Ukraine Private Eurobond Issuers

Picking Amidst Escalation

September 26, 2024

CONCORDE CAPITAL

Executive summary

Ukrainian private Eurobond issuers demonstrate resilience to the challenging environment inflicted by russian unprovoked aggression against the country. In most cases, they report strong P&L and balance sheets. Over the last 2.5 years, only one private issuer (DTEK Renewables) dared to postpone its bond maturity for three years, referring to its need to invest in new capacities in order to improve the nation's energy security.

The Eurobond universe has its beneficiaries of the recent challenges – those benefiting from high energy prices (DTEK Oil & Gas, DTEKOG), removed trade barriers in the West (Interpipe, INTHOL) or strong internal and external demand for its outputs (MHP, MHPSA). Such companies demonstrated multi-year high EBITDA in 2022 or 2023. Dollar-denominated fundamentals of Vodafone-Ukraine (VODUKR) suffered more from devaluation of the local currency than from the war-driven customer base decline.

Some issuers are less lucky, including DTEK Energy (DTEKUA), which, on the one hand benefited from generous adjustments of price caps on the wholesale electricity market, but on the other, has recently suffered from massive missile attacks against its capacities. Kernel (KERPW) also had some equipment damages and losses, as well as logistical issues, but remained afloat and even was able to deleverage fast.

Among the biggest victims of the war is DTEK Renewables (DTEKUA) which lost more than half of its power generation potential in the occupied territories, but it was able to find resources to invest into development of new capacities (partially at the cost of bond issuers). Another victim is Metinvest (METINV) which has lost over 80% of its pre-war steel making capacities, but is still able to service and repay its debts on time.

The biggest short-term challenges for the issuers are: for the issuers are: possible attacks of russian missiles on Ukrainian energy infrastructure, which could directly affect capacities of DTEK Energy and could cause severe power shortages this winter to affect most of the rest; russia's ground attacks in the east, which could make it impossible for Metinvest's only Ukrainian coal asset to operate. Also, risk of possible strike on any large business (including missile and hacker attacks) should not be ignored.

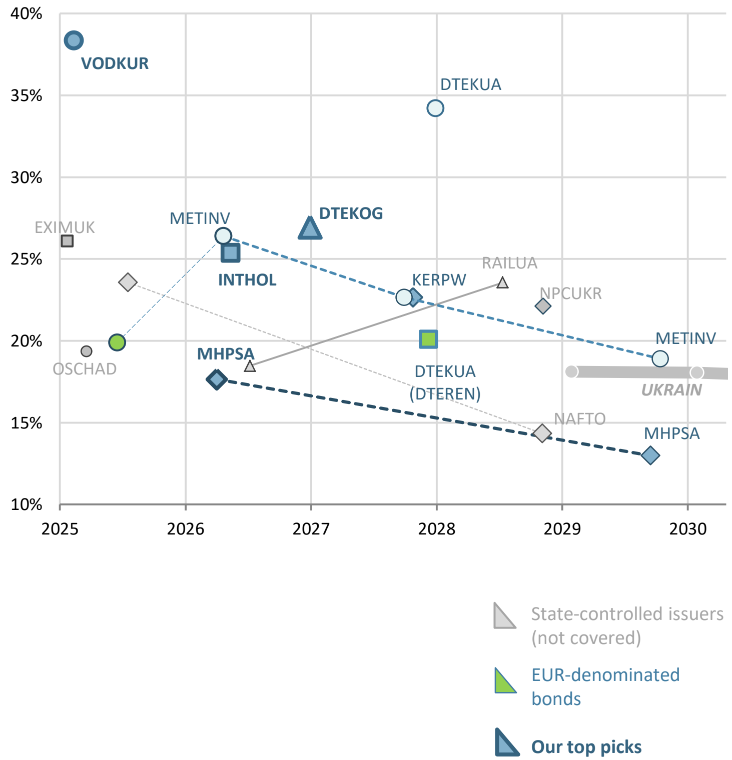
On top of that, strict central bank's currency control measures (limits on cross-border debt repays) could affect the ability of the issuers to repay the nearest bonds on time (Kernel in October and Vodafone-Ukraine in February). We see the risk of non-payment as low as of now.

Based on our risk-yield analysis, we see the following private Eurobonds are most attractive:

- Relatively low-yield bonds of MHP (MHPSA'26), Interpipe (INTHOL'26) and DTEK Oil & Gas (DTEKOG'26);
- High-yield short bond of Vodafone-Ukraine (VODUKR'25), for which the biggest risk is regulatory (currency control).

We do not cover Eurobonds of state-controlled companies (Ukrainian Railways, Naftogaz) as we do not believe the issuers are independent enough from the government's unpredictable will. Meanwhile, the bonds of state banks (OSCHAD, EXIMUK) have too short maturity and are too illiquid to invest.

Eurobond yield map (mid-market, Sept. 26)



Sources: Bloomberg, Concorde Capital research

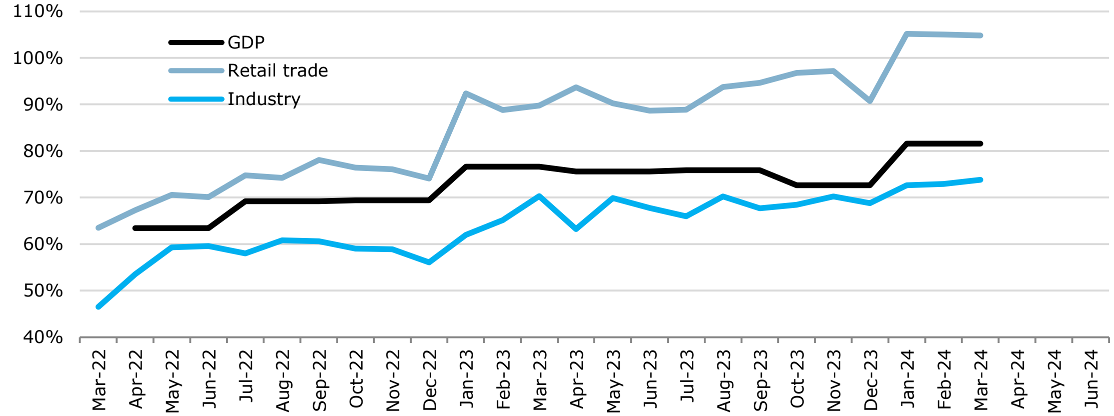
Macro view: Recovery lags in industrial sector, food producers are among leaders

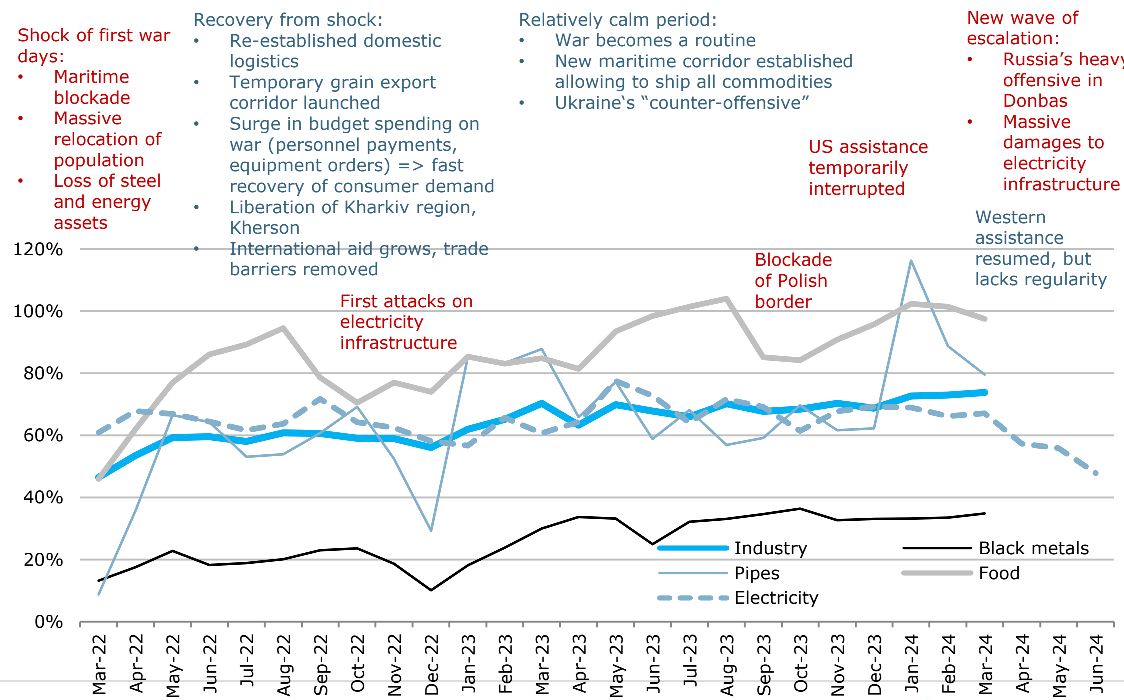
The Ukrainian economy has nearly recovered from the shock of the beginning of war and real GDP was just 18% below the pre-war level in 1Q24, despite heavy (about 20%) loss of controlled territory, population and industrial capacity. Key driver of the relatively fast recovery was government and residential consumption. Notably, real volumes of retail trade exceeded the pre-war (2021) level already in 1Q24.

Meanwhile, the industrial sector was among the biggest victims of the russian military aggression, which came together with blockade of key export-import routes and heavy damages to Ukraine's logistics and power infrastructure.

- Among the most suffered industries is metallurgy (represented by Metinvest) which fell in the perfect storm at the beginning of the war (loss of key production premises in eastern Ukraine, blockade of maritime logistics).
- Another victim is the power sector, which lost valuable assets on the occupied territories (DTEK Renewables, DTEK Energy) and is among main targets of russian missile attacks (DTEK Energy).
- In the contrary, some industries are performing better than before the war (weapons and ammunition producers) or comparable: export-focused producers of food (MHP) and pipes (Interpipe) which benefited from removal of trade barriers in the west.
- Some companies also benefited from temporary hikes in energy prices due to the war (DTEK Oil & Gas, coal subsidiary of Metinvest).

