

Trends

Ukrainian sovereign Eurobonds came under pressure last week, with the long-term issues losing about 2% of their market value. We assume that external factors, specifically a sudden rise in the US 10-year treasuries yield from 1.30% to 1.45%, played the main role in the Ukrainian sovereigns sell-off. The UST yields increased significantly after the Federal Reserve said it might start reducing its massive bond purchases soon, which opens the door to higher US interest rates next year.

Meanwhile, Ukraine's Finance Ministry presented its medium-term strategy to reduce the national budget deficit from 5.1% expected this year to 2.7% for 2024. The government is also aiming to lower the country's Debt/GDP ratio from the current 57% to 47% of GDP by the end of 2024. In our view, the unveiled strategy sounds realistic, giving grounds to believe that debt servicing will not be a major source of trouble for the government.

Ukraine-32s fell 2.2% to 104.9 (6.8% YtM) and the short-term Ukraine-22s due next September declined by 0.6% to 104.1 (2.9% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) lost 1.9% to 112.8 cents on the dollar.

The distressed issue DTEK Energy-27s had a muted reaction to the company's weak 1H21 financial release. The quotes for the issue edged down by 0.3% to 61.7% (14.7% YtM). DTEK Energy has an enormous debt burden of 8.5x of EBITDA. However, this debt was recently restructured, providing some hope that DTEK Energy will improve its earnings in the coming years and will be able to redeem and/or refinance this debt load.

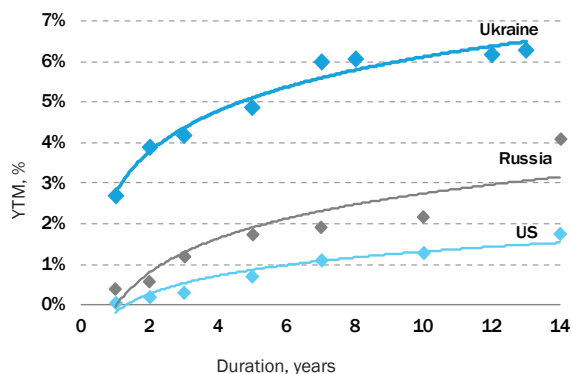
Other corporate Eurobonds saw notable declines in line with the sovereigns. Metinvest-27s dropped by 2.4% to 108.9 (6.2% YtM) and the quasi-sovereign EUR-denominated NaftoGas-24s issue decreased by 2.2% to 102.1 (5.7% YtM).

The Finance Ministry increased the offered yield for the 1-year UAH-denominated treasuries by a negligible 5 bps to 11.50% at the regular bond auction held on Sept 21. Meanwhile, the offered yield for the longer maturity debt issues remained unchanged. The 3-year bonds were sold at 12.49% attracting rather small proceeds. On the secondary market, the bid side for 3-year treasuries stood at 13.50%.

On the currency front, the hryvnia had a week of low volatility, inching down by 0.2% to 26.73 UAH/USD. We reiterate our forecast that the exchange rate will be moving toward the 28.00 UAH/USD level in the coming weeks.

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	8.5%	0.0 p.p.	+2.5 p.p.
UAH 1-year bond	12.0%/11.5%	0.0 p.p.	+0.6 p.p.
Ukraine-2025	5.0%	0.3 p.p.	0.1 p.p.
Ukraine-2028	6.5%	0.4 p.p.	0.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.73	0.2%	-5.4%
EUR/UAH	31.30	-0.2%	-9.9%

Source: Eavex Capital

Highlights

- > Ukraine Passes Law Defining Oligarchs and Restricting Their Activity
- > Ukraine Industrial Output Edges Up 0.6% YoY in August as Recovery Lags
- > DTEK Books USD 24mn Operating Loss in 1H21 Amid Payment Delays

