

**Trends**

Ukrainian sovereign Eurobonds saw notable gains last week after the government approved a strategy to reduce the state debt-to-GDP ratio from the current level of near 70% (including state-guaranteed debt) to 62% by the end of 2019. In absolute figures, this amount was at USD 76bn as of Jun 30, including USD 20.5bn of outstanding Eurobonds.

The closest benchmark issue to 10-year bonds, Ukraine-27s, rose 1.8% to 93.0/94.0 (8.9%/8.7%) and medium-term Ukraine-23s added 0.8% to 98.7/99.5 (8.1%/7.9%). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) declined by 0.6% to 55.2/56.2 cents on the dollar after the Finance Ministry's admission that payouts on these VRIs are unlikely in the medium-term outlook. The VRI's terms state that if Ukraine's economic growth is below 3% or GDP is less than USD 125bn, then there is no payment on the instrument.

MHP's Eurobonds had a muted reaction to the company's second quarter earnings report, which indicated that the Net Debt-to-EBITDA ratio worsened to 2.59x from 2.25x at the start of the year. The MHP-26s issue was unchanged at 93.7/94.4 (8.1%/7.9%). The Eurobonds of state-owned Ukrainian Railways (RAILUA-21s) were quoted at 100.5/101.3 (9.7%/9.4%). DTEK-24s declined by 0.4% to 102.2/103.2 (10.3%/10.1%).

Quasi-sovereign UkrEximBank-23s climbed 2.5% to 95.5/96.6 (10.8%/10.5%) and OschadBank-25s inched up 0.4% to 99.6/100.4 (9.6%/9.5%).

The yield on the government's 1-year UAH-denominated treasuries increased by 20 bps to bid/ask of 18.20%/17.50%. The Finance Ministry placed 10-month UAH-denominated notes at 17.90% and USD-denominated bonds with a yield of 5.95% and circulation of just over 6 months.

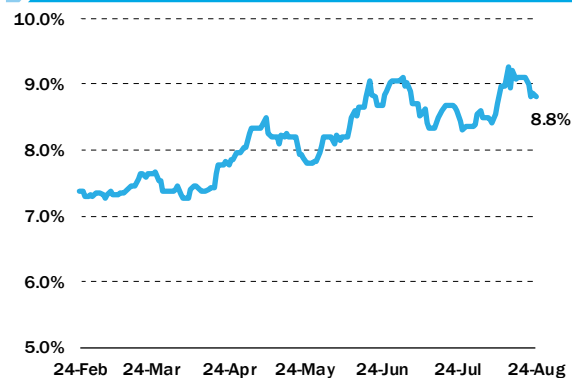
The hryvnia again saw losses against the dollar in interbank trading, closing down 0.4% for the week at 27.86 UAH/USD on Thursday (Aug 23) ahead of the Independence Day holiday weekend. The government seems to be telegraphing its intentions on the domestic currency by forecasting that the average exchange rate during 2019 will be at 29.40 UAH/USD.

You can receive additional details about developments in Ukrainian fixed income from the Eavex Sales Team at sales@eavex.com.ua.

**Highlights**

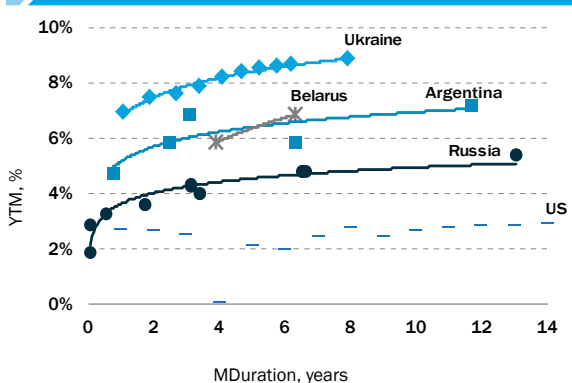
- > Trump Rumored to Consider Manafort Pardon Ahead of Ukraine Lobbying Trial
- > Industrial Production Growth Accelerates to 2.9% YoY in July
- > MHP Reports Drop in Profit by 35% YoY to USD 100mn for 2Q

