

## Trends

Ukraine's sovereign Eurobonds were mostly lower last week, ignoring the government's announcement that the IMF board is expected to extend final approval of the USD 5.0bn loan program for Ukraine on Jun 5. Meanwhile, the Finance Ministry repaid a USD 1.0bn Eurobond issued under US guarantee back in 2015 at 1.85%. Medium-term Ukraine-25s declined by 0.8% to 98.9/99.9 (8.2%/7.9%) and Ukraine-28s were down by 1.0% to 106.6/107.6 (8.8%/8.6%). The VRI derivatives (linked to Ukraine's future GDP growth with expiration in 2040) rose by 0.6% to 83.5/85.5 cents on the dollar.

In the corporate debt papers, quotes for the 2024 EUR-denominated Eurobonds of DTEK Renewables rebounded by 10% to 83.6/86.6 (16.8%/15.6%) after the company unveiled a net profit of UAH 2.88bn (USD 112mn) for FY19. On the flip side, DTEK Renewables is now facing a risk that Ukraine's generously high so-called 'green tariff' will be reduced, hurting the company's profitability. DTEK Renewables' green portfolio is 1 GW of solar and wind capacities. Meanwhile, the DTEK-24s issue remained at a distressed level of 46.6/51.6 cents on the dollar, as there still has been no information regarding restructuring of the bond after DTEK skipped the March coupon payment.

Kernel-22s added 0.8% to 99.1/101.1 (9.5%/8.1%) after the company posted an 88% YoY increase in EBITDA to USD 104mn in the Jan-Mar quarter. The bonds of steel&mining group Metinvest with maturity in 2029 gained 3.7% to 84.0/86.0 (10.2%/9.8%) amid supply problems from Brazil, where there has been a surge in the number of COVID cases in the country's key mining region.

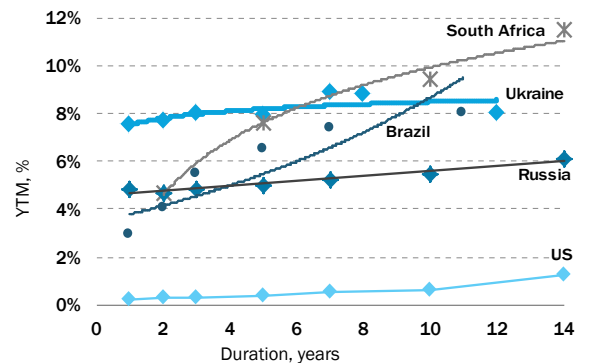
In banking issues, OschadBank-25s increased by 1.0% to 101.0/103.0 (9.4%/8.4%).

The yield on the government's 1-year UAH-denominated treasuries on the secondary market declined by 20 basis points to bid/ask of 11.8%/10.8%. The Finance Ministry placed 1-year local bonds at 11.0% at the primary auction on May 26.

On the currency market, the hryvnia had a quiet week, inching up by 0.1% against the dollar to 26.88 UAH/USD.

You can receive additional details about developments in Ukrainian fixed income from the Eavex Sales Team at [research@eavex.com.ua](mailto:research@eavex.com.ua).

## SOVEREIGN BOND YIELD CURVES



Source: Bloomberg, Eavex Capital

## FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	8.0%	0.0 p.p.	-5.5 p.p.
UAH 1-year bond	11.8%/10.8%	-0.2 p.p.	+0.8 p.p.
Ukraine-2025	8.2%	0.3 p.p.	1.6 p.p.
Ukraine-2028	8.7%	-0.1 p.p.	1.7 p.p.

## CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	26.86	-0.1%	13.4%
EUR/UAH	29.87	2.1%	13.1%

Source: Eavex Capital

## Highlights

- > Conflict Between GPU and SAP Renews Under Zelenskiy Presidency
- > Kernel's Jan-Mar EBITDA Nearly Doubles YoY to USD 104mn

## Conflict Between GPU and SAP Renews Under Zelenskiy Presidency

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### NEWS

Conflict between Ukraine's top two criminal prosecution agencies, the General Prosecutor's office (GPU) and the Specialized Anti-Corruption Prosecution office (SAP), renewed last week when newly-appointed General Prosecutor Irina Venediktova announced that she is launching an investigation into inactivity at SAP, which is headed by Nazar Kholodnytskiy. The two agencies had clashed repeatedly over jurisdictional and other issues during the presidency of Petro Poroshenko when the GPU was led by Yuriy Lutsenko, but had not been in open conflict during the Zelenskiy presidency until recently. Venediktova was appointed to replace the Zelenskiy's administration's first General Prosecutor Ruslan Ryaboshapka, who was forced out in March after only half a year in the job.

