

Weekly Digest

- The EU Parliament has agreed to a third macrofinancing program for Ukraine totalling EUR1.0bln
- Real GDP growth in 1Q18 amounted to 3.1%,
- Mriya has received creditor approval to complete its debt restructuring and a buyout offer from a strategic investor

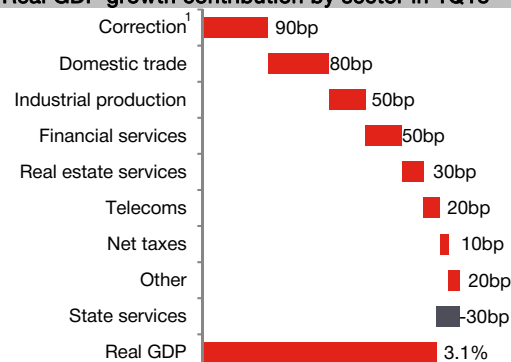
The EU Parliament has agreed to a third macrofinancing program for Ukraine totalling EUR1.0bln. Although final disbursement requirements are still to be agreed via a memorandum, those voiced previously include launching the verification process for asset declarations and setting up the anticorruption court, among others. The total amount is to be split into two separate tranches.

Our view: The approval of the program falls in line with our base case scenario and should compensate for failing to receive the final disbursement of the last MFA (EUR0.6bln). In addition to the already mentioned prerequisites, we expect the first payment to be conditional on successfully fulfilling the IMF's requirements for its next review. All in all, we anticipate the funds coming in the final quarter of 2018.

Real GDP growth in 1Q18 amounted to 3.1%, according to final data published by the SSSU.

Our view: The headline figure remained unchanged from its initial publication in May. Breaking down annual growth from the production side demonstrates that roughly 30% of the increase cannot be explained by any single sector, suggesting a substantial data quality problem. Largest specific drivers turned out to be domestic trade, industrial production, and financial services (real estate was conspicuously missing). Services offered by the state performed the worst for a second quarter in a row, possibly due to improved efficiency that is treated like a drop in output by the SSSU. From the expenditure side, capital investment as a share of GDP landed at 16.6%, which stands c. 190bps above the pre-crisis 2010-13 first quarter average. All in all, we view the data as mildly optimistic and increase our annual real GDP growth forecast only marginally: to 3.3% from 3.1% previously. In the next few quarters we continue to expect the figures to benefit from a low base effect (mostly in electricity generation, extraction, and agriculture) but warn that 1Q18 trends may be unsustainable given the poor quality of data.

Real GDP growth contribution by sector in 1Q18

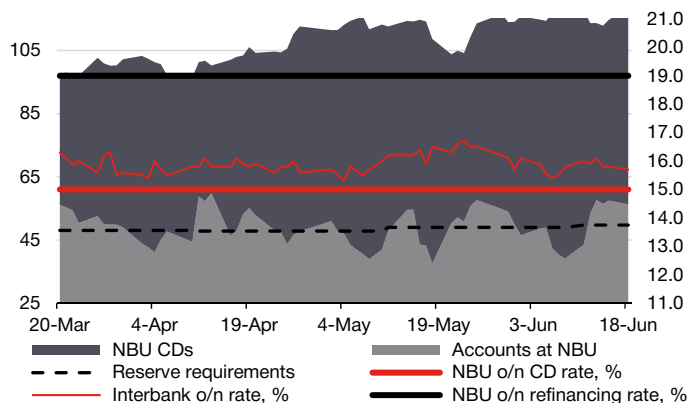


(1) The difference between total real GDP and the sum of the GDP contributions by sector
Source: SSSU, Adamant Capital estimates

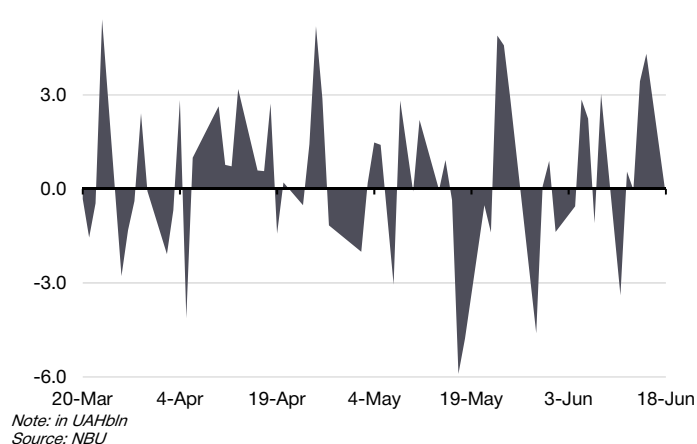
Mriya has received creditor approval to complete its debt restructuring and a buyout offer from a strategic investor. According to the official press release, 75% of creditors were present at the June 12 meeting (in person or by proxy) and all have voted in favor of the proposed resolutions. Management expects to complete the restructuring process by mid-July. Separately, the company has reported that it has obtained a proposal from an interested buyer that boasts a successful operational track record in Ukraine. If accepted, the bid would set the recovery value for the new notes at 50-60% of par.

