# Ukraine Macro & Fixed Income Update

## More light ahead

December 23, 2022

CONCORDE CAPITAL

# Summary

In ten months of full-sized war with Russia, Ukraine managed to recover control over a half of its territory occupied in 2022. Further progress of Ukrainian forces will largely depend on the size of international support in weapons and ammunition. With the recent visit of president Zelensky to the U.S. such supply should intensify in terms of both quality and quantity.

Meanwhile, Moscow does not give up its plan to fully capture or destroy Ukraine. Being unable to defeat the Ukrainian army, Russians started an open terror against Ukrainian people. Since Oct. 10 the terrorists made ten massive air strikes at the nation's energy infrastructure ahead of the heating season, when energy cuts could provoke humanitarian crisis. Responding to that, Ukraine's western partners increased sanction pressure against the aggressor state, and are increasing supplies of air defense systems and energy equipment needed to repair the damaged infrastructure.

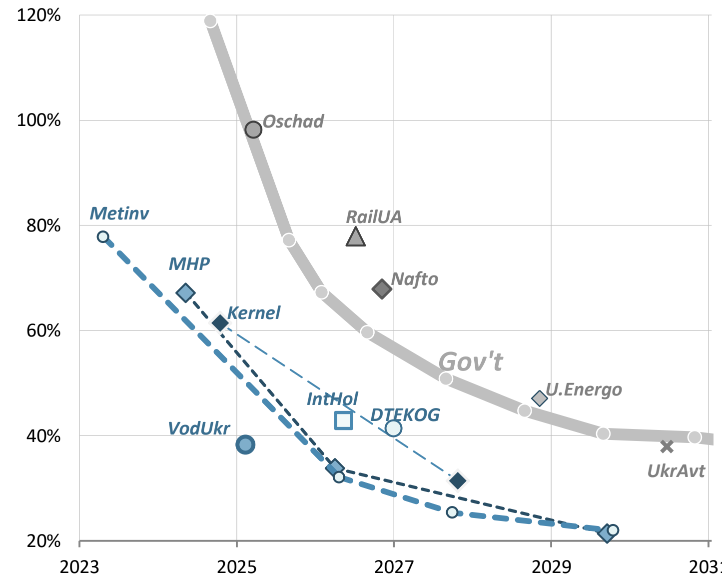
As a result of terrorist attacks against Ukraine's infrastructure, the country is suffering from about 20%-30% electricity shortage. Western assistance to Ukraine lags but is increasing, so we see the current situation with power supply is at its lowest point. Nevertheless, Ukraine will have to go through the peak power consumption period of January with enormous power deficit that will break its economic recovery trend shown in 3Q22 (when the decline of real GDP slowed down to 31% after a 37% slump in 2Q22). Solely due to insufficient power supply, Ukraine's GDP is likely to fall by about 40% yoy in 4Q22 and 36% yoy in 1Q23.

The next year does not promise to be easy for Ukraine's state budget as its planned deficit of about 21% of GDP looks too optimistic. The government will have to work hard to secure financing (preferably external, and preferably in the form of grants) to cover its total fiscal gap (including expected budget deficit and debt repayment needs) of nearly 40% of GDP, or about USD 5 bln monthly. That does not look impossible (as it does not differ much from the year 2022).

Despite high security risks and interruptions of supply chains, most of Ukrainian corporate Eurobond issuers showed some recovery in their operating and financial results in 3Q22. Although showing a decline in key output metrics, Ukrainian Railways, MHP, Vodafone-Ukraine and Interpipe showed better than expected financial results due to higher output prices. Even most suffered issuers like Metinvest, DTEK Energy and DTEK Renewables are generating free cash flow and performed attempts to partially buy back their bonds.

The emerged power deficit could affect production plans and revenues of many bond issuers this winter. Most exposed to power shortages are those operating large production facilities, which work is impossible without power supply (steel mills and ore enrichment facilities of Metinvest, electric steel and pipe rolling plants of Interpipe, seed crushing plants of Kernel) and who cannot sell their power in case there is no access to grids (DTEK Energy and DTEK Renewables). Meanwhile, some others could be less affected (Vodafone which revenue is largely generated by pre-paid users, gas producers Naftogaz and DTEK Oil&Gas, Ukrainian Railways which can shift from electric to diesel locomotives).

**Eurobond yield map**




**In the Eurobond universe, our top picks** remain the instruments of the issuers that have a high chance to go through the hardships with minimal losses (**DTEKOG**, **VODUKR**), as well as bonds of state banks (**OSCHAD** and **EXIMUK**) which have enough liquidity and good reasons to repay the remainder of their bonds.

This time, we add the shortest bond of MHP (**MHPSA 24**) to the list of our picks as the company's fundamentals look better now.

We continue to treat the shortest bond of Metinvest (**METINV 23**) as a good speculative opportunity, even though its yield to maturity has decreased since our September's update.



*Source: Bloomberg, Concorde Capital estimates*

# War update: Ukraine liberates half of territory lost in 2022

Having lost the ability to support its troops on the western bank of the Dnipro near the city of Kherson, Russian aggressor left the western bank on Nov 9-11 (yellow area on the map). With the recent territory gain, Ukrainian army has liberated about a half of the area occupied by Russia since February 2022. Further progress of Ukrainian army to the east and south will be more challenging, taking into account doubled concentration of the aggressors on the remaining locations. But with more supplies of modern equipment, it is possible.


### Northern frontline

After liberation of Izuym and western bank of the Oskil river in mid-September, Ukrainian army lost its momentum in the north. Still, it is likely that Ukraine will continue its counteroffensive there, targeting to liberate at least northern bank of the Siversky Donets and reaching outskirts of Luhansk. For Russians, who already have lost a part of Luhansk region (the only region that they had managed to fully occupy), holding on that territory makes not much sense.

### Donetsk frontline

The line between Lysychansk and Donetsk is the only one where Russians are continuing to attack and have some territorial gains. Although there is little strategic importance of such attacks, the aggressor is still trying to capture small towns of Bakhmut, Avdiyivka and Vuhledar in Donetsk region, ignoring its heavy losses.

### Southern frontline

It is a big challenge for Ukrainian army to liberate areas on the eastern bank of the Dnipro from the yellow area. Therefore, more promising look potential efforts to attack from Zaporizhia area in the direction of Melitopol or Berdyansk. Most likely, top battles will happen in these areas in the near future.

If Ukrainian army secures Melitopol, it will cut Russian army into three pieces in the south, thus gaining options to go further in four directions: to the west (towards Kherson), north-west (to liberate an important energy hub Energodar), south (to liberate Crimea) or east (to target Mariupol and further Donetsk). Therefore, for Russian occupants, loss of Melitopol will mean major defeat on the southern front.



*Source: Ukraine's General Staff, Institute for the Study of War (ISW), media, Concorde Capital research*

## Economy update

# Economic recovery: Power supply is key bottleneck

Ukraine's State Statistics Service estimates the economy has recovered to a 30.8% yoy decline in 3Q22, after a 37% yoy slump in 2Q. Meanwhile, the Economy Ministry sees the decline deepened in October to 39% yoy due to electricity shortages that Ukraine faced since the first massive Russian attack on its energy infrastructure on Oct. 10.

Our estimate is that October's GDP decreased by about 35%-37%, as power supply restrictions were not so massive then.

In the following months, however, the decline can easily exceed 40%, as electricity shortages will become more painful on the background of seasonal increase in power demand:

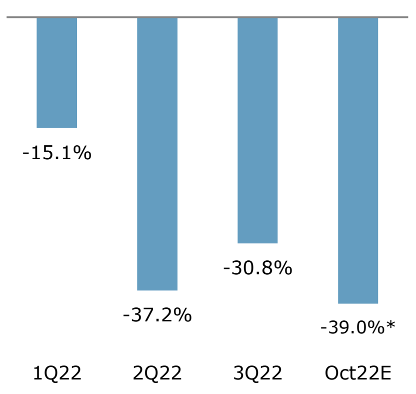
- We estimate average potential demand for electricity in Ukraine is close to 12.8 GW in November and around 13.6 GW in December-February.
- Meanwhile, due to damages to power generation, transmission and distribution assets, it is likely that average supply of power capacity will be limited at about 11.8 GW in November-February (see the next slide for more details). This is rested on the assumption that infrastructure damages will remain on the current level, meaning recoveries will offset new possible damages.
- If so:
  - The deficit of power capacity will increase to about 20% in winter, compared to about 12%, on average, in November.
  - The decline in power consumption will reach 46% yoy in December-January.
  - Power capacity shortage will restrict real GDP to about 45% decline in winter months.

**Just because of power capacity shortages, we estimate:**

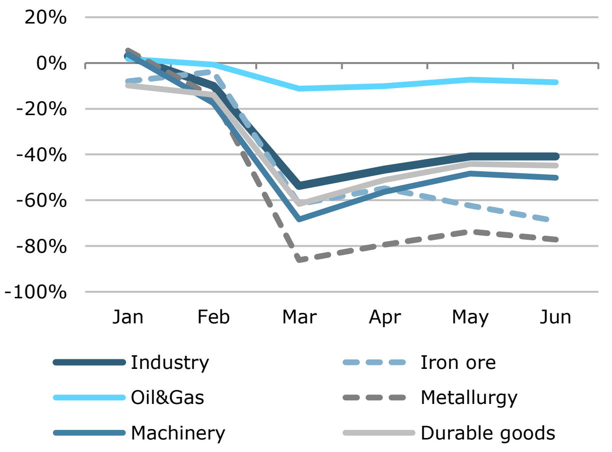
- Ukraine's real GDP will fall by about 40% yoy in 4Q22 and by about 32% yoy in full year 2022.
- Ukraine's real GDP will further decline by about 36% yoy in 1Q23 and by total 7% in full year 2023.

We also see a risk for a significant decline of agricultural operations in the 2023 season which could lead to even bigger decline of the 2023 GDP due to weak performance of farming and food industries.

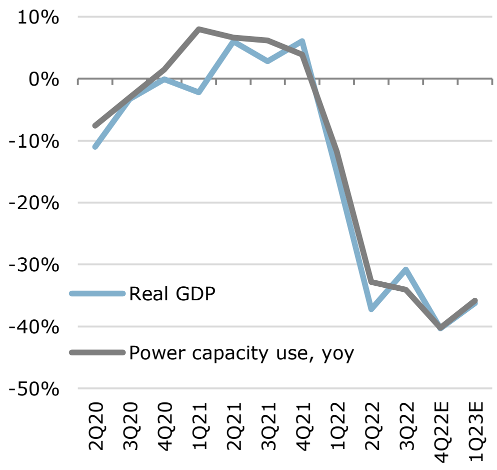
### Real GDP, gov't estimates



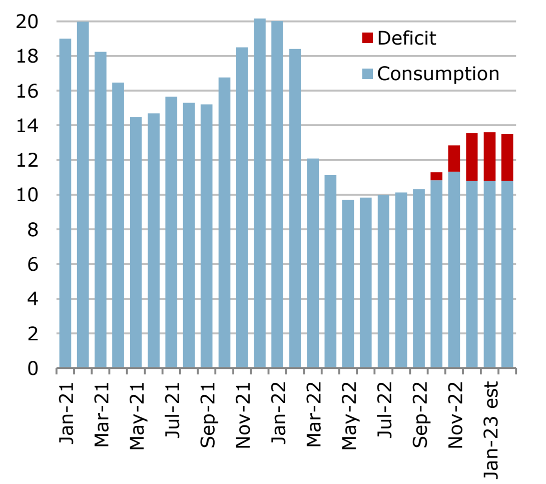

### Industrial output in 2022, yoy




### GDP & power capacity consumption ,yoy chg




### Average power capacity use, GW




** Estimate of Economy Ministry.*
*Source: UkrStat, map.ua-energy.org, Concorde Capital estimates*

# Power deficit: Terrorist attacks became painful

Ukrainian energy system suffered from ten missile strikes since October 10, which gradually undermined its ability to meet demand for electricity. The attacks were directed to both, power generation and power transmission assets aiming at disconnecting them from the electricity system.

