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Ukrainian Equity Market: Weekly Overview

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Last week the Ukrainian stock market witnessed some stabilization amid the uncertainty in the global markets. The UX index added just 0.75% after 4.98% for the previous period.

In the **machine building sector**, the association of Ukrainian automobile producers Ukravtoprom announced that local automakers increased their production in July by 11.1% m/m and 10.4% y/y to nearly 7.53ths units, brining 7m10 output to 38.52ths units (-13.9% y/y). Last month, domestic carmakers produced around 6.89ths passenger cars (+15.9% m/m, +6.0% y/y), 383 trucks (-38.9% m/m, +53.8% y/y) and 253 buses (+24.6% m/m; +283.3% y/y). *For more detailed data please see the table below.*

Oil & gas equipment provider *Sumy Frunze Machine Engineering* reported a preliminary 13-15% y/y decline in 1H10 revenues due to decreasing order flow from Central Asia.

Luganskteplovoz, one of the leading locomotive producers in CIS, released its production grew by 33% y/y to UAH 386.1m in 7m10. Over the period, the company produced 30 sections of 2TE-116U locomotive for Russia and Kazakhstan.

In the **metals & mining sector**, Ukraine's steelmakers announced their preliminary output results for July 2010. Ukraine's steelmakers reduced crude steel output by 2% m/m in July due to weak export demand. Over the month, the local mills produced 2.42m tonnes of crude steel (-8.9% y/y), brining 7m10 output to 18.76m tonnes (+18% y/y). Metinvest-owned *Azovstal* posted the biggest decline, cutting its output by only 12.7% m/m to 423ths tonnes in July, due to unplanned repairs at some of its production facilities. It was followed by IUD's *Alchevsk Steel*, which decreased steel output by 11% m/m in July to 137ths tonnes as the company continued to suffer from unstable supplies of raw materials and weaker export demand as well. At the same time, *Mariupol Ilyich* managed to increase its output by 7.7% m/m to 420ths tonnes in July. The growth was attributable to the company's merger with Metinvest that provided it access to raw materials base as well as a slight improvement in world prices and demand for finished flat steel. In turn, Mariupol Ilyich's purchases of coke from Metinvest's *Avdiyivsky Coke* allowed the latter to increase coke output by 5.4% m/m to 262ths tonnes in July. *Yasynivsky Coke* also demonstrated production growth last month, boosting coke output by 11.4% m/m to 137ths tonnes. At the same time, *Alchevsky Coke* and *Bagliykoks* posted the weakest results, scaling back their output by 16% m/m and 10.5% m/m respectively. Overall, coke production in Ukraine remained flat m/m in July at 1.4m tonnes (-10.7% y/y), brining 7m10 output to 10.7m tonnes (+8.5% y/y).

Pipe production in Ukraine grew by 4.4% m/m in July to 137.9ths tonnes (-14.9% y/y), bringing 7m10 output to 913.8ths. tonnes (+1.7% y/y). Metinvest-owned *Khartsyzsky Pipe* increased its output figures in July by 72.8% m/m, following a 64% m/m reduction witnessed in June. Interpipe's key production assets, *Interpipe Novomoskovsk* and *Interpipe NPR*, continued to recover in July, increasing pipe output by 14.5% m/m and 0.6% m/m respectively.

Ukraine's iron ore output concentrate increased by 2% m/m to 5.5m tonnes in July (+7.9% y/y). Metinvest-owned *Inguletsky Ore Mining* and *Central Ore Mining* recorded positive m/m dynamics last month, posting increase in iron ore concentrate output of a respective 2.7% m/m and 1.3% m/m. At the same time, Ferrexpo's *Poltavsky Ore Mining* underperformed the sector, reporting a 3.4% decline in July. 7m10 concentrate output stood at 37.21m tonnes (+29.9% y/y). *For more detailed output data please see the table below.*

Ferrexpo reported financials for 1H10, posting net sales of $525.8m (+74.3% y/y), EBITDA of $215.2m (+256.9% y/y) and a net income of $138.7m (+383.2% y/y). The results imply an EBITDA margin of 40.9% (+20.9pp y/y) and net margin of 26.4% (+16.9pp y/y). Over the period, Ferrexpo's sales volumes grew by 13% y/y to 4.74m tonnes of pellets, while average DAF/FOB sales price for pellet soared by 61.5% y/y. At the same time, the company's cash costs increased by 9.5% y/y to $37.8 per tonne due to higher input prices. Ferrexpo's 1H10-end cash position amounted to $60.2m, while its 1H10-end net debt stood at $257m. In addition, the company announced interim dividends of $0.033 per share.

Metinvest and *Interpipe* were announced the winners of a UAH 290m tender to supply steel pipes to Ukrtransgaz, a subsidiary of Naftogaz Ukrainy. According to the tender results announcement, Ukrtransgaz signed a UAH 82m contract for supply of 3.7ths tonnes of pipe products with Interpipe and a UAH 208m contract for supply of 8.5ths tonnes of pipe products with Metinvest.

In **the agricultural sector,** a leading Ukrainian sugar producer *Astarta Holding* released it had downgraded its annual harvest forecast for wheat and barley by 25-30% because of dry weather. The average yields for wheat and barley are expected at 3.5-4.0 tonnes and 2.5-3.0 tonnes per hectare respectively.

Economic Environment

The State Statistics Committee of Ukraine (SSC) reported that that the *consumer price index* declined for the fourth consecutive month in July, dropping by 0.2% m/m, and bringing y/y inflation to 6.8%, down from 6.9% in June. In line with previous months, the major driver of deflation in July remained decline in food prices (-0.7% m/m), stemming from seasonal decrease in prices for vegetables, eggs, milk and dairy products.

