

Trends

Quotes for Ukraine's sovereign Eurobonds saw a big rebound last week after their brief downturn seen in late January. General investor optimism in regard to emerging markets helped the momentum. Governments and companies from developing countries embarked on a record borrowing spree last month, locking in very attractive interest costs. EUR-denominated debt issuance from EMs has been particularly strong, rising to EUR 17bn in January from EUR 6bn a year ago. Ukraine's Finance Ministry placed 10-year Eurobonds last month at 4.375% in the amount of EUR 1.25bn. These bonds are trading near par - 99.9/100.7 (4.4%/4.3%).

The medium-term benchmark Ukraine-24s jumped by 5.7% to 115.7/116.4 (4.7%/4.5%), while the longest outstanding Ukrainian debt papers, which are due in 2032, rose 1.2% to 109.3/110.1 (6.2%/6.1%). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) did not join the rally, slipping 0.3% to close at 99.0/100.0 cents on the dollar.

Corporate Eurobonds also did not move with the sovereigns. The bonds of MHP continued their decline, with the MHP-26s issue shedding 0.7% to close at 101.4/102.4 (6.8%/6.6%) and MHP-29s dropping by 0.5% to 95.0/96.0 (7.1%/6.9%). DTEK-24s fell 1.1% to 101.6/102.6 (9.2%/8.9%) after the company reported its preliminary FY19 financial results, which missed expectations. The group's EBITDA dropped by 51% YoY in USD terms to USD 425mn in the period. Metinvest-29s were unchanged at 105.1/106.1 (6.4%/6.3%). Information that Metinvest's steel output increased by 3% YoY to 7.58mn tonnes and iron ore product output surged by 20% YoY to 18.3mn tonnes in 2019 had a neutral influence on the bond's quotes.

In banking issues, OschadBank-25s declined by 0.7% to 105.3/106.3 (5.7%/5.0%) and UkrEximBank-22s shed 0.4% to 103.1/104.1 (7.0%/6.1%).

The yield on the government's 1-year UAH-denominated treasuries on the secondary market stood at a wide bid/ask of 11.50%/9.50% YTM. The Finance Ministry placed 1-year domestic debt papers at 9.77% and 3-year bonds at a nearly identical 9.84% at its weekly auction on Tuesday (Feb 4).

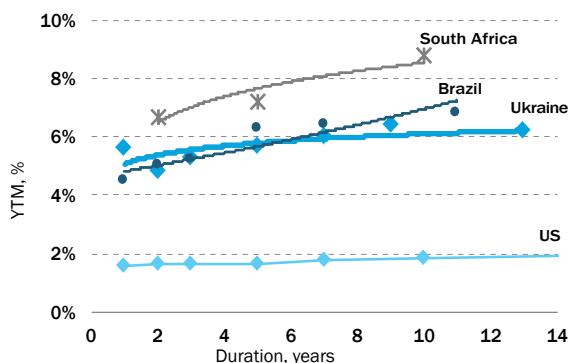
The hryvnia finally showed some strength last week for the first time since the New Year, regaining 2.1% to 24.52 UAH/USD after the National Bank reported that its foreign currency reserves increased by USD 1.0bn to USD 26.3bn in January.

You can receive additional details about developments in Ukrainian fixed income from the Eavex Sales Team at research@eavex.com.ua.

Highlights

- > First Signs of Open Conflict Between Zelenskiy & Kolomoyskiy Emerge
- > Ukraine Doubles BoP Surplus to USD 5.9bn in FY19 After Gazprom Payment
- > DTEK's Full-Year EBITDA Falls by Half to USD 425mn

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	11.0%	0.0 p.p.	2.5 p.p.
UAH 1-year bond	11.5%/9.5%	0.0 p.p.	-3.1 p.p.
Ukraine-2024	4.7%	-1.7 p.p.	-1.9 p.p.
Ukraine-2028	6.4%	-0.2 p.p.	-0.6 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	24.52	-2.1%	3.5%
EUR/UAH	26.85	-2.3%	1.6%

Source: Eavex Capital

First Signs of Open Conflict Between Zelenskiy & Kolomoyskiy Emerge

by Will Ritter
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NEWS

The Ukrainian Security Service (SBU) on Wednesday (Feb 5) raided the offices of People's Servant Party MP Olexander Dubinskiy, a top ally of industrialist Igor Kolomoyskiy, to search for evidence that Dubinskiy may have been illegally recording Cabinet meetings. Last month, audio of the meetings were leaked in which Prime Minister Oleksiy Honcharuk made unflattering comments about Zelenskiy's, and also his own, understanding of economic issues. Dubinskiy's office is located on the premises of the 1+1 national television channel, which is owned by Kolomoyskiy and which aired Zelenskiy's entertainment programs for more than a decade. The results of the raid were not publicized.

