

Weekly Digest

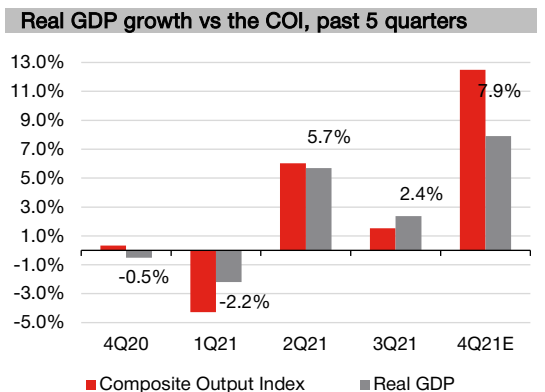
- The IMF has approved the next \$0.7bln tranche and SBA prolongation
- Production sector output in October surged by an estimated 21% YoY
- MHP 3Q21 results: EBITDA increased by 28% YoY to \$157mln
- DTEK Energy 3Q21 EBITDA increased by \$78mln QoQ to \$73mln

The IMF has approved the next \$0.7bln tranche and SBA prolongation until June 2022. According to the Fund's press release, the Board has also given a green light to a 'rephrasing of program disbursements'. Under the agreed policy priorities, the Ukrainian authorities are committed to returning fiscal policies to settings consistent with medium-terms debt sustainability, safeguarding central bank independence, tackling corruption, and reducing the role of the state and vested interests in the economy, among others.

Our view: Given that the SLA has already been reached in October, the Board approval of the review was wildly expected by the market and does not come to us as a surprise. Changes to the disbursement schedule (soon to be published) are also natural, given that the program was initially budgeted only until the end of 2021. As noted previously, we think that the IMF's stance on Ukraine was quite soft, given a lack of progress on anticorruption and a rollback on some already completed reforms (gas market). In absence of a negative sentiment on capital markets (the threat of Russian aggression has recently inflated sovereign yields), we would expect the government to attempt a eurobond placement on the news.

Production sector output in October surged by an estimated 21% YoY. Industrials were up by 1.4% (2.2% with seasonal adjustments) after being down by 0.7% (0.9% with SA) in September. Domestic trade volumes fell by c. 5%, as wholesale once again dragged down the overall indicator. Retail growth also slightly decelerated to 5.7% YoY from 5.9% in the previous month. Agricultural output was the real star of the show, having jumped by an unprecedented 61%. Transportation and construction did not yet report.

Our view: As agriculture is responsible for almost all of the value-added growth this month, performance of other sectors is of interest only from an academic perspective. The jump in crop production in YoY terms matched our projections in spirit (the actual indicator was somewhat larger, but this implies smaller contributions in November and December), and essentially confirms our outlook on GDP rebounding significantly in 4Q21. The only material risk that we see to this outlook is a larger negative impact from the latest COVID-19 lockdown (seems to be targeting stricter social distancing measures than last June) than currently anticipated. That said, new cases are already on the decline (the 7-day moving average is currently at c. 17 thousand, down from over 23 at the beginning of November). Our forecast for 4Q21 and FY21 real GDP growth remains at 7.9% and 3.7%, respectively.



MHP 3Q21 results: EBITDA increased by 28% YoY to \$157m

(excluding IAS 41 effects, but including IFRS 16). The largest contribution gain occurred in the grain segment (up by 84%), which stemmed primarily from higher soft commodity prices on international markets (3Q21 Black Sea wheat and corn indexes were 37% and 90% above last year's levels). The poultry division's EBITDA generation grew by 9% YoY, despite a 32% increase in the average realized price per kilo. MHP's operating cash flow grew by 29% YoY to \$209m. Free cash flow was up by 20% to \$173m. Net debt to LTM EBITDA (including IAS 41 but ex IFRS 16) contracted by 39% to 2.1. The company also noted that its Board of Directors approved a one-off special dividend of \$30m (\$0.28/share) on November 17 in recognition of 'exceptional performance'. During its conference call for investors, management guided for a 2021 EBITDA figure of \$600m (up 77% YoY), including IAS 41, but excluding IFRS 16 effects.

