

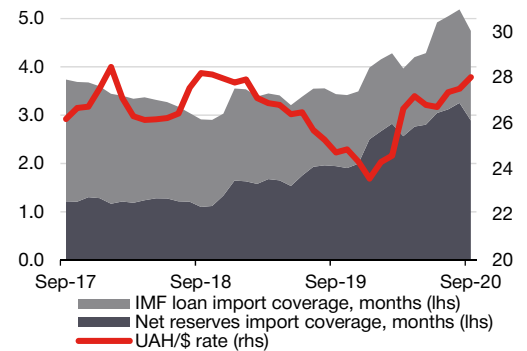
Weekly Digest

- Ukraine's foreign currency reserves decreased over September by \$2.4bln to \$26.5bln
- Consumer inflation in September amounted to 2.3% YoY and 0.5% MoM
- Metinvest's EBITDA in July increased sixfold MoM to \$173mln

Ukraine's foreign currency reserves decreased over September by \$2.4bln to \$26.5bln. Outflows stemmed primarily from debt servicing and amortizations of \$2.7bln. Most notable payments were the \$1.9bln eurobond redemption and \$0.4bln due to the IMF. Net interventions of the central bank landed at -\$0.2bln. Inflows were generated exclusively by local FX bond placements which totaled a meager \$0.1bln.

Our view: The reported reserves figure came in even lower than anticipated at the beginning of the month due to a very small volume of local FX bond placements. As net interventions were negative, we think that the CA may demonstrate a deficit in September. Taking into account the recent developments on anti-corruption, we no longer believe that Ukraine's authorities will be able to secure two IMF tranches before the end of the year. Moreover, we think that even the first review, if occurs at all, will happen in the second half of 4Q20, which means that only one installment of the COVID MFA from the EU is likely to come through. In this light, we revise downwards our YE20 reserves forecast from \$29.3bln previously to \$28.0bln.

Reserves import coverage vs UAH/\$ rate

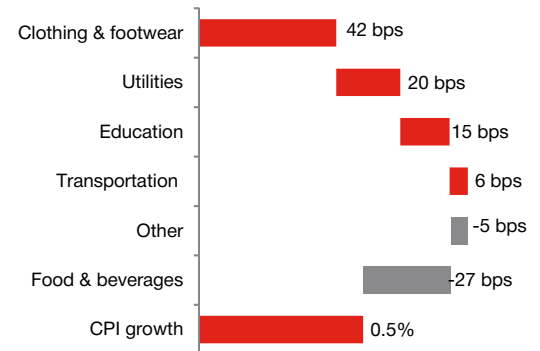


Note: import coverage is calculated using average LTM imports
 Source: NBU, Adamant Capital estimates

Consumer inflation in September amounted to 2.3% YoY and 0.5% MoM. Key drivers relative to July were clothing & footwear, utilities (specifically natural gas), and education. Food demonstrated an unseasonal price drop overall, owing to fruits and vegetables losing some 7-9% in value versus August. Additionally, eggs appreciated by just 7% MoM, which is substantially below the 15% average over the past decade.

Our view: Headline CPI came in significantly below estimates for two main reasons: (1) the abovementioned unusual dynamic of the consumer food basket, and (2) failure of both hryvnia weakness (the rate is up 13% YoY) and the increased money supply (M1 grew by 35% YoY) to have a material effect on price growth. The latter probably reflects the COVID-19 impact on demand, though this is somewhat at odds with the 9% YoY increase of retail volumes (in real terms) observed over July and August. Although there is no way of telling how long this phenomenon will persist (the way the pandemic plays out over the next few months is likely to be important), we feel that year-end CPI will probably land closer to 3.0% rather than the 4.0% we predicted previously. That said, we continue to believe that potential for more aggressive inflation remains high, as, given the ample hryvnia liquidity already on hand, prices can grow quickly if consumer spending habits evolve.

