

**Trends**

Ukrainian sovereign Eurobonds were little-changed last week, with news that the Finance Ministry managed to borrow USD 725mn (at 9% interest) to finance the coupon payments on outstanding Eurobonds clearly failing to impress investors. It appears that the market is waiting for a verdict from the IMF after an in-country mission completes its evaluation on Sept 19.

The closest benchmark issue to 10-year bonds, Ukraine-27s, remained at 93.0/94.0 (8.9%/8.7%) and the shortest issue, Ukraine-19s, was quoted at 100.5/101.0 (7.2%/6.7%). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) traded at 55.2/56.2 cents on the dollar.

In corporate sector debt papers, DTEK-24s had no reaction after the company reported a solid 2.2x YoY increase in 1H18 EBITDA to USD 474mn. The bond stood at 102.2/103.2 (10.3%/10.1%). Metinvest-26s declined by 1.0% to 93.4/94.0 (9.7%/9.6%). The Eurobonds of state-owned Ukrainian Railways (RAILUA-21s) inched down 0.3% after the company's 1H18 financial report. The RAILUA-21s issue were quoted at 100.4/100.9 (9.7%/9.5%) last week.

Quasi-sovereign UkrEximBank-22s shed 0.8% to 100.7/101.0 (9.3%/9.3%) and OschadBank-25s declined by 0.4% to 99.6/100.0 (9.7%/9.6%).

The yield on the government's 1-year UAH-denominated treasuries increased by 40 bps to bid/ask of 18.60%/17.90%. The Finance Ministry placed a small amount of 5-year UAH-denominated notes at 16.00%.

The hryvnia gave up another 1.3% against the dollar, closing at 28.22 UAH/USD and bringing its decline since early August to more than 5%. However, thanks to gains in the spring and early summer, the currency is down by only 0.4% since the start of 2018, indicating that the devaluation remains in a controlled mode. The National Bank has battled to keep the hryvnia firm this year, raising its key policy rate twice this year from 16.00% to 17.50%, and there are expectations that the rate could be increased to 18% at the NBU board meeting on Sept 6.

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

**Highlights**

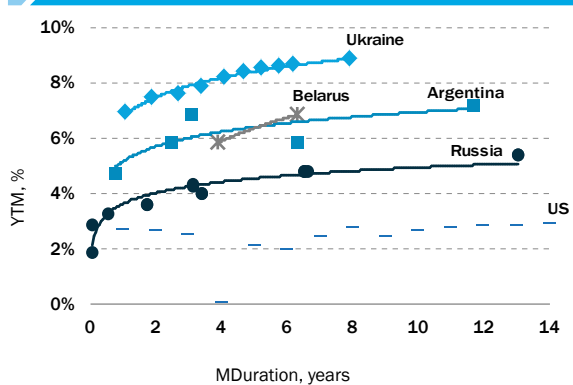
- > Moscow Accuses Ukraine of Assassinating DNR Leader Zaxarchenko
- > DTEK Doubles 1H EBITDA to USD 474mn on 23% YoY Revenue Growth
- > UkrZaliznytsa's EBITDA Down 9% YoY to UAH 9.4bn in 1H18