Real output, % of respective period of 2021





Sources: UkrStat, Economy Ministry, NBU, Concorde Capital calculations

Performance of Eurobond issuers vs. pre-war times

While all the covered Eurobond issuers are yet to reach their pre-war production numbers, financial performance of half of them was better than in the pre-war period*. Among those which improved their revenue and profits, there are:

- DTEK Oil & Gas, which benefited from a spike in natural gas prices.
- MHP, which benefited from poultry price increase (in USD terms), as well as raised production of byproducts (vegetable oils).
- Interpipe, which benefited from higher prices for pipes and removal of import duties for its products in the EU and the US.
- DTEK Energy, which benefited from a surge in wholesale electricity price in Ukraine (release of price caps) and price for steam coal. At the same time, the company was among the biggest victims of the russian aggression as it had most of its power generating capacities severely damaged. The most violent attacks on its assets in 2Q24 significantly worsened its ability to generate electricity and cash flow in the near future.

Other companies fail to demonstrate a recovery in financial indicators as compared to pre-war period:

- Vodafone Ukraine was able to increase its P&L indicators in local currency, but due to the currency devaluation, its dollar-denominated P&L slightly lags.
- Kernel had lost some of its oil-making capacities, and its grain trading business performed much weaker than during its most successful pre-war years. On top of that, the company divested 27% of its farmland since the war's start.
- Metinvest (one of the biggest victims of russian aggression) has lost most of its steel and coke making assets and is on its way to restore its iron ore production and export chains.
- DTEK Renewables has lost over 50% of its production capacities in the occupied territories. Its output decline was not compensated by power price surge (unlike DTEK Energy).

Performance vs. pre-war period

	Performance: LTM* vs. 2020			Recent performance vs. pre-war period		Key Output
	Key output	Revenue (USD)	EBITDA (USD)	Key output	Comparing periods	
DTEK Oil & Gas	-1%	170%	52%	-12%	1H24 (est.) / 2H21	Gas prod.
MHP	-1%	55%	44%	-8%	1H24 / 2H21	Poultry prod.
Interpipe	-15%	16%	6%	-31%	1Q24 / 4Q21	Pipes prod.
VF Ukraine	-16%	-10%	-4%	-16%	Jun'24 / Dec'21	Customer base, eop
Metinvest	-75%	-22%	-54%	-80%	1H24 / 2H21	Crude steel prod.
	6%			-29%		Merchant ore prod.
Kernel**	-9%	-26%	-58%	6%	FY24** / cal.Y21	Oilseeds crush.
	-36%			-41%		Grain exports
DTEK Renewables	-56%	-56%	-70%	-52%	1H24 (est.) / 2H21	Electricity sale
DTEK Energy	-44%	5%	123%	-61%	1H24 (est.) / 2H22	Electricity sale

*For comparison to the pre-war data, we took the year 2020, as the year 2021 was exceptionally good for many companies. LTM period ends in December 2023 for DTEK Energy, DTEK Oil&Gas and DTEK Renewables, in March 2024 for Kernel, in June 2024 for the rest. ** Kernel's financial year (FY) ends in June. For comparison with 2020 (2021), respective calendar years were taken. Sources: Company data, Concorde Capital calculations*

Key short-term challenges: power supply, aggressor's military advance

Damages to power infrastructure

The great recovery picture of early 2024 is very likely to have been spoiled since April-June, after russia's massive missile attacks on Ukraine's power infrastructure. As a result of damages of about a half of power generation capacities that Ukraine had in March 2024, the country suffered a severe power deficit in June-July. This caused interruptions in operation of many industrial enterprises and significantly worsened consumers' sentiments.

The attacks affected some Eurobond issuers:

- DTEK Energy suffered directly, as its power generating capacities were primary targets (about 90% of capacities were hit).
- Vodafone-Ukraine, along with other mobile operators, will have to invest heavily in power storages by this winter to secure autonomous powering of its equipment for at least ten hours without electricity supply.

Even though power cuts (which reached 25%-35% of time in many regions in June-July) affected many smaller business, the covered Eurobond issuers reported no material problems with power supply in 2Q24:

- Metinvest and Interpipe are importing electricity for their main premises, and the status of power importers allows them to avoid rotational power cuts.
- MHP's poultry farms are likely to be protected from rotational power cuts for biological security reasons.
- Revenue of Vodafone-Ukraine, which mostly charges flat monthly fees for its services, does not depend much on accessibility of its mobile network.

It is very likely that power cuts will resume in November-February as Ukraine has insufficient generating and importing capacity to satisfy demand for power during the winter period. In particular, rotational power cuts will be unavoidable at any temperature below 0ºC. However, as was the case for June-July, most of the covered companies are likely to **avoid the expected rotational power cuts**.

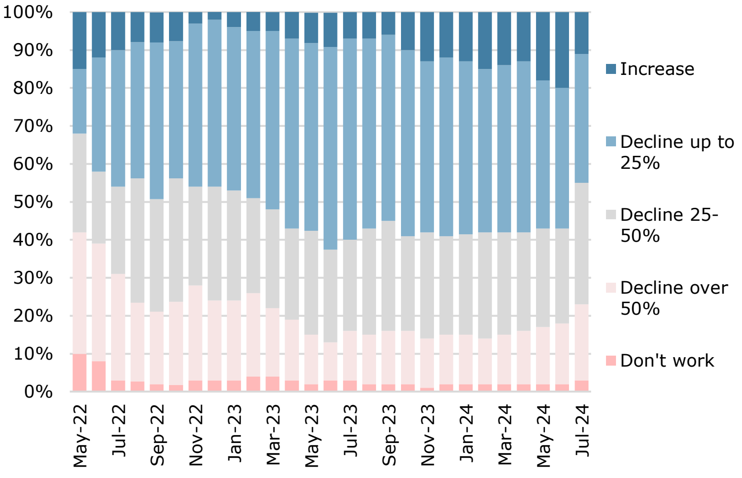
The biggest risk now is that russian attacks on Ukraine's power infrastructure will intensify. If more Ukrainian generation is damaged, this could lead to **emergency power cuts** throughout Ukraine, and such blackouts could severely affect all the companies.

Russian military advance in Donbas

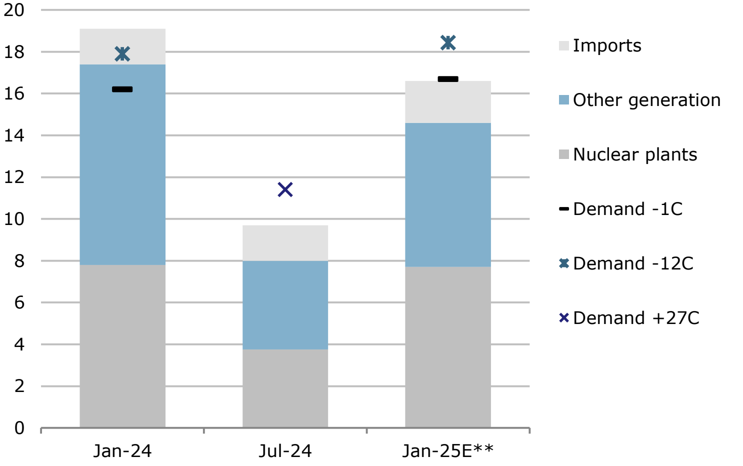
Since beginning of 2024, russian aggressors:

- Occupied town of Avdiivka, where Metinvest's biggest coke plant was located. This did not change the holding's performance as the plant was idle since late 2022.
- Nearly occupied town of Vovchansk, where a small Kernel's oilseed crushing plant (idle since 2022) is located.
- Are approaching the town of Kurakhove, where one of DTEK Energy's power plants is located. The plant has been idle since late 2023.
- Are very close to the town of Pokrovsk, where Metinvest's only Ukraine-based coal mine is located. Idling of the mine, which was the core profit generator for the holding in late 2022, will be painful for Metinvest.

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



Electric capacity in Ukraine: maximum supply and peak demand (temperature-sensitive), GW



* http://www.ier.com.ua/ua/institute/news?pid=7516 ** *Best-case supply estimate (providing partial recovery of damaged capacities goes on schedule, no new attacks on power plants, no equipment failures). Sources: IER, Ukrenergo, Concorde Capital estimates*

Bond picking

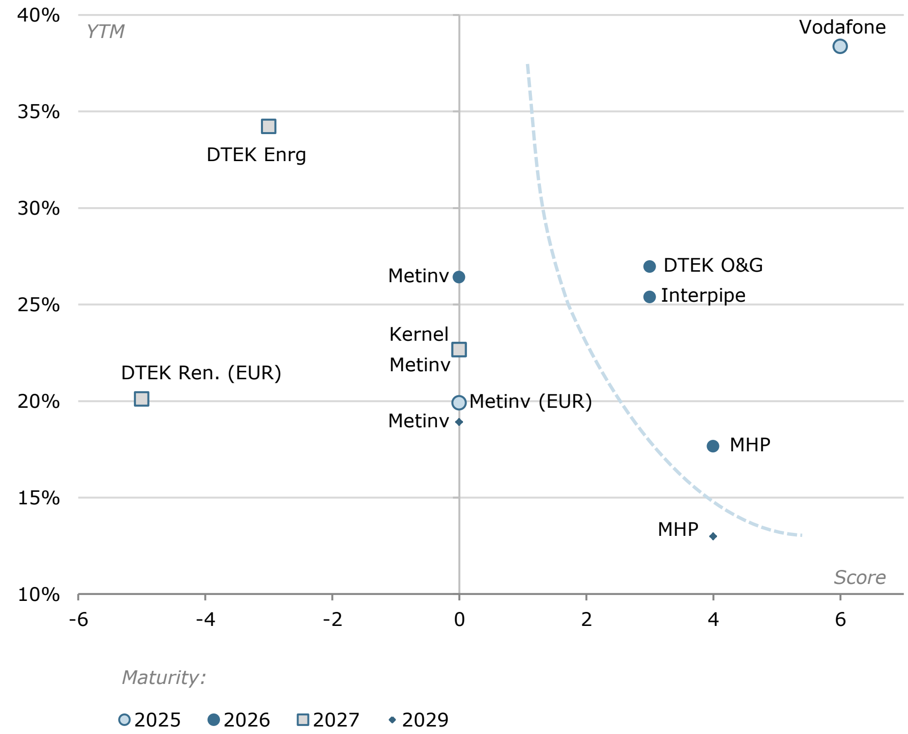
We see most of covered Ukraine-related bonds are safe investment, but for the two nearest bond maturities (Kernel 2024 and Vodafone 2025) there is some risk that the issuers won't be allowed by the central bank to make the payments. At this moment, we see such risk as low.

