

Trends

The market value of Ukrainian sovereign Eurobonds fell notably last week after government officials admitted that the Finance Ministry might try to enter foreign capital markets with a new bond issue that would represent a more expensive borrowing than previous ones. In another internal development that was not encouraging, Prime Minister Volodymyr Groysman took away control over the State Fiscal Service from the Finance Ministry; this was a setback for the Ministry's head Oleksander Danyliuk, who is well-respected by the IMF and foreign investors. Danyliuk said the move would be an impediment for reforming the State Fiscal Service.

The longest outstanding Ukrainian Eurobonds, Ukraine-32s, lost 2.8% to close at 91.4/92.4 (8.4%/8.3%), and medium-term Ukraine-23s were down by 1.6% to 100.3/101.0 (7.7%/7.5%). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) declined by 1.7% to close at 69.4/70.4 cents on the dollar.

In corporate debt papers, DTEK-24s were unchanged at 105.7/106.7 (9.6%/9.4%) despite positive news that the company turned profitable in 1Q18, earning USD 165mn in net profit in the period. Kernel-22s edged down by 0.3% to 103.4/104.3 (7.7%/7.4%) after the company's 1Q18 financial results fell short of market expectations.

Metinvest-23s were unchanged at 97.9/98.7 (8.3%/8.1%) and Metinvest-26s inched down by 0.2% to 97.6/98.5 (8.9%/8.8%).

The quasi-sovereign Eurobonds of UkrEximBank (25s) and OschadBank (23s), which often lag the sovereign performance by a week, were both moderately lower by less than 0.5%, ending at 103.4/104.3 (9.0%/8.9%) and 103.0/104.0 (8.6%/8.3%) respectively.

The yield on the government's 1-year UAH-denominated treasuries rose 25 bps to bid/ask of 17.95%/16.50%.

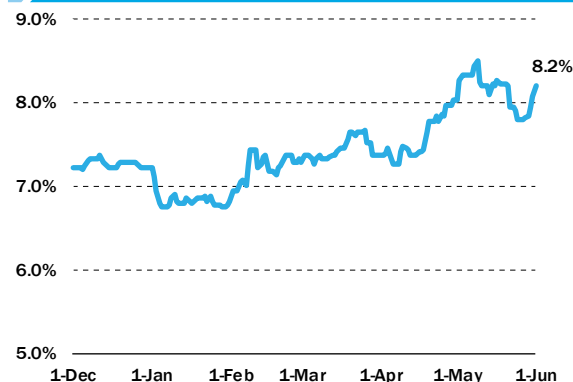
The hryvnia stayed in a tight range last week, closing at 26.12 UAH/USD. The National Bank kept its key refinancing rate unchanged at 17% at its most recent board meeting held on May 24. New NBU Governor Yakiv Smoliy hinted at a toughening of monetary policy and re-introduction of some capital controls if Ukraine fails to resume its IMF loan program and inflation starts to pick up.

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

Highlights

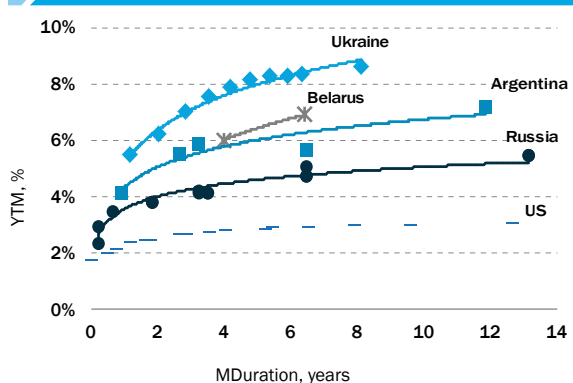
- > Lutsenko Briefs Western Diplomats on Faked Journalist Assassination
- > Industrial Output Growth Accelerates to 3% in April from 1% in March
- > MHP's Revenue Up 10% YoY in 1Q18 Despite Sunflower Oil Setback

