

Weekly Digest

- Ukraine's CA demonstrated a surplus of \$175mIn in April (flat YoY)
- Metinvest's 1Q18 unaudited EBITDA doubled YoY to \$565mIn
- DTEK's 1Q18 EBITDA increased by 11% YoY to \$266mIn
- Avangardco reported another set of loss-making results for 1Q18

Ukraine's CA demonstrated a surplus of \$175mIn in April (flat YoY).

The LTM figure remained in deficit at \$2.1bln vs \$0.8bln a year ago. Monthly trade balance (of goods and services) improved by \$212mIn MoM to -\$385mIn. Net inflows of the FA declined by \$670mIn YoY to \$119mIn.

Our view: The CA figure this month came in somewhat stronger than we anticipated and was driven largely by the calendar effect (April had 6% more non-weekend working days than last year, whereas March had 14% fewer). Acceleration in export growth to 18% YoY occurred mostly via higher volumes of metals shipments (though last year's blockade could have had an impact as well), and greater sales of agricultural commodities (predominantly corn and sunflower oil). A pick up in imports to 17% YoY was most noticeable in the following categories: machinery (mostly electrical equipment, mobile phones and cars), energy (specifically natural gas) and services. As this month's dynamic was essentially a one-off (a combination of Good Friday being moved to March, and March 9 being a holiday in Ukraine) we retain our current CA forecast for 2018 unchanged at \$2.2bln. The FA demonstrated weak inflows on the back of repayments of local government bonds to nonresidents (c. \$100mIn) and amortizations of private trade credit totaling \$80mIn net. The largest difference versus last year was the absence of the EUR600mIn loan from the EU.

BoP summary for April, \$mIn

	Apr-18	Mar-18	Feb-18	LTM	LTM-1
Exports:	4,966	4,883	4,421	55,733	49,185
MoM	2%	10%	-2%		
YoY	18%	0%	11%	13%	7%
Imports:	5,351	5,480	5,086	64,758	55,414
MoM	-2%	8%	1%		
YoY	17%	2%	10%	17%	12%
TB:	-385	-597	-665	-9,025	-6,229
MoM	212	68	-157		
YoY	7	-69	-3	-2,796	-2,663
CA:	175	-628	82	-2,114	-811
MoM	803	-710	-87		
YoY	-6	-119	215	-1,303	-1,610
FA:	-119	-551	-170	-4,324	-2,820
MoM	432	-381	-788		
YoY	670	-398	-68	-1,504	-1,244
BoP:	290	-75	252	2,198	2,076
MoM	365	-327	701		
YoY	-680	280	279	122	-538
Funding flow ¹ :	18	787	600	3,425	591

Note: LTM and LTM -1 stand for last twelve months and last twelve months a year ago, respectively

(1) Private sector financing: an estimated amount of capital flowing into the private sector (including banks) via lending and investment

Source: NBU, Adamant Capital estimates

Metinvest's 1Q18 unaudited EBITDA doubled YoY to \$565mIn

(excluding JVs). Revenues were up by 63% to \$3.0bln. Net income was not reported. Earnings growth was mostly driven by the steel segment, which increased its contribution by 2.7x YoY on the back of a 17% YoY growth in prices. Operating cash flow and capex were both up c. 50% YoY to \$214mIn and \$164mIn, respectively. FCF landed at \$50mIn. The company's net debt to LTM EBITDA decreased by 34% YoY to 1.4x.

Our view: Actual EBITDA for March (the only period with new figures) came in substantially lower than we expected on the back of both weaker realized steel pricing and higher average production costs (the resulting margin landed at \$120/t vs \$240 that we budgeted). Overstatement occurred, in part, due the model's reliance on the US hot rolled coil index, which was driven upwards since end-of-March by sanctions rather than increased global demand, and high sales volumes of pig iron. Despite the larger proportion of lower value-added goods, costs of production and delivery (calculated together) increased from their peak in February, suggesting another shift in the curve (the 1Q18 figure, which should be less volatile, was up 17% QoQ). All in all, following the necessary adjustments in our model, we decrease our 2018 EBITDA projection by 16% to \$2.1bln. That said, according to new calculations, end-of-year leverage should still land near 1.0x, if total capex amounts to \$600-800mIn, suggesting low solvency risks. Since Metinvest's bonds continue to trade with a c. 90bps premium to the sovereign curve (same a state-owned banks), we retain our recommendation at a 'Hold'.

