

Trends

The Ukrainian sovereign yield curve moved lower last week after positive news that the European Commission decided to allocate an EUR 600mn aid tranche to Ukraine under the COVID-19 related macro-financial assistance program. The disbursement of this second tranche was conditional on fulfilling 8 specific measures in the areas of public finance management, the fight against corruption, improving the business environment, and the governance of state-owned enterprises. Although, in our view, the Zelenskiy administration and Parliament have been slow in the implementation of needed structural reforms, the EU decision is clearly beneficial for the country in getting additional support from Western partners, while confirming that Ukraine remains high on the European agenda.

Quotes for Ukrainian long-term Eurobonds with maturity in 2032 increased by 0.8% to 107.3 (6.5% YtM), and the medium-term Ukraine-26s added 0.4% to 111.8 (4.9% YtM). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) were also on the rise, gaining 1.0% to 115.0 cents on the dollar.

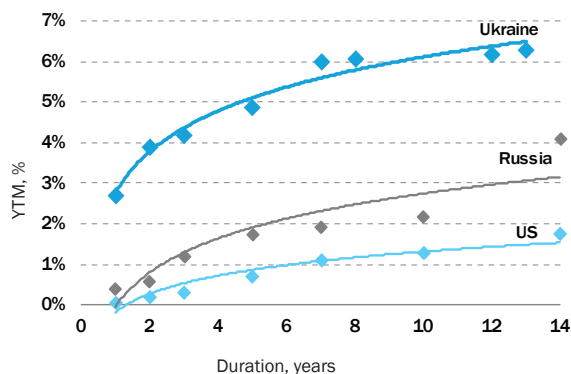
In corporate Eurobonds, Metinvest-26s were unchanged at 114.6 (4.9% YtM), trading on a par with the sovereign in terms of the yield. The sharp drop in iron ore prices and a potential correction in steel prices have not been yet reflected in the Metinvest Eurobonds performance. The MHP-29s issue advanced by 1.5% to 102.8 (5.8% YtM) after the company posted notably better than expected financial results for 2Q21. MHP's Net-Debt to EBITDA ratio improved to 2.8x from 3.7x seen a year ago. The distressed issue DTEK Energy-27s rose by 1.0% to 61.9 (14.7% YtM) amid the overall upward momentum on the market.

The yield for the 1-year UAH-denominated bonds increased by 30 bps to 11.45% at the primary auction held on Sept 14. The yield increase was widely expected, as the National Bank had raised the key rate from 8.0% to 8.5% on Sept 9. However, the proceeds from the bond placement remained low, indicating that the offered yield could be increased further across the whole government yield curve. On the secondary market, the ask side of the quotes rose by 50 bps to 11.50% and the bid side remained unchanged at 12.0%.

The hryvnia had a neutral week, closing exactly unchanged at 26.68 UAH/USD in interbank trading. Meanwhile, the USDX index measuring the dollar against a basket of six major world currencies once again indicated that the dollar has been gaining upward momentum, which should put some pressure on the hryvnia in the near term.

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	8.5%	0.0 p.p.	+2.5 p.p.
UAH 1-year bond	12.0%/11.5%	+0.2 p.p.	+0.6 p.p.
Ukraine-2025	4.7%	-0.3 p.p.	-0.2 p.p.
Ukraine-2028	6.1%	-0.1 p.p.	-0.2 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.68	0.0%	-5.6%
EUR/UAH	31.37	-0.8%	-9.7%

Source: Eavex Capital

Highlights

- Ukraine's Draft 2022 Budget Has Deficit of 3.5% of GDP, Down From 5.1% in 2021
- MHP Impresses by Doubling Net Profit to USD 231mn in 2Q21

Ukraine's Draft 2022 Budget Has Deficit of 3.5% of GDP, Down From 5.1% in 2021

by Dmitry Churin
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NEWS

Ukraine's Finance Ministry has prepared a draft national budget for 2022 with a deficit of 3.5% of GDP, compared to the deficit of 5.1% expected this year. The government forecasted an average exchange rate of 28.60 UAH/USD for 2022, according to a document submitted to Parliament last week. Parliament is scheduled to vote on it in the first reading on Oct 20. The bill must be approved by Dec 1.

