

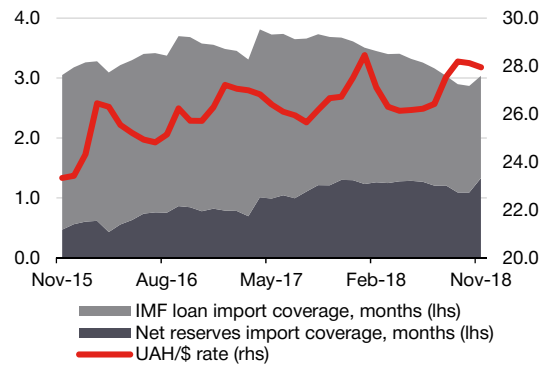
Weekly Digest

- Foreign currency reserves of the NBU in November increased by \$1.0bln MoM to \$17.7bln
- Consumer inflation landed at 1.4% MoM and 10.0% YoY in November
- DTEK has announced the sale of interest in electricity distribution subsidiaries
- Metinvest's 3Q18 EBITDA increased by 26% YoY to \$587mln

Foreign currency reserves of the NBU in November increased by \$1.0bln MoM to \$17.7bln. Inflows were caused primarily by the \$2.0bln sovereign eurobond placement (two issues maturing in 2024 and 2028 respectively) and the regulator's net interventions totaling \$0.2bln. Outflows came on the back of interest and amortization payments, which included an early redemption of the \$725mln bullet bond raised in August, \$440mln owed to the IMF, and \$240mln of other disbursements.

Our view: This month's figure came almost fully in line with expectations, despite the rollover rate on local FX bonds landing at c. 60% instead of 100% that we anticipated. The NBU's purchases on the interbank market also slightly exceeded our projections and were up by some \$100mln YoY in spite of political volatility at the end of the period (partial martial law was introduced on November 26). As mentioned previously, we now expect the IMF's first SBA tranche, a \$0.8bln loan facilitated by the WB guarantee, and \$0.6bln from the EU to all come in during December. With this in mind we increase our end-of-year reserves forecast by \$1.2bln to \$20.1bln (our prior projection incorporated a 50% probability of IFI funding being delayed until January).

Reserves import coverage vs UAH/\$ rate

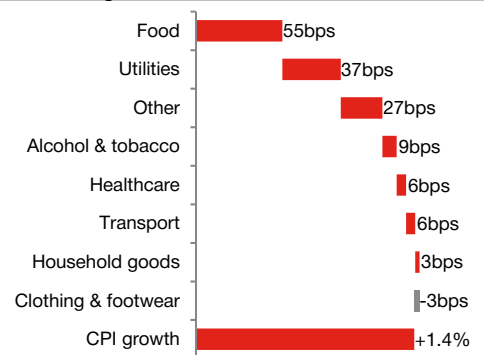


Source: NBU, Adamant Capital estimates

Consumer inflation landed at 1.4% MoM and 10.0% YoY in November. The two largest factors driving the index forward were more expensive food (contributed 55bps to the headline figure, with vegetables, bread and milk categories having the most material impact), and increased gas tariffs. Core inflation stood at 1.1% MoM.

Our view: MoM CPI growth came in significantly below our guidance primarily due overestimating the effect of the gas price hike on the headline indicator. In contrast to historical data, the impact was proportional to the weight of the commodity in the consumer basket (i.e. 'spill-over' was zero as opposed to 2.1% in April of 2016 and 3.1% in April of 2015). Taking also into account that the increase in heating tariffs has been moved forward to January and that fuel prices continue falling, we revise our end-of-year inflation forecast to 10.0% from 11.0% earlier. Looking ahead in 2019, we expect the indicator to decelerate to 6.5% YoY, given the regulator's tight monetary policy but also demand pressure on the back of rising wages and elevated social spending before elections. We note that growing food prices demonstrate inflation risks quite well, given that the spread between the local dynamic and the FAO index averaged 200bps over the past three months.

MoM CPI growth breakdown in November



Source: SSSU, Adamant Capital estimates

DTEK has announced the sale of interest in electricity distribution subsidiaries. According to the official press release, all ownership in power grids (excluding Donetsk Grids due to procedural delays involving the State Property Fund) has been unbundled in order to comply with Ukraine's electricity market legislation adopted in June of 2017. The total consideration has been disclosed to stand at below \$100mln.