To select our top picks, we are mapping bond yields against fundamental scores of their issuers, as derived on the next slide.

Our top picks are the bonds of :

Interpipe (**INTHOL'26**), MHP (**MHPSA'26**), DTEK Oil & Gas (**DTEKOG'26**) and Vodafone-Ukraine (**VODUKR'25**). Note that the latter bond has less than five months to its maturity.

Fundamental scores and bond yields (mid-market, Sept. 26)



Sources: Bloomberg, company data, Concorde Capital research

Issuers scoring: It's about willingness to repay or "enough reasons" for restructure

So far, all Ukrainian private Eurobond issuers (except DTEK Renewables) keep smoothly servicing their bonds despite the barriers built by the National Bank and despite limited ability to find refinancing in the nearest term (except MHP).

Most of the issuers look capable of repaying their bonds on time, using their own cash or via recovery of lending to related parties. Therefore, *willingness* to smoothly service bonds and *presence/absence of good reasons for restructuring* remain key factors to us when scoring the bond issuers.

As before, we use our approach to rank corporate Eurobond issuers by considering two major factors:

- Apparent willingness to service/repay bonds:
  - MHP proves its willingness in order to keep access for financing (refinancing) from IFIs.
  - We again see good reasons for smooth bond servicing by Vodafone-Ukraine (VF-Ukraine) as access to external debt financing is vital for the company's owners.
  - Willingness of all Akhmetov-related companies (Metinvest, DTEKs) is no more apparent, as DTEK Renewables has recently chosen to postpone maturity of its bond, with no strong reasons. We, therefore, see the motivation of DTEK Energy and DTEK Oil & Gas is not strong as well. For Metinvest, which spent about USD 300 mln for bond buybacks and repayments in the last two years, we see the motivation as high.

- Enough reasons for the bondholders to (theoretically) accept some bond restructuring:
  - Performance (EBITDA) as compared to pre-war period (a significant EBITDA drop can be a good reason).
  - Current financial leverage (debt/EBITDA) and ability to independently accumulate money for the nearest bond repayment (the ratio of Debt due in the mid-term to EBITDA).
  - Risk of war-related damages or losses of key assets which could worsen the companies' fundamentals or require extra financing for recovery.

Scoring of Eurobond issuers (USD mln)

	Total debt, last reported*	Cash, last reported*	Debt due 24-27	EBITDA LTM*	EBITDA LTM vs. 2020	Net debt due 24-27 / LTM EBITDA	TD / LTM EBITDA	Damage risks	Motivation to repay nearest bond	Score
VF Ukraine	408	294	408	349	-4%	0.3	1.2	Low	High	6
MHP	1474	294	1124	491	44%	1.7	3.0	Moderate	High	4
Interpipe	378	292	330	290	6%	0.1	1.3	Moderate	Unclear	3
DTEK Oil&Gas	375	3	375	417	52%	0.9	0.9	Moderate	Unclear	3
Kernel	799	664	799	328	-58%	0.4	2.4	Moderate	Unclear	0
Metinvest	1740	456	1078	1024	-54%	0.6	1.7	Very high	High	0
DTEK Energy	1067	44	1067	713	123%	1.4	1.5	Very high	Unclear	-3
DTEK Renewables	562	144	381	78	-70%	3.0	7.2	Moderate	No	-5

Scores applied

+3	+1	0	-1	-3

** Last reported dates are: Dec. 31,2023 for DTEK Energy, DTEK Oil&Gas and DTEK Renewables, Mar. 31, 2024 for Kernel, Jun. 30, 2024 for the rest.*
Sources: Company data, Concorde Capital research

Eurobond Issuer Profiles

DTEK Energy (DTEKUA): Equipment damages is key challenge

The company provides limited operating metrics since 2022 due to “sensitivity” of its data for the national security. From the fragmented data we can conclude that:

- Its coal mining volumes are about 85%-95% of the pre-war levels. In particular, DTEK Energy reported a slight decline in commissioning of new longwalls in 2023 (26) compared to 2022 (28) and 2021 (31). This year, the plan is to commission 26 units.
- Its power generation in 2023 decreased by 39% as compared to the pre-war year (2021), to about 15.2 TWh.

The decline in volumes did not prevent the company from generating **EBITDA at five-year high** level of about USD 713 mln in 2023. The key driver of such a result was better electricity prices, which were up 38% (in USD terms) last year as compared to 2021 (and up 12% yoy).

This became possible as the power sector regulator **increased price caps** on the market. The latest increase in price caps happened in June 2024 which, accompanied by power deficit, made power prices grow 55% yoy in June (and 12% yoy in 1H24), in USD terms.

With strong P&L, the company dared to distribute enormous cash to its owner: in late 2023, DTEK Energy provided USD 225 mln in related party loans and declared USD 175 mln in dividends.

Severe damages to power generating equipment reported

Heavy equipment damages due to russian air strikes of March-June 2024 have crossed out the company’s strong performance of 2023:

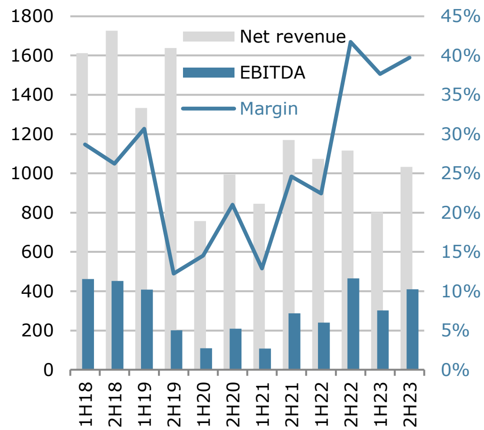
- According to the company, nearly 90% of its power generation capacity has been “damaged or destroyed”.
- DTEK’s power output decreased by about 65% yoy in 2Q24, after increasing by about 10% yoy in 1Q24, we estimate. In 1H24, DTEK’s power supply decreased by about 60% as compared to pre-war level (1H21).
- DTEK estimated the total cost of equipment recovery at USD 400 mln. Meanwhile, the company declares no intention to increase its equipment repair costs this year: only UAH 3.9 bln (USD 97 mln) has been reserved for such purpose in 2024 (flat yoy).
- DTEK’s top manager Dmytro Sakharuk stated on June 26 that the company is aiming to restore up to 3GW of its affected capacities this year (about a half of available capacity as of the last winter).
- Its Kurakhove TPP (1.53 GW, or about 16% of total pre-war installed capacity), now located just 13 km from the front line. It is not functional since late 2023, and part of its equipment is very likely to have been reallocated to other facilities.

Asset recovery needs may be used as an excuse for restructuring

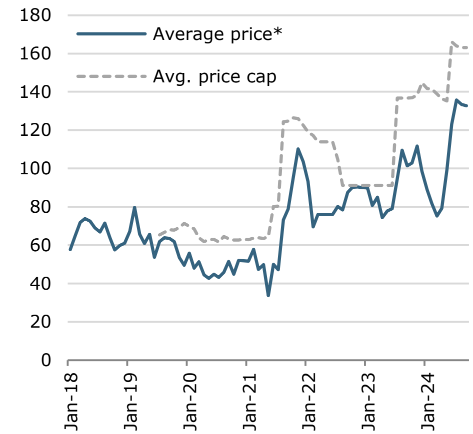
The company’s only sizable debt is USD 1.50 bln Eurobond (USD 1.14 bln, excluding the notes held by related parties) maturing in three years. It looks currently able to accumulate enough cash flow to repay such debt, but possible further damages to its equipment could undermine such ability. One could count on DTEK’s financial assistance from parent or related companies, but taking into account its sister company, DTEK Renewables, has chosen to restructure its debt, probability for such assistance is not clear.

All in all, now we see fundamental risks for DTEK Energy as high.

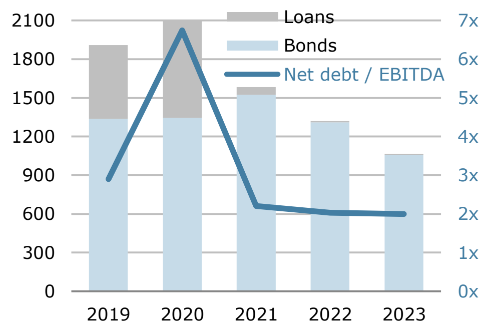
Key P&L items, USD mln



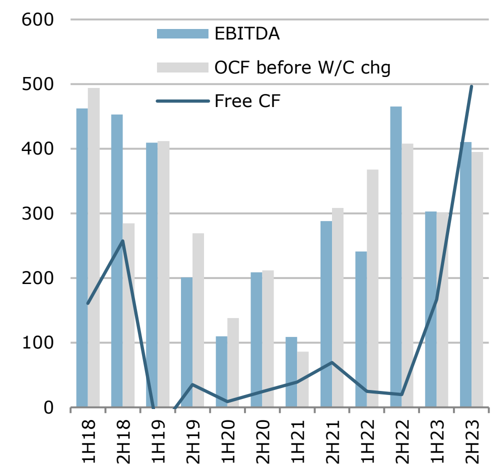
Ukraine wholesale power price, USD/MWh



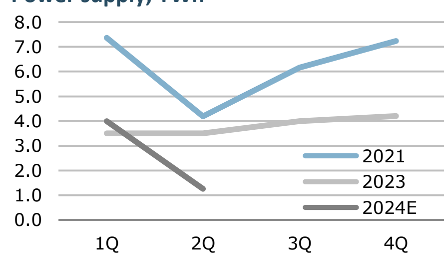
Debt & leverage, USD mln



Cash flow items, USD mln



Power supply, TWh



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

DTEK Renewables (DTEKUA/DTEREN): Has its bond maturity postponed for 3Y

The company has received a consent from its bondholders to postpone maturity of its green bonds for three years.

