Ukraine Macro & Fixed Income Update

Nothing to complain about … except war

November 14, 2023

CONCORDE
CAPITAL

Executive summary

The Ukrainian economy is healing its wounds fast and is going to recover by about 6% in real terms in 2023. Key recovery factors will be a restoration of breached production chains, a surge in budget expenditures and related recovery in real incomes of Ukrainians, as well as a much better performance of the farming sector.

Relatively gloomy outlook of economy in early 2023 proved to be wrong as Ukraine's farming sector is demonstrating all-time record yields, consumer inflation reached mid-single digit numbers (vs. mid-teen expected before), retail trade performs well, the banking sector is highly liquid and profitable, the Ukrainian currency is stable while the central bank's gross international reserves are on record-high levels.

No doubt, Ukraine should be thankful for such performance to its international partners who provided about USD 86 bln of financial aid in 2022-2023. This compares to Ukraine budget's domestic collections and borrowing for the period. Continued external financing of state expenditures will be essential for Ukraine's ability to further resist russia's aggression and support economic, financial and currency stability. Our base-case is that the financial support of Ukraine will remain at the current level in 2024 as well.

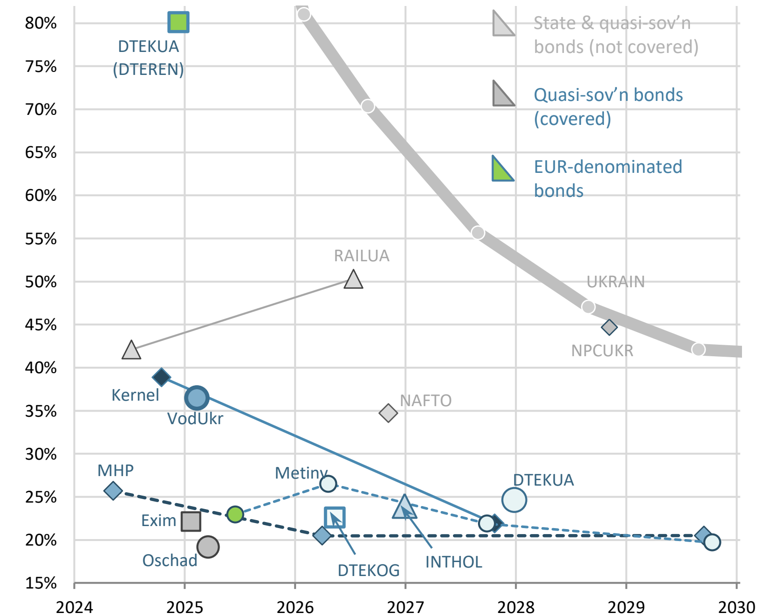
Compared to the pre-war numbers of 2021, Ukraine's real GDP will be 25% weaker in 2023, which is a result of loss of its potential, including decreased population (by about 21% vs. the pre-war count), loss of territory (20-21%, including areas under a constant risk of artillery strikes) and manufacturing capacities (about 20%). Further growth of the economy will be limited 2%-3% p.a., unless breakthrough happens in war with russia.

On the battlefields, Ukraine has little to report about recovery of territory in 2023, after a series of successful counter-offensives last year which enabled it to liberate over 40% of the area captured by the aggressor in early 2022. Meanwhile, Ukraine has no intention to stop its pressure on the occupant. In 2023, it proved its efficiency in the use of western weapons to suppress russian artillery, and in fact it won a sea battle with an overwhelmingly bigger russian navy. The major factor that prevented it from further advancing was russia's superiority in the skies. Hopefully, this will change in mid-2024 as soon as Ukraine receives enough western aircrafts and related ammunition.

Nevertheless, we admit that the end of war can only happen when the aggressor is forced to stop it. Ukraine's future military success, increasing Western economic and political pressure on the aggressor and internal changes in russia are three equally important drivers.

Ukraine's private Eurobond issuers, with few exceptions, demonstrated better fundamentals in 1H23 as compared to some of the recent pre-war periods. Despite surged security risks, asset losses & damages and other war-afflicted challenges, all the private issuers continue to smoothly servicing their Eurobonds. The key dramatic difference from the pre-war years is the issuers' limited ability to refinance their maturing bonds, meaning most of them have to count on their own funds to service their debt. This naturally puts their willingness as the key factor of debt servicing. Our analysis suggests that most private issuers (the exception is Kernel) either have strong will to smoothly service their bonds (which, among other, was demonstrated by their investments into early bond repayments), or have too good fundamentals to ask about any debt rescheduling.

Eurobond yield map (mid-market, Nov. 14)



As before, we offer two strategies for those ready to invest in Ukraine-related bonds:

- **For those who are not ready to tolerate too high risk**, we suggest investing into bonds of fundamentally strong issuers: DTEK Oil & Gas (DTEKOG'26), VF-Ukraine (VODUKR'25), Interpipe (INTHOL'26) and state banks (EXIMUK'25, OSCHAD'25).
- **For those ready to maximize their returns**, we suggest to look at the bonds that offer the best combination of yields and risks: State banks (OSCHAD'25 and EXIMUK'25), VF-Ukraine (VODUKR'25) and DTEK Renewables (DTEKUA/DTEREN'24).

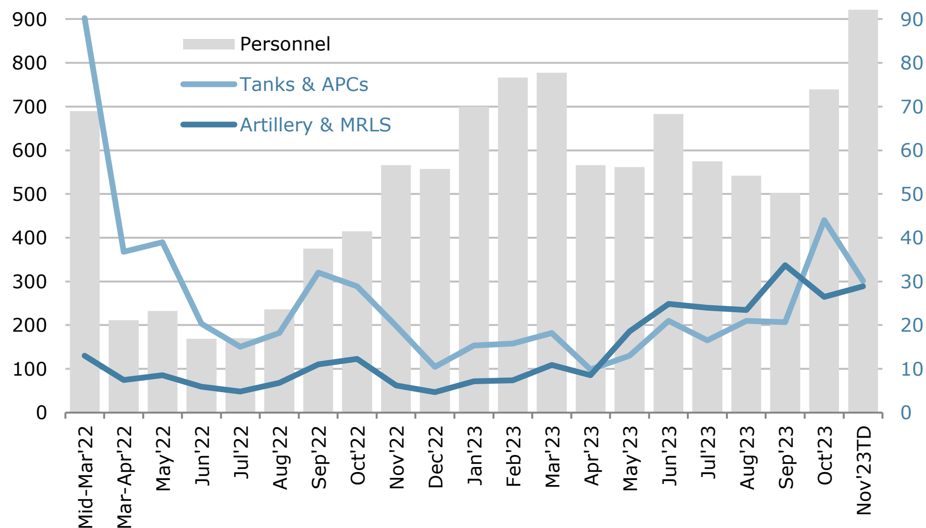
Notably, the list of our top Eurobond picks remains nearly the same as in our May 2023 update.

Sources: Bloomberg, Concorde Capital research

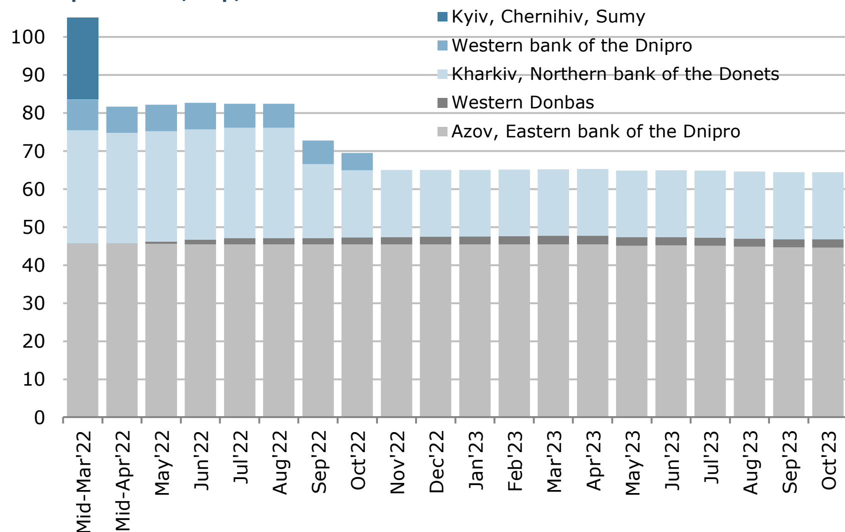
War Update

War statistics

Occupant losses per day



Occupied area*, eop, ths km²



Ukraine conducted two successful offensive operations in August-November 2022, when its forces managed to liberate the eastern part of Kharkiv region in the north, as well as the city of Kherson and the entire Western bank of the Dnipro in the south.

Since then, in the last 12M, Ukraine's defense forces had no tangible territorial gains – and this is perhaps the most bitter takeaway. Neither side was able to advance, meaning that the situation has turned to what top Ukraine general commander Valeriy Zaluzhny called a positional war.

In January-February 2023, the defenders withstood russian attack in Western Donbas, during which the occupants, suffering heavy losses, totally destroyed and captured towns of Soledar and Bakhmut.

Ukraine's pre-announced big offensive operation of summer 2023 resulted in humble territorial gains in Zaporizhia and Donetsk regions. Ukrainian forces have overcome dense minefields and have dug into russian heavily fortified lines in two directions toward the coast of Azov Sea. However, that advance looks not much impressive on the map.

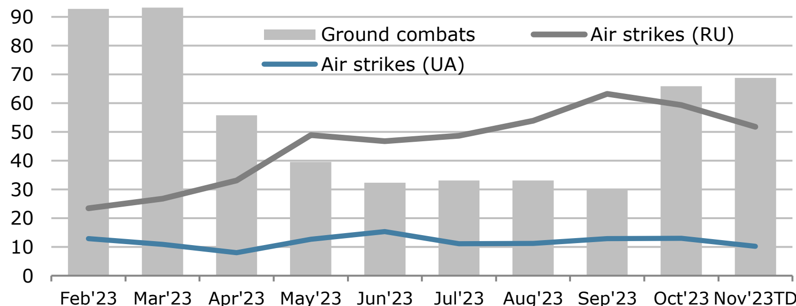
Meanwhile, Ukraine achieved a **tangible success** in some areas:

- **Counter-artillery**. Since early 2023, russia's loss of artillery has been constantly growing. Due to western supplies, Ukraine has an apparent advantage in long-range artillery (20-40 km distance). It has reached a parity in artillery power despite a disadvantage in ammunition quantity.
- **Black Sea battle**. With the help of long-range missiles, UAVs and unmanned boats, Ukraine managed to liquidate russian dominance in the Black Sea and make its navy locked in harbors.

Key Ukraine's apparent **disadvantages** are:

- **Control over the skies**. Ukraine is making about 5x less air strikes as compared to the aggressor. Russian missiles and drones are causing a lot of damage not only on battlefields, but deep inside Ukraine. Hopefully, this will change in 2024 with supplies of western fighter jets.
- **Lack of efficient de-mining equipment,** in addition to lack of control over skies, did not allow Ukrainian forces to advance in key targeted directions.

Actions per day



** Includes only area captured by russia in 2022-2023. Does not include occupied Crimea (26.9 ths km²) and part of Donbas occupied in 2014 (about 16.8 ths km²)*
Sources: General Staff of Armed Forces, Deepstatemap.live, Concorde Capital research

Current status on battlefields

Despite no significant changes of the front line over the last 12 months, military actions are very intensive across the line.

The aggressor is very active:

- Near the city of Donetsk, where it launched in October an aggressive offensive trying to surround the town of Adiyivka. Its incremental October and November losses (see statistics on the previous slide) are in this area.
- In the Maryinka area, where Ukrainians repel 15-25 attacks daily.
- In the north, targeting to re-occupy towns of Kupyansk and Lyman

Ukraine forces' key directions of attacks are:

- Towards Tokmak, where it has the biggest territorial gain of its summer offensive operation.
- Near Bakhmut, with some territorial gains in the south of the town.

Ukraine's main current task seems to be:

- To prevent the aggressor's advances in the north and near Avdiyivka,
- Try to develop its success in the direction of Tokmak and further target the coast of Azov Sea to ultimately block russian logistics in the Crimean peninsula.
- Additionally, to cause some troubles to the occupants in the eastern bank of the Dnipro near Kherson.

If the supplies of western equipment are sufficient, Ukraine has a good chance to reach the Azov coast and try to block Crimea in 2024. Meanwhile, it faces a risk of territorial losses in the north and west of Donetsk.

Sources: General Staff of Armed Forces, UkrStat, Concorde Capital research

Financing of Ukraine's defense: Western support is essential

Since the beginning of russia's open aggression, Ukraine started receiving heavy financial and military support from its Western partners.

We estimate that Ukraine was able to direct to its defense about USD 79 bln in 2022 and USD 86 bln in 10M23, which is 2.3-2.8 times more than Ukraine's tax payers and state companies can provide to the budget. Such resources are now comparable to military expenditures of the aggressor state, which amount to about USD 110-130 bln per year. Such financing of Ukraine's security and defense looks enough to withstand russian aggression, but it is not enough for liberation of the occupied territories.

We can divide the available resources of Ukrainian government (directed to finance both regular non-military budget expenditures and finance its war against the occupant) into three major categories:

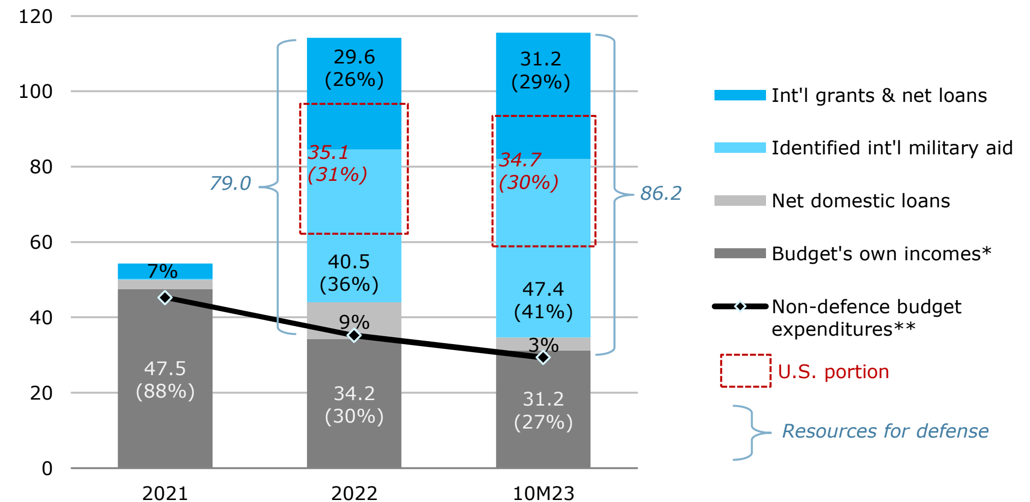
- Own incomes of state budget (taxes and non-tax incomes like dividends) and internal financing (banks, the central bank) which accounted for 39% and 30% of available resources in 2022 and 10M23.
- International financial aid in the form of long-term loans and grants (26% and 29%).
- Identified foreign military support (weapons, ammunition, training etc) which accounts for about 36% and 41% of total resources. Some portion of the declared military support could have not reached Ukraine yet. But the total declared value of such support is likely to be lower than the actual assistance provided.

Ukraine received about USD 154 bln of financial and apparent military support in 2022-10M23. This is comparable to Ukraine's annual GDP and is less than 0.4% of annual GDP of EU and G7 countries.

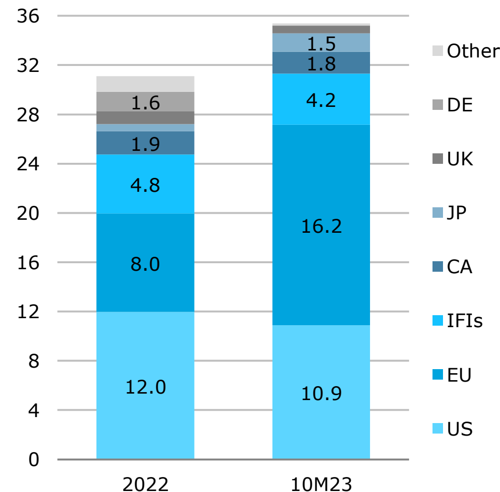
The U.S. brings over 30% of total Ukraine's financial and military resources (comparable to all Ukraine's internal sources). The U.S. role decreased in 10M23 as compared to the year 2022 as more counties and institutions are starting to assist Ukraine. In military support, the American share decreased from about 57% in 2022 to 50% in 10M23. In financial support, its share declined from 39% to 31%, as the EU took a leading role here. Anyway, the American support of Ukraine is essential to continue its resistance. We remain certain about the future important role of the U.S. in this task, under any circumstances.

Besides the U.S., the EU and the IFIs, valuable contributions to Ukraine's support were made by Germany, the UK, the Nordic states, Canada, Poland, the Netherlands and Japan.

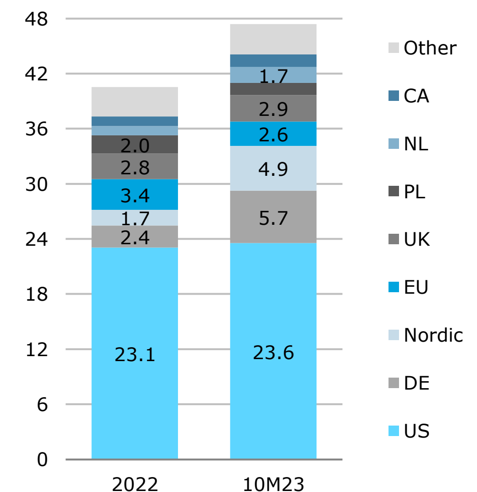
Resources available to Ukraine's budget, USD bln



Gross financial support of Ukraine, USD bln



Military assistance of Ukraine, USD bln



*Tax and non-tax incomes except those attributed to international grants and other support. **Budget expenditures except those attributed to defense and the national security. Sources: Respective governments, Ukraine's Finance Ministry, Kiel Institute for the World Economy, Concorde Capital research

What’s next

Our view on war development has become more conservative this time, as the reality shows that Ukraine’s capability to attack in multiple directions is weaker than that of russia.

