Weekly Market Monitor

July 26, 2021

Stock Market Update

Equity

Quotes for Kyiv-listed equities declined last week ahead of the earnings season, which is unlikely to show successful results for domestic businesses. Companies listed on the Ukrainian Exchange do not announce the exact timing of when they unveil their P&L statements, but we assume that the most of the financials will arrive by Jul 30.

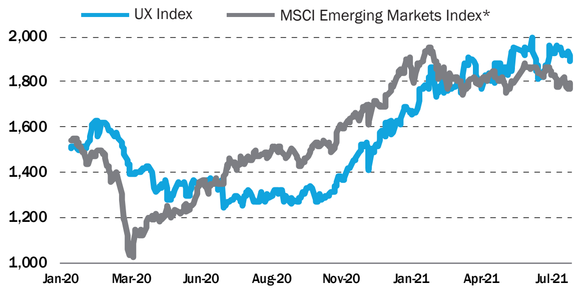
UkrNafta (UNAF) fell 8.0% to UAH 276 despite bright expectations for the company's 2Q profit. We forecast that UkrNafta will post UAH 600mn in net profit for 2Q21, implying an EPS of UAH 11 for the quarter. In contrast, we project that Raiffeisen Bank Aval (BAVL) will report an unimpressive net profit for 2Q with an EPS of 1.1 kopecks. The BAVL stock dropped by 4.2% last week to close at 43.10 kopecks. The situation around CentrEnergo (CEEN) remains completely unclear. On the one hand, the company got the boost in February when new management was appointed. On the other hand, pricing for thermal electricity has been highly volatile in the recent months, making any predictions regarding CentrEnergo's financial results merely speculative. The company has openly complained that electricity traders are violating the contracts concluded on the Energy Exchange. Moreover, CentrEnergo said that it is having trouble securing enough coal in storage for the next winter season. The CEEN stock was trading in the range of UAH 9.20-9.80 over the week, and closed at UAH 9.60 (+1.1%).

In London trading, poultry producer MHP (MHPC) slipped by 5.0% to USD 5.30 after the company's 2Q operational update failed to impress investors. Although MHP managed to deliver poultry sales volume growth of 6% YoY in the period, the company's sunflower oil segment's sales plunged by 57% YoY. Taking into account MHP's vertical integration with near 355,000 hectares of land bank, a recent rise in meat prices should lead to a higher profit for the entire MHP value chain. The company is due to release its 2Q21 earnings results on Sept 7.

In Warsaw, Kernel (KER) shed 3.3% to PLN 50.10 and Agroton (AGT) inched down by 0.2% to PLN 8.08.

The hryvnia strengthened by 0.7% to 27.06 UAH/USD after the Finance Ministry raised USD 500mn through an additional Eurobond issue of 8-year notes at 6.3%.

STOCK MARKET PERFORMANCE

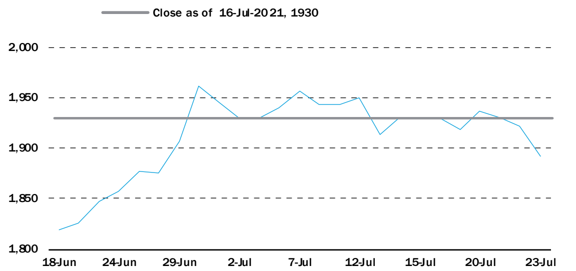


* rebased

MARKET INDEXES

	Last	1W ch	YTD
UX	1893	-1.9%	17.1%
RTS	1596	-0.4%	15.1%
WIG20	2242	-0.7%	12.4%
MSCI EM	1311	-2.2%	1.5%
S&P 500	4412	2.0%	17.5%

UX 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	8.0%	+0.5 p.p.	+2.0 p.p.
UAH 1-year bond	11.8%/11.3%	0.0 p.p.	+0.3 p.p.
Ukraine-2025	5.9%	0.6 p.p.	1.0 p.p.
Ukraine-2028	6.6%	0.1 p.p.	0.3 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.06	-0.7%	-4.3%
EUR/UAH	31.83	-1.0%	-8.4%

