

## Trends

There was a mixed performance in Ukrainian sovereign Eurobonds over the week. Critical infrastructure and residential buildings in 10 Ukrainian regions had been hit after Russia launched hypersonic missiles able to evade air defences on March 9 as aggressor unleashed its largest missile barrage against Ukraine in three weeks. For much of Thursday the Zaporizhzhia nuclear power plant – Europe's largest – was forced to rely on diesel-powered generators after Ukrainian authorities said missile attacks had damaged power lines. The plant, which Russia has held since capturing it early in the war, is near the frontline and there is still a potential risk for nuclear accidents there caused by fighting.

The benchmark long-term Ukraine-34s issue was unchanged at 16.3 (53% YTM) while Ukraine-26s dropped by 2.8% over the week to 17.5 (100% YTM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) rose by 2.6% to 24.0 cents on the dollar.

The dollar exchange rate on the cash market decreased by another 1.2% to 38.48 UAH/USD. Since the beginning of the year, the hryvnia has strengthened by 5% on the OTC market.

The National Bank reported that Ukraine's foreign exchange reserves fell by 3.5% MoM to USD 28.9bn in February. The regulator conducted interventions on the sale of a currency on the interbank for the amount of approximately USD 2.5bn last month. Meanwhile, the government of Ukraine paid USD 354mn for the servicing and repayment of foreign currency domestic bonds in February, and another USD 154mn was repaid to the World Bank. In addition, Ukraine paid USD 306mn to the IMF. The government's foreign currency accounts at the National Bank received a total of USD 2.4bn last month, including approximately USD 2.1bn from the World Bank and USD 330mn from the placement of foreign currency domestic bonds.

The Finance Ministry placed a total of UAH 16.0bn of UAH-denominated domestic bonds last week. The 1-year bond was offered at 18.50% and the 3-year bond was issued at 19.75% yield. On the secondary market the 3-year bond could be purchased at a yield of 20.5%.

## Highlights

- Reports of US-Ukraine Disagreement Over Bakhmut Defense; Kupyansk Under Pressure from Russian Shelling
- Kernel's Largest Shareholder Proposes Delisting from Warsaw Stock Exchange at Price of PLN 18.5 per Share

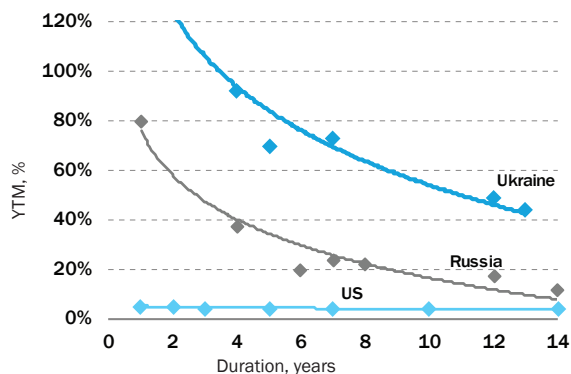
The National Bank of Ukraine has opened a special fundraising account to support the Armed Forces of Ukraine. Please find more at the National Bank's official website under the link below:

[www.bank.gov.ua/en/about/support-the-armed-forces](http://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](http://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	100.1%	2.9 p.p.	18.4 p.p.
Ukraine-2034	52.5%	-0.2 p.p.	7.1 p.p.

### CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	38.48	-1.2%	-5.2%
EUR/UAH	40.80	-0.9%	-4.0%

Source: Eavex Capital

## Reports of US-Ukraine Disagreement Over Bakhmut Defense; Kupyansk Under Pressure from Russian Shelling

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### NEWS

The national US media outlet Politico reported on Sunday (Mar 12) that there have been disagreements between Washington and Kyiv over war strategy in the wake of US President Biden's visit to Ukraine in mid-February. The most notable flash-point is the US concern that Ukraine might be expending too much combat power in its defense of the small Donetsk province city of Bakhmut, which Western analysts have said lacks strategic significance. A second source of tension is a US intelligence report, leaked by the US media last week, which implied that the sabotage of the Russian-German Nord Stream 2 energy pipeline last September was likely undertaken by pro-Ukrainian elements, forcing President Zelenskiy to issue a denial on Friday (Mar 10) of any Ukrainian government involvement. Meanwhile, Ukrainian and Western media reported over the weekend that Ukrainian authorities have called for civilians to evacuate from the small city of Kupyansk in northeastern Kharkiv province amid a heavy campaign of Russian shelling in recent days. Kupyansk was occupied by Russian forces from March to September last year before being liberated in Ukraine's Kharkiv offensive in early autumn. However, Ukraine was not able to press further east, and the city remains within Russian artillery range. In Bakhmut, the latest reports indicate that Russian forces now occupy the eastern portion of the nearly completely-destroyed city, while Ukraine is still holding the western side.

