ULF and Avangardco Eurobonds

Analyzing debt recovery options

Alexander Paraschiy | ap@concorde.com.ua
Andriy Perederey | aper@concorde.com.ua

July 4, 2018

CONCORDE
CAPITAL

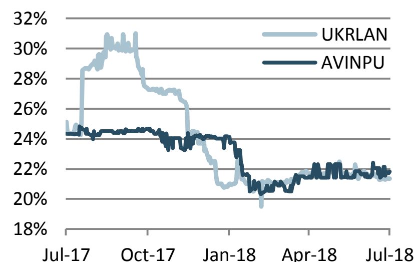
Executive summary

Fundamentals of Ukrlandfarming (ULF), Ukraine's largest agricultural holding, began deteriorating in 2014. Since 2017, the holding and its subsidiary Avangardco stopped paying coupons on Eurobonds that they restructured in 2015-2016, announcing another round of restructuring negotiations that have yet to be completed. Putting aside the topic of inefficiency and/or misuse of borrowed funds by ULF (which we developed in detail in our 2016 and 2017 updates), this report concentrates on estimating the value that can be recovered for ULF and Avangardco debt holders.

Our analysis of ULF's financial model (which was prepared last year as part of the company's preparation for restructuring talks), recent developments in Ukraine's business environment, as well as this year's statements by Oleg Bakhmatyuk - ULF's owner - in the local media, have led us to the following important conclusions:

- Bakhmatyuk faces various personal risks in Ukraine related to his huge indebtedness to state bodies (State Deposit Guarantee Fund, National Bank) and state-owned banks, which threaten his personal freedom. So it's critical to resolve all his debt issues for him to avoid these personal risks.
- Bakhmatyuk's recognition of debt owed to state bodies implies several important things for all the private creditors of ULF and Avangardco:
  - Private creditors are a secondary priority as the risk from not resolving their debt issues is not that critical now.
  - Not all the of Bakhmatyuk's debt to state entities is on the balance of ULF, while most of his apparent cash-generating assets are there. The off-balance sheet debt is over USD 500 mln, which can only be paid from ULF cash flows.
  - Due to the complicated, vague and fragile structure of assets consolidated by ULF, the mere presence of Bakhmatyuk's leadership is a necessary condition for this structure to have a chance to survive. His physical isolation will cause this house of cards to collapse and will radically complicate the recovery of debts, even for secured creditors.
  - The above implies that the **debt restructuring offer** made by ULF and Avangardco to international creditors last year **is no longer feasible**.
  - The good news is that there is still a debt recovery value higher than zero, implied by ULF's future cash flow, providing certain ULF commitments are met.
  - Another good news is that Bakhmatyuk is ready to negotiate all his debt restructuring (at least publicly) and looks ready to change financial management practices of ULF.
  - As soon as pressure is applied by state bodies, Bakhmatyuk is more prone to reach a restructuring deal sooner with all the debt holders. The timing of another opportunity to reach a deal is uncertain.
  - On average, Bakhmatyuk's private creditors can count on debt recovery that brings an NPV of about 11%, assuming a 25% discount rate.

Eurobond prices, % of par



Eurobond summary (USD mln)

Bloomberg ticker	UKRLAN	AVINPU
Par value, initial	500.00	200.00
Capitalized coupons, end-2016	42.75	21.74
Capitalized coupons, end-1H18	42.75	35.88
Overdue cash coupons, end-1H18	88.54	19.96
Total debt due., end-1H18	631.29	255.84
Maturity	Mar. 26, '18	Oct. 29,'18
Recommendation	SELL	SELL

For the creditors that are stuck in ULF and Avangardco bonds, our message remains the same as a year ago: there is still room for recovery of their debt's value, but it will heavily depend on Bakhmatyuk's cooperation.

Given his apparent attempts to reach a deal (preparing a financial model for 10 years that was confirmed by a Big Four auditing firm, making an offer last December), it looks like **now is a good time for talks**:

- Our analysis suggests that despite an expectedly tough repayment schedule to the state, ULF will have a window to repay a portion of its private debt in 2021-2022. Creditors should do all their best to reserve this window. The next one may appear in 2026, at the earliest.
- The scheduling of future payments on restructured debt should be binding for ULF. We do not recommend that creditors count on any cash sweep mechanisms. This is due to ULF's history of creative accounting, as well as the long operating cycle of its farming business that allows for easily manipulating cash balances at any date.
- We believe ULF's existing financial model, which does not look unrealistic in most aspects, should be a good basis for scheduling the future debt payments and agreeing on certain commitments.

As in our previous reports, we continue to suggest that debt holders insist on the following steps in restructuring talks:

- Conducting an external audit to understand the true stance of the holding and its assets;
- Strict covenants on CapEx and working capital investments, which were its key cash drains;
- Introducing a supervisory board (or any other board with clear authority) with the participation of creditors;
- Regular publication of financial reports accessible on the company website;
- Simplifying the holding's legal structure to avoid any risks of asset loss.

Source: Bloomberg, company data, Concorde Capital research

CONCORDE CAPITAL

Recent financials: everything goes wrong

Since its peak financial result in 2013, ULF (which also consolidates Avangardco) has **shown increasingly deteriorating P&L** through 2017, with its EBITDA collapsing 89% from peak levels.

The holding's operating cash flow before working capital changes repeats its EBITDA pattern, with continuing huge "investments" into working capital significantly deteriorating the cash flow picture.

No access to any external financing in 2017 forced the holding to limit its capital expenditures to an unsustainable level of USD 5 mln.

Meanwhile, the company's debt balance continued to grow, mostly due to capitalization of interest on some loans. As a result, ULF's total debt-to-EBITDA ratio exceeded 19x in 2017.

The holding's financial debt - including accrued interest and coupons - has reached nearly USD 2 bln.

ULF's 2017 financials proved to be **worse that the holding forecasted** in its financial model designed mid-year, with EBITDA and operating cash flow before working capital having significantly underperformed. That did not prevent it from "investing" into working capital above its plan.

It seems like the model, designed a year ago, needs to be updated, with downgrades of some of its key financial metrics.

The only factor that allowed ULF's free cash flow to perform better than plan is no external financing, which limited the holding's CapEx.

2018 promises some improvements in ULF's P&L, particularly due to better global prices for corn, ULF's key product.

Summary of ULF consolidated financials, USD mln

	2010	2011	2012	2013	2014	2015	2016	2017	2017 plan*	Actual vs plan
Net revenue	**779.0**	**1,343.5**	**1,889.0**	**2,071.9**	**1,557.0**	**937.5**	**958.9**	**657.6**		
EBITDA	**317.1**	**818.8**	**791.5**	**841.9**	**434.0**	**243.0**	**162.3**	**91.0**	**105.5**	**-14%**
Margin	41%	61%	42%	41%	28%	26%	17%	14%		
Net profit	**272.9**	**592.7**	**541.6**	**-754.1**	**-261.8**	**-341.7**	**-175.3**	**-158.6**		
Margin	35%	44%	29%	-36%	-17%	-36%	-18%	-24%		
OCF before W/C	**286.1**	**623.6**	**777.6**	**766.5**	**553.3**	**314.7**	**192.2**	**81.6**	**93.8**	**-13%**
Change in W/C	-274.6	-372.0	-167.7	170.0	-371.9	-186.7	-113.1	-57.7	-45.5	27%
OCF after W/C	11.5	251.6	609.9	936.6	181.4	128.0	79.0	23.9	48.3	-51%
Net OCF	**-61.4**	**108.6**	**473.9**	**832.9**	**100.1**	**94.8**	**54.7**	**11.0**		
Net purch. of PP&E	-115.1	-147.5	-450.8	-840.4	-278.8	-130.6	-24.0	-5.0	-44.7	-89%
Free CF before debt	**-109.8**	**62.2**	**148.8**	**84.2**	**-104.0**	**-22.4**	**45.0**	**13.5**	**3.4**	**297%**
Short-term debt	279.2	426.0	530.8	407.6	643.4	158.2	413.3	1,469.5		
Long-term debt	630.9	868.5	764.4	1,252.1	1,030.9	1,367.1	1,254.7	286.4		
Total debt	**910.1**	**1,294.6**	**1,295.2**	**1,659.7**	**1,674.3**	**1,525.3**	**1,668.0**	**1,755.9**		
Debt / EBITDA	2.9	1.6	1.6	2.0	3.9	6.3	10.3	19.3		
Total debt + interest**	**942.1**	**1,309.7**	**1,308.5**	**1,686.7**	**1,708.5**	**1,609.0**	**1,753.5**	**1,971.8**		

** Combined ULF and Avangardco forecasts for 2017, based on their financial model (see slides 4 and 6 for more details); total debt plus payables on accrued interest and coupons*
*** Accrued not paid interest and coupons on local bonds. Source: Company data, Concorde Capital research*

CONCORDE CAPITAL

Looking at the future: some takeaways from the management model

As part of its preparation for debt restructuring talks with international creditors, ULF and Avangardco designed in mid-2017 their financial models through 2027. Their key parameters were described in information statements distributed to their major creditors and leaked to the public in December.