Our view: Aggregate quarterly EBITDA (ex IAS 41 but including IFRS 16) landed somewhat below projections, predominantly owing to a c. 14% jump in estimated poultry production costs. According to management, this movement reflects more expensive feed (primarily protein) as well as the recent jump in natural gas prices. Taking into account that the latter factor is expected to spill over into 4Q21, meat margins may suffer further. We have thus decided to reduce our FY21 EBITDA forecast by \$40m to \$540m. That said, the company's credit metrics still remain strong, in our view. Net debt to EBITDA (including IAS 41, but ex IFRS 16) should contract further in 4Q21 to below 2.0. Moreover, as the energy price shock is likely to be transient, we think that the company should be able to generate c. \$500m in EBITDA in FY22. This seems entirely enough to drive leverage further down even if dividends are raised to their habitual \$80m level and capex amounts to \$200m. Taking into account that MHP's bonds currently trade at a c. 100bps yield discount to the sovereign curve (prices have somewhat reshuffled since the possibility of a Russian invasion has appeared on the horizon), however, we reduce our recommendation on the name to a 'Hold'.

DTEK Energy 3Q21 EBITDA increased by \$78m QoQ to \$73m, according to condensed unaudited results. In YoY terms, the figure contracted by 26%. Revenues were up by 40% QoQ and 14% YoY. Operating cash flow increased by 94% YoY to \$76m, which allowed free cash flow to more than quadruple to \$35m. DTEK's net debt to LTM EBITDA dropped by 16% YoY, but was up by 8% QoQ to 5.2.

Our view: The EBITDA figure for the quarter came in somewhat weaker than anticipated due to higher actual generation costs (these were probably impacted by the larger share of imported coal), and a lower average realized price per MWh (UAH1,689, which is 9% less than the 3-month mean reported by the Market Operator for the DAM as a whole). That said, taking into consideration that the DAM price has surged in November to over UAH3,000/MWh (double YoY), we think that DTEK is likely to more than compensate for this difference in earnings during the final three months of the year. Market conditions have significantly improved for the company following two consecutive price cap hikes by the NERC in July and August (the cap now stands at UAH4,000/MWh during daytime, for which is a 50% increase as compared to June). Our updated estimate of 4Q21 EBITDA is equal to \$330m, which actually allows us to increase our FY21 projection to \$480m (even above the \$389m business plan target). With regard to DTEK's 2027 eurobond, which is currently quoted at a 60% of par, we maintain our recommendation at a 'Buy'. We continue to stick to our view that DTEK has enough market and political power to pressure Ukraine's authorities into formulating a favorable regulatory environment for the company, which should, in turn, allow it to increase profits going forward. We believe that the outlook on 4Q21 serves as a good showcase of how this pressure materializes.

MHP 3Q21 IFRS financial results summary, \$m

	3Q21	3Q20	YoY	2Q21	QoQ
Revenue	658	547	20%	542	22%
EBITDA	208	106	97%	281	-26%
IAS 41 gain/loss	51	-17	nm	146	-65%
EBITDA adjusted ¹	157	123	28%	134	17%
Poultry	82	75	9%	90	-10%
Grain	58	32	84%	27	113%
EBITDA adjusted margin	24%	23%	1pps	25%	-1pps
FX gain/loss	24	-61	nm	31	-21%
Net profit	145	-47	nm	231	-38%
Net profit margin	22%	-9%	31pps	43%	-21pps
Net debt ²	1,164	1,156	1%	1,291	-10%
Net debt/EBITDA ²	2.1	3.3	-37%	2.8	-26%
Net debt/adjusted EBITDA ²	3.1	3.1	0%	3.7	-17%
Operating cash flow	209	162	29%	86	144%
Capex	36	17	106%	31	17%
Free cash flow	173	144	20%	55	216%
Poultry production, kt	194	182	7%	191	2%
Poultry sales, kt	185	195	-5%	182	2%
Avg poultry price, UAH/kg	48.4	37.6	29%	46.0	5%
Avg poultry price, \$/kg	1.79	1.36	32%	1.67	7%
Avg LTM harvest area, kha	355	356	0%	355	0%
Poultry EBITDA per kg ³ , \$	0.44	0.38	15%	0.50	-11%
LTM crop EBITDA/ha ⁴ , \$	661	389	70%	556	19%