UKRAINE 10-YEAR BOND YIELD



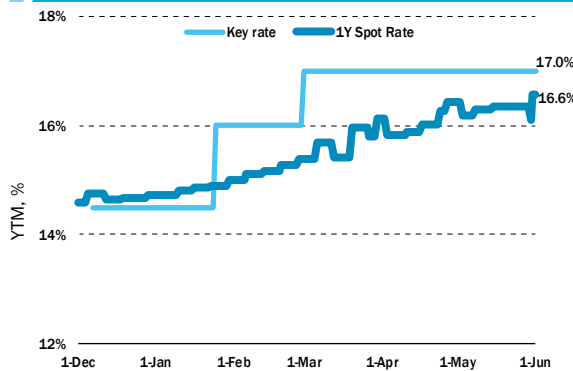
Source: Bloomberg, Eavex Capital

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

KEY INTEREST RATE vs SPOT RATE



Source: Bloomberg, Eavex Capital

CURRENCY

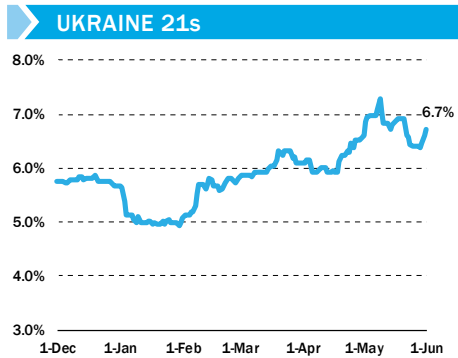
| | Last, UAH | 1W chg. | 1M chg. | YTD |
|---------|-----------|---------|---------|-------|
| USD/UAH | 26.12 | 0.0% | -0.2% | -7.1% |
| EUR/UAH | 30.44 | 0.0% | -2.6% | -9.6% |
| EUR/USD | 1.17 | 0.1% | -2.4% | -2.9% |

Source: Bloomberg, Eavex Capital

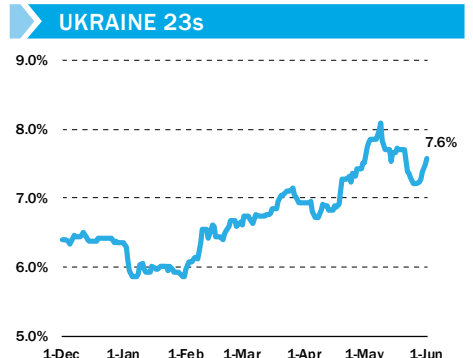
Selected Sovereign Issues



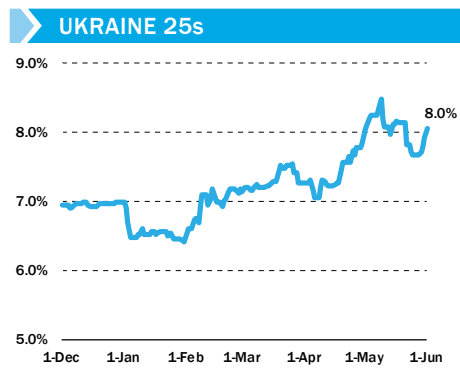
Source: Bloomberg, Eavex Research



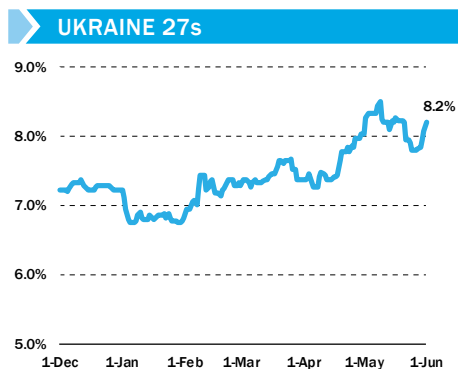
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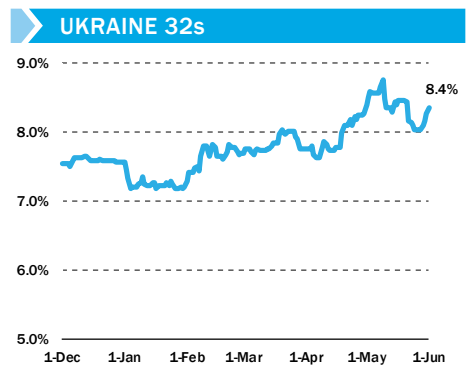
Source: Bloomberg, Eavex Research



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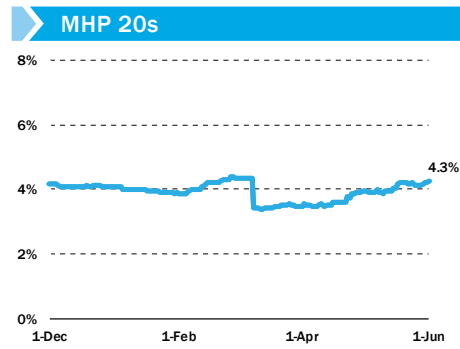