Analyzing the key assumptions of their operational models, we conclude that they are not far from reality and, to some extent, are conservative, e.g. in respect to:

- future crop yields, which are below ULF's record levels of 2011-2013;
- future crop prices, which are in line with (or below) the latest outlooks of recognized global forecasters;
- ULF's land bank, which is simply forecasted to be flat.

EY performed independent reviews of these models, which enables us to rely on proper transition from its key assumptions on inputs to ULF's and Avangardco's P&L, down towards its EBITDA level and cash flow statement, down towards the level of operating cash flow before working capital changes.

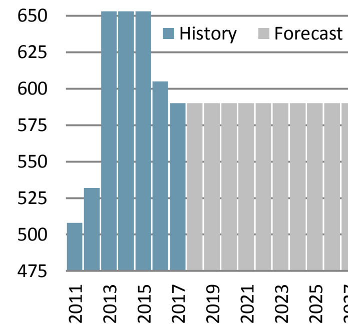
At the same time, the models appeared to have **poor predicting power** of ULF's top line and EBITDA, even for the year when it was designed (refer to the previous slide).

In our view, the most important takeaways from the models are:

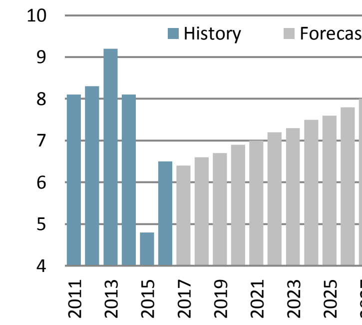
- Their preparation alone indicates that ULF and its shareholder are ready to negotiate on debt restructuring.
- Such negotiations can lead to a restructuring schedule that should not go beyond ULF's ability to pay, as derived from the model;
- The models - and related restructuring offer made in December - set time limits for when Bakhmatyuk expects to fully complete the debt repayment: ten years.
- As developed on the next slide, Bakhmatyuk hints at his readiness to limit the most annoying and questionable activity of ULF, namely overinvestment into working capital and CapEx (which, as we showed in our June 2017 update on ULF, simply led to the misuse of billions of dollars, without any visible benefit to the holding).

Key operational assumptions and outputs of ULF model vs. history or other forecasts

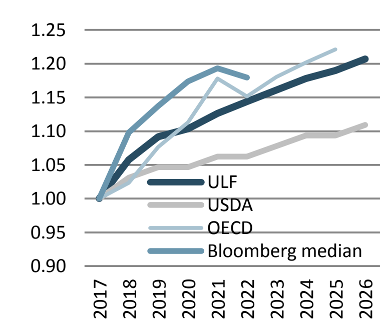
Land under control, '000 ha



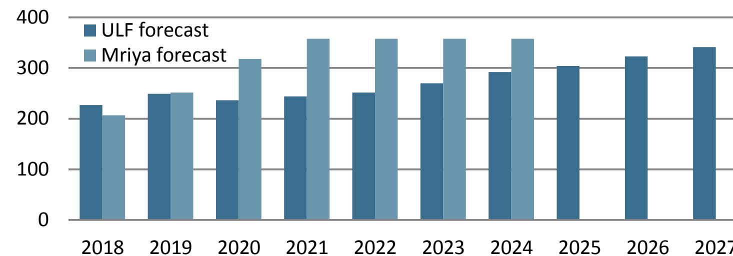
Corn yield, t/ha



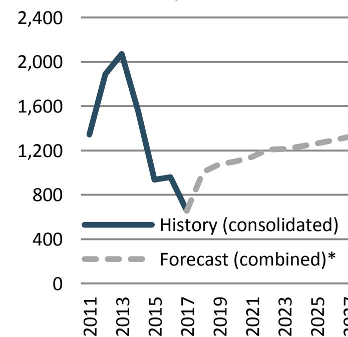
Corn price growth forecast (2017=1)



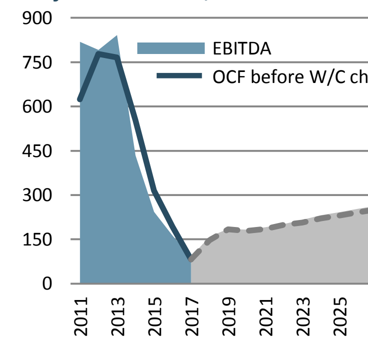
Guided EBITDA per hectare of harvested land: ULF and Mriya, USD



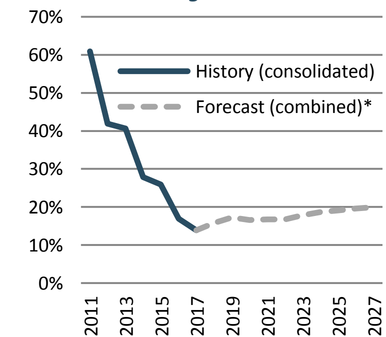
*ULF net revenue, USD mln**



Profit & CF metrics, USD mln



*ULF EBITDA margin**



** In this case, forecasted revenue is just a sum of the forecasted sales from the ULF and Avangardco models. The consolidated revenue forecast could be smaller due to intercompany transactions; Source: Company data, USDA, Bloomberg, OECD, Concorde Capital research*

CONCORDE CAPITAL

Unrealistic model assumptions: telling about commitments?

While operating cash flow before working capital, as modeled by ULF, looks logical and fits its history, the numbers below that metric are not much realistic. Especially unrealistic are the further forecasted items from ULF's cash flow statement:

Working capital accumulation

The logic presented by the model - assuming a tiny increase in working capital - looks flawless (indeed, no asset growth, no radical shifts in sales are modeled).

But it doesn't fit ULF's history as the holding spent for working capital (W/C) 37% of its total EBITDA over 2011-2017 (and over 2/3 of annual EBITDA in its recent lean years, during which revenue fell sharply). This contrasts with nearly zero W/C spending modeled for 2018-2027.

CapEx

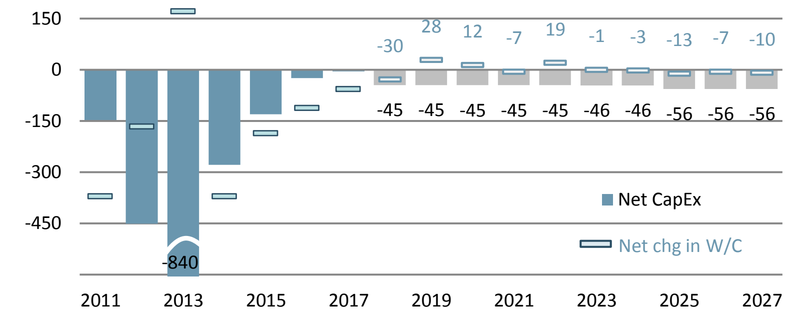
ULF's forecasted CapEx is USD 44-56 mln p.a., which looks below the level necessary for maintenance (e.g. ULF's consolidated depreciation of PP&E was USD 54 mln in 2016 and USD 63 mln in 2017). Needless to say, such levels are far below the historical investments into PP&E, even for the recent lean years (except 2017). Avangardco also noted separately that the projected CapEx is about USD 6.5 mln less p.a. than a sustainable maintenance level.

How should we read the "forecasts" of W/C and CapEx?

