Fixed Income Weekly Monitor

July 26, 2021

Trends

Ukrainian sovereign Eurobonds ended lower last week despite the country successfully tapping the international market with a placement of new 8-year Eurobonds for USD 500mn at an impressive 6.3%. The achieved yield was better than initial guidance of 6.6%, as the order book for the issue was USD 1.7bn.

Quotes for the actively traded Ukraine-28s issue declined by 0.7% to 118.5 (6.6% YtM) and the benchmark medium-term Ukraine-26s decreased by 0.5% to 110.2 (5.4% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) corrected by 1.1% to 116.2 cents on the dollar after the government assessed second-quarter GDP growth at 6% YoY, which was far below expectations due to the low comparison base of 2Q20 when there was a strict quarantine worldwide. It now looks unlikely that Ukraine's GDP growth will reach 4% for the full-year.

In the corporate debt segment, MHP-26s edged down by 0.3% to 105.0 (5.8%) and Metinvest-29s declined by 0.2% to 108.5 (6.4%). The Eurobonds of agro group Kernel with maturity in 2027 decreased by 0.3% to 108.0 (5.3% YtM) after the company reported a 33% YoY drop in oilseeds processing in the April-June quarter. Kernel is due to release its financial results for the year ended in June on Oct 4. We forecast that the company will post EBITDA growth of 62% YoY to USD 720mn on the back of a 22% YoY increase in grain exports to 8.16mn tonnes in the 2020/21 marketing year (July to June).

The National Bank increased its key policy rate by 50 bps from 7.5% to 8.0% on Jul 22. The decision came as a response to accelerating inflation which hit 9.5% YoY in June. The regulator also raised the refinancing rate to 9.0%; it previously was equal to the key policy rate. Additionally, the National Bank said that it plans to increase the key rate further to 8.5%. The next NBU monetary policy board meeting is scheduled for Sept 9. The rate increase was widely expected and has been already priced in on the secondary market for UAH-denominated bonds. The 1-year sovereign treasuries traded at 11.75%/11.25% (bid/ask).

Meanwhile, the Finance Ministry was able to place 1-year UAH debt papers at 10.99% at the primary auction conducted on Jul 20. The offered yield for the 5-year bond remained at 12.59%, a level which is unchanged since early June. Nevertheless, the yields on the secondary market continue to indicate that investors are expecting higher offers for UAH-denominated sovereign bonds in the short term.

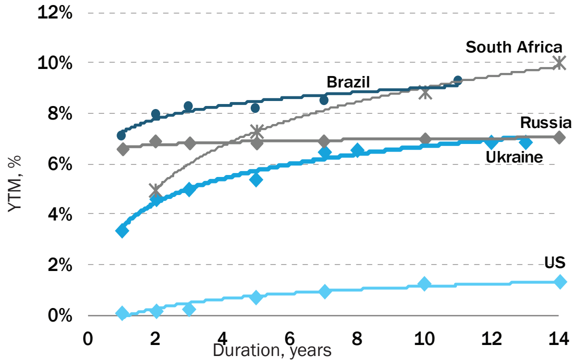
On the currency front, the hryvnia strengthened by 0.7% to 27.06 UAH/USD over the week after the successful sovereign Eurobond placement.

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

Highlights

- Ukraine Continues to Complain About Nord Stream as Zelensky's US Visit Set for Aug 30
- Industrial Production Recovery Slows to 1.1% YoY in June
- MHP's 2Q Poultry Pricing Jumps 35% YoY, Export Sales Volume Up 23% YoY

SOVEREIGN BOND YIELD CURVES



Source: Bloomberg. Eavex Capital

FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	8.0%	+0.5 p.p.	+2.0 p.p.
UAH 1-year bond	11.8%/11.3%	0.0 p.p.	+0.3 p.p.
Ukraine-2025	5.9%	0.6 p.p.	1.0 p.p.
Ukraine-2028	6.6%	0.1 p.p.	0.3 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.06	-0.7%	-4.3%
EUR/UAH	31.83	-1.0%	-8.4%