MoM CPI contributions by category



Source: SSSU, Adamant Capital estimates

Metinvest's EBITDA in July increased sixfold MoM to \$173mln, excluding JVs. The monthly contribution of the metals division amounted to \$62mln, having gained \$86mln relative to June. Mining EBITDA was up by almost four times to \$119mln. Operating cash flow contracted by 45% to \$180mln, reflecting the \$112mln impairment of receivables and a \$210mln working capital release in June. Capex increased by 142% to \$63mln, which led FCF to drop by 62% to \$117mln. The LTM leverage ratio inched down by 8% MoM to 2.6. Separately, Metinvest has announced that following the completion of the earlier announced tender offer, all eurobonds due 2021 and 38% of those due 2023 have been extended to 2027.

Our view: EBITDA in July came in materially above our projections, owing to surprisingly low estimated production and delivery costs (calculated as the difference between the realized price and the margin per ton) of both steel and iron ore. These ended up being not only substantially lower than for June (the figures were then impacted by the one-off impairment of receivables), but also the average of April and May. We think that cost savings were probably made possible by cheap natural gas (and to some extent oil), and while prices on the latter have already returned to pre-pandemic levels, we think the positive effects should persist in the financials for a month or two more. With this in mind, we upgrade our EBITDA forecast for 2020 to \$1.7bln (excluding JVs).

Despite the fact that Metinvest's fundamentals keep getting stronger, we continue to feel that the current market yield on its eurobonds is priced adequately relative to the sovereign curve. With this in mind we maintain our recommendation at a 'Hold'.

Metinvest's July financial results, \$mln

	Jul	Jun	MoM	7M20	YoY
Revenues	910	847	7%	5,878	-13%
EBITDA ¹	173	29	497%	788	-10%
margin	19%	3%	16pp	13%	0pp
Metals EBITDA	62	-24	nm	336	173%
Mining EBITDA	119	32	272%	530	-33%
Metal sales ² , kt	867	860	1%	5,231	0%
Steel price ³ , \$/t	452	435	4%	482	-15%
Iron ore sales ⁴ , kt	2,294	2,120	8%	16,551	4%
Iron ore price ⁵ , \$/t	100	90	12%	89	-10%
OCF	180	330	-45%	865	17%
Capex	63	26	142%	498	-24%
Free cash flow	117	304	-62%	367	342%
Total debt	3,081	3,010	2%	3,081	13%
Net debt	2,470	2,545	-3%	2,470	2%
Net debt/LTM EBITDA	2.6	2.8	-8%	2.6	85%

(1) Excluding JVs

(2) Excluding resales

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

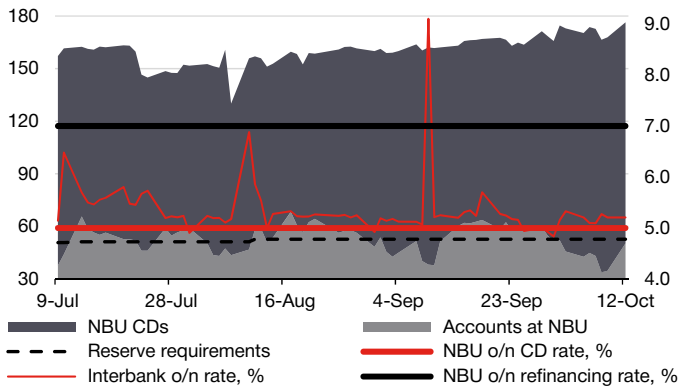
(4) Estimated, including internal sales and pellets in ore equivalent

