

Trends

Quotes for Ukrainian sovereign Eurobonds were firmly higher last week after the country's foreign currency issuer rating was raised from B to B+ with a stable outlook by Japanese credit rating agency Rating and Investment Information (R&I). The agency noted that Ukraine's financial support from the IMF, along with loans from the World Bank and the EU, will help stabilize the government's funding. Also, investors cheered the fact that the Finance Ministry redeemed the second series of Eurobonds issued during the country's sovereign restructuring in 2015. The total amount of the on-time redemption & servicing was more than USD 2 bn, including the USD 1.69bn Eurobond redemption and some USD 400mn in interest coupon payments on the outstanding bonds maturing in 2021-2027. Ukraine's residual foreign currency payments on public debt remaining during 2020 amount to around USD 1.6bn.

Ukrainian Eurobonds with maturity in 2028 rose by 1.0% to 115.6 (7.3% YtM) and the Ukraine-32s issue added 0.8% to 101.9 (7.1% YtM). Medium-term Ukraine-25s also increased by 0.8% to 106.4 (6.3% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) advanced by a solid 2.7% to 98.0 cents on the dollar.

In the corporate debt universe, DTEK-24s edged up by 0.9% to 69 cents on the dollar despite the company reporting horrendous financial results for 1H20 that saw top-line revenue down by 60% YoY. The DTEK bonds are up substantially from their low of 55 cents after the company sent the issue into distress by skipping its coupon payment at the end of March, and restructuring talks are reportedly ongoing. MHP-29s gained 1.6% to 98.8 (6.5% YtM) as the company's net profit for 2Q20 exceeded market expectations. On the other hand, the company's debt-to-EBITDA ratio reached 3.7x, once again highlighting the long-known problem regarding MHP's large debt burden. Metinvest-26s gained 1.2% to close at 102.9 (8.0% YtM).

The quasi-sovereign issue UkrEximBank-25s edged up 0.3% to 104.2 (6.7% YtM) and OschadBank-25s added 0.8% to 104.3 (7.6% YtM). At the primary treasuries auction held on Sept 1, the Finance Ministry raised UAH 2.8bn from the placement of a 1-year bond at 9.29%. On the secondary market, the yield on 1-year domestic bonds was unchanged at bid/ask 10.5%/9.5%. Meanwhile, the National Bank kept its key refinancing rate at 6.0% after the monetary board meeting on Sept 3.

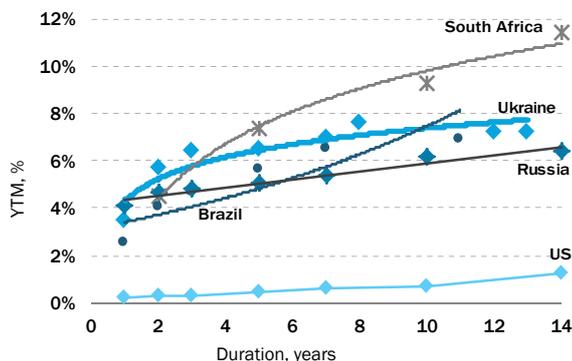
The hryvnia had a soft week in line with the historical September seasonal trend, losing a full 1% against the dollar to close at 27.78 UAH/USD.

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

Highlights

- > Zelenskiy Coming Under Fire for Ongoing Judicial Corruption
- > MHP Sees Decline in Net Profit by 19% YoY to USD 112mn in 2Q20
- > DTEK Reports 60% YoY Plunge in Revenue to USD 785mn in 1H20

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	6.0%	0.0 p.p.	-7.5 p.p.
UAH 1-year bond	10.5%/9.5%	0.0 p.p.	-0.6 p.p.
Ukraine-2025	6.3%	-0.2 p.p.	-0.3 p.p.
Ukraine-2028	7.3%	-0.2 p.p.	0.3 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.78	1.0%	17.3%
EUR/UAH	32.88	0.6%	24.5%

