

Interpipe Eurobond

Operating activity rebounding, so why no restructuring?

Dmytro Khoroshun | dk@concorde.com.ua
Andriy Perederey | aper@concorde.com.ua

April 11, 2018

Summary

Interpipe operating activity has been rebounding since early 2016, approaching 2014 levels. Since 2014, Ukraine's leading pipe producer Interpipe has gone through difficult times, especially in early 2016, because of the global oil price crash, which had a direct effect on the market for pipes. However, by the end of 2017, both pipe prices and Interpipe's production volumes have rebounded strongly and are approaching 2014 levels (although certain indicators still have some way to go).

Trade barrier risks ahead. The recent introduction of Trump steel import tariffs (affecting 15% of Interpipe's pipe sales volumes) and the Eurasian Economic Union's import tariff hike on Interpipe's wheels (about 50% of total wheel sales volumes) pose risks to Interpipe's operations in the future.

Financials: no public data. The company stopped disclosing its financials in 2012.

A time to conduct debt restructuring? Despite a lot of uncertainty, we see the opportunity to pose a simple question: if Interpipe's operations (volumes and prices) are approaching 2014 levels, then how appropriate is it that the company's Eurobonds are currently worth about 32% of par, in comparison to about 80% of par in early 2014? In other words, isn't it time for Interpipe to restructure its debts and offer a reasonable deal to creditors, particularly the holders of its notes?

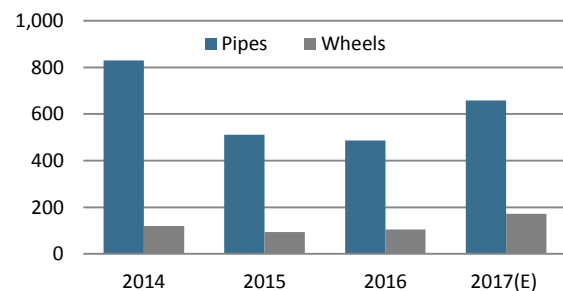
Interpipe might be wasting a good opportunity. We think that the global financial markets might currently be close to their most merciful. Considering specific Ukrainian risks ahead (the beginning of the elections season, tensions with international financial institutions), it looks very appropriate that Ukrainian borrowers (MHP, Metinvest) are hitting the market now with restructuring and refinancing deals. And it does raise the question of why Interpipe is not doing so.

Bloomberg	INPIP Corp
Price, % of par	32%
Amount outstanding, USD mln	200
<i>Price as of Apr. 11, 2018</i>	

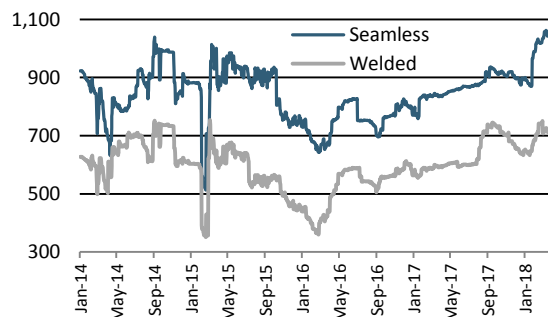
Historical milestones

USD 200 mln notes issued @ 8.75% due in August 2010	Jul-Aug 2010
Holders consent to covenant amendments. Interpipe equity owners reportedly accumulated more than 50% of notes	Jan 2009
Interpipe secures Lock Up and Support agreements with 74% of holders. Fee: 0.25%	Dec 2009
Coupon payment missed. Restructuring commences	Feb 2010
Some terms restructured: maturity extended to August 2017, rate hiked to 10.25%. Fees: early 1.25%, late 0.5%	Sept 2010
Interpipe pays coupons overdue, fees	Oct 2010
Some note terms restructured. Fee: 0.15%	Aug 2011
Some note terms restructured. Fee: 0.10%. Loan portfolio restructured. Equity injection: USD 65 mln	Dec 2011
Interpipe defaults on a USD 106 mln loan; continues to pay interest, initiates restructuring talks	Nov 2013
Interpipe stops paying interest	Feb 2015

