

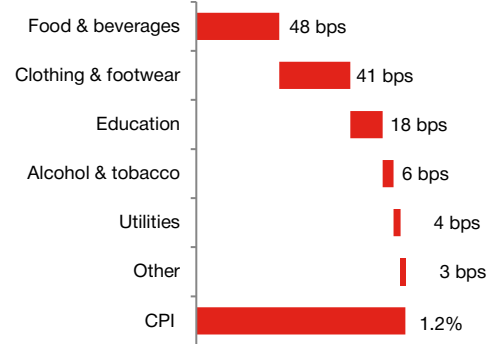
## Weekly Digest

- Consumer inflation in September accelerated to 11.0% YoY
- Ukraine's foreign currency reserves decreased in September by \$2.9bln to \$28.7bln
- Ukrainian Railway's 1H21 EBITDA grew by 40% YoY to \$161mln

**Consumer inflation in September accelerated to 11.0% YoY.** In MoM terms the figure landed at 1.2%, having been driven forward by seasonality in food and clothing (grew by 1.1% and 7.9% MoM, respectively). Core CPI amounted to 1.3%. In its official commentary, the National Bank noted that inflation landed somewhat below its projection trajectory, owing to better data for August and an appreciation in the hryvnia exchange rate.

**Our view:** The CPI came in once again moderately above our estimates, predominantly owing to a quicker food price climb. Differences came through in multiple categories, the largest of which was meat, which jumped by a surprisingly sizeable 1.7% MoM. Fruit and vegetables also demonstrated a more aggressive dynamic than predicted. Taking into account observational data for October, we have decided to bump our end-of-year CPI forecast by 50bps to 9.5%. This change has been implemented despite the fact that the government is currently attempting to clamp down on utility price growth, which was earlier announced by providers (in light of skyrocketing demand for energy globally). Taking into account the NBU's current views on inflation, we see no reason to expect the discount rate to be increased from the current 8.5% level anytime soon.

### MoM CPI contributions by category

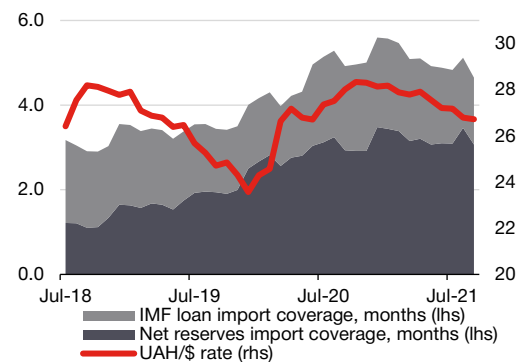


Source: SSSU, Adamant Capital estimates

**Ukraine's foreign currency reserves decreased in September by \$2.9bln to \$28.7bln.** Outflows stemmed primarily from debt servicing and amortizations of \$2.6bln, most of which went towards the 2021 eurobond issue. Inflows were generated by local T-bill placements totaling \$0.2bln, \$0.2bln of revaluation gains, and \$0.1bln worth of FX purchases via interventions. All in all, net reserves coverage decreased MoM by 11.3% to 3.1 months of imports.

**Our view:** The reported figure came in on par with estimates, as eurobond servicing and repayment was the only material event. Although the EU has recently made public its decision to disburse the final EUR600mln tranche of the MFA facility, much remains unclear with regard to Kyiv's progress on negotiations with the IMF. The mission, which virtually visited Ukraine in late September did not make any announcements of its own. Ukraine's authorities remain optimistic (the PM recently commented in mass media that the SBA would be extended by 6 months and funds should be coming by early December), but history has shown such optimism to often be misplaced. While we continue to lean towards a scenario in which the next \$0.7bln IMF installment does come through before 2021 is completed in light of geopolitical events (this is in fact our base-case), Ukraine's issues with corporate governance, anti-corruption, and the domestic gas price market are so conspicuous, that a pause in talks would not surprise us in the least. Our updated end-of-period reserves projection stands at \$33.1bln (also includes a \$0.4bln facility from the WB and a \$2.5bln eurobond placement).