**UKRAINE 10-YEAR BOND YIELD**



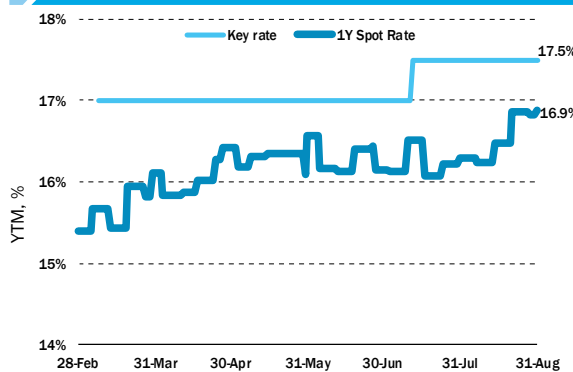
Source: Bloomberg, Eavex Capital

**SOVEREIGN BOND YIELD CURVES**



Source: Bloomberg, Eavex Capital

**KEY INTEREST RATE vs SPOT RATE**



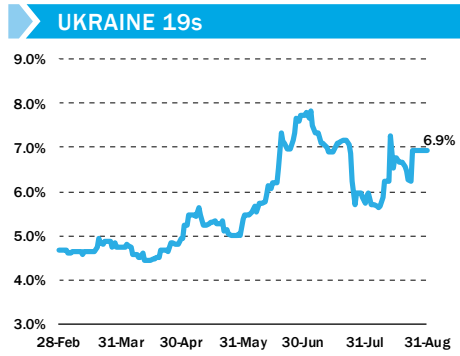
Source: Bloomberg, Eavex Capital

**CURRENCY**

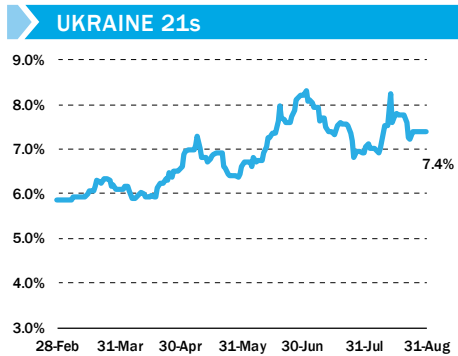
	Last, UAH	1W chg.	1M chg.	YTD
USD/UAH	28.22	1.3%	4.6%	0.4%
EUR/UAH	32.75	1.2%	4.1%	-2.8%
EUR/USD	1.16	-0.2%	-0.5%	-3.4%

Source: Bloomberg, Eavex Capital

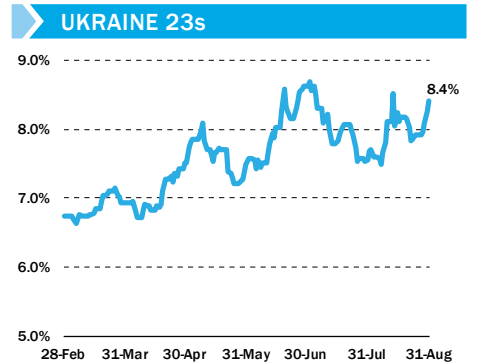
Selected Sovereign Issues



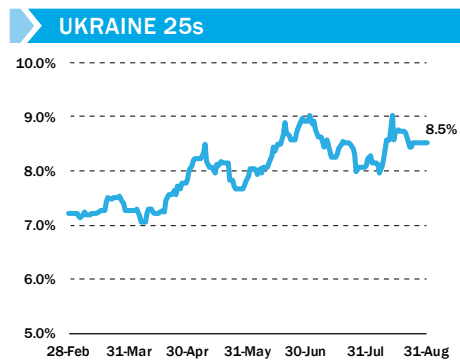
Source: Bloomberg, Eavex Research



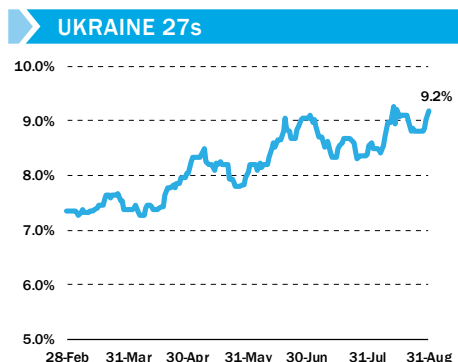
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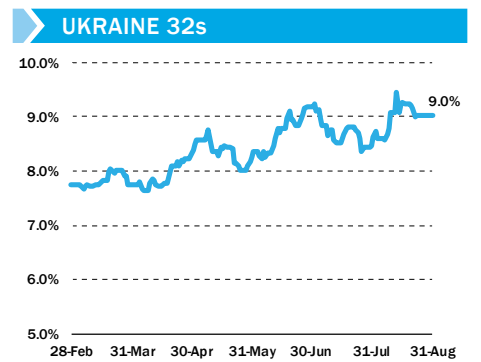
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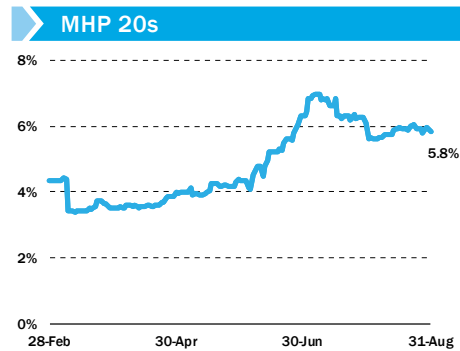


