Ukraine

Resilience and reforms for a new era of growth

Home to a large internal market, vast agricultural, energy, and mineral resources, and occupying a strategic geographic position at the crossroads of Europe and Eurasia, Ukraine’s star is rising fast. Though the country was impacted by the Covid-19 pandemic, the effects were less severe compared to some of its neighbors. The economy is bouncing back as President Volodymyr Zelensky resumes an ambitious reform program that has seen the country become an increasingly attractive and competitive investment destination.

As the world’s fifth-largest exporter of iron and steel, Ukraine benefits from a very open economy and foreign trade accounting for 90% of GDP in 2019. It also benefits from Zelensky’s ambitious plans to transform the economy.

When he came to power in 2019, Zelensky made it clear that attracting foreign direct investment (FDI) is a top priority. Months after his election victory, he opted for an ambitious reform agenda at the World Economic Forum, unveiling plans to privatize 500 state-owned companies, improve investor protection, offer five-year tax breaks for buyers of state-owned firms, and launch new services to facilitate project development.

“We will defend your investment. We offer the government of Ukraine’s commitment to investing $100 million-plus that will include a separate contract with the state. A manager speaking five languages and available 24/7 will answer any questions. You will not have just a partner here, you will have a friend who is here to help, and have no problems whatsoever,” he told the audience.

There were not just empty words. Ukraine is making major strides in reforming the economy under Zelensky’s leadership. The country has won praise from the World Bank for several recent, ambitious reforms, including significant fiscal consolidation, adoption of a flexible exchange rate, reforms to energy prices, and assistance to change transparency in public procurement, easing business regulations to better attract FDI.

Combined with efforts to stabilize and restructure the steel-making sector as well as the establishment of new anti-corruption measures, which have had a measurable impact on the country’s investment climate. Ukraine rose five spots on the World Bank’s Doing Business 2020 survey to hit 64th out of 190 countries, and rose to hit second worldwide in terms of the speed and depth of improvements to its business climate. FDI inflows have soared in recent years, rising to hit $44 billion between 2015 and 2019, while ambitions grew to reach $51 billion in 2020 to hit $49.2 billion in 2020. Rising FDI has seen more than 60 new manufacturing plants constructed since 2015, creating tens of thousands of new added-value jobs. These include a $200 million, state-of-the-art seed processing facility built by German firm Bayer and a $150 million grain terminal by American giant Cargill. Major multinationals have also flocked to the country in recent years, including General Electric, Ryanair, HEAD, IKEA, H&M, and Deacition.

No such success story is complete, as Ukraine’s star is rising fast. Though the country was impacted by the Covid-19 pandemic, the effects were less severe compared to some of its neighbors. The economy is bouncing back as President Volodymyr Zelensky resumes an ambitious reform program that has seen the country become an increasingly attractive and competitive investment destination.

Metinvest

International steel giant commits to decarbonisation

Ranking in the top three economies worldwide in terms of upgrades rating in the past five years, Ukraine is an "emerging-market success story," according to a September 2021 report by credit rating agency Fitch. No country has received upgrades since 2016 than the Eastern European rising star, which was recently shifted to “positive” outlook from “stable” by Fitch. While the past few years have seen emerging market ratings slip overall, Ukraine has benefited from the progress of its structural reform and fiscal consolidation programmes, which have also won praise from the World Bank and international investors. Fitch forecasts that Ukraine’s government debt as a share of GDP this year, despite the impact of the Covid-19 pandemic, is expected to decline to 38.5%, well below its pre-pandemic peak of 40% of GDP in 2020. However, it expects GDP growth to rebound to 4.1%. The country’s metallurgy industry is one of the key drivers of this growth, with steel output rising 7.5% in the first six months of the year, according to industry association figures.

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Metalurgy contributed with 12% to GDP in 2016, and is a major source of export earnings. Ukraine ranks fourth in the world and second in Europe in steel exports in 2020, leveraging its location, natural resources, and high-skilled but relatively affordable workforce. It is the biggest company in the sector, but Ukraine’s largest privately-owned business. Metinvest is leading the way in the development of steel and mining in its home market and internationally. With a longstanding reputation for delivering solutions tailored for the needs of its global customers, the company’s redoubled drive for operational efficiency, goes hand-in-hand with both its ongoing M&A strategy and multibillion investment projects. According to our model of best practice for the industry as a whole: “We export 70%-80% of our output, and every time we work with a customer we strive to prove why should they turn to us instead of producers in their local market,” says Metinvest CEO Yuriy Ryzhenkov.

