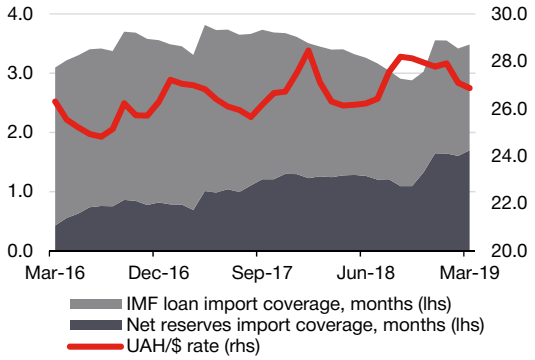
Weekly Digest

- Foreign currency reserves of the NBU in March increased by $0.4bln MoM to $20.6bln
- Ferrexpo's 1Q19 pellet output decreased by 11% QoQ to 2.5kt
- Avangardco's FY18 EBITDA landed at just $8mln

Foreign currency reserves of the NBU in March increased by $0.4bln MoM to $20.6bln. Inflows were caused primarily by bond placements totaling $1.1bln, out of which $0.6 was borrowed via a guarantee from the World Bank. An extra $160mln was raised via interventions on the FX market. Outflows went towards debt servicing and amortizations of $0.9bln, including a eurobond coupon payment amounting to $0.6bln.

Our view: This month's figure came broadly in line with expectations, with the only notable difference from our forecast being the amount raised via foreign currency purchases (we anticipated it to be some $200mln larger, especially given non-resident participation in local hryvnia debt). The data thus allows us to maintain our end-of-year reserves projection at $19.5bln. That said, we note that our estimate assumes that Ukraine will be able to secure one $1.3bln SBA tranche from the IMF, EUR0.5bln from the EU, and raise an extra $1.5bln via a eurobond placement, which is only realistic if the country's authorities continue to cooperate with international donors after elections. Taking into account that the leading candidate for president Zelensky is still in the process of bringing together a team and formulating key messages of his campaign, we feel that risks of a more negative scenario materializing are elevated.

Reserves import coverage vs UAH/$ rate



Source: NBU, Adamant Capital estimates

Ferrexpo's 1Q19 pellet output decreased by 11% QoQ to 2.5kt. The share of higher quality 65% Fe produce has rebound to 96% of the total volume. The 62% Fe CFR China price index grew by 17% QoQ to $83/t.

Our view: Although the bulk of the QoQ production drop can be explained by seasonality, we still found it to be slightly above expectations. That said, the deviation is not substantial enough to put at risk Ferrexpo's annual output target of c. 10.6mlnt, in our view. Assuming that FY18 EBITDA will indeed reach $500mln (as predicted by management in January), we think that current iron ore prices and pellet premiums suggest that the figure may grow to c. $630mln in 2019. Taking into account, however, that the company has amortized its eurobonds on April 7, we suspend our coverage of this issuer until new publicly tradable fixed income instruments emerge.

Ferrexpo 1Q19 pellet production summary, kt

		1Q19	4Q18	3Q18	2Q18	1Q18
Pellet production		2,539	2,851	2,660	2,511	2,585
	QoQ	-11%	7%	6%	-3%	-7%
	YoY	-2%	2%	7%	-1%	-1%
Share of 65% Fe		96%	93%	94%	93%	94%
62% Fe ore price[1], $/t		83	71	66	65	74
	QoQ	17%	7%	2%	-12%	13%
	YoY	12%	9%	-6%	4%	-12%

(1) The 62% CFR China Iron Ore price index
Source: Company data, Bloomberg, Adamant Capital estimates

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Avangardco's FY18 EBITDA landed at just $8mln. The company's revenues increased by 33% YoY to $170mln. Net income fell to -$56mln, partially due to $31mln of finance cost. Operating cash flow before changes in working capital decreased to -$14mln. Regular OCF tripled to $17mln. Net debt to LTM EBITDA amounted to 42x. According to the official press release, Avangardco continues to be in discussion with creditors on the possibility of a restructuring (in default on eurobond interest since October of 2017).