Source: Bloomberg, Eavex Research

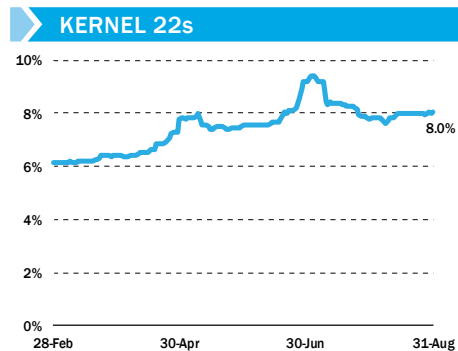


Source: Bloomberg, Eavex Research

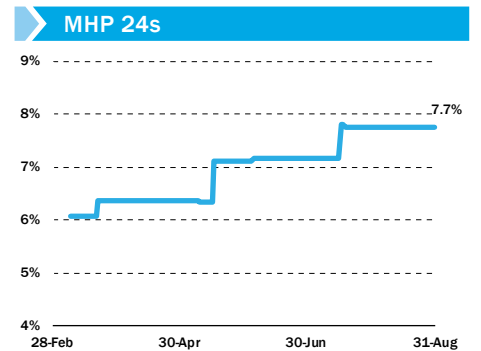
Selected Corporate Issues



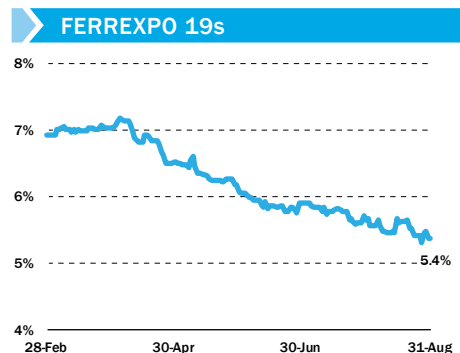
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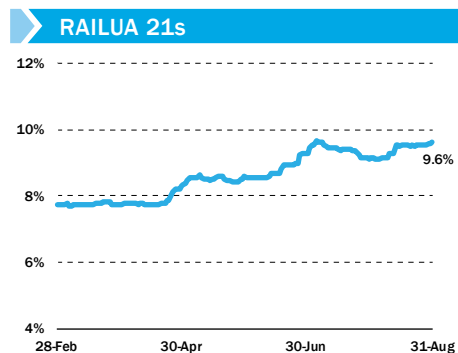
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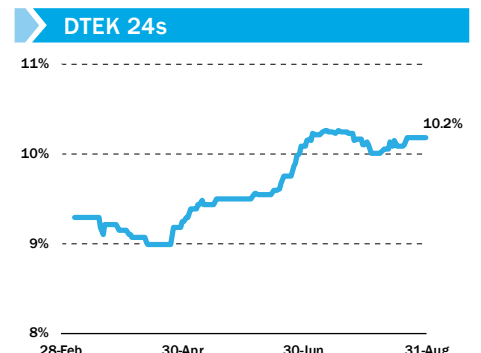
Source: Bloomberg, Eavex Research



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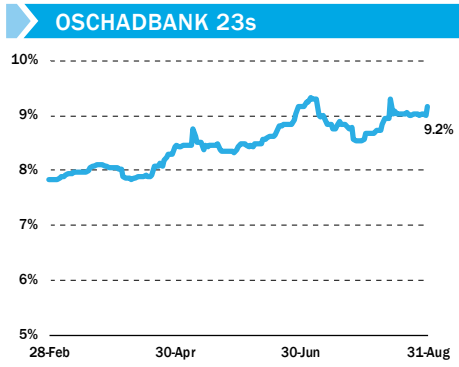