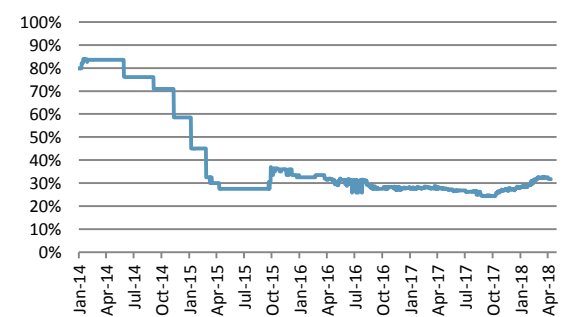
Interpipe production volumes, kt



Pipe prices in Ukraine, USD/t



INPIP'17 price history, % of par



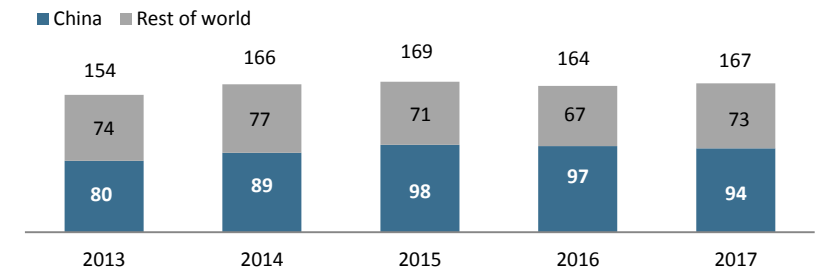
Production and sales volumes

World pipe production volumes: a rebound in 2017. World pipe production rebounded in 2017 to 167 mmt from 164 mmt in 2016. This production level is still below the all-time high of 169 mmt in 2015, but **above 166 mmt in 2014**. China's share exceeds 50%, but its export volumes remained stable during the last few years, therefore not depressing the world pipe market.

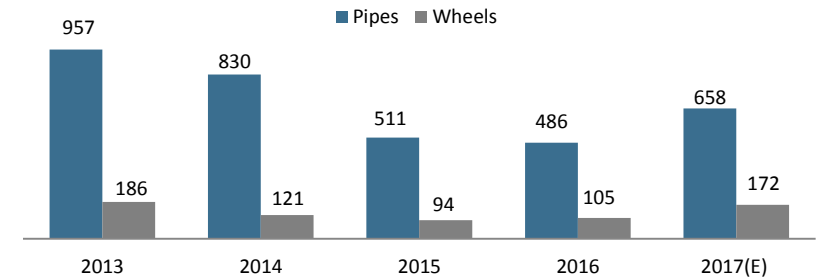
Interpipe pipe production volumes: rebounded from 2015-16, still below 2014 levels. Pipe production volumes at Interpipe rebounded to 658 kt in 2017 from around 500 kt in 2015-16, but are still substantially below the 2014 level of 830 kt. Since mid-2017, **monthly pipe production volumes stabilized at the level of 60 kt**. The recent introduction of Trump steel import tariffs will affect about 15% of Interpipe's pipe sales.

Interpipe wheel production volume: above 2014 levels, but outlook is negative. We have estimated that wheel production amounted to 172 kt in 2017, above the 90-120 kt range of 2014-16. However, we emphasize that **future sales and production volumes are at risk** because Interpipe sells as much as around 50% of its wheels to the CIS, most of them to the Eurasian Economic Union, which increased the anti-dumping duty rate for Interpipe's wheels to 34.22% from 4.75% in January 2018.

