

Weekly Digest

- The parliament has voted on key IMF-required legislature
- Consolidated budget revenues in March fell short of planned figures by 15%
- DTEK has announced intentions to restructure outstanding debt and to stop paying interest starting March 31

The parliament has voted on key IMF-required legislature. A revised version of the land reform bill, which now limits ownership to individuals only until 2024 and in the amount of no more than 100 ha until mid-2023, was passed after a second reading during an extraordinary session of the Rada on March 30. The bank law (dubbed in local media as ‘anti-Kolomoisky’), which prevents former owners from regaining control of previously nationalized or liquidated financial institutions, was supported by MPs after a first reading on the same day. Final voting for the latter is rumored to be scheduled for next week. The parliament also elected a new Minister of Finance – Serhii Marchenko, who was previously the Deputy Head of Proshenko’s Presidential Office.

Our view: As we wrote last week, the above laws are required by the IMF in order to agree to a new program with Ukraine. Given that Zelensky was able to muster a sufficient number of votes for the much-contested bill on banks after the first reading, we think that the probability of receiving final approval in a week is high.

Consolidated budget revenues in March fell short of planned figures by 15%, having landed flat YoY at UAH105bln (as of March 30). For the first three months of the year, the shortfall amounted to 12%. As of February, the LTM deficit totalled UAH91.6bln or c. 2.2% of nominal GDP.

Our view: The total monthly income of the general government also came in below our own estimates, though not to the degree that we feared in light of the lock-down. The gap in customs revenues versus last year remained on par with February, as demand weakness for imported goods was counterbalanced by a 6.6% increase in the average exchange rate. Other tax collections were flat YoY, even after correcting for smaller VAT reimbursements (a c. UAH2.0bln difference). Of note, however, is that practically all of these are paid from prior profits and thus do not yet reflect the impact from COVID-19.

Expenditures for February (this data is published with a month-long delay) landed broadly in line with our projections, having grown by 9.4% YoY. In year-to-date terms, the same figure stands at 6.6%, which is moderately below the 8.7% level planned for 2020 as a whole.

The amended, crisis-response version of the central budget currently discussed in parliament, ups the target deficit for the year from 2.2% of GDP previously to 7.1% (UAH298bln). Given the discretionary nature of the extra expenditures, we believe the new indicator to be a very reasonable base-line projection. The FinMin’s expected revenue decline of 11% versus the prior plan is generally on par with our own calculations.

March budget revenue performance, UAHbln

	Mar-20	YoY	A/P 3m	YoY 3m	A/P
Revenues	105	0%	-15%	1%	-12%
State budget	84	-2%	-14%	-2%	-13%
General fund	75	-3%	-14%	1%	-15%
Taxes	49	4%	-9%	13%	-7%
Customs duties	24	-14%	-22%	-15%	-24%
NBU transfers	0	nm	nm	nm	nm
Other	2	31%	-25%	11%	-18%
Special fund	9	6%	-12%	-17%	-2%
Local budget	21	11%	-17%	13%	-9%

Note: A and P stand for actual and planned figures, respectively

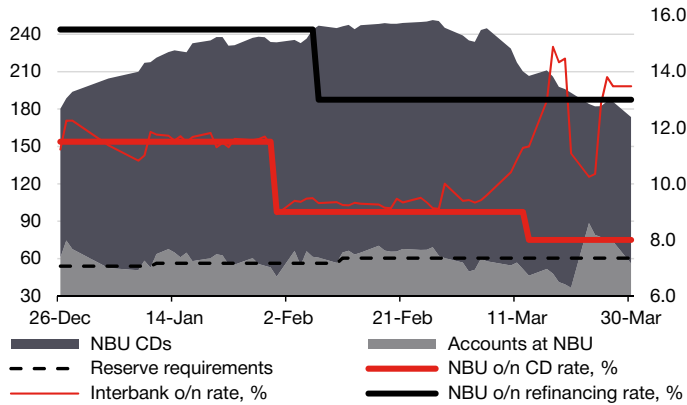
Source: SSSU, State Treasury, Adamant Capital estimates

DTEK has announced intentions to restructure outstanding debt and to stop paying interest starting March 31. According to the official press release, the company is in the process of developing a standstill proposal for creditors with respect to its 2024 eurobonds and certain bank facilities in light of an “unprecedented financial markets deterioration” due to the COVID-19 pandemic.