Source: Eavex Capital

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Ukraine Continues to Complain About Nord Stream as Zelensky's US Visit Set for Aug 30

by Will Ritter
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NEWS

President Zelenskiy's long-awaited official visit to the United States will take place on Aug 30 after being delayed from July for unclear reasons, it was announced last Tuesday (Jul 21). On the same day, the US and Germany announced a final deal to allow the "Nord Stream 2" Baltic Sea pipeline from Russia to Germany to be commissioned, prompting sharp complaints from opponents of the project in Kyiv as well as in the US Congress in Washington, some of whose members accused President Biden of being too soft on Russia. Foreign Minister Dmytro Kuleba and his Polish counterpart held a joint press conference at which they condemned the US-German deal, with Kuleba claiming that the US can still stop Nord Stream, which is 97% completed, from coming on line. Former President Donald Trump also got involved, telling supporters at a rally that Biden's decision not to block Nord Stream represented a betrayal of US interests to Russia. As part of the arrangement with the US, Germany is creating a so-called "green fund" with an immediate USD 175mn contribution to supports the energy industries of Ukraine and Poland; this money may be used to help re-purpose Ukraine's natural gas pipeline for new-generation energy purposes. A joint US-German statement on the deal said: "Should Russia attempt to use energy as a weapon or commit further aggressive acts against Ukraine, Germany will take action at the national level and press for effective measures at the European level, including sanctions, to limit Russian export capabilities to Europe in the energy sector, including gas, and/or in other economically relevant sectors."

COMMENTARY

In our view, Zelenskiy and his team are playing with fire by continuing to kick up a fuss over Nord Stream in public and trying to embarrass the Biden administration, which worked hard to salvage a deal with Germany that will soften the impact and provide some benefits to Kyiv. The fact here is that the battle over Nord Stream was already lost during the Trump administration when most of it was built, and harping on the issue now risks damaging Ukrainian relations with the country's two most important supporters against Russian aggression, Washington and Berlin. Zelenskiy needs to remember above all that is the US presidential administration – not Congress – which has the immediate power to help Ukraine in the event of a crisis. We do not buy the argument that Nord Stream makes Ukraine more vulnerable to Russian attack, as the main deterrent against any such future Russian aggression is not the Ukrainian gas transit system, but the promise of a tough, comprehensive response from the very Western partners which Kyiv is now excoriating. Kyiv also should not assume that the Western world owes it a gas transit monopoly; over time, the construction of new energy pipelines was an inevitable development, and Ukraine is frankly fortunate that it was able to keep its near-monopoly on the transit of Russian and Central Asian gas for such a lengthy period following the Soviet breakup 30 years ago. We hope that when Zelenskiy goes to the White House next month, the divisive issue of Nord Stream can finally be left behind and that the two Presidents will be able to focus on moving the US-Ukraine alliance forward in a positive direction.

Industrial Production Recovery Slows to 1.1% YoY in June

by Dmitry Churin
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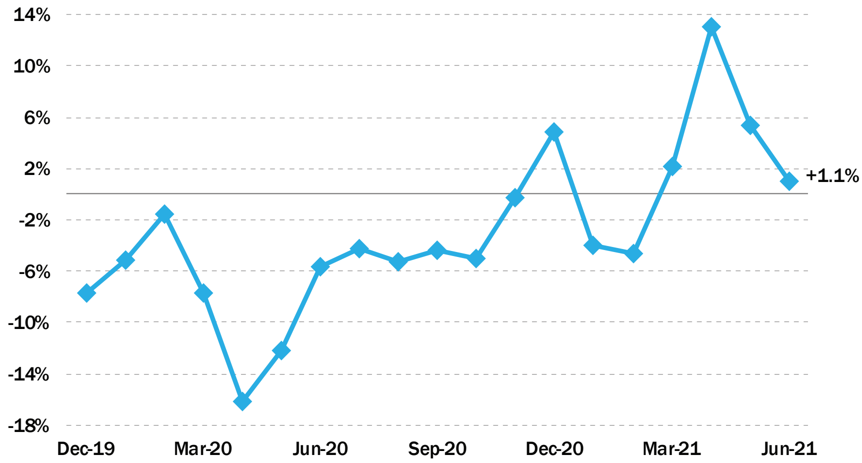
NEWS

Ukraine's industrial production recovery slowed to 1.1% YoY in June from the rebound of 5.4% YoY seen May, according to the State Statistics Committee report released on Jul 22. For 1H21, the Ukrainian industrial production index grew by 2.1% YoY, according to the official data. The extraction sector, which was less affected by the strict COVID quarantine last year and thus has a quite strong comparison base, showed a rise of 1.4% YoY in 1H21, and the aggregate manufacturing output index increased by 2.5% YoY in the reported period.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

The slowdown in the industrial output recovery in June to 1.1% YoY was steeper than expected, as our projection had been a rise of the industrial index by 2.3% YoY. We have stated previously that a notable constraint for the index is the utility sector, with both the electricity and natural gas distribution decreasing amid tendencies of better energy efficiency and saving. The utility sector output declined by 3.4% YoY in June. On the bright side, the country's machinery complex demonstrated a solid 17.6% YoY output growth in June, providing some hope that Ukraine's high-value-products have been gaining momentum on export markets.

Among other macroeconomic data released in July, UkrStat said that retail sales volume continued to grow at a frenetic pace, jumping by 13.0% YoY in June and putting the gain for 1H21 at 13.8%.