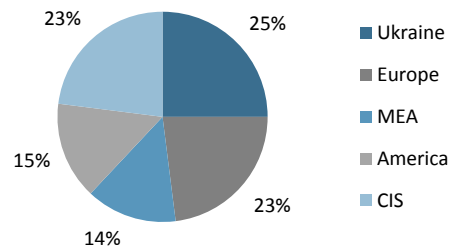
World yearly pipe production volumes, mmt



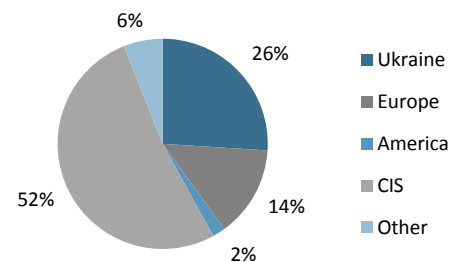
Interpipe yearly production volumes, kt



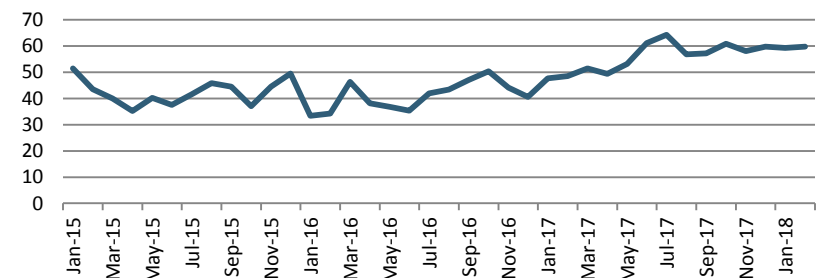
Interpipe pipe sales by region, 2017



Interpipe wheel sales by region, 2017



Interpipe monthly pipe production volumes, kt



Pipe prices

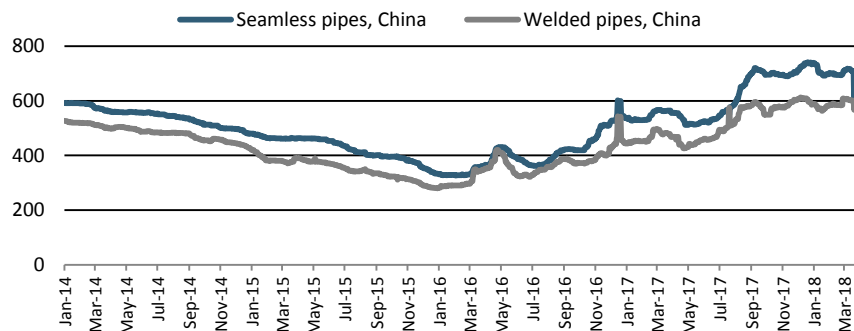
Pipe prices, domestic markets: a strong rebound from recent lows. Prices for both seamless and welded steel pipes on the domestic Ukrainian and Russian markets have rebounded from their lows of early 2016 (along with oil price lows), around USD 600/t, **to the levels of early 2014** (prior to the oil price crash) of around USD 1,000/t. Because the oil and gas industry consumes about 50% of pipes worldwide (see next page), it is not surprising that the dynamics of oil and pipe prices are similar.

Seamless pipe prices, Ukraine's exports: still below 2014 levels. Seamless pipe prices for exports from Ukraine stayed at around USD 1,000/t during 2014, but dropped to around USD 600/t in the beginning of 2016. Since that recent low, seamless pipe prices have risen to around USD 850/t, still about USD 150/t below the pre-oil-crash level.

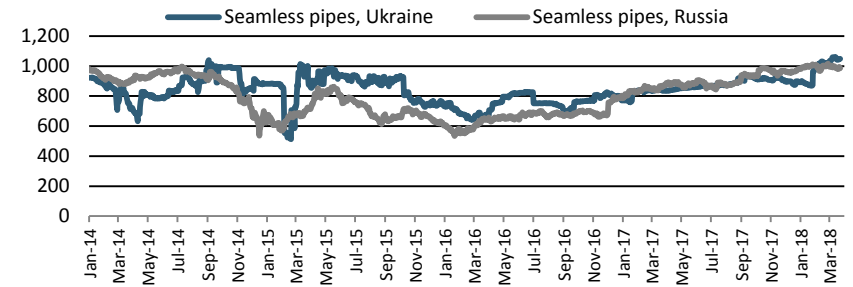
Welded pipe prices, Ukraine's exports: approaching 2014 levels. Prices for Ukraine's exports of rectangular and round welded pipes have recently reached the level of USD 600-650/t (after dropping to below USD 350/t in early 2016). This price is **back to the 2014 level** for rectangular pipes, but is still **below the 2014 levels** of USD 700-850/t for round pipes.

