Fixed Income Weekly Monitor

May 31, 2021

Trends

Quotes for Ukrainian sovereign Eurobonds increased across the board last week amid strongly positive sentiments for a post-COVID global recovery and high risk appetite among international investors which led them to emerging market sovereigns. Ukraine's individual investment case also appeared to improve as concerns about Russia's April military saber-rattling faded and US President Biden announced a summit meeting with Russian President Putin next month in Switzerland.

Ukraine-32s gained 1.6% to 105.6 (6.8% YtM) and medium-term Ukraine-26s rose 2.2% to 111.7 (5.2% YtM). The short-term Ukraine-22s, due in 14 months from now, edged up by 0.3% to 105.3 (3.4% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) increased by 2.7% to close at 111.0 cents on the dollar, which is just one point below the papers' all time high of 112 cents. The derivative's lowest level was 30 cents back in 2016.

Corporate Eurobonds were less active than sovereigns last week. The Kernel-27s issue advanced by 1.1% to 108.0 (5.3% YtM) after the company's Jan-Mar financial results met expectations. Kernel's Net Debt/EBITDA ratio stood at a comfortable 1.4x on Mar 31. MHP-26s added 0.4% to 104.0 (6.1% YtM) and the EUR-denominated NaftoGaz-24s issue inched up by 0.2% to 101.6 (6.5% YtM). On the downside, DTEK Energy's new Eurobond with maturity in 2027 started off disastrously, plummeting to 67.7 (12.4% YtM) immediately after being issued at 100 and a coupon of 5.0% in exchange for the previous DTEK-24s Eurobond, which had gone into default.

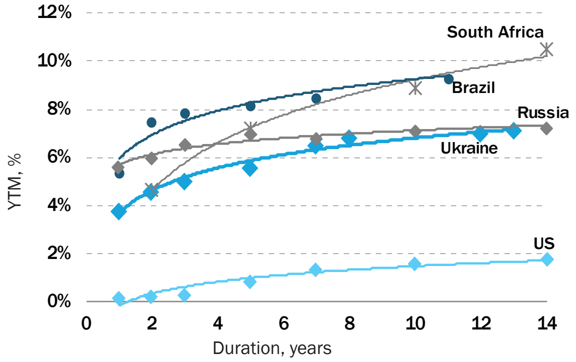
Quasi-sovereign OschadBank-25s shed 0.9% to 106.0 (6.5% YtM) while UkrEximBank-25s rose 0.4% to 107.4 (5.6% YtM).

The Finance Ministry's offered yields for treasuries did not change at the primary auction held on May 25. The 1-year UAH-bond had a yield of 11.20% and the 2-year issue had a yield of 12.05%. MinFin also placed the 3-year debt papers at 12.30%. The bid/ask yield for the 1-year UAH-bond on the secondary market declined by a notable 70 bps to 11.6%/11.0%, as initial fears about a rising pace of inflation receded somewhat.

On the currency front, the hryvnia edged down by 0.3% over the week to close at 27.51 UAH/USD on Friday (May 28).

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%/11.0%	-0.7 p.p.	0.0 p.p.
Ukraine-2025	5.0%	-0.3 p.p.	0.1 p.p.
Ukraine-2028	6.5%	-0.1 p.p.	0.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.51	0.3%	-2.7%
EUR/UAH	33.46	0.1%	-3.7%

Source: Eavex Capital

Highlights

- Dragon Capital's Fiala Buys Ukrayinska Pravda Media Outlet
- Ukraine's Industrial Production Jumps 13% YoY in April On Low Comparison Base
- Kernel's EBITDA Rises 7% YoY to USD 111mn in Jan-Mar Quarter

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Dragon Capital's Fiala Buys Ukrayinska Pravda Media Outlet

by Will Ritter
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NEWS

Ukrayinska Pravda, Ukraine's preeminent Internet news outlet, was sold on Wednesday (May 26) to Tomáš Fiala, the majority owner and CEO of Kyiv-based investment house Dragon Capital. Ukrayinska Pravda had been independently owned since its founding in 1999 by its publisher Olena Prytula. The price of the deal was not disclosed. Fiala, a Czech national who has worked in Ukraine for more than 20 years, controls a large array of real estate holdings through Dragon Capital, and is already the owner of the national weekly news magazine Novoe Vremya. Prytula announced that she will stay on at the company in an advisory role and that Fiala has pledged not to interfere in the company's editorial operations or substantially change its format. Fiala said that Novoe Vremya, which has a Russian-language print edition, will be run separately from Ukrayinska Pravda, which is primarily a Ukrainian-language site.

