

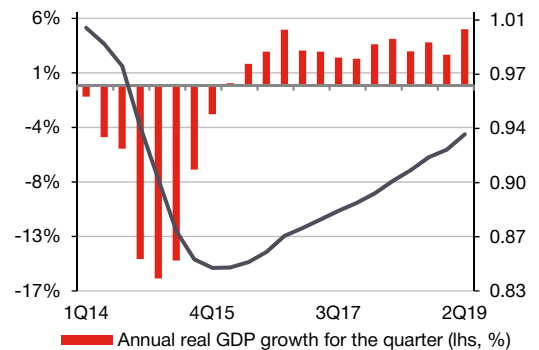
## Weekly Digest

- Real GDP in 2Q19 grew by 4.6% YoY (preliminary data)
- The NBU has refused to approve the majority of Oschadbank's newly elected board members
- Interpipe has announced a restructuring proposal for its \$200mln 10.25% eurobonds that came due in 2017

**Real GDP in 2Q19 grew by 4.6% YoY (preliminary data),** according to SSSU calculations.

**Our view:** The figure came in significantly above our projections of 3.7% and vastly higher than the median forecast on Bloomberg (at 2.7%) as well as estimates of the NBU (at 3.0%). Although more detailed data is required to say for certain, we believe key drivers to be a bumper wheat harvest (up by 33% on July 1) and retail, where June volumes surged by 13.6% on the back of one-off social payments. The financial sector could also have been a contributor, as the banking system made almost \$0.7bln in profits versus a loss the year before (albeit primarily due NPL impairment charges). Overall, taking into account that preliminary data rarely deviates significantly from the final figure, we upgrade our real GDP forecast for the year to 3.2% from 3.0% before. According to our calculations LTM real GDP currently stands at 93% of the pre-crisis 2013 level (excluding Crimea and other territories no longer under Ukrainian control).

**Quarterly real GDP growth since 1Q14**



Source: SSSU, Adamant Capital estimates

**The NBU has refused to approve the majority of Oschadbank's newly elected board members.** According to a press release published on August 16, the institution deems 5 out of 9 officials to be unfit for the above role based on a round of interviews and testing results. Additionally, the National Bank has stated that it is deeply concerned by the glaring procedural omissions (including the absence of a competitive selection) in the reappointment of Oschadbank's previous Chairman Andriy Pyshnyy for another 5 years by the new board.

**Our view:** As per the recently amended financial sector legislation, the regulator has the right to approve or reject all banking officials upon appointment, which means that the government now has no choice but to suggest a new set of candidates. Despite the fact that 6 out of 9 board members were supposed to be independent and selected competitively (the 3 other ones were chosen by the President, the Cabinet of Ministers, and the Rada, respectively), three of them failed to meet the NBU's qualifications criteria, suggesting the possibility of foul play. We thus view that National Bank's intervention to be a very positive development. Taking into account that the probability of setting up a truly independent board at Oschadbank have now increased, we reiterate our positive view on this issuer's eurobonds.

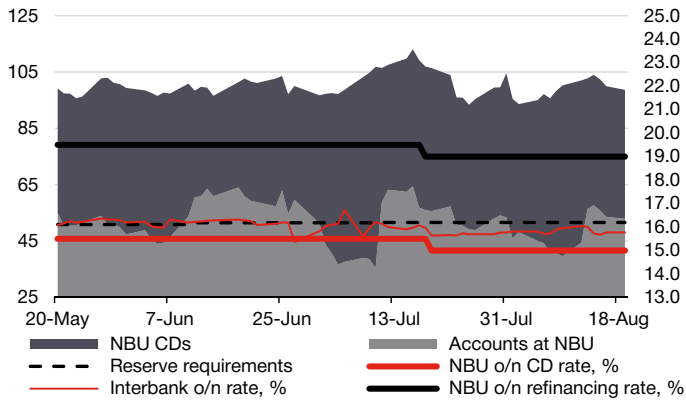
**Interpipe has announced a restructuring proposal for its \$200mln 10.25% eurobonds that came due in 2017.** According to the consent solicitation, the company is offering to exchange them for \$82mln worth of new 10.25% notes maturing in 2024 and “performance securities”, that would pay out a share of earnings. The latter would allow holders to participate, along with other creditors, in an annual award calculated as the greater of 15-25% of EBITDA and 22.5-33% of adjusted cash flows (approximately equivalent to EBITDA less working capital and capex) over a period of 10 years. An additional \$40mln would be paid out if the notes are not redeemed within 4 years of issuance.