The data of power supply suggests that both sides, Russian terrorists and Ukrainian air defenders & energy staff, are improving their skills and experience during the attacks:

- Ukrainian power system was not much affected and was able to recover fast from the attacks made by mid-November.
- Since mid-November, the attacks became more damaging, resulting in bigger interruptions of power supply. Though, miraculous work of energy companies managed to decrease power deficit in the system within couple of days after the strikes.

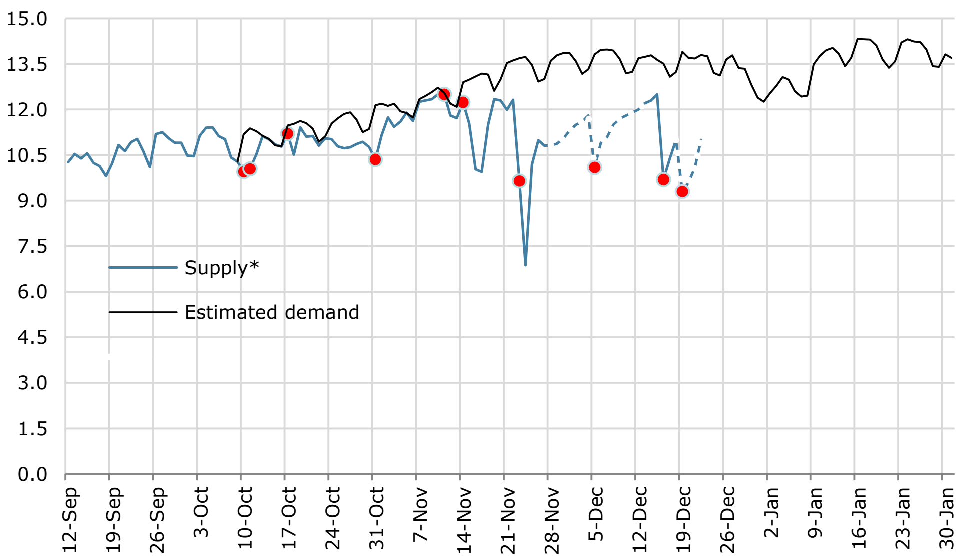
Nevertheless, it looks like capability of the energy system to restore itself is declining. This could change in the near future as the entire western world is committing to help Ukraine to cope with the results of Russian attacks on its power infrastructure (supply the needed energy equipment). Also, more supplies of air defense systems should make further attacks less damaging. But this does not rule out that the terrorist attacks will remain "efficient."

Thus far, Ukraine's energy system can provide 10-12 GW of capacity on daily average basis, while average daily demand for power capacity of about 13-14 GW in December-January.

To cope with energy deficit, power transmission and distribution operators are introducing the schedules of power cuts for most of Ukrainian consumers (except critical infrastructure objects) which last for 8-16 hours a day. In some locations, terrorist strikes lead to power cuts that last couple of days.

We expect that Ukraine's power supply will be at the level of about 10.8 GW, on average, throughout winter 2022-2023. This is 20% less than the potential demand and 42%-46% less yoy.

**Demand and supply of power capacity in 2022-2023, GW**




** Dashed segments are estimates; red dots indicate days of air strikes*
*Source: Ukrenergo, DTEK, map.ua-energy.org, Concorde Capital estimates*

# Budget deficit: Continues to rely on international support

Own incomes of the state budget covered only 38% of its cash spending over March-November, with the rest covered by:

- local loans (25%, including 16% of the National Bank loans),
- international loans (21%, including 7% IFI loans and 9% EU loans),
- international grants (16%, including 13% from the U.S.).

Ukrainian government was able to stabilize budget incomes since June so that they are covering all the expenditures except those for security & defense.

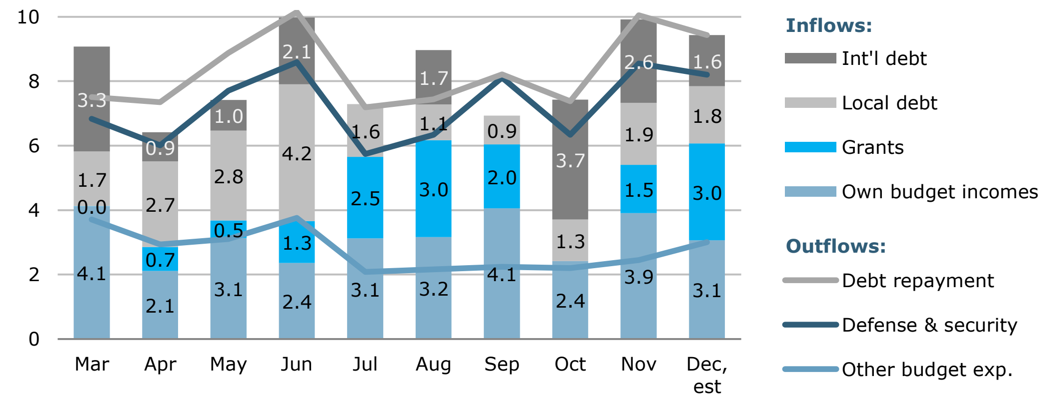
In July-September, own budget incomes and international grants (mostly from the U.S.) covered most of budget expenditures, so Ukraine had no critical needs to borrow money (borrowings mostly covered debt repayments).

In October and November, Ukraine received less grants and thus had to borrow the equivalent of USD 9.5 bln to cover all its expenditures and debt repayments.

We expect that in December, Ukraine's budget will have to spend about USD 9.4 bln, of which it can generate from budget incomes about USD 3.1 bln. The resulting gap, estimated at USD 6.3 bln, is likely to be covered by:

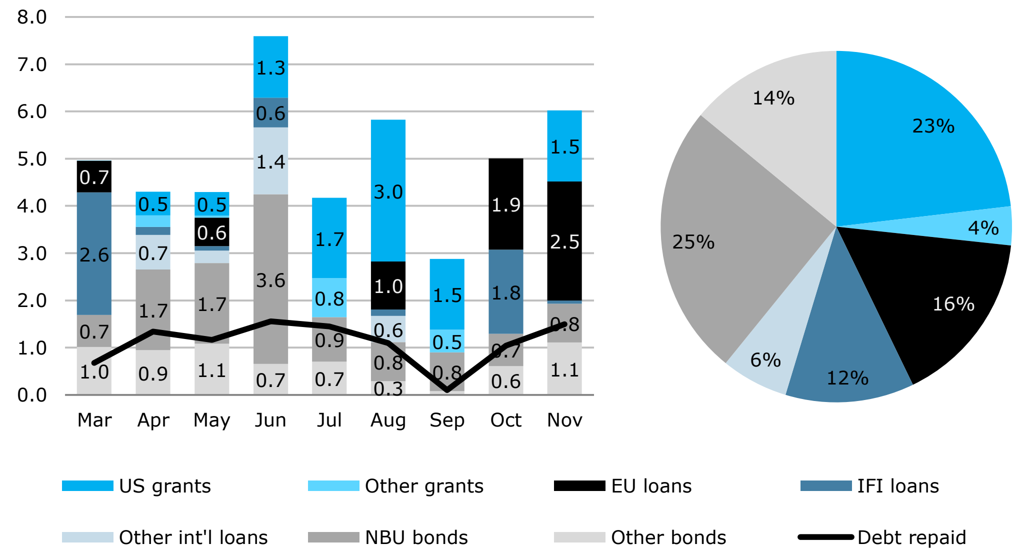
- U.S. grants for USD 3.0 bln
- EUR 0.5 bln of EU's last tranche of the macro financial assistance program for 2022 (worth EUR 9 bln)
- USD 0.8 bln (UAH 30 bln) by the National Bank
- The rest of the needs, or about USD 2.0 bln, should be covered by other loans, internal and external.

**Budget inflows and outflows in 2022, USD bln**




**Financing of budget gap in 2022, USD bln**

**Contribution to gap financing, Mar-Nov**






*Source: Finance Ministry, Cabinet of Ministers, Concorde Capital estimates*

# Budget 2023: Military expenditures look under-planned

### Macro assumptions behind the budget

Ukraine has adopted the 2023 state budget in early November which is based on nominal GDP estimate of UAH 6175 bln (up 13% compared to the 2021 level). It assumes real GDP will increase 3.2% yoy, which looks too optimistic now.

The government assumes UAH/USD rate of 42.2x in 2023 (up 55% from average 2021 level), which does not look realistic, unless some shock happens. Our base-case assumption is that the official rate will remain at the current level of 36.6x (up 34% compared to average 2021 level).

### Income forecast looks conservative

With such macro assumptions, the planned tax income increase by 4% in 2023 compared to 2021 (and overall budget income increase by 3%) looks conservative. Adjusting for new reality, the plan looks realistic.

### Military expenditures assumed to fall 39%

Meanwhile, military expenditures planned for 2023 are 39% smaller than the level seen in June-September 2022. Such tiny expenditures can only realize if active warfare will finish in June 2023, we estimate.

### Deficit looks under-estimated due to small military expenses

The budget deficit is estimated at UAH 109 bln per month, and total budget gap (including needs of debt repayment) at UAH 142 bln per month (USD 3.6 bln) in 2023.

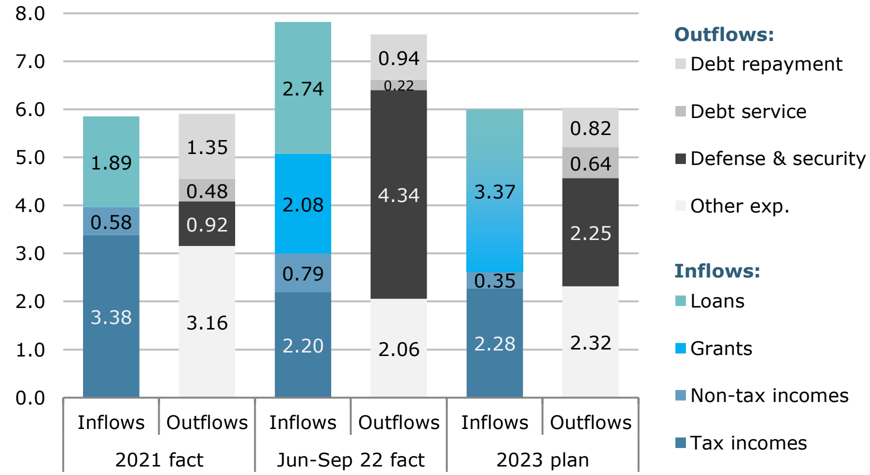
If monthly military expenses will remain on the current level in 2023, or UAH 61 bln (USD 1.5 bln) per month above the plan, the monthly budget gap would be close to UAH 205 bln (USD 5.0 bln). It is very likely that in the first months of 2023 (when military expenditures are unlikely to fall compared to the current levels) the budget gap will exceed USD 5 bln per month, even in case the government is correct about the war's end by mid-2023.

### Firm sources are for financing 3/5 of the gap

Among possible sources to finance the gap (USD 5 bln in at least first months of 2023), we see:

- U.S. grants which should be about USD 1.5 bln per month.
- EU financing for EUR 1.5 bln monthly.
- Sources for the rest, or about USD 2 bln per month, are not clear yet:
  - Some hopes are related to a support from the IMF which is currently in discussion about a broad support program for the next year.
  - There could be some other bilateral support for Ukraine (which was seen in 2022) for about USD 0.5-0.7 bln monthly.
  - Some increase of tax incomes (beyond the plan), as well as optimization of military expenditures is also likely.
  - Otherwise, MinFin will have to continue relying on the NBU's heavy assistance.

