

Trends

Indicative quotes for Ukrainian sovereign Eurobonds were lower again as the situation on the battlefield with Russian aggression remained tough. Ukrainian forces have counterattacked in the country's south, claiming to have pushed somewhat back Russian troops. Since failing to capture Kyiv in the war's early stages, Russia's army has narrowed its focus to eastern Ukraine, hammering cities with relentless artillery and missile barrages as it seeks to consolidate areas under its control. Meanwhile, Turkish President Recep Tayyip Erdogan is set to hold separate calls with Ukrainian President Volodymyr Zelensky and Russian President Vladimir Putin. The conversations, Erdogan said, are meant to "encourage the parties to operate channels of dialogue and diplomacy." Zelensky has said the path to ending the war with Russia would require diplomacy, saying that Putin is the only person on the Russian side worth negotiating with because "he decides everything." However, Erdogan's government hosted diplomatic talks between Moscow and Kyiv earlier in the war, but those discussions appear to have hit a dead end.

The benchmark 10-year Ukrainian Eurobonds decreased by 4.7% last week to close at 36.7 (25.9% YTM). Ukraine-24s issue fell 3.2% to 39.8 (68% YTM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) declined by 1.8% to 37.3 cents on the dollar.

In corporate Eurobond issues, Kernel-27s were unchanged at 53.0 (22.6% YTM) after the company reported its financial results for the Jan-Mar quarter. In contrast, MHP-26s rose by 3.1% to 52.6 (29.7% YTM) after the company released pretty solid production volumes for April despite actual sales volumes plunging by 40% YoY. There is an assumption, that the company will be able to increase sales volumes immediately after logistics in Ukraine becomes better.

The Finance Ministry offered a broad range of domestic government debt papers at the primary auction held on May 24. The offering included a 1-year USD-denominated bond at 3.7% as well as a half-year EUR-denominated issue at 2.5%. The UAH-denominated 1.5-year bond was placed at an 11.5% yield. Local and foreign investors can purchase the special Ukrainian bond through licensed brokers or banks.

On the currency front, the hryvnia exchange rate on the OTC cash market strengthened by 4.5% to 36.30 UAH/USD as the National Bank continued to stick to the artificially frozen exchange rate of 29.25 UAH/USD as part of a policy to restrain inflation amid the war.

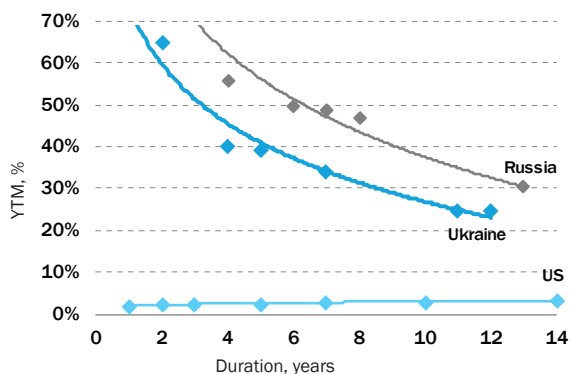
The National Bank of Ukraine has opened a special fundraising account to support the Armed Forces of Ukraine. Please find more at the National Bank's official website under the link below:

www.bank.gov.ua/en/about/support-the-armed-forces

The National Bank also opened fundraising account for Humanitarian Assistance to Ukrainians. Please see details under the link below:

www.bank.gov.ua/en/about/humanitarian-aid-to-ukraine

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 war bond	11.0%	0.0 p.p.	0.0 p.p.
Ukraine-2026	40.8%	1.5 p.p.	31.9 p.p.
Ukraine-2032	25.9%	1.2 p.p.	16.7 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	36.30	-4.5%	32.9%
EUR/UAH	38.84	-3.2%	25.5%

Source: Eavex Capital

Highlights

- Kernel Reports Net Loss of USD 103mn for Jan-Mar Quarter

Kernel Reports Net Loss of USD 103mn for Jan-Mar Quarter

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NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer and grain exporter, reported a net loss of USD 103mn for the 3Q22 Jan-Mar quarter (the company's financial year runs from July to June), compared to a net profit of USD 16mn in the corresponding period a year ago. According to the company's consolidated financial statement published on May 27, net revenue declined by 2% YoY to USD 1.69bn in the period and EBITDA dropped by 63% YoY to USD 42mn. For the 9 months ending in March, Kernel had revenue of USD 4.92bn (+23% YoY), EBITDA of USD 650mn (+3% YoY), and net profit of USD 297mn (-14% YoY).