Source: Eavex Capital

Highlights

POLITICS AND ECONOMICS

- Ukraine Continues to Complain About Nord Stream as Zelensky's US Visit Set for Aug 30
- Industrial Production Recovery Slows to 1.1% YoY in June

STOCKS IN THE NEWS

- MHP's 2Q Poultry Pricing Jumps 35% YoY, Export Sales Volume Up 23% YoY

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Ukraine Continues to Complain About Nord Stream as Zelensky's US Visit Set for Aug 30

by Will Ritter
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NEWS

President Zelenskiy's long-awaited official visit to the United States will take place on Aug 30 after being delayed from July for unclear reasons, it was announced last Tuesday (Jul 21). On the same day, the US and Germany announced a final deal to allow the "Nord Stream 2" Baltic Sea pipeline from Russia to Germany to be commissioned, prompting sharp complaints from opponents of the project in Kyiv as well as in the US Congress in Washington, some of whose members accused President Biden of being too soft on Russia. Foreign Minister Dmytro Kuleba and his Polish counterpart held a joint press conference at which they condemned the US-German deal, with Kuleba claiming that the US can still stop Nord Stream, which is 97% completed, from coming on line. Former President Donald Trump also got involved, telling supporters at a rally that Biden's decision not to block Nord Stream represented a betrayal of US interests to Russia. As part of the arrangement with the US, Germany is creating a so-called "green fund" with an immediate USD 175mn contribution to supports the energy industries of Ukraine and Poland; this money may be used to help re-purpose Ukraine's natural gas pipeline for new-generation energy purposes. A joint US-German statement on the deal said: "Should Russia attempt to use energy as a weapon or commit further aggressive acts against Ukraine, Germany will take action at the national level and press for effective measures at the European level, including sanctions, to limit Russian export capabilities to Europe in the energy sector, including gas, and/or in other economically relevant sectors."

COMMENTARY

In our view, Zelenskiy and his team are playing with fire by continuing to kick up a fuss over Nord Stream in public and trying to embarrass the Biden administration, which worked hard to salvage a deal with Germany that will soften the impact and provide some benefits to Kyiv. The fact here is that the battle over Nord Stream was already lost during the Trump administration when most of it was built, and harping on the issue now risks damaging Ukrainian relations with the country's two most important supporters against Russian aggression, Washington and Berlin. Zelenskiy needs to remember above all that is the US presidential administration – not Congress – which has the immediate power to help Ukraine in the event of a crisis. We do not buy the argument that Nord Stream makes Ukraine more vulnerable to Russian attack, as the main deterrent against any such future Russian aggression is not the Ukrainian gas transit system, but the promise of a tough, comprehensive response from the very Western partners which Kyiv is now excoriating. Kyiv also should not assume that the Western world owes it a gas transit monopoly; over time, the construction of new energy pipelines was an inevitable development, and Ukraine is frankly fortunate that it was able to keep its near-monopoly on the transit of Russian and Central Asian gas for such a lengthy period following the Soviet breakup 30 years ago. We hope that when Zelenskiy goes to the White House next month, the divisive issue of Nord Stream can finally be left behind and that the two Presidents will be able to focus on moving the US-Ukraine alliance forward in a positive direction.

Industrial Production Recovery Slows to 1.1% YoY in June

by Dmitry Churin
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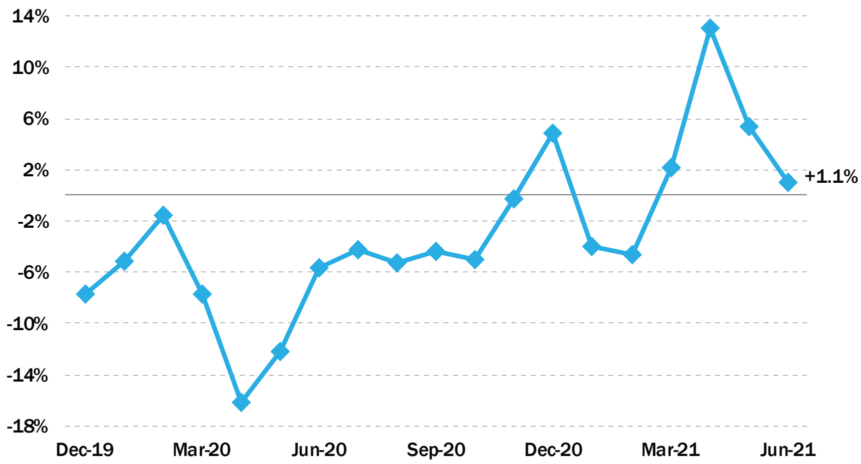
NEWS

