

Weekly Digest

- Consumer inflation increased by 1.8% MoM in September, standing 7.9% above last year's level
- International reserves of the NBU grew by 10% MoM to \$15.6bln by the end of September
- DTEK has improved the standstill conditions for Eurobond holders
- Ferrexpo's total pellet production in 3Q16 decreased by 8% QoQ and 9% YoY to 2,604t

Consumer inflation increased by 1.8% MoM in September, standing 7.9% above last year's level, according to official SSSU data. The CPI food basket (c. 50% of the index) became more expensive by 0.3% due to a seasonal increase in meat and milk prices. Prices for clothing and footwear increased by 10.3% MoM, while alcohol and tobacco continued to grow at 2.1%. Utility prices increased by 3.7% compared to August largely on the back of a c. 25% hike in electricity tariffs. The hryvnia devalued by c. 4.2% MoM compared to the US dollar.

Our view: Inflation came in somewhat above our projections, especially in the clothing and footwear category, which contributed 0.7ppts to the growth of the CPI index. Over the next two months, we expect the price of the consumer basket to account for higher heating and hot water tariffs (have almost doubled as of July) and to thus increase in price by close to 1.0% in each period. We slightly adjust our 2016 average inflation forecast to 13.3%, but retain our EOP guidance at 8.9%.

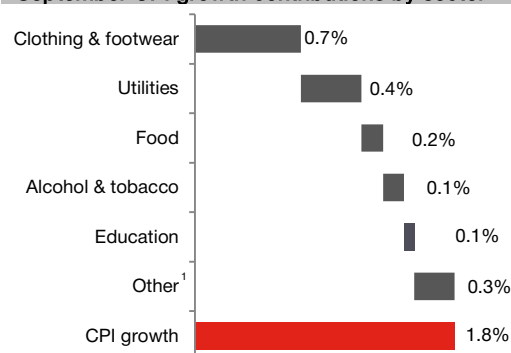
International reserves of the NBU grew by 10% MoM to \$15.6bln by the end of September. The largest sources of inflows were the third IMF tranche amounting \$1.0bln and \$1.1bln worth of proceeds from bond placements by the Ministry of Finance (of these \$1.0bln was raised via foreign debt guaranteed by the USAID). Outflows were due to servicing and redemptions of public and publicly guaranteed debt totaling \$580mln (including \$505mln of Eurobond coupon payments), and \$130mln worth of interventions on the FX market.

Our view: Taking into account that FX market interventions have increased by c. \$120mln MoM despite an uptick in official retail foreign currency sales by c. \$100mln, we expect the CA deficit in September to stand at least at the same level as in the previous month. Our 2016 EOP reserves guidance currently stands at \$15.6bln and is based on the assumption that Ukraine will not receive the next IMF tranche by the end of the year.

DTEK has improved the standstill conditions for Eurobond holders. According to the press release the company will now pay an additional 5% of total interest that has accrued from September 1 to October 28 (on top of the 10% currently) and 5% more if the average TPP electricity production tariff over June-October surpasses UAH1.14/KWh. DTEK will also refrain from incurring any indebtedness in excess of \$20mln. The changes were introduced in order to preserve equitable treatment of noteholders after the company has entered into a separate standstill agreement with bank lenders on September 21.

Our view: We find the changes to be largely insignificant, as the prospect of receiving an the additional 10% of interest accrued over 2 months increases the fair value of DTEK's bonds by at most 0.13ppts.

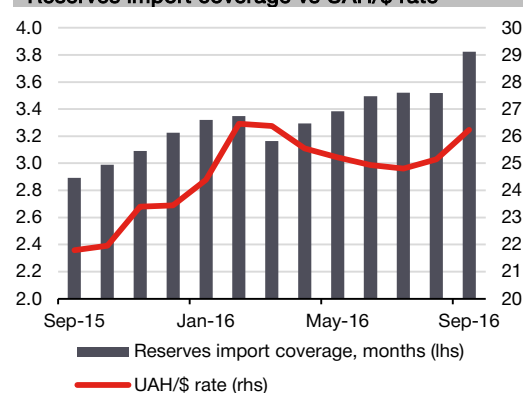
September CPI growth contributions by sector



(1) Includes the difference accumulated from CPI basket weight changes

Source: SSSU, Adamant Capital estimates

Reserves import coverage vs UAH/\$ rate



Source: NBU

Ferrexpo's total pellet production in 3Q16 decreased by 8% QoQ and 9% YoY to 2,604t. The share of higher quality 65% Fe pellets has increased by 2ppts QoQ to 94%. The 62% Fe Platts index has increased by 4% QoQ to \$58.