However, our general view remains the same – we still see Ukraine is able to reach the coast of the Azov Sea and block all russia’s connections with the occupied Crimea. This is likely to happen in mid 2024. At the same time, liberation of easternmost territories, which looked as a hard task before, now looks even harder.

Ukraine’s leadership has no intention to stop its military pressure on the occupant, otherwise the nation would lose the war. Ukraine’s defeat would have dire consequences for the entire Western civilization, so we have no doubt that massive support of Ukraine will continue, irrespective of political weather in key western countries.

In early November, general Zaluzhny listed five measures that Ukraine (with the help of Western partners) should undertake to advance in liberation of its territory:

- Gain the air superiority,
- Get equipment to breach mine barriers,
- Increase its effectiveness of the counter-artillery,
- Build up electronic warfare capabilities,
- Create and train the necessary reserves.

In our view, such measures look possible and they demand no significant increase of international efforts, as compared to the current levels (taking into account that the provision western aircrafts has been already committed).

No doubt, Ukraine cannot finish the war by itself, even if it liberates all or most of the occupied territories. This is because such an outcome won’t necessarily change russia’s intention to attack Ukrainian territory. Therefore, the only side that can stop the war is russian one. Clearly, it can be done by a combination of three forces:

- Ukrainian military advances, e.g. towards or inside Crimea,
- Even more international pressure on russian regime and its economy,
- Political changes inside the aggressor state, which are to be caused by the first two factors, and/or by internal movements.

Such a combination will bring tangible results, sooner or later.

Economy Update

Real growth: 2023 outlook is getting increasingly better

Ukrainian economy has fully recovered from a shock caused by russian invasion in February 2022, which resulted in temporary loss of territory (as of as of mid-2022, it lost occupied about 15% of the area controlled in 2021; now losses are about 11.5% of area occupied, plus about 9% being under risk of artillery strikes), population (about 16% left Ukraine and at least 5% remain on the recently occupied territories), increased security risks and a blockade of sea routes.

Statistical data on key economic parameters continues to lag significantly, but fragmented data suggests that Ukraine's economy is recovering faster than it was earlier expected. In 1H23, real GDP increased by 3.3% yoy, according to preliminary official data (including a 19.5% yoy growth in 2Q23), but we see a high chance that this number will be corrected upward.

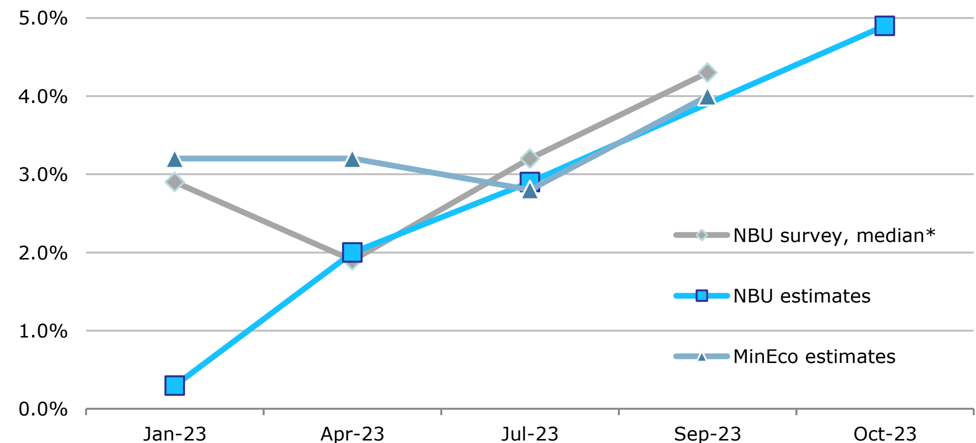
Key drivers of economic recovery are the increase of government demand for goods and services related to defense, higher incomes of Ukraine's defenders that fuels consumer demand and better performance of the agricultural sector.

Forecasts of economic recovery in 2023 are getting increasingly optimistic over time, with the 0.3%-3.2% range of estimates of real growth in early 2023 turning to 4%-5% growth outlook in September-October. We estimate Ukraine's real GDP will advance by about 6.0% yoy this year, which will still be a significant drop (about 25% in real terms) compared to the pre-war year of 2021.

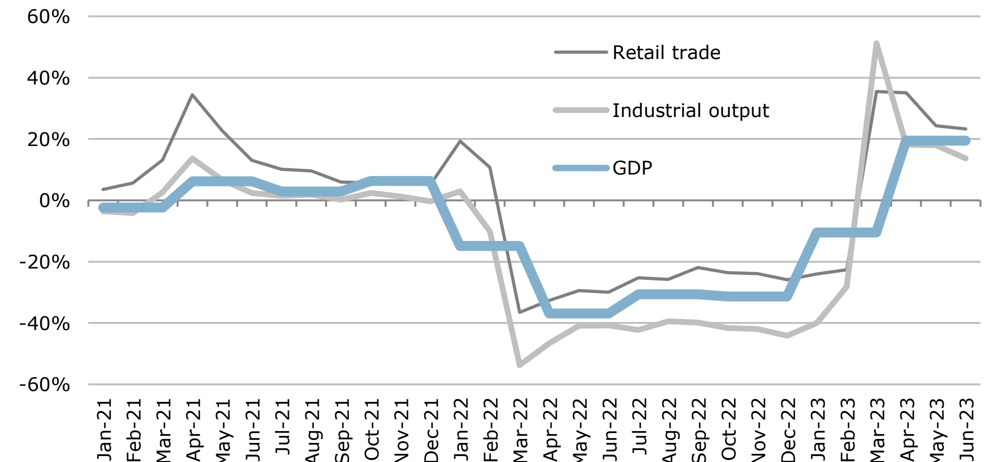
Key factor that limits the optimism about economic recovery is risk of russian attacks on Ukraine's energy infrastructure (as in late 2022) which could potentially result in massive blackouts or at least limited supply of power in the fourth quarter of the year. While this time Ukraine's air defense system is much stronger than a year ago, russian ability to cause damage to Ukrainian infrastructure remains solid. On the other hand, Ukraine's business is now much better prepared to possible troubles with power supply, meaning the effect of possible air strikes on economic activity is likely to be less pronounced this season.

In the next year, we expect Ukraine's real GDP to advance by about 2.1% yoy, as most of recovery potential has been exhausted, while Ukraine's farming is likely to perform worse yoy. Additional growth factor that can add up to 3pp to the next year's growth could be a full recovery of sea shipments of commodities (providing the security situation allows for that), but this is not our base-case scenario.

Real GDP estimates for 2023



Real growth, yoy



** Survey of financial analysts conducted by the NBU (13-16 forecasts in each survey)*
Sources: UkrStat, Economy Ministry, NBU, Concorde Capital calculations

Industrial output: Visible recovery from shock, still way below pre-war numbers

Industrial sector, the biggest victim of russia's aggression against Ukraine, demonstrated a 51% yoy real recovery in February and mid-teen growth in April-June, mainly due to weak comparison base. However, in 1H23, the industry declined 2.9% yoy and 33.9% compared to 1H21.

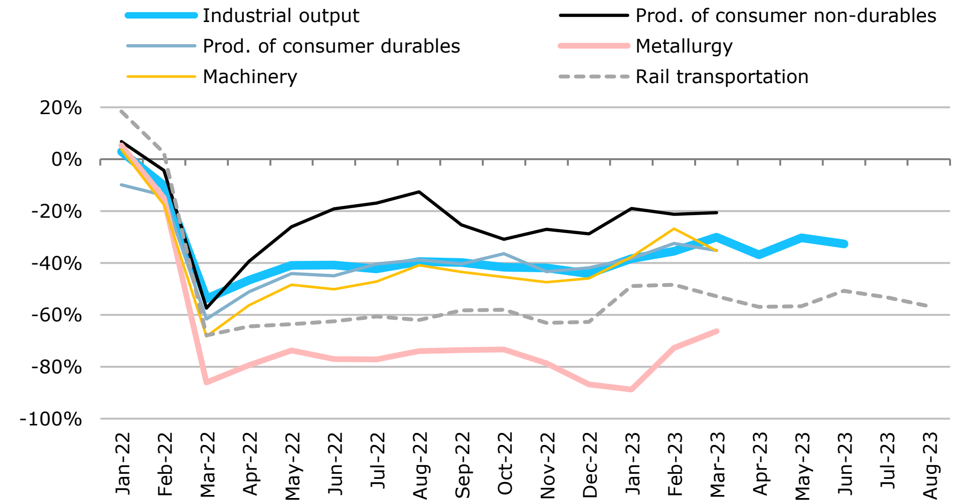
Among the best performing sub-sectors is production of non-durable consumer goods (about 20% decline compared to pre-war levels). This segment promises to recover further, to be fueled by relatively stable consumer demand and promising results of this year's grain harvest in Ukraine.

Metallurgy remains among the biggest victims of the invasion, which suffered directly (from damaging and occupation of key industrial premises) and indirectly (via blockade of sea routes, they main channel of sale of goods, over 80% of which had been exported). Most likely, this sector, which used to be among the biggest in Ukraine, won't be able to recover fast.

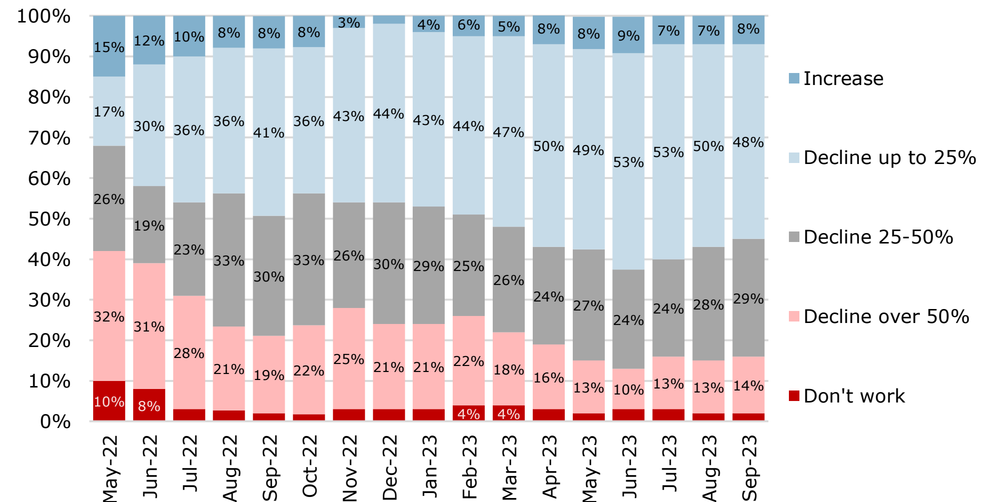
Meanwhile, Ukraine's machinery sector is likely to improve its results in 2023 by benefitting from increasing state/military orders.

No doubt, the industrial sector will show some low-double-digit yoy growth in 2023, which still won't be enough to offset the 36.7% yoy decline in 2022.

Real output as compared to 2021



Enterprises' output vs. pre-war level, IER surveys*



* http://www.ier.com.ua/files/Projects/2023/TDF/2023_NRES_Septembert_FINAL_UA.pdf
Sources: UkrStat, IER, Rail Insider, Concorde Capital calculations

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Agriculture: Harvest expectations are improving

In early 2023, Ukraine officials had pessimistic expectations about this year's agricultural sector performance, assuming both decline in harvested area and crop yields - due to security risks, uncertainty regarding crop exports and worsening agricultural technology on limited financing.

Such forecasts proved to be wrong as:

- Harvested area did not decrease in 2023 as compared to the previous season. Moreover, based on the latest reports, the harvested area of three already collected crops is about 4% higher than the planted area, as reported by the Agriculture Ministry in mid-July. This might be the result of improper reports by business (obligations to report for statistical purposes have been eased in Ukraine since russia's full invasion).
- For the crops which have already been harvested, yields were much better than in 2022 and even comparable or better than the results shown in the record-high year of 2021. This seems to be a result of both, favorable weather conditions and improvement of fertilizers application as compared to last year.

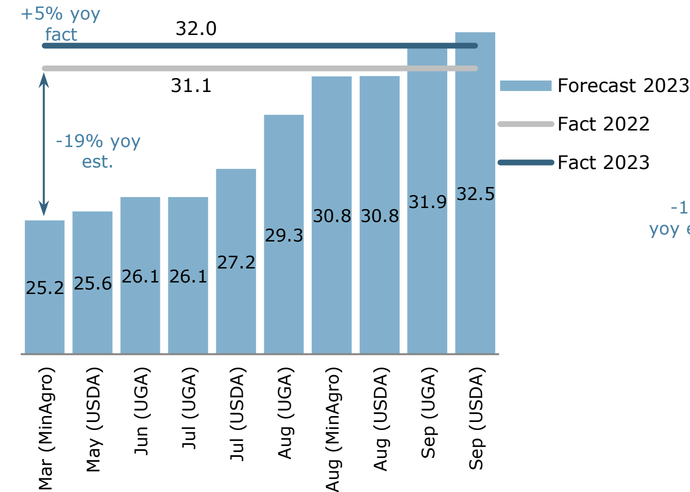
As a result, the harvest of three key early crops (wheat, barley and rapeseed) is about 5% better than in the last year, despite forecasts made in spring and early summer had promised a 16-19% decline.

Notably, harvest estimates for late crops (corn, sunflower and soybeans) were upgraded by over 20% in August, as compared to spring and early summer.

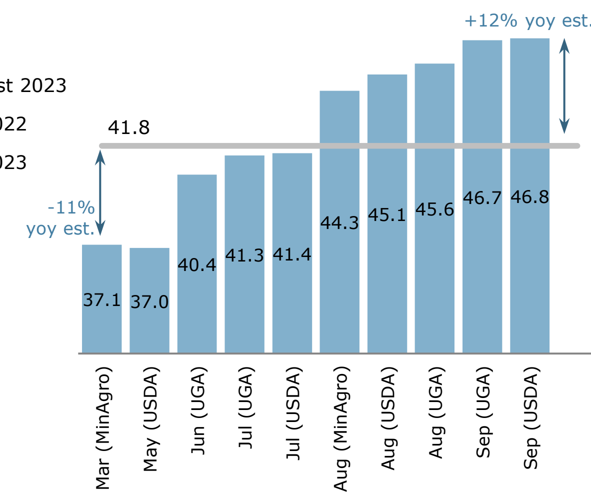
We estimate Ukraine's total crop harvest will be close to 79.5 mmt, or 10% better yoy.

Harvest of selected crops: forecast changes and fact, mmt*:

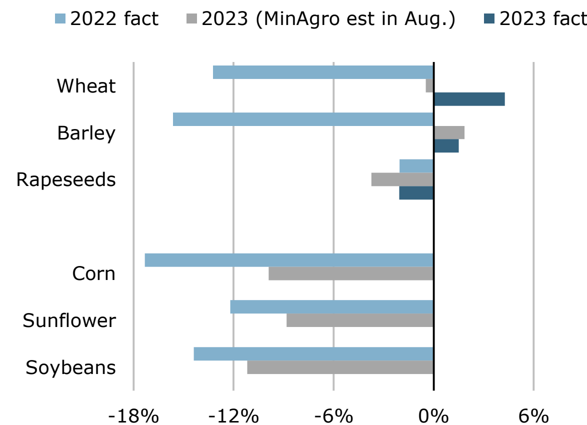
Wheat, barley & rapeseeds (already harvested)



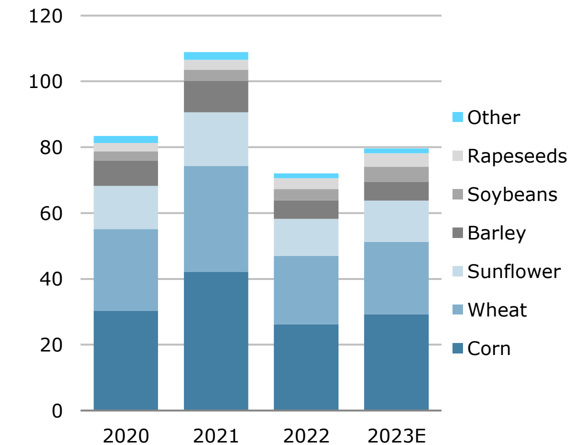
Corn, sunflower & soybeans (to be harvested)



2023 yields of key crops as compared to 2021



Total crop harvest in Ukraine, mmt



** UGA – forecasts provided by the Ukrainian Grain Association; MinAgro: forecasts provided by Ukraine's Agriculture Ministry*
Sources: MinAgro, USDA, UGA, UkrStat, Concorde Capital research

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Banking sector: High liquidity, profitability sustains

High salaries of militaries as well as increased propensity to save by business continue to drive banking deposits up. As of end-September 2023, local currency banking deposits increased 51% and foreign currency accounts increased 5%, as compared to end-January 2022.

At the same time, the gross loan portfolio of the sector decreased, as compared to the pre-war level by 3% and 35% in local and foreign currency, respectively. Some recovery in loans has become visible since July 2023 only.

The banks, instead, continued to direct their excess UAH liquidity for the purchase of the NBU's certificates of deposit (CDs), which were up 4.1x compared to pre-war period. As a result of this:

- The banks' investments into state bonds and CDs exceeded their gross loan portfolios since June 2023;
- The banks' interest income from securities (state bonds and CDs) exceeded incomes from their loan portfolios in 1H23.

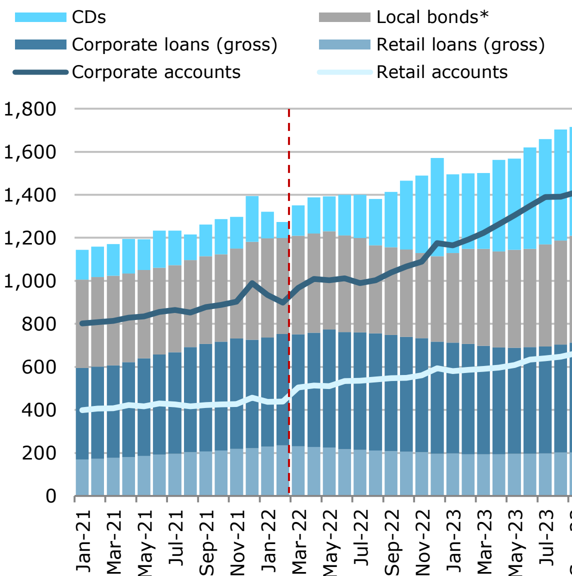
Foreign currency liquidity was mostly placed at the correspondent accounts in foreign banks (up 50%).

