

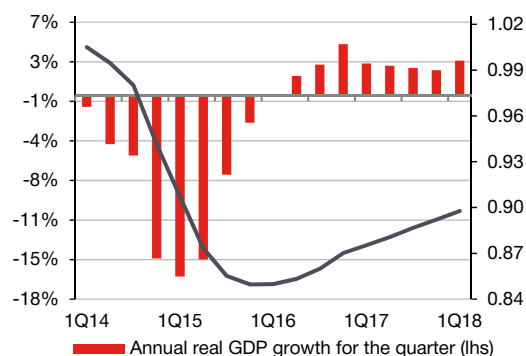
Weekly Digest

- Real GDP in 1Q18 grew by 3.1% YoY
- Ukraine has simplified access for foreign money into the local market
- MHP reported 1Q18 results: poultry production costs landed somewhat higher than expected

Real GDP in 1Q18 grew by 3.1% YoY, according to preliminary SSSU calculations.

Our view: The figure came in substantially above our forecast, that of the Bloomberg consensus and the National Bank (at 2.5%, 2.4%, and 2.3%, respectively). We find the result somewhat surprising, considering that output growth of key economic sectors (as measured by our COI indicator) stood at just 2.6%. In LTM terms, real GDP expanded by 2.6% YoY, but still remains 11% below the 2013 pre-crisis level (corrected for Crimea and the conflict zone). Though the published figures suggest that our current annual growth guidance (2.5%) may be too pessimistic, we await a breakdown from the supply side before introducing any revisions.

Quarterly real GDP growth over last 4 years

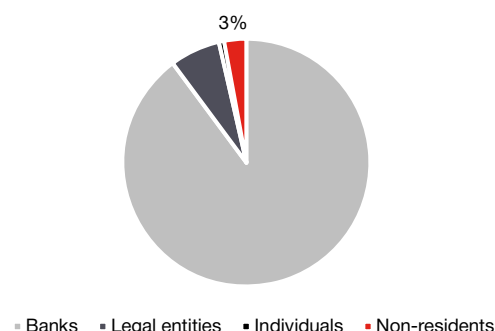


Source: SSSU, Adamant Capital estimates

Ukraine has simplified access for foreign money into the local market. On May 15 the Ukrainian Parliament has passed a law introducing the legal framework for nominal ownership of domestic financial instruments via a custodian located abroad. According to estimates of the National Securities and Stock Market Commission, the change could help attract close to \$4bln of additional investment in the first year alone.

Our view: The new legislation should eventually allow foreigners that already have access to securities accounts at their local banks to invest in Ukrainian equities and bonds without having to go through a number of extra procedures (such as establishing additional legal entities) that could previously take up to 90 days to complete. Given that interest for hryvnia-denominated instruments is present (as evidenced both by recent placements of T-bill CLNs by Citibank and the new Ukreximbank note), we think that an inflow of funds is definitely possible. From a macroeconomic standpoint the change should lead to higher foreign currency reserves of the NBU and may potentially even out the exchange rate's seasonality.

Share of T-bills owned by non-residents



Note: exclude T-bills owned by the NBU
Source: NBU

MHP reported 1Q18 results: poultry production costs landed somewhat higher than expected. EBITDA (ex IAS 41 effects) decreased by 2% YoY to \$91m, with the margin increasing by 2pps to 31%. Revenues were up by 10% to \$306m. Net profit from continuing operations amounted to \$90m, reflecting an additional gain from currency translation differences (a result of EOP revaluation of the hryvnia). Operating cash flow fell by 7% to \$54m (due to a higher inflow of working capital), which, given a threefold increase in capex, resulted in a 93% reduction in FCF to just \$3m. Net debt to LTM EBITDA ex IAS41 fell by 12% to 2.3x. During the conference call, management guided for a 35kt YoY increase in 2018 poultry output on the back of the second phase of Vinnytsia coming into operation and for a consolidated EBITDA of \$470-480m (up 2-5% YoY, including IAS 41 effects). The outlook on the upcoming harvest remains positive.

