

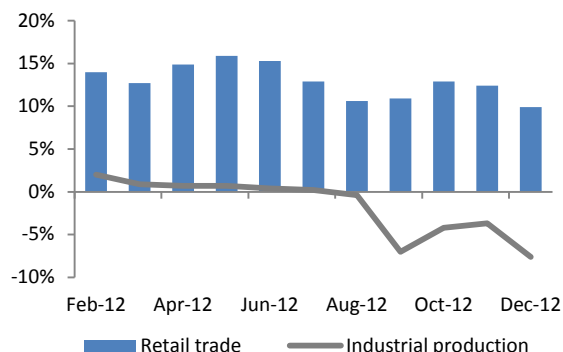
Ukraine Monthly

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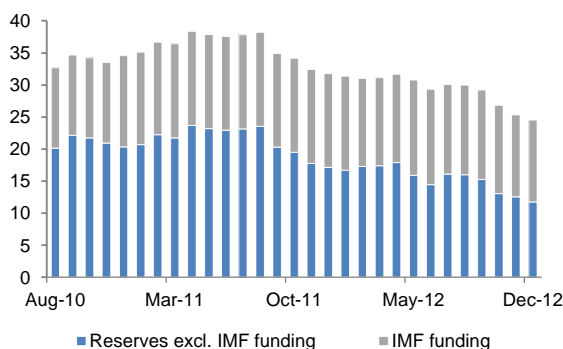
Economy

Monthly retail trade and industrial production, chg. y/y



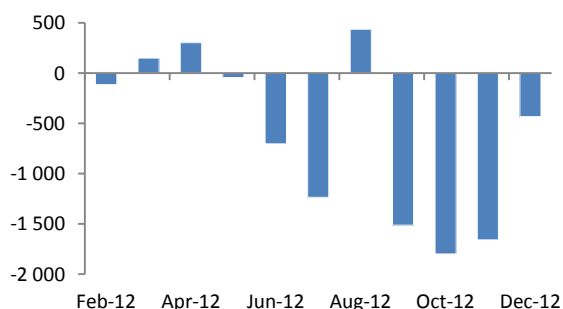
Source: UkrStat

NBU gross international reserves, USD bln



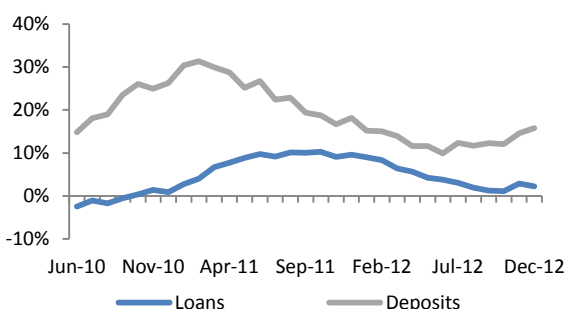
Source: NBU, SP Advisors

Net NBU interventions, USD mln*



* negative numbers indicate net FX sales
Source: NBU

Banking sector loans and deposits, chg. y/y



Source: NBU

GDP to continue decline in 1H13

Ukraine finished 2012 with disappointing growth indicators. The decline in monthly industrial production deepened to 7.6% y/y in December vs. 3.7% in November, mainly due to the poor performance of export-oriented sectors. Metallurgy cut output 11.2% y/y, while production in machine-building contracted 18.8% y/y last month. Construction also remains depressed with full-year output falling 13.8% y/y. The service sector maintained its double-digit growth, supported mainly by retail trade (+13.7% y/y in 2012), which points to continued strength in household demand. We estimate Ukraine's GDP to have declined substantially q/q in 4Q12 (following 1.3% q/q decline in 3Q12), which means the economy entered a recession. All in, we estimate Ukraine's GDP grew by less than 0.5% in 2012. Looking forward, we don't expect any meaningful changes in 1H13. Exports will remain stagnant as we don't expect any substantial revival of steel demand, while capital investments are likely to decline against last year's high base, which was boosted by preparations for EURO-2012. Household consumption is set to decelerate to 8-9% y/y this year vs. 11-12% in 2012 as minimum wages will stay almost unchanged, through the year and inflation is very likely to accelerate. We reiterate our projection that GDP will decline 0.5% in 2013.

FX market calms, but stability is fragile.