### Monthly average budget flows, USD bln*




### Budget parameters, monthly average, UAH bln

| | 2021 | Jun-Sep22 | 2023F | 23/22 | 23/21 |
|---|---|---|---|---|---|
| **GDP** | **455** | **394**** | **523** | **33%** | **15%** |
| **Total income (ex-grants)** | **108** | **108** | **111** | **3%** | **3%** |
| Tax income | 92 | 79 | 96 | 22% | 4% |
| - % of GDP | 20% | 20% | 18% | -2pp | -2pp |
| Non-tax income | 16 | 29 | 15 | -49% | -7% |
| **Total expenditures** | **124** | **238** | **220** | **-8%** | **77%** |
| Defense & security | 25 | 156 | 95 | -39% | 278% |
| Debt service | 13 | 8 | 27 | 250% | 110% |
| Other expenditures | 86 | 74 | 98 | 32% | 14% |
| **Deficit as planned (ex-grants)** | **-16** | **-130** | **-109** | **-16%** | **578%** |
| - % of GDP | 4% | 33% | 21% | | |
| **Deficit + Debt repayment** | **-53** | **-164** | **-144** | | |
| Gross loans&grants | 52 | 174 | 142 | -18% | 176% |
| State Debt/GDP, eop | 0.43 | 0.68 | 0.76 | 11% | 76% |
| **Deficit (no decrease in defense expenses)** | **-16** | **-130** | **-171** | **31%** | **958%** |
| - % of GDP | 4% | 33% | 33% | | |
| **Deficit + Debt repayment** | **-53** | **-164** | **-205** | | |
| State Debt/GDP, eop | 0.43 | 0.68 | 0.88 | | |

** Based on average UAH/USD rate of 42.2x in 2023, as assumed by Cabinet. **Average monthly GDP for 2022, as estimated by Cabinet.*
*Source: Finance Ministry, Cabinet of Ministers, Concorde Capital estimates*

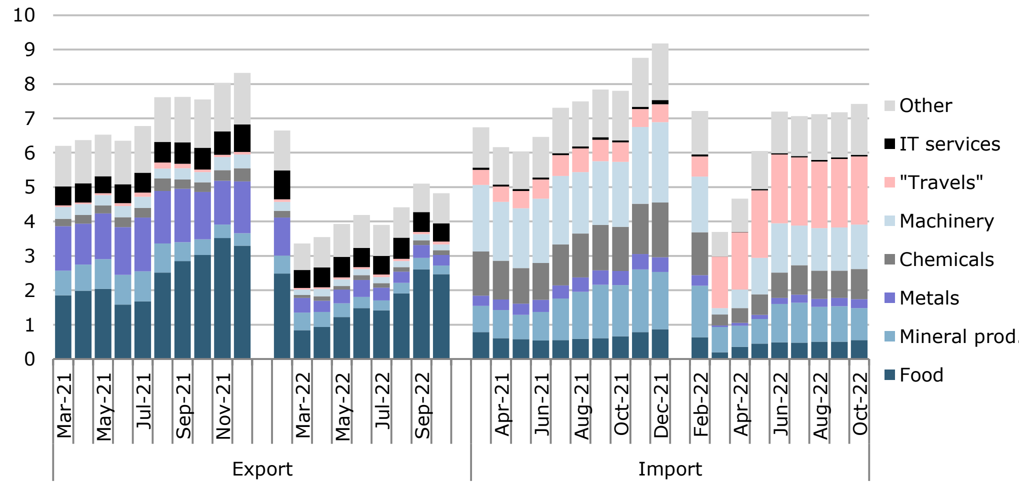
# Trade balance: Agri exports stabilize, “travels” still dominate in imports

Trade balance has significantly improved in August due to the increase of food exports. This was caused increased load of the “grain corridor” (a deal of Ukraine with the UN and Turkey that allows to export grains and oils from three biggest Ukrainian ports). Due to the corridor, crop exports surged in September as well, then stabilized at the average level of 6.5 mmt. Good news that the work of the corridor, originally agreed in July for 120 days, has been extended for the similar period in early November.

The biggest channel of hard currency outflow from Ukraine remains “import of travel services,” which is expenditures of Ukrainian refugees. Such outflows stay at relatively flat level of USD 2 bln per month in June-October, but could further increase in winter months as threat of interrupted utility services in Ukraine (due to the damage of infrastructure by Russian terrorists) could force more Ukrainians to spend winter times abroad.

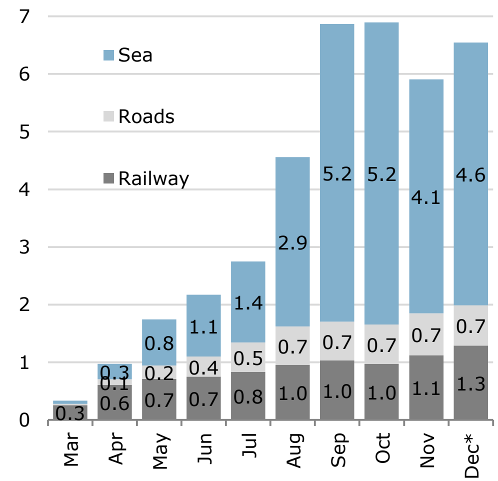
Also, electricity shortage should increase demand for motor fuel for power production by small-sized generators which are being actively used by many retailers and service companies (e.g. banks, hotels, restaurants and cafes) in Ukraine. This should increase fuel imports to the country and worsen its trade balance in winter months.

**External trade of goods and services, USD bln**

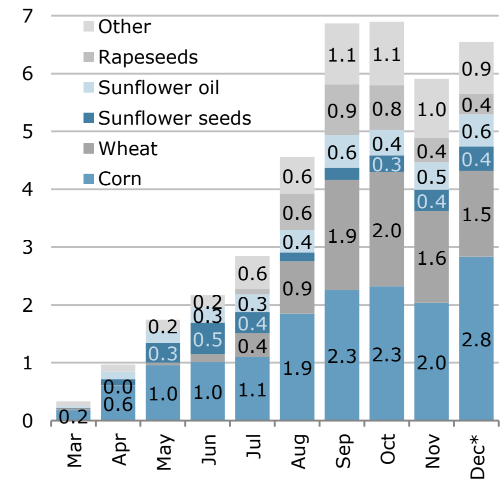



**Crops and oils exports in 2022, mmt:**

**By routes:**




**By goods:**






** Extrapolated data from Dec. 1-17*

*Source: NBU, State Customs Service, Agriculture Ministry*

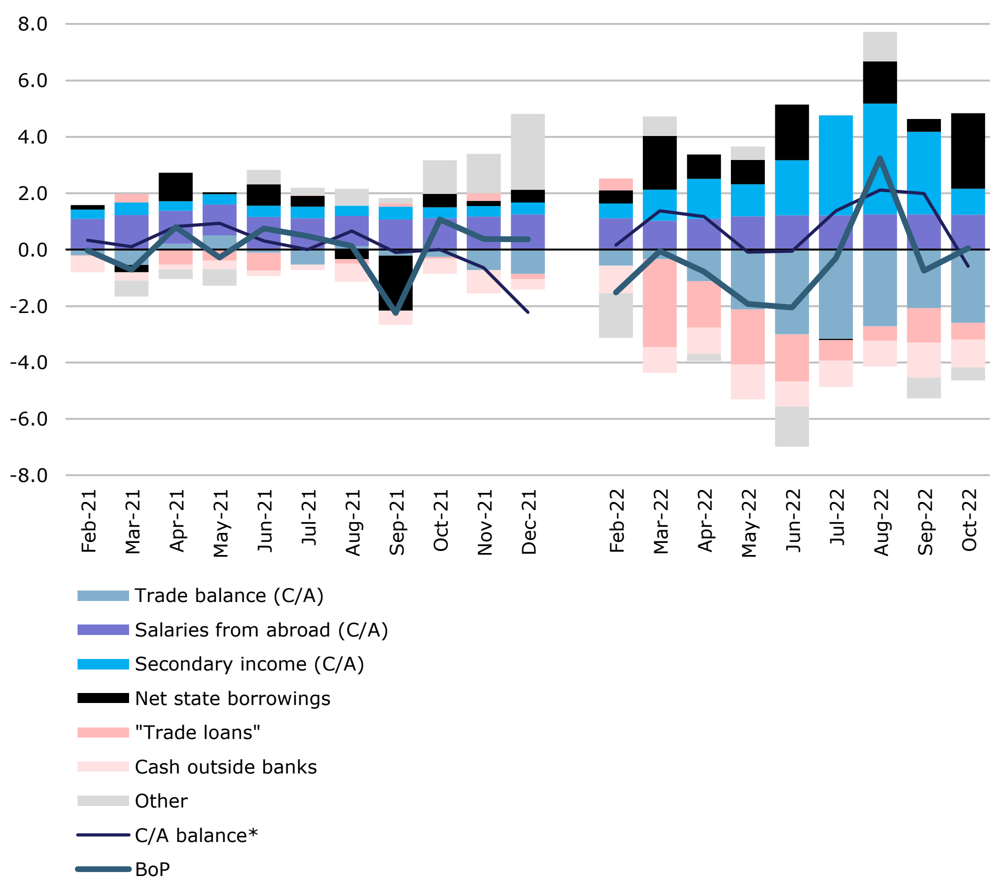
CONCORDE CAPITAL

# Balance of payments: Financial outflows offset positive C/A

Ukraine's current account (C/A) surplus was at a record highs in July-September, even though trade balance was at record low levels. Positive C/A result was primarily due to surge in "secondary incomes," mostly consisting of international grants to support the state budget. In October, the situation has changed as this was the first month since beginning of the war when Ukraine received no grants. In November, with arrival of USD 1.5 bln grants from the U.S., C/A balance is likely to have improved significantly.

Nevertheless, Ukraine's resulting balance of payments was negative in the last couple of months – mostly due to outflows in two financial account items: "trade loans" and "cash outside banks." That suggests the National Bank's measures to fight hard currency outflows from Ukraine remain not much efficient.

**Balance of payments, USD bln**




** C/A balance adds back "reinvestment incomes" which the NBU subtracts in its reports since last year.*
*Source: NBU, Concorde Capital estimates*

# Hryvnia: Western support covers needs to keep UAH/USD rate fixed

The NBU fixed the UAH/USD rate in the first day of Russian invasion at the pre-war level of 29.25x, as well as introduced strict limits on ForEx operations, including ban on sale of foreign currency by banks.

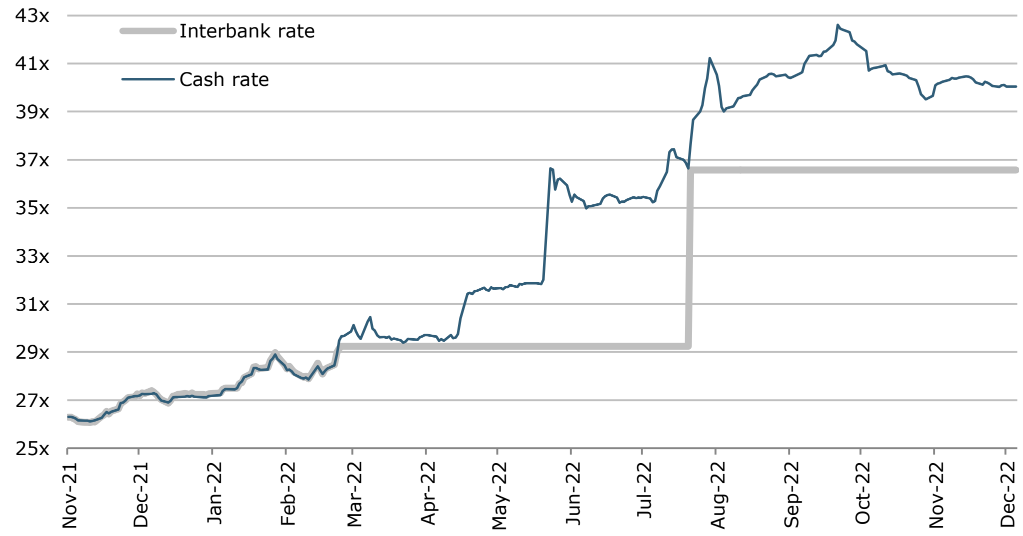
The fixed rate was too low, as the NBU confessed, which led to excess demand for cash dollars and forced the NBU to spend about USD 9.5 bln in April-June for ForEx interventions. Meanwhile, the cash rate of dollars started diverging fast from the official rate since mid-April, when the banks were allowed to sell cash dollars. The biggest spike in cash UAH/USD rate happened in late May, after the NBU head stated that the regulator might come back to floating exchange rate policy.

