DTEK, Metinvest confirm seizure of all assets in occupied Donbas

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Analyst: “All in all, we remain bullish on Metinvest Eurobonds and neutral on the notes of DTEK.”

KYIV, Mar 15, 2017 (UBO) – Concorde Capital today informed clients that two massive industrial holding companies controlled by Rinat Akhmetov, DTEK Energy (DTEKUA) and Metinvest (METINV), confirmed on March 15 that they have lost control over all their enterprises located on the occupied territory of Donbas.   The seized assets of DTEK Energy include three coal mines (Komsomolets Donbasa, Sevdlovanthracite, Rovenkianthracite), which accounted for 27% of DTEK’s coal mining in 2016; the Zuyivska power plant (8% of DTEK's total power generation); and several assets of its power distribution companies (about 10% of total power supply). In its March 15 statement, DTEK said the event will not “prevent it from continuing to comply with its obligations” under Eurobonds.   The seized assets of Metinvest include Yenakiyeve Steel and its subsidiaries (20% of the holding’s attributable steel production in 2016), Krasnodon Coal (24% of coking coal mining and 10% of all coking coke needs of the holding in 2016), the Donetsk and Yenakiyeve coke plants (about 8% of coke production) and Khartsyzk Pipe (which was mostly idle last year).   All the above-listed assets were not in production in recent days as they were not able to get raw materials from, and to deliver their finished products to the Ukrainian mainland since Feb. 11 as a result of a railway blockade imposed by Ukrainian activists.   Recall also, the Russian-backed Donbas occupiers announced on March 1 they would impose their own administration on all Ukraine-registered companies not paying taxes to the Donetsk and Luhansk People's Republics, including all those listed above.   Concorde analyst Alexander Paraschiy added: “It’s hard to view this news as positive since the holdings lost a significant part of their assets (about 10% and 15% for Metinvest and DTEK, respectively). On the other hand, it’s not something new or unexpected – it’s just an official declaration of the fact. Moreover, we believe this is not the worst thing that could have happened to them. As we wrote in our Feb. 22 note, we consider asset seizure to be a slightly better scenario than Akhmetov keeping control them but being unable to produce anything there due to the activist-imposed trade blockade. At least in the case of seizure, DTEK and Metinvest won’t spend any money to support their idle enterprises.   “The negative effect on Metinvest’s EBITDA of the asset seizure will be about 10% (which is less than -12% under a case of eternal trade blockade, refer to our note of Feb. 22). Regarding Metinvest’s free cash flow, the negative effect will be even less, given that the holding will save on capital expenditures.   “For DTEK, the total effect of the asset seizure on EBITDA will be bigger than for Metinvest, or about -30% (all other things being equal), which would be mostly the result of increased coal costs (again, refer to our note of Feb. 22). However, we expect Ukraine’s power sector regulator will adjust the electricity rates of DTEK’s power plants (and it already did so) to partially cover higher coal costs, so that the negative effect on the holding will be much less pronounced. Adding that DTEK will save on CapEx that would have been earmarked for the seized assets (about 15% of total CapEx needs), the effect from the seizure on DTEK’s free cash flow won’t be painful. For DTEK, whose ability to smoothly service its debt in 2017 was questionable to begin with - even in the event of no blockade and no asset-seizure - the most important thing is its readiness to do its best to service its debt. From DTEK’s recent message, we see that the holding remains committed to do so. “All in all, we remain bullish on Metinvest Eurobonds and neutral on the notes of DTEK.” ###