The FX market has stabilized since mid-December, as the NBU's administrative measures helped alleviate speculative demand for foreign currency. Net NBU sale interventions shrank to a reasonable USD 0.43 bln last month down from USD 1.66 bln in November. Yet, the current stability in the FX market is obviously unsustainable. We project Ukraine's C/A deficit to widen from an estimated 8.3% of GDP in 2012 to about 9.0% of GDP this year. We also maintain our belief that inflows of FDI and foreign borrowings will fall short of the C/A gap. That means that, like last year, the NBU will have to sell its reserves to alleviate shortages in the FX market. We estimate hryvnia stability will cost the central bank about USD 4.0 bln in reserves this year. However excess liquidity in the global debt market could present some upside to our projections. Should this favorable situation persist, the gap may become much narrower. Recently, Ukreximbank raised USD 500 mln via a Eurobond placement, and probability is high that this is not the bank's last issue this year. We don't rule out the bank using proceeds to support the FX supply in the interbank market in order to help ease pressure on NBU reserves. Renewed negotiations with the IMF (the fund's mission arrives on Jan. 29th) are likely to turn into success. We assume Ukraine will be able to refinance in full its obligations to IMF maturing during 2013.

Ukraine's banking sector recovery path remains windy

Ukraine's banking sector consolidated net income turned positive in 2012 for the first time since 2008. Lending remained muted with corporate loans increasing a mere 5.1% y/y while retail facilities continued to decline 6.6% y/y. Funding was supported with 15.8% y/y inflows of deposits. Banks continued to reduce their reliance on external funding - we estimate the share of external loans in total equity and liabilities to have decreased to roughly 15% as of end-2012, down from the peak value of 33% as of end-2008. We expect bank loan portfolios to increase 5% y/y in 2013 - it will remain driven solely by corporate facilities while retail portfolios should stabilize. Deposit growth will remain robust in double-digit territory. We also expect the banking sector's core earnings to increase only marginally this year, but net income should still grow substantially on slash in loan loss provisions.

Industry/Company news digest

News

Stocks / Bonds affected

Ukreximbank sells USD 500 mln Eurobond

In mid-January, Ukreximbank sold USD 500 mln 5-year Eurobond rated B3 by Moody's and B by Fitch. The yield at placements equaled the coupon of 8.75% p.a. Over 120 investors submitted bids and the issue was more than twice oversubscribed. UK-based investors purchased 31% of the issue, US offshore – 28%, Switzerland – 17%, other Europe – 15%, Asia – 5% and other countries – 4%. The issue will be included into the EMBI+, becoming the third Ukreximbank inclusion into the index. Currently, Ukreximbank has three other outstanding Eurobonds: UAH 2.4 bln (USD-linked) paper maturing in 2014, USD 750 mln paper maturing in 2015 and USD 125 mln subordinated paper maturing in 2016.

Ukreximbank (EXIMUK)

European Investment Bank to lend EUR 100 mln to Ukreximbank

European Investment Bank will lend EUR 100 mln to Ukreximbank. The latter will use funds to support energy efficiency and SME-related projects.

Government to boost Naftogaz capital by USD 1.0 bln

The Ukrainian government decided to boost Naftogaz' share capital by UAH 8 bln (USD 1.0 bln). Finance Ministry is supposed to issue UAH 8.0 bln worth of 5-year t-bills with coupon rate capped at 14.3% and contribute them to share capital of the company. In line with earlier practice, the bonds will likely be later sold to commercial banks. Last year, government injected UAH 6.0 bln (USD 750 mln) into Naftogaz share capital.

Naftogaz (NAFTO)

Naftogaz signs USD 3.7 bln loan with China

In late December, Naftogaz signed a USD 3.7 bln loan agreement with China Development Bank Corporation. The loan is intended to help Ukrainian energy companies to switch from gas coal, thus decreasing Ukraine's dependence on gas imports from Russia. The 19-year agreement will not have any immediate effect on Naftogaz liquidity.

Kernel secures USD 170 mln credit line

In late December, Kernel announced it signed a USD 170 mln credit agreement with a Russian bank. The loan consists of two tranches – a USD 100 mln 5-year tranche and a USD 70 mln 5-year tranche.