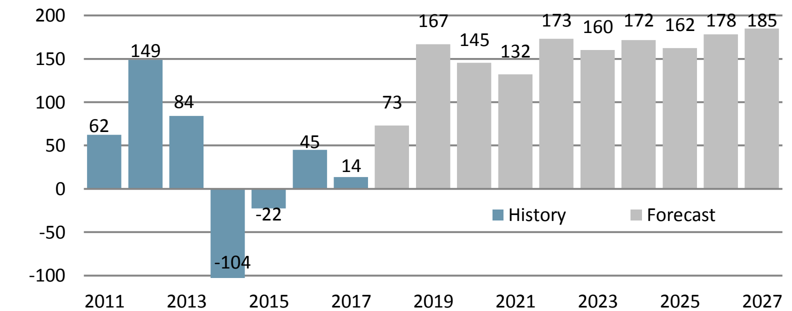
In our view, this is Bakhmatyuk's demonstration of his readiness to stop the annoying practice of overinvestment and to spend some years generating cash for debt holders exclusively.

- Needless to say, such forecasts (i.e. commitments) can be fulfilled, to some degree of certainty, **if and only if the biggest creditors agree on a debt restructuring deal**.
- No doubt, **if the deal is not reached**, ULF will be free to spend any amount for CapEx and W/C, **leaving little cash for any future debt repayments**. That said, the tactics of creditors to postpone restructuring talks up until Bakhmatyuk resolves some of his more critical debt issues, won't pay off (see more details on that on slide 13).
- Needless to say, such a period **cannot be long**. This not only applies to the possible readiness of Bakhmatyuk to "work for creditors," but also stems from low CapEx, which is unlikely to fully cover the maintenance needs of ULF and Avangardco.
- On top of that, such forecasts serve as another argument in favor of our position, expressed in our June 2017 report, that the **past investments into W/C were not necessary**.

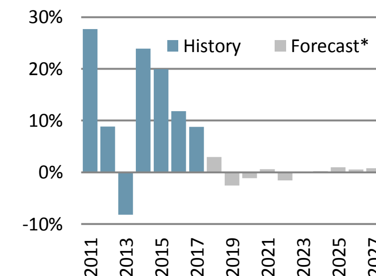
ULF's key cash-draining times, history and forecast, USD mln



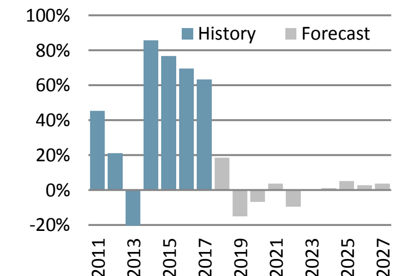
Free cash flow before debt, USD mln**



Increase in W/C as % of sales*



Increase in W/C as % of EBITDA



** In this case, forecasted sales is just a sum of forecasted sales from the ULF and Avangardco models. The consolidated revenue forecast could be smaller due to intercompany transactions; ** Net operating cash flow plus interest paid, less net purchase of PP&E. Source: Company data, Concorde Capital research*

Adjusting the model closer to reality

The fact that ULF's and Avangardco's model overestimated its profit for the nearest year suggests it needs more downward adjustments to be brought to reality.

We believe that using forecasted EBITDA at 10% below the model will reflect ULF's future much better. Also, we account for management's declared need to **increase Avangardco CapEx by USD 6.5 mln p.a.**, which was not included in the model.

Therefore, for further estimates of ULF cash flow, we assume that ULF will generate less money (as compared to the management model) by an amount equal to 10% of its forecasted EBITDA in 2018-2027, and by USD 6.5 mln p.a. which will be additionally spent for Avangardco's CapEx.

Despite the management of both ULF and Avangardco designing separate models for themselves, in this report we see more sense in combining them into a single model.

Such assumptions lead us to adjust the forecasts of ULF's cash flow, as outlined in the tables on the right.

The initial model suggests that ULF will generate USD 1,461 mln in free cash flow for 2018-2027, while our adjusted model reaches a smaller number: **USD 1,183 mln** (or USD 278 mln less). This is roughly the amount to be available to all ULF (Bakhmatyuk's) creditors in the next ten years, providing its commitments on capital limits will remain valid.

Summary of combined management models, USD mln

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Combined revenue*	1,005	1,075	1,102	1,141	1,207	1,213	1,237	1,263	1,293	1,322
Combined EBITDA	159	185	183	191	202	216	231	242	253	264
OCF before W/C	147	184	178	185	200	207	221	231	242	252
OCF after W/C	118	212	190	177	219	206	218	218	235	241
Tax	-7	-8	-8	-8	-9	-9	-9	-10	-10	-9
CapEx	-45	-45	-45	-45	-45	-46	-46	-56	-56	-56
Free cash flow before debt	**66**	**159**	**137**	**124**	**164**	**151**	**162**	**153**	**169**	**176**
Cash balance before debt	144	302	439	563	727	878	1,041	1,193	1,362	1,538

Adjusted ULF model, USD mln

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Combined revenue	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m
Combined EBITDA	143	167	165	172	182	194	208	218	228	237
OCF before W/C	131	166	160	165	179	185	197	207	216	225
OCF after W/C	102	193	172	158	198	184	194	194	209	215
Tax	-7	-8	-8	-8	-9	-9	-9	-10	-10	-9
CapEx	-51	-51	-52	-52	-52	-52	-52	-63	-63	-63
Free cash flow before debt	44	134	112	98	137	123	133	122	137	143
Cash balance before debt	121	255	367	465	603	726	858	981	1,117	1,261

Exchange rate forecasts, UAH/USD

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
ULF model	28.5	30.1	30.5	30.8	31.0	31.0	31.7	32.5	33.4	34.3	35.2
IMF WEO	26.6	28.0	29.3	30.0	30.6	31.2	31.8				
Concorde forecast	**26.6**	**27.5**	**28.7**	**29.9**	**30.9**	**31.7**	**32.5**	**33.3**	**34.1**	**35.0**	**35.9**
Chg yoy		3.4%	4.5%	4.0%	3.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%

** Forecasted sales is just a sum of forecasted sales from the ULF and Avangardco models. Consolidated revenue could be smaller due to intercompany transactions. We believe that other forecasted combined parameters (EBITDA, cash flow) are very close to consolidated numbers. Source: Company data, IMF, Concorde Capital research*

Estimating Bakhmatyuk’s / ULF’s debt

Total consolidated financial debt of ULF is summarized below (USD mln):

	2015	2016	2017
Total debt (face value)	1,525	1,668	1,756
Plus accrued interest & coupons	1,609	1,754	1,972

However, these audited numbers are **not much helpful** in understanding how much Bakhmatyuk owes and is going to restructure:

- ULF is asking creditors to forgive some of the accumulated interest, which may lead to reduced total debt subject to restructuring;
- Besides on-balance debt, Bakhmatyuk has some important commitments to Ukraine’s central bank (a personal pledge under refinancing loans received by his two failed banks) and the State Deposit Guarantee Fund (compensation of guaranteed residential deposits paid by the DGF on behalf of Bakhmatyuk’s failed banks).

Putting aside ULF’s financials, we have estimated Bakhmatyuk’s total debt and commitments that he (ULF) will have (or is going) to restructure, using the available information. This amounts to **USD 2,345 mln, including**:

1) **USD 764 mln** obligation under the Eurobonds of ULF and Avangardco (including part of the capitalized interest as of end-2016), as was mentioned in the December 2017 restructuring proposals.
2) **USD 533 mln** debt to international creditors (banks and ECAs) subject to restructuring, as was listed in the December 2017 restructuring proposals.
3) **USD 210 mln** debt to Ukraine’s state banks (Oschadbank and Ukreximbank). This number is taken from the central bank’s (NBU’s) October 2016 release declaring that Bakhmatyuk’s structures owe about UAH 5.3 bln to the banks.
4) **USD 80 mln** - estimated debt owed by ULF to Ukrainian private banks.
5) **USD 758 mln** (UAH 20.623 bln at end-2016 exchange rate) debt to the NBU and DGF mentioned in ULF’s open letter of January 2017, which Bakhmatyuk will have to assume. This amount can be broken down by:
   - UAH 10.85 bln in debt of Bakhmatyuk’s two failed banks under refinancing loans provided by the NBU (of which UAH 8.55 bln is secured by Bakhmatyuk’s personal commitment);
   - UAH 3.78 bln in funds spent by the GDF on repaying the guaranteed loans of Finansova Initsiatyva Bank, as disclosed by the fund in October 2015.
   - UAH 5.99 bln (the remainder), which is likely the amount spent by the DGF to repay the guaranteed loans of VAB Bank.

