Mriya restructuring

A recovery that doesn't inspire

Alexander Paraschiy | ap@concorde.com.ua

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Summary

As the debt restructuring saga of Mriya Agro Holding - which defaulted and was taken over by creditors in 2014/2015 - approaches its end, we can draw important conclusions on whether the deal was successful for its creditors.

Based solely on numbers, we conclude that Mriya's unsecured creditors, including its Eurobond holders, got little from this story (some having already recovered in cash from 3.3% to 4.1%, with a potential for others to recover up to 6.2%-7.5%). Such a tiny cash recovery rate, after four years of uncertainty and tough negotiations, does not look encouraging.

Some of the unsecured creditors had the chance to improve their recovery rate by lending additionally to finance Mriya's working capital and preventing it from falling apart. Those who took this risk have been rewarded with over a 100% recovery rate of their extra investment.

It is hard to say today whether Mriya creditors had any alternative to the takeover in 2014. Most likely, they didn't. Similarly, they didn't manage to take control over the full business possessed by the former shareholders, even though Mriya's corporate structure wasn't very complicated. We believe that Mriya's new management did its best to protect creditors' value, and even withstand continuous attacks on the remaining business from former owners. But all the losses and hardships on the road to debt restructuring indicate just how risky the endeavor is of taking over a Ukrainian farming business, especially amid poor ownership rights over land.

The Mriya saga might serve as a benchmark for a possible debt restructuring of a bigger agricultural holding in default, Ukrlandfarming (ULF, UKRLAN):

- Unsecured creditors will not be interested in taking over ULF after considering Mriya's tiny recovery rates. In other words, even though ULF owner Oleg Bakhmatyuk cannot be considered to be a trustworthy figure (his complication of ULF's corporate structure is a good illustration of that), dealing with him seems to be the best way for unsecured creditors to maximize their debt recovery rate, or even the only way to recover something.
- Secured creditors have a much better recovery rate in the Mriya case, which means a takeover attempt may be beneficial for them in the ULF case as well. This will be a nightmare for unsecured creditors.
- Given that ULF's owner has been well prepared to withstand a possible takeover attempt (by complicating the ownership structure), the cost of such a takeover on ULF value will be even more dramatic than for Mriya. In other words, by attempting a takeover, ULF creditors face the risk of losing most of existing ULF assets.

All in all, we believe that Mriya's takeover and restructuring will remain a unique case in Ukraine's agricultural sector.

Mriya debt recovery rates

	Not participated in restructuring	Selected cash alternative	Voted to receive new securities*	Other
Eurobond holders	4.0%	4.1%	6.4% - 7.5%	
Other unsecured creditors	3.3%	3.4%	5.3% - 6.2%	
Secured creditors (on average)				40% - 42%
Leasing providers, W/C providers				≥100%

** In case a new investor finalizes purchase deal as announced. Source: Company data, Concorde Capital estimates*

Mriya evolution after default

Mriya Agro Holding has "changed" significantly after its announcement of default and takeover by creditors in 2014/2015:

- Its reported land bank under control decreased from 320,000 ha before the default, to 219,000 ha, and then 162,000 ha, as last reported.
- Mriya's reported revenue declined from almost USD 500 mln in 2013, to less than USD 100 mln p.a. in 2015-2017.
- The company's reported debt of USD 0.75 bln as of end-2013 increased to USD 124 bln after the creditor's takeover, having increased mostly due to off-balance debt.
- It's worth mentioning that the company's former auditors recalled their conclusions on its 2013 financials, meaning that no 2013 number (revenue, bottom line, debt amount and even land bank) enjoys credibility.

So the main conclusion that can be drawn for Mriya's future is that it did not generate more than USD 10 mln in annual EBITDA under new management, whatever the fantastic numbers the company was reporting before the takeover.