Our view: We view the event largely as credit-neutral, given that, to the best of our knowledge, DTEK received a fair price for the assets under consideration (as confirmed by an independent Big Four appraiser). According to the company's reports, in 2017 the distribution segment generated c. \$90mln of EBITDA (10% of the total), \$37mln in operating cash flow, and -\$57mln in free cash flow. As the transaction was sufficiently small, DTEK did not need to reach out to bondholders for approval.

Metinvest's 3Q18 EBITDA increased by 26% YoY to \$587mln

(excluding JVs). Contribution of the metals segment has more than doubled to \$318mln, driven by a 19% growth of the average price and a 15% bump to realized volumes. Earnings of the mining segment have declined by 16% on the back of a 58% surge in costs (partially compensated by strong performance of global iron ore benchmarks). In QoQ terms EBITDA has contracted by 3%, though operating cash flow was up by 26% due to smaller working capital needs. Leverage shrank by 44% YoY and 9% QoQ to 1.0x.

Our view: As the company has previously reported financials for July and August, the publication is mostly relevant for September. EBITDA for this month substantially exceeded our estimates due to both higher average realized prices and lower production costs for steel, though we attribute a large portion of these deviations to one-off factors (COGS have hit a minimum since January, which is unlikely to be sustainable). Taking the above together with strong iron ore benchmarks into account, we increase our annual EBITDA outlook by 5% to \$2.2bln, despite the adverse effects of Ukraine's recent conflict with Russia in the Kerch Strait. Although Metinvest's leverage metrics continue to look very strong (net debt may dip even below 1.0x EBITDA by December), we retain a 'Hold' recommendation on the name given limited upside potential, in our view. The issuer's yield premium to the sovereign curve currently stands at roughly 20-30bps, which is similar to that of corporates we prefer more (such as Kernel and Oschadbank).

Metinvest's 3Q18 financials results, \$mln

	3Q18	3Q17	YoY	2Q18	QoQ
Revenues	2,884	2,309	25%	3,160	-9%
EBITDA	587	466	26%	604	-3%
margin	20%	20%	0pp	19%	1pp
Metals EBITDA	318	147	116%	335	-5%
Mining EBITDA	268	320	-16%	252	6%
Metal sales, \$mln	2,116	1,629	30%	2,383	-11%
Metal sales, kt	3,569	3,114	15%	3,973	-10%
Iron ore production, kt	6,554	6,791	-3%	7,062	-7%
Steel price ¹ , \$/t	624	523	19%	622	0%
Iron ore price ² , \$/t	95	84	13%	87	9%
OCF	509	243	109%	404	26%
Capex	238	101	136%	-67	nm
Free cash flow	271	142	91%	471	-42%
Total debt	2,869	2,909	-1%	2,891	-1%
Net debt	2,423	2,616	-7%	2,521	-4%
Net debt/LTM EBITDA	1.0	1.9	-44%	1.1	-9%

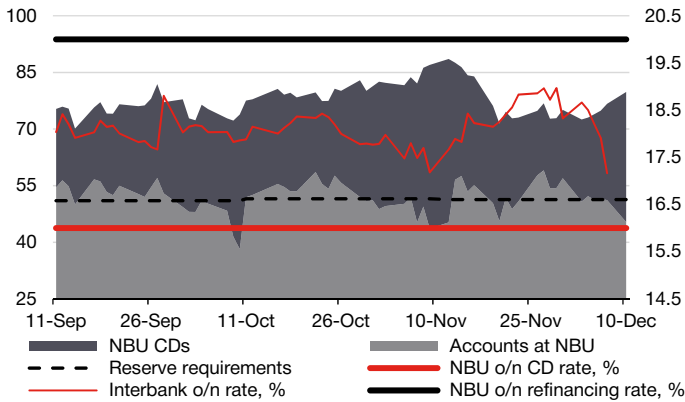
(1) Calculated as revenues of finished and semi-finished goods divided by the volume sold