**UKRAINE 10-YEAR BOND YIELD**



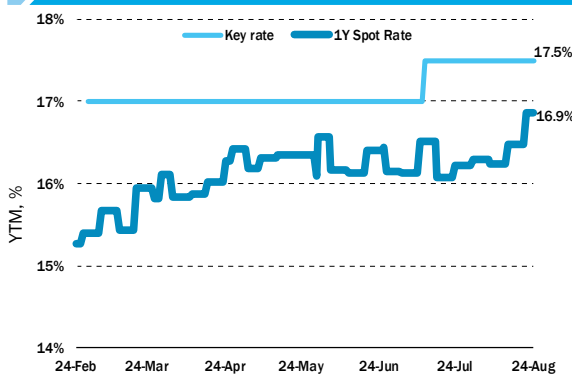
Source: Bloomberg, Eavex Capital

**SOVEREIGN BOND YIELD CURVES**



Source: Bloomberg, Eavex Capital

**KEY INTEREST RATE vs SPOT RATE**



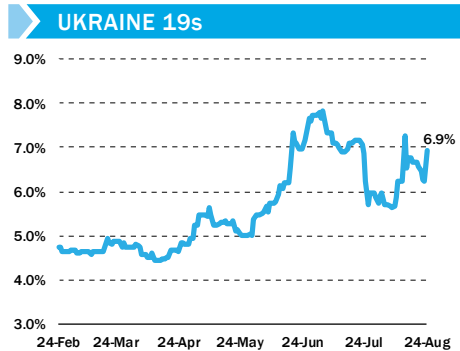
Source: Bloomberg, Eavex Capital

**CURRENCY**

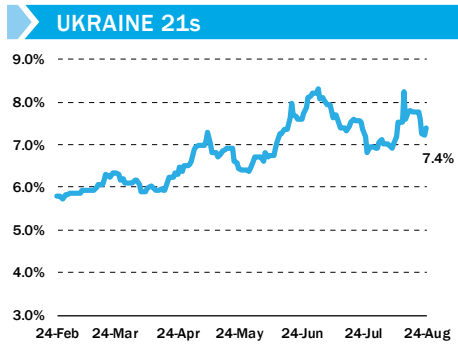
	Last, UAH	1W chg.	1M chg.	YTD
USD/UAH	27.86	0.4%	4.7%	-0.9%
EUR/UAH	32.36	1.9%	3.7%	-3.9%
EUR/USD	1.16	1.6%	-0.9%	-3.2%

Source: Bloomberg, Eavex Capital

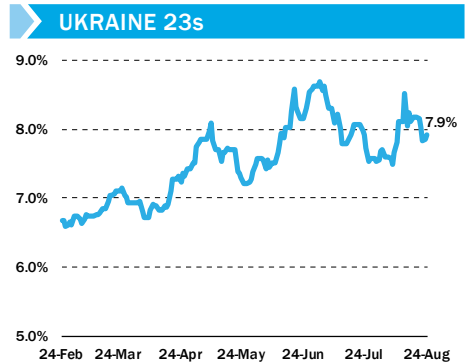
Selected Sovereign Issues



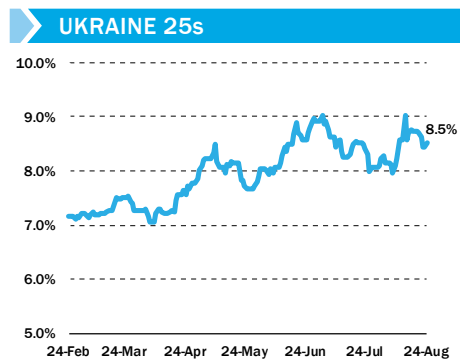
Source: Bloomberg, Eavex Research



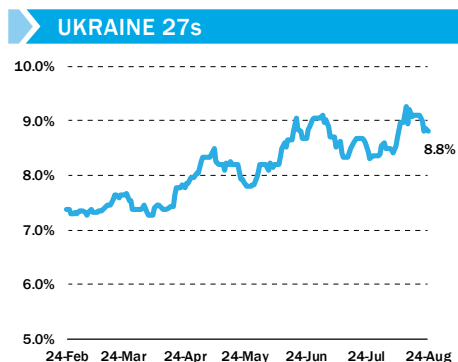
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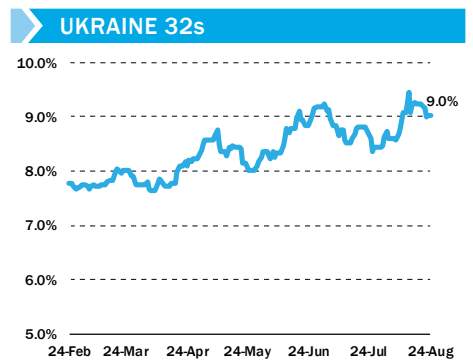
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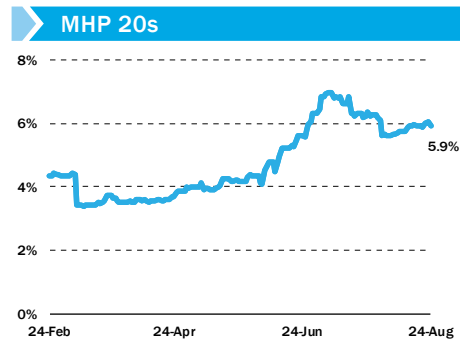


