

Trends

Quotes for Ukrainian sovereign Eurobonds declined last week as overall sentiments toward emerging markets turned more bearish. On the other hand, Angola, which rated B- by S&P Global Ratings and B3 by Moody's, still managed to sell USD 500mn Eurobonds maturing in 2048 at 9.1%. The deal drew an order book of over USD 3bn, showing that investors remain hungry for high-yield sovereign debt papers. In Ukraine related news, a highly publicized meeting between US President Trump and Russian President Putin on Jul 16 did not produce any public information regarding their positions on the Ukraine issue. However, the Russian side spread a rumor that Trump is considering a Russian proposal that would allow pro-Russian separatist Ukrainian territories to hold referendums to decide their fate. This would mark a significant change from the stated position of the US, which fully backs the Minsk peace process to resolve the conflict. Prior to the summit, Trump had declined to take a firm stance on Ukraine, suggesting that the issue was open for discussion.

The benchmark Ukrainian bonds with maturity in 2027 sank 2.2% to 93.7/94.7 (8.8%/8.6%) and the shortest outstanding issue with maturity in September 2019 edged down by 0.3% to 100.4/100.9 (7.4%/6.9%). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) declined by 1.5% to 63.0/64.0 cents on the dollar.

Corporate Ukrainian Eurobonds ended mixed, with MHP-26s rising 1.2% to 93.8/94.5 (8.0%/7.9%) while Metinvest-23s declined by 0.3% to 94.1/94.9 (9.3%/9.1%). The quasi-sovereign OschadBank-25s were unchanged at 101.5/101.8 (9.3%/9.2%).

The yield on the government's 1-year UAH-denominated treasuries increased by 25bps to bid/ask of 18.20%/17.25%. The Finance Ministry placed UAH-denominated 3-year bonds at 16.70% at its auction on Jul 17, while 77-day short-term bonds were placed at a strangely high yield of 18.00%.

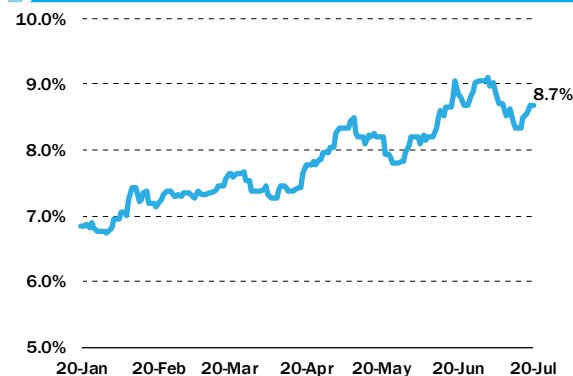
On the currency market, the hryvnia lost 0.9% for the week against the dollar to close at 26.45 UAH/USD.

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

Highlights

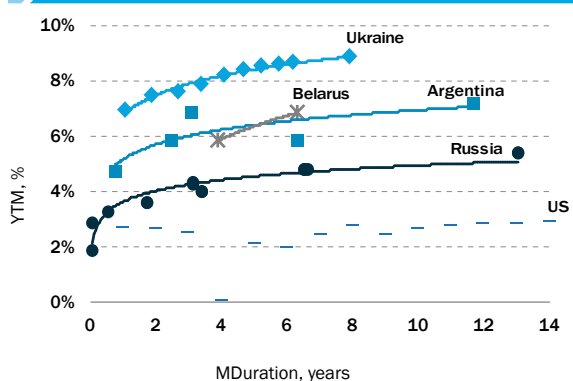
- > Putin Proposed Referendum on Donbass Status in Trump Meeting
- > Kernel Raises Sunflower Oil Sales Volume by 37% YoY in Apr-Jun
- > MHP Reports 20% YoY Price Increase for Its Poultry in 2Q18

