

Trends

Ukrainian sovereign Eurobonds traded in a volatile mode once again last week, seeing only slight relief from risks related to security issues with Russia. The Kremlin is demanding that NATO promise never to allow Ukraine to join the alliance, and to stop the deployment of NATO weapons near Russian borders and roll back its forces from Eastern Europe.

The 10-year Ukrainian Eurobonds dropped by 2.5% last week to close at 82.4 (10.4% YtM) while the Ukraine-28s issue edged up by 0.8% to 92.0 (11.8% YtM). The short-term Eurobond due in September rebounded by 6.1% to 96.0 (18.5% YtM) as some investors bet on a big return in the paper. The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) gained 4.5% to 72.0 cents on the dollar after reports that the Finance Ministry had purchased about 5% of the outstanding VRIs on the market in December, at a price in the mid-90s far above the current level. The news provided grounds to assume further buybacks of the VRIs.

In macroeconomic statistics, UkrStat reported that Ukraine's retail sales increased by 10.7% YoY in full-year 2021, while in December the retail sales index was up by a more modest 5.1% YoY. In the broader context, we assume that the retail sales performance indicated that consumer sentiments somewhat worsened, as high inflation bites into households' real income. Ukraine's full-year 2021 GDP increase is expected at 3.0%, which would be notably behind initial expectations amid the forecasts of a fast economic recovery after COVID-hit 2020. Currently a sharp acceleration of economic growth in Ukraine looks unlikely unless the government finds a way to attract large foreign investors to the country's real sector.

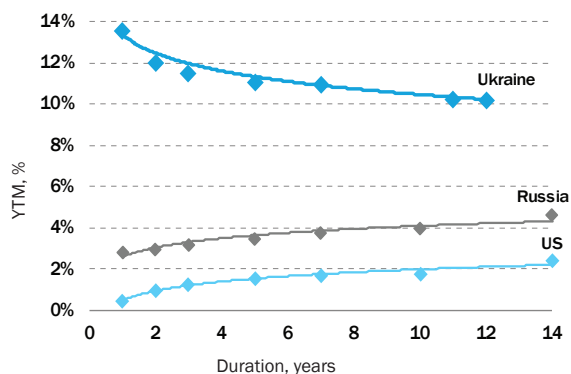
Among corporate Eurobonds, MHP-29s enjoyed a big rebound of 4.7% to 82.5 (9.8% YtM) after the company reported healthy operational results for 4Q21. On the downside, Metinvest-26s fell 2.7% to 88.9 (12.6% YtM).

The Finance Ministry continued to see depressed demand for government bonds at the offered yield levels. The primary bond auction held on Jan 25 brought in only UAH 2.8bn from a placement of ultra-short 3-month UAH-denominated bonds at 11.5%. On the secondary market, banks are offering to sell 5-year UAH-denominated bonds at 16.1%, while the bid/ask yield for the 1-year bonds was at 14.2%/12.0%.

The hryvnia remained under pressure, losing 1.0% last week to close at 28.52 UAH/USD. The Ukrainian currency traded in a corridor from 28.52 UAH/USD to 28.92 UAH/USD on the interbank market over the period.

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	10.0%	0.0 p.p.	+1.0 p.p.
UAH 1-year bond	14.2%/12.0%	0.0 p.p.	+0.8 p.p.
Ukraine-2025	11.8%	0.0 p.p.	2.9 p.p.
Ukraine-2028	10.4%	0.4 p.p.	1.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	28.52	1.0%	4.4%
EUR/UAH	31.93	-0.3%	3.1%

Source: Eavex Capital

Highlights

- > US, Britain Ratchet up Sanctions Drumbeat as Zelenskiy Asks for New Financial Support
- > MHP Posts Marginal Full-Year Poultry Sales Volume Growth of 1% for 2021

US, Britain Ratchet up Sanctions Drumbeat as Zelenskiy Asks for New Financial Support

by Will Ritter
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NEWS

The United States and Britain ratcheted up their sanctions threats against the Kremlin on Sunday (Jan 30), a day ahead of a UN Security Council meeting to discuss Ukraine. US Senator Robert Menendez, a close ally of the Biden administration, bluntly stated that a new invasion of Ukraine by Russia would result in “devastating sanctions”, while British Foreign Secretary Liz Truss said that “there will be nowhere to hide for Putin’s oligarchs”. US Deputy Secretary of State Victoria Nuland said that any US sanctions would be “very well aligned” with the main European countries, US-government-funded media outlet RFE/RL reported. Putin “will feel it acutely, as will the Russian people,” Nuland said. Meanwhile, in comments to international media on Friday (Jan 28) in Kyiv, President Zelenskiy complained again about the West’s lack of pre-emptive sanctions on Russia, and asked for a new round of USD 4-5bn in aid to offset the negative effects that the current security crisis is having on Ukraine’s economy.

