

Weekly Digest

- August's current account (CA) deficit amounted to \$414mln, while the financial account (FA) demonstrated a \$417mln surplus
- Metinvest reported a 24% MoM increase in July adjusted EBITDA and the extension of the moratorium until November 30
- DTEK 1H16 EBITDA fell 5% YoY and 27% HoH to \$133mln

August's current account (CA) deficit amounted to \$414mln, while the financial account (FA) demonstrated a \$417mln surplus. Exports of goods and services surged by 8% MoM sanding significantly above the historical 2010-16 average of 1% and 1% above last year's figure. The largest increase in exports compared to July occurred on the back of a seasonal increase in shipments of agricultural products, which were not counteracted by an, also seasonal, contraction in sales of machinery. Imports were up by 9% MoM and 13% YoY, owing largely to a sharp increase in vehicle (likely due to decreased duties on used cars as of August 1) and natural gas purchases. The FA this month was characterized by continuing retail FX currency sales by the population (c. \$300mln) and surprisingly high amounts of FDI into the private sector (c. \$200mln). The total inflow of external capital into the country amounted to \$219mln.

Our view: Though this month's CA deficit surpassed our expectations (largely due to unexpectedly high vehicle imports), it was, somewhat surprisingly, fully compensated via FA inflows. Given the new data we update our CA deficit forecast for the full year to -\$1.5bln from -\$0.8bln previously and decrease our EOP reserves projection by \$1.0bln to \$15.6bln.

Metinvest reported a 24% MoM increase in July adjusted EBITDA and the extension of the moratorium until November 30. Including JVs, the EBITDA figure advanced by \$28mln compared to June, landing at \$147mln. Operating cash flow grew by \$34mln to \$45mln, with free cash flow increasing by \$27mln to \$22mln. Metinvest has released an official announcement stating that noteholders representing at least 50.01% of the aggregate outstanding principal have delivered to the company an Extension Notice, which prolongs the termination date of the current moratorium.

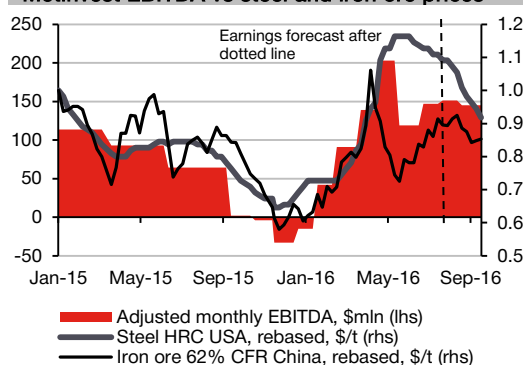
Our view: The increase in July's EBITDA is largely an accounting one, as Metinvest books the correction for unrealized gains (which occur due to a difference in volumes sold by steel mills and trading houses) to the last month of every quarter. Based on the current level of steel prices (down 18% from the July average) we continue to expect earnings to dip significantly starting October and set our FY16 and FY17 adjusted EBITDA forecast at \$1.3bln and \$1.0bln, respectively. The company's current leverage thus looks largely sustainable, as forward looking net debt to EBITDA multiples stand at below 3.0x. We treat the prolongation of the payment moratorium as neutral event, given that the probability of receiving creditor approval was very high. Metinvest is very likely, in our view, to successfully restructure its Eurobonds by the end of November.

Ukraine August BoP summary, \$bln

	Aug-16	Aug-15	Aug-14	Aug-13	Aug-12
Exports:	4,039	3,982	5,232	7,368	7,764
MoM	8%	-2%	-10%	2%	4%
YoY	1%	-24%	-29%	-5%	4%
Imports:	4,711	4,151	5,339	8,817	8,829
MoM	9%	-2%	-10%	1%	0%
YoY	13%	-22%	-39%	0%	6%
TB:	-672	-169	-107	-1,449	-1,065
MoM	-106	-24	20	94	235
YoY	-503	-62	1,342	-384	-199
CA inflows:	-414	39	-103	-1,807	-1,474
MoM	-60	2	112	-94	-142
YoY	-453	142	1,704	-333	-502
FA inflows:	417	466	57	1,602	2,086
MoM	-30	107	129	207	-74
YoY	-49	409	-1,545	-484	918
BoP inflows:	16	513	-42	-232	616
MoM	-94	75	221	66	-192
YoY	-497	555	190	-848	403
Capital flow ¹ :	219	177	27	2,297	1,812