In absolute figures, the budget deficit is targeted at UAH 188bn (USD 6.5bn). The Finance Ministry forecasts Ukraine's 2022 nominal GDP at UAH 5.37 trillion (USD 188bn).

The main parameters of the draft budget are the following:

- forecasted GDP growth of 3.8% YoY;
- nominal GDP of UAH 5.37tn (USD 188bn);
- total budget income of UAH 1.27tn (USD 44bn);
- total budget expenses of UAH 1.44tn (USD 50bn);
- forecasted consumer inflation (full year) of 6.2%;
- a public + guaranteed debt ceiling at 58% of GDP.

According to the draft budget, the largest expenditures in 2022 will be allocated to the following areas: security and defense USD 11bn; pensions USD 7.4bn; healthcare USD 7bn; education USD 6.9bn; road infrastructure USD 4.6bn. On the budget income side, value-added taxes (VAT) are expected to bring in a total of USD 21bn. In 2022, Ukraine also expects to receive more revenue from income taxes, which should bring in an equivalent of about USD 5bn.

COMMENTARY

In our view, the proposed draft budget looks overly optimistic, as it is hard to believe that Ukraine can restrain inflation to 6.2% next year from the current level of 10.2% YoY registered in August. Although the projected GDP growth of 3.8% sounds adequate, it is difficult to point out what will be the real growth drivers, with the obvious exception of robust consumer sentiments that have been driving retail sales and imports; industrial production and exports have consistently lagged.

It is worth noting that Ukraine is experiencing a solid increase in the nominal GDP, which is expected to reach an equivalent of USD 175bn this year. Unfortunately, a major factor of higher nominal GDP is inflation. However, the larger GDP figure provides more confidence in the country's ability to service its debt, which in relative terms amounts to 53% of GDP. This level of debt is widely considered as a manageable one. In absolute figures, Ukraine's state and guaranteed debt was at USD 93bn as of Jul 31. The UAH-denominated state debt represented 37% of the total debt at the reported date.

Ukraine has to pay a total of UAH 575bn (USD 20bn) for servicing and redemption of outstanding debt next year. The figure represents an 8.7% YoY decrease in hryvnia terms. The government plans placements of a total amount of UAH 420bn in new UAH-denominated bonds, along with a surprisingly modest target of USD 1.5bn in Eurobond issues in 2022. Expected proceeds from the IMF and other international donors are estimated at USD 2.9bn in 2022.

MHP Impresses by Doubling Net Profit to USD 231mn in 2Q21

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NEWS

Central-Ukraine-based, London-listed agro group MHP doubled its net profit year-on-year to USD 231mn in the second quarter, and also boosted its EBITDA by 2.2x YoY to USD 277mn, according to interim financial statements released earlier this month. Revenue was up by 28% YoY to USD 542mn in 2Q21, as the company's average poultry price jumped by 31% YoY in the period. For the first half (1H21), MHP posted net revenue of USD 989mn (+14% YoY), EBITDA of USD 334mn (+55% YoY), and a net profit of USD 232mn, compared to a net loss of USD 62mn for 1H20. The company's export sales grew by 11% YoY to USD 502mn in 1H21, accounting for 57% of total revenue in the period compared to a share of 52% a year ago.

On the balance sheet side, MHP's total debt was USD 1.45bn as of 30 Jun 2021, with long-term debt representing 99% of the amount. This puts MHP's Net Debt-to-EBITDA ratio at 2.8x as of 30 Jun 2021, down from 3.7x as of 30 Jun 2020.

MHP FINANCIALS						
USD mn	2Q20	2Q21	chg.	1H20	1H21	chg.
Net revenue	425	542	+28%	867	989	+14%
EBITDA	126	277	+120%	216	334	+55%
margin	29.6%	51.1%	+21.5 p.p.	24.9%	33.8%	+8.9 p.p.
Net Income	112	231	+106%	-62	232	-/+
net margin	26.4%	42.6%	+16.3 p.p.	-7.2%	23.5%	+30.6 p.p.

Source: Company data.

