Metinvest Eurobonds

Any restructuring scenario offers an upside

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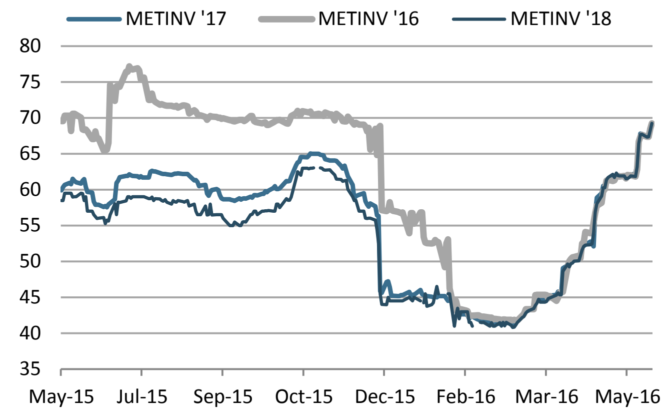
Executive summary

On May 25, Metinvest announced the key terms of its debt restructuring that was reached in agreement with banking and bondholder coordinating committees. Based on these terms, we estimate the fair prices of Metinvest's Eurobonds in a range between 81-91 cents per dollar of the current par value.

The implied upside to the current market price of bonds of 70 cents is 16-30%. Therefore, we affirm our positive view on the company's notes.

The lowest value range is based on the assumption that Metinvest will only pay the minimum promised coupon on the bonds and will repay 100% of principal (including capitalized coupons) in end-2021.

Bond prices, % of par



Valuation summary

Scenario	Est. NPV, % of par	Key assumptions
Worst case	81.1%	100% redemption at maturity, only minimum promised coupon payments
Worst case +	82.9%	Worst case + extra 6.58% coupon in 2016-2018
Worst case + +	85.6%	Worst case + extra 9.37% coupon in 2016-2018
Best case	91.2%	Repayment based on cash flow we modeled earlier

Source: Bloomberg, Concorde Capital Research

Key restructuring heads of terms on Eurobonds

All Eurobonds will be combined into a single instrument.

Ultimate maturity: 31 Dec. 2021.

Amortization of principal: cash sweep.

Coupons – paid quarterly in the amount:
Up until end-2018 (Period I):

- 2.7930% - guaranteed payment in cash;
- 6.5795% - to be paid in cash (on cash sweep) or capitalized (and repaid on cash sweep in the subsequent periods);
- 1.5025% - may be paid in cash (on cash sweep), otherwise not capitalized.

2019 – 2021 (Period II):

- 10.875% - guaranteed payment in cash.

Cash sweep – repayment of any unrestricted cash in excess of USD 180 mln (first coupons, then principal). The cash sweep amount is distributed between PXF lenders and the holders of Eurobonds proportional to debt amounts outstanding.

Limit on CapEx, USD mln:
2016: 501
2017: 636 (+100, in case all accrued interest was fully paid in cash in 2016)
2018: 651 (+100, in case all accrued interest was fully paid in cash in 2017)
2019: 775
2020: 836
2021: 888

Restructuring fees: 0.75% to all creditors, 0.75% as early bird fee.

Source: Company data

A new standstill period

Metinvest is going to finalize the restructuring parameters by late September (or late November) 2016. By that time, the holding is offering to prolong its standstill agreement with bondholders, based closely on the parameters agreed upon in January 2016 (and terminating on May 27), namely:

The holding will continue to pay monthly 30% of the accrued coupon and capitalize the rest.

It will limit its CapEx at USD 70 mln per month, with the possibility to carry over.

The standstill will be prolonged to end-September 2016 (with the possibility of postponement till end-November).

To approve a new standstill, Metinvest will initiate scheme voting:

- If the scheme is approved by a U.K. court on June 8 (which is highly likely);
- Metinvest will schedule a bondholder meeting for about June 28, with an approval rate of 75% of all bonds cumulatively.

Source: Company data

Fair value of Eurobonds: 81 to 91 percent of par

We ran four scenarios for the repayment schedule of the Eurobonds, based on the preannounced restructuring terms:

Worst case :

Coupon is paid:

- In 4Q16-2018 (Period I): only guaranteed minimum of 2.793% p.a. is paid in cash. This means it will capitalize quarterly 6.5795% of accrued coupons.
- In 2019-2021 (Period II): guaranteed amount of 10.875% p.a. is paid.

The principal (including capitalized coupons) is redeemed in one installment at the end of 2021.