“We have an excellent team focused on identifying new opportunities and meeting customers needs and matching with our capabilities, working very hard on delivering complete solutions tailored for each case. We send technical teams to see how the customer and their market operate, bring customers to our facilities to understand what we can do and how we can serve them.”

Metinvest’s priorities include the company’s geographical diversification, which both increases the resilience of our business and allows rapid substitution if supply is disrupted or the customer’s project changes. We send technical teams to see how the customer and their market operate, bringing customers to our facilities to understand what we can do and how we can serve them.

Metinvest’s investments in decarbonisation, a priority for the country and the steel industry as a whole. As Yuriy Ryzhenkov, CEO of Metinvest, explains, “We are sitting on the raw materials, but we also want to be close to the customer.” At Metinvest, we are sitting on the raw materials, but we also want to be close to the customer.

The company’s expansion strategy includes a renewed drive for operational efficiency and focused growth in the key markets.

Metinvest’s efforts to reduce its air emissions, already reached $368m in the first half of 2021. Improvements in efficiency help reduce Metinvest’s investments in decarbonisation, a priority for the country and the steel industry as a whole. As Yuriy Ryzhenkov, CEO of Metinvest, explains, “We are sitting on the raw materials, but we also want to be close to the customer.”

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T he upturn will help boost the real estate and construction sectors, which tend to be driven by broader economic growth and market confidence. Even in 2020, when the global economy was hit by the covid-19 pandemic and related lockdowns, Ukrainian construction output grew by 4%, according to official figures. It was boosted by the government’s “Big Construction” programme, while private demand remains an essential part of the picture. The first five months of 2021 saw a 14.7% increase in residential construction.

Leading the way in the sector is KADORR Group, led by Adnan Kiwan, a Damascus born entrepreneur who came to Ukraine as a student in the 1980s and whose vision and commitment to the country has built a company that is the best in Europe, equipped with world-leading technology. The first KADORR Medical Hospital will be completed in Odessa in the next years, with an initial investment of $100m. It will include apartments for foreign doctors to come to teach local medics. Kiwan sees investments in healthcare as a duty to Ukraine as much as a business opportunity.

Over the past decades, KADORR has always sought investors because of the enormous potential it offers. Ukraine is home to some of the world’s largest deposits of iron and manganese ore, and holds significant reserves of rare, critical and strategic minerals, including Europe’s largest titanium and beryllium reserves, and significant quantities of nickel, uranium, and graphite, among many others. With excellent access to these reserves, leading domestic mining developer BGV Group Management will play a crucial role in developing the industries of tomorrow, including electric vehicle batteries, solar wind farms, and advanced technology. Established in 2015, BGV Group Management creates new opportunities for investors who also commit can benefit from Ukraine’s natural advantages. The European Union, US investors and Japan see Ukraine as a destination that is reformed and attractive for investors because of its solid macroeconomic fundamentals, and improved governance, solid macroeconomic transparency boosting growth and social development. Investors, too, have flocked to the country as the government moved to simplify business regulations and open up public procurement, and the National Bank of Ukraine reports that total foreign direct investment (FDI) stock in the country rose by 5% in 2019 alone to hit $51.4 billion.

Leading mining innovator believes in Ukraine

Ukraine’s economy remains resilient, and the country is fast-becoming Europe’s choice investment destination. The government already won praise from the World Bank for an ambitious and successful reform programme carried out between 2014 and 2019, with moves towards fiscal consolidation, reformed energy tariffs and enhanced transparency boosting growth and social development. Investors, too, have flocked to the country as the government moved to simplify business regulations and open up public procurement, and the National Bank of Ukraine reports that total foreign direct investment (FDI) stock in the country rose by 5% in 2019 alone to hit $51.4 billion.

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InterChem
At the cutting edge of pharma innovation

Ukraine’s recovery from the covid-19 pandemic received a further boost with the announcement of a $2.7bn funding package from the International Monetary Fund in August 2021. The money is part of a global programme that IMF managing director Kristalina Georgieva has said will build confidence and foster resiliency and stability. The money will come to Ukraine unconditionally and free of charge, providing a significant boost at a crucial time. The government expects a further $700m from the IMF in September, as part of an ongoing agreement linked to Ukraine’s reform programme.