(1) An estimate of the total amount of capital flowing into the country (includes IFI funding, except the IMF)
Source: NBU, Adamant Capital estimates

Metinvest EBITDA vs steel and iron ore prices



Note: EBITDA includes JVs; iron ore and steel prices; forecasted starting February 2016
Source: Company data, Bloomberg, Adamant Capital estimates

DTEK 1H16 EBITDA fell 5% YoY and 27% HoH to \$133m.

Revenues increased by 5% YoY and 10% HoH to \$2.2bln, while net income grew by \$731m YoY and \$307m HoH to -\$319m, mostly on the back of lower FX losses and write-downs. Operating cash flow more than tripled YoY, but decreased by 26% HoH to \$129m. DTEK's net debt to LTM EBITDA landed at 8.3x.

Our view: DTEK's 1H16 results are largely in line with those of the previous year, which makes sense given that losses from lower generation volumes were partially offset by slightly higher TPP tariffs. Given the current tariff dynamic (the August-September average is 15% up from 1H16 in dollar terms), the recent electricity fare hikes for both the population and industrial producers, and the API coal pricing formula, we expect the company's EBITDA to grow significantly in 2H16, reaching some \$400-450m for the full year. The net debt to LTM EBITDA leverage ratio should thus reach a high but manageable level of 4.5-5.4x (includes the recently conducted \$436m deleveraging transaction) by December. On the whole, we find DTEK to be heavily exposed to regulatory risks and find the current market price for its bonds to be adequate, though this may change depending on the restructuring terms that the company offers to its bondholders over the next few weeks.

DTEK 1H16 unaudited financial results, \$m

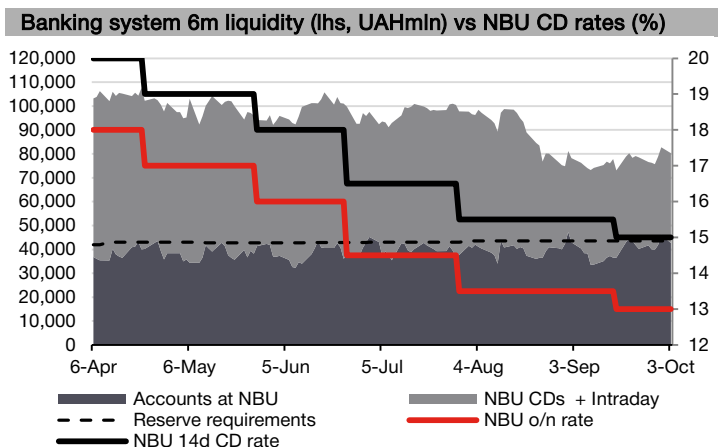
	1H16	1H15	YoY	2H15	HoH
Revenues	2,236	2,127	5%	2,028	10%
EBITDA ¹	133	140	-5%	183	-27%
EBITDA margin	6%	7%	-1pp	9%	-3pp
Net income	-319	-1,050	nm	-626	nm
Net income margin	-14%	-49%	nm	-31%	nm
Operating cash flow	129	37	247%	175	-26%
CAPEX	85	88	-3%	94	-10%
Free cash flow	44	-50	nm	80	-46%
Electricity price ² , UAH/MWh	995	812	22%	947	5%
Electricity price, \$/MWh	39.0	38.0	3%	42.4	-8%
Electricity generation, TWh	17.6	18.9	-7%	18.7	-6%
Coal mining, kt	13.9	14.0	-1%	14.69	-5%
EBITDA/MWh generated, \$	7.6	7.4	2%	9.7	-22%
Net debt	2,635	2,708	-3%	2,613	1%
Net debt/LTM EBITDA	8.3	4.0	107%	8.1	3%