Mriya indebtedness evolution after default

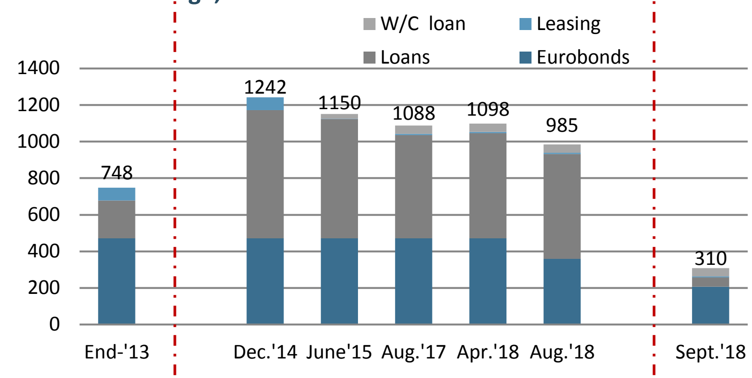
After creditors took control over Mriya, they reported the company's total debt claims (at par) of **USD 1.24 bln** as of early December 2014. Debt evolution in 2015-2018 was as follows:

- Equipment lessors reclaimed their assets a value of USD 70 mln in early 2015. Some other changes in debt happened (mostly due to a ForEx effect), resulting in total debt declining to USD 1.15 bln as of June 2015. Afterwards, new creditors provided **leasing** for about **USD 7 mln, which remains outstanding after the restructuring.**
- In 2015, the company's creditors provided USD 25 mln as a working capital loan, which was repaid afterwards. This loan's providers are entitled to receive **USD 50 mln in par value in new Mriya bonds.**
- In 2016, the company's creditors provided USD 46 mln as a working capital loan. This debt remained on-balance after the restructuring. Moreover, this loan's provider is entitled to receive **USD 62.1 mln in par value of new Mriya bonds.**
- The amount of banking loans outstanding, stated at USD 700 mln as of end-2014, decreased to USD 573 mln before the restructuring. This can be explained by ForEx differences.
- The amount of **Eurobonds** outstanding (**USD 472 mln par**) was unchanged between 2013 and early 2018, but for some reason appeared to be USD 360 mln on the day of the restructuring vote. It's hard to understand when exactly – and under what conditions - USD 112 mln out of USD 400 mln of Mriya's old notes maturing in 2018 appeared in the issuer's possession.

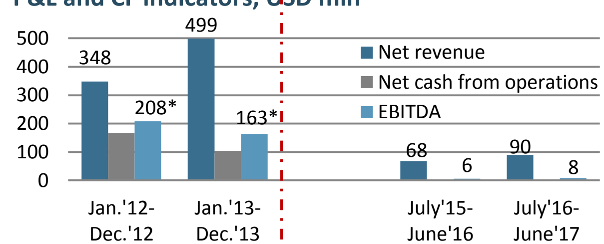
We estimate that before the restructuring, Mriya's total debt amounted to USD 985 mln, which translated into par value of USD 310 mln following the restructuring.

Land bank change, K ha

Total debt change, USD mln



P&L and CF indicators, USD mln



** Operating profit as reported by old management. Source: Company data, Concorde Capital estimates*

Debt restructuring: new debt distribution

The debt restructuring involved the creation of a new company, Mriya Farming PLC. Based on available information, the following exchange offer of claims to Mriya Agro Holding was offered and agreed upon:

- **Eurobond holders of USD 359.5 mln** (USD 71.6 mln of 2015 notes, USD 287.9 mln of 2018 notes) receive **per USD 100** of par value of their claims:
  - **USD 11.8407** in par value of Mriya Farming PLC Restructuring Notes.
  - **GBP 0.094201** in par value of Mriya Farming PLC shares.
  - **EUR 104.6** in par value of Mriya Agro Holding recovery certificates.
- **Unsecured creditors of EUR 451.6 mln** (including about USD 443 mln in providers of unsecured debt and secured creditors with respect to uncovered portion of their claims of about USD 81 mln) receive **per EUR 100** of par value of their claims:
  - **USD 11.322** in par value of Mriya Farming PLC Restructuring Notes.
  - **GBP 0.09002** in par value of Mriya Farming PLC shares.
  - **EUR 100.0** in par value of Mriya Agro Holding recovery certificates.
- On top of that, unsecured creditors that voted in favor of debt restructuring receive a total of USD 1.986 mln in par value of Restructuring Notes, implying they receive additionally about 2.5% of new Notes, as compared to those who did not support the restructuring.
- **Secured creditors with respect to USD 49.3 mln** of the covered portion of their claim and **equipment lease providers for USD 6.1** mln receive **full recovery** of their claims.
- **Providers of USD 46 mln working capital loan** receive:
  - Full recovery of their claims.
  - **USD 135** in par value of Restructuring Notes **per USD 100** of their claim.
  - Some other securities of Mriya Farming (new shares).
- **Providers of already redeemed USD 25 mln working capital loan** receive **USD 200** in par value of Restructuring Notes **per USD 100** of their debt provided. Possibly, the lenders are also entitled to receive some shares of Mriya Farming.

Mriya debt exchange structure, USD mln

	Old debt claims		News notes	New debt	Total new debt (par)	Recovery rate at par
Eurobonds:	**359.5**	=>	43.5		**43.5**	12.1%
Unsecured loans:	**443.0**	=>	44.1		**44.1**	10.0%
Secured loans:	**130.1**	=>	8.1	49.3	**57.4**	44.1%
Leasing:	**6.1**	=>		6.1	**6.1**	100%
W/C loan 2016:	**46.0**	=>	62.1	46.0	**108.1**	235%
W/C loan 2015:	-	=>	50.0		**50.0**	
Other (?)		=>	0.3		**0.3**	
TOTAL	**984.7**	=>	**208.1**	**101.4**	**309.5**	**31.4%**

Restructuring Notes parameters:
USD 208.1 mln in total par value

Coupons:
- 0.5% since inception till end-3Q19; 2.0% in 4Q19 – 3Q20: all paid on Sept. 30, 2020
- 2.5% cash rate for 4Q20-3Q21
- 5.0% cash rate for 4Q21-2Q24
- 10.0% cash rate for 3Q24-4Q25

Amortization of par amount:
- 1.68% per quarter in 3Q23-2Q24
- 0.96% per quarter in 3Q24-2Q25
- 1.20% in 3Q25
- 82.77% in end-2025.

Or on cash sweep.

Recovery certificates: EUR 761.5 mln in par value
Holders will receive some money if it is recovered from the former shareholders of Mriya Agro Holding.

Source: Company data, Concorde Capital estimates

Debt restructuring implications: recovery rate

There are four ways for existing debtholders to cash in the new Mriya instruments that they have received in exchange for their old claims:

Recovery rates:

1. **Receive cash alternatives instead of new securities**. In our understanding of the restructuring process, such an option was available for unsecured creditors who did not vote in favor of restructuring, or those who voted and selected the cash alternative. Mriya arranged a public auction to sell securities (new bonds, new shares and recovery certificates) on Sept. 6 at the following prices:
    - For new bonds, 32.7922% of par;
    - For new shares, 106.05% - 109.56% of par;
    - For recovery certificates: 0.001% of par.

Based on Sept. 6 auction prices, cash recovery rates are:

- For bondholders: 4.0% - 4.1%
- For unsecured creditors: 3.3% - 3.4%

2. **Sell new instruments to a new investor of Mriya Farming PLC** at the price it will offer. Based on the latest information from the company, a new investor is ready to pay net to creditors 53%-62% of par of the new notes.

Assuming the deal will be closed as announced, the recovery rate will be:

- For bondholders: 6.4% - 7.5%
- For unsecured creditors: 5.3% - 6.2%
- For secured creditors, on average: 41%-42%, including 38% of new secured debt, if valued at par.
- For W/C 2016 loan providers: 172%-184%, including 100% W/C facility, if valued at par.
- For W/C 2015 loan providers: 206%-224%, including 100% W/C facility repaid.