Seamless and welded pipe prices, China: slightly above 2014 levels. Prices for seamless and welded pipes in China have exceeded their 2014 levels by about USD 50-100/t.

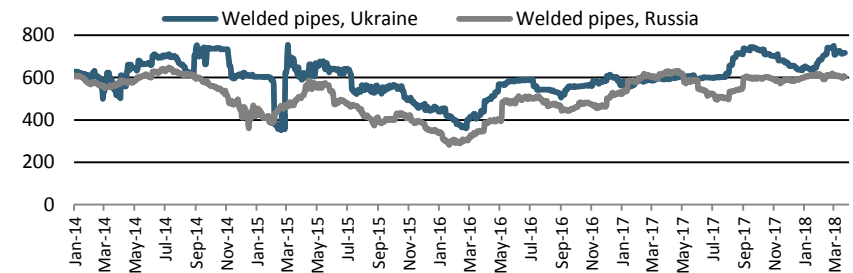
Seamless and welded pipe prices, China, USD/t



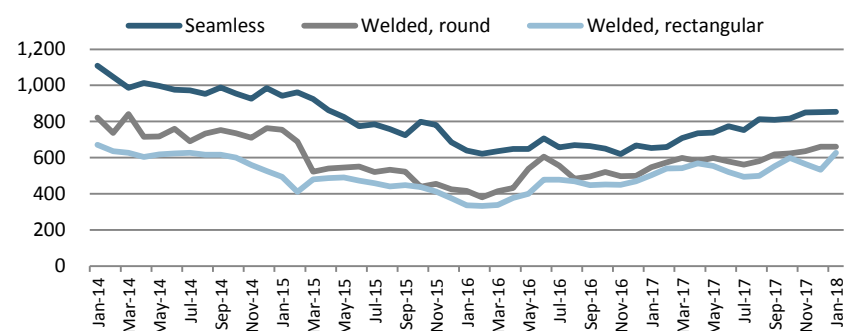
Seamless pipe prices, domestic Ukrainian and Russian markets, USD/t



Welded pipe prices, domestic Ukrainian and Russian markets, USD/t



Seamless and welded pipe prices, Ukraine exports, USD/t

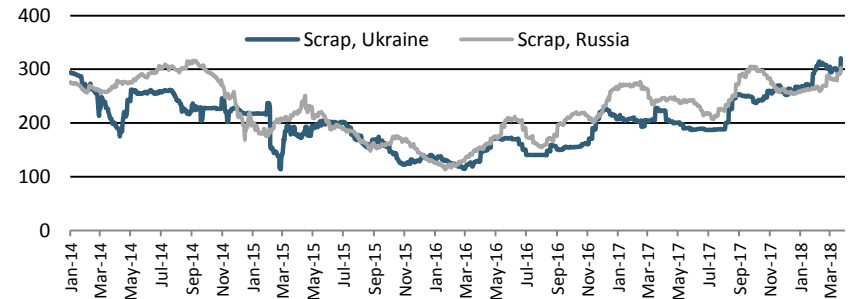


Input material prices

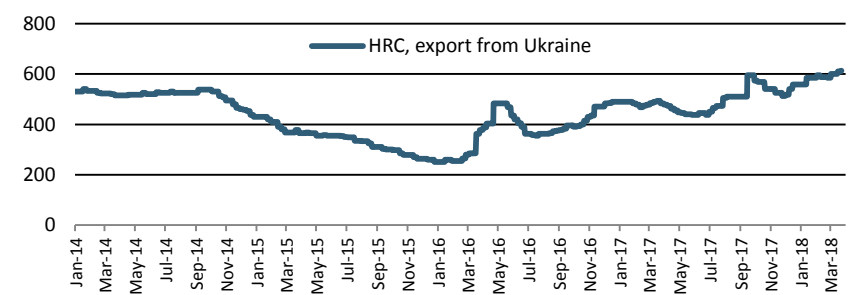
Scrap prices: no pressure on profitability. The price of scrap, the main source material for Interpipe’s wheels and seamless pipes (which comprise above 80% of Interpipe’s pipe production by volume) has also returned to – but so far not exceeded – its early 2014 levels.

