

Trends

Both Ukrainian sovereign and corporate Eurobonds got hammered last week, becoming victims of the negative buzz after Russian border guards fired on three Ukrainian military boats and seized their crews near the Crimean peninsula on Nov 25. President Poroshenko asked NATO to send ships to the area and implemented martial law for 30 days in response to the crisis. Although the incident did not lead to any escalation of the situation in the Donbass conflict zone, where Russian-backed separatist occupy part of Donetsk and Lugansk provinces, concerns about the Kremlin's belligerence once again worried international investors.

Ukraine's recently placed 10-year Eurobonds have lost about 5.5% since they started to trade on the secondary market in late October. These Ukraine-28s lost 1.8% last week to close at 94.2/94.7 (10.7%/10.6%). The country's benchmark medium term issue with maturity in 2023 decreased by 2.1% to 90.8/91.8 (10.2%/10.0%) and even Ukraine-19s (considered certain to be repaid on time 10 months from now) fell 0.6% to 98.7/99.7 (9.6%/8.8%). Meanwhile, the VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) surprisingly rose by 3.3% to 55.6/56.6 cents on the dollar.

In corporate debt, Kernel-22s shed 1.6% to close at 95.8/96.8 (10.3%/9.9%) despite the company reporting outstanding financial results for the Jul-Sept quarter, with net profit tripling to USD 75mn in the period. MHP-26s took a heavy pounding, slumping 4.5% to 86.4/86.9 (9.6%/9.5%), and Metinvest-26s slid 3.3% to 89.9/90.4 (10.5%/10.4%).

In banking debt, the twin quasi-sovereign issues UkrEximBank-22s and OschadBank-25s were not exempt from the selling, declining by 2.0% and 3.1% to 97.5/97.9 (10.5%/10.4%) and 94.8/95.0 (10.8%/10.7%) respectively.

Quotes for the government's 1-year UAH-denominated treasuries rose 50 bps to bid/ask of 20.25%/18.50%. The Finance Ministry sold a small amount of UAH-denominated ultra-short term bonds at 19.00%.

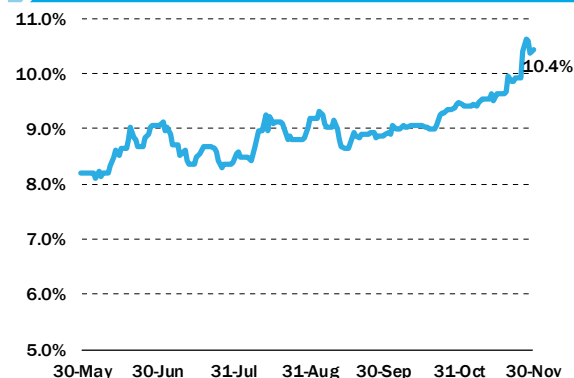
On the domestic currency market, the hryvnia weakened by 1.6% against the dollar to finish the week at 28.20 UAH/USD, reacting to the martial law news.

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

Highlights

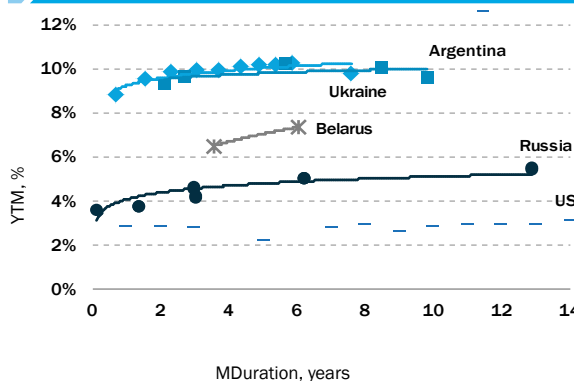
- > Presidential Election Set for Mar. 31 Despite Martial Law Declaration
- > Industrial Production Rises 1.4% YoY in October, 1.8% in 10M18
- > Kernel Triples Net Profit YoY to USD 76mn in Jul-Sept Quarter