Our view: Results for the year failed to demonstrate any significant recovery in finances, despite the business environment being "broadly favorable", according to the company's CEO. In fact, on a cash basis, Avangardco lost $14mln via operations, which was masked by a $26mln decrease in inventories of finished goods that were accumulated over the two previous years ($8mln in 2017 and $14mln in 2016). Looking back at 2014, it becomes evident that the company remains a shadow of its former self, now generating an EBITDA that is equivalent to just 5% of its previous earnings. A lack of clarity with regard to how exactly such a downfall occurred while other publicly traded peers remained unaffected (such as Ovostar and MHP), makes the probability of sharp improvements unlikely, in our view. Avangardco is still in default on its eurobonds and we do not expect these to be paid down even if a substantial haircut (possibly even more than 80%) is applied. Our recommendation remains a 'Sell'.

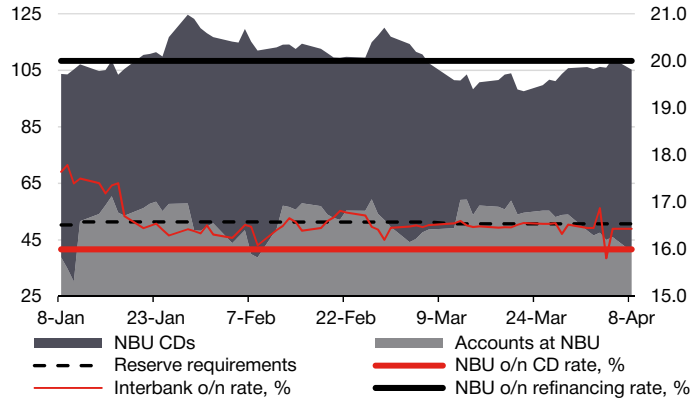
Avangardco FY18 IFRS financial results, $mln

	2018	2017	YoY	2016	2014
Revenue	170	128	33%	191	420
Government grants	0	19	nm	5	37
EBITDA[1]	8	7	14%	20	152
EBITDA margin	5%	6%	-1pp	10%	36%
Net income	-56	-7	nm	-57	-27
Net income margin	-33%	-6%	nm	-30%	-6%
OCF before WC	-14	1	nm	22	96
OCF	17	4	300%	-3	41
Free cash flow	2	3	-13%	-15	-36
Gross debt	367	366	0%	344	344
Net debt	347	348	0%	332	226
Net debt/EBITDA	42	48	-12%	17	1
Egg production, mnt	2,625	2,399	9%	2,496	6,306
Shell egg sales, mnt	2,106	1,869	13%	1,515	4,300
Egg product sales, t	11,114	3,264	241%	9,028	18,600
Shell egg price, UAH	1.6	1.2	33%	1.4	0.8
Shell egg price, ¢	5.7	4.4	30%	5.3	6.5
Egg prod. price, $/kg	3.5	4.3	-18%	5.6	6.3
Avg price/egg eq[2], ¢	5.3	4.5	18%	5.8	6.8
EBITDA/egg eq[3], ¢	0.28	0.34	-19%	0.90	2.62

Note: ¢ represent US dollar cents
(1) Excludes impairments and provisions for doubtful debts
(2) Average realized price per egg sold, including egg products in egg equivalent.
(3) EBITDA per shell egg sold, including egg products in egg equivalent
Source: Company data, Adamant Capital estimates