Industrial producers' prices fell by 0.2% m/m in July, decelerating to 24.4% in y/y terms from 25.5% in June. Last month, the biggest decrease in producers prices was observed in metallurgy (-2.4% m/m), while the prices of electricity, gas and water suppliers as well as food, beverages and tobacco producers' prices posted the biggest increase (+1.1% m/m).

The National Bank of Ukraine (NBU) announced its *gross international reserves* grew by 4.6% m/m to $30.9b in July (+16.5% YTD).

Weekly Leaders / Laggards

Largest Gainers			**Largest Losers**			**Largest Turnover**	
Issuer	Change	Price	Issuer	Change	Price	Issuer	Turnover, USD
Poltavsky GOK Ore Mine	17.01%	46.10 UAH	Mariupol Illich Iron and Steel	-46.48%	1.55 UAH	Ferrexpo	30.5m
Landkom International	16.42%	0.10 GBP	Ukrnafta	-6.38%	270.0 UAH	Kernel Holding	28.7m
Yenakievo Steel	13.31%	208.8 UAH	Sumy Frunze Machine Eng.	-5.03%	55.56 UAH	JKX Oil&Gas	11.6m
Stirol	13.26%	104.1 UAH	Dniproenergo	-4.46%	1 070 UAH	Alchevsk Steel	5.6m
Alchevsk Steel	12.65%	0.19 UAH	DUPD	-3.73%	0.78 GBP	Ukrsotsbank	5.2m

Car Output

	Passenger cars				**Trucks**				**Buses**				**Total**			
Company	July 2010 (units)	%, y/y	07M10 (units)	%, y/y	July 2010 (units)	%, y/y	07M10 (units)	%, y/y	July 2010 (units)	%, y/y	07M10 (units)	%, y/y	July 2010 (units)	%, y/y	07M10 (units)	%, y/y
ZAZ (UkrAVTO)	4 382	17.1%	18 318	-39.8%	161	-35.3%	1 962	71.5%	35	1067%	248	235.1%	4 578	14.6%	20 528	-35.1%
AvtoKrAZ					79	+	503	521.0%					79	+	503	521.0%
Lviv Autoplant (LAZ)									4	+	6	+	4	+	6	+
Bohdan Motors	1 885	1.6%	9 034	-5.3%	125	+	463	46200%	105	320%	516	207.1%	2 115	12.5%	10 013	3.2%
Boryspil Autoplant					18	+	79	+	65	+	242	+	83	+	321	+
KrASZ	190	-66.4%	3 655	96.9%	0	0.0%	0	-					190	-66.4%	3 655	95.9%
Eurocar	437	27.4%	3 138	167%									437	27.4%	3 138	166.8%
Automobile Plant AntoRus									1	+	3	+	1	+	3	+
Chasovoyarsky Repair Plant									18	-37.9%	216	-20.3%	18	-37.9%	216	-20.3%
Chernigiv Autoplant									25	178%	135	1400%	25	177.8%	135	1400%
Total	6 894	6.0%	34 145	-20.6%	383	53.8%	3 007	143.3%	253	283%	1 366	161.7%	7 530	10.4%	38 518	-13.9%

Output Data

Steel output, ths tonnes

Company	July-10	y/y	m/m	07M10	y/y
Dniprospetsstal	35	75.0%	6.1%	218	74.4%
Yenakievo Iron and Steel	226	6.5%	4.6%	1 490	8.9%
Azovstal	423	-1.0%	-12.7%	3 293	42.7%
Mariupol Ilyich Iron and Steel	420	4.7%	7.7%	3 106	35.1%
Alchevsk Steel	137	-56.4%	-11.0%	1 763	-15.4%
Mittal Steel Kryviy Rih	493	-6.3%	1.4%	3 565	26.4%
Zaporizhstal	296	-0.3%	2.1%	1 941	2.4%

Coke output, ths tonnes

Company	July-10	y/y	m/m	07M10	y/y
Avdiyivsky Coke	262	8.2%	5.4%	1 526	1 855
Donetskkoks	28	47.4%	27.3%	133	207
Yasynivsky Coke	137	4.6%	11.4%	847	916
Alchevsky Coke	173	-44.9%	-16.0%	1 990	1 809
Bagliykoks	34	-40.4%	-10.5%	332	391
Zaporizhkoks	106	-10.2%	-3.6%	735	720

Iron ore concentrate output, ths tonnes

Company	July-10	y/y	m/m	07M10	y/y
South Ore Mining	720	4.3%	-2.7%	5 084	43.8%
Central Ore Mining	540	40.3%	1.3%	3 565	43.2%
North Ore Mining	1 196	-1.4%	-2.4%	8 515	13.9%
Poltavsky Ore Mining	910	0.5%	-3.4%	6 408	8.7%
Inguletsky Ore Mining	1 379	13.5%	2.7%	9 088	60.5%

Pipe output, ths tonnes

Company	July-10	y/y	m/m	07M10	y/y
INTERPIPE NRP	31.2	35.7%	0.6%	116.4	193.7
Dnipropetrovsk Pipe	6.5	10.2%	4.8%	29.4	45.8
INTERPIPE Novomoskovsk	19.8	0.5%	14.5%	73.6	103.8
Khartsyzsky Pipe	14.8	-69.2%	72.8%	350.7	118.8
Kominmet Pipe	12.4	1.0%	21.6%	102.8	84.8