Metinvest 1Q18 unaudited financial results, mln \$

	1Q18	1Q17	YoY	4Q17	QoQ
Revenues	3,019	1,853	63%	2,709	11%
EBITDA	565	284	99%	593	-5%
margin	19%	15%	3pp	22%	-3pp
Metals EBITDA	338	126	168%	399	-15%
Mining EBITDA	302	362	-17%	242	25%
Metal sales, \$mIn	2,222	1,300	71%	1,940	15%
Metal sales, kt	3,909	2,600	50%	3,558	10%
Iron ore production, kt	6,924	6,680	4%	7,024	-1%
Steel price ¹ , \$/t	586	500	17%	546	7%
Iron ore price ² , \$/t	88	86	2%	79	12%
OCF	214	143	50%	127	69%
Capex	164	108	52%	179	-8%
Free cash flow	50	35	43%	-52	nm
Total debt	3,086	2,951	5%	3,017	2%
Net debt	2,825	2,736	3%	2,758	2%
Net debt/LTM EBITDA	1.4	2.1	-34%	1.6	-12%

(1) Calculated as revenues of finished and semi-finished goods divided by the volume sold

(2) Includes pellets in iron ore equivalent

Source: Company data Adamant Capital estimates

DTEK's 1Q18 EBITDA increased by 11% YoY to \$266m, according to condensed unaudited results. Revenues were up by 19% YoY and 11% QoQ to \$1.7bn. Net income came in at \$159m, marking one of the few profit-making periods since the beginning of 2014. An absence of write-downs for loss of control was the largest differences compared to last year. Operating cash flow quadrupled YoY, reflecting an outflow of working capital versus a substantial injection in 1Q17. Net debt to LTM EBITDA decreased by 25% YoY and 19% QoQ to 2.0x.

Our view: Quarterly EBITDA came in moderately above our estimates on the back of higher than expected electricity generation volumes, which increased to compensate for longer maintenance works at the nation's nuclear power plants (Energoatom). Taking into account the already available data on average tariffs provided by the wholesale regulator (Energorynok) to the country's TPPs, DTEK is likely to have even stronger results (on YoY basis) in the second quarter, which should make up for a lack of income from RAB tariffs that we previously anticipated (are no longer likely to come into force in 2018, in our view). With this in mind, we retain our annual EBITDA estimate at \$1.0bn, and expect leverage to decrease by 30% YoY to 1.7x in December. We retain the company's eurobond recommendation at a 'Buy', assuming that a restructuring will only occur after the 2019 presidential elections (default issues with Russian banks still need to be resolved) and that the repurchase price will not drop below 105.375% of par (equal to that of the call option, included in the loan agreement). While DTEK's exposure to regulatory risks is a concern, we feel the market is essentially not pricing the reception of almost an entire annual coupon.

DTEK 1Q18 financial results, \$m					
	1Q18	1Q17	YoY	4Q17	QoQ
Revenues	1,700	1,427	19%	1,536	11%
EBITDA ¹	266	239	11%	282	-6%
EBITDA margin	16%	17%	-1pps	18%	-3pps
Net income	159	-281	nm	-72	nm
Net income margin	9%	-20%	nm	-5%	nm
Operating cash flow	317	56	466%	319	-1%
CAPEX	72	50	43%	98	-26%
Free cash flow	245	6	nm	222	11%
Elec. price ² , UAH/MWh	1,687	1,652	2%	1,469	15%
Elec. price, \$/MWh	61.8	61.0	1%	54.5	13%
Elec. generation, TWh	9.9	9.5	5%	10.1	-2%
Coal mining (ROM), kt	6.4	8.4	-24%	6.7	-5%
EBITDA/MWh output, \$	26.8	25.3	6%	28.0	-4%
Net debt	1,963	2,146	-9%	2,090	-6%
Net debt/LTM EBITDA	2.0	2.8	-25%	2.5	-19%

(1) Excludes impairments

(2) The average for all Ukrainian TPPs disclosed by the state regulator Energorynok

Source: Company data, Energorynok, Adamant Capital estimates

Avangardco reported another set of loss-making results for 1Q18.

