

Trends

Ukrainian sovereign and corporate Eurobonds took a pounding last week, slumping to their lowest levels since the COVID financial panic of March/April 2020. There were several triggers for the latest selling pressure, which included both a bearish global environment on continued high COVID caseloads and the perceived threat of Moscow's aggressive intentions toward Ukraine.

The long-term Ukraine-32s Eurobonds lost a massive 7.5% to 92.7 (8.6% YtM), and Ukraine-28s fell 5.4% to 106.5 (8.7% YtM). Even the normally stable 1-year issue with maturity next September was not spared, declining by 1.3% to 100.7 (6.1% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) sold off by 7.3% to 89.8 cents on the dollar, after sitting well above par two weeks ago.

Positive news that the IMF approved a long-delayed USD 700mn disbursement to the country was generally ignored by investors. This represents the second tranche from a USD 5bn program agreed in the spring of 2020 to help Ukraine cope with the COVID pandemic. Multibillion-dollar financial support from the IMF, World Bank and other international financial institutions, as well as the US and EU, has been critical to shoring up Ukraine as the country had a budget deficit of 5.8% of GDP in 2020, has an expected budget deficit of 4.9% of GDP for this year, and a 3.5% deficit projected for 2022. In absolute figures, the budget deficit for 2022 is some USD 6.5bn.

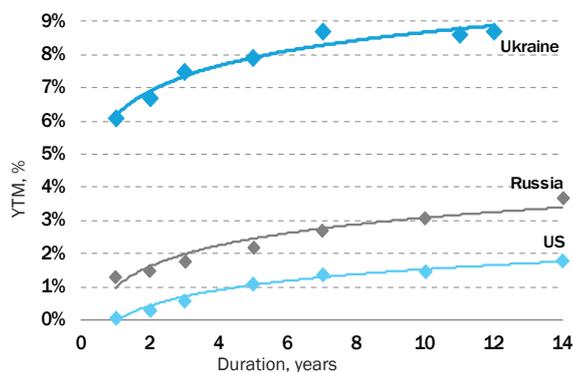
DTEK Energy-27s was the worst performing issue among Ukrainian corporate Eurobonds. Quotes for the already-distressed papers fell 15% to 50.2 (17.7% YtM) after President Zelenskiy blamed DTEK for the energy crisis in the country. In its turn, DTEK claimed that the state-owned electricity operator owes UAH 15bn (USD 550mn) to the company. In other corporate issues, Metinvest-29s plummeted by 7.3% to 96.1 (8.2% YtM) and Ukrainian Railways (RAILUA-24s) slid 5.0% to 95.0 (10.5% YtM).

The Finance Ministry raised UAH 4.4bn in proceeds from a placement of government bonds last week. The offered yield for the 1-year bond was increased by 15 bps to 11.65% and the 3-year bond was sold at 12.85%. On the secondary market, bid/ask quotes for the 1-year domestic bond moved up 20 bps to 12.5%/11.6%.

The hryvnia weakened by significant 2.1% to 27.14 UAH/USD, which was largely a result of the general trend of the dollar's gain against other world currencies amid the market turbulence.

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	12.5%/11.6%	+0.2 p.p.	+0.9 p.p.
Ukraine-2025	7.7%	1.3 p.p.	2.8 p.p.
Ukraine-2028	8.7%	1.2 p.p.	2.4 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.14	2.1%	-4.0%
EUR/UAH	30.64	2.0%	-11.8%

Source: Eavex Capital

Highlights

- > Zelenskiy-Akhmetov Conflict Takes Center Stage in Ukrainian Politics
- > Ukraine Industrial Production Up 1.4% YoY in October on Energy Output Rise
- > Kernel Posts Enormous USD 211mn Profit for Jul-Sept Quarter