Key excuse for the postponement is a decision by DTEK Renewables to launch construction of the second stage of its Tyligul wind power plant with the aim to increase its capacity to about 500 MW, from current 114 MW. The company plans to start construction of the new stage in 4Q24 and commission it in 2026. Sources of the project's financing (with total costs of about USD 500 mln) are not clear yet.

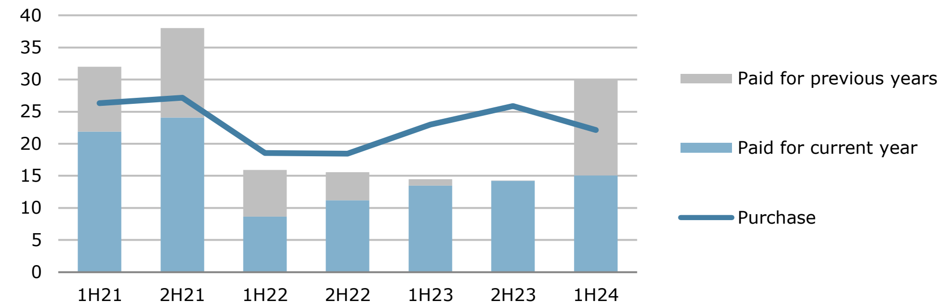
Building new generation capacities is important for enhancing Ukraine's energy security, but using for it money dedicated to the creditors of other DTEK's wind and solar projects looks strange.

Other company's reasoning behind the restructuring look questionable:

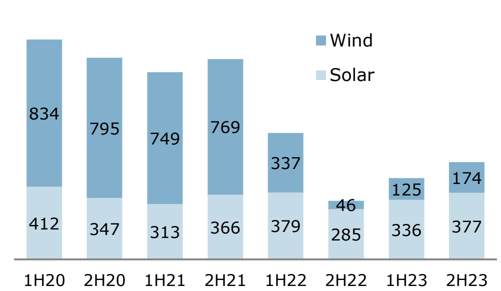
- Decline in power generation, weaker P&L, loss of about a half of pre-war capacity due to occupation of major wind farms as compared to pre-war levels are not new.
- Devaluation of local currency vs. euro is not harmful for its business, as feed-in tariffs are being adjusted for the devaluation (the only effect of the devaluation is on receivables which are fixed in local currency).
- EUR 378 mln impairment losses related to poor settlement of the state operator Guaranteed Buyer do not mean the debt won't be repaid in the future.
- Moreover, in 2024, the payment discipline of Guaranteed Buyer has improved radically: in 1H24, it paid to Ukraine renewable producers 135% of their bills (up from about 63% in 1H23 and 55% in 2H23). Therefore, the claim of DTEK Renewables that the payment discipline "has deteriorated" does not look correct.
- The NBU limits debt repayments abroad, but this did not prevent other Eurobond issuers (Metinvest, MHP and even DTEK Oil & Gas) from repaying their bonds on schedule.
- Ukraine has lost about 9 GW of installed power generating capacity in March-June 2024, but this only sets to improve DTEK Renewables' fundamentals.

That said, we consider the bond restructuring offer as an unfriendly move of DTEK Renewables. This experience might be spread to other DTEK-related issuers, like DTEK Energy, DTEK Oil & Gas and even Metinvest. Moreover, we the probability of another maturity extension of DTEK Renewables' bond looks high.

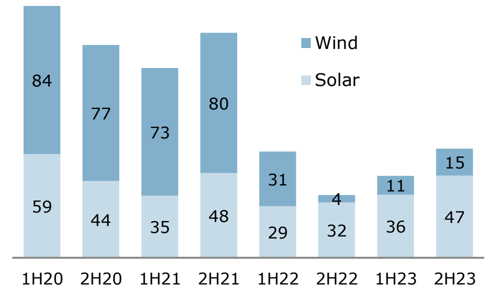
GarPok green power purchase & payments, UAH bln



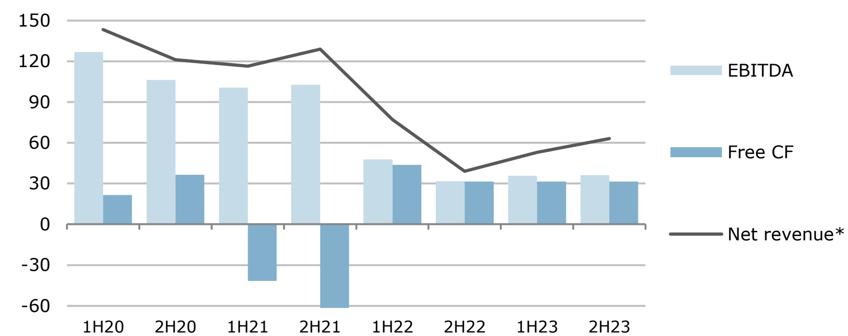
DTEK Renewables power sales, GWh*



Revenue from power sales, EUR mln*



DTEK Renewables selected fundamentals, EUR mln



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

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DTEK Oil & Gas (DTEKOG): Profits back to normal, investments are growing

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

Six quarters of high natural gas prices allowed DTEK Oil & Gas to generate excessively high profits in late 2021 and 2022. However, since 2Q23, natural gas prices in Ukraine went back to "normal" levels of below USD 400/bcm. With **normalized prices** and higher production tax level, DTEK Oil & Gas reported a moderate USD 416 mln EBITDA in 2023 (down 54% yoy).

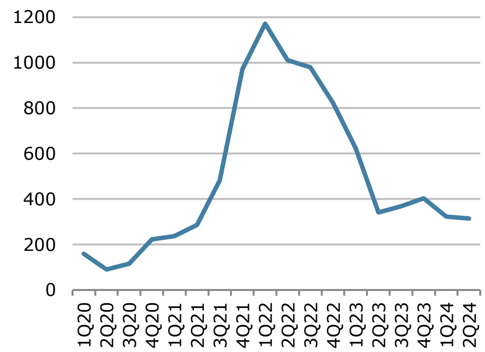
Despite weaker P&L, the company made series of steps last year to **expand its business** in Ukraine:

- It more than doubled its capital expenditures in 2023 (to USD 191 mln), including USD 36 mln investments into new hydrocarbon extraction permits.
- In early 2023, it concluded a five-year deal with a state entity managing confiscated property for the management of an oil & gas service company. As a result of the deal, DTEK Oil & Gas' headcount reached its all-time high of 560 employees in 2023 (up 64% yoy, more than twice more compared to 2019).

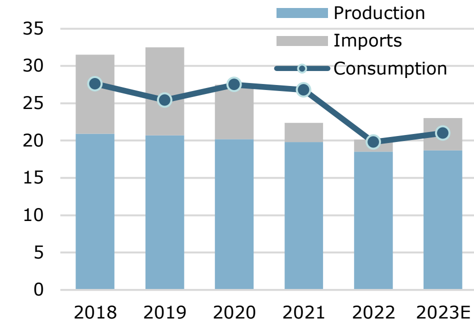
The company **paid on time its first Eurobond amortization** (USD 50 mln in December 2023). The remainder of its Eurobonds outstanding, USD 375 mln, can be easily repaid from the company's cash flow on schedule in 2024-2026, providing the company won't be used as a cash cow for other related businesses.

The core subsidiary of DTEK Oil & Gas, UVG, is Ukraine's second-largest producer of natural gas (about 10% of the country's total production). Due to its size, its assets could be a potential target for russia's missile attacks. **Risk of damages** to its key assets looks moderate, so far.

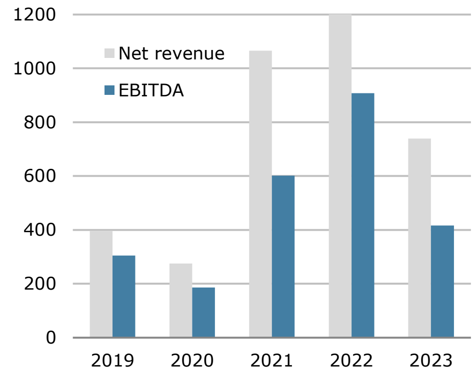
Gas price, Ukraine industry, USD/tcm



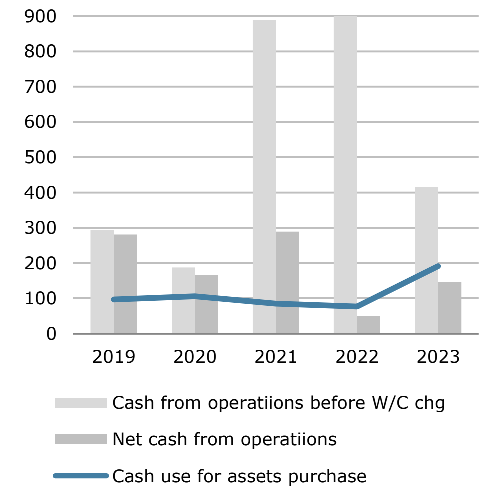
Ukraine gas balance, bcm



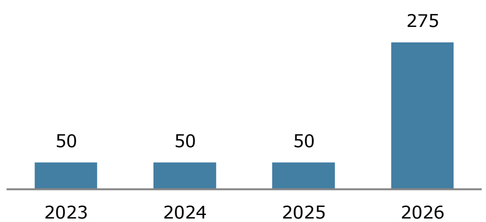
Key P&L items of DTEK Oil & Gas, USD mln



Selected cash flow items, USD mln



Eurobond amortization schedule, USD mln



Sources: Company data, Concorde Capital calculations

Interpipe (INTHOL): EBITDA at 11Y highs in 2023, rich of cash

The company continues to **benefit from suspension** of a 25% duty on pipe sales to the U.S., and removal of duties and quotas in the EU market since russian invasion of Ukraine.