Our view: The actual adjusted EBITDA figure deviated from our forecasts by c. 10% on the back of higher than expected poultry production costs, which, somewhat unusually, remained flat QoQ (bonus payments to employees tend to seasonally drive expenses upwards at the end of the year). As a reduction from the current level is unlikely to happen (especially taking into account the recent 20% increase in wages), we revise marginally our annual EBITDA projection for the company to \$460m (from \$480m previously). That aside, the overall picture for MHP remains largely unchanged. Earnings should remain mostly in line with last year, most of the capex will go towards continuing the construction of Vinnytsia and the search for M&A targets will continue. Assuming that total capital expenditure, WC growth, dividend payments, and interest expenses stand at \$260m, \$740m, \$80m, and \$110m, respectively, the leverage ratio at the end of 2018 should land c. 2.4x, well below the eurobond covenant. Our recommendation on the issuer's notes remains at a 'Hold', however, taking into the 50-100bps yield discount to the sovereign curve currently present on the market.

| MHP 1Q18 IFRS financial results summary, \$m | | | | | |
|--|-------|-------|------|-------|-------|
| | 1Q18 | 1Q17 | YoY | 4Q17 | QoQ |
| Revenue | 306 | 279 | 10% | 318 | -4% |
| EBITDA | 91 | 93 | -2% | 87 | 5% |
| IAS 41 gain/loss | -5 | 10 | nm | -24 | nm |
| EBITDA adjusted ¹ | 97 | 83 | 16% | 111 | -13% |
| Poultry | 75 | 63 | 19% | 84 | -11% |
| Grain | 17 | 20 | -12% | 35 | -50% |
| EBITDA adjusted margin | 32% | 30% | 2pps | 35% | -3pps |
| FX gain/loss | 55 | 7 | nm | -61 | nm |
| Net profit | 90 | 57 | 58% | -27 | nm |
| Net profit margin | 29% | 20% | 9pps | -9% | nm |
| Net debt | 1,058 | 1,063 | 0% | 1,031 | 3% |
| Net debt/EBITDA | 2.3 | 2.5 | -9% | 2.2 | 3% |
| Net debt/adjusted EBITDA | 2.3 | 2.7 | -12% | 2.4 | 0% |
| Operating cash flow | 54 | 58 | -7% | 42 | 30% |
| Capex | 51 | 17 | 206% | 33 | 57% |
| Free cash flow | 3 | 42 | -93% | 9 | -68% |
| Poultry production, kt | 152 | 142 | 7% | 142 | 8% |
| Poultry sales, kt | 135 | 124 | 9% | 114 | 19% |
| Avg poultry price, UAH/kg | 38.8 | 31.5 | 23% | 40.7 | -5% |
| Avg poultry price, \$/kg | 1.42 | 1.16 | 22% | 1.51 | -6% |
| Avg LTM harvest area, kha | 363 | 356 | 2% | 356 | 2% |
| Poultry EBITDA per kg ² , \$ | 0.55 | 0.50 | 9% | 0.74 | -25% |
| LTM crop EBITDA/ha ³ , \$ | 289 | 369 | -22% | 301 | -4% |

(1) EBITDA net of IAS 41

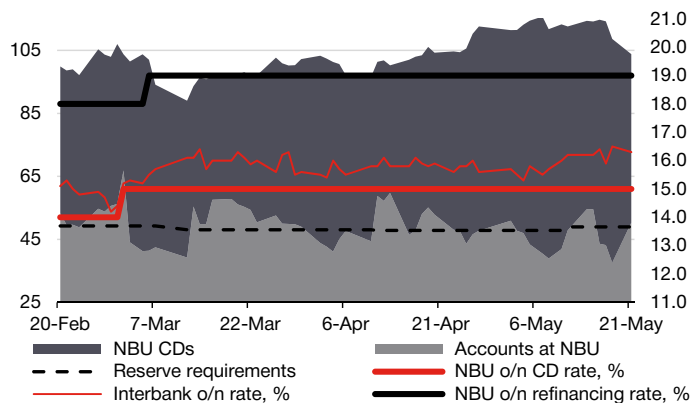
(2) EBITDA per kg of sales to third parties