COMMENTARY

Ukrayinska Pravda represents the gold standard of Ukraine's news landscape, a status which it paid for in blood; co-founder Georgiy Gongadze was murdered in 2000 after corruption exposes, and another of its top journalists, Pavel Sheremet, was killed in a still-unsolved car bombing in 2016. With no information about the valuation of the deal, we are left to estimate it in the range of USD 5-10 million based on the prior sale of the Kyiv Post newspaper, which has a strong brand but far less web traffic than Pravda, for around USD 1mn several years ago. We assume that Prytula had received a number of financially attractive offers in the past from Ukrainian or Russian oligarchs who simply wanted to have the news site watered down or closed in order to halt its coverage of uncomfortable topics. Fiala is viewed as a strongly pro-Western entrepreneur who has increasingly moved toward politics in recent years, and his purchase of Ukrayinska Pravda bodes well for its continued operation as a key pillar of the Ukrainian public information sphere. Prytula announced that Gongadze's two daughters will receive USD 100,000 each from the sale, while an additional USD 500,000 will go toward funding journalism prizes and study programs in the names of Gongadze and Sheremet.

Ukraine's Industrial Production Jumps 13% YoY in April On Low Comparison Base

by Dmitry Churin
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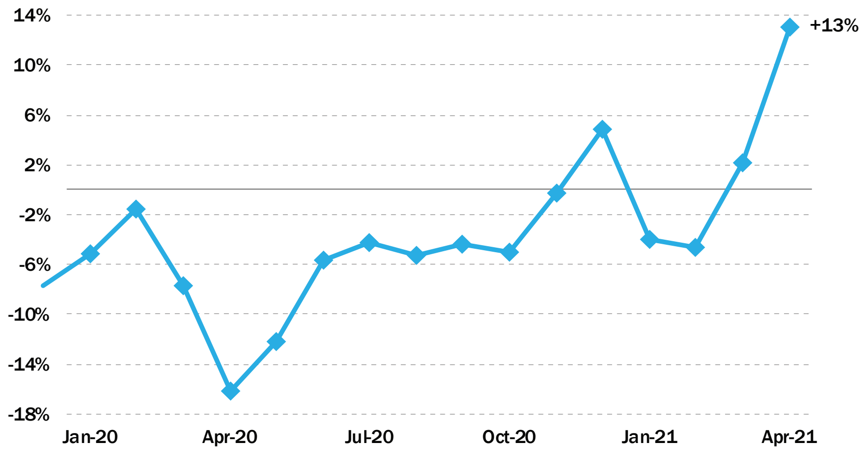
NEWS

Ukraine's industrial production index jumped by 13% YoY in April due the low comparison base of last year, when the index slumped by 16% YoY, according to data published by the State Statistics Committee (UkrStat) on May 24 Compared to March, industrial output in the country decreased by 3.2% as a result of a 14.5% MoM drop in energy supplies, which was a clear seasonal pattern. The adjusted index grew by 2.7% on a month-on-month basis. Output for the January-April 4M21 period grew by 1.5% YoY.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

The actual industrial production growth figure of 13% YoY for April substantially exceeded our forecast of a 7% YoY increase. The output rebound in the manufacturing sector was at 18% YoY in April, with the largest growth of 75% YoY being registered in electric equipment production. Meanwhile, the food production index declined by 3.4% YoY, as the food sector had been little affected by the quarantine in April 2020. We are now seeing an acceleration in industrial production in Ukraine, with the most notable driver being the favorable situation for iron ore and steel producers on global markets. In our view, the industrial index should rise by 3.2% YoY this year after the contraction of 5.2% YoY for 2020.