UKRAINE 10-YEAR BOND YIELD



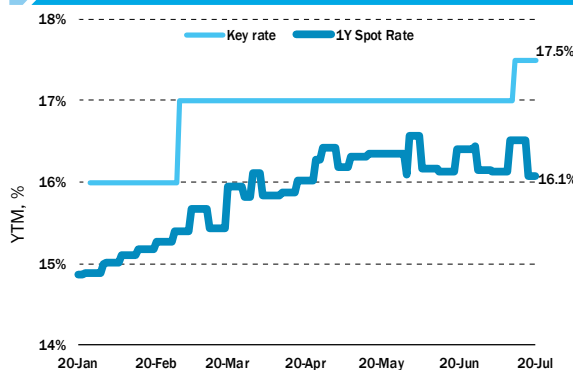
Source: Bloomberg, Eavex Capital

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

KEY INTEREST RATE vs SPOT RATE



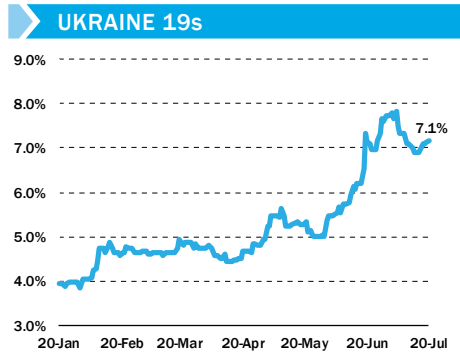
Source: Bloomberg, Eavex Capital

CURRENCY

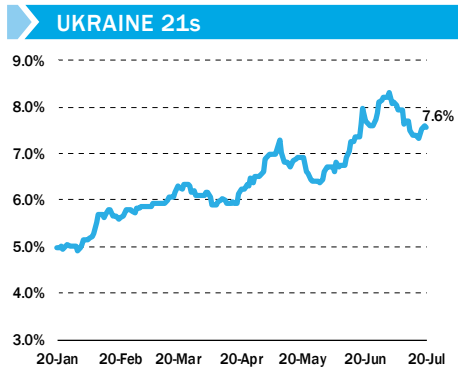
	Last, UAH	1W chg.	1M chg.	YTD
USD/UAH	26.45	0.9%	-0.1%	-5.9%
EUR/UAH	31.00	1.2%	1.3%	-8.0%
EUR/USD	1.17	0.3%	1.3%	-2.3%