### COMMENTARY

This conflict appears to be driven by Kholodnytskiy's refusal to hand over information to the GPU in regard to the high-profile case of Oleg Gladkovskiy, a Poroshenko ally who is accused of profiting from procuring military equipment for the state at inflated prices. In an interview with the Ukrayinska Pravda news site published today (Jun 1), Kholodnytskiy acknowledged Venediktova's right to see the case materials, but he expressed his concern that the investigative details of the case would leak out if they became widely accessible to various subordinate employees within the GPU. In the same interview, Kholodnytskiy blamed Ukraine's courts for the situation with the lack of prison sentences for any prominent corrupt officials or oligarchs during his tenure. Kholodnytskiy, whose 5-year term at SAP is set to expire at the end of 2020, has previously shown himself to be a survivor, having held on to his job despite a major scandal in 2018 that saw him go head-to-head with top anti-corruption investigator Artem Sitnyk, who had recorded conversations inside the SAP office and released them to the media. In general, we see this situation as repeating itself from the prior administration, when the President's office attempted to control the activity of the nominally independent SAP via the General Prosecutor; it has been frequently alleged in domestic media that Ryaboshapka was removed and replaced by Venediktova because he was not sufficiently politically loyal to Zelenskiy.

## Kernel's Jan-Mar EBITDA Nearly Doubles YoY to USD 104mn

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### NEWS

Kyiv-based, Warsaw-listed Kernel Holding, Ukraine's largest sunflower oil producer, posted a jump in its EBITDA by 88% YoY to USD 104mn in the Jan-Mar quarter (the company's 3Q20, as its financial year runs from July to June). According to the consolidated financial statement published on May 29, net revenue grew by 30% YoY to USD 1.05bn in the Jan-Mar period while the bottom line turned to a net loss of USD 25mn compared to a net profit of USD 26mn seen in the corresponding period a year ago. For the first 9 months of its 2020 financial year, Kernel had revenue of USD 2.91bn (-5% YoY), EBITDA of USD 320mn (+12% YoY), and net profit of USD 76mn (-60% YoY). On the balance sheet side, Kernel's net debt amounted to USD 1.33bn as of 31 March 2020, implying a Net Debt/EBITDA ratio of 3.5x, down from 5.0x at the start of this year. However, Kernel claimed that its "adjusted" net debt, which took into account readily-marketable inventories, is at a much lower level of some USD 664mn.

KERNEL FINANCIAL RESULTS						
USD mn	3Q FY20	3Q FY19	YoY	9M FY20	9M FY19	YoY
Net revenue	1,047	803	+30%	2,909	3,058	-5%
EBITDA	104	55	+88%	320	285	+12%
EBITDA margin	9.9%	6.8%	+3.1 p.p.	11.0%	9.3%	+1.7 p.p.
Net Income	-25	26	+/-	76	190	+/-
Net margin	-2.4%	3.2%	-5.6 p.p.	2.6%	6.2%	-3.6 p.p.

Source: Company data,

### COMMENTARY

Kernel's unexpected net loss in Jan-Mar was primarily due to a one-off non-operating loss recognized as a result of divestment of the group's 50% stake in the Taman deep-water grain export terminal in Russia. Setting this aside, we view the company's solid EBITDA increase in the Jan-Mar quarter as an impressive financial achievement. In the segment breakdown, the infrastructure & trading business contributed USD 65mn on the EBITDA level in the period due to increased grain exports and higher efficiency from Kernel's in-house railcar fleet and storage facilities. Over the Jul-Mar 9-month period, the infrastructure & trading segment delivered USD 161mn (+66%) on the EBITDA level while the sunflower oil business generated EBITDA of USD 88mn (+1%). Kernel unveiled guidance that its sunflower seeds processing volume should reach 3.4mn tonnes in FY20, with an average "crushing margin" near USD 85 per tonne of oil sold, up from USD 65/tonne in FY19 and USD 54/tonne in FY18. Ukraine's record sunflower seed harvest last year of 16.2mn tonnes has supported the company's crushing targets.

Kernel claims that its business model has not felt any major disruptions from the lockdown and restrictions introduced in Ukraine and other countries in response to the COVID-19 epidemic. The company says that all of its production assets are operating as usual without supply chain disruptions, and that spring planting in the farming business was completed properly. Kernel did not comment about possible negative effects on its crops of several weeks of extremely wet, unseasonably cold weather and lack of sunshine during this May across most of Ukraine.