(1) Exclude impairments and operating FX losses

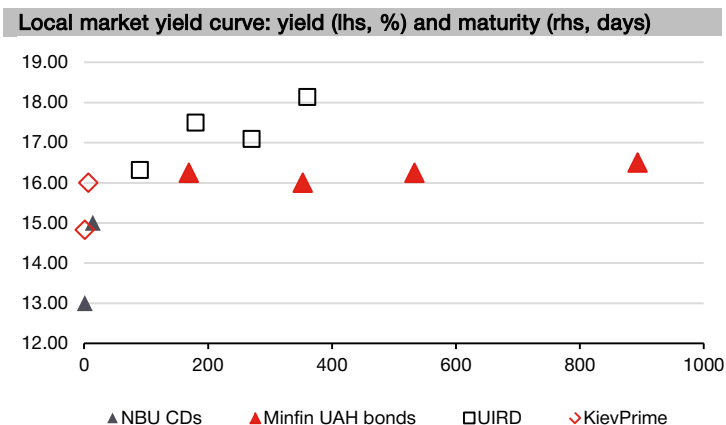
(2) Average price received by Ukrainian TPPs

Source: Company data, Adamant Capital estimates

Appendix



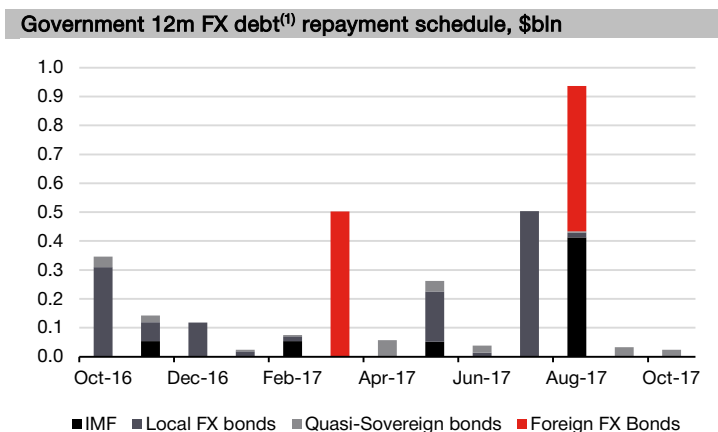
Source: NBU, Adamant Capital estimates



Source: NBU, Bloomberg, Adamant Capital estimates

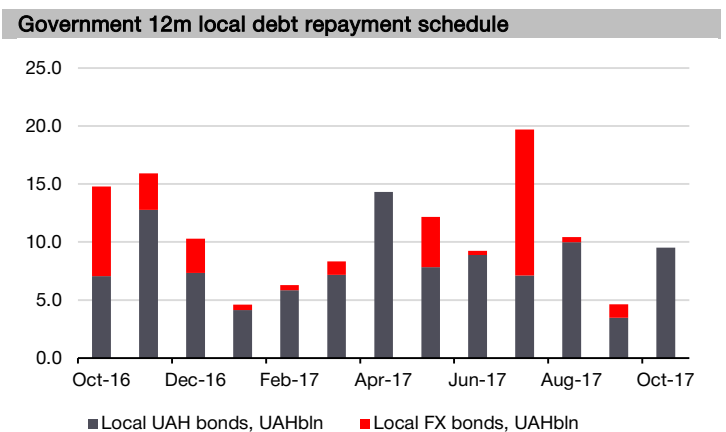
Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts, investment CDs, and other intraday changes) has increased by UAH3.7bln to UAH80.2bln over the last week.

