

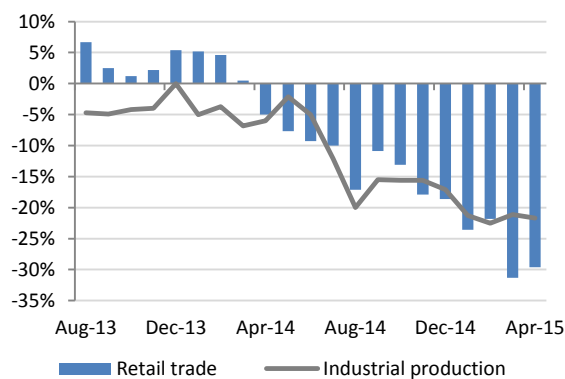
# Ukraine Economy Overview: The painful adjustment continues

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



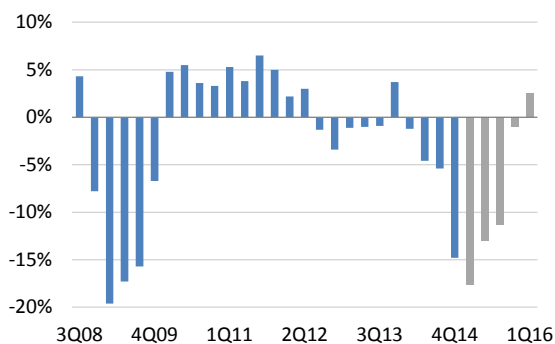
## Economy: the painful adjustment continues

Monthly industrial output and retail trade, chg. yoy



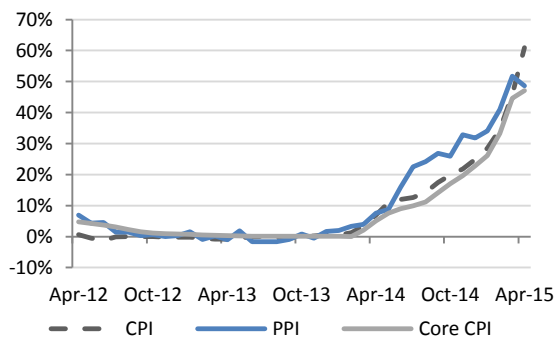
Source: NBU

Ukraine's quarterly real GDP, chg. yoy



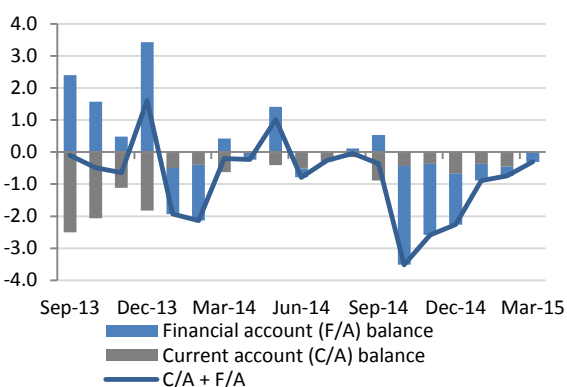
Source: UkrStat, SP Advisors

CPI and PPI, yoy



Source: UkrStat

Monthly balance-of-payments, USD bln



Sources: NBU, SP Advisors

Recent macro stats releases show the Ukrainian economy has been hit harder than expected by the war, its related effects and broad structural adjustments. GDP contracted 17.6% yoy in 1Q15 while inflation surged to 60.9% in April – a one-two combo Ukraine last faced during its painful transition to a market economy in the '90s. The economy is unlikely to see any signs of sustainable recovery through end-2015, but provided reforms gather pace and the military conflict doesn't escalate, 1Q16 will be the turning point.

### Weakening domestic demand will drag on economy through end-2015

GDP fell 17.6% yoy and 6.5% qoq in seasonally adjusted terms in 1Q15. The results came in worse than our expectations, and they clearly show Ukraine is facing more severe challenges than anyone expected at the start of the year. However, additional April data show the downward trend has flattened – the economy contracted materially, but it has likely reached the bottom. Monthly industrial production slumped 21.7% yoy in April (vs. 21.1% in March) and retail trade turnover shrank 29.6% yoy (vs. -31.3%). In assessing the state of the economy we need to keep in mind the substantial statistical omissions due to the inability to properly collect data in the war zone.