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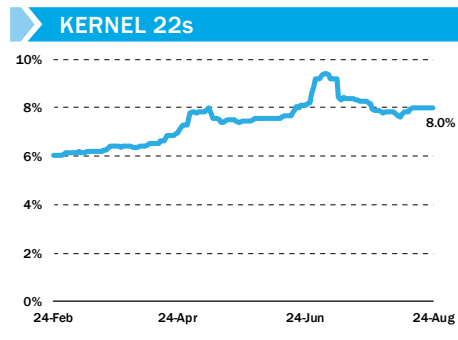


Source: Bloomberg, Eavex Research

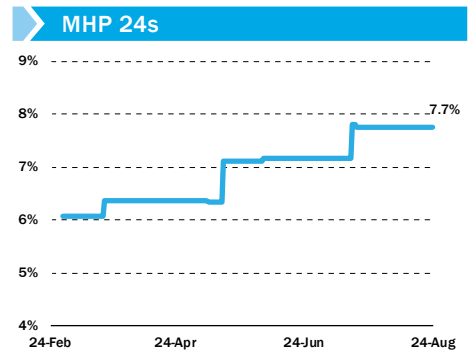
Selected Corporate Issues



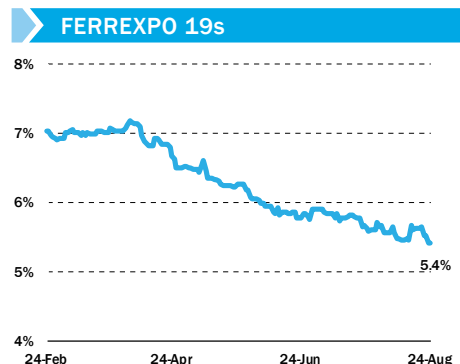
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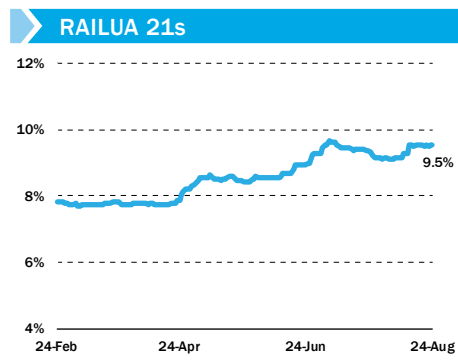
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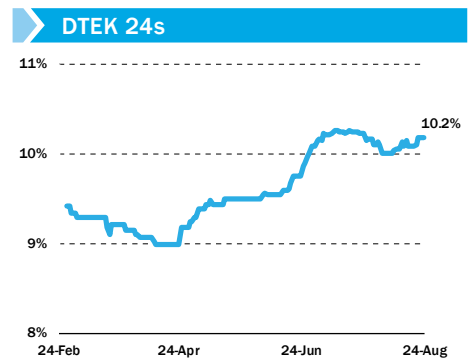
Source: Bloomberg, Eavex Research



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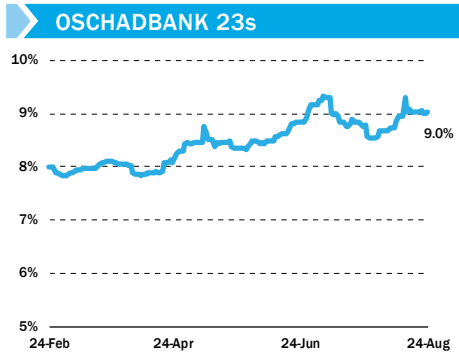