Source: Bloomberg, Eavex Research

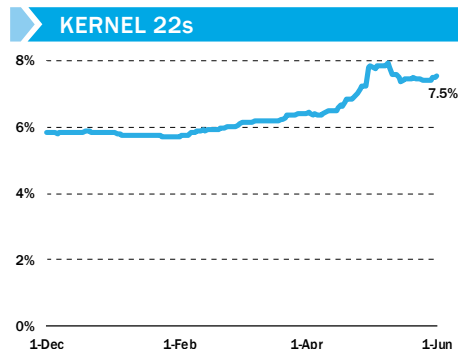


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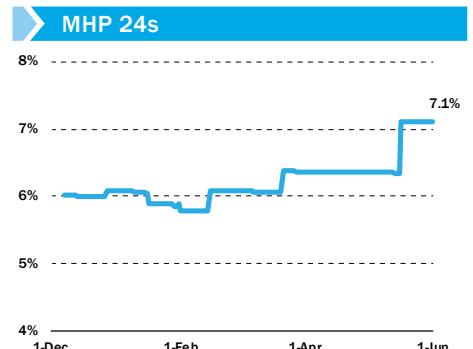
Selected Corporate Issues



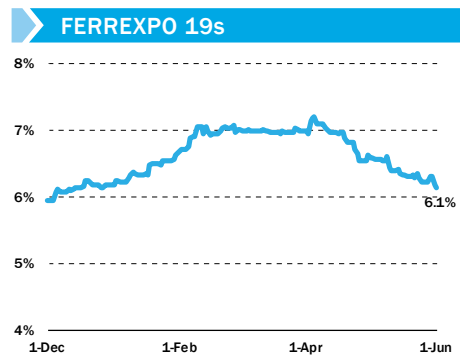
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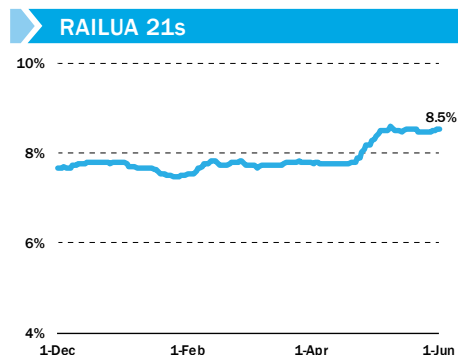
Source: Bloomberg, Eavex Research



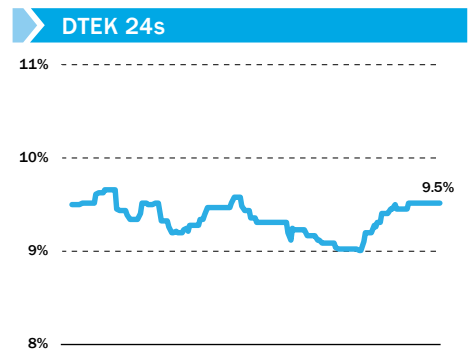
Source: Bloomberg, Eavex Research



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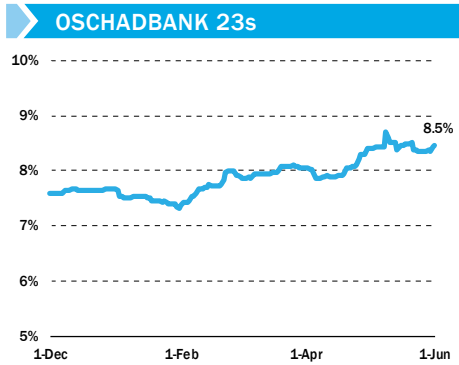


Source: Bloomberg, Eavex Research

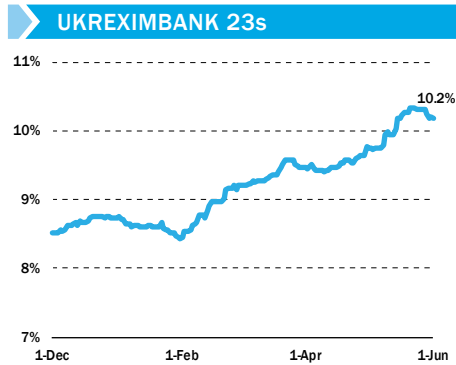


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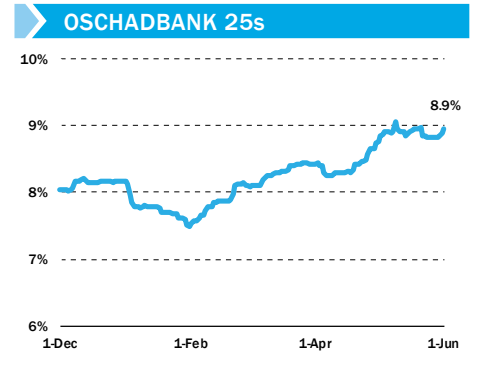
Selected Banking Issues