(2) Includes pellets in iron ore equivalent

Source: Company data Adamant Capital estimates

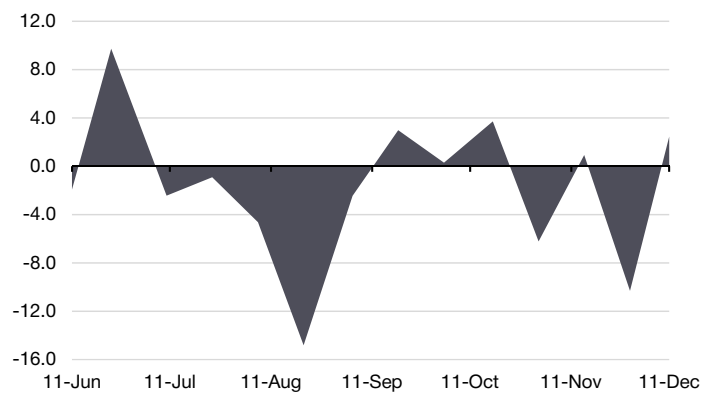
Appendix

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



Source: NBU, Adamant Capital estimates

Banking system 6m inflows from the state treasury and the DGF

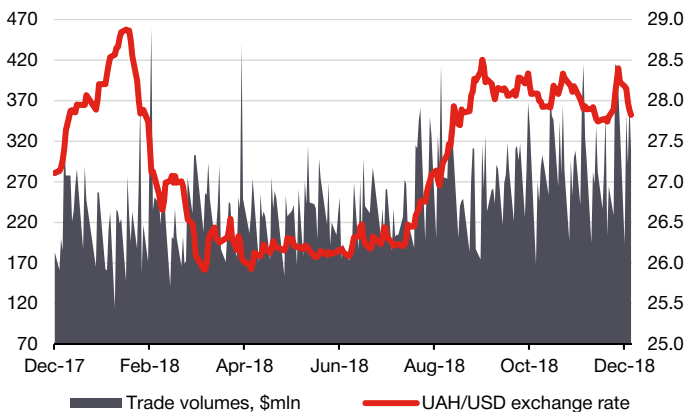


Note: in UAHbln, where each point represents a biweekly sum
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has increased by UAH 7.3bln to UAH 79.8bln over the last week. On December 11 the Ministry of Finance conducted local hryvnia denominated placement maturing in March, June and November 2019 with yields of 19.0%, 18.5% and 18.5%, respectively, and USD denominated placement maturing in June 2019, October 2019 and October 2020 with yields of 6.7%, 7.25% and 7.5%, respectively. Moreover, euro denominated notes maturing in April 2019 with yield of 4.5% were also sold. A total of UAH 21.0mln, \$8.4mln and EUR 43.0mln was raised as a result.

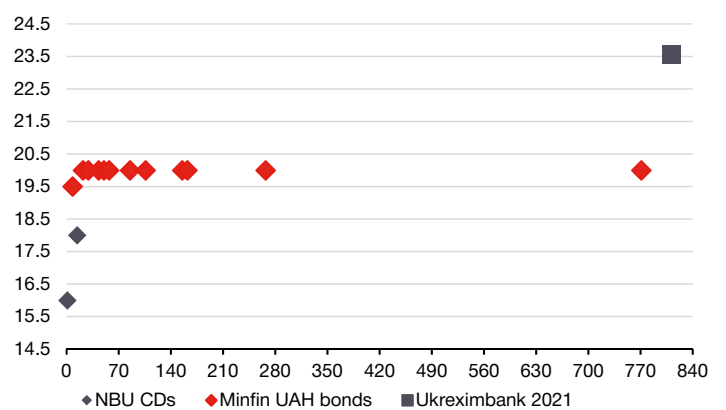
The **UAH/USD interbank rate** appreciated by 1.5% over the week starting out with 28.15 and ending at 27.71.

