity in the near future and its current CAPEX program is focused on modernizing existing production facilities. That implies revenues and margins will be a function of product prices and raw materials costs.
- In 1H14, the company completed the first-stage modernization of its skimmed milk production facility (financed by an EBRD loan) and started in on the second stage. The improvements aim to enhance product quality and the reliability of supplies to multinationals.

Key financials and ratios, GBP mln

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Revenue	60.2	52.2	-13%	24.7	17.2	-30%
Gross profit	9.0	7.2	-20%	3.7	3.9	5%
Gross margin	15%	14%	-1 pp	15%	23%	8 pp
EBITDA	3.2	2.2	-31%	1.3	1.8	42%
EBITDA margin	5.3%	4.2%	-1 pp	5.3%	10.7%	5 pp
EBIT	2.0	0.8	-60%	0.6	1.3	125%
EBIT margin	3.3%	1.5%	-2 pp	2.3%	7.5%	5 pp
Net profit/loss	0.9	-0.7	nm	0.2	-2.0	nm
Net debt	8.5	9.9	16%	10.2	7.4	-28%

Sources: Company, SP Advisors

Milkiland

Market data

Bloomberg ticker	MLK PW
Market capitalization, USD mln	33
Free float	21%
1-month ADT, USD mln	0.014
EV/Sales (2014E)	0.4x
EV/EBITDA (2014E)	3.9x

Data as of Oct. 17, 2014.
Source: Bloomberg

Share price, PLN

Source: Bloomberg

Company Description

Dairy producer that owns 10 plants in Ukraine, two in Russia, and one in Poland, with total milk processing capacity of over 1 million tons per year. In 1H14, whole-milk products accounted for 49% of total sales and cheese and butter made up 37%. Key markets are Russia (46% of 1H14 sales), Ukraine (46%), and Poland (8%).

Recent Developments

- In July Russia closed its market to all of Milkiland's Ukraine-based production assets and in October introduced an outright ban on all cheese imports from Ukraine. While there may have been minor product safety concerns, the ban looks politically motivated.
- 1H14 sales slipped just 1% to EUR 150 mln, while EBITDA declined 15% to EUR 13.5 mln. The results are still strong given that the hryvnia's depreciation squeezed domestic sales in FX terms. However, the 2H will undoubtedly be a challenging period due to the loss of the Russian market.
- At an AGM on June 20, 2014 Milkiland announced DPS of EUR 0.07 from 2013 net income (19% dividend payout ratio). As of the AGM date the dividend yield was 4.3%. The record date is October 31 and the payment date is November 14, 2014.
- In late September, the company announced it failed to meet some of its debt obligations under an agreement with a syndicate of international banks and violated debt covenants. Milkiland is in debt restructuring talks with the lenders. As of end-1H14 the company had total debt of EUR 110 mln, 85% of which was short-term.

Key Challenges/Opportunities

- Debt restructuring is the key issue. The company had hoped to increase operating cash flows (EUR 13.9 mln before adjustments in working capital and interest in 1H14) on exports to Russia, but has since been forced to downgrade projections.
- Milkiland moved to overcome the trade barriers by acquiring milk processing capacities in Russia and Poland. These plants should become key revenue drivers over the next year.
- Near-term development plans include the modernization of the Rylsk cheese-making plant in Russia and the reconstruction of facilities in Mena and Okhtyrka (both in Ukraine) to increase production of higher value-added cheese. The company is also aiming to develop its distribution network and launch sales in Kazakhstan and other Central Asian countries to compensate for the loss of the Russian market.
- Milkiland plans to finance its modernization program primarily using operating cash flows and to only take on new debt to refinance existing facilities.

Key financials and ratios, EUR mln

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Revenue	287.0	341.0	19%	151.1	149.8	-1%
Gross profit	78.2	73.5	-6%	34.0	32.1	-6%
Gross margin	27%	22%	-6 pp	23%	21%	-1 pp
EBITDA	37.4	33.4	-11%	15.9	13.5	-15%
EBITDA margin	13%	10%	-3 pp	11%	9%	-2 pp
EBIT	22	19	-13%	9.1	7.0	-23%
EBIT margin	7.7%	5.6%	-2 pp	6%	5%	-1 pp
Net profit/loss	13.6	11.7	-14%	5.5	-27.3	nm
Net debt	73.1	90.7	24%	92.8	97.6	5%

Sources: Company, SP Advisors

Astarta

Market data

Bloomberg ticker	AST PW
Market capitalization, USD mln	263
Free float	37%
1-month ADT, USD mln	0.21
EV/Sales (2014E)	1.2x
EV/EBITDA (2014E)	4.5x

Data as of Oct. 17, 2014.
Source: Bloomberg

Share price, PLN

Source: Bloomberg

Company Description

Ukraine's largest beet sugar producer with 8 sugar plants and 305,000 t produced in 2013, or 25% of the market. Astarta owns one of the country's largest land banks (245,000 ha) and is more than 80% self-sufficient in sugar beets. Astarta is also Ukraine's largest industrial milk producer with a herd of 30,000 cattle.

Recent Developments

- Sugar output decreased 13% yoy to c. 150,000 t in 1H14, but an increase in prices fully compensated the decline in volume. All in, sugar sales rose 4% yoy to EUR 89.6 mln. The price increase was mainly driven by a drop in the supply of sugar beet and sugar products in 2013 – Ukraine's harvest was the 2nd lowest in its history.
- EBITDA improved 38% yoy to EUR 106 mln (incl. revaluation of biological assets) and operating cash flows grew 80% yoy to EUR 79 mln. The bottom line was negatively affected by FX losses due to the hryvnia depreciation – net income came in at just EUR 3.5 mln.
- Astarta is successfully diversifying into other business segments: in 1Q14 it launched a soybean processing plant with 220,000 t in annual production capacity. In 1H14 the new soybean processing segment contributed 22% to total revenue. Crop cultivation made up 16% of revenue and dairy farming accounted for 10%.

Key Challenges/Opportunities

- Exposure to the overly regulated domestic sugar market (50% of 1H14 revenue) is a risk. Management does, however, believe its expertise will allow the company to take advantage of an uncertain sugar market while smaller and inefficient producers close their doors.
- In 2014, Ukraine's total sugar beet harvest is expected to increase 29% to 14.5 million tons, according to AAA Consulting, which will weigh on sugar prices. Additionally, the hryvnia depreciation will squeeze the contribution of the sugar and dairy segments to the company's profits.
- The new soybean processing plant will continue driving Astarta's revenues through end-2014 even though performance in other segments may deteriorate.
- Exports accounted for 20% of 1H14 revenue to provide a material hedge against the hryvnia depreciation.
- The company is reasonably leveraged – net debt stood at EUR 195 mln as of June 2014 and net debt-to-EBITDA (12m-trailing) at 2.0x.