Kernel (KER PW)

State Property Fund to sell Donbasenergo and Centerenergo in 2013

In late December, Head of State Property Fund (SPF) announced government will sell state stakes in two energy generating companies – Donbasenergo (state currently controls 86% stake) and Centerenergo (78%) in 2013. He estimated the privatization proceeds at UAH 2.3-2.5 bln (USD 288-313 mln) for both stakes.

Donbasenergo (DOEN),
Centerenergo (CEEN)

UniCredit Group reiterates plans to stay in Ukraine

UniCredit Group's CEO denied rumors the institution is going to leave Ukraine. Earlier, mass media reported the bank was looking for a potential buyer for its retail network. UniCredit Group has two daughter banks in Ukraine – UkrSotsbank (# 6 with total assets of USD 5.0 bln) and UniCredit Bank Ukraine (# 35 with total assets of USD 0.7 bln).

UkrSotsbank (USCB)

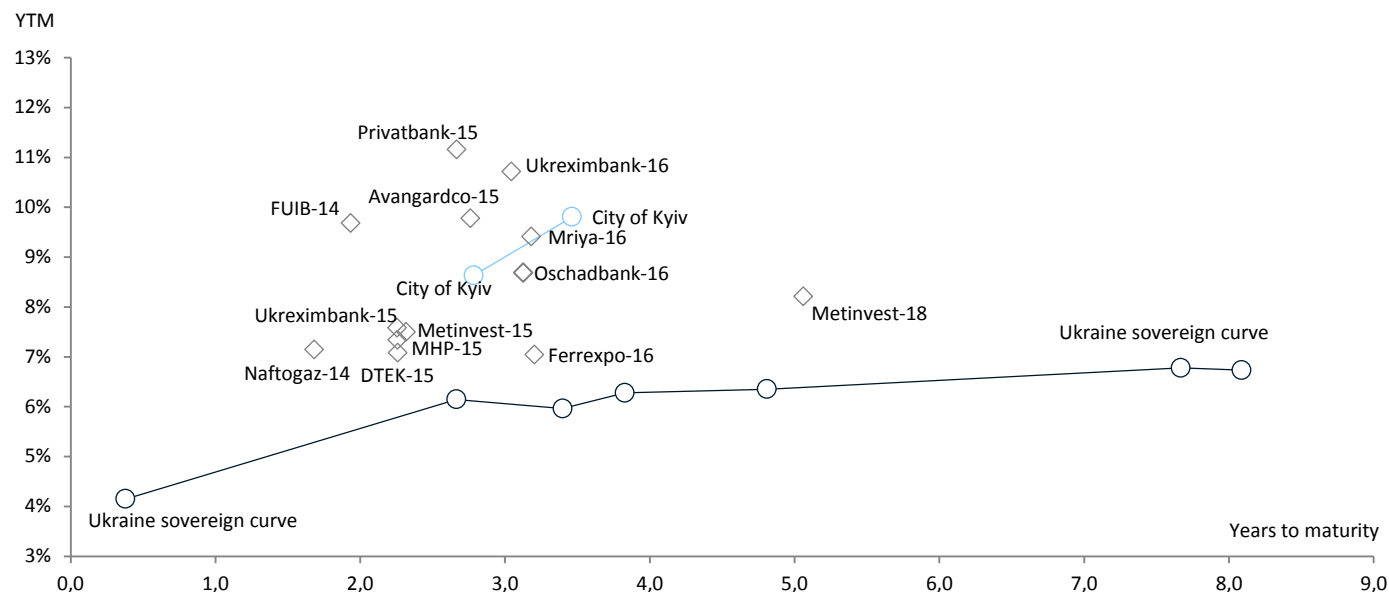
Appendix A. Key macro data and projections

