

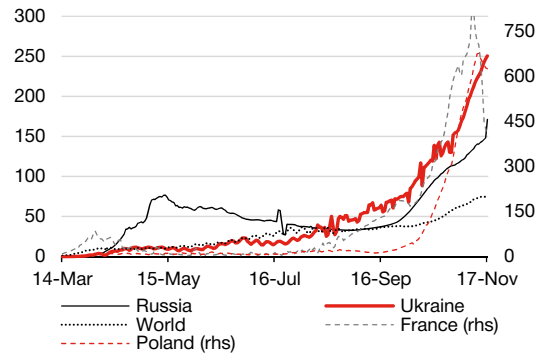
Weekly Digest

- Ukraine has introduced a weekend-only lockdown, daily COVID-19 cases reach 250 per million
- Real GDP decline in 3Q20 has slowed to 3.5% YoY from 11.4% last quarter
- Ukrainian Railways has asked 2021 and 2024 bondholders to partially relax borrowing restrictions

Ukraine has introduced a weekend-only lockdown, daily COVID-19 cases reach 250 per million. According to the relevant Cabinet decree, all restaurants, shopping malls, movie theaters, fitness centers, and most other face-to-face services are to remain closed from midnight Friday to midnight Sunday until November 30. Exceptions include food supermarkets, pharmacies, hospitals, and banks. A number of large city mayors have immediately opposed the initiative, with Lviv going as far as declaring both Saturday and Sunday to be working days.

Our view: Just like over March-April, Ukraine's authorities seem to have decided to adopt a similar COVID-19 strategy to the rest of Europe, which is now also experiencing a second wave of infections, and is introducing partial lockdowns. One key difference between the two regions, however, is the number of deaths. While the EU seems to be trying to slow the spread in order to prevent mortality from reaching the first peak, Ukraine is already far into uncharted territory (at 3.7 people per million compare to a peak of 0.4 in mid-May). While these figures are still low, the latter still suggests that, despite the relatively lax social distancing measures and poor compliance so far, a full-on domestic lockdown may become unavoidable if the healthcare system becomes overwhelmed (as an example – Italy went from 4 to over 13 per million over the case of two weeks). That said, we currently assign the highest probability to the current semi-strict measures being in place until the end of the year and estimate their cost at c. 3-4% of GDP.

COVID-19 new cases per mln by country



*Note: each data point represents a 3-day trailing average
Source: ourworldindata.org, Adamant Capital estimates*

Real GDP decline in 3Q20 has slowed to 3.5% YoY from 11.4% last quarter (preliminary data), according to the SSSU.

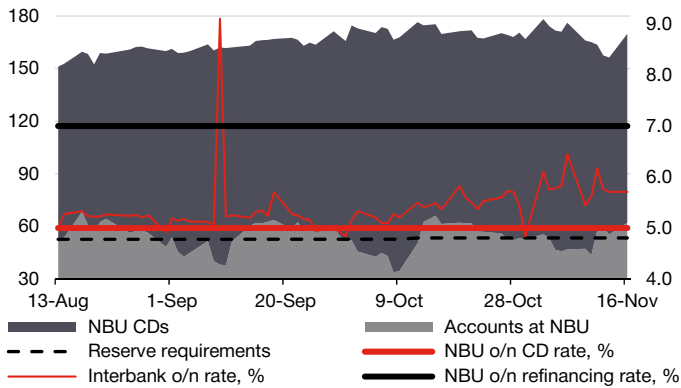
Our view: The figure came in above our original projection of -6.0%, the latest consensus forecast published by Reuters (at -4.8%) as well as estimates of the NBU (at -6.2%). Of note, is that the SSSU's preliminary findings matched almost exactly the calculation conducted at the beginning of the month by the Ministry of Economy (reported at -3.6%), suggesting that the latter may have early access to the data. Taking into account that our COI (represents the value-added dynamic of c. 50% of the economy based on high frequency production indicators) projections are usually quite accurate, we think that such a small aggregate real GDP contraction suggests a surprise recovery in services. In fact, some industries in this category had to have demonstrated an increase in YoY, terms, especially given that the SSSU's methodology implies a large negative discrepancy factor for 3Q20 (equivalent to -0.5pps). Possible candidates include telecommunications and healthcare, but both of these, oddly, were down relative to last year in the previous quarter. Whatever the exact reasons (the final breakdown will only become available in the second half of December), we feel the reported data definitely implies that the economy is overall in a better shape after the March-April lockdown than we predicted. With regard to 4Q20, it has now become clear that some form of mandatory social distancing (i.e. the recently introduced "weekend quarantine") is likely to be reintroduced for the remaining portion of the year. Although this will certainly act as a macroeconomic shock, we believe the effect to be much smaller in magnitude compared to the original lockdown, due to both the measures themselves being less strict and worse compliance. We also continue to expect industrial production to benefit from a low base (occurred last year due to an usually warm winter that coincided with a downturn in the steel sector). On balance, we see 4Q20 real GDP at -2.0%, which implies that the annual figure will stand at -4.5% (up by 50bps from our previous estimate).

