

Trends

Ukraine's sovereign Eurobonds declined notably last week, with the longest outstanding issue Ukraine-32s losing 1.9% to close at 108.0/108.8 (6.4%/6.3%). Among the news which put pressure on quotes was the National Bank's estimate that the country's economic growth slowed to 2.2% YoY in 4Q19 after the impressive rise of 4.1% YoY seen in 3Q19.

In political news, US Secretary of State Michael Pompeo held a generally non-controversial press briefing with President Zelenskiy in Kyiv where he stated that the United States is committed to supporting the territorial integrity of Ukraine. Pompeo affirmed the US position that Washington will never recognize Crimea's reunification with Russia. Zelenskiy called on US companies to participate in natural gas and oil extraction in Ukraine and invited them to bid for the development of the Black Sea shelf.

Medium-term Ukraine-24s Eurobonds lost 1.5% to 109.4/110.1 (6.4%/6.2%), while the VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) edged down by 0.7% to close at 99.3/100.3 cents on the dollar.

Corporate Eurobonds were mixed, with the Kernel-22s gaining 3.7% to 108.0/109.0 (4.6%/4.1%) while DTEK-24s slipped 0.5% to 102.8/103.8 (8.9%/8.6%). The bonds of MHP were lower after the company hinted that its financial results for 4Q19 were unimpressive. The MHP-29s issue dropped by 1.4% to 95.5/96.5 (7.0%/6.9%).

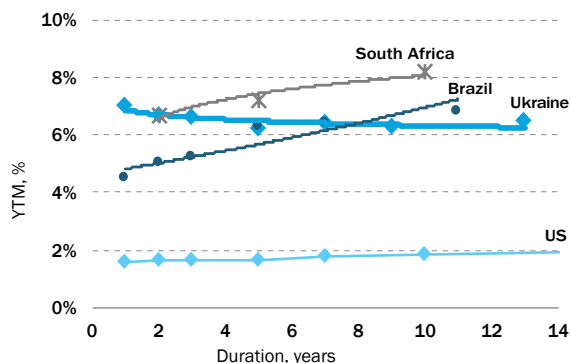
Banking issues performed surprisingly well last week, with quotes for OschadBank-25s showing an anomalously large rise of 3.2% to 106.0/107.0 (5.3%/4.6%).

The yield on the government's 1-year UAH-denominated treasuries on the secondary market declined by 25 bps to bid/ask of 11.50%/9.50% YTM. The Finance Ministry placed 1-year debt papers at 9.91% at its weekly auction on Tuesday (Jan 28). There was also an issue of 7-year domestic bonds at 9.79%, thus continuing the recent pattern of an inverted yield curve.

On the currency front, the hryvnia was weak once again, losing a hefty 2.3% against the dollar to UAH/USD 25.05 amid traders' expectations of huge 250 basis-point interest rate cut by the National Bank; the NBU's main refinancing rate is now at 11.0%.

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

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	11.0%	-2.5 p.p.	2.5 p.p.
UAH 1-year bond	11.5%/9.5%	-0.25 p.p.	-3.1 p.p.
Ukraine-2024	5.9%	-0.1 p.p.	-0.7 p.p.
Ukraine-2028	6.2%	-0.1 p.p.	-0.8 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	25.05	2.3%	5.7%
EUR/UAH	27.75	2.8%	5.0%

Source: Eavex Capital

Highlights

- Pompeo, Zelenskiy Avoid Controversial Topics After Meeting
- Ukraine's Public Debt Rises 8% YoY to USD 84bn (54% of GDP) in 2019
- MHP's Poultry Export Volume Moves Up 25% YoY in FY19

Pompeo, Zelenskiy Avoid Controversial Topics After Meeting

by Will Ritter
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NEWS

US Secretary of State Michael Pompeo met in Kyiv with Ukraine's top officials, including President Zelenskiy and Foreign and Defense Ministers Vadym Prystaiko and Anatolii Zahorodniuk, on Thursday (Jan 30). It was Pompeo's first visit to Kyiv as a member of the Trump administration (he had previously made an unpublicized trip to the Donbass conflict zone in his previous post as CIA director), and was the first high-level US visit since then-Secretary of Defense James Mattis came in August 2018. After the Zelenskiy-Pompeo meeting, a joint press conference was held at the presidential administration at which the two officials spoke about the importance of maintaining positive relations between the two countries, and Pompeo reaffirmed the US commitment to Ukraine's territorial integrity, stating that territories taken from Ukraine from Russia by force will not be recognized by Washington. For his part, Zelenskiy refused to be drawn in by a reporter's question about the Ukraine-linked impeachment process against US President Trump, stressing his position that Kyiv wants to stay out of US domestic affairs. Trump is set to be acquitted on charges of abuse of power by the Senate later this week. In terms of the long-awaited visit to the White House of Zelenskiy, the Ukrainian leader said that it should occur "when there is something concrete to be signed", and should not be a visit simply for its own sake.