Our view: This quarter's production volume decrease seems to be a one-off event caused by maintenance projects and installation of new equipment, which means that 4Q16 output should be back to the regular 2.9-3.0mlnt level. Taking this into consideration together with the current iron ore price dynamic (the 62% Fe Platts index is at \$57/t currently, which is almost 10% above the 1H16 average), we set our FY16 EBITDA estimate at c. \$330mln. Net debt to LTM EBITDA in December should thus land at below 2.0x (depending on WC and capex), marking one of the lowest leverage levels demonstrated by Ukrainian Eurobond issuers. Having said that, we note that Ferrexpo's notes currently trade at nearly 100% of par, which we find to be somewhat overvalued.

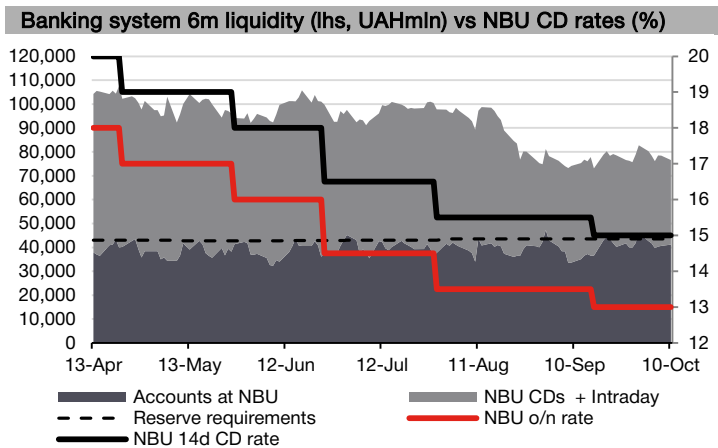
Ferrexpo 3Q16 pellet production summary, kt

	3Q16	2Q16	1Q16	4Q15	3Q15
Pellet production	2,604	2,825	2,887	2,984	2,861
QoQ	-8%	-2%	-3%	4%	-2%
YoY	-9%	-4%	0%	8%	-1%
Share of 65% Fe	94%	92%	96%	95%	87%
62% Fe Platts, \$/t	58	56	48	47	55
QoQ	4%	16%	3%	-15%	-7%
YoY	6%	-5%	-22%	-36%	-27%

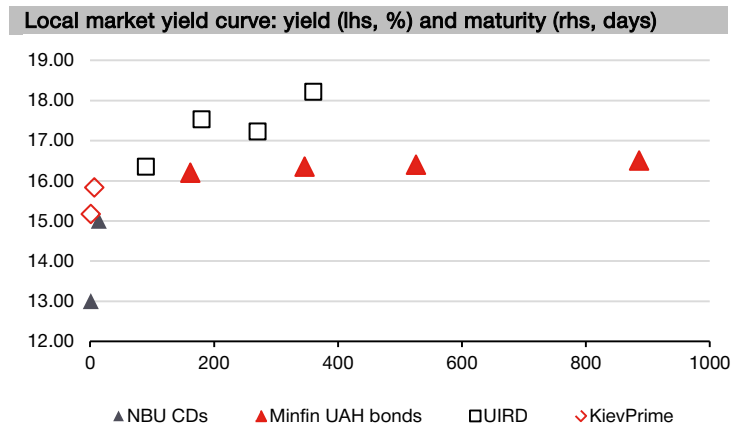
Note: Iron ore prices are sourced from the 62% CFR China Iron Ore price index