Our view: The announcement came to us as a surprise. In our last review, we wrote that despite the fact that local electricity market conditions have indeed been relatively unfavourable for producers over 4Q19 on the back of a drop in demand coupled with competing import volumes from Russia and Belarus, we nonetheless thought the company capable of generating some \$700mln of EBITDA in 2020. Though this assessment has somewhat changed, after taking into account the latest price data and the fact that the hryvnia has devalued by 17% since January 1, we still believe that 1Q20 earnings should stand on the order of \$100mln, which, while tight, should be sufficient for debt servicing (closest sizeable amortizations happen only in 2023). Going by the wording of the press release, DTEK’s restructuring history, and the dependence of the main shareholder’s other assets on cooperation with investors, we expect the proposed standstill conditions to be friendly. We think that management may decide to employ PIK (payment in kind) arrangements similar to the ones that have been agreed on in the past.

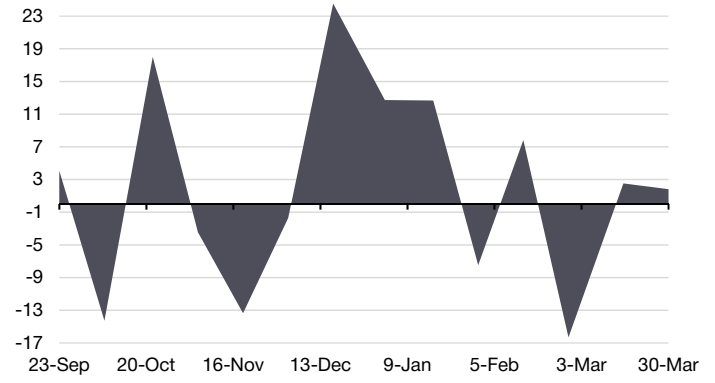
Appendix

Banking system 3m liquidity (lhs, UAHbln) vs NBU CD rates (%)



Source: NBU, Adamant Capital estimates

Banking system 6m inflows from the state treasury and the DGF

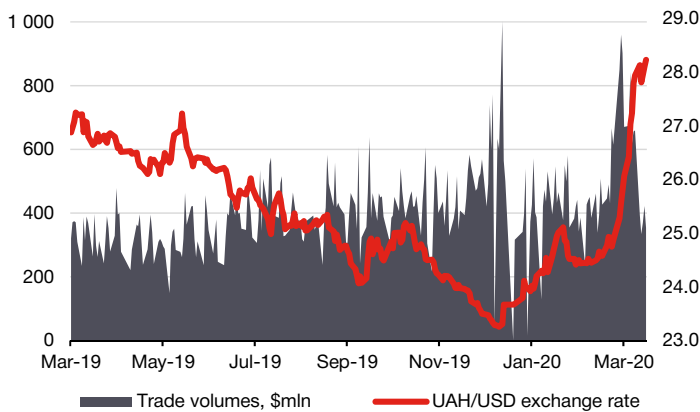


Note: in UAHbln, where each point represents a biweekly sum
Source: NBU

Local market liquidity (as measured by the aggregate amount of NBU correspondent accounts and investment CDs) has decreased by UAH 10.4bln to UAH 173.6bln over the last week. The FinMin's government bond auctions were cancelled.

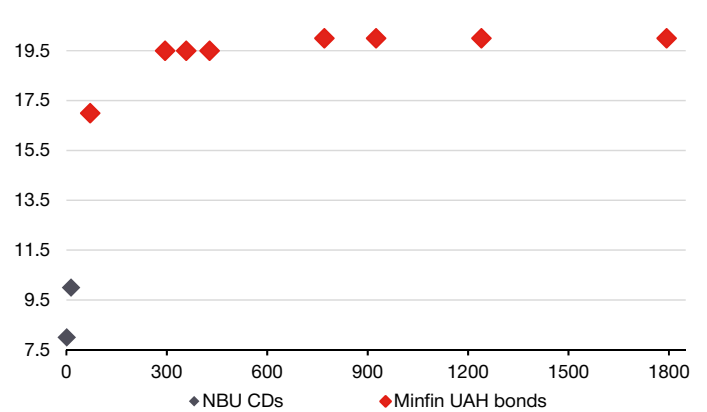
The UAH/USD interbank rate over the last week appreciated by 0.28%, starting out with 28.13 and ending at 28.06.

