

## Trends

Both sovereign and corporate Ukrainian Eurobonds racked up big gains last week on optimism that the newly appointed technocratic government will be able to deliver strong economic results. New Prime Minister Oleksiy Honcharuk announced his intention to finally open up an agricultural land market in the country, which should immediately attract massive investments in the farm sector.

The longest outstanding Ukrainian Eurobonds due in 2032 surged by 4.5% to their highest-ever price of 102.2/102.9 (7.1%/7.0%), and medium-term Ukraine-24s added 2.5% to 111.0/111.7 (6.2%/6.0%). The EUR-denominated bonds with maturity in 2026 advanced by 3.2% to 109.5/110.2 (5.1%/4.9%), while the VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) jumped by 8.3% to 93.3/94.5 cents on the dollar on speculation that Ukraine's economy will accelerate to 5% growth next year if the land reform measures are indeed implemented.

In corporate Eurobonds, MHP-26s rocketed up by 7.4% to 103.2/104.0 (6.4%/6.3%), ignoring the fact that the company's net debt to EBITDA reached 2.9x, which is very close to the Eurobond covenant of 3.0x. Kernel-22s moved up by 1.2% to 106.2/107.0 (6.0%/5.7%). The Eurobonds of the state energy giant NaftoGaz with maturity in 2024 traded at 105.9/106.5 (5.7%/5.6%); they were issued at 7.125% earlier this year. DTEK-24s gained 1.2% to close at 100.7/102.3 (9.4%/9.0%) after Moody's Investors Service upgraded the corporate family rating of DTEK Energy to Caa2 from Ca. The outlook on the rating is stable.

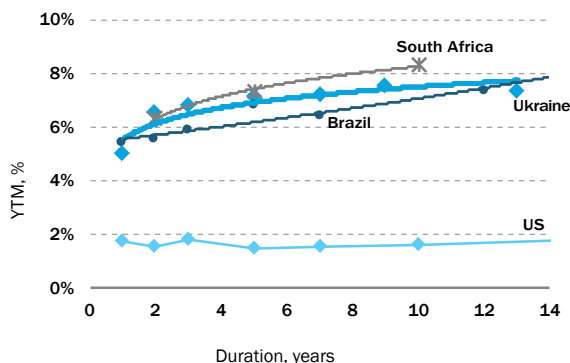
In quasi-sovereign banking issues, UkrEximBank-25s rose by 2.3% to 106.1/107.2 (7.0%/6.6%).

The yield on the government's 1-year UAH-denominated treasuries decreased by 25 bps to bid/ask of 17.40%/16.00% after the National Bank cut the key refinancing rate from 17.00% to 16.50%. The Finance Ministry sold 1-year UAH-denominated bonds at 15.95% last week, which was 5 bps lower than a week earlier, and there was a placement of 3-year UAH-denominated bonds at 16.00%.

The hryvnia once again demonstrated strength, gaining 0.3% to 25.08 UAH/USD after the country's foreign currency reserves grew to USD 22bn. The National Bank said it had purchased USD 300mn from the market in August.

You can receive additional details about developments in Ukrainian fixed income from the Eavex Sales Team at [sales@eavex.com.ua](mailto:sales@eavex.com.ua).

## SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

## FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	16.5%	-0.5 p.p.	-1.5 p.p.
Ukraine-2024	6.2%	-0.6 p.p.	-4.3 p.p.
Ukraine-2028	7.3%	-0.7 p.p.	-3.5 p.p.

## CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	25.08	-0.3%	-9.4%
EUR/UAH	27.64	-0.5%	-12.8%

Source: Eavex Capital

## Highlights

- > Putin Hands Zelenskiy Big Political Victory with Prisoner Swap
- > MHP Increases Net Profit by 38% YoY to USD 138mn in 2Q19

## Putin Hands Zelenskiy Big Political Victory with Prisoner Swap

by Will Ritter  
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### NEWS

Ukraine and Russia exchanged 70 political prisoners (35 on each side) on Saturday (Sept 7) via specially arranged flights to Kyiv's Boryspil airport and Moscow's Vnukovo airport respectively. The returned Ukrainian prisoners included filmmaker Oleg Sentsov, war journalist Roman Suschenko, and 22 Ukrainian sailors captured last November by the Russian Coast Guard. The most prominent names on the Russian side were RIA Novosti journalist Kirill Vyshinskiy and Vladimir Tsemakh, an aviation warfare specialist for the Donbass separatist forces who the Dutch government has named as a suspect in the shooting down of the MH17 Netherlands-Malaysia passenger flight in 2014. Ukraine's release of Tsemakh to Russia was criticized by the foreign ministries of several EU countries as well as by Australia. President Zelenskiy was on hand for the arrival of the flight to greet the returning Ukrainians, and the event was widely covered by domestic media.