(5) The average realized price, including pellets in ore equivalent

Source: Company data, Adamant Capital estimates

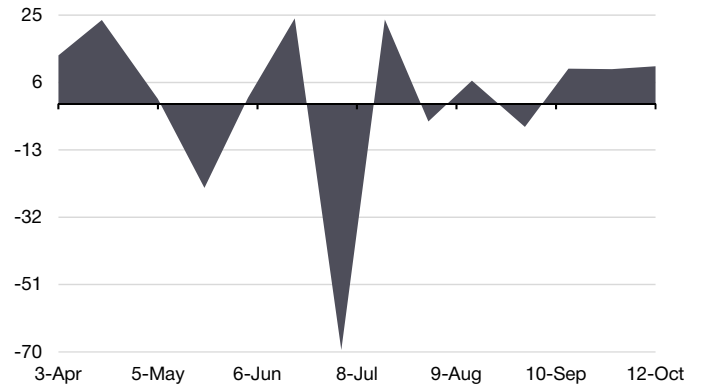
Appendix

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

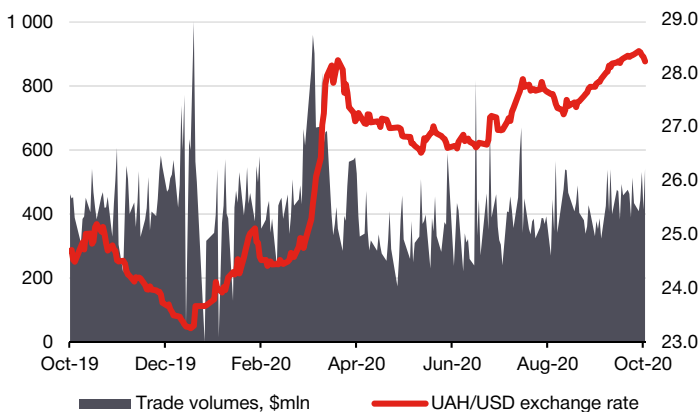


Note: in UAHbln, where each point represents a biweekly sum
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has increased by UAH 6.1bln to UAH 176.5bln over the last week. On October 13 the Ministry of Finance conducted local hryvnia denominated placement maturing in April 2021, September 2021, August 2022 and November 2023 with yields of 8.00%, 10.0%, 10.82% and 10.95% respectively. A total of UAH 6.0bln was raised as a result.

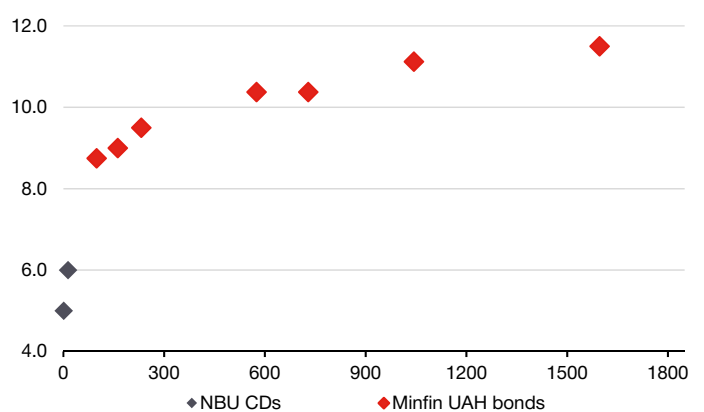
The UAH/USD interbank rate over the last week appreciated by 0.57%, starting out with 28.40 and ending at 28.24.