Key financials and ratios, EUR mln

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Revenue	353	370	5%	164	188	14%
Gross profit*	108	93	-14%	84	114	36%
Gross margin	31%	25%	-5 pp	51%	61%	9 pp
EBITDA*	85.9	68.5	-20%	76.7	105.7	38%
EBITDA margin	24%	19%	-6 pp	47%	56%	47 pp
EBIT*	61	38	-38%	64	93	64
EBIT margin	17%	10%	-7 pp	39%	49%	39 pp
Net profit/loss	46	26	-44%	52	4	52
Net debt	240	264	10%	228	195	228

** Gross profit, EBITDA and EBIT include effects of revaluation of biological assets.*
Sources: Company, SP Advisors

IMC

Market data

Bloomberg ticker	IMC PW
Market capitalization, USD mln	66
Free float	24%
1-month ADT, USD mln	0.02
EV/Sales (2014E)	1.1x
EV/EBITDA (2014E)	3.7x

Data as of Oct. 17, 2014.
Source: Bloomberg

Share price, PLN

Source: Bloomberg

Company Description

A vertically-integrated agro producer in northern Ukraine with 137,000 ha of land. The company owns Ukraine's 9th largest land bank and is the 7th largest industrial milk producer. The company sowed its key crop, corn, on 60% of its arable land in 2014. IMC owns 554,000 t of grain and oilseed storage capacities, c. 750 units of machinery, and c. 4,000 milking cows.

Recent Developments

- In 1H14, IMC reported a 55% yoy increase in revenues to USD 82 mln mainly thanks to an expansion of arable land (up 65% since mid-2012) and the related growth in grain and oilseed sales volumes (555,000t harvested in 2013 vs. 301,000t in 2012). Meanwhile, normalized EBITDA (adjusted for non-recurring costs) grew by just 13% yoy to USD 58 mln on the back of less favorable crop pricing (and a related decline in the revaluation of biological assets). Cash flows from operating activities (before interest, taxes, and working capital adjustments) improved substantially – USD 49 mln in 1H14 vs. USD 14 mln in 1H13.
- In January, IMC secured a USD 30 mln 7.5-year loan from IFC to fund business expansion and finance working capital. The agreement came with warrants attached – IFC will have the right to subscribe to new shares at USD 6.45/share for up to USD 20 mln within 5 years of signing the loan agreement.

Key Challenges/Opportunities

- The company will continue to focus on expanding its land bank – it plans to increase cultivated area to 285,000 ha and storage capacity to 653,000t by 2019 (+ 18% vs. the current level). The latest purchase of a new subsidiary took place in January when IMC paid USD 18 mln for 60% in an agro company (40% purchased in mid-2013) with a 16,000 ha land bank and 195,000 t in storage capacity.
- Another long-term goal is to start growing soybean and to allocate up to 25% of the total (potentially enlarged) land bank to this crop (vs. 6% in 2014). To gain additional synergies, the company plans to construct a new 300,000 t annual capacity soybean processing plant by 2019.
- Net debt totaled USD 138 mln as of June 2014 (+11% in 1H14). The company is hedged well against hryvnia depreciation – exports accounted for 83% of total revenue in 1H14.

Key financials and ratios, USD mln

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Revenue	75.3	114.8	52%	53.3	82.4	55%
Gross profit*	34.8	54	55%	53.8	64	19%
Gross margin	46%	47%	1 pp	101%	78%	-23 pp
EBITDA*	31.2	48.8	56%	51.2	57.9	13%
EBITDA margin	41%	42%	1 pp	96%	70%	-26 pp
EBIT*	23.7	37.7	59%	45.8	52.0	14%
EBIT margin	31%	33%	1 pp	86%	63%	-23 pp
Net profit/loss	18.7	25.8	38%	41.1	0.1	-100%
Net debt	78.9	123.6	57%	104.2	137.6	32%

** Gross profit, EBITDA and EBIT include effects of revaluation of biological assets.*
Sources: Company, SP Advisors

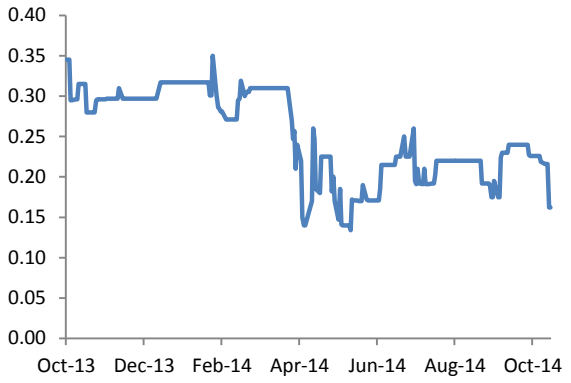
TMM Real Estate

Market data

Bloomberg ticker	TR61 GR
Market capitalization, USD mln	22
Free float	20%
1-month ADT, USD mln	0.001
P/B (2013)	0.23x
P/E (2013)	neg.

Data as of Oct. 17, 2014.
Source: Bloomberg

Share price, EUR



Source: Bloomberg

Company Description

TMM is one of Ukraine's leading real estate developers with a portfolio of 10 projects under development and construction. The developer focuses on business and premium residential projects, with key operations in Kyiv and Kharkiv. Its current flagship projects include the business-class Sonyachna Brama (Sungate) residential project, currently in the final stage of construction (gross sellable area of 167,000m^2), and the premium-class Alter Ego residential project, now in an early construction stage (38,400m^2), both in Kyiv.

Recent Developments

- Cash sales grew 2.1x yoy to UAH 338 mln (+ 50% yoy to USD 30.6 mln) in 1H14. Pre-sales accounted for 44% of total cash proceeds. About 89% of sales originated in Kyiv and 11% in Kharkiv.
- In 1H14, TMM reported revenues of USD 22 mln (+37% yoy) and an operating profit of USD 0.8 mln (vs. neg. USD 2.7 mln in 1H13). Finance costs and FX losses pushed the bottom line into the red at USD 12.6 mln (vs. a USD 6.4 mln loss in 1H13). Nevertheless, operating cash flow (after interest and working capital adjustments) was positive at USD 6.3 mln (vs. neg. USD 4.9 mln in 1H13) thanks to residential property sales.
- TMM's debt burden decreased 29% yoy in USD terms in 1H14 (to USD 125 mln vs. USD 175 mln at end-2013) as over 80% of all debt is hryvnia-denominated. The company recently reached an agreement with Oschadbank, its largest lender, to restructure its UAH debt and extend the repayment of principle and accrued interest from 2014 to 2015-17.

