

# UKRAINIAN STOCK MARKET UNDER PRESSURE IN 1998

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1998 has been a hard and anxious one for the young Ukrainian stock market. Numerous external and internal negative factors have threatened the market's existence badly, and more than once during the course of the year. The recurrent crises on all international financial markets, especially the Russian crisis, combined with growing internal economic problems, have resulted in a losing Ukrainian stock market for over a year.

The advance of the market was stopped in October 1997 by the world financial crisis. While the all-time high of the PFTS Index was reached on October 10, 1997 with 107.21 points, while on October 8, 1998, exactly one year later, the PFTS-Index came down to its all-time low at 16.52. In 1998, the PFTS Index started at 80 and lost, during the year, more than 70%, on its way down to about 20.

The capitalization of nine companies on the first level of the PFTS listing fell below Hr1 billion, while at the beginning of the year it had reached Hr3.419 billion. The same figures taken in terms of the U.S. dollar are much more impressive because of a 58% devaluation of the national currency the Hryvnia.

1998 has again demonstrated the important position of foreign investors on the Ukrainian market because there is not much Ukrainian capital invested in this market. Foreign investment makes up more than 80% of the total investment in the stock market.

Despite everything, however, the stock market continued to develop. As before, the over-the-counter stock trading system PFTS remained the largest and most important Ukrainian trading organizer and the main source of information of up-to-date prices of all traded securities.

In 1998, the total PFTS turnover has been preliminarily estimated at the Hr340 million level, while last year it constituted Hr353 million. This insignificant decrease of the total trading volume against the background of low market prices comes as no surprise, because of the huge increase of the PFTS stake on the Ukrainian stock market and large sales with new financial instruments.

Despite the many new securities entering the PFTS listing during the year, the main leaders among corporate securities remained the same. Of course, the Blue Chips of the Ukrainian stock market had the highest demand as before.

The "suffering" shares of Ukraine's largest oil and gas group UkrNafta headed the rating of the most attractive securities during the first three quarters of 1998. Notwithstanding, they were not the best shares of the year at all. During 1998, UkrNafta's shares were traded as high as Hr9.5 in January, than came down to their low of Hr1.7 at the end of August and were fluctuating a little bit higher than Hr2 in December. The share price of UkrNafta was very often formed with the influence of bad news and rumors, e. g. about reorganizing the company or stopping its privatization process. In the fourth quarter most traders lost their interest in these shares because of a full audit of the company. This was due to a meeting of UkrNafta's main shareholders, owning almost 80% of the company, which had been held prior to the general shareholders' meeting, where a decision was taken to the effect that the dividends wouldn't be less than 100% of the shares' nominal value - or Hr0.25 per share - for 1998.

The shares of energy companies were actively traded during the whole of 1998. The power industry remained one of the most attractive for investors. On the one hand, the energy shares sector was one of the oldest and most developed in the country. On the other hand, in 1998, the privatization of this important monopoly branch continued. The shares of three power generating company ZakhidEnergo, DniproEnergo, DonbasEnergo, and the power distributing company KyivEnergo, were the obvious leaders of the energy branch considering their huge trading volume during the year.

While the price movement of the actively traded shares of the largest Ukrainian chemical commodity producer and exporter Stirol was similar to the average price changes of leading shares, the shares of the less actively traded first level PFTS listed shares showed the chemical producer Azot losing 20% during 1998.

Shares of the shipping monopolist UkrrihFlot were not too visible based on their trading volume on the PFTS during the year. But now this issuer is well-known and traded not only in Ukraine. Ukrrihflot became the first Ukrainian open joint stock company whose Global Depository Receipts were entered in the listing of the Vienna Stock Exchange in Austria. Since then, the cross rate of UkrrihFlot shares, calculated according to official NBU rates,

in Austrian Shillings was higher than the share price in Hryvnias on the PFTS. Only by the end of the year did this difference diminish. In December, the shares of UkrrihFlot were traded at Hr5.48 on the PFTS with an ask price of Hr8.5, while on the Vienna Stock Exchange the shares were traded at AS29 or around Hr8. So, the shares of UkrrihFlot are truly among the best shares for 1998. These shares had not only better results than the average shares, the share price even gained about 40% compared to the beginning of 1998.

Also, the share prices of the Brewery Rohan were gaining during this year. While in the beginning of 1998 Rohan's shares were traded at Hr120-150, in November, the price jumped to more than Hr300, and since December, the shares kept trading in a range between Hr250 and Hr280. Since 1995, there has been a stable interest in these shares, because Rohan is a modern, profitable brewery with an excellent perspective.

The shares of the second largest Ukrainian refinery LyNOS had a bad start in 1998. They were sold neither on a non-commercial competition, nor on the stock exchange. The whole time prices were falling, and in the end, the quotation of LyNOS simply disappeared from the PFTS.

Because of internal problems, Bank Ukrayina stopped supporting their quotation on the PFTS, and their shares were delisted this year.

In 1998 the volume of issued promissory notes of the state-owned companies increased fourfold. The importance of this new financial instrument can be recognized by its growing trading volume on the market.

While the first promissory notes of the National Controlling Center were issued in 1996 and only one traded until October of 1998, now promissory notes of such companies as Ukraine's telecommunication company UkrTelecom, the national nuclear energy company EnergoAtom, the steel factories AzovStal and Mariupol Metallurgic Plant Illyicha, the state stock company Khib Ukrayiny, as well as some energy distributing companies, are listed and traded on the PFTS.

Every participant of the stock market would like to see a better market situation in the new year, 1999, but unfortunately, wishful thinking it is not enough to improve the market situation. However, there is always a good buy on low prices.