COMMENTARY

In our view, the credible threat of coordinated heavy sanctions against the Russian elite being imposed by the US and the largest European countries (Germany, France, Britain) remains the strongest card which the West holds to deter Russian aggression against Ukraine. It is therefore positive for the overall situation that the media narrative is switching back toward these sanctions, and away from escalatory talk about NATO troop movements and the conflict between Kyiv and Washington over how to approach the Russian threat. Zelenskiy indeed has a valid point when he states that Western media claims of an “imminent” Russian invasion sow panic and cause real economic damage to Ukraine’s economy. The trouble with the word “imminent”, which has been repeatedly used by White House press liaison Jennifer Psaki and the US media, is that it is an English idiom with no direct translation into Ukrainian or Russian, and it is therefore being translated by Ukraine’s media as “inevitable”. Zelenskiy’s complaints about the language being used are therefore justified, in our view. Where Zelenskiy does not have a point, however, are in his illogical public demands for pre-emptive sanctions against Moscow that would spoil the sanctions’ deterrent effect and, in our view, make a large-scale war more likely.

MHP Posts Marginal Full-Year Poultry Sales Volume Growth of 1% for 2021

by Dmitry Churin
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NEWS

London-listed, central-Ukraine-based MHP (MHPC) reported a marginal 1.0% YoY increase in its poultry sales volume to 704,000 tonnes in full-year 2021, according to the company's operational update issued on Jan 27. MHP said that its poultry exports rose 8% YoY to some 402,400 tonnes in full-year 2021, accounting for 57% of total sales volume, which was higher than a share of 53% a year before. In 4Q21 alone, MHP's sales volume rose by 3% YoY to 180,000 tonnes. The company said its production facilities operated at full capacity in the quarter. On the pricing side, MHP's average achieved sales price for poultry rose by 22% YoY in USD terms in 2021 to USD 1.63 per kg (ex-VAT).

MHP's sunflower oil segment demonstrated a 37% YoY decrease in sales to 207,200 tonnes in 2021, with all of the sales being exports.

MHP OPERATIONAL UPDATE						
Poultry	4Q20	4Q21	Change	2020	2021	Change
Sales volume, tonnes	175,135	180,028	+3%	699,926	704,010	+1%
Domestic	79,551	70,767	-11%	324,285	288,831	-11%
Export	94,709	104,841	+11%	373,734	402,388	+8%
Price USD per 1 kg net VAT	1.36	1.72	+26%	1.34	1.63	+22%

Source: Companies' data

COMMENTARY

MHP's operational results came in line with expectations. However, in the grain segment the company managed to deliver a superior performance, harvesting 2.6mn tonnes from a land bank of 351,000 hectares, which was 52% more than in 2020. MHP's harvest was also better than the average in Ukraine, as the country's overall grain harvest increased by 28% YoY to 84mn tonnes in 2021. MHP was extremely successful last year in corn harvesting, doubling the harvest volume to 1.62mn tonnes from almost the same land area of 163,300 hectares under corn planting. The company's corn yield reached 10.0 tonnes per hectare in 2021, compared to an average of 8.0 tonnes/ha in Ukraine.

The company will release its full-year 2021 financial results on Mar 24. We forecast that the higher sales volume, and more importantly higher poultry prices, will boost the company's EBITDA by 82% YoY to USD 620mn in FY21. We also expect MHP's net profit to come in at USD 290mn, compared to FY20's net loss of USD 133mn. MHP's net profit per share according to this estimate would be at USD 2.62, implying a trailing P/E of 2.5x taking into account the current MHPC stock price at USD 6.52.

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	96.0	6.1%	18.5%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2026	86.7	-0.1%	11.8%	7.75%	1 Sept 2026	1,318	USD	B3/B/B
Ukraine, 2028	92.0	0.8%	11.8%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	82.4	-2.5%	10.4%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	72.0	4.5%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	85.4	0.6%	10.3%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	88.1	-1.0%	10.8%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	82.5	4.7%	9.8%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	49.6	-0.2%	20.5%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	88.9	-2.7%	12.6%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	83.5	-1.5%	11.2%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	78.2	-2.3%	19.3%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	90.5	4.0%	13.1%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	95.5	-0.1%	12.1%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	93.1	-2.0%	12.7%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	92.4	6.2%	17.8%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	89.3	0.3%	18.0%	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	100.7	101.6	14.5%	11.2%	S/A	11 May 2022	12,917
UA4000218325	99.1	99.9	13.2%	11.8%	S/A	20 Jul 2022	13,415
UA4000199210	100.1	102.1	16.5%	12.0%	S/A	12 Oct 2022	14,993
UA4000201255	100.1	102.3	16.5%	14.5%	S/A	24 May 2023	6,470
UA4000201255	87.4	91.4	17.5%	15.0%	S/A	22 May 2024	18,105
UA4000204150	96.8	101.1	18.0%	16.0%	S/A	26 Feb 2025	41,080
UA4000207518	74.7	79.7	18.0%	16.1%	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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