Source: Bloomberg, Eavex Capital

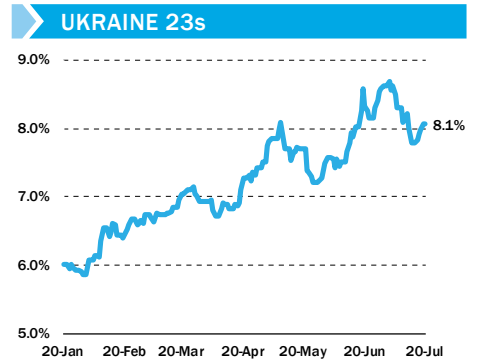
Selected Sovereign Issues



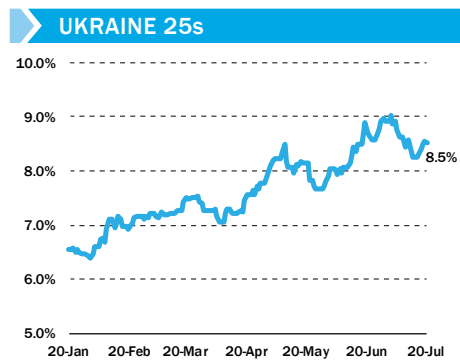
Source: Bloomberg, Eavex Research



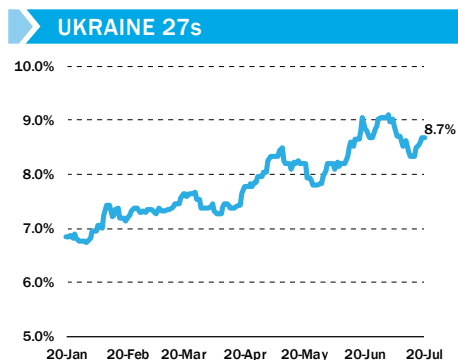
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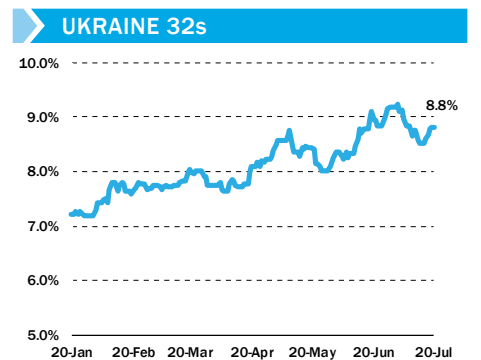
Source: Bloomberg, Eavex Research



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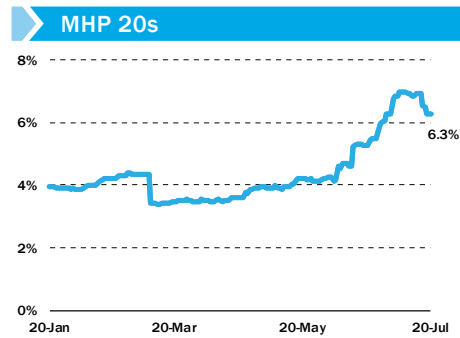


