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CIS

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Today's news

TNK-BP to issue benchmark size Eurobonds

Yesterday, TNK-BP announced it will offer Eurobonds under its existing US$8bn debt issuance programme. The issue is expected to be in two tranches maturing in 2013 and 2018. The issue will most likely reach US$1bn and will be used to refinance the US$700m notes maturing in November.

OGK-5: increased efficiency and investment programme

Yesterday OGK-5, one of Russia's electric power generators, released its 1H07 financials prepared in accordance with IFRS. The company's performance has improved, with sales up 10.2% YoY and EBITDA reaching RBL2.4bn, or 22.2% higher than for 1H06.

Bank Turanalem has bought 25% plus one share in Oranta, the third largest Ukrainian insurance company

As reported by Interfax, BTA has bought 25% plus one share in Oranta, the third largest Ukrainian insurance company at a privatisation auction for UAH500.75m (c.US$99m).

Naftogaz under pressure following another gas cut threat

Naftogaz Eurobonds continue to be under pressure in the face of our recent recommendations to Buy Nafto'09s. The spread widened by over 200bp since Wednesday when reports circulated that Ukraine might have to pay at least US$150 per cubic meter of natural gas that it receives from Turkmenistan, which offered the price to Gazprom.

Companies in this issue

Company	Currency	YTW (%)	Rec	Previously	Since
BTA 15	USD	11.3	-	-	-
Naftogaz 09	USD	12.2	Buy	Buy	19/12/06
TNK-BP 17	USD	7.8	Outperform	Outperform	27/03/07
OGK-5	RUB	8.39	--	--	--

Source: ING

Trade ideas in brief

External debt	Open date

Domestic debt	Open date
Along with globally abating fears regarding credit risks, we view RSB's rouble bonds as among the top performers, allowing us to assign them a Buy recommendation.	14/09/2007

Our Trade Ideas highlight short-term trade opportunities for Emerging European corporate credits. See the Trade Ideas section inside for more details.

Benchmark yields

	Last	%ch (DoD)
UST 10Y (US$)	4.537	0.010
Russia 10Y (RUB)	6.340	-0.020
Russia 10Y (US$)	5.765	-0.039
Russia '30 (US$)	5.766	0.023
Ukraine '16 (US$)	6.448	-0.048

Currencies

	Last	%ch (DoD)
RUB/US$	24.95	0.00
KZT/US$	120.97	0.00
UAH/US$	5.05	-0.06

Money market rates

	Last	%ch (DoD)
3 months RUB	7.52	0.10
3 months KZT	7.50	0.00
3 months UAH	4.42	0.31

Russia

TNK-BP to issue benchmark size Eurobonds

Yesterday, TNK-BP announced it will offer Eurobonds under its existing US$8bn debt issuance programme. The issue is expected to be in two tranches maturing in 2013 and 2018. The issue will most likely reach US$1bn and will be used to refinance the US$700m notes maturing in November. Based on the unconfirmed report by the company, details of the 5.5-year notes will be offered at UST+345bp to 360bp and the 10.5 year notes at UST+350bp to 365bp, which is around a 30bp premium over TNK-BP's current yield curve.

The announcement of the additional supply in the current market conditions put additional pressure on the existing debt spreads, which widened yesterday by over 20bp. We continue to view TNK-BP bonds as trading cheaply. Considering that the leverage will not increase due to the fact that most of the proceeds will be used to refinance the existing debt, we believe the issues priced at the indicated levels should be attractive to participate.

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OGK-5: increased efficiency and investment programme

Yesterday OGK-5[e], one of Russia's electric power generators, released its 1H07 financials prepared in accordance with IFRS. The company's performance has improved, with sales up 10.2% YoY and EBITDA reaching RBL2.4bn, or 22.2% higher than for 1H06. The EBITDA margin upped to 17.5%.