### COMMENTARY

The release of the prisoners is a big domestic political win for Zelenskiy, as the inability to obtain their freedom over the previous two years was a constant thorn in the side of former President Petro Poroshenko. Meanwhile, the Putin regime benefits by appearing to the West to be behaving in a reasonable way, which will help the Kremlin in its push to shake off the remaining European Union and US punitive sanctions. In the bigger picture, however, we see this new detente between Kyiv and Moscow as moving toward a scenario in which the Kremlin will try to resolve the Donbass conflict on terms disadvantageous to Ukrainian sovereignty. Bringing the occupied Donbass territories and their overwhelmingly pro-Russian electorates back into Ukraine would be an extremely expensive and risky proposition; we are not sure that Zelenskiy grasps the complications of this outcome, but we know that Putin certainly does. We think that further steps toward the "normalization" of relations between Russia and Ukraine are likely in the near term, as the Kremlin seems to have an interest in building up Zelenskiy's political standing for the time being at the expense of the more Russia-hawkish elements in the Ukrainian political spectrum.

## MHP Increases Net Profit by 38% YoY to USD 138mn in 2Q19

by Dmitry Churin  
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### NEWS

Central-Ukraine-based, London-listed agro group MHP increased its net profit by 38% YoY to USD 138mn in 2Q19, which implies earnings per share of USD 1.31 in the period, according to financials released on Sept 6. Revenue rose 31% YoY to USD 510mn in the quarter while EBITDA (adjusted for forex gains/losses) declined by 6% YoY to USD 164mn. For the first half (1H19), the company posted net revenue of USD 946mn (+36% YoY), EBITDA of USD 247mn (-6% YoY), and net profit of USD 171mn (-10% YoY). The company's export sales rose 43% YoY to USD 552mn in 1H19, accounting for 58% of total revenue. On the balance sheet side, MHP's total debt was USD 1.49bn as of 30 Jun 2019, with long-term debt representing 78% of the amount. Management said the weighted average interest rate on the debt is around 7%. This puts MHP's debt-to-EBITDA ratio at 2.9x as of 30 Jun 2019 compared to 2.5x as of the start of the year.

### MHP FINANCIALS

USD mn	2Q19	2Q18	chg.	1H19	1H18	chg.
Net revenue	510	388	+31%	946	694	+36%
EBITDA	164	174	-6%	247	263	-6%
<i>margin</i>	32.2%	44.8%	-13 p.p.	26.1%	37.9%	-12 p.p.
Net Income	138	100	+38%	171	190	-10%
<i>net margin</i>	27.1%	25.8%	+1 p.p.	18.1%	27.4%	-9 p.p.

Source: Company data.

### COMMENTARY

MHP's reported USD 1.31 net profit per share for 2Q19 beat our forecast of USD 1.10 for the period, and we are raising our full-year projection for MHP's net profit from USD 170mn to USD 220mn, which would imply earnings per share of USD 2.08. At the current stock price of USD 9.20, the company is valued at P/E of 4.4x. In our view, one of the explanations for the low valuation of the company could be an increased level of debt. MHP's net debt to EBITDA of 2.9x represents a concern that the ceiling of 3.0x embedded in MHP's Eurobonds could be crossed. Additionally, investors may be concerned about political risk related to the administration of new Ukrainian President Vladimir Zelenskiy, with an investigation already having been opened into MHP's receipt of state subsidies over the last decade; MHP controlling shareholder Yuriy Kosyuk was a close political ally of previous president and Zelenskiy rival Petro Poroshenko.

In a segment breakdown, MHP's poultry business generated USD 688mn (+12% YoY) in revenue in 1H19 and the grain segment brought in USD 83mn in the period. The company spent USD 59mn on CapEx in 1H19, down from USD 126mn in 1H18.

MHP's lightly-traded stock gained 1% on the earnings report but remains 20% below this year's maximum of USD 11.50 per share.