Ukraine's industrial production recovery slowed to 1.1% YoY in June from the rebound of 5.4% YoY seen May, according to the State Statistics Committee report released on Jul 22. For 1H21, the Ukrainian industrial production index grew by 2.1% YoY, according to the official data. The extraction sector, which was less affected by the strict COVID quarantine last year and thus has a quite strong comparison base, showed a rise of 1.4% YoY in 1H21, and the aggregate manufacturing output index increased by 2.5% YoY in the reported period.

UKRAINE'S MONTHLY INDUSTRIAL PRODUCTION INDEX, YOY



Source: State Statistics Committee

COMMENTARY

The slowdown in the industrial output recovery in June to 1.1% YoY was steeper than expected, as our projection had been a rise of the industrial index by 2.3% YoY. We have stated previously that a notable constraint for the index is the utility sector, with both the electricity and natural gas distribution decreasing amid tendencies of better energy efficiency and saving. The utility sector output declined by 3.4% YoY in June. On the bright side, the country's machinery complex demonstrated a solid 17.6% YoY output growth in June, providing some hope that Ukraine's high-value-products have been gaining momentum on export markets.

Among other macroeconomic data released in July, UkrStat said that retail sales volume continued to grow at a frenetic pace, jumping by 13.0% YoY in June and putting the gain for 1H21 at 13.8%.

Meanwhile, the agro sector's output as measured by UkrStat dropped by 8.2% YoY in 1H21. In our opinion, it is too early to compare the grain harvest with 2020, so the next three months will be the key for understanding the situation in the Ukrainian agro sector. Currently global wheat prices have reached USD 250 per tonne, meaning that if Ukraine's harvest sees a modest decrease this year, it will be fully offset by the strong pricing factor.

MHP's 2Q Poultry Pricing Jumps 35% YoY, Export Sales Volume Up 23% YoY

by Dmitry Churin
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MHP (MHPC LI)

Price: USD 5.30 Market Cap: USD 587mn

	P/B	EV/S	P/E	EV/EBITDA	Div. Yield
2020	0.5	1.0	neg	5.6	5.3%
2021E	0.5	0.9	5.3	7.0	5.3%

NEWS

MHP, Ukraine's largest poultry producer, unveiled its 2Q operational update with the following key indicators:

- total sales volume increase of 6% YoY to 181,900 tonnes;
- average poultry price rise of 35% YoY to USD 1.67 per kg;
- export sales volume growth of 23% YoY to 109,100 tonnes.

For 1H21, the company reported that its total poultry sales grew by 2% to 336,200 tonnes and that achieved pricing rose by 26% YoY. Export sales accounted for a record high 57% of total deliveries in 1H21.

In other business segments, MHP's sunflower oil sales plunged by 44% YoY to 91,140 tonnes in 1H21 and soybean oil sales volume increased by 7% YoY to 23,000 tonnes. In the grain segment, MHP operates a land bank of 355,000 hectares in Ukraine, with the winter crop harvest in line with the company's targets.

MHP OPERATIONAL UPDATE

Poultry	2Q20	2Q21	Change	1H20	1H21	Change
Sales volume, tonnes	170,912	181,904	+6%	328,385	336,174	+2%
- Sales in Ukraine	82,407	72,749	-12%	157,832	144,859	-8%
- Export Sales	82,407	109,055	+23%	170,553	191,315	+12%
Price USD/kg net VAT	1.27	1.67	+35%	1.32	1.56	+26%

Source: Companies' data

COMMENTARY

The MHPC stock dropped by 5.0% to USD 5.30 as the company's mixed operational results failed to impress investors. It was a disappointment to see that MHP had lower sales on the domestic market. Nevertheless, we are quite bullish regarding MHP's 2Q profit, which could top USD 70mn, implying an EPS of 63 cents. The company is due to report its financial results for 2Q on Sept 7.