Banks take advantage of relatively low deposit rates and increased return on their financial assets caused by NBU's tight monetary policy. As a result, the banks' net interest income increased 47% yoy in 9M23.

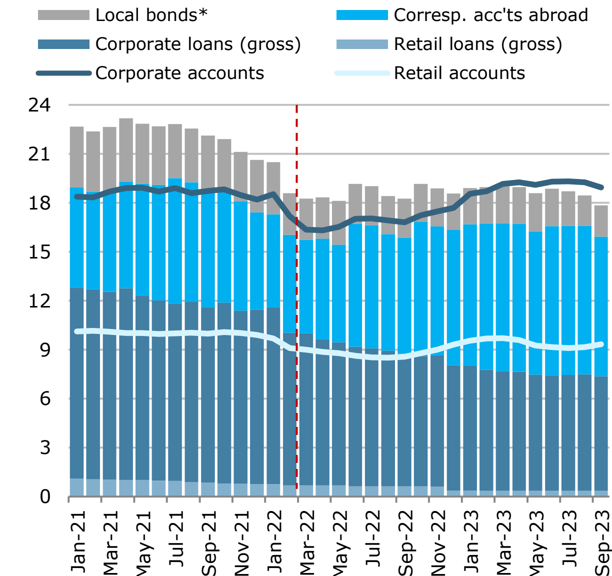
Quality of loan portfolios of Ukrainian banks deteriorated since the start of russian invasion, so loan loss provisioning has eaten most of the banks' profits in 2022. However, in 2023, the banks are showing record-high profits, with average ROA being 5.8% and average ROE being 59% in 9M23.

"Huge" profits of the banking system even caused some of parliament members to initiate extra tax on "banking interest income."

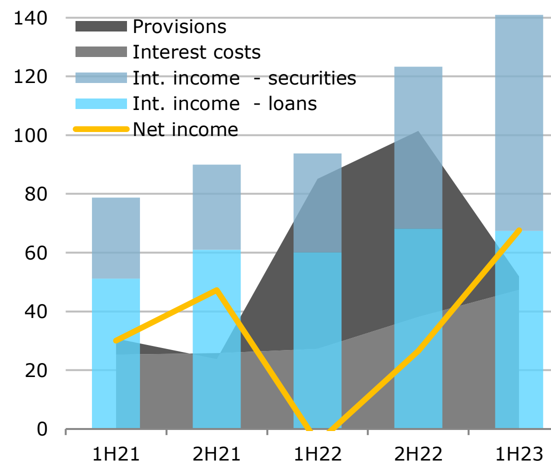
Key banking UAH financial accounts, UAH bln



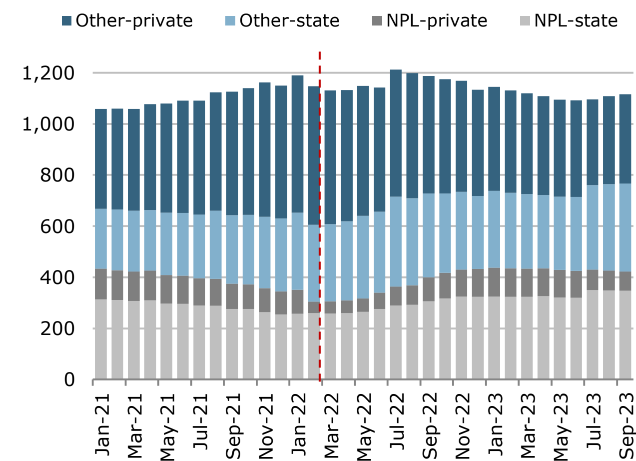
Key banking FCY financial accounts, USD bln



Selected banking P&L items, UAH bln



Loan portfolio by quality and bank ownership, UAH bln



** At bonds' par value*
Sources: NBU, Concorde Capital calculations

Trade balance: Weaker food exports drive trade deficit

The most important trends of Ukraine's trade balance are:

- The biggest trade items of 2022, exports of food and imports of "travel services" (which is mostly expenditures of temporary refugees outside Ukraine) are weaker yoy and have stabilized over the last couple of months.
- Imports of machinery & equipment are steadily growing throughout 2023 and they exceeded "travel imports" since April 2023.
- Decline in food exports and growing imports of machinery caused the biggest effect on Ukraine's worsening trade balance over the last three months. This trend is likely to continue in the coming months.
- Metallurgical and mineral exports (mainly steel and ore) remain depressed due to no access of the exporters to seaports. Here exists a large recovery potential, providing sea routes are unblocked.
- Most of other important trade items (imports of chemicals and fuel, exports of IT services) remain broadly stable.

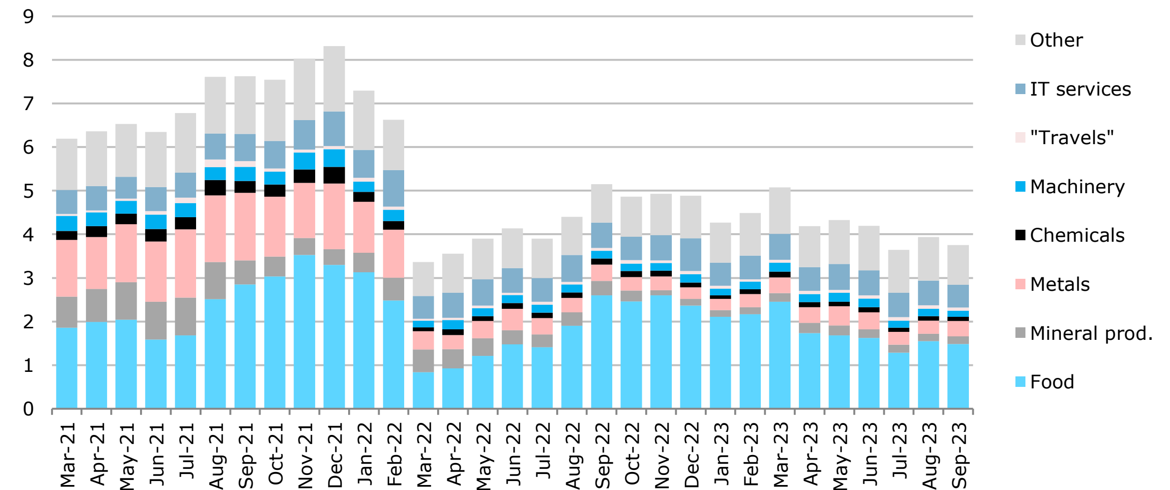
Ukraine's trade deficit of goods and services, after peaking at USD 4.2 bln in December 2022, was declining in January-April (to USD 2.3 bln), but widened afterwards and stabilized at USD 3.6 bln in July-September. In the next couple of months, we expect net imports will slightly widen to nearly USD 4 bln per month, as:

- Imports of machinery will continue growing, and imports of fuel will increase seasonally.
- A decline in food exports won't be offset by a decline in "travel imports", unlike in early 2023.

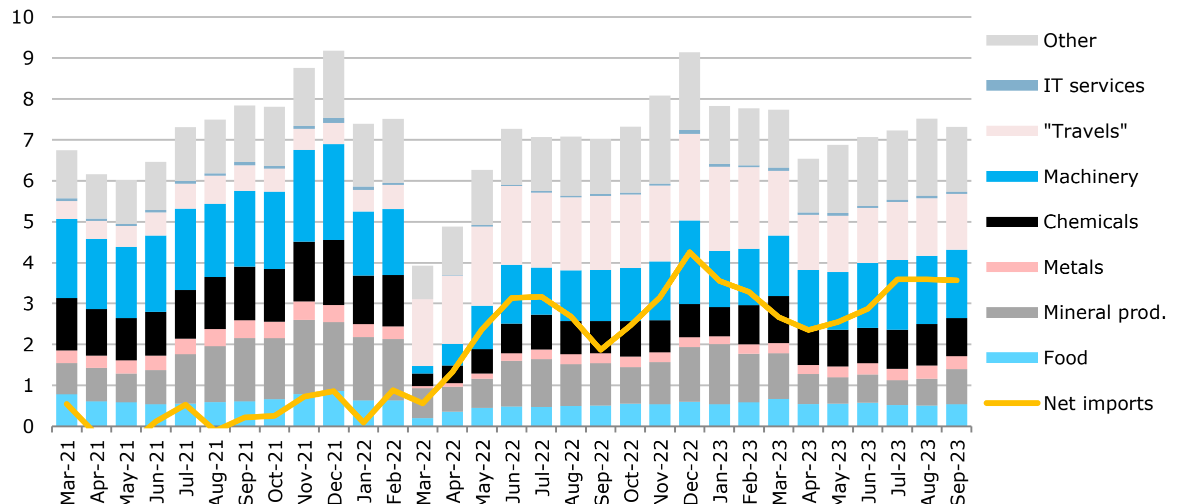
Among key game-changers for the trade balance in the future, there could be:

- Extended blockade of Ukraine's port terminals by russia (including those located on the Danube) could worsen grain export prospects,
- Alternatively, a complete unblocking of sea routes for all export items, including steel and iron ore, could significantly widen Ukraine's export potential (see the next slide for more details).

Export of goods and services, USD bln



Import of goods and services, USD bln



Sources: NBU, Concorde Capital calculations

Importance of Grain Corridor is not as high as in 2022

Russia's 2023 invasion of Ukraine has blocked the county's Back Sea routes for export of any goods, so Ukrainian exporters had to seek for new routes to deliver commodities abroad. In July 2023, Ukraine reached a deal with Turkey and the UN to start exports of agricultural commodities via the "grain corridor", under russian supervision.

The grain corridor allowed Ukraine to export 32.6 mmt of goods in Aug.'22-Jun.'23, out of total agricultural exports of 67.8 mmt in the previous marketing season (Jul.'22-Jun.'23). This corridor, therefore, has played an important role in exporting the leftover of grains from the bumper harvest of the year 2021.

In the season of Jul.'23-Jun.'24, the importance of the grain corridor will be smaller, as grain harvest in Ukraine is expected to be about 27% smaller compared to the record season of 2021/2022. We estimate that Ukraine's export potential for grains and other important agri goods will decrease from 67.8 mmt in the previous season to about 55 mmt in the current one. This implies an average monthly export need of 4.5-4.6 mmt. Most of this amount can be theoretically exported without the grain corridor (in March and August 2023, 3.7 mmt were exported beyond the corridor).

No doubt, Ukraine's ability to export agri goods through Black Sea is important strategically (and it is still important for exports of cereals, as other routes are much more expensive), but right now the nation does not have a critical need for the corridor's uninterrupted work.

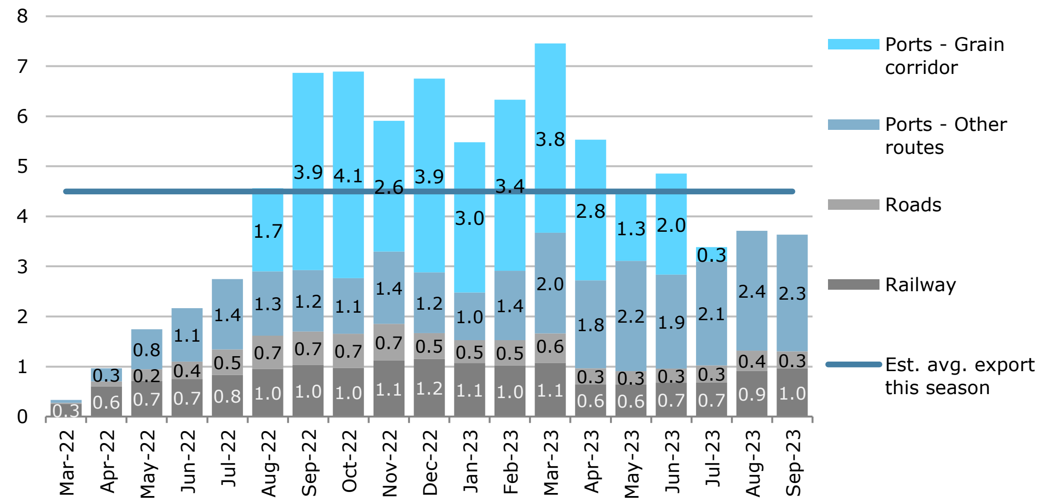
That said, now Ukraine has enough time to establish a more comfortable (without humiliating involvement of russia) way of using its Black Sea routes for commodity exports.

After a series of successful attacks on russian navy, Ukraine initiated an attempt to export food via Black Sea ports without the russia-controlled grain corridor in mid-September. If this project proves its sustainability, Ukraine will be able to expand its export capacities without the official grain corridor. More importantly, in such a case, Ukraine will potentially be able to deliver by sea not only agri goods, but other important export items like steel and iron ore.

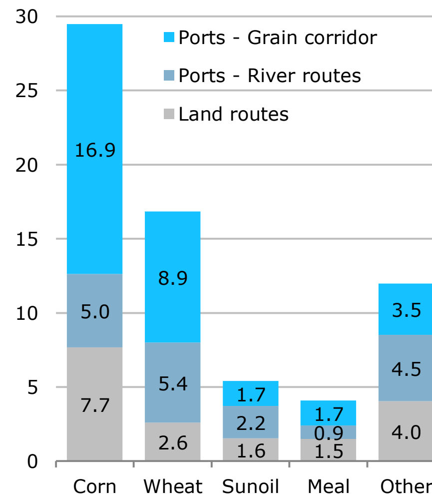
Meanwhile, key risks for Ukraine's agricultural exports are:

- Limits imposed by Ukraine's Western neighbors on imports and transit of agri goods (exports by rails and roads decreased since April). Such limits should be removed for Ukraine to realize its export potential without the grain corridor.
- Russian attacks on port infrastructure (including the river ports), activated in July 2023, could significantly limit Ukraine's export potential.

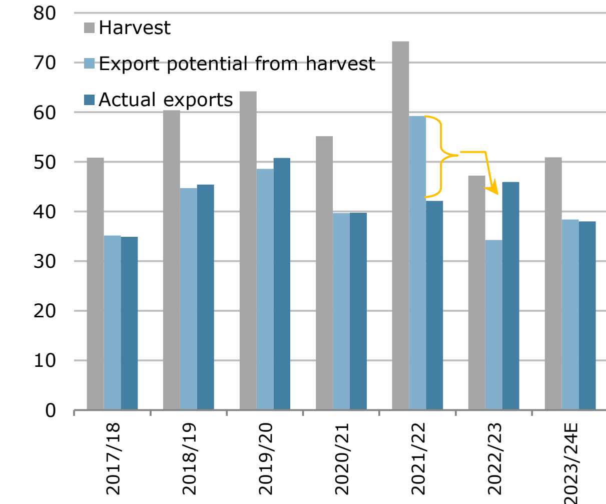
Ukraine agricultural exports, mmt



Agri exports in 2022/23 season, mmt



Export potential of corn & wheat, mmt



Sources: Ukraine Agriculture Ministry, Ukraine Grain Association, Concorde Capital research

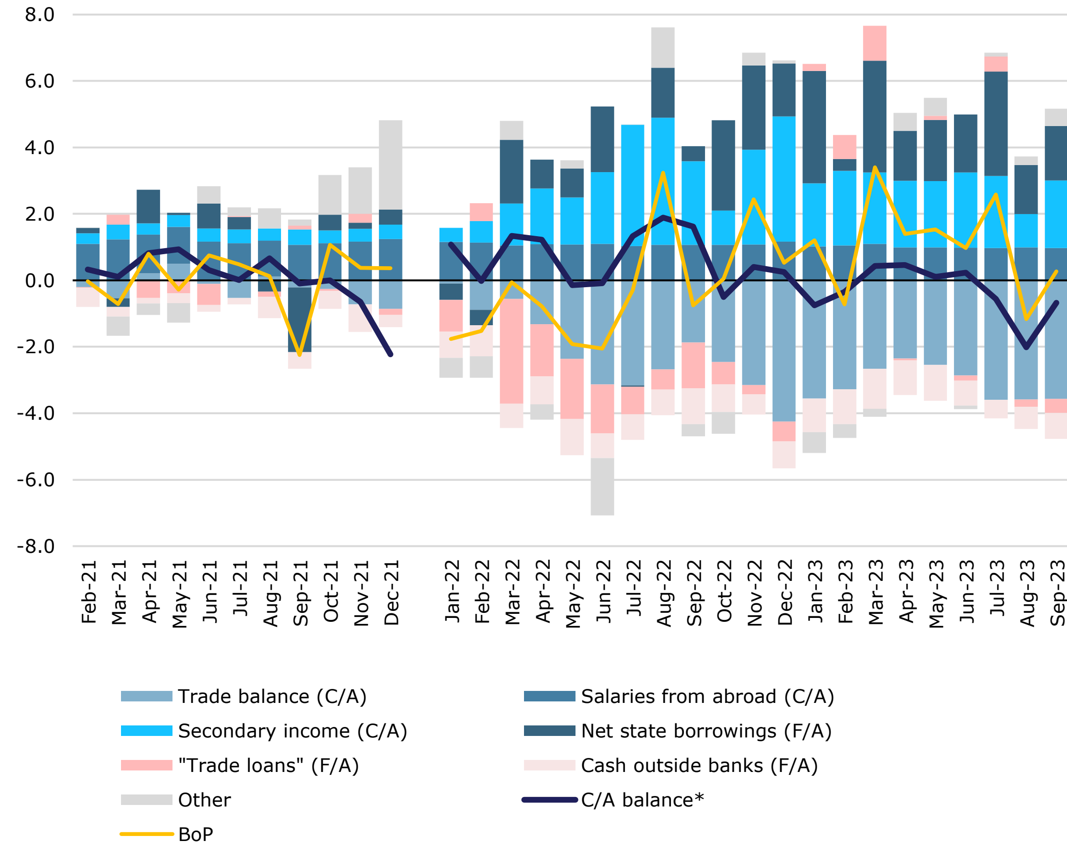
Balance of payments: Worsening on heavy trade deficit, western support irregularity

The most stable BoP items remain salaries from abroad and cash foreign currency withdrawal from the banking system, which mostly balance each other. Key drivers of the current account C/A and BoP remain trade deficit and financial support of Ukraine in the form of grants (part of secondary income) and loans.