The factors behind the sharp drop in production are numerous, but the effects of the war and the related production closures have dominated thus far. Looking forward, however, we believe weakening domestic private demand will be the key drag on economic activities in 2H15. An uptick in inflation that has put a dent in households' real income, numerous banks bankruptcies that have fueled a one-off decline in the stock of wealth (and this is still not the end of the story), and weak consumer sentiment all bode badly for private demand – we project a real decline of 15-18% in 2015 (vs. -9.6% in 2014). Investment activities have been put on hold completely across the economy due to the monumental uncertainties and lack of credit funding. We expect investments will fall by more than 30% yoy in 2015 following a 23% contraction in 2013. The only positive facet of the trend is that shrinking demand will hurt imports foremost while the effect for local producers should be less pronounced.

We downgrade our 2015 GDP projection to a 10.1% decline vs. our previous estimate of -8.6%. We now expect economic growth to return to positive territory (in yoy terms) only in 1Q16, against our previous expectation of a 4Q15 resurgence. The downgrade in the GDP projection carries little implication for our view of the economy's mid-term prospects. With the high base effect (i.e. one that included the war-affected zone) set to fade in the coming quarters, the economy will see a modest 2-3% pickup in 2016. Mid-term growth prospects are dependent on the pace of reforms and Ukraine's ability to contain the war in the east.

### Inflation spikes on exchange rate, structural adjustments

Inflation surged to 60.9% yoy in April – the highest pace of price growth in more than 15 years in Ukraine. By our estimates annual inflation will accelerate further in the coming months and reach a peak at 62-63% in August before starting to subside. We downgrade our 2015 eop inflation projection to 46% vs. 34% previously. By our estimates, the return of CPI to single digits is possible no sooner than in 2H17.

While CPI skyrockets, any spiral wage-price effects are highly unlikely, in our view. The current growth in consumer prices is driven by two factors: the sharp hryvnia depreciation over 1Q15 and the adjustment in administratively regulated utility tariffs. The current surge in prices is mainly the result of huge imbalances (a C/A shortfall and the Naftogaz deficit) accumulated in the past and are broadly a reflection of structural adjustments working their way through the economy.

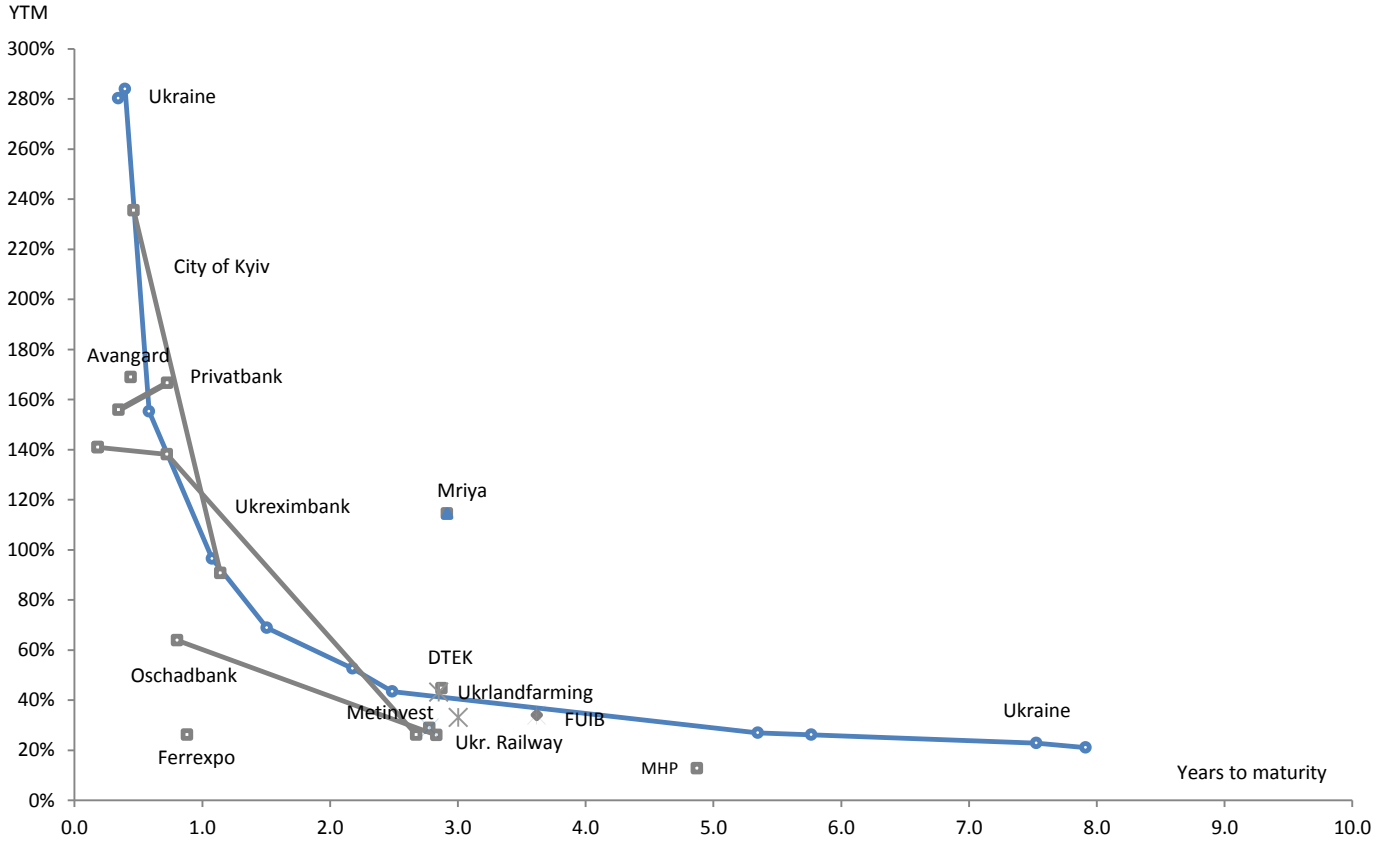
## Appendix A. Key macro data and projections