UKRAINE 10-YEAR BOND YIELD



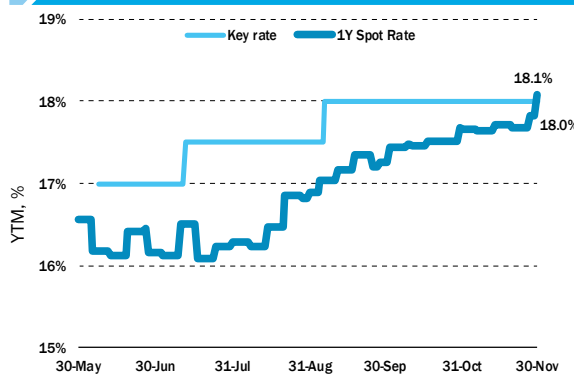
Source: Bloomberg, Eavex Capital

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

KEY INTEREST RATE vs SPOT RATE



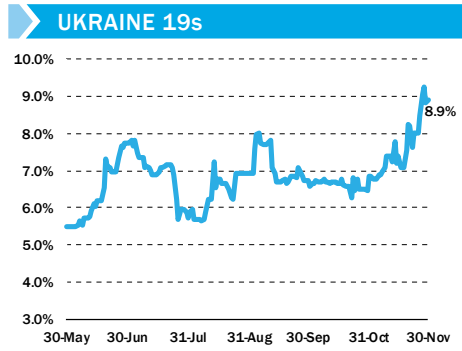
Source: Bloomberg, Eavex Capital

CURRENCY

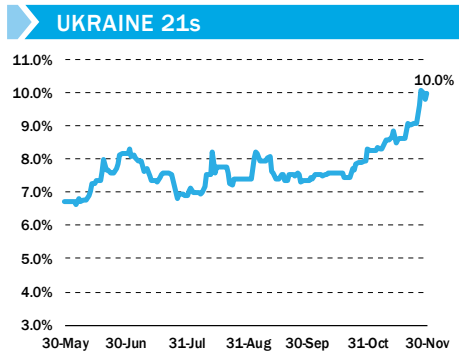
	Last, UAH	1W chg.	1M chg.	YTD
USD/UAH	28.20	1.6%	0.1%	0.3%
EUR/UAH	31.90	1.5%	0.2%	-5.3%
EUR/USD	1.13	-0.2%	0.0%	-5.7%

Source: Bloomberg, Eavex Capital

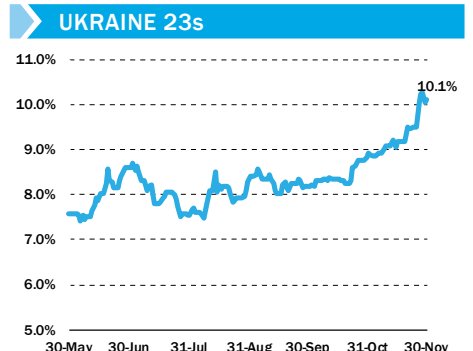
Selected Sovereign Issues



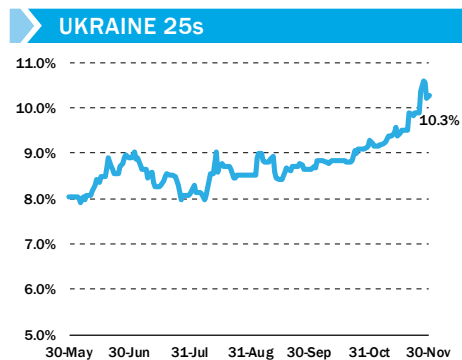
Source: Bloomberg, Eavex Research



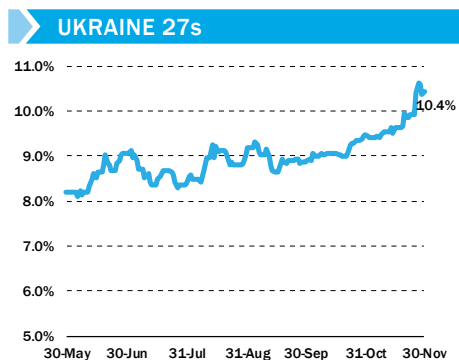
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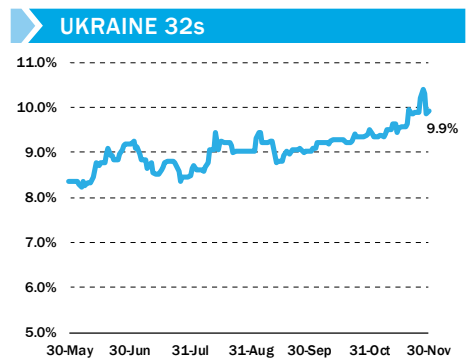
Source: Bloomberg, Eavex Research



