EAVEX capital

Fixed Income Weekly Monitor

June 7, 2021

Trends

Ukrainian sovereign Eurobonds ended little-changed last week from their recent bullish levels. A favorable situation on the international market for Ukrainian major export categories including iron ore, steel and agro commodities is supporting a positive attitude to the country's external debt. Ukraine's current account surplus was reported at USD 1.13bn in January-April, while a full-year C/A deficit of 2.3% of GDP had been projected earlier by the National Bank.

In political developments, Parliament approved a bill that restored criminal responsibility for officials who provide false information on their income declarations. According to the bill, for deliberate false declaration, an official can be punished with a fine, public work, or imprisonment for up to two years, if the discrepancy with real income ranges from UAH 1.1mn to UAH 4.5mn. If the discrepancy exceeds UAH 4.5mn, the offender shall face imprisonment for up to two years. The bill is aimed at fighting high-level corruption in Ukraine.

Quotes for Ukrainian Eurobonds with maturity in 2026 and 2028 were flat at 111.7 (5.1% YtM) and 119.6 (6.5% YtM) respectively, while the long-term Ukraine-32s issue rose by 0.8% to 106.4 (6.7% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) gained 0.7% to close at 111.8 cents on the dollar.

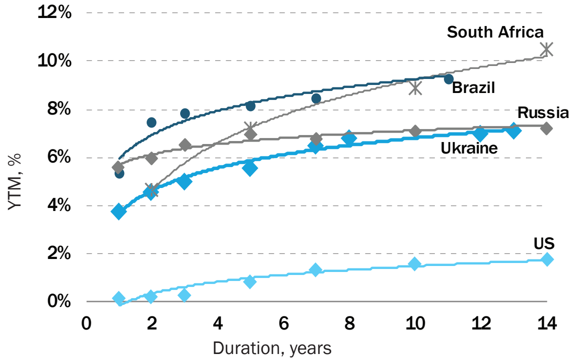
In corporate debt, DTEK Energy-27s slumped by 6.5% to 65.3 (13.0% YtM) as the company's financial results for 1Q21 were unimpressive. We forecast that the end-2021 Net Debt-to-EBITDA ratio for DTEK Energy will be still very high at 4.6x. Ukrainian Railways-24s (RAILUA) shed 0.8% to 102.5 (7.4% YtM) as the company faced a problem with repayment of USD 140mn under a bank loan agreement. The Eurobonds of steel & mining group Metinvest-29s grew by 1.0% to 108.0 (6.6% YtM).

The offered yields for domestic treasuries for the primary auction sat unchanged for the sixth straight week. The 1-year UAH-bond had a yield of 11.20% and the 3-year issue provided 12.30%. The bid/ask yield for the 1-year UAH-bond on the secondary market stood at 11.6%/11.1%.

On the currency front, the hryvnia strengthened notably last week, by 0.8% to 27.28 UAH/USD, with the National Bank forced to intervene via forex purchases in order to prevent a larger UAH appreciation.

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	7.5%	0.0 p.p.	+1.5 p.p.
UAH 1-year bond	11.6%/11.1%	+0.1 p.p.	+0.1 p.p.
Ukraine-2025	5.0%	0.0 p.p.	0.1 p.p.
Ukraine-2028	6.5%	0.0 p.p.	0.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.28	-0.8%	-3.5%
EUR/UAH	33.06	-1.2%	-4.8%

Source: Eavex Capital

Highlights

- Zelenskiy's Effort to Stop Nord Stream Pipeline Set to Fail
- DTEK Energy Reports 7% YoY Growth in EBITDA to USD 80mn in 1Q21

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

Zelenskiy's Effort to Stop Nord Stream Pipeline Set to Fail

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

NEWS

President Zelenskiy is expected to hold a call with US President Biden this week in a last-ditch attempt to convince Biden to take actions that would prevent the completion of the so-called Nord Stream 2 natural gas pipeline between Russia and Germany. Biden has already disavowed his ability to stop the pipeline, stating that he lacks the power to "allow [or not allow] Germany to do something". Biden also waived some of the US sanctions against the pipeline's builders last month, calling them "counter-productive" to US-European relations. Biden is due to embark on is first major European diplomatic trip this week, culminating with the G7 summit in Britain and a meeting with Russian President Putin in Geneva on Jun 16. Zelenskiy said in an interview with the Axios news outlet that if Nord Stream comes on line later this year as planned, "Russia will have a great chance to win a victory over the United States". In other remarks in what is apparently a public relations offensive by Zelenskiy against the US and Germany, the Ukrainian president complained in an interview with Germany's largest daily newspaper Frankfurter Allgemeine about the German government's refusal to provide lethal military aid to Ukraine. Zelenskiy claimed that Germany's Green Party will offer such aid if it defeats the ruling Christian Democrats in September's national election.

