EAVEX capital

Fixed Income Weekly Monitor

December 9, 2019

Trends

Quotes for Ukrainian sovereign Eurobonds declined notably last week amid a worsening outlook for the country's steel sector, with positive news about a fresh IMF program for Kyiv arriving on Saturday after markets had closed. The latest data indicated that Ukraine's nationwide steel output slumped by 15.8% YoY to 1.31mn tonnes in November. National steel production for 2019 (through November) is essentially flat year-on-year at 19.3mn tonnes.

The medium-term benchmark Ukraine-24s slid 3.5% to 106.2/106.9 (7.4%/7.2%), and Ukraine 32s, the longest outstanding sovereign issue, dropped by 1.1% to 99.6/100.4 (7.5%/7.4%). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) were down by 1.6% to 90.0/91.0 cents on the dollar.

In individual corporate Eurobonds, DTEK-24s declined by 0.6% to 99.77/100.7 (9.7%/9.4%) after the group reported unimpressive financial results for 9M19. DTEK's EBITDA fell 32% YoY to USD 469mn in the period. The company's last 12-months Net Debt-to-EBITDA ratio is estimated at 3.3x, with expectations that the ratio could worsen by the end of the year.

NaftoGaz-24s, which are EUR-denominated, declined by 0.6% to 101.3/102.3 (6.8%/6.5%) while MHP-29s were unchanged at 93.7/94.7 (7.3%/7.1%).

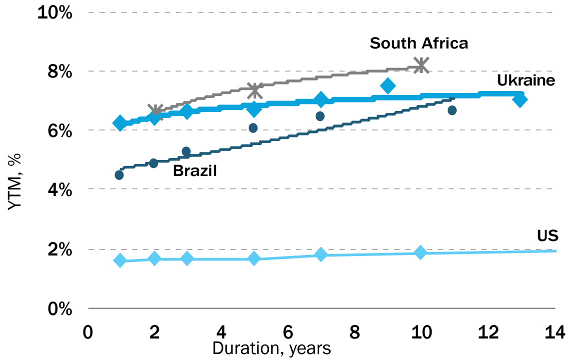
Quasi-sovereign banking issue UkrEximBank-25s inched down by 0.2% to close at 101.4/102.4 (9.2%/8.7%), while OschadBank-25s were flat at 102.2/103.3 (8.2%/7.5%).

The yield on the government's 1-year UAH-denominated treasuries was unchanged at bid/ask of 15.75%/14.00%. The Finance Ministry did not place any 1-year UAH-denominated bonds at its primary auction on Dec 3; however, 4-year UAH bonds were placed at 12.50%, which indicates a notable inversion of the domestic yield curve, as 1-year bonds are trading at around 100 basis points higher. MinFin also sold USD 35mn of 2-year USD-denominated domestic bonds at 4.25%. On Dec 12 there will be an interest rate announcement from the National Bank's monetary board; we expect that the rate will be slashed by 150 basis points from the current 15.50% to 14.00%.

The hryvnia rose by 1.1% against the dollar over the week to close at 23.70 UAH/USD, another fresh 3-year high. Meanwhile, the Executive Council of the National Bank has called the central bank's formation and implementation of exchange rate policy in 2019 ineffective and not in line with the challenges of the development of Ukraine. The hryvnia has strengthened by 14% year-to-date, hurting the competitiveness of Ukrainian exports.