COMMENTARY

Pompeo is the second-most important US government official after Donald Trump, and it was somewhat reassuring to see his visit to Ukraine come off without any major controversies amid what has obviously been a very fraught recent several months in US-Ukraine relations. In our view, Pompeo's willingness to stick to the pre-Trump Republican Party line in regard to the Russian-occupied territories is an important bulwark against Trump's own rather hostile views toward Kyiv. We note that Trump himself has not made such statements of support for Ukraine, and he seems to be deliberately leaving it to other members of his administration to do so. Beyond the public platitudes of "commitment to improving bilateral relations and support for territorial integrity", it remains somewhat unclear what Trump's Ukraine policy really is, and who is in charge of executing it now that Acting Ambassador William Taylor and Special Representative Kurt Volker have departed. We doubt that Zelenskiy's US visit will occur before Trump faces re-election in November; the long process of choosing Trump's opponent begins today (Feb 3), with former Vice President Joseph Biden and leftist-socialist senator Bernard Sanders as the top contenders. As for Zelenskiy, the Pompeo visit demonstrated his increasing skill at managing tasks in the area of high-profile external relations, even as his domestic approval rating has begun to decline from its historically high "honeymoon" level.

Ukraine's Public Debt Rises 8% YoY to USD 84bn (54% of GDP) in 2019

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NEWS

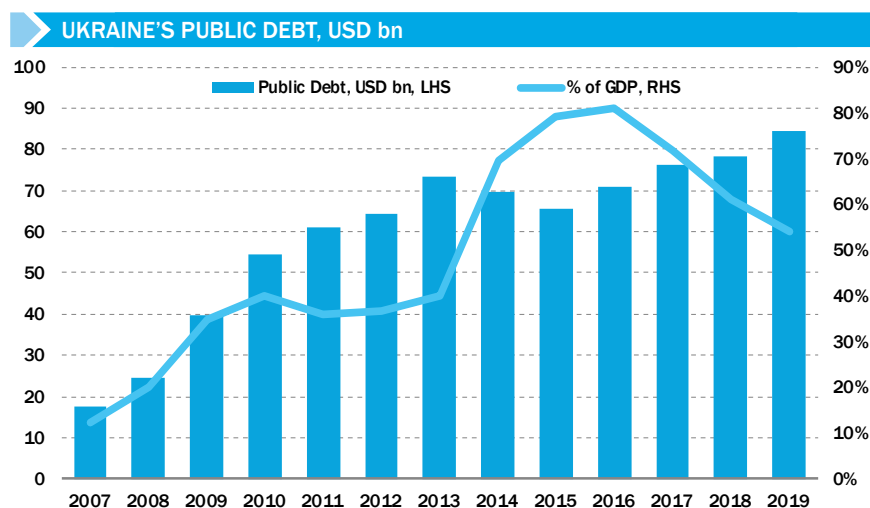
Ukraine's state and guaranteed debt increased by 7.7% YoY in USD terms to USD 84.4bn over full-year 2019, according to data from the Finance Ministry released last week. The country's public debt falls into three main categories:

- domestic debt of an equivalent of USD 35.4bn;
- outstanding Eurobonds with maturity over 2020-2032 in the amount of USD 22.3bn;
- IMF loans of USD 11.3bn.

These categories represent around 80% of the public debt.

In a currency breakdown, domestic UAH-denominated debt represented an equivalent of USD 30.9bn as of end-2019, or 37% of total debt. The USD- and EUR-denominated debt represented 39% and 10% respectively.

As reported in mid-January, Ukraine's foreign currency reserves reached a 7-year high of USD 25.3bn as of start of this year.



Source: Finance Ministry of Ukraine

COMMENTARY

We estimate that the end-2019 level of public debt amounts to 54% of Ukraine's GDP, declining in relative terms compared to 60% of GDP for end-2018 and 78% of GDP for end-2017. Additionally, it is important to note that in UAH terms, the absolute level of Ukraine's debt decreased by 7.8% YoY from UAH 2.168tn to UAH 1.998tn amid the hryvnia's appreciation against the USD & EUR last year.

In 2020, Ukraine is on the hook to pay some USD 7.1bn for redemption and servicing of external debt, suggesting that the Finance Ministry will be busy searching for sources of refinancing. Meanwhile, it is likely that the domestic debt with maturity in 2020 for a total amount of UAH 231bn (an equivalent of USD 9.3bn) will be mostly refinanced by issuance of new UAH-denominated sovereign bonds. The largest external debt repayments this year are scheduled in March (USD 1.13bn), May (USD 1.39bn), and September (USD 2.52bn). Overall, Ukraine's public debt servicing and redemption obligations in 2020 are estimated at UAH 401bn (USD 17bn), which in relative terms implies 10% of GDP, and 40% of the national budget's planned income.