FX interbank trade volume (lhs) and FX rate (rhs), past 12 months

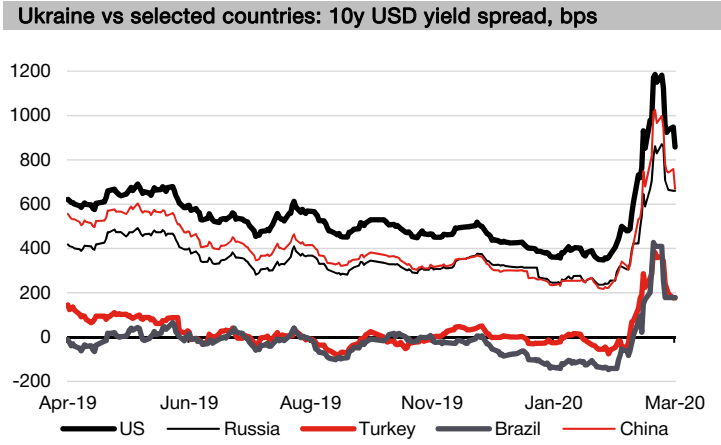


Note: Exchange rate figures are from official interbank data
Source: NBU

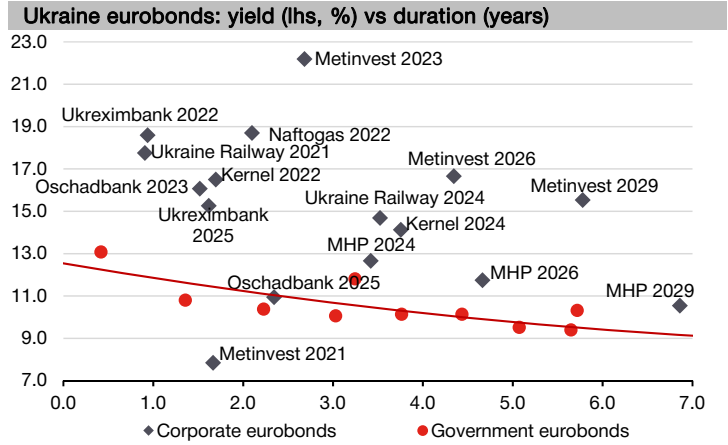
Local market yield curve: yield (lhs, %) and maturity (rhs, days)



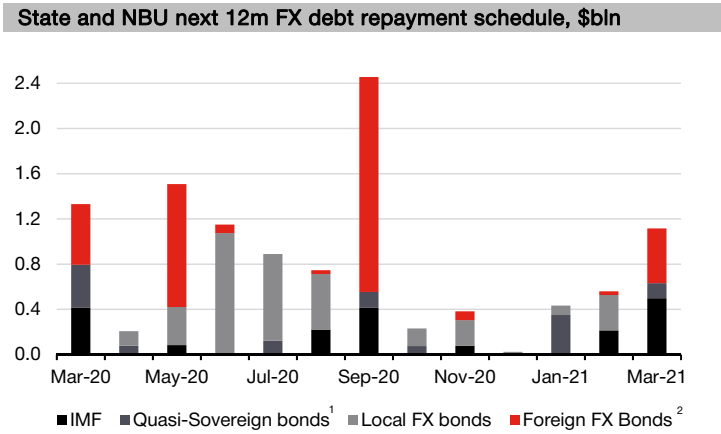
Source: NBU, Bloomberg, Adamant Capital estimates



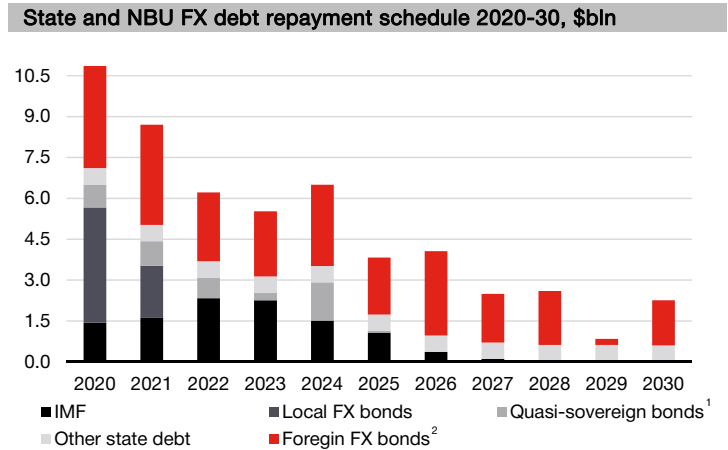
Source: Bloomberg, Adamant Capital estimates



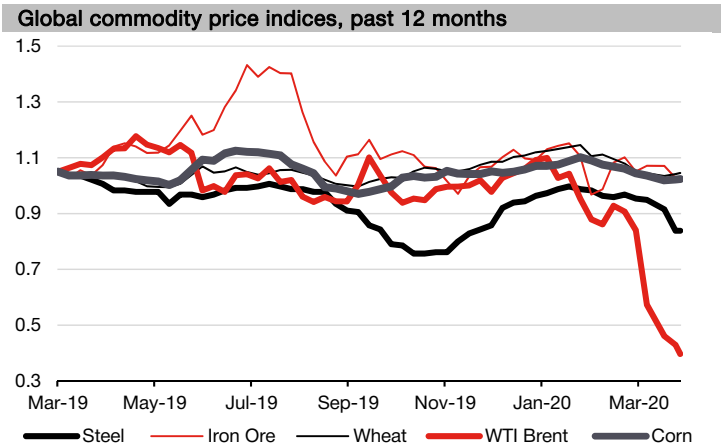
Source: Bloomberg, Adamant Capital estimates