The UAH/USD interbank rate weakened slightly over the week, starting out with 25.90 and closing at 25.92 (a 0.1% devaluation)



(1) Quasi-sovereign debt includes body and interest of state banks, Ukrzaliznytsya, and municipal bonds

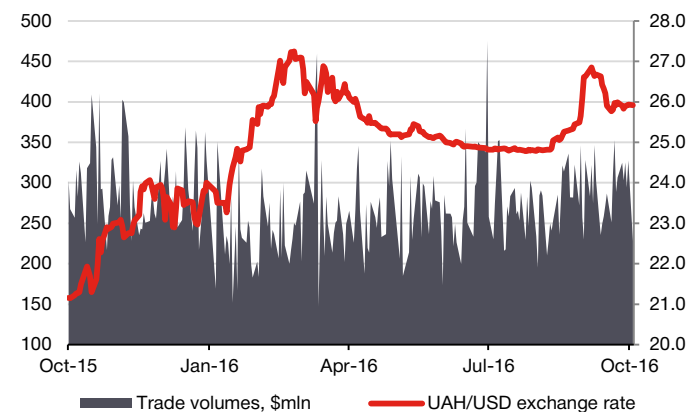
Source: Bloomberg, Adamant Capital estimates



Note: UAH/\$ exchange rate set at 25; EUR/USD exchange rate set at 1.13

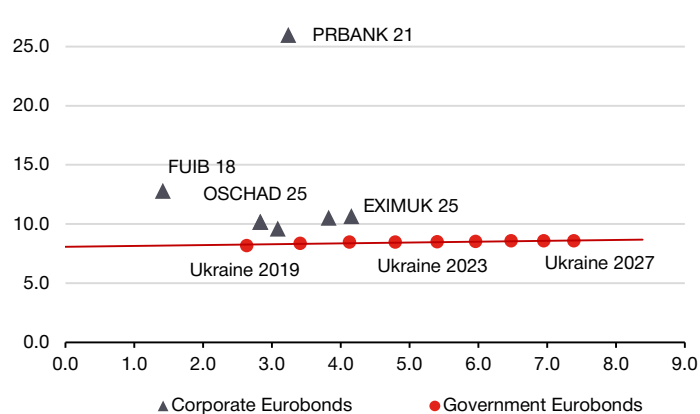
Source: Ministry of Finance

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



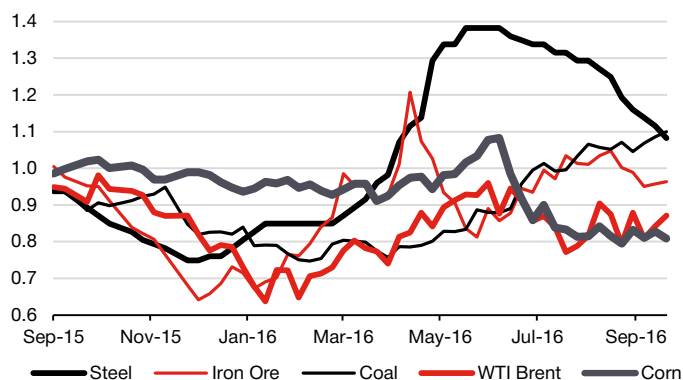
Note: Exchange rate figures are from official interbank data
Source: NBU

Eurobonds: yield (lhs, %) vs duration (years)



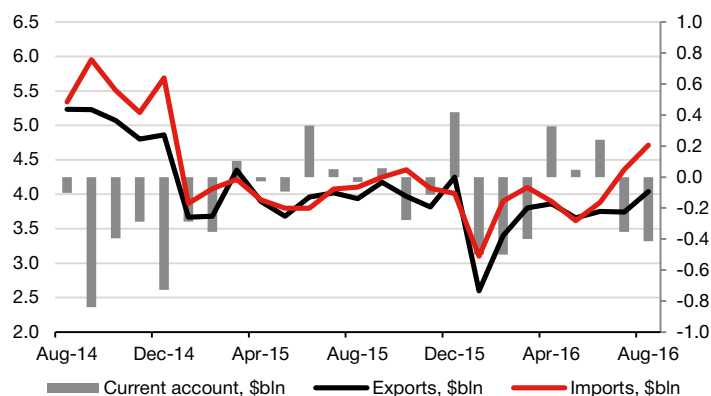
Source: Bloomberg, Adamant Capital estimates