MHP's Poultry Export Volume Moves Up 25% YoY in FY19

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NEWS

London-listed poultry producer MHP (MHPC LI) reported that its poultry sales volume increased by 13% YoY to 670,000 tonnes in full-year 2019, according to the company's operational update issued on Jan 30. MHP also reported that its poultry exports rose 25% YoY to some 357,500 tonnes in 2019, accounting for 53% of total sales volume, up from a share of 48% a year before. In 4Q19 alone, sales volume rose by 10% YoY to 158,600 tonnes. The company said its production facilities operated at full capacity in the quarter. The reported sales volume does not include the output from MHP's recently-acquired plant in Slovenia. On the pricing side, MHP's average achieved sales price for poultry declined by 5% YoY in UAH terms amid an appreciation of the hryvnia of some 15% during 2019.

MHP's sunflower oil segment demonstrated a 22% YoY growth in sales to 184,100 tonnes in 2019, with all of the sales being exports. The grain segment showed a total harvest of 2.41mn tonnes of crops, which was 9% less than in FY18. MHP operates a land bank of 363,000 hectares in Ukraine.

MHP OPERATIONAL UPDATE						
Poultry	4Q19	4Q18	Change	2019	2018	Change
Sales volume, tonnes	158,624	144,183	+10%	669,964	593,527	+13%
Domestic	70,972	71,253	0%	312,531	306,680	+2%
Export	87,651	72,929	+20%	357,433	286,846	+25%
Price per 1 kg net VAT	34.69	40.56	-14%	38.06	39.86	-5%

Source: Companies' data

COMMENTARY

MHP's upbeat operational update failed to cheer up investors after the company faced a suspension of its exports to the EU due a case of bird flu was recorded in Vinnytsya province, the location of MHP's main facilities. Also the company admitted that preliminary estimates for full-year 2019 EBITDA are somewhat lower than the latest guidance of USD 450mn. Our forecast for MHP's EBITDA was more optimistic at USD 475mn. This means that the company's financial results for 4Q19 will be quite poor. For 9M19, the company had reported an EBITDA of USD 357mn. Nevertheless, we believe that MHP remains on a strong footing, with further export expansion on the horizon this year. MHP's full-year 2019 financial results are due to be announced in late March. Meanwhile, the company gave a net debt figure of USD 1.14bn as of end-2019, with a cash balance of near USD 300mn. The debt is rather large and puts MHP near the maximum upper range of its informal Eurobond covenant of a 3.0x Net Debt/EBITDA ratio.

With the appearance of MHP's operational update, we now forecast that the company will report only a moderate net profit of USD 34mn for 4Q19 (0.32 cents per share), bringing full-year net profit to USD 310mn (USD 2.93 per share). At the current share price of USD 8.48, the company is valued at P/E of just 2.9x.

SELECTED UKRAINIAN EUROBONDS										
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	99.3	99.8	-0.5%	9.2%	8.3%	7.75%	1 Sept 2020	1,365	USD	Caa1/B/B
Ukraine, 2024	109.4	110.1	-1.5%	6.4%	6.2%	7.75%	1 Sept 2024	1,339	USD	Caa1/B/B
Ukraine, 2028	121.2	122.0	-2.5%	6.6%	6.5%	9.75%	1 Nov 2028	1,600	USD	Caa1/B/B
Ukraine, 2032	108.0	108.8	-1.9%	6.4%	6.3%	7.38%	25 Sept 2032	3,000	USD	Caa1//B
Ukraine, GDP-linked	99.3	100.3	-0.7%			0.00%	31 May 2040	3,214	USD	/B/
Corporate Eurobonds										
Kernel, 2022	108.0	109.0	3.7%	4.6%	4.1%	8.75%	31 Jan 2022	500	USD	/B/BB-
MHP, 2026	102.1	103.1	-0.7%	6.6%	6.4%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	95.5	96.5	-1.4%	7.0%	6.9%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK, 2024	102.8	103.8	-0.5%	8.9%	8.6%	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	106.7	107.7	-0.7%	7.3%	7.1%	8.50%	23 Apr 2026	648	USD	B3/B/BB-
Metinvest, 2029	105.1	106.1	-0.3%	6.4%	6.3%	7.75%	17 Oct 2029	500	USD	B3/B/BB-
NaftoGaz, 2024	105.5	106.5	-0.8%	5.7%	5.4%	7.125%	19 Jul 2024	600	EUR	//
Bank Eurobonds										
UkrEximBank, 2022	103.5	104.5	-0.2%	6.7%	5.8%	9.63%	27 Apr 2022	750	USD	Caa3//B
UkrEximBank, 2023	96.2	97.2	-0.7%	12.3%	10.9%	9.00%	9 Feb 2023	125	USD	Caa3//B
UkrEximBank, 2025	107.8	108.8	-0.4%	5.8%	5.3%	9.75%	22 Jan 2025	500	USD	Caa3//B
Oschadbank, 2023	106.0	107.0	3.4%	5.4%	4.8%	9.38%	10 Mar 2023	700	USD	Caa3//B
Oschadbank, 2025	106.0	107.0	3.2%	5.3%	4.6%	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%	--	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			11.50%	--	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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