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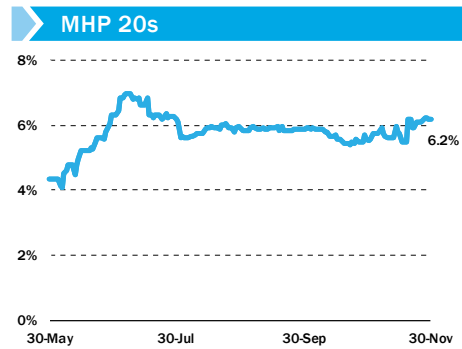


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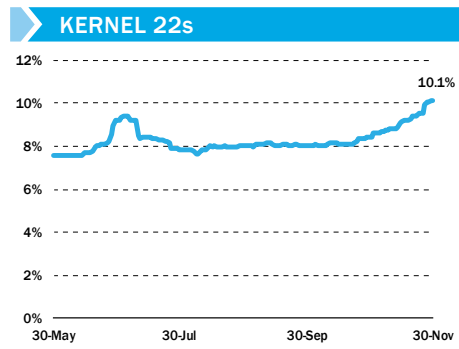


Source: Bloomberg, Eavex Research

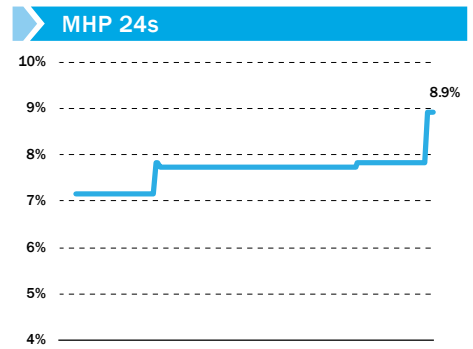
Selected Corporate Issues



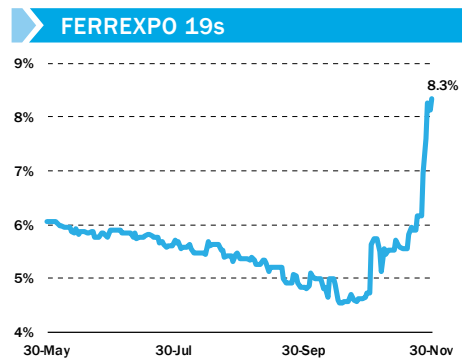
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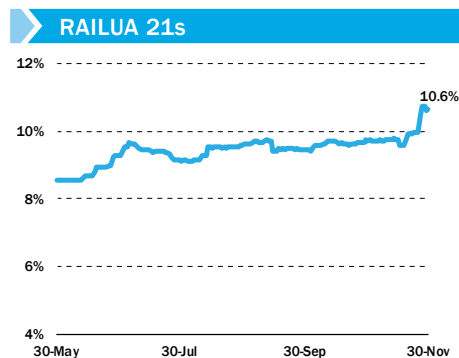
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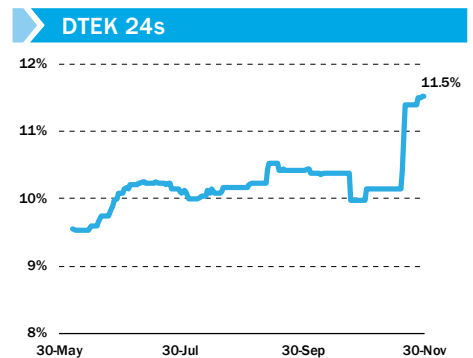
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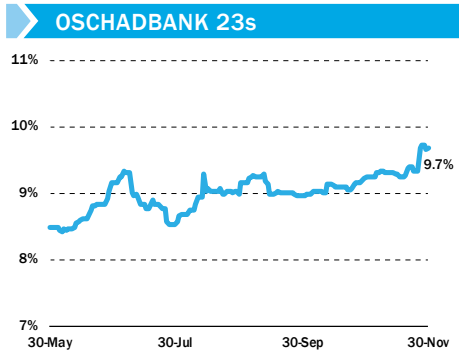


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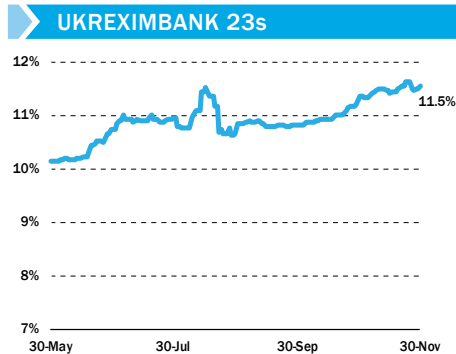