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

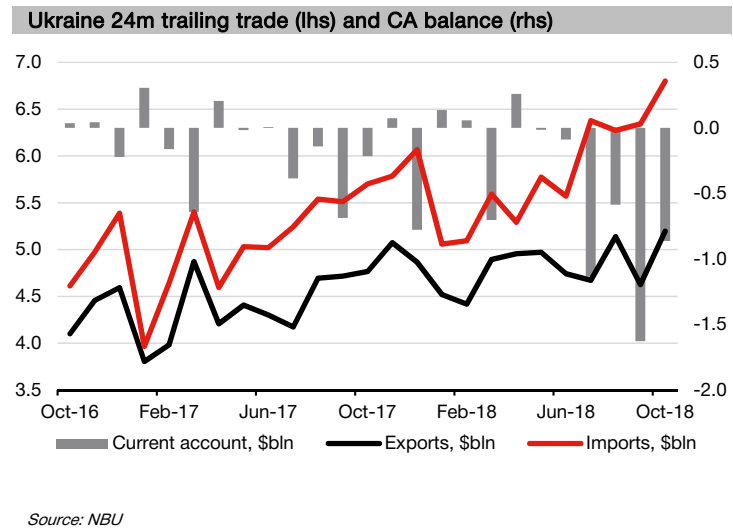
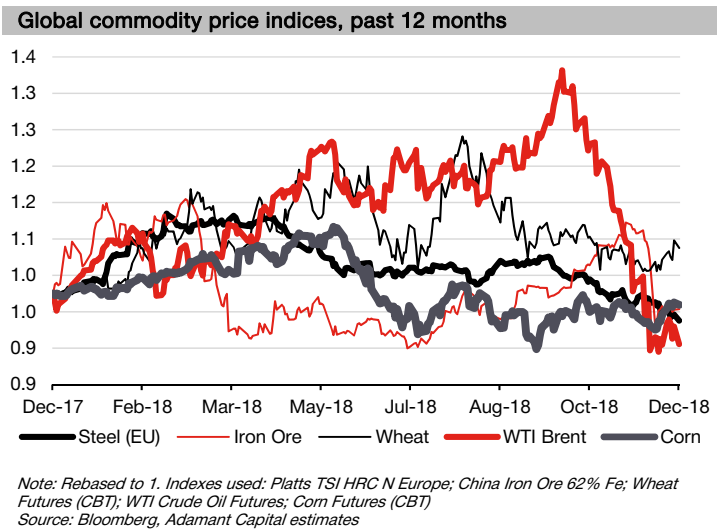
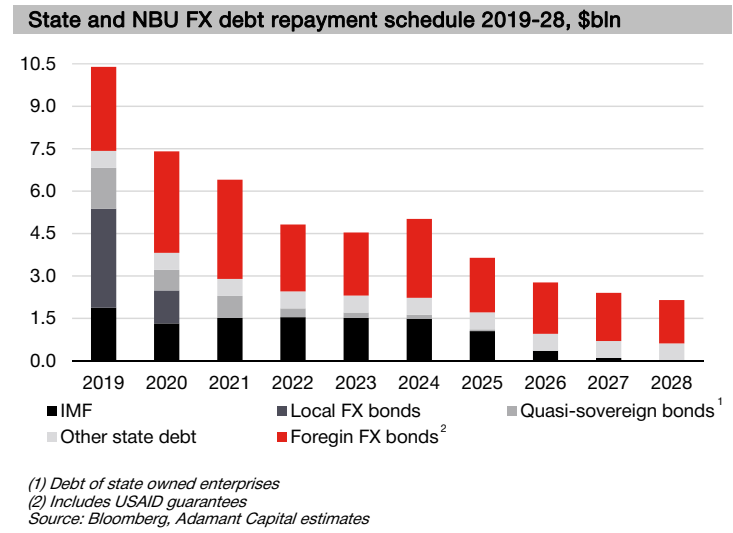
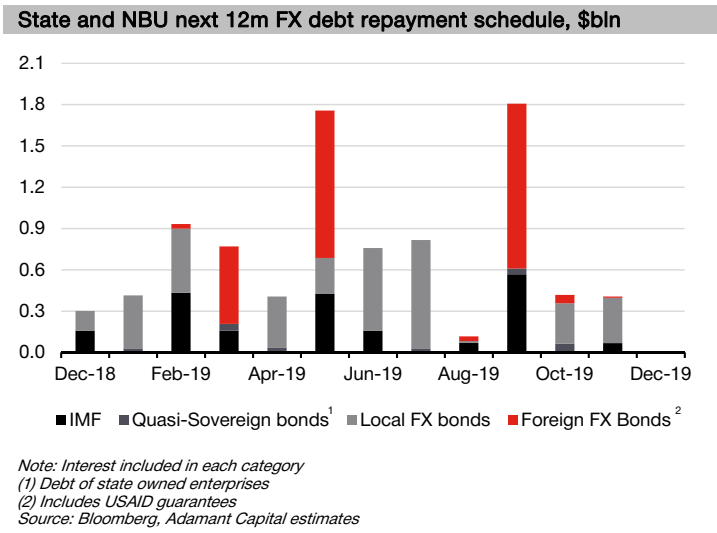
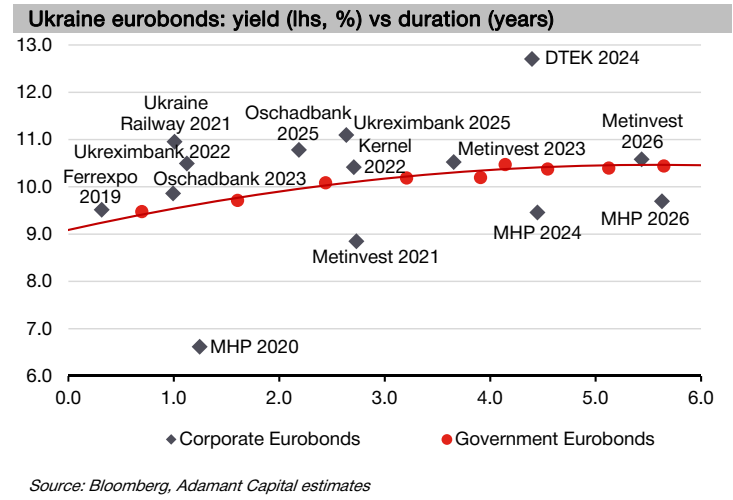
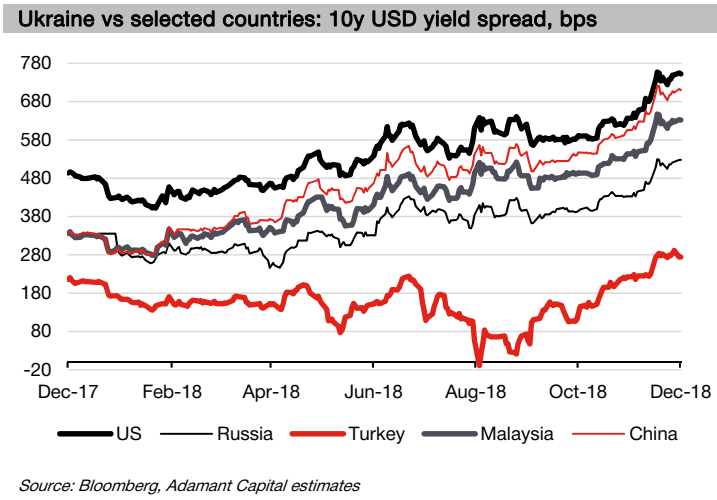