Source: Bloomberg, Eavex Research

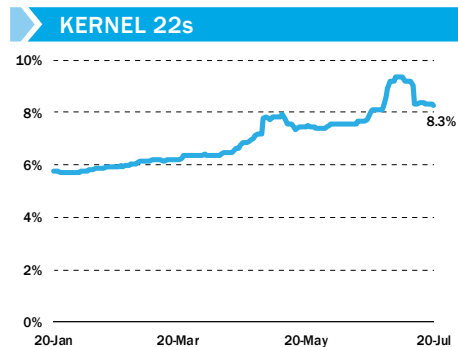


Source: Bloomberg, Eavex Research

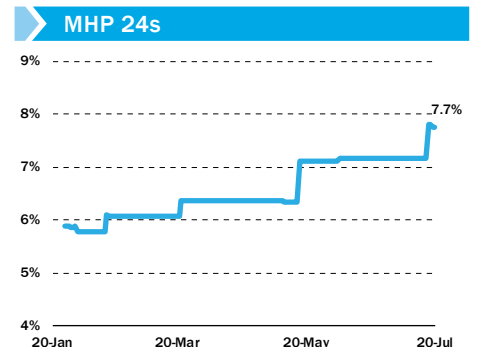
Selected Corporate Issues



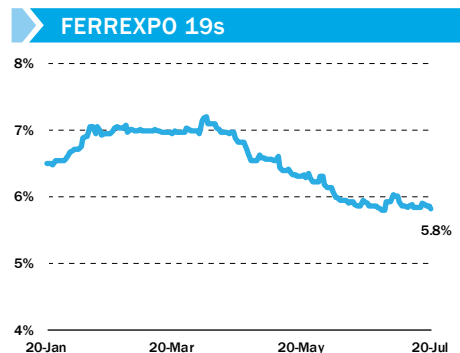
Source: Bloomberg, Eavex Research



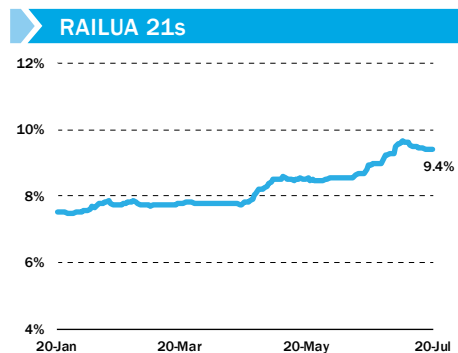
Source: Bloomberg, Eavex Research



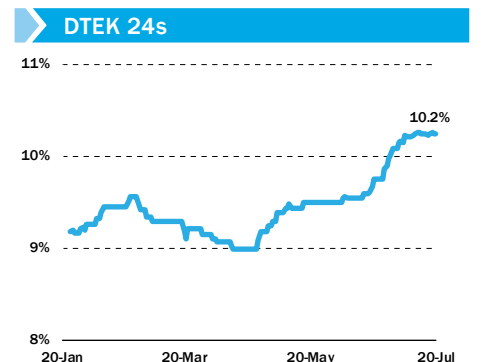
Source: Bloomberg, Eavex Research



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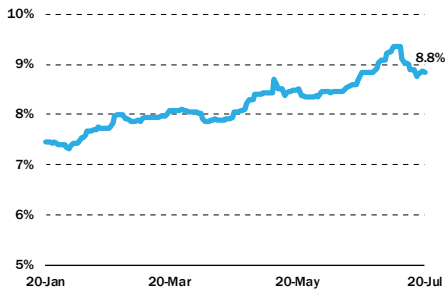
Source: Bloomberg, Eavex Research



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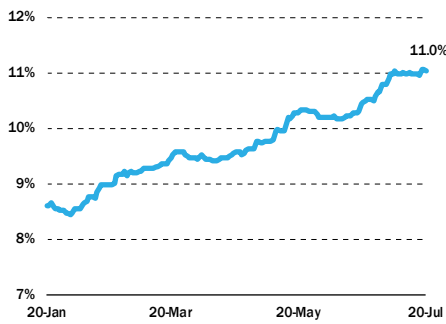
Selected Banking Issues