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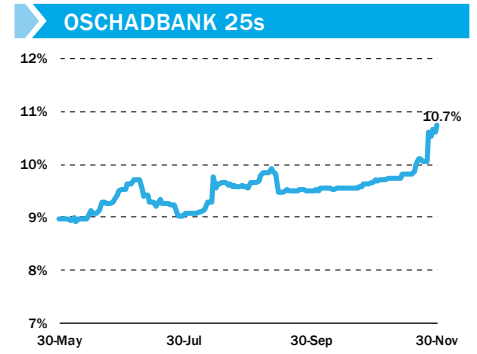
Selected Banking Issues



Source: Bloomberg, Eavex Research

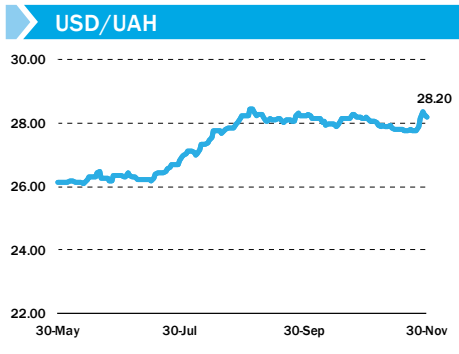


Source: Bloomberg, Eavex Research

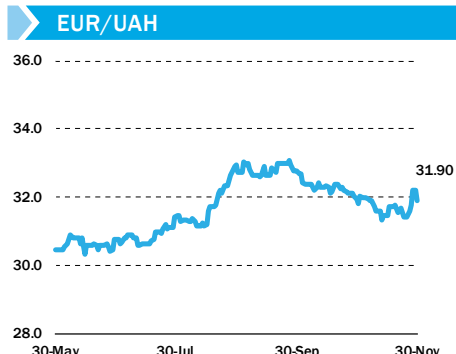


Source: Bloomberg, Eavex Research

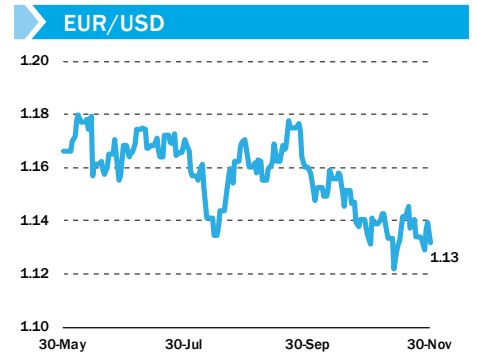
Currency



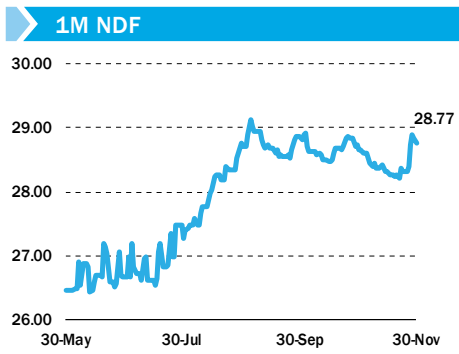
Source: Bloomberg, Eavex Research



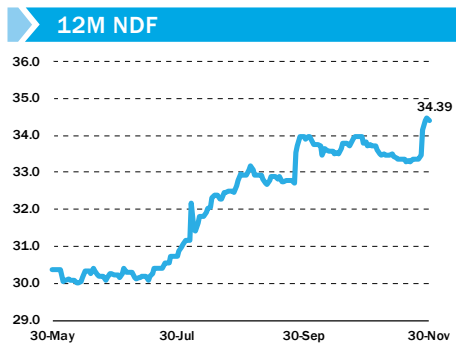
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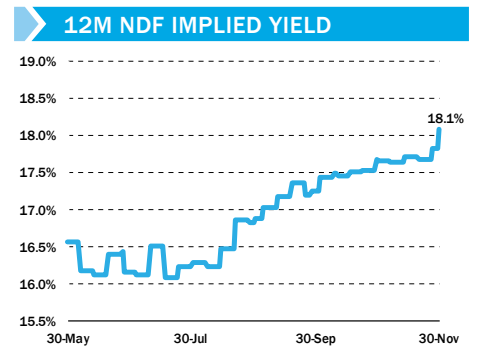
Source: Bloomberg, Eavex Research