	2007	2008	2009	2010	2011	2012	2013	2014	2015E
<b>Business cycle indicators</b>									
Real GDP, chg yoy	7.6%	2.3%	-14.8%	4.1%	5.2%	0.2%	0.2%	-6.8%	-10.1%
Household consumption, chg yoy	17.1%	11.8%	-14.9%	7.1%	15.7%	11.7%	7.7%	-9.6%	-16.4%
Investments in fixed capital, chg yoy	23.9%	1.6%	-50.5%	3.9%	7.1%	0.9%	-6.7%	-23.0%	-33.4%
Industrial output, chg yoy	7.6%	-5.2%	-21.9%	11.2%	8.0%	-0.7%	-4.3%	-10.1%	-17.1%
Nominal GDP, UAH bln	721	948	913	1,079	1,300	1,405	1,465	1,567	1,944
Nominal GDP, USD bln	143	180	117	136	163	176	183	132	83
GDP per capita, USD	3,078	3,891	2,550	2,972	3,580	3,865	4,030	2,904	1 822
CPI (eop)	16.6%	22.3%	12.3%	9.1%	4.6%	-0.2%	0.5%	24.9%	46.0%
CPI average	12.8%	25.2%	15.9%	9.4%	8.0%	0.6%	-0.3%	12.1%	52.0%
Unemployment (ILO methodology, avg)	6.9%	6.9%	9.6%	8.9%	8.7%	8.2%	7.8%	9.7%	11.8%
<b>Balance of payments</b>									
Current account balance, USD bln	-5.3	-12.8	-1.7	-3.0	-10.2	-14.3	-16.5	-5.3	-2.4
% GDP	-3.7%	-7.1%	-1.5%	-2.2%	-6.3%	-8.1%	-9.0%	-4.0%	-2.9%
Financial account balance, USD bln	14.7	9.7	-12.0	8.0	7.8	10.1	18.5	-8.0	-14.2
% GDP	10.3%	5.4%	-10.2%	5.9%	4.8%	5.8%	10.1%	-6.1%	-17.2%
FDI net, USD bln	9.2	9.9	4.7	5.8	7.0	6.6	3.4	0.3	1.3
% of GDP	6.5%	5.5%	4.0%	4.2%	4.3%	3.8%	1.8%	0.2%	1.6%
Gross NBU reserves (eop), USD bln	32.5	31.5	26.5	34.6	31.8	24.5	20.4	7.5	13.0
<b>Monetary and banking indicators</b>									
Monetary base, UAH bln	142	187	226	240	255	307	333	390	390
Monetary base, chg. yoy	46%	32%	16%	6%	6%	20%	8%	17%	17%
Money supply (M3), UAH bln	396	515	598	683	773	909	957	1,091	1,091
Money supply, chg. yoy	52%	30%	23%	14%	13%	18%	5%	14%	14%
Monetary multiplier (eop M3/MB)	2.8	2.8	2.6	2.8	3.0	3.0	2.9	2.8	2.8
Bank loans, chg. yoy	74%	72%	1%	10%	2%	12%	13%	5%	5%
Bank deposits, chg. yoy	52%	28%	26%	18%	16%	18%	0%	6%	6%
Loan-to-deposit ratio	152%	205%	175%	162%	143%	135%	152%	151%	151%
<b>Exchange rate</b>									
Official UAH/USD (eop)	5.05	7.70	7.99	7.96	7.99	7.99	7.99	15.77	23.60
Official UAH/USD (avg)	5.05	5.27	7.79	7.94	7.97	7.99	7.99	11.89	23.50
<b>Budget and debt indicators</b>									
State budget revenues, UAH bln	165.9	231.7	209.7	240.6	314.6	346.0	339.2	357.0	438.0
% of GDP	23.0%	24.4%	23.0%	22.3%	24.2%	24.6%	23.2%	22.8%	23.2%
State budget expenditures, UAH bln	175.7	244.2	245.2	304.9	338.1	399.4	403.9	435.0	530.0
% of GDP	24.4%	25.8%	26.8%	28.3%	26.0%	28.4%	27.6%	27.8%	28.0%
State budget balance, UAH bln	-9.8	-12.5	-35.5	-64.3	-23.6	-53.4	-64.7	-78.0	-92.0
% of GDP	-1.4%	-1.3%	-3.9%	-6.0%	-1.8%	-3.8%	-4.4%	-5.0%	-4.9%
Public debt, UAH bln	89	189	318	432	473	516	584	1,101	1,501
% GDP	12.3%	20.0%	34.8%	40.1%	36.4%	36.7%	39.9%	70.3%	79.4%