Note: Exchange rate figures are from official interbank data
Source: NBU

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



Source: NBU, Bloomberg, Adamant Capital estimates



Key macroeconomic indicators								
	3Q17	4Q17	2017	1Q18	2Q18	3Q18E	4Q18E	2018E
Real GDP growth, YoY	2.4%	2.2%	2.5%	3.1%	3.8%	2.8%	4.9%	3.7%
Nominal GDP, UAHbln	833	894	2,983	700	807	969	1,073	3,550
Nominal GDP, \$bln	32	33	113	26	31	35	38	130
GDP deflator growth YoY, %	21.1%	20.9%	22.0%	14.9%	17.0%	13.2%	14.4%	14.9%
Period average CPI YoY, %	16.1%	14.0%	14.5%	13.8%	11.6%	8.9%	9.8%	11.0%
End of period CPI YoY, %	16.4%	13.7%	13.7%	13.2%	9.9%	8.9%	10.0%	10.0%
Consolidated budget deficit, % of GDP ¹	1.3%	9.4%	1.4%	0.4%	-1.7%	-0.4%	9.2%	2.6%
Broad public sector deficit, % of GDP ²	4.0%	12.7%	4.1%	0.4%	-1.2%	-0.4%	9.2%	2.7%
Public debt as % of LTM GDP, UAH	72.7%	71.8%	71.8%	66.4%	61.8%	62.7%	62.9%	62.9%
Public external debt as % of LTM GDP, \$ ³	46.5%	43.5%	43.5%	41.7%	38.7%	38.0%	38.3%	38.3%
Total external debt, \$bln	116	115	115	115	114	114	117	117
Export of goods and services, \$bln	13.6	14.7	53.9	13.8	14.7	14.4	15.2	58.1
Import of goods and services, \$bln	16.3	17.6	62.5	15.7	16.6	19.1	18.9	70.4
Trade balance, \$bln	-2.7	-2.9	-8.6	-1.9	-2.0	-4.7	-3.7	-12.3
Current account, \$bln	-1.2	-0.9	-2.4	-0.5	0.2	-3.5	-1.5	-5.4
Financial account, \$bln ⁴	-2.1	-1.6	-5.0	-0.2	-0.4	-2.8	-4.3	-7.7
End of period NBU reserves, \$bln	18.6	18.8	18.8	18.2	18.0	16.6	20.1	20.1
Average interbank exchange rate, UAH/\$ ⁵	25.9	26.9	26.5	27.3	26.2	27.4	28.5	27.3
EOP interbank exchange rate, UAH/\$	26.6	28.1	28.1	26.3	26.3	28.3	29.0	29.0
EOP key policy rate NBU, %	12.5%	14.5%	14.5%	17.0%	17.0%	18.0%	18.0%	18.0%