Key Challenges/Opportunities

- Any investment is a long-term play. We don't expect any major value drivers, positive or negative, in the foreseeable future. Weak new mortgage origination is the major factor preventing a near-term turnaround.
- The company's liquidity is dependent on banks' wiliness to rollover its debt. Lenders – mainly state-owned Oschadbank – have thus far been ready to make concessions and will stick to that strategy in the future, in our view.
- Should any urgent liquidity issues arise the company can accelerate the sale of completed residential properties with an estimated end-1H14 value of c. USD 50 mln.
- TMM's key current task is to restart construction of the Alter Ego premium-class residential project, but the company needs an estimated USD 10-15 mln to revitalize construction. If the project were to be re-launched, it would boost operations cash flows.
- The company is also seeking to diversify revenues away from residential development and construction, which accounted for 52% of 1H14 revenue (vs. 64% in 1H13). Key alternative revenue sources include the provision of construction services to third parties (USD 5.8 mln in 1H14) and utility services (USD 2.3 mln).

Key financials and ratios, USD mln

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Revenue	29.7	45.1	52%	16.1	22.0	37%
Gross profit	4.9	2.4	-52%	-0.5	2.7	nm
Gross margin	17%	5%	-68 pp	-3%	13%	16 pp
EBITDA	-8.8	-3.0	-66%	-2.3	1.7	na
EBITDA margin	-30%	-7%	23 pp	-14%	8%	22 pp
EBIT	-10.2	-4.7	-54%	-2.7	0.8	nm
EBIT margin	-35%	-11%	24 pp	-17%	4%	21 pp
Net profit/loss	-22.2	-20.7	nm	-6.4	-12.6	nm
Net debt	158.2	175.1	11%	170.7	125.3	-27%

Sources: Company, SP Advisors

CUB Energy

Market data

Bloomberg ticker	KUB CN
Market capitalization, USD mln	24
Free float	20.2%
1-month ADT, USD mln	0.01
EV/1P Reserves	7.3
EV/2P Reserves	3.6
EV / Production	21

Data as of Oct. 17, 2014.
Source: Bloomberg

Share price, CAD

Source: Bloomberg

Company description

A junior natural gas producer with exploration and development assets in Ukraine. Operates in two natural gas basins – the Trans Carpathian Basin in Western Ukraine, where the company produces gas on one field and holds exploration licenses for 3 more fields, and the Dnipro-Donets Basin in Eastern Ukraine, where Cub owns 30% in KUB-Gaz, the 6th largest country's private gas producer, and also holds exploration licenses for other 3 fields. The company's total 2P reserves stood at 6.1 mmboe as of end-2013

Recent developments

- Increased production 27% y/y to 341,000 boe in 1H14 (incl. 1.5x production growth at its assets in western Ukraine) due to the successful commencement of 6 new wells (incl. two in the west) over 2013-14.
- Revenues were flat in 1H14 despite a 16% decrease in local gas prices.
- Only one of the gas producing fields in which Cub Energy has a working interest is located directly in the war zone - the Vergunskoe field (30% WI), which represented c.1% of Cub's gas production in 2013.
- Exploration and development activities at all of Cub's eastern fields were suspended in late June for safety precautions. In early October, the company announced it resumed drilling works on the Makeevskoe field (30% WI) after the security situation improved.

Key challenges/opportunities

- Re-focusing developmental efforts to the company's western fields, including the operational Rusko-Komarivske and the prospective Stanivske fields, should catalyze an increase in the company's value given the ongoing uncertainty over the eastern assets. Cub estimates exploration and development investment needs for its western assets at USD 10 mln for the remainder of 2014 and 2015 and expects to drill 6 more wells, incl. two at the Stanivske field.
- New tax legislation effective from August 2, 2014 stimulates companies to invest in new wells, which are currently taxed 45% lower than existing ones (30.25% vs 55% until December 31, 2014 and 15.40% vs 28% starting January 1, 2015).
- Since the company finances developmental and exploration activities mainly via dividends received from its 30% stake in KUB-Gaz, the current legislation that prohibits payments of cross-border dividends through December 2, 2014 may cause a delay in the company's investment plans. If the restrictions were to be extended, Cub is likely to re-consider investment plans.

Key financials and ratios, USD '000

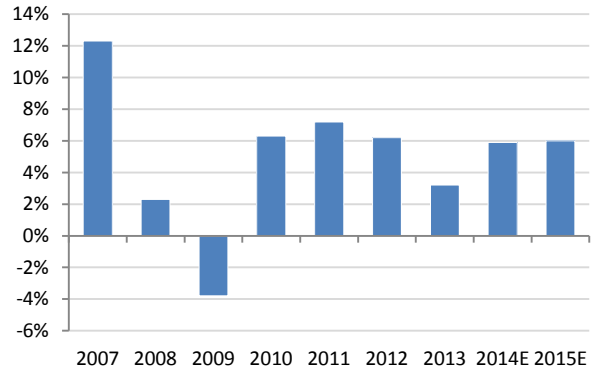
	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Revenue	1,666	3,250	95%	1,878	3,394	81%
EBIT	2,846	3,025	6%	748	1,921	157%
EBITDA	3,555	4,058	14%	1,420	2,719	91%
Total assets	79,266	93,079	17%	97,271	72,778	-25%
Net debt	-10,116	-1,617	nm	-4,116	-118	nm
EBIT margin	171%	93%	-78 pp	40%	57%	17 pp
EBITDA margin	213%	125%	-89 pp	76%	80%	4 pp
Net debt/EBITDA	-2.8x	-0.4x	2.4x	nm	nm	nm
Gross debt/EBITDA	0.0x	0.0x	0.0x	nm	nm	nm

Sources: Company, SP Advisors

Georgia Investable Universe

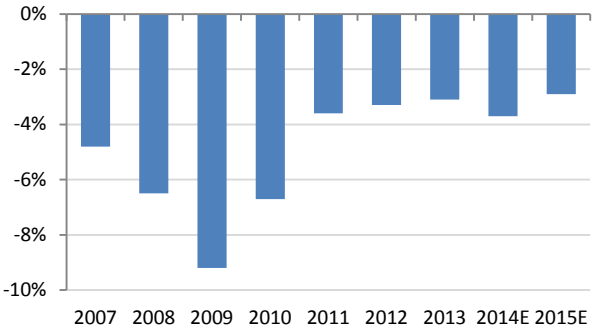
Recent Economic Developments and Outlook

