



UKRAINIAN EQUITY MARKET: WEEKLY OVERVIEW

Market Research Department

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Equity Market

Last week, the Ukrainian stock market like the majority of the global exchanges managed to record gains. For the period, the UX index grew by 2.10%.

In the **machine building sector**, Ukraine's monopoly producer of passenger rail cars and leading producer of freight cars *Kryukiv Rail Car* reported a 5-fold y/y increase in 1H10 freight car output to 4,329 vehicles due to renewed export demand. At the same time, the output of passenger cars decreased to 10 units from 11 units in 1H09. The company also announced plans to increase its production of freight railcars by 12% m/m in July to 860 units. Besides, *Kryukiv Rail Car* plans to deliver its fourth metro train this month.

Stakhaniv Rail Car also reported strong production results for 1H10, posting freight car output at 3,634 units (vs. 294 vehicles in 1H09). According to the announcement, this appeared to be the company's highest production volume in any six-month period over the last 45 years. For the period, the company's sales grew to UAH 1.2b, 2.6-times exceeding its 2009 full-year sales figure of UAH 460m.

Luganskteplovoz, one of the largest producers of mainline locomotives in the CIS, announced financial results for 1H10, posting net sales of UAH 209m (-41.4%), negative EBITDA of UAH 17.1m (vs. UAH 18.8m in 1H09) and net losses of UAH 27.3m (vs. 75.4m in 1H09). At the same time, it should be noted that *Luganskteplovoz*' 2Q10 results showed notable improvement in q/q terms as the company's revenues recorded a 35-times q/q increase in 2Q10 to UAH 203.2m and its bottom line returned to positive at UAH 8m vs. a UAH 35.3 net loss in 1Q10.

In the **metallurgical sector**, according to the World Steel Association, Ukraine's steel production growth slowed to 7.2% y/y in June vs. 21.2% y/y in May, 39.0% y/y in April and 25.8% y/y in March. The recorded June output volume (2.47m tonnes) placed the country 10th in the list of 66 steel producing countries, down from the 8th position recorded in May. In 1H10 Ukraine's crude steel output increased by 20.1% y/y to 16.36m tonnes. *For top-10 crude steel producing countries please see the table below.*

Zaporizhstal announced plans to increase its share capital by 20% to UAH 793.1m via issuing 528.7m additional shares at par value of UAH 0.25 apiece (96% below the current market price). This item will be considered by the company's shareholders at the EGM on September 2. If approved, the subscription is expected to take place in October.

In the **utilities sector**, Ukraine's major GenCos issued 1H10 financials, revealing an improvement in their bottom line due to higher electricity demand and increased wholesale electricity market prices.

Donbasenergo was the only GenCo that remained loss-making in 2Q10, posting a net loss of UAH 25m (vs. a net loss of UAH 170.4m in 1Q10). As a result, the company extended its net loss to UAH 195.4m in 1H10, up from a UAH 91.4m net loss in 1H09. Its revenue declined by 18.4% y/y to UAH 1.38b in 1H10, while EBITDA remained negative at UAH 66m (vs. negative EBITDA of UAH 28.2m in 1H09).

For 1H10, *Centerenergo* announced a 47.6% y/y surge of its net sales to UAH 2.71b, EBITDA of UAH 129.7m (vs. negative EBITDA of UAH 46.8m in 1H09)



and a net income of UAH 74.4m (vs. a net loss of UAH 153.2m in 1Q09). The company's net earnings for 2Q10 were UAH 162.3m vs. a net loss of UAH 88m in 1Q10.

Zakhidenergo reported net sales of UAH 2.18b for 1H10 (+0.9% y/y), EBITDA of UAH 31.1m (vs. negative EBITDA of UAH 145.5m in 1H09), but a net loss of UAH 73.3m (vs. a net loss of UAH 245.5m in 1H09). Over 2Q10, the company earned UAH 78.1m in net income vs. a UAH 154.1m loss in 1Q10.

Dniproenergo, posted a 44.5% y/y increase in net sales to UAH 2.64b, EBITDA of UAH 354.7m (vs. negative EBITDA of UAH 4.9m in 1H09) and a net income of UAH 97.2m (vs. a UAH 149.4m net loss in 1H09). The company disclosed 2Q10 net income of UAH 204m vs. a net loss of UAH 13m in 1Q10.

In the **agricultural sector**, a leading Ukrainian sugar producer *Astarta Holding* announced it had completed an elevator with grain storage capacity of 50ths tonnes in Vinnytsia region, increasing the holding's combined storage capacity by 22.7% to 270ths tonnes. According to the announcement, the company invested UAH 45m into the project.

The European Bank for Reconstruction and Development (EBRD) approved a \$25m loan to *Mriya Agro Holding*, one of the major agricultural holdings in Ukraine. According to local media reports, the proceeds will be directed at financing pre and post harvest working capital needs of the company.