The company's debt burden has declined by RBL532m since 2006, which may be connected with changes in the shareholder structure – in June, Italian Enel acquired 29.9% of OGK-5 from RAO UES and from the market. Net debt/EBITDA markedly declined to 0.8x from 2.2x, which besides improvements in operating activities was accompanied by a increase in cash reserves that increased more than four times to RBL1.4bn. Enel applied to the Federal Antimonopoly Service for permission to acquire the rest of the shares, which has been granted. This may mean that it is close to gaining full control over the company, taking into account that OGK-5 was fully separated from RAO UES as a part of industry's reform.

The company also approved a new investment programme of RBL75bn for 2007-2012, which exceeds the previous version by RBL17.7bn. According to the new plan, RBL40bn is to be used for the repair and renovation of existing facilities, while RBL35bn is to be directed to building new production capacities at Sredneuralskaya GRES and Nevinnomysskaya GRES, as well as new plant at Tarko-Sale (a joint venture with Novatek). 2400 MW of new capacity are to be put into operation by 2012.

In our view, the company's business profile remains relatively strong at present, although we point at quite aggressive investment policy which should result in higher leverage over the coming years. We positively view Enel's intentions to acquire full control, as well as cooperation with Novatek that may assure gas supplies.

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Domestic markets update

Yesterday the rouble continued to decline against the dollar, reaching RBL24.96/USD this morning on the back of a continued euro/dollar correction. Today more volatility may be seen, as US labour market figures are to be released. Today we see the rouble within the range RBL24.93-25.00/USD, being stable against the bi-currency basket.

On the money market, interbank overnight rates declined a little to 8-8.5%, but liquidity still remains harsh. Nostro balances and CBR deposit accounts increased to RBL683.7bn, although the volume of repo operations increased to RBL75.6bn.

On Tuesday trading activity in the rouble bond market was not high. Sovereign papers remained unchanged while the corporate segment somewhat revived mainly in the first-tier segment where Gazprom-5 was up 35bp, Gazprom-9 up 75bp, FSK-2 up 45bp, Lukoil-4 up 40bp, and RGD-3 up 43bp. In the meantime, the high cost of rouble funds continued to restrain buying activity in the market and demand from foreign investors remained rather limited. We maintain a neutral view on the market in the coming days.

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Kazakhstan

Bank Turanalem has bought 25% plus one share in Oranta, the third largest Ukrainian insurance company

As reported by *Interfax*, BTA[f] has bought 25% plus one share in Oranta, the third largest Ukrainian insurance company at a privatisation auction for UAH500.75m (c.US$99m). BTA reportedly won the bid against Russian Alfa-Bank[f] and Kazakh CenterCredit[f] as the price rose 184 times from starting at UAH80m. BTA's first deputy CEO Mr Tatishev commented that he views the Ukrainian insurance market as very prospective and acquiring the Oranta stake was a successful deal. Having already bought 14.44% of Oranta in February 2006, BTA now owns a controlling 39.44% stake in the insurer's capital, effectively being able to control the company. We view the deal as a very positive sign of geographical risk diversification of BTA, forced by a liquidity crunch to look for other effective investment possibilities away from Kazakh traditional real estate and retail business. Having one of the largest franchises among Kazakh banks and being present in almost all CIS and neighbouring countries, BTA derives almost 30% of its profits from outside of Kazakhstan, which makes the banks less vulnerable to the market volatility caused by the liquidity crunch.

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Standard & Poor's place Kazakhstan on credit watch list with possibility of a downgrade

The agency believes that the country's banking system is at risk and is mulling a one-notch downgrade

On Tuesday, S&P said that it was currently reviewing the country's foreign currency and local currency debt ratings (now BBB and BBB+, respectively). The agency is concerned that the global liquidity crunch could put a damper on credit growth and cause the economy to decelerate, with a possible future deterioration of assets quality. It plans to announce its rating decision by 9 October. However, it also said that the possible downgrade will probably be limited to one notch given the government's strong fiscal position.