Ukrainian Railways has asked 2021 and 2024 bondholders to partially relax borrowing restrictions. As per the consent solicitation distributed on November 13, the company has requested 2021 creditors to permit additional indebtedness in order to repay or refinance the notes in question (this currently contradicts the "debt incurrence test" in the Loan Agreement). With respect to 2024 investors, the Railway proposes to temporarily (until publication of 2021 results) to increase the net debt to EBITDA covenant to 4.25 from 3.0 presently, exclude "designated uncontrolled indebtedness" (i.e. the Donetsk Railway liabilities that total \$167.3, including interest) from the calculation, and to permit the incurrence of working capital facilities of up to \$250mln, when in breach (currently a total of \$50mln for all "permitted indebtedness"). Consent payments for 2021 and 2024 holders have been set at 0.25% and 1.0% of par, respectively.

Our view: Given that none of the requests are really unreasonable and consent payments are sufficiently large (especially with regard to 2024 notes), we expect investors to agree to the proposed terms. One question that might create some tension concerns the Donetsk Railway debt, as the fate of these loans is not entirely clear, given that a recent Supreme Court ruling seems to contradict the moratorium installed by Parliament back in 2016.

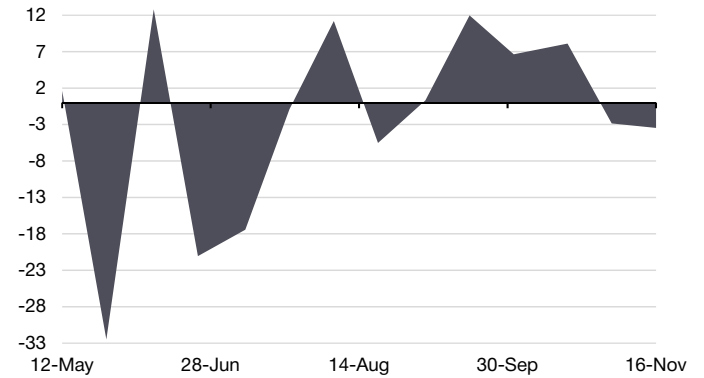
Appendix

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

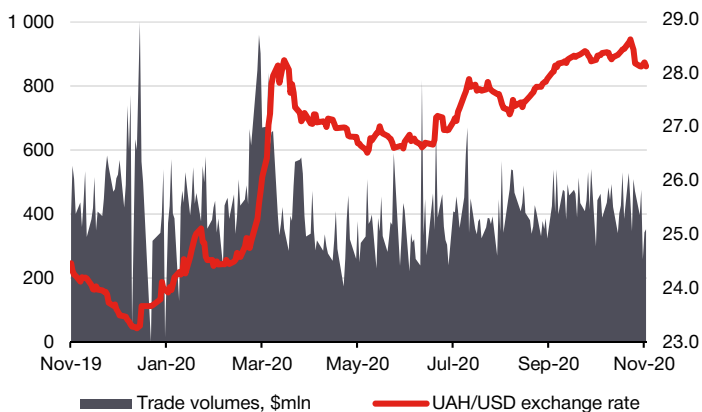


Note: in UAHbln, where each point represents a biweekly sum
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has increased by UAH 3.8bln to UAH 169.8bln over the last week. On November 17 the Ministry of Finance conducted local hryvnia denominated placement maturing in October 2021 and November 2023 with yields of 10.50% and 11.10% respectively and USD denominated placement maturing in February 2022 with yield of 3.77%. A total of UAH 343mln and \$76mln was raised as a result.