Landkom International, a Ukrainian producer of agricultural commodities, released unaudited financial results for 1H2010. According to the release, the company's revenues stood at \$1.93m in 1H10 (+3.5% y/y), its EBITDA was a loss of \$0.7m vs. an EBITDA loss of \$12.6 in 1H09 and its net loss was \$4.4m vs. \$16.6m in 1H09. The improvement in the company's bottom line was primarily the result of the y/y reduction in operating costs. The management announced it expects 2010 full-year operating costs will be at least 35% lower than in 2009 and reiterated its earlier guidance that the company will at least break even on an EBITDA basis this financial year.

In the **telecommunication sector**, *Ukrtelekom* issued financials for 1H10, posting net sales of UAH 3.40b (+3.3% y/y), EBITDA of UAH 822.8m (+18.6% y/y) and a net income of UAH 48.3m (vs. a net loss of UAH 123.4m in 1H09). The results imply an EBITDA margin of 24.2% and net margin of 1.4%. The improvement in the company's profitability is attributable to the increased revenues from the broadband internet segment combined with decreased personnel costs and lower interest expenses.

UX index gained
2.10% during the
week

In the **banking sector**, the National Bank of Ukraine (NBU) released preliminary data on the Ukrainian banking sector for 1H10, disclosing net losses of UAH 8.31b for 6-month period, up from net losses of UAH 7.47b for 5-month period. In y/y terms, however, the aggregate net loss of Ukrainian banks reduced by 42% as their expenses declined at a more rapid pace (-14.9% y/y) than did income (-9.5%). NPLs grew by mere 0.3% over June to UAH 77.6b, while the NPL ratio reached 10.8%, up 0.1 pp m/m. Both blue-chip banking stocks *Raiffeisen Bank Aval*

and *Ukrsotsbank* announced positive UAS results for 2Q10 and 1H10.

Raiffeisen Bank Aval reported a net income of UAH 13.9m for 2Q10 (-36.7% q/q), improving its 1H10 bottom-line to UAH 35.9m vs. a UAH 1.08b net loss in 1H09. The bank's end-1H10 LLP ratio stood at 23%, up from 20% as of end-2009.

Ukrsotsbank disclosed a net profit of UAH 16.3m for 2Q10 (+960.8% q/q) bringing its 1H10 net income to UAH 17.9m (-71% y/y). The bank's end-1H10 LLP ratio reached 14% vs. 11% as of end-2009.

Ukraine's GDP grew by 6.3% y/y in 1H10

Economics and Politics

Ukraine's Prime Minister Mykola Azarov announced that the country's GDP grew by 6.3% y/y in 1H10. The

PM said that substantial improvements were recorded in industry, cargo transportation and domestic trade.

Weekly Leaders / Laggards

Largest Gainers			Largest Losers			Largest Turnover	
Issuer	Change	Price	Issuer	Change	Price	Issuer	Turnover, USD
Ferrexpo	14.57%	2.90 GBP	Dniprospsstal	-8.81%	1 450 UAH	Ferrexpo	21.1m
Landkom International	11.48%	0.09 GBP	Regal Petroleum	-4.41%	0.33 GBP	Regal Petroleum	9.6m
Bank Forum	9.38%	6.89 UAH	Interpipe Nyzhnodniprovsk Pipe	-2.77%	10.20 UAH	JKX Oil&Gas	9.5m
Raiffeisen Bank Aval	7.39%	0.48 UAH	Komsomolets Donbasa Coal Mine	-2.52%	3.90 UAH	Kernel Holding	9.3m
Mriya Agro Holding	7.14%	5.25 EUR	Avangardco	-1.92%	12.75 USD	Ukrsotsbank	3.2m

Crude Steel Statistics

Top 10 Countries by Crude Steel Output in June 2010

Country	Steel output, m tonnes	%, y/y
1. China	53.766	9.0%
2. Japan	9.352	35.9%
3. United States	7.199	65.0%
4. Russia	5.430	6.0%
5. India	5.350	1.9%
6. South Korea	4.801	21.9%
7. Germany	3.856	53.4%
8. Brazil	2.850	46.8%
9. Turkey	2.495	13.9%
10. Ukraine	2.470	7.2%
World total	118.756	18.0%

Top 10 Countries by Crude Steel Output in 1H10

Country	Steel output, m tonnes	%, y/y
1. China	323.172	21.2%
2. Japan	54.573	48.7%
3. United States	41.007	69.0%
4. Russia	32.685	20.9%
5. India	32.317	6.4%
6. South Korea	28.312	28.0%
7. Germany	22.729	64.3%
8. Brazil	16.439	55.6%
9. Ukraine	16.358	20.1%
10. Italy	13.504	36.7%
World total	707.692	28.2%

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