Source: Bloomberg, Eavex Research



Source: Bloomberg, Eavex Research



Source: Bloomberg, Eavex Research

Presidential Election Set for Mar. 31 Despite Martial Law Declaration

by Will Ritter
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NEWS

Ukraine's Parliament on Monday (Nov 26) confirmed the date of the country's next presidential election for 31 March 2019 (with a likely 2nd round of voting on Apr 21) on the same date as it approved a request from President Poroshenko to declare martial law in 10 of the country's 25 provinces. The martial law measure came in response to Russia's seizure of 3 Ukrainian military boats that had been sailing in disputed territorial waters off Crimea. Russia's aggressive actions alarmed the international community and drew condemnation from the United States, European Union, NATO, and the United Kingdom.

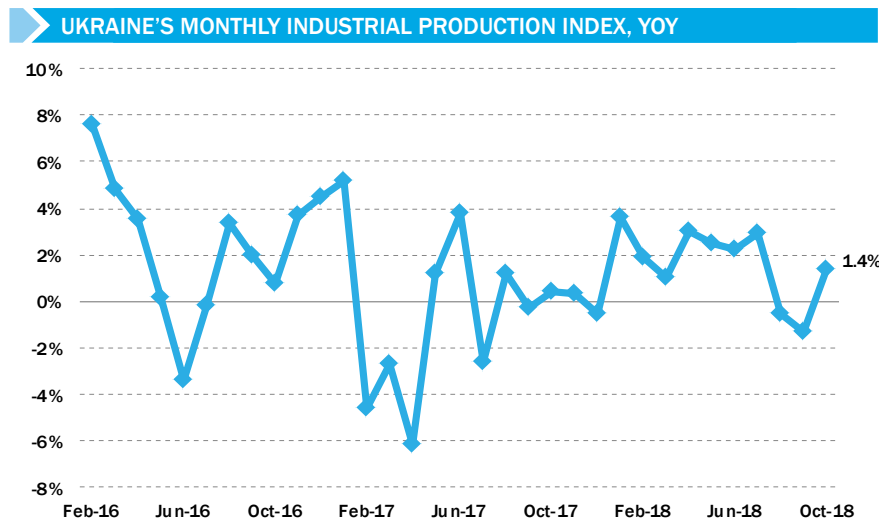
COMMENTARY

If the Kremlin's intent in escalating the situation in the Azov Sea was to create instability in Kyiv by delaying the presidential election, the move appears to have failed. With the election now less than 4 months away, the window is closing for the emergence of any new "surprise candidates" to challenge Poroshenko. Despite the current lead over Poroshenko held by left-wing populist Yulia Tymoshenko, we believe that the re-election landscape for Poroshenko looks reasonably good, especially considering where he was 7 or 8 months ago. Tymoshenko continues to poll only in the 20s despite leading the race, implying that a large part of the electorate has yet to focus on making a choice. Further, it will be very difficult for Tymoshenko to overcome the steady drip of accusations that she is the Kremlin's favored candidate, as such an image is anathema to voters in Central and Western Ukraine, and Tymoshenko has also never been a popular figure in Southern/Eastern Ukraine in any of her previous 3 unsuccessful runs (2004, 2010, 2014) for the country's presidency. The other declared opponents in the race look quite convenient for Poroshenko: conservative nationalist Anatoliy Grytsenko is a rather stodgy 15-year veteran of the political scene whose popularity has never risen above the mid-teens; Lviv mayor Andriy Sadoviy is a regional candidate with questionable reform credentials and minimal appeal outside his home city; Opposition Bloc standard-bearer Yuriy Boyko cannot hope for any support in the Ukrainian-speaking part of the country; and Russophone comedian Volodymir Zelenskiy is literally difficult to take seriously, even if his poll rating of around 10% is moderately impressive. Three candidates who could represent a serious challenge to Poroshenko among his core voter base - Prime Minister Volodymir Groysman, People's Front party leader Arseniy Yatseniuk, and popular music star Sviatoslav Vakarchuk - have thus far stayed out of the race.

