

Trends

Indicative quotes for Ukrainian sovereign Eurobonds were lower across the board last week despite US President Joe Biden and Chancellor Olaf Scholz of Germany on Friday showed a united front on the war in Ukraine during a meeting at the White House, vowing to keep Western support for Kyiv intact amid mounting concerns that China could move to supply weapons to Moscow. Neither leader publicly acknowledged the looming concerns over Chinese involvement in the conflict, and, at one point, Mr. Biden declined to answer a question about whether he and Mr. Scholz would discuss the matter.

The long-term Ukraine-34s issue declined by 1.2% to 16.3 (53% YTM) while Ukraine-28s issue slipped by 8.7% over the week to 15.8 (76% YTM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) fell by 3.3% to 23.4 cents on the dollar.

Corporate Ukrainian Eurobonds managed to resist the downward momentum of the sovereigns. Metinvest-26s gained by 1.5% to 53.6 (36% YTM) and NaftoGaz-26s rose by 1.1% to 18.9 (84% YTM). Quotes for OschadBank-25s surged by 18% to 61.1 (45% YTM) on expectations that the bank will repay these bonds in full as their outstanding amount of USD 150mn and the amortized redemption scheme should be comfortable for the financial institution.

The Finance Ministry raised a total of UAH 13.8bn from the placement of UAH-denominated domestic bonds last week. The 1-year issue had an offered yield of 18.50% and the 2.5-year issue had a yield of 19.75%.

On the currency front, the hryvnia strengthened by 1.6% to 38.95 UAH/USD. The certain stabilization of the situation on the FX market allowed the National Bank to reduce its intervention on the interbank market. The regulator sold USD 290mn from the reserves last week to balance the demand for the hard currency.

Highlights

- Kernel Reports Net Profit of USD 368mn for the Jul-Dec Period Implied Solid EPS of PLN 21.0

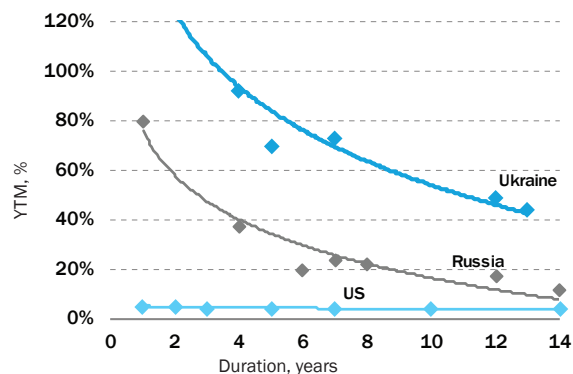
The National Bank of Ukraine has opened a special fundraising account to support the Armed Forces of Ukraine. Please find more at the National Bank's official website under the link below:

www.bank.gov.ua/en/about/support-the-armed-forces

The National Bank also opened fundraising account for Humanitarian Assistance to Ukrainians. Please see details under the link below:

www.bank.gov.ua/en/about/humanitarian-aid-to-ukraine

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	25.0%	0.0 p.p.	0.0 p.p.
UAH 1-year war bond	18.5%	0.0 p.p.	+2.5 p.p.
Ukraine-2026	97.2%	1.1 p.p.	15.5 p.p.
Ukraine-2034	52.7%	0.7 p.p.	7.3 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	38.95	-1.6%	-4.1%
EUR/UAH	41.15	-1.3%	-3.2%

Source: Eavex Capital

Kernel Reports Net Profit of USD 368mn for the Jul-Dec Period Implying Solid EPS of PLN 21.0

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KERNEL (KER PW)

Price: PLN 19.86 Market Cap: USD 347mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY22	0.2	0.3	neg	8.3	0.0%
FY23E	0.2	0.6	2.9	5.0	0.0%

NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer and grain exporter, reported a 13% YoY decline in net profit to USD 368mn for the Jul-Dec quarter (the company's 1H23 financial year). According to the company's consolidated financial statement published on Mar 3, net revenue fell by 41% YoY to USD 1.89bn in the period and EBITDA dropped by 22% YoY to USD 446mn. For the 3 months ending in December, Kernel had revenue of USD 1.24bn (-34% YoY), EBITDA of USD 277mn (-5% YoY), and net profit of USD 207mn (-3% YoY).