MHP also reported the separate operational results of its European arm Perutnina Ptuj (PP). Following the PP strategy of poultry production growth and increasing facilities' capacity utilization in Serbia and Croatia, PP's sales volume rose by a solid 23% YoY to 19,500 tonnes in 2Q21. The sales for 1H21 grew by 15% YoY to 35,600 tonnes. In our view, MHP has found an effective way to develop Perutnina Ptuj after it was acquired back in 2019 for EUR 273mn.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	50.1	65.0	30%	BUY	The company claimed that it enjoyed a high capacity utilization of its grain export value chain and a healthy infrastructure business margin. We maintain our BUY recommendation for Kernel with a target price of PLN 65.00 per share based on the group's expanded business operations, which have yet to be reflected in the share price. For the 6 months ending in December, Kernel had revenue of USD 2.27bn (+20% YoY), EBITDA of USD 559mn (+2.6x YoY), and net profit of USD 332mn (+2.3x YoY). On the balance sheet side, Kernel's net debt amounted to USD 1.25bn as of 31 December 2020, implying a Net Debt/EBITDA ratio of 1.6x.
MHP	MHPC LI	5.3	11.5	117%	BUY	Although MHP's business has not not suffered much from the COVID-19 crisis, the MHPC stock has tumbled by near 30% in 2020 as investors fear that the company's quite large debt burden could become unsustainable at some point. MHP's total debt was USD 1.46bn as of 31 Dec 2020. The Net Debt/EBITDA ratio was 3.7x as of 1 Jan 2021, up from 3,0x as of 1 Jan 2020. We now forecast that MHP will be able to increase its net revenue by 7% YoY to USD 2.05bn this year and to earn a net profit of USD 60mn as poultry prices bounce back.
Astarta	AST PW	44.8	--	--	U/R	The AST stock surged after the company managed to improve its debt to EBITDA ratio. Net Debt reduced to EUR 175mn corresponding to Net debt/EBITDA (LTM) of 1.6x at the end of 9M20. Back in 2019 Astarta's Net debt/EBITDA topped an unsustainable level of 5.6x.
Agroton	AGT PW	8.08	12.0	49%	BUY	Agroton unveiled a strategy to increase its land bank securing additional lease rights and by acquiring companies that control land plots in Luhansk and Kharkiv region. Agroton reported that its net profit was USD 11.7mn (PLN 2.06 per share) in 2020. In our view, Agroton currently has a fairly healthy financial position, with an estimated net cash position of USD 25mn. The company continues to invest in growth, spending USD 3.8mn on CapEx in FY20.
Iron Ore						
Ferrexpo	FXPO LN	442	280	-37%	SELL	High iron ore prices are due for a correction as Chinese demand for the steelmaking ingredient is expected to ease, though aggressive speculation through iron ore derivative trading could thwart that outcome. The benchmark 62% Fe iron ore prices surged by 70% YoY to a level of USD 160 per tonne in 2020. We currently forecast that Ferrexpo's net profit will decline by 18% YoY in FY21 to USD 520mn.
Specialized Machinery						
Motor Sich	MSICH	5390	--	--	U/R	There was little clarity on the situation regarding Motor Sich's (MSICH) nationalization. No mechanism of compensation for existing shareholders was announced after the Kyiv District Court arrested 100% of the shares of Motor Sich and appointed a special state agency to manage the company. The shares of Motor Sich remained frozen due to an ongoing investigation conducted the Ukrainian Security Service (SBU) regarding change in the controlling shareholder of the company.
Oil & Gas						
UkrNafta	UNAF	276	350	27%	BUY	UkrNafta surged above UAH 200 per share after the company reported that it repaid its accrued tax debt of UAH 28.9bn. The company got the money for the tax repayment from its parent NaftoGaz as advance payment for future natural gas deliveries as well as payment for previously supplied gas. On the other hand, the company is still in uncertainty whether the government will decide to divide UkrNafta's natural gas business and its crude extraction business.
Enwell Energy (ex-Regal)	ENW LN	25.7	--	--	U/R	
JKX Oil & Gas	JKX LN	27.0	36.0	33%	BUY	JKX increased production by 7% QoQ to 4,101 boepd in 2Q21. The company had net USD 36mn of cash and cash equivalents, and oil and gas inventory of approximately USD 4.4mn in value, held at 30 June 2021.
Power Utilities						
DonbasEnergo	DOEN	19.0	--	--	U/R	The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022.
CenterEnergo	CEEN	9.60	15.00	56%	BUY	Persisting uncertainty about whether CentrEnergo can really be privatized at a fair price has made the company a hostage of Ukrainian behind-the-scenes politics. Currently CentrEnergo is in a process to be integrated with the state coal mines to get cheaper fuel for its power stations. The integration is set to be completed in 2H21.
Banks						
Raiffeisen Bank Aval	BAVL	0.431	0.33	-23%	SELL	Raiffeisen Bank Aval (BAVL) announced that it will distribute 50% of its FY20 net profit as a dividend, far lower than what was expected. Although this still implies a solid 3.31 kopeck dividend per share, the bank disappointed minority investors; we had projected a 5.96 kopeck dividend. The bank set the ex-rights date for dividend on Jun 8. Raiffeisen Bank Aval, the Ukrainian subsidiary of Vienna-based Raiffeisen International, decreased its net profit by 14% YoY to UAH 4.1bn in FY20, which implied earnings per share of 6.63 kopecks. Raiffeisen Aval has been the most dividend-rich stock in the Ukrainian equity universe since 2016. The stock's dividend yield in 2017 was 20% and in 2018 it was around 22%. The bank paid 6.95 kopecks in dividend per share from FY19 net profit.