Industrial Production Rises 1.4% YoY in October, 1.8% in 10M18 **NEWS**

by Dmitry Churin
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Ukraine's nationwide industrial production rose 1.4% YoY in October after declining by 1.3% YoY in September, according to data from the State Statistics Committee released in mid-November. In the extraction sector, the output increase was 5.2% YoY in October after a rise of 0.7% YoY in September. The manufacturing sector index grew by 1.0% and the utility sector had a drop in output of 3.6% YoY in October, extending its downward trend this year. Year-to-date through October, the overall industrial output in Ukraine is up by 1.8% compared to 10M17.



Source: State Statistics Committee

COMMENTARY

The main takeaway after October's data is that the Ukrainian economy remains on the expected growth path despite the pause seen in September. The 1.8% YoY rise in the industrial index through 10M18 is not far off from our base case forecast of full-year industrial growth at 2.2% YoY. In October alone, we were pleased to see that the country's natural gas extraction increased by 3.7% YoY to 1.8bn cubic meters. Meanwhile, the output drop in the utility sector - which mainly reflects electricity usage - can be taken as a positive sign that Ukrainian industry is becoming more energy efficient.

In the individual sub-sectors which form the manufacturing output index, the steel production index edged down by 1.2% YoY in October, the machinery sub-sector's output shed 0.3% YoY, and oil processing rose by 5.4% YoY in volume. Over 10M18, the machinery sector output increased by 1.6% YoY.

In other macroeconomic data, UkrStat said the government's agricultural production index rose 9.0% YoY over the 10M18 period, the construction index rose 6.4% YoY (5.8% YoY in October alone), and retail sales are up by a solid 5.4% YoY.

Kernel Triples Net Profit YoY to USD 76mn in Jul-Sept Quarter

by Dmitry Churin
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NEWS

Kyiv-based, Warsaw-listed sunflower oil giant and crop grower Kernel boosted its net profit by 3.3x YoY to USD 75.5mn in the Jul-Sept quarter (1Q19; the company's financial year runs from July to June), according to results published on Nov 29. On the top line, Kernel's revenue more than doubled YoY (+2.1x) to USD 1.14bn, driven by strong grain export volumes in the reported period. The company's EBITDA also doubled, rising 2.2x YoY to USD 101mn, while the EBITDA margin was essentially unchanged at 8.8%.

On the balance sheet side, Kernel's net debt increased by 10.3% from the previous reporting quarter, to USD 686mn as of 30 Sept 2018, implying a Net Debt/EBITDA ratio of 2.5x. The company's total assets grew by 6.1% QoQ to USD 2.36bn.

KERNEL FINANCIAL RESULTS			
USD mn	1Q18FY	1Q17FY	YoY
Net revenue	1140	536	113%
EBITDA	101	46	118%
EBITDA margin	8.8%	8.6%	+0.2 p.p.
Net Income	76	23	231%
Net margin	6.6%	4.3%	+2.4 p.p.

Source: Company data,

COMMENTARY

With these results, Kernel finally met our expectations by reporting much bigger financial numbers to reflect the company's growing asset base after several major acquisitions in recent years. However, we have to say that it took quite a long time for Kernel to integrate the operations of its new farming businesses totaling 190,000 hectares after the acquisition of UAI Holding back in mid-2017. Kernel said it achieved record high crop yields and production volumes for this year's harvesting campaign. The company's farming segment tripled its EBITDA to USD 53mn in Jul-Sept, while EBITDA from the oilseeds processing segment decreased by 23% YoY to USD 16.2mn in the period due to a lower "crushing margin" in the sunflower oil business this year. This margin fell to USD 40 per tonne of sunflower oil sold in the reporting period compared to USD 50 per tonne a year earlier and USD 44 per tonne in the Apr-Jun quarter this year. Kernel states that the "crushing margin" is now expected to recover somewhat as a result of ample sunflower seed supplies on the Ukrainian market following the country's record harvest of sunflower seeds estimated at near 16mn tonnes this year.