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

## Appendix B. Ukraine Eurobond universe (1)

Ukraine Eurobond yield map\*



\*as of May 18, 2015  
Source: Bloomberg

## Appendix B. Ukraine Eurobond universe (2)

### Key parameters of Ukrainian Eurobonds\*

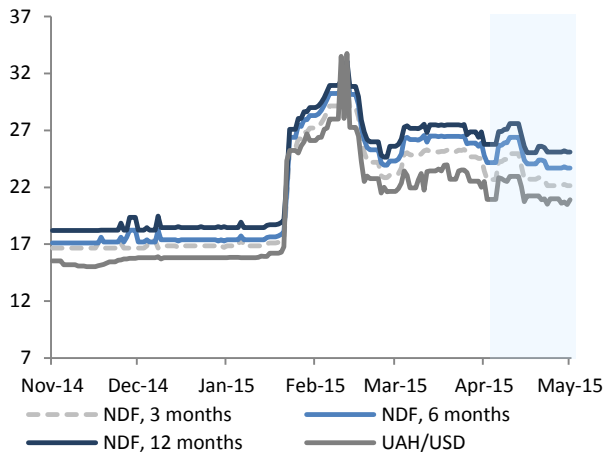
Name	Currency	Amount USD mln	Maturity	YTM,%		Mid. YTM change, pp		Fitch	Rating	
				Mid	Spread	1 M	YTD		Moody's	S&P
<b>Sovereign</b>										
Ukraine-09/15	USD	500	23.09.2015	275.5	10.7	34.4	221.0	CC	Ca	CC
Ukraine-10/15	EUR	600	13.10.2015	284.0	21.8	46.9	216.6	CC	Ca	CC
Ukraine-12/15	USD	3,000	20.12.2015	152.9	17.1	14.6	133.8	CC	Ca	CC
Ukraine-06/16	USD	1,250	17.06.2016	94.0	4.4	0.0	53.3	CC	Ca	CC
Ukraine-11/16	USD	1,000	21.11.2016	67.2	2.0	-2.0	32.9	CC	Ca	CC
Ukraine-07/17	USD	2,600	24.07.2017	52.1	1.0	-2.8	20.1	CC	Ca	CC
Ukraine-11/17	USD	700	14.11.2017	43.5	1.1	-2.5	17.8	CC	Ca	CC
Ukraine-20	USD	1,500	23.09.2020	27.0	0.6	-1.6	7.2	CC	Ca	CC
Ukraine-21	USD	1,500	23.02.2021	26.1	0.9	-1.4	6.5	CC	Ca	CC
Ukraine-22	USD	2,250	28.11.2022	22.8	0.6	-0.9	5.6	CC	Ca	CC
Ukraine-23	USD	1,250	17.04.2023	21.0	0.9	-1.5	4.2	CC	Ca	CC
Infrastr. projects-11/17	USD	568	03.11.2017	46.5	1.5	-8.3	17.2	-	Ca	-
Infrastr. projects-12/17	USD	550	07.12.2017	46.0	1.7	-6.8	16.5	-	(P)Ca	-
Infrastr. projects-18	USD	690	20.04.2018	39.4	1.2	-7.4	13.2	-	Ca	-
<b>Municipal</b>										
City of Kyiv-15	USD	250	06.11.2015	229.9	18.8	-7.0	181.8	CC	Ca	CC
City of Kyiv-16	USD	300	11.07.2016	90.7	9.5	-13.8	54.6	CC	Ca	CC
<b>Banks</b>										
Ukreximbank-16	USD	125	09.02.2016	116.2	na	-40.5	38.7	C	C	-
Ukreximbank-18	USD	600	22.01.2018	26.1	na	-13.0	-4.5	C	Ca	-
Oschadbank-16	USD	700	10.03.2016	64.9	4.8	-19.9	2.3	CC	Ca	-
Oschadbank-18	USD	500	20.03.2018	26.0	1.3	-7.2	-5.2	CC	Ca	-
Privatbank-15	USD	200	23.09.2015	155.9	na	-154.7	97.6	CC	Cau	-
Privatbank-16	USD	150	09.02.2016	165.8	15.9	-89.3	84.2	-	Cu	-
Privatbank-18	USD	175	28.02.2018	28.9	2.8	-22.3	-3.7	CC	Cau	-
FUIB-18	USD	252	31.12.2014	34.1	3.4	-	11.9	NR	WR	-
<b>Corporate</b>										
Avangardco-15	USD	200	29.10.2015	169.0	na	-111.6	97.5	WD	-	-
MHP-20	USD	750	02.04.2020	12.8	na	-4.2	-2.4	CCC	-	CCC-
DTEK-18	USD	750	04.04.2018	44.7	na	-2.1	6.1	C	Ca	-
Metinvest-15	USD	500	20.05.2015			<i>Restructuring negotiations ongoing</i>				
Metinvest-18	USD	750	14.02.2018	33.9	na	-3.4	5.4	C	Caa3	-
Mriya-16	USD	72	30.03.2016	440.3	na	-55.0	129.7	WD	-	NR
Mriya-18	USD	400	19.04.2018	113.2	10.2	-13.1	1.2	WD	-	NR
Ferrexpo-16	USD	500	07.04.2016	26.2	na	-6.0	-4.4	CCC	Caa3	CCC+
Ukrainian Railway	USD	500	21.05.2018	34.5	na	-17.8	9.3	C	-	CC
Ukrlandfarming	USD	500	26.03.2018	43.3	na	-9.2	4.3	WD	-	CC