Investment implications: Following our September trip to Kazakhstan, we believe that most banks will survive the crunch with the help of syndicated lending. However, we agree with S&P that the drying up of credit will likely affect economic growth. We are also worried by the dramatic deterioration of the current account balance in Q2 2007. Therefore, we would not be surprised to see a one-notch downgrade of Kazakhstan's debt ratings.

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Ukraine

Naftogaz under pressure following another gas cut threat

Naftogaz[f] Eurobonds continue to be under pressure in the face of our recent recommendations to Buy Nafto'09s. The spread widened by over 200bp since Wednesday when reports circulated that Ukraine might have to pay at least US$150 per cubic meter of natural gas that it receives from Turkmenistan which offered the price to Gazprom. As a result, the gas that Gazprom mixes from Ukraine will be higher than US$150 and most likely not the 10% increase over the current price of US$130 as the management of Naftogaz was boasting about.

Also, Gazprom apparently warned its Western European customers that it might have to reduce gas supply to Ukraine unless the country or rather the middle company that receives natural gas from the Russian monopoly pays more than US$1bn of past due debt. It is unclear whether this statement is timed with the results of the Ukraine's Parliamentary elections that took place over the weekend with the pro-Russian party apparently losing ground to the Orange side. In any case, Gazprom is back for debt collection.

The gas prices negotiations, the Parliamentary elections and now debt for gas supply, which might and might not have been of Naftogaz' doing, put tremendous pressure on the Naftogaz bonds. Will the company, which has yet to report its financial results for 2006 and broke financial covenants in the process to go bankrupt? The answer is NO. The problems at Naftogaz are sovereign problems of Ukraine and are indicative of the political process in the country. The company is strategically important to the state. Already, Yulia Timoshenko, before getting a post of Prime Minister, is claiming that she will get to the bottom of the problem and will not let the gas supply stop.

Nafto'09s closed almost unchanged at 94.01 (11.58% in yield terms).