Source: Company data, Bloomberg, Adamant Capital estimates

Appendix



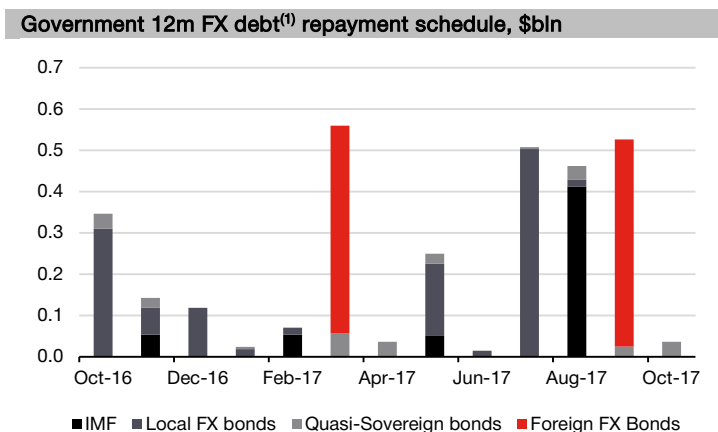
Source: NBU, Adamant Capital estimates



Source: NBU, Bloomberg, Adamant Capital estimates

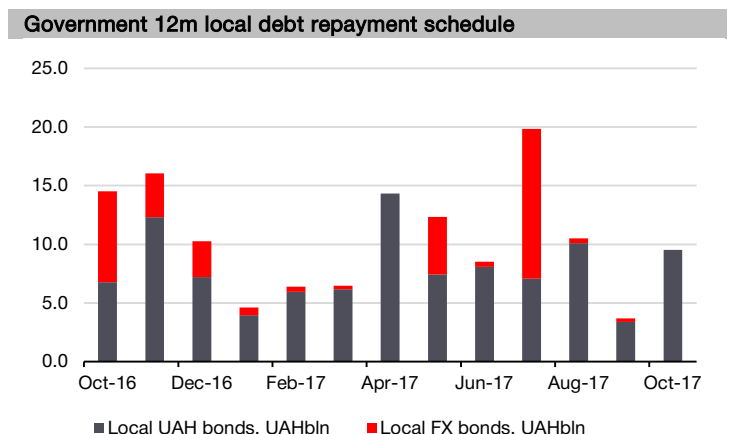
Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts, investment CDs, and other intraday changes) has decreased by UAH3.7bln to UAH76.6bln over the last week.

The UAH/USD interbank rate strengthened slightly over the week, starting out with 25.92 and closing at 25.82 (a 0.4% revaluation)



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

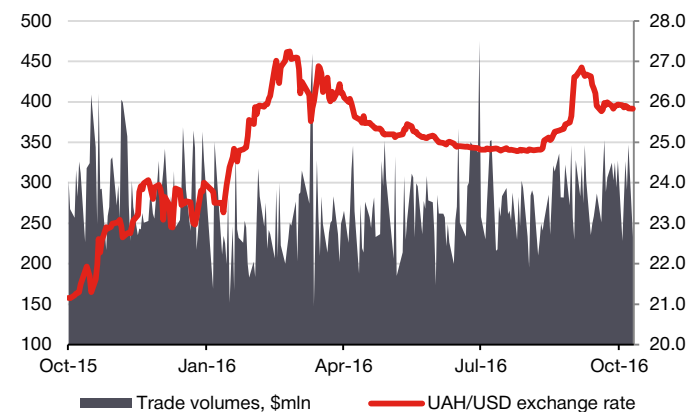
Source: Bloomberg, Adamant Capital estimates