The KER stock has remained close to the PLN 40 level for the last several weeks despite the company looking quite undervalued at an EV/EBITDA multiple of 5.3x. Kernel's Eurobonds with maturity in 2022 have largely recovered from their COVID slide and are now traded close to a par value at a midpoint bid/ask yield of 8.8%.

SELECTED UKRAINIAN EURO BONDS										
Issue	Price Bid	Price Ask	Price ch., W/W, %	YTM Bid, %	YTM Ask, %	Coupon	Maturity Date	Volume USD mn	Currency	Ratings <sup>1</sup>
<b>Sovereign Eurobonds</b>										
Ukraine, 2021	99.1	100.1	0.0%	8.7%	7.8%	7.75%	1 Sept 2021	1,409	USD	Caa1/B/B
Ukraine, 2025	98.9	99.9	-0.8%	8.2%	7.9%	7.75%	1 Sept 2024	1,328	USD	Caa1/B/B
Ukraine, 2028	106.6	107.6	-1.0%	8.8%	8.6%	9.75%	1 Nov 2028	1,600	USD	Caa1/B/B
Ukraine, 2032	96.0	97.0	0.0%	8.0%	7.8%	7.38%	25 Sept 2032	3,000	USD	Caa1//B
Ukraine, GDP-linked	83.5	85.5	0.6%				31 May 2040	3,214	USD	/B/
<b>Corporate Eurobonds</b>										
Kernel, 2022	99.1	101.1	0.8%	9.5%	8.1%	8.75%	31 Jan 2022	500	USD	/B/BB-
MHP, 2026	95.9	97.9	0.4%	8.0%	7.5%	6.95%	4 Apr 2026	550	USD	B3/B/B
MHP, 2029	89.3	91.3	1.6%	8.0%	7.7%	6.25%	19 Sept 2029	350	USD	B3/B/B
DTEK, 2024	46.6	51.6	1.7%	38.6%	34.1%	10.75%	12 Dec 2024	1,275	USD	//
Metinvest, 2026	87.7	89.7	2.7%	11.7%	11.2%	8.50%	23 Apr 2026	648	USD	B3/B/BB-
Metinvest, 2029	84.0	86.0	3.7%	10.2%	9.8%	7.75%	17 Oct 2029	500	USD	B3/B/BB-
NaftoGaz, 2024	86.4	88.4	0.4%	11.4%	10.7%	7.125%	19 Jul 2024	600	EUR	//
<b>Bank Eurobonds</b>										
UkrEximBank, 2022	99.2	101.2	-0.5%	10.7%	8.7%	9.63%	27 Apr 2022	750	USD	Caa3//B
UkrEximBank, 2023	92.9	97.9	-0.1%	13.1%	8.8%	9.00%	9 Feb 2023	125	USD	Caa3//B
UkrEximBank, 2025	97.1	99.1	0.3%	12.0%	10.6%	9.75%	22 Jan 2025	600	USD	Caa3//B
Oschadbank, 2023	100.5	102.5	0.5%	9.2%	7.7%	9.38%	10 Mar 2023	700	USD	Caa3//B
Oschadbank, 2025	101.0	103.0	1.0%	9.4%	8.4%	9.63%	20 Mar 2025	250	USD	Caa3//B

<sup>1</sup> Moody's/S&P/Fitch

Source: TR Data, Eavex Research

## UKRAINIAN DOMESTIC BONDS

Issue	Price (Bid)	Price (Ask)	YTM (Bid)	YTM (Ask)	Modified Duration	Coupon	Coupon Period	Maturity Date	Volume UAH mn
<b>UAH denominated Bonds</b>									
UA4000202469			11.0%	10.0%	n/a	n/a	S/A	30 Sept 2020	n/a
UA4000200174			11.8%	10.8%	n/a	n/a	S/A	20 Jan 2021	n/a
UA4000195176			11.8%	10.8%	n/a	n/a	S/A	11 Aug 2021	n/a
UA4000203236			12.0%	11.0%	n/a	n/a	S/A	05 Jan 2022	n/a
UA4000204002			12.5%	11.5%	n/a	n/a	S/A	11 May 2022	n/a
<b>UAH denominated Bonds</b>									
UA4000204853			5.00%	3.25%	n/a	n/a	S/A	29 Jul 2021	USD 350mn

Source: TR Data, Eavex Research

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