Real GDP growth, yoy



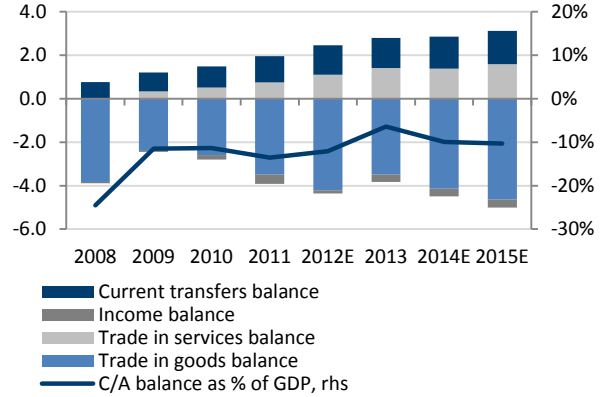
Sources: GeoStat, SP Advisors

Central budget balance, % of GDP



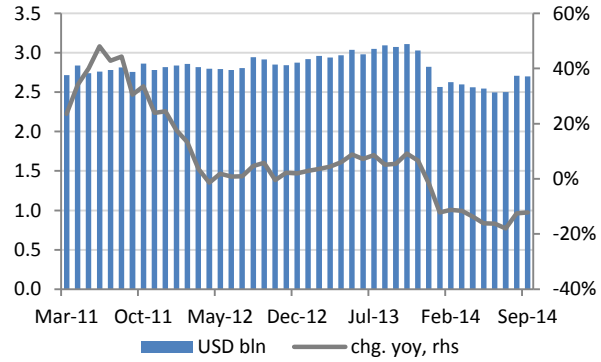
Sources: Finance Ministry, IMF, SP Advisors

Current account balance, USD bln



Sources: NBG, SP Advisors

NBG gross international reserves



Source: NBG

- The Georgian economy has picked up pace – GDP grew 6.1% yoy in 8M14, up from 3.2% in 2013. Growth is broad-based, but we expect investment demand will be the key contributor this year, while the contribution of net exports will likely be negative. We forecast mid-term economic growth at 5.5%, broadly in-line with the average growth rate over the crisis-hit decade of 2003-13.
- Inflation came in at 4.8% yoy in September, and CPI is mainly being driven by prices for staple foods. The NBG cut its inflation target to 5% for 2015 and 2016 from the current 6% and we expect that strengthening private demand and weaker harvest will keep CPI close to the target.
- The general government budget deficit is poised to widen to an estimated 3.7% of GDP in 2014 (vs. 3.1% in 2013), mainly on a hike in social payments since 4Q13. On the upside, tax proceeds are up 9% yoy in 8M14 thanks to VAT and excise taxes. This year's deficit is covered with borrowings, split roughly equally between domestic and foreign sources. World Bank and IMF money will also be used to cover the shortfall this year and next.
- As a small developing economy Georgia has a large inherent current account (C/A) deficit. While the C/A shortfall narrowed to 6.1% of GDP in 2013 as domestic investment demand weakened substantially, it will widen to an estimated 9.9% of GDP in 2014 as investments recover. The projected trade in goods deficit of 25% of GDP in 2014E will be partly offset with a services trade surplus and hefty migrant remittances.
- We see the C/A gap stabilizing at close to 10% of GDP in the long-run. The bulk of the C/A shortfall will be covered with FDI (6-7% of GDP annually) while the remainder should be offset with external sovereign and private borrowings.
- The NBG's reserves declined 12% in 1H14 on the back of FX market interventions and a partial repayment of IMF loans, but stabilized in July, grew 8% mom in August to USD 2.7 bln and stayed flat in September (13% below the historic maximum) on FX purchases by the NBG. We see the reserves increasing marginally through to end-2014 and remaining fairly stable over 2015.
- In July, Georgia secured a new 3-year IMF stand-by loan of c. USD 150 mln that replaces the USD 160 mln that the country has to repay by end-2015. The new IMF money will be used to cover the state budget deficit.
- With capital inflows set to cover the C/A deficit, the lari should remain relatively stable in the mid-term, and we project a GEL 1.75/USD rate for the next couple of years. The NBG stands ready to alleviate any sharp temporary imbalances by intervening in the market.
- In terms of external trade, the Georgian economy has limited exposure to Ukraine and Russia, the two partners that are facing economic challenges due to the ongoing military conflict in eastern Ukraine. The two countries accounted for 5.2% and 9.6% of Georgia's total goods exports in 7M14. On the other hand, sales to Russia rose 2.2x yoy in 8M14 after Russia relaxed its embargo on trade with Georgia, which allowed Georgian wines and mineral waters to regain access to the Russian market. On the other hand, the Georgian economy is dependent on Russia in terms of migrant remittances (9.2% of GDP in 2013) – 54% of total transfers come from Russia.