Meanwhile, the agro sector's output as measured by UkrStat dropped by 8.2% YoY in 1H21. In our opinion, it is too early to compare the grain harvest with 2020, so the next three months will be the key for understanding the situation in the Ukrainian agro sector. Currently global wheat prices have reached USD 250 per tonne, meaning that if Ukraine's harvest sees a modest decrease this year, it will be fully offset by the strong pricing factor.

MHP's 2Q Poultry Pricing Jumps 35% YoY, Export Sales Volume Up 23% YoY

by Dmitry Churin
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NEWS

MHP, Ukraine's largest poultry producer, unveiled its 2Q operational update with the following key indicators:

- total sales volume increase of 6% YoY to 181,900 tonnes;

- average poultry price rise of 35% YoY to USD 1.67 per kg;

- export sales volume growth of 23% YoY to 109,100 tonnes.

For 1H21, the company reported that its total poultry sales grew by 2% to 336,200 tonnes and that achieved pricing rose by 26% YoY. Export sales accounted for a record high 57% of total deliveries in 1H21.

In other business segments, MHP's sunflower oil sales plunged by 44% YoY to 91,140 tonnes in 1H21 and soybean oil sales volume increased by 7% YoY to 23,000 tonnes. In the grain segment, MHP operates a land bank of 355,000 hectares in Ukraine, with the winter crop harvest in line with the company's targets.

MHP OPERATIONAL UPDATE

Poultry	2Q20	2Q21	Change	1H20	1H21	Change
Sales volume, tonnes	170,912	181,904	+6%	328,385	336,174	+2%
- Sales in Ukraine	82,407	72,749	-12%	157,832	144,859	-8%
- Export Sales	82,407	109,055	+23%	170,553	191,315	+12%
Price USD/kg net VAT	1.27	1.67	+35%	1.32	1.56	+26%

Source: Companies' data

COMMENTARY

The MHPC stock dropped by 5.0% to USD 5.30 as the company's mixed operational results failed to impress investors. It was a disappointment to see that MHP had lower sales on the domestic market. Nevertheless, we are quite bullish regarding MHP's 2Q profit, which could top USD 70mn, implying an EPS of 63 cents. The company is due to report its financial results for 2Q on Sept 7.

MHP also reported the separate operational results of its European arm Perutnina Ptuj (PP). Following the PP strategy of poultry production growth and increasing facilities' capacity utilization in Serbia and Croatia, PP's sales volume rose by a solid 23% YoY to 19,500 tonnes in 2Q21. The sales for 1H21 grew by 15% YoY to 35,600 tonnes. In our view, MHP has found an effective way to develop Perutnina Ptuj after it was acquired back in 2019 for EUR 273mn.

SELECTED UKRAINIAN EUROBONDS

Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings[1]
Sovereign Eurobonds								
Ukraine, 2022	104.7	-0.1%	3.4%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2025	110.2	-0.5%	5.4%	7.75%	1 Sept 2025	1,328	USD	B3/B/B
Ukraine, 2028	118.5	-0.7%	6.6%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	104.4	-0.8%	6.9%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	116.2	-1.1%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	108.0	-0.3%	5.3%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	105.0	-0.3%	5.8%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	100.1	0.1%	6.3%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	64.7	0.0%	13.5%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	113.3	-0.1%	5.3%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	108.5	-0.2%	6.4%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	103.9	-0.1%	5.7%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	103.6	-0.3%	6.9%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	99.1	0.0%	7.8%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	107.0	-0.3%	7.1%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	104.4	-0.1%	6.4%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	108.7	0.0%	4.9%	9.63%	20 Mar 2025	250	USD	B2//B

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

Source: Boerse-Berlin, Boerse-Stuttgart. 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									
UA4000195176			9.0%	8.0%	n/a	n/a	S/A	11 Aug 2021	9,653
UA4000204556			9.5%	9.0%	n/a	n/a	S/A	17 Nov 2021	11,923
UA4000203236			10.0%	9.5%	n/a	n/a	S/A	05 Jan 2022	10,887
UA4000204002			11.5%	11.0%	n/a	n/a	S/A	11 May 2022	12,917
UA4000218325			11.8%	11.3%	n/a	n/a	S/A	20 Jul 2022	13,415
UA4000201255			12.9%	12.0%	n/a	n/a	S/A	24 May 2023	6,470
UA4000204150			13.2%	12.4%	n/a	n/a	S/A	26 Feb 2025	41,080
UA4000207518			13.5%	12.5%	n/a	n/a	S/A	20 May 2027	7,018
USD denominated Bonds									
UA4000211114			3.5%	2.9%	n/a	n/a	S/A	3 Feb 2022	USD 347mn

Source: TR Data, Eavex Research

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