Taking advantage of the barriers' removal, Interpipe managed to diversify its sales portfolio and reach a **11-year highest EBITDA** of USD 337 mln in 2023. Its spectacular financial performance was interrupted in 4Q23, which the company attributed to temporary rise in delivery costs (most likely, related to a blockade of the Polish border).

The company's cash balance reached USD 292 mln as of end-June 2024, up 84% yoy. Its cash and loans to related parties (USD 85 mln) nearly cover all its debt obligations (USD 378 mln as of end-June).

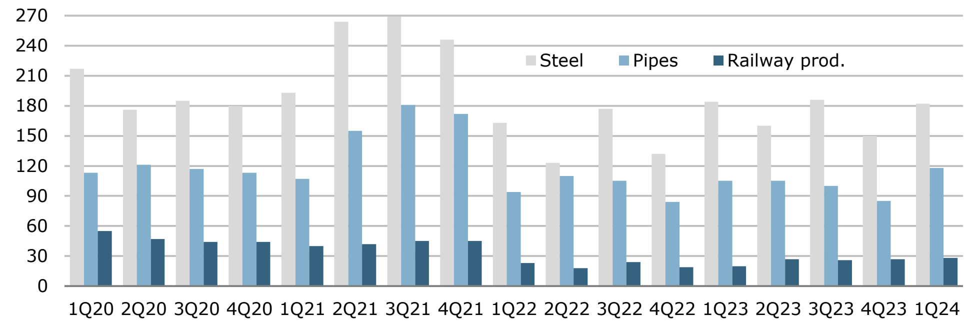
Providing there are no shocks, the company will remain capable of smoothly servicing all its debt obligations.

Among **key risks** for Interpipe, there are:

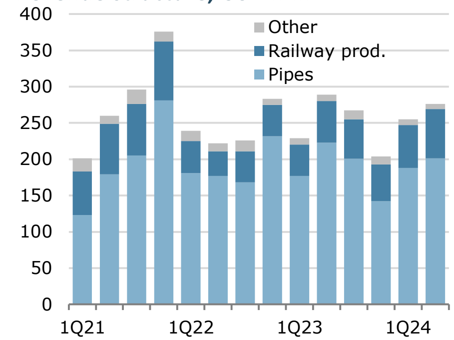
- Power deficit in Interpipe's region could lead to the company's under-production. Interpipe partially handles this risk by importing electricity (those importing at least 80% of their needs have a privilege to not cut off power supply, according to the government resolution). Such imports can guarantee power supply in case there is overall shortage of power capacity in Ukraine, but does not prevent power cuts in case of a local power shortage, failure of local grids, or the nation-wide emergency blackouts.
- One of the company's pipe production assets is located just 12 km from the occupied territory and therefore is under a risk of artillery attacks. All the other assets are about 120-130 km away from the frontline, the distance that does not look "comfortable" as well.

Keeping in mind the risks, we see Interpipe as **one of fundamentally strongest** Eurobond issuers in Ukraine.

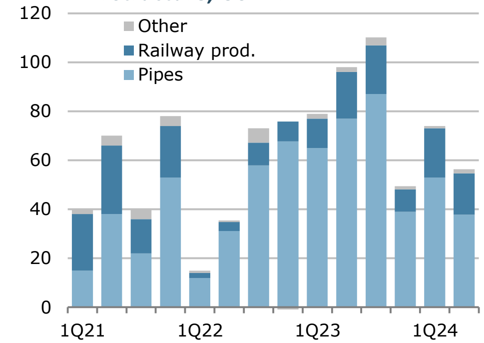
Production data. kt



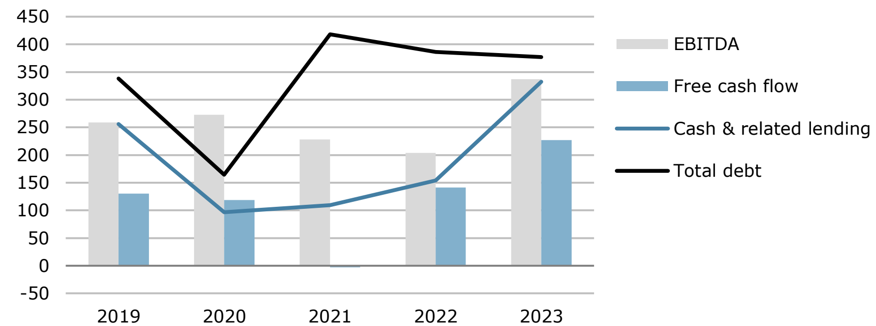
Revenue structure, USD mln



EBITDA structure, USD mln



Selected financial indicators, USD mln



Sources: Company data, Concorde Capital calculations

Kernel (KERPW): Ability to repay nearest bond is high, but willingness is not clear

Oil production capacity is expanded by 34%

Exceptional profitability of sunflower oil segment, which drove the company's EBITDA in FY2023 is no more there. In FY2024, the company's fundamentals will be weaker yoy in oil and farming segments. While the trading/infrastructure segment is likely to perform better this year, its overall EBITDA is likely to decline yoy.

In the next financial year, the company is likely to improve its financial results with higher volumes of vegetable oil sales, after it commissioned a new 1 mmt of crushing plant in April to expand its oil production capacity a third.

Notably, the brand-new facility was targeted by russian air strike in early August, which resulted in suspension of its operation. Kernel is yet to report about consequences of the strike and resumption of its new facility's operation.

Massive deleveraging occurred in late 2023

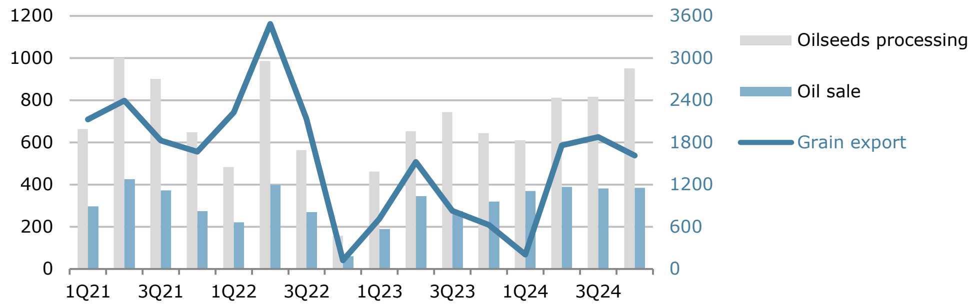
In 2QFY24 (October-December 2023), Kernel spent about USD 611 mln for debt repayment thus making the biggest deleveraging in its history. Its total financial debt decreased by USD 684 mln over June 2023-March 2024.

Uncertainty about smooth repayment of nearest bond persists

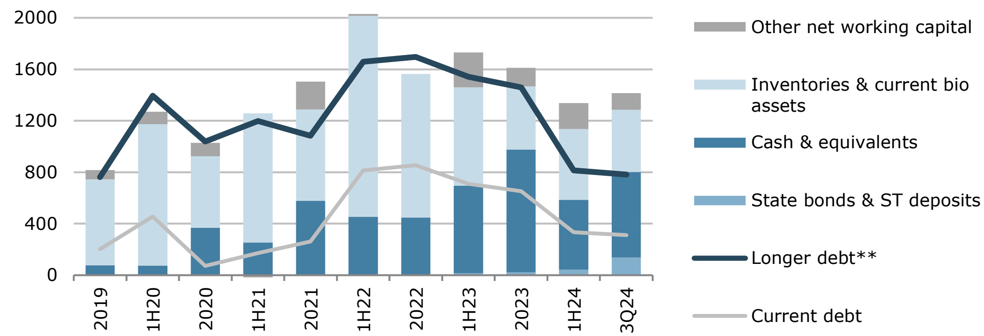
Despite a "generous" deleveraging (mostly, repayment of working capital facilities), Kernel did not indicate about its commitment to repay its nearest Eurobond on maturity (USD 300 mln due in October 2024). In its latest financial update, the company referred to the central bank's currency control measures as a possible obstacle for smooth repayment, and it did not rule out a request for the bond's extension, providing it won't be able to "accumulate sufficient liquidity offshore."

In our view, accumulating USD 300 mln at its international accounts is not a big problem for an exporting and trading company with annual turnover of about USD 3 bln. That suggests the company's ability to smoothly repay its bond depends solely on its willingness to do so. Taking into account Kernel's aggressive attitude to its minority shareholders (from which the company sees "no more use") in 2023 and the fact that Eurobond holders are "not much useful" for the company in the short- and mid-term, any scenario is possible with the nearest bond. Our base case, however, is the company will smoothly repay it.

