Weekly Market Monitor

June 14, 2021

Stock Market Update

Equity

Major stocks listed on the Ukrainian Exchange were mixed again, as individual corporate stories determined the quote directions last week. UkrNafta (UNAF) and Raiffeisen Bank Aval (BAVL) declined by 1.6% and 1.4% respectively after passing the ex-rights dates for their dividends. UkrNafta (UNAF) will pay UAH 35.62 per share to shareholders on the register as of Jun 11, while Raiffeisen Aval will pay DPS of 3.31 kopecks to shareholders on the register as of Jun 8. In other UX index basket stocks, low-liquidity DonbasEnergo (DOEN) rebounded by 11% to UAH 19.00 after sliding by 27% over preceding week, and CentrEnergo (CEEN) jumped by 7.8% to UAH 9.70.

On the macroeconomic front, Ukraine's 12-month inflation was reported at 9.5% YoY for May. The National Bank's monetary policy board will decide on the key refinancing rate on Thursday (Jun 17). We assume that the rate will be put on hold at 7.5%.

In London trading, beaten-down MHP (MHPC) remained on a local upswing, advancing by 5.7% to USD 5.94 after having gained 12% in the first week of June. Highly-valued Ferrexpo (FXPO) had a sluggish reaction to the company's announcement regarding a planned increase in iron ore production in 2H21. The FXPO stock edged down by 0.4% to GBp 462.

Warsaw-listed Astarta (AST) corrected by 2.3% to PLN 51.50 after jumping by 20% during the preceding week on news about a stock buy-back program with a cap price of up to PLN 125 per share. Eastern Ukraine-based crop grower Agroton (AGT) picked up 10% to close at PLN 8.50. The AGT stock has gained an impressive 94% since the start of the year on expectation of higher profits for agro companies this year.

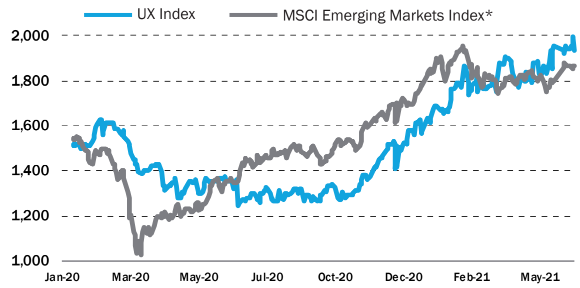
The hryvnia appreciated by 0.9% over the week to close at 27.04 UAH/USD, with the National Bank once again using the weakness of the dollar to buy up hard currencies. Ukraine's foreign currency reserves were at USD 27.8bn on Jun 1. The reserves cover an equivalent of 4.2 months of future imports, which considered an ample amount.

Highlights

POLITICS AND ECONOMICS

- Zelenskiy Finally Gets His White House Invitation
- Ukraine's 12-Month Inflation Reaches 9.5% in May

STOCK MARKET PERFORMANCE

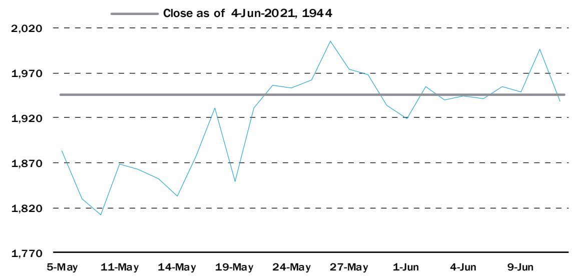


* rebased

MARKET INDEXES

	Last	1W ch	YTD
UX	1938	-0.3%	19.9%
RTS	1678	1.9%	21.0%
WIG20	2241	-0.6%	12.4%
MSCI EM	1382	0.1%	7.0%
S&P 500	4247	0.4%	13.1%

UX 1M PERFORMANCE



FIXED INCOME

	Last	1W ch	YTD
NBU Key Rate	7.5%	0.0 p.p.	+1.5 p.p.
UAH 1-year bond	11.6%/11.1%	0.0 p.p.	+0.1 p.p.
Ukraine-2025	4.9%	-0.1 p.p.	0.0 p.p.
Ukraine-2028	6.3%	-0.2 p.p.	0.0 p.p.