Out of this amount, at least **USD 500 mln could be beyond ULF’s balance sheet** (namely, some part of the latest debt item). And, apparently, Bakhmatyuk has no other cash-generating assets, meaning that the only way to repay it is using money generated by ULF.

Source: Company data, Concorde Capital research

Debt priorities: the state is most critical, followed by Eurobonds

Debt to state entities (NBU and DGF) accounts for 1/3 of Bakhmatyuk's total indebtedness. In his February 2018 interview with Interfax-Ukraine, he stated his intention to fully repay such debt. That may be related to the threat that failure to resolve this debt is related to high personal risks, e.g. criminal prosecution, asset freezes, losing the ability to travel abroad.

- Bakhmatyuk is among the Top 3 debtors of both the NBU and the DGF, so he is guaranteed to have a special attention from the state. For the NBU, pressuring Bakhmatyuk is important to set an example for smaller debtors.
- The NBU has initiated a series of lawsuits (at least five) to make Bakhmatyuk responsible for the refinancing loans of his failed banks. His personal commitments under NBU's refinancing loans imply the risk for him to lose everything, in case the NBU succeeds in litigation (so far, Bakhmatyuk has been able to withstand such pressure).
- The NBU recently initiated international litigation against Ihor Kolomoisky for his personal commitments under the refinancing of Privatbank, where he used to be a shareholder. Bakhmatyuk is likely to be the NBU's next target in a similar attempt.
- Special attention of law enforcement bodies to Bakhmatyuk is also apparent, including the police, the State Security Service, the Prosecutor General's Office and even the National Anti-Corruption Bureau. Numerous cases stem from an investigation of Bakhmatyuk's NBU refinancing. Resolving debt issues can extinguish these law enforcement initiatives.

Bakhmatyuk's debt to the DGF and the NBU is inter-related (the loans have the same collateral), so he has to resolve them simultaneously.

Another important group of creditors (also 1/3 of total debt) are the Eurobond holders of ULF and Avangardco, some of which having united into a group to lead the negotiations. Clearly, dealing with that group is essential for Bakhmatyuk to resolve his debt issue.

The ULF model (and capital commitments) described above will only be fulfilled if Bakhmatyuk reaches a deal with state bodies and the Eurobond holders. Failure to reach a deal with both groups raises the probability that ULF will split apart with the debt recovery rate approaching zero.

Dealing with the NBU and the DGF is the higher priority for Bakhmatyuk. The negative takeaway for ULF private creditors is that some of the company's off-balance debt should be serviced first.

Debt to state banks is not as critical as the two mentioned groups, but it's still painful and should be resolved soon. In particular, the strategy for reforming the state banking sector, approved by the Cabinet in February 2018, assumes that Oschadbank will settle its issue of NPLs by end-2018. Therefore, it might be important for MinFin, the shareholder of state banks, to push them towards settling the issue as soon as possible. While the deadline for Ukreximbank was not set by the strategy, it will likely insist on comparable restructuring conditions as Oschadbank.

Debt to international financial institutions (banks and ECAs) is large, but the creditors are very fragmented. Resolving this debt might be a lesser priority for ULF.

Debt to local banks looks to be the least priority, given the small size and fragmentation of such creditors.

Creditors disposition and limitations

The NBU looks to be Bakhmatyuk's most aggressive creditor, having made a couple of court attempts to recover its loans under personal commitment. There is no experience of restructuring of the NBU refinancing loans by the failed banks' beneficiary owners, but if it surfaces, Bakhmatyuk, the top debtor, will be the first. We believe the NBU won't tolerate any haircut, but will be inclined to agree on a long-term repayment schedule and some tiny interest rate.

- We assume the NBU will agree on a 10-year restructuring with a 5-year grace period and 1% interest rate. No haircut.
- The alternative for the NBU, the sale of assets used as collateral under refinancing, promises a smaller recovery value.
- Also, as part of a deal with the NBU, Bakhmatyuk may agree to unfreeze the liquidation of his Finansova Initsiatyva bank (the liquidation is frozen as Bakhmatyuk has won litigation claiming the bank was declared insolvent illegally).

The DGF is likely to agree on debt restructuring, as was hinted by its head Kostiantyn Vorushylin in a February 2018 interview to Interfax-Ukraine. For the fund, the restructuring deal will provide better recovery value than selling the failed banks' assets. Unfreezing the liquidation of Finansova Initsiatyva will also be a bonus.

- For the fund, it will be important to recover all its costs related to the repayment of guaranteed deposits by the failed banks. If it reaches an agreement that Bakhmatyuk will compensate such losses (no haircut, but no interest), there may be a deal.
- The failed banks under DGF management, by law, cannot restructure their loans for a period that exceeds the time of their liquidation, or five years. This puts a time limit on the repayment of Bakhmatyuk's debt:
  - For VAB Bank, the ultimate time of liquidation terminates in 2020, meaning Bakhmatyuk should repay all his debt to the bank (within the limit of paid guaranteed deposits) in the next three years;
  - The liquidation of Finansova Initsiatyva, Bakhmatyuk's other failed bank, has been frozen in court. In theory, the debt restructuring deal may assume unfreezing the liquidation as of 2021 (after debt to VAB is repaid). That said, we assume Bakhmatyuk's debt to the DGF related to this bank can be repaid in five years starting 2021.

We expect ULF will try to prioritize debt repayments for the two above-mentioned creditors, offering the remaining cash flow for distribution among the rest.

The state banks, like the NBU and the DGF, do not tolerate haircuts. Usually, they refer to their state-controlled status that implies that any reduction in the debt's face value is automatic damage to the state, or a criminal offence. At the same time, they are likely to tolerate long-term restructuring and lean interest.

Oschadbank had a valuable collateral under its facility, as was described in the ULF 2013 prospectus (the real estate mortgages of Avis, one of Avangardco's two largest egg factories), and is likely to have this collateral now. For that reason, a deal with Oschadbank will eliminate the risks of asset loss for Avangardco.

- We assume the state banks will agree on a 10-year restructuring with a 5-year grace period and 2% interest rate. No haircut.

Syndicated facility holders (about USD 200 mln in debt outstanding) is another big group of creditors. As of 2013, the facility had valuable collateral, including stakes in most of the farming companies of ULF and even some shares of Avangardco. ULF seems to have prepared an offer for this creditor in December 2017, assuming a 35% haircut, but the attitude of the facility holders to ULF's restructuring offer is unclear. At least, we have heard no official resistance to that offer. We assume that they will agree on the restructuring conditions offered to the biggest group of international creditors, its Eurobond holders.

Eurobond holders of ULF and Avangardco. Their loans are secured with some sureties, but look subordinated to Ukraine's state banks and syndicate loan holders. Dealing with them is vital for Bakhmatyuk, but not as important as dealing with state creditors. ULF and Avangardco have already provided an offer to them, consisting of a large haircut (50%), and most likely the next offer will be even less generous.

Private banks (local and international) are the most dispersed group. ULF and Avangardco seem to have prepared an offer for international banks in December 2017, assuming a 35% haircut for secured and 40% for unsecured lenders. Information about any restructuring offer for domestic private banks is not available. Some domestic private banks have valuable collateral. We assume most of them will agree on the restructuring conditions offered to the biggest groups.

Debt recovery: not much left for private creditors

ULF's original model assumes room for repayment of international debt (at an offered average haircut of 44%), as well as leave USD 564 mln for shareholders and domestic creditors in 2018-2027.

ULF's Dec. 2017 offer: guided cash flow for 2018-2027, USD mln

		Face value before deal	Payment as % of face value
FCF generated in 2018-2027	**1,461**		
Payment to Eurobond holders	**482**		**63%**
- Principal	382	764	50%
- Coupon	100		13%
Payment to other int'l creditors	**415**		**78%**
- Principal	340	533	64%
- Interest	75		14%
Total payment to int'l creditors	**897**	**1,297**	**69%**
Cash after int'l debt payment	**564**		

However, our modeled reality differs from what was offered in December in two important aspects:

- We expect free cash flow generation by ULF will be weaker (as discussed on slide 6), or USD 1,183 mln in 2018-2027;
- State creditors (the NBU, the DGF and state banks) should be served first and won't tolerate any haircut. Including all of them into the repayment schedule leads to debt swelling beyond the levels recognized in ULF's balance sheet. The amount due to state creditors is USD 968 mln (or clearly more than was reserved in the December 2017 offer).

