

Trends

Ukrainian sovereign Eurobonds were little-changed last week, pausing their downward momentum that started in mid-September. Inflation pressure remains a great concern for all fixed income market participants. In Ukraine, 12-month consumer inflation accelerated to 11.0% YoY in September from 10.2% YoY for August. Food prices grew by 13.6% YoY despite what is likely a new record high grain harvest in the country this season. The latest data indicates that the final Ukrainian grain harvest could come in above 75mn tonnes, with the possibility to export about 50mn tonnes of wheat and corn.

In domestic politics, Parliament removed Dmytro Razumkov from the post of chairman and replaced him with President Zelenskiy's loyalist Ruslan Stefanchuk, who previously held the post of deputy speaker. As we wrote earlier, we doubt that Razumkov could become a serious competitor to Zelenskiy in the next presidential election, although he may well end up cooperating with other factions in Parliament and thus take on the role of a rather tricky opposition figure, given his first-hand knowledge of the Zelenskiy political operation.

The long-term Ukraine-2032 Eurobonds inched down by 0.1% to 102.0 (7.2% YtM), and the medium-term Ukraine-26s issue was flat at 108.2 (5.7% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) declined by 1.2% to 107.0 cents on the dollar.

Among corporate Eurobonds, Kernel-27s saw a sharp drop of 3.7% to 103.1 (6.4% YtM) despite the company reporting outstanding financial results for its FY21 ending in June. The concern might be that the main part of Kernel's profit came from successful soft-commodity trading operations, raising a skeptical view about whether the company can repeat that trading success.

The quasi-sovereign Eurobonds of the State Road Agency (UkrAvtoDor-28s) dropped by a substantial 2.5% to 97.5 (6.7% YtM), reflecting the correction in the sovereign yield curve seen earlier.

Domestic government UAH-denominated bonds experienced a wider spread between bid/ask quotes on the secondary market. The yield on the bid side rose by 25 bps to 12.25% for the 1-year treasuries while the yield on the ask side moved down by 25 bps to 11.25%. At the primary auction held on Oct 5, the Finance Ministry offered a 12.40% yield for the 2-year treasuries and 11.50% for the 1-year debt papers.

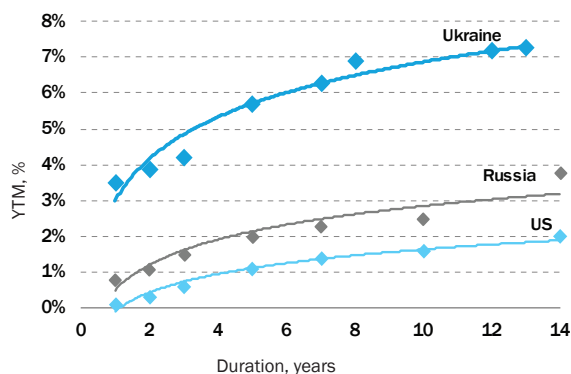
On the currency front, the hryvnia strengthened by 0.9% to 26.38 UAH/USD. The National Bank had to intervene on the interbank market with foreign currency purchases to prevent the hryvnia from further speculative appreciation. There was a rumor that a large state-owned company has been selling foreign currency that it borrowed on the international market.

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

Highlights

- > UkrEximBank CEO Suspended Amid Controversy over USD 60mn Loan
- > Kernel Doubles Full-Year EBITDA to USD 929mn on Grain Trading Windfall

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	12.2%/11.3%	0.0 p.p.	+0.6 p.p.
Ukraine-2025	5.5%	0.0 p.p.	0.6 p.p.
Ukraine-2028	6.8%	-0.1 p.p.	0.5 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.38	-0.9%	-6.7%
EUR/UAH	30.50	-1.3%	-12.2%

Source: Eavex Capital

UkrEximBank CEO Suspended Amid Controversy over USD 60mn Loan

by Will Ritter
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NEWS

The chief executive of UkrEximBank, Yevhen Metsger, was forced to “temporarily step down” from his post after a confrontation at his office on Oct 4 at which bank security personnel physically forced journalists to erase part of an interview that they had been conducting. The journalists, who were from the US-funded Skhemy anti-corruption project, had begun asking Metsger about a USD 60mn loan which UkrExim had made to entrepreneur Serhiy Brukhovetskiy earlier this year. Brukhovetskiy is a controversial figure because he has business interests in the Donbass occupied territories, and also is listed as the owner of SkyMall, an upscale shopping center in northeastern Kyiv which has been the subject of legal disputes for more than 10 years amid claims from an Estonian investor that the property was expropriated from his company. The Skhemy reporters apparently drew Metsger’s ire when they asked him why UkrExim had accepted SkyMall as collateral against Brukhovetskiy’s loan, which was apparently taken out for the very purpose of acquiring that property. Skhemy was subsequently able to restore the footage and make it public, resulting in a statement from the presidential administration calling Metsger’s actions “unacceptable”, and the opening of a criminal case by the General Prosecutor’s Office against Metsger and the bank personnel involved.