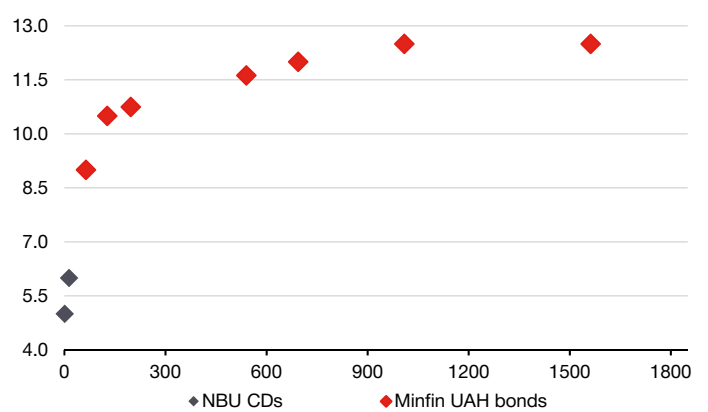
The UAH/USD interbank rate over the last week appreciated by 0.04%, starting out with 28.12 and ending at 28.11.

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

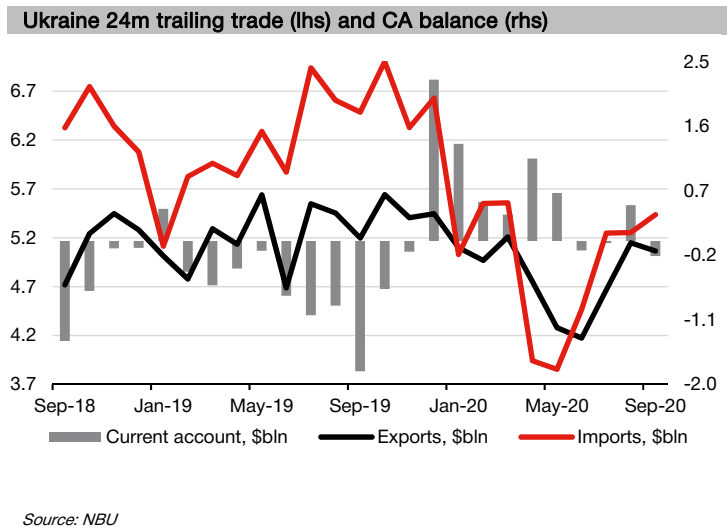
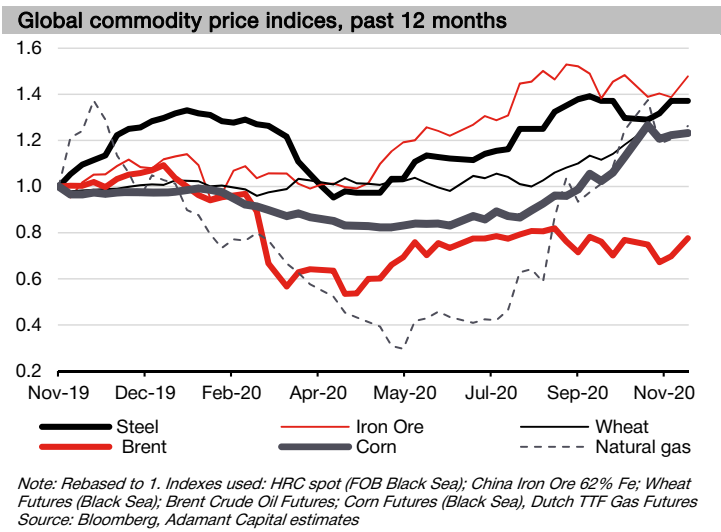
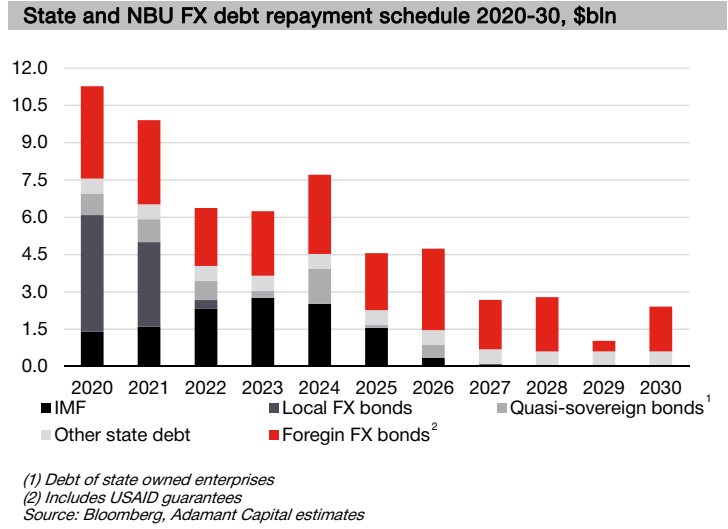
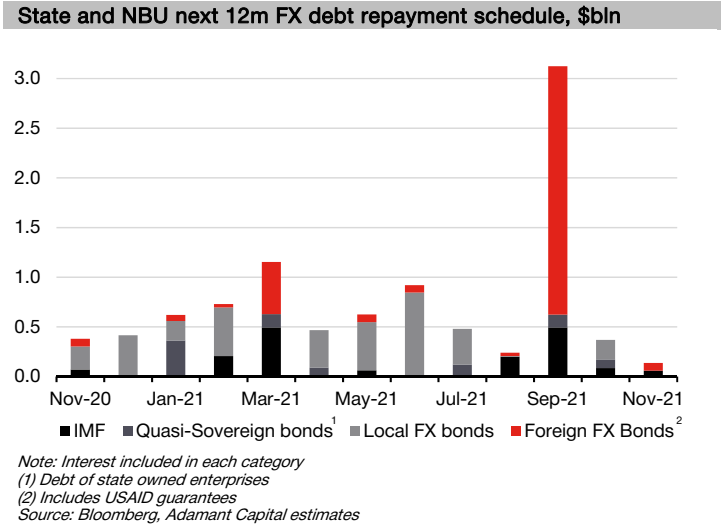
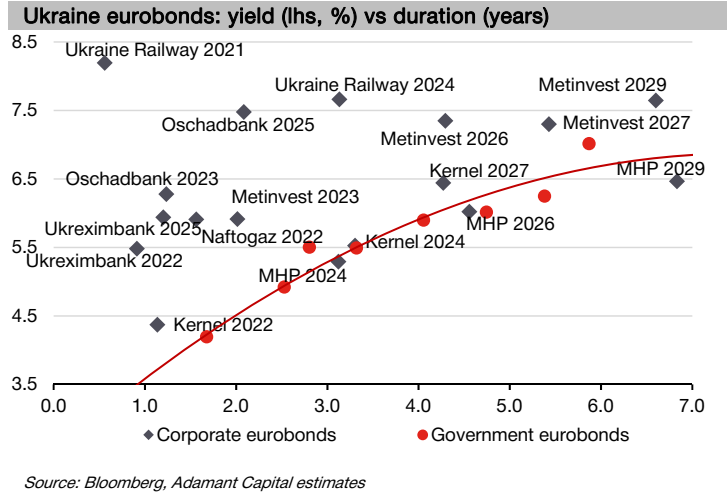
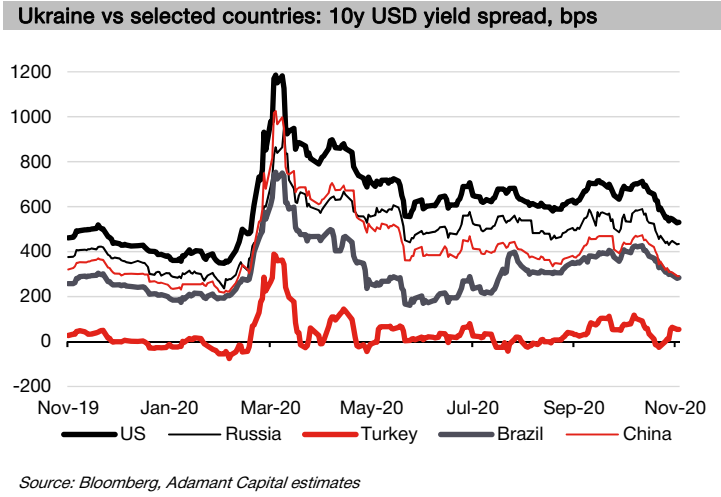


