

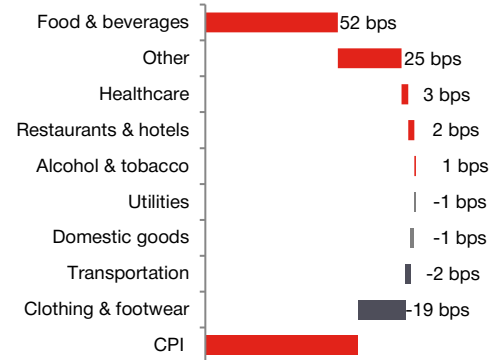
Weekly Digest

- Consumer inflation in December decelerated to 10.0% YoY
- Security update: Blinken to meet Lavrov on Friday in a seemingly last-ditch diplomatic effort
- Metinvest's EBITDA in October contracted further by 39% MoM to \$0.3bn

Consumer inflation in December decelerated to 10.0% YoY. In MoM terms the figure landed at 0.6%, with the largest single contributor, once again, being food, which advanced by a relatively seasonal 0.6%. Core CPI also dropped to 0.4%. In its official commentary the NBU noted that while inflation is starting to demonstrate a declining trajectory, it is doing so more slowly than projected by the regulator.

Our view: The CPI came in just slightly below our estimate (we anticipated it to hit 10.3%) predominantly due to some deviations in the price dynamic of fruits and vegetables. The contribution graph looks somewhat unusual, as a large portion of inflation came through the 'other' category. One reason for this is that utility bills have been artificially fixed for households, but not for businesses. Taking into account that energy prices are yet to recoil significantly from their peaks and the elevated risk of a military standoff with Russia (this is currently causing capital flight and is putting pressure on the hryvnia), we have decided to increase our end-of-year 2022 inflation projection to 7.0% from 6.0% previously. With regard to the NBU's monetary policy actions, we think that the regulator will decide to bump the key rate by at least 50bps to 9.5% during its next decision meeting on January 20. Furthermore, we now think that reductions from this level in 2022 are unlikely.

MoM CPI contributions by category



Source: SSSU, Adamant Capital estimates

Security update: Blinken to meet Lavrov on Friday in a seemingly last-ditch diplomatic effort to defuse the situation at the Ukrainian border. The parties will meet in Geneva after a phone conversation on Tuesday. Meanwhile, Russia has begun moving troops to Belarus for 'joint military drills', which some US State Department officials and Ukrainian authorities have characterized as highly irregular.

Our view: After Moscow's demands for 'security guarantees' (which essentially stipulate a restoration of the Kremlin's sphere of influence to Soviet-era lines) from the US and NATO have, expectedly, hit a dead-end, Ukraine, much like the rest of the world, was left guessing what kind of a 'military-technical response' (Putin's threat verbatim) was going to follow. So far, it looks like Russia has decided to accept another round of talks, despite the fact that a breakthrough in negotiations still seems very unlikely. Such a decision along with hints of escalating in another dimension (suggestions of moving nuclear weapons closer to the US coastline have been floated on the sidelines during previous diplomatic meetings) may imply that invading Ukraine may not be Moscow's ultimate goal. This logic also seems to be supported by the fact that Russia possesses a vastly superior (1-million-strong) military, which, according to most assessments, could overpower its Ukrainian counterpart within days. Prolonged preparations and movements of troops to Belarus in this light seem unwarranted and take on a demonstrative rather than an ominous look.

Metinvest's EBITDA in October contracted further by 39% MoM to \$0.3bln (excluding JVs). The contribution of the metals division went down by 37% to \$137mln. Mining demonstrated a 51% drop to \$117mln. Operating cash flow saw a 40% MoM decline (commensurate with the earnings dynamic) to \$413mln. Free cash flow shrunk by 47% to \$320mln. Metinvest's net debt to EBITDA remained practically flat at 0.1.

Our view: Total EBITDA for the month landed broadly in line with estimates, which allows us to confirm our full-year outlook for this indicator at \$6.0bln. That said, surprises did, as usual, occur in both steel and mining divisions. The former saw a notable MoM increase in the average realized price, suggesting a product and/or distribution channel mix change. Estimated costs jumped MoM even more significantly. Iron ore, on the other hand, saw a sharper selling price contraction than anticipated (-32% as compared to September). This was partially offset, however, by larger volumes. Looking ahead towards 2022, we think that current market conditions imply a reduction in Metinvest's 12-month EBITDA (excluding JVs) of c. 50% YoY to \$3.0bln. While lower, such an earnings level is still more than sufficient to allow the company to maintain excellent credit metrics, even if dividends and capex are sizeable, especially in light of likely lighter working capital needs.

