

Weekly Digest

- Security update: tone of US-Russia talks turns accusatory, Putin to head to Beijing on Friday
- Production sector output in December declined by 0.7% YoY
- MHP 4Q21 operating results: meat prices still strong, but growth slowing down

Security update: tone of US-Russia talks turns accusatory, Putin to head to Beijing on Friday. On Monday, January 31, the United States and Russia engaged in a heated exchange at the UN Security Council over Ukraine, which some journalists characterized as ‘echoing the Cold War era’. In her opening remarks to a televised meeting the US ambassador identified the Kremlin’s actions as ‘dangerous’ and a ‘a clear and consequential threat to peace and security’ in the region, a view which was dismissed by her counterpart as ‘baseless and hysterical fearmongering’. On Tuesday, the US Secretary of State Blinken held a follow-up telephone call with Russia’s Foreign Minister Lavrov asking to pull back troops and heavy weaponry if Moscow, as it says, is not intending to go to war. Lavrov repeated the Kremlin’s earlier position that an escalation was in fact not occurring and that Russia was merely moving its military units within its own borders. In the meantime, according to Moscow’s media reports, Putin is still planning to visit the Winter Olympic opening ceremony in Beijing on Friday. Zelensky’s press secretary stated that the Ukrainian president does not plan to attend the event.

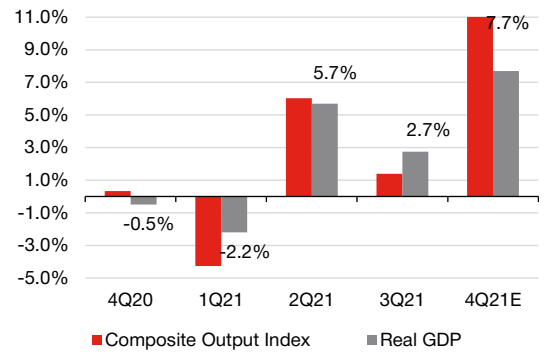
Our view: The US seems to be following through with a much firmer diplomatic stance towards Russia, while the latter continues to relay the same narrative of ‘no aggression’. All eyes are currently on Putin, who is keeping his lips sealed on the issue, in what appears to be, a stalling maneuver. The consensus on the market seems to be that no military escalation will take place before Moscow’s leader meets with his counterpart in Beijing, as the two countries share the US as their main rival and will need to coordinate. This view makes sense to us as well. Moreover, it seems logical that Putin will probably be at least asked by Xi to wait until the games are over (February 20), as the event, no doubt, is a point of national pride for China. The yield spread of Ukrainian 10-year bonds to US T-bills with the same maturity has dropped over the past week by c. 125bps to 876bps, suggesting an improvement in investor sentiment.

Production sector output in December declined by 0.7% YoY.

Industrials dropped by 1.0% (1.4% with seasonal adjustments) after being down by 0.2% (up 0.4% with SA) in November. Domestic trade volumes fell by an estimated 1.6%, as wholesale once again dragged down the overall indicator (-5.0% YoY). Retail growth also slightly decelerated to 5.1% YoY from 5.8% in the previous month. Agricultural output plummeted by 31.8%, reflecting the relative difference in December corn harvest tonnage. Transportation posted a 23% increase in passenger volumes along with a 3% drop in cargo turnover. Construction surged by 21.5%, mostly on the back of non-residential property works.

Our view: The overall output figure landed in line with expectations despite a significantly weaker contribution from agriculture. The latter occurred due to a quicker pace of corn harvesting versus 2020, which pushed the extra volumes (up by over 30% in total) towards November instead of December. This underperformance was, to our surprise, counterbalanced by exceptionally strong construction figures. Taking into account that the bulk of the additional production came from non-residential properties, this effect was probably created by outsized central budget expenditures (a record UAH80bln was directed in December towards capex, according to State Treasury data). Other sectors performed generally in line with estimates. All in all, the data allows us to confirm our outlook on the 4Q21 and FY21 GDP dynamic at +7.9% and +3.7%, respectively. Whether or not this assessment is correct will become apparent already this Friday (February 4), when the SSSU will publish its preliminary findings.