COMMENTARY

The refusal to overreach and browbeat the German government in respect to Nord Stream is vintage Biden, and it fits clearly with his stated policy of rebuilding relations with key US allies after the tumultuous years of the Trump administration. Indeed, it looks quite ridiculous for Zelenskiy to attempt to lecture the US on what Washington's interests are or what would or would not be a "victory for Russia" over the US. The only hope to stop Nord Stream at this point is a Green Party-led German government, but Zelenskiy's overt entreaties to the Greens look amateurish, as that party has no particularly affinity for Ukraine vis-a-vis Russia, and it opposes Nord Stream on environmental - not geopolitical - grounds. We also doubt that the Greens would take a more pro-Ukrainian position on the Donbass conflict than the one advanced by the Merkel government over the last 7 years. As we have stated previously, it was inevitable that Ukraine would eventually lose its monopoly on transportation of Russian gas to Europe, and if anything, Kyiv is fortunate that it was able to hold its privileged position for so long. We believe that the way for Ukraine to keep its own gas transportation network relevant going forward is to compete on price against Nord Stream, as Ukraine still offers the shortest distance from Russia and Central Asia to many European gas consumers.

DTEK Energy Reports 7% YoY Growth in EBITDA to USD 80mn in 1Q21

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 grew by 7% YoY to USD 80mn in 1Q21 and revenue increased by 2% YoY to USD 516mn (at the average UAH/USD exchange rate for the period), according to the company's unaudited financials published last week. Although the company remained loss making in the period, its actual net loss of USD 12mn for 1Q21 was much lower than a net loss of USD 297mn seen in 1Q20.

On the balance sheet side, the group reported total debt of USD 2.28bn as of 31 Mar 2021, with the company's total assets standing at USD 2.74bn on the same date.

DTEK INTERIM FINANCIAL RESULTS

USD mn	1Q20	1Q21	Y/Y
Revenue*	**507**	**516**	+2%
EBITDA adj	**74.2**	**79.5**	+7%
margin	*14.6%*	*15.4%*	*+1 p.p.*
Net Profit (Loss)	**-297.3**	**-11.7**	-/-
margin	*-58.6%*	*-2.3%*	*+56 p.p.*

**average UAH/USD FX rates used*

Source: Company Data, Eavex Research

COMMENTARY

DTEK reported an accrued finance cost of USD 66mn for 1Q21, which we assume has not been paid amid the company's debt restructuring process. We believe that as a result of completion of DTEK Energy's debt restructuring last month, the company's total debt decreased to around USD 1.7bn after a part of the debt was transferred to sister affiliate DTEK Oil&Gas. Taking into account our forecast that DTEK Energy will earn an EBITDA of USD 350mn for full-year 2021, the net debt-to-EBITDA is estimated at still very high level of 4.6x. On the operational side of DTEK Energy business, it was reported that electricity generation grew by 44% YoY to 7.37 TWh in 1Q21, providing grounds to expect the company to post a solid operational performance later this year.

DTEK Energy-27s Eurobonds are traded at 65.3 cents on the dollar, providing a yield to maturity of 13.0%.

SELECTED UKRAINIAN EUROBONDS

Issue	Indicative Price	Price ch., W/W, %	YTM, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings[1]
Sovereign Eurobonds								
Ukraine, 2022	105.3	0.0%	3.3%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2025	111.7	0.0%	5.1%	7.75%	1 Sept 2025	1,328	USD	B3/B/B
Ukraine, 2028	119.6	0.0%	6.5%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	106.4	0.8%	6.7%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	111.8	0.7%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	108.5	0.5%	5.2%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	104.5	0.5%	5.9%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	99.3	0.8%	6.5%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	65.3	-3.5%	13.0%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	113.4	0.7%	5.4%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	108.0	1.0%	6.6%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	103.3	1.7%	5.9%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	102.5	-0.8%	7.4%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	99.3	0.3%	7.9%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	107.5	0.1%	5.5%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	104.1	-0.1%	5.2%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	106.0	0.0%	6.5%	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			11.6%	11.1%	n/a	n/a	S/A	11 May 2022	12,917
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
USD denominated Bonds									
UA4000211114			3.5%	2.9%	n/a	n/a	S/A	3 Feb 2022	USD 347mn

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:	research@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