The company's EBITDA contracted by 120% QoQ and by \$2m YoY to -\$4m (excludes provisions for doubtful debts, but includes IAS 41 revaluation). Net income landed at -\$11m. Both operating and free cash flow increased by c. \$2.5m YoY to \$6.8m and \$5.6m, respectively. Net debt to LTM EBITDA amounted to 66x. 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 last October).

Our view: Results for the quarter continue to suggest that Avangardco's business remains highly distressed despite the country's overall economic recovery over the last 2 years and strong performance of shell egg producing peers (Ovostar). Provisions for doubtful debts and other irrecoverable amounts (ate away \$5.2m of profits) have nullified last quarter's reversals and since 2014 were responsible for a total of \$72m in losses. As before, we find management's previously voiced explanations for these amounts (supermarket debt) to be unconvincing. Furthermore, Avangardco's reporting continues to be a source of confusion from the point of view of analysis both with regard to segment data (fails to tie in with operations) and the interaction between the P&L and the cash flow statement (operating profit before working capital does not seem to synch with EBITDA, even if IAS 41 effects are subtracted out). Given all of these issues together with extreme solvency risks, we retain our recommendation for the company's eurobonds at a 'Sell'. A possible, but highly speculative investment strategy, could entail taking a position in the notes while betting on restructuring terms involving less than an 80% haircut, though very little information with regard to the current state of negotiations is available publicly.

Avangardco 1Q18 IFRS financial results, \$m					
	1Q18	1Q17	YoY	4Q17	QoQ
Revenue	41	34	21%	44	-6%
Grain trading	0	8	nm	0	nm
Government grants	0	0	nm	12	nm
EBITDA ¹	-4	-2	nm	19	-120%
EBITDA margin	-9%	-5%	-4pps	44%	-53pps
Net income	-11	-5	nm	13	-185%
Net income margin	-28%	-16%	nm	30%	-58pps
Operating cash flow	6.8	4.3	60%	2.4	189%
Free cash flow	5.6	3.9	43%	1.8	207%
Gross debt	374	350	7%	366	2%
Net debt	348	330	6%	348	0%
Net debt/EBITDA	66	38	73%	48	38%
Egg production, mnt	644	462	39%	706	-9%
Shell egg sales, mnt	493	360	37%	538	-8%
Egg product sales, t	1,651	1,188	39%	1,054	57%
Shell egg price, UAH	1.8	1.1	56%	1.7	4%
Shell egg price, c	6.4	4.2	55%	6.3	3%
Egg prod. price, \$/kg	3.8	5.3	-28%	3.7	3%
Avg price/egg eq ² , c	6.1	4.7	30%	6.0	1%
EBITDA/egg eq ³ , c	-0.6	-0.4	51%	3.1	-120%

Note: c represent US dollar cents

(1) Excludes impairments and provisions for doubtful debts

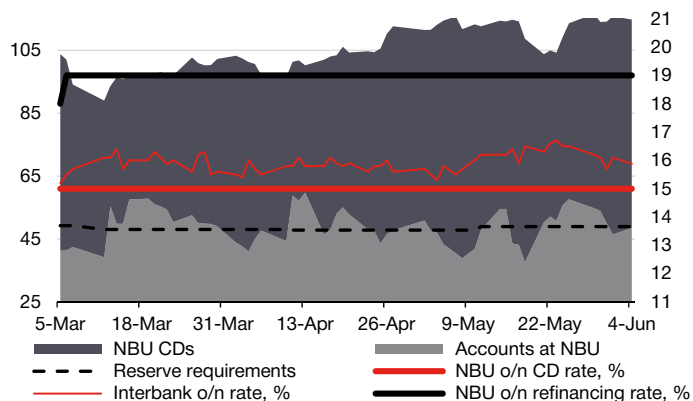
(2) Average realized price per egg sold, including egg products in egg equivalent.

