

Weekly Digest

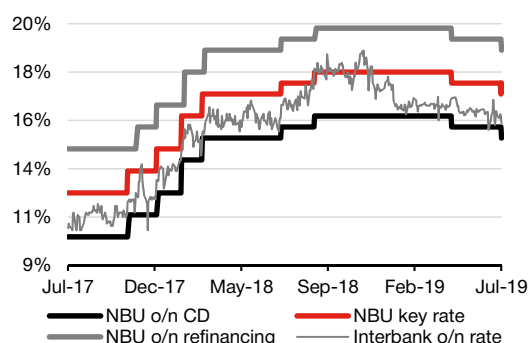
- The NBU has decreased the discount rate by 50bps to 17.0%
- Zelensky's Sluha Narodu took 60% of all seats in parliament
- Kernel reported 4Q19 operating results largely in line with expectations
- MHP 2Q19 operating update: average poultry prices remained flat YoY

The NBU has decreased the discount rate by 50bps to 17.0%.

According to the official press release, the decision was driven by strong inflation figures for June (a deceleration in annual terms to 9.0%). Forecasts for real GDP growth in 2019 and 2020 have been revised upwards to 2.9% and 3.2%, respectively (from 2.5% and 3.0% previously). A slowdown in reforms, or their reversal via questionable court rulings or destructive policy decisions was highlighted as the largest risk for price stability. The regulator has also provided its first key rate forecast for the future: a decrease to 8.0% "over the next few years" provided that inflation consistently declines to the previously announced 5.0% target. The largest drop is expected to occur in 2020, as per the base case scenario.

Our view: The NBU's decision came in line with our estimate (made on July 9) and is consistent with both the recent CPI dynamic and the decline in expected inflation (from 9.2% to 7.9% by households as of June 1). Taking into account that the real hryvnia rate (one year) stands at 8.4-10.3% (depending on the economic agent in question), we think that room for further decreases is substantial. Further steps will, in our view, depend heavily on policies that are adopted by the country's new authorities. Our end of year forecast remains unchanged at 16.0%.

Local interest rate dynamics

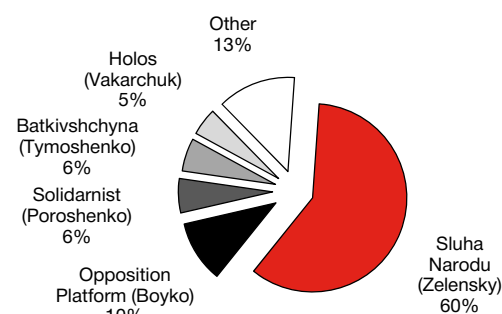


Source: NBU

Zelensky's Sluha Narodu took 60% of all seats in parliament. With 97% of all ballots already processed, it is safe to say that the president's political force achieved an overwhelming victory, mustering a first ever (since 1991) single party majority in the Rada. Boyko's Opposition Platform came in second with 9% of all seats, and was followed by Poroshenko's Solidarnist, Tymoshenko's Batkivshchyna, and Vakarchuk's Holos at 5-6% each. Independent candidates picked up 13%. Election watchdog OPORA declared the process fair and free of systemic violations.

Our view: Zelensky ended up being supported by an even larger share of voters than expected, with results in regional constituencies coming in especially as a surprise (65% of the total). In fact, the Sluha Narodu brand turned out to be so strong, that it was able to lead to some very remarkable victories – such as one won by a 25 year old relatively unknown state owned company employee Oleksiy Movchan over Kostantin Zhevago, the CEO and main shareholder of Ferrexpo. The 60% majority should now essentially allow the new president to assemble a government entirely of his choosing and to pass laws without the need to reach any sort of compromise with other political forces. We see this both as a blessing and a curse, given that Zelensky has no experience in policymaking, has still not made his political agenda entirely clear, and affiliates himself with people formerly employed by oligarch Kolomoisky.