COMMENTARY

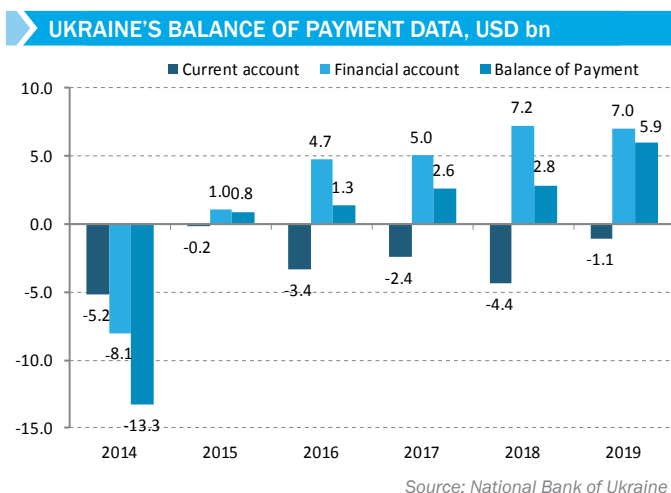
The director of the SBU is Ivan Bakanov, Zelenskiy's long-time close business confidante, and the Dubinskiy raid is likely to have been the result of Zelenskiy's personal order. Therefore, we believe we are seeing the end of all pretense of harmonious relations between Zelenskiy and Kolomoyskiy, the oligarch whose backing played a key role in Zelenskiy's rise to power only one year ago. Kolomoyskiy has been causing various unpleasant problems for Zelenskiy over the past 6 months by demanding the denationalization of PrivatBank and making openly pro-Russian and anti-IMF statements, but up until now, Zelenskiy had not made any active public responses against the oligarch. Importantly, we currently see that the People's Servant Party, which is theoretically pro-presidential and holds a commanding majority of 253 seats in the legislature, is breaking up into different factions, not all of which can be counted on to support Zelenskiy's initiatives. The current land reform drive, which is one of Zelenskiy's key priorities, is being opposed by People's Servant MPs loyal to Kolomoyskiy, and it faces a long bureaucratic slog through the legislature. We repeat our view that with his recent actions and statements, Zelenskiy is pivoting toward more pro-Western positions that are somewhat at odds with the desires of the core electorate that voted him into office. However, the president appears confident that he can retain enough popularity to maintain his political viability, and we applaud this bold approach. We note that 25 years ago, former President Leonid Kuchma followed a rather similar path after being elected on the back of overwhelming support from Russophone southeastern Ukraine.

Ukraine Doubles BoP Surplus to USD 5.9bn in FY19 After Gazprom Payment

by Dmitry Churin
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NEWS

Ukraine has reported a balance of payments (BoP) surplus of USD 5.9bn for full-year 2019, which is double the 2018 figure. Prior years' data was a surplus of USD 2.8bn for 2018 and USD 2.6bn for 2017, according to information from the National Bank (NBU) released last week. The country had a current account (C/A) deficit of USD 1.1bn in the period (compared to a deficit of USD 4.4bn for FY18). Ukraine's financial and capital account surplus was USD 7.0bn in FY19 (after a surplus of USD 7.2bn in FY18). The NBU reported an increase in foreign direct investments (FDI) into Ukraine by 6.1% YoY to USD 2.5bn in 2019.



COMMENTARY

Ukraine's current account improved considerably in December after state-owned energy giant NaftoGaz received a one-time penalty payment of USD 2.9bn from Russia's Gazprom. As a result, the C/A surplus of USD 2.4bn was registered for the month, offsetting much of the C/A deficit of USD 3.5bn accumulated over 11M19. The biggest single factor supporting the C/A, however, was a heavy flow of remittances from abroad, which reached USD 12.9bn last year (+12% YoY). In relative terms, the C/A deficit for 2019 was just 0.7% of GDP, down from 3.3% of GDP for 2018, although the improvement was almost entirely due to the one-off Gazprom payment (our initial forecast was a deficit of 1.3% of GDP).

Meanwhile, on the goods & services side, Ukraine's trade deficit widened by 6.6% YoY to USD 12.1bn last year, as exports growth from Ukraine failed to outpace the import growth.

For 2020, we forecast that Ukraine's C/A deficit will amount to USD 3.5bn (2.2% of GDP), which would be covered by the expected net FDI of USD 3.0bn and foreign currency borrowings on international markets by both the government and businesses amid the favorable low interest rate environment.

DTEK's Full-Year EBITDA Falls by Half to USD 425mn

by Dmitry Churin
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NEWS

Vertically-integrated thermal power plant operator DTEK reported that its EBITDA dropped by 51% YoY in USD terms to USD 425mn in full-year 2019, according to preliminary unaudited financial results unveiled on Feb 5. DTEK's top-line revenue for the year was down by 10.5% YoY to USD 2.99bn, and net profit dropped by 43% YoY to USD 99.2mn. DTEK's total assets were valued at USD 3.68bn as of 31 Dec 2019.