(3) EBITDA per shell egg sold, including egg products in egg equivalent

Source: Company data, Adamant Capital estimates

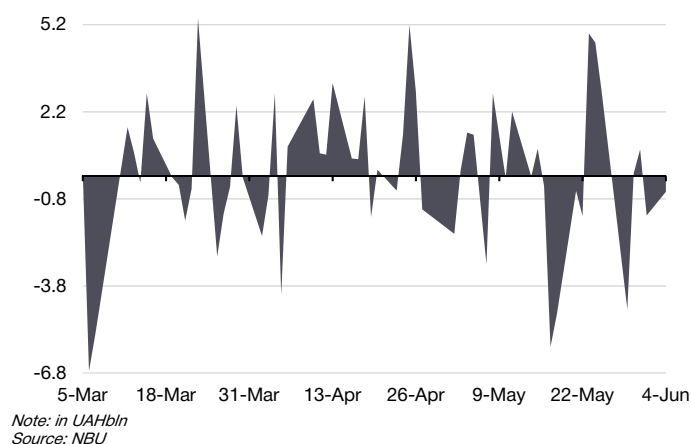
Appendix

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



Source: NBU, Adamant Capital estimates

Banking system inflows from the state treasury and the DGF

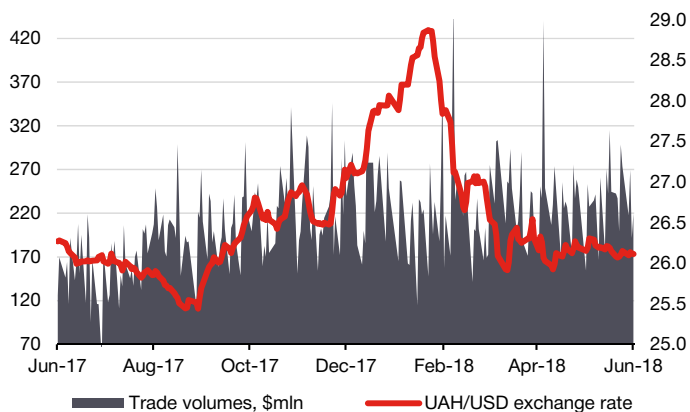


Note: in UAHbln
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has decreased by UAH 1.81bln to UAH 114.77bln over the last week. On June 5 the Ministry of Finance conducted local hryvnia denominated placements maturing in August and November of 2018 with yields of 17.44% and 17.50%, respectively. A total of UAH 901.38mln was raised as a result.

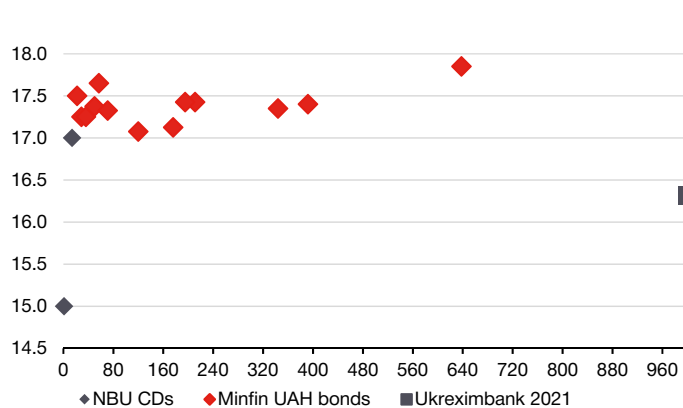
The **UAH/USD interbank rate** depreciated by 0.2% over the week, starting out with 26.10 and closing at 26.16.

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



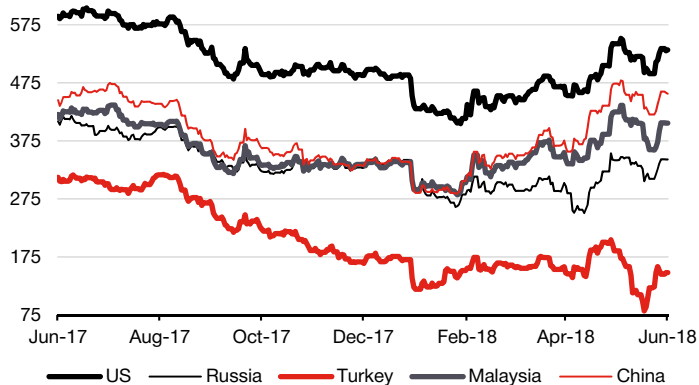
Note: Exchange rate figures are from official interbank data
Source: NBU