Our view: The approval by creditors marks an end of an over 3 year-long negotiation process that has begun after previous management has fled the company in late 2014, leaving it with roughly half of the reported assets and \$1.2bln in debt. As already announced, holders of the original eurobonds should receive an amount of new notes equivalent to c. 12% of their holdings and a stake in the new Mriya entity (Mriya Farming Plc). Since the disclosed buyout offer prices the old bonds at roughly 6-7% of par (slightly above the market price) and no new financial data has been reported to date, we retain our recommendation for these instruments at a Hold.

Appendix

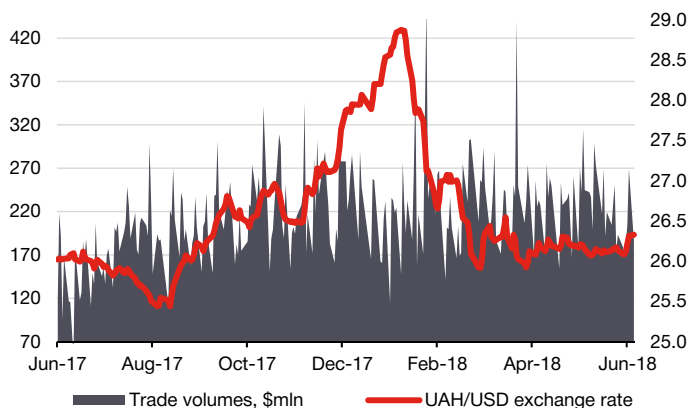
Banking system 3m liquidity (lhs, UAHbln) vs NBU CD rates (%)


Source: NBU, Adamant Capital estimates

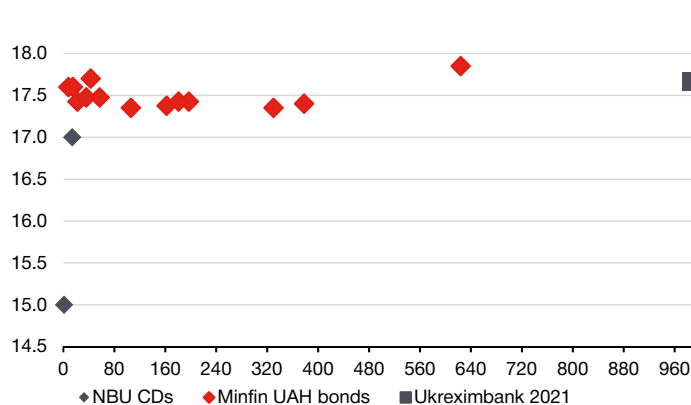
Banking system inflows from the state treasury and the DGF


Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has increased by UAH 0.43bln to UAH 118.02bln over the last week. On June 19 the Ministry of Finance conducted local hryvnia denominated placements maturing in September 2018, November 2018 and April 2019 with yields of 17.43%, 17.20% and 17.29%, respectively, and dollar denominated placements with maturity in February 2019, June 2019 and May 2020 with yields of 5.20%, 5.40% and 5.65%, respectively. A total of UAH 0.37bln and \$0.31bln was raised as a result.

The UAH/USD interbank rate depreciated by 1.4% over the week, starting out with 26.09 and closing at 26.45.