COMMENTARY

MHP's much better than expected net profit for 1H21 implied earnings per share of USD 2.09. Although part of the profit came from a non-cash foreign exchange gain of USD 51mn in the period, the company's EBITDA margin of 34% proved its ability to deliver an outstanding financial performance on the back of its vertical integration. We conclude that in the current environment of global food price inflation, MHP was well prepared to increase its profitability across its entire value chain, from harvesting crops to selling ready-to-cook poultry. MHP's sales volume increased by 2% YoY to 336,000 tonnes in 1H21. However, from the accounting point of view, MHP's major boost in profitability came from the grain growing segment, which contributed USD 161mn on the EBITDA level in 1H21 due to rallying soft commodity prices on the global market.

Indeed, this release is the best news from MHP in more than two years, as politics-related concerns about the company's ability to navigate the Zelenskiy presidency, as well as worries about the persistently high debt burden, have weighed on the MHPC share price. Taking the 1H21 report into consideration, we are revising our forecast for the company's full-year net profit from USD 110mn to USD 240mn (EPS of USD 2.17). We note that a possible devaluation of the hryvnia or a correction in grain prices represent risks for MHP's profitability in 2H21.

MHP's Net Debt/EBITDA ratio of 2.8x met the ceiling of 3.0x embedded in MHP's Eurobonds after a lengthy period during which the company was in violation of the non-binding covenant.

The London-listed MHPC stock reacted positively to the 2Q21 results, gaining 10% to USD 7.00, a level for the stock that has not been registered since early 2020. MHP-2029 Eurobonds are traded at 102.8 (5.8% YtM), which essentially places them on the Ukrainian sovereign yield curve.

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	0.2%	2.7%	7.75%	1 Sept 2022	1,384	USD	B3/B/B
Ukraine, 2025	111.8	0.4%	4.9%	7.75%	1 Sept 2025	1,328	USD	B3/B/B
Ukraine, 2028	121.0	0.3%	6.1%	9.75%	1 Nov 2028	1,600	USD	B3/B/B
Ukraine, 2032	107.3	0.8%	6.5%	7.38%	25 Sept 2032	3,000	USD	B3/B/B
Ukraine, GDP-linked	115.0	1.0%			31 May 2040	3,214	USD	/B/
Corporate Eurobonds								
Kernel, 2027	107.8	0.0%	5.3%	6.75%	27 Oct 2027	300	USD	/B+/
MHP, 2026	106.8	0.5%	5.3%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	102.8	1.5%	5.8%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK Energy, 2027	61.9	1.0%	14.7%	5.00%	31 Dec 2027	1,645	USD	//
Metinvest, 2026	114.6	0.0%	4.9%	8.50%	23 Apr 2026	648	USD	B2/B/BB-
Metinvest, 2029	111.6	0.8%	5.9%	7.75%	17 Oct 2029	500	USD	B2/B/BB-
NaftoGaz, 2024	104.4	0.0%	5.3%	7.125%	19 Jul 2024	600	EUR	//
Ukrainian Railways	104.3	0.1%	6.5%	8.25%	9 Jul 2024	500	USD	//
Bank Eurobonds								
UkrEximBank, 2023	100.1	0.0%	6.9%	9.00%	9 Feb 2023	125	USD	B3//B
UkrEximBank, 2025	108.5	0.0%	4.9%	9.75%	22 Jan 2025	600	USD	B3//B
Oschadbank, 2023	105.3	1.3%	3.9%	9.38%	10 Mar 2023	700	USD	B2//B
Oschadbank, 2025	109.0	0.0%	4.3%	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)	Coupon Period	Maturity Date	Volume UAH mn
UAH denominated Bonds							
UA4000203236			10.7%	9.7%	S/A	05 Jan 2022	10,887
UA4000204002	103.5	103.8	11.5%	11.0%	S/A	11 May 2022	12,917
UA4000218325	99.6	99.9	12.0%	11.6%	S/A	20 Jul 2022	13,415
UA4000199210	103.2	103.6	12.0%	11.6%	S/A	12 Oct 2022	14,993
UA4000201255	105.0	105.9	13.0%	12.3%	S/A	24 May 2023	6,470
UA4000201255	93.3	94.8	13.5%	12.7%	S/A	22 May 2024	18,105
UA4000204150	106.9	108.9	13.7%	13.0%	S/A	26 Feb 2025	41,080
UA4000207518	86.3	91.6	13.8%	12.2%	S/A	20 May 2027	7,018
USD denominated Bonds							
UA4000218333	99.9	100.4	3.8%	3.2%	S/A	14 Jul 2022	USD 336mn

Source: TR Data, Eavex Research

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