The central bank's correction of fixed UAH/USD rate by 25% to 36.6x in late July allowed to stabilize ForEx market. This allowed the NBU to start building up gross international reserves since August, as inflow of foreign currency to NBU and government accounts (via loans and grants) started exceeding the amount of NBU's ForEx interventions.

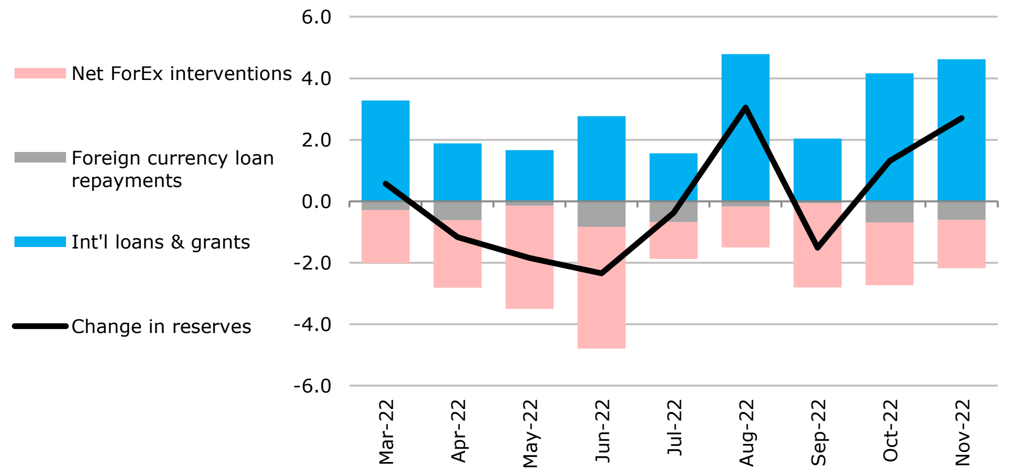
The cash market reacted nervously on the July's initiative to devalue local currency bringing UAH/USD rate to new highs. However, the spread between the cash and the official rates of dollar decreased from about 25% in early July to about 9% in early August. It is likely that the spread will remain close to 10% in the future.

We expect that in the future months, NBU's intervention needs will remain on the current level of about USD 2-3 bln. Such amounts will be offset by expected international support from the West (at least USD 3.5 bln of loans and grants monthly). Such support will allow the NBU to keep UAH/USD rate at the current level and simultaneously increase gross international reserves in the entire year 2023, providing no new shocks happen. That said, so far we see no reasons for the NBU to adjust the fixed exchange rate in the near future.

**UAH/USD rate**




**Key factors of NBU reserves change, USD bln**






*Source: NBU*

# Eurobond Issuers Update

# Issuers ranking: Power cut factor included.

We continue to rank Ukrainian Eurobond issuers based on criteria offered in our September report paying attention to the following:

- Apparent effect of the war on companies' cash-generating assets (whether they have been damaged, or located on the occupied territories, or very close to Russian border or the frontline. See also the maps on slides 23-25).
- Assessment of the sensitivity of companies' operations to the closure of seaports.
- Companies' year-on-year revenue and EBITDA change (in USD terms) in 3Q22
- Large debt repayments in 2022 and 2023 that can trigger default or require soon active talks with creditors on restructuring.
- Estimated leverage multiplier in spring 2023.
- We also add a new parameter: sensitivity of company's revenue to possible power cuts.

**The updated ranking suggests that:**

- **DTEK Oil & Gas**, **VF Ukraine** and **MHP** remain fundamentally best companies.
- With their stronger than expected interim results, we improve our view on fundamentals of **Ukrainian Railways** and **Interpipe**.
- Fundamental score of **Kernel** has been downgraded due to weaker than expected financial and operating results, as well as power cut risks.
- **DTEK Renewables, DTEK Energy, Metinvest** and **Kernel** look fundamentally weakest issuers.

Based on updated results, we see that risk of debt restructuring has decreased for Interpipe and increased for Kernel.

Despite DTEK Energy and DTEK Renewables initiated a partial buyback of their bonds to decrease their leverage, we asses their risk of restructuring in the mid-term as high.

### Ranking of Eurobond issuers as compared to sovereign

| | Assets under risk* | Output dependance on seaports | Revenue sensitivity to power supply | Revenue change 3Q22 yoy | EBITDA change 3Q22 yoy | Fin. leverage | Sizeable debt due in 2022-2023 | Score, vs. sovereign |
|---|---|---|---|---|---|---|---|---|
| **Ukraine** | **15%** | **Medium** | **Medium** | **-35%** | n/m | n/m | **No** | **=** |
| Ukravtodor** | 15% | No | n/m | n/m | n/m | n/m | No | = |
| Ukrenergo** | 15% | No | n/m | n/m | n/m | n/m | No | = |
| Oschadbank | 12% | No | Medium | n/m | n/m | n/m*** | No | +1 |
| Ukreximbank | 14% | No | Medium | n/m | n/m | n/m*** | No | +1 |
| Naftogaz | 3% | No | Low | n/m | n/m | n/m | Yes | +1 |
| Ukrainian Railways | 20% | High | Medium | -37% | >0% | ~2x | No | = |
| DTEK Oil&Gas | 0% | No | Low | >0% | >0% | <1x | No | +7 |
| VF Ukraine | 12% | No | Low | -32% | -32% | <1x | No | +4 |
| MHP | 2% | Medium | Medium | 10% | -35% | ~3x | No | +2 |
| Interpipe | 13% | Medium | High | -27% | -20% | ~3x | No | -1 |
| Metinvest | 48% | High | High | -81% | -90% | ~2x | No | -5 |
| Kernel | 2% | High | High | -51% | -40% | >10x | Yes | -5 |
| DTEK Energy | 23% | Medium | High | -65% | -85% | >10x | No | -6 |
| DTEK Renewables | 96% | No | High | -65% | -70% | ~5x | No | -7 |

** Estimated percentage of cash-generating assets that are either damaged, or located on the occupied territory, or located close to the frontline (Russian border).*
***There is no sense to consider Ukrenergo and Ukravtodor as separate entities, as their dependence on state budget is huge and their bonds are state-guaranteed.*
****The banks have enough foreign currency liquidity to repay their bonds . Source: Company data, UkrStat, NBU, Concorde Capital research*

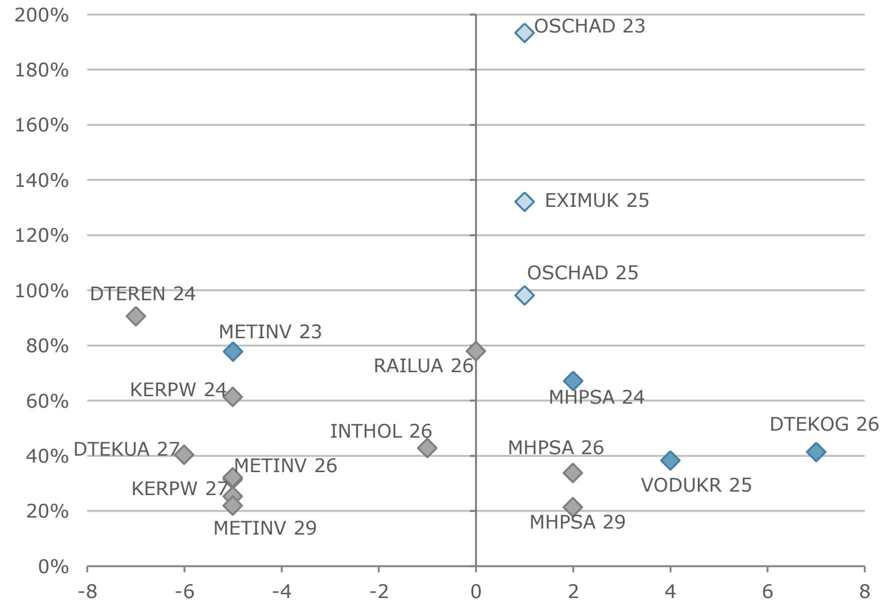
# Corporate bond picking

To select our top picks, we are mapping bond yields against fundamental scores of their issuers, as derived on the previous slide. We avoid picking bonds of state-controlled and state-guaranteed issuers as we believe such bond parameters have large probability to be changed for political reasons. The only exception is state banks, which have a clear motivation to repay their bonds on schedule (such bonds bear much higher rates than the banks' other dollar liabilities and dollar assets, see out August report for more details).

**Our top picks are:**

- Bonds of the issuers that offer a combination of high fundamental scores and high yields:
  - DTEK Oil & Gas (**DTEKOG 26**)
  - Vodafone Ukraine (**VODUKR 25**)
  - Shortest bond of MHP (**MHPSA 24**)
- Despite our speculative bet on the shortest bond of Metinvest (**METINV 23**) has played well (the bond gained over 50% in price since late September) we continue to treat it as a good speculative opportunity.
- Also we can't avoid recommending bonds of state banks:
  - Ukreximbank 2025 (**EXIMUK 25**)
  - Oschadbank bonds (**OSCHAD 23, OSCHAD 25**).

**Fundamental scores and bond yields**






*Source: Bloomberg, company data, Concorde Capital research*

# Interpipe: Fundamentals are better than expected

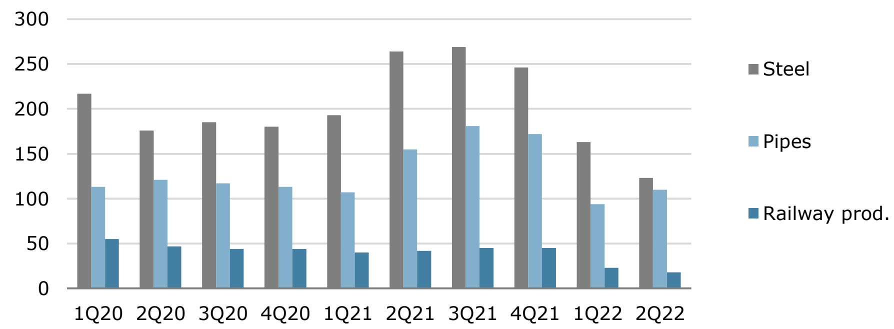
In 2Q22, its production of pipes decreased 29% yoy, but revenue from pipes sale almost remained flat yoy due to better pricing. Production of railway goods decreased 57% yoy and their revenue fell 51% yoy. The company's EBITDA halved yoy in 2Q22, mainly due to large comparison base. In 1H22, its revenue was flat yoy and EBITDA decreased 55%, largely due to weak results of the first quarter.

The company remains cash-rich as its cash balance increased 43% YTD to USD 157 bln. Thanks to such result, its net debt corrected 13% YTD to USD 254 mln as of end-June and its Net Debt to LTM EBITDA ratio stood at 1.5x, up from 1.3x at the year's beginning. Providing its EBITDA will be about USD 25 mln in the consequent quarters, its net leverage ratio is likely to reach 3.0x by the end of 2022.

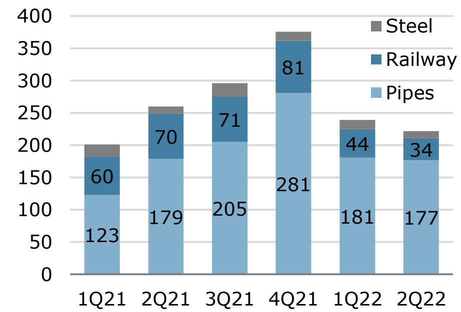
The company's electric steel production might suffer much from the current shortages of power capacity in Ukraine, so its production results are likely to be worsen in 4Q22 and 1Q23.

