

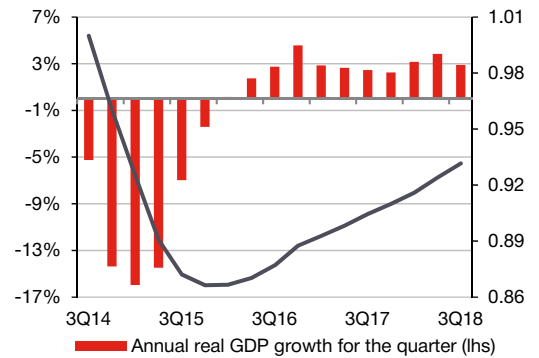
Weekly Digest

- Real GDP in 3Q18 grew by 2.8% YoY
- The IMF board may approve the first SBA tranche by year end
- MHP reported 3Q18 results below expectations

Real GDP in 3Q18 grew by 2.8% YoY, according to preliminary SSSU calculations.

Our view: The figure came practically in line with our forecast and slightly below those of the NBU, and the consensus median on Bloomberg (2.9%, 3.1%, and, 3.1% respectively). Although a breakdown of real value added by sector is needed to assess the actual reasons for a slowdown from 2Q18 (3.8%), high frequency data points towards a decrease in industrial output (mainly thermal power, machinery, and consumer goods), a YoY decline in wheat production, and lower gas transit volumes to be the main culprits. Our current forecast for 4Q18 stands at 4.0%, reflecting this season's unusually high harvest of corn (up 39% YoY, according to latest WASDE data).

Quarterly real GDP growth since 3Q14



Source: SSSU, Adamant Capital estimates

The IMF board may approve the first SBA tranche by year end.

According to the Fund's spokesman Gerry Rice, such a scenario is indeed realistic as long as prior actions that include voting in the 2019 state budget and implementing the agreed-upon heating tariff hikes are met. A similar view has also been voiced by Ukraine's PM Groysman in the media, who also noted that the authorities will no longer pursue replacing the corporate income tax with an ECT, as international donors have vehemently opposed the initiative.

Our view: Taking into account that the FinMin has already submitted a second draft of the state budget to Parliament (which suggests that the document could be approved by the end of the month), and that the NERC's formal procedure can potentially be rushed along, we have no reason to believe that the December date is impossible to meet. Although the size of the IMF's tranche has not been disclosed, a positive board decision would pave the way towards a \$0.8bln loan guarantee from the World Bank and an initial EUR0.5bln tranche of the EU's MFA IV. That said, we still believe that there is a large chance that the majority of the funding would actually come in over 1Q19.

MHP reported 3Q18 results below expectations. Quarterly EBITDA (excluding IAS 41 effects) decreased by 9% YoY to \$117m. Revenue was up by 19% to \$442m. Net profit from continuing operations amounted to -\$49m, reflecting a \$87m non-cash FX loss (a result of EOP devaluation of the hryvnia). Operating cash flow fell by 22% to \$123m (stemming also from an inflow of working capital), which, given an 80% increase in capex, resulted in a 66% reduction in FCF to just \$37m. Net debt to LTM EBITDA ex IAS41 grew by 16% to 2.8x. During its conference call for investors and an interview with Bloomberg, management guided for a flat annual EBITDA, a 10-15% YoY increase in 4Q18 poultry output, and completion of its Perutnina Ptuj acquisition by the end of the year. With regard to the latter, MHP is planning to invest an additional \$200m over the next 5-7 years in order to improve its target's efficiency. IRR of the project is expected at 15-17%.

Our view: The announcement was filled with negative surprises. First, actual EBITDA missed our projection by 11% on the back of an unexpected 8% surge in poultry production costs (driven by a sharp rise protein expenses, according to management). Second, the company downgraded its annual earnings projection for the farming segment by 15% to \$340/ha despite few changes to the outlook on crop yields. In combination, the above now suggests that our previous FY18 \$490m EBITDA forecast is essentially out of reach. Assuming that a high cost base will persist in 4Q18 (which is likely, given that employee bonuses are paid out in the period), we see quarterly EBITDA a no more than \$120m, which suggests an annual figure of \$440m (flat YoY). We treat confirmation of the acquisition, the cost of which we estimate at c. \$200-250m based on the data provided during the call, largely as a neutral event, given a lack of obvious synergies. Our model affirms end-of-year leverage at roughly 3.0x (excluding IAS 41) if the transaction indeed falls within the above range. Our recommendation on the issuer's notes remains at a 'Hold', taking into account the current 50-100bps yield discount to the sovereign curve and no major changes to the overall narrative.