Even applying no interest on state debt, a full repayment of such debt in 10 years will leave for private creditors only USD 215 mln by 2027. But we admit that this is a simplification – the reality may look much less gloomy. In particular, we estimate that ULF's forecasted EBITDA and cash flow enable the company to distribute about USD 630 mln to private debt holders in 2018-2027.

On the following slides, we model how the repayment schedule to state and private creditors could look like, taking into account our adjusted ULF model and prioritizations/limitations described on slides 8-9.

Pro forma estimated cash flow for 2018-2027 based on adjusted assumptions, USD mln

FCF generated in 2018-2027	**1,183**
Debt to state entities	758
Debt to state banks	210
Left to private creditors	**215**
ULF debt to private creditors*	**1,377**
- Eurobond holders	765
- Other int'l creditors	533
- Local banks	80

** The amount that can be offered for restructuring. Source: Company data, Concorde Capital research*

Debt repayment to private creditors: NPV is 11% @ 25% discount rate

Below we present the cash flow assumptions that can be reserved for ULF's private creditors after Bakhmatyuk's repayment of its debt obligations to the state and state banks:

- Annual free cash flow generation as estimated in adjusted model on slide 6;
- Bakhmatyuk's payment schedule to the DGF to compensate repayment of VAB Bank's guaranteed deposits (USD 220 mln, or UAH 5.99 bln) is: USD 20 mln in 2018 and the rest in equal installments in 2019-2020.
- Payments to compensate repayment of Finansova Initsiatyva's guaranteed deposits (UAH 3.78 bln) will be in equal installments in 2021-2025.
- Due to the NBU (UAH 10.85 bln): repaid in 10 years with a 5-year grace period and 1% annual cash interest.
- Due to state banks (UAH 5.71 bln): repaid in 10 years with a 5-year grace period and 2% annual cash interest.

All the above debt is in local currency, meaning that in USD terms the payments will decrease in line with UAH devaluation, as is forecasted on slide 6.

- All the cash left after repayment to state and state banks is distributable to private creditors.
- Minimum cash left on the ULF balance at the end of each year is USD 100 mln. Therefore, any forecasted amount of cash exceeding USD 100 mln in each year (if any) is modeled to be fully distributable to private creditors.
- All the outstanding ULF debt will be repayable by end-2027.
- On top of that, in 2027, ULF will borrow the amount equal to 1.5x EBITDA of 2026 to distribute the raised funds among current creditors.

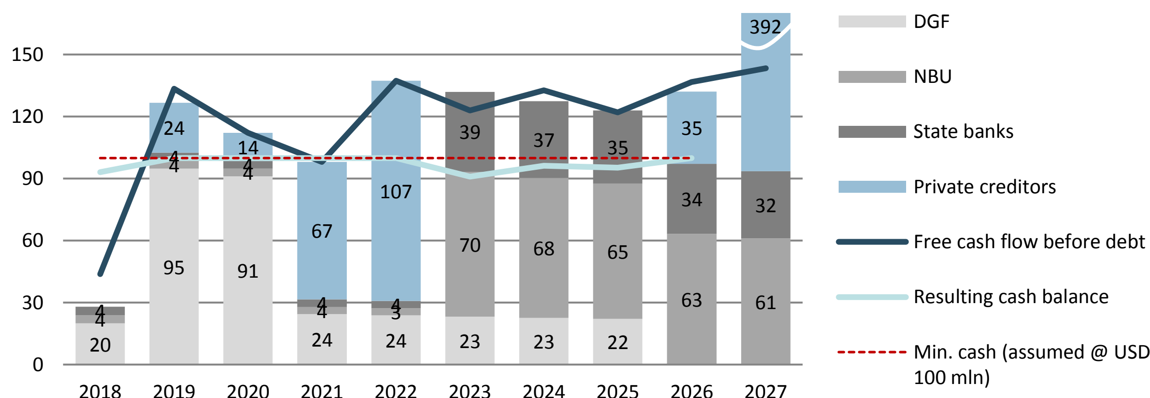
That brings the total amount available for private creditors in 2018-2027 to USD 638 mln, or 46% of debt outstanding as of end-2016.

We believe such repayment assumptions are feasible, but only given the company will obey its committed financial discipline. To ensure such discipline, creditors have to insist on introducing its representatives to ULF's controlling bodies.

We admit that our modeled repayment schedule to state entities can be better in reality (the amount payable could be smaller, the schedule can be longer) so there could be a slightly better recovery rate of private debt (refer to slide 14 for more details).

Modeled cash flow for private creditors, USD mln

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total flow	Debt outst.	Flow/ Debt
UAH/USD		27.5	28.7	29.9	30.9	31.7	32.5	33.3	34.1	35.0	35.9			
EBITDA		143.4	166.7	164.5	171.7	181.5	194.4	208.3	217.6	228.0	237.2	1913		
Free cash flow		43.9	133.6	112.2	98.1	137.4	123.0	132.8	122.1	136.8	143.3	1183		
Refinancing loan raised											342.0	342		
Payment to DGF (VAB)		20.0	94.8	91.2								206	220	93%
Payment to DGF (Fin.In.)					24.4	23.8	23.3	22.7	22.1			116	139	84%
Payment to NBU		3.9	3.8	3.6	3.5	3.4	70.1	67.7	65.5	63.2	61.1	346	399	87%
Payment to state banks		4.2	4.0	3.8	3.7	3.6	38.7	37.0	35.5	33.9	32.5	197	210	94%
Payment to private creditors		0.0	24.2	13.6	66.5	106.5	0.0	0.0	0.0	35.0	391.7	**638**	1377	46%
Cash balance	77.4	93.2	100.0	100.0	100.0	100.0	91.0	96.3	95.4	100.0	100.0			



The modeled cash flow to private creditors implies **NPV*** of all the private debt of:

- **10.7%** assuming a 25% discount rate;
- **8.6%** assuming a 30% discount rate.

That result is in line with our rough estimate of ULF and Avangardco bonds' NPV provided in an August 2016 report (11%, assuming a 25% discount rate).

** Assuming all the scheduled payments are made in a year's end. Source: Company data, Concorde Capital research*

Restructuring options implied by the model

In future talks on restructuring, we recommend to private creditors:

- **Avoid counting on any cash sweep**. If any payments are agreed upon that are linked to its cash balance, they won't be visible (refer to more details on slide 14). Therefore:
- **All payments should be explicitly agreed upon**, with clear penalties for breaching them.
- If creditors are going to agree on any value-recovery instruments, **we advise linking them** not to ULF's future cash or EBITDA, but **to indicators that are beyond ULF's control**, such as global prices for corn, ULF's key product.
- As bondholders represent the biggest group of private creditors, we believe **they can agree on equal treatment of all private creditors** during the restructuring process, even though some of the other creditors are better secured.
- **Restructuring offers should secure at least minimal cash payment** (in the form of interest or principal) in each of the future years.

Based on the above findings and modelling, we see the following feasible designs of restructuring ULF's private debt (assuming equal treatment of all private creditors' debt of **USD 1,377 mln**):

Option 1 (allowing payment of some minimal interest in early periods):
- 65% haircut of face value;
- Repayment of principal: 10% in 2021; 13% in 2022; and 77% in 2027;
- Interest rate of 3.0% in 2018-2025 and 6.5% in 2026-2027.