Macro Data and Projections

	2007	2008	2009	2010	2011	2012	2013	2014E	2015E
Economic activity									
Real GDP, yoy	12.3%	2.3%	-3.8%	6.3%	7.2%	6.2%	3.2%	5.9%	6.0%
Nominal GDP, GEL bln	17.0	19.1	18.0	20.7	24.3	26.2	26.8	29.1	32.3
chg. yoy	23%	12%	-6%	15%	17%	7%	3%	9%	11%
Nominal GDP, USD bln	10.2	12.8	10.8	11.6	14.4	15.8	16.1	16.6	18.4
chg. yoy	31%	26%	-16%	8%	24%	10%	2%	3%	11%
GDP per capita, USD	2,315	2,921	2,455	2,614	3,220	3,529	3,594	3,705	4,104
chg. yoy	31%	26%	-16%	6%	23%	10%	2%	3%	11%
CPI, eop	11.0%	5.5%	3.0%	11.2%	2.0%	-1.4%	2.4%	3.8%	4.8%
External accounts									
Current account balance, USD bln	-2.1	-3.1	-1.2	-1.3	-2.0	-1.9	-1.0	-1.7	-1.9
% of GDP	-20.9%	-24.5%	-11.5%	-11.4%	-13.6%	-12.1%	-6.4%	-9.9%	-10.3%
Merchandise trade balance, USD bln	-2.9	-3.8	-2.4	-2.6	-3.5	-4.2	-3.5	-4.1	-4.6
Service trade balance, USD bln	0.2	0.0	0.3	0.5	0.7	1.1	1.4	1.4	1.6
Total trade balance, USD bln	-2.7	-3.8	-2.1	-2.1	-2.7	-3.1	-2.1	-2.8	-3.1
% of GDP	-26.9%	-29.8%	-19.1%	-17.8%	-19.0%	-19.7%	-12.9%	-16.6%	-16.6%
Foreign direct investment (inward), USD bln	1.8	1.6	0.7	0.8	1.0	0.9	1.0	0.9	1.2
% of GDP	17.2%	12.2%	6.1%	7.0%	7.3%	5.8%	6.3%	5.4%	6.5%
Capital and financial account balance, USD bln	2.4	2.3	1.3	1.2	2.4	2.1	1.2	1.5	1.9
NBG gross international reserves, USD bln	1.4	1.5	2.1	2.3	2.8	2.9	2.8	2.7	2.7
Exchange rates									
GEL/USD, eop	1.59	1.67	1.69	1.77	1.67	1.66	1.74	1.75	1.75
GEL/USD, avg	1.67	1.49	1.67	1.78	1.69	1.65	1.66	1.75	1.75
Fiscal indicators									
General budget balance, % of GDP	-4.8%	-6.5%	-9.2%	-6.7%	-3.6%	-2.9%	-3.1%	-3.7%	-2.9%
Public debt, USD bln	1.8	2.7	4.0	4.6	4.9	5.1	5.0	5.5	6.0
as % of GDP	18%	21%	37%	39%	34%	32%	31%	33%	33%
Banking sector									
Bank deposits, GEL bln	3.5	3.8	4.2	5.8	7.4	8.2	10.3	12.2	14.2
chg. yoy	66%	10%	9%	39%	26%	12%	25%	19%	16%
% of GDP	21%	20%	23%	28%	30%	31%	38%	42%	44%
Bank loans, GEL bln	4.6	6.1	5.3	6.3	7.8	8.8	10.6	12.4	14.5
chg. yoy	71%	31%	-13%	20%	23%	13%	20%	17%	17%
% of GDP	27%	32%	29%	31%	32%	34%	39%	42%	45%
Loan-to-deposit ratio	132%	158%	126%	109%	106%	107%	103%	101%	102%

Sources: GeoStat, NBG, Ministry of Finance, SP Advisors

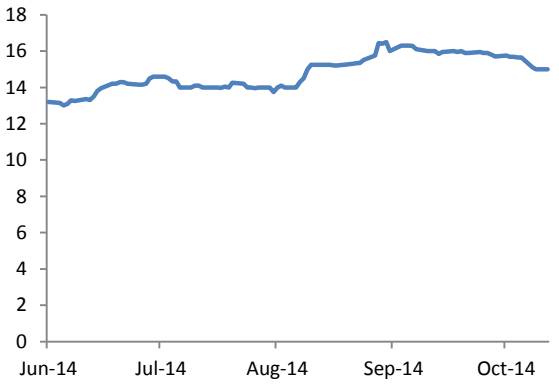
TBC Bank

Market data

Bloomberg ticker	TBCB LI
Market capitalization, USD mln	739
Free float	40%
1-month ADT, USD mln	1.19
P/B (2014E)	1.3x
P/E (2014E)	8.4x

Data as of Oct. 17, 2014. Source: Bloomberg

Share price, USD



Source: Bloomberg

Company Description

Georgia's 2nd largest bank with end-1H14 assets of USD 2.7 bln and a 24% market share. Operates a network of 118 branches and 319 ATMs and serves over 0.97 mln individuals and 1,400 corporate clients. The bank has a diversified loan portfolio, dominated by consumer loans and mortgages (39% of total) and large corporate loans (34%). Customer accounts make up 76% of total liabilities. Completed an IPO in June 2014 and trades on LSE's Main Market.

Recent Developments

- TBC Bank went public in June 2014 and listed DRs on the LSE's Main Market. DRs were priced at USD 13 at IPO, with a total deal value of USD 239 mln and a market capitalization of USD 640 mln. The deal MCap implies 1.2x P/B (end-1H14, post-money). The bank raised USD 96 mln in the IPO, while the remainder represents proceeds to selling shareholders.
- The bank delivered an impressive set of first post-IPO financials in 1H14: the gross loan book surged 11% yoy to USD 1.74 bln (19.1% in GEL terms), supported by inflows of customer deposits (+ 7% yoy to USD 1.66 bln). Total revenues grew 10% yoy to USD 121 mln and net income increased 25% to USD 41 mln in 1H14.

Key Challenges/Opportunities

- TBC Bank is one of the country's two investable stocks (along with Bank of Georgia). Investing in Georgian bank shares is largely a bet on the Georgian economy and the growth prospects of Georgia's underpenetrated banking sector (gross loans-to-GDP stood at 39% at end-2013 vs. a CEE avg. of 55%).
- Management has identified the retail and SME/micro segments as priorities, with corporate lending becoming a vital (but not the fastest growing) supplementary business. Hefty interest margins make the retail and SME/micro segments attractive and TBC has successfully entered those segments thanks to a strong brand and superior customer care.
- The acquisition of Bank Constanta with its extensive retail and SME-oriented network allowed TBC to gain expertise in the micro segment and a strong foothold in all major cities and rural areas of Georgia, where the bank had an insignificant presence. TBC plans to rebrand Constanta offices and upgrade the range of products offered though its branches which will unlock new growth opportunities for the unified bank.
- Under our forecasts, TBC will deliver projected annual net income growth of 19% and ROE of 17-18% for the next 5 years on the back of rapid loan growth, improving efficiency, and a reasonable cost of risk.
- Since the bank is more than sufficiently capitalized it is in a position to pay out a part of its profits as dividends. The bank has announced a 25% payout rate and we believe that rate can be increased over the mid-term without hurting the bank's capital strength.