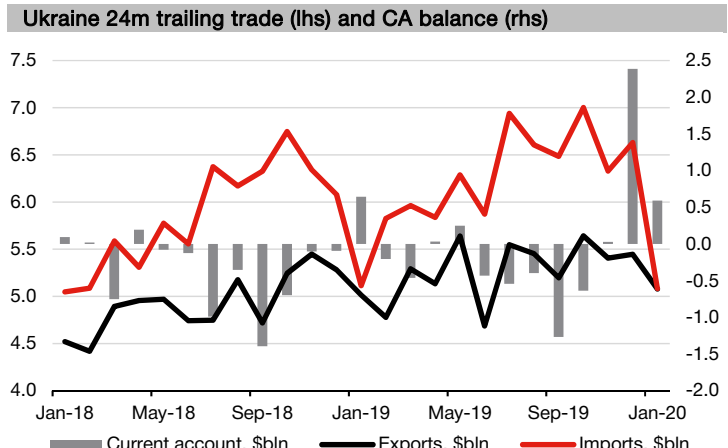
Note: Interest included in each category
 (1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates



(1) Debt of state owned enterprises
 (2) Includes USAID guarantees
 Source: Bloomberg, Adamant Capital estimates



Note: Rebased to 1. Indexes used: HRC spot (FOB Black Sea); China Iron Ore 62% Fe; Wheat Futures (Black Sea); WTI Crude Oil Futures; Corn Futures (Black Sea)
 Source: Bloomberg, Adamant Capital estimates



Source: NBU

Key macroeconomic indicators								
	2018	1Q19	2Q19	3Q19	4Q19	2019	1Q20E	2020E
Real GDP growth, YoY	3.3%	2.9%	4.7%	3.9%	1.5%	3.2%	-5.0%	-0.5%
Nominal GDP, UAHbln	3,559	810	929	1,104	1,108	3,951	793	4,187
Nominal GDP, \$bln	131	30	35	44	46	153	31	164
GDP deflator growth YoY, %	15.0%	11.7%	9.4%	6.8%	4.2%	7.6%	3.0%	6.5%
Period average CPI YoY, %	11.0%	8.9%	9.1%	8.5%	5.2%	7.9%	3.3%	3.3%
End of period CPI YoY, %	9.8%	8.6%	9.0%	7.5%	4.1%	4.1%	3.4%	4.4%
Consolidated budget deficit, % of GDP ¹	1.9%	1.1%	1.0%	-0.9%	8.9%	2.1%	1.1%	7.1%
Broad public sector deficit, % of GDP ²	2.2%	1.1%	1.0%	-0.9%	8.9%	2.1%	1.1%	7.1%
Public debt as % of LTM GDP, UAH	60.9%	58.6%	55.6%	51.3%	50.6%	50.6%	50.6%	49.8%
Public external debt as % of LTM GDP, \$ ³	38.6%	37.4%	36.1%	33.0%	31.8%	31.8%	31.8%	31.0%
Total external debt, \$bln	115	114	116	118	122	122	121	124
Export of goods and services, \$bln	59.1	15.1	15.5	16.3	16.5	63.4	14.8	60.3
Import of goods and services, \$bln	70.4	16.9	18.3	20.3	20.0	75.5	17.0	75.1
Trade balance, \$bln	-11.3	-1.8	-2.8	-4.0	-3.5	-12.1	-2.2	-14.8
Current account, \$bln	-4.3	-0.2	-0.5	-2.2	1.8	-1.1	-0.2	-5.0
Financial account, \$bln ⁴	-7.1	-0.5	-0.9	-3.6	-3.5	-6.2	-0.7	-6.6
End of period NBU reserves, \$bln	20.8	20.6	20.6	20.1	25.3	25.3	25.2	27.5
Average interbank exchange rate, UAH/\$ ⁵	27.2	27.3	26.6	25.2	24.2	25.8	25.2	25.5
EOP interbank exchange rate, UAH/\$	27.7	27.2	26.2	24.2	23.7	23.7	27.6	25.5
EOP key policy rate NBU, %	18.0%	17.5%	17.5%	16.5%	13.5%	13.5%	10.0%	9.0%

(1) Includes net loans given out to state enterprises from the central budget

(2) Includes quasi-fiscal expenditures such as the recapitalization of Naftogaz, state banks, and the DGF. Also accounts for state guarantees.