Looking ahead towards 2022, we continue to believe that the economy is more likely to grow slower rather than faster as compared to 2021. One reason for this is that the agricultural sector is unlikely to repeat its record grain and oilseed harvest of c. 108mlnt (up 29% YoY). Another – is the slowdown in retail, where a low base effect is no longer present. Transportation, and possibly food processing, seem, in our view, to be the only visible drivers of growth so far. Our projection for next year's real GDP dynamic remains at +3.0%.

Real GDP growth vs the COI, past 5 quarters

Note: The Composite Output Index represents the weighted average growth of industrial production, retail sales, wholesale sales, transportation, and agricultural output
Source: SSSU, Adamant Capital estimates

MHP 4Q21 operating results: meat prices still strong, but growth slowing down. According to the company's press release published on January 27, the average selling price of chicken (for Ukrainian facilities) during the final quarter of the year amounted to \$1.72/kg, which is a 28% increase YoY and a 4% decline QoQ. The domestic market demonstrated a 31% YoY (-4% QoQ) jump in hryvnia terms. Output volumes gained 7%, while sales slightly lagged behind with a 3% increase, reflecting, once again, a drop in supply to local consumers. Exports surged by 11% in absolute terms to stand at 54% of total turnover by volume. The European segment (Perutnina Ptuj) demonstrated a 14% YoY bump to production volumes and a 9% uptick in euro-denominated prices. MHP also reported its final harvest data for corn and sunflower: net yields stand at 10.0 and 3.2 t/ha, respectively (up c. 78% and 14% YoY).

Our view: Meat price growth at Ukrainian facilities in 4Q21 turned out to be somewhat softer than anticipated. Taking into account that costs per kilo are likely to increase QoQ on the back of higher natural gas expenses, we think EBITDA/kg will contract to c. \$0.31 from \$0.43 in 3Q21. This implies a lower contribution to earnings from the segment than predicted by c. \$20mln. Together with other relatively minor tweaks, we have decided to downgrade our FY21 EBITDA estimate (excluding IAS 41, but including IFRS 16) by \$30mln to \$510mln (the result for 4Q21 alone stands at \$135mln). Furthermore, our EBITDA outlook for FY22 also experienced a moderate decline to \$460mln from \$500mln to reflect energy prices being elevated from a longer period than previously assumed. None of these changes, however, imply significant alterations to MHP's credit profile. Taking into account the current shape of the sovereign yield curve and the fact that the issuer continues to trade at a relative price premium to it, we maintain our 'Hold' recommendation on the name.

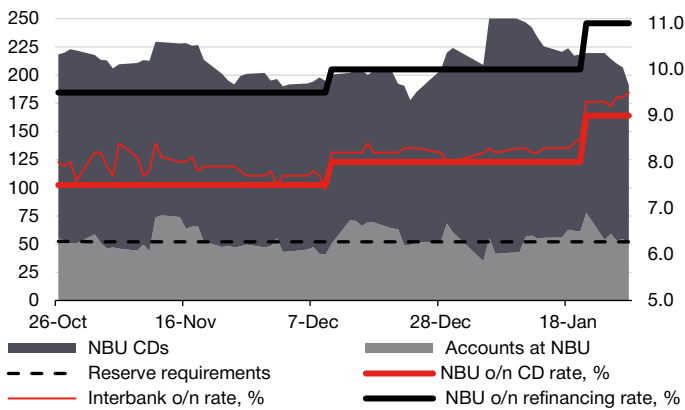
MHP 4Q21 operating update

	4Q21	4Q20	YoY	3Q21	QoQ
<i>Poultry segment</i>					
Production, kt	203	190	7%	194	4%
Sales to 3rd parties, kt	180	175	3%	185	-3%
Exports, kt	105	95	11%	109	-4%
share in sales, %	58%	54%	4pp	59%	-1pp
Average price, UAH/kg	46.8	38.1	23%	48.7	-4%
Average price, \$/kg	1.72	1.35	28%	1.79	-4%
<i>European segment</i>					
Production, kt	28	25	14%	30	-6%
Sales to 3rd parties, kt	18	15	18%	20	-10%
Average price, EUR/kg	2.70	2.48	9%	2.65	2%