Worst case + :

Same as in the worst case, plus:

- 6.5795% coupon is paid in cash in Period I.

Worst case + + :

Same as in the worst case, but:

- 6.5795% coupon and extra (catch up) coupon of 1.5025% p.a. are paid in cash in Period I.

Best case :

Coupon on the principal is paid in full (as in the Worst case + + scenario).

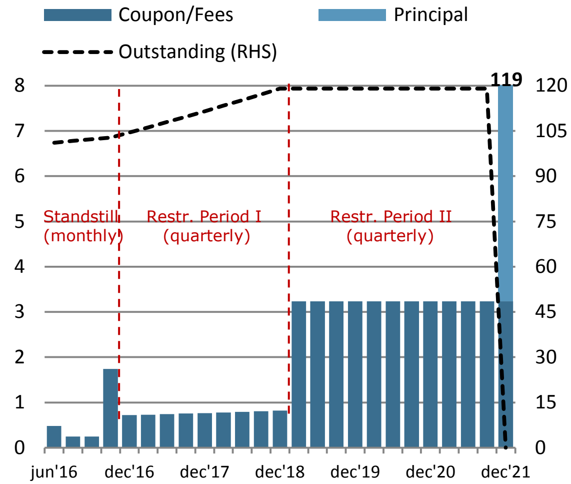
The principal is redeemed sequentially every quarter. The holding allocates to debt holders all its free cash flow after interest and tax. Free cash flow projections are taken from our model (as presented in our April 11 update on Metinvest).

Other assumptions:

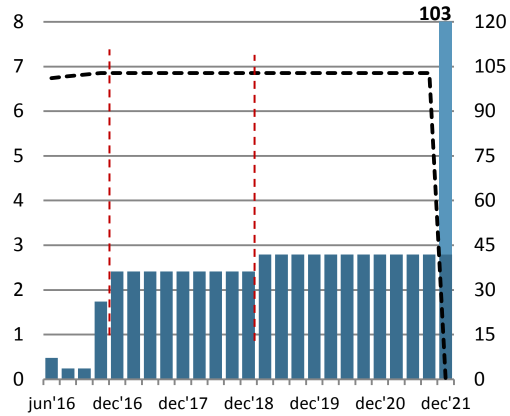
- The first restructuring period will start in 4Q16, meaning Metinvest will agree to the key parameters by end-September.
- By that time, Metinvest will pay monthly 30% of accrued coupons and will capitalize the rest.
- At the end of September, Metinvest will pay 1.5% in restructuring fees.
- The discount rate for calculating NPV of cash flows to bondholders is assumed to be 15%.

Bond servicing schedules, % of current par value:

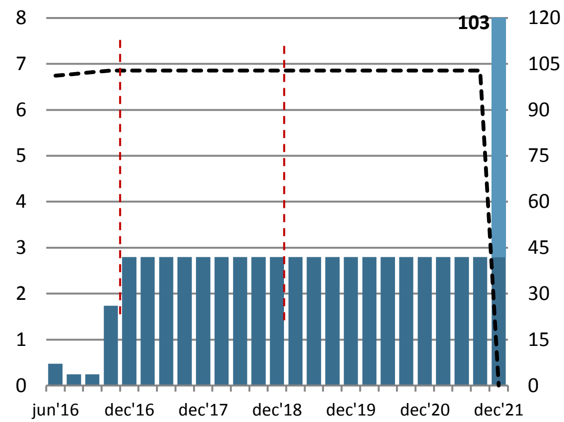
Worst case: NPV is 81.1% of par



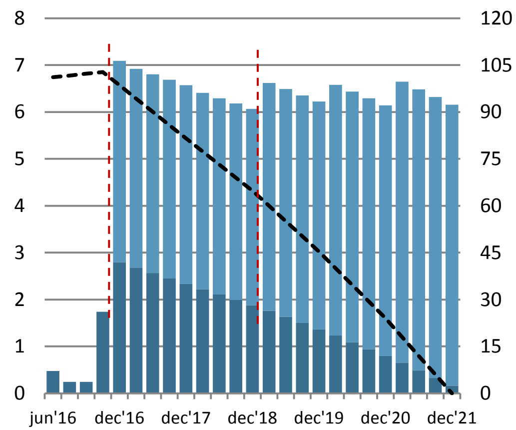
Worst case + : NPV is 82.9% of par



Worst case + + : NPV is 85.6% of par



Best case: NPV is 91.2% of par



Source: Company data, Concorde Capital Research

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