Source: Eavex Research

QUOTES AND MULTIPLES

Name	Ticker	Today, UAH*	Absolute performance 1W	YtD	MCap USD mn	EV USD mn	Free float	P/E 2020	P/E 2021E	EV/EBITDA 2020	EV/EBITDA 2021E	EV/Sales 2021E
UX Index	UX	1893	-1.9%	17.1%								
Iron Ore Mining												
Ferrexpo	FXPO	442	-0.2%	49.0%	3581	3577	24.0%	5.6	6.9	4.2	4.9	2.2
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	20.3	-0.2%	12.5%	86	59	5.0%	10.1	16.4	4.5	6.0	0.3
Specialized Machinery												
Turboatom	TATM	7.9	11.8%	-3.8%	124	121	3.8%	14.7	8.7	2.3	2.9	1.3
Motor Sich	MSICH	5390	0.0%	0.0%	414	392	24.0%	13.1	17.7	3.8	4.4	1.2
Oil & Gas												
UkrNafta	UNAF	276	-8.0%	45.3%	553	545	3.0%	3.5	5.4	1.7	3.4	0.5
Enwell Energy (ex-Regal)	ENW	25.7	0.0%	21.2%	113	59	21.6%	37.8	12.6	2.3	2.0	1.0
JKX Oil	JKX	27.0	0.0%	-10.0%	64	172	50.4%	3.2	9.1	5.8	5.1	2.0
Power Utilities												
Centrenergo	CEEN	9.60	1.1%	33.3%	131	119	21.7%	57.8	14	7.1	5.0	0.1
Donbasenergo	DOEN	19.00	-9.5%	-5.0%	17	15	14.2%	15.4	6.0	1.8	1.9	0.1
Consumer												
MHP	MHPC	5.30	-5.0%	-12.0%	560	1875	32.5%	neg	5.1	5.5	6.9	0.9
Kernel	KER	50.10	-3.3%	1.6%	1,029	2046	61.8%	8.7	2.8	4.6	2.8	0.5
Astarta	AST	44.80	-3.4%	71.0%	289	463	37.0%	34.9	27.5	3.8	3.4	0.9
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	neg	neg	17	20	3.0
Agroton	AGT	8.08	-0.2%	84.5%	45	20	25.0%	3.8	3.5	0.6	0.7	0.3
Banks										**Price/Book**		**Price/Assets**
Raiffeisen Bank Aval	BAVL	0.431	-4.2%	5.1%	979		1.8%	6.5	7.8	2.1	2.2	0.25