Source: Company data, Adamant Capital estimates

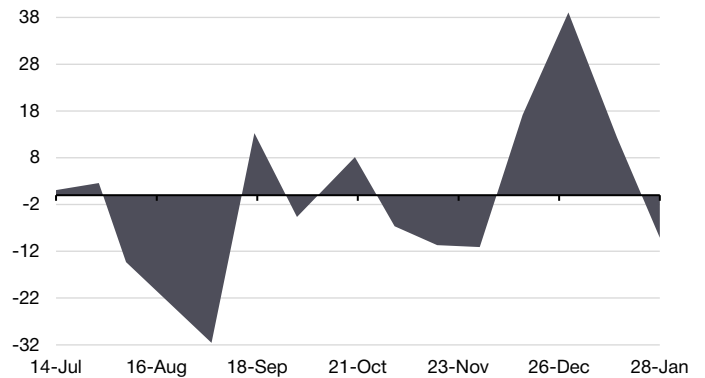
Appendix

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

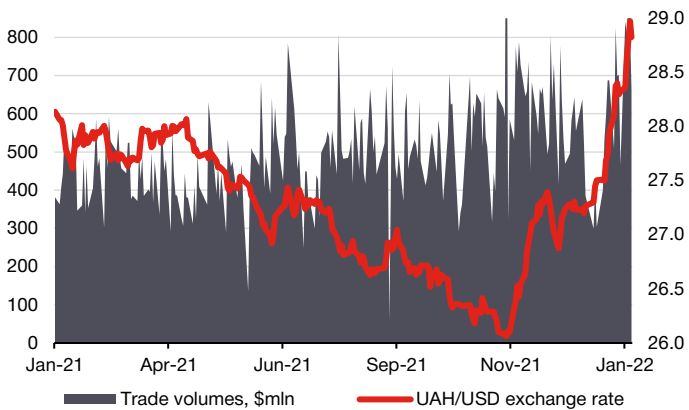


Note: in UAHbln, where each point represents a biweekly sum
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has decreased by UAH 28.41bln to UAH 190.9bln over the last week. On February 1 the Ministry of Finance conducted local hryvnia bond denominated placements maturing in July 2022 and February 2024 with yields of 11.50% and 13.00% respectively. Dollar denominated bonds maturing in February 2023 with yield of 3.70%. In total, an equivalent of UAH 0.21bln was raised as a result.

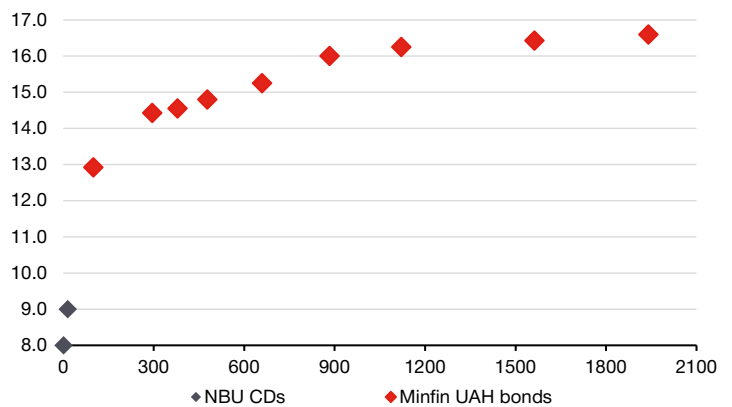
The UAH/USD interbank rate over the last week appreciated by 1.64%, starting out with 28.36 and ending at 28.83.