R
estored economic momentum and growing confidence in Ukraine’s stability and long-term outlook are likely to intensify interest in the country’s strong pharmaceutical sector. The industry capitalises on a long history of scientific research and pharmaceutical manufacturing, access to a range of markets ranging from affluent European countries to fast-growing Asian economies, and the expertise of its labour pool. The sector was growing at more than 10% a year even before the covid crisis, according to official figures. At the cutting edge of the nexus between scientific innovation and commercial skill is InterChem. Founded in 1992, the year Ukraine regained independence, the company was established by young scientists working in the world-renowned laboratories of the Ukrainian Academy of Sciences, and grew from that institution’s pilot plant. In less than thirty years, InterChem has produced four new molecules (known in US legislation as new chemical entities), the innovative building-blocks of new medicines ranging from affl uent European countries and middle-income ranges to emerging markets in Africa, Asia, and Latin America.

Dr. Anatoliy Reder
CEO - InterChem

InterChem’s strengths have made it a partner of choice for pharmaceutical players internationally. The management is now considering further partnerships, including for the second phase of the development of the company’s new molecule - and potentially a long-term strategic partner for the company. “It would be good to have a partner for the second/third phase, and indeed we are sure that the coming years will see further growth,” Reder says. “My business partners and I would be happy to see a strategic partner as interested in what we are doing as we are. We love what we do - it’s not just about finance, but also support and a similar philosophy.”

Any potential partner would be entering a flourishing modern industry. Reder estimates that 90% of pharmaceutical production in Ukraine meets European and US standards, with the remainder following international best practices. The company’s growing scale is helping it gain access to the world’s largest market. “We are one of the few countries which offers very high-quality production at moderate costs,” he says. “R&D, production, and sales are all under our own control. The company’s quality and efficiency are a result of our focus on organic growth, and we have always invested in the development of our own production capacities.”

The sector capitalises on the country’s strong scientific knowledge base, relatively low costs, and access to both developed markets in Europe and emerging economies further afield. The domestic market is also strong, growing by 13% in 2020, according to industry figures, despite the deep recession caused by the covid-19 pandemic. Yuria-Pharm, one of the country’s largest pharmaceutical companies, epitomises the sector’s strengths in innovation and knowledge and internationalisation, while retaining a strong presence in Ukraine. Its success is built on its expertise, epitomised by founder Mykola Gumeniuk, who started as a leading scientist and has become one of the country’s top pharmaceutical entrepreneurs.

The story started in the USSR, where I was a young scientist, Gumenyuk is bullish about the opportunities that exist for businesses in Ukraine. With an economic and structural reform in progress, the opportunities for investment, or localise production for international counterparts, both those wishing to licence and manufacture products for the Ukrainian market, and those who licence its range of products on international markets. Yuria-Pharm now has operations in 41 countries worldwide. It is currently growing in Central and Latin American markets, while it continues to develop its footprint in the dynamic economics of Asia. The company is now poised for expansion in Europe, keeping pace with Ukraine’s path towards integration with the European Union, the world’s largest economic and a market of 455m people. Yuria-Pharm offers its partners a strong commitment to innovation in a competitive sector. 50% of its new products are its own development, providing new income streams for both parties in export markets. The company also has its own distribution business, which adds value and protects margins in its large-volume business with hospitals in particular. “The distribution business is an advantage for our partners, as we know the market not only as manufacturers ready to share our platform, but as manufacturers in direct contact with customers,” says Gumeniuk. “Relationships with partners are a priority; they can access the growing Ukrainian market, and take our developments for export too.”

The International Investor

Dr. Anatoliy Reder
CEO - InterChem

Mykola Gumeniuk
Founder - Yuria-Pharm

Surya-Pharm - Strong at home, growing abroad

Surya-Pharm is a U.S.-based private equity fund focused on the international pharmaceutical industry. It has invested more than $1bn in over 50 companies worldwide, including nine in Ukraine. The country is a hub for innovation, with a strong scientific research and pharmaceutical industry capitalising on a long history of scientific innovation, epitomising Surya-Pharm’s approach: seeking for the company. “It would be good to have a partner for the second/third phase, and indeed we are sure that the coming years will see further growth,” Reder says. “My business partners and I would be happy to see a strategic partner as interested in what we are doing as we are. We love what we do - it’s not just about finance, but also support and a similar philosophy.”