HRC prices: slightly above 2014 levels. Interpipe uses hot-rolled coils (HRC) for producing welded pipes. The price of this steel material has recently reached USD 600/t, slightly above the 2014 level of about USD 525/t.

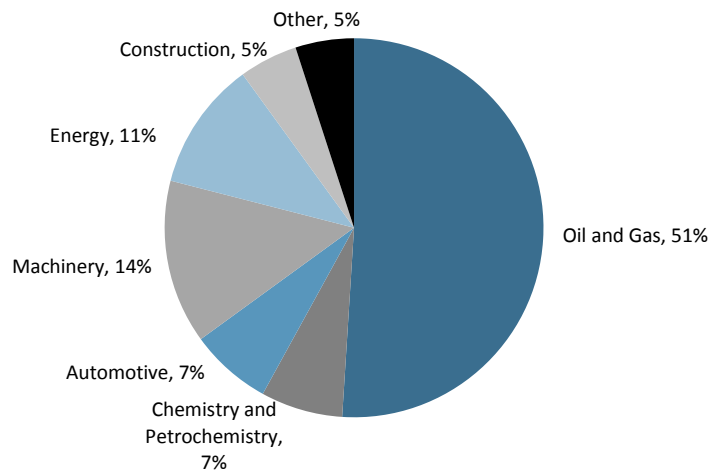
Scrap prices, domestic Ukrainian and Russian markets, USD/t



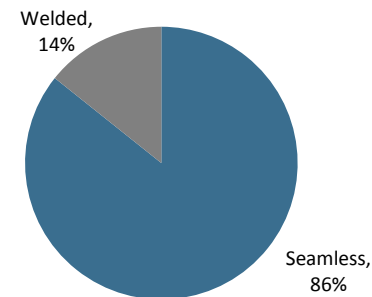
HRC price, USD/t



Worldwide pipe consumption by industry



Breakdown of Interpipe’s pipe production, 2017



Disclaimer

THIS REPORT HAS BEEN PREPARED BY CONCORDE CAPITAL INVESTMENT BANK INDEPENDENTLY OF THE RESPECTIVE COMPANIES MENTIONED HEREIN FOR INFORMATIONAL PURPOSES ONLY. CONCORDE CAPITAL DOES AND SEEKS TO DO BUSINESS WITH COMPANIES COVERED IN ITS RESEARCH REPORTS. AS A RESULT, INVESTORS SHOULD BE AWARE THAT CONCORDE CAPITAL MIGHT HAVE A CONFLICT OF INTEREST THAT COULD AFFECT THE OBJECTIVITY OF THIS REPORT.

THE INFORMATION GIVEN AND OPINIONS EXPRESSED IN THIS DOCUMENT ARE SOLELY THOSE OF CONCORDE CAPITAL AS PART OF ITS INTERNAL RESEARCH COVERAGE. THIS DOCUMENT DOES NOT CONSTITUTE OR CONTAIN AN OFFER OF OR AN INVITATION TO SUBSCRIBE FOR OR ACQUIRE ANY SECURITIES. THIS DOCUMENT IS CONFIDENTIAL TO CLIENTS OF CONCORDE CAPITAL AND IS NOT TO BE REPRODUCED OR DISTRIBUTED OR GIVEN TO ANY OTHER PERSON.

