ULF, Avangardco bond restructuring offers imply NPV over 30%

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Analyst: “We are not rating the bonds due to the still-huge risks, but we do not rule out positive market reaction to the fact that the companies finally presented some tangible offer after more than nine months of silence.”

KYIV, Jan 4, 2018 - Bakhmatyuk-related agricultural and food holdings Ukrlandfarming (ULF, UKRLAN) and Avangardco (AVINPU) published debt restructuring offers to some of their bondholders, distressed debt information provider Reorg Research said on Jan 2. The bonds offer a NPV of about 35% of the original amount of bonds outstanding, assuming a 10% discount rate, according to restructuring materials. ULF offered a 50% haircut to par value of the bond as of end-2016, based on information from Reorg Research. It proposed a coupon of 2.5% to be paid semi-annually (down from 10.875% originally). The restructured bond would amortize by 10% in 2022, 15% in 2023, 20% in 2024, 2025 and 2026, and 15% in 2027. One year after ULF’s Net Debt to EBITDA ratio falls below 3.0x, the company will offer additional recovery compensation: the bonds will get an additional USD 54 mln tranche (10% of end-2016 par value) paying a 5% coupon and maturing in five years. ULF expects that its operating cash flow before working capital changes will increase from USD 93.6 mln in 2017 to USD 154.9 mln in 2019, and will be between USD 145 mln and USD 160 mln in 2020-2023, and then will gradually grow to USD 196 mln by 2027. Avangardco also offered a 50% haircut to par value of the bond as of end-2016. It proposed a coupon rate of 3.0% for 2017-2019, 4.0% for 2020-2021 and 5.0% afterwards, to be paid semi-annually (down from 10.0% originally). The restructured bond would amortize by 10% semi-annually in 2023-2027. One year after Avangardco’s Net Debt to EBITDA ratio falls below 3.0x, it will offer additional recovery compensation: the bonds will get an additional USD 22.2 mln tranche (10% of end-2016 par value) paying a 5% coupon and maturing in five years. Avangardco expects that its operating cash flow before working capital changes will increase from USD 0.2 mln in 2017 to USD 29.2 mln in 2019 and USD 37.0 mln in 2020, and will gradually grow to USD 55 mln by 2025. Concorde analyst Alexander Paraschiy added: “The suggested restructuring offer implies a NPV of the ULF bond of 32% of the current par value (assuming a 12% discount rate) and about 36% assuming recovery compensation starts working as of 2025. For Avangardco's bond, the NPV would be 36% of the current par value (and 41% in case of recovery compensation as of 2023). The offers look generous taking into account the current prices of ULF and Avangardco bonds (21% and 24% of par, respectively). It is very likely that bondholders will be glad to approve the offered conditions. But as we wrote many times before, the most important issue for Bakhmatyuk's creditors is not tiny cash flow, but a lack of trust in the results of his companies and in their investment decisions. Therefore, it will be vital for the bondholders and banking creditors to gain better access to control over the spending of Bakhmatyuk’s companies, via their representatives in the controlling bodies of ULF and Avangardco. Without such control, a further debt restructuring is very likely. We are not rating the bonds due to the still-huge risks, but we do not rule out positive market reaction to the fact that the companies finally presented some tangible offer after more than nine months of silence. ### For more information, link here: www.concorde.ua