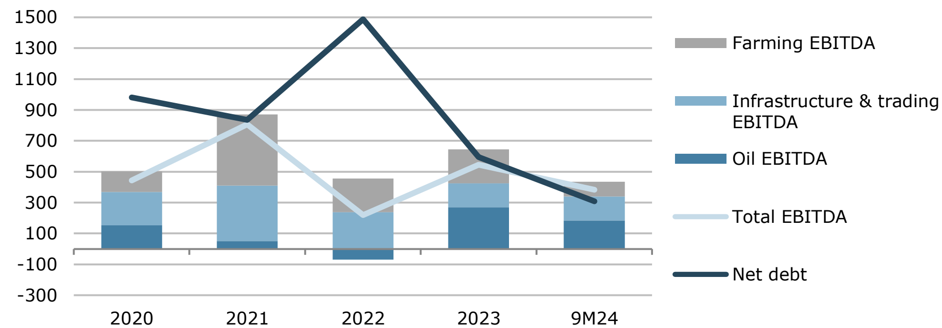
Operating data, kt*



Debt and working capital, eop, USD mln*



EBITDA & net debt, USD mln*



** Note: Financial year 2024 (and 4Q24) ends in June 2024. ** Debt with initial maturity over 12M. In FY 2022 -2024, all the debt is classified by Kernel as "short-term".*
Sources: Company data, Concorde Capital calculations

MHP (MHPSA): Strong poultry segment results, ideal payment discipline

Record-high "poultry" EBITDA supports MHP fundamentals

MHP continues to benefit from relatively stable poultry prices in USD terms. Decrease of the company's production costs (mostly linked to the local currency), as well as increased production and sale of vegetable oil allowed MHP to report EBITDA in its key segment at nine-year high in 2023. And this is despite a relatively weak 4Q23, which result was likely spoiled by logistical issues (blockade of Ukraine-Polish border). This year is likely to be strong for the segment as well.

The company's farming segment (which used to be the key EBITDA driver in 2021) was breakeven on the EBITDA level in 2023 and has some chance to perform better this year.

Overall, the company is and is likely to remain the strongest performer as compared to pre-war levels among Ukrainian Eurobond issuers.

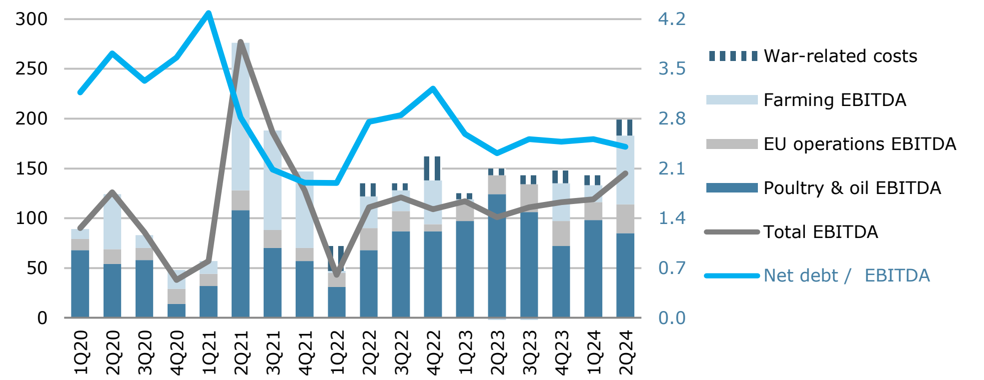
Completes exemplary bond refinancing exercise

MHP secured refinancing from IFC, EBRD and DFC for USD 400 mln in 2023 to refinance its USD 500 mln Eurobond due in May 2024. As part of the deal, the company bought back USD 289 mln bonds with a discount in November and January (paying USD 239 mln) and redeemed the rest, USD 211 mln, on maturity. In this way, the company used its own funds for USD 70 mln and USD 400 mln in refinancing for the operation.

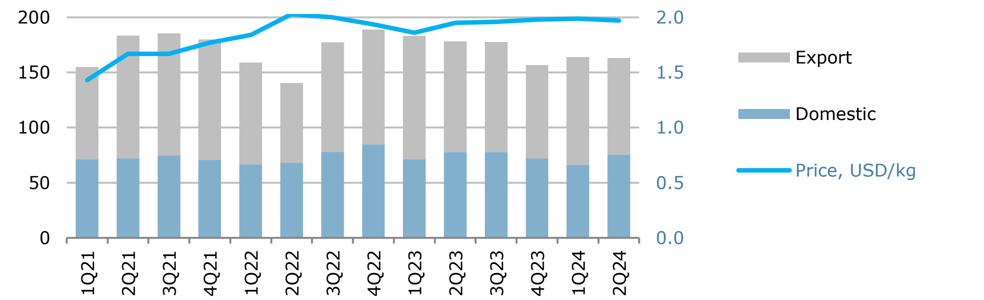
With such a payment, MHP supported its reputation of reliable borrower which it gained during the 2014-2015 crisis (at that time, it was the only Eurobond issuer which avoided the bond's restructuring).

The company's good reputation among IFIs allows us to expect it will be able to do a comparable refinancing of its next Eurobond, if there is a need for that.

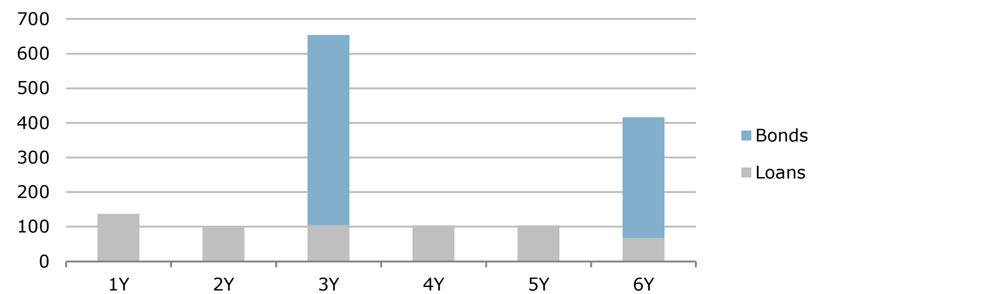
EBITDA structure and leverage, USD mln



Poultry sales from MHP Ukrainian assets, kt



Debt maturity, end-May (estimated), USD mln



Sources: Company data, Concorde Capital calculations

Metinvest (METINV): New risks ahead

Transforms into mining company

Following a loss of its biggest metallurgical assets in early 2022 (due to russia's occupation of Mariupol), Metinvest had to significantly scale down its metallurgical business. Since mid-2022, therefore, its mining business generates vast majority of its profits:

- In 2022, it was coal that contributed most to its profits due to exceptional prices.
- Since early 2023, Metinvest has been gradually recovering supplies of merchant iron ore to reach pre-war levels in early 2024. Due to the scale effect in iron ore, the company managed to optimize production costs and increase mining EBITDA 47% yoy in 1H24 despite non-increasing coal and iron ore prices.

This allows Metinvest to count on its own cash generation for servicing its debt obligations in the mid-term.

Repays its bonds ahead of schedule

In 1H24, the company partially bought back its Eurobonds to decrease their amount outstanding by USD 187 mln. In 2022-2023, it partially bought back and redeemed another bond for USD 169 mln outstanding. Such operations demonstrate Metinvest's intention to smoothly service its debt.

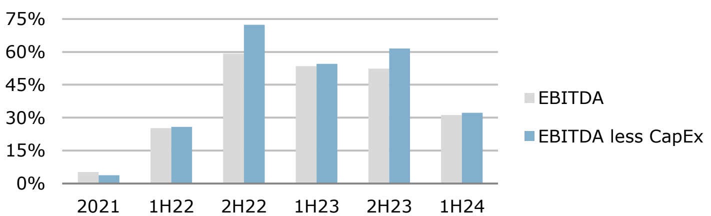
About to lose Pokrovske Coal, its biggest asset as of today

Ground attacks of russian army in the Donetsk region in summer 2024 could lead to Metinvest's loss of another valuable asset – Pokrovske Coal. Since early April 2024, the distance between the city of Pokrovsk to the front line has shortened from about 33 km to less than 10 km, causing high risk to lives in the cite of Metinvest's only Ukrainian coal asset. Pokrovske Coal generated USD 400 mln of EBITDA in July 2023 - June 2024, based on its separate accounts*, which compares to 39% of Metinvest's consolidated result.

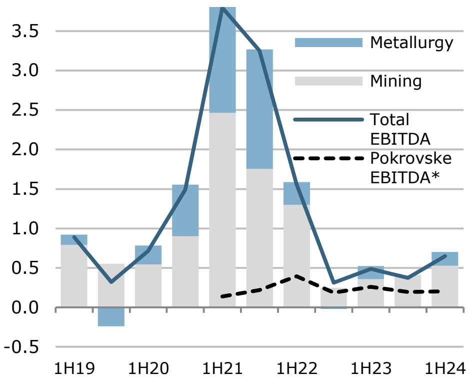
Loss of this asset would decrease Metinvest's cash flow generation capacity by about 30%-35% in mid-term, we estimate. In such a case, in addition to losing a cash-generating asset, Metinvest will face an increase of steel production costs as it will have to import coking coal.

The company would adjust to the possible shock, as it did many times since russian aggression against Ukraine started in 2014 (see its assets development on the next slide).

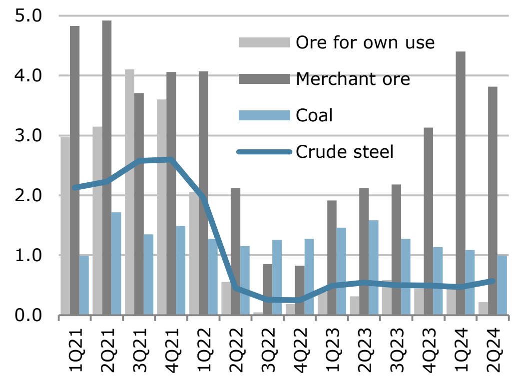
Pokrovske Mine's result as % of Metinvest's consolidate result*