Note: Exchange rate figures are from official interbank data
Source: NBU

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%	-3.5%	-4.5%
Nominal GDP, UAHbln	933	1,112	1,115	3,975	846	868	1,105	3,948
Nominal GDP, \$bln	35	44	46	154	34	32	40	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%	2.7%
End of period CPI YoY, %	9.0%	7.5%	4.1%	4.1%	2.3%	2.4%	2.3%	4.2%
Consolidated budget deficit, % of GDP1	2.5%	2.4%	2.1%	2.1%	2.3%	1.7%	3.4%	3.5%
Broad public sector deficit, % of GDP2	2.7%	2.5%	2.1%	2.2%	2.3%	2.2%	2.0%	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	14.9	60.7
Import of goods and services, \$bln	18.3	20.3	20.0	75.5	16.1	12.3	15.9	62.3
Trade balance, \$bln	-2.8	-4.0	-3.5	-12.1	-0.9	0.9	-1.1	-1.7
Current account, \$bln	-0.5	-2.2	1.8	-1.1	2.3	1.7	0.3	5.0
Financial account, \$bln4	-0.9	-3.8	-2.1	-7.3	2.4	0.4	2.0	3.8
End of period NBU reserves, \$bln	20.6	20.1	25.3	25.3	24.9	28.5	26.5	25.9
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	4.9	107.3	0.4	2.5	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	5.5	110.1	0.5	2.8	750
Ukraine 2027	Hold	-	7.8	Sep-27	6.2	108.2	1.7	5.4	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	7.0	116.5	1.5	5.9	1,600
Ukraine 2032	Hold	-	7.4	Sep-32	6.9	104.1	1.9	7.8	3,000
Avangard in default	Sell	9-Apr-19	10.0	Oct-18	nm	3.5	0.0	nm	214
DTEK 2024 in default	Buy	1-Sep-20	10.8	Dec-24	26.8	65.1	-0.4	2.8	1,344
Kernel 2022	Hold	27-Oct-20	8.8	Jan-22	4.4	105.0	0.6	1.1	213
Kernel 2024	Hold	27-Oct-20	6.5	Oct-24	5.5	103.4	1.4	3.3	300
Kernel 2027	Hold	27-Oct-20	6.8	Oct-27	6.4	101.7	0.9	4.3	300
Metinvest 2023	Hold	27-Oct-20	7.8	Apr-23	5.9	104.1	1.2	2.0	311
Metinvest 2025 (EUR)	Hold	27-Oct-20	5.6	Jun-25	6.3	97.5	1.8	4.0	333
Metinvest 2026	Hold	27-Oct-20	8.5	Apr-26	7.3	105.1	1.7	4.3	648
Metinvest 2027	Hold	27-Oct-20	7.7	Oct-27	7.3	101.9	1.6	5.4	333
Metinvest 2029	Hold	27-Oct-20	7.8	Oct-29	7.6	100.7	2.0	6.6	500
MHP 2024	Hold	27-Oct-20	7.8	May-24	5.3	107.7	1.8	3.1	500
MHP 2026	Hold	27-Oct-20	7.0	Apr-26	6.0	104.2	1.9	4.6	550
MHP 2029	Hold	27-Oct-20	6.3	Sep-29	6.5	98.6	1.9	6.8	350
Naftogaz 2022	Buy	29-Sep-20	7.4	Jul-22	5.9	102.3	0.3	1.6	335
Naftogaz 2024 (EUR)	Buy	29-Sep-20	7.1	Jul-24	7.1	100.0	2.3	3.3	672
Oschadbank 2023	Buy	10-Nov-20	9.4	Mar-23	6.3	103.8	0.3	1.2	175
Oschadbank 2025	Buy	10-Nov-20	9.6	Mar-25	7.5	104.4	0.0	2.1	225
Privatbank in default (10.250)	Not rated	-	10.3	nm	nm	29.1	0.0	nm	160
Privatbank in default (10.875)	Not rated	-	10.9	nm	nm	30.0	0.0	nm	175
Ukraine Railway 2021	Sell	27-Oct-20	9.9	Sep-21	8.2	100.9	0.0	0.6	100
Ukraine Railway 2024	Sell	27-Oct-20	8.3	Jul-24	7.7	101.8	1.6	3.1	595
Ukreximbank 2021 (UAH)	Buy	10-Nov-20	16.5	Mar-21	19.7	99.0	0.0	0.3	150
Ukreximbank 2022	Buy	10-Nov-20	9.6	Apr-22	5.5	103.7	0.5	0.9	188
Ukreximbank 2025	Buy	10-Nov-20	9.8	Jan-25	5.9	104.5	0.0	1.2	600
Ukrlandfarming in default	Sell	13-Jun-17	10.9	nm	nm	4.6	0.0	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
MHP - Financial results for Q3 2020	Exact	18-Nov
SSSU - Agricultural production monthly data	Exact	18-Nov
SSSU - Wholesale and retail turnover monthly data	Exact	20-Nov
SSSU - Transportation monthly data	Exact	20-Nov
SSSU - Industrial production monthly data	Exact	23-Nov

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