COMMENTARY

Leaving aside the details about Brukhovetskiy and the long fight over SkyMall’s ownership, this incident should bring new scrutiny to corporate governance at UkrEximBank and also at OschadBank, which have long been the “twin towers” of non-transparent Ukrainian state banking operations. Unlike PrivatBank, which was nationalized only 5 years ago and which has received considerable attention in terms of its corporate governance, UkrExim and Oschad have continued to operate in an opaque environment that invites suspicion about their activities. The supervisory boards of these banks are de-facto divided between representatives of the presidential administration, the Cabinet of Ministers, and Parliament. UkrEximBank will suffer short-term reputational damage from this incident, in our view, but the longer-term consequences will be determined by how severely Metsger is punished. In our view, Metsger will try to hold on to the powerful post, presenting a test for the Zelenskiy administration on its commitment to the protection of journalists’ rights to investigate high-level corruption.

Quotes for UkrEximBank-25s Eurobonds dropped by 2.5% last week to close at 105.8 (6.3% YtM).

Kernel Doubles Full-Year EBITDA to USD 929mn on Grain Trading Windfall

by Dmitry Churin
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NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer and grain trader, doubled its EBITDA for full-year 2021 (the company's financial year runs from July to June) to USD 929mn, implying an EBITDA margin increase to 16.5% from 10.8% a year ago, according to the earnings report published last week. Kernel's revenue rose 37% YoY to USD 5.65bn and net profit surged by 4.3x YoY to a record high of USD 513mn in the full year. In a segment breakdown, the sunflower oil business EBITDA was USD 56mn (-63% YoY), infrastructure and trading EBITDA jumped to USD 496mn (+2.3x YoY), and the farming EBITDA was USD 461mn (+3.4x YoY) for the financial year.

In the Apr-Jun quarter alone, the company had EBITDA of USD 259mn (+2.1x YoY) and a net profit of USD 165mn (+3.9x YoY).

On the balance sheet side, Kernel's net debt amounted to USD 836mn as of 30 June 2021, decreasing 15% YoY. The company reported that its Net Debt/EBITDA ratio was at 0.9x on 30 Jun 2021.

KERNEL FINANCIAL RESULTS

USD mn	4QFY20	4QFY21	YoY	FY2020	FY2021	YoY
Net revenue	1,198	1,651	+38%	4,107	5,647	+37%
EBITDA	123	259	+111%	443	929	+110%
EBITDA margin	10.3%	15.7%	+5.4 p.p.	10.8%	16.5%	+5.7 p.p.
Net Income	42	165	+293%	118	513	+335%
Net margin	3.5%	10.0%	+6.5 p.p.	2.9%	9.1%	+6.2 p.p.

Source: Company data

COMMENTARY

Kernel managed to beat forecasts as its outstanding results in the grain trading business were well above any expectations. The rally in soft-commodities prices most likely was the major factor in the trading segment's astonishing performance. The company exported 8.0mn tonnes of grain from Ukraine in FY21, earning EBITDA of USD 62 per tonne in the period compared to USD 27/tonne last year. The situation was the opposite in the oil segment, where higher sunflower seed pricing squeezed the segment's EBITDA margin down to USD 41/tonne from USD 100/tonne last year. The farming segment saw a solid result, with the EBITDA margin surging to USD 793 per hectare in FY21 from USD 163/ha a year ago. Kernel harvested crops on a land bank of 501,000 ha.

The company's net profit of USD 513mn for the year implied earnings per share of PLN 24.20. Taking into account the KER stock current price of PLN 68.80, this gives a trailing P/E of just 2.6x for FY21. The EV/EBITDA trailing multiple is estimated at just 2.3x, signaling that the KER stock is clearly undervalued. We revise our target price for the KER stock higher from PLN 65.00 to PLN 83.00 per share, which implies an upside of 30%.

For Kernel's 2022, we forecast that the company will show a net profit decline of 20% from the FY21 peak level. However, the forward looking P/E under this scenario remains very attractive at 3.1x.

Kernel's stock has gained 29% so far this year, lagging the performance of the WIG Ukraine index, which tracks Ukrainian agro stock listed in Warsaw. The WIG Ukraine index has advanced by 58% YtD, largely on the performance of Kernel's smaller peer Astarta (AST). Other stocks in the WIG index basket are generally illiquid.

Kernel-2027 Eurobonds are traded at 103.0 (6.4% YtM), which is in line with the Ukrainian sovereign yield curve.

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	103.7	-0.1%	3.5%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2026	108.2	0.0%	5.8%	7.75%	1 Sept 2026	1,318	USD	B3/B/B
Ukraine, 2028	116.7	0.2%	6.8%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	102.0	-0.1%	7.2%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	107.0	-1.2%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	103.0	-3.7%	6.4%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	105.9	0.0%	5.5%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	101.0	-1.0%	6.2%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	60.4	0.2%	15.3%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	111.0	0.8%	5.7%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	104.9	-3.1%	7.0%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	101.0	1.0%	7.2%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	103.0	0.0%	7.0%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	100.0	-0.1%	6.8%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	105.8	-2.5%	6.3%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	103.8	-1.0%	5.2%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	106.8	-1.6%	5.9%	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	100.1	12.1%	11.2%	S/A	20 Jul 2022	13,415
UA4000199210	102.8	103.7	12.2%	11.3%	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	107.2	109.6	13.6%	12.7%	S/A	26 Feb 2025	41,080
UA4000207518	86.3	89.5	13.8%	12.8%	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

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