CONCORDE CAPITAL, ITS DIRECTORS AND EMPLOYEES OR CLIENTS MIGHT HAVE OR HAVE HAD INTERESTS OR LONG/SHORT POSITIONS IN THE SECURITIES REFERRED TO HEREIN, AND MIGHT AT ANY TIME MAKE PURCHASES AND/OR SALES IN THEM AS A PRINCIPAL OR AN AGENT. CONCORDE CAPITAL MIGHT ACT OR HAS ACTED AS A MARKET-MAKER IN THE SECURITIES DISCUSSED IN THIS REPORT. THE RESEARCH ANALYSTS AND/OR CORPORATE BANKING ASSOCIATES PRINCIPALLY RESPONSIBLE FOR THE PREPARATION OF THIS REPORT RECEIVE COMPENSATION BASED UPON VARIOUS FACTORS, INCLUDING QUALITY OF RESEARCH, INVESTOR/CLIENT FEEDBACK, STOCK PICKING, COMPETITIVE FACTORS, FIRM REVENUES AND INVESTMENT BANKING REVENUES.

PRICES OF LISTED SECURITIES REFERRED TO IN THIS REPORT ARE DENOTED IN THE CURRENCY OF THE RESPECTIVE EXCHANGES. INVESTORS IN FINANCIAL INSTRUMENTS SUCH AS DEPOSITORY RECEIPTS, THE VALUES OR PRICES OF WHICH ARE INFLUENCED BY CURRENCY VOLATILITY, EFFECTIVELY ASSUME CURRENCY RISK.

DUE TO THE TIMELY NATURE OF THIS REPORT, THE INFORMATION CONTAINED MIGHT NOT HAVE BEEN VERIFIED AND IS BASED ON THE OPINION OF THE ANALYST. WE DO NOT PURPORT THIS DOCUMENT TO BE ENTIRELY ACCURATE AND DO NOT GUARANTEE IT TO BE A COMPLETE STATEMENT OR SUMMARY OF AVAILABLE DATA. ANY OPINIONS EXPRESSED HEREIN ARE STATEMENTS OF OUR JUDGMENTS AS OF THE DATE OF PUBLICATION AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART WITHOUT PRIOR PERMISSION IS PROHIBITED.

NEITHER THIS DOCUMENT NOR ANY COPY HEREOF MAY BE TAKEN OR TRANSMITTED INTO THE UNITED STATES OR DISTRIBUTED IN THE UNITED STATES OR TO ANY U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")), OTHER THAN TO A LIMITED NUMBER OF "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) SELECTED BY CONCORDE CAPITAL.

THIS DOCUMENT MAY ONLY BE DELIVERED WITHIN THE UNITED KINGDOM TO PERSONS WHO ARE AUTHORIZED OR EXEMPT WITHIN THE MEANING OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 ("FSMA") OR TO PERSONS WHO ARE OTHERWISE ENTITLED TO RECEIVE THIS DOCUMENT UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, OR ANY OTHER ORDER MADE UNDER THE FSMA.

©2018 CONCORDE CAPITAL

Contacts

2 Mechnikova Street, 16th Floor
Parus Business Centre
Kyiv 01601, Ukraine
Tel.: +380 44 391 5577
Fax: +380 44 391 5571
www.concorde.ua
Bloomberg: TYPE CONR <GO>

CEO
Igor Mazepa im@concorde.com.ua

SALES & TRADING

Marina Martirosyan	mm@concorde.com.ua
Tatyana Chub	ct@concorde.com.ua
Alexandra Kushnir	ak@concorde.com.ua
Alisa Tykhomeirova	at@concorde.com.ua
Anna Tantsiura	ta@concorde.com.ua

RESEARCH

Head of Research Alexander Paraschiy	ap@concorde.com.ua
Utilities, Energy, Financial Alexander Paraschiy	ap@concorde.com.ua
Economy Evgeniya Akhtyrko	ea@concorde.com.ua
Basic Materials Dmytro Khoroshun	dk@concorde.com.ua
Consumer Andriy Perederey	aper@concorde.com.ua
Editor, Politics Zenon Zawada	zzawada@concorde.com.ua