	2005	2006	2007	2008	2009	2010	2011	2012E	2013E
Business cycle indicators									
Real GDP, % chg yoy	3.0	7.4	7.6	2.3	-14.8	4.1	5.2	0.3	-0.5
Household consumption, % chg yoy	20.1	15.9	17.1	11.8	-14.9	7.1	15.0	11.5	8.7
Investments in fixed capital, % chg yoy	3.9	20.9	23.9	1.6	-50.5	3.9	10.1	1.2	-5.4
Industrial output, % chg yoy	3.1	6.2	7.6	-5.2	-21.9	11.2	7.6	-1.8	-2.2
Nominal GDP, UAH bln	441	544	721	948	913	1,083	1,317	1,423	1,537
Nominal GDP, USD bln	86	108	143	180	117	136	165	178	183
GDP per capita, USD	1,836	2,312	3,078	3,891	2,550	2,982	3,625	3,914	4,021
CPI (eop), %	10.3	11.6	16.6	22.3	12.3	9.1	4.6	0.6	6.3
CPI average, %	13.5	9.1	12.8	25.2	15.9	9.4	8.0	-0.2	2.4
Unemployment (ILO methodology, avg), %	7.8%	7.4%	6.9%	6.9%	9.6%	8.8%	8.6%	7.9%	7.9%
Balance of payments									
Current account balance, USD bln	2.5	-1.6	-5.3	-12.8	-1.7	-3.0	-9.0	-14.7	-16.5
% GDP	2.9%	-1.5%	-3.7%	-7.1%	-1.5%	-2.2%	-5.4%	-8.3%	-9.0%
Financial account balance, USD bln	8.2	4.0	14.7	9.7	-12.0	8.0	6.6	10.1	10.5
% GDP	9.5%	3.7%	10.3%	5.4%	-10.2%	5.9%	4.0%	5.7%	5.7%
FDI net, USD bln	7.5	5.7	9.2	9.9	4.7	5.8	7.0	6.1	5.5
% of GDP	8.7%	5.3%	6.5%	5.5%	4.0%	4.3%	4.2%	3.4%	3.0%
Gross NBU reserves (eop), USD bln	19.4	22.4	32.5	31.5	26.5	34.6	31.8	24.5	20.5
Monetary and banking indicators									
Monetary base, UAH bln	83	97	142	187	195	226	240	255	268
Monetary base, % chg yoy	54%	17%	46%	32%	4%	16%	6%	6%	5%
Money supply (M3), UAH bln	194	261	396	515	487	598	683	771	848
Money supply, % chg yoy	54%	35%	52%	30%	-5%	23%	14%	13%	10%
Monetary multiplier (eop M3/MB)	2.3	2.7	2.8	2.8	2.5	2.6	2.8	3.0	3.2
Bank loans, % chg yoy	62%	71%	74%	72%	-2%	1%	10%	2%	5%
Bank deposits, % chg % yoy	60%	39%	52%	28%	-8%	26%	18%	16%	11%
Loan-to-deposit ratio	108%	133%	152%	205%	219%	175%	162%	143%	135%
Exchange rate									
Official UAH/USD (eop)	5.05	5.05	5.05	7.70	7.99	7.96	7.99	7.99	9.00
Official UAH/USD (avg)	5.12	5.05	5.05	5.27	7.79	7.94	7.97	7.99	8.40
Budget and debt indicators									
Consolidated budget revenues, USD bln	26.2	34.0	43.6	56.4	35.0	39.6	50.0	54.3	55.7
% of GDP	30%	32%	31%	31%	30%	29%	30%	30%	30%
Consolidated budget expenditures, USD bln	27.7	34.7	45.1	59.1	39.8	47.6	52.3	59.8	62.4
% of GDP	32%	32%	32%	33%	34%	35%	32%	30%	30%
Consolidated budget balance, USD bln	-1.6	-0.7	-1.5	-2.7	-4.8	-8.0	-2.3	-5.5	-6.7
% of GDP	-1.8%	-0.7%	-1.1%	-1.5%	-4.1%	-5.9%	-1.4%	-3.1%	-3.7%
General budget balance, USD bln*	na	na	na	na	-9.5	-10.1	-7.0	-8.2	-8.8
% of GDP	na	na	na	na	-8.1%	-7.4%	-4.2%	-4.6%	-4.8%
Public debt, USD bln	15.5	15.9	17.6	24.6	39.7	54.3	59.2	64.6	67.1
% GDP	18%	15%	12%	14%	34%	40%	36%	36%	37%

* Includes consolidated budget (central and local budgets), social funds and Naftogaz.
Sources: NBU, UkrStat, Ministry of Finance, SP Advisors.