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

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg. Eavex Capital

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	15.5%	0.0 p.p.	-2.5 p.p.
UAH 1-year bond	15.7%/14.0%	0.0 p.p.	-4.9 p.p.
Ukraine-2024	7.3%	1.0 p.p.	-3.2 p.p.
Ukraine-2028	7.5%	0.0 p.p.	-3.3 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	23.70	-1.1%	-14.4%
EUR/UAH	26.25	-0.5%	-17.2%

Source: Eavex Capital

Highlights

- IMF Floats USD 5.5bn for Kyiv Ahead of Zelenskiy-Putin Meeting
- NBU Reserves Near USD 22bn, Highest Level Since July 2013
- DTEK's 9M19 EBITDA Down 32% to USD 470mn

Kyiv, Ukraine.
(+380 44) 590-54-54, (+380 44) 590-54-64
office@eavex.com.ua

IMF Floats USD 5.5bn for Kyiv Ahead of Zelenskiy-Putin Meeting

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

NEWS

International Monetary Fund managing director Kristalina Georgieva announced on Saturday (Dec 7) that the IMF has reached a preliminary agreement with Ukraine's government on a new USD 5.5bn loan program for the country. Georgieva said she had spoken personally with Zelenskiy and had "commended him for impressive progress in advancing reforms". The new deal, which is subject to approval by the IMF's executive board, will replace Kyiv's existing USD 3.9bn "standby arrangement" with the IMF that has been partially disbursed. Georgieva did not specify when Ukraine could receive the first installment of the new loan, which will be subject to periodic progress reviews according to standard IMF practice. The announcement comes as Zelenskiy is due to meet Russian President Putin later today (Dec 9) in Paris along with French President Macron and German Chancellor Merkel in a so-called "Normandy Four" summit aimed at resolving the Donbass conflict in Eastern Ukraine. A crowd of several thousand nationalist protesters, including former President Poroshenko, gathered on Independence Square in Kyiv on Sunday (Dec 8) to demand that Zelenskiy not cross "red lines" in the talks with Putin.

COMMENTARY

The IMF's announcement of a new deal right before the Normandy Four summit is clearly not accidental and is intended to demonstrate support for Zelenskiy and Ukraine at a key moment. Industrialist and former Zelenskiy political patron Igor Kolomoyskiy has been trying to derail Kyiv's IMF cooperation by harassing the National Bank (NBU) with paid protests and court cases in recent months; a key requirement for the new IMF loan is that Zelenskiy hold Kolomoyskiy accountable for billions of dollars in losses accrued in the government's 2016 bailout of the country's largest bank. Zelenskiy has thus far remained publicly passive in regard to Kolomoyskiy's attacks against the NBU, perhaps wishing to avoid further inflaming the situation. In terms of the nationalist "red lines" protest, we see Zelenskiy now facing the same quagmire that dogged Poroshenko's efforts to manage the Donbass negotiations, i.e. the compromises required from Kyiv to implement the Minsk peace agreements are unacceptable to a very politically active and aggressive minority of citizens. The key compromise needed to bring the DNR and LNR back into Ukraine is a so-called "special status" for these territories which would amount to regional autonomy outside of Ukraine's current Constitution; in return, Russia would withdraw its military forces back behind the pre-2014 Ukrainian-Russian border. In our view, the fundamental underlying issue is that there is no realistic scenario for Ukraine to regain control over the occupied Donbass territories, but it is politically impossible for Zelenskiy (or any other politician) to state this openly. The difference here between Zelenskiy and Poroshenko is that unlike Poroshenko, Zelenskiy has a large Russian-speaking electorate to keep satisfied, and so he needs to come out of today's summit with some kind of demonstrable result. We believe that the Kremlin is pursuing a deliberate strategy of trying to encourage nationalist anger at Zelenskiy, thus depriving him of support from the pro-Western spectrum of Ukrainian politics and making him totally dependent on the backing of the southeastern electorate.