Zelenskiy-Akhmetov Conflict Takes Center Stage in Ukrainian Politics

by Will Ritter
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NEWS

President Zelenskiy accused industrialist Rinat Akhmetov of using the Ukrainian state for the benefit of his business empire at a press conference held on Friday (Nov 26). The statement to journalists comes after several weeks of criticism of Zelenskiy which has been broadcast on the Akhmetov-owned Ukrayina-24 television network. Separately, Akhmetov's vertically-integrated DTEK energy company has been complaining for months that the government is refusing to pay it for some USD 550mn of delivered electricity supplies. In related news that generated international headlines, Zelenskiy also said that the Security Service (SBU) had last week uncovered a coup plot to remove him as president involving a Russian intelligence operative and veterans of three Ukrainian security agencies. Zelenskiy stopped short of saying that Akhmetov was directly involved in the coup planning. For his part, Akhmetov called insinuations that he had a role in the plot "a lie", and said that he is doing all he can to defend freedom of the press and democracy in Ukraine. This news about a coup occurred against the already-tense background of the buildup of Russian military forces on Ukraine's border, and the factors combined to hammer Ukrainian sovereign bonds, pushing them lower by as much as 7% to their worst levels since the COVID-19 financial panic in March/April of 2020. The Eurobonds of DTEK also took a hard hit, dropping by some 6 points to about half their par value.

COMMENTARY

Zelenskiy has enjoyed widely favorable media coverage in Ukraine since becoming president, and he also comes from an entertainment industry background which has accustomed him to the adulation of fans, so the recent hammering that he has taken on television broadcasts is a bit of a new experience for him. Especially upsetting to Zelenskiy and his top enforcer, administration chief Andriy Yermak, has been the frequent featuring of recently-ousted Parliament Speaker Dmytro Razumkov on the Akhmetov channel in prime time, increasing Razumkov's ability present himself as Zelenskiy's top political rival. When he left the speaker's chair in September, Razumkov took some 20 MPs with him, thereby putting Zelenskiy's parliamentary majority at risk (his Servant of the People faction officially has 253 mandates, but prior defections now put the loyal number of MPs in the faction below the 226 majority threshold). In general, at exactly halfway through his presidential term, Zelenskiy is at a crossroads as he tries to consolidate his power and position himself for re-election, while his various opponents - including some prominent figures who supported him the first time around - have begun to actively mobilize against him. The coming 18 months will be the key period for determining Zelenskiy's ability to win a second term; if no credible opposition movement emerges in this time, the final year before the May 2024 election will probably be too late for a consensus replacement for Zelenskiy to appear on the political scene.

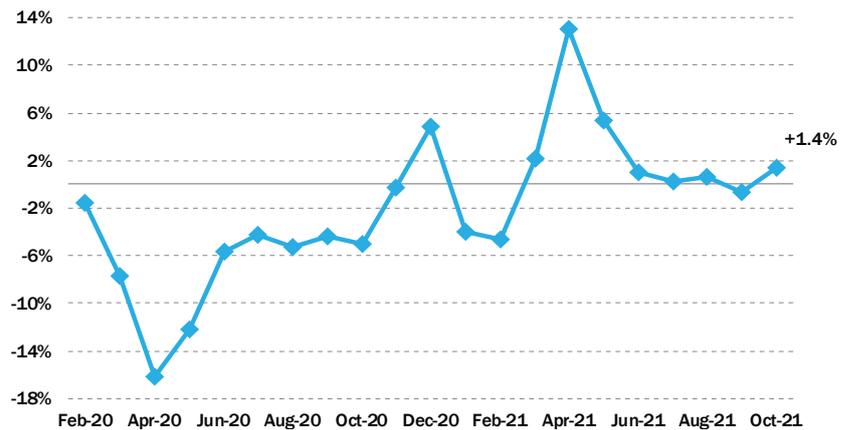
Ukraine Industrial Production Up 1.4% YoY in October on Energy Output Rise

by Dmitry Churin
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NEWS

Ukraine's industrial production index grew by 1.4% YoY in October, reversing a decline of 0.7% YoY seen in September, according to data published by UkrStat. Year-to-date (through 10M21), industrial production in Ukraine has recovered by 1.4% YoY, which is notably less than expected. In a sector breakdown, extraction output in the country edged up 0.6% YoY, the manufacturing output grew by 0.4% YoY, and energy production accelerated by 4.0% YoY, leading to aggregate utility sector growth of 7.6% YoY during the month.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

The situation in Ukrainian industrial production remains far less upbeat than was expected earlier this year. The worst performance was in coal extraction, as a shortage of steam coal resulted in a need to import this fuel from overseas. The coal shortage threatens Ukrainian energy security, and there could be blackouts in some provinces in the winter season during peak electricity consumption. Currently Ukrainian thermal generation plants are struggling to increase their coal inventories. There is also a disappointing picture for the chemical industry. Ukrainian fertilizer producers were hurt badly amid surging natural gas prices, dragging down the chemical output index by 13.6% YoY in October.