### Reserves import coverage vs UAH/\$ rate



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

**Ukrainian Railway's 1H21 EBITDA grew by 40% YoY to \$161mln.** The bulk of the extra contribution came from the cargo segment (+7%), which was additionally complemented by better performance of auxiliary divisions (combined into the 'other' category). Despite growing by almost 50%, passenger turnover delivered a similar result to 1H20. The Railway's operating cash flow quadrupled YoY to \$203mln, owing, in part, to a sizeable release of working capital (as opposed to an injection last year). Free cash flow landed in the green (up by \$98mln) even though capex increased by 38% to \$181mln. The company's net debt to LTM EBITDA jumped by 35% to 3.1x (our estimate, net of DR debt).

**Our view:** The Railway's EBITDA came in moderately below our forecast predominantly due to no changes to cargo tariffs being implemented during the reporting period. A hike has finally occurred in mid-August (by c. 8% for most categories), which, according to the company, should bring in some \$75mln in extra revenues over 2H21. The passenger segment also performed somewhat below expectations, as revenue per pkm has actually contracted by 15% YoY despite an increase in ticket prices by 12% at the end of May (a less profitable destination mix, i.e. a larger portion of suburban travel is probably to blame). This effect has been partially mitigated, however, by a decline in costs per pkm, which resulted from the significantly larger turnover. Looking ahead towards the remaining portion of the year, we think that financials are going to improve further owing to both higher transportation volumes (a bumper grain harvest combined with a further recovery of post-COVID travel) as well as prices charged by Ukrainian Railways with respect to all of its customers. Our updated FY21 EBITDA projection stands at \$0.5bln. In terms of credit, it looks like the issuer has been able to weather most of the COVID-19 storm, and will now improve leverage metrics going forward. We estimate net debt to EBITDA by December at c. 2.5. According to the auditor's report, its possible exposure to Donetsk Railway's debt (the Supreme Court has recognized Ukrainian Railways as the legal successor to these liabilities, but this decision is being appealed) stands at c. \$110mln and can only materialize after sovereignty over these territories is restored. Legal proceedings over the c. \$0.4bln Prominvestbank facility with VR Capital seem to be heading towards a favorable outcome, as a recent court decision (dated September 17) has put VR Capital's rights to the loan into question. All in all, despite the recent governance reshuffle prompted by the NSDC, we continue to believe the Railway's current yield premium of c. 200bps to the sovereign curve to be excessive and maintain our 'Buy' rating on the name.