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

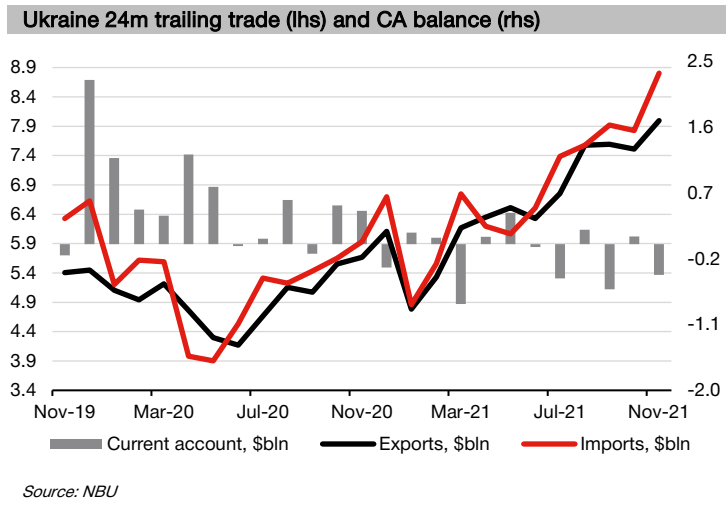
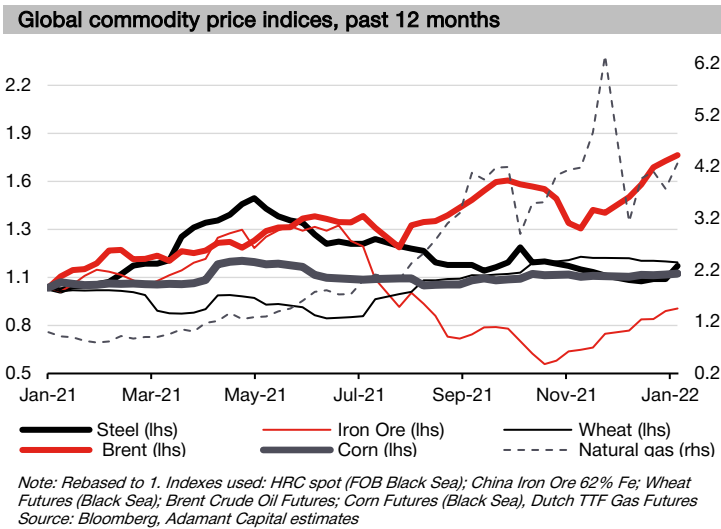