(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

DTEK Energy 3Q21 financial results, \$m

	3Q21	3Q20	YoY	2Q21	QoQ
Revenues	462	404	14%	330	40%
EBITDA ¹	73	99	-26%	-5	nm
EBITDA margin	16%	24%	-9pp	-2%	17pp
Net income	-55	-138	-60%	-6	nm
Net income margin	-12%	-34%	22pp	-2%	-10pp
Operating cash flow	76	39	94%	-31	nm
Capex	41	31	33%	36	16%
Free cash flow	35	8	321%	-67	nm
Elec. price ² , UAH/MWh	1,689	1,307	29%	1,435	18%
Elec. price, \$/MWh	62.8	47.3	33%	52.0	21%
Elec. generation, TWh	6.2	5.7	8%	4.2	47%
EBITDA/MWh output, \$	11.8	17.3	-32%	-1.2	nm
Net debt	1,502	2,027	-26%	1,522	-1%
Net debt/LTM EBITDA	5.2	6.2	-16%	4.8	8%

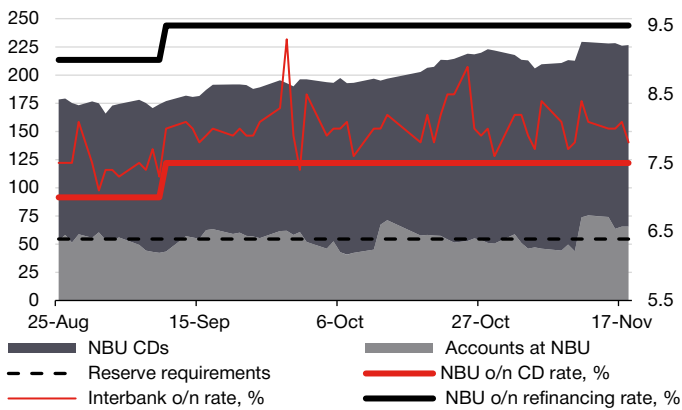
(1) Excludes impairments and other non-cash items that are part of operating profit

(2) The average realized domestic wholesale electricity price reported by DTEK

Source: Company data, Adamant Capital estimates

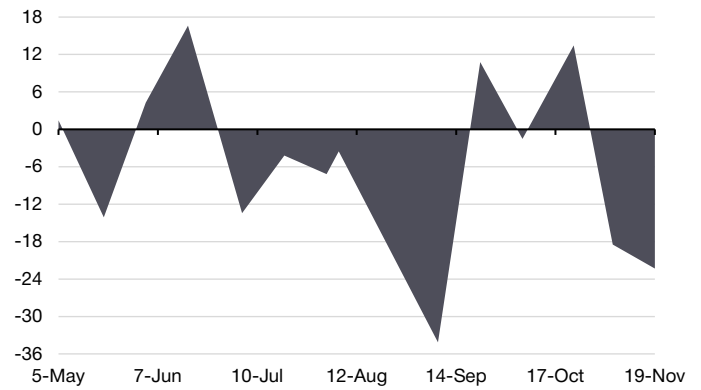
Appendix

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

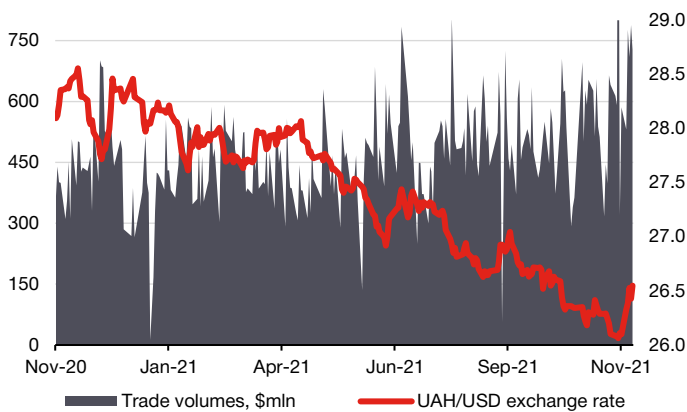


Note: in UAHbln, where each point represents a biweekly sum
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has decreased by UAH 15.63bln to UAH 213.4bln over the last week. On November 23 the Ministry of Finance conducted local hryvnia bond denominated placements maturing in February 2022, June 2022, December 2022, January 2023, November 2023 and October 2024 with yields of 10.00%, 11.55%, 11.64%, 11.57%, 12.47% and 12.85% respectively. In total, an equivalent of UAH 4.43bln was raised as a result.