Source: Bloomberg, Eavex Research

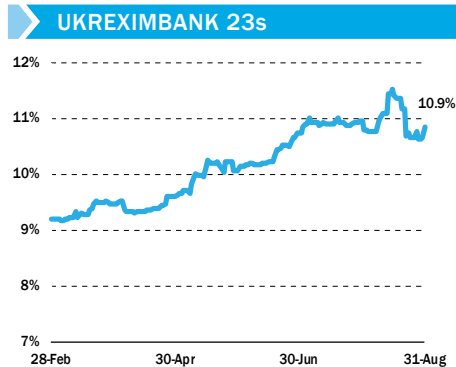


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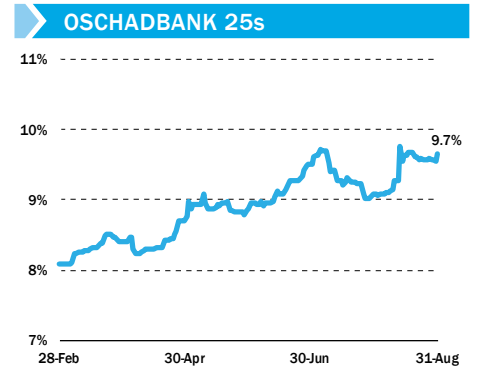
Selected Banking Issues