In terms of Metinvest's investment case, the recent price moves of sovereign debt (caused primarily by rising investor fears of a possible war with Russia) make it difficult to recommend the company, even though its eurobonds lost c. 10% of their market value since the beginning of the year (the yield spread to the government debt curve has significantly increased despite this). Our rating remains a 'Hold'.

Metinvest's financial results for October, \$mln

	Oct	Sep	MoM	10M21	YoY
Revenues	1,370	1,637	-16%	14,932	76%
EBITDA	313	516	-39%	5,447	304%
margin	23%	32%	-9pp	36%	21pp
Metals EBITDA	137	218	-37%	2,614	294%
Mining EBITDA	117	237	-51%	3,215	301%
Metal sales, \$mln	1,101	1,330	-17%	10,734	83%
Metal sales, kt	1,213	1,415	-14%	12,978	1%
Steel price ¹ , \$/t	923	842	10%	827	81%
Iron ore price ² , \$/t	84	124	-32%	168	80%
OCF	413	692	-40%	4,935	278%
Capex	93	91	2%	1,091	64%
Free cash flow	320	601	-47%	3,844	502%
Total debt	2,237	2,245	0%	2,237	-24%
Net debt	680	239	185%	680	-69%
Net debt/LTM EBITDA	0.1	0.0	nm	0.1	-93%

(1) Excluding JVs

(2) Excluding resales

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

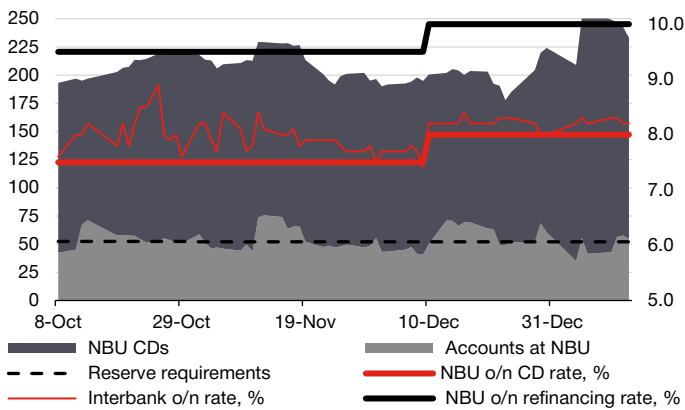
(4) Estimated, including internal sales and pellets in ore equivalent

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

Source: Company data, Adamant Capital estimates

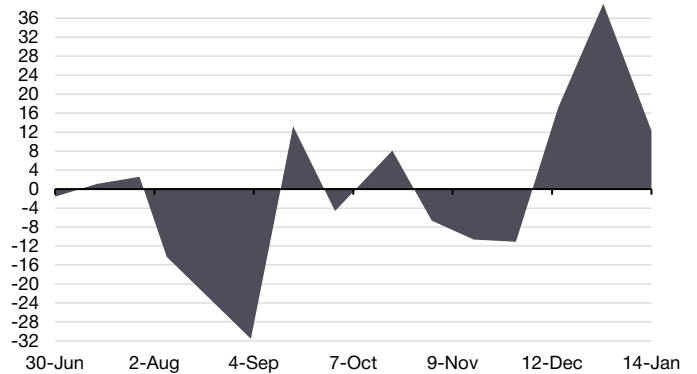
Appendix

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

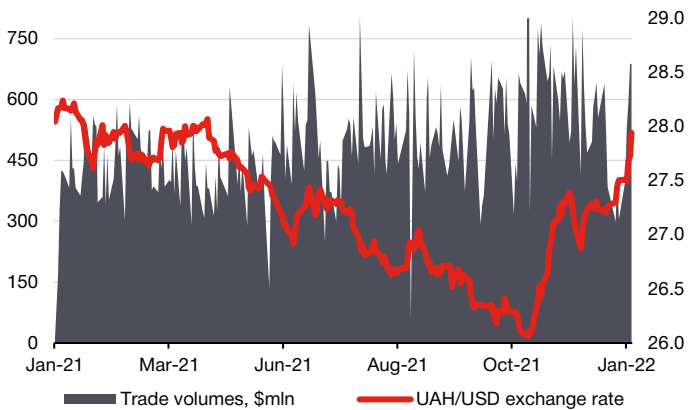


Note: in UAHbln, where each point represents a biweekly sum
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has decreased by UAH 23.5bln to UAH 225.4bln over the last week. On January 22 the Ministry of Finance conducted local hryvnia bond denominated placements maturing in June 2022, January 2023, February 2024 and May 2027 with yields of 10.99%, 11.90%, 12.95% and 13.25% respectively. Dollar denominated bonds maturing in June 2022 and December 2022 with yields of 3.50% and 3.70% respectively. In total, an equivalent of UAH 4.15bln was raised as a result.