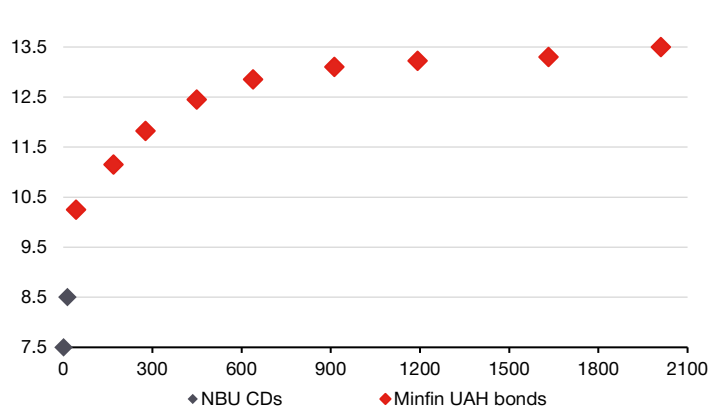
The UAH/USD interbank rate over the last week appreciated by 0.84%, starting out with 26.33 and ending at 26.55.

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



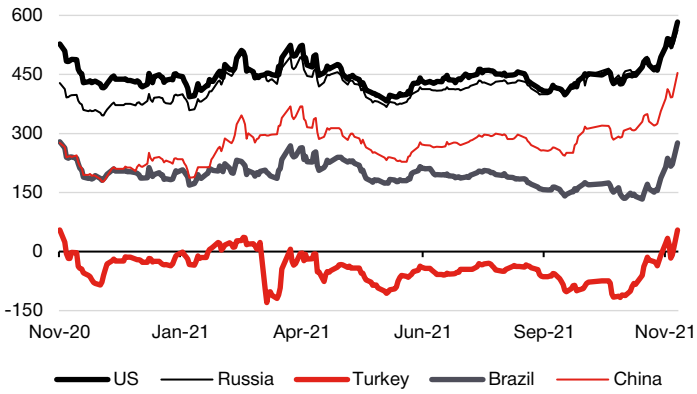
Note: Exchange rate figures are from official interbank data
Source: NBU

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



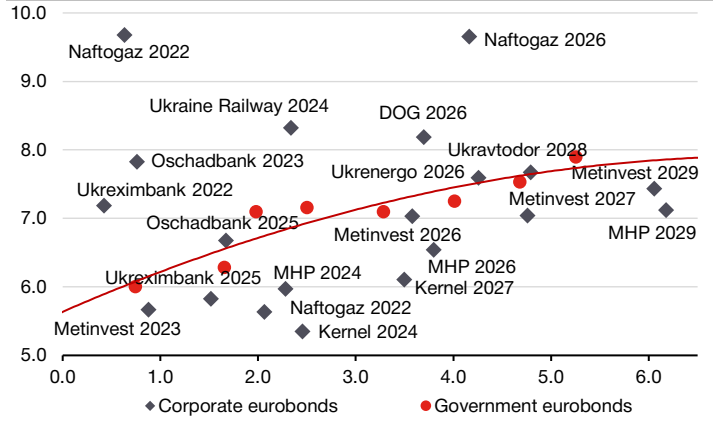
Source: NBU, Bloomberg, Adamant Capital estimates

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



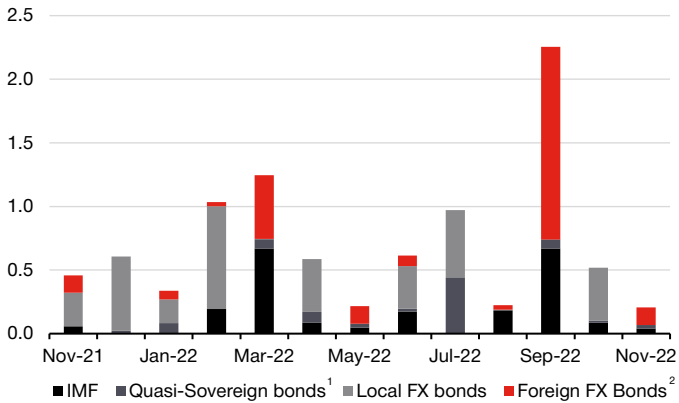
Source: Bloomberg, Adamant Capital estimates