Source: Bloomberg, Eavex Research

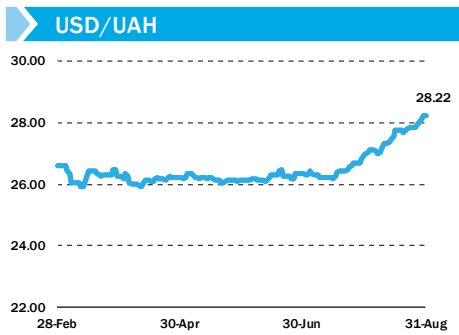


Source: Bloomberg, Eavex Research

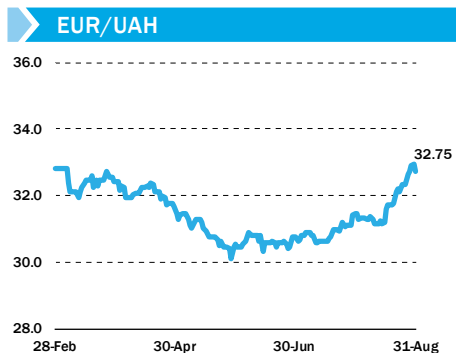


Source: Bloomberg, Eavex Research

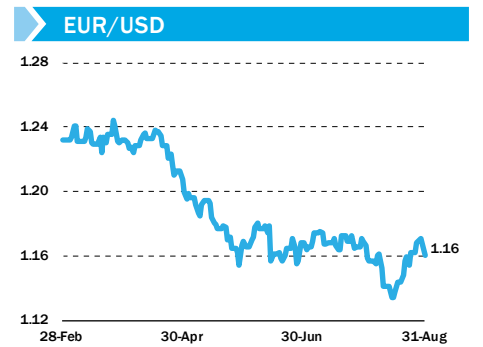
Currency



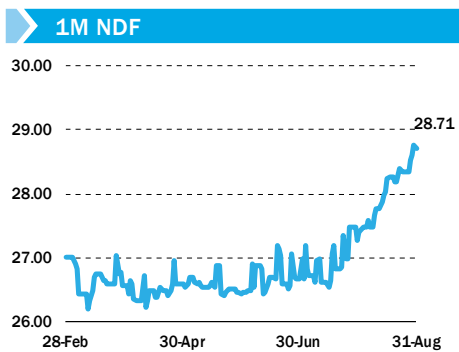
Source: Bloomberg, Eavex Research



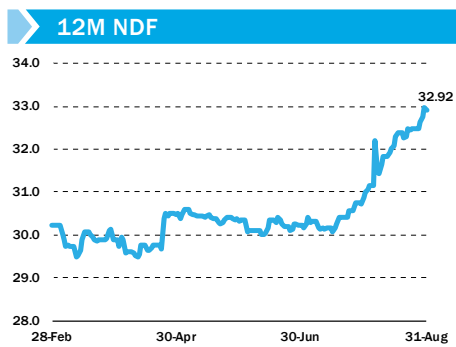
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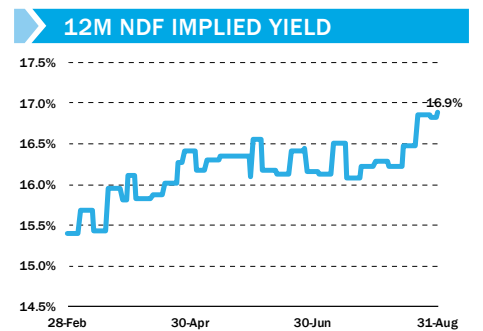
Source: Bloomberg, Eavex Research



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Source: Bloomberg, Eavex Research



Source: Bloomberg, Eavex Research

## Moscow Accuses Ukraine of Assassinating DNR Leader Zaxarchenko

by Will Ritter  
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### NEWS

Alexander Zaxarchenko, the president of the unrecognized separatist Donetsk People's Republic (DNR) in Eastern Ukraine, died in a bomb attack in a central Donetsk restaurant on Friday (Aug 31), Russian media reported. On Saturday, Russia's foreign ministry accused the Ukrainian government of being responsible for the assassination. Official spokeswoman Maria Zaxarova said, "there is every reason to suggest that the Kiev regime stands behind this murder." President Poroshenko has not commented on the accusation, but Ukrainian media reported that Ukrainian Security Service (SBU) director Vasyl Hrytsak denied any Ukrainian connection to the plot. Zaxarchenko, a Ukrainian citizen, took over the presidency of the DNR in mid-2014, replacing the initial leaders who were Russian citizens. He was one of the signatories to the Minsk peace agreement in early 2015 that curtailed the active phase of the Donbass war. Domestic media reported that after the news of Zaxarchenko's death, the president of the DNR's sister separatist republic in neighboring Lugansk fled the city to Russia.

### COMMENTARY

We don't see what incentive the Ukrainian government would have to try to assassinate Zaxarchenko, who in any case was largely a figurehead who did not represent the real power in the DNR. In fact, it is the Kremlin itself that would seem to have much more incentive, not to mention the wherewithal, to carry out such an assassination. However, in the absence of real information, no possibility can be ruled out, including some kind of local commercial conflict. Both Russian and Ukrainian analysts have spoken about Moscow's need to "upgrade" the leadership of the separatist republics before any new phase of negotiations about their future can get off the ground. One view is that Moscow is planning to return Donetsk and Lugansk to Ukraine on terms unfavorable to Kyiv, but that this would be impossible with Zaxarchenko at the helm of the DNR due to his vociferous anti-Ukrainian views and rhetoric. It remains to be seen what the fallout from this development is; if Moscow continues to repeat public accusations of Kyiv's involvement, there could be a danger of a re-escalation of the war in Eastern Ukraine, and we would expect Poroshenko to push back hard against such Russian statements.

## DTEK Doubles 1H EBITDA to USD 474mn on 23% YoY Revenue Growth

by Dmitry Churin  
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### NEWS

Vertically-integrated thermal power plant operator DTEK, the largest private energy company in Ukraine, reported that its EBITDA rose by 2.2x YoY to USD 474mn in 1H18 after revenue grew by 23% YoY to USD 3.14bn in the period, according to the company's unaudited financials published on Aug 30. DTEK posted a net profit of USD 204mn in 1H18 compared to its net loss of USD 38mn seen in 1H17. The net margin was 6.5% in the period and the EBITDA margin was 15.1%, up from 8.5% a year ago. The company reported a net foreign exchange gain of USD 159mn, which was the primary reason for the improvement in its bottom line in the period. DTEK's financing costs amounted to USD 164mn in 1H18. On the balance sheet side, the group reported total debt of USD 2.65bn as of 30 Jun 2018, with the company's total assets standing at USD 4.97bn on the same date.