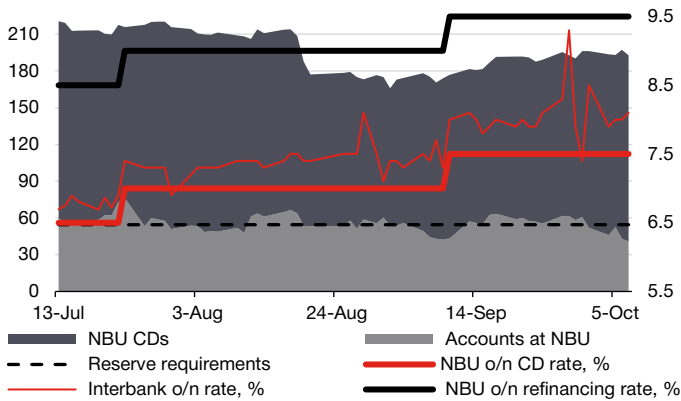
| Ukrainian Railway 1H21 results summary, \$mln |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|
|   | 1H21  | 1H20  | YoY   | 2H20  | HoH   |
| Revenue                                       | 1,334 | 1,367 | -2%   | 1,420 | -6%   |
| EBITDA  | 161   | 115   | 40%   | 282   | -43%  |
| Cargo   | 283   | 264   | 7%    | 351   | -19%  |
| Passenger                                     | -200  | -201  | 0%    | -191  | 5%    |
| Other   | 78    | 52    | 52%   | 122   | -36%  |
| Adj. EBITDA margin                            | 12%   | 8%    | 4pp   | 20%   | -8pp  |
| D&A   | -220  | -253  | -13%  | -222  | -1%   |
| FX gain/loss                                  | 49    | -131  | -138% | -74   | -167% |
| Net profit                                    | -51   | -337  | -85%  | -111  | -54%  |
| Net profit margin                             | -4%   | -25%  | 21pp  | -8%   | -51%  |
| OCF before WC                                 | 150   | 102   | 48%   | 279   | -46%  |
| OCF   | 203   | 56    | 264%  | 320   | -37%  |
| Capex   | 181   | 131   | 38%   | 207   | -13%  |
| Free cash flow                                | 22    | -76   | -129% | 113   | -81%  |
| Cargo segment                                 |       |       |       |       |       |
| Turnover, bn tkm                              | 84.7  | 82.7  | 2%    | 92.9  | -9%   |
| Revenue per tkm,                              | 0.37  | 0.37  | -1%   | 0.37  | -1%   |
| Revenue per tkm, c                            | 1.33  | 1.43  | -7%   | 1.33  | 0%    |
| EBITDA/tkm, c                                 | 0.33  | 0.32  | 5%    | 0.38  | -12%  |
| Passenger segment                             |       |       |       |       |       |
| Turnover, bn pkm                              | 7.3   | 4.9   | 48%   | 5.8   | 26%   |
| Revenue per pkm                               | 0.33  | 0.39  | -15%  | 0.38  | -13%  |
| Revenue, c/pkm                                | 1.20  | 1.50  | -20%  | 1.37  | -13%  |
| EBITDA/pkm, c                                 | -2.75 | -4.08 | -33%  | -3.31 | -17%  |
| Net debt                                      | 1,357 | 1,245 | 9%    | 1,211 | 12%   |
| Net debt/LTM EBITDA                           | 3.07  | 2.28  | 35%   | 3.01  | 2%    |