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



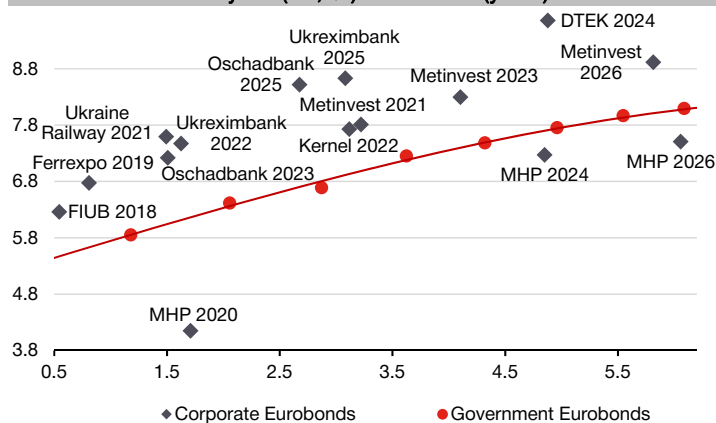
Source: NBU, Bloomberg, Adamant Capital estimates

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



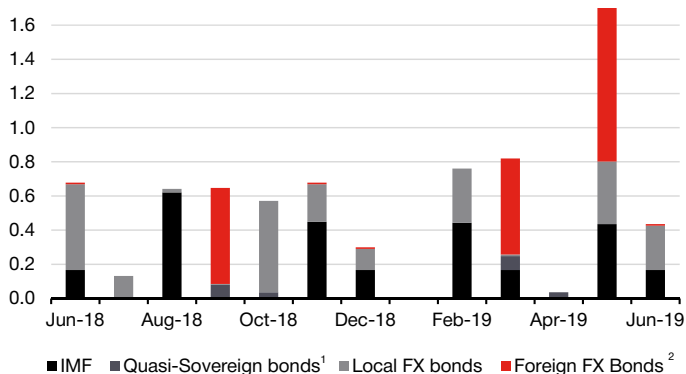
Source: Bloomberg, Adamant Capital estimates

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



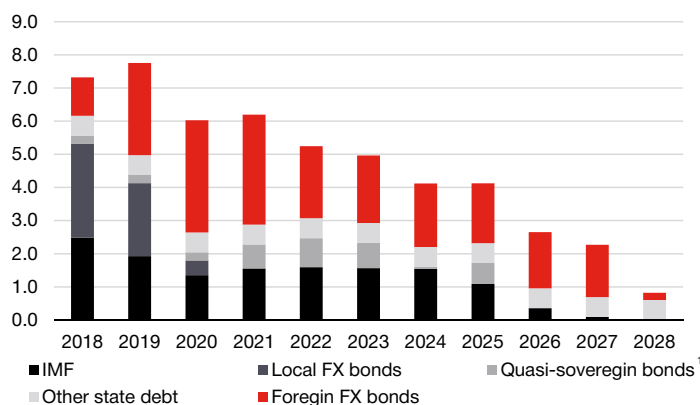
Source: Bloomberg, Adamant Capital estimates

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



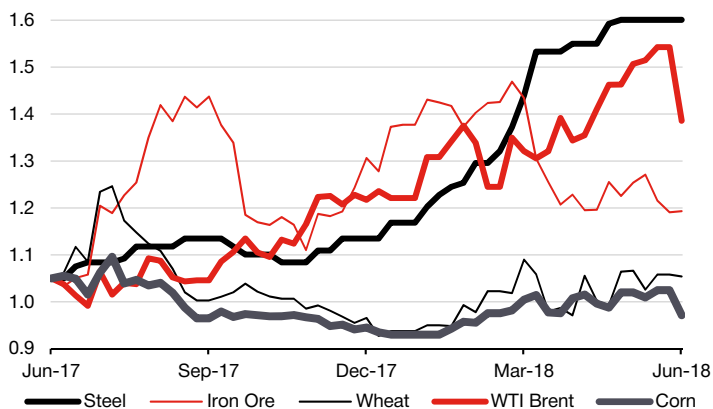
Note: Interest included in each category
 (1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

