

Trends

Ukrainian sovereign Eurobonds ended lower last week amid an overall global correction in higher-risk assets. The prevailing view in markets is that the COVID-19 epidemic will have long-lasting negative effects in particular on emerging economies, which could see a rise in corporate and sovereign defaults.

In Ukraine-related news, the government announced that it is targeting another large national budget deficit of 6% of GDP in 2021 after the expected deficit of 7.5% this year. The Finance Ministry is in the process of preparing the budget for presentation to Parliament.

The Ukraine-32s Eurobond issue lost 1.3% to close at 100.6 (7.3% YtM) and medium-term Ukraine-25s shed 0.8% to 105.5 (6.5% YtM). The country's shortest Eurobonds, which are due next September in just under a year, slipped by 0.4% to 103.5 (4.1% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) decreased by 1.0% to 97.0 cents on the dollar.

The country's corporate Eurobond issues finished marginally higher over the week, with NaftoGaz-24s inching up by 0.2% to 99.1 (7.4% YtM) amid rising prices on natural gas. Metinvest-26s grew by 0.7% to 103.6 (7.8% YtM) despite the company's quite weak financial results for 1H20. Metinvest's net debt-to-EBITDA ratio remained at a manageable level of 2.5x, although the interest coverage ratio fell below, 1.0x raising a certain concern. DTEK-24s, which are under restructuring, were unchanged at 69 cents on the dollar.

The quasi-sovereign issue UkrEximBank-25s ticked up 0.1% to 104.3 (6.6% YtM) and OschadBank-23s were flat at 102.4 (7.4% YtM).

The Finance Ministry attracted just under UAH 1bn from the placements of a 1-year bond at 9.28% and a 2.5-year bond at 10.46%. On the secondary market, the yield on 1-year domestic bonds declined by 50 bps to bid/ask of 10.0%/9.0%. The indicative yield for 3-year treasuries stood at 11.5%/10.0%.

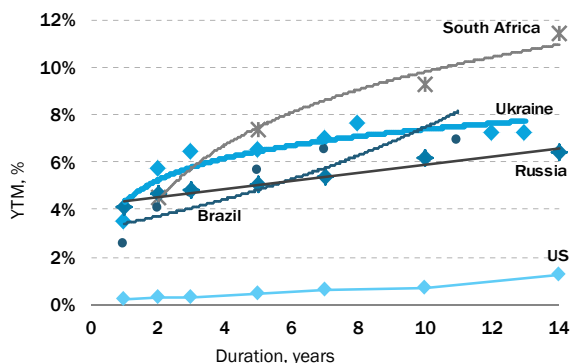
On the interbank currency market, the hryvnia edged down by 0.6% to 27.96 UAH/USD. The National Bank reported that its foreign currency reserves increased by about USD 250mn to reach USD 29.1bn as of Sept 1, another fresh 7-year high.

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

Highlights

- > Poland Leading Opposition to Nord Stream after Navalny Poisoning
- > Ukraine Headline Inflation Stays Near All-Time Low at 2.5% in August
- > Metinvest's 1H20 EBITDA Drops 20% YoY to USD 715mn

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	6.0%	0.0 p.p.	-7.5 p.p.
UAH 1-year bond	10.0%/9.0%	-0.5 p.p.	-1.1 p.p.
Ukraine-2025	6.5%	0.2 p.p.	-0.1 p.p.
Ukraine-2028	7.5%	0.2 p.p.	0.5 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.96	0.6%	18.0%
EUR/UAH	33.10	0.7%	25.3%

Source: Eavex Capital

Poland Leading Opposition to Nord Stream after Navalny Poisoning

by Will Ritter
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NEWS

The Polish government has ramped up its efforts to stop the commissioning of Russia's new Nord Stream natural gas pipeline under the Baltic Sea in the aftermath of the poisoning of Russian opposition politician Alexey Navalny last month. A laboratory in Germany, where Navalny is being treated, confirmed that he had been poisoned with a military-grade nerve agent on Aug 20. The Kremlin has denied poisoning Navalny and is claiming that the incident is a Western plot to stop the Nord Stream pipeline, which is set to add 55 billion cu-m to Russia's gas export capacity to Europe. The Deutsche Welle German state-funded news outlet reported that Poland's deputy Foreign Minister Pawel Jablonski said last week that "We have been indicating that this is not only an economic project, it's mostly a political project, and it can also be used as a military tool, as warfare, in case Putin would decide to stop the gas flowing through Ukraine." The Trump administration has also been an opponent of Nord Stream, placing US financial sanctions on companies involved in the project, amid US efforts to increase its own exports of liquefied natural gas to Europe.