Note: ¢ stands for US dollar cents

Source: Company data, SSSU, Adamant Capital estimates

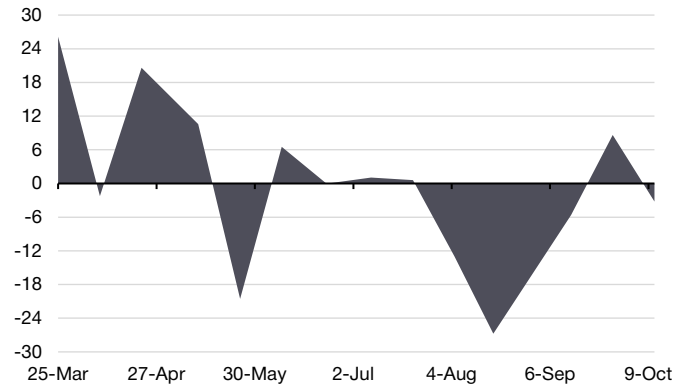
## Appendix

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

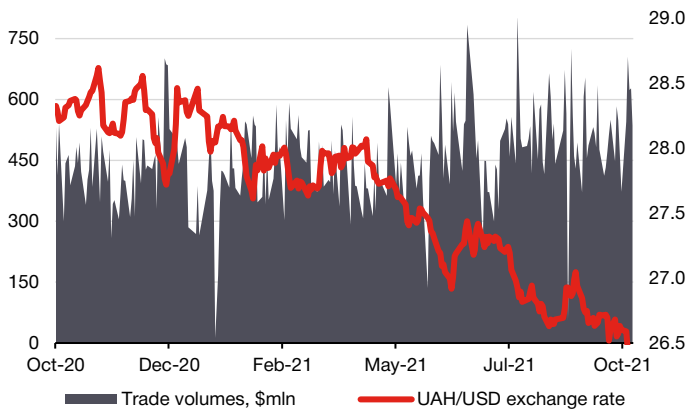


Note: in UAHbln, where each point represents a biweekly sum  
Source: NBU

**Local market liquidity** (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has decreased by UAH 3.21bln to UAH 193.0bln over the last week. On October 12 the Ministry of Finance conducted local hryvnia bond denominated placement maturing August 2022, January 2023, November 2023, July 2024 and May 2026 with yields of 11.50%, 11.57%, 12.40%, 12.49%, and 12.75% respectively. A total of UAH 0.51bln was raised as a result.

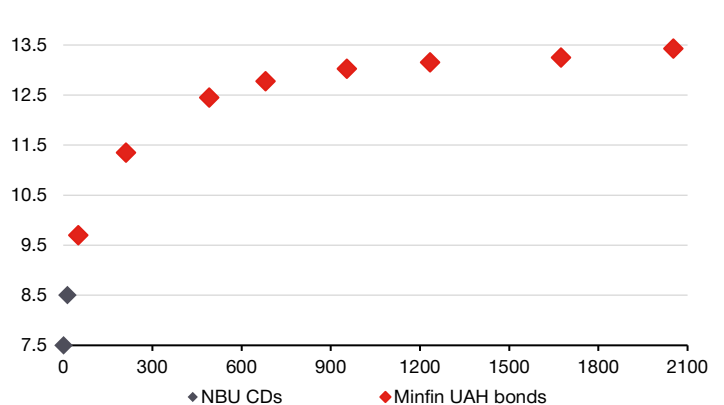
The UAH/USD interbank rate over the last week appreciated by 0.9%, starting out with 26.59 and ending at 26.36.

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



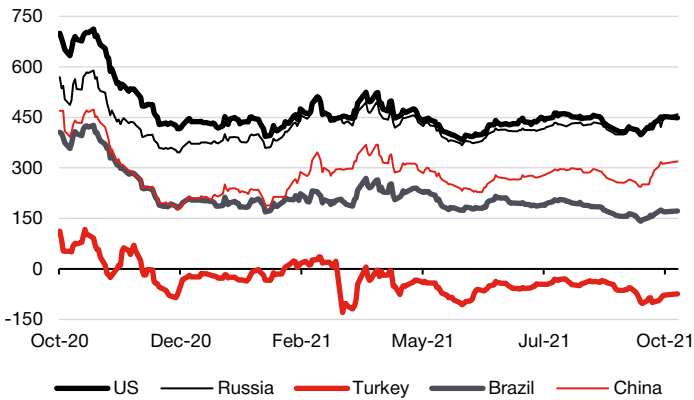
Note: Exchange rate figures are from official interbank data  
Source: NBU

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



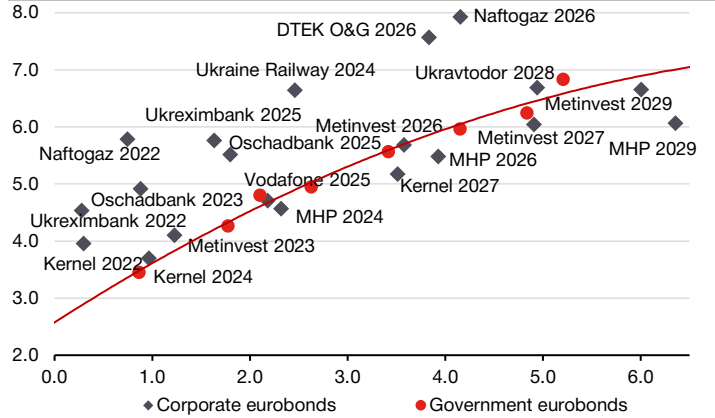
Source: NBU, Bloomberg, Adamant Capital estimates