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

Source: Company data, Adamant Capital estimates

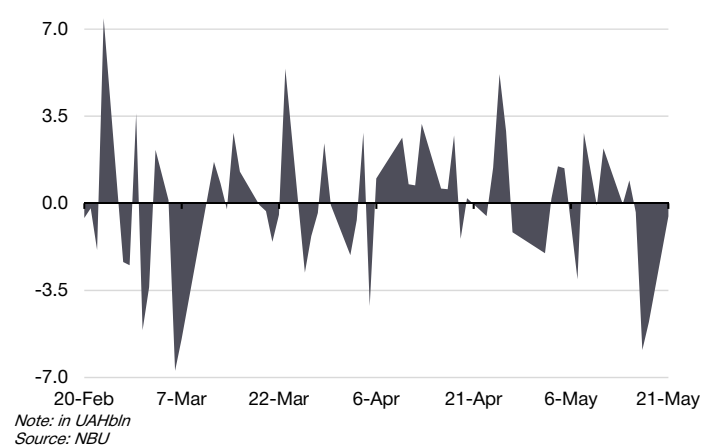
Appendix

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



Source: NBU, Adamant Capital estimates

Banking system inflows from the state treasury and the DGF

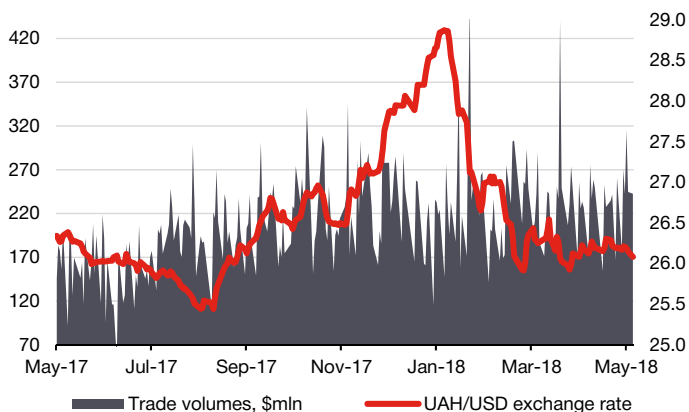


Note: in UAHbln
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has decreased by UAH 10.6bln to UAH 103.77bln over the last week. On May 22 the Ministry of Finance conducted local hryvnia denominated placements maturing in August 2018 and January 2021 with yields of 17.44% and 16.10%, respectively, and dollar denominated placements maturing in May 2020, February 2020 and October 2019 with yields of 5.65%, 5.60% and 5.40%, respectively. A total of UAH 165mln and \$272mln was raised as a result.

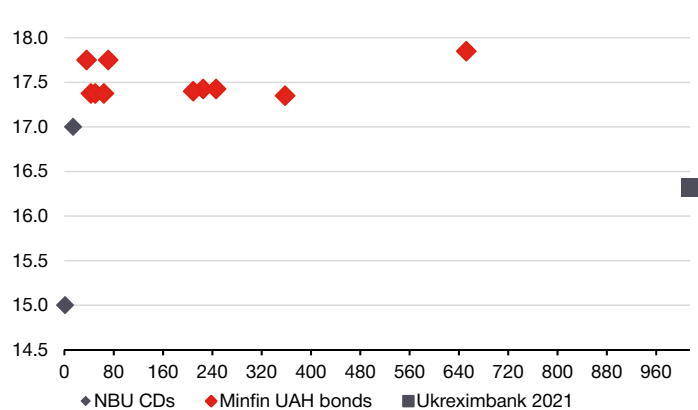
The UAH/USD interbank rate appreciated by 0.5% over the week, starting out with 26.21 and closing at 26.08.

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



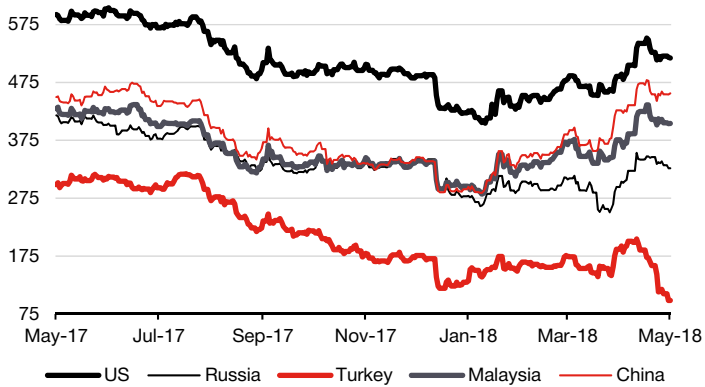
Note: Exchange rate figures are from official interbank data
Source: NBU