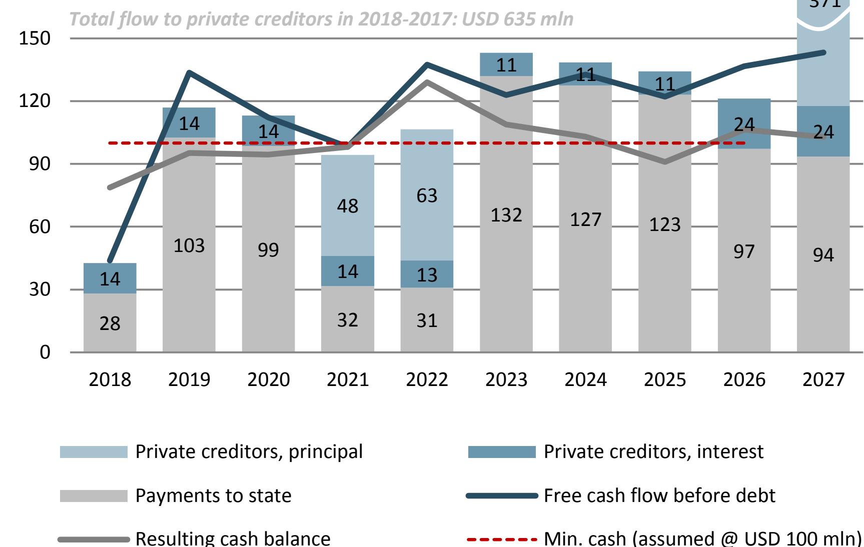
Option 2 (allowing payment of maximum allowed interest by Ukrainian regulation, 11%):
- 77% haircut of face value;
- Repayment of principal: 10% in 2021; 15% in 2022; and 75% in 2027;
- Interest rate is 11.0% for the whole period, with cash payments of 5.5% in 2018-2025 (the unpaid amount is capitalized) and 11.0% in 2026-2027.

Each of the options assumes some deviation of the modeled year-end minimum cash balance from the assumed limit of USD 100 mln (to secure interest payments in each year, at minimum). That offers slightly higher NPV as compared to what was determined on the previous slide.

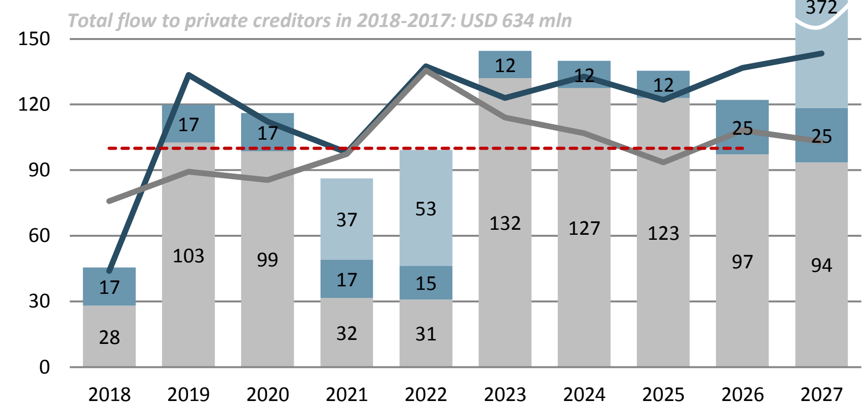
NPV* of private debt implied by restructuring options

	Option 1	Option 2
@25% rate	**10.7%**	**10.8%**
@30% rate	8.7%	8.8%

ULF cash flow, restructuring option 1, USD mln



ULF cash flow, restructuring option 2, USD mln



** Assuming all the scheduled payments are made in a year's end. Source: Company data, Concorde Capital research*

Are there alternatives?

The alternatives do exist, but they do not offer a better recovery rate and are associated with higher risks. Therefore, as soon as ULF demonstrates its readiness to negotiate, we believe a restructuring deal can be reached already this year.

The natural alternative to debt restructuring is a creditors' attempt **to take over the company from Bakhmatyuk** and to try distributing all the future cash flow ULF will generate (as with agricultural holding Mriya). However, as we highlighted in our previous notes, a ULF takeover using Mriya's experience is hardly possible:

- ULF has well-prepared itself for a scenario of a possible takeover, having conducted a heavy legal restructuring (refer to Appendix II for an illustration of ULF's corporate structure). Unlike Mriya's case, the Cyprus-based Ukrlandfarming plc stopped owning directly most of its key farming assets, having dispersed ownership among its other Ukrainian subsidiaries. That means taking control of just the Cypriot holding company does not allow for taking controlling stakes in other entities. To get access to the equity of ULF's key Ukrainian assets, a series of litigations in the local courts will be needed: with the risk of failure at any stage being high, the cumulative probability of success in such litigation is extremely low.
- The structure of Bakhmatyuk's holdings is not only complicated, but also fragile. Bakhmatyuk's exit (or isolation, e.g. resulting from lawsuits against him) promises the risk that the entire ULF corporate structure will fall apart. As he said in a February 2018 interview to Interfax-Ukraine, ULF would cease to exist within three months of his departure. This looks not far from reality, even assuming Bakhmatyuk won't help to inflict damage on this structure. In other words, we believe the mere presence of Bakhmatyuk within this structure is some guarantee that it will continue to exist.
- Bakhmatyuk voluntarily leaving ULF does not look realistic either. Without controlling this holding, he won't be able to generate enough cash to repay his huge debt to state entities. With this debt outstanding, he will continue to face risks of criminal prosecution and all his personal assets being frozen.
- Meanwhile, the Mriya case itself does not look like a success story:
  - in four years after declaring insolvency (August 2014) and taking over the company, creditors just this year managed to draft the final restructuring deal (recently approved by a meeting).
  - The Eurobond holders of Mriya will receive new notes with a face value at a 90% haircut (as well as about a quarter of the company's equity, whose value is not much far from zero right now). The repayment schedule of the "new notes" (with a coupon of 2.0% that will start in 2020 and gradually increase to 10% by 2024, amortization in 2023-2025) offers a recovery of Mriya's original Eurobonds (the NPV) of 3%, assuming a 25% discount rate (and 5% - 6%, based on June's non-binding sale offer).
  - The former owners of Mriya are continuing to raid its assets and even openly declare plans to return some of the lease contracts for land currently operational by Mriya. This adds risks to the company's stability.

Another straightforward tactic is to **wait until ULF turns around** and return to Bakhmatyuk some time later, when he resolves some of its most painful debt issues.

This approach promises a smaller haircut for patient creditors, as can be determined from the ULF model. However, in our view, such an approach is too naïve:

- As we discussed on slide 5, the company's cash flow forecasts implicitly contain certain commitments on limiting CapEx and working capital investments, which will only be valid if ULF agrees to debt restructuring with its core creditors. Otherwise, the company's cash flow will look different, meaning the cash that could be repaid to creditors under the model won't be stored if there is no deal.
- ULF's CapEx limits may be relaxed in mid-2020s as the company may chose to invest in its expansion, or at least catch up with postponed maintenance CapEx in some areas, which will make the designed model not applicable for the long-term future.
- In turn, this means that in the mid-term, the company's cash position without a deal won't resemble the model.
- Unresolved debt issues will pressure the company and its main shareholder, reducing their chance of surviving in the mid-term. Op top of that, there is a high risk that after resolving its debt issues to the state, Bakhmatyuk will have more time and freedom to create additional barriers to private creditors. Meanwhile, by reaching a deal in the short term, private creditors could reserve returning some debt in 2021-2022, increasing their NPV.
- Even assuming ULF will follow cash discipline and will remain a business as modeled by the company, the next attempt to initiate restructuring talks may surface in 2026-2028, when most of the debt to state creditors will be repaid. Assuming a 30% (and more less than 25%) discount rate applied till that time, the haircut on NPV will exceed 90%. In particular, the restructuring in 2026-2028 could look like this:
  - If no haircut and a plain vanilla bullet debt will be discussed, the maximum interest rate and minimum maturity that will allow repayment of all the private debt, based on the forecasted cash flow of ULF, will amount to:

Deal reached	2026		2027		2028	
Annual interest rate	8%	10%	8%	10%	8%	10%
Maturity	9Y	13Y	7Y	9Y	4Y	6Y

  - In such cases, the today's NPV of ULF's private debt will be between 3.8% and 4.5% (assuming a 30% discount rate is applied for the period till the deal is reached). For more details, refer to Appendix III.