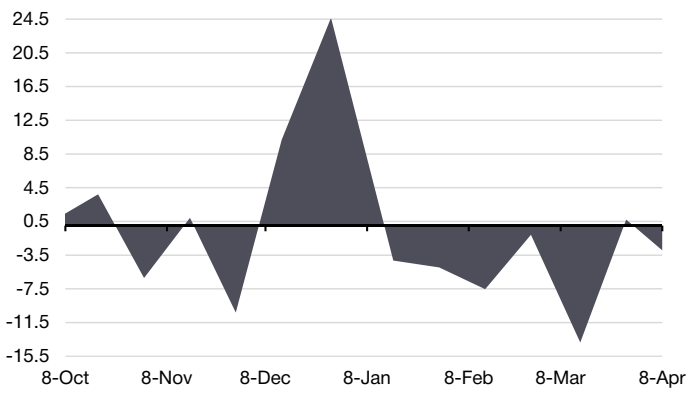
Appendix

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

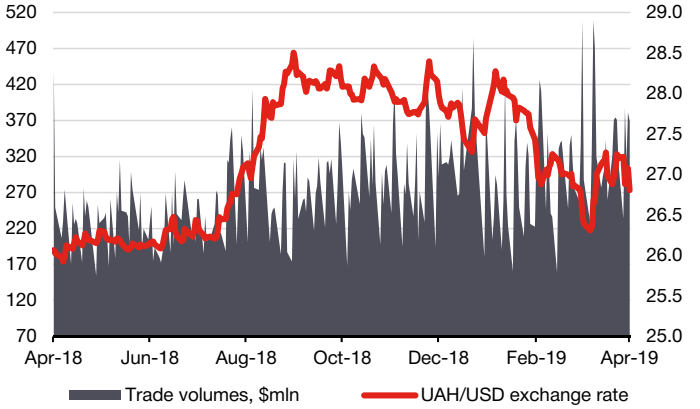


Note: in UAHbln, where each point represents a biweekly sum
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has decreased by UAH 1.0bln to UAH 105.2bln over the last week. On April 9 the Ministry of Finance conducted local hryvnia denominated placement maturing in August 2019, October 2019, April 2020 and March 2021 with yields of 19.5%, 19.0%, 18.5% and 18.0%, respectively, and USD denominated placement maturing in April 2020 and July 2020 with yield of 7.25%. Moreover, euro denominated notes maturing in November 2019 with yield of 4.6% were also sold. A total of UAH 7.7bln, $13.5mln and EUR 2.6mln was raised as a result.

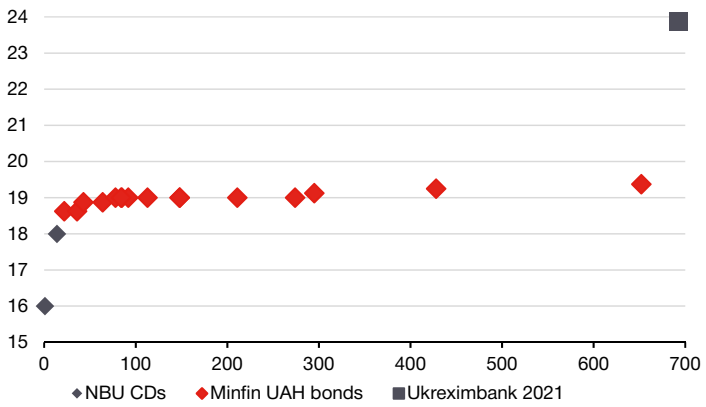
The UAH/USD interbank rate appreciated by 0.8% over the last week starting out with 26.88 and ending at 26.67.

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



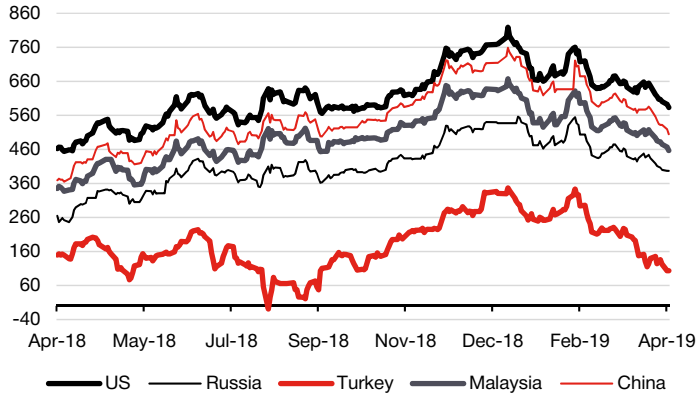
Note: Exchange rate figures are from official interbank data
Source: NBU