Gradual widening of the trade deficit since May 2023 resulted in deterioration of the current account surplus, which turned to a deficit in July. In August, when Ukraine received no grants, its current account deficit widened to about USD 2 bln. Recovery of financial grants provision by the U.S. in September-October failed to bring the C/A to a surplus. Meanwhile, Ukraine's positive financial account balance allowed it to bring the BoP again to positive territory in September, and likely in October.

"Trade loans", which were among the key sources of hard currency outflow from Ukraine in the first months of full-sized war, cause no more heavy pressure on the BoP in 2023.

By the end of 2023, we expect a slight widening of Ukraine's trade deficit (see slide 13 for more details) and some recovery of Western support for Ukraine. That said, we expect Ukraine's C/A will be close to zero and BoP will be in the black the last months of 2023.



** C/A balance adds back "reinvestment incomes" which the NBU subtracts in its reports since 2021*
Sources: NBU, Concorde Capital calculations

Gross international reserves: Reaching new highs on back of foreign support

The NBU's gross international reserves increased 37% YTD as of the beginning of November, to USD 39.0 bln, now covering about five months of future imports.

In March-July 2023, Ukraine's gross international reserves were increasing as the NBU's needs to spend currency for keeping the stable UAH/USD exchange rate (around USD 2 bln per month) and government's spending for foreign currency debt service (about USD 1 bln monthly) were offset by about USD 4 bln monthly receipts in the form of state loans and grants. In August-October, however, the situation changed as NBU's ForEx interventions increased (mostly driven by wider trade deficit) and foreign currency financing decreased to average USD 2.8 bln.

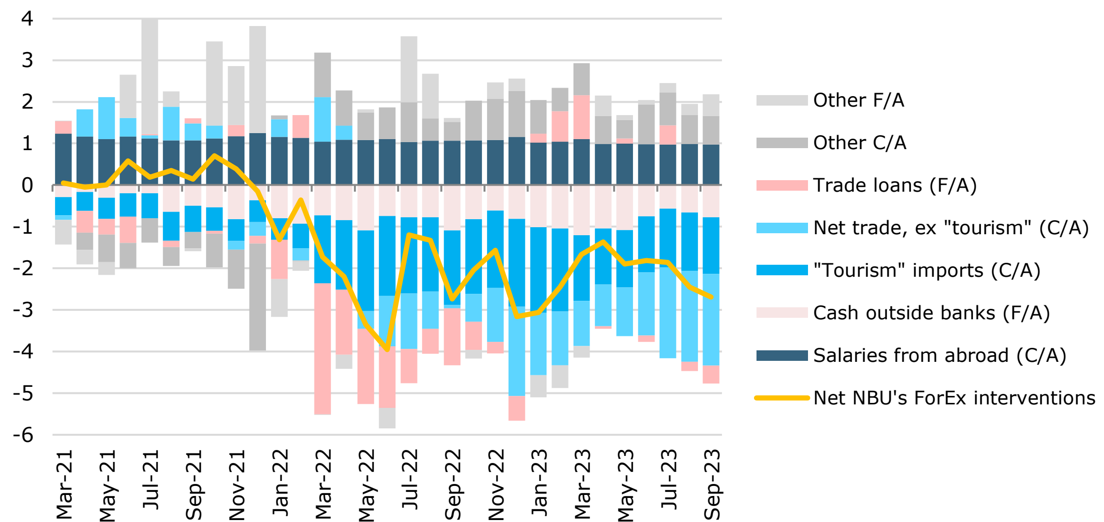
Among the most important steps to curtail demand for foreign currency since russian invasion was NBU's introduction of strict control on capital flows. As can be seen from the upper chart, such measures (including limits on repatriation of dividends and servicing of international loans by business) made "other C/A" item turning into positive number in early 2022, from deeply negative numbers seen before the russia's invasion. The postponed demand for hard currency withdrawal related to loan servicing and dividends is accumulating, which threatens enormous foreign currency outflow (up to 1/3 of the current level of gross reserves) once the restrictions are lifted.

The NBU, on demand from the IMF, has presented a strategy of gradual liberalization of ForEx operations, with no clear deadlines. We believe the liberalization will be tiny, with most painful restrictions for BoP will remain in place some period "after the war".

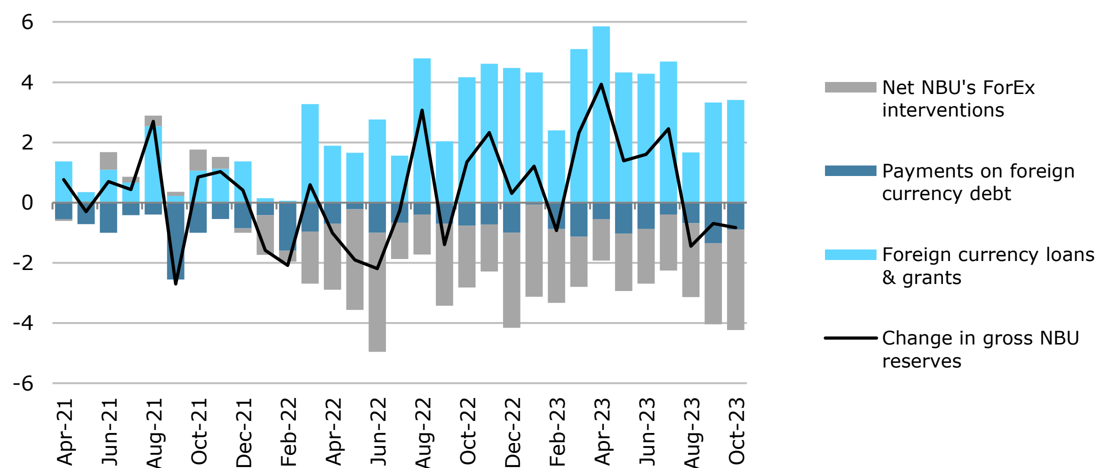
Among the biggest development of October was NBU's shift from the regime of fixed UAH/USD rate, introduced in February 2022, to a "managed flexibility" of UAH/USD rate. The emerged "panic" forced the NBU to sell extra about USD 0.5 bln on ForEx market in the first week of the new policy (see the next slide for more details).

The NBU is expecting its gross reserves to increase to USD 41.8 bln as of end-2023, to be fueled by USD 10 bln gross international financing in November-December. This includes about USD 3.3 bln of U.S. grants, USD 3.2 bln of EU assistance and about USD 1.9-2.0 bln in earlier committed loans from Japan. Thus far, key risk for such a forecast is related to timely provision of financial support from the U.S.

Key drivers of foreign currency demand in Ukraine, USD bln*



NBU ForEx interventions and gross reserves, USD bln



** All BoP items that affect ForEx market (excluding flows related to international grants and foreign-currency state debt)*
Sources: NBU, Concorde Capital calculations

Hryvnia: NBU introduces “managed flexibility” of UAH/USD rate

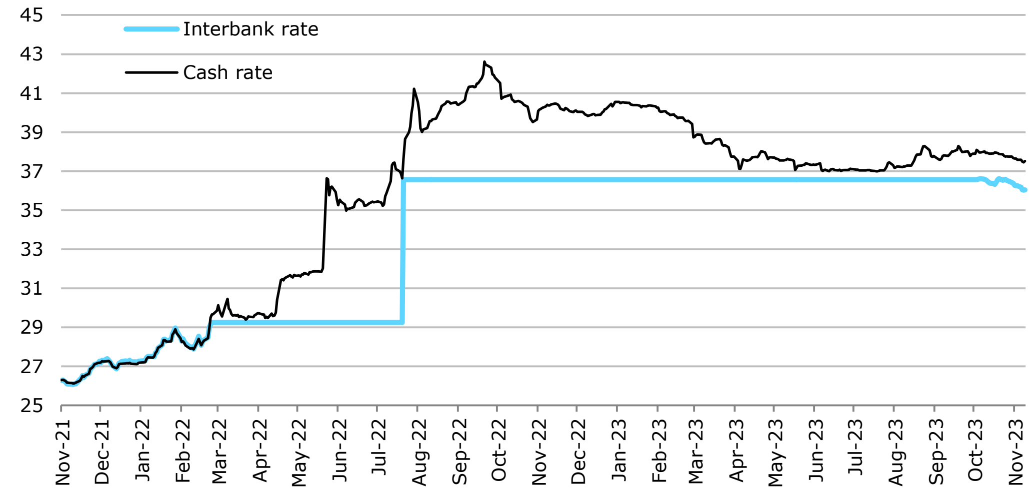
In early October, the National Bank decided to shift from the policy of fixing the UAH/USD rate that it implemented in the first hours of russian invasion in February 2022. Instead, it introduced a policy of “managed flexibility” of the UAH/USD rate. In the environment of structural deficit of foreign currency, this policy still assumes heavy interventions of the NBU to keep ForEx market balanced. In fact, the NBU only allows minor exchange rate fluctuations, so far.

In the first week of the new policy, the NBU spent USD 1.15 bln for ForEx interventions (vs. USD 0.65 bln per week in September) to calm down the panic among business. It managed to demonstrate to the alarmists that new rules do not mean that hryvnia should sharply devaluate. Moreover, the alarmists were “punished” as hryvnia slightly appreciated on the interbank market (by 0.8% in the first month of the new policy).

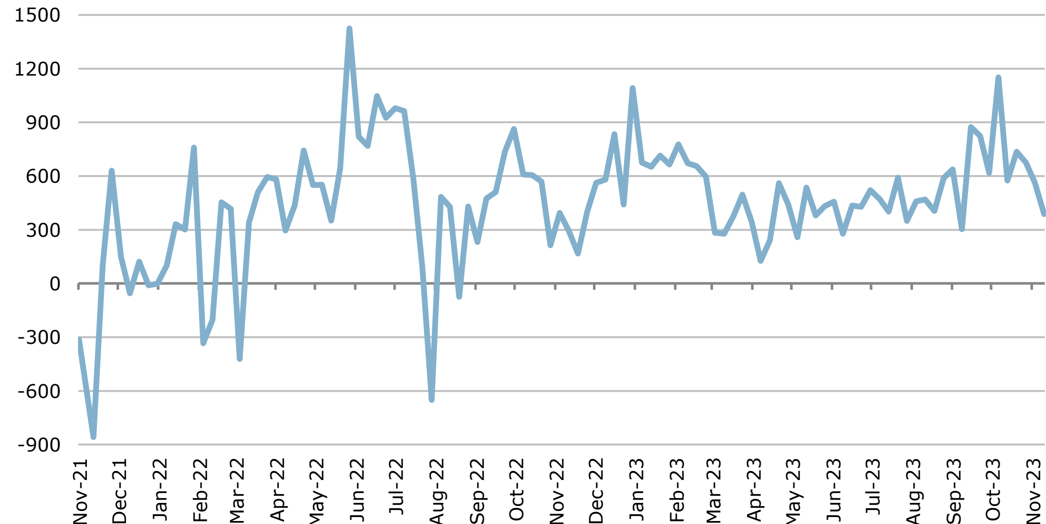
The National Bank is trying to limit speculative demand for dollars by keeping its tight monetary policy, with NBU’s deposit rates for the banks remaining at 16% (overnight) and 20% (3M) since early September. Most likely, such rates will be lowered by 1pp in December 2023 and will be relatively stable (with a potential to decrease by up to 2pp) in 2024.

We expect the NBU will keep the UAH/USD rate relatively fixed for a season of maximum uncertainty (till the end of winter 2023-24), and later on will allow for some devaluation of Ukrainian currency. Meanwhile, the devaluation will be low enough to keep UAH deposits in the banks (yielding 10%-12% after tax for 12M) more profitable than investments into cash dollars. That said, we expect the devaluation won’t exceed 8% in 2024, and the end-2024 UAH/USD rate will be close to 39x.

UAH/USD rate



Weekly NBU ForEx interventions, USD mln*



** Positive numbers are for the net sale of foreign currency.*
Sources: NBU, Concorde Capital calculations

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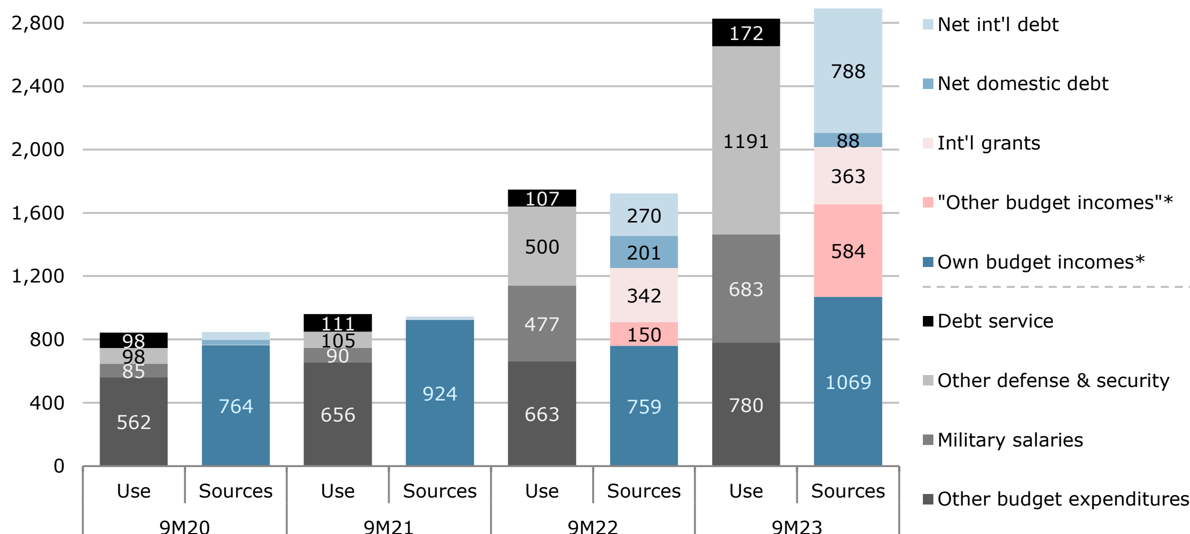
State budget: Over 60% of expenditures rely on international funding

While Ukraine's traditional state budget incomes (tax and non-tax) remained broadly on the pre-invasion levels, they covered less than 40% of total budget expenditures in 9M23. This is because war-related expenditures (for defense and security) increased by more than 9x as compared to 2021 and accounted for almost 2/3 of total central budget outlays .

Notably, a significant portion of state budget incomes is referred to "other incomes of budget entities", and such incomes were not planned. We interpret them as partial recognition of international military and humanitarian support for the country. Collectively, the "other incomes" and grants generated UAH 947 bln in 9M23, or 47% of total reported central budget incomes. Such assistance and net international financial support totaled UAH 1735 bln in 9M23, covering 61% of budget expenditures for the period.

There is a risk that such support will decrease in 2024, as a significant portion of it depends on the support from the U.S. which is yet to agree on its budget for the next financial year. However, our base-case scenario assumes American (and broad western) support will remain on the current levels in 2024.

Key budget expenditures and sources of financing, UAH bln



** Own budget incomes include tax and some non-tax incomes (e.g. dividends), and exclude international grants and "other incomes of state entities" (which are presumably a part of provided international military support), presented separately. Sources: Finance Ministry, Concorde Capital calculations*

Budget plan for 2024: Expenditures, foreign assistance are under-estimated

Ukraine's parliament has recently adopted a budget plan for 2024, which, alike the initial plan for 2023, lacks two significant income sources:

- **International grants** (plan for 2023 and 2024 is nearly zero, vs. fact for 9M23 being UAH 40 bln per month). Such conservative planning (which stems from uncertainty about future grants) assumes that all the budget deficit will be financed from loans, inflating the forecasted state debt to about 100% of GDP in 2024.
- **International military assistance**. As the fact for 9M23 shows, accrual of such assistance, mainly accounted as "other incomes of budget entities" was UAH 69 bln per month.

Excluding the latter item from the forecasted 2024 budget income leads to under-forecasted defense expenditures: other defense expenditures than salaries are (unrealistically) forecasted to decline by 60% in 2024, as compared to 9M23 monthly average.

Meanwhile, the 2024 budget assumes a 28% increase in average tax incomes as compared to 9M23, which looks too optimistic. With deeply under-estimated expenditures and slightly over-estimated tax revenues, the 2024 budget assumes that government's own income sources (ex grants) will cover 51% of its expenditures in 2024 (vs. 36% in 9M23).

The actual expenditures for debt service in the next year are likely to be smaller by about 35% compared to the plan, as the government is scheduled to address Eurobond holders with another round of restructuring in early 2024.

Our view on the 2024 budget is:

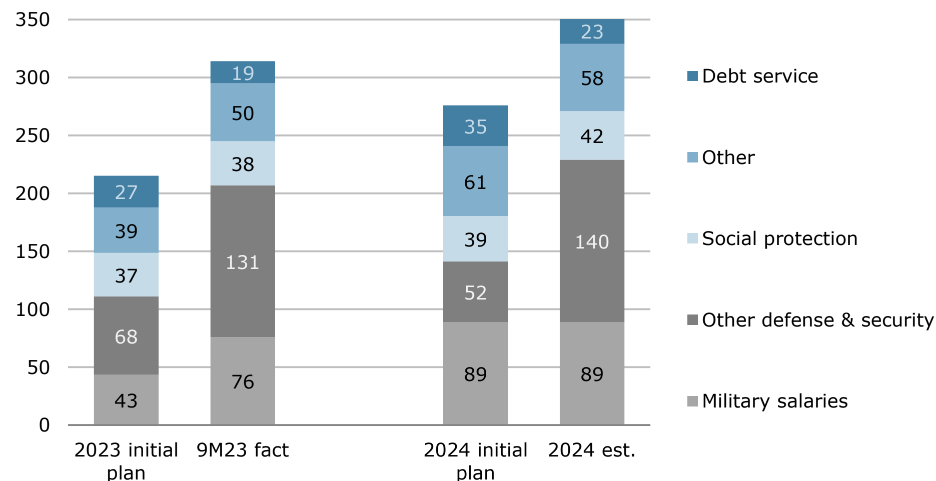
- Defense expenditures will be higher yoy, with the unbudgeted amount to be mostly financed by international military assistance programs (surging "other incomes of state entities").
- International grants will cover about UAH 40 bln of monthly budget expenditures in 2024, in line with historical data for 9M23.
- Debt service expenditures will be about 35% smaller than budgeted, social expenditures will exceed the budget plan, while other expenditures and tax incomes of the budget will be slightly below the plan.