MHP 3Q18 IFRS financial results summary, \$m

	3Q18	3Q17	YoY	2Q18	QoQ
Revenue	442	371	19%	388	14%
EBITDA	99	105	-6%	174	-43%
IAS 41 gain/loss	-18	-24	nm	78	-123%
EBITDA adjusted ¹	117	129	-9%	96	22%
Poultry	80	98	-18%	88	-9%
Grain	34	28	19%	14	141%
EBITDA adjusted margin	26%	35%	-8pps	25%	2pps
FX gain/loss	-88	-17	nm	16	-633%
Net profit	-49	41	-219%	101	-148%
Net profit margin	-11%	11%	-22pps	26%	-37pps
Net debt	1,166	1,073	9%	1,180	-1%
Net debt/EBITDA	2.6	2.4	7%	2.6	0%
Net debt/adjusted EBITDA	2.8	2.4	16%	2.7	2%
Operating cash flow	123	158	-22%	72	72%
Capex	86	48	79%	72	21%
Free cash flow	37	109	-66%	0	nm
Poultry production, kt	151	137	10%	156	-3%
Poultry sales, kt	161	135	19%	153	5%
Avg poultry price, UAH/kg	40.4	39.7	2%	39.4	3%
Avg poultry price, \$/kg	1.48	1.53	-4%	1.50	-2%
Avg LTM harvest area, kha	360	365	-1%	356	1%
Poultry EBITDA per kg ² , \$	0.50	0.73	-31%	0.57	-13%
LTM crop EBITDA/ha ³ , \$	279	386	-28%	267	5%

(1) EBITDA net of IAS 41

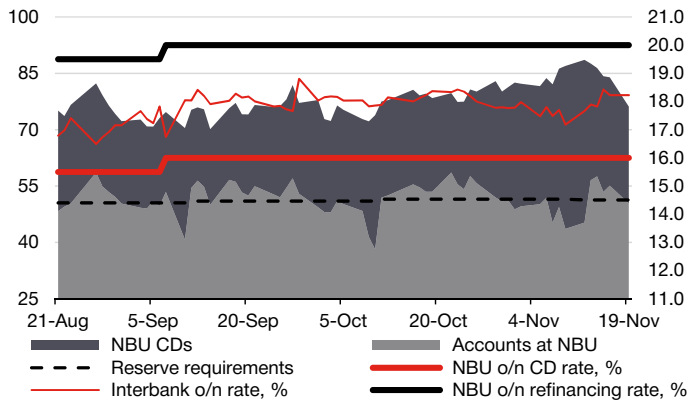
(2) EBITDA per kg of sales to third parties

(3) Crop segment EBITDA excluding IAS 41 per hectare of relevant harvested area

Source: Company data, Adamant Capital estimates

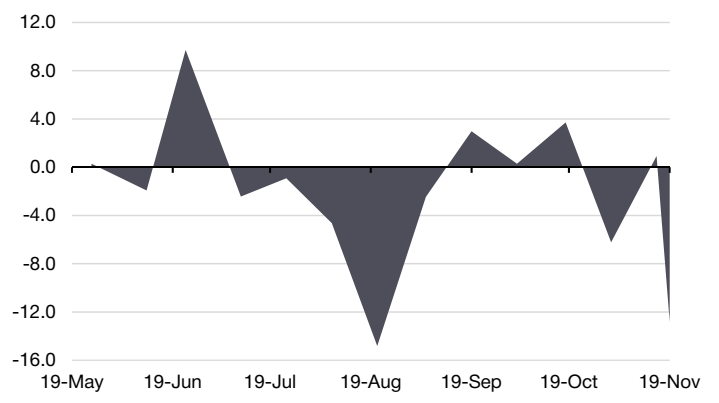
Appendix

Banking system 3m liquidity (lhs, UAHbln) vs NBU CD rates (%)