DTEK FINANCIAL RESULTS			
USD mn	2019	2018	Y/Y
Revenue	2,989	3,338	-10.5%
EBITDA	425	866	-51%
<i>EBITDA margin</i>	<i>14.2%</i>	<i>25.9%</i>	<i>-10.7 p.p.</i>
Net Profit (loss)	99.2	175	-43%
<i>margin</i>	<i>3.3%</i>	<i>5.2%</i>	<i>-1.9 p.p.</i>

Average official FX rate 25.70 UAH/USD for 2019 and 27.20 UAH/USD for 2018

Source: Company Data. Eavex Research

COMMENTARY

DTEK's financial performance for FY19 was quite poor, taking into account the overall growth of the Ukrainian economy. However, a very challenging factor for the group was the liberalization in July of the country's wholesale electricity market, which introduced direct contracts to replace the state-run intermediary buyer.

On the debt side, DTEK's total borrowings stood at USD 2.08bn. Taking into account the group's available cash, we estimate a Debt-to-EBITDA ratio at 4.9x, which is a rather high debt burden. Almost all of DTEK's debt is long-term, meaning the company is not facing immediate debt redemptions this year. However, the high debt does force DTEK to incur high financing costs (USD 238mn in FY19), while operating profit was only USD 69mn in the period. Although DTEK has a firm long-term business model, we do not see conditions for growth in revenue and profitability in the next two years.

DTEK-2024 Eurobonds are currently quoted at 101.6/102.6 (9.2%/8.9%), representing a spread of 320 bps over the sovereign yield curve

SELECTED UKRAINIAN EURO BONDS

Issue	Price Bid	Price Ask	Price ch., W/W, %	YTM Bid, %	YTM Ask, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings ¹
Sovereign Eurobonds										
Ukraine, 2020	99.1	99.6	-0.1%	9.5%	8.6%	7.75%	1 Sept 2020	1,365	USD	Caa1/B/B
Ukraine, 2024	115.7	116.4	5.7%	4.7%	4.5%	7.75%	1 Sept 2024	1,339	USD	Caa1/B/B
Ukraine, 2028	123.2	123.9	1.6%	6.4%	6.3%	9.75%	1 Nov 2028	1,600	USD	Caa1/B/B
Ukraine, 2032	109.3	110.1	1.2%	6.2%	6.2%	7.38%	25 Sept 2032	3,000	USD	Caa1//B
Ukraine, GDP-linked	99.0	100.0	-0.3%			0.00%	31 May 2040	3,214	USD	/B/
Corporate Eurobonds										
Kernel, 2022	106.8	107.8	-1.1%	5.1%	4.6%	8.75%	31 Jan 2022	500	USD	/B/BB-
MHP, 2026	101.4	102.4	-0.7%	6.8%	6.6%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	95.0	96.0	-0.5%	7.1%	6.9%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK, 2024	101.6	102.6	-1.1%	9.2%	8.9%	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	106.5	107.5	-0.2%	7.3%	7.1%	8.50%	23 Apr 2026	648	USD	B3/B/BB-
Metinvest, 2029	105.1	106.1	0.0%	6.4%	6.3%	7.75%	17 Oct 2029	500	USD	B3/B/BB-
NaftoGaz, 2024	105.3	106.3	-0.1%	5.7%	5.5%	7.125%	19 Jul 2024	600	EUR	//
Bank Eurobonds										
UkrEximBank, 2022	103.1	104.1	-0.4%	7.0%	6.1%	9.63%	27 Apr 2022	750	USD	Caa3//B
UkrEximBank, 2023	96.0	97.0	-0.1%	12.6%	11.1%	9.00%	9 Feb 2023	125	USD	Caa3//B
UkrEximBank, 2025	107.4	108.4	-0.4%	5.9%	5.4%	9.75%	22 Jan 2025	500	USD	Caa3//B
Oschadbank, 2023	105.5	106.5	-0.5%	5.7%	5.1%	9.38%	10 Mar 2023	700	USD	Caa3//B
Oschadbank, 2025	105.3	106.3	-0.7%	5.7%	5.0%	9.63%	20 Mar 2025	500	USD	Caa3//B

¹ Moody's/S&P/Fitch

Source: TR Data, Eavex Research

UKRAINIAN DOMESTIC BONDS

Issue	Price (Bid)	Price (Ask)	YTM (Bid)	YTM (Ask)	Modified Duration	Coupon	Coupon Period	Maturity Date	Volume UAH mn
UAH denominated Bonds									
UA4000202469			11.50%	9.50%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			11.50%	9.50%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			11.50%	9.50%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			11.50%	9.75%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			11.50%	9.75%	n/a	n/a	S/A	11 May 2022	n/a
UAH denominated Bonds									
UA4000201743			4.75%	3.25%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research

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