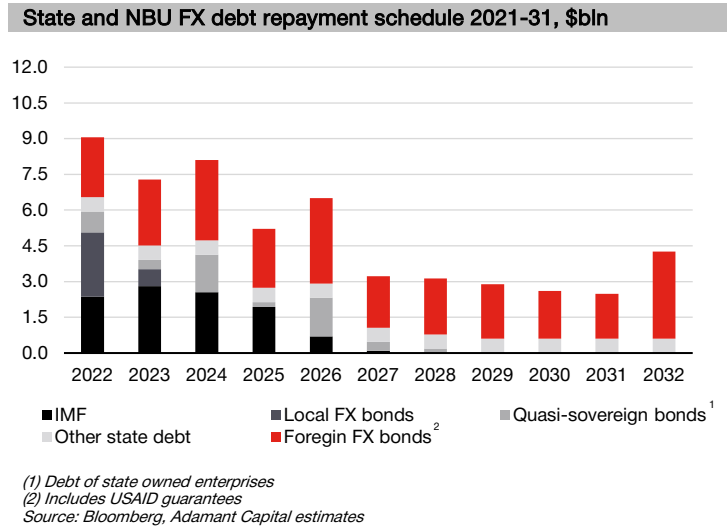
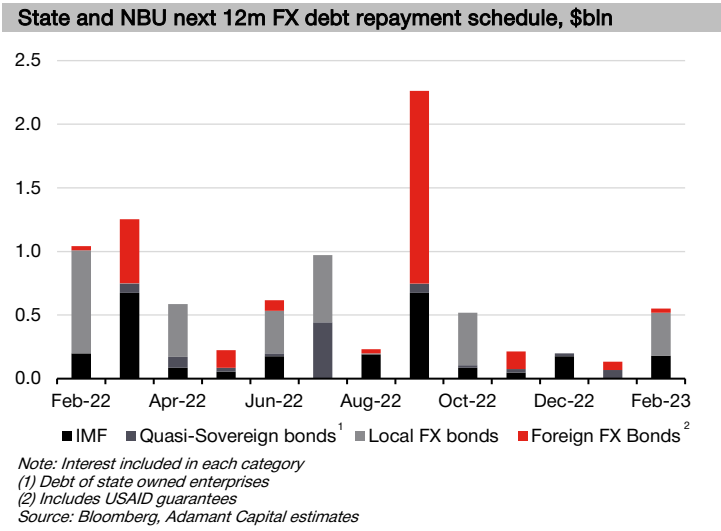
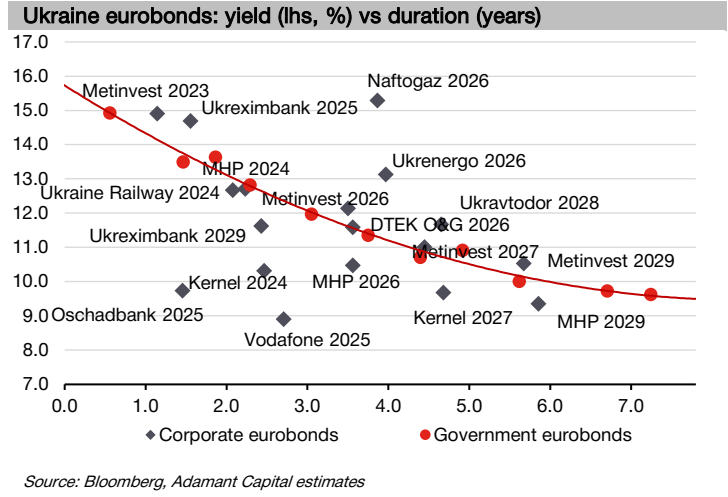
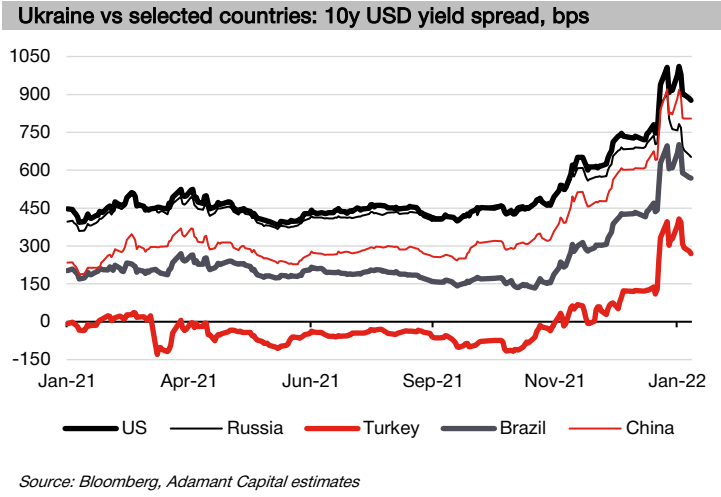