The company seems to be able to smoothly service and repay its debts in the mid-term. By the end of 2025, it is expected to spend no more than USD 130 mln to pay interest and matured debt, which is less than its latest reported cash balance. That said, Interpipe can live for more than three years to generate zero free cash flow and smoothly service its debt.

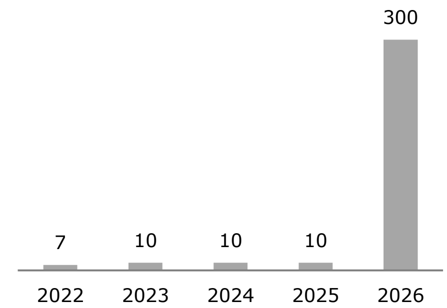
**Production data, kt**



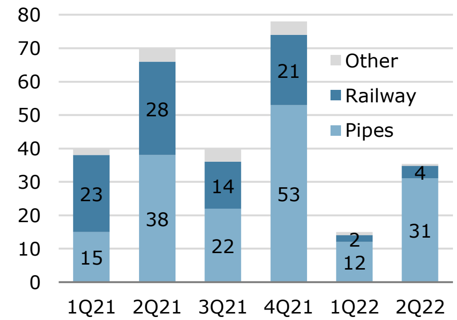

**Revenue structure, USD mln**



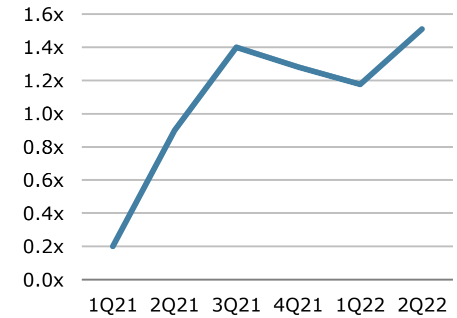

**Debt maturity schedule, USD mln**




**EBITDA structure, USD mln**




**Net Debt / LTM EBITDA**






*Source: Company data*

# Kernel: Liquidity issue remains

**Large war-related losses reported**

The company reported total USD 521 mln in war-related losses in FY2022, most of which were related to impairment of non-current assets (USD 219 mln) and impairment and loss of inventories (USD 162 mln). Of that amount, USD 26 mln are social expenditures.

The company also stated that it is not going to re-start operations at its two seed crushing plants in Kharkiv region, which were liberated in September. Also, it has not prolonged tolling agreement for Chuhuyiv plant in Kharkiv region. It also provides no plan to finish construction of brand new plant in Starokostyantyniv. This decreases available crushing capacities of Kernel to 3.0 mmt p.a. this season, from 3.7 mmt p.a. before the war. But such capacity decline won't be the key bottleneck for Kernel's crushing operations in FY2023.

**Unable to repay working capital financing**

Worsened financial performance in the calendar year 2022 led to an increase of Net Debt to LTM EBITDA ratio to 13.9x as of end-September 2022, from 1.3x a year before.

Due to adverse situation with soft commodities sale in summer, Kernel was not able to repay on time its short-term loans that it have taken to finance working capital. Maturity of over USD 800 mln short-term debts is being postponed each quarter for the next one. Recognizing its liquidity risk, Kernel has re-classified all its long-term borrowings as short-term liabilities as of end-June.

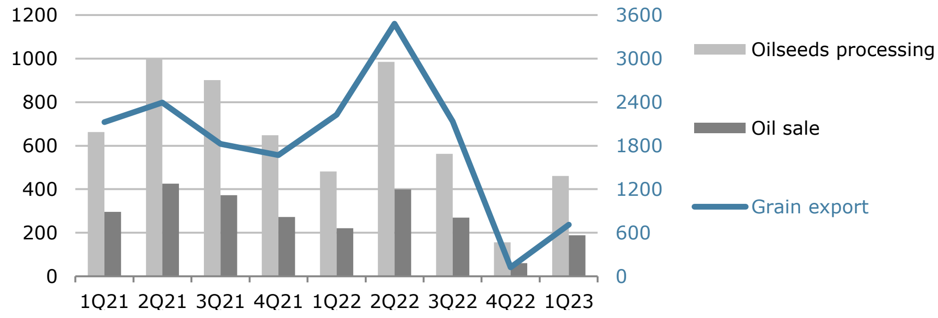
While we see the risk of default on short-term loans is not high, as the company is still managing to reschedule loans' maturity, this issue limits Kernel's ability to attract any financing for its operations. This, in turn, will depress its operating results in FY2023.

**Crushing operations are recovering, grain trading to follow**

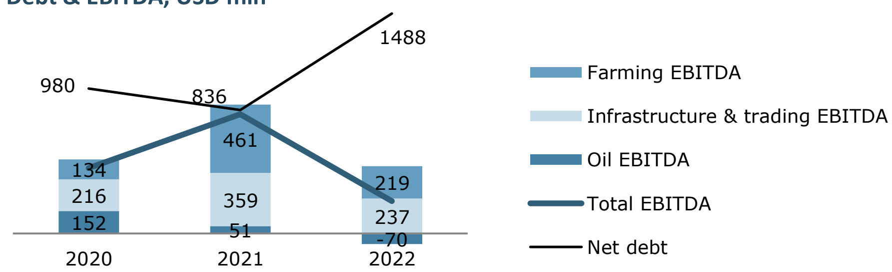
Kernel was able to restore seeds crushing operations almost to the level of previous year in 1QFY23 (July-September 2022), but most likely in the following quarters we will observe a yoy decline due to both, smaller sunflower harvest in Ukraine (-37% yoy), and unavailable financing for Kernel's purchase of seeds.

Grain export volumes plummeted to nearly zero in April-June, due to the blockade of Ukrainian sea ports, but was slightly restored afterwards as soon as the grain corridor started functioning in late July. Most likely, in 2QFY23 we will see some more increase in Kernel's grain exports.

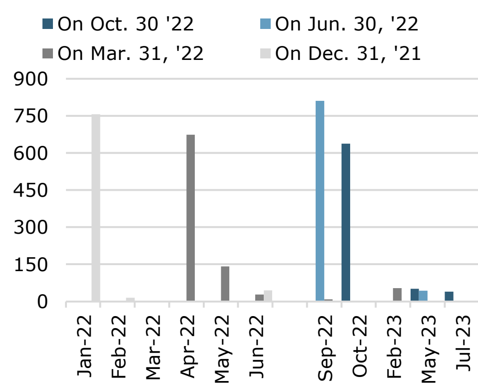
**Operating data, kt***



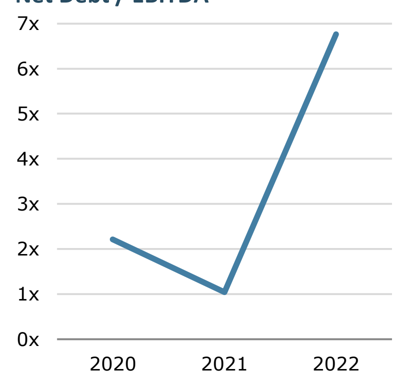

**Debt & EBITDA, USD mln***




**Maturity of ST debt, USD mln**




**Net Debt / EBITDA***






** Note: Financial year 2022 (and 4Q22) ends in June 2022.*
*Source: Company data*

# MHP: Revenue growing, margin stabilized

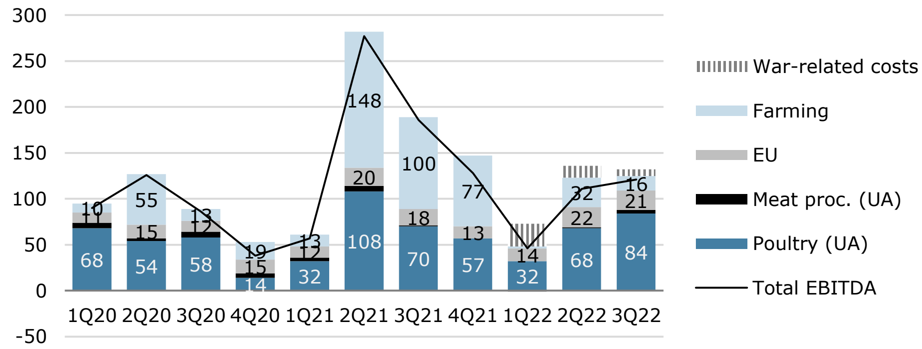
MHP's P&L continued to improve in 3Q22 as its EBITDA reached USD 121 mln, which is a good result for any quarter preceding the booming year 2021. The direct war–related expenses decreased to USD 7 mln in the quarter, from USD 25 mln and USD 13 mln in the preceding periods.

Volumes of poultry sales from Ukraine stabilized at about 63 kt in September-October, which is comparable yoy. Meanwhile, the company managed to put cost inflation on customers to have 14% yoy poultry price advance in October, in dollar terms.

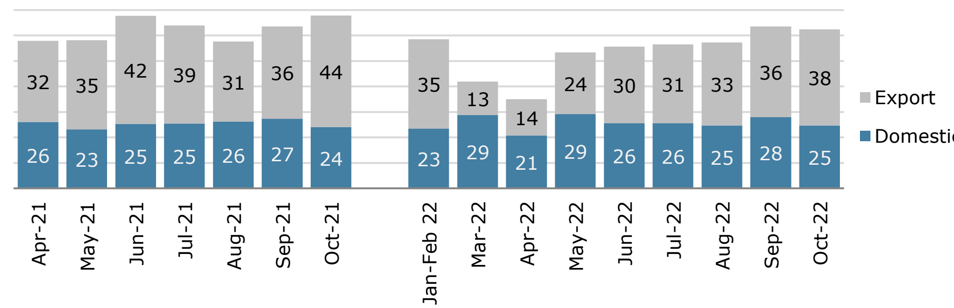
The company's P&L will definitely worsen yoy in 2022, but probably will be better than in the year 2020. The key problems for MHP are:

- Relatively high financial leverage (expected to be about 3.0x as of end-2022)
- Low credit rating (D from S&P) could be a barrier for many potential bonholders. This could improve in the near future, as a 270-day grace period for coupon payments (originally payable in March-May 2022) expires and the company is likely to fully repay the arrears.

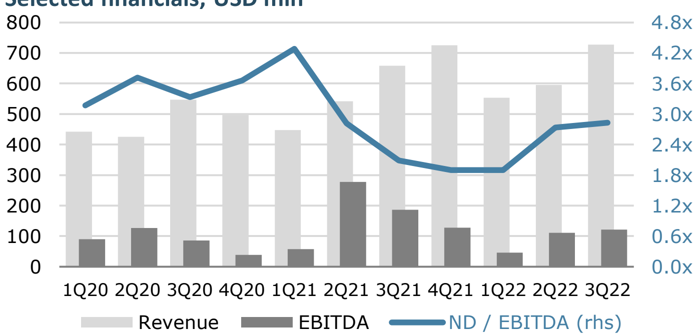
**EBITDA structure, USD mln**



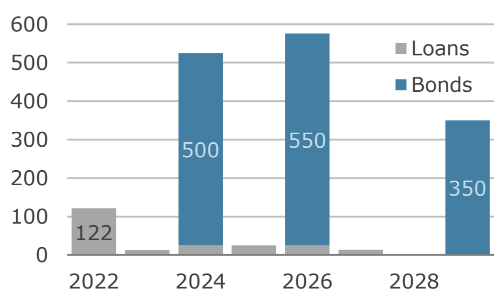

**MHP's Ukraine-made poultry sales, kt**



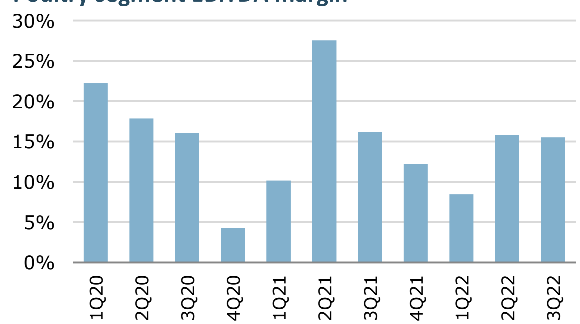

**Selected financials, USD mln**




**Debt schedule (end-2021), USD mln**




**Poultry segment EBITDA margin**






*Source: Company data, Concorde Capital estimates*

# Ukrainian Railways: Tariff growth, state subsidies support fundamentals

**Revenue decreases much less than transportation volumes**

The company's key segment, freight transportation, suffered from Russian aggression much due to closure of seaports (key route of commodity exports and imports) and severe damages of Ukraine's steel industry, top company's customer. As a result, amount of goods transported declined 68% yoy in March and stays at -58% … -60% yoy over the last couple of months.