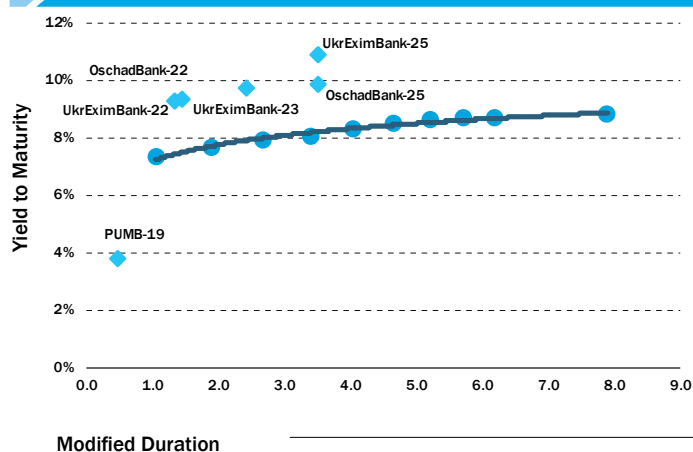
UKRAINIAN EUROBONDS

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 ¹
Sovereign Eurobonds												
Ukraine, 2019	98.7	99.7	-0.6%	9.6%	8.2%	88.2	0.7	7.75%	1 Sept 2019	1,744	USD	Caa2/B-/B-
Ukraine, 2020	96.8	97.2	-2.0%	9.8%	9.5%	129.3	1.6	7.75%	1 Sept 2020	1,780	USD	Caa2/B-/B-
Ukraine, 2021	94.2	95.2	-2.1%	10.2%	9.8%	90.9	2.4	7.75%	1 Sept 2021	1,409	USD	Caa2/B-/B-
Ukraine, 2022	92.2	93.2	-2.7%	10.3%	10.0%	88.3	3.1	7.75%	1 Sept 2022	1,384	USD	Caa2/B-/B-
Ukraine, 2023	90.8	91.8	-2.1%	10.2%	10.0%	55.9	3.8	7.75%	1 Sept 2023	1,355	USD	Caa2/B-/B-
Ukraine, 2024	89.0	90.0	-1.9%	10.3%	10.1%	44.2	4.4	7.75%	1 Sept 2024	1,339	USD	Caa2/B-/B-
Ukraine, 2024-2	94.1	95.1	-1.9%	10.5%	10.3%	48.7	4.0	8.99%	1 Feb 2024	750	USD	/B-/B-
Ukraine, 2025	87.3	88.3	-1.9%	10.4%	10.2%	38.4	4.9	7.75%	1 Sept 2025	1,329	USD	Caa2/B-/B-
Ukraine, 2026	85.8	86.8	-2.5%	10.5%	10.3%	46.3	5.4	7.75%	1 Sept 2026	1,318	USD	Caa2/B-/B-
Ukraine, 2027	84.3	85.3	-2.6%	10.5%	10.3%	44.7	5.9	7.75%	1 Sept 2027	1,307	USD	Caa2/B-/B-
Ukraine, 2028	94.2	94.7	-1.8%	10.7%	10.6%	29.4	6.1	9.75%	1 Nov 2018	1,250	USD	/B-/B-
Ukraine, 2032	80.5	81.5	-0.2%	10.0%	9.9%	3.2	7.6	7.38%	25 Sept 2032	3,000	USD	//B-
Ukraine, GDP-linked	55.6	56.6	3.3%	n/a	n/a	n/a	na	0.00%	31 May 2040	3,214	USD	/B-/
Corporate Eurobonds												
Agroton, 2019	16.0	20.6	0.0%	0%	0%	0	0.1	6.00%	14 Jul 2019	18	USD	//
Kernel, 2022	95.8	96.8	-1.6%	10.3%	9.9%	59	2.6	8.75%	31 Jan 2022	500	USD	/B/B+
MHP, 2020	102.1	103.0	-0.2%	6.5%	5.9%	11.7	1.2	8.25%	2 Apr 2020	750	USD	/B-/B-
MHP, 2024	94.8	95.3	-4.7%	9.0%	8.9%	110.2	4.3	7.75%	10 May 2024	500	USD	//
MHP, 2026	86.4	86.9	-4.5%	9.6%	9.5%	84.8	5.4	6.95%	4 Apr 2026	550	USD	/B/B
Avangardco, 2018	20.8	22.5	2.9%	n/a	n/a	n/a	n/a	10.00%	29 Oct 2018	206	USD	//
UkrLandFarming, 2018	13.1	14.8	n/a	n/a	n/a	n/a	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	96.2	97.2	-0.5%	11.6%	11.4%	12.4	4.4	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2021	100.0	102.0	0.0%	7.4%	6.7%	-0.1	n/a	7.50%	31 Dec 2021	1,197	USD	//B
Metinvest, 2023	90.7	91.2	-3.1%	10.4%	10.3%	86.9	3.5	7.75%	23 Apr 2023	945	USD	//B
Metinvest, 2026	89.9	90.4	-3.3%	10.5%	10.4%	64.7	5.2	8.50%	23 Apr 2026	648	USD	//B
Ferrexpo, 2019	100.2	101.0	-0.9%	9.7%	7.4%	240.0	0.3	10.38%	07 Apr 2019	186	USD	Caa3/CCC/CC
Ferrexpo, 2019	100.4	100.9	-0.8%	9.1%	7.6%	216.1	0.3	10.38%	07 Apr 2019	161	USD	Caa3/CCC/CC
UZ Rail, 2018	97.8	98.5	-1.6%	10.8%	10.5%	69.4	1.0	9.88%	21 May 2018	500	USD	/CCC+/CCC
Interepipe, 2017	30.0	33.1	0.0%	n/a	n/a	77.6	n/a	10.25%	2 Aug 2017	200	USD	IN DEFAULT
JKX Oil&Gas, 2020	78.0	85.0	0.0%	38.2%	29.5%	30.3	1.0	14.00%	19 Feb 2020	16	USD	//
Bank Eurobonds												
PUMB, 2018	100.2	101.2	-0.2%	8.5%	-5.5%	-3.9	0.1	11.00%	31 Dec 2018	252	USD	//
PrivatBank, 2018-2	20.0	30.0	0.0%	n/a	n/a	n/a	n/a	10.25%	23 Jan 2018	200	USD	IN DEFAULT
PrivatBank, 2021	9.4	12.0	0.1%	n/a	n/a	n/a	0.9	11.00%	09 Feb 2021	220	USD	IN DEFAULT
PrivatBank, 2018	21.2	22.1	-8.1%	n/a	n/a	n/a	n/a	10.88%	28 Feb 2018	175	USD	IN DEFAULT
UkrEximBank, 2022	97.5	97.9	-2.0%	10.5%	10.4%	71.2	n/a	9.63%	27 Apr 2022	750	USD	Caa3//CCC
UkrEximBank, 2023	93.8	95.4	0.3%	11.8%	11.3%	-6.9	4.0	9.00%	9 Feb 2023	125	USD	Caa3//CCC
UkrEximBank, 2025	94.4	94.7	-2.5%	11.0%	11.0%	56.4	2.5	9.75%	22 Jan 2025	500	USD	Caa3//CCC
Oschadbank, 2023	98.7	99.2	-1.2%	9.7%	9.6%	34.6	1.0	9.38%	10 Mar 2023	700	USD	Caa3//CCC
Oschadbank, 2025	94.8	95.0	-3.1%	10.8%	10.7%	68.3	2.1	9.63%	20 Mar 2025	500	USD	Caa3//CCC
Municipal Eurobonds												
City of Kyiv, 2022	91.6	92.2	-2.5%	10.1%	9.9%	n/a	n/a	7.50%	15 Dec 2022	115	USD	/B-/B-