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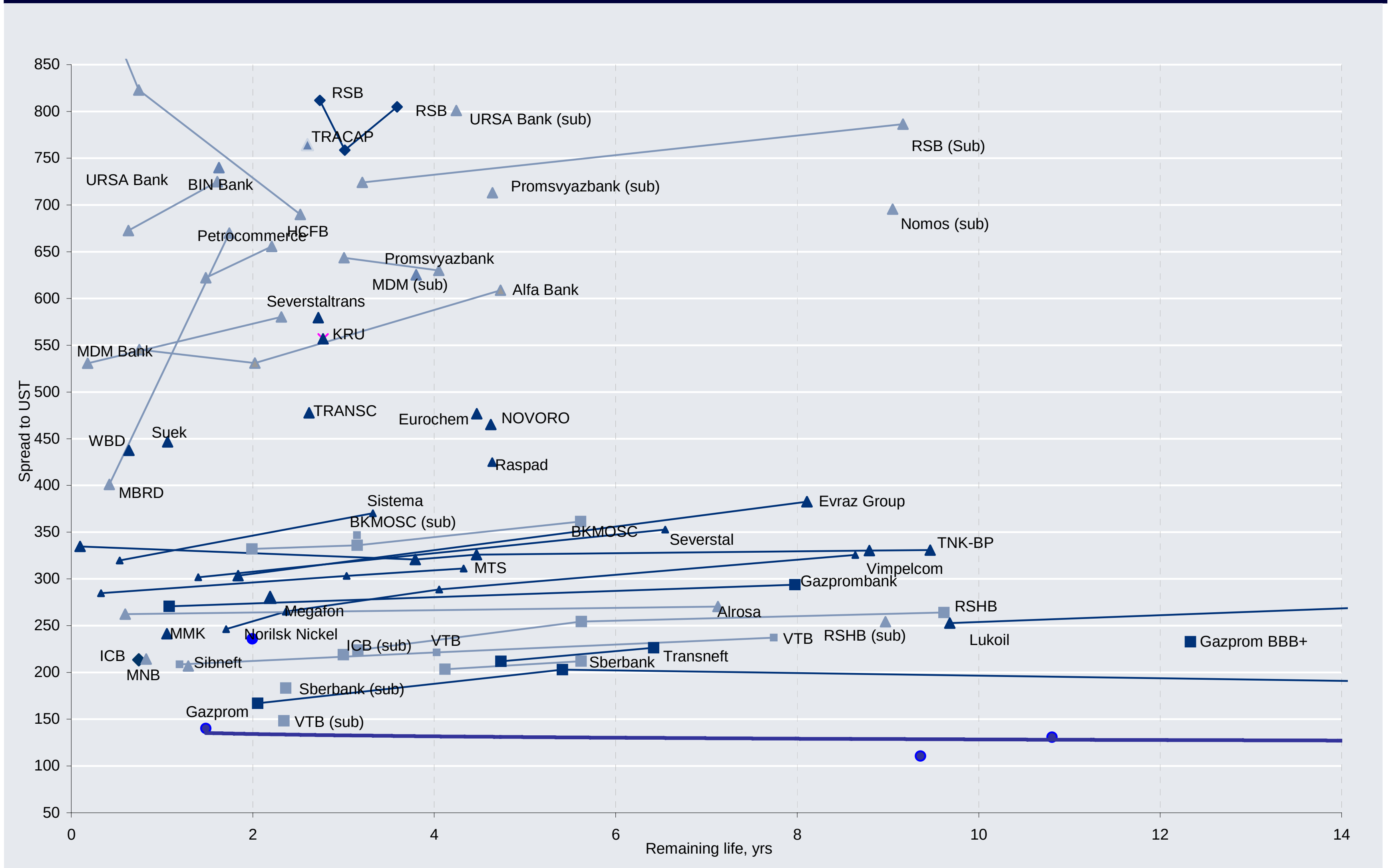
Russian corporates - USD Credit Curve