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

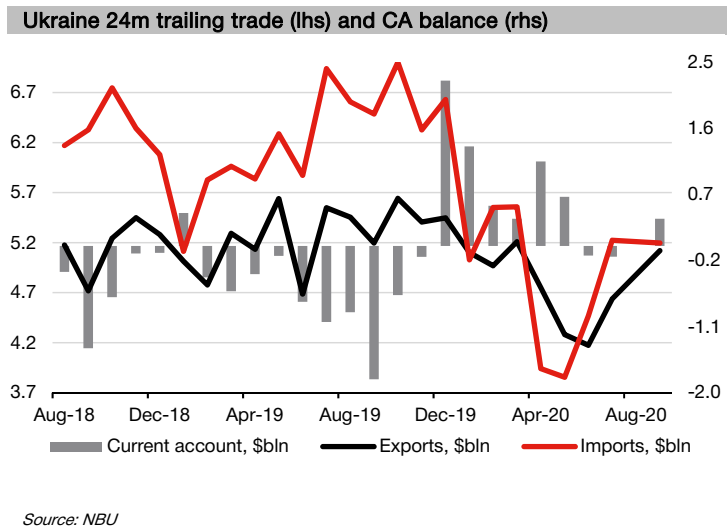
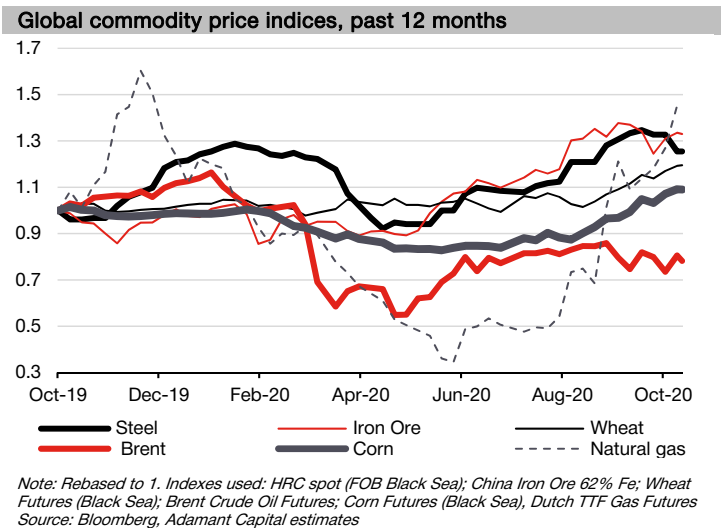
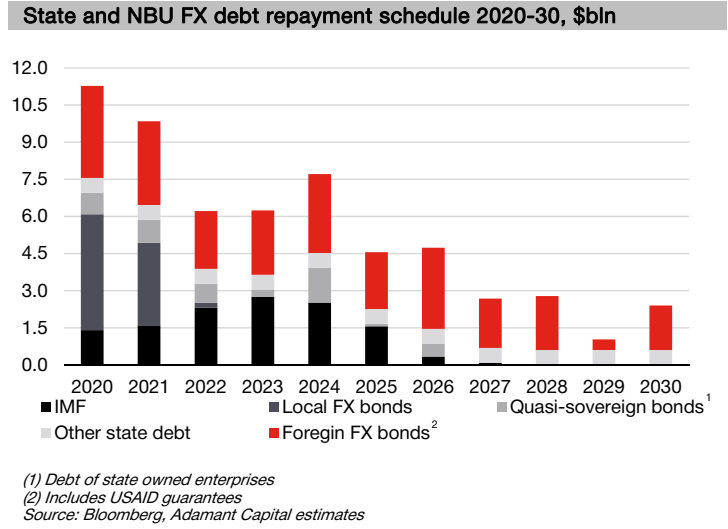
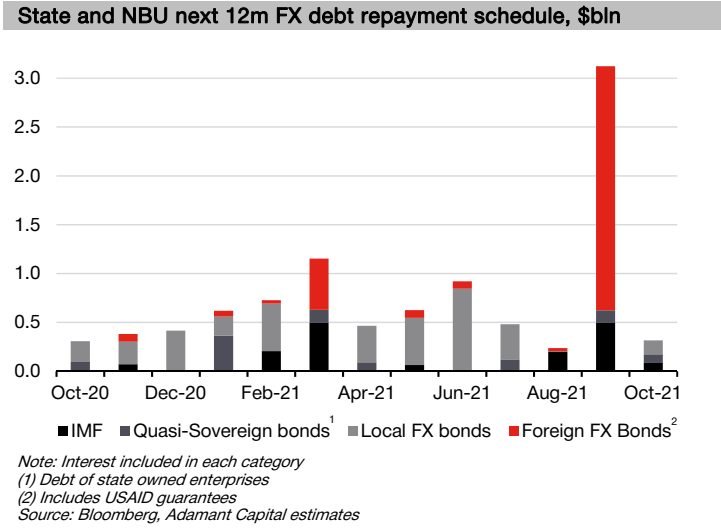
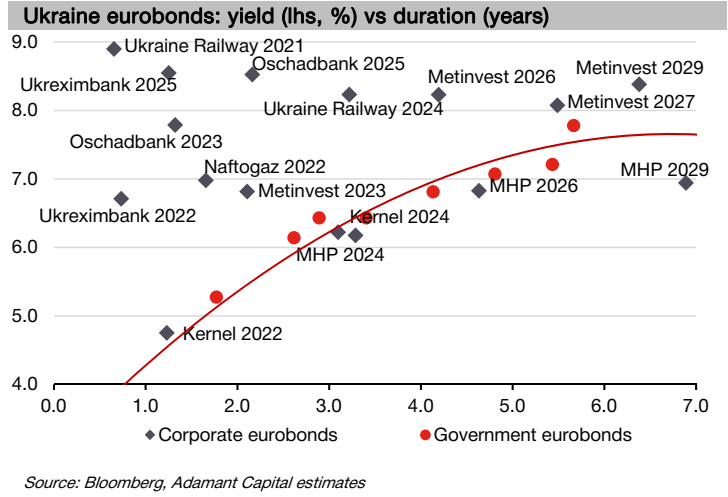
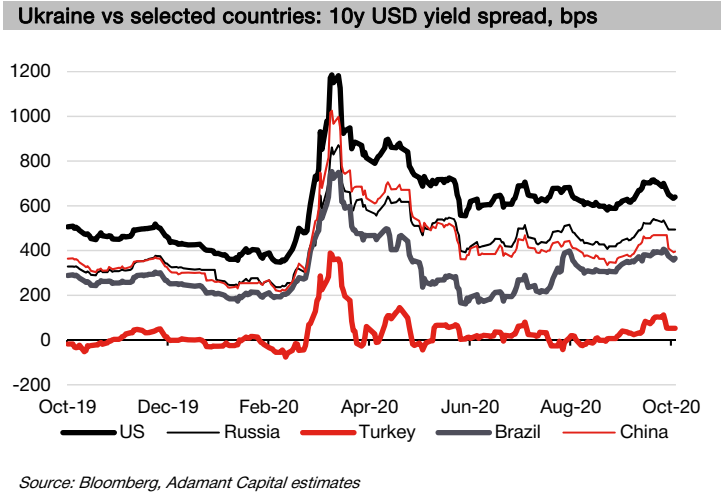