Global commodity price indices, past 12 months



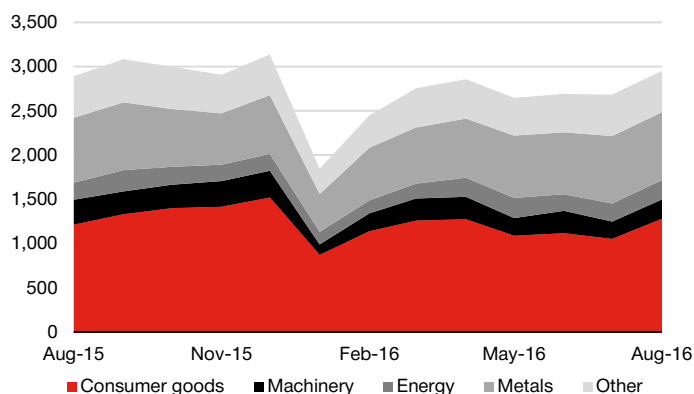
Source: Bloomberg, Adamant Capital estimates

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



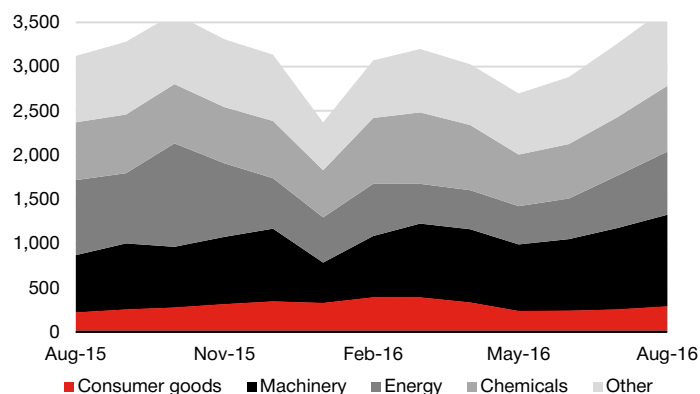
Source: NBU

Ukraine 12m trailing monthly export breakdown, \$m



Source: NBU

Ukraine 12m trailing monthly import breakdown, \$m



Source: NBU

Key macroeconomic indicators								
	2014	2Q15	3Q15	4Q15	2015	1Q16	2Q16	2016E
Real GDP growth, YoY	-1.6%	-14.7%	-7.2%	-1.4%	-9.9%	0.1%	1.3%	1.0%
Nominal GDP, UAHbln	1,567	455	564	585	1,979	453	532	2,273
Nominal GDP, \$bln	132	21	25	25	90	18	21	89
GDP deflator growth YoY ¹ , %	14.8%	42.0%	40.0%	33.9%	40.2%	20.5%	15.2%	13.7%
Period average CPI YoY, %	12.1%	58.9%	53.3%	45.4%	48.5%	31.3%	8.1%	13.7%
End of period CPI YoY, %	24.9%	57.5%	51.9%	43.3%	43.3%	20.9%	6.9%	8.9%
Budget deficit, % of nominal GDP ^{1,2}	-4.6%	-0.4%	3.6%	-10.8%	-1.6%	0.7%	-2.6%	-2.9%
Public sector broad deficit, % of GDP ³	-13.6%	-10.3%	1.7%	-10.8%	-5.8%	-2.5%	-2.6%	-3.7%
Public debt as % of nominal GDP, UAH	52%	84.2%	82.8%	79.4%	79.4%	56%	78%	78.0%
Public external debt as % of nominal GDP, \$ ⁴	31%	42.2%	49.2%	47.8%	47.8%	50.0%	49.4%	52.3%
Total external debt, \$bln	137.1	125.7	125.1	125.1	118.7	117.4	115.0	130.0
Export of goods and services, \$bln	68.5	11.6	12.3	12.2	47.8	9.8	11.3	43.1
Import of goods and services, \$bln	73.8	11.7	12.7	12.9	49.5	11.1	11.4	46.4
Trade balance, \$bln	-5.3	-0.1	-0.4	-0.7	-1.7	-1.3	-1.5	-3.2
Current account, \$bln	-5.3	0.3	0.2	-0.3	-0.2	-1.1	0.9	-1.5
Capital and Financial accounts, \$bln	8.0	-0.2	-1.0	-1.1	-0.6	0.3	0.3	1.1
End of period NBU reserves, \$bln	7.5	10.3	12.8	13.3	13.3	12.7	14.0	15.6
Average interbank exchange rate, UAH/\$ ⁵	11.9	21.8	22.4	22.9	21.9	25.8	25.2	25.6

