

Trends

Ukrainian sovereign Eurobonds decreased sharply last week amid the overall turmoil on the market after the Fed raised the key interest rate by 0.75% as it hardens the fight against inflation. The three-quarter-point hike brings the federal funds rate to between 1.5% and 1.75%. In raising interest rates, the Federal Open Markets Committee noted in its policy statement that Russia's war in Ukraine and ongoing supply-chain struggles are "creating additional upward pressure on inflation and are weighing on global economic activity." The 10-year Ukrainian Eurobonds fell as much as 10% to 31.1 (30.1% YTM) and Ukraine-24s issue dropped by 9.6% to 33.9 (84% YTM). Meanwhile, the shortest outstanding issue due in September gained by 1.8% to 68.5 (558% YTM) on speculation that there is still a chance that the country would redeem this bond timely and in full. The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) edged up by 0.3% to 33.5 cents on the dollar. In the corporate debt universe, MHP-26s issue slipped by 4.6% to 52.1 (30.4% YTM) after the company released its poor 1Q22 financial results and once again highlighted many difficulties with poultry exports amid the suspension of deliveries through the Black Sea ports due to the Russian invasion of Ukraine. Quasi-sovereign NaftoGaz-24s issue fell 12% to 29.0 (100% YTM) and OschadBank-23s plunged by 22% to 42.7 (246% YTM).

The Ukrainian Finance Ministry has unveiled a strategy to roll over domestic debt, both in hryvnia and in foreign currency. The government encourages investors to reinvest their proceeds from Ukrainian bonds into new bonds. The National Bank has already announced that it would allow the repatriation of proceeds from all bonds that mature after April 2023. Currently, the Finance Ministry is offering a yield ranging from 9.5% to 11.5% for the special UAH-denominated government bonds. Local and foreign investors can purchase the special Ukrainian bond through licensed brokers or banks.

The hryvnia declined by 1% to 35.6 UAH/USD on the OTC cash market. On the political front, the European Commission has backed Ukraine to become a candidate for EU membership. But leaders of EU countries will then have the final say at a summit in Brussels on 23-24 June. However, the candidate's status is more of a symbolic gesture. It does not entitle Ukraine to more EU funds and does not also mean that accession negotiations will begin in earnest.

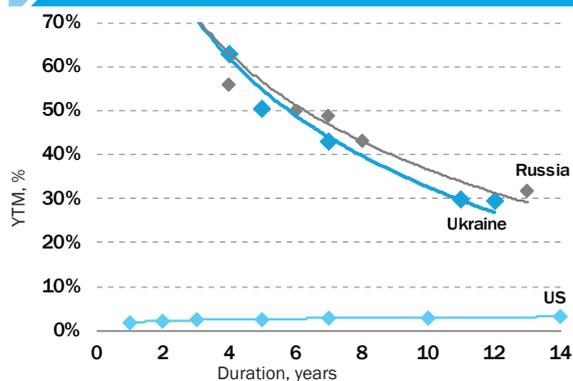
The National Bank of Ukraine has opened a special fundraising account to support the Armed Forces of Ukraine. Please find more at the National Bank's official website under the link below:

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	25.0%	0.0 p.p.	+16.0 p.p.
UAH 1-year war bond	11.0%	0.0 p.p.	0.0 p.p.
Ukraine-2026	50.7%	6.8 p.p.	41.8 p.p.
Ukraine-2032	30.1%	2.8 p.p.	20.9 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	35.60	1.0%	30.3%
EUR/UAH	37.40	1.0%	20.8%

Source: Eavex Capital

Highlights

- Ukraine Set for EU Candidate Status as Russia Renews Attacks on Kharkiv
- MHP Has Net Loss of USD 122mn in 1Q22 while EBITDA Declines by 19% to USD 46mn

Ukraine Set for EU Candidate Status as Russia Renews Attacks on Kharkiv

by Will Ritter
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NEWS

The European Commission on Friday (Jun 17) recommended that Ukraine receive the official status of a candidate for membership in the 27-nation European Union bloc. The announcement followed a joint visit on Thursday (Jun 16) by the respective leaders of France, Germany, and Italy - Emmanuelle Macron, Olaf Scholz, and Mario Draghi - to Kyiv during which each expressed solidarity with Ukraine against the ongoing Russian aggression. Ukraine's candidate status is expected to be formally approved next at an EU summit, despite some reservations among a few of the 27 member states. Moldova was approved for candidate status along with Ukraine, while the Commission stopped short of making the same offer to Georgia. Meanwhile, in military developments, Russian forces renewed artillery strikes against areas of Kharkiv on Sunday (Jun 19) after more than a month of relative inactivity in the northeastern area of the front, and Interior Ministry official Vadim Denysenko told domestic media that Russia "is trying to make Kharkiv a frontline city again". Russia also made additional gains in Severodonetsk last week, with Ukraine acknowledging that most of the city is now under enemy control. Ukrainian forces are currently focused on preventing the Russians from advancing further west in Donetsk province amid heavy fighting.