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



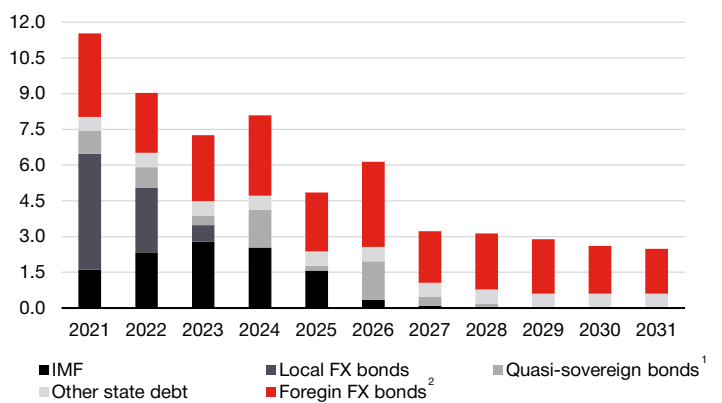
Source: Bloomberg, Adamant Capital estimates

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



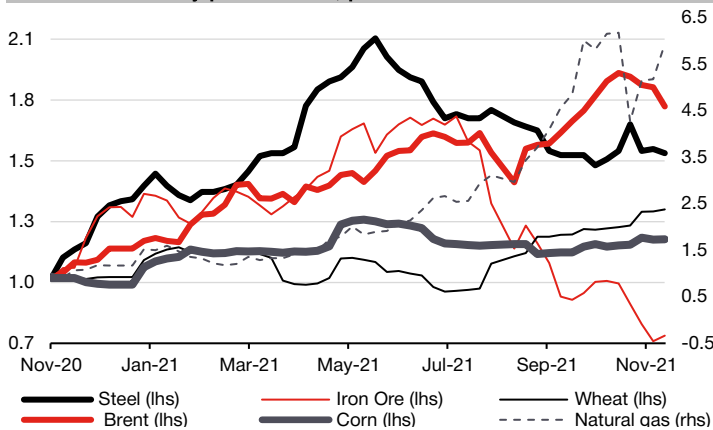
Note: Interest included in each category
 (1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

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



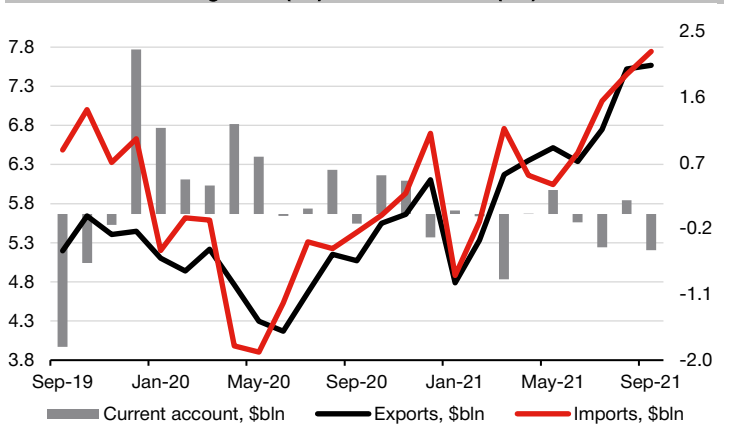
(1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