As a result of such set of assumptions, we forecast that in 2024:

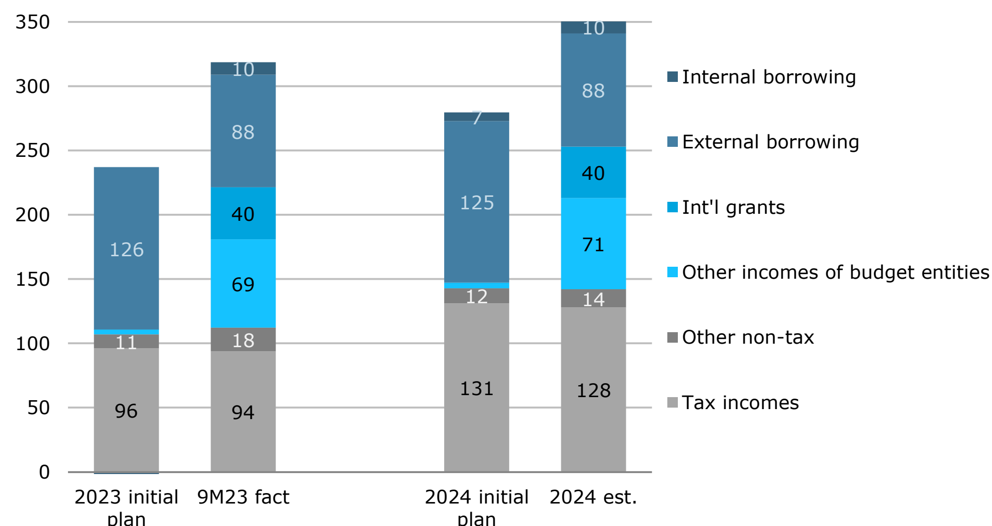
- Budget expenditures will be UAH 4220 bln (28% above the plan), of which 57% will be covered by Western partners (vs. 46% planned)
- Budget deficit will be UAH 1180 bln (23% below the plan) and the end-2024 state debt to GDP ratio will be 88% (vs. about 100% planned).

Overall, the forecasting of the budget expenditures is a challenging task in Ukraine, because more than half of them are covered by sources impossible to control or explicitly forecast.

Monthly average budget expenditures, UAH bln



Coverage of budget expenditures, UAH bln per month



Sources: MinFin, Concorde Capital research

Prices: Tight monetary policy, fixed USD rate, weak food prices curb inflation

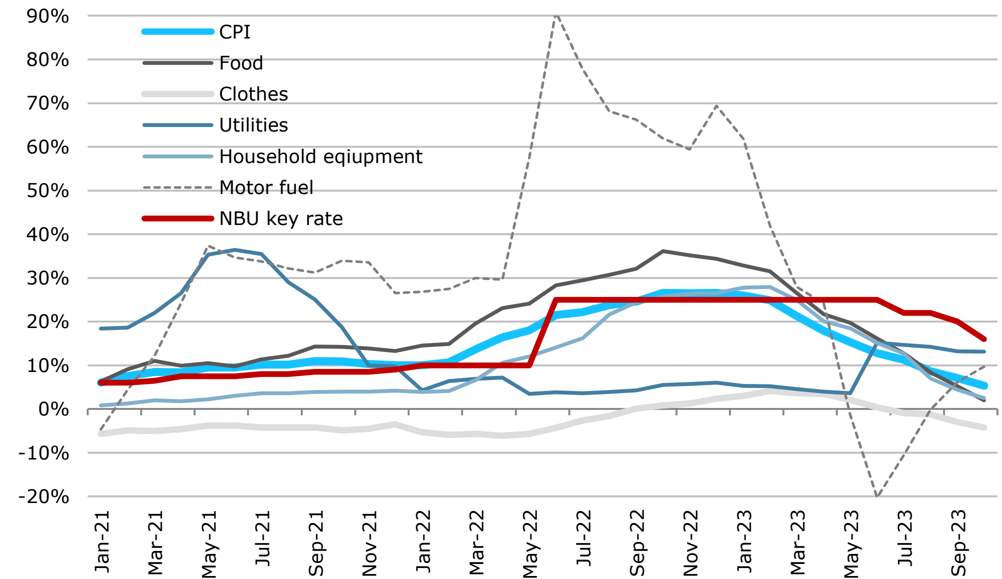
After peaking at 26% in October 2022, consumer inflation lost momentum and started slowing down fast starting February 2023. In August, CPI fell below the 10% threshold for the first time since mid-2021. In October, CPI slowed down to 5.3% yoy.

The key driver of inflation in 2022, prices for automotive fuel, declined yoy in June 2023, which enabled the government to resume charging VAT and excise taxes on them starting July. Prices for food, the biggest component of consumer basket, are steadily declining since November 2022, which is mostly a result of the weakening global soft commodity prices, as well as a strong harvest of most agricultural goods in Ukraine.

Other important factors of the fast disinflation are tight monetary policy and optimistic expectations on relative stability of Ukrainian currency.

Meanwhile, a one-off increase of electricity rates for households by 70% since July 2023 was among the biggest drivers of inflation over the last couple of months. Other utility prices (gas, heating) remain fixed since the beginning of russian full-sized invasion.

Consumer inflation is slowing down faster than everyone was expecting earlier, so CPI estimates for the end of 2023 are getting increasingly optimistic. The National Bank has recently decreased its end-2023 CPI outlook to 5.8%, from 10.6% estimated in July and 18.7% in January. We estimate that consumer inflation will decline to about 5.5% yoy in end-2023 (our May 2023 estimate was 14.0% yoy).



Sources: NBU, UkrStat, Concorde Capital calculations

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Ukraine macro indicators

USD bln, unless other indicated

	2020	2021	2022	2023E	2024E
Nominal GDP	155.8	200.6	159.1	178.1	197.2
Real GDP chg	-3.8%	+3.4%	-29.1%	+6.0%	+2.1%
State & guaranteed debt, eoy	90.3	98.0	111.4	144.8	173.9
% of GDP	58%	49%	70%	81%	88%
CPI, eoy	5.0%	10.0%	26.6%	5.5%	8.3%
CPI, average	2.7%	9.4%	20.2%	12.9%	5.4%
UAH/USD rate, eoy	28.3x	27.3x	36.6x	36.6x	39.0x
UAH/USD rate, avg	27.0x	27.3x	32.3x	36.6x	37.8x
Goods & services trade balance	-2.4	-2.7	-25.9	-37.8	-32.5
C/A balance	5.3	-3.9	8.0	-4.2	-5.0
BoP	2.0	0.5	-2.9	5.3	3.5
Budget expenditures	47.8	54.6	81.6	104.2	111.6
% of GDP	31%	27%	51%	59%	57%
Defense/security expenditures	10.3	11.1	47.8	69.2	72.7
% of GDP	7%	6%	30%	39%	37%
Budget deficit, ex grants	7.9	7.1	42.2	47.8	43.8
% of GDP	5%	4%	27%	27%	22%
Budget deficit, with grants	7.9	7.1	27.7	33.4	31.1
% of GDP	5%	4%	17%	19%	16%
Debt financing of budget, net	6.7	6.5	25.9	33.4	31.1
- External	5.1	4.1	17.1	29.3	27.9
- Domestic	1.6	2.4	8.9	4.1	3.2
Total resources for the defense	10.7	11.7	79.0	99.1	n/a
% of GDP	7%	6%	50%	56%	n/a
Total foreign support of Ukraine	5.5	4.7	72.1	98.7	>63.0
% of GDP	4%	2%	45%	55%	n/a
- Military support	0.4	0.7	40.5	55.0	n/a
- Financial grants	0.0	0.0	14.5	14.4	12.7
- Net loans	5.1	4.1	17.1	29.3	27.9
Gross foreign loans	5.3	7.6	18.5	31.8	30.5

Sources: UkrStat, NBU, Finance Ministry, Concorde Capital research

Eurobond Issuers: General Update

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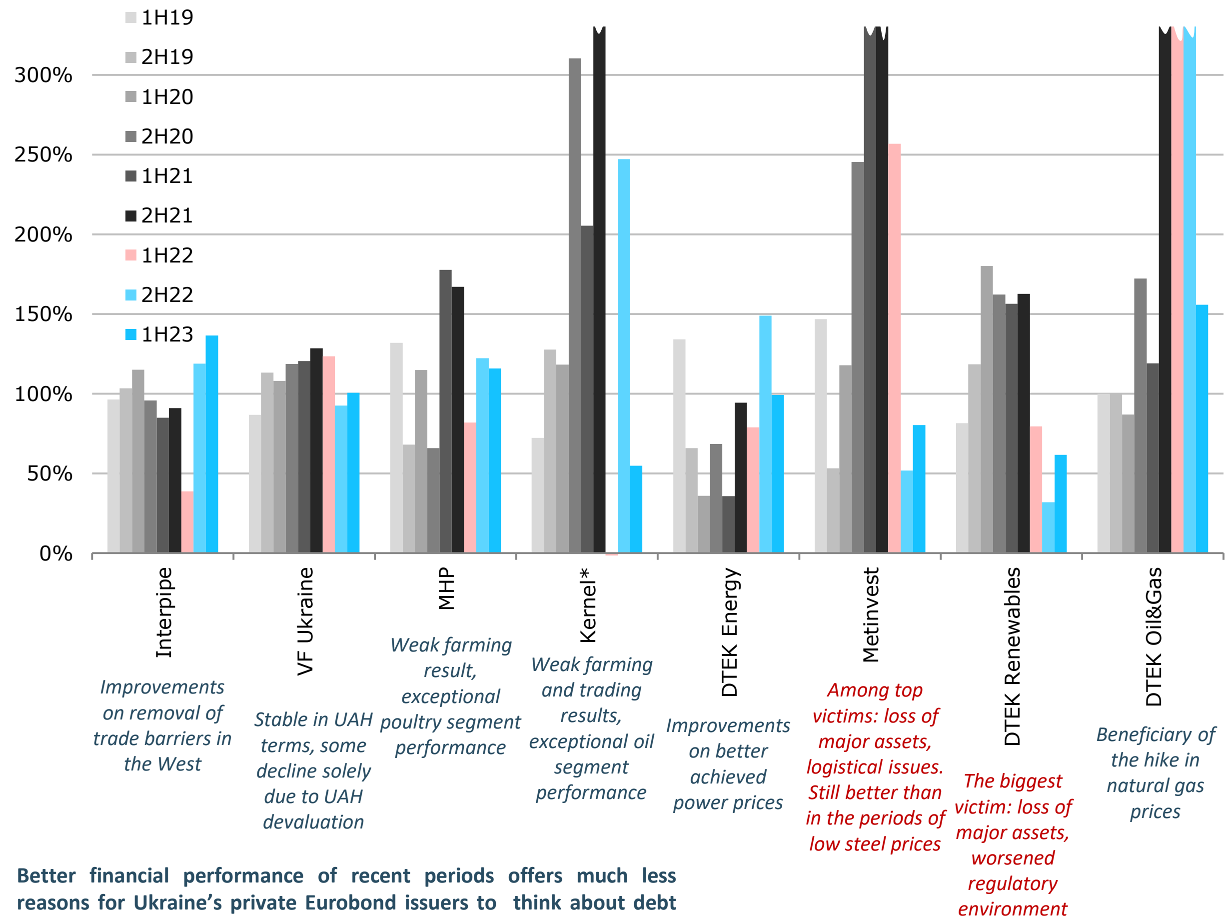
Corporate issuers: Most show better fundamentals than before full invasion

Alike the Ukrainian economy, the corporate Eurobond issuers have accustomed fast to the new conditions of war and demonstrate a good financial performance in 1H23:

- Among the biggest beneficiaries of the new reality is **DTEK Oil & Gas** (which benefited from a surge in global/domestic prices of natural gas in 2021-2022) and **Interpipe** (although it faces a risk of attacks on its assets, as well as suffers from some decline in output, it is benefiting from good pricing on its goods due to removal of trade barriers by the U.S. and the EU.)
- Surprisingly, **DTEK Energy** is among the beneficiaries (in terms of EBITDA performance) as well, due to government's relaxed price caps on the wholesale power market. However, good operating results are hiding the fact that the company has suffered some asset damages and its assets remain among the top targets of russian terrorists.
- **MHP** and **Kernel** are suffering from troubles related to limited grain exports and the weakness of grain prices, but their margins in core business segments (chicken meat and sunflower oil, respectively) are stronger than before.
- **Vodafone (VF) Ukraine** was able to improve its margins despite a war-torn outflow of mobile customer base, as well as keep its EBITDA relatively stable in local currency terms. However, due to the devaluation of Ukrainian currency, its dollar results look slightly weaker than before the russian invasion.
- The biggest victims of the russian invasion were **Metinvest** and **DTEK Renewables**, which have lost their key assets on the temporarily occupied territories. However, on good prices of coal and steel, Metinvest is demonstrating some better results as compared to the period of 2019. DTEK Renewables is the only company that is showing today the weakest results in a five-year period, due to a loss of assets and a weak payment discipline of its offtaker.

Semi-annual EBITDA compared to average 2019 level*



Better financial performance of recent periods offers much less reasons for Ukraine's private Eurobond issuers to think about debt restructuring.

This does not guarantee, however, that some issuers might think about maturity extension of some of their debt, as they have scarce refinancing options during the war period. Nevertheless, as our analysis below suggests, most of the covered issuers have sufficient internal sources for smooth debt servicing in the mid-term.

** Average of 1H19 and 2H19 EBITDA is set at 100%. Data for Kernel is shown for a calendar year.*
Sources: Company data, Concorde Capital estimates

Issuers scoring: It's about willingness to repay and "enough reasons" for restruct

The pre-announced 2024 restructuring of state debt means all the sovereign and most quasi-sovereign Eurobonds fall out of our picking. Meanwhile, all the private Eurobond issuers keep servicing their bonds despite the barriers built by the National Bank.

Moreover, the ability to service their bonds on their own is no longer questionable. Namely, despite limited ability to find refinancing in the nearest term, all the issuers look capable of repaying their bonds on time, using their own cash or via recovery of lending to related parties.

That said, *willingness* to smoothly service bonds and *presence/absence of good reasons for restructuring* look key factors to us when picking bonds. We offer the issuers' ranking based on these two criteria.

We upgrade our approach to rank corporate Eurobond issuers by considering two major factors:

- Apparent willingness to service/repay bonds:
  - Strong willingness of all Akhmetov-related companies (Metinvest, DTEKs) is apparent, as they spent USD 186 mln for early buybacks of their bonds (and total USD 364 mln for bonds repayment) in the last twelve months.
  - The same applies to MHP, which is in the process of early repayment of at least 30% of its bond maturing next year.
  - We also see good reasons for smooth bond servicing by Vodafone-Ukraine (VF-Ukraine, VODUKR) as access to external debt financing is vital for the company's owners.
- Enough reasons for the bondholders to (theoretically) accept some bond restructuring:
  - Performance (EBITDA) as compared to pre-war period (a significant EBITDA drop can be a good reason).
  - Current financial leverage (debt/EBITDA) and ability to independently accumulate money for the nearest bond repayment (the ratio of Debt due in the mid-term to EBITDA).
  - Risk of war-related damages of key equipment which could affect future fundamentals or require extra financing for recovery.

Scoring of Eurobond issuers (USD mln)

	Total debt, end-June'23	Cash, end-June'23	Debt due 23-27	EBITDA '23E	EBITDA '23E vs. '21	Net debt due 23-27 / EBITDA'23E	Total debt/ EBITDA '23E	Damage risks	Motivation to repay nearest bond	**Total score**
VF Ukraine	527	256	527*	328	-18%	0.8*	1.6	Low	High	**2.2**
Interpipe	419	159	338*	320	40%	0.6*	1.3	Moderate	Unclear	**1.2**
DTEK Oil&Gas	425	50	425*	300	-44%	1.3*	1.4	Moderate	High	**1.0**
DTEK Energy	1924	55	1924	805	103%	2.3	2.4	Very high	High	**0.4**
MHP	1953	502	1347	405	-38%	2.1	4.8	Moderate	High	**0.2**
Metinvest	2077	349	1458	940	-87%	1.2	2.2	Moderate	High	**0.0**
Kernel**	1672	954	951*	280	-66%	0.0*	6.0	High	Unclear	**-0.8**
DTEK Renewables	555	128	370*	85	-65%	2.8*	6.5	Moderate	High	**-1.4**

Scores applied

+1.0	+0.4	0.0	-0.4	-1.0

** Instead of the period 2023-2027, for some companies a shorter period was applied (when their bonds mature): 2023-2024 for DTEK Renewables, Kernel and VF Ukraine, 2023-2026 for Interpipe and DTEK Oil&Gas. ** Kernel's EBITDA is shown for a calendar year. Sources: Company data, Concorde Capital research*

Corporate bond picking

At this stage, we see most of covered Ukraine-related bonds are safe investment, with risk of a nearest bond's restructuring being some higher for DTEK Renewables and Kernel.

Based on the risk and reward combination, we do not recommend investing into Kernel bonds.

To select our top picks, we are mapping bond yields against fundamental scores of their issuers, as derived on the previous slide. We also award the state banks the highest scores, as their fundamentals are exceptionally strong and they have a clear motivation to service their bonds.

Based on our analysis, we offer two strategies for those ready to invest in Ukraine-related bonds:

For those (if any) who are not ready to tolerate too high risk, we offer bonds of fundamentally strong issuers: DTEK Oil & Gas (**DTEKOG'26**), VF-Ukraine (**VODUKR'25**), Interpipe (**INTHOL'26**) and state banks (**EXIMUK'25**, **OSCHAD'25**). This group of picks remains unchanged since our last update.