COMMENTARY

The good news for Ukraine is that the country has finally achieved its goal of becoming an EU candidate country, which it has been pursuing for nearly 20 years. The bad news is that this development really does nothing concrete to bring Ukraine closer to ending the war in its favor. Although the Macron-Scholz-Draghi visit came off surprisingly well, and even quieted the criticism of Western Europe for not providing enough weapons support to Ukraine, we suppose that the tensions could reappear rather soon, especially if Russia makes more territorial gains along the front line stretching from Kharkiv in the northeast all the way to Mykolayiv in the south. An interesting piece of political research was published last week by the European Council on Foreign Relations which details the division of the European electorate into a "Peace party" that favors a quick end to the war, and a "Justice party" that emphasizes punishment and defeat of Russia as the most important priority. According to the polling, the "Peace" camp leads the "Justice" camp by 35% to 22%, with another 20% identified as undecided "swing voters". The research asserted that the key to maintaining European public support for Ukraine going forward will be to present of the conflict as a defensive war to protect the country's citizens from Russian oppression, rather than as an offensive war to recapture territory.

MHP Has Net Loss of USD 122mn in 1Q22 while EBITDA Declines by 19% to USD 46mn

by Dmitry Churin
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NEWS

London-listed, Central Ukraine-based poultry producer MHP reported that its net loss was USD 122mn in 1Q22 compared to a marginal net profit of USD 1 mn a year ago, according to financials released on May 17. The company's top line revenue rose by 24% YoY to USD 553mn in the reported period due to a higher poultry price while EBITDA decreased by 19% YoY to USD 46mn, implying an EBITDA margin of 8.3% in 1Q22 compared to the margin of 12.8% a year ago. MHP's net loss of USD 122mn in 1Q22 comprised a net loss before foreign exchange differences of USD 27mn and a non-cash foreign exchange translation loss of USD 95mn as a result of the revaluation of the company's FX debt that totaled USD 1.52bn as of Mar 31, 2022. MHP's export demonstrated an impressive growth of 42% YoY to USD 308mn in 1Q22, accounting for 56% of total sales, up from 49% of total sales a year earlier. In the segment breakdown, poultry sales accounted for 69% of revenue in 1Q22 while the remainder came from grain & other agro segment revenue, and the European operating segment. Poultry sales contributed USD 35mn to the EBITDA level (76% of the total). On the balance sheet side, MHP reported that its net debt was USD 1.21bn. The net debt-to-EBITDA ratio remained so far at a healthy level of 1.9x. MHP has a non-binding Eurobond covenant limit of 3.0x.

MHP FINANCIALS			
USD mn	1Q21	1Q22	chg.
Net revenue	447	553	+24%
EBITDA	57	46	-19%
margin	12.8%	8.3%	-4.5 p.p.
Net Income	1	-122	+/-
net margin	0.2%	-22%	-22 p.p.

Source: Company data.

COMMENTARY

Although actual MHP's net loss of USD 122mn in 1Q22 exceeded our forecast of a net loss of USD 80mn for the period, on the revenue and EBITDA level the company managed to deliver better than expected results. An average poultry price increase of 29% YoY helped MHP to diminish part of the extremely negative consequences of the Russian invasion of Ukraine. The company said that its direct war-related expenses amounted to USD 25mn in 1Q22. Exports of chicken meat and vegetable oils continue to be challenging as the Black Sea ports remain blocked and alternative routes open to MHP are longer and significantly more complex. There were 1,600 MHP's employees mobilized to the Armed Forces of Ukraine or the Territorial Defense Forces since the Russian invasion started on Feb 24. However, the company has been able to re-balance its resources and does not face difficulties in operations.

Quotes for London-listed MHP (MHPC) stock dropped by 12.8% last week to USD 4.10 both due to the company's poor financial report for 1Q22 and overall bear sentiments on the market.

MHP's Eurobonds with maturity in 2026 stand at 52.1 (30.4% YTM), placing them below Ukraine's sovereign yield curve.

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	68.5	1.8%	558%	7.75%	1 Sept 2022	1,384	USD	Caa3//
Ukraine, 2024	33.9	-9.6%	84%	7.75%	1 Sept 2024	1,339	USD	Caa3//
Ukraine, 2026	31.8	-13.4%	50.7%	7.75%	1 Sept 2026	1,318	USD	Caa3//
Ukraine, 2028	32.3	-10.5%	43.2%	9.75%	1 Nov 2028	1,600	USD	Caa3//
Ukraine, 2032	31.1	-10.1%	30.1%	7.38%	25 Sept 2032	3,000	USD	Caa3//
Ukraine, GDP-linked	33.5	0.3%			31 May 2040	3,214	USD	//
Corporate Eurobonds								
MHP, 2026	52.1	-4.6%	30.4%	6.95%	4 Apr 2026	550	USD	//
Kernel, 2027	52.8	0.0%	22.9%	6.75%	27 Oct 2027	300	USD	//
DTEK Energy, 2027	17.1	-18.2%	52.4%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	55.2	-9.4%	26.7%	8.50%	23 Apr 2026	648	USD	//
Metinvest, 2029	60.0	-3.2%	18.5%	7.75%	17 Oct 2029	500	USD	//
NaftoGaz, 2024	29.0	-12.1%	100%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	25.0	0.0%	120%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	31.9	-0.3%	508%	9.00%	9 Feb 2023	125	USD	//
UkrEximBank, 2025	39.1	-19.4%	63%	9.75%	22 Jan 2025	600	USD	//
Oschadbank, 2023	42.7	-22.1%	246%	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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