Source: Bloomberg, Eavex Research

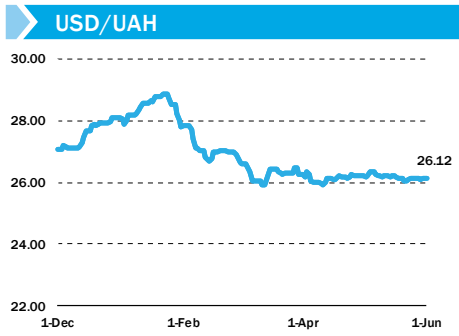


Source: Bloomberg, Eavex Research

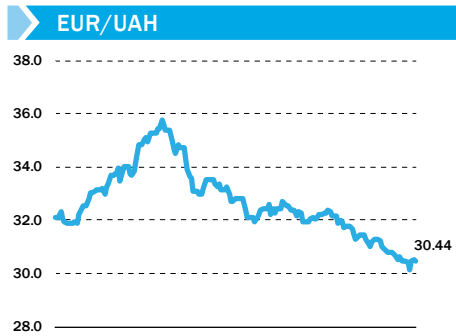


Source: Bloomberg, Eavex Research

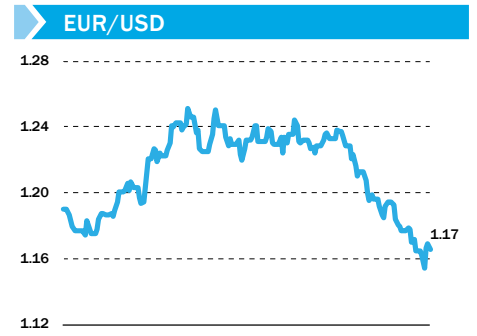
Currency



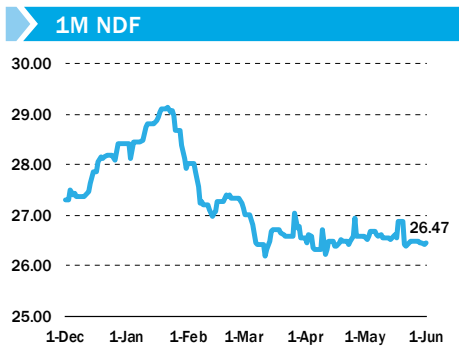
Source: Bloomberg, Eavex Research



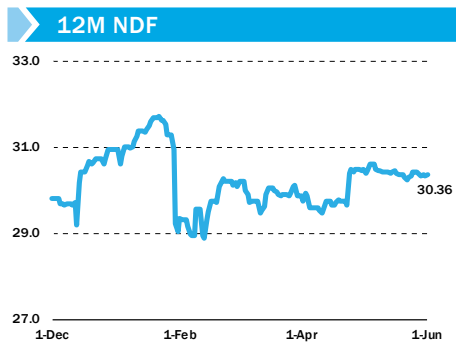
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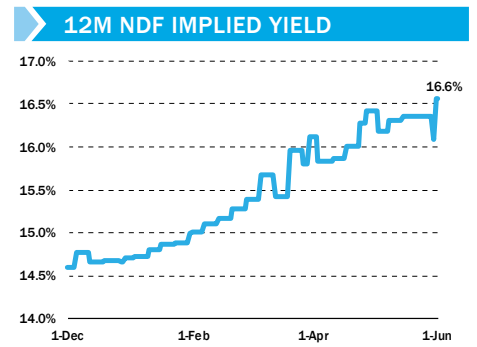
Source: Bloomberg, Eavex Research



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Source: Bloomberg, Eavex Research