Appendix B. Ukraine's Eurobond universe

Ukraine Eurobond yield map*



*as of Jan. 24. 2013
Source: Bloomberg

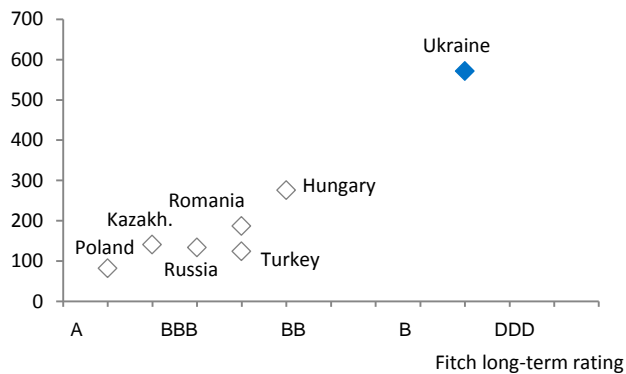
Key parameters of Ukraine Eurobond issuers

Name	Currency	Amount mln	Maturity	YTM,%		Mid. YTM change, pp		Rating		
				Mid	Spread	1 M	YTD	Fitch	Moody's	S&P
Sovereign										
Ukraine-13	USD	1,000	11.06.2013	4.15	2.71	-1.22	-5.60	B	B3	B
Ukraine-09/15	USD	500	23.09.2015	6.15	0.41	-0.22	-4.00	B	B3	B
Ukraine-10/15	EUR	600	13.10.2015	5.45	0.62	-1.69	-5.19	B	B3	B
Ukraine-06/16	USD	1,250	17.06.2016	5.96	0.25	-0.41	-3.89	B	B3	B
Ukraine-11/16	USD	1,000	21.11.2016	6.28	0.26	-0.34	-3.60	B	B3	B
Ukraine-17	USD	700	14.11.2017	6.35	0.21	-0.58	-4.05	B	B3	B
Ukraine-20	USD	1,500	23.09.2020	6.78	0.12	-0.46	-3.53	B	B3	B
Ukraine-21	USD	1,500	23.02.2021	6.73	0.12	-0.56	-3.27	B	B3	B
Municipal										
City of Kiev-15	USD	250	06.11.2015	8.63	0.77	-2.17	-6.02	B-	B3	B-
City of Kiev-16	USD	300	11.07.2016	9.80	0.52	-2.19	-5.74	B-	B3	B-
Banks										
Finance and Credit-14	USD	100	25.01.2014	-	-	-	-	-	Caa1	-
VAB Bank-14	USD	125	14.06.2014	-	-	-	-	WD	Caa1	-
FUIB-14	USD	275	31.12.2014	9.68	0.97	-0.84	-7.12	NR	B3	-
Ukreximbank-14	UAH	2,385	03.02.2014	30.63	3.81	-	-	B	B3	-
Ukreximbank-15	USD	750	27.04.2015	7.58	0.47	-0.86	-5.56	B	B3	-
Ukreximbank-16	USD	125	09.02.2016	10.72	0.71	-1.26	-4.59	CCC	Caa1	-
Ukreximbank-18	USD	500	22.01.2018	8.58	0.13	-	-	B	B3	-
Oschadbank-16	USD	700	10.03.2016	8.69	0.35	-1.26	-5.71	B	B3	-
Privatbank-15	USD	200	23.09.2015	11.16	0.79	-0.45	-6.74	B	B3	-
Privatbank-16	USD	150	09.02.2016	15.24	2.24	-0.05	-5.46	-	B3	-
Corporate										
Naftogaz-14	USD	1,595	30.09.2014	7.15	0.47	-0.46	-5.06	B	-	-
Avangardco-15	USD	200	29.10.2015	9.78	0.00	-2.10	-9.49	B	-	-
Agroton-14	USD	50	14.07.2014	33.15	6.05	-	-	B-	-	CCC+
MHP-15	USD	585	29.04.2015	7.08	0.00	-0.54	-6.10	B	B3	-
DTEK-15	USD	500	28.04.2015	7.33	0.00	-2.09	-4.78	B	B3	-
Metinvest-15	USD	500	20.05.2015	7.49	0.00	-0.76	-4.40	B	B3	-
Metinvest-18	USD	750	14.02.2018	8.21	0.29	-1.31	-4.65	B	B3	-