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



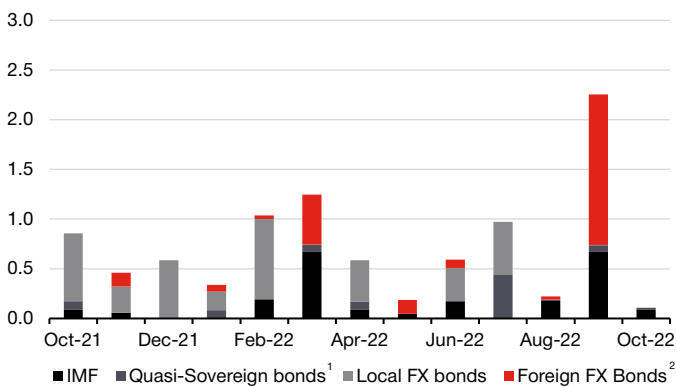
Source: Bloomberg, Adamant Capital estimates

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



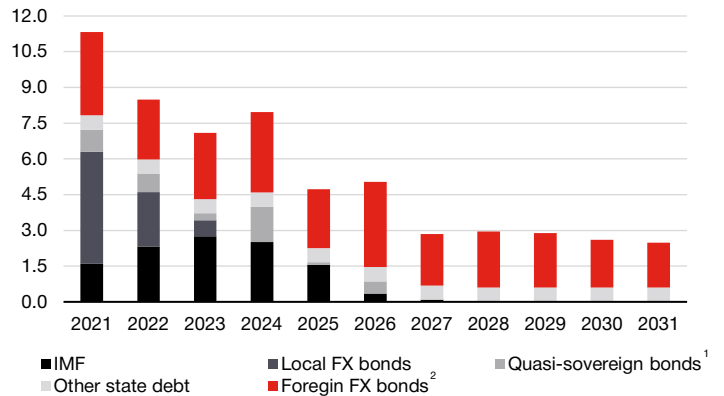
Source: Bloomberg, Adamant Capital estimates

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



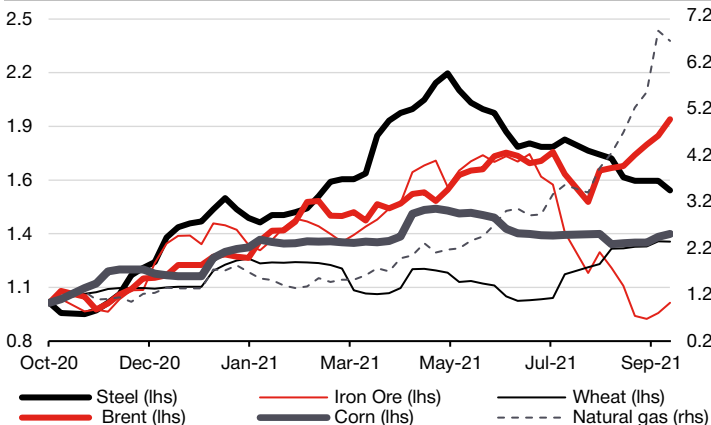
Note: Interest included in each category  
 (1) Debt of state owned enterprises  
 (2) Includes USAID guarantees  
 Source: Bloomberg, Adamant Capital estimates