The company's top line suffered not so serenely due to adjustment of freight rates made in 2021-2022:

- In 1H22, freight revenue decreased 15% yoy to UAH 26.9 bln as freight volumes fell 42% yoy, meaning average freight rate increased 48% yoy.
- In late June, the government ruled to increase freight rates by 70%. Providing the company's freight volumes will decline 60% yoy in 2H22, its freight revenue will decline by just 12% yoy.

The company expects its revenue from transportation services will be UAH 68.4 bln in 2022, which would be a 13% yoy decline.

**Operating profit increased in 1H22 due to state subsidies**

The company's EBITDA increased 2.1x yoy in 1H22 to UAH 9.3 bln, mainly due to UAH 9.6 bln of a part of state grants that were recognized as other operating income. Ukrainian Railways' revenue including state grants, therefore, increased 12% yoy in 1H22.

Total amount of state support for Ukrainian Railways for 2022 has been committed at UAH 17.45 bln, of which UAH 10.0 bln were disbursed in 1H22. If the company receives UAH 7 bln of grants in 2H22, this will fully compensate the amount of yoy revenue decline during this period. In such case, the company's EBITDA could demonstrate a yoy growth in 2H22.

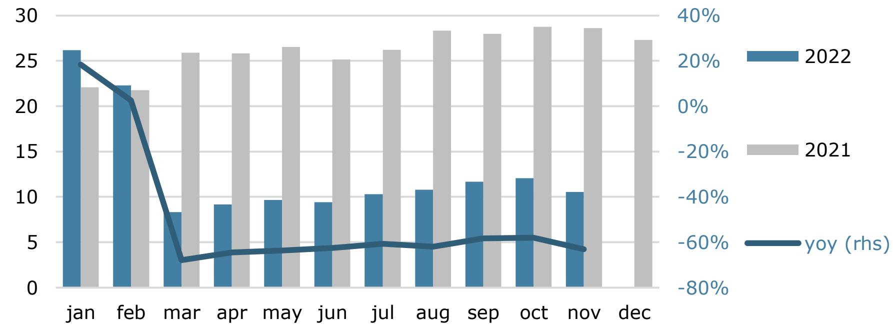
**Eurobond restructuring on its way**

Two Eurobond constitute significant portion of the company's total debt (72% as of June 2022). Taking into account large financial support from the state, there is no surprise that the government has initiated bond restructuring on the conditions similar to other state-controlled entities (Naftogaz, Ukravtodor, Ukrenergo), namely:

- Bonds' maturity extended by two years.
- Four nearest semi-annual coupons won't be paid on schedule but will be capitalized at the bonds' coupon rates.
- The capitalized coupons can be repaid any time, or they will be added to face value of the bonds after the end of grace period.
- Consent fee of 0.5% of par has been offered.

Most likely, the bondholders will accept the offer.

**Cargo transported, mmt**




**Key financials, UAH bln**

| | 1H22 | 1H21 | yoy |
|---|---|---|---|
| Net revenue | 32.20 | 37.36 | -14% |
| State grants | 9.58 | 0.00 | |
| EBITDA | 9.34 | 4.46 | 109% |
| Net profit | -0.96 | -1.41 | |
| Cash from operations | 8.22 | 5.63 | 46% |
| Cash for investments | -5.11 | -4.99 | 2% |
| Cash for financing | -2.73 | -1.27 | 114% |
| Total debt | 34.98 | | |
| - Eurobonds | 25.36 | | |
| Net debt | 32.23 | | |



*Source: Company data, railinsider.com.ua*

# VF Ukraine: P&L outlook upgraded again

The company's 3Q22 results remain strong:

- While its mobile customer base decreased 5% qoq and 17% yoy (slightly better than we expected),
- Its revenue (in local currency) declined just 2% qoq (and 10% qoq) as the company managed to significantly improve its mobile ARPU: up 9% qoq and 7% yoy.
- Meanwhile, its EBITDA (in local currency) fell 8% yoy and qoq and EBITDA margin corrected to 54% (flat yoy) from the record-high level of 60% in 2Q22.

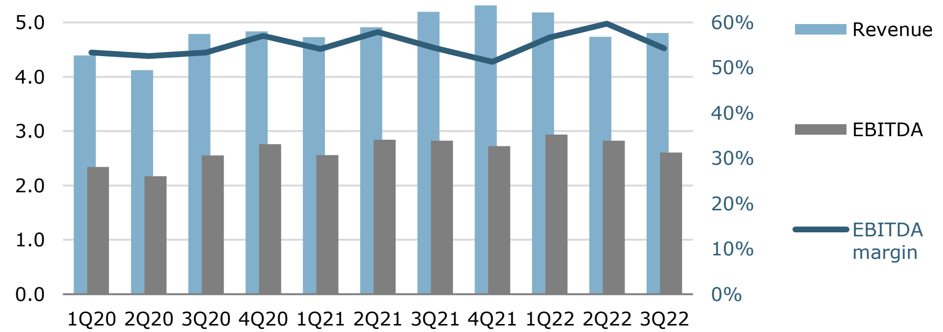
In 9M22, the company reported a 12% yoy decline in revenue and a 9% decrease in EBITDA, in USD terms (in local currency terms, the results were nearly flat yoy).

In 4Q22, we expect stabilization of the company's customer base and no significant changes in ARPU. With 9M22 results in hands, we upgrade our estimate of Vodafone revenue to USD 671 mln and EBITDA to USD 364 mln. This will be a decline of 9% yoy, with the biggest driver will be the weakened exchange rate of the hryvnia.

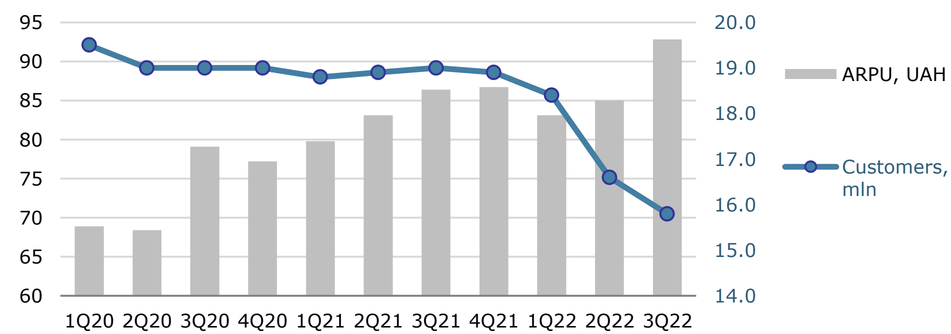
Also, we see the company's net debt to EBITDA ratio, which stood at 1.1x as of end-September (vs. 1.2x at the year's start and 1.0x as of mid-year), will decrease to about 0.9x by December 2022 (providing the company pays no dividends or make other unnecessary payments).

With such results, Vodafone-Ukraine remains among fundamentally strongest companies in Ukraine's fixed income universe.

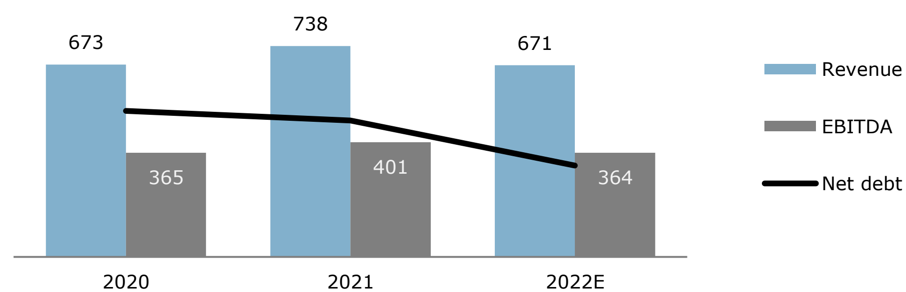
**Selected financials, UAH bln**




**Key operating metrics**




**Financial outlook, USD mln**






*Source: Company data, Concorde Capital estimates*

# Akhmetov-related companies: Purchasing their bonds

The recent events confirm our finding expressed in our September update: companies controlled by SCM holding of Rinat Akhmetov are doing all their best to continue smoothly servicing their Eurobonds.

To slightly decrease their debt burden three most troubled (out of four) SCM-related Eurobond issuers have initiated tenders to partially buy back their bonds, intending to spend for this purpose up to USD 172.5 mln. As of Dec. 22, it was able to tender bonds of total face value USD 267 mln, for which it spent USD 74 mln:

- The buyback has been apparently inspired by DTEK Energy's successful mandatory purchase of its bonds in November. Spending USD 32.5 mln, the company decreased its bond liability by USD 154.3 mln (or 9.2%). The average purchase price, therefore, amounted to 21.1% of par. To make the deal happen, DTEK Energy also repaid PIK interest for the bonds spending USD 16.9 mln.
- Following that success and referring to bondholders' demand for further purchases, DTEK Energy announced another tender on Nov. 28. This time, the company was going to spend up to USD 50 mln for bond repurchase at price capped 27% of par. As a result, it spent USD 19.8 mln to purchase bonds at 24.7% of par.
- Another tender offer was announced by DTEK Renewables, the most damaged asset of SCM. On Nov. 22, it offered to repurchase its bonds for up to 30% of par, intending to spend for that up to EUR 20 mln. As a result of the tender, it managed to purchase only EUR 8.6 mln of bonds for total price of EUR 2.6 mln.
- On Nov. 28, Metinvest announced its tender offer to repurchase its shortest (April 2023) bond at price range of 70%-80% of par, intending to spend for that up to USD 70 mln. As of early tender deadline on Dec. 14, USD 23.1 mln of the notes principal were tendered at 80% of par.

We expect some other private Eurobond issuers could follow SCM's example and offer partial buyback of their bonds.

## Results of SCM-related buybacks

| | Amt. outstanding | Spent for buyback | Buyback price, % of par |
|---|---|---|---|
| **DTEK Energy (DTEKUA), USD mln** | | | |
| Pre-offer | 1671.2 | | |
| Buyback 1 | -154.3 | -32.5 | 21.1% |
| Buyback 2 | -80.0 | -19.8 | 24.7% |
| Now | 1436.8 | | |
| **DTEK Renewables (DTEREN), EUR mln** | | | |
| Pre-offer | 325.0 | | |
| Buyback | -8.6 | -2.6 | 30.0% |
| Now | 316.4 | | |
| **Metinvest (METINV 23), USD mln** | | | |
| Pre-offer | 168.6 | | |
| Early buyback | -23.1 | -18.5 | 80.0% |
| Now | 145.5 | | |
| **Total, USD mln** | **-266.7** | **-73.6** | 27.6% |

*Source: Company data, Concorde Capital calculations*

# DTEK Renewables: Fundamentals are improving

**The company is gradually recovering from a perfect storm caused by Russian invasion:**

- Power sector regulator resumed indexation of green tariffs in line with appreciation of euro against hryvnia since October (all green tariffs increased 18.1% after remaining fixed in January-September).
- Settlement rate for electricity sold by renewable energy producers, after being below 20% in March-May, is gradually improving to about 75% in October and close to 100% in November (for incomplete month), according to the state holding Guaranteed Buyer. DTEK provides about the same settlement numbers.
- The company's Tryfonivska Solar Station, located in Kherson region, has been de-occupied in November. This is not material news (the station generates less than 1% of the company's power), but still encouraging.
- The company has commissioned a part of its Tiligulska Wind Station (at least 36 MW as of June, of out total 500 MW planned), located in Mykolayiv region, far enough from the frontline. The new asset has been awarded green tariff in early 2022.

