

## Weekly Digest

- Online IMF mission to start on Sept 18, PM expects \$750mln tranche to be approved
- The NBU has increased the discount rate by 50bps to 8.5%, in line with own projections
- Consumer inflation in August remained stable at 10.2% YoY
- MHP 2Q21 results: EBITDA soared by 56% YoY to \$134mln

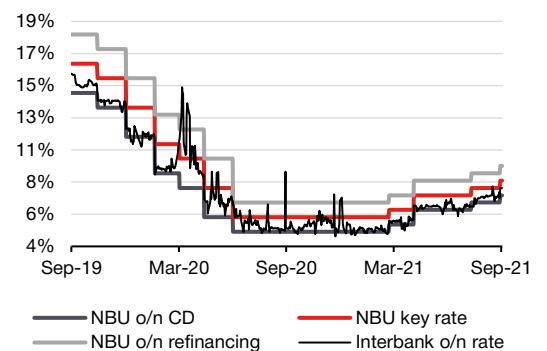
**Online IMF mission to start on September 18, PM expects \$750mln tranche to be approved.** The announcement was made during the Prime Minister's 1.5-hour press-conference on September 14. Additionally, the authorities expect to receive a EUR600mln instalment from the EU in November.

**Our view:** Although the Ukrainian side is claiming that all pre-requisites for the next disbursement have been met, we think that the Fund may find fault with a lack of progress (or regression) in reforms that target SOE corporate governance (Naftogaz is a clear case), anti-corruption (SAPO head selection still not complete), and market-based gas prices for households (annual tariffs may not have been hedged by Naftogaz on the open market). That said, taking into account that Ukraine's has already received a geopolitical blow from the US and Germany's decision on Nord Stream 2, and that Zelensky's team appears to be making progress on the all-important justice system revamp, an agreement may end up being reached after all (this has been our base-case projection so far, albeit one in which we are less and less confident).

**The NBU has increased the discount rate by 50bps to 8.5%, in line with own projections.** Additionally, the regulator has confirmed that COVID-related liquidity support measures (long-term refinancing and interest rate swaps) will be phased out at the beginning of 4Q21. The proximity of actual macroeconomic indicators so far to the NBU's own forecasts (mainly inflation) stands as the main justification for the hike (also incorporated into the outlook).

**Our view:** The rate action did not come as a surprise either for us or the wider market, and makes logical sense from the point of view of the regulator's internal forecast consistency. Although we expect year-end CPI to land somewhat below its 9.6% guidance, this difference is too small (c. 60bps) to anticipate any deviations of monetary policy from the current official baseline outlook (a flat rate until 2Q22). During this week's hryvnia bond auction, the FinMin has increased accepted yields for 1-year maturities by 22bps, which implies that market players expect monetary policy to loosen over this period.

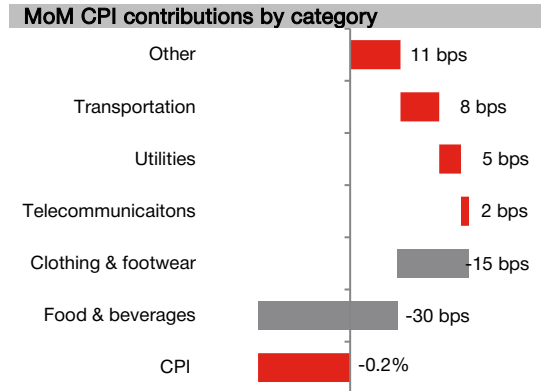
Local interest rate dynamics, past 24 months



Source: NBU

**Consumer inflation in August remained stable at 10.2% YoY.** In MoM terms the figure landed at -0.2%, having been driven down by seasonality in food and clothing (fell by 0.7% and 3.0% MoM, respectively). Core CPI amounted to zero. In its official commentary, the National Bank noted that inflation landed somewhat below its projection trajectory, owing to stable electricity prices and a higher supply of fruit and vegetables.

**Our view:** The CPI came in slightly below our estimates, due to a multitude of small factors. These include a somewhat steeper drop and a larger rise in prices for vegetables and eggs. On the whole, however, we feel no need to revise our projections after reviewing the new data. We still think that inflation should remain in double-digit territory over September and October, propped up partially by the anticipated 30-40% heating and hot water tariff hike, before coming down to roughly 9.0% in December. Taking into account that NBU's press release, we see no reason to expect the discount rate to rise from the current 8.5% level anytime soon.