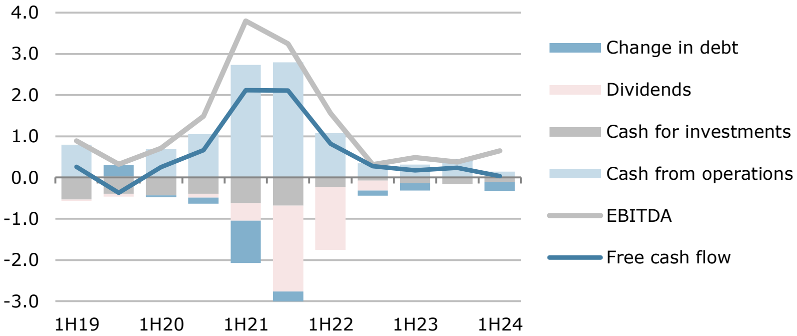
EBITDA breakdown, USD bln



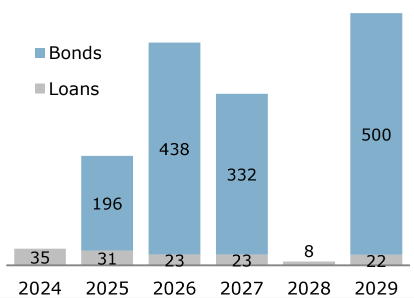
Key outputs, mmt



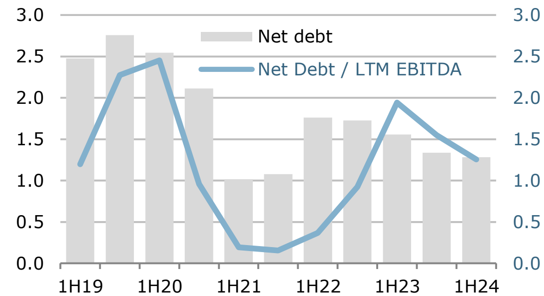
EBITDA and key cash flow items, USD bln



Debt maturity, end-June 2024, USD mln



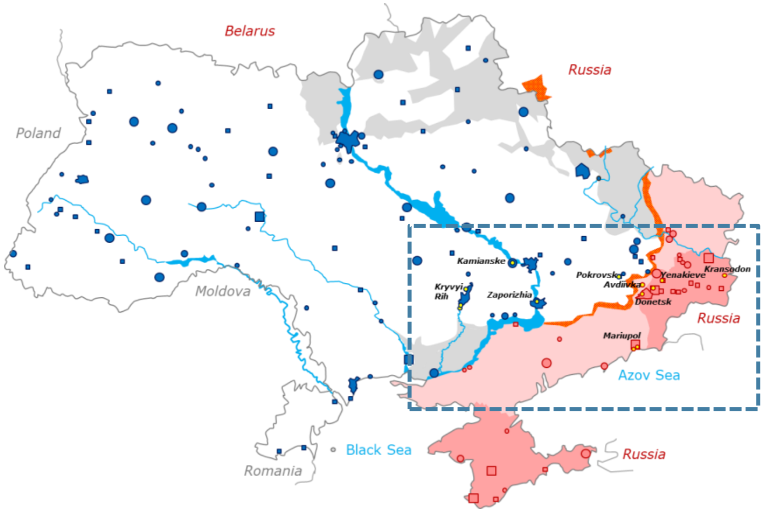
Leverage, USD bln

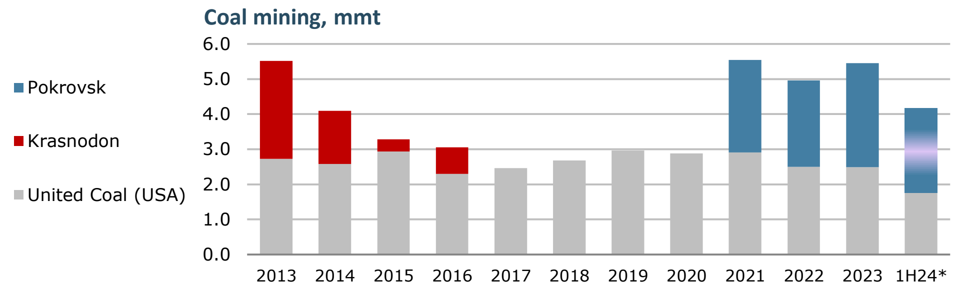


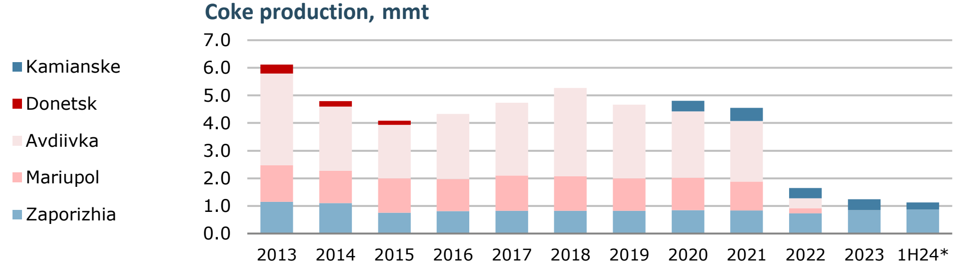
** For Pokrovske Mine's results are taken from local (statistical) financial filling, EBITDA is calculated as profit from operations plus D&A. Pokrovske's statistical accounts might be not directly comparable to Metinvest's consolidated results. Sources: Company data, YouControl, Concorde Capital estimates*

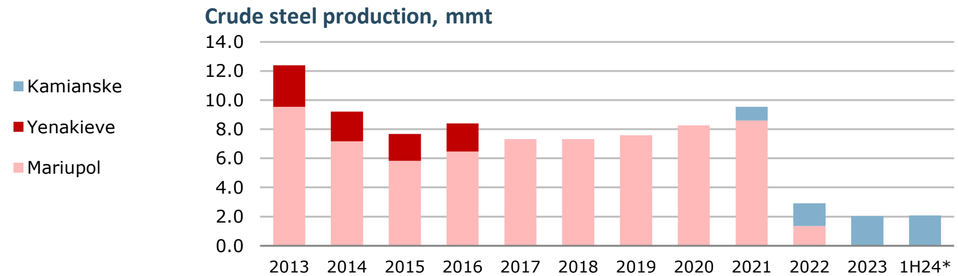
CONCORDE CAPITAL

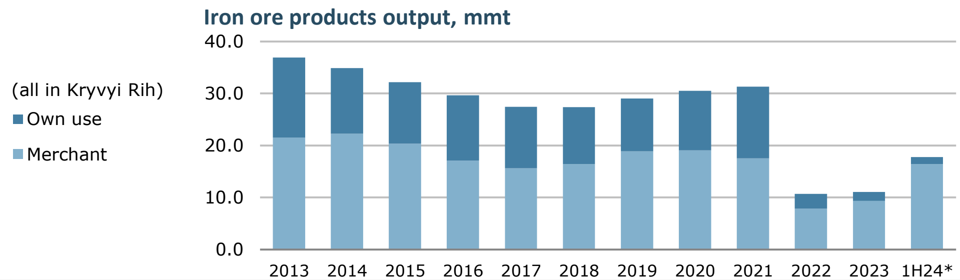
Metinvest (METINV): History of losing and gaining assets











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

Ability to repay Eurobond on time remains strong

Its Eurobond of the remaining par value of USD 400 mln (maturing in February 2025) is the company's only debt obligation. It looks like the company will have to partially refinance such amount:

- It has USD 294 mln of accumulated cash and ST investments as of end-June 2024 (deposits and government local Eurobonds). About 75% of its liquid assets are in USD and EUR.
- It is unlikely that VF Ukraine will be able to generate on its own the rest (about USD 120 mln) till the bond's maturity :
  - Over the last three years, it generated USD 114-148 mln of free cash flow annually. It is unlikely that it will be able to generate more in the current year. Moreover:
  - It will have to increase its costs/investments into power storage equipment to comply with the recent demand from the government. Particularly, Ukraine's Cabinet ordered all Ukrainian mobile operators to secure provision of uninterrupted communication services for at least 10 hours without external electricity supply by end-January 2025. Meeting such demand could cost up to USD 100 mln in extra investments for the company.

We see no problem for the company to secure a required financing/refinancing. With the company's Net Debt to EBITDA ratio of less than 0.8x, it is a valuable client for any potential lender.

Motivation to repay the bond on time looks high. As we stated earlier, we see a high motivation of the company's owner (Azerbaijan-based holding) to remain in good relationships with international creditors. The owner's reputation as a reliable borrower is highly important as its strategy is to count solely on borrowings while purchasing assets globally.

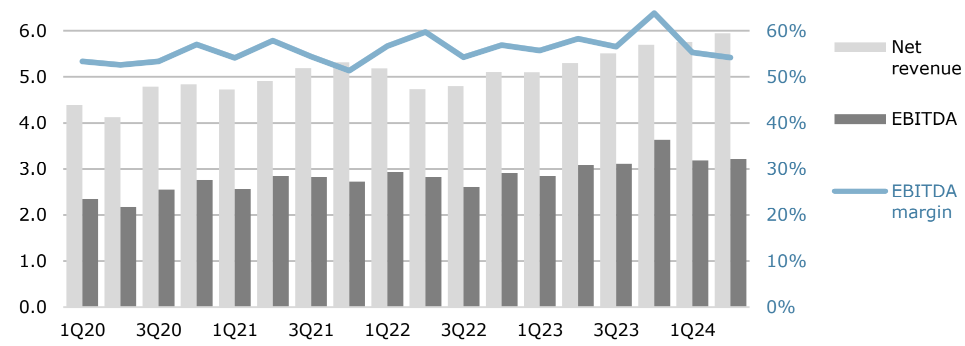
Key risk for the company's ability to timely repay its bond is tight currency control in Ukraine which does not allow for repayment of foreign loans. Notably, at this moment, all the Eurobond issuers which wanted to repay their debt, were able to do so despite the existing barriers.

Fundamentals remain strong:

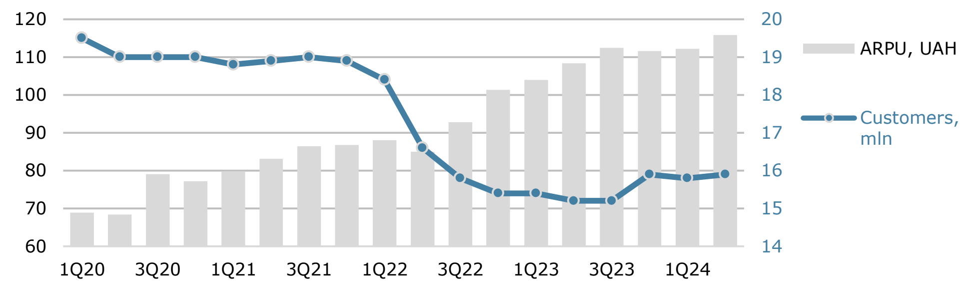
VF Ukraine remains among fundamentally strongest Ukrainian Eurobond issuers:

- The company's mobile customer base slightly increased 4Q23 and was 5% higher yoy as of end-June 2024.
- Its ARPU (in local currency) increased 7% yoy in 2Q24 allowing it to post a 12% yoy increase in net revenue in the quarter (up 3% yoy in USD terms).
- Its EBITDA increased 1% yoy (in USD terms) in 1H24 and its EBITDA margin remains high at 55%.