3. **Sell new instruments on the open market** (if Option Two fails).

No market prices available, so far.

4. **Hold new securities till maturity** (if Option Two fails).

Assuming a 25% discount rate on cash flow related to new notes and no cash sweep (implying NPV of 32.0% of par) and assuming the price of shares and recovery certificates as in Option One, recovery rates are as follows:

- For bondholders: 4.0%
- For unsecured creditors: 3.3%
- For secured creditors, on average: 40%, including 38% of new secured debt, if valued at par.
- For W/C 2016 loan providers: 143%, including 100% W/C facility, if valued at par.
- For W/C 2015 loan providers: 164%, including 100% W/C facility repaid.

Source: Company data, Concorde Capital estimates

Key takeaways of the Mriya case

In the way the restructuring deal has been designed, the key beneficiaries are investors that have solid collateral and those who took the risk to provide additional working capital financing to the holding in 2015-2016.

Unsecured and "passive" creditors gained low debt recovery
The unsecured creditors that did not participate in the restructuring are paid in cash 3.3%-4.0% of their debt claims. Those voting in favor of the deal could have received in cash slightly more (3.4%-4.1%), or may receive up to 6.2%-7.5% of their initial claim if a new investor closes the purchase deal as announced.

Unsecured creditors participating in Mriya rescue gain much more
The creditors that provided working capital facilities to Mriya in 2015 and 2016 secured full recovery (repayment), as well as received additional bonuses in the form of new Mriya bonds and new shares. In this way, they benefited from the restructuring deal., after taking additional risks.

Secured creditors gain full recovery in respect to covered portion
Equipment lessors and creditors with solid collateral were able to fully recover their investment. At the same time, it appeared that, on average, only 38% of the debt claims of creditors classified as secured were covered by collateral.

Source: Company data, Concorde Capital estimates

Implication for ULF creditors: a scarecrow

Another large farming holding in default, Ukrlandfarming (ULF), seems to have similar debt to land bank parameters, as compared to what Mriya had before its default and takeover.

Therefore, the result of Mriya's restructuring unavoidably will be a benchmark for ULF creditors. For them, the Mriya case mainly demonstrates the riskiness of attempts to take over a farming enterprise in Ukraine:

- On the way till the end of restructuring, Mriya lost 50% of the land bank it was operating before the default (or at least reported to operate), as well as significantly scaled down its P&L indicators. In the case of ULF, the risk of asset loss following the takeover is even bigger, given that ULF is well prepared to withstand any takeover by complicating the ownership structure of its core assets. That means, ULF's takeover attempt will likely result in bigger assets loss, a longer restructuring process, and a smaller debt recovery rate.

- Mriya's unsecured creditors did not count on an attractive recovery rate. Their principal haircut reached 88-90%, and effective haircut reached 92-97%. This is definitely not what most Mriya creditors were expecting to recover when starting the process in 2014.

- In the ULF case, as we concluded in our July 4, 2018 report, the haircut on principal may be 65%-77%, and haircut on NPV for debt holders could be 89% (based on a discount rate of 25%), providing no takeover happens.

- ULF's secured creditors can try to pursue the example set in the Mriya case, in which secured creditors gained much more than unsecured (on average). At the same time, that will be value-destructive for the unsecured lenders. Such lenders (including Eurobond holders) might reduce the risk of a negative scenario by reaching a soon deal with ULF.

Disposition: Mriya vs. ULF

	ULF, 2018*	Mriya, at default
Total debt (incl. off-balance), USD mln	2,345	1,242**
Land bank, K ha	590	320
Debt, USD K / hectare	4.0	3.9

** Based on estimates provided in our July 4 report on ULF. ** Recognized debt claims as of December 2014.*
Source: Company data, Concorde Capital estimates

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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
Alexandra Kushnir	ak@concorde.com.ua
Alisa Tykhomirova	at@concorde.com.ua
Anna Tantsyura	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