Select party rating bands and entry barrier, %



Source: Central Election Commission of Ukraine

Kernel reported 4Q19 operating results largely in line with expectations. Bulk oil sales and oilseed crushing volumes increased by 7% YoY to 0.4 and 0.9mlnt, respectively. Grain exports out of Ukraine were by up 39% to 1.4mlnt, totaling 6.1mlnt for the year and matching management guidance. Transshipment recorded a 4% YoY increase to 1.2mlnt, reflecting the new terminal slowly coming into operation. According to APK-Inform and Bloomberg, average price indexes for wheat and sunflower were down by 16% and 10% YoY, respectively, while those for corn remained flat.

Our view: The reported data came in overall as anticipated, though some deviations from our model did occur. Kernel's bulk oil volumes, for example, defied expectations, pushing ahead of 4Q18 levels, despite last year's unusual seasonality and higher stock at the start of the quarter (c. 440 vs 200kt this time). Transshipment decelerated slightly compared to 3Q18 and even 2Q18, failing to surpass the 5.0mlnt mark for the twelve months. Both had only a minor impact on our EBITDA estimate for 2019, however, which we reiterate at \$350mln. As has recently become the norm, Avere results stand a large unknown with regard to financials. We assume a positive \$10mln contribution from this business in 4Q19, but note that actual figures may be wildly different, which is a testament to a deterioration in Kernel's earnings quality. That said, we still maintain our 'Buy' recommendation on the name, taking into account strong corporate governance and that a large portion of debt remains backed by readily marketable inventories.

Kernel 4Q19 operating update					
	4Q19	4Q18	YoY	3Q19	QoQ
Grain sales ¹ , mlnt	1.44	1.03	39%	1.53	-6%
Bulk oil sales, kt	414	386	7%	358	16%
Oilseed crush, kt	896	834	7%	908	-1%
Export terminal ¹ , mlnt	1.20	1.15	4%	1.17	2%
Corn price ² , \$/t	162	162	0%	157	3%
Wheat price ² , \$/t	179	212	-16%	187	-4%
Sunflower oil price ³ , \$/t	687	763	-10%	665	3%

(1) Ukraine only and excluding Avere

(2) CBOT futures

(3) FOB export price (ask) from APK-Inform

Source: Company data, Bloomberg, APK-Inform

MHP 2Q19 operating update: average poultry prices remained flat YoY in dollar terms. According to the company's press release, the hryvnia figure was up by 2% to UAH 40.1/kg. Poultry production volumes increased by 17% YoY, reflecting the contribution of Pertunina Ptuj and a 7% pick up in output of MHP's Ukrainian facilities. Sales to third parties grew by 18% to 181kt, with exports surging by 39% to 97kt. Roughly 40% of winter crops have already been harvested with yields characterized as "in line with expectations".

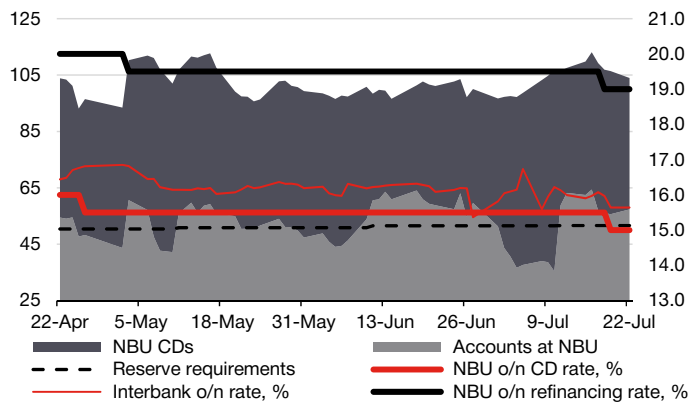
Our view: Operating data slightly disappointed with regard to prices, where we expected growth to land at c. 3%. Taking into account that poultry production costs per kilo are unlikely to come down from their \$1.05 figure in 1Q19 (especially given that the share of more expensive Perutnina Ptuj volumes will be higher for the rest of the quarters), we calculate that prices need to increase by at least 4.0% for 2019 on average in order for EBITDA to hit \$0.45/kg (our previous estimate). The published figures do not exactly preclude this kind of a scenario in our view, but do somewhat decrease the probability of it occurring. On a more positive note, the recent rally in global corn indexes (up by some 20% YoY currently) increases the likelihood of materially stronger results in the grain segment. Thus, all in all, we feel that our previous annual EBITDA projection of \$470mln (ex IAS 41 effects) still remains realistic. As before, we maintain our 'Hold' recommendation on MHP's credit, as it continues to be the most expensive in Ukraine's eurobond universe.