Source: UX. PFTS. LSE. WSE. Eavex Research

** companies listed abroad are in traded currency*

MAIN FINANCIAL FORECASTS, USD mn

Name	Ticker	Net Sales			EBITDA			EBITDA margin			Net Profit			Net Profit margin		
		2019	2020	2021E	2019	2020	2021E	2019	2020	2021E	2019	2020	2021E	2019	2020	2021E
Iron Ore Mining																
Ferrexpo	FXPO	1507	1700	1615	586	859	730	38.9%	50.5%	45.2%	403	635	521	26.7%	37.4%	32.3%
Railcar Manufacturing																
Kryukiv Wagon	KVBZ	292	223	192	38	13	10	13.0%	5.9%	5.2%	31	9	5	10.5%	3.8%	2.7%
Specialized Machinery																
Turboatom	TATM	110	105	94	49	52	41	45.0%	49.1%	44.1%	12	8	14	11.1%	8.0%	15.2%
Motor Sich	MSICH	358	353	338	19	102	90	5.2%	29.1%	26.5%	-14	32	23	-3.8%	8.9%	6.9%
Oil & Gas																
Ukrnafta	UNAF	1098	1319	1007	-115	320	161	-10.5%	24.3%	16.0%	-158	158	102	-14.4%	12.0%	10.2%
Regal Petroleum	RPT	50	55	62	22	26	30	44.0%	47.3%	48.4%	10	3	9	20.0%	5.5%	14.5%
JKX Oil	JKX	102	70	85	42	30	34	41.6%	42.6%	40.0%	22	20	7	21.8%	28.6%	8.2%
Electric Utilities																
Centrenergo	CEEN	589	764	819	-69	17	24	-11.7%	2.2%	2.9%	-77	2	9	-13.1%	0.3%	1.1%
Donbasenergo	DOEN	249	256	247	8	9	8	3.1%	3.3%	3.2%	-3	1	3	-1.1%	0.4%	1.1%
Consumer																
MHP	MHPC	2056	1911	2140	376	340	270	18.3%	17.8%	12.6%	215	-133	110	10.5%	-7.0%	5.1%
Kernel (FY19, FY20, FY21E)	KER	3960	4107	4518	346	443	720	8.7%	10.8%	15.9%	189	118	370	4.8%	2.9%	8.2%
Astarta	AST	497	484	517	86	122	136	17.4%	25.1%	26.3%	2	8	11	0.4%	1.7%	2.0%
Avangardco	AVGR	135	120	110	17	19	17	12.6%	15.8%	15.5%	2	-5	-10	1.5%	-4.2%	-9.1%
Agroton	AGT	54	68	74	2	33	31	4.1%	48.2%	41.3%	5	12	13	9.5%	17.4%	17.4%
Banks		Total Assets			Total Equity			Total Income			Net Profit			Return on Equity		
Raiffeisen Bank Aval	BAVL	3495	3795	3925	550	456	438	280	271	249	185	151	126	33.6%	33.2%	28.9%

Source: Eavex Research

UKRAINIAN DOMESTIC BONDS

Issue	Price (Bid)	Price (Ask)	YTM (Bid)	YTM (Ask)	Modified Duration	Coupon	Coupon Period	Maturity Date	Volume UAH mn
UAH denominated Bonds									
UA4000195176			9.0%	8.0%	n/a	n/a	S/A	11 Aug 2021	9,653
UA4000204556			9.5%	9.0%	n/a	n/a	S/A	17 Nov 2021	11,923
UA4000203236			10.0%	9.5%	n/a	n/a	S/A	05 Jan 2022	10,887
UA4000204002			11.5%	11.0%	n/a	n/a	S/A	11 May 2022	12,917
UA4000218325			11.8%	11.3%	n/a	n/a	S/A	20 Jul 2022	13,415
UA4000201255			12.9%	12.0%	n/a	n/a	S/A	24 May 2023	6,470
UA4000204150			13.2%	12.4%	n/a	n/a	S/A	26 Feb 2025	41,080
UA4000207518			13.5%	12.5%	n/a	n/a	S/A	20 May 2027	7,018
USD denominated Bonds									
UA4000211114			3.5%	2.9%	n/a	n/a	S/A	3 Feb 2022	USD 347mn

Source: TR Data, Eavex Research

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