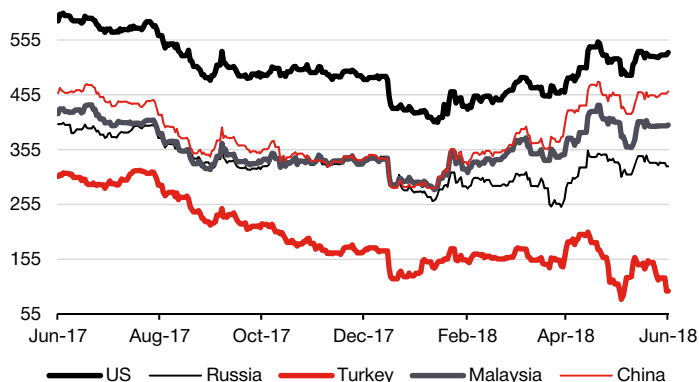
FX interbank trade volume (lhs) and FX rate (rhs), past 12 months


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

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


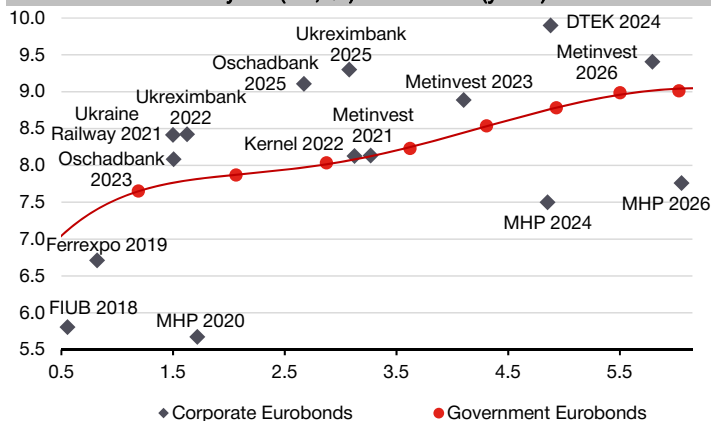
Source: NBU, Bloomberg, Adamant Capital estimates

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



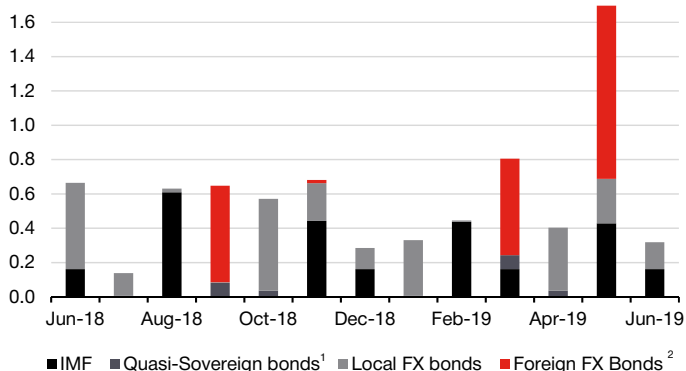
Source: Bloomberg, Adamant Capital estimates

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



Source: Bloomberg, Adamant Capital estimates

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



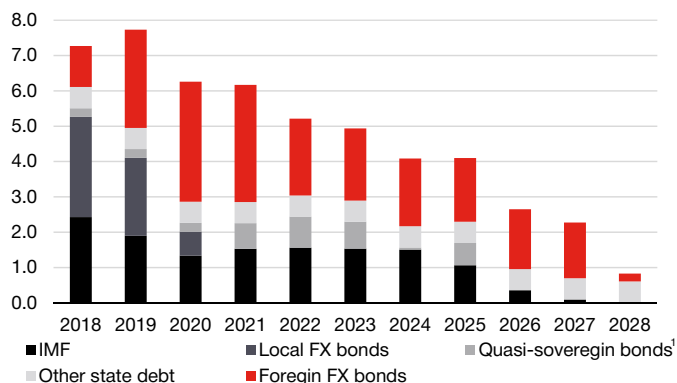
Note: Interest included in each category

(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



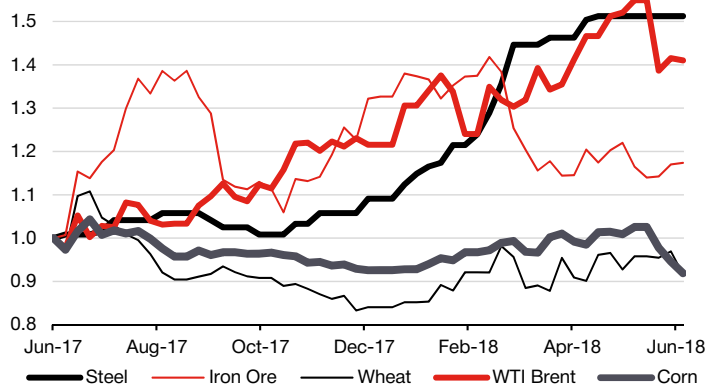
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Source: Bloomberg, Adamant Capital estimates