Source: NBU, Adamant Capital estimates

Banking system 6m inflows from the state treasury and the DGF

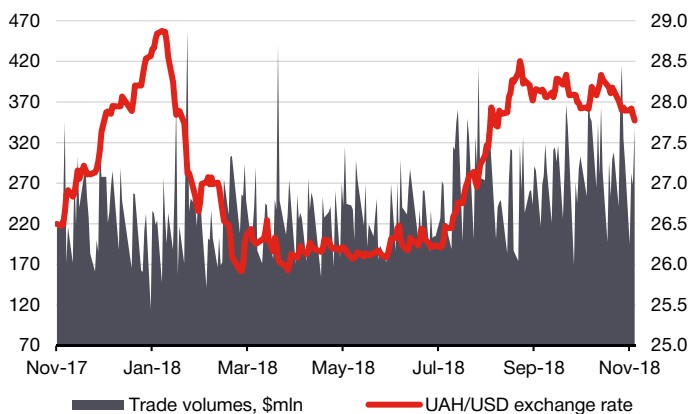


Note: in UAHbln, where each point represents a biweekly sum
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has decreased by UAH 12.4bln to UAH 76.1bln over the last week. On November 20 the Ministry of Finance conducted local hryvnia denominated placement maturing in February 2019, May 2019 and September 2019 with yields of 19.0%, 18.5% and 18.5%, respectively, and USD denominated placement maturing in June 2019, October 2019 and January 2020 with yields of 6.7%, 7.25% and 7.5%, respectively. A total of UAH 182.6mln and \$40.6mln was raised as a result.

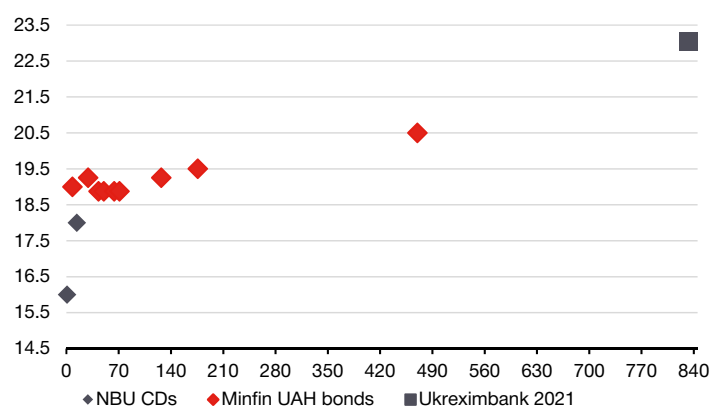
The **UAH/USD interbank rate** appreciated by 0.5% over the week starting out with 27.92 and ending at 27.77.