Ukraine Passes Law Defining Oligarchs and Restricting Their Activity

by Will Ritter
w.ritter@eavex.com.ua

NEWS

Parliament on Friday (Sept 24) approved a landmark law which bans oligarchs from financing political parties and buying state-owned assets. The law defines oligarchs as individuals with a net worth of USD 80mn or greater (the figure is based on 1 million minimum monthly incomes) who are active in politics, own media assets, and/or own a company which holds a monopoly position in any sector of the Ukrainian economy. This law also imposes restrictions on contacts of oligarchs or their representatives with high-ranking officials in key Ukrainian state bodies, including the Central Election Commission, the Security Service, the General Prosecutor's Office, the National Bank, and the State Property Fund, who are required to publicly declare any such contacts within one day of their occurrence. The determination of whether an individual is an oligarch will be made by the National Security & Defense Council (RNBO), a body whose members are appointed by the President. The law was pushed through on the initiative of President Zelenskiy, who was attending the annual United Nations general assembly in New York at the time of its passage. On Thursday (Sept 23), Serhiy Shefir, a longtime friend and key business partner of Zelenskiy who has a role in the administration as an adviser, came under gunfire in his car outside of Kyiv on his way into the city. Shefir was not injured in the attack. Zelenskiy appeared to connect the attack on Shefir with the impending vote on the oligarch law, and said there will be a "strong response".

COMMENTARY

Domestic media has reported that Shefir, who was the producer of the television programs which first brought Zelenskiy to national fame, currently lacks influence with the President and is largely on the outside of key decision-making. Therefore, we tend to agree with the theory that the Thursday attack on Shefir's car, which was highly publicized, was an intimidation tactic aimed at Zelenskiy rather than an assassination attempt on Shefir. In our view, although the effectiveness of the oligarch law is likely to be rather limited, it is a good political move for Zelenskiy, and it will surely be a thorn in the side of Ukraine's three most famous billionaire oligarchs - Rinat Akhmetov, Igor Kolomoyskiy, and Victor Pinchuk. Dozens of others will no doubt be scrambling to avoid being included on the list of tycoons, which will in itself be a source of reputational damage. The law's passage widens the portfolio of RNBO head Oleksiy Danilov, who is becoming one of the most powerful officials in the Zelenskiy administration. Despite complaints about the law from Human Rights Ombudsman Liudmila Denisova (herself an old-guard member of Ukraine's political class), sympathy in Western capitals and among Ukrainian voters for the "violation of the oligarchs' rights" is likely to be rather scarce, we think.

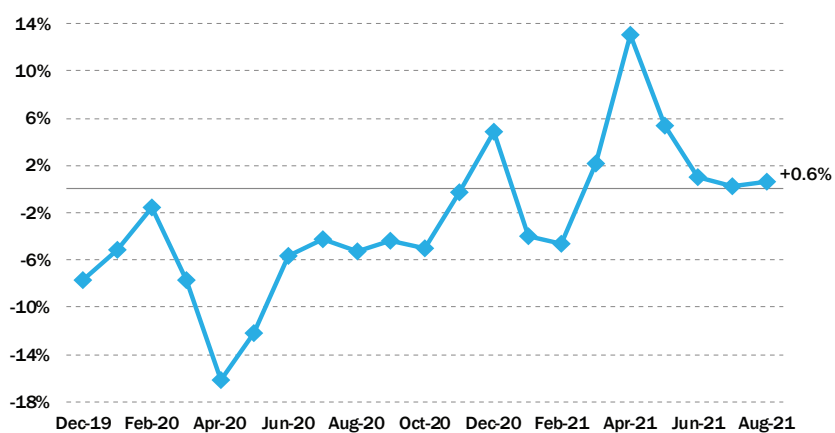
Ukraine Industrial Output Edges Up 0.6% YoY in August as Recovery Lags