(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	-	7.8	Sep-19	9.5	98.8	-0.1	0.7	661
Ukraine 2023	Hold	-	7.8	Sep-23	10.2	91.0	-0.3	3.9	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	10.5	94.3	-0.6	4.1	750
Ukraine 2027	Hold	-	7.8	Sep-27	10.5	84.7	-0.5	6.1	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	10.7	94.0	-1.0	6.4	1,250
Ukraine 2032	Hold	-	7.4	Sep-32	10.1	80.0	-1.3	7.9	3,000
MHP 2024	Hold	20-Nov-18	7.8	May-24	9.5	92.9	-0.9	4.4	500
MHP 2026	Hold	20-Nov-18	7.0	Apr-26	9.7	85.8	-0.8	5.6	550
DTEK 2024	Hold	4-Dec-18	10.8	Dec-24	12.7	91.8	-3.8	4.4	1,344
Ferrexpo 2019	Hold	9-Oct-18	10.4	Apr-19	9.5	100.2	0.0	0.3	346
Metinvest 2023	Hold	11-Dec-18	7.8	Apr-23	10.5	90.5	-0.4	3.7	945
Metinvest 2026	Hold	11-Dec-18	8.5	Apr-26	10.6	89.5	-0.3	5.4	648
Ukrlandfarming in default	Sell	13-Jun-17	10.9	Mar-18	nm	13.0	0.0	nm	543
Avangard in default	Sell	5-Jun-18	10.0	Oct-18	nm	20.7	-0.1	nm	214
FUIB 2018	Buy	6-Nov-18	11.0	Dec-18	19.4	99.6	-0.5	0.0	59
Privatbank in default (10.250)	Not rated	-	10.3	Jan-18	nm	20.7	-0.4	nm	160
Privatbank in default (10.875)	Not rated	-	10.9	Feb-18	nm	21.0	0.0	nm	175
Oschadbank 2023	Buy	6-Nov-18	9.4	Mar-23	9.9	98.3	-0.5	1.0	700
Oschadbank 2025	Buy	6-Nov-18	9.6	Mar-25	10.8	94.8	-0.2	2.2	500
Ukreximbank 2021 (UAH)	Buy	6-Nov-18	16.5	Mar-21	24.5	86.7	0.0	1.8	150
Ukreximbank 2022	Buy	6-Nov-18	9.6	Apr-22	10.5	97.6	-0.2	1.1	750
Ukreximbank 2025	Buy	6-Nov-18	9.8	Jan-25	11.1	94.1	-0.3	2.6	600
Ukrainian Railway 2021	Buy	9-Oct-18	9.9	Sep-21	11.0	97.5	-0.1	1.0	500
Kernel 2022	Buy	4-Dec-18	8.8	Jan-22	10.4	95.6	-0.2	2.7	500

Note: all bonds are rated in relation to the sovereign, which is assumed to have a 'Hold' rating

Source: Bloomberg, Adamant Capital estimates

Fixed Income 2 week event calendar		
Event	Type	Date
NBU - Decision on the key policy rate	Exact	13-Dec
SSSU - Agricultural production monthly data	Exact	14-Dec
SSSU - Q3 2018 GDP	Exact	19-Dec
SSSU - Wholesale and retail turnover monthly data	Exact	20-Dec
SSSU - Transportation monthly data	Exact	20-Dec
SSSU - Industrial production monthly data	Exact	21-Dec

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