FX interbank trade volume (lhs) and FX rate (rhs), past 12 months

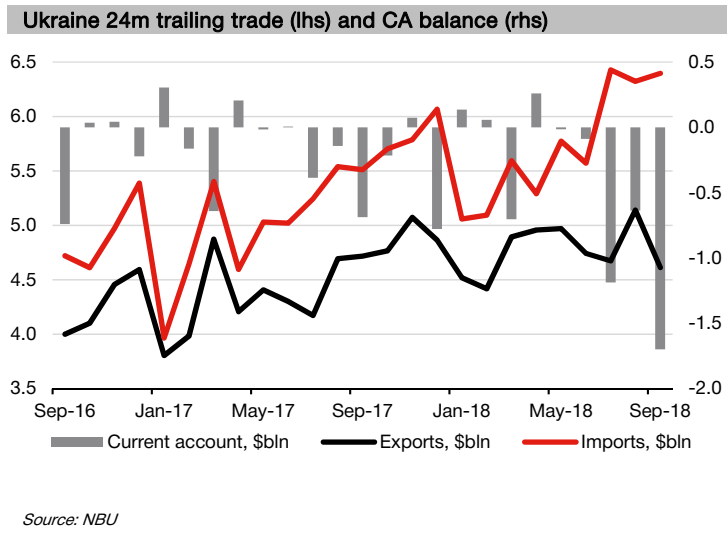
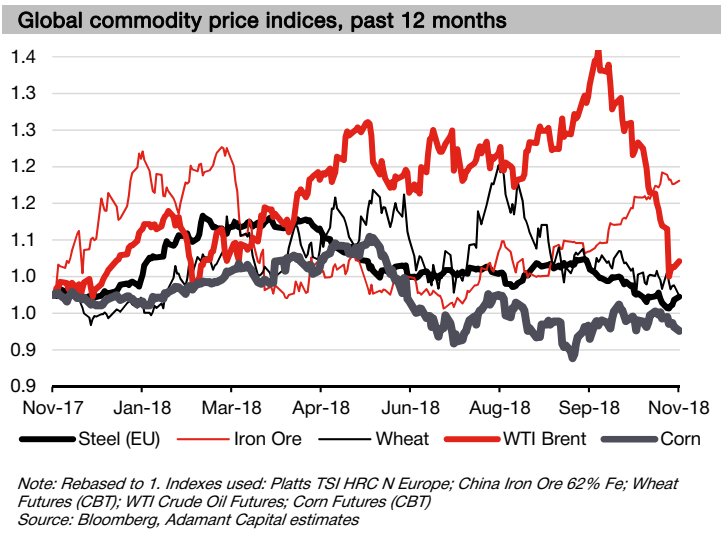
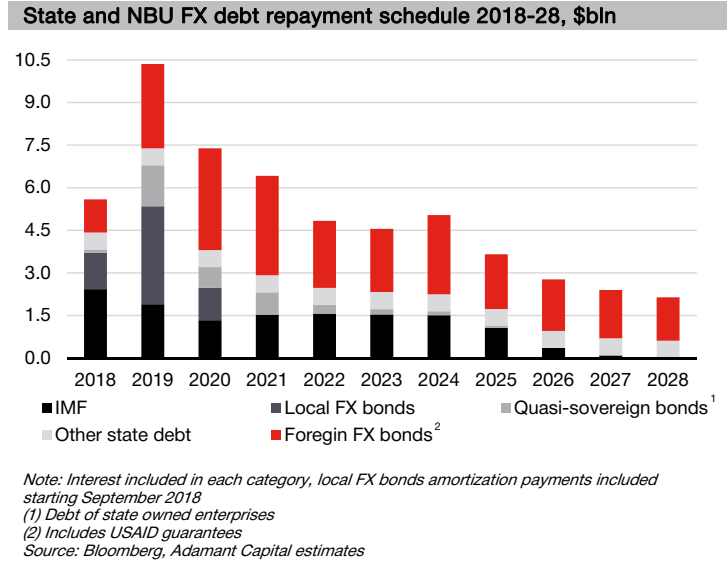
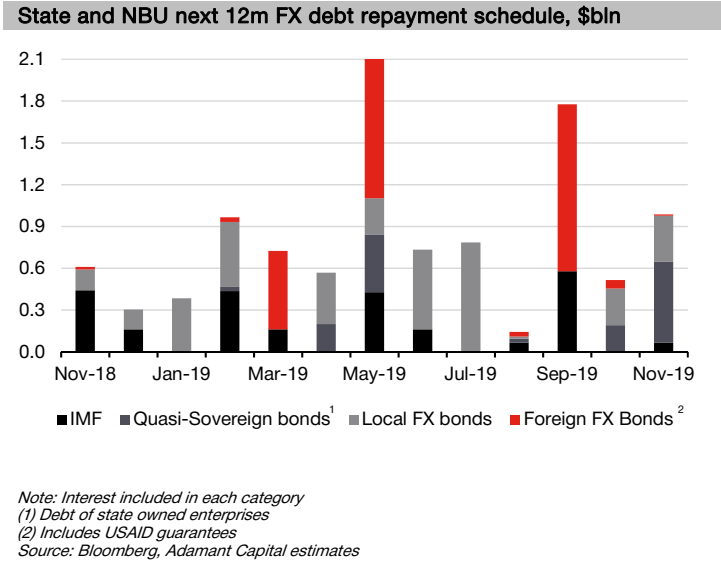
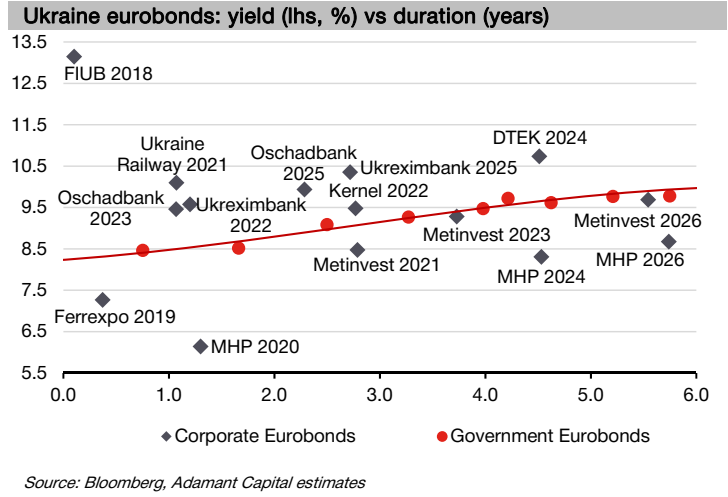
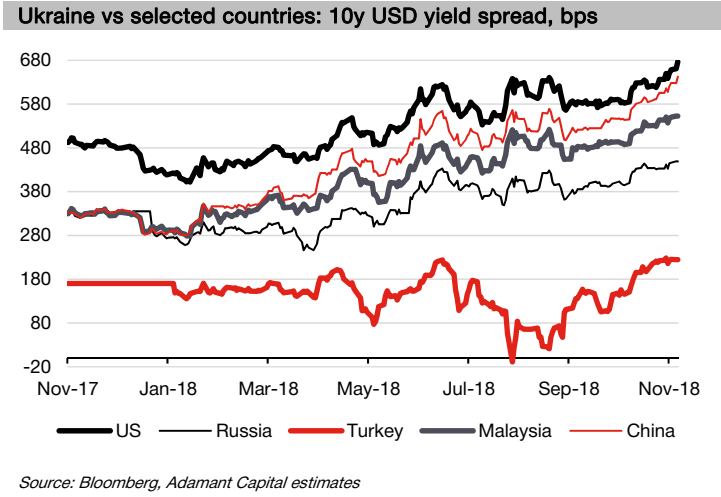