Source: Bloomberg, Eavex Research

Lutsenko Briefs Western Diplomats on Faked Journalist Assassination

by Will Ritter
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NEWS

Prosecutor General Yuriy Lutsenko held a closed briefing on Friday (Jun 1) for diplomatic officials in Kyiv from most major Western countries to inform them about some specifics on a widely publicized operation to fake the murder of a well-known Russian dissident journalist. The reporter, Arkadiy Babchenko, was reportedly killed last Tuesday (May 29) in his Kyiv apartment, but then appeared alive the following day at a press conference. The Ukrainian Security Service (SBU) announced that a sting operation had been conducted to catch the organizers of a real plot to assassinate Babchenko, as well as other journalists in Ukraine including veteran television news host Yevgeniy Kiselev, that was sponsored by Russian intelligence. On Thursday (May 31), Boris Herman, a top manager at a private Ukrainian arms manufacturer, was arrested and fingered as the intermediary in charge of the plot. Herman is accused of paying a hired assassin who was actually cooperating with the SBU. The initial Western media and diplomatic reaction to the faked assassination was negative, but diplomats were reportedly placated by Lutsenko's explanations on Friday at which he presumably provided evidence that the threat against Babchenko's life was real.

COMMENTARY

We think the outrage from Western circles over the faked assassination is misplaced. Unfortunately, the threat of Russian-sponsored murders in Ukraine and Western countries needs to be countered with unorthodox tactics, and Western governments have simply been too slow and too passive in responding to "hybrid" attacks that are coming from the Russian state and/or affiliated Russian structures. Certainly for Babchenko himself, it was an easy decision to take part in this operation. We also see this event through a domestic political lens, as it was personally approved by President Poroshenko and it appears to have come off as a major political victory for him. We think that Poroshenko is currently lobbying for US support in his re-election bid, and this is exactly the type of highly-publicized success story that would get the attention of US President Trump. Ukraine's presidential race remains rather unpredictable 10 months out, but at this point we view both of the top challengers to Poroshenko, Batkivschyna Party leader Yulia Tymoshenko and Opposition Bloc leader Yuriy Boyko, as weak candidates. More serious challenges to Poroshenko could come from Prime Minister Volodymyr Groysman or popular music star Sviatoslav Vakarchuk, but neither have announced their candidacies. The window for any new major presidential candidates to emerge will close by the end of September, in our estimation.

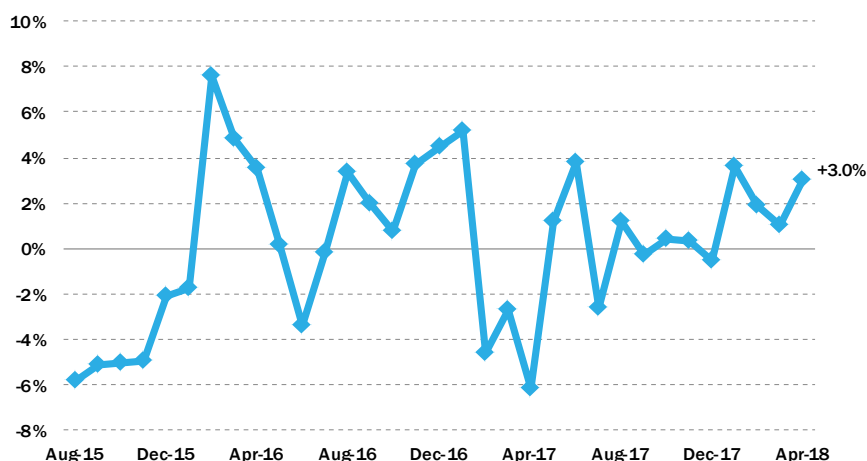
Industrial Output Growth Accelerates to 3% in April from 1% in March

by Dmitry Churin
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NEWS

Ukraine's aggregate industrial output increased by 3.0% YoY in April after 1.0% YoY growth in March and 1.9% YoY in February, the State Statistics Committee (UkrStat) reported in late May. The month-on-month change (unadjusted for the different number of business days) was a drop of 5.0%. Output in the extraction sector rose by 5.6% YoY in April on the back of a 13.2% YoY increase in coal production. The manufacturing production index edged up by 0.8% YoY in the period and the utility sector's output index grew by 8.6% YoY. For 4M18, the IP index is up by 2.6% YoY.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

It was expected that Ukraine's industrial production data would improve in April. However, the growth in the overall production index was mostly driven by the extraction and the utility sectors, while core manufacturing sector growth was moderate. The aggregate manufacturing index was negatively affected by a 28.6% YoY drop in electronic device production in the country as well as a quite surprising 4.1% YoY decline in food & beverage output in April. On the other hand, UkrStat reported that Ukraine's chemical products output grew by an impressive 31.1% YoY during the month. We assume that the chemical product output growth was achieved due to a spike in fertilizer production after the Ukrainian government imposed a ban on imports of Russian fertilizers in March of this year.