\*as of May 18, 2015

Source: Bloomberg

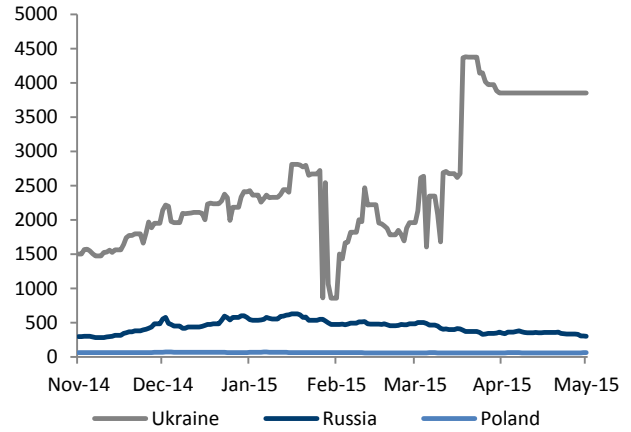
## Appendix C. NDF and CDS

Hryvnia spot and NDF rates, 6-m development \*



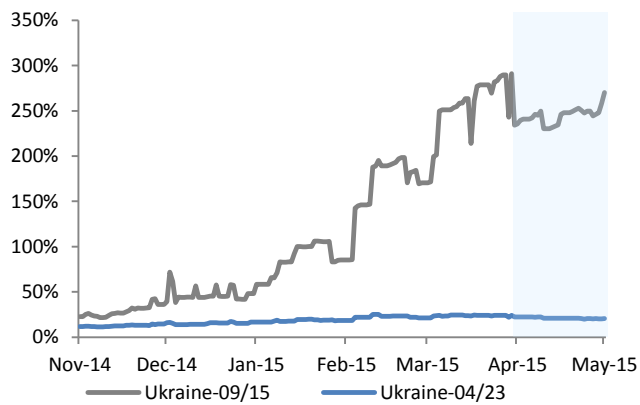
\* data as of May 18, 2015  
Source: Bloomberg

5Y CDS, 6-m development



Source: Bloomberg

Ukraine sovereign Eurobond yields, 6-m development



Source: Bloomberg

## Appendix D. Ukrainian equity multiples

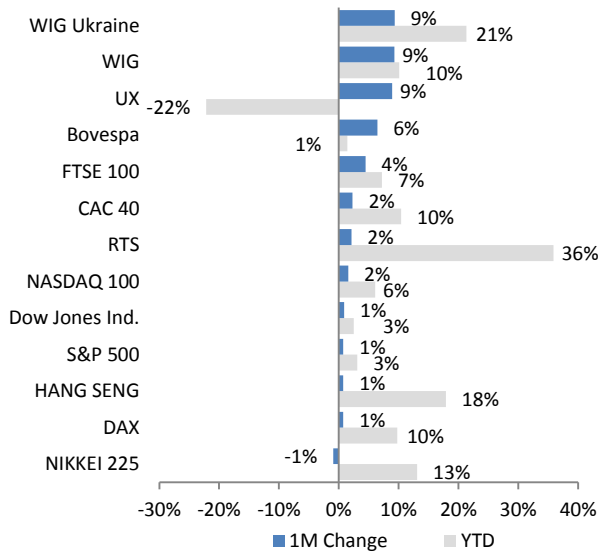
### Ukrainian stock multiples\*

Sector / Company	Ticker	MCap, USD mln	EV/EBITDA		EV/Sales		P/B		P/E		Net Debt / Book Value	
			2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
<b>Agriculture</b>												
Kernel	KER PW	812	4.1	3.7	0.6	0.5	0.7	0.6	5.9	5.4	0.48	0.33
MHP	MHPC LI	1,215	4.1	4.1	1.6	1.4	1.3	1.2	5.1	4.2	0.95	0.70
Mriya	MAYA GR	9	-	-	-	-	-	-	-	-	-	-
Astarta	AST PW	172	4.7	4.0	1.2	0.9	0.7	0.6	-	3.6	1.24	0.70
IMC	IMC PW	44	3.0	2.5	0.9	0.7	0.6	0.4	5.4	1.4	1.34	0.95
KSG Agro	KSG PW	3	-	-	-	-	-	-	-	0.2	-	-
Median		-	4.1	3.8	1.0	0.8	0.7	0.6	5.4	3.6	1.10	0.70