For those ready to maximize their returns, we suggest to look at the bonds that offer the best combination of yields and risks: State banks (**OSCHAD'25** and **EXIMUK'25**), VF-Ukraine (**VODUKR'25**) and DTEK Renewables (**DTEKUA/DTEREN'24**).

Fundamental scores and bond yields (offer, Nov. 14)

80%
70%
60%
50%
40%
30%
20%
10%
-1.6 -1.2 -0.8 -0.4 0 0.4 0.8 1.2 1.6 2 2.4 2.8
DTEKUA (DTEREN)
KERPW
METINV
MHPSA
DTEKUA
INTHOL
VODUKR
MHPSA
KERPW
MHPSA
METINV
DTEKOG
EXIMUK
OSCHAD
2024 2025 2026 2027 2029

Sources: Bloomberg, company data, Concorde Capital research

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Eurobond Issuers: Profiles

DTEK Energy (DTEKUA): EBITDA growing on better power prices

The company provides little operating metrics due to "sensitivity" of its data for the national security. However, from the fragmented data we can conclude that:

- Its coal mining volumes are about 85%-95% of the pre-war levels. In particular, DTEK Energy reported a slight decline in commissioning of new longwalls in 2023 (26 planned) compared to 2022 (28) and 2021 (31).
- Its power generation in 2023 is at 60% of the pre-war level. In particular, its generation in 1H23 decreased by about 39% and in 9M23 by about 38% compared to the year 2021.

The decline in volumes, however, did not affect the company's EBITDA. As the recent history suggests, **power prices** (power sector regulation) **cause much more effect on DTEK Energy's fundamentals** than volumes, military actions and assets conditions:

- DTEK Energy's worst period was 2H19-1H21, when Ukraine implemented a power sector reform with simultaneous introduction of tight price caps on the new market segments. In this period, the company's semi-annual EBITDA ranged USD 110-210 mln (vs. up to USD 460 mln before the reform).
- In August 2021, the price cap nearly doubled as compared to 1H21 (and was stable, in UAH terms, till end-June 2023), which resulted in a much better financial performance of DTEK Energy starting 2H21. Even in the period of russia's full-sized invasion, DTEK Energy's EBITDA remained better than in 2020.
- In July 2023, an average increase of price caps by 50% happened, which should further improve the company's fundamentals. Another upgrade of price caps (by about 8%) is being discussed now.

We expect DTEK Energy's EBITDA to increase to about USD 500 mln in 2H23, from USD 454 mln in 2H22 and USD 303 mln in 1H23.

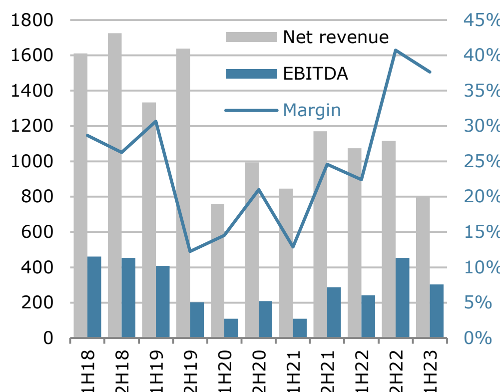
Most assets remain in workable conditions:

- The company's top managers are repeating in 2023 two facts about war damages of DTEK's assets: (1) 1.4 GW of capacity was "lost" or "inaccessible" due to russian attacks, (2) it would cost about UAH 7 bln (USD 200 mln) to recover such assets.
- We can derive no conclusions from these messages about the condition of DTEK Energy's generating equipment, except that 1.4 GW is 11% of its pre-war installed capacity.
- Notably, DTEK Energy is going to repair 27 power units in 2023 (up from 26 in 2022). Taking into account that all its controlled power plants have 41 units (of which 33 were in ready-to-produce mode), we conclude that most of DTEK's assets are in the workable condition so far.
- According to the available public information, two power units of DTEK in Western Ukraine (0.35 GW) have been severely damaged.
- The key risk for DTEK is damages of its Kurakhove TPP (1.53 GW) which is located 20km from the battlefields near the town of Maryinka, and thus is the natural target for russian artillery.

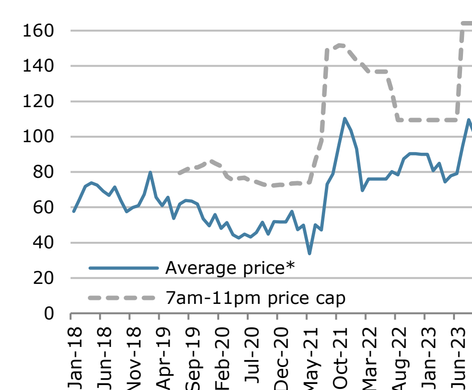
Enough time to repay, buyback or refinance its debt

The company's only sizable debt is USD 1.50 bln Eurobond (USD 1.14 bln, excluding the notes held by related parties) maturing in four years. With its improved EBITDA, the task to repay the bond from DTEK's own cash flow does not look like a challenge any more. However, we should keep in mind that its assets do remain among the most exposed to russian attacks. Therefore, there is a risk that the company will have to increase its leverage in the mid-term to maintain/repair its assets.

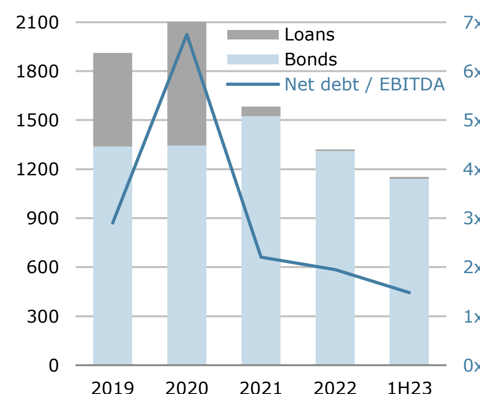
DTEK Energy P&L items, USD mln



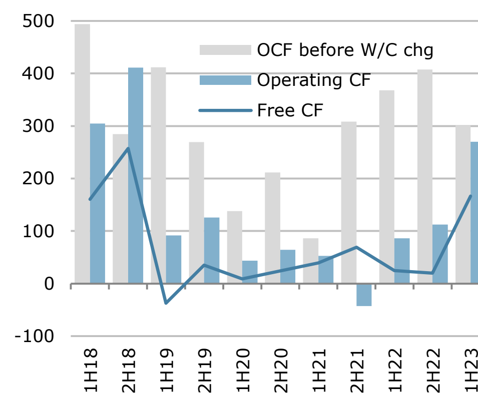
Ukraine day-ahead power price, USD/MWh



DTEK Energy debt & leverage, USD mln



DTEK Energy cash flow items, USD mln



** Before July 2019 – average price for thermal power plants at the wholesale market, since July 2019 – average day-ahead price (base)*
Sources: Company data, Energorynok, Electricity Market Operator, Concorde Capital estimates

DTEK Renewables (DTEKUA): Smooth bond repayment is our base case scenario

Payment discipline of state holding GarPok, the only green power buyer under feed-in tariffs, remains weak, with slightly more than half of purchased power being paid in 2022 and 2023. DTEK Renewables announced in September that it would sell all the electricity from its new Tyligul wind power plant (114 MW) to the free market bypassing the feed-in scheme with GarPok. This will improve the company's payment collection with no expected negative effect on its achieved price. In particular, the green tariff of Tyligul WPP, about EUR 88/MWh, is comparable to the price the plant can achieve on the free market, i.e. with some reasonable discount (10%) to the day-ahead (DAH) price. The DAH price was EUR 95/MWh in September and EUR 97/MWh in October.

DTEK Renewables continues to servicing its bonds and underwent two buybacks to decrease the bond outstanding by EUR 44 mln (spending EUR 18 mln) in late 2022 and early 2023. This is a contrast to delayed servicing of the company's other debt (about EUR 20 mln was overdue as of end-June, some EUR 13 mln due in 2H23 is set for rescheduling, according to the company's semi-annual report).

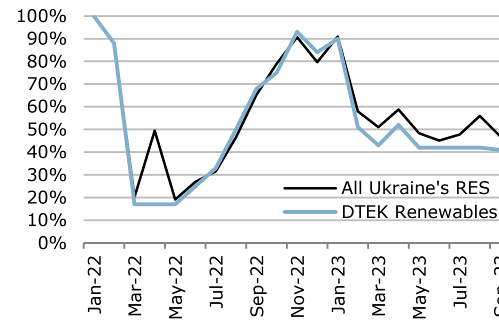
As DTEK's commitment to smoothly service its Eurobond is apparent, the key question is whether the company will be able to continue servicing it with its own (or related party) resources. Our conclusion is positive:

- We calculate that out of the company's total debt (EUR 508 mln) only EUR 356 mln is due in July 2023 – end-2024 (including Eurobond for EUR 282 mln and all the overdue and due banking debt).
- The company can cover this amount by using its cash (EUR 118 mln as of end-June), planned sales of uninstalled wind turbines (about EUR 27 mln), free cash flow to be generated over the period (at least EUR 90 mln, and up to EUR 120 mln), as well as recovery of loans and net receivables from related parties (up to EUR 172 mln). This sums up into potential available liquidity of EUR 407-440 mln in the next 1.5 years.

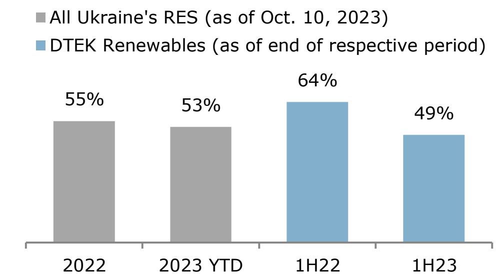
That said, we see that the key factor of DTEK Renewables' smooth bond repayment is the recovery of loans and payables from related parties. Taking into account the apparent commitment of DTEK Renewables and its parent DTEK/SCM groups to smoothly service all their international bonds, we have little doubt that such recovery will come in the needed amount.

Key risk for our base-case scenario is possible damages of the remaining DTEK Renewables' assets. Recall, all the company's solar power stations are located very close (<30km) to the front line. Also, keep in mind that all Ukrainian power generating assets remain among top targets of the aggressor's missiles.

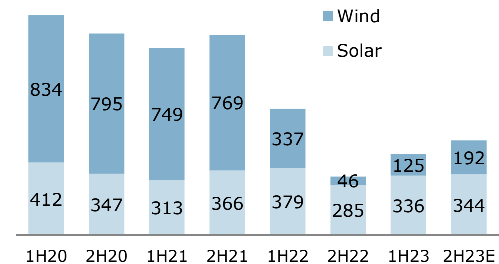
GarPok payment level for green energy, Oct'23



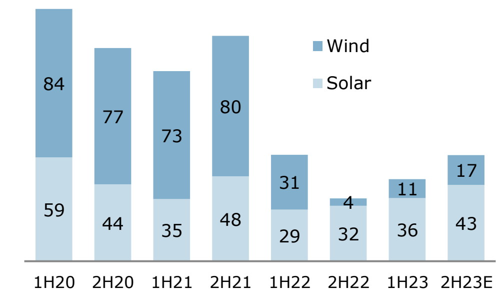
Average GarPok payment level



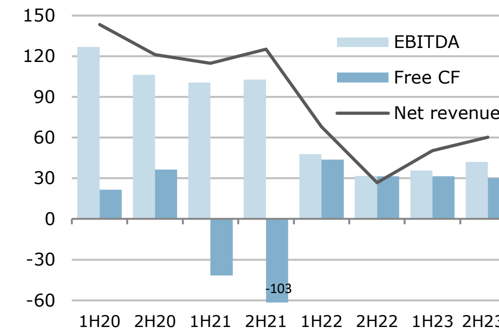
Estimated power sales, GWh*



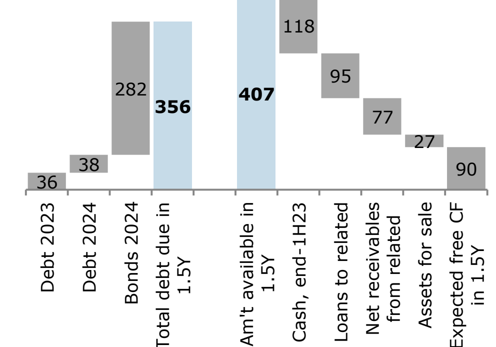
Revenue from power sales, EUR mln*



Selected fundamentals, EUR mln



Debt due in 1.5Y & available resources, EUR mln



** Including sales of generated electricity and "sales" of power curtailment services.*
Sources: Company data, GarPok, National Power Regulatory Commission, Concorde Capital research

DTEK Oil & Gas (DTEKOG): Season of high gas prices is over

DTEK Oil & Gas does not report its operating numbers since russia's full invasion of Ukraine, but we estimate that the company produced slightly less than 2 bcm of natural gas in 2022 (vs. 2.06 bcm in 2021). Most likely, its production level will be slightly less yoy in 2023.

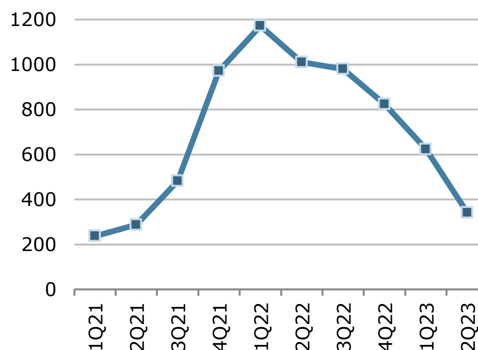
Six quarters of high natural gas prices allowed DTEK Oil & Gas to generate excessively high profits in late 2021 and 2022. However, since early 2023, natural gas prices in Ukraine are going back to "normal" levels of below USD 400/bcm. With normalized prices and higher production tax level, key subsidiary of DTEK Oil & Gas, JSC Naftogazvydobuvannia (NGV), reported a moderate USD 145 mln EBITDA in 1H23 (down 64% yoy). Adjusted EBITDA of DTEK Oil & Gas decreased to about USD 163 mln in 1H23 (-70% yoy). We estimate its EBITDA will be about USD 250-300 mln in 2023, after USD 907 mln in 2022.

As we stated before, operating profit of DTEK Oil&Gas B.V. tells little about its ability to service its external debt (which consists of USD 425 mln Eurobond), as the company serves as a cash cow for other businesses of its parent holdings DTEK/SCM. In particular, its ability to repay its Eurobond on time depends mostly on its possibility to recover receivables from related parties, which amounted to almost USD 800 mln as of end-2022.

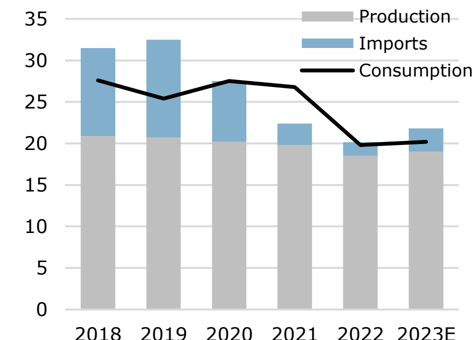
This year, the company faces the first large amortization tranche of its Eurobond (USD 50 mln in late December). Its strong fundamentals and clear determination of its parent holdings to continue servicing all their international debt obligations suggest that DTEK Oil & Gas will smoothly pay this tranche.

As NGV is Ukraine's second-largest producer of natural gas (over 10% of the country's total production), its assets could be a potential target for russia's missile attacks. Risk of damage of its key production (gas processing) assets looks moderate.

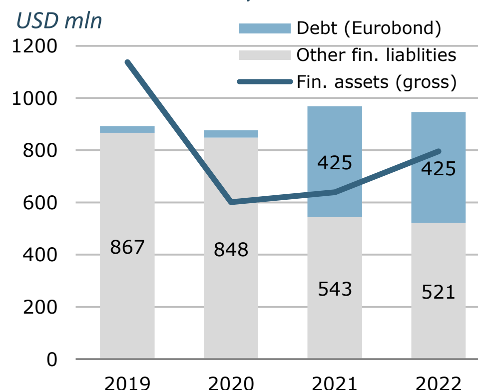
Gas price, Ukraine industry, USD/tcm



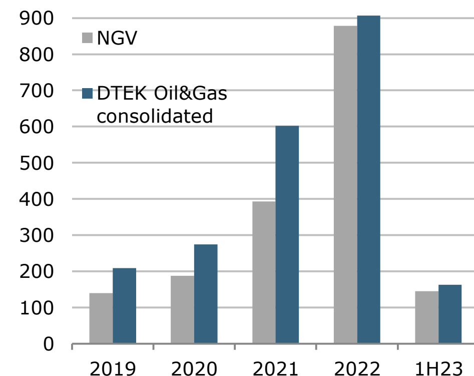
Ukraine gas balance, bcm



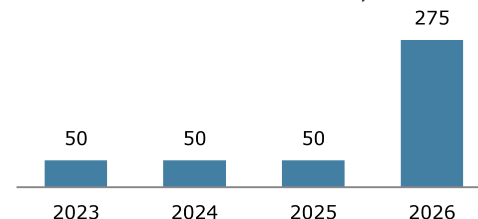
Fin. assets & liabilities, DTEK Oil&Gas B.V.*



EBITDA, USD mln



Eurobond amortization schedule, USD mln



** Vast majority of financial assets and financial liabilities are the balances with related parties.*
Sources: Company data, Youcontrol, Concorde Capital calculations

Interpipe (INTHOL): Strong fundamentals, rich of cash

Despite its challenges related to the security situation, Interpipe managed to stabilize pipe output and expand its sales geography. Also, the company benefited from suspension of a 25% duty on pipe sales to the U.S., as well as from removal of duties and quotas in the EU market.

As a result, its 1H23 EBITDA hit a five-year high of USD 178 mln and its Net Debt to LTM EBITDA ratio decreased to 0.7x as of end-June (from 1.5x a year before).