Source: Bloomberg, Eavex Research

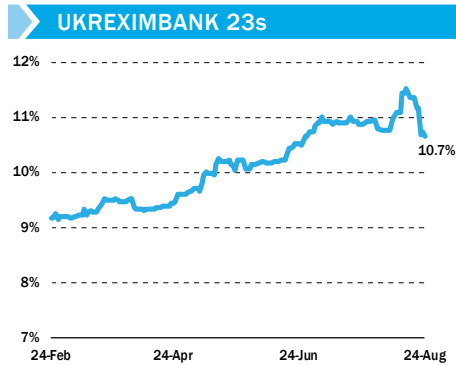


Source: Bloomberg, Eavex Research

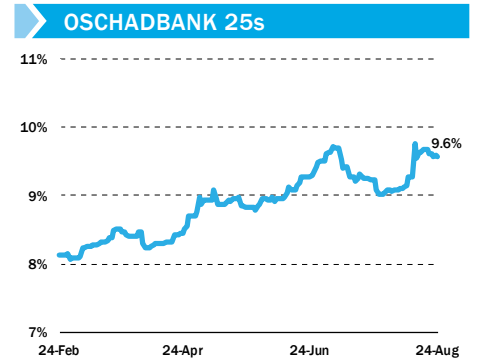
Selected Banking Issues



Source: Bloomberg, Eavex Research

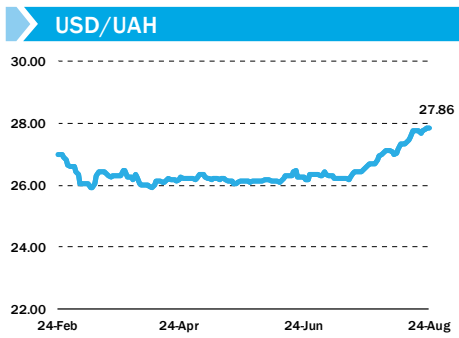


Source: Bloomberg, Eavex Research

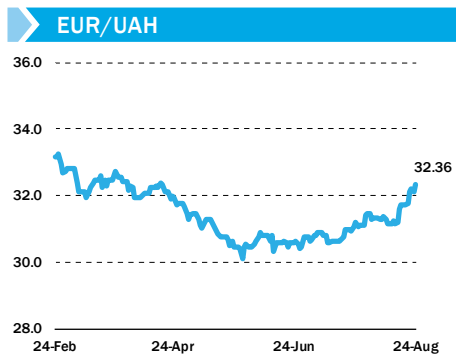


Source: Bloomberg, Eavex Research

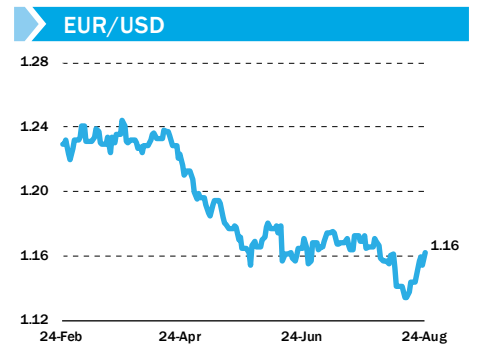
Currency



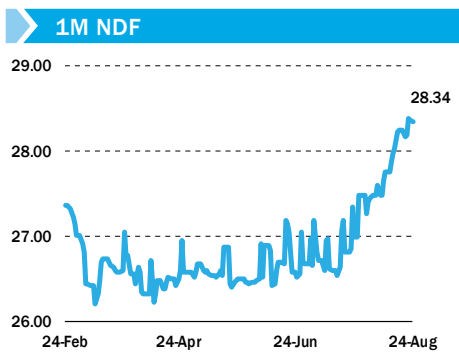
Source: Bloomberg, Eavex Research



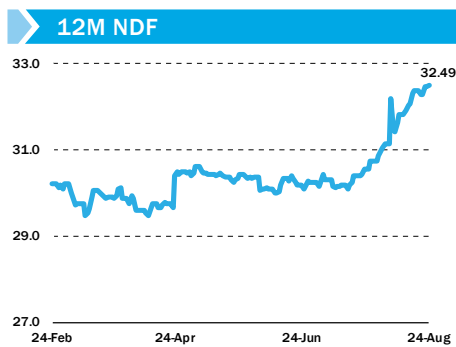
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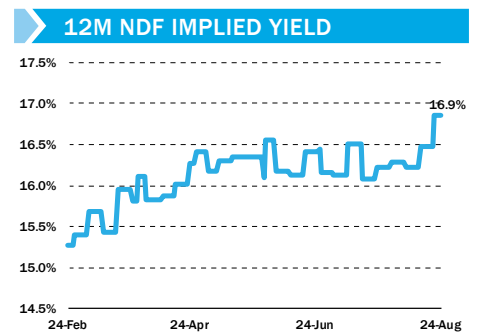
Source: Bloomberg, Eavex Research



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Source: Bloomberg, Eavex Research

## Trump Rumored to Consider Manafort Pardon Ahead of Ukraine Lobbying Trial

by Will Ritter  
w.ritter@eavex.com.ua

### NEWS

US media, including the Washington-based national Politico outlet, reported last week that US President Trump is considering wiping out the criminal convictions of his former campaign manager Paul Manafort by using his constitutional pardoning power. Manafort, who was convicted in the US last week on charges of bank fraud and tax evasion, previously was a top advisor to Ukraine's President Victor Yanukovich during 2010-13. In a national television appearance last week, Trump called Manafort a "brave man" and said he has "great respect" for his decision to face trial rather than enter a guilty plea. Manafort is scheduled to face a second trial next month on charges that he failed to register with US authorities as a lobbyist for the Ukrainian government while advising Yanukovich.