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



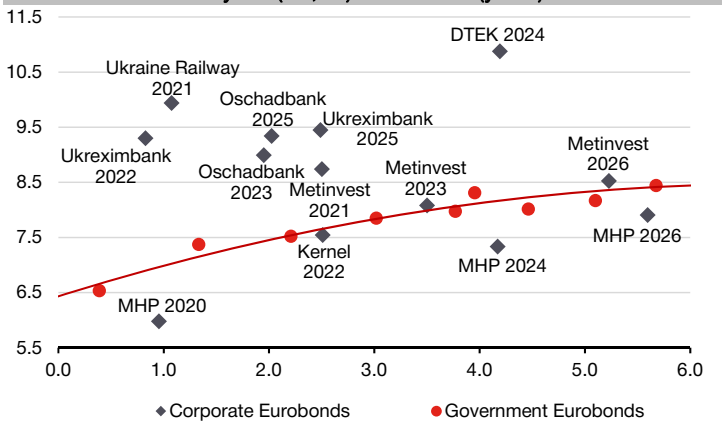
Source: NBU, Bloomberg, Adamant Capital estimates

Ukraine vs selected countries: 10y USD yield spread, bps



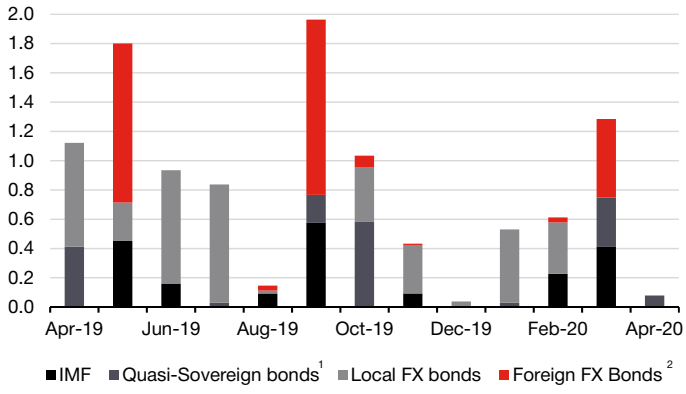
Source: Bloomberg, Adamant Capital estimates

Ukraine eurobonds: yield (lhs, %) vs duration (years)



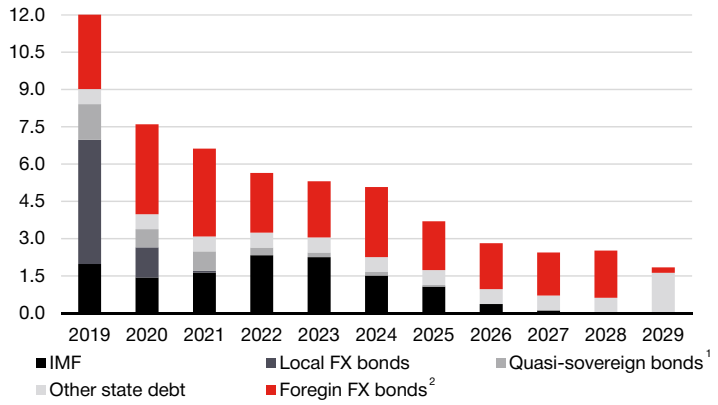
Source: Bloomberg, Adamant Capital estimates