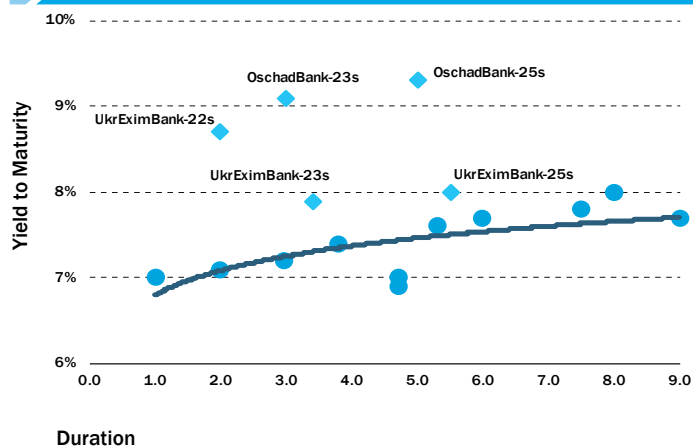
SELECTED UKRAINIAN EUROBONDS

Issue	Price Bid	Price Ask	Price ch., W/W, %	YTM Bid, %	YTM Ask, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings <sup>1</sup>
<b>Sovereign Eurobonds</b>										
Ukraine, 2020	102.8	103.2	4.0%	4.9%	4.5%	7.75%	1 Sept 2020	1,365	USD	Caa1/B-/B-
Ukraine, 2024	111.0	111.7	2.5%	6.2%	6.0%	7.75%	1 Sept 2024	1,339	USD	Caa1/B-/B-
Ukraine, 2028	116.9	117.5	4.2%	7.3%	7.2%	9.75%	1 Nov 2028	1,600	USD	Caa1/B-/B-
Ukraine, 2032	102.2	102.9	4.5%	7.1%	7.0%	7.38%	25 Sept 2032	3,000	USD	Caa1//B-
Ukraine, GDP-linked	93.3	94.5	8.3%			0.00%	31 May 2040	3,214	USD	/B-/
<b>Corporate Eurobonds</b>										
Kernel, 2022	106.2	107.0	1.2%	6.0%	5.7%	8.75%	31 Jan 2022	500	USD	/B/B+
MHP, 2026	103.2	104.0	7.4%	6.4%	6.3%	6.95%	4 Apr 2026	550	USD	B3/B/B
DTEK, 2024	100.7	102.3	1.2%	9.4%	9.0%	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	105.8	106.6	3.6%	7.5%	7.4%	8.50%	23 Apr 2026	648	USD	B3//B
UZ Rail, 2021	101.3	103.6	0.0%	8.1%	5.0%	9.88%	15 Sept 2021	350	USD	/CCC+/CCC
<b>Bank Eurobonds</b>										
UkrEximBank, 2022	104.6	105.4	3.7%	6.1%	5.6%	9.63%	27 Apr 2022	750	USD	Caa3//CCC
UkrEximBank, 2023	99.0	100.2	1.0%	8.0%	7.0%	9.00%	9 Feb 2023	125	USD	Caa3//CCC
UkrEximBank, 2025	106.3	107.1	2.3%	7.0%	6.6%	9.75%	22 Jan 2025	500	USD	Caa3//CCC
Oschadbank, 2023	104.6	105.5	4.9%	6.6%	6.1%	9.38%	10 Mar 2023	700	USD	Caa3//CCC
Oschadbank, 2025	104.9	105.8	4.8%	6.8%	6.3%	9.63%	20 Mar 2025	500	USD	Caa3//CCC

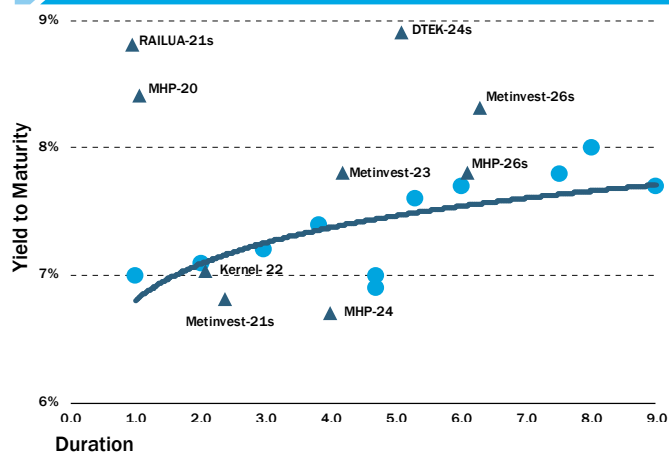
<sup>1</sup> Moody's/S&P/Fitch

Source: TR Data, Eavex Research

SOVEREIGNS vs. BANKING EUROBONDS



SOVEREIGNS vs. CORPORATE 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>									
UA4000203632			17.25%	15.75%	n/a	n/a	S/A	04 Dec 2019	n/a
UA4000198006			17.40%	16.00%	n/a	n/a	S/A	10 Jun 2020	n/a
UA4000200174			17.30%	16.00%	n/a	n/a	S/A	20 Jan 2021	n/a
<b>UAH denominated Bonds</b>									
UA4000201743			6.25%	4.25%	n/a	5.65%	S/A	22 Jul 2021	USD 83mn

Source: TR Data, Eavex Research

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