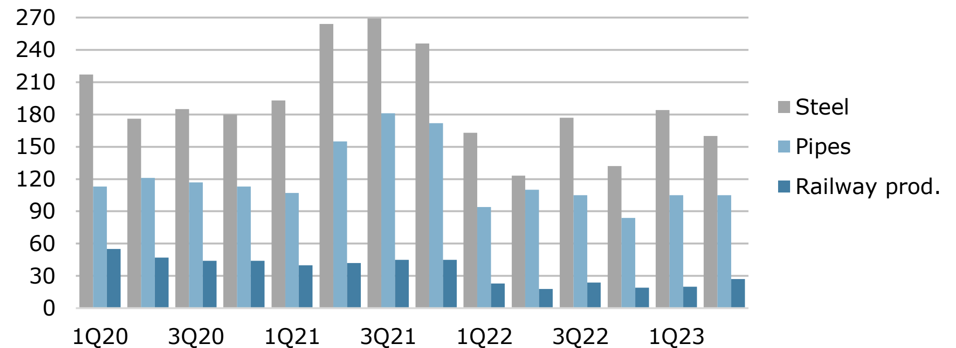
The company's cash balance was USD 159 mln as of end-June 2023. The increase in cash balance by only USD 5 mln YTD is explained by the fact that Interpipe provided a USD 85 mln loan to its shareholder in April.

We estimate the company will have to spend USD 420-440 mln for repayment of its financial liabilities in 2023-2026. This amount consists of loans and bonds for a total amount of USD 337 mln, as well as performance fees (15% of EBITDA for 2H22-1H24) which would amount to about USD 82-104 mln. All that amount can be easily covered from the company's available liquidity and future cash flows:

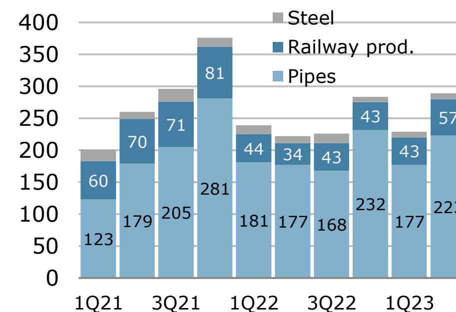
- Its end-June 2023 cash balance and the loan provided to the shareholder (USD 244 mn total) cover 55-58% of all Interpipe's financial liabilities for 2023-2026.
- To be able to cover the rest of financial liabilities due in the next three years, Interpipe needs to generate annually USD 65 mln in free cash flow. We see the company is able to generate USD 100 mln annually instead.

That said, providing no shocks occur, Interpipe is fully capable of servicing all its debt obligations.

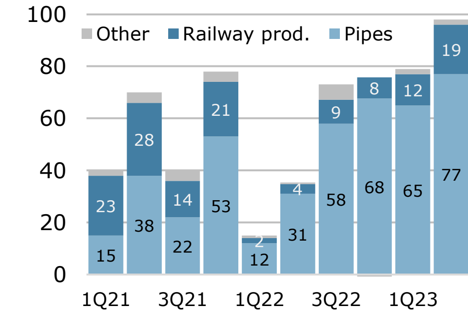
Production data, kt



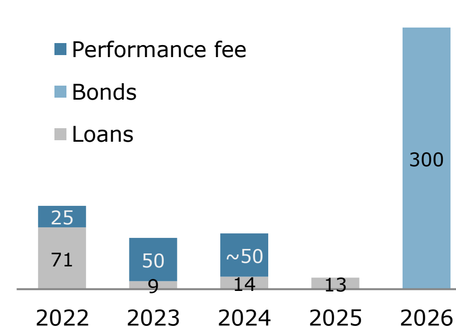
Revenue structure, USD mln



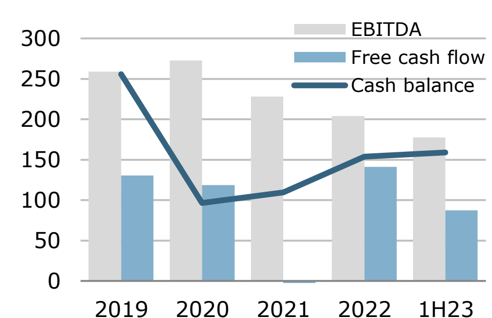
EBITDA structure, USD mln



Debt repaid and due, USD mln



Cash and cash flows, USD mln



Sources: Company data, Concorde Capital calculations

CONCORDE CAPITAL

Kernel (KERPW): Low leverage does not guarantee timely repayment of nearest bond

High crushing margin supports overall EBITDA

Kernel's sunflower crushing volumes were slightly below the pre-war levels, but the oil segment's EBITDA per ton of oil sold reached its 14-year-high level in FY2023 (USD 237). Due to exceptional oil segment results (which rests on high oil prices and availability of sunflower seeds in Ukraine), the company reported in FY2023 its second-best EBITDA in five years. Kernel is going to commission a new crushing plant (1mmt capacity) in spring 2024 to expand its available crushing capacity by 33%. As of end-June, Kernel has invested USD 230 mln into the new facility, out of USD 278 mln total planned CapEx.

The company's other segments, farming and grain trading/infrastructure are suffering from limited ability to export grains and russian strikes at the Black Sea and the Danube ports. Nevertheless, the company remains able to generate USD 250-350 mln in annual EBITDA in the mid-term.

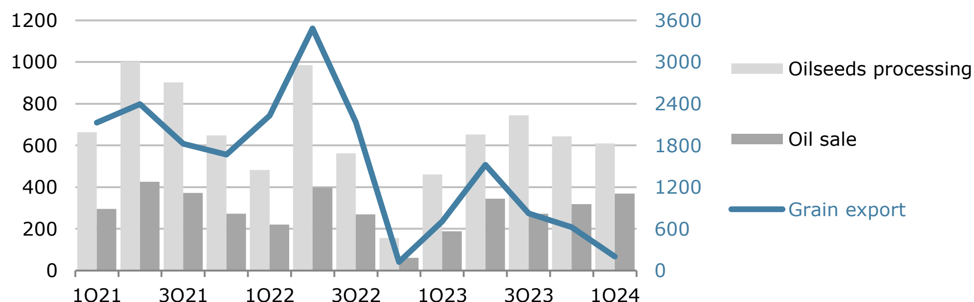
Enough cash to repay its loans & nearest bond… willingness to repay on schedule is unclear

Kernel's end-June cash of USD 954 mln exceeds all its debt repayment needs for the next 1.5 years, including USD 300 mln Eurobond maturing in October 2024. However, a large portion of its cash is likely to be spent for working capital in the nearest quarters (winter sowing, stock of sunflower seeds), so the company might need refinancing to smoothly repay its maturing debt.

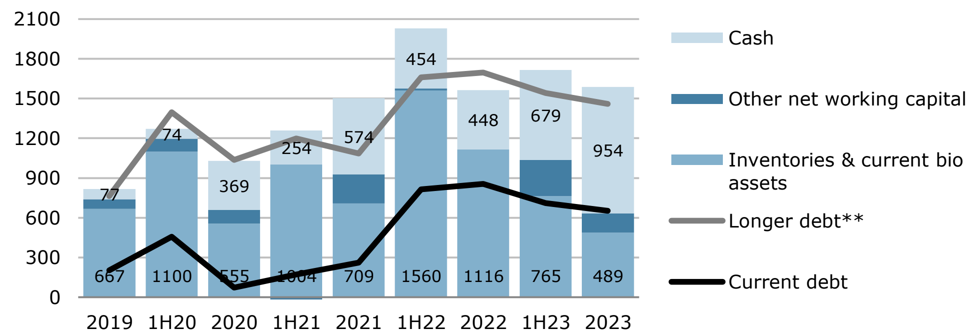
Kernel did not reveal any determination to smoothly service its debt. Moreover, it demonstrated a "pragmatic" and tough approach to its minority shareholders in 2023 by de-listing its shares from the Warsaw Stock Exchange and diluting minority shareholders. The company stated it sees no benefits from the public listing. There is a risk that the same pragmatic approach will be spread to the company's creditors, including Eurobond holders. Indeed, Kernel is very unlikely to be able to place new Eurobonds any time soon, so it might see little short- to mid-term benefits from keeping good relations with current bondholders.

That said, despite the company's low leverage and high liquidity, the risk of restructuring of its nearest Eurobond looks as the highest in Ukraine's corporate fixed income universe.

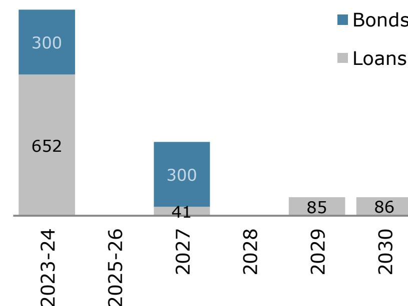
Operating data, kt*



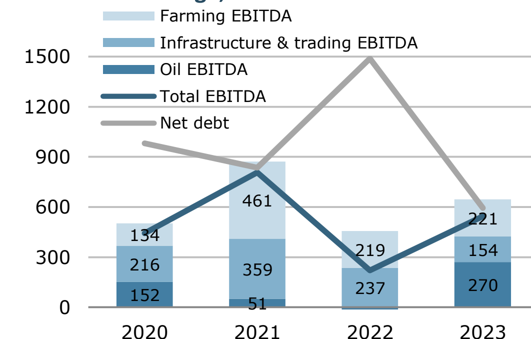
Debt and working capital, eop*, USD mln



Ultimate maturity of debt , USD mln



EBITDA & leverage, USD mln*



** Note: Financial year 2023 (and 4Q23) ends in June 2023. ** Debt with initial maturity over 12M. In FY 2022 and 2023, all the debt is classified by Kernel as "short-term".*
Sources: Company data, Concorde Capital calculations

MHP (MHPSA): Shows great poultry result, determination to repay nearest bond

Record-high "poultry" EBITDA supports MHP fundamentals

MHP continues to benefit from relatively stable poultry prices in USD terms, despite a 20% devaluation of Ukrainian currency in 3Q22. Decrease of the company's production costs (mostly linked to the local currency), as well as increased production and sale of vegetable oil allowed the company to report a record-high EBITDA from its poultry segment in 2Q23 and 1H23. Revenue from oil sales accounted for 31% of MHP's poultry segment revenue in 1H23, up from 19% a year before.

Meanwhile, due to low grain prices in Ukraine, the company's farming segment (which used to be the key EBITDA driver in 2021) remains in the red in 2023.

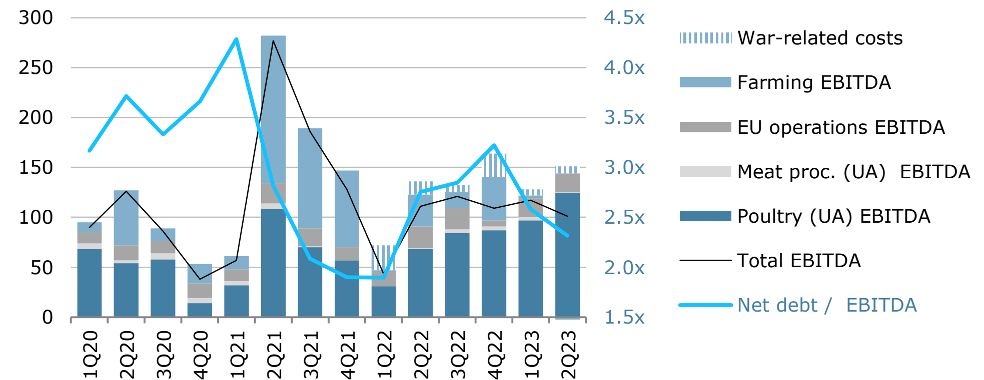
Nearest Eurobond has been partially refinanced

In late September, MHP announced a buyback of its nearest USD 500 mln Eurobond (maturing in May 2024), and it had secured up to USD 400 mln in refinancing from IFIs for this operation.

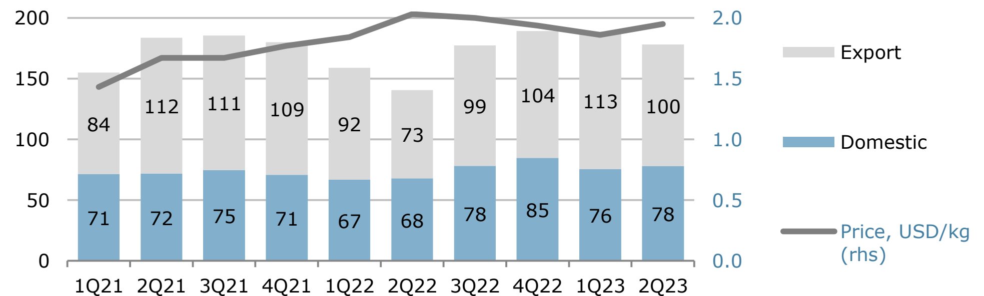
With this initiative, MHP has demonstrated its determination to avoid any restructuring of the bond (no such commitment was expressed before). The event has led to appreciation of all MHP's bonds.

Only USD 150.1 mln of the 2024 bonds were tendered (at the early tender price of 85% of par), or 30% of the bond outstanding. Most likely, the company will have to seek new partial refinancing to repay the rest of its Eurobond on maturity next year. Taking into account the company's image, we see a high chance for success in its efforts.

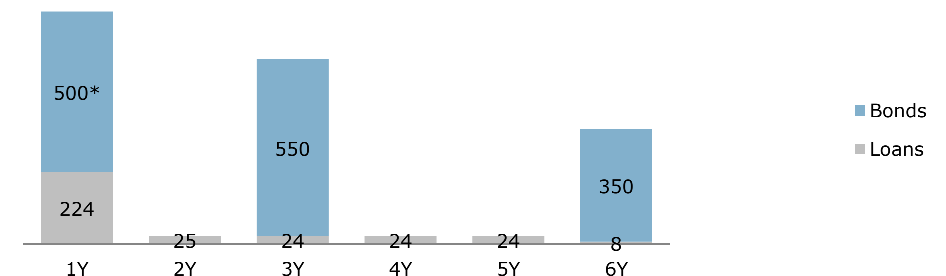
EBITDA structure and leverage, USD mln



Poultry sales from MHP Ukrainian assets, kt



Debt maturity, end-1H23, USD mln



** Of this amount, USD 151 mln will be repurchased in November (at USD 128 mln).*
Sources: Company data, Concorde Capital calculations

Metinvest (METINV): Recovery in output, margins despite weaker prices

1H23 EBITDA improves on scale effect, cost cutting

Metinvest managed to improve its operations in 1H23 as compared to 2H22, with production of iron ore concentrate jumped 2.5x and metallurgical output improving by 44%. Its production of coal concentrate increased 20% h/h to historical highs. Better output metrics, as well as cost cutting allowed the company to benefit from scale effect. In particular, its EBITDA margin reached 14% in 1H23, up from 10% in 2H22, even though prices for its outputs were weaker by 3%-8% compared to 2H22.

We expect the company's 2H23 EBITDA will be comparable to that of the first half as a moderate decline in steel and coal prices will be offset by better pricing of iron ore, as well as it will be outbalanced by higher output and a scale effect.

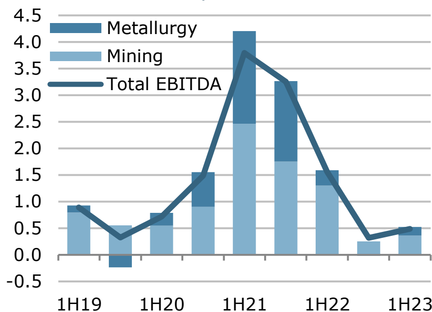
Meanwhile, commodity risk remains the biggest issue for Metinvest in the mid-term, with commodity prices not promising any upward trend, based on Bloomberg consensus. The company has a potential to improve its fundamentals at the current commodity price level due to scale effect, providing it is able to come back to the sea shipments of its commodities from Ukraine.

On Oct. 5, Metinvest reported that a ship loaded with its products had departed Ukraine and exited the Black Sea. This was the first such delivery from the start of russian full-sized aggression. Such deliveries are yet to become regular.

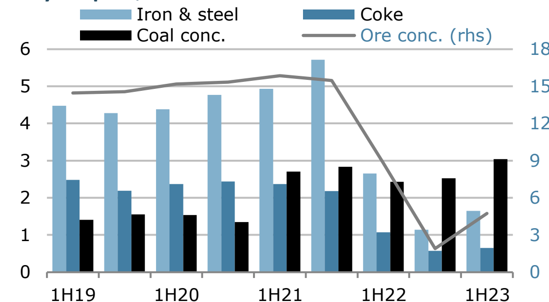
Generates enough to service its debt

As a refinancing option is unlikely to be available for Metinvest in the near future, its ability to service debt fully depends on its free cash flow generation potential. Safe level is over USD 0.45 bln per year, which looks achievable for the company in the mid-term.