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The International Investor
ERU - Energy entrepreneurs bridge East and West

Signalling the country’s strong recovery from the covid-19 pandemic, merger and acquisition volumes in Ukraine surged by 77% in the first half of 2021, according to professional services company KPMG. The firm recorded 46 $5m-plus deals in the first six months of the year, and stated that 2021 has the makings of a successful year for both domestic and international deal-making in the country.

It noted several positive developments for foreign investors in the country, including strong exports, progress with judicial reforms, and re-engagement with the IMF under the fund’s $5bn loan to Kyiv. The energy industry is a major driver of investment in Ukraine; the oil and gas and power and utilities sectors between them accounted for 20% of deal volume in the first half of 2021, KPMG reported. Meanwhile, the government is committed to generating 25% of energy from renewable sources by 2035, unleashing a wave of green investment.

Yaroslav Mudryy
ERU's Managing Partner

ERU is an energy ownership structure, international corporate governance and business standards, and political risk insurance under contract with the United States International Development Finance Corporation (OFIC) all make it a reliable partner in a region in which some investors are still overly wary of risk profile. It works with leading international gas suppliers, as well as major companies in sectors including metallurgy, construction, and transport. "We are ready to put our equity into energy projects with leading international gas suppliers to Ukraine, the country has a need to unlock his country’s huge potential. Based on the government’s position, show our clients that we can compete with all of our partners," he explained. Although Alliance Energo originally began by trading products from Ukrainian producers, its energy efficiency business, which could play an important role in bringing down Ukraine’s CO2 emissions. By 2060 - an important target with climate change a pressing priority globally, but also a challenging one given the country’s traditionally carbon-intensive industry, and also bring our investments with counterparts. "I see a lot of great opportunities in the area of reduction of CO2 emissions," says Mudryy.

ERU signed an agreement for joint hydrocarbon exploration and exploitation activities in western Ukraine with the Polish oil and gas company PGNiG, one of the biggest companies in the region.

The Ukrainian company is now driving forward with development of its energy efficiency business, which could play an important role in bringing down Ukraine’s CO2 emissions. By 2060 - an important target with climate change a pressing priority globally, but also a challenging one given the country’s traditionally carbon-intensive industry, and also bring our investments with counterparts. "I see a lot of great opportunities in the area of reduction of CO2 emissions," says Mudryy.

Combined with the rising global cost of carbon, and institutional investors’ increasing appetite for green investments and wariness of emissions-heavy projects, the scene is set for a boom. ERU is primed to participate, including through direct investments with counterparties. "I see a lot of great opportunities in the area of reduction of CO2 emissions," says Mudryy.

"All this bodes well for Ukraine’s largest bank, PrivatBank, under the leadership of seasoned manager Roman Adamov, and creating new jobs," he concluded.

Roman Adamov
Chairman - Alliance Energo Trade

Its operations expanded rapidly and it now imports from countries in the Mediterranean, as well as Russia, Poland, Turkmenistan, Turkey and Bulgaria. The company holds a 35% share of the Ukrainian bitumen import market, and a deep understanding of how it works. With demand for bitumen reaching new highs in Ukraine and across the continent, Adamov is looking to secure the future with an ambitious new project. "We believe we can diversify its supply chain and support organic growth: a domestic bitumen refinery. At present, there is only one such refinery in the country, which produces common bitumen. We estimate that, in view of new projects in the economy, over one million tons of bitumen must be imported from Poland and other countries, making the Ukrainian factor producing high-quality bitumen particularly strong. Alliance Energo is ready to invest equity, in partnership with a forward-thinking foreign partner via a new joint venture. If we compare Ukraine to Western European countries, where industries are deeper, Ukraine’s competitive advantage is that it has many sites with high potential for developing production. This applies not only to hydrocarbons, but also to petrochemicals, meaning the country holds a lot of promise. So, for a company with advanced know-how and expertise, Ukraine is a good platform for establishing production, cooperatively with experienced local companies and creating new jobs," he concluded.

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"I don’t know any market where one bank has such a market share. The bank has achieved this starting from zero in 1992. We have much more scale than any other bank in the country, and operate with by far the highest margins." PrivatBank was nationalised in 2016 after the government stated it was left with no alternative following the discovery of a massive deficit in its financial accounts, and under new management has seen its market value rise nearly sixfold in value, and a strong presence on retail lending, as well as financing SME’s and microenterprises. The aim is to create an operationally strong and competitive bank that can support Ukraine’s financial stability while paying dividends to shareholders, as well as becoming an attractive asset for investment. The strategy is bearing fruit: the once loss-making bank achieved profit of $950m in 2020, despite the recession. Boesch can draw on his 35 years of experience across the banking industry, from trading to asset management and restructuring, and his experience of multi-faced management roles, to pick the best talent from Austria, Germany, and Ukraine. He describes his initial approach as “total immersion” - travelling Ukraine as one of the key banks, meeting as many colleagues as he can.