Source: Eavex Capital

Zelenskiy Coming Under Fire for Ongoing Judicial Corruption

by Will Ritter
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NEWS

Civil society activists and domestic media criticized President Zelenskiy last week for his silence on the increasingly brazen corruption in Ukraine's top judiciary bodies, after the High Council of Justice refused to remove a judge on the Kyiv Administrative Court, Pavel Vovk, who is alleged to be the ringleader of criminality in the justice system. Activists stated that the decision was proof that the High Council, an oversight body, has itself come under the control of the judicial mafia. The issue came to a head in August after the National Anti-Corruption Bureau (NABU) released audiotapes with conversations of judges discussing various illegal schemes, and a suspicious court ruling against PrivatBank forcing the state-owned institution to pay USD 350mn to wealthy oligarchs in connection with their losses during the bank's nationalization. Early last week, NABU director Artem Sytnik saw his 2015 appointment declared illegal by the Constitutional Court, and the Zelenskiy administration has declined to back Sytnik, now referring to him as "the NABU acting director".

COMMENTARY

At best, it appears that Zelenskiy is indifferent to high-level judicial corruption, and at worst, that he prefers to leave corrupt judges in place as part of a deal to exchange favors. Indeed, corruption in the judiciary via the sale of verdicts has always been one of the most serious problems undermining Ukrainian democracy and the rule of law. The natural check against Zelenskiy's neglect of this critical issue would normally be the IMF and Western governments, which have in the past held various levers of influence to force Ukraine's leadership to take specific actions against corruption. However, Zelenskiy seems to be calculating that the US and the European Union are now in too weak of a position vis-a-vis Ukraine to dictate which reforms his administration needs to prioritize. A test of this theory is likely to come if Sytnik, who has built a reputation as an aggressive, independent investigator, is ousted from NABU; the ball will be squarely in the IMF's court on whether or not to continue with the loan agreement which it finalized with Ukraine's Finance Ministry in May.

MHP Sees Decline in Net Profit by 19% YoY to USD 112mn in 2Q20

by Dmitry Churin
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NEWS

Central-Ukraine-based, London-listed agro group MHP saw a decline in its net profit of 19% YoY to USD 112mn in 2Q20, which implies earnings per share of USD 1.06 in the period, according to financials released on Sept 4. Revenue decreased by 17% YoY to USD 425mn in the quarter and EBITDA (adjusted for forex gains/losses) dropped by 22% YoY to USD 129mn. For the first half (1H20), the company posted net revenue of USD 867mn (-8% YoY), EBITDA of USD 226mn (-9% YoY), and a net loss of USD 62mn, compared to a net profit of USD 171mn for 1H19. The company's export sales fell 18% YoY to USD 453mn in 1H20, accounting for 52% of total revenue in the period compared to a share of 58% a year ago.

In the second quarter, the effects of the COVID-19 epidemic and quarantine measures worldwide resulted in significant market disruption, in particular with the almost complete shutdown of the hotel-restaurant sector and a sharp decrease in demand for chicken breast fillet in the EU and MENA markets. MHP was able to substantially offset these reductions thanks to increased demand for poultry on the Ukrainian domestic market.

On the balance sheet side, MHP's total debt was USD 1.48bn as of 30 Jun 2020, with long-term debt representing 98% 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 3.7x as of 30 Jun 2020 compared to 2.9x as of 30 Jun 2019.

MHP FINANCIALS

USD mn	2Q19	2Q20	chg.	1H19	1H20	chg.
Net revenue	509	425	-17%	945	867	-8%
EBITDA	165	129	-22%	248	226	-9%
<i>margin</i>	32.4%	30.4%	-2.1 p.p.	26.2%	26.1%	-0.2 p.p.
Net Income	138	112	-19%	171	-62	+/-
<i>net margin</i>	27.1%	26.4%	-0.8 p.p.	18.1%	-7.2%	-25.2 p.p.

Source: Company data.

COMMENTARY

MHP's reported bottom line for 2Q20 was much better than our forecast of a net loss of USD 190mn for the period after the loss of USD 174mn seen in 1Q20. Nevertheless, it is too optimistic to hope that MHP could be profitable for the full year, as the hryvnia devaluation causes large foreign currency translation losses. We expect that MHP's net loss will be around USD 150mn for FY20.

MHP's Net Debt/EBITDA ratio of 3.7x represents a breach of the ceiling of 3.0x covenant embedded in MHP's Eurobonds. On the other hand, we think even a formal breach of the covenant at year-end is unlikely to motivate MHP's creditors to demand an early debt redemption, as the company's business model is resistant to economic downturns. In its outlook, MHP says it sees further opportunities for sales growth on key export markets as well as in Ukraine.