Note: Exchange rate figures are from official interbank data
Source: NBU

Local market yield curve: yield (lhs, %) and maturity (rhs, days)



Source: NBU, Bloomberg, Adamant Capital estimates



Key macroeconomic indicators								
	3Q17	4Q17	2017	1Q18	2Q18	3Q18E	4Q18E	2018E
Real GDP growth, YoY	2.4%	2.2%	2.5%	3.1%	3.8%	2.9%	4.0%	3.5%
Nominal GDP, UAHbln	833	894	2,983	700	807	970	1,072	3,550
Nominal GDP, \$bln	32	33	113	26	31	35	38	130
GDP deflator growth YoY, %	21.1%	20.9%	22.0%	14.9%	17.0%	13.2%	15.3%	15.1%
Period average CPI YoY, %	16.1%	14.0%	14.5%	13.8%	11.6%	8.9%	10.4%	11.2%
End of period CPI YoY, %	16.4%	13.7%	13.7%	13.2%	9.9%	8.9%	11.0%	11.0%
Consolidated budget deficit, % of GDP ¹	1.3%	9.4%	1.4%	0.4%	-1.6%	-0.4%	9.1%	2.4%
Broad public sector deficit, % of GDP ²	4.0%	12.7%	4.1%	0.4%	-1.2%	-0.4%	9.1%	2.5%
Public debt as % of LTM GDP, UAH	72.7%	71.8%	71.8%	66.4%	61.8%	62.7%	62.6%	62.6%
Public external debt as % of LTM GDP, \$ ³	46.5%	43.5%	43.5%	41.7%	38.7%	38.0%	38.3%	38.3%
Total external debt, \$bln	116	115	115	115	114	114	117	117
Export of goods and services, \$bln	13.6	14.7	53.9	13.8	14.7	14.4	15.7	58.6
Import of goods and services, \$bln	16.3	17.6	62.5	15.7	16.6	19.1	18.2	69.7
Trade balance, \$bln	-2.7	-2.9	-8.6	-1.9	-2.0	-4.7	-2.5	-11.1
Current account, \$bln	-1.2	-0.9	-2.4	-0.5	0.2	-3.5	-0.6	-4.5
Financial account, \$bln ⁴	-2.1	-1.6	-5.0	-0.2	-0.4	-2.8	-2.1	-5.5
End of period NBU reserves, \$bln	18.6	18.8	18.8	18.2	18.0	16.6	18.9	18.9
Average interbank exchange rate, UAH/\$ ⁵	25.9	26.9	26.5	27.3	26.2	27.4	28.5	27.3
EOP interbank exchange rate, UAH/\$	26.6	28.1	28.1	26.3	26.3	28.3	29.0	29.0
EOP key policy rate NBU, %	12.5%	14.5%	14.5%	17.0%	17.0%	18.0%	18.5%	18.5%

(1) Includes net loans given out to state enterprises from the central budget

(2) Includes quasi-fiscal expenditures such as the recapitalization of Naftogaz, state banks, and the DGF. Also accounts for state guarantees.

