

Trends

Indicative quotes for Ukrainian sovereign Eurobonds fell below their bottom seen in March after the first weeks of Russian war against the country. The 10-year Eurobond dropped in value by 29% last week to trade at as low as 15 cents on the dollar, implying a yield to maturity of 58%. The market is pricing in a potential hard restructuring of the Ukrainian foreign debt. However, there is no official statement on this issue yet. Meanwhile, Ukraine's state-owned gas company NaftoGaz has asked its international creditors to defer payments on its debt for two years, fanning expectations that the government may soon do the same. NaftoGaz which has a USD 335mn bond maturing as well as two interest payments due on July 19, said Russia's invasion had left it short of cash as many of its customers were now unable to pay their bills. NaftoGaz's outstanding Eurobonds with maturity in 2024 tanked by 64% last week to just 10% of their nominal value (262% YTM).

Ukraine-24s issue slipped by 22% to 17.7% (166% YTM) while the shortest outstanding bond due in September rose by 14% to 47.8 cents on the dollar (620% YTM) after the IMF said it expected Ukraine to keep paying debt despite default speculation.

Among the corporate debt issues, Kernel-27s plunged by 24% to 29.6 (42% YTM) despite a positive momentum after a senior U.N. official, speaking on condition of anonymity, said most of the sticking points in the talks to resume Ukraine Black Sea grain exports had been overcome.

Metinvest-26s dropped by 10% to 39.6 (45% YTM) and MHP-26s fell 9.4% to 35.7 (48% YTM).

The Finance Ministry raised USD 324mn through a placement USD-denominated domestic bonds with a yield of 3.5% and 4.0% for the 3-month and 6-month issues respectively. Meanwhile, demand for the UAH-denominated bond at the offered yield of 11.0% for the 1-year issue was negligible. This situation raises a question regarding the government's ability to find money on the domestic market to cover a part of the country's large national budget deficit due to the Russian invasion.

On the currency front, the hryvnia remained weak shedding 1.6% over the week to 37.10 UAH/USD on the OTC cash market. The official exchange rate remained frozen at 29.25 UAH/USD.

Highlights

- > Fitch Downgrades NaftoGaz from CCC to C over Request to Defer Eurobond Payments

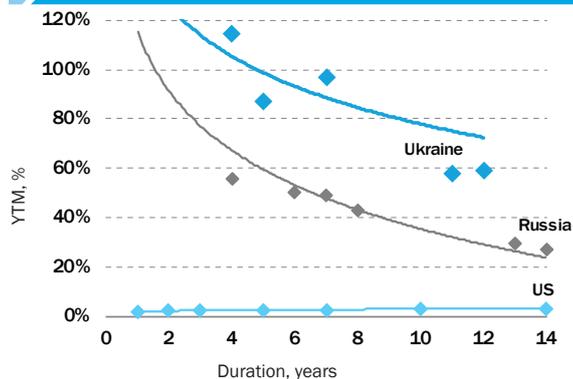
The National Bank of Ukraine has opened a special fundraising account to support the Armed Forces of Ukraine. Please find more at the National Bank's official website under the link below:

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	87.0%	21.0 p.p.	78.1 p.p.
Ukraine-2032	58.0%	15.5 p.p.	48.8 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	37.10	1.6%	35.8%
EUR/UAH	37.30	0.4%	20.5%

Source: Eavex Capital

Fitch Downgrades NaftoGaz from CCC to C over Request to Defer Eurobond Payments

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NEWS

Fitch Ratings, an international credit rating agency, has downgraded the state-owned NaftoGaz's Long-Term Issuer Default Rating (IDR) to 'C' from 'CCC' following its consent solicitation to defer its debt servicing of its Eurobonds, including that due on July 19, 2022.