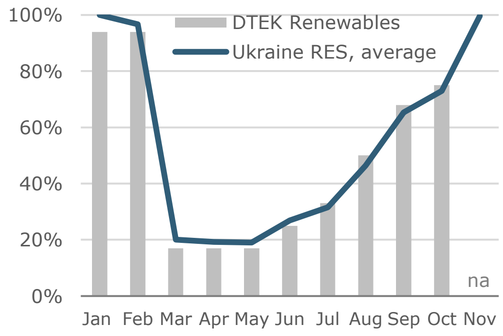
**Meanwhile, the security situation for most of its assets remains bad:**

- All its wind stations (except Tiligulska), generating about 60% of its potential revenue, remain on the occupied territories along the Sea of Azov. This resulted in reported 67% yoy decline of power generation by the company in March-October 2022.
- The company's biggest assets remaining outside the occupied territories, Pokrovska and Nikopolska solar stations, are located in the areas which are still heavily shelled by Russian artillery.

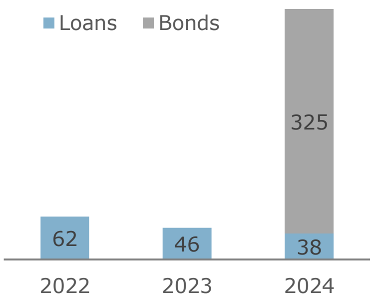
**Partial buyback of bonds initiated:**

On Nov. 22, a related party has initiated a tender offer to purchase DTEREN bonds with a price ceiling being 30% of par. The offeror was going to spend up to EUR 20 mln for the repurchase, but in fact have only spent EUR 2.6 mln.

**Payment level for green energy in 2022**




**Debt repayment schedule, EUR mln***






** As of end-June 2021*
*Source: Company data, Energy Ministry, Electricity Regulation Commission, GarPok, Concorde Capital research*

# Metinvest: Enough money to repay nearest bond

**Operationally, the company remains weak**, as its core business, iron ore and steel, has been severely damaged. Due to loss of two biggest steel assets in the occupied Mariupol, and very limited ability to supply iron ore abroad (as seaports are closed for such products), it decreased steel output 90% yoy and iron ore output 88% yoy in 3Q22.

Meanwhile, its coal production and sales was almost not affected (a 7% yoy decline in 3Q22, with most of the fall reported on its U.S.-based asset). Coal segment seems to be a core contributor to Metinvest's ability to generate cash flow.

Thus far, uncertainty about sustainability of Metinvest business remains high, meaning the company's future depends heavily on unblocking of seaports and Ukraine's victory in the war with Russia. At the same time, Metinvest's desire to continue servicing its Eurobonds remains apparent.

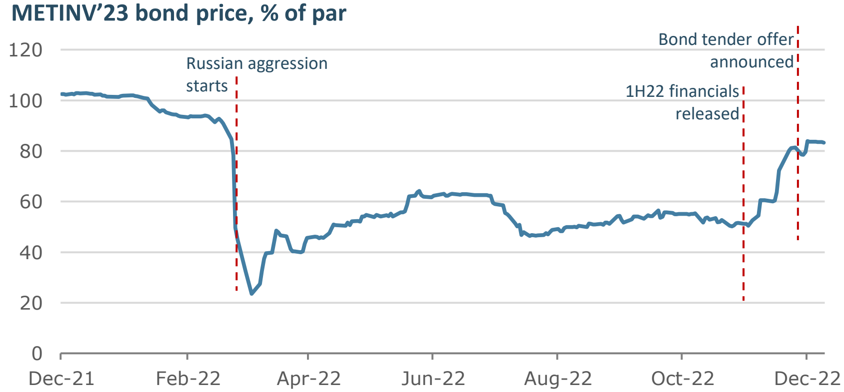
**Our speculative recommendation to buy shortest Metinvest bonds has played well** as the bond gained over 50% during November. Key driver for the appreciation seems to be its 1H22 financial report that showed high level of cash balance as of end-June (USD 460 mln, vs. USD 483 mln as of mid-April). This suggests the company is fully able to smoothly repay its USD 169 mln bond due in April 2023.

Other financial data except its cash balance does not look helpful to understand the current situation in the company, as 1H22 data covers the pre-war period of January-February, when most of its 1H EBITDA could have been generated.

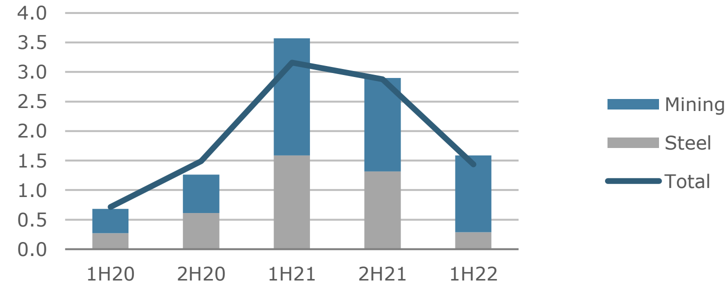
**Buyback offer for 2023 bond announced**

On Nov. 28, Metinevst initiated a tender offer to spend USD 70 mln for purchase of its April 2023 bond at a price range of 70-80% of par. We believe the outlined price range wont's allow the company to collect enough offers, meaning that most of the bond will be repaid on its maturity.

