

Trends

Quotes for Ukrainian sovereign Eurobonds remained under pressure for a second straight week, selling off amid fears about the latest episode of Russia building up troops on the border and rumors of an impending provocation. The Kremlin rejected allegations that the presence of its troops near Ukraine reflects Moscow's aggressive intentions, saying that Russia needs to ensure its security in response to an uptick in NATO activity in the Black Sea.

The benchmark long-term Ukraine-32s Eurobonds dropped by 2.6% to their par value of 100% (7.5% YtM). Medium-term Ukraine-26s shed by 0.9% to 105.1 (6.5% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) got hammered, slumping by 7.7% to 96.9 cents on the dollar after UkrStat reported that Ukraine's GDP grew by only 2.4% YoY in 3Q21. The fresh data make it likely that the country's economic recovery will be less than 3.0% for the full year, ruling out a payment on the securities for 2021. The VRI holders receive a payout on the derivative in years when GDP growth is 3.0% or better. Moreover, this payment increases significantly when GDP growth exceeds 4.0%.

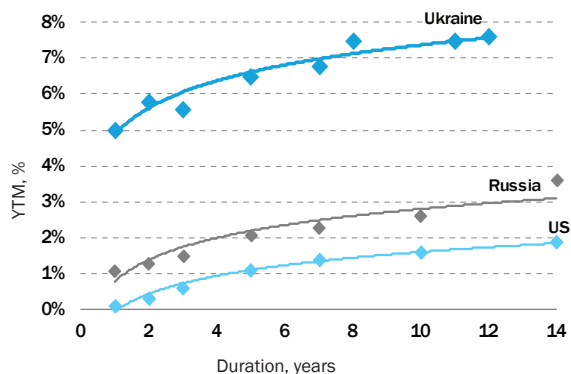
Ukrainian corporate bonds were also sharply lower over the week. MHP-29s issue slid by 3.4% to 95.4 (7.2%) despite the company posting better than expected financial results for 3Q21. MHP's Net Debt/EBITDA ratio improved to 2.1x from 3.7x at the start of the year. The quasi-sovereign EUR-denominated bonds of Naftogaz with maturity in 2024 also lost 2.9% to 95.0 (9.2%). In banking issues, it was the same story, with UkrEximBank-25s declining by 1.9% to 102.3 (8.3% YtM).

The Finance Ministry enjoyed solid demand for UAH-denominated treasuries at the primary auction held last Tuesday, attracting UAH 8.2bn in proceeds. The largest proceeds came from a placement of the 1-year bonds at 11.55%. The long-term 6-year bonds were sold with a yield of 13.25%. On the secondary market, bid/ask quotes for the 1-year domestic bond stood at 12.2%/11.5%.

The hryvnia weakened notably by 1.2% to 26.57 UAH/USD in interbank trading, starting to reverse the currency's six-month winning streak. The hryvnia has still gained 6.0% against the dollar since the beginning of the year.

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	12.2%/11.5%	0.0 p.p.	+0.7 p.p.
Ukraine-2025	6.4%	0.4 p.p.	1.5 p.p.
Ukraine-2028	7.5%	0.2 p.p.	1.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.57	1.2%	-6.0%
EUR/UAH	30.05	0.1%	-13.5%

Source: Eavex Capital

Highlights

- > Kuleba Denies Military Plan for Donbass Amid Latest Russian Invasion Scare
- > MHP Doubles EBITDA to USD 208mn in 3Q, Announces Special Dividend

Kuleba Denies Military Plan for Donbass Amid Latest Russian Invasion Scare

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NEWS

Foreign Minister Dmytro Kuleba on Monday (Nov 22) denied accusations from the Kremlin that Ukraine is planning an offensive military operation to recover the separatist-occupied Donbass territories. Kuleba wrote on his social media account: "Let me state it officially: Ukraine does not plan a military offensive in the Donbas. We are devoted to seeking political and diplomatic solutions to the conflict. Ukraine keeps working hard to revive the Normandy format with Germany and France as mediators."

Kuleba's statement comes on the heels of a week that saw unsourced rumors appear in the US national media, including the New York Times and the Washington Post, that Russian troops stationed at various points near Ukraine's border are in position to launch a large-scale invasion in late January. This story, which appears to have been deliberately leaked out from non-public US intelligence reports, then made its way into Ukraine's domestic media. A similar scare occurred in April of this year, when Russia mobilized around 120,000 troops on Ukraine's eastern and northeastern border before pulling many of them back. French President Emmanuel Macron and top US diplomat Tony Blinken issued specific public warnings in recent days about the high costs to Russia of any new military aggression against Ukrainian territory. The Zelenskiy administration's new Defense Minister Oleksiy Reznikov was also in Washington last week to ask for new unspecified weapons systems, and he received assurances of US support from Defense Secretary Lloyd Austin. Russia's foreign ministry issued a statement calling the latest Ukraine invasion buzz "hysterical agitation".