Source: SSSU, Adamant Capital estimates

**MHP 2Q21 results: EBITDA soared by 56% YoY to \$134mln** (excluding IAS 41 effects, but including IFRS 16). The largest contribution gain occurred in the poultry segment (up by 54%), which stemmed predominantly from a 32% increase in the average selling price. The farming segment outperformed last year's result also owing to a jump in crop prices globally (Black Sea corn surged by a staggering 62%), which compensated for weaker 2020 harvest yields. MHP's operating cash flow grew more than fivefold to \$86mln. Free cash flow turned positive at \$55mln. Net debt to LTM EBITDA (including IAS 41 but ex IFRS 16) contracted by 25% to 2.8, which implies that the 2029 eurobond Limitations on Incurrence of Indebtedness clause (introducers restrictions on extra borrowing and dividend payments) no longer applies. In the outlook section of the update, the company noted that due to a combination of further meat price growth and successful hedging strategies in relation to crops, it expects FY21 EBITDA to hit a record-high level of \$600mln (excluding IFRS 16).

**Our view:** Although aggregate quarterly EBITDA (ex IAS 41 but including IFRS16) landed only moderately above projections, our outlook on MHP's profits over 2H21 has significantly improved. One reason for this is the upbeat management forecast, which is already based on almost 9 months of actual operations. The other – moderating poultry production costs, which we previously expected to grow QoQ in the second quarter and even more from there on. In actuality, 2Q21 costs have contracted by 3%, owing to a somewhat more favourable spread between sunflower seeds and oil (dictates the size of protein expenses). Moreover, as far as we understand, the company expects costs during the remaining 6 months to stay roughly level (for 3Q21 this still implies a c. 25% jump YoY). With regard to crops, weather conditions so far look very promising for Ukraine overall and for MHP in particular. The company's winter wheat and rapeseed yields are up 20-30% compared to 2020, which, combined with present price levels bodes very well for profitability in this segment as well. All in all, our updated annual EBITDA projection now stands at \$540mln (ex IAS 41, but including IFRS 16) and is an \$80mln upgrade from the previous estimate.

Taking into account where MHP's bonds currently trade (a slight premium to the sovereign curve for the 2026 issue), we believe that some upside potential remains present. We confirm our recommendation to 'Buy' them.

MHP 2Q21 IFRS financial results summary, \$mln					
	2Q21	2Q20	YoY	1Q21	QoQ
Revenue	542	425	28%	447	21%
EBITDA	281	129	117%	63	343%
IAS 41 gain/loss	146	43	238%	-21	nm
EBITDA adjusted <sup>1</sup>	134	86	56%	84	59%
Poultry	90	59	54%	31	189%
Grain	27	12	128%	42	-34%
EBITDA adjusted margin	25%	20%	5pps	19%	6pps
FX gain/loss	31	52	-42%	20	54%
Net profit	231	112	107%	1	nm
Net profit margin	43%	26%	16pps	0%	43pps
Net debt <sup>2</sup>	1,291	1,282	1%	1,315	-2%
Net debt/EBITDA <sup>2</sup>	2.8	3.7	-25%	4.3	-34%
Net debt/adjusted EBITDA <sup>2</sup>	3.7	3.4	9%	4.4	-15%
Operating cash flow	86	16	448%	-37	nm
Capex	31	21	48%	22	39%
Free cash flow	55	-5	nm	-59	nm
Poultry production, kt	191	181	5%	167	15%
Poultry sales, kt	182	171	6%	154	18%
Avg poultry price, UAH/kg	46.0	34.2	35%	39.8	16%
Avg poultry price, \$/kg	1.67	1.27	32%	1.43	17%
Avg LTM harvest area, kha	355	356	0%	355	0%
Poultry EBITDA per kg <sup>3</sup> , \$	0.50	0.34	45%	0.20	145%
LTM crop EBITDA/ha <sup>4</sup> , \$	556	410	36%	344	62%