<b>Food</b>												
Avangard	AVGR LI	172	2.8	2.2	0.8	0.6	-	-	2.7	1.6	-	-
Ovostar	OVO PW	141	6.0	-	2.0	-	-	-	6.3	7.0	-	-
Milkiland	MLK PW	21	4.7	-	0.6	-	-	-	-	2.8	-	-
UkrProduct	UKR LN	3	2.5	1.6	0.2	0.1	0.1	0.1	1.8	1.1	0.39	0.24
Median		-	3.8	1.9	0.7	0.4	0.1	0.1	2.7	2.2	0.39	0.24
<b>Oil &amp; Gas</b>												
Cub Energy	KUB CN	5	-	-	-	-	-	-	-	-	-	-
JKX Oil & Gas	JKX LN	81	1.2	-	0.4	0.8	-	-	-	-	-	-
Kulczyk Oil	SEN PW	69	2.3	1.9	0.7	0.6	0.9	0.9	-	-	0.21	0.03
Regal Petroleum	RPT LN	25	-	-	-	-	-	-	-	-	-	-
Cadogan Petroleum	CAD LN	32	-	-	-	-	-	-	-	-	-	-
Median		-	1.8	1.9	0.6	0.7	0.9	0.9	-	-	0.21	0.03
<b>Mining</b>												
Coal Energy	CLE PW	7	-	-	-	-	-	-	-	-	-	-
<b>Metals &amp; Mining</b>												
Ferrexpo	FXPO LN	710	5.5	5.8	1.2	1.2	1.0	1.0	10.9	11.6	0.91	0.87
<b>Real Estate</b>												
TMM	TR61 GR	1	-	-	-	-	-	-	-	-	-	-
<b>Batteries</b>												
Westa ISIC	WES PW	1	-	-	-	-	-	-	-	-	-	-
<b>Transportation</b>												
KDM Shipping	KDM PW	10	-	-	-	-	-	-	-	-	-	-