### COMMENTARY

We believe the US concern over the situation in Bakhmut is being fueled by a sense of urgency in Washington that Ukraine should begin its expected "spring offensive" as soon as possible, and with maximum combat power. It looks likely that this offensive will be focused on recapturing Russian-occupied territory in Zaporizhia province, and first of all the city of Melitopol, as this appears to be where Ukraine has the best chance of achieving a major success in the near term. However, the situation in Kupyansk indicates that the eastern part of the front is not fully secure, and that Ukrainian defensive efforts will need to be maintained in order to prevent any new Russian advances. Overall, the US media reports over the past month seem to indicate a shifting narrative in US coverage of the war, with the idea of militarily restoring Ukraine's 1991 borders (complete Ukrainian victory) being increasingly portrayed as an unrealistic goal. Sooner rather than later, we think, Zelenskiy will need to start making domestic political adjustments to keep in step with the evolving aims of Kyiv's most important military ally and financial backer. We also note that Zelenskiy is due to face re-election in only 14 months (May 2024), and while it is unlikely that he will be unseated during wartime, an important question is whether the election process will feature real political competition, or simply serve as a rubber-stamping exercise.

## Kernel's Largest Shareholder Proposes Delisting from Warsaw Stock Exchange at Price of PLN 18.5 per Share

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### KERNEL (KER PW)

Price: PLN 18.55 Market Cap: USD 326mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
FY22	0.2	0.3	neg	8.2	0.0%
FY23E	0.2	0.6	1.2	3.6	0.0%

### NEWS

Namsen Limited, as the largest shareholder of Kernel, proposes to the directors of Kernel to delist shares from the Warsaw Stock Exchange. Namsen Limited set the price for the offer at PLN 18.5 per share, according to the information published on Mar 6.

Earlier this year the Antimonopoly Committee of Ukraine allowed Namsen Ltd to increase its stake in Kernel Holding S.A. to over 50%. Currently, Namsen owns 41.3% of Kernel's voting shares. Namsen Limited, owned by Andriy Verevsky, Chairman of the Board of Directors of Kernel.

Namsen Ltd said that if it acquires at least 95% but less than 100% of Kernel's shares during the delisting tender offer, it may consider a mandatory squeeze out, in compliance with all applicable regulations, including, but not limited to the Luxembourg Law of 21 July 2012 on mandatory squeeze-out and sellout of securities.

According to Luxembourg law, the decision to delist the shares should be taken by the Board of Directors and must comply with the laws of the Grand Duchy of Luxembourg as the home member state of Kernel. Against this background, Polish requirements of appointing delisting resolution by EGM with 90% of the majority of votes are not applicable.

Before the Russian invasion of Ukraine, Kernel was the world leader in the production of sunflower oil. The company was the largest exporter of sunflower oil. Kernel has its own farming operations as well as a grain trading division.

### COMMENTARY

Kernel shares are traded on the Warsaw Stock Exchange and on the Ukrainian Stock Exchange. Since February 2022, quotes for Kernel shares have fallen from the level of PLN 50 to the current mark of PLN 18.5. From our point of view, the main owner of the company is trying to use a low stock price in order to concentrate more of the company's shares. Definitely, not all minority shareholders are ready to sell Kernel shares for the proposed price of PLN 18.5. However, for some investors, there would be a need to sell as they can't own non-public companies in their portfolio. The low proposed price could be illustrated by the fact that Kernel earned USD 368mn in net profit in July-December while the company's market capitalization stands at just USD 326mn. In this context, we assume that Kernel's main shareholder wants to get rid of minority shareholders. So, there will be a completely another case if Kernel's main shareholder would just start to purchase the company's shares on the market instead of attempting to delist the stock.

Over the past 52 weeks, the KER stock fluctuated between PLN 16.55 and PLN 36.50, but back in 2017 they briefly touched PLN 80.00.

SELECTED UKRAINIAN EUROBONDS								
Issue	Indicative Price	Price change in one week	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings <sup>1</sup>
<b>Sovereign Eurobonds</b>								
Ukraine, 2024	12.5	0.0%	388%	7.75%	1 Sept 2024	912	USD	Caa3/CCC+/CC
Ukraine, 2026	17.5	-2.8%	100%	7.75%	1 Sept 2026	1,339	USD	Caa3/CCC+/CC
Ukraine, 2028	16.4	3.8%	74%	7.75%	1 Sept 2028	1,318	USD	Caa3/CCC+/CC
Ukraine, 2030	15.9	-1.9%	76%	9.75%	1 Nov 2030	1,600	USD	Caa3/CCC+/CC
Ukraine, 2034	16.3	0.0%	53%	7.38%	25 Sept 2034	3,000	USD	Caa3/CCC+/CC
Ukraine, GDP-linked	24.0	2.6%			31 May 2040	3,239	USD	//
<b>Corporate Eurobonds</b>								
MHP, 2026	48.4	-0.2%	39%	6.95%	4 Apr 2026	550	USD	//
Kernel, 2027	40.0	33.3%	35%	6.75%	27 Oct 2027	300	USD	//
DTEK Energy, 2027	29.0	0.5%	46%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	55.3	3.2%	35%	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	0.0%	84%	7.625%	8 Nov 2026	500	USD	//
Ukrainian Railways, 2026	18.3	0.0%	96%	8.25%	9 Jul 2026	500	USD	//C
<b>Bank Eurobonds</b>								
UkrEximBank, 2025	35.5	0.0%	96%	9.75%	22 Jan 2025	600	USD	//
OschadBank, 2025	63.5	3.9%	40%	9.38%	20 Mar 2023	150	USD	//

<sup>1</sup> Moody's/S&P/Fitch

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

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