**Our view:** The proposal is part of a larger restructuring effort concerning c. \$1.2bln worth of debt (\$1.4bln including overdue cash-pay interest), under which Interpipe came into default as of 2013 following a substantial drop in earnings. The remaining portion of the outstanding amount will be converted into a mix of instruments totaling \$318mln, which, essentially suggests an almost 65% haircut on principal. Taking into account that the majority of the creditors participating in the eurobond portion of the reprofiling have already entered into a lock-up agreement, we expect the proposed transaction to complete successfully. If this is indeed the case, we will add Interpipe into our analytical coverage as soon as the notes start trading.

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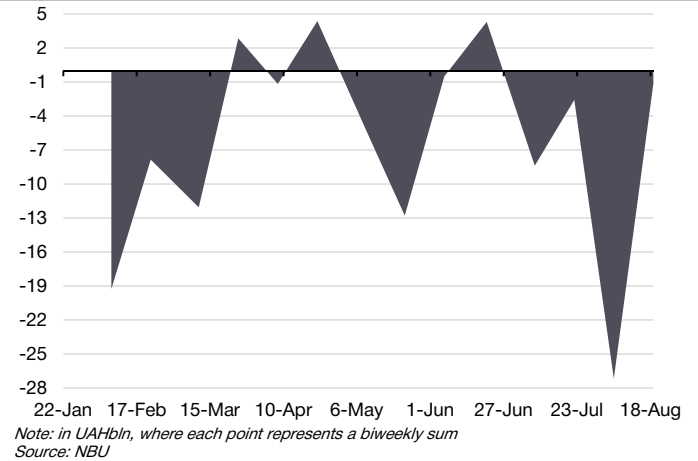
## Appendix

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

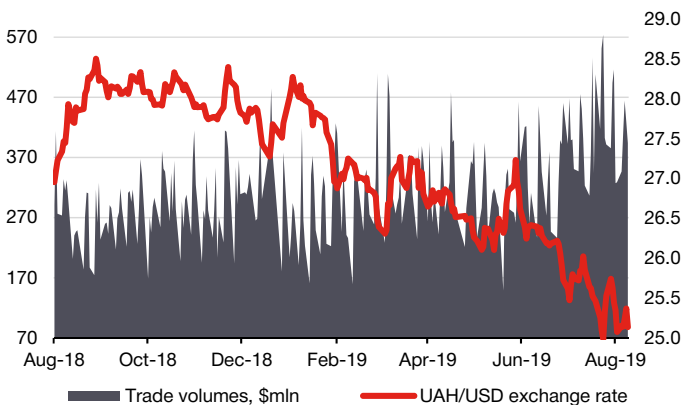


Note: in UAHbln, where each point represents a biweekly sum  
Source: NBU

**Local market liquidity** (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has decreased by UAH 3.3bln to UAH 98.6bln over the last week. On August 20 the Ministry of Finance conducted local hryvnia denominated placement maturing in November 2019, July 2020, and August 2022 with yields of 16.50%, 16.16%, and 16.19% respectively. A total of UAH 1.07bln was raised as a result.

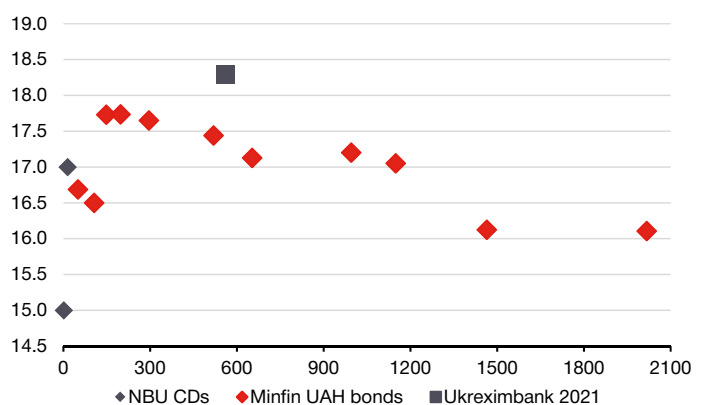
The UAH/USD interbank rate over the last week depreciated by 0.45%, starting out with 25.08 and ending at 25.19.

