

## **Ukraine announces more details on Eurobond restructuring**

*Ukraine / Fixed Income*

**Today the Ukrainian government made public its exchange offer memorandum for 14 issues of its sovereign (UKRAIN) and guaranteed (UKRINF) notes of total par value of USD 18.03 bln. While some details of the exchange offer still remain unclear (the individual value of a GDP warrant, the exact maturity dates of the newly issued Eurobonds), it seems like the holders of at least 13 of 14 issues (worth USD 15.03 bln) will smoothly approve the restructuring.**

**The bondholder meeting for all notes are scheduled for Oct. 14.**

**At current prices, we estimate the state paper yields about 8.0%-8.3% to its extended maturity, when not accounting for the value of the offered GDP warrants.**

### **Last minute changes – prioritizing the Sept. and Oct. 2015 notes**

Initially, the government was planning to issue nine equal tranches of new notes maturing in each year between 2019 and 2027, and to exchange all the existing notes based on equal proportions for the new notes. However, to address the concerns of the owners of the shorter notes, maturing on Sept. 23 and Oct. 13, 2015, the government granted them a generous preference. Now the holders of the prioritized notes will get new notes maturing only in 2019. The remainder of new 2019 notes, as well as the issues of the 2020-2027 notes, will be equally distributed among the holders of the other 12 existing notes.

### **“Russian” loan is not prioritized**

Importantly, the last 2015 note, worth USD 3 bln and maturing on Dec. 20 (totally held by a Russian state fund) was not included into the pool of prioritized bonds. It seems like Ukraine is preparing for a court battle with the Russia, which has demanded full repayment. Meanwhile, Ukraine will only pay on this bond in 2015 if the IMF recognizes it as “official debt,” which is very unlikely.

### **Accrued interest as of Sept. 1 to be capitalized**

All the accrued interest under the existing notes, as of Sept. 1, will be exchanged into new notes.

### **20% haircut exchanged for a VRI**

A holder of \$100 par value in old notes will receive \$80 + accrued interest in new notes, and \$20 in GDP warrants.

## The new notes

That said, we estimate Ukraine will issue USD 14.72 bln in new notes that will comprise of nine equal issues (USD 1,638 mln each) maturing in each of the years between 2019 and 2027.

Coupons on the new notes, 7.75%, will be paid semi-annually starting Mar. 1, 2016 (for the period starting Sept. 1. 2015).

The exact maturity of the new notes hasn't been disclosed.

### Exchange offer summary, USD mln

| Ticker       | Original maturity | Old outst.    | Accrued interest | Haircut       | New notes     | New '19      | New '20      | New '21      | New '22      | New '23      | New '24      | New '25      | New '26      | New '27      |
|--------------|-------------------|---------------|------------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| UKRAIN       | 9/23/2015         | 500.0         | 15.4             | -100.0        | 415.4         | 415.4        |              |              |              |              |              |              |              |              |
| UKRAIN*      | 10/13/2015        | 672.0         | 13.0             | -134.4        | 550.6         | 550.6        |              |              |              |              |              |              |              |              |
| UKRAIN       | 12/20/2015        | 3,000.0       | 30.2             | -600.0        | 2,430.2       | 118.6        | 289.0        | 289.0        | 289.0        | 289.0        | 289.0        | 289.0        | 289.0        | 289.0        |
| UKRAIN       | 6/17/2016         | 1,250.0       | 16.4             | -250.0        | 1,016.4       | 49.6         | 120.9        | 120.9        | 120.9        | 120.9        | 120.9        | 120.9        | 120.9        | 120.9        |
| UKRAIN       | 11/21/2016        | 1,000.0       | 18.7             | -200.0        | 818.7         | 39.9         | 97.3         | 97.3         | 97.3         | 97.3         | 97.3         | 97.3         | 97.3         | 97.3         |
| UKRAIN       | 7/24/2017         | 2,600.0       | 25.9             | -520.0        | 2,105.9       | 102.7        | 250.4        | 250.4        | 250.4        | 250.4        | 250.4        | 250.4        | 250.4        | 250.4        |
| UKRAIN       | 11/14/2017        | 700.0         | 14.4             | -140.0        | 574.4         | 28.0         | 68.3         | 68.3         | 68.3         | 68.3         | 68.3         | 68.3         | 68.3         | 68.3         |
| UKRAIN       | 9/23/2020         | 1,500.0       | 52.0             | -300.0        | 1,252.0       | 61.1         | 148.9        | 148.9        | 148.9        | 148.9        | 148.9        | 148.9        | 148.9        | 148.9        |
| UKRAIN       | 2/23/2021         | 1,500.0       | 3.0              | -300.0        | 1,203.0       | 58.7         | 143.0        | 143.0        | 143.0        | 143.0        | 143.0        | 143.0        | 143.0        | 143.0        |
| UKRAIN       | 11/28/2022        | 2,250.0       | 46.5             | -450.0        | 1,846.5       | 90.1         | 219.6        | 219.6        | 219.6        | 219.6        | 219.6        | 219.6        | 219.6        | 219.6        |
| UKRAIN       | 4/17/2023         | 1,250.0       | 35.5             | -250.0        | 1,035.5       | 50.5         | 123.1        | 123.1        | 123.1        | 123.1        | 123.1        | 123.1        | 123.1        | 123.1        |
| UKRINF       | 11/3/2017         | 568.0         | 15.9             | -113.6        | 470.3         | 22.9         | 55.9         | 55.9         | 55.9         | 55.9         | 55.9         | 55.9         | 55.9         | 55.9         |
| UKRINF       | 12/7/2017         | 550.0         | 11.8             | -110.0        | 451.8         | 22.0         | 53.7         | 53.7         | 53.7         | 53.7         | 53.7         | 53.7         | 53.7         | 53.7         |
| UKRINF       | 4/20/2018         | 690.0         | 18.9             | -138.0        | 570.9         | 27.9         | 67.9         | 67.9         | 67.9         | 67.9         | 67.9         | 67.9         | 67.9         | 67.9         |
| <b>Total</b> |                   | <b>18,030</b> | <b>318</b>       | <b>-3,606</b> | <b>14,742</b> | <b>1,638</b> | <b>1,638</b> | <b>1,638</b> | <b>1,638</b> | <b>1,638</b> | <b>1,638</b> | <b>1,638</b> | <b>1,638</b> | <b>1,638</b> |