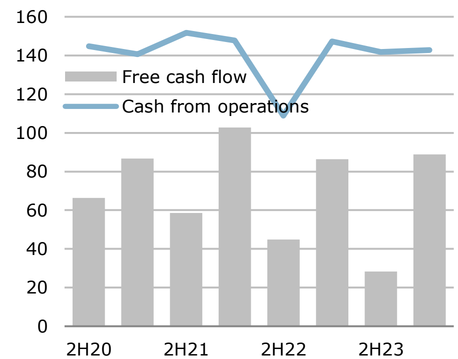
Selected financials, UAH bln



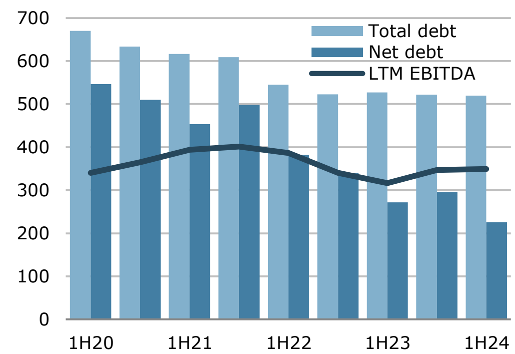
Key operating metrics



Cash flow, USD mln



Leverage metrics*, USD mln

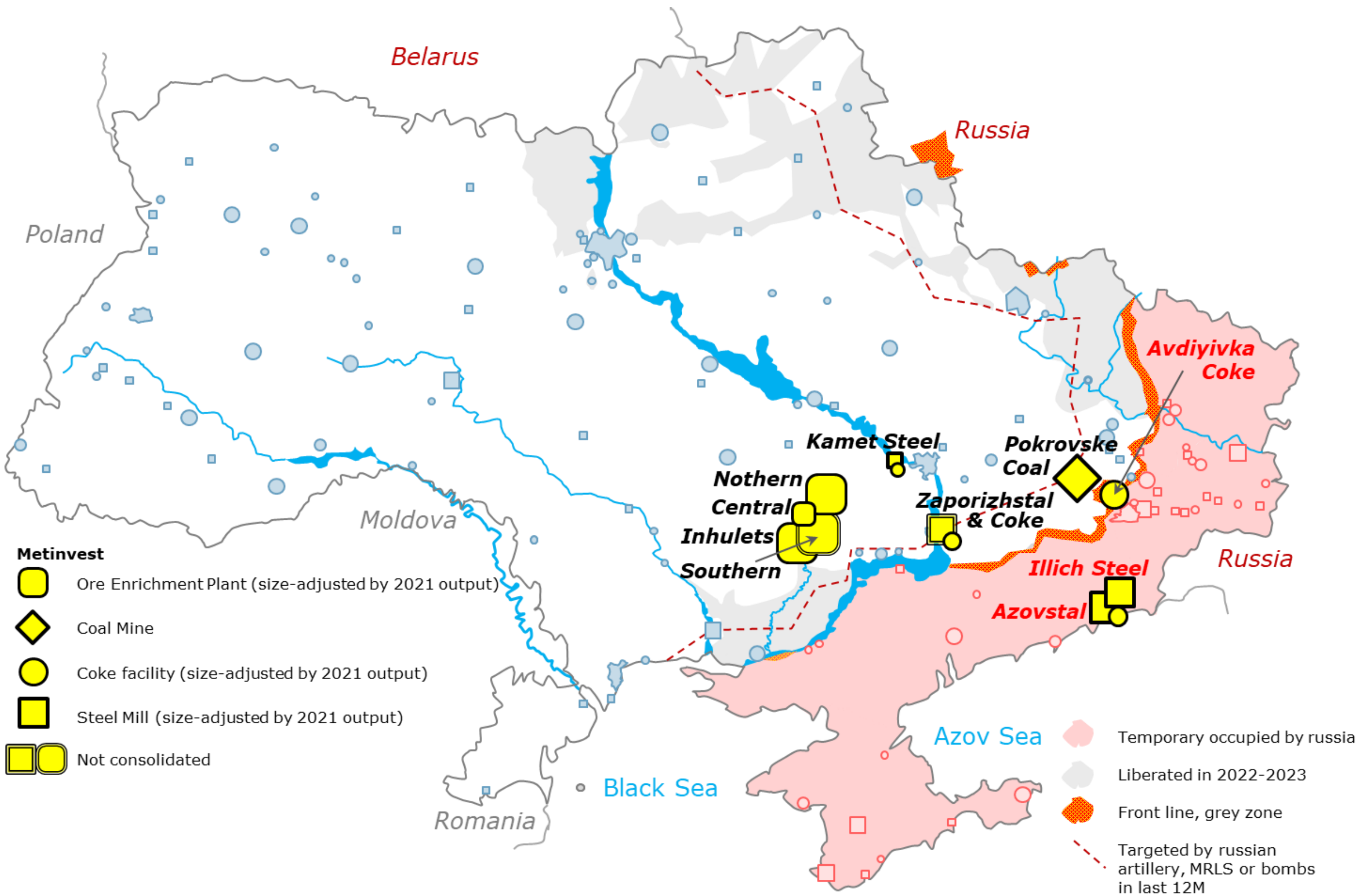


** Debt includes capitalized lease obligations*
Sources: Company data, Concorde Capital calculations

Key assets map: DTEKs

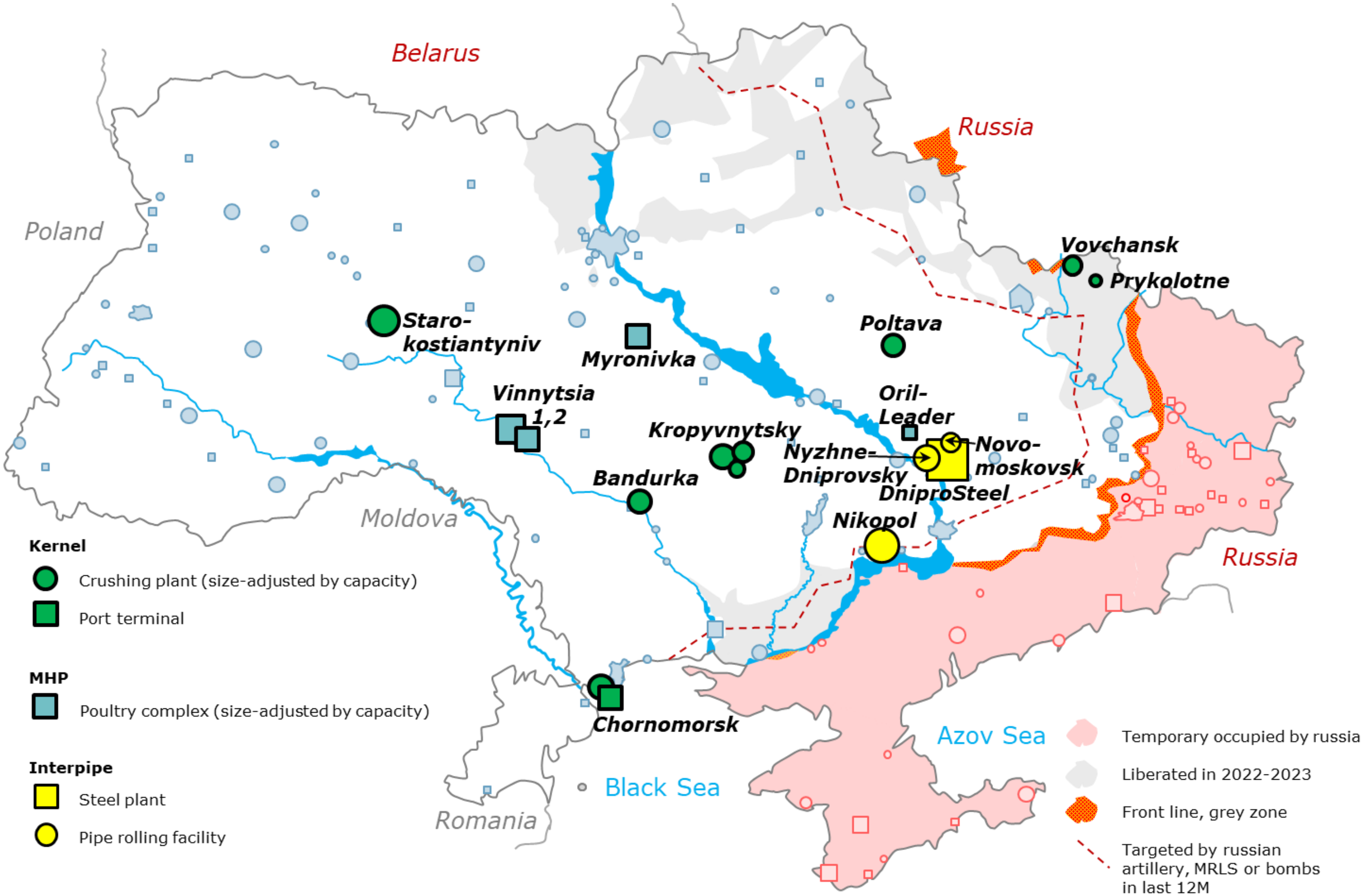
Sources: Company data, General Staff of Armed Forces, Concorde Capital research

Key assets map: Metinvest



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

Key assets map: Interpipe, Kernel, MHP



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

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