State and NBU next 12m FX debt repayment schedule, $bln



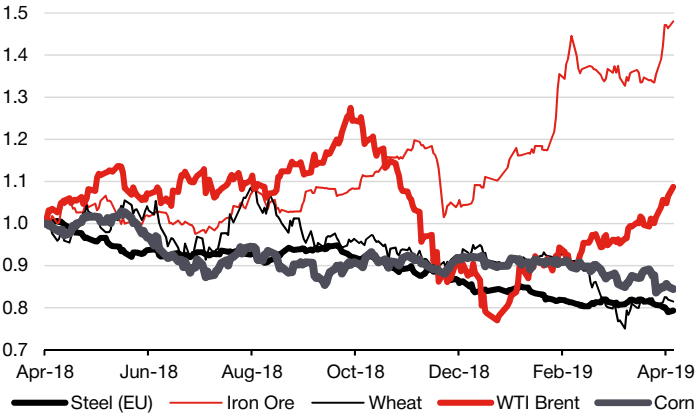
Note: Interest included in each category
(1) Debt of state owned enterprises
(2) Includes USAID guarantees
Source: Bloomberg, Adamant Capital estimates

State and NBU FX debt repayment schedule 2019-29, $bln



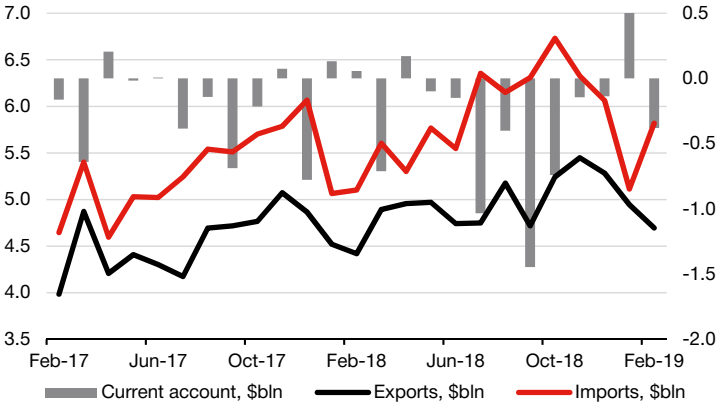
(1) Debt of state owned enterprises
(2) Includes USAID guarantees
Source: Bloomberg, Adamant Capital estimates

Global commodity price indices, past 12 months



Note: Rebased to 1. Indexes used: Platts TSI HRC N Europe; China Iron Ore 62% Fe; Wheat Futures (CBT); WTI Crude Oil Futures; Corn Futures (CBT)
Source: Bloomberg, Adamant Capital estimates

Ukraine 24m trailing trade (lhs) and CA balance (rhs)



Source: NBU

Key macroeconomic indicators

	2017	1Q18	2Q18	3Q18	4Q18	2018	1Q19E	2019E
Real GDP growth, YoY	2.5%	3.3%	3.8%	2.8%	3.5%	3.3%	2.5%	2.8%
Nominal GDP, UAHbln	2,984	705	811	995	1,048	3,559	798	4,024
Nominal GDP, $bln	113	26	31	36	37	131	29	141
GDP deflator growth YoY, %	22.1%	15.1%	17.4%	16.0%	13.5%	15.0%	10.4%	10.0%
Period average CPI YoY, %	14.5%	13.8%	11.6%	8.9%	9.7%	11.0%	9.1%	8.8%
End of period CPI YoY,%	13.7%	13.2%	9.9%	8.9%	9.8%	9.8%	9.2%	6.8%
Consolidated budget deficit, % of GDP[1]	1.4%	0.4%	-1.7%	-0.4%	7.9%	1.9%	-0.3%	2.0%
Broad public sector deficit, % of GDP[2]	4.0%	0.4%	-1.2%	-0.4%	8.3%	2.2%	-0.3%	2.0%
Public debt as % of LTM GDP, UAH	71.8%	66.3%	61.6%	62.1%	60.9%	60.9%	58.5%	55.9%
Public external debt as % of LTM GDP, $[3]	43.5%	41.6%	38.6%	37.6%	38.6%	38.6%	37.7%	35.6%
Total external debt, $bln	115	115	114	114	115	115	115	112
Export of goods and services, $bln	53.9	13.8	14.7	14.6	16.0	59.1	14.9	61.5
Import of goods and services, $bln	62.5	15.8	16.6	18.8	19.1	70.3	16.6	73.0
Trade balance, $bln	-8.6	-1.9	-1.9	-4.2	-3.1	-11.2	-1.7	-11.5
Current account, $bln	-2.4	-0.5	-0.1	-2.9	-1.0	-4.5	-0.2	-4.5
Financial account, $bln[4]	-5.0	-0.3	-0.7	-2.1	-4.3	-7.4	-0.6	-3.9
End of period NBU reserves, $bln	18.8	18.2	18.0	16.6	20.8	20.8	20.6	19.5
Average interbank exchange rate, UAH/$[5]	26.5	27.3	26.2	27.4	28.0	27.2	27.3	28.5
EOP interbank exchange rate, UAH/$	28.1	26.3	26.3	28.3	27.7	27.7	27.2	30.0
EOP key policy rate NBU, %	14.5%	17.0%	17.0%	18.0%	18.0%	18.0%	18.0%	17.0%