*as of Jan. 24. 2013
Source: Bloomberg

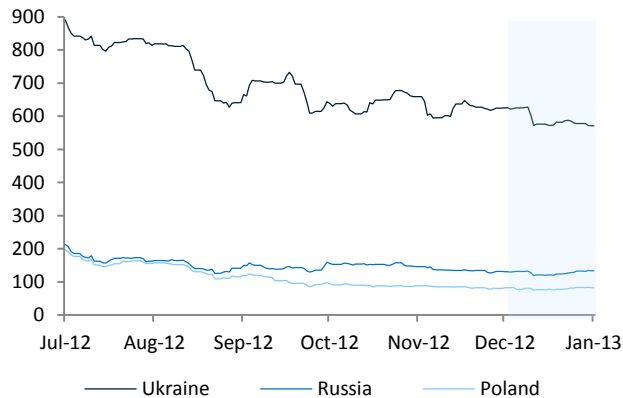
Appendix C. NDF and CDS

CDS vs. Fitch long-term rating*



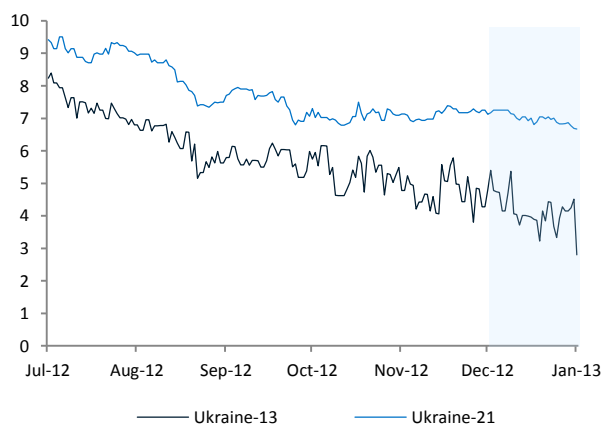
* data as of Jan. 24, 2013
Source: Bloomberg