COMMENTARY

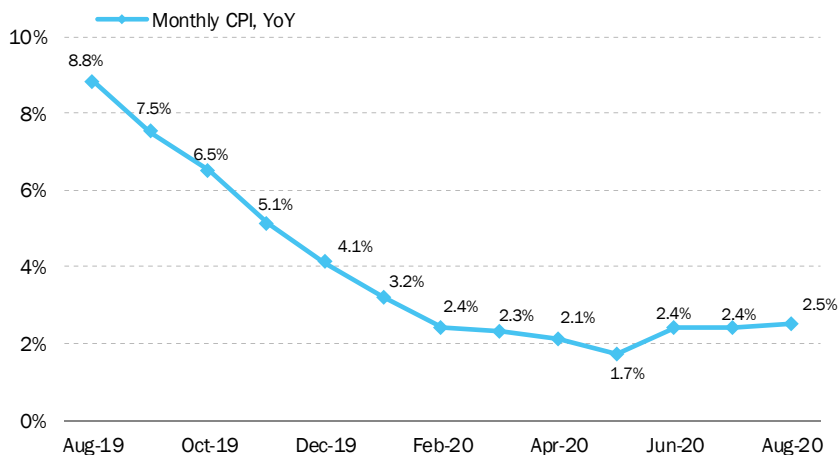
Our view is that the Navalny poisoning, while increasing tensions between Moscow and Europe, is unlikely to derail the Nord Stream project, which will ultimately come down to a national interest political decision by Germany; we suppose that Poland will have little to no influence on the outcome. We also find the silence on Nord Stream of the Zelenskiy administration in Kyiv rather telling, as Zelenskiy probably sees the pipeline as a *fait accompli* and is not placing it as a high foreign policy priority. As for Navalny, he seems likely to eventually recover; we suspect that the Putin regime poisoned him with the so-called "Novichok" agent and allowed him to receive treatment in Germany in order to make the case as high-profile as possible and thus advertise its ability to assassinate any domestic Russian actors who are in public opposition to the Kremlin. Domestic opposition is likely an increasingly sensitive point for the Kremlin given the ongoing large-scale unrest in neighboring Belarus, a country whose population was previously viewed as too politically apathetic to rise up against the long-time authoritarian regime of Alexander Lukashenko; the undercurrent here is that what is possible in Minsk is also possible in Moscow.

Ukraine Headline Inflation Stays Near All-Time Low at 2.5% in August **NEWS**

by Dmitry Churin
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Ukraine's rolling 12-month "headline" consumer inflation inched up to 2.5% in August from 2.4% in July, according to State Statistics Committee data published on Sept 9. In August alone there was a deflation of 0.2% MoM after deflation of 0.6% in July and inflation of 0.2% and 0.3% MoM in June and May respectively.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

There was a traditional seasonal monthly deflation seen in both August and July due to lower prices for agricultural produce food staples. The aggregate food price index declined by 1.5% MoM in August while on a yearly basis it was up by 2.3%. One support factor for low consumer prices last month was stable hryvnia in the period, as the national currency strengthened by 0.5% against the dollar to 27.55 UAH/USD. Pessimistic forecasts that the exchange rate could jump to 30 UAH/USD by the year-end have thus far failed to materialize. Currently, our expectation is that the hryvnia will finish the year at 28.50 UAH/USD, as the country has enough foreign reserves (USD 29.1bn as of Sept 1) to overcome potential short-term speculative turbulence on the currency market. The National Bank bought a total of USD 460mn last month on the interbank currency market and did not intervene to sell foreign currency. The country's forex reserves now cover 4.8 months of future imports - sufficient for the government and the National Bank to conduct all necessary transactions, including those relating to foreign debt servicing.

Metinvest's 1H20 EBITDA Drops 20% YoY to USD 715mn

by Dmitry Churin
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NEWS

Metinvest, Ukraine's largest metals & mining group, reported a decrease in its "adjusted" EBITDA by 20% YoY to USD 715mn in 1H20, according to the company's trading update published on Sept 8. The "adjusted" EBITDA figure excludes foreign exchange gains/losses as well as some other "non-core" expense items. The group's revenue fell 15% YoY to USD 4.97bn and it posted a bottom-line loss of USD 240mn compared to net profit of USD 408mn in 1H19.