Source: Bloomberg, ING

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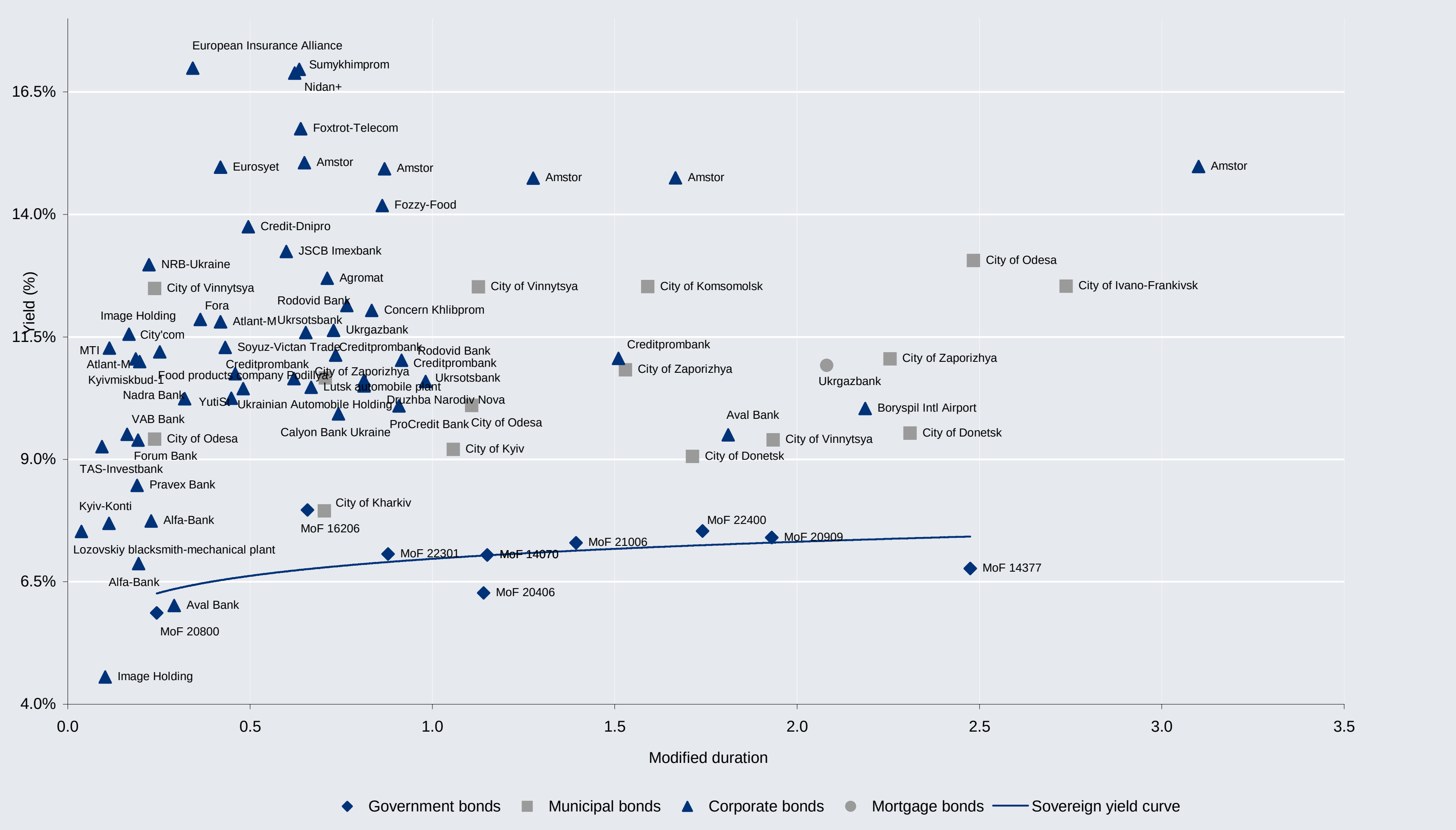
Ukraine's domestic tradable bond universe



Notes: corporate bond issues are with outstanding UAH50m and more. Source: PFTS, I