### DTEK INTERIM FINANCIAL RESULTS

USD mn	1H18	1H17	Y/Y
<b>Revenue*</b>	<b>3,139</b>	<b>2,554</b>	<b>+23%</b>
<b>EBITDA adj</b>	<b>474</b>	<b>217</b>	<b>+119%</b>
<i>margin</i>	<i>15.1%</i>	<i>8.5%</i>	<i>+6.6 p.p.</i>
<b>Net Profit (Loss)</b>	<b>204</b>	<b>-38</b>	<b>+/-</b>
<i>margin</i>	<i>6.5%</i>	<i>-1.5%</i>	<i>+8.0 p.p.</i>

\*average UAH/USD FX rates used

Source: Company Data, Eavex Research

### COMMENTARY

DTEK did not provide a segment performance breakdown for 1H18. However, we assume that both the increase in revenue and EBITDA could be partly attributed to development of the company's assets in the renewable energy sector. Just last week, DTEK announced that it had borrowed EUR 90mn for the first stage of the Primorska Wind Electricity Plant with a capacity of 100 MW in Zaporizhia province. The loan was issued by a consortium of German banks. DTEK said it aims to have 1000 MW of 'green' facilities in the portfolio by 2020. DTEK's existing renewable energy assets generated 0.64 TWh of electricity in 2017 out of the group's total production of 31.1 TWh last year.

We also see a positive trend in average prices for thermal electricity paid by the Ukraine's state monopoly wholesale electricity market operator EnergoRynok. The average price has risen by 23% year-to-date. We expect that the upward price trend will allow DTEK to achieve a 30% increase in revenue in full-year 2018.

We estimate DTEK's Net Debt-to-EBITDA (last 12 months) ratio at 2.8x.

DTEK-2024 Eurobonds are currently quoted at 102.2/103.2 (10.3%/10.1%), representing a spread over the sovereign yield curve of 200 bps.

**UkrZaliznytsa's EBITDA Down  
9% YoY to UAH 9.4bn in 1H18**

by Dmitry Churin  
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**NEWS**

UkrZaliznytsya (UZ Rail), Ukraine's state railways operator, reported a decline in EBITDA by 9.2% YoY to UAH 9.4bn (USD 355mn) in 1H18 while the company's revenue increased by 13% YoY to UAH 40bn (USD 1.51bn) in the period, according to consolidated financial results published last week. UZ's net profit rose by almost 4x to UAH 468mn in 1H18, partially due to lower debt servicing costs in the period. The company spent UAH 1.83bn to pay interest on its debt in 1H18 compared to an amount of UAH 2.02bn in 1H17.

On the balance sheet side, UZ's total debt was UAH 35.4bn (USD 1.34bn) as of 30 Jun 2018.

UZ RAIL INTERIM FINANCIAL RESULTS			
UAH mn	1H18	1H17	Y/Y
<b>Revenue</b>	<b>39.9</b>	<b>35.3</b>	+13.0%
<b>EBITDA</b>	<b>9.4</b>	<b>10.3</b>	-9.2%
<i>margin</i>	23.6%	29.2%	+5.6 p.p.
<b>Net Profit</b>	<b>0.47</b>	<b>0.12</b>	+284%
<i>margin</i>	1.8%	0.3%	+1.5 p.p.

Source: Company Data. Eavex Research

**COMMENTARY**

The reported UZ financials for 1H18 were more or less in line with market expectations. However, the company's net margin of just 1.8% in the period remains well below the industry average benchmark of 20%. On the EBITDA level, UZ's margin was 23.6% in 1H18, decreasing by 5.6 p.p. YoY. Among positive developments, UZ's CapEx rose by 26% YoY to UAH 3.3bn in 1H18 with most of the expenditures related to purchase of 2,300 new freight railcars. The company's aging railcar and locomotive fleet is a big hurdle for expansion of UZ's core freight transportation business.

The 1H18 EBITDA figure gives an estimate of UZ's Net Debt/EBITDA ratio at 1.8x, which provides at least the appearance of a still-manageable debt burden.