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



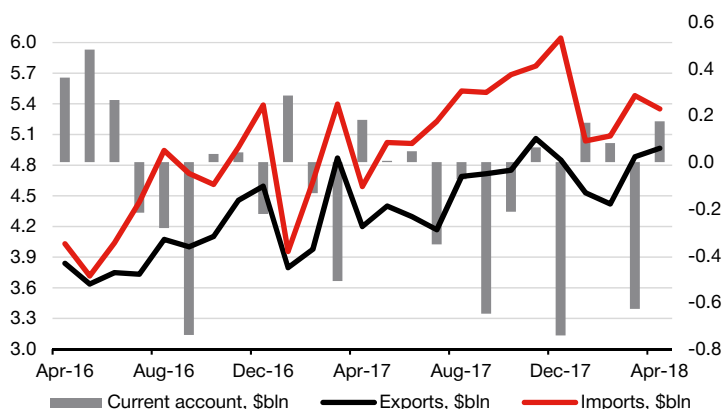
Note: Interest included in each category
 (1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

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	5.9	102.2	-0.7	1.2	661
Ukraine 2023	Hold	1-Dec-16	7.8	Sep-23	7.5	101.1	-0.6	4.3	1,355
Ukraine 2027	Hold	1-Dec-16	7.8	Sep-27	8.1	97.5	-1.6	6.6	1,307
Ukraine 2032	Hold	1-Dec-16	7.4	Sep-32	8.3	92.6	-0.6	8.5	3,000
MHP 2024	Hold	22-May-18	7.8	May-24	7.3	102.3	-0.6	4.8	500
MHP 2026	Hold	22-May-18	7.0	Apr-26	7.5	96.7	-0.3	6.1	550
DTEK 2024	Buy	5-Jun-18	10.8	Dec-24	9.7	105.4	-0.3	4.9	1,344
Ferrexpo 2019	Buy	27-Mar-18	10.4	Apr-19	6.8	102.9	0.2	0.8	346
Metinvest 2023	Hold	5-Jun-18	7.8	Apr-23	8.3	97.9	-0.3	4.1	945
Metinvest 2026	Hold	5-Jun-18	8.5	Apr-26	8.9	97.7	-0.2	5.8	648
Ukrlandfarming 2018	Sell	17-Jun-17	10.9	Mar-18	nm	20.7	0.4	2.4	543
Avangard 2018	Sell	5-Jun-18	10.0	Oct-18	nm	19.9	0.0	0.4	214
FUIB 2018	Buy	15-May-18	11.0	Dec-18	6.3	102.6	0.5	0.5	59
Privatbank in default (10.250)	Not rated	15-May-18	10.3	Jan-18	nm	21.0	0.6	2.5	160
Privatbank in default (10.875)	Not rated	15-May-18	10.9	Feb-18	nm	29.0	0.0	3.2	175
Oschadbank 2023	Buy	15-May-18	9.4	Mar-23	7.2	103.2	-0.1	1.5	700
Oschadbank 2025	Buy	15-May-18	9.6	Mar-25	8.5	102.9	-0.5	2.7	500
Ukreximbank 2021 (UAH)	Buy	15-May-18	16.5	Mar-21	16.8	99.2	0.0	2.2	150
Ukreximbank 2022	Buy	15-May-18	9.6	Apr-22	7.5	103.4	-0.1	1.6	750
Ukreximbank 2025	Buy	15-May-18	9.8	Jan-25	8.6	103.4	-0.5	3.1	600
Ukrainian Railway 2021	Buy	17-Apr-18	9.9	Sep-21	7.6	103.3	0.0	1.5	500
Mriya 2018	Hold	14-Nov-17	9.5	Apr-18	nm	7.8	-0.1	1.3	400
Kernel 2022	Buy	29-May-18	8.8	Jan-22	7.7	103.2	-0.3	3.1	500

Source: Bloomberg, Adamant Capital estimates

Fixed Income 2 week event calendar		
Event	Type	Date
SSSU - Monthly inflation	Exact	8-Jun
SSSU - Agricultural production monthly data	Exact	13-Jun
SSSU - Q1 2018 GDP	Exact	19-Jun

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