5Y CDS, 6-m development



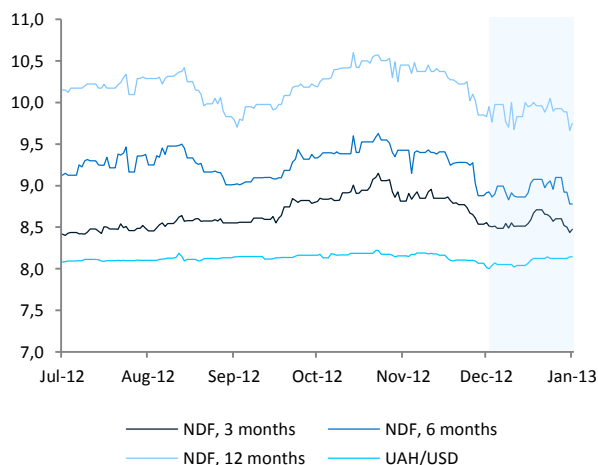
Source: Bloomberg

Ukraine sovereign Eurobond yields, 6-m development



Source: Bloomberg

Hryvnia spot and NDF rates, 6-m development



Source: Bloomberg

Appendix D. Ukrainian equity multiples

Ukrainian stock multiples*

Sector / Company	Ticker	Mcap, USD mln	EV/EBITDA		EV/Sales		P/B		P/E		Net Debt / Book Value	
			2012F	2013F	2012F	2013F	2012F	2013F	2012F	2013F	2012F	2013F
Agriculture												
Kernel	KER PW	1,661	6.1	5.6	0.9	0.8	1.2	1.1	7.8	6.7	0.37	0.33
MHP	MHPC LI	1,812	5.6	4.8	1.9	1.6	1.7	1.3	6.4	6.0	0.76	0.51
Mriya	MAYA GR	637	4.4	4.0	2.8	3.1	-	-	4.5	4.6	-	-
Astarta	AST PW	481	4.8	4.6	1.5	1.4	1.0	0.8	5.5	4.8	0.55	0.41
IMC	IMC PW	154	5.1	3.5	2.5	1.6	1.1	0.9	5.9	4.1	0.40	0.25
KSG Agro	KSG PW	62	-	-	-	-	-	-	5.6	4.1	-	-
Agroton	AGT PW	70	3.1	2.5	1.0	0.8	-	-	3.7	2.6	-	-
Sintal Agriculture	SNPS GR	9	1.1	2.0	0.4	0.6	-	-	1.2	1.0	-	-
Median		318	4.8	4.0	1.5	1.4	1.2	1.0	5.5	4.4	0.48	0.37
Food												
Avangard	AVGR LI	750	3.5	3.1	1.5	1.2	-	-	3.5	3.3	-	-
Ovostar	OVO PW	182	6.2	4.5	2.5	1.8	-	-	7.5	5.1	-	-
Milkiland	MLK PW	159	5.2	4.1	0.6	0.6	0.7	0.6	8.0	4.9	0.39	0.33
UkrProduct	UKR LN	8	1.5	0.6	0.1	0.0	-	-	8.2	4.1	-	-
Median		171	4.4	3.6	1.1	0.9	0.7	0.6	7.8	4.5	0.39	0.33
Oil & Gas												
JKX Oil & Gas	JKX LN	210	1.5	1.4	0.9	0.7	0.0	0.0	3.4	4.0	0.00	0.00
Kulczyk Oil	KOV PW	212	5.1	4.4	2.4	1.9	1.2	1.1	10.6	23.9	0.00	-0.13
Regal Petroleum	RPT LN	175	-	-	-	-	-	-	12.3	9.7	-	-
Cadogan Petroleum	CAD LN	44	-	-	-	-	-	-	-	-	-	-
Median		193	3.3	2.9	1.7	1.3	0.6	0.5	10.6	9.7	0.00	-0.07
Mining												
Coal Energy	CLE PW	158	-	2.3	-	0.8	-	1.1	3.9	4.4	-	-0.11
Sadovaya Group	SGR PW	27	3.0	2.6	0.6	0.8	-	-	4.0	1.5	-	-
Median		92	3.0	2.5	0.6	0.8	-	1.1	3.9	2.9	-	-0.11
Metals & Mining												
Ferrexpo	FXPO LN	2,513	6.9	5.8	2.0	1.9	1.6	1.4	11.0	8.7	0.18	0.16
Median		2,513	6.9	5.8	2.0	1.9	1.6	1.4	11.0	8.7	0.18	0.16
Real Estate												
TMM	TR61 GR	25	-	-	-	-	-	-	1.2	0.8	-	-
Median		25	-	-	-	-	-	-	1.2	0.8	-	-
Industrials												
Westa ISIC	WES PW	10	-	-	-	-	-	-	-	-	-	-
Median		10	-	-	-	-	-	-	-	-	-	-

* as of Jan. 24, 2013

Source: Bloomberg

Median values for peer companies*

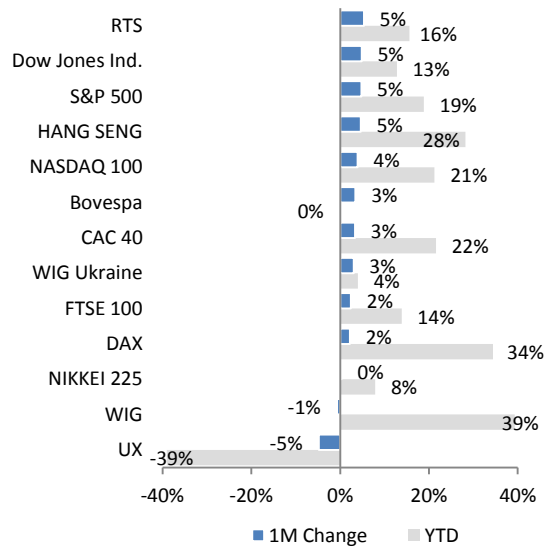
Sector / Company	EV/EBITDA		EV/Sales		P/B		P/E		Net Debt / Book Value	
	2012F	2013F	2012F	2013F	2012F	2013F	2012F	2013F	2012F	2013F
Oil & Gas										
Emerging markets (4)	2.7	4.2	0.5	0.5	1.0	0.9	4.1	5.9	0.14	0.20
Mature markets (6)	4.2	4.0	0.8	0.9	1.4	1.3	9.4	9.4	0.20	0.17
Metals & Mining										
Emerging markets (11)	6.5	6.1	1.4	1.3	1.5	1.3	12.9	11.1	0.59	0.54
Mature markets (5)	7.1	5.9	0.5	0.5	1.0	1.0	37.5	15.0	0.99	0.96
Food										
Emerging markets (4)	19.2	10.8	1.7	1.4	6.2	5.6	32.2	26.0	0.10	0.01
Mature markets (10)	9.8	8.9	1.8	1.7	3.2	3.0	17.3	15.8	1.23	1.00
Agriculture										
Emerging markets (5)	3.9	4.3	1.6	1.0	0.6	0.6	17.1	6.4	0.17	0.08
Mature markets (4)	7.9	6.6	0.2	0.2	1.0	0.9	12.9	10.2	0.19	0.18

