Ukraine
Basic Materials | Iron / Steel
Research Note

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Metinvest

Deal announced – negotiations to begin

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Bloomberg	METINV Corp
Price, % of par	104.9%
Amount outstanding, USD mln	1,187

Price as of Mar. 21, 2018

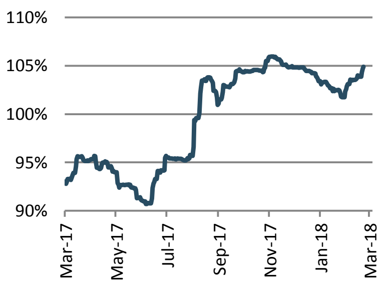
Expected deal timeline

Early tender deadline	Apr. 3
Electronic consent deadline	Apr. 3
Announcement of results of consent solicitation	Apr. 4
Pricing of the new Eurobonds	Apr. 4
Announcement of new rate of interest on METINV'21	ASAP after Apr. 4
Final deadline	Apr. 19
Offer results announcement	Apr. 20
Settlement date	Apr. 23

Payments to METINV'21 noteholders

Purchase price (if tendered in by Apr. 19)	100.50%
Early tender payment (if tendered by Apr. 3)	3.75%
Consent fee (if consented by Apr. 3)	1.00%

METINV'21 price history, % of par



Source: Bloomberg

On March 19, Metinvest announced a refinancing and restructuring deal that allows METINV'21 noteholders to receive 105.25% of par (and part of the coupon) for their notes by the end of April. This buyback price is within our 104.9-109.1% fair value range, and therefore we are discontinuing our Speculative Buy recommendation. Nevertheless, we recommend that investors negotiate a higher price, close to 109.1%, during Metinvest's upcoming road show. The investors who supported Metinvest through thick and thin are entitled to realizing the full value of their notes, and their hand looks strong.

Metinvest's move: a deal was announced

- **Deal announcement.** In a March 19 release, Metinvest announced a cash tender offer to purchase the METINV'21 Eurobond and its intention to issue new Eurobonds, simultaneously asking noteholders to consent to the restructuring of the METINV'21 Eurobond.

- **Refinancing.** Metinvest has invited the holders of its METINV'21 Eurobond to tender their notes for purchase for a cash consideration of 100.5% of par by the final deadline of Apr. 19. The holders who meet the early tender deadline of Apr. 3 in contacting the tender and information agent will receive an additional early tender payment of 3.75% of par.

- **Restructuring.** Additionally, Metinvest is seeking consent of 75% or more of noteholders for a substantial amendment and restatement of the conditions of the currently outstanding METINV'21 Eurobond to align them with the conditions of the new Eurobonds. In particular, this will include the removal of the cash sweep mechanism. The noteholders are also asked to consent to the release of certain guarantors and the common security, as well as to the issue of the new Eurobonds. The consent deadline is Apr. 3, and the consent fee is 1.0% of par.

- **The deal's announced purposes.** According to Metinvest, the purpose of the tender offer and the consent solicitation, together with a separate proposal for the amendment and restatement of the existing PXF facility, is to proactively manage and extend Metinvest's debt maturity profile, and to take advantage of favorable market conditions to refinance the Notes so as to (i) lower Metinvest's blended cost of funding and provide for a more stable and longer term capital structure with a lower refinancing risk; (ii) release common recourse security that was put in place as part of the restructuring and (iii) conform the conditions to market standard terms.

- **S&P rates new Eurobonds B-.** Following Metinvest's announcement, S&P Global Ratings announced on March 19 that it has assigned its B- issue rating to the new Eurobonds. The rating agency also revealed that, in relation to the existing USD 1.1 bln PXF facility, Metinvest intends to repay 20% on the settlement date and to swap up to USD 300 mln for the new Eurobonds, on a noncash basis. The final maturity will be extended by 14 months to October 2022.

- **Dividends: a deal outcome crucial for Metinvest?** Importantly, Metinvest will be able to pay up to 50% of net income in dividends, without limitation on the total amount, once 35% of the PXF is repaid, according to S&P.

- **New Eurobonds: two tranches.** Regarding the new Eurobonds, S&P revealed that two tranches will be proposed, with five- (METINV'23) and eight-year (METINV'26) maturities. The proceeds will be used to refinance existing debt.