UZ Rail-2021 Eurobonds, which we view as quasi-sovereign since the perception of their value is closely tied to the Ukrainian government's overall financial position, are currently quoted at 9.7%/9.5%, implying a spread of 220 bps to the sovereign yield curve.

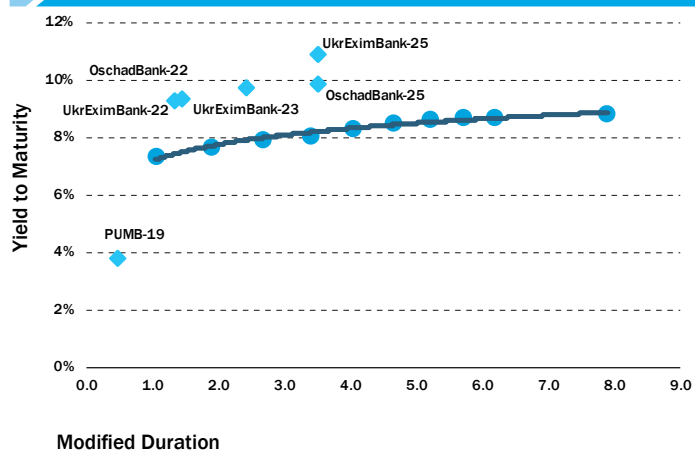
**UKRAINIAN EUROBONDS**

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	0.0%	7.2%	6.7%	-1.6	0.9	7.75%	1 Sept 2019	1,744	USD	Caa2/B-/B-
Ukraine, 2020	99.4	100.3	-1.1%	8.1%	7.6%	59.6	1.8	7.75%	1 Sept 2020	1,780	USD	Caa2/B-/B-
Ukraine, 2021	100.6	101.3	0.0%	7.5%	7.2%	-0.2	2.6	7.75%	1 Sept 2021	1,409	USD	Caa2/B-/B-
Ukraine, 2022	99.7	100.4	0.0%	7.8%	7.6%	0.0	3.4	7.75%	1 Sept 2022	1,384	USD	Caa2/B-/B-
Ukraine, 2023	98.7	99.5	0.0%	8.1%	7.9%	0.1	4.0	7.75%	1 Sept 2023	1,355	USD	Caa2/B-/B-
Ukraine, 2024	97.6	98.6	0.0%	8.3%	8.0%	0.2	4.7	7.75%	1 Sept 2024	1,339	USD	Caa2/B-/B-
Ukraine, 2025	95.6	96.6	0.0%	8.6%	8.4%	0.2	5.2	7.75%	1 Sept 2025	1,329	USD	Caa2/B-/B-
Ukraine, 2026	93.8	94.8	0.0%	8.8%	8.7%	0.2	5.8	7.75%	1 Sept 2026	1,318	USD	Caa2/B-/B-
Ukraine, 2027	92.9	93.9	0.0%	8.9%	8.7%	0.2	6.2	7.75%	1 Sept 2027	1,307	USD	Caa2/B-/B-
Ukraine, 2032	86.5	87.5	0.0%	9.1%	9.0%	0.1	7.6	7.38%	25 Sept 2032	3,000	USD	/B-
Ukraine, GDP-linked	55.2	56.2	0.0%	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	101.9	102.3	-0.1%	8.1%	7.9%	3	2.9	8.75%	31 Jan 2022	500	USD	/B/B+
MHP, 2020	103.2	104.0	0.1%	6.1%	5.6%	-9.9	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	93.1	93.8	-0.6%	8.2%	8.1%	11.2	5.6	6.95%	4 Apr 2026	550	USD	/B/B
Avangardco, 2018	21.0	22.9	1.7%	0%	0%	0	0.0	10.00%	29 Oct 2018	206	USD	//
UkrLandFarming, 2018	21.0	22.3		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	0.0%	10.3%	10.1%	-0.1	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	94.3	95.2	-0.7%	9.3%	9.1%	19.4	3.8	7.75%	23 Apr 2023	945	USD	//B
Metinvest, 2026	93.4	94.0	-1.0%	9.7%	9.6%	19.5	5.3	8.50%	23 Apr 2026	648	USD	//B
Ferrexpo, 2019	102.5	103.5	0.0%	6.0%	4.4%	-19.2	0.6	10.38%	07 Apr 2019	186	USD	Caa3/CCC/CC
Ferrexpo, 2019	102.5	103.2	-0.1%	6.0%	4.7%	-5.8	0.6	10.38%	07 Apr 2019	161	USD	Caa3/CCC/CC
UZ Rail, 2018	100.4	100.9	-0.3%	9.7%	9.5%	10.1	1.2	9.88%	21 May 2018	500	USD	/CCC+/CCC
Interepipe, 2017	30.0	34.3	0.0%	n/a	n/a	24.3	n/a	10.25%	2 Aug 2017	200	USD	IN DEFAULT
JKX Oil&Gas, 2020	85.0	95.0	0.0%	27.1%	18.0%	9.7	1.2	14.00%	19 Feb 2020	16	USD	//
<b>Bank Eurobonds</b>												
PUMB, 2018	102.5	102.9	-0.4%	3.1%	1.8%	56.9	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	10.8	12.6	-0.8%	n/a	n/a	n/a	1.2	11.00%	09 Feb 2021	220	USD	IN DEFAULT
PrivatBank, 2018	25.0	25.6	-8.0%	n/a	n/a	n/a	n/a	10.88%	28 Feb 2018	175	USD	IN DEFAULT
UkrEximBank, 2022	100.7	101.0	-0.8%	9.4%	9.3%	26.3	n/a	9.63%	27 Apr 2022	750	USD	Caa3//CCC
UkrEximBank, 2023	94.7	96.2	-0.6%	11.1%	10.6%	18.8	4.0	9.00%	9 Feb 2023	125	USD	Caa3//CCC
UkrEximBank, 2025	99.5	99.9	-0.6%	9.9%	9.8%	12.8	2.8	9.75%	22 Jan 2025	500	USD	Caa3//CCC
Oschadbank, 2023	100.4	101.1	-0.5%	9.3%	9.1%	12.7	1.2	9.38%	10 Mar 2023	700	USD	Caa3//CCC
Oschadbank, 2025	99.6	100.0	-0.4%	9.7%	9.6%	8.1	2.3	9.63%	20 Mar 2025	500	USD	Caa3//CCC
<b>Municipal Eurobonds</b>												
City of Kyiv, 2015	87.7	89.3	0.0%	n/a	n/a	n/a	n/a	8.00%	6 Nov 2015	101	USD	IN DEFAULT