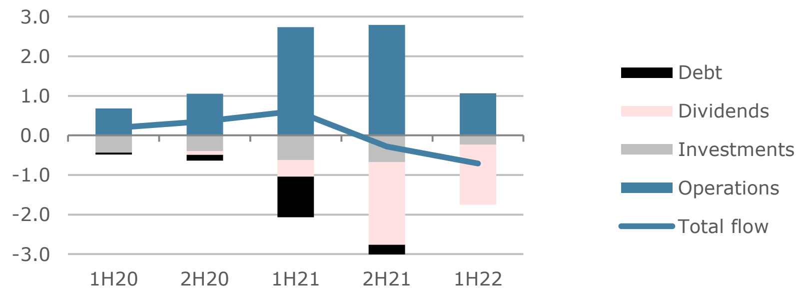
**METINV'23 bond price, % of par**



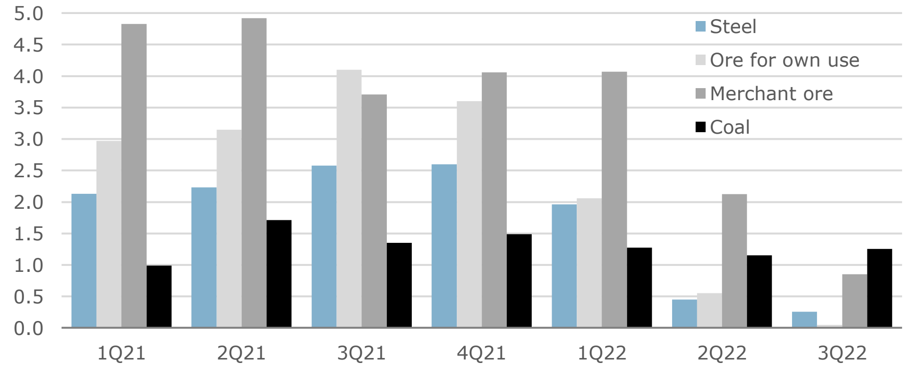

**EBITDA breakdown, USD bln**




**Cash flows, USD bln**




**Goods supply, mmt**

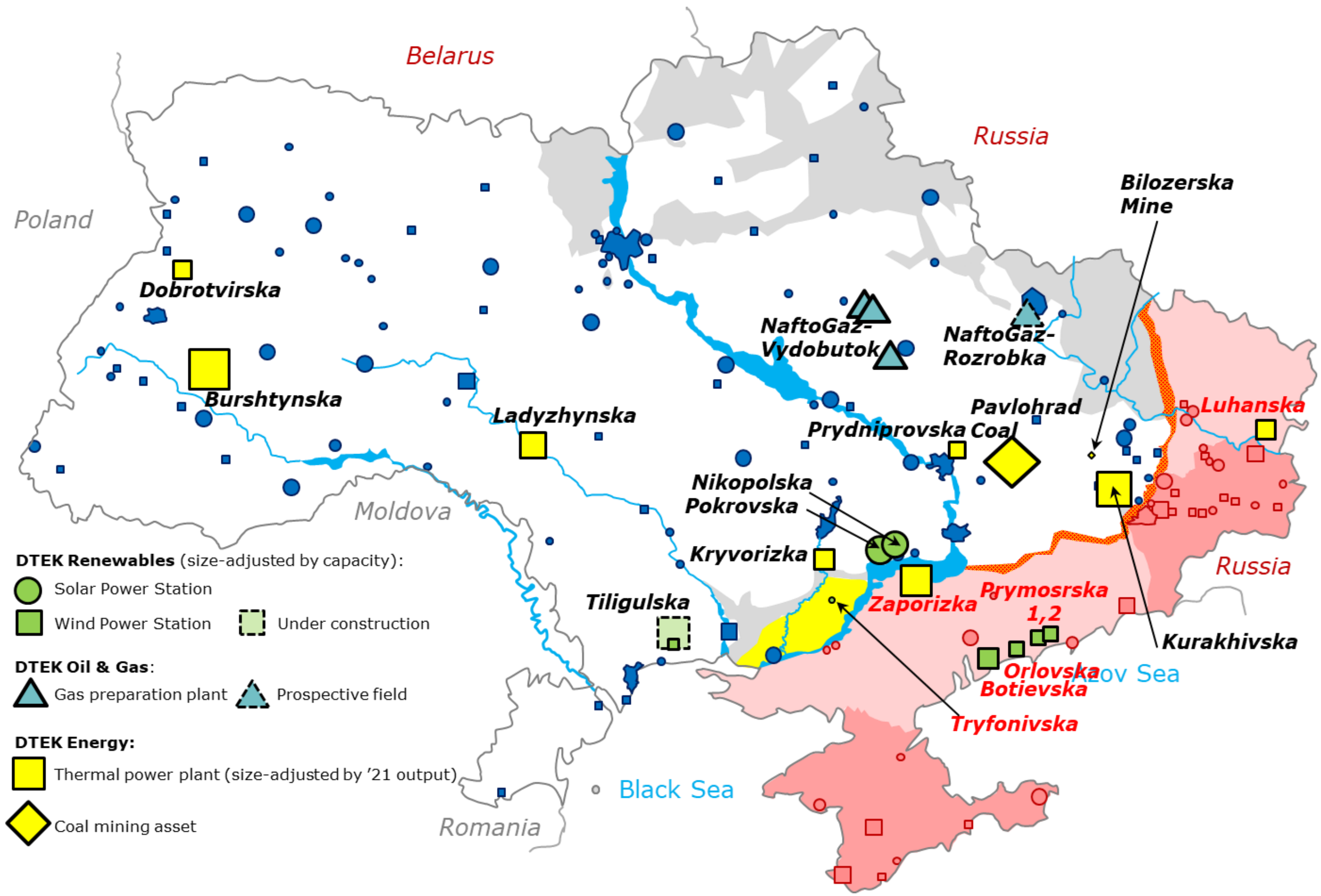





*Source: Company data, Bloomberg*

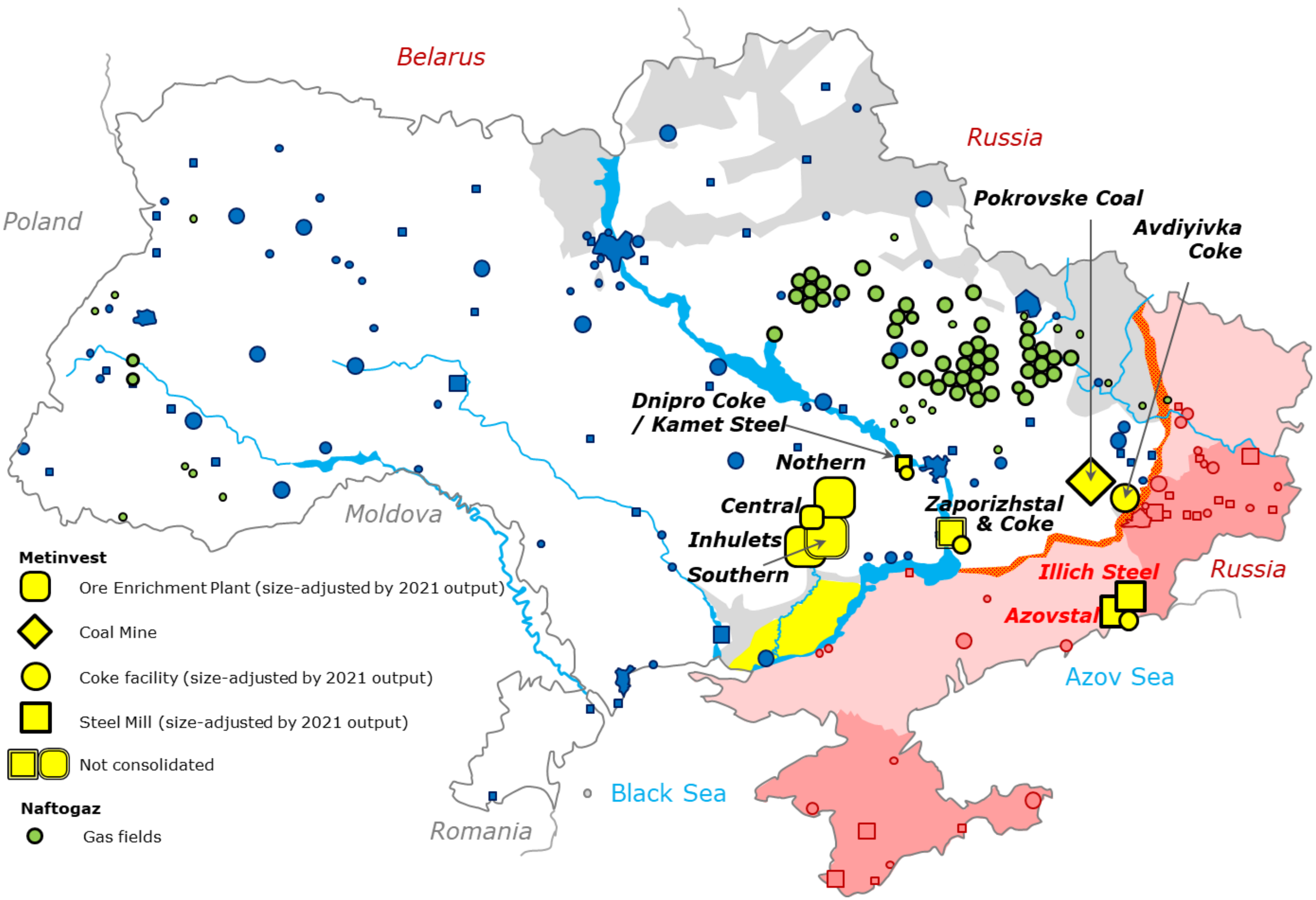
CONCORDE CAPITAL

# Key assets map: DTEK

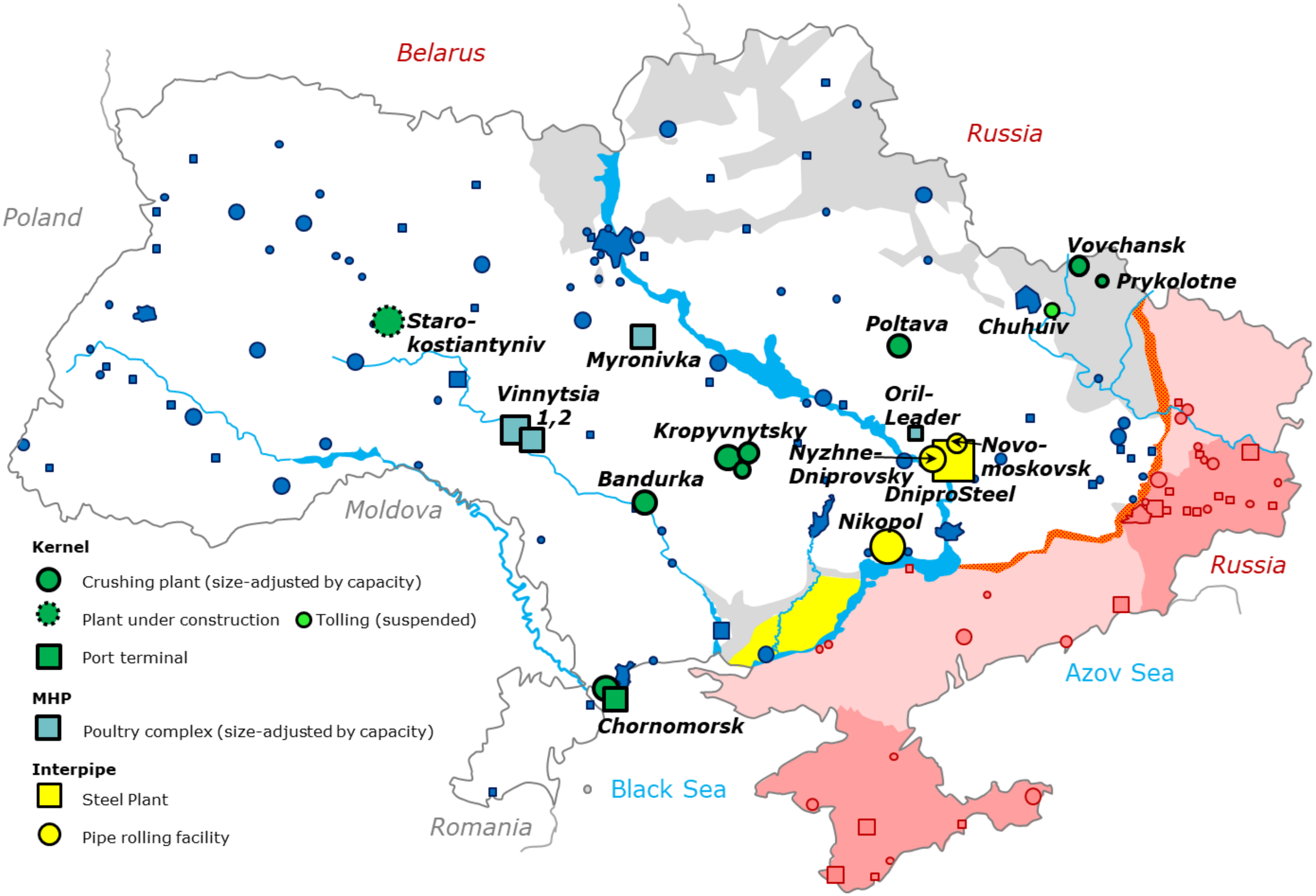





*Source: Company data, Ukraine's General Staff, ISW, Concorde Capital research*




*Source: Company data, Ukraine's General Staff, ISW, media, Concorde Capital research*






*Source: Company data, Ukraine's General Staff, ISW, Concorde Capital research*

# Disclaimer

THIS REPORT HAS BEEN PREPARED BY CONCORDE CAPITAL INVESTMENT BANK INDEPENDENTLY OF THE RESPECTIVE COMPANIES MENTIONED HEREIN FOR INFORMATIONAL PURPOSES ONLY. CONCORDE CAPITAL DOES AND SEEKS TO DO BUSINESS WITH COMPANIES COVERED IN ITS RESEARCH REPORTS. AS A RESULT, INVESTORS SHOULD BE AWARE THAT CONCORDE CAPITAL MIGHT HAVE A CONFLICT OF INTEREST THAT COULD AFFECT THE OBJECTIVITY OF THIS REPORT.

THE INFORMATION GIVEN AND OPINIONS EXPRESSED IN THIS DOCUMENT ARE SOLELY THOSE OF CONCORDE CAPITAL AS PART OF ITS INTERNAL RESEARCH COVERAGE. THIS DOCUMENT DOES NOT CONSTITUTE OR CONTAIN AN OFFER OF OR AN INVITATION TO SUBSCRIBE FOR OR ACQUIRE ANY SECURITIES. THIS DOCUMENT IS CONFIDENTIAL TO CLIENTS OF CONCORDE CAPITAL AND IS NOT TO BE REPRODUCED OR DISTRIBUTED OR GIVEN TO ANY OTHER PERSON.

CONCORDE CAPITAL, ITS DIRECTORS AND EMPLOYEES OR CLIENTS MIGHT HAVE OR HAVE HAD INTERESTS OR LONG/SHORT POSITIONS IN THE SECURITIES REFERRED TO HEREIN, AND MIGHT AT ANY TIME MAKE PURCHASES AND/OR SALES IN THEM AS A PRINCIPAL OR AN AGENT. CONCORDE CAPITAL MIGHT ACT OR HAS ACTED AS A MARKET-MAKER IN THE SECURITIES DISCUSSED IN THIS REPORT. THE RESEARCH ANALYSTS AND/OR CORPORATE BANKING ASSOCIATES PRINCIPALLY RESPONSIBLE FOR THE PREPARATION OF THIS REPORT RECEIVE COMPENSATION BASED UPON VARIOUS FACTORS, INCLUDING QUALITY OF RESEARCH, INVESTOR/CLIENT FEEDBACK, STOCK PICKING, COMPETITIVE FACTORS, FIRM REVENUES AND INVESTMENT BANKING REVENUES.

PRICES OF LISTED SECURITIES REFERRED TO IN THIS REPORT ARE DENOTED IN THE CURRENCY OF THE RESPECTIVE EXCHANGES. INVESTORS IN FINANCIAL INSTRUMENTS SUCH AS DEPOSITORY RECEIPTS, THE VALUES OR PRICES OF WHICH ARE INFLUENCED BY CURRENCY VOLATILITY, EFFECTIVELY ASSUME CURRENCY RISK.

DUE TO THE TIMELY NATURE OF THIS REPORT, THE INFORMATION CONTAINED MIGHT NOT HAVE BEEN VERIFIED AND IS BASED ON THE OPINION OF THE ANALYST. WE DO NOT PURPORT THIS DOCUMENT TO BE ENTIRELY ACCURATE AND DO NOT GUARANTEE IT TO BE A COMPLETE STATEMENT OR SUMMARY OF AVAILABLE DATA. ANY OPINIONS EXPRESSED HEREIN ARE STATEMENTS OF OUR JUDGMENTS AS OF THE DATE OF PUBLICATION AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART WITHOUT PRIOR PERMISSION IS PROHIBITED.

NEITHER THIS DOCUMENT NOR ANY COPY HEREOF MAY BE TAKEN OR TRANSMITTED INTO THE UNITED STATES OR DISTRIBUTED IN THE UNITED STATES OR TO ANY U.S. PERSON (WITHIN THE MEANING OF REGULATIONS UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”)), OTHER THAN TO A LIMITED NUMBER OF “QUALIFIED INSTITUTIONAL BUYERS” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) SELECTED BY CONCORDE CAPITAL.

THIS DOCUMENT MAY ONLY BE DELIVERED WITHIN THE UNITED KINGDOM TO PERSONS WHO ARE AUTHORIZED OR EXEMPT WITHIN THE MEANING OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (“FSMA”) OR TO PERSONS WHO ARE OTHERWISE ENTITLED TO RECEIVE THIS DOCUMENT UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, OR ANY OTHER ORDER MADE UNDER THE FSMA.

# Contacts

2 Mechnikova Street, 16th Floor
Parus Business Centre
Kyiv 01601, Ukraine
Tel.: +380 44 391 5577
Fax: +380 44 391 5571
www.concorde.ua
Bloomberg: TYPE CONR <GO>

CEO
Igor Mazepa im@concorde.com.ua

SALES & TRADING
Alisa Tykhomirova at@concorde.com.ua

RESEARCH
Alexander Paraschiy ap@concorde.com.ua
James Hydzik



CONCORDE CAPITAL