



UKRAINIAN EQUITY MARKET: WEEKLY OVERVIEW

Market Research Department

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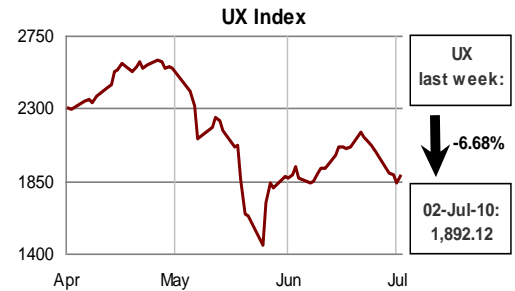
Equity Market

Last week saw more negative trends on the Ukrainian stock market. The UX index lost 6.68% during the week ended July 2.

In the **metals and mining sector**, *Mariupol Ilyich Iron and Steel*, Ukraine's second-largest steel producer, announced a merger with *Metinvest group*, a major Ukrainian steel holding. For this purpose, the company's AGM approved to increase its share capital by 3.7 times to UAH 3.09b through an additional share issue and included Metinvest in the investors list, among whom the additional shares issue will be placed. It is expected that, as a result of the new issue, a 75% stake in Mariupol Ilyich Iron and Steel will belong to the Metinvest group and about 23% of the shares will remain under the control of the current CEO Volodymyr Boiko. The news is positive for both companies, as in the result of the merger, Metinvest Holding is expected to expand its product portfolio with flat products, while Mariupol Ilyich Iron and Steel is to benefit from secure raw material supplies as well as gain access to CAPEX financing. According to the statement of Rinat Akhmetov, owner of Metinvest, after the merge, Metinvest will direct about \$2b for the reconstruction of Mariupol Ilyich Iron and Steel.

Ferrexpo disclosed financials for 1Q10, posting net sales of \$188.9m (+33.7% y/y), EBITDA of \$46m (+27.8% y/y) and a net income of \$11.6m (-46.5% y/y). The results imply an EBITDA margin of 24.3% (-1.1pp y/y) and net margin of 6.1% (-9.2pp y/y). The reported y/y drop in company's profitability owes to a \$15m exceptional write-down of VAT receivables. Over the period, Ferrexpo's sales volumes grew by 29.2% y/y to 2.2m tonnes of pellets, while its average realised price for pellet soared 4.6% y/y to \$80.2 per tonne. At the same time, the company's cash costs increased by 2.9% y/y to \$38.5 per tonne due to higher input prices.

Ukraine's steelmakers reduced daily crude steel output by 11% m/m in June. Over the month, the local mills produced 2.45m tonnes of crude steel (-13% m/m; +7% y/y), bringing 1H10 output to 16.3m tonnes (+18% y/y). *Alchevsk Iron and Steel* and *Dzerzhynsky Iron and Steel*, both of which belong to Industrial Union of Donbas, posted the weakest results, decreasing daily output by 39% m/m and 45% m/m respectively due to unstable supplies of raw materials and gas compounded by weaker export demand.



Meanwhile, *Yenakyevo Iron and Steel* and *Zaporizhstal* were the only mills that demonstrated positive m/m dynamics, recording increase of 3% m/m and 2% m/m, respectively. *Azovstal* and *Mariupol Ilyich Iron and Steel* performed better than the sector, cutting daily production by a respective 2% m/m and 4% m/m in June.

The average daily production of coke in Ukraine decreased by 12% m/m in June, while the total production stood at 1.4m tonnes (-15% m/m; -1.4% y/y). *Zaporizhskoks* turned to be the only exception with reported a 4% m/m growth in output in daily terms in June. Metinvest-owned *Avdiyivsky Coke* posted the smallest decline within the sector, scaling back daily output by only 3% m/m. 1H10 coke output was 9.3m tonnes (+12% y/y).

Pipe production in Ukraine dropped by 40% m/m in June to 132.1ths tonnes (-8% y/y), bringing 1H10 output to 774.7ths. tonnes (+5% y/y). Interpipe's key production asset, *Interpipe Novomoskovsk* and *Interpipe NPR*, increased pipe output in June by 47% m/m and 10% m/m, respectively, while Metinvest-owned *Khartsyzsky Pipe* cut production by 64% m/m.

In the **agricultural sector**, Russia lifted the ban on imports of Ukrainian poultry meat as of July 1 and allowed two of *MHP's* poultry production facilities, *Snyatynska Nova* poultry farm and *Myronivka* poultry farm, to start exports to Russia.

In the related news, MHP announced it had acquired two farms in Sumy Region with over 9ths ha of land under control, thereby increasing its total land bank to 209ths ha. According to the MHP's CEO Yuriy Kosyuk, the acquisition is part of the company's strategy to increase its land bank to 350ths ha over the next few years.

UX index lost 6.68% during the week

IMF and Ukraine reached a staff-level agreement on \$14.9b loan

Economics and Politics

On Saturday, July 3, Thanos Arvanitis, chief of the International Monetary Fund's (IMF) mission for Ukraine, announced that the mission had reached a staff-level agreement with the Ukrainian authorities on a \$14.9b 2.5-year Stand-by program. The agreement is set to be approved by the Fund's Executive Board in late July after Ukraine will pass legislative changes related to the budget and the financial sector. Specifically, the IMF mission proposed adjusting the consolidated general government deficit to 5.5% of

GDP in 2010 and 3.5% in 2011, implementing reforms in the energy sector to limit Naftogaz's financial deficit to 1% of GDP in 2010 and balance its finances in 2011. The mission also requested the government to focus on restoring the health of the banking system and strengthening the independence of the National Bank of Ukraine.

The National Bank of Ukraine (NBU) announced its gross international reserves grew by 4.8% m/m to \$26.35b in April (-0.6% YTD).

Weekly Leaders / Laggards

Largest Gainers			Largest Losers			Largest Turnover	
Issuer	Change	Price	Issuer	Change	Price	Issuer	Turnover, USD
Luganskeplovoz	10.52%	4.98 UAH	Regal Petroleum	-19.86%	0.29 GBP	Ferrexpo	39.9m
MCB Agricole	5.56%	1.80 EUR	TMM Real Estate	-15.54%	2.56 EUR	Regal Petroleum	22.7m
Landkom International	4.00%	0.06 GBP	Ferrexpo	-11.56%	2.40 GBP	JKX Oil&Gas	8.3m
Komsomolets Donbasa Coal Mine	3.62%	4.11 UAH	Avdiyivsky Coke	-10.49%	12.20 UAH	MHP	8.1m
Ukrprodukt	2.90%	0.35 GBP	Ukrsotsbank	-10.07%	0.48 UAH	Ukrnafta	4.5m

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