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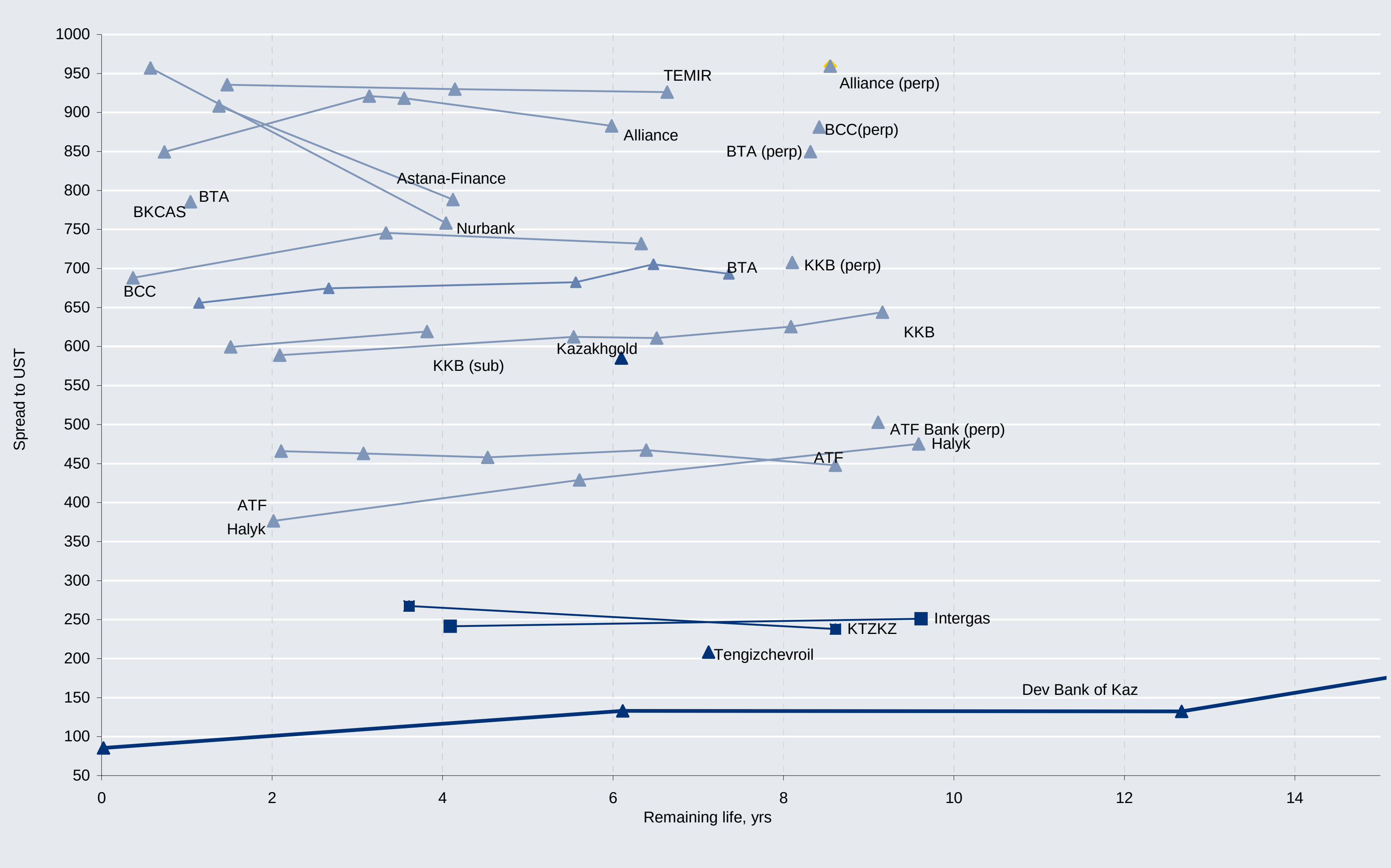
Kazakhstani corporates - USD Credit Curve



Source: Bloomberg, ING

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Trade Ideas

We see no significant threat to Russian Standard Bank's[f] financial stability from the current constrained access to funding from the debt market. The term structure of RSB's balance sheet suggests that its maturing market debt could be comfortably repaid from short-term assets. The bank's still quite strong profitability remains a significant alternative to funding on debt capital markets. In our view, the current yield level for RSB's rouble bonds reflects a higher risk premium than we view as fair, especially when the bonds within a 1.5-year workout yield above 10%. Along with globally abating fears regarding credit risks, we view RSB's bonds as among the top performers, allowing us to assign them a Buy recommendation. In addition, RSB's bonds remain on the Lombard lists of the central bank, allowing for the access to the central bank's liquidity through REPO operations.

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Buy: expected 1-year total return that significantly exceeds the 1-year expected total return of the relevant market.

Outperform: expected 1-year total return that modestly exceeds the 1-year expected total return of the relevant market.

Marketperform: expected 1-year total return that will be in line with the 1-year expected total return of the relevant market.

Underperform: expected 1-year total return that is modestly below the 1-year expected total return of the relevant market.

Sell: expected 1-year total return that is significantly below the one-year expected total return of the relevant market.

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Hold: 50% (of which 11% are investment banking clients).

Sell: 12% (of which 9% are investment banking clients).

Outperform has been included in the Buy category, Underperform in the Sell category and Marketperform in the Hold category. The distribution breakdown is based on our Latin American, Central and East European Corporate Debt and European High Yield universe as of end 2Q07.

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