(1) EBITDA net of IAS 41

(2) Excluding IFRS 16 effects

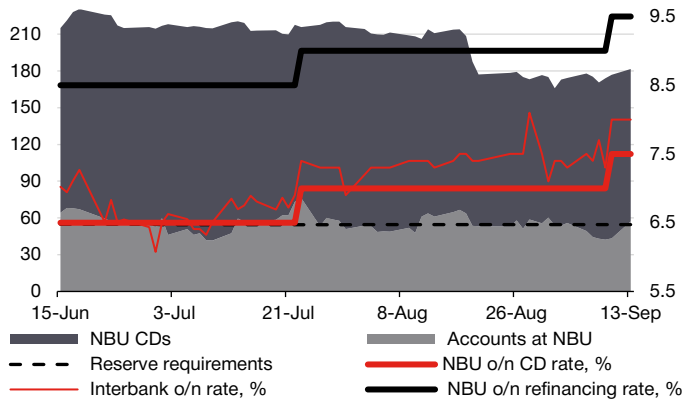
(3) EBITDA per kg of sales to third parties

(4) Crop segment EBITDA excluding IAS 41 per hectare of relevant harvested area

Source: Company data, Adamant Capital estimates

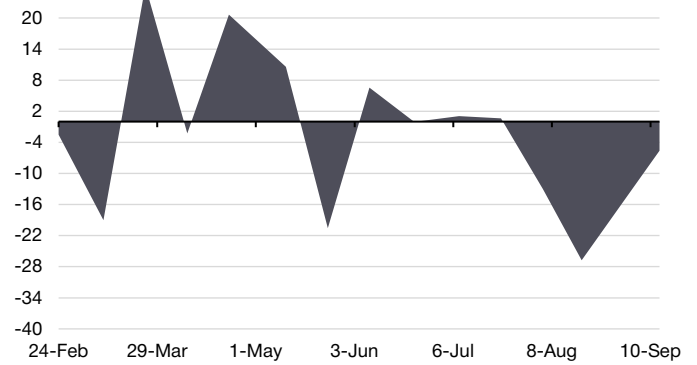
## Appendix

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

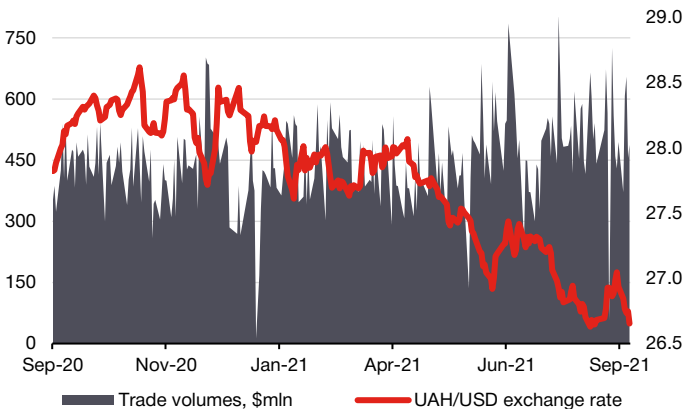


Note: in UAHbln, where each point represents a biweekly sum  
Source: NBU

**Local market liquidity** (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has increased by UAH 2.6bln to UAH 177.0bln over the last week. On September 14 the Ministry of Finance conducted local hryvnia denominated placement maturing in January 2022, August 2022, November 2022, November 2023, July 2024 and May 2026 with yields of 9.50%, 11.37%, 11.49%, 12.09%, 12.30% and 12.59% respectively. A total of UAH 1.2bln was raised as a result.

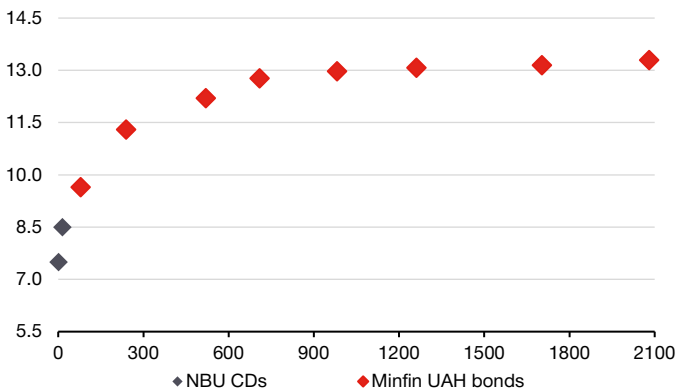
The UAH/USD interbank rate over the last week depreciated by 0.71%, starting out with 26.84 and ending at 26.65.