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

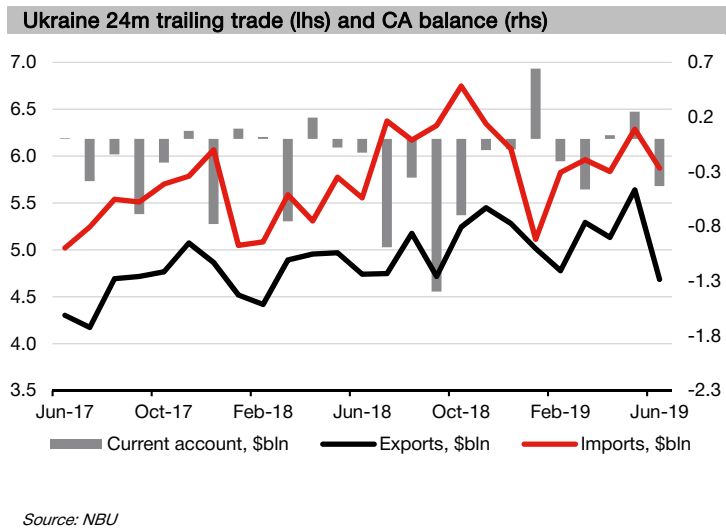
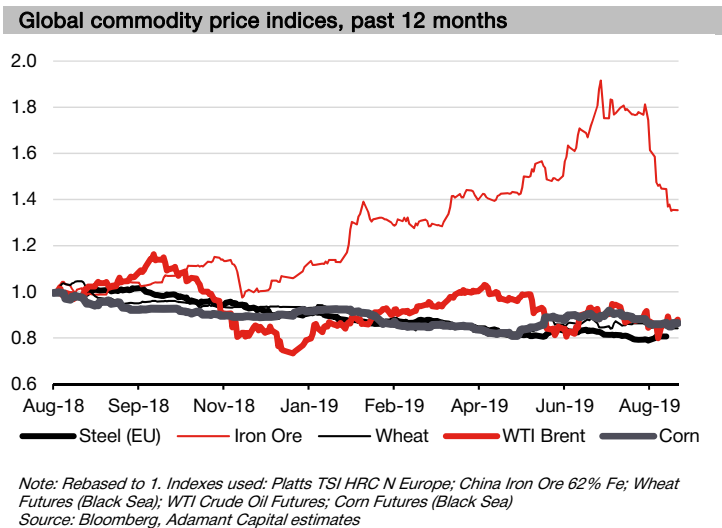
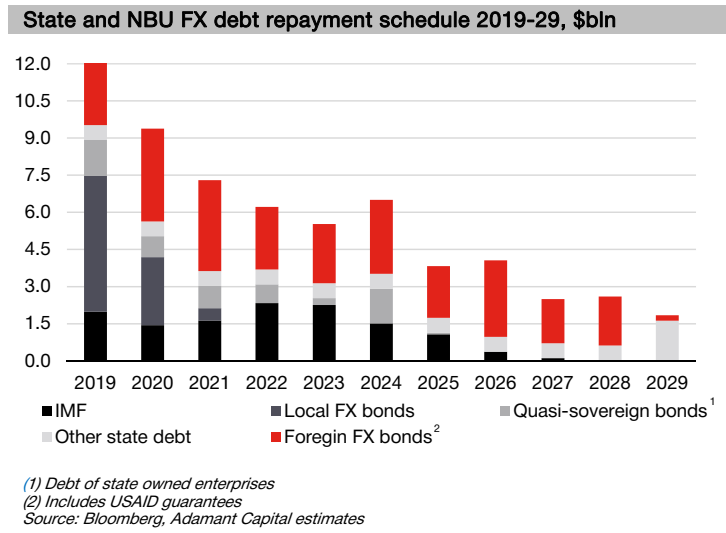
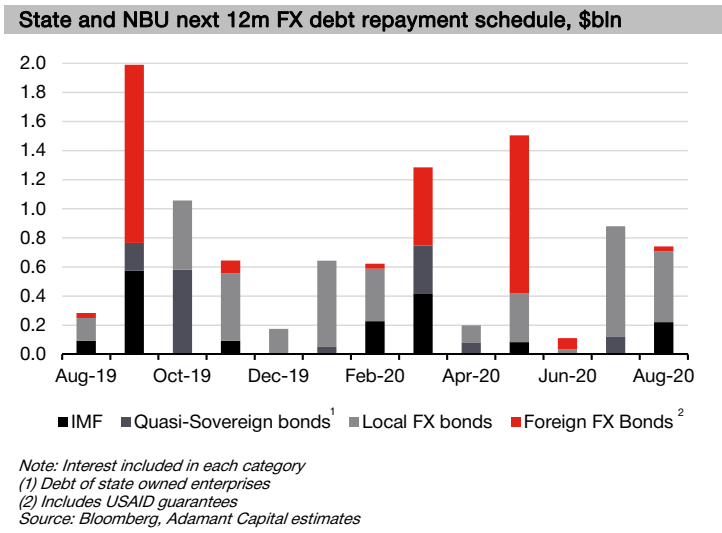
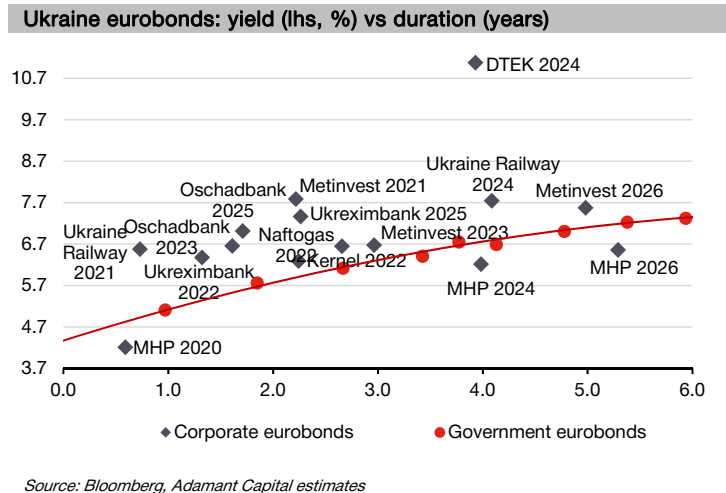
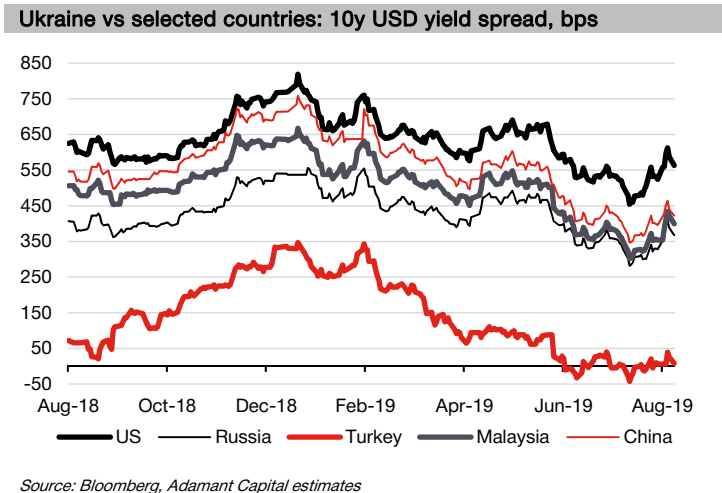