MHP 2Q19 operating update					
(poultry segment)	2Q19	2Q18	YoY	1Q19	QoQ
Production, kt	182	156	17%	171	6%
Ukraine	167	156	7%	166	0%
Perutnina Ptuj	16	0	nm	5	nm
Sales to 3rd parties, kt	181	153	18%	164	11%
Ukraine	165	153	8%	164	1%
Perutnina Ptuj	16	0	nm	5	nm
Exports, kt	97	70	39%	93	5%
share in sales	54%	46%	8pp	57%	-3pp
Average price, UAH/kg	40.06	39.38	2%	38.63	4%
Average price, \$/kg	1.51	1.50	0%	1.41	7%

Source: Company data

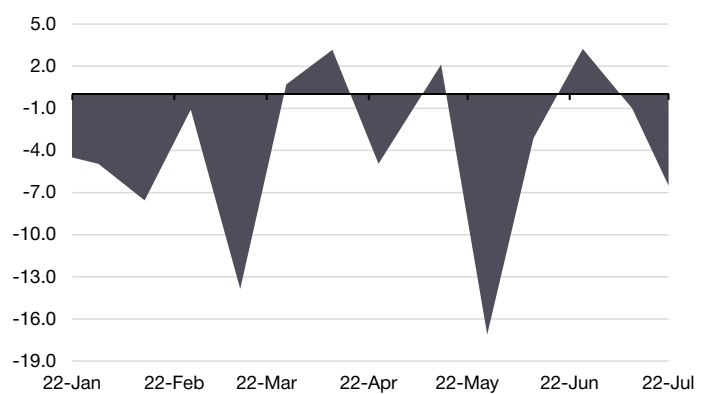
Appendix

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

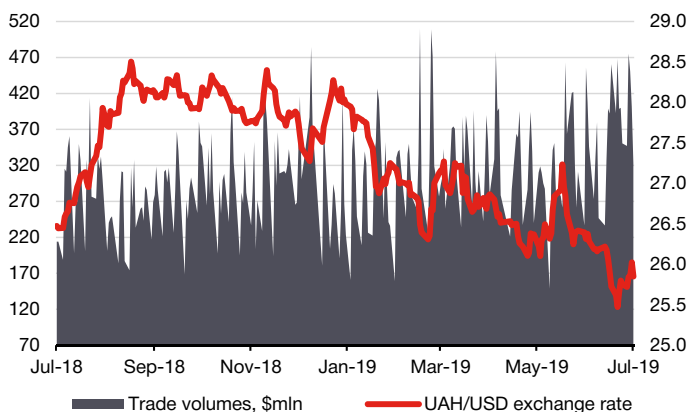


Note: in UAHbln, where each point represents a biweekly sum
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has decreased by UAH 5.8bln to UAH 104.0bln over the last week. On July 23 the Ministry of Finance conducted local hryvnia denominated placement maturing in October 2019, January 2020, July 2020 and May 2022 with yields of 16.63%, 16.73%, 16.99% and 16.55%, respectively. A total of UAH 7.0bln was raised as a result.

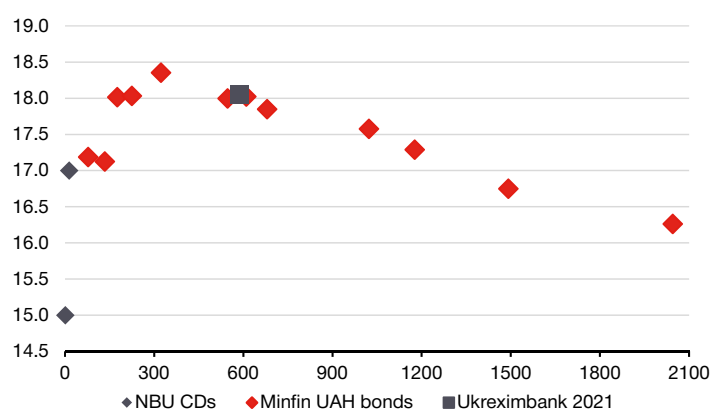
The UAH/USD interbank rate over the last week appreciated by 0.9%, starting out with 25.84 and ending at 25.62.