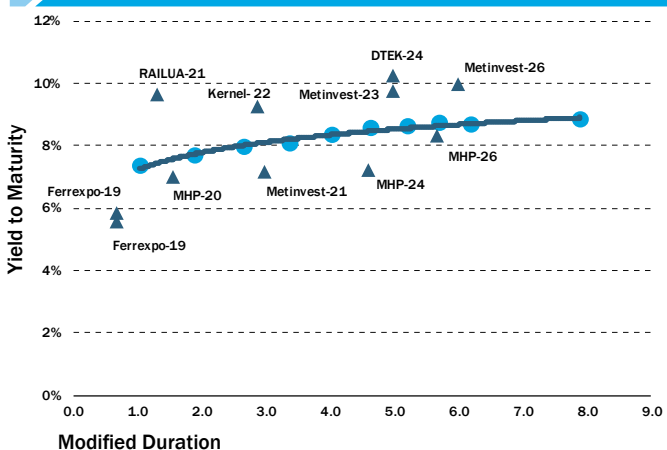
<sup>1</sup> Moody's/S&P/Fitch

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			18.30%	17.80%	n/a	n/a	S/A	10 Apr .2019	n/a
<b>VAT Bonds</b>									
UA4000185151			18.60%	17.90%	1.9	9.50%	S/A	8 Jul 2019	3,577
UA4000185557			18.60%	17.90%	1.9	9.50%	S/A	22 Jul 2019	2,171
UA4000186159			18.60%	17.90%	1.9	9.50%	S/A	20 Aug 2019	955

Source: Bloomberg, Cbonds, Eavex Research



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