Note: Exchange rate figures are from official interbank data
Source: NBU

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



Source: NBU, Bloomberg, Adamant Capital estimates



Key macroeconomic indicators								
	2Q19	3Q19	4Q19	2019	1Q20	2Q20	3Q20E	2020E
Real GDP growth, YoY	4.7%	3.9%	1.5%	3.2%	-1.3%	-11.4%	-5.0%	-4.5%
Nominal GDP, UAHbln	933	1,112	1,115	3,975	846	868	1,088	3,948
Nominal GDP, \$bln	35	44	46	154	34	32	39	146
GDP deflator growth YoY, %	9.9%	7.6%	4.7%	8.1%	5.1%	5.0%	3.0%	4.0%
Period average CPI YoY, %	9.1%	8.5%	5.2%	7.9%	2.6%	2.1%	2.4%	2.4%
End of period CPI YoY, %	9.0%	7.5%	4.1%	4.1%	2.3%	2.4%	2.3%	3.0%
Consolidated budget deficit, % of GDP ¹	2.5%	2.4%	2.1%	2.1%	2.3%	1.7%	3.5%	3.5%
Broad public sector deficit, % of GDP ²	2.7%	2.5%	2.1%	2.2%	2.3%	2.2%	4.0%	4.3%
Public debt as % of LTM GDP, UAH	55.4%	51.1%	50.3%	50.3%	56.3%	57.6%	59.0%	59.6%
Public external debt as % of LTM GDP, \$ ³	36.0%	32.9%	31.6%	31.6%	31.6%	31.7%	32.5%	36.9%
Total external debt, \$bln	116	118	122	122	120	123	128	130
Export of goods and services, \$bln	15.5	16.3	16.5	63.4	15.3	13.2	15.0	62.4
Import of goods and services, \$bln	18.3	20.3	20.0	75.5	16.1	12.3	15.9	62.4
Trade balance, \$bln	-2.8	-4.0	-3.5	-12.1	-0.9	0.9	-0.9	0.0
Current account, \$bln	-0.5	-2.2	1.8	-1.1	2.3	1.7	-0.6	5.0
Financial account, \$bln ⁴	-0.9	-3.8	-2.1	-7.3	2.4	0.4	2.0	1.7
End of period NBU reserves, \$bln	20.6	20.1	25.3	25.3	24.9	28.5	26.5	28.0
Average interbank exchange rate, UAH/\$ ⁵	26.6	25.2	24.2	25.8	25.2	26.9	27.6	27.0
EOP interbank exchange rate, UAH/\$	26.2	24.2	23.7	23.7	27.6	26.7	28.3	28.0
EOP key policy rate NBU, %	17.5%	16.5%	13.5%	13.5%	10.0%	6.0%	6.0%	6.0%