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



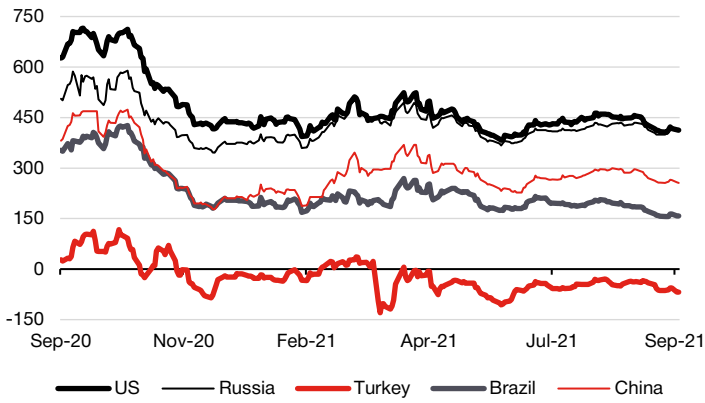
Note: Exchange rate figures are from official interbank data  
Source: NBU

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



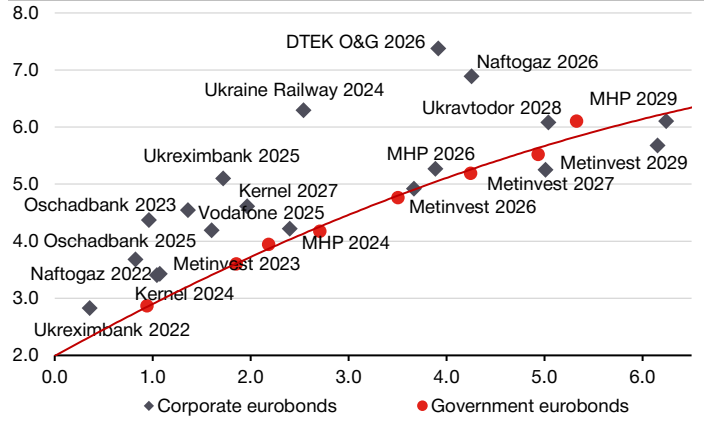
Source: NBU, Bloomberg, Adamant Capital estimates

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



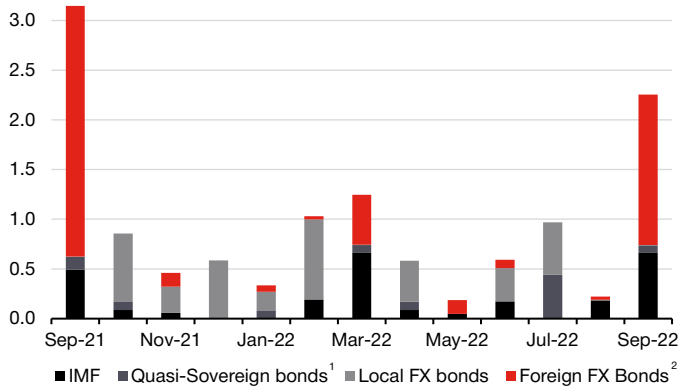
Source: Bloomberg, Adamant Capital estimates

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



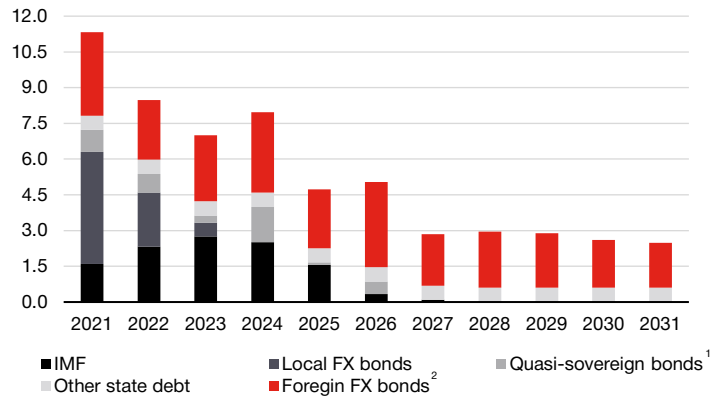
Source: Bloomberg, Adamant Capital estimates