Source: Company data, Concorde Capital research

Our suggestions on restructuring

Suggested principles of the restructuring

As before, we recommend international creditors to insist on the following during the restructuring talks:

- Agree on **clear limits on CapEx and investments into working capital** during the debt repayment period. Insist on gaining some control over such spending items, such as introducing **creditor representatives to ULF's controlling** bodies.
- Conduct an **external audit** to understand the true stance of the holding and its assets.
- **Simplify the holding's legal structure** to avoid any risks of asset stripping.
- Agree on the **publication of annual and interim financial reports accessible** on ULF's website.
- A restructuring deal should be based on a **firm repayment schedule, not on cash sweeps**:
  - As the experience of the Eurobonds of the much more reliable Metinvest suggest, Ukrainian companies are very creative in minimizing their cash balance.
  - For ULF, a less trustworthy company with a long operating cycle, the possibilities to optimize cash (especially via working capital) are unlimited, so be sure you won't get any flow based on a cash sweep.
- For that reason, **value-recovery instruments** (VRI, a natural compensation for a face value haircut) should be a **function of some external factors**, not ULF's P&L or balance sheet indicators. Among the possible external factors that might improve ULF's ability to pay private creditors are:
  - appreciation of global corn prices (key ULF's product) above the company's forecast;
  - higher devaluation of the local currency as compared to forecasted levels.
- For the same reason, we see **no sense in discussing** Bakhmatyuk possibly granting some **equity stake** in ULF in exchange for a haircut:
  - He won't give up his controlling stake in ULF; creditors' insistence on control would lead to the Mriya case (mentioned on the previous slide) in its worst outcome.
  - Being a minority shareholder in Bakhmatyuk's business is a questionable privilege, with an unclear exit from such an investment.
  - All the benefits of having an equity stake can be reached with more degree of certainty by other means:
    - Creditors' presence in ULF's controlling bodies can be agreed upon separately;
    - Opportunity of fundamental upside in 2018-2027 can be better captured via proper design of VRI;
    - Opportunity to quit the equity at better value can be captured by an agreed refinancing leverage multiplier (e.g. last year's payment is based on 1.5x EBITDA of the previous year, refer to our modeled assumption on slide 11). In such case, protection from the downside risk is vital (see text on the right).

We are delighted to see that some of the pre-conditions for debt restructuring that we mentioned in our June 2017 and August 2016 updates on ULF and Avangardco have been met by the company. Namely, a model has been developed with clear limits for maintenance CapEx and the expansion of working capital. CapEx limits of USD 51 mln p.a. for the nearest forecasted years correspond with the levels that we estimated in our August 2016 update.

How the deal could look like

- Cash payments based on the options mentioned on slide 12 to all private creditors;
- VRI as a function of rising global corn prices (or another agreed upon soft commodity basket) above ULF's assumptions;
- Last year's repayment of principal as a function of previous year's EBITDA but not less than a certain amount (e.g., agreeing to option 1 on slide 12 that 2027 principal payment will be 1.5x EBITDA of 2026, but no less than USD 371 mln).

Possible deviations from our assumptions

The reality could be slightly better than we modeled. In particular, the debt repayment schedule to state bodies and state banks could be more stretched out than we forecasted. However, in respect to the DGF, a significant change in the repayment schedule may require changes to Ukrainian legislation, which is hard to achieve. **Better recovery options to private creditors could result from:**

- Smaller interest rate or longer postponement of debt repayments for the NBU and state banks.
- Smaller agreed amount of debt to the NBU and the DGF, as compared to our estimate. For instance, in his latest interview - published on the agropolit.com news site on June 22 - Bakhmatyuk claimed that his total debt to the DGF and the NBU is about UAH 19 bln (or some USD 60 mln less than the UAH 20.6 bln figure that we used for our calculations, refer to slide 7).

At the same time:

- A risk of higher debt to be recognized should not be ruled out. In particular, the DGF may increase its total claim to Bakhmatyuk by including additional costs of running its two failed banks before they are completely liquidated (such costs, assumed by the fund, are part of total fund's claim to the failed banks' former beneficiary owners).
- Also, by this time, ULF may have reached some long-term debt restructuring deal with some of its creditors, which it may choose to adhere to in the future. That also potentially reduces cash flow available to other private creditors.
- Agreed refinancing multiplier of the last year could be different (from 1.5xEBITDA of 2026, as we modeled on slide 11).

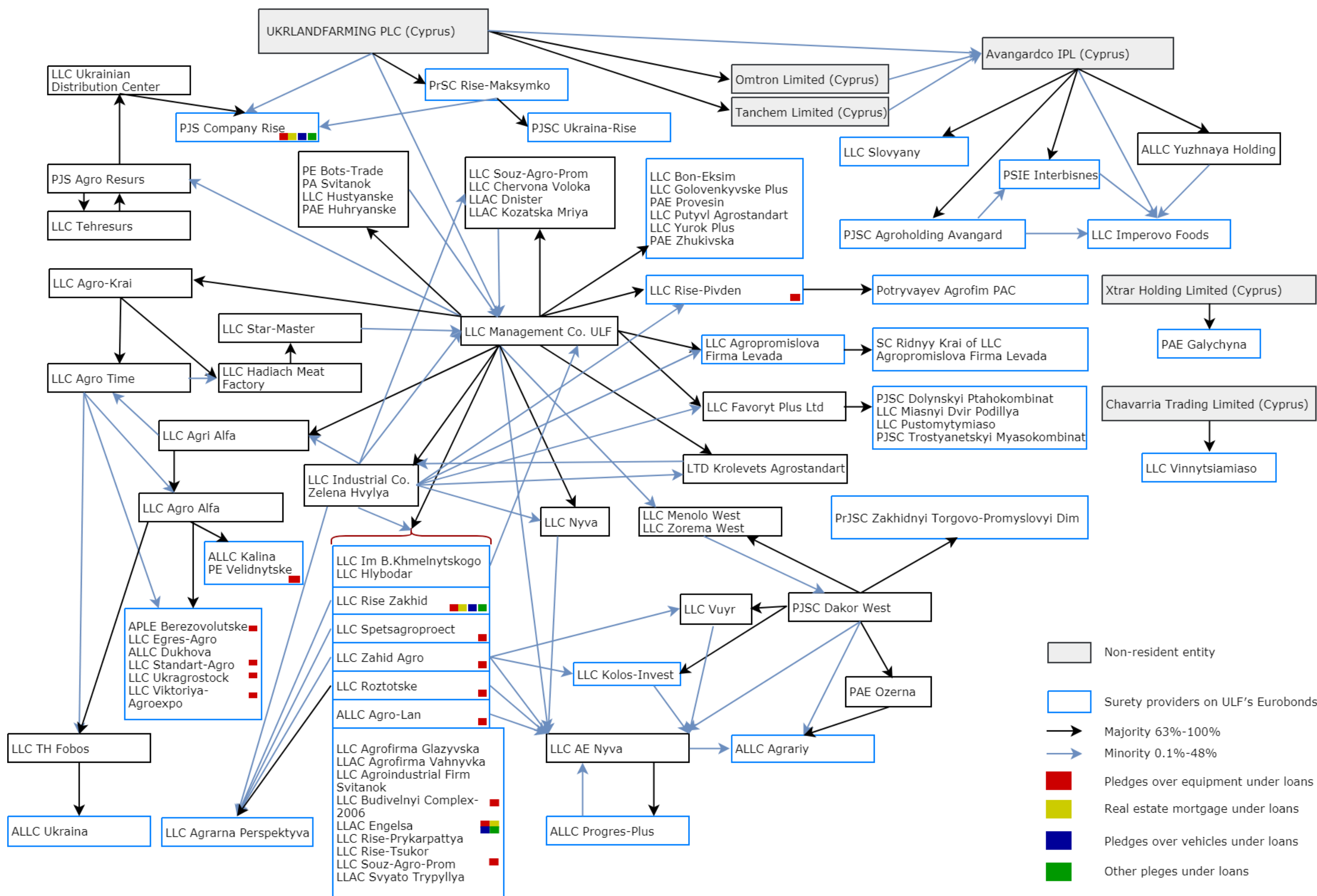
Appendices

Appendix I. Financial summary, USD mln

	Ukrlandfarming consolidated					Avangardco				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Net revenue	2,072	1,557	938	959	658	661	420	230	191	128
EBITDA	842	434	243	162	91	304	130	-1	2	12
OCF before working capital (W/C)	767	553	315	192	82	259	96	27	22	1
Working capital investments	170	-372	-187	-113	-58	-65	-46	-21	-21	7
Net CapEx (Net purchase of PP&E)	-840	-279	-131	-24	-5	-185	-77	-37	-12	-2
Free CF before interest & tax*	96	-98	-3	55	19	10	-27	-31	-11	6
PP&E, eoy	2,900	1,592	1,141	987	1033	1,104	580	405	358	335
Working capital, eoy	1,350	803	561	611	721	438	256	145	126	139
Cash, eoy	297	195	62	81	74	157	118	31	13	18
Total debt, eoy	1,663	1,675	1,598	1,669	1,756	323	344	339	344	366
Total debt incl. interest eoy	1,687	1,709	1,609	1,754	1,972	328	347	340	352	391
Net debt, eoy	1,365	1,480	1,537	1,588	1,682	166	226	308	331	348
Net debt / EBITDA	1.6x	3.4x	6.3x	9.8x	18.5x	0.5x	1.7x	-	220.7x	29.7x
Net debt / OCF before W/C	1.8x	2.7x	4.9x	8.3x	20.5x	0.6x	2.4x	11.4x	15.2x	386.4x
Net debt / FCF	14.2x	-	-	28.9x	88.5x	16.8x	-	-	-	55.2x