(3) GDP calculated in \$ according to the average UAH/\$ exchange rate for the year

(4) As per the 6th edition of the IMF's Balance of payments and international investment position manual

(5) Based on official NBU data of average daily interbank rates. Not weighted by volume traded

Source: NBU, SSSU, State treasury, Ministry of Finance, IMF, Adamant Capital estimates

Indicative eurobond prices, yields, and recommendations									
Bond name	Recommendation	Rec date	Coupon	Maturity	Bid Yield	Bid Price	1 week Δ	Dur, yrs	Out, \$mln
Ukraine 2023	Hold	-	7.8	Sep-23	10.1	93.5	7.2	3.0	1,355
Ukraine 2024	Hold	-	9.0	Feb-24	11.8	91.5	7.6	3.2	750
Ukraine 2027	Hold	-	7.8	Sep-27	9.4	91.4	13.4	5.6	1,307
Ukraine 2028	Hold	-	9.8	Nov-28	10.3	96.8	12.8	5.7	1,600
Ukraine 2032	Hold	-	7.4	Sep-32	8.6	90.5	13.0	7.8	3,000
Avangard in default	Sell	9-Apr-19	10.0	Oct-18	nm	4.1	-0.1	nm	214
DTEK 2024	Buy	11-Feb-20	10.8	Dec-24	37.9	44.0	-14.4	2.9	1,344
Kernel 2022	Hold	3-Mar-20	8.8	Jan-22	16.5	88.2	8.1	1.7	500
Kernel 2024	Hold	3-Mar-20	6.5	Oct-24	14.1	75.1	0.1	3.8	300
Metinvest 2021	Hold	17-Mar-20	7.5	Dec-21	7.8	99.3	0.0	1.7	115
Metinvest 2023	Hold	17-Mar-20	7.8	Apr-23	22.2	69.1	0.0	2.7	505
Metinvest 2025 (EUR)	Hold	17-Mar-20	5.6	Jun-25	15.8	64.7	0.0	4.3	333
Metinvest 2026	Hold	17-Mar-20	8.5	Apr-26	16.7	69.6	-16.3	4.3	648
Metinvest 2029	Hold	17-Mar-20	7.8	Oct-29	15.5	61.9	0.0	5.8	500
MHP 2024	Buy	4-Feb-20	7.8	May-24	12.7	84.6	13.1	3.4	500
MHP 2026	Buy	4-Feb-20	7.0	Apr-26	11.7	79.7	9.0	4.7	550
MHP 2029	Buy	4-Feb-20	6.25	Sep-29	10.5	74.7	0.0	6.9	350
Naftogas 2022	Hold	1-Oct-19	7.4	Jul-22	18.7	79.6	-0.6	2.1	335
Naftogas 2024 (EUR)	Hold	1-Oct-19	7.1	Jul-24	13.9	79.1	0.1	3.6	672
Oschadbank 2023	Buy	18-Feb-20	9.4	Mar-23	16.1	90.7	0.0	1.5	245
Oschadbank 2025	Buy	18-Feb-20	9.6	Mar-25	10.9	97.1	0.0	2.3	500
Privatbank in default (10.250)	Not rated	-	10.3	Jan-18	nm	30.6	-0.1	nm	160
Privatbank in default (10.875)	Not rated	-	10.9	Feb-18	nm	30.6	0.0	nm	175
Ukraine Railway 2021	Buy	8-Oct-19	9.9	Sep-21	17.8	93.4	1.0	0.9	200
Ukraine Railway 2024	Not rated	-	8.3	Jul-24	14.7	80.1	0.9	3.5	595
Ukreximbank 2021 (UAH)	Buy	18-Feb-20	16.5	Mar-21	24.4	93.8	3.5	0.9	150
Ukreximbank 2022	Buy	18-Feb-20	9.6	Apr-22	18.6	91.9	0.0	0.9	313
Ukreximbank 2025	Buy	18-Feb-20	9.8	Jan-25	15.3	91.6	11.6	1.6	600
Ukrlandfarming in default	Sell	13-Jun-17	10.9	Mar-18	nm	5.0	-0.1	nm	543

Note: all bonds are rated in relation to the sovereign, which is assumed to have a 'Hold' rating

Source: Bloomberg, Adamant Capital estimates

Fixed Income one-week event calendar		
Event	Type	Date
NBU – International reserves monthly data	Exact	7-Apr

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