Key financials and ratios, USD mln

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Assets	2,354	2,564	9%	2,416	2,712	12%
Net loans	1,431	1,614	13%	1,464	1,657	13%
Net interest income	145	170	18%	81	92	13%
Net income	59	75	26%	33	41	25%
Net loans to deposits	95.0%	97.0%	2.0 pp	101.0%	100.0%	-1.0 pp
ROE	18.6%	18.7%	0.1 pp	17.3%	19.3%	2.0 pp
Cost/income	56.8%	52.1%	-4.7 pp	53.4%	48.3%	-5.1 pp
Cost of risk	1.0%	1.3%	0.3 pp	1.3%	1.8%	0.5 pp
Equity to assets	15.5%	16.4%	0.9 pp	16.8%	19.3%	2.5 pp
CAR (old NBG method.)	13.7%	14.6%	0.9 pp	14.8%	17.7%	2.9 pp

Sources: Company, SP Advisors

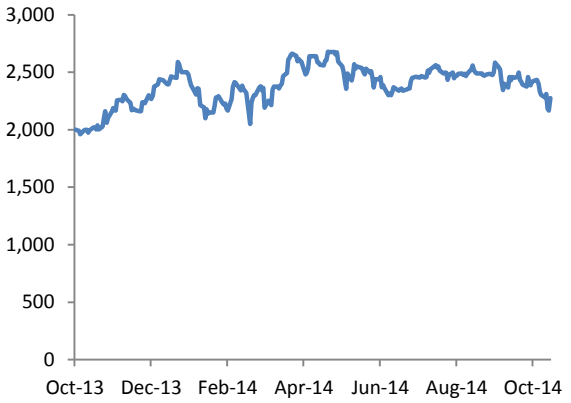
Bank of Georgia Holdings

Market data

Bloomberg ticker	BGEO LN
Market capitalization, USD mln	1,315
Free float	100%
1-month ADT, USD mln	4.98
P/B (2014E)	1.6x
P/E (2014E)	9.3x

Data as of Oct. 17, 2014. Source: Bloomberg

Share price, GBp



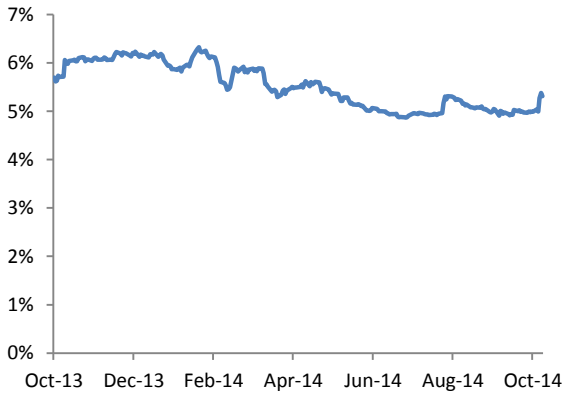
Source: Bloomberg

Eurobond parameters

Bloomberg Ticker	GEBGG
Amount Issued, USD mln	400
Coupon, S/A	7.75%
Maturity	07/17
YTM	5.97%
Ratings (Fitch/Moody's/S&P)	BB-/Ba3/BB-

Source: Bloomberg

Yield-to-Maturity



Source: Bloomberg

Company Description

Georgia's leading bank with end-1H14 assets of USD 3.8 bln and a 33% market share. Operates 206 branches and 510 ATMs and services c. 1.3 mln retail clients and c. 7,100 corporate customers. Corporate loans dominate the loan portfolio (50% of the total book). Customer accounts are the key funding source, accounting for 56% of total liabilities. Listed on the LSE since 2006, the company gained a premium listing in February 2012. Virtually all of the BoG's shares are in free float and the bank has a USD 400 mln Eurobond outstanding.

Recent Developments

- In June 2014, the bank reported 9% yoy growth in its gross loan book to USD 2.1 bln and a 1% increase in customer accounts to USD 1.7 bln. BoG's revenue increased 1% yoy to USD 160 mln and net income was up 11% to USD 64 mln in 1H14.
- Bank of Georgia's management announced it achieved most of its 2-3 year targets announced in 2013 (with the exception of the C/I ratio target, which was slightly off) and plans to keep them in place: ROE/Tier 1/Asset growth at 20%/20%/20%, NIM at 7.5%, C/I at 40%, cost of risk at 1.5%, and a dividend payout ratio in the 25-40% range.
- Management announced it plans to increase the share of retail banking (including micro/SME and agro loans) in its total portfolio (48% at end-1H14). The bank had previously not announced any specific growth focus.

Key Challenges/Opportunities

- Bank of Georgia is one of the country's two investable stocks (along with TBC Bank). Investing in Georgian bank shares is largely a bet on the Georgian economy and the growth prospects of Georgia's underpenetrated banking sector (gross loans-to-GDP stood at 39% at end-2013 vs. a CEE avg. of 55%).
- After years of developing of its real estate and healthcare segments – so-called synergistic areas – Bank of Georgia's management has decided to narrow its focus to commercial banking, investment management, and insurance. BoG plans to divest its healthcare business (Georgia Healthcare Group) via IPO in 2015 and its real estate business (Affordable Housing) through IPO in 2016-17. The bank intends to maintain control over these businesses by becoming their manager.
- Bank of Georgia recently re-launched its Investment Management segment (had previously been scaled down), which comprises wealth management, brokerage, M&A advisory, and private equity fund management. While the segment is currently insignificant in terms of revenue generated at USD 2.2 mln in 1H14, it is supposed to create synergies with BoG's (previously independent) wealth management business.

Key financials and ratios, USD mln

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Assets	3,414	3,756	10%	3,436	3,769	10%
Net loans	1,867	2,029	9%	1,892	2,069	9%
Net interest income	171	181	5%	91	91	-1%
Net income	108	121	11%	58	63	10%
Net loans to deposits	114.8%	113.0%	-1.8 pp	109.6%	119.0%	9.4 pp
ROE	19.1%	18.6%	-0.5 pp	17.6%	18.2%	0.6 pp
Cost/income	44.4%	41.4%	-3.0 pp	41.7%	43.8%	2.1 pp
Cost of risk	1.3%	1.4%	0.1 pp	1.5%	1.0%	-0.5 pp
Equity to assets	18.7%	19.0%	0.3 pp	18.5%	18.0%	-0.5 pp
CAR (old NBG method.)	16.2%	15.4%	-0.8 pp	16.3%	13.8%	-2.5 pp

Sources: Company, SP Advisors

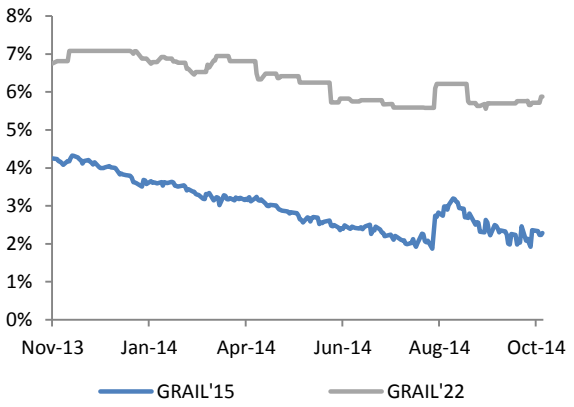
Georgian Railway

Eurobond parameters

Bloomberg ticker		GRAIL
Maturity	07/15	07/22
Amount outstanding, USD mln	28	500
Coupon, S/A	9.875%	7.75%
Fitch	BB-	BB-
Moody's	-	-
S&P	BB-	BB-

Source: Bloomberg

Yield-to-Maturity



Source: Bloomberg

Company Description

Georgia's state-owned monopoly railway operator, Georgian Railway manages 1,326 kilometers of tracks and a fleet of over 8,000 working railcars and 160 locomotives. The freight segment (transportation, handling, and car rentals) accounts for c. 95% of revenues, mostly related to transportation of crude oil and oil products from Azerbaijan and Kazakhstan.