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



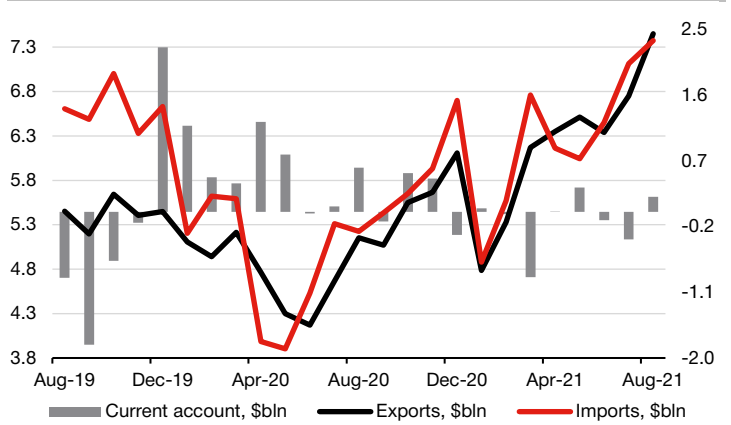
(1) Debt of state owned enterprises  
 (2) Includes USAID guarantees  
 Source: Bloomberg, Adamant Capital estimates

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% | 5.7%  | 2.7%  | 4.0%  |
| Nominal GDP, UAHbln                                   | 875    | 1,162 | 1,301 | 4,192 | 1,009 | 1,169 | 1,522 | 5,454 |
| Nominal GDP, \$bln                                    | 33     | 42    | 46    | 155   | 36    | 42    | 56    | 197   |
| GDP deflator growth YoY, %                            | 5.6%   | 8.4%  | 17.5% | 9.8%  | 20.7% | 26.4% | 27.5% | 25.1% |
| Period average CPI YoY, %                             | 2.1%   | 2.4%  | 3.8%  | 2.7%  | 7.4%  | 9.1%  | 10.5% | 9.5%  |
| End of period CPI YoY, %                              | 2.4%   | 2.3%  | 5.0%  | 5.0%  | 8.5%  | 9.5%  | 11.0% | 9.3%  |
| 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%  | 6.3%  | 4.6%  | 4.3%  |
| Public debt as % of LTM GDP, UAH                      | 57.4%  | 58.6% | 60.9% | 60.9% | 57.8% | 54.2% | 51.9% | 51.1% |
| Public external debt as % of LTM GDP, \$ <sup>3</sup> | 31.6%  | 33.1% | 34.8% | 34.8% | 33.2% | 32.6% | 31.2% | 29.3% |
| 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  | 83.8  |
| Import of goods and services, \$bln                   | 12.3   | 15.9  | 17.8  | 62.3  | 17.1  | 18.3  | 20.1  | 82.5  |
| Trade balance, \$bln                                  | 0.9    | -1.1  | -0.5  | -1.7  | -0.8  | 0.9   | 2.4   | 1.2   |
| Current account, \$bln                                | 1.7    | 0.3   | 1.6   | 6.6   | -1.0  | 1.4   | 1.0   | 0.5   |
| Financial account, \$bln <sup>4</sup>                 | 0.8    | 2.4   | -0.9  | 4.6   | -0.1  | 0.2   | 2.2   | -1.7  |
| End of period NBU reserves, \$bln                     | 28.5   | 26.5  | 29.1  | 29.1  | 27.0  | 28.4  | 28.7  | 33.1  |
| Average interbank exchange rate, UAH/\$ <sup>5</sup>  | 26.9   | 27.6  | 28.3  | 27.0  | 27.9  | 27.6  | 27.2  | 27.7  |
| EOP interbank exchange rate, UAH/\$                   | 26.7   | 28.3  | 28.2  | 28.2  | 27.8  | 27.2  | 27.2  | 27.6  |
| 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   | 4.3       | 106.2     | 0.0      | 1.8      | 1,355      |
| Ukraine 2024  | Hold           | -         | 9.0    | Feb-24   | 4.8       | 109.0     | -0.1     | 2.1      | 750        |
| Ukraine 2027  | Hold           | -         | 7.8    | Sep-27   | 6.2       | 107.3     | 0.2      | 4.9      | 1,307      |
| Ukraine 2028  | Hold           | -         | 9.8    | Nov-28   | 6.8       | 116.1     | 0.3      | 5.2      | 1,600      |
| Ukraine 2032  | Hold           | -         | 7.4    | Sep-32   | 7.2       | 101.3     | 0.7      | 7.3      | 3,000      |
| DTEK 2027   | Buy            | 21-Sep-21 | 5.0    | Dec-27   | na        | 60.6      | 0.1      | na       | 1,645      |