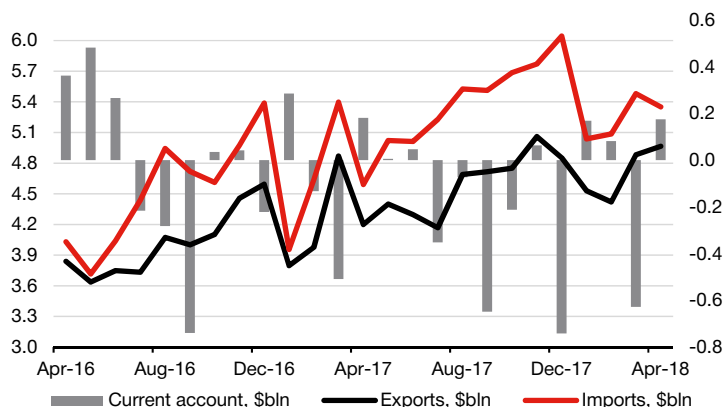
Global commodity price indices, past 12 months



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%	3.3%
Nominal GDP, UAHbln	2,385	591	665	833	894	2,983	713	3,574
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%	63.1%
Public external debt as % of LTM GDP, \$ ³	48.9%	46.9%	47.4%	46.5%	43.7%	43.7%	41.5%	38.6%
Total external debt, \$bln	114	114	115	117	117	117	116	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	7.6	100.1	-1.5	1.1	661
Ukraine 2023	Hold	1-Dec-16	7.8	Sep-23	8.5	96.7	-2.8	4.3	1,355
Ukraine 2027	Hold	1-Dec-16	7.8	Sep-27	9.1	91.9	-3.0	6.5	1,307
Ukraine 2032	Hold	1-Dec-16	7.4	Sep-32	9.2	85.7	-3.5	8.2	3,000
MHP 2024	Hold	22-May-18	7.8	May-24	7.5	101.2	-0.9	4.8	500
MHP 2026	Hold	22-May-18	7.0	Apr-26	7.8	95.3	-1.2	6.0	550
DTEK 2024	Buy	5-Jun-18	10.8	Dec-24	9.9	104.2	-1.1	4.8	1,344
Ferrexpo 2019	Buy	27-Mar-18	10.4	Apr-19	6.7	102.8	-0.1	0.8	346
Metinvest 2023	Hold	5-Jun-18	7.8	Apr-23	8.9	95.6	-2.4	4.1	945
Metinvest 2026	Hold	5-Jun-18	8.5	Apr-26	9.4	95.0	-2.6	5.7	648
Ukrlandfarming 2018	Sell	17-Jun-17	10.9	Mar-18	nm	20.3	-0.5	2.4	543
Avangard 2018	Sell	5-Jun-18	10.0	Oct-18	nm	20.0	0.0	0.4	214
FUIB 2018	Buy	15-May-18	11.0	Dec-18	5.8	102.7	0.2	0.5	59
Privatbank in default (10.250)	Not rated	15-May-18	10.3	Jan-18	nm	20.4	0.0	2.5	160
Privatbank in default (10.875)	Not rated	15-May-18	10.9	Feb-18	nm	28.4	-0.6	3.1	175
Oschadbank 2023	Buy	15-May-18	9.4	Mar-23	8.1	101.8	-0.9	1.5	700
Oschadbank 2025	Buy	15-May-18	9.6	Mar-25	9.1	101.3	-1.3	2.6	500
Ukreximbank 2021 (UAH)	Buy	15-May-18	16.5	Mar-21	17.9	97.1	0.0	2.2	150
Ukreximbank 2022	Buy	15-May-18	9.6	Apr-22	8.4	101.8	-1.5	1.6	750
Ukreximbank 2025	Buy	15-May-18	9.8	Jan-25	9.3	101.3	-1.8	3.0	600
Ukrainian Railway 2021	Buy	17-Apr-18	9.9	Sep-21	8.4	102.1	-0.9	1.4	500
Mriya 2018	Hold	14-Nov-17	9.5	Apr-18	nm	7.5	0.4	1.3	400
Kernel 2022	Buy	29-May-18	8.8	Jan-22	8.1	101.9	-1.1	3.1	500

Source: Bloomberg, Adamant Capital estimates

Fixed Income 2 week event calendar		
Event	Type	Date
SSSU - Wholesale and retail turnover monthly data	Exact	20-Jun
SSSU - Transportation monthly data	Exact	20-Jun
SSSU - Industrial production monthly data	Exact	22-Jun
NBU - Balance of payments monthly data	Exact	27-Jun
Metinvest - Monthly report for April	Indicative	27-Jun

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