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



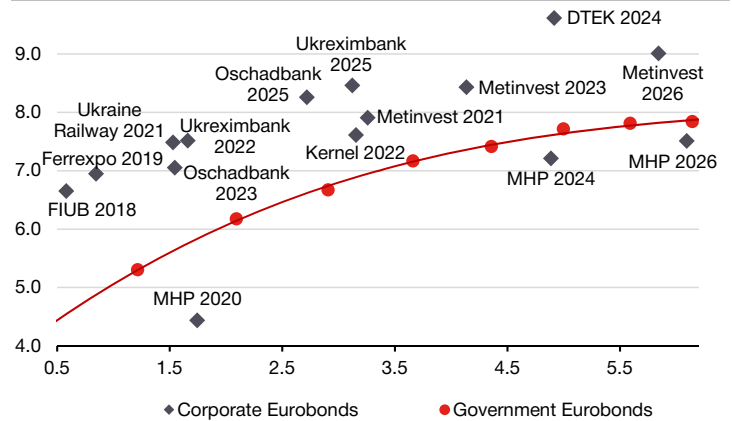
Source: NBU, Bloomberg, Adamant Capital estimates

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



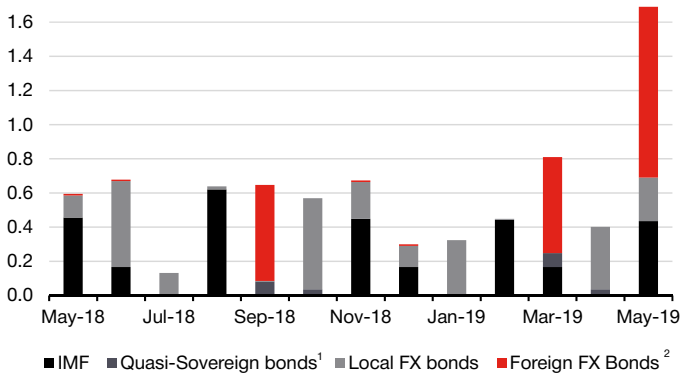
Source: Bloomberg, Adamant Capital estimates

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



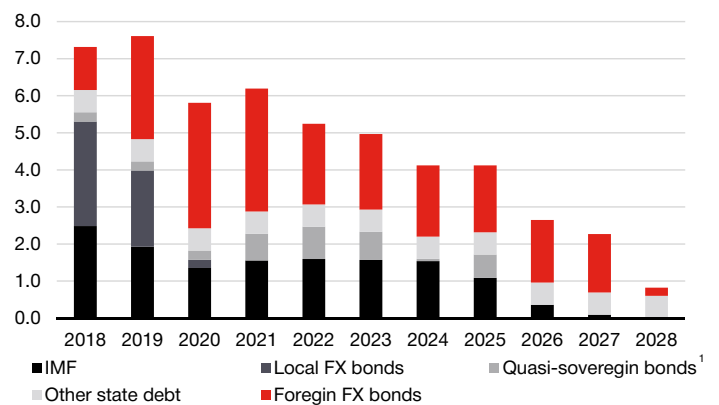
Source: Bloomberg, Adamant Capital estimates

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



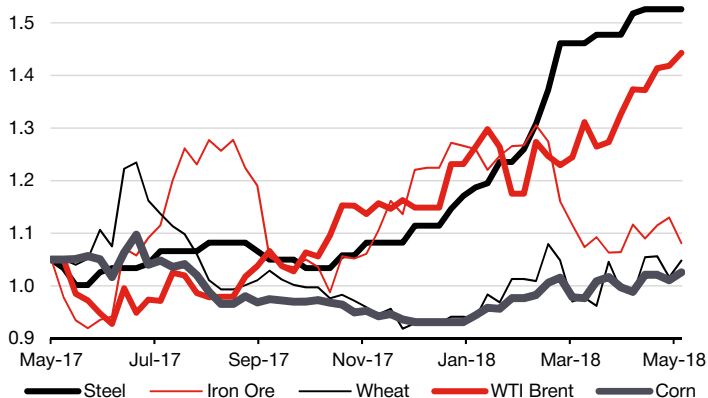
Note: Interest included in each category
 (1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