(1) Quarterly figures use 12m trailing data

(2) Excludes any deficit not included in the official figure, but includes net budget loans given to state enterprises

(3) Estimated figures. Includes such below the line budget expenditures as recapitalization of Naftogaz and state banks, state guarantees given, etc

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

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

Source: NBU, SSSU, Minfin, IMF, Adamant Capital estimates

Indicative Eurobond prices and yields								
Bond name	Coupon	Maturity	Bid Yield	Bid Price	1 week Δ	Dur. yrs	Out. \$mln	Currency
Ukraine 2019	7.8	Sep-19	8.2	98.9	0.2	2.6	1,743	USD
Ukraine 2023	7.8	Sep-23	8.5	96.3	0.2	5.4	1,355	USD
Ukraine 2027	7.8	Sep-27	8.6	94.4	0.3	7.4	1,307	USD
MHP 2020	8.3	Apr-20	9.6	96.1	0.0	3.1	750	USD
DTEK 2018 (7.875)	7.9	Apr-18	nm	68.0	1.0	nm	793	USD
DTEK 2018 (10.375)	10.4	Mar-18	nm	67.5	0.7	nm	156	USD
Ferrexpo 2019	10.4	Apr-19	10.8	99.0	1.2	1.8	160	USD
Metinvest 2016	10.3	May-16	233.9	79.5	1.0	0.2	89	USD
Metinvest 2017	10.5	Nov-17	nm	79.8	1.3	nm	304	USD
Metinvest 2018	8.8	Feb-18	nm	79.7	1.3	nm	795	USD
Ukrlandfarming 2018	10.9	Mar-18	140.1	32.5	0.0	1.4	521	USD
Avangard 2018	10.0	Oct-18	145.6	15.2	-0.2	1.7	213	USD
FUIB 2018	11.0	Dec-18	12.8	96.6	0.0	1.4	197	USD
Privatbank 2018 (10.250)	10.3	Jan-18	24.3	85.1	0.1	0.8	160	USD
Privatbank 2018 (10.875)	10.9	Feb-18	26.1	83.0	0.7	1.3	175	USD
Privatbank 2021	11.0	Feb-21	26.0	62.3	-0.6	3.2	220	USD
Oschadbank 2023	9.4	Mar-23	10.2	96.4	-0.2	2.8	700	USD
Oschadbank 2025	9.6	Mar-25	10.5	95.1	-0.2	3.8	500	USD
Ukreximbank 2022	9.6	Apr-22	10.2	97.7	-0.1	2.8	750	USD
Ukreximbank 2025	9.8	Jan-25	10.6	95.2	-0.3	4.2	600	USD
Ukrzaliznytsia 2021	9.9	Sep-21	11.4	95.78	-0.3	2.8	500	USD

Note: data as of October 4, 2016

Source: Bloomberg

Fixed Income 2 week event calendar		
Event	Type	Date
Ferrexpo - 3Q 2016 operational results	Exact	5-Oct
NBU - International reserves monthly data	Indicative	7-Oct
SSSU - Monthly inflation	Exact	7-Oct
SSSU - Agricultural production monthly data	Exact	13-Oct
MHP - Q3 and 9M 2016 operational results	Exact	18-Oct

Source: NBU, SSSU, Adamant Capital estimates, company data

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