In other key macroeconomic statistics, UkrStat said that retail sales growth remained at a very strong level of 7.6% YoY in April, while the more volatile construction sector demonstrated a decline of 7.4% YoY in the period. For 4M18 the construction sector index has slipped 0.8% YoY. UkrStat also reported that the agro production index decreased by 0.5%, YoY with household agricultural output falling 2.9% YoY while industrial agro output rose 1.8% YoY in the period.

**MHP's Revenue Up 10% YoY in 1Q18
Despite Sunflower Oil Setback**

by Dmitry Churin
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NEWS

London-listed poultry producer MHP reported that its revenue rose by 10% YoY to USD 306mn in 1Q18 on the back of a 29% YoY rise in poultry sales to USD 217mn in the period, according to the company's financials released on May 22. The poultry segment delivered firm results, with sales volume increasing by 9% YoY to 135,300 tonnes and achieved pricing up by 22% YoY in USD terms. Meanwhile, the vegetable oil segment had a weak first-quarter performance, with revenue falling by 25% YoY to USD 51mn. The company's overall EBITDA saw a decline of 4% YoY to USD 89mn, while net profit surged by 58% YoY to USD 90mn.

MHP's export sales were USD 162mn in 1Q18, accounting for 53% of total revenue.

On the balance sheet side, MHP reported that its total debt was USD 1.2bn as of Mar 31, with a 92% share of long-term liabilities in this figure and a weighted-average interest rate of 7.4%. The debt-to-EBITDA ratio was 2.33x, down from 2.55x a year earlier. MHP has a non-binding Eurobond covenant limit of 3.0x.

| MHP FINANCIALS | | | |
|-------------------|------|------|---------|
| USD mn | 1Q18 | 1Q17 | chg. |
| Net revenue | 306 | 279 | +10% |
| EBITDA | 89 | 93 | -4% |
| <i>margin</i> | 29% | 33% | -4 p.p. |
| Net Income | 90 | 57 | +58% |
| <i>net margin</i> | 29% | 20% | +9 p.p. |

Source: Company data.

COMMENTARY

MHP delivered a strong increase in net profit due to a substantial USD 55mn foreign exchange gain in 1Q18 (the FX gain was USD 7mn in 1Q17). So if we look at operating profit, it actually declined by 16% YoY to USD 62mn in the period. Although the company's financial results were more or less in line with expectations, we think that MHP had a successful 1Q18, as its poultry export sales continued to increase and domestic revenue also improved in USD terms amid strength in the hryvnia. The company said that its sunflower oil sales volume decrease of 42% YoY in 1Q was due to changes in delivery terms which caused a temporary delay in deliveries. This implies that MHP's sunflower oil sales volume should rebound in 2Q.

In 1Q18 MHP's total CapEx amounted to USD 52mn, mainly related to preparation of construction at the so-called "Phase 2" of the company's Vinnytsia poultry complex.