by Dmitry Churin
d.churin@eavex.com.ua

NEWS

Industrial output in Ukraine rose by 0.6% YoY in August, according to the latest data published by the State Statistics Service (UkrStat) on Sept 22. Year-to-date (through 8M21), industrial production in Ukraine has recovered by 1.7% YoY after the UkrStat index's drop of 6.5% YoY for 8M20. Among major industrial categories, extraction output demonstrated a 2.5% YoY decline in August, while the aggregate manufacturing production index grew by 2.2% YoY, with the largest growth of 32% registered in the oil refinery sector. In other individual manufacturing sectors, metallurgical output grew by 5.4% YoY in August, putting the recovery at 7.1% YoY for 8M21. The combined machinery production in Ukraine rose by 5.1% YoY last month (+9.8% YoY for 8M21).

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

The industrial output recovery in Ukraine remains well below our initial forecasts. On one hand, higher global prices for iron ore and steel helped the country's metallurgy sector to enjoy impressive profitability and demand, while on the other hand, Ukraine's food processing industry showed an unexpected contraction of 10.7% YoY in January-August. We assume that the Ukrainian food industry faced a decrease in demand on the domestic market after Ukrainians started to return to Europe for work after the 2020 lockdown was over and entrance restrictions to the EU were eased. Somewhat surprising for us was UkrStat's data for the pharmaceutical sector for August (-33.4% YoY), which we consider as a one-off event due to some temporary factor. The pharmaceutical sector's output for January-August showed a decline of 5.0% YoY after the August data.

Separately, UkrStat reported that retail sales volume surged by 9.6% YoY in August, putting the year-to-date growth at 12.9% YoY (8M21).

Statistical figures for the agro sector finally started to reflect the impressive grain harvest in the country, as the agro output index advanced by 8.4% YoY for 8M21 after a moderate increase of 2.5% YoY reported for 7M21.

DTEK Books USD 24mn Operating Loss in 1H21 Amid Payment Delays

by Dmitry Churin
d.churin@eavex.com.ua

NEWS

Vertically-integrated thermal power plant operator DTEK Energy, the largest private energy company in Ukraine, said that the payments deficit on the Ukrainian electricity market has reached UAH 50bn (USD 1.9bn) as of the beginning of September. The largest part of the deficit in the amount of about USD 880mn is related to the state energy operator Guaranteed Buyer, which owes the payments to renewable energy producers. Also Guaranteed Buyer owed about USD 170mn to the monopoly state nuclear producer EnergoAtom. State-owned power line operator UkrEnergO owes USD 430mn to sellers on the so-called Balancing Market. The payments deficit in the industry emphasizes the ongoing crisis on the Ukrainian electricity market.

DTEK Energy reported the following financial results for 1H21:

Revenue of USD 864mn (+12% YoY)

EBITDA of USD 109mn (-1% YoY)

Free Cash Flow of USD 36mn (+3.5x YoY)

Operating Loss of USD 24mn

On the balance sheet side, DTEK Energy reported total debt of USD 1.72bn as of 30 Jun 2021, with the company's total assets standing at USD 2.23bn on the same date.

DTEK INTERIM FINANCIAL RESULTS

USD mn	1H20	1H21	Y/Y
Revenue*	785	846	+12%
EBITDA adjusted	110	109	-1%
<i>margin</i>	<i>14.5%</i>	<i>12.9%</i>	<i>-1.6 p.p.</i>
Operating loss	-293	-24	-/-
<i>margin</i>	<i>-38.6%</i>	<i>-2.9%</i>	<i>+35.8 p.p.</i>