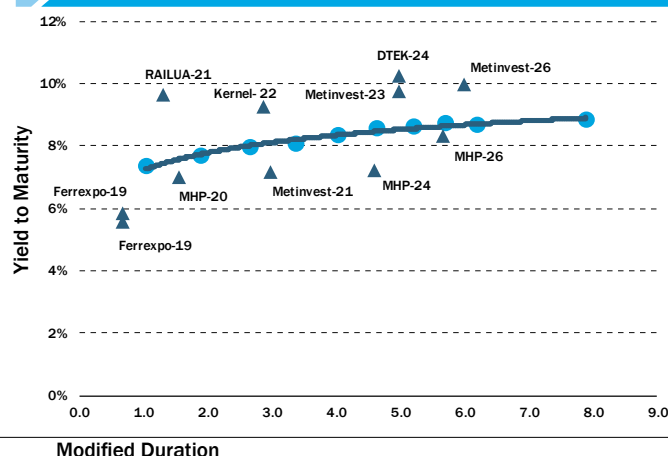
¹ Moody's/S&P/Fitch

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
UAH denominated Bonds									
UA80426			19.75%	18.00%	n/a	n/a	S/A	10 Apr .2019	n/a
VAT Bonds									
UA4000185151			20.25%	18.50%	1.9	9.50%	S/A	8 Jul 2019	3,577
UA4000185557			20.25%	18.50%	1.9	9.50%	S/A	22 Jul 2019	2,171
UA4000186159			20.25%	18.50%	1.9	9.50%	S/A	20 Aug 2019	955

Source: Bloomberg, Cbonds, Eavex Research

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