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	2Q21	3Q21E	2021E
Real GDP growth, YoY	-11.2%	-3.5%	-0.5%	-4.0%	-2.2%	5.7%	2.4%	3.7%
Nominal GDP, UAHbln	875	1,162	1,301	4,192	1,009	1,169	1,510	5,442
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%	25.2%
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 ¹	1.7%	3.3%	5.3%	5.3%	4.9%	5.1%	3.1%	4.0%
Broad public sector deficit, % of GDP ²	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%	52.0%	51.2%
Public external debt as % of LTM GDP, \$ ³	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	21.8	83.8
Import of goods and services, \$bln	12.3	15.9	17.8	62.3	17.1	18.3	22.3	82.5
Trade balance, \$bln	0.9	-1.1	-0.5	-1.7	-0.8	0.9	-0.5	1.2
Current account, \$bln	2.0	0.6	0.7	5.3	-0.9	0.2	-0.8	0.5
Financial account, \$bln ⁴	0.8	2.4	-0.9	4.6	-0.1	0.2	0.4	-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/\$ ⁵	26.9	27.6	28.3	27.0	27.9	27.6	26.9	27.6
EOP interbank exchange rate, UAH/\$	26.7	28.3	28.2	28.2	27.8	27.2	26.6	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 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	6.3	102.4	-1.3	1.7	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	7.1	103.8	-1.5	2.0	750
Ukraine 2027	Hold	-	7.8	Sep-27	7.5	101.0	-2.0	4.7	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	7.9	109.8	-1.8	5.3	1,600
Ukraine 2032	Hold	-	7.4	Sep-32	7.9	96.1	-2.3	7.1	3,000
DTEK Energy 2027	Buy	24-Nov-21	5.0	Dec-27	na	57.7	-1.7	na	1,645
Kernel 2024	Hold	26-Oct-21	6.5	Oct-24	5.3	102.8	-0.8	2.5	300
Kernel 2027	Hold	26-Oct-21	6.8	Oct-27	6.1	102.2	-0.9	3.5	300
Metinvest 2023	Hold	05-Oct-21	7.8	Apr-23	5.7	102.8	-0.6	0.9	195
Metinvest 2025 (EUR)	Hold	05-Oct-21	5.6	Jun-25	5.2	101.5	-1.5	3.2	333
Metinvest 2026	Hold	05-Oct-21	8.5	Apr-26	7.0	105.5	-1.9	3.6	648
Metinvest 2027	Hold	05-Oct-21	7.7	Oct-27	7.0	102.9	-1.9	4.8	333
Metinvest 2029	Hold	05-Oct-21	7.8	Oct-29	7.4	101.9	-1.8	6.1	500
MHP 2024	Hold	24-Nov-21	7.8	May-24	6.0	104.0	-0.8	2.3	500
MHP 2026	Hold	24-Nov-21	7.0	Apr-26	6.5	101.5	-1.2	3.8	550
MHP 2029	Hold	24-Nov-21	6.3	Sep-29	7.1	94.8	-2.0	6.2	350
Naftogaz 2022	Buy	2-Nov-21	7.4	Jul-22	9.7	98.6	-0.7	0.6	335
Naftogaz 2024 (EUR)	Buy	2-Nov-21	7.1	Jul-24	9.9	93.8	-2.4	2.4	672
Naftogaz 2026	Buy	2-Nov-21	7.6	Nov-26	9.7	92.2	-1.8	4.2	500
Oschadbank 2023	Buy	9-Nov-21	9.4	Mar-23	7.8	101.1	-1.5	0.8	140
Oschadbank 2025	Buy	9-Nov-21	9.6	Mar-25	6.7	104.9	0.0	1.7	200
Ukraine Railway 2024	Buy	12-Oct-21	8.3	Jul-24	8.3	99.8	-2.2	2.3	595
Ukravtodor 2028	Hold	22-Jun-21	6.3	Jun-28	7.7	93.4	-0.6	4.8	700
Ukreximbank 2022	Buy	9-Nov-21	9.6	Apr-22	7.2	101.0	-0.3	0.4	104
Ukreximbank 2025	Buy	9-Nov-21	9.8	Jan-25	5.8	106.0	0.0	1.5	192
Vodafone 2025	Hold	16-Nov-21	6.2	Feb-25	5.6	101.2	-0.8	2.1	451
DOG 2026	Buy	19-Oct-21	6.8	Dec-26	8.2	94.1	-1.9	3.7	425

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 - Transportation monthly data	Exact	26-Nov
Treasury - Monthly state budget performance	Indicative	26-Nov
Naftogaz - 3Q21 results	Indicative	26-Nov
Kernel - Q1 2022 Financial Report	Exact	26-Nov
DTEK - Operational results for 9m21	Indicative	30-Nov
NBU - Balance of payments monthly data	Exact	30-Nov
DTEK - Financial results for 9m21	Indicative	30-Nov

Contacts

Adamant Capital

5-B Volodymyrska Street, 2nd floor
01001 Kyiv, Ukraine
+380 44 585 52 37

Portfolio Management

Yuriy Sozinov | urs@adamant-capital.com

Research

Konstantin Fastovets | fks@adamant-capital.com

PR

Inna Zvyagintseva | zin@adamant-capital.com

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