Recent Developments

- Georgian Railway's revenue grew 1% yoy to USD 131 mln, (+6.9% yoy in GEL terms) supported by freight transportation. While revenues related to the transportation of crude oil fell 36% yoy to USD 13.8 mln, an increase in oil products and dry cargo transportation offset the decline.
- EBITDA remained largely flat yoy at USD 60 mln in 1H14. The EBITDA margin remained flat in 1H14 after being squeezed c. 7 pp yoy to 46% in 2013 due to a 30% increase in employee remuneration. The margin is unlikely to spring back materially in the near-term.
- Georgian Railway has effectively stopped the implementation of two major investment projects – the Tbilisi Bypass and the Main Line Modernization. The Tbilisi Bypass project was officially delayed by 3 years as management believes it needs a more detailed feasibility study. The Modernization Project is still technically active, but the company spent just USD 6.8 mln on it in 1H14.

Key Challenges/Opportunities

- Growing competition with pipeline projects in the Caucasus for crude oil transportation is the key challenge. The company aims to offset a decline in crude oil transit volumes with oil products and the strategy has been successful thus far.
- After an increase in salaries caused an 11% yoy decline in 2013 EBITDA, the company's net debt/EBITDA ratio grew to 3.3x, near the covenant limit of 3.5x. The recovery of EBITDA has been very slow, meaning the company is largely unable to use its hefty end-1H14 cash balance of USD 140 mln without risking a covenant violation. Unless it grows EBITDA in the coming quarters, it will have to keep its cash idle (earning interest on bank accounts) for an unspecified period. CAPEX will thus have to be limited to cash from operations.
- Georgian Railway had contracts for the construction and purchase of equipment for a total of USD 367 mln as of end-1H14. The combined size of these contracts seems to be too big given the current pace of cash outlays and the company could be forced to exit some of them.
- Since the company's Eurobond is due some ways off in 2022, it should be able to fully implement its investment strategy even under a conservative scenario and accumulate the necessary cash for the repayment of the debt.

Key financials and ratios, USD mln

	2012	2013	Chg. yoy	1H13	1H14	Chg. yoy
Revenue	285	288	1%	130	131	1%
EBIT	94	73	-22%	28	31	10%
EBITDA	153	134	-12%	59	60	3%
Total Assets	1,709	1,662	-3%	1,723	1,654	-4%
Gross debt	546	545	0%	545	545	0%
EBIT margin	33%	25%	-8pp	22%	24%	2pp
EBITDA margin	54%	47%	-7pp	45%	46%	2pp
Net debt/EBITDA	3.1x	3.3x	0.2x	na	na	na
Gross debt/EBITDA	3.6x	4.2x	0.7x	na	na	na
EBIT/Interest expense	14.8x	8.5x	-6.3x	11.1x	8.6x	-2.5x

Sources: Company, SP Advisors

Appendices

Appendix A: Eurobond Parameters

Key parameters of Ukrainian Eurobonds

Name	Currency	Amount USD mln	Maturity	YTM,% Mid	YTM,% Spread	Mid. YTM change, pp 1 M	Mid. YTM change, pp YTD	Raiting Fitch	Raiting Moody's	Raiting S&P
Sovereign										
Ukraine-09/15	USD	500	23.09.2015	20.11	3.39	1.88	11.76	CCC	Caa3	CCC
Ukraine-10/15	EUR	600	13.10.2015	19.83	4.17	2.01	12.41	CCC	Caa3	CCC
Ukraine-12/15	USD	3,000	20.12.2015	12.02	0.21	1.61	7.06	CCC	Caa3	CCC
Ukraine-06/16	USD	1,250	17.06.2016	15.86	0.78	1.22	6.97	CCC	Caa3	CCC
Ukraine-11/16	USD	1,000	21.11.2016	15.18	0.96	0.60	6.19	CCC	Caa3	CCC
Ukraine-07/17	USD	2,600	24.07.2017	15.01	0.72	0.29	5.46	CCC	Caa3	CCC
Ukraine-11/17	USD	700	14.11.2017	13.20	0.68	0.18	4.14	CCC	Caa3	CCC
Ukraine-20	USD	1,500	23.09.2020	11.51	0.27	0.52	2.27	CCC	Caa3	CCC
Ukraine-21	USD	1,500	23.02.2021	11.48	0.38	0.31	2.24	CCC	Caa3	CCC
Ukraine-22	USD	2,250	28.11.2022	11.04	0.54	0.67	1.67	CCC	Caa3	CCC
Ukraine-23	USD	1,250	17.04.2023	10.78	0.31	0.32	1.71	CCC	Caa3	CCC
Infrastr. projects-11/17	USD	568	03.11.2017	15.98	0.73	5.59	1.54	-	Caa3	-
Infrastr. projects-12/17	USD	550	07.12.2017	17.50	0.59	3.40	-	-	(P)Caa3	-
Infrastr. projects-18	USD	690	20.04.2018	14.41	0.64	-	0.15	-	Caa3	-
Municipal										
City of Kyiv-15	USD	250	06.11.2015	37.58	3.81	7.07	25.22	CC	Caa3	CCC
City of Kyiv-16	USD	300	11.07.2016	27.31	2.75	4.04	14.40	CC	Caa3	CCC
Banks										
FUIB	USD	252	31.12.2014	201.98	0.00	68.43	189.41	NR	Caa3	-
Ukreximbank-15	USD	750	27.04.2015	41.18	0.00	4.49	29.85	CCC	Caa3	-
Ukreximbank-16	USD	125	09.02.2016	-	-	-	-	C	Ca	-
Ukreximbank-18	USD	600	22.01.2018	18.95	0.00	2.28	-	CCC	Caa3	-
Oschadbank-16	USD	700	10.03.2016	29.05	3.33	2.14	17.12	CCC	Caa3	-
Oschadbank-18	USD	500	20.03.2018	18.77	0.99	1.34	6.48	CCC	Caa3	-
Privatbank-15	USD	200	23.09.2015	41.76	0.00	5.15	-	CC	Caa3u	-
Privatbank-16	USD	150	09.02.2016	43.83	5.18	2.53	38.21	-	Cau	-
Privatbank-18	USD	175	28.02.2018	20.61	1.71	0.46	3.58	CC	Caa3u	-
VAB Bank	USD	88	14.06.2019	55.73	8.50	24.70	-	WD	WR	-
Corporate										
Avangard	USD	200	29.10.2015	24.22	–	2.50	12.99	CCC	-	-
MHP-15	USD	235	29.04.2015	16.00	–	2.73	9.60	CCC	Caa2	-
MHP-20	USD	750	02.04.2020	12.28	–	0.65	1.88	CCC	-	CCC
DTEK-15	USD	200	28.04.2015	60.99	–	-8.52	52.42	CCC	Caa2	-
DTEK-18	USD	750	04.04.2018	23.44	–	0.94	13.98	CCC	Caa2	-
Metinvest-15	USD	500	20.05.2015	69.00	–	13.75	61.26	CCC	Caa2	-
Metinvest-18	USD	750	14.02.2018	23.57	–	2.47	11.39	CCC	Caa2	-
Mriya-16	USD	72	30.03.2016	149.09	–	18.81	-	C	-	CC
Mriya-18	USD	400	19.04.2018	71.65	–	11.54	57.12	C	-	CC
Ferrexpo	USD	500	07.04.2016	12.89	–	-0.11	4.04	CCC	Caa2	CCC+
Ukrainian Railway	USD	500	21.05.2018	21.49	–	4.40	8.98	CCC	-	CCC
Ukrlandfarming	USD	500	26.03.2018	29.75	–	9.47	-	CCC	-	CCC