- **New rate of interest on METINV'21: in line with new Eurobond.** Metinvest revealed in its announcement that the METINV'21 Eurobond outstanding after the transaction will become a vanilla, bullet-redemption note, and that the rate on this Eurobond will be reset according to a formula that the holders are asked to consent to as well. The formula is adjusted for duration roughly as follows: the rate achieved for the METINV'23 less 0.385 percentage points per year of duration. For example, if the METINV'23 Eurobond matures on Apr. 23, 2023, then the rate on METINV'21 will be reset to 0.5 pp lower than the METINV'23 placement rate.

- **Fitch: new Eurobonds earn B rating, deal will moderate refinancing risks.** Fitch revised Metinvest's outlook to Positive on March 19 and confirmed its long-term issuer default rating for Metinvest at B in anticipation of a successful completion of the deal. The expected spreading of debt maturities and moderation of refinancing risks is the reason for the change in its outlook on Metinvest, the rating agency noted. Fitch emphasized that, following the deal, all of Metinvest's Eurobonds will be plain vanilla instruments without meaningful protection for noteholders.

- **Road show to commence on March 21.** In a March 19 news piece, Bloomberg reported that the deal's road show will commence on March 21.

- **The deal's timeline.** The pricing of the new Eurobonds and the announcement of consent solicitation results are expected on Apr. 4, and the rate of interest on the METINV'21 Eurobond will be revealed soon thereafter. The announcement of the results is expected on Apr. 20, and the settlement date for the deal is expected to be Apr. 23.

- **No catch up interest will be paid on METINV'21.** Metinvest intends to pay only the cash pay and pay-if-you-can (PIYC) parts of the coupon, the total of 9.3725%, from Feb. 18 (the cash pay part, 2.7930%) and March 18 (PIYC, 6.5795%) until the settlement date.

Next move: noteholders need to negotiate

- **This is just the beginning.** This initial offer by Metinvest allows for noteholders to achieve a total of 105.25% of par by tendering in the METINV'21 Eurobond and consenting to the restructuring, all by Apr. 3. We think that the market should respond with a counteroffer and demand a higher price. Our idea of the fair price is close to the 109.1% upper bound of the buyback price range, 104.9-109.1% (as mentioned in our March 1 report).

- **Noteholders have to negotiate to avoid loss of value.** We think that agreeing to the 105.25% consent & buyback price will result in a substantial loss of value for the noteholders, because they will lose both the enhanced surety of the METINV'21 Eurobond and the value this instrument would provide should its redemption schedule be extended due to Metinvest' lower profitability during 2018-2021, as described in our March 1 report.

- **Favorable market conditions: payback for legacy investors.** The very fact that Metinvest stated that the conditions in the financial markets are currently favorable to the borrower means that the investors who supported Metinvest through thick and thin should be entitled to realizing the full value of their notes. As we suggested in our March 1 report, the value of the METINV'21 Eurobond has increased substantially since Metinvest's 2017 restructuring, and currently falls into the 104.9-109.1% range depending on the scenarios for Metinvest's future profitability.

- **Metinvest might be open to negotiating, amending its offer.** In the past, Metinvest was open to making a second offer during a liability management deal. Namely, in late 2014, Metinvest increased the cash consideration of an exchange offer for its METINV'15 Eurobond to 25% from 20%, enhancing the value it offered to the noteholders.

- **Noteholders' hand in negotiations looks strong.** We think that Metinvest went for the deal in order to be able to pay its dividends to SCM, its majority owner, ASAP, identifying this as the purpose of conforming the Eurobond's conditions to market standard terms. This Metinvest desire might stem from SCM's possible need of being able to pay as much as USD 821 mln in an award in relation to a legal dispute over SCM's acquisition of Ukrtelecom. The London Court of International Arbitrage will reportedly hold a hearing on this case on Apr. 23. SCM's possible loss will trigger the need to collect from its assets, including Metinvest, the total sum for paying the award. Because of the potential urgency for Metinvest to be able to pay its dividends, the market's hand is strong in reaching a reasonable Eurobond buyback price.

- **It's up to noteholders now.** We discontinue our Speculative Buy recommendation on the METINV'21 Eurobond, which we issued on expectations of a deal, because the deal is shaping up to take place and the buyback price is within our 104.9-109.1% fair value range, albeit very close to the range's lower bound. Nevertheless, **we are not overwhelmed by Metinvest's offer, and recommend that noteholders negotiate with Metinvest and push the buyback price higher.**

APPENDICES

Analyst certification

I, Dmytro Khoroshun, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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