\* as of May 18, 2015  
Source: Bloomberg

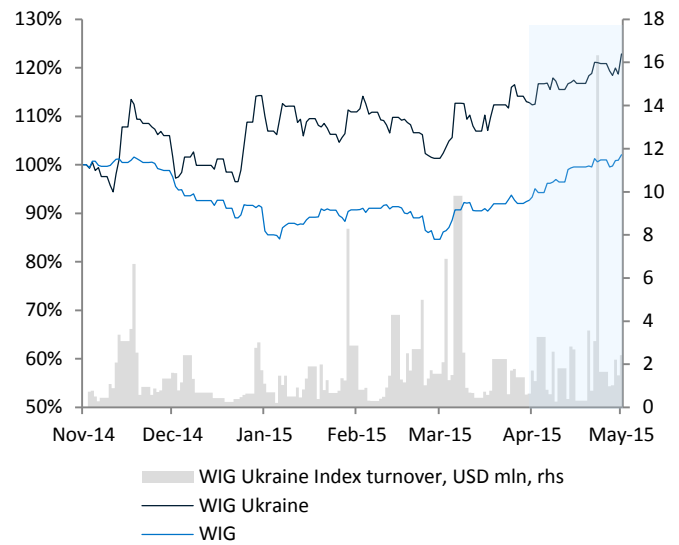
# Appendix E. Stock market summary

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



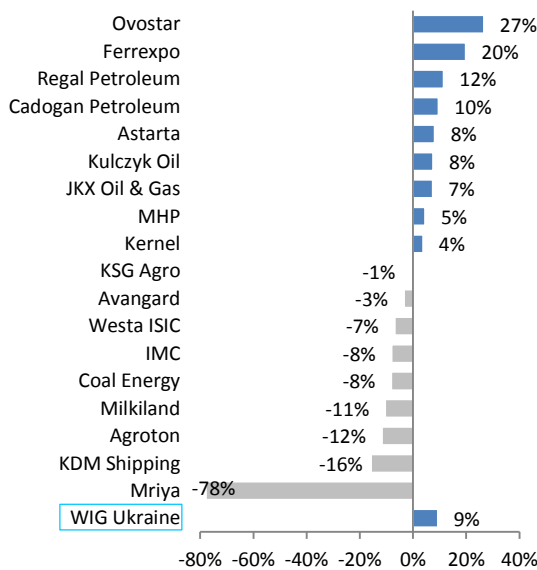
Data as of May 18, 2015  
Source: Bloomberg

WIG Ukraine, 6-month development



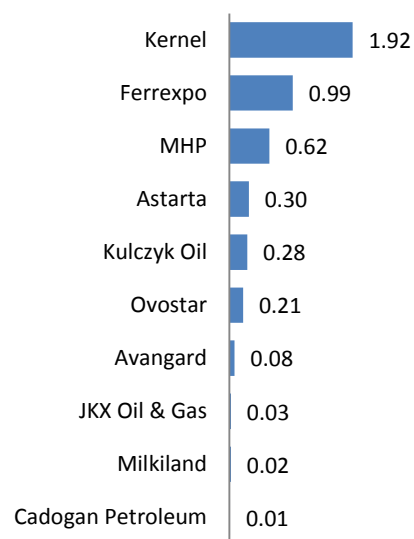
Source: Bloomberg

Ukrainian stock price change, mom\*



\* as of May 18, 2015  
Source: Bloomberg

Average daily trading in Ukrainian stocks, USD mln\*



\* Only top-10 stocks are shown, data are for Apr. 18 – May 18, 2015  
Source: Bloomberg



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