*average UAH/USD FX rates used

Source: Company Data, Eavex Research

COMMENTARY

We were surprised to see that DTEK Energy estimated its adjusted EBITDA at a level of USD 110mn for Jan-Jun of last year while its financial statements gave a booked operating loss of USD 293mn. Therefore, we are somewhat confused about whether the company made a large adjustment to calculate its EBITDA, or whether it might be some presentation mistake. Nevertheless, DTEK Energy's financial condition looks quite unsustainable, as its debt burden remains too high compared to profit the company generates. With a rough assessment, we can estimate DTEK Energy's Net Debt-to-EBITDA ratio at 8.5x, which is far above the generally accepted reasonable limit of 3.0x. On the other hand, the company's debt repayment schedule became much more affordable after the Eurobond restructuring completed earlier this year. DTEK Energy has to repay just USD 20mn of Eurobonds annually in 2022-2026 while the maturity of USD 1.55bn in outstanding bonds will come due in 2027. Taking into account this perspective, we do believe that the situation on the Ukrainian electricity market might improve in the medium-term horizon, allowing DTEK Energy to fulfil its debt obligation in 2027.

The DTEK Energy-27s Eurobond issue is currently trading at a distressed level which is far above the sovereign yield curve. The bonds are quoted at 61.7 cents on the dollar, implying a yield to maturity of 14.7%.

SELECTED UKRAINIAN EURO BONDS								
Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings ¹
Sovereign Eurobonds								
Ukraine, 2022	104.1	-0.6%	2.9%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2025	109.8	-1.8%	5.2%	7.75%	1 Sept 2025	1,328	USD	B3/B/B
Ukraine, 2028	118.6	-2.0%	6.5%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	104.9	-2.2%	6.8%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	112.8	-1.9%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	107.5	-0.3%	5.3%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	107.2	0.4%	5.2%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	102.7	-0.1%	5.7%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	61.7	-0.3%	14.7%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	112.7	-1.7%	5.1%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	108.9	-2.4%	6.2%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	102.1	-2.2%	5.7%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	103.6	-0.7%	6.7%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	100.1	0.0%	6.9%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	108.5	0.0%	4.9%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	105.3	0.0%	3.9%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	109.0	0.0%	4.3%	9.63%	20 Mar 2025	250	USD	B2//B

¹ Moody's/S&P/Fitch

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

UKRAINIAN DOMESTIC BONDS

Issue	Price (Bid)	Price (Ask)	YTM (Bid)	YTM (Ask)	Coupon Period	Maturity Date	Volume UAH mn
UAH denominated Bonds							
UA4000203236			10.7%	9.7%	S/A	05 Jan 2022	10,887
UA4000204002	103.5	103.8	11.5%	11.0%	S/A	11 May 2022	12,917
UA4000218325	99.6	99.9	12.0%	11.6%	S/A	20 Jul 2022	13,415
UA4000199210	103.2	103.6	12.0%	11.6%	S/A	12 Oct 2022	14,993
UA4000201255	105.0	105.9	13.0%	12.3%	S/A	24 May 2023	6,470
UA4000201255	93.3	94.8	13.5%	12.7%	S/A	22 May 2024	18,105
UA4000204150	106.9	108.9	13.7%	13.0%	S/A	26 Feb 2025	41,080
UA4000207518	86.3	91.6	13.8%	12.2%	S/A	20 May 2027	7,018
USD denominated Bonds							
UA4000218333	99.9	100.4	3.8%	3.2%	S/A	14 Jul 2022	USD 336mn

Source: TR Data, Eavex Research

Eavex Capital

7 Klovsky uzviz, 16th Floor
Carnegie Center
Kyiv, 01021, Ukraine

Telephone: +38 044 590 5454
Facsimile: +38 044 590 5464
E-mail: research@eavex.com.ua
Web-page: www.eavex.com.ua

Yuriy Yakovenko
Chairman of the Board

SALES & TRADING
Pavel Korovitskiy
Managing Director
Equity and Fixed Income
p.korovitsky@eavex.com.ua

Alexander Klymchuk
Equity and Fixed Income
a.klymchuk@eavex.com.ua

RESEARCH
Dmitry Churin
Head of Research
d.churin@eavex.com.ua

Will Ritter
Research editor
w.ritter@eavex.com.ua

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