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



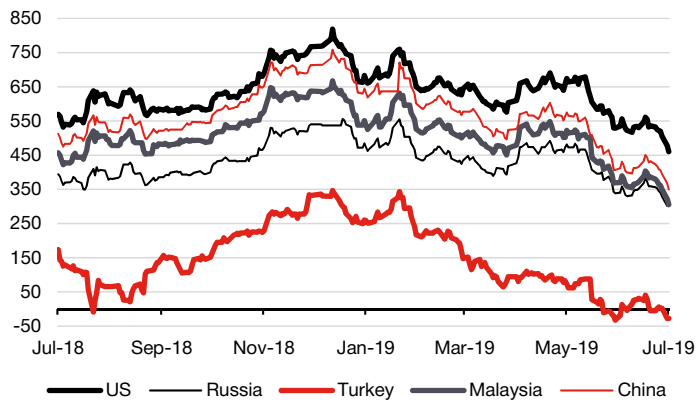
Note: Exchange rate figures are from official interbank data
Source: NBU

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



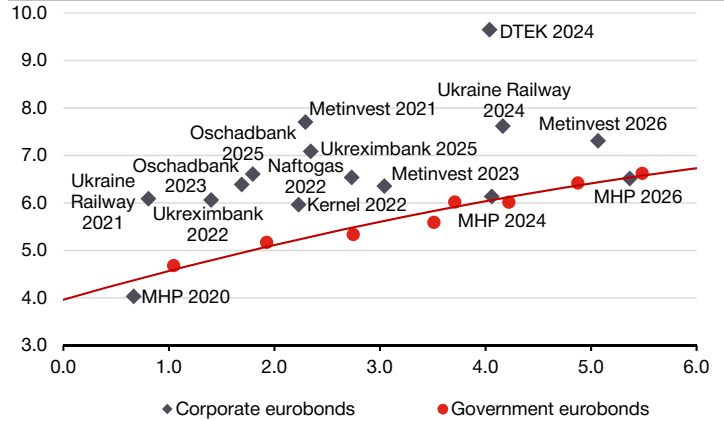
Source: NBU, Bloomberg, Adamant Capital estimates

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



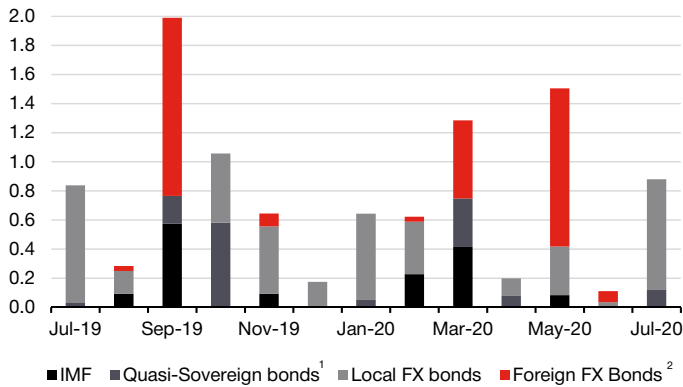
Source: Bloomberg, Adamant Capital estimates

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



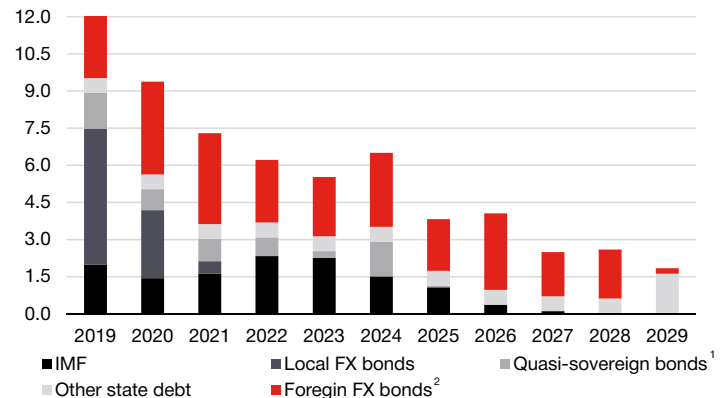
Source: Bloomberg, Adamant Capital estimates