OSCHADBANK 23s



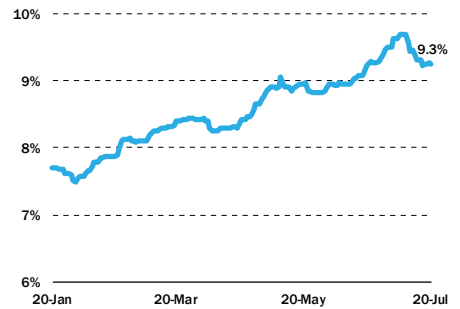
Source: Bloomberg, Eavex Research

UKREXIMBANK 23s



Source: Bloomberg, Eavex Research

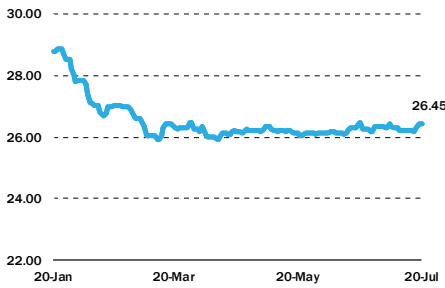
OSCHADBANK 25s



Source: Bloomberg, Eavex Research

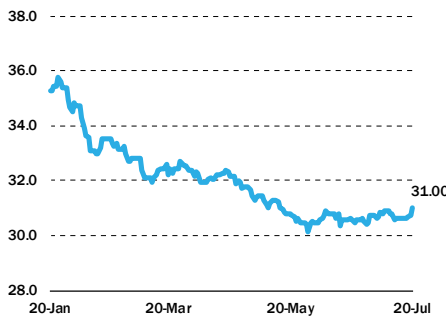
Currency

USD/UAH



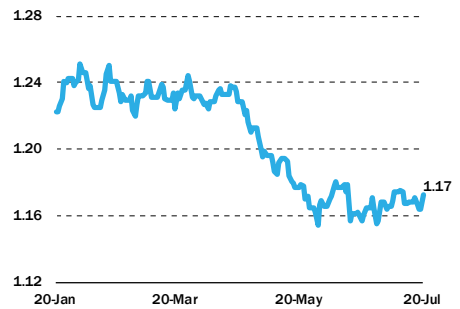
Source: Bloomberg, Eavex Research

EUR/UAH



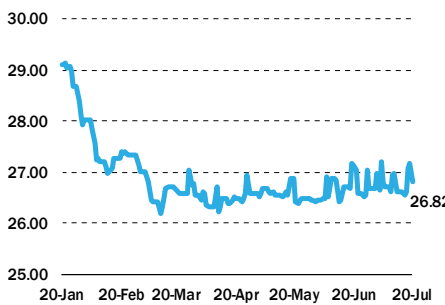
Source: Bloomberg, Eavex Research

EUR/USD



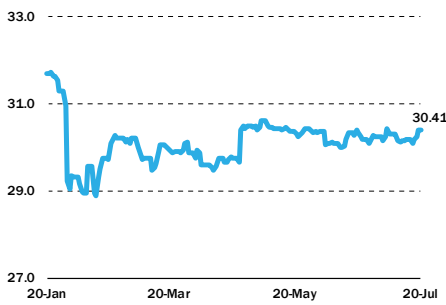
Source: Bloomberg, Eavex Research

1M NDF



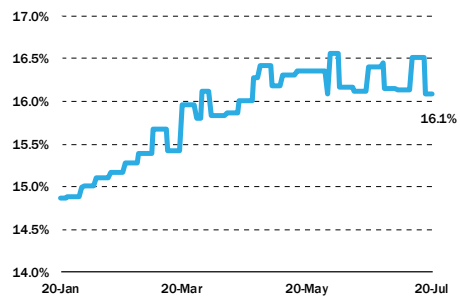
Source: Bloomberg, Eavex Research

12M NDF



Source: Bloomberg, Eavex Research

12M NDF IMPLIED YIELD



Source: Bloomberg, Eavex Research

Putin Proposed Referendum on Donbass Status in Trump Meeting

by Will Ritter
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NEWS

Russian President Putin told US President Trump that a referendum should be held in Ukraine's eastern provinces of Donetsk and Lugansk to determine their relationship with Ukraine, US media reported late last week. Trump and Putin had held a private summit meeting on Monday (Jul 16) in Finland, but no details were released about the substance of the talks. However, on Thursday (Jul 19), it was reported that Putin told a closed gathering of Russian diplomats that he had made the proposal, and that Trump had asked that it not be immediately publicized in order to give him time to consider it.

COMMENTARY

This news is confirmation of what we have been saying ever since Trump assumed office, i.e. that he cannot be trusted not to make a deal with the Kremlin behind Ukraine's back that is disadvantageous to Kyiv (and indeed, to the entire Western world). Holding an internationally-recognized referendum in the Donbass on separation from Ukraine would be a particularly dangerous step, since we believe that voters in the occupied areas of both Donetsk and Lugansk would probably opt to leave Ukraine, upending the relatively stable Donbass status quo of last 3-plus years. Even more seriously, the Kremlin would then be encouraged to sponsor movements in Ukraine's other southeastern provinces for similar referendums, thus expanding the separatist theater. Perhaps the good news for Ukraine coming out of the Finland summit meeting is that Trump so badly damaged his own credibility with his performance there, that he might not be able to deliver on any back-door deals that he may have struck with Putin due to resistance across the entire spectrum of the US Congress and even within his own administration. Nonetheless, Trump remains in the White House, and President Poroshenko cannot afford to get into an open conflict with him, which is probably why pushback on the Donbass referendum proposal from official Kyiv was rather low-key.

Kernel Raises Sunflower Oil Sales Volume by 37% YoY in Apr-Jun

by Dmitry Churin
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NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer, reported an increase in sunflower bulk sales volume by 37.3% YoY to 386,600 tonnes in the Apr-Jun quarter (the company's 4Q18 in its July to June reporting calendar), according to an operational update published on Jul 17. Meanwhile, the company's bottled oil sales dropped by 16.3% YoY to 32.8mn liters. Kernel increased its sunflower seed crushing volume by 6.0% YoY to 3.14mn tonnes in full-year 2018 (which ended in June). The crushing volume was the highest in the company's history. In other key business segments, Kernel demonstrated an impressive grain sales growth of 64% YoY to 1.57mn tonnes in 4Q18 while the full-year 2018 grain sales volume declined by 8.2% YoY to 4.65mn tonnes.