State and NBU FX debt repayment schedule 2018-28, \$bln



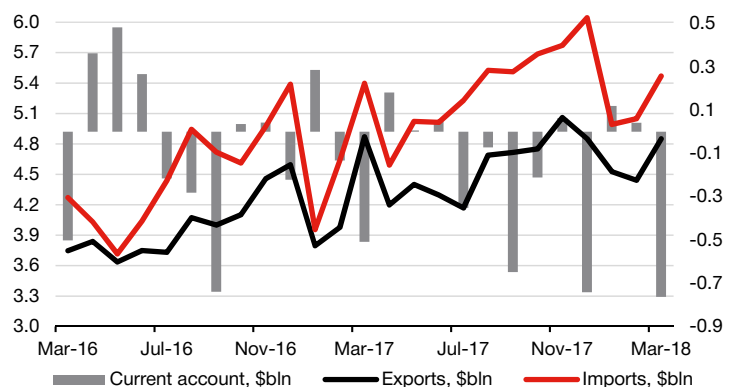
Note: Interest included in each category
 (1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

Global commodity price indices, past 12 months



Note: Rebased to 1. Indexes used: North America HRC Spot; 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 | | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2016 | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 2017 | 1Q18E | 2018E |
| Real GDP growth, YoY | 2.4% | 2.8% | 2.6% | 2.4% | 2.2% | 2.5% | 3.1% | 3.1% |
| Nominal GDP, UAHbln | 2,385 | 591 | 665 | 833 | 894 | 2,983 | 713 | 3,567 |
| Nominal GDP, \$bln | 93 | 22 | 26 | 32 | 33 | 112 | 26 | 130 |
| GDP deflator growth YoY, % | 17.1% | 26.2% | 20.9% | 21.1% | 20.9% | 22.0% | 17.0% | 16.0% |
| Period average CPI YoY, % | 14.9% | 14.0% | 13.8% | 16.1% | 14.0% | 14.5% | 13.8% | 12.2% |
| End of period CPI YoY, % | 12.4% | 15.1% | 15.6% | 16.4% | 13.7% | 13.7% | 13.2% | 10.1% |
| Consolidated budget deficit, % of GDP ¹ | 2.3% | -0.7% | -7.2% | 1.3% | 9.4% | 1.4% | 0.4% | 3.0% |
| Broad public sector deficit, % of GDP ² | 8.6% | 3.8% | -7.2% | 4.0% | 12.7% | 4.1% | 0.4% | 3.0% |
| Public debt as % of LTM GDP, UAH | 80.8% | 77.4% | 73.9% | 72.7% | 71.8% | 71.8% | 66.1% | 63.2% |
| Public external debt as % of LTM GDP, \$ ³ | 48.9% | 46.9% | 47.4% | 46.5% | 43.7% | 43.7% | 41.5% | 38.7% |
| Total external debt, \$bln | 114 | 114 | 115 | 117 | 117 | 117 | 117 | 117 |
| Export of goods and services, \$bln | 46.0 | 12.6 | 12.9 | 13.6 | 14.9 | 60.8 | 13.8 | 58.2 |
| Import of goods and services, \$bln | 51.5 | 13.7 | 14.2 | 15.9 | 17.0 | 54.0 | 15.5 | 65.4 |
| Trade balance, \$bln | -5.5 | -1.1 | -1.3 | -2.3 | -2.1 | 6.8 | -1.7 | -7.2 |
| Current account, \$bln | -3.5 | -0.8 | -0.3 | -1.7 | -1.0 | -3.8 | -0.6 | -2.2 |
| Financial account, \$bln ⁴ | -4.7 | -0.2 | -1.9 | -2.5 | -1.7 | -6.4 | -0.3 | -2.9 |
| End of period NBU reserves, \$bln | 15.5 | 15.1 | 18.0 | 18.6 | 18.8 | 18.8 | 18.2 | 20.8 |
| Average interbank exchange rate, UAH/\$ ⁵ | 25.6 | 27.1 | 26.0 | 25.9 | 26.9 | 26.6 | 27.3 | 27.5 |
| EOP interbank exchange rate, UAH/\$ | 27.2 | 27.0 | 26.0 | 26.6 | 28.1 | 28.1 | 26.3 | 28.0 |
| EOP key policy rate NBU, % | 14.0% | 14.0% | 12.5% | 12.5% | 14.5% | 14.5% | 17.0% | 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 | 1-Dec-16 | 7.8 | Sep-19 | 5.3 | 103.0 | 0.4 | 1.2 | 661 |