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Intergal-Bud - Building Ukraine’s future

Rising a remarkable 84 places globally in the World Bank’s Ease of Doing Business rankings between 2011 and 2020, Ukraine has proved an international trail-blazer for economic reform over the past decade. Despite political turmoil and geopolitical tensions, successive governments have managed to improve the business environment while consolidating public finances and overhauling public institutions. A trade deal with the European Union, which came into effect in 2017, has also bolstered trade and investor confidence. The current government is committed to further improvements, including simplifying licencing processes, removing unnecessary or burdensome regulation, improving the regulatory framework, and modernising the auditing system.

Ukraine’s strongest area in the Doing Business rankings is “dealing with construction permits” in which it ranks 20th in the world - higher than the United Kingdom or United States. This has helped create a very favourable environment for real estate developers, particularly combined with rising incomes among the growing Ukrainian middle class. Local developers delivered 11m square meters of residential property in 2019, and the market continued to grow in 2020, despite the impact of the covid-19 pandemic. The trend is set to continue, as economic growth picks up again and middle-income Ukrainians seek larger and more modern homes.

That rising middle class is the key market for Intergal-Bud, one of the country’s three largest property developers, and its leading private-sector developer. The company’s success is closely tied to that of this upwardly-mobile demographic. With real wages expected to grow at 8.6% this year, and 3.9% in 2022, according to central bank forecasts, the outlook for both is excellent. “We work for a huge market of consumers,” says Intergal-Bud President Volodymyr Zubyk. “These are people who might have an initial investment of $15,000 to $20,000 for are ready to purchase an apartment worth $50,000. We have delivered three million square meters since 2003, 90% residential and 10% commercial, in Lviv and Western Ukraine, and now Kiev, Odessa, and Kharkiv.”

Intergal-Bud has completed nearly 80 projects, housing 18,000 families, and now has a further 1.1m sq m under construction, and a total project portfolio of up to 4.5m sq m. In 2020 it delivered RC Malachite, a modern housing complex in central Kyiv including a green promenade, sports areas, and playgrounds, as well as a rooftop terrace on one of the five buildings. The 1178-apartment development sits on 2.75 hectares, and has units ranging from 42.5 to 190 sq m.

Projects under construction include RC Intergal City, a premium housing complex with 707 apartments in the heart of Kyiv, and the 5760-apartment, 50-building RC Ozernyi Hai Hatne in Gatne, south west of the capital. The latter project is one of Intergal-Bud’s largest, and will boast a lake with beaches, as well as a kindergarten and school, a swimming pool and fitness centre, a clinic, and a restaurant, as well as sports areas.

One of Intergal-Bud’s strongest competitive advantages is delivering completed projects, including finished interiors with best-in-class construction materials. Complexes such as Intergal City have high-speed silent elevators, façade systems, and panoramic windows with stained-glass aluminium glazing systems incorporating energy-saving double-glazed windows and sun protection system with weather sensors. “There are few operators in the market who have workers qualified to do this kind of interior work,” says Zubyk. “We value our contractors and have managed to keep them with us, when others have left the country.”

The company has become a partner of choice for investors seeking openings in the booming Ukrainian real estate sector, and has proved a reliable and trustworthy presence on the market for all stakeholders.

In the wake of the 2008 global financial crisis, when much construction in Ukraine ground to a halt, Intergal-Bud continued to finance its projects to ensure their completion. “We took money out of our own pockets, and kept building at own expense, fulfilling our obligations despite lower profit,” says Zubyk. “But it’s not just about our achievements then. We have proven discipline, quality of construction, and adherence to deadlines.”

With its emphasis on a skilled workforce and staff retention, Intergal-Bud has flourished partly thanks to one of Ukraine’s great strengths: its people. Zubyk sees human resources as the key to the country’s future. “We have highly-educated people, who are proactive, industrious, and hard-working,” he says. “The country has great human potential; everyone understands that the human resources available in Ukraine are the highest value. This has every chance of becoming a truly successful country.”