KERNEL OPERATIONAL UPDATE						
Volume	4Q18	4Q17	Change	FY18	FY17	Change
Grain sales, tonnes	1,572,925	957,487	+64.3%	4,646,421	5,060,491	-8.2%
Sunflower oil sales in bulk, tonnes	386,637	281,587	+37.3%	1,301,321	1,083,729	+20.1%
Bottled oil sales, '000 liters	32,831	39,235	-16.3%	118,635	131,412	-9.7%
Oilseed crush, tonnes	833,998	909,571	-8.3%	3,135,730	2,958,695	+6.0%
Export terminals throughput, tonnes	1,611,717	1,431,625	+12.6%	6,064,727	6,101,263	-0.6%

Source: Companies' data

COMMENTARY

Kernel finally emerged from an unexpected contraction in its operating results in the previous quarters. In our view, the company's asset base should allow it to show a steady increase in both sunflower oil and grain sales in the medium term. Kernel had reported EBITDA of USD 73mn in the Jan-March quarter, when its sales volumes were lower than in the Apr-Jun quarter. Therefore we expect EBITDA of USD 110mn in 4Q18, which would bring FY18 EBITDA to USD 306mn (-4.1% YoY). Kernel is due to report its full-year financial results for 2018 in mid-October.

We estimate that Kernel is now valued at trailing P/E of 5.8x. However, looking ahead to 2019, we estimate the P/E at 4.8x, as we believe Kernel is capable of delivering 20% net profit growth next year.

The publication of the Apr-Jun operating results had a POSITIVE impact on Kernel's share price on the Warsaw Stock Exchange. The stock gained 7.6% for the week to close at PLN 50.50 on Friday (Jul 20).

MHP Reports 20% YoY Price Increase for Its Poultry in 2Q18

by Dmitry Churin
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NEWS

MHP, Ukraine's largest poultry producer, reported that the average achieved price for its poultry rose by 20% YoY to UAH 39.92 per kilogram in 2Q18, while sales volumes edged down by 3% YoY to some 153,000 tonnes, according to the company's operational update published on July 17. The company said that its production facilities continued to operate at full capacity in the period. MHP also reported that its poultry production volumes rose by 7% YoY to 307,900 tonnes in 1H18. The company said it launched operations at the so-called Phase 2 of its Vinnytsia Poultry Complex in May, which should lead to increasing output. In other business segments, MHP's sunflower oil sales were up by 19% to 100,600 tonnes in 2Q18, but remained down by 11% YoY to 148,100 tonnes for 1H18. All the sunflower oil volumes were exported. In the grain segment, MHP saw its spring crops in good condition despite a lack of rain, but did not report any harvest or yield figures. MHP operates a land bank of 365,000 hectares in Ukraine.

MHP OPERATIONAL UPDATE						
Poultry	2Q17	2Q18	Change	1H18	1H17	Change
Sales volume, tonnes	153,137	157,245	-3%	288,437	283,972	+2%
Price per 1 kg net VAT	39.38	32.92	+20%	39.17	32.35	+21%

Source: Companies' data

COMMENTARY

Although MHP's operational update looks fairly strong, it has not led to any particular interest in the stock. London-listed MHP's shares edged down by 1.2% to USD 12.85 last week.

In our opinion, the company's ability to achieve a double-digit rise in the poultry price without consequence of lower sales volume underlines the stable demand for MHP's poultry both on domestic and export markets. The company said that its domestic chicken meat sales volume decreased by 4% YoY to 160,930 tonnes while export sales rose 9% YoY to 123,040 tonnes in 1H18.

We forecast that MHP will post a net profit of USD 230mn for 1H18, which would be 9.5% higher than a year ago. The company is due to publish its financial results for 1H18 on August 23.

MHP's stock dipped below its strong support level of USD 13.00 earlier this month. MHP stock trades with a forward-looking P/E of 4.2x. The company has a generous dividend policy with recent payouts having been in the 75 cents per share range, which at the stock's current price offers a dividend yield of 5.8%. Eavex Capital has a BUY rating for the stock with a target price of USD 16.50, which implies 28% upside.