** Cash from operations before interest and tax, less net purchase of PP&E. Source: Company data, Concorde Capital research*

Appendix II. Corporate structure of ULF involving key surety providers, June 2018



Source: Company data, Ukraine's State Register of Legal Entities, www.smida.gov.ua, Concorde Capital research

CONCORDE CAPITAL

Appendix III. Modelling debt repayments: delay and no haircut scenario

For illustrative purposes, we tried to model a scenario in which private creditors will not hurry to agree on any debt restructuring soon, instead choosing to wait for a no haircut deal some time in the mid-term future.

As we highlighted above, such tactics are not sustainable, meaning that they will change the way ULF will behave (e.g., it will be not inclined to obey its CapEx and working capital limitations assumed by its available model). Therefore, the below assumptions have little predicting power. For modelling purposes, however, we assume the reality will match the model.

- For 2018-2027, we take free cash flow assumptions as derived on slide 6. For the periods beyond 2027, we assume ULF's free cash flow will grow at 2% annual rate.
- Debt repayment to the state and state banks remains in line with our assumptions on slide 11.
- The debt amount subject to restructuring is fixed at USD 1,377 mln (total amount of ULF's debt to private creditors). That assumes all the future accrued interest before the restructuring will be written off, with no haircut on that debt applied.
- Debt will be restructured in plain vanilla bullet instrument with a fixed cash annual interest rate (8% rate and 10% rate scenarios assumed).
- Any cash held at ULF accounts since 2021 generates interest income of 5% p.a.
- The repayment year of the principal is the year when ULF is modelled to generate nearly enough cash (including using borrowed cash at 1.5x of EBITDA of the previous year) to repay the entire private debt subject to restructuring (**USD 1,377 mln**), see example tables on the right.

Examples of cash flow modelling for bullet debt repayment and no haircut:

Deal in 2026, 8% coupon: repayment in 2035

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Free cash flow before debt	44	134	112	98	137	123	133	122	137	143	146	149	152	155	158	161	165	168	171
Payments to state	29	104	100	89	122	118	114	82	79	44	0	0	0	0	0	0	0	0	0
Financial income	0	0	0	7	8	9	9	11	13	17	17	20	23	26	30	34	38	42	47
Private creditors, interest	0	0	0	0	0	0	0	0	0	110	110	110	110	110	110	110	110	110	110
Cash balance	92	122	135	151	174	188	216	267	339	345	398	457	522	593	671	756	848	948	1056
Cash + potential borrowing at 1.5x EBITDA												820	892	971	1056	1148	1249	1357	1473

Deal in 2028, 8% coupon: repayment in 2032

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Free cash flow before debt	44	134	112	98	137	123	133	122	137	143	146	149	152	155	158	161	165	168	171
Payments to state	29	104	100	89	122	118	114	82	79	44	0	0	0	0	0	0	0	0	0
Financial income	0	0	0	7	8	9	9	11	13	17	23	31	35	39	43	47	52	58	63
Private creditors, interest	0	0	0	0	0	0	0	0	0	0	0	110	110	110	110	110	110	110	110
Cash balance	92	122	135	151	174	188	216	267	339	455	624	694	771	855	945	1044	1151	1266	1390
Cash + potential borrowing at 1.5x EBITDA												1057	1141	1232	1331	1437			

Deal in 2027, 10% coupon: repayment in 2036

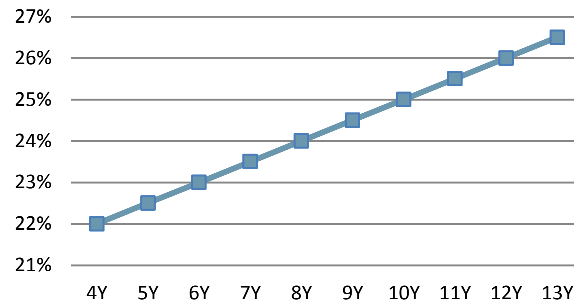
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Free cash flow before debt	44	134	112	98	137	123	133	122	137	143	146	149	152	155	158	161	165	168	171
Payments to state	29	104	100	89	122	118	114	82	79	44	0	0	0	0	0	0	0	0	0
Financial income	0	0	0	7	8	9	9	11	13	17	23	24	26	28	30	33	36	39	42
Private creditors, interest	0	0	0	0	0	0	0	0	0	0	138	138	138	138	138	138	138	138	138
Cash balance	92	122	135	151	174	188	216	267	339	455	487	522	563	608	659	716	779	848	924
Cash + potential borrowing at 1.5x EBITDA												885	933	986	1044	1109	1179	1256	1341

Source: Company data, Concorde Capital research

Discount rates on restructured debt:
We assume the discount rate to be used for calculating the NPV of restructured ULF debt (at the restructuring date) will be based on the following yield curve:

- cash flows associated with ten-year restructured debt will be 25%;
- any longer (shorter) maturity will add (subtract) 0.5pp.

Assumed discount rate as function of debt's maturity



Assumed debt value as of deal date
The above assumptions lead to the following NPV estimates of to-be restructured ULF debt based on the year when a deal is reached:

Estimated NPV* of restructured debt @ deal's date

Deal reached	End-2026		End-2027		End-2028	
Cash interest rate	8%	10%	8%	10%	8%	10%
Maturity	9Y	13Y	7Y	9Y	4Y	6Y
NPV* @ deal date, % of par	42%	41%	48%	49%	65%	60%

Estimated debt value as of today
With no restructuring reached this year, and little certainty about the deal being reached in the mid-term, we believe creditors should apply a 30% discount rate today to calculate the NPV of ULF's debt (or at least 25%). Below we show how the NPV of ULF's debt could look like today assuming the above deals will be reached in 2026-2028 (applying a 25% and 30% discount rate from now till the date when the deal is assumed to be reached).

Estimated NPV of to-be restructured debt as of now

Deal reached	End-2026		End-2027		End-2028	
Cash interest rate	8%	10%	8%	10%	8%	10%
Today's NPV, @ 25% rate till the deal	6.3%	6.1%	5.8%	5.9%	6.3%	5.7%
Today's NPV, @ 30% rate till the deal	**4.5%**	**4.4%**	**4.0%**	**4.1%**	**4.1%**	**3.8%**

** Assuming all the scheduled payments are made in a year's end. Source: Company data, 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.

©2018 CONCORDE CAPITAL

Contacts

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

CEO

Igor Mazepa	im@concorde.com.ua

SALES & TRADING

Marina Martirosyan	mm@concorde.com.ua
Alexandra Kushnir	ak@concorde.com.ua
Anna Tantsiura	ta@concorde.com.ua
Alisa Tykhomirova	at@concorde.com.ua

RESEARCH

Head of Research

Alexander Paraschiy	ap@concorde.com.ua

Economy

Evgeniya Akhtyrko	ea@concorde.com.ua

Financial, Utilities, Consumer

Alexander Paraschiy	ap@concorde.com.ua

Consumer

Andriy Perederey	aper@concorde.com.ua

Basic Materials

Dmytro Khoroshun	dk@concorde.com.ua

Editor, Politics

Zenon Zawada	zzawada@concorde.com.ua