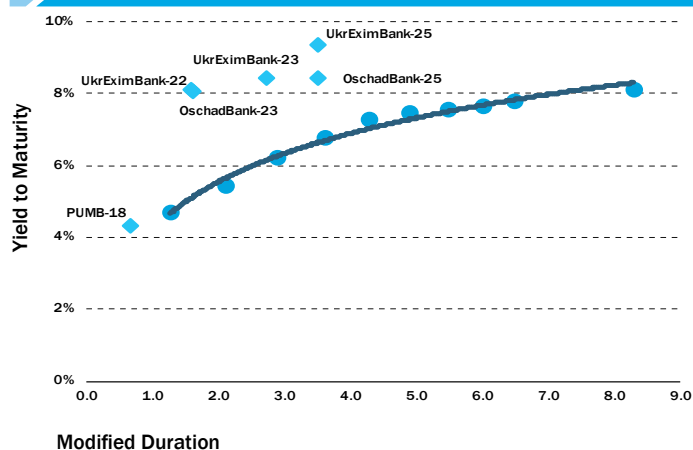
UKRAINIAN EUROBONDS

| 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 | 102.4 | 102.9 | -0.6% | 5.7% | 5.3% | 46.2 | 1.2 | 7.75% | 1 Sept 2019 | 1,744 | USD | Caa2/B-/B- |
| Ukraine, 2020 | 102.6 | 103.5 | -0.6% | 6.5% | 6.1% | 29.1 | 2.0 | 7.75% | 1 Sept 2020 | 1,780 | USD | Caa2/B-/B- |
| Ukraine, 2021 | 102.6 | 103.3 | -0.9% | 6.8% | 6.6% | 32.4 | 2.8 | 7.75% | 1 Sept 2021 | 1,409 | USD | Caa2/B-/B- |
| Ukraine, 2022 | 101.2 | 102.0 | -1.4% | 7.4% | 7.2% | 38.9 | 3.5 | 7.75% | 1 Sept 2022 | 1,384 | USD | Caa2/B-/B- |
| Ukraine, 2023 | 100.3 | 101.0 | -1.6% | 7.7% | 7.5% | 37.2 | 4.2 | 7.75% | 1 Sept 2023 | 1,355 | USD | Caa2/B-/B- |
| Ukraine, 2024 | 98.9 | 99.9 | -1.9% | 8.0% | 7.8% | 38.6 | 4.8 | 7.75% | 1 Sept 2024 | 1,339 | USD | Caa2/B-/B- |
| Ukraine, 2025 | 97.9 | 98.9 | -2.0% | 8.1% | 8.0% | 37.8 | 5.3 | 7.75% | 1 Sept 2025 | 1,329 | USD | Caa2/B-/B- |
| Ukraine, 2026 | 97.2 | 98.2 | -2.5% | 8.2% | 8.0% | 41.5 | 5.9 | 7.75% | 1 Sept 2026 | 1,318 | USD | Caa2/B-/B- |
| Ukraine, 2027 | 96.6 | 97.6 | -2.6% | 8.3% | 8.1% | 41.0 | 6.3 | 7.75% | 1 Sept 2027 | 1,307 | USD | Caa2/B-/B- |
| Ukraine, 2032 | 91.4 | 92.4 | -2.8% | 8.4% | 8.3% | 33.2 | 8.1 | 7.38% | 25 Sept 2032 | 3,000 | USD | /B- |
| Ukraine, GDP-linked | 69.4 | 70.4 | -1.7% | 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 | 103.3 | 104.3 | -0.4% | 7.7% | 7.4% | 13 | 3.0 | 8.75% | 31 Jan 2022 | 500 | USD | /B/B+ |
| MHP, 2020 | 106.4 | 107.5 | -0.2% | 4.6% | 4.0% | 10.7 | 1.7 | 8.25% | 2 Apr 2020 | 750 | USD | /B-/B- |
| MHP, 2024 | 102.8 | 103.3 | 0.0% | 7.2% | 7.1% | -0.1 | 4.7 | 7.75% | 10 May 2024 | 500 | USD | // |
| MHP, 2026 | 96.6 | 97.5 | -0.2% | 7.5% | 7.4% | 4.2 | 5.9 | 6.95% | 4 Apr 2026 | 550 | USD | /B/B |
| Avangardco, 2018 | 19.7 | 23.5 | -1.0% | 0% | 0% | 0 | 0.1 | 10.00% | 29 Oct 2018 | 206 | USD | // |
| UkrLandFarming, 2018 | 19.5 | 23.8 | | 0% | 0% | 0 | n/a | 10.88% | 26 Mar 2018 | 275 | USD | /CC/ |
| Mriya, 2016 | 7.0 | 9.0 | n/a | n/a | n/a | n/a | n/a | 10.95% | 30 Mar 2016 | 72 | USD | IN DEFAULT |
| Mriya, 2018 | 7.5 | 9.5 | n/a | n/a | n/a | n/a | n/a | 9.45% | 19 Apr 2018 | 400 | USD | IN DEFAULT |
| DTEK, 2024 | 105.7 | 106.7 | 0.0% | 9.6% | 9.4% | -0.2 | 4.9 | 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 | 97.8 | 98.7 | -0.2% | 8.3% | 8.1% | 4.8 | 3.9 | 7.75% | 23 Apr 2023 | 945 | USD | //B |
| Metinvest, 2026 | 97.5 | 98.5 | -0.2% | 8.9% | 8.8% | 4.3 | 5.6 | 8.50% | 23 Apr 2026 | 648 | USD | //B |
| Ferrexpo, 2019 | 103.0 | 104.0 | 0.1% | 6.7% | 5.5% | -21.0 | 0.8 | 10.38% | 07 Apr 2019 | 186 | USD | Caa3/CCC/CC |
| Ferrexpo, 2019 | 102.8 | 104.0 | 0.0% | 6.8% | 5.4% | -9.8 | 0.8 | 10.38% | 07 Apr 2019 | 161 | USD | Caa3/CCC/CC |
| UZ Rail, 2018 | 103.3 | 104.2 | -0.2% | 8.7% | 8.4% | 8.0 | 1.5 | 9.88% | 21 May 2018 | 500 | USD | /CCC+/CCC |
| Interepipe, 2017 | 29.3 | 34.6 | 0.0% | n/a | n/a | 53.8 | n/a | 10.25% | 2 Aug 2017 | 200 | USD | IN DEFAULT |
| JKX Oil&Gas, 2020 | 85.1 | 95.1 | 0.0% | 25.2% | 17.4% | 6.6 | 1.4 | 14.00% | 19 Feb 2020 | 16 | USD | // |
| Bank Eurobonds | | | | | | | | | | | | |
| PUMB, 2018 | 102.5 | 104.8 | 0.1% | 6.5% | 2.4% | -29.7 | 0.5 | 11.00% | 31 Dec 2018 | 252 | USD | // |
| PrivatBank, 2018-2 | 28.0 | 38.0 | 0.0% | n/a | n/a | n/a | n/a | 10.25% | 23 Jan 2018 | 200 | USD | IN DEFAULT |
| PrivatBank, 2021 | 8.3 | 14.2 | 1.5% | n/a | n/a | n/a | 1.2 | 11.00% | 09 Feb 2021 | 220 | USD | IN DEFAULT |
| PrivatBank, 2018 | 29.0 | 29.1 | 0.0% | n/a | n/a | n/a | n/a | 10.88% | 28 Feb 2018 | 175 | USD | IN DEFAULT |
| UkrEximBank, 2022 | 103.0 | 103.9 | -0.4% | 8.7% | 8.4% | 12.7 | n/a | 9.63% | 27 Apr 2022 | 750 | USD | Caa3//CCC |
| UkrEximBank, 2023 | 96.5 | 98.2 | 0.4% | 10.4% | 10.0% | -12.1 | 4.0 | 9.00% | 9 Feb 2023 | 125 | USD | Caa3//CCC |
| UkrEximBank, 2025 | 103.2 | 104.1 | -0.6% | 9.1% | 8.9% | 12.2 | 3.0 | 9.75% | 22 Jan 2025 | 500 | USD | Caa3//CCC |
| Oschadbank, 2023 | 103.0 | 104.0 | -0.4% | 8.6% | 8.3% | 10.4 | 1.5 | 9.38% | 10 Mar 2023 | 700 | USD | Caa3//CCC |
| Oschadbank, 2025 | 102.9 | 103.9 | -0.6% | 9.0% | 8.8% | 11.5 | 2.6 | 9.63% | 20 Mar 2025 | 500 | USD | Caa3//CCC |
| Municipal Eurobonds | | | | | | | | | | | | |
| City of Kyiv, 2015 | 88.1 | 90.0 | 0.0% | n/a | n/a | n/a | n/a | 8.00% | 6 Nov 2015 | 101 | USD | IN DEFAULT |