CURRENCY

	Last, UAH	1W chg.	YTD
USD/UAH	27.04	-0.9%	-4.4%
EUR/UAH	32.76	-0.9%	-5.7%

Source: Eavex Capital

www.eavex.com.ua

Kyiv. Ukraine.
(+380 44) 590-54-54, (+380 44) 590-54-64
research@eavex.com.ua

Zelenskiy Finally Gets His White House Invitation

by Will Ritter
w.ritter@eavex.com.ua

NEWS

US President Biden has formally invited President Zelenskiy to visit Washington for talks next month, according to multiple media reports. The invitation came during a call between the two leaders last week ahead of Biden's trip to the G7 summit in Britain. In related news, the US Defense Department last week detailed the usage of USD 150mn in military aid grants to Ukraine. The "defensive lethal assistance" will cover the provision of counter-artillery radars, communications and electronic warfare equipment, counter-drone systems, and training. Biden is currently attending the NATO summit in Brussels and is due to meet Russian President Putin in Switzerland on Wednesday (Jun 16).

COMMENTARY

Biden's decision to invite Zelenskiy to Washington in the opening 6 months of his term comes in line with our expectations, as Biden clearly wants to indicate the high priority which his administration places on US support for Ukraine following the controversies of the Trump years. The timing of the invitation gives it the appearance of somewhat of a consolation prize, given Biden's recent decision not to try to block the completion of the Nord Stream 2 energy pipeline from Russia to Germany, which represents a clear diplomatic defeat for Zelenskiy. In political terms, Zelenskiy has an opportunity to make substantial gains from the high-profile visit, which could help him domestically at a time when he is surely starting to consider a strategy for his re-election. Although Zelenskiy's approval has now fallen below 50 percent, he is still notably out-performing Petro Poroshenko's rating at a similar point in his term, and we do not as-yet see a potential challenger capable of outflanking Zelenskiy on the mainstream national-patriotic front.

We believe that Zelenskiy would be unwise to overplay his hand during the White House visit in regard to his government's NATO aspirations, as both Washington and major Western European NATO countries have repeatedly indicated that Ukraine is simply too large an animal for the alliance to swallow at the present time. Also at issue is the sincerity of Zelenskiy's stated desire for Ukraine to join NATO, as he appears to view membership in the alliance as a political shortcut of convenience, rather than as part of a fundamental process of reforming Ukraine's governmental and military structures.

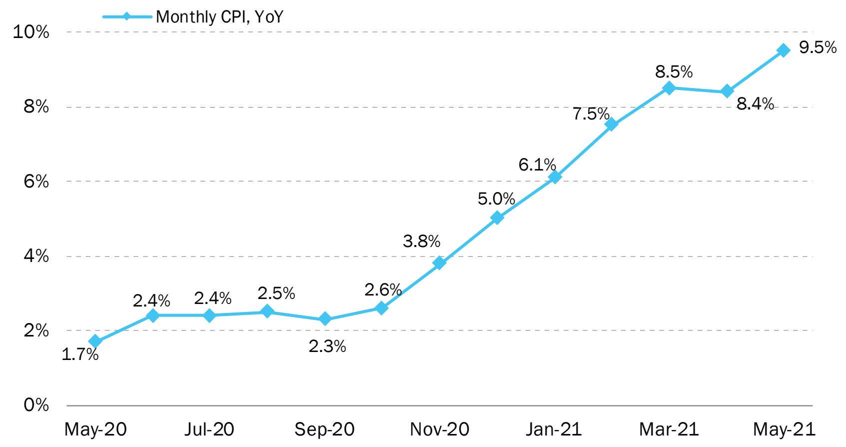
Ukraine's 12-Month Inflation Reaches 9.5% in May

by Dmitry Churin
d.churin@eavex.com.ua

NEWS

Ukraine's rolling 12-month "headline" consumer inflation reached 9.5% YoY in May, accelerating from 8.4% registered for April, according to the State Statistics Committee's data. In May alone, the Ukrainian CPI jumped by a notable 1.3% on a month-on-month basis as food prices continued to grow; the aggregate food & beverage price index rose 1.7% MoM.

UKRAINE'S ROLLING 12-MONTH CPI



Source: State Statistics Committee

COMMENTARY

The current inflationary trend - not only in Ukraine but globally - is unsurprising, following the creation of the equivalent of trillions of dollars by central banks to mitigate the COVID-19 crisis. Food prices are moving higher around the world on the back of soaring costs for soft commodities, which are driving cost increases throughout the whole food production chain. The global wheat price is up by 15% YoY to USD 210 per tonne, and corn prices have almost doubled over the year. Energy prices are another reason for the higher consumer inflation, as the Brent crude oil benchmark has jumped by 70% to USD 72/bbl from the last year's average level of USD 42/bbl.

In the major consumer basket categories, the food price index in Ukraine grew by 9.9% YoY in May and the utility service price index increased by 35% YoY. The main restraint on overall inflation was provided by the clothing price index, which fell 3.8% YoY.