### COMMENTARY

While we actually agree with Trump that Manafort has been unfairly treated and excessively demonized by the US media in terms of the exaggeration of his associations with the Russian government, the charges on which Manafort was convicted - tax evasion and bank fraud - are not political in nature; this would make a pardon very difficult to justify. One of the biggest mysteries in the Trump-Russia investigation is whether Manafort actually possesses any information that connects Trump to the Kremlin or to Russian oligarchs, with many analysts suggesting his refusal to plead guilty implies that he lacks any such "kompromat". However, Trump's undisguised public outreach to Manafort following last week's conviction indicates to us that Trump seems to believe that Manafort might indeed have such information. It remains to be seen whether Manafort will subject himself to a second trial next month on charges that he illegally lobbied for the Ukrainian government while working for Yanukovich, or whether he might finally seek a plea deal with prosecutors. We suppose that more than a few members of Ukraine's elite political class are rather nervous about the details that this second Manafort trial could reveal if it goes forward.

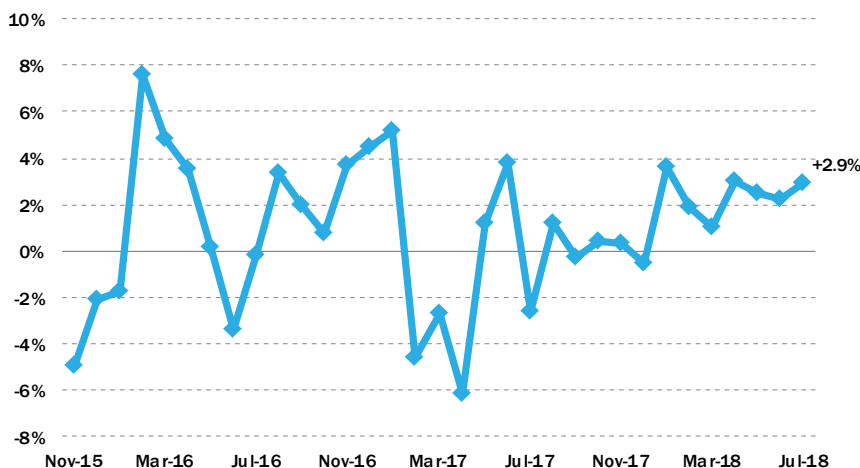
**Industrial Production Growth Accelerates to 2.9% YoY in July**

by Dmitry Churin  
d.churin@eavex.com.ua

**NEWS**

Ukraine's nationwide industrial production growth accelerated to 2.9% YoY in July after a growth of 2.2% YoY in June (2.5% YoY in May), according to data from the State Statistics Committee released on Aug 22. In the extraction sector, the output increase was 4.5% YoY in July thanks to a solid 8.1% YoY gain in iron ore extraction. There was also a 5.7% YoY rise in oil and gas extraction, while coal mining showed a 1.8% YoY decline in July. The manufacturing sector index rose by 2.3% YoY and the utility sector had an increase in output by 3.2% YoY. Year-to-date through July, overall industrial production in Ukraine grew by 2.6% YoY.

**UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY**



Source: State Statistics Committee

**COMMENTARY**

It was a positive surprise that national industrial production saw a moderate acceleration of growth in July. The extraction sector was the major contributor to this acceleration, whereas the aggregate manufacturing output index growth slowed from 2.8% YoY in June to 2.3% YoY in July.

In particular sub-sectors, it was significant to see growth of 5.6% YoY in the metallurgical sector in July as steel and steel product exports continue to bring in about 30% of Ukraine's overall revenue from foreign trade. UkrStat reported that durable goods production is up by 3.3% YoY in 7M18 while non-durable goods output declined by 1.8% in the year-to-date period.

In other macroeconomic data, UkrStat said that the agricultural production index is down by 1.0% YoY for 7M18 amid a generally less favorable weather environment than last year. However, the construction index is up by an impressive 6.3% year-to-date through July, and retail sales continue to look strong, rising 6.0% YoY through 7 months of 2018.