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



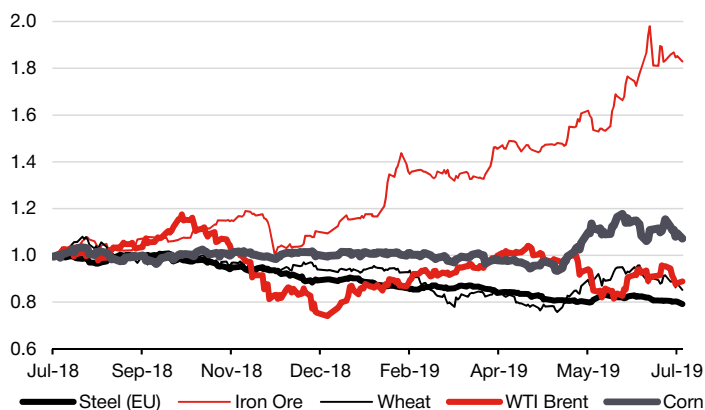
Note: Interest included in each category
 (1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

State and NBU FX debt repayment schedule 2019-29, \$bln



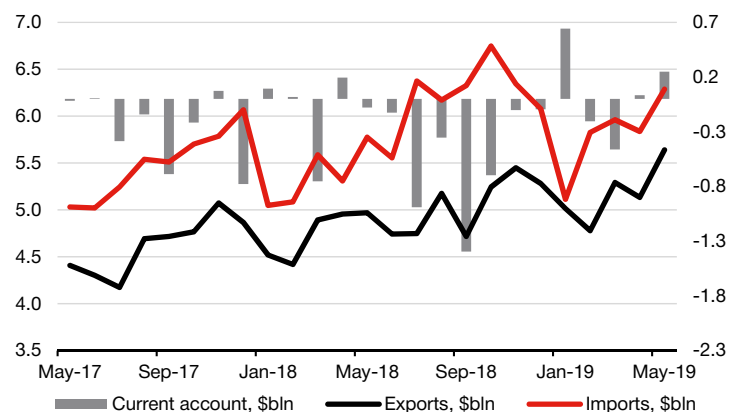
(1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

Global commodity price indices, past 12 months



Note: Rebased to 1. Indexes used: Platts TSI HRC N Europe; 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								
	1Q18	2Q18	3Q18	4Q18	2018	1Q19	2Q19E	2019E
Real GDP growth, YoY	3.3%	3.8%	2.8%	3.5%	3.3%	2.5%	3.5%	3.0%
Nominal GDP, UAHbln	705	811	995	1,048	3,559	807	940	4,086
Nominal GDP, \$bln	26	31	36	37	131	30	35	152
GDP deflator growth YoY, %	15.1%	17.4%	16.0%	13.5%	15.0%	11.7%	12.0%	11.5%
Period average CPI YoY, %	13.8%	11.6%	8.9%	9.7%	11.0%	8.9%	9.1%	8.7%
End of period CPI YoY, %	13.2%	9.9%	8.9%	9.8%	9.8%	8.6%	9.0%	6.5%
Consolidated budget deficit, % of GDP ¹	0.4%	-1.7%	-0.4%	7.9%	1.9%	1.1%	-3.5%	2.3%
Broad public sector deficit, % of GDP ²	0.4%	-1.2%	-0.4%	8.3%	2.2%	1.1%	-3.5%	2.3%
Public debt as % of LTM GDP, UAH	66.3%	61.6%	62.1%	60.9%	60.9%	58.6%	55.4%	54.8%
Public external debt as % of LTM GDP, \$ ³	41.6%	38.6%	37.6%	38.6%	38.6%	37.5%	35.9%	33.7%
Total external debt, \$bln	115	114	114	115	115	114	114	113
Export of goods and services, \$bln	13.8	14.7	14.6	16.0	59.1	15.1	15.1	63.3
Import of goods and services, \$bln	15.7	16.6	18.9	19.2	70.4	16.9	17.5	74.7
Trade balance, \$bln	-1.9	-2.0	-4.2	-3.2	-11.3	-1.8	-2.4	-11.4
Current account, \$bln	-0.6	0.0	-2.7	-0.9	-4.3	0.0	0.1	-3.0
Financial account, \$bln ⁴	-0.4	-0.6	-2.0	-4.2	-7.1	-0.4	-0.5	-3.1
End of period NBU reserves, \$bln	18.2	18.0	16.6	20.8	20.8	20.6	20.6	20.2
Average interbank exchange rate, UAH/\$ ⁵	27.3	26.2	27.4	28.0	27.2	27.3	26.6	26.8
EOP interbank exchange rate, UAH/\$	26.3	26.3	28.3	27.7	27.7	27.2	26.2	27.1
EOP key policy rate NBU, %	17.0%	17.0%	18.0%	18.0%	18.0%	17.5%	17.5%	16.0%