** Data as of Oct. 17, 2014.*
Source: Bloomberg

Key parameters of Georgian Eurobonds*

Name	Currency	Amount USD mln	Maturity	YTM,% Mid	YTM,% Spread	Mid. YTM change, pp 1 M	Mid. YTM change, pp YTD	Raiting Fitch	Raiting Moody's	Raiting S&P
Georgian Railway-15	USD	28	22.07.2015	2.29	1.60	-0.11	-1.73	BB-	-	BB-
Georgian Railway-22	USD	500	11.07.2022	5.87	0.00	0.17	-1.21	BB-	-	BB-
Bank of Georgia	USD	400	05.07.2017	5.32	0.53	0.32	-0.86	BB-	Ba3	BB-
Georgian Oil&Gas Corp.	USD	250	16.05.2017	4.19	–	-	-	BB-	-	B+

** Data as of Oct. 17, 2014.*
Source: Bloomberg

Appendix B: Equity Multiples

Ukrainian stock multiples*

Sector / Company	Ticker	MCap, USD mln	EV/EBITDA 2014E	EV/EBITDA 2015E	EV/Sales 2014E	EV/Sales 2015E	P/B 2014E	P/B 2015E	P/E 2014E	P/E 2015E	Net Debt / Book Value 2014E	Net Debt / Book Value 2015E
Agriculture												
Kernel	KER PW	533	5.4	3.3	0.5	0.4	0.4	0.4	-	3.7	0.48	0.39
MHP	MHPC LI	1,242	4.9	4.4	1.7	1.4	1.3	1.1	10.9	4.3	1.19	0.85
Mriya	MAYA GR	80	1.2	0.6	0.8	0.4	-	-	0.9	0.4	-	-
Astarta	AST PW	263	4.5	4.6	1.2	1.1	0.7	0.6	25.4	4.0	0.84	0.64
IMC	IMC PW	66	3.7	3.5	1.1	1.1	0.7	0.6	-	1.7	1.47	1.14
KSG Agro	KSG PW	5	-	-	-	-	-	-	0.4	0.3	-	-
Median		-	4.5	3.5	1.1	1.1	0.7	0.6	5.9	2.7	1.01	0.75
Food												
Avangard	AVGR LI	415	2.8	2.3	0.8	0.6	0.4	0.4	2.9	2.5	0.08	0.00
Ovostar	OVO PW	122	4.6	4.5	1.6	1.3	0.8	0.7	6.2	6.1	0.01	0.03
Milkiland	MLK PW	33	3.9	4.0	0.4	0.3	-	-	-	7.7	-	-
UkrProduct	UKR LN	4	2.7	1.8	0.2	0.1	0.1	0.1	2.4	1.5	0.39	0.24
Median		-	3.4	3.2	0.6	0.5	0.4	0.4	2.9	4.3	0.08	0.03
Mining												
Coal Energy	CLE PW	12	-	-	-	-	-	-	-	-	-	-
Sadovaya Group	SGR PW	na	-	-	-	-	-	-	-	-	-	-
Metals & Mining												
Ferrexpo	FXPO LN	819	2.9	4.4	1.0	1.0	0.6	0.5	3.0	6.4	0.44	0.39
Real Estate												
TMM	TR61 GR	22	-	-	-	-	-	-	-	-	-	-
Industrials												
Westa ISIC	WES PW	7	-	-	-	-	-	-	-	-	-	-
Transportation												
KDM Shipping	KDM PW	94	-	-	-	-	-	-	-	-	-	-

Oil & Gas			EV/Reserves (2014E) 1P	EV/Reserves (2014E) 2P	EV /production (boe)
JKX Oil & Gas	JKX LN	104	4.3	1.2	28
Cadogan Petroleum	CAD LN	35	na	na	na
Serinus Energy	SEN CN	144	14.4	7.4	84
Regal Petroleum	RPT LN	38	6.0	1.0	23
CUB Energy	KUB CN	24	7.3	3.6	21
Median			6.6	1.2	9.4

** as of Oct. 17, 2014*
Source: Bloomberg

Georgian stock multiples*

	Ticker	MCap, USD mln	P/B 2014E	P/B 2015E	P/E 2014E	P/E 2015E
TBC Bank	TBCB LI	739	1.3	1.1	8.4	7.4
Bank of Georgia Holdings	BGEO LN	1,315	1.6	1.4	9.3	7.9
Median			1.5	1.3	8.9	7.7

** as of Oct. 17, 2014*
Source: Bloomberg

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