NBU Reserves Near USD 22bn, Highest Level Since July 2013

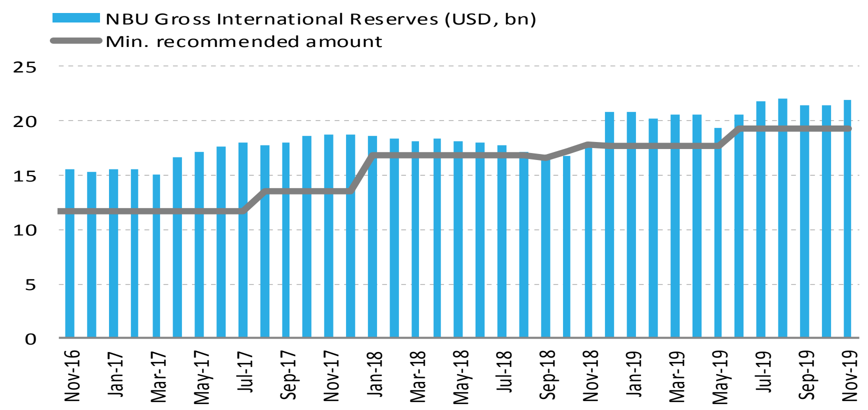
by Dmitry Churin
d.churin@eavex.com.ua

NEWS

Ukraine's foreign currency reserves increased by USD 530mn (+2.5% MoM) to USD 21.93bn in November, the National Bank of Ukraine said on Dec 6. The November increase brought the reserves up by 5.4% year-to-date. The NBU said November's rise occurred thanks to net forex purchases of USD 898mn on the interbank market amid a steady supply of foreign currencies. The regulator did not intervene the market with any forex sales last month.

In terms of outflows, the NBU transferred USD 645mn to the government for servicing foreign-currency denominated debt, and MinFin redeemed EUR 426mn of domestic EUR-bonds. Also there was a USD 84mn interest payment to the IMF in November.

UKRAINE'S FX RESERVES, USD bn



Source: National Bank of Ukraine

COMMENTARY

Ukraine's forex reserves at the end of November represent the highest level since July 2013. A generally favorable situation on the interbank market driven by inflows of hard currency from offshore investors buying Ukrainian high-yield UAH domestic bonds were the primary reason for the National Bank's ability to replenish the reserves.

Although the hryvnia performed strongly last week, we believe that the problems which Ukrainian steelmakers are now facing on global markets will spark a reduction in the export proceeds which have been helping to boost the hryvnia this year. We expect a notable hryvnia retreat before the end of the year of 5-7%, back to the 25-25.50 UAH/USD range where it had spent most of 2019.

The latest NBU figures indicate that Ukraine's currency reserves now roughly cover the equivalent of 3.4 months of merchandise imports, which is above the minimum 3 months safe level to maintain trouble-free foreign trade.

DTEK's 9M19 EBITDA Down 32% to USD 470mn

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

NEWS

Vertically-integrated thermal power plant operator DTEK Energy, the largest private energy company in Ukraine, reported that its EBITDA dropped by 32% YoY to UAH 12.4mn (USD 469mn at the average UAH/USD exchange rate for the period) in 9M19, according to the company's unaudited financials published on Dec 2. DTEK saw a 38% YoY decrease in revenue to USD 2.74bn in the Jan-Sept period amid lower volume sales in all of the company's key business segments. In particular, DTEK's coal production fell 8.9% YoY to 18.2mn tonnes and electricity generation declined by 5.9% to 23.6 TWh. In contrast, the group's net profit jumped by 90% YoY to USD 239mn as a result of foreign exchange gains in the equivalent of USD 216mn. DTEK's financing costs amounted to USD 175mn in 9M19 (-15% YoY). On the balance sheet side, the group reported total debt of USD 2.16bn as of 30 Sept 2019, with the company's total assets standing at USD 4.02bn on the same date.

DTEK INTERIM FINANCIAL RESULTS

USD mn	9M19	9M18	Y/Y
Revenue*	**2,741**	**4,445**	-38%
EBITDA	**469**	**685**	-32%
margin	*17.1%*	*15.4%*	*+1.7 p.p..*
Net Profit (Loss)	**239**	**126**	+90%
margin	*8.7%*	*2.8%*	*+5.9 p.p.*