On the balance sheet side, Kernel's net debt amounted to USD 1.05bn as of 31 December 2022, implying a trailing 12-month Net Debt/EBITDA ratio of 11.0x. However, Kernel claimed that its "adjusted" net debt, which took into account readily-marketable inventories, was at 4.8x.

KERNEL FINANCIAL RESULTS

USD mn	2Q FY22	2Q FY23	YoY	1H FY22	1H FY23	YoY
Net revenue	1,877	1,235	-34%	3,217	1,890	-41%
EBITDA	292	277	-5%	570	446	-22%
EBITDA margin	15.6%	22.4%	+6.8 p.p.	17.7%	23.6%	+4.9 p.p.
Net Income	213	207	-3%	424	368	-13%
Net margin	11.3%	16.7%	+5.4 p.p.	13.2%	19.5%	+6.3 p.p.

Source: Company data,

COMMENTARY

Kernel delivered a pretty much better than expected profitability for the Oct-Dec quarter (2Q23 FY) as the company managed to increase its EBITDA margin from 15.6% to 22.2% despite a significant 34% YoY decrease in sales in the period. As a result, the company's reported net profit of USD 368mn for the Jul-Dec period implies earnings per share of USD 4.75 (PLN 21.0). Taking into account, that Kernel stock is currently traded at PLN 19.86, this means that the P/E multiple is less than 1.0x, indicating a very low valuation for the stock. Nevertheless, the war risk in Ukraine remains the biggest concern for Kernel's future. Also, there is uncertainty regarding the prolongation of the Grain Initiative that allows Ukrainian agro traders to ship grain through the Black Sea ports without a risk to be shelled by Russian missiles. The existing grain deal expires on March 18. The UN and Turkey are in active talks with Moscow to prolong the safe corridor for Ukrainian agro products.

The lion share of Kernel's profit came from farming operations. Currently, we are unable to understand how bad for the company would be disinvestment of 134,000 ha of the land bank. As was reported, Kernel signed a deal to sell part of its land bank to the company's majority shareholder Andriy Verevsky in April 2022. The deal is expected to be completed this month.

Kernel's Eurobonds with maturity in 2027 are quoted at 30 cents on the dollar implying a 45% yield to maturity.

SELECTED UKRAINIAN EURO BONDS								
Issue	Indicative Price	Price change in one week	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings ¹
Sovereign Eurobonds								
Ukraine, 2024	12.5	-16.7%	380%	7.75%	1 Sept 2024	912	USD	Caa3/CCC+/CC
Ukraine, 2026	18.0	-1.1%	97%	7.75%	1 Sept 2026	1,339	USD	Caa3/CCC+/CC
Ukraine, 2028	15.8	-8.7%	76%	7.75%	1 Sept 2028	1,318	USD	Caa3/CCC+/CC
Ukraine, 2030	16.2	0.6%	75%	9.75%	1 Nov 2030	1,600	USD	Caa3/CCC+/CC
Ukraine, 2034	16.3	-1.2%	53%	7.38%	25 Sept 2034	3,000	USD	Caa3/CCC+/CC
Ukraine, GDP-linked	23.4	-3.3%			31 May 2040	3,239	USD	//
Corporate Eurobonds								
MHP, 2026	48.5	0.0%	39%	6.95%	4 Apr 2026	550	USD	//
Kernel, 2027	30.0	0.0%	45%	6.75%	27 Oct 2027	300	USD	//
DTEK Energy, 2027	28.9	0.0%	46%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	53.6	1.5%	36%	8.50%	23 Apr 2026	648	USD	Caa3//CCC
Metinvest, 2029	45.0	0.0%	27%	7.75%	17 Oct 2029	500	USD	Caa3//CCC
NaftoGaz, 2026	18.9	1.1%	84%	7.625%	8 Nov 2026	500	USD	//
Ukrainian Railways, 2026	18.3	0.0%	95%	8.25%	9 Jul 2026	500	USD	//C
Bank Eurobonds								
UkrEximBank, 2025	35.5	0.0%	96%	9.75%	22 Jan 2025	600	USD	//
OschadBank, 2025	61.1	17.7%	45%	9.38%	20 Mar 2023	150	USD	//

¹ Moody's/S&P/Fitch

Source: Boerse-Berlin, Boerse-Stuttgart. TR Data, Eavex Research

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