## MHP Reports Drop in Profit by 35% YoY to USD 100mn for 2Q

by Dmitry Churin  
 d.churin@eavex.com.ua

### NEWS

London-listed agro group MHP (MHPC) reported a drop in its net profit by 35% YoY to USD 100mn in 2Q18, which implies earnings per share of USD 0.95 in the period, according to financials released on Aug 23. Revenue rose 21% YoY to USD 388mn in the quarter and EBITDA (adjusted for forex gains/losses) inched up by 1% YoY to USD 174mn. For the first half (1H18), the company posted net revenue of USD 694mn (+16% YoY), EBITDA of USD 263mn (-1% YoY), and net profit of USD 190mn (-10% YoY). The company's export sales rose 10.3% YoY to USD 385mn in 1H18, accounting for 55% of total revenue. On the balance sheet side, MHP's total debt was USD 1.29bn as of 30 Jun 2018, with long-term debt representing 95% of the amount. Management said the weighted average interest rate on the debt is around 7%. This puts MHP's debt-to-EBITDA ratio at 2.6x as of 30 Jun 2018 compared to 2.3x as of the start of the year.

### MHP FINANCIALS

USD mn	2Q18	2Q17	chg.	1H18	1H17	chg.
Net revenue	388	321	+21%	694	600	+16%
EBITDA	174	173	+1%	263	266	-1%
margin	44.8%	53.9%	-9 p.p.	37.9%	44.3%	-6 p.p.
Net Income	100	153	-35%	190	210	-10%
net margin	25.8%	47.7%	-22 p.p.	27.4%	35.0%	-8 p.p.

Source: Company data.

### COMMENTARY

MHP's reported USD 0.95 net profit per share for 2Q18 was below our forecast of USD 1.32 for the period. The core reason behind the lower-than-expected profit was a decrease in the foreign currency exchange gain from USD 36mn in 2Q17 to USD 16mn in 2Q18. Also there was a one-off transaction cost of USD 33mn related to the company's new Eurobond issued in April 2018, which diminished an achieved rise of 18% YoY in gross profit to USD 181mn in the period.

In the segment breakdown, MHP's poultry business generated USD 478mn (+25% YoY) in revenue in 1H18 and vegetable oil sales brought in USD 138mn(+2% YoY) in the period.

MHP spent USD 126mn on CapEx in 1H18, which was mainly related to launching production at the so-called "2nd phase" of its Vinnytsa poultry complex. The 2nd phase at Vinnytsa should add around 40,000 tonnes of poultry output in 2018, and 130,000 tonnes p.a. after it comes fully on line.

We reiterate our full-year 2018 net profit forecast for MHP at USD 327mn, which would imply earnings per share of USD 3.09.

Currently the company is valued at 2018 P/E of 4.1x and EV/EBITDA of 4.6x. MHP's lightly-traded stock had no notable reaction to the earnings report, remaining at USD 12.50.