Fitch said that the Russian invasion of Ukraine had negatively affected NaftoGaz's performance. The company's liquidity position is very weak and, among other factors, is affected by the need to buy additional volumes of natural gas for the winter season in the market. Deferring interest and coupon payments should enable NaftoGaz to buy more gas to better prepare for the winter season. NaftoGaz has been instructed by the government to purchase and import natural gas in the amount of up to 5.6 bn cubic meters, which at current prices would cost approximately USD 8 bn, which significantly exceeds NaftoGaz's current cash balance.

NaftoGaz is asking to defer principal and coupon payments for its USD 335mn bond originally due on 19 July 2022 until July 2024.

NaftoGaz ended 2021 with a net profit of UAH 12.0bn (USD 440bn) compared to a net loss of UAH 19.0bn (USD 720mn) in 2020. The company's revenue stood at UAH 217bn (USD 7.9bn) last year.

The company's total debt stood at UAH 62bn (USD 2.3bn) at the start of the year and total assets were at UAH 511bn (USD 18.7bn).

COMMENTARY

We think, that NaftoGaz's possible default puts additional pressure on Ukrainian international supporters to speed up plans to extend emergency budgetary support for Ukraine which appears to be rapidly running out of money to cover expenditures. NaftoGaz is one of the country's largest and most important state-owned companies, contributing USD 1.5bn to Ukraine's national budget from January to May. Despite promises of hundreds of billions of dollars in international aid, Ukraine has received about USD 11bn in cash to support government expenditure since the start of the war. As a result, it has had to dip into its international reserves to fund spending, but reserves are shrinking month by month, declining to USD 22.8bn in July from USD 29.1bn in January.

Amidst the worsening conflict in Ukraine, Ukrainian activists have called for the country's unsustainable debts to be written off – including those owed to multilateral institutions such as the IMF and World Bank. However, it is more likely that the country will try to restructure only its commercial foreign debt, which mostly includes Eurobonds. Indicative quotes for Ukraine's 10-year Eurobonds have already plunged to as low as 15 cents on the dollar reflecting the above-mentioned fears of hard restructuring.

Ukraine's state and state-guaranteed debt totaled an equivalent of USD 101bn, according to the latest available data dated Jun 1, 2022. The country's Eurobonds have a combined value of USD 22.7bn while a total state foreign debt stood at USD 51.2bn, including debt to the IMF in the amount of USD 9.6bn.

SELECTED UKRAINIAN EUROBONDS

Issue	Indicative Price	Price change in one week	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings ¹
Sovereign Eurobonds								
Ukraine, 2022	47.8	13.8%	620%	7.75%	1 Sept 2022	1,384	USD	Caa3//
Ukraine, 2024	17.7	-22.4%	166%	7.75%	1 Sept 2024	1,339	USD	Caa3//
Ukraine, 2026	17.2	-28.0%	87%	7.75%	1 Sept 2026	1,318	USD	Caa3//
Ukraine, 2028	14.0	-28.2%	91%	9.75%	1 Nov 2028	1,600	USD	Caa3//
Ukraine, 2032	15.0	-28.9%	58%	7.38%	25 Sept 2032	3,000	USD	Caa3//
Ukraine, GDP-linked	25.0	0.0%			31 May 2040	3,214	USD	//
Corporate Eurobonds								
MHP, 2026	35.7	-9.4%	48%	6.95%	4 Apr 2026	550	USD	//
Kernel, 2027	29.6	-24.1%	42%	6.75%	27 Oct 2027	300	USD	//
DTEK Energy, 2027	20.5	0.0%	55%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	39.6	-10.0%	45%	8.50%	23 Apr 2026	648	USD	//
Metinvest, 2029	39.4	-22.7%	29%	7.75%	17 Oct 2029	500	USD	//
NaftoGaz, 2024	10.0	-64.3%	262%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	27.0	0.0%	117%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	26.6	0.0%	880%	9.00%	9 Feb 2023	125	USD	//
UkrEximBank, 2025	30.8	-18.9%	220%	9.75%	22 Jan 2025	600	USD	//
Oschadbank, 2023	51.3	-4.3%	200%	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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