| Ukraine 2023 | Hold | 1-Dec-16 | 7.8 | Sep-23 | 7.4 | 101.4 | 1.4 | 4.4 | 1,355 |
| Ukraine 2027 | Hold | 1-Dec-16 | 7.8 | Sep-27 | 7.9 | 99.0 | 2.4 | 6.6 | 1,307 |
| Ukraine 2032 | Hold | 1-Dec-16 | 7.4 | Sep-32 | 8.1 | 93.8 | 2.7 | 8.5 | 3,000 |
| MHP 2024 | Hold | 22-May-18 | 7.8 | May-24 | 7.2 | 102.6 | 0.1 | 4.9 | 500 |
| MHP 2026 | Hold | 22-May-18 | 7.0 | Apr-26 | 7.5 | 96.7 | -0.1 | 6.1 | 550 |
| DTEK 2024 | Buy | 27-Feb-18 | 10.8 | Dec-24 | 9.6 | 105.6 | 0.0 | 4.9 | 1,344 |
| Ferrexpo 2019 | Buy | 27-Mar-18 | 10.4 | Apr-19 | 6.9 | 102.8 | 0.1 | 0.8 | 346 |
| Metinvest 2023 | Hold | 8-May-18 | 7.8 | Apr-23 | 8.4 | 97.3 | 0.0 | 4.1 | 945 |
| Metinvest 2026 | Hold | 8-May-18 | 8.5 | Apr-26 | 9.0 | 97.2 | 0.4 | 5.8 | 648 |
| Ukrlandfarming 2018 | Sell | 17-Jun-17 | 10.9 | Mar-18 | 53.4 | 20.4 | -0.7 | 2.4 | 543 |
| Avangard 2018 | Sell | 3-Apr-18 | 10.0 | Oct-18 | 1007.7 | 19.7 | 0.0 | 0.4 | 214 |
| FUIB 2018 | Buy | 15-May-18 | 11.0 | Dec-18 | 6.7 | 102.5 | -0.5 | 0.6 | 59 |
| Privatbank in default (10.250) | Not rated | 15-May-18 | 10.3 | Jan-18 | 51.5 | 19.9 | -2.6 | 2.4 | 160 |
| Privatbank in default (10.875) | Not rated | 15-May-18 | 10.9 | Feb-18 | 37.5 | 29.0 | 0.0 | 3.2 | 175 |
| Oschadbank 2023 | Buy | 15-May-18 | 9.4 | Mar-23 | 7.1 | 103.5 | 0.3 | 1.5 | 700 |
| Oschadbank 2025 | Buy | 15-May-18 | 9.6 | Mar-25 | 8.3 | 103.6 | 0.3 | 2.7 | 500 |
| Ukreximbank 2021 (UAH) | Buy | 15-May-18 | 16.5 | Mar-21 | 16.9 | 99.1 | -0.7 | 2.3 | 150 |
| Ukreximbank 2022 | Buy | 15-May-18 | 9.6 | Apr-22 | 7.5 | 103.4 | 0.0 | 1.7 | 750 |
| Ukreximbank 2025 | Buy | 15-May-18 | 9.8 | Jan-25 | 8.5 | 104.0 | 0.1 | 3.1 | 600 |
| Ukrainian Railway 2021 | Buy | 17-Apr-18 | 9.9 | Sep-21 | 7.5 | 103.6 | 0.0 | 1.5 | 500 |
| Mriya 2018 | Hold | 14-Nov-17 | 9.5 | Apr-18 | 118.3 | 8.0 | -0.2 | 1.3 | 400 |
| Kernel 2022 | Buy | 24-Apr-18 | 8.8 | Jan-22 | 7.6 | 103.6 | -0.5 | 3.2 | 500 |

Source: Bloomberg, Adamant Capital estimates

| Fixed Income 2 week event calendar | | |
|---|------------|--------|
| Event | Type | Date |
| SSSU - Industrial production monthly data | Exact | 23-May |
| NBU - Decision on the key policy rate | Exact | 24-May |
| Kernel - Q3 2018 Financial Report | Exact | 25-May |
| NBU - Balance of payments monthly data | Exact | 30-May |
| Metinvest - Monthly report for March | Indicative | 30-May |
| Metinvest - Financial results for 2017 | Indicative | 30-May |

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