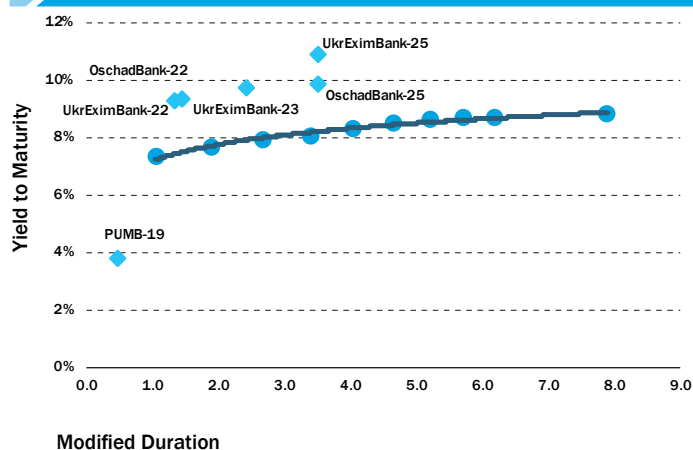
UKRAINIAN EUROBONDS

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	100.4	100.9	-0.3%	7.4%	6.9%	24.9	1.0	7.75%	1 Sept 2019	1,744	USD	Caa2/B-/B-
Ukraine, 2020	100.3	100.8	-0.5%	7.6%	7.3%	27.6	1.9	7.75%	1 Sept 2020	1,780	USD	Caa2/B-/B-
Ukraine, 2021	100.1	100.8	-0.5%	7.7%	7.4%	19.4	2.6	7.75%	1 Sept 2021	1,409	USD	Caa2/B-/B-
Ukraine, 2022	99.1	99.9	-0.8%	8.0%	7.8%	22.2	3.4	7.75%	1 Sept 2022	1,384	USD	Caa2/B-/B-
Ukraine, 2023	98.3	99.1	-0.7%	8.2%	8.0%	17.9	4.0	7.75%	1 Sept 2023	1,355	USD	Caa2/B-/B-
Ukraine, 2024	96.7	97.7	-1.0%	8.4%	8.2%	20.9	4.6	7.75%	1 Sept 2024	1,339	USD	Caa2/B-/B-
Ukraine, 2025	95.4	96.4	-1.4%	8.6%	8.4%	27.1	5.2	7.75%	1 Sept 2025	1,329	USD	Caa2/B-/B-
Ukraine, 2026	94.3	95.3	-2.0%	8.8%	8.6%	34.2	5.7	7.75%	1 Sept 2026	1,318	USD	Caa2/B-/B-
Ukraine, 2027	93.7	94.7	-2.2%	8.8%	8.6%	35.1	6.1	7.75%	1 Sept 2027	1,307	USD	Caa2/B-/B-
Ukraine, 2032	88.0	89.0	-2.4%	8.9%	8.7%	28.9	7.9	7.38%	25 Sept 2032	3,000	USD	/B-
Ukraine, GDP-linked	63.0	64.0	-1.5%	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	0.4	6.00%	14 Jul 2019	18	USD	//
Kernel, 2022	101.0	101.8	0.3%	8.4%	8.1%	-10	2.9	8.75%	31 Jan 2022	500	USD	/B/B+
MHP, 2020	102.4	103.8	1.0%	6.7%	5.9%	-65.5	1.5	8.25%	2 Apr 2020	750	USD	/B-/B-
MHP, 2024	99.8	100.3	-2.6%	7.8%	7.7%	57.5	4.5	7.75%	10 May 2024	500	USD	//
MHP, 2026	93.8	94.5	1.2%	8.0%	7.9%	-20.9	5.7	6.95%	4 Apr 2026	550	USD	/B/B
Avangardco, 2018	19.8	23.5	-1.9%	0%	0%	0	0.1	10.00%	29 Oct 2018	206	USD	//
UkrLandFarming, 2018	20.1	24.7		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	101.9	102.9	0.0%	10.3%	10.1%	0.0	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	94.1	94.9	-0.3%	9.3%	9.1%	7.8	3.8	7.75%	23 Apr 2023	945	USD	//B
Metinvest, 2026	93.7	94.6	0.1%	9.7%	9.5%	-1.4	5.4	8.50%	23 Apr 2026	648	USD	//B
Ferrexpo, 2019	102.5	103.6	-0.1%	6.6%	5.0%	4.7	0.7	10.38%	07 Apr 2019	186	USD	Caa3/CCC/CC
Ferrexpo, 2019	102.5	103.6	-0.1%	6.6%	5.1%	-0.3	0.7	10.38%	07 Apr 2019	161	USD	Caa3/CCC/CC
UZ Rail, 2018	100.8	101.7	0.1%	9.6%	9.2%	-3.0	1.3	9.88%	21 May 2018	500	USD	/CCC+/CCC
Interepipe, 2017	29.4	34.7	0.0%	n/a	n/a	38.0	n/a	10.25%	2 Aug 2017	200	USD	IN DEFAULT
JKX Oil&Gas, 2020	85.0	95.0	0.0%	25.8%	17.6%	0.0	1.3	14.00%	19 Feb 2020	16	USD	//
Bank Eurobonds												
PUMB, 2018	102.6	104.2	0.1%	4.8%	1.2%	-62.0	0.4	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	9.0	14.0	0.0%	n/a	n/a	n/a	1.1	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	102.2	103.1	0.1%	8.9%	8.6%	-2.8	n/a	9.63%	27 Apr 2022	750	USD	Caa3//CCC
UkrEximBank, 2023	94.2	95.2	-0.2%	11.2%	10.9%	5.2	4.0	9.00%	9 Feb 2023	125	USD	Caa3//CCC
UkrEximBank, 2025	101.3	102.2	0.2%	9.5%	9.3%	-3.9	2.9	9.75%	22 Jan 2025	500	USD	Caa3//CCC
Oschadbank, 2023	101.5	102.5	0.2%	9.0%	8.7%	-5.3	1.3	9.38%	10 Mar 2023	700	USD	Caa3//CCC
Oschadbank, 2025	101.3	102.2	0.2%	9.4%	9.2%	-5.1	2.4	9.63%	20 Mar 2025	500	USD	Caa3//CCC
Municipal Eurobonds												
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