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

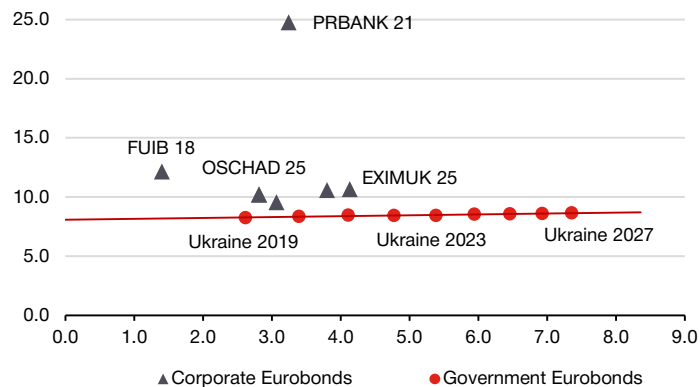
Source: Ministry of Finance

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



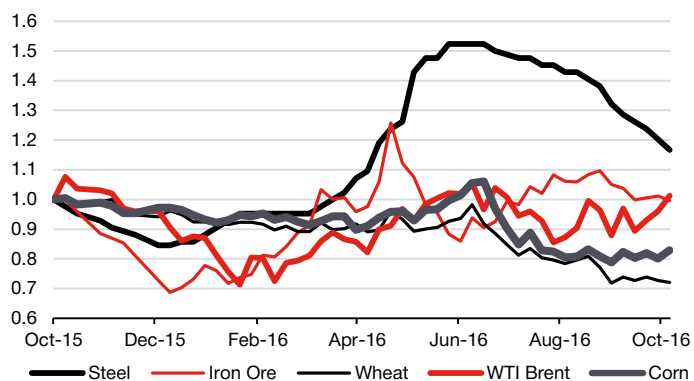
Note: Exchange rate figures are from official interbank data
Source: NBU

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



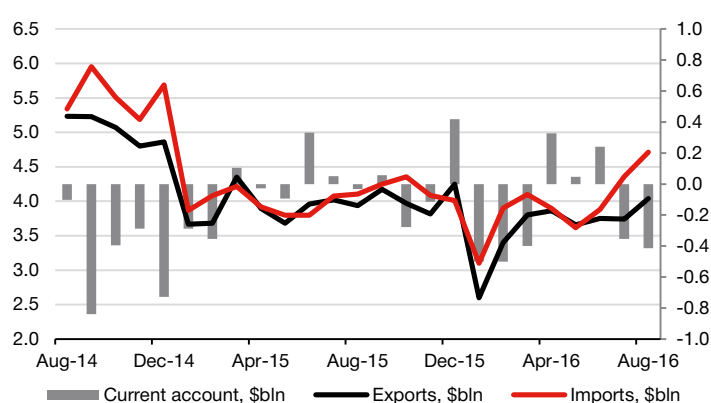
Source: Bloomberg, Adamant Capital estimates

Global commodity price indices, past 12 months



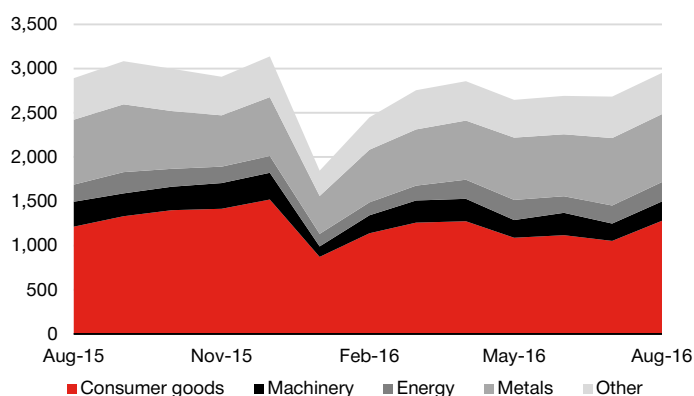
Source: Bloomberg, Adamant Capital estimates