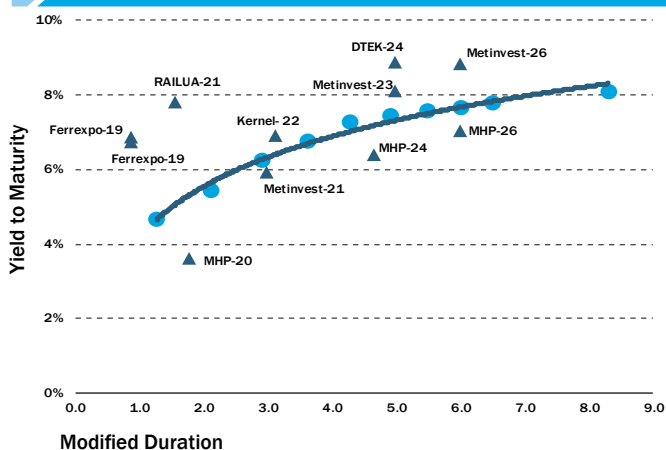
¹ Moody's/S&P/Fitch

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 | | | 17.50% | 16.00% | n/a | n/a | S/A | 10 Apr. 2019 | n/a |
| VAT Bonds | | | | | | | | | |
| UA4000185151 | | | 17.75% | 16.00% | 1.9 | 9.50% | S/A | 8 Jul 2019 | 3,577 |
| UA4000185557 | | | 17.75% | 16.00% | 1.9 | 9.50% | S/A | 22 Jul 2019 | 2,171 |
| UA4000186159 | | | 17.75% | 16.00% | 1.9 | 9.50% | S/A | 20 Aug 2019 | 955 |

Source: Bloomberg, Cbonds, Eavex Research

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