Note: Exchange rate figures are from official interbank data  
Source: NBU

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



Source: NBU, Bloomberg, Adamant Capital estimates



Key macroeconomic indicators								
	1Q18	2Q18	3Q18	4Q18	2018	1Q19	2Q19E	2019E
Real GDP growth, YoY	3.3%	3.8%	2.8%	3.5%	3.3%	2.5%	4.6%	3.2%
Nominal GDP, UAHbln	705	811	995	1,048	3,559	807	950	4,074
Nominal GDP, \$bln	26	31	36	37	131	30	36	154
GDP deflator growth YoY, %	15.1%	17.4%	16.0%	13.5%	15.0%	11.7%	12.0%	10.9%
Period average CPI YoY, %	13.8%	11.6%	8.9%	9.7%	11.0%	8.9%	9.1%	8.3%
End of period CPI YoY, %	13.2%	9.9%	8.9%	9.8%	9.8%	8.6%	9.0%	6.0%
Consolidated budget deficit, % of GDP <sup>1</sup>	0.4%	-1.7%	-0.4%	7.9%	1.9%	1.1%	1.0%	2.3%
Broad public sector deficit, % of GDP <sup>2</sup>	0.4%	-1.2%	-0.4%	8.3%	2.2%	1.1%	1.0%	2.3%
Public debt as % of LTM GDP, UAH	66.3%	61.6%	62.1%	60.9%	60.9%	58.6%	55.3%	53.9%
Public external debt as % of LTM GDP, \$ <sup>3</sup>	41.6%	38.6%	37.6%	38.6%	38.6%	37.5%	35.9%	33.3%
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	15.5	62.2
Import of goods and services, \$bln	15.7	16.6	18.9	19.2	70.4	16.9	18.0	75.0
Trade balance, \$bln	-1.9	-2.0	-4.2	-3.2	-11.3	-1.8	-2.5	-12.8
Current account, \$bln	-0.6	0.0	-2.7	-0.9	-4.3	0.0	-0.2	-4.5
Financial account, \$bln <sup>4</sup>	-0.4	-0.6	-2.0	-4.2	-7.1	-0.4	-0.8	-6.7
End of period NBU reserves, \$bln	18.2	18.0	16.6	20.8	20.8	20.6	20.6	22.3
Average interbank exchange rate, UAH/\$ <sup>5</sup>	27.3	26.2	27.4	28.0	27.2	27.3	26.6	26.4
EOP interbank exchange rate, UAH/\$	26.3	26.3	28.3	27.7	27.7	27.2	26.2	26.3
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 6<sup>th</sup> 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	13-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	30-Jul-19	7.8	Apr-23	6.4	104.6	1.4	3.0	945
Metinvest 2026	Hold	30-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 one-week event calendar		
Event	Type	Date
SSSU - Industrial production monthly data	Exact	23-Aug
Treasury - Monthly state budget performance	Indicative	27-Aug

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