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



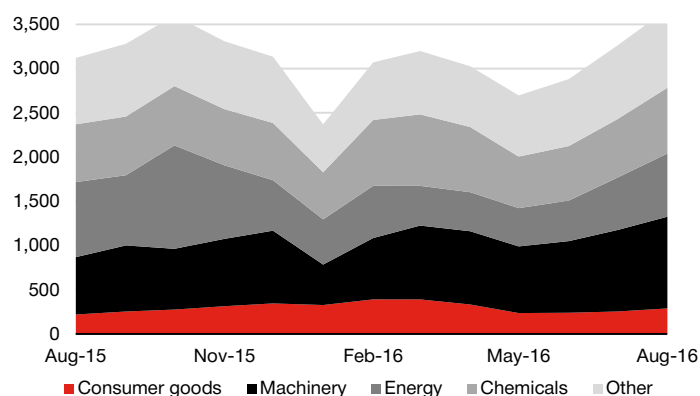
Source: NBU

Ukraine 12m trailing monthly export breakdown, \$mln



Source: NBU

Ukraine 12m trailing monthly import breakdown, \$mln



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%	13.3%
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	51.8%	84.2%	82.8%	79.4%	79.4%	56.2%	78.2%	78.0%
Public external debt as % of nominal GDP, \$ ⁴	30.7%	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	-4.6
Current account, \$bln	-5.3	0.3	0.2	-0.3	-0.2	-1.1	0.9	-2.2
Capital and Financial accounts, \$bln	8.0	-0.2	-1.0	-1.1	-0.6	0.3	0.3	2.2
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, yields, and recommendations									
Bond name	Rec	Coupon	Maturity	Bid Yield	Bid Price	1 week Δ	Dur. yrs	Out. \$mln	Currency
Ukraine 2019	Neutral	7.8	Sep-19	8.2	98.8	-0.6	2.6	1,743	USD
Ukraine 2023	Neutral	7.8	Sep-23	8.4	96.5	-0.1	5.4	1,355	USD
Ukraine 2027	Neutral	7.8	Sep-27	8.6	93.8	-0.9	7.4	1,307	USD
MHP 2020	Neutral	8.3	Apr-20	9.5	96.3	0.2	3.1	750	USD
DTEK 2018 (7.875)	Overweight	7.9	Apr-18	nm	68.0	0.6	nm	793	USD
DTEK 2018 (10.375)	Overweight	10.4	Mar-18	nm	67.9	0.7	nm	156	USD
Ferrexpo 2019	Underweight	10.4	Apr-19	10.7	99.4	0.4	1.8	160	USD
Metinvest 2016	Overweight	10.3	May-16	301.6	78.9	0.0	0.1	89	USD
Metinvest 2017	Overweight	10.5	Nov-17	nm	79.1	-0.3	nm	304	USD
Metinvest 2018	Overweight	8.8	Feb-18	nm	79.1	-0.3	nm	795	USD
Ukrlandfarming 2018	Underweight	10.9	Mar-18	141.8	32.5	0.0	1.4	521	USD
Avangard 2018	Underweight	10.0	Oct-18	147.4	15.2	0.0	1.7	213	USD
FUIB 2018	Neutral	11.0	Dec-18	12.1	97.9	0.3	1.4	197	USD
Privatbank 2018 (10.250)	Neutral	10.3	Jan-18	23.8	85.8	0.3	0.8	160	USD
Privatbank 2018 (10.875)	Neutral	10.9	Feb-18	23.8	85.5	2.5	1.3	175	USD
Privatbank 2021	Neutral	11.0	Feb-21	24.7	64.7	1.9	3.2	220	USD
Oschadbank 2023	Overweight	9.4	Mar-23	10.2	96.3	-0.2	2.8	700	USD
Oschadbank 2025	Overweight	9.6	Mar-25	10.6	94.9	-0.3	3.8	500	USD
Ukreximbank 2022	Neutral	9.6	Apr-22	10.2	97.6	-0.2	2.8	750	USD
Ukreximbank 2025	Neutral	9.8	Jan-25	10.7	95.1	-0.2	4.1	600	USD
Ukrzaliznytsia 2021	Neutral	9.9	Sep-21	11.0	95.7	-0.2	2.8	500	USD

Note: data as of October 11, 2016

Source: Bloomberg

Fixed Income 2 week event calendar		
Event	Type	Date
SSSU - Agricultural production monthly data	Exact	13-Oct
MHP - Q3 and 9M 2016 operational results	Exact	18-Oct
SSSU - Wholesale and retail turnover data	Exact	19-Oct
SSSU - Transportation monthly data	Exact	20-Oct
Oschadbank - 1H and 3Q 2016 financial results IFRS	Indicative	21-Oct
Privatbank - 3Q 2016 financial results IFRS	Indicative	21-Oct
SSSU - Industrial production monthly data	Indicative	21-Oct
Ukreximbank - 3Q 2016 financial results IFRS	Indicative	21-Oct

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

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