In other macroeconomic statistics, retail sales volume rocketed higher by 34% YoY in April, again on the low quarantine comparison base from 2020. The retail sales index is up by 14.0% YoY in 4M21

Meanwhile, the agro sector's output as measured by UkrStat decreased by 4.7% YoY in the January-April period.

Kernel's EBITDA Rises 7% YoY to USD 111mn in Jan-Mar Quarter

by Dmitry Churin
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NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer, increased its EBITDA by 7% YoY to USD 111mn in the 3Q21 Jan-Mar quarter (the company's financial year runs from July to June). According to the company's consolidated financial statement published on May 28, net revenue jumped by 66% YoY to USD 1.73bn in the period and net profit was USD 16mn compared to a net loss of USD 25mn a year earlier. For the 9 months ending in March, Kernel had revenue of USD 3.99bn (+37% YoY), EBITDA of USD 670mn (+2.1x YoY), and net profit of USD 348mn (+4.6x YoY).

On the balance sheet side, Kernel's net debt stood at USD 1.07bn as of 31 March 2021, implying a Net Debt/EBITDA ratio of 1.4x. However, Kernel claimed that its "adjusted" net debt, which took into account readily-marketable inventories, was at 0.6x.

KERNEL FINANCIAL RESULTS

USD mn	3Q FY20	3Q FY21	YoY	9M FY20	9M FY21	YoY
Net revenue	1,041	1,729	+66%	2,924	3,996	*+37%*
EBITDA	104	111	+7%	320	670	*+109%*
EBITDA margin	*10.0%*	*6.4%*	*-3.6 p.p.*	*10.9%*	*16.8%*	*+5.8 p.p.*
Net Income	-25	16	-/+	76	348	*+358%*
Net margin	*-2.4%*	*0.9%*	*+3.3 p.p.*	*2.6%*	*8.7%*	*+6.1 p.p.*

Source: Company data,

COMMENTARY

In our view, Kernel once again confirmed its ability to deliver solid financial results along with its business expansion. The company's improved bottom line in the historically weak Jan-Mar quarter reflects higher grain prices globally. Kernel's grain trading segment made the largest contribution on the EBITDA level in the quarter. The company is running a record high net profit of USD 348mn in the first 9 months of its reporting period, implying earnings per share of USD 4.14 (PLN 15.20). Taking into account our forecast of EPS of USD 4.52 for the full-year, the stock currently trades at an attractive P/E multiple of 3.5x.

In its short term outlook, the company said that sunflower seed planting campaign in Ukraine was successfully completed, despite being delayed a bit due to this year's late spring arrival. Kernel expects an increase in the nationwide acreage under sunflower in Ukraine by 5% to 6.9mn hectares, which should lead to a record harvest of sunflower seeds, assuming that there are no weather shocks in the summer. Ukraine's record sunflower seed harvest was 16.4mn tonnes in the 2019/20 agricultural year. Although the sunflower oil price has recently surged compared to the last year's average, the rise in prices for seeds has been even higher. As a result, Kernel faced a significant squeeze in its oilseed crushing margin this year. Thus, the company now has to rely mostly on its grain export segment for further profit growth in the Apr-Jun quarter. Kernel's well diversified business model allows it to offset a temporary downturn in the sunflower oil segment profitability.

The KER stock has risen by 17% since the start of the year, trading at PLN 57.80 on Friday. The company's Eurobonds with maturity in 2027 are quoted at 108.0 (5.3% YtM).

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	0.3%	3.4%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2025	111.7	2.2%	5.2%	7.75%	1 Sept 2025	1,328	USD	B3/B/B
Ukraine, 2028	119.6	0.8%	6.5%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	105.6	1.6%	6.8%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	111.0	2.7%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	108.0	1.1%	5.3%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	104.0	0.4%	6.1%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	98.5	0.5%	6.6%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	67.7	-32.3%	12.4%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	112.6	0.4%	5.6%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	106.9	1.0%	6.7%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	101.6	0.2%	6.5%	7.125%	19 Jul 2024	600	EUR	//
Bank Eurobonds								
UkrEximBank, 2023	99.0	-0.3%	8.2%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	107.4	0.4%	5.6%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	104.2	0.2%	5.2%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	106.0	-0.9%	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%	11.0%	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

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