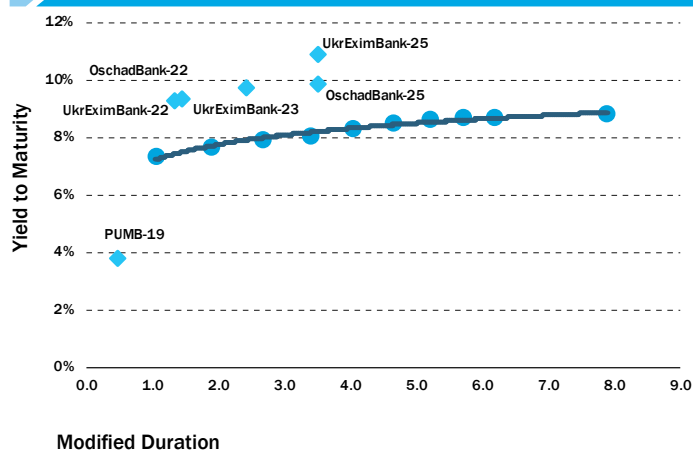
**UKRAINIAN EUROBONDS**

Issue	Price Bid	Price Ask	Price ch., W/W, %	YTM Bid, %	YTM Ask, %	YTM ch., W/W, bps	MDuration, years	Coupon	Maturity Date	Volume USD mn	Currency	Ratings <sup>1</sup>
<b>Sovereign Eurobonds</b>												
Ukraine, 2019	100.5	101.0	-0.3%	7.2%	6.7%	26.6	0.9	7.75%	1 Sept 2019	1,744	USD	Caa2/B-/B-
Ukraine, 2020	100.5	101.3	0.6%	7.5%	7.0%	-30.2	1.8	7.75%	1 Sept 2020	1,780	USD	Caa2/B-/B-
Ukraine, 2021	100.6	101.3	1.0%	7.5%	7.3%	-36.3	2.5	7.75%	1 Sept 2021	1,409	USD	Caa2/B-/B-
Ukraine, 2022	99.7	100.4	0.8%	7.8%	7.6%	-23.0	3.3	7.75%	1 Sept 2022	1,384	USD	Caa2/B-/B-
Ukraine, 2023	98.7	99.5	0.8%	8.1%	7.9%	-19.5	3.9	7.75%	1 Sept 2023	1,355	USD	Caa2/B-/B-
Ukraine, 2024	97.6	98.6	1.0%	8.3%	8.0%	-20.6	4.5	7.75%	1 Sept 2024	1,339	USD	Caa2/B-/B-
Ukraine, 2025	95.6	96.6	1.1%	8.6%	8.4%	-21.1	5.1	7.75%	1 Sept 2025	1,329	USD	Caa2/B-/B-
Ukraine, 2026	93.8	94.8	1.2%	8.8%	8.7%	-21.2	5.6	7.75%	1 Sept 2026	1,318	USD	Caa2/B-/B-
Ukraine, 2027	92.9	93.9	1.8%	8.9%	8.7%	-28.2	6.0	7.75%	1 Sept 2027	1,307	USD	Caa2/B-/B-
Ukraine, 2032	86.5	87.5	1.8%	9.1%	9.0%	-21.1	7.7	7.38%	25 Sept 2032	3,000	USD	//B-
Ukraine, GDP-linked	55.2	56.2	-0.6%	n/a	n/a	n/a	na	0.00%	31 May 2040	3,214	USD	/B-/
<b>Corporate Eurobonds</b>												
Agroton, 2019	16.0	20.6	0.0%	0%	0%	0	0.3	6.00%	14 Jul 2019	18	USD	//
Kernel, 2022	102.0	102.5	0.0%	8.1%	7.9%	-2	2.9	8.75%	31 Jan 2022	500	USD	/B/B+
MHP, 2020	103.0	103.9	0.0%	6.2%	5.6%	-0.7	1.4	8.25%	2 Apr 2020	750	USD	/B-/B-
MHP, 2024	99.8	100.3	0.0%	7.8%	7.7%	0.0	4.4	7.75%	10 May 2024	500	USD	//
MHP, 2026	93.7	94.3	0.0%	8.1%	8.0%	0.2	5.6	6.95%	4 Apr 2026	550	USD	/B/B
Avangardco, 2018	20.5	22.7	0.0%	0%	0%	0	0.0	10.00%	29 Oct 2018	206	USD	//
UkrLandFarming, 2018	20.6	22.4		0%	0%	0	n/a	10.88%	26 Mar 2018	275	USD	/CC/
Mriya, 2016	8.0	12.0	n/a	n/a	n/a	n/a	n/a	10.95%	30 Mar 2016	72	USD	IN DEFAULT
Mriya, 2018	8.0	12.0	n/a	n/a	n/a	n/a	n/a	9.45%	19 Apr 2018	400	USD	IN DEFAULT
DTEK, 2024	102.2	103.2	-0.4%	10.3%	10.1%	8.6	4.7	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2021	100.0	102.0	0.0%	7.4%	6.8%	-0.2	n/a	7.50%	31 Dec 2021	1,197	USD	//B
Metinvest, 2023	95.0	95.8	-0.1%	9.1%	8.9%	3.1	3.8	7.75%	23 Apr 2023	945	USD	//B
Metinvest, 2026	94.3	95.1	-0.2%	9.6%	9.4%	3.9	5.3	8.50%	23 Apr 2026	648	USD	//B
Ferrexpo, 2019	102.4	103.5	0.0%	6.3%	4.4%	-18.2	0.6	10.38%	07 Apr 2019	186	USD	Caa3/CCC/CC
Ferrexpo, 2019	102.6	103.3	0.0%	6.0%	4.9%	-20.8	0.6	10.38%	07 Apr 2019	161	USD	Caa3/CCC/CC
UZ Rail, 2018	100.5	101.3	0.0%	9.7%	9.4%	1.9	1.2	9.88%	21 May 2018	500	USD	/CCC+/CCC
Interepipe, 2017	30.0	34.3	0.0%	n/a	n/a	24.2	n/a	10.25%	2 Aug 2017	200	USD	IN DEFAULT
JKX Oil&Gas, 2020	85.0	95.0	0.0%	26.9%	18.0%	8.5	1.3	14.00%	19 Feb 2020	16	USD	//
<b>Bank Eurobonds</b>												
PUMB, 2018	102.7	103.4	-0.2%	2.9%	0.8%	18.0	0.3	11.00%	31 Dec 2018	252	USD	//
PrivatBank, 2018-2	21.8	31.8	0.0%	n/a	n/a	n/a	n/a	10.25%	23 Jan 2018	200	USD	IN DEFAULT
PrivatBank, 2021	10.2	13.3	-0.7%	n/a	n/a	n/a	1.3	11.00%	09 Feb 2021	220	USD	IN DEFAULT
PrivatBank, 2018	25.0	30.0	0.0%	n/a	n/a	n/a	n/a	10.88%	28 Feb 2018	175	USD	IN DEFAULT
UkrEximBank, 2022	101.5	101.8	-0.2%	9.1%	9.0%	5.1	n/a	9.63%	27 Apr 2022	750	USD	Caa3//CCC
UkrEximBank, 2023	95.5	96.6	2.5%	10.8%	10.5%	-69.3	4.0	9.00%	9 Feb 2023	125	USD	Caa3//CCC
UkrEximBank, 2025	100.1	100.5	0.1%	9.7%	9.6%	-2.3	2.8	9.75%	22 Jan 2025	500	USD	Caa3//CCC
Oschadbank, 2023	101.0	101.5	0.0%	9.1%	9.0%	-0.5	1.2	9.38%	10 Mar 2023	700	USD	Caa3//CCC
Oschadbank, 2025	99.9	100.4	0.4%	9.6%	9.5%	-8.9	2.3	9.63%	20 Mar 2025	500	USD	Caa3//CCC
<b>Municipal Eurobonds</b>												
City of Kyiv, 2015	87.6	89.3	0.0%	n/a	n/a	n/a	n/a	8.00%	6 Nov 2015	101	USD	IN DEFAULT