**average UAH/USD FX rates used*

Source: Company Data, Eavex Research

COMMENTARY

We view DTEK's financial results for 9M19 as quite weak. The company's last 12-months Net Debt-to-EBITDA ratio is estimated at 3.3x, with expectations that the ratio could worsen by the end of the year. Electricity prices in Ukraine on the so called Day Ahead Market (DAM) had a downward trend in October & November due to mild temperatures. Regarding implementation of the new model of electricity market in Ukraine, there are still questions on the table about the justification of price capping. In July, the previous single government-owned wholesale electricity buyer model in Ukraine was replaced with a market model based on bilateral, day-ahead, and intraday markets, as well as a balancing market and a market of ancillary services. The new model is subject to strong regulation through various price caps set by the national regulatory authority and public service obligations imposed by the Cabinet of Ministers. Nevertheless, the new liberalized energy market has been operating successfully, which means that the Ukrainian electricity sector is becoming more customer-oriented, more competitive, and more favorable for investment.

DTEK-2024 Eurobonds are currently quoted at 99.7/100.7 (9.7%/9.4%), representing a spread over the sovereign yield curve of 230 bps.

SELECTED UKRAINIAN EUROBONDS

Issue	Price Bid	Price Ask	Price ch., W/W, %	YTM Bid, %	YTM Ask, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings[1]
Sovereign Eurobonds										
Ukraine, 2020	100.5	101.0	-0.2%	7.2%	6.4%	7.75%	1 Sept 2020	1,365	USD	Caa1/B/B
Ukraine, 2024	106.2	106.9	-3.5%	7.4%	7.2%	7.75%	1 Sept 2024	1,339	USD	Caa1/B/B
Ukraine, 2028	115.0	115.8	-0.2%	7.5%	7.4%	9.75%	1 Nov 2028	1,600	USD	Caa1/B/B
Ukraine, 2032	99.6	100.4	-1.1%	7.5%	7.4%	7.38%	25 Sept 2032	3,000	USD	Caa1//B
Ukraine, GDP-linked	90.0	91.0	-1.6%			0.00%	31 May 2040	3,214	USD	/B/
Corporate Eurobonds										
Kernel, 2022	102.3	103.3	-0.2%	7.7%	7.2%	8.75%	31 Jan 2022	500	USD	/B/BB-
MHP, 2026	101.3	102.3	-0.1%	6.8%	6.6%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	93.7	94.7	-0.1%	7.3%	7.1%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK, 2024	99.7	100.7	-0.6%	9.7%	9.4%	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	102.3	103.3	-0.6%	8.2%	8.0%	8.50%	23 Apr 2026	648	USD	B3//B
NaftoGaz, 2024	101.3	102.3	-0.6%	6.8%	6.5%	7.125%	19 Jul 2024	600	EUR	//
Bank Eurobonds										
UkrEximBank, 2022	102.2	103.2	-0.4%	8.0%	7.2%	9.63%	27 Apr 2022	750	USD	Caa3//CCC
UkrEximBank, 2023	97.2	98.2	-0.4%	10.2%	9.0%	9.00%	9 Feb 2023	125	USD	Caa3//CCC
UkrEximBank, 2025	101.4	102.4	-0.2%	9.2%	8.7%	9.75%	22 Jan 2025	500	USD	Caa3//CCC
Oschadbank, 2023	101.8	102.8	0.0%	8.4%	7.8%	9.38%	10 Mar 2023	700	USD	Caa3//CCC
Oschadbank, 2025	102.3	103.3	0.1%	8.2%	7.5%	9.63%	20 Mar 2025	500	USD	Caa3//CCC

[1] *Moody's/S&P/Fitch*

Source: TR Data, Eavex Research

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									
UA4000202469			16.00%	14.00%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			15.75%	14.00%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			15.75%	14.00%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			15.50%	13.75%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			15.50%	13.75%	n/a	n/a	S/A	11 May 2022	n/a
UAH denominated Bonds									
UA4000201743			4.75%	3.25%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, 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

RESEARCH

Dmitry Churin

Head of Research

d.churin@eavex.com.ua

Will Ritter

Research editor

w.ritter@eavex.com.ua