COMMENTARY

The Kremlin's false-flag accusation of Kyiv's alleged intention to try to recapture the Donbass by force has gotten old, and is no longer effective as a means of propaganda. However, we can at least agree with the Kremlin that these claims of an imminent large-scale invasion of Ukraine by Russian forces do indeed sound a bit hysterical, with the caveat that agitation in the West is precisely the effect that the Putin regime is trying to elicit by concentrating its forces on the Ukrainian border. These invasion false alarms normalize the idea of war, so that if the opportunity for new Russian aggression does eventually present itself, the Western establishment may find itself in the position of having already played its best cards in terms of rallying support for Kyiv. The current environment seems unfavorable for a Russian military adventure, as Moscow's relations with Washington have generally been improving this year, and Russia is also keen to see the opening of its Nord Stream 2 natural gas pipeline to Germany, which has already been completed and is awaiting government certification. Although we believe that NATO membership for Ukraine is impossible in the near or medium term due to the unwillingness of Germany and France to offer ironclad security guarantees to Kyiv, diplomatic support for Ukraine from the West seems solid, and the Biden administration has been increasing its hard-power military assistance as well. However, a new hypothetical threat of an attack from the north via Belarus is presenting new challenges for military planners. Overall, it seems that the Kremlin is following its usual playbook of making things as difficult as it can for Kyiv, especially in a moment when domestic dissatisfaction with the Zelenskiy administration's COVID restrictions is at a peak, and the time for President Zelenskiy to decide about his own personal political future is quickly approaching.

MHP Doubles EBITDA to USD 208mn in 3Q, Announces Special Dividend

by Dmitry Churin
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NEWS

London-listed, central-Ukraine-based MHP (MHPC), Ukraine's largest poultry producer, doubled its EBITDA to USD 208mn in 3Q21 as its revenue increased by 20% YoY to USD 658mn in the period, according to the company's earnings report published on Nov 18. MHP's net profit was USD 145mn in 3Q21 (implying EPS of USD 1.31), compared to a net loss of USD 47mn in 3Q20. Year-to-date through September, the company reported revenue of USD 1.65bn (+16% YoY), EBITDA of USD 552mn (+66% YoY), and a net profit of USD 377mn (EPS 3.40) compared to a net loss of USD 109mn a year earlier.

On the balance sheet side, MHP's total debt was USD 1.45bn as of 30 Sept 2021. The Net Debt/EBITDA ratio was 2.1x as of 30 Sept 2021, down significantly from 3.7x at the start of the year.

MHP FINANCIALS						
USD mn	3Q20	3Q21	chg.	9M20	9M21	chg.
Net revenue	547	658	+20%	1,414	1,647	+16%
EBITDA	106	208	+96%	332	552	+66%
margin	19.4%	31.6%	+12.2 p.p.	23.5%	33.5%	+10.0 p.p.
Net Income	-47	145	-/+	-109	377	-/+
net margin	-8.6%	22.0%	+30.6 p.p.	-7.7%	22.9%	+30.6 p.p.

Source: Company data.

COMMENTARY

MHP substantially outperformed our expectations for the 3Q financial result, as the company's profitability on the EBITDA level increased by 12.2 p.p. YoY to 31.6% in the period. For 9M21, the EBITDA margin was even higher at 33.5%, increasing by 10 p.p. YoY. The company's earnings per share of USD 3.40 for 9M21 imply that the forward-looking P/E for the MHPC stock is below 3.0x. Nevertheless, the 4th quarter is historically loss-making for MHP's business, meaning that the full-year EPS can be expected in the range of USD 2.60-3.20.

For the 3Q21 results, the company said that a 32% YoY increase in the average poultry price was the main growth driver for the business. MHP's export revenue grew by 11% YoY to USD 843mn in 9M21, representing 51% of the total sales in the period. The MHPC stock has a current listing of USD 7.60 per share, correcting from the 52-week high of USD 8.38 seen in October. Eavex Capital has a target price of USD 11.50 for the stock.

MHP's board approved a special dividend of USD 30mn (USD 0.28 dividend per share) on Nov 17 in recognition of the company's strong 2021 performance. Details of payment, which is expected to be made in December, will be announced later this month. The board will consider whether to pay an ordinary annual dividend in March 2022. The special dividend implies a dividend yield of 3.7%.

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	102.0	-0.7%	5.0%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2026	105.1	-0.9%	6.5%	7.75%	1 Sept 2026	1,318	USD	B3/B/B
Ukraine, 2028	112.6	-1.3%	7.5%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	100.0	-2.6%	7.5%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	96.9	-7.7%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	103.1	-1.8%	6.2%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	102.6	-0.9%	6.4%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	95.4	-3.4%	7.2%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	59.2	-3.1%	15.9%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	106.8	-1.9%	6.7%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	103.7	-0.9%	7.2%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	95.0	-2.9%	9.2%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	100.0	-2.2%	8.2%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	98.5	-0.5%	8.3%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	102.3	-1.9%	8.3%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	101.7	-0.9%	8.2%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	104.2	-1.7%	7.2%	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	102.7	103.8	12.0%	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	102.7	103.6	12.3%	11.3%	S/A	12 Oct 2022	14,993
UA4000201255	104.8	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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