| Kernel 2022   | Hold           | 05-Oct-21 | 8.8    | Jan-22   | 4.0       | 101.4     | 0.3      | 0.3      | 213        |
| Kernel 2024   | Hold           | 05-Oct-21 | 6.5    | Oct-24   | 3.7       | 105.9     | 0.1      | 1.0      | 300        |
| Kernel 2027   | Hold           | 05-Oct-21 | 6.8    | Oct-27   | 5.2       | 105.7     | 0.1      | 3.5      | 300        |
| Metinvest 2023  | Hold           | 05-Oct-21 | 7.8    | Apr-23   | 4.1       | 105.3     | 0.2      | 1.2      | 195        |
| Metinvest 2025 (EUR)                                    | Hold           | 05-Oct-21 | 5.6    | Jun-25   | 4.2       | 104.6     | 0.8      | 3.3      | 333        |
| Metinvest 2026  | Hold           | 05-Oct-21 | 8.5    | Apr-26   | 5.7       | 111.1     | 1.4      | 3.6      | 648        |
| Metinvest 2027  | Hold           | 05-Oct-21 | 7.7    | Oct-27   | 6.0       | 107.9     | 0.7      | 4.9      | 333        |
| Metinvest 2029  | Hold           | 05-Oct-21 | 7.8    | Oct-29   | 6.7       | 106.7     | 0.0      | 6.0      | 500        |
| MHP 2024  | Buy            | 14-Sep-21 | 7.8    | May-24   | 4.6       | 107.6     | -0.1     | 2.3      | 500        |
| MHP 2026  | Buy            | 14-Sep-21 | 7.0    | Apr-26   | 5.5       | 105.7     | -0.1     | 3.9      | 550        |
| MHP 2029  | Buy            | 14-Sep-21 | 6.3    | Sep-29   | 6.1       | 101.1     | 0.1      | 6.4      | 350        |
| Naftogaz 2022   | Buy            | 11-May-21 | 7.4    | Jul-22   | 5.8       | 101.2     | -0.3     | 0.8      | 335        |
| Naftogaz 2024 (EUR)                                     | Buy            | 11-May-21 | 7.1    | Jul-24   | 7.4       | 99.4      | -0.2     | 2.6      | 672        |
| Naftogaz 2026   | Buy            | 11-May-21 | 7.6    | Nov-26   | 7.9       | 98.7      | -0.1     | 4.2      | 500        |
| Oschadbank 2023   | Buy            | 10-Aug-21 | 9.4    | Mar-23   | 4.9       | 103.9     | -0.3     | 0.9      | 140        |
| Oschadbank 2025   | Buy            | 10-Aug-21 | 9.6    | Mar-25   | 5.5       | 107.3     | 0.0      | 1.8      | 200        |
| Ukraine Railway 2024                                    | Buy            | 12-Oct-21 | 8.3    | Jul-24   | 6.6       | 103.9     | 0.0      | 2.5      | 595        |
| Ukravtodor 2028   | Hold           | 22-Jun-21 | 6.3    | Jun-28   | 6.7       | 97.6      | -0.3     | 5.0      | 700        |
| Ukreximbank 2022  | Buy            | 10-Aug-21 | 9.6    | Apr-22   | 4.5       | 101.4     | 0.1      | 0.3      | 104        |
| Ukreximbank 2025  | Buy            | 10-Aug-21 | 9.8    | Jan-25   | 5.8       | 106.5     | 0.0      | 1.7      | 192        |
| Vodafone 2025   | Hold           | 18-May-21 | 6.2    | Feb-25   | 4.7       | 103.2     | -0.4     | 2.2      | 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   |
| SSSU - Agricultural production monthly data | Exact | 19-Oct |

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