(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 2023	Hold	-	7.8	Sep-23	6.1	104.2	1.9	2.6	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	6.4	107.5	2.7	2.9	750
Ukraine 2027	Hold	-	7.8	Sep-27	7.2	102.9	3.2	5.4	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	7.8	111.6	2.8	5.7	1,600
Ukraine 2032	Hold	-	7.4	Sep-32	7.6	98.0	3.3	7.7	3,000
Avangard in default	Sell	9-Apr-19	10.0	Oct-18	nm	3.7	0.0	nm	214
DTEK 2024 in default	Buy	1-Sep-20	10.8	Dec-24	25.5	65.8	0.3	2.9	1,344
Kernel 2022	Hold	6-Oct-20	8.8	Jan-22	4.8	104.9	0.1	1.2	500
Kernel 2024	Hold	6-Oct-20	6.5	Oct-24	6.2	101.1	0.5	3.3	300
Metinvest 2023	Hold	13-Oct-20	7.8	Apr-23	6.8	102.1	0.1	2.1	505
Metinvest 2025 (EUR)	Hold	13-Oct-20	5.6	Jun-25	7.4	93.2	0.4	4.1	333
Metinvest 2026	Hold	13-Oct-20	8.5	Apr-26	8.2	101.2	0.6	4.2	648
Metinvest 2027	Hold	13-Oct-20	7.7	Oct-27	8.1	97.8	0.8	5.5	333
Metinvest 2029	Hold	13-Oct-20	7.8	Oct-29	8.4	96.1	1.3	6.4	500
MHP 2024	Hold	8-Sep-20	7.8	May-24	6.2	104.8	0.6	3.1	500
MHP 2026	Hold	8-Sep-20	7.0	Apr-26	6.8	100.6	0.5	4.6	550
MHP 2029	Hold	8-Sep-20	6.3	Sep-29	6.9	95.4	0.5	6.9	350
Naftogaz 2022	Buy	29-Sep-20	7.4	Jul-22	7.0	100.6	0.1	1.7	335
Naftogaz 2024 (EUR)	Buy	29-Sep-20	7.1	Jul-24	8.2	96.7	0.6	3.4	672
Oschadbank 2023	Buy	11-Aug-20	9.4	Mar-23	7.8	102.0	0.2	1.3	175
Oschadbank 2025	Buy	11-Aug-20	9.6	Mar-25	8.5	102.3	0.0	2.2	225
Privatbank in default (10.250)	Not rated	-	10.3	Jan-18	nm	29.1	0.0	nm	160
Privatbank in default (10.875)	Not rated	-	10.9	Feb-18	nm	30.1	-0.2	nm	175
Ukraine Railway 2021	Buy	18-Aug-20	9.9	Sep-21	8.9	100.6	-0.1	0.7	100
Ukraine Railway 2024	Buy	18-Aug-20	8.3	Jul-24	8.2	100.0	0.2	3.2	595
Ukreximbank 2021 (UAH)	Buy	11-Aug-20	16.5	Mar-21	18.6	99.1	0.0	0.4	150
Ukreximbank 2022	Buy	11-Aug-20	9.6	Apr-22	6.7	102.2	0.3	0.7	250
Ukreximbank 2025	Buy	11-Aug-20	9.8	Jan-25	8.5	101.4	0.0	1.3	600
Ukrlandfarming in default	Sell	13-Jun-17	10.9	Mar-18	nm	4.8	0.2	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 - Agricultural production monthly data	Exact	16-Oct
SSSU - Transportation monthly data	Exact	20-Oct

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