Although we see an acceleration of inflation in the country, we assume that the National Bank will leave its key refinancing rate unchanged at 7.5% at the monetary policy board meeting this Thursday (Jun 17). However, we do not rule out that the regulator could surprise the market with a 50 bps rate increase to 8.0%.

EAVEX RECOMMENDATIONS

Name	Ticker	Price, per share	Target price, per share	Upside, %	Rating	Commentary
Agriculture						
Kernel	KER PW	57.5	65.0	13%	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	5.9	11.5	94%	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	51.5	--	--	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	8.50	12.0	41%	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	462	280	-39%	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	309	350	13%	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	21.9	--	--	U/R	
JKX Oil & Gas	JKX LN	24.8	--	--	U/R	
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	9.70	15.00	55%	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	0.435	0.33	-24%	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		MCap USD mn	EV USD mn	Free float	P/E		EV/EBITDA		EV/Sales
			1W	YtD				2020	2021E	2020	2021E	2021E
UX Index	UX	1938	-0.3%	19.9%								
Iron Ore Mining												
Ferrexpo	FXPO	462	0.4%	55.6%	3862	3858	24.0%	6.1	7.4	4.5	5.3	2.4
Railcar Manufacturing												
Kryukiv Wagon	KVBZ	17.0	0.0%	-5.6%	71	45	5.0%	8.4	13.7	3.4	4.5	0.2
Specialized Machinery												
Turboatom	TATM	8.3	1.2%	0.6%	129	125	3.8%	15.3	9.0	2.4	3.0	1.3
Motor Sich	MSICH	5390	0.0%	0.0%	411	388	24.0%	13.0	17.6	3.8	4.3	1.1
Oil & Gas												
UkrNafta	UNAF	309	-1.6%	62.6%	614	606	3.0%	3.9	6.0	1.9	3.8	0.6
Enwell Energy (ex-Regal)	ENW	21.9	1.4%	3.3%	100	46	21.6%	33.2	11.1	1.8	1.5	0.7
JKX Oil	JKX	24.8	-4.8%	-17.5%	60	169	50.4%	3.0	8.6	5.7	5.0	2.0
Power Utilities												
Centrenergo	CEEN	9.70	7.8%	34.7%	131	120	21.7%	57.9	14	7.1	5.0	0.1
Donbasenergo	DOEN	19.00	11.1%	-5.0%	16	15	14.2%	15.3	5.9	1.8	1.9	0.1
Consumer												
MHP	MHPC	5.94	5.7%	-1.3%	628	1943	32.5%	neg	10.5	5.7	7.2	1.0
Kernel	KER	57.50	-2.4%	16.6%	1,242	2259	61.8%	10.5	3.4	5.1	3.1	0.5
Astarta	AST	51.50	-2.3%	96.6%	349	524	37.0%	42.2	33.2	4.3	3.9	1.0
Avangardco	AVGR	0.01	0%	0.0%	1	332	22.5%	neg	neg	17	20	3.0
Agroton	AGT	8.50	10.4%	94.1%	50	25	25.0%	4.3	3.9	0.8	0.8	0.3
Banks										**Price/Book**		**Price/Assets**
Raiffeisen Bank Aval	BAVL	0.435	-1.4%	6.1%	981		1.8%	6.5	7.8	2.2	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	2045	376	340	270	18.3%	17.8%	13.2%	215	-133	60	10.5%	-7.0%	2.9%
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			11.6%	11.1%	n/a	n/a	S/A	11 May 2022	12,917
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
USD denominated Bonds									
UA4000211114			3.5%	2.9%	n/a	n/a	S/A	3 Feb 2022	USD 347mn

Source: TR Data, Eavex Research

Eavex Capital

7 Klovsky uzviz, 16th Floor

Carnegie Center

Kyiv, 01021, Ukraine

Telephone:	+38 044 590 5454
Facsimile:	+38 044 590 5464
E-mail:	research@eavex.com.ua
Web-page:	www.eavex.com.ua

Yuriy Yakovenko

Chairman of the Board

yuriy.yakovenko@eavex.com.ua

SALES & TRADING

Pavel Korovitskiy

Managing Director

Equity and Fixed Income

p.korovitsky@eavex.com.ua

Alexander Klymchuk

Equity and Fixed Income

a.klymchuk@eavex.com.ua

Eugene Klymchuk

Fixed Income Sales and Trading

e.klymchuk@eavex.com.ua

RESEARCH

Dmitry Churin

Head of Research

d.churin@eavex.com.ua

Will Ritter

Research editor

w.ritter@eavex.com.ua