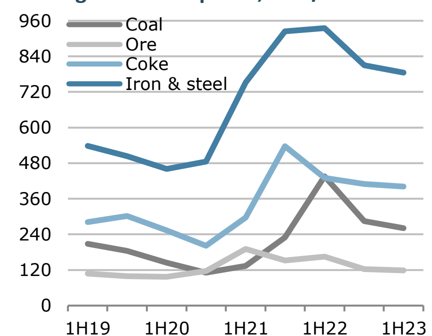
EBITDA breakdown, USD bln



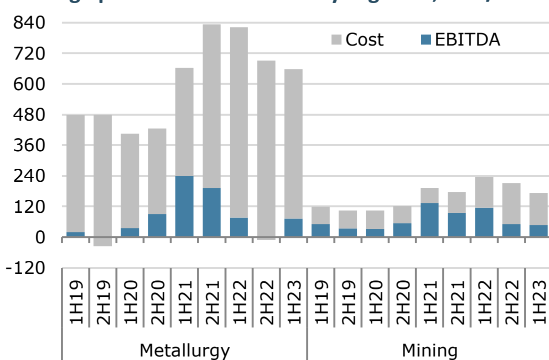
Key outputs, mmt



Average achieved prices, USD/t

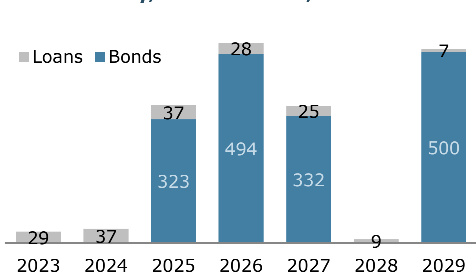


Average price mix and EBITDA by segment, USD/t

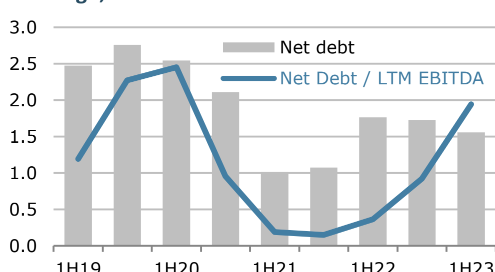


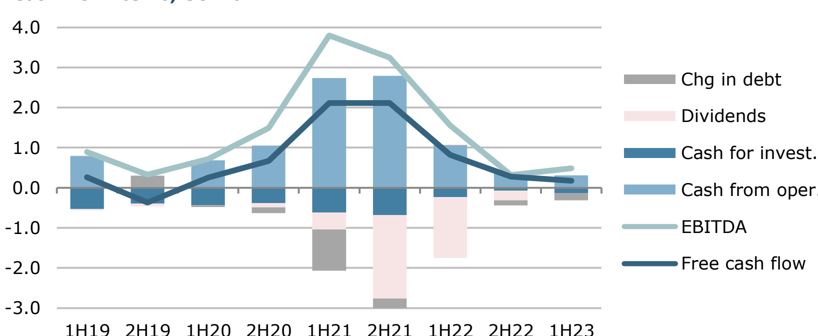
Cash flow items, USD bln

Debt maturity, end-June 2023, USD mln



Leverage, USD bln





Sources: Company data, Concorde Capital estimates

CONCORDE CAPITAL

VF Ukraine (VODUKR): Shows steady margin, accumulating cash for bond repayment

Able to repay its Eurobond from own cash flow

Its Eurobond of the remaining par value of USD 400 mln (maturing in February 2025) is the company's only debt obligation. The company looks physically able to repay it on maturity, from:

- USD 256 mln of accumulated cash and ST investments (deposits and government local Eurobonds). About 63% of its liquid assets are in hard currency (USD and EUR).
- The rest, or about USD 150 mln, can be easily accumulated from the future free cash flow (at least USD 50-80 semi-annually).

As we stated earlier, we see a high motivation of the company's owner (Azerbaijan-based holding) to remain in good relationships with international creditors.

Key risk for the company's ability to accumulate enough funds for smooth bond repayment is devaluation of Ukrainian currency (as most of VF Ukraine cash flow is generated in hryvnia). We see the future devaluation rate of the hryvnia won't be bigger than 7-8% p.a.

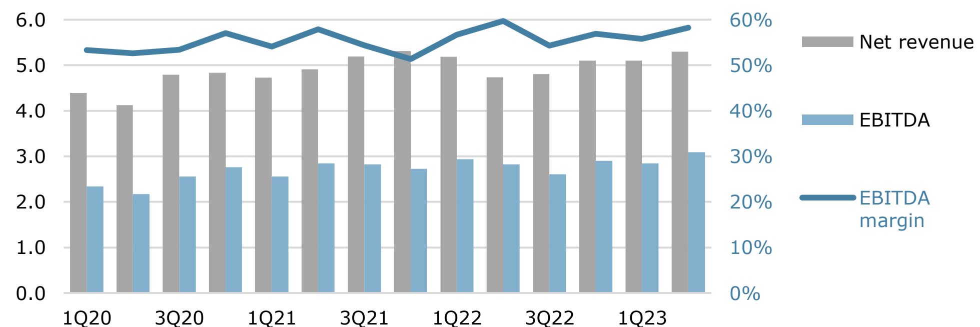
Results remain strong:

- The company's mobile customer base nearly stabilized in 2Q23 (YTD decline was 1%, yoy decline was 8%) and its revenue increased yoy on higher ARPU (up 28% yoy in UAH terms).
- Its EBITDA (in local currency) increased 9% yoy and qoq, and EBITDA margin remained relatively stable at 58% in 2Q23.

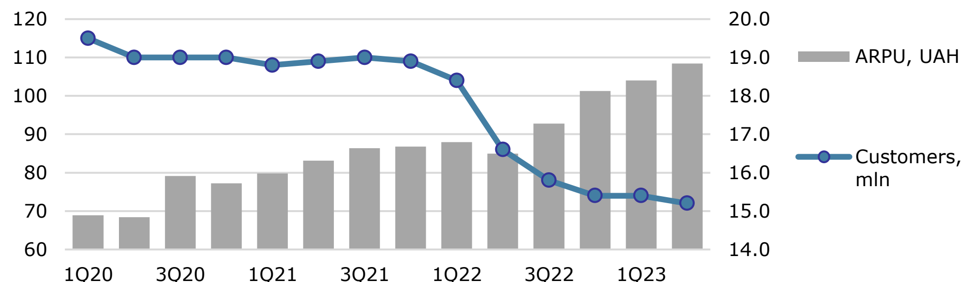
With accumulation of cash on its balance, the company reported a decline in Net Debt to EBITDA ratio to 0.9x as of end-June 2023 (from 1.0x a year ago and half a year ago).

With such results, VF Ukraine remains among fundamentally strongest Ukrainian Eurobond issuers.

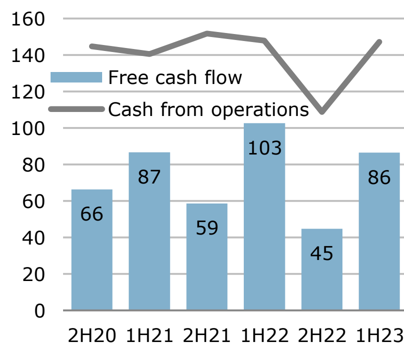
Selected financials, UAH bln



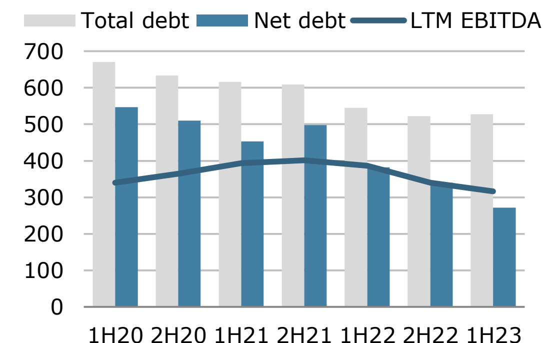
Key operating metrics



Cash flow, USD mln

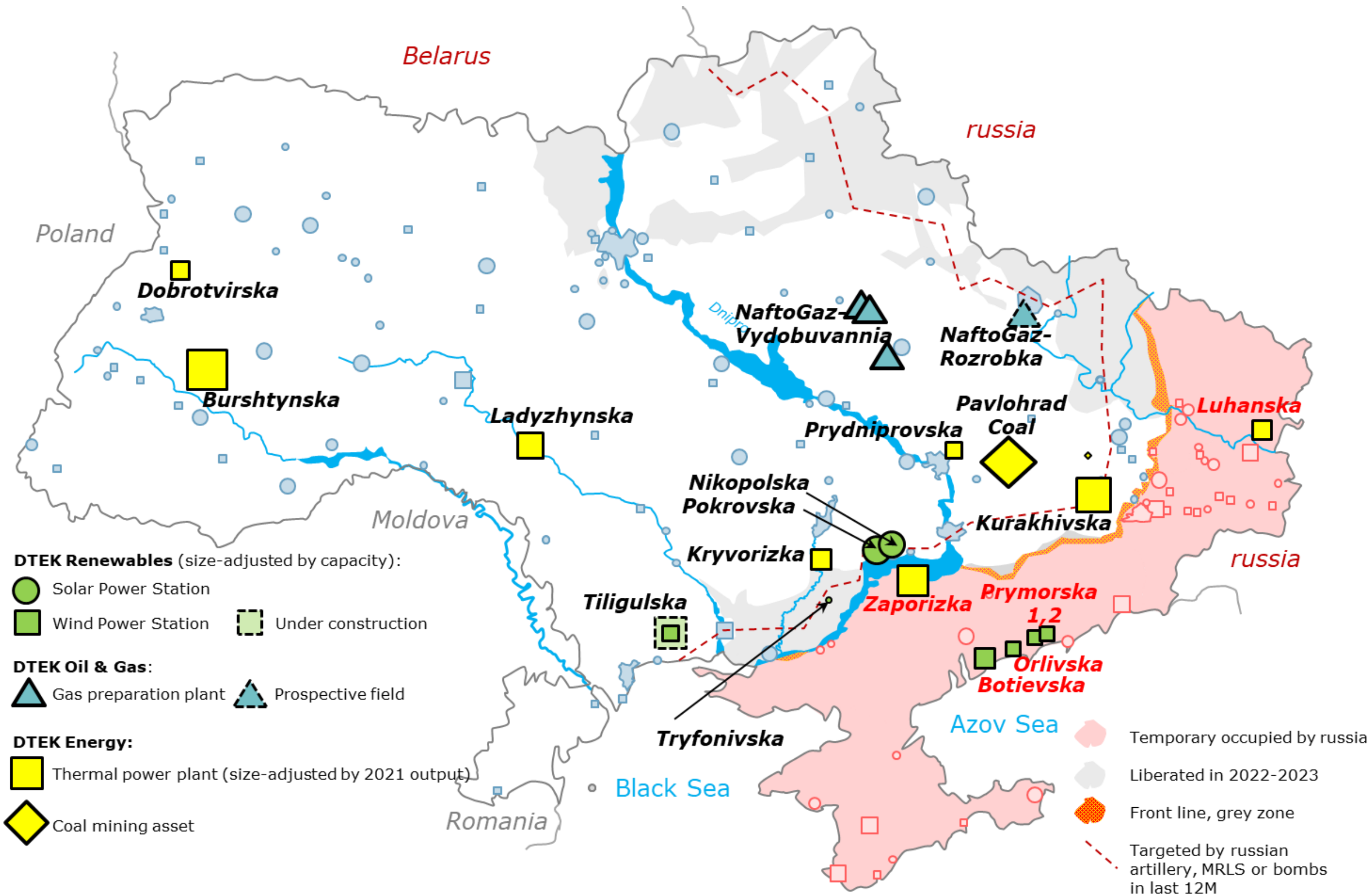


Leverage metrics*, USD mln



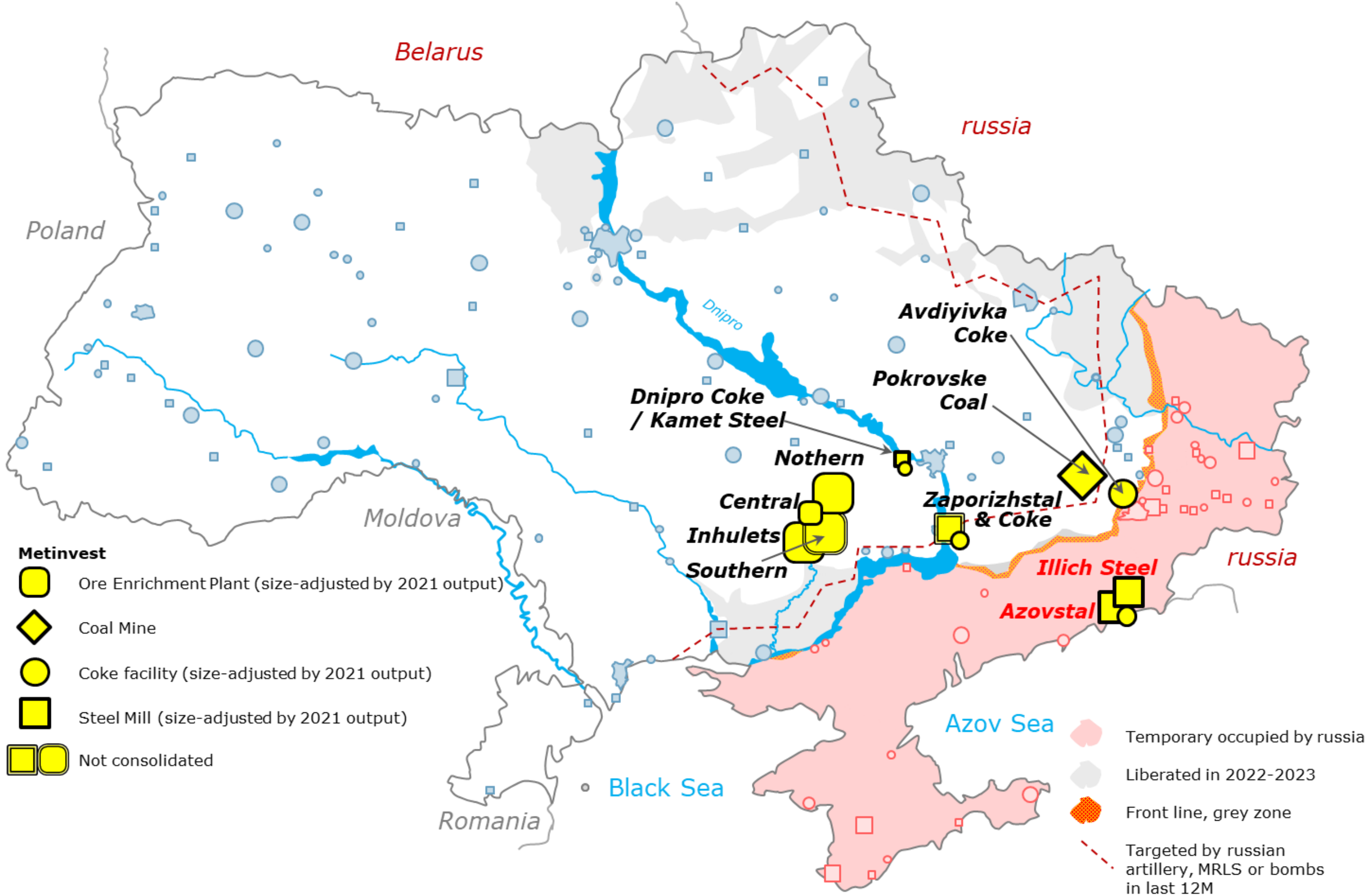
** Debt includes capitalized lease obligations (USD 123 mln as of end-1H23).*
Sources: Company data, Concorde Capital calculations

Key assets map: DTEKs



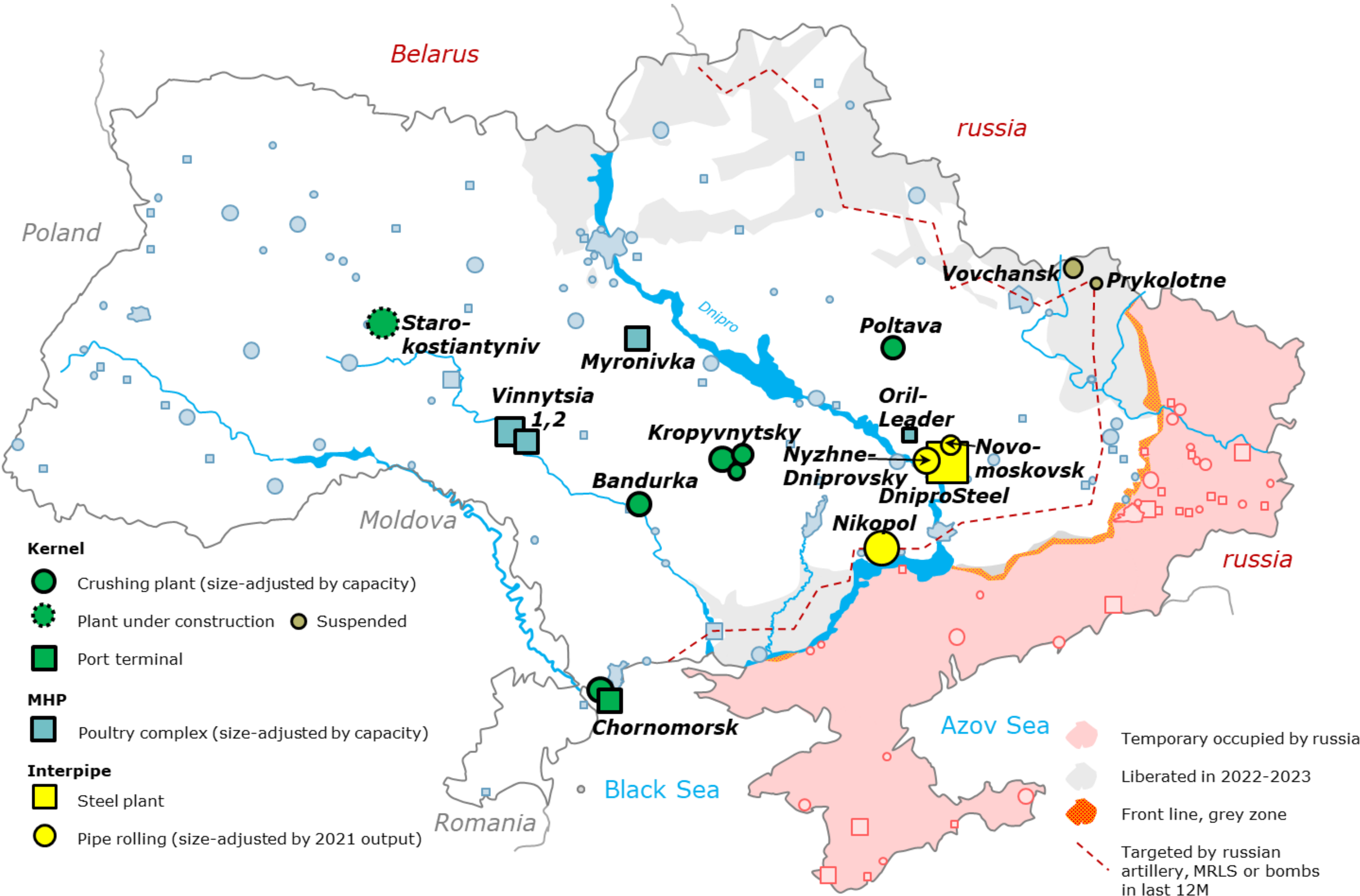
Sources: Company data, General Staff of Armed Forces, Concorde Capital research

Key assets map: Metinvest



Sources: Company data, General Staff of Armed Forces, Concorde Capital research

Key assets map: Interpipe, Kernel, MHP



Sources: Company data, General Staff of Armed Forces, Concorde Capital research

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