The London-listed MHPC stock remained under pressure as the company's worsening debt metric represents a threat to shareholder value. MHPC traded at USD 5.48 on Friday (Sept 4), which is roughly half its value compared to 2 years ago.

DTEK Reports 60% YoY Plunge in Revenue to USD 785mn in 1H20

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 revenue slumped by 60% YoY to USD 785mn (at the average UAH/USD exchange rate for the period) in 1H20, according to the company's unaudited financials published on Sept 1. The company's EBITDA turned to negative territory, amounting to USD -76mn in 1H20, compared to EBITDA of USD 344mn in 1H19. DTEK's net loss was USD 634mn in the reported period compared to a net profit of USD 124mn a year earlier. The company said it had a net foreign exchange loss of USD 165mn and that financing costs were at USD 133mn in 1H20. On the balance sheet side, the group reported total debt of USD 2.21bn as of 30 Jun 2020, with the company's total assets standing at USD 2.94bn on the same date.

DTEK INTERIM FINANCIAL RESULTS

USD mn	1H19	1H20	Y/Y
Revenue*	1985	785	-60%
EBITDA adj	344	-76	+/-
<i>margin</i>	17.3%	-9.7%	-27 p.p.
Net Profit (Loss)	124	-634	+/-
<i>margin</i>	6.3%	-80.8%	-87 p.p.

*average UAH/USD FX rates used

Source: Company Data, Eavex Research

COMMENTARY

DTEK's reported losses were worse than expected, as the sharp drop on the top line led to an operating loss of USD 330mn. The company did not comment on its extremely poor financial performance this year. The figures are bad enough that they could help DTEK to push its bondholders to agree to a debt restructuring. DTEK stopped servicing its Eurobonds earlier this year, with the skipping of USD 105mn payments to creditors in 1H20 providing the company with much-needed cash for daily operations. Although the COVID-19 can be cited as an obvious reason for the poor 2Q20 showing, there is also a deteriorating structural situation in the Ukrainian electricity sector, with large payment arrears accumulating between various market participants.

As previously announced, DTEK is engaged in discussions with a committee of bondholders representing approximately 35% of the outstanding principal amount of the 10.75% Eurobonds due 2024 issued by the group. As far as we know, the talks are still in progress and no public information regarding restructuring terms has been leaked. DTEK-2024 Eurobonds are currently quoted at 69 cents on the dollar.

SELECTED UKRAINIAN EURO BONDS

Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings ¹
Sovereign Eurobonds								
Ukraine, 2021	103.9	0.3%	3.7%	7.75%	1 Sept 2021	974	USD	B3/B/B
Ukraine, 2025	106.4	0.8%	6.3%	7.75%	1 Sept 2024	1,328	USD	B3/B/B
Ukraine, 2028	115.6	1.0%	7.3%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	101.9	0.8%	7.1%	7.38%	25 Sept 2032	3,000	USD	B3//B
Ukraine, GDP-linked	98.0	2.7%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2022	104.6	0.9%	5.4%	8.75%	31 Jan 2022	500	USD	/B/BB-
MHP, 2026	104.2	0.7%	6.1%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	98.8	1.6%	6.5%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK, 2024	69.8	0.9%	n/a	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	102.9	1.2%	8.0%	8.50%	23 Apr 2026	648	USD	B3/B/BB-
NaftoGaz, 2024	98.9	0.5%	7.4%	7.125%	19 Jul 2024	600	EUR	//
Bank Eurobonds								
UkrEximBank, 2023	99.6	-0.1%	7.4%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	104.2	0.3%	6.7%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	102.4	0.1%	7.4%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	104.3	0.8%	7.6%	9.63%	20 Mar 2025	250	USD	B2//B

¹ Moody's/S&P/Fitch

Source: Boerse-Berlin, cbonds, 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									
UA4000200174			10.5%	9.0%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			10.5%	9.5%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			11.0%	10.0%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			11.5%	10.2%	n/a	n/a	S/A	11 May 2022	n/a
UA4000201255			12.0%	10.5%	n/a	n/a	S/A	24 May 2023	n/a
UA4000204150			12.5%	10.5%	n/a	n/a	S/A	26 Feb 2025	n/a
UAH denominated Bonds									
UA4000204853			4.50%	3.25%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

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