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



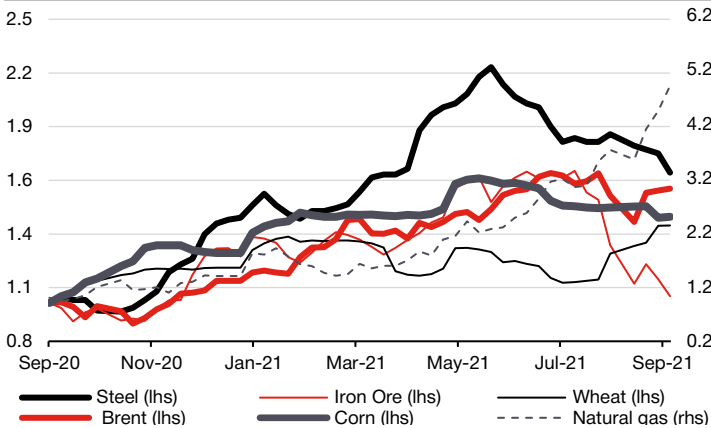
Note: Interest included in each category  
 (1) Debt of state owned enterprises  
 (2) Includes USAID guarantees  
 Source: Bloomberg, Adamant Capital estimates

State and NBU FX debt repayment schedule 2021-31, \$bln



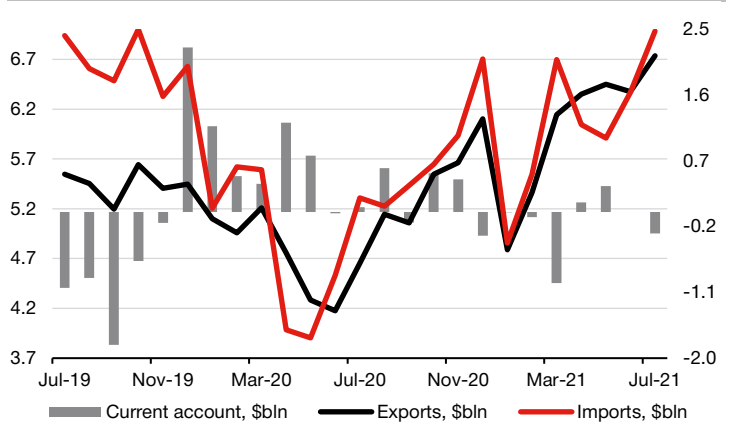
(1) Debt of state owned enterprises  
 (2) Includes USAID guarantees  
 Source: Bloomberg, Adamant Capital estimates

Global commodity price indices, past 12 months



Note: Rebased to 1. Indexes used: HRC spot (FOB Black Sea); China Iron Ore 62% Fe; Wheat Futures (Black Sea); Brent Crude Oil Futures; Corn Futures (Black Sea); Dutch TTF Gas Futures  
 Source: Bloomberg, Adamant Capital estimates

Ukraine 24m trailing trade (lhs) and CA balance (rhs)



Source: NBU

Key macroeconomic indicators								
	2Q20	3Q20	4Q20	2020	1Q21	2Q21E	3Q21E	2021E
Real GDP growth, YoY	-11.2%	-3.5%	-0.5%	-4.0%	-2.2%	5.4%	5.8%	4.0%
Nominal GDP, UAHbln	875	1,162	1,301	4,192	1,009	1,125	1,537	5,319
Nominal GDP, \$bln	33	42	46	155	36	41	57	190
GDP deflator growth YoY, %	5.6%	8.4%	17.5%	9.8%	20.7%	22.0%	25.0%	22.0%
Period average CPI YoY, %	2.1%	2.4%	3.8%	2.7%	7.4%	9.1%	10.1%	9.0%
End of period CPI YoY, %	2.4%	2.3%	5.0%	5.0%	8.5%	9.5%	10.0%	9.0%
Consolidated budget deficit, % of GDP <sup>1</sup>	1.7%	3.3%	5.3%	5.3%	4.9%	5.1%	3.1%	4.0%
Broad public sector deficit, % of GDP <sup>2</sup>	2.3%	4.1%	6.5%	6.5%	6.2%	6.4%	4.6%	4.3%
Public debt as % of LTM GDP, UAH	57.4%	58.6%	60.9%	60.9%	57.8%	54.7%	52.2%	52.2%
Public external debt as % of LTM GDP, \$ <sup>3</sup>	31.6%	33.1%	34.8%	34.8%	33.2%	32.9%	31.4%	30.4%
Total external debt, \$bln	122	122	126	126	123	125	127	130
Export of goods and services, \$bln	13.2	14.9	17.3	60.6	16.3	19.2	22.5	82.6
Import of goods and services, \$bln	12.3	15.9	17.8	62.3	17.1	18.3	20.1	77.5
Trade balance, \$bln	0.9	-1.1	-0.5	-1.7	-0.8	0.9	2.4	5.1
Current account, \$bln	1.7	0.3	1.6	6.6	-1.0	1.4	1.0	3.0
Financial account, \$bln <sup>4</sup>	0.8	2.4	-0.9	4.6	-0.1	0.2	3.5	-0.5
End of period NBU reserves, \$bln	28.5	26.5	29.1	29.1	27.0	28.4	25.9	32.2
Average interbank exchange rate, UAH/\$ <sup>5</sup>	26.9	27.6	28.3	27.0	27.9	27.6	27.2	28.0
EOP interbank exchange rate, UAH/\$	26.7	28.3	28.2	28.2	27.8	27.2	27.2	27.7
EOP key policy rate NBU, %	6.0%	6.0%	6.0%	6.0%	6.5%	7.5%	8.5%	8.5%