(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	6.5	100.4	0.0	0.4	661
Ukraine 2023	Hold	-	7.8	Sep-23	8.0	99.2	0.9	3.8	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	8.3	102.6	1.2	4.0	750
Ukraine 2027	Hold	-	7.8	Sep-27	8.4	96.2	1.6	6.2	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	8.8	106.3	1.8	6.3	1,600
Ukraine 2032	Hold	-	7.4	Sep-32	8.3	92.3	2.0	8.2	3,000
MHP 2024	Hold	26-Mar-19	7.8	May-24	7.3	101.7	0.0	4.2	500
MHP 2026	Hold	26-Mar-19	7.0	Apr-26	7.9	94.9	0.9	5.6	550
DTEK 2024	Buy	5-Mar-19	10.8	Dec-24	10.9	99.5	-0.4	4.2	1,344
Metinvest 2023	Hold	19-Mar-19	7.8	Apr-23	8.1	98.9	0.1	3.5	945
Metinvest 2026	Hold	19-Mar-19	8.5	Apr-26	8.5	99.9	0.4	5.2	648
Ukrlandfarming in default	Sell	13-Jun-17	10.9	Mar-18	nm	14.0	0.0	nm	543
Avangard in default	Sell	9-Apr-19	10.0	Oct-18	nm	17.9	-0.1	nm	214
Privatbank in default (10.250)	Not rated	-	10.3	Jan-18	nm	21.2	0.0	nm	160
Privatbank in default (10.875)	Not rated	-	10.9	Feb-18	nm	20.7	0.0	nm	175
Oschadbank 2023	Buy	12-Feb-19	9.4	Mar-23	9.0	101.2	-0.1	2.0	700
Oschadbank 2025	Buy	12-Feb-19	9.6	Mar-25	9.3	101.3	0.4	2.0	500
Ukreximbank 2021 (UAH)	Not rated	-	16.5	Mar-21	25.6	86.9	0.0	1.7	150
Ukreximbank 2022	Buy	12-Feb-19	9.6	Apr-22	9.3	100.8	0.0	0.8	750
Ukreximbank 2025	Buy	12-Feb-19	9.8	Jan-25	9.4	101.3	0.2	2.5	600
Ukrainian Railway 2021	Buy	9-Oct-18	9.9	Sep-21	9.9	99.9	-0.6	1.1	500
Kernel 2022	Buy	5-Mar-19	8.8	Jan-22	7.5	103.0	0.3	2.5	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
Metinvest - Monthly report for January	Indicative	10-Apr
SSSU - Agricultural production monthly data	Exact	15-Apr
MHP - Pre-close trading update for Q1 2019	Exact	18-Apr
SSSU - Transportation monthly data	Exact	19-Apr
Kernel - Operational results for Q3 2019	Exact	19-Apr
SSSU - Wholesale and retail turnover monthly data	Exact	22-Apr
SSSU - Industrial production monthly data	Exact	23-Apr

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