Note: Exchange rate figures are from official interbank data
Source: NBU

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



Source: NBU, Bloomberg, Adamant Capital estimates



Key macroeconomic indicators								
	4Q20	2020	1Q21	2Q21	3Q21	4Q21E	2021E	2022E
Real GDP growth, YoY	-0.5%	-4.0%	-2.2%	5.7%	2.4%	7.7%	3.7%	3.0%
Nominal GDP, UAHbln	1,301	4,192	1,009	1,169	1,494	1,794	5,466	6,474
Nominal GDP, \$bln	46	155	36	42	56	68	201	226
GDP deflator growth YoY, %	17.5%	9.8%	20.7%	26.4%	25.5%	28.0%	25.7%	15.0%
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%	3.5%	3.5%	3.0%
Broad public sector deficit, % of GDP ²	6.5%	6.5%	6.2%	6.3%	4.6%	3.8%	3.8%	3.5%
Public debt as % of LTM GDP, UAH	60.9%	60.9%	57.8%	54.2%	49.2%	50.5%	50.5%	54.0%
Public external debt as % of LTM GDP, \$ ³	34.8%	34.8%	33.2%	32.6%	29.5%	28.8%	28.8%	27.3%
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%	10.0%	10.0%	10.5%

(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	13.5	92.1	3.9	1.5	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	13.6	92.1	6.2	1.9	750
Ukraine 2027	Hold	-	7.8	Sep-27	10.7	87.8	4.8	4.4	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	10.9	94.5	7.9	4.9	1,600
Ukraine 2032	Hold	-	7.4	Sep-32	9.7	84.6	7.1	6.7	3,000
DTEK Energy 2027	Buy	24-Nov-21	5.0	Dec-27	23.2	49.9	0.0	4.1	1,645
Kernel 2024	Hold	25-Jan-22	6.5	Oct-24	10.3	91.2	-0.1	2.5	300
Kernel 2027	Hold	25-Jan-22	6.8	Oct-27	9.7	87.3	1.8	4.7	300
Metinvest 2023	Hold	05-Oct-21	7.8	Apr-23	14.9	92.3	-1.1	1.1	195
Metinvest 2025 (EUR)	Hold	05-Oct-21	5.6	Jun-25	9.9	88.0	0.9	3.1	333
Metinvest 2026	Hold	05-Oct-21	8.5	Apr-26	12.1	88.2	0.5	3.5	648
Metinvest 2027	Hold	05-Oct-21	7.7	Oct-27	11.0	86.1	0.7	4.4	333
Metinvest 2029	Hold	05-Oct-21	7.8	Oct-29	10.5	85.6	0.2	5.7	500
MHP 2024	Hold	01-Feb-22	7.8	May-24	12.7	90.5	0.0	2.1	500
MHP 2026	Hold	01-Feb-22	7.0	Apr-26	10.5	88.3	-0.3	3.6	550
MHP 2029	Hold	01-Feb-22	6.3	Sep-29	9.4	83.3	0.5	5.9	350
Naftogaz 2022	Buy	14-Dec-21	7.4	Jul-22	31.2	90.4	-0.5	0.5	335
Naftogaz 2024 (EUR)	Buy	14-Dec-21	7.1	Jul-24	20.3	76.2	0.1	2.2	672
Naftogaz 2026	Buy	14-Dec-21	7.6	Nov-26	15.3	74.7	-0.7	3.9	500
Oschadbank 2023	Buy	9-Nov-21	9.4	Mar-23	23.5	92.6	2.2	0.5	140
Oschadbank 2025	Buy	9-Nov-21	9.6	Mar-25	9.7	99.8	0.0	1.5	200
Ukraine Railway 2024	Buy	12-Oct-21	8.3	Jul-24	12.7	90.9	0.0	2.2	595
Ukravtodor 2028	Hold	22-Jun-21	6.3	Jun-28	11.7	78.1	3.3	4.7	700
Ukreximbank 2022	Buy	9-Nov-21	9.6	Apr-22	27.9	95.8	0.3	0.2	104
Ukreximbank 2025	Buy	9-Nov-21	9.8	Jan-25	14.7	92.9	0.0	1.6	192
Ukreximbank 2029	Buy	9-Nov-21	9.9	Dec-29	11.6	91.4	0.8	2.4	100
Vodafone 2025	Hold	16-Nov-21	6.2	Feb-25	8.9	93.0	1.2	2.7	451
DTEK O&G 2026	Buy	19-Oct-21	6.8	Dec-26	11.6	82.3	0.4	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
SSSU - Preliminary estimate of 4Q21 real GDP	Exact	4-Feb
NBU - International reserves monthly data	Exact	7-Feb

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