Metinvest's net debt was USD 2.55bn as of 30 Jun 2020, a decline of 8% YtD. The group's total assets were at USD 12.9bn at the reporting date.

METINVEST FINANCIAL RESULTS			
USD mn	1H19	1H20	Y/Y
Revenue	5,818	4,968	-15%
EBITDA adj*	890	715	-20%
<i>margin</i>	<i>15%</i>	<i>14%</i>	<i>-1 p.p.</i>
Net profit (loss)	408	-240	+/-
<i>net margin</i>	<i>7%</i>	<i>-5%</i>	<i>-12 p.p.</i>
	31 Dec 2019	30 Jun 2020	YtD
Total debt	3,032	3,010	-1%
Cash and equivalents	274	465	+70%
Net debt	2,758	2,545	-8%

*EBITDA adj figure does not include foreign exchange gains and losses and some other non-core expenses.

Source: Company Data

COMMENTARY

Metinvest's financial results for the reported period would have been much worse if global 62% Fe iron ore prices had not stayed high throughout 1H20, averaging USD 92 per tonne. Meanwhile, the price of hot-rolled coils (FOB Black Sea) fell by 14% YOY to USD 426 per tonne in 1H20. As a result of the steel price factor, Metinvest's steel revenue dropped by 18% YoY to 3.89bn in 1H20, while the mining segment revenue remained flat in a year-on-year at USD 1.07bn. Metinvest's export sales stood at USD 3.61bn (-14%), accounting for 73% of the total revenue in the period. Importantly, thanks to cost-cutting measures, Metinvest managed to boost its free cash flow by 6.1x YoY to USD 250mn in the reported period. CapEx was reduced by 35% YoY to USD 313mn.

The group's Debt/Adj EBITDA is around 2.5x, which - although on the high side - is still a reasonable leverage metric for the steel & mining sector.

Metinvest-2026 Eurobonds are quoted at 103.6 (7.8% YtM). Metinvest's credit ratings were recently reviewed: Moody's upgraded to 'B2' (outlook 'stable'), S&P affirmed at 'B' (outlook 'stable') and Fitch affirmed at 'BB-' (outlook 'negative').

SELECTED UKRAINIAN EURO BONDS								
Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings ¹
Sovereign Eurobonds								
Ukraine, 2021	103.5	-0.4%	4.1%	7.75%	1 Sept 2021	974	USD	B3/B/B
Ukraine, 2025	105.5	-0.8%	6.5%	7.75%	1 Sept 2024	1,328	USD	B3/B/B
Ukraine, 2028	114.5	-1.0%	7.5%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	100.6	-1.3%	7.3%	7.38%	25 Sept 2032	3,000	USD	B3//B
Ukraine, GDP-linked	97.0	-1.0%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2022	105.6	1.0%	4.6%	8.75%	31 Jan 2022	500	USD	/B/BB-
MHP, 2026	104.5	0.3%	6.1%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	98.8	0.0%	6.5%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK, 2024	69.8	0.0%	n/a	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	103.6	0.7%	7.8%	8.50%	23 Apr 2026	648	USD	B3/B/BB-
NaftoGaz, 2024	99.1	0.2%	7.4%	7.125%	19 Jul 2024	600	EUR	//
Bank Eurobonds								
UkrEximBank, 2023	99.6	0.0%	7.4%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	104.3	0.1%	6.6%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	102.4	0.0%	7.4%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	104.2	-0.1%	7.7%	9.63%	20 Mar 2025	250	USD	B2//B

¹ Moody's/S&P/Fitch

Source: Boerse-Berlin, cbonds, 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									
UA4000200174			10.0%	9.0%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			10.0%	9.0%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			10.5%	9.5%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			10.5%	10.0%	n/a	n/a	S/A	11 May 2022	n/a
UA4000201255			11.5%	10.0%	n/a	n/a	S/A	24 May 2023	n/a
UA4000204150			12.0%	10.5%	n/a	n/a	S/A	26 Feb 2025	n/a
UAH denominated Bonds									
UA4000204853			4.5%	3.0%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

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