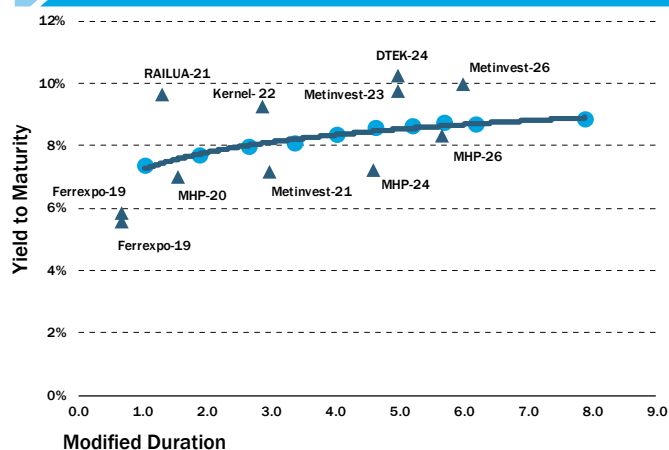
<sup>1</sup> Moody's/S&P/Fitch

Source: Bloomberg, Cbonds, Eavex Research

**SOVEREIGNS vs. BANKING EUROBONDS**



**SOVEREIGNS vs. CORPORATE and MUNICIPAL EUROBONDS**



## UKRAINIAN DOMESTIC BONDS

Issue	Price (Bid)	Price (Ask)	YTM (Bid)	YTM (Ask)	Modified Duration	Coupon	Coupon Period	Maturity Date	Volume UAH mn
<b>UAH denominated Bonds</b>									
UA80426			17.90%	17.10%	n/a	n/a	S/A	10 Apr .2019	n/a
<b>VAT Bonds</b>									
UA4000185151			18.20%	17.50%	1.9	9.50%	S/A	8 Jul 2019	3,577
UA4000185557			18.20%	17.50%	1.9	9.50%	S/A	22 Jul 2019	2,171
UA4000186159			18.20%	17.50%	1.9	9.50%	S/A	20 Aug 2019	955

Source: Bloomberg, Cbonds, Eavex Research



## Eavex Capital

7 Klovsky uzviz, 16th Floor  
Carnegie Center  
Kyiv, 01021, Ukraine

Telephone: +38 044 590 5454  
Facsimile: +38 044 590 5464

E-mail: office@eavex.com.ua

Web-page: www.eavex.com.ua

Yuriy Yakovenko

**Chairman of the Board**

yuriy.yakovenko@eavex.com.ua

**SALES & TRADING**

Pavel Korovitskiy

**Managing Director**

**Equity and Fixed Income**

p.korovitsky@eavex.com.ua

Alexander Klymchuk

**Equity and Fixed Income**

a.klymchuk@eavex.com.ua

Evgen Klymchuk

**Fixed Income Sales and Trading**

e.klymchuk@eavex.com.ua

Serhiy Scherbaniuk

**Equity Trading**

s.shcherbaniuk@eavex.com.ua

**RESEARCH**

Dmitry Churin

**Head of Research**

d.churin@eavex.com.ua

Will Ritter

**Research editor**

w.ritter@eavex.com.ua

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