(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 2023	Hold	-	7.8	Sep-23	3.6	107.8	0.1	1.9	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	3.9	111.3	0.1	2.2	750
Ukraine 2027	Hold	-	7.8	Sep-27	5.5	111.2	-0.2	4.9	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	6.1	120.8	-0.2	5.3	1,600
Ukraine 2032	Hold	-	7.4	Sep-32	6.5	106.5	-0.6	7.2	3,000
DTEK 2027	Buy	8-Jun-21	5.0	Dec-27	na	61.1	-0.1	na	1,645
Kernel 2022	Hold	27-Jul-21	8.8	Jan-22	1.9	102.5	-0.3	0.4	213
Kernel 2024	Hold	27-Jul-21	6.5	Oct-24	3.4	106.4	0.1	1.0	300
Kernel 2027	Buy	27-Jul-21	6.8	Oct-27	4.6	107.3	0.1	2.0	300
Metinvest 2023	Hold	07-Sep-21	7.8	Apr-23	3.4	106.7	0.0	1.1	195
Metinvest 2025 (EUR)	Hold	07-Sep-21	5.6	Jun-25	3.7	106.7	0.4	3.4	333
Metinvest 2026	Hold	07-Sep-21	8.5	Apr-26	4.9	114.6	0.3	3.7	648
Metinvest 2027	Hold	07-Sep-21	7.7	Oct-27	5.2	112.3	0.1	5.0	333
Metinvest 2029	Hold	07-Sep-21	7.8	Oct-29	5.7	113.3	0.4	6.2	500
MHP 2024	Buy	14-Sep-21	7.8	May-24	4.2	108.8	0.6	2.4	500
MHP 2026	Buy	14-Sep-21	7.0	Apr-26	5.3	106.7	0.7	3.9	550
MHP 2029	Buy	14-Sep-21	6.3	Sep-29	6.1	100.9	0.4	6.2	350
Naftogaz 2022	Buy	11-May-21	7.4	Jul-22	3.7	103.0	0.1	0.8	335
Naftogaz 2024 (EUR)	Buy	11-May-21	7.1	Jul-24	5.5	104.1	-0.1	2.6	672
Naftogaz 2026	Buy	11-May-21	7.6	Nov-26	6.9	103.1	-0.1	4.3	500
Oschadbank 2023	Buy	10-Aug-21	9.4	Mar-23	4.4	104.8	0.1	1.0	140
Oschadbank 2025	Buy	10-Aug-21	9.6	Mar-25	4.2	109.0	0.0	1.6	200
Ukraine Railway 2024	Buy	3-Aug-21	8.3	Jul-24	6.3	105.0	0.3	2.5	595
Ukravtodor 2028	Hold	22-Jun-21	6.3	Jun-28	6.1	100.9	0.1	5.0	700
Ukreximbank 2022	Buy	10-Aug-21	9.6	Apr-22	2.8	102.4	-0.1	0.4	104
Ukreximbank 2025	Buy	10-Aug-21	9.8	Jan-25	5.1	108.0	0.0	1.7	192
Vodafone 2025	Hold	18-May-21	6.2	Feb-25	4.5	103.7	0.0	1.4	451

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
NBU - Gross external country debt 2Q 2021	Exact	17-Sep
SSSU - Agricultural production monthly data	Exact	20-Sep
SSSU - Q2 2021 GDP	Exact	20-Sep
SSSU - Wholesale and retail turnover monthly data	Exact	20-Sep

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