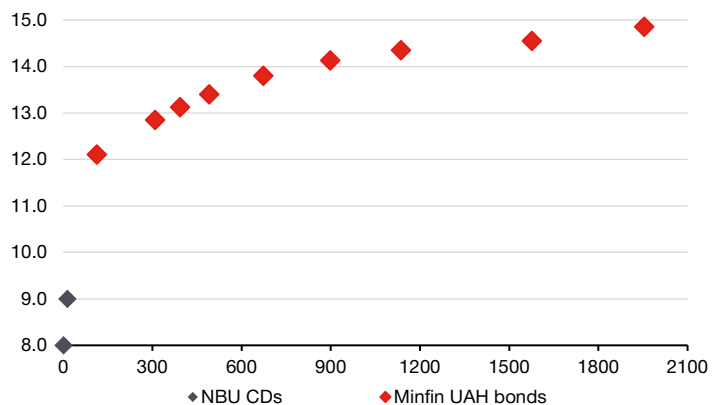
The UAH/USD interbank rate over the last week appreciated by 1.57%, starting out with 27.51 and ending at 27.94.

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



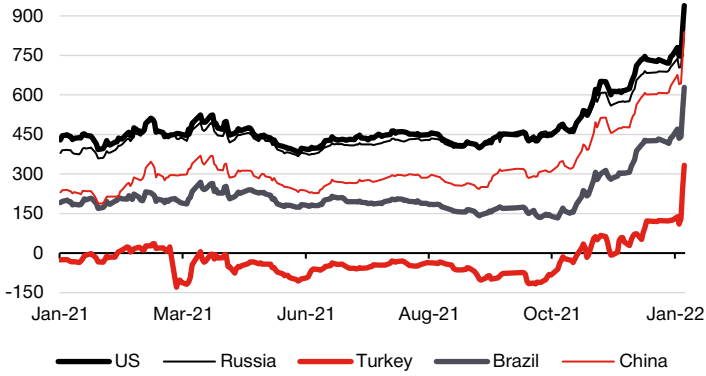
Note: Exchange rate figures are from official interbank data
Source: NBU

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



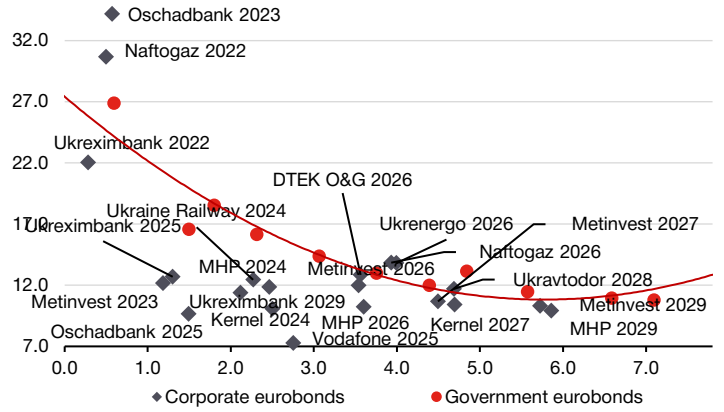
Source: NBU, Bloomberg, Adamant Capital estimates

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



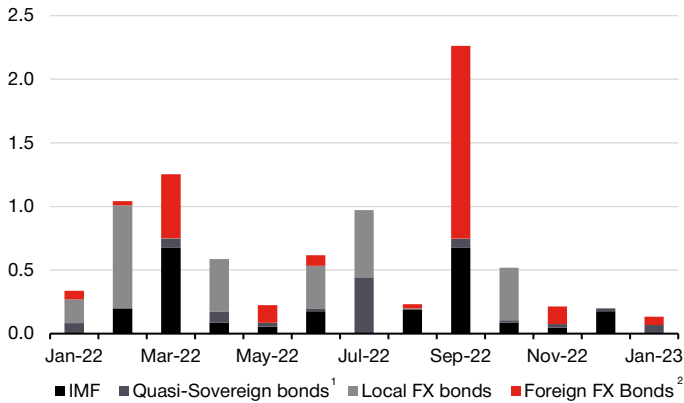
Source: Bloomberg, Adamant Capital estimates