* numbers in brackets indicate number of peer companies

Source: Bloomberg

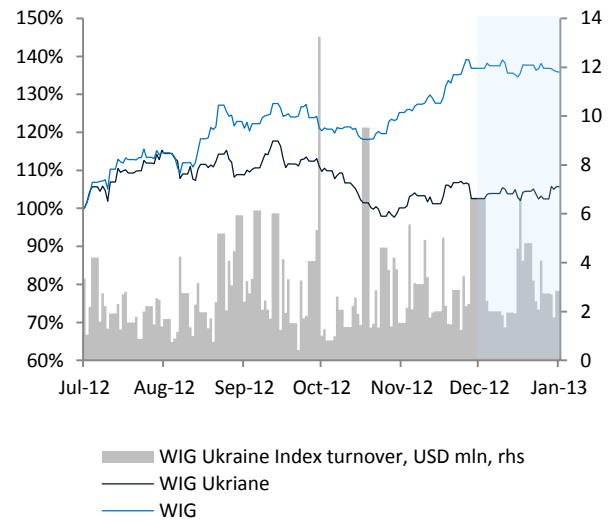
Appendix E. Stock market summary

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



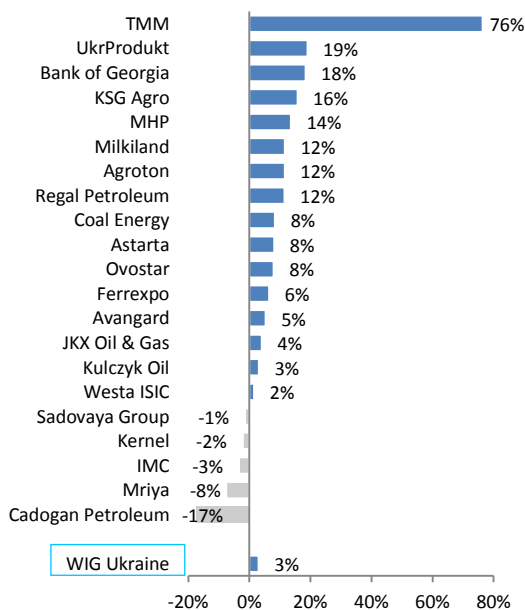
Data as of Jan.24, 2013
Source: Bloomberg

WIG Ukraine, 6-month development



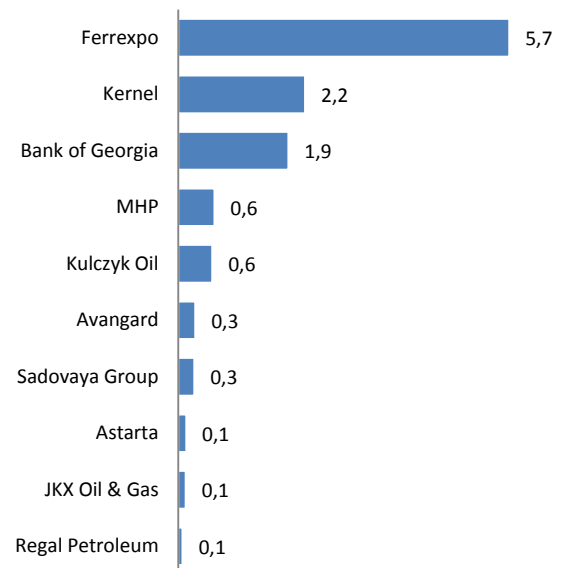
Source: Bloomberg

Ukrainian stock price change, mom*



* as of Jan. 24, 2013
Source: Bloomberg

Average daily trading in Ukrainian stocks, USD mln*



* Only top-10 stocks are shown, data are as of Dec. 24, 2012 - Jan. 24, 2013
Source: Bloomberg

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