On the balance sheet side, Kernel's net debt stood at USD 1.72bn as of 31 March 2022, implying a Net Debt/EBITDA ratio of 1.9x. However, Kernel claimed that its "adjusted" net debt, which took into account readily-marketable inventories, was at 0.6x.

KERNEL FINANCIAL RESULTS

USD mn	3Q FY21	3Q FY22	YoY	9M FY21	9M FY22	YoY
Net revenue	1,729	1,690	-2%	3,996	4,915	+23%
EBITDA	111	42	-63%	670	650	-3%
EBITDA margin	6.4%	2.5%	-3.9 p.p.	16.8%	13.2%	-3.6 p.p.
Net Income	16	-103	+/-	348	297	-14%
Net margin	0.9%	-6.1%	-7.0 p.p.	8.7%	6.1%	-2.6 p.p.

Source: Company data.

COMMENTARY

Kernel's poor performance in March, when the company was forced to suspend its soft-commodities exports due to the Russian invasion of Ukraine, led to a negative net result for the quarter. However, the company also had a typical seasonality pattern with the revaluation of biological assets resulting in a loss of USD 74mn in 3Q FY22, compared to the USD 58mn revaluation loss seen in 3Q FY21. The magnitude of the pattern this season was intensified by high prices this year. Separately, Kernel recognized a USD 61mn loss on impairment of assets due to the Russian invasion of Ukraine, including a USD 38mn impairment charge against goodwill related to oilseed processing plants and a USD 23mn write-off of sunflower meal inventories after the expiry date.

On the cash flow side, the company's operating profit before working capital changes was USD 137mn in 3Q FY22, which was 15% YoY less than a year ago.

The KER stock has lost 55% of its value since the start of the year as a result of the Russian invasion of Ukraine. The stock traded at PLN 26.50 on Friday (May 27) implying the company's MCap of USD 510mn. Taking into account that Kernel had a net profit of USD 297mn in 9M FY22, means that the company is now valued at less than 3.0x trailing P/E. On the other hand, the current country's risks are at extreme levels making any prediction regarding the company's future too uncertain.

Indicative quotes for Kernel's Eurobonds with maturity in 2027 stand at 53.0 cents on the dollar (23% YTM), which is below the sovereign yield curve offering an indicative yield of 38% YTM.

SELECTED UKRAINIAN EURO BONDS

Issue	Indicative Price	Price change in one week	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings ¹
Sovereign Eurobonds								
Ukraine, 2022	69.7	-0.1%	284%	7.75%	1 Sept 2022	1,384	USD	Caa3//
Ukraine, 2024	39.8	-3.2%	68%	7.75%	1 Sept 2024	1,339	USD	Caa3//
Ukraine, 2026	39.1	-3.2%	40.8%	7.75%	1 Sept 2026	1,318	USD	Caa3//
Ukraine, 2028	39.4	-3.9%	35.7%	9.75%	1 Nov 2028	1,600	USD	Caa3//
Ukraine, 2032	36.7	-4.7%	25.9%	7.38%	25 Sept 2032	3,000	USD	Caa3//
Ukraine, GDP-linked	37.3	-1.8%			31 May 2040	3,214	USD	//
Corporate Eurobonds								
MHP, 2026	52.6	3.1%	29.7%	6.95%	4 Apr 2026	550	USD	//
Kernel, 2027	53.0	0.0%	22.6%	6.75%	27 Oct 2027	300	USD	//
DTEK Energy, 2027	15.9	-26.0%	56.5%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	60.8	2.5%	26.4%	8.50%	23 Apr 2026	648	USD	//
Metinvest, 2029	23.0	0.0%	46.0%	7.75%	17 Oct 2029	500	USD	//
NaftoGaz, 2024	31.0	-6.1%	84%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	25.0	0.0%	116%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	32.0	0.0%	417%	9.00%	9 Feb 2023	125	USD	//
UkrEximBank, 2025	31.3	0.0%	78%	9.75%	22 Jan 2025	600	USD	//
Oschadbank, 2023	53.0	6.6%	160%	9.38%	10 Mar 2023	700	USD	//

¹ Moody's/S&P/Fitch

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

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