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



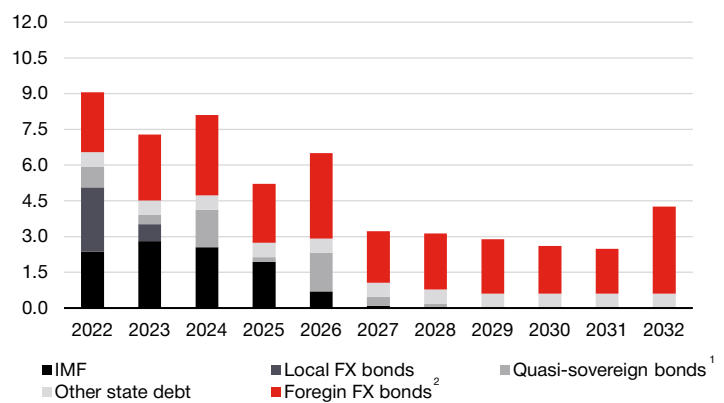
Source: Bloomberg, Adamant Capital estimates

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



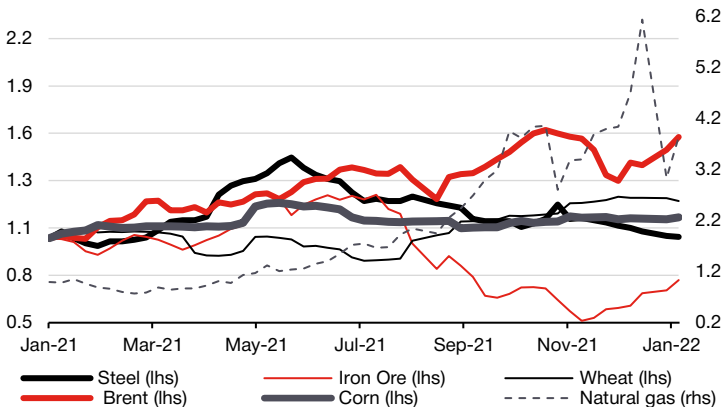
Note: Interest included in each category
 (1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

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



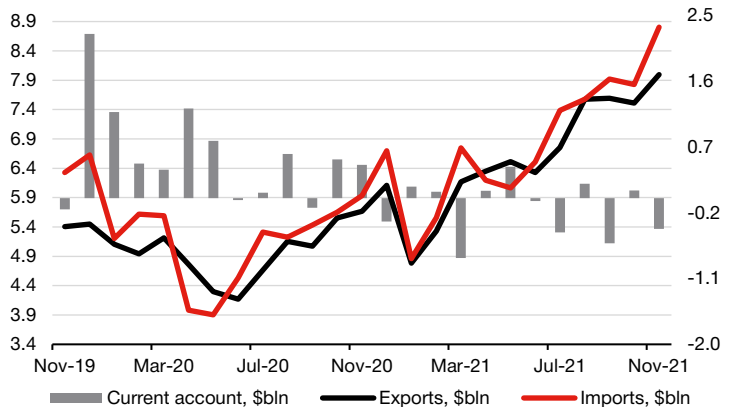
(1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates

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								
	4Q20	2020	1Q21	2Q21	3Q21	4Q21E	2021E	2022E
Real GDP growth, YoY	-0.5%	-4.0%	-2.2%	5.7%	2.4%	7.9%	3.7%	3.0%
Nominal GDP, UAHbln	1,301	4,192	1,009	1,169	1,494	1,797	5,469	6,478
Nominal GDP, \$bln	46	155	36	42	56	68	201	227
GDP deflator growth YoY, %	17.5%	9.8%	20.7%	26.4%	25.5%	28.0%	25.8%	15%
Period average CPI YoY, %	3.8%	2.7%	7.4%	9.1%	10.5%	10.1%	9.4%	7.7%
End of period CPI YoY, %	5.0%	5.0%	8.5%	9.5%	11.0%	10.3%	10.3%	7.0%
Consolidated budget deficit, % of GDP ¹	5.3%	5.3%	4.9%	5.1%	3.1%	4.0%	4.0%	3.0%
Broad public sector deficit, % of GDP ²	6.5%	6.5%	6.2%	6.3%	4.6%	4.3%	4.3%	3.5%
Public debt as % of LTM GDP, UAH	60.9%	60.9%	57.8%	54.2%	49.2%	51.0%	51.0%	54.5%
Public external debt as % of LTM GDP, \$ ³	34.8%	34.8%	33.2%	32.6%	29.5%	28.7%	28.7%	27.2%
Total external debt, \$bln	126	126	123	125	125	127	127	134
Export of goods and services, \$bln	17.3	60.6	16.3	19.2	21.8	23.0	80.3	85.0
Import of goods and services, \$bln	17.8	62.3	17.1	18.3	22.3	25.4	83.1	89.5
Trade balance, \$bln	-0.5	-1.7	-0.8	0.9	-0.5	-2.4	-2.8	-4.5
Current account, \$bln	0.7	5.3	-0.9	0.2	-0.8	-1.4	-2.8	-4.0
Financial account, \$bln ⁴	-0.9	4.6	-0.1	0.2	-2.0	-2.1	-5.1	-8.5
End of period NBU reserves, \$bln	29.1	29.1	27.0	28.4	28.7	30.5	30.5	35.0
Average interbank exchange rate, UAH/\$ ⁵	28.3	27.0	27.9	27.6	26.9	26.5	27.2	28.6
EOP interbank exchange rate, UAH/\$	28.2	28.2	27.8	27.2	26.6	27.5	27.5	28.9
EOP key policy rate NBU, %	6.0%	6.0%	6.5%	7.5%	8.5%	9.0%	9.0%	9.5%