(3) GDP calculated in \$ according to the average UAH/\$ exchange rate for the year

(4) As per the 6th edition of the IMF's Balance of payments and international investment position manual

(5) Based on official NBU data of average daily interbank rates. Not weighted by volume traded

Source: NBU, SSSU, State treasury, Ministry of Finance, IMF, Adamant Capital estimates

Indicative Eurobond prices, yields, and recommendations									
Bond name	Recommendation	Rec date	Coupon	Maturity	Bid Yield	Bid Price	1 week Δ	Dur, yrs	Out, \$mln
Ukraine 2019	Hold	-	7.8	Sep-19	8.5	99.5	-0.3	0.8	661
Ukraine 2023	Hold	-	7.8	Sep-23	9.5	93.5	-0.7	4.0	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	9.7	97.1	-0.8	4.2	750
Ukraine 2027	Hold	-	7.8	Sep-27	9.9	87.7	-1.0	6.2	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	10.3	96.6	-0.8	6.5	1,250
Ukraine 2032	Hold	-	7.4	Sep-32	9.8	81.6	-1.2	8.0	3,000
MHP 2024	Hold	20-Nov-18	7.8	May-24	8.3	97.6	-0.6	4.5	500
MHP 2026	Hold	20-Nov-18	7.0	Apr-26	8.7	90.8	-0.8	5.7	550
DTEK 2024	Hold	13-Nov-18	10.8	Dec-24	10.7	100.1	-1.6	4.5	1,344
Ferrexpo 2019	Hold	9-Oct-18	10.4	Apr-19	7.3	101.1	0.0	0.4	346
Metinvest 2023	Hold	6-Nov-18	7.8	Apr-23	9.3	94.6	-0.5	3.7	945
Metinvest 2026	Hold	6-Nov-18	8.5	Apr-26	9.7	93.8	-0.6	5.5	648
Ukrlandfarming in default	Sell	13-Jun-17	10.9	Mar-18	nm	13.5	0.0	nm	543
Avangard in default	Sell	5-Jun-18	10.0	Oct-18	nm	20.5	0.0	nm	214
FUIB 2018	Buy	6-Nov-18	11.0	Dec-18	13.1	99.8	-0.1	0.1	59
Privatbank in default (10.250)	Not rated	-	10.3	Jan-18	nm	21.2	-0.9	nm	160
Privatbank in default (10.875)	Not rated	-	10.9	Feb-18	nm	22.5	0.0	nm	175
Oschadbank 2023	Buy	6-Nov-18	9.4	Mar-23	9.5	99.7	-0.1	1.1	700
Oschadbank 2025	Buy	6-Nov-18	9.6	Mar-25	9.9	98.5	0.0	2.3	500
Ukreximbank 2021 (UAH)	Buy	6-Nov-18	16.5	Mar-21	23.8	87.6	0.0	1.9	150
Ukreximbank 2022	Buy	6-Nov-18	9.6	Apr-22	9.6	100.1	0.1	1.2	750
Ukreximbank 2025	Buy	6-Nov-18	9.8	Jan-25	10.4	97.3	-0.6	2.7	600
Ukrainian Railway 2021	Buy	9-Oct-18	9.9	Sep-21	10.1	99.4	-0.2	1.1	500
Kernel 2022	Buy	23-Oct-18	8.8	Jan-22	9.5	98.0	-1.1	2.8	500

Note: all bonds are rated in relation to the sovereign, which is assumed to have a 'Hold' rating

Source: Bloomberg, Adamant Capital estimates

Fixed Income 2 week event calendar		
Event	Type	Date
SSSU - Industrial production monthly data	Exact	22-Nov
Metinvest - Monthly report for September	Indicative	22-Nov
Treasury - Monthly state budget performance	Indicative	26-Nov
NBU - Balance of payments monthly data	Exact	30-Nov

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