(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	6.5	100.1	-0.1	0.1	661
Ukraine 2023	Hold	-	7.8	Sep-23	5.6	107.8	2.4	3.5	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	6.0	111.6	3.1	3.7	750
Ukraine 2027	Hold	-	7.8	Sep-27	6.7	106.5	4.5	6.1	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	7.2	117.0	4.8	6.4	1,600
Ukraine 2032	Hold	-	7.4	Sep-32	7.1	102.5	4.6	8.2	3,000
Avangard in default	Sell	9-Apr-19	10.0	Oct-18	nm	8.4	-0.1	nm	214
DTEK 2024	Hold	4-Jun-19	10.8	Dec-24	9.6	104.5	1.5	4.0	1,344
Kernel 2022	Buy	23-Jul-19	8.8	Jan-22	6.0	106.4	0.8	2.2	500
Metinvest 2023	Hold	2-Jul-19	7.8	Apr-23	6.4	104.6	1.4	3.0	945
Metinvest 2026	Hold	2-Jul-19	8.5	Apr-26	7.3	106.2	2.3	5.1	648
MHP 2024	Hold	23-Jul-19	7.8	May-24	6.1	106.6	1.1	4.1	500
MHP 2026	Hold	23-Jul-19	7.0	Apr-26	6.5	102.3	1.9	5.4	550
Naftogas 2022	Not rated	-	7.4	Jul-22	6.5	102.2	1.5	2.7	335
Naftogas 2024 (EUR)	Not rated	-	7.1	Jul-24	6.5	102.8	2.0	4.4	672
Oschadbank 2023	Buy	14-May-19	9.4	Mar-23	6.4	105.1	1.0	1.7	280
Oschadbank 2025	Buy	14-May-19	9.6	Mar-25	6.6	105.4	1.6	1.8	500
Privatbank in default (10.250)	Not rated	-	10.3	Jan-18	nm	29.8	-1.1	nm	160
Privatbank in default (10.875)	Not rated	-	10.9	Feb-18	nm	29.2	-0.4	nm	175
Ukraine Railway 2021	Buy	7-May-19	9.9	Sep-21	6.1	103.0	0.6	0.8	350
Ukraine Railway 2024	Not rated	-	8.3	Jul-24	7.6	102.6	1.7	4.2	500
Ukreximbank 2021 (UAH)	Not rated	-	16.5	Mar-21	18.5	97.2	0.1	1.4	150
Ukreximbank 2022	Buy	14-May-19	9.6	Apr-22	6.1	105.0	0.7	1.4	375
Ukreximbank 2025	Buy	14-May-19	9.8	Jan-25	7.1	106.1	1.4	2.3	600
Ukrlandfarming in default	Sell	13-Jun-17	10.9	Mar-18	nm	10.9	-0.9	nm	543

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 1 week event calendar		
Event	Type	Date
DTEK - Operational results for 6m19	Indicative	26-Jul
Treasury - Monthly state budget performance	Indicative	26-Jul
Banks - Financial results for Q2 2019 IFRS	Indicative	30-Jul

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