Source: MinFin, Concorde Capital estimates

\* Euro-denominated bond

## GDP warrants: exact parameters haven't disclosed

The exact amount of GDP warrants payment attributable to each bond has not been disclosed so far. What we can learn from the document is the calculation of the total amount that will payable to all warrant holders.

The total payments will be made on May 31 of each year from 2021 to 2040, if in the reference year (two years before the payment year):

- Ukraine's nominal GDP is above USD 125.4 bln;
- Real growth of Ukraine's GDP is above 3.0%. The real growth rate will be calculated by the IMF and published in its World Economic Outlook.

The total payments for each reference year (2019-2038) will be calculated in local currency, and paid in dollars/euros on the payment year (2021-2040) using the Ukraine's central bank exchange rate for March-April of such payment year.

Total UAH payments for each reference year (2019-2038) is 15% of the amount of nominal GDP that exceeds 3% growth of real GDP in the year, and 40% of any amount that exceeds 4% of real GDP in the year.

For any reference year (t), the exact total payment for the calculated year (t+2) will be:

If real growth in GDP in the reference year (t) is above 3% and below 4%:

$$0.15 \times \text{Nominal GDP}(t-1) \times [1 + \text{Deflator}(t)] \times [\text{Real growth GDP}(t) - 3\%]$$

If real growth in GDP in the reference year (t) is above 4%:

$$0.15 \times \text{Nominal GDP}(t-1) \times [1 + \text{Deflator}(t)] \times 0.01 + \\ + 0.4 \times \text{Nominal GDP}(t-1) \times [1 + \text{Deflator}(t)] \times [\text{Real growth GDP}(t) - 4\%]$$

## Estimating yields

Based on the current prices of all the Ukrainian Eurobonds and the offered restructuring terms (ignoring the value of VRI and assuming maturity date of all new notes will be Sept. 1), we estimate the notes currently yield 8.0-8.3% to their extended maturity:

| Ticker | Original maturity | Current price | Estimated new YTM |
|--------|-------------------|---------------|-------------------|
| UKRAIN | 9/23/2015         | 78.75         | 8.03%             |
| UKRAIN | 10/13/2015        | 77.75         | 8.30%             |
| UKRAIN | 12/20/2015        | n.a.          | n.a.              |
| UKRAIN | 6/17/2016         | 77.00         | 8.30%             |
| UKRAIN | 11/21/2016        | 77.25         | 8.25%             |
| UKRAIN | 7/24/2017         | 78.13         | 8.02%             |
| UKRAIN | 11/14/2017        | 78.13         | 8.05%             |
| UKRAIN | 9/23/2020         | 78.00         | 8.05%             |
| UKRAIN | 2/23/2021         | 77.88         | 8.09%             |
| UKRAIN | 11/28/2022        | 78.13         | 8.03%             |
| UKRAIN | 4/17/2023         | 77.50         | 8.17%             |
| UKRINF | 11/3/2017         | 77.00         | 8.26%             |
| UKRINF | 12/7/2017         | 77.00         | 8.26%             |
| UKRINF | 4/20/2018         | 77.00         | 8.28%             |

Source: Bloomberg, MinFin, Concorde Capital estimates

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