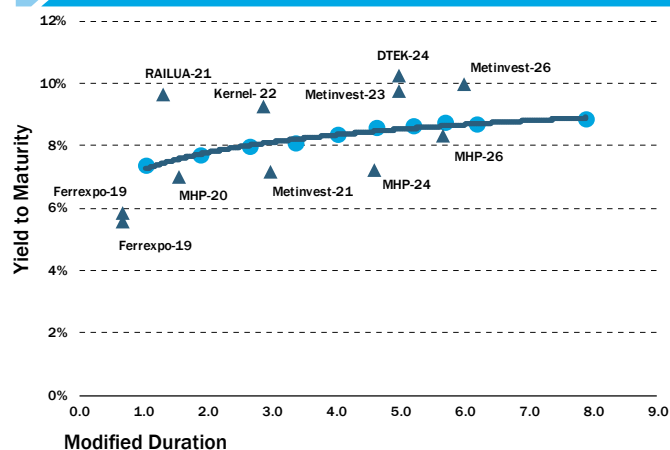
¹ Moody's/S&P/Fitch

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			17.90%	16.70%	n/a	n/a	S/A	10 Apr .2019	n/a
VAT Bonds									
UA4000185151			17.95%	17.25%	1.9	9.50%	S/A	8 Jul 2019	3,577
UA4000185557			17.95%	17.25%	1.9	9.50%	S/A	22 Jul 2019	2,171
UA4000186159			17.95%	17.25%	1.9	9.50%	S/A	20 Aug 2019	955

Source: Bloomberg, Cbonds, Eavex Research

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