In other macroeconomic data, the agriculture output index rose by 13% YoY in 10M21, reflecting a solid grain harvest in Ukraine. Retail sales in the country increased by 5.7% YoY in October, repeating September's notably slowing growth pace. Through 10M21, the retail sales index is up by 11.5% YoY.

Kernel Posts Enormous USD 211mn Profit for Jul-Sept Quarter

by Dmitry Churin
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NEWS

Kyiv-based, Warsaw-listed sunflower oil giant and crop grower Kernel said that its net profit increased by 3% YoY to USD 211mn in the Jul-Sept quarter (1Q22; the company's financial year runs from July to June), according to results published on Nov 25. On the top line, Kernel's revenue jumped by 43% to USD 1.34bn amid higher soft commodities prices in the reported period. The company's EBITDA rose by 9% YoY to USD 315mn while the EBITDA margin declined from 30.9% a year ago to 23.5% in the reported period.

On the balance sheet side, Kernel's net debt grew by 21% to USD 1.01bn from the previous reporting quarter, implying a Net Debt/EBITDA ratio of 1.1x as of 30 Sept 2021. Taking into account Kernel's marketable inventories, the company claims an "adjusted" Net Debt/EBITDA ratio of 0.5x at the end of reporting quarter. The company's total assets grew by 9% QoQ to USD 4.35bn.

KERNEL FINANCIAL RESULTS			
USD mn	1Q21FY	1Q22FY	YoY
Net revenue	940	1,343	+43%
EBITDA	290	315	+9%
EBITDA margin	30.9%	23.5%	-7.4 p.p.
Net Income	204	211	+3%
Net margin	21.7%	15.7%	-6.0 p.p.

Source: Company data,

COMMENTARY

Although Kernel's net profit grew by only 3% YoY in the Jul-Sept quarter, the absolute figure should be viewed as outstanding result, as the comparison base was very high due to the record high net profit posted for Jul-Sept 2020. In terms of earnings per share, this financial year's 1Q delivered an EPS of PLN 10.9, translating at the current PLN/USD exchange rate.

Kernel said that its farming segment was the main contributor on the EBITDA level, bringing in USD 207mn (+29% YoY) in the Jul-Sept quarter. In the sunflower oil business, the company has a bright outlook for this season. Kernel targets to process 3.8mn tonnes of oilseeds in FY22 (+18% YoY), as a record 16.8mn tonnes harvest of sunflower seeds is expected in Ukraine. The so-called "crushing margin" should increase, assuming a sufficient supply of seeds after the record harvest. However, the procurement campaign this season is challenging, as farmers are under less immediate pressure to sell their oilseeds, given the extremely profitable season.

In a separate statement, Kernel highlighted Fitch's revision of its credit outlook to "Positive" from "Stable" in September.

Kernel's stock reached a multi-year high of PLN 64.10 at the end of October, but the KER closing price on Friday (Nov 26) was back down at PLN 54.70, as the stock suffered a notable correction due to country-risk-related fears about the Russian military factor, as well as the global stock market turmoil seen last week.

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	100.7	-1.3%	6.1%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2026	100.3	-4.6%	7.4%	7.75%	1 Sept 2026	1,318	USD	B3/B/B
Ukraine, 2028	106.5	-5.4%	8.7%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	92.5	-7.5%	8.6%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	89.8	-7.3%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	101.4	-1.6%	6.5%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	100.0	-2.5%	7.1%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	92.8	-2.7%	7.6%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	50.2	-15.2%	17.7%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	102.0	-4.5%	7.4%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	96.1	-7.3%	8.2%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	92.0	-3.2%	10.2%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	95.0	-5.0%	10.5%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	98.5	0.0%	8.3%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	99.8	-2.4%	9.7%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	99.5	-2.2%	8.2%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	101.7	-2.4%	8.8%	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							
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	101.3	102.4	12.5%	11.6%	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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