(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	16.6	87.9	-8.2	1.5	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	18.5	84.5	-12.5	1.8	750
Ukraine 2027	Hold	-	7.8	Sep-27	12.0	83.1	-10.3	4.4	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	13.1	85.1	-13.9	4.8	1,600
Ukraine 2032	Hold	-	7.4	Sep-32	10.9	77.9	-10.1	6.6	3,000
DTEK Energy 2027	Buy	24-Nov-21	5.0	Dec-27	25.5	45.5	-7.0	4.0	1,645
Kernel 2024	Hold	30-Nov-21	6.5	Oct-24	10.1	91.6	-7.9	2.5	300
Kernel 2027	Hold	30-Nov-21	6.8	Oct-27	10.4	84.4	-11.4	4.7	300
Metinvest 2023	Hold	05-Oct-21	7.8	Apr-23	12.2	95.0	-5.3	1.2	195
Metinvest 2025 (EUR)	Hold	05-Oct-21	5.6	Jun-25	9.9	88.0	-9.6	3.1	333
Metinvest 2026	Hold	05-Oct-21	8.5	Apr-26	12.0	88.6	-13.1	3.5	648
Metinvest 2027	Hold	05-Oct-21	7.7	Oct-27	10.7	87.3	-10.1	4.5	333
Metinvest 2029	Hold	05-Oct-21	7.8	Oct-29	10.3	86.6	-10.3	5.7	500
MHP 2024	Hold	24-Nov-21	7.8	May-24	11.4	92.8	-7.1	2.1	500
MHP 2026	Hold	24-Nov-21	7.0	Apr-26	10.2	89.0	-7.8	3.6	550
MHP 2029	Hold	24-Nov-21	6.3	Sep-29	9.9	80.6	-10.3	5.9	350
Naftogaz 2022	Buy	14-Dec-21	7.4	Jul-22	30.7	90.0	-6.6	0.5	335
Naftogaz 2024 (EUR)	Buy	14-Dec-21	7.1	Jul-24	19.2	77.6	-9.7	2.3	672
Naftogaz 2026	Buy	14-Dec-21	7.6	Nov-26	13.8	78.7	-5.5	3.9	500
Oschadbank 2023	Buy	9-Nov-21	9.4	Mar-23	34.2	87.2	-11.8	0.6	140
Oschadbank 2025	Buy	9-Nov-21	9.6	Mar-25	9.7	99.9	0.0	1.5	200
Ukraine Railway 2024	Buy	12-Oct-21	8.3	Jul-24	12.4	91.3	-4.9	2.3	595
Ukravtodor 2028	Hold	22-Jun-21	6.3	Jun-28	11.7	77.9	-5.8	4.7	700
Ukreximbank 2022	Buy	9-Nov-21	9.6	Apr-22	22.0	96.7	-2.9	0.3	104
Ukreximbank 2025	Buy	9-Nov-21	9.8	Jan-25	12.7	96.2	0.0	1.3	192
Ukreximbank 2029	Buy	9-Nov-21	9.9	Dec-29	11.9	90.0	-9.4	2.5	100
Vodafone 2025	Hold	16-Nov-21	6.2	Feb-25	7.3	97.1	-3.0	2.8	451
DTEK O&G 2026	Buy	19-Oct-21	6.8	Dec-26	12.8	78.2	-12.4	3.6	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
NBU - Decision on the key policy rate	Exact	20-Jan
Kernel - Operational results for Q2 2022	Exact	21-Jan

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